December 10, 2012

Summary of the Monetary Committee discussion and decisions on November 26, 2012 regarding capital increases at the World Bank (IBRD) and the European Bank for Reconstruction and Development (EBRD)

Background data

The Bank of Israel represents the State of Israel in several international financial institutions, including the International Monetary Fund, the World Bank Group, the Inter-American Development Bank, the European Bank for Reconstruction and Development, and the Bank for International Settlements.

Israel joined the World Bank (IBRD)[1] in 1954, and joined the European Bank for Reconstruction and Development in 1991. Member nations, including Israel, have now been asked to join in the capital increases of these organizations, pursuant to World Bank Board of Governors decision 613, and EBRD Board of Governors decision 128, as detailed below.

Section 82 of the new Bank of Israel Law grants the Bank the authority to carry out any act required for the purpose of representation in the international financial institutions in which it represents the State, including investing in shares of those international financial institutions.

Over the years, the Bank of Israel has paid Israel's share of the original capital and subsequent capital increases. This was in order to maintain its share of equity in these institutions, and to assist them in expanding their activities, as is generally accepted by the member countries. The number of shares a country holds in an international financial institution determines its voting power in that body. Membership in the international financial institutions, including the World Bank (IBRD) and the European Bank for Reconstruction and Development, promotes Israel's standing and international relations, and at times its economic relations as well. As such, a country which does not participate in capital increases impacts its standing in that institution. The vast majority of member countries support the activities of those financial institutions, and not participating in a capital increase is rare.

Capital increase at the World Bank (IBRD)

In March 2011, the IBRD Board of Governors approved a general capital increase as detailed below. Some countries have already participated in the share purchases related to the capital increase which began in 2011, while Israel has not yet purchased the shares it was allocated. Israel's participation in the capital increase will maintain the country's relative share in the IBRD, at the level it was at before the capital increase.

[1] The International Bank for Reconstruction and Development (IBRD) is part of the World Bank Group. In addition to the IBRD, the World Bank Group includes the International Finance Corporation (IFC), Multilateral Investment Guarantee Association (MIGA), International Development Association (IDA) and the International Centre for Settlement of Investment Disputes (ICSID).

In accordance with decision number 613 of the World Bank Board of Governors—2010 General Capital Increase (GCI Resolution)—the Bank's total capital will increase by 484,102 shares, at a value of $120,635 per share, so that the Bank's total capital will increase by $54.9 billion. Six percent of the capital increase will be carried out through shares purchased with cash (paid-in capital), and 94 percent will be via subscriptions to be exercised only if needed (callable capital). Each country has been allocated shares in accordance with its relative share in the Bank before the capital increase. Israel was allocated 1,269 shares.

What it means for Israel

1. **Paid-in capital:** Part of the share purchase is with cash (paid-in) - at a value of $9,185,148.90.
2. **Callable capital:** Part of the share purchase is carried out through the issue of an outstanding pledge (callable capital), at a value of $143,900,666.10. The significance of this pledge is that immediate payment is not required. The IBRD will only request of member countries to pay for the shares should the need arise.

Capital increase at the European Bank for Reconstruction and Development (EBRD)

In May 2010, the EBRD Board of Governors decided to increase the bank's capital. Some countries have already participated in the share purchases, while Israel has not yet purchased the shares it was allocated.
In accordance with decision 128 of the EBRD Board of Governors—Increase in Authorised Capital Stock, Issuance, and Subscription of Callable Capital, and Redemption—the paid-in capital of the bank will increase by €1 billion through a transfer from the bank's reserves, and callable capital will increase by €9 billion through subscriptions from member countries. Each country has been allocated shares in accordance with its relative share in the Bank before the capital increase.

What it means for Israel

1. **Paid-in capital:** Israel was allocated 656 paid-in shares with a total value of about €6.56 million, which was paid from reserves of the EBRD.
2. **Callable capital:** Israel was granted the possibility to purchase 5,852 shares of callable capital, at a cost of €58.52 million. Payment is not required at this time for these shares, and the EBRD will only ask member countries for payment should the need arise.

Monetary Committee decisions:

1. The Bank of Israel will purchase 1,269 shares in the World Bank (IBRD), both paid-in shares and callable capital shares, in line with the terms detailed in the proposal of the decision by the World Bank, "2010 General Capital Increase", which was approved by the bank's Board of Governors as decision 613 on March 16, 2011.

The Bank of Israel will pay $9,185,148.90 for shares paid with cash, in accordance with the detailed terms of the decision's proposal listed in this section 1.
The Bank of Israel will subscribe to $143,900,666.10 in shares of callable capital, in accordance with the detailed terms of the decision's proposal listed in this section 1.
.

2. The Bank of Israel will subscribe to callable capital shares in the EBRD, in accordance with the terms listed in decision number 128 of the EBRD Board of Governors, dated May 14, 2010, "Increase in Authorized Capital Stock, Issuance and Subscription of Callable Capital and Redemption".
   The Bank of Israel will subscribe to callable capital shares in the EBRD at a value of €58,520,000, in accordance with the terms listed in the proposed decision, as noted in this section.

The decision was reached unanimously, by all members of the Monetary Committee, on November 26, 2012.

Participants in the discussion:

Members of the Monetary Committee
Prof. Stanley Fischer, Governor of the Bank of Israel, Chairperson
Prof. Alex Cukierman
Dr. Karnit Flug, Deputy Governor of the Bank of Israel
Prof. Reuben Gronau
Prof. Rafi Melnick
Mr. Barry Topf, Senior Advisor to the Governor on Monetary Policy Issues

Other participants in the discussion:
Dr. Ohad Bar-Efrat, Head of Information and International Relations Division
Ms. Tsila Billet, Assistant to Secretary of the Monetary Committee and the Supervisory Council
Ms. Anat Shabat, Head of Comptroller's Office Division in the Accounting, Payment and Settlement Systems Department