



December 24, 2013

**Summary of the Monetary Committee discussion on December 23, 2013
on management of the foreign exchange reserves**

Issues presented for the Committee's approval

1. Expanding the quarterly report to the Minister of Finance on the management of the reserves

Officials from the Ministry of Finance requested to expand the regular report on the management of the reserves which the Bank of Israel, in accordance with Section 40(c) of the Bank of Israel Law, 5770-2010, submits on a quarterly basis to the Minister of Finance. They made the request within the framework of the process of consultation with the Minister of Finance on changes to the foreign exchange reserves investment policy guidelines.

The detailed report was submitted for approval of the Monetary Committee.

Monetary Committee decision:

The Committee unanimously approved the detailed report. This report will replace the previous quarterly report.

2. Proposal to change the composition of the strategic currency position

Background:

Within the framework of the policy of reserves diversification, and their investment in countries with positive economic data, the Market Operations Department presented the Monetary Committee with a recommendation to invest 1 percent of the reserves in South Korea. This investment will increase by 1 percent the current strategic positions (about 2.6 percent) in the reserves portfolio. The Department believes that investment in South Korea, a strong and stable economy, is expected to yield a higher return than investments in the numeraire currencies. Investing in its government bonds is expected to yield a greater current rate of return because their yield curve is higher than that of the numeraire currencies. Based on equilibrium exchange rate models, the South Korean currency is undervalued, and so it is assessed that there is a chance for appreciation in the long term.

Monetary Committee decision:

The Committee unanimously approved the recommendation. The Market Operations Department will implement the recommendation when market conditions are appropriate.

The decisions were reached on December 23, 2013.

Participants:

Members of the Monetary Committee

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

Prof. Alex Cukierman

Prof. Reuben Gronau

Prof. Rafi Melnick

Prof. Nathan Sussman, Director of the Research Department

Other participants

Mr. Andrew Abir, Director of the Market Operations Department

Mr. Tal Biber, Head of Markets Division in Market Operations Department

Mr. Mickey Blank, Economist in Dealing Unit in Market Operations Department

Ms. Francoise Ben-Zur, Head of Finance Division in Market Operations Department

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

Mr. Roee Levy, Economist in Risk Management Unit in Market Operations Department

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

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

Mr. Tal Shenhav, Economist in Dealing Unit in Market Operations Department