



August 25, 2015

**Summary of the Monetary Committee discussions on July 21 and August 11, 2015
on management of the foreign exchange reserves**

Investment in new country

Background:

Based on the guidelines, investment of up to 1 percent of the reserves is permitted in countries that belong to the BBB credit rating group. The Market Operations Department presented the Committee with the findings of an examination of the possibilities and worthwhileness of investment in the Developing Economies group, which includes countries rated BBB, vis-à-vis the risk inherent in such investment.

Since the crisis, we have seen expanded currency diversification of foreign currency reserves worldwide, and support for currency diversification of foreign exchange reserves can be found in the theoretical and empirical literature.

The Market Operations Department examined which developing economies are investable, from the aspect of the depth of their foreign exchange and domestic-bond markets. In most countries it was found that the depths of their foreign exchange and domestic-bond markets were low.

The worthwhileness of investment in investable countries rated BBB is a function of the changes in exchange rates and changes in returns in those markets. In light of the current uncertainty and risk levels characterizing the global economy in general and emerging markets in particular, investment in such countries involves a higher level of risk than in advanced economies.

Monetary Committee decision:

In light of the findings, the Committee is of the opinion that at this time, the risks inherent in investment in developing economies rated BBB do not justify the expected potential return. At this point, the Committee did not approve the investment in countries rated BBB.

Participants:

Members of the Monetary Committee

Dr. Karnit Flug, Governor of the Bank of Israel and Monetary Committee Chairperson

Dr. Nadine Baudot-Trajtenberg, Deputy Governor

Prof. Alex Cukierman

Prof. Reuben Gronau

Prof. Nathan Sussman, Director of Research Department

Other participants

Andrew Abir, Director of Market Operations Department

Tal Biber, Head of Markets Division in Market Operations Department (in July 21 discussion)

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

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

Guenia De Mayo, Head of Risk Management Unit in Market Operations Department (in July 21 discussion)

Hagit Waknin, Economist in Market Operations Department (in July 21 discussion)

Daniel Hahiashvili, Chief of Staff to the Governor

Ilan Socianu, Assistant to Secretary of Monetary Committee and Supervisory Council (in July 21 discussion)

Jenny Seri, Portfolio Manager in Dealing Room Unit in Market Operations Department

Amit Friedman, Advisor to Director of Market Operations Department

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