



November 20, 2013

**Summary of Monetary Committee discussion on November 12, 2013 regarding the management of the foreign exchange reserves**

**Matter submitted for the approval of the Committee: Annual update of the numeraire**

**Background:**

The numeraire—the currency basket used to measure the return on the foreign exchange reserves—is the neutral currency composition of the reserves, and serves as an anchor for the management of their currency risk. The composition of the numeraire is examined annually in accordance with the guidelines outlined by the Monetary Committee. The numeraire composition distribution 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, and it is examined in light of the distribution of reserves of countries worldwide. This is in order to maintain the purchasing power of the reserves in terms of their potential uses.

In August 2012, the Monetary Committee approved the currency distribution of the numeraire so that the weights of the dollar, euro, and British pound will be 65 percent, 32 percent, and 3 percent, respectively. Due to changes in exchange rates, the actual currency distribution of the numeraire in November 2013 was 63 percent, 34 percent, and 3 percent, respectively.

In August 2013, the Market Operations Department examined the currency composition of the components of the potential uses of the reserves, based on updated data on the currency composition of imports and short term foreign-currency government debt servicing. The Department examined the composition of these updated potential uses 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 an emergency or crisis situation. 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 change in the liquidity of the major currencies and in the global distribution of the reserves.

As result of this examination, the Market Operations Department recommended that the Monetary Committee leave the currency distribution of the numeraire unchanged, so that the dollar remains at 63 percent, the euro at 34 percent, and the British pound remains 3 percent.

**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

Prof. Alex Cukierman

Prof. Reuben Gronau

Prof. Nathan Sussman, Director of the Research Department

**Other participants in the discussion:**

Andrew Abir, Director of Market Operations Department

Eddy Azoulay, Chief of Staff to the Governor

Tal Biber, Head of Markets Division in the Market Operations Department

Mickey Blank, Deputy Head of Dealing Unit in Market Operations Department

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

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

Mark Yohai, Economist in Risk Management Unit in Market Operations Department

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

Yoav Soffer, Acting Spokesperson of the Bank of Israel

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

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

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