

Two Small Open Economies in a Stormy World: The Case of Israel & Poland

The University of Lodz

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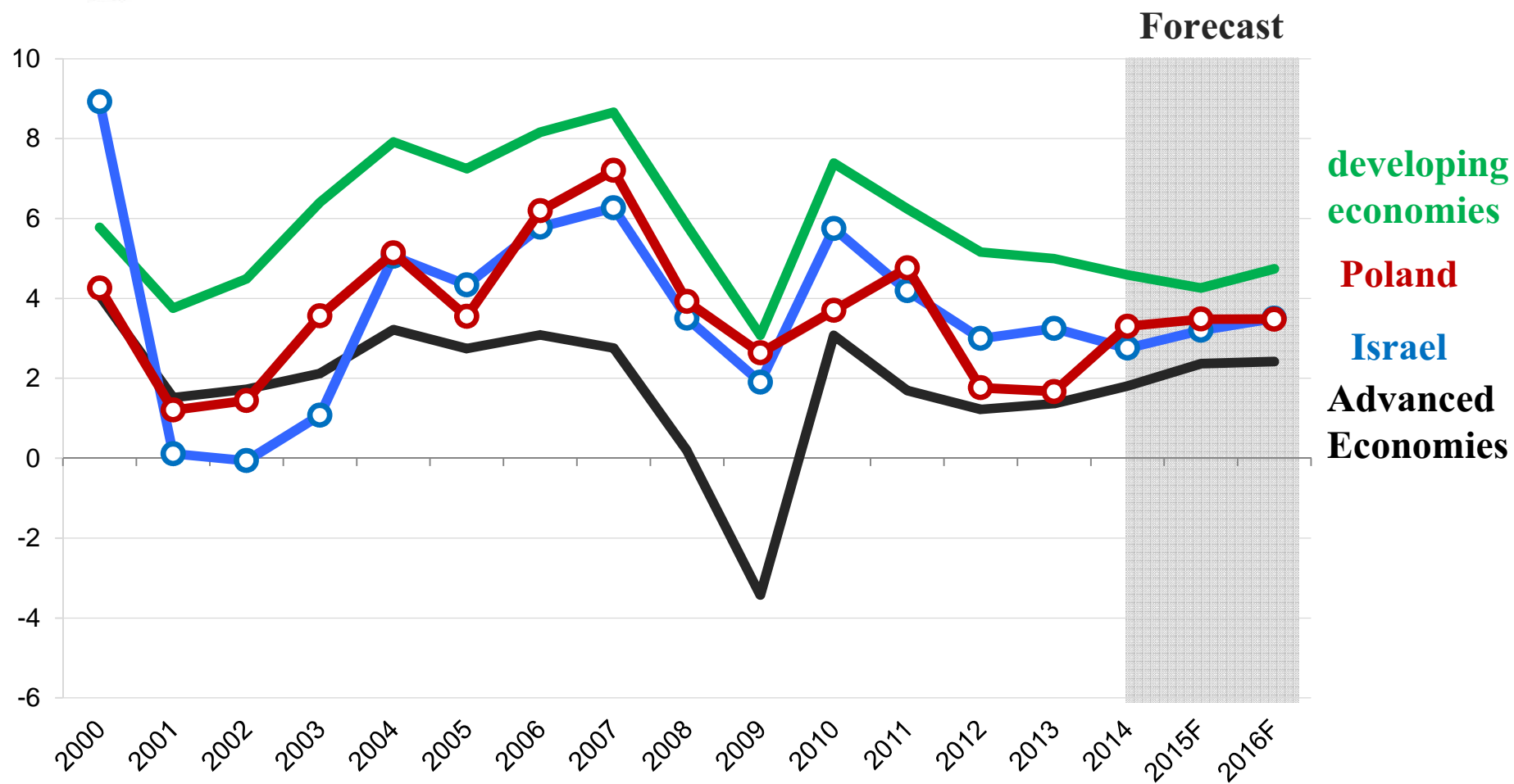
Governor of the Bank of Israel

April 30, 2015



GDP growth

2000-2016F





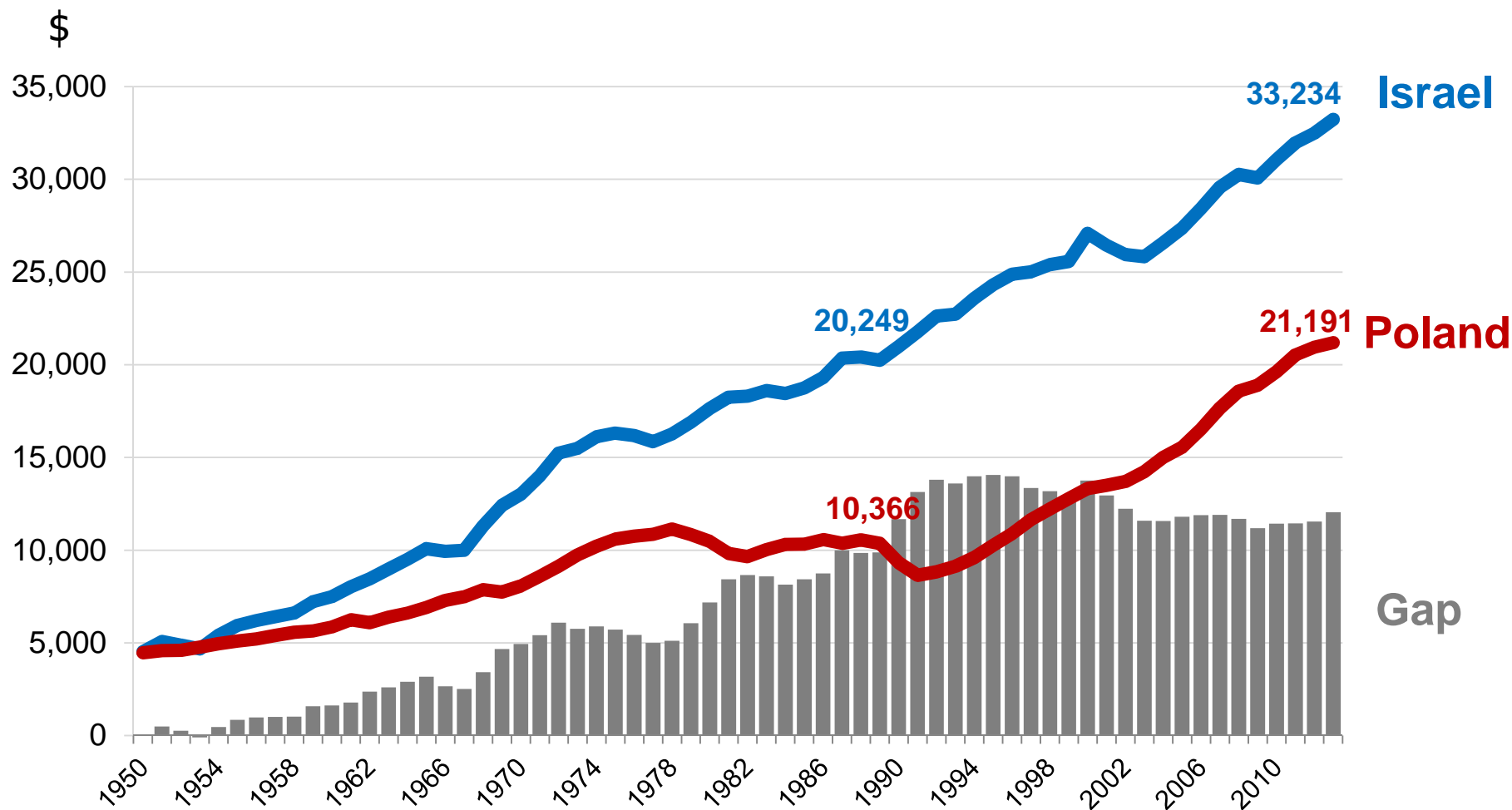
Israel & Poland General Comparison

	Israel	Poland
Population (millions)	8	38.5
GDP (US\$ billion, 2013)	290	520
Per capita GDP (PPP, 2013)	33,234	21,191
Annual Growth (2004-2014)	4.2%	3.7%
Unemployment (25-64)	4.8%	8.8% (2013)
Inflation (12 months)	-1.0%	-1.3%
Government Expenditure (2014, % of GDP)	39.4%	41.3%
Tax Burden (% of GDP)	31% (2014)	32.1 (2013)
Gross Government Debt	67.8	57.1



Per capita GDP

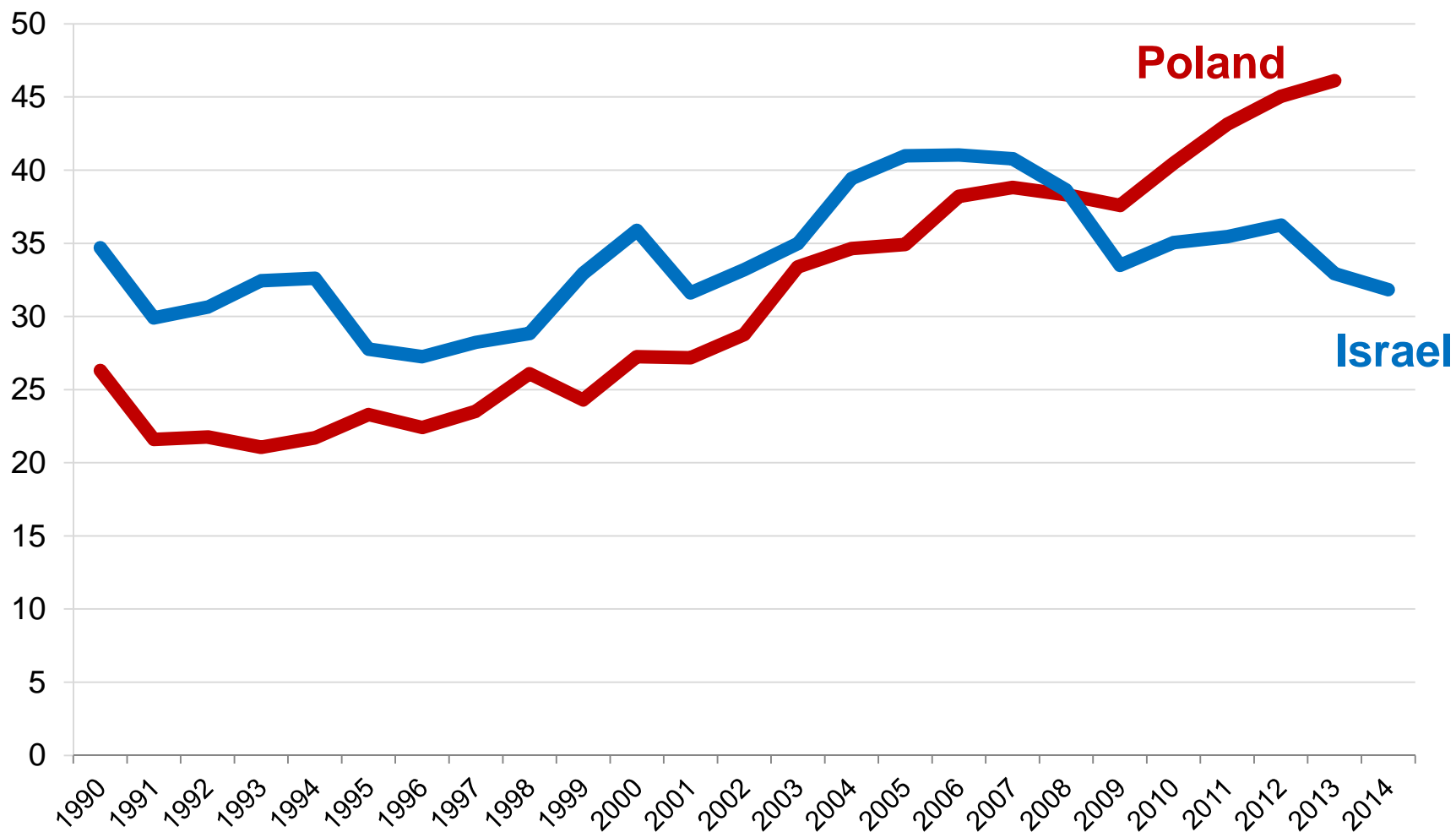
1950-2013, PPP 2013 prices





Exports of goods and services

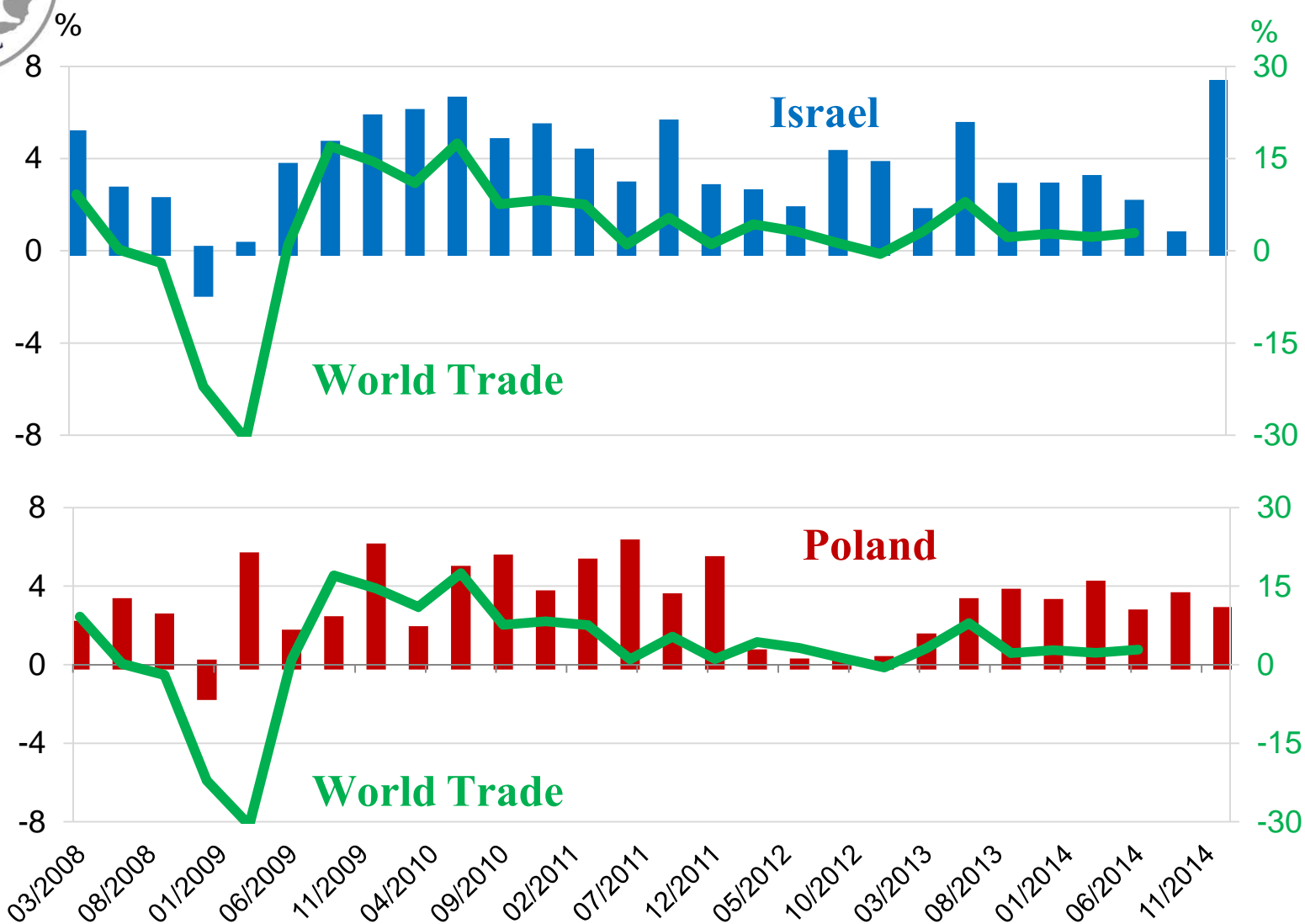
1990-2013, % GDP





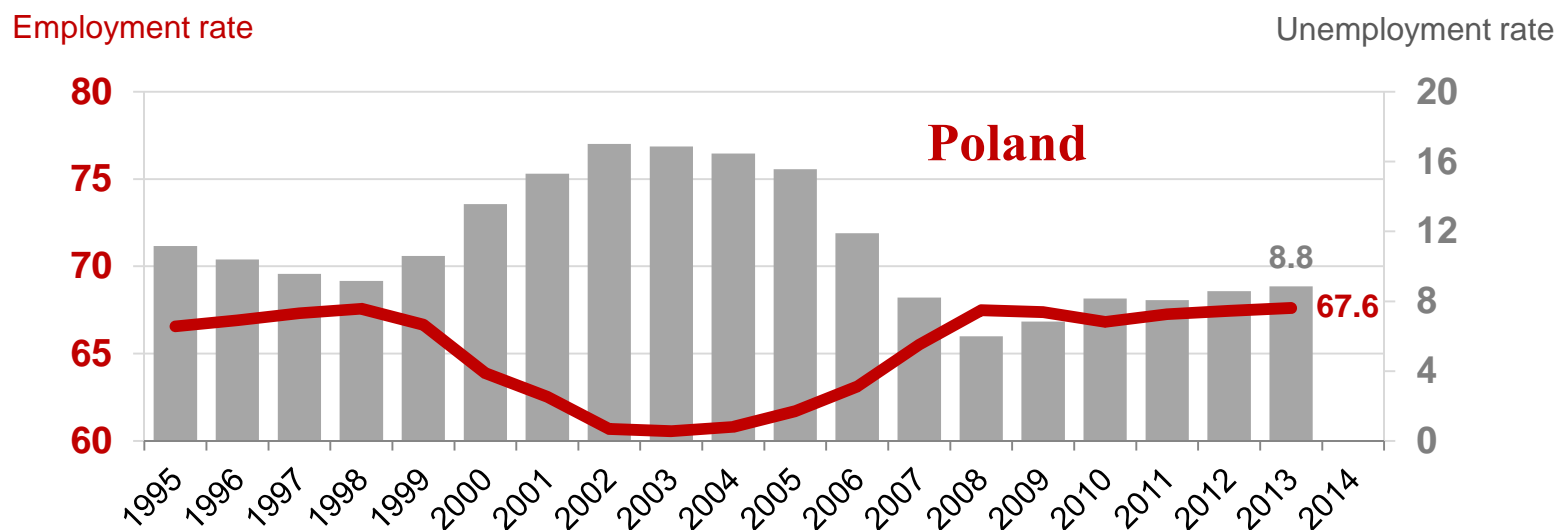
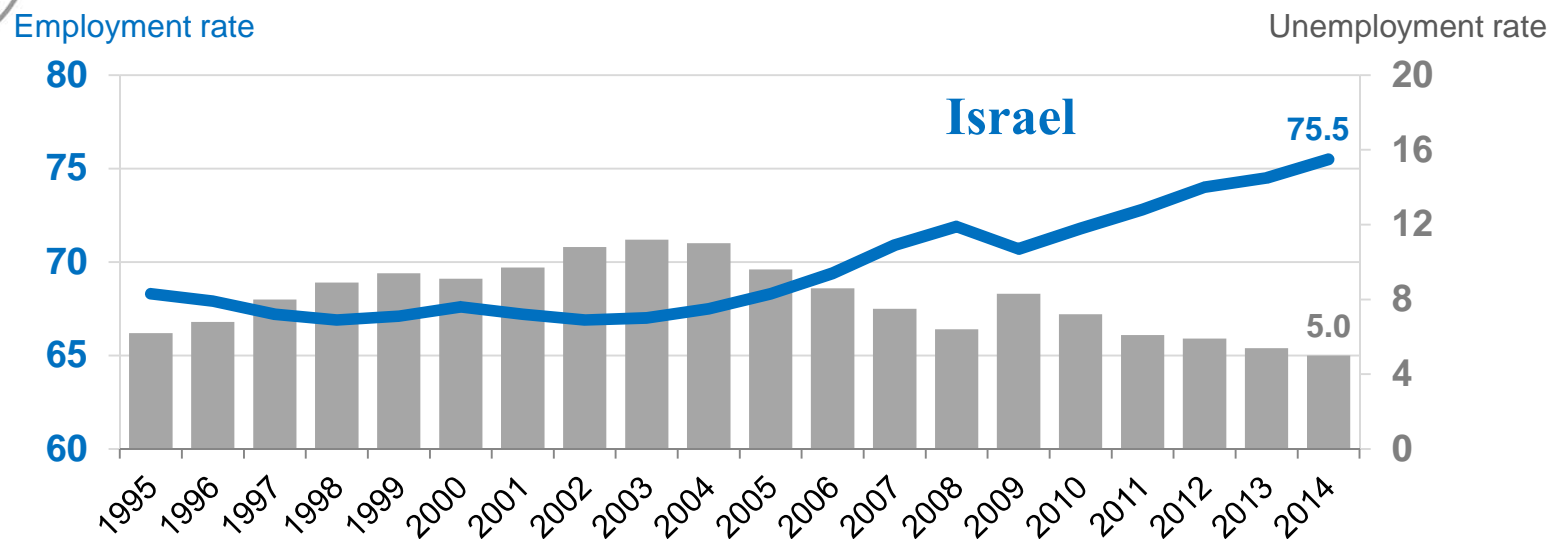
Growth & World Trade

(Quarterly, 03/2008-12/2014)





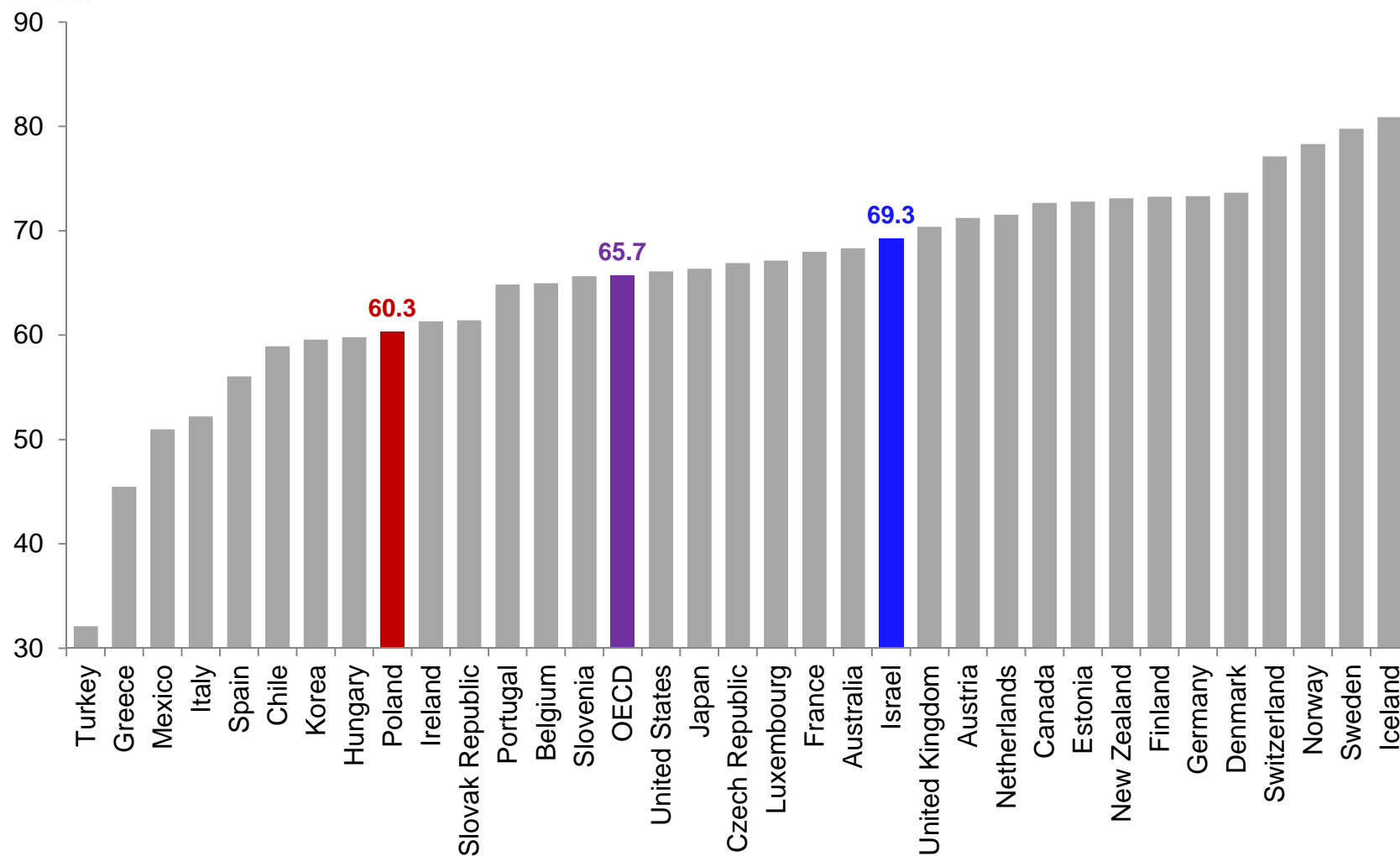
Labor Market: Employment and unemployment rates, 1995-2014, ages: 25-64





Women's employment rate

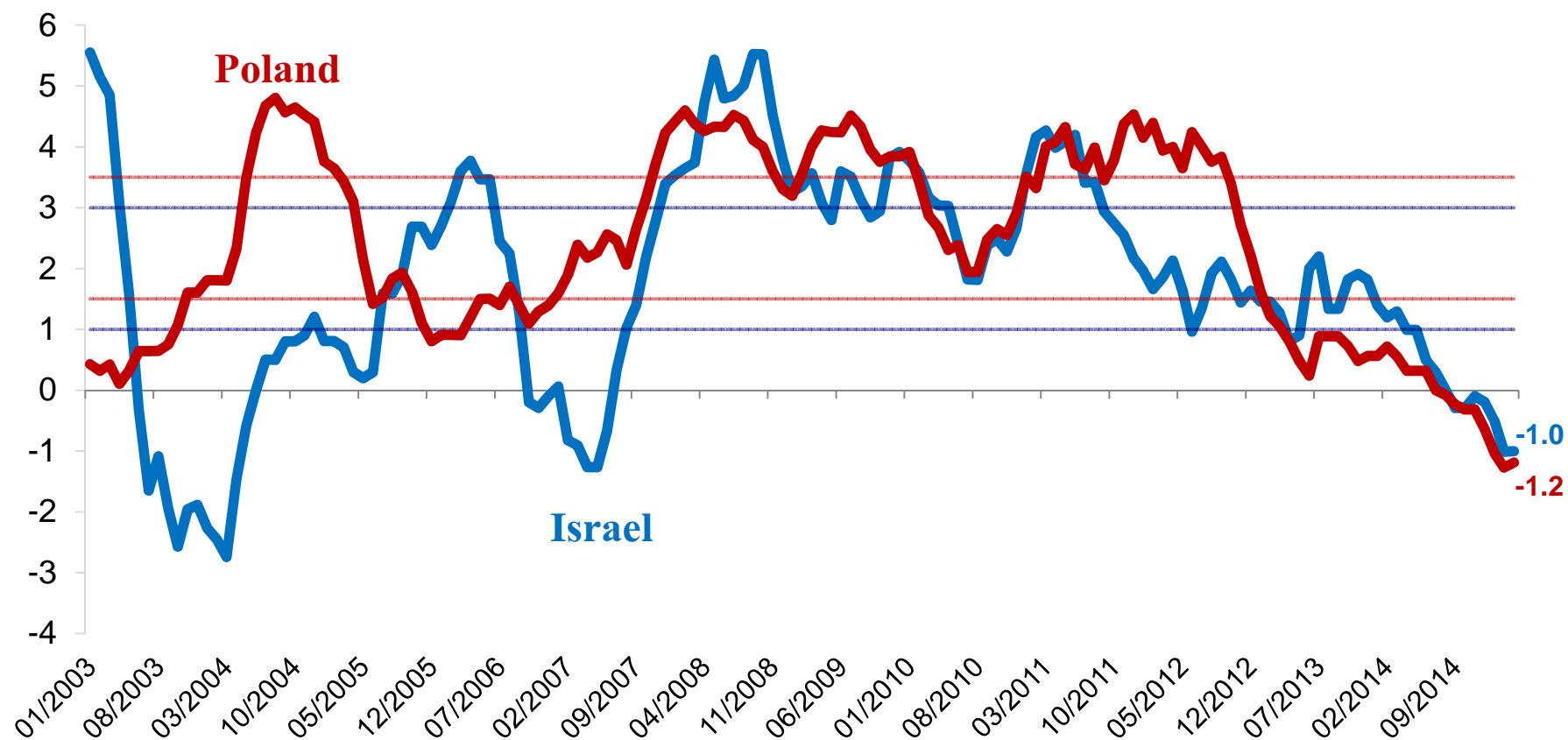
2013, ages: 25-64





Inflation environment

2003-2015

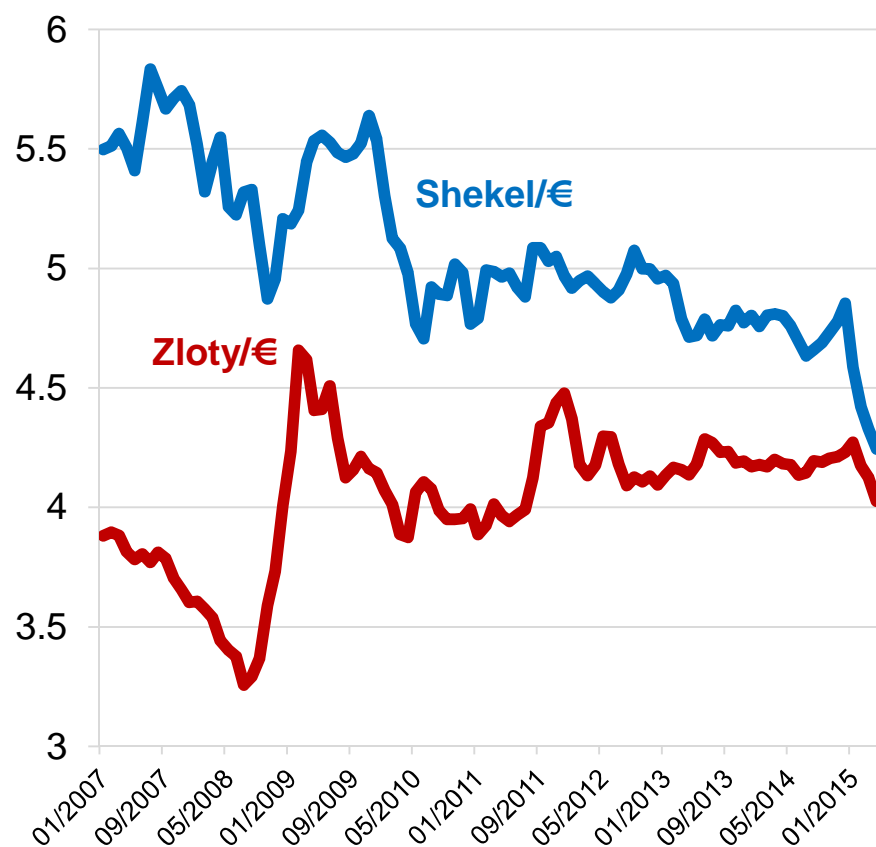




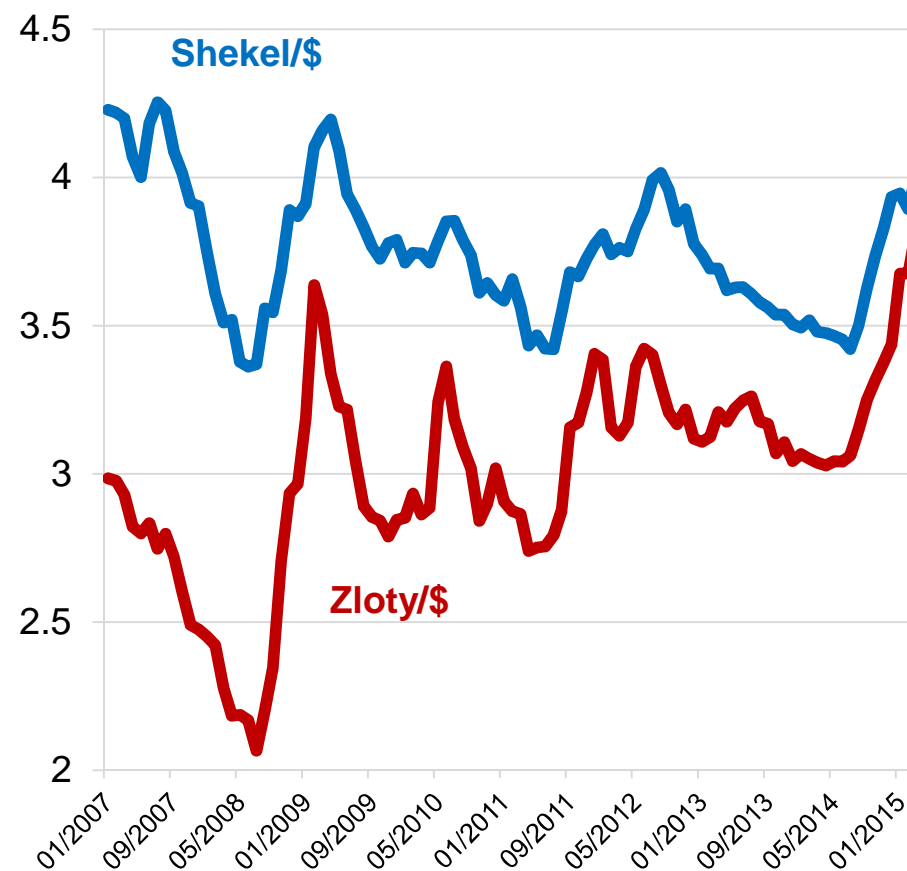
Exchange rates

2007-2015

Shekel and Zloty/Euro exchange rates



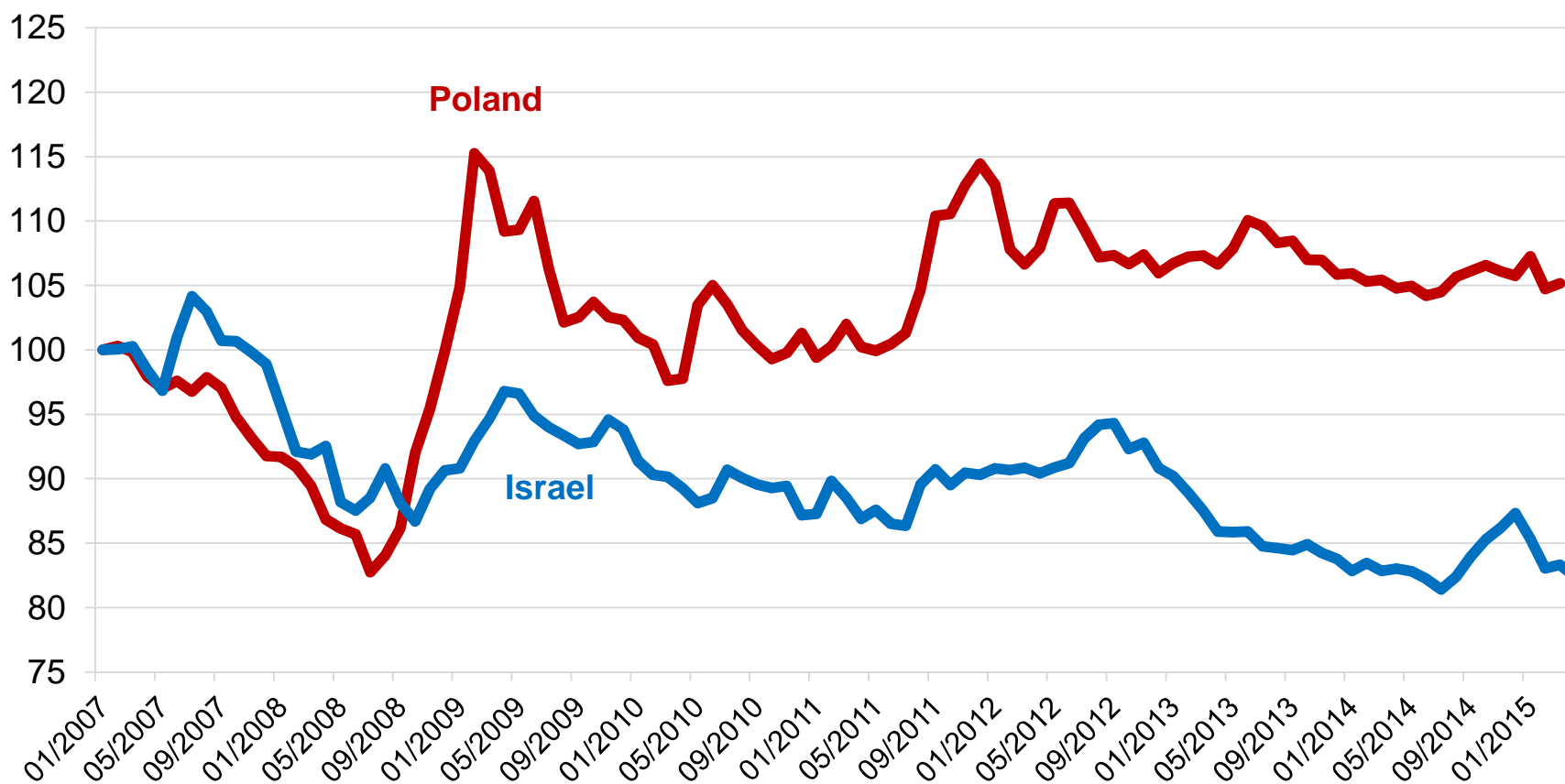
Shekel and Zloty/Dollar exchange rates





Nominal effective exchange rate

2007-2015, index 01/2007=100

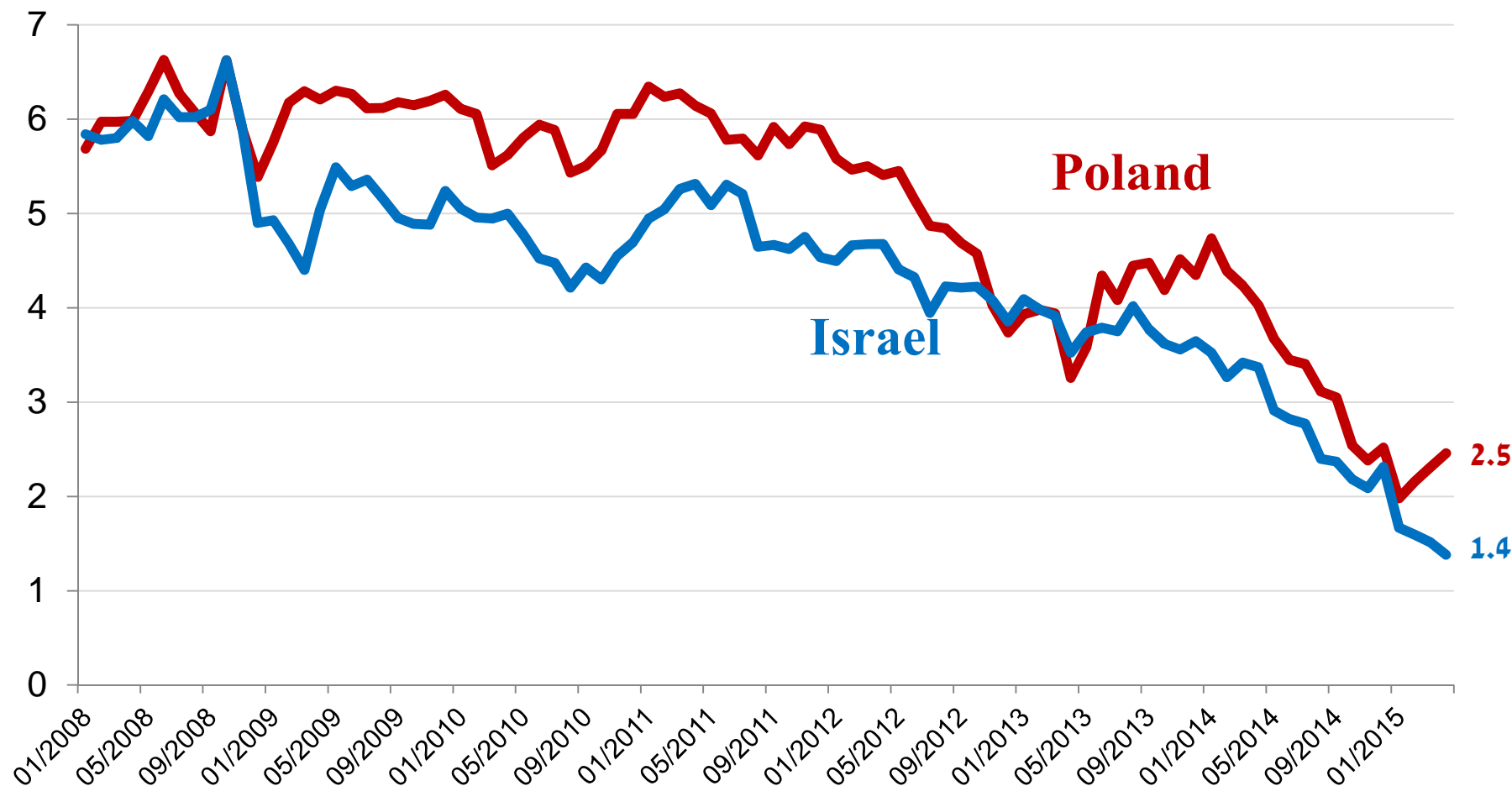




10-year government bond yield

01/2008-03/2015, unindexed, monthly, end of period

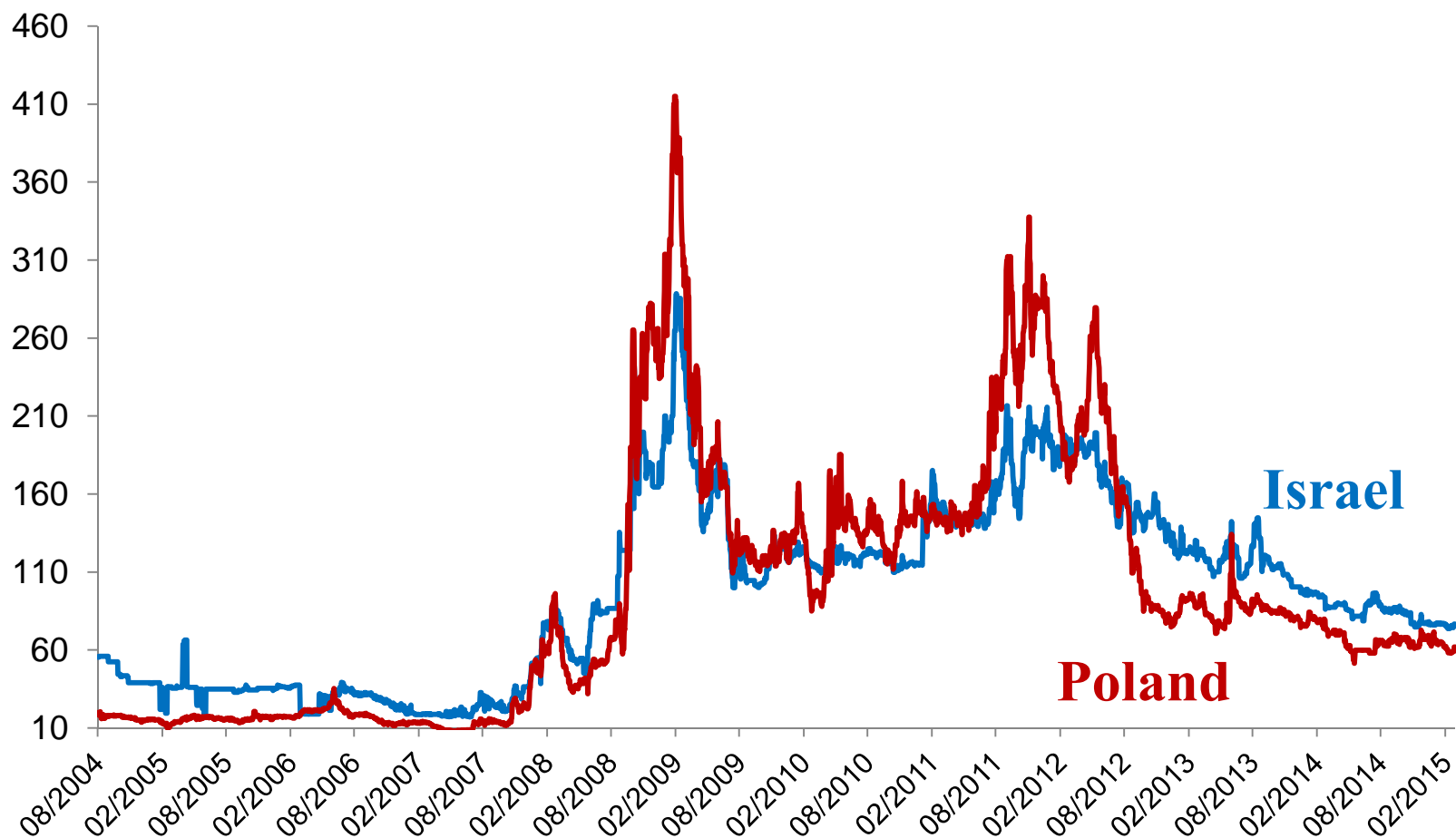
P.P





Country risk measures

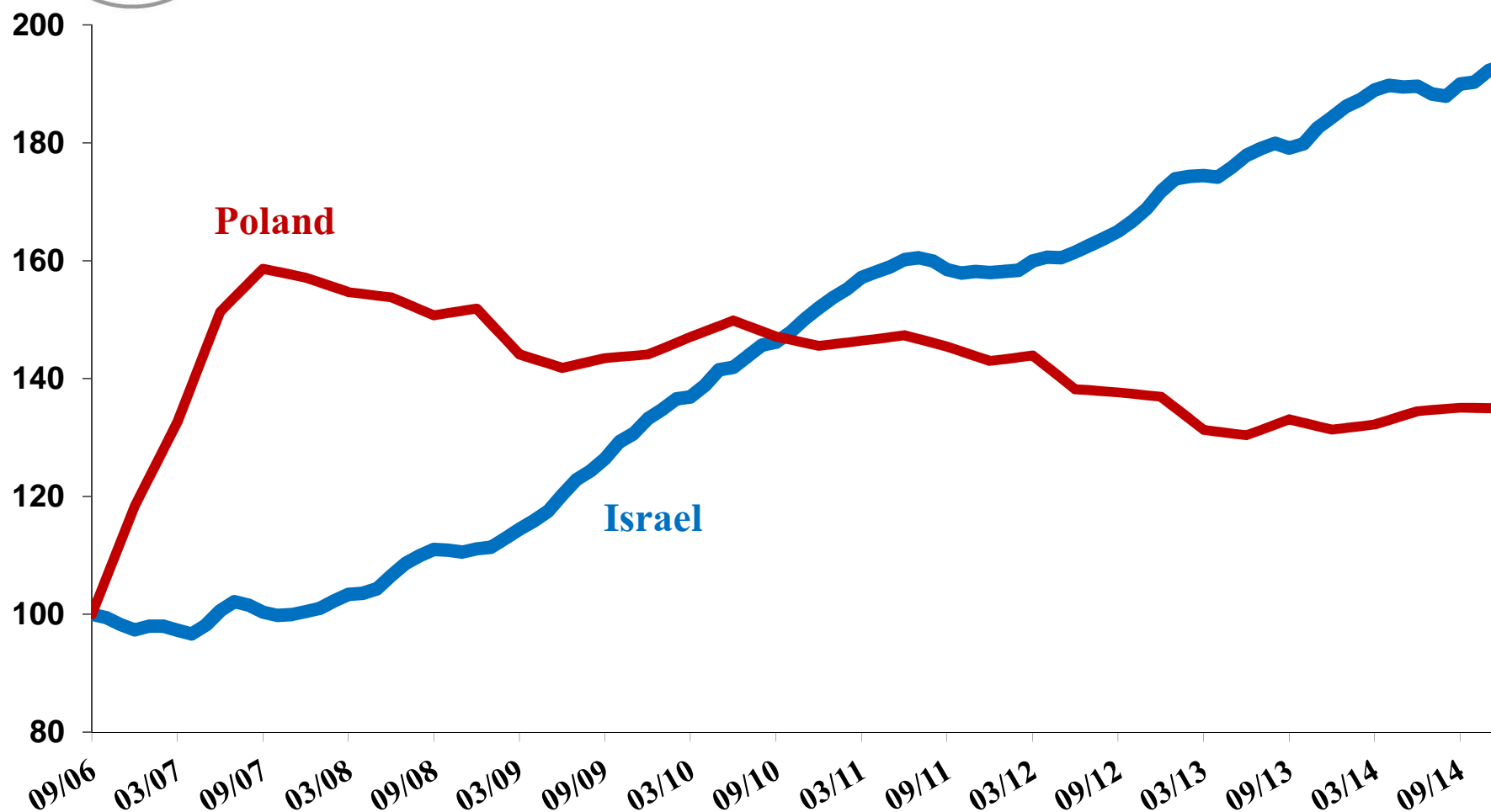
5-year CDS spreads, Israel & Poland 08/2004-02/2015





Home prices in Israel and Poland

Index, 2006: Q3=100





Monetary Policy



Central banks' objectives

Before the financial crisis

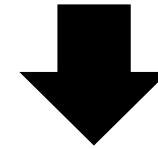
*"One target, one instrument
simplicity"*

One major objective:

Maintaining price stability, and supporting economic activity.

Using one monetary tool:

Interest rate.



Since the financial crisis

*"Multiple instruments should
increase the extent to which
multiple objectives can
simultaneously be pursued"*

Multiple objectives:

- Maintaining price stability, and supporting economic activity.
- Ensuring financial stability

Using multiple policy tools:

- Interest rate (incl. negative level).
- Quantitative easing.
- Capital flow management measures.
- Foreign exchange intervention.
- Macroprudential measures.
- Forward guidance.



Unconventional monetary tools since the Global Financial Crisis

	Forex intervention	Forward Guidance	QE	Negative Interest Rate	MAP
USA		+	+		
Euro		+	+	+	
England		+	+		+
Japan	+	+	+		
Czech Republic	+	+			
Denmark	+			+	
Switzerland	+		+	+	+
Sweden		+	+	+	
Canada		+			
New Zealand	+				
Israel	+		+		+
Poland	+				+

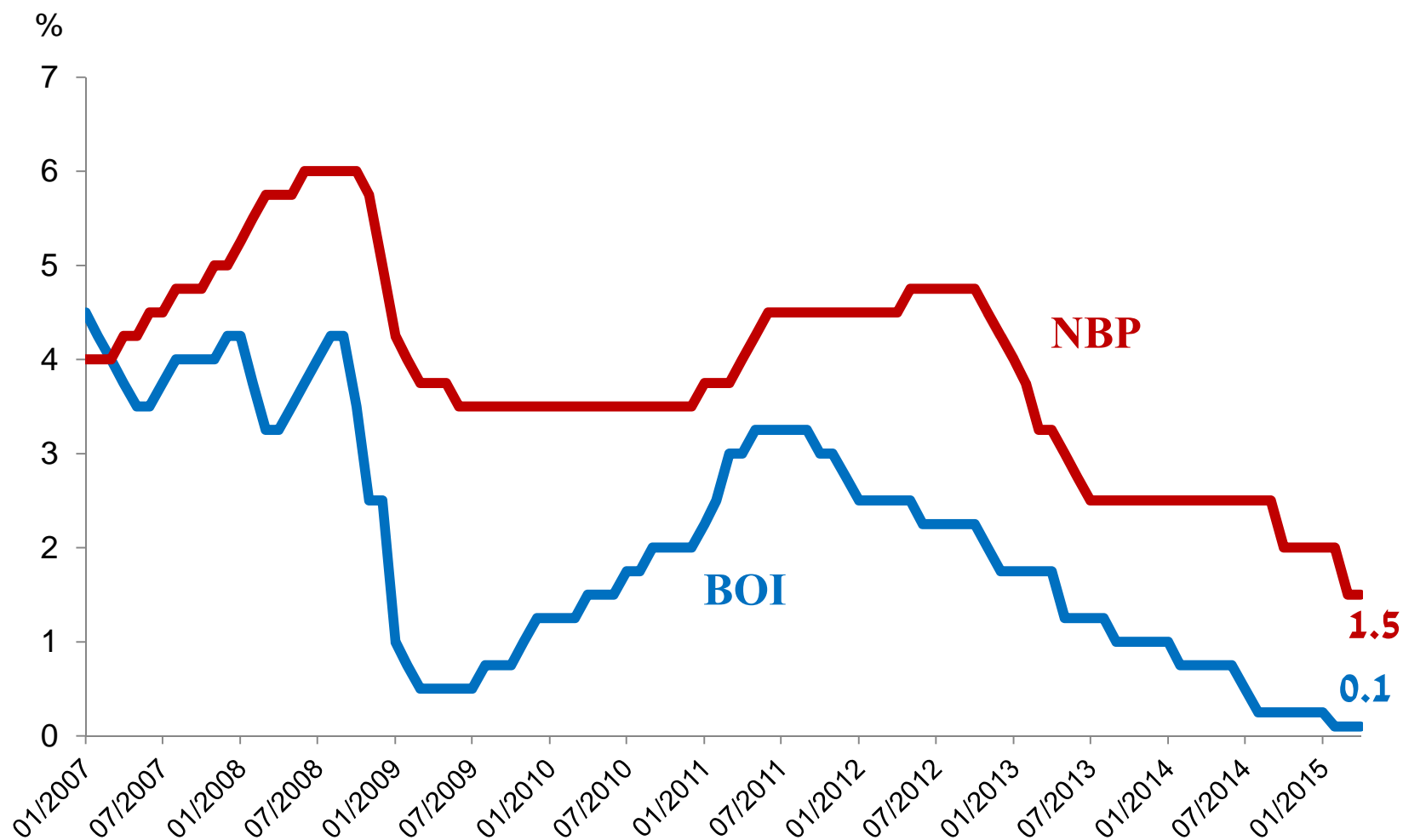
■ Exchange rate floor

■ Fixed exchange rate



Central bank interest rate

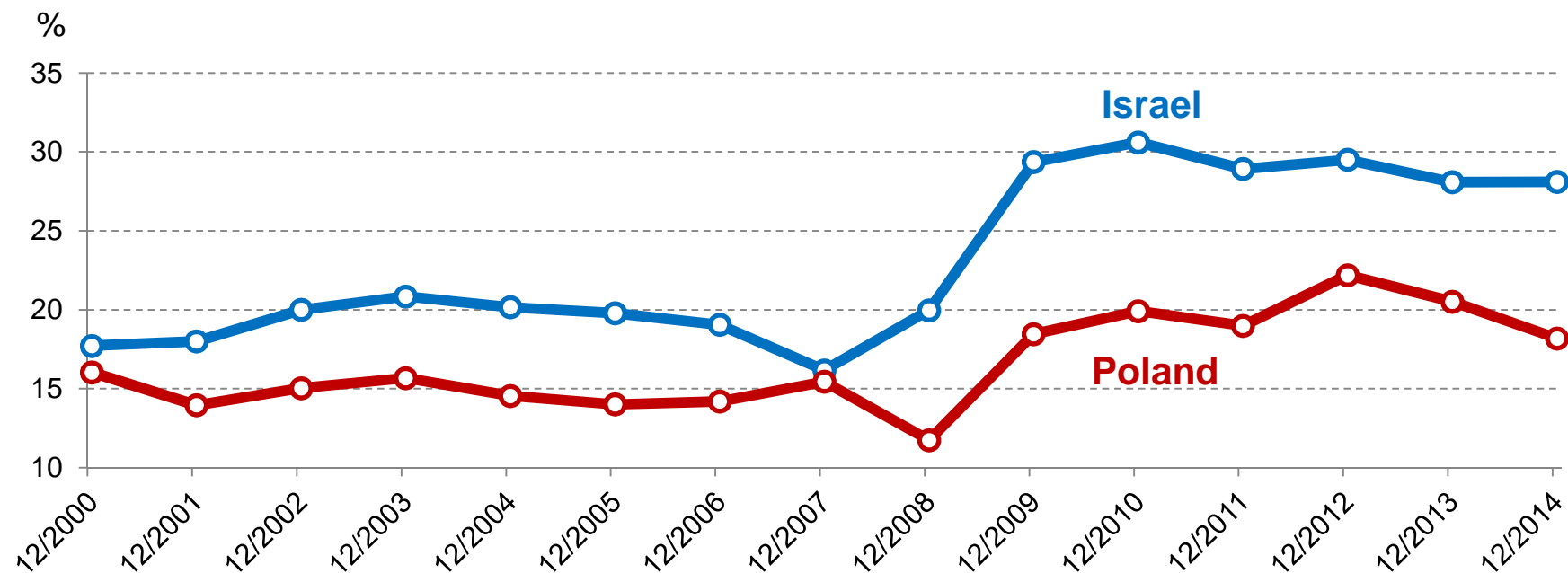
2007-2015





Reserves

Foreign exchange reserves
(12/2000-12/2014, % of GDP)



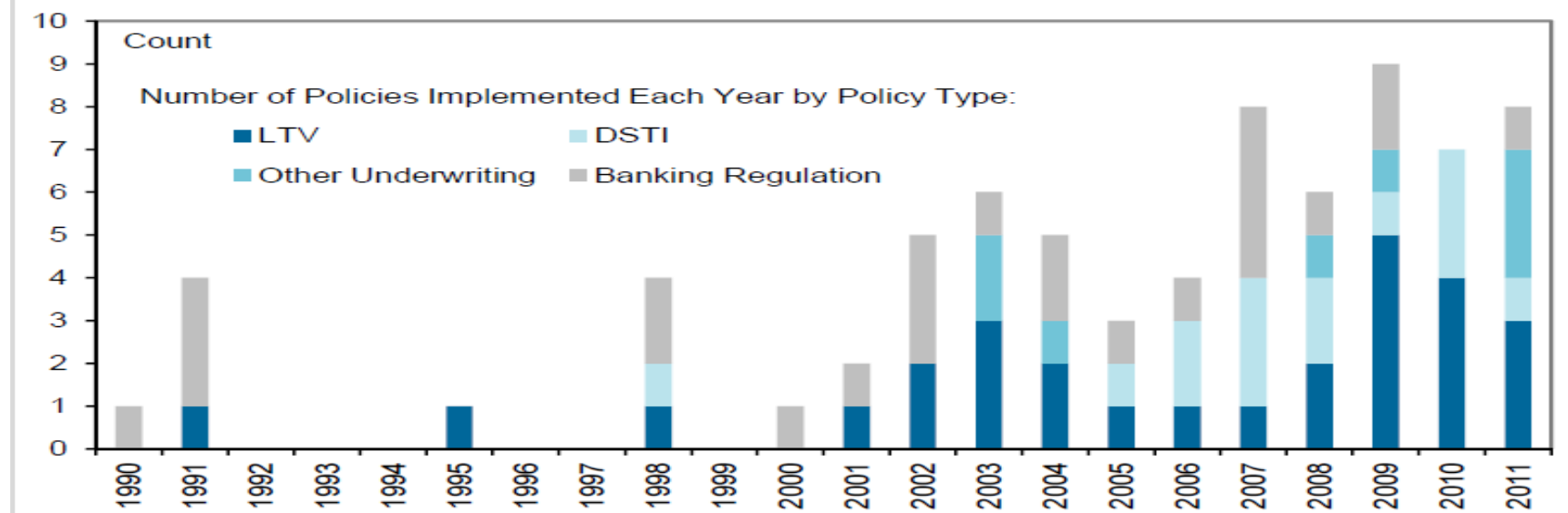
“Holding reserves carries a number of benefits compared with available insurance or financing instruments, such as high degree of certainty of immediate availability and international status ... in empirical studies, reserves tend to reduce spreads and exchange rate volatility”



Macprudential

“Quite simple to describe but quite difficult to implement...”

The number of macroprudential policies in the housing market used by OECD countries has increased



(BIS, Goldman Sachs Global Investment Research, April 2014)

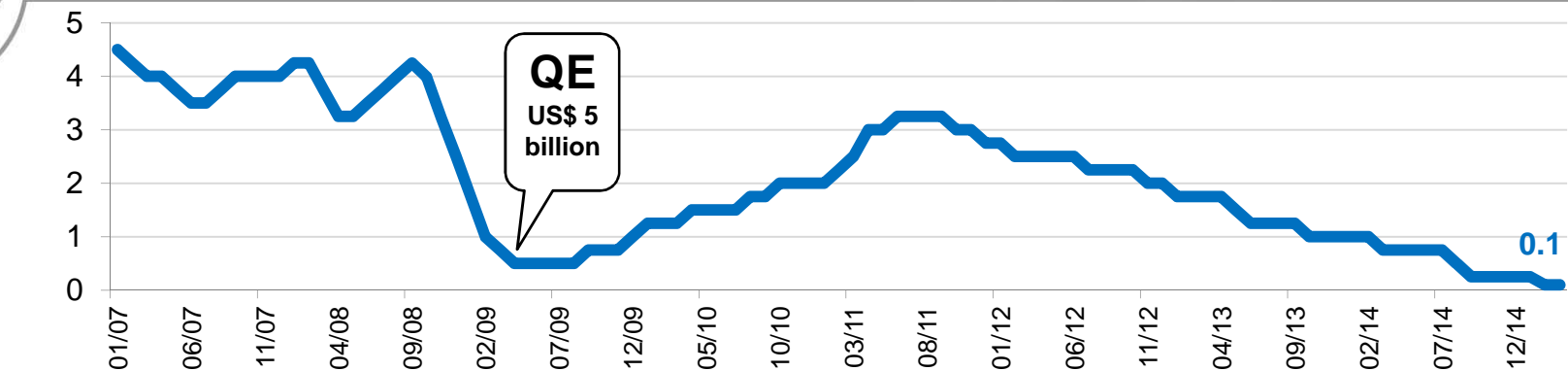
“The broad goal of these policies (MAP) is to limit the risk of financial system disruptions”



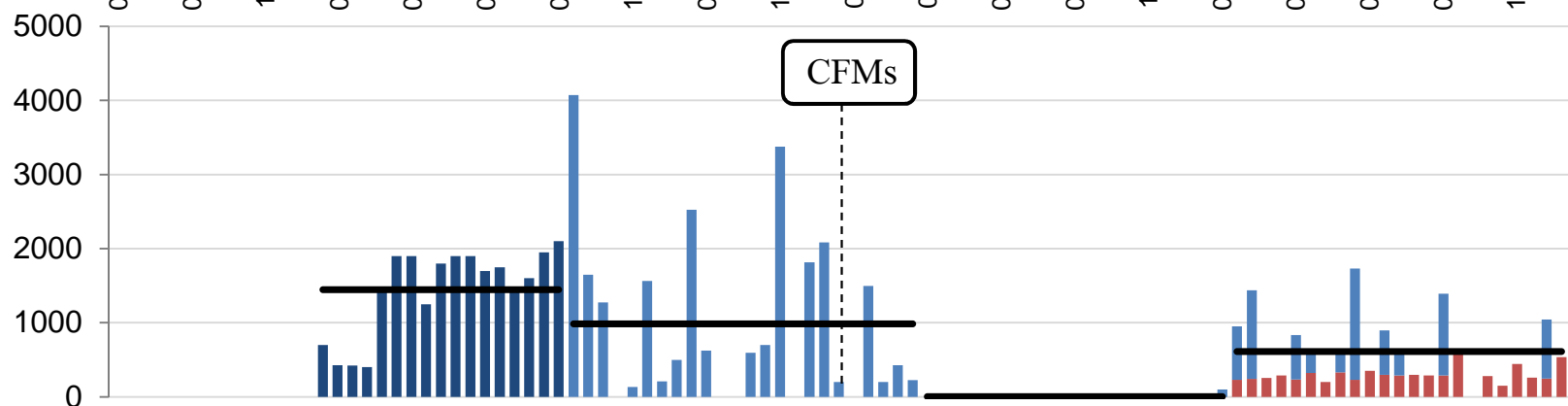
Bank of Israel policy tools

2007-2015

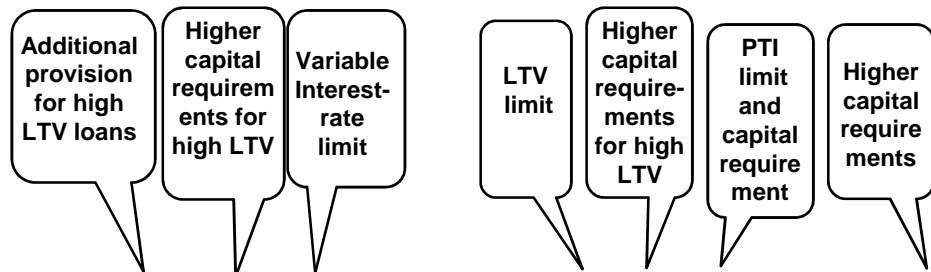
Interest
Rate



FX
Intervention



MacroPrudential
Measures





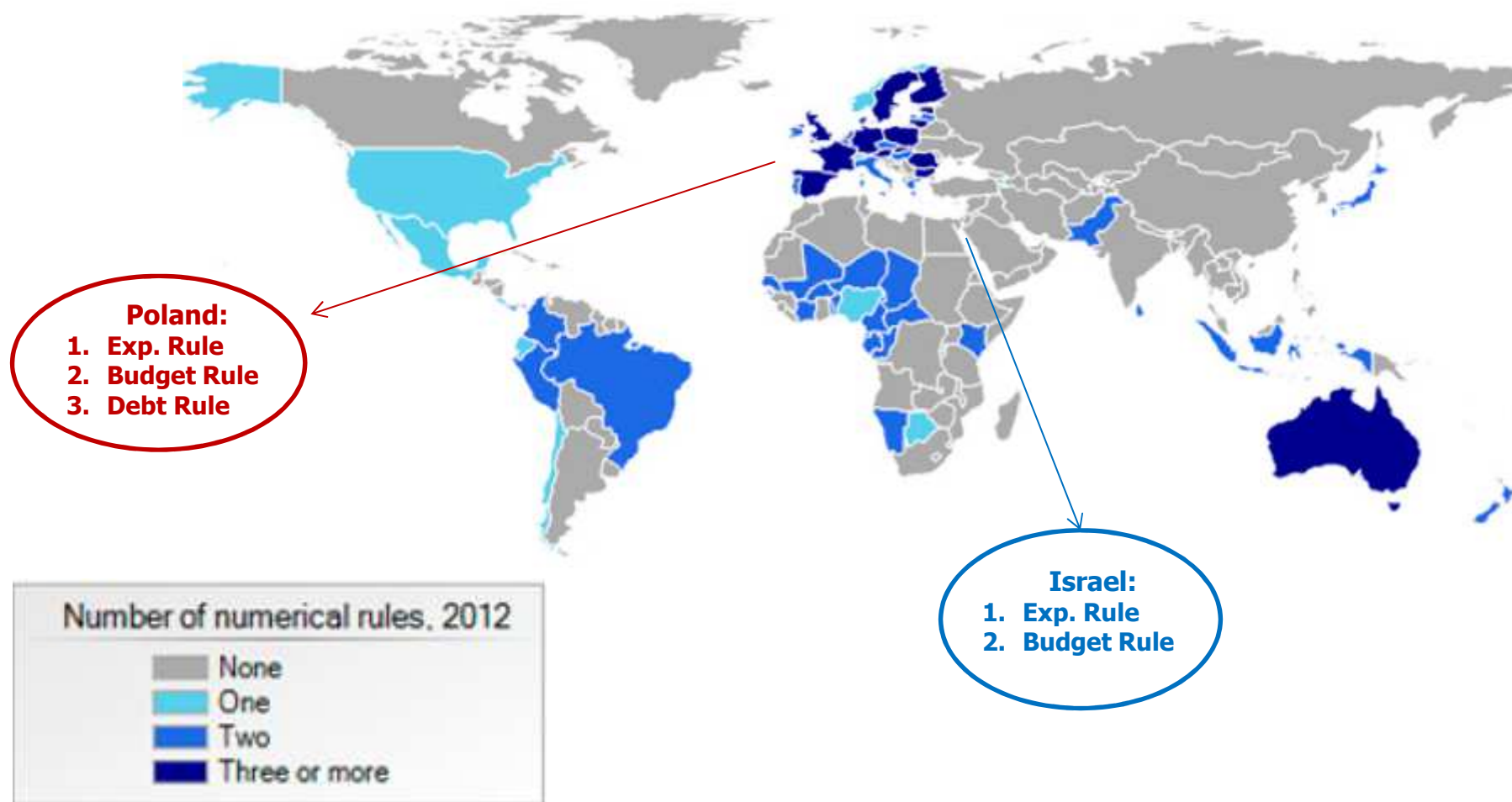
Fiscal Policy/Rules



Properties of fiscal rules

	Debt sustainability	Easy to monitor	Clear guidance for policy makers	Steers the size of government	Counter-cyclical
Debt rule	+	+	-	-	-
Budget balance rule	+ (close link)	+	+	-	-
Expenditure rule	-	+	+	+	?

Who uses fiscal rules and how many?

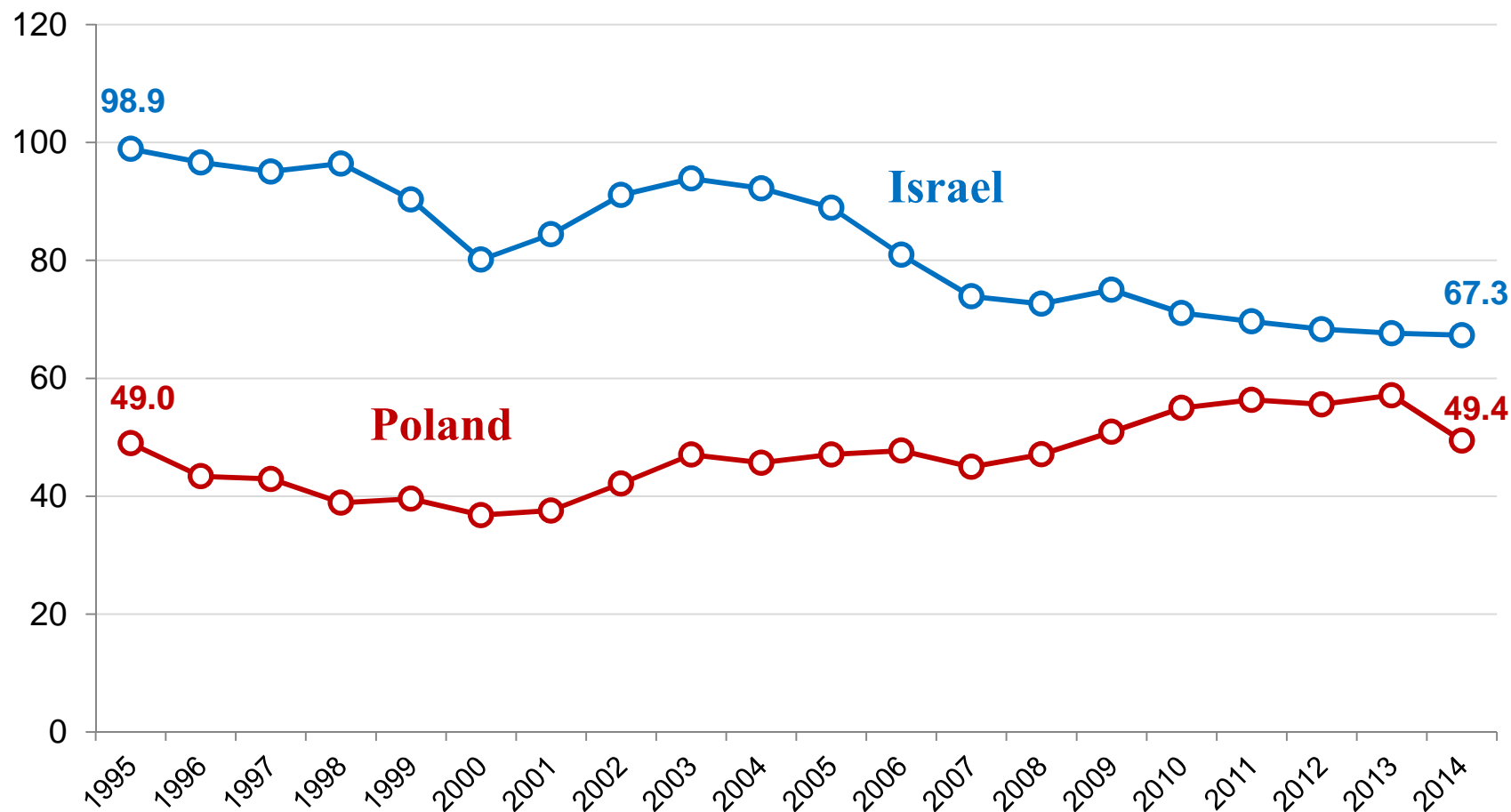




Government debt

% of GDP, 1995-2014E

% GDP

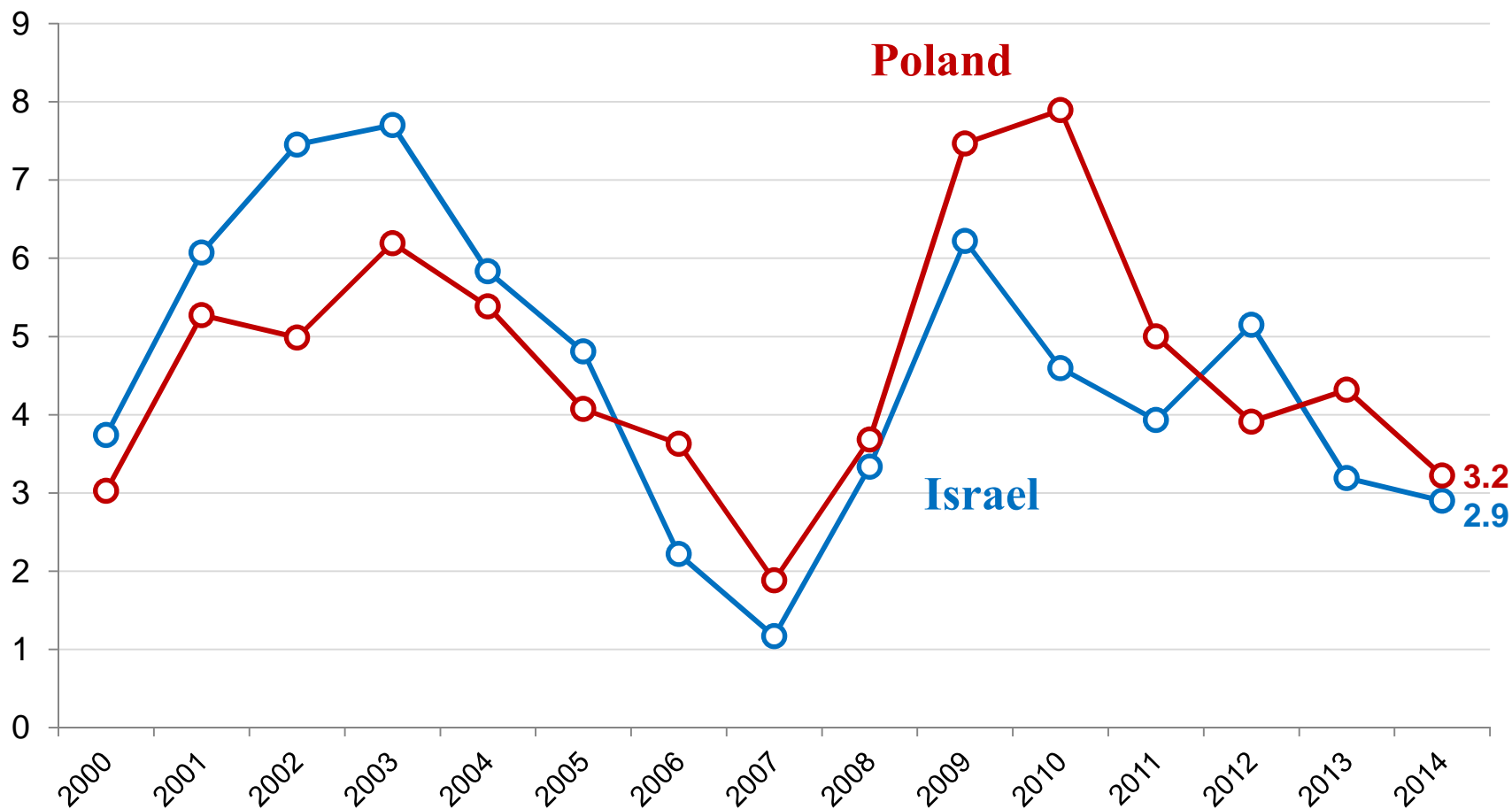




Government deficit

% of GDP, 2000-2014E

% GDP

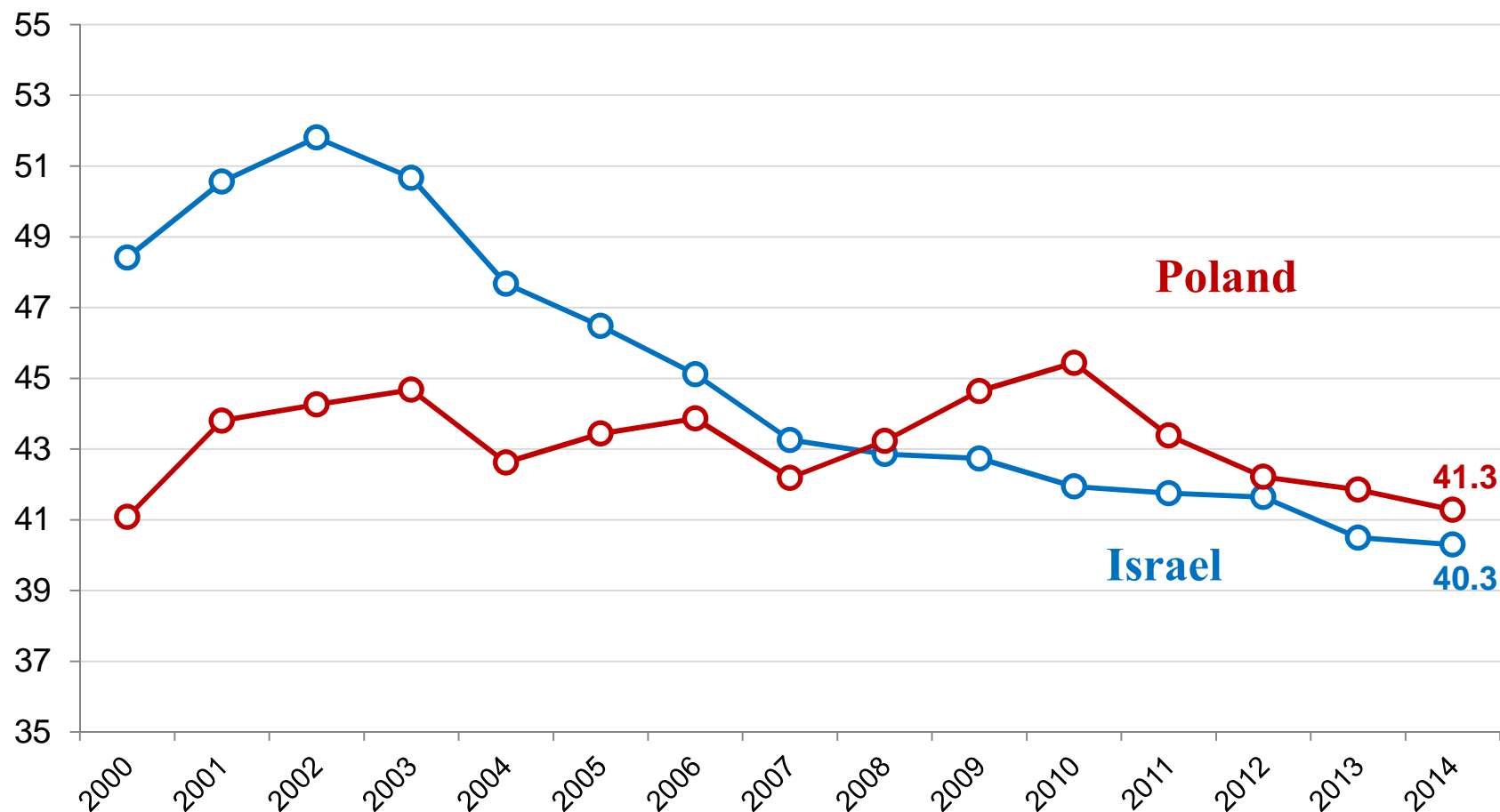




Government expenditure

% of GDP, 2000-2014E

% GDP

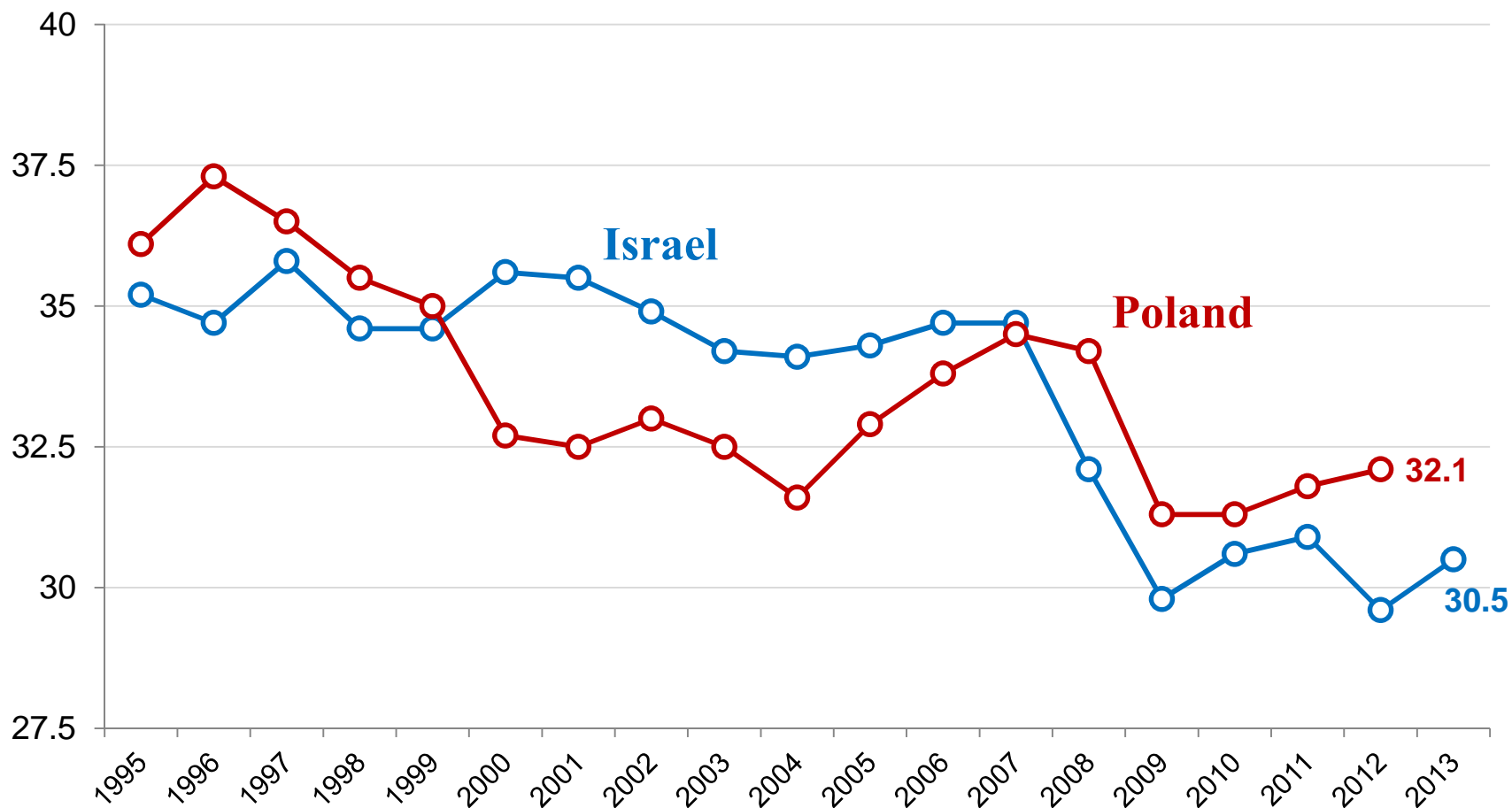




Tax revenue

% of GDP , 2000-2013

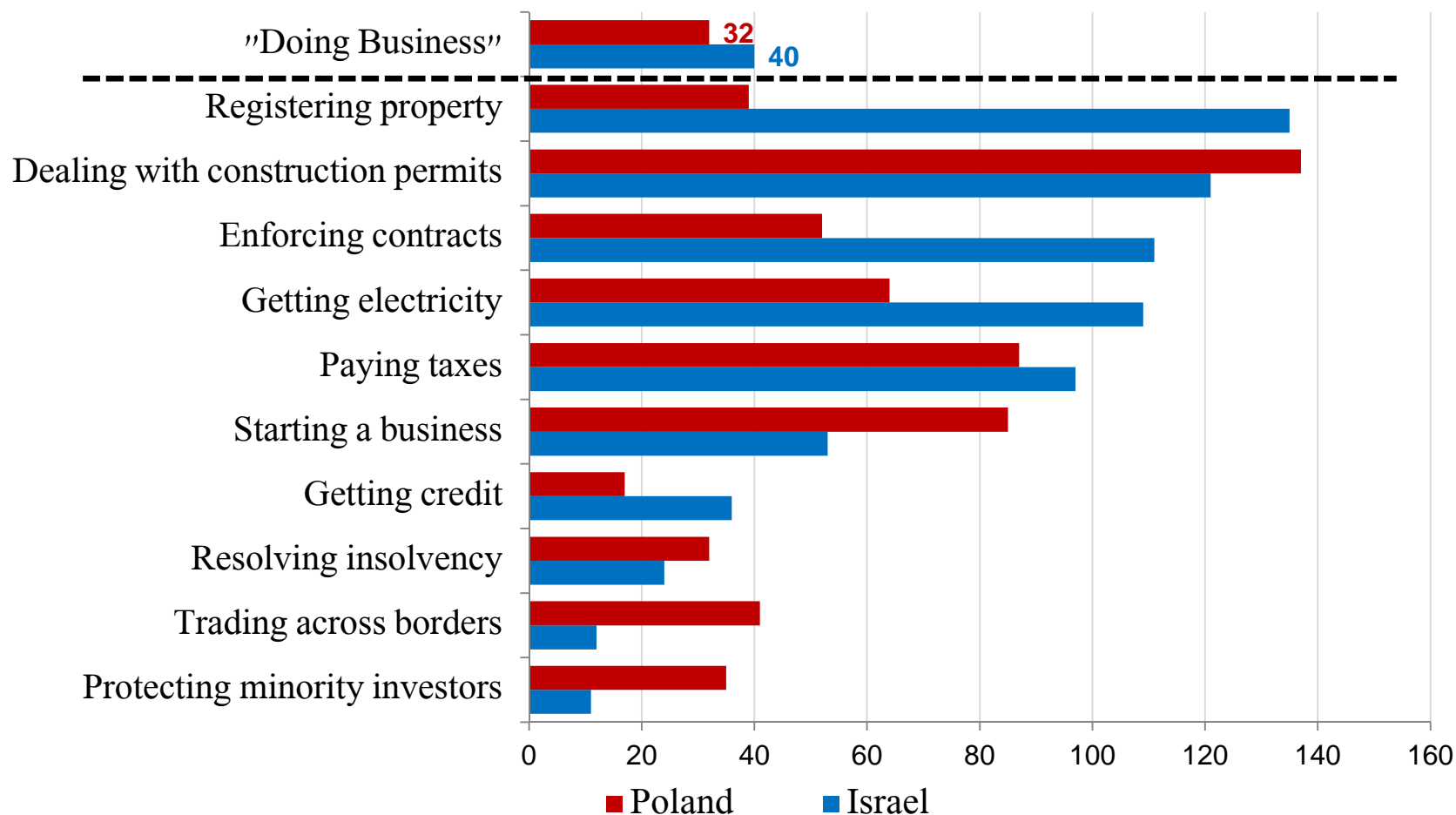
% GDP





Ease of Doing Business: "Doing Business 2015"

(Ranking out of 189 countries)





Concluding remarks

- ❑ Israel and Poland experienced a relatively **mild effect of the GFC**.
- ❑ Weathering the GFC storm well was due to **sound macroeconomic policies before the GFC, bold policies during the crisis, and some luck, too**.
- ❑ **On the monetary front**, the main monetary policy measures in Israel were aggressive monetary expansion - interest rate reductions, QE and purchase of foreign currency. In Poland, the main monetary policy measure was interest rate reductions, although more moderate.
- ❑ Both countries have benefitted from a sound and robust financial system that continued functioning during the crisis, without experiencing a failure of any financial institution.
- ❑ The use of MAP measures allows monetary policy to focus on its main targets: inflation and growth.



Concluding remarks - continued

- ❑ **On the fiscal front**, both countries took steps before the GFC to **strengthen fiscal discipline**, while **reducing taxes**. These policies provided the “fiscal space” and some stimulus that was needed during the GFC.
- ❑ **Policy mix during the crisis**: in Israel—aggressive monetary policy, modest Fiscal stimulus; In Poland: milder monetary policy, stronger fiscal stimulus .
- ❑ **Looking ahead: Macroeconomic stability is a necessary, but not sufficient condition for sustainable growth. Structural reforms and investment in the relevant infrastructure (physical and human) will help each country realize its great potential.**



Thank You