

CHAPTER XIX

THE ACTIVITIES OF THE BANK OF ISRAEL

1. ASSETS AND LIABILITIES

THE ASSETS and liabilities of the Bank of Israel rose from IL. 481.2 million at the end of 1956 to IL. 522.9 million at the end of 1957. The structure of the balance sheet was modified in 1957 to include certain contingent liabilities and guarantees not included in the Bank's statement as at December 31, 1956; it therefore shows a further increase to IL. 585.7 million. The comparative data shown in this section refer, however, only to items covered both by the 1956 and 1957 balance sheets.

Among the items of the balance sheet there was a conspicuous increase in rediscounts, rising from IL. 35 million at the end of 1956 to IL. 52 million at the end of 1957. The Bank's portfolio of Government securities rose from IL. 159 million to IL. 218 million, as a result of the funding of part of the Government's current debt of IL. 65 million into a defence loan to be repaid at dates fixed by a law of March 31, 1957. At the same time, current Government liabilities fell from IL. 177 million to IL. 144 million.

Total Government liabilities to the Bank of Israel rose by 7.7 per cent (from IL. 336 million at the end of 1956 to IL. 361 million at the end of 1957), but their share within total assets remained almost unchanged.

Gold and foreign exchange holdings showed a small decrease, from IL. 108 million to IL. 107 million.

On the liabilities side, the item "deposits of banking institutions" showed a marked increase, from IL. 124 million at the end of 1956 to IL. 163 million at the end of 1957. Notes and coin in circulation showed a relatively small increase, from IL. 240 million to IL. 243 million, while deposits of the Government and of other public institutions fell from IL. 88 million to IL. 75 million.

2. FOREIGN EXCHANGE AND GOLD HOLDINGS

(a) *Foreign exchange and gold*

Gold and free foreign exchange reserves, other than balances connected with trade agreements, fell from IL. 100.2 million at the end of 1956 to IL. 94.5 million at the end of 1957. Gold holdings fell from IL. 8.5 million to IL. 6.3 million, while foreign exchange reserves fell from IL. 91.7 million to IL. 88.2 million.

TABLE XIX-1

*Assets and Liabilities of the Bank of Israel, 1956-1957**End of period*

	<i>Million IL.</i>		<i>Percentages</i>	
	<i>1956</i>	<i>1957</i>	<i>1956</i>	<i>1957</i>
<i>Assets</i>				
Foreign exchange and gold ^a	107.8	106.6	22.4	20.4
Government securities	158.8	217.8	33.0	41.7
Current liabilities of the Government	176.9	143.6	36.8	27.4
Bills discounted	35.1	51.8	7.3	9.9
Other accounts	2.6	3.1	0.5	0.6
<i>Total</i>	481.2	522.9	100.0	100.0
Contingent liabilities and guarantees ^b	2.6	62.8	—	—
<i>Grand total</i>	483.8	585.7	—	—
<i>Liabilities</i>				
Notes and coin in circulation	239.9	242.8	49.9	46.5
Deposits of the Government and of government institutions	32.8	24.1	6.8	4.6
Other institutions' deposits	54.8	51.1	11.4	9.8
Deposits of banking institutions	124.4	162.9	25.9	31.1
Capital and reserves	13.0	16.8	2.7	3.2
Other accounts	16.3	25.2	3.3	4.8
<i>Total</i>	481.2	522.9	100.0	100.0
Contingent liabilities and guarantees ^b	2.6	62.8	—	—
<i>Grand total</i>	483.8	585.7	—	—

^a Including clearing accounts in connection with payments agreements.

^b Documentary credits, guarantees, surplus food accounts and exchange funds.

Of the outstanding balances of foreign exchange, 96 per cent were in U.S. dollars, in pounds sterling, in marks of Western Germany and the remainder was held in other currencies.

Most balances were held in short-dated bills or in time deposits; only a small amount, required for current operations, was kept in demand deposits. At the end of 1957, 80.3 per cent of total revenues were invested, as against 57.8 per cent at the end of 1956. The interest allowed on securities and time deposits was 2-7 per cent, according to the market conditions prevailing in the country in which these placements were made and to the duration of the deposits.

(b) *Clearing accounts in connection with trade agreements*

In 1957, the Bank of Israel maintained nineteen payments agreements, but not all of them were operative. No operations were made in the account with

TABLE XIX-2

Balances of Foreign Exchange and Gold held by the Bank of Israel, 1957
(thousands of IL)

<i>End of period</i>			
<i>Month</i>	<i>Foreign exchange^a</i>	<i>Gold</i>	<i>Total</i>
1956 December	91,711	8,442	100,153
1957 January	89,316	11,137	100,453
February	85,643	18,348	103,991
March	80,073	19,706	99,779
April	89,874	14,338	104,212
May	100,767	8,941	109,708
June	93,934	8,944	102,878
July	102,349	8,954	111,303
August	111,800	8,958	120,758
September	109,611	6,265	115,876
October	95,760	6,266	102,026
November	88,158	6,274	94,432
December	88,211	6,269	94,480

^a Excluding clearing accounts in connection with payments agreements.

Czechoslovakia; its outstanding balance remained unchanged. The commercial transactions with Argentina, suspended in 1956, were resumed upon the conclusion of an agreement signed in September 1957 for a period of six months. No operations were made in the payments agreement with the USSR after November 1956, with the exception of a repayment of debt in November 1957.

In June 1957, the payments agreements with the Netherlands was modified to include Israel in the convertible guilder area.

The Bank of Israel participated in the negotiations on the Multilateral Compensation Procedure, set up under the auspices of the Economic Commission for Europe, with a view to further liberalization of international trade. The purpose of the Multilateral Compensation Procedure is to facilitate the convertibility of bilateral balances. In 1957, the Bank of Israel effected several compensation operations within the framework of this arrangement.

The outstanding balances in clearing accounts are shown in Table XIX-3.

(c) *Foreign exchange deposits*

Foreign exchange deposits of banking institutions held in the Bank of Israel rose during 1957 from IL. 11 million to IL. 22.6 million.

These deposits are divided into three categories:

Foreign exchange deposits ("PAMAZ")—mainly deposits of exporters and others who earned foreign currency and were allowed to use it for specified purposes, such as the purchase of raw materials, in accordance with the foreign

TABLE XIX-3
Outstanding Balances in Clearing Accounts, 1956-1957
 (millions of U.S. dollars)

<i>End of period</i>			
<i>Country</i>	<i>1956</i>	<i>1957</i>	<i>Increase or decrease (-)</i>
Argentina	- 55	- 18	37
Brazil	894	6	- 888
Bulgaria	245	- 364	- 609
Burma	230	930	700
Czechoslovakia	465	465	—
Denmark	1,187	-2,065	-3,252
Finland	-2,968	-4,455	-1,487
France	-1,445	-3,190	-1,745
Greece	27	273	246
Hungary	251	23	- 228
Iceland	280	350	70
Italy	- 793	- 784	9
Netherlands	-383	- 263	120
Norway	71	- 472	- 543
Poland	- 19	- 116	- 97
Rumania	293	- 404	- 697
Turkey	1,298	6,012	4,714
U.S.S.R.	- 179	—	179
Yugoslavia	- 517	- 645	- 128

SOURCE: Bank of Israel.

exchange regulations of the Ministry of Finance. At the end of 1957, these deposits stood at IL.8 million.

Time deposits of Israel residents ("PAZAK")—foreign exchange deposited by residents which may be converted into Israel currency at the rate of exchange prevailing at the date of conversion. "PAZAK" deposits amounted to IL. 5.6 million.

Demand deposits of residents transferring exchange ("TAMAM"). Foreign exchange may be withdrawn from these accounts for specified purposes. Outstanding balances were IL. 9 million at the end of 1957.

The increase was mainly in "TAMAM" deposits (residents' transfers), which rose by IL. 7.7 million. "PAMAZ" deposits rose by IL. 0.6 million and "PAZAK" rose by IL. 3.3 million.

3. THE BANK OF ISRAEL AS BANKER AND FISCAL AGENT TO THE GOVERNMENT

Government indebtedness to the Bank of Israel rose over the year from IL.336 million to IL. 361 million. Government deposits fell from IL. 22 million to

IL. 17 million. Net indebtedness thus rose by IL.30 million, from IL. 314 million to IL. 344 million.

(a) *Debit and Credit Accounts*

At the end of 1956, advances in Israel currency and in foreign exchange granted to the Government by the Bank of Israel amounted to IL. 117.2 million. According to the Bank of Israel Law, these advances were repaid by the end of the fiscal year 1956/57 (March 1957). At the end of 1957, the sum total of advances stood at IL. 77.6 million. The reason for this decline was the funding of the IL. 65 million of the current advances granted to the Government into a long-term defence loan. In accordance with the Defence Advance Law, the due dates of this loan will be fixed by agreement between the Minister of Finance and the Governor of the Bank of Israel.

By the end of 1957, the promissory notes for the capitalization of the Bank were fully redeemed out of the Bank's profits. Only one Government promissory note to the amount of IL. 4.1 million held against coin in circulation remained outstanding.

During the period under review, the Bank also granted advances to the Government on account of future income from counterpart funds and other accounts. These advances rose over the year from IL. 60 million to IL. 66 million.

Deposits of Government institutions, mainly those of the Post Office Bank holding the funds of the "Save to Build" scheme fell from IL. 10.4 million to IL. 7 million during 1957.

(b) *Contingent liabilities and guarantees*

The contingent liabilities and guarantees of the Exchange Fund show, under liabilities, the foreign exchange bought by the Bank of Israel as agent of the Ministry of Finance. Under assets, it shows the Bank's claim (in Israel pounds) on the Ministry of Finance. At the end of 1957, no sums appeared under either of these accounts.

The Bank balance sheet also shows other types of contingent liabilities and guarantees. The item "Food Surplus Account" appearing on the asset side is offset by "Deposits in connection with Food Surplus Agreements" on the liabilities side, to the amount of IL. 3.6 million. This sum represents part of the U.S. grant-in-aid given in agricultural surpluses, on whose destination agreement has been reached with the grant-in-aid authorities, but their final release is still pending.

"Documentary credits opened or confirmed and guarantees in connection with payments agreements" appears on the assets side, while "Liabilities for documentary credits opened or confirmed and guarantees in connection with payments agreements" appears on the liabilities side. The total of these items was IL. 59.2 million on each side of the balance sheet. They include documentary credits opened by the Bank as fiscal agents of the Government, as well as credits

TABLE XIX-4

Government Accounts with the Bank of Israel, 1956-1957

(Millions of IL.)

<i>End of period</i>	1956	1957	<i>Increase or decrease (-)</i>
<i>Debit</i>			
Advances in Israel currency	38.1	32.0	- 6.1
Advances in foreign exchange	79.1	45.6	-33.5
Other Government accounts	59.8	66.1	6.3
Treasury bills	69.3	69.3	—
Land bills	77.3	77.3	—
Promissory notes	7.1	4.1	- 3.0
Government securities	5.1	2.1	- 3.0
Defence Loan	—	65.0	65.0
<i>Total</i>	335.8	361.5	25.7
<i>Credit</i>			
Deposits in Israel currency	12.3	5.3	- 7.0
Deposits in foreign exchange	10.1	11.7	1.6
Deposits of Government institutions	10.4	7.0	- 3.4
<i>Total</i>	32.8	24.0	- 8.8
<i>Contingent liabilities and guarantees</i>			
Exchange funds	0.7	—	- 0.7
Liabilities in connection with loans from the Development Budget	1.9	0.7	- 1.2

confirmed to Central Banks of countries with which Israel has payments agreements, on behalf of documentary credits opened by commercial banks in Israel.

"Liabilities of the Treasury in respect of loans from the Development Budget" extended through the intermediary of banking institutions is yet another contingent liability. These liabilities fell from IL. 1.9 million to IL. 0.7 million during the period under review.

4. THE BANK OF ISRAEL AS BANKERS' BANKER

(a) *Deposits of banking institutions*

Deposits held by banking institutions in the Bank of Israel rose from IL. 124.4 million at the end of 1956 to IL. 162.9 million at the end of 1957.

Part of these deposits are the obligatory deposits that banking institutions are required to hold with the Bank of Israel to the extent of not less than 15 per cent of the total amount of their deposits in Israel currency. As a result of the rise in the deposits of banking institutions, obligatory deposits with the Bank rose to

TABLE XIX-5

Deposits of Banking Institutions with the Bank of Israel, 1957
(millions of IL.)

End of period

Month	Obligatory deposits	Other deposits				Total	Total deposits
		Excess deposits in current accounts	Deposits against letters of credit	Time deposits	Foreign exchange deposits		
1956 December	47.1	54.1	4.8	7.3	11.1	77.3	124.4
1957 January	49.6	53.5	5.1	9.0	11.6	79.2	128.8
February	51.3	49.2	6.1	11.9	15.9	83.1	134.4
March	52.7	41.7	6.4	12.9	17.2	78.2	130.9
April	53.0	48.6	6.6	16.1	15.7	87.0	140.0
May	55.0	43.7	6.5	23.1	16.5	89.8	144.8
June	56.1	41.7	6.0	24.7	16.8	89.2	145.3
July	57.7	36.3	6.2	26.5	17.2	86.2	143.9
August	56.9	44.2	5.7	26.7	18.3	94.9	151.8
September	57.9	38.8	6.6	27.0	19.2	91.6	149.5
October	58.7	31.3	6.6	28.8	20.8	87.5	146.2
November	57.5	36.0	6.7	27.6	21.4	91.7	149.2
December	57.8	48.3	7.1	27.0	22.7	105.1	162.9

IL. 57.8 million at the end of 1957 as against IL. 47.1 million at the end of 1956.

Excess deposits of banking institutions held in the Bank of Israel on current account fell during the period under review. This was mainly due to the conversion of demand deposits into time deposits, on which higher rates of interest are allowed. It was also due to the coming into force of the new regulations facilitating withdrawal before the fixed date. There was also a rise in foreign exchange deposits. During 1957 time deposits of banking institutions rose from IL. 7.3 million to IL. 27.0 million. Foreign exchange deposits increased from IL. 11.1 million to IL. 22.7 million during the period under review. Over the year, there were no changes in interest rates paid on demand deposits. No interest is payable on the first 25 per cent of obligatory deposits, while the remaining 75 per cent yield 2 per cent per annum. Interest allowed on outstanding balances of liquid assets in excess of obligatory deposits is 2.5 per cent.

With effect from June 1957, interest paid on time deposits was raised by the Bank of Israel as follows: for a period of between six and nine months—3.75 per cent as against 3.5 per cent previously; for a period exceeding nine months—4 per cent. This rate of 4 per cent was previously paid only on deposits exceeding 12 months.

(b) *Rediscount*

The outstanding balance of rediscounts was IL. 51.6 million at the end of 1957 against IL. 35.1 million at the end of 1956. Rediscounted bills in Israel currency amounted to IL. 30.6 million, while rediscounted bills in foreign exchange stood at IL. 21.0 million at the end of the year.

TABLE XIX-6
Rediscounts by Sectors, 1956-1957
(thousands of IL)

<i>End of period</i>			
<i>Sector</i>	1956	1957	<i>Increase or decrease (-)</i>
<i>Bills rediscounted in Israel currency</i>			
Agriculture	8,430	8,456	26
Industry	7,115	6,527	- 588
Government institutions and others ^a	4,243	15,633	11,390
<i>Total</i>	19,788	30,616	10,828
<i>Bills rediscounted in foreign exchange</i>			
Agriculture	446	2,117	1,671
Industry	6,685	7,707	1,022
Government institutions and others ^a	8,205	11,161	2,956
<i>Total</i>	15,336	20,985	5,649
<i>Grand total</i>	35,124	51,601	16,477

^a The Jewish agency, "Delek", the Israel Fuel Corporation Ltd., and the Reparations Corporation.

Rediscounts in Israel currency rose by IL. 10.8 million, of which the bills of national institutions and corporations (other than agricultural and industrial¹) accounted for IL. 11.4 million. Rediscounted industrial bills fell by IL. 0.6 million.

Rediscounts in foreign exchange rose by IL. 5.6 million, of which IL. 1.7 million went to agricultural exports and IL. 1.0 million to industrial exports. Bills of national institutions and corporations represented IL. 2.9 million.

At the beginning of 1957, the outstanding balance of rediscounts was lower than at the end of 1956, when it amounted to IL. 35.1 million. It was IL. 22.4

¹ The Jewish Agency, the Reparations Corporation, "Delek" the Israel Fuel Corporation Ltd., and the "Mekoroth" Water Co. Ltd.

million and IL. 25.4 million at the end of March and June 1957 respectively, and rose only in September to the level at the end of 1956.

During the last quarter rediscounts showed an increase of IL. 16 million, of which IL. 14 million worth of bills were rediscounted to Government institutions and corporations.

The rediscount rate was lowered from 6 per cent to 5.5 per cent to conform with the other rates prevailing in the economy.

With the fall in foreign exchange reserves, and the smaller difference in rediscounts of bills in Israel currency and in foreign exchange, the Bank began to rediscount the bills of Israel exporters in local currency and not in foreign exchange as hitherto. However, the funds designed to finance imports for exports were increased during this period from \$5 million to \$6 million.

At the end of 1957, about 52 per cent of rediscounts were destined for bills of the national institutions and corporations; 28 per cent of rediscounts were of industrial bills and 20 per cent of agricultural bills.

Among the national institutions and corporations, the "Delek" Corporation held an important place in rediscount operations, required to finance the increase in this company's fuel stocks. Among industrial branches, the chemical industry was conspicuous and, in agriculture, the citrus industry.

5. NOTE AND COIN ISSUE

(a) *Currency in circulation and covering assets held*

The monthly average amount of currency in circulation as on Wednesdays rose from IL. 244.3 million in January to IL. 252.8 million in December 1957, or an increase of 3.5 per cent. This increase was only one-tenth of the rise in 1956 when the rate of increase was 30.2 per cent. It was lower even than in 1955 when the rise amounted to 16.1 per cent. The share of cash within the total supply of money thus fell in 1957, as the total money supply rose by 11.4 per cent during this period.

Most of the covering assets held remained stable over the year. The changes in currency in circulation were mainly reflected by the fluctuations in the quantities of promissory notes and bills of exchange. Their rise and fall corresponded to that of the currency in circulation.

(b) *Currency in circulation by denominations and issues*

There were no noticeable changes in denominations in circulation, but issues changed considerably. The share of the Bank of Israel issue rose, while that of the Bank Leumi Le-Israel B.M. fell. These notes, which have been in circulation since 1952, gradually became unusable.

This was particularly true of 500 prutot and IL. 1 notes, and to a lesser extent of IL. 5 and IL. 10 notes.

The quantity of coins in circulation remained virtually unchanged.

TABLE XIX-7
Currency in Circulation and Covering Assets Held, 1957
(thousands of IL)

Wednesday averages^a

	<i>Currency in circulation</i>	<i>Covering assets held</i>				
		<i>Gold</i>	<i>Foreign exchange</i>	<i>Land bills</i>	<i>Treasury bills and other Government bills</i>	<i>Promissory notes and exchange bills</i>
January	244,293	8,440	82,610	77,279	72,314	3,650
February	246,448	13,397	84,155	77,274	71,623	—
March	246,533	19,363	73,367	77,259	73,417	3,126
April	251,242	19,723	72,535	77,259	73,420	8,304
May	245,118	10,379	82,760	77,257	71,925	2,798
June	246,688	8,941	80,466	77,250	73,420	6,610
July	246,176	8,950	80,658	77,250	72,140	7,177
August	247,333	8,956	92,694	77,250	68,432	—
September	250,308	6,260	83,436	77,250	73,420	9,941
October	253,526	6,265	84,380	77,250	73,420	12,211
November	254,493	6,268	71,202	77,250	73,420	26,353
December	252,832	6,272	72,390	77,249	73,420	23,500

Note: Discrepancies due to rounding.

^a According to Section 58 of the Bank of Israel Law the Bank is required to publish data on currency circulation as at the close of business on every Wednesday. In view of the considerable fluctuations occurring during the month, Wednesday averages for every calendar month have been shown.

(c) *Spoilt currency*

During 1957, the Bank received 116 applications for the exchange of spoilt banknotes and coins to the amount of IL. 2,098, of which 85 applications, totaling IL. 1,985 were approved. In 1957, the committee for the destruction of unusable notes and coins destroyed IL. 36,618,869, of which IL. 36,156,532 was in bank notes and IL. 462,337 in coin.

(d) *The coin planning committee*

At the end of 1957, the Governor of the Bank of Israel appointed a committee to devise a new series of coins. The members were: J. E. Nebenzahl—chairman; M. Ardon, A. Eylon, L. Kedman, Ch. Salamon and Y. Yadin. Owing to the declining value of the pruta, and in order to simplify book entries, it has been decided that, as from the issue of the new series, the pound will be divided into only a hundred units instead of into a thousand units as hitherto.

TABLE XIX-8

Notes and Coin in Circulation, 1956-1957

<i>End of period</i>	<i>1956</i>		<i>1957</i>	
<i>Denomination</i>	<i>Thousand IL.</i>	<i>Percentages</i>	<i>Thousand IL.</i>	<i>Percentages</i>
<i>Notes</i>				
500 prutah	1,562	0.7	1,618	0.7
IL. 1	6,559	2.8	6,681	2.8
IL. 5	55,309	23.4	57,615	24.1
IL. 10	156,272	66.1	161,153	67.4
IL. 50	16,695	7.0	11,966	5.0
<i>Total</i>	236,397	100.0	239,033	100.0
<i>Coins</i>				
1 pruta	5	0.1	5	0.1
5 "	50	1.4	50	1.3
10 "	273	7.9	321	8.4
25 "	325	9.4	351	9.2
50 "	1,241	35.8	1,349	35.7
100 "	845	24.4	872	23.0
250 "	726	21.0	841	22.2
500 "	2	—	3	0.1
<i>Total</i>	3,467	100.0	3,792	100.0

(e) Forged banknotes

Forged banknotes of IL. 1 and of IL. 10 of the Bank Leumi Le-Israel B.M. issue were discovered during the year.

The Bank of Israel drew the attention of the public and of the banking institutions to the distinctive marks of the forged notes. In all, three IL. 10 and ninety-six IL. 1 notes were discovered in the period under review.

(f) Agencies for the supply of cash to provincial towns

In 1957, the Bank of Israel devised plans for the opening of agencies in Tiberias, Hadera, Rehovot and Beersheba to avoid, as far as possible, the transfer of large sums from its Jerusalem, Tel Aviv and Haifa offices. Four banks will act as agents for the Bank of Israel: The Israel Discount Bank in Tiberias, the Union Bank of Israel Ltd. in Hadera, the Bank Leumi Le-Israel B.M. in Rehovot and the Workers Bank Ltd. in Beersheba.

(g) Issue of IL. 50 notes

In September, for the first time, the Bank of Israel issued a limited number of IL. 50 notes. This completes the series of the Bank of Israel notes first issued at the end of 1955.

6. THE ADMINISTRATION OF STATE LOANS

In its capacity as the administrator of State loans, the Bank of Israel managed 29 internal loans and two foreign loans.

The total of internal loans in Israel currency and in foreign currency managed by the Bank was IL. 148.7 million and \$ 25 million respectively at the end of the year; that of foreign loans amounted to \$272.5 million.

Interest paid on bonds against the surrender of IL. 1.4 million of coupons, certificates, and credit notes amounted to IL. 5.3 million. The value of prizes distributed was IL. 2.1 million, while redemptions of the principal accounted for IL. 4.6 million. Sales of the Independence and Development Loan bonds were \$8.8 million.

(a) *Internal Loans in Israel Currency*

The number of internal loans rose by three and stood at twenty-six at the end of the year.

Prize-bearing bonds—Six Popular Loans, four issues of Mandatory Bearer Bonds, the Defence Loan 1956, and the Immigrant Housing Loan.

Unlinked and interest-carrying bonds—Three 3% Government Loans (Financial Institutions), two Compulsory Loans, the 3.5% Government bonds, the 3.5% War Loan, and the savings bonds of the Immigrant Housing Loan.

Bonds linked to the dollar exchange rate of the consumer's price index—the 3% National Loan, the Dollar-linked Savings Certificates 1951, two series of the Defence Loan and two series of the Immigrant Housing Loan.

In 1957, 36 drawings of these loans took place; the total winnings were IL. 2.3 million, of which IL. 2.2 million were claimed. Unclaimed winnings stood at IL. 734,000 at the end of the year.

The Law of the Immigrant Housing Loan came into force on July 15, 1957. It authorized the Government to borrow IL. 50 million through the issue of a prize-bearing and interest-carrying loan.

The interest carrying bonds of this loan were issued at nominal values of IL. 50, IL. 100, IL. 500, and IL. 1,000. They are linked partly to the dollar exchange rate and partly to the consumers' price index. The principal will be redeemed in twenty equal instalments. The first instalment falls due within 18 months after the date of issue; thereafter, redemption will take place every six months. Series A. of interest-carrying bonds to the amount of IL. 5 million was issued in July 1957. Registered holder bonds carry interest at 6 per cent per annum and are liable to income tax at a maximum rate of 25 per cent. Bearer bonds carry interest at 4.5 per cent per annum and are free from income tax.

In 1957, these bonds were sold to transferors of foreign exchange who are entitled to a 20 per cent premium on the amounts so transferred.

Prize-bearing bonds were issued in units of IL. 50, divided into two equal parts. The total issue is limited to IL. 10 million, the principal being linked to

TABLE XIX-9
Loans Administered by the Bank of Israel, 1957

<i>Type of Loan</i>	<i>Number of series</i>	<i>Amount authorized</i>	<i>Amount taken up at end of year</i>	<i>Principal Interest and redeemed prizes paid over the year over the year</i>	
<i>thousand IL.</i>					
Popular Loans, premium bonds (bearer)	6	41,000	31,159	24.4	1,524
Mandatory bearer bonds	4	10,000 ^a	4,188	19	165
3% Government loans (Financial Institutions)	3	21,500	21,500	—	628
Compulsory Loan, 1952	1	20,268 ^b	16,888	1,690	593
Compulsory Loan, 1953	1	45,000	7,413	494	172
3½% War Loan, 1953-1958	1	7,500	2,250	1,500	92
3½% Government Bonds, 1953-1957	1	4,400	92	597	31
National Loan, 1948-1953	1	5,000	77	19	—
Dollar-linked Saving Bonds, 1951	1	10,000	4,479	7	—
Defence Loan, 1956	3	40,000	39,960	40	2,080
Local Authorities' loans	1	7,500	7,500	—	452
Immigrant Housing Loan	4	50,000	13,224	5	108
<i>Total</i>		262,168	148,730	4,615	5,845
<i>thousand U.S. dollars</i>					
Tavei Dollar, 1951	1	25,000	25,000	—	1,603
Certificate of Obligation against Foreign Exchange	1	1,391 ^b	92	251	19
Independence Loan	1	500,000	112,759 ^c	2,700	218 ^d
Development Loan	1	350,000	159,787 ^c	6,100	
<i>Total</i>		876,391	297,638	9,051	1,840

^a Amount registered in Israel only.

^b Amount actually subscribed.

^c On sale abroad only. Data supplied by the Ministry of Finance.

^d Interest payments made in Israel.

the dollar exchange rate. The prize-bearing bonds do not carry interest, but prizes are income tax free.

Savings bonds were issued at nominal values of IL. 100, IL. 500, and IL. 1,000 each. The principal and the interest are not linked to the dollar or to the consumer's price index. They carry compound interest payable upon redemption and they are free from income tax. In the case of advanced redemption, interest rates are reduced. Three series of this loan were issued in 1957, as follows:

Series A on July 15 to the amount of IL. 3 million.

Series B on October 15 to the amount of IL. 2 million.

Series C on December 15 to the amount of IL. 1.5 million.

These bonds are redeemable within five years of the date of issue.

Bonds of the B and C series were sold only to transferors of foreign exchange, entitled to a 20 per cent premium.

(b) *Internal loans in dollars*

The two internal loans in dollars were the Tavei dollar loan 1951 and certificates of obligation against foreign exchange. Their amounts remained almost unchanged during the period under review.

(c) *Foreign Loans in U.S. dollars*

The two foreign loans whose technical operations are managed in this country by the Bank of Israel are the Independence Loan and the Development Loan.

The redemption of Independence Bonds continued through 1957. Of the amounts redeemed in recent years, \$2,850 million went to the redemption of the first instalment of this loan.

20,551 interest coupons to the amount of \$542,000 were sent to the United States for collection.

Bonds to the value of \$2.7 million (interest and principal) were redeemed and payments amounted to IL. 4.5 million.

Redemption of the Development Loan amounted to \$6.1 million (interest and principal) against which IL. 9.8 million were paid. 13,381 interest coupons to the amount of \$343,000 were sent to the United States for collection.

Bonds of the two loans redeemed in Israel currency amounted to \$8.2 million over the year. The total amount redeemed so far is \$40.4 million. Of this amount, the Jewish Agency redeemed over one-half; individuals—21 per cent for investment, institutions—10 per cent; the Government—9 per cent. Redemptions by tourists amounted to 7.1 per cent.

7. THE EXAMINATION OF BANKING INSTITUTIONS

(a) *Control*

Sixty banking institutions were examined in 1957 against eighty in the preceding year. Control was more general in 1956, and was mainly carried out in the smaller banks. In 1957, it was more comprehensive and concentrated on the larger and medium-size banks. Emphasis was placed on the nature of the banking transactions and the protection of depositors' interests.

In August 1957, the books of the Halvaa Vehisachon Cooperative Society Ltd. in Kfar Saba were examined. It transpired that the annual balance sheet and the monthly reports submitted to the examiners' department were incorrect. Deposits shown on the liabilities side were only one-third of total deposits actually held by this society, while only part of the assets were shown in the balance sheet. In view of the fact that the society was unable to meet its liabilities to

depositors and as there was no chance of its being able to continue to conduct business, the Registrar of Cooperative Societies issued an order for the liquidation of this society.

(b) *Cheque clearance*

There are three clearing houses in Israel: in Jerusalem, in Tel Aviv and in Haifa. They clear cheques drawn upon banking institutions only in these cities. Until now, membership has been confined mainly to the large banks, and clearance did not cover all the cheques drawn upon all the banks in these three cities. Branch offices of banking institutions outside these three cities used to send cheques received from their clients or held upon other banks operating in Jerusalem, Tel Aviv, and Haifa, either to their head offices for collection or, to other bankers, who handed them over to those banking institutions upon which they were drawn.

Banking institutions operating in Jerusalem, Tel Aviv and Haifa, receiving cheques held upon banks in other cities and, conversely, bankers operating in areas outside these three cities, who received cheques drawn on banks outside their place of business, generally sent their cheques to those banks upon which they were drawn. They credited the depositors' cheques in their books, and debited the accounts of those banks on which the cheques were drawn. As a result, balances in transit among banking institutions were out of all proportion to the amounts which should have been in transit had an efficient cheque clearing system been in existence. Balances in transit, which were IL. 13.1 million on May 31, 1956 rose to IL. 26.0 million in September 1957.

This rise in balances in transit showed the need for introducing basic changes in the cheque clearance system.

It was, therefore, decided to institute an inter-urban cheque clearance system, to establish clearing houses in towns other than Jerusalem, Tel Aviv and Haifa; and to extend the clearing areas of the three cities. Preparations to this effect were made in 1957. In accordance with the inter-urban clearance system, every banking institution will be authorized to send cheques to the three offices of the Bank of Israel in Jerusalem, Tel Aviv and Haifa. The cheques will be returned by the Bank of Israel to the institutions on which they were drawn. The accounts of banking institutions with the Bank of Israel will be credited or debited within one day after the receipt of cheques for collection. Membership in the clearing houses of the three cities has been extended to cover all banks, so as to provide for coverage of all cheques cleared. The new inter-urban clearing system began to operate on January 2, 1958; additional clearing houses have also been set up in a number of towns.

8. ECONOMIC RESEARCH

In 1957, the scope of economic research undertaken by the Bank of Israel was enlarged. Closer contact was made between the Research Department of the Bank and the Office for Economic Research of the Ministry of Finance.

Part of the findings of the Research Department were published in the Bank's Annual Report for 1956 and in the three bulletins issued in 1957.

In addition to closely following the development of the Israel economy, the Research Department prepared a system of national accounts covering the years 1950-56. Data on income and expenditure of commercial banks in Israel for the years 1950-56 were analyzed and published for the first time in 1957.

The building of a national budget was begun in 1957. A sample survey of family income and savings is also under way; it is carried out in cooperation with the Falk Project for Economic Research, the Central Bureau of Statistics and the Institute for Applied Social Research.

9. THE ADVISORY COMMITTEE AND THE ADVISORY COUNCIL

In August, Dr. J. E. Nebenzahl was appointed by the Government as Chairman of the Committee and of the Council, replacing the late Mr. E. S. Hoofien. Council member Dr. I. Foerder was appointed to the Committee and in November, Prof. D. Patinkin was nominated as member of the Council.

The Advisory Committee held twenty-three meetings during the period under review and deliberated on matters relating to the Bank's policy. Deliberations were mainly concerned with the new liquidity regulations.

The Advisory Council was convened four times and discussed problems connected with economic development and, in particular, with developments in the monetary field.

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

In February 1957, the International Monetary Fund increased Israel's quota from \$4.5 million to \$7.5 million. The International Bank for Reconstruction and Development raised the number of shares subscribed by Israel by the same amount, in compliance with Israel's request. The application was motivated by the fact that Israel's quota and subscription, fixed upon her joining these organizations, were too low in proportion to her population, foreign trade, national income, and financial requirements.

Israel increased her gold payments to the IMF to 25 per cent of her new quota, i.e. \$1,750,000. The amount paid for shares subscribed to the IBRD was raised to \$150,000 representing 2 per cent of Israel's subscription to the IBRD's share capital.

In March 1957, the IMF fixed the par value of the Israel pound at 55.556 U.S. cents or IL. 1.800=\$1.00.

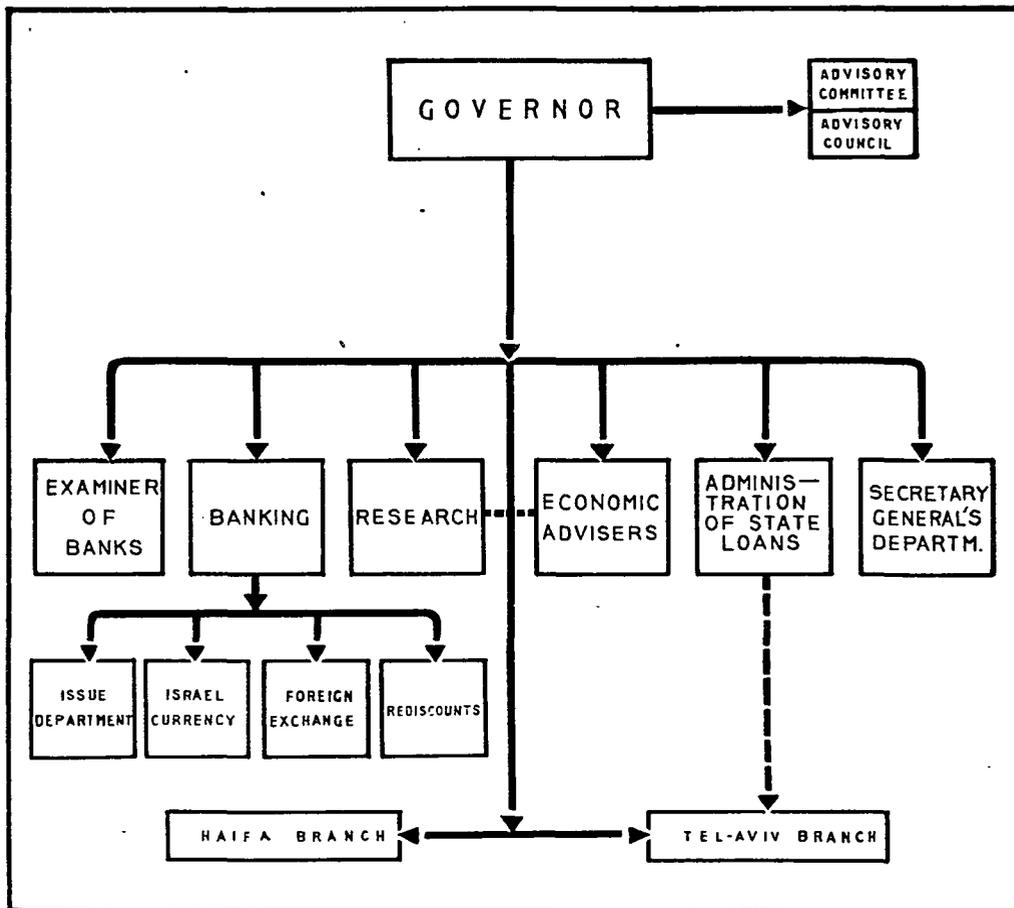
In March 1957, Israel bought \$3,750,000 from the IMF, an amount equal to half of her quota. At the same time, the amount of Israel currency held by the IMF was increased to 125 per cent of the Israel quota.

Israel representatives attended the meeting of the IMF, the IBRD, and the International Financial Corporation, held in Washington in September 1957.

In accordance with Article XIV of the Fund's articles of agreement, annual consultations were held in Jerusalem in November 1957 between representatives of the Fund and of Israel. The report of these consultations will be submitted to the Executive Board of the IMF.

DIAGRAM XIX-I

The Organizational Structure of the Bank of Israel



STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1957

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1957

BANK OF ISRAEL

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1957

LIABILITIES		ASSETS	
	IL.		IL.
Capital	10,000,000	Gold	6,269,312
Reserve Fund	6,834,110	Deposits in foreign currency with foreign Banks	88,211,097
Banknotes and coins in circulation	242,826,079	Clearing accounts in connection with Trade and Payments Agreements	12,183,216
Clearing Accounts in connection with Trade and Payments Agreements	23,871,074	Treasury Bills	69,320,000
Deposits of International Financial Institutions in IL.	7,869,358	Land Bills	77,249,000
Demand deposits of Banking Institutions	113,209,050	Defence Loan 1957	65,000,000
Time deposits of Banking Institutions	27,000,000	Other Government Securities	2,140,065
Deposits of Banking Institutions in foreign currency	22,689,984	Government obligations	4,100,000
Government deposits	5,325,274	Advances to Government	32,049,292
Government deposits in foreign currency	11,709,050	Other Government accounts	66,137,483
Deposits of Government Institutions	7,047,866	Loans to Government in foreign currency	45,590,838
Deposits on account of Food Surplus Purchases. <i>See contra</i>	3,600,000	Bills discounted in local currency	30,615,670
Deposits of Other Institutions	43,240,711	Bills discounted in foreign currency	20,985,397
Exchange Fund — Net balance in Foreign Currency. <i>See contra</i>	—	Food Surplus Account. <i>See contra</i>	3,600,000
Liabilities to Banking Institutions in respect of loans under the Development Budget. <i>See contra</i>	673,251	Exchange Fund — Net balance in Israel currency. <i>See contra</i>	—
Liabilities for Documentary Credits re Payments Agreements (see Assets)	39,634,553	Liabilities of the Treasury in respect of loans under the Development Budget. <i>See contra</i>	673,251
Liabilities re guarantees (see Assets)	19,588,025	Premises, Equipment etc.	1
Other Accounts	661,987	Documentary credits opened or confirmed in connection with payments agreements (see liabilities)	39,634,553
	<u>585,780,372</u>	Guarantees (see liabilities)	19,588,025
		Other Accounts	2,433,172
			<u>585,780,372</u>

BANK OF ISRAEL
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1957

<i>INCOME</i>	<i>IL.</i>	<i>EXPENDITURE</i>	<i>IL.</i>
Interest, Commissions Received and other income	11,677,864	Interest Paid, Administrative Expenses and other Expenses	4,833,199
	11,677,864	Net Profit	6,844,665
	11,677,864		11,677,864

DISTRIBUTION OF PROFIT

Net Profit	6,844,665	Redemption of Government Promissory Notes in accordance with Section 7 of the Bank of Israel Law	3,007,388
	6,844,665	Reserve Fund	3,837,277
	6,844,665		6,844,665

BANK OF ISRAEL

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

AS AT 31.5.58

Governor

D. HOROWITZ

Advisory Committee

J. E. NEBENZAHL, *Chairman*
G. JOSEPHTHAL, *Vice-Chairman*
S. BEJARANO
Y. CHORIN
I. FOERDER
A. SHECHTER
A. ZABARSKI

Advisory Council

J. E. NEBENZAHL, *Chairman*
G. JOSEPHTHAL, *Vice-Chairman*
A. BECKER
S. BEJARANO
Y. CHORIN
N. FEINGOLD
I. FOERDER
E. GOVRIN
A. HACOHEM
M. MARCUS
Z. ONN
E. OSTASHINSKY
D. PATINKIN
A. SHECHTER
A. ZABARSKI