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The Monetary Committee decides on November 22, 2021 to keep the interest rate unchanged at 0.1 percent

22/11/2021

Monetary policy and inflation - interest rate and policy decisions
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- Israel is continuing to enjoy an expansion of economic activity despite still coping with the COVID-19 virus. However, there is still some uncertainty regarding economic activity in the medium term, particularly regarding the state of the labor market, and in view of the risk of further morbidity cycles in Israel and abroad.
- The CPI for October increased by 0.1 percent, and inflation over the preceding 12 months declined to 2.3 percent. To date, the only interest rate increases worldwide have been in countries where inflation deviated markedly from their targets, while inflation expectations in Israel are within our target range, and based on forecasts by the Bank of Israel Research Department and by forecasters, the inflation rate is expected to be lower in 12 months from now.
- Following rapid economic growth in the second quarter, which reflected the process of exiting the crisis, the first estimate of National Accounts data for the third quarter indicates that economic growth slowed, to an annual rate of 2.4 percent. However, growth in the past four quarters was about 6 percent.
- During the reviewed period, there was a sharp appreciation of the shekel. The Bank of Israel has completed the $30 billion purchasing program that the Monetary Committee announced at the beginning of the year. However, the Committee emphasizes that this is not an upper bound for intervention, and that the Bank continues to act taking into account the state of the economy and the continuation of economic activity.
- Labor market data show that the economy is facing some difficulty returning to the employment and unemployment levels that were typical of the precrisis period. While the broad unemployment rate declined to about 7 percent in October, the employment rate remained stable.
- Home prices increased by about 10 percent in the past 12 months, a high rate compared to previous years. The annual rate of increase of rental prices remained relatively moderate.
- In the global economy, the trend of recovery continues, but there are increasing signs of a slowdown in the growth rate. The global inflation environment remains high and continues to increase, although the central banks and forecasters in the major economies do not expect a significant portion of the increase to persist. Accordingly, monetary tightening around the world is continuing.
- The Bank of Israel will complete its purchases of government bonds in the markets during December, which will bring to an end the bond market intervention programs that were announced during 2020.

The Israeli economy's process of recovery from the crisis continues. However, there are still challenges to economic activity. The Committee will therefore continue to conduct an accommodative monetary policy for a prolonged time, in accordance with the pace of growth, employment, and the path of inflation. This is in order to continue supporting the attainment of the policy targets and the recovery of the economy from the crisis, and to ensure the continued orderly functioning of the financial markets.

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

Israel is continuing to enjoy an expansion of economic activity despite still coping with the COVID-19 virus. However, there is still some uncertainty regarding economic activity in the medium term, particularly regarding the state of the labor market, and in view of the risk of further morbidity cycles in Israel and abroad.

Since the previous interest rate decision, there has been some slowdown in the rate of increase in inflation (**Figure 1**). The CPI for October increased by 0.1 percent—less than expected—following a 0.2 percent increase in September. Inflation in the past 12 months was 2.3 percent in October (2.1 percent net of energy and fruit and vegetables; **Figure 2**). The year over year rate of increases in the prices of nontradable components continues its upward trend, while the year over year rate of increase of prices of tradable components declined in October (**Figure 3**). The upward trend in one-year inflation expectations from all sources continues, with expectations within the target range. However, there is a marked gap between expectations derived from the capital market, which are near the upper bound of the target range, and those of the professional forecasters and the banks, which are lower (**Figure 4**). Medium- and long-term expectations increased during the reviewed period, and are within the target range (**Figure 5**). The Monetary Committee continues to closely monitor these developments, and maintains its assessment that there is no concern of an inflationary outbreak. Since the previous interest rate decision, the shekel strengthened by 4.4 percent against the US dollar, by 5.7 percent in terms of the nominal effective exchange rate, and by 6.4 percent against the euro (**Figure 6**).

After the rapid expansion of the economy in the second quarter, reflecting the process of exiting the crisis, the first estimate of National Accounts data for the third quarter indicates that economic growth slowed to an annual rate of 2.4 percent (**Figure 13**). The slowdown in growth was affected by declines in exports and government consumption, and by volatility in vehicle imports. However, growth over the past four quarters was approximately 6 percent (**Figure 14**). In addition, since the beginning of the year, there has been an accelerated increase in tax revenues. According to the Central Bureau of Statistics Business Tendency Survey, the overall net balance of the business sector in October increased, and is now at a level similar to its precrisis level (**Figure 15**). Goods exports (excluding ships, aircraft, and diamonds, in US dollars) declined slightly in October. However, they remained higher than the prevalent precrisis level. Services exports moderated slightly in August, but are at a high level (**Figure 18**). Goods imports are continuing their upward trend, and are at high levels in all components (**Figure 20**).

Labor market data show that the economy is facing some difficulty returning to the levels that were typical of the precrisis period. While the broad unemployment rate declined to about 7 percent in October (**Figure 21**), this was due to a decline in the number of COVID-19 absentees (furlough), while the rate of those unemployed remained stable. At the same time, there was a decline in the number of participants in the labor force (for reasons other than COVID-19), so that there was no increase in the employment rate itself. Following the rapid increase in the first half of the year, the adjusted employment rate (for those aged 15+) has ranged around 59 percent from the second half of July to the end of October, reflecting a gap of about 150,000 employed persons compared with the average employment rate in 2019. Alongside the lack of increase in actual employment, the number of job vacancies continued to increase, to about 143,000 in October (**Figure 23**). The increase encompasses many industries, notably those hard hit by the crisis (food and hospitality) and those where demand remains high (such as communications). The excess demand for labor has thus far not been reflected in an increased pace of growth in the average wage (**Figure 26**). Recently there has been increasing certainty regarding wages thanks to the “package deal” that regulates future wage increases in broad parts of the economy.

Home prices increased by about 10 percent in the past 12 months (**Figure 10**), a high pace compared to previous years. The volume of mortgages taken out in October was lower than the peak figures of the previous months, but it remains high, further to the high mortgage volumes since the beginning of the year (**Figure 11**). Alongside these, the annual rate of increase in rental prices remained relatively moderate.

In the domestic capital market, equity prices continue to increase, more than recorded in the main equity indices abroad (**Figure 35**). Government bond yields and corporate bond spreads declined and are at low levels (**Figure 9**). The credit market continues to function well, with stable and low interest rates. The Central Bureau of Statistics Business Tendency Survey shows that financing difficulties among businesses of various sizes remain at levels similar to those prior to the crisis (**Figure 12**). In response to the COVID-19 crisis, the Bank of Israel utilized special policy tools. The economy’s recovery from the crisis makes it possible to end the corporate and government bond purchase programs in December. These programs helped with the orderly functioning of the markets, the strengthening of the transmission from monetary policy to the credit market, the reduction of the interest rate at which companies raised credit in the capital market, and the allocation of additional sources to credit for all industries.

The global economy continues its trend of recovery. However, the level of global GDP remains lower than that derived from the precrisis forecasted growth path, and there are increasing signs of some slowdown in the growth rate. Various investment houses revised their growth forecasts slight downward for the US and China (**Figures 27**). The global Purchasing Managers Index continues to indicate economic expansion, particularly in the services sector (**Figure 29**). The volume of world trade moderated, but remains at relatively high levels of activity (**Figure 28**). The main equity indices increased sharply and corporate bond spreads remained low. The disruptions in the production and supply chains continue, but oil prices fell and shipping costs declined slightly during the reviewed period, which may signal the start of a change. The global inflation environment continued to increase and remains high. In some countries, the inflation indices are increasing to levels higher than their central bank targets, but the central banks and forecasters in the major economies do not expect a significant portion of the increase to persist (**Figure 31**). With this, monetary tightening around the world continues. In the US, there was a further increase in inflation, to a year-over-year level of 6.2 percent, third quarter growth was lower than in previous quarters, and the labor market continues to recover gradually. The Federal Reserve left the federal funds rate unchanged, and announced a contraction in its bond purchasing program. In Europe, there was an increase in morbidity, and some countries began imposing restrictions that may slow the growth rate. Inflation continues to increase, and the ECB left its interest rate unchanged. In China, the growth rate was low, and the slowdown in economic activity continued, particularly in industrial production. There were interest rate increases in a number of countries where inflation markedly deviated from the central bank target (**Figure 32**).

The minutes of the monetary discussions prior to this interest rate decision will be published on December 6, 2021. The next decision regarding the interest rate will be published at 16:00 on Monday, January 3, 2022, followed by a press briefing by the Governor.