CHAPTER IX

ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY OF THE BALANCE SHEET AT THE END OF 1984[1]

The Bank of Israel's balance sheet totaled IS5,449 billion at the end of 1984, compared with IS1,002 billion the year before—an increase of 444 percent, which matched the rise in prices (445 percent). This rapid growth reflected the predominant weight in the balance sheet of assets and liabilities denominated in or linked to foreign currency, as well as the depreciation of the sheqel by 436 percent against a basket of foreign currencies[2] and 493 percent against the U.S. dollar.

Foreign reserves held at the Bank of Israel[3] shrank by $272 million (9 percent) during the year to stand at $2,601 million. Most of the decline occurred in the third quarter; this was followed by an upswing toward the end of the year, thanks to the receipt of U.S. government aid at the beginning of November.

2. MONETARY POLICY MEASURES IN 1984

The Bank of Israel conducted a tight monetary policy in 1984, which was reflected by fairly high nominal and real interest rates in the money market. The influencing of monetary developments via the interest rate squeezes not only bank credit but credit provided outside the banking system (the "grey market"). The Bank of Israel therefore employed the monetary instruments at its disposal with the object of maintaining an appropriate real interest rate on nondirected (discretionary) bank credit in accordance with current developments, and to keep the spread between such interest and the deposit rate as narrow as possible. The reduction of this differential (particularly in the case of large deposits) is an effective way to check the diversion of financial intermediation outside the

1 This section appeared in full in the Bank of Israel's Financial Statements for the Year 1984.

2 The basket is composed of 0.35 units in U.S. dollars, 0.1295 units in pound sterling, 0.515 units in German marks; 0.6832 units in French francs, and 0.2187 units in Dutch guilders.

3 Defined as gold, foreign currency, and securities denominated in foreign currency, net of the deposits of banks abroad and the foreign currency deposits of banks in Israel against nonresident deposits.

banking system, which tends to mushroom whenever a restrictive bank credit policy is tightened further. In the past the growth of the grey credit market neutralized some of the restrictive effect achieved through the squeezing of bank credit.

The decision taken in March 1984 to stop deducting tax at source on interest received by firms on their bank deposits erased much of the relative advantage of intermediation in the grey market over that through the banking system.[4] Part of the increase in nondirected credit recorded in 1984 may have originated in the reversal of the process of disintermediation outside the banking system, which could explain an apparent contradiction this year: on the one hand an exceptionally high interest on nondirected bank credit (60 percent above the actual inflation rate for the year), which attests to a severe monetary squeeze; and on the other hand a more rapid expansion of bank credit, which would seem to point to an expansionary impact of the credit variable.

The very tight policy pursued in 1984 with respect to private sector credit was not sufficient to arrest the rapid real growth of the public's financial portfolio, including the liquid asset component.

The accrued real interest (an average of 6–7 percent p.a.) on the public sector domestic debt (which constitutes about 90 percent of the public's financial portfolio), along with the huge injection (roughly $2 billion) generated by the financing of the government's budget deficit, frustrated any chance of containing the rapid real expansion of liquid assets (and total financial assets) with the help of the central bank's monetary tools. The only way to strengthen the relation between bank lending to the public and the central bank's monetary measures on the one hand and the various monetary aggregates and the public's total financial asset holdings on the other is to stop the massive printing of money by the treasury and to drastically reduce the public sector's demand surplus. (The surplus must be measured inclusive of total accrued real interest on the domestic debt, and not as presently measured.)

The magnitude of the government injection and its highly irregular path over the year, together with the several waves of devaluation expectations that arose during this period, forced the Bank of Israel to adopt a very flexible stance calculated to speedily adjust nominal interest rates and to mitigate the severe jolting of the money base by the government's operations. To this end the Bank refined the monetary instruments developed during the two preceding years. In addition, it continued to encourage the unlinked sheqel segment of the money market, especially in view of the acceleration of inflation this year. Under this policy incentives were given to banks ready to pay a certain interest on the public's sheqel demand deposit balances.

[4] Since April 1983 interest received by individuals on their sheqel bank deposits has been completely tax-exempt.

Following are the major changes introduced in 1984 in the Bank's monetary tools:

(a) Introduction of the discount-window loan as an alternative to the system of penalty payments for liquidity deficiencies. Under this system, which for many years had been the Bank's principal weapon for checking the growth of credit, the marginal cost of expanding credit was not clearly defined: the cost was a function *inter alia* of the time-gap between the incurring of the deficiency and the end of the tax year on the one hand and the payment of the penalty on the other; in addition, the penalty was not recognized as a deductible expense. What is more, revision of the penalty rates required legislative action; since this is a fairly prolonged process, the system of penalties did not enable the central bank to respond quickly and flexibly to money market developments.

To encourage banks to take advantage of the discount-window facility, a relatively low interest rate was set on the initial loan quotas. In 1984 the eligibility of a banking institution for the facility was made conditional on its commitment not to run a liquidity deficiency in excess of 20 percent of the required cover (upon the initiation of the first package deal in November, the rate was lowered to 5 percent). A deficiency in excess of the stipulated rate had to be covered by drawing on the discount-window loan bearing the highest interest rate.

This facility, which the entire commercial banking system eventually utilized, has enabled the Bank of Israel to set a clearly defined marginal price for bank credit, which can be quickly revised as required by circumstances. This facility has also given the central bank a very flexible tool for absorbing the banks' excess liquidity, and has reduced the need for frequently altering the liquidity ratios for this purpose. As opposed to six changes in 1983, the ratios were revised only once in 1984 (December).

(b) The resumption in 1984 of the issue of treasury bills, after a lapse of ten years. This has provided the Bank of Israel with an effective means of influeniing deposit interest rates, especially on small and medium-sized sheqel deposits. However, the public's treasury bill holdings in 1984 were too small to permit open-market operations on a scale significant enough to influence the money base. In the future, when the public steps up its holdings of this paper, it will become the principal tool for the Bank's open-market operations.

The refinement of the discount-window facility, the reintroduction of treasury bills, and the structure of interest rates on required and excess liquid asset cover enabled the Bank of Israel to conduct an effective and flexible interest rate policy in 1984, which quickly influenced bank lending and borrowing rates, thereby restraining demand for bank credit while checking (and even squeezing) financial intermediation outside the banking system.

In addition to these changes in the Bank's monetary policy tools, there were several other noteworthy developments in 1984:

Table IX-1

CHANGES IN MONETARY POLICY INSTRUMENTS, 1984

A. Liquidity Ratios

	Date of change	Liquidity ratio (%)
1. Required liquidity on sheqel deposits		
a. Ordinary deposits	25.8.83	45
	1.6.84	35[a]
b. Time deposits	17.11.83	2–4
	12.1.84	2–6
	6.12.84	7–11
c. CDs	17.11.83	4
	6.12.84	9
d. Nondirected credit	22.9.83	9
2. Required liquidity on foreign currency deposits		
a. Patam demand deposits	7.11.83	100
b. Patam time deposits	8.12.83	100
c. Patam restitution deposits	22.12.83	100

[a] Effective liquidity ratio, allowing for a discount-window loan amounting to 10 percent of the required liquidity, which was granted to banks that paid interest on demand deposit balances.

B. Interest on Liquid Assets Deposited with the Bank of Israel (%)
(At monthly rates, monthly payment)

Date of change	First interest rate step	Second interest rate step	Liquidity surplus
18.8.83	0	6.9[b]	7.4[b]
16.2.84	0	9.0	10.0
23.2.84	0	11.0	12.0
29.3.84	0	15.0	16.0
5.4.84	0	15.0	17.0
3.5.84	0	12.0	14.0
24.5.84	0	12.0	13.0
12.7.84	0	14.5	15.0
2.8.84	0	16.5	17.0
4.10.84	0	18.5	19.0
8.11.84	0	12.5	12.5
22.11.84	0	11.0	11.0
6.12.84	0	12.0	12.0
27.12.84	0	10.0	10.0
28.3.85	0	12.0	12.0

[b] Quarterly payment.

Table IX-1 (cont.)

C. Interest on Discount-Window Loan (%)
(At monthly rates, monthly payment)

Date of change	Ordinary loan	Special loan	Third tranche[c]	Marginal loan
13.12.83	7.4	10.5	12.5	
12.1.84	7.4	10.5	14.0	
16.2.84	10.0	10.5	14.0	
23.2.84	12.5	14.0	17.0	
29.3.84	16.5	18.0	21.0	
5.4.84	17.5	19.0	22.0	
3.5.84	14.5	16.0	19.0	
24.5.84	13.5	15.0	17.0	
12.7.84	16.0	17.5	20.0	
2.8.84	18.0	19.5	22.0	24.0
4.10.84	20.5	22.0	24.0	26.0
5.11.84	13.0	14.0	21.0	23.0
22.11.84	11.5	12.5	18.5	20.5
6.12.84	12.5	13.0	17.0	19.0
27.12.84	10.5	11.5	13.5	16.0
28.3.85	12.5	13.5	15.5	18.0

[c] Until February 1984 interest was paid quarterly, and the loan was called "Special (B) loan".

D. Changes in Foreign Currency Credit Ceilings

1. On 17.2.83 the ceiling was reduced by approximately 10 percent, then equivalent to about $55 million.
2. On 23.2.84 the ceiling was reduced by approximately 10 percent, then equivalent to about $50 million.
3. On 27.12.84 the ceiling was reduced by approximately 6 percent, then equivalent to about $25 million.

(a) To foster the continued growth of unlinked sheqel deposits (which began at the end of 1983) without an excessive expansion of credit, the Bank of Israel in December 1983 permitted the banking system to average its required liquid asset cover over a period of two and a half months (from the beginning of December to the middle of February 1984), instead of the usual three weeks. The incremental sheqel resources generated by the continued expansion of sheqel deposits could thus be diverted to covering the December 1983 liquidity deficiencies, while reducing the banks' recourse to the discount-window loan.

(b) Sheqel deposits continued to swell throughout the first quarter, i.e. beyond the aforementioned period of two and a half months, and this generated excess liquidity in the banking system, which constituted a potential source of credit expansion. The Bank of Israel therefore imposed a 20 percent special liquidity requirement on the export funds. This was gradually scaled down from the middle of May, and in July it was completely canceled.

(c) At the beginning of June the Bank of Israel granted several concessions to banks which agreed to pay interest on the public's demand deposits: the required liquidity on such deposits was reduced by 10 percentage points through the provision of the discount-window facility at a cost identical to the interest on required liquid cover, and 7 percent of the required liquidity was transferred from the noninterest-earning to the interest-earning category. Thus the Bank of Israel encouraged the payment of a certain interest on demand deposit balances, with the aim of dampening the public's incentive to switch from sheqel demand deposits to other forms of holding liquidity, including Patam (sheqel deposits denominated in foreign currency), at a time of accelerating inflation.

(d) Between June and August, when devaluation expectations mounted and the government injection swelled, the balance of payments strain grew more severe, among other reasons, because of the rapid expansion of credit and the squeezing of the public's sheqel deposits. To halt these negative trends, the Bank of Israel took a number of steps which sharply drove up sheqel interest rates. At the beginning of August the marginal rate on the discount-window loan reached 24 percent, as opposed to 17 percent in mid-July.

(e) During the first package deal period the Bank of Israel adopted a policy of gradually scaling down interest, taking care that this should not exceed the decline in inflationary expectations. By the end of December interest had been reduced four times. Subsequently the Bank backtracked because of the rapid growth of bank credit, and the objective of bringing real interest down to 2 percent during the first package deal period was not realized.

The high interest that has prevailed since the beginning of the package deal has helped to restrain the rise of prices in the economy. By increasing the cost of maintaining inventories it has discouraged stockpiling and spurred producers and middlemen to enlarge the supply of goods. At the same time, the public's demand has largely shifted from the tangible to the financial assets market, owing to the high yields on the latter type of asset, notably unlinked sheqel deposits.

The Bank of Israel also took direct action to keep the deposit interest rate high, making the bank's eligibility for the discount-window loan conditional on the payment of a minimum interest on one-week treasury bills.

(f) The combination of an expanding government injection, which fueled an accelerated growth of sheqel deposits, and the contraction of bank credit generated considerable excess liquidity in the banking system at the beginning of December. To absorb this excess, the Bank of Israel raised the required liquidity ratio on short-term deposits and CDs by 5 percentage points and increased the cost of borrowing at the discount window (both the ordinary and special loan); this encouraged the banks to utilize their excess liquidity to repay their drawings on this facility.

(g) In 1984 the ceiling on foreign currency credit was lowered twice (in February and December) by a total of 16 percent, equivalent at the time to about $75 million.

The current changes in the Bank of Israel's monetary policy tools are set out in Table IX-1).

Bank of Israel Open-Market Operations

Bonds

In 1984 the Bank of Israel continued its policy of allowing the prices of indexed government bonds traded on the stock exchange to fluctuate within a fairly wide yield range in accordance with market conditions, intervening only to damp down unreasonably sharp swings. The Bank's share in total secondary market bond trade (excluding internal setoffs) declined from 34 percent in 1983 to 13 percent in the year reviewed. It should be noted that Tel Aviv Stock Exchange members do not report on their setoffs of buy and sell orders, which account for a large percentage of total transactions. This understates the actual total volume of trade and greatly overstates the Bank of Israel's estimated share therein. In 1984 the Bank's net sale of indexed government bonds totaled IS6.6 billion, as opposed to IS0.9 billion the year before. (The data do not include the purchase of original-issue bonds for the Bank's own portfolio, nor redemptions and interest on account of these holdings.)

The confidence crisis that hit the bond market in January 1984 triggered a massive wave of selling pressure. This forced the Bank to step in and pick up the bonds thrown on the market by the public, in order to bolster confidence in the Finance Ministry's and Bank of Israel's resolve to prevent the unsettling of the bond market. The Bank purchased some IS13 billion of bonds that month at a 10 percent real drop in price.

In February the crisis passed; subsequently the Bank generally met any excess demand at a steep real price rise. In February and March the Bank's sales netted IS7.5 billion, at a 13 percent real advance in price; in June and July net sales came to IS5 billion, in September to IS2.5 billion, and in December to IS3.7 billion. In the other months (April, May, August, October, and November), bond prices generally softened in real terms. During these months the Bank of Israel intervened only slightly in the market. The real monthly price fluctuations ranged between a 10 percent decline in January and increases of 11–12 percent in February and December.

"Arrangement" Bank Shares

The Bank of Israel's operations in bank shares covered in the October 1983 arrangement, which were conducted on behalf of the government, have declined appreciably, from 39 percent of total stock exchange trade in the first quarter of 1983 to a mere 6 percent during all of 1984 and virtually zero since September. The Bank's net purchase of such securities came to only IS3 billion in 1984, as contrasted with IS54 billion in the fourth quarter of 1983.

The prices of "arrangement" bank shares fluctuated more sharply this year due to changing market conditions for this paper. The real monthly price fluctuations ranged between a 7.5 percent decline in November and increases of more than 10 percent in January, October, and December and 20 percent in February.

Treasury Bills

In April 1984 a treasury bill law was enacted, augmenting the Bank of Israel's array of monetary policy tools. Under this law, the treasury bills are issued by the government for periods of up to six months and are sold to the Bank of Israel, which in turn sells them to the public in accordance with monetary policy; the transactions are conducted on the floor of the Tel Aviv Stock Exchange. Initially a IS10 billion ceiling was set, but in July this was increased to IS20 billion. In mid-June the Bank began to make weekly offerings of 28-day series. Treasury bills do not carry interest or linkage differentials, and are redeemed at face value (they are sold at a discount).

During the first six months of trade in this paper (until the end of December 1984) the public's holding reached IS17.4 billion. The bulk of the trade was concentrated in June, when the first issues were made, and in December, when demand mounted following the slowing of inflation and the introduction of the package deal. Demand grew so buoyant that trade sometimes had to be suspended because of the depletion of the Bank of Israel's stock of bills. At the Bank's request, the ceiling was increased to IS75 billion at the end of January 1985.

The average monthly yield to maturity rose from 14 percent in June to 22 percent in October, and receded to 10 percent in December.

3. Mobilization of Capital for the Government Budget

The Bank of Israel, in its capacity as banker to the government, raises funds for financing the government budget, both through the issue of bonds (State Loans) and the receipt of deposits from banks and financial institutions for the Finance Ministry. These deposits serve as cover for the public's accumulated savings in the various approved instruments.

The total amount mobilized in 1984 through bonds and deposits came to IS892 billion at current prices; of this, 57 percent originated in bank-administered savings schemes, 22 percent in provident and advanced study funds, 16 percent in pension funds and life insurance companies, and only 5 percent in the sale of tradable bonds to the public.

The Bank of Israel handles the National Insurance Institute bond issue and its deposits. The amount raised from this source and transferred to the Finance Ministry in 1984 totaled IS55 billion.

4. Directed Bank of Israel Credit

The balance of directed export credit in Israeli and foreign currency granted by the Bank of Israel totaled IS1,030 billion at the end of 1984, compared with IS171 billion the year before—a nominal rise of 502 percent and a real rise of 10 percent. This increase, which occurred despite a further drop in the amount provided by the Diamond Fund, resulted from a 15 percent growth of exports financed through the other funds.

Export credit in Israeli currency rose nominally by 185 percent. In real terms this was a 48 percent decrease, which is explained by the gradual transfer, beginning in early 1984, of export production financing from Israeli to foreign currency. The rate of Israeli currency financing was reduced at the beginning of 1984 from 57 percent of the exchange rate to 45 percent, supplemented by foreign currency credit at the rate of 15 percent. At the end of 1984 the rates of financing were 20 percent for Israeli currency credit and 40 percent for that in foreign currency. The balance of directed credit for domestic activities rose nominally by 33 percent in 1984. In real terms this was a 76 percent decrease, which reflected the Bank of Israel's policy of the last few years of reducing directed credit for the domestic market.

5. Foreign Exchange Control

The General Permit defines those activities which Israeli residents are permitted to undertake in foreign currency and with foreign residents. From time to time the Permit is amended in the light of general economic and monetary developments and in accordance with the policy of the government and Bank of Israel. In 1984 the following amendments were introduced:

(a) January 1984

(1) The amount of foreign currency an Israeli resident traveling abroad may take out of the country with him was reduced from $3,000 to $2,000.

(2) The amount of lawfully acquired foreign currency an Israeli resident may hold was reduced to $2,000.

(3) The transfer abroad of support payments and gifts was permitted only to residents aged 18 or over, and the amount was reduced to $2,000 a year.
(4) An Israeli resident may not acquire securities abroad, apart from securities of Israeli companies especially approved for this purpose. Those holding foreign securities acquired before the amendment went into force may continue to hold them.
(5) The permission granted to an Israeli resident to invest in gold was rescinded.
(6) The permission granted to an Israeli resident to hold foreign currency in a foreign bank account was rescinded, except in the case of exporters and shipping companies, which may continue to hold accounts abroad. A transition period (until April 1, 1985) was allowed for closing such accounts.
(7) The permission given to a tourist to freely acquire $3,000 was rescinded. A tourist may now acquire only $500 upon his departure from Israel. (The right to reconvert Israeli currency into foreign currency upon termination of the visit to Israel remains unchanged.)
(8) The value of assets which a resident who has emigrated from Israel is entitled to take out of the country was reduced to $2,000 a year.

(b) July 1984
(1) The permission granted to an Israeli resident to transfer abroad support payments and gifts was rescinded.
(2) From July 25, 1984 until November 1, 1984 (henceforth the "determining period"), the permission granted to an Israeli resident to transfer foreign currency abroad for the purpose of making advance payment for the import of goods was rescinded.
(3) The permission granted to an Israeli resident to import certain categories of goods into Israel (such as capital goods and any type of motor vehicle) during the determining period was made conditional on the receipt, for the purpose of effecting payment for the import transaction, of supplier credit or other credit as determined by the Controller of Foreign Exchange, for a period and on the terms specified by him.
(4) During the determining period an Israeli resident may not repay in advance a direct foreign currency loan received from a foreign resident, supplier credit, or foreign currency credit received from an authorized dealer. Such loans shall be repaid only on the dates specified in the original loan agreement.
(5) The amount of Israeli currency an Israeli resident may take out of the country was limited to the equivalent of $50.
(6) The permission granted to an authorized dealer to give any type of

foreign currency loan and to place foreign currency deposits in banks abroad was restricted: he may now do so only out of the foreign currency funds available after compliance with the liquidity regulations.

(c) August 1984

(1) It was stipulated that repayment of loans granted through the directed export credit funds and the Diamond Fund must be made in conformity with the rules of the fund, as laid down by the Bank of Israel's Credit Control Department.

(2) Exemption from the prohibition against making advance payment for imported goods was granted in the following cases:
— The import transaction is financed from an approved line of credit.
— The advance does not exceed $500.
— An irrevocable commitment to make advance payment was included in the import contract, which was signed before the determining period.

(3) Exemption from the obligation to receive supplier or other credit was allowed in the following cases:
— The bill of lading antedates the determining period.
— An advance payment amounting to at least 5 percent was made before the determining period.
— A written commitment to import goods was made before the determining period.
— The value of a unit of capital goods, excluding motor vehicles of any type, does not exceed $10,000.
— The import of capital goods, excluding motor vehicles, is financed by proprietary loans.
— The import of capital goods, including motor vehicles, is part of an investment project that has received approved enterprise status, provided that the total value of the import does not exceed $500,000.

(4) Permission was granted to transfer support payments to a student enrolled in an institution of higher education abroad, in a limited amount ($200 a month).

(d) October 1984

(1) The amount of foreign currency an Israeli resident may take out of the country with him was reduced from $2,000 to $1,000, and in the case of a resident under the age of 12, to $500.

(2) The issuance of international credit cards to Israeli residents was prohibited, and the use of existing cards was limited to January 1, 1985.

(3) The validity of the amendments introduced in July was extended to August 1985, as follows:

— The prohibition against making advance payment for imported goods and the exemptions therefrom was extended.
— Permission was granted to pay subscriptions to overseas newspapers, periodicals, and scientific publications.
— The requirement to receive supplier or other credit for financing the import of goods was limited to certain types of motor vehicles, and in the case of capital goods it was canceled.
— The prohibition against making advance repayment of a direct foreign currency loan received by an Israeli resident from a foreign resident was extended.
— The prohibition against making advance repayment of supplier credit received by an Israeli resident from a foreign resident, and foreign currency credit received by an Israeli resident from an authorized dealer was extended. However, permission was granted to repay a foreign currency loan received from an authorized dealer, in an amount that does not exceed the outstanding balance of the loan on July 24, 1984, and in accordance with the terms fixed by the Controller of Foreign Exchange.

(4) It was explained that payment made from a nonresident deposit shall be construed as payment in foreign currency only if transferred to a resident deposit or converted into Israeli currency.

(5) An Israeli resident may not purchase from nor sell to a foreign resident an Israeli security that is traded on the Tel Aviv Stock Exchange, at a price that is less than the official quoted price.

6. SUPERVISION OF BANKING CORPORATIONS[5]

The only institutional change in 1984 was the start of operation on June 1 at Bank Clearing Center Ltd., an automated interbank clearinghouse.

At the end of the year the number of banking corporations operating in Israel (including the Gaza District) under the supervision of the Department of the Examiner of Banks stood at 67 (see Table IX–2).

During the year the number of offices of ordinary banking institutions[6] operating in Israel was reduced by 49, and the number in Judea, Samaria, and the Gaza District was reduced by one. At the end of the year there were 1,076 offices operating in Israel, including 1,041 branches and head offices of ordinary banking institutions, 21 restricted branches, and 14 exchange counters; 29 branches of ordinary banking

[5] A detailed description of the activities of the Examiner of Banks Department appears in the *Annual Survey of Israel's Banking System, 1984* (forthcoming).

[6] Banks, investment banks, and a foreign bank.

Table IX-2

NUMBER OF BANKING CORPORATIONS UNDER BANK OF ISRAEL SUPERVISION, 1982–84[a]

End of period	1984	1983	1982[b]
Banks[c]	26	26	26
Foreign banks	1	1	1
Investment banks[d]	2	2	2
Mortgage banks	15	15	15
Investment finance banks[e]	9	9	9
Financial institutions	11	11	11
Joint services companies	3	2	2
Total	**67**	**66**	**66**

[a] Classified in accordance with the Banking Law (Licensing), 5741–1981.
[b] Revised data.
[c] Excludes the Israel Bank of Agriculture, which has a bank license but operates mainly as an investment bank; includes the Bank of Palestine in Gaza.
[d] Excludes a new bank whose establishment was approved but had not yet started operation on December 31, 1984.
[e] Includes the Israel Bank of Agriculture.
SOURCE: Department of the Examiner of Banks.

institutions and 2 restricted branches were operating in Judea, Samaria, and the Gaza District. At the end of 1984 the ordinary banking institutions[7] in Israel, Judea, Samaria, and the Gaza District had total assets of IS27,100 billion (excluding contingent accounts).

The number of overseas offices of Israeli banks rose from 141 at the end of 1983 to 145 at the end of 1984. These comprised 20 banking subsidiaries (68 offices), 35 branches and agencies, and 42 representative offices. At the end of 1984 they had total assets (excluding contingent accounts) of about $20 billion.

7. ECONOMIC RESEARCH AND BANK OF ISRAEL PUBLICATIONS

In 1983 the Bank of Israel brought out the following publications:

(a) Research Department
(1) Annual Report 1983 (Hebrew and English).
(2) Main Points of the Annual Report 1983 (Hebrew and English).

[7] Including branches, exchange counters, and restricted and mobile branches.

(3) Calendar of Economic Events, 1983 (Hebrew).
(4) Recent Economic Developments, Nos. 35 and 36 (bilingual: Hebrew and English).
(5) Economic Review, No. 58 (Hebrew, English forthcoming).
(6) National Budget for 1984 (Hebrew and English).
(7) Economic Development in Judea, Samaria, and the Gaza District, 1981–82 (Hebrew and English).
(8) Governor's Report on the Increase in the Money Supply between April 30, 1983 and July 31, 1983 (Hebrew).
(9) Governor's Report on the Increase in the Money Supply between July 31, 1983 and October 31, 1983 and between October 31, 1983 and December 31, 1983 (Hebrew).
(10) Governor's Report on the Increase in the Money Supply between December 31, 1983 and June 30, 1984 (Hebrew).
(11) Main Israeli Economic Data (binder and weekly updates—bilingual: Hebrew and English).
(12) Industrial Capital Stock in Israel, 1960–1984 (bilingual: Hebrew and English).
(13) Industrial Capital Stock in Israel, 1960–1984 (Updates) (bilingual: Hebrew and English).
(14) Commodity Export Price Indexes, 1973–1983 (Hebrew).
(15) The Israeli Economy—Facts in Figures, 1984 (English).

(b) Department of the Examiner of Banks
(1) Annual Survey of Israel's Banking System, 1983 (Hebrew).
(2) Main Points of the Annual Survey of Israel's Banking System, 1983 (Hebrew).
(3) Annual Statistics of Israel's Banking System, 1979–83 (bilingual: Hebrew and English).
(4) Banking Statistics (monthly—bilingual: Hebrew and English).
(5) Bank Credit by Economic Sector (quarterly, Hebrew).
(6) Directory of Israeli Bank Branches on 1.1.84 (Hebrew).
(7) Deposits in Banking Institutions, 1983 (Hebrew).
(8) List of Articles and Other Publications on Banking Topics in Israel, 1984 (Hebrew).
(9) Clearinghouse Regulations (Hebrew).
(10) Israel's Banking System, 1983 (English).
(11) Banks in Israel—Selected Figures, 1984 (English).

(c) Bank of Israel Comptroller
(1) Financial Statements for the Year 1983 (Hebrew and English).

(d) State Loans Administration
(1) Explanatory Notes and Tables for Calculating Government Bond Redemptions (quarterly, Hebrew).

(2) State of Israel Bonds—Coupon Bonds and Savings Certificates: List of Stop Payments (monthly, Hebrew).

(e) Currency Department
  (1) Annual Survey, 1983 (Hebrew).
  (2) Semiannual Survey, 1984 (Hebrew).

(f) General Counsel
  (1) Foreign Currency Control Directives (Updates, Hebrew).
  (2) Israel's Banking Legislation (Hebrew).

(g) Controller of Foreign Exchange.
  (1) Foreign Currency Control Directives (Updates, Hebrew).
  (2) Foreign Currency Liabilities (quarterly, Hebrew).
  (3) "A Happy Journey" (leaflet, Hebrew).

(h) Monetary Department
  (1) Capital Market Developments (quarterly, Hebrew).
  (2) Monthly Treasury Bill Yields (Hebrew).

(i) Foreign Department
  (1) Exchange Rates of the Israeli Currency in Terms of the U.S. Dollar and the Currency Basket, 1948–1983 (bilingual: Hebrew and English).
  (2) The Representative Rate—An Explanatory Note (Hebrew).
  (3) Catalog of Foreign Exchange Data Series (Hebrew).

(j) Public Relations Office
  (1) This Debt We Owe—Israel's External Debt (2nd ed., Hebrew).

In addition to current research, the Research Department carried out a number of basic studies of specific subjects, of which the following were published (most of them in Israel and some abroad):

(1) Changes in the Age Structure of Israel's Population and Their Effect on the Labor Market, 1965–1982 (Hebrew, English forthcoming).
(2) Incorporation of Liquid Assets in a Dynamic Consumption Function for the 1970s (Hebrew, English forthcoming).
(3) Productivity and Productive Factors of the Construction Industry, 1960–1981 (Hebrew, English forthcoming).
(4) Macroeconomic Policy Alternatives (Hebrew).
(5) The Weight of Value Added in Exports, 1971–1981 (Hebrew).
(6) Inflation and Structural Change in the Israeli Economy (Hebrew).
(7) Basic Principles of a Plan for Quickly Reducing Inflation (Hebrew).
(8) Indexation and Economic Policy.
(9) A Macro-Absorption Approach for Estimating the Foreign Debt Burden (English).
(10) Reserve-Currency Diversification and the Substitution Account (English).
(11) Government Income from Printing Money and the Inflationary Effects of a Slowdown in Economic Growth (English).
(12) The Undermining of Package Deal II (Hebrew).

The Research Department also publishes a Discussion Paper Series, which presents to Israeli economists the drafts of studies before their final publication. The series has two main purposes: to make this research on the Israeli economy available to economists sooner than would be possible where final publication is involved; and to stimulate, prior to final publication of the articles, fruitful discussion by non-Bank economists, thereby helping to improve them. In 1984 the following studies appeared:

(1) Differential Long-Term Effects of Financing the Government Budget Through Domestic and Foreign Loans (Hebrew).
(2) The Effect of Wealth and Its Composition on Private Consumption in Israel (Hebrew, English forthcoming).
(3) Inflation and Money Creation in Israel (English).
(4) The Inflation Tax on the Money Base, the Subsidy Element in Cheap Credit, and Their Effect on the Inflationary Process in Israel (Hebrew, English forthcoming).
(5) Adjusting Prices in an Inflationary Period—An Empirical Macroeconomic Model (English).
(6) Indicators of the Israeli Economy (Hebrew).
(7) Concentration and the Increased Competitiveness of Israeli Industry: Causes and Interrelations, 1965–79 (Hebrew).
(8) Estimating the Public's Wealth and Its Growth in 1970–82 (Hebrew).
(9) Israel's External Current Account and Terms-of-Trade Deterioration in the 1970s (English).
(10) Acceleration of Inflation and Balance of Payments Crises in Israel, 1973–84 (English).
(11) The Probability of Economic Failure and the Risk-Return Relationship in Israeli Industry (Hebrew).

A large number of studies are currently in preparation. Following is a list of the principal subjects (in Hebrew):

(1) Time-Series Characteristics of Inflation in Israel.
(2) Determinants of Real Interest.
(3) Estimating Inflationary Expectations Using Data on Bond Market Yields.
(4) The Relative Size of Israel's Financial Sector.
(5) The Tax from Money Creation and the Inflationary Process.
(6) The Free-Market Interest Rate Structure.
(7) Demand for Financial Assets.
(8) Effect of the Age Composition of the Population on Saving.
(9) Uncertainty and Price Dynamics.
(10) The Variability of Relative Prices in Different Exchange Rate Regimes.
(11) Econometric Model of the Israeli Economy.
(12) Effective Rates of Protection and Their Effect.

(13) The Marginal Interest on the External Debt and the "Country Risk' Premium.
(14) Choosing the Optimal Currency Basket Peg for Exchange Rate Policy.
(15) Effect of the Internal Debt on Private Consumption.
(16) Incidence of Public Expenditure.
(17) Wage Differentials between Country-of-Origin Groups.
(18) Some Insights on Unemployment in Israel.
(19) Inflation as an Equilibrator of Real Wages (and Other Factor Incomes) in Israel.
(20) The Influence of Human Capital and Institutional Factors on Public Services Wages in a Period of Rapid Inflation.
(21) Israeli Labor Market Indicators.
(22) The Shrinking Life of the Capital Stock.
(23) The Tourist Industry in Israel.
(24) The Effect of Subsidized Mortgages on the Demand for Housing.
(25) Developing a Statistical Framework for the Trade and Services Industry