

Monetary Policy Challenges in a Global Economy

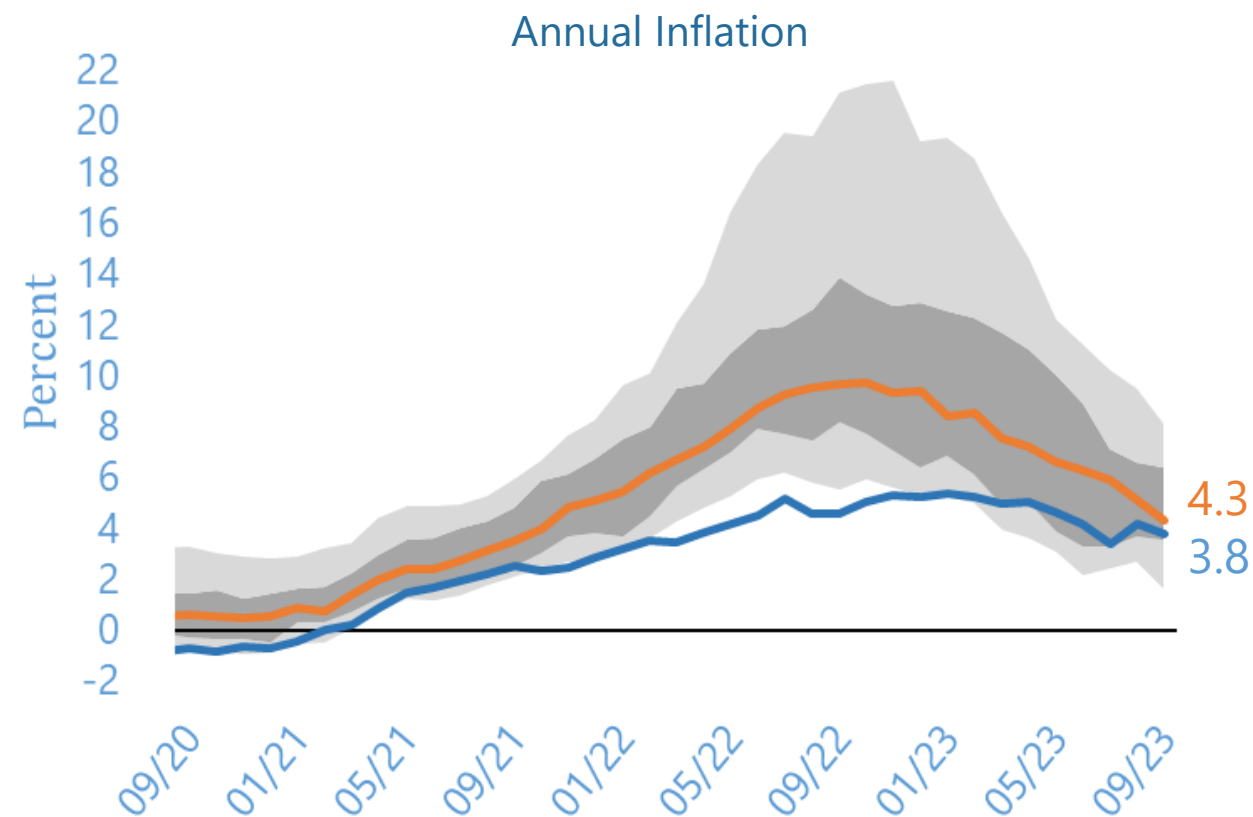
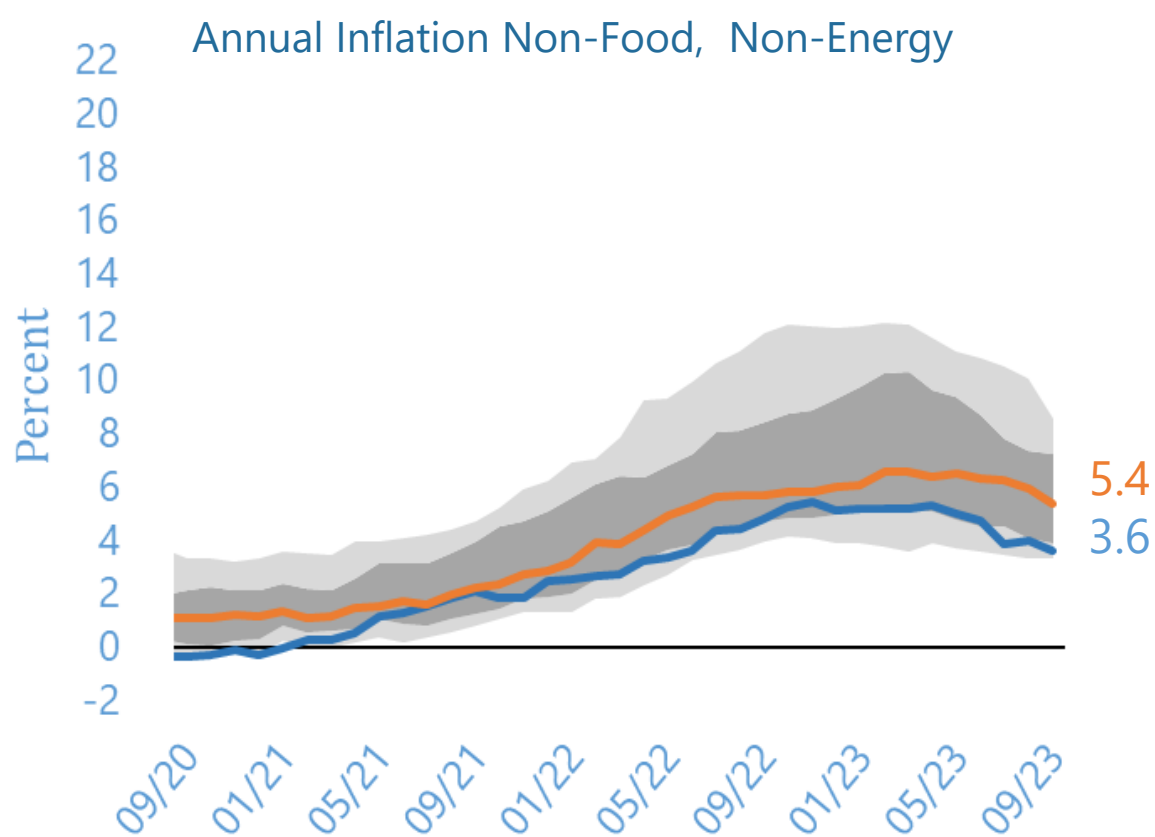
Amir Yaron,
Governor, Bank of Israel

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Inflation in Israel is lower than in most OECD countries

Inflation in Israel and OECD Countries, Annual rate, September 2020 – September 2023



25-75 Percentiles

10-90 Percentiles

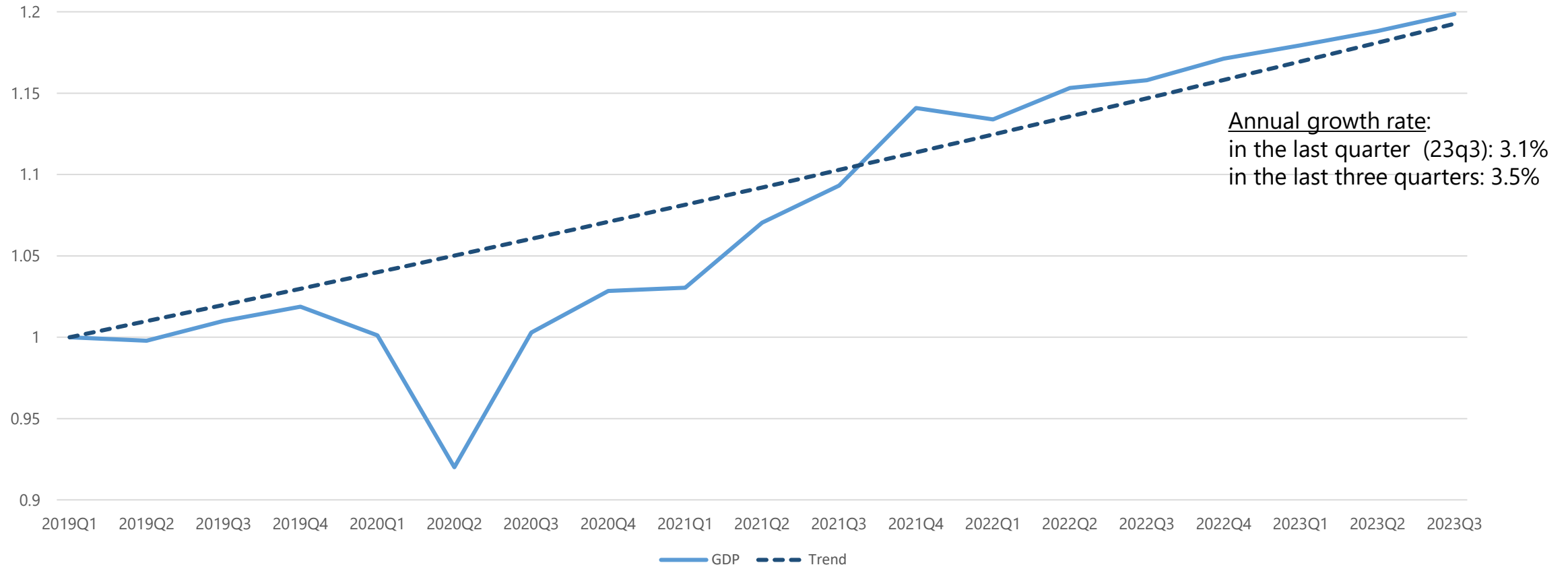
Israel

OECD median

GDP growth according to long-term trend

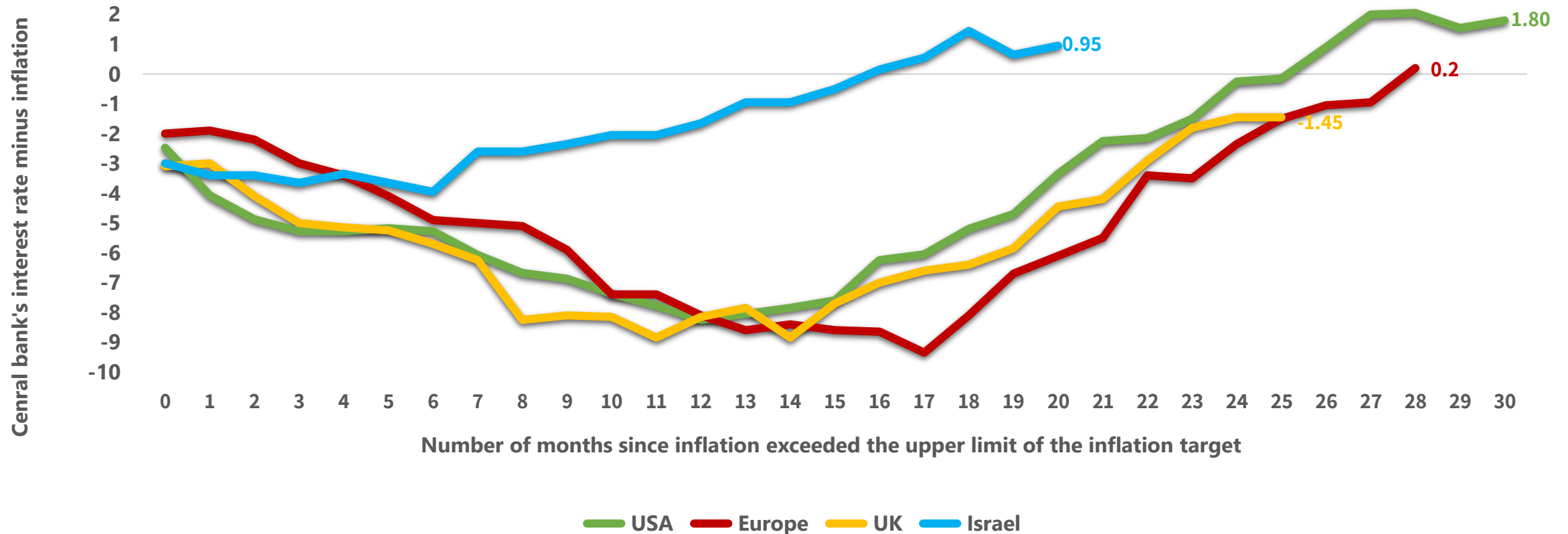
GDP in relation to trend

quarterly, constant prices, index: Jan 2019=1
data for 2023 Q3 is based on estimations

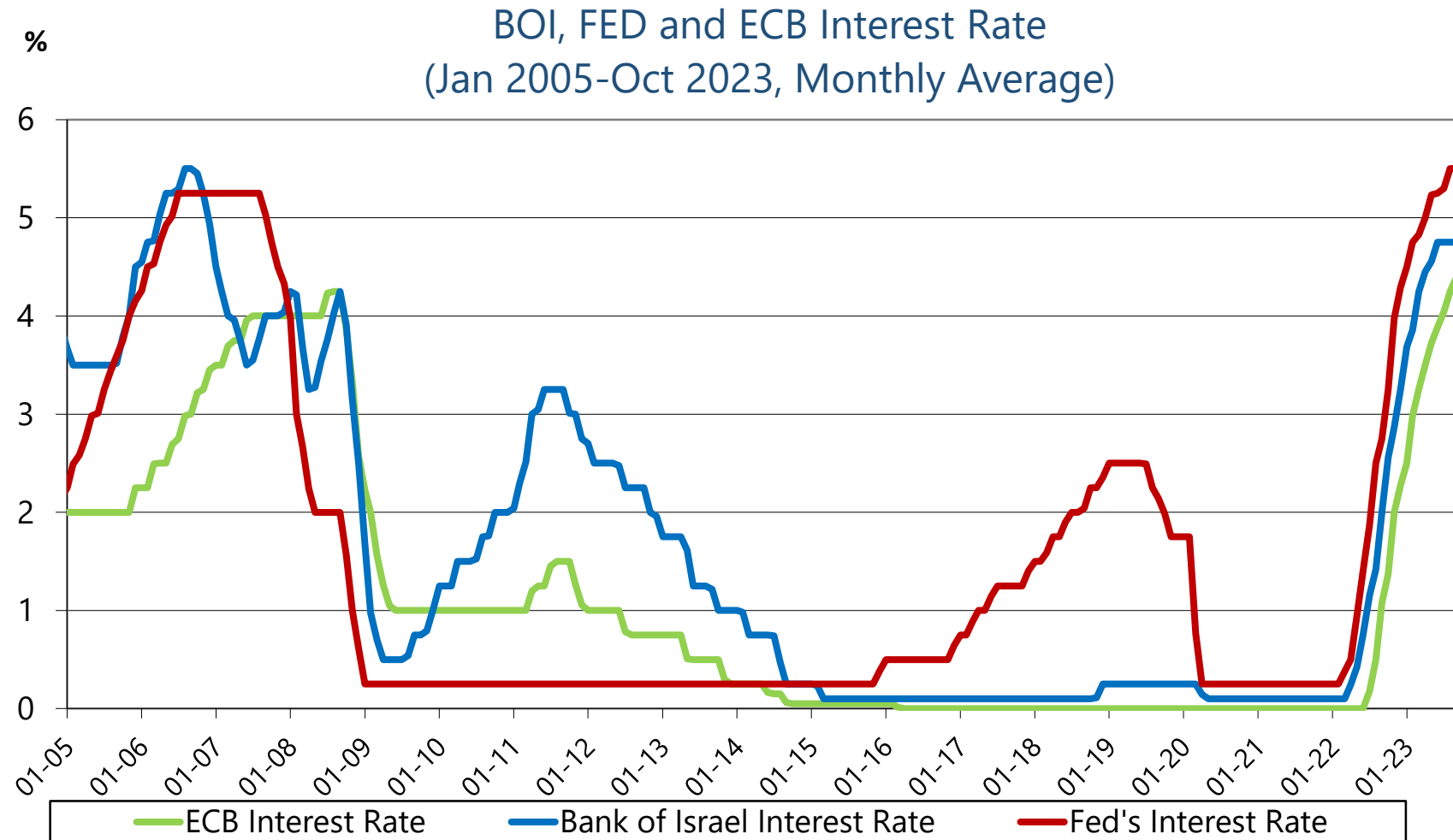


The BOI reacted relatively fast

The central bank's interest rate minus inflation, in proportion to the deviation of inflation from its target



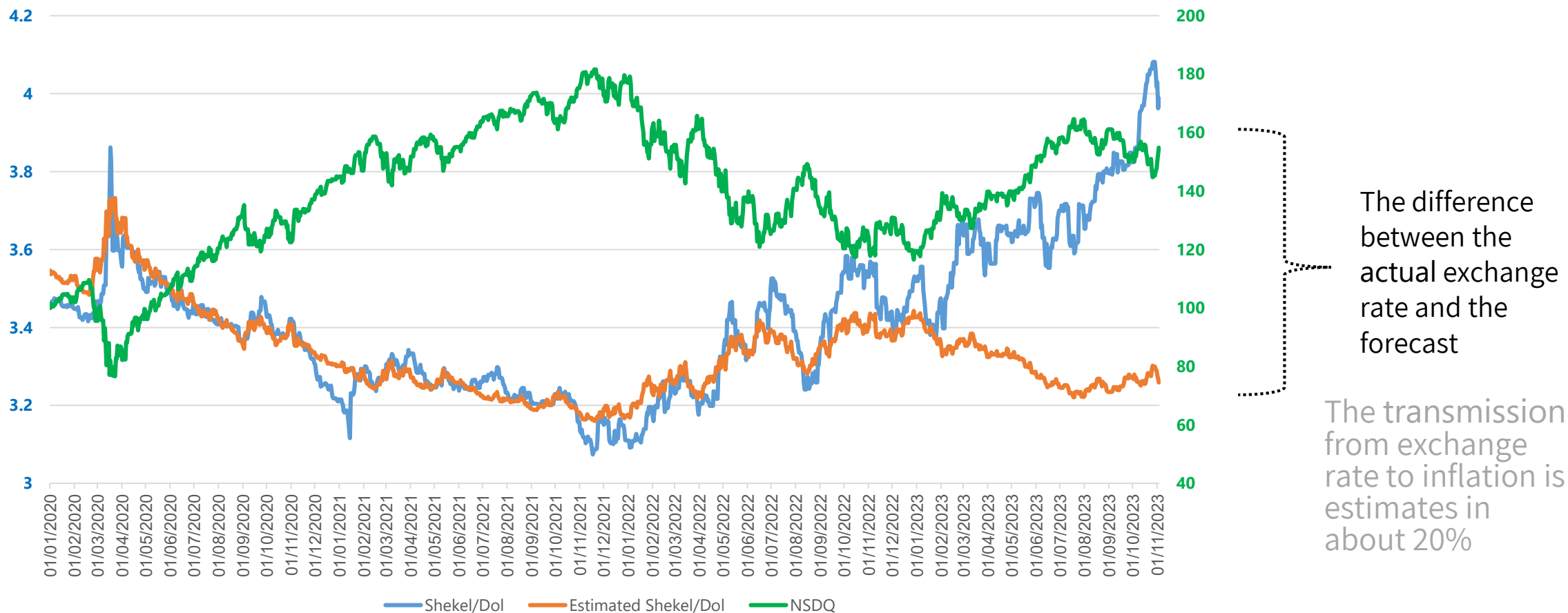
Global rates moving together in recent tightening cycle



SOURCE: Bloomberg and Bank of Israel

As of September 2023, an estimated excess depreciation of about 15%

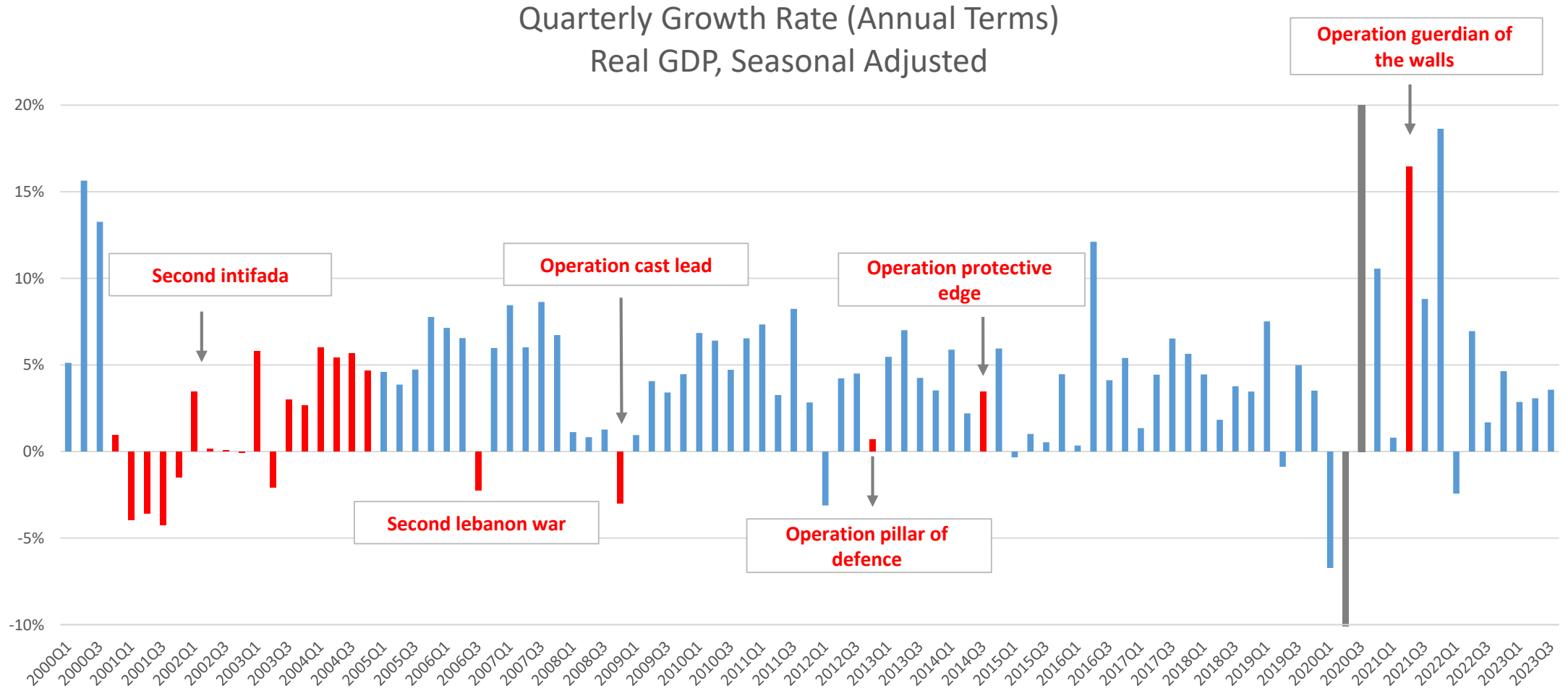
The Nasdaq index, the exchange rate and the predicted exchange rate based on regressing the exchange rate on Nasdaq



Sources: BOI's analysis for Bloomberg data and CBS's data

$$\log(ILS_USD_t) = \beta^0 + \beta^1 * \log(NDX_t) + \varepsilon$$

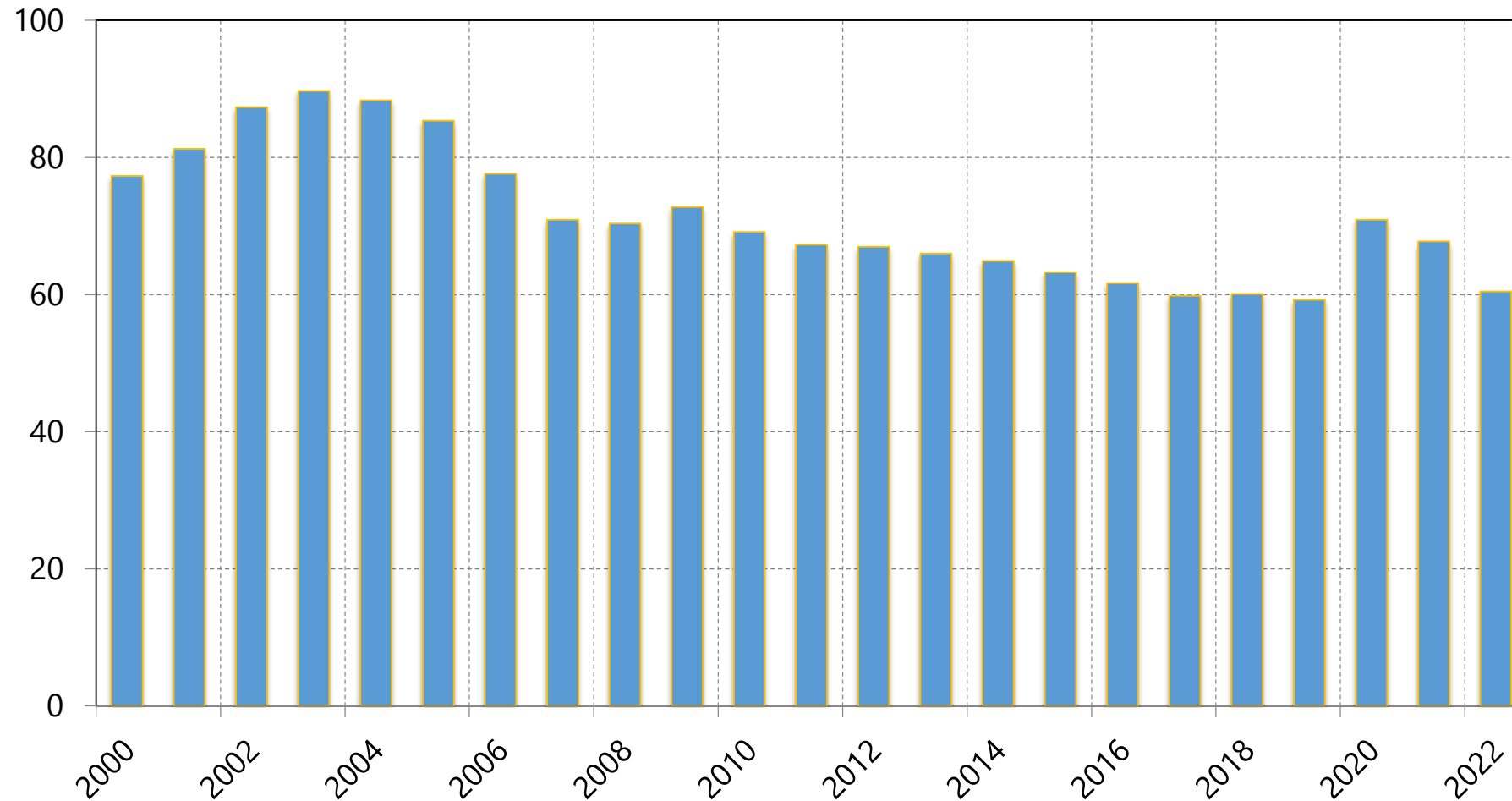
The Israeli economy recovers rapidly after geopolitical conflicts



Source: BOI's analysis for CBS data

Public debt returned to about 60%

Gross Public Debt
(2000-2022, percent of GDP)



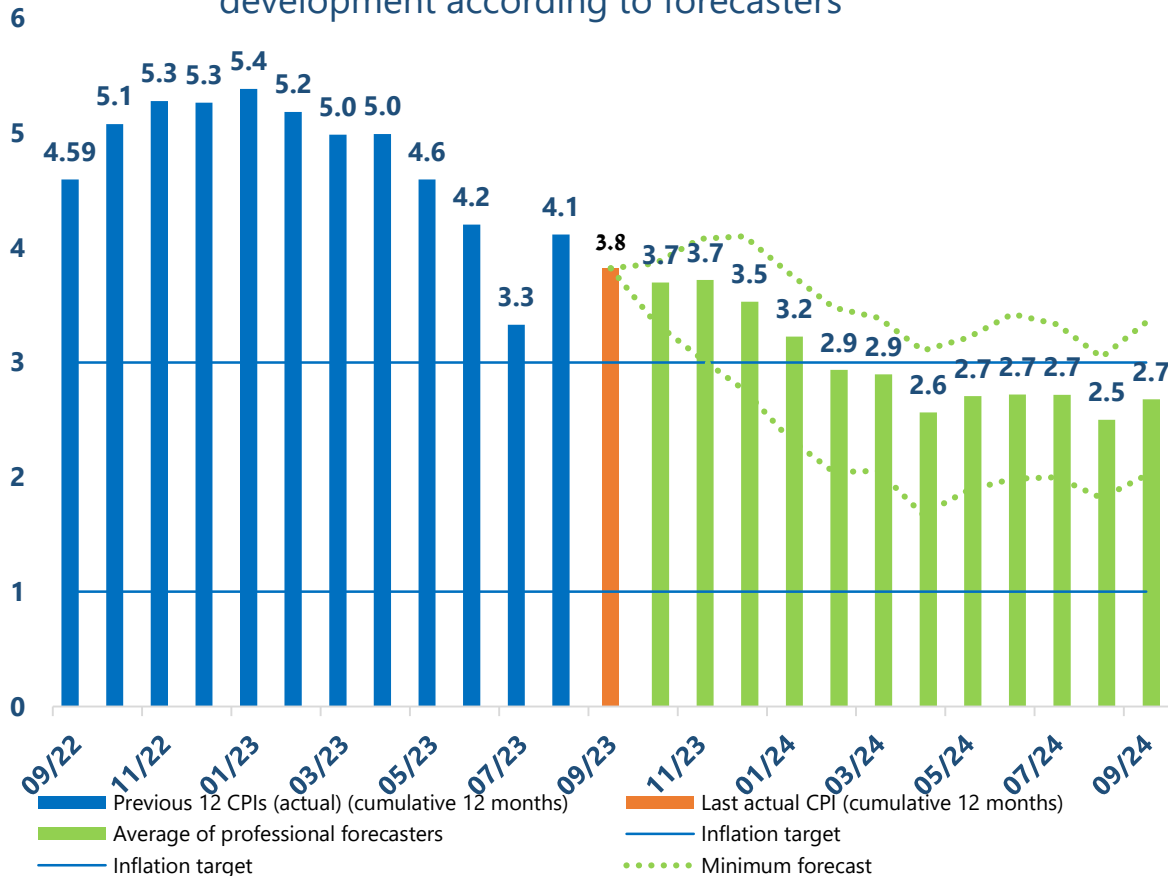
SOURCE: Bank of Israel

Steps taken by the BOI in connection with the “Swords of iron” war

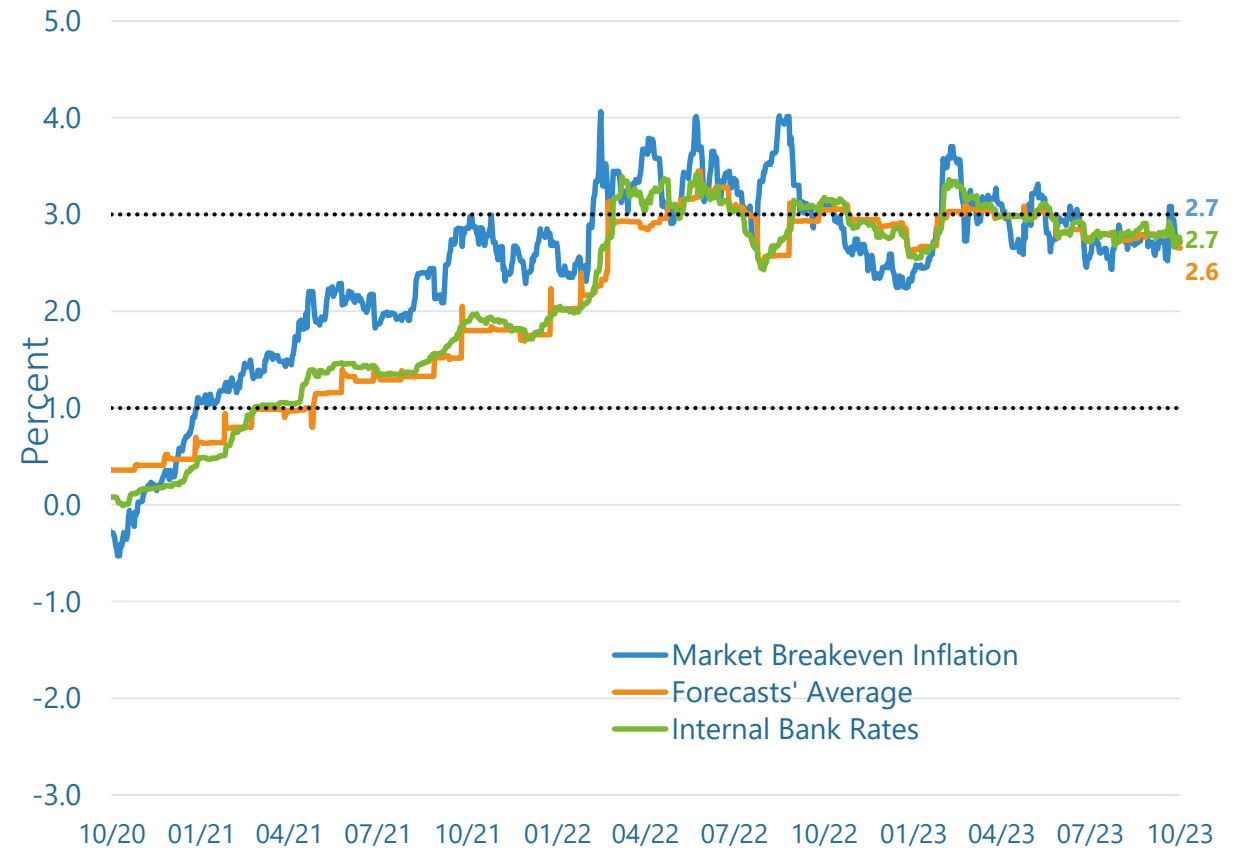
Monetary policy and financial stability	Banking, credit and Payments	Economic advice to government
<ul style="list-style-type: none"> ✓ Program in the FX market <ul style="list-style-type: none"> ✓ Up to \$30 billion FX sales ✓ Up to \$15 billion SWAP transactions ✓ A program for government bond repo transactions with institutional entities. ✓ Corporate bond repo transactions with institutional investors ✓ Low-interest loans to banks - conditional on providing credit to SME'S at low interest rates, at a scope of up to NIS 10 billion. 	<ul style="list-style-type: none"> ✓ A program for deferring loans, free of interest and fees for victims and reserve soldiers. ✓ An additional program deferring loans for overall population. ✓ Enhancing remote banking services ✓ Mitigating the abuse of credit cards and accounts of victims. ✓ Regulatory and accounting relief ✓ Easing of financial restrictions due to credit distress. 	<ul style="list-style-type: none"> ✓ Publication of an updated macro-economic forecast for the Israeli economy. ✓ Micro-level economic analysis of economic activity of various industries ✓ Estimates of economic damage to the economy ✓ Ongoing work vis-à-vis relevant government entities ✓ An advisory role for fiscal plans and framework

Inflation is expected to converge to target by early next year

12-month inflation: Actual CPI and its expected development according to forecasters

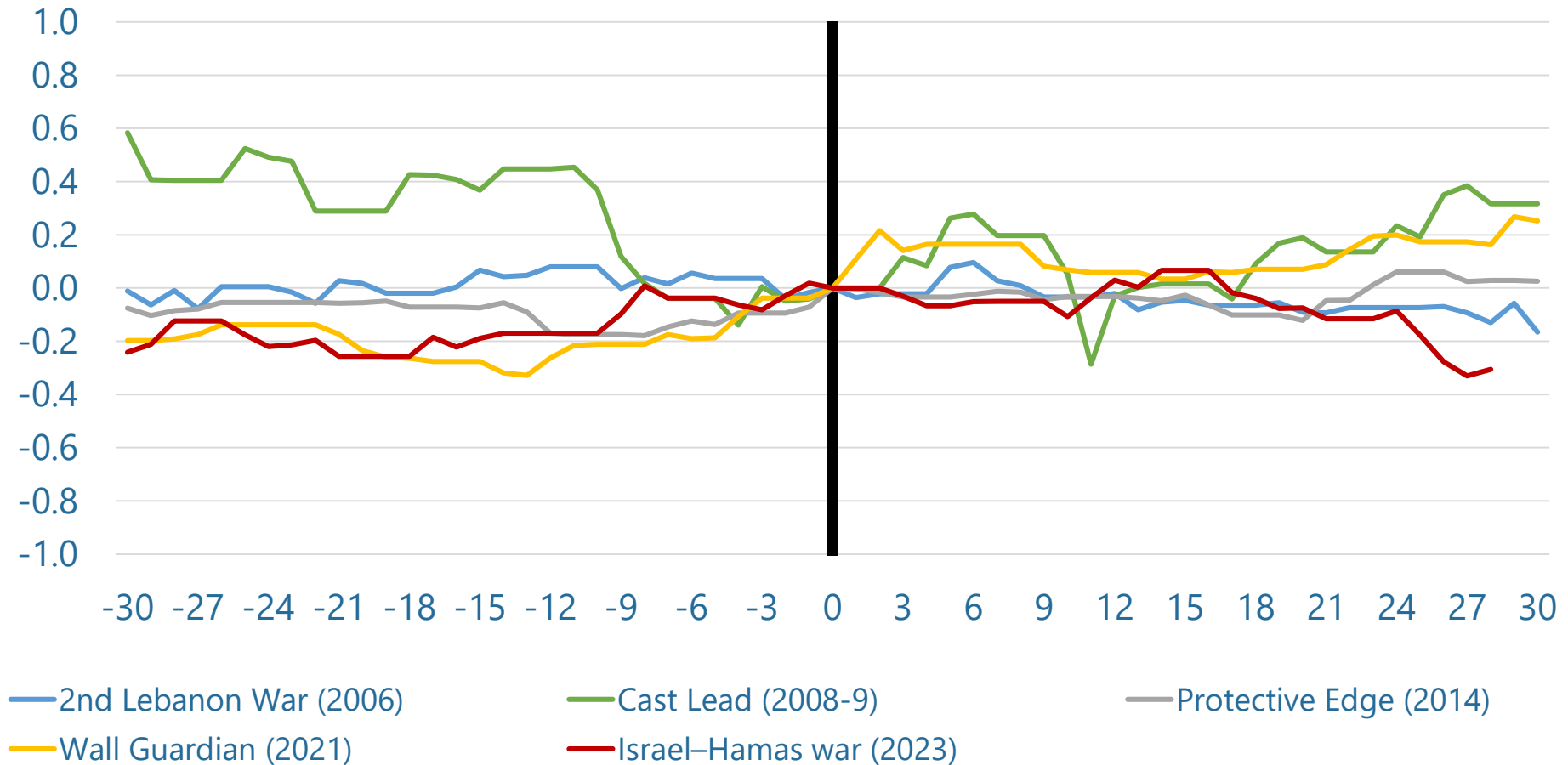


One year Inflation Expectations

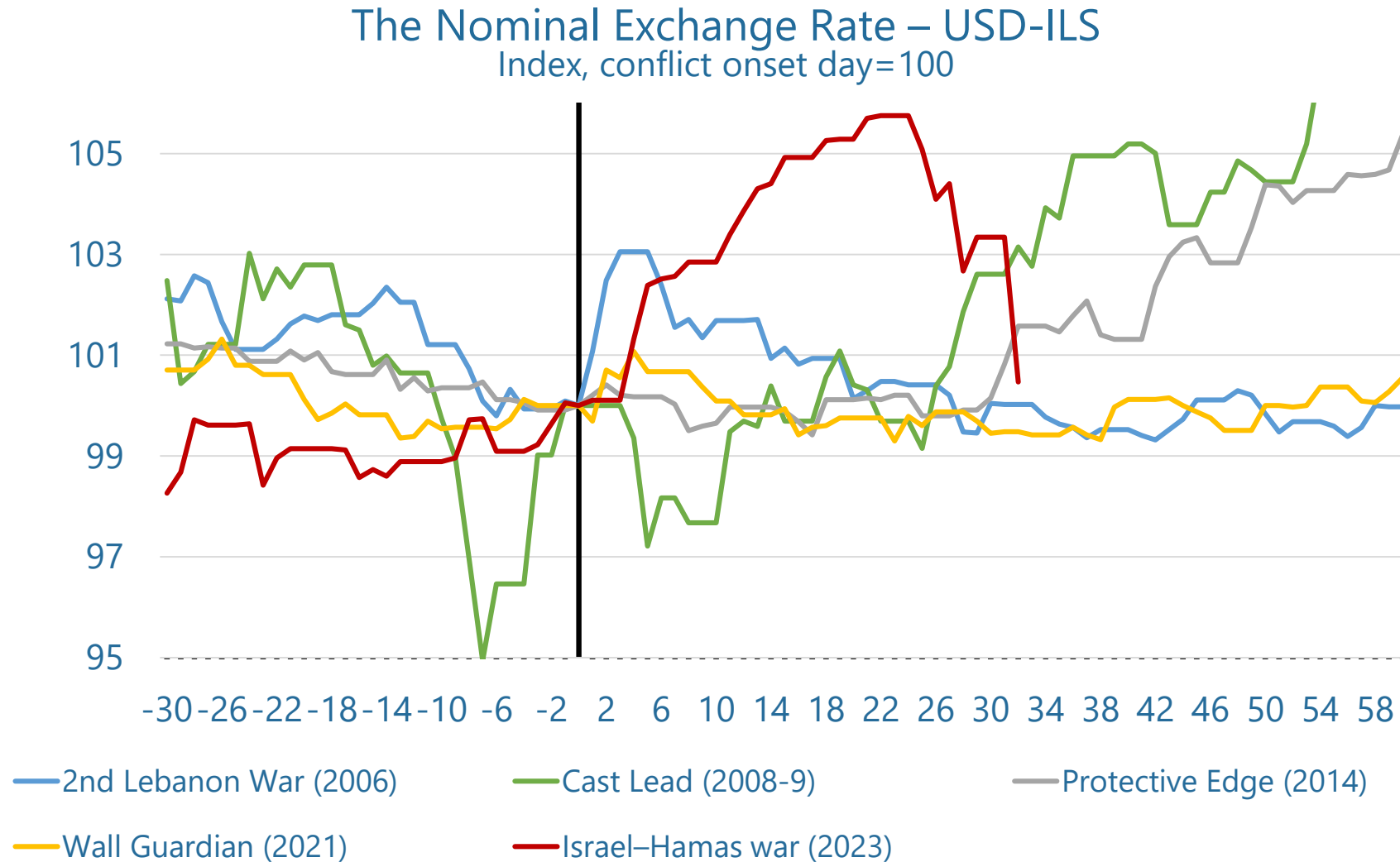


Long run inflation expectations remained stable

Forward Breakeven 5-10 Year Inflation Expectations
Change from the conflict onset day, in percentage point



Initial nominal exchange rate depreciation stronger than in previous conflicts





Thank you