Good morning,

It is a great pleasure to open the conference sponsored jointly by the Bank of Israel, the Swiss National Bank and CEPR entitled "**Foreign Exchange Market Intervention: Conventional or Unconventional Policy?"**

Since the outbreak of the Global Financial Crisis, foreign exchange market intervention has again become a monetary policy instrument for central banks in various open economies around the world.

The Bank of Israel renewed its intervention in the foreign exchange market in March 2008, after a decade of no such intervention whatsoever. The reasons for this policy change included a low level of foreign exchange reserves and a large and rapid appreciation of the NIS in the wake of significant repatriation of foreign investments by Israelis in apprehension of the escalating global financial crisis. During the remainder of 2008 and until September 2009, as a response to the financial crisis and the extremely accommodative global monetary policy, the Bank intervened with fixed amounts of purchases – 25 million and later increased to 100 million dollars a day.

Since September 2009, as the acute phase of the crisis waned, the Bank has moved to a policy of discretionary interventions along with setting the key monetary policy interest rate.

According to this policy, which is still in place today, the bank intervenes when fluctuations of the ER are inconsistent with the economic fundamental forces. Accordingly, the Bank absorbs the necessary liquidity from the market in order to maintain the declared level of interest - that is, the Bank conducts sterilized intervention.

This intervention policy should be analyzed in the context of the global background of continued ultra-expansionary monetary policy that has led to strong capital inflows and to currency appreciation in countries that enjoyed strong macro-economic conditions, such as solid real growth, a stable financial system, a current account surplus, and reasonable debt to GDP ratio – as has been the situation in Switzerland and in Israel.

The continued strengthening of the NIS over the last several years has been one of the main factors behind the undershooting of the inflation target since mid-2014.

The currency appreciation also weighs on exports, which are a crucial component of Israel's economy and are central in promoting its long-term sustainable growth; the appreciation also impacts negatively on domestic industries that are forced to compete with imports that become increasingly less expensive.

The Bank of Israel uses foreign exchange market intervention to prevent, to the extent possible, unnecessarily negative effects on exports by moderating appreciation that it regards as excessive. The consistent pressure of competition in export markets is a key factor in promoting the relatively high productivity of the tradable sector and propels the growth of the economy, whether directly or by the trickling down to productivity in domestic industries. The Bank of Israel acts with the goal of moderating the appreciation that is considered excessive, but the policy is flexible enough to enable fundamental forces for currency appreciation to materialize, as in fact is reflected in the cumulative 20% appreciation in NEER since the beginning of 2009.

The weakening of the appreciation trend through the intervention also mitigates the deviation of the inflation rate from beneath its target range.

The importance of intervention in the foreign exchange market as a monetary instrument is amplified in the Zero Lower Bound environment. It may thus be regarded as a form of quantitative easing, as the demand for liquidity in very low interest rates is known to be very elastic.

In addition to the global and domestic factors noted above, the Bank of Israel decided to set a distinct program to offset the effects on the exchange rate of the natural gas production in newly discovered reservoirs, which substitute for imports of fuels (this, until s SWF will be set up, investing abroad part of the tax receipts associated with this activity). The Bank pre-announces the annual amount of foreign exchange which it intends to purchase during the year on this account.

Looking forward, based on the view and anticipation that global economic conditions are improving and that gradual withdrawal from the ultra-accommodative monetary policy has begun in some countries and is expected in the near future in others, the role of foreign exchange market interventions as an ongoing monetary policy instrument should be re-thought – is it an unconventional instrument fit for unconventional times or should it be added to the conventional toolkit of monetary policy instruments to be used also in normal times? Are forex interventions a complementary instrument to interest rates changes or a substitute? Do we actually need more than one instrument in order to achieve our macroeconomic objective - minimizing a weighted sum of the inflation and output gaps? What is the efficiency of forex interventions in the long run ? What are the costs and risks ?

Although foreign exchange rate intervention has been a prominent part of the monetary instruments tool-kit around the world for over a decade, a clear assessment concerning its effectiveness, its costs versus benefits and its overall desirability, is still lacking. A survey conducted by the BIS in 2013 among central bankers, ahead of a conference dedicated to the issue, found that approximately 80 percent of those surveyed thought that intervention was partially or completely successful, and some asserted that it had a long-term effect. In contrast, the academic literature has not come to a clear conclusion.

This conference's program for the next two days contains very promising papers by authors from both the academic world and central banks, examining both the theoretical and empirical aspects of foreign exchange market interventions. We will also have a chance to hear from our distinguished keynote speaker and from central bankers' experience during the policy panel, closing today's program.

I do hope, and am sure, that this conference, here in Jerusalem, will broaden and extend our knowledge and understanding of some of these important questions.

I wish all of us a fruitful and enjoyable conference.