

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

March 19, 2024

**Press release:**

The annual report on the investment of Israel's foreign exchange reserves for 2023 was published today.[[1]](#footnote-1) Following are the main points in the report:

**Report on the Investment of Israel's Foreign Exchange Reserves in 2023**

**“In 2023, the foreign exchange reserves increased by $10.5 billion, to a total of $204.7 billion. The increase in the foreign exchange reserves was impacted primarily by mark to market adjustments of about $16.8 billion, which include, among other things, capital gains from equity holdings as well as capital gains and interest income from bond holdings. With the eruption of the war, the Bank of Israel implemented a foreign-exchange sale program that helped to stabilize the foreign exchange market and financial markets. The high level of the foreign exchange reserves is a strategic asset that provides maneuvering room for maintaining the financial stability while reducing the uncertainty.”**

* **Dr. Golan Benita**

**Markets Department Director**

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| The level of the foreign exchange reserves and source of their change | In 2023, the foreign exchange reserves increased by $10.5 billion, to a total of $204.7 billion, notwithstanding foreign exchange sales of $8.5 billion. This increase was derived mainly from capital gains on equity holdings as well as capital gains and interest income from bond holdings. |
| The asset allocation of the foreign exchange reserves | As of the end of 2023, the asset allocation of the foreign exchange reserves was 54 percent in government assets, 21 percent in equities, 15 percent in spread assets, and 10 percent in corporate bonds. |
| Economic and financial conditions | During the course of 2023, global financial markets were volatile, impacted mainly by market assessments regarding the development of inflation, the expected path of central bank interest rates, and the effect of this path on economic activity worldwide. Alongside these factors, markets were impacted by a marked increase in risk to banking sector stability due to difficulties at several banks in the US and Europe, as well as by an increase in geopolitical risk, in view of the concern of an eruption of a regional war in the Middle East. Toward the end of the year, there was a change in sentiment and markets trended upward, due to signs indicating the convergence of inflation to central bank targets, which enhanced expectations of the start of interest rate reductions by central banks. |
| The return on the foreign exchange reserves portfolio in terms of the currency benchmark | Global financial market developments were reflected in the returns on the foreign exchange reserves portfolio: the rate of return of the reserves portfolio in terms of the currency benchmark was 8.3 percent in 2023. The return in terms of the basic benchmark[[2]](#footnote-2) was relatively high compared to previous years, at 4.2 percent. The excess return in 2023 was 4.1 percent, mainly due to equity holdings. |
| **Table 1a**  **The rate of return on the foreign exchange reserves portfolio, yearly and multiyear average, in terms of the currency benchmark**  (Percent, annual terms)   |  |  |  |  | | --- | --- | --- | --- | | 5 years | 3 years | 2023 |  | | 3.0 | 1.7 | 8.3 | **Actual portfolio return** | | 1.2 | 1.3 | 4.2 | **Basic benchmark return** | | 1.8 | 0.4 | 4.1 | **Excess return** | | |
| The risk level of the foreign exchange reserves portfolio | The risk level of the foreign exchange reserves portfolio moderated this year as a result of the decline in volatility in equity markets and impacted by the increase in the risk-free interest rate that is used as a cushion to absorb losses. |
| The return on the portfolio in shekel terms | Due to the weakening of the shekel by 3.8 percent, the rate of return on the foreign exchange reserves portfolio in shekel terms totaled 12.4 percent. |
| **Table 1b**  **The rate of return on the foreign exchange reserves portfolio, yearly and multiyear average, in shekel terms**  (Percent, annual terms)   |  |  |  |  | | --- | --- | --- | --- | | **5 years** | **3 years** | **2023** |  | | 1.8 | 4.1 | 12.4 | **Reserves portfolio return: annual terms** | | -1.2 | 2.4 | 3.8 | **Change in exchange rate of currency benchmark/shekel** |   A negative sign in the change of the exchange rate indicates shekel appreciation. | |
| The “Swords of Iron” War | With the eruption of the war in October 2023, the Bank of Israel sold, for the first time, $8.5 billion from the foreign exchange reserves. The sales were carried out as part of a program that included foreign exchange sales of up to $30 billion, and the supply of liquidity totaling up to $15 billion, by implementing Swap[[3]](#footnote-3) transaction mechanisms. The program was implemented with the goal of moderating the fluctuations in the exchange rate and to provide the liquidity required for continued orderly activity of the markets. The program’s implementation, which was possible due to the high level of the reserves, made a marked contribution to maintaining the stability of the foreign exchange market and the financial markets. |

1. The Hebrew version of the report was published today. The English version will be available within several months. [↑](#footnote-ref-1)
2. Incorporates short-term government bonds in the currency benchmark currencies and with a duration of 6 months. [↑](#footnote-ref-2)
3. An agreement between 2 sides to exchange financial assets at a predetermined future date. [↑](#footnote-ref-3)