



Systemic Risk and Macroprudential Policy Conference

Dr. Nadine Baudot-Trajtenberg,
Deputy Governor of the Bank of Israel

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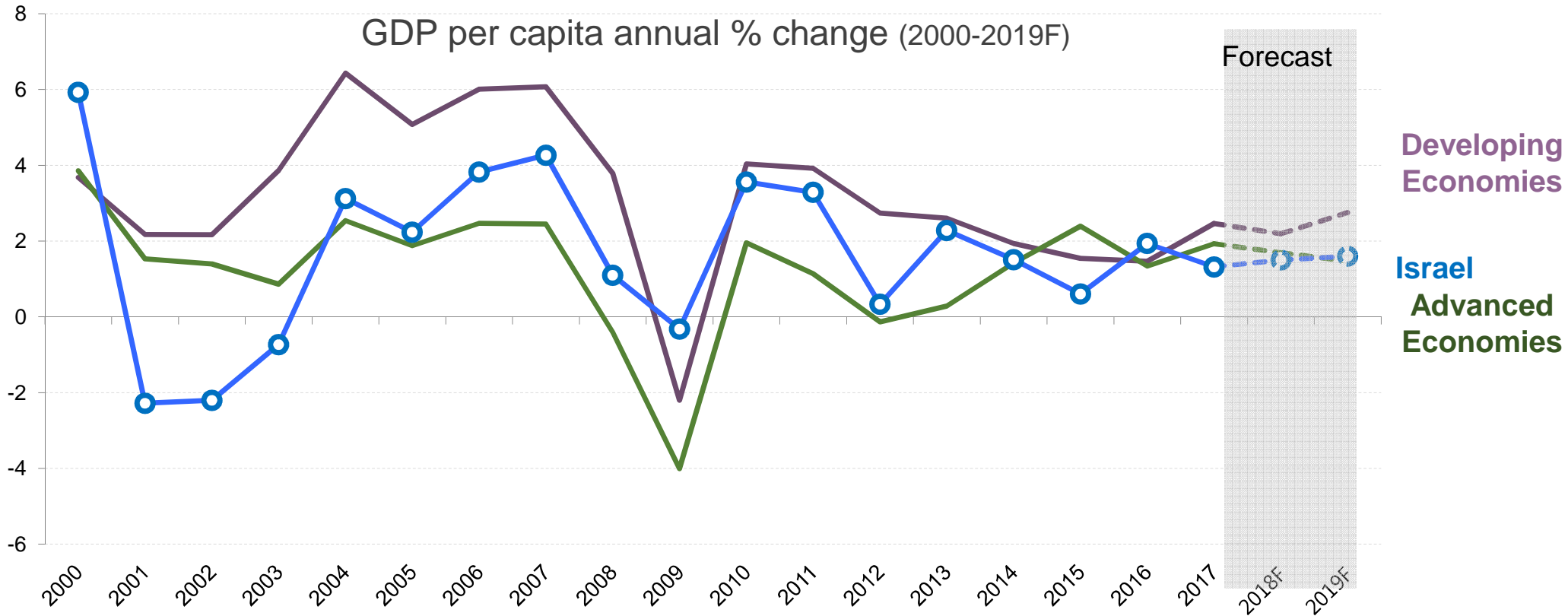


Economic Backdrop

- 1. GDP growth continues at around 3% a year with labor market nearing full employment**
- 2. Inflation environment continues to be low but is rising**
 - Inflation expectations are at the very lower part of the target range
 - Structural changes are putting a break to price increases
- 3. Fiscal stance has been expansionary**
 - Structural deficit has increased
- 4. Housing market has slowed**
- 5. Increase in Leverage has been moderate**



GDP per capita Growth Rates



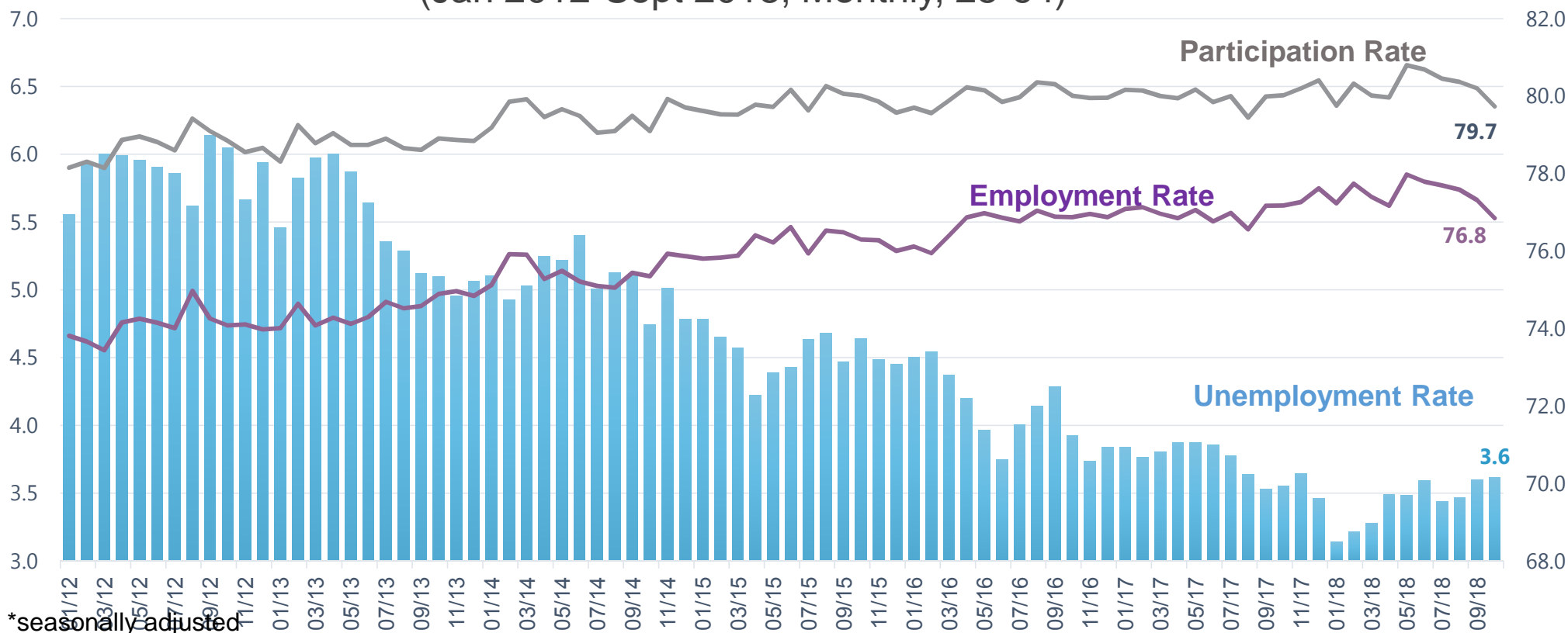
*Simple average for 21 rich OECD countries and emerging markets according to IMF definition

Source: IMF



Labor market nearing full employment

Main Labor Market Indicators
(Jan 2012-Sept 2018, Monthly, 25-64)



*seasonally adjusted

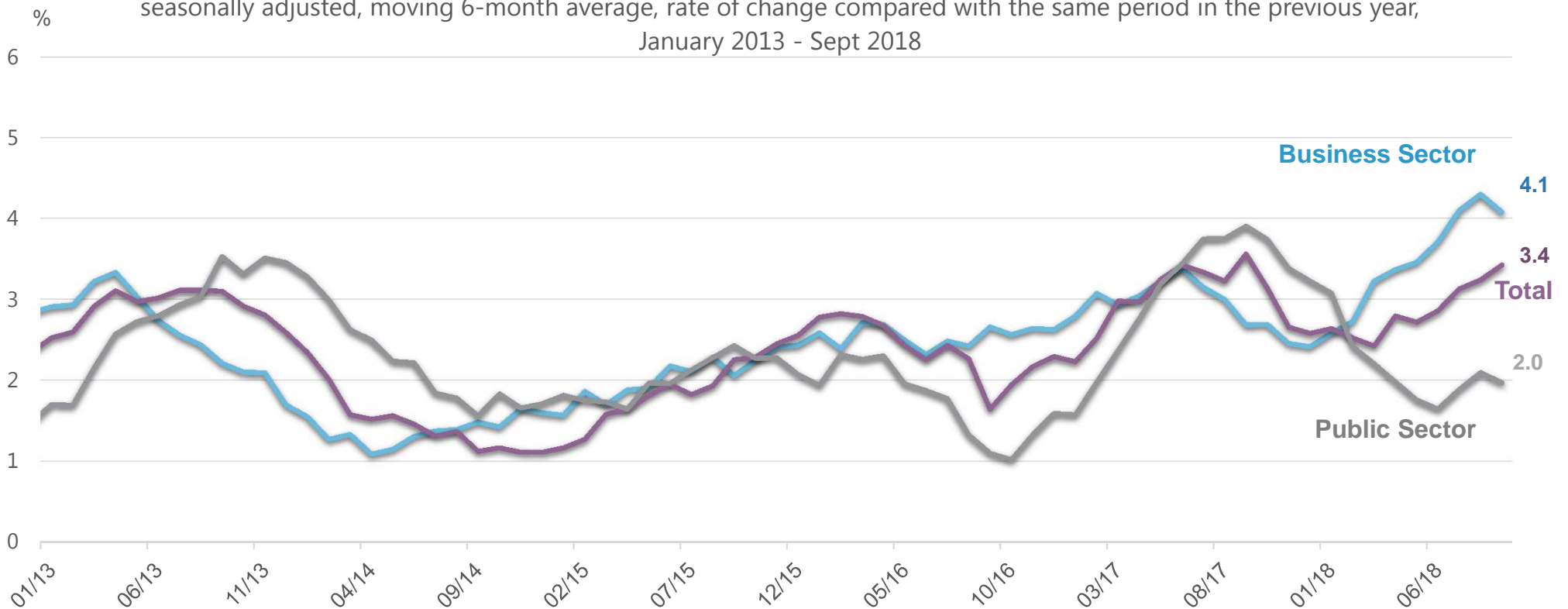
SOURCE: Based on Central Bureau of Statistics Labor Force Survey.



Nominal Wages are rising

Nominal Wages per Employee Post

seasonally adjusted, moving 6-month average, rate of change compared with the same period in the previous year,
January 2013 - Sept 2018



Source: Bol



Israel's Inflation Environment Still Low Compared to Trading Partners

12-month Inflation in Israel and OECD, 2012-2018

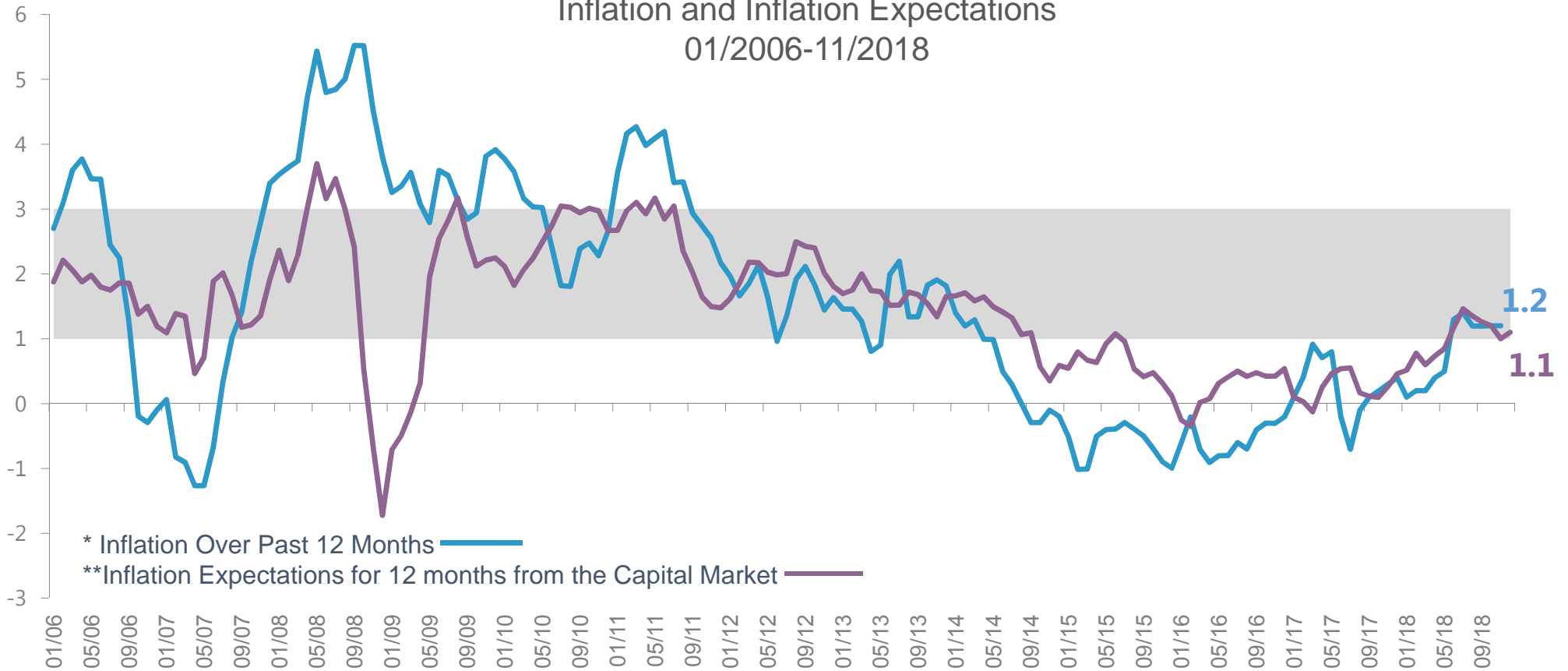


Source: OECD



Inflation is within target range and so are ST inflation expectations

Inflation and Inflation Expectations 01/2006-11/2018



Source: Bol & CBS



Nominal Effective Exchange Rate 2005-10/2018, Index 01/01/2010=100

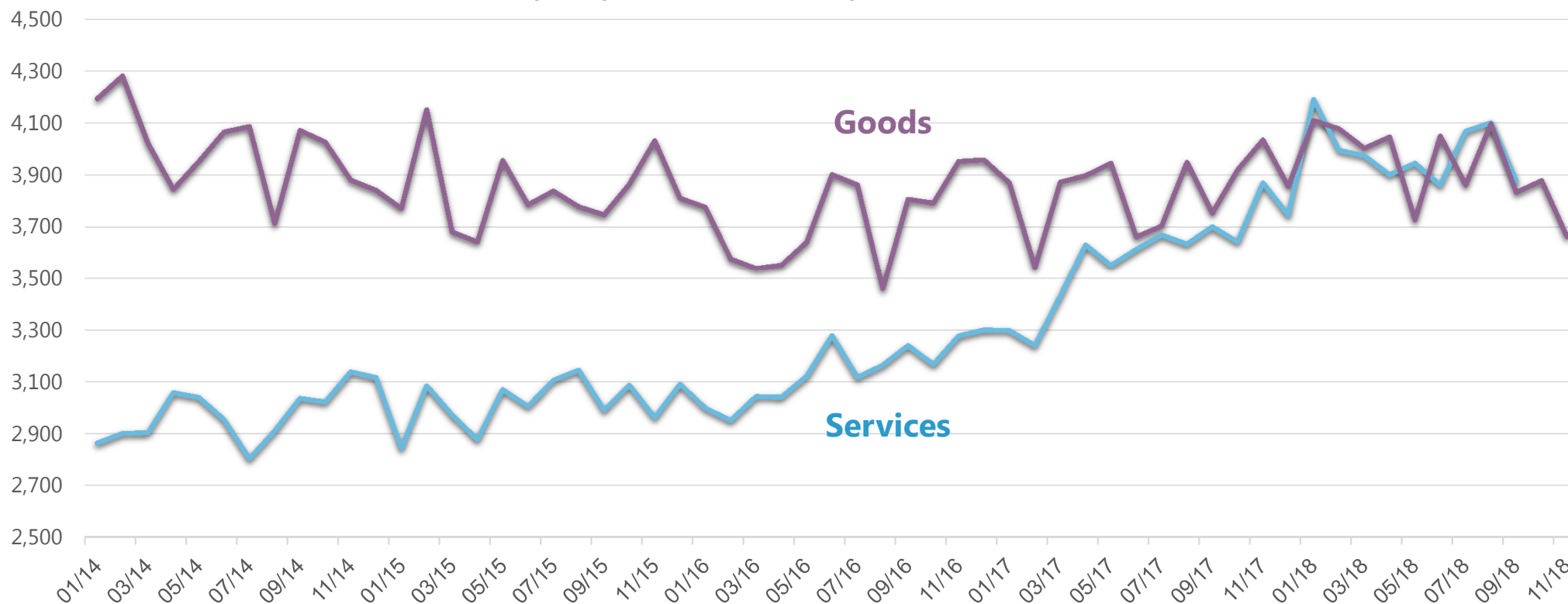


Source: BoI



Goods and Services Exports

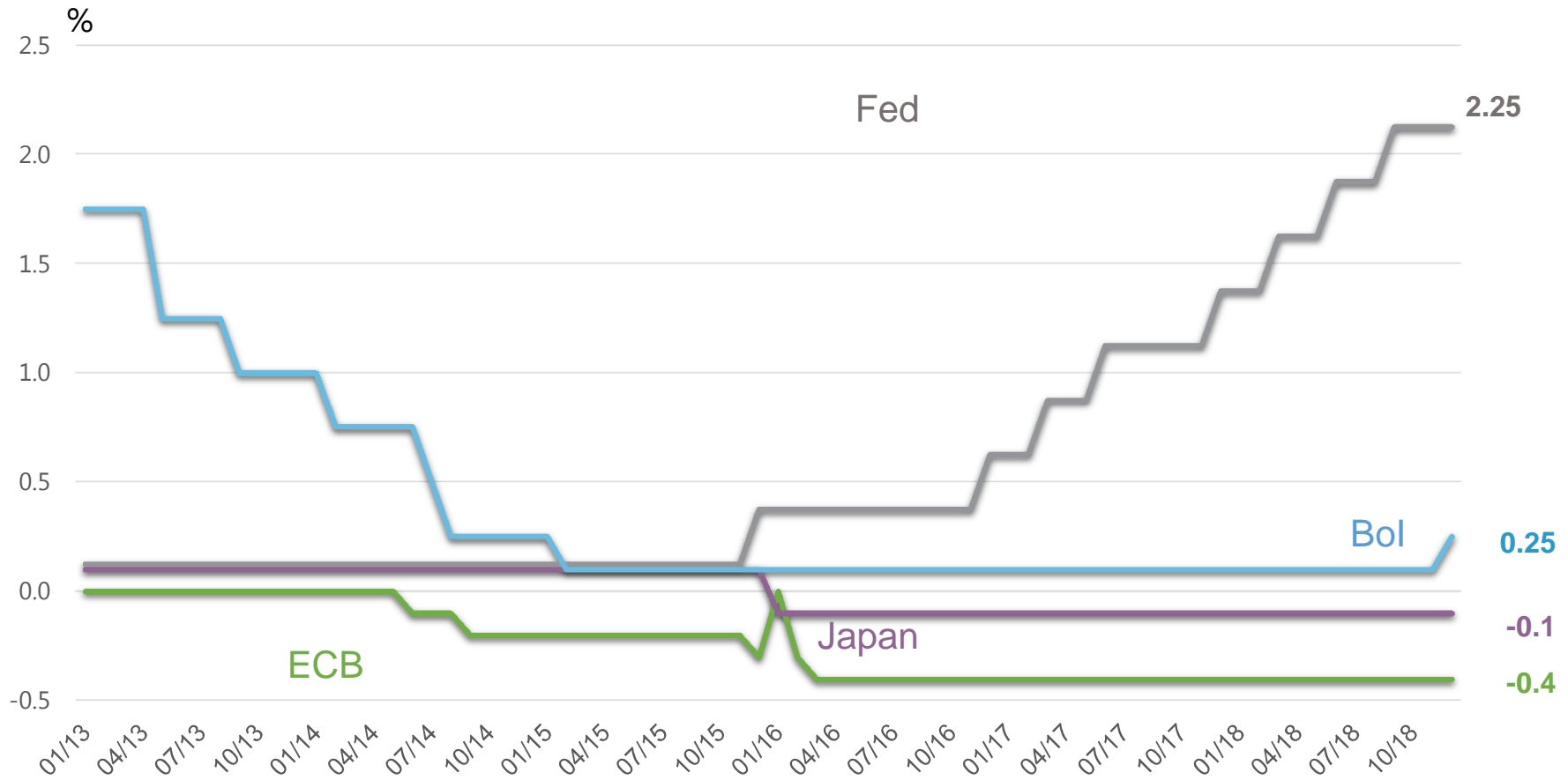
\$ billion, Seasonally adjusted, January 2014 – November 2018



Source: CBS

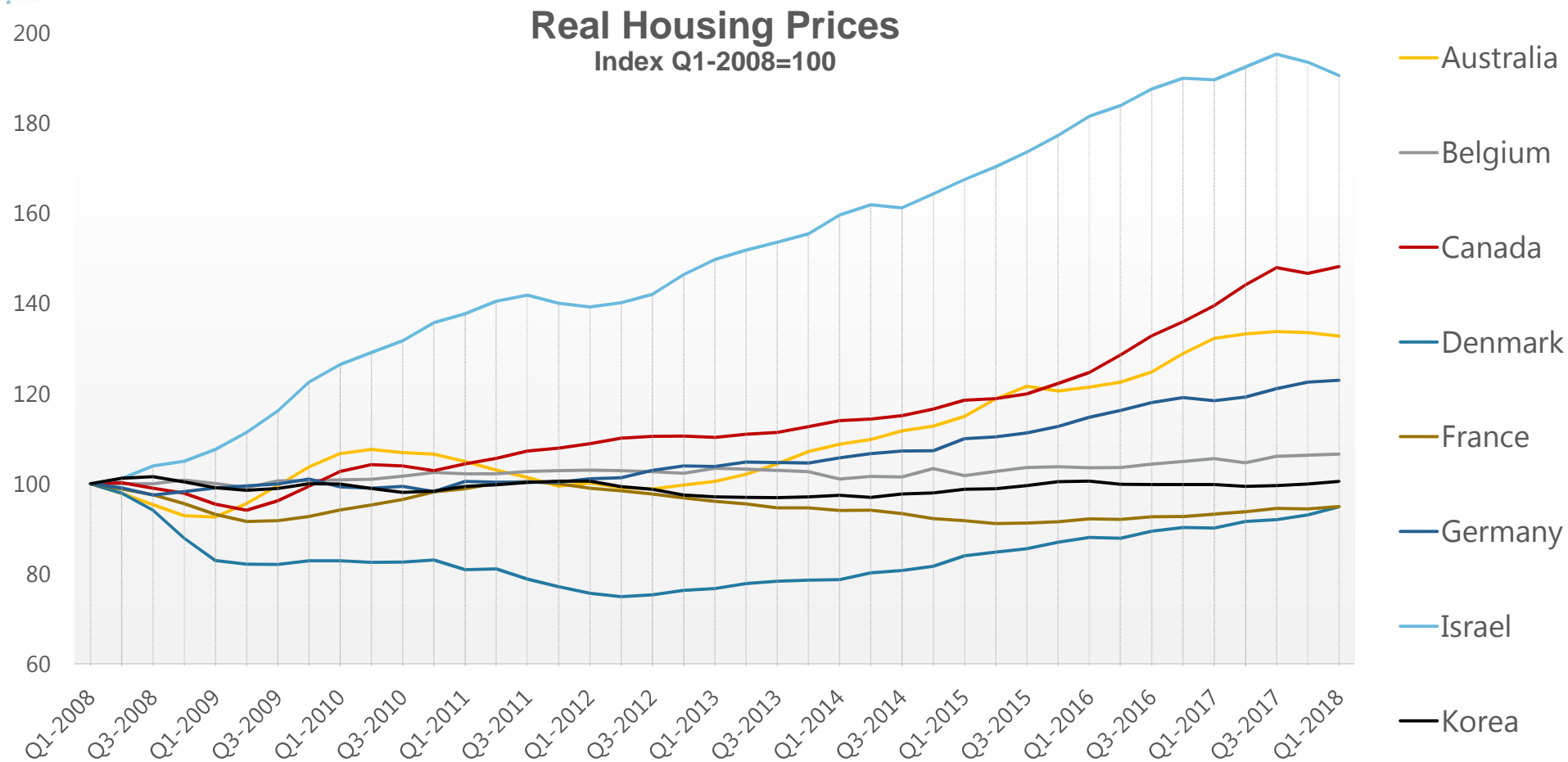


Monetary Policy still facing headwinds to maintain inflation target





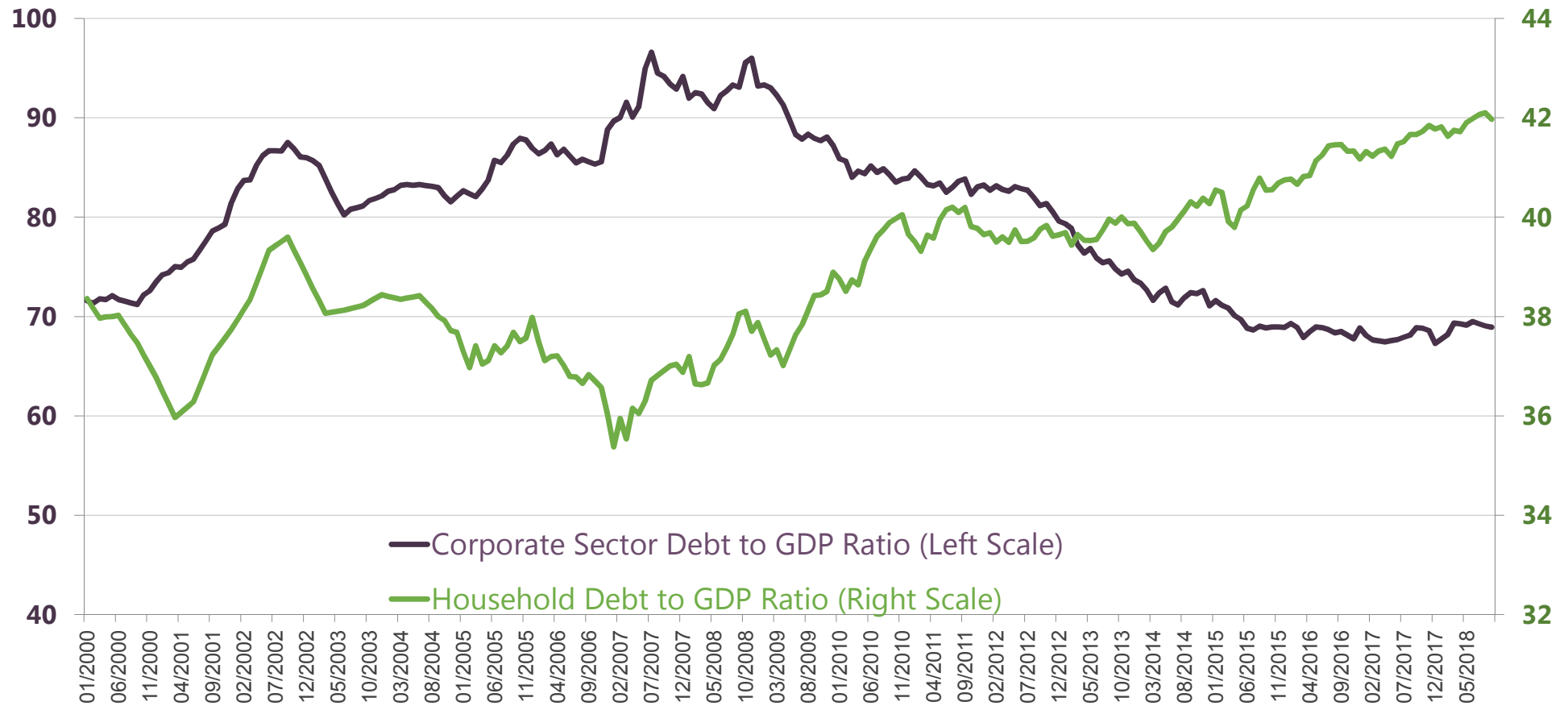
Housing Prices since the GFC 2008-2018



Source: OECD

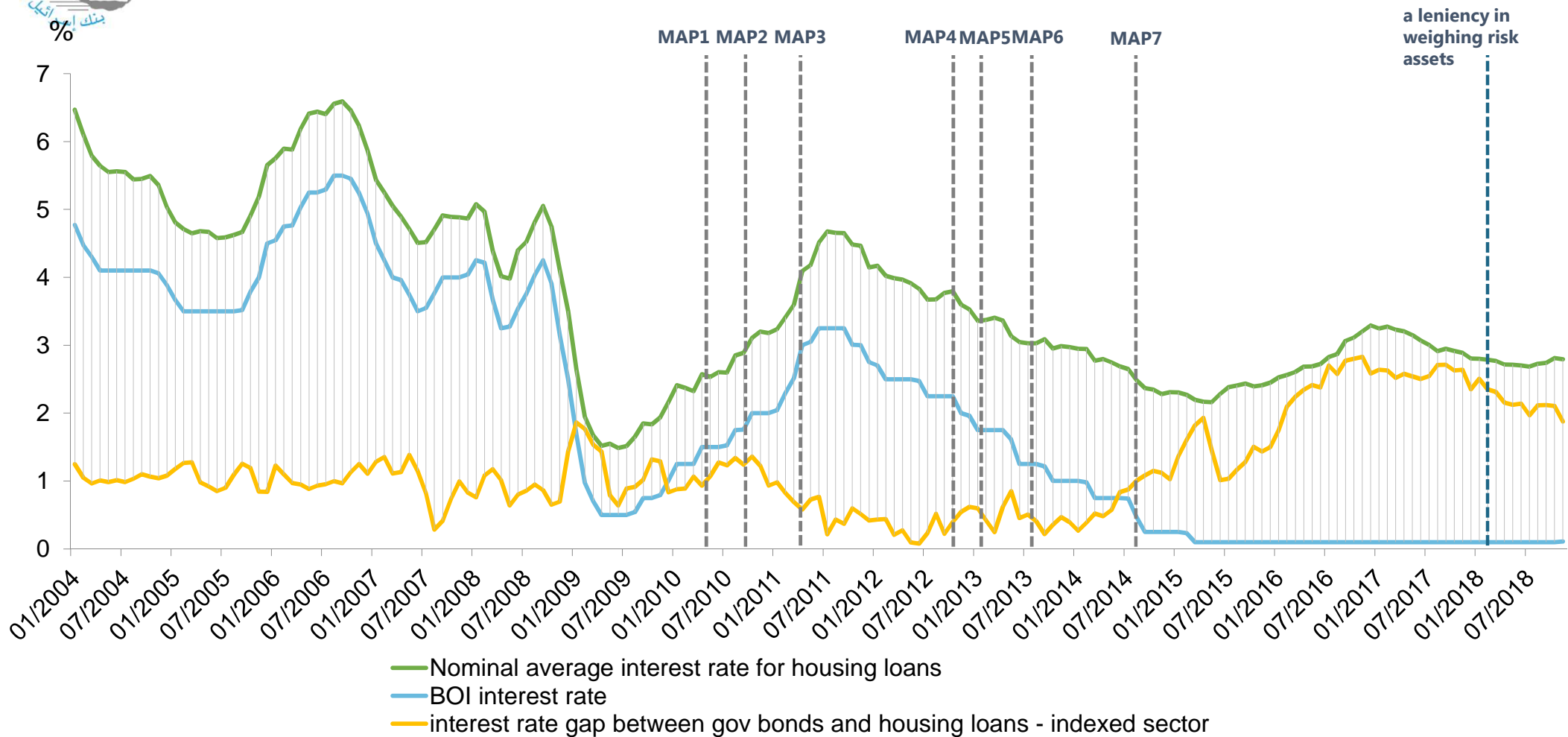


Corporate was relatively stable while Household Debt rose as a % of GDP



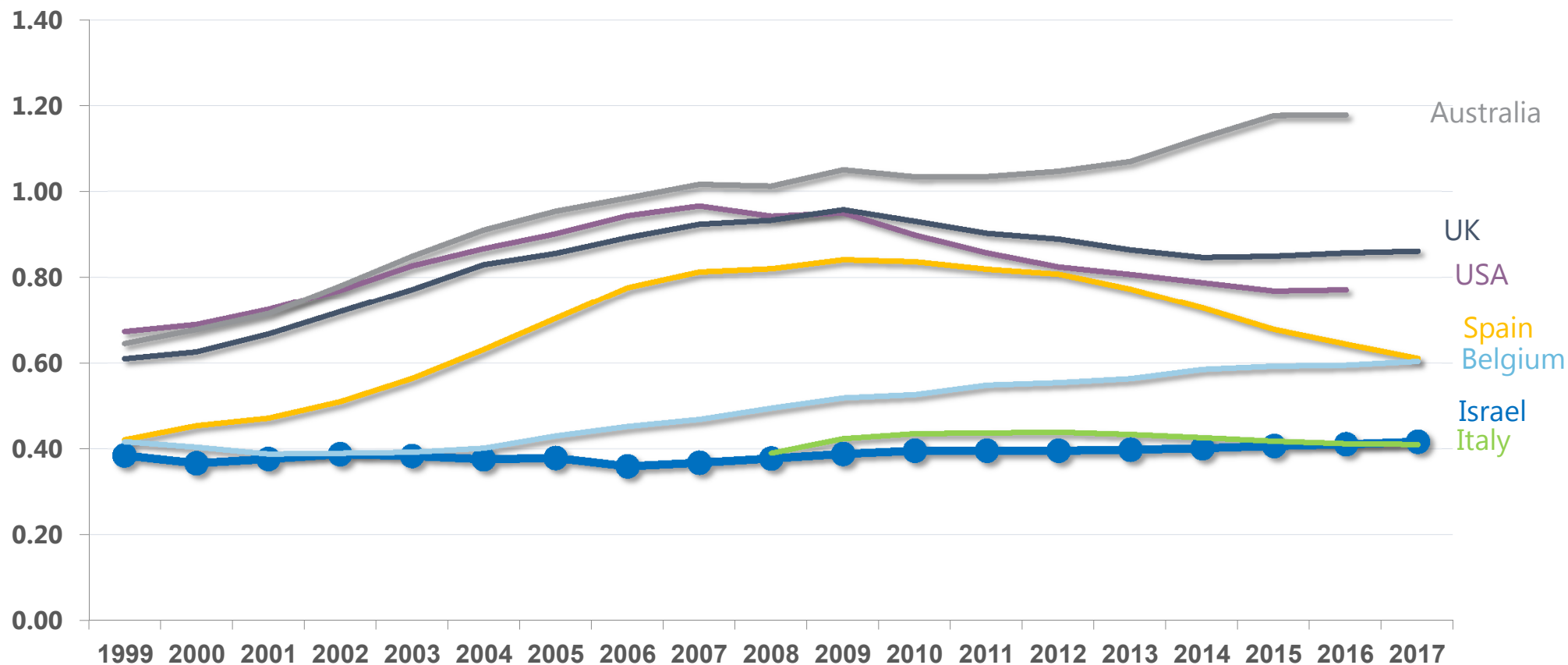


Various Macroprudential measures have been taken to reduce the risk when the macro environment changes





Household Debt as a % of GDP 1999-2017



Source: BoI and OECD



More Research and Data needed to understand fully issues of Financial Stability

- BoI research on the ST effects of Macroprudential measures will be presented today – their immediate impact was as expected, but their true effectiveness in reducing risk will be tested only “when the market turns”
- BoI research will also show that general measures of supervision designed to ensure a better portfolio diversification by banks, though important to reduce the probability of a systemic crisis, may in fact, as a side effect, increase the risk of contagion if loans are tradable. We need to stand ready to take steps to minimize this risk.
- BoI is completing the building of a Credit Registry of individual loans which will offer a wealth of data from which we hope to learn more about vulnerabilities in the Financial system
- A Financial Stability Committee Law has recently been approved by the Knesset, which will allow for a better monitoring of the overall resiliency of the Financial system

Thank
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