

CHAPTER XX

THE SECURITIES MARKET

1. GENERAL TRENDS

STOCK EXCHANGE TRADING and the flotation of new security issues expanded at an unprecedented rate in 1963. Net new issues of Israeli securities floated on the domestic market totalled IL 446 million,¹ compared with IL 401 million in the two preceding years taken together (see Table XX-2). In addition, the Government disposed of about IL 9 million worth of securities from its portfolio, mainly to institutional investors at home and abroad. The medium- and long-term capital raised on the domestic market² accounted for about 16 per cent of gross domestic capital formation, as compared with 10 per cent in each of the previous two years. The volume of Stock Exchange transactions³ at market prices was more than double the 1962 figure, and neared the IL 300 million mark. The market value of the securities listed on the Tel Aviv Stock Exchange increased by nearly 50 per cent, and stood at IL 1,600 million at the end of 1963.

This expansion was accompanied by a steep rise in equity prices during the first half of the year, as well as a far-reaching change in the structure of the market. Equity capital, which in 1962 had accounted for one-third of the total market value of the capital listed on the Tel Aviv Stock Exchange, accounted for fully half in 1963, adding up to IL 850 million at the end of the year, as against IL 330 million at the close of 1962. New listings as well as advancing share prices were chiefly responsible for this expansion. Transactions in equities accounted for 80 per cent of the total Stock Exchange volume in 1963, compared with 50 per cent in the two preceding years.

¹ This figure represents the combined issue value of all securities traded on the Tel Aviv Stock Exchange which were issued in Israel in 1963 against Israeli pounds, less redemption of debentures reaching maturity (with linkage differentials thereon). This total does not include issues allocated to foreign investors wherever such allocations were specified in the prospectus, securities traded or denominated in foreign currency, or securities not traded on the Stock Exchange. On the other hand, there have been included, as in the past, certain series of debentures not listed on the Stock Exchange, namely, those floated by public or quasi-public bodies and acquired almost wholly by institutional investors. In 1963 such issues totalled IL 128 million gross.

² The above net issue figures less the rise in the balance of the Government's Short-Term Loan.

³ See p. 418 for the types of transactions not included in the Stock Exchange volume.

Table XX-1
THE SECURITIES MARKET, 1961-63
(Indicators)

	1961	1962	1963
Net domestic issues			
Proceeds (IL million)	178	224	446
Net domestic issues of medium- and long-term securities as a percentage of gross capital formation	12	8	16
Number of issuing bodies	27	24	51
Israeli currency securities listed on Tel Aviv Stock Exchange (end of year; IL million)			
Par value	627	915	1,152
Market value	710	1,038	1,593
Volume of Stock Exchange transactions (IL million)			
Bonds	41.4	54.2	45.4
Shares	46.5	68.4	241.9
Indices of security prices (end of year; average 1960 = 100)			
Dollar-linked loans	107.6	162.6	161.8
Index-linked loans	113.3	128.7	133.0
Ordinary shares	112.3	145.3	198.7

SOURCE: Central Bureau of Statistics, Tel Aviv Stock Exchange, and Bank of Israel.

Thus in the course of the year the Stock Exchange turned into an equity market first and foremost. This trend was accompanied by a marked change in the composition of the listed share capital: the proportion of financial shares¹ advanced during the year from one-half of the combined market value of ordinary shares to two-thirds; industrial and commercial shares dropped from 32 to 14 per cent of the total.

On the other hand, the relative importance of the bond market declined in 1963. Notwithstanding their increase in absolute terms, new bond issues during the year accounted for only 60 per cent of the net total of domestic security issues, as against 85 per cent in 1962, and the volume of transactions fell by 16 per cent. Among the new issues of loan capital, the Government's Short-Term Loan, which is not value-linked, accounted for 42 per cent of the net total, compared with 37 per cent in 1962 and just under 8 per cent in 1961.

The explanation for the boom in the equity market is to be sought chiefly

¹ Namely, the shares of banks, financial institutions, and investment companies.

Table XX-2

NET DOMESTIC ISSUES, AT ISSUE PRICES, 1961-63

	IL million			Per cent		
	1961	1962	1963	1961	1962	1963
Long-term loans						
Government	14.8	5.3	-14.8	8.3	2.4	-3.3
Other	101.8	114.0	172.0	57.3	50.9	38.6
Total	116.6	119.3	157.2	65.6	53.3	35.3
Short-term Government loans	10.0	70.1	113.9	5.6	31.3	25.3
Total loan capital	126.6	189.4	271.1	71.2	84.6	60.8
Shares listed on Stock Exchange	51.0	34.2	174.9	28.8	15.4	39.2
Total domestic issues	177.6	223.6	446.0	100.0	100.0	100.0

in the abundance of capital seeking investment. A conspicuous rise in liquidity marked the economy in 1963¹ and, along with the real estate, commercial paper, and Short-Term-Loan markets, the equity market served as an outlet for private funds, in accordance with its specific advantages over certain other types of investment: (1) the minimum investment required is comparatively low, (2) the equity market is largely anonymous,² (3) the investment is not liable to capital gains tax (at any rate this was the position in 1963), and (4) an investment in shares is liquidated more easily than one in real estate, for instance. As an investment instrument, equities in 1963 compared favorably also with commercial paper: the amounts invested in both were roughly similar, thanks to the capital gains that could be reaped on equities but not on commercial paper.

The very boom in the equity market stimulated demand in 1963. Rising share prices attracted buying orders, which sent prices up further and prepared the ground for new issues. Prices of new shares advanced markedly—a reflection of the widespread speculation in new issues; another indication of such speculation was the numerous and heavy oversubscriptions. As a countermeasure, the Securities Committee and the Stock Exchange ruled that all subscriptions must be accompanied by down payments, set at 50 per cent in March 1963 and raised to 80 per cent in October. Another ruling stipulated that individual subscriptions may not be split into parts.

¹ See Chapter XV, "The Money Supply, Credit, and the Banking Institutions".

² Registered shares too are generally traded as though they were bearer shares, for they are made out to trustee and nominee companies; when the securities change hands, the transaction is not recorded in the register of the company concerned.

Indications are that the number of shareholders grew substantially in 1963, but no reliable estimates are available.

The decline in the relative importance of the long-term fixed-interest securities market in 1963 was largely a by-product of the stepped-up activity in other markets. Owing to the rigidity of official interest rates in Israel, the bond market holds out little prospects of capital gains, except in special situations such as the anticipation of a devaluation. For many months before the devaluation of February 1962, rumors and genuine expectations provided fertile soil for speculative transactions in dollar-linked bonds. At other times

Table XX-3

SECURITIES LISTED ON TEL AVIV STOCK EXCHANGE, AT PAR VALUE,
1960-63

(End of year)

	IL million				Per cent			
	1960	1961	1962	1963	1960	1961	1962	1963
Government loans								
Dollar-linked	110	120	185	176	24.8	19.1	20.2	15.3
Index-linked	38	43	74	71	8.6	6.9	8.1	6.2
"Mixed" link	4	10	13	13	0.9	1.6	1.4	1.1
Nonlinked	65	71	64	56	14.6	11.3	7.0	4.9
Total	217	244	336	316	48.9	38.9	36.7	27.5
Government-guaranteed loans								
Dollar-linked	47	54	85*	73	10.6	8.6	9.3	6.3
Index-linked	19	15	13	32	4.2	2.4	1.4	2.8
Total	66	69	98*	105	14.8	11.0	10.7	9.1
Other securities								
Ordinary shares	44	114	145	326	9.9	18.2	15.8	28.3
Preference shares	18	24	41*	60	4.0	3.8	4.5	5.2
Dollar-linked loans	—	104	157	150	—	16.6	17.2	13.0
Index-linked loans	96	8	56	121	21.6	1.3	6.2	10.5
"Mixed" link loans	—	62	80	73	—	9.8	8.7	6.3
Nonlinked loans	3	2	2	7	0.7	0.3	0.2	0.1
Total	161	314	481*	731	36.2	50.0	52.6	63.4
Total Israeli securities	444	627	915*	1,152	100.0	100.0	100.0	100.0
Foreign securities	..	46	121*	—	—	—	—	—
Grand total	..	673	1,036*	1,360	—	—	—	—

* Revised figure.

SOURCE: Tel Aviv Stock Exchange.

the bond market is much more placid than the equity market, with a lower turnover¹ and only minor fluctuations. Such was the position in 1963. The market had reacted during the previous year to the currency devaluation, and subsequently settled down to a reduced turnover and relative stability.

In 1963 there was apparently a decline in the transactions of individual investors in the long-term loan market; it seems that many of them switched to other fields such as the Short-Term Loan, the commercial paper market, and equities. Institutional investors, on the other hand, do not trade heavily in any case, and in 1963 one such type of investor, namely provident funds, invested heavily in bonds that were not listed on the Stock Exchange.

2. THE STOCK EXCHANGE LIST

The total par value of securities listed on the Tel Aviv Stock Exchange² stood at IL 1,360 million³ at the end of 1963 (see Table XX-3); this was

Table XX-4

ISRAELI CURRENCY SECURITIES LISTED ON TEL AVIV STOCK EXCHANGE, AT PAR VALUE, 1962-63

(End of year)

	IL million		Per cent	
	1962	1963	1962	1963
Dollar-linked loans	427	399	46.7	34.6
Index-linked loans	143	224	15.6	19.5
"Mixed" link loans	93	86	10.2	7.5
Total value-linked loans	663	709	72.5	61.6
Nonlinked loans	66	57	7.2	4.9
Total loans	729	766	79.7	66.5
Ordinary and preference shares	186	386	20.3	33.5
Total value of Stock Exchange list	915	1,152	100.0	100.0

SOURCE: Table XX-3.

¹ The ratio between the volume of trade and total Stock Exchange securities.

² Including securities denominated in foreign currency.

³ Including linkage differentials on dollar-linked bonds but excluding linkage differentials on bonds linked to the cost-of-living index.

Table XX-5

**ISRAELI SECURITIES LISTED ON TEL AVIV STOCK EXCHANGE,
AT MARKET VALUE, 1960-63**

A. Value at End of Year

Year	IL million			Per cent		
	Bonds	Shares	All securities	Bonds	Shares	All securities
1960	363	130	493	74	26	100
1961	501	209	710	71	29	100
1962	707	331	1,038	68	32	100
1963	745	848	1,593	47	53	100

B. Annual Change (IL million)

Year	Bonds			Shares			All securities		
	Due to additional new securities	Due to premiums and price fluctuations	Total	Due to additional new securities	Due to premiums and price fluctuations	Total	Due to additional new securities	Due to premiums and price fluctuations	Total
1960	41	-14	27	41	54	95	82	40	122
1961	107	31	138	76	3	79	183	34	217
1962	206	58	78	136	342
1963	37	1	38	209	317	517	237	318	555

SOURCE: Tel Aviv Stock Exchange and Bank of Israel.

IL 324 million¹ more than the year before. If the Government Short-Term Loan and other securities that are traded on the Stock Exchange without being formally listed are included, the increase was nearly IL 430 million, together with devaluation differentials on dollar-linked securities, or IL 250 million excluding them.

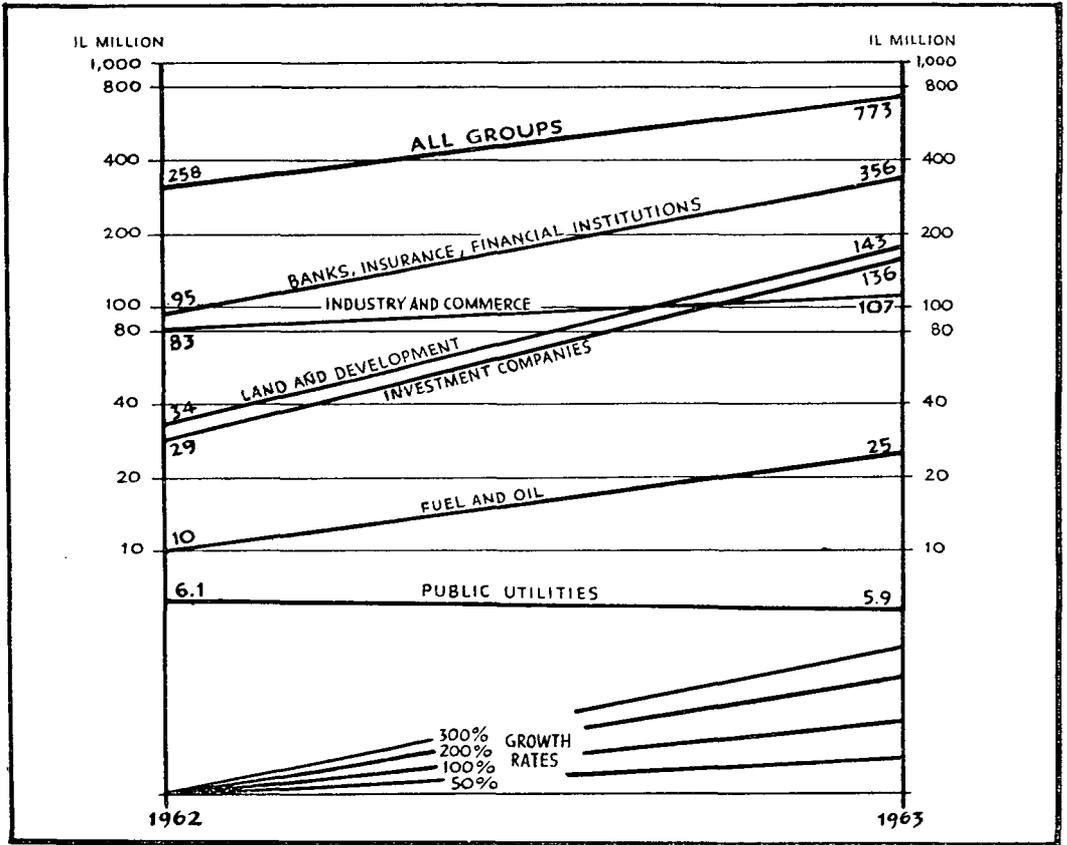
Listed securities denominated in Israeli pounds totalled IL 1,152 million at the close of 1963, as against IL 915 million the year before.² The most con-

¹ There is no identity between the annual increase in listed securities and the sum of new issues during the year. The difference stems mainly from three factors: (a) Changes in the Stock Exchange list are at par value, while new issues are recorded on the basis of issue prices. (b) The issue of a new security and its listing on the Stock Exchange do not coincide. (c) Not all newly listed securities are newly issued. (d) Certain series of securities (see footnote ¹ on p. 408) are not listed on the Stock Exchange. (e) The Stock Exchange list includes some securities that were earmarked for foreign investors and hence do not appear in the list of new issues for the local market.

² Revised figure.

Diagram XX-1

RATES OF CHANGE IN ORDINARY SHARE CAPITAL LISTED ON
TEL AVIV STOCK EXCHANGE, AT MARKET PRICES, 1963



spicuous change in the composition of the list was the steep rise in the proportion of equity capital (see Table XX-4): at the end of 1963 this amounted to nearly IL 390 million—IL 200 million more than the year before—and accounted for one-third of the total, as against 20 per cent at the end of 1962. Loan capital, on the other hand, rose by less than IL 40 million, and even if the unlisted Short-Term Loan is included, the relative share of fixed-interest securities fell in 1963 from 82 per cent of the Stock Exchange list to 72 per cent.

These trends stand out even more in the development of the market value of the Stock Exchange list (see Table XX-5).¹ At the end of 1963 the list was worth about IL 1,590 million, as against IL 1,040 million the previous year. Most

¹ This list does not include securities denominated or traded in foreign currency.

of the increment stemmed from price increases and premiums on new issues (see Table XX-5), while the rest represented the par value of new listings. The market value of all listed shares was two and a half times as much at the end of 1963 as it had been a year earlier—IL 850 million as against IL 330 million—and accounted for about half of the Stock Exchange list as compared with one-third the year before. The proportion of fixed-interest securities diminished, accordingly, from two-thirds to one-half (or from 71 per cent to 53 per cent, if the Short-Term Loan is included); in absolute terms, their value advanced from about IL 705 million at the end of 1962 to IL 745 million.

The number of companies with ordinary shares listed on the Stock Exchange was 66 at the end of 1963, as against 44 at the end of 1962 and 38 at the end of 1961. Among the newcomers, by far the largest groups were financial institutions, land and development companies, and investment companies (see Table XX-6); these groups accounted for 21 out of the 28 companies whose shares were initially listed on the Exchange in 1962 and 1963. The remaining seven were industrial and commercial enterprises; no additional companies were listed in the public utilities and the fuel and oil groups.

Table XX-6

COMPANIES WITH ORDINARY SHARES LISTED ON TEL AVIV
STOCK EXCHANGE, 1961-63

(End of year)

Issuer	1961	1962	1963	Companies added in 1963
Public utilities	1	1	1	—
Banks, insurance companies, and financial institutions	9	10	17	7
Land and development	4	4	8	4
Industrial and commercial	17	20	24	4
Fuel and petroleum	3	3	3	—
Investment companies	4	6	13	7
Total	38	44	66	22

SOURCE: Compiled from data of Tel Aviv Stock Exchange.

This development may largely be explained by the comparative changes that occurred in the share prices of the various groups. Financial and land development shares advanced more than others (see Table XX-11). Demand for new shares in these two categories, underpinned by this very tendency, induced new issues in these sections of the market. Industrial and commercial companies, on the other hand, had less recourse to the new issue market and continued to depend

largely on borrowing. An additional new source of finance for them in 1963 was the Export Financing Fund.

A similar movement took place in 1963 as regards the weight of the financial institutions and land and development companies in total equity capital listed on the Stock Exchange: in nominal terms, these shares advanced from 45 per cent of the total in 1962 to 70 per cent during the year reviewed, and in terms of market value, from 60 to 80 per cent (see Table XX-7). The value of the ordinary shares of the two groups "banks, insurance, finance" and "investment companies" went up from roughly IL 50 million at the end of 1962 to about IL 100 million in June 1963 and to IL 180 million at the end of the year. If land companies are added to these, the growth was from IL 65 million to IL 120 million and IL 230 million respectively. At market prices, which reflect both new listings and price increases, the movement was even more striking—for the first two categories, from IL 125 million to IL 340 million and IL 490 million; and for the three categories, from IL 160 million to IL 420 million and IL 635 million.

Table XX-7

ORDINARY SHARES TRADED ON TEL AVIV STOCK EXCHANGE,
BY ISSUER, 1962-63

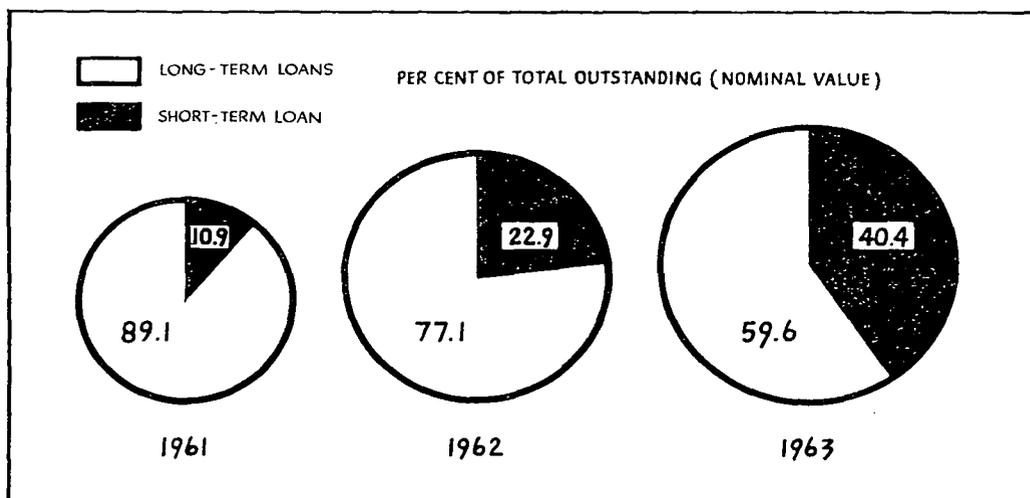
	Par value			Market value		
	Dec. 1962	June 1963	Dec. 1963	Dec. 1962	June 1963	Dec. 1963
	IL million					
Public utilities	9.4	9.4	9.7	6.1	6.4	5.9
Banks, insurance companies, and financial institutions	42.1	73.4	127.0	95.4	257.6	356.1
Land and development	14.0	21.9	50.5	34.2	82.9	142.7
Industrial and commercial	65.2	65.4	80.4	83.2	98.4	107.1
Fuel and petroleum	4.8	4.9	9.9	10.3	19.5	25.3
Investment companies	10.2	24.6	53.5	28.8	82.8	135.8
All groups	145.7	199.6	331.0	258.0	547.6	772.9
	Percentages					
Public utilities	6.5	4.7	2.9	2.4	1.2	0.8
Banks, insurance companies, and financial institutions	28.9	36.8	38.4	37.0	47.0	46.1
Land and development	9.6	11.0	15.3	13.2	15.1	18.5
Industrial and commercial	44.7	32.7	24.3	32.2	18.0	13.8
Fuel and petroleum	3.3	2.5	3.0	4.0	3.6	3.2
Investment companies	7.0	12.3	16.1	11.2	15.1	17.6
All groups	100.0	100.0	100.0	100.0	100.0	100.0

Value-linked loans outstanding rose by IL 45 million, their nominal value amounting to IL 710 million at the end of 1963. Their relative share in total Israeli securities listed on the Stock Exchange dropped from 72 to 62 per cent (see Table XX-4). The main reason for this lay in the disappearance of dollar-linked bonds from the new issue market after the devaluation of 1962. With the gradual redemption of existing dollar-linked loans during the year, their balance declined from IL 430 million to IL 400, and their share among all listed domestic securities from 47 to 35 per cent. At the same time, the outstanding balance of loans linked to the cost-of-living index grew at a slower rate than the securities list as a whole. Private investors who in the past had been in the habit of buying dollar-linked bonds failed to switch to index-linked bonds, but turned instead to equity investment and to the Short-Term Loan (which, as has been noted, is not listed on the Exchange), as well as commercial bills purchased through the intermediation of the banks; institutional investors—and foremost among them the provident funds, which are required by law to invest the bulk of their assets in authorized securities—placed an increasing share of their funds in bonds not listed on the Stock Exchange, e.g. those of the Jewish Agency and the financial institutions of the Histadrut (General Federation of Labor). Hence the comparatively small increase in the amount of index-linked bonds outstanding—from IL 145 million at the end of 1962 to IL 225 million a year later, or from 15.5 to 19.5 per cent of the aggregate list.

The relative share of Government loans in the Stock Exchange list continued

Diagram XX-2

GOVERNMENT LONG- AND SHORT-TERM LOANS, 1961-63



SOURCE: Table XX-8.

to drop, as in previous years,¹ and stood at 27 per cent as compared with 37 per cent in 1962 (at the end of 1960 Government loans accounted for nearly half the total). If the Short-Term Loan is included, the decrease was smaller, from 43 to 39 per cent, for the Short-Term Loan has accounted for an increasing share of the new issues (see Table XX-8). The nominal value of Government bonds traded on the Stock Exchange increased in 1963 from IL 440 million to IL 530 million if the Short-Term Loan is included, but dropped from IL 340 million to IL 320 million if it is excluded.

Table XX-8

GOVERNMENT LOANS TRADED ON STOCK EXCHANGE, 1961-63

(End of year)

	IL million			Per cent		
	1961	1962	1963	1961	1962	1963
Long-term	244	336	316	89.1	77.1	59.6
Short-term	30	100	214	10.9	22.9	40.4
Total	274	436	530	100.0	100.0	100.0

SOURCE: Bank of Israel.

3. TRADE ON THE STOCK EXCHANGE

The volume of Stock Exchange transactions, at market prices, totalled IL 290 million in 1963—twice the 1962 volume and three times that of 1961. Transactions in equities alone accounted for IL 240 million (see Table XX-9), or three and a half times as much as in the previous year and five times as much as in 1961. These figures do not include the proceeds from new issues and transactions outside the Stock Exchange, such as the matching of buying and selling orders by individual banks and the banks' own-account transactions with clients or with one another. There is no record of the volume of these transactions, the importance of which in relation to Stock Exchange trading most probably varies from day to day and from bank to bank. The larger banks, with their bigger network of branches, naturally have better prospects of matching buying and selling orders than the smaller ones. The total volume on the Stock Exchange, and outside it is conservatively estimated at IL 360 million in 1963, apart from the allocation of newly issued securities.

¹ This trend mainly reflects a formal change, as the Government began to raise investment capital through the intermediation of other bodies, instead of doing so directly. See the Bank of Israel Annual Report for 1962, p. 441, and for 1961, p. 393.

Table XX-9

TRANSACTIONS ON TEL AVIV STOCK EXCHANGE, MONTHLY, 1963
(IL thousand)

	Monthly volume		Average share volume per trading day	
	Bonds	Shares	IL '000	Index (January 1963 = 100)
January	5,036	13,092	595	100
February	3,934	15,089	754	127
March	3,944	19,131	957	161
First quarter	12,914	47,312	763	128
April	4,547	11,030	788	132
May	4,729	28,011	1,405	236
June	4,330	29,226	1,392	234
Second quarter	13,306	68,267	1,241	209
July	3,795	23,757	1,080	181
August	2,698	15,721	749	126
September	2,233	20,637	1,032	173
Third quarter	8,726	60,115	954	160
October	2,969	20,394	1,073	180
November	3,073	21,172	1,059	178
December	4,065	24,609	1,070	180
Fourth quarter	10,107	66,175	1,067	179
Annual volume				
1960	33,460	38,246	—	—
1961	41,363	46,505	—	—
1962	54,182	68,385	—	—
1963	45,353	241,869	999	168

SOURCE: Col. 1 and 2: Tel Aviv Stock Exchange.
Col. 3 and 4: Bank of Israel.

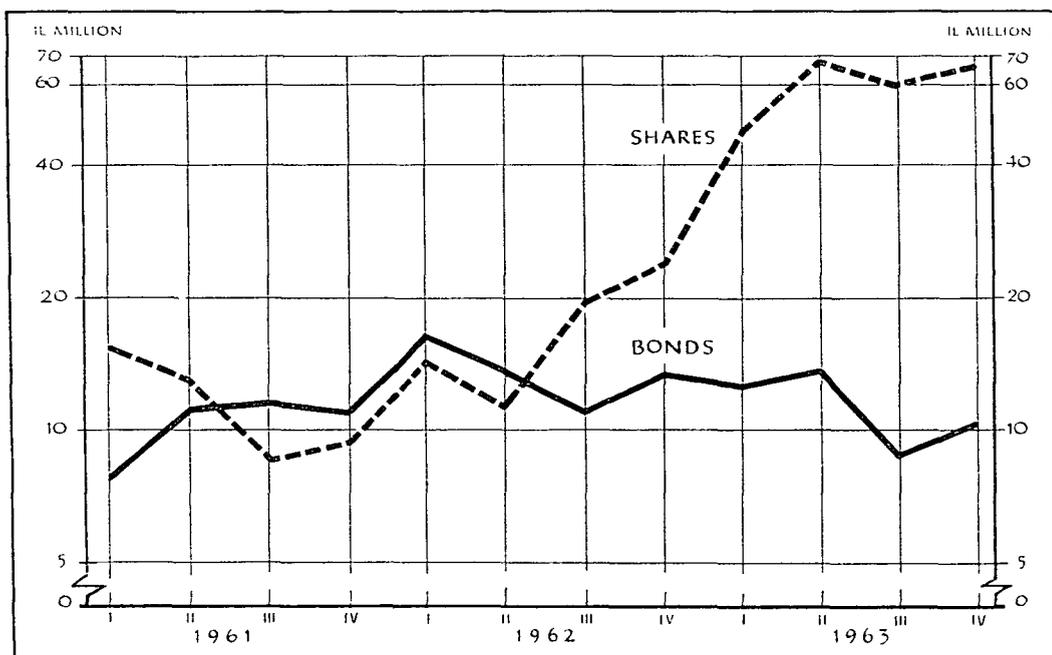
Daily turnover on the Stock Exchange fluctuated sharply in 1963. Equity trading, which accounted for by far the greater portion of the total volume, ranged from IL 350,000 to IL 2.5 million a day, while the daily averages per month fluctuated from IL 600,000 to IL 1.4 million (see Table XX-9).

The volume of trading at "variable" prices¹ ranged from less than 1 per cent to 15 per cent of the daily volume, and as a rule the higher the overall volume

¹ For a summary of dealing arrangements on the Tel Aviv Stock Exchange and the significance of trading at variable prices, see the Bank of Israel Annual Report for 1962, p. 446.

Diagram XX-3

VOLUME OF TRANSACTIONS ON TEL AVIV STOCK EXCHANGE,
AT MARKET PRICES, BY QUARTERS, 1961-63



and the sharper the price fluctuations, the higher the proportion of trading that was done at variable prices.

On most trading days the "banking, insurance, and finance" group led all others in volume of transactions. Second place was occupied alternately by industrial, land and development, and investment company shares. The months April to June were marked by increased activity in the industrial section, which petered out in the second half of the year.

The steep rise in volume reflected the advance in share prices during the year, the very substantial additions to the Stock Exchange list, and the increased annual rate of turnover¹ from 27 per cent in 1962 to 44 per cent in 1963. In the first half of the year, when share prices were moving upward, turnover rose faster than the aggregate market value of Stock Exchange securities; during that period the daily turnover, figured on an annual basis, fluctuated between 41 and 64 per cent. In the third quarter of the year the volume of transactions fell off somewhat, but in the last quarter it picked up again. For the second half of 1963 as a whole, however, turnover was lower than for the first, fluctuating between 30 and 42 per cent.

¹ See footnote 1 on p. 412.

The volume of transactions in fixed-interest securities amounted to IL 45 million in 1963, i.e. IL 9 million less than in 1962 and IL 4 million more than in 1961. These fluctuations are mainly attributable to the exceptional activity that prevailed in the dollar-linked bond market during the months of February to April 1962, in the wake of the currency devaluation.

4. PRICE TRENDS

Prices of fixed-interest securities fluctuated moderately in 1963 (see Table XX-10). After dropping steadily during the first nine months, dollar-linked bond prices steadied in the last quarter. On the average, they ranged from 6 to 10 per cent below adjusted par values during the year; net redemption yields ranged roughly from 4 to 7.5 per cent. At the end of 1963 dollar-linked bond prices were about the same as at the end of 1962, but the annual average for 1963 was appreciably higher than in 1962 after the currency devaluation. (It will be recalled that immediately after the devaluation dollar-linked bond prices advanced by about 35 per cent. They gained another 20 per cent in the remaining months of 1962, then established themselves more or less at that level.)

The prices of bonds linked to the cost-of-living index lagged behind the index in 1963. From the end of 1962 to the end of 1963 they advanced by an average of 3 per cent, and the annual average for 1963 went up to a similar extent; the

Table XX-10
INDICES OF VALUE-LINKED BOND PRICES, 1963

	Dollar-linked bonds		Index-linked bonds	
	Jan. 1963 = 100	Par value adjusted for linkage differentials = 100 (at IL 3/\$ 1)	Jan. 1963 = 100	Par-value adjusted for linkage differentials = 100
January	100.0	93.7	100.0	97.9
February	99.8	93.4	100.5	98.2
March	99.0	92.8	99.8	97.2
April	98.5	92.1	99.4	96.9
May	98.1	92.2	98.7	97.5
June	96.3	90.7	97.9	93.5
July	96.4	90.5	98.2	94.4
August	96.1	90.6	97.7	94.5
September	95.6	89.9	97.7	96.2
October	96.6	90.0	99.4	96.1
November	96.6	89.9	101.1	96.7
December	98.6	91.8	103.7	97.0

SOURCE. Central Bureau of Statistics.

cost-of-living index, on the other hand, rose by 5 per cent from December 1962 to December 1963, and the annual average in 1963 was 6.5 per cent above the 1962 average. Index-linked bond prices ranged from 2 to 6 per cent below their adjusted par values (including linkage differentials) during the course of the year. The redemption yield of the various series amounted to 3.5 to 7 per cent.¹

Prices of nonlinked bonds remained steady, and those of the Short-Term Loan certificates are not determined by the state of offer and demand.²

Equity prices rose steeply during the first six months of the year, with the exception of a sudden brief drop in February (following the announcement that the income tax authorities would thereafter exercise their right to inspect bank accounts in cases where tax evasion was suspected) and a slack period in March and April. Share prices advanced by about 50 per cent during the first six months of 1963, as measured by the monthly weighted index of share prices of the Central Bureau of Statistics (see Table XX-11). (According to the daily index, which is not weighted, the rise was 42 per cent.)

Table XX-11
INDICES OF SHARE PRICES, 1963
(end-1962 = 100)

End of month	Monthly index		Daily index				
	Ordinary shares	All shares	Finance and insurance	Land and development	Industrial and commercial	Investment companies	Oil and petroleum
December 1962	100.0	100.0	100.0	100.0	100.0	100.0	100.0
January 1963	109.1	106.5	114.0	109.5	103.1	113.2	98.7
February	116.2	113.8	120.8	118.5	112.7	118.9	98.2
March	124.4	119.2	127.2	132.9	114.0	124.3	108.7
April	130.7	121.8	137.0	134.4	116.0	129.4	103.1
May	143.1	134.3	156.9	148.9	125.7	144.3	112.3
June	150.2	141.5	164.9	161.8	130.9	156.8	111.0
July	146.0	139.0	162.0	156.7	129.2	155.2	109.0
August	142.6	136.8	154.1	156.5	124.4	151.1	144.5
September	148.0	140.5	159.0	162.2	126.2	159.9	152.6
October	140.3	134.1	149.5	153.4	121.4	148.9	143.0
November	135.4	131.2	147.1	151.6	116.8	150.0	142.0
December	136.7	132.7	149.2	154.8	117.9	151.6	134.2

SOURCE: Central Bureau of Statistics.

¹ Yield calculations include linkage differentials from the date of issue until the date of calculation.

² See Bank of Israel Annual Report for 1962, p. 451.

In the second half of the year the boom came to a halt as a result of several complementary factors: (1) the heavier volume of new issues, which eased the pressure of demand on existing securities; (2) increased sales by shareholders who believed the boom had ended; and (3) the announcement by the Minister of Finance of the intention to impose a capital gains tax on security transactions. All these brought share prices down, but at the end of the year the monthly index of share prices was still 37 per cent above the end-1962 figure.

The daily index of share prices¹ shows that the rise was steepest in three groups: "banking, insurance, finance", where quotations advanced by 71 per cent from the beginning of the year until the peak; "land and development", for which the rise was of the order of 67 per cent; and "investment companies", where it was 54 per cent. In each of these groups some shares moved up a great deal more than the average, some prices even doubling. The advance in land and development shares evidently stemmed from soaring real estate prices, which enhanced the value and attractiveness of these shares. It is more difficult to find a rational explanation for the steep increase in share prices in the finance and insurance and investment company groups. It would seem that the heavy demand for these shares was largely a product of the boom itself and of past experience, and that speculation in these shares, strictly bullish, further accentuated the trend. It must also be borne in mind that some of the companies in these groups as well own real estate, another factor which made their shares particularly attractive. Moreover, the goodwill of the founders of some of the new investment companies was unquestionably an extra asset which the investors took into account.

5. NEW ISSUES

New issues floated on the domestic market amounted to IL 446 million in 1963 (see Table XX-2), as against IL 224 million in 1962 and IL 178 million in 1961. Government issues aggregated about IL 100 million net, or somewhat less than one-fourth of the total as compared with one-third in 1962. Government loan issues consisted preponderantly of short-term loans. To be sure, the Government issued medium- and short-term bonds to the tune of IL 18 million in 1963, but it repaid more than that amount on account of earlier issues.

Other loans totalled IL 170 million—about IL 60 million more than the year before. Most of them were taken up by institutional investors.

New shares issued to the domestic market added up to IL 175 million, as against IL 85 million in the preceding two years taken together. If securities placed abroad and shares traded on the Stock Exchange but not formally listed are included, new equity issues actually totalled IL 206 million (see Table XX-12).

¹ The monthly index is not divided into groups.

Table XX-12

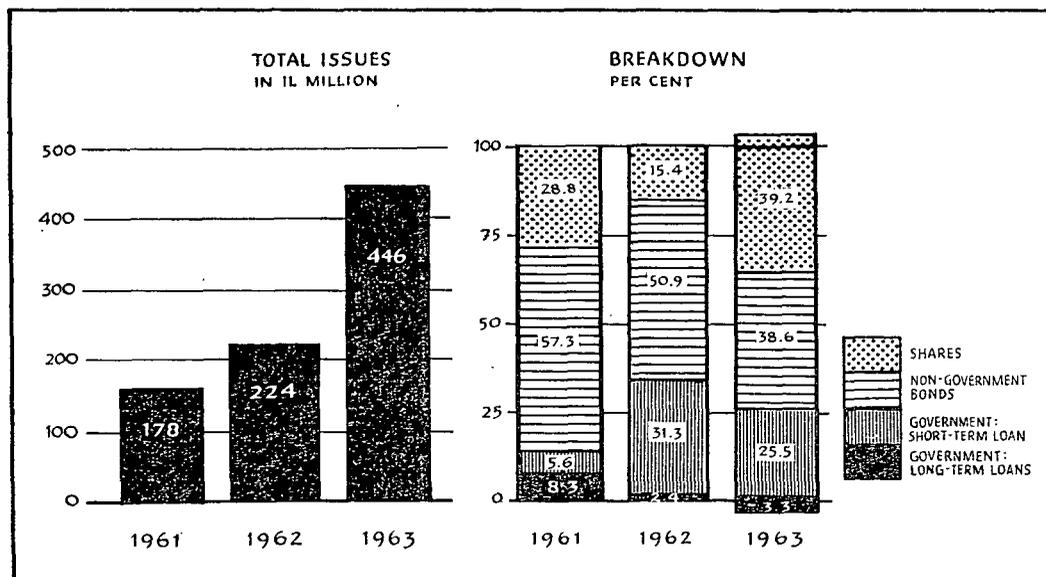
NEW SHARES, AT ISSUE PRICES, BY ISSUER, 1963
(IL thousand)

	Finance and insurance	Investment companies	Industrial and commercial	Land and development	Oil and petroleum	Total
To the public	28,387	35,540	16,893	14,955	—	95,775
Rights issues to stockholders	54,352	4,389	2,503	5,312	12,539	79,095
Total domestic issues	82,739	39,929	19,396	20,267	12,539	174,870
Issues abroad	18,530	8,430	4,300	—	—	31,260
Grand total	101,269	48,359	23,696	20,267	12,539	206,130
Percentages	49.1	23.5	11.5	9.8	6.1	100.0

SOURCE: Bank of Israel.

Diagram XX-4

DOMESTIC ISSUES OF ISRAELI SECURITIES, AT ISSUE PRICES,
1961-63



SOURCE: Bank of Israel.

There is some double-counting in these figures, for part of the newly issued shares were taken up by investment companies, the new shares of which are also included. Others were acquired by mutual funds (unit trusts), but the certificates issued by the latter are not included in the above table. A fifth mutual fund was founded in 1963, and the combined assets of all existing funds, which had aggregated IL 19 million at the beginning of the year, totalled IL 40 million at mid-year and IL 45 million at the end of the year.

Table XX-12 brings out a phenomenon which was referred to earlier — the concentration of new equity capital in the financial and land and development groups. The question arises whether this is a desirable development. The fact that a very substantial amount of liquid funds was absorbed in 1963 by the equity market, and particularly the new issue market, is to be welcomed. This may have eased somewhat the pressure on the commodities market, particularly that for consumption goods. Moreover, it is both natural and desirable that the public should become aware of the fact that investment in equities can serve as a hedge against the effects of inflation, like linking devices and instead of them. On the other hand, it may be asked what the economy stands to gain from the flow of capital in the direction noted. Thus a problem which if anything grew more serious in 1963 was that of regulating and channelling capital issues. For notwithstanding more effective arrangements for examining prospectuses and the technical control of security issues, no method has yet been found to discriminate in favor of issues designed to finance such projects as should command economic priority. What is more, the Committee for the Issue

Table XX-13

DOMESTIC SHARE ISSUES, AT ISSUE PRICES, MONTHLY, 1963
(IL million)

January	13.7	July	13.7
February	1.8	August	14.8
March	4.3	September	16.7
First quarter	19.8	Third quarter	45.2
April	14.9	October	9.6
May	2.6	November	45.9
June	9.8	December	27.1
Second quarter	27.3	Fourth quarter	82.6
First half	47.1	Second half	127.8
Total			174.9

SOURCE: Bank of Israel.

and Trade of Securities, which submitted its recommendations to the Minister of Finance in 1963, arrived at the conclusion that "going into the economic aspects is not one of the tasks of control".

New equity issues on the domestic market amounted to IL 8 million per month, at issue prices, in the first half of the year, and to IL 22 million in the second half (see Table XX-13). The pronounced upward price movement during the first part of the year unquestionably prompted interested companies to decide on new capital issues. But since the preparations take some time, most of the issues were floated toward the end of the year. Another reason for the uneven distribution of new issues in 1963 was that the later ones included a number of issues of above-average size.

6. FOREIGN SECURITIES

The value of foreign securities held by Israeli residents at the end of 1963 was \$ 36.8 million at original purchase prices; this was an advance of \$ 11 million during the year, as compared with a rise of \$ 13 million in 1961 and 1962 together. In view of the decline of about \$ 4 million that took place in Tamam balances during 1963, it may be assumed that there was some shift from foreign currency deposits to foreign securities, where the yield is higher.

Table XX-14

FOREIGN SECURITIES HELD BY ISRAELI RESIDENTS, 1960-63

(\$ million, at original purchase prices)

End of year	Balance	Annual increment
1960	12.6	. . .
1961	20.3	7.7
1962	25.7	5.4
1963	36.8	11.1

SOURCE: Ministry of Finance.

Securities denominated in U.S. dollars accounted for 65 per cent of all foreign securities held by Israeli residents, as against 58 per cent at the end of 1962 and 51 per cent at the end of 1961. Another 14 per cent were in Deutsche marks, 11 per cent in Swiss francs, and 9 per cent in sterling.

As in former years, the figures for foreign securities include the securities of foreign affiliates of local institutions and companies.