

CHAPTER XXI

THE ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY

AT THE END OF 1962 the assets and liabilities of the Bank of Israel amounted to IL 2,016.8 million, as compared with IL 1,199.0 million at the end of 1961. Over half of the increment—IL 483.2 million out of IL 817.8 million—resulted from the increased IL value of the Bank's foreign exchange and gold assets following the alteration of the exchange rate. The remainder of the increment is attributable mainly to a rise in the dollar amount of such assets.

In the following analysis of the changes which occurred during the year, the influence of the rate of exchange will be separated from the other factors which affected the Bank's balance sheet.

(a) *Assets*

1. *Foreign exchange*

The Bank's foreign exchange and gold balances, including the net balance in clearing accounts and of loans to foreign countries and institutions, amounted at the end of 1962 to IL 1,247.2 million, or \$ 415.7 million at the exchange rate of IL 3 per dollar, as against IL 477.4 million at the end of 1961, which was equivalent to \$ 265.2 million at the rate of IL 1.80 per dollar.

2. *Government accounts*

The various types of loans and advances granted by the Bank to the Government (securities, promissory notes, and current liabilities)—which appear on the asset side of the Bank's balance sheet—declined by IL 106.8 million, from IL 403.5 million at the end of 1961 to IL 296.7 million at the end of 1962. The reduction occurred mainly in long-term promissory notes, owing to premature repayment made possible by the revaluation profits accruing to the Bank following devaluation.

There was an increase of IL 204.7 million in the Government's creditory accounts, mainly in foreign currency deposits. These rose from \$ 41 million at the end of 1961 to \$ 83 million at the end of 1962. Owing to devaluation, however, their value in Israel pounds rose to a much greater extent—from IL 73.7 million to IL 249.2 million.

As a result of these changes, the Government's net indebtedness to the Bank

Table XXI-1

ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1961-62

(End of period)

	IL million		Per cent		Increase or decrease (-) from 1961 to 1962	
	1961	1962	1961	1962	IL million	%
Assets						
Foreign exchange and gold ^a	507.9	1,276.4	51.9	75.9	768.5	151.3
Government securities	351.8	242.6	35.9	14.4	-109.2	-31.0
Current liabilities of the						
Government	51.7	54.1	5.3	3.2	2.4	4.6
Bills discounted	56.4	71.9	5.8	4.3	15.5	27.5
Advances to foreign Govern- ments and institutions	10.6	35.7	1.0	2.1	25.1	236.8
Other advances	0.4	0.6	0.1	0.1	0.2	50.0
Total	978.8	1,681.3	100.0	100.0	702.5	71.8
Contingent accounts ^b	220.2	335.5			115.3	52.4
Grand total	1,199.0	2,016.8			817.8	68.2
Liabilities						
Notes and coin in circulation	363.6	431.2	37.2	25.6	67.6	18.6
Deposits of the Government and Government institutions	102.0	306.7	10.4	18.2	204.7	200.7
Deposits of other institutions	4.3	—	0.4	—	-4.3	-100.0
Deposits of banking and financial institutions ^c	479.3	913.2	49.0	54.4	433.9	90.5
Paid-up capital and reserves	20.0	20.0	2.0	1.2	—	—
Other accounts	9.6	10.2	1.0	0.6	0.6	6.3
Total	978.8	1,681.3	100.0	100.0	702.5	71.8
Contingent accounts ^b	220.2	335.5			115.3	52.4
Grand total	1,199.0	2,016.8			817.8	68.2

^a Including clearing account balances in connection with payments agreements.^b Including agricultural surplus accounts, documentary credits, guarantees, and exchange funds.^c Including Patach accounts.

declined by IL 311.5 million, and after debitory accounts are set off against creditory accounts, there is a credit balance of IL 10.0 million, as against a net indebtedness of IL 301.5 million at the end of 1961.¹

¹ The calculation has been made in accordance with the definitions of the Bank of Israel Law, and differs from the calculation in Chapter XIV which does not include capital and other accounts in the balance sheet.

3. Rediscounting of bills

The value of bills rediscounted in local currency declined by IL 5.9 million in 1962—from IL 13.4 million at the end of 1961 to IL 7.5 million at the end of 1962. The value of bills rediscounted in foreign currency declined by \$ 2.4 million—from \$ 23.9 million to \$ 21.5 million.

In 1962 the Bank sold to commercial banks bills from its portfolio of rediscounted bills. The balance of sales at the end of the year totalled IL 16.4 million.

4. Loans to foreign countries and banks

Owing to the relatively small sums involved, such credits have heretofore been included in the balance sheet under the item "bills discounted". But beginning with 1962 they appear under a separate heading. The balance at the end of the year amounted to IL 35.7 million (\$ 11.9 million), as against IL 10.6 million (\$ 5.9 million) at the end of 1961.

(b) Liabilities

1. Banknotes and coin in circulation

The value of banknotes and coin in circulation rose during the year reviewed by 18.6 per cent—from IL 363.6 million to IL 431.2 million—as against an increase of 15.1 per cent in 1961.

2. Government deposits

As mentioned, the total of the Government's creditory accounts rose by IL 200.7 million, amounting to IL 306.7 million, as against IL 102.0 million at the end of 1961. The main increase was in the Government's foreign exchange deposits.¹

3. Deposits of banking and financial institutions

Local currency demand and time deposits of banking institutions expanded by IL 134.1 million, from IL 232.4 million at the end of 1961 to IL 366.5 million at the end of 1962. The foreign exchange accounts of banking institutions rose by IL 299.9 million, from IL 246.9 million (\$ 137.2 million) to IL 546.8 million (\$ 182.2 million). The bulk of the increase was connected with Pazak and Tamam deposits of recipients of personal restitution payments from Germany, which are deposited with the Bank by banking institutions.

¹ See footnote on p. 460.

2. FOREIGN EXCHANGE AND GOLD HOLDINGS

(a) *Foreign exchange and gold*

Foreign exchange and gold reserves held by the Bank of Israel—including net balances in the clearing accounts and loans to foreign countries and banks, less Patach accounts of foreign residents—rose from IL 477.4 million at the end of 1961 (\$ 265.2 million at the previous exchange rate of IL 1.80 per dollar) to IL 1,247.2 million at the end of 1962 (\$ 415.7 million at the current rate of IL 3 per dollar). The increase thus stems from the revaluation of the reserves in terms of Israel pounds, as well as from a \$ 150.5 million increase in the amount of foreign exchange and gold held by the Bank.

The gold reserves held by the Bank increased from IL 29.2 million to IL 141.9 million—in dollar terms, a rise of \$ 31.1 million. Gold acquisitions were made in line with the policy of holding part of the Bank's foreign exchange reserves in gold, for both safety and liquidity considerations.

The net increase in foreign exchange reserves continued throughout the year. The foreign exchange reserves—all of them in freely-convertible currencies—were held in the form of treasury bills and bills of foreign banks, or were deposited in foreign banks in the form of interest-bearing demand and time

Table XXI-2
FOREIGN EXCHANGE AND GOLD BALANCES HELD BY
THE BANK OF ISRAEL, 1959-62

(\$ million)

Month	Foreign exchange	Gold	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of foreign residents	Net balances
1959 December	116.1	7.8	1.1	-11.7	113.3	1.6	111.7
1960 December	206.9	6.3	2.8	-2.5	213.5	5.3	208.2
1961 December	263.2	16.2	5.9	-1.5	283.8	18.6	265.2
1962 January	277.1	26.2	5.9	-2.6	306.6	20.1	286.5
February	289.3	26.2	5.9	-2.5	318.9	22.0	296.9
March	313.8	26.2	6.4	-1.9	344.5	21.9	322.6
April	343.7	26.2	6.2	-1.2	374.9	21.6	353.3
May	357.2	26.2	6.1	0.7	390.2	20.0	370.2
June	362.8	26.2	6.7	1.9	397.6	20.9	376.7
July	362.9	31.9	8.2	2.1	405.1	20.9	384.2
August	352.3	47.3	7.8	2.3	409.7	21.6	388.1
September	355.3	47.3	7.6	3.4	413.6	21.8	391.8
October	358.1	47.3	10.1	3.0	418.5	20.8	397.7
November	362.1	47.3	10.9	3.9	424.2	19.5	404.7
December	372.0	47.2	11.9	3.4	434.5	18.8	415.7

deposits. Part of the reserves were kept in non-interest-bearing demand deposits, to finance the Bank's current operations.

At the end of 1962, 96 per cent of the reserves were invested or held in interest-bearing accounts, as against 91 per cent at the end of 1961. The income from the interest on these investments rose from approximately IL 15 million (\$ 8.3 million) in 1961 to IL 36 million (\$ 12 million) in 1962. This increase resulted from the rise in the volume of the reserves. The return on the foreign exchange reserves amounted to an average of 3 per cent. If the gold reserves and non-interest-bearing demand deposits are deducted, the return averaged 4 per cent.

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

At the end of 1962 the Bank of Israel maintained clearing accounts with the central banks of 12 countries with which Israel had trade and payments agreements. Israel's credit balances in these accounts amounted to IL 17.6 million (\$ 5.9 million) at the end of 1962, while its debit balances amounted to IL 7.4 million (\$ 2.5 million). The net balance to Israel's credit thus stood

Table XXI-3
BALANCES IN CLEARING ACCOUNTS, 1961-62

(\$ thousand)

(End of period)			
Country	1961	1962	Increase or decrease (-) from end of 1960 to end of 1961
Brazil	-601	707	1,308
Bulgaria	-75	-172	-97
Czechoslovakia	465	465	—
Ghana	-170	624	794
Greece	1,671	1,271	-400
Hungary	-501	955	1,456
Poland	366	-1,095	-1,461
Portugal	-684	-258	426
Rumania	-163	-64	117
Turkey	-466	172	638
Uruguay	299	-245	-544
Yugoslavia	-1,192	1,837	3,029
Balances in transit	-420	-825	-405
Total	-1,471	3,390	4,861
Total in IL thousand	-2,647^a	10,170^b	12,817

^a At the rate of \$ 1 = IL 1.80.

^b At the rate of \$ 1 = IL 3.00.

at IL 10.2 million (\$ 3.4 million), as against net liabilities of IL 2.6 million at the end of 1961—an improvement of IL 12.8 million (\$ 4.3 million).

The payments agreement with Uruguay expired in March 1962, and the balance to Uruguay's credit was settled at the beginning of 1963.

(c) *Foreign currency deposits*

Foreign exchange deposits of banking institutions with the Bank of Israel totalled IL 546.8 million (\$ 182.2 million) at the end of 1962, as against IL 246.9 million (\$ 137.2 million) at the end of the previous year.

These deposits were of various types:

(1) Time deposits held by Israel residents in foreign currency (Pazak). These may be converted into Israel pounds at the prevailing official rate of exchange, at the end of the agreed period. They totalled IL 250.1 million at the end of 1962, as compared with IL 95.1 million at the end of 1961. In dollar terms the value of these deposits increased by \$ 30.6 million, as compared with an increase of \$ 19.7 million in 1961.

(2) Deposits of residents transferring foreign currency (Tamam). These may be withdrawn, in foreign currency, for purposes specified in the applicable regulations, such as foreign travel and the purchase of foreign securities. At the end of 1962 these deposits amounted to IL 226.6 million, as against IL 107.6 million at the end of 1961. Their value in terms of dollars increased by \$ 15.8 million.

Most of the Pazak and Tamam funds belong to recipients of personal restitution payments from West Germany, who preferred not to convert them into Israel currency immediately but to hold them in foreign currency or linked to foreign currency; these accounts bear relatively high interest (up to 7 per cent a year, tax-free, for a 12-month deposit).

(3) 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 with the Bank of Israel. Deposits of this type totalled IL 56.5 million at the end of 1962, as compared with IL 33.5 million at the end of 1961. Nearly all of the increase was due to the change in the exchange rate, practically no change occurring in the volume of the deposits.

(4) Other accounts, including foreign exchange accounts of the banks (\$ 4.5 million at the end of 1962, as against \$ 4.2 million at the end of 1961) and "import deposit accounts" (Hay), in which commercial banks hold importers' deposits connected with the obtaining of import licenses on a cash financing basis (\$ 100,000 at the end of the year, as against \$ 700,000 at the end of 1961). Foreign securities dividend accounts (Natad), which totalled \$ 1 million at the end of 1961, were closed out on March 18, 1962.

3. THE BANK OF ISRAEL AS BANKER AND FISCAL AGENT TO THE GOVERNMENT¹

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 liabilities, mainly Government securities and Government promissory notes. These accounts (excluding contingent liabilities) decreased in 1962 by IL 106.8 million. Combined with the Government's creditory accounts, the net decline in the Government's obligations to the Bank totalled IL 311.5 million. As noted, this decline derived partly from the prior repayment of obligations with the devaluation profits of the Bank of Israel, and partly from the expansion of the Government's deposits with the Bank.

(a) *Debit and credit accounts*

Ordinary advances to the Government rose by IL 2.4 million, from IL 51.7 million at the end of 1961 to IL 54.1 million at the end of 1962.

During this period the Government's long-term indebtedness declined by IL 109.2 million as a result of the prior repayment of advances with the profits of devaluation. The decline in the Government's obligations thus amounted to IL 106.8 million. There was likewise an increase of IL 204.7 million in the Government's creditory accounts—deposits with the Bank of Israel in local and foreign currency.

(b) *Contingent liabilities*

The balance of contingent accounts, which are connected with agricultural surpluses made available to the Israel Government by the United States Government, rose in 1962 from IL 156.6 million to IL 194.0 million.

(c) *Government imports*

In 1962 the Bank opened documentary credit accounts to the amount of IL 118.2 million (\$ 40.9 million), as against IL 65.9 million (\$ 36.6 million) in 1961, to finance imports by Government Ministries.

The amount of documentary credits received by the Bank of Israel from foreign banks and suppliers for collection from Government Ministries rose from IL 23.6 million in 1961 to IL 25.8 million in 1962 (in dollar terms there was a decline from \$ 13.1 million to \$ 8.8 million).

In 1962 there was a decrease of close to IL 5.5 million in Government imports by means of credits and collections through the Bank of Israel; but there was no change in the foreign exchange total, which stood at \$ 49.7 million.

¹ See footnote on p. 460.

Table XXI-4

GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL, 1961-62

(IL million)

(End of period)

	1961	1962
Debit		
Ordinary advances		
Advances in Israel currency	35.4	46.5
Advances in foreign exchange	1.1	—
Other Government accounts	15.2	7.6
Total current liabilities	51.7	54.1
Special advances and Government securities		
Treasury bills	69.4	69.4
Land bills	77.2	76.2
Promissory notes	4.1	4.1
Defense Advance	58.5	—
Absorption and Security Advance	110.0	92.4
Defense Loan 1960 (U.S. dollars)	23.4	—
Contribution to International Institutions Advance	9.2	—
Total long-term debt	351.8	242.6
Total liabilities	403.5	296.7
Credit		
Deposits in Israel currency	28.3	57.5 ^a
Deposits in foreign exchange	73.7	249.2
Total credit accounts	102.0	306.7
Balance	-301.5	10.0
Contingent accounts		
Food surplus accounts	156.6	194.0
Total contingent accounts	156.6	194.0

^a Including IL 11.2 million in compulsory savings account.

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

(a) *Deposits of banks and financial institutions*

Deposits kept by banking institutions with the Bank of Israel rose from IL 479.3 million at the end of 1961 to IL 913.2 million at the end of 1962. These figures include foreign currency deposits of IL 246.9 million (\$ 137.2 million) in 1961 and IL 546.8 million (\$ 182.2 million) in 1962. 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. As a result of the increase in the volume of deposits requiring the keeping of obligatory deposits with the Bank of Israel, the latter increased by IL 27.6 million, totalling IL 135.9 million at the end of 1962 as compared with IL 108.3 million at the end of 1961.

Together with these obligatory deposits, the banking institutions maintain additional demand and time deposits with the Bank of Israel. Demand deposits increased in 1962 from IL 49.5 million to IL 81.5 million, and time deposits from IL 74.6 million to IL 149.0 million.

According to the Bank of Israel Ordinance (Financial Institutions), 1960, financial institutions other than banks, whose deposits from the public exceed IL 100,000, must maintain a minimum reserve with the Bank of Israel. At the end of 1962 the deposits of these institutions with the Bank amounted to IL 1.4 million, as against IL 1.3 million at the end of 1961.

In 1962 the rates of interest paid by the Bank of Israel on the deposits of banking institutions were as follows:

Type of deposit	Rate of interest (%)
First 25 per cent of obligatory deposits	0
Remaining 75 per cent of obligatory deposits	2.5
Demand deposits above the obligatory minimum	3.0
3-month deposits	3.5
6-month deposits	4.0
9-month deposits	4.5
12-month deposits	5.0

(b) *Rediscounts*

The balance of rediscounted bills in local currency declined from IL 13.4 million at the end of 1961 to IL 7.5 million at the end of 1962. Although there was an increase in the local currency value of foreign currency rediscounts, from IL 42.9 million at the end of 1961 to IL 64.4 million at the end of 1962, their dollar value declined from \$ 23.8 million to \$ 21.3 million. Most of this decrease stemmed from the sale of rediscounted bills to commercial banks; there was also a real reduction in the amount of credit from the Bank of Israel to the public.

(c) *Sale of bills to banking institutions*

Following the substantial increase in deposits with commercial banks at the beginning of 1962, and in line with the Bank's policy of limiting to the fullest extent possible the grant of credit to the public within the framework of exemptions from the liquidity requirements, it was decided in April 1962 to

Table XXI-5
REDISCOUNTS, BY SECTOR 1961-62
(IL thousand)

(End of period)

Sector	1961		1962	
	Local currency	Foreign currency (\$ 1=IL 1.80)	Local currency	Foreign currency (\$ 1=IL 3)
Agriculture	5,098	223	750	30
Industry	7,402	7,324	6,544	27,181
Construction	205	—	142	—
Commerce	70	27	60	12,661
Public services	650	18,140	—	23,240
National Institutions	—	16,772	—	16,921
Miscellaneous	—	450	—	750
Total	13,425	42,936	7,496	80,783
Total in local and foreign currency	56,361		88,279	
Less: Notes sold to banks	—		16,380	
Balance	56,361		71,898	

enable banking institutions to use unexploited sums of this type for the acquisition of rediscounted bills from the Bank of Israel. These bills bear 7 per cent interest.

The bills are sold for full-month periods, from two months and over. When the purchase is in the framework of unexploited exemptions from the liquidity regulations, the credit thus extended is governed by the same rules as credit exempted from liquidity.

The value of bills sold to the banks under these conditions amounted to IL 16.4 million at the end of 1962.

(d) *Sale of participations in land bills to banking institutions*

With the aim of curtailing the expansion of bank credit to the public, it was decided in August 1962 to enable the banking institutions to use their surplus liquid assets to acquire from the Bank of Israel participations in land bills issued by the Treasury in accordance with the Land Bills Law, 1949. The participations are sold for full-month periods, from three months and up, in minimum amounts of IL 10,000 and in multiples thereof. The participations bear interest of 9 per cent per annum.

In the months September-November the banks purchased such participations in substantial amounts, but by the end of 1962 the balance had dropped to IL 550,000.

The administration of these sales, like that of the sale of bills and all of the Bank's banking accounts, is done by the Banking Department of the Bank.

5. CURRENCY IN CIRCULATION

(a) *Currency in circulation and covering assets*

The monthly average of currency in circulation each Wednesday rose from IL 380.6 million in December 1961 to IL 452.3 million in December 1962—an increase of 18.8 per cent, as compared with a 16 per cent increase in 1961.

The expansion in 1962 was gradual and steady. The largest increases were recorded in April and September, and were connected with the incidence of Passover and the Jewish New Year. This seasonal phenomenon recurs annually.

The following changes took place in the composition of the assets held as cover for currency in circulation: gold rose by IL 103.9 million, and foreign currency by IL 49.1 million; on the other hand, as from July land bills 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 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, 1962

(IL thousand)

(Wednesday average)

Month	Currency in circulation	Covering assets			
		Gold	Foreign exchange	Land bills	Treasury bills and other Government bills
1961 December	380,599	19,364	210,466	77,269	73,500
1962 January	374,538	20,112	203,657	77,269	73,500
February	378,486	38,035	189,682	77,269	73,500
March	385,840	59,917	175,156	77,267	73,500
April	399,479	59,917	188,795	77,267	73,500
May	397,776	59,917	187,095	77,264	73,500
June	406,375	59,917	195,706	77,252	73,500
July	414,966	65,464	223,750	52,252	73,500
August	423,386	104,634	235,721	10,351	72,680
September	435,910	123,307	243,203	—	69,400
October	444,297	123,307	251,590	—	69,400
November	448,037	123,307	255,330	—	69,400
December	452,331	123,307	259,624	—	69,400

Table XXI-7

NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1961-62

(End of period)

Denomination	1961		1962	
	IL thousand	%	IL thousand	%
Banknotes				
IL ½	2,423	0.7	2,663	0.6
IL 1	8,882	2.5	9,606	2.3
IL 5	23,018	6.5	19,786	4.7
IL 10	191,215	53.9	187,977	44.6
IL 50	129,357	36.4	201,705	47.8
Total	354,895	100.0	421,737	100.0
Coins				
1 pruta	5	0.1	5	0.1
5 prutot	49	0.6	48	0.5
10 "	430	4.9	413	4.4
25 "	212	2.4	182	1.9
50 "	1,273	14.6	839	8.9
100 "	841	9.6	557	5.9
250 "	597	6.8	589	6.2
500 "	22	0.3	22	0.2
1 agora	196	2.2	370	3.9
5 agorot	711	8.2	1,082	11.5
10 "	1,373	15.7	2,356	25.0
25 "	990	11.4	1,215	12.9
Commemorative coins				
IL ½	12	0.1	27	0.3
IL 1	408	4.7	243	2.6
IL 5	1,405	16.1	840	8.9
IL 20	201	2.3	201	2.1
IL 50	—	—	146	1.6
IL100	—	—	292	3.1
Total coins	8,725	100.0	9,427	100.0
Total currency in circulation	363,620	—	431,164	—

(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 36.4 to 47.8 per cent. On the other hand, the share of banknotes of all other denominations declined: IL 10 banknotes, from 53.9 to 44.6 per cent; IL 5 banknotes, from 6.5 to 4.7 per cent; IL 1 banknotes, from 2.5 to 2.3 per cent; and IL ½ banknotes, from 0.7 to 0.6 per cent.

Substantial changes occurred during the year in the composition of coins in circulation. The IL 700,000 rise in the total amount of coins in circulation was due mainly to the issuance of four commemorative coins, whose total amount in circulation came to about IL 529,000.

The process of replacing old coins, denominated in prutot, with new coins, denominated in agorot, which was begun in 1960, was continued in 1962. At the end of the year the new coins constituted 53.3 per cent of the value of all coins in circulation, as against 37.5 per cent at the end of 1961.

(c) *Damaged currency*

In 1962 the Bank received 215 applications to exchange damaged currency, to the value of IL 7,404. Of these, 195 applications, totalling IL 6,767, were approved.

The unit for the destruction of unusable notes and coin destroyed IL 136.1 million worth of banknotes and about IL 5,000 worth of paper tokens.

In 1962 old metal coins denominated in prutot, to the value of IL 1.1 million, were sent abroad to be melted down.

(d) *Exchange of banknotes of the Bank Leumi le-Israel 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 745,000 worth of such banknotes in 1962. The remainder of such banknotes in circulation at the end of 1962 amounted to IL 1.2 million, or 0.3 per cent of total currency in circulation.

(e) *Agencies for the supply of cash*

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, thus enabling them to keep less cash on hand. The general increase in currency in circulation is also reflected in the cash turnover of these agencies.

In addition to these agencies in the provincial towns, agencies were opened in 1962 with the three largest banks in Tel Aviv, thus achieving further economy in the transfer of funds to and from the Bank of Israel and substantially reducing the volume of technical work required in connection with banknotes.

6. NOTE AND COIN ISSUE

(a) *Minting of commemorative coins*

Four commemorative coins were minted in 1962:

(1) A IL 5 silver coin illustrating the development of the Negev, and commemorating the 14th anniversary of the establishment of the State of Israel.

The coin weighs 25.0 grams, and has a diameter of 34.0 mm. and a silver content of 90 per cent.

(2) A IL 50 gold coin, commemorating the tenth anniversary of the death of Dr. Chaim Weizmann, first President of the State of Israel. It weighs 13.34 grams and has a diameter of 27 mm. and a gold content of .916.

(3) A IL 100 gold coin, also in memory of Dr. Weizmann, similar to the other one in form and inscription, except for indication of the value. It weighs 26.68 grams and has a diameter of 33 mm. and a gold content of .916.

(4) A IL 1 copper-nickel coin, issued in honor of Hanukka, 1962, and depicting a 17th century Italian Hanukka candelabrum. It weighs 14.1 grams and has a diameter of 32.2 mm.

(b) *Replacement of IL ½ and IL 1 banknotes with coins of the same denominations*

Since banknotes of the low denominations, IL ½ and IL 1, pass frequently from hand to hand and wear out very rapidly, the Bank is about to follow the practice of most countries and issue coins in these denominations. It is planned to discontinue the printing of banknotes in these denominations and to replace them with coins when the present stock is exhausted in 1963.

The minting of these coins will be done at the mint of the Government Printer. The designs were chosen after a competition among the country's artists.

(c) *Withdrawal of the prutot series*

After the adoption of the law providing, as from January 1, 1960, for the division of the Israel pound into 100 agorot instead of 1,000 prutot, the Bank of Israel began to mint coins denominated in agorot. These coins were introduced gradually, and in 1961 and 1962 the two series were in circulation side by side, the number of coins denominated in agorot gradually increasing and those denominated in prutot gradually decreasing. However, the existence of the two series caused some inconvenience, particularly to tourists, and it was therefore decided to actively withdraw from the market the coins denominated in prutot. The banks were requested not to use the old coins in the denominations of 25, 50, and 100 prutot to make payments after August 1, 1962. However, the Bank does not intend to cancel the legal value of any currency, and the coins denominated in prutot will continue to be legal tender.

(d) *Committee on the planning of banknotes, coins, and commemorative coins*

In all of its coinage activities the Bank is aided by a public committee on the planning of banknotes, coins, and commemorative coins, which is attached to the Bank and which chooses the subjects of the currency and outlines the

artistic designs. The committee also judges all competitions for the design of banknotes and coins.

The committee was at first headed by the late E. S. Hoofien, and thereafter by Dr. I. E. Nebenzahl, when he was chairman of the Bank's Advisory Committee and Advisory Council. After Dr. Nebenzahl's appointment as State Controller, Dr. A. Witkon, a Justice of the Supreme Court, accepted the chairmanship of the committee. The other members of the committee, who were appointed by the Governor of the Bank, are: Mr. M. Ardon, Mr. A. Ayalon, Dr. A. Biran, Mr. R. Dayan, Mr. S. Golan, Mr. A. Govrin, Dr. R. Hecht, Mr. L. Kadman, Dr. K. Katz, and Dr. M. Spitzer.

7. THE ADMINISTRATION OF STATE LOANS

At the end of 1962 the Bank of Israel was administering 59 internal loans, two of which were in foreign currency. The bank also directed all local activities connected with the redemption or conversion of three external loans of the Government of Israel.

With devaluation, on February 9, 1962, considerable changes took place in the outstanding balance of loans linked to the rate of exchange, as well as in payments on account of principal and interest (see Table XXI-8).

(a) *Internal loans*

At the end of 1962 the outstanding balance of internal loans denominated in Israel currency totalled IL 530.17 million. The outstanding balance of internal loans denominated in U.S. dollars was IL 45.45 million. These sums include IL 3.9 million worth of internal loans denominated in Israel currency and IL 500,000 worth of dollar-linked loans, whose redemption date has come up but which have not been presented for redemption.

During the year, IL 24.047 million was paid in interest and prizes on the internal loans, while redemption payments totalled IL 138.035 million.

The number of loans administered by the Bank was augmented during 1962 by new series of existing State loans and by new issues of loans of public corporations, as follows:

(1) At the beginning of the year, three new series of the Immigrant Housing Loan were issued, to a total of IL 2.27 million.

(2) Six additional series—"Het" to "Yod Gimel"—of the Development Loan, 1960, totalling IL 41 million. The principal of all these series is linked to the consumer price index. One series bears 5 per cent interest per annum, linked; one bears 6 per cent interest, linked; one bears 6 per cent interest, non-linked; while the remaining three series bear either 5 per cent interest, linked, or 6 per cent interest, non-linked, in accordance with the purchaser's option at

Table XXI-8
INTERNAL LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1962^a

Type of loan	Number of series	Amount authorized	Amount taken up at end of 1961	Amount issued in 1962	Revaluation increment due to devaluation	Principal redeemed during 1962	Amount taken up at end of 1962	Interest and linkage differentials paid during the year
IL thousand								
Non-linked loans								
Popular Loans, Premium Bonds (bearer) ^b	}	41,000	32,259	39		180	32,117	1,312
Special Popular Loans, Interest-Bearing								
Mandatory Bearer Bonds	4	10,000	4,126			15 ^c	4,111 ^c	105
4¾% Government Loans (Financial Institutions)	2	—	19,625			4,990	14,635	832
4% Compulsory Loan, 1952	1	20,371 ^d	10,881			1,370	9,511	337
2½% Compulsory Loan, 1953	7	9,021 ^d	6,204			594	5,610	151
3½% War Loan, 1954-59	1	7,500	332			32	300	
3½% Government Loan	1	4,400	2				2	
Immigrant Housing Loan Saving Bonds ^b	1	°	7,288	2,270		9,224	334	204
Short-Term Loan, 1960 ^b	1	120,000 ^b	22,480	175,336		98,217	99,599	2,947
Linked loans								
Immigrant Housing Loan, 1957, Premium Bonds ^b	1	°	5,509	44	3,694	27	9,220	930
4½%, 6% Immigrant Housing Loan, 1957, Interest-Bearing ^b	10	70,000	39,960	1,373	18,282	16,375	53,240	3,353
3% National Loan, 1948-53	1	5,000	44		35 ¹	8	71	1
Defense Loan, 1956, Premium Bonds	1	°	9,830		6,533	52	16,311	361
4¾%, 6½% Defense Loan, 1956, Interest-Bearing	1	40,000	21,198		8,050	4,077	25,172	2,146

3½% Savings Certificates, Dollar-linked	1	10,000 ^a	18,056		12,037	3,762	26,331	800
6% Development Loan, 1960 ^b	13	125,500	51,112	32,867	15,962	—	99,942	4,516
6%, 6½% Local Authorities Loan	2	15,000	9,801		3,847	2,364	11,284	1,080
6% Debentures, Industrial Development Bank of Israel Ltd.	3	40,000	37,043		14,915	4,270	47,688	3,394
5% National Oil Co. Ltd.	1	10,000	9,377		5,622	911	14,087	580
Jewish Agency Immigration Loan, Premium Bonds	1	10,000	9,827		6,519	1,567	14,779	357
6%, 5% Debentures, Israel Electric Corporation	2	27,000	3,929	12,000	2,821	—	18,750	703
5%, 6½% Debentures of Tfahot, Israel Mortgage Bank Ltd.	2	25,000	3,359	21,641	2,076	—	27,076	478
	57		322,242	245,570	100,393	138,035	530,170	24,307
					\$ thousand			
Internal loans in foreign currency								
3½% Tavei Dollar, 1951	1	25,000	31,940	—	20,994	7,480	45,454	1,816
Certificates of Obligation against Foreign Currency	1	1,391 ^d	1	—	2	2	1	—
Total			31,941	—	20,996	7,482	45,455	1,816

^a Loans linked to the exchange rate were revalued according to the new rate and balances outstanding increased correspondingly. Redemption of principal and interest linked to the exchange rate was effected and recorded according to the new rate.

^b Sales continued in 1962.

^c Amount registered in Israel only. The amount redeemed includes debentures which were permitted to be taken out of the country and were struck from the Israel registry.

^d Amount actually sold at the end of 1962.

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

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

^g According to the linkage terms of the loan, each IL equals \$ 2.80.

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

ⁱ Linkage differentials from previous years, which formerly were recorded separately, were added to the loan account in 1962. This loan was not affected by devaluation.

the time of purchase. The Knesset increased the total amount which the Government is authorized to issue from IL 80 million to IL 125 million.

(3) The authorized amount of the Short-Term Loan, 1960, was also increased, from IL 50 million to IL 120 million. It is issued in series redeemable 182, 273, and 364 days after their date of issue. During 1962, 91 new series of this loan were floated, to the amount of IL 182.25 million; of this sum, IL 175.3 million worth of bonds were sold by the end of the year. The new series range in amount from IL 500,000 to IL 7 million. During the year, 52 series, totalling IL 98.2 million, were redeemed.

(4) A IL 12 million bond issue of the Israel Electric Corporation Ltd. was floated. The bonds are linked to the consumer price index or to the exchange rate of the dollar, at the purchaser's option. They bear 5 per cent interest, and will be redeemed in the years 1964-73. This issue was floated before the devaluation in February 1962.

(5) A IL 15 million bond issue of Tfahot, Israel Mortgage Bank Ltd. was floated. The bonds are linked to the consumer price index and bear 5 per cent interest. One-tenth of the total issue will be redeemed in each of the years 1969-74, and two-tenths in 1975 and 1976.

The floating of bonds of the Popular Loans and of the prize-bearing Immigrant Housing Loan, 1957, continued in 1962, to a total of IL 83,000.

In December 1962 a bond issue of the Israel Electric Corporation Ltd. was floated, in two series. One was in the amount of IL 5 million, bearing 5 per cent interest linked to the index, or 6 per cent non-linked, at the buyer's option. This series is redeemable after five years, in December 1967. The second series, also of IL 5 million, bears 5½ per cent interest, linked to the index, and will be redeemed in the years 1968-79. This issue was floated by the Bank, but it will be administered by the Israel Electric Corporation itself.

The conversion of dollar-linked Savings Certificates, 1951 (registered) into 3½ per cent interest-bearing certificates (bearer) continued in 1962. Savings certificates to the nominal value of IL 47,870 were converted which, at the rate of IL 8.40 per IL 1 of nominal value, amounted to IL 402,108.

During the year, 51 drawings of various prize-bearing loans were held, as well as a drawing for the redemption of the principal of the Immigration Loan. Total winnings amounted to IL 4.34 million. By the end of 1962, the balance of unclaimed winnings totalled IL 2.35 million.

The fourth installment, of 10 per cent, of the Tavei-Dollar Loan, 1951, was redeemed. The amount was \$ 2.5 million.

(b) *Foreign loans*

The conversion of Independence and Development Loan bonds into Israel pounds amounted to \$ 26.82 million in 1962, as against \$ 27.5 million in 1961. Of the amount redeemed, 44.1 per cent was used to finance investments in

Israel enterprises by foreign investors, 16.4 per cent was spent by tourists during their stay in this country, and the balance was donated to Israel institutions or transferred as gifts to Israel residents.

Table XXI-9
EXTERNAL LOANS ADMINISTERED IN ISRAEL BY
THE BANK OF ISRAEL, 1962
(\$ thousand)

Loan	Amount subscribed	Amount redeemed by 31.12.62 ^a	Amount owing on 31.12.62	Amount converted into Israel pounds	Interest paid in Israel only during 1962
Independence Loan	145,532.8	56,989.0	88,543.8	4,100	739
Development Loan					
First series	234,140.1	86,546.3	147,593.8	9,372	946
Second series	203,501.6	37,119.9	166,381.7	13,351	251
Total	583,174.5	180,655.2	402,519.3	26,823	1,936

^a Debentures redeemed in Israel pounds, those redeemed in dollars, and those exchanged for later issues.

8. THE EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1962, the Department of the Examiner of Banks in the Bank of Israel exercised control over 95 banking and financial institutions, as against 77 at the end of 1961.

The increase in the number of financial institutions subject to the Bank's control from 13 to 28 stemmed mainly from the fact that the Bank of Israel Ordinance (Financial Institutions), 1962, which took effect in June 1962, expanded the control over these institutions. The Ordinance also puts under the Bank's control those financial institutions whose total deposits (exclusive of the deposits of the Government, the National Institutions, and other approved institutions) are less than IL 100,000. However, the Bank's control over these institutions does not apply to the liquidity requirements, so long as their deposits are less than IL 100,000.

During 1962 one financial institution transferred its business to a banking institution, and four financial institutions, which were connected with commercial banks, liquidated their business and left the Department's control. On the other hand, four new financial institutions, established to encourage saving for secondary and higher education, came under its control.

One financial institution was permitted by the Governor to be designated as

a bank, and it started operating as a mortgage bank. In addition, three new mortgage and investment banks were opened.

Table XXI-10

**BANKING AND FINANCIAL INSTITUTIONS UNDER
BANK OF ISRAEL CONTROL, 1961-62**

(End of period)

Type of institution	1961	1962
Commercial banks	27	27
Credit cooperative societies	27	26
Mortgage and investment banks	10	14
Financial institutions	13	28
Total	77	95

(a) *Audits*

In the course of the year, 68 audits were carried out in banking and financial institutions, of which 23 were general and 45 were partial audits.

The partial audits covered, *inter alia*, operations in connection with documentary credits, the procedures for guarantees and the method of recording them, surprise examination of cash on hand, examination of credit given under the direction of the Bank of Israel, and the examination of sums in transit between branches of the institutions.

In addition to these partial audits, the department continued to carry out routine inspections in various areas, including the examination of the activities of the banking institutions from the aspect of the soundness of their dealings and their conformity to the provisions of the law.

(b) *Reporting by the banking and financial institutions*

With devaluation, various problems arose concerning the manner of recording the revaluation differences resulting from the alteration of the exchange rate and the manner of presenting these differences in reports submitted to the Examiner of Banks and in the annual balance sheets of these institutions.

After consultation with the special committee previously appointed by the Governor of the Bank and which was charged, *inter alia*, with suggesting uniform recording methods for the accounts of the institutions, and after consultation with the accountants of the banking and financial institutions, rules were laid down with respect to these matters, and the banking and financial institutions were requested to conform to them.

(c) *Compilation of information*

The banking institutions submit to the Examiner of Banks quarterly information sheets concerning borrowers granted bank credit in excess of IL 100,000. The Department compiles the data, and on copies of the forms submitted notifies the banking institutions of the obligations of such borrowers to the banking institutions concerned.

Table XXI-11
MAJOR BORROWERS, 1961-62

	June 30, 1961	June 30, 1962
No. of banking institutions submitting reports	42	37
No. of borrowers included in reports	969	1,134
Total value of loans granted to major borrowers (IL million)	672.7	893.2
Percentage of total loans granted by banking institutions	61.3	62.2

(d) *Statistics on the banking institutions*

In 1962 the Department of the Examiner of Banks began to publish a monthly booklet with series of statistical data based on the reports submitted to it by the banking institutions. It summarizes, *inter alia*, the assets and liabilities of the banking institutions, their liquidity, the means of payment, and check clearance activity.

(e) *Bank branches*

At the end of 1962 the number of branches of the banking institutions in Israel, excluding main offices, stood at 592, as against 558 at the end of 1961. The increase thus came to 34 branches, as against 96 in 1961. The decline stems from the restrictions imposed in the Banking Ordinance (Amendment No. 5) Law, 1961, which took effect on May 24, 1961. The law requires a special permit from the Governor of the Bank of Israel for the opening of new branches. The decision of the Governor is made after consultation with a special subcommittee of the Advisory Council of the Bank of Israel. With a few exceptions, the subcommittee decided not to recommend to the Governor at this stage the grant of permits for the opening of new branches except where buildings were acquired or contracts signed before the law took effect.

(f) *Branches of financial institutions*

During 1962 three new branches of financial institutions were opened in accordance with permits from the Governor of the Bank of Israel, after consultation with the subcommittee appointed for the purpose by the Advisory Council of the Bank.

(g) *Control of credit*

The Department of the Examiner of Banks continued to deal with the execution of the Bank's policy with regard to the control and directing of the credit extended by the banking and financial institutions.

In September 1962 a new fund for financing exports started operation, with the participation of the Ministry of Finance, the Ministry of Commerce and Industry, and the banking institutions. The new fund replaced various sources previously used to finance working capital for export. Applications by the banking institutions for the grant of credit from the fund for exporters are brought before a committee which includes representatives of the Bank of Israel, the Ministry of Finance, and the Ministry of Commerce and Industry. Under the present directives, the banking institutions may, without special approval, grant credit against merchandise sent abroad, for a period not longer than six months.

The interest, including bank fees, charged on loans from the fund was at first fixed at 7½ per cent per annum, but this was reduced to 6 per cent as of January 1, 1963.

9. CHECK CLEARANCE

In October 1962, the new clearing house regulations, prepared by a committee appointed by the Governor of the Bank, went into effect. These regularize the activities and procedures of the clearing houses, and all banking institutions participating in the clearing house are required to comply with them.

In accordance with the regulations, the Governor of the Bank appointed a new committee to administer the clearing house. This committee consists of four representatives of the Bank of Israel, one of whom serves as chairman, and four representatives of the banking institutions.

The decline that has taken place in the last few years in the number and in the total amount of checks cleared through the inter-urban and local clearing houses, derives from the complete discontinuance of inter-urban check clearances¹ and the expansion of the urban clearing house areas in Tel Aviv and Haifa to include localities previously assigned to local clearing houses.

¹ A detailed description of the change appears in the 1961 Annual Report of the Bank of Israel, pp. 436 ff.

Table XXI-12

CHECKS CLEARED THROUGH CLEARING HOUSES, 1960-62

	1960		1961		1962	
	No. of checks (thousands)	Amount (IL million)	No. of checks (thousands)	Amount (IL million)	No. of checks (thousands)	Amount (IL million)
Urban clearing houses						
Jerusalem	1,807	1,077	2,148	1,443	2,492	2,010
Tel Aviv	6,016	4,893	8,561	6,631	10,170	8,270
Haifa	1,845	1,190	2,487	1,608	3,074	2,122
Total	9,668	7,160	13,197	9,682	15,736	12,402
Inter-urban clearing houses	1,125	520	92	48	—	—
Local clearing houses	1,009	375	193	56	49	14
All clearing houses	11,803	8,055	13,482	9,786	15,785	12,416

Table XXI-13

CHECKS RETURNED THROUGH CLEARING HOUSES, 1960-62

	1960		1961		1962	
	No. of checks (thousands)	Amount (IL million)	No. of checks (thousands)	Amount (IL million)	No. of checks (thousands)	Amount (IL million)
Urban clearing houses						
Jerusalem	43	19	50	24	60	38
Tel Aviv	287	188	371	230	428	323
Haifa	64	29	82	44	108	64
Total	394	236	502	298	596	425
Local clearing houses	47	15	7	2	1	0
All clearing houses	441	251	509	300	597	425

Whereas the increase in the number of checks returned through clearing houses in 1962 (17.2 per cent) corresponds with the increase in the number of checks cleared through clearing houses (17.1 per cent), the increase in the value of the checks returned is greater than the value of the checks cleared (41.7 per cent as against 26.9 per cent). In other words, there was a sizeable increase in the average value of the checks returned—IL 712 in 1962 as against IL 590 in 1961.

There are no detailed data on the reasons for the return of the checks, but the great majority were returned for lack of cover, and only a minority for technical reasons, such as a wrong date, lack of signature, or unclear signature.

10. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

The Bank's profit and loss account for 1962 shows a total income of IL 213.0 million, as compared with IL 36.3 million for 1961. Included in this sum is IL 162.0 million in devaluation profits. On the income side, the most striking increase was in interest received on deposits and investments abroad; this income, which is in foreign currency, amounted to IL 36.1 million, as compared with IL 15.0 million in 1961.

There was an increase in income from rediscounting operations in foreign currency—from IL 3.2 million in 1961 to IL 4.6 million.

The Bank's expenditure on interest payments, administration, and other items rose from IL 15.8 million in 1961 to IL 27.7 million in 1962. The bulk of the increase came under the heading "interest payments to banks on foreign currency accounts".

Net profit totalled IL 185.3 million. If the windfall profit resulting from devaluation is excluded, the figure comes to IL 23.3 million, as compared with IL 20.4 million in 1961 and IL 14.3 million in 1960. In accordance with the Bank of Israel Law, the entire net profit was transferred to the Treasury: the profit from ordinary activities was transferred to the Treasury as budgetary income, while the devaluation profits of IL 162.0 million were used—in accordance with an agreement between the Governor of the Bank and the Minister of Finance, and which was later given legal validity by the Knesset—for the premature repayment of part of the Government's obligations to the Bank of Israel, mainly long-term obligations, totalling IL 135 million, and for the payment of linkage differentials in the amount of IL 27.0 million.

11. ECONOMIC RESEARCH

Current research on developments in Israel's economy, conducted by the Research Department, is published in the Bank's Annual Report, in the periodic bulletins of the Department, and in special publications. Among the research studies published in 1962 were the following:

(1) The National Budget for 1963/64. This was prepared by the Research Department in cooperation with the Economic Planning Authority and the Budget Department of the Ministry of Finance, and was submitted to the Knesset in January 1963.

(2) Report on the rise in the means of payment in the period between December 31, 1961 and June 30, 1962. This was submitted by the Governor

of the Bank to the Government and to the Knesset Finance Committee in accordance with the provisions of Par. 35 of the Bank of Israel Law.

(3) A survey of the main economic developments during the period January–September 1962. This was published in November, and constituted the first summation of the results of the New Economic Policy.

(4) Summary of the study on the financial structure of Israel's industrial companies in 1956 and 1957, and a summary for 1958–60 for the largest companies. Complete summaries up to 1960 will appear in a forthcoming Bulletin.

In its series of special publications the Bank published "Interdependence, Resource Use and Structural Change in Israel", by M. Bruno—a book which makes use of input-output tables to analyze the Israel economy.

At the beginning of 1963 the Bank published E. Erdreich's study on the profitability of Israel's commercial banks during the period 1956–61.

Among the basic research studies which have not yet been completed are the following:

(1) Continuation of the study of the financial structure of Israel's companies, going back to 1950 and showing developments since 1960.

(2) A study on developments in the field of wages, particularly the factors leading to wage rises beyond the official increases in basic wages. This study is being conducted in cooperation with the Central Bureau of Statistics and the Department for Economic Research of the Histadrut. The first summaries will be published in the course of the year.

Dr. Fanny Ginor, Economic Adviser to the Governor of the Bank, was loaned to the Foreign Ministry for two years and is serving as a member of the Israel delegation to the United Nations.

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

The Minister of Finance and the Governor of the Bank of Israel held consultations in January and February 1962 with the International Monetary Fund, as required under the terms of the Fund's agreement, in order to obtain its approval for the devaluation of the currency and the unification of the exchange rates of the Israel pound. At the same time the current economic consultations required under Section 14 of the agreement were also held. Prior consultations under this Section took place in 1959.

On February 9, 1962 the Executive Board of the Fund, summing up the consultations, adopted a resolution which stated, *inter alia*:

"The Fund welcomes the reform of the exchange rate structure. This measure should strengthen the balance of payments and facilitate the desired growth of the economy. The Fund appreciates the recognition by the Israeli authorities that appropriate fiscal and credit policies are needed

to achieve the full benefits of the exchange reform, and urges the vigorous pursuit of policies designed to strengthen confidence in the national currency”.

The devaluation brought about a rise in the Israel pound value of Israel's quotas in the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Development Association. These quotas are fixed in dollars, although they are paid only partly in dollars, the balance being paid in Israel pounds, in the form of notes of the Israel Government in favor of these institutions. With the change in the value of the Israel pound, Israel deposited additional notes in favor of these institutions with the Bank of Israel in order to complete its quotas: IL 22.5 million in favor of the Monetary Fund, IL 1.3 million in favor of the World Bank, and IL 0.7 million in favor of the International Development Association. The amount deposited in favor of the World Bank is relatively small, since Israel is one of the countries which made their entire quota available to the World Bank in the currency desired by it, and the World Bank used most of the quota to grant loans to various countries. Israel's quota in the International Finance Corporation was paid entirely in dollars, and the change in rate did not require additional payments.

On October 17, 1962 an agreement was signed in Washington whereby the World Bank granted the Israel Government a loan of \$ 22 million to help finance the foreign currency expenditure involved in the execution of the plan for the expansion and improvement of the country's highways. The loan, the third granted to Israel by the World Bank, is for a 20-year period. The interest this time is $5\frac{1}{4}$ per cent per annum, as compared with $5\frac{3}{4}$ per cent on the two previous loans. The Bank of Israel will serve as agent for the payment and collection of the loan.

An application by the Ports Authority for an additional loan in the amount of \$ 2.5 million to finance the construction of an additional jetty at Ashdod harbor is now before the management of the World Bank. The Bank in 1960 granted a loan of \$ 27.5 million to finance the construction of the harbor.

At the end of 1962 the Israel Government paid the third installment of its membership quota to the International Development Association, in the amount of \$ 21,000 and IL 907,200.

At the annual conference of the Governors of the World Bank, held in Washington in September 1962, Mr. D. Horowitz, who serves as Governor for Israel, put forward a proposal for expanding the volume of credit granted by the International Development Association by having the World Bank participate in the cost of financing this credit. This proposal is now under consideration by the management of the World Bank, which is also the management of the Association, and which is studying the methods of expanding the Association's sources of financing. The Minister of Finance, who serves as Governor of the International Monetary Fund for Israel, represented the country

at a conference of the Fund's Governors, which was held simultaneously with the conference of the Governors of the World Bank, the International Development Association, and the International Finance Corporation.

13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council, after hearing the Governor's periodic surveys, discussed the monetary developments in the economy against the background of the devaluation and the New Economic Policy and the functions of the Bank in this respect. The Advisory Committee also discussed the profitability of the banks and Mr. Erdreich's study on the subject, the liquidity rates imposed on the banks, and problems of the credit market. The Committee and the Council discussed the report on the increase in the means of payment, presented by the Governor to the Government and to the Knesset Finance Committee.

The Governor of the Bank reported to the Committee 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 a report to the Committee on the Bank's income and expenditure and on its operational budget. The Committee heard a series of surveys of the Bank's structure and activities.

The Advisory Council approved the issuance of various commemorative coins.

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

On July 22, 1962 the Government appointed Mr. Chazani as Deputy Chairman of the Advisory Committee and Advisory Council.

On January 27, 1963 the Government, in accordance with the Bank of Israel Law, appointed all members of the two bodies to an additional two-year term, except that Mr. E. Shechter replaced Mr. E. Hacohen on the Advisory Committee. Mr. Hacohen continues as a member of the Advisory Council.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1962

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1962

BANK OF ISRAEL

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1962

(IL thousand)

LIABILITIES			ASSETS		
	December 31, 1962	December 31, 1961		December 31, 1962	December 31, 1961
Capital	10,000	10,000	Gold	123,142	17,951
Reserve fund	10,000	10,000	Gold—Israel quota in International Monetary Fund	18,750	11,250
Banknotes and coin in circulation	431,164	363,620	Foreign currency assets	1,116,971	473,781
Clearing accounts in connection with trade agreements	7,403	7,577	Clearing accounts in connection with trade agreements	17,574	4,929
Deposits of international financial institutions	1,167	1,343	Treasury bills	69,400	69,400
Demand deposits of banking institutions (including financial institutions)	217,441	157,775	Land bills	76,695	77,269
Time deposits of banking institutions (including financial institutions)	149,040	74,620	Defense Loan	—	58,502
Foreign currency deposits of banking institutions	546,754	246,888	Absorption and Defense Loan, 1959	92,400	110,000
Government deposits	46,283	28,300	Defense Loan, 1960 (U.S. dollars)	—	23,400
Government deposits—compulsory saving	11,202	—	Contribution to International Institutions Loan	—	9,175
Government deposits in foreign currency, including quota in IMF	249,229	73,678	Government obligations	4,100	4,100
Deposits on account of U.S. food surplus purchases (see assets)	193,953	156,601	Advances to Government	46,466	35,384
Deposits of other institutions	—	4,360	Other Government accounts	7,591	15,216
Liabilities for documentary credits in connection with payments agreements (see assets)	79,277	51,909	Advances to Government in foreign currency	—	1,080
Liabilities re-guarantees (see assets)	62,297	11,661	Bills discounted—local currency	7,495	13,426
Other accounts	1,592	702	Bills discounted—foreign currency	64,404	42,936
			Advances to foreign governments and institutions	35,725	10,657
			Food surplus account (see liabilities)	193,953	156,601
			Premises, equipment, etc.	—	—
			Documentary credits in connection with payments agreements (see liabilities)	79,277	51,909
			Guarantees (see liabilities)	62,297	11,661
			Other accounts	562	407
	<u>2,016,802</u>	<u>1,199,034</u>		<u>2,016,802</u>	<u>1,199,034</u>

BANK OF ISRAEL

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1962

(IL)

	December 31, 1962	December 31, 1961		December 31, 1962	December 31, 1961
INCOME			EXPENDITURE		
Income accruing from alteration of exchange rate	162,048,245	—	Interest paid, administrative expenses, and other expenses	27,665,458	15,848,897
Interest, commission, and other income	50,966,585	36,273,126	Net profit	185,349,372	20,424,229
	<u>213,014,830</u>	<u>36,273,126</u>		<u>213,014,830</u>	<u>36,273,126</u>
			DISTRIBUTION OF PROFITS		
Net profit	185,349,372	20,424,229	Transferred to Treasury to cover its obligations on 18.3.62	162,048,245	—
			Balance transferred to Accountant General	23,301,127	20,424,229
	<u>185,349,372</u>	<u>20,424,229</u>		<u>185,349,372</u>	<u>20,424,229</u>

BANK OF ISRAEL
THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL
MAY 1963

Governor

D. HOROWITZ

Advisory Committee

Y. CHORIN, *Chairman*
M. CHAZANI, *Deputy-Chairman*
S. BEJARANO
Y. FOERDER
A. SHECHTER
A. ZABARSKI
H. ZADOK

Advisory Council

Y. CHORIN, *Chairman*
M. CHAZANI, *Deputy-Chairman*
A. BECKER
S. BEJARANO
N. FEINGOLD
Y. FOERDER
A. GOVRIN
E. HACHOEN
Z. ONN
E. OSTASHINSKY
D. PATINKIN
D. RECANATI
A. SHECHTER
A. ZABARSKI
H. ZADOK