



*Bank of Israel*

*P.O.Box 780,*

*Jerusalem 91007*

*The Governor*

*Amir Yaron*

June 27, 2023

To

Prime Minister Binyamin Netanyahu

**Re: Proposed Banking (Service to the Customer) (Interest on Positive Balances Amendment) Law, 5783–2023.**

The proposed law being discussed was approved by the Ministerial Committee on Legislation chaired by the Minister of Justice on June 25, 2023. As part of the bill, it was proposed “to require banking corporations to pay interest on positive balances in a customer’s current account, with a minimum rate that will be set by the Governor of the Bank of Israel in consultation with the Advisory Committee and subject to approval by the Minister of Finance.”

This proposal is scheduled to be brought for a vote in the preliminary reading on Wednesday June 28, 2023.

I would like to express my vehement opposition to this proposal for reasons that will be detailed below.

First, I emphasize that **there is room to continue improving competition in the banking sector, mainly in the consumer credit segment that serves households and credit to SME's**. The proper way to improve customer well-being is by continuing to remove barriers that prevent competition between existing participants, and those that prevent the entry of new participants.

The Bank of Israel has worked in recent years to advance and to launch a number of measures that aim to remove barriers and encourage competition in the banking system. In particular, the Bank of Israel has approved the establishment of two new banks, for the first time in many years. It has significantly improved customers’ ability to move between banks easily and automatically (“one-click mobility”). It has significantly increased transparency with regard to the interest rates that the banks collect on credit and pay on deposits, thereby strengthening customers’ ability to compare between the various banks. It has advanced the open banking reform, which increases consumers’ bargaining power with the banks. It has advanced the mortgage reform, which enables customers to compare between different mortgage offers. The Bank of Israel has established a credit data register that facilitates the provision of credit by other entities in addition to the one where the borrower’s account is managed. It has enabled nonbank

entities to connect to the payment and settlement systems. And much more has been done, in addition to significant measures still being advanced at this time.

As you certainly know, just a few days ago, I invited the CEOs of the commercial banks to the Bank of Israel for a special discussion with the Supervisor of Banks regarding the interest rates on deposits, current accounts, and loans in the banking system. As part of the discussion, I set four main targets toward which the banks should work:

- A proper pass-through from changes in the central bank rate to the interest rate paid on positive balances in households' accounts;
- Continued active encouragement of customers with balances above a certain level to divert money held in their current accounts to more worthwhile channels (such as term deposits or money market funds);
- Active assistance for mortgage holders who are identified as having the most pressing difficulties;
- Easing the burden for customers with negative balances (overdrafts) in their current accounts.

At the end of the meeting, I instructed the participants to report to the Supervisor of Banks on their preparedness to achieve the targets that I set, within a short time. Accordingly, **the banks are currently examining the targets that were set, and each bank is formulating its own package.** Some of them have already published significant value offers to customers in recent days, in the area of interest rates on positive balances. I believe that this approach enables each bank to choose the optimal mix of measures that is in line with its unique characteristics and those of its customers, and that it also should contribute to improved competition in the banking system.

However, **in general, I am strongly opposed to intervention in the pricing of banking products and to setting a uniform price.** Setting such a price harms the operation of market mechanisms; causes all participants to converge to the set price, which depresses competition and efficiency; leads to significant implementation difficulties with regard to how the price is calculated; and is generally considered a negative step that is not fit for advanced economies in developed countries. I am concerned that blunt intervention of this sort through legislation may have a negative impact not only on international financial institutions that are considering operations in Israel, but also on international corporations in other areas of the economy. Focusing the discussion on an individual measure regarding current accounts, certainly when doing so through intervention in pricing, is not optimal for customers.

Moreover, the suggestions that the Bank of Israel Governor should set a minimum interest rate for current accounts subject to approval by the Minister of Finance, is **a serious blow to the independence of the Bank of Israel and its ability to conduct monetary policy.** It grants the Minister of Finance the authority to actively influence the interest rate in the economy and to bluntly intervene in the conduct and effectiveness of monetary policy. This undermining of the central bank's independence that is inherent in the proposed law crosses a significant red line, and there is a material

concern that this is how it will be perceived by international organizations and rating agencies.

**In view of this, I request your intervention to remove this proposal immediately from the agenda.**

Sincerely,

A handwritten signature in blue ink that reads "A. Yaron". The signature is written in a cursive style with a large initial "A" and a long, sweeping underline.

Amir Yaron

**Copies:**

Ministry of finance, Mr. Bezalel Smotrich

Head of the national economic council, Mr. Avi Simhon

The supervisor of banks, Mr. Daniel Hahiashvili

The legal advisor of bank of Israel, lawyer Tida Shamir