




THE BANK OF ISRAEL

FROM VISION TO OBJECTIVES

2011



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A large, circular, silver-colored medal is the background of the slide. It features a complex design with various symbols including a menorah, a harp, a cornucopia, and other traditional Jewish motifs. The text "Bank of Israel Jubilee medal" is inscribed along the bottom edge of the medal.

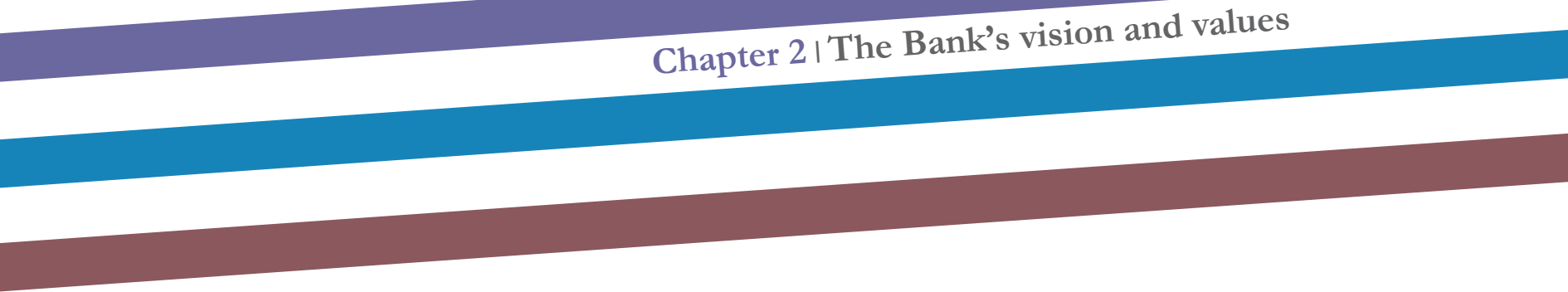
The Bank's Vision

To be among the most advanced central banks and to contribute to the prosperity of Israel and the welfare of its citizens

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Opening words from the Governor



This new booklet provides an outline of the Bank of Israel's objectives and work plan for the next five years. The work plan, while of course being a plan for the future, is to a large extent based on the progress we have made so far. The plan is grounded in our vision to be among the most advanced central banks and to contribute to Israel's economic prosperity and the welfare of its citizens. The Bank's objectives are also based on the new Bank of Israel Law which went into effect in June 2010. The Law increases the Bank's transparency and reporting responsibilities, transforms professional and managerial decision making processes and strengthens the Bank's independence.

We have set ambitious targets. The plan this year includes long-term objectives that have implications for the Israeli public as well as the Bank's staff. During the next five years, we will work towards greater efficiency in the financial system, the development of tools for macro-prudential supervision, the strengthening of the Bank's role of advisor to the Government, the upgrading of information and statistical systems, the issue of a new series of notes and coins, the development of the Bank's human capital and recruitment of high-quality manpower and the development of advanced technological infrastructures. All the above will enable us to meet the public's high expectations of the Bank and our own expectations of ourselves.

Not all of the Bank's activities are covered in this booklet. Naturally, the work plan emphasizes objectives of progress, renewal and improvement. Therefore, this is the place to mention and to commend the ongoing day-to-day activity that is at the core of our work.

I would like to thank all those who contributed to the preparation of this work plan, and hope and believe that we will successfully meet our objectives.

A handwritten signature in dark ink, reading "Stanley Fischer". The signature is fluid and cursive, with the first name "Stanley" being more prominent.

Stanley Fischer
Governor of the Bank of Israel

Chapter 1

The Bank's objectives and functions



The Bank of Israel, Israel's central bank, was founded in 1954. In 2010, the Bank of Israel Law, (5770-2010) went into effect, thus replacing the law that had been in force since the Bank's founding. The Law specifies that the Bank will have independence in deciding on and implementing its activities and in exercising its powers in order to achieve its objectives and fulfill its functions. Following are the objectives of the Bank and its functions as determined by the Law:

The Bank's objectives

1

To maintain price stability, which is its central goal.

2

To support other objectives of the Government's economic policy, particularly growth, employment and reducing social gaps provided that in the opinion of the Monetary Committee, this support shall not prejudice the attainment of price stability over the course of time.

3

To support the stability and orderly activity of the financial system.

Academic research and practical experience have led to the recognition, in Israel and worldwide, that price stability is essential for attaining sustainable growth and a high level of investment and employment over time. It has also been recognized that monetary policy is the most efficient tool for influencing the rate of inflation and maintaining price stability. The Law accordingly specifies the objectives of the Bank of Israel, while at the same time ranking them such that price stability is given top priority.

An additional objective is to maintain the stability of the financial system and its orderly activity. It is currently accepted in many countries that central banks should be active in this area, in view of the central position of the financial system within an economy and the interrelationship between it and real economic activity and because the central bank is the "lender of last resort" for the banks and other financial institutions. The efforts to deal with the global financial crisis, which began in 2007, demonstrated the essential role of central banks in achieving financial stability and maintaining it.

The Bank's functions

- 1. To manage monetary policy:** This is unambiguously the Bank's area of responsibility and the focus of its influence on the economy. The main goal of monetary policy is to maintain price stability, in order to create a business environment that supports sustainable economic growth. Price stability is defined through the inflation target, which the Government, in consultation with the Governor, determines as part of its economic policy (currently, it is 1–3 percent annually). The function of monetary policy is to achieve this target. The Bank sets the level of the interest rate each month in order to maintain price stability (or to converge to within the target range within a period of up to two years) and in order to support financial stability in the economy and to attain other targets of the Government's economic policy. The monetary policy decided on by the Bank is implemented through a variety of monetary tools, which include monetary tenders, makam tenders, repo tenders, tenders of the banks' deposits and/or loans to the banks, the imposition of liquidity requirements and open-market operations.
- 2. To hold and manage the foreign currency reserves of the State:** The optimal level of foreign currency reserves and the investment policy guiding their management is based on maximizing the benefit the reserves yield to the economy: Improving Israel's international financial standing and reducing the possibility of crises in the balance of payments or the foreign currency market. An additional function of the reserves relates to the uses to which they can be put, i.e., the possibility of selling them (for shekels) or lending them, with the main use being the sale of foreign currency to the government in order to service its debt. The Bank of Israel takes a cautious approach to the management of the reserves and therefore they are invested primarily in negotiable assets with a relatively short average duration and in a mix of foreign currencies that matches that of their expected uses.
- 3. To support the orderly activity of the foreign currency market in Israel:** The Bank of Israel monitors and analyzes the developments in the foreign currency market and carries out exchange rate policy accordingly. The trade in foreign currency is carried out primarily between the banks and their customers in Israel and abroad and among the banks themselves. The current exchange rate policy leaves the shekel to float freely against other currencies. Nonetheless, the Bank reserves the option to intervene in foreign currency trade when necessary. Since the beginning of the 1970s, foreign currency controls have gradually been lifted as part of a process of liberalization. Currently, there are no foreign currency restrictions. On every foreign currency trading day in Israel, the Bank of Israel publishes the representative exchange rates of the shekel with respect to foreign currencies. These representative exchange rates are based on the rates prevailing in the market at the time of their determination. The representative rate is an indicator of the exchange rate prevailing in the economy although it has no legally binding status. Therefore, the sides in a foreign currency transaction have the option of choosing any exchange rate they agree upon.

4. **To act as the banker of the Government:** The Bank of Israel serves as the sole banker of the Government for its banking activity in Israeli currency. In this context, “banking activity” includes any kind of activity in which a banking corporation may engage under the Banking Law (Licensing), which includes both “traditional” banking activity, such as the management of deposits and the conversion of foreign currency, and financial activity, such as transactions in derivative assets. The Bank manages the Government’s shekel deposits, as well as its deposits denominated in foreign currency, and provides it with various banking services, including execution of receipts and payments for the government ministries and its budgeted units, the calculation of interest, balance verifications, etc.
5. **To regulate the economy’s payment and clearing systems so as to ensure their efficiency and stability:** Stable and efficient payment and clearing systems are essential to the economy’s payments activity and to financial and monetary activity. The Bank of Israel works to advance the safety, reliability and efficiency of the payment and clearing systems in Israel and takes measures to reduce the risks involved in settlement. Within this framework, the Bank initiates reforms and improvements in the payment and clearing systems to meet international standards set by the Bank for International Settlements (BIS). In order to ensure the stability of the financial infrastructure, the Bank of Israel oversees the payment and settlement systems that are important to the system as a whole, in accordance with international core principles, and oversees the Continuous Linked Settlement (CLS) system as part of an international supervisory group. In addition, the Bank of Israel operates major payment systems, such as the RTGS (Real Time Gross Settlement) system and the check clearinghouse.
6. **To issue currency and to regulate and guide the cash system of the economy:** The Bank of Israel has the exclusive authority to issue Israeli currency (notes, coins, commemorative coins and numismatic items). As part of this function, the Bank of Israel is responsible for maintaining the supply of cash to the economy according to supply and demand.
7. **To supervise and regulate the banking system:** The public deposits a significant proportion of its savings with the banking system and these funds are used by the banks to, among other things, provide credit to businesses and households. The current deposits at the banks are used for a large proportion of the economy’s payments and in addition activity in foreign currency is primarily carried out through the banks. The essential functions of the banking system and the recognition that a failure in this system will seriously affect the functioning of the economy as a whole require that the Bank of Israel provides supervision over the stability of the banks in order to protect the funds of depositors, that it ensures the proper management of the banks and that it maintains fairness in the business relations between the banks and their customers. The supervisory functions are carried out through a variety of tools: licensing procedures, specification of norms and restrictions, auditing and evaluation, dealing with public enquiries, etc.

8. **The Governor serves as an advisor to the Government on economic matters:** In this capacity, the Governor works toward the formulation and promotion of reforms and processes with macroeconomic implications, which will assist the Government in attaining its targets in these areas. This function also includes monitoring the processes in the economy and analyzing them, distributing the analyses and evaluations among decision makers and creating a research infrastructure to facilitate wise policy decisions.
9. **To manage a system of information and statistics on the Israeli economy:** The Bank of Israel manages large scale systems of information and statistics on economic activity, which enable it to fulfill its functions and achieve its objectives. The Bank also generates and manages Israel's financial statistics (while the Central Bureau of Statistics generates and manages the statistics of the real side of the economy). The Bank of Israel provides data on economic activity to the public, international organizations, researchers, analysts and other users in Israel and abroad.

Chapter 2

The Bank's vision and values



In 2010, the Governor and the Bank's management defined the Bank's vision and its values

The Bank's vision



To be among the most advanced central banks and to contribute to Israel's prosperity and the welfare of its citizens.

The Bank's values



1. Professionalism

We aspire to be at the forefront of professional knowledge in all relevant areas. This is part of the aspiration to personal excellence and a way of thinking that is original, independent, non-conventional and path breaking



2. National welfare

The basic criterion of the Bank's activity is the maximization of benefit to the State and its citizens over time. This activity includes maintaining the rule of law, the country's sovereignty and its values.



3. Integrity

We aspire to honesty and credibility while remaining faithful to our principles, values and professional truth, without introducing foreign considerations and personal interests.



4. Partnership

Cooperation, sharing of information and exchange of ideas between all the components of the organization workers, managers, customers and suppliers in order to achieve the Bank's goals.



5. Fairness and respect for the individual

A commitment to an organizational outlook that promotes a focused and consistent attitude towards the Bank's workers, based on the recognition of an individual's worth. Promotion of an organizational culture that encourages commitment, trust and mutual respect.

Chapter 3

The Bank's objectives in coming years





The Bank's objectives in coming years

1. Implementation of the new Bank of Israel Law
2. Initiating reforms in the financial system (including the banking system) and in the capital market
3. Development of macro-prudential policy and tools to reinforce the economy's financial stability
4. Strengthening the Governor's role as economic advisor to the government
5. Development of the Bank's human capital, recruitment and retention of highly skilled manpower
6. Upgrading of the information and statistics system
7. Development of advanced technological infrastructures
8. Issuing a new currency series

1. Implementation of the new Bank of Israel Law

On June 1, 2010, the Bank of Israel Law, 5770-2010 (hereafter: the New Law), which replaced the previous law passed in 1954, went into effect. In addition to clearly setting out the goals of the Bank and maintaining its independence, the new law established mechanisms for public and internal control and generates Israel's financial statistics in order to ensure that the Bank's independence would be accompanied by accountability and transparency with respect to the executive and legislative branches of the government and the public.

The Monetary Committee and the Administrative Council

The New Law creates a Monetary Committee and an Administrative Council, whose members will be both from within the Bank and from the public. These bodies will have the authority to make decisions in areas that until now have been the exclusive authority of the Governor. Thus, the Monetary Committee will determine the policy for achieving the goals of the Bank, including monetary policy, and will decide on measures the Bank should take in order to achieve them. The Administrative Council will supervise the Bank's operations to ensure that they are appropriate and efficient; it will discuss the work plan to be drawn up by the Bank's Executive; and it will approve the budget for the Bank's administrative activity, the salaries of its workers and its financial statements. The Administrative Council will appoint an Internal Auditor for the Bank, as well as an Audit Committee, which will be made up of public members of the Council.

The Bank is making preparations for working under the regime of the Monetary Committee and the Administrative Council, which include the formulation of work procedures, the improvement of tools for information, analysis and the presentation of data, as well as the enhancement of monetary models and their assimilation within the work processes.

The tools to be used in the Bank's operations

The New Law provides the Bank with flexibility in choosing policy tools and gives it maximum discretion in using them, such as in the area of management of foreign currency reserves. The Bank is making preparations to learn and assimilate the new tools and their management, as well as adopting a new definition of reserve management that includes risk management.

Accountability

A basic principle of the New Law is the obligation of transparency and accountability which is imposed on the Bank, as a balance against the principle of independence. This constitutes a mechanism for public control over the Bank's policies and operations. Accordingly, the New Law imposes an obligation to publish the following: a summary of the discussions of the Monetary Committee and the protocols of the Administrative Council's discussions; the Bank's work plan; the budget for its administrative operations, which will also be presented to the Finance Committee of the Knesset; the annual financial statements; and the Annual Report on the State of the Economy, the periodic report on monetary policy and the Annual Report on the Foreign Currency Reserves. The Bank is making preparations to modify the format of the reports as needed.

Regulations, directives and rules

The Bank is making preparations to introduce regulations, directives and rules in order to implement the powers granted to it by the New Law, including the collection of information from various bodies, the management of the currency system and the determination of the circumstances in which the amount of financial sanctions stipulated in the Law can be reduced.

2. Initiating reforms in the financial system (including the banking system) and in the capital market

As in previous years, the Bank of Israel is working to advance reforms in the local financial system (including the banking system) and in the capital market, in order to increase the efficiency of the market and its liquidity and to achieve greater integration between it and capital markets abroad. This includes:

- Continued development of the infrastructure needed for advanced financial instruments, which are used in the more sophisticated capital markets abroad and which are lacking in the local capital market, such as repo transactions, securitization of mortgages, CD transactions and interest rate futures, and of a market for negotiable securities.
- Creating conditions together with the Ministry of Finance and other regulators to increase competition in the local capital market, in view of its high level of concentration and the dominance of the banks and institutional bodies in the financial system, while continuing to maintain the stability of the banking system.
- Continued improvement in the efficiency and stability of the payment and settlement systems in Israel, including the settlement processes and the encouragement of the transition to automatic computerized settlement in place of paper settlement and manual settlement and the introduction of supervision of the payment and settlement systems.

3. Development of macro-prudential policy and tools to reinforce the economy's financial stability

One of the Bank's three goals according to law is to support the stability of the financial system and its normal functioning. The law even allows the Bank of Israel to provide credit to non-bank financial bodies in circumstances where there is a concern for the stability of the financial system or its normal functioning.

Macro-prudential policy: This is a relatively new area, in which there has been a growing research effort worldwide. It focuses on the relations between financial institutions, the markets, the infrastructure of the financial system and the economy as a whole. Its goal is to reduce system-wide financial risk, whose macroeconomic costs are particularly high. This policy includes the tools that serve this purpose: micro policy tools, fiscal policy tools, monetary policy tools, etc.

Macro-prudential policy is aimed at strengthening the resilience of the financial system to possible shocks and to moderate the effect of a realization of financial risk on the real economy. This is essentially a preventative policy and its goals are the recognition of potential threats to financial stability, their identification at an early stage and the adoption of measures to reduce risk.

The development of the global crisis emphasized the need to strengthen the role of the central bank as the entity responsible for the stability of the financial system, with the goal of reducing risk to the system as a whole through the use of macro-prudential tools.

Within this context, the Bank of Israel decided to define work processes and a work plan for macro-prudential policy, including the creation of an organizational framework that would deal with this area, the creation of a professional infrastructure needed to carry out this policy and the expansion of the existing information infrastructure.

The macro-prudential work plan is being written by the Research Department together with the Banking Supervision and the Market Operations Department. This effort includes the following: the construction of stress tests for financial institutions that have system-wide importance and for the financial system as a whole; the analysis of the stability of non-bank financial institutions and that of the system as a whole using top-down tools; continuous monitoring of the prices of assets and credit in order to detect the development of bubbles at an early stage; the development of indexes of financial stability; the analysis and identification of risk originating in large (non-financial) companies; and the development of a macro-prudential policy toolbox, along with the continuous monitoring of professional developments in this field worldwide. The Banking Supervision will develop a work framework for the creation and testing of scenarios that capture events of various degrees of severity in order to analyze their effect on the stability of the financial system.

4. Strengthening the Governor's role as economic advisor to the government

In the formulation of policy recommendations and reforms, the Governor, in his role as economic advisor to the Government, relies on the research and analysis of various issues as a foundation for his recommendations. As part of the analysis of processes in the Israeli economy and Israeli society, areas were identified in which there has been basic weakness in recent years, or even negative trends, which increase poverty and inequity and also work to erode the economy's relative advantage and growth potential. These include the K–12 education system, higher education and employment in the ultra-Orthodox and Arab sectors. The Bank of Israel has chosen to focus on these areas in creating an information infrastructure as the basis for formulating policy recommendations.

Education: The level of achievement and the disparities between various sectors lead to significant differences in earning ability and erode Israel's relative advantage as a knowledge-based economy. An analysis of the inputs and outputs in the education system will help in improving the allocation of resources within it.

Higher education: The deterioration in scientific achievement, which is reflected in, among other things, the drop in the international ranking of Israeli universities in recent years, has also worked to erode the relative advantage in areas that depend on scientific development. An analysis of the budget allocation in these areas and its relation to outputs will create a foundation for formulating policy recommendations that will help in improving scientific achievement and in halting this deterioration.

Employment: with regard to efforts to increase employment, these should focus on Arab women and ultra-Orthodox Jewish men, as low employment in these groups is one of the main reasons for their high level of poverty among Arabs and the ultra-Orthodox. As these groups are characterized by large families and a high rate of natural increase, a growing proportion of the Israeli population is not present in the labor market, a phenomenon that also lowers the economy's long-term growth potential. This situation calls for an in-depth study of the barriers to employment among these populations as a basis for policy recommendations to significantly raise their rate of employment.

An additional objective of the Bank in coming years is to carry out in-depth research of **the economy's sources of growth and growth engines** on the one hand and of the barriers to growth on the other hand, with the goal of formulating policy recommendations in these areas. This issue requires an in-depth analysis, particularly in view of the developing erosion in our relative advantage in hi-tech, the main engine of growth during the last fifteen years. This will provide a foundation for making policy recommendations which will strengthen the processes that support economic growth.

5. Development of the Bank's human capital, recruitment and retention of highly skilled manpower

In recognition of the importance of preserving and nurturing human resources, the Bank will promote programs for developing its manpower's managerial and professional potential. These programs are meant to provide a systematic and structured solution for the identification, development and management of professional and managerial skills. These skills are necessary for the success of the Bank's organizational strategy and thus will support the achievement of the Bank's objectives and those of its departments.

Development of the Bank's human capital

Following are the main goals of the development programs:

1. To improve the quality of management at the Bank: the quality of management and leadership in an organization has a decisive effect on its functioning and its success, and therefore managers need to be trained for their functions.
2. To strive for organizational excellence through the encouragement and nurturing of excellence on the personal and staff levels.
3. To increase motivation and to provide workers with the possibility of development and self-realization.

Recruitment and retention of highly skilled manpower

The Bank of Israel will work towards retaining its best workers within the organization, in view of the changing employment reality in a more flexible labor market.



6. Upgrading of the information and statistics system

The Bank of Israel makes intensive use of data, statistics and information on the Israeli economy and generates Israel's financial statistics in order to achieve its goals and fulfill its functions. This involves ongoing monitoring and analysis that support monetary and financial policy, research of the economy and the supervision of the banks. These uses require the maintenance and management of advanced information systems that contain large amounts of up-to-date data both current and historical with a high level of frequency. In addition, they require an advanced and powerful technological infrastructure. Therefore, the Bank of Israel is making great efforts and investing significant resources in the development of information and statistical systems and in the upgrading of technological infrastructures. Within this framework, the Bank is implementing several major long-term projects:

1. **Central data warehouse:** A new major infrastructure for the management of the Bank's economic data. The central data warehouse will contain most of the economic data managed by the Bank of Israel and will serve users both inside and outside the Bank. So far, the data on certain areas of the economy's financial activity has been input into the data warehouse. The project is expected to take several years, during which most of the Bank's data on the financial system will be entered and advanced tools for input, upgrading and analysis of the data will be assimilated within the system.
2. **Information and statistics portal:** A central portal to all the Bank's statistics and information on the Israeli economy.
3. **Regulatory information infrastructure:** An information infrastructure for the advanced management of data by the Banking Supervision Department. With the transition of banking supervision to a risk-oriented framework and the adoption of Basel II in Israel, a project was initiated to establish a new information system aimed at upgrading the information infrastructure and information technology of the Banking Supervision Department. This constitutes part of the effort to assimilate an advanced technological infrastructure for the operations of a risk-oriented supervisory system, as is the norm in leading supervisory authorities world wide. With the completion of the project, the Banking Supervision Department will benefit from an advanced information system that includes a new system for the entry of data, a data warehouse that facilitates the retrieval of information and provides flexibility in its mode of presentation, as well as a comprehensive database that includes all the information and analyses relating to a bank. The system will also include tools for the analysis of information and its rapid processing.

7. Development of advanced technological infrastructures

As part of its computerization strategy, the Bank is constructing modern information systems that support the achievement of its goals. In addition, the computer infrastructures that form the basis for all the Bank's systems are being upgraded (and replaced) in order to maintain the efficiency and quality of the Bank's work. Thus, a system for the management of foreign currency reserves and a SAP ERP system are being installed at the Bank. In order to also support the Bank's managerial systems, various organizational applications are being introduced that will increase efficiency and ease-of-use in the work of all the departments. Examples include applications for document management, risk management, management of the Executive's offices, an organizational portal for managers and the archiving of documents.

Computer system for the management of foreign currency reserves (ITMS - Integrated Treasury Management System)

This project includes the assimilation and implementation of a new computer system for the management of foreign currency reserves and of activity in the local market. It will replace a number of existing systems. The computer system that was purchased supports all areas of foreign currency management (back office, mid-office, front office and control) and includes functions related to the execution of investments: the recording of transactions, the production of messages, the management of market risk, accounting development, cash flow management and the adjustment of nostro accounts. Installation began in 2009 and its completion is expected in 2011.

An integrative computer system for organizational, managerial and other internal systems in the Bank (ERP)

During the period 2010–12, the ERP system produced by the SAP company will replace some of the Bank's older systems and will provide solutions in areas for which there are currently no systems at the Bank. Key areas targeted for the new system are human resources, finance and logistics. The system will integrate all these areas within a common database. In addition, the system provides analytical tools, portal tools and reporting and management capabilities from the database. In subsequent years, additional applications will be considered for the SAP system, such as the accounting ledger, currency inventory, loans, travel abroad and asset management.

8. Issuing a new currency series

In order to maintain the confidence of the public in the currency system, it is common practice in the developed countries to replace the notes in circulation once every 10–15 years, even when there are no out-of-the-ordinary events. This is done to prevent the deterioration of existing security features, through which the Bank fights counterfeiting.

The new and more sophisticated security features that have been developed over the years, as the technology becomes more advanced, prevent large scale counterfeiting, which would require the urgent and unplanned replacement of notes. Therefore, the Bank of Israel decided to replace the current currency series in circulation and to introduce a new series with a new design incorporating state-of-the-art security features that have been developed recently.

The issue of a new series of notes and coins will require an extended period of preparation. Decisions will have to be made on denominations, the name of the currency, the images to appear on the notes, the size of the notes, the type of substrate on which the notes will be printed and the composition of the metal for minting the coins, design issues, anti-counterfeiting marks, etc. The work is now in process, and the government recently approved the Governor's decision regarding the personalities to be featured on the new banknotes; the next stage is a competition to select the designs of the notes.

The current level of inflation in Israel does not require a change in denominations and furthermore the scale of counterfeiting in Israel is limited relative to other countries. This situation, along with the fact that the currency series now in circulation is fulfilling its function, even though the notes were issued in 1999, enables the Bank to implement the replacement of notes and coins in an orderly manner.

Chapter 4

The objectives of the departments in coming years



The Research Department

Following are the objectives of the Department in coming years:

Formulation of a macro-prudential work plan and its implementation in cooperation with the Banking Supervision and the Market Operations Departments.

Adjustment to working with the Monetary Committee, including improvement of the monetary models and their assimilation within a “staff forecast” process: The design of a process for preparing a staff forecast will be completed and modified to operate in an environment with a Monetary Policy Committee (MPC). The staff forecast is based on models combined with judgment. The development of the principal model will continue so as to include the modeling of financial frictions and the labor market, as well as the development of additional models.

Analysis of financial markets: The analysis and assimilation of information from intra-day data on the functioning of the markets will continue, both for purposes of periodic reporting and in order to identify market failures. In addition, the development will continue of market information and indexes as an input in the formulation of monetary policy (for example VIX) and the assessment of financial stability.

Improving current and future macroeconomic forecasting and analysis in order to improve the ability to assess the real economic situation in real time.

The use of various “nowcasting” techniques will continue to be assimilated. This type of analysis involves the forecasting of economic

trends occurring in the present but for which the data is released with a lag. The development of a quarterly model for macroeconomic forecasting will be completed and the forecasts for individual industries will be assimilated within the macroeconomic forecast. As part of deepening the macroeconomic analysis, the analysis of the real equilibrium exchange rate will be broadened, as well as the analysis of the effect of the exchange rate on exports and economic activity.

In order to strengthen the functioning of the Bank of Israel as economic advisor to the government, the Research Department will work to formulate and promote reforms on the basis of research and analysis, as a foundation for policy recommendations. The Research Department will focus on those areas in which a fundamental weakness or negative trends have been observed in recent years. The goal will be to reduce poverty and disparities that erode the economy’s relative advantage and its growth potential.



The Banking Supervision Department

Following are the objectives of the Department:

1. **The adoption and assimilation of optimal working methods in the Department and in Israel's banking system:** As part of the effort to maintain the stability of the banking system, the Banking Supervision Department will continue to introduce best practices and standards within the banking system and within the supervision of the banks. Supervisory tools will be improved and upgraded and sophisticated tools for the assessment of risk, internal control and corporate governance will be assimilated.

The Banking Supervision Department will continue to adopt and assimilate international regulatory guidelines within the banking system, including Basel II and other guidelines for the management of risk, capital and appropriate corporate governance. In addition, the requirements for reporting to the public will be modified to meet international accounting and reporting standards (IFRS).

2. **To develop closer relations with regulators in other countries and to integrate into international supervisory bodies:** Cooperation and coordination with foreign regulators and the IMF will be expanded, as will participation in the OECD's Financial Markets Committee, with closer affiliation with the work of the OECD in other areas.

3. **To maintain fair treatment of customers and encouraging competition:** The Banking Supervision Department will deal with complaints from the public with regard to banking business; it will also identify and correct deficiencies in the banking system and will supervise the compliance of the banks with bank-customer directives. In addition, the Department will work towards progress in the areas of consumer regulation and consumer awareness and will work to remove barriers to competition in banking services and fees.
4. **To ensure business continuity:** The critical component in the maintenance of stability in the banking system is the development of the ability to maintain continuity in financial activity. The Department will work to enhance its own preparedness and that of the banking system for various stress scenarios, such as wars and earthquakes, as well as updating appropriate plans for business continuity.
5. **To nurture human resources:** The changes in the global financial environment and its increasing complexity require ongoing learning and the enhancement of professional knowledge among the Department's staff. The Banking Supervision Department will strive to maintain the high professional level of its staff through on-the-job training, seminars, etc.

6. **To develop tools for macro-prudential supervision:** In accordance with the Bank of Israel's objectives, the Banking Supervision Department will also work to advance a macro-prudential policy, with the goal of strengthening the resilience of the financial system to shocks and moderating the effect of a realization of financial risk on the real economy.
7. **To update banking laws:** The Banking Supervision will promote amendments to the Banking Ordinances and will update the directives of the Supervisor of Banks in various areas, including Proper Conduct of Banking, Business Regulation, Guidelines for Preparing Reports to the Public, and Financial Rules of Prudential Reporting to the Banking Supervision Department, in accordance with changes in the business environment.
8. **To improve the Department's infrastructures:** With the transition of banking supervision to risk-focused supervision and the adoption of Basel II in Israel, a project was initiated to create a new information support system. In addition, investment is needed in other general infrastructures in order to ensure a reliable and supportive working environment for Banking Supervision staff.

The Market Operations Department

The Market Operations Department will work in coming years to carry out the tasks that are at the core of the Bank of Israel's activity: the management and implementation of monetary policy and exchange rate policy, activity in the local markets, management of foreign currency reserves, etc. A number of tasks, including major projects and day-to-day work, are aimed at improving and upgrading activity in all areas:

- Replacement of the systems for the management of foreign currency reserves and shekel assets, including the management of risk and the measurement of yields in the new system.
- Upgrade or replacement of the representative exchange rate system and the makam tender system.
- Assessment of policy and activity in various areas, including analysis of risk, and implementation of the findings.
- Improving the collateral system for monetary loans.
- Measurement of operating and balance-sheet risk.
- Strengthening of backups and business continuity.

Following are additional objectives of the Department in coming years:

- Modification of the analyses (presented, until now, to the Monetary Forum) for presentation to the Monetary Committee, which was created by the new Bank of Israel Law.
- Modification of the reporting format according to the new law.
- Defining the new framework for the management of balances, including the management of risk, as well as learning and assimilating new tools for risk management.

- Modification of banking services provided by the Bank of Israel to the commercial banks according to the new law.
- Expansion and enhancement of existing data on the markets through the gathering of data and its processing and analysis, also in order to prepare for emergency situations.
- Developing an array of tools for macro-prudential supervision in order to reinforce the economy's financial stability, in accordance with the plan being prepared by the inter-Departmental team.
- Taking a leading role in reforms in the financial system (including the banking system) and in the capital market, according to the plan being prepared.



The Information and Statistics Department

The Information and Statistics Department was created in early 2008 as part of the Bank's reorganization. The Department seeks to be a leading source of information on the Israeli economy, particularly its financial activity and the financial sector. The Department's main objective is to provide the Bank of Israel's Management and the core departments of the Bank with data and information on economic activity that meet the standards of quality, timeliness and scope needed by the Bank to manage policy, achieve its goals and fulfill its tasks. The secondary goal of the Department is to provide data and information for the use of various bodies in Israel and abroad (subject to the restrictions of confidentiality and information security), in order to increase transparency and efficiency in the economy.

Most of the Department's resources are of course allocated to the ongoing management of data and information on the economy: the gathering and organizing of data from various sources and reports; the management and maintenance of databases and information systems; the development of methods for the processing and presentation of data and information; and the production of outputs (tables, graphs, reports and surveys) and their distribution within the Bank and outside it through various channels. The two main channels for the distribution of information are currently the information and statistics portal (within the Bank) and the Bank's website.

Together with the ongoing management of data and information, the Department also devotes resources to developing its infrastructure,

with the goal of upgrading the data's quality, accessibility and ease-of-use for research and expanding the information and analytical surveys that are available to both internal and external users. Within this framework, the Department manages three main long-term projects:

1. **Information and statistics portal:** The Department initiated the creation of one main gateway to all of the Bank's statistics and information on the Israeli economy. The first version of the portal was uploaded already in mid-2010 for internal use only. A more advanced version of the portal will improve the presentation of the data, statistics and information on the Bank's website for use by the public in Israel and abroad.
2. **Central data warehouse:** With the creation of the data warehouse, the Department initiated a long-term project to establish a new central infrastructure for the management of information and statistics at the Bank. The central data warehouse will include the majority of the economic data handled at the Bank of Israel and will serve users inside and outside the Bank. So far, the method for management of the data's statistical language has been developed and data on certain aspects of the economy's financial activity have been entered. The project is expected to continue for several years, during which most of the Bank's data on the financial system will be entered into the data warehouse and advanced tools for data entry, enhancement and investigation will be assimilated into the system.

The central data warehouse has several advantages:

- (a) It will include comprehensive information on the Israeli economy.
- (b) It will provide accessible and up-to-date information to all decision makers and to the public.
- (c) It will support the core departments of the Bank by providing rapid, uniform and convenient access to information they require in order to fulfill their tasks.
- (d) It will provide a clear and uniform definition of the information.

The plan for the future stages of the project is currently being discussed in the Bank.

3. **Macro-financial data:** The Department is working on the development of data and information on the economy's financial activity and on the financial system at a high level of aggregation. The development of this data will assist the Management of the Bank and the core departments to fulfill their monetary and financial functions and will provide support in the preparation of the economy's "financial statistics," according to international standards for national accounting and according to the reporting requirements of international organizations, primarily the IMF and OECD.

The Human Resources and Administration Department

The Department has several functions: to enable the Bank to implement its strategy by providing assistance in assimilating and advancing processes of strategic change; to support the departments of the Bank in achieving their objectives; to take a leading role in the development and nurturing of human resources i.e., the professional abilities of the Bank's workers, using advanced and innovative methods; and to ensure that the Bank has the manpower it needs, in terms of both quality and quantity.

The main objectives of the Human Resources and Administration Department in coming years are as follows:

1. Implementation of programs for developing the Bank's managerial and professional potential. These programs are meant to provide a systematic and structured approach to identifying, developing and managing the managerial and professional skills needed to carry out the Bank's organizational strategy and thus to attain the goals of the Bank and all of its departments.
2. The advancement of cross-organizational processes to support the achievement of the Bank's objectives, such as the assimilation of the Bank's values, ethical codes and joint organizational communication.
3. Recruitment and retention of high-quality manpower. Nurturing the worker throughout his working life, career management and the building of managerial and professional development paths, including the development of training programs tailored to the worker's needs.
4. Increased efficiency and improvement of work processes through the ongoing identification of the Bank's needs and the components of organizational processes that require improvement. As part of the assimilation of the ERP system (Enterprise Resource Planning, which is an integrative system for managing an organization's resources), work processes in the Department are being reexamined with the goal of improving the monitoring and control of activity and enhancing the integration of managerial work processes. Within this framework, the Bank's general procedures will be revised and the procedures of the Human Resources and Administration Department itself will be formulated.
5. Upgrading of the Bank's physical infrastructures: renovation of the building in Jerusalem and its systems, consolidation of the Bank's branches in Tel Aviv and increased preparedness for emergencies.

The Information Technology Department

The Information Technology Department is responsible for the formulation and implementation of the Bank's computerization strategy. One of the main challenges facing the Department in the coming years is the transition from an information technology approach to a business technology approach, with the goal of providing appropriate technological solutions for the Bank's business departments and to support the attainment of their goals. This change, which will involve participation in all stages of the business decision making process along with the other departments, will contribute to deeper understanding of the customer's needs and the solutions that are most appropriate to those needs. During this period, cooperation will be expanded between the Information Technology Department and the business departments using various methods and tools: a supplier-customer covenant, training seminars for the Department workers in the Bank's departments, etc.

The Information Technology Department provides IT services to the Bank and therefore improving those services will be the Department's main objective during the next five years. Its success will be measured through user satisfaction surveys.

Meeting these challenges will involve a number of the Department's mega-projects, which are of major importance to the Bank. These include a regulatory information structure for the Banking Supervision and connecting the banks' trading rooms to the Bank of Israel's in order to create the ability to report balances in real time.

Following the two stages of the ERP installation, the Department will leverage the ERP system for additional applications, such as the accounting ledger, cash inventory, loans, travel abroad and asset management.

To streamline and enhance work processes in all departments, organizational applications such as document handling, risk management, management of executive offices, an organizational portal for directors, printing centers and document archives will be promoted.

The Department will take a leading role in the development of technological projects at the Bank, which involves the building of modern information systems to assist in the attainment of its objectives. Examples include secure access from each worker's hand-held computer to a variety of the Bank's applications and working with a "private cloud" in order for the worker to utilize the Bank's computer resources more efficiently.

The computing architecture will be expanded in various areas and the Department will work to upgrade platforms and infrastructures, such as working remotely, transfer of the main computer systems to an open environment, a structured process for project management, the implementation of long-term programs for information security, a transition to only two operating systems and only two databases, the use of open code, an emergency backup site and a single-location control center.

The Comptroller's Office and Payment and Settlement Systems

In coming years, the Department will concentrate on the following tasks: reducing the operational risk of the computer systems and existing work processes; the improvement in banking services to the Bank's customers; the continued implementation of the Comptrollership's new organizational structure and the installation of the SAP system; the improvement in preparedness for emergencies; and the continued upgrading of the Bank's financial statements and accounting report system and their modification to accepted international standards.

In the area of payment systems, the Department will work to ensure the stability, efficiency and safety of the payment and settlement systems. To this end, it is developing a new function: the oversight of the payment systems and means of payment in Israel. Moreover, the Department will initiate reforms and changes in the existing payment systems and their modification to meet accepted international standards and will seek to enhance the efficiency and safety of the payment systems that it operates, including the RTGS system and the check clearinghouse. An important objective in coming years is the ensuring of the payment systems' business continuity. The goal is to continue to develop parallel processes that will ensure business operations also during critical emergencies.

In coming years, the Department will invest effort in the development, reinforcement and maintenance of working relations with other central banks and international organizations abroad, as well as other financial bodies.

The Department's organizational structure has been changed significantly: several areas of responsibility have been transferred to it from other departments and a new area of responsibility, i.e. supervision of the payment systems, is beginning to take shape. As a result, the Department will seek to add to its human capital and to organize its manpower into the various work groups, as well as completing the professional training needed for its new workers.



The Currency Department

Following are the Department's objectives in coming years:

1. **Maintaining the supply of cash to the economy without any shortages developing in any denomination:** To this end, the Department attempts to forecast the quantity of coins and notes needed to meet demand.
2. **Regulating and managing the currency system in the economy:** Implementation of the new policy for operating the cash system and the formulation of work processes between the Bank of Israel and the banks through "cash centers" among the banks.
3. **Issuing a new series of currency:** The replacement of a series of notes and coins is a long and complex process, whose goal is to prevent counterfeiting and to maintain the confidence of the public in the currency system. In normal times, a series of notes should be replaced once every 10 to 15 years, due to the obsolescence of the security features on the notes and that is indeed the Department's plan.
4. **Dealing with currency counterfeiting:** Increasing the public's knowledge of security features and the currency. To this end, the Department is working on two levels:
 - Increasing the awareness of the use of security features through advertising, lectures among the banks and the public, an expansion of the information available on the Bank's Internet site and commercials on the radio.
 - Continued cooperation with the police and international organizations in combating counterfeiting.
5. **Expanding the Department's list of international suppliers:** The Currency Department will work to expand its number of coin suppliers for circulation and for commemorative coins (an additional mint) and notes suppliers (an additional paper supplier and a printer).
6. **Issue of five commemorative coins each year:** The Bank will continue to issue five commemorative coins each year. The coins are devoted to special events, heritage sites, important historical figures, etc. The coins are made partly of silver and partly of gold and are marketed to collectors through the Israel Coins and Medals Corporation.
7. **Improving the quality of notes in circulation:** The Currency Department will supervise the implementation of the standard for the quality of cash in circulation, including the approval of counting and sorting machines, and the regulation of supply and demand surpluses in notes and coins between the banks.
8. **Ensuring the uninterrupted supply of currency in an emergency.**

The Legal Department

The role of the Legal Department is to enable the Bank to carry out its tasks while maintaining the rule of law and the principles of good governance. The Department provides ongoing support for the Bank's activities and provides legal advice to the Governor and all of the Bank's divisions and departments.

The objectives of the Department in coming years involve the following:

The implementation of the New Bank of Israel Law:

Support for the creation and activity of the Monetary Committee and the Administrative Council; the introduction of regulations, directives and rules for the implementation of the New Law; and the provision of legal opinions and advice.

The revision and formulation of changes in the various banking laws in the areas of bank failure, licensing of clearinghouses, banks with and without controlling shareholders, the conveyance of information in a banking group, preparedness for emergencies, deposits without activity, arrangements for foreign representation in Israel, etc.

Formulation, reevaluation and preparation of the Bank's basic documents such as documents for opening an account (for the government and banks) and credit and liquidity documents.



Internal Auditing

The role of Internal Audit is to evaluate and improve the effectiveness of the Bank's work processes, controls, supervision and management of activity, while also taking into account issues of integrity, efficiency and economy in the management and preservation of the Bank's assets.

In addition to the above, the following goals have been set for the next few years:

1. Regulation of the work procedures with the Audit Committee to be established according to the New Bank of Israel Law.
2. Improvement in the auditing infrastructure:
 - Creation of an integrative system for the management of auditing work and the ongoing measuring of inputs.
 - Improvement in the systems for monitoring the execution of decisions, the implementation of recommendations and the improvement in processes.
 - Creation of monitoring tools that will enable the identification of outlying events near the time they occur.
 - Creation and improvement of computerized tools that will enable an expanded number of samples, the identification of exceptions and the extraction and cross-checking of information from the Bank's information systems.
3. Basing of auditing work on the levels of risk exposure: Creating annual and long-term work plans for monitoring risks and evaluating the effectiveness of the controls that are meant to minimize them.
4. Participation as observers in the steering committees of infrastructure projects in order to enhance the integration of computerized real-time controls.
5. Advancing issues related to organizational culture.

Information and International Relations Division

This Division is responsible for the Bank's website, the Visitors Center, International Relations, the Publications Unit, and the Library. In the next few years the Division will promote several projects: the construction of a new **website** for the Bank, in cooperation with the Information Technology Department, to improve and reorganize the existing content of the site, add important new content, and establish a more advanced technological infrastructure to facilitate surfing and searches; expansion of the activity of the **Visitors Center**, and the incorporation of new teaching programs into visits to the Center; renovation of the **Library**, and moving it to its new permanent location on the ground floor close to the entrance to the Bank.

