

CHAPTER XXI

THE ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY

IN 1961 THE ASSETS and liabilities of the Bank of Israel increased by IL. 113.5 million, from IL. 1,085.5 million to IL. 1,199.0 million. The decisive factor in this expansion was the IL. 119.8 million increase in foreign exchange and gold assets. The continued monetary expansion found its expression, in part, in a rise of IL. 47.7 million in the value of banknotes and coin in circulation, which accounted for about half the total increase in means of payment during the year.

(a) *Assets*

Almost all of the increase in the Bank's assets occurred in foreign exchange and gold balances, which totalled IL. 503 million at the end of 1961, as compared with IL. 383 million at the end of 1960.

Various types of loans and advances granted by the Bank to the Government (securities, promissory notes, and current liabilities) appear on the assets side of the Bank's balance sheet. These increased by only IL. 5.5 million—from IL. 398 million at the end of 1960 to IL. 403.5 million at the end of 1961. However, since a much greater increase, of IL. 49 million, took place in the Government's creditory accounts, the Government's net indebtedness to the Bank continued to decline.

The value of bills rediscounted in local and foreign currency rose by IL. 10 million. The rediscounting of foreign currency bills increased by IL. 11.6 million, while that of local currency bills declined by IL. 1.6 million.

The balances in contingent accounts, which appear on both sides of the balance sheet, declined by about IL. 22 million.

(b) *Liabilities*

The value of banknotes and coin in circulation rose to IL. 363.6 million, an increase of 15.1 per cent (as against an increase of 15.7 per cent in 1960). Local currency demand and time deposits of banking institutions declined from IL. 258.5 million at the end of 1960 to IL. 232.4 million at the end of 1961. On the other hand, there was a rise in the foreign exchange accounts of banking institutions, from IL. 174.2 million in 1960 to IL. 246.9 million in 1961, in line with the general rise in the foreign exchange reserves of the economy.

As already mentioned, there was a substantial growth in the balance of Government creditory accounts, which almost doubled, reaching IL. 102 million. The main increase was in the Government's foreign exchange deposits.

TABLE XXI-1

Assets and Liabilities of the Bank of Israel, 1960-61

(End of period)

	IL. million		Per cent		Increase or decrease (-) from 1960 to 1961	
	1960	1961	1960	1961	IL. million	%
<i>Assets</i>						
Foreign exchange and gold ^a	388.1	507.9	46.0	51.9	119.8	30.9
Government securities	321.7	351.8	38.1	35.9	30.1	9.4
Current liabilities of the Government	76.3	51.7	9.0	5.3	-24.6	-32.2
Bills discounted	57.0	67.0	6.8	6.8	10.0	17.5
Other accounts	0.4	0.4	0.1	0.1	—	—
<i>Total</i>	843.5	978.8	100.0	100.0	135.3	16.0
Contingent liabilities and guarantees ^b	242.0	220.2			-21.8	-9.0
<i>Grand total</i>	1,085.5	1,199.0			113.5	10.5
<i>Liabilities</i>						
Notes and coin in circulation	315.9	363.6	37.4	37.2	47.7	15.1
Deposits of the Government and Government institutions	53.0	102.0	6.3	10.4	49.0	92.5
Deposits of other institutions	11.3	4.3	1.4	0.4	-7.0	-61.9
Deposits of banking institutions ^c	432.7	749.3	51.3	49.0	46.6	10.8
Paid-up capital and reserves	20.0	20.0	2.3	2.0	—	—
Other accounts	10.6	9.6	1.3	1.0	-1.0	-0.9
<i>Total</i>	843.5	978.8	100.0	100.0	135.3	16.0
Contingent liabilities and guarantees ^b	242.0	220.2			-21.8	-9.0
<i>Grand total</i>	1,085.5	1,199.0			113.5	10.5

^a Including clearing account balances in connection with payments agreements.

^b Including agricultural surplus accounts, documentary credits, guarantees, and exchange funds.

^c Including deposits of financial institutions and foreign banks.

2. GOLD AND FOREIGN EXCHANGE HOLDINGS

(a) *Gold and foreign exchange*

Foreign exchange and gold reserves held by the Bank of Israel (excluding balances connected with trade agreements) went up from IL. 383.6 million at the end of 1960 to IL.503 million at the end of 1961. In gold reserves, the increase was from IL. 11.3 million to IL. 29.2 million; in foreign exchange reserves the increase was even greater, the reserves reaching their peak in June 1961, at IL. 473.5 million. A seasonal drop took place in the summer and fall, and only at the end of December did the reserves again rise to the level at the end of June.

The major part of Israel's foreign exchange reserves (mainly U.S. and Canadian dollars, West German marks, and pounds sterling) is invested in foreign treasury bills and bills issued by foreign banks, or is deposited in foreign banks in the form of interest-bearing demand and time deposits. A certain proportion has been kept in non-interest-bearing demand deposits, to finance the Bank's current activities. At the end of 1961, 91 per cent of the reserves were invested or held in interest-bearing accounts, as against 88 per cent at the end of 1960. The income from the interest on these investments rose from IL.9.9 million in 1960 to approximately IL. 15 million in 1961, all of it in foreign currency. This increase is a direct result of the marked rise in the volume of the reserves, which stemmed partly from the revaluation of the German mark in March 1961.

TABLE XXI-2

Foreign Exchange and Gold Balances Held by the Bank of Israel, 1961
(IL. thousand)

<i>Month</i>	<i>Foreign exchange^a</i>	<i>Gold</i>	<i>Total</i>
1960 December	372,349	11,254	383,603
1961 January	380,016	11,254	391,270
February	393,635	11,254	404,889
March	428,234	11,254	439,488
April	454,914	11,254	466,168
May	459,953	11,254	471,207
June	473,460	11,254	484,714
July	468,060	11,765	479,825
August	439,452	14,318	453,770
September	441,174	17,890	459,064
October	446,701	22,991	469,692
November	452,462	27,067	479,529
December	473,780	29,201	502,981

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

At the end of 1961 the Bank of Israel maintained clearing accounts with the central banks of 12 countries in connection with their trade and payments agreements with Israel. Israel's credit balances in these accounts amounted to IL. 4.9 million at the end of 1961, while its debit balances declined by IL. 1.5 million, to IL.7.6 million. Israel's net liabilities within the framework of clearing agreements thus totalled only IL. 2.7 million, as against IL. 4.5 million at the end of 1960.

During the year clearing agreements were terminated with four countries: Argentina, Finland, Iceland, and Norway; while the payments agreement with

TABLE XXI-3
Balances in Clearing Accounts, 1960-61
(\$ thousand)

(End of period)

Country	1960	1961	Increase or decrease (-) from end of 1960 to end of 1961
Argentina	-412	—	412
Brazil	+ 50	-601	-651
Bulgaria	-272	- 75	197
Czechoslovakia	+465	+ 465	—
Finland	-1,872	—	1,872
Ghana	-495	-170	325
Greece	+1,422	+ 1,671	249
Hungary	+20	-501	-521
Iceland	+118	—	-118
Norway	-317	—	317
Poland	+364	+ 366	2
Portugal	-718	-684	34
Rumania	-427	-163	264
Turkey	+180	-466	-646
Uruguay	+204	+ 299	95
Yugoslavia	+216	-1,192	-1,408
Balances in transit	-1,039	-420	619
<i>Total in \$</i>	-2,513	-1,471	1,042
<i>Total in IL.</i>	-4,524	-2,674	1,877

Uruguay expired in March 1962. Commercial accounts with these countries are now conducted in convertible currency.

(c) *Foreign currency deposits*

Foreign exchange deposits of banking institutions with the Bank of Israel totalled IL. 246.9 million at the end of 1961, as compared with IL. 174.2 million at the end of 1960.

These deposits were of various types:

(1) Foreign currency deposits (PAMAZ), consisting mainly of the banks' freely convertible accounts. At the end of 1961 these deposits totalled approximately IL. 7.5 million, having risen by about IL. 2.5 million in the course of the year.

(2) Time deposits held by Israel residents in foreign currency (PAZAK). These may be converted into Israel pounds at the prevailing official exchange rate, at the end of the agreed period. They totalled IL. 95.1 million at the end of the year, as compared with IL. 52.4 million at the end of 1960.

(3) Deposits of residents transferring foreign currency (TAMAM). These deposits may be withdrawn, in foreign currency, for purposes specified in the applicable regulations, such as foreign travel and the purchase of securities or certain commodities abroad. At the end of the year these deposits amounted to IL. 107.6 million, as against IL. 72.1 million at the end of 1960.

(4) Deposits of non-residents (PATACH). These include deposits held in Israel banks by foreign residents (such as investors, immigrants, and foreign experts) and redeposited by these banks in the Bank of Israel. Deposits of this type totalled IL. 33.5 million at the end of 1961, as against IL. 42.0 million at the end of 1960. A considerable change occurred in the composition of this sum: direct deposits of foreign banks in the Bank of Israel were entirely withdrawn, while the volume of deposits through local banks increased.

(5) "Foreign securities dividend accounts" (NATAD). This type of foreign currency account is connected with transactions in foreign securities held by Israel residents (purchases and sales, as well as receipt of dividends). Such deposits totalled IL. 1.9 million, as against IL. 1.6 million at the end of 1960.

(6) "Import financing accounts" (HAY), in which commercial banks hold importers' deposits connected with the obtaining of import licenses on a cash financing basis. These deposits represent a certain percentage of the value of the import license, as specified in the regulations. They amounted to IL. 1.2 million at the end of the year, as compared with IL. 900,000 at the end of 1960.

Most of the PAZAK and TAMAM deposits belong to recipients of personal restitution payments from West Germany, who preferred not to convert them immediately into local currency.

Most types of foreign currency accounts expanded substantially during 1961. PAMAZ accounts rose by IL. 2.5 million, PAZAK accounts by IL. 42.7 mil-

lion, and TAMAM accounts by IL. 35.5 million; only in PATACH accounts was there a decline, of IL. 8.5 million, which resulted from a drop in the deposits of foreign banks.

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

Debitory Government accounts are of two types: ordinary advances which the Government is under statutory obligation to repay to the Bank of Israel before the end of each fiscal year, and other obligations, mainly Government securities and long-term Government promissory notes. These accounts (excluding contingent liabilities) increased during 1961 by IL. 5.5 million—from IL. 398.0 million to IL. 403.5 million. Since Government creditory accounts during the same period increased by IL. 49.0 million, there was a net decline of IL. 43.5 million in the Government's liabilities to the Bank. This was the second consecutive year that such a decline took place, that in 1960 having amounted to IL. 1.7 million.

(a) *Debit and credit accounts.*

The gross current debt of the Government (i.e. the advances which the Government must repay to the Bank by the end of the current fiscal year) declined from IL. 76.3 million at the end of 1960 to IL. 51.7 million at the end of 1961, i.e. by IL. 24.6 million. During this period, the Government's long-term indebtedness rose by IL. 30.1 million, as a result of the approval by the Knesset of two long-term advance loans: the Defense Advance Loan, 1961, in the amount of IL. 13.0 million, and Contribution to International Institutions Advance Loan, in the amount of IL. 15 million, of which IL. 9.2 million was utilized.

(b) *Contingent liabilities*

The balance of contingent accounts, which are connected mainly with agricultural surpluses made available to the Israel Government by the United States Government, rose in 1961 from IL. 134.4 million to IL. 156.6 million.

Documentary credits opened by the Bank of Israel in its capacity as fiscal agent to the Government, and credits opened for the central banks of countries with which Israel has payments agreements to cover transactions through commercial banks in Israel, appear on the assets side of the balance sheet under the headings "documentary credits opened or confirmed in connection with payments agreements" and "guarantees." On the liabilities side there appear "liabilities for documentary credits opened or confirmed in connection with payments agreements" and "liabilities for guarantees".

TABLE XXI-4

*Government Accounts with the Bank of Israel, 1960-61**(IL. million)**(End of period)*

	1960	1961
<i>Debit</i>		
Current liabilities		
Advances in Israel currency	58.9	35.4
Advances in foreign exchange	1.1	1.1
Other Government accounts	16.3	15.2
<i>Total current liabilities</i>	76.3	51.7
<i>Securities</i>		
Treasury bills	69.4	69.4
Land bills	77.2	77.2
Promissory notes	4.1	4.1
Government securities	0.3	—
Defense Advance	60.7	58.5
Absorption and Security Advance	110.0	110.0
Defense Loan 1960 (U.S. dollars)	—	23.4
Contribution to International Institutions Loan	—	9.2
<i>Total securities</i>	321.7	351.8
<i>Total liabilities</i>	398.0	403.5
<i>Credit</i>		
Deposits in Israel currency	24.2	28.3
Deposits in foreign exchange	28.8	73.7
<i>Total credit accounts</i>	53.0	102.0
<i>Contingent liabilities and guarantees</i>		
Exchange funds	37.3	—
Food surplus account	134.4	156.6
<i>Total contingent liabilities and guarantees</i>	171.7	156.6

(c) *Government imports*

In 1961 the Bank of Israel opened documentary credit accounts to the amount of IL. 65.9 million (as against IL. 36.6 million in 1960) to finance imports by Government Ministries. This large rise was due to the increase in stocks of foodstuffs in Government warehouses.

Once again there was a substantial increase in the amount of documentary credits received by the Bank of Israel from foreign banks and suppliers for collection from Government Ministries. The total value of these documents rose from IL. 13.6 million in 1960 to IL. 23.6 million in 1961. The guarantees given by the Bank in connection with Government imports went up from IL. 26,000 in 1960 to IL. 314,000 in 1961.

4. THE BANK OF ISRAEL AS THE "BANKERS'S BANKER"

(a) *Deposits of banks and financial institutions*

Local and foreign currency deposits kept by banking institutions with the Bank of Israel rose from IL. 432.7 million at the end of 1960 to IL. 479.3 million at the end of 1961.

Some of these deposits are obligatory, since banking institutions are required by law to deposit with the Bank of Israel not less than 15 per cent of their local currency demand and time deposits for periods not exceeding 18 months. As a result of the increase in the volume of demand deposits in the banking institutions, the obligatory deposits rose by IL. 14 million, totalling IL. 108 million at the end of 1961 as against IL. 94 million at the end of 1960.

In addition to these obligatory deposits, the banking institutions maintain additional demand and time deposits with the Bank of Israel. Demand deposits (inclusive of obligatory deposits) declined by IL. 4.4 million in 1961, from IL. 162.2 million to IL. 157.8 million. Since the obligatory deposits rose by IL. 14 million, the decrease in free demand deposits totalled approximately IL. 18 million. Time deposits decreased by IL. 21.7 million, totalling IL. 74.6 million at the end of the year as against IL. 96.3 million at the end of 1960.

According to the Bank of Israel Ordinance (Financial Institutions), 1960, financial institutions other than banks, which have received deposits of the public exceeding IL. 100,000, must maintain a minimum reserve with the Bank of Israel as from the end of April 1960. At the end of 1961 the deposits of these institutions with the Bank amounted to IL. 1.3 million, the bulk of this representing demand deposits.

In 1961 the rates of interest paid by the Bank of Israel on the deposits of banking institutions were raised as follows: on the first 25 per cent of the obligatory deposits, no interest (as before); on the remaining 75 per cent of the obligatory deposits, 2.75 per cent per annum. The rate of interest on demand deposits exceeding the obligatory minimum was $3\frac{3}{8}$ per cent per annum.

There was no change in the interest paid on time deposits: deposits for a period of three months paid interest at the rate of 3.25 per cent per annum, deposits for six months paid 4 per cent, and deposits for nine months paid 4.25 per cent. These rates were only temporary, new rates having been fixed on January 1, 1962.

(b) *Rediscounts*

The outstanding balance of rediscounted bills totalled IL.67 million at the end of 1961, as against IL. 57 million at the end of 1960. The increase in the volume of rediscounting was largely confined to bills rediscounted in foreign currency, the value of which rose from IL. 42 million at the end of 1960 to IL. 53.6 million at the end of 1961. The largest increase was in bills rediscounted for the National Institutions and for commerce, which included the financing of exports to new African states. On the other hand, there was a slight decline in local currency rediscounts, from IL. 15 million to IL. 13.4 million.

TABLE XXI-5

Rediscounts, by Branches, 1960-61

(IL. thousand)

(End of period)

Branch	1960			1961		
	Local currency	Foreign currency	Total	Local currency	Foreign currency	Total
Agriculture	8,285	345	8,630	5,098	223	5,321
Industry	4,605	7,009	11,614	7,402	7,324	14,726
Building	150	—	150	205	—	205
Commerce	118	4,332	4,450	70	10,684	10,754
Public services ^a	1,702	18,690	20,392	650	18,140	18,790
National Institutions	—	11,588	11,588	—	16,772	16,772
Miscellaneous	150	—	150	—	450	450
<i>Total</i>	15,010	41,964	56,974	13,425	53,593	67,018

^a Including El Al, Zim, and the Reparations Corporation.

5. CURRENCY IN CIRCULATION

(a) *Currency in circulation and covering assets*

The monthly average of currency in circulation each Wednesday rose from IL.328.1 million in December 1960 to IL. 380.6 million in December 1961, an increase of 16.0 per cent. In 1959, the increase was 15.2 per cent.

The expansion in the amount of currency in circulation was gradual and moderate. The largest increases were recorded in March and September, and were connected with the incidence of Passover and the Jewish New Year. This seasonal phenomenon recurs annually and reflects the more extensive use of cash during these periods. The large increase in March was apparently connected with the new regulation providing for the deduction at source of income tax on bank interest. This rule took effect at the end of March and led to increased withdrawals of cash by the public.

The following changes took place in the composition of the assets held as cover for currency in circulation: gold rose by IL. 16 million and foreign currency by IL. 58.6 million; on the other hand, as from October promissory notes gradually ceased to be used to cover currency.

The increase in the gold and foreign exchange cover for the currency was made possible by the expansion of such reserves in the Bank of Israel balance sheet. This cover is essentially a formal one, in accordance with the requirements of the Bank of Israel Law and earlier legislation.

TABLE XXI-6

Currency in Circulation and Covering Assets Held, 1961

(IL. thousand)

(Wednesday averages^a)

<i>Month</i>	<i>Currency in circulation</i>	<i>Gold</i>	<i>Foreign ex- change</i>	<i>Land bills</i>	<i>Treasury bills and other Government bills</i>	<i>Promis- sory notes and bills of ex- change</i>
1960 December	328,077	3,380	151,887	77,257	73,500	22,053
1961 January	330,950	3,379	155,738	77,257	73,500	21,076
February	339,719	3,379	161,823	77,257	73,500	23,760
March	353,350	3,379	171,100	77,271	73,050	28,100
April	360,476	3,379	183,148	77,271	73,500	23,178
May	363,666	3,379	189,872	77,271	73,500	19,643
June	369,406	3,379	191,103	77,277	73,500	24,147
July	375,614	3,379	197,311	77,277	73,500	24,147
August	378,867	4,911	194,277	77,278	73,500	28,901
September	389,218	8,483	211,383	77,284	73,500	18,568
October	386,064	12,694	216,987	77,284	73,500	5,599
November	382,496	17,154	214,561	77,281	73,500	—
December	380,599	19,364	210,466	77,269	73,500	—

^a According to the Bank of Israel Law, the Bank is required to publish data on currency in circulation at the close of business every Wednesday. Since considerable fluctuations occur during each month, the table shows Wednesday averages for the individual calendar months.

(b) *Currency in circulation, by denomination and series*

In 1961 the proportion of IL. 50 banknotes in the total amount of currency in circulation continued to increase, from 25.1 to 36.4 per cent. The share of IL. 10 banknotes declined from 62.8 to 53.9 per cent, and that of IL. 5 notes from 8.9 to 6.5 per cent. There was no change in the share of IL. 1 and IL. ½ notes.

Substantial changes occurred during the year in the composition of coins in circulation. The IL. 1.8 million rise in the overall amount of coins in circulation was due mainly to the issuing of new coinage, denominated in *agorot*. This process began in 1960 and was continued on a larger scale in 1961. At the end of 1961, the new coins constituted 37.5 per cent of all coins in circulation, as against 16.6 per cent at the end of 1960. Coins denominated in *prutot* continued to be removed from circulation (see Table XXI-7). The rate at which the old coins are replaced by the new has been increasing from month to month.

Three commemorative coins were issued during the year; the total amount in circulation came to about IL. 165,000 at the end of 1961.

(c) *Damaged currency*

In 1961 the Bank received 237 applications to exchange damaged currency, to the value of IL.12,524. Of these, 214 applications, totalling IL. 8,212, were approved.

The unit for the destruction of unusable notes and coin destroyed IL. 108.2 million worth of banknotes and about IL. 4,000 worth of paper tokens.

(d) *Forged banknotes*

In 1961 three forged IL. 10 banknotes were detected. They were of the Bank Leumi le-Israel B.M. issue.

(e) *Exchange of banknotes of the Bank Leumi le-Israel B.M. issue*

Following the adoption by the Knesset in February 1961 of the Banknote Exchange Law, 1961, which voids as legal tender banknotes of the Bank Leumi le-Israel B.M. issue, the Bank of Israel exchanged IL. 4.5 million worth of such banknotes. The remainder of such banknotes in circulation at the end of 1961 amounted to IL. 1.9 million, or 0.5 per cent of total currency in circulation.

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

The Bank of Israel has agencies in Beersheba, Hadera, Natanya, Petah Tikva, Rehovot, and Tiberias. These agencies supply cash to banking institutions in provincial towns and absorb their cash surpluses. This reduces the amount of

TABLE XXI-7

*Notes and Coin in Circulation, by Denomination, 1960-61**(End of period)*

<i>Denomination</i>	<i>1960</i>		<i>1961</i>	
	<i>IL. thousand</i>	<i>%</i>	<i>IL. thousand</i>	<i>%</i>
<i>Banknotes</i>				
IL. ½	2,094	0.7	2,423	0.7
IL. 1	7,860	2.5	8,882	2.5
IL. 5	27,526	8.9	23,018	6.5
IL. 10	193,815	62.8	191,215	53.9
IL. 50	77,676	25.1	129,357	36.4
<i>Total</i>	308,971	100.0	354,895	100.0
<i>Coins</i>				
1 pruta	5	0.1	5	0.1
5 prutot	50	0.7	49	0.6
10 "	438	6.3	430	4.9
25 "	261	3.8	212	2.4
50 "	1,532	22.2	1,273	14.6
100 "	1,019	14.8	841	9.6
250 "	597	8.6	597	6.8
500 "	8	0.1	22	0.3
1 agora	61	0.9	196	2.2
5 agorot	131	2.0	711	8.2
10 "	347	5.0	1,373	15.7
25 "	597	8.7	990	11.4
<i>Commemorative coins</i>				
IL. ½	—	—	12	0.1
IL. 1	380	5.5	408	4.7
IL. 5	1,281	18.6	1,405	16.1
IL. 20	190	2.7	201	2.3
<i>Total</i>	6,897	100.0	8,725	100.0
<i>Total currency in circulation</i>	315,868		363,620	

money transferred between towns, and enables the banking institutions to keep less cash on hand.

The overall increase in currency in circulation is also reflected in the cash turnover of these agencies.

6. NOTE AND COIN ISSUE

Three commemorative coins were minted in 1961:

1. A IL. 5 silver coin, known as the "Bar Mitzva coin", issued on the occasion of Independence Day, 1961, and commemorating the 13th anniversary of the establishment of the State of Israel.

2. A IL. 1 copper-nickel coin, issued on the eve of Hanukka, 1961, commemorating the heroism of the Hasmoneans.

3. A IL. ½ copper-nickel coin, issued on Purim, 1961, commemorating the commandment to contribute half a Shekel, which was observed at the time of the Temple.

7. THE ADMINISTRATION OF STATE LOANS

At the end of 1961, the Bank of Israel was administering 52 internal loans, two of which were foreign currency loans. The Bank also directed all local activities connected with the redemption or conversion of three external loans of the Government of Israel.

(a) *Internal loans*

At the end of 1961, the outstanding balance of internal loans denominated in Israel currency totalled IL. 322.2 million. This was the actual amount to be redeemed, the balance of these loans according to the repayment schedule being IL. 318.7 million. The outstanding balance of internal loans denominated in U.S. dollars was \$ 17.7 million, and according to the repayment schedule, \$ 17.5 million.

During the year, IL. 16.7 million¹ was paid in interest and prizes on various internal loans, while redemption payments totalled IL. 86.9 million.²

The number of loans administered by the Bank was augmented during 1961 by new series of existing State loans and by new issues of loans of public corporations, as follows:

(1) Series "Yod" of the Immigrant Housing Loan, with a par value of IL. 3 million, in interest-bearing bonds linked to the dollar or the consumer

¹ The discrepancy between this figure and the data in Table XXI-8 is due to the linking differentials paid on the principal.

² As against IL. 38.8 million in 1960. The difference is due mainly to the current weekly redemptions of the Short-Term Loan, 1960, which totalled IL. 47 million.

TABLE XXI-8

Internal Loans Administered by the Bank of Israel, 1961

<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 redeemed during the of year</i>	<i>Interest and linking differentials paid during the year</i>
<i>IL. thousand</i>					
<i>Unlinked loans</i>					
Popular Loans, Premium Bonds (bearer) ^a	6	41,000	23,259	174	1,221
Mandatory Bearer Bonds	4	10,000	4,126 ^b	27 ^b	113 ^b
4¾% Government Loans (Financial Institutions)	3 }	21,500	19,625	733	956
3% Government Loans (Financial Institutions)					
4% Compulsory Loan, 1952	1	20,371 ^c	10,881	997	401
2½% Compulsory Loan, 1953 ^a	1	9,021 ^c	6,204	630	168
3½% War Loan, 1954-59	1	7,500	332	58	—
3½% Government Bonds, 1953-57	1	4,400	2	1	—
Immigrant Housing Loan Saving Bonds ^a	1	^d	7,288	19,863	344
Short-Term Loan, 1960 ^a	1	50,000 ^e	22,480	47,010	1,395
<i>Linked loans</i>					
Immigrant Housing Loan, 1957, Premium Bonds ^a	1	^d	5,509	18	419
4½%, 6% Immigrant Housing Loan, 1957, Interest-Bearing ^a	10	70,000	39,960	4,545	2,445
3% National Loan, 1948-53	1	5,000	44	4	2
Defense Loan, 1956, Premium Bonds	1	^e	9,830	34	388

4¾%, 6½% Defense Loan, 1956, Interest-Bearing	1	40,000	21,198	2,967	1,685
3½% Savings Certificates, Dollar-linked	1	10,000 ^f	18,056	2,257	671
6% Development Loan, 1960 ^a	7	80,000	51,112	—	1,977
6%, 6½% Local Authorities Loan	2	15,000	9,801	1,670	842
6% Debentures, Industrial Development Bank of Israel Ltd.	3	40,000	37,043	1,488	1,837
5% National Oil Co. Ltd.	1	10,000	9,377 ^h	—	471
Jewish Agency Immigrant Loan, Premium Bonds	1	10,000	9,827	70	382
5% Debentures, Israel Electric Corporation	1	15,000	3,929 ⁱ	—	202
6½% Debentures of Tfahot Ltd., 1964-73	1	10,000	3,359	—	—
	50	468,792	322,242	82,546	15,919
<i>Internal loans in foreign currency</i>			<i>\$ thousand</i>		<i>IL. thousand</i>
3½% Tavei Dollar, 1951	1	25,000	17,774	4,371	1,263
Certificates of Obligation against Foreign Currency	1	1,391 ^e	1	23	—
<i>Total</i>	2	26,391	17,745	4,394	1,263

^a Amount floated reflects the scope of demand for these bonds in 1961.

^b Amount registered in Israel only. The amount redeemed includes debentures which were permitted to be removed from the country and were deducted from the amount registered in Israel.

^c Amount actually subscribed at the end of 1959.

^d Included in the authorized amount of the interest-bearing Immigrant Housing Loan.

^e Included in the authorized amount of the interest-bearing Defense Loan.

^f Authorized amount corresponds to the nominal value, whereas the value of the balances was multiplied by 5.04.

^g A new series may be issued to replace an emission fully redeemed.

^h IL. 104,970 worth were converted into ordinary shares.

ⁱ IL. 66,200 worth were converted into preference shares.

price index. Of the same loan, 17 new series of savings certificates were issued, to a total of IL. 16.4 million; during the same period IL. 19.9 million worth of savings certificates were prematurely redeemed.

(2) Three additional series—"Heh", "Vav", and "Zayin"—of the Development Loan, 1960, totalling IL. 31 million. These bonds bear 6 per cent interest per annum and are linked to the dollar, to the consumer price index, or half to the dollar and half to the index. (Series "Zayin" is an exception in that there was no provision for combined linking.) The overall amount which the Government was authorized to issue was increased from IL. 40 million to IL. 80 million.

(3) The authorized amount of the Short-Term Loan, 1960, was likewise increased, from IL. 30 million to IL. 50 million. Fifty new series of this loan were floated, to the amount of IL. 60.5 million; of this sum, IL. 57.5 million worth of bonds were sold by the end of the year. All these series are redeemable 182 days after their date of issue, and the amount of each series ranges from IL. 500,000 to IL.3 million. During the same period 35 series were redeemed, totalling IL. 47 million.

(4) A IL. 10 million bond issue of the Industrial Development Bank of Israel was floated. The bonds carry 6 per cent interest and are linked to the dollar or the consumer price index. They will be redeemed by lot in the years 1963-72.

(5) A IL. 10 million bond issue of Tfahot Ltd. was floated. Only registered bonds were issued, bearing 6.5 per cent interest and linked to the dollar or the consumer price index. One-tenth of the issue will be redeemed annually over the period 1964-73. Registration was opened on December 29, 1961, and by December 31, IL. 3.4 million worth of bonds had been issued.

The floating of prize-bearing bonds under the Immigrant Housing Loan, 1957, continued in 1961, a total of IL. 100,000 being sold during the year.

The conversion of dollar-linked Savings Certificates, 1951 (registered) into 3.5 per cent interest-bearing certificates (bearer) also continued in 1961. Savings certificates to the nominal value of IL. 103,015 were converted, which, at the rate of IL. 5.04 per IL. 1 of nominal value, amounts to IL. 521,690.

The State Loans Administration continued to effect the conversion of two series of debentures into shares: debentures of the National Oil Company Ltd., to the nominal value of over IL. 100,000, into ordinary shares; and debentures of the Israel Electric Corporation Ltd., to the nominal value of about IL. 66,200, into preferred shares.

During the year, 41 drawings of various prize-bearing loans were held. Total winnings amounted to IL. 3.5 million, but only IL. 2.4 million was claimed. By the end of the 1961, the balance of unclaimed winnings totalled IL. 2.2 million.

Ten per cent (i.e. \$ 2.5 million) of the Tavei-Dollar Loan, 1951, was re-

deemed. This was the third installment redeemed under the terms of the loan, which is an internal loan floated in dollars.

(b) *Foreign loans*

The conversion of Independence and Development Loan bonds into Israel pounds increased to \$ 27.5 million in 1961, as against \$ 25.6 million in 1960.

About 46 per cent of the amount redeemed was used to finance investments in Israel enterprises by foreign investors, while 17 per cent was spent by tourists during their stay in this country. The balance was donated to Israel institutions or transferred as gifts to Israel residents.

The Bank transferred for redemption to the Independence and Development Loans Corporations in the U.S. bonds to the nominal value of \$ 8.5 million, and sent for collection interest coupons totalling \$ 500,000.

TABLE XXI-9
External Loans Administered in Israel by the Bank of Israel, 1961
(IL. thousand)

<i>Loan</i>	<i>Amount sub- scribed</i>	<i>Amount redeemed by 31.12.61</i>	<i>Amount owing on 31.12.61</i>	<i>Amount converted into Israel pounds</i>	<i>Interest paid (in Israel only) during the year</i>
Independence Loan	145,533	52,391	93,142	4,823	650
Development Loan					
First series	234,140	75,904	158,236	12,311	815
Second series	146,972	21,103	125,868	10,360	156
<i>Total</i>	526,645	149,399 ^a	377,246	27,494	1,621

NOTE: Discrepancies due to rounding.

^a Includes amounts converted in Israel and debentures exchanged for those of other issues.

SOURCE: Ministry of Finance.

8. THE EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1961, the Department of the Examiner of Banks in the Bank of Israel exercised control over 77 banking and financial institutions, as against 92 at the end of 1960.

The decline in the number of financial institutions subject to the Bank's control from 26 to 13 stemmed mainly from the fact that the Bank of Israel Order (Financial Institutions) (Amendment), 1961, of March 16, 1961, which took effect retroactively from April 30, 1960, freed from control financial in-

TABLE XXI-10

*Banking and Financial Institutions under Bank of Israel Control,
1960-61*

End of period)

<i>Type of institution</i>	<i>1960</i>	<i>1961</i>
Commercial banks	27	27
Credit cooperative societies	29	27
Investment banks	2	2
Mortgage banks	8	8
Financial institutions	26	13
<i>Total</i>	92	77

stitutions which deal solely with the receipt of deposits from the Jewish Agency and other public institutions which were approved for this purpose by the Bank of Israel in order to grant certain loans.

Two cooperative credit societies transferred their business to other financial institutions in 1961.

(a) Audits

In the course of the year, 57 audits were carried out in banking and financial institutions, of which 26 were general and 31 partial audits.

The partial audits checked, *inter alia*, operations in connection with documentary credits, the recording of sums in transit between branches of the institutions, procedures for guarantees and the method of recording them. The inspection of the guarantees was in most cases connected with a review of transactions in promissory notes with which a number of financial institutions engaged, particularly in the period under review.

In addition to these partial audits, the department continued to carry out routine inspections of arrangements for handling cash, clearing checks, and those connected with documentary credits, and to examine the activities of banking institutions from the aspect of the cautiousness of their dealings and their conformity to the provisions of the law.

(b) Compilation of information

As from June 30, 1960 the Bank has been compiling information concerning borrowers granted bank credit to a total of IL.200,000 or more. The Department of the Examiner of Banks compiles quarterly the data received from the banking institutions, and on copies of the forms they have submitted to the Department, the banks are informed of the obligations of such borrowers to all banking institutions who have reported.

Since June 30, 1961 the compilation of information has been expanded to include borrowers receiving bank credit of IL. 100,000 or more.

TABLE XXI-11
Major Borrowers, 1960-61

	<i>June 30, 1960</i>	<i>June 30, 1961</i>
No. of banking institutions submitting reports	33	42
No. of borrowers included in reports	430	969
Total value of loans granted to major borrowers (IL. million)	385.1	672.7
Percentage of total loans granted by banking institutions	44.2	61.3

(c) *Bank branches*

On May 24, 1961 there was gazetted the Banking Ordinance Amendment Law (No. 5), 1961, which obligates banking institutions to obtain a permit in order to open new branches. The law provides that the permits will be granted by the Governor of the Bank of Israel after consultation with a subcommittee to be appointed by the Advisory Committee of the Bank of Israel from among its members, and to consist of no more than five members.

The subcommittee appointed for this purpose decided, *inter alia*, not to recommend to the Governor at this stage the grant of permits for the opening of new branches except where the preparations for their opening had begun before the law took effect. When the law was adopted, 43 branches were under construction. At the end of 1961 the number of branches of financial institutions (exclusive of main offices) amounted to 554, as against 460 at the end of 1960, i.e. an increase of 94. This increment consisted of 57 branches opened before the law took effect and 37 which were opened thereafter, on the basis of permits granted for branches under construction before the law took effect.

(d) *Financial institutions*

On June 21, 1961 there was gazetted the Banking Ordinance (Amendment) Law (No. 6), 1961, which requires every company or cooperative society which wishes to engage in accepting deposits and granting loans to acquire a license from the Governor of the Bank of Israel. In addition, existing financial institutions are required to obtain a permit in order to open new branches. The law provides that the license to operate a business or the permit to open a branch shall be issued by the Governor after consultation with the subcommittee which shall be appointed by the Advisory Council of the Bank of Israel from among its members.

The law also authorizes the Governor of the Bank, after consultation with the subcommittee, to deprive financial institutions of the right to engage in the receipt of deposits and the granting of loans, if the good of the public requires this.

9. CHECK CLEARANCE

In 1961 additional localities were included in the area covered by the Tel Aviv and Haifa clearing houses. As of April 9, 1961, inter-urban check clearances carried out by the Bank of Israel were discontinued, and a new procedure was laid down with regard to checks drawn on financial institutions previously included in the framework of inter-urban clearance: Checks drawn on financial institutions in localities not included in the expanded urban clearing house areas, and deposited in a financial institution operating in such areas,

TABLE XXI-12

Checks Cleared through Clearing Houses, 1959-61

	1959		1960		1961	
	<i>No. of checks (thousands)</i>	<i>Amount (IL. million)</i>	<i>No. of checks (thousands)</i>	<i>Amount (IL. million)</i>	<i>No. of checks (thousands)</i>	<i>Amount (IL. million)</i>
Urban clearing houses						
Jerusalem	1,483	935	1,807	1,077	2,148	1,443
Tel Aviv	4,559	3,964	6,016	4,893	8,561	6,631
Haifa	1,522	998	1,845	1,190	2,487	1,608
<i>Total</i>	7,564	5,897	9,668	7,160	13,197	9,682
Inter-urban clearing houses						
Jerusalem	43	19	39	15	6	2
Tel Aviv	1,164	544	838	375	60	31
Haifa	353	161	248	120	26	14
<i>Total</i>	1,560	725	1,125	520	92	48
Local clearing houses	1,364	503	1,009	375	193	56
<i>Grand total</i>	10,488	7,125	11,803	8,055	13,482	9,786

NOTE: The decline that occurred in 1960 and 1961 in the number and value of the checks cleared through the inter-urban and local clearing houses was due to the extension of the Tel Aviv and Haifa urban clearing areas and the abolition of the inter-urban clearing houses. This was also the reason for the large increase in the number and value of checks cleared through the urban clearing houses in these two years.

TABLE XXI-13

Checks Returned through Clearing Houses, 1959-61

	1959		1960		1961	
	<i>No. of checks (thou- sands)</i>	<i>Amount (IL. million)</i>	<i>No. of checks (thou- sands)</i>	<i>Amount (IL. million)</i>	<i>No. of checks (thou- sands)</i>	<i>Amount (IL. million)</i>
Urban clearing houses						
Jerusalem	36	19	43	19	50	24
Tel Aviv	228	130	287	188	371	230
Haifa	59	29	64	29	82	44
<i>Total</i>	323	178	394	236	502	298
Local clearing houses	63	21	47	15	7	2
<i>Grand total</i>	387	199	441	251	509	300

NOTE: Checks returned through the inter-urban clearing houses are included with those cleared through the urban clearing houses.
Discrepancies due to rounding.

are presented to the main branch of the institution drawn upon operating in the urban clearing house areas. If the institution drawn upon has no branch in the place where the check was deposited, the check is submitted for collection to the local branch of the Bank of Israel, which will present it by mail to the institution drawn upon.

The committee appointed by the Governor of the Bank of Israel in April 1960 (and which consisted of representatives of the large banks and of the Bank of Israel) to draft clearing house regulations, completed the preparation of the first draft of the regulations. This draft was sent to all banking institutions, and after their comments are received, the committee will begin work on the final draft of the regulations, with which all banking institutions participating in the clearing house will be requested to comply.

10. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

The Bank's profit and loss account for 1961 showed a total income of IL. 36.3 million, as compared with IL. 24.0 million for 1960.

Once again, the most significant increase occurred in the interest received on deposits and other investments abroad. This income, which is in foreign currency, amounted to IL. 15 million, as compared with IL. 10 million in 1960. The Bank also made a windfall profit of IL.4.1 million as a result of the revaluation of the German mark and the Dutch florin. Income from re-

discounting operations also rose, both in local and foreign currency. The rise here was from IL. 2.1 million in 1960 to IL. 3.2 million in 1961.

The Bank's expenditure on interest payments, administration, and other items rose from IL. 9.7 million in 1960 to IL. 15.8 million in 1961. The bulk of the increase came under the heading "interest payments to banks", while only a small part of it was for administrative and other expenses.

Net profit totalled IL. 20.4 million, as compared with IL. 14.3 million in 1960 and IL. 10.2 million in 1959. In accordance with the Bank of Israel Law, the entire net profit was transferred to the Treasury.

11. ECONOMIC RESEARCH

Current research conducted by the Bank of Israel on developments in the country's economy is published, in part, in the Bank's Annual Report and in the periodic Bulletins of the Research Department. In addition, the Department prepared, in conjunction with the Economic Planning Authority and with the Budget Department of the Finance Ministry, the National Budget for 1962/63, which was presented to the Knesset in March 1962.

The following basic research studies were carried out by the Research Department in 1961:

(1) Financial structure of companies in Israel. This study, which is designed to serve as a basis for the planning of the Government's credit policy and tax policy, covers the limited liability companies in industry and commerce. The first study was made in respect of the 1956 and 1957 tax years, and the main findings will be published in a Bank of Israel Bulletin. The Department is now concluding a second study dealing with the years 1958-60. In addition to this general survey, specific studies are being made of selected subjects (e.g. short-term bank credit).

(2) Input-output tables for the economy. A detailed framework of commodity flows between the various sectors of the economy has been completed, and the study will shortly be published in the Bank's series of special publications. A long-range forecast of the development of the economic branches has also been prepared with the aid of these input-output tables.

(3) Wages. The aim of this study is to trace wage developments in the country, and particularly to determine the factors contributing to wage rises besides the official increases in basic wages (the "wage drift"), and the development of wage components. The study was begun in 1961, in conjunction with the Central Bureau of Statistics and the Department for Economic Research of the Histadrut.

At the end of 1961 the Bank published a comprehensive study on "The Influence of U.S. Surplus Agricultural Goods on the Israel Economy", prepared by the Bank's Economic Adviser, Dr. Fanny Ginor, for the U.S. Department of Agriculture, which financed the research.

In its series of special publications, the Bank last year published Dr. A. L. Gaathon's "Capital, Employment and Output in Israel, 1950-1959".

Mr. David Kochav, who headed the Research Department since its establishment, was loaned by the Bank to the Ministry of Finance in order to head the Economic Planning Authority. The Governor of the Bank assumed the functions of the Director of the Department, and Mr. Michael Bruno, Mr. Zvi Sussman, and Dr. Eliezer Sheffer were appointed as his deputies.

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

In July 1961 an agreement was signed in Washington under which the International Bank for Reconstruction and Development granted a \$25 million loan to the Dead Sea Works Ltd. for the extension of the enterprise and the increase of output. The loan, which is guaranteed by the Israel Government, is for a period of 25 years, and carries interest at the rate of $5\frac{3}{4}$ per cent per annum. The Bank of Israel will serve as agent for the payment and collection of the loan.

The Governor of the Bank submitted to the World Bank the plan for the expansion and improvement of the country's highways, with the aim of clarifying the possibilities of obtaining the participation of the World Bank in financing the program. The negotiations have not yet been concluded.

At the end of 1961 the Israel Government paid the second instalment of its membership quota to the International Development Association, in the amount of \$84,000 and IL. 544,320.

There is current contact between the Bank of Israel and the Treasury on the one hand, and the International Monetary Fund on the other, with regard to Israel's monetary policy and its system of currency control.

13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council discussed monetary developments in the economy, after hearing the Governor's periodic surveys of the country's monetary affairs. The Advisory Committee also discussed the problems of the liquidity rates imposed on the banks, working capital for industry, and the security market. In addition, it continued its discussion of the profitability of banking institutions and the control of the opening of new bank branches.

The Committee heard the Governor's report on his activities abroad, on developments with regard to Israel's requests for loans from the World Bank, and on current business activities of the Bank of Israel. The Governor also submitted to the Committee a report on the Bank's income and expenditure, as well as on its operational budget.

The Advisory Council approved the issuing of various commemorative coins, as specified above.

On August 27, 1961 the Government, in accordance with the Bank of Israel Law, appointed Mr. Yisrael Guri as a member and Deputy Chairman of the Bank's Advisory Committee and Advisory Council, and Mr. Daniel Recanati as a member of the Advisory Council. Mr. Guri announced that, in view of the possibility of a conflict developing between his position as Chairman of the Knesset Finance Committee and the post to which he had been nominated, he was unable to accept the latter.

Dr. I. E. Nebenzahl, who served as Chairman of the Advisory Council and the Advisory Committee since August 1957, was appointed by the President to be State Comptroller. He submitted his resignation from the Council and the Committee in December 1961, but agreed to head the two bodies until a new Chairman was appointed.

On April 15, 1962 the Government appointed Mr. Yehuda Horin to be Chairman of the Advisory Committee and the Advisory Council, and Knesset Members Michael Chazani and Haim Zadok to be members of the two bodies.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1961

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1961

BANK OF ISRAEL

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1961

(IL. thousand)

LIABILITIES			ASSETS		
	December 31, 1961	December 31, 1960		December 31, 1961	December 31, 1960
Capital	10,000	10,000	Gold	17,951	4
Reserve fund	10,000	10,000	Gold—Israel quota in International Monetary Fund	11,250	11,250
Banknotes and coin in circulation	363,620	315,868	Assets in foreign currency	473,781	372,349
Clearing accounts in connection with trade agreements	7,577	9,069	Clearing accounts in connection with trade agreements	4,929	4,546
Deposits of international financial institutions	1,343	762	Treasury bills	69,400	69,400
Demand deposits of banking institutions (including financial institutions)	157,775	162,224	Land bills	77,269	77,257
Time deposits of banking institutions (including financial institutions)	74,620	96,346	Defense Loan	58,502	60,668
Foreign currency deposits of banking institutions	246,888	174,173	Absorption and Defense Loan, 1959	110,000	110,000
Government deposits	28,300	24,184	Defense Loan, 1960 (U.S. dollars)	23,400	—
Government deposits in foreign currency	73,678	28,818	Contribution to International Institutions Loan	9,175	—
Deposits on account of U.S. food surplus purchases (see assets)	156,601	134,392	Government and other bonds	—	296
Deposits of other institutions	4,360	7,063	Government obligations	4,100	4,100
Foreign currency deposits of other institutions	—	4,252	Advances to Government	35,384	58,884
Exchange Fund—net balance in foreign currency	—	37,300	Other Government accounts	15,216	16,291
Liabilities for documentary credits in connection with payments agreements (see assets)	51,909	48,536	Advances to Government in foreign currency	1,080	1,080
Liabilities re-guarantees (see assets)	11,661	21,765	Bills discounted—local currency	13,426	15,010
Other accounts	702	750	Bills discounted—foreign currency	53,593	41,964
	<u>1,199,034</u>	<u>1,085,502</u>	Food surplus account (see liabilities)	156,601	134,392
			Exchange Funds—debitory balance in IL.	—	37,300
			Premises, equipment, etc.	—	—
			Documentary credits in connection with payments agreements (see liabilities)	51,909	48,536
			Guarantees (see liabilities)	11,661	21,765
			Other accounts	407	410
				<u>1,199,034</u>	<u>1,085,502</u>

BANK OF ISRAEL
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1961

<i>INCOME</i>		<i>IL.</i>	<i>EXPENDITURE</i>		<i>IL.</i>
Interest received, commissions, and other income		36,273,126	Interest paid, administrative expenses, and other expenditure		15,848,897
		<u>36,273,126</u>	Net profit		<u>20,424,229</u>
					<u>36,273,126</u>
DISTRIBUTION OF PROFITS					
Net profit		20,424,229	Accountant General, Ministry of Finance		20,424,229
		<u>20,424,229</u>			<u>20,424,229</u>

BANK OF ISRAEL

THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL
AS AT MAY 31, 1962

Governor

D. HOROWITZ

Advisory Committee

Y. CHORIN, *Chairman*

S. BEJARANO

M. CHAZANI¹

Y. FOERDER

E. HACOHEN

A. ZABARSKI

H. ZADOK

Advisory Council

Y. CHORIN, *Chairman*

A. BECKER

S. BEJARANO

M. CHAZANI¹

N. FEINGOLD

Y. FOERDER

A. GOVRIN

E. HACOHEN

Z. ONN

E. OSTASHINSKY

D. PATINKIN

D. RECANATI

A. SHECHTER

A. ZABARSKI

H. ZADOK

¹ Mr. M. Chazani was appointed Vice-Chairman of the Advisory Committee and Advisory Council in accordance with the instruction contained in a letter from the Government dated July 22, 1962.