BANK OF ISRAEL
Secretary of the Monetary Committee and the Supervisory Council

October 26, 2014

Press Release

Summary of discussion held by the Bank of Israel Monetary Committee on October 26, 2014 regarding the cancellation of the reserve requirement on foreign exchange derivatives

Background

In January 2011, the Bank of Israel imposed a 10 percent reserve requirement on the banking system for foreign exchange derivative transactions with nonresidents. This requirement was adopted at the time as a macroprudential measure in response to the sharp increase in short-term foreign exchange derivative activity by nonresidents, and the high volume of their holdings in the *makam* market.

Since January 2011, the Bank of Israel has carried out a yearly assessment of the necessity of this measure.

Main points raised in the discussion

- The very low level of the Bank of Israel interest rate means that the effective cost of the reserve requirement is low in any case.
- This measure will act to support the banking system prior to the implementation of the Basel III liquidity provisions at the beginning of 2015 by preventing the duplication of the reserve requirement, and will add additional liquid assets to the system that will be recognized for Basel III purposes.
- It was noted that should the Monetary Committee find it necessary, it will be possible to reimpose the reserve requirement, since the operational systems at the Bank of Israel and in the banking system are prepared for it.

Decision of the Monetary Committee

Pursuant to Section 38(b) of the Bank of Israel Law, 5770–2010, the Monetary Committee approves the decision of the Governor to cancel the reserve requirement on swap and forward transactions with nonresidents.