



Publications

# The Bank of Israel puts additional monetary instruments into operation: A plan to increase the supply of credit to small businesses, and repo transactions with corporate bonds as security

Press Releases

06/04/2020

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Monetary Committee Publications

1. The Bank of Israel offers banks a plan to increase the supply of credit to small businesses. The size of the plan will be NIS 5 billion.

Speeches and Presentations

About the Spokesperson's Office

The Bank of Israel will provide the banking system with fixed-rate loans at 0.1% 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 and returning to full activity when it becomes possible.

Legislation and Regulations

In view of the low level of the Bank of Israel interest rate, the Monetary Committee is examining ways to bring about an effective reduction of the interest rate on credit to small businesses, beyond what can be reduced by the change in the interest rate decided on by the Committee on April 6, 2020. On March 23, 2020, the Committee put into operation an additional monetary instrument—buying government bonds—that is expected to reduce the costs of credit to the economy, however it may be that this instrument will impact mainly on credit to large companies through its effect on corporate bonds yields, and the pass-through to the interest rate on credit for small businesses is likely to be limited. Providing a loan to banks at 0.1% interest rate for a term of 3 years that will be dependent on extending credit to small and micro companies based on criteria that will be defined, provides an incentive for the banks to extend credit to those businesses, and thus increases the pass-through from the general interest rate in the economy to the interest rate paid by small businesses, and improves the efficiency of the monetary policy.

The plan will be into operation until the end of May, and its scope will be NIS 5 billion. Every amount extended by the banking system as new credit to small and micro businesses will be eligible for financing within the framework of this plan. The plan will create inexpensive sources for the banks to extend credit to small businesses, notwithstanding the increased costs of financing created in recent weeks as a result of the increase in bank bond yields, against the background of the increase in risk characterizing the economy at this time.

Further details will be published in a circular to the banking corporations.

2. The Bank of Israel expands the repo tool so that it will include corporate bonds as security as well.

Beginning tomorrow, the Bank of Israel will for the first time accept, in addition to government bonds, corporate bonds rated AA or higher, within the framework of repo transactions vis-à-vis the financial entities

The goal of the expansion of the range of securities is to provide flexibility to entities authorized to make use of this tool and to ensure the Bank of Israel's ability to supply shekel liquidity in the financial system.



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