

## CHAPTER XVII

### CREDIT AND INTEREST RATES

#### 1. CREDIT TO THE PUBLIC

LOCAL and foreign currency credits granted to the public from the resources of the banking system expanded from IL.255.8 million at the end of 1955 to IL.299.2 million at the end of 1956 (see table XVII-2). This increase, of IL.43.4 million, or 17 per cent, compares with a IL.24.4 million or 10.5 per cent increase in 1955. Of the additional IL.43.4 million, IL.19.4 million, or about 45 per cent, were bills re-discounted at the Bank of Israel, and IL.24 million were facilities granted by the banking institutions out of their own resources. Over and beyond these amounts, advances totalling IL.38 million were allowed to the public by various banking institutions from Government deposits<sup>1</sup> or against the security thereof.

TABLE XVII-1

*Monthly Changes in the Volume of Credit Granted to the  
Public from the Resources of the Banking System,  
1955 and 1956\**  
(in IL. millions)

	1955	1956
January	5.8	2.8
February	7.6	1.2
March	2.5	6.8
April	-2.9	-1.5
May	-3.1	5.3
June	2.5	7.9
July	5.8	4.7
August	1.9	6.8
September	1.8	1.0
October	5.8	10.3
November	-2.6	0.7
December	-0.7	-2.6
<i>Total</i>	24.4	43.4

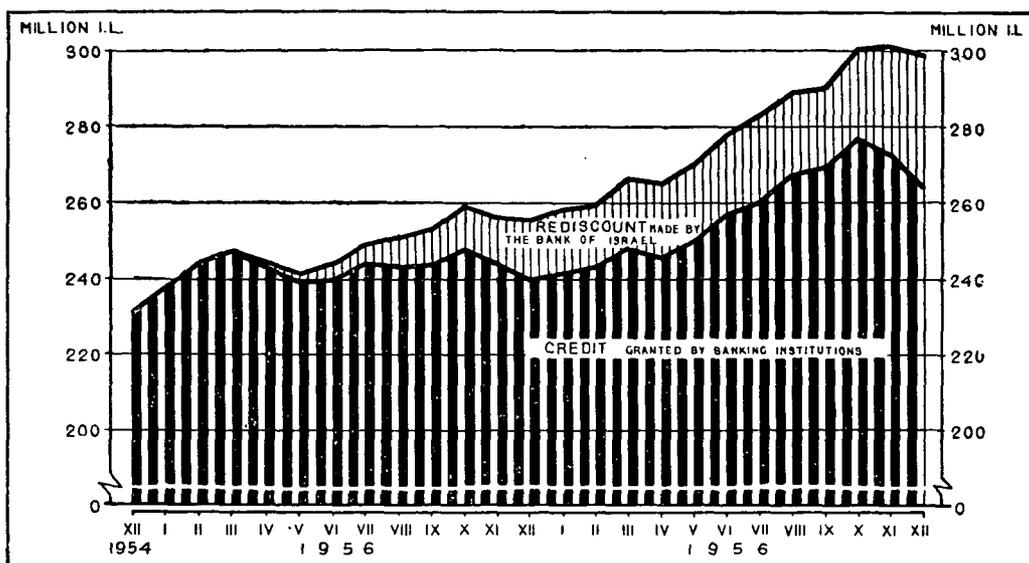
\* Including foreign currency. To determine changes in the money supply, a different series of figures should be used net of foreign currency lending. See Chapter XV.

SOURCE: Bank of Israel.

<sup>1</sup> See notes c and d to table XVII-2.

The expansion was relatively moderate until April: new credit to the amount of IL.9.3 million was created in the first four months of the year, as against IL.13 million in the corresponding months of 1955. But from May to October, the expansion was greater in 1956 than in 1955: whereas in 1955 credit expanded, on the average, by IL.2.3 million per month, the average for the same months in 1956 was IL.6 million.

DIAGRAM XVII-1  
*Credit Extended to the Public in 1956*  
*(in IL. millions)*



In both years credit contracted during the months of November and December, but in 1956, the contraction was more pronounced with regard to credit granted from the resources of the banking institutions, while the volume of re-discount credits increased to a greater extent.

(a) *Credit from the Resources of Banking Institutions*

The volume of credit to the public from the resources of banking institutions increased by IL.24 million, or 10 per cent, from IL.240 million in 1955 to IL.264 million in 1956 (see table XVII-2).

Bank credit continued to be governed in 1956 by the regulations relating to liquidity ratios and to the volume of credit each banking institution was permitted to grant<sup>2</sup>. The regulations which extended the authorized volume of credit in 1956 are listed in table XVII-3.

<sup>2</sup> For an exposition of the relevant regulations see Chapter XV, Bank of Israel Annual Report 1955, Jerusalem, May 1956—Sivan 5716.

currency bills totalling IL.19.8 million, and foreign currency bills to the value of IL.15.3 million (see table XVII-2).

During the first nine months of the year, the Bank's portfolio of bills increased by IL.5.6 million, i.e. by a monthly average of IL.0.6 million. In the last quarter of the year, it expanded by IL.138 million or a monthly rate of IL.4.6 million.

Of the bills re-discounted during the last quarter of 1956, IL.7.8 million constituted a non-recurrent credit to the Reparations Corporation, (repaid at the beginning of 1957). The rest were mostly industrial and agricultural bills, taken in with the objective to help the industrial and agricultural sectors to overcome difficulties encountered during the Sinai campaign<sup>4</sup>. These facilities were offered at a time when banking institutions were restricting credit from their own resources.

### *(c) Credit from Government Deposits*

Apart from the sources mentioned above, substantial amounts of credit were made available to the public by the Government through banking institutions. These may be divided as follows:

(1) The Government agreed to transfer certain claims (mainly in connection with imports, or arrears in payment of taxes) to banking institutions, which assumed the risk involved. In return, the Government was credited with deposits which could not be drawn upon except on specified dates, usually after the dates on which the original debtors had to fulfil their obligations. This type of credit was not subject to the usual regulations and it did not cause the money supply to expand. It implied a deferment of debts owed to the Government and the transfer of the risk to the banking institutions.

(2) The Government deposited with banking institutions part of the revenue of the Development Budget, to be applied by them against loans to investors or for the formation of special funds, following the Government's instructions. Credit from these deposits was generally long-term. The banks' role in these transactions was that of intermediaries and guarantors. This type of credit also did not cause the money supply to expand.

Details of credit from Government deposits are given in table XVII-4.

Liabilities to banking institutions on account of tax and customs arrears increased by over IL.12 million during 1956. Advances to purchasers of the Defence Loan totalled about IL.2 million in December 1956. Short-term loans to clients in connection with imports within the framework of the Reparations Agreement and the U.S. grant-in-aid decreased by IL.6.6 million, and the credit to distributors of Popular Loan certificates by IL.0.4 million. Altogether, credits granted by banking institutions against Government deposits expanded by IL.8.2 million. Credits from the Development Budget, which are usually given for long periods and are mainly intended for the financing of investments, increased by approximately IL.30 million during the year under review.

<sup>4</sup> See Chapter XIV.

The movement of the volume of credit granted in 1956 from the resources of banking institutions can be divided into three periods:—

From January to April, credit expansion was moderate, amounting to IL.5.7 million, a monthly average of about IL.1.4 million. Most of this new credit was granted within the previously approved limits. At the end of 1955 these had been utilized only to the extent of IL.240.8 million, and an additional amount of IL.6.5 million granted within this framework during the first four months of 1956 brought the total amount utilized to IL.247.3 million.

In May, a number of arrangements became operative which allowed the total volume of credit to expand rapidly. From May to October the volume of credit to the public from the resources of banking institutions increased by IL.31.5 million, i.e. a monthly average of IL.5.25 million. Of this amount, approximately IL.2 million were again granted within the previously approved limits; new credit to the amount of IL.6 million was granted in accordance with the new arrangements; IL.2.6 million consisted of loans out of funds accumulated through various saving schemes, against which the banks were permitted to make new loans of up to 40 per cent of these deposits<sup>3</sup>. Some credits were given from funds earmarked for loans, which were not subject to quantitative regulations; and some expansion of credit was allowed in the case of new banks and of banking institutions which had increased their capital through remittances from abroad. An especially big increase in credit occurred at the end of October, when many loans, which under normal circumstances would have been repaid at that time, fell overdue owing to the dislocations occasioned by the Sinai campaign. In consequence of the unexpectedly large credit expansion during the last days of October, accompanied by substantial withdrawals of deposits, the banks found their liquidity suddenly reduced. Some institutions even experienced cash difficulties which compelled them to draw upon their obligatory deposits with the Bank of Israel.

The reduced liquidity and the political and military situation in subsequent weeks induced the banking institutions to exercise restraint in the granting of new loans and even in the renewal of old ones. This tendency was strengthened in December, when some banking institutions customarily call in loans towards the conclusion of their business year, in connection with the publication of their annual reports.

#### (b) *Re-discount*

In 1956, the Bank of Israel increased its portfolio of bills by IL.19.4 million, of which IL.10.3 million were bills re-discounted in local currency and IL.9.1 million in foreign currency. At the end of 1956, the Bank of Israel held local

<sup>3</sup> 60 per cent of the accumulated funds must be invested by the banks in securities, 25 per cent may be lent out subject to specific approval of the loans by the Bank of Israel, and the lending of the remaining 15 per cent is at the discretion of the banks (see Chapter XV).

TABLE XVII-3

*Regulations Authorizing the Expansion of Credit from the Resources of Banking Institutions*  
(in IL. millions)

<i>Regulations authorizing the expansion of credit</i>	<i>Loans Outstanding</i>		<i>Changes in 1956</i>			
	<i>End of 1955</i>	<i>End of 1956</i>	<i>January- April</i>	<i>May- October</i>	<i>November- December</i>	<i>Whole Year</i>
Amount Utilized from Previously Approved Volume of Credit (Revised)*	240.8	251.6	6.5	8.2	- 3.9	10.8
Approved Loans Outside the Credit Volume Regulations, from the Funds of Banks' Saving Schemes	—	0.4	—	2.6	- 2.2	0.4
Authorized Expansion: 3 Per Cent of the old Volume of Credit, and 40 Per Cent of Surplus Liquid Assets in Excess of 50 Per Cent.	—	7.1	—	6.0	1.1	7.1
Special Loans Not Subject to Credit Volume Regulations, including Advances from Jewish Agency Deposits and Employment Fund Deposits	15.5	24.4	2.9	12.5	- 6.5	8.9
<i>Total Credit Granted by Banking Institutions</i>	256.3	283.5	9.4	29.3	-11.5	27.2
<i>less: Credit to the Government Subject to Volume Restrictions</i>	16.2	19.4	3.7	- 2.2	1.7	3.2
<i>Total Credit to the Public from the Resources of the Banking Institutions</i>	240.1	264.1	5.7	31.5	-13.2	24.0

\* Includes: The volume of credit fixed on the 30th November, 1953 (IL.230.3 million maximum); additional 4 per cent authorized in 1954 (IL.9.2 million maximum); increase in credit volume resulting from change of the exchange rate (IL.4.4 million maximum); increase in foreign currency of the capital of banking institutions; and future interest.

SOURCE: Bank of Israel.

TABLE XVII-4  
Bank Credit Granted to the Public, 1956  
(in IL. millions)

Source of credit	Dec. 1955	1956											
		Jan.	Dec.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>1. From the Resources of Banking Institutions</b>													
In Israel Currency <sup>a</sup>	234.0	235.1	236.6	242.2	241.5	246.3	253.5	256.5	262.9	265.2	273.3	268.7	259.6
In Foreign Currency <sup>b</sup>	6.1	6.7	6.4	6.5	4.3	3.7	3.5	3.8	4.6	4.3	4.0	4.2	4.5
<i>Sub-Total</i>	240.1	241.8	243.0	248.7	245.8	250.0	257.0	260.3	267.5	269.5	277.3	272.9	264.1
<b>2. From the Resources of the Bank of Israel (Re-Discount Credit)</b>													
In Israel Currency	9.5	9.9	9.8	11.1	12.8	13.9	14.0	15.7	15.1	13.7	15.7	16.4	19.8
In Foreign Currency	6.2	6.9	7.0	6.8	6.5	6.5	7.3	7.0	7.2	7.6	8.1	12.5	15.3
<i>Sub-Total</i>	15.7	16.8	16.8	17.9	19.3	20.4	21.3	22.7	22.3	21.3	23.8	28.9	35.1
<b>Total Bank Credit</b>													
In Israel Currency	243.5	245.0	246.4	253.3	254.3	260.2	267.5	272.2	278.0	278.9	289.0	285.1	279.4
In Foreign Currency	12.3	13.6	13.4	13.3	10.8	10.2	10.8	10.8	11.8	11.9	12.1	16.7	19.8
<i>Sub-Total</i>	255.8	258.6	259.8	266.6	265.1	270.4	278.3	283.0	289.8	290.8	301.1	301.8	299.2
<b>3. From Government Deposits Against Special Government Deposits<sup>c</sup></b>													
From Deposits Earmarked for Loans <sup>d</sup>	38.6	39.9	41.4	48.0	47.2	46.3	44.3	43.3	45.9	44.5	43.1	42.6	46.8
	104.3	106.3	108.8	106.7	108.3	112.1	116.9	119.4	123.9	127.1	128.5	131.4	134.1
<i>Sub-Total</i>	142.9	146.2	150.2	154.7	155.5	158.4	161.2	162.7	169.8	171.6	171.6	174.0	180.9
<i>Grand Total</i>	398.7	404.8	410.0	421.3	420.6	428.8	439.5	445.7	459.6	462.4	472.7	475.8	480.1

<sup>a</sup> Bills discounted; loans to subsidiary companies, other banking institutions and clients; loans from third-party deposits; loans from the deposits of public institutions; net participation of banking institutions in consortial loans.

<sup>b</sup> Loans to clients, and loans from third-party deposits.

<sup>c</sup> Loans to persons owing taxes or customs duty; to distributors of Popular Loan certificates; to purchasers of Defence Bonds, and loans to clients in connection with imports within the framework of German Reparations and the U.S. Grant-in-Aid.

<sup>d</sup> Loans granted from Government deposits earmarked for Development Budget loans, and loans from other Government deposits earmarked for special loans.

SOURCE: Bank of Israel.

TABLE XVII-4  
*Credit from Government Deposits, 1955 and 1956*  
*(in IL. millions)*

	<i>End of 1955</i>	<i>End of 1956</i>	<i>Change</i>
<i>A. Credit against Government Deposits</i>			
To persons owing income tax, customs duty or purchase tax	21.2	33.3	+12.1
To clients, in connection with imports (German Reparations and U.S. Grant-in-aid)	14.8	9.2	- 5.6
To distributors of Popular Loan Certificates	2.6	2.2	- 0.4
To purchasers of the Defence Loan	—	2.1	+ 2.1
<i>Sub-Total</i>	38.6	46.8	+ 8.2
<i>B. Credit from Government Deposits Earmarked for Loans</i>			
	104.3	134.1	+29.8
<i>Grand Total</i>	142.9	180.9	+38.0

SOURCE: Bank of Israel.

## 2. GOVERNMENT BORROWING

The Government's indebtedness to the banking system grew by IL.63.9 million in 1956 (see table XVII-5), as compared with an increase of IL.35.4 million in 1955. Most of the new borrowing was from the Bank of Israel. The Government also maintained credit and debit accounts with some commercial banking institutions (mainly foreign currency accounts) but movements of these accounts were few and, on the whole, the balances were gradually reduced during the year.

The indebtedness of the Government to the banking system (including the Bank of Israel) decreased by more than IL.20 million during the first quarter of 1956 (the last quarter of the fiscal year 1955/56). It continued to decrease slightly in April, but as from May and until the end of the year Government liabilities increased by more than IL.86 million. The volume of credit in general and of the Government's indebtedness in particular also expanded considerably in 1955, however, between May and December 1955, Government debt had not increased by half the amount which it reached during the period under review.

The increase in the net current liabilities of the Government, did not affect the money supply to a very considerable extent, because most of the funds made available to the Government by the Bank of Israel were applied to the purchase of foreign currency. The greatest increase in Government debt took place during the third quarter of 1956. During that period Government expenditure rose by more than 10 per cent as compared with the second quarter of that year, largely on account of outlays connected with the security situation. Most

of the public expenditure during this period consisted of foreign currency payments; foreign currency purchases by the Government therefore reached a peak during the third quarter of 1956. For this reason, as already explained, Government borrowing did not increase the money supply during the third quarter. In the last quarter of the year, however, when the Government did not purchase foreign currency, the impact of Government borrowing on the money supply was considerable, although the additional credit extended by the banking system amounted to less than half the increase of the preceding quarter.

**TABLE XVII-5**  
*Net Changes in the Volume of Government Borrowing from the  
Banking System, 1956*  
(in IL. millions)

	<i>Short term</i>	<i>Securities</i>	<i>Other liabilities*</i>	<i>Total</i>
January	-16.2	- 0.5	1.3	-15.4
February	- 4.7	0.7	- 1.5	- 5.5
March	-24.0	25.2	- 0.5	0.7
April	18.2	-17.5	- 2.8	- 2.1
May	13.8	1.6	0.6	16.0
June	9.3	- 3.0	- 5.8	0.5
July	24.9	6.9	- 3.1	28.7
August	7.3	0.2	- 3.2	4.3
September	17.8	—	- 2.2	15.6
October	- 1.5	0.2	- 1.9	- 3.2
November	12.8	5.2	- 3.3	14.7
December	6.0	8.1	- 4.5	9.6
<i>Total</i>	63.7	27.1	-26.9	63.9

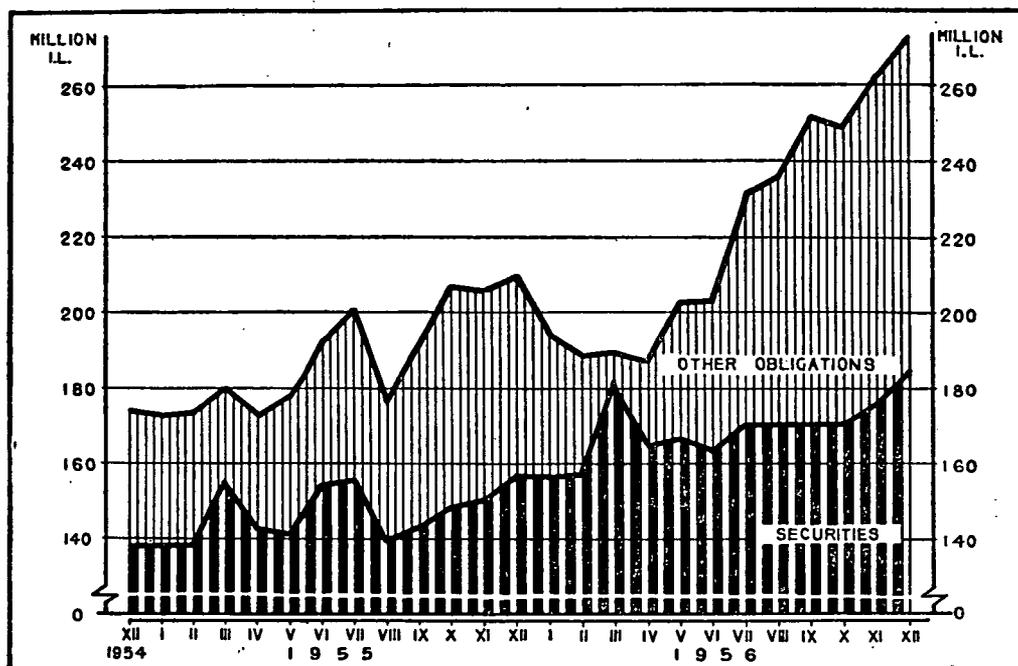
\* See table XVII-6.

SOURCE: Bank of Israel.

Throughout 1956 there were considerable shifts in the structure of the public debt, but on balance the increase amounted to an expansion of short-term liabilities. In March, short-term indebtedness receded somewhat while the amount of outstanding Government securities increased as the Government sold Treasury Bills<sup>5</sup> and other securities to the Bank of Israel, in order to reduce its short-term commitments at the end of the financial year, as required by law. In April, the Government again purchased securities from the Bank and resumed its borrowing activity. But in May and during the following months, the banking system increased its holdings of Government securities: in July, the Bank of Israel purchased the remaining stock of Treasury

<sup>5</sup> For technical reasons, Treasury Bills are here included under "Securities."

DIAGRAM XVII-2  
 Government Debt to the Banking System, 1956  
 (in IL. millions)



bills which the Ministry of Finance was still authorized to re-issue, increasing its portfolio to IL.69.4 million. In November and December the Bank bought other securities, chiefly Defence bonds, to the amount of IL.5 million. In December, the banking institutions made substantial purchases of the new Defence Loan.

The continuous decline in other Government liabilities reflected, *inter alia*, the increase of the paid-up capital of the Bank of Israel, through the redemption of Government promissory notes previously issued to capitalize the Bank. Other reasons for this decline were the repayment of foreign debts through the intermediary of the Bank, and a certain expansion of Government deposits with the banking institutions.

### 3. THE DISTRIBUTION OF CREDIT BY ECONOMIC SECTORS

The distribution of bank credit by economic sectors underwent some changes in 1956 as compared with 1955 (see table XVII-7). Additional advances to the amount of IL.31 million were granted from the resources of banking institutions, raising the share of industry in the total volume of bank credit from 24.4 per cent at the end of 1955 to 26.7 per cent at the end of 1956 and also

**TABLE XVII-6**  
*Bank Credit to the Government, 1955 and 1956*  
 (in IL. millions)

	Dec. 1955	1956											
		Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
<b>A. SHORT-TERM</b>													
<b>1. Bank of Israel</b>													
Ordinary Advances	26.1	22.3	16.1	—	20.9	23.2	15.2	16.4	19.2	19.2	21.0	23.6	38.1
Other Accounts, Net*	0.4	1.3	1.3	-23.8	- 5.1	- 0.6	- 0.8	- 2.4	0.5	7.8	8.3	11.5	5.0
Deposits with Banking Institutions in con- nection with Gov- ernment Accounts	—	—	—	8.0	5.0	3.8	2.1	0.9	—	—	—	—	—
Loans for the Purchase of Foreign Currency	11.9	13.7	13.2	—	8.9	15.0	29.3	53.7	66.6	74.4	78.0	82.8	79.1
<i>Total Gross Credit</i>	38.4	37.3	30.6	-15.8	29.7	41.4	45.8	68.6	86.3	101.4	107.3	117.9	122.2
Deposits in Israel Currency	16.3	23.6	16.5	2.9	17.9	16.1	17.9	18.8	27.2	25.4	23.0	27.1	22.8
Deposits in Foreign Currency	0.7	5.9	10.8	0.2	13.8	17.6	14.9	10.2	10.0	10.0	17.3	10.0	10.1
<i>Less: Total Deposits</i>	17.0	29.5	27.3	3.1	31.7	33.7	32.8	29.0	37.2	35.4	40.3	37.1	32.9
<i>Total Net Credit</i>	21.4	7.8	3.3	-18.9	- 2.0	7.7	13.0	39.6	49.1	66.0	67.0	80.8	89.3
<b>2. Banking Institutions</b>													
Credit in Israel Currency	5.6	4.4	5.0	4.1	5.0	3.6	3.4	3.6	2.5	3.4	3.8	4.0	2.9
Credit in Foreign Currency	14.1	12.6	11.1	9.8	9.1	14.6	19.0	17.4	16.1	16.2	13.2	11.8	10.9
<i>Total Gross Credit</i>	19.7	17.0	16.1	13.9	14.1	18.2	22.4	21.0	18.6	19.6	17.0	15.8	13.8
Deposits in Israel Currency	2.6	2.4	1.9	1.6	0.6	0.6	0.8	1.1	0.9	1.1	1.0	0.8	1.3
Deposits in Foreign Currency	0.4	0.5	0.3	0.2	0.1	0.1	0.1	0.1	0.1	—	—	—	—
<i>Total Deposits</i>	3.0	2.9	2.2	1.8	0.7	0.7	0.9	1.2	1.0	1.1	1.0	0.8	1.3
<i>Total Net Credit</i>	16.7	14.1	13.9	12.1	13.4	17.5	21.5	19.8	17.6	18.5	16.0	15.0	12.5

<i>Credit to the Govt.</i>	38.1	21.9	17.2	- 6.8	11.4	25.2	34.5	59.4	66.7	84.5	83.0	95.8	101.8
<b>B. SECURITIES</b>													
1. <i>Bank of Israel</i>													
Treasury Bills	57.1	55.3	55.4	68.8	62.6	64.2	62.0	69.0	69.0	69.0	69.0	69.3	69.3
Land Bills	77.3	77.3	77.3	77.3	77.3	77.3	77.3	77.3	77.3	77.3	77.3	77.3	77.3
Other Securities	—	—	—	12.0	0.7	0.7	—	—	—	—	0.2	5.1	5.1
<i>Total</i>	134.4	132.6	132.7	158.1	140.6	142.2	139.3	146.3	146.3	146.3	146.5	151.7	151.7
2. <i>Banking Institutions Securities</i>	22.6	23.9	24.5	24.3	24.3	24.3	24.2	24.1	24.3	24.3	24.3	24.3	32.4
<i>Total Securities</i>	157.0	156.5	157.2	182.4	164.9	166.5	163.5	170.4	170.6	170.6	170.8	176.0	184.1
<b>C. OTHER GOVERNMENT LIABILITIES</b>													
1. <i>Bank of Israel</i>													
Promissory Notes against Coins in Circulation and the Capital of the Bank of Israel	11.7	11.7	11.7	11.1	11.1	11.1	11.1	11.1	11.1	10.1	10.1	10.1	7.1
Debit Balances with Central Banks Abroad	11.0	11.0	11.0	11.0	11.0	10.7	7.1	5.3	3.5	1.7	1.1	—	—
Other Accounts (net), including Reserve Fund	2.5	3.7	2.9	0.2	0.6	0.9	-0.5	-2.1	-3.4	-2.7	-3.4	-5.6	-1.3
<i>Total</i>	25.2	26.4	25.6	22.3	22.7	22.7	17.7	14.3	11.2	9.1	7.8	4.5	5.8
2. <i>Banking Institutions less: Government Deposits (net)<sup>b</sup></i>	10.9	10.8	11.5	8.7	11.9	11.3	12.1	11.8	11.9	12.0	12.6	12.6	18.4
<i>Total—Other Liabilities</i>	14.3	15.6	14.1	13.6	10.8	11.4	5.6	2.5	-0.7	-2.9	-4.8	-8.1	-12.6

<sup>a</sup> "Other Government Accounts" less "Deposits of Other Institutions."

<sup>b</sup> "Government Deposits" less "Loans from Government Deposits."

SOURCE: Bank of Israel.

**TABLE XVII-7**  
*Distribution of Credit Granted through the Banking Institutions, by  
Economic Sectors, 1955 and 1956\**  
*(in IL. millions and in per cent)*

<i>Economic Destination</i>	<i>From the resources of banking institutions, against Government deposits, and against third-party deposits</i>		<i>From Government deposits earmarked for loans and from the resources of the Israel Bank of Agriculture</i>		<i>Total credit granted through the banking institutions</i>	
	1955	1956	1955	1956	1955	1956
	<i>(in IL. millions)</i>					
Agriculture	66.3	76.4	63.4	80.6	129.7	157.0
Industry	64.0	78.4	17.4	31.7	81.4	110.1
Building	19.8	21.4	9.2	11.0	29.0	32.4
Commerce	37.5	35.9	1.1	0.8	38.6	36.7
Local Authorities	3.3	4.5	13.0	18.2	16.3	22.7
Public Utilities	4.4	3.4	1.1	0.8	5.5	4.2
Financial Institutions	5.6	10.5	2.6	2.2	8.2	12.7
Land Settlement						
Agencies	3.0	2.3	8.4	0.9	11.4	3.2
Services	13.7	15.8	3.6	4.0	17.3	19.8
Miscellaneous	44.9	44.9	1.4	1.8	46.3	46.7
<i>Total</i>	262.5	293.5	121.2	152.0	383.7	445.5
	<i>(in per cent)</i>					
Agriculture	25.3	26.0	52.3	53.0	33.8	35.3
Industry	24.4	26.7	14.4	20.9	21.2	24.7
Building	7.5	7.3	7.6	7.2	7.6	7.3
Commerce	14.3	12.2	0.9	0.5	10.1	8.2
Local Authorities	1.3	1.5	10.7	12.0	4.2	5.1
Public Utility	1.7	1.2	0.9	0.5	1.4	0.9
Financial Institutions	2.1	3.6	2.1	1.5	2.1	2.9
Land Settlement						
Agencies	1.1	0.8	6.9	0.6	3.0	0.7
Services	5.2	5.4	3.0	2.6	4.5	4.4
Miscellaneous	17.1	15.3	1.2	1.2	12.1	10.5
<i>Total</i>	100.0	100.0	100.0	100.0	100.0	100.0

\* Bank credit to the Government has not been included in this table because Government deposits with the banking institutions exceeded the sum total of loans to the Government from them.

SOURCE: Bank of Israel.

increasing—though to a lesser extent—the share of agriculture, the local authorities and of the financial institutions. The building industry received a somewhat smaller portion of the credit granted, and the volume of advances to commerce, the public utilities and land settlement agencies declined absolutely. However,

the latter two were able to borrow from the Bank of Israel during the period under review.

Long-term credit, mainly provided by Government deposits earmarked for loans and by the Israel Bank of Agriculture, expanded by IL.30.8 million. Agriculture and industry were granted additional facilities to the amount of IL.31.5 million, and the local authorities were enabled to increase their long-term borrowings by more than IL.5 million. Industrial long-term credit increased from 14.4 per cent to 20.9 per cent of the total (the greatest relative increase recorded in the year.) The share of agriculture and the local authorities increased to a lesser extent, while the share of the remaining economic sectors was relatively smaller than in 1955.

With regard to re-discount facilities, industry and agriculture were most favoured (see section 1(b) above and table XVII-8).

Industrial bills which accounted for 80 per cent of the total at the end of 1955 still made up 50 per cent at the end of 1956. The distribution of re-discount facilities between the various economic sectors is shown in table XVII-8.

**TABLE XVII-8**  
*Bills Re-Discounted by the Bank of Israel, End of 1955 and End of 1956*  
(in IL. millions)

	<i>End of 1955</i>	<i>End of 1956</i>
<i>In Israel Currency</i>		
Agriculture	2.5	8.4
Industry and Other Sectors	7.0	11.4
	<hr/> 9.5	<hr/> 19.8
<i>In Foreign Currency</i>		
Agriculture	—	0.5
Industry and Other Sectors	6.2	7.0
Government Corporations*	—	7.8
	<hr/> 6.2	<hr/> 15.3
<i>Total</i>		
Agriculture	2.5	8.9
Industry and Other Sectors	13.2	18.4
Government Corporations	—	7.8
	<hr/> 15.7	<hr/> 35.1

\* The major component of this item was a non-recurrent rediscount credit to the Reparations Corporation.

SOURCE: Bank of Israel.

The impact of the qualitative control of credit on its distribution among the various economic sectors is illustrated by table XVII-9. A comparison bet-

**TABLE**  
*Distribution of Bank Credit and Credit from Government*  
(in IL. millions)

<i>Source of credit</i>	<i>Total</i>	<i>Agriculture</i>	<i>Industry</i>
<b>A. In IL.</b>			
<b>1. BANKS</b>			
From Own Resources, against Government Deposits <sup>a</sup> and against Third-Party Deposits, within the Limits of Prescribed Ratios	176.7	28.9	65.6
From Own Resources, and against Third-Party De- posits: Exemptions from the Liquidity Regulations <sup>b</sup>	40.5	26.6	4.7
<i>Total from the Resources of Banks</i>	217.2	55.5	70.3
From Government Deposits Earmarked for Loans, <sup>a</sup> and from the Resources of the Israel Bank of Agriculture	142.1	77.4	30.7
<i>Total Credit Granted through Banks</i>	359.3	132.9	101.0
<b>2. CREDIT CO-OPERATIVE SOCIETIES</b>			
From Own Resources, against Government Deposits <sup>a</sup> and against Third-Party Deposits, within the Limits of Prescribed Ratios	66.3	11.8	7.8
From Own Resources, and against Third-Party De- posits: Exemptions from the Liquidity Regulations	10.0	9.1	0.3
<i>Total from the Resources of Credit Co-operative Societies</i>	76.3	20.9	8.1
From Government Deposits Earmarked for Loans <sup>a</sup>	9.9	3.2	1.0
<i>Total Credit Granted through Credit Co-operative Societies</i>	86.2	24.1	9.1
<b>3. BANK OF ISRAEL<sup>c</sup></b>	27.3	8.9	14.4
<b>4. ENTIRE BANKING SYSTEM</b>			
From Own Resources, against Government Deposits <sup>a</sup> and against Third Party Deposits, within the limits of prescribed Ratios	243.0	40.7	73.4
From Own Resources, and against Third-Party De- posits: Exemptions from the Liquidity Regulations	50.5	35.7	5.0
<i>Total from the Resources of Banking Institutions</i>	293.5	76.4	78.4
Bank of Israel <sup>c</sup>	27.3	8.9	14.4
<i>Total Bank Credit</i>	320.8	85.3	92.8
<i>From Government Deposits<sup>a</sup></i>	152.0	80.6	31.7
<i>Total Credit Granted through the Banking Institutions</i>	472.8	165.9	124.5

<sup>a</sup> See section 1(c) above.

<sup>b</sup> An additional amount of IL.6 million was granted by the banking institutions to the Government, outside the liquidity framework.

## XVII-9

*Deposits, by Economic Sectors, End of 1956  
and in per cent)*

<i>Building</i>	<i>Commerce</i>	<i>Local authorities</i>	<i>Public utilities</i>	<i>Financial and credit institutions</i>	<i>Land settlement agencies</i>	<i>Services</i>	<i>Miscellane- ous</i>
<i>millions</i>							
12.4	28.4	1.2	2.7	5.9	1.0	9.1	21.5
2.3	0.2	2.2	0.3	1.8	1.2	0.6	0.6
14.7	28.6	3.4	3.0	7.7	2.2	9.7	22.1
10.0	0.8	15.7	0.8	1.9	0.6	3.5	0.7
24.7	29.4	19.1	3.8	9.6	2.8	13.2	22.8
6.6	7.3	0.9	0.4	2.8	0.1	6.1	22.5
0.1	—	0.2	—	—	—	—	0.3
6.7	7.3	1.1	0.4	2.8	0.1	6.1	22.8
1.0	—	2.5	—	0.3	0.3	0.5	1.1
7.7	7.3	3.6	0.4	3.1	0.4	6.6	23.9
—	0.8	—	2.1	—	0.8	0.3	—
19.0	35.7	2.1	3.1	8.7	1.1	15.2	44.0
2.4	0.2	2.4	0.3	1.8	1.2	0.6	0.9
21.4	35.9	4.5	3.4	10.5	2.3	15.8	44.9
—	0.8	—	2.1	—	0.8	0.3	—
21.4	36.7	4.5	5.5	10.5	3.1	16.1	44.9
11.0	0.8	18.2	0.6	2.2	0.9	4.0	1.8
32.4	37.5	22.7	6.3	12.7	4.0	20.1	46.7

\* Exclusive of bills to the amount of IL.7.8 million discounted for Government corporations.

TABLE  
*Distribution of Bank Credit and Credit from Government*

<i>Source of credit</i>	<i>Total</i>	<i>Agriculture</i>	<i>Industry</i>
			<b>B. In</b>
<b>1. BANKS</b>			
From Own Resources, against Government Deposits and against Third-Party Deposits, within the Limits of Prescribed Ratios	100.0	16.4	37.1
From Own Resources, and against Third-Party Deposits: Exemptions from the Liquidity Regulations	100.0	65.7	11.6
<i>Total from the Resources of Banks</i>	100.0	25.5	32.3
From Government Deposits Earmarked for Loans, and from the Resources of the Israel Bank of Agriculture	100.0	54.5	21.6
<i>Total Credit Granted through Banks</i>	100.0	37.0	28.1
<b>2. CREDIT CO-OPERATIVE SOCIETIES</b>			
From Own Resources, against Government Deposits and against Third-Party Deposits, within the Limits of Prescribed Ratios	100.0	17.8	11.7
From Own Resources, and against Third-Party Deposits: Exemptions from the Liquidity Regulations	100.0	91.0	3.0
<i>Total from the Resources of Credit Co-operative Societies</i>	100.0	27.4	10.6
From Government Deposits Earmarked for Loans	100.0	32.3	10.1
<i>Total Credit Granted through Credit Co-operative Societies</i>	100.0	27.9	10.5
<b>3. BANK OF ISRAEL</b>	100.0	32.6	52.8
<b>4. ENTIRE BANKING SYSTEM</b>			
From Own Resources, against Government Deposits and against Third-Party Deposits, within the Limits of Prescribed Ratios	100.0	16.7	30.2
From Own Resources, and against Third-Party Deposits: Exemptions from the Liquidity Regulations	100.0	70.7	9.9
<i>Total from the Resources of Banking Institutions</i>	100.0	26.0	26.7
Bank of Israel	100.0	32.6	52.8
<i>Total Bank Credit</i>	100.0	26.6	28.9
<i>From Government Deposits</i>	100.0	53.0	20.9
<i>Total Credit Granted through the Banking Institutions</i>	100.0	35.1	26.3

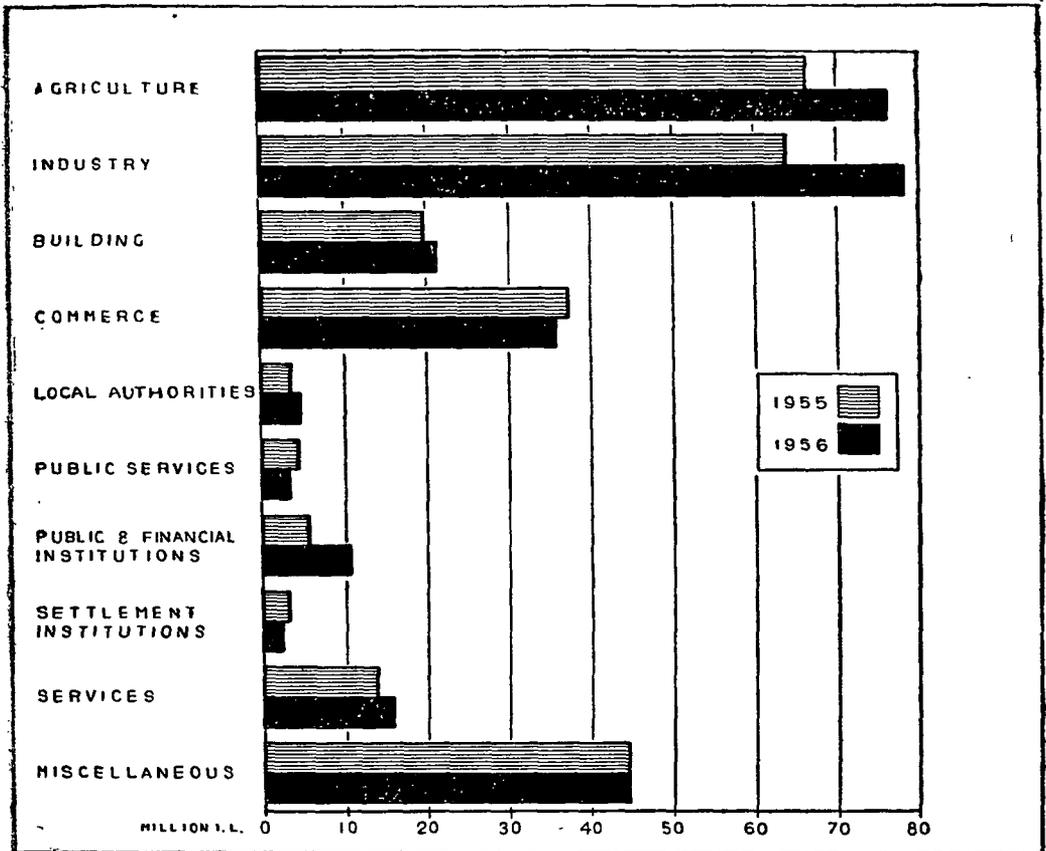
SOURCE: Bank of Israel.

## XVII-9

*Deposits, by Economic Sectors, End of 1956*

<i>Building</i>	<i>Commerce</i>	<i>Local authorities</i>	<i>Public utilities</i>	<i>Financial and credit institutions</i>	<i>Land settlement agencies</i>	<i>Services</i>	<i>Miscellaneous</i>
<i>per cent</i>							
7.0	16.1	0.7	1.5	3.3	0.6	5.1	12.2
5.7	0.5	5.4	0.7	4.4	3.0	1.5	1.5
6.8	13.2	1.6	1.4	3.5	1.0	4.5	10.2
7.0	0.6	11.0	0.6	1.3	0.4	2.5	0.5
6.9	8.2	5.3	1.0	2.7	0.8	3.7	6.3
10.0	11.0	1.4	0.6	4.2	0.2	9.2	33.9
1.0	—	2.0	—	—	—	—	3.0
8.8	9.5	1.4	0.5	3.6	1.3	8.0	28.9
10.1	—	25.3	—	3.0	3.0	5.1	11.1
8.9	8.5	4.2	0.5	3.6	0.5	7.7	27.7
—	2.9	—	7.7	—	2.9	1.1	—
7.8	14.7	0.9	1.3	3.6	0.5	6.2	18.1
4.7	0.4	4.7	0.6	3.6	2.4	1.2	1.8
7.3	12.2	1.5	1.2	3.6	0.8	5.4	15.3
—	2.9	—	7.7	—	2.9	1.1	—
6.7	11.4	1.4	1.7	3.3	1.0	5.0	14.0
7.2	0.5	12.0	0.5	1.5	0.6	2.6	1.2
6.9	7.9	4.8	1.3	2.7	0.8	4.3	9.9

DIAGRAM XVII-3  
*Distribution of Bank Credit by Economic Sectors, 1955-1956*  
*(in IL. millions)*



ween the distribution of credit granted from the resources of the banking system within the framework of the liquidity regulations and that of total short-term credit, shows the impact of exemptions from the liquidity requirements and rediscounts at the Bank of Israel. The share of agriculture, which would have been 16.7 per cent of the total had it not been for these exemptions, was 26.6 per cent of the total short-term credit taking account of these facilities. On the other hand, the respective shares of building, commerce, public utilities and miscellaneous were smaller in the latter case than in the former. More than 70 per cent of all exemptions from the liquidity regulations were in favour of agricultural credit; and more than half the rediscount facilities granted by the Bank of Israel were industrial accommodation.

Credit from Government deposits was almost invariably intended for development purposes. More than half of it was accorded to agriculture, about 20 per

cent to industry, 12 per cent to the local authorities and approximately 7 per cent to the building industry<sup>6</sup>.

Agriculture was most favoured, being guaranteed a minimum of 22 per cent of total loans. No such quota was laid down for industry, considering that many of the banking institutions in any case preferred industrial borrowers, for the following reasons:

(a) Agricultural borrowers require credit for comparatively longer periods, since the production processes in agriculture are more protracted.

(b) Many banking institutions prefer their advances to be in the form of overdrafts, a method which is more suitable for industrial than for agricultural credit.

(c) Industrial loans imply a larger variety of transactions through the banking institutions and a greater turnover, especially as regards foreign currency transactions.

(d) Agricultural enterprise is very largely financed by loan capital and its own resources are relatively insignificant. This increases the risks of lending to this sector.

For these reasons, banking institutions are freely lending to industry, and a high proportion of directed credit is therefore channelled to agriculture.

#### 4. INTEREST

##### (a) *The Law of Interest*

In 1956, the Knesset twice resolved to amend paragraph 79 of the Bank of Israel Law, which was originally intended to come into force on the 3rd of February, 1956. These amendments delayed the date of effectiveness of paragraph 78 of the Bank of Israel Law, which repeals the application of the Ottoman Law of Interest<sup>7</sup> to the banking institutions. The Ottoman Law of Interest therefore continued to apply to banking institutions throughout 1956.

The amendments were passed so as to allow the Government and the Bank of Israel time to examine the problems involved in securing an adequate settlement of the issue of interest rates through legislation. After extensive deliberation by the Government and the Bank of Israel during the year under review, the Government submitted a bill in this connection for the approval of the Knesset. The bill proposes that, in so far as the Governor of the Bank of Israel has not utilized the power to limit the rate of interest chargeable by the banking institutions, conferred upon him by paragraph 56 of the Bank of Israel Law, the

<sup>6</sup> More details of credit granted to agriculture, industry and building are given in Chapters IX, X, XI and XII.

<sup>7</sup> The Ottoman Law limits the rate of interest to 9 per cent per annum. See Chapter XV, Bank of Israel Annual Report 1955, Jerusalem May 1956—Sivan 5716.

Minister of Finance—after consultation with the Governor of the Bank of Israel and upon authorization by the Finance Committee of the Knesset—be empowered to issue an order fixing the maximum debit rates of interest and commissions and that this order shall be applicable to all lenders in the country, banking institutions as well as other lending bodies. The bill was only approved by the Knesset towards the end of January 1957. The Ottoman Law of Interest was repealed when the new Law of Interest came into force. In accordance with the powers conferred upon him, the Minister of Finance issued an order which came into effect on the 1st of March 1957, fixing the maximum debit rate of interest for all types of lenders at 11 per cent per annum; interest on agricultural or industrial loans was limited to 10 per cent per annum. The maximum rate of interest on loans linked to the foreign exchange rate or to the consumers' price index was restricted to 6.5 per cent per annum.

(b) *Changes in Interest Rates*

Interest rates actually charged during 1956 underwent certain fluctuations. The debit rate was slightly raised by some of the large banks, which scrupulously kept to the provisions of the Ottoman Law of Interest; these banks also began to charge higher commissions for their services. Consequently, their debit rate of interest apart from commission reached nearly 9 per cent per annum. Some other banking institutions exceeded this rate by far.

Sufficient data concerning average interest rates on loans granted outside the banking system (so-called free market loans) are not available, but they are known to have varied considerably, according to the risks involved. From the partial data available it would appear that, on the whole, the interest charged on free market loans in 1956 was not higher than in 1955, and may even have receded somewhat towards the end of the year. For example, discount rates in the free market for short-term bills of the public institutions (which are commonly rated as first class), ranged between 12 and 15 per cent per annum in 1956, which was less than previously current rates. The interest on credit balances was also on the increase. Saving schemes advertised by the commercial banks carried interest of 5 to 6 per cent per annum<sup>8</sup> on time deposits of 3 to 5 years' maturity. Some banking institutions also increased interest payments on demand deposits. Bank Leumi Le-Israel Ltd., for example raised its rate on recurrent credit accounts (which cannot be drawn on by cheque) from 0.5 to 1.5 per cent per annum. Calculations based on the reports of the banking institutions show the average rate of interest on demand deposits to have increased from 1.25 per cent per annum in 1955 to 1.35 per cent per annum in 1956.

The rediscount rate of the Bank of Israel remained 6 per cent per annum for bills in Israel currency, and 3 per cent per annum on foreign currency bills.

<sup>8</sup> See chapter XVIII below.

The banking institutions were authorized to discount these bills from clients at 2.5 and 2 per cent respectively.

The Bank of Israel slightly raised the interest rate on the deposits of banking institutions. As from June 1956, the Bank paid 3.5 per cent per annum on time deposits of six months and 4 per cent on deposits of one year's maturity. The interest rate on balances over and above the obligatory accounts remained 2 per cent throughout the year and 3 per cent on deposits of three months' maturity.

In general, there were no changes in the interest rates charged by the Government on priority loans granted for investment purposes or the augmentation of working capital. The rate of interest on long-term loans from the Development Budget was 6.5 per cent per annum in 1955, if the loan was given through banking or financial institutions and 4 per cent per annum, if granted directly.<sup>9</sup>

<sup>9</sup> In 1956, it was decided that these loans must be partially linked to the exchange rate. Loans for periods of 2 to 3 years have been linked to the extent of 50 per cent, and loans for periods of 8 years or more to the extent of 70 per cent.