

# Monetary Policy Press Briefing

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## Bank of Israel

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## Press Briefing, June 27, 2016

- ❖ From the standpoint of the financial markets, we are still in the immediate aftermath of the Brexit vote, and it is too early to derive any conclusions.
- ❖ The Bank of Israel and the Ministry of Finance are in constant contact and are monitoring developments.
- ❖ We maintain the stability of the financial system during normal times, ensuring its stability during more stormy periods.



## Press Briefing, June 27, 2016

- ❖ According to assessments by the international institutions, Brexit should not have a significant effect on global growth.
- ❖ With that, there will be uncertainty for a prolonged period.
- ❖ The UK is a significant trading partner for the Israeli economy, and it is important that the new arrangements will make it possible to maintain trade relations.

- ❖ The inflation environment remains low, despite the return of CPI increases in April and May.
- ❖ Energy prices stabilized, and the effect of administrative price declines has wound down for now.
- ❖ Wage increases, the growth of private consumption, low interest rates, and a stable exchange rate will contribute to returning inflation to within the target range.



## Press Briefing, June 27, 2016

- ❖ The recent decline reflects unique developments in a number of industries that will not necessarily continue, but it follows a prolonged standstill in exports.
- ❖ We can cautiously assess that the growth rate in the second quarter will return to its levels of recent years.
- ❖ Private consumption continues to lead growth, and the labor market remains strong.
- ❖ Monetary policy is “buying time” to enable long-term policy measures to strengthen the Israeli economy’s relative advantages.



## Press Briefing, June 27, 2016

- ❖ Even before the Brexit vote, a further moderation in the global economy.
- ❖ The accommodative monetary policy of the major central banks continues, and could become stronger.
- ❖ The emergency measures that some central banks announced they may adopt are unnecessary in Israel.



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- ❖ The appreciation was halted in the recent period, but the level of the exchange rate still reflects over-appreciation, which is negatively impacting exports and manufacturing.
- ❖ Many central banks are adopting policies that are weakening their currencies.
- ❖ The Bank of Israel's intervention in the foreign exchange market is an integral part of monetary policy, and is preventing the need for further interest rate cuts, with all that that entails.

- ❖ The increase in home prices continues, despite significant measures by the government to increase supply.
- ❖ The increase in mortgage interest rates is expected to contribute to a cooling of demand for homes.



## Research Department staff forecast:

- ❖ GDP will grow by 2.4 percent in 2016 (a lower forecast due to first quarter data), and by 2.9 percent in 2017.
- ❖ Inflation is expected to reach the target range in about a year.
- ❖ A further decline in the interest rate path forecast by the Research Department.



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- ❖ Events of the past few days increase uncertainty surrounding expected developments in the global economy.
- ❖ The Monetary Committee's assessment is that monetary policy will remain accommodative for a considerable time, with continued use of foreign exchange purchases.
- ❖ The current conditions do not justify the use of additional policy tools.
- ❖ The Bank of Israel is monitoring developments in the domestic and global economies on a daily basis, and will not hesitate to use the tools at its disposal as necessary.