

## CHAPTER XXI

### ACTIVITIES OF THE BANK OF ISRAEL

#### 1. SUMMARY OF THE BANK'S BALANCE SHEETS, 1954-64

THE BALANCE SHEET as of December 31, 1964 is the eleventh annual balance sheet of the Bank of Israel, which started operations on December 1, 1954. It would be pertinent, therefore, to briefly summarize the Bank's development during its first decade, as reflected in the annual balance sheets.

The summary of the end-year balance sheets for 1954-64, which is set forth in Table XXI-1, shows the following developments on the assets side: a steady rise in the Bank's foreign exchange and gold balances from \$ 29 million to \$ 548 million, which paralleled the accumulation of foreign currency by the economy during this period (the alteration of the exchange rate in 1962 intensified the influence of this factor on the size of the balance sheet); a downward movement in the Government's debt, with the gradual elimination of resort to advances from the Bank—a trend which began in 1958 with respect to the Government's current liabilities, and in 1960 with respect to Government securities (excluding the advance for the repayment of foreign currency debts); and a substantial rise in rediscounts, reflecting both the expansion of credit through the Export Finance Fund and an increase in loans to foreign governments and institutions, which actually constitute foreign currency assets.

On the liabilities side, the following trends stand out: a rise in deposits of banking institutions, resulting from an appreciable increase in both foreign currency deposits (mainly Pazak and Tamam accounts of recipients of personal restitution) and local currency deposits, and a steady expansion of currency in circulation; the last item, together with the larger local currency deposits, reflects the rapid monetary growth that characterized Israel's economy during the past decade.

The Government's deposits with the Bank of Israel have increased substantially in recent years, reflecting a cash surplus.

#### 2. SUMMARY OF BALANCE SHEET AT THE END OF 1964

At the end of 1964 the assets and liabilities of the Bank of Israel amounted to IL 2,575.0 million, as compared with IL 2,487.5 million at the end of the previous year—an advance of IL 87.5 million or 3.5 percent. This rate of increase was the smallest in the Bank's history—a development mainly due to the marked

Table XXI-1  
**ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1954-64**  
 (IL million)

End of period	1954	1955	1956	1957	1958	1959	1960	1961	1962 <sup>a</sup>	1963	1964
<b>Assets</b>											
Foreign exchange and gold <sup>b</sup>	53.5	90.9	100.1	94.5	169.6	223.0	383.6	503.0	1,258.8	1,546.1	1,645.8
Clearing accounts	—	9.0	7.7	12.1	14.0	5.6	4.5	4.9	17.6	19.5	22.4
Government securities	122.6	146.1	158.8	217.8	214.7	319.8	321.7	351.8	242.6	370.3	352.1
Current liabilities of the Govt.	20.9	51.0	176.9	143.6	130.3	54.0	76.3	51.7	54.1	31.3	52.7
Bills rediscounted <sup>c</sup>	3.6	15.7	35.1	51.8	27.6	33.6	57.0	67.0	107.6	131.5	159.5
Other accounts	1.2	4.5	2.6	2.4	4.2	0.3	0.4	0.4	0.6	0.6	1.0
<b>Total</b>	<b>201.8</b>	<b>317.2</b>	<b>481.2</b>	<b>522.2</b>	<b>560.4</b>	<b>636.3</b>	<b>843.5</b>	<b>978.8</b>	<b>1,681.3</b>	<b>2,099.3</b>	<b>2,233.5</b>
Contingent accounts <sup>d</sup>	—	43.4	2.6	63.5	111.4	159.9	242.0	220.2	335.5	388.2	341.5
<b>Grand total</b>	<b>201.8</b>	<b>360.6</b>	<b>483.8</b>	<b>585.7</b>	<b>671.8</b>	<b>796.2</b>	<b>1,085.5</b>	<b>1,099.0</b>	<b>2,016.8</b>	<b>2,487.5</b>	<b>2,575.0</b>
<b>Liabilities</b>											
Notes and coin in circulation	159.3	183.6	239.9	242.8	264.1	273.0	315.9	363.6	431.2	550.4	616.7
Government deposits	—	17.0	32.8	24.1	26.4	27.1	53.0	102.0	306.7	335.9	254.2
Deposits of other institutions	—	12.6	54.8	51.1	9.5	8.5	11.3	4.3	—	—	—
Deposits of banking institutions <sup>e</sup>	32.1	86.8	124.4	162.9	214.6	280.2	432.7	479.3	913.2	1,180.2	1,323.0
Clearing accounts	—	5.4	15.4	23.8	21.5	26.8	9.0	7.6	7.4	8.5	15.9
Paid-up share capital and reserves	10.0	11.0	13.0	16.8	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Other accounts	0.4	0.8	0.9	0.7	4.3	0.7	1.6	2.0	2.8	4.3	3.7
<b>Total</b>	<b>201.8</b>	<b>317.2</b>	<b>481.2</b>	<b>522.2</b>	<b>560.4</b>	<b>636.3</b>	<b>843.5</b>	<b>978.8</b>	<b>1,681.3</b>	<b>2,099.3</b>	<b>2,233.5</b>
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<sup>a</sup> Until 1961 the foreign currency accounts were calculated at the rate of IL 1.80 per dollar, and since 1962 at the rate of IL 3.00 per dollar.

<sup>b</sup> Including participation in international institutions.

<sup>c</sup> Including loans to foreign governments and institutions.

<sup>d</sup> Including agricultural surplus accounts, documentary credits, guarantees, and exchange funds (up to 1961).

<sup>e</sup> Including deposits of the banking institutions in connection with deposits of nonresidents.

deceleration in the accumulation of foreign exchange reserves, which rose by IL 90.7 million during the year, and also to a decline in contingent accounts.

(a) *Assets*

1. *Foreign exchange*

The Bank's gross foreign exchange and gold holdings, including loans to foreign governments and institutions and the credit balance in clearing accounts, amounted at the end of 1964 to IL 1,701.3 million, or \$ 567.1 million, as against IL 1,610.6 million, or \$ 536.9 million, at the end of 1963.

2. *Government accounts*

The Government's indebtedness to the Bank declined by IL 18.3 million—from IL 423.1 million at the end of 1963 to IL 404.8 million. This resulted entirely from the IL 37.7 million decrease in the advance to the Government for the early repayment of foreign exchange obligations, which was partly offset by an increase in other items.

3. *Rediscounting of bills*

Local currency rediscounts increased to the considerable extent of IL 30.5 million during the year, from IL 37.9 million to IL 68.4 million. The addition was due *in toto* to the rediscounting of bills through the Export Finance Fund. On the other hand, there was a slight drop of IL 600,000 (\$ 200,000) in the value of bills rediscounted in foreign currency. The total amount of credit extended by the Bank to the public through rediscounting operations was IL 29.9 million higher than in 1963.

(b) *Liabilities*

1. *Banknotes and coin in circulation*

The value of banknotes and coin in circulation went up during 1964 by 12.0 percent—from IL 550.4 million to IL 616.7 million. This increment of IL 66.3 million accounted for most of the expansion of IL 93 million in the money supply during the year reviewed. Whereas the growth rate for the latter was 6.1 percent, that for currency in circulation was twice as fast, but still came to only half the previous year's rate of 27.6 percent. Contributing to the increase in banknotes and coin was a IL 3.4 million rise in the value of commemorative coins in circulation. While such coin is legal tender and thus constitutes a liability of the Bank, practically speaking it cannot be regarded as means of payment.

2. *Government deposits*

The total of the Government's creditory accounts fell off by IL 81.7 million in 1964, amounting to IL 254.2 million as against IL 335.9 million at the end of 1963.

Table XXI-2

## ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1963-64

(End of period)

	IL million		Percent		Increase or decrease (-)	
	1963	1964	1963	1964	IL m.	%
<b>Assets</b>						
Foreign exchange and gold <sup>a</sup>	1,564.8	1,657.4	74.5	74.2	92.6	5.9
Participation in international financial institutions	0.8	10.8	0.1	0.5	10.0	—
Government securities	221.6 <sup>b</sup>	241.1	10.6	10.8	19.5	8.8
Advances to the Government for early repayment of foreign debts	148.7	111.0	7.0	5.0	-37.7	-25.4
Current liabilities of the Government	31.3	52.7	1.5	2.3	21.4	68.4
Bills rediscounted	85.7	115.6	4.1	5.2	29.9	34.9
Loans to foreign governments and institutions	45.8	43.9	2.2	2.0	-1.9	-4.1
Other accounts	0.6	1.0	0.0	0.0	0.4	66.7
<b>Total</b>	<b>2,099.3</b>	<b>2,233.5</b>	<b>100.0</b>	<b>100.0</b>	<b>134.2</b>	<b>6.4</b>
Contingent accounts <sup>c</sup>	388.2	341.5			-46.7	-12.0
<b>Grand total</b>	<b>2,487.5</b>	<b>2,575.0</b>			<b>87.5</b>	<b>3.5</b>
<b>Liabilities</b>						
Notes and coin in circulation	550.4	616.7	26.2	27.6	66.3	12.0
Deposits of the Govt. and Govt. institutions	335.9	254.2	16.0	11.4	-81.7	-24.3
Deposits of banking and financial institutions <sup>d</sup>	1,180.2	1,323.0	56.2	59.2	142.8	12.1
Clearing accounts	8.5	15.9	0.4	0.7	7.4	87.1
Paid-up share capital and reserves	20.0	20.0	1.0	0.9	—	—
Other accounts	4.3	3.7	0.2	0.2	-0.6	-14.0
<b>Total</b>	<b>2,099.3</b>	<b>2,233.5</b>	<b>100.0</b>	<b>100.0</b>	<b>134.2</b>	<b>6.4</b>
Contingent accounts <sup>c</sup>	388.2	341.5			-46.7	-12.0
<b>Grand total</b>	<b>2,487.5</b>	<b>2,575.0</b>			<b>87.5</b>	<b>3.5</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, and guarantees.<sup>d</sup> Including deposits of nonresidents.

### 3. Deposits of banking and financial institutions

Local currency deposits of banking institutions moved slightly downward, but foreign currency accounts were IL 146.6 million higher, going up from IL 632.9 million at the end of 1963 to IL 779.5 million. The increase occurred mainly in Pazak deposits, which were IL 127.5 million larger; after a period of decline, Tamam deposits showed a rising trend toward the end of the year, the net increment amounting to IL 1.8 million.

## 3. 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 governments and institutions, less Patach accounts of nonresidents—rose from IL 1,544.3 million (\$ 514.8 million) to IL 1,619.7 million (\$ 539.9 million)—an increase of \$ 25.1 million,

Table XXI-3  
FOREIGN EXCHANGE AND GOLD BALANCES HELD BY  
THE BANK OF ISRAEL, 1960-64  
(IL million)

End of period	Foreign exchange	Gold	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of non-residents <sup>a</sup>	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	18.6	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
1964	476.8	68.2	14.6	2.2	561.8	21.9	539.9
1964 January	457.5	67.1	15.2	5.4	545.2	21.5	523.7
February	460.8	68.1	15.3	4.8	549.0	22.5	526.5
March	507.5	68.1	15.0	5.5	596.1	20.0	576.1
April	524.1	68.1	15.2	5.9	613.4	22.2	591.2
May	525.9	68.1	15.1	7.5	616.6	20.4	596.2
June	507.4	68.2	15.2	6.5	597.3	20.6	576.7
July	504.4	68.2	14.9	7.3	594.8	24.4	570.4
August	484.1	68.2	15.3	7.3	574.9	22.9	552.0
September	482.5	68.2	15.1	4.3	570.1	22.2	547.9
October	493.7	68.1	15.0	2.7	579.5	20.8	558.7
November	485.6	68.1	14.9	2.2	570.8	22.2	548.6
December	476.8	68.2	14.6	2.2	561.8	21.9	539.9

<sup>a</sup> Deposited by banking institutions with the Bank of Israel, in accordance with directives requiring them to deposit 15 percent of such balances.

or 4.9 percent. The share of gold in total reserves stood at about 12 percent, the same as in 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 international institutions, and interest-bearing demand and time deposits in foreign banks. Part of the reserves were kept in non-interest-bearing demand deposits, to finance the Bank's current operations.

Interest income on these foreign exchange reserves, which make up the overwhelming share of the Bank's foreign currency assets, rose from IL 52 million (\$ 17 million) in 1963 to IL 61 million (\$ 20 million) in 1964. This increase stemmed in part from the expansion of the reserves and the larger proportion profitably invested, and in part from higher interest rates abroad. The average annual yield on the Bank's foreign exchange reserves, excluding gold, advanced from 3.8 percent in 1963 to 4.3 per cent in 1964.<sup>1</sup>

Table XXI-4  
BALANCES IN CLEARING ACCOUNTS, 1963-64<sup>a</sup>  
(\$ thousand)

Country	1963	1964	Increase or decrease (-)
(End of period)			
Brazil	777	1,289	512
Bulgaria	153	540	387
Czechoslovakia	465	465	—
Ghana	748	2,339	1,591
Greece	-1,310	-1,478	-168
Hungary	791	985	194
Poland	347	-963	-1,310
Portugal	-1,024	-963	61
Rumania	-450	1,154	1,604
Turkey	3,705	367	-3,338
Yugoslavia	322	840	518
Balances in transit and other accounts <sup>b</sup>	-866	-2,407	-1,541
Total	3,658	2,168	-1,490
Total in IL '000	10,974	6,504	-4,470

<sup>a</sup> A positive sign indicates a balance to Israel's credit, and a negative sign (-) a balance to Israel's debit.

<sup>b</sup> Special account with the Soviet Union, which is not connected with a payments agreement.

<sup>1</sup> The average annual yield on total foreign exchange and gold holdings rose from 3.5 percent in 1963 to 3.7 percent in 1964.

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

At the end of 1964 the Bank of Israel maintained clearing accounts with 11 countries with which Israel had trade and payments agreements, in addition to a special clearing account with the U.S.S.R. The latter account did not originate in a trade and payments agreement, but from the proceeds of the sale to the Israel Government of buildings and land owned by the U.S.S.R.; these proceeds are to be used to purchase goods in Israel.

Israel's credit balances in these accounts amounted to IL 22.4 million (\$ 7.5 million) at the end of 1964, and its debit balances to IL 15.9 million (\$ 5.3 million). The net balance to Israel's credit thus stood at IL 6.5 million (\$ 2.2 million), as against IL 11 million (\$ 3.7 million) at the end of 1963.

(c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel totalled IL 779.5 million (\$ 259.8 million) at the end of 1964, as against IL 632.9 million (\$ 211 million) at the end of 1963—a rise of 23.2 percent, compared with one of 15.7 percent the year before.

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 redeposit 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. Such deposits amounted to IL 476.9 million at the end of 1964, as compared with IL 349.4 million the previous year. In dollar terms, the deposits rose by \$ 42.5 million in 1964, compared with an increase of \$ 33.1 million in 1963.

(2) Deposits of residents transferring 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 sums too must be deposited in full with the Bank of Israel. At the end of 1964 they amounted to IL 214.9 million, as against IL 213.1 million at the end of 1963—an increase of IL 1.8 million (\$ 0.6 million). The stability in total Tamam balances as compared with the rise in respect of Pazak can be attributed mainly to the diminishing of the relative advantage of holding the former. Tamam deposits earn less interest than Pazak, while the fact that they can be used for such purposes as financing foreign travel has declined in importance following the general liberalization introduced with respect to such financing. Toward the end of 1964 Tamam accounts began to show an upward trend.

(3) Foreign securities dividend accounts (Natad). These are restricted foreign currency deposits of Israeli residents in banking institutions, derived from the sale of or the receipt of dividends on foreign securities. These funds may be used only for the purchase of such securities.

As of November 17, 1964, banking institutions were required to deposit these sums in full with the Bank of Israel. At the end of 1964 the balance stood at IL 9.2 million (\$ 3.1 million).

(4) Deposits of nonresidents (Patach). These are sums deposited in Israeli banks by nonresidents—such as investors, immigrants, and foreign experts employed in Israel—and redeposited by these institutions with the Bank of Israel. As of March 31, 1963, the banks were required to hold at least 15 percent of their Patach balances with the Bank of Israel.

The total amount deposited by nonresidents in Israeli banks at the end of 1964 was IL 378.7 million, as compared with IL 322.0 million at the end of 1963. Of this sum, 17.4 percent was redeposited at the Bank of Israel, as against 17.5 percent at the end of 1963.

(5) Other accounts, including foreign currency 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 12.7 million at the end of the year reviewed, as against IL 12.5 million at the end of 1963.

#### 4. 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 63.4 million in 1964. This was due to a decline of IL 111.3 million in its foreign currency deposits. The outstanding debt at the end of the year stood at IL 150.7 million.

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

Ordinary advances to the Government went up by IL 21.4 million during the year—from IL 31.3 million to IL 52.7 million. In contrast, the Government's long-term indebtedness was pared by IL 39.7 million owing to the decrease in the balance of the advance for the early repayment of foreign liabilities. The decline in the Government's liabilities thus amounted to IL 18.3 million. On the other hand, its creditory accounts—deposits with the Bank of Israel in local and foreign currency—were reduced by IL 81.7 million.

##### (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,

Table XXI-5

GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,  
1963-64

(IL million)

(End of period)

	1963	1964
<b>Debit</b>		
Ordinary advances, in Israeli currency	31.3	52.7
<b>Total current liabilities</b>	<b>31.3</b>	<b>52.7</b>
Special advances and Government securities		
Treasury bills	69.4	69.4
Land bills	77.2	77.2
Promissory notes	4.1	2.1
Absorption and Defense Advance	92.4 <sup>a</sup>	92.4
Advance for repayment of foreign currency debts	148.7	111.0
<b>Total long-term debt</b>	<b>391.8</b>	<b>352.1</b>
<b>Total liabilities</b>	<b>423.1</b>	<b>404.8</b>
<b>Credit</b>		
Deposits in Israeli currency	72.7	104.0
Compulsory saving deposits	40.2	38.4
Foreign currency accounts	223.0	111.7
<b>Total credit accounts</b>	<b>335.9</b>	<b>254.1</b>
<b>Balance</b>	<b>-87.2</b>	<b>-150.7</b>
<b>Contingent accounts</b>		
Food surplus accounts	216.1	150.3

<sup>a</sup> Includes IL 21.5 million worth of bills sold to banks, but which did not on that account cease to be a Government debt to the Bank of Israel. These bills were repurchased by the Bank in 1964.

dropped from IL 216.1 million at the end of 1963 to IL 150.3 million at the end of 1964. The deposits of the U.S. Government originating from the sale of surplus food are held at the Bank of Israel, and the Government of Israel draws on them.

(c) *Government imports*

In 1964 the Bank opened documentary credit accounts to the amount of IL 163.9 million (\$ 54.6 million), as against IL 204.3 million (\$ 68.1 million)

the year before, to finance imports by Government departments. The amount of documentary credits received by the Bank of Israel from foreign banks and suppliers for collection from Government departments rose from IL 17.1 million in 1963 to IL 39.4 million in 1964 (in dollar terms, from \$ 5.7 million to \$ 13.1 million).

Government imports, financed by credits from the Bank of Israel, were some 8 percent lower in 1964.

## 5. 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 went up from IL 1,180.2 million at the end of 1963 to IL 1,323.0 million at the end of 1964. These figures include foreign currency deposits of IL 632.9 million (\$ 211.0 million) and IL 779.5 million (\$ 259.8 million) respectively. Some of these are obligatory deposits, since banking institutions are legally required to hold with the Bank of Israel not less than 15 percent of their local currency demand and time deposits. These obligatory balances amounted to IL 175.0 million at the end of 1964, as against IL 171.6 million at the end of the previous year, the small rise being in line with the stability characterizing the public's bank deposits during the year.

Apart from the obligatory balances, the banks keep other local currency demand and time deposits with the Bank of Israel. The former decreased in 1964 from IL 100.4 million to IL 87.0 million, while the latter rose from IL 275.2 million to IL 281.5 million.

The banks are likewise required to hold most of their foreign currency deposits with the Bank of Israel. In addition to the Pazak and Tamam accounts, which are obligatory, they must keep at the central bank a minimum balance of 15 percent of total nonresidents' deposits (Patach).

Deposits of nonbank financial institutions, which are required to maintain a minimum reserve with the central bank under the Bank of Israel Ordinance (Financial Institutions), 1962, totalled IL 1.5 million at the end of 1964, as compared with IL 2.4 million at the end of 1963.

No change occurred during 1964 in the interest rates paid by the Bank of Israel on bank and financial institution deposits in either local or foreign currency.<sup>1</sup>

<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; and on foreign currency deposits, in the Annual Report for 1963, p. 437.

(b) *Rediscounts*

The balance of rediscounted bills in local currency rose from IL 37.9 million at the end of 1963 to IL 68.4 million at the end of 1964. The entire sum was rediscounted through the Export Finance Fund, which extends loans to exporters at 6 percent interest. This low rate has been made possible by the fact that the Government and the Bank of Israel charge only 2 percent interest on their contribution to the Fund.

Foreign currency rediscounts, excluding bills sold to banks, remained virtually constant during the year reviewed, totalling IL 62.7 million, or only IL 55,000 more than in 1963. Considerable changes occurred, however, in the sectorial composition of the discounts—in particular an increase in respect of industry and the National Institutions, and a reduction in respect of commerce and public services.

Table XXI-6  
REDISCOUNTS, BY SECTOR, 1963-64  
(IL thousand)

(End of period)

Sector	1963		1964	
	Local currency	Foreign currency	Local currency	Foreign currency
Agriculture	350	—	860	378
Industry	37,650	21,740	67,576	25,316
Construction <sup>a</sup>	—	17,877	—	16,897
Public services	—	15,298	—	4,305
National Institutions	—	7,770	—	15,844
Total	37,910	62,685	68,436	62,740
Total in local and foreign currency	100,595		131,176	
Less: Bills sold to banks	14,940		15,610	
Balance	85,655		115,566	

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

(c) *Sale of bills to banking institutions*

In 1963 the Bank of Israel continued to sell discounted bills to commercial banks. The bills are sold for periods of two or three months, and the rate of interest during the year was 8 percent. When payment is made from the unexploited sum exempted from the liquidity regulations, the credit thus extended is governed by the same rules as credit exempted from liquidity.

Sales amounted to IL 15.6 million at the end of 1964, as compared with IL 36.5 million at the end of 1963 (including IL 21.5 million in participations in the Absorption and Defense Loan, which were sold only in 1963).

The sale of discounted bills to the commercial banks within the framework of unexploited exemptions from the liquidity regulations was discontinued in February 1965.

## 6. CURRENCY IN CIRCULATION

The monthly average of currency in circulation each Wednesday went up from IL 578.4 million in December 1963 to IL 645.8 million in December 1964—an increase of 11.7 percent as compared with 27.9 percent the previous year. The expansion was steady, but was particularly striking in the months February–April during which more than half the annual increment occurred (see Table XXI-7).

### (a) *Currency in circulation, by denomination and series*

In 1964 the total value of IL 50 banknotes in circulation continued to increase, and their relative share in the value of all banknotes went up from 59.4 to 65.9 percent. The proportion of IL 10 banknotes declined from 34.9 to 29.0 percent, that of IL 5 notes from 3.4 to 3.0 percent, of IL ½ notes from 0.4 to 0.1 percent. On the other hand, the proportion of IL 1 banknotes rose from 1.9 to 2.0 percent. The drop in the share of IL ½ notes was partly due to their gradual replacement by metal coins of the same denomination.

Substantial changes occurred during the year in the composition of coins in circulation. The rise of IL 3.4 million in the total value of coins in circulation resulted mainly from the issue of IL ½ coins and of commemorative coins to the value of IL 1.9 million.

The replacement of old coins denominated in prutot by coins denominated in agorot, which was begun in 1960, continued in 1964. At the end of the year the new coins (including those in denominations of IL ½ and IL 1) constituted 71.2 percent of the value of all coins in circulation, as compared with 69.5 percent at the end of 1963.

At the end of 1964 the composition of the coins in circulation was as follows:

	Percent
Old coins (denominated in prutot)	12.0
New coins (denominated in agorot)	41.3
IL 1 and IL ½ coins	29.9
Commemorative coins	16.8
<b>Total</b>	<b>100.0</b>

(b) *Damaged currency*

During the year reviewed the unit for the destruction of unusable notes and coin destroyed IL 178.8 million worth of banknotes and about IL 129 worth of paper tokens. The destroyed currency consisted both of damaged currency and currency from earlier series which were withdrawn from circulation before 1964.<sup>1</sup>

(c) *Exchange of banknotes of the Bank Leumi le-Israel issue*

In accordance with the Banknote Exchange Law, 1961, which was promulgated by the Knesset in February 1961 and which voids as legal tender banknotes of the Bank Leumi le-Israel issue, the Bank of Israel exchanged IL 171,000 worth of such banknotes in 1964. The balance of notes in circulation at the end of the year declined to IL 700,000, or about 0.11 percent of total currency in circulation.

Table XXI-7  
CURRENCY IN CIRCULATION, 1964  
(IL thousand)

(Wednesday averages)

Month	Currency in circulation
1963 December	578,368
1964 January	575,647
February	589,014
March	611,444
April	619,558
May	623,244
June	628,492
July	630,654
August	640,431
September	653,361
October	648,285
November	648,999
December	645,829

(d) *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 and absorb their surplus cash.

<sup>1</sup> In 1964 the Bank received 423 applications to exchange damaged currency, to the value of IL 10,800. Of these, 334 applications, totalling IL 9,532, were approved.

In addition to these, there are agencies in the head offices of the three largest banks in Tel Aviv and in their main Haifa branches. These arrangements have achieved greater economy in the transfer of funds to and from the Bank of Israel and have led to further improvements in the technical work connected with the transfer of banknotes.

Table XXI-8

NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1963-64

(End of period)

Denomination	1963		1964	
	IL '000	%	IL '000	%
<b>Banknotes</b>				
IL ½	1,921	0.4	861	0.1
IL 1	10,176	1.9	11,721	2.0
IL 5	18,182	3.4	18,087	3.0
IL 10	187,383	34.9	173,829	29.0
IL 50	319,109	59.4	395,220	65.9
Total banknotes	536,771	100.0	599,718	100.0
<b>Coins</b>				
1 pruta	5	0.1	5	—
5 prutot	48	0.4	48	0.3
10 prutot	374	2.7	333	2.0
25 prutot	169	1.2	167	1.0
50 prutot	588	4.3	519	3.1
100 prutot	382	2.8	343	2.0
250 prutot	588 <sup>a</sup>	4.3	591 <sup>a</sup>	3.5
500 prutot (silver)	22	0.2	22	0.1
1 agora	555	4.1	768	4.5
5 agorot	1,365	10.0	1,478	8.7
10 agorot	3,031	22.3	3,391	20.0
25 agorot	1,404	10.3	1,391	8.1
IL ½	1,391	10.2	3,719	21.9
IL 1	1,713	12.6	1,365	8.0
<b>Commemorative coins</b>				
IL ½	27	0.2	27	0.2
IL 1	258	1.9	272	1.6
IL 5	897	6.6	1,159	6.8
IL 20 (gold)	201	1.5	201	1.2
IL 50 (gold)	196	1.4	599	3.5
IL 100 (gold)	393	2.9	594	3.5
Total coins	13,607	100.0	16,982	100.0
Total currency in circulation	550,378		616,700	

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

## 7. NOTE AND COIN ISSUE

### (a) *Minting of commemorative coins*

Two commemorative coins were minted in 1964:

(1) A IL 5 silver coin, depicting the Israel Museum which is to be opened this year, and commemorating Israel's 16th Independence Day. The coin weighs 25 grams, and has a diameter of 34 mm. and a silver content of 90 percent.

(2) A IL 50 gold coin, commemorating the completion of the Bank of Israel's first decade, in November 1964. The coin weighs 13.34 grams and has a diameter of 27 mm. and a gold content of 91.6 percent.

### (b) *Withdrawal of the prutot series*

The withdrawal of coins denominated in prutot was practically completed in 1964. Only a very small amount is still in circulation, consisting mainly of 10-prutot coins. A substantial part of the coins are in the hands of collectors and are not really in the market.

### (c) *Withdrawal of IL 1/2 banknotes*

In 1964 the withdrawal of IL 1/2 banknotes and their replacement by coins of this denomination continued. The coins accounted for 80 percent of the total circulation in this denomination.

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

The Bank is aided in all its banknote and coin issue activities by a public committee for the planning of banknotes, coins, and commemorative coins, which is attached to the Bank and which chooses the subjects of the coins and banknotes and outlines the artistic designs. The committee also judges all competitions for the design of banknotes and coins.

The committee was originally headed by the late E. S. Hoofien, and thereafter by Dr. I. E. Nebenzahl, when the latter served as chairman of the Bank of Israel Advisory Committee and Advisory Council. The committee is now headed by Supreme Court Justice Dr. A. Witkon. Other members of the committee, appointed by the Governor of the Bank of Israel, are Mr. A. Ayalon, Mr. A. Ardon, Dr. A. Biran, Mr. S. Golan, Mr. R. Dayan, Dr. R. Hecht, Dr. K. Katz, Dr. E. Lehman, Mr. T. Lurie, Mr. A. Kindler, and Dr. M. Spitzer.

## 8. ADMINISTRATION OF STATE LOANS

At the end of 1964 the Bank of Israel was administering 77 domestic loans, two of which were in foreign currency. The Bank also managed all local activities

Table XXI-9

## DOMESTIC LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1964

(IL thousand)

Type of loan	Number of series	Amount authorized	Amount taken up at end of 1963	Amount issued in 1964	Principal redeemed during 1964	Amount taken up at end of 1964	Interest and linkage differentials paid during the year
<b>Nonlinked loans</b>							
Popular Loans, Premium Bonds <sup>a</sup>	}	41,000	31,970	40	182	31,828	1,303
Special Popular Loan, Interest-Bearing Mandatory Bearer Bonds							
4¾% Government Loans (Financial Institutions)	1	—	5,768	—	5,768	—	289
4% Compulsory Loan, 1952	1	20,371 <sup>e</sup>	8,391	—	1,160	7,231	244
2½% Compulsory Loan, 1953	1	9,021 <sup>e</sup>	5,003	—	587	4,416	122
3½% War Loan, 1954-59	1	7,500	281	—	47	234	—
3½% Government Loan, 1953-57	1	4,400	2	—	—	2	—
Immigrant Housing Loan Savings Bonds	1	<sup>d</sup>	203	—	91	112	25
Short-Term Loan, 1960 <sup>e</sup>	1	400,000	213,744	304,700	253,740	264,704	11,039
Short-Term Loan, 1960 (loan from banks)	1	50,000	—	9,191	—	9,191	—
<b>Linked loans</b>							
Immigrant Housing Loan, Premium Bonds	1	<sup>d</sup>	9,203	14	31	9,186	432
4½%, 6% Housing Loan, Interest-Bearing	10	70,000	46,120	—	7,191	38,929	3,082
3% National Loan, 1948-53	1	—	66	—	3	63	—
Defense Loan, Premium Bonds	1	<sup>t</sup>	16,255	—	1,923	14,332	402
6½%, 4¾% Defense Loan, Interest-Bearing	1	40,000	21,035	—	4,124	16,911	1,839



connected with the redemption or conversion of two foreign loans (four series) of the Government of Israel.

(a) *Domestic loans*

The outstanding balance of domestic loans denominated in Israeli currency totalled IL 743 million at the end of 1964. The outstanding balance of domestic loans denominated in U.S. dollars was IL 30.8 million. During the year IL 37.4 million in interest and prizes was paid on these loans, while redemption payments totalled IL 296.5 million.

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

(1) Nine additional series (16-24) of the Development Loan, 1960, totalling IL 44 million, were floated. Series 17 and 21 bear 5.5 percent interest per annum, and are fully linked, principal and interest, to the consumer price index. In series 16, 18, 19, 20, 21, 23, and 24 the owner can choose between linkage and nonlinkage at the time of redemption. If nonlinked, 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.

The authorized amount of the Development Loan, 1960, of all types, was raised by the Knesset from IL 125 million to IL 225 million.

(2) The authorized amount of the Short-Term Loan, 1960 was increased by the Knesset from IL 250 million to IL 400 million. It is issued in series redeemable 182, 364, and 546 days after the date of issue. During 1964, 161 new series of this loan were floated, to a total value of IL 318 million; of this sum, sales amounted to IL 304.8 million. The new series range in amount from IL 500,000 to IL 7 million. In addition, two special series were issued to banks in 1964, to a total value of IL 9.6 million, of which sales came to IL 9.2 million. During the year 123 series, aggregating IL 253.8 million, were redeemed. The net increase in the outstanding balance of the Short-Term Loan came to IL 60.2 million.

(3) Two new debenture issues of Tefahot Israel Mortgage Bank Ltd. were floated, to a total value of IL 17.5 million and bearing interest of 5.5 percent. The principal and interest are linked to the consumer price index.

(4) The Israel Electric Corporation Ltd. floated two new debenture issues, to a total value of IL 20 million and bearing 5.5 percent interest. The principal and interest are linked to the consumer price index. The issues were sold by the Bank of Israel but are being administered by the Electric Corporation itself.

(5) Debentures were acquired by insurance companies with the object of investing insurance funds accumulated from linked life insurance business; the debentures are linked either to the dollar or to the consumer price index, at the companies' option. Since 1961, 16 companies have deposited various sums monthly toward the purchase of these debentures.

In 1964 the debentures issued and distributed to the insurance companies were linked to the consumer price index. The issue of dollar-linked debentures and the fixing of the final interest rate depended on the completion of the loan terms. But this was not yet done by the end of the year, and consequently no dollar-linked debentures were issued. The debentures linked to the consumer price index have been issued in eight series, for periods ranging from five to 40 years, at the option of each insurance company in accordance with the conditions of the policies it has sold. Interest is paid in the year the money is deposited, subject to the linkage terms on a current-account basis.<sup>1</sup> An additional three-year loan was issued for the insurance companies, in the nominal amount of IL 10 million.

(b) *Payments, lotteries, and conversions*

During the year 40 drawings of various prize-bearing loans were held, as well as two drawings for the redemption of the principal of the Immigration Loan, a drawing for the redemption of the Prize-Bearing Defense Loan, and a drawing for the final redemption of Mandatory Bearer Bonds. Total winnings amounted to IL 9.2 million, while unclaimed winnings at the end of the year came to IL 4.5 million.

The conversion of dollar-linked Savings Certificates, 1951 (registered) into 3.5 percent interest-bearing certificates (bearer) continued in 1964. Savings certificates to the nominal value of IL 21,000 were converted; at the rate of IL 8.40 per IL 1 of nominal value, this amounted to IL 176,000. The sixth installment (10 percent) of the Tavei Dollar Loan, 1951 was redeemed, in the amount of \$ 2.5 million.

By the end of March 1964, the Bank completed the distribution of certificates of the Absorption Loan, 1961, except for some 800 distributed subsequently to persons who had been overlooked or had received certificates for a smaller amount than they had paid in. Altogether, the Bank distributed 225,670 Absorption Loan certificates in 1963 and 1964 to 251,170 persons, to a total value of approximately IL 13 million. Over 28,000 envelopes were returned by the Post Office for various reasons. The Bank is trying to forward these returned certificates to their owners, but this is a very complicated matter and so far only 3,000 have been remailed.

In contrast to the Absorption Loan, Compulsory Savings certificates were distributed to the owners directly by the Compulsory Savings Administration. However, the Bank of Israel administers the loan register and keeps it up to date in preparation for the first redemption on April 1, 1966.

<sup>1</sup> Interim interest payments, until determination of the final terms of the loan.

(c) *Deposits*

The Bank of Israel holds various securities on deposit. The principal ones are those deposited by the insurance companies to the credit of the Accountant General in accordance with the instructions of the Superintendent of Insurance. Although part of the securities deposited are not of loans administered by the Bank, the latter handles the collection of interest and the redemption of the principal on behalf of the depositors. Other securities which it holds on deposit are those of the Custodian General and the Custodian of Absentee Property.

(d) *Stock Exchange clearinghouse*

Bearer bond certificates of State and public loans administered by the Bank are also deposited with it, to the credit of the Stock Exchange clearinghouse in Tel Aviv. The clearing balances are credited or debited by the clearinghouse each day to members' accounts, the transactions being recorded in accordance with notices issued by the clearinghouse to its members.

(e) *Foreign loans*

The Bank of Israel handles the conversion and early redemption of Independence and Development Bonds (four series altogether). The conversion is done in accordance with the terms of the loan, set forth in the agreement with Israel's fiscal agent in the United States (Chase Manhattan Bank), and subject to the instructions of the Foreign Currency Department of the Treasury.

In 1964 the Bank began to send to the United States each month for early redemption the debentures converted in Israel during the previous month.

Table XXI-10

FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1964  
(\$ million)

Loan	Amount subscribed at end of 1964	Amount redeemed <sup>a</sup> by end of 1964	Amount owing at end of 1964	Amount converted into IL in 1964	Interest paid in Israel only in 1964
Independence Loan	145.5	97.2	48.3	1.7	0.3
Development Loan					
First series	234.2	108.8	125.4	4.7	0.6
Second series	293.6	78.6	25.0	18.4	0.6
Third series	64.8	1.0	63.8	0.3	—
Total	738.1	285.6	542.5	25.1	1.5

<sup>a</sup> Bonds redeemed in Israeli pounds or dollars, or exchanged for later issues.

The conversion of Independence and Development Bonds into Israeli pounds amounted to \$ 25.2 million in 1964, as against \$ 26.3 million in 1963. Of the amount redeemed, 38.4 percent was used to finance investments in Israeli enterprises by foreign investors, 14.9 percent was spent by tourists during their stay in this country, and the remaining 46.7 percent was donated to Israeli institutions or transferred as gifts to Israeli residents.

## 9. EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1964 the Department of the Examiner of Banks in the Bank of Israel exercised control over 91 banking and financial institutions, as against 92 at the end of 1963.

The number of commercial banks remained unchanged during the year, but two mortgage banks began operations: Mortgage and Investment Bank of the Moshavim Ltd. and Jerusalem Development and Mortgage Bank Ltd.

Kupat Milve Haklait Cooperative Society of Petah Tikva transferred its banking business to the Foreign Trade Bank, and Halvaa Vehisachon Cooperative Society of Nes Ziona transferred its banking business to the Zerubabel Bank.

Private Farmers' Fund Ltd. and Haifa Industrial Fund Ltd. received permits to engage in the receipt of deposits and granting of loans, while Tohelet Ltd. and Halvaa Vehishachon Haklai Hadar Cooperative Society stopped engaging in such business. The Bessarabian Immigrants' Loan Fund Cooperative Society transferred its deposit business to the Zerubabel Bank.

Table XXI-11

### BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1963-64

(End of period)

Type of institution	1963	1964
Commercial banks	27	27
Cooperative credit societies	25	23
Mortgage and investment banks	17	19
Financial institutions	23	22
<b>Total</b>	<b>92</b>	<b>91</b>

#### (a) Audits

In the course of the year the Department of the Examiner of Banks carried out 60 audits in various institutions under its supervision, as follows:

<u>Type of institution</u>	<u>No. of audits</u>
Banks	34
Cooperative credit societies	14
Mortgage banks	7
Financial institutions	5

These audits consisted of 14 general audits, 7 general surveys of mortgage banks, and 39 partial audits. The general surveys were intended to provide a current picture of the structure and accounting procedures of the mortgage banks and to examine their methods of reporting to the Department.

The partial audits covered *inter alia* the grant of credit through the Export Finance Fund, bill brokerage transactions, deposits connected with new capital issues, and the return of checks. In addition, the Department carried out routine inspections in various other areas, including cash on hand and the activities of the banking institutions from the aspect of the soundness of their credit dealings and their conformity to the provisions of various laws.

In 1964 two large banks began preparations for using electronic computers for accounting purposes. This made it necessary to train some of the Department's personnel in the problems involved in such mechanization, insofar as it concerned the Department. These staff-members maintain regular contact with the two banks with regard to the introduction of the new equipment.

#### (b) *Bill brokerage*

The bill brokerage trade continued to expand during the year surveyed, the balance of transactions rising from IL 434 million at the end of 1963 to IL 613 million at the end of 1964—an increase of IL 179 million, or 41 percent.

In a circular to the banking institutions dated December 9, 1963, the Examiner of Banks stressed the desirability of having all such transactions guaranteed by the intermediary institution, since the general public is not in a position to judge the soundness of the instruments it buys or the financial situation of the signatories and endorsers, and even if the client agrees to purchase the bill without the guarantee of the intermediary, the latter has at least a moral obligation to him.

The data received from the banks shows that the balance of transactions carried out without their guarantee declined from IL 168 million at the end of 1963 to IL 148 million at the end of 1964. The balance of bills bearing a bank guarantee rose from IL 266 million to IL 465 million, increasing their proportion of total transactions from 61.3 to 75.8 percent.

#### (c) *Banking Ordinance (Amendment No. 7) Law, 5725-1965*

In 1964 work continued on the draft amendment to the Banking Ordinance empowering the Governor of the Bank of Israel, after consultation with the

On the basis of these criteria, the subcommittee dealt with over 200 applications. In March 1964 it recommended that the Governor permit the opening of 37 new branches during 1964 and 1965.

(i) *Direction of credit*

The Department of the Examiner of Banks is responsible for the execution of the Bank's policy with regard to the control and directing of the credit extended by the banking and financial institutions. In 1964 the Bank of Israel continued its policy of curbing the expansion of credit. A substantial part of the additional directed credit was granted through the Export Finance Fund, which, as noted elsewhere in this Report,<sup>1</sup> was further enlarged during the year reviewed.

The committee which approves the grant of credit from the Fund (in which the Ministries of Finance and of Commerce and Industry and the Bank of Israel are represented) generally sets a credit quota for the exporter, taking into account the estimated volume of exports, the value added, and the production cycle. This quota serves to finance production costs until the goods are shipped. Outstanding loans granted by the Fund amounted to IL 210 million at the end of 1964, as compared with IL 145 million the previous year.

The Department keeps check on the actual export executed by every borrower from the Fund, through the monthly data published by the Export Statistics Unit in the Ministry of Commerce and Industry. If the exporter fails to meet the estimate on which his credit quota was based, the committee revises the quota, taking into account the excess finance granted.

The credit for financing export shipments generally amounts to 90 percent of the value, and it is extended by the banking institutions against documents testifying to the execution of the export. Special approval of the Bank of Israel is not required for granting such credit, except where the period requested is in excess of six months.

In addition to financing through the Export Fund, export credits are given in foreign currency, with the approval of the Bank of Israel. Outstanding credit of this type amounted to IL 36.8 million at the end of 1964, as compared with IL 27.5 million the previous year.<sup>2</sup> Of the total sum in 1964, IL 24.2 million was extended to the diamond industry and the balance to export companies, mainly to finance overseas shipments.

In February 1964 the Bank of Israel, in cooperation with the Ministries of Finance and Agriculture, set up a fund for financing agricultural exports, along the lines of that for the industrial sector. Credit from this fund has

<sup>1</sup> For the structure and sources of the Fund, see Chapter XV, "Money Supply, Credit, and the Banking Institutions", p. 346.

<sup>2</sup> These sums constitute only part of the foreign currency credit extended to exporters other than through the Fund.

**Table XXI-12**  
**MAJOR BORROWERS, 1963-64**

(End of period)

	1963	1964
No. of banking institutions submitting reports	37	37
No. of borrowers included in reports	1,289	1,439
Total value of loans granted to major borrowers (IL million)	1,218.7 <sup>a</sup>	1,411.3
Percent of total loans granted by banking institutions	65.2 <sup>a</sup>	66.5

<sup>a</sup> Revised figures.

submitted by the institutions under the Department's supervision, as well as data on means of payment and check clearing operations.

In 1964 monthly data on the volume of bill brokerage transactions were published for the first time. They show the balance of bills traded and loans transferred through the banking institutions, broken down into transactions on a bank-guarantee basis and those executed without such guarantee. Also published for the first time in 1964 were annual summaries of the income and expenses of banks and cooperative credit societies, as well as of mortgage and investment banks.

(h) *Bank branches*

At the end of 1964 the number of bank branches, excluding head offices, stood at 646, as against 619 at the end of 1963. This increase of 27 compares with one of 28 in 1963.

In the first years after the enactment of the Banking Ordinance (Amendment No. 5) Law, 1961, which requires a special permit from the Governor of the Bank of Israel for the opening of new branches, a subcommittee of the Bank's Advisory Council recommended that, except for special cases, the Governor grant such permits only if premises had been acquired or the relevant contracts signed before the law took effect. Since most of the branches authorized in accordance with this recommendation were opened by the end of 1963, the subcommittee at the beginning of 1964 adopted new criteria for considering applications for the opening of new bank branches. These provide *inter alia* that the committee shall take into account primarily the location of the proposed branch—its distance from existing branches of banking institutions, the plans for the development of the area, and the volume of deposits in other branches of banking institutions in the same area. Other factors to be considered are the organizational efficiency and internal control in the institution submitting the application and the amount of its equity capital in proportion to its liabilities. In allocating the permits to the various institutions the determining factors are to be their equity capital net of fixed investments, and the number of existing branches.

be reflected in the balance sheet and give a considerably improved picture of the state of their business.

Sec. 10 of the Banking Ordinance, 1941 requires every banking institution to publish its audited balance sheet in a daily newspaper, and to display this balance sheet in every branch where it conducts business. In the aforementioned amendment to the Banking Ordinance, the Examiner of Banks is authorized to request any bank to submit a report of its assets and liabilities as of a date fixed by him, such report to present figures comparable with those appearing in the bank's last annual balance sheet. The public will thus be able to see the bank's true position.

Most of the annual balance sheets published by banking institutions for the information of the public do not give sufficient details about the types of accounts which they handle. This of course detracts from the benefit of such publication. The matter was brought up for discussion in the Advisory Committee on Matters Relating to Banking Business, which decided to appoint a sub-committee from among its members charged with proposing a standard form of balance sheet presentation.

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

Following a decision by the Advisory Committee on Matters Relating to Banking Business, the Committee for the Standardization of Bank Accounting discussed the possibilities of the banks preparing daily reports. The discussions centered on the technical problems involved in daily reporting, such as foreign currency accounts and balances in transit. It became clear that the banks which are about to introduce electronic computers could easily overcome these difficulties.

The Committee for the Standardization of Bank Accounting reached the conclusion that it would be desirable for the banks to undertake arrangements for preparing daily summaries for the use of their own managements, in order to keep them informed of the activities of their branches and of trends in the development of their business.

*(f) Compilation of information*

The banking institutions submit to the Examiner of Banks quarterly information sheets with respect to borrowers granted bank credit in excess of IL 100,000. At the end of 1964 such credit constituted 67 percent 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.

*(g) Statistics on banking and financial institutions*

3 The statistical data compiled by the Department of the Examiner of Banks are published in a monthly pamphlet, which summarizes *inter alia* the various reports

Advisory Committee on Matters Relating to Banking Business, to prescribe by order the ratio to be maintained by the banking institutions between the various balance sheet items specified in the law. The main purpose of the amendment was to prescribe the volume of guarantees given as security for credit, chiefly in connection with bill brokerage. The underlying reason for this bill was the fact that a number of banks had increased the volume of such guarantees out of all proportion to their other transactions and to such other balance sheet items as equity capital, deposits of the public, and total assets.

The bill was adopted by the Knesset on January 11, 1965. Toward the end of 1964 discussions had begun on the question of the ratios which the banks would be required to maintain in respect of credit guarantees.

The following are the main provisions of the new law:

(1) It authorizes the Examiner of Banks to require any banking institution to prepare, exhibit, and publish a comparative report on its assets and liabilities to the date fixed by the Examiner, and the assets and liabilities as set forth in the last audited annual balance sheet. This report must be prepared in the same manner as the annual balance sheet, in order to facilitate a comparison of the figures on the two dates.

(2) The Governor of the Bank is authorized, after consultation with the Advisory Committee on Matters Relating to Banking Business, to prescribe by order the ratios to be maintained by banking institutions between guarantees and other contingent liabilities on the one hand and other balance sheet items on the other.

A banking institution which contravenes these instructions has to pay the Bank of Israel, for each day that the contravention lasts, a certain percentage of the sum by which it has increased its guarantees or liabilities above the rate prescribed in the order. The percentage is to be fixed by the Governor, after consultation with the Advisory Committee, but may not exceed 10 percent per annum.

In addition to this penalty, the Governor is authorized to order such an institution, after giving it due warning, to cease until further notice to give guarantees, extend credit, make investments, or distribute profits—this provision being applicable to all or part of these activities.

The aforementioned order was gazetted in February 1965, and took effect the following month. It limits the volume of guarantees to a sum three times the equity capital of the banking institution or  $1\frac{1}{2}$  times its financial assets, whichever is smaller.

#### (d) *Annual balance sheets of banking institutions*

In the past few years the Examiner of Banks has dealt with the problem of the window-dressing of annual balance sheets by a number of banks. These institutions would carry out certain transactions close to the balance sheet date which would

3. Financial Ratios as a Means of Forecasting Bankruptcy.
4. Financial Changes in Israel's Industrial Companies in 1962.
5. New Issues and Profitability of Investment in Common Stock, 1959-62.
6. Investment in Education and Human Capital in Israel.
7. The Financial Structure of Public Sector Companies.
8. Changes in Israeli Consumption Patterns during the Period 1956/57 to 1959/60.

At the beginning of 1965 the Department began to issue a new series of publications of a technical nature for professional economists. The first study in the series was "A Test of the Predictability of Income Elasticities of Consumption Expenditure", by Michael Landsberger.

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

1. A survey of family savings in Israel, which was begun in cooperation with the Central Bureau of Statistics and is patterned along the lines of the surveys conducted in 1957/58 and 1958/59. The sample population numbers over 3,000 families. Greater weight has been given in the sample to those receiving personal restitution from Germany (800 families), with the object of studying more thoroughly the consumption and saving patterns of such families.

2. Continuation of the 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.

3. An analysis of the components and destinations of imports in 1958-62 according to the input-output method.

4. A study of money flows in the economy, the framework for which was developed by the late Carmela Monetta. This analysis has appeared in the Annual Reports of the Bank since 1959. This year a study was begun which will cover the years 1959-64 and will sum up the experience acquired in this method of analysis. The study, which will be dedicated to the memory of Carmela Monetta, will be completed in 1965. It will compare the customary method used to present this data in the Annual Report of the Bank of Israel with a number of approaches followed in other countries. The method to be used in the future will be determined in the light of the conclusions drawn.

5. A study of the change in urban land prices in Israel during the period 1950-63, and its economic projections. The object of the first stage of the study is to find a method for estimating the change in land prices, in order to arrive at a basis for a current estimate of price changes in the future, and to determine the influence of these changes on the economy as a whole.

6. A revised and enlarged edition of A. L. Gaathon's *Capital Stock, Employment and Output in Israel*.

Table XXI-13

VOLUME OF CHECK CLEARINGS, 1962-64  
(IL million)

	1962		1963		1964	
	Checks presented	Checks returned	Checks presented	Checks returned	Checks presented	Checks returned
Urban clearings						
Jerusalem	2,010	38	2,353	45	2,682	58
Tel Aviv	8,270	323	11,044	421	13,118	518
Haifa	2,122	64	2,578	69	2,908	87
Total	12,401	425	15,975	535	18,708	663
Local clearings <sup>a</sup>	14	0	16	0	25	0
All clearinghouses	12,416	425	15,991	535	18,733	663

<sup>a</sup> The value of checks returned from the local clearinghouses is reflected in the figures on urban clearinghouse returns. In December 1963 a number of additional local clearinghouses began to operate.

once again in interest on deposits and investments abroad: such income, which is in foreign currency, amounted to IL 61.8 million as against IL 53.6 million in 1963—a rise of IL 8.2 million, or \$ 2.7 million. There was also a slight increase in income from rediscounting operations in both local and foreign currency, from IL 10.9 million at the end of 1963 to IL 11.2 million at the end of 1964. The Bank's outlay on interest, administration, and other expense items went up from IL 49.3 million to IL 58.0 million. The main 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.

## 12. 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 1964 were the following:

1. The National Budget for the Fiscal Year 1965/66. 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 at the end of 1964.

2. A periodic internal survey of the main economic developments, for the use of Ministers and senior civil servants.

into operation in the following places: Afikim, Bakaa el-Gharbiya, Beit She'an, Binyamina, Dimona, Eilat, Even Yehuda, Gedera, Givat Ada, Kadima, Kiryat Ono, Kiryat Shmona, Or Yehuda, and Tel Mond. In Beersheba and Zichron Ya'akov clearing facilities were initiated for the return of locally drawn checks.

(a) *Clearinghouse Committee*

The activities of the clearinghouses are guided by the Clearinghouse Committee, appointed by the Governor of the Bank of Israel. In 1964 this committee dealt *inter alia* with the updating of clearinghouse regulations and procedures and with the following additional matters:

1. Clearance of promissory notes. During the year reviewed the procedures were finally worked out for the clearance of promissory notes through the existing clearinghouses. It was laid down that promissory notes would be cleared through the clearinghouses if their collection entailed sending them to another banking institution or if the place of payment designated is the branch of another banking institution, even though it is located in the same town as the collecting bank. The notes are to be sent for collection by the branch of the collecting bank to the appropriate branch of the receiving bank not later than four clearing days before the due date. To every cleared note there is to be attached a standard collection form, a copy of which remains with the collecting bank. On the due date this copy must be presented, in the clearinghouse, to the receiving bank. If the latter is not prepared to pay the note, it has to return it to the collecting bank through the clearinghouse.

2. Mechanization of check clearance. The Clearinghouse Committee, in cooperation with the committee of experts established in 1963, continued its deliberations with respect to the various technical points connected with the institution of electronic mechanization, such as problems of language, codeline, cost of operation, etc.

(b) *Volume of clearing*

In 1964 the value of check clearings increased somewhat more slowly—by IL 2,700 million, or 17.1 percent, as compared with IL 3,600 million, or 28.8 percent, in 1963. Checks returned through the clearinghouses in 1964 constituted 3.5 percent of the value of the checks presented, compared with 3.3 percent the year before. The amount of credit notes sent through the clearinghouses continued to rise, reaching IL 2.5 million as compared with IL 2.0 million in 1963 and IL 1.0 million in 1962.

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

The Bank's net profit for 1964 totalled IL 25.0 million, as compared with IL 24.0 million in 1963. On the income side, the most striking increase was

thus far been given only for financing overseas shipments, and it has covered nearly all agricultural products except citrus fruit, for which special arrangements exist through the Citrus Marketing Board. The arrangements regarding the volume of credit and the conditions for its approval are similar to those applying to the fund for industrial exports. Outstanding credit granted by the agricultural fund at the end of 1964 came to IL 4.0 million.

Total outstanding credit granted by the various export funds administered by the Bank of Israel thus amounted to IL 250.6 million at the end of the year reviewed. This financing represents only part of the general effort to finance and encourage exports, which assumes such other forms as credit lines, credits from Patach deposits, and supplier credit—totalling nearly IL 400 million all told at the end of 1964.

## 10. THE CLEARINGHOUSES

Even in the first years of its operations the Bank of Israel gave attention to the regularization of check clearing procedures. The country's check clearinghouse had its origin in a local organization of several Tel Aviv banks—later joined by a number of banks in Jerusalem and Haifa—which was known as the Bankers' Clearinghouse in Israel. But on the whole, clearing facilities, particularly with respect to checks drawn on banking institutions in other towns, were unsatisfactory. This situation made possible large-scale "rolling" of checks—in 1957 the total balances in transit as reported by the banks sometimes amounted to as much as IL 25.0 million.

The Bank of Israel undertook, in cooperation with representatives of the banking institutions, to regularize check clearing procedures on a countrywide basis. The Governor of the Bank appointed a special committee to draft regulations and lay down procedures governing check clearance. After being approved, these regulations were published as Clearinghouse Regulations. The urban clearinghouse areas of Jerusalem, Tel Aviv, and Haifa were extended to include additional communities; moreover, each of these clearinghouses now clears checks drawn on banking institutions in the other two areas. Thus all communities in the country, with the exception of a few outlying ones, have been included in the clearance network, so that the entire country has in effect become one clearinghouse area. Every check deposited in a banking institution and which is drawn on another banking institution is presented to the institution on which it is drawn on the same day, if the two institutions operate within one of the three clearing areas. For remote localities there are special clearing procedures, and some of them have local clearinghouses. As part of the extension of clearinghouse facilities, the clearing of debit and credit notes between the banks was introduced.

The three urban clearinghouses—Jerusalem, Tel Aviv, and Haifa—continued their normal activities during 1964. In addition, local clearinghouses were put

At the beginning of 1964 Mr. D. L. Grove, Vice-President of the Federal Reserve Bank of San Francisco, visited Israel as guest of the Bank, and at its request prepared a report on Israel's fiscal and monetary problems, together with some recommendations for policy action. This report was published in April 1964.

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

At the beginning of 1964 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 on October 30, 1964 approved resolutions which stated *inter alia*:

"In 1963 the real gross national product rose substantially. Continued large inflow and conversion of foreign exchange receipts and, to a lesser extent, a further expansion of bank credit, caused a sharp increase in the money supply. In the fiscal year 1963-64 the ordinary budget showed a substantial surplus; revenue was higher, reflecting increased economic activity, improved tax collection methods, and the introduction of new and upward revision of existing taxes. However, capital expenditures were also higher and the Government's net borrowing increased. Despite continuing immigration, full employment prevailed and shortages of certain skilled labor persisted. Wages rose considerably more than productivity. Prices remained relatively stable but mainly owing to administrative action. The increase in incomes and in consumption expenditures, both private and public, led to continuing pressure on resources.

"The Fund believes that additional fiscal and monetary measures, together with a more effective incomes policy, are required to reduce demand and cost pressures and to prevent a continuing increase in the trade deficit.

"Israel has further relaxed restrictions on imports. The Fund welcomes the intention to complete the process of formal liberalization of imports by the end of 1965 and urges Israel to reduce reliance on bilateral payments arrangements."

In October 1964 Israel purchased from the International Monetary Fund, against Israeli pounds, the sum of \$ 12.5 million, which is equivalent to the country's "gold tranche" in the Fund, i.e. the amount that may automatically be withdrawn from the Fund if necessary. In December 1964 Israel sold to the Fund Deutsche marks equivalent to \$ 12.5 million, against Israeli pounds.

Following the decision of the Board of Governors of the International Monetary Fund in September 1964 to raise the quotas of member states in the Fund in order to make additional means available to deal with problems in the sphere of international liquidity, the Fund's Executive Board decided in February 1965 to recommend a general increase of 25 percent in the quotas of

member states. The Governor of the Bank of Israel, in his talks with the management of the Fund, maintained that Israel's rapid economic development warranted a special increase in its quota, beyond the general one of 25 percent. The Fund's management accepted this argument, and approved a rise in Israel's quota from \$ 50 million to \$ 90 million. The increase still awaits the formal approval of the Fund's Board of Governors. One-quarter of the additional sum will be paid by Israel in gold, and the remainder in Israeli pounds.

After the Governor of the Bank of Israel held preliminary consultations with the management of the International Bank for Reconstruction and Development (the World Bank), Israel in 1964 requested a loan for the Industrial Development Bank of Israel Ltd. Following the submission of this request, two World Bank delegations visited this country, the first to prepare a general survey of the economy (this has been completed and is now being studied by the management of the World Bank), and the second to examine the business, organization, and management of the Industrial Development Bank of Israel. This mission will submit its report to the management of the World Bank in the course of the year. After the two reports are studied, practical talks concerning the loan will get under way.

At the end of 1964 a request was submitted on behalf of the Dead Sea Works Ltd. for a further World Bank loan to finance the company's additional development program. This request is now undergoing preliminary examination.

In April-May 1964 the Governor of the Bank of Israel headed Israel's delegation to the United Nations Conference on Trade and Development held in Geneva. At that conference the Governor proposed the creation of a system of international guarantees and an interest equalization fund which would permit the raising of substantial sums for development purposes in the world markets by new methods capable of placing additional resources at the disposal of developing countries. The Conference recommended the Governor's proposal, known as the Horowitz Proposal, and requested the World Bank to prepare a study covering all aspects of it. A World Bank staff report was completed in early 1965, and was transmitted by the President of the Bank, Mr. George D. Woods, to the Secretary General of the United Nations Organization, who is dealing with the decisions of the Geneva Conference.

In August 1964 the Governor of the Bank of Israel went to Washington, at the invitation of the President of the World Bank, in order to present his plan to a committee appointed by the latter to study it, as well as to the economists of the World Bank, and he took part in discussions concerning the plan.

In September 1964 the Minister of Finance and the Governor of the Bank participated in the annual conference of the Governors of the International Monetary Fund and the World Bank which was held in Tokyo. The Minister of Finance represents Israel in the International Monetary Fund, and the Governor of the Bank of Israel represents this country in the World Bank and its affiliated institutions.

#### 14. 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, problems connected with bill brokerage, problems of the Export Fund, the draft Securities Law, the Bank's relations with international financial institutions, and matters of the Bank's administration. The Advisory Committee and the Advisory Council approved the Bank's balance sheet as of the end of 1963, the profit and loss account for 1963, and the Bank's operating budget for 1964.

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

#### 15. THE GOVERNOR OF THE BANK OF ISRAEL AND ITS STAFF

With the completion of the Bank's first decade, the Governor's second five-year term came to an end. On July 26, 1964 the President of the State, Mr. Zalman Shazar, appointed Mr. David Horowitz to a third term as Governor, by virtue of the authority vested in him by Sec. 8 of the Bank of Israel Law, and in accordance with the recommendation of the Government.

Dr. Fanny Ginor, Economic Adviser to the Governor of the Bank, who had been loaned to the Foreign Ministry, completed her tour of duty as a member of the Israeli delegation to the United Nations and returned to her work in the Bank. Mr. Zvi Sussman, Joint-Director of the Research Department, was sent for a year of advanced study at the London School of Economics. Dr. Michael Bruno, Joint-Director of the Research Department, participated in December 1964 in the conference of the Econometric Society in Chicago, where he read a paper on "A Model of Resource Allocation for Israel".

Members of the Bank's staff participated *inter alia* in the Israeli delegation to the United Nations Conference on Trade and Development, held in Geneva, in the conference of legal experts convened by the World Bank in connection with the draft convention on the settlement of investment disputes, and in the Economic Development Institute of the World Bank. A number of staff members also served as advisers and instructors in various developing countries.

STATEMENT OF ASSETS AND LIABILITIES  
AS AT DECEMBER 31, 1964

*and*

PROFIT AND LOSS ACCOUNT FOR THE  
YEAR ENDING DECEMBER 31, 1964

**BANK OF ISRAEL**  
**STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1964**  
(IL thousand)

ASSETS			LIABILITIES		
	Dec. 31, 1964	Dec. 31, 1963		Dec. 31, 1964	Dec. 31, 1963
Gold	167,061	179,538	Capital	10,000	10,000
Gold—quota in International Monetary Fund	37,500	18,750	Reserve fund	10,000	10,000
Foreign currency assets	1,430,392	1,347,067	Banknotes and coin in circulation	616,700	550,379
Clearing accounts in connection with trade agreements	22,446	19,473	Clearing accounts in connection with trade agreements	15,940	8,497
Participation in international financial institutions	10,826	775	Deposits of international financial institutions	1,676	1,501
Treasury bills	69,400	69,400	Demand deposits of banking institutions (including financial institutions)	261,984	272,045
Land bills	77,178	77,214	Time deposits of banking institutions (including financial institutions)	281,500	275,225
Absorption and Defense Loan, 1959	92,400	70,900	Foreign currency deposits of banking institutions	779,525	632,906
Government obligations	2,100	4,100	Government deposits	104,089	72,669
Advance for repayment of foreign currency debts	111,022	148,708	Government deposits—compulsory saving	38,360	40,206
Advances to Government	52,664	31,251	Government deposits in foreign currency, including quota in IMF	111,660	222,980
Bills rediscounted—local currency	68,436	37,910	Deposits on account of U.S. food surplus purchases (see assets)	150,315	216,135
Bills discounted—foreign currency	47,130	47,745	Liabilities for documentary credits in connection with payments agreements (see assets)	59,925	89,305
Advances to foreign governments and institutions	43,947	45,841	Liabilities re guarantees (see assets)	131,276	82,802
Food surplus account (see liabilities)	150,315	216,135	Other accounts	2,079	2,850
Premises, equipment, etc.	—	—			
Documentary credits in connection with payments agreements (see liabilities)	59,925	89,305			
Guarantees (see liabilities)	131,276	82,802			
Other accounts	1,011	585			
	<u>2,575,029</u>	<u>2,487,500</u>		<u>2,575,029</u>	<u>2,487,500</u>

BANK OF ISRAEL

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1964

(II.)

	<u>Dec. 31, 1964</u>	<u>Dec. 31, 1963</u>		<u>Dec. 31, 1964</u>	<u>Dec. 31, 1963</u>
<b>EXPENSES</b>			<b>INCOME</b>		
Interest paid, administrative expenses, and other expenses	57,999,678	49,855,811	Interest, commission, and other income	82,945,418	73,825,648
Net profit	<u>24,945,740</u>	<u>23,969,837</u>			
	<u>82,945,418</u>	<u>73,825,648</u>		<u>82,945,418</u>	<u>73,825,648</u>

DISTRIBUTION OF PROFITS

Transferred to Accountant General	<u>24,945,740</u>	<u>23,969,837</u>	Net profit	<u>24,945,740</u>	<u>23,969,837</u>
	<u>24,945,740</u>	<u>23,969,837</u>		<u>24,945,740</u>	<u>23,969,837</u>

BANK OF ISRAEL  
THE GOVERNOR AND MEMBERS OF THE ADVISORY  
COMMITTEE AND ADVISORY COUNCIL  
MAY 1965

*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. HACOHEN  
Z. ONN  
E. OSTASHINSKY  
D. PATINKIN  
D. RECANATI  
A. SHECHTER  
A. ZABARSKI  
H. ZADOK