

CHAPTER XX

ACTIVITIES OF THE BANK OF ISRAEL

In this chapter we first describe developments in the Bank of Israel's balance sheet and profit and loss account, which reflect some of the principal functions performed by the Bank in accordance with the law. These include the management of the State's foreign exchange reserves, serving as the bankers' bank and fiscal agent of the government, administering the directed credit system, and the issue and supply of currency. We go on to describe other activities which are not reflected in the balance sheet, such as the supervision of banking and financial institutions, administration of State loans, and management of the main clearinghouse. Finally we shall survey the Bank's activities as the State's representative in international financial institutions; its economic research, which assists the Governor in his capacity as economic adviser to the government; and the deliberations of the Bank's Advisory Committee and Advisory Council, which assist the Governor in formulating monetary policy (a comprehensive review of monetary policy appears in Chapter XVII).

1. SUMMARY OF BALANCE SHEET AT THE END OF 1975

At the end of 1975 the Bank of Israel's balance sheet totaled IL24,407 million, compared with IL20,551 million the year before--a rise of 19 percent, as against 33 percent in 1974. Most of the growth stemmed from the IL2,180 million revaluation of foreign currency assets due to the devaluation of the Israeli pound.¹ Excluding the

1. The public committee set up to examine the Bank of Israel's balance sheet submitted in December 1975 an interim report in which it recommended that henceforth the Bank's net profit transferred to the Treasury in a certain year should not include income from the government not actually received that year. The Bank's management adopted this principle; and accordingly in the 1975 balance sheet the government's long-term dollar-linked advances were not revalued for changes due to the devaluations (in 1975 devaluation differentials totaled IL700 million).

Table XX-1
ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1974-75

(IL thousand)

	1974		1975		Increase or decrease(-)	
	Balance on Dec. 31	Percent of total	Balance on Dec. 31	Percent of total	IL '000	Percent
Assets						
Foreign assets	7,997,764	38.9	9,276,874	38.0	1,279,110	16.0
Gold and assets in foreign currency	7,198,171	35.0	8,403,716	34.4	1,205,545	16.7
Gold quota in IMF	235,238	1.1	278,365	1.2	43,127	18.3
Other foreign currency assets	564,355	2.8	594,793	2.4	30,438	5.4
Credit to the government	6,672,526	32.5	7,810,381	32.0	1,137,855	17.1
Long-term debt	5,128,649	25.0	4,996,828	20.5	-131,821	-2.6
Treasury bills	196,148	0.9	213,633	0.9	17,485	8.9
Provisional advances	1,347,729	6.6	2,599,920	10.6	1,252,191	92.9
Other credit and securities	4,516,090	22.0	5,901,731	24.2	1,385,641	30.7
Credit	4,245,915	20.7	5,422,884	22.2	1,176,969	27.7
Gross	4,598,041	22.4	6,389,632	26.2	1,791,591	39.0
In Israeli currency	1,737,880	8.5	2,393,536	9.8	655,656	37.7
In foreign currency	2,860,161	13.9	3,996,096	16.4	1,135,935	39.7
Less: Export finance deposits of banking institutions	352,126	1.7	966,748	4.0	614,622	174.5
Securities	270,175	1.3	478,847	2.0	208,672	77.2
Other accounts	182,652	0.9	225,439	0.9	42,787	23.4
Guarantees and documentary credits	1,181,874	5.7	1,192,677	4.9	10,803	0.9
Total assets	20,550,906	100.0	24,407,102	100.0	3,856,196	18.8
Liabilities						
Banknotes and coin in circulation	3,319,126	16.2	4,172,176	17.1	853,050	25.7
Foreign liabilities	794,821	3.8	1,237,360	5.1	442,539	55.7
Foreign currency deposits of banks abroad	—	—	14,200	0.1	14,200	—
Allocations of Special Drawing Rights	309,862	1.5	366,669	1.5	56,807	18.3
Deposits of IMF in connection with drawings	470,475	2.3	835,084	3.4	364,609	77.5
Other liabilities	14,484	—	21,407	0.1	6,923	47.8
Government and National Institution deposits	298,765	1.5	39,172	0.2	18,311	6.1
Import deposits	243,249	1.2	277,904	1.1	34,655	14.2
Government and National Institution deposits in foreign currency	55,516	0.3	317,076	1.3	-16,344	-29.4
Banking and financial institution deposits in Israel	14,651,301	71.3	17,189,594	70.4	2,538,293	17.3
Banking institution deposits in IL	3,490,509	17.0	3,029,423	12.4	-461,086	-13.2
Financial institution deposits in IL	59,691	0.3	65,240	0.3	5,549	9.3
Banking institution deposits in foreign currency	4,351,662	21.2	5,538,840	22.7	1,187,178	27.3
Banking institution deposits denominated in foreign currency	6,749,439	32.8	8,556,091	35.0	1,806,651	26.8
Other accounts	285,019	1.4	278,219	1.1	-6,800	-2.0
Capital and reserves	20,000	0.1	20,000	0.1	—	—
Liabilities on account of guarantees and documentary credits	1,181,874	5.7	1,192,677	4.9	10,803	0.9
Total liabilities	20,550,906	100.0	24,407,102	100.0	3,856,196	18.8

reevaluation increments, the increase was IL1,676 million, or 8 percent, roughly the same rate as in 1974. This sluggish growth reflected the changes which took place in the main balance sheet items: relatively moderate increases in the government's debt to the Bank and in Bank of Israel credit to the public, which were offset by a slight decline in the Bank's foreign currency assets (in dollar terms).

In analyzing developments in 1975 the year can be divided into two periods: during the first three months foreign exchange reserves continued to expand, mainly because of net sales of foreign currency by the public; the government's indebtedness was whittled down a bit; and the liquidity injection generated by its operations was negligible. In April-June the picture changed and foreign exchange reserves began to shrink. This was due to sizable foreign currency purchases by the public, made possible by the larger amount of money pumped into the economy during this period by the government's operations and the stepping up of bank credit. The increased acquisition of foreign currency was primarily intended to cover the balance of payments deficit on current account which was not covered by unrequited receipts and other foreign currency capital transfers by the private sector; in part it probably also financed speculation in foreign currency. During this period the government transferred to the country capital which it had raised abroad, and used it to finance its domestic operations as well. This averted a greater depletion of foreign exchange reserves, besides reducing the government's net liabilities to the Bank of Israel.

On the liabilities side the most noteworthy changes were the rise in currency in circulation and the decline in banking institution deposits in Israeli currency, which consist mostly of the banks' required liquid asset cover. There was also a steep increase in banking institution deposits in foreign currency, which stemmed mainly from the revaluation of this item due to the devaluation of the Israeli pound.

2. BANK OF ISRAEL ASSETS

(a) *Claims on the Rest of the World*

The Bank of Israel's foreign currency assets contracted slightly in 1975 in dollar terms. Net foreign exchange reserves held by the Bank² totaled \$1,040 million at the end of the year, compared with IL1,071 million at the end of 1974--down \$31 million, after

2. Defined as gold, Special Drawing Rights, and foreign currency assets, less foreign residents' deposits and foreign currency deposits of banks abroad.

having plummeted \$627 million the year before. The relatively small decrease in the year surveyed was the resultant of contrasting trends: on the one hand, there was a large \$583 million net purchase of foreign currency by the private sector, and on the other, the government and Jewish Agency transferred \$231 million in foreign currency, \$212 million was received in IMF loans, the Bank earned \$117 million on its foreign currency asset holdings, and obtained \$28 million from other sources. The strengthening of the dollar against the leading European currencies shaved off \$36 million from the foreign exchange holdings in dollar terms; were it not for this, the reserves would have been \$5 million larger than in 1974.

During the first three months of the year they swelled by \$274 million to stand at \$1,345 million; the increment stemmed mainly from private sector sales of foreign currency to the tune of \$173 million (of which \$123 million represented credit raised abroad by Israeli banks and deposited with the Bank of Israel as their participation in the export finance funds, while \$50 million came from foreign currency conversions by the public). Other factors expanding reserves during this period were the \$78 million IMF oil facility

Table XX-2

CLAIMS ON AND LIABILITIES TO FOREIGNERS IN GOLD AND FOREIGN EXCHANGE, 1974-75

(\$ million)

End of year	1974	1975	Increase or decrease (-)
Assets			
Gold	46.3	46.3	—
Special Drawing Rights	3.0	2.5	-0.5
Foreign currency assets	1,150.3	1,134.8	-15.5
Gold quota in IMF	39.2	39.2	—
Loans to foreign governments and banks	26.2	17.7	-8.5
Participation in international financial institutions	10.5	10.8	0.3
Other foreign currency assets	56.7	54.3	-2.4
Total claims on the rest of the world	1,332.2	1,305.6	-26.6
Liabilities			
Allocation of Special Drawing Rights	51.6	51.6	—
Deposits of IMF in connection with drawings	78.4	117.6	39.2
Other liabilities	2.4	2.0	-0.4
Nonresidents' deposits (Patach)	129.1	142.1	13.0
Foreign currency deposits of foreign banks	—	2.0	2.0
Total liabilities to the rest of the world	261.5	315.3	53.8
Net claims on the rest of the world (foreign currency assets)	1,070.7	990.3	-80.4
Net foreign currency reserves held with the Bank of Israel ^a	1,070.6	1,039.5	-31.1

^a See note 2 in the text.

and the first drawing on the IMF second credit tranche, in the amount of \$15 million.

In April the uptrend in foreign exchange reserves was reversed, and the level fell during the rest of the year. This is explained by the fact that the private sector became a net purchaser of foreign currency from the Bank of Israel instead of a net seller (in the wake of the big November 1974 devaluation). In contrast to the positive (but short-lived) turnabout caused by the November 1974 devaluation, the introduction of the creeping devaluation in June 1975 resulted in a larger foreign currency purchase by the public. Between the end of April and the end of the year the reserves were run down by \$305 million, with the public's foreign currency purchases totaling \$756 million. The decrease was partly offset by \$280 million in foreign currency transfers by the government and Jewish Agency, receipt of an additional \$96 million oil facility, two other drawings on the second credit tranche in the amount of \$23 million, and the Bank's income from investments.

The Bank's total claims on the rest of the world fell by \$26 million, from \$1,332 million at the end of 1974 to \$1,306 million at the end of the year reviewed.

(b) Government Liabilities

Net government liabilities to the Bank of Israel rose by IL1,102 million to reach IL7,250 million. Most of the increase stemmed from the IL1,252 million growth of provisional advances (after crediting the government with the IL959 million transfer of the Bank's profits for 1975). The government's long-term advances, on the other hand, decreased somewhat, following a net repayment of IL132 million. In 1975 long-term dollar-linked advances were not written up for devaluation increments, as in the past (see note 1). The government's credit accounts increased, chiefly because of a IL35 million rise in import deposits (the deposit requirement was abolished in November 1975).

The growth of the government's net liabilities reflected the deficit financing of the State budget in 1975, but it did not fully mirror the government's influence on the economy's liquidity. This was mainly because the changes in credit to the government did not include its transfers of foreign currency obtained abroad for financing local currency expenditures. The government's credit receipts were also influenced by other transactions which have no bearing on the economy's liquidity, such as interest paid on Bank of Israel credit, the transfer of the Bank's profits, etc. After adjusting the data, especially for the foreign currency transactions, the amount of liquidity pumped into the economy in 1975 by the government's operations came to an estimated IL4,290 million (for a detailed analysis of the public sector's influence on the economy's liquidity see Chapter XVII).

Table XX-3
GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,^a 1974-75
(IL million)

End of year	1974	1975	Increase or decrease (-)
Debit			
Long-term advances to the govt. ^b	5,128.6	4,996.8	-131.8
Provisional advances to the govt.	1,347.7	2,599.9 ^c	1,252.2
Total debit balances	6,476.3	7,596.7	1,120.4
Credit			
Import deposits	243.2	277.9	34.7
Foreign currency accounts of the govt. and Jewish Agency	55.5	39.2	-16.3
Post Office Bank deposits	30.0	30.0	—
Total credit balances	328.7	347.1	18.4
Net credit to the govt.	6,147.6	7,249.6	1,102.0

^a Excludes IL 234.4 million in treasury bills (the balance held by the Bank of Israel at the end of 1975 amounted to IL 214 million, compared with IL 196 million at the end of 1974).

^b Excludes IL 700 million in devaluation differentials in 1975 on linked advances (see note ¹ in the text); in 1974 linked advances were written up by IL 1,171 million on account of devaluation differentials.

^c After crediting the government with IL 959 million in Bank of Israel profits for 1975 transferred to the Treasury.

The growth of the government's liabilities and liquidity injection did not proceed at an even pace during the year; it was influenced not only by the usual seasonal factors, but to a great extent also by the issue and redemption of government bonds. During the first quarter there was a IL1,523 million drop in liabilities and some absorption of liquidity, since in March (the end of the fiscal year) the provisional advances had to be repaid. The next nine months witnessed a IL2,625 million rise in liabilities, and all the government's liquidity injection took place during this period, with the fluctuations in the level being largely due to the issue and redemption of government bonds. The steepest increases were recorded in April and October, when there was an especially heavy redemption of bonds. In August sales of such paper slumped, and this found expression in an acceleration of liabilities and the estimated liquidity injection. In December the government's indebtedness to the central bank turned sharply downward, largely because of the lively sale of index-linked bonds to the public, and also because of the transfer of the Bank's profits for the year. The ebullient demand for such securities in the first half of December is explained by the public's fear of an imminent worsening of the terms of future index-linked bond issues.

(c) *Rediscounts and Loans*

Bank of Israel rediscounts and loans to the public and commercial banks increased in 1975 by IL1,871 million, or 44 percent; less the IL531 million revaluation of foreign

currency credit, the increment came to IL1,340 million. These figures do not include a IL130 million decline in foreign currency credit extended in the past to the National Institutions for the early repayment of foreign liabilities. The incremental rediscounts for the public and the banks (excluding devaluation differentials) consisted of IL656 million in Israeli currency (up 38 percent) and IL684 million (28 percent) in foreign currency.

Table XX-4
BANK OF ISRAEL CREDIT TO THE PUBLIC, 1974-75
(IL million)

End of year	1974	1975	Increase	
			Incl. devaluation differentials	Excl. devaluation differentials
Credit in Israeli and foreign currency	4,597.2	6,389.6	1,792.4	1,209.8
Less: Credit to the National Institutions	380.3	301.4	-78.9	-130.2
Credit to the public in IL and foreign currency	4,216.9	6,088.2	1,871.3	1,340.0
Thereof: In IL	1,737.1	2,393.5	656.4	656.4
In foreign currency	2,479.8	3,694.7	1,214.9	683.6
Less: Export finance deposits of commercial banks	352.1	966.7	614.6	542.7
Thereof: In IL	352.1	562.4	210.3	210.3
In foreign currency	—	404.3	404.3	332.4
Net credit to the public in IL and foreign currency	3,864.8	5,121.5	1,256.7	797.3
Thereof: In IL	1,385.0	1,831.1	446.1	446.1
In foreign currency	2,479.8	3,290.4	810.6	351.2

This year too most of the additional foreign currency rediscounts were made in the Diamond Fund (\$54 million) and the Fund for Financing Export Shipments (\$47 million); there was a smaller increase in the Imports-for-Export Fund. Since January 1975 the banks' participation in the export funds has to be in foreign currency; the balance of these deposits came to IL404 million (\$57 million) at the end of the year. The net increase in foreign currency credit (rediscounts less the banks' deposits) was somewhat smaller, totaling IL351 million, or only 14 percent.

Rediscounts in Israeli currency rose, as mentioned, by IL656 million. Most of the increment--IL428 million, or 66 percent--represented the Bank's participation in the Export Production Fund, the principal one providing directed Israeli currency credit. The banks' IL deposits to finance their participation in the export funds expanded by IL210 million to IL562 million. The net growth of IL credit (rediscounts less the banks' deposits) amounted to IL446 million, or 32 percent.

The changes in net credit as presented in the Bank of Israel's balance sheet relate only to its participation in the directed credit funds in the form of rediscounts of commercial bank notes. (A detailed analysis of the development of directed credit to the public through the various funds and its composition appears in section 6.)

(d) *Securities*

The Bank of Israel's securities portfolio expanded by IL209 million during the year to total \$479 million. As the government's agent for the issue of its bonds, the Bank operates to regulate prices and promote secondary market trade. The extent of its open-market transactions is also determined by the economy's liquidity position.

The growth of its portfolio in 1975 stemmed from the purchase of bonds in the secondary market, mostly in July and August and the second half of December. In July and August the bond market slumped badly, and the central bank moved to check the drop in prices and trade, buying IL120 million worth of bonds (net) during this period. In the second half of December the market was again hit by a flurry of sales, sparked by the announcement of the impending capital market changes and the intention to crack down on tax dodgers. The Bank again acted to prop up prices, adding some IL120 million to its portfolio during this period. During the rest of the year its open-market operations were on a more modest scale, and most months were marked by a net sale of securities from its portfolio (see the discussion in section 8).

3. BANK OF ISRAEL LIABILITIES

(a) *Banknotes and Coin in Circulation*

Currency in circulation came to IL4,172 million at the end of 1975--up IL853 million, or 26 percent, compared with 18 percent the year before. The increment included IL14 million in commemorative coins (bringing the total up to IL73 million); while these coins are legal tender, their numismatic value exceeds their face value.

During the first four months of the year currency in circulation expanded at a strong 17 percent rate, bringing up its share in the money supply from 36.4 percent at the end of 1974 to 38.4 percent at the end of April 1975. In May the uptrend began to slow, and by year's end the weight of this item had dropped to 37.4 percent.

(b) *Foreign Currency Liabilities*

The Bank's foreign currency liabilities to the rest of the world rose \$54 million during the year, from \$261 million at the end of 1974 to \$315 million. Most of the

increase was in IMF deposits on account of withdrawals, which expanded by \$39 million as a result of the drawing of the second credit tranche in the amount of SDR 32.5 million (see Table XA-2).

(c) *Banking and Financial Institution IL Deposits*

Banking and financial institution deposits in Israeli currency with the Bank of Israel shrank by a substantial IL456 million in 1975 to stand at IL3,095 million; this followed a much smaller IL48 million decline the year before. The sharp 1975 decrease in these deposits, the bulk of which represents the obligatory liquid asset cover of the commercial banks, can be attributed to monetary developments during the year, which caused the banks to incur sizable liquidity deficiencies (surveyed in Chapter XVII).

The Bank of Israel pays interest on the obligatory deposits at rates varying according to the deposit balance and the liquidity position of the bank. The following table lists the rates of interest paid (from February 13, 1975 to December 31, 1975).

Deposits of the public with banking institutions	Total liquidity requirement (%)	Share in deposits of the public and interest paid thereon			
		0% interest	8% interest	13% interest	16% interest
Ordinary demand deposits	72	17	47.5	7.5	Balance
Time deposits					
From 3 to 4 months	26	8	10	8	Balance
From 4 to 5 months	24	7	9	8	Balance
From 5 to 6 months	22	6	8	8	Balance
Six months or more	20	5	8.5	6.5	Balance

(d) *Foreign Currency Deposits and Those Denominated in Foreign Currency*

The banks' foreign currency deposits and those denominated in foreign currency³ rose in 1975 by IL2,994 million (\$135 million) and totaled IL14,095 million (\$1,985 million). In IL terms the growth was 27 percent, compared with 65 percent in 1974. This year too the increase was due mainly to the revaluation of the deposits in the wake of the devaluations (which added IL2,096 million) to their IL value.

Excluding the valuation adjustments, the increase amounted to IL898 million, or 8 percent. The weakening of the German mark against the dollar shaved off \$103 million (IL623 million) from the total value of the deposits, a large portion of which is held in DM.

3. A description of the various types of deposits appears in the 1973 *Annual Report*, pp. 455-59.

Table XX-5
DEPOSITS OF BANKING AND FINANCIAL INSTITUTIONS WITH
THE BANK OF ISRAEL, 1974-75

(IL million)

End of period	1974	1975	Increase or decrease (-)
In Israeli currency			
Banking institution deposits	3,490.5	3,029.4	-461.1
Financial institution deposits	59.7	65.2	5.5
Total	3,550.2	3,094.6	-455.6
In foreign currency			
Deposits in foreign currency	4,351.7	5,538.8	1,187.1
Deposits denominated in foreign currency	6,749.4	8,556.1	1,806.7
Total	11,101.1	14,094.9	2,993.8
Grand total	14,651.3	17,189.5	2,538.2

1. Foreign currency deposits

At the end of 1975 the banking institutions' foreign currency deposits with the Bank of Israel added up to \$780 million (IL5,539 million), as against \$725 million (IL4,352 million) the year before--an increase of \$55 million (IL1,187 million, including IL828 million in devaluation differentials). These deposits are held in various currencies, but chiefly in DM. This is because the largest category consists of Tamam accounts, which belong to recipients of personal restitution from West Germany, who may deposit up to one-third of their foreign currency receipts in these accounts. Withdrawals may be made to finance travel abroad, to purchase foreign securities, or for conversion through a Natad account at the rate of exchange fixed daily.

At the end of 1975 the amount of Tamam held with the Bank of Israel was \$550 million (IL3,904 million), compared with \$519 million (IL3,113 million) at the end of the previous year--up \$31 million (IL792 million, including IL577 million in devaluation differentials), or 6 percent. Had it not been for the depreciation of the DM against the dollar (to which the Israeli pound was linked in 1975) the figure would have been \$36 million (IL215 million) higher. The interest paid on Tamam deposits by the government and the Bank of Israel remained unchanged this year.

Natad accounts amounted to \$56 million (IL394 million) at the end of 1975, as against \$32 million (IL191 million) at the end of 1974--an increase of \$24 million, or 75 percent. The first four months saw a continued conversion of these deposits, which had

begun after the big devaluation of the IL in November 1974, and at the end of April their balance stood at only \$25 million, after having peaked at \$78 million on the eve of the devaluation. In May, with the renewal of devaluation expectations and the stepping up of foreign currency purchases by the public, the level began to rise. Demand for these deposits, whose holders are particularly sensitive to rumors about a possible devaluation of the IL, grew much stronger, sharply pushing up the Natad dollar rate, which is determined by market forces. The balance of Natad accounts expanded steadily until the end of November, when it reached \$64 million. In December the level dipped \$9 million due to an \$18 million issue of foreign currency bonds, which were purchasable mainly with Natad funds.

Patach deposits of nonresidents and new immigrants' deposits with the Bank of Israel reached \$142 million (IL1,009 million) at the end of 1975, as against \$129 million (IL775 million) at the end of 1974--up \$13 million (IL234 million). The banks are required to hold 20 percent liquid cover against these deposits--10 percent with the Bank of Israel and another 10 percent either with it or with foreign banks approved for this purpose by the Examiner of Banks. At the end of 1975 these accounts totaled \$1,403 million (IL9,961 million), so that the effective liquidity ratio stood at the legal minimum (10 percent), whereas at the end of 1974 it was 15 percent. Interest rates in the international money markets continued to fluctuate in the year reviewed, and the Bank of Israel accordingly adjusted its interest rate schedule on Patach funds redeposited with it.

The balance of Hay accounts, in which importers deposit advances in foreign currency, totaled \$13 million (IL91 million) at the end of 1974--a decline of \$4 million.

Pamaz accounts, in which banks deposit foreign currency to be paid abroad, decreased from \$24 million at the end of 1974 to \$20 million.

2. Deposits denominated in foreign currency

These deposits, which are withdrawable in Israeli currency at the prevailing rate of exchange, consist chiefly of Pazak funds, some two-thirds of which originate in personal restitution payments from Germany (mostly denominated in DM) and other foreign currency income of Israeli residents. A small fraction consists of diamond accounts, connected with transactions in this commodity.

The amount of Pazak redeposited with the Bank of Israel totaled \$1,204 million (IL8,546 million) at the end of 1975, compared with \$1,123 million (IL6,737 million) at the end of 1974; this represented an increase of 7 percent, or \$81 million (IL1,809 million, including IL1,266 million in devaluation differentials). Had it not been for the

depreciation of the DM, the balance would have been \$66 million (IL395 million) larger. The rates of interest paid by the government and the Bank of Israel on Pazak deposits remained unchanged during the year. The balance of the diamond accounts fell from \$2 million at the end of 1974 to \$1.5 million.

4. PROFIT AND LOSS ACCOUNT

(a) *The Bank's Profit and Its Distribution*

The Bank of Israel's profit for the year was IL959 million,⁴ compared with IL517 million in 1974. Operating profits came to IL762 million, as against IL403 million the year before;⁵ exchange rate and devaluation differentials yielded another IL197 million, compared with IL114 million in 1974. As usual, the Bank's profits were transferred *in toto* to the Treasury, in accordance with the Bank of Israel Law.

(b) *Income*

The Bank's operating income rose from IL1,204 million at the end of 1974 to IL1,684 million at the end of 1975--a gain of IL480 million. Income from foreign currency assets was only slightly higher this year in IL terms, moving up from IL658 million (\$145 million) in 1974 to IL752 (\$117 million). In dollar terms the level fell, owing to the contraction of the annual average balance of such assets and the lower average rate of interest earned on their investment because of the softening of interest rates in the world money markets. Interest received on the government's debt, the second largest income item, shot up from IL289 million in 1974 to IL471 million, due to a rise in the average amount of provisional advances granted to the government and in the interest paid by the latter on such credit this year.

The Bank's net income from its rediscounting operations continued upward, from IL133 million at the end of 1974 to IL247 million. This year too the increment derived from both the growth of the annual average balance of this type of credit and the higher average net interest received on the Bank's participation in the various directed credit funds. The annual average net balance of these funds, which in the main finance export branches, went up during the year from IL3,060 million to IL4,120 million. The average net interest charged by the Bank rose from 4.3 to 6 percent. Interest received on the commercial banks' liquid asset deficits came to IL87 million, some IL40 million more than in 1974.

4. See note 1 at the beginning of the chapter.

5. IL236 million was provided for doubtful debts in 1974; this was recorded as a current expense.

(c) *Expenditure*

The Bank's operating expenses rose from IL565 million⁶ in 1974 to IL921 million in 1975, or by IL356 million. The principal item is interest paid to the banks on their local and foreign currency deposits with the Bank of Israel. This nearly doubled in 1975, from IL392 million to IL751 million, accounting for practically all the incremental expenditure.

Interest paid on the banking institutions' IL deposits--the bulk of which constitutes their required liquid asset cover--declined along with the contraction of the deposits. On the other hand, the amount paid on the banks' foreign currency deposits, which consist primarily of restitution funds, rose significantly. This can be attributed primarily to the Bank's larger participation this year in the interest outlay on such accounts, and also to the increase in the countervalue of the payments because of the devaluations.

5. CURRENCY ISSUE

(a) *Currency in Circulation by Denomination and Series*

The value of IL100 banknotes in circulation continued to rise in 1975, bringing up their share in the total value of banknotes from 72.3 percent in 1974 to 78.5 percent; the proportion of all other banknotes and coins dropped. This change stands out against the absolute decrease in the value of IL50 banknotes. The steady advance in the share of IL100 banknotes, evident since their introduction in February 1969, reflects the erosion of the IL in the last few years.

The growth in the relative and absolute value of IL100 banknotes is also seen in the data on the number of banknotes in circulation. The total rose by 9.4 million, from 65.1 million to 74.5 million, mainly because of an 8.8 million increase in IL100 notes, which reached 32.8 million at the end of the year. The number of IL50 notes fell by 1.5 million to 9.7 million.

During the year IL37.5 million worth of agorot, half-pound, IL1, and commemorative coins were put into circulation, as against IL46.8 million in 1974. The decline was due to the smaller issue of commemorative coins this year. In 1975 there was a IL16 million gold coin issue marking the 25th anniversary of Israel Bonds; in 1974 there was a IL23.6 million issue of the Ben-Gurion gold coin.

6. Including provision for doubtful debts; see the previous note.

Table XX-6
BANKNOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1974-75

End of period	1974		1975	
	IL '000	%	IL '000	%
Banknotes				
IL ½	494	—	494	—
IL 1	3,316	0.1	3,305	0.1
IL 5	39,122	1.2	41,793	1.0
IL 10	178,044	5.6	193,586	4.8
IL 50	558,119	17.6	486,008	12.2
IL 100	2,398,957	75.5	3,276,168	81.9
Total	3,178,052	100.0	4,001,354	100.0
Coins				
1 pruta	5	—	5	—
5 prutot	48	—	48	—
10 prutot	283	0.2	283	0.2
25 prutot	164	0.1	164	0.1
50 prutot	494	0.3	494	0.3
100 prutot	332	0.2	332	0.2
250 prutot ^a	605	0.4	605	0.3
500 prutot (silver)	22	—	22	—
1 agora ^b	2,566	1.8	2,754	1.5
5 agorot ^b	5,026	3.4	5,670	3.1
10 agorot ^b	13,149	8.9	16,378	8.9
25 agorot ^b	4,792	3.3	5,741	3.1
IL ½	11,881	8.1	14,658	7.9
IL 1	43,875	29.9	51,830	28.1
Total	83,242	56.6	98,984	53.7
Commemorative coins				
IL ½	28	—	28	—
IL 1	289	0.2	289	0.2
IL 5 (silver)	2,943	2.0	2,940	1.6
IL 10 (silver)	16,069	10.9	17,359	9.4
IL 25 (silver)	6,690	4.6	11,412	6.2
IL 20 (gold)	210	0.1	210	0.1
IL 50 (gold)	2,249	1.5	2,076	1.1
IL 100 (gold)	7,896	5.4	7,776	4.2
IL 200 (gold)	3,750	2.6	3,600	1.9
IL 500 (gold)	23,625	16.1	39,811	21.6
Total commemorative coins	63,749	43.4	85,501	46.3
Total coins	146,991	100.0	184,485	100.0
Total currency in circulation	3,325,043		4,185,839	
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value	5,917		13,662	
Total currency in circulation, net	3,319,126		4,172,177	

^a Including paper tokens and silver coins.

^b The agorot series includes mintmarked coins with a total value of IL 1,222,403 (IL 1,098,254 in 1974).

(b) *Damaged Currency*

In 1975, 99,135 bundles of banknotes (1,000 each) were sorted, compared with 85,804 in 1974--an increase of 15.5 percent. The number of coin bags counted was 324,774. The value of unusable banknotes destroyed in 1975 was IL1,034 million, or 25 percent of total currency in circulation, as compared with IL733 million (22 percent) in 1974. The Bank received 824 applications to exchange damaged currency, amounting to IL150,345; it approved 647 applications, totaling IL122,628.

(c) *Supply of Cash and Currency Issue*

The Bank of Israel regulates the supply of currency through agencies which it operates in the main cities. They also supply currency to banking institutions in the provincial towns and absorb their surpluses.

In the year reviewed two new banknotes of the fourth series issued by the Bank of Israel were put into circulation: the first, a IL10 note bearing the portrait of Sir Moses Montefiore, was issued on January 30; the second, a IL100 banknote with the portrait of Dr. Theodor Herzl, was introduced on March 14. On March 11, 1976 a third banknote in this series was put into circulation--a IL5 note with the portrait of Henrietta Szold. Future issues in this series will include a IL50 note, with the portrait of Dr. Chaim Weizmann, and a new IL500 note bearing the portrait of David Ben-Gurion. The banknotes in this series are smaller than the others presently in circulation, and special security marks are printed on their reverse in invisible ink.

The Israel Mint in Jerusalem minted 62 million coins for the Bank of Israel in 1975. Of these, 54 million bear the Hebrew date 5735 (some of them were minted in 1974); the rest are dated 5736. In addition, the Royal Australian Mint in Canberra supplied 5 million half-pound and 6 million IL1 coins, all of them bearing the Hebrew date 5735. Following is a breakdown of the mintings.

Coin	Minted in 1975 in:			Minted in 5735 ^a in:		
	Israel	Australia	Total	Israel	Australia	Total
1 agora	—	—	—	1,574,000	—	1,574,000
5 agorot	5,372,000	—	5,372,000	10,232,000	—	10,232,000
10 agorot	34,385,000	—	34,385,000	25,135,000	—	25,135,000
25 agorot	5,906,000	—	5,906,000	3,968,000	—	3,968,000
IL ½	9,192,000	5,000,010	14,192,010	6,066,000	5,000,010	11,066,010
IL 1	7,059,000	6,000,010	13,059,010	7,225,000	6,000,010	13,225,010
Total	61,914,000	11,000,020	72,914,020	54,200,000	11,000,020	65,200,020

^a Includes coins minted in 1974 and 1975.

(d) *Commemorative and Special Coins*

In 1975 the Bank of Israel issued a commemorative coin marking the 25th anniversary of the Development Corporation for Israel (Israel Bonds). The coin was minted in silver and in gold. Of the former, two types were issued: one ordinary (BU--brilliant uncirculated), with a smooth edge, and the other proof, with a milled edge. Its face value is IL25 and it is made of silver and bronze (800/200), weighs 30 grams, and is 40 mm. in diameter. The gold coin (900/1000) has a face value of IL500, weighs 20 grams, and has a 30 mm. diameter and a milled edge.

Another in the Pidyon Haben (Redemption of the Firstborn) series was issued in 1975. It has a face value of IL25, is made of silver and bronze (900/100), weighs 26 grams, and is 37 mm. in diameter. The BU coin has a smooth edge and the proof form a milled edge. The design of the obverse is the same as in the previous two years, but the reverse is slightly different. Toward the end of 1975 a new Hanukka coin appeared. It has a face value of IL10, is made of silver and bronze (500/500), weighs 20 grams, and has a 34 mm. diameter. Its theme is an eighteenth century Dutch Hanukka lamp, and it was issued in both BU and proof form. As in previous years, the Bank issued a set of special coins, identical with the ordinary coins in circulation and bearing the Hebrew date 5735, but minted on special blanks, with a mintmark in the form of a tiny star of David. All six existing denominations--1, 5, 10, and 25 agorot, IL1/2 and IL1--were issued in this series of 100,000 units per denomination.

(e) *Committee for the Planning of Banknotes and Coins*

This Committee, headed by Supreme Court Justice Dr. Alfred Witkon, assists the Bank in planning the banknotes and coins to be issued and recommends to the Governor the designs which it has selected from among those submitted by artists participating in closed competitions.

Members of the Committee are: Dr. A. Witkon, (Chairman), Dr. A. Biran, I. M. Brin, R. Dayan, Mrs. D. Gad, S. Golan, Dr. R. Hecht, R. Hoffner, D. Karavan, G. Keick, A. Kindler, G. Lehrman, F. Nakhla, D. Reisinger, Dr. M. Spitzer, and G. Zifroni.

6. DIRECTED BANK OF ISRAEL CREDIT

The system of directed credit is administered by the Credit Department of the Bank of Israel, with the assistance of several committees composed of representatives of various government ministries. The credit is granted for short terms, mainly through funds set up jointly by the Bank of Israel and the commercial banks. It is intended primarily to

Table XX-7

COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL, 1957/58 TO 1974/75

Coin	Place minted	Number minted		Total
		Brilliant uncirculated	Proof	
Independence Day coins — IL 10				
1966/67 (Victory)				
B.U.	Bern	234,589	—	234,589
Proof	Kreshmer, Jm.	—	50,499	50,499
1967/68 (Jerusalem)	Bern	50,000	20,501	70,501
1968/69 (Peace)	San Francisco	40,000	20,000	60,000
1968/69 (Peace)	Kreshmer, Jm.	20,199	—	20,199
1969/70 (Mikve Israel Centenary)				
B.U.	Kreshmer, Jm.	47,604	—	47,604
Proof	Bern	—	22,500	22,500
1970/71 (Science-Based Industries)				
B.U.	Jerusalem	22,700	—	22,700
Proof	Utrecht	30,000	17,501	47,501
1971/72 (Israel Aviation)	Jerusalem	50,000	15,000	65,000
1972/73 (Proclamation of Independence)	Jerusalem	124,050	41,500	165,550
1973/74 (Revival of Hebrew)	Jerusalem	127,300	49,750	177,050
Independence Day coins — IL 25				
1974/75 (25th Anniversary State of Israel Bonds)	Jerusalem	49,200	39,980	89,180
Pidyon Haben (Redemption of the First-born)				
1969/70 B.U.	Jerusalem	48,983	—	48,983
Proof	San Francisco	—	14,800	14,800
1970/71 B.U.	Jerusalem	30,201	—	30,201
Proof	San Francisco	—	13,950	13,950
1971/72 B.U. (with mintmark)	Jerusalem	30,000	—	30,000
B.U. (without mintmark)	Jerusalem	15,000	—	15,000
Proof	Jerusalem	—	12,500	12,500
1972/73	Jerusalem	101,000	14,900	115,900
1973/74	Jerusalem	109,350	44,425	153,775
1974/75	Jerusalem	63,000	49,450	112,450
Special issues				
1970/71 (Let My People Go)	Jerusalem	73,550	20,300	93,850
1974/75 (IL 25 Ben-Gurion)				
B.U.	Jerusalem	100,250	—	100,250
Proof	Bern	—	64,600	64,600
Gold coins				
IL 20 1959/60 (Herzl)	Bern	10,510	—	10,510
IL 50 1962/63 (Weizmann)	Bern	—	6,202	6,202
IL 100 1962/63 (Weizmann)	Bern	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Bern	6,014	1,502	7,516
IL 100 1966/67 (Victory)	Bern	—	9,004	9,004
IL 100 1967/68 (Jerusalem)	Bern	—	12,500	12,500
IL 100 1968/69 (Peace)	Utrecht	—	12,500	12,500
IL 100 1970/71 (Let My People Go)	Bern	—	10,001	10,001
IL 500 1974/75 (Ben-Gurion)	Bern	—	47,847	47,847

Table XX-7 (cont.)

COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL, 1957/58 TO 1974/75

Coin	Place minted	Number minted		
		Brilliant uncirculated	Proof	Total
Independence Day coins (gold)				
IL 50 1972/73 (Proclamation of Independence)	Bern	—	27,800	27,800
IL 100 1972/73 (Proclamation of Independence)	Bern	—	27,550	27,550
IL 200 1972/73 Proclamation of Independence)	Bern	—	18,000	18,000
IL 500 1974/75 (25th Anniversary State of Israel Bonds)	Utrecht	—	31,775	31,775
Half-shekel coins				
1960/61	Utrecht	20,004	5,000	25,004
1961/62	Utrecht	20,000	10,000	30,000
Hanukka coins				
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)	Bern	9,657	6,040	15,697
1963/64 (North African Hanukka Lamp)	Utrecht	10,000	5,500	15,500
1972/73 (Russian Hanukka Lamp)	Jerusalem	74,750	22,400	97,150
1973/74 (Babylonian Hanukka Lamp)	Jerusalem	94,750	44,925	139,675
1974/75 (Damascus Hanukka Lamp)	Jerusalem	74,375	58,900	133,275
1975/76 (Dutch Hanukka Lamp)	Jerusalem	50,000	40,000	90,000
Silver coins denominated in prutot				
250 prutot	Birmingham	44,225	—	44,225
500 prutot	Birmingham	43,767	—	43,767
Independence Day coins — IL 5				
1957/58 (Menora)	Utrecht	98,051	2,000	100,051
1958/59 (Ingathering of the Exiles)	Bern	27,249	4,792	32,041
1959/60 (Herzl)	Bern	34,472	4,923	39,395
1960/61 (Bar Mitzva)	Utrecht	19,541	4,561	24,102
1961/62 (Development)	Utrecht	10,450	5,050	15,500
1962/63 (Seafaring)	Rome	5,990	4,500	10,490
1963/64 (Israel Museum)	Rome	11,100	4,500	15,600
1964/65 (Knesset)	Rome	25,252	7,660	23,912
1965/66 (The People of Israel Lives On)	Utrecht	32,503	10,500	43,003
1966/67 (Eilat)	Utrecht	30,250	7,755	38,005

NOTE: At the request of the Israel Government Coins and Medals Corporation, the Bank of Israel in 1975 melted down commemorative coins and specially minted gold and silver coins from previous issues. The quantities listed here are net of the coins melted down.

alleviate the financing problems of the export branches and to provide working capital, mainly to industry and agriculture. The bulk of the credit is for export purposes and is given partly in Israeli and partly in foreign currency, at 6 percent interest p.a. The remainder is granted through the working capital funds in Israeli currency, mostly at 15 percent interest.

In the last few years the acceleration of inflation and the frequent devaluations greatly increased the differential between the rate of interest charged on directed IL credit and that on nondirected credit, resulting in a heavy demand for the cheaper financing. On the other hand, the introduction of the system of creeping devaluation pushed up the price of directed credit, which is either value-linked or given in foreign currency, so that there is no longer a big price differential between it and nondirected credit. A breakdown of the sources of financing the various directed credit funds is presented in Table XX-8. Shortly before the *Annual Report* went to press updated information showed slight changes in the balances of some of the funds; these were not incorporated in this chapter, and so there are slight discrepancies between the figures here and those appearing in Chapter XVII.

(a) *Main Developments*

In 1975 directed credit continued to expand rapidly, but not as much as in the previous year. The combined balance of the export, working capital, and other funds came to IL8,023 million at the end of the year, as against IL5,646 million at the end of 1974--an increase of 42 percent, compared with 83 percent in 1974. Of the 1975 figure, IL4,323 million was in Israeli currency (a rise of 36 percent, as against 85 percent in 1974) and IL3,700 million in foreign currency (up 49 percent, compared with 80 percent in 1974). Excluding devaluation differentials, outstanding foreign currency credit grew by 26 percent, the same as in 1974. The faster expansion of directed foreign currency credit in 1974 is therefore attributable to the larger devaluation differentials, while the more rapid increase in directed IL credit was due mainly to the creation (at the end of the year) of a new fund for the supply of working capital--the Employers Loan Fund. (A detailed description of the development of directed credit will be found in Chapter XVII.)

The first quarter of 1975 saw a relatively modest growth of directed credit. In April, the beginning of the new fiscal year, the export credit quotas were increased, and this led to a steep rise in the amount of financing provided by the various export funds during the second quarter. In the next three months the uptrend tailed off a bit. The main growth factors during this period were the heavier financing of the diamond industry, the hiking of the export financing rates in July because of the initiation of the creeping devaluation, and a further increase in the export quotas of numerous enterprises. In the final quarter the balance of directed credit shot up, mainly because of the revaluation of the foreign currency credit balances in the wake of the IL devaluations, the relatively vigorous growth of overseas sales at the end of the year, and a seasonal increase of some IL200 million in the Citrus Fund.

Table XX-8

STRUCTURE AND TERMS OF DIRECTED CREDIT FUNDS, 1974-75

(percentages)

	Sources of funds at end of 1974				Sources of funds at end of 1975				
	Com- mercial banks	Bank of Israel			Com- mercial banks	Bank of Israel			Interest rate in 1975
		Liquidity exemptions	Redis- counts	Interest rate in 1974		Liquidity exemptions	Redis- counts		
Export funds in foreign currency									
Imports for export production	15	20	65	6	15	20	65	6	
Export shipments									
Regular	15	20	65	6	15	20	65	6	
Special	15	20	65	11	15	20	65	13	
Diamonds	—	—	100	6	—	—	100	6	
Export funds in Israeli currency									
Export production	15	20	65	6	15	20	65	6	
Citrus and cotton	15	20	65	6	15	20	65	6	
Indirect exports	15	20	65	11	15	20	65	13	
Working capital funds in IL									
Industrial credit	50	20	30	13	50	20	30	15	
General Fund	50	20	30	13	50	20	30	15	
Agricultural credit	50	20	30	15	50	20	30	15	
Supervised credit	50	50	—	15	50	50	—	15	
Special industrial credits	—	—	100	22	—	—	100	22-25	
Employers Loan Fund	—	10	90	5 ^a	—	10	90	3-5 ^a	

^a The same terms as those of the loan offered as guarantee (linked principal and interest). The interest on bonds issued in 1970-74 is 5 percent linked, and on those issued in 1974-75 it is 3 percent linked.

(b) *Export Funds*

The Export Production Fund and the Import-for-Export Fund finance export production (the former in Israeli and the latter in foreign currency), while the Fund for Financing Export Shipments grants foreign currency credit to defray the cost of shipments. Most of the credit is granted to the exporter on the strength of a credit book, which stipulates his ceiling for the year, based on his estimated overseas sales. Besides these general funds there are two others for specific branches--the Diamond Fund (in foreign currency) and the Cotton Fund (in Israeli currency)--which also finance the production and shipping stages. The Indirect Export Fund assists enterprises supplying intermediates for export production. Occasionally credit is granted outside the funds for special transactions requiring long-term financing, such as the export of a whole plant.

The balance of credit granted by the export funds soared 57 percent in 1975 to total IL5,823 million. The local currency component increased 62 percent to IL2,413 million, most of it supplied through the Export Production Fund. The foreign currency component rose 54 percent (including devaluation differentials) to reach IL3,410 million (\$480

Table XX-9
DIRECTED EXPORT CREDIT,^a 1974-75

(IL million)

	1974		1975		Percent increase	
	End-year balance	Average balance	End-year balance	Average balance	End-year balance	Average balance
1. Credit from export funds						
In Israeli currency						
Export production	978.0	785.6	1,623.1	1,353.7	66.0	72.3
Citrus and cotton	390.8	222.2	577.8	353.6	47.9	59.1
Indirect exports	121.4	92.7	211.8	145.9	74.5	57.4
Total	1,490.2	1,100.5	2,412.7	1,853.2	61.9	68.4
In foreign currency						
Imports for export production	202.0	113.8	319.5	265.8	58.2	133.6
Export shipments	798.9	561.3	1,288.9	984.6	61.3	75.4
Diamonds	1,206.5	865.8	1,801.8	1,487.3	49.3	71.8
Total	2,207.4	1,540.9	3,410.2	2,737.7	54.5	77.7
Thereof: in dollars	367.9	345.9	480.3	433.2	30.6	25.2
Total credit from export funds	3,697.6	2,641.4	5,822.9	4,590.9	57.5	73.8
2. Credit from outside the funds						
In Israeli currency	51.7	—	50.0	50.0	-3.3	—
In foreign currency	38.9	—	24.6	29.1	-36.8	—
Total credit from outside the funds	90.6	—	74.6	79.1	-17.7	—
3. Total directed export credit (1+2)	3,788.2	—	5,897.5	4,670.0	55.7	—

^a After this chapter went to press updated information showed slight changes in some of the balances, but the revisions were not inserted in this chapter. Hence the discrepancies between the figures here and those appearing in Chapter XVII, where the revisions were made.

million), of which more than half was extended through the Diamond Fund. Excluding devaluation differentials, the foreign currency component expanded by only 31 percent.

1. Export production funds

The bulk of the Export Production Fund financing is granted by means of credit books, in which the quota for each exporter is determined on the basis of his estimated foreign sales for the year. This estimate is multiplied by the rate of financing per export dollar, as fixed from time to time for each branch, and in accordance with the financing turnover rate of the enterprise.

At the beginning of the year the rate of financing stood at IL5.30 per dollar. Because of the mounting cost of imported intermediates for export production, it was decided to raise the rate to IL5.60 at the beginning of July 1975 and to IL5.90 at the beginning of December.

The expectation that inflation would persist in 1975, the policy of creeping devaluation, and the hiking of the price of nondirected credit further stimulated demand

for directed IL credit, which carried a low 6 percent interest. To prevent the exploitation of cheap credit facilities by those failing to meet their export quotas, the interest rate on excessive credit, i.e. the difference between the amount actually received and that to which the exporter was entitled, was raised in 1974 to 24 percent. In 1975 the rate was increased to 34 percent on that portion exceeding by 10 percent or more the sum to which the exporter was entitled.

The Export Production Fund expanded 66 percent in the year reviewed, from IL978 million to IL1,623 million, of which 90 percent went to finance overseas industrial sales. The growth of the fund was greater than warranted by the increase in the export quotas, the higher rate of financing per export dollar, and other minor adjustments.

The Indirect Export Fund, which provides Israeli currency credit at 13 percent interest, grew from IL121 million to IL212 million at the end of 1975, or by 75 percent. This fund helps to finance enterprises supplying manufacturers of export goods with inputs amounting to at least 25 percent of the total cost of export production.

2. Imports-for-Exports Fund

The balance in this fund stood at IL320 million at the end of 1975, up 58 percent from the end of the previous year. The increase in the annual average level was far higher--134 percent. This big difference is explained by the fact that until the November 1974 devaluation exporters evinced little desire to turn to this fund for foreign currency credit, but the devaluation triggered a heavy demand in the belief that the IL exchange rate would remain stable for a time. During the year reviewed the growth of such financing again slowed to a modest pace, and the amount provided fell short of the approved ceiling. Because of the mini-devaluations implemented during the year, the rate of financing was raised from IL5.30 per export dollar at the beginning of 1975 to IL6.63 by year's end.

3. Export shipment funds

These funds finance the credit extended by the exporter to his overseas customers. The financing is granted upon execution of the export, and amounts to the full f.o.b. price of the shipment in foreign currency. At the beginning of 1975 the rate of financing was raised to IL6.00 per dollar (the official rate of exchange). Since the credit from this fund is denominated in dollars, the system of creeping devaluation automatically raises the rate of financing every time the official rate of exchange is altered. The period of such financing is generally until receipt of the export proceeds, but not more than 190 days. Financing for longer periods must be approved by a special committee and is granted from a special fund, at a higher rate of interest. The average credit period in the

regular fund declined from 87 to 74 days.

The Export Shipments Fund finances almost 95 percent of total industrial exports (excluding diamonds). At the end of 1975 the balance of this fund reached IL1,290 million, after rising 61 percent during the year; the special fund accounted for 8 percent (about IL100 million) of the total. In the latter part of 1975 it was decided that the Export Shipments Fund would also finance exporters' warehousing costs abroad, and by the end of the year the amount provided for this purpose came to IL110 million (of which IL44 million originated in Patach deposits).

4. *Diamond Fund*

This fund supplies inventory financing in foreign currency to the diamond industry from the import stage until receipt of the export proceeds. The diamonds serve as collateral, and in order to permit their processing and sale they may be withdrawn from the financing bank under a trust agreement.

The fluctuations in the Fund are influenced by deposits and withdrawals of diamonds and do not necessarily correspond to those in the industry's production or sales. In 1975 outstanding loans averaged \$235 million, 21 percent more than the year before. This increase, despite the drop in overseas sales of polished stones in 1975, was due to the extension of the financing period for both the production and shipment stages. The average processing period increased from 15.3 to 18.6 weeks as a result of the changeover to smaller stones. The larger amount of financing supplied this year is explained by the accumulation of stocks due to the contraction of foreign sales. The average period of the credits for export shipments increased from 50 to 60 days, apparently because of slumping world demand for diamonds.

5. *Citrus Fund*

This fund finances the cultivation, harvesting, and overseas shipment of citrus fruit. Yearly credit ceilings are fixed on the basis of cash flows according to the Citrus Marketing Board, which organizes and regulates exports. In 1975 financing from this fund carried 6 percent interest.

In 1975 the fund was reorganized: its financing is now restricted to citrus exports, while cotton exports, which formerly were included, have been transferred to the Export Production Fund. In another change the fund was subdivided, each part covering a different period but offering the same terms. One operates from April to March, and finances growers, while the other operates from July to June and finances the Citrus Marketing Board.

The annual average credit balance rose from IL255 million in the 1974/75 season to IL374 million in 1975/76--an increase of 47 percent, mainly reflecting the higher production costs. Of the 1975/76 figure, IL170 million went to growers and IL204 million to the Board.

Credit from this fund displays sharp seasonal fluctuations, with the volume during the peak season (beginning in December) far surpassing the average for the year. Whereas the increase during 1975 came to 48 percent, from IL391 million to IL578 million, the increase in the annual average balance reached 59 percent.

(c) *Working Capital Funds*

These funds totaled IL1,457 million at the end of 1974, compared with IL1,806 million at the end of 1975--a rise of 24 percent, as against 120 percent in 1974. The annual average increase in 1975 was 84 percent. The big difference in growth rates is explained by the upsurge at the end of 1974 following the introduction of a new fund--the Employers Loan Fund.

1. *Working capital to industry and artisans*

This fund provides low-cost working capital to preferred industrial enterprises, i.e. those located in Development Zones A and B, as well as to those exporting at least 40

Table XX-10
DIRECTED CREDIT FOR DOMESTIC PRODUCTION, 1974-75
(IL million)

	1974		1975		Percent increase	
	End-year balance	Average balance	End-year balance	Average balance	End-year balance	Average balance
1. Credit from working capital funds						
Industry and crafts	241.5	211.9	358.8	288.1	48.6	36.0
Agriculture	287.6	197.9	329.6	330.6	14.6	67.1
Supervised credit	109.8	120.7	152.3	118.8	38.7	15.7
General Fund	64.1	64.1	75.7	76.7	18.1	19.7
Employers Loan Fund	380.3	92.6	406.0	380.9	6.8	314.0
Special industrial credits	6.0	—	30.0	37.2	400.0	—
Trucks	367.5	252.3	303.2	335.2	-17.5	32.9
Vehicle and equipment imports	—	—	150.8	134.2	—	—
Total	1,456.9	920.9	1,806.4	1,701.7	24.0	84.8
2. Credit from outside the funds	127.3	—	17.7	—	-86.1	—
Liquidity exemptions	42.6	—	37.1	—	-12.9	—
Rediscounts in Israeli currency	231.1	—	264.0	—	14.2	—
Rediscounts in foreign currency	—	—	—	—	—	—
Total	401.0	—	318.8	—	-20.5	—
3. Total directed credit for domestic production	1,857.8	—	2,125.2	—	14.4	—

percent of their output. The eligibility criteria for such credit include such considerations as the average size of the firm's inventories, the proportion of equity capital in total liabilities, and the amount of financing received from other directed credit funds. The fund is administered by a committee comprising representatives of the Ministry of Commerce and Industry, Ministry of Finance, and Bank of Israel. In April 1975, the beginning of the new financing year, the fund ceiling was raised by half, from IL280 million to IL420 million. It was decided that the IL244 million balance outstanding in April would be scaled up by IL15 million a month in April, May, and June, and by IL18 million a month thereafter. At the same time the interest charge was raised from 13 to 15 percent per annum.

Besides this fund there are two others for artisans, which at the end of 1975 had a combined balance of IL14 million. The loans are given through the Artisans' Bank, on terms similar to those of the industrial working capital fund.

The balance in all three funds totaled IL359 million at the end of 1975--up 49 percent from 1974; the annual average increase was 36 percent.

2. Financing of agriculture

The Agricultural Working Capital Fund supplies credit for the cultivation of various crops, according to an annual production program drawn up in agreements with the Ministry of Agriculture, which also prescribe the approved credit quota for the agricultural year. The annual average quota for 1974/75 was set at IL317 million. The rate of interest remained unchanged in 1975 at 15 percent. The balance of the fund reached IL330 million at the end of the year, 15 percent more than the year before; this came on top of a 90 percent jump in 1974. The rise in the annual average level in 1975 was 67 percent, with the marked divergence between it and the increase in end-year levels being due to the sharp increase in the latter part of 1974. This fund too is strongly influenced by seasonal factors, the balance being especially high in June, as well as in November and December with the start of the winter crops.

The Supervised Credit Fund provides farm financing according to an annual production program prepared by the Ministry of Agriculture and controlled by the financing institution. The annual average credit quota for the 1974/75 agricultural year was fixed in November 1974 at IL135 million. The actual increase during the year came to 39 percent, and at the end of 1975 the fund stood at IL152 million; the annual average balance went up only 16 percent. The interest charged by this fund is similar to that of the Agricultural Working Capital Fund.

Farmers also obtain directed credit from the General Fund and the Employers Loan Fund. The total amount of directed credit made available to the sector in 1975 was IL486 million, an annual average increase of 46 percent.

3. Employers Loan Fund

In June 1974 it was decided to establish a special fund to provide working capital against the collateral of employers' compulsory loan certificates. This fund was designed to solve the liquidity problems of enterprises requiring additional working capital because of costlier inputs and which possessed Employers Loan certificates.

The credit terms matched those of the compulsory loans--interest of 5 percent a year, with the principal linked to the consumer price index and repayment to be made in three equal monthly instalments beginning 25 months after receipt of the credit. The fund was financed entirely by the Bank of Israel and the credit was allocated by a joint committee of the Bank and the Ministry of Commerce and Industry.

At the end of 1974 the fund stood at IL380 million. Between January and August 1975 its operations were frozen, but in September it was reactivated with a total capital of IL250 million. Under the new arrangement the credits carry 3 percent interest, principal is linked to the consumer price index, and the repayment terms are similar to those of the earlier arrangement. At the end of 1975 the fund totaled IL406 million, of which industrial enterprises accounted for IL275 million; public transport cooperatives--IL9 million; agricultural purchasing organizations and companies--IL10 million; hotels and tourist agencies--IL5 million; and oil, electricity, and other companies--IL25 million.

New enterprises and those without Compulsory Savings Loan certificates were able to obtain financing from a special industrial loan fund. The interest rate was raised in September 1975 from 22 to 25 percent p.a. At the end of 1975 this fund stood at IL30 million, as against IL6 million at the end of 1974. Some 60 percent of the loans granted during the year went to kibbutz industrial enterprises.

4. Financing of vehicle imports

After the Yom Kippur War it was decided to establish a fund to provide long-term credit for financing truck imports. Credit from this fund is granted for six years, at 11 percent interest. At the end of 1975 the outstanding balance came to IL303 million, as against IL367 million the year before. In 1975 another fund was set up to substitute for the financing granted in 1972-73 in the form of liquidity exemptions for the import of buses, trucks, and earthmoving equipment. Credit from this fund is given for a five-year period, at interest ranging from 9.5 to 18 percent, depending on when the loan was received and

its purpose. At the end of the end of the year the fund totaled IL151 million.

7. SUPERVISION OF BANKING AND FINANCIAL INSTITUTIONS

(a) *Institutions Subject to Supervision*

The total number of banking and financial institutions supervised by the Bank of Israel remained at 64 in 1975, but some changes took place in the various component groups (see Table XX-12). The Exchange National Bank of Chicago discontinued the independent operation of its Israeli branch network, merging with Japhet Bank, with the name being changed to the American-Israeli Bank. The Ein Hai Agricultural Cooperative Society for Credit and Saving Ltd. transferred its banking business to a new bank, Ein Hai Bank Ltd., which was established by the society jointly with Bank Hapoalim. The Hadera Cooperative Society for Credit and Saving Ltd. transferred its banking business to the First International Bank of Israel.

Table XX-11

BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1974-75

End of period		
Type of institution	1974	1975
Commercial banks ^a	21	21
Cooperative credit societies	11	9
Mortgage banks	15	15
Investment banks	5	5
Financial institutions	12	14
Total	64	64

^a Excludes four inactive banks.

(b) *Bank Branches*

At the end of 1975 there were 935 branches (including head offices of commercial banks and cooperative credit societies) operating in Israel and 22 in the administered areas. During the year 35 new branches and five agencies in hotels were opened; this compares with 42 branches and two agencies last year. Seven branches of the Israel-British Bank (in

liquidation) were transferred during the year to their new owners (three to Bank Hapoalim, one to Bank Leumi le-Israel, and three to the United Mizrachi Bank).

The Bank of Israel's subcommittee on bank branches issued 27 permits for opening new branches this year. Approval was also given for the experimental operation of a mobile banking service for settlements in the Shafir region and for the experimental operation of four automatic tellers, three of them located outside bank premises.

(c) Commercial and Mortgage Bank Audits

The number of commercial bank audits performed by the Department of the Examiner of Banks rose from 42 in 1974 to 53. This year the audits covered specific subjects rather than being of a general nature, and this on the assumption that responsibility for auditing the operations of bank branches devolves on the internal auditing unit of each bank.

The Bank of Israel's unit supervising mortgage banks continued to carry out general audits and surveys. One survey dealt with the responsibilities and rights of boards of directors of mortgage banks, while most of the audits covered the debts of large borrowers, a subject introduced in 1974. In cooperation with the Liaison Committee of the Association of Certified Public Accountants, draft regulations were prepared for a uniform format for mortgage bank financial reports, and in cooperation with representatives of the mortgage banks proposals were formulated for the registration of mortgages in the Land Registry. Discussions on these two matters are continuing.

(d) Complaints of the Public

The Department of the Examiner of Banks deals with the public's complaints on banking services. In 1975 some 550 complaints were submitted, compared with approximately 400 the year before. Most of them related to demand deposit accounts, foreign currency transactions, mortgage loans, securities, and approved savings schemes. The percentage of complaints concerning foreign currency transactions rose this year, apparently because of the frequent mini-devaluations implemented. The proportion of complaints found to be justified remained unchanged at 28 percent, reaching 35 percent in the case of the mortgage banks.

(e) Research, Follow-up and Statistics

As usual, the Department kept tabs on the current operations of the banks and the banking community in general. It prepared review files on a number of commercial banks, and performed various surveys and studies connected with banking business in Israel. The

Department published its annual survey of Israel's banking system, as well as current statistics on the banking institutions, including defaulted notes, credit granted to the various sectors of the economy, and deposits. It also published a study on the banking system's liquidity position in 1968-69 and completed a study on the banks' equity capital.

(f) Legislation, Directives, and Other Supervisory Activities

Work on the drafting of a new banking law continued in 1975, and the drafting of a bill on deposit insurance was completed. An amendment to the Banking Ordinance was tabled whereby banks would be protected against claims arising out of strikes; another amendment extended the validity of the requirement to obtain a permit to open bank branches. Among the main subjects covered by the directives and circulars issued this year were the limitation of bank guarantees and other contingent liabilities, amendment of the liquidity regulations, definition of security repurchase agreements and the subjecting of such transactions to the liquidity requirements, more detailed reporting of bond investments, interbank foreign currency deposits, large borrowers, recording of cash transactions in excess of IL15,000, and instructions for emergency periods.

(g) Reorganization of the Department and Its Methods

In the second half of the year planning got underway on the reorganization of the Department of the Examiner of Banks and its methods of operation, and implementation of the changes began in early 1976. The main one was a shift from a system of general banking institution audits to in-depth audits of specific subjects such as foreign currency transactions, credit, collateral, and securities.

In addition, teams were set up to supervise groups of banks, while special teams were formed to supervise and audit mortgage banks, investment banks, financial institutions, and cooperative credit societies.

8. ADMINISTRATION OF STATE LOANS

The Bank of Israel's State Loans Administration deals with the following main types of loans to the public and institutions: domestic noncompulsory loans linked to the consumer price index, domestic compulsory loans, foreign loans, and the Short-Term Loan. The Bank also administers loans issued by various financial institutions. The data in this section reflect the activities of the State Loans Administration, and do not necessarily coincide with the data appearing in the analysis of the bond market in Chapter XIX.

(a) *Domestic Loans*

1. *Main developments*

In 1975 new issues of medium- and long-term index-linked noncompulsory government loans administered by the Bank of Israel grossed IL2,105 million, compared with IL2,109 million the year before, while index-linked bonds issued by financial institutions came to IL5,890 million, as against IL4,260 million in 1974. The total face value of compulsory loan certificates distributed in 1975 (on account of collections in earlier years) was IL938 million, compared with IL748 million the year before.

Gross sales of government loans plus the value of certificates distributed reached IL3,043 million, as against IL2,858 million in 1974; redemptions rose from IL355 million (face value) to IL431 million. The public's Short-Term Loan holdings shrank by IL70 million to stand at IL84 million.

Besides the IL431 million in principal repayments (IL53 million on index-linked noncompulsory loans and IL377 million on compulsory issues), the Bank of Israel paid IL921 million in linkage increments on principal (IL332 million on index-linked noncompulsory and IL589 million on compulsory loans) and IL509 million in accrued interest and linkage increments thereon (IL381 million on index-linked noncompulsory and IL128 million on compulsory loans). In 1974 linkage on principal repayments amounted to IL736 million and accrued interest and linkage thereon to IL464 million. The net revalued government loan debt administered by the Bank, which constitutes only part of the State's domestic indebtedness, grew by IL7.5 billion to total IL23.2 billion at the end of 1975, compared with IL15.7 billion the year before.

2. *Medium- and long-term noncompulsory loans*

In 1975 government issues of index-linked bonds, excluding voluntary issues,⁷ totaled IL2,083 million, compared with IL2,084 million in 1974 and IL1,910 million in 1973. (In addition, financial institutions issued IL5,890 million worth of index-linked bonds, compared with IL4,260 million in 1974 and IL2,735 million in 1973.) The net amount of capital raised (gross sales less redemptions at market value and interest paid) came to IL1,317 million in 1975, compared with IL977 million in 1974 and IL1,270 million in 1973.

The proportion of government bonds in total gross linked issues continued downward to 26 percent, after standing at 33 percent in 1974 and 41 percent in 1973. On the other

7. The Voluntary War Loan is not a tradable security. In 1975 cash sales of this paper yielded IL22 million, as against IL25 million in 1974.

Table XX-12
STATE LOAN ISSUES AND SALES,^a 1974-75
(IL million)

	1974					1975				
	Gross issue or sale	Redemption of principal	Devaluation increments on principal	Interest and linkage increments thereon	Net issue or sale (1-2-3-4)	Gross issue or sale	Redemption of principal	Devaluation increments on principal	Interest and linkage increments thereon	Net issue or sale (6-7-8-9)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
A. Long- and medium-term loans										
Option-type	288	157	532	229	-630	6	12	272	115	-393
Six-year bonds	68	—	—	—	68	3	—	—	2	1
Seven-year bonds	195	—	—	69	126	5	—	—	110	-105
Ten-year bonds	1,034	—	—	—	1,034	1,561	—	—	52	1,509
Ten-year bonds, 90% linked	—	—	—	—	—	11	—	—	—	11
14-year bonds	6	—	—	—	6	—	—	—	—	—
Other long-term loans ^b	454	10	16	63	365	497	11	26	58	402
Special issue for banks	39	—	—	31	8	—	30	34	44	-108
Total	2,084	167	548	392	977	2,083	53	332	381	1,317
B. Voluntary War Loan (cash)	25	—	—	—	25	22	1	—	—	21
C. Total loan issues, excl. Short-Term Loan (A+B)	2,109	167	548	392	1,002	2,105	54	332	381	1,338
D. Compulsory loan certificates distributed										
Absorption Loan	3	91	100	56	-244	3	79	156	72	-304
Defense Loan, 1970-72	332	6	4	1	321	533	13	16	2	502
Savings Loan, 1970-72	414	91	84	15	224	402	285	417	54	-354
Total	749	188	188	72	301	938	377	589	128	-156
E. Total loans, excl. Short-Term Loan (C+D)	2,858	355	736	464	1,303	3,043	431	921	509	1,182
F. Short-Term Loan	462	680	—	21	-239	725	800	—	23	-98

^a The data in this table were provided by the State Loans Administration; they do not coincide with the figures appearing in the economic analysis of the bond market in Chapter XIX.

^b The long-term Development Loan and the Insurance Companies Loan, including deposits of insurance companies on account of loan purchases, totaling IL 270 million in 1974 and IL 374 million in 1975.

hand, the weight of government bonds in the net total rose from 26 percent in 1974 to 29 percent.

A breakdown of linked bond issues by initial purchaser⁸ reveals that, as in 1974, only about one-third of the government bonds were acquired by institutional investors, with the balance being taken by the general public. Institutional investors accounted for 85 percent of the financial institution issues and the public for only 15 percent.

An examination of linked bond sales by issuer discloses a similar picture: some two-thirds of the public's purchases consisted of government issues and only one-third of financial institution issues, while in the case of institutional investors the share of financial institution bonds topped 90 percent. To sum up, the majority of the government bonds are acquired initially by the public, which prefers them to financial institution bonds, while institutional investors, most of which are affiliated with banking concerns, lean toward issues of their own concerns.

Of the total sum grossed from bond issues in 1975, IL1,561 million came from sales of the 4 percent ten-year bond featuring full linkage of principal to the consumer price index. The issue of this type of paper was discontinued in the second half of December, and in its stead issues were confined to bearer bonds with 90 percent linkage of principal. The issue of six-year bonds paying 3.25 percent unlinked interest but with the principal fully linked was discontinued in February because of light demand (in 1975 the public bought only some IL3 million worth). Sales of the 6 percent 17-year bond (sold to social insurance funds and to banks for their approved savings schemes) brought in IL123 million this year, while insurance company deposits against certificates of the Insurance Companies Loan totaled IL374 million.

Government bond issues did not describe an even path during the year, moving closely in step with demand in the linked bond market. Sales were buoyant in the first four months and then retreated sharply, especially in July and August. In September demand picked up, and sales proceeded at a lively pace until the second half of December, when it was decided to modify the terms of future issues to the public's disadvantage, with bearer bonds initially offering only 90 percent linkage of principal. In addition, under the campaign against undeclared income it was made obligatory to record cash transactions of IL15,000 or more, and it was also decided to slap a 1.5 percent tax on security trade, to

8. Bond purchasers have been classified into two main groups: (a) institutional investors, such as provident and pension funds, insurance companies, and banks (for their approved savings schemes); and (b) the general public, consisting of all other purchasers. The classification pertains to original-issue bonds only and not to subsequent transactions in the secondary market between the two groups (see Chapter XIX).

be collected from those selling linked bonds in the market. These measures dampened the public's interest in such securities, and the market remained listless in the early part of 1976 (for a fuller survey see the section on the Bank of Israel's open-market operations).

3. Defense and Compulsory Savings Loans

In 1975, IL935 million worth of Defense and Savings Loan certificates were distributed to 1,460,000 persons, compared with IL746 million and 1,060,000 respectively in 1974. In the year reviewed the distribution was continued of 1970 and 1971 Defense and Savings Loan certificates and that of the 1972 Defense Loan was begun.

In October 1975 redemption was started of the second third of the 1970 Savings Loan and the first third of the 1971 Savings Loan. Principal repayments on account of the 1970 and 1971 issues (including certificates cashed in ahead of maturity) came to IL285 million in 1975, with devaluation increments and accrued interest bringing the figure up to IL756 million; this compares with IL91 million and IL190 million respectively in 1974. As to the Defense Loans, redemptions were confined to holdings cashed in ahead of maturity because of either the death of the owner or his reaching a certain specified age. Such redemptions of the 1970, 1971, and 1972 Defense Loan issues added up to about IL13 million face value in 1975, equal to IL31 million redemption value; in 1974 the figures were IL6 million and IL11 million respectively.

4. Absorption Loans

The various series of the Absorption Loan were initially compulsory issues but have since become tradable. Distribution of the certificates was largely completed in 1973. In 1975 some IL3 million (face value) worth were distributed, due to the revision of tax assessments for earlier years or because the certificates had not been previously claimed by their owners. Principal repayments in 1975 totaled IL79 million, equal to IL307 million redemption value (i.e. including interest and linkage increments); this compares with IL91 million and IL247 million respectively in 1974.

5. Insurance Companies Loan

The insurance companies purchase certificates of this index-linked loan out of their life insurance premium receipts. Beginning in April 1972 they made deposits on account of the loan until clarification of the revised terms. In December 1975 the relevant law was amended. It raised the interest rate, with effect backdated to April 1972, from 5.8 to 6.2 percent p.a. and stipulated two types of bonds--one purchasable from life insurance

premium receipts on policies written before February 1975, with the consumer price index for the purpose of linkage being calculated twice a year, as before; and the second type being purchasable from life insurance premium proceeds on policies written since February 1975, with the index being calculated monthly.

The sum transferred by the insurance companies to the Treasury for the purchase of certificates was IL374 million in 1975, as opposed to IL270 million the year before. Of this amount, IL305 million was for the first type of bond and IL67 million for the second. The companies also bought some IL2 million worth of dollar-linked bonds and transferred IL4 million to the Treasury for the purchase of certificates of a loan issued especially for one of the life insurance plans.

6. Short-Term Loan

Holdings of this paper continued to shrink in 1975, the balance in the hands of the public standing at only IL84 million, after tumbling IL70 million during the year and by IL266 million in 1974.

In January the level moved up, in line with the trend begun in October 1974 after the raising of the yield, but it again turned downward in February and March. As part of its absorptive monetary policy, the Bank of Israel decided in April to hike the yield by another point during the year: from 10.25 to 11.25 percent on the three-month series, from 10.5 to 11.5 percent on the six-month series, and from 10.75 to 11.75 percent on those for 12 months or more. The improvement was effected by upping the disagio, with the nominal interest rate remaining unchanged at 9 percent. This change stimulated sales, and the balance rose in April and May; however, in June it reversed direction and the downturn gathered impetus during the rest of the year.

The public continued to display a preference for the three-month series in 1975, its share in total sales rising from 64 percent in 1973 and 73 percent in 1974 to 80 percent. This reduced the average maturity of all Short-Term Loan certificates from 88 days at the end of 1974 to 78 by the end of the year reviewed.

7. Open-market operations

The Bank of Israel's operations in the open market continued to expand strongly in 1975. In the main the transactions were intended to regulate trade in government bonds and the Short-Term Loan and to give a fillip to the secondary market, with the economy's liquidity position being another consideration.

The Bank's open-market operations in 1975 totaled IL925 million at market prices, of which IL780 million was in index-linked government bonds and IL145 million in the

Short-Term Loan; this compares with some IL400 million, IL280 million, and IL120 million respectively in 1974.

The bulk of the Bank's purchases was made in July and August and the second half of December. In July and August demand for linked bonds weakened perceptively owing to the shift in the public's preference in favor of foreign currency assets, the deceleration of inflation, and the raising of the real rate of bank interest. Another factor depressing demand was the lively sale of shares and convertible securities. To shore up bond prices and bolster current trade the Bank of Israel bought up a large amount of government bonds during this period. The reason for the subsiding of demand in the middle of December was the decision to offer less favorable terms on new issues; this change, together with the advancing of purchases in anticipation of its announcement, resulted in a large excess supply in the second half of the month. The Bank of Israel absorbed much of the surplus of index-linked government bonds, thereby moderating the retreat of prices. In the other months of the year the Bank's operations were on a far more modest scale, and it was generally a net seller of securities.

8. Safekeeping of securities

The Bank of Israel accepts for safekeeping the securities of insurance companies, banking institutions, the Accountant General, Tel Aviv Stock Exchange Clearinghouse, various companies, and individuals requesting the bearer bonds they have purchased. The largest and most active of these accounts is that of the Stock Exchange Clearinghouse, whose daily turnover runs into the thousands; in 1975 some 390,000 bonds were deposited in the account and 295,000 withdrawn. At the end of the year the Bank held in its vaults 5.7 million noncompulsory loan certificates, of which 1.3 million were of the various Absorption Loan issues. As regards the insurance companies, they are legally required to deposit bonds or cash with the Accountant General; the Bank of Israel manages some 100 of such accounts.

9. Servicing the public

The Bank of Israel enables the public to redeem bonds and to cash in interest coupons of the various State loans it administers, at its offices in Jerusalem, Tel Aviv, and Haifa. In 1975 it handled some 330,000 certificates and interest coupons for 86,000 holders of compulsory and noncompulsory loans, compared with roughly 310,000 and 70,000 respectively in 1974. Approximately another 100,000 persons turned to the Bank for information on their compulsory loan holdings.

(b) *Other Domestic Loans*

In 1975 the Bank of Israel administered 47 loans floated by financial institutions and nongovernmental public entities. The total face value of its holdings at the end of 1975 was IL458 million, compared with IL430 million the year before. The overwhelming share consisted of Tefahot Israel Mortgage Bank loans. In 1975 this institution floated another series, totaling IL50 million and linked to the consumer price index. Redemption of principal on earlier series amounted to IL34 million, with some IL60 million being paid in linkage increments. The balance of the other loans was very small, and did not change much during the year.

(c) *Foreign Loans*

Sales of foreign loans fell off steeply in 1975, not only compared with their especially high level of the two preceding years (attributable to the Yom Kippur War) but also compared with their normal level before then. Sales to the public and institutional investors grossed \$252 million in 1975, as against \$295 million in 1974, \$471 million in 1973, and \$272 million in 1972. Sales to the public came to \$190 million in 1975, all of them of the sixth series of the Development Loan (Israel Bonds); the sale of the other series was frozen this year. Institutional investors accounted for an additional \$62 million.

Table XX-13
FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1975

(position on Dec. 31, 1975, in \$ thousand)

	Amount subscribed	Amount redeemed	Amount outstanding	Converted into IL in 1975	Interest paid in Israel in 1975
Issued to the general public					
Independence Loan	145,533	145,533	—	3	1
Development Loan					
First series	234,140	234,140	—	6	3
Second series	293,621	255,143	38,478	1,023	78
Third series	392,630	175,580	217,050	7,297	1,695
Fourth series	475,311	162,470	312,841	16,949	2,153
Fifth series	658,104	140,397	517,707	59,890	3,098
Sixth series	342,479	15,966	326,513	10,827	268
Total	2,541,818	1,129,229	1,412,589	95,995	7,296
Issued to investors					
Special investment series A	72,300	64,304	7,996	75	1
Special investment series B	151,023	56,395	94,628	935	28
Special investment series C	223,658	102,318	121,340	3,022	92
Special investment series D	260,868	33,123	227,745	4,873	87
Total	707,849	256,140	451,709	8,905	208
Grand total	3,249,667	1,385,369	1,864,298	104,900	7,504

The contraction of sales stands out against the continued rise in redemptions, which in 1975 reached \$156 million. Net proceeds (sales less redemption) fell to \$96 million, after standing at \$146 million in 1974, \$344 million in 1973, and \$170 million in 1972 and 1971. Even if allowance is made for the effect of the Yom Kippur War, the trend in net foreign loan proceeds has been downward. The outstanding balance of foreign loans rose 5 percent in 1975, from \$1,768 million at the end of 1974 to \$1,864 million. Of this sum, \$1,413 million (about three-fourths) was held by the public and \$451 million by institutions.

The Bank of Israel handles the conversion and redemption of the State's foreign bond issues. By the end of year reviewed \$702 million worth had been converted into IL in this country. The amount converted in 1975 rose nearly 50 percent, from \$70 million to \$105 million. Interest paid in Israeli pounds on certificates converted was equivalent to \$7.5 million, compared with \$5.2 million in 1974. A breakdown of the data shows a notable increase in institutional conversions, the number one group in this respect; very little change took place in the other groups.

Table XX-14
CONVERSIONS IN ISRAEL OF FOREIGN LOANS, BY HOLDER, 1974-75

(\$ million)

Holder	1974		1975	
	\$m.	%	\$m.	%
Institutions	32.1	46	68.6	65
Tourists	21.6	30	21.2	20
Investors	9.7	14	9.6	9
Residents	3.5	5	3.9	4
New immigrants and temporary residents	3.5	5	1.6	2
Total	70.4	100	104.9	100

9. CLEARINGHOUSES

The volume of items (checks, notes, and debit and credit advices) passing through the clearinghouses in Jerusalem, Tel Aviv, and Haifa rose 31.4 percent in 1975, from IL121,181 million to IL159,262 million.

The use of electronic equipment for sorting checks with magnetic ink code-lines was extended in the year reviewed, when the large banks operating the equipment independently made their facilities available to a number of smaller institutions, representing them at the clearing. Under this system the bank encodes the amount of the check with magnetic ink

before presenting it for clearing. Since the equipment is found only in the large banks in Tel Aviv, all the magnetic clearing is performed in this city. This explains why the number of items presented rose much faster in Tel Aviv (41 percent) than in Jerusalem (13 percent) and Haifa (9 percent). Because of this, it was decided in the latter part of 1975 to merge the Jerusalem and Tel Aviv clearinghouse districts. The closure of the Haifa clearinghouse has been deferred until a way can be found to expedite the delivery of checks from the outlying communities in the northern part of the country.

Table XX-15
VOLUME OF CLEARINGS, 1971-75
(IL million)

	1971	1972	1973	1974	1975
Urban clearings					
Jerusalem	8,551	10,560	14,627	22,712	25,686
Tel Aviv	36,975	48,588	65,238	82,221	115,889
Haifa	7,167	9,136	11,767	16,248	17,687
Total	52,693	68,284	91,632	121,181	159,262
Annual increase					
IL million	11,946	15,591	23,348	29,549	38,081
Percent	29.3	29.6	34.2	32.2	31.4
Percent of items returned	5.1	6.1	6.1	7.6	6.1

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

(a) *International Monetary Fund*

In 1975 Israel drew SDR 176 million⁹ (equivalent to \$212 million) from the IMF. The bulk of the sum--SDR 143 million (\$174 million)--was drawn under the oil facility, while the remaining SDR 32.5 million (\$38 million) was the country's second credit tranche.

In February 1975 the IMF approved Israel's request for a second credit tranche,¹⁰ after granting the first one in the same amount (SDR 32.5 million) in November 1974. In accordance with IMF procedures, the second credit tranche was made available in two drawings of SDR 12.5 million each, in February and June, and another for SDR 7.5 million

9. The value of a Special Drawing Right, which is based on a basket of 16 currencies, ranged in 1975 from \$1.16 to \$1.26.

10. This credit carries 4 percent interest in the first year, rising by half a percent each additional year up to a maximum of 6 percent. According to the Fund's amended Articles of Agreement, which have been approved in principle, such credit must be repaid within three to five years from the date of receipt.

in November, subject to Israel's observance of the quantitative restrictions undertaken concerning the supply of credit to the government and the public. This condition was stipulated under the Fund's policy of requiring a member state requesting an increase in its credit drawings to adopt tough measures to improve its balance of payments position, curb domestic demand, eliminate exchange rate distortions, and reduce international trade restrictions.

During the year reviewed two IMF missions visited Israel: the first came in July for the usual annual consultations and to discuss Israel's request for an additional drawing under the oil facility; the second mission arrived in November to discuss developments during the year and to review the standby agreement under which Israel received the second credit tranche.

Of the SDR 143 million received in 1975 from the IMF oil facility, 62 million were received in February on account of the facility for 1974 and 81.25 million in October on account of the 1975 facility.¹¹ The oil facility was initially created in 1974 because of the severe balance of payments strain experienced by many countries following the sharp rise in oil prices that year. A total of SDR 2.6 billion were made available under the 1974 oil facility, with the oil exporting nations financing over 90 percent and several industrial countries lending the balance. The amount purchased under the 1975 oil facility exceeded SDR 4.3 billion, of which some 500 million represented the unused portion of the 1974 facility. The share of the oil exporting nations in 1975 fell to under 60 percent, with the balance coming from the industrial countries. The eligibility criteria for borrowing were modified in 1975, and Israel's quota was raised to SDR 162.5 million. Initially only half the quota could be drawn, and accordingly SDR 81.25 million were received in October 1975. In February 1976, after the number of eligible countries had decreased appreciably and additional funding was procured, it was decided to end the oil facility for 1975 with an additional 28.5 percent allocation. Israel, however, was not among the countries entitled to any supplemental financing, since its foreign exchange reserves were not run down in 1975, and in fact they even expanded a bit.

The two committees of the "Group of Twenty" formed in 1974--the Interim Committee of the Board of Governors and the Development Committee--continued to operate in the year reviewed. The former approved a proposal to enlarge the quotas of the IMF member states by an average of 32.5 percent and to double the voting power of the oil producing countries

11. Drawings under the oil facility are for seven years, with repayment beginning after the third year. The 1974 facility carries 7 percent interest, while 7.75 percent is charged on purchases under the 1975 facility.

from approximately 5 to 10 percent of the total, mainly at the expense of the industrial nations. Under this proposal Israel's quota would be enlarged from SDR 130 million to 205 million, or by 58 percent. Since approval of the new quotas is a protracted matter and may be concluded only in 1977, it was decided to increase each credit tranche in the interim from 25 to 36.25 percent of the present quota of the member state.

In 1975 the compensatory financing facility for export shortfalls was broadened to cover not only primary commodity exporting countries but others as well. In addition, the maximum amount obtainable from this source was raised from 50 to 75 percent of the country's quota in the IMF.

Another step in the reform of the international monetary system was taken in January 1976 with the recommendation of the Interim Committee of the Board of Governors to discontinue the use of gold as the unit of value and to replace it with the SDR. This would probably lead to the gradual reduction of the role of gold as an international reserve asset. It was also proposed to return one-sixth (25 million ounces) of the IMF's gold holdings to the member states and to sell another sixth to banks and in the free market. Developing countries, including Israel, would receive their share of the profits, with the remainder being transferred to a trust fund which would provide long-term credit on concessionary terms to the poorest countries (with a per capita income of less than SDR 300 a year). Deliberations on implementation of these proposals are in an advanced stage.

The basic object of the trust fund, like that of the Third Window intermediate lending facility endorsed by the World Bank, would be to reduce the cost of borrowing by the poorest countries. The fund's resources would be provided by the international financial institutions or raised in the international money market. Thus the proposal broached in the previous decade by former Bank of Israel Governor David Horowitz to assist the developing nations is in effect about to be realized.

(b) The World Bank and Affiliated Institutions

1. World Bank

In May 1975 a \$35 million loan agreement was signed with the World Bank for financing industrial development in Israel. Of this sum, \$25 million is for projects to be financed through the Industrial Development Bank of Israel, \$5 million will go to the Ministry of Labor for expanding vocational education facilities, and \$5 million is earmarked for the chief scientist of the Ministry of Commerce and Industry for industrial research. The loan will carry 8.5 percent interest and is for 15 years.

Because of the growing requirements of the developing countries on the one hand and the

difficulty encountered in obtaining the requisite financing on the other, the World Bank has been forced to strike off the list of member states eligible for credit a number of developing countries with the highest per capita income. Since Israel falls into this category, it will not be entitled to borrow from this source in the coming years. However, the World Bank is studying a new method of defining the degree of development, based on purchasing power parity.

In 1975 the utilization was continued of World Bank loans obtained in earlier years. Approximately \$15 million was disbursed of the agricultural loan received in 1974, and additional sums were disbursed of the loans obtained for financing sewerage and highway projects (see the table). In 1975 Israel received \$23 million from the World Bank and repaid \$12 million.

2. International Finance Corporation (IFC)

This World Bank affiliate assists private enterprises by participating in their share capital and providing loans. In January 1975 the IFC concluded its first agreement with an Israeli concern, Makhteshim Chemical Works Ltd. It acquired \$1.75 million of Makhteshim stock and lent the firm an identical sum for an 11-year period at 8.5 percent interest, with repayment beginning two years after receipt of the loan.

In August 1975 an IFC mission visited a number of Israeli concerns to discuss financial aid. In October 1975 the organization approved an additional \$7 million loan to Makhteshim for the expansion of production capacity. This loan too is for 11 years, with repayment beginning after two years, but it carries 10.5 percent interest. The IFC is presently discussing the financing of several other local firms.

It is also studying the proposal of the Governor of the Bank of Israel, Moshe Sanbar, to create an export credit guarantee facility. The proposal was first submitted to the annual meeting of the World Bank Board of Governors in 1972, and it called for the establishment of the facility by the World Bank in cooperation with the regional development banks, 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 freely negotiable financial instruments in the international market. This would contribute to the expansion of trade between developing countries while reducing the risks involved.

Mr. Sanbar's proposal was also presented at the Third (Finance) Committee meeting of UNCTAD (United Nations Committee on Trade and Development), with the warm support of a number of Latin American countries. In 1975 the UNCTAD secretariat appointed a group of

Table XX-16
WORLD BANK LOANS TO ISRAEL — POSITION ON DECEMBER 31, 1975
(\$ thousand)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Amount disbursed	Undisbursed	Repaid by Dec. 31, 1975	Balance outstanding	Change during 1975	
									Disbursed	Repaid
Direct loans										
Ports Authority	9.9.60	65-85	5.75	27,500	27,412	—	10,154	17,258	—	1,247
Government of Israel — roads	17.10.62	67-80	5.50	22,000	22,000	—	12,820	9,180	—	1,755
Government of Israel — roads	14.7.71	76-91	7.25	30,000	7,259	22,741	—	7,259	3,115	—
Government of Israel — sewerage	21.12.72	78-97	7.25	30,000	3,531	26,469	—	3,531	3,152	—
Government of Israel — industry	30.5.75	78-90	8.50	35,000	—	35,000	—	—	—	—
Govt.-guaranteed loans										
Dead Sea Works Ltd.	11.7.61	66-76	5.75	25,000	25,000	—	21,929	3,071	—	2,903
Industrial Development Bank Ltd.	16.9.65	68-82	5.50	20,000	20,000	—	15,808	4,192	—	1,724
Industrial Development Bank Ltd.	15.11.67	70-83	a	15,000	14,960	—	9,781	5,178	—	1,877
Industrial Development Bank Ltd.	15.6.70	72-84	7.00	25,000	23,135	1,865	5,480	17,655	1,426	1,515
Israel Bank of Agriculture	21.10.70	74-87	7.25	20,000	20,000	—	1,480	18,520	—	1,005
Israel Bank of Agriculture	3.4.74	77-89	7.25	35,000	25,976	9,024	—	25,976	15,400	—
Total				284,500	189,273	95,099	77,452	111,821	22,913	12,026

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

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

experts to study the proposal, and they found it both financially and technically feasible. The experts' report was endorsed in November 1975 by the Third (Finance) Committee, which requested that a plan for its implementation be prepared for submission to the annual meeting of the Executive Committee scheduled for August 1976. As stated, the proposal is presently being studied by the IFC, and its conclusions will apparently be submitted to the World Bank management before the 1976 annual meeting.

3. *International Development Association (IDA)*

This World Bank affiliate provides loans on concessionary terms to developing countries, and obtains most of its funds from member states' contributions. In the fourth replenishment to this institution Israel transferred its second instalment, in the amount of IL840,000, in October 1975. It will be recalled that in 1973 the government of Israel decided to contribute a total of IL4.2 million (then equivalent to \$1 million), and reached an agreement with the IDA whereby the contribution would be made in Israeli currency in five equal annual instalments.

(c) *Inter-American Development Bank (IDB)*

This is the regional bank which, together with the World Bank, finances economic development on the American continent. Membership was formerly restricted to the Americas but has since been opened to other countries. The importance of membership in this organization lies in the fact that countries obtaining loans from it may use the funds for financing development projects implemented only by companies and contractors in member states.

In 1975 discussions went on between the IDB and the group of nonregional countries which at the end of 1974 had signed the Madrid Declaration, which approves in outline their co-option as members. The agreement will go into force after all states now members or candidates for membership ratify it. A bill regarding Israel's membership in the institution was tabled in the Knesset, and went into effect in March 1976.

11. ADVISORY COMMITTEE AND ADVISORY COUNCIL

Most of the sessions of the Bank of Israel's Advisory Committee and Advisory Council were devoted to economic and monetary developments in general and to the Bank's policy in particular. During the first four months the discussions centered on the monetary repercussions of the continued conversion of foreign currency by the public in the wake of the November 1974 devaluation, which resulted in a rapid growth of the money supply. One

of the measures taken to check the monetary expansion was the imposition by the Bank of a 5 percent liquidity ratio on nondirected credit, with the rate being scaled up gradually between February and May. It was also decided to hike the net yield on the Short-Term Loan in April. To encourage the commercial banks to reduce their liquidity deficiencies and even to create a surplus, it was decided to raise the interest paid by the Bank of Israel on their deposits with it from 10 to 13 percent and to reintroduce the payment of 16 percent interest on their liquidity surpluses.

In May the Advisory Committee and Advisory Council began to discuss the monetary influence of the renewed large-scale purchase of foreign currency by the public in anticipation of a devaluation of the IL. This had led to the growth of nondirected credit in Israeli currency and the plunging of the banks into an unprecedented deficit in their required liquid asset cover. To reduce somewhat the interest rate differential between nondirected and directed credit, which widened with the introduction of the creeping devaluation, it was recommended to raise the interest charged by the directed credit funds.

The two bodies also dealt with developments in the world economy after hearing the Governor's reports on his meetings abroad and with leading foreign personalities visiting Israel. They also discussed general matters connected with the central bank's activities, such as supervision of the commercial banks' foreign currency transactions, the imposition of the liquidity requirements on long-term deposits linked to the consumer price index and their application to mortgage banks and financial institutions as well, money market developments, and the Bank's policy on the licensing of new branches. In the course of discussing the *Annual Report* of the Examiner of Banks for 1974, which was submitted to the Council, the Committee and the Council heard a survey of the banking system. The Council approved the Bank's balance sheet and profit and loss account for 1974 and the operating budget for 1975. It also approved the issue of banknotes in the new series and the commemorative and special coins mentioned earlier in this chapter.

Subcommittees continuing to function in 1975 were those dealing with the Bank's annual balance sheet and operating budget, the licensing of new branches, and foreign exchange reserves.

Members of the Advisory Council in 1975 were: D. Horowitz (Chairman), Y. Bader, H. Barkai, Ch. M. Basok, A. Becker, A. Efrat, N. Feingold, E.I. Japhet, J. Levinson, M. Olenik, Z. Onn, A. Ostashinsky, D. Recanati, E. Reiner, and Z. Susayeff. Dr. E. Lehman continued to serve as observer in an advisory capacity.

Members of the Advisory Committee were: D. Horowitz (Chairman), Ch. M. Basok, A. Efrat,

E.I. Japhet, J. Levinson, E. Reiner, and Z. Susayeff. Mr. Recanati continued to serve as observer in an advisory capacity.

12. ADVISORY COMMITTEE ON MATTERS RELATING TO BANKING BUSINESS

This committee discussed the following matters in 1975: the restriction of bank guarantees and other contingent liabilities, the amendment of the Banking Ordinance to cover the stoppage of banking services because of strikes, the experimental operation of such special services as a mobile bank and automatic tellers, the survey of the banking system in 1975 by the Examiner of Banks, the management of Amidar's bank accounts, and the introduction of a standard contract for the safekeeping of domestic and foreign securities.

Members of the Committee at the end of 1975 were: O. Messer (Chairman), D. Bawly, D. Ben-Dror, C. Berman, M. Diga, A. Gafni, D. Golan, J. Haft, E.I. Japhet, E.A. Kirshner, E. Lehman, J. Levinson, S. Magriso, A. Meir, M. Olenik, D. Recanati, and D. Shoham.

13. ECONOMIC RESEARCH

As usual, the Bank's *Annual Report* includes much of the current research on Israel's economy conducted by the Research Department. The preparation of policy background papers and forecasts occupied an important place in the department's work in 1975. The following research studies were published during the year:

1. Periodic internal surveys of monetary developments.
2. *Economic Indicators*, a weekly publication in Hebrew with a restricted distribution.
3. Four issues (No. 19-22) of *Recent Economic Developments*.
4. Report of the Governor of the Bank of Israel to the Government and the Finance Committee of the Knesset on the increase in the Money Supply between October 31, 1974 and February 28, 1975.
5. "National Budget for 1976", prepared by the Bank's Research Department and the Economic Advisory Bureau of the Ministry of Finance, and presented to the Knesset together with the State Budget in March 1976.
6. "Forecasting Israel's Capital Flows--Some Econometric First Steps",
7. "Inflation in Israel, 1955-65: The Wage-Push on Prices".
8. "Equity Financing and Gearing in the U.K., U.S., Japan, and Israel".
9. "Inflation and the Liquidity of Index-Linked Bonds".
10. "A Macroeconomic Model of the Israeli Economy, 1950-74".

11. "A Dynamic Wage Function of the Israeli Economy, 1963-71".
12. "Estimated Demand Functions for Money in Israel".

14. THE BANK AND ITS STAFF

In April 1975 the Governor of the Bank of Israel, Moshe Sanbar, paid an official visit to Australia. In June he participated in the annual general meeting of the Bank of International Settlements held in Basel, and met with leading Swiss bankers. In August he headed the Israeli delegation to the annual meetings of the Boards of Governors of the World Bank and the International Monetary Fund, which took place in Washington, D. C. Mr. Sanbar is Governor for Israel on the Board of Governors of the World Bank, IFC, and IDA. Other Bank of Israel officials representing the country at the meetings were Dr. Eliezer Sheffer, Director-General, and Mr. M. Meirav, Director of the Foreign Department. Mr. Sanbar subsequently held meetings in New York with the heads of international financial institutions and banks. Dr. Sheffer attended the conference of the International Association for Research in Income and Wealth, which was held in Finland.

Among the important personalities in the economic and banking world received by the Bank of Israel Governor in 1975 were: Mr. W.F. Duisenberg, Finance Minister of the Netherlands; Mr. David Rockefeller, Chairman of the Board of Directors of the Chase Manhattan Bank; Dr. W. Hesselbach, Chairman of Bank fuer Gemeinwirtschaft in West Germany; Mr. Henri Simonet, Vice President of the Commission of the European Economic Community; Mr. P.C. Witte, Executive Director of the World Bank on behalf of Israel; Mr. C.H. Wingwrist, President of the International Chamber of Commerce; and Mr. W.J. Casey, President of the Export-Import Bank of the U.S.

In 1974 the Bank of Israel joined the Association of Banks in establishing a fund to perpetuate the memory of bank employees who fell in the Yom Kippur War. The fund awards prizes and scholarships to employees of commercial banks and the Bank of Israel for research studies constituting a contribution to the field of banking. In December 1975 the Governor bestowed, in the presence of the families of the fallen and representatives of the banking community, prizes for outstanding work to Mr. Shlomo Tarab, Bank of Israel economist, and to Mr. Daniel Waks, of Bank Hapoalim.

In the second half of 1975 organizational changes were introduced in the Department of the Examiner of Banks and in its working procedures (discussed in section 7 above): Mr. Aharon Gilshon was appointed Deputy Examiner of Banks, and Mrs. Charlotte Paniri Assistant Examiner of Banks. Toward the end of the year the Foreign Department was set up as a

separate unit after having formed part of the Banking Department; it is headed by Mr. Meirav with Mr. M. Benousilio as his assistant. Also established in the latter part of the year was the Publications Unit, headed by Mr. Shlomo Sirkis. At the beginning of 1976 the director of the Research Department, Dr. Z. Sussman, was seconded to the International Monetary Fund for an eight-month period; in the meantime his duties were assumed by Dr. M. Heth. Mr. M. Frankel was appointed Deputy Director of the Research Department, and Mr. F. Wieder Assistant Director; Mr. I. Tsur was named director of the Haifa branch, in place of Mr. D. Winogradow, who retired.

At the beginning of 1976 the Jerusalem branch of the Bank moved into its new premises in Hakiryia (Government City).

At the end of 1975 the number of Bank employees in Jerusalem and in the Tel Aviv and Haifa branches reached 1,003, in addition to 60 guards. Six employees retired this year, among them Dr. A.L. Gaathon, who served as adviser to the Governor.

During the year two Bank employees passed away: Mr. Avraham Eliyahu, who was in charge of the Bank's transport unit, and Eliezer Karni, a trainee killed in the Zion Square bomb explosion in the capital.

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1975
and
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1975

BANK OF ISRAEL
STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1975
(IL thousand)

Assets	Dec. 31, 1975	Dec. 31, 1974	Liabilities	Dec. 31, 1975	Dec. 31, 1974
Foreign assets	9,276,874	7,997,764	Banknotes and coin in circulation	4,172,176	3,319,126
Gold and foreign currency assets ^a	8,403,716	7,198,171	Foreign liabilities	1,237,360	794,821
Gold quota in the IMF ^b	278,363	235,238	Allocations of Special Drawing Rights	366,669	309,862
Other foreign currency assets	594,793	564,355	IMF deposits in connection with drawings	835,084	470,475
Credit to the government	7,810,381	6,672,526	Other liabilities	21,407	14,484
Long-term liabilities ^c	4,996,828	5,128,649	Government and National Institution deposits	317,076	298,765
Treasury bills	213,633	196,148	Import deposits	277,904	243,249
Provisional advances	2,599,920	1,347,729	Govt. and National Institution deposits in foreign currency	39,172	55,516
Other credit and securities	5,901,731	4,516,090	Deposits of banking and financial institutions in Israel	17,189,594	14,651,301
Discounts, advances, and loans	5,422,884	4,245,915	Banking institution deposits	3,029,423	3,490,509
Gross	6,389,632	4,598,041	Financial institution deposits		
In Israeli currency	2,393,536	1,737,880	In Israeli currency	65,240	59,691
In foreign currency	3,996,096	2,860,161	In foreign currency ^e	5,538,840	4,351,662
Less: Export finance deposits of banking institutions ^d	966,748	352,126	Banking institution deposits denominated in foreign currency	8,556,091	6,749,439
Securities	478,847	270,175	Other accounts	278,219	285,019
Other accounts ^e	225,439	182,652	Capital and reserves	20,000	20,000
Guarantees and documentary credits (see contra)			Liabilities on account of guarantees and documentary credits (see contra)	1,192,677	1,181,874
	1,192,677	1,181,874			
	24,407,102	20,550,906		24,407,102	20,550,906

^a Includes holdings of Special Drawing Rights totaling IL 17,454,000 on December 31, 1975 (IL 18,099,000 on December 31, 1974).

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

^c Includes IL 3,817,515,000 linked to the U.S. dollar (on December 31, 1974 — IL 3,903,150,000). In December 1975 the method of debiting long-term advances to the government for devaluation differentials was revised; advances linked to the U.S. dollar were not debited with IL 699,878,000 in differentials that accrued in 1975 but were not actually paid by the government to the Bank of Israel. The dollar-linked advances are presented in the balance sheet at the exchange rate of IL 6/\$, which was in force on December 31, 1974.

^d Deposits in connection with foreign currency rediscounts for financing exports, of which IL 404,315,000 was in foreign currency (on December 31, 1974 there were no foreign currency deposits).

^e Includes land, promises, and equipment recorded at IL 1.

^f Includes commemorative and special coins with a total face value of IL 72,970,000 on December 31, 1975 and IL 58,772,000 on December 31, 1974.

^g Includes IL 1,009,152,000 in nonresidents' deposits on December 31, 1975 and IL 774,537,000 on December 31, 1974.

BANK OF ISRAEL
PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1975
(IL thousand)

	Dec. 31, 1975	Dec. 31, 1974		Dec. 31, 1975	Dec. 31, 1974
EXPENSES			INCOME		
Interest paid, administrative expenses, and other expenses	921,547	801,270	Interest, commission, and other income	1,683,586	1,203,741
Profit	762,039	402,471			
	<u>1,683,586</u>	<u>1,203,741</u>		<u>1,683,586</u>	<u>1,203,741</u>
Additional profit from IL devaluation and foreign exchange rate differentials ^a	196,787	114,350			
			DISTRIBUTION OF PROFIT		
To the government	958,826	516,821	Net profit	958,826	516,821
	<u>958,826</u>	<u>516,821</u>		<u>958,826</u>	<u>516,821</u>

^a Because of the revised method of debiting long-term advances to the government for devaluation differentials, IL 699,878,000 in differentials that accrued in 1975 but were not actually paid by the government to the Bank of Israel have been excluded from income; they will be recorded as income when received.

BANK OF ISRAEL

THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL

MAY 1976

Governor

M. SANBAR

Advisory Committee

D. HOROWITZ, *Chairman*
CH. M. BASOK
A. EFRAT
E. I. JAPHET
J. LEVINSON
D. RECANATI (*observer*)
E. REINER
Z. SUSAYEFF

Advisory Council

D. HOROWITZ, *Chairman*
Y. BADER
H. BARKAI
CH. M. BASOK
A. BECKER
A. EFRAT
N. FEINGOLD
E. I. JAPHET
E. LEHMAN (*observer*)
J. LEVINSON
M. OLENIK
Z. ONN
E. OSTASHINSKY
D. RECANATI
E. REINER
Z. SUSAYEFF