

CHAPTER XXII

ACTIVITIES OF THE BANK OF ISRAEL

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

THE BANK of Israel considerably expanded the scope of its operations during 1956—the second full year of its existence. The value of the Bank's assets and liabilities increased by IL.123 million, or 34 per cent, totalling IL.483.7 million at the end of 1956 as compared with IL.360.7 million at the end of 1955. The expansion of the Bank's activities was reflected by every single item of assets and liabilities, except for the decline in the mutually offsetting accounts caused by the contraction of the exchange funds.

Assets:

Current Government liabilities showed the most striking increase; they rose by more than IL.125 million during the period under review and were three times as large as at the end of 1955, their share in the total assets of the Bank of Israel having risen from 16 to 37 per cent respectively. The value of bills discounted more than doubled, and represented a greater proportion of total assets at the end of 1956 than at the end of 1955. Assets in foreign currency and gold increased by IL.8 million, while the value of Government securities held by the Bank increased by IL.12 million. This figure includes Treasury bills acquired directly from the Ministry of Finance to the amount of IL.7 million and other Government securities—partly purchased on the stock exchange—to the amount of IL.5 million. The relative increase of these last two items was below average, as compared to that of total assets and their share in the total assets of the Bank therefore decreased, as shown in table XXII-1.

Current and other Government liabilities rose from IL.197 million at the end of 1955 to IL.336 million at the end of 1956, and constituted 70 per cent of the total assets, as against 62 per cent at the end of the preceding year.

Liabilities:

The change in the structure of the Bank's liabilities was smaller than that affecting the assets. The value of banknotes and coin in circulation rose by IL.56 million, a relatively small increase as compared with that of the total liabilities, while their share in this total decreased from 58 to 50 per cent. "Other Institutions' Deposits", representing income earmarked for the Government, showed a significant change. These deposits increased by IL.42 million, their share of total liabilities amounting to 11 per cent at the end of the year under

TABLE XXII-1

Structure of the Assets and Liabilities of the Bank of Israel, End of 1955 and End of 1956

(in IL. millions and in per cent)

<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 1955</i>	<i>end of 1956</i>	<i>end of 1955</i>	<i>end of 1956</i>		<i>end of 1955</i>	<i>end of 1956</i>	<i>end of 1955</i>	<i>end of 1956</i>
Foreign Currency and Gold ^a	99.9	107.8	31.5	22.4	Banknotes and Coin in				
Government Securities	146.1	158.8	46.2	33.0	Circulation	183.6	239.9	57.9	49.9
Current Liabilities of the					Government Deposits	17.0	32.8	5.4	6.8
Government	51.0	176.9	16.1	36.8	Other Institutions' Deposits	12.6	54.8	4.0	11.4
Bills Discounted	15.7	35.1	4.9	7.3	Banking Institutions' Deposits	86.8	124.4	27.4	25.9
Other Accounts	4.5	2.6	1.4	0.5	Capital and Reserve Funds	11.0	13.0	3.5	2.7
					Other Accounts	6.2	16.3	2.0	3.4
<i>Total</i>	317.2	481.2	100.0	100.0	<i>Total</i>	317.2	481.2	100.0	100.0
Mutually Offsetting Accounts					Mutually Offsetting Accounts				
(Exchange Funds)	43.4	2.6	—	—	(Exchange Funds)	43.4	2.6	—	—
<i>Total</i>	360.6	483.8	—	—	<i>Total</i>	360.6	483.8	—	—

^a Including clearing accounts in connection with trade agreements.

SOURCE: Bank of Israel.

review, as compared with 4 per cent at the end of 1955. Other items rose more or less in proportion to the increase in total liabilities, their share in that total having remained practically unchanged.

2. ASSETS AND LIABILITIES IN FOREIGN CURRENCY AND GOLD

(a) *Balances in Foreign Currency and Gold*

The foreign currency balances of the Bank of Israel expanded from the equivalent of IL.88.8 to IL.91.7 million between the end of 1955 and 1956 respectively, which represented an increase of IL.2.9 million or 3.3 per cent. The size of the balances fluctuated considerably during the year, as shown in table XXII-2.

TABLE XXII-2
Gold and Foreign Currency Balances of the Bank of Israel^a, 1956
(in IL. thousands)

<i>End of month</i>	<i>Foreign currency balances</i>	<i>Gold</i>	<i>Total</i>
1955—December	88,819	2,042	90,861
1956—January	95,069	2,045	97,114
February	104,286	2,050	106,336
March	117,523	2,053	119,576
April	124,490	2,054	126,544
May	125,814	2,057	127,871
June	131,147	2,107	133,254
July	106,150	2,112	108,262
August	100,859	2,114	102,973
September	85,116	2,116	87,232
October	90,156	2,122	92,278
November	83,730	12,037	95,767
December	91,711	8,442	100,153

^a Excluding balances in clearing accounts connected with trade agreements. For these balances see tables XXII-4 and XXII-5.

Source: Bank of Israel.

The highest amount of foreign currency at the disposal of the Bank during 1956 (at the end of June) was the equivalent of IL.131 million, which represented an increase of 50 per cent as compared with the end of 1955. Foreign currency balances declined during the second half of 1956, due to ordinary seasonal factors and large-scale Government purchases abroad.

Gold holdings gradually rose as a consequence of small domestic purchases made through commercial banks, at prices fixed by the Bank. Domestic gold purchases effected between January and October amounted to IL.80,000.

Towards the end of November 1956, gold holdings increased considerably (by about IL.10 million) due to relatively heavy purchases abroad.

The total amount of balances in gold and foreign currency rose from the equivalent of IL.90.9 to IL.100.2 million between December 1955 and 1956 respectively, which represented an increase of 10.2 per cent.

TABLE XXII-3
Foreign Currency Balances Held in Banks Abroad
(in IL. thousands)

<i>Currency</i>	<i>31.12.55</i>	<i>31.3.56</i>	<i>30.6.56</i>	<i>30.9.56</i>	<i>31.12.56</i>
Dollars and Swiss Francs	75,607	88,223	110,913	61,658	67,500
Sterling	11,323	15,785	23,770	20,690	16,544
Other Foreign Currencies	1,889	13,515	6,464	2,768	7,667
<i>Total</i>	88,819	117,523	131,147	85,116	91,711

SOURCE: Bank of Israel.

(b) *Foreign Currencies Held During The Year*

Assets in dollars and Swiss francs rose considerably during the first half of 1956 and declined during the second half of the year. At the end of 1956, the sum total of these assets was smaller than at the beginning of the year. Sterling balances increased during the second quarter of 1956 due to credit granted by the Reparations Corporation for the purchase of liquid fuel, whereas they declined as the actual disbursements were being made (see table XXII-3).

Foreign currency deposits are partly invested in foreign securities and partly constitute time deposits carrying interest at rates of up to 5 per cent per annum, depending on the current interest rate of the country concerned and the date on which they were deposited. Most of these deposits form part of the assets held as cover for the currency in circulation (see section 5 (a) below).

(c) *Clearing Accounts in Connection With Trade Agreements*

At the beginning of 1956, the Bank of Israel administered clearing accounts with the following 17 countries: Argentina, Bulgaria, Burma, Denmark, Finland, France, Greece, Hungary, Iceland, Italy, the Netherlands, Norway, Poland, Rumania, the Soviet Union, Turkey and Yugoslavia. The balance of the clearing account with Czechoslovakia remained unchanged throughout the year, as no transactions were effected with that country. After the signature of a trade and payments agreements with Brazil, in April 1956, this clearing account too has been administered by the Bank.

The large credit balance of the beginning of the year began to contract gradually and became a debit balance towards the end of 1956. Table XXII-4 shows the fluctuations in the aggregate clearing accounts connected with trade agreements during 1956.

TABLE XXII-4
*Bank of Israel Clearing Accounts Connected with
 Trade Agreements, 1956*
 (in IL. millions)

<i>End of Month</i>	<i>Credit balance</i>	<i>Debit balance</i>	<i>Net balance</i>
1955—December	9.0	5.4	+3.6
1956—March	10.7	3.2	+7.5
June	11.7	3.9	+7.8
September	10.3	11.7	-1.4
December	7.7	15.4	-7.7

SOURCE: Bank of Israel.

The books of the Bank of Israel showed at the end of December 1956 a credit balance of IL.7.7 million and a debit balance of IL.15.4 million for eight accounts. The net balances of clearing accounts connected with trade agreements are included in the exchange fund accounts. The breakdown of clearing account balances by countries with which Israel concluded trade and payment agreements is shown in table XXII-5.

TABLE XXII-5
*Balances in Clearing Accounts with Trade Agreement Countries, End of 1955
 and End of 1956^a*
 (in IL. thousands)

<i>Country</i>	<i>Balance on 31.12.1955</i>	<i>Balance on 30.6.1956</i>	<i>Balance on 31.12.1956</i>	<i>Balance on 31.12.56 as against 31.12.55</i>
Argentina	- 652	- 122	- 99	+ 553
Brazil	—	+1,260	+1,609	+1,609
Bulgaria	+ 403	+ 497	+ 441	+ 38
Burma	—	- 137	+ 414	+ 414
Denmark	+ 650	+2,729	+2,137	+1,487
Finland	+1,589	+ 877	-5,342	-6,932
France	-1,741	+1,339	-2,601	- 860
Greece	- 211	- 103	+ 49	+ 259
Hungary	- 171	+ 32	+ 452	+ 623
Iceland	+ 454	+ 659	+ 504	+ 50
Italy	-1,269	-1,051	-1,427	- 158
Netherlands	+ 50	- 270	- 695	- 745
Norway	- 763	+1,283	+ 128	+ 891
Poland	- 544	+ 398	- 34	+ 509
Rumania	- 144	+ 328	+ 527	+ 671
Soviet Union	- 179	-1,121	+ 655	+ 834
Turkey	+3,251	+1,566	+2,336	- 914
Yugoslavia	+1,332	+ 688	- 931	-2,263

^a The figures in this table do not tally with the figures shown in table XXII-4 because they exclude balances in transit. The balance of the clearing account with Czechoslovakia is also excluded as its exact amount is uncertain.

SOURCE: Bank of Israel.

(d) *Exchange Funds and Other Deposits*

The foreign currency liabilities of the Bank of Israel include, apart from the debit balances of the clearing accounts, exchange funds and other deposits in foreign currency.

Exchange funds are accounts through which part of the current conversions of foreign currency into Israel currency and *vice versa* are implemented. The deposits of the exchange funds represent part of the foreign currency balances purchased by the Bank of Israel for the Treasury. Apart from exchange funds held in currencies of countries which were parties to trade agreements with Israel, the Bank administered during 1956 exchange funds in U.S. dollars, Canadian dollars, pounds sterling, South African pounds, Australian pounds, Swiss francs, Belgian francs, Swedish kronor, West German marks and blocked Austrian schillings.

Foreign currency deposits further included:

(1) Time deposits of Israel residents ("Pazak") who have been authorized by the Controller of Foreign Exchange to keep such deposits in banks at interest rates of 2-5 per cent, depending on the period for which such deposits were made. The total value of such deposits placed by the banking institutions with the Bank of Israel amounted to about IL.2.3 million at the end of December 1956.

(2) Demand deposits of Israel residents arising out of personal compensation payments, proceeds of property sales, inheritance, life insurance policies, social insurance, pensions and rents received from abroad after the 21st September 1956. The total value of such deposits placed by other banks with the Bank of Israel reached about IL.1.3 million at the end of December 1956.

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

Government liabilities to the Bank of Israel¹ totalled IL.186 million at the end of 1956, as compared with about IL.65 million at the end of 1955 (see table XXII-6). Total Government deposits rose from IL.13 million at the end of 1955 to IL.33 million at the end of 1956.

As from June 1956, the Bank of Israel began to open letters of credit within the framework of its activities as banker and fiscal agent to the Government.

(a) *Debit Accounts*

Ordinary Advances to the Government are granted by the Bank of Israel for the temporary financing of current activities. At the end of 1955, the sum

¹ This term is not equivalent to the "Current Liabilities of the Government" mentioned in section 1. Apart from current liabilities, the "Government's Liabilities to the Bank of Israel" include promissory notes for the capitalization of the Bank, the covering of coins in circulation and the granting of loans from the Development Budget.

total of such advances reached approximately IL.26 million. Towards the end of the financial year 1956/57 all advances were redeemed, as required by law. They were, however, renewed at the beginning of the fiscal year 1956/57 and amounted to about IL.38 million by the end of 1956.

Advances in Foreign Currency are granted to the Government, against payment in Israel pounds, for the acquisition of foreign exchange and the financing of purchases abroad. Such advances totalled IL.5.6 million at the end of 1955 and this amount too was redeemed before the end of the fiscal year. The volume of advances in foreign currency was, however, greatly expanded during the second half of 1956 and reached approximately IL.80 million by the end of the year.

Government Promissory Notes include obligations for the capitalization of the Bank of Israel and promissory notes held against coins in circulation. The obligations for the payment of the Bank's capital are redeemed by semi-annual payments, and the amount under this heading decreased therefore from IL.11.7 to IL.7 million between the end of 1955 and 1956 respectively.

Other Government Accounts: These were chiefly advances put at the disposal of the Government against its future revenues from counterpart funds and other

TABLE XXII-6
*Government Accounts with 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>Change</i>
<i>Debit Accounts</i>			
Advances in Israel Currency	26.1	38.1	+ 12.0
Advance in Foreign Currency*	11.9	79.1	+ 67.2
Promissory Notes	11.7	7.1	- 4.6
Other Accounts*	13.0	59.8	+ 46.8
Liability in connection with Development Budget Loans	2.4	1.9	- 0.5
<i>Total</i>	65.1	186.0	+120.9
<i>Credit Accounts</i>			
Deposits in Israel Currency	9.9	12.3	+ 2.4
Deposits in Foreign Currency	0.7	10.1	+ 9.4
Deposits of Government Institutions	6.4	10.4	+ 4.0
<i>Total</i>	17.0	32.8	+ 15.8
<i>Mutually Offsetting Accounts</i>			
Exchange Funds	30.0	0.7	- 29.3

* Adjusted according to changes made in the composition of the balance sheet for 1956.

SOURCE: Bank of Israel.

sources. The sum total of such advances increased from IL.20 million in 1955 to about IL.60 million in 1956.

Liabilities of the Ministry of Finance in Connection with Development Budget Loans arise from an order given by the Treasury to the Bank in connection with the transfer of monies to banking institutions destined for the payment of loans given by the latter within the framework of the Development Budget. The sum total of such liabilities declined from IL.2.4 million in 1955 to IL.1.9 million in 1956.

Government Deposits in local and foreign currency include mainly deposits of various Government departments. Such deposits increased from IL.7.7 million in 1955 to more than IL.22 million in 1956. The item "Deposit of Government Institutions" represents the deposits of the Post Office Bank, which include the funds of the "Save to Build" project and the "Citrus Grove through Saving" projects. Post Office Bank deposits rose from IL.6.4 to IL.10.4 million between the end of 1955 and 1956 respectively.

(b) *Credit Accounts*

In addition to the Government's credit and debit accounts, there are also the mutually offsetting accounts of the exchange fund. These accounts show foreign currency purchased by the Bank of Israel for the Government as a liability, and the outstanding balance of the Treasury's local currency debt to the Bank of Israel on account of exchange fund deposits as an asset.

4. ACTIVITIES OF THE BANK OF ISRAEL AS BANKERS' BANKER

(a) *Deposits of Banking Institutions*

Table XXII-7 shows the movements in the deposits of the banking institutions held by the Bank of Israel. Banking institutions are obliged by law to keep 15 per cent of their local currency deposits against which liquid assets must be held in the Bank of Israel. Local currency deposits with the banking system rose during the period under review and the level of obligatory deposits with the Bank of Israel consequently increased from IL.43.6 to IL.47.1 million between the end of December 1955 and 1956 respectively. Other deposits of banking institutions, apart from obligatory deposits with the Bank of Israel, expanded from IL.43.2 million at the end of December 1955 to IL.77.3 million at the end of December 1956.

The interest rates paid to the banking institutions by the Bank of Israel were as follows:

2 per cent per annum on 75 per cent of the compulsory minimum deposits; 2.5 per cent per annum on excess deposits in current accounts. Until the 1.6.1956, the return on time deposits for 3 months or more was 3 per cent per annum; after that date, however, the interest rate on time deposits for periods of six months and one year was raised to 3.5 and 4 per cent per annum respec-

TABLE XXII-7

Deposits of the Banking Institutions with the Bank of Israel, 1956
(in IL. millions)

<i>End of month</i>	<i>Total deposits</i>	<i>Obligatory deposits</i>	<i>Excess deposits in current accounts</i>	<i>Deposits against letters of credit</i>	<i>Time deposits</i>	<i>Deposits in foreign currency</i>	<i>Total deposits other than obligatory deposits</i>
<i>1955—</i>							
December	86.8	43.6	30.3	3.6	6.2	3.1	43.2
<i>1956—</i>							
January	80.2	44.7	21.3	3.5	7.2	3.5	35.5
February	77.8	43.3	22.2	3.7	5.1	3.5	34.5
March	78.1	43.6	22.9	3.5	4.1	4.0	34.5
April	90.6	44.9	30.2	3.5	8.1	3.9	45.7
May	106.2	46.0	42.0	3.5	11.2	3.5	60.2
June	106.2	46.6	36.2	3.6	15.2	4.6	59.6
July	107.0	47.4	37.9	3.6	11.3	6.8	59.6
August	100.8	48.3	35.8	3.7	6.2	6.8	52.5
September	96.1	48.1	26.8	4.2	9.1	7.9	48.0
October	80.4	48.2	11.0	4.5	9.1	7.6	32.2
November	96.7	45.7	32.3	4.3	4.1	10.3	51.0
December	124.4	47.1	54.1	4.8	7.3	11.1	77.3

SOURCE: Bank of Israel.

tively. Saving scheme deposits of banking institutions yielded 3 per cent per annum².

(b) *Re-discount*

Table XXII-8 summarizes the fluctuations in the outstanding balances of bills discounted during 1956. The balance of re-discounts increased from IL.15.7 million in December 1955 to IL.35.1 million in December 1956. Of the latter amount, IL.19.8 million represented re-discounts in local currency, and IL.15.3 million re-discounts in foreign currency.

The main expansion in the outstanding balance of bills took place during November and December, due to the increased financial requirements of agriculture and industry arising out of the dislocation related to the Sinai campaign, and the provision of temporary financing for the Reparations Corporation. At the end of 1955, 84 per cent of the outstanding balance of re-discounts had been granted to industry, and 16 per cent to agriculture. By the end of 1956, the balance was distributed as follows: agriculture—25 per cent, industry—52 per cent, and Government corporations—23 per cent.

² See Chapter XVI section 2.

TABLE XXII-8
Balances of Bills Rediscounted, 1956
(in IL. millions)

<i>End of Month</i>	<i>In Israel currency</i>	<i>In foreign currency</i>	<i>Total</i>
1955—December	9.5	6.2	15.7
1956—January	9.9	6.9	16.8
February	9.8	7.0	16.8
March	11.0	6.8	17.8
April	12.8	6.5	19.3
May	13.9	6.5	20.4
June	14.0	7.3	21.3
July	15.7	7.0	22.7
August	15.1	7.2	22.3
September	13.7	7.6	21.3
October	15.7	8.1	23.8
November	16.4	12.5	28.9
December	19.8	15.3	35.1

SOURCE: Bank of Israel.

The latter received re-discounts chiefly in the form of a non-recurrent foreign currency credit granted to the Reparations Corporation.

In 1956, the re-discount rate was 6 per cent on bills in Israel currency and 3 per cent on bills in foreign currency. The banks were authorized to charge 2–2.5 per cent more on these rates.

The reasons of the fluctuations in the volume of the banking institutions' deposits with the Bank of Israel and in the outstanding balance of re-discounts have been analysed in chapters XVI and XVII of this report.

5. ISSUE OF CURRENCY

(a) *Changes in the Currency in Circulation and the Covering Assets Held*

The monthly average of total currency in circulation as on every Wednesday of the year, rose from IL.191.8 million in January 1956 to IL.249.8 million in December 1956. The increase thus totalled about IL.58 million, or 30.2 per cent and was nearly double that of 1955, when currency in circulation rose by 16.1 per cent. The increase of currency in circulation was not gradual, but was largely due to developments arising out of the Sinai campaign (see table XXII-9).

Between the end of December 1955 and the 26th October 1956 (just before the Sinai campaign) currency in circulation rose by IL.38.7 million, i.e. by 21.1 per cent; between the 26th October 1956 and the end of the year, however, it increased by a further IL.17.6 million or by 7.9 per cent. Whereas the average monthly expansion during the period 1.1.1956–26.10.1956 was 2.1 per cent, the five weeks between the outbreak of the Sinai campaign and

the end of November witnessed an increase of IL.24.7 million, i.e. of 11.1 per cent. Between the 28th October 1956 and the 2nd November 1956, the quantity of cash held by the public rose by IL.21.1 million. Part of this money was re-deposited in the banks during November. In December, the volume of currency in circulation contracted by IL.7.1 million, or 2.9 per cent, as compared with the preceding month.

Considerable variations in the composition of the assets held against the currency in circulation took place during the year under review. Promissory notes in foreign currency were for the first time included among the assets held as cover for currency in circulation in November and December. In November, such notes represented 5.3 per cent of the total assets held against currency in circulation, whereas their share declined to 4.7 per cent in December. The main fluctuations occurred in the foreign currency balances, which rose during the first seven months of the year from IL.58 million to IL.91 million (30.4 and 42.2 per cent respectively of the value of currency in circulation) and fell to IL.77 million or 30.9 per cent by the end of the year. Gold reserves increased considerably, their share in covering assets rose from 1.1 to 4.1 per cent, or from IL.2 to IL.10.2 million.

The amount of Land Bills held by the Bank of Israel remained unchanged during 1956, but owing to the general increase in the amount of cash in cir-

DIAGRAM XXII-1
Currency in Circulation and Covering Assets Held, 1955-1956
 (in IL. millions)

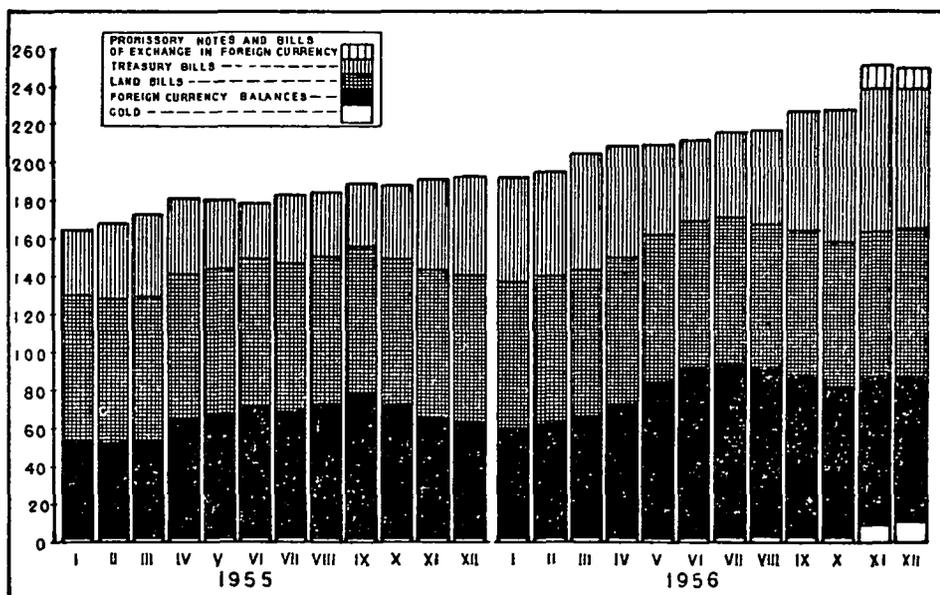
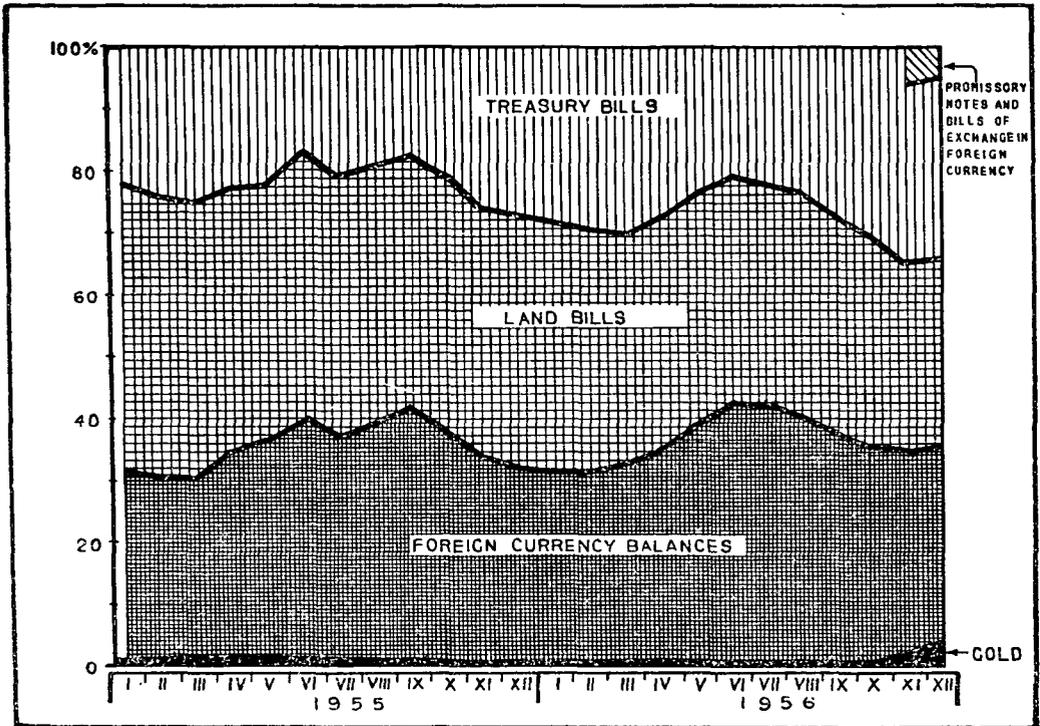


DIAGRAM XXII-2

Currency in Circulation and Covering Assets Held, 1955-1956
(in per cent)



circulation their share in total assets held against currency in circulation fell from 40.3 per cent at the beginning to 30.9 per cent at the end of the year. There were considerable fluctuations in Treasury Bills and other Government promissory notes, ranging between 20.2 and 30.5 per cent during the period under review. However, the share, of such bills and notes in total assets held against currency in circulation increased by 1 per cent only (from 28.3 to 29.4 per cent) or by IL.19 million (from IL.54 to IL.73 million).

(b) *Currency in Circulation by Denominations*

The proportion of the various denominations of banknotes and coins in circulation changed during 1956, as shown by table XXII-10. There was, on the one hand, a striking rise in the share of IL.10 notes which increased from 58 to 66.1 per cent and of 100 pruta coins which rose from 21.8 to 24.3 per cent of total banknotes and coins in circulation. On the other hand, the proportion of IL.50 notes and 250 pruta coins in total circulation declined from 12.5 to 7 per cent and from 24 to 21 per cent respectively. The increase in the proportion of 100 pruta coins was greater than that reflected by the above-

DIAGRAM XXII-3
*Popular Loan 1949/69—
 Monthly Price Fluctuations in 1956*

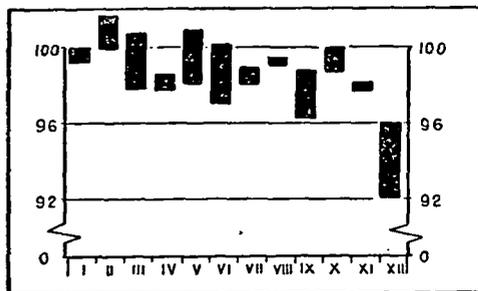


DIAGRAM XXII-5
*Popular Loan 1950, Series B—
 Monthly Price Fluctuations in 1956*

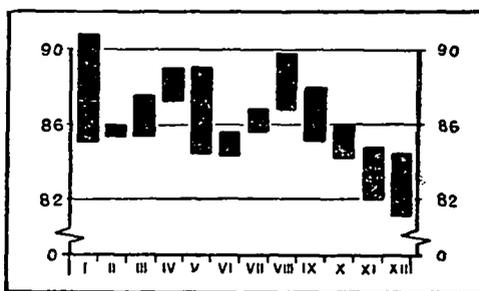


DIAGRAM XXII-4
*Popular Loan 1950, Series A—
 Monthly Price Fluctuations in 1956*

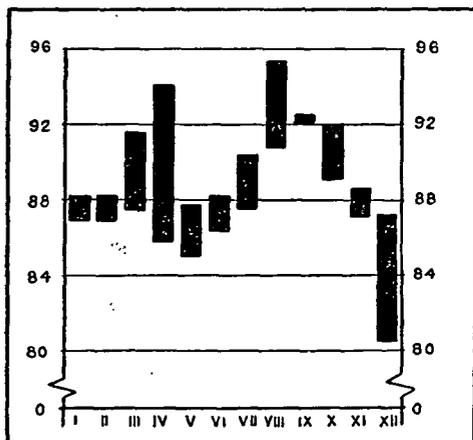


DIAGRAM XXII-6
*Mandatory Bearer Bonds, Third Issue—
 Monthly Price Fluctuations in 1956*

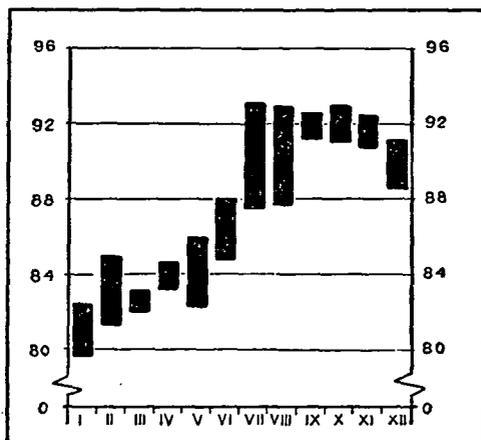


TABLE XXII-17
*Position of Mandatory Bearer Bonds, 31.12.1956
 (in IL. thousands)*

<i>Issue</i>	<i>Amount issued</i>	<i>Amount registered in Israel 31.12.1955</i>	<i>Amount registered in Israel 31.12.1956</i>	<i>Amount outstanding on 31.12.1956^a</i>
First Issue, 1944-1964	1,000	794	794	748
Second Issue, 1945-1965	1,000	802	802	758
Third Issue, 1945-1965	3,000	2,271	2,261 ^b	2,238
Fourth Issue, 1946-1966	5,000	486	486	460
<i>Total</i>	10,000	4,353	4,343	4,204

^a The amount registered in Israel, less value of bonds redeemed by lot.

^b The Israel registration of a certain number of bonds was cancelled.

SOURCE: Bank of Israel.

TABLE XXII-15

Position of Prize-Bearing Popular Loans, 31.12.1956
(in IL. thousands)

<i>Popular Loan</i>	<i>Amount issued</i>	<i>Amount taken up 31.12.55</i>	<i>Amount taken up in 1956</i>	<i>Redeemed by lot during 1956 (nominal value^a)</i>	<i>Balance outstanding on 31.12.56^a</i>
1949-1969	3,000	2,902	—	14	2,888
1950, Series A	6,000	5,830	—	34	5,796
1950, Series B	6,000	5,923	—	21	5,902
1954	6,000	3,188	564	13	3,739
1955	7,500	1,199	1,122	14	2,307
Special, 1954	12,500	9,375 ^b	—	125	9,250
<i>Total</i>	41,000	28,417	1,686	221	29,882

^a Amount taken up, less debentures redeemed by lot.

^b Estimate.

SOURCE: Bank of Israel.

TABLE XXII-16

Quotations of Prize-Bearing Popular Loans Registered on the Tel-Aviv Stock Exchange, 1956

<i>Loan</i>	<i>Highest quotation</i>		<i>Lowest quotation</i>	
	<i>Quotation</i>	<i>Date</i>	<i>Quotation</i>	<i>Date</i>
1949-1969	101¼	16.2	92	26.12
1950, Series A	95¼	13.8	80½	24.12
1950, Series B	90¼	4.1	81	16.12

SOURCE: The Tel-Aviv Stock Exchange.

(ii) *Mandatory Bearer Bonds*

The regular administrative functions connected with all four issues of this loan were continued during 1956. They include the payment of interest, the holding of drawings, the redemption of winnings, and the registration of such bonds which due to adequate reasons, were not registered at the proper time. Details relating to the position of such bonds as well their fluctuations on the stock exchange are shown in tables XXII-17 and XXII-18.

^a The Government of Israel has assumed the responsibility for the implementation of all the original terms on which these debentures were issued, in accordance with Paragraph 4 of the Financial Agreement signed between the Governments of Israel and Great Britain in 1950.

TABLE XXII-14

Prize-Bearing Loans—Number of Drawings, Total Winnings and Redemption of Winnings in 1956, and Outstanding Balance of Unclaimed Winnings, 31.12.1956

(in IL.)

<i>Loan</i>	<i>Annual number of drawings</i>	<i>Total winnings 1956</i>	<i>Redemption of winnings 1956^a</i>	<i>Outstanding balance of winnings unclaimed</i>
<i>Mandatory Bearer Bonds^b</i>				
First Issue	4	21,690	17,910 ^c	28,980
Second Issue	4	21,240	17,720	27,960
Third Issue	4	52,100	35,050	51,450
Fourth Issue	4	12,350	5,650	11,850
<i>Prize-Bearing Popular Loans</i>				
1949-1969	4	101,000	98,950	67,950
1950, Series A	3	216,000	232,775	93,875
1950, Series B	3	263,150	244,500	32,450
1954	3	273,000	267,800	9,150
1955	3	330,000	323,875	8,875
Special Popular Loan, 1954	1	460,000	199,100	246,510
<i>Total</i>	33	1,750,530	1,443,330	579,050

^a This column summarizes the redemption of winnings—inclusive of the nominal value of the bonds redeemed—which were not claimed during previous years, as well as the 1956 winnings claimed during that year.

^b Data refer to bonds registered in Israel.

^c IL.185 have been deducted from the amount of Mandatory Bearer Bonds redeemed, on account of missing interest coupons.

SOURCE: Bank of Israel.

(i) *The Prize-Bearing Popular Loans*

Table XII-15 shows the position of these loans as at the end of 1956, the amounts to which they were issued and the amounts redeemed during 1956.

No additional loans were issued during 1956. The fluctuations in the quotations of the three series of popular loans registered at the Tel-Aviv Stock Exchange are shown in table XXII-16.

TABLE XXII-13

Redemption of Loans and Payments of Prizes, 31.12.1956

<i>Loan</i>	<i>Principal redeemed (nominal value)</i>		<i>Prizes paid in IL.</i>
	<i>in IL.</i>	<i>in \$</i>	
Bearer Bonds of the Mandatory			
Government (4 issues)	12,290	—	64,225
Popular Loan, 1949-1969	12,950	—	86,000
Popular Loan, 1950, Series A	30,020	—	202,755
Popular Loan, 1950, Series B	18,710	—	225,790
Popular Loan, 1954	11,620	—	256,180
Popular Loan, 1955	13,680	—	310,195
Special Popular Loan, 1954	36,770	—	162,330
Compulsory Loan, 1952	1,690,000	—	—
3.5% Government Bonds			
(1953-1957)	1,273,500	—	—
3.5% War Loan (1954-1959)	1,500,000	—	—
Government Loans	6,532,000	—	—
3% National Loan (1948-1953)	22,550	—	—
Dollar-Linked Savings Bonds,			
1951	7,500	—	—
Certificates of Obligations			
against Foreign Currency	—	743,000	—
Independence Loan^a	—	5,394,100	—
Development Loan^b	—	4,022,550	—
Total	11,161,590	10,159,650	1,307,475

^a Purchases at nominal value.

SOURCE: Bank of Israel.

(b) *Internal Loans in Israel Currency*

The 23 internal loans include: Six Prize-Bearing Popular Loans⁴; four issues of Mandatory Bearer Bonds; four 3% Government Loans; two Compulsory Loans (1952 and 1953); 3.5% Government Bonds; 3.5% War Loan; 3% National Loan; Dollar-Linked Savings Bonds, 1951, and three series of the Defence Loan 1956.

⁴ The Special Popular Loan, 1954, is partly registered in the name of the holder.

provisions. Additional details concerning unclaimed winnings are shown in a pamphlet published by the Bank of Israel.

TABLE XXII-11
Government Loans Administered by the Bank of Israel, 31.12.1956

	<i>Number of loans</i>	<i>Total authorized issue^a</i>	<i>Total amount taken up</i>
			<i>in IL. millions</i>
Internal Loans in Israel Currency	23	177.2	102.1
Other Loans in Israel Currency	1	15.0	7.5
			<i>in \$ millions</i>
Internal Loans in Foreign Currency	2	35.0	25.2
Foreign Loans	2	850.0	b

^a Including the actual amounts issued for certain loans for which an authorized issue was not fixed in advance.

^b The sale of these bonds is effected abroad.

SOURCE: Internal Loans—Bank of Israel

Foreign Loans—The Ministry of Finance.

TABLE XXII-12
Interest Payments on State Loans, 1956

<i>Loan</i>	<i>Method of payment</i>	<i>Interest paid</i>
Bearer Bonds of the Mandatory Government (4 issues)	Coupons	33,330
Compulsory Loan, 1952	Coupons	632,465
3.5% Government Bonds, 1953-1957	Coupons	36,200
3.5% War Loan, 1954-1959	Cheques	143,880
3% Government Loans (Financial Institutions)	Crediting	586,550
Certificate of Obligation against Foreign Currency	Crediting	36,165
Tavei Dollar	Coupons	1,596,800
<i>Total</i>		<u>3,065,390</u>

SOURCE: Bank of Israel.

value of IL.4,576, of which 123 applications to the amount of IL.4,310 were approved.

Spoilt currency received by the Bank of Israel is destroyed by a committee consisting of representatives of the State Comptroller and of the Bank. During 1956, the total value of destroyed banknotes reached IL.17,139,173 and the value of destroyed paper tokens—IL.814,013. The total value of banknotes, coins and tokens destroyed during the year amounted to IL.17,953,186.

(d) *The Advisory Committee for the Design of Banknotes*

The Advisory Committee for Banknotes was appointed by the Governor of the Bank of Israel towards the end of 1955 to submit proposals concerning the design of banknotes to be issued in the future, if and when necessary. This committee has completed the first and most important stage of its work: the choice of suitable designs submitted by the eight local graphic artists who participated in a closed tender.

6. THE ADMINISTRATION OF STATE LOANS³

In accordance with Section 57 (c) of the Bank of Israel Law, the Bank is authorized to administer State loans. All State loans issued in Israel are administered by the Bank; it also deals with matters relating to the acquisition by tourists and Israel residents of Independence Bonds and Developments Bonds. During the year under review, the Bank was further entrusted with the administration of a loan issued collectively by the Local Authorities which carried a Government guarantee.

During 1956 the Bank of Israel administered 26 internal and 2 foreign loans. Of the internal loans, two had a foreign currency face value (Tavei Dollar and Certificates of Obligations) and one, the Local Authorities Loan, carried a government guarantee. As regards the two foreign loans (the Independence Loan and the Development Loan), the Bank's functions were limited to the acquisition of bonds from tourists, foreign investors and Israel residents.

(a) *The Activities of the Bank in the Administration of State Loans*

In spite of the different characteristics of the various State loans, an attempt will be made hereunder to summarize the operations relating to their administration as far as the lines they have in common are concerned.

Tables XXII-12, XXII-13 and XII-14 give details relating to the interest paid, prizes and principal redeemed, the redemption of bonds drawn by lottery as well as the outstanding winnings still unclaimed, for all loans carrying these

³ This paragraph reviews mainly the changes and innovations introduced in the administration of State loans, as compared with 1955. For details relating to the provisions of the different loans, see Chapter XVIII, pp. 250-258, Bank of Israel Annual Report 1955, Jerusalem, May 1956-Sivan 5716.

mentioned table, since by the end of December 1956 all paper tokens of this denomination (to the total amount of IL.97,300) had been withdrawn. Of the IL.796,000 of this denomination which had been in circulation at the end of 1955, IL.104,000 were paper tokens and IL.692,000 coins, whereas the entire IL.845,000 of this denomination current at the end of 1956 represented metal coins.

All 50 and 100 pruta paper tokens had been withdrawn by the end of 1956, while the 250 pruta paper tokens, amounting to IL.231,647 towards the end of 1956, remained in circulation.

(c) *Spoilt Currency*

By virtue of its powers under Section 34 of the Bank of Israel Law, and in accordance with regulations issued by the Government, the Bank received 137 applications for the exchange of spoilt banknotes, coins and tokens, to the total

TABLE XXII-10
Currency in Circulation, by Denomination, End of 1955 and End of 1956
(in IL. and in per cent)

	End of 1955		End of 1956	
	in IL.	in per cent	in IL.	in per cent
A. Banknotes				
500 pruta	1,541,171	0.9	1,562,076	0.7
IL. 1	6,198,552	3.4	6,558,821	2.8
IL. 5	45,367,185	25.2	55,308,995	23.4
IL.10	104,349,490	58.0	156,271,720	66.1
IL.50	22,463,450	12.5	16,695,050	7.0
Total	179,919,848	100.0	236,396,662	100.0
B. Coins and Paper Tokens				
1 pruta	5,103	0.1	5,088	0.1
5 pruta	50,089	1.4	50,073	1.4
10 pruta	261,687	7.2	273,213	7.9
25 pruta	327,356	9.0	324,807	9.4
50 pruta	1,324,589	36.4	1,241,265	35.8
100 pruta	796,126	21.8	845,035	24.4
250 pruta	874,420	24.0	727,544	21.0
500 pruta	1,665	—	1,664	—
Total	3,641,035	100.0	3,468,689	100.0

SOURCE: Bank of Israel.

TABLE XXII-9
Currency in Circulation and Covering Assets Held, 1956
 (in IL. thousands and in per cent)

<i>Average of weekly statements^a</i>	<i>Currency in circulation</i>		<i>Gold</i>		<i>Foreign currency balances</i>		<i>Land bills</i>		<i>Treasury bills and other Government bills</i>		<i>Promissory notes and bills of exchange in foreign currency</i>	
	<i>in IL. thousands</i>	<i>in per cent</i>	<i>in IL. thousands</i>	<i>in per cent</i>	<i>in IL. thousands</i>	<i>in per cent</i>	<i>in IL. thousands</i>	<i>in per cent</i>	<i>in IL. thousands</i>	<i>in per cent</i>	<i>in IL. thousands</i>	<i>in per cent</i>
January	191,805	100.0	2,025	1.05	58,209	30.35	77,258	40.28	54,313	28.32	—	—
February	195,358	100.0	2,025	1.04	60,052	30.74	77,259	39.55	56,022	28.67	—	—
March	205,648	100.0	2,025	0.98	64,481	31.36	77,262	37.57	61,880	30.09	—	—
April	209,076	100.0	2,050	0.98	70,459	33.70	77,262	36.95	59,305	28.37	—	—
May	209,888	100.0	2,050	0.98	81,707	38.93	77,265	36.81	48,866	23.28	—	—
June	212,460	100.0	2,088	0.98	90,237	42.47	77,278	36.38	42,857	20.17	—	—
July	216,121	100.0	2,102	0.97	91,271	42.23	77,278	35.76	45,470	21.04	—	—
August	217,867	100.0	2,110	0.97	88,281	40.52	77,276	35.47	50,200	23.04	—	—
September	227,089	100.0	2,110	0.93	84,549	37.23	77,270	34.03	63,160	27.81	—	—
October	227,529	100.0	2,110	0.93	78,745	34.61	77,270	33.96	69,404	30.50	—	—
November	250,626	100.0	9,769	3.90	76,960	30.71	77,272	30.83	73,235	29.22	13,390	5.34
December	249,779	100.0	10,211	4.09	77,168	30.89	77,279	30.94	73,420	29.40	11,701	4.68

^a By virtue of the Bank of Israel Law, the Bank publishes every week, at the close of business on Wednesday, a report stating the amount of currency in circulation and enumerating the assets held against it. Since considerable fluctuations occur during each month, the average of all Wednesdays instead of the last Wednesday of the month only is quoted.

TABLE XXII-18
*Quotations of Mandatory Bearer Bonds on the
 Tel-Aviv Stock Exchange, 1956*

Issue	Highest quotation		Lowest quotation	
	Quotation	Date	Quotation	Date
First Issue	93½	1.8	80	2.1
Second Issue	93¼	22.7	79½	6.1
Third Issue	93⅙	26.7	79¾	2.1
Fourth Issue	93¼	22.7	79½	6.1

SOURCE: The Tel-Aviv Stock Exchange.

(iii) *The 3% Government Loans (Financial Institutions)*

A new loan, the sixth in this series since the establishment of the State of Israel, was issued in 1956 and will be redeemed in 1961. It replaces the 3% Government Loan (1956) redeemed in the course of the year. The banking institutions were obliged to hold these loans against a certain percentage of their deposits. These loans are for a period of 5 years.

TABLE XXII-19
*Position of 3% Government Loans (Financial Institutions), 31.12.1956
 (in IL. thousands)*

Year of redemption	Amount issued	Amount taken up 31.12.55	Amount taken up in 1956	Amount redeemed in 1956	Outstanding balance of loan on 31.12.56
1953	5,000	—	—	—	—
1955	5,000	—	—	—	—
1956	6,500	6,470	—	6,470	—
1958	5,000	5,000	—	—	5,000
1960	10,000	8,000	1,995	62	9,933
1961	6,500	—	6,500	—	6,500
<i>Total</i>	38,000	19,470	8,495	6,532	21,433

SOURCE: Bank of Israel.

(iv) *The Compulsory Loan, 1952*

The first instalment of this loan, to the nominal value of IL.1,690,000, was redeemed in 1956. The certificates required for this purpose were purchased on the stock exchange.

Part of the holders of original receipts have not yet exchanged them for the official certificates and this has delayed the closing of accounts with banks.

which had received certificates for distribution to an amount equal to that of receipts issued. The Bank of Israel therefore decided to ask the financial institutions for all certificates that had not yet been handed to their owners and to deal with further exchanges of such receipts; by the end of the year, 117 banking institutions had returned 93,002 receipts to the value of IL.1,433,600.

At the end of 1956 the outstanding balance of this loan was IL.18,578,000, as compared with IL.20,268,000 at the end of 1955. The difference arises out of the above mentioned redemption procedure and a minor addition of new certificates.

The quotations of this loan, registered at the Tel Aviv Stock Exchange, fluctuated between 68 $\frac{1}{4}$ (the highest quotation, recorded on 28.10.56) and 60 $\frac{7}{8}$, (the lowest quotation recorded on 8.7.56).

DIAGRAM XXII-7

*Compulsory Loan 1952—
Monthly Price Fluctuations in 1956*

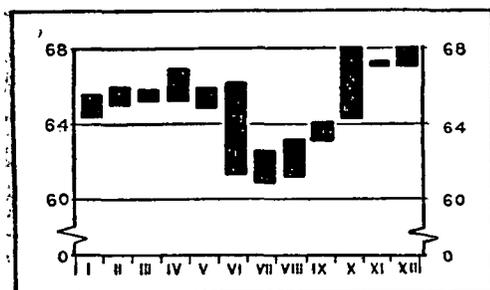
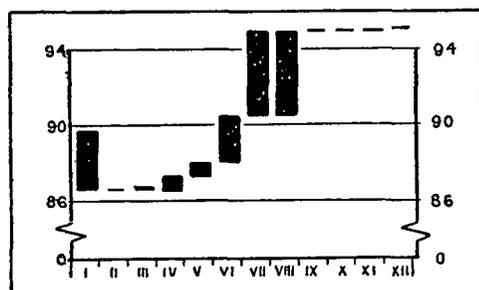


DIAGRAM XXII-8

*War Loan 1953/58, 3%—
Monthly Price Fluctuations in 1956*



(v) *The Compulsory Loan, 1953*

While the Compulsory Loan 1952 was levied on cash and deposits, the parallel Compulsory Loan of 1953 was levied on property. Property owners were given the option to pay either the full amount imposed on them, or to pay an outright tax, totalling half the amount of their assessed share. As most property owners preferred to pay the tax, the total amount taken up was only IL.11 million, though the authorized amount of the loan had been IL.45 million.

Certificates of this loan were issued in denominations of IL.100, every certificate being divisible into two parts. Interest, free of income tax, will be paid at an annual rate of 2.5 per cent. Payments will be made once a year, on the 1st of April, as from 1.4.57 and ending 1.4.71.

The principal will be redeemed by lot in 15 annual instalments beginning in 1957 and ending in 1971.

The distribution of certificates to property owners will begin in 1957, according to lists supplied by the Treasury to the Bank of Israel.

(vi) *The 3% National Loan, (1948-1953)*

The Bank of Israel is dealing with the liquidation of the accounts of the financial institutions which were administering the sale of this loan on behalf of the Jewish Agency and which have not yet returned the temporary receipts given to the purchasers of the loan. The redemption of certificates still held by their owners is proceeding, but on a very limited scale. Of the original authorized issue of IL.5 million not even IL.95,500 had been redeemed by the end of 1956, as compared with IL.118,000 at the end of 1955.

(vii) *3.5% War Loan, (1953-1958)*

On the 1st March and on the 1st September two bi-annual redemptions took place, to a nominal value of IL.750,000 each. The debentures required for redemption were purchased on the stock exchange. The authorized issue of this loan totalled IL.7.5 million. The outstanding balance at the end of 1956 was IL.3.75 million.

The quotations of this loan, registered at the Tel Aviv Stock Exchange, ranged between 95½ (highest quotation, recorded on 2.12.1956) and 86½ (lowest quotation, recorded on 31.1.1956).

(viii) *3.5% Government Bonds, (1953-1957)*

The outstanding balance of this loan was IL.1.96 million at the end of 1955. A further IL.1.27 million were redeemed during 1956, the outstanding balance on the 31.12.56 was therefore IL.689,000.

The quotations of these bonds, registered at the Tel Aviv Stock Exchange, ranged between 101¼ (highest quotation, recorded on 10.2.56) and 97¾ (lowest quotation, recorded on 11.10.56).

(ix) *Dollar-Linked Savings Bonds, 1951*

During 1956, holders of dollar-linked savings bonds redeemed bonds to the nominal value of IL.7,540, the outstanding balance of this loan was consequently reduced by this amount.

The position of these savings bonds at the end of 1956 is shown in table XXII-20.

(x) *The Defence Loan, 1956*

In December 1956, a Defence Loan was floated to the amount of IL.40 million. This amount is divided into three series: the first series, of IL.10 million, is a prize-bearing loan, while the other two—totalling IL.30 million—are made out to the bearer or registered in the name of the holder.

(a) *The Prize Bearing Debentures*

These debentures were issued in units of IL.100, divisible into four quarters, each of IL.25. They carry no interest, however, 5 per cent of the original

TABLE XXII-20
Position of Dollar-Linked Savings Bonds 1951, 31.12.1956

	Amount issued (nominal value)	Balance outstanding on 31.12.1955		Redemptions in 1956	Balance outstanding on 31.12.1956	
		Nominal value	Value ^a		Nominal value	Value ^b
In Israel Pounds (thousands)	4,906	4,493	4,012	7.5	4,485.5	4,109
In Dollars (thousands) the rate of exchange in force at the time of issue	13,737	12,581	11,235	21	12,560	11,505
In Israel Pounds (thousands) at the rate of exchange of IL.1.800=\$ 1.00	24,727	22,646	20,223	38	22,608	20,709

^a The value is calculated on the basis of the purchase price of 83.33 per cent, including compound interest at the annual rate of about 2 per cent.

SOURCE: Bank of Israel.

value of the loan are distributed in prizes which are free of income tax. There are two drawings per year, in May and November, beginning May 1957. The last drawing will take place in November 1968.

The principal will be redeemed in five annual instalments, between 1964-1968 and is linked to the dollar exchange rate.

(b) *4¾% Bearer Debentures*

These debentures were made out to bearer, and were issued in units of IL.50, IL.100, IL.500 and IL.1,000. They carry interest, free of income tax, at an annual rate of 4¾ per cent, payable on the 1st of June and the 1st of December.

Both the principal and the interest are linked either to the dollar exchange rate or to the consumers' price index, according to the choice of the purchaser. The principal will be redeemed in 20 bi-annual payments, beginning on the 1st of June 1959 and ending on the 1st of December 1968.

(c) *6½% Registered Debentures*

These debentures were registered in the name of the holder and were also issued in units of IL.50, IL.100, IL.500 and IL.1,000. They carry an annual interest of 6½ per cent, which is paid on the 1st of June and the 1st of December.

Provisions relating to the link to the dollar exchange rate or to the consumers' price index, as well as the terms of redemption, are identical with those of the bearer debentures.

(xi) *The Loans Issued Collectively by the Local Authorities*

The authorized amount of these loans, floated collectively by the local authorities, is IL.15 million, while the amount actually issued is only IL.7.5 million. The loan was issued in two forms: The first is linked to the consumers' price index, and the second to the rate of exchange of the U.S. dollar. By request of the loan administration authorities, which had been dealing with its sale, the Bank of Israel took over the management of this loan, in spite of the fact that it was not issued by the Government but only with a Government guarantee.

On the 31.12.56 sales totalled IL.7.5 million, of which IL.3.2 were linked to the consumers' price index and IL.4.3 million to the dollar⁶ exchange rate. The loan was not registered at the Tel Aviv Stock Exchange in 1956.

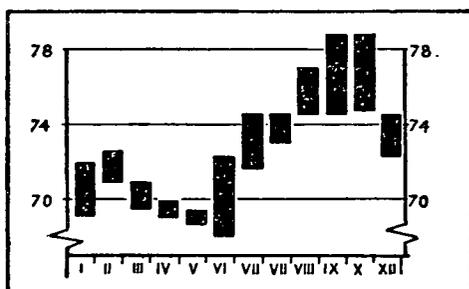
(c) *Internal Loans in Dollars*

(i) *Tavei Dollar, 1951*

The total authorized amount of this loan has been taken up, amounting to about \$25 million.

The quotations of Tavei Dollar, registered at the Tel Aviv Stock Exchange, ranged between 78¾ (highest quotation, recorded on 24.10.56) and 68 (lowest quotation, recorded on 11.6.56).

DIAGRAM XXII-9
*Tavei Dollar 1951—
Monthly Price Fluctuations in 1956*



(ii) *Certificates of Obligation against Foreign Currency*

By the end of 1956, the total amount taken up reached about \$1 million. The outstanding balance of certificates on the 31.12.1955 was \$447,000. During 1956, an additional value of \$743,000 was redeemed. The outstanding balance of certificates on the 31.12.1956 was \$259,000.

These certificates are registered in the name of the holder and are not

⁶ The linking was implemented only at the beginning of 1957.

transferable, but may be redeemed at the official rate of exchange of the dollar at the time of redemption, providing 90 days' advance notice is given.

(d) *Foreign Loans*

Table XXII-21 shows the redemption of Independence and Development Loan Bonds.

TABLE XXII-21

Bonds of the Independence Loan and Development Loan Cashied by their Holders up to the End of 1956
(in \$ thousands and in per cent)

<i>Cashed by</i>	<i>Until 31.12.1955*</i>		<i>During 1956</i>		<i>Total to 31.12.1956</i>	
	<i>\$ thousands</i>	<i>per cent</i>	<i>\$ thousands</i>	<i>per cent</i>	<i>\$ thousands</i>	<i>per cent</i>
Tourists	1,217	6.0	852	7.5	2,069	6.5
Residents of Israel	121	0.6	108 ^b	0.9	229	0.7
Jewish Agency for Palestine	11,129	54.9	3,989	35.4	15,118	48.2
Institutions	996	4.9	1,827 ^b	16.1	2,823	8.8
Investors	6,497	32.0	634 ^b	5.5	7,131	22.5
Government of Israel	—	—	3,605 ^c	31.7	3,605	11.3
	19,960		11,015		30,975	
Interest and Growth of Principal	317	1.6	324	2.9	641	2.0
<i>Total</i>	20,277	100.0	11,339	100.0	31,616	100.0

* Revised figures. The redeemed amounts which appear in the Bank of Israel Annual Report for 1955 refer to 1955 only.

^b The item "Institutions" includes \$73,000 paid to residents for the account of institutions, and \$23,000 representing the investment in an enterprise of the Youth Institute.

^c Includes \$7,000 from the division of bonds which were only partly redeemed.

SOURCE: Bank of Israel.

(i) *The Independence Loan*

The value of Independence Loan Bonds sold abroad (mainly in the United States), amounted to about \$145.5 million by the end of 1956. By this date, the nominal value of bonds redeemed, at different exchange rates, amounted to about \$24 million, of which the counterpart currency was approximately IL.32 million. During 1956, bonds to the value of about \$5.7 million were redeemed, for which approximately IL.9.7 million were paid on account of principal and interest.

(ii) *The Development Loan*

The amount of Development Loan Bonds sold abroad (chiefly in the United States) reached approximately \$124.7 million by the end of 1956⁷. By this date, over \$6 million worth of bonds had been redeemed, and the counterpart paid in Israel currency, at different exchange rates, totalled about IL.10 million. Of the \$6 million redeemed, about \$4.0 million represent bonds redeemed during 1956, for which approximately IL.6.5 million were paid on account of principal and interest.

7. THE EXAMINATION OF BANKING INSTITUTIONS

The Department of the Examiner of Banks of the Bank of Israel controlled 27 banks and 93 credit co-operatives at the end of 1956, as compared with 25 banks and 94 credit co-operatives at the end of the preceding year. This department also controls the four mortgage banks. Two new banks began operations in 1956: the Foreign Trade Bank, Ltd., and the Israel-America Bank for Industrial Development, Ltd.

In June 1956, Tel Aviv-Jaffa Merchants' Credit Co-operative Ltd. merged with the Kupat Am Bank, Ltd.

(a) *Bank Examination*

The banking institutions are required to submit to the Bank of Israel weekly and monthly reports on their assets and liabilities. These reports serve, *inter alia*, to determine the extent to which the Bank's regulations concerning the obligatory minimum liquidity ratios and the maximum permissible volume of credit have been carried out. The Bank examines periodically the accounts of the banking institutions, in order to ascertain that the reports submitted reflect accurately the state of business prevailing on the relevant dates and, to what extent the regulations are being adhered to on other days of the month.

During the year under review, the staff of examiners was increased. About eighty examinations were carried out, mainly in small banking institutions, though certain larger banks were also subjected to supervision, the ultimate aim being to cover all banking institutions. While fifty-six examinations were mainly concerned with liquidity and the monthly volume of credit, other fields of activity, such as the control of business security, were also covered. In certain cases, the weekly or monthly reports were examined with a view to establish whether they corresponded with the banking institutions' books; in fact, these reports did not, in certain instances, give an accurate picture of the banking institution's business position.

The control relating to liquidity and the volume of credit showed that some

⁷ Excluding bonds redeemed by the Treasury in the United States, to the value of about \$1.6 million.

of the examined institutions did not follow the respective regulations during all days of the month, i.e. that they had a deficit in liquid assets and expanded credit beyond the permissible volume. The institutions concerned were requested to take immediate steps to adjust their volume of business to the legal requirements.

(b) *Change in Clearing Arrangements*

During 1956, changes were introduced in the clearing arrangements with a view to limiting the volume of balances in transit (for further details see Chapter XV).

(c) *The Committee for the Standardization of the Bank Accounting System*

In April 1956, the Governor of the Bank of Israel appointed a committee to enquire into the possibilities of the standardization of the bank accounting system; the committee was invited to formulate recommendations concerning the standardization of the monthly reports on assets and liabilities to be submitted to the Examiner of Banks by banking institutions.

The Examiner of Banks serves as Chairman of the committee; its members are the chief accountants of the larger banks.

The committee will submit its conclusions in the near future.

(d) *Reports*

The banking institutions submit the following reports to the department of the Examiner of Banks:

(1) *The Monthly Report on Assets and Liabilities.* This report is submitted before the 15th day of every month and has to cover the state of assets and liabilities as at the end of the preceding month.

(2) *The Weekly Report on Assets and Liabilities.* A summarized report on assets and liabilities to be submitted at the close of business on every Wednesday.

(3) *The Report on Liquidity.* This report is submitted together with the weekly and monthly reports on assets and liabilities and has to cover the same period. It shows the total liquid assets which the banking institution concerned is required to hold in accordance with the Bank of Israel regulations, as well as the amount of liquid assets actually at its disposal during the period under review. Every banking institution having a deficit in liquid assets is required to pay the Bank of Israel an annual interest of 7 per cent.

(4) *The Report on the Distribution of Credit by Economic Sectors.* This report is submitted by the banks every three months, at the end of March, June, September and December. Credit co-operatives submit it, for the time being, twice a year at the end of June and December.

(5) *The Annual Report on the Volume of Deposits.* This report is submitted once a year, at the end of December, and includes data which are mainly required for purposes of control.

The above mentioned reports not only help to exercise control but also furnish the necessary data for the compilation of banking institutions' statistics, which are published by the Bank of Israel and by the Central Bureau of Statistics.

(e) *The Banking Ordinance, 1941*

The examination of banking institutions is carried out in accordance with the Banking Ordinance, 1941. During recent years, this ordinance has proved inadequate to ensure effective control and, the enactment of a more comprehensive law on the lines of legislation in other countries; has therefore become necessary.

8. ECONOMIC RESEARCH

The Bank's activities in the field of economic research were considerably expanded during 1956. The Research Department closely followed the main economic and particularly the financial development of the economy. No satisfactory data are as yet being collected for certain sectors and various research institutes have been encouraged by the Bank to extend their activities in this direction. The Research Department was, however, compelled in a number of cases to collect primary data by itself. This applies, for example, to the consumption data quoted in Chapter IV of this report. The Bank also attempted to devise a new framework for certain data, in order to provide improved tools for the interpretation of economic developments. Special efforts were made to build a system of national accounts and to assemble more comprehensive data relating to the financial activities of the Government and other public bodies. New methods of analysis were introduced in the study of the money and capital markets, and in particular the banking system, with a view to afford greater ease in following and analyzing the financial pattern of the economy.

The Governor and the advisory bodies of the Bank are assisted by the Research Department in the formulation of the Bank's policy; this department also furnishes the material for the reports which the Governor is legally required to publish. Apart from the annual report of the Bank, the publication of which is required by law, the Research Department is also responsible for the publication of a quarterly bulletin, containing surveys of current economic developments.

Owing to the special circumstances prevailing in 1956, only two quarterly bulletins were issued, but in future it is intended to publish such bulletins four times a year.

The ties between the Research Department and other economic research institutes were strengthened during the year. This applies in particular to the Central Bureau of Statistics, the Economic Advisory Staff and Research Office of the Ministry of Finance, and the Falk Foundation for Economic Research in

Israel. The Department also maintained close contact with economic research institutes abroad and was helped by their advice and guidance.

9. THE ADVISORY COMMITTEE AND THE ADVISORY COUNCIL

The Advisory Committee of the Bank of Israel was convened 21 times during 1956; it discussed matters connected with the different aspects of the Bank's policy. In most cases, the Committee arrived at unanimous agreement and its recommendations were carried out by the Bank.

The Advisory Council was convened 5 times during the year under review; it dealt with major issues related to the formulation of monetary policy and the measures adopted for their implementation.

In accordance with paragraph 26 of the Bank of Israel Law, the terms of office of the Advisory Committee and the Advisory Council expire two years after their appointment. The present term of office expired in November 1956 and a new Advisory Committee and Advisory Council were consequently appointed by the Government at the beginning of January 1957.

10. THE ACTIVITIES OF THE BANK OF ISRAEL AS REPRESENTATIVE OF THE GOVERNMENT IN INTERNATIONAL FINANCIAL INSTITUTIONS

(a) *The International Monetary Fund and the International Bank for Reconstruction and Development*

During 1956, the Bank maintained close contact with the International Monetary Fund and with the International Bank for Reconstruction and Development.

The Governor of the Bank of Israel and other Israel representatives participated in the session of the Council of Governors of the I.M.F. and the I.B.R.D., which took place in Washington in September 1956. A representative of the Bank also attended a meeting of the statistical correspondents of the I.M.F., which was held in Washington at the same time.

In accordance with Article XIV, Section 4, of the Fund's Articles of Agreement, Israel has been holding annual consultations with this body. These consultations took place in Washington in October 1956. The following resolution was adopted by the Executive Committee of the International Monetary Fund during its meeting of the 13th March 1957^a:

^a The discussions of the Executive Committee were postponed, as it was assumed that the economic situation in the Middle East might change due to the military and political development which took place at the end of 1956.

"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. Total resources at the disposal of Israel increased in 1955 and 1956 as a result of larger production and larger deficits in the balance of payments on current account, financed primarily by donations and reparations. However, prices and wages have also risen, primarily because public consumption, mostly for defense purposes, and investment, also increased. As a result, the inflationary pressures prevailing in previous years have not been eliminated. In fact, these pressures gained in strength after October 1956. In order to continue development policies on a sound basis, it is essential that an increase in private savings and a rise in productivity be stimulated by strengthening internal stability. To achieve this objective it is essential that the recently generated inflationary pressures should be contained, that restrictive credit policies should be continued, and every effort made to restrain government expenditures.

"3. Israel continues to make substantial use of restrictions, including bilateral trade and payments arrangements and multiple currency practices. The Fund welcomes the recent reduction of import subsidies which are being granted through the exchange system. Premiums for certain exports which involve some currency discrimination have, however, been introduced, and the special arrangements for certain clearing currencies have been extended. The Fund urges the Israel authorities to pursue policies conducive to reduced reliance on restrictions, including multiple currency practices and bilateralism. Meanwhile, Israel should consider ways and means of simplifying its exchange system and reducing discrimination. The Fund does not object to the continuation on a temporary basis of the multiple currency practices of Israel.

"4. In concluding the 1956 consultation, the Fund has no other comments to make on the transitional arrangements maintained by Israel."

In October 1956, Israel applied to the I.M.F. for an increase in her quota; Israel also applied to the I.B.R.D. for the taking up of additional shares in the Bank's capital. In general, the quota and the number of shares are determined according to the size of the country's population, its national income, the volume of its foreign trade, its foreign currency balances, and other economic indicators. These considerations also determine the voting power of the country concerned in the governing bodies of the I.M.F. and the I.B.R.D. as well as the amounts that may be drawn from the I.M.F. When Israel became a member of the I.M.F., her quota in the Fund was fixed on the basis of the above-mentioned considerations, and in accordance with the levels of other countries' quotas, at \$4.5 million. Israel took up shares to the same amount in the I.B.R.D.

The application for a higher quota was motivated by the fact that the original quota of Israel was too low in comparison with the needs and the financial requirements of the state, which had become greater owing to the rapid development of the Israel economy during recent years. The Executive Committee of the International Monetary Fund decided at its meeting of the 18

January 1957 to recommend to the Council of Governors to increase the quota of Israel to \$7.5 million. This was done in consideration of the arguments brought forward by Israel and in view of the higher quotas granted to a number of other countries. A similar decision was taken by the Executive Committee of the I.B.R.D. In February 1957, the vote of all the Governors representing their countries in the I.M.F. and the I.B.R.D. confirmed by an overwhelming majority the increase in the Israel quota and her allotment of shares in the I.B.R.D. to the amount of \$7.5 million.

(b) *The International Finance Corporation*

In September 1956 Israel joined the International Finance Corporation.

Membership in this corporation is subject to membership in the I.B.R.D. Israel was invited to subscribe shares to the amount of \$50,000, proportionally to the value of shares held in the I.B.R.D. The Israel Government decided to join the I.F.C. and submitted a bill to the Knesset in this matter; the bill was passed on the 3 August 1956.

According to Article 1 of the Articles of Agreement of the I.F.C., . . . "The purpose of the Corporation is to further economic development by encouraging the growth of productive private enterprise in member countries, particularly in the less developed areas . . ."

The Corporation shall also, in accordance with requests from enterprises or potential investors, ". . . seek to stimulate . . . the flow of private capital . . . into productive investment in member countries." (Article 1 (iii)).

The Corporation assists and supplements the investment of private capital in cases where sufficient private capital is not available.

Under the terms of the Articles of Agreement, the Corporation will not ask a guarantee of repayment from member governments for its investments in other countries.

According to the explanatory memorandum to the Articles of Agreement, the ". . . major emphasis in the Corporation's financing will be on industrial enterprises", but the Corporation ". . . may also invest in agricultural, financial, commercial and other business ventures."

The Corporation's investments are not limited to loans carrying a fixed interest, but can also be made on ". . . terms providing for financial returns appropriate to the risks undertaken".

The authorized capital stock of the Corporation is \$100 million in terms of U.S. dollars.

Forty-six countries were members in the I.F.C. by the end of 1956.