

CHAPTER XXI

ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY OF BALANCE SHEET AT THE END OF 1966

THE BALANCE SHEET of the Bank of Israel totalled IL 3,023.3 million at the end of 1966, as compared with IL 2,858.2 million at the end of the previous year—an advance of IL 165.1 million, or 5.8 percent. The increase stemmed mainly from a rise of IL 122 million in rediscounted bills and IL 87 million in contingent accounts, which was partly offset by a decline in foreign exchange reserves.

(a) *Assets*

1. *Foreign exchange*

After a long steady uptrend in the Bank of Israel's foreign currency assets, the year reviewed saw a slight decrease. Gross foreign exchange and gold holdings, including loans to foreign governments and institutions, the gross balance in clearing accounts, and the Bank's participation in international financial institutions amounted at the end of 1966 to IL 1,941.9 million (\$ 647.3 million), as against IL 2,002.4 million (\$ 667.5 million) at the end of 1965.

2. *Government accounts*

The Government's gross liabilities to the Bank of Israel, as they appear in the balance sheet, rose by approximately IL 17 million—from IL 296.4 million at the end of 1965 to IL 313.4 million. This figure reflects only the balance sheet change and not the financing actually extended to the Government. The Government's debt to the Bank actually grew by IL 84 million. The difference between this and the balance sheet figure stemmed from the transfer of treasury bills from the Bank of Israel to the commercial banks and from the Bank's open-market operations in Government securities.

3. *Rediscounting of bills*

Local currency rediscounts in 1966 were up by a substantial IL 32.4 million—from IL 74.0 million at the end of 1965 to IL 106.4 million. There was an even more striking increase—IL 89.8 million (\$ 30 million)—in the value of bills rediscounted in foreign currency. The total amount of credit extended

Table XXI-1

ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1965-66

	IL million		Percent		Increase or decrease (-)	
	1965	1966	1965	1966	IL m.	%
Assets						
Foreign exchange and gold	1,929.1	1,863.0	79.1	74.0	-66.1	-3.4
Participation in international financial institutions	11.7	14.7	0.5	0.6	3.0	25.6
Clearing accounts	24.8	30.7	1.0	1.2	5.9	23.8
Government securities	238.9	172.5	9.8	6.9	-66.4	-27.8
Advances to the Government for early repayment of foreign debts	57.4	108.2	2.4	4.3	50.8	88.5
Current liabilities of the Govt.	—	32.6	—	1.3	32.6	—
Bills rediscounted	139.2	261.4	5.7	10.4	122.2	87.8
Loans to foreign governments and institutions	36.8	33.4	1.5	1.3	-3.4	-9.2
Other accounts	0.9	0.6	—	—	-0.3	-33.3
Total	2,438.9	2,517.2	100.0	100.0	78.3	3.2
Contingent accounts ^a	419.3	506.1	—	—	86.8	20.7
Grand total	2,858.2	3,023.3	—	—	165.1	5.8
Liabilities						
Notes and coin in circulation	686.6	780.0	28.2	31.0	93.4	13.6
Deposits of the Govt.	130.2	48.4	5.3	1.9	-81.8	-62.8
Deposits of banking and financial institutions ^b	1,587.0	1,648.8	65.1	65.5	61.8	3.9
Clearing accounts	9.7	13.7	0.4	0.5	0.4	41.2
Paid-up share capital and reserves	20.0	20.0	0.8	0.8	—	—
Other accounts ^c	5.4	6.3	0.2	0.3	0.9	16.7
Total	2,438.9	2,517.2	100.0	100.0	78.3	3.2
Contingent accounts	419.3	506.1	—	—	86.8	20.7
Grand total	2,858.2	3,023.3	—	—	165.1	5.8

NOTE: Discrepancies in totals are due to the rounding of individual items.

^a Including agricultural surplus accounts, documentary credits, and guarantees.

^b Including deposits of nonresidents.

^c Including deposits of international institutions.

by the Bank to the public through rediscounting operations was thus IL 122.2 million greater than in 1965. About 60 percent of the increment went to finance exports, and the remainder mainly to finance other needs of the industrial and agricultural sectors.

The increase in Bank of Israel credit to the public and the Government was considerably larger than in previous years, and it was an important feature of the expansionary policy adopted by the Bank in order to stimulate the economy.

(b) *Liabilities*

1. *Banknotes and coin in circulation*

The value of banknotes and coin in circulation increased during 1966 by 13.6 percent—from IL 686.6 million to IL 780.0 million.

2. *Government deposits*

The Government's creditory accounts declined by IL 81.8 million in 1966, totalling IL 48.4 million as against IL 130.2 million at the end of 1965. Most of this amount consisted of compulsory saving deposits, which are kept in the Bank of Israel in accordance with the law.

3. *Deposits of banking and financial institutions*

Local currency deposits of banking and financial institutions decreased by IL 96.8 million during the year reviewed—a development largely attributable to the purchase by banks of treasury bills from the Bank of Israel—while their foreign currency deposits rose by IL 158.6 million (from IL 965.1 million to IL 1,123.7 million). The incremental foreign currency deposits break down as follows: Pazak—IL 119.7 million; Tamam—IL 37.3 million; Natad—IL 3.5 million; Pamaz—IL 2.0 million. Patach deposits declined by IL 4.0 million.¹

2. FOREIGN EXCHANGE AND GOLD HOLDINGS

(a) *Foreign exchange and gold*

Total foreign exchange and gold reserves (including the net balance in clearing accounts, loans to foreign governments and banks, and net participation in international financial institutions) held by the Bank of Israel at the end of 1966, minus deposits of nonresidents (Patach), came to IL 1,848.7 million (\$ 616.3 million), as compared with IL 1,910.3 million (\$ 636.8 million) at the end of 1965—a decline of \$ 20.5 million, or 3.2 percent.

¹ Deposits amounting to IL 54.2 million were exchanged for treasury bills, which are also liquid assets.

The Bank's gold reserves remained virtually unchanged in 1966, totalling IL 205.1 million (\$ 68.4 million). The share of gold in total gross foreign exchange holdings, as detailed above, rose from 10.3 percent at the end of 1965 to 10.8 percent at the end of 1966.

Table XXI-2
FOREIGN EXCHANGE AND GOLD BALANCES HELD BY
THE BANK OF ISRAEL, 1965-66

(\$ million)

End of period	Foreign exchange	Gold	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of non-residents	Net. balances
1965 December	574.7	68.3	12.3	5.1	660.4	26.8	633.6
1966 January	572.5	68.3	11.9	7.1	659.8	25.6	634.2
February	561.8	68.3	11.9	5.2	647.2	27.7	619.5
March	596.9	68.3	12.4	4.5	682.1	26.0	656.1
April	544.0	68.3	12.1	5.1	629.5	24.9	604.6
May	562.9	68.4	11.7	5.4	648.4	26.5	621.9
June	574.9	68.4	11.4	5.7	660.4	25.1	635.3
July	564.2	68.4	10.9	5.4	648.9	24.4	624.5
August	547.0	68.4	10.9	7.0	633.3	25.1	608.2
September	543.0	68.4	10.9	6.2	628.5	24.9	603.6
October	544.6	68.4	10.6	6.7	630.3	26.0	604.3
November	533.1	68.4	10.3	6.6	618.4	23.4	595.0
December	552.6	68.4	11.1	5.7	637.8	25.5	612.3

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 financial institutions, and interest-bearing time and demand deposits in foreign banks. A small percentage of the reserves were kept in non-interest-bearing demand deposits in order to finance the Bank's current operations.

Income from interest on foreign exchange reserves, which comprise the overwhelming majority of the Bank's foreign currency assets, went up from IL 76 million (\$ 25 million) in 1965 to IL 95 million (\$ 32 million) in 1966. This occurred despite the nonincrease in the volume of reserves during the year, and was due to a further rise in interest rates abroad. The average annual yield on the reserves, including gold, rose from 4.1 percent in 1965 to 5.7 percent.

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

At the end of 1966 the Bank of Israel maintained clearing accounts with 11 countries with which Israel had trade and payments agreements. The number of such countries did not change during the year. In addition to these, there is a clearing account with the U.S.S.R., which 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.; the proceeds are to be used for the purchase of goods in this country. In continuation of the trend of the past several years, Israel had a favorable balance in these accounts in 1966 as well, i.e. she exported more to these countries than she imported from them. The credit balances amounted to IL 30.7 million (\$ 10.3 million) at the end of 1966, while the debit balances totalled IL 13.7 million (\$ 4.6 million). The net balance to Israel's credit therefore stood at IL 17 million (\$ 5.7 million), in contrast to IL 15.2 million (\$ 5.1 million) at the end of 1965.

Table XXI-3
BALANCES IN CLEARING ACCOUNTS, 1965-66
(\$ thousand)

(End of period)			
Country	1965	1966	Increase or decrease (-)
Brazil	-80	-1,576	-1,496
Bulgaria	178	271	93
Czechoslovakia	465	465	—
Ghana	2,263	493	-1,770
Greece	206	300	94
Hungary	2,582	878	-1,704
Poland	-26	3,841	3,867
Portugal	-1,054	-1,125	-71
Rumania	1,323	1,562	239
Turkey	1,440	1,111	-329
Yugoslavia	1,317	2,835	1,518
Balances in transit and other accounts ^a	-3,549	-3,393	156
Total	5,065	5,662	597
Total in IL '000	15,195	16,986	1,791

NOTE: A negative sign indicates a balance to Israel's debit and no sign, a balance to Israel's credit.

^a Including a special account with the Soviet Union, which is not connected with a payments agreement.

(c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel aggregated IL 1,123.7 million (\$ 374.6 million) at the end of 1966, as against IL 965.1 million (\$ 321.7 million) at the end of 1965—a rise of \$ 52.9 million, or 16.4 percent. In 1965 the increase was \$ 61.9 million, or 23.8 percent.

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 Israeli residents receiving transfers from abroad, mainly recipients of restitution payments from Germany. At the end of the agreed period, the deposits may, at the depositor's option, either be renewed or converted into Israeli pounds at the prevailing official rate of exchange. The banking institutions are required to deposit the entire amount of such funds with the Bank of Israel, i.e. to maintain 100 percent liquid cover. These deposits aggregated IL 731.3 million at the end of 1966, as compared with IL 611.6 million the previous year—an increase of \$ 39.9 million. Interest on these deposits is paid by the Government and the Bank of Israel, according to the following rates: deposits for three months—3 percent; six months—4 percent; nine months—5 percent; 12 months—7 percent (the latter rate was reduced to 6 percent in February 1967).

(2) Deposits of residents transferring currency (Tamam). These are restricted foreign currency funds deposited in banking institutions by recipients of restitution payments from Germany and by several other groups transferring foreign currency, mainly discharged and disabled veterans of World War II. Such deposits may be withdrawn in foreign currency in order to finance foreign travel, purchase foreign securities, or pay for legal expenses connected with restitution claims. These sums must also be redeposited in full with the Bank of Israel. At the end of 1966 Tamam balances totalled IL 287.9 million, compared with IL 250.5 million at the end of the previous year—an increase of \$ 12.5 million, as against \$ 11.9 million in 1965. The Government and the Bank of Israel pay the interest on these deposits, as follows: deposits for three months—1 percent; six months—2 percent; nine months—3 percent; 12 months and over—4.5 percent.

(3) Foreign securities dividend accounts (Natah). These are restricted foreign currency deposits of Israeli residents in banking institutions originating from the sale of or the receipt of dividends on foreign securities. These funds may be used only for the purchase of such securities. Securities acquired in this manner may be resold to the general public. Banking institutions are required to maintain complete liquidity in respect of these deposits as well. At the end of 1966 they amounted to IL 15.9 million (\$ 5.3 million), as against IL 12.4 million (\$ 4.1 million) the year before.

Table XXI-4

**FOREIGN CURRENCY DEPOSITS OF BANKING INSTITUTIONS
WITH THE BANK OF ISRAEL, BY TYPE, 1965-66**

(IL million)

End of period	1965	1966
Foreign currency accounts of the banks (Pamaz)	8.32	10.28
Time deposits of Israeli residents (Pazak)	611.61	731.28
Deposits of residents transferring currency (Tamam)	250.55	287.90
Deposits of nonresidents (Patach)	80.46	76.50
Import deposit accounts (Hay)	1.31	1.38
Blocked and registered accounts (Pahab)	0.49	0.44
Foreign securities dividend accounts (Natad)	12.37	15.94
Total	965.11	1,123.72

(4) Deposits of nonresidents (Patach). These are freely transferable funds deposited by nonresidents (such as foreign investors, immigrants, foreign experts employed in Israel, etc.) in Israeli banks and redeposited with the Bank of Israel. The total amount of these deposits in the Bank of Israel at the end of 1966 reached IL 76.5 million (\$ 25.5 million), as compared with IL 80.5 million (\$ 26.8 million) at the end of 1965. The banks are required to maintain 30 percent liquidity on Patach deposits, and must hold at least 15 percent of the balances with the bank of Israel. At the end of 1966 Patach accounts totalled IL 398 million; the minimum amount which the banks were required to redeposit with the Bank of Israel thus came to IL 59.7 million, but they actually redeposited more than 19 percent of the aggregate balance. The Bank of Israel pays the banks 4 percent interest on their Patach deposits withdrawable on demand, and 5 percent on those for 12 months.

(5) Other accounts, including foreign currency accounts of the banks (Pamaz), blocked and registered accounts (Pahab) arising from the deposits of insurance and shipping companies, hotels, enterprises approved under the Law for the Encouragement of Capital Investments, etc., and import deposit accounts connected with the import of goods. These accounts aggregated IL 12.1 million at the end of 1966, compared with IL 10.1 million at the end of the previous year.

3. THE BANK OF ISRAEL AS BANKER TO THE GOVERNMENT

Examination of the Government accounts by balance sheet item shows an increase of IL 98.8 million in the Government's net debt to the Bank of Israel. However, Government receipts on account of credits and deposit with-

drawals actually amounted to IL 165.2 million. This sum consists of a rise of about IL 83 million in local and foreign currency advances and a decline of IL 82 million in Government deposits with the Bank of Israel. The balance sheet at the end of 1966, as already stated, shows changes in several of the Government's debitory items during the year which were not connected with Bank of Israel financing of Government operations, but stemmed from the Bank's activities in the open market. These changes include a decline of

Table XXI-5
GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,^a 1965-66
(IL million)

End of period	1965	1966	Increase or decrease (→)	
			IL m.	%
Debit				
Ordinary advances, in Israeli currency	—	32.6	32.6	—
Total current liabilities	—	32.6	32.6	—
Special advances and Govt. securities ^b	—	14.2	14.2	—
Treasury bills	69.4	15.2	-54.2	-78.1
Land bills	77.2	77.2	—	—
Absorption and Defense Advance	92.4	66.0	-26.4	-28.6
Advance for repayment of external debts	57.4	108.2	50.8	88.5
Total long-term debt	296.4	280.8	-15.6	-5.3
Total liabilities	296.4	313.4	17.0	5.7
Credit				
Deposits in Israeli currency	12.6	—	-12.6	—
Compulsory saving deposits	39.7	32.2	-5.6	-16.4
Foreign currency accounts	77.9	15.2	-62.7	-80.5
Total credit accounts	130.2	48.4	-81.8	-62.9
Balance	-166.2	-265.0	98.8	59.4
Contingent accounts				
Food surplus accounts	172.4	154.7	-17.7	-10.3

^a Excluding capital accounts.

^b Including other securities in the sum of IL 3.4 million.

IL 54.2 million in treasury bills and of IL 26.4 million in the Absorption and Defense Advance, and an increase of IL 14.2 million in the "other securities" item.

(a) *Debit and credit accounts*

The Government's long-term debt in 1966 was parced by IL 15.6 million, following a reduction of IL 54.2 million in outstanding treasury bills due to sales to commercial banks, and a decrease of IL 26.4 million in the Absorption and Defense Advance, the latter reflecting sales of the Short-Term Loan by the Bank to the public. In contrast to this, there was an increase of IL 50.8 million in a foreign currency advance, and IL 14.2 million worth of securities were purchased in the market, of which IL 10.8 million were Government and IL 3.4 million other securities.

The IL 54.2 million decrease in treasury bills stemmed from the sale of such bills to banking institutions in order to stimulate the sale of Short-Term Loan certificates. The IL 26.4 million decline in the Absorption and Defense Advance resulted from the exchange of certificates of this advance which were given several years ago by the Government to the Bank of Israel for Short-Term Loan certificates sold to the public in 1966. The purchase of securities by the Bank of Israel in the open market constituted part of the monetary policy, and was intended to inject additional means of payment into the economy.¹

(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, declined from IL 172.4 million at the end of 1965 to IL 154.7 million at the end of 1966.

(c) *Government imports*

In 1966 the Bank opened documentary accounts to the amount of IL 159.4 million, as against IL 234.3 million the year before (\$ 53.1 million and \$ 78.1 million respectively), in order to finance imports by Government departments. The amount of documentary credits received by the Bank of Israel in 1966 from foreign banks and suppliers for collection from Government departments totalled IL 33.1 million, as compared with IL 39.4 million in 1965 (\$ 11 million and \$ 13.1 million respectively).

Government imports financed by credits from the Bank of Israel were down 30 percent as compared with 1965.

¹ See Chapter XV, section 4(c).

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

(a) *Deposits of banks and financial institutions*

Deposits kept by banking institutions with the Bank of Israel went up from IL 1,587.0 million at the end of 1965 to IL 1,648.8 million at the end of the year reviewed. These figures include both local and foreign currency deposits. The decline in local currency deposits only partially reflects a reduction in the banks' liquid assets, since the purchase of IL 54 million worth of treasury bills, which are also considered liquid assets by the liquidity regulations, served as a substitute for such deposits. Total local currency deposits of banking institutions moved down from IL 621.9 million at the end of 1965 to IL 525.1 million at the end of 1966. Foreign currency deposits increased during the same period from IL 965.1 million (\$ 321.7 million) to IL 1,123.7 million (\$ 374.6 million). A breakdown of the deposits kept by banking institutions with the Bank of Israel is presented in Table XXI-6.

The increase in the obligatory balances stemmed partly from a change in the minimum rate which must be held. Until the middle of 1966 this rate was 15 percent of all deposits requiring liquid cover which were held in banking and financial institutions. The minimum was raised gradually from 15 to 18 percent during the second half of 1966, at the rate of 0.5 percent per month between July and December.

Following are the interest rates paid by the Bank of Israel, as of February 1, 1967, on local currency accounts of the banking and financial institutions. On one-third of the minimum balance that must be kept with the Bank of

Table XXI-6

DEPOSITS OF BANKING INSTITUTIONS WITH THE BANK OF ISRAEL, 1965-66

(IL million)

	1965	1966	Increase or decrease (-)	
			IL m.	%
Israeli currency				
Minimum balance	195.4	263.1 ^a	67.7	34.6
Other demand deposits	91.5	18.2	-73.3	-80.1
Time deposits	335.0	243.7	-91.3	-27.3
Total	621.9	525.0	-96.9	-15.6
Foreign currency	965.1	1,123.7	158.6	16.4
Total deposits	1,587.0	1,648.7	61.7	3.9

^a Including IL 14.2 million in deposits for covering deficits in export credits.

Israel no interest at all is paid, while on the remaining two-thirds 2 percent is paid. Interest at 3 percent is paid on the unfulfilled quota in the Export Finance Fund, while demand deposits in excess of the minimum balance draw 4 percent interest. Annual interest rates on time deposits are as follows: deposits for three months—5.5 percent; six months—6.0 percent; nine months—6.7 percent; 12 months and over—7.5 percent.

(b) *Rediscounts*

The balance of rediscounted bills in local currency rose from IL 74.0 million at the end of 1965 to IL 106.4 million at the end of 1966. The two main factors causing this increase were the larger volume of export credits and the rediscounting of bills of banking institutions giving controlled credit outside the liquidity framework. The rediscounts were intended to finance agricultural crops, after the 16.5 percent quota of bank deposits earmarked for the granting of credit outside the liquidity framework (except for financing exports) had been completely utilized.

Table XXI-7
REDISCOUNTS, BY SECTOR,* 1965-66
(IL thousand)

(End of period)

Sector	1965		1966	
	Local currency	Foreign currency	Local currency	Foreign currency
Industry	30,643	71,826	108,448	87,249
Agriculture	1,395	2,219	825	18,033
Commerce	—	—	5,869	—
Public services	19,374	—	27,069	—
Services	—	—	—	1,080
National Institutions	13,785	—	12,792	—
Total	65,197	74,045	155,003	106,362
Total in local and foreign currency	139,242		261,365	

* The sectors have been reclassified.

The Bank of Israel and the Government continued to charge the commercial banks only 0.5 percent on their contribution to the Export Finance Fund, in order to enable them to continue extending loans to exporters at 6 percent interest.

The balance of rediscounted bills in foreign currency went up during the year by IL 90 million, from IL 65.2 million to IL 155.0 million. More than

half of the increment stemmed from the financing of raw material imports (including rough diamonds) intended for the production of export goods. The rise in the balance of bills rediscounted for this purpose resulted from both the expanded volume of raw material imports for export production and the increased participation of the Bank of Israel in financing such imports. (The participation of the Bank of Israel is designed to prevent a rise in interest rates abroad from affecting exporters' costs, and to obviate the need for them to pay more than 6 percent interest in financing such imports.) The increased participation was effected in two stages: on May 1, 1966 the Bank's share was raised from 30 to 40 percent, and on September 1, to 50 percent.

5. CURRENCY IN CIRCULATION

The monthly average of currency in circulation¹ went up by 12.0 percent, from IL 721.3 million in December 1965 to IL 808.0 million in December 1966. The growth rate was similar to that of 1965 and 1964, when it came to 11.7 percent each year. The increase in cash was the main factor in the rise of means of payment in 1966. The share of cash in the total money supply continued upward, for the third consecutive year.

Table XXI-8
CURRENCY IN CIRCULATION, 1966

(IL thousand)

(Wednesday averages)

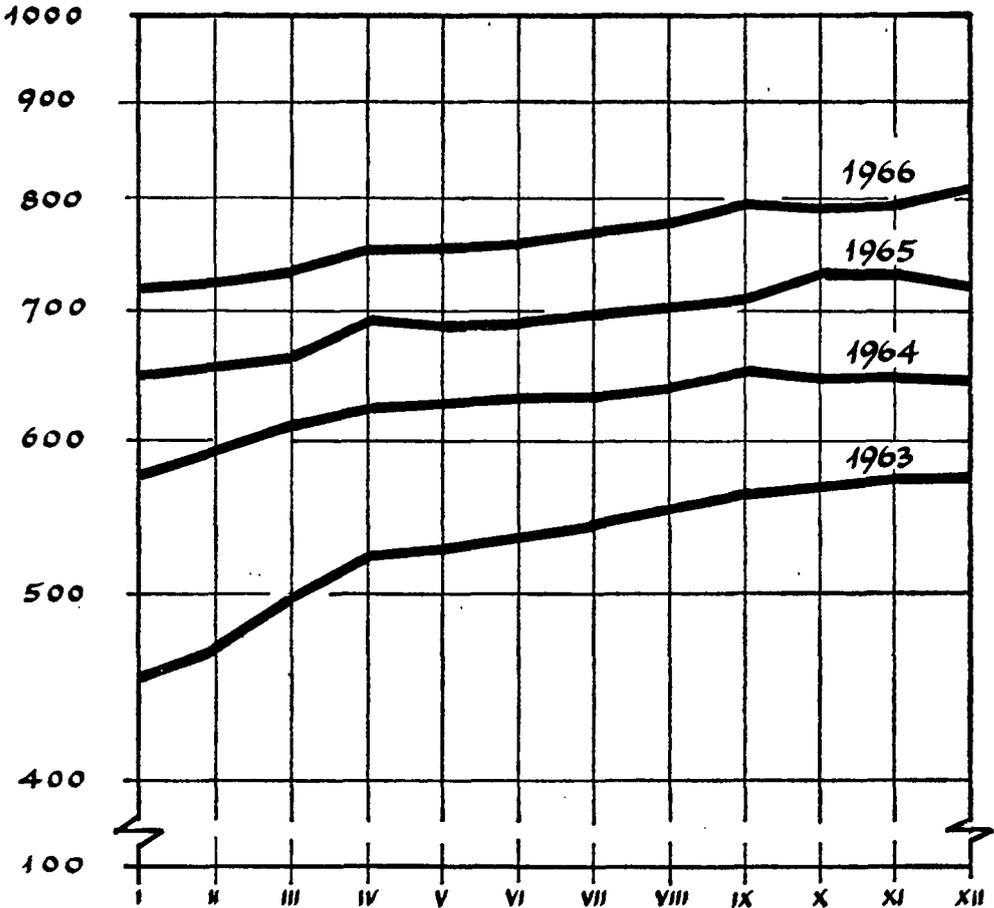
Month	Currency in circulation
1965 December	721,260
1966 January	718,604
February	723,154
March	734,535
April	756,084
May	756,250
June	757,035
July	773,446
August	779,745
September	792,907
October	789,511
November	796,354
December	807,985

¹ Calculated according to Wednesday averages.

Diagram XXI-1

CURRENCY IN CIRCULATION (WEDNESDAY AVERAGES), 1963-66

(IL thousand)



Expansion was steady throughout the year, except for October when a decline took place after a marked seasonal increase in September (the holiday period). As in previous years, the smallest rise occurred in May and June.

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

In 1966 the total value of IL 50 banknotes in circulation continued to rise, and their relative share in the value of all banknotes went up from 71.7 percent to 77.0 percent. The proportion of IL 10 banknotes declined from 23.5 to 18.7 percent, IL 5 notes from 2.7 to 2.3 percent, and IL 1 notes from 2.0 to 1.9 percent. On the other hand, IL ½ banknotes showed practically no change as compared with the previous year, constituting 0.1 per-

cent of the total value of banknotes in circulation. The IL ½ banknotes have in fact been virtually withdrawn from circulation since the issuance of metal coins of the same denomination in 1963, although the replacement of the notes by coins still continues at a slow pace.

During the year reviewed IL 2.5 million worth of new coins, denominated in agorot, in IL ½, and IL 1, as well as commemorative coins, were put into circulation, as follows:

Coin	Value (IL million)
1 agora	—
5 agorot	0.3
10 agorot	0.6
25 agorot	0.2
IL ½	1.0
IL 1	0.2
Commemorative coins	0.2
Total	2.5

At the end of 1966 the new coins denominated in agorot (including those in denominations of IL ½ and IL 1) constituted 76.2 percent of the value of all coins in circulation, as compared with 74.3 percent at the end of 1965.

At the end of 1966 the composition of the coins in circulation was as follows:

	Percent
Old coins (denominated in prutot)	8.8
New coins (denominated in agorot)	42.5
IL 1 and IL ½ coins	33.7
Commemorative coins	15.0
Total	100.0

(b) *Damaged currency*

During the year reviewed the unit for the destruction of unusable notes and coins destroyed IL 216.1 million worth of banknotes, IL 505,000 worth of metal coins, and IL 11 worth of paper tokens. It was mostly the old 25, 50, and 100 prutot metal coins that were melted down during the year and sold as scrap metal. The destroyed currency consisted of both damaged currency¹ and currency from earlier series which were withdrawn from circulation before 1966.

¹ In 1966 the Bank of Israel received 368 requests to exchange damaged currency, totalling IL 15,730; 313 requests, totalling IL 13,864, were approved.

Table XXI-9

NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1965-66

(End of period)

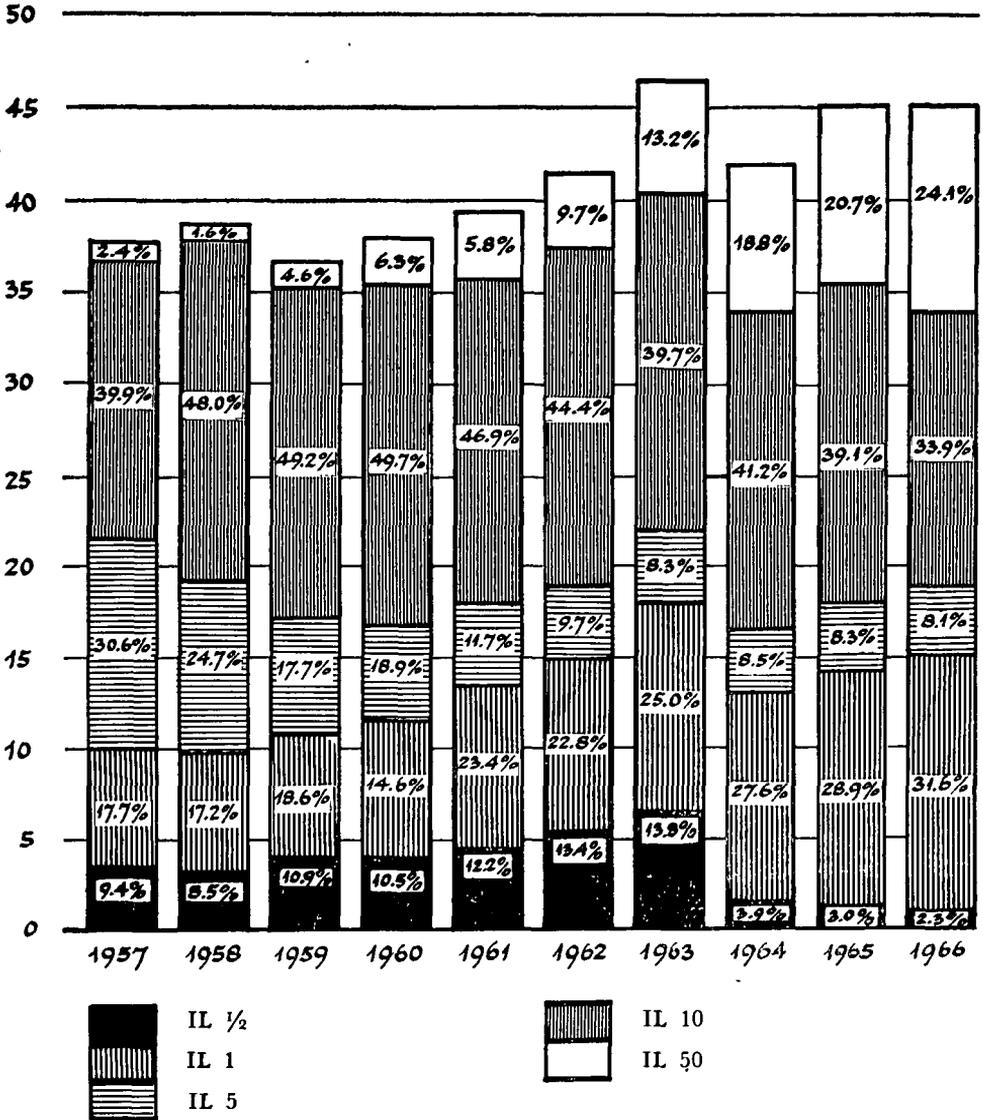
Denomination	1965		1966	
	IL '000	%	IL '000	%
Banknotes				
IL ½	554	0.1	501	0.1
IL 1	13,191	2.0	14,324	1.9
IL 5	17,976	2.7	17,473	2.3
IL 10	156,771	23.5	141,606	18.7
IL 50	478,234	71.7	583,680	77.0
Total banknotes	666,726	100.0	757,584	100.0
Coins				
1 pruta	5	—	5	—
5 prutot	48	0.2	48	0.2
10 prutot	316	1.6	301	1.3
25 prutot	165	0.8	165	0.7
50 prutot	505	2.6	501	2.2
100 prutot	338	1.7	337	1.5
250 prutot ^a	601	3.0	601	2.7
500 prutot (silver)	22	0.1	22	0.1
1 agora	1,084	5.5	1,118	5.0
5 agorot	1,668	8.4	1,913	8.5
10 agorot	4,109	20.7	4,748	21.2
25 agorot	1,540	7.7	1,741	7.8
IL ½	4,885	24.5	5,835	26.1
IL 1	1,489	7.5	1,698	7.6
Commemorative coins				
IL ½	27	0.1	27	0.1
IL 1	307	1.5	307	1.4
IL 5	1,411	7.1	1,625	7.3
IL 20 (gold)	201	1.0	201	0.9
IL 50 (gold)	599	3.0	600	2.7
IL 100 (gold)	594	3.0	594	2.7
Total coins	19,914	100.0	22,387	100.0
Total currency in circulation	686,640	—	779,971	—

^a Including paper tokens and silver coins.(c) *Agencies for the supply of cash*

In 1966 a new agency was opened in a Bank Leumi le-Israel branch in Jerusalem. The Bank of Israel now has agencies in Beersheba, Hadera, Tiberias, Netanya, Petah Tikva, Safad, and Rehovot. These agencies supply cash to banking institutions in the provincial towns and absorb their surplus cash.

Diagram XXI-2

NUMBER OF BANKNOTES IN CIRCULATION, BY DENOMINATION, 1957-66
(millions of units)



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, as well as in the main Bank Leumi branch in Jerusalem. These arrangements have achieved greater economy and security 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-10
BANKNOTES IN CIRCULATION, BY DENOMINATION, 1965-66
 (annual average)

Denomination	1965		1966	
	IL '000	%	IL '000	%
IL ½	656	0.1	522	0.1
IL 1	12,778	1.9	14,299	1.9
IL 5	18,450	2.8	18,296	2.5
IL 10	172,829	26.1	153,269	21.0
IL 50	457,671	69.1	544,538	74.5
Total	662,384	100.0	730,924	100.0

6. NOTE AND COIN ISSUE

(a) *Minting of commemorative coins*

In 1966 the Bank of Israel minted one commemorative coin, on the occasion of Israel's 18th anniversary.¹

The commemorative coins issued by the Bank of Israel until the year 1965/66 inclusive are listed in Table XXI-11.

(b) *Coins in circulation*

In 1966 the following coins were minted for the Bank of Israel:

Coin	No. of units	Value (IL)
1 agora	7,835,851	78,358.51
5 agorot	591,112	29,555.60
10 agorot	7,450,589	745,058.90
25 agorot	520,044	130,011.00
IL ½	3,323,008	1,661,504.00
IL 1	340,090	340,090.00
Total	20,060,694	2,984,578.01

The Israel mint was transferred from Tel Aviv to Jerusalem and started operations on April 1, 1966 within the framework of the Government Printer. Thus the tradition of minting Jewish coins in Jerusalem was renewed, for the first time since the Bar Kochba rebellion.

¹ The coin has a silver content of 90 percent and a nominal value of IL 5, weighs 25 grams, and has a diameter of 34 mm. The subject of the coin is "The People of Israel Lives on".

Table XXI-11

COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL

Coin	Place minted	Number minted		
		Regular	Proof	Total
1. Half-shekel coins				
1960/61	Utrecht	20,004	5,000	25,004
1961/62	Utrecht	20,000	10,000	30,000
2. Hanukka coins—IL 1				
1958/59 (Torah is Light)	Berne	250,000	5,000	255,000
1959/60 (Degania)	Utrecht	100,000	5,000	105,000
1960/61 (Henrietta Szold)	Utrecht	17,000	3,000	20,000
1961/62 (Maccabees)	Utrecht	20,001	10,000	30,001
1962/63 (Hanukka A)	Berne	10,090	6,100	16,190
1963/64 (Hanukka B)	Utrecht	10,000	5,500	15,500
3. Independence Day coins—IL 5				
1957/58 (Menorah)	Utrecht	100,000	2,000	102,000
1958/59 (Ingathering of Exiles)	Berne	100,099 ^a	5,000	105,099
1959/60 (Herzl)	Berne	54,000	5,000	50,000
1960/61 (Bar Mitzva)	Utrecht	20,000	5,000	25,000
1961/62 (Development)	Utrecht	10,450	5,050	15,500
1962/63 (Seafaring)	Rome	5,990	4,500	10,490
1963/64 (Israel Museum)	Rome	11,100	4,500	15,600
1964/65 (Knesset)	Rome	25,252	7,750	33,002
1965/66 (The People of Israel Lives On)	Utrecht	32,503	10,500	43,003
4. Gold coins				
IL 30 1959/60 (Herzl)	Berne	10,510	—	10,510
IL 50 1960-62 (Weizmann)	Berne	—	6,202 ^b	6,202
IL 100 1960-62 (Weizmann)	Berne	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Berne	6,014	1,502	7,516

^a Of which 21,000 units were destroyed.

^b In the Annual Report for 1965, this figure was erroneously printed as 6,002.

Table XXI-12

COINS MINTED FOR THE BANK OF ISRAEL, 1959/60 TO 1965/66

(units)

Value	Place minted	1959/60	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66
1 agora	I.C.I.	12,768,000	19,262,000					
	Berne			10,600,000	6,000,000	4,950,000	10,000,024	1,680,000
	Tel Aviv			3,900,000	8,804,000	22,602,241	10,707,625	8,484,502
	Total	12,768,000	19,262,000	14,500,000	14,804,000	27,552,241	20,707,649	10,164,502
5 agorot	I.C.I.		5,000,000					
	Berne		5,012,000					
	Tel Aviv	8,019,000	10,078,000	11,198,000	1,429,000	21,451	201,281	290,866
	Total	8,019,000	20,090,000	11,198,000	1,429,000	21,451	201,281	290,866
10 agorot	I.C.I.		5,000,000					
	Berne		95,000					
	Tel Aviv	14,397,000	7,726,000	8,845,000	3,931,000	3,612,423	200,561	7,276,610
	Total	14,397,000	12,821,000	8,845,000	3,931,000	3,612,423	200,561	7,276,610
25 agorot	Berne	40,000	2,010,000					
	Utrecht		5,000					
	Tel Aviv	4,351,000	2,994,000	882,000	194,000		186,544	320,000
	Total	4,391,000	5,009,000	882,000	194,000		186,544	320,000
IL ½	Berne				14,000			
	Tel Aviv				5,593,000	3,761,890	1,551,167	2,139,000
	Total				5,607,000	3,761,890	1,551,167	2,139,000
IL 1	Berne				32,000			
	Tel Aviv				4,180,000		166,053	290,000
	Total				4,212,000		166,053	290,000

The various coins denominated in agorot, IL ½, and IL 1 which were issued by the Bank of Israel until the year 1965/66 inclusive are summarized in Table XXI-12.

(c) *Withdrawal of coins and banknotes*

The withdrawal of old coins denominated in prutot and the replacement of IL ½ banknotes by coins of this denomination continued in 1966. The metal coins denominated in prutot comprised about 16 percent of all coins from 1 to 25 agorot in circulation at the end of 1966. A substantial part of those still in circulation are presumably in the hands of collectors. The value of IL ½ coins at the end of 1966 amounted to 93 percent of the total circulation in this denomination (banknotes and coins alike).

7. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

At the end of 1966 the Bank of Israel was administering 109 series of State loans—21 series of nonlinked loans, 20 series of dollar-linked loans, 64 series of loans linked to the consumer price index, and 4 series of combined-linkage loans. Details on these loans are presented in Table XXI-13.

In 1966 new loans to the value of IL 485.1 million were floated, while loan redemption amounted to IL 364.2 million. As a result, the outstanding balance of domestic loans administered by the Bank of Israel, which represents only part of the State's domestic debt, increased by IL 120.9 million—from IL 677.2 million at the end of 1965 to IL 798.1 million.

The balance of nonlinked loans rose by IL 82.8 million, and that of loans linked to the index by IL 64.5 million. On the other hand, there was a decline of IL 25.0 million in outstanding dollar-linked loans, and of IL 1.3 million in loans with a mixed linkage.

The biggest percentage increase took place in nonlinked loans, and it stemmed entirely from sales of the Short-Term Loan. The value of Short-Term Loan certificates held by the public had been falling steadily since November 1964, and the trend continued downward during the months January–May 1966. Under an agreement between the Treasury and the Bank of Israel, the loan was transferred to the latter in June 1966 to be used as an instrument of its open-market operations. The agreement stipulated that all receipts up to a balance of IL 240 million were to be transferred to the Government; the amount transferred during the year came to approximately IL 85 million. Sales were stimulated by changes introduced in the terms of the loan and in the series. A new three-month series was issued, the yield to the public was raised, and distributors' commissions were increased. Distributors received an additional concession in that they were permitted to purchase treasury bills

—which are considered liquid assets for the purpose of calculating the liquidity of banking institutions—at a ratio of 1:3 in relation to Short-Term Loan sales. These treasury bills bear 9.5 percent interest, as compared with the maximum interest of 7.5 percent which the banks receive on one-year deposits with the Bank of Israel.

Changes in monetary policy led to the revision of the distribution terms of the Short-Term Loan as of November 1966. The ratio of treasury bills was reduced to 1:5, and the yield to the public was gradually decreased, a measure that was continued in the early part of 1967. The yield rates are presented in Table XXI-14.

The net increase in the balance of the Short-Term Loan during the months June–December 1966 was IL 114.8 million, whereas the decline in January–May 1966 amounted to IL 29.2 million; the rise for the year as a whole was therefore IL 85.6 million. Under the above-mentioned agreement between the Government and the Bank of Israel, IL 85 million was transferred to the Government. Of the total increment, IL 1.5 million originated in the special series issued to the banks, while Bank of Israel holdings at the end of the year accounted for IL 3.2 million; thus the growth of the public's holdings came to IL 80.8 million, as compared with IL 74.9 million in 1965.

After it began to issue the three-month series in June 1966, the Bank of Israel issued four series weekly. Altogether, 194 series of the Short-Term Loan were issued in 1966, seven of which were special series for the banks; 179 series were redeemed, five of which belonged to the special bank series.

In 1966 the Knesset raised the authorized amount of the Development Loan, 1960 from IL 225 million to IL 350 million. Ten series (36–45) of the Development Loan, 1960, totalling IL 50 million, were floated during the year. Nine series are of the option type (the terms of the loan are described below), and one (series 40) is for a long term (17 years) and bears 5.5 percent interest. Sales of the Development Loan by the Bank of Israel were down slightly from the 1965 level. Total sales of the option-type series came to IL 44.4 million, as compared with IL 49.0 million in 1965, while sales of the long-term series amounted to IL 7.3 million, as against IL 7.7 million in 1965. This decline does not mean that aggregate sales of the option-type bonds fell off in 1966, since during the year several banking and financial institutions issued securities offering similar terms.¹

The option-type bonds were issued for five years and will be redeemed at the end of the period according to the highest of two calculations: (a) principal and interest linked to the consumer price index, with compound interest of 4.84 percent, or IL 26.66 on each IL 100 face value; (b) principal and interest nonlinked, with compound interest of 10.76 percent, or IL 66.66 on each IL 100 face value.

¹ See Chapter XX, "The Securities Market", section 1.

DOMESTIC STATE LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1966

(IL thousand)

	Number of series	Amount author- ized	Balance at end of 1965	Amount issued in 1966	Principal redeemed in 1966	Balance at end of 1966	Interest paid in 1966	Linkage differentials on principal ^a
1. Nonlinked loans								
A. Interest-bearing								
3½% Government Loan, 1953-57	1	4,400 ^b	1	—	—	1	—	—
3½% War Loan, 1954-59	1	7,500	156	—	17	139	—	—
4% Compulsory Loan, 1952	1	20,870 ^c	6,519	—	1,452	5,066	222	—
2½% Compulsory Loan, 1953	1	9,021 ^b	3,825	—	619	3,206	94	—
3% Special Popular Loan, 1954	1	^d	74	—	—	74	2	—
Immigrant Housing Loan Savings Bonds, 1957	1	^e	65	—	24	41	9	—
6% Short-Term Loan, 1960	4	400,000 ^f	189,833	374,452	290,308	273,977	13,252	—
6% Short-Term Loan, 1960 (to banks)	1	50,000 ^f	32,251	32,305	30,737	33,820	2,766	—
Total	11	—	232,724	406,757	323,157	316,325	16,345	—
B. Prize-bearing bonds								
Popular Loans	6	41,000	31,611	38 ^f	198	31,452	1,425	—
Mandatory Bearer Bonds	4	10,000	1,335	—	636	699	64	—
Total	10	—	32,946	38	834	32,150	1,489	—
Total nonlinked loans	21	—	265,670	406,796	323,991	348,475	17,834	—
2. Index-linked interest-bearing loans								
6½%, 4¾% Defense Loan, 1956	1	40,000	3,853	—	1,258	2,595	357	855
6%, 4½% Immigrant Housing Loan, 1957	8	70,000	6,694	—	1,671	5,024	550	945
6%, 5½%, 5% Development Loan, 1960 (long-term)	14	350,000	64,436	7,290	2,430	69,297	4,800	1,175
6%, 5%, 4.84% ^h Development Loan, 1960 (5 years)	30	ⁱ	105,000	44,433	—	149,433	868	—
4% Absorption Loan, 1961	1	—	13,176	2,490	—	15,666	772	—
4% Absorption Loan, 1962	1	—	22,916	10,312	—	33,228	1,466	—
4% Absorption and Compulsory								

6% Insurance Companies Loan, 1962	4	100,000	11,041	8,775	—	19,816	1,538	—
6% Insurance Companies Loan, 1965	1	100,000	—	1,483	—	1,483	—	—
6% Insurance Companies Loan (3 years)	2	10,000	8,215	—	2,024	6,191	629	541
Total	64	—	275,045	78,268	13,843	339,470	11,726	3,516
3. Dollar-linked loans								
A. Interest-bearing								
3% National Loan, 1948-53	1	—	57	—	5	52	..	—
3½% Tavei Dollar, 1951	1	75,000 ^k	23,399	—	7,828	15,571	810	—
3½% Savings Certificates, Dollar- Linked, 1951	1	10,000 ^l	15,686	—	3,610	12,077	569	—
6%, 4¾% Defense Loan, 1956	1	°	8,974	—	2,832	6,142	454	—
6%, 4½% Immigrant Housing Loan, 1957	10	°	25,240	—	5,373	19,867	1,164	—
6% Development Loan, 1960	4	°	29,831	—	2,961	26,870	1,688	—
Total	18	—	103,187	—	22,608	80,579	4,685	—
B. Prize-bearing bonds								
Defense Loan, 1956	1	°	12,091	—	2,387	9,704	379	—
Immigrant Housing Loan, 1957	1	°	9,168	14 ^e	30	9,153	396	—
Total	2	—	21,258	14	2,417	18,856	775	—
Total dollar-linked loans	20	—	124,445	14	25,025	99,435	5,461	—
4. Combined-linked interest-bearing loans								
6% Development Loan, 1960	4	°	12,019	—	1,332	10,687	819	234
Grand total	109	—	677,181	485,079	364,190	798,068	35,840	3,750

NOTE: Discrepancies in totals are due to the rounding of individual items.

^a Linkage differentials on index-linked loans only. Dollar-linked loans (including combined linkage) have been revalued.

^b Amount actually sold by the end of 1966.

^c Amount actually sold by the end of 1966—including tax vouchers.

^d Included in the authorized amount of the Popular Loan Premium Bonds.

^e Included in the authorized amount of the index-linked loan.

^f A new series may be issued to replace a series fully redeemed.

^g The amount issued as a result of the redemption of bonds held on behalf of the Accountant General.

^h If the option-type bonds are redeemed without linkage, the rate of interest is 10.76 percent.

ⁱ Included in the authorized amount of the long-term Development Loan.

^j Under the agreement between the Government and the Bank of Israel, proceeds from this loan are deposited in the Bank of Israel and cannot be used by the Government.

^k The amount authorized and issued is denominated in U.S. dollars and totalled \$ 25 million. The equivalent IL value was calculated at the official rate of exchange.

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

These bonds may be redeemed ahead of maturity, after two years from the date of issue. In this case repayment will be effected without linkage and with compound interest per IL 100 as follows:

<u>No. of months</u>	<u>IL</u>	<u>Interest (%)</u>
24	22	10.45
30	29	10.72
36	36	10.79
42	43	10.76
48	50	10.67
54	58	10.70

Under the Insurance Companies Loan, 1962, index-linked bonds were issued in 1966 to a total value of IL 8.8 million. These bonds are for periods of five to 40 years, at the option of each insurance company and in accordance with the terms of the linked life insurance policies it has sold. The total amount deposited with the Bank of Israel to the credit of the Treasury toward the purchase of index- and dollar-linked bonds reached IL 21.5 million at the end of 1966. So far no dollar-linked bonds have been issued.

Under the Insurance Companies Loan, 1965, the Treasury this year issued for the first time index-linked bonds to a nominal value of IL 1.5 million. Repayment dates are in accordance with the terms of the linked life insurance policies. Of the IL 10 million three-year loan issued for the insurance companies, IL 2 million worth of bonds were redeemed in 1966, in accordance with the terms of the loan.

The distribution of certificates of the 1961 and 1962 Absorption Loans continued during the year reviewed. In addition, the distribution was started

Table XXI-14

**NET YIELD ON SHORT-TERM LOAN SERIES,* JANUARY 1, 1966
TO FEBRUARY 1, 1967**
(percentages)

Series	Jan. 1, 1966– May 31, 1966	June 1, 1966– Nov. 29, 1966	Nov. 30, 1966– Dec. 27, 1966	Dec. 28, 1966– Jan. 31, 1967	From Feb. 1, 1967
3 months	—	8.10	7.90	7.71	6.66
6 months	7.86	8.25	8.10	7.86	6.86
12 months	8.23	8.50	8.50	8.25	7.50
18 months	8.77	8.77	8.77	8.40	7.50

* At compound interest.

of certificates of the Absorption and Compulsory Saving Loan, 1963. Altogether, IL 16.3 million worth of certificates were distributed to 445,000 persons. Because of the numerous certificates returned by the Post Office for various reasons, the Bank of Israel circulated in all bank and Post Office branches, municipalities, local councils and authorities, as well as in various information offices, lists of all owners of 1961 and 1962 Absorption Loan certificates that had been returned.

The outstanding balance of the three series of the Absorption Loan reached IL 52.4 million at the end of 1966.

The first redemption of the Compulsory Saving Loan, 1962 took place on April 1, 1966, with one-quarter of the principal being repaid. In addition, payment was made of the 12 percent interest that had accumulated on this loan over three years.

The Bank of Israel serves as the clearinghouse for the bearer bonds of the State and public loans administered by it. Bonds administered by the Bank of Israel are deposited to the credit of the Stock Exchange Clearinghouse. The clearing balances are credited or debited by the clearinghouse each day to members' accounts. The Bank of Israel receives and delivers securities in accordance with notices issued by the Stock Exchange Clearinghouse to its members. Principal and interest payments are made in bulk to the credit of the Stock Exchange Clearinghouse.

During the year 25 drawings of prize-bearing loans were held, as well as 10 drawings for the redemption of principal.

The conversion of dollar-linked Savings Certificates, 1951 (registered) into 3.5 percent interest-bearing certificates (bearer) continued in 1966.

Total principal payments, including linkage thereon, came to IL 367.9 million—IL 364.2 million on dollar-linked and IL 3.7 million on index-linked loans. Total interest payments, including linkage thereon, amounted to IL 35.8 million.

(b) Other domestic loans administered by the Bank of Israel

At the end of 1966 the Bank of Israel was administering 27 series of various loans floated by five public bodies: Tefahot Israel Mortgage Bank Ltd., Israel Industrial Development Bank, local authorities, the Jewish Agency, and Israel National Oil Co. Ltd.

Tefahot issued five more series in 1966. Total sales amounted to IL 58.9 million, while annual redemption of the various loans came to IL 11.9 million. The outstanding balance increased therefore by IL 47.0 million—from IL 145.7 million at the end of 1965 to IL 192.7 million at the end of 1966.

Aggregate payments on account of principal and linkage thereon of the various loans reached IL 13.1 million in 1966—IL 11.9 million on dollar-linked

DOMESTIC LOANS (OTHER THAN STATE LOANS) ADMINISTERED BY THE BANK OF ISRAEL, 1966

(IL thousand)

	Number of series	Amount authorized	Balance at end of 1965	Amount issued in 1966	Principal redeemed in 1966	Balance at end of 1966	Interest paid in 1966	Linkage differentials on principal ^a
1. Index-linked interest-bearing loans								
6½%, 6% Local Authorities Loan	2	15,000	1,202	—	301	901	111	168
6% Debentures, Industrial Bank of Israel Ltd.—long-term	2	25,000	9,446	—	767	8,678	390	395
4.84% ^b Debentures, Industrial Bank of Israel Ltd.—5 years	1	5,000	5,000	—	—	5,000	—	—
6½%, 5½%, 5% Debentures of Tefahot Israel Mortgage Bank	14	145,000	81,646	58,863	689	139,820	5,781	257
Total	19	—	97,294	58,863	1,757	154,399	6,282	820
2. Dollar-linked loans								
A. Interest-bearing								
6% Debentures, Industrial Bank of Israel Ltd.	2	°	14,340	—	2,657	11,683	820	—
6½%, 6% Local Authorities Loan	2	°	3,046	—	749	2,297	184	—
5% National Oil Company Ltd.	1	10,000	9,477	—	1,521	7,956	414	—
6½% Debentures of Tefahot Israel Mortgage Bank	1	°	4,152	—	519	3,633	270	—
Total	6	—	31,015	—	5,446	25,569	1,688	—
B. Prize-bearing bonds								
Jewish Agency Immigration Loan	1	10,000	5,406	—	2,803	2,603	72	—
Total	7	—	36,421	—	8,249	28,172	1,760	—
3. Combined-linked interest-bearing loans								
6% Debentures, Industrial Bank of Israel Ltd.	1	15,000	12,010	—	1,852	10,158	749	380
Grand total	27	—	145,725	58,863	11,858	192,729	8,791	1,200

NOTE: Discrepancies in totals are due to the rounding of individual items.

^a Linkage differentials on index-linked loans only. Dollar-linked loans (including combined linkage) have been revalued.^b The rate of interest on debentures redeemed without linkage is 10.76 percent

and IL 1.2 million on index-linked loans. Total interest payments, including linkage thereon, reached IL 8.8 million.

Two drawings of prize-bearing loans were held and seven drawings for the redemption of principal of the various loans.

(c) *Foreign loans*

The Bank of Israel handles the conversion and early redemption of Independence and Development Bonds. The Bonds are converted 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.

Table XXI-16

FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1966

(\$ thousand)

Loan	Amount subscribed at end of 1966	Amount redeemed* by end of 1966	Amount owing at end of 1966	Amount converted into IL in 1966	Interest paid in Israel only in 1966
Independence Loan	145,533	145,533	—	311	41
Development Loan					
First series	234,140	148,913	85,227	2,505	316
Second series	293,620	111,338	182,283	10,576	726
Third series	233,363	33,136	200,226	4,915	187
Total	906,656	438,920	467,736	18,307	1,270

* Bonds redeemed in Israeli pounds or dollars, or exchanged for later issues.

Final redemption of the Independence Loan, which was floated in 1951-54 to a total of \$ 145.5 million, was effected on May 1, 1966. Gross sales of this loan amounted to \$ 145.5 million. Early repayments totalled \$ 56.9 million, of which \$ 51.9 million was in Israeli currency and \$ 5.0 million in dollars. \$ 5.9 million worth of Independence Bonds were exchanged for Development Bonds, and the balance of \$ 82.7 million was redeemed on due dates—\$ 51.7 million in previous years and \$ 31.0 million in May 1966. Gross sales of the Development Loan totalled \$ 761.1 million by the end of 1966.

The conversion of Independence and Development Bonds into Israeli pounds amounted to \$ 18.3 million in 1966, as compared with \$ 17.3 million in

1965. Of the amount redeemed, 49.3 percent was used to finance investments in Israeli enterprises by foreign investors, 22.0 percent was spent by tourists during their stay in this country, and the remaining 28.7 percent was donated to Israeli institutions or transferred as gifts to Israeli residents.

8. EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1966 the Department of the Examiner of Banks in the Bank of Israel exercised control over 84 banking and financial institutions, as compared with 89 at the end of 1965.

Table XXI-17

BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1965-66

(End of period)

Type of institution	1965	1966
Commercial banks	28	28
Cooperative credit societies	20	18
Mortgage and investment banks	19	19
Financial institutions	22	19
Total	89	84

There were no changes in 1966 in the number of commercial banks and mortgage and investment banks. Kupat Milve Haoleh Mutual Society Ltd. transferred its banking business to Bank Leumi le-Israel, while the Shaarayim Kupat Milve Vehisachon Mutual Society Ltd. in Rehovot transferred its banking business to the Bank Zerubabel Central Cooperative Society Ltd.

The following ceased operating as financial institutions: Kupat Hacooperativim Ltd., Sasson Nawi and Sons Financing and Investment Company Ltd., and Nir Ltd.

(a) *Audits*

During the year the Department carried out 63 audits in banking and financial institutions. These were varied in nature and included general audits, as well as partial audits of bill brokerage transactions, directed credit, documentary credits, time deposits, and various surprise inspections. In addition,

the Department began a survey on the daily reporting of the liquidity position by the banking institutions, which became mandatory on June 30, 1966.

In the course of the general audits, the Department examined in particular cases where credits and guarantees had been granted to several clients in excessively large amounts relative to the bank's capital. It was also necessary to call attention to the type, quality, and size of the collateral given in relation to the total debt of the client.

Emphasis was also placed in these audits on the amount allocated to reserves, including provision for bad debts and the reserve for severance pay.

Bill brokerage transactions were checked in order to determine whether they complied with the minimum conditions detailed in the Examiner of Bank's circular of December 9, 1963. The inspections revealed transactions which did not fulfil these conditions, and they were accordingly disqualified as bill brokerage transactions. The examiners insisted that there be a clear separation between brokerage transactions carried out with the guarantee of the banking institutions and those conducted without a guarantee. In respect of the latter, the institutions were requested to indicate clearly on the all relevant documents that the transaction was carried out without a guarantee. In such transactions the bills themselves were also examined in order to ascertain whether any noncommercial bills were among them, such as accommodation bills.

The amount of credit extended to clients and the collateral put up were also checked in the course of the examination of clearing arrangements in the various institutions and of dishonored checks returned through the clearing-houses. These inspections uncovered many cases of checks being written without sufficient cover, as well as the receipt of credit by clients in excess of the amount authorized by the head office or without proper collateral.

Instances of faulty accounting and reporting to the Department of the Examiner of Banks were also brought to light.

The examiners also checked on the existence and efficiency of internal audit and internal control. Where no internal audit existed, or where auditing and control procedures were inadequate, the institution was requested to rectify the situation.

During the course of the audits and upon their conclusion, reports were submitted to the institutions examined. The Department likewise conferred with the managements concerned in order to ensure correction of the faults uncovered.

In several instances the findings compelled the Department to take additional measures. A bank whose books were not being kept properly and whose reports to the Department did not correspond with the figures in its books was required to introduce various organizational changes in order to ensure elimination of the irregularities. After discussing the findings of the

audit, the management replaced several employees and corrected the reports submitted to the Department.

Similar shortcomings were uncovered in another bank. In addition, it turned out that the manager had granted large credit facilities to one client without the authorization of the head office and without obtaining adequate collateral. After clarification of the matter by the head office, it was decided to relieve the manager of his position.

Following the submission of a complaint to the Department by a client of a bank branch, an examination was conducted and it revealed irregularities in the handling of cash and accounts, in which the manager of the branch was involved. The findings of the audit were brought to the attention of the head office, which decided to dismiss the branch manager and an employee who was involved together with him.

1. Audit of the I. L. Feuchtwanger Bank

In a routine audit of the I. L. Feuchtwanger Bank carried out by the Department in the second half of the year, it was discovered that some of the shareholders had received credit directly from the bank, or indirectly through its subsidiaries and associated companies, and also that the bank had issued guarantees in their favor for considerable sums which were out of all reasonable proportions to the volume of the bank's business. These debts were secured mainly by pledges on real estate which could not be readily realized without considerable loss.

It was also discovered that these debts had increased markedly, especially during the second half of the year, and this was made possible by a considerable expansion of bill brokerage transactions, both with and without the bank's guarantee, and also by the soliciting of time deposits, the liquidity rate on which was reduced to 10 percent as of September 1, 1966.

Moreover, Feuchtwanger had expanded its nonguaranteed bill brokerage in 1966 despite repeated demands by the Examiner of Banks to discontinue such transactions. It was further revealed that the liabilities of the controlling group in this bank had increased in the latter part of 1966 also as a result of the group's takeover of Ellern's Bank Ltd. In the course of the audit suspicion arose that the bank had used clients' securities as collateral for a loan it had received. Details of this case were brought to the attention of the Attorney General.

In view of the seriousness of the findings, the Examiner held discussions with the bank's management in order to clarify whether or not it was possible to prevent the further deterioration of the institution's position. In addition, the Governor of the Bank of Israel held consultations with the Prime Minister, the Minister of Finance, and the Minister of Justice as to the steps to be taken.

In these consultations, which took place in November 1966, it was decided

that if no way could be found of putting the bank back on a sound footing, the Bank of Israel would undertake to refund the depositors' money on due date and to pay the bank's liabilities as they fell due. It was also decided that measures against the bank would be postponed for two months, in order to give the bank management an opportunity to mobilize additional capital or to sell the bank's shares to new investors. This delay was granted after the management gave assurances that the planned merger with Ellern's Bank would not be implemented, certain assets would be returned during this period, and the debts of the controlling group would not grow.

In the middle of January 1967, after it became clear that the management was incapable of improving the bank's condition, an agreement was reached, with the Government's consent, between it and the Governor of the Bank of Israel concerning the appointment of a managing director and a board of directors to run both Feuchtwanger and Ellern's Bank—which was under the same management—after the existing board tendered its resignation.

On January 24, 1967 a public announcement was made by the Bank of Israel concerning the management of Feuchtwanger and Ellern's Bank. It stated that the Bank of Israel had made arrangements to ensure that every depositor would receive his money at any time in accordance with the terms of the deposit. In addition, all other legal guarantees and liabilities of these banks would be honored on their due date.

2. Kupat Ahvah Cooperative Credit and Saving Society, Ltd.

An audit of this society revealed many faults in its operations. Credit was extended without appropriate collateral and without due regard to the borrowers' capacity to repay. The society had a large amount of doubtful debts, against which insufficient provision had been made. Deficiencies were found in the reports presented by the institution, and doubts arose as to its solvency.

During the course of the audit the Department was in contact with the society's management and informed it of the seriousness of the findings. As a result, the manager of the society and two of his assistants were dismissed.

The Department continued its efforts to correct the faults discovered by the audit and to find ways of rehabilitating the institution. The new management, which was elected at the annual general meeting in November 1966, conducted negotiations for the merger of its business with Kupat Aliya Cooperative Credit and Saving Society, and in February 1967 the business of Kupat Ahvah was transferred to Kupat Aliya.

(b) Bill brokerage

The bill brokerage trade continued to expand during the year surveyed. The balance of outstanding bills rose from IL 774 million at the end of 1965

to IL 1,021 million at the end of 1966—i.e. by IL 247 million, or 32 percent, compared with IL 161 million, or 26 percent, in 1965.

The balance of bills sold without a bank guarantee declined from IL 161 million at the end of 1965, at which time it comprised 21 percent of total bill brokerage transactions, to IL 143 million at the end of 1966, or 14 percent of the total. The decrease in the volume of nonguaranteed transactions is mainly attributable to the insistence of the Department of the Examiner of Banks that banking institutions gradually reduce the amount of such transactions until their final elimination. This demand was placed before the institutions following discussions held on this subject at the end of 1965 by the Advisory Committee on Matters Relating to Banking Business. At these discussions it was decided to require the banking institutions to carry out brokerage transactions only on a guaranteed basis, in order to prevent mishaps both to those buying nonguaranteed bills and to the banking institutions themselves.

After the financial entanglement of Feuchtwanger Bank and the losses incurred by those investing in nonguaranteed bills through this bank, the volume of such transactions fell off steeply at the beginning of 1967.

(c) *Daily reporting on liquidity*

After prolonged discussions by the Committee for the Standardization of Bank Accounting, which concentrated on the technical problems involved in daily reporting, such as foreign currency accounts and balances in transit, and after the large banks had introduced electronic computers for accounting purposes, which enabled them to easily overcome most of these difficulties, it was decided to institute daily reporting on liquidity by all banking institutions as of July 1966 (a number of institutions had been reporting on a daily basis for several years). The daily reporting also enables the management to follow the current operations of their branches and business trends in their institutions.

The financial institutions were given the option of reporting either daily, like the banking institutions, or on a monthly basis, as formerly.

(d) *Credit guarantees*

Following the institution in July 1966 of daily reporting on liquidity, which permitted a faster follow-up on the position of each institution, the Banking (Ratio of Credit Guarantees) Order, 1966 (Amendment), was gazetted under the signature of the Governor of the Bank of Israel at the end of November 1966. This order prescribes the volume of guarantees which a banking or financial institution is authorized to give as security for credit in a certain month, in accordance with the position on the last day of the preceding month, instead of the last day of the second month before the present month, which was previously taken as the basis for the quota.

The volume of guarantees is limited by law to the smaller of two sums: three times the equity capital of the banking or financial institution, or one-and-a-half times its financial assets.¹

The balance of credit guarantees, including those on bill brokerage and other financial guarantees, amounted to IL 1,243.6 million, on December 31, 1966, as compared with IL 940.8 million on December 31, 1965—an increase of IL 302.8 million.

(e) *Annual balance sheets of the commercial banks*

In compliance with the Examiner of Bank's circular of December 7, 1965, the commercial banks presented their annual balance sheets for 1965 according to the instructions and the standard form attached to the circular. This balance sheet form makes it possible to obtain a clearer picture than in former years of the asset and liability structure and of the fluctuations therein during the year.

Toward the end of 1966 the Examiner of Banks met with the Association of Certified Public Accountants in Israel and with the managers and auditors of banking institutions and stressed the importance of providing sufficiently for doubtful debts and for the decrease in the value of various investments over and above potential losses as estimated at the balance sheet date.

(f) *Direction of credit*

The Department of the Examiner of Banks is responsible for the execution of the Bank's policy with regard to the directing of the credit extended by the banking and financial institutions. As in previous years, it concentrated chiefly on the expansion of the export finance funds.

The amount of finance extended by the Industrial Export Fund (excluding the diamond industry) for production and domestic purchases came to IL 102.5 million at the end of 1966, as compared with IL 76.0 million at the end of 1965, while credit for financing overseas shipments reached IL 67.2 million at the end of 1966, as against IL 47.1 million the year before. This brought up the balance of credit granted by the fund from IL 123.1 million at the end of 1965 to IL 169.7 million—a rise of IL 46.6 million, or 38 percent, compared with IL 26.6 million, or 27.6 percent, in 1965.

In 1966 changes were introduced in the financing terms for the diamond industry. For the processing of rough diamonds, a credit quota was set for each plant, as previously, based on the number of employees and the type and price of the stones processed. However, the maximum amount of credit which each plant could obtain under this arrangement was reduced twice during the year reviewed. As of June 1, 1966, each plant was entitled to receive credit up to 90

¹ See Bank of Israel Annual Report for 1965, p. 472.

percent of the value of the diamonds received from the bank for processing, whereas previously the limit was 95 percent. Beginning November 1, 1966, the limit was reduced to 85 percent. For rough or polished diamonds given for sales purposes, the credit period was set at one week, with the possibility of a week's extension upon presentation of the diamonds to the bank at the end of the first week.

The balance of credit extended to the diamond industry from the Export Finance Fund rose to IL 103.5 million by the end of 1966, compared with IL 88.1 million at the end of 1965—an increase of IL 15.4 million.

In addition to financing through the Export Fund, export credits are granted in foreign currency with the approval of the Bank of Israel. Outstanding credit of this type amounted to IL 27.5 million at the end of 1966, compared with IL 31.5 million at the end of 1965. Of the 1966 total, IL 14.6 million had been granted to the diamond industry (IL 23.6 million at the end of 1965), and the remainder to export companies.

Foreign currency credits for financing imports for export production are provided from a special fund (see the section on rediscounts, p. 509). Outstanding credit granted to the diamond industry from this fund totalled IL 78.1 million at the end of 1966, compared with IL 61.2 million at the end of 1965.

The Agricultural Export Fund was considerably expanded in scope in 1966. The balance of credit for financing the cultivation of export crops reached IL 6.1 million at the end of 1966, and that for financing overseas shipments came to IL 7.8 million. Total outstanding credit from this fund amounted to IL 13.9 million at the end of 1966, as compared with IL 6.9 million at the end of the previous year.

On December 1, 1965 the Tourist Industry Finance Fund was set up to supply credit to tourist hotels on the recommendation of the Ministry of Tourism. The arrangements in respect of the sources of funds and interest rates are similar to those for the other export funds. The balance of credit given from this fund totalled IL 1.9 million at the end of 1966.

No changes took place during the year in the terms of the Industrial Working Capital Fund. Nevertheless, it was decided to establish within this general fund a special IL 2.5 million fund to provide credit to light industry and crafts. The latter fund approved loans for IL 2.3 million, while the actual credit balance at the end of 1966 came to IL 1.6 million. New loans to the amount of IL 28.3 million were approved by the general fund, and outstanding loans at the end of 1966 reached IL 33.4 million, as against IL 19.9 million at the end of 1965 and IL 8.3 million at the end of 1964.

(g) Compilation of information

The banking institutions submit to the Department of the Examiner of Banks quarterly information sheets with respect to borrowers granted credit in excess of

IL 100,000. At the end of 1966 such credit constituted 63 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.

Table XXI-18
MAJOR BORROWERS, 1965-66

End of period	1965	1966
Number of banking institutions submitting reports	37	36
Number of borrowers included in reports	1,507	1,669
Total value of loans granted to major borrowers (IL million)	1,589.3	1,843.1
Percent of total loans granted by banking institutions	65.8	62.9

Since the end of March 1965 banks financing the diamond industry have been reporting, at the end of each month, on all outstanding loans to this industry. The Department compiles the information and submits one copy to all reporting institutions, showing the total debt of each borrower in connection with such credits.

(h) *List of promissory note defaulters*

The Department of the Examiner of Banks compiles information on signers failing to honor their notes on due date and submits a list to the institutions which reported.

Table XXI-19
DISHONORED PROMISSORY NOTES, JAN. 9, 1966 TO JAN. 6, 1967

Period	No. of weeks	Total		Weekly average	
		No. of notes	IL' 000.	No.	IL '000'
January 9, 1966-April 1, 1966	12	7,955	37,852	663	3,154
April 3, 1966-July 1, 1966	13	10,482	49,130	806	3,779
July 3, 1966-October 7, 1966	14	9,519	43,115	680	3,080
October 9, 1966-January 6, 1966	13	8,862	41,540	682	3,295
January 9, 1966-January 6, 1967	52	36,818	171,637	708	3,327

In 1966 institutions reported on defaulted notes amounting to IL 2,000 or more, instead of the minimum of IL 3,000 reported at the end of 1965.

During this period the weekly average number of defaulted notes reported by the institutions was 708, totalling IL 3.3 million. In April the figure rose considerably, to 832, totalling IL 4.4 million.

(i) *Bank branches*

At the end of 1966 the number of bank branches, excluding head offices, stood at 690, as against 668 at the end of 1965. This increase of 22 was the same as in 1965. There were 20 new branches, while the other two were formerly the head offices of cooperative credit societies which had merged with banking institutions and become branches of the latter.

In March 1966 the Knesset adopted the Banking Ordinance (Amendment No. 8) Law, 1966, which extended until June 30, 1971 the validity of all the powers of the Governor of the Bank of Israel in connection with the granting of permits to open new branches, which were due to lapse on March 31, 1966. The new amendment provides that a permit to open a new branch may be qualified either as to the conditions, period of time, or type of business to be handled. According to the law, any conditions made in granting the permit must be reasonably related to the circumstances on which the application for the permit is based. The subcommittee of the Bank's Advisory Council on branches consequently held several meetings in 1966 in order to review the guidelines for granting permits to open branches. The new guidelines have not yet been finalized.

In view of the prevailing economic situation and the volume of unemployment in the development areas, it was decided to allow banking institutions to open branches in development areas until the end of 1967, in excess of the regular quota approved each year by the Governor of the Bank after consultation with the subcommittee. The banking institutions submitted applications and the Governor approved the opening of six new branches in development areas.

(j) *Advisory Committee on Matters Relating to Banking Business*

The Governor of the Bank of Israel decided in 1966 to broaden this committee, mainly by adding members from outside the banking community. After its expansion, the committee was composed of Messrs. E. Shimoni (Chairman), Y. Arnon, E. Bawly, H. Burla, H. Barkai, Y. Wexler, A. Zabarski, S. Zack, E. Lehmann, K. A. Mussberg, Y. Voet, Y. Foerder, E. A. Kirschner, D. Recanati, and D. Shoham.

At the beginning of the year the committee began discussing the condition of the banking system and the work of the Department of the Examiner of

Banks in 1965. The Examiner of Banks presented a detailed report on the shortcomings revealed in the examinations of the banking institutions and of the steps taken to correct them. He pointed out that the existing law did not invest him in every case with sufficient authority to ensure a rectification of the faults uncovered. It was therefore decided that a subcommittee be appointed from among the members of the committee with whom the Examiner of Banks would consult when dealing with serious irregularities.

It was also decided to propose an amendment to the Banking Ordinance which would grant additional authority to the Examiner of Banks, empowering him to demand from each banking institution that all faults discovered by an audit be corrected and that certain activities be discontinued if he deems it necessary to prevent complications. The drafting of such a bill was assigned to a subcommittee, and after the news of the Feuchtwanger Bank affair it was decided to expand the scope of the bill to include broader powers for the Governor of the Bank of Israel which would allow him to take action when necessary in order to maintain the stability of a banking institution. The bill was referred to the Government at the beginning of 1967 for consideration.

The committee decided that the Examiner of Banks should compile data in preparation for a discussion on the institution of current reporting by the banks for the purpose of ascertaining their solvency, as well as the adequacy of their liquidity in relation to their liabilities. In March 1967 the Examiner of Banks sent a circular to the banking institutions requesting them to supply these figures. Included in this circular was a questionnaire drawn up in consultation with a subcommittee, in which the banking institutions were requested to submit an analysis of their assets and liabilities.

The committee recommended that the compilation of information with respect to big borrowers, which is carried out by the Department of the Examiner of Banks for the banking institutions (see p. 532), be broadened in scope to include clients' liabilities in connection with bill brokerage as well as the liabilities of subsidiaries of the banking institutions. A subcommittee was assigned the task of preparing a detailed proposal on this matter.

The committee discussed the proposal of the Examiner of Banks to limit the total debt which any one client could owe a bank, and referred it to a subcommittee for further study.

(k) *Advisory Committee on Cooperative Credit Societies*

Members of this committee are Messrs. E. Shimoni (Chairman), L. Garfunkel, B. Vinitzki, H. Mevorach, A. Schweitzer, Y. Shachor, and A. Shtacher. The committee held discussions with the Governor of the Bank of Israel on matters relating to the problems of cooperative credit societies. The committee also discussed developments in the banking system and the circumstances of the

difficulties experienced by Kupat Ahvah Cooperative Credit and Saving Society (at the beginning of 1967 this society transferred its business to another co-operative credit society—see p. 529.

9. THE CLEARINGHOUSES

(a) *Development of the clearing system*

In 1966 the three clearinghouses in Jerusalem, Tel Aviv, and Haifa operated in accordance with the procedures worked out in previous years by the Clearinghouse Committee. The clearinghouses also handled promissory notes, the clearance of which was instituted on June 1, 1965. The main problem dealt with by the Clearinghouse Committee during the year was the introduction of electronic mechanization for sorting the notes and checks to be cleared, taking into account their steadily growing volume. In order to reach a binding decision in this matter, all members of the clearinghouse were asked if they in principle support the establishment of the proposed mechanized clearinghouse. On the basis of the answers received (some of them were negative, some conditional, while several banking institutions did not reply at all), the Clearinghouse Committee decided that at present no binding decision could be reached.

(b) *Volume of clearing*

The rate of increase in the value of checks and notes cleared continued to decline in 1966. The clearance of promissory notes through the clearinghouses was initiated on June 1, 1965, and they are included in the data on clearing volume as of that date. Despite the fact that they appear in such data for only part of 1965 and for the whole of 1966, clearing volume grew by only IL 2,268 million, or 10.5 percent, in 1966, as compared with an increase of IL 2,840 million, or 15.2 percent, the year before. The value of items returned also increased more slowly than in the previous year, the increment coming to IL 312 million, or 33.1 percent, as compared with IL 279 million, or 42.1 percent, in 1965. The total value of items returned in 1966 reached IL 1,254 million, or 5.3 percent of the total value of instruments presented, as against IL 942 million, or 4.4 percent, in 1965. The higher growth rate is attributable to the relatively faster increase in promissory notes returned in comparison with checks.

Before the institution of note clearance, the banking institutions would transmit the collection proceeds through the clearinghouses by means of credit notes. The total value of these notes increased, therefore, from year to year. Under the new system, the proceeds are transmitted by means of debit notes, and this has naturally reduced the volume of credit notes passing through the clearinghouses. A large proportion of the total volume of credit notes

passing through the Jerusalem clearinghouse originates in Government and Bank of Israel transfers.

Table XXI-20
VOLUME OF CLEARINGS,^a 1964-66
(IL million)

	1964		1965		1966	
	Checks presented	Checks returned	Items ^b presented	Items ^b returned	Items ^b presented	Items ^b returned
Urban clearings						
Jerusalem	2,682	58	3,038	69	3,299	85
Tel Aviv	13,118	518	15,132	721	16,832	975
Haifa	2,908	87	3,367	152	3,670	194
Total	18,708	663	21,537	942	23,801	1,254
Local clearings ^c	25	—	36	—	40	—
All clearinghouses	18,733	663	21,573	942	23,841	1,254
Increase over previous year						
IL million			2,840	279	2,268	312
Percent			15.2	42.1	10.5	33.1

^a Excluding credit notes.

^b Promissory notes included as of June 1, 1965.

^c The value of checks returned from the local clearinghouses is included in the figures on urban clearinghouse returns.

Table XXI-21
CLEARING OF CREDIT NOTES, 1963-66

Clearinghouse	1963	1964	1965	1966
Jerusalem	669	926	1,281	1,168
Tel Aviv	1,200	1,354	1,201	1,026
Haifa	135	188	136	71
All clearinghouses	2,004	2,468	2,618	2,265

10. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

The Bank's net profit for 1966 totalled IL 54.9 million, compared with IL 34.5 million the year before. The most striking rise was once again in interest income on deposits and investments abroad. This occurred despite the relatively small increase in the average annual volume of foreign currency assets, and it can be ascribed to the higher average returns resulting from the rise in interest rates abroad and from the exploitation of new investment outlets developed by the Bank in 1966. This income, which is of course in foreign currency, amounted to IL 95.7 million in 1966, as against IL 75.6 million in 1965—an increase of IL 20.1 million (\$ 6.7 million). The Bank's income from rediscounting operations in both local and foreign currency and from interest on foreign currency advances rose from IL 9.8 million in 1965 to IL 12.5 million. Outlay on interest, administration, and other items went up from IL 61.4 million in 1965 to IL 67.8 million. The main increase was in interest payments to the banking institutions.

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

11. ECONOMIC RESEARCH

Current research on developments in Israel's economy, conducted by the Research Department, is published in the Bank's Annual Report and the statistical appendix, in the periodic bulletins of the Department, and in special publications. Among the research studies published in 1966 and the beginning of 1967 were the following:

1. The National Budget for 1967/68. This was prepared in cooperation with the Economic Planning Authority and the Economic Advisory Bureau of the Treasury and was submitted to the Knesset in December 1966.
2. A periodic internal survey of the main economic developments, as well as a periodic survey of developments in the monetary field.
3. New Issues and Profitability of Investment in Common Stock, 1959-64.
4. Changes in the Quality of Labor Input in Israel, 1950-61.
5. Development of Nonprofit Institutions, 1957-64.
6. Allocation of Short-Term Bank Credit to Israel's Industrial Companies, 1956/57-1963/64.
7. Economic Performance and Growth of Population.
8. The Liberalization of Imports—February 1962 to May 1965.
9. Stock, Consumption, and Net Investment in Durable Goods in Israel, 1956-63.
10. Analysis of Financial Assets According to Their Component Characteristics.
11. Financial Changes in Israel's Industrial Companies in 1964/65.

12. Security Ownership in Israel.
13. Income and Expenses of Banking Institutions in 1965.
14. The Distribution of Net Worth in Israel in 1963/64.
15. Relative Responsiveness of New and Veteran Firms to Economic Change.
16. Trends in the Components of Private Consumption—Time Series Analysis.

On January 31, 1966 the Governor of the Bank of Israel submitted to the Government and the Finance Committee of the Knesset, in accordance with section 35 of the Bank of Israel Law, a report on the rise in means of payments which exceeded 15 percent during the period from October 31, 1964 to September 30, 1965.

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

At the end of March 1966, Israel's enlarged quotas in the International Monetary Fund and the International Bank for Reconstruction and Development (the World Bank) went into effect after the relevant payments had been made, in accordance with the decisions taken by the Board of Governors of both institutions in 1965. Israel's quota in the IMF was raised from \$ 50 million to \$ 90 million, and its subscription to the World Bank's share capital was increased from \$ 65.4 million to \$ 94.7 million.

Israel's annual consultations with the International Monetary Fund, as required under section 14 of the Fund's Articles of Agreement, took place in Jerusalem in March 1966. The Fund was represented by a delegation, which included among its members the director of the Fund's European Department and his assistant. At the conclusion of the consultations, the executive Board of the Fund approved resolutions which stated *inter alia*:

"For 1966 the Israeli authorities are committed to a policy of economic restraint. The budget for 1966/67 is less expansionary than the previous one, and the monetary and credit policy is to remain restrictive. To achieve the Government's long-term goal of reducing the balance of payments deficit on goods and services account, an increasing share of resources will have to be devoted to exports. The Fund considers that it is important that this policy of restraint not be weakened and believes that the lack of an effective incomes policy seriously hampers the efforts to restrain domestic demand and to improve the competitiveness of exports.

"Israel has further reduced its reliance on quantitative restrictions, and in order to improve the productivity of industry and to restrain price rises, the Government has decided to reduce customs duties in several steps. The Fund welcomes this decision and stresses the beneficial effects competition from abroad will have both on moderating the rise in prices and on the efficiency of domestic industry."

Several World Bank delegations visited the country in the latter part of 1966: a general survey group charged with preparing a survey on economic developments in the country to serve as background material for Israel's requests for loans from the World Bank, a technical delegation which examined the progress made in carrying out the road construction program, and a second technical delegation which visited the Israel Industrial Development Bank, one of the institutions that had received loans from the World Bank in the past and which had applied for a further loan through the Bank of Israel. Negotiations in connection with this loan were opened in Washington at the beginning of March 1967.

In September 1966 the Governor of the Bank of Israel and the Minister of Finance participated in the annual conference of the Governors of the International Monetary Fund and the World Bank held in Washington. The Minister of Finance represents Israel on the Board of Governors of the International Monetary Fund, and the Governor of the Bank of Israel represents this country on the Board of Governors of the World Bank and its affiliated institutions.

13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council, after hearing the Governor's periodic surveys, discussed developments in the economy. Among the subjects considered were the following: economic policy (especially the monetary aspects), credit policy the situation of the banking system, liquidity regulations and ratios, the interest law, the Bank of Israel's activities in the securities market, wage policy in the banks and the Bank of Israel, 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 1965, the profit and loss account for 1965, and the Bank's operating budget for 1966.

The Advisory Council approved the issue of the 1966 commemorative coin, as required by the Bank of Israel Law, and also discussed the issues planned for 1967.

On February 20, 1966 the Government appointed Mr. Ze'ev Sharef, Member of Knesset, to the Advisory Council in place of Mr. Zadok, M.K., who resigned therefrom upon his appointment as Minister of Commerce and Industry.

After the resignation of the latter as Minister of Commerce and Industry and the appointment of Mr. Sharef in his place, the Government reappointed Mr. Zadok to the Committee and Council following the resignation of Mr. Sharef therefrom on December 11, 1966. On this date the Government also appointed for a further term, in accordance with the Bank of Israel Law, the

Advisory Committee and the Advisory Council, with the following membership for the Advisory Committee: Messrs. Y. Horin (Chairman), M. Chazani (Deputy-Chairman), S. Bejarano, A. Zabarski, Y. Foerder, H. Zadok, and E. Hacoen. The chairman and deputy chairman of the Committee serve in the same capacity on the Advisory Council. The Advisory Council is composed of all members of the Advisory Committee, as well as Messrs. A. Onn, A. Ostashinsky, Y. Bader, A. Becker, D. Patinkin, N. Feingold, D. Recanati, and A. Schechter.

14. THE BANK AND ITS STAFF

Differences of opinion over the interpretation of the wage contract between the Bank of Israel and its staff, which arose as a result of developments in the country's wage structure in 1964 and 1965, led to a labor dispute, which was submitted to arbitration at the beginning of 1966. The arbitrator rejected the claims of the staff in respect of the two years in question. In accordance with the decision of the Histadrut (General Federation of Labor) to apply its wage policy also to the Bank of Israel's staff for 1966 and 1967, a wage agreement was subsequently signed in July 1966 between the Bank and its staff covering these years. The agreement provided for an average wage increase of 6.5 percent for 1966 and an additional rise of 5 percent as of January 1967. But in view of the economic situation at the beginning of 1967, and *inter alia* because of its desire not to be a factor in touching off another round of wage increases in the country in general and in the banking system in particular, the Bank's workers' committee informed the Governor in January 1967 that the staff was ready to freeze for 1967 the 5 percent increase provided for in the agreement. This offer was welcomed by the Governor and confirmed in an exchange of letters between him and the workers' committee, after having been approved by the Histadrut.

At the beginning of 1966 a system of premium pay was introduced for the sorting and counting of money in the Bank of Israel, after a study of the problem in the previous year. The new system has resulted in greater earnings for employees in the units concerned, a considerable economy for the Bank, and an improvement in labor relations in these units.

Dr. B. Wasserman, Senior Adviser to the Governor of the Bank, went into retirement.

Dr. M. Bruno, Joint-Director of the Research Department, resigned from the Bank's employ in order to join the academic staff of the Hebrew University. However, he will continue to serve as an adviser to the Bank.

The number of Bank of Israel employees in the main office in Jerusalem and in the Tel Aviv and Haifa branches totalled 593 at the end of 1966, excluding trainees and watchmen.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1966

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1966

BANK OF ISRAEL

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1966

ASSETS

(IL thousand)

LIABILITIES

	Dec. 31, 1966	Dec. 31, 1965		Dec. 31, 1966	Dec. 31, 1965
Gold	137,551	167,437	Capital	10,000	10,000
Gold—quota in International Monetary Fund	67,500	37,500	Reserve fund	10,000	10,000
Foreign currency assets	1,657,969	1,724,165	Banknotes and coin in circulation	779,971	686,641
Clearing accounts in connection with trade agreements	30,729	24,841	Clearing accounts in connection with trade agreements	13,741	9,647
Participation in international financial institutions	14,723	11,733	Deposits of international financial institutions	2,869	2,025
Treasury bills	15,163	69,400	Demand deposits of banking institutions (including financial institutions)	281,320	286,912
Land bills	77,150	77,165	Time deposits of banking institutions (including financial institutions)	243,725	334,975
Absorption and Defense Loan, 1959	66,000	92,400	Foreign currency deposits of banking institutions	1,123,715	965,114
Other securities	14,211	—	Government deposits	—	12,634
Advance for repayment of external debts	108,241	57,373	Government deposits—compulsory saving	33,251	39,714
Advances to the Government	32,559	—	Government deposits in foreign currency, including quota in IMF	15,170	77,851
Bills rediscounted—local currency	106,363	74,045	Deposits on account of U.S. food surplus purchases (see assets)	154,692	172,350
Bills rediscounted—foreign currency	155,004	65,197	Liabilities for documentary credits in connection with payments agreements (see assets)	115,072	133,628
Advances to foreign governments and institutions	33,384	36,765	Liabilities re guarantees (see assets)	236,371	133,365
Food surplus account (see liabilities)	154,692	172,350	Other accounts	3,375	3,396
Premises, equipment, etc.	—	—			
Documentary credits in connection with payments agreements (see liabilities)	115,072	133,628			
Guarantees (see liabilities)	236,371	113,365			
Other accounts	595	888			
	<u>3,023,276</u>	<u>2,858,252</u>		<u>3,023,276</u>	<u>2,858,252</u>

BANK OF ISRAEL

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1966

(IL)

	<u>Dec. 31, 1966</u>	<u>Dec. 31, 1965</u>		<u>Dec. 31, 1966</u>	<u>Dec. 31, 1965</u>
EXPENSES			INCOME		
Interest paid, administrative expenses, and other expenses	67,825,796	61,437,330	Interest, commission, and other income	122,729,261	95,896,172
Net profit	<u>54,903,465</u>	<u>34,458,842</u>			
	<u>122,729,261</u>	<u>95,896,172</u>		<u>122,729,261</u>	<u>95,896,172</u>
DISTRIBUTION OF PROFITS					
Transferred to the Accountant General	54,903,465	34,458,842	Net profit	54,903,465	34,458,842
	<u>54,903,465</u>	<u>34,458,842</u>		<u>54,903,465</u>	<u>34,458,842</u>

BANK OF ISRAEL

THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL

MAY 1967

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