



Summary of discussion and decisions of the Monetary Committee on December 13, 2011 regarding capital increases at the Inter-American Development Bank and the European Bank for Reconstruction and Development

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 has now been asked to join in the capital increases of the Inter-American Development Bank and the European Bank for Reconstruction and Development. Israel joined the Inter-American Development Bank in 1976, and joined the European Bank for Reconstruction and Development in 1991.

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.

Membership in the Inter-American Development Bank and the European Bank for Reconstruction and Development advances Israel's standing and international relations, and at times its economic relations as well. Over the years, since Israel joined the European Bank for Reconstruction and Development and the Inter-American Development Bank, 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. A country which does not participate in capital increases impacts its standing in that institution. In addition, 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 Inter-American Development Bank (IADB)

In March, 2010, the IADB Board of Governors agreed on an increase of \$70 billion (5,802,660 shares) in the bank's capital. The capital increase will only go into effect on condition that subscriptions are received from member countries for at least 75 percent (4,351,995 shares) of the shares in the capital increase.

What it means for Israel

1. **Paid-in capital:** Israel has the possibility of purchasing 223 shares of paid-in capital at a total cost of \$2,690,145. Payment for the shares will be made in

five installments (four payments of \$542,850 and a fifth payment of \$518,730), one payment each year after the approval of the capital increase.

2. **Callable capital:** Israel has the possibility of acquiring 8,966 shares of callable capital at a cost of \$108,160,735. For these shares, immediate payment is not required. The IADB can request of member countries to pay for the shares on an as-needed basis.

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

In May, 2010, the EBRD Board of Governors decided to increase paid-in capital by €1 billion through a transfer from the bank's reserves, and to increase callable capital by €9 billion through subscriptions from member countries.

What it means for Israel

1. **Paid-in capital:** Israel was allocated 656 of paid-in shares with a total cost of €6.56 million, which was paid from reserves of the EBRD. The entire remuneration for purchasing the shares in cash, for all member countries of the EBRD, was funded from the EBRD's reserves.
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 9,189 shares in the IADB—223 paid-in shares and 8,966 shares of callable capital, in line with the terms detailed in the proposal of the decision by the IADB, "Increase of US\$70 Billion in the Authorized Ordinary Capital Stock and Subscriptions Thereto", which was approved by the IADB Board of Governors as decision AG-7/10 on July 21, 2010.
The Bank of Israel will pay \$2,690,145 for shares paid with cash, in five installments—four payments of \$542,854.46 each and a final payment of \$518,727.59—at dates to be set by the IADB, in accordance with the detailed terms of the decision's proposal listed in the above paragraph.
2. It is appropriate that Israel purchase 5,852 callable 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 decision on this issue will be discussed at a later date.

The decision was reached on December 13, 2011.

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 (participated by telephone in the first part of the discussion)

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. Anat Shabat, Head of Comptroller's Office Division

Ms. Esti Schwartz, Monetary Committee Secretary

Adv. Tida Shamir, General Counsel