

BANK OF ISRAEL

Office of the Spokesperson and Economic Information

Press release

December 5, 2023

**Main points of the Bank of Israel’s position presented to the Knesset Economics Committee regarding nonbank entities accessing sources of capital to expand their provision of loans due to the war**

In a discussion held today by the Knesset Economics Committee, which discussed, among other things, the [Bank of Israel’s monetary program to provide cheaper credit to small and micro businesses](https://www.boi.org.il/en/communication-and-publications/press-releases/a06-11-23/) and how nonbank entities can participate in it, the Bank of Israel presented its position. Bank of Israel representatives who participated in the discussion included Dr. Yossi Saadon, head of the Finance Division in the Bank of Israel Research Department, and Mimi Regev, head of the Money Market and Liquidity Unit in the Markets Department.

The following are the background and main points of the Bank of Israel’s program to support credit to small and micro businesses during the war, as explained in the discussion:

A Bank of Israel analysis identified a decline in the balance of credit to the small and micro businesses segment. In view of the results of the analysis, and with the aim of supporting the proper functioning of the credit market—particularly for small and micro businesses—and to increase financial certainty for them, the Monetary Committee decided to take the focused step of low-cost monetary loans. As part of this measure, the bank or nonbank credit provider provides an acceptable collateral to the Bank of Israel, and receives low-cost funding from it against the provision of low-cost loans to small or micro businesses. The measure will help the business survive even after the war ends. In view of the fact that this is a defined and limited monetary policy measure, the other structural issues and entities mentioned in the discussion are not relevant.

* According to Bank of Israel data, prior to the war, small businesses whose credit underwriting terms were the best received loans at prime +1.5 percent.
* In the Bank of Israel’s program, small and micro businesses will receive loans at just the prime rate. This is an attractive interest rate for the small and micro businesses, and a significant improvement compared to the current terms of credit.
* We see from initial data that the objective is being reached, and that the credit providers are using the program in order to provide low-cost credit to small and micro businesses.
* The program is as neutral as possible in terms of its contribution or harm to credit providers. The credit providers in the program are serving as financial intermediaries for the provision of credit only. We emphasize that we do not intend to support or assist any specific credit provider, whether bank or nonbank.
* In particular, this measure is limited in terms of monetary amount, time, and applicability (it is only for small and micro businesses), and therefore has no long-term significance.
* We do not accept the argument that this program, which was built to help during wartime, has any effect on the state of competition in the financial system.
* We emphasize that other central banks are not providing monetary loans to nonbank entities. This is the existing situation in all advanced economies.
* If any of the committee members think that nonbank entities need assistance during this period, the issue is fiscal and can be answered as part of a specific program formulated for other businesses.
* Alongside this, [the Bank has activated a dedicated tool to allow nonbank credit providers to participate in this program](https://www.boi.org.il/en/communication-and-publications/press-releases/a21-11-23/), while providing the required collateral to the central bank.
* A Bank of Israel analysis based on data from credit card companies shows that the program provides all of the necessary conditions for these companies to help their small and micro business customers, and to provide them with loans at just the prime rate.
* The profits that the credit providers generate will vary. This is true between the various banks, and between the nonbank companies. Obviously, in setting a broad policy, it is not possible to tailor it for each credit provider based on its own characteristics.
* The Bank of Israel and the Monetary Committee are constantly examining the data surrounding the program, and will make adjustments to the program if it finds a material need to do so, and if such changes will serve the small businesses that are the focus of the program.