



December 25, 2019

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

The discussion was held on December 18, 2019.

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 Markets 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 in which they can be invested. 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 determined, such that the derived currency 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 today is 67.8 percent dollar, 29.6 percent euro, and 2.6 percent British pound.

At the end of 2019, the Markets Department examined the currency composition of the components of the 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 emergency or financial crisis situations. The analysis 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.

As such, the Markets Department recommended to keep the numeraire composition unchanged, until the next discussion on the issue.

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

Prof. Amir Yaron, Governor of the Bank of Israel and Chairperson

Prof. Reuben Gronau

Prof. Moshe Hazan

Prof. Zvi Hercowitz

Monetary Committee Members who were absent

Mr. Adrew Abir, Director of Markets Department

Other participants in the discussion:

Mr. Tal Biber, Head of Markets Division in Markets Department

Dr. Golan Benita, Head of the Strategic Management Unit in the Markets Department

Ms. Francoise Ben-Zur, Head of Financial Division in the Markets Department

Ms. Guenia de Mayo, Head of the Risk Management Unit in the Markets Department

Ms. Hagit Waknin, Markets Department

Mr. Roe Levy, Markets Department

Mr. Arad May, Monetary Committee and the Supervisory Council Secretariat