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The Bank of Israel announces an additional set of steps to expand the monetary response to the coronavirus crisis

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The Monetary Committee decided today on an additional set of steps, the goal of which is to continue assisting the economy in dealing with the coronavirus crisis. The range of tools is intended to increase the extent of monetary policy accommodation, to ensure the continued orderly functioning of the financial markets, and to support the monetary passthrough mechanism to credit in the economy.

The Committee's decisions:

1. The Bank of Israel, for the first time, launches a plan to purchase corporate bonds on the secondary market

For the first time, the Bank of Israel will begin purchasing corporate bonds on the secondary market. The goal of the plan is to ensure the continued orderly functioning of the corporate bond market, and to strengthen the passthrough from monetary policy to the credit market, by reducing the interest rate at which companies issue credit in the capital market, and making additional sources of credit available for all industries.

The Bank will purchase bonds at a scope of NIS 15 billion on the basis of a broad benchmark of securities. The benchmark includes only companies rated A- and higher, and does not include foreign companies' bonds, bonds with an equity component, or bonds that are not indexed to the shekel and are not fixed rate. The market value of corporate bonds in Israel is approximately NIS 341 billion, and the benchmark covers 75 percent of the market.

2. Renewal of the special plan to expand the supply of bank credit to small businesses

The Bank of Israel is renewing the plan under which it will provide the banking system with fixed-rate loans at a 0.1 percent interest rate, for a term of 3 years, with the goal of increasing the supply of bank credit to small businesses, and to assist them in getting through the coronavirus crisis.

On April 6, 2020, the Monetary Committee decided to implement a plan through which the Bank of Israel would provide banks with loans at a 0.1 percent interest rate, for a term of 3 years, contingent on their providing credit to small businesses. The plan was in operation until the end of May, and through it, banks were provided with loans at a scope of NIS 4.6 billion against credit extended by the banks to those businesses.

The Monetary Committee decided to renew the plan without limitation on the total amount of the loans, and to keep it in operation until further notice. The remaining provisions of the plan will not change: The loans will be provided in accordance with criteria determined in the previous plan, for a term of 3 years, at a 0.1 percent interest rate, and every amount extended by the banking system as new credit to small businesses will be eligible for financing under this plan.

3. Creating an infrastructure for expanding the range of assets that the banks can put up as collateral against credit in the special plan

In order to ensure the continued flow of credit and particularly in the scenario of an additional increase in the severity of the economic situation, the Bank of Israel will establish an operational and legal infrastructure to enable banks to put up mortgage portfolios as collateral against credit under the special plan (in addition to highly liquid assets such as government bonds).

This infrastructure will enable banks to extend credit under this plan at lower cost while maintaining high liquidity.



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