BANK OF ISRAEL
Office of the Spokesperson and Economic Information

October 10, 2011

Report to the public on the Bank of Israel's discussions prior to setting the interest rate for October 2011

The discussions took place on September 21 and 25, 2011

General

Before the Governor makes the monthly interest rate decision,[1] discussions are held at two levels—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 real, monetary and financial developments in Israel's economy, and developments in the global economy. Participants in this discussion include the Governor, the Deputy Governor, the directors of the Research and Market Operations Departments of the Bank and economists from various departments who prepare and present the material for discussion. The data, estimates and assessments in this report are those that were available at the time of the discussions.

In the narrow forum, the directors of the Research and Market Operations Departments and three other participating members of management (the Deputy Governor, Senior Advisor to the Governor on Monetary Policy Issues and the Head of the Monetary and Finance Division of the Research Department) present their recommendations regarding the interest rate and, following a discussion, the Governor makes his decision.

A. THE BROAD-FORUM DISCUSSION—THE STATE OF THE ECONOMY

1. Developments on the real side

General assessment

Domestic economic activity continues to expand, but at a slower rate than in 2010 and the first quarter of 2011. The data that became available since the previous monetary

[1] When the Monetary Committee is appointed, in accordance with the new Bank of Israel Law, interest rate decisions will be made by the Committee.

policy discussions show that activity in the high-tech industries and exports leveled off, due to the moderation in activity abroad. The second National Accounts estimate of the growth of GDP in the second quarter, a 3.5 percent annual rate, was slightly higher than the original estimate, the result of an upward revision of the figures of exports, private consumption, and investment. The moderate rate of activity was also reflected in the composite state-of-the-economy index, which rose by 0.3 percent in August, with upward revisions of the indices for the previous two months. The increase in the index reflects a moderation, which began in March, in its rate of increase. Tax revenues increased, in real terms, but were still below the seasonal path, for the fifth month in succession. The Central Bureau of Statistics August survey of trends indicates declines in growth in all industries. Nevertheless, expectations in all industries apart from the hotel industry and high-tech industries are for increased activity in the next three months. The Globes and Bank Hapoalim consumer confidence indices point to reductions in the public's purchasing plans, although they both suggest that the public is still optimistic about the economic situation in the future.

The S&P credit rating agency raised Israel's credit rating to A+ from its previous A, with a "stable" outlook; this was attributed to the government's policy of reducing of the debt/GDP ratio, the potential deriving from the discoveries of natural gas, and the stability of the banking system.

The National Accounts

The second National Accounts estimate for the second quarter of 2011 shows a slight improvement compared with the first estimate. The figure of GDP growth in the second quarter was increased to 3.5 percent, (compared with the previous estimate of 3.3 percent) (all National Accounts data quoted herein are seasonally adjusted, in annual terms). The increase in private consumption was revised upwards to 3.2 percent, from the original estimate of 2.2 percent. Exports excluding diamonds increased by 5.2 percent (compared with the original estimated increase of 0.5 percent), and civilian imports excluding ships, aircraft and diamonds increased by 8.3 percent (up from the original estimate of 5.6 percent). The Bank of Israel assessment is that the economy is near full employment.

The composite state-of-the-economy index and monthly indices of the economic situation

The composite index rose by 0.3 percent in August, a similar increase to those recorded in the previous two months (after their upward revisions), which points to continued economic growth, albeit at a slower rate than that in the first two months of the year. The rise reflects increases in the indices of manufacturing production, imports of production inputs, and services exports, that were partly offset by declines in the indices of goods exports and trade and services revenue.

In the months May–July, the revenue of industries increased by 3.2 percent (seasonally adjusted, in annual terms), following the 3 percent increase in the previous three months.

Consumer confidence indices and the Purchasing Managers Index do not present a consistent picture this month but what emerges is a generally downward trend: whereas the Central Bureau of Statistics (CBS) and the Bank Hapoalim consumer confidence indices showed declines, the Globes index rose by 2.7 points, but it has shown a general downward trend since the beginning of 2010. The index of domestic demand, calculated by the Bank of Israel Research Department based on a Google search index, continued to drop, but was still above the 50 percent level, thus indicating a continuation of the growth of private consumption.

The labor market

Labor market data for the second quarter indicate a continued improvement in employment. The unemployment rate continued to decline, and reached the low level of 5.5 percent, while the rate of participation in the labor market remained steady and the rate of employment increased. The number of employee posts, seasonally adjusted, increased by 0.4 percent in the three months April–June compared with the previous three months. The ratio of the number of unemployed to the number of vacancies in the business sector was a low 2.5 (i.e., there were 2.5 unemployed people for every vacancy). The nominal wage increased in April–June by 1.1 percent (three-monthly rate, seasonally adjusted) compared with the level in the previous three months, while the real wage increased by 0.4 percent. Health tax receipts, which provide an indication of wage payments, were 7.5 percent higher in August (initial estimate), in nominal terms, than in August 2010 (excluding the effect of legislative changes).

Foreign trade

Goods exports excluding ships, airplanes and diamonds dropped by 5.7 percent in August, after falling 2.8 percent in July. Services exports increased by 1.4 percent in August.

The estimate of world trade (the G3 Trade Index)[2] shows a continuation of the downward trend in July, with a decline of 0.2 percent. The Tech Pulse Index in the US remained essentially unchanged in August, with a slight dip of 0.1 percent.

[2] The G3 Trade Index is a weighted measure of the total foreign trade of the US, Germany and Japan. The index serves as an early indicator of global trade.

2. Budget data

Government domestic revenues in August were 9 percent lower than the forecast seasonal path, due to a continued slowdown in indirect tax revenues. Tax revenues for the year to date, through August (net of legislative changes and one time revenues), were 5.3 percent higher, in real terms, than in the corresponding period of the year before, but 1.6 percent below the seasonal path of the budget forecast. The government's domestic activity in the first eight months of this year (excluding net credit) resulted in a cumulative deficit of 0.7 percent of GDP, compared with a deficit of 1.6 percent of GDP in the corresponding period of 2010. Developments in government activity so far indicate that the budget deficit for the full year of 2011 will be slightly below the deficit ceiling set by law (3 percent of GDP).

3. Developments on the nominal side

Inflation

The Consumer Price Index (CPI) increased 0.5 percent in August, at the upper limit of forecasts and above the seasonal path consistent with achieving the inflation target. Inflation over the past 12 months, as measured by the change in the CPI, was 3.4 percent, above the upper limit of the target inflation range (of 1–3 percent a year). Nonetheless, the rate of inflation over the past six months, seasonally adjusted, is near the lower limit of the inflation target.

Expectations and forecasts of inflation and of the Bank of Israel interest rate

Inflation expectations for the next twelve months as calculated from the capital markets were steady over the past month and remained at 2 percent on average. Forecasters' inflation predictions for the next twelve months continued to fall, and declined to 2.3 percent. The background to the consolidation of inflation expectations around the midpoint of the target range, despite the depreciation in the past several weeks, was continued expectations of a slowdown in growth in Israel and worldwide, as well as internalization of the process of lowering prices by retail chains and various service providers, as part of the impact of social protests against the high cost of living. At the same time, forecasts of the Bank of Israel interest rate continued to fall. Based on the Telbor (Tel Aviv Inter-Bank Offered Rate) market, the Bank of Israel interest rate one year from now is expected to be 3 percent, down from the expectation of 3.1 percent a month ago, and the average of forecasters' predictions is that it will be 3.15 percent (down from 3.6 percent a month ago). Most forecasters expected the Bank of Israel to leave the interest rate for October unchanged.

The makam and bond markets

In the government bond market, the yield curve of unindexed bonds steepened, with drops of 14 basis points in maturities of up to 1 year and rises of up to 8 basis points in other maturities. Yields on CPI-indexed government bonds rose by up to 8 basis points for most maturities. *Makam* yields fell by up to 20 basis points across the yield curve, as the yield for one year fell during the period from 3.08 percent to 2.98 percent.

The main feature of the corporate bond market, especially in holding companies, was the continued rise in yields on bonds of several companies. The Tel-Bond indices dropped sharply at the beginning of the month, with the Tel-Bond 20 falling by 3 percent and the Tel-Bond 40 by 3.7 percent. In the last week, however, the indices made up all the declines against the background of interest rate declines around the world. The yield spreads between the Tel-Bond 20 and Tel-Bond 40 and government bonds widened.

The yield gap and interest rate differential between Israel and abroad

The yield gap between Israeli unindexed 10-year government bonds and 10-year US Treasury bonds continued to widen during the period surveyed, and at the end of the period stood at 292 b.p. (up from 262 b.p. at the beginning of the period).

Prior to the current interest rate decision, the Bank of Israel interest rate was 3 percentage points higher than the Fed rate, and 1.75 percentage points higher than the European Central Bank (ECB) rate.

The expected real interest rate

The current Bank of Israel interest rate deflated by the twelve-months-forward inflation expectations derived from the capital markets averaged 1.06 percent in September (to the date of the current discussions).

The monetary aggregates

In the twelve months up to and including August, the M1 monetary aggregate (cash held by the public and demand deposits) increased by 3.6 percent, and the M2 aggregate (M1 *plus* unindexed deposits of up to one year) increased by 12.6 percent.

The credit market

The balance of outstanding credit to the business sector increased in July by 0.9 percent, to NIS 757 billion. Outstanding credit to households increased by 0.3 percent in July, to NIS 357 billion. Of the credit to households, outstanding housing credit rose 11.6 percent in the twelve months ending in July, to NIS 253 billion, compared with an 11.9 percent increase in the twelve months to June. The volume of housing credit granted in the 12 months ending in August was 1.4 percent lower than in the 12 months ending in July. The share of mortgages at floating interest rates (for all periods) in total new mortgages continued to decline in August, and reached 76 percent, compared with 79 percent in the month before. The interest rates on CPI-indexed and unindexed floating rate mortgages continued to increase in July, while the interest rates on variable rate unindexed mortgages declined.

The housing market

Activity in the construction industry continues to be strong. The number of starts in the twelve months to June reached 42,757 and the number of completions was 33,613, figures which were very similar to the levels of the previous month. The number of new homes sold fell, and in May–July was 9.6 percent lower than in February–April. The stock of new homes available for sale continued to increase, and in May–July was on average 6.4 percent higher than the three preceding months. Home prices, which are presented in the Central Bureau of Statistics survey of home prices but are not included in the CPI, increased at a monthly rate of 0.4 percent in June–July, after rising 0.2 percent in May–June (an estimate that was revised down this month). The annual rate of increase in home prices is maintaining stability: in the twelve months ended in June–July home prices increased by 12.3 percent; compared with a 12.1 percent increase in the May–June figure. The slowdown in the rate of increase in home prices was affected by increases in the interest rate, measures introduced by the Bank of Israel affecting mortgages, and steps taken by the Ministry of Finance in real estate taxation, together with the continued increase in the number of building starts. In contrast, the housing price index, which is based mainly on renewed rental contracts and which is included in the CPI, continued to increase, rising by 1.3 percent in July, bringing the increase in the last twelve months to 5.2 percent.

The Research Department assessment (staff forecast)

The Research Department staff forecast was updated this month. The current assessment is that inflation in the four quarters ending in the third quarter of 2012 will be 2.3 percent, and the average interest rate in the third quarter will be 3 percent. The Research Department forecasts that the inflation rate for the whole of 2011 will be at the upper limit of the target range, and that the average interest rate in the fourth quarter will be 3.25 percent. The forecasts of GDP growth in 2011 and 2012 were revised downwards: the current forecast is for 4.7 percent growth in 2011 (down from 4.8 percent in the previous forecast) and 3.2 percent in 2012 (down from 3.9 percent in the previous forecast). The assessment was based on, among other things, the downward revision by the IMF of its forecasts, which now include a decline in global growth and in the rate of expansion of world trade. The Research Department emphasized the primary risks faced by Israel's economy, specifically, the risk of another global recession and geopolitical risks that could have economic consequences.

4. The foreign currency and share markets

The foreign currency market

From the previous monetary policy discussion held on August 28, through September 23, the shekel depreciated by about 2.7 percent against the dollar, a far more moderate depreciation than that of other currencies against the dollar. In contrast, the shekel appreciated 4.6 percent against the euro, while the major currencies showed mixed trends vis-à-vis the euro. The shekel strengthened by about 2.2 percent in terms of the nominal effective exchange rate.

The share market

Between the monetary policy discussions of August 28 and September 23, the Tel Aviv 25 Index fell by 5 percent, similar to the trend in most stock markets abroad.

5. Israel's financial risk, the sovereign risk premium

Israel's sovereign risk premium as measured by the five-year CDS spread continued to rise, against the background of geopolitical events and the deteriorating situation in European economies, and widened from 166 basis points to 218 basis points.

6. Global economic developments (see Appendix for further details)

This month, most macroeconomic figures published in the US and the eurozone were weak. The debt crisis continued to worsen this month as well: in Greece, CDS spreads indicated a growing probability of default in the near future; in the past week S&P cut its credit rating for Italy, with a negative outlook; there was growing concern of the European debt crisis spreading to the banking system, and amid that, credit ratings on large banks in the US, France, and Italy were cut. Against the background of increasing risk and negative macroeconomic data, investment banks and the IMF lowered their growth forecasts for major economies and for the global economy. The IMF revised its 2012 forecasts of global growth from 4.5 percent to 4 percent, and of world trade growth figures from 6.7 percent to 5.8 percent. The IMF also cut its forecast for US economic growth in 2012 from 2.7 percent to 1.8 percent, and cut its forecast for economic growth in Europe in 2012 from 1.7 percent to 1.1 percent

B. THE NARROW-FORUM DISCUSSION—THE INTEREST RATE DECISION FOR OCTOBER 2011

In the monthly narrow-forum monetary policy discussion, five members of management make recommendations to the Governor regarding the appropriate rate of interest for the economy. Following the current discussions on the interest rate for October, three members recommended that the Governor leave the interest rate unchanged at 3.25 percent, and two recommended that he reduce the rate by 0.25 percentage points to 3.0 percent.

Participants in the discussion dealt with several issues: the inflation environment, real economic activity in Israel, the housing market, and the risks deriving from the global environment.

The marked moderation in Israel's inflation environment was noted: inflation in the previous twelve months was 3.4 percent, still above the upper limit of the inflation target, but over the last six months the rate of inflation, seasonally adjusted, has been close to the lower limit of the inflation target range. It was stated that the factors contributing to inflation included the housing market (in the last year), and food and energy prices. Together with the slowdown in actual inflation, expected inflation as reflected in the markets also declined: one-year forward inflation expectations calculated from the capital market (break-even inflation) continued to fall this month too, and are currently at the center of the target range.

In the discussion the point was made that the economic indicators published this month continue to show that domestic economic activity is still growing, but at a slower pace than in 2010 and in the first quarter of 2011. The slowdown was mainly the result of the easing of world demand and its effect on exports. Recently there has been increasing concern over a negative turnaround in activity in the US and the eurozone and over the geopolitical risks.

House prices were also discussed: these had risen another 0.4 percent this month, bringing the increase over the last twelve months to 12.3 percent. Although the rate of increase is somewhat slower than in the last few months, it is still high. The increase in rents is also continuing at a quick pace. That said, it is assessed that the increase in housing starts, along with steps by the Bank of Israel in the mortgage market and measures taken by the Ministry of Finance in real estate taxation, will help moderate the rate of price increases.

The risks arising from the global environment include primarily the intensification of the debt crisis of peripheral eurozone countries, reflected in widening CDS spreads for Greece and a credit rating cut for Italy; the concern of the crisis spreading to the banking system, seen in lowered credit ratings of large banks in the US, France, and Italy; and the lowered growth and world trade forecasts. These risks are liable to lead to a negative impact on economic activity in Israel, primarily on the exporting sector.

In light of the background situation described in the discussion, three members of management recommended leaving the interest rate unchanged, while two recommended reducing the rate.

The main argument in favor of cutting the interest rate by 0.25 percentage points was based on the combination of risks from the global arena. The impact of these risks, if realized, were expected to be mainly on exports, so that lowering the interest rate would reduce the effect on GDP both via the exchange rate and via domestic demand.

The main considerations favoring leaving the interest rate unchanged in the meantime were concern of a continued increase in housing prices (rents) and home prices as well as the high level of economic activity. In this framework, the concern was raised that despite the increase in inventory of houses and the steps taken by the Bank of Israel and the Ministry of Finance, lowering the interest rate is liable to lead to acceleration in the rate of increase of home prices. In addition, the economy is at a high level of activity, apparently around full employment.

Taking all the above into consideration, the Governor decided to cut the interest rate for October by 0.25 of a percentage point, to 3.0 percent.

In announcing the decision, the Bank of Israel emphasized the following points that led to the decision to reduce the interest rate:

- Assessments have firmed recently that the slowdown in global growth will be steeper than previously expected. The IMF reduced its forecast of US growth in 2012 from 2.7 percent to 1.8 percent, and growth in the eurozone from 1.7 percent to 1.1 percent and it is assessed that the balance of risks is negative.

- The weakness of the US and European economies led policymakers in those countries to adopt more expansionary measures (Operation Twist in the US, and other steps in the eurozone to increase liquidity). There are now market expectations of a cut in the ECB interest rate. In addition, volatility has increased in capital markets around the world, and the downward trend in prices of financial assets continues.

- The more severe global slowdown is reflected in slower growth of real activity in Israel, and in particular in the weakness of goods exports. The Bank of Israel has lowered its growth forecast for 2012 from 3.9 percent to 3.2 percent, and in the Israeli economy too the balance of risks is to the downside.

- Inflation expectations for the next twelve months as calculated from the capital market have remained stable this month around the midpoint of the 1–3 percent target range, and those of the forecasters continued to decline towards the midpoint of the inflation target range, and are currently 2.3 percent. The cumulative change in the last six monthly CPI readings, seasonally adjusted, is consistent with the lower bound of the target inflation range. Nevertheless, inflation over the previous twelve months, 3.4 percent, is still above the target range. The Bank of Israel's staff forecast and professional forecasters' expectations of the inflation rate at the end of 2011 or the beginning of 2012, measured over the previous twelve months, are within the target range.

- The rate of increase in house prices in the last twelve months continues to be high, but in the last few months some moderation has been evident, and in the twelve months to June–July the rate was 12.3 percent (compared with 12.1 percent to May–June). The effects of the measures taken by the Bank of Israel with regard to mortgages, changes in real estate taxation introduced by the Ministry of Finance, and the sustained increase in building starts are expected to continue to contribute to this moderation in the coming year.

The Bank of Israel will continue to monitor developments in the Israeli economy and the global economy and in financial markets. The Bank will use the instruments available to it to achieve its objectives of price stability, the encouragement of employment and growth, and support for the stability of the financial system, including keeping a close watch on developments in assets markets, including the housing market.

The decision was reached and announced on September 26, 2011.

Participants in the narrow-forum discussion:

Prof. Stanley Fischer, Governor of the Bank of Israel
Dr. Karnit Flug, Deputy Governor of the Bank of Israel
Mr. Barry Topf, Senior Advisor to the Governor on Monetary Policy Issues
Mr. Andrew Abir, Director of the Market Operations Department
Dr. Michel Strawczynski, Head of Macroeconomic and Policy Division and Acting Director of the Research Department
Dr. Edward Offenbacher, Member of Management and Head of the Monetary and Finance Division, Research Department
Mr. Eddy Azoulay, Chief of Staff to the Governor
Dr. Yossi Saadon, Advisor to the Governor and Bank of Israel Spokesperson
Ms. Esti Schwartz, Monetary Committee Secretary
Ms. Ziv Naor, Economist, Research Department

Appendix: Major Global Economic Developments

The US

Despite several economic figures for July that indicated a positive trend, including an increase in personal income and private consumption, the continued expansion of consumer credit and a decline in the trade deficit due to export growth, most of the data for August indicate a slowdown in growth. The number of claims for unemployment benefits increased, in the New York and Philadelphia areas production activity contracted more severely, the purchasing managers index (PMI) in the manufacturing sector declined and settled close to the level indicating a freeze, and consumer confidence indices dropped steeply. According to the Summary of Commentary on Current Economic Conditions published by the Federal Reserve Board (the "Beige Book"), economic growth slowed in several parts of the US: seven of the twelve Federal Reserve regions reported slower growth than in their previous reports. In contrast, manufacturing output increased, as did the Institute of Supply Management (ISM) Non-Manufacturing Composite and New Orders Indexes (i.e., service industries), with most components of the index showing an expansionary trend (above 50 percent); however, the business activity and employment components declined.

The number of jobs did not increase in the US, and the unemployment rate stayed unchanged at 9.1 percent, with those unemployed for half a year or longer accounting for 43 percent of the total number of unemployed. The number of "involuntary" part-time workers (i.e., those who would prefer full-time employment) also increased, and the average number of hours worked weekly dropped. Labor productivity in the non-agricultural business sector declined in the second quarter by 0.7 percent, annual rate, while in manufacturing the drop was greater, 1.5 percent. According to Moody's assessment, the US president's $447 billion employment encouragement plan, that includes expenditure on improving infrastructures, direct aid to states and municipalities, cuts in tax on labor, benefits to businesses that recruit new workers, tax benefits for small businesses, extending the period of entitlement to unemployment benefits, and increasing the number of retraining courses, will all together add about 2 percent to GDP and create 1.9 million jobs.

The continued rise in the level of inflation to the 2008 level, and inflation excluding food and energy to 2 percent, the highest level since 2008, reduces the chances of an announcement of QE3 (a third quantitative easing program).

Europe

The debt crisis in Europe continued to worsen this month in light of the concern that Greece was likely to reach the stage of defaulting on its payments in the near future, the lowering of Italy's credit rating by S&P to A, with a negative outlook, and concern over the spread of the European debt crisis into the banking system in Europe.

Second quarter growth in the eurozone was a low 0.8 percent, annual rate; the German economy grew by less than half a percent, France recorded zero growth, and growth in Italy was 1.2 percent. Against the background of a high level of uncertainty regarding the spread of the debt crisis, there are increasing risks of a slowdown in EU member countries. Those risks resulted in the ECB leaving the interest rate at 1.5 percent, and revising its 2011 growth forecast for the eurozone downwards from 1.5–2.3 percent in June to 1.2–1.4 percent. It also reduced the growth forecast for 2012. The markets in the eurozone are factoring in a reduction in the interest rate as early as the next ECB meeting.

Current indicators point to a continued slowdown in the rate of activity: the eurozone PMI (purchasing managers index) dropped to 49 points; new orders in manufacturing were 0.7 percent lower in June than in May; the unemployment rate was unchanged at 10 percent in July, with the rate in countries with the most serious economic problems, such as Spain, Ireland, Portugal and Greece, even higher. Retail trade increased at a rate of 0.2 percent in July, but most of the growth was due to relatively rapid rises in the small Eastern Europe economies, and it is expected that the steps that many governments will have to take to reduce their debts will have a negative impact on private consumption and growth. The generally pessimistic view of the future was reflected in the eurozone Sentix Investor Confidence Index, which fell sharply in August to its lowest level since August 2009, and even reversed its trend from positive to negative. According to the IMF, if European banks have to write off their holdings of government bonds of Ireland, Greece, Portugal, Italy, Spain and Belgium, the losses would amount to some €200 billion. The European banks have recently been experiencing a severe liquidity shortage, expressed mainly in the form of a shortage of dollar balances. This led to a cooperation agreement between the ECB, the Fed, the Bank of England, the Bank of Japan and the Swiss National Bank to supply emergency dollar loans to the banks in the eurozone and to inject additional credit into the markets.

The announcement by the Greek Minister of Finance that Greece had finance for only another few weeks led to a surge in yields on Greek bonds maturing in a year to 140 percent, and the CDS spreads leaped from 2,250 basis points to 5,700 b.p., effectively signifying default. Despite Greece's announcement that its economy would contract by 5 percent in 2011 (and not by 3.8 percent as per the IMF and EU assessments in June), it was obliged to impose a property tax for the next two years in order to make up the €2 billion it is lacking to meet its deficit target.

The emerging markets

The emerging market economies continued to show much stronger macroeconomic data this month than those of the advanced economies, but some of the former recorded a certain slowdown.

In China, the data published this month show that it is not suffering yet from the global slowdown. Manufacturing production grew at an annual rate of 13.5 percent, retail sales expanded at a 17 percent rate, and imports, 30 percent, an indication that domestic demand remains strong. The PMI rose for the first time since March, and reached 50.9, although this points to only a moderate increase. Inflation declined from 6.5 percent in July to 6.2 percent in August.

In India, the rate of growth was 7.7 percent in the second quarter, a high rate, although it represents a continued gradual decline since the first quarter of 2010, when the growth rate was 9.4 percent. India's trade also continues to expand at astonishing rates, with exports surging by 81.8 percent in July, and imports by 51.8 percent, annual rates.

In Brazil the central bank cut the interest rate by 50 b.p. to 12 percent (after five consecutive increases). The reasons given focused on the global economic slowdown against the background of the anaemic growth in the US and the EU.

The capital markets

Share indices in the US rose by 2.75 percent in the past month (the period reviewed), while Europe recorded a decline of 0.7 percent, with no change in Germany. The MSCI world index and its emerging markets index also showed no significant change over the period. The announcement of the injection of dollars into the European banks resulted in a rise in bond prices in the last few days.

Yields on government bonds fell, with the yield on 10-year US government notes declining during the month from 2.19 percent to 2.09 percent, after it had already dropped as low as 1.92 percent. The yield on 10-year German government bonds declined in the period reviewed from 2.15 percent to 1.9 percent, after reaching as low as 1.74 percent.

In the commodities markets, the price of Brent crude oil remained unchanged in the period as a whole, at $111.5 a barrel. The price of gold started the period at $1,828 an ounce, and increased to $1,900 at the beginning of September, but fell back to its same level as at the start of the period. The commodities price index excluding energy fell by 5 percent, and the agricultural commodities index dropped by 9 percent.