



# Intervention Policy at the BoI

## The Past, the Present and the Future

**Andrew Abir**  
**Director, Market Operations Department**  
**Bank of Israel**

**CEPR-SNB-BoI Conference**  
**7<sup>th</sup>-8<sup>th</sup> December 2017**  
**Jerusalem**



SCHWEIZERISCHE NATIONALBANK  
BANQUE NATIONALE SUISSE  
BANCA NAZIONALE SVIZZERA  
BANCA NAZIUNALA SVIZRA  
SWISS NATIONAL BANK 

# Outline

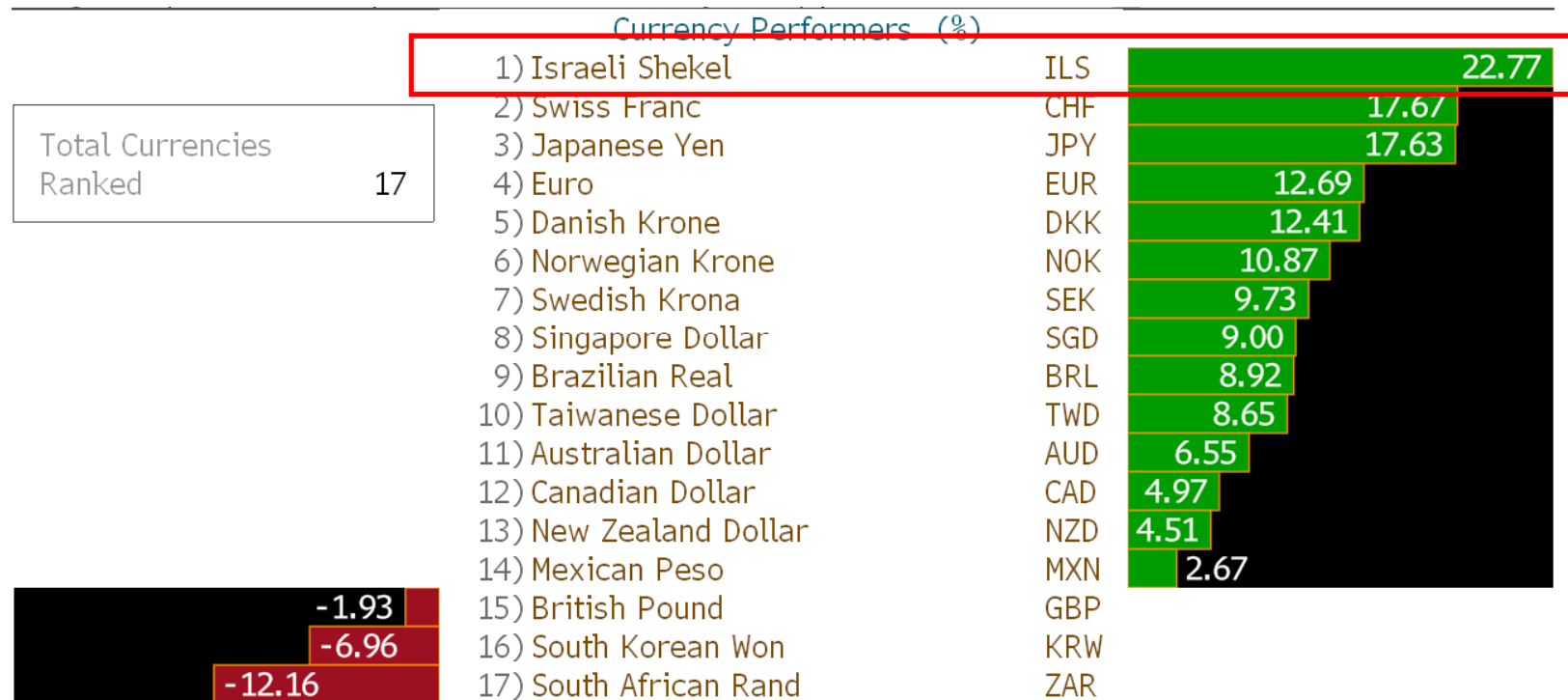


- The historical background and the early intervention programs
- Current intervention policy
- Rationale for Intervention
- Sustainability of Intervention

# 7/2007-3/2008

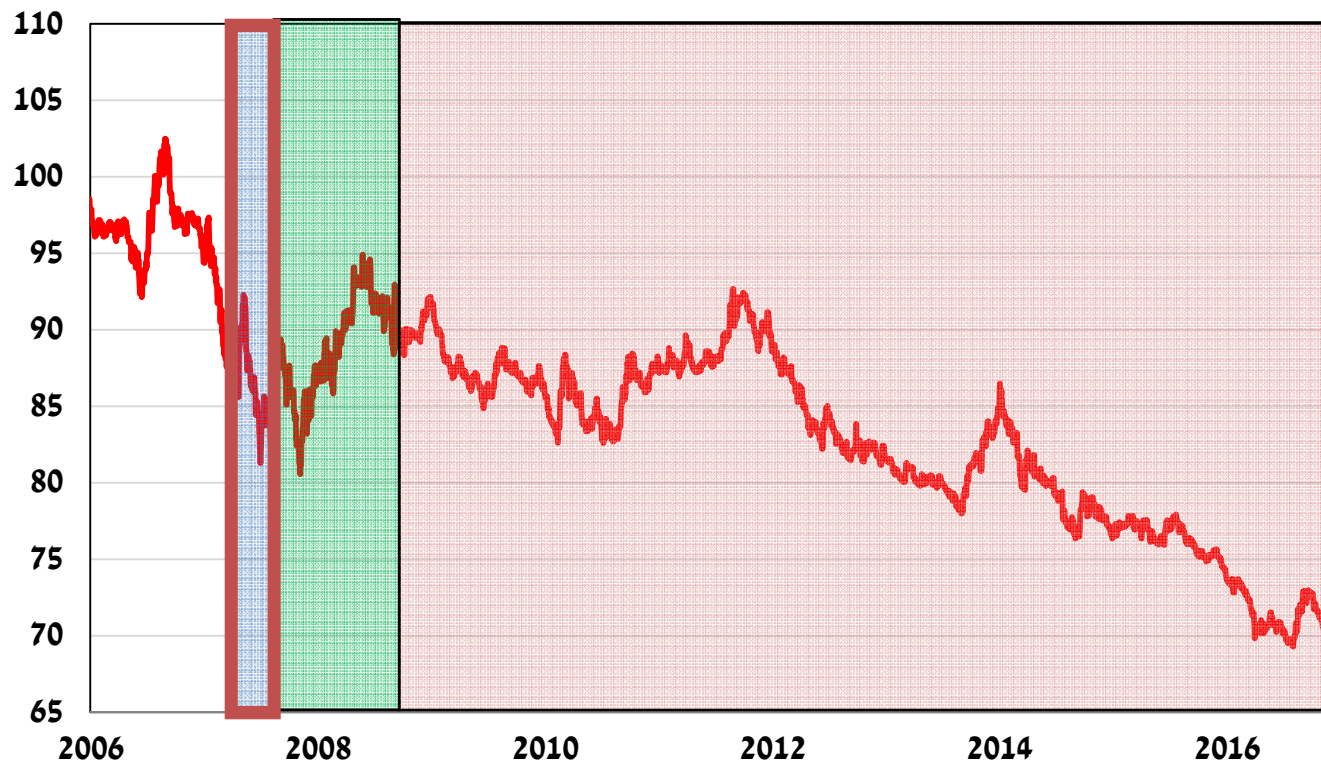


## The Shekel on top of the league



# Intervention starts

100=01/2006

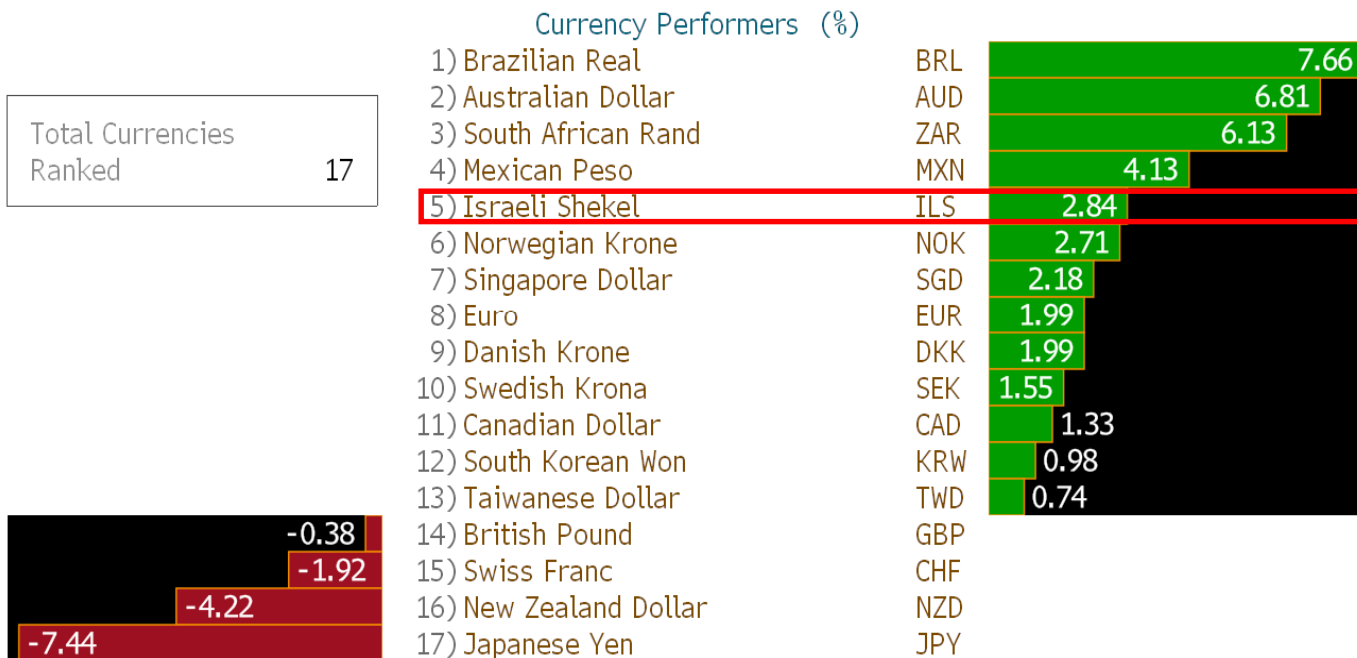


Stage 1  
US\$25m  
per day

Stage2  
US\$100m  
per day

Stage 3:  
Discretionary Intervention

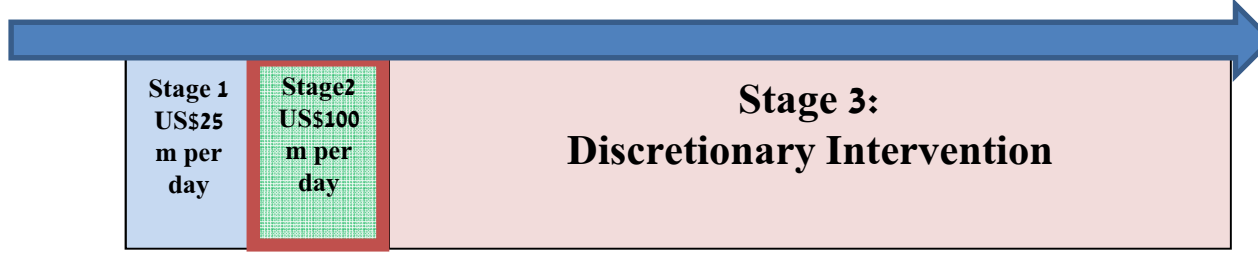
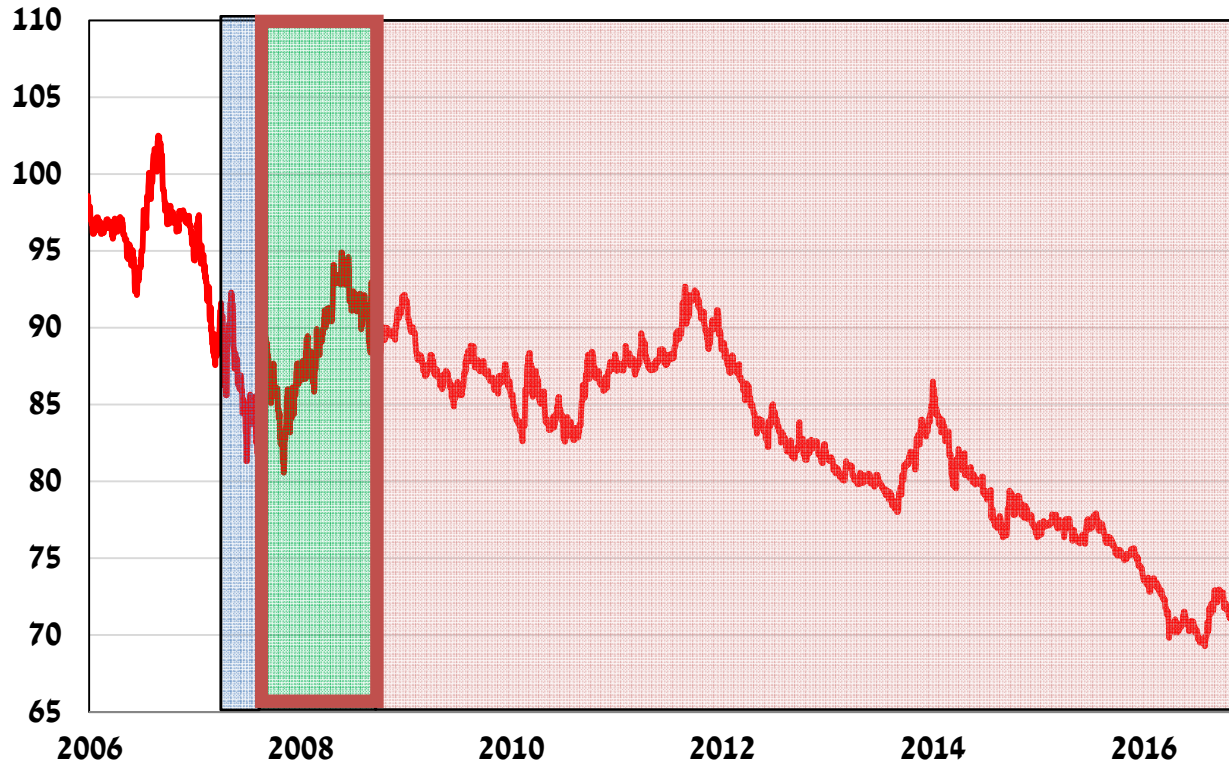
# 3-7/2008-The Shekel appreciates in tandem with other currencies



# Increase of Intervention Amounts



100=01/2006



## The current FX Policy

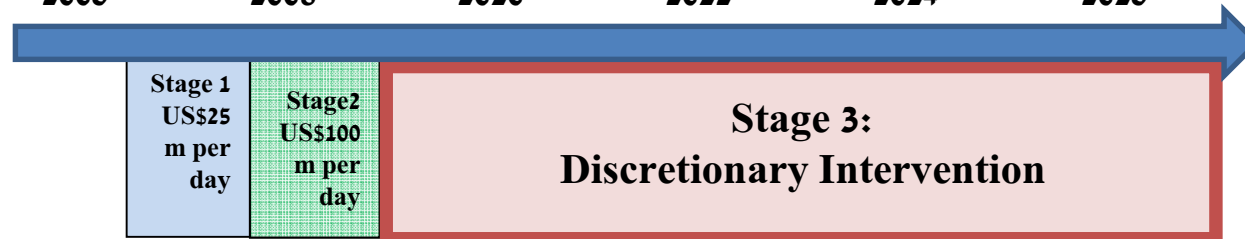
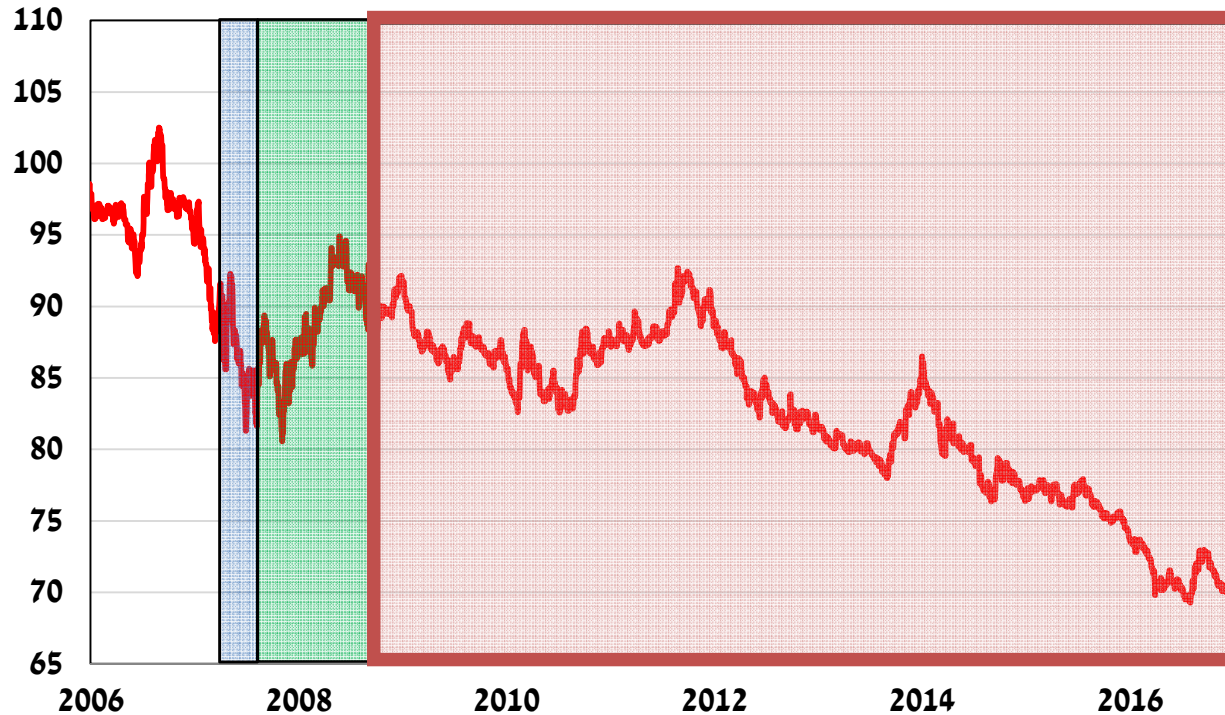
*“.....the Bank of Israel will act in the foreign exchange market in the event of unusual movements in the exchange rate which are inconsistent with underlying economic conditions, or when conditions in the foreign exchange market are disorderly.”*

*BoI Press Release, 3<sup>rd</sup> August 2009*

# Discretionary Intervention



100=01/2006



# Rationale for FX Intervention

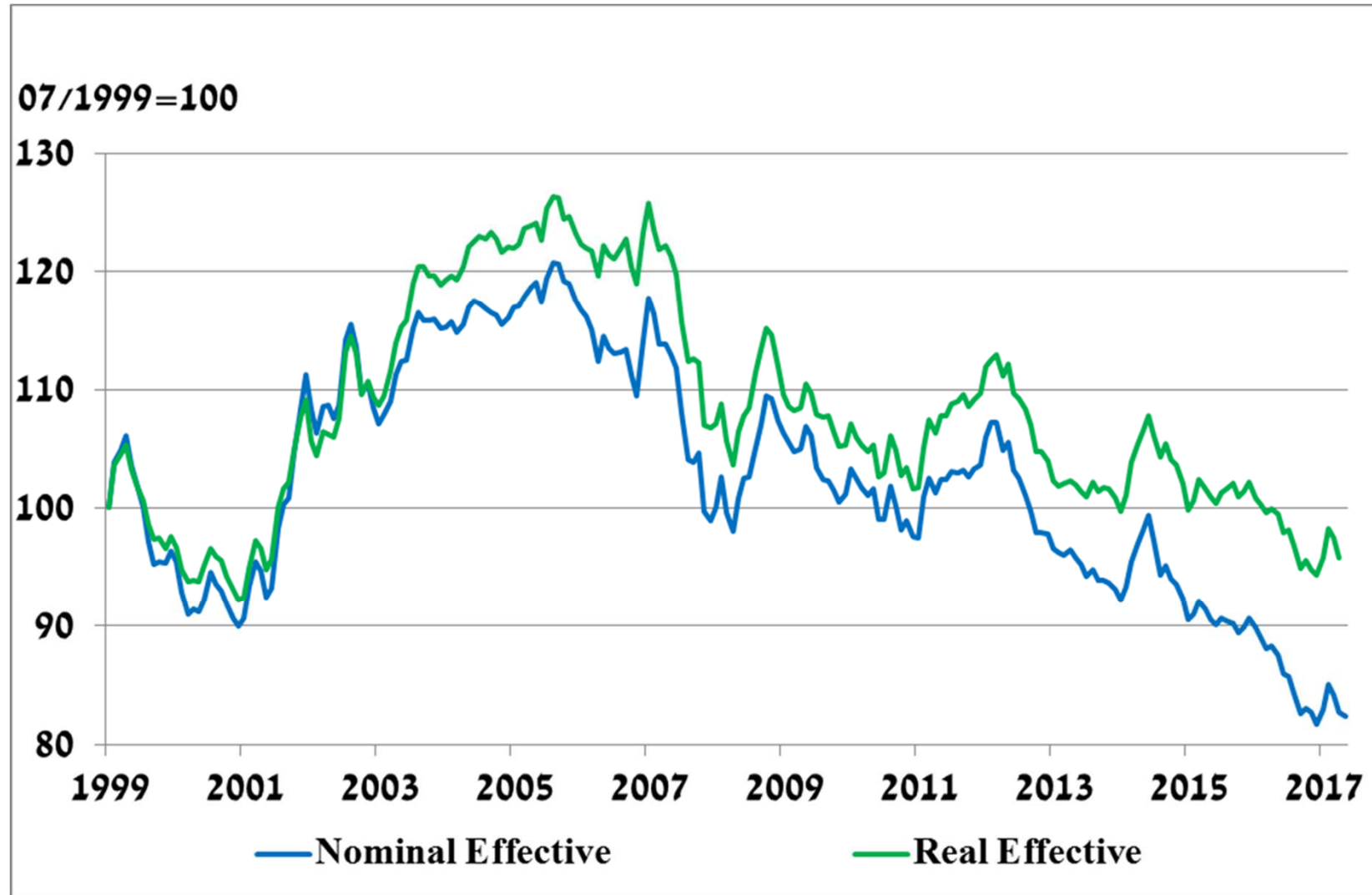
- Shekel appreciation pressures are stronger than can be explained by solid economic fundamentals

Possible reasons for excessive appreciation pressures:

- Exceptionally easy monetary policies of our trading partners
- Overly optimistic expectations from discovery of gas
- Strong appreciation pressures in a very open economy can cause irreversible damage to the export sector
- Domestic inflation well below government target (1-3%).

**As part of its responsibility for monetary policy, with its goal of supporting growth and employment, the BoI intervenes in the FX market**

# Shekel Exchange Rate



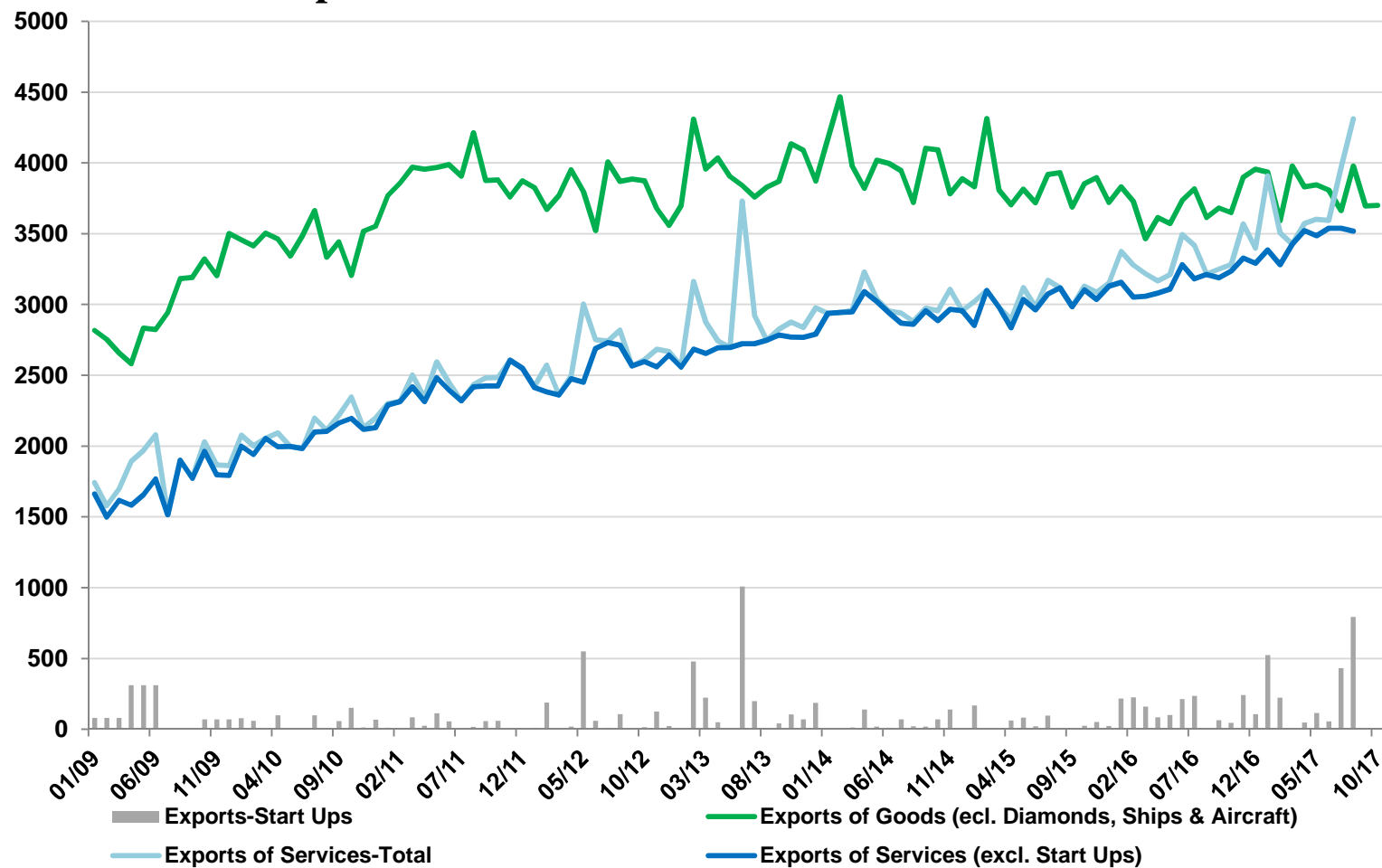
# Shekel Fair Value-Not a Science

	<b><u>BEER</u></b>
-18%	CITI
-13.6%	Barclays
-10.2%	GS
-8.2%	DB <sup>1</sup>
-	IMF-EBA-Lite REER
	<b><u>FEER</u></b>
0%	DB <sup>2</sup>
-	IMF-Modified EBA CA ANALYSIS

# Service Exports grow rapidly but Goods exports are hindered



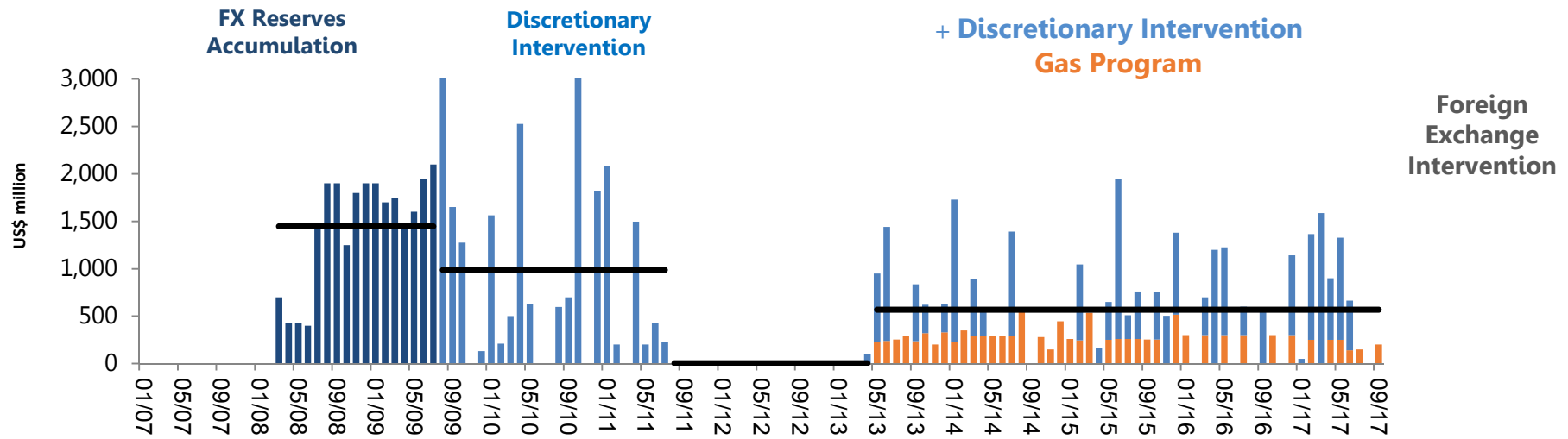
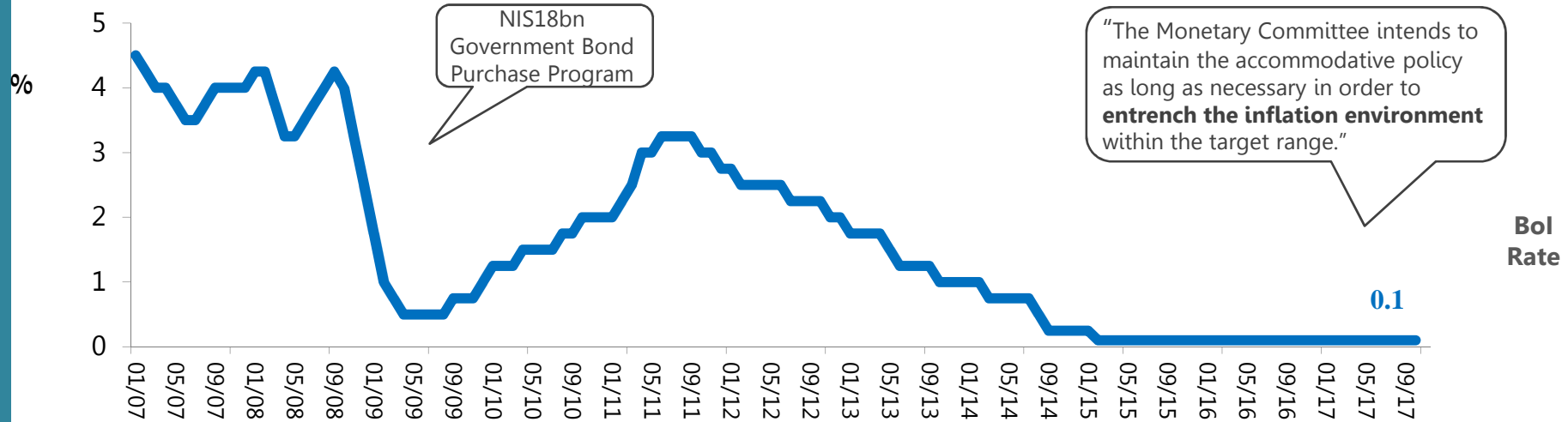
Exports of Goods and Services (US\$ million, sa)



# The Gas Program

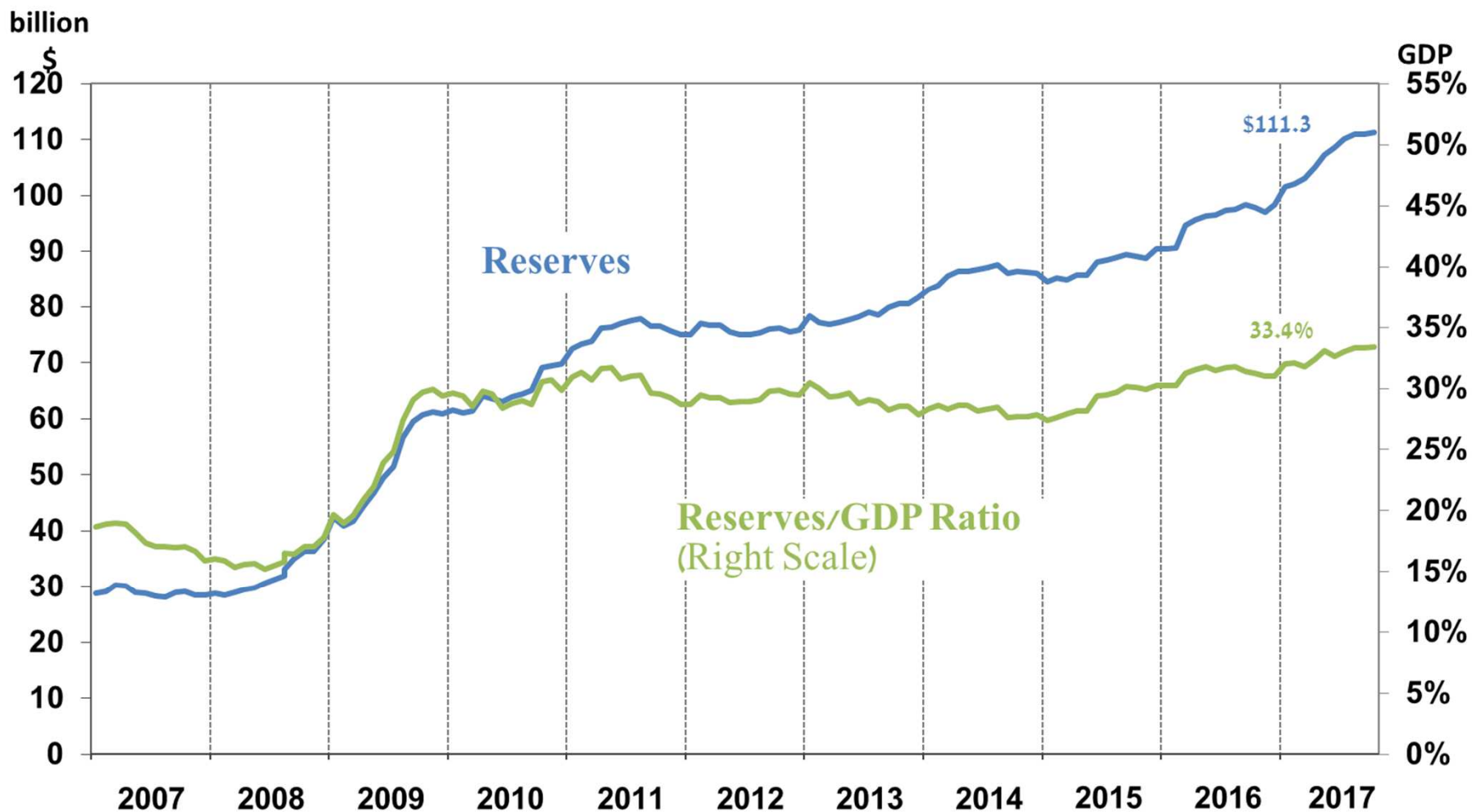
- Since May 2013 the BoI purchases foreign exchange in order to offset the effect of natural gas production on the exchange rate (Dutch Disease)
- The BoI purchases foreign exchange in line with the Bank's assessment of the effect of the natural gas production on the balance of payments
- The Bank's assessment of the impact and the corresponding purchase amount is published annually
- The program will be revisited when the wealth fund starts operating

# Monetary Policy Toolkit at the BoI



# Foreign Exchange Reserves

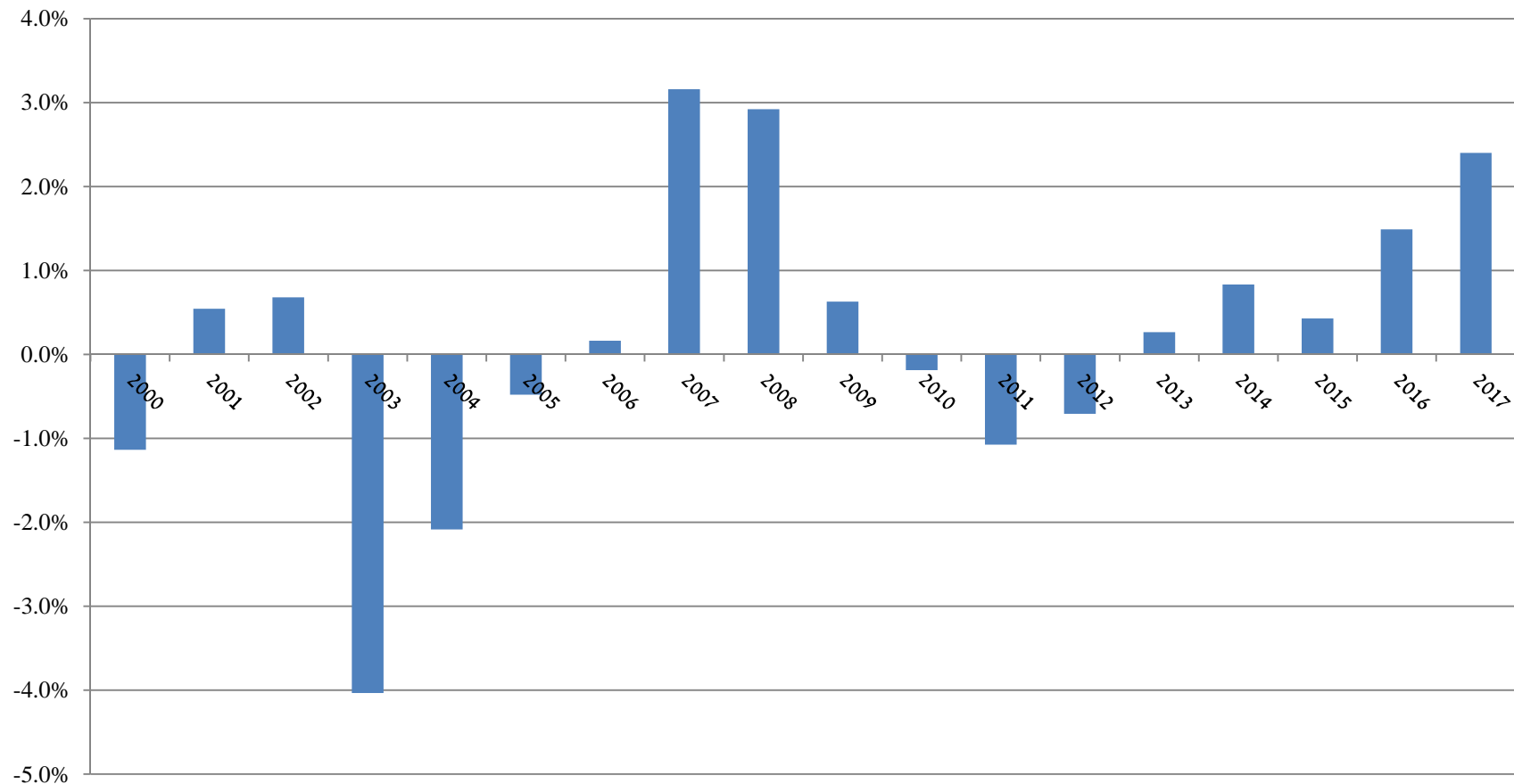
The amount increases but the ratio to GDP is constant



# Increase in Risk Profile higher expected return vs sterilization costs



Yield on FX Reserves (after sterilization, excl FX effects)





**Thank You**