BANK OF ISRAEL
Office of the Spokesperson and Economic Information

July 11, 2011

Report to the public on the Bank of Israel's discussions prior to setting the interest rate for July 2011

The discussions took place on June 26 and 27, 2011

General

Before the Governor makes the monthly interest rate decision,[1] discussions are held at two levels—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 real, monetary and financial developments in Israel's economy, and developments in the global economy. Participants in this discussion include the Governor, the Deputy Governor, the directors of the Research and Market Operations Departments of the Bank and economists from various departments who prepare and present the material for discussion. The data, estimates and assessments in this report are those that were available at the time of the discussions.

In the narrow forum, the directors of the Research and Market Operations Departments and two other participating members of management (the Deputy Governor and the Head of the Monetary and Finance Division of the Research Department) present their recommendations regarding the interest rate and, following a discussion, the Governor makes his decision.

A. THE BROAD-FORUM DISCUSSION—THE STATE OF THE ECONOMY

1. Developments on the real side

General assessment

Most economic indicators published between the previous interest rate decision on May 23 and the current discussion on June 27 support the assessment that economic activity is continuing to expand in the second quarter too, albeit at a slower rate than in the first quarter. This follows two years of accelerated growth during which the

[1] When the Monetary Committee is appointed, in accordance with the new Bank of Israel Law, interest rate decisions will be made by the Committee.

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output gap contracted greatly, with indications that it is almost closed. Those indications include an even lower percentage of unemployed than that prior to the global crisis (particularly taking into account that the rate of participation in the labor force has risen since then), although data on the real wage show only a moderate increase.

National accounts

The second estimate of the national accounts figures for the first quarter of 2011 points to continued fast growth in economic activity: GDP grew by 4.8 percent, private consumption excluding consumer durables by 4.7 percent, fixed investment by 25.1 percent, exports (excluding diamonds) by 12.8 percent, and imports (excluding diamonds) by 18 percent. Domestic public consumption increased by 2.9 percent, and business sector product by 5.5 percent.

Indicators of real economic activity

Economic indicators that became available this month show that economic activity continued to expand in the second quarter, albeit more slowly than in the first quarter. The composite state-of-the-economy index for May increased 0.3 percent, and the average change in the index over the past three months of 0.25 percent is lower than the average monthly change (0.5 percent) in the preceding year and a half. Partial data for the second quarter (April and May) point to a 1.5 percent decline in manufactured goods exports in the second quarter compared with the first quarter, in parallel to a decline in the volume of world trade in April. With that, in light of the data relating to the first quarter, at the beginning of June the Bank of Israel Research Department revised its growth forecast for 2011 upwards, from 4.5 percent to 5.2 percent. The Central Bureau of Statistics trends survey reflects positive expectations of activity in the principal industries in the next few months. Although consumer confidence indices declined a little this month, they are still at a high level, expressing an optimistic view of economic activity.

The labor market

Labor market data indicate a continued expansionary trend in employment and a drop in unemployment, with a moderate increase in wages. According to trend figures for April, the percentage of unemployed continued to fall, and reached 5.8 percent of the civilian workforce. The nominal wage increased in January–March by 0.8 percent compared with the level in the previous three months, while the real wage dropped by 0.9 percent (three-monthly rates, seasonally adjusted). Health tax receipts in May, which provide an indication of wage payments in that month, were 7.6 percent higher, in nominal terms, than in May 2010. The minimum monthly wage is scheduled to increase from NIS 3,900 to NIS 4,100 at the beginning of July.

Foreign trade

Manufactured goods exports excluding diamonds fell by 4 percent in May, due mainly to a drop in exports of the electronics industries. The decline in exports can be attributed to the lower levels of world trade in April (a nominal drop of 2.3 percent and a real drop of 3.8 percent in the triple trade index—the trade of Germany, Japan and the US) from the March level, and to the continued real appreciation of the shekel and its lagged effect. Goods imports increased again, by a rapid 7 percent in May, the rise incorporating all components. The increase in imports is based on Israel's continued economic growth and the increase in domestic demand. The developments in imports and exports resulted in a NIS 6.2 billion increase in the deficit on the goods account since the beginning of the year (to May), and their continuation is expected to reduce the surplus on the current account further, beyond the reductions in the last two quarters.

2. Budget data

Tax revenues in January–May 2011 were 7.4 percent higher in real terms than in January–May 2010. Government activity yielded a cumulative surplus of 0.1 percent of GDP, compared with a deficit of 0.5 percent of GDP in the same months last year. Tax revenues this year are expected to exceed the forecasts used as the basis for the budget, and the deficit is expected to be lower than the maximum 3 percent of GDP defined by law, even assuming full expenditure of the budget.

3. Developments on the nominal side

Inflation

The inflation rate over the last 12 months was 4.1 percent, above the upper limit of the target inflation range (of 1–3 percent a year). The Consumer Price Index (CPI) rose by 0.5 percent in May, in line with the forecasts and at the upper limit of the seasonal path consistent with achieving the inflation target. The continued rapid increase in housing and food prices this month contributed to the increase in the index. The index excluding housing rose by 0.2 percent in May. The seasonally adjusted monthly rise in the index in the last three months, particularly the index excluding owner-occupied housing, was significantly slower than that in the previous six months.

Expectations and forecasts of inflation and of the Bank of Israel interest rate

Inflation expectations for the next twelve months as calculated from the capital market and those of forecasters re-entered the target inflation range, and stood at 2.9 percent, slightly below the upper limit of the range. The decline in inflation expectations is apparently due to several developments that have served to moderate inflation: the appreciation of the shekel in the last few months, the fall in commodity prices, and the last three CPIs published, which are consistent with meeting the inflation target. Medium-term inflation expectations are within the target range. Based on the Telbor (Tel Aviv Inter-Bank Offered Rate) market, the Bank of Israel interest rate one year from now is expected to be 4 percent, and the average of forecasters' predictions is that it will be 4.3 percent. All the forecasters who updated their forecasts following the publication of the May CPI expect the Bank of Israel to leave the interest rate for July unchanged.

The monetary aggregates

In the twelve months up to and including May, the M1 monetary aggregate (cash held by the public and demand deposits) increased by 4.5 percent, and the M2 aggregate (M1 *plus* unindexed deposits of up to one year) increased by 8.5 percent.

The credit market

In April there was a 0.5 percent increase in the balance of credit to the business sector, to a level of NIS 771 billion. The balance of credit to households rose by 0.3 percent in April and reached NIS 347 billion. Outstanding housing credit increased in the twelve months to end-April by 14.1 percent, to NIS 243 billion. The increase in the twelve months to end-March stood at 13.2 percent. The share in total mortgages of mortgages at non-CPI-indexed floating interest rates continued to decline in May, and reached 43.3 percent, compared with 47 percent in April. On May 5th, a Bank of Israel directive which limits the share of floating interest rate housing credit went into effect, but its effect was not expressed fully in mortgages granted in May, as some of them reflect mortgage agreements between banks and customers that were signed before the effective date of the directive. The interest rates on all types of mortgage increased in May.

The housing market

House prices continued to rise. House prices, which are presented in the Central Bureau of Statistics survey of house prices but are not included in the CPI, rose in March–April at a monthly rate of 1.5 percent, following their increase of 0.8 percent a month in February–March. The annual rate of home price increases continues to be high, and in the last twelve months to end-May the prices have risen by15.3 percent, compared with an increase of 13.9 percent in the twelve months to end-April. The housing rental index, which is based mainly on renewed rental contracts and which is included in the CPI, rose by 1.1 percent in May, and in the last twelve months it increased by 6.4 percent. In May the Ministry of Finance decided to abolish, effective from the beginning of 2013, the Land Betterment Tax on sales of houses in cases where the owner owns more than one house. This step is expected to slow the rise of house prices in the coming year.

The Research Department assessment (staff forecast)

The Bank of Israel staff forecast is that inflation in 2011 will be above the upper limit of the target inflation range, and that it will decline to within the target range in the first quarter of 2012. The interest rate is expected to increase gradually to about 4.1 percent in a year's time (the average rate in the second quarter of 2012). The balance of risks: The main factors which could change the forecasts for real activity and inflation in Israel are developments in the global economy—particularly a possible deterioration in the debt crisis in Europe—the realization of geopolitical risks, and changes in commodity and oil prices.

4. The capital markets

The foreign currency market

From the previous monetary policy discussion held on May 19 until June 24, the shekel appreciated by 1.3 percent against the dollar, similar to the trend in exchange rates vis-à-vis the dollar around the world; against the euro the shekel appreciated by 1.6 percent. In terms of the nominal effective exchange rate, the shekel appreciated by about 1.2 percent.

The share market and the corporate bond market

From the previous monetary policy discussion held on May 19 until June 24, most Tel Aviv share price indices fell, in line with the developments in most stock markets around the world. The Tel Aviv 100 index dropped by 6.6 percent. Bond issues by the business sector totaled NIS 2.5 billion, and since the beginning of the year, about NIS 18 billion, compared with NIS 13 billion in the equivalent period in 2010. The downward trend in CPI-indexed Tel-Bond price indices evident since the beginning of the year continued in the period since the previous discussions, with the Tel-Bond 40 index falling by 0.6 percent.

The makam and bond markets

During the period surveyed, yields on non-CPI-indexed government bonds decreased by 5-12 basis points (b.p.), primarily in the medium range. Along the CPI-indexed government bonds curve the trend was mixed: in the short part of the curve yields increased by 5–35 b.p., while in the medium and long part of the curve, yields were stable or even dropped slightly. This occurred against the background of the weak global economic situation and the decline in inflation expectations in Israel. Yields on short-term-maturity *makam* increased by 5–15 b.p., while to other terms yields remained stable.

The interest rate differential and the yield gap between Israel and abroad

As a result of the increase in the interest rate for June, and before the interest rate decision for July, the Bank of Israel interest rate was 3 percentage points higher than the US federal funds rate and 2 percentage point higher than the ECB (European Central Bank) rate. The yield gap between Israeli and US unindexed 10-year government notes widened, and prior to the current interest rate decision stood at 235 b.p.

5. Israel's financial risk, the sovereign risk premium

Israel's sovereign risk premium as measured by the five-year CDS remained unchanged over the month as a whole, at 144 b.p.

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6. Global economic developments (see Appendix for further details)

Most macroeconomic data published during the month continued to indicate a slowdown in the rate of recovery of the global economy. The weakness derived mainly from the US and European economies (excluding Germany) and some East Asian economies. This led to a downward revision of the growth forecasts by the investment houses. Nevertheless, the OECD and the IMF emphasize that the recent weakness is a temporary one, and the central scenario they foresee for the second half of the year is a slight acceleration in growth. The debt crisis in Europe worsened, mainly due to the crisis in Greece. Nevertheless, a few days ago the international organizations approved the adjustment plan proposed by the Greek government, thereby paving the path towards further assistance to that country. That said, the risk of a bank debt crisis in Europe has increased. Commodity prices are continuing to stabilize and even fall, but inflation data in some important economies are still surprisingly high and present central bankers with a serious challenge: they must deal with weak economic activity and concurrently with high inflation. In light of this situation, the general assessment is that central banks will continue to increase their interest rates, but probably at a slower rate.

B. THE NARROW-FORUM DISCUSSION—THE INTEREST RATE DECISION FOR JULY 2011

In the monthly narrow-forum monetary policy discussion, four members of management make recommendations to the Governor regarding the appropriate rate of interest for the economy. At the end of the current discussions on the interest rate for June, one of them recommended that the Governor increase the interest rate by 0.25 percentage point, and the other three members recommended that he leave the interest rate unchanged for July.

As stated in previous reports of interest rate decisions, the Bank of Israel is implementing a policy consistent with the process of gradually restoring a more normal interest rate environment—a process aimed at stabilizing inflation within the target range, and supporting further growth of economic activity while maintaining financial stability. The pace of interest rate increases is not fixed, but depends on the inflation environment, growth in Israel and globally, the monetary policies of the major central banks, and the exchange rates of the shekel. Leaving the rate of interest for July unchanged at 3.25 percent is consistent with that process, and at that level, monetary policy continues to be expansionary.

Several issues were discussed, the main topics being an assessment of the environment of real economic activity, including reference to developments around the world and geopolitical risks; the inflation path and inflation expectations; policy measures introduced in the last few months relating to housing and their effect on housing prices, against the background of the persistent rapid increase in housing prices; and whether was a need for the introduction of another macro-prudential measure in the housing field.

In assessing the environment of real economic activity, the participants noted that the slowdown in the rate of global growth and the implications of the debt crisis in Europe raise the level of concern over a deterioration in the real economic situation around the world and the postponement or slowdown in the rate of increases in interest rates in the major economies to normal levels. Hence, it was necessary to deal with pressures for the appreciation of the shekel that are likely to increase due to the expected interest rate differentials. The effect of the slowdown around the world reflected in data showing a decline in Israel's exports in April–May compared with the first quarter increase the possibility that GDP growth will be slower in the second quarter than its rapid rate in the first. In this context it was noted that the global slowdown was likely to cause a slowdown in the rate of economic growth in Israel, which would moderate the rate of inflation. The point was also made that despite increased inflation around the world, global inflation expectations have declined (against the background of the fall in commodity and oil prices, the reduction in growth forecasts, and reduced monetary expansion in several countries), which is expected to lower the rate of inflation in Israel too.

Discussing the development of inflation and inflation expectations, participants stated that inflation over the previous twelve months, at 4.1 percent, was higher than the upper limit of the target inflation range (also after the publication of the May CPI). With regard to the fact that the rate of price increases in the last three months (seasonally adjusted) was slower than that in the previous half year, some of the participants in the discussion considered this an indication that there had been a move to a lower inflation environment, and others felt that it was premature to reach that conclusion with confidence. All agreed, however, that inflation expectations had shown improvement, with a decline in expectations to all horizons, with twelve-month forward expectations, both those derived from the capital market and the average of those of forecasters, coming down slightly to below the upper limit of the target inflation range. It was stressed, however, that the inflation expectations environment was still higher than desired. It was further noted that the gap between the current Bank of Israel interest rate and the level considered “normal” granted the Bank degrees of freedom in determining the pace of increases in the rate, so that the pace of interest rate hikes could be increased should the need arise even without increasing the interest rate for July.

Another central issue discussed was the effect of the policy measures relating to housing introduced so far by the Bank of Israel and the Ministry of Finance, in light of the renewed increase in house prices viewed over the twelve months to end-May. All participants in the discussion agreed that it was too soon to consider the available data as reflecting the effect of the various policy measures introduced. The effect will be reflected in the data of the next few months, at the earliest, and is expected to continue during the next two years; more time is needed before the extent of the policy measures’ effect on house prices can be assessed. Moreover, the effect of the interest rate on the share of houses for investment purposes is very slow, and is just starting. On this point the member of management who recommended increasing the interest rate this month added that in his opinion the house price problem requires action to be taken this month, either via the interest rate or via other policy measures.

This led to a discussion of the need for another macro-prudential measure in housing despite the cumulative increases in the Bank of Israel interest rate and the measures introduced recently, the effect of which, as stated, is expected to be reflected in the future. This, against the background of the risks incurred by constructors who took credit to buy land at high prices in light of the possibility of a drop in asset prices in the future. Against this are aligned the risks of buyers who may have difficulty repaying their mortgages. On this point participants expressed concern that the introduction of too many policy measures in addition to increases in the interest rate could result in a sharp drop of house prices instead of a gradual decline.

Taking into consideration the slowdown in the global economy and its expected negative effect on Israel's economy already in the second quarter, the differential between the interest rate in Israel and those in the major economies, and the moderation of actual and expected inflation, three members of management recommended that the Governor leave the rate of interest unchanged for July. Their intention was to leave more time to assess the effect of the increases in the interest rate so far, and the effect on housing prices and housing credit of the policy measures already introduced in the housing area. A no-change decision would be consistent with a gradual return to a normal interest rate environment in light of the increases in the last few months, and would be consistent with the efforts to return inflation gradually to within the target range, taking into account the other considerations mentioned above.

The member of management who recommended a 25 basis point increase in the interest rate considered it important to adopt a firmer policy with regard to housing prices, as long as there is no clear evidence that the steps taken so far are having a significant effect. This, in light of the high price the economy would have to pay if the assessment that housing prices would moderate due to the measures taken proved to be incorrect.

Taking all the above points into consideration, the Governor decided to leave the interest rate for July unchanged at 3.25 percent.

In its announcement of the decision, the Bank of Israel emphasized the following points:

- Inflation over the previous twelve months continues to be high, at 4.1 percent. However, inflation expectations for the next twelve months derived from the capital market and the average of the forecasters' expectations declined over the past month, and are now slightly below the upper limit of the range. The past three CPI readings have been consistent with achieving the target inflation range.

- Economic indicators published this month point to continued expansion of economic activity and expectations are that the expansion will continue in the second quarter, even if at a more moderate pace. With that, there is growing concern over slower US economic growth and the worsening risks of debt problems in Europe and their implications for Israel's economy.

- The annual rate of increase in house prices continues to be high—in the last twelve months house prices increased by 15.3 percent. With that, the effect of interest rate increases, steps by the Bank of Israel in the mortgage market, and steps by the Ministry of Finance regarding real estate taxation, together with the continued growth in building starts, are expected to slow the rate of increase of housing prices over the course of the coming year.

- Central bank interest rates in the major advanced economies are still low, and are expected to remain so in the next few months. Against the background of the acceleration in inflation in fast growing economies, several central banks increased their interest rates again this month. However, the concern of a slowdown in US growth and the worsening of debt risks in Europe led to expectations of a slowdown in the pace of interest rate increases in other markets.

In the first half of the year the Bank of Israel raised the interest rate markedly. At the same time, steps were taken by the Bank of Israel and the Ministry of Finance in the housing market. In addition, the shekel appreciated over recent months and there was a decline in commodity prices. The impact on inflation of these items is expected to be felt in the future. In light of these factors, and the marked increase of risks in the global economy, it was decided to leave the interest rate at its current level at this time.

The Bank of Israel stated that it will continue to monitor developments in Israel's economy and the global economy and in the financial markets. The Bank will use the instruments available to it to achieve its objectives of price stability, the encouragement of employment and growth, and support for the stability of the financial system, including keeping a close watch on developments in the assets market, and especially in the housing market.

The decision was made and published on June 27, 2011.

Participants in the narrow-forum discussion:

Prof. Stanley Fischer, Governor of the Bank of Israel
Prof. Zvi Eckstein, Deputy Governor of the Bank of Israel
Dr. Michel Strawczynski, Head of Macroeconomic and Policy Division and Acting Director of the Research Department
Dr. Edward Offenbacher, Member of Management and Head of the Monetary and Finance Division, Research Department
Mr. Barry Topf, Director of the Market Operations Department
Mr. David Zaken, Supervisor of Banks
Mr. Eddy Azoulay, Chief of Staff to the Governor
Dr. Yossi Saadon, Advisor to the Governor and Bank of Israel Spokesperson
Ms. Esti Schwartz, Secretary of the Monetary Committee
Mr. Inon Gamrasni, Economist, Research Department

Appendix: Major Global Economic Developments

Global

Most macroeconomic data published during the month continued to indicate a slowdown in the rate of recovery of the global economy. The weakness derived mainly from the US and European economies (excluding Germany) and some East Asian economies. This led to a downward revision of the growth forecasts by the investment houses.[2] Some of the reasons for the current slowdown are temporary, such as the jump in commodity prices, chiefly in oil prices, in the first five months of the year, which impacted mainly on households. Another reason was the *tsunami* in Japan (and other natural disasters) which had a stronger effect on the global supply chain than was originally assessed. The Japanese economy contracted by 1.3 percent in the first quarter (quarterly change), and till now has not shown signs that it is recovering from the effects of the earthquake. The effects of the *tsunami* are most evident in the worldwide motor industry which was forced to cut activity and manpower. The huge increase in stocks in 2010 resulting from over-optimistic forecast regarding the rate of recovery in the global economy in 2011 also affected production and growth.

It should be noted, however, that although most of the data came as an unpleasant surprise, they still indicate positive growth, some of which is sustainable. This is the picture that emerges from the OECD, IMF and World Bank reviews, which emphasized the temporary nature of the latest weakness,[3] and the improvement in the recovery path in the global economy in the last year. Thus, in the past year the global economy has been showing an expansionary trend based mainly on private consumption and world trade, with the central expected scenario still one of gentle acceleration in the second half of the year.

The US

Most indicators published this month again came as an unpleasant surprise, as for the first time since the beginning of the year and in contrast to the trend in the last few months data on employment were also significantly lower than the forecasts. This, together with other weak data led the Chairman of the Fed to talk of frustratingly slow job growth and weakness in the some US industries, effectively leaving the door open for a QE3 program.[4]

The US labor market is still showing a deficit of some 11 million jobs (since the recovery started the US job market has created about 1.7 million posts out of some 8.7

[2] The IMF revised its US growth forecast for 2011 by 0.3 percentage points to 2.5 percent, and that for 2012 by 0.2 percentage points to 2.7 percent. The Fed also reduced its forecast for the second time this year.

[3] It should be noted that reviews generally show reactions to changes in the global economy with a lag, are very general.

[4] The probability of a QE3 program practically zero at this stage, but the very fact that it was mentioned last month is an indication of the deterioration of the general worldwide situation.

million that were lost during the crisis).[5] In addition, the real estate market in the US, which lost about 60 percent of its value since the outbreak of the crisis in 2008, falling from a level of $15 trillion to just a little above $6 trillion, started weakening again recently. An urgent problem as yet unsolved is the debt ceiling, as it is estimated that the amount of cash in the hands of the administration is likely to run out at the beginning of August this year. The administration's inability to reach agreement with the House of Representatives constitutes a serious threat to the credit rating of the US, and this issue was afforded increased attention this month by the rating agencies and also by China, which is the largest holder of US bonds outside the US, and which used the phrase "playing with fire" to describe the situation (the IMF concurred with this warning).

The administration has not yet presented a program of cutbacks to bring the worrying path of US debt back to a reasonable level. The current gross debt is close to 100 percent of GDP, and it is expected to increase even further in the coming years (according to the annual Treasury report to Congress, the debt/GDP ratio at the end of the year will exceed 100 percent, three years earlier than predicted in the previous forecast).

Europe

The lack of agreement between Germany and the ECB (European Central Bank) on the shares of private creditors in the Greece rescue program, combined with the political problems in Greece against the background of the adjustment measure required increased concern over a serious bank credit crisis. Reports of banks' difficulties in raising capital in the market and the lowering of the rating of French banks by Moody's (which also warned Italy about a possible reduction of its rating) increased the pressure in the government bond market, and pushed the yield on Greek bonds with a two-year horizon to around 30 percent (yields on Irish and Portuguese bonds also reached new record levels). The pressure eased somewhat after Germany came into line with the ECB position on private investors' participation in the rescue program, and after the failure of the no-confidence vote in the Greek parliament. Nonetheless, the assessment in the market is that the current rescue plan will apparently not avoid the need for a future restructuring of Greece's debt, and possibly even those of other economies (Moody's assess the probability of a debt restructuring in Greece at about 70 percent).

France joined the group of "peripheral" countries this month with a negative change (i.e., a reduction) in manufacturing production, and an increase in unemployment to 9.2 percent. The situation in the economies of the other member countries also continued to be difficult; in Spain the purchasing managers index (PMI) declined to 48.2 percent (indicating a contraction of business activity). All this while the Greek/European debt crisis threatens to become another global bank crisis.

As part of the steps aimed at improving the stability of the European banking system, stress tests were performed this month. The publication of the results was put off to

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[5] To this must be added the natural increment of 150,000 jobs a month needed to keep the rate of unemployment unchanged. This increment itself requires an increase of about 4 million jobs since the crisis in 2008.

July, and it is assessed that European banks will have to raise enormous amounts to reach a capital adequacy ratio of 10 percent, and this would significantly increase the pressure in the European capital market.

The capital markets

this month too. Most leading share indices reacted to the weak macroeconomic data, the deterioration in the European debt crisis in Europe and the ending of the QE2 program with marked falls of between 3 percent and 7 percent.[6] Nor did the continued improvement in companies' profits and relatively low multiples (mainly in the European banking sector) succeed in overcoming the generally negative sentiment. The reduced risk appetite was also reflected in the gradual rise in the market volatility index (VIX) and the widening of the various margins around the world (emerging market bonds, EMBI, and corporate bonds indices).

As stated the QE2 program ended this month. The ending of the process, instead of leading to increased yields, had the opposite effect and yields in the advanced economies continued to decline. In the US the yield on 10-year notes dropped for the first time since the end of 2010, to about 3 percent. This decline expresses the concern that the ending of the program will result in a more severe slowdown. The ending of the program of Treasuries purchases removed a key player (almost the sole player) from the US government bond market—during the period of the program the Fed bought about 85 percent of the US government bond issues.

In Europe, yields in the PIG economies (Portugal, Ireland and Greece) leaped to new record levels; 2-year Greek bonds reached close to 30 percent, while yields on similar bonds in Ireland and Portugal continued upwards, with both approaching 12.5 percent. The new issues market (bonds and shares), however, continues to flourish for all ratings. Since the beginning of the year issues in the high yield world bond market reached about $230 billion, compared with $370 billion in the whole of 2010. In the US, junk-bond issues since the beginning of the year totaled about $180 billion, compared with $280 billion in the whole of 2010.

[6] The ending of the program in itself should not result in falling prices, but the fact that it occurred at the same time as the slowdown raised the level of concern.