

CHAPTER XX

ACTIVITIES OF THE BANK OF ISRAEL

In this chapter we first describe the developments in the Bank of Israel's balance sheet and profit and loss account, which reflect some of the principal functions performed by the Bank in accordance with the law. These include: administering the State's foreign currency reserves, serving as the bankers' bank and as the banker and fiscal agent of the Government, and regulating and directing credit to the public via the banks. Later on the chapter describes other activities performed by the Bank of Israel in accordance with the law, which are not reflected in its balance sheet. Under this head come: currency issue and supply, administration of the system of directed credit, regulation of banking and financial institutions, administration of State loans, and administration of the main clearing house. Finally, there will be found a description of the Bank's activities as the State's representative in international financial institutions, of economic research at the Bank, which is of assistance to the Governor of the Bank in his capacity as economic adviser to the Government, and of the activities of the Bank's Advisory Committee and Advisory Council, which assist the Governor in determining monetary policy (a comprehensive review of monetary policy will be found in Chapter XVII).

1. SUMMARY OF BALANCE SHEET AT THE END OF 1974

The balance sheet as of December 31, 1974, which opens the third decade of the Bank of Israel, is its twenty-first annual balance sheet. The Bank commenced its activities, on December 1, 1954.

The main elements that find expression in the balance sheet at the end of 1974 are: the steep decline in foreign currency reserves, the pronounced infusion of liquidity by the Government, and the revaluation of the foreign currency items in the Bank's balance sheet in the wake of the change in the rate of exchange of the Israeli pound on November 9, 1974.

The Bank's assets and liabilities at the end of 1974 totalled IL 20,551 million, as against IL 15,448 million in 1973. This constitutes an increase of 33 percent, as compared with increases of 28 percent in both 1972 and 1973. This rise stems

Table XX-1
ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1973-74

	1974		1973		Increase or decrease (-)		
	Balance on Dec. 31 (IL'000)	Percent of total	Balance on Dec. 31 (IL'000)	Percent of total	(IL'000)	Percent	Percent of total change
Assets							
Foreign assets	7,997,764	38.9	8,105,740	52.5	-107,976	-1.3	-2.1
Gold and assets in foreign currency	7,198,171	35.0	7,436,464	48.1	-238,293	-3.2	-4.7
Gold quota in IMF	235,238	1.1	164,667	1.1	70,571	42.9	1.4
Other foreign currency assets	564,355	2.8	504,609	3.3	59,746	11.8	1.2
Credit to the government	6,672,526	32.5	4,155,321	26.9	2,517,205	60.6	49.3
Long-term debt	5,128,649	25.0	3,973,407	25.7	1,155,242	29.1	22.6
Treasury bills	196,148	0.8	129,990	0.9	66,158	50.9	1.3
Provisional advances	1,347,729	6.6	51,924	0.3	1,295,805	—	25.4
Other credit and securities	4,516,090	22.0	2,424,581	15.7	2,091,509	86.3	41.0
Credit	4,245,915	20.7	2,296,879	14.9	1,949,036	84.9	38.2
Gross	4,598,041	22.4	2,786,224	18.1	1,811,817	65.0	35.5
In Israeli currency	1,737,880	8.5	1,135,736	7.4	602,144	53.0	11.8
In foreign currency	2,860,161	13.9	1,650,488	10.7	1,209,673	73.3	23.7
Less: Export finance deposits of banking institutions	352,126	1.7	489,345	3.2	-137,219	28.0	-2.7

Securities	270.175	1.3	127,702	0.8	142.473	111.6	2.8
Other accounts	182.652	0.9	19,478	0.1	163.174	—	3.2
Guarantees and documentary credits	1,181.874	5.7	742,997	4.8	438.877	59.1	8.6
Total assets	20,550,906	100.0	15,448,117	100.0	5,102,789	33.0	100.0
Liabilities							
Banknotes and coin in circulation	3,319.126	16.2	2,812.137	18.2	506.989	18.0	9.9
Foreign liabilities	794.821	3.8	234.239	1.5	560.582	—	11.0
Allocations of Special Drawing Rights	309,862	1.5	216,903	1.4	92,959	42.9	1.8
Deposits of the IMF in connection with drawings	470,475	2.3	—	—	470,475	—	9.2
Other liabilities	14,484	—	17,336	0.1	-2,852	-16.5	—
Government and National Institution deposits	298.765	1.5	1,021.603	6.7	-722,838	-70.8	-14.1
Deposits of importers	243.249	1.2	86,871	0.6	156,378	180.0	3.1
Government and National Institution deposits in foreign currency	55.516	0.3	934,732	6.1	-879,216	-94.1	-17.2
Banking and financial institution deposits in Israel	14,651.301	71.3	10,334.833	66.9	4,316.468	41.8	84.6
Banking institution deposits in IL	3,490.509	17.0	3,535.124	22.9	-44,615	-1.3	-0.9
Financial institution deposits in IL	59,691	0.3	63,271	0.4	-3,580	-5.7	—
Banking institution deposits in foreign currency	4,351,662	21.2	2,675,236	17.3	1,676,426	62.7	32.8
Banking institution deposits denominated in foreign currency	6,749,439	32.8	4,061,202	26.3	2,688,237	66.2	52.7
Other accounts	285,019	1.4	282,308	1.8	2,711	1.0	—
Capital and reserves	20,000	0.1	20,000	0.1	—	—	—
Liabilities on account of guarantees and documentary credits	1,181,874	5.7	742,997	4.8	438,877	59.1	8.6
Total liabilities	20,550,906	100.0	15,448,117	100.0	5,102,789	33.0	100.0

mainly from the revaluation in the amount of IL 4,079 million¹ in the balance-sheet assets in foreign currency and linked to foreign currency, following the devaluation of the Israeli pound. The rise in the amount of the balance sheet excluding that due to this revaluation thus amounts to IL 1,024 million, or only 6.6 percent. This small increase reflects the striking changes that took place in the three main items in the balance sheet: a rapid rise both in the Government's debt to the Bank of Israel and in the credit extended by the Bank to the public, which was largely offset by the steep decline in the Bank's assets in foreign currency.

Until the devaluation of the Israeli pound on November 9, foreign currency reserves had declined by \$ 816 million (IL 3,427 million). This decrease, which stemmed entirely from net foreign currency purchases by the public, was designed, on the one hand, to finance the steadily rising trade deficit, and, on the other hand, to cover the drop in net capital import in the private sector. This trend was strengthened by repeated expectations of devaluation, and it exerted a strong influence on the contraction of liquidity in the economy. After the devaluation these developments underwent a change: on the one hand, foreign currency reserves stopped declining and began to rise; on the other hand, there was a decrease in net credit to the Government, mainly as a result of the substantial inflow in Israeli pounds from the sale of index-linked bonds, and also of the transfer of profits of the Bank of Israel at the end of the year.

In the first quarter of the year the Bank continued the policy of expansion which it had adopted as a consequence of the Yom Kippur War, and which was designed to ease the financing needs of the economy and to restore it to normal economic activity. During the year there was a rapid increase in rediscounting for the public and the banks, both as a result of the greater participation of the Bank of Israel in the financing of the funds and of the increase in the volume of credit, particularly for the financing of exports. This expansion was designed to reduce the heavy liquidity deficits that had been created in the banking system as a result of the steep decline in foreign currency reserves. It was carried out simultaneously with other measures taken in order to freeze the volume of credit freely available to the public. Hence, the expansion was actually at the expense of reducing free credit to the public.

On the liabilities side, the most noteworthy changes were the rise in the "currency in circulation" item and the sharp decline in the foreign currency deposits of the Government and the National Institutions. There was also a considerable increase in the foreign currency deposits of banks, which is attributable mainly to the revaluation of these items as a result of the devaluation of the Israeli pound.

¹ The revaluation of balance sheet items in the wake of the devaluation was done in this chapter in accordance with the balances on the date of the devaluation.

2. ASSETS IN THE BALANCE SHEET

(a) *Claims on the rest of the world in foreign currency*

There was a steep decline during the year in the amount of assets in foreign currency held in the Bank of Israel. Foreign currency reserves held in the Bank² dropped by 37 percent at the end of 1974, and totalled \$ 1,071 million. The amount of the decrease—\$ 627 million— was exactly the same as the amount by which the reserves had risen in 1973 (hence, the amount of the reserves at the end of 1974 was identical with that at the end of 1972). Actually, the decline in foreign currency reserves was greater, for the figure for the reserves includes an increase of \$ 64 million that resulted from the rise in the value of European currencies against the dollar. Were it not for this factor, the decline in the reserves would have been \$ 691 million, as against a rise of \$ 475 million in 1973. This decline reflects the large amount of net foreign currency purchases by the non-governmental sector, which in 1974 amounted to \$ 1,110 million. These purchases were designed in part to finance the increase in the current account deficit, and in part to cover the decline that had occurred in all the net capital import components of the non-governmental sector. The rise in the current account deficit reflects mainly the deterioration that occurred in the deficit of the non-governmental sector, and which was due, for the most part, to the higher prices of imports, especially fuel, foodstuffs and other raw materials, but also to repeated expectations of devaluation. These foreign currency purchases by the private sector, which led to a decrease in the reserves, were partly offset by foreign currency transfers by the Government and the Jewish Agency in the amount of approximately \$ 200 million, and by income from investments of the Bank of Israel in foreign currency, which also came to \$ 200 million.

Until the devaluation on November 9, the foreign currency reserves dropped by \$ 816 million, reaching a low point of \$ 881 million. As noted, this decline stemmed from foreign currency purchases by the private sector, which totalled \$ 1,170 million up to the date of devaluation. After that there was a significant turn in the development of the foreign currency reserves: from an average decrease of approximately \$ 80 million a month to an increase in that amount each month. This development also reflects the change that occurred in the influence of the non-governmental sector—a switch from purchasing foreign currency to selling it to the

² Defined as gold, special drawing rights, and assets in foreign currency, less deposits of foreign residents. Participation in gold in the International Monetary Fund is also included in the reserves until its withdrawal in April 1974.

Table XX-2

**ASSETS AND LIABILITIES OF THE BANK OF ISRAEL IN GOLD AND
FOREIGN CURRENCY, 1973-74**

(\$ million)

	1973	1974	Increase or decrease (-)
Assets			
Gold	46.3	46.3	—
Special Drawing Rights	33.6	3.0	-30.6
Foreign currency assets	1,690.6	1,150.3	-540.3
Gold quota in IMF	39.2	39.2	—
Loans to foreign governments and banks	32.7	26.2	-6.5
Participation in international financial institutions	10.5	10.5	—
Other foreign currency assets	76.4	54.2	-22.2
Clearing accounts (net)			
Total assets	1,929.3	1,332.2	-597.1
Liabilities			
Allocation of Special Drawing Rights	51.6	51.6	—
Foreign currency deposits of foreign banks (Patach)	112.7	129.1	16.4
Deposits of foreign banking institutions	4.1	80.8	76.7
Clearing accounts (net)	0.8	—	-0.8
Total liabilities	169.2	261.5	92.3
Net claims of the rest of the world	1,760.1	1,070.7	-689.4
Net foreign currency reserves held with the Bank of Israel ^a	1,697.1	1,070.6	-626.5

^a See note 2 in the text.

Bank of Israel. The total increase in the reserves between the date of devaluation to the end of the year was \$ 190 million. Apart from foreign currency valuation adjustments, the increase in reserves totalled \$ 155 million, of which net sales and transfers by the private sector accounted for \$ 60 million. It may be noted that the data for the beginning of 1975 point to a continuation of this positive trend.

The Bank's gross claims on the rest of the world were down to \$ 1,332 million at the end of 1974, as against \$ 1,929 million at the end of 1973—a decline of \$ 597 million. The net credit in the clearance accounts administered by the Bank totalled \$ 2.5 million net at the end of the year (as against a net liability of \$ 0.8 million at the end of 1973).

(b) Credit to the Government

Net Government liabilities (credit to the Government plus the decrease in Government deposits) to the Bank of Israel rose in 1974 by IL 3,174 million; of this increase, IL 1,159 million constituted revaluation differentials of long-term, dollar-linked advance payments and foreign currency deposits. (These data do not include the IL 66 million increase in Treasury bills, which actually does not constitute a rise in credit to the Government.) The increase in the Government's net liabilities (after the deduction of linkage differentials) amounts to IL 2,015 million, a sum which embodies a rise of IL 1,280 million in the Government's liabilities to the Bank of Israel and a decline of IL 735 million in the creditory accounts of the Government and the National Institutions.

The rise of IL 1,280 million in the Government's obligations to the Bank of Israel actually is attributable to the increase of IL 1,298 million in the temporary advance payments to the Government, which totalled IL 1,348 million at the end of the year. No significant change occurred in the long-term advance payments to the Government, except for the revaluation of that portion that was linked to the dollar, as a result of the devaluation of the Israeli pound on November 9, 1974.

The decline of IL 735 million in the Government's debitory accounts in 1974 resulted from the decrease of IL 891 million in the foreign currency accounts of the Government and the National Institutions and the increase of IL 156 million in importers' deposits. For importers' deposits, which totalled IL 87 million at the end of 1973, also declined in the first half of the year, until their liquidation in May (in the wake of the abolition of the deposit requirement in November 1973). In June, the Treasury re-instituted the deposit requirement, raising it to 20 percent of the value of the imports, and at the end of the year these deposits amounted to IL 243 million.

The large increase that occurred in the Government's net liabilities to the Bank of Israel reflects the deficit financing of the Government's budget in 1974, but it does not give expression to the full extent of the Government's influence on liquidity in the economy. This is so because the changes in credit to the Government do not include foreign currency transfers of the Government for financing its activities in local currency. On the other hand, they do include transfers and listings in the balance sheet that do not influence the volume of liquidity in the economy, such as: linkage differentials on the liabilities linked to foreign currency, changes in connection with the decline of the Short-Term Loan, the transfer of the profits of the Bank of Israel for 1974, and other activities. Also taken into account was the decrease of IL 540 million that occurred in credit for financing the purchase of the voluntary War Loan, since from the economic point of view this should be regarded

as credit to the Government, so long as the public has not repaid the debt it incurred in order to purchase the Loan certificates. After correcting these balance-sheet listings and including the foreign currency activities, the Government's infusion of liquidity during 1974 is estimated at IL 2,890 million. (For a detailed analysis of the Government's influence on liquidity, see Chapter X.)

Table XX-3
GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL, 1973-74
(IL million)

End of period	1973	1974	Increase or decrease (-)
Debit			
Long-term advances to the Government	3,973.4	5,128.6 ^a	1,155.2 ^a
Ordinary advances to the Government	51.9	1,347.7 ^b	1,295.8 ^b
Total gross Government debt	4,025.3	6,476.3	2,451.0
Credit			
Importers' deposits	86.9	243.2	156.3
Foreign currency accounts of the Government and the Jewish Agency	934.7	55.5	-879.2
Accounts of the Post Office Bank	30.0	30.0	—
Total accounts	1,051.6	328.7	-722.9
Net credit to the Government	2,973.7	6,147.6	3,173.9

^a Includes IL1,171 million which resulted from devaluation differentials.

^b Includes changes in connection with the decline in the Short-Term Loan, and crediting the Government with IL 517 million which resulted from the transfer of the profits of the Bank of Israel for 1974.

The rate of change in the Government's net liabilities and in the estimate of the infusion of liquidity was not uniform throughout the year, and it was influenced not only by usual seasonal developments but, and to a great extent, also by the rate of emission of linked bonds to the public. In January there was a decline of IL 438 million in the Government's liabilities, as a result of the extensive sale of index-linked bonds in that month. The summation for the first quarter of the year showed a rise in the Government's liabilities of only IL 80 million, and consequently the Government's infusion of liquidity was likewise small. In the seven-month period, April-October, the Government's liabilities rose by IL 3,000 million, and the estimate of the Government's infusion of liquidity came to a similar figure; of this increase, about IL 2,000 million occurred in the three months preceding the devaluation. The acceleration in the Government's infusion of liquidity in this period was also influenced by the substantial falling off that occurred in the sale of linked

bonds to the public in these months. After the devaluation there was a turn in the Government's net liabilities: from that date to the end of the year it declined by IL 1,330 million. This resulted mainly from the sale of index-linked bonds on a large scale and also from the transfer of the profits of the Bank of Israel for 1974. It may be assumed that a good part of the bond purchases was financed by the conversion of foreign currency deposits. From the book-keeping aspect these activities are recorded as mopping-up (of means of payment) by the Government, although in fact they are not mopping-up in the economic sense, but rather a change in investment portfolio of the public.

(c) *Rediscounts and loans*

There was a considerable increase—IL 2,532 million—in 1974 in the net credit extended by the Bank of Israel to the public and to banks. If we deduct that part of the increase attributable to the revaluation of credit in foreign currency (IL 738 million), the rise in net credit totals IL 1,795 million.

These figures do not include a decline of IL 44 million in the credit in foreign currency extended to the National Institutions for the early repayment of debts abroad. They likewise do not include special credit in the amount of IL 540 million extended to the public at the end of 1973 to finance the purchase of the Voluntary War Loan bonds; this was repaid by the end of 1974. From the economic viewpoint this should be regarded as credit to the Government, so long as the loan was not repaid. The rise of IL 1,795 million in net credit to the public and the banks consisted of an increase of IL 515 million in foreign currency rediscounts (without devaluation differentials) and of an increase of IL 1,280 million in rediscounts in Israeli currency.

This year, too, the principal increase in rediscounts in foreign currency occurred in the Diamond Financing Fund: this amounted to IL 225 million, or \$ 55 million. Other funds also showed an increase: IL 115 million (\$ 26 million) in the Fund for Financing Export Shipments, and IL 56 million (\$ 12 million) in the Import Fund. The considerable rise in net rediscounts in local currency (credit to the public less banks' deposits to finance their participation in export funds), which totalled IL 1,280 million, reflects for the most part two developments: The first is the expansion of directed credit in export-financing funds, and the special rediscounts, totalling IL 324 million, carried out in the second half of the year, mainly for industrial firms, against the Employers' Loan certificates and in accordance with the linkage terms of that loan. The second is the infusion of liquidity in the framework of a change in the structure of the funds: the Bank of Israel replaced part of the banks' participation in the directed credit funds. This replacement was designed to reduce

Table XX-4

BANK OF ISRAEL CREDIT TO THE PUBLIC,^a 1973-74

(IL million)

	1973	1974	Increase or decrease (-)
Credit in IL and foreign currency ^b	2,246.3	4,597.2	2,350.9
Less: Credit to the National Institutions	424.3	380.2	-43.9
Credit to the public in IL and foreign currency	1,822.0	4,217.0	2,395.0
Less: Export finance deposits of banking institutions	489.2	352.2	-137.0
Net credit to the public in IL and foreign currency	1,332.8	3,864.8	2,532.0
Net credit in IL	106.3	1,384.8	1,278.5
Credit in foreign currency	1,226.5	2,480.0	1,253.5

^a Does not include credit of IL 540 million granted at the end of 1973 to finance the purchase of the Voluntary War Loan by the public and which was repaid by the end of 1974.

^b The figures for 1974 include devaluation differentials amounting to IL 855 million, consisting of IL 117 million in credit to the National Institutions and IL 738 million in credit to the public.

the heavy liquidity deficits that had been created in the banking system as a result of the steep decline in foreign currency reserves. The ensuing expansion occurred concurrently with the freezing of directed credit. This structural change was carried out simultaneously with other steps taken in order to freeze the amount of free credit available to the public. As against these increases, there was a striking decrease, in the amount of IL 113 million, in the special credit granted at the end of 1973 to finance various economic branches, in the wake of the emergency conditions created by the October war. (A detailed analysis of directed credit to the public, and its composition, will be found below under the heading "Credit Directed by the Bank of Israel.")

3. LIABILITIES IN THE BALANCE SHEET

(a) *Banknotes and coin in circulation*

Currency in circulation totalled IL 3,319 million at the end of 1974. This was a rise of IL 507 million, or 18 percent, as compared with the more rapid rise of 38 percent that occurred in 1973. This rise includes an increase of IL 34 million (bringing the total to IL 59 million) in commemorative coins, which constitute currency in circulation only legally, since their numismatic value is higher than their face value.

The share of cash in total means of payment continued to rise in the first three quarters of 1974, and reached 39 percent. In the last quarter of the year, however, there was a drop that brought the level down to that at the end of the previous year, which was 36.5 percent. It should be noted that the average level of cash in total means of payment in 1974 was 38 percent, which is high in comparison with previous years.

The rising trend in the weight of cash in total means of payment is explained against the background of economic developments in 1974. In the first half of the year there was a considerable acceleration in the rate of rising prices in the economy, which increased the alternative price of holding money. The deceleration that took place as a consequence of this in the rate of increase in the means of payment is more striking in current accounts than in cash. It would appear that cash is more essential for current day-to-day activity than part of current-account deposits and that the possibility of contracting the former is more limited. The decline in the share of cash in total means of payment in the last quarter of the year apparently stemmed from another factor that exerts an influence on this ratio: the acceleration in the infusion of liquidity into the economy, which occurred in August. It transpires that in periods of a rapid rise in the money base, the proportion of cash tends to drop during a certain period of adjustment. The renewed rise in the share of cash in the total means of payment, which occurred in the beginning of 1975, gives some support to this assumption.

(b) Foreign currency liabilities to the rest of the world

The foreign currency liabilities of the Bank of Israel to the rest of the world rose by \$ 92 million, totalling \$ 261 million at the end of 1974. The bulk of the increase was in deposits of the International Monetary Fund, which rose by \$ 77 million. This increase derives from the withdrawal of "the gold tranche" in the amount of 32.5 million SDRs in April and the receipt of free foreign currency in its place (\$ 39 million), and from an additional withdrawal in the same amount from "the first credit tranche" in November, after the devaluation. In addition, there was a rise of \$ 16 million in banks' deposits with the Bank of Israel in the framework of the obligatory liquidity on the accounts of foreign residents held with them (see "Deposits of Foreign Residents" below).

(c) Banking and financial institution deposits in Israel currency

In 1974 there was a decline of IL 48 million in the deposits in Israeli currency of the banking and financial institutions with the Bank of Israel; they amounted to

IL 3,550 million. This is in contrast to a rise of IL 697 million, or 25 percent, in 1973. This decrease in deposits, the bulk of which cover the required liquidity of the banks, was mainly the result of the steep decline in foreign currency reserves. The drop in the liquid assets of the banks is actually greater, since there should be added to the decrease in their deposits the decline in the amount of Treasury bills in their possession, to the extent of IL 66 million, and which likewise constitute liquid assets.

The development in deposits in Israeli currency, the releases from liquidity and the liquidity requirement, which find expression here as deposits of the banking institutions with the Bank of Israel, is surveyed at length in Chapter XVII against the background of an economic analysis. Following is the rate of interest paid by the Bank of Israel on deposits of the banking and financial institutions in Israeli currency, by category (from March 14, 1974 to December 31, 1974):

Deposits of the public with banking institutions	Total liquidity requirement (%)	Share in deposits of the public and the interest paid thereon		
		0% interest	8% interest	10% interest
Ordinary demand deposits	72	17	47.5	Balance
Time deposits				
Up to 4 months	26	8	10	Balance
Up to 5 months	24	7	9	Balance
Up to 6 months	22	6	8	Balance
Six months and more	20	5	8.5	Balance

From the first stage—0 percent interest—there should be deducted the amount of cash held by the banking institution, and from the second stage—8 percent interest—the amount of Treasury bills held by the bank. There are likewise other minor corrections published in the instructions of the Inspector of Banks in the Bank of Israel.

(d) Deposits in foreign currency or denominated in foreign currency.

There was a substantial rise in 1974 in banks' deposits in foreign currency and those denominated in foreign currency: these rose by IL 4,365 million, or by 65 percent, totalling IL 11,100 million (\$ 1,850 million). This increase resulted principally from the revaluation of deposits in the wake of the devaluation, which raised their IL value by IL 3,421 million. The rise in the exchange rates of

Table XX-5
DEPOSITS OF BANKING AND FINANCIAL INSTITUTIONS WITH
THE BANK OF ISRAEL, 1973-74
(IL million)

End of period	1973	1974	Increase or decrease (-)
Deposits in Israeli currency	3,598.4	3,550.2	-48.2
Banking institutions	3,535.1	3,490.5	-44.6
Financial institutions	63.3	59.7	-3.6
Deposits in foreign currency and denominated in foreign currency	6,736.4	11,101.1	4,365.7
In foreign currency	2,675.2	4,351.7	1,676.4
Denominated in foreign currency	4,061.2	6,749.4	2,688.2
Total	10,334.8	14,651.3	4,316.5

European currencies in relation to the dollar and to the Israeli pound that is linked to it accounted for IL 717 million of the increase.

Apart from these two developments the increase was relatively moderate (only IL 226 million), for immediately following the devaluation there was large-scale conversion of certain types of deposits: Natad deposits dropped by IL 276 million between the devaluation and the end of the year, and Pazak deposits by IL 525 million in the same period (the figures do not include foreign currency valuation adjustments). The decline in Pazak deposits stemmed, in effect, from the conversion of Pazak, grade 2, which are not those of recipients of personal restitution. On the other hand, no decline actually occurred in the two main types of foreign currency deposits whose source is personal restitution payments from Germany: Tamam and Pazak, grade 1. These showed even a slight increase, which reflects the desire of the deposit holders to continue to keep them in foreign currency, despite the fact that no special incentives were offered for this.

A detailed description of the various types of deposits appears in the Bank of Israel *Annual Report 1973*, pp. 455-59. Below are summarized the main changes that took place in these accounts during 1974.

1. Banking institution deposits in foreign currency

The foreign currency deposits of the banking institutions in Israel with the Bank

of Israel at the end of 1974 amounted to \$ 725 million (IL 4,352 million), as against \$ 637 million (IL 2,675 million) at the end of 1973—an increase of \$ 88 million (IL 1,676 million, including devaluation differentials). These deposits are held in various currencies, but mainly in German marks; this is so because the biggest of these accounts—Tamam—has its source in the deposits of recipients of personal restitution payments from Germany.

Tamam deposits with the Bank of Israel at the end of 1974 totalled \$ 519 million (IL 3,113 million), as against \$ 430 million (IL 1,805 million) at the end of 1973. The increase in 1974 amounted to \$ 89 million, or 21 percent (IL 1,307 million, including devaluation differentials). Of this, \$ 44 million (IL 230 million) is accounted for by the rise in the exchange rate of the German mark in relation to the dollar and to the Israeli pound that is linked to it. No substantial change occurred in these deposits, most of which are deposited for twelve months, in the wake of the devaluation. Even afterwards, the upward trend continued, indicating that there was no tendency to convert them. The interest rates paid on the Tamam deposits by the Government and the Bank of Israel were not changed during the year.

Natad deposits at the end of 1974 totalled \$ 32 million (IL 191 million) as against \$ 23 million (IL 96 million) at the end of 1973—an increase of \$ 9 million, or 39 percent. Most Natad deposits have their origin in a Tamam account, which is converted into Israeli pounds by means of securities in foreign currency. Securities are traded in the Natad account in accordance with the exchange rate fixed in this market. From the beginning of the year to the devaluation, these deposits multiplied by 3.4 and reached \$ 78 million (depositors in these accounts are particularly sensitive to anticipations of changes in the exchange rate of the Israeli pound). After the devaluation, as expected, they dropped sharply—by \$ 47 million.

The value of Patach deposits with the Bank of Israel totalled \$ 129 million (IL 775 million) at the end of 1974 as against \$ 113 million (IL 473 million) at the end of 1973; this is an increase of \$ 16 million (IL 301 million).

These are deposits held by the banks in the Bank of Israel in accordance with the liquidity requirement applicable to the deposits of foreign residents held with them. The liquidity requirement is 20 percent, of which not less than 10 percent must be deposited with the Bank of Israel; the balance may be deposited in foreign banks approved for this purpose by the Inspector of Banks. Patach deposits in the banking institutions totalled IL 5,156 million at the end of 1974. It thus transpires that the effective liquidity rate against deposits of the public amounted to 15 percent. The devaluation of the Israeli pound led to no substantial change in these deposits, which continued to rise. In 1974 there was a continuation of the frequent and relatively large-scale fluctuations in the interest rates paid on the various types of currencies in the international markets. Accordingly, the Bank of Israel very frequently adjusted

the interest rates on Patach deposits held with it. In the first half of the year interest rates rose on practically all types of currency, reaching a high point in the middle of July. Towards the end of the year there was a decline, but the rates still were slightly higher than they had been at the beginning of the year.

There was no change in the total of Pahab deposits during the year: they stood at \$ 4 million. Since October 2, 1974 the bank of Işrael has not accepted new deposits in these accounts.

Import deposit accounts (Hay) at the end of 1974 totalled \$ 17 million (IL 104 million), as against \$ 11 million (IL 46 million) at the end of 1973—an increase of \$ 6 million.

Pamaz deposits at the end of the year totalled \$ 24 million (IL 146 million), as against \$ 16 million (IL 67 million) at the end of 1973—an increase of \$ 8 million (IL 79 million). In these deposits, too, no significant development occurred in the wake of the devaluation, and they continued to rise afterwards.

2. Banking institution deposits denominated in foreign currency

These deposits are denominated in foreign currency, but they are redeemed in Israeli currency only, at the effective rate of exchange on the redemption date. They consist mainly of Pazak deposits, and, to a much smaller extent, of Hani, an account connected with diamond transactions.

Pazak deposits held with the Bank of Israel totalled \$ 1,123 million (IL 6,737 million) at the end of the year, as against \$ 965 million (IL 4,053 million) at the end of 1973. The increase in 1974 came to \$ 158 million, or 16.4 percent (IL 2,684 million, including devaluation differentials). Of this increase, \$ 89 million (IL 459 million) stemmed from the rise in the exchange rate of the German mark in relation to the dollar, and hence in relation to the Israeli pound which stands in a fixed ratio to the dollar. On the eve of the devaluation the balance of these deposits reached a record of \$ 1,162 million. From the date of the devaluation to the end of the year, they declined by \$ 87.5 million (IL 525 million; changes on account of exchange differentials are not included). The decrease in Pazak accounts was, in fact, due to the conversion of Pazak, grade 2, which are not those of recipients of personal restitution payments from Germany, and which are held mainly in dollars. As with Natad deposits, Pazak, grade 2, are sensitive to expectations of a change in the exchange rate of the Israeli pound. On the other hand, there was actually a slight increase after the devaluation in Pazak, grade 1, whose source is deposits of recipients of restitution from Germany and which constitute the bulk of Pazak deposits. This rise reflects the desire of the holders of these deposits, which are

denominated almost entirely in German marks, to continue to hold them in foreign currency, even though they were offered no special incentive for doing so. The interest rates paid on these accounts by the Government and the Bank of Israel did not change during the year.

There was no change in the amount of Hani deposits, which stood at \$ 2 million at the end of the year.

4. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

(a) Profit and its distribution

The Bank's total profit in 1974 amounted to IL 517 million, as against IL 89 million in 1973. Profits from the Bank's ordinary activities totalled IL 403 million after deducting IL 236 million for bad debts (consisting of IL 185 million in connection with the Israel-British Bank in Israel and IL 51 million in connection with deposits of the Israel-British Bank in London). Further profits totalling IL 114 million derived from devaluation differentials of IL 464 million less deduction of net losses of IL 350 million on account of the rise in the exchange rate of European currencies in relation to the dollar. The Bank's liabilities denominated in German marks (mainly Pazak and Tamam deposits), originating in personal restitution payments from Germany, are greater than its assets in that currency. Hence, every rise in the value of the German mark in relation to the dollar and to the Israeli pound which bears a fixed ratio to the dollar leads to a revaluation of the Bank's liabilities that is higher than the revaluation of its assets, thus creating a loss to the Bank. During 1974 there was an increase in the net surplus of liabilities denominated in European currencies, mainly as a result of the steep decline in foreign currency reserves, whereas liabilities in foreign currencies continued to rise (see Table XX-5 for explanation and details). The rise in the exchange rate of the German mark in relation to the dollar reached 9 percent in the course of the year. It should be noted that part of the foreign currency reserves of the Bank of Israel are denominated in German marks, so that a rise in that currency creates income, which stems from the increase in foreign currency reserves in terms of dollars and Israeli pounds.

The overall profit of the Bank of Israel in 1974, which totalled IL 517 million, was transferred in its entirety, as is done each year, to the State Treasury, in accordance with the Bank of Israel Law.

(b) *Income*

The Bank's income from ordinary activities practically doubled in 1974: IL 1,204 million as compared with IL 647 million in 1973. The principal income item was once again interest receipts on assets in foreign currency; these totalled IL 658 million (\$ 145 million), as against IL 367 million (\$ 87 million) in 1973. There were two main reasons for the increase in this income item: (1) the rise in interest rates abroad; and (2) the higher average level of the reserves on account of which the income was received—this despite the considerable decline in these reserves in the course of the year. These amounts do not include the rise in the value of total assets in foreign currency, as a result of the upward revaluation of European currencies in relation to the dollar, which totalled an additional \$ 68 million in 1974 (including assets that do not come under the heading of foreign currency reserves).

Interest on the Government's debt to the Bank, the second largest income item, totalled IL 289 million, as against IL 199 million in 1973. Part of the increase derived from the rise in income on the provisional advances, as a result of the substantial increase in these in the first half of the year and of the raising of the rate of interest that the Government paid the Bank on this credit.

Income from net rediscounts likewise rose considerably, totalling IL 133 million, as against IL 27 million in 1973. This was due both to the increase in the average annual surplus in this form of credit (from IL 1,700 million in 1973 to IL 3,060 million in 1974) and to the increase in average net interest collected by the Bank (from 1.6 percent in 1973 to 4.3 percent in 1974). The low interest rate charged by the Bank for rediscounting enables the banks to supply directed credit funds at relatively low interest rates without substantially affecting the return on their participation in the funds. The rise in the interest rate received by the Bank of Israel for rediscounting in 1974 is connected with the change in the structure of the funds, whereby the banks curtailed their participation in the sources of the directed credit while the Bank of Israel increased its participation.

Income from interest on deficits in required liquidity of the banks with the Bank of Israel rose by IL 20 million in 1974, and stood at IL 47 million.

(c) *Expenditure*

The Bank's expenses on account of its ordinary activities rose slightly in 1974, relative to income, and totalled IL 565 million (without allocations for bad debts in the amount of IL 236 million), as against IL 493 million in 1973.

Since the deposits in Israeli currency of the banking institutions with the Bank of Israel did not increase, there was no significant change in interest payments to the

banks in this account. On the other hand, there was an increase in the amount of interest payments to the banking institutions on account of their foreign currency deposits with the Bank of Israel which had their source in deposits of recipients of personal restitution payments from Germany. These deposits rose substantially in 1974, as a result of the appreciation of the German mark against the dollar and the devaluation of the Israeli pound.

5. CURRENCY ISSUE

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

The value of IL 100 banknotes in circulation continued to rise in 1974, bringing their share in the total value of banknotes from 66.9 percent in 1973 to 72.3 percent. On the other hand, the share of all other banknotes and of coins in circulation declined. This development was particularly striking this year, against the background of the absolute decrease that occurred in the overall value of IL 50 and IL 10 banknotes.

This continuation of the rising trend in the overall and relative value of IL 100 banknotes, which has been evident ever since these were first introduced in February 1969, reflects the relative decline in the value of money as a result of the rapid price increases that have occurred in the last few years.

Acceleration of price increases in the economy leads to two opposite effects: on the one hand, the demand for a particular denomination increases at the expense of lower denominations; on the other hand, there is a tendency to curtail its use, at the expense of higher denominations. With respect to IL 100 banknotes, of course, only the first factor operates, since there are no higher denominations. But the two influences operate on all other denominations, including the IL 50 banknotes. The data indicate that the factor operating to reduce their use at the expense of higher denominations was the dominant one in 1974.

The share of IL 50 banknotes in circulation declined from 21.8 percent in 1973 to 16.8 percent in 1974. IL 10 banknotes dropped from 6.6 percent to 5.4 percent, and IL 5 banknotes from 1.3 percent to 1.2 percent. The value of banknotes and coins of IL 1 and IL 0.50 at the end of 1974 was IL 59.6 million, of which IL 3.8 million was in banknotes and IL 55.8 million in coin. Since not all banknotes of IL 1 and IL 0.50 were turned in, it may be assumed that most banknotes in these denominations are in the hands of collectors or have been lost.

The rise in the relative and absolute value of the IL 100 banknotes, at the expense of the relative and absolute decline in the value of IL 50 and IL 10 banknotes also finds expression in the number of banknotes in this denomination.

The total number of banknotes in circulation rose by approximately four million, from 61.1 million to 65.1 million in 1974. The increase in fact stems from the rise by approximately five million in IL 100 banknotes, which totalled 24 million at the end of 1974. On the other hand, there was a decline of about one million in IL 50 banknotes (to 11.2 million), and a slight decline in IL 10 banknotes (to 17.8 million). IL 5 banknotes rose by about half a million, standing at 7.8 million at the end of 1974.

The relative weight of coins denominated in agorot and IL 1 and half-pound coins did not change during the year; they accounted for 2.4 percent of total currency in circulation. The share of these coins in the total value of coins in circulation rose slightly: from 97.2 percent to 97.7 percent in 1974.

During the year under review IL 46.8 million worth of new agorot, half-pound, IL 1, and commemorative coins were put into circulation, as against IL 22.3 million worth in 1973. The issue of the Ben-Gurion gold coin, in the amount of IL 23.6 million, accounted for the bulk of this increase.

(b) *Damaged currency*

In 1974, 85,804 packages of banknotes (each containing 1,000 notes) were classified, as against 68,187 packages in 1973—an increase of 25.8 percent. The number of coin sacks counted in 1974 was 313,314. The value of unusable banknotes destroyed was IL 733 million, and 798 applications to exchange damaged currency were submitted, in the amount of IL 292,284.78. The Bank approved 632 applications, totalling IL 214,574.

(c) *Supply of cash and agencies of the Bank*

It is the task of the Bank of Israel to supply adequate amounts of currency. It also regulates surpluses and shortages of currency in the banking institutions. The Bank has eight agencies for the supply of currency, located in Ashdod, Beersheba, Eilat, Hadera, Netanya, Petah Tikva, Rehovot, and Tiberias. These agencies supply currency to banking institutions in the provincial towns and absorb their surplus currency. In addition to these agencies, the Bank maintains agencies in the head offices of Bank Leumi and Bank Hapoalim in Tel Aviv and Haifa and in the main branch of Bank Leumi in Jerusalem.

The turnover in the Bank's agencies in the three main cities in 1974 totalled IL 5,813 million, payments amounting to IL 3,184 million and receipts to IL 2,629 million. In 1973 turnover was IL 4,053 million, payments amounting to IL 2,488 million and receipts to IL 1,565 million. Turnover in the agencies in the

Table XX-6

BANKNOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1973-74

End of period	1973		1974	
	IL'000	%	IL'000	%
Banknotes				
IL ½	492	—	494	—
IL 1	3,309	0.1	3,316	0.1
IL 5	35,777	1.3	39,122	1.2
IL 10	185,481	6.8	178,044	5.6
IL 50	613,190	22.6	558,119	17.6
IL 100	1,879,663	69.2	2,398,957	75.5
Total	2,717,912	100.0	3,178,052	100.0
Coins				
1 pruta	5	—	5	—
5 prutot	48	—	48	—
10 prutot	283	0.3	283	0.2
25 prutot	164	0.2	164	0.1
50 prutot	494	0.5	494	0.3
100 prutot	331	0.3	332	0.2
250 prutot ^a	600	0.6	605	0.4
500 prutot (silver)	22	—	22	—
1 agora	2,398	2.4	2,566	1.8
5 agorot	4,480	4.5	5,026	3.4
10 agorot	10,973	11.0	13,149	8.9
25 agorot	4,055	4.0	4,792	3.3
50 agorot	9,995	10.0	11,881	8.1
IL 1	36,748	36.7	43,875	29.9
Total	70,596	70.5	83,242	56.6
Commemorative coins				
IL ½	28	—	28	—
IL 1	289	0.3	289	0.2
IL 5 (silver)	2,698	2.7	2,943	2.0
IL 10 (silver)	12,426	12.4	16,069	10.9
IL 20 (silver)	210	0.2	210	0.1
IL 25 (silver)	—	—	6,690	4.6
IL 50 (silver)	2,249	2.2	2,249	1.5
IL 100 (gold)	7,896	7.9	7,896	5.4
IL 200 (gold)	3,750	3.8	3,750	2.6
IL 500 (gold)	—	—	23,625	16.1
Total	29,546	29.5	63,749	43.4
Total coin	100,142	100.0	146,991	100.0
Total currency in circulation	2,818,054		3,325,043	
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value	5,917		5,917	
Total, net	2,812,137		3,319,126	

^a Including paper tokens and silver coins.

provincial towns totalled IL 1,860 million (IL 1,183 million in withdrawals and IL 677 million in deposits), as against IL 1,352 million in 1973 (IL 890 million in withdrawals and IL 462 million in deposits).

Total currency transferred by the Bank of Israel to the agencies was IL 751 million in 1974, as against IL 558 million in 1973. Total currency transferred to the Bank by the agencies totalled IL 188 million, as against IL 100 million in 1973.

(d) Coins in circulation

In 1974 approximately 46 million coins were minted for the Bank of Israel at the Israel Mint in Jerusalem, of which some 31 million were minted during the Hebrew year 5734 (1974/75). In addition, there were minted at the Royal Canadian Mint at Ottawa 34 million 1-agma coins, approximately 18 million 10-akorot coins, and four million IL 1 coins. All the coins minted in Canada in 1974 bear the Hebrew date 5734. Following is a breakdown of the mintings:

Coin	In Israel		In Canada
	1974	Of which: in 5734	1974
1 agora	11,606,000	8,080,000	34,000,000
5 agorot	15,350,000	10,470,000	—
10 agorot	7,575,000	3,880,000	18,160,000
25 agorot	4,488,000	2,320,000	—
50 agorot	4,285,015	4,275,015	—
IL 1	3,087,000	2,287,000	4,000,000
Total	46,391,015	31,312,015	56,160,000

(e) Commemorative and special coins

In 1974 the Bank of Israel issued a commemorative coin on Independence Day to mark the work of Eliezer Ben-Yehuda in reviving the Hebrew language. It has a nominal value of IL 10, is made of sterling silver (900/1000), weighs 26 grams, and is 37 mm. in diameter. It was issued in ordinary and proof form.

As in previous years, the Bank also issued a Pidyon Haben (Redemption of the First-Born) coin, with the same nominal value, composition, weight, and diameter as

Table XX-7
COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,
1957/58 TO 1973/74

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
Independence Day coins — IL 10				
1966/67 Ordinary	Bern	234,589	—	234,589
1966/67 Proof	Kreshmer, Jm.	—	50,499	50,499
1967/68 (Jerusalem)	Bern	50,000	20,501	70,501
1968/69 (Peace)	San Francisco	40,000	20,000	60,000
1968/69 (Peace)	Kreshner, Jm.	20,199	—	20,199
1969/70 (Mikve Israel Centenary)				
Ordinary	Kreshmer, Jm.	47,704	—	47,704
Proof	Bern	—	22,500	22,500
1970/71 (Science-Based Industries)				
Ordinary	Jerusalem	22,700	—	22,700
Proof	Utrecht	30,000	17,501	47,501
1971/72 (Israel Aviation)	Jerusalem	50,000	15,000	65,000
1972/73 (Proclamation of Independence)	Jerusalem	125,000	41,500	166,500
1973/74 (Revival of Hebrew)	Jerusalem	130,000	50,000	180,000
Pidyon Haben (Redemption of the First-born)				
1969/70 Ordinary	Jerusalem	50,933	—	50,933
1969/70 Proof	San Francisco	—	15,500	15,500
1970/71 Ordinary	Jerusalem	30,201	—	30,201
1970/71 Proof	San Francisco	—	15,500	15,500
1971/72 Ordinary (with mint mark)	Jerusalem	30,000	—	30,000
1971/72 Ordinary (without mint mark)	Jerusalem	15,000	—	15,000
1971/72 Proof	Jerusalem	—	12,500	12,500
1972/73 Ordinary	Jerusalem	105,000	—	105,000
1972/73 Proof	Jerusalem	—	15,000	15,000
1973/74	Jerusalem	115,000	45,000	160,000
Special issue (silver) — IL 10				
1970/71 (Let My People Go)	Jerusalem	75,000	20,300	95,300
IL 25 Ben-Gurion				
1974/75 Ordinary	Jerusalem	136,000	—	136,000
1974/75 Proof	Bern	—	75,000	75,000
Gold coins				
IL 20 1959/60 (Herzl)	Bern	10,510	—	10,510
IL 50 1962/63 (Weizmann)	Bern	—	6,202	6,202
IL 100 1962/63 (Weizmann)	Bern	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Bern	6,014	1,502	7,516
IL 100 1966/67 (Victory)	Bern	—	9,004	9,004
IL 100 1967/68 (Jerusalem)	Bern	—	12,500	12,500
IL 100 1968/69 (Peace)	Utrecht	—	12,500	12,500
IL 100 1970/71 (Let My People Go)	Bern	—	10,001	10,001
IL 500 1974/75 (Ben-Gurion)	Bern	—	53,497	53,497
Independence Day coins (gold)				
IL 50 1972/73	Bern	—	31,250	31,250
IL 100 1972/73	Bern	—	28,750	28,750
IL 200 1972/73	Bern	—	18,750	18,750

Table XX-7 (cont.)

**COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,
1957/58 TO 1973/74**

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
Half-shekel coins				
1960/61	Utrecht	20,004	5,000	25,004
1961/62	Utrecht	20,000	10,000	30,000
Hanukka coins — IL 1				
1958/59 (Tora is Light)	Bern	160,000	5,000	155,000
1959/60 (Degania)	Utrecht	50,000	5,000	55,000
1960/61 (Henrietta Szold)	Utrecht	16,883	3,000	19,883
1961/62 (Maccabees)	Utrecht	18,916	9,428	28,344
1962/63 (Italian Hanukka Lamp)	Bern	9,657	6,040	15,697
1963/64 (North African Hanukka Lamp)	Utrecht	10,000	5,500	15,500
1972/73 (Russian Hanukka Lamp)	Jerusalem	75,000	22,500	97,500
1973/74 (Babylonian Hanukka Lamp)	Jerusalem	95,000	45,000	140,000
1974/75 (Damascus Hanukka Lamp)	Jerusalem	124,825	75,000	199,825
Silver coins denominated in prutot				
250 prutot	Birmingham	44,225	—	44,225
500 prutot	Birmingham	43,767	—	43,767
Independence Day coins — IL 5				
1957/58 (Menora)	Utrecht	98,051	2,000	100,051
1958/59 (Ingathering of the Exiles)	Bern	27,249	4,792	32,041
1959/60 (Herzl)	Bern	34,472	4,923	39,395
1960/61 (Bar Mitzva)	Utrecht	19,541	4,561	24,102
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	7,660	23,912
1965/66 (The People of Israel Lives On)	Utrecht	32,503	10,500	43,003
1966/67 (Eilat)	Utrecht	30,250	7,755	38,005

the Ben-Yehuda coin. It is intended for use in the ceremonial redemption of the first-born from the priesthood. The obverse quotes the Biblical verse, "All the first-born of thy sons shalt thou redeem," as in previous years, while a slight change was made on the reverse. The ordinary coin has a smooth circumference, while the mint coin has a grooved circumference.

Another coin in the Hanukka series was issued at the end of 1974. It has a nominal value of IL 10, is made of silver (500/1000), weighs 20 grams, and is 34 mm. in diameter. Its theme is an eighteenth century Damascus Hanukka lamp, and the coin was issued in both ordinary (smooth circumference) and proof (grooved circumference) form.

In December 1974 a special commemorative coin was issued on the first

anniversary of the death of David Ben-Gurion. The figure of Ben-Gurion is the main theme of the coin, which was issued both in gold and in sterling silver. The face value of the silver coin (issued both in ordinary and mint form) is IL 25. It contains 935/1000 parts silver, weighs 26 grams, and is 37 mm. in diameter. The gold coin has a face value of IL 500, contains 900 parts of gold to 100 parts of copper, weighs 28 grams, and is 35 mm. in diameter.

As in the past, the Bank again issued a series of special coins, identical with the ordinary coins in circulation and bearing the Hebrew date 5734, but minted on special blanks with a mint mark in the form of a tiny Star of David. All six existing denominations—1, 5, 10, 25 agorot, 1/2 pound, and IL 1—were issued in this series of 100,000 units per denomination.

(f) Committee for the planning of bank notes and coins

This committee, headed by Supreme Court Justice Alfred Witkon, assists the Bank in planning the banknotes and coins to be issued and recommends to the Governor of the Bank the designs it has approved from among those submitted by artists participating in closed competitions. It was also responsible for the actual planning of another new series of banknotes, the first two denominations of which were scheduled to go into circulation at the beginning of 1975.

Members of the committee are Dr. A. Witkon (chairman), Mr. M. Ardon, Dr. A. Biran, Mr. I. M. Brin, Mrs. E. Cohen, Mr. R. Dayan, Mr. S. Golan, Dr. R. Hecht, Mr. G. Keich, Mr. A. Kindler, Dr. D. Karavan, Mr. D. Reisinger, Mr. S. Shahin, Dr. M. Spitzer, and Mr. Ariel Weinstein (who replaced the late T. R. Lurie). Messrs. Dan Reisinger of Tel Aviv and Shwaki Shahin of Tarshihaa are newly-appointed members.

6. CREDIT DIRECTED BY THE BANK OF ISRAEL

The Credit Department of the Bank of Israel is responsible for the control of directed credit, in which task it is assisted by a number of committees in which representatives of various Government ministries participate. This credit is granted for short terms, mainly through funds jointly administered by the Bank of Israel and the commercial banks. It is designed primarily to meet the financing requirements of export industries and to provide working capital to industry and agriculture. The types of funds through which the credit is given were established in accordance with the destinations and the requirements of financing, as explained in detail below.

The network of directed credit makes it possible to allocate part of the credit in

Table XX-8
STRUCTURE AND TERMS OF DIRECTED CREDIT FUNDS, 1973-74
 (percentages)

	Source of funds as at end of 1973				Source of funds as at end of 1974			
	Com- mercial banks	Bank of Israel		Interest rate 1973	Com- mercial banks	Bank of Israel		Interest rate 1974
		Liquidity exemptions	Redis- counts			Liquidity exemptions	Redis- counts	
Exports funds in foreign currency								
Imports for export production	65	25	10	6	15	20	65	6
Export shipments								
Regular	65	25	10	6	15	20	65	6
Special	75	25	—	9	15	20	65	11
Diamonds	—	—	100	6	—	—	100	6
Export funds in Israeli currency								
Export production	65	25	10	6	15	20	65	6
Citrus and cotton	25	25	50	6	15	20	65	6
Indirect exports	50	10	40	9	15	20	65	11
Working capital funds in Israeli currency								
Industrial credit fund	60	20	20	11	50	20	30	13
General fund	50	35	15	11	50	20	30	13
Agricultural credit fund	45	45	10	11	50	20	30	15
Supervised credit fund	37.5	62.5	—	11.5	50	50	—	15

the economy and to subsidize favored branches by making credit available at interest lower than the market rate. The low interest is made possible by the participation of the Bank of Israel, which charges extremely low interest on its share in the financing of the funds. Most of the credit designated for export branches is given at 6 percent interest, partly in Israeli currency and partly in foreign currency. The remainder of the credit is given in working-capital funds in Israeli currency, at interest of 11-15 percent a year (details on the composition of the sources of financing of the funds; in Israeli and in foreign currency, and the rates of interest charged, are presented in Table XX-8).

(a) *Main developments*

In 1974 there was a considerable acceleration in the rate of increase of directed credit in the economy. The balance of directed credit in Israeli currency rose by 85 percent, totalling IL 3,166 million at the end of the year. The balance of directed credit in foreign currency rose by 80 percent, to IL 2,477 million. This rapid increase in directed credit reflects the rise that occurred in the financing requirements of the economy as a result of developments in the economic and monetary sphere and of the revaluation of credit in foreign currency as a consequence of devaluation. (A detailed discussion of the development of directed credit as part of total credit to the public, and of the use of the system of directed credit to implement the monetary policy of the Bank of Israel, will be found in Chapter XVII.)

In the first half of 1974 the increase in directed credit was relatively moderate. The bulk of the increase derived at first from the greater amount of special credit that was granted in order to ease the financing needs of the economy in the emergency and its return to normal economic activity. Part of the credit was given from a new fund, established to finance the purchase of imported haulage vehicles. Afterwards the expansion of directed credit stemmed mainly from the increase in the export funds, as a result of higher estimates of exports financed by means of these funds. The upswing of the estimates began in April, which is the beginning of the financing year for the export funds.

In the second half of the year there was an accelerated rise in directed credit. This was largely the result of the raising of the financing ceilings in the working-capital funds and of the activation of a new fund to supply working capital. In this special fund credit was given against Employers' Loan certificates and under the linkage terms of that Loan. Later, the expansion of the export funds continued, a result of the seasonal increase in the fund for financing citrus and cotton and of the raising of the financing rates per export dollar in million that derived from the revaluation of the funds denominated in foreign currency, following the devaluation of the Israeli pound in November.

(b) *Export funds*

The Export Production Fund and the Import-for-Exports Fund finance export production (the former in Israeli and the latter in foreign currency), while the Fund for Financing Export Shipments grants foreign currency credit to cover the cost of shipments. Most of the credit to the individual recipient is granted on the strength of a credit book, which stipulates his ceiling for the year, based on his estimated export. The Indirect Export Fund helps to finance enterprises supplying products to direct exporters. In addition to these general funds there are also two funds for particular branches—the Diamond Fund and the Cotton Fund—which likewise finance the production and shipping stages. Occasionally, special credit is granted to exporters outside the framework of the funds. That credit, whose volume is limited, is given to finance special export transactions, such as long-term export transactions, financing of stocks for export that has been held up because of the emergency situation, etc.

The balance of directed credit in the export fund rose by 68 percent in 1974, totalling approximately IL 3,700 million at the end of the year. The credit component in Israeli currency amounted to IL 1,490 million, most of it having come from the export production fund. The credit component in foreign currency at the end of the year totalled IL 2,210 million, of which more than half came from the Diamond Fund.

The annual average balance of export credit better reflects the development of such financing, since it is less affected by the slump in exports towards the end of 1973 as a result of the October War and by the devaluation of the Israeli pound in November 1974.

The increase in this average balance amounted to 28 percent in 1974, the Israeli-currency component rising by 37 percent and the foreign-currency component by 23 percent. Excluding the effect of the devaluation, the foreign-currency component in the export funds rose by only 14.5 percent. The increase in the balance of credit in foreign currency, excluding diamonds and deducting the effect of the devaluation, was only 5 percent in 1974. The increase in directed credit for export in 1974, in local and foreign currency (excluding diamonds) was thus less than the increase in industrial exports. The accepted financing arrangements in the Import-for-Exports Fund and in the Fund for Financing Export Shipments enabled exporters to increase their financing to a greater extent than they did, but apparently apprehensions regarding devaluation made many importers wary about accepting credit denominated in foreign currency, even though it was given at low interest.

1. Export production funds

Most of the credit in the Export Production Fund and the Import-for-Exports Fund is given by means of credit books, in which the credit quota of the exporter is stipulated on the basis of the estimated annual exports of the enterprise. This estimate is multiplied by the rate of financing per export dollar, as fixed from time to time for the various branches and in accordance with the turnover ratio of the enterprise's financing. (In general, the branch turnover determines the required period of credit in the branch, for purposes of export production.)

The rate of financing in the export financing funds at the beginning of the year stood at IL 4 per dollar (which was equivalent to 74 percent of the effective exchange rate in industrial exports). As a result of the rising prices of inputs for export production it was decided to raise the rate of financing to IL 4.60 per dollar

Table XX-9
DIRECTED CREDIT FOR EXPORT, 1973-74
(IL million)

	1973		1974		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	End of year	Average balance
1. Credit from export funds						
A. In Israeli currency						
Export production	658.7	585.4	978.0	785.0	48.5	34.2
Citrus and cotton	229.0	162.2	390.8	222.2	70.7	37.0
Indirect exports	84.9	56.0	121.4	92.7	43.0	65.5
Total	972.6	803.6	1,490.2	1,100.5	53.2	36.9
B. In foreign currency						
Imports for export production	91.5	97.4	202.0	113.8	120.8	16.8
Export shipments	417.6	509.6	798.9	561.3	78.5	10.1
Diamonds	689.5	649.8	1,206.5	865.8	75.0	33.2
Total	1,228.6	1,256.8	2,207.4	1,540.9	79.7	22.6
C. Total credit in exports funds	2,201.2	2,060.4	3,697.6	2,641.4	68.0	28.2
2. Credit from sources other than funds						
A. In Israeli currency	1.7		51.7			
B. In foreign currency	21.5		38.9			
Total credit from sources other than funds	23.2		90.6			
3. Total directed credit for export (1 + 2)	2,224.4		3,788.2		70.3	

as of the beginning of September 1974. After the change in the exchange rate of the Israeli pound in November 1974 the rates of financing in the export productions fund were raised in two stages: immediately after the devaluation the rate in the Import-for-Exports Fund was raised to IL 5.00 per dollar, and in the beginning of January 1975 the rates of financing in both funds were raised to IL 5.30 per dollar (equivalent to 70 percent of the effective exchange rate).

The rapid rise in prices that occurred in 1974 intensified the pressure for enlarging directed credit in Israeli pounds, and this particularly against the background of the increase of interest rates for free credit. In order to prevent the exploitation of cheap credit by exporters who did not meet their export quotas, the interest rate on excessive credit (i.e., the amount by which the credit actually utilized exceeds that to which he is entitled according to his actual export) was raised in 1974 to 24 percent.

The Export Production Fund reached a volume of IL 978 million at the end of 1974; of this sum approximately 90 percent was earmarked for financing industrial export. The value of industrial export financed in 1974 came to \$ 790 million, which constitutes over 80 percent of total industrial exports during the year (excluding diamonds). The average turnover ratio for total industrial export was 3.46 months, i.e., a financing cycle of approximately 3 1/2 months.

The balance in the Import-for-Exports Fund at the end of 1974 amounted IL 202 million. The annual average balance of credit in this fund declined from \$ 23 million in 1973 to \$ 21.5 million. After the devaluation of the Israeli pound, an increase in the utilization of credit from this fund became evident at the end of 1974, though the utilization still fell far short of the financing ceiling that had been approved in accordance with export estimates.

2. Export shipment funds

These funds finance the credit given by the exporter to his overseas customers. Such financing is granted concurrently with the execution of the export, in accordance with the f.o.b. price of the shipment in foreign currency. Until the change in the exchange rate in November 1974 the financing was granted at the rate of IL 4.20 per dollar, i.e., full financing at the official exchange rate. After the devaluation, the rate of financing was raised in two stages: immediately after the devaluation, to IL 4.60 per dollar, and at the beginning of 1975 to the official rate of the Israeli pound, i.e., IL 6.00 per dollar. The usual financing period is until receipt of payment for the shipment, but not more than 190 days. Financing for a longer period is granted, in accordance with the decisions of a committee that deals with this matter, from a special export shipment fund, which charged interest of 9

percent until the end of July 1974 and 11 percent thereafter.

Approximately 95 percent of total industrial exports (excluding diamonds) is financed by the Export Shipment Fund. The annual average balance of credit in 1974 was equivalent to 13.5 percent of total industrial exports, as against 18.5 percent in 1973 and 20 percent in 1972. This process, as well as the decline in the average balance in the Import-for-Export Fund in dollar terms, was affected by the tendency to hold down foreign currency obligations owing to anticipations of devaluation. In addition, the banks apparently made available to exporters alternative, unsubsidized sources in foreign currency to finance imports-for-export and export shipments.

3. Diamond Fund

This fund supplies foreign currency credit, and is designed to finance the branch in the production and shipment stages. Actually, the branch does not have financing of production, in the sense that other export branches do, but rather the financing of diamond stocks at all stages of polishing and commerce—from the import of the rough stones until payment for the exported diamonds is received. These diamonds serve as collateral, part of them being physically deposited with the financing bank and the rest, which is withdrawn for polishing or sale, is covered by a trust agreement, which stipulates that the bank shall remain in control of the stock.

The fluctuations in the Diamond Fund are affected by withdrawals and deposits of the diamond dealers, the limit of withdrawals with respect to each dealer being the financing permitted under the directives of the Bank of Israel (calculated as a percentage of the value of the collateral). These movements do not necessarily correspond to the fluctuations in the actual or commercial activity in the diamond industry. The average balance of credit in the diamond industry in 1974 amounted to \$ 191 million, an increase of about 23 percent. This rise took place at a time when there was practically no increase in diamond exports while there was a decline in diamond imports, so that there was a reduction of diamond stocks in the country. The increase in credit, despite the decline of diamond stocks in 1974, derived mainly from the extension of the average period of deposit of security, including export diamonds handed over to the banks as collateral, for the purpose of financing diamond stocks. The absence of a connection between the extent of financing and exports in the diamond industry found expression in the steep increase that occurred in the rate of financing per dollar of value added. This measure steadily rose from \$ 3 of financing per dollar of value added in export in 1972 to \$ 3.7 in 1973 and \$ 4.5 in 1974.³

³ On the assumption of an average turnover ratio of six months from the import of the raw material until the receipt of payment for the polished diamonds. For the sake of

4. Citrus and cotton fund

The Fund for Financing the Export of Citrus Fruit and Cotton finances the costs of cultivation, harvesting, beating (of flax), and export shipment of cotton and citrus fruit. Each year financing quotas are fixed, based on cash flows prepared by the boards that organize export. The credit quota for the financing of citrus rose from IL 148 million on an annual average for the 1973/74 season to IL 255 million for 1974/75—an increase of 72 percent, which reflects principally the rise in production costs. A similar phenomenon occurred in cotton financing, where the credit quota was raised from IL 25.5 million on an annual average in the 1973/74 season to IL 37.5 million in 1974/75.

Withdrawals in the Citrus Fruit and Cotton Fund are affected by strong seasonality, with the volume of financing at the high point being several times the annual average, a fact that is striking in the fund's balance at the end of the years 1973 and 1974 (see Table XX-9). It should be noted that part of the increase in the credit quota for citrus in 1974/75 which came in the wake of the devaluation of the pound, went into operation only at the beginning of 1975, and was not expressed in the data for 1974. Hence, the average credit in the fund in 1974 rose by only 37 percent, totalling IL 222 million at the end of the year.

(c) Working capital funds for domestic production

Working capital funds, excluding export funds, rose substantially in 1974. The balance in these funds at the end of 1974 was twice the figure for the end of 1973. The average credit balance in 1974 was 50 percent higher than in the year before. The bulk of the rise stemmed from the activation of the Employers' Loan Fund (see below).

1. Working capital funds for industry

These funds are designed to provide cheap working capital for preferred industrial enterprises—i.e., enterprises located in development areas "A" or "B" and those who export at least 40 percent of their sales. Eligibility for these loans is determined in accordance with various criteria, such as: the average amount of stock, the share of own capital in total liabilities, the volume of credit received by the firm from other directed-credit funds, and the like. The funds are administered by an interministerial committee consisting of representatives of the Ministry of Commerce and Industry, the Ministry of Finance, and the Bank of Israel.

At the beginning of July 1974 a working-capital fund for industry was comparison: this measure for all industry (excluding diamonds) steadily declined in the last two years, from \$ 2.3 of financing per dollar of value added in 1973 to \$ 1.9 in 1974.

Table XX-10

DIRECTED CREDIT FOR DOMESTIC PRODUCTION, 1973-74

(IL million)

	1973		1974		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	Balance at end of year	Average balance
1. Credit from working capital						
Industrial ^a credit fund (incl. Artisans Fund)	197.2	196.3	241.5	211.9	22.5	7.9
Agricultural credit fund	151.3	126.2	287.6	197.9	90.1	56.8
Supervised credit fund	85.7	76.1	109.8	102.7	28.1	35.0
General fund	56.7	48.6	64.1	64.1	13.1	31.9
Employers' loan fund	—	—	380.3	92.0	—	—
Total	490.9	447.2	1,083.3	668.6	120.7	49.5
2. Credit from sources other than funds						
Liquidity exemptions	62.8		62.9		0.2	
Rediscounts in Israeli currency	1.9		30.5		—	
Rediscounts in foreign currency	123.1		186.2		51.3	
Total	187.8		279.6		48.9	
3. Total directed credit for domestic production	678.7		1,362.9		100.8	

^a Until July 3, 1974 the fund was divided into two sub-funds (A and B).

established by amalgamating two separate funds: Fund "A" and Fund "B." The balance in the two funds close to the date of amalgamation was IL 196 million. In the wake of the unification the credit ceiling in the new fund was raised to IL 280 million and the interest rate to the borrower was raised from 11 to 13 percent p.a.

In addition to these funds two Artisans' Funds are in operation. At the end of 1974 the credit framework in these funds stood at IL 14 million. Loans from the Artisans' Funds are administered through the Artisans' Bank and their terms are similar to those of the Working-Capital Funds for industry.

The balance of credit in the Working-Capital Funds for Industry and Artisans totalled IL 242 million at the end of 1974, a rise of 22.5 percent during the year. In 1974 credit rose by only 7 percent on an annual average. This moderate rise was the result of a partial freezing of the activities of the fund following the activation of the Employers' Loan Fund and the raising of the financing rates in the export funds. The credit given to industrial enterprises from the Employers' Loan Fund in the period July-December 1974 amounted to IL 270 million. Total credit given to

industry, including the credit in the Employers' Loan Fund, totalled approximately IL 510 million at the end of 1974. This constitutes an increase of 160 percent in the balance of credit during the year and an increase of 40 percent in the average credit balance. In the framework of these arrangements directed credit for industry became more expensive, since the credit in the Employers' Loan Fund is linked to the Consumer's Price Index.

2. Funds for the financing of agriculture

A working-capital fund for agriculture supplies credit to farmers on an agreed distribution basis for various agricultural crops. This basis is determined in agreements with the Ministry of Agriculture, which stipulates the approved credit framework for the agricultural production year. The credit framework for the 1973/74 agricultural year stood at an annual average of IL 171 million. During 1974 the framework was broadened three times: in May, on account of the increase in production costs; in September, following the adoption of a new arrangement for 1974/75; and in December, owing to the higher prices resulting from the devaluation. The total approved framework for 1974/75 amounted to IL 302 million, which is an increase of 77 percent over the framework of the previous year. The interest rate was raised in June to 13 percent p.a., and in December to 15 percent. The balance of actual credit in the Agricultural Working-Capital Fund rose by 90 percent during 1974, totalling IL 288 million at the end of the year. The increase in the average balance of credit during 1974 was 57 percent.

The Supervised Credit Fund provides credit to agriculture under a financing plan based on a production plan for the farms controlled by the Ministry of Agriculture and under the supervision of the financing institution. The framework of the fund in 1973/74 stood at an annual average of IL 100 million, and it was increased to IL 135 million in December 1974, simultaneously with the raising of the interest rate to 15 percent p.a. The actual credit balance in the Fund rose by 28 percent during the year, totalling IL 110 million at the end of the year.

Farmers also obtain directed credit in the framework of the general fund and the Employers' Loan Fund. Total directed credit made available to agriculture in the framework of the various funds totalled IL 320 million in 1974 which, on an annual average, constitutes an increase of 55 percent, which was higher than the increase in agricultural products at current prices in the corresponding period (see Chapter XII).

3. Employers' Loan Fund

In June 1974 it was decided to activate a special fund for working capital that would be granted against the collateral of employers' Compulsory Loan certificates. The Employers' Loan Fund was established at a time when the banks had appreciable liquidity deficits, and it was meant to solve the liquidity problems of enterprises that needed additional working capital owing to the increase in input prices in the course of the year.

Credit from the fund was granted under the terms of the Compulsory Loans: interest of 5 percent p.a., the principal linked to the Consumer's Price Index, and repayment in three equal monthly payments beginning 25 months after receipt of the credit. This credit was financed entirely by the Bank of Israel, and was allocated to the various enterprises by a joint committee of the Bank of Israel and the Ministry of Commerce and Industry, in accordance with criteria laid down in advance. At the time of the establishment of the fund it was decided that the financing framework would be IL 200 million, for industrial enterprises exclusively. Towards the end of the year the volume of credit in the fund was increased and the fund expanded to encompass other branches too. The fund's balance at the end of 1974 was IL 380 million, broken down by branches as follows: for industrial enterprises, IL 269 million; for the public-transport cooperatives, IL 72 million; for agricultural companies and purchasing organizations, IL 10 million; for hotels and travel agencies, IL 4 million; and for the oil and electric companies, IL 25 million.

New enterprises, and other enterprises that had no equity in the Compulsory Savings Loan, also obtained credit from a special fund at 22 percent interest p.a. This credit was given by means of rediscounting from the Bank of Israel; by the end of 1974 it totalled IL 6 million.

(d) Emergency financing

After the October 1973 war special credit arrangements were put into effect which were designed to ease the financing requirements of the economy under emergency conditions, and to assist economic branches that had been hit by the war and restore them to normal economic activity. This credit was also designed to encourage the import of equipment and transport vehicles, a shortage of which had been felt after the war. The balance of emergency credit at the end of 1974 totalled IL 555 million. Of that sum, credit of IL 492 million was financed and directed by the Bank of Israel, in comparison with credit of IL 178 million in 1973 that was financed and directed entirely by the Bank. Most of the emergency credit at the beginning of 1974 was short-term credit, while at the end of the year it was mostly

long-term credit and mainly for financing the import of vehicles and earthwork equipment. (Table XX-11 presents the principal financing arrangements in detail.)

After the war, special credit was granted for financing export merchandise that had been held up at the country's ports on account of the emergency situation. This credit was financed entirely by the Bank of Israel by means of rediscounting, and it was given at interest of 11 percent p.a. The balance of credit at the end of 1973 was IL 55 million, and it was repaid in full during the first quarter of 1974.

During the same period an emergency credit framework was established for the branches of the economy, of which IL 75 million was allocated to industry, IL 30 million to agriculture, and IL 10 million to artisans. The credit was financed entirely by the Bank of Israel by means of rediscounting, and it was given for a period of six months at interest of 16.5 percent p.a. The balance of credit at the end of 1973 totalled IL 86 million, and it was repaid completely by the middle of 1974. In March an additional emergency credit framework was set up, in an amount of IL 11 million, for the tourism branch. The balance of this credit, which was given under similar terms, was approximately IL 3 million at the end of 1974.

Table XX-11

EMERGENCY CREDIT BY MEANS OF DIRECTED CREDIT, 1973-74

	Interest (percent)	Credit balances (IL million)		
		End of 1973	End of 1974	Increase or decrease (-)
A. Credit fully financed by Bank of Israel				
1. Export shipments	11.0	54.5	—	-54.5
2. Branches of the economy	16.5	86.1	2.7	-83.4
3. Owners of mobilized trucks and import of parts	14.5-16.5	2.3	15.2	12.9
B. Credit directed by Bank of Israel				
1. Emergency truck fund	11.0	34.9	367.5	332.6
C. Credit with participation of Bank of Israel				
1. Import of additional trucks, earth- work equipment and buses	11.0-14.0	—	106.9	106.9
Of which:				
Bank of Israel's participation	—	—	74.7	74.7
2. Self-employed reservists	11.0	—	63.0	63.0
Of which:				
Bank of Israel's participation	—	—	31.5	31.5
Total emergency credit		177.8	555.3	377.5
Of which: Financed or directed by Bank of Israel		177.8	491.6	313.8

In addition the Bank of Israel, by means of rediscounting or release from liquidity requirements, granted special emergency credit in connection with the postponement of payment of debts to the banks, to owners of transport vehicles, buses, and mobilized equipment as well as for the import of spare parts for transport vehicles. The balance of this credit at the end of 1974 amounted to IL 15.2 million.

In December 1973 a fund was established for the financing of emergency transport vehicles that had been imported during the emergency period. This fund is administered by the Bank of Israel, with the assistance of the banks and the Ministry of Finance. The rate of financing in the fund is 85 percent of the price of the vehicle on the road. The credit is given for a period of six years and at interest of 11 percent p.a. The balance of credit in this fund at the end of 1974 was IL 367 million.

The Bank of Israel also participated in the financing of other arrangements of directed credit during the emergency, without taking part in their administration.

In February 1974 an additional arrangement was introduced for the financing of transport vehicles that would be imported by June 19, 1974. The rate of financing in this framework was 75 percent of the price of the vehicle. The balance of this credit, which was given for five years at interest of 14 percent p.a., totalled IL 38 million at the end of the year. The Bank of Israel participates in this sum, to the extent of IL 26 million, by means of release from liquidity requirements, and the remainder is financed by banks.

In March 1974 an arrangement was made for the emergency financing of the import of earthwork equipment for purchasers of equipment who would open documentary credit for import by the end of June 1974, provided that the equipment would arrive in Israel not later than March 1, 1975. The balance of this credit, which was given under terms similar to those of the previous framework, totalled IL 64 million at the end of 1974. By means of rediscounting in foreign currency, the Bank of Israel participated in this sum to the extent of IL 45 million, and the remainder was financed by banks.

In January 1974 an arrangement was established to aid self-employed workers whose source of livelihood had been seriously affected by protracted Reserve duty. The Ministry of Finance and the National Insurance Institute participate in half of the fund, and the other half is provided by the Bank of Israel by means of release from liquidity requirements. The loans in this fund are approved by regional committees of the National Insurance Institute for a period not longer than 24 months and at interest at 11 percent p.a. The balance of the fund at the end of 1974 was IL 63 million.

Not included in this survey is special credit of IL 540 million granted to the public at the end of 1973 to finance the purchase of the Voluntary War Loan in one payment instead of making the payments over a period of time. The reason for

excluding this item is that from the economic standpoint it is to be regarded as credit to the Government, so long as the public has not repaid its debt on account of purchasing the Loan certificates.

7. SUPERVISION OF BANKING AND FINANCIAL INSTITUTIONS

(a) *Institutions subject to supervision*

At the end of 1974 the Department of the Examiner of Banks at the Bank of Israel supervised 64 active banking and financial institutions, as compared with 66 at the end of 1973.

In 1974 a new commercial bank—the Israel Continental Bank Ltd.—began operations; it is the result of the joint initiative of Bank Hapoalim and the German concern Bank für Gemeinwirtschaft. During the year, the Israel-British Bank ceased operations, after it was seized by the Bank of Israel and a receiver appointed. Two cooperative credit societies also ceased to operate: Halva'ah Vehisachon Jerusalem and Halva'ah Vehisachon Zichron Ya'akov. The banking dealings of both were acquired by Bank Leumi le-Israel.

Table XX-12

BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1973-74

End of period		
Type of institution	1973	1974
Commercial banks ^a	21	21
Cooperative credit societies	13	11
Mortgage banks	15	15
Investment banks	5	5
Financial institutions	12	12
Total	66	64

^a Does not include three inactive banks in 1973 and four in 1974.

(b) *Bank branches*

At the end of 1974, 894 branches of commercial banks and cooperative credit societies (including head offices and "counters") were operating in Israel. In

addition, 21 branches were operating in the administered areas. During the year 42 new branches were opened, including seven in the Arab sector and two counters in hotels. In the previous year 27 new branches had been opened. The increase that occurred in 1974 is attributable to the postponement of the opening of new branches at the end of 1973, in the wake of the October war.

At the beginning of 1974 the Bank of Israel's subcommittee on bank branches decided to limit the grant of permits for the opening of new branches in Israel. The banking institutions were asked to submit a two-year plan for new branches, instead of the three-year plan requested in 1973. In accordance with the subcommittee's recommendations, 12 new permits were issued in 1974, seven of them for branches in the Arab sector. In addition, 16 permits were issued for 1975. A considerable deceleration occurred in 1974 in the rate of opening new counters in hotels. Only three such counters were opened, and one was closed. This compares with eleven counters opened in 1973.

(c) *Complaints of the public*

For some time the Department of the Examiner of Banks has been dealing with complaints of the public concerning the services of banking institutions. Because of the growing number of complaints and the more thorough attention being given to this matter, a senior assistant to the Examiner of Banks was appointed in 1974, whose main duties will lie in this area. In 1974 the Examiner of Banks dealt with about 400 complaints, of which approximately one third were found to be well-founded. This compares with approximately 280 complaints submitted in 1973.

(d) *Mortgage banks*

In the beginning of 1974 the unit supervising mortgage banks continued to engage in the conduct of surveys and inspections designed to deal with the special problems created as a consequence of the October war. The veracity of the income and expenditure reports of the mortgage banks for 1973 was checked, and inspection of the indebtedness of large borrowers was begun.

A current follow-up was conducted with respect to the compliance of the mortgage banks with the rules governing their activities, and the need for the issuance of new instructions on various matters was considered. In June 1974 the Inspector of Banks, following a decision of the Ministerial Economic Committee, issued new instructions regarding the restrictions on the granting of loans. In accordance with these instructions, the financing ceiling was raised on flats whose purchase the mortgage banks are authorized to finance. Also changed was the rate at

which the maximum loan amount is to be reduced if the price of the flat exceeds the ceiling fixed. New directives were also published on the recommended procedures for calculating intermediate interest on loans given on any date in the month (in the past the interest was calculated from the first day of the month).

Discussions were held during the year with the liaison committee of the the Israel Accountants Association regarding the publication of uniform annual financial reports by the mortgage banks. Publication of directives in this matter is expected in 1975, after completion of the discussion with the professional bodies and the authorized banks.

(e) *Audits*

At the beginning of 1974 the audit unit continued to deal with problems created in the banking system as a result of the October war, and helped solve them. In the second half of the year the unit dealt mainly in assisting in activities connected with the seizing of the Israel-British Bank and its liquidation.

During the year the audit unit carried out 40 general audits in bank head offices and branches, particularly on the following subjects: securities, credit and collateral, verification of accounting reports, and the work methods of the board of directors. In addition, the auditors carried out 417 inspections and clarifications on various subjects connected with the activities of the banking institutions.

(f) *Israel-British Bank*

In the beginning of July 1974 the general manager of the Israel-British Bank Ltd. notified the Inspector of Banks that, owing to liquidity difficulties in foreign currency, the bank would be unable to honor its obligations unless special assistance was extended by the Bank of Israel.

The Bank of Israel, which at first expressed its readiness to help in the matter of the liquidity difficulties, withdrew its offer when it transpired that the Israel-British Bank was not free to assign deposits, allegedly deposited to its credit, in two large Swiss banks. Negotiations were conducted on the acquisition of the bank by Israeli banks, which requested that the Government guarantee all of the bank's liabilities, with the exception of a sum of \$ 4 million. After doubts arose as to whether the books of the bank actually reflected all of its liabilities, the Government accepted the recommendation of the Bank of Israel to seize the bank and appoint a special manager. These actions were taken on July 9, 1974. The Government likewise decided to authorize the Bank of Israel to guarantee most of the deposits of the public with the Israel-British Bank. (The liabilities of the Israel-British Bank on the

day it was seized totalled approximately IL 600 million, and the guarantees of the Bank of Israel applied to more than two-thirds of that sum.) After further efforts to sell the bank to foreign investors proved unsuccessful, the Tel Aviv District Court ordered the bank's liquidation, a decision that was affirmed by the Supreme Court. The Official Receiver appointed Mr. Yosef Milo as special manager of the bank.

Following an investigation by the police, charges were preferred against the bank's general manager, Mr. Y. Ben-Zion. The Tel Aviv District Court found him guilty of the theft of \$ 47 million from the bank's funds, engaging in the bank's activities in a manner that prejudiced its ability to honor its obligations, making false entries in the bank's documents, and other charges. For these crimes he was sentenced to 12 years in jail. The defense appealed the conviction and the sentence to the Supreme Court, and the prosecution appealed for a harsher sentence.

(g) *Banking Law*

The Bank of Israel completed the draft of a new banking law in the second half of 1973. For reasons not dependent on it, no progress was made in this matter until the second half of 1974. At that time it was decided, with the agreement of the Minister of Justice, the Minister of Finance, and the Governor of the Bank of Israel, to assign to a team headed by the Attorney General the task of preparing a final draft of the bill, which would be submitted to the Government for approval. The work of this team, which includes representatives of the Ministry of Finance and the Bank of Israel, is proceeding.

8. ADMINISTRATION OF STATE LOANS.

(a) *Domestic loans*

1. *Main developments*

Excluding the Short-Term Loan, new Government loans administered by the Bank of Israel totalled IL 2,281 million gross in 1974, as compared with IL 2,592 million in 1973. Issues of index-linked bonds by other financial institutions totalled IL 4,261 million, as against IL 2,735 million in 1973.

Compulsory Loan certificates (which the public had been required to purchase in previous years) were distributed by the Bank of Israel in the amount of IL 749 million, face value, as compared with IL 412 million distributed in 1973.

The gross total of all State loans issued by the Bank of Israel in 1974 was IL 3,030 million, as against IL 3,004 million the year before. This is an increase of

only 1 percent, as compared with an increase of 131 percent in 1973. Total redemptions in 1974 were IL 361 million, face value, one third higher than in 1973. The bulk of the increase stemmed from the start of the redemption of the 1970 Savings Loan certificates.

It should be noted that the data given in this chapter reflect the activities of the administration of state loans, but not the economic effect of the state loans in the development of the securities market (a detailed discussion of that subject will be found in Chapter XIX).

Medium- and long-term loans issues—excluding the Voluntary War Loan—totalled IL 2,084 million gross in 1974. In February 1974 the Government discontinued the issue of the five-year option bonds and the 6.5 percent, seven-year, linked bonds. In their stead, the issue of a new type of bond was begun the terms of which were slightly inferior: the nominal interest was lower and the period of the loan was longer (see below).

Gross sales of the Short-Term Loan dropped sharply from IL 1,638 million in 1973 to IL 462 million. This year, too, there was a decline in the amount of this loan in circulation: it amounted to IL 218 million as against a drop of IL 344 million in 1973.

This trend in the balance of the loan in the hands of the public, which began with the termination of the underwriting agreement with the banks in October 1973, is attributable to the acceleration of the rate of inflation and the intensification of expectations of the devaluation of the Israeli pound (for changes in the development of the loan during the year, see below).

At the end of 1974 the Bank of Israel was administering 604 series of Government loans. The net outstanding balance of these loans (representing only part of the State's domestic debt) rose during the year by IL 2,000 million (face value), from IL 5,700 million to IL 7,700 million. Details regarding the various loans are presented in an appendix to this chapter.

2. Short-Term Loan

The trend of a steep decline in the balance of the loan, which began with the termination of the underwriting agreement with the banks in October 1973, continued in 1974. The balance of the loan in the hands of the public declined during the year by IL 268 million. Gross purchases of the loan totalled IL 462 million, as against IL 1,638 million in 1973. The decline in the demand for this paper was a result of the acceleration of the rate of inflation and the intensification of expectations of devaluation. The public preferred linked assets.

Until September 1974 the outstanding balance of the loan declined steadily by

Table XX-13
STATE LOAN ISSUES, 1973-74
(IL million)

	1973			1974		
	Gross issue	Redemption	Net issue	Gross issue	Redemption	Net issue
A. Long- and medium-term	1,911	183	1,728	2,084	174	1,910
Option-type	1,255	167	1,088	286	157	129
Seven-year bonds	347	—	347	195	—	195
Six-year bonds	—	—	—	68	—	68
Ten-year bonds	—	—	—	1,034	—	1,034
14-year bonds	—	—	—	6	—	6
Other long-term loans ^a	149	16	133	456	17	439
Special issue for banks	160	—	160	39	—	39
B. Voluntary War Loan	681	—	681	197	—	197
C. Total loan issue excl. the Short-Term Loan	2,592	183	2,409	2,281	174	2,107
D. Distribution of compulsory loan certificates ^b	412	84	328	749	187	562
Absorption Loan	121	82	39	9	90	-87
Defense Loan 1970/71	208	1	207	332	6	326
Savings Loan 1970/71	83	1	82	414	91	323
E. Total loans, excl. the Short-Term Loan	3,004	267	2,737	3,030	361	2,669
Percent annual change	131.4	-42.6	228.6	0.9	35.2	-2.5
F. Short-Term Loan	1,638	1,982	-344	462	680	-218

^a Development Loan and Insurance Companies Loan (incl. deposits of insurance companies on account of purchases totalling IL 73 million in 1973 and IL 270 million in 1974).

^b Value of certificates distributed.

IL 355 million. In order to increase sales, the rates of yield were increased by 1.75 percent net p.a., as follows: in the three-month series, from 8.5 to 10.25 percent; in the six-month series, from 8.75 to 10.5 percent; and in the 12-month series, from 9 to 10.75 percent. The bulk of the improvement in yields stemmed from the raising of the interest from 6 to 9 percent, while the agio rate was reduced.

Raising the yields of the loan led to an increase in the outstanding balance, from IL 65 million at the end of October to IL 152 million at the end of the year. The increased demand for the Short-Term Loan in this period was also influenced by the instability in the bond market, which was expressed in sharp declines in quotations in August and September 1974.

The preference displayed for the three-month series continued in 1974. Its share in total sales rose to 73 percent in 1974, as compared with 64 percent in 1973. In the last quarter of 1974 its share rose to 83 percent. The continued preference for this series raised its share in total Short-Term holdings from 70 percent at the end of 1973 to 80 percent at the end of 1974. The average period of the loan certificates likewise declined--from 93 days at the end of 1973 to 85 days at the end of 1974.

3. Issue of medium- and long-term loans

Excluding the Voluntary War Loan, Government bonds linked to the Consumer's Price Index were issued in 1974 to a total of IL 2,084 million, as compared with IL 1,910 million in 1973. Net capital raised by means of Government bonds (sales less interest and redemptions at market value) declined from IL 1,270 million in 1973 to IL 950 million. The drop in net mobilization of capital by means of Government bonds is connected with the decline that occurred this year in the relative weight of Government bonds in total linked bonds.

The relative weight of Government bonds in the total gross issue of linked bonds declined by 41 percent in 1973 to 33 percent in 1974. The share of Government bonds in total net raising of capital dropped from 45 percent in 1973 to 36 percent in 1974.

Following is the distribution of the issue of linked bonds, by the type of the original purchaser.⁴ From the viewpoint of the issuer about two thirds of Government bonds were sold to the public and only one third to institutional investors. On the other hand, in the issues of financial institutions, the share of the public is only 15 percent, the remainder being purchased by institutional investors.

Analysis of the distribution of the issue from the viewpoint of the purchaser shows that the public preferred to purchase about 70 percent of its bonds from Government issues and only 30 percent from those of financial institutions. Hence, it can be concluded that the bulk of Government bond issues is acquired in the first instance by the public, which prefers them to issues of financial institutions. On the other hand, institutional investors, most of whom are connected with banking concerns, tend to purchase bonds issued by the banking institution with which they are connected.

⁴ The purchasers were classified into two main groups: (1) institutional purchasers, namely, provident funds, pension funds, insurance companies, and banks in order to cover savings plans; (2) the public, i.e., all other purchasers. The classification is according to the original purchaser and does not reflect the large-scale transactions that take place in the secondary market between the public and the institutional investors (see Chapter XIX).

The rate of issue of bonds was not uniform throughout the year, and it developed in line with the demand trend for total bonds issued during 1974. Accordingly, the level of sales was particularly high in the beginning of the year—until the change in the terms of the bonds in February and again in the period between devaluation and the end of the year (a broad discussion of developments during the year will be found in Chapter XIX).

In the first two months of 1974, gross sales of the five-year option loans and the 6.5 percent linked seven-year loans amounted to IL 484 million. In place of these loans, whose issue was terminated in February, the Government began to issue a new type of loan with slightly inferior terms: the first type was a ten-year bond bearing 4 percent linked interest payable currently once a year; the second type was a six-year bond bearing 3.25 percent unlinked interest payable currently once a year. With respect to both new loans it was stipulated that the base index for the purpose of calculating the linkage would be the index published for the month of issue (and not the last index published as of the date of issue). It was further stipulated that 6 percent, 17-year bonds and 6 1/2 percent, 20-year bonds would not be sold to the public but only to institutions (provident and pension funds and savings plans), and their listing on the securities exchange was discontinued. The loan of the first type—for the 10-year period, whose terms are more favorable—attracted most of the demand, and its sales totalled IL 1,034 million by the end of the year. Sales of the six-year loan was extremely low, amounting to only IL 68 million by the end of the year.

In November 1974 it was decided to lengthen the period of time that must elapse between the date of issue until the date of listing on the exchange, with respect to bonds traded on the exchange, to up to six months but in no case less than four months. It was also decided that the base index for the purpose of calculating the linkage of the “6 percent, 17-year” bonds (which are sold to provident funds and to saving plans) would be that applicable to the new bonds (see above).

The agreements between the commercial banks and the Treasury regarding the purchase of bank loan issues was not renewed in the 1974/75 fiscal year. In effect the sale of these loans was discontinued with the changes in the terms of the loan issues in February 1974. Purchases by banks in the first quarter of the year, made in the framework of previous agreements, totalled IL 39 million as compared with IL 160 million in 1973.

4. 1973 Voluntary War Loan

There was a steep decline in sales of the Voluntary War Loan issued to the public following the October War. Total receipts in 1974 were IL 197 million (of which

the purchase of IL 172 million was financed by Bank of Israel credit), as compared with receipts of IL 681 million (IL 557 million with credit) in the period October-December 1973. (Of the receipts financed by credit, IL 690 million was repaid by the end of 1974.

5. Defense and Savings Loans, 1970 and 1971, and Absorption Loans

Distribution of certificates of the Defense and Savings Loans of 1970 and 1971 totalled IL 746 million, face value, in 1974, as against IL 290 million in 1973. These were loans which the public had been required to purchase. During the year, certificates of the Defense and Savings Loans, 1970, were distributed to 248,000 additional purchasers. Distribution of the Savings Loan, 1970, totalled IL 258 million; face value, and of the Defense Loan, 1970, IL 20 million, face value. In addition, distribution began of the certificates of the Defense and Savings Loans, 1971; they were sent to 823,000 purchasers. Distribution of the Defense Loan, 1971, totalled IL 312 million, face value, and of the Savings Loan, 1971, IL 156 million, face value.

In October 1974 redemption was begun of the first group of the Savings Loan, 1970. Redemption of the principal in the Savings Loan amounted to IL 90 million, face value, involving 138,000 purchasers. Altogether, certificates amounting to IL 96 million, face value, of Defense and Savings Loans, 1970 and 1971, were redeemed for 167,000 purchasers, including early redemptions.

Distribution of Absorption Loan certificates ended, in effect, in 1973. But in 1974 certificates with a face value of IL 3 million were distributed as a result of the corrections of tax assessments of previous years. In addition, certificates with a face value totalling IL 5 million were distributed to persons to whom they had been sent in previous years but who had not claimed them at the time. Redemption of the interest on the various loans amounted to a total face value of IL 90 million in 1974. The outstanding debt on the Absorption Loan in the hands of the public declined to IL 400 million, face value.

6. Insurance Companies Loan

There were no new issues of the 1962 Insurance Companies Loan in the year under review, because the law has not yet been amended with respect to the new terms of the loan. In the absence of the issue of bonds to the insurance companies, the balance of deposits on account of the loans rose this year by IL 270 million, reaching IL 394 million at the end of the year.

The outstanding balances at the end of 1974, for which bonds were issued to the

insurance companies were as follows:

6 percent dollar-linked	IL 5.6 million
6 percent index-linked	IL 39.2 million
5.8 percent dollar-linked	IL 3.6 million
5.8 percent index-linked	IL 69.1 million

In 1974 bonds in the amount of IL 3.3 million were issued to insurance companies for the "Hetz 1000" insurance policy. The outstanding balance of the loan at the end of 1974 was IL 12.3 million. After bonds were issued on account of deposits made in the past, the outstanding balance of deposits at the insurance companies at the end of 1974 for the "Hetz 1000" plan was IL 1.5 million.

7. Redemptions and payments

In 1974 the State Loans Administration paid IL 2,200 million on account of overall redemption of various domestic loans. This sum includes IL 1,000 million on account of redemption of principal-including linkage differentials on dollar-linked loans—IL 737 million on account of linkage differentials on the principal of index-linked loans, and IL 488 million on account of interest and the linkage of interest. During the year 1.8 million certificates were redeemed, as compared with 1.1 million in 1973. The sum of IL 700,000 was paid out on interest certificates, as against IL 600,000 the previous year.

The year under review saw 19 drawings of the prize-bearing loans, 17 for the redemption of principal on State loans, and six for the redemption of principal of other loans.

8. Open-market operations

In the year under review there was a substantial increase in the extent of the Bank of Israel's activity in the open market. The bulk of this activity was designed to regulate trading in Government bonds and in the Short-Term Loan. The transactions of the Bank also aided the Government's monetary policy by absorbing from or infusing into the securities market. The Bank's total open-market transactions in 1974 came to IL 400 million, of which IL 280 million was in index-linked Government bonds and IL 120 million in the Short-Term Loan. The Bank's transactions in 1973 were at a much lower volume, amounting to IL 70 million, of which IL 43 million involved bonds and IL 27 million the Short-Term Loan.

Most of the transactions of the Bank of Israel in 1974, both with respect to linked loans and to the Short-Term Loan, concentrated on the purchase side. Total

purchases of bonds were IL 160 million as against sales of IL 120 million. In the Short-Term Loan purchases totalled IL 93 million and sales IL 27 million.

From the beginning of the year until August the Bank's transactions were designed mainly to regulate the prices quoted in the linked-bonds market and to absorb surplus supply of the Short-Term Loan. In the months of August and September the linked-bonds market hit a deep low, and the Bank of Israel operated on the buyers' side to regulate the drop in prices and to ensure current trading. In this period the Bank's net purchases in the linked-bonds market totalled about IL 60 million. In addition it bought from banks index-linked bonds of the 7.5 percent Bank Defense Loan issue to the amount of IL 132 million. This purchase was executed in the framework of other steps taken in order to reduce the liquidity deficits of the banking system. Banks were given the option of repurchasing the bonds if they wiped out their liquidity deficits, and, in fact, most banks did so between the date of devaluation and the end of the year. The November devaluation, the rising prices of essential commodities, and expectations of further price increases led to a substantial demand for linked bonds and boosted their prices. The activity of the Bank of Israel during this period was designed to regulate bond prices and to supply part of the demand. Net sales of the Bank in the linked bonds market during this period totalled approximately IL 50 million-which was absorbed by the public. Beginning in October the outstanding balance of the Short-Term Loan began to rise, as a result of the increased number of new issues in the wake of the raising of the yield rates and of the infusion of liquidity after devaluation. Nevertheless, the Bank of Israel, in the framework of regulating the market, purchased bonds totalling about IL 18 million.

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

In 1974 the Bank of Israel administered 46 loans floated by public bodies: Tefahot Israel Mortgage Bank, Industrial Development Bank of Israel, local authorities, the Jewish Agency, and the Israel National Petroleum Company. A new Tefahot series was floated this year in the amount of IL 25 million; it is linked to the Consumer's Price Index. The outstanding balance of all nongovernmental domestic loans administered by the Bank of Israel at the end of the year stood at IL 430 million, of which IL 369 million was linked to the Consumer's Price Index.

Total redemption of the various loans in 1974 was IL 112 million; this sum includes IL 28 million on account of redemption of principal-including the linkage differentials on the dollar-linked loans. An additional IL 33 million was paid as linkage differentials on the principal of loans linked to the Consumer's Price Index, and IL 51 million in interest and linkage on interest. (A detailed listing of the loans

administered by the Bank of Israel will be found in an appendix to this chapter).

(c) *Foreign loans*

Gross sales of foreign loans in 1974 totalled \$ 295 million, as against \$ 471 million in 1973 and \$ 272 million in 1972. The high level of sales reached in 1973 was a result of the October war and was concentrated in the last quarter of the year. Sales to the public in 1974 concentrated on the sixth series of the Development Loan, which as floated in the amount of \$ 750 million and bears 4 percent interest p.a. By the end of the year, \$ 153 million worth of bonds (face value) were sold in this series. In addition, bonds of series floated in previous years with a face value of \$ 63 million, were sold to the public during the year. Sales to institutional investors amounted to an additional \$ 79 million. Redemption of foreign loans totalled \$ 148 million, as compared with \$ 127 million in 1973. Net sales of foreign loans was lower this year than the level of the last few years, totalling on \$ 146 million, as

Table XX-14
FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1974
(\$ thousand)

	Amount subscribed	Amount redeemed	Amount outstanding	Amount converted into IL	Interest paid in Israel only
Issued to the general public					
Independence Loan	145,533	145,533	—	3	2
Development Loan					
First series	234,140	234,140	—	20	8
Second series	293,621	244,339	49,282	1,391	204
Third series	392,630	167,191	225,439	7,635	1,505
Fourth series	475,311	142,625	332,686	14,031	1,669
Fifth series	658,026	79,265	578,761	37,034	1,648
Sixth series	152,717	4,602	148,115	4,432	44
Total	2,351,978	1,017,695	1,334,283	64,546	5,080
Issued to investors					
Special investment series A	72,300	63,840	8,460	97	—
Special investment series B	151,027	49,177	101,850	983	16
Special investment series C	223,671	83,614	140,057	2,918	47
Special investment series D	198,464	15,066	183,398	1,906	81
Total	645,462	211,697	433,765	5,904	144
Grand total	2,997,440	1,229,392	1,768,048	70,450	5,224
Percent annual change	11	14	9	2	26

against \$ 344 million in 1973 and \$ 170 million in both 1972 and 1971. This phenomenon is apparently attributable to the economic recession in the United States and some other countries during the year under review, and to the special effort after the Yom Kippur War. The outstanding balance of foreign loans in circulation rose by 9 percent during the year, totalling \$ 1,768 million at the end of 1974, as against \$ 1,622 million the year before. About three quarters of the outstanding balance at the end of the year—\$ 1,334 million—is held by the public, while the remainder—\$ 434 million—is held by institutional investors.

The State Loans Administration handles the conversion and redemption of Israel's foreign bond issues. The value of certificates converted into Israeli pounds was \$ 70.4 million—a slight increase over 1973's \$ 69.3 million. Interest paid in Israeli pounds on certificates converted in Israel was equivalent to \$ 5.2 million, as compared with \$ 4.2 million in 1973. A breakdown of these figures by beneficiaries shows no significant change from the previous year. There was a slight increase in conversions by tourists and by Israeli residents, and a slight decrease in conversions for financing investments.

Table XX-15

CONVERSIONS IN ISRAEL OF FOREIGN LOANS, BY HOLDER, 1973-74

(IL million)

Holder	1973		1974		Percent increase or decrease (-)
	\$ m.	%	\$ m.	%	
Institutions	32.4	47	32.1	46	-1
Tourists	18.6	27	21.6	46	16
Investors	11.7	17	9.7	14	-17
Residents	2.9	4	3.5	5	20
New immigrants and temporary residents	3.7	5	3.5	5	-5
Total	69.3	100	70.4	100	2

9. CLEARING HOUSES

The year reviewed saw a further increase in the volume and value of checks and notes passing through the clearinghouses administered by the Bank of Israel in Jerusalem, Tel Aviv, and Haifa. The value of items cleared in 1974 was IL 121,181 million, as against IL 91,632 million in 1973—an increase of 32.2 percent.

The data on the volume of clearings are based on monthly reports submitted by member banks, and are to be regarded only as estimates. They show that the daily average number of items presented rose from 208,197 in 1973 to 223,340—an increase of 15,143, or 7.3 percent. The proportion of items returned came to 7.6 percent. It should be noted that this figure is not precise, on account of deficiencies in the classification of part of the debit or credit statements.

In December 1974 a survey was conducted of the distribution of the returned items according to the reason for the return. The survey showed that insufficient funds accounted for only about half of the returns. The remainder of the returns were for other reasons permitted in the regulations (there are 21 such reasons), including formal reasons (e.g., signature or endorsement missing) and technical ones (e.g., drawn on a banking institution or on another branch).

During 1974 the large banks put into operation electronic classification equipment for the clearing of checks and encoding them with magnetic ink. Towards the end of the year, the share of checks so encoded constituted a significant portion of the checks drawn on these banks.

Table XX-16
VOLUME OF CLEARINGS, 1970-74
(IL million)

	1970	1971	1972	1973	1974
Urban clearings					
Jerusalem	6,572	8,551	10,560	14,627	22,712
Tel-Aviv	28,472	36,975	48,588	65,238	82,221
Haifa	5,703	7,167	9,136	11,767	16,248
Total	40,747	52,693	68,284	91,632	121,181
Increase over previous year					
IL million	4,741	11,946	15,591	23,348	29,549
Percent	13.2	29.3	29.6	34.2	32.2
Percent of items returned	4.7	5.1	6.1	6.1	7.6

The clearinghouses are administered by the Clearinghouse Committee, whose members are appointed by the Governor of the Bank for a two-year term. The present committee took office on October 1, 1974 and is composed of the following

members: Mr. D. Winogradow (chairman), Mr. A. Kuker (deputy chairman); Messrs. D. Ashbel, M. Deutsch, and S. Margalit representing the Bank of Israel; and Messrs. D. Allalouf, I. Konforty, T. Naveh, J. Porat, and J. Rieger representing the Association of Banks. The following alternates were appointed: Messrs. P. Barsel, U. Moualem, A. Shalmon, I. Tsur, and M. Weiss representing the Bank of Israel; and Messrs. J. Atoun, I. Fleischer, A. Gozlan, A. Hefetz, and H. Shamama representing the Association of Banks.

10. ECONOMIC RESEARCH

Owing to the mobilization of a substantial portion of the staff for reserve duty, the Bank's research activities were curtailed in the first months of 1974, and this was reflected, inter alia, in the failure of the *Economic Review* to appear as planned. As is the case every year, the Bank's *Annual Report*, and its appendix, include a good part of the current research on developments in Israel's economy, conducted by the Research Department. The following research studies were published in 1974:

1. Periodic internal surveys of monetary developments.
2. "Economic Indications"—a weekly publication for limited distribution, accompanied by notes.
3. Two issues of *Recent Economic Developments*: No. 17, February 1974; and no. 18, June 1974.
4. *Some Effects of Differential Income Tax Rates on the Behavior of Israel's Industrial Companies*.
5. *Industrial Investment Behavior in Israel*.
6. *Economic Growth in the Administered Areas: 1968-1973*.
7. *The National Budget for 1975*, prepared by the Bank's Research Department, together with the Economic Advisory Bureau of the Ministry of Finance, and submitted to the Knesset together with the State Budget in March 1975.
8. *Report of the Governor of the Bank of Israel on the Increase in the Money Supply between January 31, 1974 and September 30, 1974*.

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

(a) *International Monetary Fund*

The financial dealings of the Bank of Israel with the International Monetary Fund were expanded during the year, with the decline in the State's foreign currency reserves and the activation of the Oil Facility in the framework of the International

Monetary Fund. Three delegations of the IMF visited Israel during 1974. The first came in April for the annual consultations which were to have taken place at the end of 1973 but which were postponed on account of the war. The second delegation visited in September in order to conclude the discussions on the drawing of the "first credit tranche" and on its terms. The third delegation came at the end of November to discuss Israel's request to draw the "second credit tranche" and its terms. Also discussed was Israel's request to draw from the Oil Facility. In the summations and recommendations after each visit, the IMF endorsed the policy of restraint adopted by the Government and the Bank of Israel and favored the continuation of this line in economic policy.

In April 1974 Israel withdrew from the IMF its "gold tranche" amounting to about \$ 39 million. It should be noted that this withdrawal did not operate to increase the country's foreign currency reserves but changed their composition. In November Israel withdrew the "first credit tranche" amounting to 32.5 million Special Drawing Rights, whose value at the date of withdrawal was \$ 39 million. In February 1975 approval was granted for Israel's requests to make available to it the "second credit tranche" of 32.5 million SDRs and to withdraw Israel's allocation in the Oil Facility totalling 62 million SDRs. The latter two were withdrawn entirely in February 1975 in an amount equal to \$ 78 million. The "second credit tranche", unlike the first, could not be withdrawn immediately but was divided into two portions of 12.5 million SDRs each and one of 7.5 million. The first portion was approved for immediate withdrawal, and this was accomplished in February. The second and third portions will be available to Israel on June 1, 1975 and November 15, 1975, respectively, when the undertakings it assumed for those dates are implemented, with respect to the curtailing of the expansion of the means of payment and of credit to the public and to the Government. Two experts of the IMF also visited Israel in April and May in order to give advice on the drafting of the new Banking Law.

A number of important developments took place during the year in the IMF. The "Group of Twenty," established by the IMF in 1972 to prepare a reform of the international monetary system, completed its work without succeeding in reaching a united stand concerning all the questions in dispute. The discussions will continue in the framework of two new committees that were established.

The first is the Interim Council of Governors, which consists of twenty representatives (similar to the composition of the IMF Board of Governors), and of seven adjunct members for each representation. The purpose of this committee is to advise and report to the Board of Governors, which meets once a year, on all matters pertaining to progress in preparing the reform and to other basic questions. The second is the Development Committee, whose function it will be to discuss

matters connected with aid to developing countries. Israel has an adjunct member on each of these two committees.

At the same time the system for determining the value of a unit of the Special Drawing Rights was changed. The value of the right will no longer be denominated in gold but in terms of a basket of 16 important currencies, with the dollar constituting one-third of the basket.³ The interest on the SDRs was raised from 1.5 percent to 5 percent, and its adjustment to the interest in the important money markets will be accomplished every six months. The interest charged by the IMF on the various credit tranches was raised to 4 percent in the first year and to an additional 0.5 percent for each additional year, to a maximum of 6 percent.

The establishment of an Oil Facility was also approved in 1974, to aid countries suffering from a deficit in their balance of payments owing to the higher prices of oil. A system of calculation was arrived at that takes into account the increased cost of importing oil by a particular country and its ability to allocate funds from its foreign currency reserves for this purpose. The volume of withdrawals from the Oil Facility in 1974 was limited to approximately three billion SDRs, which constituted the commitments of the oil exporters to lend to the fund. It should be noted that this sum was not exploited to the full: loans in the framework of the Oil Facility were granted in a volume only slightly higher than two billion SDRs. The remainder was transferred to the Oil Facility 1975. The loans were given for a period of seven years, repayment to begin after the third year. The loan is denominated in SDRs and bears interest of about 7 percent. As we have mentioned, Israel also obtained a loan from this Facility, in the amount of 62 million SDRs.

(b) *The World Bank*

Negotiations with the World Bank on Israel's application for a fourth loan for the Industrial Development Bank of Israel reached an advanced stage in 1974, when a World Bank delegation visited the country in October. The delegation looked into the three components of the loan: first, projects in industry, through the agency of the Industrial Development Bank, in the amount of \$ 25 million; second, projects in vocational education in the framework of plans for the advancement of vocational education to be administered by the Ministry of Labor; and, third, projects in industrial research, initiated and for the most part financed by the Chief Scientist in the Ministry of Commerce and Industry.

³ The initial value of a "right" in dollar terms on the date of the fixing of the basket (June 1, 1974) was \$ 1,206. Up to September the value in dollar terms declined, reaching a low of \$ 1,183. Toward the end of the year the value in dollar terms rose once again, and it stood at \$ 1,224 at the end of the year.

Table XX-17
WORLD BANK LOANS TO ISRAEL — POSITION ON DECEMBER 31, 1974 AND CHANGE DURING 1974
(\$ thousand)

Recipient and purpose	Terms of the loan			Position on December 31, 1974					Change during 1974	
	Date of loan	Repayment period	Interest (%)	Original amount	Amount disbursed	Balance un-disbursed	Cumulative repayment	Balance outstanding	Disbursed	Repaid
Direct loans										
Ports Authority	9.9.60	65-85	5.75	27,500	27,412	—	8,907	18,505	—	1,090
Government of Israel — roads	17.10.62	67-80	5.50	22,000	22,000	—	11,065	10,935	—	1,660
Government of Israel — roads	14.7.71	76-91	7.25	30,000	4,144	25,856	—	4,144	2,456	—
Government of Israel — sewerage	21.12.72	78-97	7.25	30,000	379	29,621	—	379	379	—
Government-guaranteed loans										
Dead Sea Works Ltd.	11.7.61	66-76	5.75	25,000	25,000	—	19,026	5,974	—	2,743
Industrial Development Bank Ltd.	16.9.65	68-81	5.50	20,000	20,000	—	14,084	5,916	—	1,968
Industrial Development Bank Ltd.	15.11.67	70-82	^a	15,000	14,959	—	7,904	7,055	—	2,024
Industrial Development Bank Ltd.	15.6.70	72-84	7.00	25,000	21,889	3,111	3,965	17,924	2,167	1,415
Israel Bank of Agriculture	21.10.70	74-87	7.25	20,000	20,000	—	475	19,525	1,157	475
Israel Bank of Agriculture	3.4.74	77-89	7.25	35,000	10,576	24,424	—	10,576	10,576	—
Total	—	—	—	249,500	166,360	83,011	65,426	100,933	16,735	11,375

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

^a The rate of interest was not stipulated when the loan agreement was signed. Interest will be determined for each disbursement according to the standard rate charged by the World Bank on the date of disbursement.

The two latter projects come to about \$ 5 million each, so that the total amount of the loan requested is \$ 35 million. The decision of the World Bank on this loan is expected to be made by the middle of 1975.

At the annual meeting of the Board of Governors of the World Bank held in October 1974, the question of the continuation of the grant of loans by the World Bank was put before the Executive. The subject is of great importance, for the contraction of the resources available to the World Bank as against the great increase in the demand for funds on the part of developing countries has obliged the World Bank to reduce the list of countries eligible for loans. The criterion for receiving loans is per capita income in dollars, as calculated by the World Bank.

According to this criterion, Israel was not included in the group of countries eligible to receive loans under the Bank's next five-year plan. This was the main question discussed in talks with representatives of the World Bank during the annual meeting and during the visit of the Bank's delegation in Israel. The Bank of Israel prepared and submitted to the World Bank a number of memoranda that show the upward bias present in the calculation of per capita income in Israel by the World Bank, and Israel's special vulnerability in the area of balance of payments and terms of trade.

(c) The International Development Association

This association, which is affiliated with the World Bank, is engaged in the granting of loans under preferential terms to developing countries. The "fourth round" of contributions to the association did not come to a close in 1974 as had been planned, since the ratification of the American contribution was delayed in the Congress. Only after the Congress ratified the contribution in the beginning of 1975 did the fourth round go into force. The Government of Israel decided as early as 1973 to allocate \$ 1 million for this purpose, and reached a special agreement with the association whereby this contribution would be paid in five annual installments. When the arrangement went into force in the beginning of 1975, Israel transmitted its first annual payment to the Association. The Government's decision was taken after the Bank of Israel passed on to it the appeal of the World Bank that developing nations that had achieved a higher level of economic development should also join the group of contributing nations.

(d) The Inter-American Development Bank

This is the regional bank which, together with the World Bank, finances economic development on the American continent. Membership was hitherto

restricted to the Americas.

In 1974 the IDB continued its negotiations with a group of countries outside of the American continent on their joining the organization. Israel is one of these countries: the IDB's invitation to it to join, transmitted through the Bank of Israel, was approved by the Government in 1973. Israel's participation in the IDB's capital will amount to \$ 820,000. Membership will also entail a contribution of \$ 5 million to the Fund for Special Activities and the giving of an Israeli guarantee, in the amount of \$ 4.2 million. The importance of membership in the IDB lies in the fact that the execution of projects in the framework of the loans that it grants is restricted to member countries and to contractors in member countries.

In December 1974 representatives of the IDB and of a dozen countries located outside the American continent signed the so-called Madrid Declaration, which approves in outline the co-optation of those countries as members. The agreement will go into force after all states now members or candidates for membership ratify it. Even after the signing of the Madrid Declaration, a number of points were left open for discussion, particularly the question of the eligibility of the new members to participate in tenders for projects from funds contributed in the past by the older members, in the framework of the Fund for Special Activities.

12. ADVISORY COMMITTEE AND ADVISORY COUNCIL

Most of the meetings of the Bank's Advisory Committee and Advisory Council in 1974 were devoted to economic developments in general and to monetary developments in particular, and to the steps taken by the Bank of Israel. Since July, collapse of the Israel-British Bank.

The sharp fluctuations in the development of the economy in 1974 obliged the Committee and the Council to follow them continuously and to consider the policy measures called for by the situation. In the first quarter of the year the Bank of Israel, after consultation with the Advisory Committee, continued with the policy designed to restore the activity of the economy to normality. In the framework of this policy the Committee supported the enlarging of the Bank's participation in the financing of the directed credit funds and the lowering of the liquidity rate on fixed-term deposits. In the first quarter of the year the Committee also discussed the Report of the Governor on the Rise in the Means of Payment, submitted to the Government and the Knesset Finance Committee in February.

The rapid recovery of activity beginning with the second quarter of the year was the subject of detailed discussions in the Committee, following which the next steps of the Bank were crystallized: in May the fines for banks' liquidity deficits were increased to the pre-war level. In August it was decided to freeze free bank credit, on

the one hand, and to take certain steps to enable the banks to wipe out their liquidity deficits, on the other. The Bank of Israel's policy of restraint continued until the end of 1974, and in its framework the fines for liquidity deficits raised in November, the structure of the working-capital funds was changed, and the interest on the credit granted by those funds was increased. The interest on the Short-Term Loan was likewise raised.

In addition to the discussions on economic developments and monetary policy in the Israeli economy, the Committee and the Council dealt with developments in world economics, after hearing reports of the Governor on his meetings with key individuals in Basle, London, and Washington. The Committee also dealt with a number of internal subjects connected with the Bank's activities, such as: organizational changes in the Bank, the wage agreement with the Bank's employees, etc. The Committee likewise discussed the proposal that negotiable deposit certificates be introduced in Israel.

The Advisory Council approved the Bank's balance sheet and profit and loss account as of December 31, 1973, as well as its operating budget for 1974. The issue of the commemorative and special coins mentioned earlier in this chapter was approved. The Council heard the review of the Inspector of Banks on the development of the banking system in 1972 and 1973, and took up various aspects of the subject raised in the survey. In most of the Council's sessions since July 1974, matters connected with the Israel-British Bank were discussed: at first, the reasons for its collapse, and later, developments with respect to realizing the bank's assets.

Throughout 1974 the subcommittees of the Bank's advisory bodies continued their activity: the subcommittee on the Bank's annual balance sheet, the subcommittee on the Bank's operating budget, the subcommittee on the issuance of permits for the opening of new branches, and the subcommittee on foreign exchange reserves. Following is a list of the members of the Council and the Committee.

The Advisory Council: D. Horowitz (chairman), Y. Bader, H. Barkai, Ch. M. Basok, A. Becker, A. Efrat, N. Feingold, J. Levinson, M. Olenik, Z. Onn, A. Ostashinsky, D. Recanati, E. Reiner, Z. Susayeff, and E.I. Japhet. Dr. E. Lehman served as an observer in an advisory capacity.

The Advisory Committee: D. Horowitz (chairman), Ch. M. Basok, A. Efrat, E.I. Japhet, J. Levinson, E. Reiner, and Z. Susayeff. Mr. Recanati continued to serve as an observer in an advisory capacity.

Mr. H. Zadok resigned from the Council and the Committee when he took up his office as Minister of Justice. In his stead, the Government in May appointed Mr. Reiner.

13. THE GOVERNOR, THE BANK AND ITS STAFF

In June 1974 the Governor of the Bank of Israel, Moshe Sanbar, visited London where he met with the Governor of the Bank of England, Mr. Gordon Richardson, managers of commercial banks, members of Parliament, and Jewish personalities. He also visited the branches of Israeli banks that operate in London. Subsequently he participated in the annual meeting of the Bank for International Settlements, which was held in Basle.

In July 1974 the United States Secretary of the Treasury, William Simon, visited Israel with an entourage, and they were received by the Governor of the Bank of Israel. At their meeting the Governor reviewed Israel's economic problems and replied to questions.

In September 1974 the Governor participated in the annual meeting of the Board of Governors of the World Bank and the International Monetary Fund which was held in Washington. Mr. Sanbar is Governor for Israel on the Board of Governors of the World Bank and its subsidiaries. Other members of Israel's delegation were Dr. E. Sheffer, Director-General of the Bank, and M. Meirav, who is in charge of foreign currency transactions at the Bank of Israel. The Governor met with the President of the World Bank, Robert S. McNamara, members of the U.S. Administration, and the heads of commercial banks. After the meeting the Governor met in New York with the heads of the Federal Reserve Bank. He also delivered a lecture to members of the America-Israel Chamber of Commerce on trade relations between the two countries and on the economic problems of Israel.

On December 1, 1974 the Bank of Israel marked twenty years of its activity. A ceremony was held in the office of the Governor, at which employees who had been with the Bank from its founding were awarded with a medal struck for the occasion. A festive meeting of the Advisory Council was held in the office of the Governor, with the participation of veteran members of the Council, including Ministers Chasani and Zadok, and the State Controller, Dr. Y.E. Nebenzahl. The President, Prof. Ephraim Katzir, was present for the occasion, and he was the guest of the Bank that day. The President visited a number of departments of the Bank and heard explanations about how they function. Also present at the festive meeting were the Minister of Finance, Mr. Y. Rabinowitz, and the chairman of the Knesset Finance Committee, Mr. I. Kargman. The rest of the employees and retired employees of the Bank also received the special medal, from the department heads, at a special ceremony.

The Bank of Israel participated, with the Association of Banks, in establishing a fund to perpetuate the memory of bank employees who fell in the Yom Kippur War. The fund will distribute prizes and scholarships to employees of banks and of the

Bank of Israel who submit research studies that constitute a contribution in the field of banking, or who achieve excellence in studies in this field. The fund is headed by Dr. M. Heth, formerly the Inspector of Banks.

In May 1974 organizational changes were carried out in the structure of the Department of the Inspector of Banks. The unit for directed credit, the scope of whose activities has greatly expanded in the last few years, was made a separate department. Mr. Y. Sarig, then Deputy Inspector of Banks, was appointed director of the new department, and Mr. O. Hatzroni, Senior Economist in the Research Department, was named deputy director. At the same time, the mechanization services of the Bank were unified and they too were put under Mr. Sarig's direction. Mr. S. Peled was appointed director of State Loans in Tel Aviv, in addition to his position as Secretary-General of the Bank. In November 1974 Mr. O. Messer was appointed Deputy Inspector of Banks. At the end of April 1975 Dr. M. Heth resigned as Inspector of Banks, a post he had held since January 1969. On May 1, 1975 Mr. Messer was appointed Inspector in his stead.

The number of Bank employees in the head office in Jerusalem and in the Tel Aviv and Haifa branches totalled 926 at the end of 1974, in addition to 53 guards.

The Bank of Israel mourns the death of Shoshana Pinsker, secretary of the Director of the Foreign Currency Department in Jerusalem, and Shalom Ishgur, Director of Maintenance in the Tel Aviv branch.

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1974

and

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1974

BANK OF ISRAEL
STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1974
(IL thousand)

ASSETS	Dec. 31, 1974	Dec. 31, 1973	LIABILITIES	Dec. 31, 1974	Dec. 31, 1973
Foreign assets	7,997,764	8,105,740	Banknotes and coin in circulation ^b	3,319,126	2,812,137
Gold and foreign currency assets ^a	7,198,171	7,436,464	Foreign liabilities	794,821	234,239
Gold quota in the IMF	235,238 ^b	164,667	Allocations of Special Drawing Rights	309,862	216,903
Other foreign currency assets	564,355	504,609	IMF deposits in connection with drawings	470,475	—
Government debt	6,672,526	4,155,321	Other liabilities	14,484	17,336
Long-term liabilities ^c	5,128,649	3,973,407 ^d	Government and National Institution deposits	298,765	1,021,603
Treasury bills	196,148	129,990	Import deposits	243,249	86,871
Provisional advances	1,347,729	51,924	Government and National Institution		
Other credit and securities	4,516,090	2,424,581	deposits in foreign currency	55,516	934,732
Discounts, advances, and loans	4,245,915	2,296,879	Deposits of banking and financial		
Gross	4,598,041	2,786,224	institutions in Israel	14,651,301	10,334,833
In Israeli currency ^e	1,737,880	1,135,736	Banking institution deposits	3,490,509	3,535,124
In foreign currency	2,860,161	1,650,488	Financial institution deposits		
Less: Export finance deposits of			In Israeli currency	59,691	63,271
banking institutions ^f	352,126	489,345	In foreign currency ^g	4,351,662	2,675,236
Securities	270,175	127,702	Banking institution deposits denominated		
Other accounts ^g	182,652	19,478	in foreign currency	6,749,439	4,061,202
Guarantees and documentary			Other accounts	285,019	282,308
credits (see contra)	1,181,874	742,997	Capital and reserves	20,000	20,000
			Liabilities on account of guarantees and		
			documentary credits (see contra)	1,181,874	742,997
	20,550,906	15,448,117		20,550,906	15,448,117

^a Includes holdings of Special Drawing Rights totalling IL 18,099,000 on December 31, 1974 (IL 141,315,000 on December 31, 1973).

^b Drawings on the IMF equal to the gold tranche. (So long as the drawing is in force the gold tranche is not included in the foreign currency reserves).

^c Includes IL 3,903,150,000 linked to the U.S. dollar (on December 31, 1973: IL 2,762,925,000).

^d Net long-term liabilities. The sub-items that appeared in the 1973 Statement have been amalgamated.

^e Includes IL 759,000 in credit to banks for financing purchases of the Voluntary War Loan by the public (on December 31, 1973: IL 539,904,000).

^f IL deposits in connection with foreign currency rediscounts in the framework of the Fund for Financing Export Shipments.

^g Includes land, premises, and equipment recorded at IL 1.

^h Includes commemorative and special coins with a total face value of IL 58,772,000 (on December 31, 1973: IL 24,378,000).

ⁱ Includes IL 774,537,000 in nonresidents' deposits (on December 31, 1973: IL 473,274,000).

BANK OF ISRAEL
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1974
(IL thousand)

	<u>Dec. 31, 1974</u>	<u>Dec. 31, 1973</u>		<u>Dec. 31, 1974</u>	<u>Dec. 31, 1973</u>
EXPENSES			INCOME		
Interest paid, administrative expenses and other expenses ^a	801,270	553,529			
Profit	402,471	89,281	Interest, commission and other income	1,203,741	642,810 ^b
	<u>1,203,741</u>	<u>642,810</u>		<u>1,203,741</u>	<u>642,810</u>
Additional profit from devaluation of IL, less foreign exchange rate differentials	114,350				
			DISTRIBUTION OF PROFIT		
To the Government	516,821	89,281	Net profit	516,821	89,281
	<u>516,821</u>	<u>89,281</u>		<u>516,821</u>	<u>89,281</u>

^a After provision of IL 236,089,000 for doubtful debts; consists of IL 185,000,000 in connection with the Israel-British Bank Ltd. (in liquidation) and IL 51,089,000 on account of deposits in banks abroad.

^b After provision of IL 551,000 for doubtful debts.

BANK OF ISRAEL

THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL
MAY 1975

Governor

M. SANBAR

Advisory Committee

D. HOROWITZ, *Chairman*

CH. M. BASOK

A. EFRAT

E. I. JAPHET

J. LEVINSON

D. RECANATI (*observer*)

E. REINER

Z. SUSAYEFF

Advisory Council

D. HOROWITZ, *Chairman*

Y. BADER

H. BARKAI

CH. M. BASOK

A. BECKER

A. EFRAT

N. FEINGOLD

E. I. JAPHET

E. LEHMAN (*observer*)

J. LEVINSON

M. OLENIK

Z. ONN

E. OSTASHINSKY

D. RECANATI

E. REINER

Z. SUSAYEFF