Bank of Israel
Monetary Committee Secretariat

February 5, 2020

Report of the Monetary Committee discussion held at the Bank of Israel regarding management of the foreign exchange reserves: Increasing the credit facility of the IMF's NAB agreement

The discussion was held on February 5, 2020.

Background:
The countries participating in the New Arrangements to Borrow (NAB) agreement allocate a credit line to the International Monetary Fund (IMF), in order to expand the Fund's ability to extend credit during major crises.

The Bank of Israel joined the arrangement in March 2011, allocating a credit line facility of SDR 0.5 billion (approximately $0.7 billion). Due to the increased quotas of IMF member countries, the Fund's need for the credit lines decreased, and the Bank of Israel's credit line facility declined to SDR 0.34 billion. The utilized portion of the credit line provides the lender SDR interest, currently at a rate of 0.79 percent. This "investment" has a low currency risk[1], its impact on overall liquidity of the reserves portfolio is negligible, and it does not incorporate credit risk or reputation risk.

The current NAB agreement will end on January 1, 2021, and therefore the IMF is requesting the support of its members for the following proposed agreement: 1. To double the credit line facility, meaning, in the case of the Bank of Israel, increasing it to SDR 0.68 billion (approximately $1 billion); 2. To extend the agreement until the end of 2025; and 3. To make several changes, which are not directly related to Israel, in the credit line's terms of use.

The request to double the facility derives from the expected contraction in bilateral credit lines allocated to the IMF by several countries in the wake of the 2008 crisis, against the background of lack of international ability at this stage to permanently increase the quotas in the Fund.

Discussion:
The Committee Members supported the proposal.

Monetary Committee decision:

[1] The SDR is a basket of fixed quantities of currencies. Currently, the (approximate) weights are 42 percent USD, 31 percent EUR, 10 percent CNY, 8 percent JPY, 8 percent GBP, and the weighted interest rate is determined according to the short-term interest rate in those currencies.

The Monetary Committee approves the Bank of Israel's joining the renewed NAB agreement, which is in effect from January 1, 2021 until December 31, 2025. The Committee approves the increase in the Bank of Israel's credit line facility, based on the renewed agreement, from SDR 0.34 billion to SDR 0.68 billion.

It should be noted that the participation in the NAB agreement, to the extent it is implemented, is a yield-bearing investment in the IMF, and does not constitute a free grant to other countries.

Participants:

Members of the Monetary Committee
Prof. Amir Yaron, Governor of the Bank of Israel and Chairperson
Mr. Andrew Abir, Director of the Markets Department
Prof. Reuben Gronau
Prof. Moshe Hazan
Prof. Zvi Hercowitz

Other participants
Dr. Ohad Bar-Efrat, Head of the Information and International Relations Division
Dr. Amit Friedman, Advisor to the Markets Department Director
Ms. Michal Sinai Livyatan, Legal Department
Mr. Arad May, Monetary Committee and Supervisory Council Secretariat