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# Lecture by Andrew Abir, Deputy Governor and Member of the Bank of Israel Monetary Committee, on monetary policy during the corona crisis

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Speeches by the Deputy governor and Management
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Bank of Israel Deputy Governor Andrew Abir, a member of the Bank of Israel Monetary Committee, delivered a lecture today at the Meitav Dash investment house conference, and discussed the monetary policy conducted by the Bank of Israel during the corona crisis.

. In addition, Abir surveyed the state of the real economy. He emphasized that the corona crisis began with the Israeli economy in relatively good shape, in view of the low debt-to-GDP ratio that had been constantly declining in recent years, a current account surplus, GDP growth at the potential rate, and a tight labor market (Slide 4). Abir noted that GDP growth in Israel in recent years was strong compared with the other advanced economies, but that in terms of per capita GDP growth, the increase could not keep up with the other advanced economies. One of the reasons for this is the low productivity of the Israeli worker, and the need to increase that productivity is the main economic challenge in Israel in the coming decade.

Due to the effect of the corona crisis in Israel and around the world, 2020 will feature a recession in the global economy, but a rapid recovery is expected in 2021 both in Israel and in the rest of the world (Slides 5 and 6). However, in a scenario where there is a significant second wave or if the pandemic worsens, the negative economic impact in Israel and abroad will be significantly stronger.

In relation to the effect of the corona crisis on economic activity, Abir reviewed the shut-down rate in each of the principle industries according to Bank of Israel assessments, the strong impact of the crisis on the labor market, the significant impact on the weaker sections of the population, the increase in the unemployment rate, and the massive amount of workers being put on unpaid leave. Abir discussed the effect of the government programs and the gradual return to work of employees (Slides 7 and 8).

Abir noted that the special nature of the crisis and the need to set economic policy in a constantly fluid situation emphasized the Bank's need for rapid information that could illustrate the needs of the public and of the economy in real time, and enable policy-making accordingly. In view of this, the Bank developed a series of "rapid indicators", including: credit card expenses in various industries based on data from Shva—which makes it possible to identify the negative impact in each industry; reports on public movement trends, based on data from Google and Apple; and data on electricity consumption, from the Israel Electric Company (Slides 11 and 12).

He also discussed the steadfast, active, ad rapid monetary policy management by the Bank of Israel during the corona crisis, in view of the sharp declines in the markets, the increasing costs of credit in the economy, and the liquidity distress in the markets. The purpose of such policy management was to minimize the extent of damage to the economy and to put it back on track. Abir noted that the Bank of Israel's activity beyond monetary policy focused on two other central issues: credit and payments, and economic advice to the government (Slide 17). As part of the assistance to the economy in dealing with the crisis, Abir noted that the development of significant exposure on the part of institutional investors to foreign derivatives, alongside demands for collateral on the part of foreign parties with whom the institutional investors carried out transactions against existing positions led to a shortage of dollars in the economy. This required immediate involvement by the bank of Israel to help prevent a further deterioration in the dollar/shekel swap market. The situation in Israel relating to this market was more unusual than in most of the world. Abir noted that the liquidity that was supplied to the foreign exchange market is temporary, and that the Bank of Israel expects market participants to arrange things so that they are not exposed in the same manner to dollar financing needs.

The Bank of Israel also identified a liquidity problem in government bonds, which had an effect on the higher cost of credit in the economy. Here too, the Bank of Israel chose to act aggressively and committed to purchase about NIS 50 billion in government bonds—three times as much as the Bank's intervention in the 2008–9 crisis. Abir noted that the Bank's high foreign exchange reserves are what enable these aggressive actions, and that they are a strategic asset for the Israeli economy. In addition, if the crisis worsens, the Bank has the ability to increase the existing programs or to implement new ones such as the purchase of corporate bonds should it be necessary (Slides 19–24).

In his conclusion, Abir discussed the challenges to the economy looking forward. A significant challenge is the deficit in the state budget in the coming years, and the need to return to a path that will enable a reduction in the debt-to-GDP ratio, which has increased due to the crisis, once it is shown that the state of the economy has returned to strength (Slides 26 and 27). In this context, Abir noted that the government now has very easy financial terms for financing its debt (Slide 28).

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