

## CHAPTER XIX

# THE SECURITIES MARKET

### 1. MAIN DEVELOPMENTS

Demand for bonds and shares slackened appreciably in 1974. Net voluntary bond issues increased only 21.8 percent, compared with the doubling of the volume in the previous year. This sagging growth rate contrasts glaringly with the sharply accelerating rise of consumer prices.

The main causes of this development were the tapering off of real income (less compulsory loans) and the steep drop in real savings. But the growth of bond sales trailed only a bit behind that of nominal savings—22 vs. 23 percent. The deceleration of such sales mainly reflected the reshuffling of the financial asset portfolios of individual investors and businesses. In the case of the former, the year reviewed saw a further decline in the proportion of unlinked assets, with both time deposits and Short-Term Loan holdings shrinking noticeably. But in contrast to 1973, the principal change was a shift to saving schemes, which also hedge the long-term investor against a rise in the cost of living. The mounting attraction of such schemes was apparently due to the increase in their relative yield after the worsening of the terms of new bond issues at the beginning of the year. In 1974 bonds became more liquid compared with unlinked assets, but the increased volatility of bond prices and yields reduced the differential between their liquidity and that of saving schemes. Nevertheless, it still remained fairly high, so that it is reasonable to assume that the strong expansion of these deposits was partly due to the energetic advertising campaign conducted by the banks to plug this savings medium.

The bearish tone of the share market evident in 1973 carried over through the year reviewed, but its underlying causes differed. The slump was felt in all areas: a sharp contraction of turnover on the Tel Aviv Stock Exchange, a steep drop in the number of new issues and their volume, and sharp swings in prices. This can be ascribed to four main factors: (1) the uncertain business outlook; (2) the strong competition of bonds and approved saving schemes because of galloping inflation; (3) the credit squeeze introduced in the middle of the year; and (4) devaluation expectations, which fueled demand for Natad dollars. In this context it should be noted that the Natad dollar is more a substitute for shares than for bonds: the risk

Table XIX-1  
DOMESTIC SECURITY ISSUES, 1973-74<sup>a</sup>  
(IL million)

	1973				1974				
	Gross issues	Redemption of principal	Interest and linkage differentials	Total proceeds (1-2-3)	Gross issues	Redemption of principal	Interest and linkage differentials	Total proceeds (5-6-7)	Increase in net proceeds (8-4)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Issues to social insurance funds	1,649.2	116.3	459.3	1,073.6	2,446.5	131.7	822.4	1,492.4	418.8
Issues to insurance companies <sup>b</sup>	122.3	13.0	50.7	58.6	272.1	11.1	78.5	182.5	123.9
Option-type <sup>c</sup> and 6.5% linked bonds	2,713.9	409.0	396.9	1,908.0	832.2	361.1	729.6	-258.5	-1,649.5
3.25% linked bonds	—	—	—	—	67.8	—	—	67.8	67.8
4% linked bonds	—	—	—	—	2,677.2	—	—	2,677.2	2,677.2
Total bonds in Israeli currency	<b>4,485.4</b>	<b>538.3</b>	<b>906.9</b>	<b>3,040.2</b>	<b>6,295.6</b>	<b>503.9</b>	<b>1,630.5</b>	<b>4,161.2</b>	<b>1,121.0</b>
Government	1,749.9	175.6	190.7	1,383.6	2,034.7	233.5	353.9	1,512.7	129.1
Other	2,735.5	362.7	716.2	1,656.6	4,260.9	476.8	1,276.6	2,648.5	991.9
Bonds traded in foreign currency	16.0	72.0	102.5	-158.5	78.3	91.1	126.8	-139.6	18.9
Nontradable compulsory loans	1,727.4	—	—	1,727.4	2,632.2	88.6	789.0	1,754.6	27.2
Tradable compulsory loans	—	100.1	242.4	-342.5	—	88.1	102.4	-190.5	152.0
Shares <sup>d</sup>	326.8	—	—	326.8	307.1	—	—	307.1	-19.7
Convertible bonds	299.3	—	—	299.3	126.8	—	—	126.8	-172.5

<sup>a</sup> Excluding sales of foreign securities in Israel. The data in this table relate only to issues with a prospectus and securities of the government, Jewish Agency, and its subsidiary, which are issued without a prospectus. The data relate to actual sales and not authorized issues.

<sup>b</sup> The reference is to the deposits made by insurance companies with the Bank of Israel and not to the value of Insurance Companies Loan certificates into which the deposits are converted at fixed dates during the year. These estimates assume that none of the bonds issued by the Israel Electric Corporation and listed on the Stock Exchange were held by insurance companies.

<sup>c</sup> Includes the redemption of prize-bearing bonds, bonds with mixed linkage, and bonds linked to the foreign exchange rate.

<sup>d</sup> Issues of companies listed on the Stock Exchange which were offered to shareholders of record or to the general public.

SOURCE: Bank of Israel calculations.

element in both these assets is similar because of the high volatility of their prices.

The slower growth of demand for bonds and the sagging demand for shares were accompanied by relatively sharp fluctuations in their prices, yields, and monthly sales. The irregular path described over the year was due to the numerous economic measures adopted by the government and the diverse expectations generated by the growing economic and political uncertainty in the aftermath of the war. In analyzing the securities market in 1974 four distinct subperiods can be distinguished. From February through April demand weakened because of the less favorable terms of new bond issues and the cloudy postwar picture. Between May and July the share and bond markets perked up as a result of the brighter business outlook. In August the trend again turned downward in both markets, owing primarily to the increase in debitory interest rates after the central bank clamped down on the volume of credit, and also to the milder rise in consumer prices. The devaluation of the IL in November gave a fillip to the securities market, as reflected in trading volume and prices alike.

The immediate postwar period witnessed the mounting of devaluation expectations. These persisted throughout 1974 but with varying intensity; the result was sharp ups and downs in the prices of the Natad and free-market dollar. The devaluation expectations led to heavier purchases of securities traded in foreign currency and an increase in Natad balances, but immediately after the devaluation profit-taking sharply depressed these holdings.

## 2. THE BOND MARKET

The bond market was very unstable in the year reviewed, as reflected by the sharply fluctuating demand, prices, and yields. This can be directly attributed to political developments and to the various economic measures introduced by the government during the year. The erratic behavior of this market can be seen in Figure XIX-1 and Table XIX-3. A glance at the diagram shows that bond prices were much more volatile than in previous years. Table XIX-3 gives the monthly average rates of change in bond prices and the standard deviations of these rates in each of the years 1971-74.<sup>1</sup> To some extent these fluctuations stemmed from fluctuations in the consumer price index, but the standard deviations of the real yields to maturity, i.e. after eliminating the influence of changes in consumer prices, still

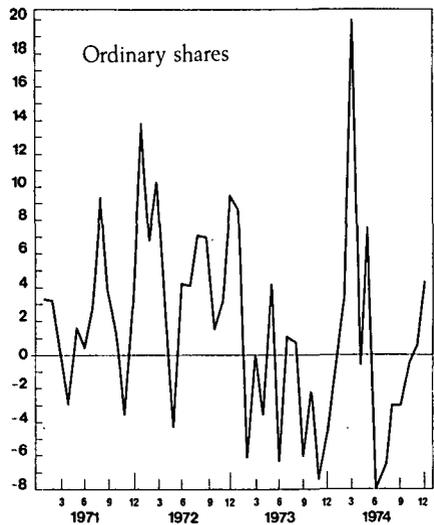
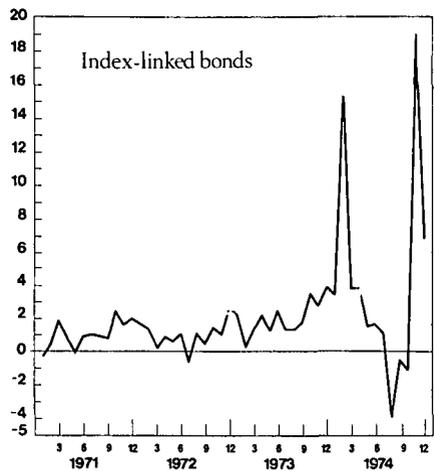
<sup>1</sup> The ratio between the standard deviations and the means measures the intensity of the fluctuations: the higher the ratio, the greater are the fluctuations. Here there is an implied assumption of linearity. Obviously it would be preferable for the standard deviations to be small, even though the ratio between them and the yields hold steady.

indicate a highly irregular pattern in 1974. It would therefore be of greater interest to analyze the behavior of the market not on an annual basis but by subperiods. We shall begin by surveying the developments and their underlying causes over the year as a whole, while developments in the course of the year will be discussed together with the analysis of new issues and activity in the secondary market.

The net amount of capital raised through bond issues expanded at a much slower rate in 1974. Sales, less redemption of principal and payment of interest and linkage increments on voluntary loans and compulsory loans that became tradable during the year, came to IL 3,284 million, as against IL 2,697 million in 1973 and IL 1,191 million in 1972. In other words, net proceeds were up only 22 percent in 1974, after doubling in the previous year—a development that stands out all the more against the strongly accelerating rise of the consumer price index.

The softening of the bond market was due to two main factors: (1) Net personal real income (less compulsory loans) did not grow this year and real savings even fell off appreciably. At current prices, total savings expanded by 23 percent, only a shade faster than net bond sales. (2) Since bonds are only one component in the financial assets portfolio of individuals and businesses, the changes in sales of this type of security stemmed partly from the reshuffling of portfolios. In 1973 the high rate of inflation induced the public to greatly increase the proportion of linked bonds, at the expense of time deposits and Short-Term Loan holdings. The sagging trend in

**Figure XIX-1**  
**MONTHLY MOVEMENT OF BOND**  
**AND SHARE PRICES, 1971-74**  
 (percent change)



unlinked assets carried over through the year reviewed, but because of the extensive adjustment of portfolios in 1973, the decline was less pronounced this year. The most salient change in 1974 was the growing shift to approved saving schemes, which are also linked to the consumer price index. Net deposits in such schemes swelled from IL 660 million in 1973 to almost IL 2 billion in the year reviewed.

The enormous increase in approved saving scheme deposits in 1974 and the more sluggish growth of bond sales are explained primarily by the improvement in the relative yield of the former. At the beginning of the year the government altered the terms of new bond issues, with the result that their net real yields to maturity dropped 2.3 percent. The terms of saving schemes, on the other hand, remained unchanged, their net yield to maturity holding steady at 6 percent. This undoubtedly prompted many savers, mainly long-term, to switch to this instrument.

Compared with bonds, the liquidity of saving schemes is fairly low, but the volatility of prices and yields in 1974 reduced the relative liquidity of the former—a development that doubtless played a part in the reshuffling of investment portfolios. Two other factors enhanced the attraction of saving schemes: the belief that the Treasury would start to tax bond linkage increments while those on approved saving schemes remained tax-exempt, and the determined effort of the banks to expand the volume of such deposits.

The intensification of devaluation expectations after the war also dampened demand for bonds, both because of the shift to the Natad market and bonds linked to the foreign exchange rate and because of the holding up of foreign currency transfers to this country.

Besides these factors, another one appeared in the middle of the year, which had an especially powerful impact on the demand for bonds, namely the restriction of commercial bank credit. This pushed up the debitory interest rate and greatly reduced the worthwhileness of short-term speculative deals. Along with the sluggish rise of consumer prices in the third quarter, these changes depressed demand for bonds.

At the same time, however, several influences worked in the opposite direction. The main one was the persistence of inflation: the consumer price index jumped 40 percent on an annual average and by 56 percent in December levels. In a year of such strong inflation index-linkage is a crucial factor in demand; indeed, in 1974 the demand for new issues moved more or less in step with the changes (and expectation of changes) in the consumer price index. Another factor stimulating demand for bonds was the deepening mood of uncertainty induced by the political and economic situation; on the one hand, this diminished interest in the share market, which is more sensitive to such a development, and on the other hand, it heightened interest in bonds and saving schemes, which offer a better hedge against the erosion of

Table XIX-2  
**MEDIUM- AND LONG-TERM BOND ISSUES, 1972-74<sup>a</sup>**  
 (IL million).

End of period	Medium-term bonds sold to the public <sup>b</sup>				Long-term bonds							
	Govt.	Other	Total		Sold to insurance companies and social insurance funds		Total denominated in IL		Bonds denominated in foreign currency <sup>f</sup>		Convertible bonds	Shares
			Gross	Net <sup>c</sup>	Govt. <sup>d</sup>	Other <sup>e</sup>	Gross	Net	Gross	Net		
1972	737.5	575.1	1,312.6	292.8	57.6	1,333.1	1,390.7	898.2	156.9	18.8	56.0	143.2
1973	1,600.9	1,113.0	2,713.9	1,565.4	149.0	1,622.5	1,753.5	1,132.2	16.0	-158.5	299.3	326.8
1974	1,641.9	1,935.3	3,577.2	1,608.9	393.4	2,325.2	2,718.6	1,674.9	78.3	-111.4	126.8	307.1
January	477.1	308.9	786.0	751.1	17.9	142.0	159.9	107.8	5.3	0.6	—	—
February	122.0	42.1	164.1	38.7	19.5	140.1	159.6	102.2	3.2	-1.5	—	—
March	145.7	33.8	179.5	86.6	18.6	145.6	164.2	102.0	13.1	-23.4	—	3.9
April	141.7	198.8	340.5	-28.0	61.5	270.4	331.9	240.3	7.6	-4.3	—	—
May	105.1	180.2	285.3	132.3	52.9	196.7	249.6	162.0	1.9	-9.3	—	—
June	98.4	297.3	395.7	183.7	49.6	155.2	204.8	108.1	—	-24.7	121.8	1.3
July	175.3	186.4	361.7	203.9	22.2	112.1	134.3	50.2	9.5	1.8	5.0	212.1
August	36.3	69.7	106.0	5.2	20.3	115.6	135.9	64.6	32.9	21.5	—	58.9
September	1.9	37.0	38.9	-161.8	26.3	107.8	134.1	64.4	0.3	-10.2	—	5.3
October	12.4	74.6	87.0	-66.2	23.8	199.6	223.4	95.2	0.1	-6.2	—	14.2
November	140.1	314.5	454.6	249.0	39.1	372.7	411.8	300.4	4.3	-10.1	—	—
December	195.9	192.0	387.9	214.4	41.1	368.0	409.1	277.7	0.1	-45.6	—	11.4

<sup>a</sup> Not all the issues appearing here were listed on the Stock Exchange, especially in the case of long-term bonds. The data refer to actual sales and not to the volume of issues offered.

<sup>b</sup> Excluding compulsory loans.

<sup>c</sup> Less redemption of principal and interest and linkage differentials paid; excluding the Absorption and Defense Loans.

<sup>d</sup> Government insurance companies and social insurance funds.

<sup>e</sup> Nongovernmental insurance companies and social insurance funds.

<sup>f</sup> Including Hollis.

SOURCE: State Loans Administration.

money. A third influence was the marked widening in the first half of the year of the differential between the cost of credit to the public and the yield on bonds, which even prompted many to take on short-term loans in order to invest in such securities.

**Table XIX-3**

**ARITHMETIC AVERAGE AND STANDARD DEVIATION OF MONTHLY CHANGE  
IN BOND AND SHARE PRICES AND YIELDS, 1971-74**  
(percentages)

	1971		1972		1973		1974	
	Average	Standard deviation						
Index-linked bond prices	1.0	0.8	1.0	0.8	2.0	1.0	4.3	6.7
Option-type bond prices	0.7	0.9	1.1	1.3	1.7	1.5	3.9	8.5
Dollar-linked bond prices	0.5	3.1	0.5	1.9	0.9	4.4	0.3	5.2
Ordinary share prices	2.0	3.5	5.4	4.8	-1.8	4.9	1.2	7.3
Natad dollar rate	-0.1	2.6	-0.1	0.7	0.6	1.6	2.7	8.2
Index-linked bond yields <sup>a</sup>	4.4	1.4	5.2	0.2	5.8	0.6	3.4	1.3

<sup>a</sup> The arithmetic average and standard deviation of the yields to maturity and not the rates of change, as with the other items.

*(a) The primary market*

The faltering of demand and its erratic pattern occurred mainly in medium-term bonds sold to the public, whereas demand for long-term bonds, purchased chiefly by social insurance funds and insurance companies, was fairly stable. Bond sales to the public aggregated IL 3,577 million in the year reviewed—up 32 percent from 1973. Net sales, i.e. after deducting redemption of principal and payment of interest and linkage increments, expanded to about the same extent; but if redemptions of the Absorption and Defense Loans, which have long been tradable, are also excluded, net sales to the public came to only IL 1,609 million, compared with IL 1,565 million in 1973. This laggard rise must be viewed against the brisk sales in 1973, the huge increase in the market value of the bond portfolio, the credit restrictions imposed in the middle of the year, and the switch to other linked assets.

Demand for bonds, as already noted, did not develop evenly over the year. In fact, the entire increase occurred in January, when net sales hit IL 750 million, or

about half the total net capital raised through bond issues in 1974. This formidable sum can be largely ascribed to the rush of sales before the floating of new issues offering less attractive terms: in February sale of the 6.5 percent index-linked bonds was discontinued, and in its place two new issues were floated—one for six years at 3.25 percent interest, with the principal linked to the index, and the second a ten-year 4 percent loan, with both principal and interest linked. Because of the less favorable terms of the former issue, its sales amounted to only a fraction of those of the latter. The altering of issue terms and the flurry of sales in January sharply depressed sales in the next three months (see Table XIX-2). In another important change the determining index was set for the month of issue instead of the previous month. These changes depressed demand on the part of short-term speculators. In the past devaluation expectations triggered a move to the Natad market, followed by a postdevaluation shift back to original-issue bonds linked to the previous month's index, so that investors benefited twice from the altering of the exchange rate.

At the start of the second quarter demand perked up, and over the next four months net sales averaged IL 170 million a month—about the same as in the corresponding period in 1973. The livelier demand during these months was due to the monetary expansion, the larger volume of bank credit to the public, and an anticipated recovery of economic activity after the disengagement agreement and the release of most reservists.

From August through October the bond market suffered a rare reverse. The hiking of the debitory interest rate and the very mild rise of consumer prices depressed demand to an unprecedented extent. During these three months redemptions exceeded sales by IL 340 million, and for the first time the bond market served as an instrument for injecting liquidity on a large scale instead of absorbing it.

The drastic government economic measures in November—the devaluation of the currency and the lifting of subsidies on numerous basic commodities—led to a renewed burgeoning of demand and a sharp upswing in net sales.

In contrast to the irregular pattern of the public's demand for bonds, the year reviewed saw a much heavier demand by social insurance funds and insurance companies. Sales to these two groups<sup>2</sup> netted IL 1,675 million all told, compared with IL 1,132 million the year before—an increase of 48 percent, compared with 26 percent in 1973. The difference in behavior between the public and the insurance

<sup>2</sup> The estimate of the net amount of capital raised through the social insurance funds and insurance companies is biased downward, since it does not include trade in the secondary market; but even ignoring this factor, it is obvious that the behavior of the general public differed essentially from that of institutional investors.

sector is apparently explained by the fact that the latter is influenced more by the terms of social insurance fund membership and the volume of new insurance policies written than by short-run changes in the money market. Sales to the insurance sector fluctuated less than those to the public, but here too net receipts dipped sharply between July and October. The underlying factor, however, apparently differed conspicuously from that affecting individual and business investors. Since the insurance sector's purchases are directly related to its accumulation, it is not reasonable to assume that it adopted a policy of holding money during this period. Hence the sole reason that can be advanced to explain this development is heavier purchases in the secondary market. Between August and October bond yields in this market rose dramatically, with a consequent marked widening of the differential between them and the yields on new issues. It is therefore a plausible inference that this caused much of the demand to shift to the secondary market, a development made possible by the authorization granted to social insurance funds to hold 20 percent of their financial assets portfolio in medium-term bonds. Since such paper accounted for only 5 percent of their portfolio in the previous year, the large volume of purchases in 1974 is understandable.

#### (b) *The secondary market*

Turnover in bonds, both on and outside the Tel Aviv Stock Exchange, swelled to a record degree in the year reviewed—169 and 92 percent respectively. Trade was lively throughout the year, but was exceptionally brisk in the final quarter. There were several reasons for this:

(1) As with the primary market, the most salient factor was the high rate of inflation. But even if the volume of trade is measured in relation to the market value of the stock of bonds, there was still a big increase, which must be attributed to other factors.

(2) The less favorable terms set for new bond issues created a yield differential between the primary and secondary markets, thereby fueling demand in the latter.

(3) The diminished interest in shares, Short-Term Loan, and time deposits also spurred investors to switch to this market.

(4) Another weighty factor, which goes far to explain the difference between the volatility of primary market trade and the huge, steady volume of that in the secondary market, was the public's expectations. In a year marked by numerous, heterogeneous expectations, there is generally an increase in secondary market turnover. This is what happened in 1974, which saw a radical reshuffling of individual investors' portfolios. The recurring devaluation expectations during the year led to a frequent shifting of funds between the Natad and bond markets. The

**Table XIX-4**  
**GENERAL TRENDS IN STOCK EXCHANGE TRADING, 1972-74**  
 (IL million, at market value)

	Bonds							Short-Term Loan	Shares <sup>b</sup>	Total securities
	Linked to the exchange rate	Linked to the c-o-l index	Option- type <sup>a</sup>	Traded in foreign currency	Convertible into shares	Unlinked and mixed linkage	Total			
1972	15.5	112.4	441.9	107.8	12.8	0.6	691.0	212.5	762.9	1,666.4
1973	11.7	250.5	676.0	120.6	79.3	0.1	1,138.2	61.5	633.0	1,832.7
1974	16.6	786.1	2,007.3	171.6	74.9	0.2	3,056.7	130.5	518.9	3,706.1
January	2.0	37.0	135.8	10.8	3.3	0.0	188.9	25.3	26.7	240.9
February	1.7	44.2	155.8	9.9	3.8	0.0	215.4	8.7	23.2	247.3
March	1.2	42.5	187.0	11.9	8.2	0.0	250.8	11.7	65.5	328.0
April	0.9	42.8	150.8	9.4	6.9	0.0	210.8	17.0	57.6	285.4
May	1.3	56.5	159.6	11.7	9.4	0.0	238.5	20.6	78.3	337.4
June	1.2	58.5	198.6	13.4	16.6	0.0	288.3	6.1	72.4	366.8
July	0.8	67.5	196.0	9.6	7.3	0.0	281.2	4.0	47.4	332.6
August	0.8	56.9	114.0	7.3	4.2	0.1	183.3	3.6	22.7	209.6
September	0.4	39.4	93.8	6.2	1.7	0.0	141.5	3.4	13.9	158.8
October	1.5	58.4	122.0	10.3	2.9	0.0	195.1	2.6	20.8	218.5
November	2.4	149.9	277.8	41.8	5.6	0.1	477.6	7.1	38.5	523.2
December	2.4	132.5	216.1	29.3	5.0	0.0	385.3	20.4	51.9	457.6
				<b>Percent annual increase</b>						
1972	0.7	97.9	110.0	31.1	c	c	66.0	29.7	102.1	60.1
1973	-24.5	122.9	53.0	11.9	c	c	64.7	-71.7	-17.0	10.0
1974	41.8	213.8	196.9	42.3	-5.5	c	168.5	112.2	-18.3	102.0
				<b>Percentage distribution</b>						
1972	0.9	6.7	26.5	6.5	0.8	0.0	41.4	12.8	45.8	100.0
1973	0.6	13.7	36.9	6.6	4.3	0.0	62.1	3.4	34.5	100.0
1974	0.4	21.2	54.1	4.6	2.0	0.0	82.4	3.5	14.0	100.0

<sup>a</sup> Including trade in bonds according to yields, introduced in August 1973.

<sup>b</sup> Listed ordinary and preferred shares, unlisted shares traded off the floor, and shares denominated in foreign currency. Data on monthly share turnover by share group and on over-the-counter trade appear in Table XIX-8.

<sup>c</sup> Because of the small sums involved the percentage change lacks significance.

SOURCE: Tel Aviv Stock Exchange.

anxiety about a possible change for the worse in the terms of new bond issues at the beginning of the year also strengthened demand in the secondary market. Another factor that gave it a shot in the arm was the frequently recurring expectation of the discontinuation of linked bond issues, which resulted primarily in a switch from bonds falling due in the near future to those with longer maturities. The fear that the government would decide to tax linkage increments and that it would alter the base for calculating the consumer price index by eliminating the effect of imports from the measured basket of goods also enhanced the attraction of the secondary market during the year.

(5) Finally, the credit freeze in force during part of the year also contributed to the livelier secondary market trade, since many businesses and individuals who were pinched for funds had to unload part of their bond holdings.

In contrast to 1973, in the year reviewed the instability of the market because of the above-listed factors was also reflected in the yields to maturity. They were especially volatile in the case of option-type bonds.<sup>3</sup> In April the possibility of bond washing was terminated. It was decided that henceforth only bonds falling due before October 1975 would be exempt from income tax, while in the case of those maturing after this date the exemption allowed nonprofit institutions would be scaled according to the length of time they held the bonds. This change depressed the yields to maturity on option-type paper, on which interest accrues. For the sake of consistency, the data in Table XIX-5 give the gross yields through April, while from May onward they are shown net owing to the discontinuation of bond washing.

In January the average yield was in the neighborhood of 5 percent, with slight variances depending on the period to maturity. The next month saw a sharp drop, with the figure dipping in most cases to 2 percent and in some even turning negative. At the beginning of the month the public expected a change for the worse in the terms of new bond issues, with the consequence that on some days trading was marked by buyers only. After announcement of the new issue terms bond prices turned steeply upward, and their yields plateaued at around 3 percent, where they hovered throughout the second quarter.

In the third quarter bond prices skidded noticeably, with a resulting rise in yields, which was especially steep in September when the level moved up in most cases to 5 percent or more. This drastic change of trend was precipitated by the monetary measures adopted. The credit freeze imposed by the Bank of Israel pushed up

<sup>3</sup> Option-type bonds permit the investor to choose, upon maturity, between a high rate of interest without linkage of the principal and interest and a lower rate with the principal and interest linked to the consumer price index.

Table XIX-5

**AVERAGE NET YIELDS TO MATURITY<sup>a</sup> OF BONDS TRADED ON  
THE STOCK EXCHANGE, 1974**

(percentages)

Years to maturity	Index-linked <sup>c</sup>													
	Dollar-linked <sup>b</sup>				3¼%		4%		Absorption Loan		6½%		Option-type <sup>d</sup>	
	0-2	2-5	5+	Total	6	10	1½	5	5-6	2-3	3-4			
January	5.4	4.8	5.2	5.5	d	d	4.4	5.0	5.2	4.9	5.2			
February	5.3	4.9	5.0	5.5	d	d	-0.6	2.1	2.5	1.3	2.0			
March	5.6	4.8	5.5	5.6	d	3.0	1.1	2.4	2.6	3.3	3.3			
April	5.0	4.9	5.3	5.2	2.6	2.9	0.1	2.0	1.7	2.0	2.1			
May	4.1	5.1	5.3	5.2	3.0	2.9	2.3	2.5	2.1	1.4	1.8			
June	4.7	5.2	5.4	5.3	3.5	3.0	3.2	2.8	2.4	1.8	2.1			
July	4.8	5.5	5.7	5.5	3.0	2.6	4.3	2.6	2.1	1.4	1.9			
August	4.3	5.5	5.7	5.4	4.1	3.4	4.8	4.4	3.8	3.5	4.0			
September	4.1	5.6	5.7	5.4	5.9	4.2	4.6	5.2	5.0	4.4	5.2			
October	5.2	6.1	6.2	6.0	5.6	4.0	3.5	4.9	4.4	3.6	4.6			
November	10.2	9.2	8.9	9.1	4.8	3.7	0.0	3.8	3.4	0.7	3.1			
December	8.7	8.0	7.8	8.0	4.7	3.7	3.8	5.7	5.0	4.1	4.9			

<sup>a</sup> For option-type bonds the gross yield to maturity is given here for the months of January through April, as this is what the investor actually received net because of the practice of bond washing.

<sup>b</sup> Data from the Central Bureau of Statistics.

<sup>c</sup> Yields to maturity of index-linked and option-type bonds were calculated from a sample of two of the most actively traded bonds in the group.

<sup>d</sup> Data not available.

debtory interest rates; this of course made it less worthwhile to take on short-term loans to finance bond purchases, so that one of the major sources of demand was curtailed. Publication in the middle of July of the consumer price index for the end of the previous month, which crept up by a mere 0.3 percent, further reduced the differential between debtory interest rates and bond yields. The upshot was a flurry of sales and the tumbling of prices. In July and August prices drifted upward at a sluggish rate and fears arose of a business slowdown. Besides these two factors, many short-term investors who had entered the bond market in the first half of the year in the hope of earning a handsome gain now unloaded their holdings. These developments touched off a panic, and even some long-term investors pulled out. In retrospect, the credit freeze did not prove to be very effective. But it is reasonable to assume that individuals and companies applying for credit when the restrictions were imposed were turned down by the banks, so that even though this measure did not achieve the desired results in the end, when it went into effect it led to a rush of sales.

Table XIX-6

**MONTHLY INDEX OF SECURITY PRICES ON THE TEL AVIV  
STOCK EXCHANGE, 1974**  
(December 30, 1973 = 100)

End of month	Bonds					Shares		
	Index-linked			Linked to foreign exchange rate	Mixed linkage	Total	Ordinary	Preferred
	Total	Linked to index only	Option-type					
January	103.1	103.4	102.9	100.5	102.1	103.1	99.9	103.1
February	120.1	119.5	120.4	105.2	109.7	119.9	103.2	113.8
March	123.4	124.0	123.0	101.4	112.9	123.2	122.9	145.4
April	127.1	128.7	126.1	98.8	111.6	126.8	122.2	155.7
May	127.3	130.6	125.3	99.5	114.0	127.1	131.5	162.5
June	129.3	132.7	127.3	105.0	115.9	129.1	121.0	152.3
July	129.3	133.9	126.4	96.3	—	129.0	113.2	150.8
August	123.6	128.7	120.3	96.0	—	129.0	109.7	141.0
September	123.8	128.1	121.3	96.1	—	123.3	106.5	138.2
October	121.8	126.7	118.6	105.6	—	123.6	106.0	141.4
November	148.8	150.8	148.0	109.3	—	148.3	106.7	148.1
December	155.8	161.2	152.4	102.1	—	155.3	111.4	150.5

SOURCE: Central Bureau of Statistics.

This was checked toward the end of the third quarter with the entry of institutional investors who hoped to capitalize on the depressed prices.

In November the market took another turn. The devaluation of the Israeli pound and the lifting of subsidies on basic commodities sent bond prices climbing precipitately and reduced yields to maturity. The market had actually begun to perk up several weeks earlier as a result of the persistent expectation of an imminent devaluation of the IL. But it was not foreseen that this would be accompanied by additional measures whose impact on bond prices would be no less potent than that of the devaluation itself; the predevaluation recovery was therefore fairly laggard.

The return to the bond holder consists of the rise in prices plus interest received. Prices of option-type bonds soared 55.8 percent during the year, compared with a 56 percent jump in the consumer price index. If current interest is taken into account, it turns out that investors in this type of paper enjoyed only a small real gain, but those owning bonds pegged to the consumer price index earned a much larger real profit.

### 3. THE SHARE MARKET

Trends in the share market resembled those in bonds in 1974, but since shares have a higher risk element, the swings in this market were much sharper. On balance, the year reviewed witnessed a continuation of the slump, even though prices firmed somewhat. The daily index of share prices moved up 9 percent during the year, after sinking 23 percent in 1973. But given the acceleration of inflation in 1974, it is clear that over the past two years there was a sharp real decline in equity prices: in 1973 they fell off 40 percent in real terms, and in the year reviewed by 30 percent. Two other indicators pointing to a slump are the dent in trading volume, both on the Exchange and in the over-the-counter market, and a drop in the number of new issues and their volume.

At the beginning of the year the equity price index and the volume of trade showed signs of picking up. The low quotations in January and February were directly due to the prevailing mood of uncertainty in the aftermath of the war and the large-scale mobilization of reserves. The disengagement agreement and the subsequent more optimistic business outlook, together with the monetary expansion, greatly stimulated demand for shares. In March turnover tripled and prices also shot up. In this context it should be stressed that, while the data in Tables XIX-6 and XIX-7 seem to indicate a steady upturn in share prices between March and May, in actual fact the curve rose in a very jagged manner in two-week cycles, as the market alternated between a pessimistic and an optimistic mood, with a consequent big expansion of turnover. The trebling of trade within a single month and the maintenance for three months of a volume that was high even in comparison with normal years attest to the lack of homogeneity and stability of investors' expectations.

Other factors helping the market to snap out of the doldrums in the second quarter were the publication of favorable balance sheets and the distribution of cash dividends and bonus shares, chiefly by commercial banks, as well as some move from bonds to shares induced by fears of the imposition of a tax on linkage increments and an anticipated moderation of the inflation.

The share market rally was short-lived, fizzling out after only three months. In June demand began to subside appreciably and it continued downward until November, with a concomitant sagging of prices. The main causes were the same as in the bond market: the clamping down on bank credit and expectations of an economic slowdown. The share market, which is riskier than that for bonds, naturally responded more strongly. Turnover during these months also slumped considerably, evidence of the greater homogeneity of investors' expectations.

**Table XIX-7**  
**DAILY INDEXES OF SHARE PRICES, 1974**  
 (December 30, 1973 = 100)

End of month	General Stock Exchange index	Finance and insurance							Commerce and services	Land. construction. development
		General index of finance and insurance shares	Commercial banks	Mortgage banks	Specialized financial institutions	Investment companies	Industry			
January	100.6	99.7	98.8	97.1	99.4	100.6	101.5	101.7	99.6	
February	103.2	101.3	100.3	95.2	98.0	101.8	104.6	109.6	104.1	
March	119.8	116.1	117.4	111.1	104.6	119.7	122.6	127.1	120.1	
April	119.2	118.0	115.6	109.4	101.8	116.8	119.3	123.9	124.2	
May	130.2	123.4	121.0	117.0	107.2	130.3	131.7	145.0	137.5	
June	119.2	118.0	115.6	109.4	101.8	116.8	119.3	123.9	124.3	
July	105.9	114.4	115.0	108.8	96.8	106.8	111.3	121.7	112.5	
August	107.3	111.8	112.7	104.1	95.4	102.1	107.7	119.4	105.7	
September	104.4	110.1	113.0	100.8	95.3	100.3	102.0	119.6	102.3	
October	103.7	112.9	116.2	102.1	95.6	97.4	104.0	121.0	97.8	
November	103.1	113.3	119.2	140.4	95.0	96.9	103.4	115.8	90.0	
December	109.7	121.7	128.9	114.3	99.4	103.7	106.0	128.4	95.3	

SOURCE: Central Bureau of Statistics.

**Table XIX-8**  
**MONTHLY SHARE TURNOVER ON THE TEL AVIV STOCK EXCHANGE, BY SHARE GROUP, 1974**  
 (IL thousand)

	Total Stock Exchange share volume	Commercial banks	Mortgage banks	Specialized financial institutions	Insurance	Commerce and services	Land and devel- opment	Industry	Investment companies	Shares sold off the floor
January	26,773	6,205	1,677	3,820	802	2,501	2,056	4,442	4,727	543
February	23,271	10,536	1,405	347	776	2,036	1,863	1,752	3,760	796
March	65,555	23,688	5,382	1,568	1,598	4,254	5,030	8,050	14,698	1,287
April	57,569	24,335	3,824	1,211	3,031	1,768	5,339	7,008	10,594	459
May	78,373	30,771	4,627	1,844	2,673	3,709	8,528	11,644	14,106	471
June	72,488	30,453	5,222	1,303	1,879	3,580	6,110	9,627	13,908	406
July	47,408	21,460	2,924	1,195	1,543	1,942	3,711	6,188	7,986	459
August	23,541	8,684	1,496	739	1,138	1,151	1,748	3,027	5,338	221
September	20,351	4,256	7,178	211	682	1,026	1,172	2,542	3,137	147
October	24,456	6,358	1,752	3,468	911	1,133	1,710	4,532	4,452	140
November	39,993	15,524	4,023	1,634	1,633	1,794	2,450	5,413	7,411	111
December	52,509	23,368	5,106	1,007	2,042	4,347	2,796	5,149	8,554	140
1974	<b>532,287</b>	<b>205,638</b>	<b>44,616</b>	<b>18,347</b>	<b>18,708</b>	<b>29,241</b>	<b>42,513</b>	<b>69,374</b>	<b>98,671</b>	<b>5,180</b>
1973	<b>632,970</b>	<b>222,331</b>	<b>52,748</b>	<b>14,896</b>	<b>12,997</b>	<b>27,040</b>	<b>73,671</b>	<b>85,152</b>	<b>139,497</b>	<b>4,638</b>

## Trade on and outside the Stock Exchange

January	45,086	11,079	2,517	3,950	995	2,794	8,847	6,669	7,692	543
February	44,617	23,806	2,151	452	1,821	2,905	2,771	3,474	6,441	796
March	106,123	47,082	8,237	1,908	2,168	6,023	7,107	11,271	21,040	1,287
April	92,087	44,092	6,866	1,538	4,100	2,701	7,402	9,806	15,123	459
May	119,335	51,029	7,270	2,627	3,516	5,012	12,667	16,474	20,269	471
June	121,237	60,877	9,320	1,722	2,499	4,610	8,809	13,313	19,681	406
July	100,897	59,202	4,754	1,451	2,206	2,489	5,264	9,024	16,048	459
August	46,450	25,912	2,695	907	1,540	1,486	2,210	4,726	6,753	221
September	42,099	21,048	8,585	271	992	1,519	1,486	3,512	4,539	147
October	60,170	28,731	6,020	3,546	1,336	2,323	2,602	5,985	9,487	140
November	87,562	38,803	9,064	1,807	2,097	2,293	9,149	7,420	16,818	111
December	93,567	50,965	6,677	4,211	3,491	6,060	3,485	7,180	11,358	140
1974	<b>959,230</b>	<b>462,626</b>	<b>74,156</b>	<b>24,390</b>	<b>26,761</b>	<b>40,215</b>	<b>71,799</b>	<b>98,854</b>	<b>155,249</b>	<b>5,180</b>
1973	<b>1,017,180</b>	<b>420,594</b>	<b>78,670</b>	<b>25,467</b>	<b>17,966</b>	<b>35,373</b>	<b>99,835</b>	<b>120,093</b>	<b>214,544</b>	<b>4,638</b>

After the devaluation share prices turned upward, but quite sluggishly compared with bonds. Moreover, the public's reaction to the devaluation was very unstable. Immediately after this step prices firmed, but in the following week they again softened conspicuously. This erratic pattern continued until the end of November, and on balance prices dipped slightly that month. The public's response to the economic measures introduced by the government in November suggests that it found it hard to assess how they would affect business activity. To judge from the behavior of the market, it would seem that investors expected the new measures to put a damper on economic activity. Another factor that depressed sales of shares that month was the burgeoning demand for index-linked bonds, which was clearly influenced by the economic policy moves. The niggardly advance of equity prices after such a drastic step as devaluation supports the assumption that interest in this market flagged noticeably in 1974.

To sum up, the upswing in share prices notwithstanding, the market continued to be depressed, owing mainly to the mood of uncertainty prevailing after the war and the economic steps taken by the government during the year.

The slump began in 1973, but the principal causes then were entirely different, the main one being the overvaluation of stocks in 1972. The market reverses in 1973 were partly responsible for the slackening of demand in the year reviewed. In Israel the market is still not sufficiently developed, and many potential investors shy away from it. After a year which witnessed the jolting of the economy, and given the current expectations of a cooling of business activity, demand for shares naturally waned considerably, a development aggravated by the feverish demand for financial assets linked to the consumer price index. Galloping inflation diverted investors' interest to approved saving schemes and bonds, which are a much safer investment, in particular in periods of inflation (especially cost-induced).

The steady faltering of demand over the past two years was accompanied by a greatly increased supply. New issues totalled IL 634 million in 1973-74, in addition to IL 426 million in convertible bonds and capital notes. The increase in placements during a period of falling demand also contributed to the market setback.

#### (a) *The primary market*

The slump and uncertainty characterizing the share market in the year reviewed also found expression in new issues. The total amount of capital raised through shares, capital notes, option certificates, and convertible bonds added up to IL 434 million, down 31 percent from 1973. The drop was sharpest in convertible bonds and milder in equities. A more striking manifestation of the diminished inclination to turn to the Stock Exchange for raising capital was the fact that only ten companies

Table XIX-9

**QUARTERLY TURNOVER ON TEL AVIV STOCK EXCHANGE AND  
OVER-THE-COUNTER MARKET,<sup>a</sup> 1972-74**

(IL million)

	Shares				Bonds			
	Over- the- counter market	On the Ex- change	Total	Ratio (1)÷(3)	Over- the- counter market	On the Ex- change	Total	Ratio (5)÷(7)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1972	349.9	762.9	1,112.8	0.31	2,791.1	691.0	3,484.1	0.80
1973	384.2	633.0	1,017.2	0.38	3,685.3	1,138.2	4,823.5	0.76
1974	426.9	532.3	959.2	0.45	7,076.3	3,056.7	10,133.0	0.70
	<b>Percent increase</b>							
1973	9.8	-17.0	-8.6		31.9	64.7	38.4	
1974	11.1	-15.9	-5.7		92.0	168.6	110.1	
I	80.2	115.6	195.8	0.41	1,485.5	655.1	2,140.6	0.69
II	124.3	208.4	332.7	0.37	1,587.6	737.6	2,325.2	0.68
III	98.1	91.3	189.4	0.52	1,505.8	606.0	2,111.8	0.71
IV	124.3	117.0	241.3	0.52	2,497.4	1,058.0	3,555.4	0.70

<sup>a</sup> Includes bonds traded in Israeli and foreign currency, capital notes, and convertible bonds; excludes the Short-Term Loan.

SOURCE: Tel Aviv Stock Exchange.

did so in 1974, compared with 39 the year before. But even after allowing for these factors, the volume of new issues in 1974 was fairly large, considering the extremely depressed state of the market in the past two years. The explanation lies in the group composition of the issues. Nearly all were floated by commercial banks, particularly the three biggest ones. These concerns are quite profitable, so that an investment in their securities is a less risky matter. If to this is added the fact that a large percentage of their flotations were rights issues priced far below the going market quotations, their ability to float large issues in a sinking market is comprehensible. Bank Hapoalim set an all-time record for the Tel Aviv Stock Exchange, with three issues totalling IL 170 million. IDB Bankholding Corp. raised some IL 60 million, and Bank Leumi le-Israel about IL 120 million in convertible capital notes. Only one industrial concern appeared on the list this year: an IL 11 million rights issue by Electric Wire and Cable Co.

In the first five months of the year there was not a single issue. The rebounding of the market in the second quarter spurred some of the companies that had planned new issues to make their placements in the third quarter. Nearly all the capital mobilized through the Exchange was raised between June and August. Such a heavy

**Table XIX-10**  
**NET OVERALL RATES OF RETURN ON AN INVESTMENT IN LISTED ORDINARY STOCKS, SELECTED PERIODS, 1973-74**  
 (percentages)

Period	Average overall rate of return					Overall rates of return by deciles					No. of stocks	No. of companies
	Arithmetic average rate of return	Weighted by total listed capital <sup>a</sup>	Weighted by annual volume of trade <sup>b</sup>	Highest overall rate of return	Lowest overall rate of return	10	25	50	75	90		
<b>1. Banking, finance, insurance</b>												
31.12.73-30.6.74	25.6	24.8	33.0	67.3	3.8	6.2	10.9	20.8	36.6	49.4	31	20
30.6.74-31.12.74	-7.8	-1.3	-2.5	15.9	-32.2	-13.4	-5.5	0	5.6	9.7		
30.12.73-31.12.74	24.8	24.2	37.0	65.2	3.4	5.1	13.3	20.0	35.4	56.3		
<b>2. Land and development</b>												
31.12.73-30.6.74	24.2	23.6	0.9	67.0	-0.3	5.8	10.3	21.5	31.3	46.0	18	13
30.6.74-31.12.74	-16.8	-26.8	-26.9	42.6	-38.4	-37.6	-31.5	-24.8	-2.7	-0.3		
30.12.73-31.12.74	2.5	-9.8	-7.1	73.3	-34.4	-28.1	-13.2	-3.5	9.9	30.4		
<b>3. Industry and commerce</b>												
31.12.73-30.6.74	28.0	21.7	22.3	135.1	6.2	7.9	9.2	17.3	42.4	46.4	35	25
30.6.74-31.12.74	15.7	-10.7	-6.5	-81.0	-45.8	-35.4	-31.0	-17.6	7.8	9.8		
30.12.73-31.12.74	13.7	11.3	17.3	174.9	-41.1	-25.1	-20.9	-5.7	37.6	55.0		
<b>4. Investment companies</b>												
31.12.73-30.6.74	20.2	7.2	13.8	48.5	-3.1	2.2	5.4	18.4	32.4	45.5	23	18
30.6.74-31.12.74	-10.6	-0.6	0.4	15.0	-32.9	-31.8	-24.4	-16.6	-4.7	9.8		
30.12.73-31.12.74	6.8	-0.7	12.6	46.4	-31.4	-22.7	-7.0	7.6	16.1	21.4		
<b>5. Total companies listed on the Exchange<sup>c</sup></b>												
31.12.73-30.6.74	25.0	20.4	25.1	135.1	-3.1	7.9	12.2	23.9	37.0	49.4	107	76
30.6.74-31.12.74	-2.2	-5.2	-2.0	81.0	45.8	-31.5	-24.8	-8.8	3.0	9.8		
30.12.73-31.12.74	13.6	13.4	25.7	174.9	-41.1	-20.9	-7.0	8.8	22.0	39.0		

<sup>a</sup> According to the composition of listed capital, at market prices, at the end of the previous year.

<sup>b</sup> According to the composition of trade in the year for which the calculation is made.

<sup>c</sup> Includes several stocks that are not classified under any of the four above-mentioned groups.

SOURCE: Bank of Israel calculations.

concentration of placements within a three-month period was one of the factors speeding the drop in share prices during this period.

In 1974 as well a large percentage of the issues were rights issues, which entitle holders of record to purchase shares in a fixed ratio to their holdings. There are several reasons for raising equity in this manner. One is to enable stockholders of record to retain their share in the total capital, and thus control, of the firm; another is that some companies are legally bound by their articles of association to float new equity issues only in the form of stock rights. A third reason is to ensure the success of an issue, for the rights enable the existing stockholders to acquire new shares at a price below the going market rate.

The placements made with the public in 1974 featured two innovations. First, Bank Leumi issued convertible capital notes entitling those who refrain from converting them into shares to 16 percent interest. In the case of convertible bonds there is a 10 percent limit on interest, designed to preclude their competing with government bonds, but because of the accelerating inflation the bank was permitted to raise the interest on this type of paper. A second innovation was the issuing of option certificates. These may be converted into shares at a fixed price within a stipulated period, but they do not carry interest. IDB and the Jordan Exploration and Investment Company made such issues.

#### (b) *Secondary share market*

Equity prices rose 9 percent in 1974, but as this was far below the increase in the consumer price index, investors sustained heavy real losses. Trends in this market were mixed: some share prices advanced fairly steeply while others softened, but all share groups lost ground in real terms. Pacing the various groups in rate of price increase were the commercial banks with 29 percent, followed by trade and services at 28 percent. Industrials went up at a very laggard rate, while land and development shares slipped 5 percent in nominal terms. The biggest drop was in property shares, for the construction industry experienced a slowdown and dwelling prices did not advance during much of the year. Land prices, which are especially sensitive to changes in construction activity, declined sharply.

Equity trading volume on the Tel Aviv Stock Exchange receded 16 percent, while that conducted outside its walls was up 11 percent, making a 6 percent drop overall. The contraction of new issues and the growing proportion of trade conducted in the over-the-counter market point to a diminishing of the intermediary function of the Stock Exchange in the past two years. Trade conducted outside the Exchange ran at 45 percent of total turnover, which reduced the significance of the prices set on the Exchange.

Table XIX-11

**DISTRIBUTION OF ORDINARY SHARES<sup>a</sup> BY DAILY TRADING  
VOLUME,<sup>b</sup> 1973-74**

Daily volume (IL'000)	1973		1974	
	No. of shares	Percent of total volume	No. of shares	Percent of total volume
0-0.2	—	0.0	—	0.0
0.2-0.4	—	0.0	—	0.0
0.4-1.0	—	0.0	—	0.0
1.0-2.0	1	0.1	6	0.3
2.0-4.0	5	0.4	5	0.4
4.0-10.0	9	1.8	21	3.7
10.0-20.0	14	6.2	12	5.1
20.0-40.0	18	14.6	14	10.6
40.0-60.0	8	10.4	7	9.6
60.0-80.0	8	14.7	6	10.9
80.0-160.0	8	27.8	4	11.8
160.0-240.0	3	16.6	2	11.6
240 +	1	7.4	2	36.1
<b>Total</b>	<b>75</b>	<b>100.0</b>	<b>81</b>	<b>100.0</b>

<sup>a</sup> The data relate to trade on the Stock Exchange and the over-the-counter market. The distribution of shares is by issuer only and not by individual issues; that is, all types of shares issued by a particular company are treated as a single unit.

<sup>b</sup> Assuming 250 trading days in the year.

SOURCE: Tel Aviv Stock Exchange.

Developments during the year greatly affected the liquidity of share holdings. There was an increase in the number of lightly traded stocks and a decline in heavily traded issues: those with less than a IL 4,000 daily volume jumped from 15 in 1973 to 321, while the number of stocks with a daily trade of over IL 60,000 fell from 20 to 14. The share market slump also left its mark on net rates of return and their distribution (see Table XIX-10). The average nominal return came to only 14 percent; given the 56 percent jump in the consumer price index, this represented a hefty real loss. In this market too the reverses were concentrated in the second half of the year. In the first half the rates of return averaged 25 percent, thanks mainly to the second-quarter rebounding of the market. But the tumbling of equity prices in the third quarter resulted in a 2 percent nominal loss in the second half of the year. At the bottom of the list was the land and development group, with a 2 percent return for the year, while at the top was the banking, insurance, and finance group with 25 percent. A distribution of the rates of return by deciles also points up the real losses suffered this year. Nearly 25 percent of the stocks showed nominal losses of 7 percent, and over 90 percent wound up the year with no real profit at all.

Table XIX-12

**SECURITIES LISTED ON THE TEL AVIV STOCK EXCHANGE, AT PAR AND  
MARKET VALUES, 1973-74**

(IL million)

End of period	1973		1974		Percent increase	
	Par value	Market value	Par value	Market value	Par value	Market value
<b>Bonds</b>	<b>7,687.8</b>	<b>10,938.0</b>	<b>10,477.7</b>	<b>19,382.8</b>	<b>36.3</b>	<b>77.2</b>
Linked to the foreign exchange rate	65.7	110.1	59.9	99.2	-8.3	-9.9
Index-linked	2,482.1	3,955.4	4,067.4	8,222.1	63.8	107.9
Traded in foreign currency	1,173.6	1,195.5	1,695.9	1,566.5	44.5	31.0
Option-type	3,928.6	5,650.4	4,627.8	9,470.6	17.8	67.6
Mixed linkage	1.0	2.6	0.1	0.4	-90.0	-84.6
Unlinked	26.8	23.8	26.5	24.0	-1.1	0.8
<b>Convertible bonds</b>	<b>382.5</b>	<b>361.4</b>	<b>480.0</b>	<b>462.2</b>	<b>25.5</b>	<b>27.9</b>
<b>Shares</b>	<b>1,491.7</b>	<b>2,783.9</b>	<b>1,812.0</b>	<b>3,494.6</b>	<b>21.5</b>	<b>25.5</b>
Ordinary and preferred	1,305.0	2,557.9	1,625.6	3,228.3	57.1	26.2
Traded in foreign currency	186.7	226.0	186.4	266.3	0.2	17.8

**Table XIX-13**  
**SHORT-TERM LOAN HELD BY THE PUBLIC,**  
**1973-74**  
(IL million)

End of period <sup>a</sup>	Balance	Increase or decrease (-)
1973 December	420.0	
1974 January	299.6	-120.4
February	261.7	-37.9
March	250.4	-11.3
April	225.4	-25.0
May	188.1	-37.3
June	160.2	-27.9
July	135.2	-25.0
August	123.5	-11.7
September	120.8	-2.7
October	120.7	-0.1
November	162.5	41.8
December	204.7	42.2

<sup>a</sup> The end of the last week of trading in the month.  
SOURCE: State Loans Administration.

#### 4. SECURITIES TRADED IN FOREIGN CURRENCY AND THE NATAD MARKET

During the first nine months of 1973 the price of the Natad dollar held steady and holdings of securities traded in foreign currency and Natad balances even shrank somewhat. The Yom Kippur War reawakened expectations of an imminent devaluation of the IL, with a resulting rise in the Natad dollar price and heavier purchases of securities traded in foreign currency. The aggravation of inflation in 1974, the growing balance of payments deficit on current account, and the heavy depletion of foreign exchange reserves intensified the public's devaluation expectations, and there was a further advance in the price of the Natad dollar. The agio on the Natad and the free-market dollar was fairly high, ranging between 10 and 20 percent in the case of the former and 17-23 percent for the latter. This

Table XIX-14

#### NET PURCHASES<sup>a</sup> OF FOREIGN SECURITIES OUT OF TAMAM AND NATAD FUNDS, 1972-74

(\$ million)

End of period	1972	1973	1974			
			Total	Listed in Israel	Hollis	Listed abroad
Net purchases						
January	1.7	3.2	0.2	0.8	-0.2	-0.4
February	-0.1	7.7	3.9	2.9	0.6	0.4
March	-0.3	-2.3	8.2	3.6	3.9	0.7
April	-1.1	-2.0	4.6	3.2	0.9	0.5
May	7.1	2.8	1.2	0.9	0.1	0.2
June	4.4	5.4	1.0	1.1	-0.2	0.1
July	4.1	3.3	5.0	4.1	-0.1	1.0
August	2.6	-3.4	4.6	3.3	1.0	0.3
September	0.0	1.8	-0.3	0.2	-0.1	-0.4
October	-0.5	0.2	1.5	1.2	-0.1	0.5
November	0.3	-1.0	-3.9	-0.6	0.4	-3.7
December	1.3	0.9	0.8	1.4	0.3	-0.9
Total net purchases	<b>19.5</b>	<b>16.6</b>	<b>26.8</b>	<b>22.1</b>	<b>6.5</b>	<b>-1.7</b>
Revaluation <sup>b</sup>	18.8	-27.8	-6.7	1.1	-1.9	-5.9
Total increase in holdings	<b>38.3</b>	<b>-11.2</b>	<b>20.1</b>	<b>23.2</b>	<b>4.6</b>	<b>-7.6</b>
Holdings at end of period	363.6	352.4	372.5	201.9	94.1	76.6

<sup>a</sup> Total securities purchased, less total securities sold during the period.

<sup>b</sup> The increment from the revaluation of the portfolio according to the prices at the end of March.

SOURCE: Foreign Exchange Department. Ministry of Finance.

Table XIX-15

**NATAD AND FREE-MARKET DOLLAR RATES, NATAD BALANCES, AND HOLDINGS OF SECURITIES  
TRADED IN FOREIGN CURRENCY, 1973-74**

(\$ million)

End of period	1973						1974							
	Secur- ities traded in foreign currency <sup>a</sup>	Natad balances	Total	Natad dollar rate (monthly average, <sup>b</sup> in IL)	Agio on Natad dollar (%)	Free- market dollar rate (monthly average, <sup>b</sup> in IL)	Agio on free- market dollar (%)	Secur- ities traded in foreign currency <sup>a</sup>	Natad balances	Total	Natad dollar rate (monthly average, <sup>b</sup> in IL)	Agio on Natad dollar (%)	Free- market dollar rate (monthly average, <sup>b</sup> in IL)	Agio on free- market dollar (%)
January	366.9	14.3	381.2	4.23	0.7	4.56	8.6	352.6	28.7	381.3	4.87	16.0	5.15	22.6
February	374.6	15.4	390.0	4.23	0.7	4.54	8.1	356.5	35.0	391.5	5.02	19.5	5.26	25.2
March	372.2	16.6	388.8	4.23	0.7	4.44	5.7	364.7	41.6	406.3	4.94	17.6	5.06	20.5
April	342.4	15.1	357.5	4.23	0.7	4.42	5.2	362.6	44.6	407.2	4.79	14.0	4.88	16.2
May	345.2	14.9	360.1	4.23	0.7	4.39	4.5	363.8	51.0	414.8	4.72	12.4	4.88	16.2
June	350.6	14.8	365.4	4.23	0.7	4.40	4.8	364.8	56.4	421.2	4.96	18.1	5.12	21.9
July	353.9	15.9	369.8	4.23	0.7	4.42	5.2	369.8	56.6	426.4	4.71	12.1	5.00	19.0
August	350.5	16.7	367.2	4.23	0.7	4.42	5.2	374.4	60.1	434.5	4.63	10.2	4.87	15.9
September	352.3	16.2	368.5	4.23	0.7	4.50	7.1	344.1	66.0	440.1	4.57	8.8	4.90	16.7
October	352.5	19.7	372.2	4.25	1.2	4.63	10.2	375.6	74.3	449.9	4.79	14.0	5.15	22.6
November	351.5	21.7	373.2	4.33	3.1	4.75	13.1	371.7	38.1	409.8	6.03 <sup>c</sup>	0.5	6.45 <sup>c</sup>	7.5
December	352.4	24.7	377.1	4.56	8.6	4.93	17.4	372.5	30.1	402.6	6.04	0.7	6.51	8.5

<sup>a</sup> Including revaluation increments arising from changes in foreign exchange rates and the adjustment of holdings according to prevailing market prices (in March or April).

<sup>b</sup> Thursday averages.

<sup>c</sup> Average price after the devaluation.

SOURCE: Bank of Israel, Central Bureau of Statistics, and the Foreign Exchange Department, Ministry of Finance.

combination of devaluation expectations and a rise in consumer prices is evidence that the public began to understand the connection between a change in the latter and the rate of exchange. Even though the agio was fairly high throughout the entire year in comparison with 1973, its volatility indicates that the devaluation expectations were of a short-run nature, changing drastically almost from week to week. A glance at Table XIX-15 shows that the price of the dollar ranged between IL 4.63 and IL 5.02. Since these are end-of-month figures, they do not reflect the numerous sharp swings that took place in the course of the year. The erratic movement of the dollar price on the one hand and its high level on the other testify that the public anticipated a devaluation of the IL in 1974, but it had trouble trying to predict its exact timing.

The strong expectation of a change in the exchange rate led to a \$ 73 million increase in sales of securities traded in foreign currency and in Natad balances up to the eve of the devaluation, but in the remaining two months of the year sales ran at \$ 47 million. The fluctuations occurred mainly in Natad deposits rather than foreign currency securities. This suggests that trade in the dollar market is of a short-term character, and is affected by expectations of a devaluation of the IL in relation to the dollar only, whereas the changes in the exchange rates of other currencies, which were quite numerous, hardly affected investors' decisions.