

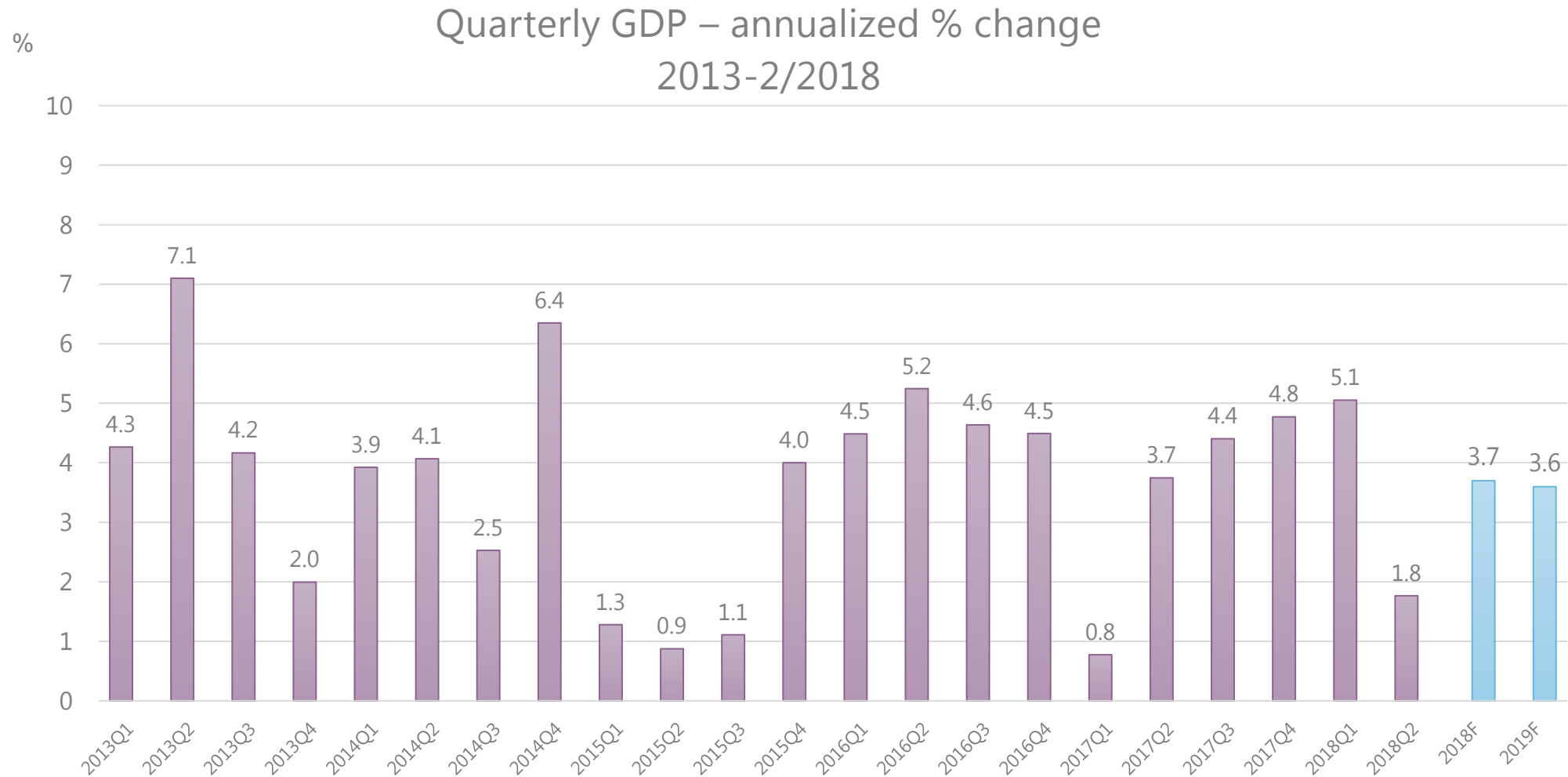
Global challenges and Inflation Targeting: the case of Israel



Dr. Nadine Baudot-Trajtenberg ,Deputy
Governor of the Bank of Israel

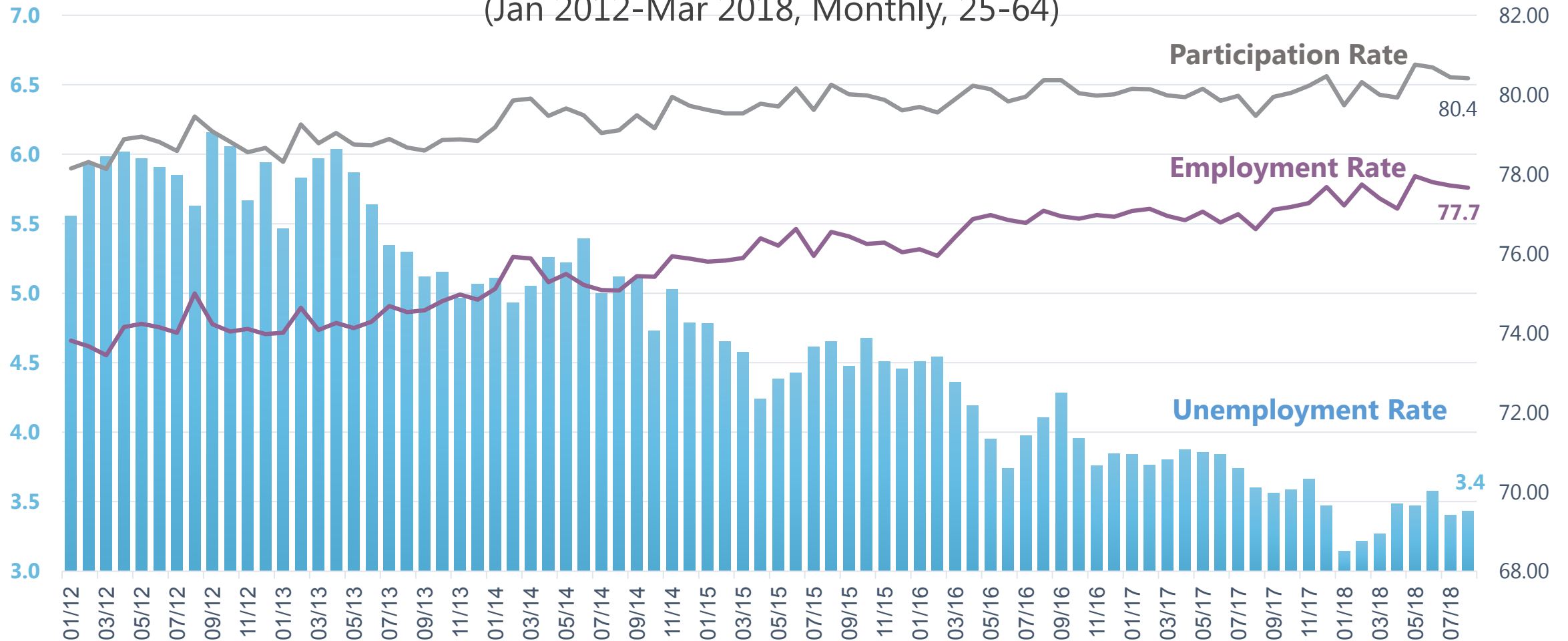
04.11. 2018

Israel: Solid Economic Activity, albeit substantial fluctuation



Strong Labor Market which supported Private consumption

Main Labor Market Indicators
(Jan 2012-Mar 2018, Monthly, 25-64)



SOURCE: Based on Central Bureau of Statistics Labor Force Survey.

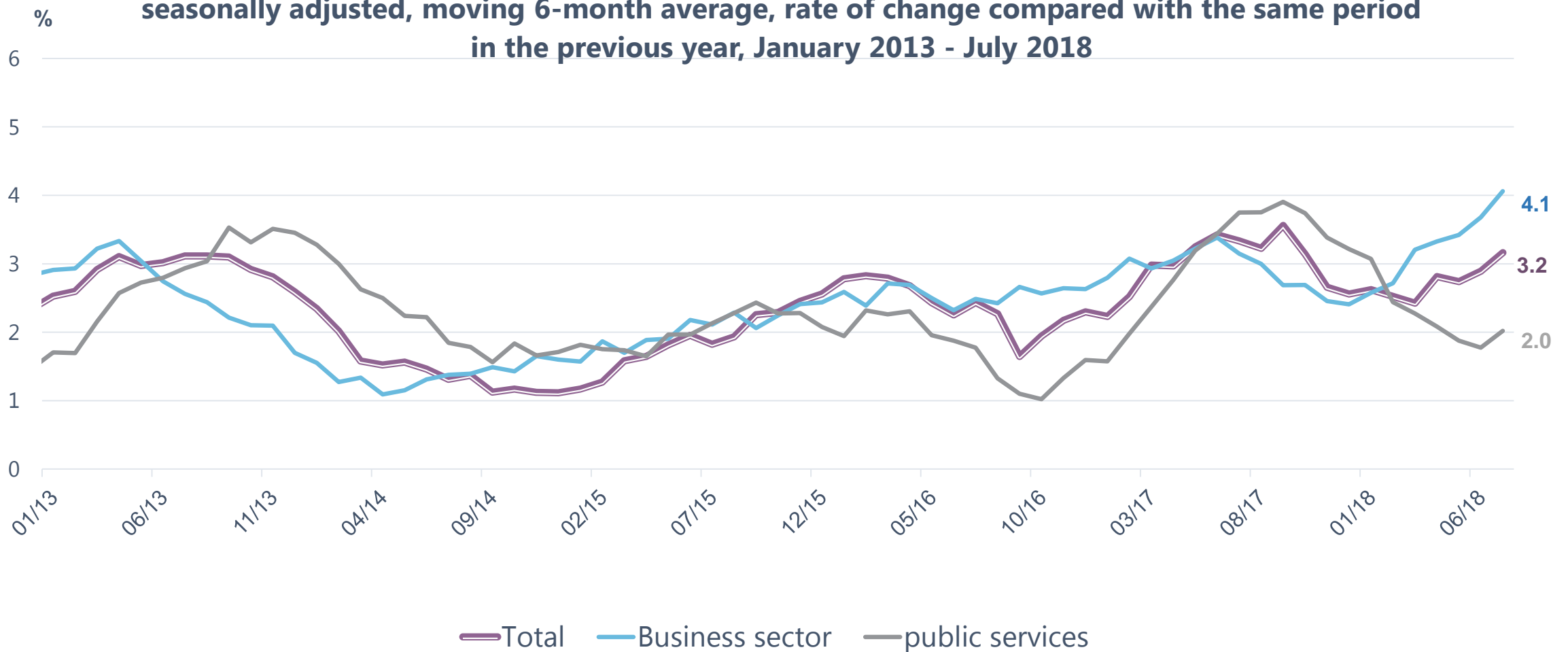
*seasonally adjusted



Nominal Wages rising steadily

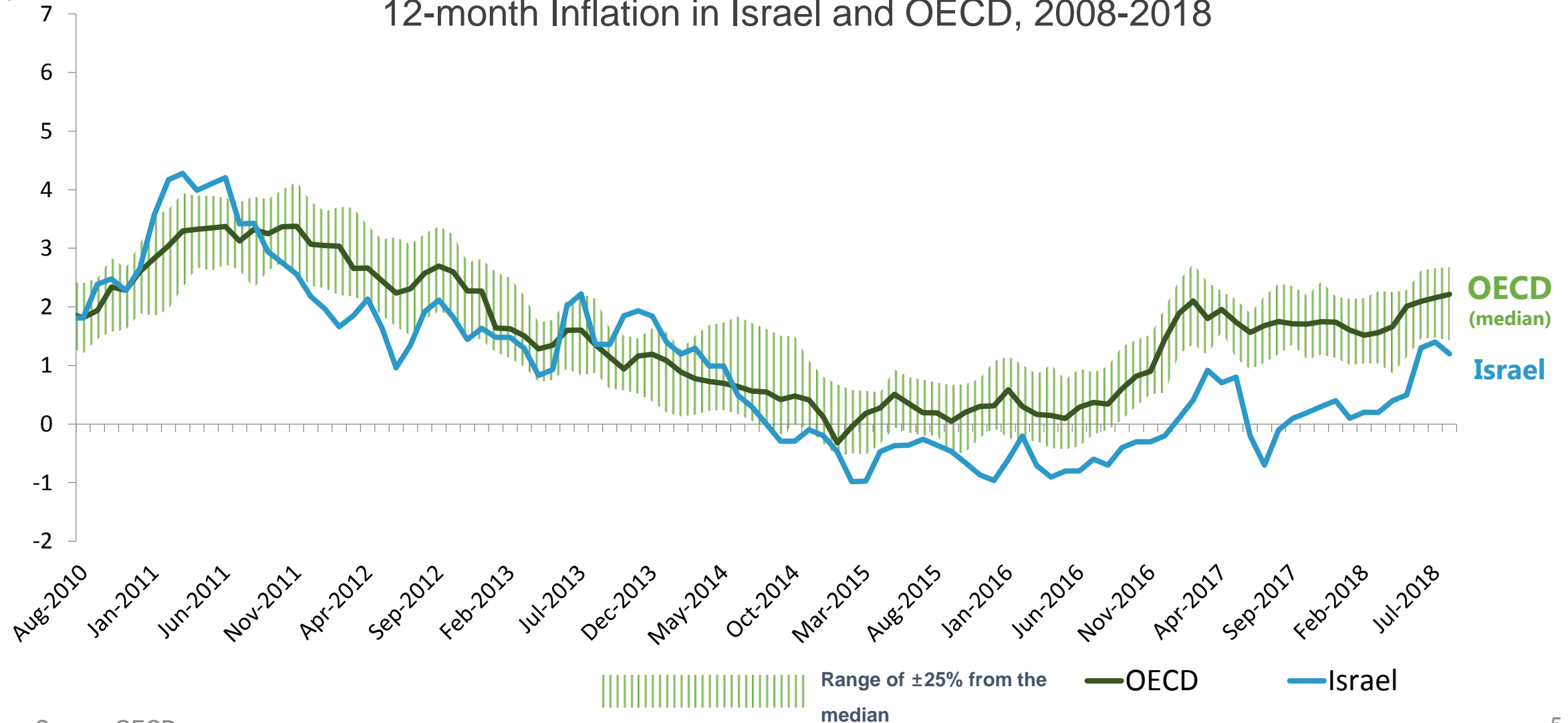
Nominal Wages per Employee Post

seasonally adjusted, moving 6-month average, rate of change compared with the same period in the previous year, January 2013 - July 2018



Yet Israel's inflation is still low compared to other OECD countries

12-month Inflation in Israel and OECD, 2008-2018



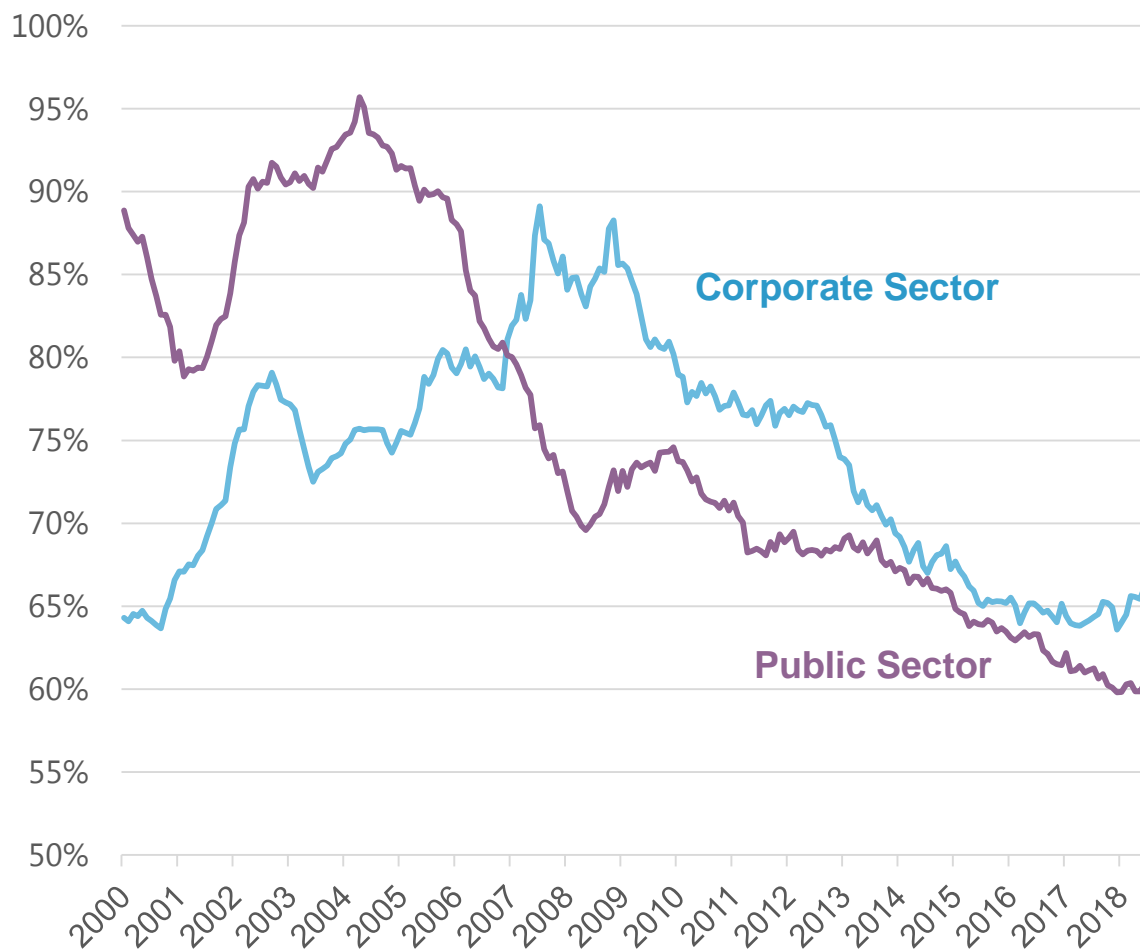
Source: OECD



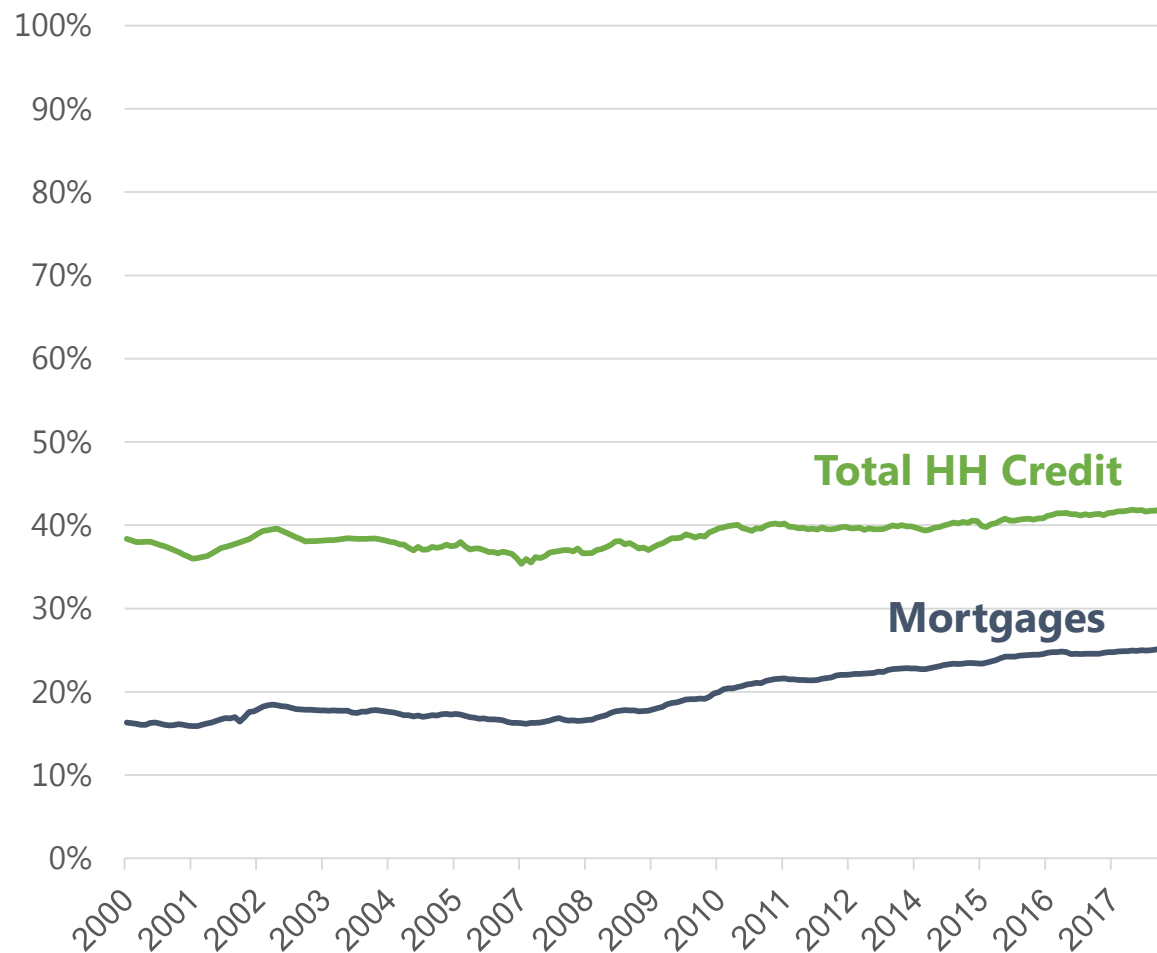
Public, Corporate and Household Debt

as a % of GDP, 2000-2018

Public Sector and Business Sector Debt As a % of GDP



Household Debt As a % of GDP





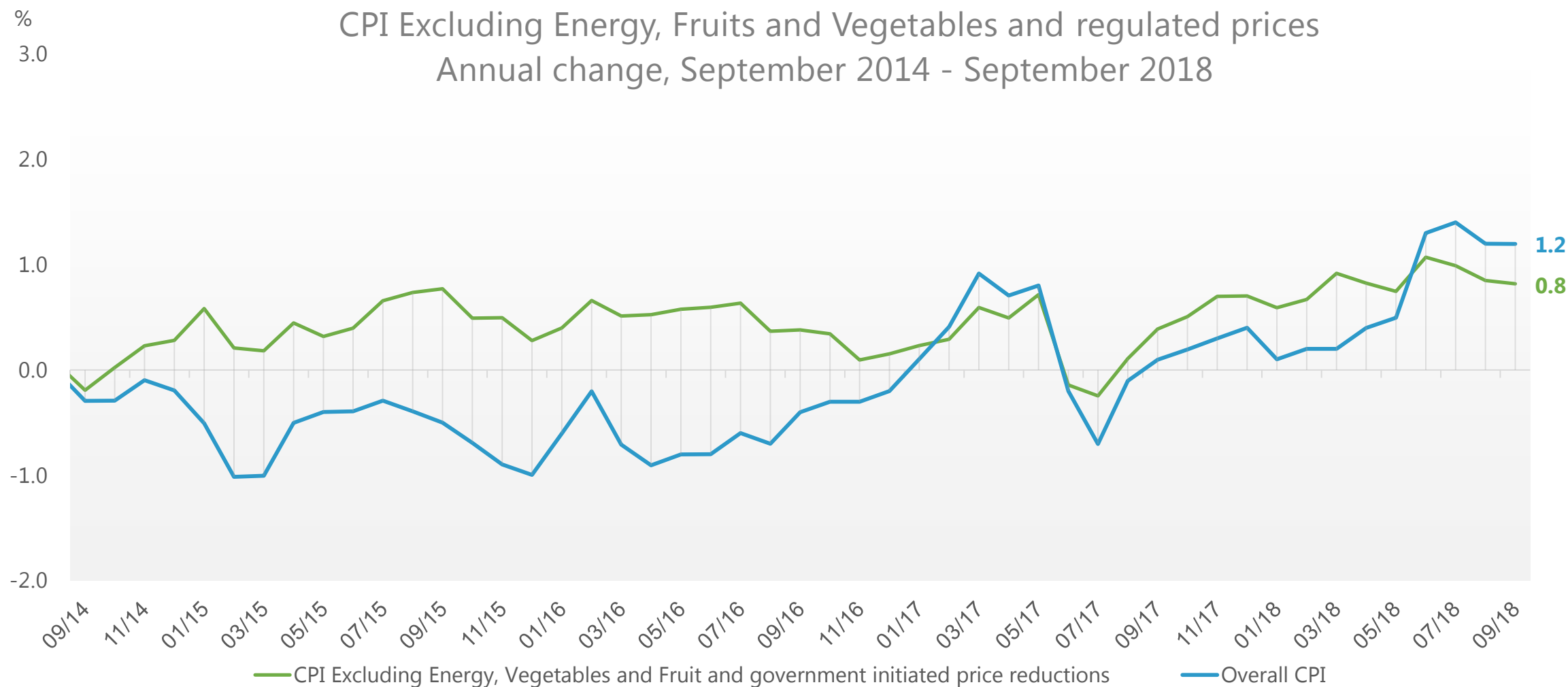
Inflation Dynamics: Pondering on Israel's low inflation

1. How much of this low inflation is transitory?
2. How much is this due to external factors?
3. Price Stability is defined by top line inflation, how much should we “look through” these shocks?
4. How long can inflation be so low while nominal wages are rising?
5. To what extent might long term structural changes affecting inflation dynamics?
6. Should monetary policy response be symmetric when faced with below target inflation as opposed to above target rates?
7. Is the protracted period of low interest rate jeopardizing financial stability?



Clear transitory shocks pushed Israeli inflation in negative territory for almost 3 years

Top Line Consumer Price Index and
CPI Excluding Energy, Fruits and Vegetables and regulated prices
Annual change, September 2014 - September 2018

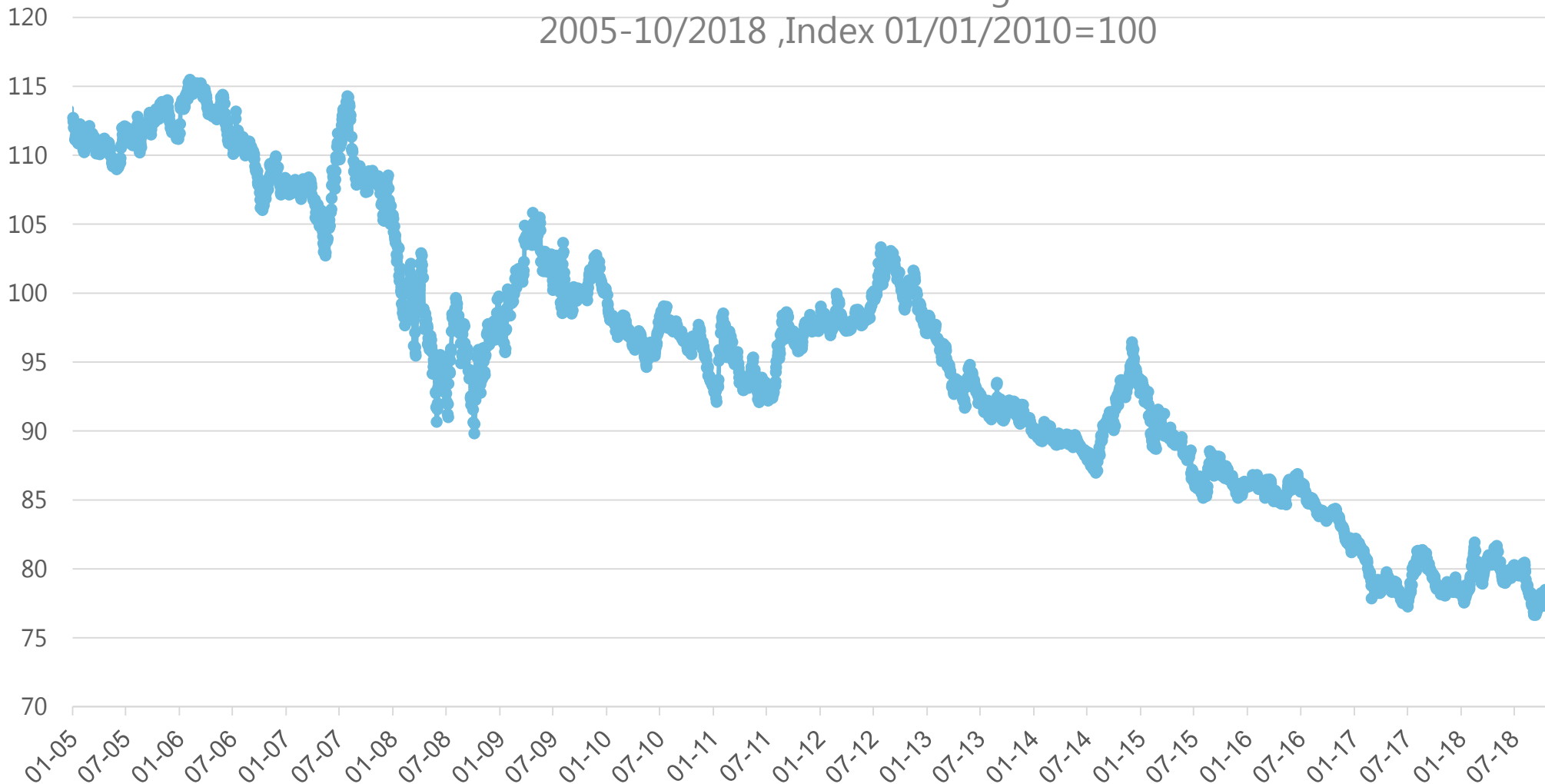


Source: Bol & CBS



The Shekel was strengthening – excessively?

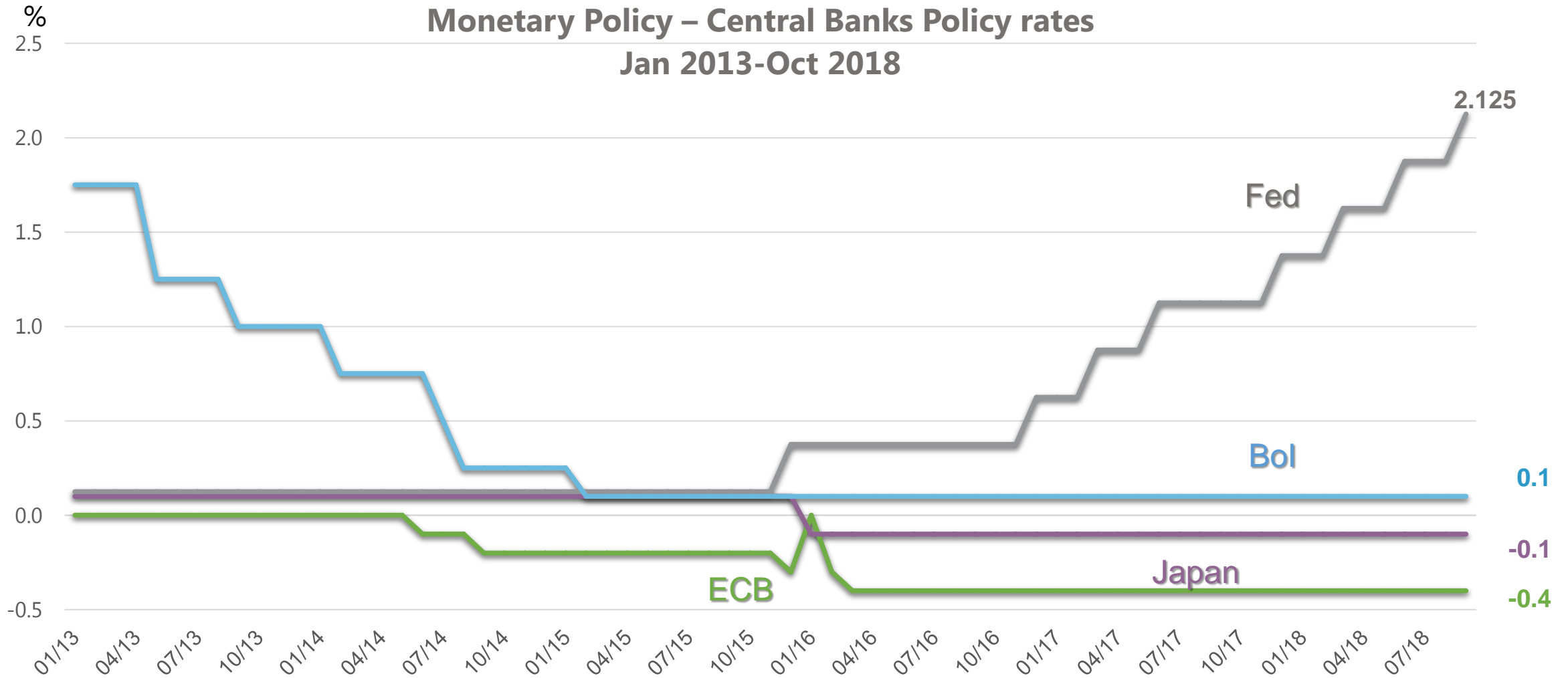
Nominal Effective Exchange Rate
2005-10/2018 ,Index 01/01/2010=100



Source: BoI

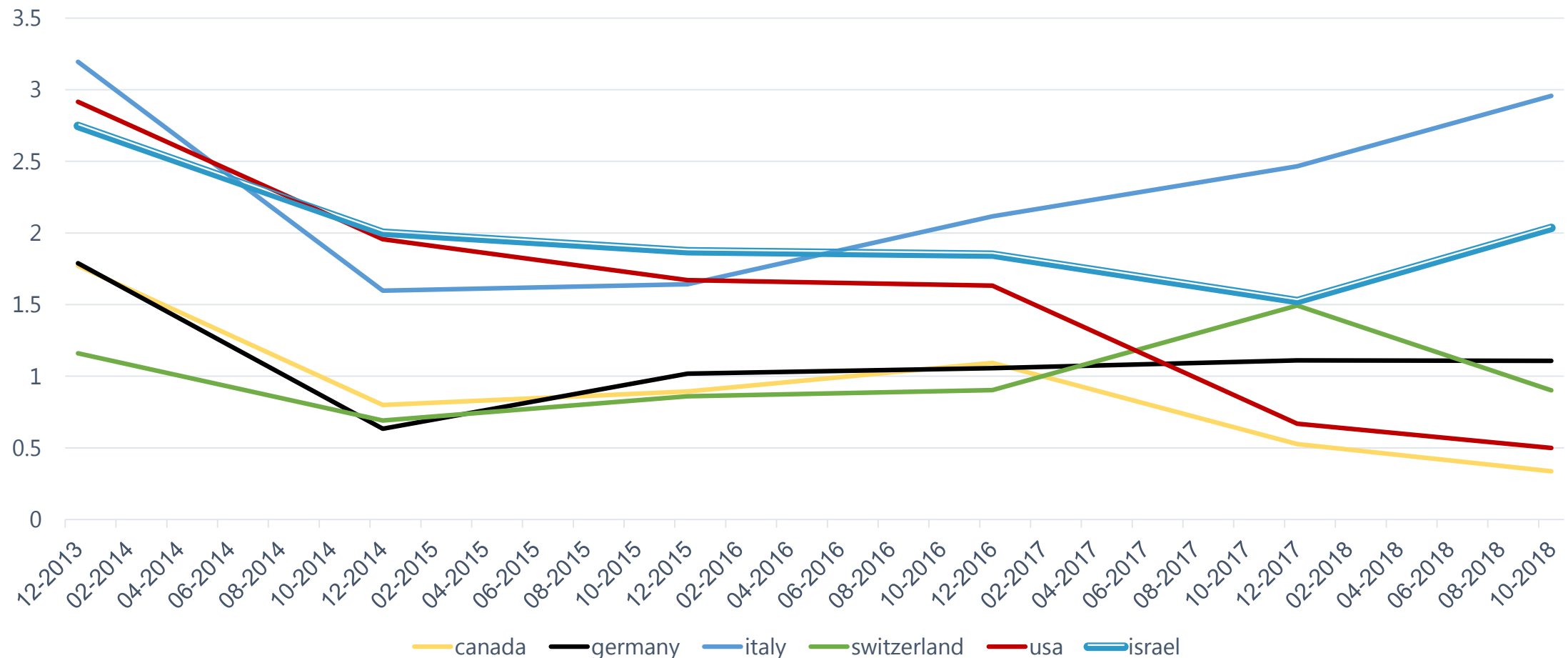


Strong Head Wind coming from Expansionary Monetary Policy abroad



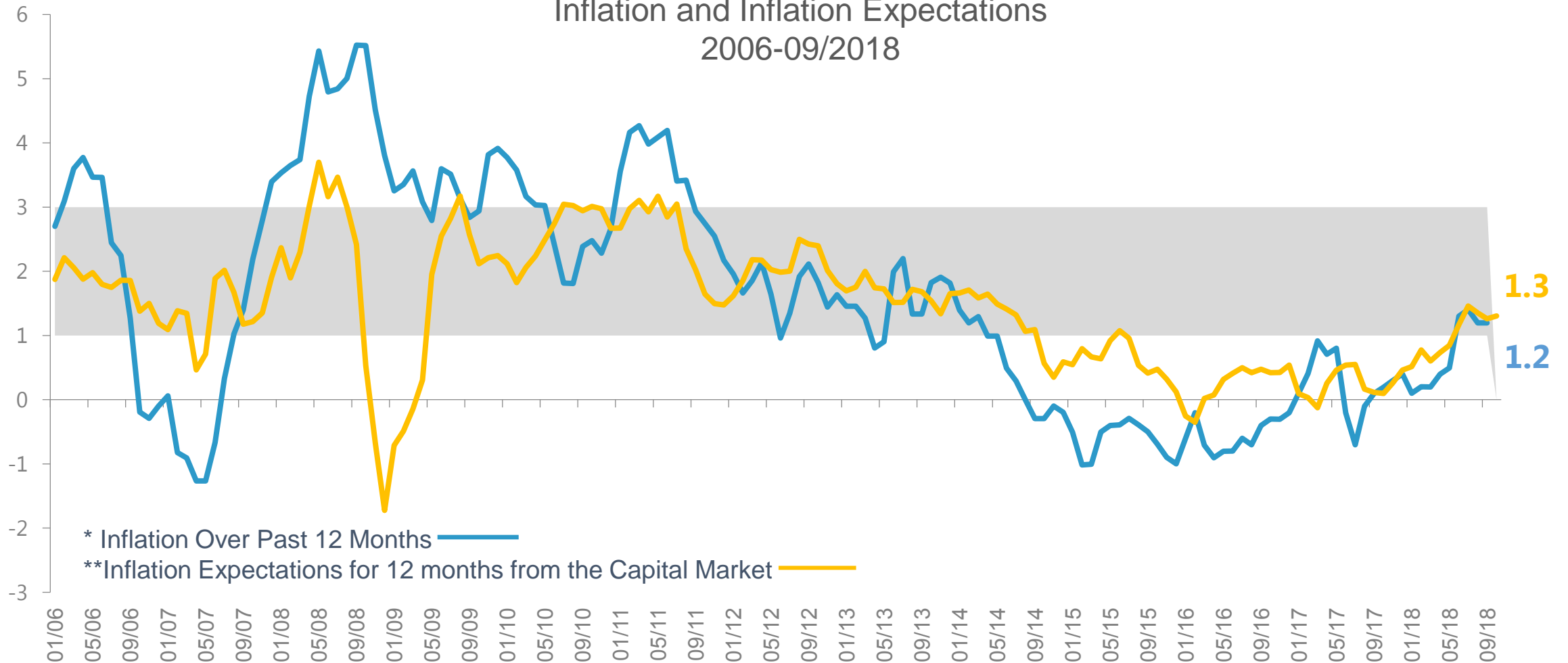
More Aggressive Monetary Expansion abroad was also reflected on the steeper yield curve in Israel compared to relevant countries

Spread between the one year and 10 year government bonds 31/12/2013-25/10/2018



ST Inflation expectations fell out of range but have lately returned to within the target range

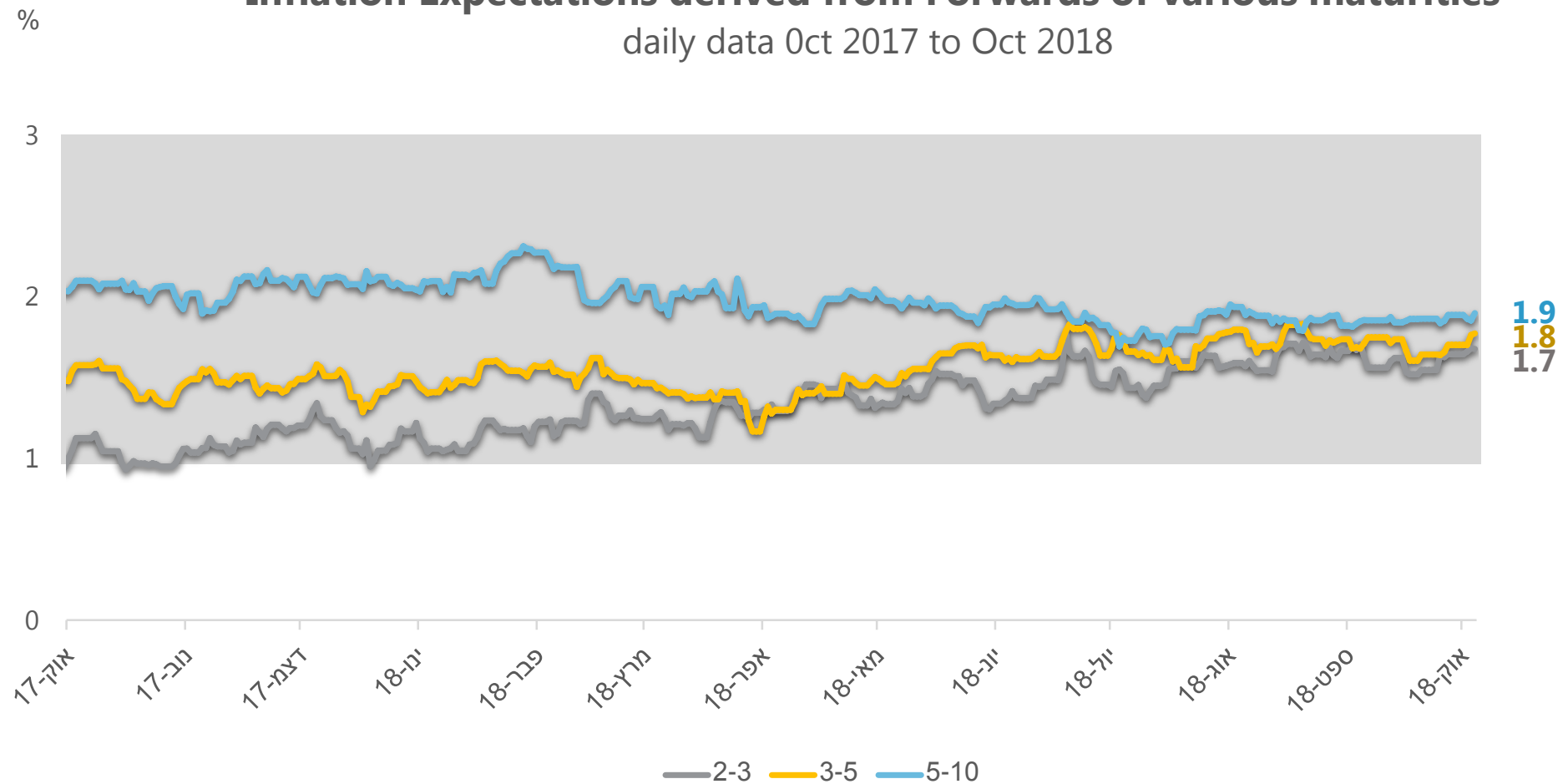
Inflation and Inflation Expectations
2006-09/2018



Medium to LT inflation expectations remained anchored

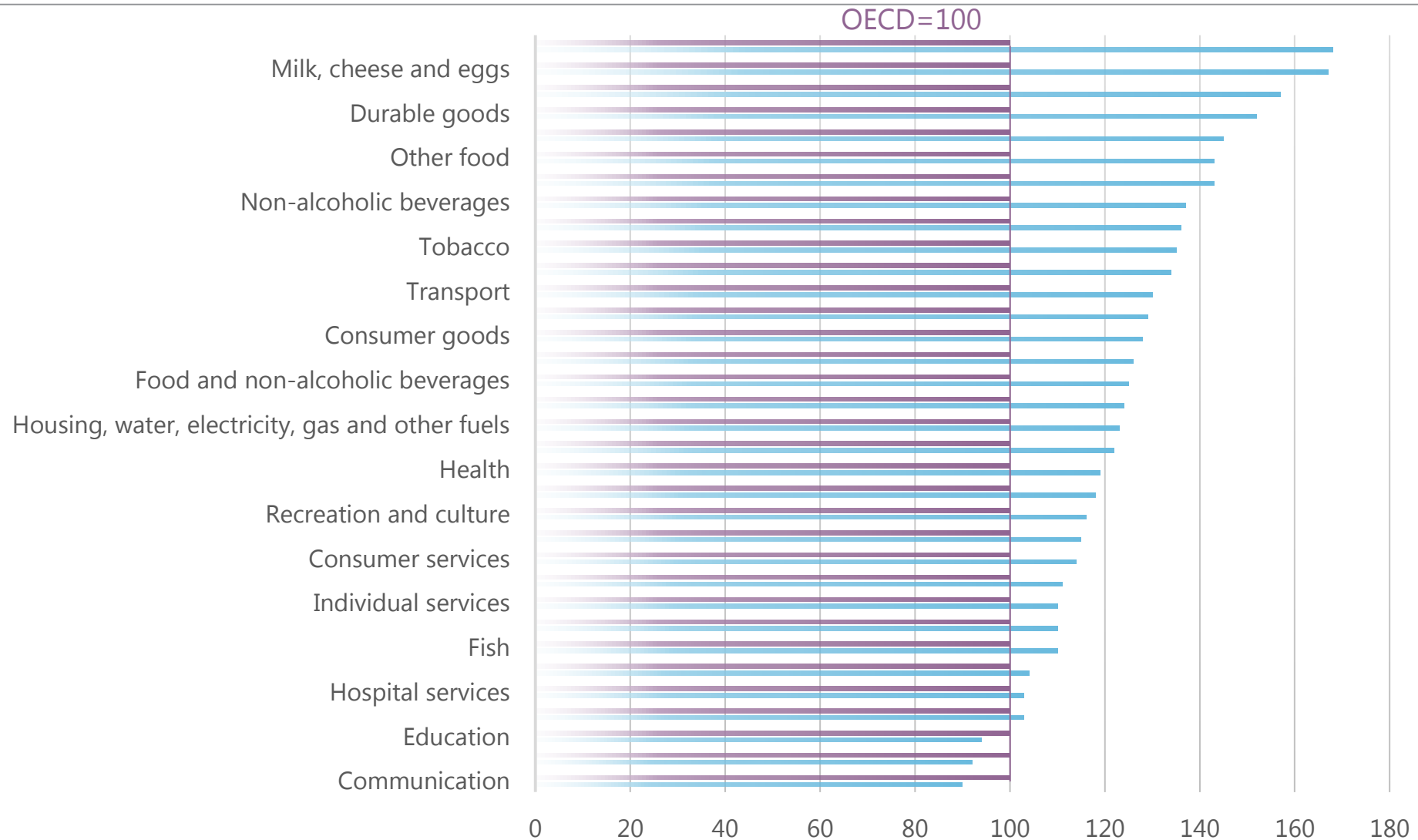
Inflation Expectations derived from Forwards of various maturities

daily data Oct 2017 to Oct 2018





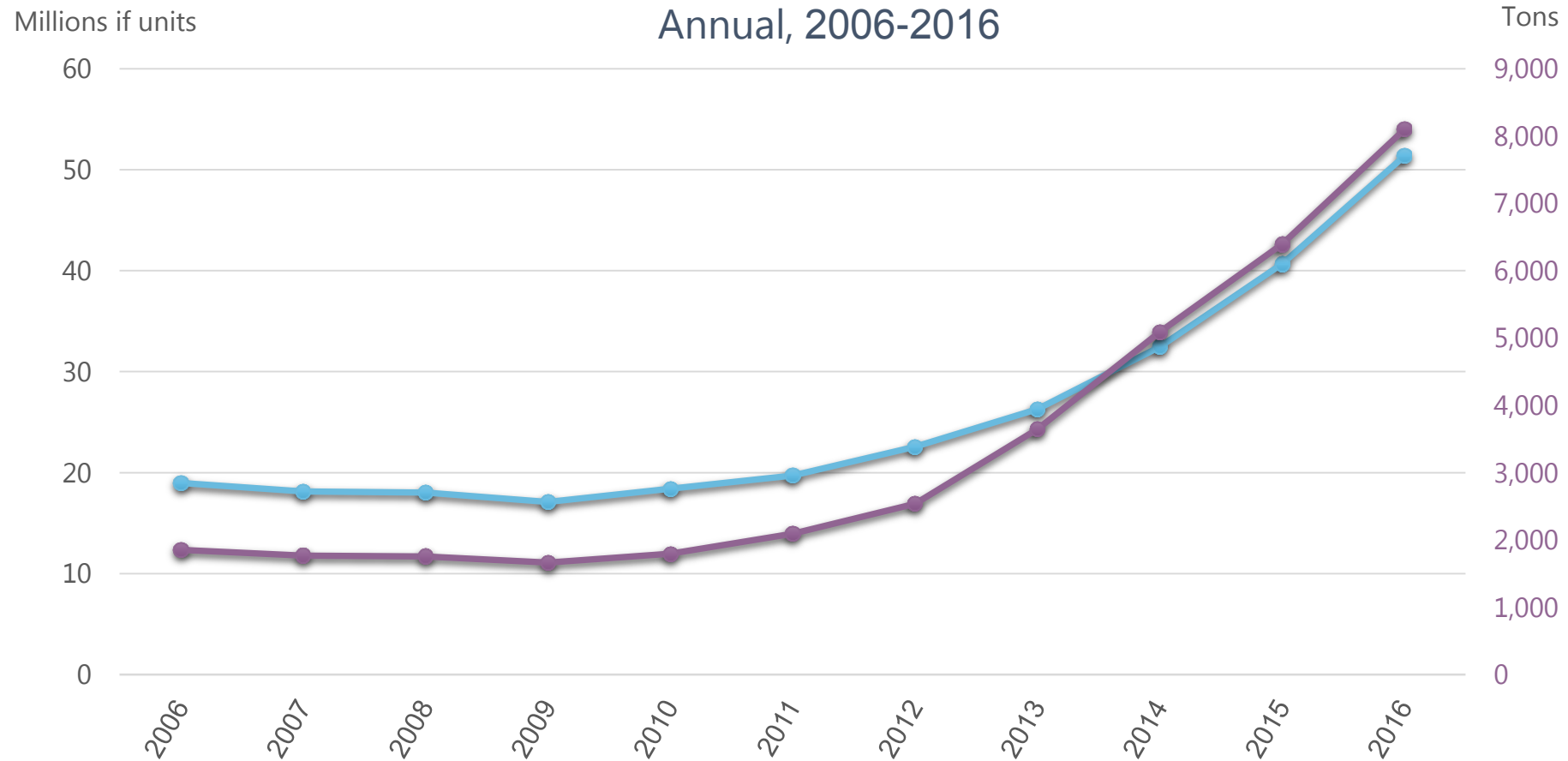
Structural changes: Israeli Consumers Face High Prices, 2014





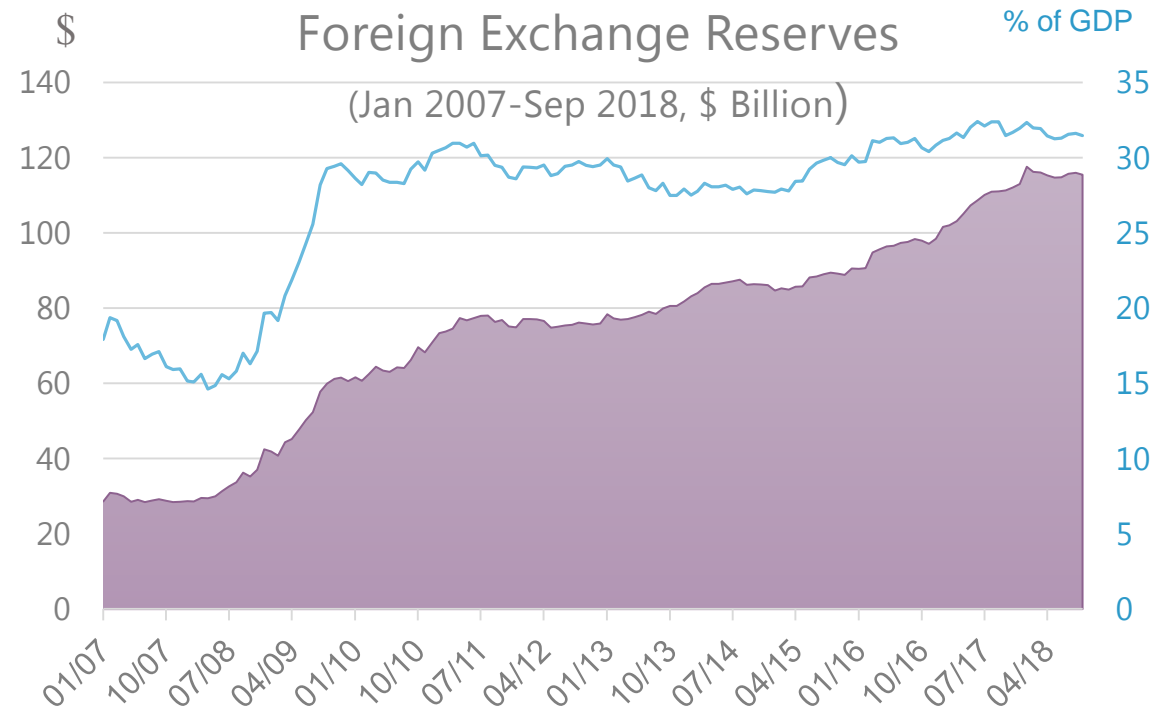
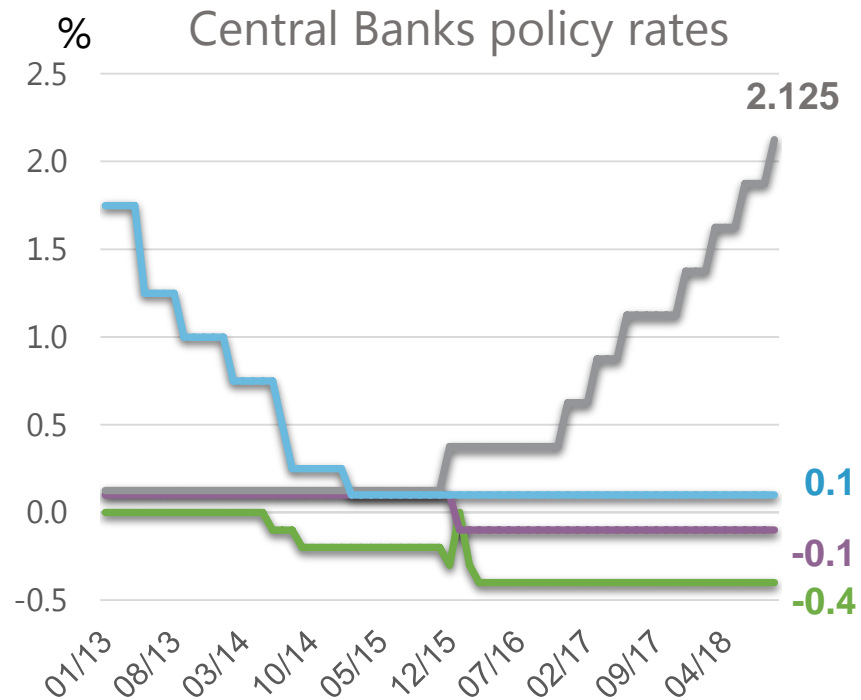
The expansion of personal imports from abroad in recent years as part of a change in consumer behavior

An increase in the transfer of packages
from abroad to Israel
Annual, 2006-2016





Monetary Policy Response: low interest rate for longer, FX intervention to stop momentum and FG to keep markets informed



FORWARD GUIDANCE:

“The Monetary Committee intends to maintain the accommodative policy as long as necessary in order to entrench the inflation environment within the target range”



Past and Future

1. Monetary Policy was not as expansionary as it was in other regions
 - a) Solid Economic growth
 - b) Low inflation was in part transitory
 - c) Rising wages did not generate inflation due in part to the decoupling of producer and consumer prices
 - d) Welcome structural changes that reduced consumer prices in Israel allowed the MPC for a less aggressive monetary stance
 - e) Corporate and Consumer debt as a % of GDP did not rise significantly;
2. On the road to normalization, could we face the reverse situation?
3. Price Stability is still of the utmost importance for a well functioning market economy



Thank you!