



**Bank of Israel**  
Monetary Committee Secretariat

## **Summary of Monetary Committee discussion held at the Bank of Israel regarding the management of the foreign exchange reserves Annual update of the numeraire**

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The discussion was held on December 12, 2018

### **Background:**

The numeraire is the currency basket used to measure the return on the foreign exchange reserves and is thus the neutral currency composition of the reserves, and serves as an anchor for the management of the currency risk of the Bank of Israel's foreign exchange reserves. In accordance with the guidelines outlined by the Monetary Committee, the composition of the numeraire is examined annually by the Market Operations Department. In order to maintain the purchasing power of the reserves in terms of their potential uses, the numeraire composition is set based on the potential uses of the reserves in an emergency situation and on assessments of the liquidity of the currencies which can be invested in. This distribution is examined in light of the distribution of reserves of countries worldwide.

In September 2012, the quantity of currencies in the numeraire were established, such that the distribution of the numeraire was set with the following weights: 65 percent dollar, 32 percent euro, and 3 percent British pound. In the annual updates for the following years, the Monetary Committee examined the composition and decided to leave it unchanged. Due to changes in exchange rates, the actual currency distribution of the numeraire on December 12, 2018, is 67 percent dollar, 30 percent euro, and 3 percent British pound.

At the end of 2018, the Market Operations Department examined the currency composition of the components of the updated potential uses of the reserves 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 extreme emergency or financial crisis situations. 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 substantial change in the liquidity of the major currencies and in the global distribution of reserves.

The Committee was of the opinion that when there is no material change in the composition derived from the Market Operations Department's examination, as was the case this year, it is preferable to leave the numeraire composition unchanged. The Committee also expressed its preference for maintaining the stability of the numeraire composition over the years. Accordingly, the Committee decided to leave the composition of the numeraire unchanged at its current composition.

**Monetary Committee Decision:**

To leave the composition of the numeraire unchanged. The Committee approved the recommendation unanimously.

**Participants in the discussion:****Members of the Monetary Committee**

Dr. Nadine Baudot-Trajtenberg, Acting Governor and Chairperson of the Monetary Committee

Mr. Adrew Abir, Director of Market Operations Department

Prof. Reuben Gronau

Prof. Moshe Hazan

Prof. Zvi Hercowitz

**Other participants in the discussion:**

Tal Biber, Head of Markets Division in Market Operations Department

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

Hagit Waknin, Market Operations Department

Ketty Cohen, Market Operations Department

Roev Levy, Market Operations Department

Yoav Soffer, Bank of Israel Spokesperson

Jenny Seri, Market Operations Department

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