



BANK OF ISRAEL

Office of the Spokesperson and Economic Information

December 6, 2021

Report on the Bank of Israel's discussions prior to deciding on the interest rate

The discussions took place on November 21 and 22, 2021.

General

The Monetary Committee sets the interest rate in a process that includes two discussions—the first in a broad forum, and the second in a narrower one.

In the broad-forum discussion, the relevant background economic conditions are presented, including the real and financial-monetary developments in Israel's economy, and developments in the global economy. Participants in this discussion include the members of the Monetary Committee, senior representatives from the various departments of the Bank, and economists from the economic departments (Research and Markets), who prepare and present the material for discussion.

In the narrow forum—which consists of the Monetary Committee and a representative of the Markets Department—the Research and the Markets Departments present their views of the main considerations that should guide the setting of the monetary policy. An open discussion on monetary policy follows, which ends with a vote on the level of the interest rate. According to Section 18(c) of the Bank of Israel Law, 5770–2010, the decision on the interest rate is reached by majority vote of the members of the Monetary Committee who participate in the voting.

A summary view of the economic situation available at the time of the Committee's discussion is presented in the [notice regarding the interest rate decision](#), which was published on November 22, and in the [data file](#) that accompanied the notice.

THE NARROW-FORUM DISCUSSION

The members of the Monetary Committee participating in the discussion decide on the appropriate rate of interest. After the discussion, it was decided to keep the interest rate unchanged at 0.1 percent. The decision was unanimous. In addition, the Bank of Israel will complete its corporate and government bond purchase programs in the markets during December, and thus will bring to an end the bond market intervention programs that were announced during 2020.

The discussion focused on the state of morbidity and the risks deriving from it; the state of real activity and particularly the labor market; the increase in the inflation environment worldwide and the slowing becoming apparent in the inflation rate in Israel; the sharp appreciation of the shekel; and the continued upward trend of housing and capital market prices.

Main points of discussion

The Committee discussed data on activity and the labor market. National Accounts data indicated some slowing in the third quarter of the year, after accelerated growth in the quarter before that; labor market data indicate some difficulty in the economy's returning to its pre-crisis levels; the number of job vacancies continues to increase, with increases particularly in industries that were considerably adversely impacted in the crisis, but due to adjustments in the labor market this has not been manifested in a change in the employment rate. The total net balance of the business sector is at a high positive level; business activity continues to expand and an accelerated increase in tax revenues can be seen; the levels of goods and services exports are higher than they were just before the crisis, but some moderation can be seen in the most recent data.

A discussion was held on the inflationary factors and the extent of their persistence. Since the previous interest rate decision, there has been some slowdown in the rate of increase in inflation in Israel, despite strengthening inflation worldwide. Inflation in Israel over the past 12 months is 2.3 percent, and according to the various forecasts, the inflation rate is expected to moderate going forward. The Committee members noted that inflation in Israel is markedly lower than in many other countries and is within the target range, as are expectations. They noted that so far, worldwide, there have only been interest rate increases in countries in which there was a marked deviation from the inflation target, while in Israel the expectations derived from the capital market are within the target range, and according to the Bank of Israel Research Department forecast and private forecasters, the inflation rate is expected to be lower in another 12 months. In addition, assessments of central banks and forecasters in major economies are that a considerable part of the increase in the inflation environment worldwide is

not expected to persist. The Committee assessed that there is no concern of an inflationary outbreak.

The global economy continues to recover. However, the level of GDP in many countries remains lower than that derived from the growth path before the crisis, and there are increasing signs of some slowdown in the global growth rate. The disruptions in the production and supply chains continue, but oil prices declined and transport prices decreased slightly during the reviewed period, and it may be that they signify the beginning of a change. In the US, the Federal Reserve kept the interest rate unchanged, and announced a contraction of its purchase program. In the eurozone, the ECB kept the interest rate unchanged.

Since the previous interest rate decision, the shekel strengthened by 4.4 percent vis-à-vis the dollar, by 5.7 percent in effective exchange rate terms, and by 6.4 percent against the euro. It was noted that the Bank will continue to act in accordance with the state of the economy and the continuation of economic activity.

The pace of increase in home prices continues to be high; home prices increased by 10 percent in the past 12 months and mortgage volume continues to hover at a high level compared to the past. Alongside these, the annual rate of increase in rent prices remains relatively moderate.

All six members of the Monetary Committee were of the opinion that the interest rate should be kept unchanged at 0.1 percent. They claimed that the low level of the interest rate supports the continued recovery of economic activity. The Committee members noted that in light of the increase in inflation expectations, the real interest rates in Israel are negative and are at a similar level to those in major economies. They were of the assessment that the Israeli economy's process of recovery from the crisis continues. However, there are still challenges to economic activity. Therefore, the Committee decided to continue to conduct accommodative monetary policy for a prolonged time, in accordance with the pace of growth and employment and in the path of inflation. This is all in order to continue to support the attaining of the policy targets and the economy's recovery from the crisis, and to ensure the continued orderly functioning of the financial markets.

Participants in the narrow-forum discussion:

Members of the Monetary Committee:

Prof. Amir Yaron, Governor of the Bank and Chairperson

Mr. Andrew Abir, Deputy Governor of the Bank of Israel

Prof. Naomi Feldman

Prof. Moshe Hazan

Prof. Zvi Hercowitz

Prof. Michel Strawczynski

Other participants in the narrow-forum discussion:

Ms. Dana Orfaig, Research Department

Mr. Tal Biber, Head of the Markets Division, Markets Department

Dr. Golan Benita, Chief of Staff to the Governor

Mr. Uri Barazani, Spokesperson of the Bank

Mr. Gilad Brand, Research Department

Mr. Arad May, Monetary Committee Secretariat

Mr. Daniel Shlomiuk, Bank Spokesperson's Office