

## MONEY SUPPLY

Money supply is defined in Israel as currency in circulation less cash held by banks, as well as current accounts held by the public in banking institutions\*. This definition, as in other countries, is in accordance with that made by the International Monetary Fund. Assets not included in this definition but considered as quasi-money, are deposits for fixed periods, guarantee deposits and foreign currency deposits held by the public in banking institutions. Government deposits are excluded from the definition of money supply on the grounds that their volume usually affects neither the Government's income or expenditure nor the level of demand within the economy. Other assets of lesser liquidity (such as Government securities, post-dated cheques, commercial bills of exchange passed from hand to hand and open-account credits granted by suppliers to their clients) are not regarded as money.

### 1. THE RISE IN MONEY SUPPLY

At the end of 1955, the total money supply amounted to IL.419.7 millions, as against IL.348.5 millions at the end of 1954. Thus, the increase during 1955 was by IL.71.2 millions, or 20.4 per cent. The money supply increased during 1955 at a slower rate than in 1950, 1951 and 1953, and at approximately the same rate as in 1954. On the other hand, the rate of increase was much faster than in 1952, as shown by column (6) in Table 116.

The rate of increase in the money supply continually diminished during 1955 (see Table 117). While the total supply of money rose by an average of 3.2 per cent per month during the first quarter of the year and by an average of 2.1 per cent per month during the months of April to July inclusive, only minor fluctuations occurred during the last five months of the year, with the exception of December, when there was an increase of 1.1 per cent.

### 2. FACTORS CAUSING THE RISE

The most important factors causing fluctuations in the total money supply are to be found in the net conversion of foreign currency into Israel currency, changes in the volume of bank credit granted to the public and the Government and movements in the volume of time deposits. Such factors result from the general economic development, described in other chapters. Table 118 shows the direct factors causing fluctuations in the money supply during 1955.

The year 1955 witnessed a considerable rise in foreign currency revenues,

\* The term, banking institutions, is applied to banks and credit co-operative societies, excluding the Bank of Israel. The term, banking system, includes the Bank of Israel as well as the banking institutions.

TABLE 116

## MONEY SUPPLY, 1948 TO 1955

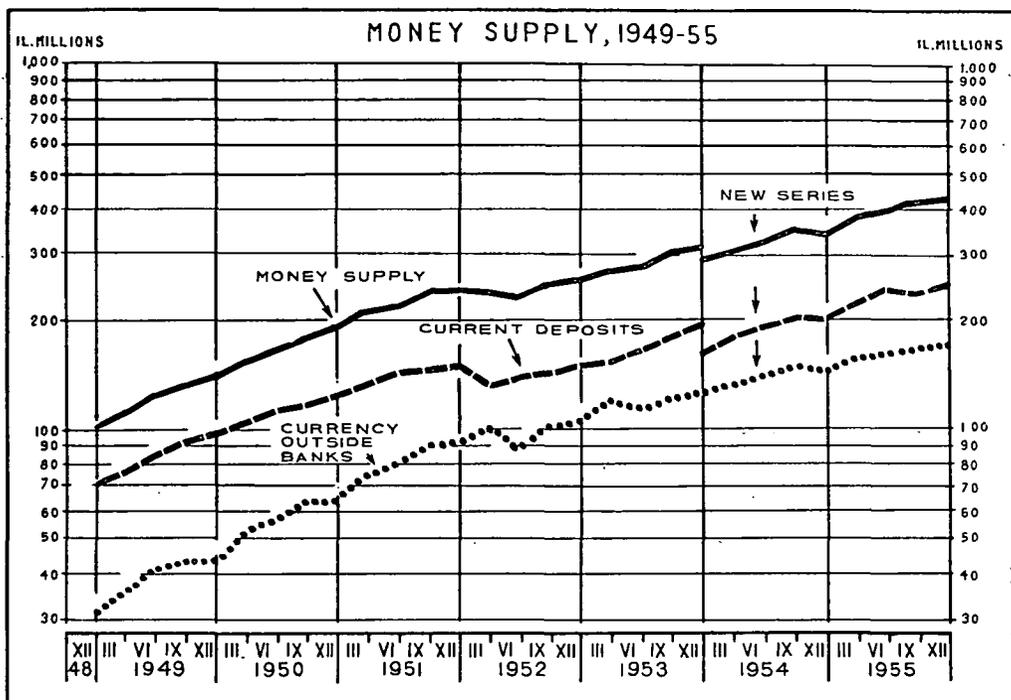
(in IL. millions)

End of Month	Currency Outside Banks	Current Deposits	Money Supply	Increase in Money Supply (in per cent)		Current Deposits as percentage of Money Supply
				Quarterly	Annual	
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1948—December	30.6	70.2	100.8	—	—	69.6
1949—March	32.9	81.5	114.4	13.5	—	71.2
June	41.6	86.3	127.9	11.8	—	67.5
September	43.5	92.0	135.5	5.9	—	67.9
December	43.3	96.9	140.2	3.5	39.1	69.1
1950—March	52.1	107.5	159.6	13.8	—	67.4
June	53.1	116.0	169.1	6.0	—	68.6
September	65.2	119.9	185.1	9.5	—	64.8
December	64.8	125.0	189.8	2.5	35.4	65.9
1951—March	75.9	137.1	213.0	12.2	—	64.4
June	80.8	144.7	225.5	5.9	—	64.2
September	90.7	150.2	240.9	6.8	—	62.3
December	91.0	150.5	241.5	0.3	27.2	62.3
1952—March	104.4	135.6	240.0	—0.6	—	56.5
June	89.6	141.6	231.2	—3.7	—	61.2
September	103.8	148.4	252.2	9.1	—	58.8
December	106.0	151.2	257.2	2.0	6.5	58.8
1953—March	123.8	155.0	278.8	8.4	—	55.6
June	117.2	168.4	285.6	2.4	—	59.0
September	124.6	183.8	308.4	7.9	—	59.6
December*	128.0	192.3	320.3	3.9	24.5	60.0
December**	128.0	162.1	290.1	—	—	55.9
1954—March	132.8	179.5	312.3	7.7	—	57.5
June	140.2	190.7	330.9	6.0	—	57.7
September	151.1	202.1	353.2	6.7	—	57.2
December	146.6	201.9	348.5	—1.3	20.1	57.9
1955—March	160.2	221.8	382.0	9.6	—	58.1
June	164.9	234.5	399.4	4.6	—	58.7
September	171.5	243.6	415.1	3.9	—	58.7
December	172.5	247.2	419.7	1.1	20.4	58.9

\* Computed according to old series, which included foreign currency deposits by the public.

\*\* Computed according to new series, which does not include foreign currency deposits by the public.

SOURCE: Central Bureau of Statistics and the Bank of Israel.



**TABLE 117**  
**MONEY SUPPLY, 1955**  
*(in IL. millions)*

<i>End of Month</i>	<i>Currency in Circulation</i>	<i>Less: Cash held by Banking Institutions</i>	<i>Currency Outside Banks</i>	<i>Current Deposits</i>	<i>Total Money Supply</i>
1954—December	159.3	12.7	146.6	201.9	348.5
1955—January	162.3	11.1	151.2	201.8	353.0
February	167.6	11.7	155.9	211.8	367.7
March	171.9	11.7	160.2	221.8	382.0
April	176.4	12.9	163.5	228.3	391.8
May	175.8	12.4	163.4	232.6	396.0
June	176.6	11.7	164.9	234.5	399.4
July	182.6	12.7	169.9	244.2	414.1
August	179.6	13.0	166.6	244.8	411.4
September	184.4	12.9	171.5	243.6	415.1
October	185.5	12.2	173.3	240.3	413.6
November	188.6	12.2	176.4	238.0	414.4
December	183.6	11.1	172.5	247.2	419.7

SOURCE: *Bank of Israel.*

especially from the sale of Development Bonds, personal restitution payments to Israel residents from West Germany and transfers from the national institutions. (A detailed description of receipts and payments in foreign currency is given in Chapter III). Notwithstanding increased foreign currency expenditure during the

year, the State's foreign currency balances grew and their counter-part was paid out, almost invariably in Israel currency, to institutions and individuals. During 1955, increases in foreign currency balances were directly responsible for a rise of IL.26 millions in the money supply. The influence of this factor made itself particularly felt in the first quarter of the year, during which about IL.11 millions worth of foreign currency balances were converted into Israel currency. During the second quarter, such conversions took place to a far more limited extent, but the tempo was again accelerated in the third and last quarters, during each of which foreign currency was converted to the value of some IL.7 millions.

**TABLE 118**  
FACTORS CAUSING CHANGES IN THE MONEY SUPPLY, 1955 \*  
(in IL. millions)

Factors	First Quarter	Second Quarter	Third Quarter	Last Quarter	Whole Year	
Conversion of Foreign Currency into Israel Currency	(+)	10.9	1.4	6.7	7.1	26.1
Net Expansion of Bank Credit to Government**	(+)	2.1	22.8	-8.9	5.5	21.5
Expansion of Bank Credit to Public ***	(+)	14.9	—	7.2	-2.1	20.0
Increased Investment of Banking Institutions in Government Securities	(+)	-0.2	0.7	0.1	2.6	3.2
Increased Investment of Banking Institutions in Other Securities	(+)	0.9	-0.8	0.9	-0.2	0.8
Net Increase in Government Deposits Earmarked for Loans ****	(-)	0.9	5.5	0.2	-0.4	6.2
Increase of Funds in transit between Banking Institutions	(+)	4.2	0.9	7.3	-5.0	7.4
Increase in Time Deposits held by Public	(-)	-5.5	-4.5	-2.2	-8.9	-21.1
<i>Total</i>		28.2	26.0	11.3	-1.4	64.1
Other Factors		5.3	-8.6	4.4	6.0	7.1
<i>Total Increase in the Money Supply</i>		33.5	17.4	15.7	4.6	71.2

\* (+) describes a factor causing increases in the money supply;

(-) describes a factor causing decreases in the money supply.

\*\* Total gross credits granted to the Government by the banking system, plus Treasury Bills, but after deduction of current accounts held by the Government in banks and with the Bank of Israel.

\*\*\* Includes re-discounts by the Bank of Israel.

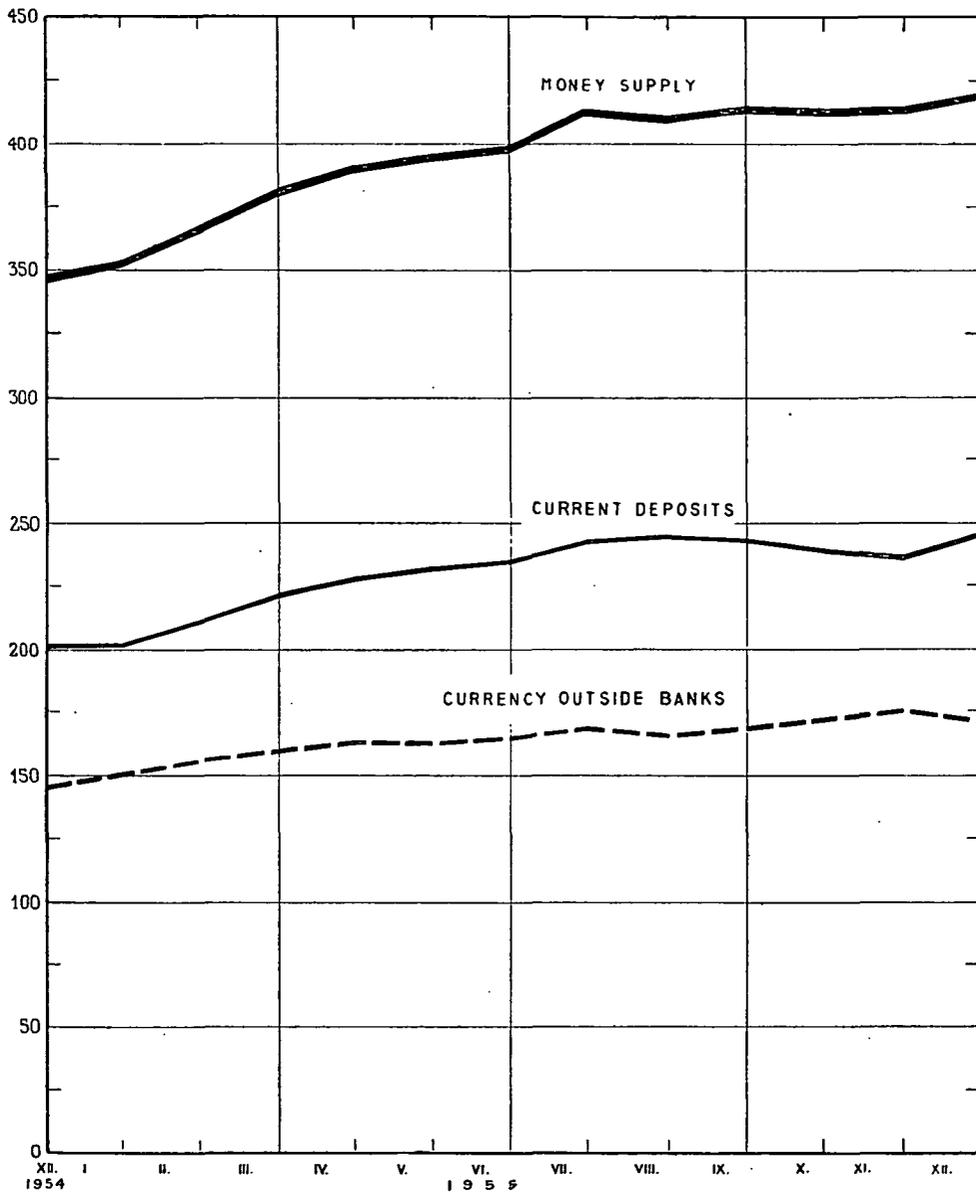
\*\*\*\* Deposits earmarked for the granting of loans, time deposits and deposits earmarked for special purposes, after deduction of loans granted from these deposits.

SOURCE: Calculations of the Bank of Israel.

Since the Central Bank and banking institutions are required by law to convert foreign currency into Israel pounds, the banking system cannot control this function in the same way as it controls the expansion of credit. Nevertheless, the extent to which such conversions affect the money supply depends in practice on the activities

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### THE MONEY SUPPLY



of the banking system. The conversion of foreign currency not only increases the amount of money at the disposal of the owner, but also adds to the liquid assets of banking institutions. This enables the latter to expand credit in accordance with the liquidity regulations in force. The conversion of foreign currency into local currency can, in this way, bring about a rise in the money supply several times greater than the total amount of currency converted. However, during 1955, this double effect of foreign currency conversion was prevented by the issue of instructions

stabilising the volume of credit and by new liquidity regulations, described in Chapter XV.

An additional factor making for an increase in the money supply in the course of 1955 was the net expansion by IL.21.5 millions of bank credit to the Government. This expansion took place, in the main, during the second quarter of 1955. During the first months of the financial year 1955—56, Government accounts showed a considerable deficit, mainly caused by increased expenditure on housing, public works and subsidies. According to the Financial Report of the Accountant General, Ordinary and Development Budget expenditure during the months April to June 1955 exceeded revenue by IL.22.8 millions. This deficit was covered by increasing the Government's indebtedness to the banking system, mainly through advances by the Bank of Israel. During the third quarter of the year, the current budgetary deficit was reduced and the Government's debt in Israel currency to the banking system declined by IL.9 millions, largely owing to the redemption of part of the Treasury Bills then held by the Bank of Israel. (During the same period, the Government received foreign currency credits totalling some IL.10 millions from the Bank of Israel and was thus able to increase stocks without expending local currency for the purchase of foreign currency). In the last quarter of the year, the Government's net local currency debt to the banking system rose again by IL.5.5 millions. The main reason for this was the deficit in the Defence Fund where, according to the Accountant General's Report for the period ending 31 December 1955, expenditure exceeded income by more than IL.12.5 millions. A detailed description of credits granted to the Government by the banking system appears in Chapter XV.

It should be noted that fluctuations in the volume of local currency credit granted to the Government by the banking system do not fully reflect the influence exercised on the money supply by Government activities. As the Government is one of the largest buyers and sellers of foreign currency for Israel pounds and receives foreign currency loans from the banking system, the money supply can also be seriously affected by its activities in these spheres. However, this analysis describes the net conversion of foreign currency as one of the factors making for fluctuations in the volume of the money supply, without distinguishing between conversions resulting from Government activities and conversions carried out by other bodies.

A third reason for the increase in the money supply during 1955 was the expansion, by some IL.20 millions, of local currency bank credits to the public. Approximately half of this was due to re-discounting by the Bank of Israel, the other half being caused by the increase in local currency credit granted by banking institutions (the volume of their foreign currency credits being simultaneously reduced) and by credits granted from special funds of the Government and public institutions. The greatest expansion of bank credit to the public — by IL.15 millions — took place in the first quarter of 1955. During the second quarter, credit to the public was not expanded. During the third quarter it increased again, this time by IL.7.2 millions, but in the last quarter it contracted by IL.2.1 millions (Details of the supply of credit to the public in 1955 can be found in Chapter XV).

Increased investment by banking institutions in securities, and especially purchases of Government securities during the last quarter of the year, caused the money supply to rise by a further IL.4 millions.

Yet another factor making for an expanding money supply during 1955 was the increased size of balances in transit between banking institutions, which rose by IL.7.4 millions. These balances resulted from present clearing arrangements: clearing in the three main cities now takes place one day after the close of business, while elsewhere the delay is for several days. A part of these increased balances in transit between banks constituted additional credits to the public, which are not reported as such by the banking system.

An important factor reducing the extent of the rise in the money supply during 1955, was the increase in time deposits held by the public and in guarantee deposits earmarked for the settlement of obligations; such deposits increased by IL.21 millions during the year. The time deposits held by the public are, to a certain extent, a liquid asset, since their owners can make full use of them when their term expires, and, in many cases, even before this. However, as noted above, these deposits are defined as quasi-money and not as money. The total of liquid assets, including money and time deposits, rose in 1955 by IL.92.5 millions, or by 29 per cent, while the money supply rose by only 20.4 per cent, as shown in Table 119.

**TABLE 119**  
THE MONEY SUPPLY, TIME DEPOSITS AND GUARANTEE DEPOSITS, 1955  
(in IL. millions)

	31.12.1954	31.3.1955	30.6.1955	30.9.1955	31.12.1955
Currency outside Banks	146.6	160.2	164.9	171.5	172.5
Current Accounts	201.9	221.8	234.5	243.6	247.2
<i>Total Money Supply</i>	348.5	382.0	399.4	415.1	419.7
Time Deposits and Guarantee Deposits	54.3	58.9	64.0	68.2	75.6
<i>Total Money Supply, Time Deposits and Guarantee Deposits</i>	402.8	440.9	463.4	483.3	495.3

SOURCE: *Bank of Israel*.

The rise by 40 per cent in the volume of time deposits during 1955 was due, in part, to greater public confidence in the stability of the currency and, in part, to the raising of the interest rate on such deposits by some banking institutions.

The factors specified above only cover the main contributory causes of fluctuations in the money supply.

As previously mentioned, there were considerable fluctuations in the rate at which the money supply increased during 1955. The rapid increase during the first seven months of the year was due to the expansion of credit to the Government and the public and to the conversion of foreign currency balances into Israel pounds, while time deposits increased only to a limited extent during the same period. The conversion of foreign currency balances continued during the latter part of the year and, if the expansion of credit to the public and the Government had also continued

at a rate similar to that of the first seven months, the money supply would have increased to an extent seriously threatening the relative stability of the economy, and this in spite of the increased supply of both local and imported goods and services. Such a prospect caused concern to the Government and to the Bank of Israel. It was dealt with, *inter alia*, in two reports submitted by the Governor of the Bank to the Government and the *Knesset* Finance Committee on 30 March and 15 November 1955, in accordance with Section 35 of the Bank of Israel Law. It is therefore evident that several steps were taken during the last months of the year to restrict the granting of credit to the Government and the general public. These steps proved effective and the volume of credit was more or less stabilised, as shown in Table 118. The rise in the money supply caused by conversions of foreign currency was balanced by reductions due to increased time deposits, as well as to the receipts of the Defence Fund and the "Save to Build" scheme, the monies of which the Government deposited with the Bank of Israel\*.

The rate of increase in the money supply was slowed down during the last five months of 1955, mainly by the measures undertaken to prevent the expansion of credit to the public and the Government, and not by a reduced demand for credit or investment on the part of the public. In general, the money supply tends to expand more slowly during the last quarter of the year, as may be seen from column (5) of Table 116. This is connected with the seasonal contraction of credit in anticipation of the date on which the yearly balance sheets of the banking institutions are drawn up. Thus, restricting the increase in the money supply involves, of necessity, the continuation of a policy which limits the expansion of credit to the Government and the public and encourages saving.

### 3. THE RELATIONSHIP BETWEEN CURRENCY IN CIRCULATION AND DEPOSITS

During 1955, the nominal value of currency outside banks rose by 17.6 per cent. Current deposits increased by 22.4 per cent. The share of these deposits in the total supply of money rose from 58 per cent at the end of 1954 to 59 per cent at the end of 1955, as shown by column (7) in Table 116. The rise in the proportion of the money supply made up by bank deposits is a phenomenon occurring over the past three years.

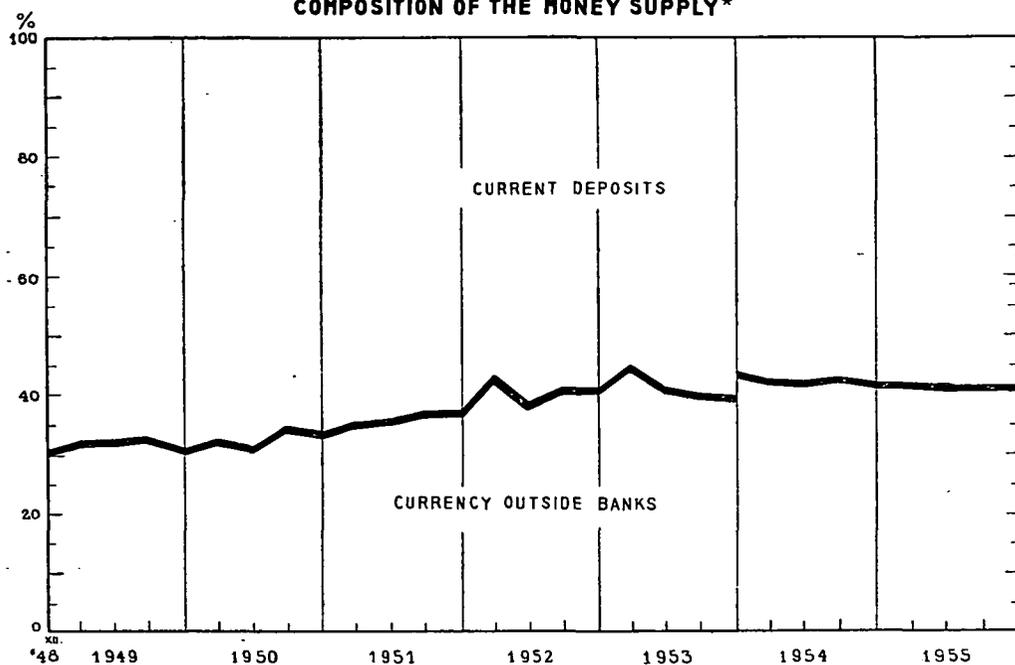
In 1949, deposits amounted to nearly 70 per cent of the money supply\*\*. In the years 1950, 1951 and 1952, the proportion of current deposits was gradually reduced until, towards the end of 1952, it reached 59 per cent of the total supply of money. This process was caused by the following two factors:

- (a) The large immigration from countries with an undeveloped banking system whose inhabitants were, in the main, unaccustomed to availing themselves of the services rendered by banks.

\* Among the causes affecting fluctuation in the money supply (Table 118) this factor is shown as a reduction in the net credit available to the Government.

\*\* Since the beginning of 1954, the definition of money has been changed to exclude foreign currency deposits. Hence, it is impossible to compare the ratio of currency in circulation to current deposits after 1954 with that existing in preceding years. This does not, however, interfere with the appraisal of fluctuations during various periods.

### COMPOSITION OF THE MONEY SUPPLY\*



\* See Second Note to Text on Page 162.

(b) The all-pervading regime of controls, existing side by side with semi-illegal markets, increased the volume of business transacted in cash.

The tendency for the share of bank deposits in the money supply to drop came to an end in 1953. On the contrary, their proportion began to increase, and this increase continued in the years 1954 and 1955. Thus, bank deposits constituted 56 per cent of the total money supply at the end of 1953, 58 per cent at the end of 1954 and 59 per cent at the end of 1955\*.

The share of bank deposits in the money supply has been rising, slowly but steadily, since 1953. This is probably due, in part, to the fact that social strata previously unaccustomed to using the services of banks, are now doing so and, in part, to the relative success attained in restraining inflationary tendencies.

#### 4. THE RELATIONSHIP BETWEEN THE MONEY SUPPLY, THE NATIONAL PRODUCT AND THE RESOURCES AVAILABLE TO THE ECONOMY

During 1955, the average money supply amounted to 19.4 per cent of the value of the gross national product at current prices. This proportion is very similar to that prevailing in 1954 (see line (5) of Table 120). But the Israel economy, unlike the economies of most other countries and due to large-scale capital imports, disposes of goods and services whose value far exceeds that of the national product. As Israel's money supply is used as the means of exchange for all the resources available to the economy, it is advisable to measure the ratio between the money supply and

\* These figures are based on the new money supply series.

the total to these resources. As shown in line (6) of Table 120, the money supply amounted to 15.2 per cent of the value of the resources available to the economy in 1954, and to 15.3 per cent in 1955.

**TABLE 120**  
**THE MONEY SUPPLY IN RELATION TO GROSS NATIONAL PRODUCT AND AVAILABLE RESOURCES,**  
**1954 AND 1955**  
*(in IL. millions)*

		1954	1955
(1)	Money Supply—Annual Average	330	398
(2)	Gross National Product	1,737	2,053
(3)	Net Capital Imports	430	547
(4)=(2)+(3)	Total Available Resources	2,167	2,600
(5)=(1)/(2)	Money Supply as a Percentage of Gross National Output	19.0	19.4
(6)=(1)/(4)	Money Supply as a Percentage of Total Available Resources	15.2	15.3
(7)=(2)/(1)	Annual Income Velocity	5.3	5.2
(8)=(4)/(1)	Annual Resource Velocity	6.6	6.5

SOURCE: *Calculations of the Bank of Israel.*

The ratio between the money supply and the national product or available resources (or the velocities of circulation noted in line (7) and (8) of Table 120, representing the converse of these ratios) is not necessarily of particular economic significance. If there were standard ratios between the optimum volume of the money supply and the national product or national resources, it would be possible to compare them with the ratios actually existent in the economy and to use them as a yardstick of monetary policy. However, no such standard ratios exist. Table 121, for example, shows these ratios in various economies during approximately the same period. They are shown to vary between 10 and 43 per cent, and no clear connection can be discerned between them and the levels of development, nor in the existence of inflationary or deflationary tendencies in the economies concerned.

The purpose of money is to finance not only the output of finished products or services, but also the entire volume of transactions requiring monetary payments, including transactions in raw materials, transactions in assets originating in former periods (such as fixed assets, materials from stocks, etc.) and purely financial transactions. It is very difficult to measure directly the ratio between the money supply and the total volume of transactions requiring monetary payments, as sufficient data on the size and volume of the transactions are usually not available (for example, data on financial transactions are almost unobtainable). On the other hand, it may be assumed that the volume of other transactions has been increasing in recent years in relation to national product, owing to the more extensive use of domestic raw materials which raised the proportion of transactions in unfinished products as compared to those in finished goods. As the annual income velocity for 1955 remained much the same as in 1954, it can be assumed that the transactions velocity has increased. The rate of turnover in bank deposits may serve as a pointer to the

transactions velocity of circulation. Table 122 shows the constant growth of the annual turnover in current bank deposits. The velocity of this turnover rose from 8 in 1950 to nearly 20 in 1955; i.e. every Israel pound in these deposits was used for two-and-a-half times as many payments in 1955 as in 1950.

When comparing the rise of 4.3 per cent in the turnover of current deposits between 1955 and 1954 — from 18.8 to 19.6 — the increase is apparent. A similar rise occurred in the clearing turnover of banks. The value of cheques cleared by the banks rose from IL.2,007.8 millions in 1954 to IL.2,556.4 millions in 1955, an increase of 27.3 per cent, while the average total of bank deposits rose by 22.9 per cent. Thus, in relation to deposits, clearing turnover increased during 1955 by 3.6 per cent.

The concepts of transactions velocity and income velocity of circulation are of limited usefulness in determining monetary policy. The demand for money is determined by many factors other than output or transactions in the economy. Among these factors are the customary prevailing velocity of payments and their correlation with the volume of transactions; expectations of future fluctuations in the price level; the extent to which overdrafts, letters of credit and similar banking services are used; the availability of additional credit facilities; the use of money substitutes,

TABLE 121

THE MONEY SUPPLY IN RELATION TO GROSS NATIONAL PRODUCT AND AVAILABLE RESOURCES IN VARIOUS COUNTRIES

(in per cent)

Country	Year	Money Supply in Relation to Gross National Product	Money Supply in Relation to Available Resources
Israel	1954	19.0	15.2
Israel	1955	19.4	15.3
Finland	1952	9.9	9.8
Philippine Republic	1952	13.4	13.4
Guatemala	1953	13.7	13.8
Peru	1952	15.3	14.8
Ceylon	1953	17.7	17.1
Western Germany	1953	17.4	18.0
Burma	1952	17.8	18.6
Japan	1952	20.5	20.5
Canada	1953	21.2	20.8
Sweden	1953	25.1	25.3
Denmark	1953	26.3	26.3
France	1952	31.0	30.9
Great Britain	1953	33.4	33.3
New Zealand	1952	33.3	33.8
Australia	1952	32.6	34.5
United States	1953	35.7	35.5
Norway	1953	38.9	37.1
Netherlands	1953	42.8	37.9

SOURCE: U.N. Statistics of National Income and Expenditure, August 1954; U.N. Monthly Bulletin of Statistics, December 1955.

TABLE 122

ANNUAL TURNOVER IN CURRENT ACCOUNTS OF THE PUBLIC IN BANKS, 1950 TO 1955

*(in IL. millions)*

<i>Period</i>	<i>Average Total of the Deposits</i>	<i>Debits — Monthly Average</i>	<i>Annual Turnover of Deposits</i>
1950—Average	83.3	54.0	7.8
1951—Average	102.1	88.9	9.8
1952—Average	107.5	124.6	13.9
1953—Average	118.9	156.6	15.9
1954—Average	141.1	221.7	18.8
1955—Average	173.4	283.5	19.6
1955—January	151.5	246.6	19.5
February	154.7	237.9	18.5
March	162.0	292.0	21.6
April	168.7	250.3	17.8
May	173.4	294.2	20.4
June	175.1	284.8	19.5
July	179.7	291.3	19.5
August	184.5	304.8	19.8
September	184.2	285.1	18.6
October	182.4	299.4	19.7
November	180.7	302.5	20.1
December	184.1	312.8	20.4

SOURCE: *The Central Bureau of Statistics and the Bank of Israel.*

such as post-dated cheques or credits from suppliers; the volume of barter transactions not requiring payment in money, and so forth. If all the above, and similar, conditions were to remain unchanged, a fixed velocity of circulation might be expected, so that a given rise in the volume of transactions would automatically bring about an equal rise in the money supply. However, in practice, the strength of these factors and the directions in which they operate, vary and changes in the velocity of circulation must therefore be anticipated.

It should, however, be remembered that statistical data relating to the velocity of circulation do not necessarily show changes in the inclination of individuals to retain money. For example, a high velocity of circulation may be due to restriction in the expansion of the money supply and not to changes in one of the factors previously mentioned which determine the demand for money. Available figures describing past developments of these factors do not necessarily indicate the causal connections between them.

Thus, when attempting to determine monetary policy and the optimum money supply for the economy, it is imperative to know the changes that have taken place in the factors determining the demand for money. Insofar as data in this connection are not available, one must rely on the assumption that these factors are not subject to changes over a short period. If the object of monetary policy is to ensure a high level of production and employment, unaccompanied by a rise in price, this assumption would indicate that the expansion of the money supply would

parallel the expected increase in real output. The potential increase in output cannot, of course, be foretold with exactitude, but past changes in output, data concerning increases in population, the volume of investment in the immediate past, etc., may all serve as important indicators aiding its determination.

Striving towards a maximum level of output cannot, however, become the sole criterion of monetary policy. If the price level tends to rise for reasons unconnected with expansion of the money supply, monetary policy must be designed to prevent such an expansion, which would merely serve to satisfy the growing demand for money created by a rising price level as opposed to an increase in real output. Apart from the level of production, the structure and application of output are of great importance. Among the decisive considerations, one may mention the distribution of output between consumption and investment and the possible effects of monetary policy on the balance of payments.