



Summary of Monetary Committee discussion on January 10, 2017 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.¹ 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 69 percent dollar, 29 percent euro, and 2 percent British pound.

At the end of 2016, 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 extreme 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 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.

¹ The summaries of previous Monetary Committee discussions on the annual update of the numeraire that were held on November 19, 2014 and November 23, 2015 contained a clerical error with regard to the numeraire weights in 2012. In those summaries, it was written: 63% dollar, 34% euro, and 3% British pound, instead of 65% dollar, 32% euro, and 3% British pound. It should be emphasized that the data presented to the public in the annual reports on the foreign exchange reserves for 2014 and 2015 contained the correct data.

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

Dr. Nadine Baudot-Trajtenberg, Deputy Governor

Prof. Reuben Gronau

Prof. Nathan Sussman, Director of Research Department

Other participants in the discussion:

Andrew Abir, Director of Market Operations Department

Michael Blank, Head of Dealing 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

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

Dr. Amit Friedman, Advisor to Director of Market Operations Department

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

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

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

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