**BANK OF ISRAEL**
Office of the Spokesperson and Economic Information

September 18, 2023

# Report on the Bank of Israel's discussions prior to deciding on the interest rate

## The discussions took place on September 3 and 4, 2023.

## General

The Monetary Committee sets the interest rate in a process that includes two discussions—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 the real and financial-monetary developments in Israel's economy and developments in the global economy. Participants in this discussion include the members of the Monetary Committee, senior representatives from the various departments of the Bank, and economists from the economic departments (Research and Markets), who prepare and present the material for discussion.

In the narrow forum—which consists of the Monetary Committee and a representative of the Markets Department—the Research and the Markets Departments present their views of the main considerations that should guide the setting of the monetary policy. An open discussion on monetary policy follows, which ends with a vote on the level of the interest rate. According to Section 18(c) of the Bank of Israel Law, 5770–2010, the decision on the interest rate is reached by majority vote of the members of the Monetary Committee who participate in the voting.

A summary view of the economic situation available at the time of the Committee's discussion is presented in the notice regarding the interest rate decision, which was published on September 4, and in the data file that accompanied the notice.

## THE NARROW-FORUM DISCUSSION

The members of the Monetary Committee participating in the discussion decide on the appropriate rate of interest. After the discussion, it was decided to keep the interest rate at 4.75 percent. All members of the Monetary Committee members supported the decision.

The discussion focused on the inflation environment in Israel and its development—the dynamics in recent months and the expectations for the coming year, as well as the impacts of the shekel's depreciation on inflation. The Committee discussed GDP growth data and economic activity, an analysis of labor market data, credit data, and the housing market. In addition, the Committee dealt with developments in the global environment.

### Main points of discussion

The Committee discussed the inflation rate in Israel, which declined to 3.3 percent and is above the upper bound of the target range. The sharp decline in the year over year inflation rate also reflects the effect of the July 2022 CPI reading, which was particularly high, and in view of the negative August 2022 CPI reading, it may be assessed that after the publication of the next CPI reading the inflation rate in the coming months is expected to be higher. In addition, the inflation rate over the past 6 months and even more so over the past 3 months (in annual terms, seasonally adjusted) is lower than the annual rate, in prices of tradable goods and nontradable goods. One-year inflation forecasts and expectations are within the target range, around its upper bound, and expectations beginning from the second year and onward are within the target range as well.

The Committee assessed that the monetary tightening processes and the moderation of demand in Israel and abroad are working to moderate inflation. The interest rate in the economy is at a restrictive environment, and the data to be published in the coming months will make a significant contribution to clarifying the inflation picture. The Committee noted that the depreciation of the shekel continues to be a significant factor delaying the convergence of the inflation rate back to the target, the shekel depreciation in recent months contributes to the increase in the inflation rate and its development in the coming months will have an impact on the inflation dynamic.

The Committee members discussed the activity data in the economy and in the labor market. National Accounts data indicate that in the second quarter of 2023, the economy grew at an annual pace of 3 percent, the GDP level is still above the pre-COVID-19 crisis trend line. Second quarter growth was particularly impacted by investment in fixed assets, by the impact of the nonhousing construction component, and by a decline in exports and imports of goods and services. The Committee members discussed a decline in total uses in the economy in the second quarter and in the moderation of growth in private consumption. The trend of some moderation in growth can also be seen in the weakness in several indicators of activity for July (a period that is not included in the National Accounts period). The labor market is at full employment and unemployment is low—the employment rate and participation rate are at high levels—and the real wage increased in recent months. However, there are signs of moderation in the labor market, including a downward trend in the job vacancy rate, particularly in the high-tech sector.

The Committee discussed developments in the housing market, particularly the decline in housing prices in recent months and the moderation in the scope of transactions and in mortgage volume. The pace of increase in home prices over the past 12 months continued to decline, and is approximately 5.2 percent. The increase in the owner occupied housing services component of the CPI continued is 6.2 percent in the past year.

The Monetary Committee also discussed the state of global activity. Worldwide there is a moderate pace of activity, but it was noted that growth data in most blocs surprised to the upside. Investment houses' growth forecast remained essentially unchanged and it expects continued moderate growth, except in the US where there was an upward revision. In contrast, the data on world trade for goods declined in June 2023 and continues to point to slowing, as do leading indicators for world trade. The global inflation environment is moderating in a notable portion of countries, but is still above central bank targets. With that, core indices remained mostly sticky. In the US, economic activity remained at a high level, and above the trend, and the labor market remained tight. Second quarter growth in Europe surprised to the upside and the labor market remained very tight while growth in China was slower than expected.

**After the discussion, all the Monetary Committee members were of they view that the interest rate should be kept unchanged at 4.75 percent. Economic activity in Israel is at a high level, and is accompanied by a tight labor market, although there is some moderation in a number of indicators. Inflation is broad and remains high. With that, in recent months inflation appears to be slowing. Therefore, the Monetary Committee decided to leave the interest rate unchanged, but sees a real possibility of having to raise the interest rate in future decisions, if the inflation environment does not continue to moderate as expected. The interest rate path will be determined in accordance with activity data and the development of inflation, in order to continue supporting the attainment of the policy goals.**

**Participants in the narrow-forum discussion:**

**Members of the Monetary Committee:**
Prof. Amir Yaron, Governor of the Bank and Monetary Committee Chairperson
Mr. Andrew Abir, Deputy Governor of the Bank of Israel
Dr. Adi Brender
Prof. Naomi Feldman
Prof. Zvi Hercowitz

**Other participants in the narrow-forum discussion:**
Mr. Uri Barazani, Spokesperson of the Bank
Dr. Golan Benita, Director of the Markets Department
Mr. Sefi Bahar, Research Department
Dr. Oded Cohen, Chief of Staff to the Governor
Mr. Nadav Eshel, Consultant to the Governor
Mr. Arad May, Monetary Committee Secretariat
Ms. Dana Orfaig, Research Department
Mr. Daniel Shlomiuk, Bank spokesperson’s office