



December 17, 2013

Summary of the Monetary Committee discussions on November 12 and December 3, 2013 regarding the management of the foreign exchange reserves

Approval to temporarily deviate from percentage of portfolio permitted to be invested in equities

Decision:

After the Committee concluded a consultation process with the Ministry of Finance, the Committee approved a temporary deviation from the percentage of the reserves permitted to be invested in equities, to 7 percent, for a period of 2 months or until the conclusion of consultation with the Ministry of Finance on the investment guidelines (whichever comes first).

Background:

In February 2013, the Monetary Committee approved an increase, from 3 percent to 6 percent, in the share of the reserves portfolio which may be invested in equities. The Monetary Committee approved an increase in the actual investment in the equity market to 5.5 percent, in order to leave some safety margin for profits to accumulate on the investment without deviating from the limitation.

In the beginning of June, after the last increase in investment in equities, the actual share of investment in equities was 5.5 percent. Since then, equity market indices have increased markedly in all equity markets in which the reserves are invested, so that the share of investment in equities out of total reserves is now 6 percent.

According to the investment policy guidelines of the foreign exchange reserves, published in March 2013, it is permitted to invest up to 6 percent of total reserves in equities (Section 4(a)6). Currently, the share of investment in equities is 6 percent of total reserves, as a result of the recent increase in global equity markets in which the reserves are invested. If the increases continue, the investment will grow beyond the maximum share allowed by the guidelines.

In light of the expected change in the maximum percentage which is allowed to be invested in equities, subject to holding consultations on revised guidelines with the Minister of Finance, the Committee decided to approve a temporary deviation, to 7 percent, in the share of total reserves invested in equities. This is for a period of 2 months, or until the conclusion of such

consultation with the Ministry of Finance on the Monetary Committee's requested changes to the investment policy guidelines of the reserves, including the increase in the share of the reserves permitted to be invested in equities.

The approval of the temporary deviation was submitted to the Minister of Finance, as required by the law, on November 18, 2013, for consultation purposes. The Committee requested the Ministry of Finance's response by November 26, 2013.

On November 25, 2013, the Ministry of Finance's response was received, in which it was written that the Ministry of Finance does not oppose the approval of the temporary deviation from the percentage of investment in equities. This ended the consultation process.

Participants:

Members of the Monetary Committee

Dr. Karnit Flug, Governor of the Bank of Israel, Chairperson

Prof. Alex Cukierman

Prof. Reuben Gronau

Prof. Rafi Melnick, participated in discussion on December 3

Prof. Nathan Sussman, Director of the Research Department

Other participants

Andrew Abir, Director of the Market Operations Department

Eddy Azoulay, Chief of Staff to the Governor

Tal Biber, Head of Markets Division in the Market Operations Department

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

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

Guenia De Mayo, Head of Risk Management Unit in Market Operations Department

Mark Yohai, Economist in Risk Management Unit in Market Operations Department

Roe Levy, Economist in Risk Management Unit in Market Operations Department

Yoav Soffer, Acting Spokesperson of the Bank of Israel

Ilan Socianu, Assistant to Secretary of the Monetary Committee and the Supervisory Council

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

Nitzan Shinar, Economist in Risk Management Unit in Market Operations Department