

ACTIVITIES OF THE BANK OF ISRAEL

1. THE STRUCTURE OF THE BANK'S ASSETS AND LIABILITIES

When the Bank of Israel was founded on 1 December 1954, the Issue Department of the Bank Leumi Le-Israel B.M. transferred to it the liability of banknotes in circulation and the assets used as cover for this liability, viz. Government securities (Treasury Bills and Land Bills) and balances in gold and foreign currency. On 31 December 1954, after a month of operations, the Bank of Israel's liabilities totalled IL.201.8 millions, of which nearly four-fifths were banknotes and coin in circulation; the remaining liabilities at the end of 1954 comprised deposits of banking institutions (16 per cent of total liabilities) and capital and reserve funds of the Bank (5 per cent). Government securities represented some 60 per cent of the Bank's total assets at that time, while a further 25.6 per cent consisted of balances in gold or foreign currency. Prior to their transfer to the Bank of Israel, the great majority of these two types of assets had been held by the Issue Department of the Bank Leumi Le-Israel B.M. as cover for currency in circulation. Loans to the Government constituted some 10 per cent of the Bank's assets, while loans to banking institutions (granted to enable them to deposit the required minimum balances with the Bank of Israel) amounted to less than 2 per cent of total assets. (See Table 157).

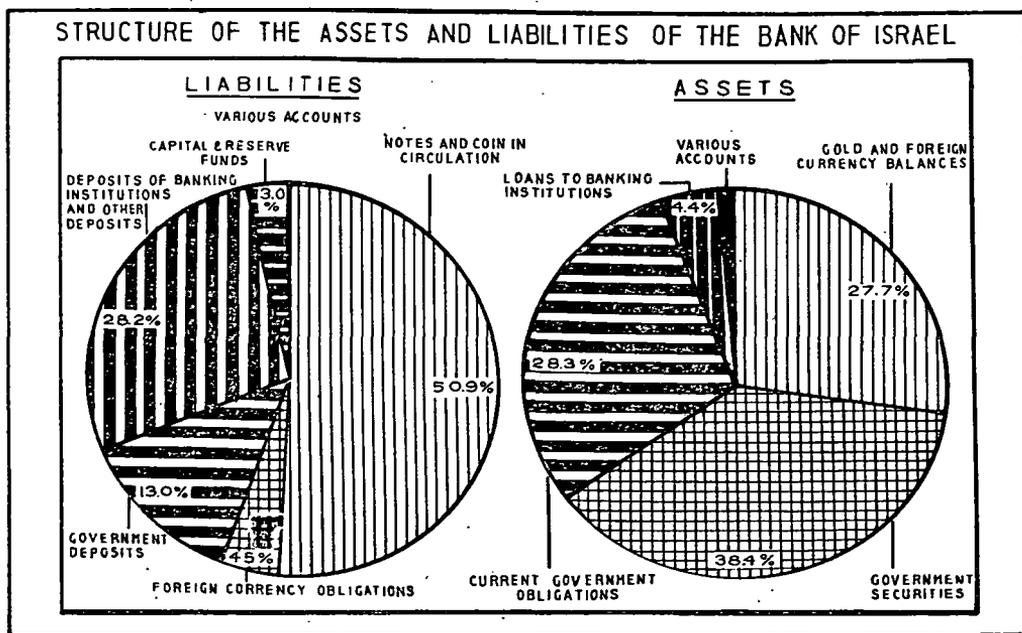


TABLE 157

STRUCTURE OF THE ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, END OF 1954 AND END OF 1955

<i>Assets</i>	<i>in IL. millions</i>		<i>in per cent</i>		<i>Liabilities</i>	<i>in IL. millions</i>		<i>in per cent</i>	
	<i>end of</i>		<i>end of</i>			<i>end of</i>		<i>end of</i>	
	1954	1955	1954	1955		1954	1955	1954	1955
Gold and Foreign					Banknotes and Coin				
Currency Balances	53.5	99.9	26.5	27.7	in Circulation	159.3	183.6	78.9	50.9
Government Securities	122.6	138.5	60.7	38.4	Liabilities in Foreign				
Current Liabilities					Currency in con-				
of the Government	20.9	102.0	10.4	28.3	nection with Trade				
Re-Discount and					Agreements	—	16.4	—	4.5
Loans to Banking					Government Deposits	—	47.0	—	13.0
Institutions	3.6	15.8	1.8	4.4	Deposits of Banking				
Various Accounts	1.2	4.4	0.6	1.2	and Other				
					Institutions	32.1	101.8	15.9	28.2
					Capital and Reserve				
					Funds	10.0	11.0	5.0	3.0
					Various Accounts	0.4	0.8	0.2	0.4
<i>Total</i>	201.8	360.6	100.0	100.0	<i>Total</i>	201.8	360.6	100.0	100.0

SOURCE: *Bank of Israel.*

On 31 December 1955, the assets and liabilities of the Bank balanced at IL.360.6 millions. Most of the assets added during 1955 were current loans to the Government, foreign currency balances, re-discounted bills and loans to banking institutions. The value of balances in foreign currency and gold almost doubled. Indeed, their increase was proportionately greater than that of other assets and their share of total assets rose slightly, reaching 27.7 per cent at the end of 1955. The amount of Government securities held by the Bank increased only to a limited extent and their share in total assets declined from 60.7 to 38.4 per cent. On the other hand, the Bank financed the current activities of the Government to a far greater extent, so that loans to the Government represented 28 per cent of the Bank's total assets at the end of 1955*.

Re-discounting, both in Israel currency and in foreign currency, raised the share of loans to banking institutions in total assets to 4.4 per cent. This was despite the fact that the loans granted to these institutions in connection with the depositing of their balances with the Bank of Israel were redeemed almost in their entirety during 1955.

As a result of the expansion of the Bank's activities, the proportion of bank-notes and coin in circulation dropped at the end of 1955 to approximately half of its total liabilities. Most liabilities added during 1955 consisted of the deposits of banking and other institutions, whose share rose from 15.9 to 28.2 per cent, and of Government deposits, representing 13 per cent of total liabilities. Liabilities in foreign currency in connection with trade agreements totalled 4.5 per cent, while the share of capital and the reserve fund fell from 11 to 3 per cent, owing to the large increase in other liabilities.

2. ASSETS AND LIABILITIES IN GOLD AND FOREIGN CURRENCY

Balances in Gold and Foreign Currency

The sum total of the Bank of Israel's balances in foreign currency rose from IL.51.5 millions at the end of 1954 to IL.88.8 millions at the end of 1955, a rise of some IL.37 millions or about 72 per cent. Considerable fluctuations in this amount took place in the course of the year, as shown in Table 158.

Almost all the Bank's foreign currency balances at the end of 1954 amounted to the same as those transferred to it at the time of its foundation from the Issue Department of the Bank Leumi Le-Israel B.M. During the first four months of 1955, total foreign currency balances increased by more than IL.40 millions. This increase resulted from the partial transfer to the Bank of Israel of exchange fund deposits which, prior to the Bank's foundation, had been administered by the Bank Leumi Le-Israel B.M., as well as from the general rise in the foreign currency balances of the State.

In subsequent months, heavier expenditure brought about a certain decrease in the foreign currency balances. Their total fluctuated between IL.74 millions and

* A considerable part of current loans to the Government was covered by deposits of the Government and other institutions with the Bank of Israel.

IL.89 millions from June until the end of December, apart from August when it amounted to IL.101 millions, as a result of a loan received towards the end of that month.

TABLE 158
GOLD AND FOREIGN CURRENCY BALANCES OF THE BANK OF ISRAEL*
(in IL. thousands)

<i>End of Month</i>	<i>Foreign Currency Balances</i>	<i>Gold</i>
1954—December	51,458	2,025
1955—January	61,651	2,025
February	60,005	2,025
March	70,785	2,025
April	94,474	2,025
May	92,595	2,025
June	73,833	2,025
July	73,577	2,025
August	101,004	2,026
September	84,184	2,032
October	74,305	2,033
November	83,850	2,044
December	88,819	2,042

* This table does not include balances in clearing accounts connected with trade agreements; see below for these balances.

SOURCE: *Bank of Israel.*

The value of gold deposited with the International Monetary Fund, which was transferred to the Bank of Israel together with the other assets of the Issue Department of the Bank Leumi Le-Israel B.M., remained steady at IL.2.025 millions during the whole of 1955. From August, the Bank began to purchase gold from commercial banking institutions at prices determined by it. In this way, the total value of gold held by the Bank was slightly increased during the last months of the year and reached IL.2.042 millions at the end of December 1955.

Balances included in Assets held as Cover for Currency in Circulation

The amount of foreign currency balances included in assets held as cover for currency in circulation rose from IL. 50 millions in January 1955 to IL. 60 millions in December of that year.

The fluctuations in these balances during 1955 are shown in Table 164. Most of these balances were deposited with banks abroad in the form of fixed term deposits of three to twelve months' duration. The Bank of Israel received interest on these deposits at rates varying from 1 to 4 per cent per annum, depending upon the conditions prevailing in those countries with regard to interest payments as well as upon the period of deposit. The sum total of balances deposited abroad for fixed periods amounted to some IL. 5 millions at the end of 1954 and rose to more than IL. 50 millions at the end of 1955.

Clearing Accounts connected with Trade Agreements

All accounts of trade and payments agreements between Israel and other countries which had previously been administered by the Bank Leumi Le-Israel B.M., were gradually transferred to the Bank of Israel in the course of 1955. At the end of that year, the Bank was administering the accounts of trade and payments agreements with the following eighteen countries: Argentina, Bulgaria, Burma, Czechoslovakia, Denmark, Finland, France, Greece, Hungary, Iceland, Italy, Netherlands, Norway, Poland, Rumania, Turkey, U.S.S.R. and Yugoslavia. At the end of March 1955, the Bank's credit balances in these clearing accounts totalled IL. 0.4 million. With the transfer of further clearing accounts to the Bank of Israel, the total value of credit balances at the end of July amounted to IL. 10 millions. Debit balances in clearing accounts totalled some IL. 1 million at the end of April, rising to IL. 5.3 millions at the end of October. A summary of the situation in clearing accounts connected with trade agreements during 1955 is given in Table 159.

TABLE 159

TRADE AGREEMENT CLEARING ACCOUNTS WITH THE BANK OF ISRAEL, 1955

(in IL. millions)

<i>End of Month</i>	<i>Credit Balances</i>	<i>Debit Balances</i>
March	0.4	—
June	9.4	1.3
September	7.5	3.2
December	9.0	5.4

SOURCE: *Bank of Israel.*

Credit balances, totalling IL. 9 millions, existed at the end of 1955 in nine accounts connected with trade agreements. A further nine such accounts showed debit balances totalling IL. 5.4 millions. The net balances in clearing accounts connected with trade agreements are included in the total of exchange fund deposits. The situation in the clearing account with each individual country linked to Israel by a trade agreement is shown in Table 22 in Chapter III.

Exchange Funds and Other Deposits

The foreign currency liabilities of the Bank also include, in addition to the debit balances in the clearing accounts, exchange funds and other deposits in foreign currency.

Exchange funds are accounts through which the current conversion of foreign currency into Israel currency and *vice versa* is implemented. Such conversions are effected by the public through banks authorised to deal in foreign currency. The banks concerned sell the balances of their foreign currency deposits to the Bank of Israel once a week, their accounts being credited with the Israel currency equivalent. The purchase and sale of foreign currency by the Government are transacted directly with the Bank of Israel. The balance of the deposits in the exchange funds represents the net balance of foreign currency converted into Israel pounds through these funds. Until the foundation of the Bank of Israel, these exchange funds were

administered by the Bank Leumi Le-Israel B.M. The process of transferring them to the Bank of Israel began in January 1955; but the Bank assumed full responsibility for their direction only with the transfer of the Sterling Exchange Fund in March of that year. The process of transfer was completed in July 1955. Apart from the exchange funds held in currencies of countries which were parties to trade agreements with Israel, the Bank of Israel has, since July 1955, administered exchange funds in pounds sterling, U.S. dollars, Canadian dollars, Swedish kroner, Swiss francs, Belgian francs, South African pounds and Australian pounds.

The Bank of Israel also holds foreign currency deposited by banking institutions or the Government and not converted into Israel currency. The total value of such deposits reached IL. 1.9 millions at the end of June 1955, and rose further to IL. 4.4 millions at the end of September, thereafter falling to IL. 2.5 millions at the end of December. This category of deposits includes fixed term deposits of Israel residents, who have been permitted by the Controller of Foreign Exchange to hold foreign currency on deposit with banks for various fixed periods, at rates of interest varying from 3 to 5 per cent per annum according to the period for which the deposit is made. The total of these deposits placed by other banks with the Bank of Israel amounted to some IL. 1.2 millions at the end of 1955.

3. ACTIVITIES OF THE BANK AS GOVERNMENT BANKER AND FISCAL AGENT

The Bank of Israel acts as the banker and sole fiscal agent to the Government, in accordance with Section 57 of the Bank of Israel Law. The most important bank accounts of the Government were transferred to the Bank of Israel shortly after its foundation; in the course of 1955, the Bank received various other Government accounts. Though the largest sums were concentrated in the main Ministry of Finance accounts, the total number of Government accounts with the Bank of Israel at the end of 1955 was sixty; most of these were accounts of various Ministries and smaller Government units.

A summary of these accounts is shown in several major accounts, as published in the monthly reports on the assets and liabilities of the Bank. A summary of the Government's credit and debit accounts with the Bank of Israel is given in Tables 160 and 161.

DEBIT ACCOUNTS

Advances in Israel Currency

Under Section 45 of the Bank of Israel Law, the Bank is empowered to grant provisional advances to the Government for the financing of its expenditure, provided that the total of such advances does not exceed 20 per cent of the total current budget, not including the Development Budget and the Budgets of Communications and Postal Enterprises. At the end of 1954, the total of these advances amounted to IL.11 millions. The Government repaid these advances at the end of March 1955 as required by Section 45 of the Law, which stipulates that all such advances must be returned not later than the expiration of that financial year. During the period April to December 1955, the total of such advances to the Government fluctuated between IL.20.4 and IL.30.7 millions.

The balance of advances to the Government represents the total of the main debit account of the Ministry of Finance as well as some other debit accounts.

Other Accounts. Other Government debit accounts with the Bank of Israel were put at the Government's disposal for financing the purchase of foodstuffs and the acquisition of other stocks. Counterpart funds for the commodities concerned were deposited with the Bank of Israel against most of these accounts. At the end of the first month after the opening of these accounts — June 1955 — their total value amounted to IL. 5 millions; at the end of September 1955, it had risen to IL. 16.5 millions and at the end of December 1955 to IL. 193 millions.

Advances in Foreign Currency

From September 1955, the Bank of Israel put at the disposal of the Government advances in foreign currency for the financing of special purchases. These advances totalled IL. 10.2 millions at the end of September, but were reduced to IL. 5.6 millions at the end of December.

Obligations for the Redemption of Debts to Central Banks Abroad arising from Trade Agreements

Among other Government accounts, the Bank of Israel took over the obligation of repaying a debt to the Central Bank of Finland, in connection with an Israel-Finnish trade agreement. The redemption date of this loan falls due in September 1956. To cover this foreign currency liability, the Government gave the Bank an obligation in Israel currency which has stood, from May 1955, at IL. 11 millions.

Debit Balances connected with Exchange Funds

The Bank of Israel acts as the Government agent for the purchase of foreign currency from banking institutions against payment in Israel currency and, by virtue of this task, administers the accounts of the exchange funds. Since the banks transfer to the Bank of Israel foreign currency deposits purchased by them for Israel pounds, their local currency balances held with the Bank are credited accordingly; the Bank of Israel then debits the Israel currency exchange fund account of the Government.

The foreign currency deposits of the exchange funds and, thus, the balance of the Government's local currency debt to the Bank in its exchange fund account, amounted to IL. 17.7 millions at the end of March: they totalled IL. 11.4 millions at the end of June and IL. 7.6 millions at the end of September 1955; during the last quarter of the year, the size of this debt increased to IL. 30 millions.

CREDIT ACCOUNTS

The credit accounts of the Government with the Bank of Israel arose from the Israel currency deposits of a number of Government departments and institutions and from the foreign currency deposits of the Ministry of Finance.

Deposits of Government Institutions

Several Government institutions, including the Post Office Bank, deposited monies with the Bank of Israel. The total of such deposits reached IL. 2.2 millions

TABLE 160

DEBIT ACCOUNTS OF THE GOVERNMENT WITH THE BANK OF ISRAEL, 1955

(in IL. millions)

<i>End of Month</i>	<i>Advances</i>	<i>Other Accounts</i>	<i>Obligations for Redemption of Debts to Foreign Banks arising from Trade Agreements</i>	<i>Exchange Funds: Balance of Debt in Israel Currency</i>	<i>Advances in Foreign Currency</i>
1954—December	11.1	—	—	—	—
1955—March	—	—	—	17.7	—
June	22.3	5.0	11.0	11.4	—
September	28.2	16.5	11.0	7.6	10.2
December	26.1	19.3	11.0	30.0	5.6

SOURCE: *Bank of Israel.*

at the end of March and IL. 3 millions at the end of June 1955. After the introduction of the "Save to Build" and "Citrus Grove through Saving" schemes, part of which monies were deposited with the Bank of Israel during the second half of the year, deposits of Government institutions increased to IL. 4.8 millions at the end of September and to IL. 6.4 millions at the end of December.

Government Deposits

During the second half of 1955, the bank accounts of most Ministries were transferred to the Bank of Israel; these accounts totalled IL. 3.2 millions at the end of December 1955.

Deposits of the Defence Fund

From October 1955, the cash receipts of the Defence Fund were deposited with the Bank of Israel. The total deposits of the Defence Fund reached IL. 6.7 millions at the end of December 1955.

TABLE 161

CREDIT ACCOUNTS OF THE GOVERNMENT WITH THE BANK OF ISRAEL, 1955

(in IL. millions)

<i>End of Month</i>	<i>In Israel Currency</i>			<i>In Foreign Currency</i>	
	<i>Deposits of Government Institutions</i>	<i>Government Deposits</i>	<i>Defence Fund Deposits</i>	<i>Foreign Currency Deposits</i>	<i>Foreign Currency Deposits of the Exchange Funds</i>
1954—December	—	—	—	—	—
1955—March	2.2	—	—	—	17.7
June	3.0	—	—	5.0	11.4
September	4.8	—	—	3.0	7.6
December	6.4	3.2	6.7	0.7	30.0

SOURCE: *Bank of Israel.*

Foreign Currency Deposits

Current foreign exchange deposits of the Government, not converted into Israel currency, were deposited with the Bank of Israel. The total of these deposits was subject to considerable fluctuations during 1955: in April they reached a peak of IL. 12.5 millions, thereafter steadily declining to IL. 5 millions at the end of June, IL. 3 millions at the end of September and IL. 0.7 million at the end of December.

Further, the Bank of Israel held at the disposal of the Government foreign currency deposits of the exchange funds, which were created by the balance of foreign currency being converted into Israel pounds.

4. ACTIVITIES OF THE BANK OF ISRAEL AS BANKER TO THE BANKING INSTITUTIONS

The activities of the Bank of Israel as a bankers' bank were primarily in two spheres: (a) holding of deposits of banking institutions; and (b) re-discounting.

(a) Deposits of Banking Institutions

The deposits of banking institutions with the Bank of Israel increased from IL. 32 millions at the end of 1954 to IL. 84 millions at the end of 1955 and their share in the total liabilities of the Bank of Israel rose during this period from 16 to 23 per cent:

At the beginning of December 1954, the banking institutions were obliged to keep a minimum of 20 per cent of the total liquid assets obligatory under the liquidity regulations in the form of balances with the Bank of Israel. The Bank paid interest at the rate of 1.5 per cent per annum on 75 per cent of the compulsory minimum balance, and at 2 per cent per annum on sums deposited in excess of this minimum. The Bank of Israel granted temporary loans to a number of banking institutions that found difficulties in making the compulsory minimum deposits; such loans were gradually redeemed in the course of 1955.

By the end of December 1954, some banking institutions held balances with the Bank of Israel in excess of the required minimum (the reasons for the existence of these surplus balances are given in Chapter XV). The regulations were amended in May 1955 and banking institutions were obliged to deposit with the Bank of Israel at least 15 per cent of all their local currency deposits against which the law required them to hold liquid assets. At the same time, the rate of interest paid by the Bank of Israel on the 75 per cent of the compulsory minimum balances was raised to 2 per cent per annum, and on excess balances to 2.5 per cent per annum. Despite the fact that the new regulations and the rise of deposits in banking institutions increased the value of the compulsory minimum balances, the total of excess balances continued to rise and reached more than IL. 40 millions at the end of December 1955. As from August 1955, banking institutions were enabled to hold fixed term deposits with the Bank of Israel for three months at 3 per cent per annum. By the end of December, the total of such fixed term deposits reached IL. 6.2 millions.

Those banks acting as authorised dealers in foreign exchange also deposited foreign currency with the Bank of Israel. A description of these foreign currency deposits is given in section 2 of this Chapter.

TABLE 162

THE BALANCES OF BANKING INSTITUTIONS WITH THE BANK OF ISRAEL, 1955
(in IL. millions)

End of Month	Total	Compulsory Minimum Balances	Excess Balances		
			Total	Demand Deposits	Fixed Term Deposits
1954—December	32.1	13.6	18.5	18.5	—
1955—January	46.1	28.6	17.5	17.5	—
February	41.4	29.6	11.8	11.8	—
March	50.6	30.7	19.9	19.9	—
April	65.3	33.6	31.7	31.7	—
May	70.6	36.2	34.4	34.4	—
June	69.2	40.0	29.2	29.2	—
July	78.5	40.6	37.9	37.9	—
August	81.7	43.0	38.7	28.8	9.9
September	72.3	43.4	28.9	15.0	13.9
October	70.3	43.0	27.3	15.9	11.4
November	80.6	42.8	37.8	26.2	11.6
December	83.7	43.1	40.6	34.4	6.2

SOURCE: *Bank of Israel.*

(b) *Re-Discounting*

The Bank of Israel began re-discounting activities in February 1955, with the object of fostering a moderate expansion of bank credit while, at the same time, ensuring its direction to branches of the economy and undertakings which increase the volume of exports, reduce the need for imports or are essential to the national economy (see Chapter XV). The regulations stipulated that only banking institutions whose balances with the Bank of Israel stand at IL. 200,000 or more are entitled to submit bills for re-discounting. Every such bill submitted by a banking institution is checked by the Bank to establish the economic destination of the credit. In addition, the Governor of the Bank of Israel appointed an advisory committee, headed by a representative of the Bank, for the planning of re-discounts for agriculture according to branches or to types of produce; other members are representatives of the Ministry of Agriculture and the Jewish Agency. The distribution, village by village, of re-discount monies, given to the various branches of agriculture, is carried out by banking institutions in co-operation with the Ministry of Agriculture.

The rate of interest charged on re-discounts during 1955 was 6 per cent per annum. Banking institutions were permitted to add to this their own interest and commission, amounting together to not more than 2.5 per cent per annum. The balance of re-discounted bills in local currency held by the Bank of Israel at the end of December 1955 for financing agricultural and industrial production was valued at IL. 9.5 millions. The expansion of the volume of re-discounting during the year is shown in Table 163.

In order to finance imports earmarked for export, the Bank of Israel began from August 1955, to re-discount bills in foreign currencies. This was also done in order to finance credits granted by Israel exporters to their customers abroad. The rate of interest charged on re-discounts in foreign currency was 3 per cent per annum, and the banks were allowed to add to this their own interest at a rate not exceeding 2 per cent per annum. The balance of bills discounted by the Bank of Israel in foreign currency reached IL. 6.1 millions at the end of December 1955, as shown in Table 163.

TABLE 163
BALANCES OF BILLS RE-DISCOUNTED, 1955
(in IL. millions)

<i>End of Month</i>	<i>in Israel Currency</i>	<i>in Foreign Currency</i>	<i>Total</i>
February	0.3	—	0.3
March	1.0	—	1.0
April	1.3	—	1.3
May	1.8	—	1.8
June	4.1	—	4.1
July	5.4	—	5.4
August	6.4	2.2	8.6
September	7.3	2.4	9.7
October	8.0	3.2	11.2
November	8.5	3.8	12.3
December	9.5	6.1	15.6

SOURCE: *Bank of Israel*.

5. ISSUE OF CURRENCY

Section 28 of the Bank of Israel Law grants to the Bank of Israel exclusive powers to issue Israel currency. Accordingly, all the assets and liabilities of the Issue Department of the Bank Leumi Le-Israel B.M. were transferred to the Bank of Israel. Paper money of small denominations issued by the Ministry of Finance, to the amount of IL. 4.1 millions, was likewise included with the Bank's liabilities; in return, the Government gave the Bank of Israel an obligation for this same amount.

Upon the Bank of Israel Law becoming effective, the Banknote Ordinance of 5708—1948 and the Banknote Law of 5709—1949 were repealed. These directed that currency in circulation be covered by the following assets: gold, balances in foreign currency, money issued by the Palestine Currency Board, Land Bills, Treasury Bills and other Government bills, the redemption date of which was within one year of their acquisition by the Issue Department, as well as bills of obligation, exchange bills and loans to banks. The restriction requiring that the first three types of assets constitute not less than 50 per cent of the total assets covering currency in circulation was likewise repealed. The law obliges the Bank of Israel to hold assets against the currency in circulation; but it no longer requires the maintenance of specific types of assets nor determines their proportion to each other. On the other hand, the law requires the Bank of Israel to publish weekly in the Official Gazette the total amount of currency in circulation and the assets held against it at the close of business on the Wednesday of each week.

Developments affecting Currency in Circulation and the Assets held against it during 1955

The monthly average of total currency in circulation on each Wednesday* rose from IL. 165.6 millions in January to IL. 192.4 millions in December 1955, representing an increase of IL. 27 millions or 16.1 per cent.

During the first three months of 1955, the amount of currency in circulation continually increased. A particularly large rise took place in April, as Passover fell in this month during 1955. In May and June, total currency in circulation was somewhat reduced; but in subsequent months it increased again, though at a far more moderate rate than during the first quarter of the year. While the average rise in the total of currency in circulation during the period from January to April 1955 was 2.6 per cent per month, the average monthly rise during the period of July to December was only 1.2 per cent (see Table 164).

In the course of 1955, considerable fluctuations occurred in the relative proportions of the assets held as cover for currency in circulation. However, taking the year as a whole, the share of assets in foreign currency and gold in total assets changed only slightly, standing at 31.8 per cent in January and at 32.6 per cent in December 1955. On the other hand, there were changes in the proportion of Land Bills and of Treasury Bills. The fact that the amount of Land Bills issued (all of which were held by the Bank) remained almost static, reduced their share in the total assets used to cover currency in circulation, from an average of 47 per cent in January to 40 per cent in December 1955. As against this, the share of Treasury Bills and other Government obligations covering coin in circulation rose from 21.5 per cent in January to 27.2 per cent in December 1955.

Denominations of Currency in Circulation

Changes occurred during 1955 in the relative proportions of various denominations of banknotes and coin; especially noticeable was the rise in the proportion of the IL. 10 note and 50 pruta coin. These changes are shown in Table 166.

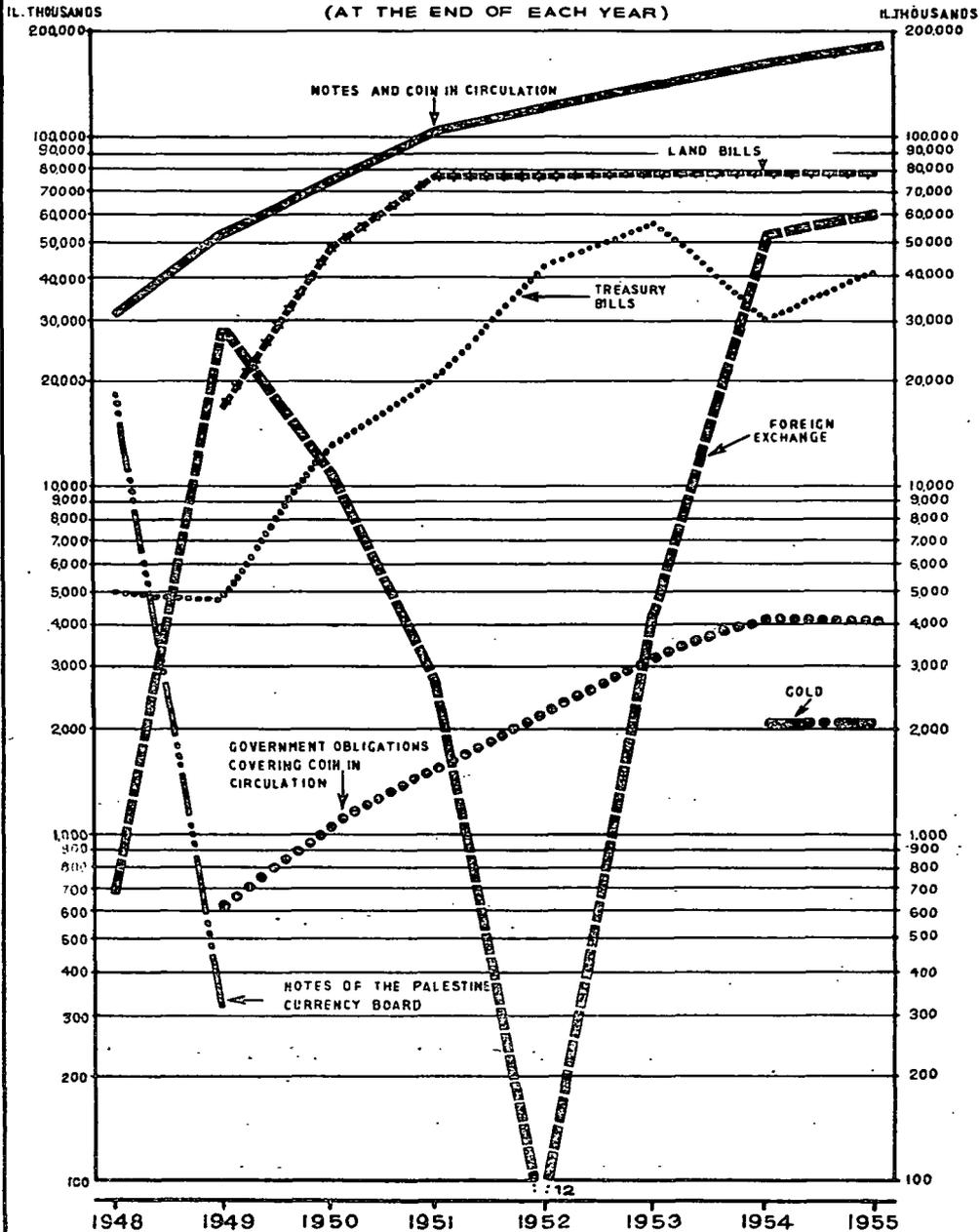
Design of New Banknotes and Coins

New banknotes issued by the Bank of Israel were put into circulation for the first time in August 1955. The printing of these notes had begun in 1951. Banknotes of 500 pruta, IL. 1, IL. 5 and IL. 10 denominations were put into circulation before the end of 1955.

As a result of criticism from various sections of the public regarding the design of the banknotes issued in 1955, the Governor of the Bank of Israel appointed a

* The calculations are of the average circulation on each Wednesday, owing to the considerable fluctuations occurring each month in the total of currency in circulation. During the first part of the month, when wages and salaries are paid to the large majority of employees in the country, the volume of currency in circulation gradually increases. During the second half of the month, a proportion of the banknotes is returned to the banking institutions, which transfer them to the Bank of Israel. The average amount of currency in circulation during a month is therefore usually higher than the amount of currency in circulation at the end of this same month.

CURRENCY IN CIRCULATION AND COVERING ASSETS HELD (AT THE END OF EACH YEAR)



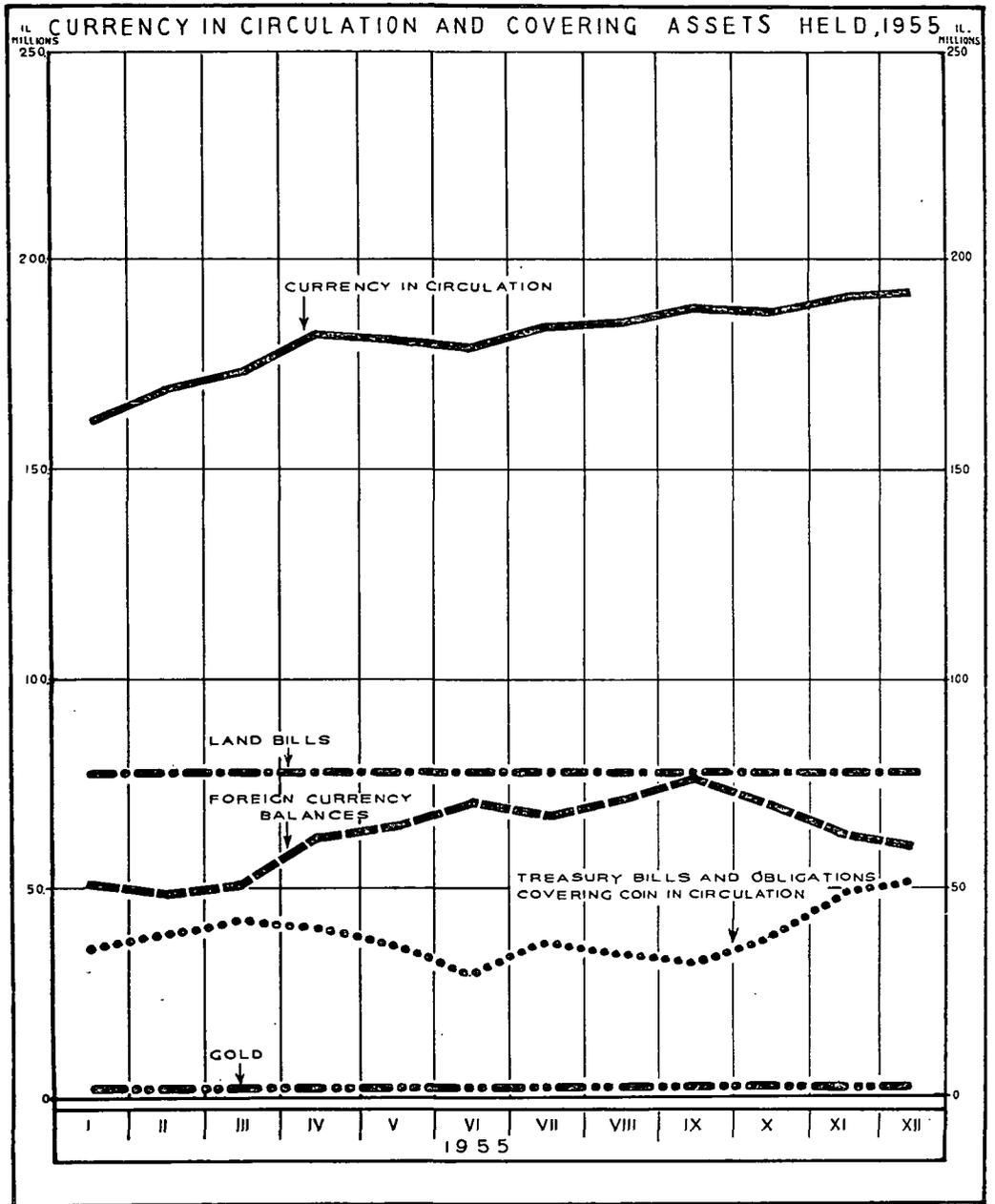


TABLE 164

CURRENCY IN CIRCULATION AND COVERING ASSETS HELD, 1955

Average on Wednesdays in Month	Currency in Circulation in IL. thousands	Currency Balances		Gold		Land Bills		Treasury Bills and Other Government Bills	
		in IL. thousands	in per cent	in IL. thousands	in per cent	in IL. thousands	in per cent	in IL. thousands	in per cent
1955 January	165,589	50,653	30.59	2,025	1.22	77,266	46.66	35,645	21.53
February	168,171	49,370	29.36	2,025	1.20	77,266	45.95	39,510	23.49
March	172,727	50,732	29.37	2,025	1.18	77,270	44.73	42,700	24.72
April	181,985	62,524	34.36	2,025	1.11	77,270	42.46	40,166	22.07
May	180,739	65,159	36.05	2,025	1.12	77,268	42.75	36,287	20.08
June	179,216	70,415	39.29	2,025	1.13	77,262	43.11	29,514	16.47
July	183,930	67,393	36.64	2,025	1.10	77,262	42.01	37,250	20.25
August	184,676	71,052	38.47	2,025	1.10	77,262	41.84	34,337	18.59
September	188,746	76,903	40.74	2,025	1.07	77,266	40.94	32,552	17.25
October	188,084	69,936	37.18	2,025	1.08	77,266	41.08	38,857	20.66
November	191,958	63,252	32.95	2,025	1.05	77,264	40.26	49,417	25.74
December	192,429	60,721	31.56	2,025	1.05	77,258	40.15	52,425	27.24

SOURCE: *Bank of Israel.*

committee to advise the Bank on the style of new banknotes that will be issued when the notes now in circulation become unfit for further use. This committee is composed of experts in various fields, such as artists, an archaeologist, a graphic designer, a numismatist, a printer, etc., and is headed by Mr. E.S. Hoofien, the Chairman of the Advisory Committee of the Bank.

The minting of metal coins in Israel enabled the Bank to withdraw from circulation during 1956 most of the paper tokens of 50 pruta and 100 pruta denominations which were in circulation at the end of 1954, as shown in Table 165. These tokens were replaced by metal coins.

TABLE 165
TOTAL VALUE OF PAPER TOKENS IN CIRCULATION, 1954 AND 1955
(in IL.)

<i>End of Year</i>	<i>50 pruta</i>	<i>100 pruta</i>
1954	253,531	664,698
1955	97,800	104,176

SOURCE: *Bank of Israel*.

Defective Currency

The Law empowers the Bank of Israel to replace coins, paper money and banknotes which have become defective. The Bank has issued regulations* defining the procedure for the replacement of currency which has become defective or has been destroyed. In 1955, 160 requests were received for permission to exchange defective banknotes or paper tokens to a total value of IL. 3,960, of which 115 requests, totalling IL. 2,580, were met.

Every note or coin received by the Bank of Israel is thoroughly examined and the destruction of banknotes or coins defective in appearance is supervised by a committee, consisting of a delegate of the Bank and a representative of the State Comptroller. During 1955, the total value of banknotes and paper tokens thus destroyed was IL. 19,987,313.

Exchange of Old Banknotes

On 1 June 1955, the Banknote Exchange and Compulsory Loan Law (Temporary Regulations) 5715—1955 was enacted. This Law gave seven days' notice, i.e. until 8 June 1955, for submitting applications for the exchange of banknotes of types withdrawn from circulation in 1952 and not previously exchanged for new banknotes. Permission to exchange such old notes was granted on condition that the total value of applications by any one person did not exceed IL. 100 and that the reasons given for the failure to exchange this currency at the appointed time satisfied the Minister of Finance. Of some 6,000 applications received to a total value of IL. 92,500, the Minister approved 5,875 applications totalling IL. 88,500. The exchange of these banknotes was carried out by the Bank of Israel and the value of the banknotes exchanged was noted in the Profit and Loss Account of the Bank for the year ending 31 December 1955.

* These regulations were published in *Kovetz Ha-Takanot*, No. 517 of 5715, p. 918.

TABLE 166

CURRENCY IN CIRCULATION, BY DENOMINATION, END OF 1954 AND END OF 1955

A. BANKNOTES

End of Year	Total		500 pruta		IL. 1		IL. 5		IL. 10		IL. 50	
	IL.	%	IL.	%	IL.	%	IL.	%	IL.	%	IL.	%
1954	155,223,854	100.0	1,363,480	0.9	6,537,869	4.2	44,173,525	28.5	79,852,330	51.4	23,296,650	15.0
1955	179,919,848	100.0	1,541,171	0.9	6,198,552	3.4	45,367,185	25.2	104,349,490	58.0	22,463,450	12.5

B. COINS AND SMALL PAPER MONEY

End of Year	Total		1 pruta		5 pruta		10 pruta		25 pruta		50 pruta		100 pruta		200 pruta		500 pruta	
	IL.	%	IL.	%	IL.	%	IL.	%	IL.	%	IL.	%	IL.	%	IL.	%	IL.	%
1954	4,058,612	100.0	5,102	0.1	41,772	1.0	236,040	5.8	360,300	8.9	1,205,431	29.7	1,275,238	31.4	934,729	23.1	—	—
1955	3,641,035	100.0	5,103	0.1	50,089	1.4	261,687	7.2	327,356	9.0	1,324,589	36.4	796,126	21.8	874,420	24.0	1,665	—

SOURCE: Bank of Israel.

6. THE ADMINISTRATION OF GOVERNMENT LOANS

In accordance with Section 57(c) of the Bank of Israel Law, the Bank administers Government Loans. Until the foundation of the Bank of Israel, this function was performed by the Bank Leumi Le-Israel B.M., which acted as the Government agent for this purpose.

During 1955, the Bank of Israel administered twenty-one internal loans, of which two are fixed in terms of foreign currency, (Tavei Dollar and liabilities against foreign currency), as well as two foreign loans (the Independence Loan and the Development Loan). A statement showing the nominal value of loans administered by the Bank at the end of 1955 is given in Table 167.

TABLE 167
GOVERNMENT LOANS ADMINISTERED BY THE BANK OF ISRAEL, 31.12.1955

	<i>Number of Loans</i>	<i>Total Amount Offered</i>	<i>Total Amount Taken Up</i>
		<i>in IL.millions</i>	
Internal Loans in Israel Currency	19	124.7	101.3
		<i>in \$ millions</i>	
Internal Loans in Foreign Currency	2	25.8	25.7
Foreign Loans	2	850.0	217.0

SOURCE: *Bank of Israel.*

(a) INTERNAL LOANS (IN ISRAEL CURRENCY)

The nineteen internal loans in Israel currency include the following: six series of prize-bearing Popular Loans; four series of Mandatory Bearer Bonds; four series of a 3 per cent Government Loan (financial institutions); the 3 per cent National Loan; the 3.5 per cent War Loan; 3.5 per cent Government Bonds; and Dollar-Linked Savings Bonds.

(i) *Prize-Bearing Popular Loans (Lottery Bonds)*

From 1948 until the end of December 1955, six prize-bearing Popular Loans were offered to the public, one of them a Special Popular Loan. The first series was issued for 20 years, the remaining five series to be redeemed 25 years from date of issue. The prizes on Popular Loans are divided by lottery and amount to between 2.9 and 4.3 per cent of the value of the loan, depending on the series.

In contrast to all other Popular Loans, the Special Popular Loan 5714—1954 was not offered for sale to the general public, but was distributed among those who had paid the compulsory advance on income tax. These persons were offered a choice between the prize-bearing loan and bonds carrying interest at 3 per cent per annum; a part chose the latter type. The Special Popular Loan was issued in March 1955 to the amount of IL. 12.5 millions, in the form of bonds registered in the name of their owner, each bond being of IL. 25 denomination. Such of these bonds as are not drawn for prizes will be redeemed at their nominal value on 1 October 1979. Prize-winning bonds will amount to some 3 per cent of the total issue.

The position with regard to Popular Loans at the end of 1955 is shown in Table 168.

TABLE 168
POSITION OF GOVERNMENT POPULAR LOANS, END OF 1955
(in IL. thousands)

Name of Loan	Total Amount Issued	Total Amount Taken Up until the end of 1955	Total Amount Taken Up during 1955	Balance of Loan Outstanding at the end of 1955*
Prize-Bearing Popular Loan 1949—1969	3,000	3,000	—	2,902
Prize-Bearing Popular Loan 5710 (1950) Series A	6,000	6,000	—	5,830
Prize-Bearing Popular Loan 5710 (1950) Series B	6,000	6,000	1,646	5,923
Prize-Bearing Popular Loan 5714 (1954)	6,000	3,204	1,578	3,188
Special Popular Loan 5714 (1954)	12,500	9,500**	9,500**	9,375**
Prize-Bearing Popular Loan 5715 (1955)	7,500	1,204***	1,204	1,199
<i>Total</i>	41,000	28,908	13,928	28,417

* Total taken up, less certificates redeemed by lot.

** Approximation.

*** Mandatory Bearer Bonds of a nominal value of IL. 469,000 were received on account of this amount.

SOURCE: Bank of Israel.

TABLE 169
FLUCTUATIONS IN THE QUOTATION OF POPULAR LOANS REGISTERED ON THE STOCK EXCHANGE

Series	First Registered on Stock Exchange	Highest Quotation	Quotation Date	Lowest Quotation	Quotation Date
1949—69	1.5.1949	106 %	30.8.1955	99 %	3.7.1955
1950 (A)	21.2.1952	98½%	15.4.1955	88½%	29.12.1955
1950 (B)	1.8.1955	92 %	11.9.1955	86½%	7.11.1955

SOURCE: Bank of Israel.

(ii) *Mandatory Bearer Bonds*

During the period September 1944 to April 1946, the Mandatory Government issued four series of Bearer Bonds to be redeemed 20 years after issue, of a total value of £P. 10 millions. The object of the issues was to cover the financial deficit of the Mandatory Government, to enable loans to be granted to local authorities and to put money at the disposal of the British Government. The first three issues were floated in their entirety; but the sale of the fourth series was interrupted on 1 September 1946, despite the fact that only a part of it had been taken up.

The loans were issued in the form of bonds made out to bearer, in denominations of £P. 10. They carried interest at the rate of 1 per cent per annum and conferred upon their owner the further right of participating in a lottery, the prizes of which

amounted to 2 per cent of the value of the loan. When the Mandatory regime ended on 15 May 1948, the drawings and payments of interest on these bonds were interrupted. However, in accordance with Paragraph 4 of the Financial Agreement between the Government of the United Kingdom and the Government of Israel, signed on 30 March 1950, the latter assumed the responsibility for all such bonds held in Israel. According to this agreement, payments of interest on these bonds were resumed in September 1950, while the delayed lottery drawings were completed in April, May and September 1951. All bonds, whether registered in Israel or not, form part of the drawings.

In 1955, as in previous years, monthly changes occurred in the number of these Mandatory bonds registered in Israel, as some Israel residents holding such bonds who had not registered them previously for various reasons, then did so. The Government now grants permits for bonds belonging to residents of the Sterling Area to be taken out of the country.

The position of Mandatory Bearer Bonds at the end of 1955 is shown in Table 170.

TABLE 170
MANDATORY BEARER BONDS, END OF 1955
(in IL. thousands)

<i>Issue</i>	<i>Total Amount Issued</i>	<i>Total Amount Floated by the Mandatory Government</i>	<i>Amount Registered in Israel on 31.12.1955</i>	<i>Balance of Loan Outstanding on 31.12.1955*</i>
First Issue				
1944—1964	1,000	1,000	794	755
Second Issue				
1945—1965	1,000	1,000	802	763
Third Issue				
1945—1965	3,000	3,000	2,271	2,250
Fourth Issue				
1946—1966	5,000	806	486	464
<i>Total</i>	10,000	5,806	4,353	4,232

* Amount registered in Israel, less certificates redeemed by lot.

SOURCE: *Bank of Israel.*

All series of Mandatory Bearer Bonds registered on the Stock Exchange, as well as their fluctuations during 1955, are described in Table 171.

TABLE 171
FLUCTUATIONS OF MANDATORY BEARER BONDS ON THE STOCK EXCHANGE, 1955

<i>Issue</i>	<i>Highest Quotation</i>		<i>Lowest Quotation</i>	
	<i>Quotation</i>	<i>Date</i>	<i>Quotation</i>	<i>Date</i>
First Issue	83 1/4 %	29.5.1955	72 1/4 %	7.1.1955
Second Issue	83 1/2 %	22.6.1955	72 1/2 %	7.1.1955
Third Issue	83 %	5.7.1955	72 3/8 %	4.2.1955
Fourth Issue	81 1/2 %	14.9.1955	71 5/8 %	7.1.1955

SOURCE: *Bank of Israel.*

(iii) *3 per cent Government Loans (Financial Institutions)*

The Government has, since the foundation of the State, issued five loans of financial institutions. According to Government regulations, all banking institutions are compelled to invest a certain percentage of their deposits in these loans. Loans of financial institutions are for a term of five years and carry interest at the rate of 3 per cent per annum. The position with regard to these loans at the end of 1955 is shown in Table 172.

TABLE 172

POSITION OF 3 PER CENT GOVERNMENT LOANS OF FINANCIAL INSTITUTIONS, END OF 1955

(in IL. thousands)

Type of Loan	Total Amount Issued	Total Amount Taken Up during 1955	Total Amount Redeemed during 1955	Balance at the end of 1955
Government Loan — 1955	5,000	—	5,000	—
Government Loan — 1956	6,500	—	—	6,470
Government Loan — 1958	5,000	—	—	5,000
Government Loan — 1960	10,000	8,000	—	8,000

SOURCE: *Bank of Israel.*

(iv) *Compulsory Loan 5712—1952*

The Compulsory Loan of 5712—1952 was implemented in June and July of 1952 at the time when the banknotes of the Anglo-Palestine Bank Limited were exchanged for banknotes of the Bank Leumi Le-Israel B.M. As the notes were exchanged, a compulsory loan of 10 per cent was levied on all banknotes of IL. 5, IL. 10 and IL. 50 denominations, as well as on credit balances exceeding IL. 50 held by Israel residents in banking institutions.

Certificates of this loan carry interest at 4 per cent per annum. The principal will be repaid in 12 yearly stages, redemption being by lot or by purchase in the free market. The first redemption, to the amount of IL. 1.7 millions, will take place during 1956. Purchases in the security market for this purpose were made in 1955.

The final total of this loan has not been fixed, since amounts are still being returned to public institutions and others exempt from this loan. The estimated total of this loan is approximately IL. 20.2 millions to IL. 20.3 millions.

The Compulsory Loan (1952) was registered on the Tel-Aviv Stock Exchange on 1 August 1955, and its quotation on that date was 62 3/4 per cent. The highest quotation during 1955 was on 25 December (65 5/8 per cent) and the lowest on 6 September (59 3/8 per cent).

(v) *3 per cent National Loan (1948—1953)*

A National Loan totalling IL. 5 millions and carrying interest at 3 per cent per annum, was issued by the Jewish Agency for Palestine during the first half of 1948, as temporary certificates registered in the name of the holder. With the establishment of the State, the Government assumed responsibility for this loan and

these certificates were exchanged for bearer bonds in denominations of IL. 10, IL. 100, IL. 500 and IL. 1,000. The redemption of the loan was carried out by lot, in 10 half-yearly stages, starting on 15 December 1948 and ending on 15 June 1953. The value of the loan certificates was linked to the exchange rate of the dollar.

In 1955, certificates of a nominal value of IL. 42,000 were redeemed, the interest and principal paid on them amounting to IL. 92,400. The nominal value of certificates still in circulation at the end of 1955 totalled IL. 118,000.

(vi) *3 1/2 per cent War Loan (1954—1959)*

A War Loan totalling IL. 7.5 millions was issued in January 1949, in the form of registered certificates in amounts divisible by 10. This loan was taken up by Israel property owners, in accordance with quotas determined by public committees. The interest on this loan is 3 1/2 per cent per annum. The principal is repaid in 10 half-yearly stages, the first of which fell due on 1 September 1954, either by lot or by purchase on the free market. Three redemptions (each of certificates to the value of IL. 750,000) took place during 1955, all by purchase on the free market.

The Bank of Israel paid out IL. 189,000 in interest on this loan during 1955.

The War Loan is registered on the Tel-Aviv Stock Exchange, its highest quotation during 1955 being on 26 January (89 per cent), while its lowest quotation was on 19 October (84 3/7 per cent). In general, no serious fluctuations took place in the quotation of this loan during the year. The position of this loan at the end of 1955 is shown in Table 173.

TABLE 173

POSITION OF THE 3.5 PER CENT WAR LOAN, END OF 1955
(Nominal Value in IL. thousands)

Total Amount Issued	7,500
Balance at the End of 1954	6,750
Redemption during 1955	1,500
Balance at the End of 1955	5,250

SOURCE: *Bank of Israel.*

(vii) *3 1/2 per cent Government Bonds (1953—1957)*

A loan in the form of Government Bonds, carrying interest at the rate of 3 1/2 per cent, was issued in April 1953 to owners of foreign securities, in addition to cash or Tavei Dollars, received in exchange for securities they were compelled to sell to the Government in 1950 and 1951.

The bonds were issued as certificates made out to bearer in denominations of IL. 10, IL. 20, IL. 50 and IL. 100, carrying interest at the rate of 3 1/2 per cent per annum; this interest is not subject to income tax. Bonds to the value of IL. 4.4 millions were issued during 1955. Interest payments totalling IL. 70,000 were made on this loan during the year.

The redemption of the loan started immediately after flotation; 12 per cent

of the loan was redeemed in 1953, while a further 16 per cent was redeemed in 1954 and 28 per cent in 1955; 32 per cent of the loan will be redeemed in 1956 and the remaining 12 per cent in 1957.

These bonds are registered on the Tel-Aviv Stock Exchange. Their highest quotation during 1955 was on 3 March, 100 per cent for certificates of IL. 100, and 101 3/4 per cent for certificates of IL. 50 and under. The lowest quotation for certificates of IL. 100 was on 6 January (97 per cent) and for certificates of IL. 50 or less on 24 April (also 97 per cent). Quotations of this loan on the Stock Exchange were thus among the most stable of all Government securities. The position of this loan at the end of 1955 is shown in Table 174.

TABLE 174
POSITION OF 3.5 PER CENT GOVERNMENT BONDS, END OF 1955
(in IL. thousands)

Balance at the end of 1954	4,373
Issued during 1955	25
<i>Total</i>	4,398
Redeemed up to end of 1955, of which 1,225 in 1955	2,436
Balance at the end of 1955	1,962

SOURCE: *Bank of Israel.*

(viii) *Dollar-Linked Savings Bonds, 5711—1951*

This loan was issued in April 1951 to the total amount of IL. 10 millions and is in the form of bonds registered in the name of the holder, in denominations of IL. 10, IL. 50, IL. 100, IL. 250, IL. 500 and IL. 1,000. Every individual was permitted to acquire Savings Bonds up to a limit of IL. 500, while approved pension funds were allowed to purchase these Bonds for their members to the nominal value of IL. 250 for unmarried and IL. 500 for married members. The sale of these bonds to certain types of foreign companies operating in Israel was likewise approved, (e.g. to insurance companies, film companies, international airlines, educational and philanthropic institutions, and the like). The sale of Savings Bonds was terminated on 30 June 1952. Up to this date, bonds had been sold to a nominal value of some IL. 4,906,000. Up to the end of 1955, bonds to the nominal value of IL. 413,000 were redeemed, IL. 20,000 of which during 1955.

These Savings Bonds are linked to the rate of exchange of the dollar, which at the time of their issue was \$2.80 = IL. 1.000 Their purchase price was fixed at 83 1/3 per cent, and their date of redemption is 30 June 1959. The principal will increase at the rate of 2 per cent per annum, reaching the nominal value of the bond on the date of redemption.

The Minister of Finance will be empowered on 1 July 1959 to redeem the whole issue of Savings Bonds at their nominal value, at the highest rate of exchange existing in the country during the six preceding months, or else to exchange the Savings Bonds for Debentures made out to Bearer carrying interest at 3.5 per cent per annum

and also linked to the exchange rate of the dollar. In the latter case, the debentures will be redeemed in 10 equal annual payments, beginning on 30 June 1960 and ending on 30 June 1969. The redemption will be made either by lot, or by purchase on the free market.

Bonds registered in the name of the holder are only transferable upon the death of their owner; but the holder may at any time demand redemption of the principal and accrued interest of his bonds at 30 days' notice. However, in the latter event, he is deprived of the benefit of the bond being linked to the rate of exchange of the dollar.

The position of this loan at the end of 1953 is shown in Table 175.

TABLE 175
BALANCES OF OUTSTANDING DOLLAR-LINKED SAVINGS BONDS 5711 —1951
(in thousands)

	Value at the End of 1955 *	Nominal Value
In Israel Currency	4,012	4,493
In Dollars, at the rate of exchange in force at the time of issue	11,235	12,581
In Israel Currency, at the rate of exchange of IL. 1.800 = \$ 1.00	20,223	22,646

* On the basis of the purchase price of 83 1/3 per cent, with the addition of accrued interest at the rate of 2 per cent per annum.

SOURCE: Bank of Israel.

(b) INTERNAL LOANS (IN DOLLARS)

(i) Tavei Dollar, 5711—1951

The Tavei Dollar Loan was issued in March 1951, to a total amount of \$25 millions. Of this, Tavei Dollars to the value of some \$32 millions were issued to holders of foreign securities, ownership of which was transferred to the Government in 1950 and 1951. The remainder Tavei Dollar certificates were sold against foreign currency, gold or shares of the Palestine Electric Corporation registered in London.

Certificates of Tavei Dollars are made out to bearer, in denominations of \$20, \$100, \$200, \$500, \$1,000 and \$5,000, carrying interest at the rate of 3 1/2 per cent per annum. The redemption of the principal will take place in 10 annual instalments between the years 1959 and 1968. Redemption of the principal and payment of interest are made in Israel currency, at the rate of exchange in force at the time of payment. If, at the time of payment, no restrictions on foreign currency transactions are in force, payments are to be made in foreign currency. In 1955, payments of Tavei Dollar Certificates totalled IL. 2,209,000.

Tavei Dollar Certificates are registered on the Tel-Aviv Stock Exchange. Their highest quotation during 1955 was on 24 November (74 3/8 per cent) representing a rate of exchange of IL. 1.339 to \$1.00. Their lowest quotation was on 12 July, (65 1/6 per cent) representing a rate of exchange of IL. 1.172 to \$1.00.

(ii) *Certificates of Obligation against Foreign Currency*

From the end of May 1954, Certificates of Obligation against Foreign Currency were issued to residents owning foreign currency who sold such currency to the Ministry of Finance. These Certificates are registered in the name of the holder and are not transferable. They were issued in denominations of \$ 100, \$ 500 and \$ 1,000 and carry interest at the rate of 5 per cent per annum.

The redemption of these Certificates falls due at the end of 1969; but holders are entitled to redeem them earlier, at 90 days' notice, and at the rate of exchange in force at the time of such redemption. The Bank of Israel paid out IL. 31,000 in interest on these Certificates during 1955.

The value of Certificates of Obligation against foreign currency allotted during 1955 amounted to \$ 586,000. On the other hand, Certificates to the value of \$ 304,000 were redeemed during the year. The position with regard to this loan at the end of 1955 is shown in Table 176.

TABLE 176

POSITION OF CERTIFICATES OF OBLIGATION AGAINST FOREIGN CURRENCY, END OF 1955
(in \$ thousands)

Balance at the End of 1954	165
Acquired during 1955	586
<i>Total</i>	<u>751</u>
Redeemed during 1955	<u>304</u>
Balance at the end of 1955	447

SOURCE: *Bank of Israel.*

(c) FOREIGN LOANS

(i) *Independence Bonds*

The Government of Israel began the sale of Independence Bonds abroad in May 1951. Most Bonds were sold in the United States of America and were of two kinds:

(a) 3 1/2 per cent Debentures, with coupons for 15 years, in denominations of \$ 500, \$ 1,000, \$ 2,500, \$ 5,000, \$ 10,000 and \$ 100,000 paying interest at the rate of 3 1/2 per cent per annum. These Bonds were registered in the name of the holder, but became exchangeable for bearer bonds on 1 May 1954;

(b) 12 year Savings Bonds, in denominations of \$ 50, \$ 100, \$ 250, \$ 500, \$ 1,000, \$ 2,500, \$ 5,000 and \$ 10,000, to be redeemed 12 years from date of issue at 150 per cent of their nominal value. These Bonds also became exchangeable for bearer bonds as from 1 May 1954.

Up to the end of 1955, the value of Independence Bonds sold in the United States totalled \$ 145 millions. During the same period, bonds to the value of \$ 18 millions were redeemed at various rates of exchange, their countervalue being IL. 21.8 millions. Of these totals, \$ 6.8 millions worth of Bonds were redeemed during 1955, the sum of IL. 11.3 millions being paid for them on account of principal and interest.

Independence Bonds were redeemed during 1955 by tourists, Israel residents, the Jewish Agency, other public institutions and "approved undertakings" which invested their counterpart in bonds in Israel currency.

(ii) *Development Bonds*

The Israel Government's Development Loan was issued in the United States in January 1954. The issue includes two types of bonds, similar to those of the Independence Bonds, apart from the fact that interest on the Coupon Bonds of the Development Loan is at the rate of 4 per cent per annum, while the Savings Bonds of this Loan are for a period of 10 years, after which they are redeemed at 150 per cent of their nominal value.

The total value of Development Bonds sold in the United States up to the end of 1955 was \$72 millions. On the other hand, bonds to the value of \$2.3 millions were redeemed before the end of 1955, and their counterpart, paid at various rates of exchange, totalled IL. 3.4 millions. Of these totals, \$2 millions worth of bonds were redeemed during the year 1955, the sum of IL. 3.1 millions being paid for them on account of principal and interest.

Particulars of redemptions of Independence Bonds and Development Bonds, and the rates at which they were redeemed, are given in Table 177.

TABLE 177

BONDS OF THE INDEPENDENCE LOAN AND THE DEVELOPMENT LOAN REDEEMED UP TO THE END OF 1955,
ACCORDING TO CATEGORY OF REDEEMER
(in \$ thousands)

	<i>Independence Loan</i>	<i>Development Loan</i>
Tourists	450	240
Israel Residents	45	19
Jewish Agency	2,074	1,648
Other Institutions	344	122
Investments	3,693	55
Coupons and Increased Principal on the Above	180	9
<i>Total</i>	6,786	2,093

SOURCE: *Bank of Israel*.

7. THE EXAMINATION OF BANKING INSTITUTIONS

The Department of the Examiner of Banks maintained its control over banking institutions under the powers conferred upon it by the Banking Ordinance, 1941. The Controller of Banks is authorised to supervise the activities of the banks and to demand to be shown the books, accounts and documents of any bank.

After the Government delegated to the Governor of the Bank of Israel most of the powers it held under the Banking Ordinance, 1941 (which are now applicable to all banking institutions in accordance with Section 69 of the Bank of Israel

Law), the Examiner of Banks extended this control to credit co-operative societies. During the year, this Department intensified the supervision and examination of the books of banking institutions. The examination was mainly concerned with control over the volume of credit and liquidity regulations. The Bank took steps to ensure that all banking institutions would implement these regulations at all times and not only towards the end of the month, when they are required to submit a monthly report to the Controller of Banks.

At the end of 1955, the Department of the Examiner of Banks controlled twenty-five commercial banks, four mortgage banks and ninety-four credit co-operative societies.

8. ECONOMIC RESEARCH

To facilitate the administration of monetary policy, the Research Department of the Bank of Israel conducts investigations of economic developments within the country, with particular regard to their financial aspect. Such research is also connected with the Governor's function of Economic and Financial Advisor to the Government. Publication of the Bank's economic bulletin began in September 1955. This bulletin includes current reports on economic and financial development, special investigations undertaken by the Research Department of the Bank or on its behalf, and exhaustive financial and other economic statistical series.

9. ACTIVITIES OF THE BANK OF ISRAEL AS REPRESENTATIVE OF THE GOVERNMENT IN THE INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

According to Section 71 of the Bank of Israel Law, the Bank shall represent the Government "in any matter relating to the membership of the State in the International Monetary Fund and the International Bank for Reconstruction and Development".

The Governor of the Bank of Israel, who is a member of the Board of Governors of the International Bank and the International Monetary Fund, represented Israel at the annual meeting of the Board in Istanbul in September 1955. The Bank was also in constant touch with the Fund and the International Bank, supplying them with information on current developments in the Israel economy and especially on monetary matters and matters concerning foreign exchange.

According to Article XIV of the Articles of Agreement of the International Monetary Fund, member states are permitted to maintain temporary currency restrictions. Such members as do so are obliged to consult the Fund annually with regard to the further maintenance of these restrictions. Upon joining the Fund, Israel announced her intention of maintaining currency restrictions in accordance with this Article.

During October and November 1955, a delegation of the International Monetary Fund visited Israel and held comprehensive talks with representatives of the Ministry of Finance and of the Bank of Israel. Upon the termination of these talks,

the delegation submitted an extensive report to the Board of Directors of the Fund on conditions prevailing in the Israel economy, especially in the spheres of finance and foreign currency. A discussion of this report took place in Washington in February 1956, with the participation of the Governor of the Bank of Israel. In conclusion, the Board of Directors of the Fund approved the following resolution:—

“1. The Government of Israel has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

“2. During the past few years, Israel has made substantial progress in developing its resources and has registered improvement in its balance of payments, but is still relying on large external assistance. During 1955, production continued to increase. However prices have risen, mainly as a result of a deficit in the government budget financed by the Central Bank. Government expenditures on defence, investment and immigration increased. Primarily because of a smaller citrus crop in the 1954—55 season, exports in 1955 remained on the 1954 level, while imports increased somewhat. Increased foreign exchange receipts from other sources permitted some augmentation of monetary reserves.

“3. Increases in prices, to which wages are tied through the cost-of-living index, threaten to undermine the progress made in the past few years toward internal stability. The Government is considering the adoption of a series of measures in the fiscal and credit fields, in order to avert this threat. The Fund emphasizes the need for internal stability and recommends the resolute application of effective stabilization measures.

“4. During the past few years Israel has made considerable progress in the simplification of its restrictive system. However, substantial use is made of restrictions, including bilateral trade and payments arrangements and multiple currency practices. The Fund urges the adoption of policies which will facilitate further progress in eliminating external restrictions and towards unifying the exchange rate structure.

“5. The Fund has reviewed the existing multiple currency practices of Israel and does not object to their temporary retention.

“6. In concluding the 1955 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Israel.”

10. THE ADVISORY COMMITTEE AND THE ADVISORY COUNCIL OF THE BANK OF ISRAEL

The Advisory Committee was convened 31 times during 1955. In the course of these meetings, the Committee not only discussed questions which the Governor is obliged by law to bring forward for consultation, but also questions dealing with the formulation of Bank policy. In the main, the Advisory Committee reached unanimous agreement on all questions and the Bank acted in accordance with the Committee's recommendations.

The Advisory Council was convened five times during 1955 and discussed questions relating to the formulation of monetary policy and the major steps taken for its implementation.

BANK OF ISRAEL
MONTHLY STATEMENT OF ASSETS AND LIABILITIES AS AT 31 DECEMBER 1955

LIABILITIES	IL.	ASSETS	IL.
Capital	10,000,000	Gold held with the International Monetary Fund and with Banks	2,042,377
Reserve Fund	1,032,111	Deposits in Foreign Currency with Banks	88,818,788
Notes and Coins in Circulation	183,560,883	Clearing Accounts in connection with Trade Agreements	9,043,311
Demand Deposits of Banking Institutions	77,537,984	Treasury Bills	57,130,000
Time Deposits of Banking Institutions	6,200,000	Land Bills	77,258,000
Deposits of Banking Institutions in Foreign Currency	3,096,802	Advances to Government	26,131,769
Deposits of Government Institutions	6,379,495	Other Government Accounts	19,298,593
Government Deposits	3,239,705	Loans to the Government in Foreign Currency	5,595,189
Defence Fund (Keren Hamagen)	6,654,239	Bills Discounted	9,537,505
Deposits of Other Institutions	12,603,458	Bills Discounted in Foreign Currency	6,141,566
Government Deposits in Foreign Currency	698,778	Loans to Banking Institutions	135,000
Clearing Accounts in connection with Trade Agreements	5,368,862	Government Obligations for the Payment of Debts to Central Banks Abroad arising from Trade Agreements (see contra)	11,004,903
Accounts of Central Banks Abroad arising from Trade Agreements (see contra)	11,004,903	Government Obligations	8,000,000
Exchange Fund Accounts—Deposits in Foreign Currency (see contra)	30,023,315	<i>Less: Part of Obligations redeemed out of Net Profits</i>	408,258
Liabilities to Banking Institutions in respect of Loans from the Development Budget (see contra)	2,375,000		7,591,742
Other Accounts	821,901	Government Obligation for the Redemption of Coins in Circulation	4,100,000
		Exchange Fund Accounts—Balances in Israel Currency (see contra)	30,023,315
		Liabilities of the Treasury in respect of Loans from the Development Budget (see contra)	2,375,000
		Bank's Premises, Equipment, etc.	1
		Other Accounts	4,370,377
	<u>360,597,436</u>		<u>360,597,436</u>

BANK OF ISRAEL
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING 31 DECEMBER 1955

INCOME	IL.	EXPENDITURE	IL.
Interest, Commission Received and Other Income	6,004,862	Interest Paid	1,113,395
		Administrative Expenses	630,245
		Printing of Banknotes and Minting of Coins	612,064
		DEDUCTIONS	
		Office in Tel-Aviv (partial payment)	273,710
		Furniture, Office Equipment, Cars, etc.	<u>239,370</u> 513,080
	<u>6,004,862</u>	NET PROFIT	<u>3,136,078</u>
			<u>6,004,862</u>

APPLICATION OF PROFITS

Balance of Net Profit	3,136,078	Redemption of Government Promissory Notes in accordance with Section 7 of the Bank of Israel Law	2,195,255
		Reserve Fund	940,823
	<u>3,136,078</u>		<u>3,136,078</u>

THE GOVERNOR, MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL OF THE
BANK OF ISRAEL

GOVERNOR:

D. HOROWITZ

ADVISORY COMMITTEE:

E. S. HOOFIEN — *Chairman*
G. JOSEPHTHAL — *Vice-Chairman*
S. BEJARANO
K. LUZ
J. E. NEBENZAHL
E. OSTASHINSKY
A. ZABARSKI

ADVISORY COUNCIL:

E. S. HOOFIEN — *Chairman*
G. JOSEPHTHAL — *Vice-Chairman*
F. ARNSBERG
A. BECKER
S. BEJARANO
H. COHN
N. FEINGOLD
I. FOERDER
E. GOVRIN
K. LUZ
M. MARCUS
J. E. NEBENZAHL
Z. ONN
E. OSTASHINSKY
A. ZABARSKI