

## CHAPTER XX

# THE SECURITIES MARKET

### 1. MAIN TRENDS

THE SHARE AND BOND MARKETS developed in opposite directions in 1966. Whereas trading and new issue business in the share market continued to contract and the price level to decline, bond issues increased and the volume of trade in the bond market was greater than in previous years (see Tables XX-2 and XX-5).

Net new security issues in local currency<sup>1</sup> amounted to IL 418 million, as against IL 158 million in 1965<sup>2</sup> and IL 326 million in 1964. Together with net purchases of foreign currency securities by Israeli residents, total investment in stock market securities amounted to IL 494 million, as compared with about IL 370 million and IL 247 million<sup>2</sup> in 1964 and 1965 respectively. The volume of transactions on the Tel Aviv Stock Exchange in 1966 was similar to that in the previous year—IL 191 million as against IL 195 million. However, there was a change in their composition: shares accounted for about IL 60 million, or one-third less than in 1965, while the proportion of bonds increased accordingly.

Practically all new issues were bond issues. The growth of new issue amount, in a period when private saving did not increase, must have reflected a shift by part of the public from real estate, business investments, and the purchase of durable consumer goods to financial assets. Among the latter, and ignoring institutional purchases of long-term bonds, investment in short- and medium-term bonds stood out, as contrasted with equities and long-term bonds. This trend can best be understood if viewed against the background of the economic recession in 1966: investors, preferring to await further developments, shunned risk investments and meanwhile bought fixed-interest, liquid assets. Hence the depressed state of the share market and the virtual suspension of new equity issues. Another, less obvious, reason was the contraction of actual and projected industrial investment in 1966, which occurred independently of the decline in share prices.

A symptom of this situation was the renewed demand for the Government Short-Term Loan (see Table XX-2) in the second half of the year. In the

<sup>1</sup> Excluding bonds issued to social insurance funds without prospectus.

<sup>2</sup> Revised figures.

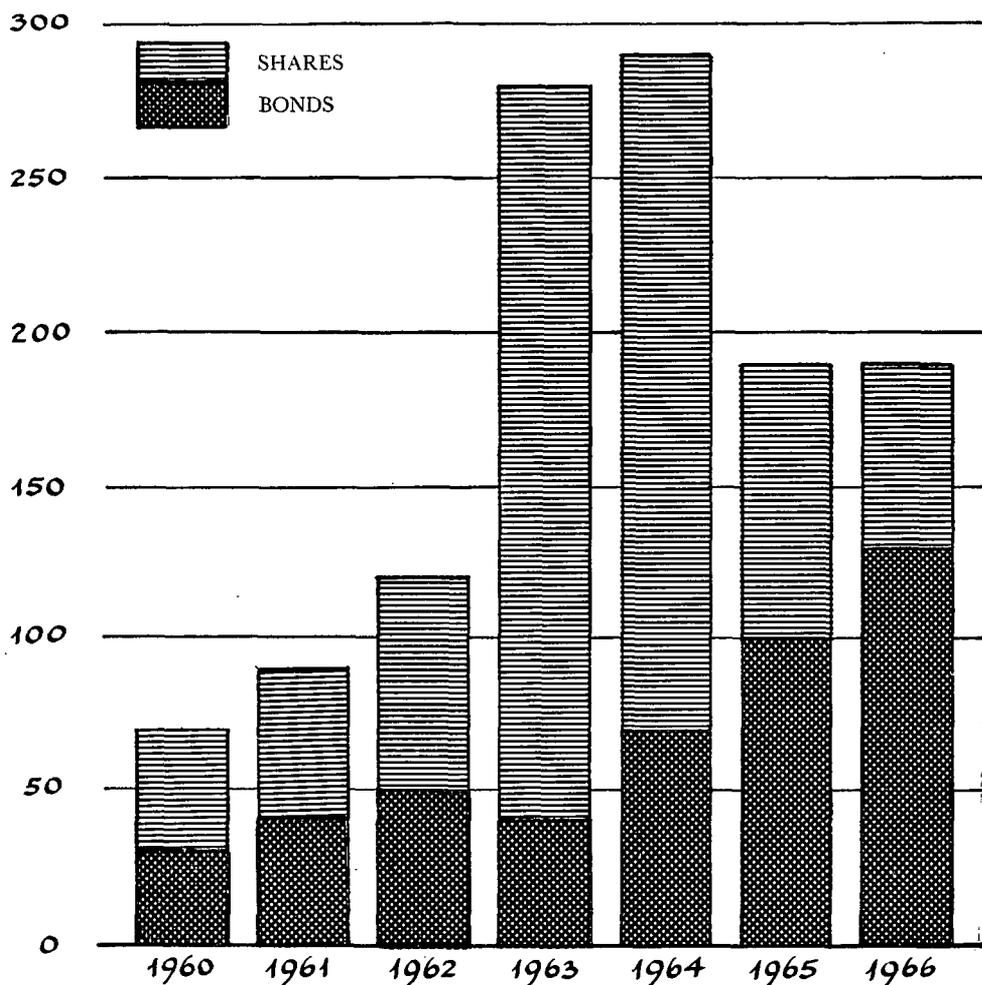
**Table XX-1**  
**THE SECURITIES MARKET, 1963-66**  
 (Indicators)

	1963	1964	1965	1966
<b>Net domestic issues</b>				
Proceeds (IL million)				
Bonds	271.1	218.6	148.8	414.1
Shares	174.9	107.8	9.2	4.2
<b>Total</b>	<b>446.0</b>	<b>326.4</b>	<b>158.0</b>	<b>418.3</b>
Net domestic issues of medium- and long-term securities as a percent of gross capital formation				
	16	12	6	12
Number of issuing bodies	51	43	21	25
<b>Israeli currency securities listed on Tel Aviv Stock Exchange</b> (End of year; IL million)				
Par value	1,180	1,350	1,535	1,798
Market value	1,552	1,765	1,750	1,796
<b>Volume of Stock Exchange transactions*</b> (IL million)				
Bonds	45.4	72.8	103.8	131.9
Shares	236.1	222.2	91.3	59.3
<b>Total</b>	<b>281.5</b>	<b>295.0</b>	<b>195.1</b>	<b>191.2</b>
<b>Indexes of security prices</b> (End of year; average 1960 = 100)				
Dollar-linked loans	161.8	184.2	186.5	183.6
Index-linked loans	133.0	141.5	154.4	161.3
Ordinary shares	198.7	171.3	139.7	107.0
<b>Foreign securities held by Israeli residents</b> (End of year; \$ million at purchase price)				
	36.8	50.6	80.4	105.0

\* Revised figures.

Diagram XX-1

VOLUME OF TRANSACTIONS ON TEL AVIV STOCK EXCHANGE, 1960-66  
(IL million, at market prices)



seven months from June 1966, the outstanding balance of Short-Term Loan certificates rose by IL 117 million, whereas earlier in the year it had declined by IL 35 million, continuing the downward trend of the previous year. The upturn was connected on the one hand with the operations of the Bank of Israel (described in Chapter XV), and on the other, with the expansion of the bill brokerage market and the growth of fixed-term deposits—two phenomena which also reflect the switch to short-term financial assets. The increased importance of the option-type bonds<sup>1</sup> should be mentioned here. Of

<sup>1</sup> Value-linked bonds issued for a five-year period with facilities for prior surrender, without linkage, two years after issue. See Bank of Israel Annual Report for 1965, p. 428.

Table XX-2

## NET SECURITY ISSUES IN ISRAELI CURRENCY, 1964-66

(IL million)

	1964	1965 <sup>a</sup>	1966
<b>Long-term loans</b>			
Government	12.8	6.7	-2.7
Others	145.7	120.7	245.7
<b>Total</b>	<b>158.5</b>	<b>126.7</b>	<b>243.0</b>
<b>Option-type and short-term loans</b>			
Option-type—Government	—	49.0	44.4
Option-type—others	—	25.0	41.1
Short-term—Government	60.1	-51.9	85.6
<b>Total</b>	<b>60.1</b>	<b>22.1</b>	<b>171.1</b>
<b>Total loans</b>	<b>218.6</b>	<b>148.8</b>	<b>414.1</b>
<b>Shares</b>	<b>107.8</b>	<b>9.2</b>	<b>4.2</b>
<b>Total domestic issues</b>	<b>326.4</b>	<b>158.0</b>	<b>418.3</b>

<sup>a</sup> Revised and reclassified.

these, IL 85 million worth were floated in 1966 by the Government and financial institutions—i.e. about 20 percent of total domestic issues.

Issues of long-term linked bonds were also on the rise in 1966, owing in particular to institutional purchases. The prices of bonds linked to the exchange rate slipped somewhat, and those of bonds linked to the consumer price index advanced by only 4.5 percent, i.e. less than the index itself. In this connection, it should be pointed out that in accordance with the relevant regulations the institutional purchases were made at source, and not necessarily at Stock Exchange prices. The relative stability of consumer prices, particularly in the second half of the year, and the absence of expectations of an imminent currency devaluation, apparently reduced private demand for linked bonds in 1966. This seems to be the reason for the moderate retreat in linked-bond prices and a further explanation of the enhanced demand for unlinked short-term financial assets.

The depression in the share market, which began in 1964, deepened in 1966. Equity prices fell by 20 percent, to the level of the pre-boom years 1962

and 1963. Typical of the poor shape of this market, and of the economic recession in general, was the almost complete absence of new share issues.

Holdings of foreign currency securities by Israeli residents increased by approximately \$ 25 million during the year—about \$ 4 million less than in 1965. The slower growth here likewise reflects the shift to unlinked short-term investments.

## 2. THE STOCK EXCHANGE LIST<sup>1</sup>

The market value of the securities listed on the Tel Aviv Exchange and traded in Israeli currency has for the past few years amounted to between 6 and 7 percent of the economy's gross reproducible capital stock; at the end of 1966 it aggregated approximately IL 1,800 million, an increase of IL 50 million during the year. The total value of share capital listed on the Exchange continued downward as a result of declining prices, and totalled approximately IL 637 million at the end of 1966—IL 135 million less than the year before and IL 337 million less than two years before. The proportion of shares among total securities traded in Israeli currency, at market prices, dropped substantially in the last two years—from 55 percent at the end of 1964 to 35 percent at the end of 1966.

The par value of listed securities traded in local and foreign currency added up to nearly IL 2,395 million at the end of 1966. The annual increase was about IL 395 million, compared with IL 85 million in 1965. Securities traded in Israeli currency totalled approximately IL 1,800 million at the end of the year. Although share capital increased in absolute terms, its proportion of the total continued to decline, standing at 35 percent by the end of 1966 as against 37 percent and 39 percent respectively at the end of 1965 and 1964 (see Tables XX-3 and XX-4). The proportion of bonds increased accordingly.

The downward trend in the proportion of Government loans continued in 1966; since 1958 it has fallen from 72 to 21 percent.<sup>2</sup>

The aggregate par value of securities traded in foreign currency amounted to the equivalent of approximately IL 595 million at the end of the year, as compared with IL 465 million and IL 335 million one and two years before. These securities accounted for about a quarter of the market value of the entire list at the end of 1966. In the last few years a number of local companies have been authorized to issue bonds or shares against foreign currency, and residents are allowed to purchase them out of Tamam (foreign currency)

<sup>1</sup> The increase in the total par value of listed securities in any one year is not identical with the new issues during that year.

<sup>2</sup> See the Annual Reports of the Bank of Israel for the years 1962-65, Chapter XX.

Table XX-3

**SECURITIES LISTED ON THE TEL AVIV STOCK EXCHANGE,  
AT ADJUSTED PAR VALUES,<sup>a</sup> 1963-66**

	IL million				Percent			
	1963	1964	1965	1966	1963	1964	1965	1966
<b>A. Securities traded in Israeli currency</b>								
(1) Government loans								
Dollar-linked	168	141	122	94.3	14.2	10.5	7.9	5.3
Index-linked <sup>b</sup>	86	140	124	129.5	7.3	10.3	8.1	7.2
Option-type loans <sup>b</sup>	—	—	68	130.2	—	—	4.4	7.2
“Mixed” link	15	14	13	13.1	1.3	1.0	0.8	0.7
Nonlinked	56	42	35	31.4	4.7	3.1	2.3	1.8
Total	325	337	362	398.5	27.5	24.9	23.5	22.2
(2) Other loans								
Dollar-linked	228	205	217	211.6	19.3	15.2	14.2	11.8
Index-linked <sup>b</sup>	159	207	302	440.0	13.5	15.3	19.7	24.5
Option-type <sup>b</sup>	—	—	25	60.2	—	—	1.6	3.4
“Mixed” link	81	75	66	58.8	6.9	5.6	4.3	3.2
Nonlinked	1	1	1	0.6	0.1	0.1	0.1	..
Total	469	488	611	771.2	39.8	36.2	39.9	42.9
(3) Total loans (1+2)	794	825	973	1,169.7	67.3	61.1	63.4	65.1
(4) Shares								
Ordinary	326	465	548	611.9	27.6	34.4	35.7	34.0
Preference	60	60	14	16.0	5.1	4.5	0.9	0.9
Total	386	525	562	627.9	32.7	38.9	36.6	34.9
(5) Total securities traded in Israeli currency (3+4)	1,180	1,350	1,535	1,797.6	100.0	100.0	100.0	100.0
<b>B. Securities traded in foreign currency</b>								
(6) Bonds	189	277	326	462.4	90.9	92.2	70.3	77.5
(7) Shares	19	60	138	134.2	9.1	17.8	29.7	22.5
Total	208	337	464	596.6	100.0	100.0	100.0	100.0
<b>C. All securities listed on the Exchange</b>								
(8) Bonds (3+6)	983	1,102	1,299	1,632.1	70.8	65.3	65.0	68.2
(9) Shares (4+7)	405	585	700	762.1	29.2	34.7	35.0	31.8
Grand total	1,388	1,687	1,999	2,394.2	100.0	100.0	100.0	100.0

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

<sup>b</sup> New classification as from 1965.

SOURCE: Tel Aviv Stock Exchange.

Table XX-4

**A. SECURITIES LISTED ON THE TEL AVIV STOCK EXCHANGE,  
AT MARKET VALUES, END-1966**

	IL million	Percent
<b>A. Securities traded in Israeli currency</b>		
(1) Government loans		
Linked <sup>a</sup>	372.2	15.7
Nonlinked	28.6	1.2
Total	400.8	16.9
(2) Other loans		
Linked <sup>a</sup>	757.9	31.9
Nonlinked	0.5	..
Total	758.4	31.9
(3) Total loans (1+2)	1,159.2	48.8
(4) Ordinary shares		
Finance and insurance	300.4	12.7
Land and development	114.3	4.8
Industry and commerce	67.6	2.8
Fuel and oil	10.4	0.4
Investment companies	127.2	5.4
Total	619.9	26.1
(5) Preference shares	17.5	0.8
(6) Total shares (4+5)	637.4	26.9
(7) Total securities traded in Israeli currency (3+6)	1,796.6	75.7
<b>B. Securities traded in foreign currency</b>		
Bonds	458.8	19.3
Shares	118.3	5.0
Total	577.1	24.3
<b>C. Grand total (A+B)</b>	<b>2,373.7</b>	<b>100.0</b>

Table XX-4 (contd.)

**B. SECURITIES TRADED IN ISRAELI CURRENCY AND LISTED  
ON THE STOCK EXCHANGE, AT MARKET VALUES, 1963-66**

	IL million			Percent		
	Bonds	Shares	All securities	Bonds	Shares	All securities
1963	704	848	1,552	45.4	54.6	100.0
1964	791	974	1,765	44.8	55.2	100.0
1965	978	772	1,750	55.9	44.1	100.0
1966	1,159	637	1,796	64.5	35.5	100.0

<sup>a</sup> Including optional-type loans.

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

deposits or, against Israeli pounds, from previous owners. This has made it possible to offer local investors exchange-guaranteed securities, without violating the policy of doing away with the currency linkage clause.

### 3. TRADE ON THE STOCK EXCHANGE

The volume of Stock Exchange transactions, at market prices, amounted to IL 191 million in 1966, compared with IL 195 million in 1965 and about IL 290 million in both 1963 and 1964 (see Table XX-5). Turnover in shares continued to drop, and accounted for only one-third (IL 59 million) of the total volume, as against four-fifths (IL 236 million) in the peak year, 1963. Trade in bonds advanced by IL 28 million compared with the previous year and amounted to IL 132 million. The securities market in 1966 was, therefore, primarily a bond market.

As in the two preceding years, the smaller volume of equity transactions in 1966 reflected a slump in share prices as well as diminishing turnover velocity. The average daily trade in shares dropped from IL 240 million in the first quarter of the year to IL 160 million in the last quarter, i.e. by about IL 2,000 per company with shares listed on the Exchange. The reduced liquidity of shares resulting from so small a turnover in itself became a market obstacle. For example, the unit trusts had difficulty in modifying the composition of their portfolios as they would have liked, and other potential investors were also deterred from buying shares for this reason among others.

In May and June trade in equities picked up sharply, amounting to twice as much as in the preceding months—similarly to what happened in previous years during this season. As in 1965, the short-lived rally was connected with a recovery of share prices (see section 4).

Trade in bonds displayed sharp fluctuations during the year, monthly turnover

Table XX-5

**A. TRANSACTIONS ON THE TEL AVIV STOCK EXCHANGE,  
MONTHLY, 1966**

(IL million)

	Bonds			Shares	
	Long-term	Short-term	Total	Total (IL m.)	Average volume per trading day (IL'000)
January	6.0	4.6	10.6	4.7	225
February	7.0	4.0	11.0	5.4	272
March	6.7	4.9	11.6	4.9	224
First quarter	19.7	13.5	33.2	15.0	239
April	3.7	4.7	8.4	3.0	217
May	4.9	3.2	8.1	10.6	506
June	5.8	4.7	10.5	8.7	394
Second quarter	14.4	12.6	27.0	22.3	392
July	3.9	7.2	11.1	5.2	258
August	4.7	4.4	9.1	3.7	163
September	3.1	4.2	7.3	3.0	175
Third quarter	11.7	15.8	27.5	11.9	198
October	4.1	7.8	11.9	2.7	132
November	10.7	4.1	14.8	3.5	160
December	12.6	4.9	17.5	3.9	185
Fourth quarter	27.4	16.8	44.2	10.1	160
Entire year	73.2	58.7	131.9	59.3	244

**B. ANNUAL VOLUME, 1963-66\***

	IL million			Percent			Shares
	Bonds	Shares	Total	Bonds	Shares	Total	Average volume per trading day (IL'000)
1963	45.4	236.1	281.5	16.1	83.9	100	968
1964	72.8	222.2	295.0	24.7	75.3	100	907
1965	103.8	91.3	195.1	53.2	46.8	100	387
1966	131.9	59.3	191.2	69.0	31.0	100	244

\* Revised figures.

SOURCE: Tel Aviv Stock Exchange.

ranging between IL 7 million (September) and IL 17 million (December). The increased trade in the Short-Term Loan in July and October was noteworthy. In both of these months the figure came to over IL 7 million, or IL 3 million more than the volume of transactions in long- and medium-term bonds. In most months the bulk of trade was conducted in the last two types. Toward the end of the year, when the Bank of Israel began to operate in the linked-bond market, the volume of Stock Exchange trade therein increased, reaching a peak in December (IL 13 million). Transactions in bonds linked to the exchange rate or traded in foreign currency were twice as great in 1966 as those in index-linked bonds.

#### 4. PRICE TRENDS

Share prices declined steadily throughout the year, except for May and June. Bond prices retreated slightly: those of dollar-linked bonds declined by 1.5 percent, while index-linked bond prices moved up 4.5 percent, as compared with a 7.8 percent rise in the index itself (see Tables XX-6 and XX-7).

Table XX-6  
INDEXES OF SHARE PRICES, 1966

(End-1965 = 100)

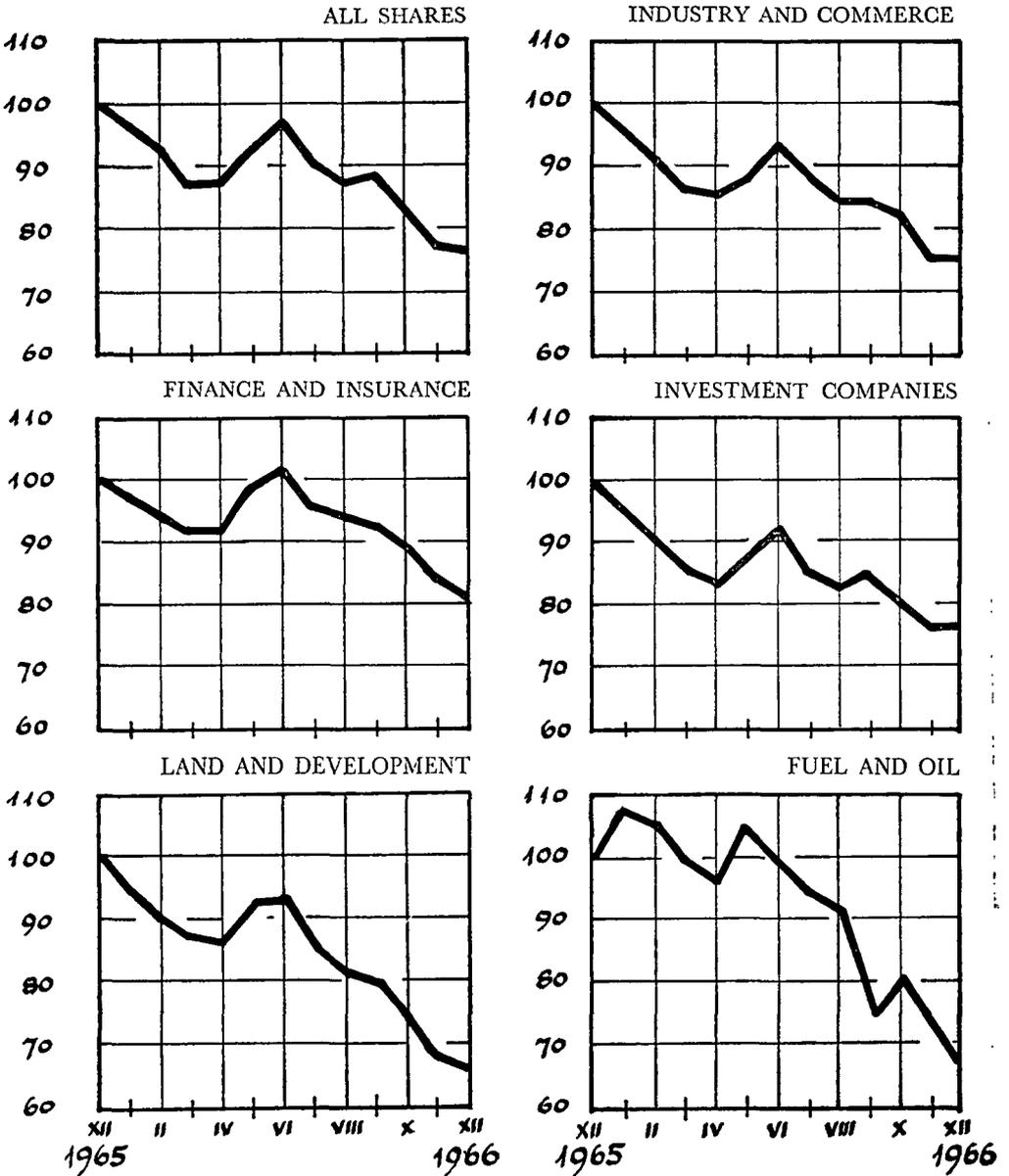
End of month	Monthly index of ordinary shares	Daily index					
		All shares	Finance and insurance	Land and development	Industry and commerce	Investment companies	Fuel and oil
1965 December	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1966 January	96.3	96.2	96.9	94.0	95.2	94.4	107.7
February	93.0	93.0	94.7	90.2	91.6	90.1	105.8
March	90.3	87.4	92.7	87.3	86.9	85.4	99.6
April	90.6	88.9	92.5	86.5	85.1	84.0	96.2
May	95.3	93.6	99.0	93.2	88.6	87.5	105.0
June	96.8	96.3	101.7	93.6	93.3	92.5	102.2
July	89.9	90.3	96.0	85.0	88.4	85.9	95.9
August	87.9	87.9	94.5	82.0	85.1	83.9	92.1
September	87.1	88.0	93.3	80.7	85.5	85.3	75.5
October	83.9	83.7	89.9	75.8	82.6	80.9	80.6
November	78.6	77.9	84.6	68.2	75.7	76.6	73.6
December	76.6	76.3	81.8	66.8	75.6	76.1	67.2
Change from Dec. 1965 to Dec. 1966	-23.4	-23.7	-18.2	-33.2	-24.4	-23.9	-32.8

SOURCE: Based on Central Bureau of Statistics data.

Diagram XX-2

INDEXES OF SHARE PRICES, 1966

(End of month; December 1965=100)



SOURCE: Daily price index of Tel Aviv Stock Exchange.

Share prices fell by an average of 23 percent, according to the monthly index of share prices, and this after a decline of about 30 percent over the two preceding years. The slump in the share market deepened in 1966, owing to the economic recession in general and the poor performance of some of the listed companies in particular. The protracted weakening of share prices and the shrinking of the market, described in the previous section, curbed trade and short-term investment in shares. Increased production costs and the fear of a reduction of turnover and company profits made income from dividends appear doubtful—a factor which deterred those who invest mainly for income. If this was true for most of the shares listed on the Exchange, it was particularly so for industrials and commercials and the shares of real estate and construction firms. In fact, the group index of land and development shares fell by a third during the year, and that of the industrial and commercial group also dropped more than the average.

Although the rate of decline was uneven as between the groups, they displayed similar trends (see Diagram XX-2). Land and development shares, as already noted, lost more ground than the others. This is not surprising, since building activity and the real estate market were hit especially hard in 1966, and also because the group had advanced considerably in the boom years. Prices of fuel and oil shares rose in January, at a time when all other groups were declining, and fell sharply in the latter part of the year (28 percent in three months). The increase at the beginning of the year was due to the advance of one of the oil shares, following the announcement of their exchange into the shares of another company. On the other hand, the sharp decline at the end of the year reflected the market reaction to the skipping of a dividend by another oil company, contrary to its past practice and to its declared policy of allocating part of its profits to shareholders each year.<sup>1</sup>

In 1966 the development of share prices was affected more than in the past by the performance of individual companies, such as the failure of one industrial company, which went into receivership (the listing of its prices on the Exchange was suspended); the developments in the two aforementioned oil companies; the liquidity difficulties of a building and settlement company, which required Government assistance; and the difficulties experienced by a number of other companies.

The dividends declared during any one year mainly reflect, of course, business results in the preceding year. Yet, it may be noted that of the 81 companies with shares listed on the Stock Exchange at the end of the year, 13 declared a smaller dividend in 1966 than the year before, 17 increased theirs, and 25 declared no dividend at all. In 1965, 24 companies declared a smaller dividend and 19 a larger one than the year before (the reference is to cash dividends

<sup>1</sup> Since the fuel and oil group is a small group in an unweighted index, the price movements of each share in the group carry a relatively large weight in the index.

only). The upward trend in dividend yields which marked the years 1964 and 1965—a result of falling share prices, not of increased dividend rates—continued in the year reviewed. The mean cash dividend yield of listed shares, figured at end-1966 prices and again ignoring the distribution of bonus shares, came to nearly 9 percent, compared with 7 and 6 percent at the end of 1965 and 1964 respectively. The mode was between 8.5 and 9.5 percent (in 1965 it was between 6 and 7 percent, and at the end of 1964, less than 5 percent). Thus the dividend yield more closely approached the prevailing interest rate than in previous years—an adjustment which helps to explain the protracted slump of share prices.

The activities of various Government-encouraged equalization funds<sup>1</sup> did not succeed in reversing the downward trend of the equity market in 1966. Among the institutional purchases, mention should also be made of selective purchases by a group of financial institutions in order to support certain shares and build up a share portfolio yielding a minimum return fixed in advance. As in previous years, the unit trusts were net sellers in 1966, having again to redeem a portion of their participation certificates. As a result of this, and of the fall in the market value of their investments per unit, their assets declined during the year by about IL 13 million—from IL 40 million to IL 27 million<sup>2</sup> (in 1965 there was a decline of IL 10 million).

As in 1965, share prices rallied in the spring, then receded sharply, and subsequently continued to drift downward; again as in 1965, the recovery was connected with hopes pinned on the recommendations of a commission which had been charged to recommend measures likely to revive the securities market. In both years the news of the appointment of such a commission seemed in itself to be reason enough for a renewed interest in shares. The gains were followed by profit-taking and a return to the previous downward trend. Following the commission's recommendation, the income tax on all dividends from listed shares was limited to 25 percent in 1966, with the exception of those deriving from holdings of more than 10 percent of the share capital of any one company.

The indexes of bond prices in 1966 show a decline of 1.6 percent<sup>3</sup> in the case of dollar-linked bonds and an advance of 4.5 percent for index-linked bonds (see Table XX-7). Since the consumer price index went up more than this, the prices of index-linked bonds measured by the adjusted face value (which includes linkage differentials) also declined somewhat (see Table XX-8). Bond yields advanced slightly in 1966, but no definite conclusions can be drawn

<sup>1</sup> These are described in the Bank of Israel Annual Report for 1965, p. 439.

<sup>2</sup> These figures are not identical with those in Chapter XVI, which cites the assets valued at purchase price.

<sup>3</sup> The decline in the first ten months was at the rate of 4.2 percent, after a marked rise in the second half of 1965. In the last two months of the year the prices of dollar-linked bonds picked up again.

Table XX-7  
MONTHLY INDEXES OF SECURITY PRICES, 1966  
(End-1965 = 100)

End of month	Total	Value-linked bonds			Non-linked bonds	Preference shares	Ordinary shares
		Dollar-linked	Index-linked	"Mixed" link			
1965 December	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1966 January	99.9	99.9	100.1	99.2	100.7	98.9	96.3
February	100.5	100.3	100.6	100.4	100.7	98.0	93.0
March	99.9	92.9	101.0	99.6	100.8	95.8	90.3
April	99.7	96.2	101.7	99.2	101.3	94.1	90.6
May	100.0	95.9	102.3	99.1	100.9	94.8	95.3
June	99.4	94.6	102.1	98.9	100.7	95.9	96.8
July	99.8	94.7	102.8	97.8	101.7	94.0	88.9
August	100.4	95.7	103.2	98.8	104.0	93.0	87.9
September	100.4	95.8	102.9	100.2	105.7	92.8	87.1
October	100.6	95.8	103.2	100.5	105.3	92.4	83.9
November	101.7	96.8	104.4	100.8	104.8	89.9	78.6
December	102.2	98.4	104.5	99.2	107.3	87.7	76.6
Annual change	2.2	-1.6	4.5	-0.8	7.3	-12.3	-23.4

SOURCE: Based on Central Bureau of Statistics data.

from this with regard to the general level of interest, mainly because of the special arrangement governing the activities of the biggest investor in the bond market—the social insurance funds. They are required to invest most of their assets in bonds recognized as approved securities, a ruling which does not accord them much elasticity in their investment decisions.

It must also be remembered that the calculated yield on linked bonds disregards possible linkage differentials which may accrue in the future, and which are comparable to capital gains. The redemption yield of linked bonds, calculated *a priori*, therefore lends itself easily to misinterpretation.

The development of linked bond prices in 1966 seems to support the aforementioned observation that a good many investors were buying more liquid assets. In 1966 these took the form of the (Government) Short-Term Loan and the option-type loans (Government and others). This was understandable in 1966 in view of the stability of domestic prices, especially in the second half of the year. As a result of this, and of the raising of the interest rate on the Short-Term Loan in the middle of the year, the real net return on this paper increased in 1966, after having declined to zero the year before. Raising the interest rate on this loan did not cause, but only strengthened, demand—toward the end

Table XX-8

## INDEXES OF VALUE-LINKED BOND PRICES, 1966

End of month	Dollar-linked bonds		Index-linked bonds	
	December 1965=100	Adjusted par value <sup>a</sup> =100	December 1965=100	Adjusted par value <sup>a</sup> = 100
1965 December	100.0	103.4	100.0	101.9
1966 January	99.9	103.1	101.1	101.6
February	100.3	103.6	100.6	101.1
March	97.9	102.1	101.0	100.3
April	96.2	100.8	101.7	99.6
May	95.9	100.7	102.3	98.4
June	94.6	99.2	102.1	98.2
July	94.7	100.1	102.8	98.6
August	95.7	100.5	103.2	98.5
September	95.8	100.6	102.9	99.3
October	95.8	100.4	103.2	98.0
November	96.8	101.2	104.4	98.8
December	98.4	102.6	104.5	99.2

<sup>a</sup> Par value plus linkage increment.

SOURCE: Based on Central Bureau of Statistics data.

of the year the rate was again cut, with no appreciable effect on demand. The Short-Term Loan, it might be noted, is purchased by individuals as well as financial institutions.

## 5. FOREIGN SECURITIES

Foreign currency security holdings of Israeli residents at the end of 1966 amounted to \$ 106 million (at purchase price). The increase during the year was smaller than in previous years (see Table XX-9). As already noted, there was a tendency to invest less in dollar assets (including foreign currency securities and bonds linked to the exchange rate) than in 1965.

The agio on the Natad (investment) dollar fluctuated between 6 and 7.5 percent in the first few months of the year, declined to 1.5-2 percent in April and May, and then rose gradually to about 6 percent at the end of the year. The decline in April and May reflects the shifting of interest from this market to local shares during the transient boom of the latter. Also worthy of note was the parallel development of the price of the Natad dollar and of the free-market dollar (see Diagram XX-3). It should be mentioned in this context that the Natad dollar finances not only investment in foreign securities, but indirectly also the expenses of Israeli tourists abroad.

Diagram XX-3

NATAD (INVESTMENT) AND FREE-MARKET DOLLAR RATES, 1966

(IL per dollar)

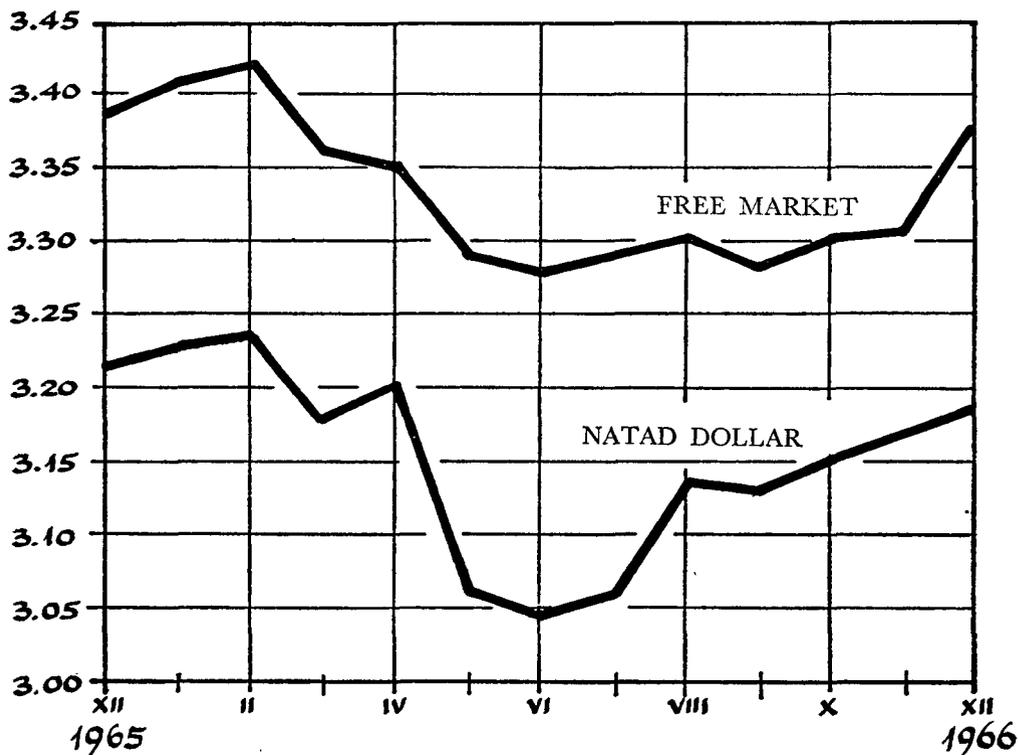


Table XX-9

FOREIGN CURRENCY SECURITIES HELD BY ISRAELI RESIDENTS, 1962-66

(\$ million)

End-year	Balance	Annual increment
1962	25.7	5.4
1963	36.8	11.1
1964	50.6	13.8
1965	80.4	29.8
1966	105.8	25.4

SOURCE: Ministry of Finance.