

## CHAPTER XX

# THE SECURITIES MARKET

### 1. GENERAL TRENDS

The expansion of the securities market, which had been very rapid for several years up till 1963, slowed down markedly during the year reviewed. Most conspicuously affected was the equity market. The recession of share prices continued steadily throughout 1964. Beginning in the second quarter of the year, the volume of both new issues and Stock Exchange transactions also declined appreciably. New issues of fixed-interest securities likewise failed to match the performance of the preceding year. While net sales of long-term loans were somewhat larger than in 1963, the balance of the Government's Short-Term Loan increased by only half the 1963 figure. The prices of bonds linked to the cost-of-living index advanced almost *pari passu* with the index itself, while dollar-linked bonds rose quite substantially, following renewed interest in devaluation-proof assets, a factor which also led to the re-emergence of a premium on foreign securities.

Net new capital raised on the domestic market<sup>1</sup> amounted to IL 346 million in 1964—IL 100 million less than in 1963 but about IL 120 million more than in 1962 (see Table XX-2). Equity capital raised in 1964 totalled IL 108 million, as against IL 175 million in 1963—admittedly a peak year. Net new long-term loan issues went up from IL 157 million in 1963 to IL 178 million in 1964, but the balance of the Short-Term Loan advanced by only IL 60 million in 1964, compared with IL 114 million the previous year. Net issues of loan capital in 1964 totalled IL 238 million altogether, or 12 percent less than in 1963, when there was an increase of 43 percent over the previous year. Medium- and long-term capital raised on the domestic market<sup>2</sup> was equivalent to 12 percent of gross domestic capital formation in 1964, as against 16 percent the year before. The drop was due to the smaller amount of market issues on the one hand, and a comparatively large increase in gross capital formation in 1964 on the other.

The total volume of Stock Exchange transactions expanded slightly during the year, to about IL 300 million, but market deals in equities declined to IL 220 million.

<sup>1</sup> Domestic security issues less capital redemption of debentures upon maturity and linkage differentials thereon. Only public issues and rights issues on listed securities are included.

<sup>2</sup> The above net issues figure less the increase in the balance of the Government Short-Term Loan.

**Table XX-1**  
**THE SECURITIES MARKET, 1962-64**  
 (Indicators)

	1962	1963	1964
<b>Net domestic issues</b>			
Proceeds (IL million)	224	446	346
Net domestic issues of medium- and long-term securities as a percentage of gross capital formation	8	16	12
Number of issuing bodies	24	51	43
<b>Israeli currency securities listed on Tel Aviv Stock Exchange (end of year; IL million)</b>			
Par value <sup>a</sup>	919	1,180	1,343
Market value	980	1,552	1,765
<b>Volume of Stock Exchange transactions (IL million)</b>			
Bonds	54.2	45.4	73.5
Shares	68.4	241.9	221.5
<b>Indices of security prices (end of year; average 1960 = 100)</b>			
Dollar-linked loans	162.6	161.8	184.2
Index-linked loans	128.7	133.0	141.5
Ordinary shares	145.3	198.7	170.6

<sup>a</sup> Including linkage increments.

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

The aggregate market value of securities listed on the Tel Aviv Stock Exchange at the end of 1964 was IL 1.8 billion, or about 8.5 percent of the total value of fixed domestic assets. The increase in 1964 was about IL 215 million, or approximately 15 percent, as compared with an annual increase of roughly 50 percent in each of the two preceding years.

The setback in the equity market in 1964 was largely due to the protracted expansion which had preceded it. The reversal took place in two phases. First, the advance of equity prices was stemmed, to be followed by a slow but persistent slump; later on, the rapid succession of new issues—many of them heavily oversubscribed—came to an end. Spurred by the equity boom which began in the late fifties, a growing number of companies turned to the capital market for equity finance throughout 1963 and up to the spring of 1964, when the boom had already spent its force. The increment to supply, in the form of new issues, upset the balance between supply and demand and prices began to fall.

At the same time, a number of factors combined to restrain demand. Monetary

Table XX-2  
NET DOMESTIC ISSUES, AT ISSUE PRICES, 1962-64

	IL million			Percent		
	1962	1963	1964	1962	1963	1964
Long-term loans						
Government	5.3	-14.8	32.4	2.4	-3.3	9.3
Other	114.0	172.0	145.7	50.9	38.6	42.1
Total	119.3	157.2	178.1	53.3	35.3	51.4
Short-term Government loans	70.1	113.9	60.4	31.3	25.5	17.4
Total loan capital	189.4	271.1	238.5	84.6	60.8	68.8
Shares listed on Stock Exchange	34.2	174.9	107.8	15.4	39.2	31.2
Total domestic issues	223.6	446.0	346.3	100.0	100.0	100.0

expansion began slowing down in the second half of 1963, and new funds no longer became available for stock market investment as readily as before. The uncertainty that prevailed from September 1963 until the middle of 1964 with regard to the imposition of a capital gains tax on Stock Exchange transactions also tended to restrict demand and increase supply. Fear of an unduly heavy tax and of the need to disclose assets and earnings to the authorities may have deterred many investors to a degree unwarranted by the rate of the tax eventually imposed.<sup>1</sup>

The stagnation of the real estate market, too, had an adverse effect on share prices, for the assets of land and development companies had stopped rising in value, or rose more slowly than in previous years or even declined. It is also quite possible, though difficult to prove, that funds which otherwise would have been available for stock market investments were tied down in 1964 owing to commitments in the real estate market. In addition, the worsening of the balance of payments position, the less sanguine business forecasts, particularly in respect of industry, and the very slump of the share market, all militated against equities in favor of other forms of investment, such as the money market (bill brokerage), the various types of foreign currency accounts, and foreign securities. Hence the revival of trading in bonds linked to the foreign exchange

<sup>1</sup> The tax was approved and went into effect in June 1964. It was set at 20 percent of the profit realized on the sale of share capital on the Stock Exchange within 12 months of its purchase. The tax is collected at source by banks and stockbrokers, who do not have to divulge their clients' names to the tax authorities.

Table XX-3

**SECURITIES LISTED ON TEL AVIV STOCK EXCHANGE, AT ADJUSTED  
PAR VALUES,<sup>a</sup> 1962-64**

(End of year)

	IL million			Percent		
	1962	1963	1964	1962	1963	1964
<b>A. Securities traded in Israeli currency</b>						
Government loans						
Dollar-linked	186	168	141	20.2	14.2	10.5
Index-linked	82	86	134	8.9	7.3	10.0
"Mixed" link	14	15	14	1.5	1.3	1.0
Nonlinked	64	56	42	7.0	4.7	3.1
Total	346	325	331	37.6	27.5	24.6
Other loans						
Dollar-linked	215	228	205	23.4	19.3	15.3
Index-linked	83	159	207	9.0	13.5	15.4
"Mixed" link	87	81	75	9.5	6.9	5.6
Nonlinked	2	1	1	0.2	0.1	0.1
Total	387	469	488	42.1	39.8	36.4
Shares						
Ordinary	145	326	464	15.8	27.6	34.5
Preference	41	60	60	4.5	5.1	4.5
Total	186	386	524	20.3	32.7	39.0
Total securities traded in Israeli currency	919	1,180	1,343	100.0	100.0	100.0
<b>B. Securities traded in foreign currency</b>						
Bonds	110	189	277	—	—	—
Shares	—	19	60	—	—	—
Total securities traded in foreign currency	110	208	337	—	—	—
Grand total	1,029	1,388	1,680	—	—	—

<sup>a</sup> Adjusted for linkage increments on linked bonds.  
SOURCE: Based on data of the Tel Aviv Stock Exchange.

rate, the rise in their prices, the reappearance of the agio on foreign securities, and the diminished activity in the new issues market.

The most conspicuous features of the bond market—rising prices of bonds linked to the rate of exchange and reduced net sales of the Government Short-Term Loan—stemmed from the same factors: the mounting desire to hold assets linked to foreign currency on the one hand, and the relative decline in liquidity on the other.

## 2. THE STOCK EXCHANGE LIST

The aggregate par value of securities listed on the Tel Aviv Stock Exchange stood at IL 1,680 million<sup>1</sup> at the end of 1964 (see Table XX-3); this was IL 292 million<sup>2</sup> more than in the previous year, and compares with an increase of IL 359 million<sup>3</sup> in 1963.

Listed securities traded in Israeli pounds totalled IL 1,343 million at the close of 1964, an advance of IL 163 million during the year (see Table XX-4).

Table XX-4

### SECURITIES TRADED IN ISRAELI CURRENCY LISTED ON TEL AVIV STOCK EXCHANGE, AT PAR VALUES, 1962-64<sup>a</sup>

(End of year)

	IL million			Percent		
	1962	1963	1964	1962	1963	1964
Dollar-linked loans	401	396	346	43.6	33.6	25.8
Index-linked loans	165	245	341	18.0	20.8	25.4
"Mixed" link loans	101	96	89	11.0	8.1	6.6
Total value-linked loans	667	737	776	72.6	62.5	57.8
Nonlinked loans	66	57	43	7.2	4.8	3.2
Total loans	733	794	819	79.8	67.3	61.0
Ordinary and preference shares	186	386	524	20.2	32.7	39.0
Grand total	919	1,180	1,343	100.0	100.0	100.0

<sup>a</sup> Including linkage increments.

SOURCE: Table XX-3.

<sup>1</sup> Including securities traded in foreign currency.

<sup>2</sup> There is no identity between the annual increase in listed securities and the sum of new issues during the year. For an explanation, see Bank of Israel Annual Report for 1963, p. 413, note 1.

<sup>3</sup> Revised figure.

The relative share of equity capital continued upward, reaching just under 39 percent (IL 524 million) at the end of 1964, as against one-third (IL 386 million), at the end of 1963 and one-fifth (IL 186 million) at the end of 1962. Together with the steep rise in the volume of equity deals—from an average of 50 percent of Stock Exchange volume in the years 1961–62 to 80 percent in 1963–64—the figures reflect the structural change which the Tel Aviv Stock Exchange has undergone—namely, the growing role of the equity market.

Loan capital listed on the Stock Exchange rose slightly in 1964—from IL 794 million to IL 819 million—and its relative share dropped further—from 67 to 61 percent of the total par value of the listed securities traded in Israeli pounds—owing to the progressive redemption of old issues and the fact that some of the new ones taken up by institutional investors (mainly provident funds) were not listed.

These changes are not fully reflected by the development of the market value totals (see Table XX-5) because of the contrary trends in share and bond prices in 1964. The fall of share prices, together with the advance of linked bond prices, roughly balanced the relative increase, in nominal terms, in the listed share capital and the corresponding decline in loan capital listed on the Exchange.

Table XX-5

SECURITIES TRADED IN ISRAELI CURRENCY LISTED ON TEL AVIV  
STOCK EXCHANGE, AT MARKET VALUES, 1962-64

End of period	IL million			Percent		
	Bonds	Shares	All securities	Bonds	Shares	All securities
1962	649	331	980	66.2	33.8	100.0
1963	704	848	1,552	45.4	54.6	100.0
1964	791	974	1,765	44.8	55.2	100.0

SOURCE: Based on data of the Tel Aviv Stock Exchange.

The number of companies with ordinary shares listed on the Stock Exchange rose from 66 to 78 in 1964 (see Table XX-6). During the years 1962–64 the number of companies doubled, and the amount of ordinary share capital listed on the Exchange quadrupled in nominal terms. All but one of the companies newly listed in 1964 were banking and financial institutions or land and development companies. As a result of this concentration (a phenomenon which was by no means confined to 1964), the proportion of industrial and commer-

cial firms declined during these years from one-half to one-third of all companies with ordinary shares listed on the Stock Exchange. At the end of 1964 the weight of industrial shares in aggregate equity capital listed on the Stock Exchange came to a mere 20 percent at par values and 14 percent at market values (see Table XX-7). However, some portion of the new capital raised by investment companies and other financial institutions no doubt went to finance industry.

Table XX-6

NUMBER OF COMPANIES WITH ORDINARY SHARES LISTED ON TEL AVIV  
STOCK EXCHANGE, BY GROUP, 1961-64

(End of year)

Group	1961	1962	1963	1964	Companies added	
					1963	1964
Public utilities	1	1	1	1	—	—
Banks, insurance companies, and financial institutions	9	10	17	23	7	6
Land and development	4	4	8	11	4	3
Industrial and commercial	17	20	24	25	4	1
Fuel and petroleum	3	3	3	3	—	—
Investment companies	4	6	13	15	7	2
Total	38	44	66	78	22	12

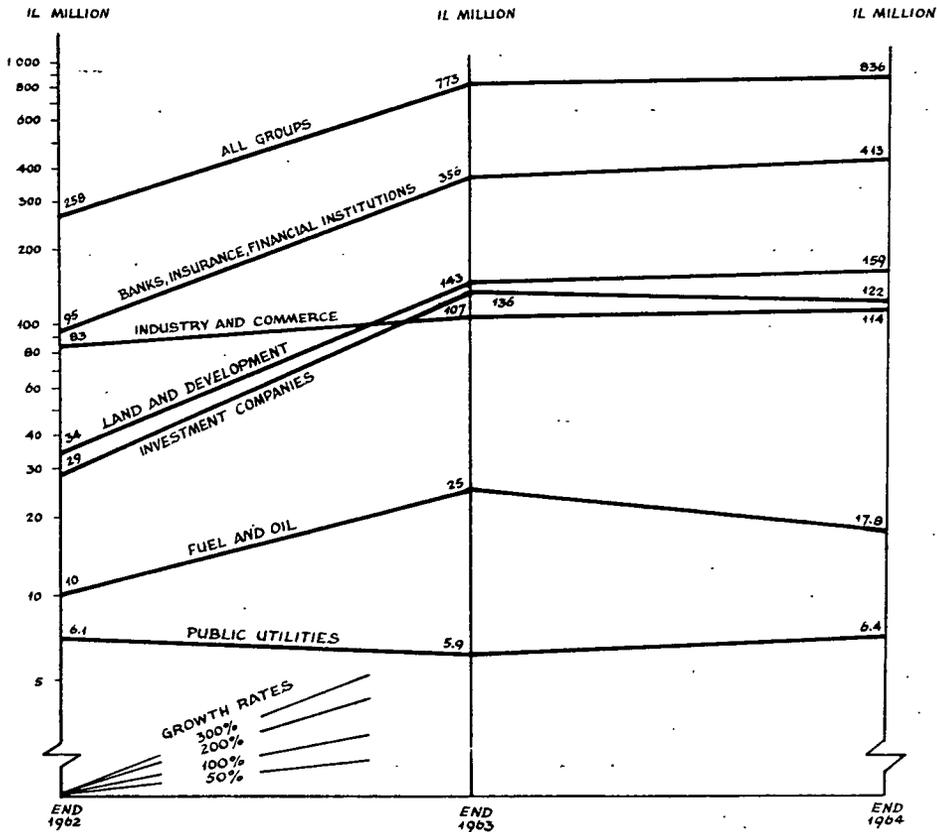
SOURCE: Compiled from data of the Tel Aviv Stock Exchange.

Value-linked loans outstanding increased slightly in 1964, from IL 737 million to IL 776 million. The aggregate par value of dollar-linked bonds continued to decline as a result of capital redemptions and the fact that no new issues of this kind have been offered since the devaluation of 1962. The same applies to mixed-link bonds.<sup>1</sup> The combined par value of these two types of loans, adjusted for linkage increments stemming from the devaluation and the rise in the cost-of-living index, stood at IL 435 million at the end of 1964 (56 percent of all linked loans), as against IL 492 million (67 percent) the year before. The total par value of index-linked loans outstanding (adjusted for linkage differentials) amounted to IL 341 million; the net increase during the year amounted to

<sup>1</sup> Half of the principal of these loans is linked to the rate of exchange, and half to the cost-of-living index.

Diagram XX-1

RATES OF CHANGE IN ORDINARY SHARE CAPITAL LISTED ON TEL AVIV STOCK EXCHANGE, AT MARKET PRICES, END-1962 TO END-1964



Semi-logarithmic scale.

IL 96 million, compared with a net increase of IL 80 million the previous year. The relative smallness of the rise was probably due to the fact that institutional investments, which usually account for an appreciable part of the total investment in value-linked loans, were largely in securities not traded on the Stock Exchange.

The share of Government loans in total securities traded in Israeli currency and listed on the Stock Exchange came to 25 percent at the end of 1964, as against 28 percent a year earlier (see Table XX-8). If we include the Short-Term Loan, which is traded on the Stock Exchange without being formally listed, the proportion of Government loans was 37 percent at the end of 1964, as against 39 percent at the end of 1963. Compared with the total value of loan capital traded on the Exchange, the percentage share of Government securities on this basis rose slightly, from 53 to 55 percent.

Table XX-7

**ORDINARY SHARES TRADED ON TEL AVIV STOCK EXCHANGE,  
BY GROUP, 1962-64**

(End of period)

Group	Par value			Market value		
	1962	1963	1964	1962	1963	1964
	<b>IL million</b>					
Public utilities	9.4	9.7	10.6	6.1	5.9	6.4
Banks, insurance companies, financial institutions	42.1	127.0	189.0	95.4	356.1	416.5
Land and development	14.0	50.5	88.0	34.2	142.7	159.5
Industrial and commercial	65.2	80.4	94.0	83.2	107.1	113.5
Fuel and petroleum	4.8	9.9	9.9	10.3	25.3	17.8
Investment companies	10.2	53.5	72.9	28.8	135.8	122.0
All groups	145.7	331.0	464.0	258.0	772.9	835.7
	<b>Percentages</b>					
Public utilities	6.5	2.9	2.3	2.4	0.8	0.7
Banks, insurance companies, financial institutions	28.9	38.4	40.7	37.0	46.1	49.8
Land and development	9.6	15.3	18.9	13.2	18.5	19.1
Industrial and commercial	44.7	24.3	20.3	32.2	13.8	13.6
Fuel and petroleum	3.3	3.0	2.1	4.0	3.2	2.2
Investment companies	7.0	16.1	15.7	11.2	17.6	14.6
All groups	100.0	100.0	100.0	100.0	100.0	100.0

NOTE: Discrepancies in totals are due to rounding.

SOURCE: Tel Aviv Stock Exchange.

The distinction between Government and other loans is more important from the investor's point of view than it is for purposes of flow-of-funds analysis, because of the high degree of substitutability between these instruments of finance for given purposes. As was pointed out in previous Annual Reports, there has been a shift from Government borrowing to non-Government issues on the bond market in each of the last few years.

The total of securities traded in foreign currency increased in 1964 from IL 208 million to IL 337 million at par values, or from IL 225 million to IL 320 million at market prices. Some of these securities were issued to foreign residents against foreign currency, and others to local residents against payment from Tamam accounts. The proceeds are invested either in Israel or in financial centers abroad, or are used to finance overseas activities of the National In-

Table XX-8

GOVERNMENT LOANS TRADED ON STOCK EXCHANGE,<sup>a</sup> 1963-64

(at par value)

(End of period)

	IL million	
	1963	1964
1. Government bonds listed on Stock Exchange	325	331
2. Short-Term Loan	214	274
3. Total Government loans on the Exchange	539	605
4. Bonds listed on the Exchange	794	819
5. Short-Term Loan	214	274
6. All loan capital traded on the Exchange	1,008	1,093
7. Listed securities traded in Israeli currency	1,180	1,343
8. Short-Term Loan	214	274
9. Total securities traded in Israeli currency	1,394	1,617
	Percentages	
10. Government bonds listed on the Exchange, as a percent of all listed securities traded in Israeli currency (1:7)	28	25
11. Government bonds listed on the Exchange, as a percent of all loan capital listed on the Exchange (1:4)	41	40
12. Government bonds, including Short-Term Loan, as a percent of all Israeli securities traded on the Exchange (3:9)	39	37
13. Government bonds, including Short-Term Loan, as a percent of all loan capital traded on the Exchange (3:6)	53	55

NOTE: Discrepancies are due to rounding.

<sup>a</sup> Including linkage increments on value linked loans.

SOURCE: Based on data of the Tel Aviv Stock Exchange.

stitutions. Of late, certain securities denominated in Israeli pounds but issued against foreign currency have also been included in this category.

## 3. TRADE ON THE STOCK EXCHANGE

The volume of Stock Exchange transactions, at market prices, amounted to IL 295 million in 1964, as against IL 287 million in 1963 and IL 123 million in 1962 (see Table XX-9).

After several years of rapid expansion, the volume of transactions tapered off in 1964. The smaller figures on equity trading are a reflection of the fall in share prices and of reduced turnover velocity.<sup>1</sup> The yearly average turnover velocity of equities dipped from 40 percent in 1963 to the 1962 level of 27

<sup>1</sup> The ratio between the volume of trade and total Stock Exchange securities.

Table XX-9

## TRANSACTIONS ON TEL AVIV STOCK EXCHANGE, MONTHLY, 1964

	Monthly volume (IL million)		Average share volume per trading day	
	Bonds	Shares	IL '000	Index (average 1964=100)
January	3.3	38.0	1,729	194
February	3.2	32.9	1,729	194
March	4.9	21.1	920	103
First quarter	11.4	92.0	1,437	161
April	3.9	19.9	994	111
May	5.2	13.2	661	74
June	9.0	30.4	1,382	155
Second quarter	18.1	63.5	992	111
July	5.0	11.0	523	59
August	4.6	9.6	434	49
September	3.8	8.1	622	70
Third quarter	13.8	28.7	513	57
October	8.1	15.2	724	81
November	10.9	10.3	468	52
December	11.3	11.7	509	57
Fourth quarter	30.3	37.2	564	63
<b>Annual volume</b>				
1961	41.4	46.5	—	—
1962	54.2	68.4	—	—
1963	45.4	241.9	999	112
1964	73.5	221.5	893	100

NOTE: Discrepancies are due to rounding.

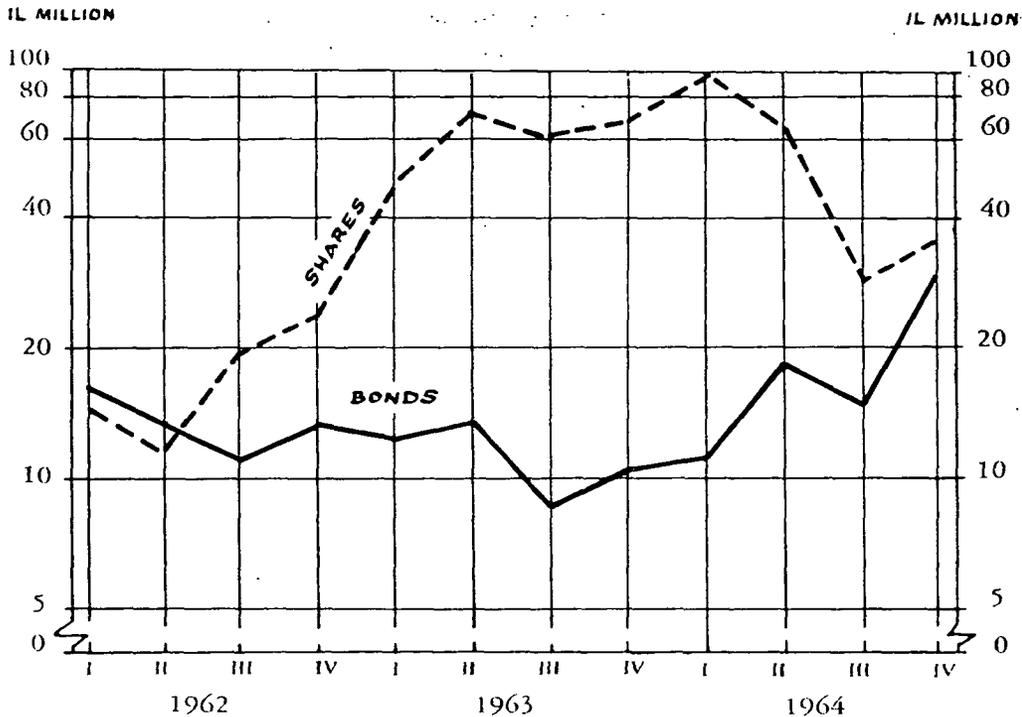
SOURCE: Based on data of the Tel Aviv Stock Exchange.

percent.<sup>1</sup> The monthly turnover rate (figured on an annual basis) moved down from the record level of 58 percent in January to 14 percent in December. In absolute terms, the volume shrank from IL 1.7 million a day in the first two months of 1964 to a little less than IL 500,000 in the last two months of the year. June and October were the only months with a higher volume than the preceding ones: in June, trading and share prices revived somewhat when

<sup>1</sup> According to data of the Central Bureau of Statistics; the figure for 1963 has been revised.

Diagram XX-2

VOLUME OF TRANSACTIONS ON TEL AVIV STOCK EXCHANGE,  
AT MARKET PRICES, BY QUARTERS, 1962-64



Semi-logarithmic scale.

details of the capital gains tax became known, and in October there were heavy sales in a falling market.

Transactions in fixed-interest securities, on the other hand, reached new heights, even in comparison with the devaluation year 1962 and the year preceding it. They totalled IL 73.5 million in 1964, or 60 percent more than the year before. Monthly figures rose steadily throughout the year, from about IL 3 million in January and February to approximately IL 11 million in November and December. In November bonds outstripped equities in trading volume for the first time in years. Most of the transactions were in dollar-linked bonds, the prices of which edged up steadily.

#### 4. PRICE TRENDS

The main features of the year were the slow but persistent decline of share prices and the substantial advance of dollar-linked bonds. Bonds linked to the cost-of-living index went up roughly in proportion to the advance of the index itself. Prices of nonlinked bonds showed only minor fluctuations.

The Central Bureau of Statistics' monthly weighted index of ordinary share prices recorded a drop of 14 percent during the course of 1964. True, this was no small decline, but it was preceded by a prolonged and fairly steep advance of share prices. On an annual average, the share index in 1964 was only 1.5 percent lower than in 1963 and 44 percent higher than in 1962.

Trading at "variable" prices, which accounted for up to 15 percent of the daily volume in 1963, declined in importance and sometimes failed to take place altogether in 1964.

**Table XX-10**  
**INDICES OF SHARE PRICES, 1964**  
(End of 1963 = 100)

End of month	Monthly index of ordinary shares	Daily index					
		All shares	Finance and insurance	Land and development	Industrial and commercial	Investment companies	Oil and petroleum
1963 December	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1964 January	103.1	103.5	108.1	102.9	101.6	104.5	94.9
February	102.7	104.5	105.6	104.3	104.5	107.7	96.6
March	101.5	103.8	105.1	103.8	103.7	107.5	94.8
April	95.7	98.6	98.6	98.5	99.4	101.0	89.3
May	93.9	96.8	96.9	95.0	99.4	98.7	88.2
June	98.8	102.1	103.9	101.2	102.7	102.6	87.9
July	94.9	98.6	100.4	97.0	98.7	99.5	85.5
August	92.8	96.6	98.0	95.8	97.5	97.5	84.2
September	91.1	95.5	96.3	93.3	95.4	95.4	94.8
October	85.7	90.8	90.7	86.4	93.1	87.5	90.7
November	86.5	91.4	91.7	87.0	94.1	87.4	89.5
December	85.9	91.0	91.4	85.9	94.9	86.8	89.6

SOURCE: Compiled from Central Bureau of Statistics indices.

The daily unweighted index of share prices lost 9 percent during the year,<sup>1</sup> but in three of the five component groups the drop was steeper (see Table XX-10). The shares of land and development companies receded most of all—by an average of 14 percent—but in relation to the base date of 1961, the index for this group was well above that of any other group. In other words, land and development shares were conspicuous both in the boom of earlier years and in

<sup>1</sup> From 1962 to 1964 the monthly weighted index proved to be more sensitive than the daily index. On the other hand, the latter, which is broken down into group indices, gives more detailed information.

the slump of 1964. Other groups showing above-average declines were investment companies and the oil and petroleum group, while industrial and commercial shares, as well as the banking and insurance group, suffered smaller losses.

Table XX-11  
INDICES OF VALUE-LINKED BOND PRICES, 1964

	Dollar-linked bonds		Index-linked bonds	
	Dec. 1963 = 100	Adjusted par value = 100	Dec. 1963 = 100	Adjusted par value = 100
1963 December	100.0	91.8	100.0	97.0
1964 January	100.6	92.4	100.5	97.1
February	102.6	94.4	100.8	97.45
March	103.7	94.6	102.6	99.0
April	104.8	95.6	102.7	99.65
May	107.0	98.0	102.9	101.1
June	106.2	97.3	103.8	98.1
July	106.9	98.7	104.2	101.9
August	107.8	99.7	104.1	99.55
September	108.5	99.5	103.9	100.3
October	111.1	101.2	103.8	99.2
November	113.7	103.1	105.6	99.3
December	113.8	103.3	106.4	99.35

\* Par value plus linkage increments.

SOURCE: Compiled from Central Bureau of Statistics' indices.

As a result of the unfavorable performance of share prices, capital losses in many cases exceeded dividend returns and other benefits.

The downward trend of equity prices actually started in the middle of 1963;<sup>1</sup> the factors which eased the pressure of demand and induced the growth of supply gathered momentum as 1964 wore on. The main ones were as follows:

1. The heavy volume of new issues. This reached a peak in the last quarter of 1963 (see Table XX-13), and gradually subsided thereafter, but in the first quarter of 1964—when quotations had already receded from their peak levels—the volume of new issues was still twice as much as in the corresponding period of 1963. In the last quarter of 1964, however, new issues dropped by three-fourths as compared with the first quarter of the same year.

2. Profit-taking was superseded by sales designed to prevent or cut losses.

<sup>1</sup> See Bank of Israel Annual Report for 1963, p. 423.

3. The rise in the money supply slowed down, and interest rates in the free market went up.<sup>1</sup>

4. The termination of the boom in the real estate market directly hit the prices of land and development shares and indirectly affected other groups too.

5. In the autumn of 1963 the Minister of Finance announced his intention of imposing a capital gains tax on security transactions. This touched off a wave of selling, while the prolonged uncertainty about the provisions of the anticipated tax caused buying to be deferred. When the provisions finally became known in June 1964, the market rallied briefly.

6. Psychological and social factors of the kind that had stimulated investment in shares and underpinned the boom as long as it lasted, accentuated the slump once prices began to come down. Disinvestment was apparently reinforced to some extent by speculative ("short") sales. It should also be noted in this context that cumulative investment in most of the unit trusts declined in 1964, although the portfolio of all the trusts taken together increased slightly, from IL 38.8 million to IL 42.7 million in nominal terms, or from IL 45.1 million to IL 48.1 million at market values.

7. Investment by nonresidents in Israeli shares did not grow in 1964, as it had in past years. Among the cases of capital repatriation, there were net sales on the Tel Aviv market of Israeli shares issued in London not long before.

The situation described above enhanced the comparative attractiveness of fixed-interest assets, less exposed as they are to the risk of capital losses than shares. Consequently, foreign currency deposits and foreign securities held by residents, for example, expanded more rapidly in 1964 than in the previous year, and purchases of commercial paper exceeded equity investment, unlike the experience in 1963 and despite the fact that the balance of such paper increased by a smaller amount in 1964 than in 1963.

The rise of dollar-linked bond prices in 1964 closely accorded with these tendencies. It too began to manifest itself in 1963,<sup>2</sup> and it was reinforced by apprehensions of a new devaluation, in view of the deterioration of the balance of payments position in 1964, and by the diminishing stock of dollar-linked bonds outstanding due to the discontinuance of their issue in 1962. Quotations of dollar-linked bonds advanced by an average of nearly 14 percent during the year (see Table XX-11). The rise was virtually continuous, being interrupted only in June, when share prices picked up briefly. In October and November dollar-linked bonds advanced more steeply than in any other month of the year, and the volume of transactions was higher than average. At the end of the year dollar-linked bonds commanded a premium of 3.3 percent, on an

<sup>1</sup> See Chapter XV, "Money Supply, Credit, and the Banking Institutions".

<sup>2</sup> See Bank of Israel Annual Report for 1963, p. 421.

average, over and above their adjusted par values,<sup>1</sup> and net yields to maturity ranged roughly from 0.8 to 3.8 percent, depending on the period remaining to redemption: the longer the redemption period (and the greater the prospects of further linkage differentials), the higher the premium and the lower the calculated yield.

Whereas in 1963 the prices of bonds linked to the cost-of-living index lagged somewhat behind the rise of the index itself, in 1964 they advanced a little more rapidly—by an average of 6.4 percent, compared with an increase of 4.5 percent in the index. At the end of 1964 index-linked bonds stood about 0.6 percent below their adjusted par values. Net yields to maturity, calculated as above, ranged between 3.5 and 5 percent approximately.

**Table XX-12**  
**NEW SHARES, AT ISSUE PRICES, BY GROUP, 1964**  
(IL million)

	Finance and insurance	Investment companies	Industrial and commercial	Land and development	Total
To the public	38.6	14.0	5.3	4.0	61.9
Rights issues to stockholders	23.1	15.9	1.9	5.0	45.9
<b>Total domestic issues</b>	<b>61.7</b>	<b>29.9</b>	<b>7.2</b>	<b>9.0</b>	<b>107.8</b>
Issues abroad	—	4.2	—	14.2	18.4
<b>Grand total</b>	<b>61.7</b>	<b>34.1</b>	<b>7.2</b>	<b>23.2</b>	<b>126.2</b>
Percentages	48.9	27.0	5.7	18.3	100.0

SOURCE: Bank of Israel.

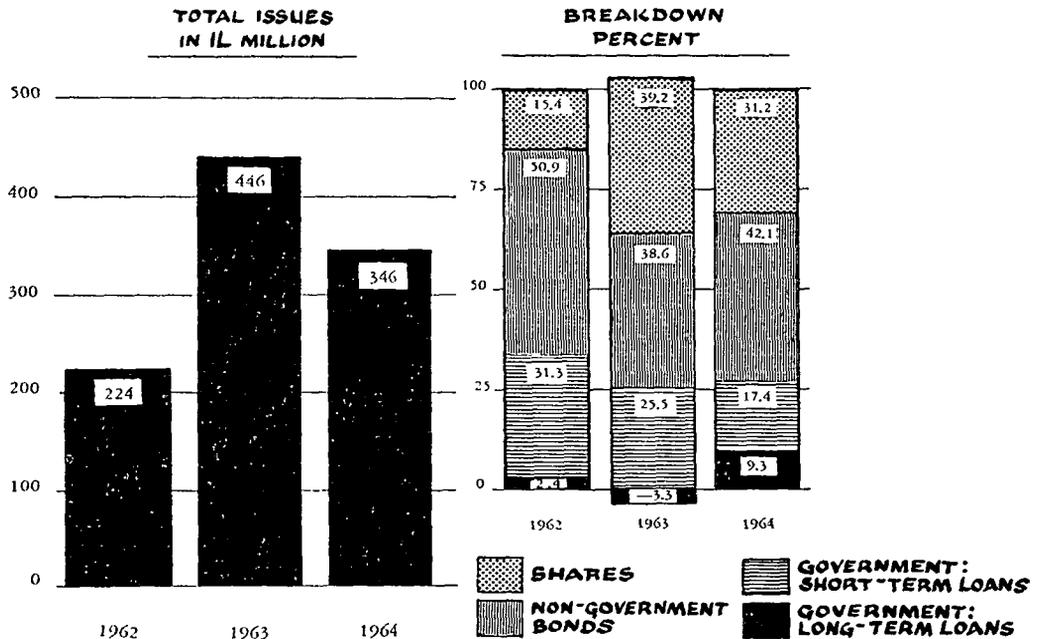
## 5. NEW ISSUES

Net domestic issues, at issue prices, amounted to IL 346 million in 1964 (see Table XX-2), compared with IL 446 million in 1963 and IL 224 million in 1962; Government loans, at IL 93 million, accounted for about one-fourth of the total, as in the previous year. Medium- and long-term loans accounted for one-third of all Government issues in 1964, whereas in 1963 capital repayments exceeded the gross issue amount. There was a sharp drop, from IL 114 million to IL 60 million, in net new issues of the Government Short-Term Loan, probably a reflection of the reduced liquidity of investors, private and institu-

<sup>1</sup> I.e. taking into account linkage increments stemming from the past devaluation of the pound.

Diagram XX-3

DOMESTIC ISSUES OF ISRAELI SECURITIES, AT ISSUE PRICES, 1962-64



tional alike, who are in the habit of holding part of their liquid reserves in this Loan. It may also be that private investors converted holdings of the Short-Term Loan into commercial paper, linked bonds, and foreign securities.

Other net new borrowing amounted to IL 145.7 million, as compared with IL 172 million in 1963 and IL 114 million in 1962. Total net borrowing in the securities market added up to IL 238.5 million, or 69 percent of new domestic issues, as against 61 percent in the previous year.

New domestic share issues, at issue prices, amounted to IL 108 million in 1964, compared with IL 175 million in 1963 and IL 81 million in the years 1961 and 1962 taken together. New shares sold abroad brought the total up to IL 126 million (see Table XX-12). Of the share capital floated on the domestic market, 55 percent represented public and 45 percent rights issues—roughly the same proportion as in 1963. The concentration of new equity capital in the financial and land and development groups also followed the previous year's trend.

The monthly average of domestic share issues, at issue prices, was approximately IL 11 million in the first half of 1964 and IL 6.5 million in the second half, compared with IL 8 million and IL 22 million respectively in 1963. The similarity of this pattern—a rise and decline—to the movement of equity prices shows that issuers adjusted after some time to the market situation.

**Table XX-13**  
**DOMESTIC SHARE ISSUES, AT ISSUE PRICES, MONTHLY, 1963-64**  
(IL million)

	1963	1964		1963	1964
January	13.7	13.5	July	13.7	17.6
February	1.8	16.8	August	14.8	2.7
March	4.3	8.2	September	16.7	10.3
First quarter	19.8	38.5	Third quarter	45.2	30.6
April	14.9	7.1	October	9.6	—
May	2.6	12.2	November	45.9	5.0
June	9.8	10.4	December	27.1	4.0
Second quarter	27.3	29.7	Fourth quarter	82.6	9.0
First half	47.1	68.2	Second half	127.8	39.6
			Total	174.9	107.8

SOURCE: Bank of Israel.

## 6. FOREIGN SECURITIES

The value of foreign securities held by Israeli residents at the end of 1964 totalled \$ 50.6 million at purchase prices. The annual increment, in the order of \$ 13.8 million, was somewhat greater than in 1963 (see Table XX-14). The proportion of securities denominated in U.S. dollars continued upward by 4 percent, to reach 69 percent. Another 10 percent (14 percent the year before) was denominated in Deutsche marks, 9.5 percent (11 percent) in Swiss francs, and 7 percent (9 percent) in sterling.

**Table XX-14**  
**FOREIGN SECURITIES HELD BY ISRAELI RESIDENTS,**  
**1962-64**  
(\$ million, at original purchase prices)

End-year	Balance	Annual increment
1962	25.7	5.4
1963	36.8	11.1
1964	50.6	13.8

SOURCE: Ministry of Finance.

As from April 1964, an agio over and above the foreign exchange rate was paid on transactions in foreign securities between Israeli residents. At the end of the year the agio stood at 7 percent.

As in previous years, a large part of the foreign securities held by Israeli residents were securities of foreign affiliates of local companies and institutions.