

CHAPTER XIX

ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY OF BALANCE SHEET AT THE END OF 1969

NOTE

THE BALANCE SHEET of the Bank of Israel totalled IL 5,173.3 million at the end of 1969, compared with IL 4,441.4 million the year before—an increase of IL 732 million, or 16.5 percent, as against a rise of 1.4 percent in 1968. Significant changes took place in each of the three principal items: foreign currency balances, Government liabilities to the Bank, and Bank of Israel credit to the public. These changes mirror the course of the economy during 1969, and reflect in particular the steep decline in foreign currency balances and the heavier financing of Government expenditure by the Bank. On the liabilities side, there was a jump in foreign currency deposits of banking institutions, in the main due to the growth of the public's Pazak and Tamam accounts. Deposits in Israeli currency—which for the banking institutions are liquid assets—shrank during the year, while currency in circulation went up only slightly.

(a) *Assets*

1. *Foreign exchange*

The Bank's foreign currency assets declined sharply in 1969—at a much faster rate than in 1968. Gross foreign exchange and gold holdings—including loans to foreign countries and institutions, the gross balance in clearing accounts, and the Bank's participation in international financial institutions—fell by \$ 225.1 million (32.6 percent) during the year to stand at IL 1,627.6 million (\$ 465.0 million), as against IL 2,415.5 million (\$ 690.1 million) at the end of 1968. Because of an increase in foreign liabilities, the decline in the Bank's net holdings was even greater: net foreign currency assets dropped by \$ 266 million, and reserves by \$ 281 million.

2. *Government liabilities*

The Government's gross liabilities to the Bank of Israel, as listed in the balance sheet, rose by IL 1,153.3 million during the year—from IL 1,135.1 million at the end of 1968 to IL 2,288.4 million. This increase, however, does not reflect the full extent of Government financing through the Bank of Israel, since it includes transactions in Government securities with commercial banks and the public, and does not include changes in Government deposits with the Bank. If these are disregarded, the net rise in the amount of financing provided the

Table XIX-1

ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1968-69

	IL million		Percent		Increase or decrease (-)	
	1968	1969	1968	1969	IL m.	%
Assets						
Foreign exchange and gold	2,320.0	1,522.4	57.6	32.1	-797.6	-34.4
Participation in international financial institutions	18.3	22.8	0.5	0.5	4.5	24.6
Clearing accounts	15.8	14.6	0.4	0.3	-1.2	-7.6
Government securities	140.0	161.9	3.5	3.4	21.9	15.6
Long-term advances to the Government	305.0	1,306.6	7.6	27.6	1,001.6	328.4
Current liabilities of the Govt.	690.1	819.9	17.1	17.3	129.8	18.8
Bills rediscounted and loans to banks	450.1	821.7	11.2	17.3	371.6	82.6
Loans to foreign governments and institutions	61.3	67.8	1.5	1.4	6.5	10.6
Other accounts	24.9	3.0	0.6	0.1	-21.9	-88.0
Total	4,025.5	4,740.7	100.0	100.0	715.2	17.8
Contingent accounts*	415.9	432.6	—	—	16.7	4.0
Grand total	4,441.4	5,173.3	—	—	731.9	16.5
Liabilities						
Notes and coin in circulation	1,124.0	1,166.3	27.9	24.6	42.3	3.8
Deposits of the Government	27.4	46.6	0.7	1.0	19.2	70.1
Deposits of international financial institutions	3.4	160.9	0.1	3.4	157.5	4,632.4
Foreign currency deposits of banking institutions abroad	—	105.0	—	2.2	105.0	—
Deposits of banking and financial institutions ^b	2,821.3	3,223.1	70.1	68.0	401.8	14.2
Clearing accounts	10.6	12.1	0.3	0.3	1.5	14.2
Paid-up share capital and reserves	20.0	20.0	0.5	0.4	—	—
Other accounts	18.8	6.7	0.4	0.1	-12.1	-64.4
Total	4,025.5	4,740.7	100.0	100.0	715.2	17.8
Contingent accounts*	415.9	432.6	—	—	16.7	4.0
Grand total	4,441.4	5,173.3	—	—	731.9	16.5

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

* Including agricultural surplus accounts, documentary credits, and guarantees.

^b Including foreign currency deposits of nonresidents.

Government was IL 1,167 million. Coming on top of the increase recorded in the previous year, this reflects the Government's mounting dependence on loans from the Bank to cover its much heavier spending since 1967.

3. *Rediscounts and loans*

Local currency rediscounts rose by IL 215.2 million—from IL 256 million at the end of 1968 to IL 471.2 million—and foreign currency rediscounts by IL 156.5 million—from IL 194.1 million to IL 350.6 million.

Most of this increase is attributable to measures taken by the Bank to encourage exports and to ease pressure in the money market engendered by expectations of changes in international exchange rates. The Bank's open-market operations were an integral part of its policy designed to maintain economic stability, particularly in the final quarter of the year, following a heavy depletion of the banking institutions' liquid assets. The Bank of Israel increased its rediscount facilities to those institutions that provided export financing over and above their allotted quotas in the export funds.

(b) *Liabilities*

1. *Banknotes and coins in circulation*

The value of banknotes and coins in circulation rose only slightly during 1969 (3.8 percent), and totalled IL 1,166.3 million at the end of the year as compared with IL 1,124 million at the end of 1968. The decline in the magnitude of the increase, from IL 126.1 million in 1968 to IL 42.3 million, corresponded to the decline in the growth of the total money supply in 1969. The proportion of currency in the money supply went up during the year reviewed.

2. *Government and National Institution deposits*

Government and National Institution deposits with the Bank increased by IL 19.2 million and amounted to IL 46.6 million at year's end, compared with IL 27.4 million at the end of 1968.

3. *Deposits of banking and financial institutions*

Banking and financial institution deposits expanded by IL 401.8 million over the year to reach IL 3,223.1 million. The increment consisted of a drop of IL 171.7 million in local currency deposits (from IL 896.8 million to IL 725.1 million) and a rise of IL 573.5 million in foreign currency deposits and deposits denominated in foreign currency. In dollar terms, the rise in the latter group was equivalent to \$ 163.9 million, composed of \$ 102.8 million in Pazak accounts, \$ 34.5 million in Tamam, \$ 9.1 million in Patach, \$ 12.9 million in import deposit accounts, and \$ 5 million in Natad deposits. The balance sheet for 1969 included a new item, "deposits of foreign banking institutions in foreign currency"; this amounted to IL 105 million (\$ 30 million).

2. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

(a) *Income*

The Bank's income in 1969 showed a slight increase over 1968—IL 208 million as against IL 198 million. These figures are after the provision of IL 42 million for doubtful debts in 1969 and IL 31 million in 1968. Most of the incremental income stemmed from the larger interest payments by the Government on its liabilities to the Bank.

The income figures do not reflect the appreciation of the Bank's foreign currency holdings due to the revaluation of the German mark in October 1969; the resulting increase in the Bank's liabilities (in terms of local currency) to holders of Pazak and Tamam accounts denominated in German marks exceeded by IL 7 million the appreciation of the Bank's holdings, so that the Bank's income actually declined by this amount.

Income from the Bank's foreign currency holdings consisted of \$ 29 million in interest (net of foreign currency payments by the Bank) on funds invested overseas, and \$ 32 million in revaluation increments stemming from the writing-up of its holdings of German marks. In 1968 net interest receipts totalled \$ 54 million. The decrease in 1969 was due to the sharp decline in the average annual level of the foreign currency balances and to changes in the composition of these holdings in anticipation of the revaluation of the mark, which yielded a large revaluation gain but at the expense of a somewhat smaller interest income.

(b) *Expenditure*

The Bank's expenses totalled IL 141 million in 1969, up IL 19 million from the previous year. Most of the increase was in interest payments to banking institutions on their local currency balances with the Bank of Israel and on their foreign currency deposits (Pazak and Tamam).

(c) *Net profit*

The Bank's net profit in 1969 amounted to IL 67 million. The entire sum was transferred to the Government in accordance with the Bank of Israel Law.

3. FOREIGN CURRENCY ASSETS AND LIABILITIES AND GOLD HOLDINGS

(a) *Foreign exchange and gold*

Net assets in foreign exchange and gold reserves (including the net balance in clearing accounts and loans to foreign governments and banks, less deposits of nonresidents—Patach—and of foreign banks), amounted at the end of 1969 to IL 1,334.8 million (\$ 381.3 million)—down \$ 265.9 million (41 percent) from the previous year's level of IL 2,265.5 million (\$ 647.2 million). Nearly all of the decline was in foreign exchange holdings—the Bank's gold reserves edged down by a mere \$ 0.3 million.

In May 1969 the Bank exercised its right to draw from the International Monetary Fund the sum of \$ 22.5 million, representing the gold tranche of Israel's quota in the Fund; the equivalent sum in Israeli pounds was credited to the IMF's account with the Bank. In August 1969 the Bank drew its "first credit tranche" from the IMF in the amount of \$ 22.5 million, the Israeli pound equivalent being likewise credited to the account of the IMF.

As a result of the depletion of the Bank's foreign currency reserves during the year, the share of gold in total gross foreign currency holdings went up from 10 percent at the end of 1968 to 15 percent.

Table XIX-2
FOREIGN EXCHANGE AND GOLD BALANCES HELD BY
THE BANK OF ISRAEL, 1968-69
(\$ million)

End of period	Foreign exchange	Gold	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of non-residents	Less: Deposits of foreign banks	Net balances*
1968 December	594.3	68.5	17.5	1.5	681.8	34.6	—	647.2
1969 January	609.5	68.5	17.3	1.5	696.8	34.1	—	662.7
February	629.2	68.5	17.0	1.4	716.1	33.0	—	683.1
March	701.2	68.5	16.9	1.9	788.5	34.5	—	754.0
April	590.2	68.5	17.6	1.0	677.3	35.6	—	641.7
May	571.7	68.5	17.4	0.6	658.2	35.7	—	622.5
June	496.5	68.5	17.5	1.3	583.8	36.4	—	547.4
July	463.8	68.5	17.1	1.3	550.7	36.1	—	514.6
August	455.5	68.5	18.1	0.9	543.0	37.2	—	505.8
September	430.7	68.3	18.0	1.0	518.0	39.4	—	478.6
October	408.0	68.2	18.1	0.6	494.9	37.5	—	457.4
November	371.4	68.2	18.3	0.9	458.8	42.4	—	416.4
December	366.7	68.2	19.4	0.7	455.0	43.7	30.0	381.3

* Excluding liabilities to local residents.

The Bank's liquid foreign exchange reserves declined by \$ 227.6 million (38.3 percent) during the year—from \$ 594.3 million to \$ 366.7 million. The entire amount was held in freely convertible currencies. A small fraction, the amount required to finance the Bank's current foreign currency operations, was held in non-interest-bearing demand deposits. The preponderant portion was held in the form of treasury bills, bills of foreign banks, bonds of other countries and international financial institutions, and interest-bearing time and demand deposits in foreign banks. Owing to the contraction of these balances over the last three quarters of the year, gross interest receipts in 1969 amounted to only \$ 32.9 million, as against \$ 41.9 million in 1968, despite the rise of interest rates

in world money markets. The average annual yield on the reserves, excluding gold and gains from the revaluation of the German mark, was 5.4 percent in 1969 (on average interest-bearing balances of \$ 535 million), compared with 7.7 percent and \$ 697 million respectively in 1968. Together with the increments from the revaluation of the German mark, the average return in 1969 was 14 percent.

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

At the end of 1969 the Bank of Israel maintained clearing accounts with seven countries with which Israel had trade and payments agreements. On March 31 the payments agreement with Turkey expired, and trade with that country has since been conducted in freely convertible currencies. The outstanding debitory balance with that country will be gradually eliminated by the export of Israeli goods to it. The payments agreement with Greece expired on June 30, and since then trade with that country has also been conducted in freely convertible currencies.

Table XIX-3
NET BALANCES IN CLEARING ACCOUNTS, 1968-69
(\$ thousand)

(End of period)			
Country	1968	1969	Increase or decrease (-)
Brazil	-770	226	996
Bulgaria	456	1,232	776
Czechoslovakia	465	465	—
Greece	9	—	-9
Hungary	1,789	2,360	571
Portugal	-1,101	-1,021	80
Turkey	-89	-1,336	-1,247
Yugoslavia	759	-801	-1,560
Balances in transit and other accounts	-38	-399	-361
Total	1,480	726	-754
Total in IL '000	5,181	2,542	-2,639

Israel's credit balances in the clearing accounts amounted to IL 14.6 million (\$ 4.2 million) at the end of 1969, and its debit balances to IL 12.1 million (\$ 3.5 million). The net balance to Israel's credit at the end of 1969 therefore stood at IL 2.5 million (\$ 0.7 million), as against IL 5.2 million (\$ 1.5 million) at the end of 1968—a fall of \$ 0.7 million.

(c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel added up to IL 878.2 million (\$ 250.9 million) at the end of 1969, compared with IL 665.2 million (\$ 190 million) at the end of 1968—an increase of \$ 60.9 million or 31.2 percent.

These deposits fall into the following categories:

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

These are restricted foreign currency deposits placed with banking institutions by recipients of restitution payments from Germany and by several other groups transferring foreign currency, mainly discharged and disabled veterans of World War II, who are generally entitled to deposit up to one-third of their foreign currency receipts in these accounts. These deposits may be withdrawn in foreign currency to finance foreign travel, purchase foreign securities, or pay for legal expenses connected with restitution claims. The banking institutions must re-deposit these sums in full with the Bank of Israel. At the end of 1969 Tamam balances amounted to IL 611.9 million (\$ 174.8 million), compared with IL 491 million (\$ 140.3 million) at the end of 1968—an increase of \$ 34.5 million.

The Government and the Bank of Israel pay interest on these deposits at the following rates: deposits for three months—2 percent; for six months—3 percent; nine months—4 percent; 12 months—4.5 percent.

2. *Foreign securities dividend accounts (Natad)*

These are restricted foreign currency deposits of Israeli residents which derive from the sale of foreign securities or the receipt of dividends or interest thereon. These deposits may be used solely for the purchase of foreign securities in accordance with the directives of the Controller of Foreign Exchange (see Chapter XVIII). Securities purchased in this manner may be resold to the general public. The banking institutions are required to maintain 100 percent liquidity against these deposits, which pay no interest whatsoever to the public and only 1.5 percent to banking institutions. At the end of 1969 these accounts totalled IL 49.7 million (\$ 14.2 million)—\$ 5 million more than at the end of 1968 (IL 32.4 million or \$ 9.2 million).

3. *Deposits of nonresidents (Patach)*

These are freely transferable funds deposited by nonresidents, immigrants, foreign experts, etc. with Israeli banks and redeposited in the Bank of Israel. At the end of 1969 these accounts added up to IL 152.9 million (\$ 42.7 million), as contrasted with IL 121.1 million (\$ 34.6 million) at the end of 1968—an increase of \$ 9.1 million. The banks are required to maintain a minimum balance of at least 15 percent with the Bank of Israel, after deducting deposits for the granting of loans authorized by the latter. Since the minimum required

balance amounted at the end of 1969 to IL 135.5 million, actual balances were 16.9 percent over this sum.

Because of the unstable situation in the international money markets, in the middle of December 1968 the Bank of Israel discontinued payment of interest on Patach deposits in German marks, raised the interest rate on dollar and sterling Patach deposits, and reduced the rate on such deposits in Swiss francs. In July 1969 the Bank raised the interest rates on Patach accounts in dollars, sterling, and Swiss francs, in line with the higher interest rates in the international money market. In November 1969 the Bank resumed interest payments on Patach accounts in marks following the lifting by West Germany of restrictions on deposits by non-German institutions and residents. The interest rates in force at the end of 1969 were as follows (in percent) :

	U.S. dollars and sterling	Other currencies
Demand deposit accounts up to the minimum reserve	4.50	4.00
Demand deposit accounts in excess of the minimum reserve	1.50	1.50
3-month deposits	4.75	4.25
6-month deposits	5.50	4.50
One-year deposits	6.00	5.00

4. *Blocked and registered accounts (Pahab)*

These are foreign currency accounts of insurance and shipping companies, hotels, enterprises approved under the Law for the Encouragement of Capital Investments, etc., which are redeposited with the Bank of Israel.

The balance of these accounts remained unchanged at IL 0.6 million (\$ 0.2 million). The banks are required to maintain with the Bank of Israel a balance of at least 15 percent of these deposits, which earn interest at the same rates as Patach accounts.

5. *Import deposit accounts (Hay)*¹

These are accounts in which commercial banks hold importers' deposits in connection with the procuring of import licenses on a cash financing basis. In May 1969 the foreign currency regulations were amended to limit the amount of foreign currency that could be transferred abroad for imports to 30 percent of the purchase price; the importer is required to deposit the balance in a Hay account until receipt of the goods in Israel.

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

Table XIX-4

**FOREIGN CURRENCY DEPOSITS OF BANKING INSTITUTIONS
WITH THE BANK OF ISRAEL, BY TYPE 1968-69**

(\$ million)

(End of period)

	1968	1969	Increase or decrease (-)
Deposits in foreign currency			
Deposits of residents transferring currency (Tamam)	140.3	174.8	34.5
Foreign securities dividend accounts (Natah)	9.2	14.2	5.0
Deposits of nonresidents (Patach)	34.6	43.7	9.1
Blocked and registered accounts	0.2	0.2	—
Import deposit accounts	1.1	13.9	12.8
Foreign currency accounts of banks	4.6	4.1	-0.5
Total	190.0	250.9	60.9
Deposits denominated in foreign currency			
Time deposits of Israeli residents (Pazak)	359.8	462.5	102.7
Diamond-traders accounts	—	0.3	0.3
Total	359.8	462.8	103.0

The banking institutions are required to redeposit these sums in full with the Bank of Israel. At the end of 1969 the deposits aggregated IL 48.3 million (\$ 13.9 million), as against IL 3.7 million (\$ 1.1 million) at the end of 1968—an increase of \$ 12.8 million (due to the change in the regulations).

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

These are accounts with the Bank of Israel in which banks deposit foreign currency to be paid abroad. At the end of 1969 the balance totalled IL 14.3 million (\$ 4.1 million), compared with IL 16.2 million (\$ 4.6 million) at the end of 1968.

(d) *Deposits denominated in foreign currency*

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

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

These are deposits in banking institutions by Israeli residents receiving transfers from abroad, mainly restitution payments from West Germany. These deposits are withdrawable in Israeli currency at the prevailing rate of exchange. The banks are required to redeposit these sums in full with the Bank of Israel. At the end of 1969 Pazak accounts aggregated IL 1,618.9 million (\$ 462.5

million), up \$ 102.7 million, or 28.5 percent, from the previous year's level of IL 1,259.2 million (\$ 359.3 million); in 1968 the increase was 23.6 percent.

Interest on these deposits was paid by the Government and the Bank of Israel at the rates prevailing at the end of 1968, namely: deposits for three months—3 percent; six months—4 percent; nine months—5 percent; and 12 months—6 percent.

2. *Diamond accounts*

These accounts are connected with transactions in diamonds and were opened in compliance with the directive of the Controller of Foreign Exchange issued in October 1969. The banks are required to redeposit these amounts in full with the Bank of Israel. At the end of 1969 they totalled IL 1 million (\$ 0.3 million).

(e) *Foreign banking institutions' deposits*

These deposits are placed with the Bank of Israel for varying periods. They were also made previously, but in view of their growing importance they are now separated in the Bank's balance sheet from the foreign currency deposits of Israeli banks. At the end of 1969 they totalled IL 105 million (\$ 30 million).

4. THE BANK OF ISRAEL AS BANKER TO THE GOVERNMENT

Examination of the Government's account by balance sheet item shows an increase of IL 1,153 million in the Government's gross liabilities to the Bank of Israel in 1969. Less the IL 19 million rise in creditory accounts, the debt went up by IL 1,134 million, as compared with IL 756 million in 1968. This does not indicate the full extent of the Bank's financing of the Government. If we add the net results of the Bank's open-market operations in Government paper, which do not constitute the granting of credit to the Government (this is discussed in Chapter XIV), we find that the increase was slightly higher—IL 1,167 million.

(a) *Debit accounts*

The Government's long-term debt to the Bank of Israel grew by IL 1,023.5 million in 1969. The Government received IL 1,059.5 million in advances and sold the Bank IL 50 million in treasury bills. On the other hand, outstanding advances from previous years were reduced by IL 57.8 million. However, not all of this sum reflects the actual repayment of debts to the Bank; part of it represents proceeds from the sale of Short-Term Loan certificates by the Bank to the public, which are applied, under an agreement between the Government and the Bank, to the reduction of the Government's long-term liabilities to the Bank.

Table XIX-5

GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,^a 1968-69

(IL million)

(End of period)

	1968	1969	Increase or decrease (-)
Debit			
Ordinary advances to the Government	690.1	819.9	129.8
Total current liabilities	690.1	819.9	129.8
Special advances and Government securities	26.9	44.7	17.8
Treasury bills	113.1	117.2	4.1
Long-term advances to the Government	305.0	1,306.6	1,001.6
Total long-term debt	445.0	1,468.5	1,023.5
Total debit balances	1,135.1	2,288.4	1,153.3
Credit			
Compulsory saving deposits	16.4	7.5	-8.9
Foreign currency accounts	11.0	39.1	28.1
Total credit balances	27.4	46.6	19.2
Balance	-1,107.7	-2,241.8	-1,134.1
Contingent accounts			
Food surplus accounts	78.4	66.8	-11.6

^a Excluding capital accounts.

The balance of Government securities (Short-Term Loan) purchased by the Bank of Israel in the open market amounted to IL 44.7 million at the end of 1969, up IL 17.8 million from 1968.

(b) *Credit accounts*

Foreign currency deposits of the Government and the National Institutions, as already noted, rose during the year by IL 19.2 million.

Compulsory saving deposits declined by IL 8.9 million as a result of repayments in accordance with the terms of the loan. By the end of 1969 the whole of this compulsory loan had fallen due, and the balance of IL 7.5 million appearing in the Bank's balance sheet represents sums not yet claimed.

Net of the credit accounts, the Government's debt to the bank, as shown in the balance sheet, jumped by IL 1,134.1 million during the year.

(c) *Contingent accounts*

The balance of contingent accounts, which derive from local currency payments for agricultural surpluses made available to the Government of Israel by the U.S. Government, declined from IL 78.4 million at the end of 1968 to

IL 66.8 million at the end of 1969 as a result of the utilization of these funds by the American authorities.

(d) *Government imports*

Documentary credit accounts opened in 1969 for the financing of imports by Government departments totalled \$ 48.3 million in 1969, compared with \$ 45.5 million in the previous year. The value of documents received by the Bank of Israel from foreign banks and suppliers for collection from the departments was \$ 30.5 million in 1969, as against \$ 27.2 million in 1968.

The total value of Government imports financed by Bank of Israel credits was \$ 78.8 million, compared with \$ 72.7 million in 1968.

5. THE BANK OF ISRAEL AS THE BANKERS' BANKER

(a) *Deposits of banks and financial institutions*

Deposits kept by banking and financial institutions with the Bank of Israel increased from IL 2,821.3 million at the end of 1968 to IL 3,223.1 million at the end of 1969. All of the IL 401.8 million increment was in banking institution deposits, those of financial institutions falling by IL 29 million. These figures include both local and foreign currency accounts. Local currency deposits (which under the regulations represent the bulk of the institutions' liquid assets) declined from IL 896.8 million at the end of 1968 to IL 725.1 million. Part of the decrease resulted from the purchase by banks of treasury bills, which are recognized as a liquid asset. Foreign currency deposits and deposits denominated in foreign currency rose over the same period from IL 1,924.5 million (\$ 549.9 million) to IL 2,498 million (\$ 713.7 million). A breakdown of these deposits is given in Table XIX-4.

The contraction of the banking institutions' local currency deposits reflects the decline in their liquidity in 1969. The expansion of foreign currency accounts and accounts denominated in foreign currency was due primarily to the larger volume of Pazak and Tamam deposits of restitution recipients, which have to be redeposited in full with the Bank of Israel. Further augmenting the Pazak and Tamam balances were the increments arising from the revaluation of the German mark, which added some \$ 33 million, and the payment of \$ 15 million in interest on these accounts.

Interest rates paid by the Bank of Israel since February 19, 1967 on local currency accounts of the banking and financial institutions are as follows: on the first third of the minimum balance that must be kept with the Bank no interest at all is paid, while on the remaining two-thirds the rate is 2 percent per annum; on deposits arising out of the nonfulfillment of the export financing quota—3 percent; on demand deposits in excess of required minimum balances and on export loans—4 percent. Annual interest rates on time deposits are

Table XIX-6

DEPOSITS OF BANKING INSTITUTIONS WITH THE BANK OF ISRAEL, 1968-69
(IL million)

(End of period)

	1968	1969	Increase or decrease (-)	
			IL m.	%
Israeli currency				
Minimum balance	398.6	399.6	1.0	0.3
Other demand deposits	78.2	15.9	-62.3	-79.7
Time deposits	420.0	309.6	-110.4	-26.3
Total	896.8	725.1	-171.7	-19.1
Foreign currency*	1,924.5	2,498.0	573.5	29.8
Total deposits	2,821.3	3,223.1	401.8	14.2

* Details are given in Table XIX-4.

as follows: deposits for three months—5.5 percent; for six months—6 percent; for nine months—6.7 percent; for 12 months or more—7.5 percent.

(b) *Rediscounts and loans*

The balance of rediscounted bills and loans to banks amounted to IL 821.7 million at the end of 1969—a rise of IL 371.6 million (82.5 percent) over

Table XIX-7
REDISCOUNTS, BY SECTOR, 1968-69
(IL million)

(End of period)

Sector	1968		1969	
	Local currency	Foreign currency	Local currency	Foreign currency
Industry	165.8	129.2	308.4	208.9
Agriculture	9.9	—	22.0	—
Commerce	—	5.8	—	1.2
Public services	—	13.0	—	7.8
National Institutions	—	42.0	—	127.9
Services	1.1	—	3.6	0.9
Total	176.8	190.0	334.0	346.7
Bank of Israel loans	79.2 ^a	4.1	137.1 ^b	3.9
Total rediscounts and loans in local and foreign currency	450.1		821.7	

^a After provision of IL 73.3 million for doubtful debts.^b After provision of IL 73.5 million for doubtful debts.

the end-1968 level of IL 450.1 million. Of this increase, 57.8 percent was in Israeli pounds and the balance in foreign currency.

About one-third of the increment was used to finance exports through the various funds set up for this purpose with the participation of the Bank of Israel. The Bank's share in these funds rose by 45 percent during 1969, far more than the growth of exports.

In the last quarter of 1969 the Bank of Israel rediscounted bills of those banks exceeding their export loan quota, in an amount equal to the excess. This was done in order to ease some of the tightness that had developed in the money market when the prevailing expectation of changes in foreign exchange rates had led to a greater demand for credit and the incurring of large liquidity deficiencies by the banking institutions. This step helped to avoid jolting the economy and indirectly helped to finance exports.

The Bank of Israel also stepped up its foreign currency credit to the National Institutions by some IL 86 million. All of this sum was used to repay foreign currency debts, and hence had no monetary effect on the economy.

In the year reviewed IL 0.2 million was provided for doubtful debts in connection with loans to banks, bringing the reserve up to IL 73.5 million.

6. CURRENCY ISSUE

(a) *Currency in circulation*

The monthly average of currency in circulation (calculated according to Wednesday figures) advanced by 4.2 percent—from IL 1,158.8 million in December 1968 to IL 1,207.1 million in December 1969; this compares with

Table XIX-8
CURRENCY IN CIRCULATION, 1968-69

(IL thousand; Wednesday averages)

	1968	1969
January	1,017,535	1,157,130
February	1,046,266	1,168,267
March	1,069,840	1,199,989
April	1,111,007	1,228,760
May	1,104,486	1,227,250
June	1,112,922	1,228,083
July	1,120,151	1,234,613
August	1,137,519	1,250,814
September	1,148,469	1,255,622
October	1,156,517	1,235,362
November	1,166,057	1,223,656
December	1,158,814	1,207,056

an increase of 11.3 percent in 1968, 26.5 percent in 1967, 12 percent in 1966, and 11.7 percent in each of the years 1964 and 1965.¹

The rise of some IL 72 million in the money supply in 1969 consisted of IL 48 million in currency in circulation and IL 24 million in demand deposits. Currency in circulation thus accounted for about 66 percent of the additional money supply in the year reviewed, as contrasted with only some 35 percent in 1968.

The level moved upward until September, after which it drifted steadily downward. In March and April 1969 there was an increase of IL 61 million, a result of the seasonal demand associated with the Passover Festival.

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

The new IL 100 banknote was put into circulation in February 1969, and thereafter the amount of these notes rose steadily to reach 30 percent of the total value of banknotes in circulation by the end of 1969.

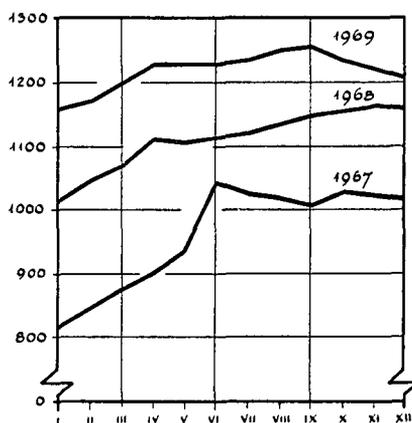
After the introduction of the IL 100 note, there was a steady reduction of IL 50 notes, which fell from 82.6 percent of the value of outstanding currency at the beginning of the year to 54.6 percent at year's end.

The proportion of IL 10 notes edged down from 13.8 to 12.7 percent, while IL 5 notes continued to account for 2.1 percent of the total. IL 1 notes dropped from 1.5 to 0.6 percent (if to the IL 6.4 million in such notes IL 20.6 million in IL 1 coins are added, the total comes to IL 27 million at the end of 1969). Of the 20.6 million IL 1 coins in circulation, 1.7 million were of the old design and 18.9 million of the current design.

The share of half-pound banknotes continued downward, standing at .04 percent by the end of the year. These banknotes were withdrawn from circulation upon the introduction of the half-pound coin in 1963, and it can safely be assumed that by now most of these notes have either been destroyed or are in the hands of collectors.

During 1969, IL 15.8 million worth of new one-pound coins denominated in agorot and commemorative coins were put into circulation, while IL 0.6 million in half-pound coins were withdrawn; the total value of coins in circula-

Figure XIX-1
CURRENCY IN CIRCULATION,
1967-69
(IL thousand; Wednesday averages)



¹ See Bank of Israel, *Annual Report 1968*, p. 451, note 1.

Table XIX-9

NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1968-69

(End of period)	1968		1969	
	IL '000	%	IL '000	%
Banknotes				
IL ½	482	—	484	—
IL 1	16,173	1.5	6,436	0.6
IL 5	22,347	2.1	23,374	2.1
IL 10	150,450	13.8	141,910	12.7
IL 50	897,628	82.6	609,008	54.5
IL 100	—	—	335,295	30.0
Total	1,087,080	100.0	1,116,507	100.0
Coins				
1 pruta	5	—	5	—
5 prutot	48	0.1	48	0.1
10 prutot	290	0.7	288	0.6
25 prutot	165	0.4	165	0.3
50 prutot	498	1.3	496	1.0
100 prutot	334	0.9	332	0.6
250 prutot*	600	1.5	600	1.2
500 prutot (silver)	22	0.1	22	—
1 agora	1,470	3.7	1,676	3.2
5 agorot	2,316	5.9	2,443	4.7
10 agorot	5,998	15.2	6,287	12.0
25 agorot	2,245	5.7	2,341	4.5
IL ½	7,034	17.9	6,443	12.3
IL 1	9,044	23.0	20,556	39.4
Total	30,069	76.4	41,702	79.9
Commemorative coins				
IL ½	28	0.1	28	—
IL 1	289	0.7	289	0.6
IL 5 (silver)	1,755	4.5	1,755	3.4
IL 10 (silver)	3,555	9.0	4,765	9.1
IL 20 (gold)	210	0.5	210	0.4
IL 50 (gold)	686	1.8	686	1.3
IL 100 (gold)	2,771	7.0	2,771	5.3
Total	9,294	23.6	10,504	20.1
Total coins	39,363	100.0	52,206	100.0
Total currency in circulation	1,126,443	—	1,168,713	—
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value				
	2,416	—	2,417	—
Total, net	1,124,027	—	1,166,296	—

* Including paper tokens and silver coins.

tion at the end of the year was thus IL 15.2 million higher than at the end of 1968.

New coins denominated in agorot (including the half-pound and pound pieces) accounted for 76.1 percent of the value of all coins in circulation at year's end, compared with 71.4 percent at the end of 1968. The higher proportion is explained principally by the widespread substitution of the IL 1 coin for the IL 1 banknote during the year, which reduced the amount of IL 1 notes in circulation from IL 16.2 million at the end of 1968 to IL 6.4 million.

(c) *Damaged currency*

In 1969 unusable banknotes to a value of IL 422 million were destroyed, while 522 applications to exchange damaged currency in the amount of IL 70,675 were submitted. The Bank of Israel approved 419 applications, totalling IL 64,453.

(d) *Agencies for the supply of currency*

With the opening of agencies in Ashdod and Eilat in 1968, the number of the Bank's agencies reached nine, located in Ashdod, Beersheba, Eilat, Hadera, Netanya, Petah Tikva, Rehovot, Safad, and Tiberias. These agencies supply currency to banking institutions in the provincial towns and absorb their surplus currency.

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

7. CURRENCY SUPPLY

(a) *Banknotes*

On February 27, 1969 the Bank of Israel introduced into circulation a IL 100 banknote bearing the portrait of Dr. Theodor Herzl. This was the first in the Bank's third series of banknotes. The other notes planned for this series are a IL 50 note showing the portrait of Dr. Ch. Weizmann, a IL 10 note with that of Ch. N. Bialik, and a IL 5 note with the portrait of Prof. A. Einstein.

(b) *Commemorative coins*

During 1969 the Bank issued one commemorative coin—the 21st Independence Day coin. The coin was minted in two denominations: one coin is of sterling silver (900/1000), was issued in ordinary and proof form, has a nominal value of IL 10, weighs 26 grams, and has a diameter of 37 mm; the second

Table XIX-10

**COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,^a
1957/58 TO 1968/69**

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
1. Half-shekel coins				
1960/61	Utrecht	20,004	5,000	25,004
1961/62	Utrecht	20,000	10,000	30,000
2. Hanukka coins—IL 1				
1958/59 (Tora is Light)	Berne	150,000	5,000	155,000
1959/60 (Degania)	Utrecht	50,000	5,000	55,000
1960/61 (Henrietta Szold)	Utrecht	16,883	3,000	19,883
1961/62 (Maccabees)	Utrecht	18,916	9,428	28,344
1962/63 (Italian Hanukka Lamp)	Berne	9,657	6,040	15,697
1963/64 (North African Hanukka Lamp)	Utrecht	10,000	5,500	15,500
3. Silver coins denominated in prutot				
250 prutot	Birmingham	44,225	—	44,225
500 prutot	Birmingham	43,767	—	43,767
4. Independence Day coins—IL 5				
1957/58 (Menora)	Utrecht	98,051	2,000	100,051
1958/59 (Ingathering of the Exiles)	Berne	27,249	4,792	32,041
1959/60 (Herzl)	Berne	34,472	4,923	39,395
1960/61 (Bar Mitzva)	Utrecht	19,541	4,561	24,102
1961/62 (Development)	Utrecht	10,450	5,050	15,500
1962/63 (Seafaring)	Rome	5,990	4,500	10,490
1963/64 (Israel Museum)	Rome	11,100	4,500	15,600
1964/65 (Knesset)	Rome	25,252	7,660	32,912
1965/66 (The People of Israel Lives On)	Utrecht	32,503	10,500	43,003
1966/67 (Eilat)	Utrecht	30,250	7,755	38,005
5. Victory Coins—IL 10				
1966/67 Ordinary	Berne	234,589	—	234,589
1966/67 Proof	Kreschmer, Jerusalem	—	50,499	50,499
1967/68 (Jerusalem)	Berne	50,000	20,501	70,501
1968/69 (Peace)	San Francisco	40,000	20,000	60,000
1968/69 (Peace)	Kreschmer, Jerusalem	20,199	—	20,199
6. Gold coins				
IL 20 1959/60 (Herzl)	Berne	10,510	—	10,510
IL 50 1962/63 (Weizmann)	Berne	—	6,202	6,202
IL 100 1962/63 (Weizmann)	Berne	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Berne	6,014	1,502	7,516
IL 100 1966/67 (Victory)	Berne	—	9,004	9,004
IL 100 1967/68 (Jerusalem)	Berne	—	12,500	12,500
IL 100 1968/69 (Peace)	Utrecht	—	12,500	12,500

^a After the melting down of various coins from the Bank of Israel's stock.

is gold (800/1000), issued in proof form only, has a nominal value of IL 100, weighs 25 grams, and has a diameter of 33 mm. The subject of the coins is "Peace".

A complete list of commemorative coins minted by the Bank of Israel through 1968/69 is given in Table XIX-10.

(c) *Coins in circulation*

In 1969, 40.4 million coins were minted for the Bank of Israel at the Israel Mint in Jerusalem. During the Hebrew year 5729 (1968/69), 44.5 million were minted. Following is a breakdown of the mintings.

Coin	Number of units minted	
	1969	1968/69
1 agora	18,984,000	22,120,000
5 agorot	2,984,001	2,200,103
10 agorot	6,825,000	6,810,000
25 agorot	471,002	432,004
$\frac{1}{2}$ IL	556,000	450,000
1 IL	10,565,016	12,484,016

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

This Committee, headed by Supreme Court Justice Witkon, assists the Bank in planning the banknotes and coins to be issued and recommends to the Governor of the Bank the designs which it approves from among those submitted by artists participating in closed competitions. In the year reviewed, in addition to its activities in connection with the issue of the 1969 commemorative coin, the Committee was engaged in the final preparations for the issue of the new (third) series of banknotes.

Members of the Committee are: Dr. A. Witkon (Chairman), Mr. M. Ardon, Dr. A. Biran, Mr. R. Dayan, Mr. S. Golan, Dr. R. Hecht, Mr. D. Karavan, Mr. K. Katz, Mr. G. Keich, Mr. A. Kindler, Dr. E. Lehman, Mr. T. R. Lurie, and Dr. M. Spitzer. Mr. Keich joined the Committee at the end of 1969, replacing Dr. Lehman, who had requested the Governor of the Bank to release him from membership due to pressure of his other work.

8. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

New loan issues through the Bank of Israel grossed 6 percent more than in 1968. Net issue amount rose to about the same extent, but there were differences in the make-up of the gross and net figures.

Gross new issues of long-term loans, excluding the Absorption Loan, went up from IL 378 million in 1968 to IL 503 million, with all of the increase being in the Defense Loan. The value of Absorption Loan certificates distributed also rose sharply during the year, from IL 58 million to IL 112 million.

Net new issues of long-term loans were up 31 percent from 1968, while net issues of the Absorption Loan (i.e. less redemption) soared 122 percent.

Gross sales of the Government Short-Term Loan declined from the record high of the previous year, and net sales turned negative (-IL 8 million), as compared with IL 105 million in 1968.

Table XIX-11
NET NEW BOND ISSUES, 1967-69
(IL million)

	1967			1968			1969		
	Gross issue	Re-demption	Net issue	Gross issue	Re-demption	Net issue	Gross issue	Re-demption	Net issue
Long-term									
Option-type	181	12	169	145	30	115	147	78	69
Defense Loan	283	—	283	196	—	196	338	—	338
Loans issued in									
previous years	—	48	-48	—	47	-47	—	33	-33
Others ^a	34	30	4	37	4	33	18	4	14
Total long-term	498	90	408	378	81	297	503	115	388
Short-Term Loan	668	551	117	875	770	105	779	787	-8
Total long- and short-term	1,166	641	525	1,253	851	402	1,282	902	380
Absorption Loan ^b	67	2	65	58	17	41	112	21	91
Grand total	1,233	643	590	1,311	868	443	1,393	922	471

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

^a Development bonds and Insurance Companies Loan.

^b Value of certificates distributed only.

The outstanding balance of domestic loans administered by the Bank of Israel (representing only part of the State's domestic debt) rose by 25 percent, from IL 1,800 million at the end of 1968 to IL 2,300 million. At the end of 1969 the Bank was administering 278 series of Government loans, including 62 issued in 1969: 27 series of option-type bonds, 8 series of the 1968 Defense Loan, 20 series of the 1969 Defense Loan, and 7 series of other loans.

1. Defense Loan

The authorized amount of the Defense Loan, which in the two preceding years was IL 300 million, was raised to IL 375 million. The banks' quota

remained unchanged at IL 100 million, and the remainder was earmarked for sale to the public. The terms of the loan were not revised in 1969. The 1969 Defense Loan was launched at the beginning of April, and more intensive selling led to the mobilization of a larger amount from the public than in 1968; by the end of the year receipts totalled IL 240 million, as compared with IL 180 million in 1968. An additional IL 97 million was collected during the year on account of the 1968 issue (in 1968 only IL 16 million was collected on account of the 1967 issue). At the end of 1969, outstanding purchase obligations totalled IL 60 million from the public and IL 12 million from the banks.

2. *Development Loan*

In July 1969 the authorized ceiling of the Development Loan was raised from IL 850 million to IL 1,250 million. Sales of the option-type Development Loan to the public amounted to IL 85 million, as against IL 65 million in 1968, but all of the additional IL 20 million was purchased by a single commercial bank for its approved saving schemes.

Under an agreement with the Treasury, the banking institutions undertook to purchase IL 175 million of option-type Development Loan certificates during 1969/70—IL 75 million more than in 1968/69. But actual purchases by the banks were only IL 62 million in 1969, as compared with IL 80 million in the period April–December 1968.

The number of outstanding Development Loan series featuring the right of early redemption was increased in 1969 to 41, with a total nominal value of IL 203 million. Of the IL 90 million worth of certificates that could have been redeemed in 1969 ahead of maturity, the amount actually cashed in was IL 43 million; this compares with IL 26 million in 1968. Redemption of series falling due totalled IL 36 million in 1969.

During the year reviewed there was a single IL 1.5 million issue of the long-term Development Loan—a 17-year bond linked to the consumer price index and bearing 5.5 percent interest. This compares with IL 20 million issued in 1968. Redemption during the year amounted to IL 3.5 million, so that the net balance outstanding declined by IL 2 million, as contrasted with a IL 16 million increase in 1968.

3. *Short-Term Loan*

Sales of the Short-Term Loan fluctuated sharply in 1969. The downward movement of both sales and outstanding certificates, which began at the end of 1968, carried over into the early months of 1969, and even more pronouncedly. On April 16, 1969 the Bank of Israel, in an effort to soak up funds on the open market, decided to make the Loan more attractive to potential buyers. It raised the yield by 0.75 percent on the short series and by 1 percent

on the long series, and increased the commission paid to distributors of the Loan. Banks were allowed to buy treasury bills at the rate of IL 1 for every IL 3 in Short-Term Loan certificates purchased; the ratios previously in force were 1:4 for the 18-month certificates and 1:5 for the other series. These concessions led to an immediate jump in sales, which continued until the middle of July, when the public's holdings reached a peak of IL 521 million. In the second half of July, however, the trend turned downward, at first gradually but then picking up momentum, so that by the beginning of November the outstanding balance had again fallen, this time by IL 90 million. On November 12 yields were again revised upward, the increases ranging from 3/8 of one percent for the short series to 1.25 percent for the long series. This boosted sales, and even in the last week of December, when there is usually a seasonal decline, the figure continued to advance. At the end of the year outstanding holdings of the public amounted to IL 467 million.

Figure XIX-2
OUTSTANDING SHORT-TERM LOAN HOLDINGS OF THE PUBLIC, BY SERIES, JAN. 1968 TO DEC. 1969

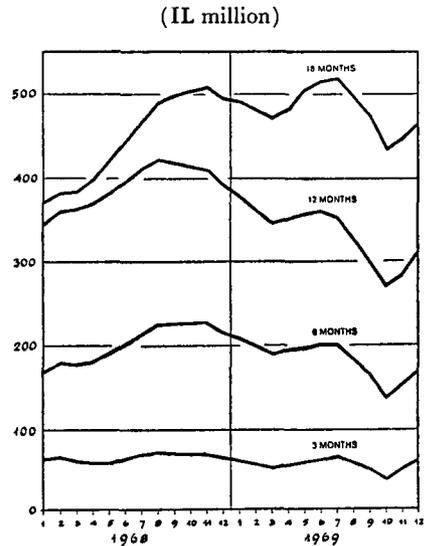


Table XIX-12
ANNUAL NET YIELD ON SHORT-TERM LOAN, 1969
(percentages)

Series	Jan. 1, 1968 to April 15, 1969	April 16, 1969 to Nov. 11, 1969	From Nov. 12, 1969
3 months	5.75	6.50	7.75
6 months	6.25	7.00	8.00
12 months	6.75	7.75	8.50
18 months	7.25	8.25	8.625

Over the year as a whole gross sales amounted to IL 779 million, as against IL 875 million in 1968, while redemptions totalled IL 787 million and IL 770 million respectively. In 1969 net sales were therefore negative by IL 8 million, of which IL 2.5 million represented redemptions by banks (see below). In 1968, as already noted, net sales amounted to IL 105 million.

Following the raising of the proportion of treasury bills purchasable by banks,

there was a steady growth of such holdings. At the end of 1969 they aggregated IL 143 million—IL 40 million more than at the end of December 1968. These bills are recognized as liquid assets and carry a comparatively high 9.5 percent interest. In addition to the high return, the banks may resell them to the Bank of Israel for an interim period, with the option of reacquisition at the end of the period. This enables the banks to avoid “breaking” their fixed-term deposits with the loss of interest involved. This option was exercised to a much greater extent in 1969, especially during the second half.

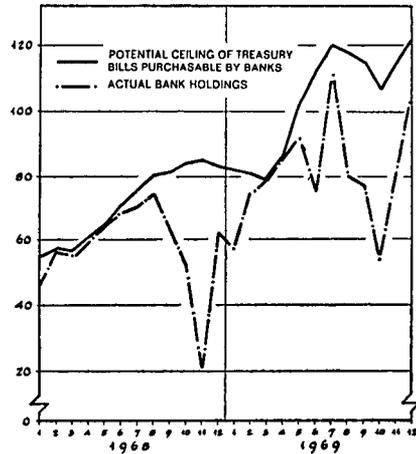
During the year reviewed there were no issues of the special Short-Term Loan to banks, the proceeds of which are transferred to the Treasury and are not included in the agreement of June 1966 between the Treasury and the Bank of Israel, under which the Bank sterilizes Short-Term Loan receipts. Redemptions, as previously mentioned, amounted to IL 2.5 million, and the banks’ holdings at the end of the year came to only IL 8.8 million.

4. Absorption Loan

The Bank of Israel acts as the Treasury’s agent in distributing Absorption Loan certificates. During 1969 the Bank mailed 553,000 certificates, with a total nominal value of IL 112 million, to 412,000 recipients; this compares with 208,000 certificates, valued at IL 57 million, sent to 130,000 recipients in 1968. Distribution of the 1964 certificates was begun, and out of a total issue of IL 126 million, certificates to the value of IL 107 million were mailed. Other certificates distributed during the year consisted of the last IL 5 million of the 1961, 1962, and 1963 series. At the end of 1969 a total of IL 280 million in certificates had been distributed; redemptions amounted to IL 30 million, so that the outstanding balance came to IL 250 million.

On April 1, 1969 the following series of the Absorption and Compulsory Savings Loans fell due: (a) the final redemption of the 1962 Compulsory Savings Loan—the last quarter of the principal, plus 24 percent accumulated interest for five years and linkage differentials; (b) the third redemption of the 1961 Absorption Loan and the second redemption of the 1962 Absorption Loan—10 percent of the principal in each case, plus accumulated interest at 4 percent per annum; (c) the second redemption of the 1963 Absorption and

Figure XIX-3
PURCHASES OF TREASURY BILLS
BY BANKS, 1968-69
(IL million)



Compulsory Savings Loan—one-seventh of the principal, plus 20 percent interest accumulated for five years.

The 1961–63 series of the Absorption Loan are listed and traded on the Tel Aviv Stock Exchange, while the 1964 series was not listed until September 1, 1969. Weekly turnover in these bonds held constant at some IL 600,000, except for September and October, when there was a temporary upsurge following the listing of the 1964 series.

5. Insurance Companies Loan

In conformity with the instructions of the Commissioner of Insurance, insurance companies make deposits with the Bank of Israel to the credit of the Treasury, on the same terms as those applicable to the linked life insurance policies they issue. These deposits are converted into Insurance Companies Loan certificates (1962 and 1965) at fixed dates during the year. The bonds are issued for periods of 5–40 years at the option of the insurance companies and on terms matching those of the policies they have sold. During 1969, IL 13 million of index-linked bonds were issued, compared with IL 13.8 million in 1968; redemptions amounted to IL 151,000 and IL 216,000 respectively. At the end of the year the balance of insurance company deposits against certificates which had not yet been issued stood at IL 16.2 million. Against the second loan (1965), IL 1 million of certificates were issued in 1969, compared with IL 1.4 million in 1968, and the balance of deposits at year's end stood at IL 1.5 million.

IL 2 million of nonnegotiable dollar-linked bonds were also issued (to cover dollar-linked life insurance policies)—about the same amount as was distributed in 1968. None of these latter certificates were redeemed during 1969.

6. Open-market operations

The Bank of Israel stepped up its open-market operations in 1969. These serve as a regulatory and stabilizing influence in the bond market, meeting excess demand for the Short-Term Loan and absorbing excess supply. Trade in this paper rose by 37 percent in 1969, accounting for 28 percent of all bond trading on the Exchange. The Bank of Israel accounted for IL 104 million of total Short-Term Loan transactions this year, as against IL 76 million in 1968; of this sum, IL 87 million represented purchases and IL 18 million sales. Net purchases therefore totalled IL 69 million, but since IL 47 million of certificates were redeemed during the year, the Bank's holdings were augmented by only IL 22 million.

The Bank's other operations in the bond market amounted to a mere IL 6.5 million in 1969, as contrasted with IL 25 million the year before. This consisted of IL 5 million in purchases and IL 1.5 million in sales.

The number of certificates of State and other public loans handled by the

Bank's State Loans Administration during the year under review came to 7.2 million, compared with 5.8 million in 1968. The increase was largely due to the distribution of 1968 Defense Loan certificates, payments for which were completed during 1969.

7. *Redemption and payments*

In 1969 the State Loans Administration redeemed 393,000 certificates of various loans through the banks, as against 291,000 in the previous year, while an additional 78,000 certificates (51,000 in 1968) were redeemed at the Bank's own branches. The increase stemmed primarily from the final redemption of the 1962 Compulsory Loan. The number of coupons redeemed was down from 1.5 million in 1968 to 1.2 million. In 1969, IL 922 million was paid out on account of principal and linkage differentials on dollar-linked loans, and IL 16 million on index-linked loans. Total interest payments, including linkage differentials, amounted to IL 89 million.

During the year 14 drawings of prize-bearing loans were held, as well as 17 drawings for the redemption of principal on State and various other loans.

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

The Bank of Israel administers 42 different loans floated by five public bodies: the Jewish Agency, local authorities, the Industrial Development Bank, Tefahot Israel Mortgage Bank, and the Israel National Petroleum Co. In 1969 two new issues totalling IL 29 million were floated; the outstanding balance of loans administered by the Bank of Israel at the end of the year amounted to IL 297 million.

During the year IL 17 million was paid out on account of principal and linkage differentials on dollar-linked loans and IL 3 million was paid on index-linked loans. Total interest payments, including linkage differentials, on these domestic loans amounted to IL 18 million.

Details on domestic loans administered by the Bank appear in the appendix to this chapter (in Hebrew only).

(c) *Foreign loans*

Gross sales of the Development Loan, floated abroad and sold to private individuals and institutional investors, remained about the same as in 1968—\$ 166 million as against \$ 167 million.

The final redemption of the first series of Development Bonds took place in 1969. Bonds to a total of \$ 12.7 million were not presented for payment; this is in addition to the \$ 11.3 million of Independence Bonds and the second series of Development Bonds which are still outstanding. The Bank maintains a special account with the Chase Manhattan Bank of New York (which acts as the Government's fiscal agent in the United States and as trustee for the

bondholders) to cover certificates which have matured but not yet been cashed in. This account amounted to \$ 23 million at the end of 1969.

The Bank of Israel handles the conversion and early redemption of Independence and Development Bonds. The bonds are converted in accordance with the terms of the loans as set forth in the trustee agreement with the Chase Manhattan Bank and subject to the regulations of the Foreign Currency Division of the Israeli Treasury. The value of Independence and Development Loan certificates converted into Israeli pounds amounted to \$ 31 million in 1969, compared with \$ 27 million the year before.

A breakdown of this figure shows that there was a considerable increase in conversions by Israeli institutions receiving contributions in the form of Independence and Development Bonds—they accounted for 46 percent of the total, as against 30 percent in 1968. Conversions by tourists (for covering their expenses in Israel) held steady at \$ 10 million, but their relative share dropped from 37.5 percent in 1968 to 30.5 percent. The amount used for financing investments in local enterprises was \$ 4.5 million—some \$ 2 million less than in 1968; its weight declined from 25 percent of the total in 1968 to 14.5 percent. The remaining 9 percent was converted by Israeli residents, new immigrants, and temporary residents.

Table XIX-13

FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1969

(\$ thousand)

Loan	Amount subscribed at end of 1969	Amount redeemed ^a at end of 1969	Amount owing at end of 1969 ^b	Amount converted into IL in 1969	Interest paid in Israel only in 1969
Independence Loan	145,533	145,533	—	15	7
Development Loan					
First series	234,140	234,140	—	545	71
Second series	293,621	147,609	146,012	4,107	579
Third series	392,630	94,880	297,750	20,203	7,017
Fourth series	267,352	11,570	255,782	5,450	133
Special investment					
series A	72,300	56,548	15,752	342	4
Special investment					
series B	88,165	4,725	83,440	455	5
Total	1,493,741	695,005	798,736	31,117	7,816

^a Bonds redeemed in Israeli pounds or dollars or exchanged for later issues.

^b Including IL 23 million in Independence and Development Bonds which matured but were not submitted for redemption.

9. EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1969 the Department of the Examiner of Banks in the Bank of Israel exercised control over 77 banking and financial institutions, as compared with 80 at the end of the preceding year.

In 1969 the Hapoel Hamizrahi Bank Ltd. transferred its business to the Mizrahi Bank Ltd., after the latter changed its name to United Mizrahi Bank Ltd. Halvaa Vehisachon Jaffa-Tel Aviv Cooperative Society Ltd. ceased to function as a cooperative society and became the Israel Loan and Savings Bank (Formerly Jaffa-Tel Aviv) Ltd. Zerubavel Central Cooperative Bank Ltd. changed to Zerubavel Company Ltd. and transferred its business to Israel Loan and Savings Bank (Formerly Jaffa-Tel Aviv) Ltd. upon the opening of the latter. The Shipping and Investment Bank Ltd. ceased functioning as an investment bank.

The number of financial institutions remained unchanged in 1969.

Table XIX-14

BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1968-69

(End of period)

Type of institution	1968	1969
Commercial banks ^a	27	27
Cooperative credit societies	16	14
Mortgage and investment banks	20	19
Financial institutions	17	17
Total	80	77

^a Including the Israel Bank of Agriculture and Ya'ad Agricultural Development Bank.

(a) Audits

The Department carried out 50 examinations of banking institutions during 1969, including two audits performed by independent firms of accountants at the request of the Examiner of Banks. The audits were varied in nature and included general audits, the examination of credit and collateral, and partial audits of time deposits, overseas bank deposits, documentary credits, etc.

In addition to these audits, the Department continued to follow closely the current position of a number of banking and financial institutions which had granted credit and guarantees to several clients in excessively large amounts relative to the institutions' capital. The managements of the institutions concerned were instructed to reduce the volume of such indebtedness and to take steps to secure suitable collateral. In the course of these audits the amounts provided for doubtful debts were also scrutinized.

(b) *Annual financial reports*

The Examiner of Banks held discussions with the liaison committee of the Association of Certified Public Accountants in Israel and with the Bank of Israel's Advisory Committee on Matters Relating to Banking Business on questions pertaining to the annual financial reports of banking institutions. As a result of these discussions, it was decided that beginning in 1971 commercial banks would publish profit and loss statements in a standard form according to guidelines to be prescribed. In these statements the banks will be required to disclose amounts transferred to inner reserves and their use. It was also decided in principle to change the accounting treatment of securities in the financial statements: henceforth Government and other bonds approved for investment will be carried at cost, without regard to their market price fluctuations.

Discussions on the implementation of the new guidelines are still taking place.

(c) *Law for the amendment of the Banking Ordinance*

The Banking Ordinance (Amendment No. 9) Law, 1969, which came into force on March 24, 1969, is designed primarily to tighten up central bank control over financial institutions. It invests the Examiner of Banks with the power to demand the correction of shortcomings uncovered in an audit and to instruct institutions to make sufficient provision for bad debts. The law also empowers the Governor of the Bank of Israel to take steps to prevent the financial overextension or collapse of any bank or financial institution, even if the situation requires that he take over effective control himself; and to impose legal restrictions on activities that may impair the stability of any banking institution.

In addition, the law makes any bank engaging in bill brokerage transactions liable for compensating clients for money they may lose on bills purchased from it. It also makes it mandatory to obtain the consent of the Governor of the Bank of Israel for the acquisition of a quarter or greater control by one banking institution of another.

(d) *Direction of credit*

The Department of the Examiner of Banks is responsible for the execution of the Bank's policy with regard to the qualitative control of credit extended by banking and financial institutions. The principal instrumentality for this purpose is the committees on which representatives of the Ministries of Commerce and Industry, Agriculture, and Finance sit together with representatives of the Bank of Israel. These committees deal mainly with the operations of the export financing funds and the working capital funds.

1. *Industrial export funds*

There are three industrial export funds: one finances the diamond industry; another production and domestic purchases of export industries, with the amount

of financing based on their value added and turnover; while the third finances overseas shipments. The year reviewed saw a striking growth of all three funds, as follows:

Type of fund	Balance at end of 1968	Balance at end of 1969	Percent increase
Export production	158.8	223.4	40.7
Export shipments	163.7	254.5	55.5
Imports for export production	212.0 ^a	245.0 ^a	15.6
Diamonds	257.7	333.4	29.4
Total	792.2	1,056.3	33.3

^a Annual averages.

The funds grew faster than total exports in 1969 because of several developments: a further increase in the number of exporters who previously had shipped primarily against immediate payment and now turned to the funds (especially the one financing overseas shipments); the extension of the period of credits to overseas clients to the maximum permitted limit and the holding of export proceeds abroad for longer periods than before; and the heavy demand for credit, especially in the last quarter of the year, when the local money market grew tighter. The impact of these factors made itself felt in particular on the fund for financing overseas shipments, which expanded more than the others.

2. *Financing of diamonds*

In the last quarter of 1969 the financing of the diamond industry in Israeli currency was discontinued in favor of foreign currency credits from a special fund. The changeover was adopted because the physical stock (rough and polished diamonds) is imported and paid for in foreign currency and export receipts are also in foreign currency, so that the financing of this industry in Israeli pounds at a low rate of interest led to speculative distortions. The switch to the special fund was a gradual process completed in February 1970. For this reason, the increased financing provided in 1969 is not accurately reflected by the figures, since, along with the change to foreign currency financing, diamond industrialists were permitted to partially defer repayments in Israeli pounds.

3. *Financing of agricultural exports*

The amount of financing made available through the Agricultural Export Fund was stepped up considerably. Credit for the cultivation of export crops rose from IL 14.5 million at the end of 1968 to IL 17.5 million, an increase of 20.7 percent; while financing of overseas shipments went up from IL 17 million to IL 19.6 million, or by 15.3 percent. All told, agricultural export credit rose by 17.8 percent, from IL 31.5 million at the end of 1968 to IL 37.1 million.

4. *Industrial Working Capital Fund*

Under the more stringent monetary policy followed by the Bank of Israel, this fund was not enlarged during the year reviewed, the balance at the end of 1969 standing at IL 43 million as against IL 46 million at the end of the previous year.

(e) *Compilation of information*

In June 1969 the obligation to submit reports on the debt balances of big borrowers to the Bank of Israel was broadened to include, besides commercial banks and cooperative credit societies, also mortgage and investment banks and financial institutions, i.e. all banking and financial institutions under the supervision of the central bank. Under the new arrangement reports must be submitted twice a year, at the end of June and December, on all clients whose outstanding debt, including that in the form of bill brokerage, guarantees, etc., amounts to IL 500,000 or more. On June 30, 1969, 61 banking and financial institutions submitted 2,062 reports covering 1,406 clients. The sum total of their debts and contingent liabilities reached IL 6,759.3 million (of which IL 4,063.3 million was owing to commercial banks and credit cooperatives and IL 2,696 million to the remaining institutions); this represented 62.2 percent of the institutions' total receivables on that date.

In addition, commercial banks and credit cooperatives continued to report semi-annually, at the end of March and September, on all clients whose debts amounted to IL 100,000 or more. At the end of March 1969, 43 institutions reported on 3,661 clients, with a total outstanding indebtedness of IL 4,875.1 million (representing 76.5 percent of all banking institution receivables on that date). At the end of September, 40 institutions reported on 3,740 clients, with total outstanding liabilities of IL 5,432.9 million (78.9 percent of all banking institution receivables). The Department of the Examiner of Banks compiles this information and notifies each of the institutions of the total liabilities of the borrowers on whom they reported.

(f) *List of promissory note defaulters*

The Department of the Examiner of Banks compiles information on signers of notes for IL 2,000 or more submitted to the banking institutions for collection but not honored on due date, and sends a list to the reporting institutions. As in 1968, there was a distinct downward trend in the volume of such notes. The average weekly number of notes in default reported by the institutions was 214, valued at IL 1 million, compared with 241 (IL 1.2 million) in 1968.

(g) *Bank branches*

At the end of 1969 the number of bank branches, excluding head offices, stood at 733, as against 721 at the end of 1968—an increase of 12, compared

with 17 in 1968. Of these, two had been head offices (one of a cooperative credit society and the other of a commercial bank), which as a result of mergers became branches of other banks. Nine branches closed down in 1969; the number of new branches opened, excluding the two former head offices, was therefore 19. The number of Israeli bank branches in the administered areas remained unchanged at 15.

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

The Committee considered and discussed a survey presented by the Examiner of Banks on the development of the banking system in 1968. The Committee and its subcommittees also dealt with a variety of subjects, including *inter alia* annual financial reports (see section [b] above), more comprehensive compilation of information (see section [e] above), fixed-term deposits, bill brokerage, and the powers of the Examiner of Banks.

Members of the Committee were: Messrs. M. Heth (Chairman), Y. Arnon, E. Bawly, H. Burla, Y. Foerder,¹ E. A. Kirschner, E. Lehman, E. Levi, K. A. Mossberg, Z. Ophir, D. Recanati, D. Shoham, J. Voet, A. Zabarski and S. Zack.

(i) *Advisory Committee on Cooperative Credit Societies*

The Committee discussed the development of the credit cooperative system in 1968 and dealt with a number of subjects, including *inter alia* the capital structure and democracy in credit cooperatives, directed credit, the opening of new branches, and mechanization problems.

Members of the Committee were: Messrs. M. Heth (Chairman), L. Garfunkel, H. Mevorach, Y. Shachor, A. Shtacher, B. Vinitzki, and Y. Yakir.

10. THE CLEARINGHOUSES

The year 1969 saw a further increase in the volume of checks and notes passing through the clearinghouses administered by the Bank of Israel. The total value of items cleared went up 21.4 percent, compared with 24.8 percent in 1968 and a mere 0.2 percent in 1967.

The number of clearings also rose, though at a slower pace—from a daily average of 97,500 items in 1968 to 108,400 in 1969.

The total value of items returned reached IL 1,521 million, as against IL 1,496 million in 1968—an increase of IL 25 million. Nevertheless, the ratio between items returned and items presented edged down, continuing the trend of the past several years—5.3 percent in 1966, 5.1 in 1967, 5 in 1968, and 4.2 in 1969.

The clearinghouses are administered by the Clearinghouse Committee, whose members are appointed by the Governor of the Bank of Israel for a two-year

¹ Deceased.

Table XIX-15
VOLUME OF CLEARINGS,^a 1967-69
(IL million)

	1967		1968		1969	
	Items presented	Items returned	Items presented	Items returned	Items presented	Items returned
Urban clearings						
Jerusalem	3,663	94	4,546	136	5,563	161
Tel Aviv	16,692	953	20,784	1,198	25,305	1,160
Haifa	3,501	181	4,371	162	5,138	200
Total	23,856	1,228	29,701	1,496	36,006	1,521
Annual increase or decrease (-)						
IL million	51	-26	5,809	268	6,305	35
Percent	0.2	-2.1	24.3	21.8	21.2	2.3

^a Excluding credit notes.

term. The present Committee took office on October 1, 1968, and is composed of the following members: Messrs. A. Lojter (Chairman), A. Kuker, M. Weiss, and D. Winogradow—representing the Bank of Israel; D. Ellalouf, I. Porat, M. Rapoport, and Mrs. H. Lahmi—representing the Association of Banks in Israel. In addition, the following alternate members were appointed: Mrs. I. Kaufmann (Chairman),¹ and Messrs. P. Barsel, B. Shchori, and A. Shalmon—representing the Bank of Israel; and M. Freed, D. Hershkovitz, and R. Sadka—representing the Association of Banks.

¹ Deceased.

Table XIX-16
CLEARING OF CREDIT NOTES, 1967-69
(IL million)

Clearinghouse	1967	1968	1969
Jerusalem	1,351	1,305	1,297
Tel Aviv	1,559	2,397	3,260
Haifa	82	96	130
Total	2,992	3,798	4,687

11. ECONOMIC RESEARCH

Current research on developments in Israel's economy, conducted by the Research Department, is published in the Bank's *Annual Report*, in the periodic

¹ Deceased.

bulletins of the Department, and in special publications. Among the research studies published in the past 12 months were the following:

1. Periodic internal surveys of the main economic developments and of developments in the monetary field.
2. Income and Expenses of Banking Institutions in 1967.
3. Industrial Trade Credit in Israel, 1956/57 to 1964/65.
4. Export Financing and Insurance in Israel.
5. The Yield to Maturity on Bonds and Expectations of a Devaluation and Price Increase, 1958-67.
6. Free Reserves, Surpluses, and Liquid Asset Deficiencies of Israel's Banking Institutions, 1958-67.
7. Income and Expenses of Banking Institutions, 1968.
8. Conversion of Personal Restitution Payments from Germany.
9. Economic Productivity in Israel, 1950-65.

The Bank's Research Department prepared, together with the Economic Planning Authority and the Economic Advisory Bureau of the Ministry of Finance, the National Budget for 1970, which was presented to the Knesset, together with the Government Budget, in February 1970.

The Impact of Personal Restitution Payments on Consumption and Saving in Israel, by M. Landsberger, was published in Hebrew in November 1969 (an English edition is scheduled to appear in 1970). This study explores the effect of personal restitution payments on the economic behavior of the recipients and on various aggregates such as consumption and saving, in order to determine *inter alia* what changes are likely to occur following the expected decline and eventual cessation of restitution payments. The work also examines the economic behavior of restitution recipients in relation to various theories on the consumption function.

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

(a) *International Monetary Fund*

In 1969 Israel drew from the International Monetary Fund the sum of \$ 22.5 million, comprising the country's gold tranche in the Fund (i.e. the amount that may automatically be withdrawn, under the Fund's Articles of Agreement, by a member-state encountering balance of payments difficulties); the equivalent amount was deposited in Israeli pounds in the Fund's account with the Bank of Israel. This was the third drawing of its kind made by Israel: in 1957, \$ 3.57 million was acquired and paid back in December 1958, and in October 1964, \$ 12.5 million was drawn and repaid in December of the same year.

In August 1969 Israel also drew, for the first time, its "first credit tranche" in the Fund, this too in the amount of \$ 22.5 million; the equivalent sum

was deposited in Israeli pounds in the Fund's account with the Bank of Israel. In accordance with the Fund's practice, this will have to be repurchased within three to five years.

Israel thus drew a total of \$45 million in foreign currency from the Fund in 1969, in exchange for Israeli pounds.

Israel's annual consultations with an IMF mission, as required by article 14 of the Fund's Articles of Agreement, were held in Jerusalem in August 1969. At the conclusion of the consultations on September 10, the executive board of the Fund approved the following resolution:

"Following a period of slow growth, the Israeli economy began to recover swiftly toward the end of 1967 in response to reflationary policies, a sharp rise in public sector expenditure, and the 14.3 percent devaluation of the currency in November 1967. The growth of GNP reached 13 percent in 1968 and is expected to rise again substantially in 1969. In contrast to earlier experience, the current upswing has been characterized by cost and price stability. Exports recorded an increase of 16 percent in 1968, but commercial imports rose by 41 percent and defense imports remained high, with the result that the balance of payments remained under pressure. Foreign exchange reserves of the Bank of Israel declined by about \$50 million in 1968 and have continued to fall in the first half of 1969. At the end of June 1969 they amounted to \$543 million, which is equal to about three months' imports of goods and services.

"As the slack in the economy was taken up and pressure on the balance of payments became apparent, the Bank of Israel in May 1968 introduced measures to reduce the rate of monetary expansion. The money supply expanded by 26 percent in 1967 and by 14 percent in 1968; in early 1969 the rate of increase showed a further decline. The Fund regards the maintenance of tight monetary policy as appropriate, particularly since fiscal policy continues to exert a strong expansionary influence on the economy.

"A major task confronting economic policy in Israel is the restoration of a satisfactory external payments position. The Fund believes that the accomplishment of this task and the preservation of internal stability call for most determined efforts to adjust the growth of internal demand. The Fund hopes that the authorities will review fiscal policy at the earliest opportunity with a view to reducing the large public sector deficit.

"As a result of progressive liberalization, few imports remain subject to quantitative restrictions. Some progress has been made in reducing tariffs, and the Government has announced a timetable for further tariff cuts over the next few years. The Fund welcomes this policy of increasing progressively the exposure of local industry to foreign competition as a means of encouraging economic efficiency. The Fund also welcomes the termination since the last consultation of three bilateral payments agreements with Fund members and notes that the need to maintain the remaining agreements will be kept under review."

In December 1969 the Fund's executive board concluded its regular five-year

review of member-states' quotas, and submitted to the Board of Governors its recommendations for an increase of one-third in the total quota and for enlarging individual quotas according to the merits of each specific case. Israel's quota was recommended for an increase of 44 percent, from \$ 90 million to \$ 130 million. The Board of Governors of the Fund approved the executive board's proposal in February 1970, and it will go into effect on October 30, 1970. The Governor of the Bank of Israel, who several years ago had already commented on the discrepancy between Israel's quota and its economic development, informed the Fund that in Israel's opinion the increase in the quota was insufficient. He declared that it did not take into account developments of recent years, and that Israel reserved the right to initiate discussions on a further rise in its quota at some future date.

On January 1, 1970 the first distribution of Special Drawing Rights was made by the IMF, in accordance with the amendments of the Fund's Articles of Agreement ratified in 1968 and 1969. Israel's share came to 16.8 percent of its quota, or \$ 15.1 million. The next distribution is scheduled for January 1, 1971.

In January 1970 Mr. Pinhas Sapir, Minister of Finance, replaced Mr. Ze'ev Sharef, now Minister of Housing, as Israel's Governor on the board of the IMF.

(b) *The World Bank*

Following a series of meetings between the Governor of the Bank of Israel and the President and management of the World Bank concerning the renewal of World Bank financing for Israel's development projects, a mission was dispatched to this country to conduct a general survey of the economy. Its report, submitted to the executive board in April 1969, stated that Israel was entitled to such financing and that it was capable of carrying the additional loan burden. The Bank of Israel thereupon applied for loans for the Israel Industrial Development Bank Ltd. (for the development of agriculture) and for financing the extension of the country's road network. An application for a loan for educational projects is now in preparation. Several technical missions of the World Bank visited Israel in 1969 to study these loan applications, and constant contact has been maintained with the Board of Governors in Washington regarding them. These applications were still being processed at the beginning of 1970.

The Governor of the Bank of Israel and the former Minister of Finance, Mr. Ze'ev Sharef, participated in the annual conferences of the Boards of Governors of the World Bank and the International Monetary Fund held in Washington in September 1969. The Minister of Finance represented Israel on the Board of Governors of the International Monetary Fund, and the Governor of the Bank of Israel represented this country on the Board of Governors of the World Bank and its affiliated institutions. Mr. Y. Milo, Senior Director of the Bank of Israel, served as deputy to the Israeli Governor of the Monetary Fund,

Table XIX-17
WORLD BANK LOANS TO ISRAEL—POSITION ON DECEMBER 31, 1969
(\$ thousand)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Cancellations	Repayments	Sold by lender	Effective loan	Amount disbursed
Direct loans									
Ports Authority—Ashdod Port	9.9.60	1965–85	5.75	27,500	87	1,783	1,850	23,779	27,412
Government of Israel—roads	17.10.62	1967–80	5.50	22,000	—	2,846	754	18,400	22,000
Government-guaranteed loans									
Dead Sea Works Ltd.	11.7.61	1966–76	5.75	25,000	—	4,226	2,519	18,255	25,000
Industrial Development Bank Ltd.	16.10.65	1968–81	5.50	20,000	—	3,340	—	16,660	20,000
Industrial Development Bank Ltd.	15.11.67	1970–82	*	15,000	—	—	—	15,000	8,055
Total				109,500	87	12,196	5,123	92,094	102,467

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

and Dr. Y. Arnon, then Director General of the Ministry of Finance, acted as deputy to the Israeli Governor of the World Bank.

The report of the Commission on International Development, known as the "Pearson Committee" after its chairman and set up on the initiative of the World Bank to investigate world development problems in the seventies, was submitted to the Board of Governors of the World Bank. The report included *inter alia* a recommendation to put into operation the Horowitz Proposal, which had been submitted by the Governor of the Bank of Israel. This plan calls for enlarging the flow of capital from world capital markets to developing countries by means of a system of international guarantees and an interest equalization fund.

13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council met periodically to discuss developments in the economy as analyzed by the Governor of the Bank, with special emphasis on the monetary aspects and the Bank's role therein. Among the specific subjects discussed were the Bank's open-market operations, its credit and interest-rate policy, the Short-Term Loan, and liquidity regulations. Other matters taken up were the banking system and its development during the year, and such other Bank activities as its relations with international financial institutions, the export funds under its management, and allied subjects. The Advisory Committee and the Advisory Council approved the Bank's balance sheet and profit and loss account as of December 31, 1968, as well as the operating budget for 1969, after they had been examined by subcommittees appointed for the purpose.

The Advisory Council approved the issue of the 1969 gold and silver commemorative coins and the issue of the IL 100 banknote, as required by section 31 of the Bank of Israel Law.

The membership of the Advisory Committee in 1969 was as follows: Messrs. Y. Chorin (Chairman), M. Chazani (Deputy Chairman), Y. Foerder,¹ E. Hachohen, Z. Susayeff, A. Zabarski, and H. Zadok. The Chairman and Deputy Chairman served in the same capacity on the Advisory Council, which comprised members of the Advisory Committee with the addition of Messrs. Y. Bader, H. Barkai, A. Becker, N. Feingold, Z. Onn, A. Ostashinsky, D. Recanati, and A. Schechter. The Advisory Committee and Advisory Council were appointed by the Government on December 8, 1968 for a two-year term of office, in accordance with sections 20, 23, and 26 of the Bank of Israel Law.

¹ Deceased.

14. THE BANK AND ITS STAFF

On September 7, 1969 the Government decided, in conformity with the provisions of section 8 of the Bank of Israel Law, to recommend to the President of the State that Mr. D. Horowitz be reappointed Governor of the Bank of Israel for a fourth term. The President, Mr. Z. Shazar, accordingly reappointed Mr. Horowitz on September 10, 1969, the formal ceremony taking place in the President's office in the presence of the Prime Minister.

In March 1969 the Governor of the Bank of Israel was invited by Mr. Lester Pearson, Chairman of the Pearson Committee for the investigation of world development problems, to its Rome sessions. He was asked to expound his views and evaluations regarding international techniques for economic development, and in particular to discuss his ideas for improvements in these techniques as set out in the Horowitz Proposal. The Pearson Committee, which had been appointed on the initiative of the President of the World Bank, published its report in September 1969 in Washington, and it includes, among other things, a recommendation for the implementation of the Horowitz Proposal as a means of increasing the flow of capital to developing countries.

The Horowitz Proposal was also one of the principal subjects on the agenda at the Third (Finance) Committee meeting of UNCTAD, held in Geneva in 1969. It was also discussed at great length at the annual meeting of the Board of Governors of the Inter-American Development Bank, after the President of the Bank, Mr. F. Herrera, had earlier investigated it and its implications on a visit to Israel in June 1969.

The Governor of the Bank of Israel acted as Chairman of the Border Settlement Welfare Fund, and Mr. Y. Taub, Secretary General of the Bank, as secretary. The Fund collected contributions, equal to one day's wages (May Day), from employees and employers and arranged for their transfer to border settlements.

On the invitation of the Governor, the International Association for Research in Income and Wealth held its eleventh conference in Natanya, in August 1969. Dr. A. L. Gaathon, chief economist in the Bank of Israel, organized the conference and represented the Bank.

Mr. A. Gilshon, chief economist in the Research Department, served as coordinator of a committee appointed to examine the situation of the baking industry; it submitted its report to the Minister of Commerce and Industry in August 1969.

Mr. Y. Taub participated in a European seminar, held in September 1969 at Alpbach, Austria, on the subject of the future of the international monetary system. In October 1969 Mr. Taub headed the Israeli delegation to the Fifth Conference Against Counterfeiters, convened by Interpol in Mexico City.

At the end of 1968 Mr. Y. Milo was appointed by the Minister of Finance to be a member and Deputy Chairman of the Securities Authority, established under

the Securities Law, 5728-1968. In June Mr. Milo attended the conference of the International Chamber of Commerce held in Istanbul, Turkey.

Dr. E. Sheffer, Joint-Director of the Research Department, was invited by the U.N. Secretary General to take part in a symposium of experts on the subject of financing and encouragement of exports, which was held at U.N. Headquarters in New York in February 1969. At the invitation of the Ministry of Commerce of the Philippines, he spent about six weeks in Manila advising the Government on export financing and insurance within the framework of the U.N. Special Development Plan.

Dr. Fanny Ginor, economic adviser to the Governor of the Bank, and Mr. D. Genachowski, senior economist, represented Israel at the Eleventh World Congress of the Society for International Development, which was held in New Delhi in November 1969. Dr. Ginor also represented Israel at the sessions of the Third (Finance) Committee of UNCTAD, held in Geneva in February 1969.

The new Bank of Israel branch in Haifa, previously housed in rented premises, was opened to the public on January 23, 1970. The building, begun during the recession in 1966, has an area of 2,300 sq. meters. For the first time since its establishment, the Haifa branch has adequate space for storing money under reasonably safe conditions for Haifa and the Northern District, and it now has an office area adequate for its own operations and those of the clearinghouse.

The first of the intensive advanced training courses in banking and economics, conducted at the Tel Aviv branch of the Bank by senior staff members for some 15 employees of intermediate grades, was completed in the middle of 1969.

The Bank has also introduced advanced courses in Hebrew and English for its employees, as well as courses in accountancy to prepare staff members for the professional examinations. With the exception of English, all the courses are conducted by the bank's own personnel.

The year under review saw a marked development in the Bank's computer system. After initially providing auxiliary services to various departments, the computer's performance was expanded to handle detailed banking operations on a full-time basis. After the jobs of the conventional system were converted to the 360/20 computer in the first half of 1969, preparations were started in the second half to mechanize the work of the accounting department. Operations of three departments have now been computerized: the accounting department, the foreign currency department, and the State Loans Administration. The daily work includes the checking of daily transactions, updating of balances, printing of clients' and departments' statements, and preparation of various reports. Programming and processing are carried out by the computer staff unit, all of whom were trained within the Bank. At the recommendation of a subcommittee of the Advisory Committee, computerization will be further extended. The Office Mechanization Center in Jerusalem has agreed to put at the Bank's disposal a much larger computer, which will permit the complete automation of the

accounting system and will serve other needs, such as those of the Examiner of Banks and the Research Department.

Members of the staff purchased some IL 202,000 in Defense Bonds during 1969. They also turned over their New Year gift from the Bank to the Soldiers Welfare Committee, while Research Department members contributed money accumulated for their annual excursion to the Defense Fund.

The number of Bank employees in the head office in Jerusalem and in the Tel Aviv and Haifa branches totalled 720 at the end of 1969, in addition to 43 trainees and 79 guards.

Mr. Yosef Zwang, Bank of Israel Security Officer, died on September 25, 1969. He rendered outstanding service to the Israel Defense establishment and later to the Bank of Israel.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1969

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1969

BANK OF ISRAEL
STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1969

ASSETS	(IL)		LIABILITIES	
	Dec. 31, 1969	Dec. 31, 1968	Dec. 31, 1969	Dec. 31, 1968
Gold	160,033,565	161,162,858	Capital	10,000,000
Gold—quota in International Monetary Fund	78,750,166 ^a	78,750,166	Reserve fund	10,000,000
Foreign currency assets	1,283,582,189 ^b	2,080,075,681	Banknotes and coin in circulation	1,166,295,992
Clearing accounts in connection with trade agreements	14,609,904	15,777,201	Clearing accounts in connection with trade agreements	12,068,197
Participation in international financial institutions	22,844,349	18,285,949	Deposits of international financial institutions	160,909,187
Treasury bills	117,161,000	113,102,000	Deposits of foreign banking institutions in foreign currency	105,000,000 ^b
Other securities	44,662,373	26,908,291	Demand deposits of banking institutions (incl. financial institutions)	415,458,202
Long-term advances to the Govt.	1,306,626,974	304,970,017	Time deposits of banking institutions (incl. financial institutions)	309,635,000
Provisional advances to the Govt.	819,923,711	690,141,374	Banking institution deposits in foreign currency	878,181,002 ^b
Bills rediscounted—local currency	471,197,458	256,044,664	Banking institution deposits denominated in foreign currency	1,619,875,446
Bills rediscounted—foreign currency	350,545,923	194,059,458	Government deposits—compulsory savings	7,522,577
Advances to foreign governments and institutions	67,758,406	61,342,960	Government and National Institution deposits in foreign currency	39,079,801
Food surplus account (see liabilities)	66,762,267	78,375,886	Deposits on account of U.S. food surplus purchases (see assets)	66,762,267
Premises, equipment, etc.	1	1	Liabilities for documentary credits in connection with payments agreements (see assets)	88,240,436
Documentary credits in connection with payments agreements (see liabilities)	88,240,436	62,444,349	Liabilities in connection with guarantees (see assets)	277,547,864
Guarantees (see liabilities)	277,547,864	275,119,738	Other accounts	6,704,801
Other accounts	3,034,186	24,853,120		18,800,352
	<u>5,173,280,772</u>	<u>4,441,413,713</u>		<u>5,173,280,772</u>
				<u>4,441,413,713</u>

^a Gold tranche purchased in accordance with the provisions of section 3, Article V, of the Articles of Agreement of the International Monetary Fund.

^b Reclassified.

BANK OF ISRAEL

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1969

(IL)

	Dec. 31, 1969	Dec. 31, 1968		Dec. 31, 1969	Dec. 31, 1968
EXPENSES			INCOME		
Interest paid, administrative expenses, and other expenses	140,841,561	122,357,699	Interest, commission, and other income	207,741,787 ^a	198,543,039 ^b
Net profit	<u>66,900,226</u>	<u>76,185,340</u>		<u>207,741,787</u>	<u>198,543,039</u>
	<u>207,741,787</u>	<u>198,543,039</u>			
DISTRIBUTION OF PROFITS					
To the Government	<u>66,900,226</u>	<u>76,185,340</u>	Net profit	<u>66,900,226</u>	<u>76,185,340</u>

^a After provision of IL 195,854 for doubtful debts.

^b After provision of IL 42.3 million for doubtful debts.

BANK OF ISRAEL
THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL
MAY 1970

Governor

D. HOROWITZ

Advisory Committee

Y. CHORIN, *Chairman*
M. CHAZANI, *Deputy Chairman*
Y. FOERDER¹
E. HACHOEN
Z. SUSAYEFF
A. ZABARSKI
H. ZADOK

Advisory Council

Y. CHORIN, *Chairman*
M. CHAZANI, *Deputy Chairman*
Y. BADER
H. BARKAI
A. BECKER
N. FEINGOLD
Y. FOERDER¹
E. HACHOEN
Z. ONN
E. OSTASHINSKY
D. RECANATI
A. SHECHTER
Z. SUSAYEFF
A. ZABARSKI
H. ZADOK

¹ Deceased.