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

![Composite Indicator Graph](image)

### Inflation (%y/y)

![Inflation Graph](image)

### Broad Money Supply (%y/y)

![Broad Money Supply Graph](image)

### Nominal GDP (%y/y)

![Nominal GDP Graph](image)

### Exchange Rate Development (%y/y)

![Exchange Rate Development Graph](image)

### Key Policy Rate (%)

![Key Policy Rate Graph](image)