

CHAPTER XVIII

THE ACTIVITIES OF THE BANK OF ISRAEL

1. ASSETS AND LIABILITIES

THE VALUE of the assets and liabilities of the Bank of Israel rose, from IL. 585.7 million at the end of 1957 to IL. 671.7 million at the end of 1958—an increase of IL. 86 million.

On the assets side, the major part of the expansion occurred in foreign exchange reserves, which, rising by IL. 75.2 million, totalled IL. 163.4 million at the end of 1958. This reflects the growth of Israel's foreign currency reserves, the causes of which are enumerated in Chapter III—"The Balance of Payments and Foreign Trade." On the other hand, there was a decrease—on the assets side—in the value of bills discounted, in local as well as in foreign currency, mainly because the Bank of Israel sold part of the discounted bills to commercial banks (see Chapter XIII—"The Money Supply, Credit and the Banking System").

Government debit accounts—including Government securities and obligations as well as current liabilities—which likewise appear on the assets side in the Bank of Israel balance sheet, grew by 5 per cent, totalling IL. 344.8 million in 1958, as against IL. 328.3 million in 1957; however, their share within total assets declined. There was likewise an increase in the contingent food surplus accounts.

On the liabilities side, currency in circulation rose by 8.8 per cent, reaching IL. 264.1 million. A marked increase occurred in the demand and time deposits held by banking institutions with the Bank of Israel, which expanded from IL. 140.2 million to IL. 176.2 million. This was due to the expansion of deposits in the banking institutions, since the latter are obliged to place in the Bank of Israel 15 per cent of their demand deposits and of their time deposits for periods not exceeding 18 months. The increase in excess deposits over and above the obligatory deposits is due to the greater liquidity of the banks and to the higher interest rates paid by the Bank of Israel.

Government credit accounts rose from IL. 24.1 million at the end of 1957 to IL. 26.4 million at the end of 1958.

2. FOREIGN EXCHANGE AND GOLD HOLDINGS

(a) Foreign exchange and gold

Gold and foreign exchange reserves, other than balances connected with trade agreements, rose from the equivalent of IL. 94.5 million at the end of 1957 to IL. 169.6 million at the end of 1958. Gold holdings remained practically unchanged, the entire increase occurring in foreign currency balances, which grew by IL. 75.2 million during the year.

TABLE XVIII-1

Assets and Liabilities of the Bank of Israel, 1957-1958
(End of period)

	Million IL.		Percentages	
	1957*	1958	1957*	1958
Assets				
Foreign exchange and gold ^b	106.6	183.6	21.8	32.8
Government securities	217.8	214.7	44.5	38.3
Current liabilities of the Government	110.6	130.1	22.6	23.2
Bills discounted	51.6	27.6	10.6	4.9
Other accounts	2.4	4.2	0.5	0.8
<i>Total</i>	489.0	560.2	100.0	100.0
Contingent liabilities and guarantees ^c	96.7	111.5		
<i>Grand Total</i>	585.7	671.7		
Liabilities				
Notes and coin in circulation	242.8	264.1	49.7	47.1
Deposits of the Government and of Government institutions	24.1	26.4	4.9	4.7
Other institutions' deposits	17.9	9.4	3.7	1.7
Deposits of banking institutions	162.9	214.6	33.3	38.3
Capital and reserves	16.8	20.0	3.4	3.6
Other accounts	24.5	25.7	5.0	4.6
<i>Total</i>	489.0	560.2	100.0	100.0
Contingent liabilities and guarantees ^c	96.7	111.5		
<i>Grand Total</i>	585.7	671.7		

* Data referring to 1957 differ from those appearing in the Bank of Israel Annual Report for 1957 as the items of the balance sheet have been re-classified. In the balance sheet for 1957, most food surplus accounts appeared under "current liabilities of the Government" on the assets side and under "deposits of other institutions" on the liabilities side. In this table, all surplus food accounts appear under "contingent liabilities". This item also covers amounts which the 1957 balance sheet included under "liabilities of the Treasury in respect of loans from the Development Budget" on the assets side and under "liabilities to banking institutions in respect of loans from the Development Budget" on the liabilities side.

^b Including clearing account balances (net) in connection with payments agreements.

^c Including food surplus accounts, documentary credits, guarantees and exchange funds.

The foreign currency balances—held mostly in U.S. dollars, Swiss francs, pounds sterling and free Deutsche marks—were generally invested in short-term securities, or placed abroad as interest-bearing time deposits, only a small proportion being retained in the form of demand deposits. At the end of 1958, 92.5 per cent of these balances were invested and bore interest, as against 80.3 per cent at the end of 1957. Interest on these investments yielded an income of IL. 3.4 million in 1958, as compared with IL. 2.0 million in 1957. As shown in Table XVIII-2, there were seasonal fluctuations in the size of the balances during the year, May and June being the peak months.

TABLE XVIII-2

Balances of Foreign Exchange and Gold held by the Bank of Israel, 1958
(thousands of IL.)

(End of period)

Month	Foreign exchange*	Gold	Total
1957 December	88,211	6,269	94,480
1958 January	98,258	6,134	104,392
February	110,346	6,088	116,434
March	124,486	6,099	130,585
April	155,085	6,110	161,195
May	170,062	6,100	176,162
June	166,573	6,271	172,844
July	160,113	6,267	166,380
August	157,446	6,259	163,705
September	141,341	6,242	147,583
October	142,778	6,216	148,994
November	150,762	6,216	156,978
December	163,442	6,216	169,658

* Excluding clearing accounts in connection with payments agreements.

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

At the end of 1958, the Bank of Israel maintained clearing accounts with 21 countries (see Table XVIII-3).

The credit balances in these accounts increased by IL.1.8 million—reaching IL.14.0 million at the end of 1958, while debit balances declined by IL.2.4 million, totalling IL.21.5 million. During the year, changes occurred in the outstanding balances of most clearing agreements (see Table XVIII-3). Israel's balance with Turkey showed the largest decline—more than IL.7 million—following the restriction of exports to that country, while imports from it increased somewhat.

On the other hand, the outstanding balance with France improved considerably—partly owing to accounting modifications resulting from the devalua-

TABLE XVIII-3

Outstanding Balances in Clearing Accounts, 1957-1958

(thousands of U.S. dollars)

(End of period)

Country	1957	1958	Increase or decrease (-) from end of 1957 to end of 1958
Argentina	- 18	- 534	- 516
Brazil	6	39	33
Bulgaria	- 364	229	593
Burma	930	- 2	- 932
Czechoslovakia	465	465	-
Denmark	-2,065	-1,615	450
Finland	-4,455	-5,396	- 941
France	-3,190	6,466 *	9,656
Ghana	-	83	83
Greece	273	- 543	- 816
Hungary	23	- 78	- 101
Iceland	350	2	- 348
Italy	- 784	-	784
Netherlands	- 263	- 263	-
Norway	- 742	-1,172	- 700
Poland	-116	111	227
Portugal	-	- 493	- 493
Rumania	- 404	301	705
Turkey	6,012	-1,069	-7,081
Uruguay	-	- 1	- 1
Yugoslavia	- 645	- 145	500
Balances in transit ^b	-1,776	- 557	1,219
<i>Total</i>	-6,493	-4,172	2,321
<i>Total in IL.</i>	-11,688	-7,510	4,178

* Including a loan of \$9.115 million. This amount does not appear in the balance of payments.

^b Balances in transit between the Bank of Israel and central banks abroad at the end of the year.

tion of the French franc at the end of December 1958, and partly due to a \$9.115 million loan which Israel received at about the same time within the framework of this clearing agreement.

During 1958, the bilateral payments agreements with Italy and the Netherlands were terminated, following the introduction of convertibility in these countries. The accounts with Italy and the Netherlands are now operated in their convertible currencies. The bilateral agreement with Burma was likewise suspended in 1958, and this account is now conducted in free sterling.

In May 1958, a clearing agreement was signed between the Bank of Israel and the Banco do Portugal, while in June 1958, the Government of Israel concluded a trade agreement and a payments agreement with the Government of Ghana.

(c) Foreign exchange deposits

The foreign exchange deposits of banking institutions with the Bank of Israel rose during 1958 from IL.22.6 million to IL.38.4 million. These deposits are divided into the following categories:

(a) Foreign exchange deposits ("PAMAZ")—held by exporters and other foreign currency earners, who are allowed to use them for specified purposes, such as the purchase of raw materials, subject to the exchange regulations of the Ministry of Finance. At the end of 1958, these deposits totalled IL.7 million.

(b) Time deposits held by Israel residents in foreign currencies ("PAZAK"), which will in future be convertible into Israel pounds upon application by the owner. "PAZAK" accounts totalled IL.14.9 million at the end of the year.

(c) Demand deposits of residents transferring foreign exchange ("TAMAM"). Foreign exchange may be withdrawn from these accounts for certain purposes, such as travel abroad and the purchase of securities or specified articles. Outstanding balances at the end of 1958 were IL.16.3 million. Most of the "PAZAK" and "TAMAM" deposits are held by recipients of personal restitution payments from the Federal Republic of Germany.

(d) Deposits of non-residents ("PATACH") : These are anonymous accounts held by non-residents with Israeli banks and bearing high interest. At the end of 1958, the amount of such deposits held with the Bank of Israel totalled IL.0.1 million.

During 1958, balances held in "PAMAZ" deposits declined by approximately IL.1 million, while "PAZAK" deposits rose by IL.9 million and "TAMAM" deposits grew by some IL.7 million.

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

The Government's debt to the Bank of Israel¹ (excluding contingent liabilities) increased over the year by IL.16.5 million—from IL.328.3 million to IL.344.8 million. Since Government deposits with the Bank of Israel showed a slight increase during this period, rising from IL.24 million to IL.26.4 million, net Government indebtedness to the Bank of Israel grew by IL.14.1 million, as against a net increase of IL.30 million in 1957.

¹ Government credit accounts consist of two parts: The current debt which the Government is under statutory obligation to redeem at the Bank of Israel at the end of each fiscal year, and liabilities in the form of Government securities, obligations, etc.

TABLE XVIII-4

Government Accounts with the Bank of Israel, 1957-1958
(millions of IL.)

(End of period)

	1957*	1958
Debit		
Current liabilities		
Advances in Israel currency	32.0	70.7
Advances in foreign exchange	45.6	31.5
Other Government accounts	32.9	27.9
Total current liabilities	110.5	130.1
Securities		
Treasury bills	69.3	69.4
Land bills	77.3	77.3
Promissory notes	4.1	4.1
Government securities	2.1	1.1
Defence Loan	65.0	62.8
Total securities	217.8	214.7
Total liabilities ^b	328.3	344.8
Credit		
Deposits in Israel currency	5.3	11.3
Deposits in foreign exchange	11.7	11.5
Deposits of Government institutions	7.0	3.6
Total credit accounts	24.0	26.4
<i>Contingent liabilities and guarantees</i>		
Exchange funds	—	7.2
Food surplus accounts	36.8	51.4
Liabilities in connection with loans from the Development Budget	0.7	0.3
Total contingent liabilities and guarantees	37.5	58.9

* Data appearing in this table differ from those published in the 1957 Annual Report. See note ^a to Table XVIII-1.

^b Exclusive of contingent liabilities and guarantees.

(a) *Debit and credit accounts*

The current debt of the Government to the Bank of Israel in local and foreign currency increased from IL.110.5 million¹ at the end of 1957 to IL.130.1 million at the end of 1958. In accordance with the provisions of the Bank of

¹ See note on page 287.

Israel Law, the advances granted at the end of 1957 were repaid on the 31st March 1958.

Deposits of Government institutions—mainly those of the Post Office Bank, which include the funds of the "Save to Build" scheme—fell over the year from IL.7.0 million to IL.3.6 million.

(b) *Contingent liabilities*

Advances granted by the Bank of Israel to the Government against the security of future revenue from counterpart funds and other U.S. Government grants were expanded during the year from IL.36.8 million to IL.51.4 million. In the 1957 balance sheet, some of these advances appeared as current advances to the Government.³ The increase is attributable to the larger size of the U.S. Government's grants to Israel, not least in the form of food surpluses.

The contingent liabilities of the exchange funds show the foreign exchange purchased by the Bank in its capacity as agent for the Ministry of Finance, on the liabilities side, and its counterpart in Israel pounds owed by the Government to the Bank on account of these transactions on the assets side. At the end of 1958, these items totalled IL.7 million.

The documentary credits opened by the Bank of Israel in its capacity as the Government's fiscal agent, and the credits confirmed to central banks of countries with which Israel has payments agreements, appear under the items "documentary credits opened or confirmed in connection with payments agreements" and "guarantees" on the assets side, while "liabilities for documentary credits opened or confirmed in connection with payments agreements" and "liabilities re guarantees" appear on the liabilities side.

(c) *Government imports*

During 1958, the Bank of Israel opened documentary credits to the amount of IL.56.2 million, in respect of imports for the various Government offices. Guarantees given by the Bank of Israel in connection with Government imports during the period under review totalled IL.5.4 million. By opening documentary credits through the Bank of Israel the Ministry of Finance saves local, as well as foreign, currency.

4. THE BANK OF ISRAEL AS THE BANKERS' BANKER

(a) *Deposits of banking institutions*

The total of local and foreign currency deposits held by banking institutions with the Bank of Israel increased from IL.162.9 million at the end of 1957

³ See note * to Table XVIII-1.

to IL.212.5 million at the end of 1958. A breakdown of these deposits is given in Chapter XIII—"The Money Supply, Credit and the Banking System."

These deposits consist partly of obligatory deposits, which banking institutions are required to maintain at the Bank of Israel, to the extent of not less than 15 per cent of their local currency demand deposits and time deposits for periods not exceeding 18 months. Since the amount of local currency held by banking institutions increased, these obligatory deposits expanded to IL.71.1 million at the end of 1958, as compared with IL.57.8 million at the end of the preceding year.

Apart from the obligatory deposits, the banking institutions have kept additional demand deposits at the Bank of Israel. These, however, contracted during the year, largely because of conversion into time deposits, which yield higher rates of interest and may be drawn upon before the fixed terminal date, under certain conditions.

On 1st September, 1958, the rate of interest on demand deposits exceeding the obligatory minimum was raised from 2.5 per cent to 2.75 per cent per annum. The interest rates on obligatory deposits remained unchanged,—i.e., no interest is paid on the first 25 per cent, while 2 per cent per annum are allowed on the remaining 75 per cent.

On the same date, the Bank of Israel increased the interest rate on time deposits for a period of 3 months from 3 to 3.25 per cent per annum, on deposits for 6 months—from 3.75 to 4 per cent per annum, and on deposits for 9 months or longer—from 4 to 4.25 per cent per annum.

This was done in order to adjust the rates of interest paid by the Bank of Israel to the creditory interest rates allowed by the banking institutions, while at the same time increasing the profits of the banking institutions to compensate for the legal limitations imposed on the debitatory interest rates chargeable by them.

(b) *Rediscounting*

At the end of 1958, the outstanding balance of rediscounted bills stood at IL.27.6 million, as against IL.51.6 million at the end of 1957. The decline in foreign currency rediscounts was slight and probably fortuitous—from IL.21.0 million at the end of 1957 to IL.17.8 million at the end of 1958. Bills of transport companies rediscounted in foreign currency showed an increase (see Table XVIII-5). The main decrease occurred in bills rediscounted in Israel currency—which fell from IL.30.6 million at the end of 1957 to IL.9.7 million at the end of 1958—since the Bank of Israel sold a certain proportion of the bills it had discounted in Israel currency during this and the preceding year to the commercial banks. Consequently, the liquidity of the banks was reduced, but their income from interest on bills increased.

TABLE XVIII-5

Rediscounts, by Sectors, 1957-1958
(thousands of IL.)

(End of period)

Sector	1957	1958
<i>Bills rediscounted in Israel currency</i>		
Agriculture	8,456	4,421
Industry	6,527	824
Transport ^a	255	50
Government institutions and others ^b	15,378	4,444
<i>Total</i>	30,616	9,739
<i>Bills rediscounted in foreign exchange</i>		
Agriculture	2,117	93
Industry	7,707	4,851
Transport ^a	945	4,608
Reparations Corporation	8,988	5,590
Government institutions and others ^b	1,228	2,688
<i>Total</i>	20,985	17,830
<i>Grand total</i>	51,601	27,569

^a "El Al", "Shoham", "Zim" and "Air France" companies.^b Such as: "Delek" the Israel Fuel Corporation Ltd., and the Jewish Agency.

5. NOTE AND COIN ISSUE

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

The monthly average of currency in circulation, as on Wednesdays, rose from IL.252.8 million in December 1957 to IL.274.8 million in December 1958—an increase of 9.5 per cent as compared to an increase of 3.5 per cent in 1957 and of 30.2 per cent in 1956. The increase was uniform during the first nine months of 1958, culminating in September, which is a holiday month; from October to December, there was a slight gradual decrease.

Two changes occurred in the composition of assets held as cover for currency in circulation: On the one hand, foreign currency balances rose by IL.44 million—from IL.72 million in December 1957 to IL.116 million in December 1958; on the other hand, the amount of promissory notes and bills of exchange declined by IL.18.9 million—from IL.23.5 million to IL.4.6 million.

The monthly breakdown of currency in circulation and covering assets held is given in Table XVIII-6.

TABLE XVIII-6

Currency in Circulation and Covering Assets Held, 1958
(thousands of IL.)

(Wednesday averages)*

Months	Currency in circulation ^b	Covering assets held				
		gold	foreign exchange	land bills	treasury bills and other Government bills	promissory notes and bills of exchange
January	251,080	6,175	73,066	77,249	73,420	21,170
February	255,589	6,104	83,248	77,251	73,420	15,566
March	259,643	6,099	87,341	77,259	73,420	15,524
April	265,531	6,101	100,738	77,259	69,274	12,159
May	263,824	6,106	117,876	77,262	62,580	—
June	265,829	6,236	123,155	77,271	59,167	—
July	269,256	6,269	121,493	77,271	64,223	—
August	274,398	6,263	120,940	77,273	69,380	542
September	280,023	6,254	117,517	77,278	71,710	7,264
October	276,228	6,230	106,067	77,278	73,420	13,233
November	278,209	6,216	107,998	77,278	73,440	13,277
December	274,937	6,215	115,670	77,275	71,161	4,616

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

^b Discrepancies are due to rounding.

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

In 1958, the proportion of IL.10 banknotes rose by 4.7 per cent, while that of IL.5 notes declined by 5.3 per cent. The public's greater demand for IL.10 banknotes, and the reduced demand for IL.5 notes, are one of the symptoms indicating the upward trend of domestic prices.

The withdrawal from circulation of IL.5 banknotes of the Bank Leumi le-Israel B.M. issue was continued in 1958. Banknotes of the Bank of Israel issue constituted 50 per cent (IL.119.1 million) of the total amount of notes in circulation at the beginning of 1958, but their proportion had risen to 75 per cent by the end of the year.

The IL.0.9 million increase in the nominal value of coins in circulation was mainly due to the issuing in 1958 of two commemorative coins, to the amount of IL.750,000.

A breakdown of the notes and coin in circulation during the years 1957 and 1958 is given in Table XVIII-7.

(c) *Spoilt currency*

Out of 123 applications for the exchange of spoilt currency to the total value of IL.10,000.—received by the Bank during the year, 105 applications totalling IL.8,752—were approved.

In 1958, the committee for the destruction of unusable notes and paper tokens destroyed currency amounting to IL. 74.2 million—of which IL. 73.7 million were in banknotes and IL. 0.5 million in paper tokens.

(d) *The Committee for the Design of Coins*

In January 1959, the Bank of Israel presented to the Knesset a draft bill, prepared in conjunction with the Ministries of Finance and of Justice. The bill provides for the division of the Israel pound into a hundred units. The proposed name of the new unit is "agora" (after the First Book of Samuel, Chapter II). This change was decided upon since the passage of time had rendered the pruta a virtually obsolete unit of payment.

TABLE XVIII-7

Notes and Coin in Circulation, by Denominations, 1957-1958

(End of period)

Denomination	1957		1958	
	thousand IL.	percentages	thousand IL.	percentages
<i>Notes</i>				
500 pruta	1,618	0.7	1,738	0.7
IL. 1	6,681	2.8	6,490	2.5
IL. 5	57,615	24.1	48,653	18.8
IL.10	161,153	67.4	187,224	72.1
IL.50	11,966	5.0	15,285	5.9
<i>Total</i>	239,033	100.0	259,390	100.0
<i>Coins</i>				
1 pruta	5	0.1	5	0.1
5 pruta	50	1.3	50	1.1
10 pruta	321	8.5	378	8.0
25 pruta	351	9.2	382	8.1
50 pruta	1,349	35.6	1,461	31.0
100 pruta	872	23.0	974	20.6
250 pruta	841	22.2	718	15.2
500 pruta	3	0.1	4	0.1
<i>Commemorative coins</i>				
IL.1	—	—	236	5.0
IL.5	—	—	508	10.8
<i>Total coin</i>	3,792	100.0	4,716	100.0

The Committee for the Design of Coins, appointed by the Governor at the end of 1957, is about to conclude its work and to choose a suitable design out of those submitted by local graphic artists who participated in a tender.

(e) *The printing of new banknotes*

The Committee for the Design of Banknotes, appointed by the Governor at the end of 1955, has completed its work and selected suitable designs from those submitted by eight local graphic artists who participated in a closed tender. Orders for the printing of new banknotes were placed with printing firms during the year. The banknotes will be put into circulation, side by side with those now circulating, as soon as they have been printed.

(f) *Commemorative coins*

In accordance with the request of the Tenth Anniversary Committee, the Bank of Israel issued two commemorative coins on the occasion of the tenth anniversary of the State of Israel. The first coin, of a nominal value of IL.5, is made of an alloy containing 90 per cent silver and 10 per cent copper. The second coin, the nominal value of which is IL.1, is made of an alloy containing 25 per cent nickel and 75 per cent copper. These coins were marketed through the Tenth Anniversary Committee at double their nominal value, the net income from their sale being donated to the Tenth Anniversary Committee for humanitarian purposes, as is customary in other countries.

(g) *Forged banknotes*

During 1958, 5,552 forged notes of IL.10, 353 forged notes of IL.1, and 16 forged notes of 500 pruta (all of the Bank Leumi le-Israel B.M. issue) were detected. These banknotes were probably forged in one of the neighbouring countries.

(h) *Agencies for the supply of cash to provincial towns*

In January 1958, agencies for the supply of cash to banking institutions were opened in Tiberias, Hadera, Rehovot and Beersheba. In March 1958, an agency was opened in Natanya and in November—in Petach-Tikva.

6. THE ADMINISTRATION OF STATE LOANS

During 1958, the Bank of Israel administered 31 internal loans and 2 foreign loans.

(a) *Internal loans*

By the end of 1958, the value of internal loans floated totalled IL.193.1 million and \$25 million.

Two new internal loans were floated during 1958, in addition to the 29 loans administered by the Bank of Israel in 1957. These were:

1. A second issue of debentures floated collectively by the local authorities, to the amount of IL.7.5 million. This issue is linked either to the dollar exchange rate or to the consumer price index and bears interest at 6 per cent per annum.

2. Debentures of the Israel Industrial Institute, redeemable between 1960—1969, to the amount of IL.15 million, linked to the dollar exchange rate but convertible into debentures linked to the consumer price index.

The floating of the Immigrant Housing Loan continued in 1958: 20 additional series of savings certificates—to a nominal value of IL.21 million, as well as 4 additional series of interest-bearing debentures—to a nominal value of IL.22 million—were issued. During the same period, IL.16 million worth of savings certificates were prematurely redeemed.

In 1958, there were 38 drawings of the various prize-bearing bonds and total winnings amounted to IL.2.7 million, of which IL.2.4 were claimed. By the end of 1958, the balance of unclaimed winnings totalled approximately IL.1 million.

The total amount of internal loans floated in dollars remained virtually unchanged during the year.

(b) *Foreign loans*

1. *Independence Loan.* The redemption of these bonds for Israel pounds continued at an accelerated rate in 1958. This applies particularly to bonds donated to Israeli institutions or sent as gifts to Israeli residents, as well as to bonds the proceeds of which were invested in this country. Of the amount redeemed in Israel, the Bank transferred to the Independence and Development Loan agents in the United States \$2.5 million worth of bonds which had matured. The Bank also transferred to the same agent the sum of \$14.7 million in cash, for the redemption fund of these bonds in the United States.

During the year, 14,000 interest coupons of bonds held in Israel, totalling \$337,000, were sent to the United States for collection. IL.7.4 million were paid against \$4 million worth of Independence Loan bonds redeemed in this country, on account of interest and capital appreciation.

2. *Development Loan.* The redemption of these bonds in Israel continued, and to date bonds amounting to \$13 million have been redeemed here.

The counterpart paid for the \$10.8 million worth of bonds redeemed in this country, inclusive of interest and appreciated principal, amounted to IL.19.4 million. 7,500 interest coupons, totalling \$248,000, were sent to the United States for collection.

A breakdown of the loans administered by the Bank in 1958 and the movement therein is given in Table XVIII-8.

TABLE XVIII-8
Loans Administered by the Bank of Israel, 1958

Type of loan	Number of series	Amount authorized	Amount taken up at end of year	Principal redeemed over the year	Interest and prizes paid over the year
<i>thousand IL.</i>					
Popular Loans, Premium Bonds (bearer)	6	41,000	31,888	172	1,311
Mandatory Bearer Bonds	4	10,000	4,168 ^a	16 ^a	126 ^a
3% Government Loans (Financial Institutions)	3	21,500	21,500	—	645
Compulsory Loan, 1952	1	20,367 ^b	15,275	1,712	512
Compulsory Loan, 1953	1	45,000	7,717	574	206
3½% War Loan, 1954-1959	1	7,500	1,378	872	43
3½% Govt. Bonds, 1953-1957 ^c	1	4,400	6	9	1
3% National Loan, 1948-1953	1	5,000	67	10	—
Dollar-linked Saving Bonds, 1951	1	10,000	4,478	1	—
Defence Loan, 1956	3	40,000	39,928	32	2,011
Local Authorities' Loans	2	15,000	14,125	875	518
Immigrant Housing Loan, 1957	4	50,000	37,521 ^d	16,104	1,045
6% Debentures, Israel Industrial Institute	1	15,000	15,000	—	—
<i>Total</i>	29	284,767	193,051	20,377	6,418
<i>thousand U.S. dollars</i>					
<i>Internal</i>					
Tavei Dollar, 1951	1	25,000	25,000	—	1,565 ^e
Certificate of Obligation against Foreign Exchange	1	1,391 ^b	30	62	1,671 ^e
<i>Total</i>	2	26,391	25,030	62	1,571 ^e
<i>External</i>					
Independence Loan	1	500,000	108,092 ^e	3,694	262 ^g
Development Loan	1	350,000	192,712 ^e	10,807	183 ^g
<i>Total</i>	2	850,000	300,804 ^e	14,501	445 ^g

^a Amount registered in Israel only.

^b Amount actually subscribed.

^c Amount taken up has been amended.

^d Including the new series of savings certificates previously redeemed.

^e According to Ministry of Finance data.

^f Thousands of IL.

^g Interest payments made in Israel only.

7. THE EXAMINATION OF BANKING INSTITUTIONS

During 1958, 27 commercial banks and 52 cooperative credit societies were controlled by the Bank. The number of credit cooperatives was reduced by 7, mainly through amalgamation with other banking institutions. A new mortgage bank—the "Jaysour" Mortgage Bank Ltd.—was established, increasing the number of mortgage banks from four to five. Thirty new branches of banking institutions were opened, bringing their total number at the end of 1958 up to 339. Further details on the development of the banking system are given in Chapter XIII.

(a) *Control*

During 1958, 46 banking institutions were audited, as compared with 60 in the preceding year. In addition, 194 routine inspections were made to check the arrangements for handling cash and clearing cheques in branch offices.

(b) *Cheque clearance*

At the end of 1957, there was a clearing house in each of the three main cities, only through which cheques drawn upon banking institutions in these cities were cleared. However, as only a few banking institutions (mainly the largest) were members of these clearing houses, clearance did not even cover all cheques deposited in Tel Aviv, Jerusalem and Haifa. Branch offices of banking institutions outside these cities either sent cheques received from their clients, and drawn on accounts in Tel Aviv, Jerusalem or Haifa, to their head offices for collection, or else transferred them to other banking institutions, which in turn presented them for payment to the bank upon which they were drawn. All banking institutions receiving cheques drawn upon banks outside the three main cities used to send such cheques to the bank upon which they were drawn, after debiting its account and crediting the account of the depositor in their books.

As a result, balances in transit between banking institutions were immeasurably larger than they would have been, given an efficient cheque clearing system.

In order to reduce balances in transit and improve clearing methods, clearing houses were established outside the three main cities and the clearing areas of the Jerusalem, Tel-Aviv and Haifa clearing houses were extended. The new inter-urban clearing system functions as follows: Cheques received by banking institutions are sent daily to the Bank of Israel offices in Jerusalem, Tel-Aviv and Haifa, and there presented to the banks on which they were drawn. The Bank of Israel accordingly credits or debits the accounts of the banking institutions within one day of receiving the cheques. So as to cover all cheques deposited with banking institutions, membership in the clearing houses was extended to include all banks.

The above system began to operate on 2nd January, 1958. During the year, 19 additional clearing houses were set up in various provincial towns.

Details concerning the number and value of cheques cleared in the years 1957 and 1958 are given in Table XVIII-9.

TABLE XVIII-9
*Cheques Cleared through Clearing Houses,
1957-1958*

Clearing house	Number of cheques (thousands)		Value of cheques (millions of IL.)	
	1957	1958	1957	1958
Urban				
Jerusalem	912	1,111	628	740
Tel-Aviv	3,130	4,015	2,982	3,280
Haifa	1,131	1,400	838	882
<i>Total</i>	5,173	6,526	4,448	4,902
Inter-urban				
		1,467		667
Local				
		815		305
<i>Grand total</i>		8,808		5,874

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

This Committee, appointed by the Governor of the Bank of Israel in April 1956, has completed the first stage of its work by drawing up a form and recommending its use for the monthly report on assets and liabilities which banking institutions have to submit to the Examiner of Banks in accordance with Section 9 of the Banking Ordinance, 1941. The Committee also assisted in the preparation of detailed directions with regard to the completion of these forms.

The new form was published in "Reshumot" (the official gazette) and came into effect with the report submitted on 31st January, 1959.

(d) *Examination of financial institutions other than banks*

In March 1958, the Governor published an order whereby every organization or cooperative society receiving money on deposit or granting loans must submit a report on the state of its assets and liabilities and a report on its liquid assets at the end of each month. The purpose of this order is to enable the Bank to follow closely the activities of these institutions, which include also subsidiary companies of banks and represent a considerable proportion of the financial sector of the country. The order does not apply to provident funds approved in accordance with sections 8, 11 and 16 of the Income Tax Ordinance, 1947.

By the end of 1958, the Bank of Israel had received reports from most of

these institutions. After analysing them, it will be decided to what extent and in what form their business activities are to be controlled by the Bank.

8. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

The income of the Bank in 1958 totalled IL.16.1 million, as against IL.11.7 million in the preceding year. There was a significant increase in income from interest on deposits abroad, which rose to IL.3.4 million at the end of 1958, as compared with IL.2.0 million in 1957. Income from interest paid in Israel likewise rose.

Expenditure on interest payments, administration and other items totalled IL.8.6 million. Net profit amounted to IL.7.5 million, and was distributed as follows: IL.3.2 million were transferred to the reserve fund, which thus reached the IL.10 million level specified in the Bank of Israel Law, while IL.4.3 million were transferred to the Ministry of Finance, in accordance with the provisions of the same Law.

Since the Bank's capital has been paid up in full, and its reserve fund was completed in the years 1957 and 1958, all net profits of the Bank will in future be transferred to the Ministry of Finance.

9. ECONOMIC RESEARCH

Apart from analysing current economic developments, the Bank began in 1958 to conduct basic research—particularly in the following fields:

(a) The collection and analysis of data on the flow of money between the various sectors of the economy. (Some of the results arrived at are given in Chapter XV—"The Financial Transactions of the Public Sector".) Within the framework of this survey, a standardized and co-ordinated system of accounts was devised for the public sector—including the Government, the national institutions and the local authorities.

(b) A survey of the income and savings of urban employees, self-employed and employers. This survey, which covered 3,000 families, was conducted by the sample method and executed in conjunction with the Central Bureau of Statistics, the Falk Foundation for Economic Research and the Institute for Applied Social Research. Its first conclusions will be published towards the middle of 1959.

(c) The analysis of commodity flows in the economy and the preparation of input-output tables for subsidiary economic branches. This research, as yet in its initial stages, is designed to examine the relationship between the various economic sectors and will facilitate the formulation of an economic development plan.

(d) The preparation of a consecutive series of comprehensive data on the pattern of consumption in the years 1955 to 1957. To date, only the data re-

ferring to foodstuffs, fuel, housing and some durable goods have been summed up.

The Research Department has also prepared, in conjunction with the Economic Advisory Office of the Ministry of Finance, a national budget for the fiscal year 1959/60, which was presented to the Knesset in January 1959, simultaneously with the Government budget. The national budget constitutes an initial attempt to forecast anticipated economic development in the coming year and analyse the impact of the Government budget on the national economy. In its preparation, the Research Department was assisted by Mr. Odd Aukrust of Norway, who spent some time in Israel at the end of 1958, under the auspices of the Technical Assistance Board of the United Nations.

On the initiative of the Minister of Finance, the Governor of the Bank of Israel and the economic ministries, the Research Department commenced to draw up a framework for a comprehensive five-year development plan for the period 1960–1964. This work, begun at the end of 1958, is being carried out in close collaboration with the economic ministries and the Budget Department of the Treasury. It represents an attempt to formulate the main lines along which the national economy should develop to ensure the maximum possible improvement in the balance of payments and gradually reduce the country's dependence on large-scale capital imports, while maintaining a high level of production and employment. The basic premise of the plan is the anticipated decline in capital imports when the agreements re reparations and personal restitution payments from Germany have been fully implemented. Certain other sources of capital imports may likewise dwindle, while simultaneously a rapid demographic expansion, due to accelerated immigration and natural increase, may be expected.

10. THE ADVISORY COMMITTEE AND THE ADVISORY COUNCIL

In addition to discussing current matters, the Advisory Committee has dealt with problems connected with cooperative societies, financial institutions and their control, as well as problems affecting the implementation of the recently enacted new liquidity regulations and the business position of banking institutions. It has also attempted to evaluate economic and monetary problems.

The meetings of the Advisory Council were mainly devoted to major economic and monetary issues.

Mr. I. Levy resigned his membership in the Advisory Council following his appointment as Director General of the Ministry of Agriculture. On the 9th of March, 1958, Mr. Y. Chorin was nominated member of the Council.

The Advisory Committee and the Advisory Council are appointed for two years. Their second term of office having expired at the end of November 1958, all their members were re-appointed by the Government for an additional two-year period.

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

In September 1958, the Boards of Governors of the International Monetary Fund and the International Bank for Reconstruction and Development decided at their annual meeting, convened in New Delhi, India, to increase the capital of these organizations, so as to facilitate the expansion of their activities. After extensive deliberations, the Executive Boards of the Fund and the Bank recommended to the Boards of Governors a general increase of 50 per cent in Fund quotas and a hundred per cent increase in Bank subscriptions. It was also recommended that the quotas of a few countries be raised individually. In January 1959, the Boards of Governors approved these recommendations. Their implementation during 1959 would have involved an increase in Israel's Fund quota from \$7.5 to \$11.25 million.

However, at the end of 1958, Israel applied to the Fund to raise her quota to \$25 million, on the grounds that her former quota was too low in proportion to her national income and foreign trade. In February 1959, the Executive Board recommended to the Board of Governors to approve Israel's request. On the basis of this increase, Israel's subscription to the capital of the World Bank was also raised—to \$33 million.

Israel agreed to place at the disposal of the International Bank for Reconstruction and Development, in freely convertible currency, a further 18 per cent of her subscription, in addition to the 2 per cent previously put at its disposal. This amount will be transferred to the Bank over the next three years.

At the end of 1958, Israel sold to the International Monetary Fund \$3,750,000, which it had purchased from the Fund in May 1957. This refund was made possible by the increase in Israel's foreign currency reserves, on the basis of which—in accordance with the Articles of Agreement of the Fund—Israel was requested to resell the dollar exchange she had previously purchased from the Fund.

In May 1958, the Executive Board of the I.M.F. approved the consultations between the Fund and Israel, held in November 1957, in accordance with Section 14 of the Fund's Articles of Agreement. The Bank of Israel kept in close contact with the Fund during 1958, in connection with economic and monetary developments in Israel.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1958

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1958

BANK OF ISRAEL
STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1958

LIABILITIES	IL.	ASSETS
Capital	10,000,000	IL.
Reserve Fund	10,000,000	6,215,856
Banknotes and coin in circulation	264,106,074	163,441,645
Clearing accounts in connection with trade agreements	21,483,967	13,973,759
Deposits of international financial institutions	1,119,486	Treasury bills
Demand deposits of banking institutions	122,475,365	69,400,000
Time deposits of banking institutions	53,710,000	Land bills
Foreign currency deposits of banking institutions	38,429,051	77,279,000
Government deposits	11,326,887	Security Advance
Government deposits in foreign currency	11,501,242	Government securities
Deposits of Government institutions	3,613,974	Government obligations
Deposits on account of U.S. food surplus purchases	51,427,691	Advances to Government
Deposits of other institutions	8,363,872	Other Government accounts
Exchange Fund—net balance in foreign currency	7,216,351	Advances to Government in foreign currency
Liabilities to banking institutions in respect of Development Budget loans	296,988	31,499,557
Liabilities for documentary credits in connection with payments agreements	33,247,365	Bills discounted in local currency
Liabilities re guarantees	19,264,827	9,739,116
Other accounts	4,171,322	Bills discounted in foreign currency
	<u>671,754,462</u>	17,830,135
		Food surplus accounts
		51,427,691
		Exchange Funds—debitory balance in IL.
		7,216,351
		Liabilities of the Treasury in respect of
		Development Budget loans
		296,988
		Land and equipment
		1
		Documentary credits in connection with payments agreements
		33,247,365
		Guarantees given
		19,264,827
		Other accounts
		4,224,351
		<u>671,754,462</u>

BANK OF ISRAEL
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1958

<i><u>INCOME</u></i>	<i>IL.</i>	<i><u>EXPENDITURE</u></i>	<i>IL.</i>
Interest received, commissions and other income	16,139,268	Interest paid, administrative expenses and other expenditure	8,624,844
	<u>16,139,268</u>	Net profit	<u>7,514,424</u>
DISTRIBUTION OF PROFIT			
Net profit	7,514,424	Reserve Fund Accountant General, Ministry of Finance	3,165,890 4,348,534
	<u>7,514,424</u>		<u>7,514,424</u>

BANK OF ISRAEL

THE GOVERNOR, MEMBERS OF THE ADVISORY
COMMITTEE AND OF THE ADVISORY COUNCIL
AS AT 31.5.59

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
A. GOVRIN
A. HACOHEN
M. MARCUS
Z. ONN
E. OSTASHINSKY
D. PATINKIN
A. SHECHTER
A. ZABARSKI