



## Summary of Monetary Committee discussion on January 17, 2018 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 September 2012, the currency distribution of the numeraire was set with the following weights: 65 percent dollar, 32 percent euro, and 3 percent British pound. In the annual updates for the following years, 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 66 percent dollar, 31 percent euro, and 3 percent British pound.

At the end of 2017, the Market Operations Department examined the currency composition of the components of the updated 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 times of emergency or financial 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 substantial 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

Mr. Andrew Abir, Director of Market Operations Department

Dr. Nadine Baudot-Trajtenberg, Deputy Governor

Prof. Reuben Gronau

Prof. Moshe Hazan

Prof. Zvi Hercowitz

**Other participants in the discussion:**

David Ettun, Economist in Risk Management Unit in Market Operations Department

Tal Biber, Head of Markets Division in Market Operations Department

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

Dr. Golan Benita, Head of Strategic Management Unit, Market Operations Department

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

Hagit Waknin, Economist in Risk Management Unit in Market Operations Department

Daniel Hahiashvili, Chief of Staff to the Governor

Yoav Soffer, Bank of Israel Spokesperson

Tali Kemel, Economist in Risk Management Unit in Market Operations Department

Dr. Sigal Ribon, Head of Monetary Division, Research Department

Esti Schwartz, Secretary of the Monetary Committee and the Supervisory Council

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