



Federal Reserve Bank of Kansas City's economic symposium

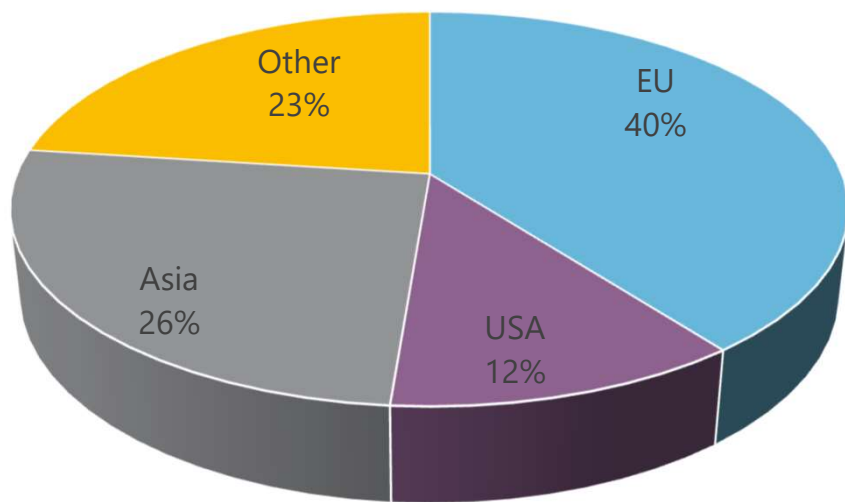
Prof. Amir Yaron, Governor of the Bank of Israel



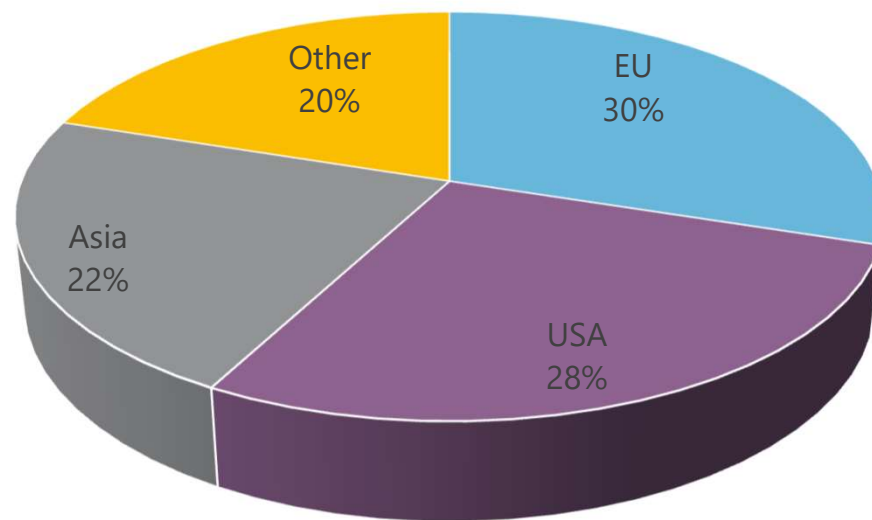
Israel trades primarily with the U.S and Europe

Figure 1:

Goods and Services Imports, 2017



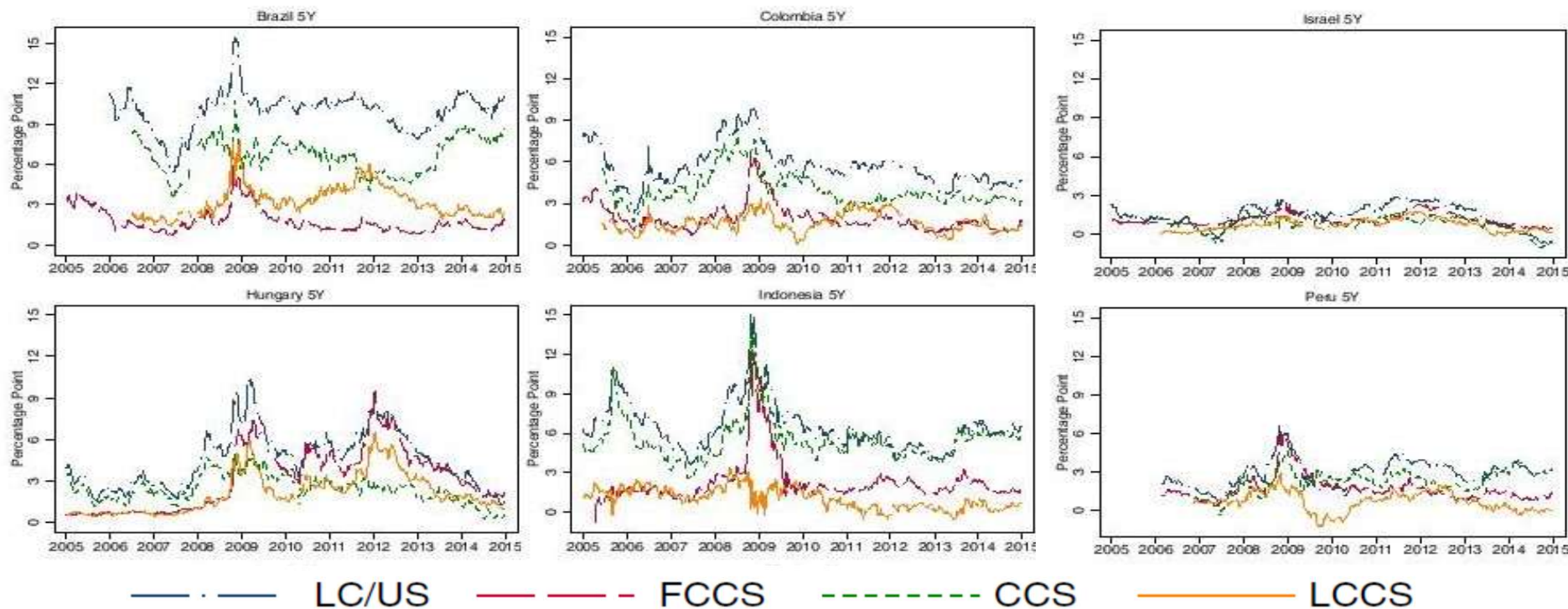
Goods and Services Exports, 2017





Emerging market sovereign credit risk: Israel's sovereign credit risk is low, with exceptionally low variance compared to the other countries

Figure 2:



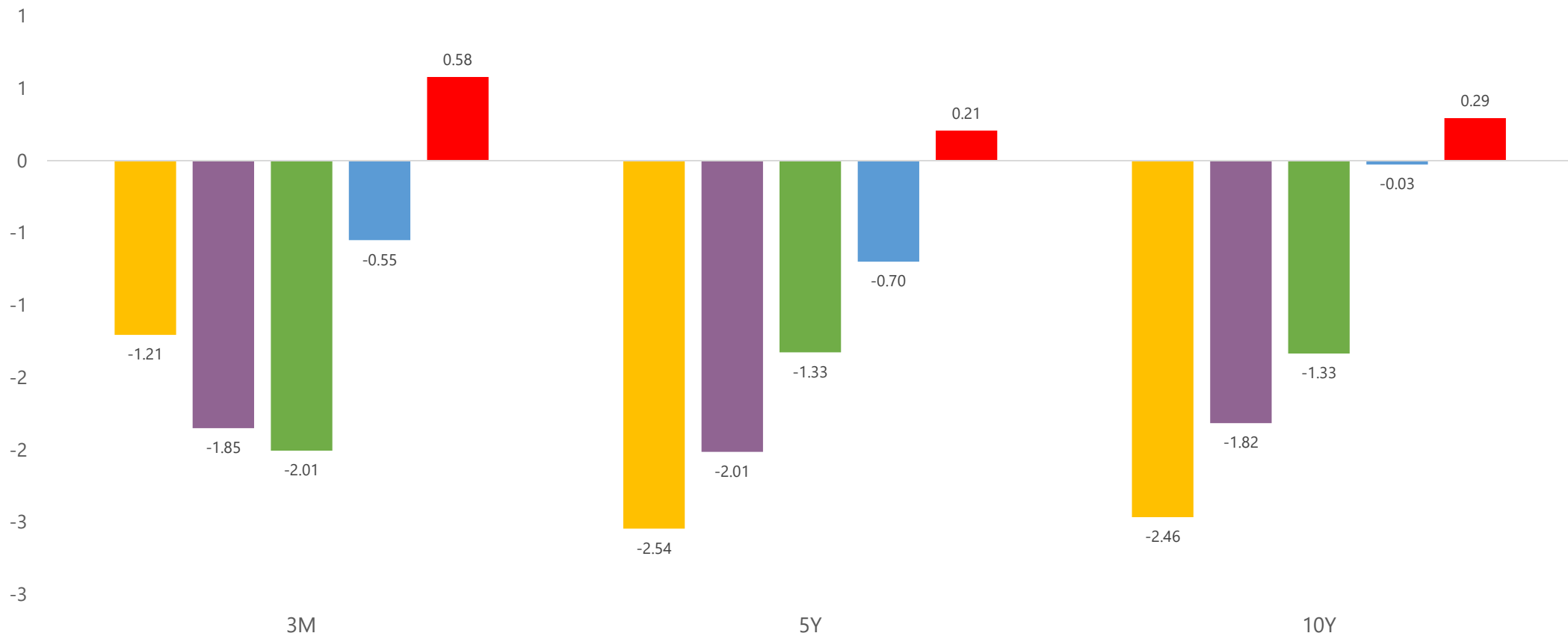
Five-year nominal spreads, CCS, and credit spreads (percentage points). Each figure plots 10-day moving averages of zero-coupon LC and FC spreads over the U.S. Treasury at five years. LC/US denotes the LC nominal yield over the five-year U.S. Treasury bond. FCCS denotes the FC credit spread. CCS denotes the fixed-for-fixed LC/dollar cross-currency swap rate. LCCS denotes the LC credit spread.

Source: Du, Wenxin, and Jesse Schreger. "Local currency sovereign risk." *The Journal of Finance* 71.3 (2016): 1027-1070.



The term structure of real rates: Israel between Europe and the U.S.

Figure 3:



Source: Bloomberg and Bol.
Updated to 15.07.19

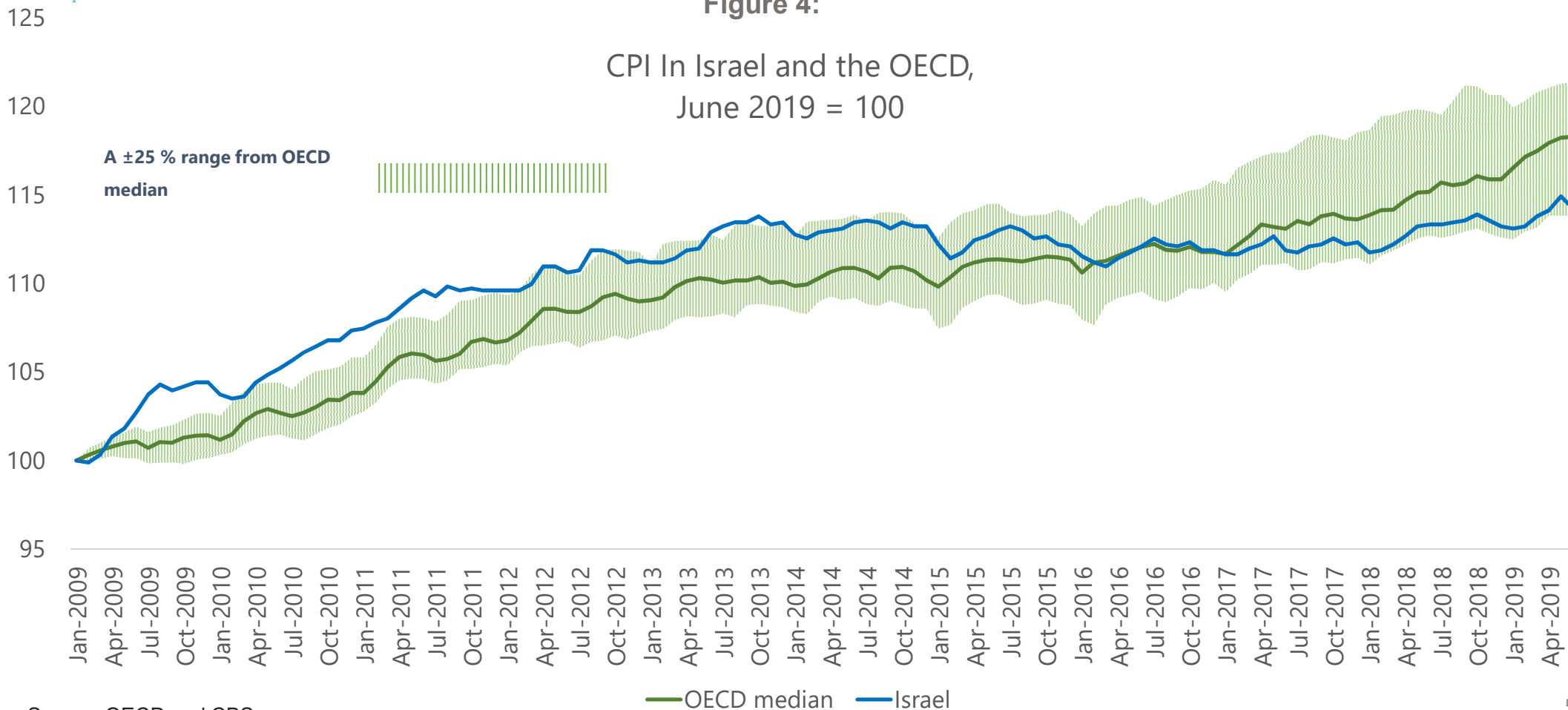
■ UK ■ Sweden ■ Germany ■ Israel ■ US



During 2009-2013 Israel's inflation rate was higher than in other OECD countries, yet subsequently the picture turned around

Figure 4:

CPI In Israel and the OECD,
June 2019 = 100

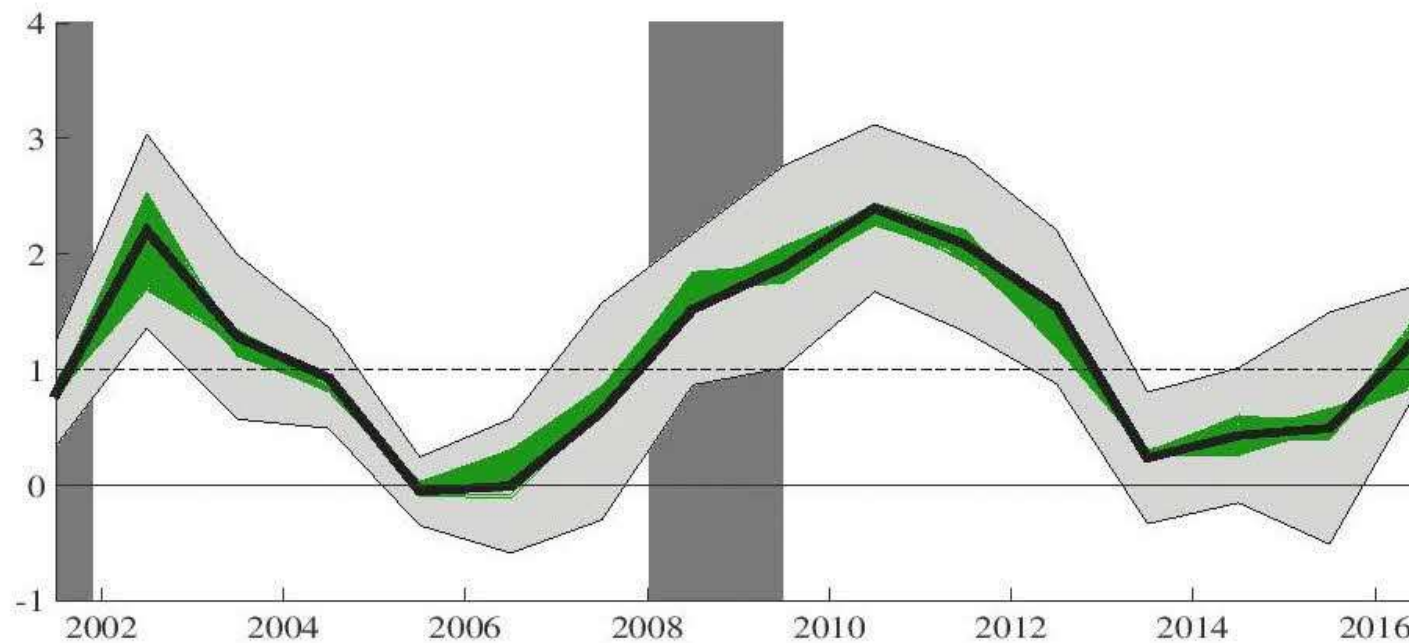


Source: OECD and CBS



The sensitivity of stock returns to MNAs can increase by a factor greater than two coming out of recessions and remains above average for about one to two years

Figure 5:
Time-Varying Sensitivity Coefficient for Stock Returns

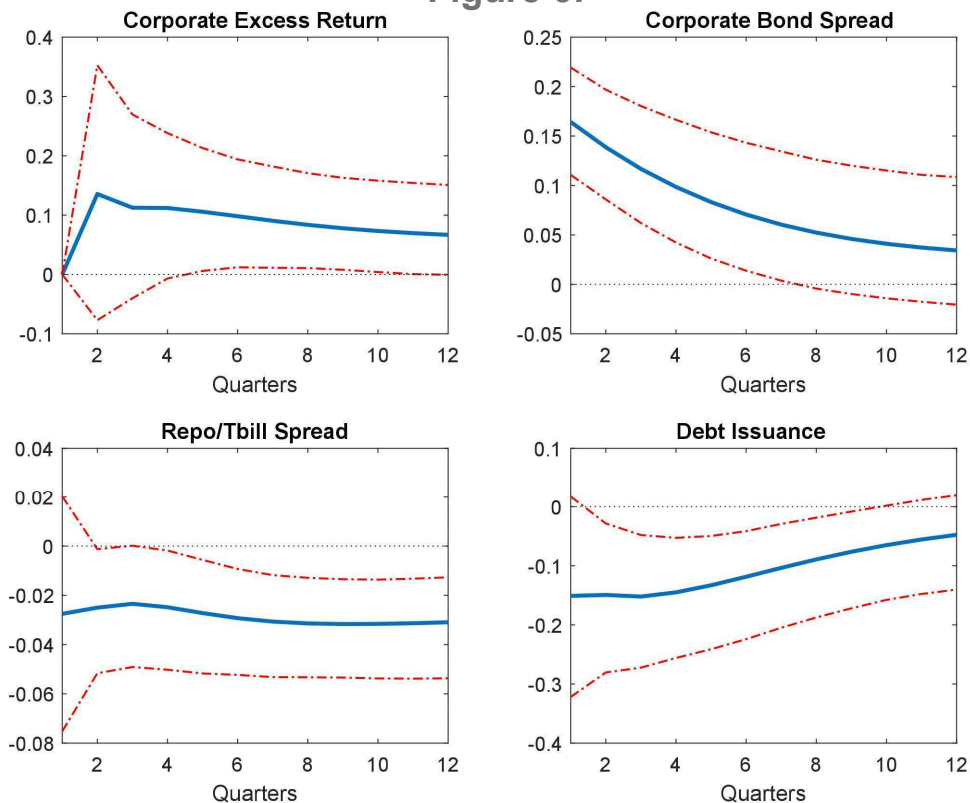


Notes: The top four MNAs from Table 1 are Change in Nonfarm Payrolls, Consumer Confidence Index, Initial Jobless Claims, and ISM Manufacturing. We impose that β^r (black-solid line) is on average equal to one. We set $\Delta = 30\text{min}$. We provide ± 2 -standard-error bands (light-shaded area) around β^r . The shape is robust to all possible combinations (green-solid lines) of the next eight MNAs listed in Table 1.



Larger debt to GDP ratio lowers liquidity spreads but tends to be associated with larger corporate spreads

Figure 6:

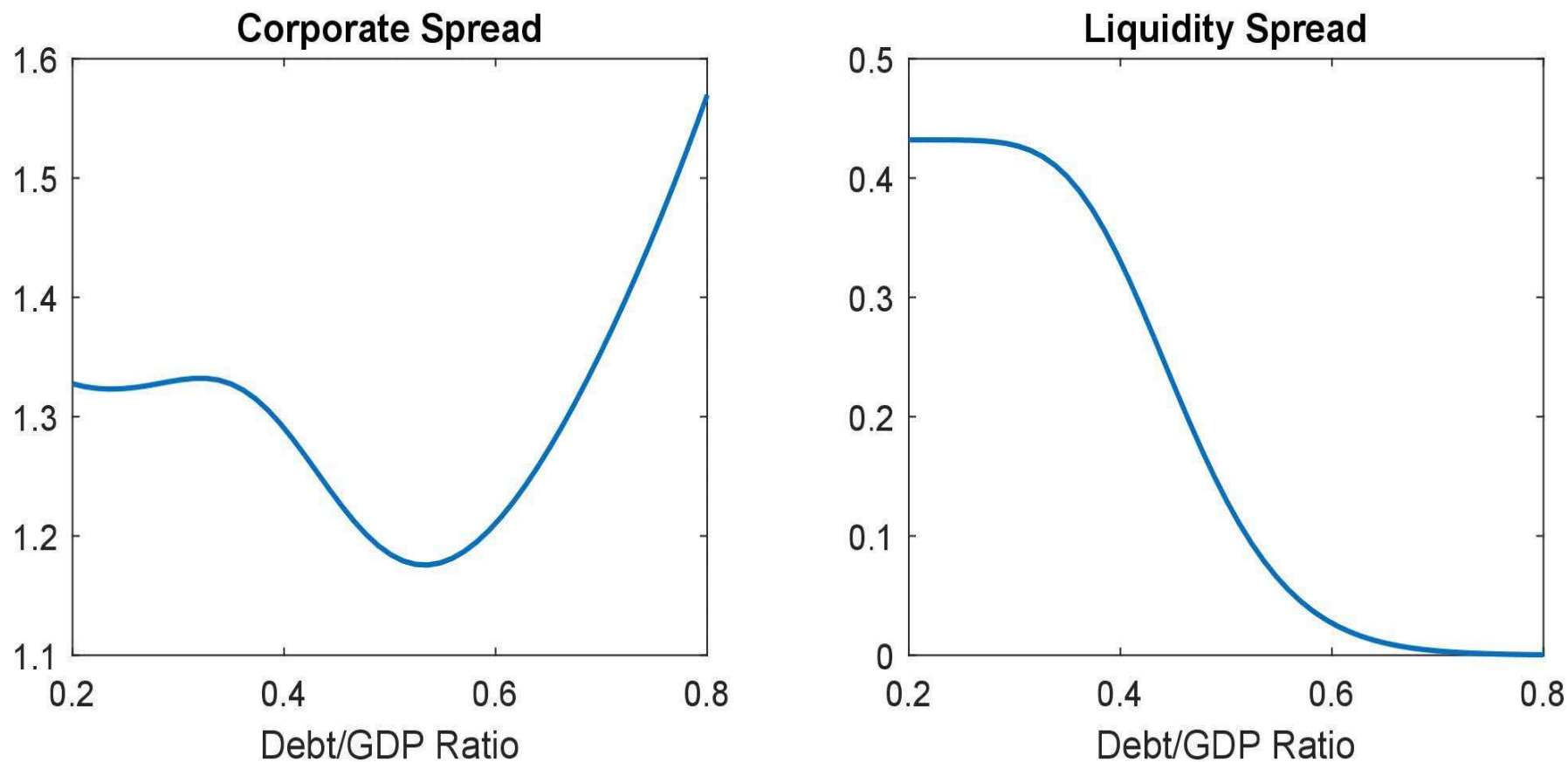


The figure plots the impulse response functions to a 1-standard deviation shock to debt-to-GDP ratio based on our estimated VAR. The VAR includes fed funds rate, real GDP growth, stock realized volatility, corporate bond excess return, debt-to-GDP ratio, corporate bond spread in Gilchrist and Zakrajsek (2012), the repo treasury bill rate spread, and the net increases of corporate bond. The sample period is from 1973Q1 to 2014Q12.



Larger debt to GDP seem to lower liquidity spreads but tends to be associated with larger corporate spreads

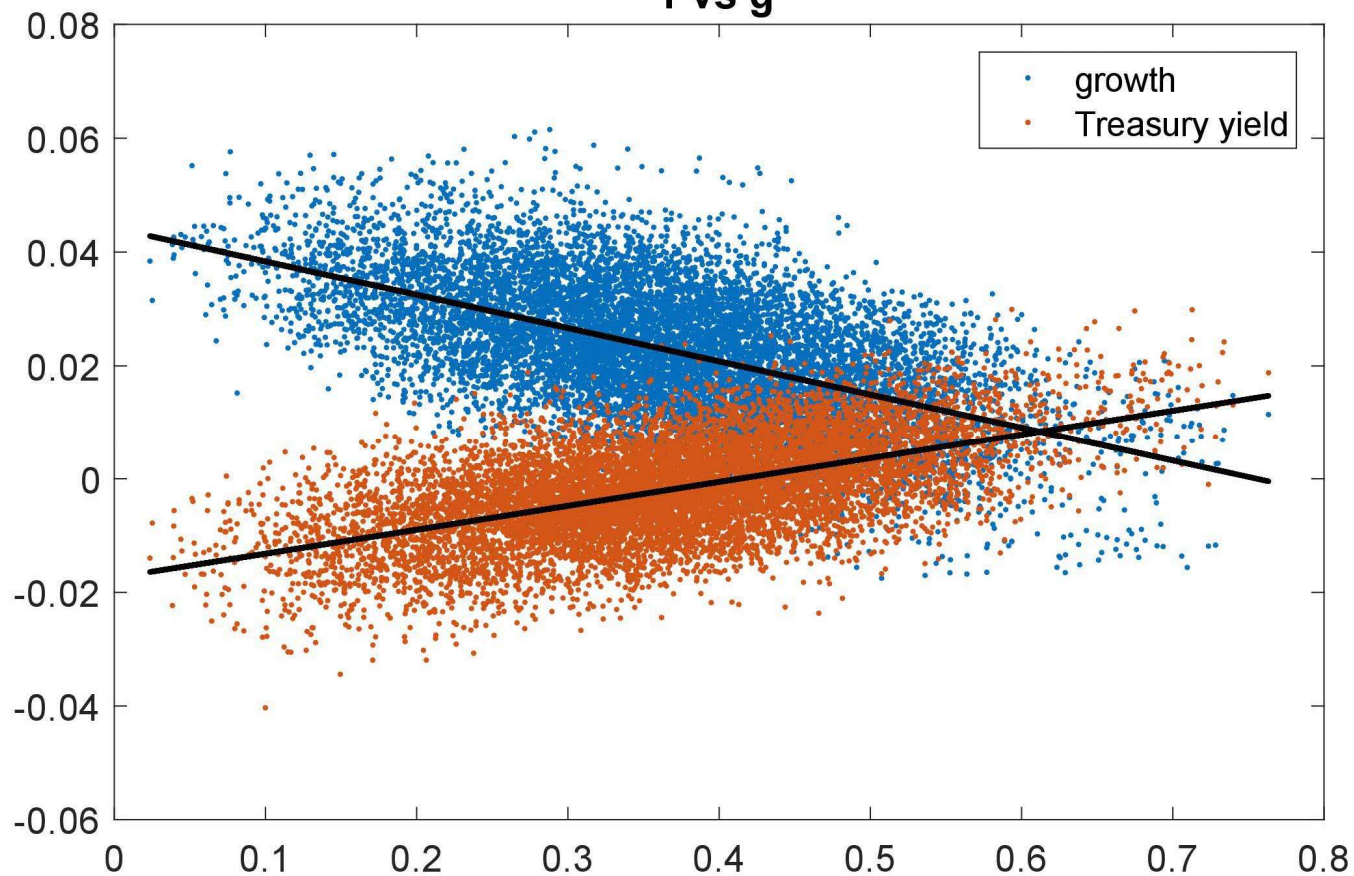
Figure 7:





Beyond a certain level of debt-to-GDP (60%), R is greater than G implying increased debt may not be costless

Figure 8:
 r vs g

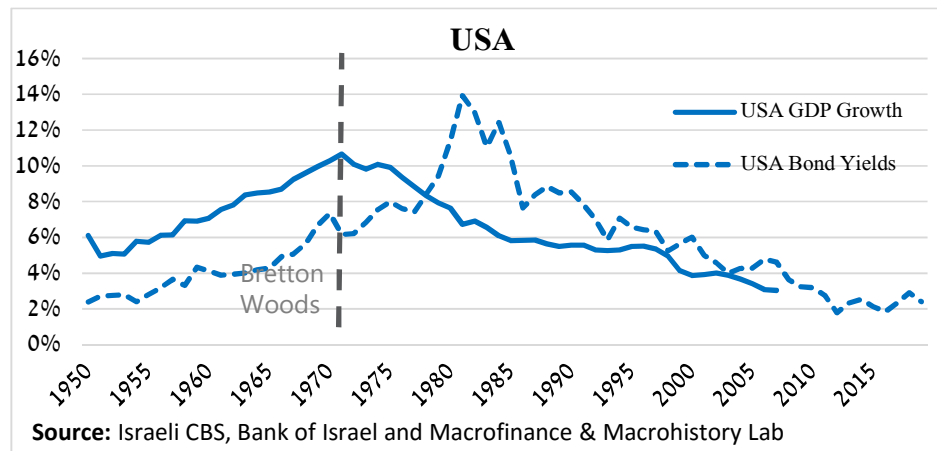
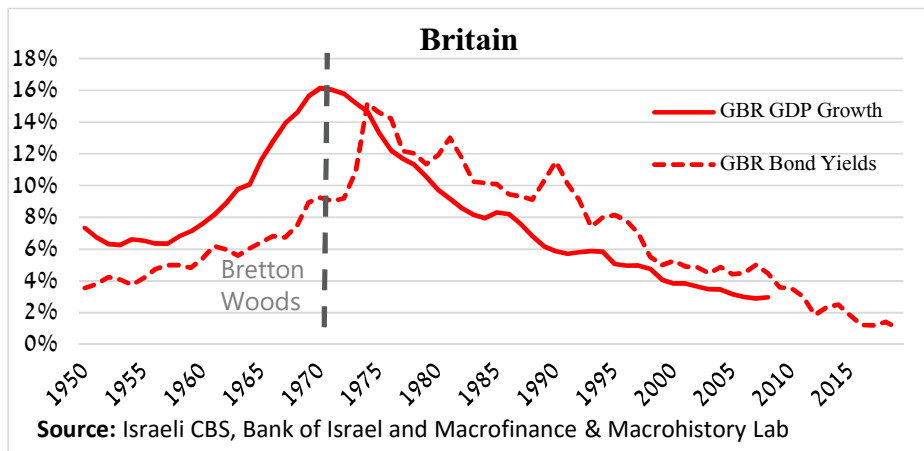
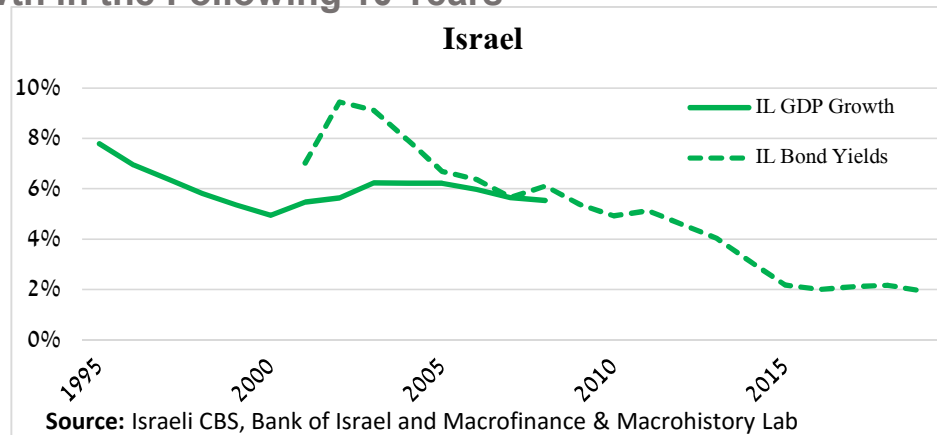
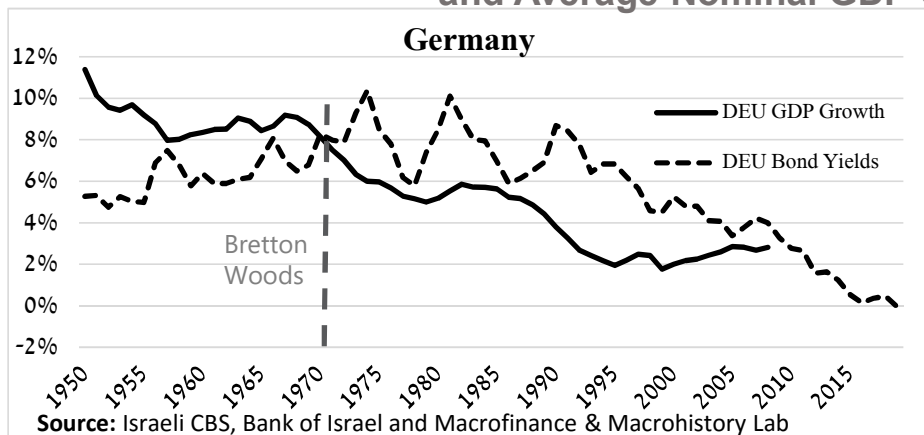


Source: Yang Liu, Lukas Schmid, and Amir Yaron, 2019, "The Risks in Safe Assets," Fuqua School of Business, working paper.



After Bretton Woods, the rate is almost always greater than the relevant corresponding growth

Figure 9: Nominal Yield to Maturity on Government Bonds and Average Nominal GDP Growth in the Following 10 Years



Thank
You