

## CHAPTER XXI

# THE ACTIVITIES OF THE BANK OF ISRAEL

### 1. SUMMARY OF BALANCE SHEET

AT THE END OF 1963 the assets and liabilities of the Bank of Israel amounted to IL 2,487.5 million, as compared with IL 2,016.8 million at the end of 1962—an increase of IL 470.7 million. Over half of the increment resulted from a rise in the Bank's foreign exchange and gold assets.

#### (a) *Assets*

##### 1. *Foreign exchange*

The Bank's gross foreign exchange and gold balances, including loans to foreign countries and institutions and the gross balance in clearing accounts, amounted at the end of 1963 to IL 1,610.6 million, or \$ 536.9 million, as against IL 1,312.1 million, or \$ 437.4 million, at the end of 1962.

##### 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—rose by IL 126.4 million, from IL 296.7 million at the end of 1962 to IL 423.1 million at the end of 1963. The increase resulted from the advance repayment of foreign exchange obligations in the amount of IL 148.7 million.

##### 3. *Rediscounting of bills*

The value of bills rediscounted in local currency increased in 1963 to the marked extent of IL 30.4 million, from IL 7.5 million at the end of 1962 to IL 37.9 million. The entire addition resulted from the rediscounting of bills through the Export Financing Fund. This Fund, which is designed to reduce the cost of credit for financing exports, started operations at the end of September 1962. It was founded jointly by the Government, the banking institutions, and the Bank of Israel. As of January 1, 1963 interest on credit from this source was fixed at 6 per cent, as compared with 7.5 per cent previously. At the end of 1963 the fund's resources amounted to IL 145 million.

The value of bills rediscounted in foreign currency declined by IL 16.7 million, or \$ 5.6 million—from \$ 21.5 million at the end of 1962 to \$ 15.9 million at the end of 1963. The total amount of credit extended by the Bank to the public was IL 13.7 million higher than in 1962.

Table XXI-1

## ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1962-63

(End of period)

	IL million		Per cent		Increase or decrease (-)	
	1962	1963	1962	1963	IL m.	%
<b>Assets</b>						
Foreign exchange and gold <sup>a</sup>	1,276.4	1,564.8	75.9	74.5	288.4	22.6
Participation in international financial institutions		0.8		0.0	0.8	
Government securities	242.6	221.6 <sup>b</sup>	14.4	10.6	-21.0 <sup>b</sup>	-8.7 <sup>b</sup>
Advances to the Government for early repayment of foreign debts		148.7		7.0	148.7	
Current liabilities of the Government	54.1	31.3	3.2	1.5	-22.8	-42.1
Bills rediscounted	71.9	85.7	4.3	4.1	13.8	12.2
Loans to foreign Governments and institutions	35.7	45.8	2.1	2.2	10.1	28.3
Other accounts	0.6	0.6	0.1	0.1	—	—
<b>Total</b>	<b>1,681.3</b>	<b>2,099.3</b>	<b>100.0</b>	<b>100.0</b>	<b>418.0</b>	<b>24.9</b>
Contingent accounts <sup>c</sup>	335.5	388.2			52.7	15.7
<b>Grand total</b>	<b>2,016.8</b>	<b>2,487.5</b>			<b>470.7</b>	<b>23.3</b>
<b>Liabilities</b>						
Notes and coin in circulation	431.2	550.4	25.6	26.2	119.2	27.6
Deposits of the Government and Government institutions	306.7	335.9	18.2	16.0	29.2	9.5
Deposits of banking and financial institutions <sup>d</sup>	913.2	1,180.2	54.4	56.2	267.0	29.3
Clearing accounts	7.4	8.5	0.4	0.4	1.1	14.9
Paid-up share capital and reserves	20.0	20.0	1.2	1.0	—	—
Other accounts	2.8	4.3	0.2	0.2	1.5	53.6
<b>Total</b>	<b>1,681.3</b>	<b>2,099.3</b>	<b>100.0</b>	<b>100.0</b>	<b>418.0</b>	<b>24.9</b>
Contingent accounts <sup>c</sup>	335.5	388.2			52.7	15.7
<b>Grand total</b>	<b>2,016.8</b>	<b>2,487.5</b>			<b>470.7</b>	<b>23.3</b>

<sup>a</sup> Including clearing account balances in connection with payments agreements.<sup>b</sup> After sale of participations in the Absorption and Defense Advance to the banks in the amount of IL 21.5 million.<sup>c</sup> Including agricultural surplus accounts, documentary credits, guarantees, and exchange funds.<sup>d</sup> Including deposits of foreign residents.

(b) *Liabilities*

1. *Banknotes and coin in circulation*

The value of banknotes and coin in circulation rose during 1963 by 27.6 per cent—from IL 431.2 million to IL 550.4 million—as against an increase of 18.6 per cent in 1962.

2. *Government deposits*

The total of the Government's creditory accounts rose by IL 29.2 million, amounting to IL 335.9 million as against IL 306.7 million at the end of 1962.

3. *Deposits of banking and financial institutions*

Local currency demand and time deposits of banking institutions expanded by IL 180.8 million during the year, from IL 366.5 million at the end of 1962 to IL 547.3 million. The foreign exchange accounts of banking institutions rose by IL 86.1 million, from IL 546.8 million to IL 632.9 million. The increase occurred mainly in Pazak deposits, which were IL 99.3 million larger, whereas Tamam deposits showed a decline of IL 13.5 million.

Table XXI-2

FOREIGN EXCHANGE AND GOLD BALANCES HELD BY  
THE BANK OF ISRAEL, 1960-63

(\$ million)

(End of period)

	Foreign exchange	Gold	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of foreign residents	Net balances
1960	206.9	6.3	2.8	-2.5	213.5	5.3	208.2
1961	263.2	16.2	5.9	-1.5	283.8	18.3	265.2
1962	372.0	47.2	11.9	3.4	434.5	18.8	415.7
1963	449.0	66.1	15.3	3.7	534.1	19.3	514.8
1963 January	404.5	47.3	11.7	4.0	467.5	17.4	450.1
February	433.0	47.3	12.3	4.9	497.5	16.2	481.3
March	468.2	47.3	14.4	5.9	535.8	16.3	519.5
April	497.9	47.3	14.1	6.0	565.3	22.6	542.7
May	497.8	48.4	14.2	6.6	567.0	23.7	543.3
June	486.0	52.5	13.9	6.7	559.1	23.8	535.3
July	468.5	59.1	13.6	6.5	545.9	22.7	523.2
August	457.8	49.1	13.5	6.2	536.6	19.4	517.2
September	453.8	59.1	13.3	6.0	532.2	21.3	510.9
October	433.2	62.1	13.3	5.1	513.7	20.4	493.3
November	434.5	65.1	13.2	4.0	516.8	20.7	496.1
December	449.0	66.1	15.3	3.7	534.1	19.3	514.8

## 2. FOREIGN EXCHANGE AND GOLD HOLDINGS

### (a) *Foreign exchange and gold*

Net 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 1,247.2 million (\$ 415.7 million) at the end of 1962 to IL 1,544.3 million (\$ 514.8 million) at the end of 1963—an advance of \$ 99.1 million, or 23.8 per cent.

The gold reserves held by the Bank continued to expand in 1963. The balance went up from IL 141.9 million at the end of 1962 to IL 198.3 million at the end of 1963—in dollar terms, a rise of \$ 18.8 million, or about 40 per cent. The increase resulted from gold acquisitions made in line with the policy of holding part of the Bank's foreign exchange reserves in gold. The share of gold rose from 10.8 per cent of total gross foreign exchange balances (including gold) at the end of 1962 to 12.3 per cent at the end of 1963.

The foreign exchange reserves—excluding loans to foreign institutions and clearing account balances—were held in the form of treasury bills and bills of foreign banks, bonds of other countries and of international institutions, and interest-bearing demand and time deposits in foreign banks. Part of the reserves

**Table XXI-3**  
**BALANCES IN CLEARING ACCOUNTS, 1962-63**

(\$ thousand)

(End of period)

Country	1962	1963	Increase or decrease (-)
Brazil	707	777	70
Bulgaria	-172	153	325
Czechoslovakia	465	465	—
Ghana	624	748	124
Greece	1,271	-1,310	-2,581
Hungary	955	791	-164
Poland	-1,095	347	1,442
Portugal	-258	-1,024	-766
Rumania	-46	-450	-404
Turkey	172	3,705	3,533
Uruguay	-245	—	245
Yugoslavia	1,837	322	-1,515
Balances in transit	-825	-866	-41
Total	3,390	3,658	268
Total in IL '000	10,170	10,974	804

were kept in noninterest-bearing demand deposits, to finance the Bank's current operations.

Income from interest on these foreign exchange reserves, which make up the overwhelming share of the Bank's foreign exchange assets, rose from IL 36 million (\$ 12 million) in 1962 to IL 52 million (\$ 17 million) in 1963. This increment was due to the expansion of the reserves and to higher interest rates abroad. The average annual return on the foreign exchange reserves, including gold, rose from 3 per cent in 1962 to over 3.5 per cent in 1963—despite the increase in the share of gold, which is noninterest-bearing.

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

At the end of 1963 the Bank of Israel maintained clearing accounts with 11 countries with which Israel had trade and payments agreements. Israel's credit balances in these accounts amounted to IL 19.5 million (\$ 6.5 million) at the end of 1963, while its debit balances amounted to IL 8.5 million (\$ 2.8 million). The net balance to Israel's credit thus stood at IL 11 million (\$ 3.7 million), as against IL 10.2 million (\$ 3.4 million) at the end of 1962.

(c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel totalled IL 632.9 million (\$ 211 million) at the end of 1963, as against IL 546.8 million (\$ 182.2 million) at the end of 1962, a rise of 15.7 per cent.

These deposits are of various types:

(1) Time deposits held by Israeli residents in foreign currency (Pazak). These funds were deposited in banking institutions by recipients of restitution payments from Germany, and the banking institutions are required to deposit the entire sum with the Bank of Israel. At the end of the agreed period these deposits may be converted into Israeli pounds at the prevailing official rate of exchange. They totalled IL 349.4 million at the end of 1963, as compared with IL 250.1 million at the end of 1962. In dollar terms, the value of these deposits rose by \$ 33.1 million, as compared with an increase of \$ 30.6 million in 1962.

(2) Deposits of residents transferring foreign currency (Tamam). These are funds deposited in banking institutions by recipients of restitution payments, and they may be withdrawn in foreign currency for purposes specified in the applicable regulations. The regulations permit the use of these deposits for foreign travel, the purchase of foreign securities, and for legal expenses connected with restitution claims. These deposits too must be deposited in full with the Bank of Israel. At the end of 1963 they amounted to IL 213.1 million, as against IL 226.6 million at the end of 1962. Their value in dollar terms decreased by \$ 4.5 million. This was mainly due to the reduction of the interest rates on such deposits: the interest on a 12-month deposit, for example, was cut from 7 to 4.5 per cent. In addition, the types of receipts permitted to be held in such

accounts were reduced in 1963. On the other hand, the portion of restitution payments permitted to be deposited in a Tamam account was raised from 25 to 33 per cent.

(3) Deposits of nonresidents (Patach). These are sums deposited in Israeli 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 57.9 million (\$ 19.3 million) at the end of 1963, as compared with IL 56.4 million (\$ 18.8 million) at the end of 1962.

The total amount deposited by foreign residents in Israeli banks at the end of 1963 was IL 322 million. Of this sum, 17.5 per cent was redeposited with the Bank of Israel, as compared with 19.0 per cent at the end of 1962.

Beginning March 31, 1963 banks were required to hold with the Bank of Israel a minimum balance of 15 per cent of the foreign currency deposits of foreign residents.

(4) Other accounts, including foreign exchange accounts of the banks (Pamaz), blocked and registered accounts (Pahab), and import deposit accounts (Hay), in which commercial banks hold importers' deposits connected with the obtaining of import licenses on a cash financing basis. These accounts aggregated IL 12.5 million at the end of 1963, as against IL 13.7 million at the end of 1962.

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

The Government's net debt to the Bank of Israel—after deducting its creditory accounts—rose by IL 97.2 million in 1963. This was due to the receipt of a long-term advance from the Bank of Israel in the amount of IL 148.7 million for the early repayment of foreign currency obligations. This advance actually had no monetary effect. Exclusive of this amount, the Government's debt declined by IL 51.5 million.

#### (a) *Debit and credit accounts*

Ordinary advances to the Government declined by IL 22.8 million, from IL 54.1 million at the end of 1962 to IL 31.3 million at the end of 1963. During this period the Government's long-term indebtedness rose by IL 149.2 million as a result of the advance for the repayment of foreign currency debts. The rise in the Government's obligations thus amounted to IL 126.4 million. There was likewise an increase of IL 29.2 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 Government of Israel by the U.S. Government,

rose from IL 194.9 million at the end of 1962 to IL 216.1 million at the end of 1963. The deposits of the U.S. Government originating from the sale of food surpluses are held in these accounts with the Bank of Israel, and the Government of Israel draws on them.

Table XXI-4

GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,  
1962-63

(IL million)

(End of period)

	1962	1963
<b>Debit</b>		
Ordinary advances		
Advances in Israeli currency	64.5	31.3
Other Government accounts	7.6	—
Total current liabilities	54.1	31.3
Special advances and Government securities		
Treasury bills	69.4	69.4
Land bills	76.7	77.2
Promissory notes	4.1	4.1
Absorption and Security Advance	92.4	70.9 <sup>a</sup>
Advance for repayment of foreign currency debits	—	148.7
Total long-term debt	242.6	370.3
Total liabilities	296.7	401.6
<b>Credit</b>		
Deposits in Israeli currency	46.3	72.7
Compulsory saving deposits	11.2	40.2
Deposits in foreign currency	249.2	223.0
Total credit accounts	306.7	335.9
<b>Balance</b>	10.0	-65.7
<b>Contingent accounts</b>		
Food surplus accounts	194.0	216.1
Total contingent accounts	194.0	216.1

<sup>a</sup> The decline of IL 21.5 million stemmed from the sale of these bills to banking institutions are part of the quota of controlled credit exempted from the liquidity requirements and not utilized.

(c) *Government imports*

In 1963 the Bank opened documentary credit accounts to the amount of IL 204.3 million (\$ 68.1 million), as against IL 118.2 million (\$ 40.9 million) in 1962, to finance imports by Government. The amount of documentary credits received by the Bank of Israel from foreign banks and suppliers for collection from Government Ministries and agencies declined from IL 25.8 million in 1962 to IL 17.1 million in 1963 (in dollar terms, from \$ 8.6 million to \$ 5.7 million).

Government imports, financed by credits from the Bank of Israel, rose by about 50 per cent in 1963.

(d) *Repayment of foreign currency debts*

In March 1963 the Knesset passed a law authorizing the Government to obtain a long-term loan of \$ 50 million from the Bank of Israel for the early repayment of debts to suppliers abroad falling due between April 1, 1964 and March 31, 1967.

By the end of 1963 almost the entire amount had been disbursed (\$ 49.6 million). Part of the interest on this advance was collected when the bills were rediscounted, and is included in the profit and loss account for 1963 under the item "interest on foreign currency rediscounts". The remainder will be collected at the time of final repayment of the bills by the Government, in accordance with the terms of the original debt.

#### 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 913.2 million at the end of 1962 to IL 1,180.2 million at the end of 1963. These figures include foreign currency deposits of IL 546.8 million (\$ 182.2 million) at the end of 1962 and IL 632.9 million (\$ 211.0 million) at the end of 1963. Some of the 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. These obligatory deposits amounted to IL 171.6 million at the end of 1963, as compared with IL 135.9 million at the end of 1962—an increase of IL 35.7 million.

The banks are also required to deposit with the Bank of Israel most of their foreign currency deposits. In addition to the Pazak and Tamam accounts, which are obligatory, banks are required, under directives which took effect on March 31, 1963, to hold a minimum balance of 15 per cent of the total deposits of nonresidents (Patach) with the Bank of Israel.

Together with these obligatory deposits, the banking institutions maintain other demand and time deposits with the Bank of Israel. Demand deposits increased

in 1963 from IL 81.5 million to IL 100.4 million, and time deposits from IL 149.0 million to IL 275.2 million.

Deposits of financial institutions other than banks, which are required to maintain a minimum reserve with the Bank of Israel under the Bank of Israel Ordinance (Financial Institutions), 1962, totalled IL 2.4 million at the end of 1963, as compared with IL 1.4 million at the end of the previous year.

In 1963 there was a slight change in the average interest rate on the local currency deposits of banks and financial institutions, 7.5 per cent being paid on those sums deposited as a result of the raising of the liquidity ratio from 64 to 69 per cent.<sup>1</sup> The average interest on all local currency deposits came to only 3.8 per cent.

There was also a change in the interest rates on Tamam deposits, effective February 6, 1963. The new rates are as follows: deposits for a three-month period—2 per cent; six months—3 per cent; nine months—4 per cent; 12 months—4.5 per cent.

Since March 27, 1963 the Bank of Israel has paid interest on Patach demand deposits as well, whereas prior to that it paid interest only on Patach time deposits. The new interest rates are: on the minimum 15 per cent balance—3 per cent; on any balance above that—3.5 per cent.

#### (b) *Rediscounts*

The balance of rediscounted bills in local currency rose from IL 7.5 million at the end of 1962 to IL 37.9 million at the end of 1963. Practically the entire sum was rediscounted through the Export Financing Fund.

Loans from this Fund bear interest of 6 per cent, a lower rate than that which prevailed before the establishment of the Fund. The reduction stems from the fact that the contribution of the Government and the Bank of Israel to the Fund—20 per cent each—has been given at 2 per cent interest p.a. The share of the commercial banks amounts to 60 per cent, half of it from their free resources and half as part of their directed credit.

Foreign currency rediscounts, excluding bills sold to banks, declined by IL 16.7 million in 1963, from IL 64.4 million to IL 47.7 million. The decrease is attributable in part to the diversion of monies to the Export Financing Fund.

Part of the foreign currency rediscounts were effected through the Export Financing Fund, which also finances uncut diamond imports. In order to reduce exporters' financing costs and to keep the interest rate down to 6 per cent, the Bank of Israel extends credit at interest of 2½ per cent to the extent of 30 per cent of all credit granted for these purposes; the balance is financed by banking institutions through credit lines abroad. Credit for financing the import of uncut diamonds is given at 6 ¼ per cent interest.

<sup>1</sup> The rates of interest paid on the various types of local currency deposits will be found in the Annual Report for 1962, p. 467.

**Table XXI-5**  
**REDISCOUNTS, BY SECTOR, 1962-63**  
(IL thousand)

(End of period)

Sector	1962		1963	
	Local currency	Foreign currency	Local currency	Foreign currency
Agriculture	750	30	350	—
Industry	6,544	27,181	37,560	21,740
Construction	142	—	—	—
Commerce <sup>a</sup>	60	12,661	—	17,877
Public services	—	23,240	—	15,298
National Institutions	—	16,921	—	7,770
Miscellaneous	—	750	—	—
<b>Total</b>	<b>7,496</b>	<b>80,783</b>	<b>37,910</b>	<b>62,685</b>
<b>Total in local and foreign currency</b>	<b>88,279</b>		<b>100,595</b>	
Less: Notes sold to banks	16,380		14,940	
<b>Balance</b>	<b>71,899</b>		<b>85,655</b>	

<sup>a</sup> Foreign trade and construction jobs abroad.

(c) *Sale of bills to banking institutions*

Following the further substantial increase in deposits with commercial banks in 1963, the Bank of Israel continued to sell them discounted bills. This was in line with the Bank's policy of limiting the grant of credit to the public within the framework of exemptions from the liquidity requirements. The rate of interest on the bills was raised from 7 to 8 per cent.

The bills are sold for periods of two or three months. 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.

Since the amount of bills suitable for sale to banks was limited (the repayment period was too short, the amounts were unsuitable, etc.), the Bank decided to sell, in addition to discounted bills, participations in the Absorption and Defense Advance.

The Bank likewise continued to sell to banking institutions participations in land bills issued by the Treasury in accordance with the Land Bills Law, 1949.

The bills were sold in return for the surplus liquid assets at the banks' disposal. The participations are for full-month periods and bear interest of 9 per cent per annum. The sale of these bills in 1963 was on a much more limited scale than in 1962, and at the end of the year the outstanding balance dropped to zero.

Sales of all types of bills to the banks amounted to IL 36.5 million at the end of 1963, as compared with IL 16.5 million at the end of 1962.

## 5. CURRENCY IN CIRCULATION

### (a) *Currency in circulation*

The monthly average of currency in circulation each Wednesday rose from IL 452.3 million in December 1962 to IL 578.4 million in December 1963—an increase of 27.9 per cent as compared with one of 18.8 per cent in 1962.

The expansion was steady, but was more striking in the months February–April, after publication of the administrative order abolishing bank secrecy for the purpose of income tax investigations, which led to the withdrawal of deposits from the banks. More than half of the entire year's growth occurred in these three months.

Table XXI-6

### CURRENCY IN CIRCULATION, 1963

(IL thousand)

(Wednesday averages)

Month	Currency in circulation
December 1962	452,331
January 1963	448,541
February	466,910
March	501,186
April	524,505
May	526,254
June	536,739
July	543,498
August	550,338
September	560,450
October	567,386
November	572,447
December	578,368

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

In 1963 the total value of IL 50 banknotes in circulation continued to increase, and their proportion rose from 47.8 per cent of all banknotes to 59.4 per cent. The share of banknotes of all other denominations declined: IL 10 banknotes from 44.6 to 34.9 per cent, IL 5 banknotes from 4.7 to 3.4 per cent, IL 1 banknotes from 2.3 to 1.9 per cent, and IL ½ banknotes from 0.6 to 0.4 per cent. The decline in the share of IL 1 and IL ½ banknotes was influenced by the introduction of metal coins in those denominations.

Substantial changes occurred during the year in the composition of coins in circulation. The rise of IL 4.2 million in the total value of coins in circulation resulted mainly from the issue of IL 1 and IL ½ coins, which were meant to partly replace banknotes of these denominations. The total value of these types of coins in circulation at the end of 1963 was IL 3.1 million.

The replacement of old coins denominated in prutot with new coins denominated in agorot, which was begun in 1960, continued in 1963, and steps were taken to speed the withdrawal of the old coins from circulation. At the end of 1963 the new coins (including those in denominations of IL 1 and IL ½) constituted 69.5 per cent of the value of all coins in circulation, as compared with 53.3 per cent at the end of 1962.

At the end of 1963 the composition of the coins in circulation was as follows:

	Per cent
Old coins (denominated in prutot)	16.0
New coins (denominated in agorot)	46.7
Coins of IL 1 and IL ½	22.8
Commemorative coins	14.5
Total	100.0

(c) *Damaged currency*

In 1963 the unit for the destruction of unusable notes and coin destroyed IL 187.4 million worth of banknotes and about IL 640 worth of paper tokens.

During the year the Bank received 263 applications to exchange damaged currency, to the value of IL 4,824. Of these, 238 applications, totalling IL 4,371, were approved.

In 1963 old metal coins (in denominations of 5 and 10 prutot), to the value of approximately IL 1 million, were melted down, most of the job being done abroad.

(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 issue, the Bank of Israel exchanged IL 275,000 worth of such banknotes in 1963. The balance of such banknotes in circulation at the end of 1963 amounted to IL 900,000, or 0.16 per cent of total currency in circulation.

(e) *Agencies for the supply of cash*

The Bank of Israel has agencies in Beersheba, Hadera, Netanya, Petah Tikva, Rehovot, and Tiberias which supply cash to banking institutions in the provincial towns.

In addition to these agencies and those opened in 1962 at the three largest banks in Tel Aviv, agencies were opened in 1963 in branches of the same banks in Haifa. This arrangement has achieved further economy in the transfer of funds to and from the Bank of Israel and led to further improvements in the technical work connected with the transfer of banknotes.

## 6. NOTE AND COIN ISSUE

(a) *Minting of IL 1 and IL ½ coins*

In 1963 new copper-nickel coins of IL 1 and IL ½ denomination were minted and put into circulation. On the obverse they bear the symbol of the State and the inscription "Israel" in Hebrew, Arabic, and Latin letters; on the reverse is the denomination and date of issue. The IL ½ coin is 24.5 mm. in diameter and weighs 6.8 grams; the IL 1 coin is 27.5 mm. in diameter and weighs 9 grams.

The coins are used concurrently with banknotes of the same denominations.

(b) *Minting of commemorative coins*

Two commemorative coins were minted in 1963:

(1) A IL 5 silver coin, illustrating maritime development, and commemorating Israel's 15th Independence Day. The coin weighs 25 grams, and has a diameter of 34 mm. and a silver content of 90 per cent.

(2) A IL 1 copper-nickel coin, issued in honor of Hanukka, 1963, and depicting an 18th century North African Hanukka candelabrum. It weighs 14.1 grams and has a diameter of 32.2 grams.

(c) *Withdrawal of the prutot series*

The withdrawal of coins denominated in prutot continued, and at the end of the year they constituted only 24 per cent of all coins of the relevant denominations in circulation.

Table XXI-7

## NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1962-63

(End of period)

Denomination	1962		1963	
	IL '000	%	IL '000	%
<b>Banknotes</b>				
IL ½	2,663	0.6	1,921	0.4
IL 1	9,606	2.3	10,176	1.9
IL 5	19,786	4.7	18,182	3.4
IL 10	187,977	44.6	187,383	34.9
IL 50	201,705	47.8	319,109	59.4
Total banknotes	421,737	100.0	536,771	100.0
<b>Coins</b>				
1 pruta	5	0.1	5	0.1
5 prutot	48	0.5	48	0.4
10 prutot	413	4.4	374	2.7
25 prutot	182	1.9	169	1.2
50 prutot	839	8.9	588	4.3
100 prutot	557	5.9	382	2.8
250 prutot	589 <sup>a</sup>	6.2	588 <sup>a</sup>	4.3
500 prutot (silver)	22	0.2	22	0.2
1 agora	370	3.9	555	4.1
5 agorot	1,082	11.5	1,365	10.0
10 agorot	2,356	25.0	3,031	22.3
25 agorot	1,215	12.9	1,404	10.3
IL ½	—	—	1,391	10.2
IL 1	—	—	1,713	12.6
<b>Commemorative coins</b>				
IL ½	27	0.3	27	0.2
IL 1	243	2.6	258	1.9
IL 5	840	8.9	897	6.6
IL 20 (gold)	201	2.1	201	1.5
IL 50 (gold)	146	1.6	196	1.4
IL 100 (gold)	292	3.1	393	2.9
Total coins	9,427	100.0	13,607	100.0
Total currency in circulation	431,164	—	550,378	—

<sup>a</sup> Including paper tokens and silver coins.

## 7. THE ADMINISTRATION OF STATE LOANS

At the end of 1963 the Bank of Israel was administering 64 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.

### (a) *Internal loans*

The outstanding balance of internal loans denominated in Israeli currency totalled IL 640,377,000 at the end of 1963. The outstanding balance of internal loans denominated in U.S. dollars was IL 37,884,000.<sup>1</sup>

During the year IL 30,355,000 was paid in interest and prizes on the internal loans, while redemption payments totalled IL 204,550,000.

The number of loans administered by the Bank was augmented during 1963 by new series of existing State loans and by new issues of loans of public corporations, as follows:

(1) Two additional series—"Yod Dalet" and "Tet Vav"—of the Development Loan, 1960, totalling IL 10 million, were floated. Series "Yod Dalet" bears 5.5 per cent interest per annum, and is fully linked, principal and interest, to the consumer price index. In series "Tet Vav" the owner may decide between linkage and nonlinkage at the time of redemption. If non-linked, interest of IL 66.66 will be paid on each IL 100 of principal; if linked, the interest will be IL 26.66 per IL 100.

(2) The authorized amount of the Short-Term Loan, 1960 was increased by the Knesset from IL 120 million to IL 250 million. It is issued in series redeemable 182, 364, and 546 days after the date of issue. During 1963, 156 new series of this loan were floated, to the amount of IL 273 million; total sales during the year came to IL 280 million. The new series range in amount from IL 500,000 to IL 8 million. During the year 105 series, totalling IL 165.4 million, were redeemed. The net increase in the outstanding balance of the Short-Term Loan during the year amounted to IL 114 million.

(3) A IL 5 million debenture issue of the Industrial Development Bank of Israel was floated. These debentures will be redeemed five years after issue date. At the time of redemption the holder will have the right to choose between linkage to the index and nonlinkage with a higher interest rate (see par. 1 above). If the holder does not exercise his option, the debenture will be redeemed according to the linked calculation.

(4) Two new debenture issues of Tefahot Israel Mortgage Bank Ltd. were floated, to a total value of IL 16 million and bearing interest of 5.5 per cent. The principal and the interest are linked to the consumer price index.

<sup>1</sup> These sums include IL 4.9 million worth of internal loan in Israeli currency and IL 0.1 million worth denominated in dollars, which had matured but not been presented for redemption.

**Table XXI-8**  
**INTERNAL LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1963**  
 (IL thousand)

Type of loan	Number of series	Amount authorized	Amount taken up at end of 1962	Amount issued in 1963	Principal redeemed during 1963	Amount taken up at end of 1963	Interest and linkage differentials paid during the year
<b>Nonlinked loans</b>							
Popular Loans, Premium Bonds <sup>a</sup>	}	41,000	32,117	29	176	31,970	1,223
Special Popular Loan, Interest-Bearing							
Mandatory Bearer Bonds	4	10,000	4,111	—	24 <sup>b</sup>	4,087 <sup>b</sup>	106 <sup>b</sup>
4¾% Government Loans (Financial Institutions)	2	—	14,635	—	8,867	5,768	678
4% Compulsory Loan, 1952	1	20,371 <sup>c</sup>	9,511	—	1,120	8,391	294
2½% Compulsory Loan, 1953	1	9,021 <sup>c</sup>	5,610	—	607	5,003	136
3½% War Loan, 1954-59	1	7,500	300	—	19	281	—
3½% Government Loan, 1953-57	1	4,400	2	—	—	2	—
Immigrant Housing Loan Savings Bonds	1	<sup>d</sup>	334	—	131	203	30
Short-Term Loan, 1960 <sup>e</sup>	1	250,000	99,599	279,573	165,428	213,744	6,140
<b>Linked loans</b>							
Immigrant Housing Loan, Premium Bonds	1	<sup>d</sup>	9,220	15	32	9,203	431
4½%, 6% Immigrant Housing Loan, Interest-Bearing	10	70,000	53,240	3	7,123	46,120	3,322
3% National Loan, 1948-53	1		71	—	5	66	1
Defense Loan, Premium Bonds	1	<sup>f</sup>	16,311	—	56	16,255	344

6½%, 4¾% Defense Loan, Interest-Bearing	1	40,000	25,172	—	4,137	21,035	1,986
3½% Savings Certificates, Dollar-linked	1	10,000 <sup>a</sup>	26,331	—	3,762	22,569	880
5%, 6% Development Loan, 1960	15	125,000	99,942	14,311	—	114,253	6,555
6½%, 6% Local Authorities Loan	2	15,000	11,284	—	2,327	8,957	976
6% Debentures, Industrial Development Bank of Israel Ltd.	4	45,000	47,688	5,000	5,595	47,093	3,386
5% National Oil Company Ltd.	1	10,000	14,087	—	1,537	12,550	654
Jewish Agency Immigration Loan, Premium Bonds	1	10,000	14,779	—	3,096	11,683	262
5%, 6% Debentures, Israel Electric Corporation	2	27,000	18,750	—	508	18,242	1,202
5½%, 5%, 6½% Debentures of Tefahot Israel Mortgage Bank Ltd.	4	41,000	27,076	15,826	—	42,902	1,749
<b>Total</b>	<b>62</b>		<b>530,170</b>	<b>314,757</b>	<b>204,550</b>	<b>640,377</b>	<b>30,355</b>
			<u>\$ thousand</u>				
<b>Internal loans in foreign currency</b>							
3½% Tavei Dollar, 1951	1	25,000	45,454	—	7,571	37,883	1,575
Certificates of Obligation against Foreign Currency	1	1,391 <sup>c</sup>	1	—	—	1	1,575
<b>Total</b>			<b>45,455</b>	<b>—</b>		<b>37,884</b>	<b>1,575</b>

<sup>a</sup> Incremental amount taken up as a result of the redemption of bonds held by the Bank of Israel on behalf of the Accountant General.

<sup>b</sup> Bonds registered in Israel alone. The amount redeemed includes bonds which were permitted to be taken out of the country and were struck off the Israeli register.

<sup>c</sup> Amount actually sold by the end of 1963.

<sup>d</sup> Included in the authorized amount of the interest-bearing Immigrant Housing Loan.

<sup>e</sup> A new series may be issued to replace a series fully redeemed.

<sup>f</sup> Included in the authorized amount of the interest-bearing Defense Loan.

<sup>g</sup> According to the linkage terms of the loan, each IL equals \$ 2.80.

The Israel Electric Corporation Ltd. floated a IL 5 million debenture issue in two series. In both series the principal is linked, but one bears 5 per cent interest linked to the index, and the other bears 6 per cent nonlinked interest. The issue was sold by the Bank of Israel, but it will be administered by the Electric Corporation itself.

In November 1963 the Bank began mailing certificates of the Absorption Loan, 1961 to persons entitled to them. By the end of the year certificates were distributed to the nominal amount of IL 3,795,000.

The conversion of dollar-linked Savings Certificates, 1951 (registered) into 3.5 per cent interest-bearing certificates (bearer) continued in 1963. Savings certificates to the nominal value of IL 33,530 were converted which, at the rate of IL 8.40 per IL 1 of nominal value, amounted to IL 281,652.

During the year 43 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 6,366,000. Unclaimed winnings at the end of 1963 totalled IL 2,959,000.

The fifth instalment (10 per cent) of the Tavei Dollar Loan, 1961 was redeemed, in the amount of \$ 2.5 million.

**Table XXI-9**  
**EXTERNAL LOANS ADMINISTERED IN ISRAEL BY**  
**THE BANK OF ISRAEL, 1963**

(\$ thousand)

Loan	Amount subscribed at end of 1963	Amount redeemed by end of 1963 <sup>a</sup>	Amount owing at end of 1963	Amount converted into IL in 1963	Interest paid in Israel only in 1963
Independence Loan	145,532.8	75,787.2	69,745.7	2,658	527
Development Loan					
First series	234,140.1	94,356.3	139,783.9	6,922	806
Second series	271,652.6	57,009.2	214,643.3	16,696	400
Total	651,325.5	227,152.7	424,172.8	26,276	1,733

<sup>a</sup> Debentures redeemed in Israeli pounds, those redeemed in dollars, and those exchanged for later issues.

(b) *Foreign loans*

The conversion of Independence and Development Bonds into Israeli pounds amounted to \$ 26,276,000 in 1963, as against \$ 26,823,000 in 1962. Of the amount redeemed, 36.4 per cent was used to finance investments in Israeli en-

terprises by foreign investors, 14.9 per cent was spent by tourists during their stay in this country, and the balance was donated to Israeli institutions or transferred as gifts to Israeli residents.

## 8. THE EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1963 the Department of the Examiner of Banks in the Bank of Israel exercised control over 92 banking and financial institutions, as against 95 at the end of 1962.

During the year five financial institutions stopped engaging in the receipt of deposits and the granting of loans. Two new mortgage banks and one investment bank were opened: Independence Mortgage and Development Bank Ltd., Yesod Mortgage Bank Ltd., and the Shipping and Investment Bank Ltd.

Halvaa Vehisachon Cooperative Society of Afula and Vicinity transferred its banking business to the Zerubabel Bank in February 1963.

**Table XXI-10**  
**BANKING AND FINANCIAL INSTITUTIONS UNDER**  
**BANK OF ISRAEL CONTROL**

(End of period)		
Type of institution	1962	1963
Commercial banks	27	27
Credit cooperative societies	26	25
Mortgage and investment banks	14	17
Financial institutions	28	23
Total	95	92

### (a) *Audits*

In the course of the year 45 audits were carried out in banking and financial institutions, of which 16 were general and 29 partial audits. The Department also conducted three special surveys in all the banking institutions; two of them were intended to gather data on the volume of transactions in bill brokerage by the banking institutions, while the third was designed to examine the procedures followed by the banking institutions in handling and reporting deposits made in connection with applications for the purchase of newly issued securities.

The partial audits covered *inter alia* the grant of credit through the Export Financing Fund and of other types given under the direction of the Bank of Israel, operations in connection with documentary credits, the procedures for

guarantees and the method of recording them, and spot examinations of cash on hand.

In addition, the Department continued to carry out routine inspections in various other 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 various laws.

(b) *Bill brokerage*

In 1963 the bill market expanded substantially, the balance of transactions rising from IL 260 million at the end of December 1962 to approximately IL 430 million at the end of December 1963.

In most transactions of this type the banking institution merely serves as an intermediary between the seller and the buyer of the bill. In other cases, the bank sells its clients bills which it has discounted. The audits conducted by the Department revealed that in many instances the transactions were defective both from the formal and the banking aspects; they were not really in the nature of brokerage transactions in which the banking institution performs the function of agent. In these cases the transactions were defined as the receipt of deposits requiring the holding of liquid assets on the one hand, and the granting of loans out of these deposits on the other.

In a circular to the banking and financial institutions dated December 9, 1963, the Examiner of Banks set forth a number of minimum conditions which must be met if transactions were to be recognized as brokerage in bills. It stipulated *inter alia* that:

1. The institution shall serve as an intermediary only, and shall not be a party to the transaction.
2. The amount and the repayment date of the bill sold by the seller must be identical with that of the bill purchased by the buyer.
3. The subject of such transactions shall be a negotiable instrument in the meaning of the Bills of Exchange Ordinance.
4. The intermediary must bring to the buyer's attention the important details of the instrument he has purchased.
5. In its notifications to the parties, the intermediary must state specifically whether or not it guarantees payment of the instrument.
6. The instrument shall be saleable only in its entirety, and not in the form of a participation.
6. Loans or any part thereof shall not be subject to brokerage.

With regard to the transfer of loans, it was laid down, after consultation with the Advisory Committee of the Bank of Israel, that brokerage in loans shall not be permitted, with the exception of loans from the institutions' portfolio. These may be transferred if the provisions of the Debt (Assignment)

Ordinance are met, on condition that the loans be transferred in their entirety and against the guarantee of the transferring institution.

In the circular, the Examiner of Banks emphasized the importance attached to the responsibility of the institutions for payment of the bills sold through their intermediation. The general public, for the most part, is unable to judge the genuineness of the instruments it buys and does not know the financial situation of the signers and endorsers; hence it naturally relies on the banker with regard to the soundness of the transaction and the genuineness of the instruments.

A draft amendment to the Banking Ordinance has been prepared, empowering the Governor of the Bank of Israel, after consultation with the Advisory Committee on Matters Relating to Banking Business, to lay down in an administrative order the ratio to be maintained by each bank between the various balance sheet items mentioned in the law. The main purpose of the proposed law is to restrict the volume of guarantees given in connection with bill brokerage, in view of the fact that a number of banks have increased the balance of such guarantees out of all proportion to their other transactions and to other balance sheet items, such as equity capital, deposits of the public, and total assets.

Until the proposed law is adopted and takes effect, the Examiner of Banks has laid down in an administrative order that the amount of the guarantees shall not exceed the larger of the following two sums: three times the equity capital, or one-third of the deposits requiring the maintenance of liquid assets.

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

Under the existing directions, the banking institutions submit reports on the state of their business and on their liquid assets at the close of business every Wednesday and on the last day of the month. The financial institutions submit monthly reports only, for the last day of the month. Beginning March 1963 all the institutions were permitted to submit, instead of reports on their liquid assets for one day a week, reports for every day of the week, from Thursday to the following Wednesday. These daily reports are submitted once a week.

For institutions which submit daily reports, the calculation of liquidity is made on the basis of the daily average of liquid assets which they were obliged to maintain during the week, and the daily average of the liquid assets actually maintained.

*(d) 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. At the end of 1963 such credit constituted 70 per cent of total credit extended to the public by the banking institutions. The Department compiles the data, and notifies the banking institutions of the obligations of such borrowers to all the banking institutions which reported.

Table XXI-11  
MAJOR BORROWERS, 1962-63

(End of period)

	1962	1963
No. of banking institutions submitting reports	37	37
No. of borrowers included in reports	1,167	1,289
Total value of loans granted to major borrowers (IL million)	1,019.0	1,293.7
Per cent of total loans granted by banking institutions	62.9	69.2

(e) *Statistics on banking and financial institutions*

The monthly pamphlet issued by the Department was expanded in 1963 to include additional series of statistical data. It summarizes *inter alia* the assets and liabilities of the banking institutions, their liquidity, the distribution of credit by economic sector, the distribution of deposits and credit by amount, the number and location of bank branches, the means of payment, and clearing operations. In 1963 summaries of the assets and liabilities of the mortgage and investment banks and of the financial institutions were published for the first time.

(f) *Bank branches*

At the end of 1963 the number of bank branches, excluding head offices, stood at 619, as against 591 at the end of 1962—an increase of 28 as compared with 33 the previous year. The smaller increase was due to the restrictions imposed in the Banking Ordinance (Amendment No. 5) Law, 1961, which took effect on May 24, 1961 and 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, such as the opening of eight branches in Arab villages, the subcommittee decided not to recommend to the Governor at this stage the grant of permits for the opening of new branches. The remaining branches opened in 1963 had been granted permits by virtue of the fact that construction had begun or the relevant contracts signed before the law took effect.

(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.

The new fund for financing exports, which went into operation in September 1962, with the participation of the Ministry of Finance, the Ministry of Commerce and Industry, and the banking institutions, was considerably enlarged in 1963. Outstanding loans at the end of the year totalled IL 144.6 million, as compared with IL 31.4 million at the end of 1962. Part of this increase stemmed from the transfer of monies from other funds which provided working capital for export requirements; their outstanding loans declined from IL 22.1 million at the end of 1962 to IL 0.2 million at the end of 1963. Aside from these funds, part of the export credits were given in foreign currency, mainly for financing export shipments. Outstanding credit of this type amounted to IL 27.5 million at the end of 1963, as compared with IL 18.9 million at the end of 1962.

Total outstanding credit granted by the various export funds, including that extended in foreign currency but excluding the financing of imports-for-export, amounted to IL 172.3 million at the end of 1963, as compared with IL 72.4 million at the end of 1962.

The interest charged by the banking institutions on loans from the new Export Financing Fund was reduced on January 1, 1963 from 7.5 to 6 per cent.

In 1963 the Fund extended credit also for the purchase of local raw materials for export production.

In February 1963 it was decided, in conjunction with the Ministry of Finance, the Controller of Diamonds, and the banking institutions, to extend loans from the Fund's resources to the diamond industry as well. This credit is given by the banks at  $6\frac{1}{8}$  per cent interest, and is intended to finance the import of uncut diamonds, the maintenance of stocks of uncut and polished diamonds, and export shipments. The rest of the credit required by diamond dealers for these purposes is given by the institutions either in credit lines or in foreign currency loans from nonresidents' deposits.

Outstanding local currency loans to the diamond branch from the Export Financing Fund amounted to IL 63.1 million at the end of 1963.

## 9. CHECK CLEARANCE

The activity of the clearing house in 1963 was governed by the new clearing house regulations which went into effect at the beginning of October 1962.

The clearing house committee, appointed by the Governor of the Bank in accordance with the regulations, dealt with current problems of the clearing house and with a number of questions of principle connected with the work of the clearing house in the future.

The main subjects considered by the clearing house committee were:

1. Bringing regulations and procedures up to date. During the year changes occurred both in the procedures laid down and in the list of bank branches participating in the clearing house.

2. Expediting and expanding check clearance. The clearing house committee took a number of steps during the year to speed up and expand check clearance. The clearance of debit balances through the clearing house was begun, it was decided to establish local clearing houses in communities outside the three main urban clearing house areas, and several other activities were decided upon.

3. Mechanization of check clearance. In view of the continued increase in the number of checks and other instruments handled by the clearing house, the clearing house committee discussed the introduction of electronic mechanization. The problem has become more pressing since several banking institutions began introducing electronic mechanization in their offices. A committee of experts, comprising a representative of the Bank of Israel, who serves as chairman, and representatives of the banks, is studying the practical problems involved.

4. Standardization of forms. The clearing house committee decided on the use of a standard check form by all banking institutions and on the standardization of clearing house forms. These steps are the first stage in the mechanization of the clearing procedures, and they will also facilitate the work of banking institutions and clearing houses.

**Table XXI-12**  
**CHECKS CLEARED THROUGH CLEARING HOUSES, 1961-63**

	1961		1962		1963	
	No. of checks ('000)	Amount (IL m.)	No. of checks ('000)	Amount (IL m.)	No. of checks ('000)	Amount (IL m.)
Urban clearing houses						
Jerusalem	2,148	1,443	2,492	2,010	3,022	2,353
Tel Aviv	8,561	6,631	10,170	8,270	11,712	11,044
Haifa	2,488	1,608	3,074	2,122	3,513	2,578
Total	13,197	9,682	15,736	12,402	18,247	15,975
Interurban clearing houses	92	48	—	—	—	—
Local clearing houses	193	56	49	14	48 <sup>a</sup>	14 <sup>a</sup>
All clearing houses	13,482	9,786	15,785	12,416	18,295	15,989

<sup>a</sup> Does not include data on the local clearing houses which began operations in December 1963.

5. Clearance of promissory notes. In view of the fact that many promissory notes are not paid on time, the clearing house committee has taken the first steps toward instituting promissory note clearance through the clearing house.

As in previous years, there was a substantial increase in 1963 in the number and amount of clearings. The number rose by 2.5 million, or 15.9 per cent, as against a rise of 2.3 million, or 17.1 per cent, in 1962; while the amount rose by IL 3,573 million, or 28.8 per cent, as against IL 2,630 million, or 26.9 per cent, in 1962.

The average amount of the checks cleared in 1963 was IL 874, as compared with IL 787 in 1962. The average amount of the checks returned through the clearing houses was IL 756, as compared with IL 712 in 1962.

**Table XXI-13**  
**CHECKS RETURNED THROUGH CLEARING HOUSES, 1961-63**

	1961		1962		1963	
	No. of checks ('000)	Amount (IL m.)	No. of checks ('000)	Amount (IL m.)	No. of checks ('000)	Amount (IL m.)
Urban clearing houses						
Jerusalem	50	24	60	38	69	45
Tel Aviv	370	230	428	323	520	421
Haifa	82	44	108	64	118	69
Total	502	298	596	425	707	535
Local clearing houses	7	2	1	0	1	0
All clearing houses	509	300	597	425	708	535

The first annual general meeting of clearing house members took place on December 15, 1963, in accordance with the clearing house regulations. Members of the clearing house committee submitted a report on the committee's activities during the previous year. Various subjects raised by members were discussed.

#### 10. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

The Bank's net profit for 1963 totalled IL 24.0 million, as compared with IL 23.3 million in 1962 (excluding the windfall profit resulting from the devaluation of February 1962, which amounted to IL 162.0 million) and IL 20.4 million in 1961.

On the income side, the most striking increase was once again in interest on deposits and investments abroad; this income, which is in foreign currency,

amounted to IL 53.6 million, as compared with IL 36.1 million in 1962, i.e. a rise of IL 17.5 million or approximately \$ 6.0 million.

There was also a substantial growth in income from rediscounting operations both in Israeli pounds and in foreign currency, from IL 4.6 million at the end of 1962 to IL 10.9 million at the end of 1963. The increase resulted mainly from the larger amount of bills rediscounted for financing exports and from the advance repayment of Government foreign currency obligations.

The Bank's expenditure on interest, administration, and other expense items rose from IL 27.7 million in 1962 to IL 49.3 million in 1963. The most conspicuous increase was in interest payments to banks.

In accordance with the provisions of the Bank of Israel Law, the entire net profit was transferred to the Treasury as budgetary income.

## 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 1963 were the following:

1. The National Budget for 1964/65. 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 December 1963.

2. Two reports on the rise in the means of payment. These were submitted by the Governor of the Bank to the Government and the Knesset Finance Committee in accordance with the provisions of section 35 of the Bank of Israel Law. The first report was for the period between June 30, 1962 and February 28, 1963, and the second was for the period between February 28, 1963 and September 30, 1963.

3. A survey of main economic developments during the period January-July 1963, which was published in September.

4. A bi-monthly internal survey of main economic developments. This is submitted to Ministers and senior Government officials.

5. Summary of the study of the financial structure of Israel's industrial companies from 1956/57 to 1961/62.

6. An analysis of the changes in the consumer price indices of different income, origin, and family-size groups, from 1954 to 1962.

7. An analysis of the order of acquisition of durable goods.

8. A survey of Israel's external debt.

At the beginning of 1964 the Department published the study of Mr. E. A. Lisle, deputy director of the French consumption research center CREDOC, on household savings in Israel from 1954 to 1957/58. In continuation of this study, a new survey of saving is now being conducted.

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

1. Continuation of the study of the financial structure of Israel's industrial companies, with emphasis on their business saving.
2. A study of developments in the field of wages, particularly the factors leading to rises beyond the official increases in basic wage rates. This study is being conducted in cooperation with the Central Bureau of Statistics and the Department for Economic Research of the Histadrut. Compilation of the data has been completed and the first summaries have already been published.
3. A survey of investment in educational facilities in 1961 and 1963.
4. An analysis of the components and destinations of imports by the input-output method, for the years 1958-62.
5. A study of the productivity of the factors of production in industry.

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

At the beginning of 1963 a mission of the International Monetary Fund visited the Bank and held current economic consultations as required under section 14 of the Fund's Articles of Agreement.

At the conclusion of these consultations the Executive Board of the Fund adopted resolutions which stated *inter alia*:

"... Earnings from exports of goods and services rose appreciably. Nevertheless, the balance of payments on goods and services account deteriorated slightly owing mainly to increased defense outlays. The inflow of capital rose further and there was again a substantial increase in foreign exchange reserves which, at the end of April 1963, stood at \$ 560 million, representing nearly one year's imports.

"Although substantial progress has been made toward achieving the aims of the New Economic Policy instituted at the time of the exchange reform of February 9, 1962, the situation calls for caution. The recently established price stability faces the threat of continuing pressures. Despite an important agreement that there should be no increase in basic wage rates in 1963, there are indications that wage increases will exceed the increment in productivity and that personal incomes will be augmented by substantial transfers from abroad, contributing to pressure on available resources. The Fund believes that the continued success of the New Economic Policy depends on the strengthening of internal stability. It notes that the monetary authorities have further tightened restrictions on credit, but it believes that there is still considerable scope in the fiscal sphere for action to ease the pressure on resources. It urges Israel to take all appropriate measures to this end.

"Israel has relaxed restrictions on imports and on invisible transactions. Discrimination on imports and bilateralism have again been reduced. The Fund

welcomes these steps but, in view of the strong reserve position, urges Israel to take further measures to reduce reliance on restriction and bilateralism.”

The negotiations begun in 1962 with the World Bank for a \$ 2.5 million loan to finance the construction of a jetty for bulk cargo at Ashdod harbor were continued during the year reviewed. The necessary documents were submitted, and the application is now undergoing technical examination.

In September 1963 the Minister of Finance and the Governor of the Bank participated in the annual conference of Governors of the International Monetary Fund and the World Bank which was held in Washington. The Minister of Finance represents Israel in the International Monetary Fund, and the Governor of the Bank of Israel represents Israel in the World Bank and its affiliated institutions.

At the conference the Minister of Finance described the developments in Israel's economy following the devaluation of February 1962. He then put forward proposals designed to enable the developing nations which recently attained independence to become integrated into international trade, so that they can build up their economies and achieve economic independence.

The Governor of the Bank of Israel, in an address before the Board of Governors of the World Bank, discussed his proposals for financing the developing countries through the mobilization of capital in the world money markets. He proposed the creation of a guarantee fund and an interest equalization fund and the mobilization of money by methods which would not constitute an excessive burden on the international payments system. The Governor met with the management of the World Bank in connection with this proposal, which he put forward at the U.N. Conference on Trade and Development at Geneva, and which was adopted by the conference at the beginning of 1964.

During their stay in Washington, the Minister of Finance and the Governor of the Bank conducted negotiations for an increase in the Bank's quota in the International Monetary Fund and in the World Bank. In January 1964 these negotiations were successfully concluded, and the governing boards of both institutions approved the doubling of Israel's quotas—to \$ 50 million in the Monetary Fund and to \$ 66.6 million in the World Bank. The formal arrangements were completed in April 1964.

Following these changes, and in order to unify the handling of Israel's accounts in the international financial institutions, it was agreed at the end of the year that all of the State's participations in these institutions would be recorded in the name of the Bank of Israel, which according to the law is the State's representative in all matters pertaining to its membership in these institutions. The changes resulting from the transfers are reflected only to a small extent in the Bank's accounts for 1963.

In November 1963 Israel paid an additional instalment of its membership quota to the International Development Association, which is a subsidiary of the World Bank.

The Governor of the Bank took part in 1963 in a meeting of the Organization for Economic Cooperation and Development which was held in Athens, and he delivered a lecture on "Government Expenditure in Some Countries of Accelerated Growth".

A representative of the Bank participated in the ninth annual course of the Economic Development Institute of the World Bank, which lasted from October 1963 to March 1964.

A representative of the Bank, together with a representative of the Treasury, participated in a regional conference of legal advisors held in Bangkok in April-May 1964 to discuss a draft convention initiated by the World Bank with regard to the settlement of investment disputes between states and nationals of other states.

### 13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council, after hearing the Governor's periodic surveys, discussed developments in the economy. The following were among the subjects considered: changes in the liquidity ratio introduced during the year, methods of curbing monetary expansion after the raising of the liquidity ratio, and the problems connected with bill brokerage from the aspect of its monetary influence and of its effect on bank solvency. The Advisory Committee and the Advisory Council approved the Bank's balance sheet as of the end of 1962, the profit and loss account for 1962, and the Bank's operating budget for 1963. They also discussed the reports on the increase in the means of payment submitted by the Governor to the Government and to the Knesset Finance Committee.

The Governor of the Bank submitted to the Advisory Committee a report on the negotiations concerning the wages of the Bank's employees following the job analysis conducted in 1961/62.

The Governor likewise reviewed Israel's relations with various financial institutions.

The Advisory Council approved the issue of various commemorative coins, as required by the Bank of Israel Law.

A good part of the work of the Advisory Committee and the Advisory Council was done in various subcommittees. Among the subcommittees which functioned in 1963 and the beginning of 1964 were: a subcommittee to examine the Bank's balance sheet (Mr. S. Bejarano, chairman, Mr. N. Feingold, and Mr. A. Shechter); a subcommittee to examine the Bank's operating budget (Mr. Y. Chorin, chairman, Dr. Y. Foerder, and Mr. H. Zadok); a subcommittee on building matters (Mr. Y. Chorin, chairman, Mr. M. Chazani, and Mr. D. Recanati); a subcommittee to examine the problems connected with bill brokerage (Dr. Y. Foerder, chairman, Mr. S. Bejarano, Mr. N. Feingold, Mr. D. Recanati, Mr. A.

Zabarski, and Mr. H. Zadok); and a subcommittee to examine further methods of curbing monetary expansion following the raising of the liquidity ratios (Mr. Y. Chorin, chairman, Mr. M. Chazani, Dr. Y. Foerder, and Prof. D. Patinkin).

On February 2, 1964 the Government appointed Dr. Yohanan Bader, M.K., a member of the Advisory Council, replacing Mr. Akiva Govrin, M.K., who had been appointed to the Cabinet.

STATEMENT OF ASSETS AND LIABILITIES  
AS AT DECEMBER 31, 1963

*and*

PROFIT AND LOSS ACCOUNT FOR THE  
YEAR ENDING DECEMBER 31, 1963



BANK OF ISRAEL

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1963

(IL)

	<u>Dec. 31, 1963</u>	<u>Dec. 31, 1962</u>		<u>Dec. 31, 1963</u>	<u>Dec. 31, 1962</u>
<b>INCOME</b>			<b>EXPENSES</b>		
Income accruing from alteration of exchange rate	—	160,048,245	Interest paid, administrative expenses, and other expenses	49,855,811	27,665,458
Interest, commission, and other income	73,825,648	50,966,585	Net profit	23,969,837	185,349,372
	<u>73,825,648</u>	<u>213,014,830</u>		<u>73,825,648</u>	<u>213,014,830</u>
<b>DISTRIBUTION OF PROFITS</b>					
Net profit	23,969,837	185,349,372	Transferred to Accountant General	23,969,837	23,301,127
			Transferred to Treasury to cover its obligations on 18.3.62	—	162,048,245
	<u>23,969,837</u>	<u>185,349,372</u>		<u>23,969,837</u>	<u>185,349,372</u>

BANK OF ISRAEL  
THE GOVERNOR AND MEMBERS OF THE ADVISORY  
COMMITTEE AND ADVISORY COUNCIL  
MAY 1964

*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*  
Y. BADER  
A. BECKER  
S. BEJARANO  
N. FEINGOLD  
Y. FOERDER  
E. HACHOHEN  
Z. ONN  
E. OSTASHINSKY  
D. PATINKIN  
D. RECANATI  
A. SHECHTER  
A. ZABARSKI  
H. ZADOK