

## CHAPTER XVIII

# ACTIVITIES OF THE BANK OF ISRAEL

### 1. SUMMARY OF BALANCE SHEET AT THE END OF 1972

THE BALANCE SHEET of the Bank of Israel totalled IL 12,071 million at the end of 1972, compared with IL 9,415 million at the end of the preceding year—an increase of IL 2,656 million, or 28 percent, which reflected, for the second consecutive year, the rapid monetary expansion in the economy. The changes in the principal balance sheet items indicate the sources of this expansion: an increase of \$ 494 million in the country's foreign currency balances, which was partly offset by a decline in Government liabilities and credit to the public. The decrease in these items was a result of the policy of monetary restraint implemented during the year by the Government and the Bank of Israel in the face of the large-scale liquidity infusion generated by the conversion of foreign currency. Besides the reduction of Bank of Israel rediscounts, the liquidity ratios were raised, the volume of credit granted within the framework of exemptions from the liquidity requirements was cut, and the absorption of liquidity from the public was continued.

Especially significant changes took place in two asset items: gold and foreign currency assets and foreign currency credit (part of which was for the payment of debts). On the liabilities side, there were notable increases in Israeli and foreign currency deposits, currency in circulation, and Government and National Institution deposits in foreign currency.

#### (a) *Assets*

##### 1. *Foreign exchange*

The Bank's foreign currency assets rose sharply in the year reviewed. The State's net foreign exchange reserves held at the Bank of Israel (defined as gold, Special Drawing Rights, and foreign currency assets, less deposits of foreign banks and nonresidents) reached \$ 1,070 million, as against \$ 576 million in 1971—an increase of \$ 494 million. This continued the upward trend begun in 1970, following the alarming depletion of reserves in 1968 and 1969 and their subsequent replenishment to bring them more in line with the needs of the economy. Whereas in 1969 the reserves were sufficient for financing only two months of imports, by the end of 1972 the figure had risen to four months.

The Bank's gross foreign currency holdings soared to \$ 1,363 million by the end of 1972—\$ 561 million over the 1971 level. At the same time, the Bank's

**Table XVIII-1**  
**ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1971-72**  
(IL million)

	1971	1972	Increase or decrease (-)	
			IL m.	%
<b>Assets</b>				
Foreign assets	3,368	5,722	2,354	69.9
Gold and assets in foreign currency	3,074	5,164	2,090	70.0
Gold quota in IMF	136	148	12	8.6
Other foreign currency assets	157	410	253	9.5
Credit to the Government	4,451	4,162	-289	-6.5
Long-term debt	3,276	3,785	509	15.5
Gross	3,741	4,359	618	16.5
Less: Debt redeemed against Short-Term				
Loan sales	465	574	109	23.5
Treasury bills	40	51	11	26.4
Provisional advances	1,135	326	-809	-71.3
Other credit and securities	1,030	1,346	316	30.7
Credit	1,005	1,273	269	26.8
Gross	1,291	1,725	434	33.6
In Israeli currency	357	452	95	26.6
In foreign currency	934	1,274	339	36.3
Less: Export finance deposits of banking				
institutions	286	452	156	57.8
Securities	25	72	48	190.7
Other accounts	13	270	257	—
Guarantees and documentary credits	553	571	18	3.3
Total assets	9,415	12,071	2,656	28.2
<b>Liabilities</b>				
Banknotes and coin in circulation	1,635	2,036	401	24.5
Foreign liabilities	455	377	-78	-17.2
Deposits of foreign banking institutions in				
foreign currency	41	15	-27	-64.3
Allocations of Special Drawing Rights	122	195	73	60.1
Deposits of the IMF in connection with drawings	273	148	-125	-55.7
Other liabilities	19	19	—	—
Government and National Institution deposits	205	478	272	132.4
Deposits of importers	180	169	-11	-6.0
Government and National Institution deposits in				
foreign currency	26	308	282	—
Banking and financial institution deposits in Israel	6,493	8,315	1,822	28.1
Banking institution deposits in IL	1,683	2,838	1,154	68.6
Financial institution deposits in IL	26	66	40	150.5
Banking institution deposits in foreign currency	1,956	2,201	245	12.5
Banking institution deposits denominated in				
foreign currency	2,827	3,211	384	13.6
Other accounts	54	276	222	410.0
Capital and reserves	20	20	—	—
Liabilities on account of guarantees and				
documentary credits	553	571	18	3.3
Total liabilities	9,415	12,071	2,656	28.2

foreign liabilities edged down from \$ 255 million at the end of 1971 to \$ 246 million.

## 2. *Government liabilities*

The Government's net liabilities to the Bank of Israel, as listed in the balance sheet, shrank by IL 571 million, of which IL 109 million was paid from the proceeds of Short-Term Loan sales. This decline partly reflected the anti-inflationary policy adopted by the Government during the year. This measure is not fully reflected by the balance sheet data, and in order to get a more complete picture additional data must be taken into account (see below and also Chapter XIII).

## 3. *Credit to the public*

The Bank of Israel granted less credit to the public as part of its effort to mop up excess liquidity from the economy. To be sure, the balance sheet shows a net increase of IL 269 million, but excluding the foreign currency financing extended to the National Institutions for the early repayment of foreign liabilities, there was a decline of IL 21 million. The various directed credit funds expanded during the year, but the bank's participation (in the form of rediscounts and exemptions from the liquidity requirements) was reduced as a result of the revamping of the funds' structure; this increased the commercial banks' participation while limiting their potential for expanding nondirected credit to the public. If the structure of the funds had not been altered, their expansion would have involved a greatly increased volume of rediscounts. As it was, the change is estimated to have kept down rediscounts by some IL 200 million.

Table XVIII-2

### BANK OF ISRAEL CREDIT TO THE PUBLIC, 1971-72

(IL million)

End of period	1971	1972	Increase or decrease (-)
Credit in IL	356.6	451.5	94.9
Credit in foreign currency	648.0	821.8	173.8
Gross credit	934.3	1,273.6	339.3
Less: Export finance deposits of banking institutions	286.3	451.8	165.5
Total credit	1,004.6	1,273.3	268.7
To the National Institutions	125.0	415.1	290.1
To the rest of the economy	879.6	858.2	-21.4

Bills discounted in Israeli currency went up by IL 95 million and gross foreign currency credit by IL 339 million. Less the banks' participation in the export funds, foreign currency credit rose by IL 174 million, but, as explained above, net of the National Institutions' share, there was a contraction of IL 21 million. Since the IL 290 million incremental foreign currency credit to the National Institutions was for the early repayment of foreign liabilities, it had no effect on internal economic developments.

(b) *Liabilities*

1. *Banknotes and coin in circulation*

The increase in the economy's liquidity in 1972 was partly reflected by the growth of currency in circulation: the value of banknotes and coin rose from IL 1,635 million at the end of 1971 to IL 2,036 million—i.e. by IL 401 million, or 24.5 percent. While this was a shade higher than the 23.7 percent recorded in 1971, the weight of this item in the total money supply continued to drift downward—from 37.8 percent at the end of 1970 and 36.4 percent at the end of 1971 to 35.9 percent.

2. *Deposits of banking and financial institutions*

The increase in banking and financial institution deposits with the Bank of Israel likewise reflected the growth of the economy's liquidity in 1972. Local currency deposits soared by IL 1,194 million, or 70 percent—from IL 1,710 million at the end of 1971 to IL 2,904 million at the end of 1972—with most of the rise being in deposits deemed to be a liquid asset.

Foreign currency deposits went up by IL 245 million, or 12.5 percent—from IL 1,956 million at the end of 1971 to IL 2,201 million at the end of 1972. Most of the increment was in Tamam and Patach accounts, while Natad balances declined.

Deposits denominated in foreign currency rose by IL 384 million, or 13.6 percent—from IL 2,827 million to IL 3,210 million; they were paced by Pazak accounts of the public. Developments in the various types of commercial bank deposits are described in Chapter XIII.

## 2. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

(a) *Income*

The Bank's income advanced from IL 415 million in 1971 to IL 467 million, or by 12.6 percent. Most of the gain was in income from foreign currency holdings, which reached IL 198 million (\$ 47.2 million), as against IL 145 million (\$ 37.4 million) in 1971—up IL 53 million (\$ 9.8 million), or 37 percent. The increment was the resultant of two opposing trends: (1) the swelling of the Bank's net foreign currency assets, which signified an appreciable growth of

interest-bearing foreign currency balances and interest thereon; and (2) the continued downward drift of interest rates in the international money markets. Although the latter trend began in 1970, it was fully reflected in the Bank's income only in the year reviewed, since in 1971 the Bank had received foreign currency income on deposits and investments made at a time when interest rates were still high, and it also earned substantial increments from the revaluation of several European currencies. It should be noted in this context that interest received is recorded in the Bank's books on a cash basis, so that the accounts reflect only the interest actually received by the end of the year; this understated the 1972 earnings, as income on part of the investments—especially those made in the second half of 1972—was not yet received by year's end and will appear on the Bank's books only in 1973.

Interest on the Government's debit to the Bank rose by only IL 9 million; while net long-term advances increased by IL 618 million, current advances to the Government were down sharply, and the overall Government indebtedness declined.

Net income from rediscounts fell by IL 12 million, even though the annual average level of rediscounts and loans to the public and the National Institutions was higher in 1972 than in the previous year. There was a gross increase of IL 9 million in this item, from which must be deducted interest paid to the banks on their share in the various credit funds. The main reason for this decrease was the smaller interest income earned by the Bank on its rediscounting operations within the framework of the directed credit funds, which was connected with the raising of the commercial banks' participation in the funds (to be discussed below).

#### (b) *Expenditure*

The Bank's expenses totalled IL 403 million—IL 89 million, or 28.5 percent, more than in 1971. Two-thirds of the increase resulted from the larger amount of interest paid to banking institutions on their greatly expanded liquid asset holdings, and the rest was due to the higher yield they received on the liquid cover required to be held in local currency against deposits.

That the Bank's expenditure went up faster than its income can be attributed, in addition to the bias introduced by the method of recording, to the special structure of the Bank's assets and liabilities. Most of the asset growth was in foreign currency balances, where the yield, though received in foreign currency, is lower in IL terms in those years when there is no change in the exchange rate. In contrast to this, most of the increase in liabilities was in bank deposits—liquid cover in Israeli currency against deposits and Pazak and Tamam accounts, where the interest is higher than that received on foreign currency assets. This structure results in a lower profit in years when the Bank's assets and liabilities develop in a manner similar to that of 1972.

(c) *Net profit*

The Bank's net profit amounted to IL 64 million in 1972, compared with IL 101 million the year before. As usual, the entire sum was transferred to the Treasury in accordance with the Bank of Israel Law.

3. FOREIGN CURRENCY ASSETS AND LIABILITIES AND GOLD HOLDINGS

Gross foreign exchange reserves went up by \$ 498 million—from \$ 732 million at the end of 1971 to \$ 1,230 million. Net of the Bank's incremental liabilities to foreign banks and nonresidents, the reserves grew by \$ 476 million. The realign-

Table XVIII-3  
FOREIGN EXCHANGE AND GOLD ASSETS HELD BY  
THE BANK OF ISRAEL, 1971-72

(\$ million)

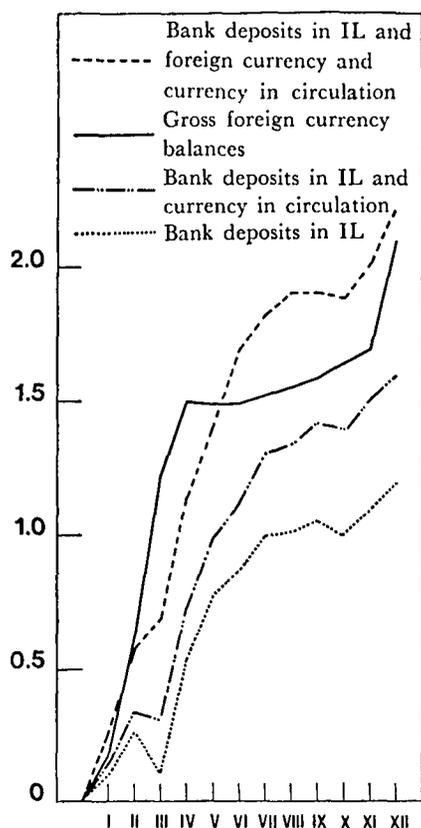
End of period	1971	1972	Increase or decrease (-)
<b>Assets</b>			
Gold	43.4	43.4	—
Special Drawing Rights	13.1	31.7	18.6
Gold quota in IMF	32.5	35.3	2.8
Foreign currency assets	675.5	1,154.4	478.9
Clearing accounts	3.1	1.0	-2.1
Participation in international financial institutions	8.2	8.4	0.2
Loans to foreign governments and institutions	26.1	34.6	8.5
<b>Total assets</b>	<b>801.9</b>	<b>1,308.8</b>	<b>506.9</b>
<b>Liabilities</b>			
Clearing accounts	3.7	3.4	-0.3
Deposits of international financial institutions	0.8	1.0	0.2
Deposits of international financial institutions in connection with drawings	65.0	35.3	-29.7
Allocation of Special Drawing Rights	29.0	46.5	17.5
Deposits of foreign banking institutions	9.8	8.5	-6.3
Deposits of nonresidents	146.2	156.4	10.2
<b>Total liabilities</b>	<b>254.5</b>	<b>246.1</b>	<b>-8.4</b>
<b>Net assets</b>	<b>547.7</b>	<b>1,062.3</b>	<b>514.6</b>

ment of various exchange rates during the year accounted for \$ 20 million of the gain in gross reserves, and net of liabilities to foreign banks and non-residents, for IL 18 million.

(a) *Foreign exchange and gold*

Gross assets in gold and foreign currency (excluding local assets and liabilities in foreign currency) added up to \$ 1,309 million at the end of 1972, compared with \$ 802 million at the end of the previous year. The net balance came to \$ 1,062 million, as opposed to \$ 548 million in 1971—a rise of \$ 514 million.

**Figure XVIII-1**  
**BANK DEPOSITS IN LOCAL AND FOREIGN CURRENCY AND CURRENCY IN CIRCULATION, 1972**  
 (IL '000 million)



At the beginning of 1972 Israel received from the International Monetary Fund its third allocation of Special Drawing Rights and repaid \$ 35 million on account of its drawings in previous years. At the end of 1972 Israel's drawing balance from the Fund was equivalent to the gold tranche of its quota. With the expansion of its foreign currency balances in 1972, Israel acquired three million SDR, bringing its total holdings up to 29.2 million by year's end. The value of a Special Drawing Right is equivalent, in gold terms, to the value of the U.S. dollar before the December 1971 and February 1973 devaluations.

Foreign banking institution deposits in foreign currency were down \$ 6.3 million in 1972. As a result of the aforementioned repayment of \$ 35 million on account of drawings from the IMF, international institution deposits with the Bank of Israel dropped by a similar amount and totalled \$ 36 million at the end of 1972.

A small fraction of the foreign currency balances, required to finance the Bank's current foreign currency operations, was held in non-interest-bearing

demand deposits. The preponderant portion was held in the form of treasury bills, bills of foreign banks, bonds of foreign countries and international financial institutions, and interest-bearing time and demand deposits in foreign banks.

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

At the end of 1972 the Bank of Israel maintained clearing accounts with four countries with which Israel had trade and payments agreements. Israel's debit balances in the clearing accounts totalled \$ 3.4 million, and its credit balances \$ 1.0 million. The net balance to Israel's debit therefore stood at \$ 2.4 million at the end of 1972. The payments agreement with Hungary expired on March 31, 1973.

**Table XVIII-4**  
**NET BALANCES IN CLEARING ACCOUNTS, 1971-72**  
(\$ thousand)

Country	1971	1972	Increase or decrease (-)
Brazil	-2,713	-1,956	757
Bulgaria	841	658	-183
Czechoslovakia	465	465	—
Hungary	1,885	-192	-2,077
Portugal	-886	-1,243	-357
Net balances in transit	-72	-129	-57
Total	-480	-2,397	-1,917

(c) *Assets and liabilities in or denominated in foreign currency*

Foreign currency assets and assets denominated in foreign currency rose from IL 6,471 million at the end of 1971 to IL 9,788 million at the end of 1972. Total foreign currency liabilities and those denominated in foreign currency went up during the same period from IL 5,272 million to IL 6,104 million, so that the surplus of assets over liabilities grew from IL 1,199 million to IL 3,684 million, or by IL 2,485 million.

(d) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel reached IL 2,200 million (about \$ 524 million) at the end of 1972, compared with IL 1,957 million (about \$ 466 million) at the end of 1971—a rise of IL 244 million (\$ 58 million).

1. *Deposits of residents transferring currency (Tamam)*

These are restricted foreign currency deposits placed with the banking institutions by recipients of restitution payments from Germany and by discharged and disabled veterans of World War II, who are generally entitled to deposit up

to one-third of their foreign currency receipts in these accounts (several small groups may deposit a higher proportion of their receipts). These deposits may be withdrawn in foreign currency to finance foreign travel, purchase foreign securities, or defray legal expenses connected with restitution claims. The banking institutions must redeposit these sums in full with the Bank of Israel. At the end of 1972 these accounts amounted to IL 1,391 million (\$ 332 million), compared with IL 1,166 million (\$ 278 million) at the end of 1971—an increase of IL 225 million (\$ 54 million); 24 percent of the growth stemmed from the interest paid on the deposits and 12 percent from the exchange rate changes.

Interest rates paid by the Government and the Bank of Israel remained unchanged during the year reviewed despite the realignment of exchange rates,

Table XVIII-5

ASSETS AND LIABILITIES IN FOREIGN CURRENCY AND DENOMINATED  
IN FOREIGN CURRENCY, 1971-72

(\$ million<sup>a</sup>)

End of period	1971	1972	Increase or decrease (-)
<b>Assets</b>			
Foreign currency assets <sup>b</sup>	802	1,309	507
Long-term advances to the Govt.	517	665	148
Bills discounted in foreign currency	222	303	81
Other foreign currency assets	—	54	54
<b>Total</b>	<b>1,541</b>	<b>2,331</b>	<b>790</b>
<b>Liabilities</b>			
Foreign currency liabilities <sup>b</sup>	254	246	-8
<b>Bank deposits<sup>c</sup></b>			
Pamaz	8	12	4
Tamam	278	332	54
Pahab	6	4	-2
Hay	6	6	—
Natađ	22	14	-8
Pazak	672	763	91
Diamond accounts	1	1	—
Government and National Institution deposits	6	73	67
Other liabilities	2	2	—
<b>Total</b>	<b>1,255</b>	<b>1,543</b>	<b>198</b>

<sup>a</sup> At current exchange rates.

<sup>b</sup> These are detailed in Table XVIII-3.

<sup>c</sup> The various types of deposits are described below.

and were as follows: deposits for three months—2 percent; six months—3 percent; nine months—4 percent; and 12 months—4.5 percent.

## 2. *Foreign securities dividend accounts (Natad)*

These are restricted foreign currency deposits of Israeli citizens deriving from the sale of foreign securities or the receipt of dividends and interest thereon. They may be withdrawn in foreign currency solely for the purchase of foreign securities or securities traded in foreign currency in accordance with the directives of the Controller of Foreign Exchange. Securities purchased in this manner may be resold to the general public. The banking institutions are required to hold 100 percent liquid cover against these deposits, which pay no interest whatsoever. At the end of 1972 these accounts totalled IL 60.5 million (\$ 14.4 million), compared with IL 91.1 million (\$ 21.7 million) at the end of 1971—a drop of IL 30.2 million (\$ 7.2 million).

## 3. *Deposits of nonresidents (Patach)*

These are freely transferable funds deposited by nonresidents and immigrants with Israeli banks and redeposited with the Bank of Israel. The banks are required to maintain a minimum balance of 20 percent of these accounts with the central bank (after deducting deposits for the granting of loans authorized by the latter); if their balances exceed this figure, they must deduct from the 20 percent liquid cover the amount of foreign currency held in their vaults. At the end of 1972 these accounts added up to IL 656.9 million (\$ 156.4 million), as against IL 614.0 million (\$ 146.2 million) at the end of the previous year—an increase of IL 42.9 million (\$ 10.2 million).

Because of the relatively sharp and frequent fluctuations of interest rates in the international currency markets, the rates paid by the Bank of Israel on these accounts in 1972 were likewise revised repeatedly.

A new scale of interest rates was introduced in 1972, reflecting more closely the developments in the various currency markets. Up to January 24, 1972 the interest paid on deposits in all currencies was as follows: deposits for three months—4.7 percent; six months—5.5 percent; and for one year—7 percent. As of January 15 different rates were introduced for the various currencies, as presented in Table XVIII-6.

Up to January 24, 1972 the following rates were in force for Patach demand deposits: 4.5 percent on the lowest daily balance each week not exceeding the minimum balance, less time deposits and deposits in pounds sterling, Swiss francs, and German marks; 1.5 percent was paid on the excess. As of January 25, interest was paid on these accounts at a uniform 1.5 percent rate, apart from accounts in Swiss francs, on which no interest whatsoever was paid. On August 17 the Bank also ceased payment of interest on deposits in German marks and Dutch guilders.

Table XVIII-6

## INTEREST PAID BY THE BANK OF ISRAEL ON PATACH DEPOSITS, 1972.

(percent per annum on one-year deposits)

From Currency	Jan. 25	March 1	March 17	May 16	July 17	Aug. 7	Oct. 10	Oct. 27	Nov. 16	Dec. 7
U.S. dollars	6.00	6.00	6.00	6.00	6.00	6.00	6.25	6.25	6.00	6.25
Pounds sterling	5.00	5.00	5.00	5.00	5.00	7.00	7.00	7.00	7.00	7.00
Swiss francs	2.50	2.50	2.00	3.00	2.50	3.00	3.25	3.75	4.00	5.00
German marks	5.00	4.25	4.00	4.25	3.50	3.00	3.25	4.25	4.25	4.75
Dutch guilders	5.00	5.00	4.00	4.00	3.50	3.00	3.25	4.25	4.50	5.00
French francs	5.00	5.25	5.25	5.25	5.25	5.25	5.50	6.00	6.50	6.50

4. *Blocked and registered deposits (Pahab)*

These are foreign currency accounts of insurance and shipping companies, enterprises approved under the Law for the Encouragement of Capital Investments, etc., which are redeposited with the Bank of Israel. The liquidity requirement applicable to Patach deposits also applies to these deposits. At the end of 1972 the balance of these accounts with the Bank of Israel was IL 14.7 million (\$ 3.5 million)—down IL 8.8 million (\$ 2.1 million) from 1971. The interest paid by the Bank of Israel on such deposits is at the same rates as those paid on Patach accounts.

5. *Import deposit accounts (Hay)*<sup>1</sup>

These are deposits of importers who acquire foreign currency without transferring it abroad. The foreign currency regulations limit the amount of foreign currency transferable abroad to 30 percent of the documentary credit established; the importer must deposit the balance in a Hay account until receipt of the goods in Israel. Banking institutions are required to redeposit these sums, which are non-interest-bearing, in full with the Bank of Israel. At the end of 1972 these deposits aggregated IL 26.1 million (\$ 6.2 million), as against IL 26.5 million (\$ 6.3 million) at the end of 1971—a drop of IL 0.4 million (\$ 0.1 million).

6. *Foreign currency accounts of banks (Pamaz)*

These are accounts with the Bank of Israel in which banks deposit foreign currency to be paid abroad. These balances, on which no interest is paid, expanded from IL 34.9 million (\$ 8.3 million) at the end of 1971 to IL 51.7

<sup>1</sup> These are foreign currency accounts unrelated to the import deposits in Israeli currency introduced in January 1970.

million (\$ 12.3 million) at the end of the year reviewed—i.e. by IL 16.8 million (\$ 4.0 million). This can apparently be ascribed to the special conditions obtaining with respect to foreign currency transactions, especially toward the end of 1972.

(e) *Deposits denominated in foreign currency*

These deposits, which are payable in Israeli currency at the exchange rate in force at the time of payment, are of two types: time deposits of Israeli residents (Pazak) and diamond accounts.

1. *Time deposits of Israeli residents (Pazak)*

These are deposits in banking institutions by Israeli residents receiving income in foreign currency. The banks are required to redeposit these sums in full with the Bank of Israel. At the end of 1972 Pazak accounts totalled IL 3,204 million (\$ 763 million), compared with IL 2,824 million (\$ 672 million) in 1971—up IL 381.0 million (\$ 91 million). Of the total growth, 45 percent stemmed from the interest paid on these accounts and 14.5 percent from the exchange rate changes. Interest on these deposits was paid by the Government and the Bank of Israel at the rates prevailing in 1971, namely: deposits for three months—3 percent; six months—4 percent; nine months—5 percent; and one year—6 percent. Holders of Pazak accounts originating in personal restitution payments from Germany do not pay income tax on their interest receipts; other Israeli residents have tax withheld at source.

2. *Diamond accounts*

These accounts, which are connected with transactions in diamonds and are non-interest-bearing, must be redeposited in full by the banks with the Bank of Israel. At the end of 1972 they added up to IL 6.3 million, compared with IL 3.2 million at the end of the previous year.

(f) *Foreign banking institution deposits*

These are foreign currency deposits of foreign banks placed with the Bank of Israel for varying periods. At the end of the year reviewed they totalled IL 14.7 million (\$ 3.5 million), as contrasted with IL 41.2 million (\$ 9.8 million) at the end of 1971—a decline of IL 26.5 million (\$ 6.3 million).

#### 4. THE BANK OF ISRAEL AS BANKER TO THE GOVERNMENT

Examination of the Government's accounts by balance sheet item shows a IL 191 million contraction in its liabilities to the Bank of Israel. Including the IL 271 million increase in creditory accounts, the Government's debt was pared by IL 462 million—the first decline to be recorded since the Six Day War.

Table XVIII-7

## GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL, 1971-72

(IL million)

End of period	1971	1972	Increase or decrease (-)
<b>Debit</b>			
Ordinary advances to the Government <sup>a</sup>	1,134.8	325.7	-809.1
Long-term advances to the Government	3,740.6	4,358.9	618.3
Total debit balances	4,875.4	4,684.6	-190.8
<b>Credit</b>			
Import deposits	179.6	168.8	-10.8
Foreign currency accounts	25.6	307.9	282.3
Total credit balances	205.2	476.7	271.5
<b>Balance</b>	<b>4,670.2</b>	<b>4,207.9</b>	<b>462.3</b>
Repayment of long-term advances from			
Short-Term Loan proceeds	464.6	573.9	109.3

<sup>a</sup> Reclassified.

The smaller volume of Bank of Israel credit supplied to the Government in 1972 was a consequence of the policy adopted by the latter, in conjunction with the Bank's monetary policy, with the aim of leashing domestic demand; however, it does not fully indicate the amount of liquidity absorbed, since IL 37 million of the incremental Bank of Israel holdings of Government securities—treasury bills and other paper—does not represent credit to the Government but reflects the Bank's open-market transactions with the non-Government sector. The actual decline in the Government's debt was therefore IL 499 million, compared with the IL 462 million shown in the balance sheet. It should be pointed out in this connection that part of the Government's import surplus was paid for in foreign currency purchased from the Bank of Israel in exchange for local currency raised from the public—a move that siphoned off an additional IL 262 million of liquidity. The discussion below will be according to Bank of Israel balance sheet items. An economic analysis of the development of the Government's debt to the Bank is given in Chapter XIII.

(a) *Debit accounts*

The Government's gross long-term debt to the Bank of Israel went up by IL 618.3 million in 1972, after the Knesset had authorized a new long-term advance of IL 650 million. On the other hand, repayments amounted to IL 31.7 million, of which IL 27.3 million was on account of long-term advances and IL 4.4 million on account of Absorption and Defense Loan advances falling due.

Short-term advances to the Government were cut by IL 809 million under the anti-inflationary policy adopted in 1972.

(b) *Credit accounts*

Total deposits of the Government and the National Institutions increased by IL 271.5 million: foreign currency deposits expanded by IL 282.3 million, while import deposits were down IL 10.8 million.

(c) *Government imports*

Documentary credit accounts opened for the financing of imports by Government departments totalled \$ 78.7 million, compared with \$ 73.3 million in the previous year. The value of documents received by the Bank of Israel from foreign banks and suppliers for collection from the various Government departments was \$ 36.6 million, as against \$ 36.0 million in 1971.

The total amount of Government imports financed by Bank of Israel credit and collections made through the Bank was \$ 112.7 million, compared with \$ 118.8 million in 1971.

## 5. THE BANK OF ISRAEL AS THE BANKERS' BANKER

(a) *Deposits of banks and financial institutions*

Banking and financial institution deposits with the Bank of Israel expanded by IL 1,822.3 million—from IL 6,492.9 million at the end of 1971 to IL 8,315.2 million at the end of 1972. Israeli currency deposits grew by IL 1,194.0 million, with most of the increment consisting of liquid assets. The larger volume of

Table XVIII-8  
BANKING AND FINANCIAL INSTITUTION DEPOSITS WITH THE  
BANK OF ISRAEL, 1971-72

(IL million)

End of period	1971	1972	Increase or decrease (-)
Israeli currency			
Banking institution deposits	1,683.3	2,837.6	1,154.3
Financial institution deposits	26.4	66.1	39.7
Total	1,709.7	2,903.7	1,194.0
Deposits in foreign currency and denominated in foreign currency <sup>a</sup>	4,783.2	5,411.5	628.3
Grand total	6,492.9	8,315.2	1,822.3

<sup>a</sup> Details are given in Table XVIII-5.

deposits was one reflection of the more highly liquid state of the economy in the year reviewed. Foreign currency deposits were up IL 245 million, of which IL 202 million represented Tamam and IL 43 million Patach funds. Deposits denominated in foreign currency rose by IL 384 million, paced by Pazak accounts. The total increase in foreign currency deposits and those denominated in foreign currency came to IL 628 million.

Following are the rates of interest (percent p.a.) paid by the Bank of Israel on banking and financial institution accounts in Israeli currency and the changes therein in 1972.

	From Jan. 1, 1972	From Feb. 3, 1972	From Nov. 23, 1972	From Dec. 7, 1972
1. On an amount equal to the total of 15 percent of the ordinary deposits with the institution, 8 percent of its fixed-term deposits (four to six months), and 5 percent of its other fixed-term deposits	0	0	0	
2. On the liquid cover which the banking institution is required to hold against excess Bank of Israel rediscounts		0	0	
3. On an amount equal to— 17 percent of the ordinary deposits with the institution, 8 percent of its fixed-term deposits (four to six months), 5 percent of its other fixed-term deposits, and the liquid cover which the banking institution is required to hold against excess Bank of Israel re- discounts, and (in the case of banks that are authorized dealers) on an amount by which 7 percent of the ordinary deposits with the institution exceed the total directed export credit it has extended, Less— The amount of banknotes and coin				

	From Jan. 1, 1972	From Feb. 3, 1972	From Nov. 23, 1972	From Dec. 7, 1972
in Israeli currency held by the institution which are deemed to be a liquid asset according to section 10 (2) of the Liquidity Regulations				0
4. On an amount by which 8 percent of the ordinary deposits with the institution exceed the total directed export credit it has extended (only in the case of banks that are authorized dealers)	3	3	3	
5. On the liquid cover which the banking institution is required to hold against deposits for the granting of loans, savings deposits, and excess Bank of Israel rediscounts	3			
6. On the deficiency in the institution's deposits in the Export Shipments Finance Fund	8	8	8	8
7. On the liquid cover which the banking institution is required to hold against deposits for the granting of loans and savings deposits		8	8	8
8. On an additional amount by which the total of (a) below exceeds that of (b) below:				
(a) 50.5 percent of the institution's ordinary deposits, 17 percent of its fixed-term deposits (four to six months), and 10 percent of its other fixed-term deposits				
(b) The sum total of deductions according to section 8 of the Liquidity Regulations, the amount of treasury bills deemed to be a liquid asset according to section 10 (3) of the Liquidity Regulations				

	From Jan. 1, 1972	From Feb. 3, 1972	From Nov. 23, 1972	From Dec. 7, 1972
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the amount of banknotes and coin in Israeli currency held by the institution which are deemed to be a liquid asset according to section 10 (2) of the Liquidity Regulations, and the sum on which interest was paid at the rate of 3 percent p.a.

8

9. On an additional amount by which the total of (a) below exceeds that of (b) below:

(a) 49.5 percent of the institution's ordinary deposits,  
17 percent of its fixed-term deposits (four to six months),  
8.5 percent of its other fixed-term deposits

(b) The sum total of deductions according to section 8 of the Liquidity Regulations, the amount of treasury bills deemed to be a liquid asset according to section 10 (3) of the Liquidity Regulations, the amount of banknotes and coin in Israeli currency held by the institution which are deemed to be a liquid asset according to section 10 (2) of the Liquidity Regulations, and the sum on which interest was paid at the rate of 3 percent p.a.

8

8

10. On an additional amount by which the total of (a) below exceeds that of (b) below:

(a) 47.5 percent of the institution's ordinary deposits,  
17 percent of its fixed-term

	From Jan. 1, 1972	From Feb. 3, 1972	From Nov. 23, 1972	From Dec. 7, 1972
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deposits (four to six months),  
and  
8.5 percent of its other fixed-  
term deposits

- (b) The sum total of deductions according to section 8 of the Liquidity Regulations, the amount of treasury bills deemed to be a liquid asset according to section 10 (3) of the Liquidity Regulations, the amount by which 7 percent of the ordinary deposits with the institution exceed the sum total of its deductions on account of export finance loans—item 8

8

11. On an additional amount equal to the total of—  
2 percent of the institution's ordinary deposits,  
3 percent of its fixed-term deposits (four to six months),  
3 percent of its other fixed-term deposits
12. On an additional amount equal to the liquid cover which the institution is required to hold against: ordinary deposits in excess of the 64.5 percent liquidity cover, fixed-term deposits (four to six months) in excess of the 25 percent liquidity cover, and other fixed-term deposits (six months or more) in excess of the 13.5 percent liquidity cover
13. On an additional amount equal to the institution's incremental required liquidity on fixed-term deposits for six months or more, in

12.25

13

	From Jan. 1, 1972	From Feb. 3, 1972	From Nov. 23, 1972	From Dec. 7, 1972
accordance with Bank of Israel (Liquid Assets) (Amendment) Directions, 5732-1971	15			
14. On an additional amount in excess of the totals of (1), (4), (5), (6), (8), (11), (13)	16			
of (1), (2), (4), (6), (7), (9), (12)		16		
of (1), (2), (4), (6), (7), (9)			13	
of (3), (6), (7), (10)				13

## 6. CURRENCY ISSUE

### (a) *Currency in circulation*

The monthly average of currency in circulation (calculated according to Wednesday figures) went up 24.6 percent, from IL 1,666.4 million in December 1971 to IL 2,077.2 million in December 1972;<sup>2</sup> this compares with increases of

**Table XVIII-9**  
**CURRENCY IN CIRCULATION, 1971-72**  
(IL thousand; Wednesday averages)

	1971	1972
January	1,363,363	1,683,993
February	1,393,326	1,714,910
March	1,431,886	1,782,486
April	1,499,432	1,841,247
May	1,500,123	1,864,464
June	1,509,762	1,899,887
July	1,543,455	1,942,418
August	1,575,409	1,972,151
September	1,598,803	2,016,443
October	1,643,218	2,040,403
November	1,665,247	2,059,687
December	1,666,347	2,077,245

<sup>2</sup> Including commemorative coins with a total face value of IL 17.9 million (IL 14.6 million at the end of 1971), which are only formally included in this item.

22.9 percent in 1971, 12.3 percent in 1970, 4.2 percent in 1969, and 11.3 percent in 1968.

The level moved up at a fairly even rate throughout the year, except in March and April, when it jumped by about IL 130 million as a result of the usual high seasonal demand associated with the Passover Festival.

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

The value of IL 100 banknotes in circulation, which has been advancing steadily since they were first put into circulation in February 1969, continued upward in 1972, and their share in the total value of banknotes in circulation rose from 56 percent in 1971 to 63.4 percent. In contrast, the value of IL 50 banknotes declined, depressing their share from 32.1 percent in 1971 to 26.5 percent. These changes in the relative shares continued the pattern evident since the IL 100 banknotes were introduced.

The proportion of IL 10 banknotes edged down from 10 percent to 8.3 percent, and that of IL 5 notes from 1.7 to 1.6 percent. There was hardly any change in the total value of IL 1 and half-pound notes, which had been replaced by coins of the same denominations a few years ago. The total value of IL 1 notes and coins at the end of 1972 was IL 34.2 million (IL 3.3 million in notes and IL 30.9 million in coins). While there was a slight drop in the proportion of IL 1 notes, that of half-pound notes held steady, confirming the assumption that most of these have been lost or are in the hands of collectors.

During the year reviewed IL 11.2 million worth of new agorot, half-pound, IL 1, and commemorative coins were put into circulation, as against IL 7 million worth in 1971, and at year's end agorot, IL 0.5, and IL 1 coins accounted for 96.7 percent of the total value of coins in circulation, compared with 96.3 percent at the end of 1971.

The share of the old prutot coins dropped from 3.7 to 3.3 percent.

(c) *Damaged currency*

In 1972 unusable banknotes to a value of IL 612 million were destroyed, while 726 applications to exchange damaged currency in the amount of IL 133,564 were submitted. The Bank of Israel approved 642 applications, totalling IL 102,453.

(d) *Agencies for the supply of currency*

The Bank of Israel has nine agencies for the supply of currency, located in Ashdod, Beersheba, Eilat, Hadera, Netanya, Petah Tikva, Rehovot, Safad, and Tiberias. They supply currency to banking institutions in the provincial towns and absorb their surplus currency.

Table XVIII-10

## BANK NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1971-72

End of period	1971		1972	
	IL '000	%	IL '000	%
<b>Banknotes</b>				
IL ½	493	—	493	—
IL 1	3,410	0.2	3,332	0.2
IL 5	26,888	1.7	30,573	1.6
IL 10	155,918	10.0	163,284	8.3
IL 50	504,540	32.1	521,383	26.5
IL 100	879,287	56.0	1,244,804	63.4
Total	1,570,536	100.0	1,963,869	100.0
<b>Coins</b>				
1 pruta	5	—	5	—
5 prutot	48	0.1	48	—
10 prutot	284	0.4	283	0.4
25 prutot	165	0.2	164	0.2
50 prutot	494	0.7	494	0.6
100 prutot	331	0.5	331	0.4
250 prutot <sup>a</sup>	600	0.9	600	0.8
500 prutot (silver)	22	—	22	—
1 agora	1,938	2.9	2,186	2.8
5 agorot	3,181	4.8	3,726	4.8
10 agorot	7,913	11.9	9,135	11.7
25 agorot	3,097	4.6	3,572	4.6
IL ½	7,400	11.1	8,525	11.0
IL 1	26,678	40.0	30,896	39.7
Total	52,156	78.1	59,987	77.0
<b>Commemorative coins</b>				
IL ½	28	0.1	28	—
IL 1	289	0.5	289	0.4
IL 5 (silver)	1,755	2.6	2,133	2.7
IL 10 (silver)	7,595	11.4	9,510	12.2
IL 20 (gold)	210	0.3	210	0.3
IL 50 (gold)	686	1.0	686	0.9
IL 100 (gold)	4,021	6.0	5,021	6.5
Total	14,584	21.9	17,877	23.0
Total coin	66,740	100.0	77,864	100.0
Total currency in circulation	1,637,276		2,041,733	
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value	2,417		5,917	
Total, net	1,634,859		2,035,816	

<sup>a</sup> Including paper tokens and silver coins.

**Table XVIII-11**  
**COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,**  
**1957/58 to 1971/72**

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
1. Half-shekel coins				
1960/61	Utrecht	20,004	5,000	25,004
1961/62	Utrecht	20,000	10,000	30,000
2. Hanukka coins—IL 1				
1958/59 (Tora is Light)	Bern	150,000	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)	Berne	9,657	6,040	15,697
1963/64 (North African Hanukka Lamp)	Utrecht	10,000	5,500	15,500
1971/72 (Russian Hanukka Lamp)	Jerusalem	75,000	22,500	97,500
3. Silver coins denominated in prutot				
250 prutot	Birmingham	44,225	—	44,225
500 prutot	Birmingham	43,767	—	43,767
4. Independence Day coins—IL 5				
1957/58 (Menora)	Utrecht	98,051	2,000	100,051
1958/59 (Ingathering of the Exiles)	Berne	27,249	4,792	32,041
1959/60 (Herzl)	Berne	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
5. Independence Day coins—IL 10				
1966/67 Ordinary	Berne	234,589	—	234,589
1966/67 Proof	Kreshmer, Jm.	—	50,499	50,499
1967/68 (Jerusalem)	Berne	50,000	20,501	70,501
1968/69 (Peace)	San Francisco	40,000	20,000	60,000
1968/69 (Peace)	Kreshmer, Jm.	20,199	—	20,199
1969/70 (Mikve Israel Centenary) Ordinary	Kreshmer, Jm.	47,704	—	47,704
1969/70 (Mikve Israel Centenary) Proof	Berne	—	22,500	22,500
1970/71 (Science-Based Industries) Ordinary	Jerusalem	22,700	—	22,700
1970/71 (Science-Based Industries) Proof	Utrecht	30,000	17,501	47,501
1971/72 (Israel Aviation)	Jerusalem	50,000	15,000	65,000
6. Pidyon ha-Ben (Redemption of the Firstborn)				
1969/70 Ordinary	Jerusalem	50,933	—	50,933
1969/70 Proof	Berne	—	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
7. Special issue	Jerusalem	75,000	20,300	95,300
8. Gold coins				
IL 20 1959/60 (Herzl)	Berne	10,510	—	10,510
IL 50 1962/63 (Weizmann)	Berne	—	6,202	6,202
IL 100 1962/63 (Weizmann)	Berne	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Berne	6,014	1,502	7,516
IL 100 1966/67 (Victory)	Berne	—	9,004	9,004
IL 100 1967/68 (Jerusalem)	Berne	—	12,500	12,500
IL 100 1968/69 (Peace)	Utrecht	—	12,500	12,500
IL 100 1970/71 (Let My People Go)	Berne	—	10,001	10,001

In addition to these agencies, the Bank maintains agencies in the head offices of the three largest banks in Tel Aviv and Haifa, as well as in the main Bank Leumi le-Israel branch in Jerusalem. They ensure greater economy and security in the transfer of money to and from the Bank of Israel and further improvement in the technical work connected with the circulation of banknotes both in normal times and in periods of emergency.

## 7. CURRENCY SUPPLY

### (a) *Commemorative and special coins*

In 1972 the Bank of Israel issued the 24th Independence Day coin (5732). It has a nominal value of IL 10, is made of sterling silver (900/1000), weighs 26 grams, and has a 37 mm. diameter. Its theme is Israel Aviation, and it was issued in ordinary and proof form.

As in the two preceding years, the Bank issued a special Pidyon ha-Ben (Redemption of the Firstborn) coin, with the same nominal value, composition, weight, and diameter as the Independence Day coin. It is intended for use in the ceremonial redemption of the firstborn from the priesthood, and its subject is the biblical verse "All the firstborn of thy sons shalt thou redeem." It was issued in ordinary and proof form (the latter with a milled edge). As stated, this is the third coin in this series, and the denomination side (reverse) was changed along with the Hebrew date.

In the year reviewed the Bank decided to resume the issue of the Hanukka coins, a series which had been discontinued in 1963. The 1972 coin has a nominal value of IL 5, is made of sterling silver (750/1000) and copper (250/1000), weighs 20 grams, and has a 34 mm. diameter. Its theme is a Russian Hanukka lamp from the beginning of this century, and the coin was issued in both ordinary and proof form.

The year 1972 was the second in which the Bank of Israel issued a series of special coins, identical to the ordinary coins in circulation and bearing the Hebrew date 5732, 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, and 25 agorot, and IL ½ and IL 1—were issued in this series of 100,000 units.

### (b) *Coins in circulation*

In 1972 some 57 million coins were minted for the Bank of Israel at the Israel Mint in Jerusalem. During the year 5732 (1971/72) it minted a total of some 39 million coins; in addition, 18 million ten agorot coins were minted at the Federal Mint in Berne, Switzerland. Following is a breakdown of the mintings:

Coin	Number of units minted	
	1972	5732 (1971/72)
1 agora	24,912,000	24,512,000
5 agorot	8,305,000	9,005,000
10 agorot	19,663,112	19,653,112
25 agorot	1,633,000	1,883,000
½ IL	211,000	421,000
1 IL	2,489,000	2,485,041

(c) *Committee for the planning of banknotes and coins*

This Committee, headed by Supreme Court Justice Witkon, assists the Bank in planning the banknotes and coins to be issued and recommends to the Governor of the Bank of Israel the designs which it has approved from among those submitted by artists participating in closed competitions. It is also responsible for the actual planning of another new series of banknotes.

Members of the Committee are: Dr. A. Witkon (Chairman), M. Ardon, Dr. A. Biran, I. M. Brin, Mrs. E. Cohen, R. Dayan, S. Golan, Dr. R. Hecht, Dr. D. Karavan, G. Keich, A. Kindler, T. A. Lurie and Dr. M. Spitzer.

## 8. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

The brisk volume of sales characterizing Israel's capital market in 1972 included all types of Government loans. New Government loans grossed 72 percent more than in 1971—IL 3,100 million as against IL 1,800 million. Redemptions of principal also reached a new high, soaring 68 percent—from IL 1,300 million in 1971 to IL 2,300 million.

Since redemptions lagged somewhat behind sales, net proceeds rose from IL 477 million in 1971 to IL 871 million—i.e. by 83 percent, as contrasted with 53 percent in 1971.

Most of the increase in gross sales, as well as in redemptions, occurred in medium- and long-term voluntary Government loans. The extraordinarily brisk sales were due partly to the abundant liquidity in the economy and partly to the growing attraction of loans linked to the consumer price index in the face of the rapid inflation and the ebbing of devaluation expectations after the change, in August 1971, of the exchange rate of the IL. The record volume of redemptions in 1972 also helped to swell demand through reinvestments. The heavy redemptions are explained by the record level of issues in 1967, when, in addition to the approximately IL 300 million yielded by the 1967 Defense Loan, other

medium- and long-term Government loans were sold to the tune of some IL 200 million.

Voluntary medium- and long-term loans grossed IL 923 million in 1972, as against IL 362 million the year before. On the other hand, redemptions of such loans were also quite high, reaching IL 411 million (face value), compared with IL 57 million in 1971. Most of the sales were of medium-term issues to the general public (for five and seven years)—IL 737 million, as against IL 223 million in 1971. Of this sum, IL 496 million was in option-type bonds, and IL 241 million in seven-year index-linked bonds issued in April 1972.

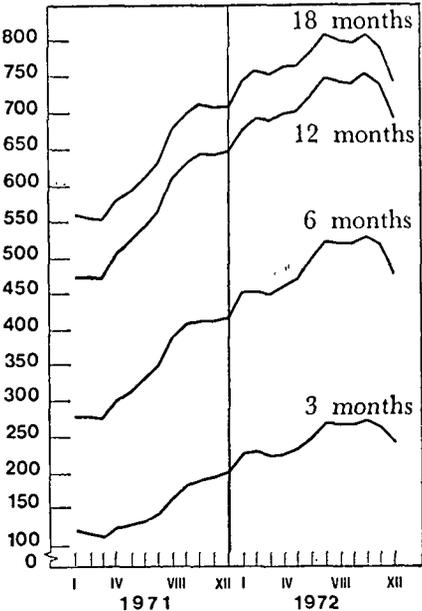
Proceeds from bonds issued specifically for banks under an arrangement with the Treasury totalled IL 129 million, as against IL 101 million in 1971.

The distribution of compulsory loan certificates was stepped up appreciably in 1972: the distribution was begun of the 1970 Defense and Savings Loans and of the 1967 Absorption Loan, while the distribution of certificates of the Absorption Loan series for 1961–66 (to those who for various reasons had not received them before) was continued.

The total value of compulsory loan certificates distributed during the year hit IL 344 million, as contrasted with IL 63 million in 1971.

Figure XVIII-2

**OUTSTANDING SHORT-TERM  
LOAN HOLDINGS OF THE PUBLIC,  
BY SERIES, 1971-72**  
(IL million)



Gross issues of the Short-Term Loan reached a new high of IL 1,830 million—31 percent more than the IL 1,400 million recorded in 1971. However, redemptions rose 45 percent, from IL 1,230 million to IL 1,780 million, with the result that net proceeds fell from IL 165 million to IL 45 million.

At the end of 1972 the Bank of Israel was administering 454 series of Government loans. The net outstanding balance of these loans (representing only part of the State’s domestic debt) went up during the year by about IL 900 million, from IL 3,100 million to IL 4,000 million; this represented an increase of 28 percent, compared with 19 percent in 1971. It should be pointed out that the data in this section reflect the activities of the State Loans Administration but not their economic influence (this is discussed in Chapter XVII, “The Securities Market”).

**Table XVIII-12**  
**NET NEW BOND ISSUES, 1971-72**  
(IL million)

	1971			1972		
	Gross issue	Redemption	Net income	Gross issue	Redemption	Net income
<b>A. Long- and medium-term</b>						
Option type	223	40	183	496	380	116
Seven-year bonds	—	—	—	241	—	241
Other long-term loans <sup>a</sup>	38	9	29	47	14	33
Special issue for banks	101	—	101	129	—	129
Loans issued in previous years <sup>b</sup>	—	8	-8	10	17	-7
Total	362	57	305	923	411	512
<b>B. Compulsory loans</b>						
Certificates distributed <sup>c</sup>						
Absorption Loan	63	56	7	160	71	89
Defense Loan 1970	—	—	—	122	—	122
Savings Loan 1970	—	—	—	62	—	62
Certificates available for distribution						
Defense Loan 1970	—	—	—	34	—	34
Savings Loan 1970	—	—	—	7	—	7
Total	63	56	7	385	71	314
<b>C. Short-Term Loan</b>	1,398	1,233	165	1,826	1,781	45

<sup>a</sup> Development Loan and Insurance Companies Loan.

<sup>b</sup> Including the 1966 prize-bearing State Lottery loan, which was transferred to the Bank of Israel.

<sup>c</sup> Value of certificates distributed.

<sup>d</sup> Value of certificates allocated but not yet distributed.

### 1. Short-Term Loan

Sales of this paper did not describe an even path during the year. During the first seven months, except for March, the curve ascended gradually, the total increase in outstanding certificates during this period coming to 14 percent. In August and September net sales dipped somewhat but recovered strongly in October. From January through October gross issues totalled IL 1,542 million, redemptions IL 1,446 million, and net issues IL 96 million; the outstanding balance held by the public reached a new high of IL 818 million. Subsequently sales sagged noticeably, and by year's end the public's holdings were 9 percent below their October peak. Over the year as a whole the level went up by IL 31 million, as against IL 157 million in 1971, reaching IL 748 million, compared with IL 717 million at the end of 1971.

Out of total gross sales of IL 1,800 million, IL 1,700 million were from current

issues (IL 1,400 million and IL 1,300 million respectively in 1971). The public continued to show a definite preference for the short series, with the bulk of the incremental sales being of the three-month series and to a lesser extent the six-month series; there was an absolute decline in the longer series.

These developments increased the public's holdings of the shorter series and reduced those of the longer series in both absolute and relative terms. The outstanding balance of the three-month series rose 12 percent over the year, compared with an increase of only 4 percent in total holdings of this paper, bringing up its weight in the total balance from 54 percent in 1971 to 58 percent. Holdings of the series for three to six months rose 4 percent, so that their weight remained at 24 percent. There was an absolute drop in holdings of series for over six months, and their relative share slipped from 22 to 18 percent.

**Table XVIII-13**  
**SHORT-TERM LOAN HOLDINGS OF THE PUBLIC,**  
**BY REDEMPTION DATE, 1971-72**  
(IL million)

No. of days to redemption	1971		1972		Increase or decrease (-)	
	IL m.	%	IL m.	%	IL m.	%
Up to 91	390	54	436	58	46	12
92-182	171	24	178	24	7	4
183-364	135	19	120	16	-15	-11
365-546	21	3	14	2	-7	-33
Total	717	100	748	100	31	4

## 2. Development Loan

Development Loan issues were up strongly in 1972. Forty-seven series of the option-type paper, totalling IL 496 million, were issued to the general public, as against 31 series, totalling IL 223 million, in the previous year. In addition, in order to boost sales and to adjust the supply to investors' requirements, the issue was begun of seven-year index-linked bonds, bearing 6.5 percent annual interest payable twice a year. The first series was offered to the public in April 1972, and by September a total of 20 series in the amount of IL 159 million had been issued. In addition, IL 83 million was raised between October and December from the sale, on the same terms, of the 1969 Defense Loan (see below). The brisk sale of this paper brought the level up above the authorized ceiling, and in November 1972 the Knesset increased the ceiling by IL 500 million to IL 1,750 million.

Redemption of the option-type Development Loan totalled IL 111 million. Of this, IL 42 million represented certificates of the last 23 series featuring the option of early redemption, but which were actually held to maturity. The total face value of these series was IL 115 million; some two-thirds of the sum was cashed in ahead of maturity (between the second and fourth years), while the remaining third was held until due date—a ratio similar to that in previous years.

Net sales of the medium-term Development Loan totalled IL 544 million, of which IL 385 million was in the option-type series and IL 159 million in the new seven-year series. This brought up the outstanding debt on account of the medium-term option-type series to IL 1,000 million.

Sales of the long-term index-linked Development Loan were extremely low in 1972—a mere IL 3.2 million, compared with IL 31 million the year before. Redemptions totalled IL 7.7 million, so that there was a net negative sale of IL 4.5 million. The public's holdings declined to IL 110 million at year's end.

### 3. *Defense Loan*

Under their agreement with the Treasury, commercial banks confined all their Defense Loan purchases to the 1969 series. For this purpose, the authorized ceiling of the loan was raised from IL 625 million to IL 900 million and 12 additional series were issued during the year, all of them intended for the banks; they yielded IL 129 million, as against IL 101 million in 1971. Between January and March IL 35 million was raised, under the 1971/72 agreement, from five- and ten-year option-type issues. Under the 1972/73 agreement with the Treasury, the terms of the loan were revised in April 1972: the rate of interest was raised to 7.5 percent, and redemption of the principal will take place between 1975 and 1981. The total sum received during the period April-December 1972 was IL 94 million. At the end of the year reviewed, after having disposed of their Absorption Loan and part of their Defense Loan holdings through the Stock Exchange, the banks held only Development Loan certificates. At the end of 1972 their holdings totalled IL 277 million, of which IL 183 million was in the option-type and IL 94 million in the new series.

In October the sale of the seven-year series to the general public was begun. By the end of the year, as already noted, seven series totalling IL 83 million were issued. The value of 1969 Defense Loan certificates held by the public increased in 1972 by IL 117 million as a result of the "defreezing" of part of the issues held by the banks. This brought up the outstanding debt to the public at the end of the year to IL 356 million.

Most of the 1967 Defense Loan series fell due in 1972. A total of IL 270 was redeemed between June and December, leaving the public with IL 28 million by year's end; of this, IL 15 million worth of certificates matured at the beginning of 1973, while the remaining IL 14 million of certificates matured in 1972 but were not presented for redemption.

There was no change in the outstanding debt on account of the 1968 Defense Loan, which remained at IL 278 million.

In April 1970 the Defense Loan became a compulsory loan; in addition, the Savings Loan was imposed on employers and employees, with responsibility for collecting both loans devolving on the income tax authorities. In 1972 the Bank of Israel began distributing certificates of these two loans: from August until the end of the year IL 122 million worth of 1970 Defense Loan certificates and IL 62 million worth of Savings Loan certificates were distributed, while a further IL 41 million worth of certificates of the latter loan were available for distribution.

Total proceeds from the loans reached IL 541 million in 1972, IL 318 million of which was accounted for by the Defense Loan and IL 223 by the Savings Loan. Distribution of the certificates should be completed by June 1973.

#### *4. Absorption Loan*

The distribution of Absorption Loan certificates by the Bank of Israel, acting as the Treasury's agent, accelerated greatly in 1972, when the figure reached IL 160 million (face value), compared with IL 63 million the year before. The distribution of the 1966 series, which had begun at the end of 1971, was continued in the first quarter of the year reviewed, when IL 106 million worth of certificates were distributed. Distribution of the 1967 series started in the latter part of 1972, reaching some IL 52 million by year's end. About IL 2 million worth of certificates of the 1961-65 series were also distributed.

Redemption of principal of the 1961-66 series totalled about IL 70 million, compared with IL 56 million in the previous year. The net value of certificates distributed during the year thus came to IL 90 million, as against only IL 7 million in 1971, when the figure fell to its lowest level since the start of distribution in 1964.

By the end of 1972 the total value of certificates of all series distributed to the public came to IL 663 million (face value), while redemptions of principal added up to IL 214 million (face value). The balance held by the public at the end of the year thus totalled IL 449 million; since this included IL 26 million worth of certificates which had fallen due but were not presented for redemption, the outstanding debt amounted to IL 423 million.

#### *5. Insurance Companies Loan*

The value of certificates issued to insurance companies in connection with the 1962 Insurance Companies Loan rose noticeably in 1972, when IL 39.4 million worth of index-linked certificates were issued, compared with IL 6.4 million in 1971 and IL 13.3 million in 1970; IL 1.7 million worth of dollar-linked certificates were also issued, compared with IL 30,000 in 1971 and IL 2.4 million in 1970. The balance of deposits against certificates not yet issued also

increased, reaching IL 52.0 million at the end of 1972, as against IL 43.4 million at the end of the previous year.

Redemptions were also heavier in 1972, those of the index-linked certificates (principal only) reaching IL 2.6 million (face value), as against IL 700,000 in 1971, while the figure for dollar-linked series (principal plus devaluation increments) totalled IL 4.2 million, compared with no redemptions whatsoever in 1971.

The outstanding balances held by the insurance companies at the end of 1972 were as follows:

6 percent index-linked	IL 41.1 million (face value)
5.8 percent index-linked	IL 72.0 million (face value)
6 percent dollar-linked	IL 11.4 million (revalued)
5.8 percent dollar-linked	IL 6.1 million (revalued)

The value of certificates of the 1965 Insurance Companies Loan issued in 1972 totalled IL 2.1 million, compared with IL 700,000 the year before. There was no redemption of this series, and the insurance companies' holdings at the end of 1972 stood at IL 9.0 million. The balance of deposits with the Bank of Israel against certificates not yet issued was IL 2.0 million.

#### 6. 1966 Prize-Bearing Loan

Two series of the 1966 Prize-Bearing Loan in the amount of IL 10 million were transferred to the Bank of Israel for redemption. These series, which are linked to the consumer price index, were distributed to the public by the State Lottery. Redemption of principal totalled IL 9.1 million in 1972, and the balance at the end of the year, including certificates which had fallen due but were not presented for redemption, came to IL 868,000.

#### 7. Open-market operations

The Bank of Israel's operations in the open market are confined mainly to the Short-Term Loan. The growth in sales and holdings in 1972 led to a heavier volume of transactions in the secondary market, which was up 44 percent to IL 216 million. The Bank's Stock Exchange transactions grew to a similar extent, but a breakdown of the figure shows that whereas sales soared 70 percent, purchases went up by a far more moderate 34 percent. The Bank's share in total Stock Exchange trade in the Short-Term Loan held steady at 70 percent. Its total open-market transactions (sales and purchases) reached IL 150 million, as against IL 103 million in 1971.

#### 8. Redemptions and payments

In 1972 the State Loans Administration paid IL 2,300 million on account of principal on the various domestic loans and linkage differentials on dollar-

linked loans and IL 192 million in differentials on index-linked loans, as against IL 25 million in the previous year. Interest payments and linkage differentials together came to IL 251 million, compared with IL 94 million in 1971.

The number of certificates presented for payment rose precipitately in the wake of the much heavier redemption. Most of the increase was in the 1967 Development Loan, all of whose series were issued, and in the 1966 Prize-Bearing Loan distributed by the State Lottery. The percentage of certificates of the various voluntary loans delivered directly to the owners is generally on the low side. A total of 1.2 million certificates were redeemed in the year reviewed, as against 440,000 in 1971. During the year 13 drawings of the prize-bearing loans were held, as well as 17 for the redemption of principal on State loans and four for the redemption of principal on other loans.

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

In 1972 the Bank of Israel administered 47 loans floated by public entities: Tefahot Israel Mortgage Bank, the Industrial Development Bank of Israel, the local authorities, the Jewish Agency, and the Israel National Petroleum Company.

No new loans or series were added to this group in the year reviewed. IL 19 million was paid on account of principal and linkage differentials on dollar-linked loans, and IL 8 million was paid in linkage differentials on index-linked loans. Total interest payments, including linkage differentials, amounted to IL 30 million.

The outstanding balance of all nongovernmental loans administered by the Bank of Israel stood at IL 372 million at year's end.

(c) *Foreign loans*

In 1972 there were no new issues of foreign loans, and sales to the public and institutional investors remained stable. The former purchased mainly the fifth series of the Development Loan, and the latter the third series.

Total sales for the year added up to \$ 272 million, compared with \$ 260 million in 1971. Redemptions of all series totalled \$ 102 million; net sales therefore amounted to \$ 170 million—the same as in the previous year.

The balance outstanding at the end of the year increased 15 percent, from \$ 1,110 million at the end of 1971 to \$ 1,280 million; of this sum, about 75 percent (\$ 970 million) was held by the public and 25 percent (\$ 308 million) by institutional investors.

The State Loans Administration handles the conversion and redemption of Israel's foreign bond issues. The face value of certificates converted into Israeli pounds reached \$ 60 million, compared with \$ 51 million in 1971—an increase of 17 percent. Interest paid in Israeli pounds on certificates converted in the country was equivalent to \$ 3.8 million, compared with \$ 3.4 million the year before.

**Table XVIII-14**  
**FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1972**  
(\$ thousand)

	Amount subscribed	Amount redeemed	Amount outstanding	Amount converted into IL	Interest paid in Israel only
<b>Issued to the general public</b>					
Independence Loan	145,533	145,533	—	10	4
Development Loan					
First series	234,140	234,140	—	57	16
Second series	293,621	204,151	89,470	2,897	518
Third series	392,630	147,361	245,269	10,796	1,272
Fourth series	475,311	101,060	374,251	30,169	1,662
Fifth series	274,974	13,611	261,363	10,100	165
Total	<b>1,816,209</b>	<b>845,856</b>	<b>970,353</b>	<b>54,029</b>	<b>3,637</b>
<b>Issued to investors</b>					
Special investment series A	72,300	61,859	10,441	59	1
Special investment series B	151,027	30,884	120,143	2,438	54
Special investment series C	191,928	14,978	176,950	3,892	70
Total	<b>415,255</b>	<b>107,721</b>	<b>307,534</b>	<b>6,388</b>	<b>125</b>
Grand total	<b>2,231,464</b>	<b>953,577</b>	<b>1,277,887</b>	<b>60,417</b>	<b>3,762</b>
Percent annual change	14	12	15	19	11

A breakdown of these figures shows a rise in conversions by public and other institutions, bringing up their share in the total to 53 percent. There was also a much heavier conversion for financing investments in Israel, its relative share moving up from 9 percent in 1971 to 12 percent. On the other hand, conversions by tourists were down from 34 to 27 percent.

**Table XVIII-15**  
**CONVERSIONS IN ISRAEL OF FOREIGN LOANS, BY HOLDER, 1971-72**  
(\$ million)

Holder	1971		1972		Percent increase or decrease (-)
	\$ m.	%	\$ m.	%	
Institutions	24.1	47	31.8	53	32
Tourists	17.1	34	16.1	27	-6
Investors	4.7	9	7.0	12	48
Residents	2.3	5	2.7	4	16
New immigrants and temporary residents	2.7	5	2.8	4	8
Total	<b>50.9</b>	<b>100</b>	<b>60.4</b>	<b>100</b>	<b>17</b>

## 9. SUPERVISION OF BANKING AND FINANCIAL INSTITUTIONS

### (a) *Institutions subject to supervision*

At the end of 1972 the Department of the Examiner of Banks at the Bank of Israel supervised 70 banking and financial institutions, compared with 74 at the end of the previous year.

In 1972 the Agudath Israel Bank and the Halva'a Vehisachon Haifa Co-operative Society transferred their business to Bank Leumi le-Israel. The Foreign Trade Bank and the Export Bank merged to form the First International Bank of Israel. The Yesod Industrial Bank began operating as an investment bank, while Otzar Ba'alei Nechasim Cooperative Society for Credit and Saving Ltd. discontinued the receipt of deposits.

Table XVIII-16

### BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1971-72

(End of period)

Type of institution	1971	1972
Commercial banks <sup>a</sup>	26	24
Cooperative credit societies	14	13
Mortgage banks	16	15
Investment banks	4	5
Financial institutions	14	13
Total	74	70

<sup>a</sup> Including the Israel Bank of Agriculture and three inactive banks.

### (b) *Bank branches*

At the end of 1972, 826 branches (including head offices) of commercial banks and cooperative credit societies were operating in Israel.

During the year 29 new branches were opened and 17 closed. In addition, 10 branches of Agudath Israel Bank and 11 of Halva'a Vehisachon Haifa Cooperative Society were transferred to Bank Leumi le-Israel. Twenty-one branches of the Foreign Trade Bank and five branches of the Export Bank were transferred to the First International Bank of Israel.

Three new branches of Israeli banks were opened in the administered areas during the year—in Nablus, Abu Rodeis, and Refdim. This brought the total up to 21, of which 11 were in Judea and Samaria, eight in the Gaza Strip and Sinai, and two in the Golan Heights.

In accordance with the decision of the Bank of Israel's subcommittee on bank branches, no permits were issued for the opening of new branches in the year

reviewed; those which began operating in 1972 had received permits in previous years.

(c) *Audits*

The Department of the Examiner of Banks carried out 85 audits and surveys in 39 banking institutions during the year. Most of these covered such areas as the credit granted by the banks and the collateral received, import-export transactions (including diamonds), securities and foreign currency transactions, verification of reports submitted to the Bank of Israel, and the correction of faults discovered in previous audits. Special audits were performed in the institutions' head offices and branches of their vault cash, notes and checks for collection, securities in safe custody, etc. Twenty-three of the examinations were general audits or surveys to ascertain the position of the institutions and the soundness of their management.

(d) *Mortgage banks*

The unit supervising mortgage banks, set up in 1971, continued to carry out audits and surveys designed to lay the groundwork for the formulation of Bank of Israel policy on various related subjects.

In the light of the surveys carried out in 1971 and following joint discussions with representatives of the Treasury and the mortgage banks, in July 1972 the Examiner of Banks published guidelines for the granting of mortgage loans. These deal with such matters as commissions and other service fees which mortgage banks may charge their clients, the insuring of mortgaged property, the mailing of itemized annual statements of borrowers' accounts, and the publication of a pamphlet informing clients of the loan terms and the procedures to be followed.

Following a decision of the Ministerial Economic Committee, the Examiner of Banks issued instructions in June concerning the restriction of mortgage lending. These prohibited mortgage banks from extending loans for the purchase of homes costing more than IL 125,000, except in Jerusalem where the ceiling was fixed at IL 160,000; furthermore, the loans were not to be granted prior to the actual transfer of possession of the home.

(e) *Research and systems*

In the mechanization of the Department of the Examiner of Banks the following developments should be noted:

1. In 1972 the Export Production and Imports-for-Exports Funds were computerized, thus completing the computerization of operations in all the export funds, from the aspect of both the current processing of export loans and calculation of the relative participation in the funds of the commercial banks and the Bank of Israel.

2. Along with the computerization of liquidity data, in operation since 1971, the processing was started of other related data, for the benefit of both the Department of the Examiner of Banks and the banking institutions.

3. The Department revised the format of the periodical statements (weekly and monthly balance sheets) submitted by the banking institutions, for the purpose of computer processing. This will lay the groundwork for a "computerized data bank" providing daily, weekly, and monthly information on the country's banking system.

A number of research studies and surveys covering various aspects of the Department's policy were carried out in 1972. The principal subject examined was bank branching. A study was also begun of the costing of banking services, the adequacy of the banking institutions' equity capital, etc. A comparative analysis of bank income and expenses for 1970 and 1971 was also published.

(f) *Compilation of information*

Commercial banks and credit cooperatives report at the end of March and September of each year on all their clients whose debit balance on those dates is IL 100,000 or more. At the end of September 1972, 34 institutions submitted such reports (compared with 37 at the end of the previous September), covering 5,872 clients (4,909 in September 1971); the sum total of their debts and contingent liabilities was IL 10,264.4 million (IL 8,607.1 million in 1971).

In addition to these reports, commercial banks, credit cooperatives, mortgage and investment banks, and financial institutions report at the end of June and December of each year on all clients whose outstanding indebtedness on those dates amounts to IL 500,000 or more. On June 30, 1972, 54 institutions reported to the Bank of Israel (64 in June 1971) on 2,286 clients (2,405 in June 1971), with total debts and contingent liabilities of IL 12,902.8 million (IL 10,248.7 million in June 1971).

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

The Advisory Committee and its subcommittees dealt with the following: the restriction of bank guarantees, guidelines for the granting of loans by mortgage banks, banking activities conducted outside the bank premises, the responsibilities and rights of boards of directors, publication of the schedule of interest rates and service fees charged by commercial banks, payments to depositors in the guise of lotteries, free gifts, etc., the calculation of interest on overdrafts, restriction of transactions in Defense and Savings Loan certificates, guidelines for issuing permits for new branches, and instructions for the preparation of the commercial banks' annual financial reports.

Members of the Committee were: Dr. M. Heth (Chairman), A. Agmon, D. Bawly, D. Ben-Dror, C. Berman, M. Diga, D. Golan, J. Haft, E. I. Japhet,

E. A. Kirschner, E. Lehmann, J. Levinson, S. Magriso, A. Meir, K. A. Mossberg, M. Olenik, D. Recanati, and D. Shoham.

(h) *Advisory Committee on Cooperative Credit Societies*

The Committee discussed developments in the credit cooperative system, the responsibilities and rights of boards of directors, and the limitation of the amount of credit a borrower may receive.

Members of the Committee were: Dr. M. Heth (Chairman), N. Braude, M. Diga, D. Kitov, A. Shtacher, B. Vinitzki, and Y. Yakir.

(i) *Direction of credit*

The Department of the Examiner of Banks is responsible for the quantitative and qualitative control of directed credit granted by the various funds. In this task it is assisted by several committees composed of representatives of the Ministries of Finance, Commerce and Industry, and Agriculture.

(j) *Export finance funds*

The Export Production and the Imports-for-Exports Funds finance export production, while the Fund for Financing Export Shipments grants credit to cover the cost of shipments.

In 1972 several basic changes were introduced in the method of financing export production, the most important of which were as follows:

(1) A uniform rate of financing per dollar of export was set, with respect to both domestic activities (domestic purchases and value added) and imports-for-exports, replacing the former system of a lower rate for the value-added dollar and a higher rate for each dollar saved on import substitution. This simplified the operation of the funds and obviated the need for a separate declaration of each of these values.

(2) Uniform turnover ratios were set for production and inventories in each enterprise, in place of the separate ratios previously used. This change, too, simplified the funds' operation, but its chief purpose was to permit the gradual transition from a turnover calculation for each individual borrower to an overall branch calculation, thereby eliminating the interplant differential rates of financing per export dollar.

(3) A special fund, charging 9 percent interest, was established to finance indirect exports (including tourist services).

(4) Another special fund, operating within the framework of the Export Production Fund, was set up to finance citrus and cotton exports. The separation was made because of the seasonal nature of such financing. In 1971 credit for these purposes was given in the form of liquidity exemptions and not through the export funds.

**Table XVIII-17**  
**EXPORT FINANCE FUNDS, 1971-72**  
(IL million)

Type of fund	1971		1972		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	End-year balance	Average balance
Export production	419.5	442.1	516.0	477.5	23.0	8.0
Industry	388.4	422.4	479.8	451.9	23.5	7.0
Agriculture	31.1	19.7	36.2	25.6	16.4	36.0
Imports for export production	159.7	139.2	75.2	124.1	-52.9	-10.8
Citrus and cotton	—	—	200.3	62.6	—	—
Indirect exports	—	—	32.0	12.8	—	—
Export shipments						
Excl. diamonds	421.2	357.1	480.2	462.0	14.0	29.4
Diamonds	393.8	337.2	444.6	406.1	12.9	20.4
<b>Total</b>	<b>1,394.2</b>	<b>1,275.6</b>	<b>1,748.3</b>	<b>1,545.1</b>	<b>25.4</b>	<b>21.1</b>

Table XVIII-17 shows the growth of the export funds. It should be noted in this connection that the 8 percent rise in outstanding credit from the Export Production Fund does not reflect its real growth, since the financing which had been granted in 1971 for such purposes as indirect exports, the export of know-how, etc. were excluded in the year reviewed. Net of these items, the fund expanded by an average of about 25 percent in 1972. This was the combined result of three main factors: the growth of exports, the increase in the rate of financing per export dollar, and the growth of this fund, as contrasted with a decline in the Imports-for-Exports Fund, following the shift to a uniform turnover ratio and the unification of the rates of financing granted by the various funds.

The average balance of credit provided by the Fund for Financing Export Shipments was up about 30 percent in 1972. This stemmed from a 14 percent growth in the volume of exports financed through this fund, a 5 percent increase in the rate of financing per dollar of exports as of October 1972, and the August 1971 devaluation of the Israeli pound, which appreciated the fund's balances in IL terms.

**Table XVIII-18**  
**WORKING CAPITAL FUNDS, 1971-72**  
(IL million)

	1971		1972		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	End-year balance	Average balance
Fund A	110.6	110.3	120.7	115.6	9.1	4.8
Fund B	77.6	54.7	78.6	80.0	1.3	46.3
Artisans Fund	2.1	1.8	3.0	2.6	42.9	44.4
General Fund	—	—	39.7	21.8	—	—
Liquidity exemptions	25.4	97.2	44.0	51.9	73.2	-46.6
Total	215.7	264.0	286.0	271.9	32.6	3.0

The Diamond Fund provided some 20 percent more credit in the year reviewed. But after adjusting for the effect of the August 1971 devaluation, the growth of the fund trailed behind that of diamond exports in 1971, probably because of a faster turnover of diamond inventories.

## 2. Working capital funds

The notable expansion of the Industrial Working Capital Fund in 1972 included a one-time IL 11 million grant to exporters as compensation for the cutting of their export fund credit allocations following the recalculation of their turnover ratios (see above). The general fund was set up within the framework of the working capital funds in July 1972, to replace the system of liquidity exemptions; by the end of the year the balance in this fund had shrunk by about IL 7 million. The liquidity exemptions will be gradually eliminated as the outstanding balances, which totalled IL 44 million at the end of 1972, fall due.

## 3. Financing of agriculture

The Agricultural Working Capital Fund was established in 1972, with the participation of the commercial banks, in order to replace the system of liquidity exemptions. Citrus and cotton exports, which in 1971 had also been financed in this manner, were transferred to the new fund. The various types of agricultural financing granted in the last two years are summarized in Table XVIII-19.

**Table XVIII-19**  
**DIRECTED AGRICULTURAL CREDIT, 1971-72**  
(IL million)

	1971		1972		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	End-year balance	Average balance
Working capital fund	31.8	25.1	124.4	81.7		
Supervised credit fund	49.0	31.1	65.0	50.4	32.7	62.1
Citrus and cotton						
Export fund	—	—	200.3	62.6		
Credit within the framework of liquidity exemptions	103.0	62.0	—	30.2		
Agricultural credit within the framework of liquidity exemptions	131.0	115.6	—	66.8		
Total	<b>314.8</b>	<b>233.8</b>	<b>389.7</b>	<b>291.7</b>	<b>23.8</b>	<b>24.8</b>

## 10. THE CLEARINGHOUSES

The year reviewed saw a continued rise in the volume and value of checks and notes passing through the three clearinghouses administered by the Bank of Israel—in Jerusalem, Tel Aviv, and Haifa. The value of items cleared in 1972 was IL 68,284 million, as against IL 52,693 million in 1971 and IL 40,747 million in 1970—an increase of 29.6 percent, compared with 29.3 percent in 1971 and 13.2 percent in 1970.

**Table XVIII-20**  
**VOLUME OF CLEARINGS, 1970-72**  
(IL million)

	1970		1971		1972	
	Items presented	Items returned	Items presented	Items returned	Items presented	Items returned
<b>Urban clearings</b>						
Jerusalem	6,572	198	8,551	271	10,560	333
Tel Aviv	28,472	1,478	36,975	2,111	48,588	3,347
Haifa	5,703	232	7,167	318	9,136	464
Total	<b>40,747</b>	<b>1,908</b>	<b>52,693</b>	<b>2,700</b>	<b>68,284</b>	<b>4,144</b>
<b>Annual increase</b>						
IL million	4,741	387	11,946	792	15,591	1,444
Percent	13.2	20.4	29.3	41.5	29.6	53.5

The total value of items returned reached IL 4,144 million, as contrasted with IL 2,700 million in 1971 and IL 1,908 million in 1970; in percentage terms, the increase was 53.5 percent in 1972, as against 41.5 percent in 1971 and 20.4 percent in 1970.

The daily average number of clearings was 8,943 greater than in 1972, rising from 172,500 to 181,443.

**Table XVIII-21**  
**CLEARING OF CREDIT NOTES, 1970-72**  
(IL million)

Clearinghouse	1970	1971	1972
Jerusalem	1,875	2,666	3,880
Tel Aviv	3,922	4,012	6,056
Haifa	122	146	163
Total	5,919	6,824	10,009

The clearinghouses are administered by the Clearinghouse Committee, whose members are appointed by the Governor of the Bank of Israel for a two-year term. The present committee took office on October 1, 1970 and is composed of the following members: A. Lojter (Chairman), J. Sarig (Deputy Chairman), A. Kuker, and D. Winogradow—representing the Bank of Israel; N. Barhava, D. Allalouf, and M. Freed—representing the Association of Banks in Israel. In addition, the following alternate members were appointed: D. Ashbel, P. Barsel, A. Shalmon, and I. Tsur—representing the Bank of Israel; Mrs. H. Lahmi, R. Arie, Sh. Elitzur, and Sh. Segal—representing the Association of Banks.

## 11. ECONOMIC RESEARCH

Current research on developments in Israel's economy, conducted by the Research Department, is published in the Bank's *Annual Report*, in the periodical *Economic Review*, and in special studies and publications. Among the research studies published in 1972 were the following:

1. Periodical internal surveys of the main economic developments and of developments in the monetary field.
2. The Adjustment of the Quantity of Money to Changes in the Price Level in Israel, 1955-65.
3. Effective Rates of Exchange in Israel's Foreign Trade, 1962-70.
4. The Relationship between the Money Supply and the Money Base.
5. Factor Use in the Metal and Textile Industries.

6. Industrial Corporate Profits in Israel, 1965–70.
7. Capital Stock, Capital-Output Ratios, and Capital Intensity in Israeli Industry.
8. Concentration of Israel's Commodity Exports, 1954–69.
9. Economic Ratios of Israel's Industrial Companies, 1970–71.

The Bank's Research Department, together with the Economic Advisory Bureau of the Ministry of Finance, prepared the National Budget for 1973, which was presented to the Knesset, together with the Government Budget for 1973/74, in January 1973.

On April 16, 1972 the Governor of the Bank of Israel submitted to the Government and the Finance Committee of the Knesset, in accordance with section 35 of the Bank of Israel Law, a report on the increase of the money supply in excess of 15 percent during the period from June 30, 1971 to February 29, 1972. On August 31, 1972 the Governor submitted a second report for the period between February 29, 1972 and July 31, 1972.

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

### (a) *International Monetary Fund*

Israel's annual consultations with an IMF mission, as required by Article XIV of the Fund's Articles of Agreement, were held in Jerusalem in March 1972. At the conclusion of the consultations, the executive board of the Fund approved (on September 15, 1972) the decisions, which stated, *inter alia*:

During 1971, the Israeli authorities applied some measures of domestic financial restraint in order to contain inflationary pressures, and continued their efforts to limit increases in wage rates. Nonetheless, monetary expansion proceeded at a rapid rate partly because of a large inflow of foreign funds. The authorities have continued with restraining policies in 1972. A strong effort is being made to check the growth of budget expenditure, which is expected to show little increase in fiscal 1972, and monetary policy has been tightened in a number of ways. The Fund believes that it will be essential to implement the restraining measures resolutely if the existing inflationary pressures are to be moderated.

Israel's further liberalization of its foreign trade and payments system was also mentioned, and the Fund recommended the continuation and strengthening of this trend.

In October 1972 Israel repaid the \$ 32.5 million which it had drawn from the Fund as its first credit tranche. Formally, this was done by the acquisition of Israeli pounds from the Fund against foreign currency, and was effected after the notable growth of the country's foreign currency balances, which, according to the Fund's Articles, determines the obligation and date of repay-

ment of drawings. Israel's drawings from the Fund were subsequently confined to the gold tranche—this too in the amount of \$ 32.5 million. This sum was repaid in April 1973, restoring the Fund's Israeli pound holdings to normal, i.e. to an amount equivalent to 75 percent of Israel's quota.

On January 1, 1972 the third, and final, allocation of Special Drawing Rights was made by the IMF, with Israel's share coming to \$ 13.8 million; this was in addition to the \$ 29 million it had received in the first two allocations.

At the annual meeting of the IMF Board of Governors in September 1972, it was decided to establish the "Group of Twenty" to propose an overall reform of the international monetary system in view of its recurring crises, which had become more acute and frequent after the U.S. Government announced the abolition, on August 15, 1971, of the convertibility of the U.S. dollar and outlined its new economic policy. The Group of Twenty is to submit its report at the Fund's next conference, in Autumn 1973. It operates on two levels: the ministerial level, where Israel is represented by the Netherlands Minister of Finance (in a bloc whose representation corresponds to that in the IMF, which comprises, besides these two countries, Rumania, Yugoslavia, and Cyprus); and the deputies level, which is drafting the reform proposal for the ministers' approval, and where each bloc has two deputies. Israel is represented by Mr. M. Meirav, in charge of foreign banking transactions at the Bank of Israel, and by the Netherlands Treasurer-General. Israel is also represented by an adviser in the ministerial committee.

After the devaluation of the U.S. dollar in February 1973, the IMF approved Israel's notice that she was continuing to operate the Israeli pound under a central rate of IL 4.20/\$ and that she would avail herself of the possibility afforded her to effect a wide margin of 4.5 percent in setting the exchange rate of the Israeli pound vis-a-vis all other currencies except the U.S. dollar. A similar notice had been given and approved after the devaluation of the U.S. dollar at the end of 1971.

#### (b) *The World Bank*

At the annual meeting of the Board of Governors of the World Bank held in September 1972, the Governor of the Bank of Israel, Moshe Sanbar, proposed the establishment by the World Bank, in cooperation with the regional development banks, of an export credit guarantee facility for financing trade between developing countries. Under this proposal, the facility would guarantee the promissory notes issued or guaranteed by the central bank of the importing country, which would thus become a freely negotiable financial instrument in the international money markets. This would contribute, first and foremost, to the expansion of trade between developing countries, and would prove especially beneficial to those developing countries which have already reached an advanced stage of industrialization—thanks to no small extent to the assistance of

the World Bank—and whose chief problem is to find export markets for their industrial products.

Before its submission to the annual meeting of the Board of Governors of the World Bank, the proposal was presented by the Governor of the Bank at the Third (Finance) Committee meeting of UNCTAD (United Nations Committee on Trade and Development) and at the meeting of the Board of Governors of the Inter-American Development Bank. Thanks to this preparatory work, the scheme won the warm endorsement at the World Bank annual meeting of the Latin American group, the Philippines, several developing countries in South-east Asia, and a number of developed countries in Europe. This was reflected in their speeches and in the resolutions adopted, and induced the World Bank to make a preliminary examination of the plan. This was concluded in March 1973, and in view of its positive findings, the World Bank decided that a study group should explore all aspects of the proposal, including its possible influence on the exports of developing countries, the financial and organizational problems involved, and the technical aspects of its implementation in cooperation with the regional development banks. This in-depth study should be completed by the end of 1973.

On December 21, 1972 an agreement was signed in Washington with the World Bank providing for a \$ 30 million loan to the Government of Israel for financing the foreign currency component of Israel's national sewerage network. This project, which will encompass some 80 local authorities, is designed to solve the problem of sewage disposal and the purification of the water insofar as possible. The loan carries 7.25 percent interest and is repayable over the years 1978–97. The signing of the loan agreement was preceded by detailed, complex negotiations in both Israel and Washington, since this is the first World Bank loan to be extended for the construction of a national sewerage system and numerous problems had to be ironed out on both sides. The Bank of Israel was responsible for coordinating the Israeli side of the negotiations, and it also conducted the final negotiations.

The Minister of Finance, Pinhas Sapir, and the Governor of the Bank of Israel, Moshe Sanbar, participated in the annual meetings of the Board of Governors of the World Bank and of the International Monetary Fund, held in Washington in September 1972. Mr. Sanbar represented Israel on the Board of Governors of the World Bank, the International Development Association, and the International Finance Corporation, and Mr. Sapir represented Israel on the Board of Governors of the International Monetary Fund. Mr. A. Agmon, Director General of the Ministry of Finance, served as Alternate to the Israeli Governor of the World Bank, and Mr. Y. J. Taub, a Senior Director of the Bank of Israel, served as Alternate to the Israeli Governor of the IMF.

At the beginning of 1973 the Government of Israel and the World Bank started negotiations over a second agricultural loan. Like the previous loan, it is chiefly intended for the expansion and development of farm exports and the

**Table XVIII-22**  
**WORLD BANK LOANS TO ISRAEL—POSITION ON DECEMBER 31, 1972**  
(\$ thousand)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Repaid by Dec. 31, 1972	Balance outstanding	Thereof: Undisbursed
<b>Direct loans</b>							
Ports Authority—Ashdod Port	9.9.60	65–85	5.75	27,500	6,704	20,796	—
Government of Israel—roads	17.10.62	67–80	5.50	22,000	7,835	14,165	—
Government of Israel—roads	14.7.71	76–91	7.25	30,000	—	30,000	30,000
Government of Israel—sewerage	21.12.72	78–97	7.25	30,000	—	30,000	30,000
<b>Government-guaranteed loans</b>							
Dead Sea Works Ltd.	11.7.61	66–76	5.75	25,000	13,692	11,308	—
Industrial Development Bank Ltd.	16.9.65	68–81	5.50	20,000	9,925	10,075	—
Industrial Development Bank Ltd.	15.11.67	70–82	*	15,000	3,680	11,220	—
Industrial Development Bank Ltd.	15.6.70	72–84	7.00	25,000	1,230	23,770	10,608
Israel Bank of Agriculture	21.10.70	74–87	7.85	20,000	—	20,000	6,694
Total				<b>214,500</b>	<b>73,166</b>	<b>171,334</b>	<b>47,302</b>

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

\* 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.

production of import substitutes deemed economically worthwhile, as well as the introduction of advanced water-economizing methods. Here, too, the Bank of Israel is coordinating the Israeli side of the negotiations.

### 13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council met periodically to discuss developments in the economy as analyzed by the Governor of the Bank, with special emphasis on monetary developments and the Bank's monetary policy in the face of the rapid expansion of the money supply in 1972. The latter necessitated the submission, in accordance with section 35 of the Bank of Israel Law, of two reports on an increase in means of payment in excess of 15 percent, which were discussed, together with the Government's decisions based on these reports, by the Advisory Committee and Council. In the wake of the devaluation of the U.S. dollar, the Smithsonian Agreement, and the floating of the pound sterling, several sessions were devoted to a discussion of the international monetary situation and its possible repercussions on the Israeli economy. The Governor of the Bank surveyed these developments for the two bodies and reported on the talks he held abroad on this subject, particularly at the annual meetings of the Board of Governors of the International Monetary Fund and the World Bank.

Other matters taken up were the Bank's activities regarding credit policy, the amendment of the liquidity regulations, changes in the structure of the various directed credit funds, the drafting of the Banking Law, credit policy in the administered areas, foreign exchange reserves management policy, relations with the IMF, and allied subjects.

The Advisory Committee approved several changes in the presentation of the Bank's balance sheet, and these are reflected in its balance sheet for 1972, which appears at the end of this Report. The Advisory Committee and Council approved the Bank's balance sheet and profit and loss statement as of December 31, 1971, as well as the operating budget for 1972, after they had been examined by subcommittees appointed for the purpose.

Other subcommittees functioning in 1972 dealt with foreign exchange reserves, the licensing of new bank branches, the formulation of rules for various aspects of banking business with a view to preventing malpractices, and interest on directed credit. The subcommittees' reports were discussed at a plenary session of the Advisory Committee and of the Advisory Council. Regarding permits for the opening of new bank branches, it was decided to adopt, beginning in 1973, a three-year plan, based on socio-economic criteria in accordance with the needs of the various locales.

The Advisory Council approved the issue of the commemorative and special coins mentioned in this chapter, as required by section 31 of the Bank of Israel Law.

On December 10, 1972 the Government appointed the Advisory Committee and Council for another two-year term, in accordance with sections 20, 23, and 26 of the Bank of Israel Law.

At the end of 1972 members of the Advisory Council were: D. Horowitz (Chairman), Y. Bader, H. Barkai, Ch. M. Basok, A. Becker, A. Efrat, N. Feingold, E. Lehmann, J. Levinson, M. Olenik, Z. Onn, A. Ostashinsky, D. Recanati, Z. Susayeff, and H. Zadok.

Members of the Advisory Committee were: D. Horowitz (Chairman), Ch. M. Basok, A. Efrat, F. Lehmann, J. Levinson, Z. Susayeff, and H. Zadok. Mr. D. Recanati continued to serve as an observer with the right of participating in the proceedings of the Committee.

#### 14. THE BANK AND ITS STAFF

In February 1972 the Governor of the Bank of Israel visited New York and Washington, where he held talks with senior officials of the World Bank and its President, Mr. R. McNamara, as well as with U.S. Administration officials, bankers, and other personalities in the world of finance, on various subjects connected with the Bank of Israel.

In May 1972 he headed the Israeli delegation to the Third UNCTAD Meeting, held in Santiago, Chile. The meeting discussed *inter alia* his proposal for an export credit guarantee facility, which was submitted to the World Bank for study (see above). Mrs. H. Weinberg, senior economist in the Governor's Office, was a member of the delegation. In May the Governor also attended the annual meeting of the Board of Governors of the Inter-American Development Bank and took part in various activities connected with the Economic Conference scheduled to be held in Jerusalem in 1973. In September he participated in the annual meetings of the Boards of Governors of the World Bank and the International Monetary Fund in Washington.

Prior to the establishment of the Group of Twenty, the Governor of the Bank of Israel and the Deputy Minister of Finance, Dr. Z. Dinstein, met in Rome in August with the central bank governors and finance ministers of the Netherlands, Yugoslavia, and Cyprus. These four countries form one of the blocs in the Group of Twenty, and the meeting was devoted to coordinating the bloc's policy and determining the representation of the four member-states. Mr. M. Meirav, of the Bank of Israel, was appointed one of the two deputies to the Netherlands Minister of Finance, who is the bloc's chief representative.

Mr. David Horowitz, Chairman of the Bank's Advisory Committee and Council, headed the Israeli delegation to the U.N. Conference on The Human Environment, held in Stockholm at the beginning of 1972. He also participated in a special conference of statesmen and economists sponsored by the List Institute in Basle for discussing problems of European integration.

Dr. Eliezer Sheffer, who had served as Joint Director of the Bank of Israel

Research Department, was appointed Director General of the Bank. Mr. Sh. Peled was appointed Secretary General of the Bank, and Mr. Y. J. Taub was appointed Senior Director and Adviser in the Governor's Office. Mr. A. Gilshon, who had been loaned to the Bank of Zambia to serve as its Deputy Governor, completed his term of office and was appointed Deputy Director of the Research Department. Dr. Z. Sussman, Director of the Research Department, was appointed by the Minister of Finance to be a member and Deputy Chairman of the Securities Authority, in place of Mr. Y. Milo.

The following staff-members retired during the year: Y. Milo, Director of the Banking Department and of the State Loans Administration; A. Lojter, Director of the Tel Aviv branch and Assistant Director of the State Loans Administration; A. Frankenstein, Deputy Internal Auditor; and B. Elath, A. Arazi, and I. Babai, senior auditors in the Department of the Examiner of Banks.

Mr. M. Benousilio, Assistant Secretary General of the Bank, was seconded for one month to the International Monetary Fund to serve as adviser on organizational and computerization systems in the Bank of Zambia. Mr. S. Bronfeld, senior economist in the Research Department, was also seconded for one month to the IMF to serve as adviser to the Republic of Botswana in the establishment of a monetary reporting system. Mr. M. Barnea, a senior economist in the Research Department, was loaned to the IMF to serve as economist for a three-year period. Mr. A. Steinberg, a unit manager in the Banking Department, completed a four-year period of service with the IMF. Mr. Taub went to London for a year of advanced study.

Several of the Bank's senior officials and economists were invited to participate in various professional congresses and conferences during the year, including the Diebold Research Program—Europe (Sh. Peled); the First International Congress of Stock Exchanges (Y. Milo); and the Conference on the Mechanical Handling of Used Banknotes, held at the Central Bank of Austria (M. Benousilio). Mr. Meir Tamari was invited by several U.S. universities, including Columbia University, to lecture on corporate financing.

The year under review saw the further development of the Bank's data processing operations: several additional projects were added, including the reporting of foreign currency investments and deposits, distribution of 420,000 certificates of the 1970 Compulsory Loan, reporting of Government loan redemptions, etc.

In 1972 the Bank continued to conduct advanced courses in foreign languages and various professional subjects for its staff.

The number of Bank employees in the head office in Jerusalem and in the Tel Aviv and Haifa branches reached 811 at the end of 1972, in addition to 40 trainees and 49 guards.

Mr. Zak Ber passed away during the year.

STATEMENT OF ASSETS AND LIABILITIES  
AS AT DECEMBER 31, 1972

*and*

PROFIT AND LOSS ACCOUNT FOR THE  
YEAR ENDING DECEMBER 31, 1972

## BANK OF ISRAEL

## STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1972

(IL thousand)

## ASSETS

## LIABILITIES

	Dec. 31, 1972	Dec. 31, 1971 <sup>a</sup>		Dec. 31, 1972	Dec. 31, 1971 <sup>a</sup>
Foreign assets	5,722,186	3,368,055	Banknotes and coin in circulation <sup>g</sup>	2,035,817	1,634,859
Gold and foreign currency assets <sup>b</sup>	5,163,989	3,074,439	Foreign liabilities	376,755	455,021
Gold quota in the IMF <sup>c</sup>	148,200	136,500	Deposits of foreign banking		
Other foreign currency assets	409,997	157,116	institutions in foreign currency	14,700	41,117
Government debt	4,161,710	4,451,107	Allocations of Special Drawing Rights	195,214	121,926
Long-term liabilities <sup>d</sup>			IMF deposits in connection		
Gross	4,358,917	3,740,576	with drawings	148,200	273,000
Less: Debt redeemed against			Other liabilities	18,641	18,978
Short-Term Loan Sales	573,862	464,575	Government and National		
Net	3,785,055	3,276,001	Institution deposits	476,745	205,175
Treasury bills	50,911	40,278	Import deposits	168,808	179,607
Provisional advances	325,744	1,134,828	Government and National Institution		
Other credit and securities	1,345,868	1,029,529	deposits in foreign currency	307,937	25,568
Discounts, advances and loans	1,273,435	1,004,616	Deposits of banking and		
Gross	1,725,193	1,290,880	financial institutions in Israel	8,315,195	6,492,933
In Israeli currency	451,545	356,603	Banking institution deposits	2,837,613	1,683,312
In foreign currency	1,273,648	934,277	Financial institution deposits		
Less: Export finance deposits			In Israeli currency	66,103	26,391
of banking institutions <sup>e</sup>	451,758	286,264	In foreign currency	2,200,774	1,956,139
Securities	72,433	24,913	Banking institution deposits		
Other accounts <sup>f</sup>	270,479	13,366	denominated in foreign currency	3,210,705	2,827,091
Guarantees and documentary			Other accounts <sup>g</sup>	275,731	54,069
credits (see contra)	571,071	552,828	Capital and reserves	20,000	20,000
			Liabilities on account of guarantees		
			and documentary credits (see contra)	571,071	552,828
	<u>12,071,314</u>	<u>9,414,885</u>		<u>12,071,314</u>	<u>9,414,885</u>

<sup>a</sup> Reclassified.<sup>b</sup> Includes holdings of Special Drawing Rights totalling IL 133,208,000 on December 31, 1972 and IL 55,192,000 on December 31, 1971.<sup>c</sup> Drawings on the IMF equal to the gold tranche.<sup>d</sup> Includes IL 2,791,863,000 linked to the U.S. dollar on December 31, 1972 and IL 2,169,121,000 on December 31, 1971.<sup>e</sup> IL deposits in connection with foreign currency rediscounts in the framework of the Fund for Financing Export Shipments.<sup>f</sup> Includes food surplus account and deposits on account of U.S. food surplus purchases, totalling IL 3,601,000 on December 31, 1972 and IL 6,277,000 on December 31, 1971.<sup>g</sup> Includes commemorative and special coins with a total face value of IL 12,518,000 on December 31, 1972 and IL 12,534,000 on December 31, 1971.

# BANK OF ISRAEL

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1972

(IL thousand)

	<u>Dec. 31, 1972</u>	<u>Dec. 31, 1971</u>		<u>Dec. 31, 1972</u>	<u>Dec. 31, 1971</u>
<b>EXPENSES</b>			<b>INCOME</b>		
Interest paid, administrative expenses, and other expenses	402,843	269,997	Interest, commission, and other income	466,849	371,045
Net profit	<u>64,006</u>	<u>101,049</u>		<u>466,849</u>	<u>371,045</u>
	<u>466,849</u>	<u>371,045</u>		<u>466,849</u>	<u>371,045</u>
<b>DISTRIBUTION OF PROFITS</b>					
To the Government	<u>64,006</u>	<u>101,049</u>	Net profit	<u>64,006</u>	<u>101,049</u>

BANK OF ISRAEL  
THE GOVERNOR AND MEMBERS OF THE ADVISORY  
COMMITTEE AND ADVISORY COUNCIL  
MAY 1973

*Governor*

M. SANBAR

*Advisory Committee*

D. HOROWITZ, *Chairman*  
CH. M. BASOK  
A. EFRAT  
E. LEHMANN  
J. LEVINSON  
Z. SUSAYEFF  
H. ZADOK

*Advisory Council*

D. HOROWITZ, *Chairman*  
Y. BADER  
H. BARKAI  
CH. M. BASOK  
A. BECKER  
A. EFRAT  
N. FEINGOLD  
E. LEHMANN  
J. LEVINSON  
M. OLENIK  
Z. ONN  
E. OSTASHINSKY  
D. RECANATI  
Z. SUSAYEFF  
H. ZADOK