



Summary of the monetary discussions held at the Bank of Israel regarding the foreign exchange market

The discussions were held on January 13 and 14, 2021.

Background:

In recent months, the foreign currency inflows to the Israeli economy have intensified, against the background of the growth in the current account surplus, direct investments, a high scope of foreign exchange sales by institutional investors against their investment gains in capital markets abroad, and an increase in investments by nonresident investors in Israeli government bonds, also as a result of Israel's being added to the WGBI global bond index.

These factors contributed to a marked appreciation of the shekel, which was also impacted by the weakening of the dollar worldwide, vis-à-vis the currencies of many other countries. Against this background, and in order to moderate the negative effect of shekel appreciation on economic activity in Israel during the COVID-19 crisis, the Bank of Israel increased the scope of its intervention in the foreign exchange market and in 2020 bought a total of about \$21 billion.

Discussion:

The Monetary Committee assesses that in order to support the achievement of the Bank of Israel's objectives and the recovery of the economy from the coronavirus crisis, and in particular to support exporting and import-substitute industries, it will be necessary to continue to intervene extensively in the foreign exchange market in 2021.

There was a discussion on the ramifications of the strengthening of the shekel on exports, employment, and price stability, and the desired exchange rate policy considering the coronavirus crisis. The Committee was presented with several alternatives.

Monetary Committee Decisions:

1. To notify in advance on the scope of purchases in 2021.
2. The Bank of Israel will purchase \$30 billion in 2021.
3. The purchases will continue as long as they do not lead to a depreciation at a magnitude that is not consistent with achieving the bank's objectives in terms of price stability and financial stability.
4. Toward the end of 2021, the Bank will make known its intervention policy for 2022, in accordance with developments in the real economy and particularly in the labor market, in the financial markets, the trend of the inflation rate, and with regard to assessments regarding the economy's exit paths from the crisis as they will be formulated at that time.

The decisions were unanimous.

The reasoning behind the decisions:

1. The advance notice of the scope of purchases is intended to provide the market with certainty regarding the Bank's commitment to dealing with the recent appreciation, and thus to support the economy's continued dealing with the economic effects of the coronavirus crisis.
2. In the Monetary Committee's assessment, in order to support the recovery of the economy from the COVID-19 crisis, and particularly in order to support employment in the exporting and the import-substitute industries, it will be required to continue intervening in the foreign exchange market to an extensive extent in 2021.
3. The total purchase amount that was decided upon is markedly greater than the Bank's intervention in the past and than assessments by the Bank regarding the expected surplus in the current account this year, so that the purchases will also moderate the appreciation forces deriving from financial factors.

Participants:

Members of the Monetary Committee

Prof. Amir Yaron, Governor of the Bank of Israel, and Chairperson
Mr. Andrew Abir, Deputy Governor of the Bank of Israel
Prof. Reuben Gronau, Monetary Committee member
Prof. Moshe Hazan, Monetary Committee member
Prof. Zvi Hercowitz, Monetary Committee member
Prof. Michel Strawczynski

Other participants in the discussion:

Mr. Tal Biber, Head of Markets Division in the Markets Department
Mr. Mickey Blank, Markets Division
Dr. Golan Benita, Chief of Staff to the Governor
Mr. Uri Barazani, Bank Spokesperson
Mr. Arad May, Secretariat of the Monetary Committee and the Supervisory Council
Mr. Yoav Soffer, Advisor to the Deputy Governor
Ms. Michal Sinai Livyatan, Legal Division
Ms. Nurit Felter-Eitan, Director of the Communications, Public Information, and Community Relations Department
Dr. Amit Friedman, Advisor to the Director of the Markets Department
Dr. Sigal Ribon, Head of the Monetary Division, Research Department
Ms. Esti Schwartz, Secretary of the Monetary Committee and the Supervisory Council (in the discussions held on January 13, 2021)
Ms. Tida Shamir, General Counsel of the Bank