



November 25, 2015

Summary of Monetary Committee discussion on November 23, 2015 regarding the management of the foreign exchange reserves

Annual update of the numeraire

Background:

The numeraire is the currency basket used to measure the return on the foreign exchange reserves and is thus the neutral currency composition of the reserves, and serves as an anchor for the management of the currency risk of the Bank of Israel's foreign exchange reserves. In accordance with the guidelines outlined by the Monetary Committee, the composition of the numeraire is examined annually by the Market Operations Department. In order to maintain the purchasing power of the reserves in terms of their potential uses, the numeraire composition is set based on the potential use of the reserves in an emergency situation and on assessments of the liquidity of the currencies which can be invested in. This distribution is examined in light of the distribution of reserves of countries worldwide.

In December 2012, the currency distribution of the numeraire was set with the following weights: 63 percent dollar, 34 percent euro, and 3 percent British pound. In the annual updates for 2013 and 2014, the Monetary Committee examined the composition and decided to leave it unchanged. Due to changes in exchange rates, the actual currency distribution of the numeraire is currently 68 percent dollar, 29 percent euro, and 3 percent British pound.

At the end of October 2015, the Market Operations Department examined the currency composition of the components of the potential uses of the reserves through an assessment of the liquidity of the currencies in which the reserves can be invested, and the distribution of reserves of countries worldwide. The Department also examined various scenarios for potential uses in emergency or crisis situations. The examination indicated that the required currency composition, based on updated data, is not substantially different than the current currency composition of the numeraire, and that there has been no change in the liquidity of the major currencies and in the global distribution of reserves.

In accordance with the results of this examination, the Market Operations Department recommended that the Monetary Committee leave the distribution of quantitative weights of the numeraire currencies unchanged.

The Committee discussed the Department's recommendation and expressed its preference of maintaining stability in the numeraire composition when there is no significant change in the

composition derived from the examination conducted by the Market Operations Department, like this year's examination.

Monetary Committee Decision:

The Committee approved the recommendation unanimously.

Participants in the discussion:

Members of the Monetary Committee

Dr. Karnit Flug, Governor of the Bank of Israel, Chairperson

Prof. Reuben Gronau

Prof. Nathan Sussman, Director of Research Department

Monetary Committee members absent:

Dr. Nadine Baudot-Trajtenberg, Deputy Governor

Other participants in the discussion:

Andrew Abir, Director of Market Operations Department

Tal Biber, Head of Markets Division in Market Operations Department

Francoise Ben-Zur, Head of Financial Division in Market Operations Department

Golan Benita, Head of Strategic Management Unit in Market Operations Department

Guenia De Mayo, Head of Risk Management Unit in Market Operations Department

Daniel Hahiashvili, Chief of Staff to the Governor

Mark Yohai, Senior Economist in Strategic Management Unit in Market Operations Department

Roe Levy, Economist in Risk Management Unit in Market Operations Department

Yoav Soffer, Bank of Israel Spokesperson

Ilan Socianu, Assistant to Secretary of the Monetary Committee and the Supervisory Council

Nitzan Shinar, Economist in Risk Management Unit in Market Operations Department