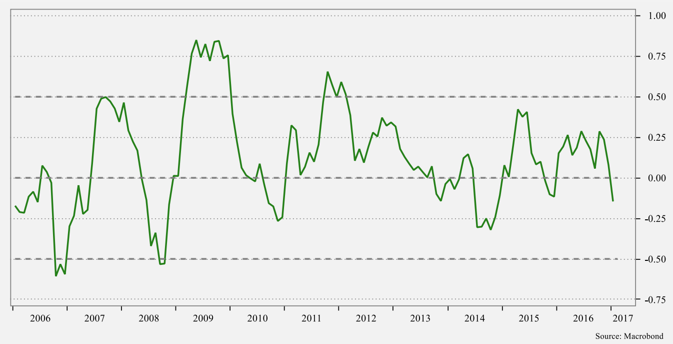
Bank of Israel

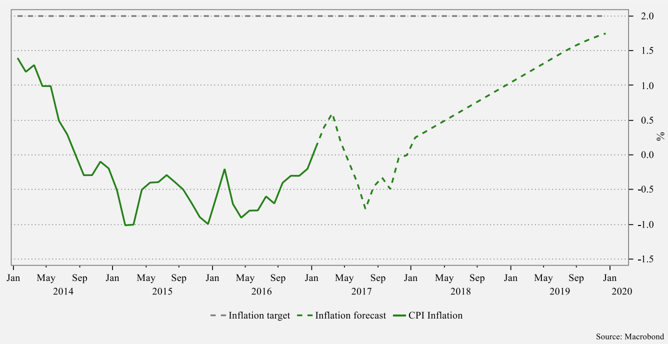
Monetary conditions are broadly neutral, but BoI struggles at the ‘Zero Lower Bound’

- The Bank of Israel (BoI) has essentially kept monetary conditions ***broadly neutral*** in recent years, but supply side factors have kept inflation below the BoI’s 2% inflation target.
- However, given our composite indicator for Israeli monetary conditions is slightly below zero we would expect inflation to return to just below 2% in the coming 2-3 years. We forecast Israeli inflation at -0.1%, 0.6.% and 1.4% in 2017, 2018 and 2019 respectively given present monetary conditions. This is close to market expectations.
- Even though monetary conditions are broadly neutral it is clear that the BoI is struggling with the fact that the key policy rate is more or less stuck at the *Zero Lower Bound* meaning that if additional monetary easing would be warranted then it would have to happen through quantitative easing or FX intervention.

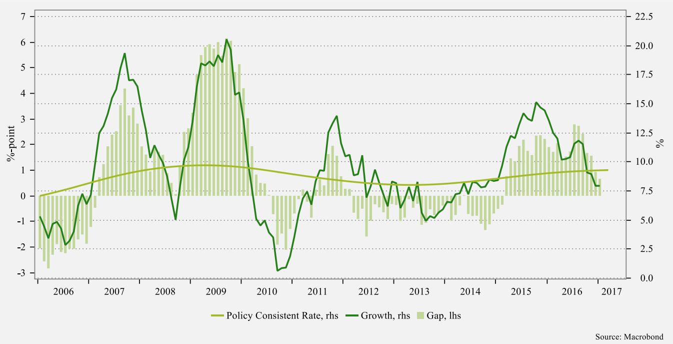
Composite Indicator



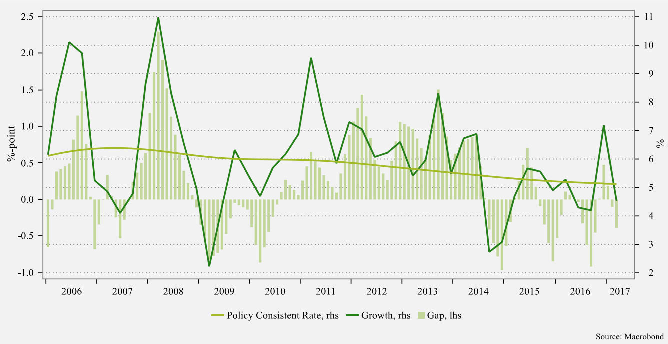
Inflation (%y/y)



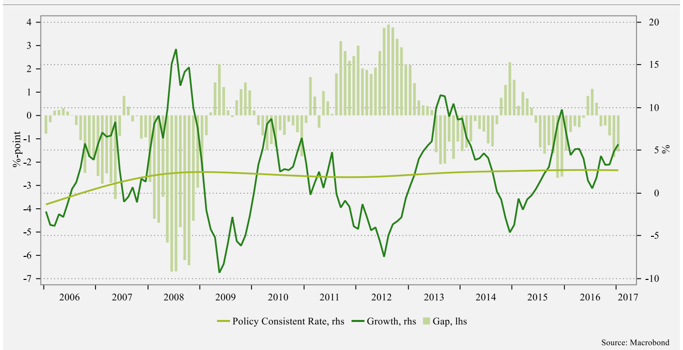
Broad Money Supply (%y/y)



Nominal GDP (%y/y)



Exchange Rate Development (%y/y)



Key Policy Rate (%)