# July 10, 2023

**Press Release**

**The Monetary Committee decides on July 10, 2023**

**to leave the interest rate unchanged at 4.75 percent**

* Inflation is moderating, but is still high over a wide range of CPI components. Inflation over the past 12 months is 4.6 percent. Looking at the past 6 months, and even more so over the past 3 months, the pace of inflation is moderating in the prices of both tradable goods and nontradables.
* One-year inflation expectations and forecasts are within the target range, near the upper bound. Expectations derived from the capital market for the second year onward are within the target range.
* Economic activity in Israel remains strong, but a number of economic indicators point to some moderation in activity. The labor market remains tight, and in a full employment environment, but the downward trend in the job vacancy rate continues.
* The Research Department revised its macroeconomic forecast. In its assessment, GDP will grow by 3 percent in each of 2023 and 2024, and some of the moderating effects of monetary restraint on activity will be realized later than in the April assessment. The main risk to the forecast is the materialization of a scenario in which the legislative and institutional changes with regard to the judicial system are accompanied by an increase in the country’s risk premium and continued depreciation of the shekel, an adverse impact to exports, and declines in domestic investments and in demand for private consumption. The April forecast contained a quantitative assessment of this scenario.
* The volume of activity in the housing market continues to moderate. In the aggregate, prices have remained unchanged since the beginning of the year. The downward trend in the number of purchases and new mortgage volume continues. The owner-occupied housing services item in the Consumer Price Index continued to increase, to 7.6 percent over the past year.
* Since the previous monetary policy decision, the shekel weakened by 1.8 percent against the US dollar, by 2.3 percent against the euro, and by 0.2 percent in terms of the nominal effective exchange rate.
* Globally, the pace of economic activity continues to moderate, and a number of factors continue to weigh on activity. The inflation environment is moderating in many countries, but remains above the central bank targets, while core inflation is sticky. With that, monetary tightening around the world continues.

**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.**

**For the file of figures accompanying this notice, click here.**

Economic activity in Israel remains strong, although there is some continued moderation in a number of indicators. The labor market remains tight and in a full employment environment. Inflation is moderating, but remains above the target range, and is high over a wide range of CPI components. The continued tight monetary policy and moderation of activity abroad are expected to lead to a slowing in the pace of inflation alongside some slowdown of economic activity in Israel.

Since the previous policy decision, the CPI increased by 0.2 percent in May. The May figure was lower than earlier forecasts in the market. Inflation in the past 12 months declined, but remained above the upper bound of the target range, at 4.6 percent (**Figure 1**). Inflation in Israel remains lower than in most of the advanced economies, but the gap has narrowed in the past year. Net of energy and fruits and vegetables, inflation in the past year is 4.9 percent, and with the further neutralization of the effects of taxation and regulation inflation is 5.1 percent (**Figure 3**). The pace of annual inflation of the nontradable components of the CPI, which mainly reflects the housing services component and services industries, remained high, at 5.4 percent. The annual pace of inflation of the tradable components declined, to 3.4 percent (**Figure 4**). Over the past 6 months, and even more so over the past 3 months, the pace of inflation is moderating, and is lower than that of year-on-year inflation in the prices of both tradable goods and nontradables (in annual terms, seasonally adjusted) (**Figure 2**). Data to be published in the coming months will significantly contribute to clarifying the picture regarding the dynamics of the inflation. One-year inflation expectations and forecasts are within the target range, around the upper bound (**Figure 6**). Expectations derived from the capital market for the second year and onward are within the target range (**Figure 7**). The Monetary Committee’s assessment is that the monetary tightening processes in Israel and abroad, and the moderation of demand, are working to moderate inflation.

Economic activity remains strong, but a number of indicators point to some slowingf in activity. The aggregate balance of the Central Bureau of Statistics Business Tendency Survey for June increased, and continues to indicate businesses’ positive assessments of their situation (**Figure 19**). In contrast, private consumption is below the precrisis trend, and credit card purchase data in real terms are also below the trend (**Figure 20**). Services exports remain high, and goods exports (in current dollar terms, excluding ships, aircraft, and diamonds) increased in May, but remain lower than the 2022 monthly average (**Figure 21**). Goods imports remained virtually unchanged in May, and remain high in all components (**Figure 22**). In recent months, there has been a noticeable downward trend in the rate of manufacturing companies reporting an export profit erosion constraint in the Business Tendency Survey. Tax revenue in the first half of the year was slightly lower than the budget estimates in previous Research Department assessments, and declined by 9.4 percent in real terms relative to the first half of 2022.

The labor market remains tight and in a full employment environment. The employment rate among those aged 15 and over (61.8 percent, seasonally adjusted) remained unchanged in May, and together with the employment rate among the prime working ages (25–64, 79.2 percent, seasonally adjusted), is higher than before the crisis (**Figure 23**). The unemployment rate for those aged 15+ (3.6 percent, seasonally adjusted) remained unchanged relative to the previous month, while the unemployment rate among the prime working ages increased to 3.3 percent (seasonally adjusted) in May, but remains low (**Figure 24**). Alongside this, the downward trend in the job vacancy rate continues (**Figure 26**). In the high-tech services industry, the job vacancy rate is lower than the precrisis data, although the number of people employed in the industry has remained stable (**Figure 27**). The average wage per employee post declined slightly in April relative to March, but was significantly higher than in February. In view of these figures, the real wage level increased, and was around the long-term trend in April. According to the Central Bureau of Statistics Business Tendency Survey, the decline in the employee shortage constraint reported by companies continued in June compared with the same month last year.

The Bank of Israel Research Department revised its macroeconomic forecast.[[1]](#footnote-1) Its assessment is that GDP will grow by 3.0 percent in each of 2023 and 2024, under a scenario in which legislative changes regarding the judicial system are resolved in a way that they do not have an adverse impact on economic activity moving forward (**Figure 18**). This growth rate reflects strong economic activity, while some of the moderating effects of monetary restraint on activity will be realized later than in the April assessment. The unemployment rate among the prime working ages (25–64) is expected to average 3.7 percent in 2023 and 4.1 percent 2024. Inflation in the four quarters ending in the fourth quarter of 2023 is expected to be 3.5 percent, and in the four quarters ending in the fourth quarter of 2024, it is expected to be 2.4 percent. In addition, the debt to GDP ratio is forecast to be about 60 percent in 2023, and about 59 percent in 2024. The main risk to the forecast is the realization of a scenario in which the legislative and institutional changes are accompanied by an increase in the country’s risk premium and continued depreciation of the shekel, an adverse impact to exports, and declines in domestic investments and in demand for private consumption. The April forecast contained a quantitative assessment of this scenario.

The level of activity in the housing market continues to moderate. Home price increases in the past 12 months moderated to 9.8 percent (**Figure 12**), and the index of home prices declined by 0.2 percent in May. In the aggregate, prices have remained unchanged since the beginning of the year. The downward trends in the number of housing transactions and in new mortgage volume continued. In May, new mortgage borrowing totaled NIS 6.5 billion (**Figure 14**). According to Central Bureau of Statistics data, there is a downward trend in data on housing starts relative to last year, while building completions in the past 12 months remained similar to the previous quarter. Alongside this, the number of people employed in the industry and investments in residential construction (first quarter data) are high, and company reports do not indicate an increase in difficulty obtaining credit. The owner-occupied housing services component of the Consumer Price Index continued to increase, to 7.6 percent in the past year. Monthly rents for tenants renewing their contracts increased by 3.6 percent in May, and monthly rents on new contracts increased by 8.6 percent.

The Israeli equity markets remained virtually unchanged, compared with increases in most global equity indices. The trend of underperformance of the Israeli market relative to global indices since the beginning of the year continues (**Figure 38**). Yields on long-term government bonds declined slightly, and corporate bond spreads remained stable, after widening at the beginning of the year. According to the Central Bureau of Statistics Business Tendency Survey for June, there was less difficulty in obtaining credit in the medium business segment than in previous months. The difficulty reported by the various business segments remains relatively low (**Figure 16**). However, there are indications of a slight increase in the indices of credit risk to small and micro businesses. There was a significant decline in capital raised by the high-tech sector relative to recent years, which is part of the global trend (**Figure 27**).

There was high volatility in the shekel’s exchange rate against various currencies during the reviewed period, similar to its behavior in previous months. Since the previous monetary policy decision, the shekel weakened by 1.8 percent against the US dollar, by 2.3 percent against the euro, and by 0.2 percent in terms of the nominal effective exchange rate (**Figure 8**).

The pace of global economic activity continues to moderate. A number of factors continue to weigh down on economic activity, including the continuing war in Ukraine, high inflation, monetary tightening, and the slower-than-expected growth in China. Growth forecasts for 2024 by the OECD and investments houses remained virtually unchanged, projecting continued moderate growth (**Figure 28**). The global purchasing managers’ indices of both advanced economies and emerging markets declined in June, but continue to indicate expectations of economic expansion (**Figure 29**). In contrast, the indices for the manufacturing sector in many countries indicate economic contraction. Data on the volume of world trade for April 2023 continue to indicate a slowdown. The export orders component of the Purchasing Managers Index, which is a leading indicator of world trade data, continues to point to a weak trade environment in the coming months as well. Oil prices remained virtually unchanged despite cuts in production during the reviewed period.

The global inflation environment is moderating in many countries, but remains above the central bank targets (**Figure 36**), while core inflation is sticky. With that, interest rate increases and monetary tightening around the world are continuing, and a number of central banks in advanced economies, including the UK and Norway, have raised their interest rates beyond market expectations. The main common factor in these countries is inflation that is higher than previous expectations. In the US, economic activity data continue to indicate positive growth, and the labor market remains tight. The Consumer Price Index for June moderated to an annual rate of 4 percent, and the PCE index declined to 5.3 percent. The Federal Reserve left the federal funds rate unchanged, but published an interest rate forecast that projects two further increases in the coming months. The eurozone entered a technical recession following two consecutive quarters of contraction, but forecasts indicate expected moderate growth in the coming quarters. Inflation moderated, but it remains relatively high, at an annual pace of 5.5 percent. Core inflation in the eurozone increased slightly to 5.4 percent and is also high. The ECB increased its interest rate by 25 basis points. In the UK, the most recent inflation figure remained unchanged and inflation is 8.7 percent. Core inflation increased again, to an annual rate of 7.1 percent, and the Bank of England increased its interest rate by another 50 basis points.

The minutes of the monetary discussions prior to this interest rate decision will be published on July 24. The next decision regarding the interest rate will be published at 16:00 on Monday, September 4, 2023.

1. The full forecast is being published separately, and can be found at {link}. [↑](#footnote-ref-1)