

CHAPTER XIX

ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY OF BALANCE SHEET AT THE END OF 1971

The balance sheet of the Bank of Israel totalled IL 9,669 million at the end of 1971, compared with IL 6,543 million at the end of the preceding year – an increase of IL 3,126 million, or 47.8 percent, compared with a rise of 26.5 percent in 1970. Significant changes took place in two asset items: foreign currency assets and Government liabilities to the Bank of Israel. On the liabilities side, there were striking changes in banking institution deposits in foreign currency, banking and financial institution deposits in Israeli currency, and banknotes and coin in circulation.

(a) *Assets*

1. *Foreign exchange*

The Bank's foreign currency assets rose sharply in 1971, continuing the trend begun in the previous year. The State's foreign currency balances held at the Bank of Israel (defined as gold, Special Drawing Rights, and foreign currency assets, less deposits of foreign banks and nonresidents) reached \$576 million, as against \$361 million at the end of 1970 – an increase of \$215 million. This followed a gain of \$22 million in 1970 and a steep drop in the two preceding years. The main growth factor in the year reviewed was the enormously larger capital import, which was accompanied by a rise in the external debt far exceeding the balance of payments deficit on current account.

The Bank's gross foreign currency holdings hit \$802 million by the end of 1971 – \$290 million over the 1970 figure. The Bank's foreign liabilities rose parallel to its soaring foreign currency holdings and reached \$255 million at the end of 1971 – an increase of \$93 million.

2. *Government liabilities*

The Government's net liabilities to the Bank of Israel, as listed in the balance sheet, grew by IL 1,234 million, continuing the steep uptrend of the past few years in Bank of Israel credit to the Government. The 1971 increase includes IL 360 million in net linkage increments. Net of these increments and adjustments (IL 187 million) in connection with the Bank's operations in Government securities, the actual growth of Bank of Israel financing provided to the Government came to IL 1,062 million, as against IL 894 million

Table XIX-1
ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1970-71
(IL million)

	1970	1971	Increase or decrease (—)	
			IL m.	%
Assets				
Gold	151	182	31	19.9
Special Drawing Rights	—	55	55	—
Gold quota in IMF	114	137	23	20.0
Foreign currency assets	1,418	2,837	1,419	100.0
Clearing accounts under trade and payments agreements	25	13	—12	—49.1
Participation in international financial institutions	27	35	8	30.7
Treasury bills	73	40	—33	—44.5
Other securities	17	25	8	47.9
Long-term advances to the Govt.	2,452	3,276	824	33.6
Provisional advances to the Govt.	650	1,102	452	69.6
Bills discounted, securities acquired under repurchase agreements, and loans in IL	310	357	47	15.0
Bills discounted in foreign currency	696	934	238	34.2
Loans to foreign governments and institutions	56	110	54	97.8
Other accounts	3	7	4	115.3
Total	5,992	9,110	3,118	52.0
Contingent accounts	551	559	8	1.5
Grand total	6,543	9,669	3,126	47.8
Liabilities				
Paid-up share capital and reserves	20	20	—	—
Notes and coin in circulation	1,322	1,635	313	23.7
Clearing accounts under trade and payments agreements	11	15	4	45.9
Deposits of international financial institutions	161	277	116	71.7
Allocations of Special Drawing Rights	53	122	69	130.2
Foreign banking institution deposits in foreign currency	131	41	—90	—68.6
Banking and financial institution deposits	953	1,710	757	79.4
Deposits of banking institutions — export finance	143	286	143	99.7
Foreign currency deposits of banking institutions in Israel	1,039	1,956	917	88.2
Banking institution deposits denominated in foreign currency	1,960	2,827	867	44.2
Government deposits — compulsory savings	6	5	—1	—8.7
Government accounts — import deposits	156	180	24	15.2
Government and National Institution deposits in foreign currency	31	26	—5	—18.2
Other accounts	6	10	4	66.5
Total	5,992	9,110	3,118	52.0
Contingent accounts	551	559	8	1.5
Grand total	6,543	9,669	3,126	47.8

in 1970. The difference between the balance sheet figure and the actual rise in Government liabilities stemmed from the Bank's open-market operations in Government securities, which do not represent a repayment of Government liabilities to the Bank.

3. *Credit to the public*

Credit to the public, as shown in the balance sheet, went up by IL 142 million; but since the August 1971 devaluation directly increased the outstanding balance by IL 145 million, there was actually a decline of IL 3 million. The decrease in such credit was one of the measures adopted by the Bank under its policy of monetary restraint. The balance of bills discounted and loans granted by the Bank to the public and the banking institutions amounted to IL 1,291 million at the end of 1971, IL 285 million over the 1970 figure. But the actual growth of such financing was IL 142 million, since commercial banks deposited, against part of the credit supplied by the Bank through the Fund for Financing Export Shipments, the sum of IL 143 million, which is not deemed to be a liquid asset and should therefore be deducted from the IL 285 million. By contrast, in 1970 Bank of Israel credit to the public expanded by IL 41 million.

A classification of credit to the public by currency shows that the increase in gross Israeli currency credit amounted to IL 47 million. But net of the aforementioned IL 143 million of banking institution deposits, the Bank actually reduced its IL credit to the public by IL 96 million in 1971. This was part of its restrictive monetary policy, which *inter alia* called for the diminution of the Bank's participation in the above-mentioned export fund by IL 50 million in April and by a further IL 47 million in August 1971, and a corresponding increase in the banks' participation.

Foreign currency credit to the public rose by IL 238 million in 1971, of which IL 145 represented exchange rate increments arising from the devaluation of the Israeli pound.

(b) *Liabilities*

1. *Banknotes and coin in circulation*

The value of banknotes and coin in circulation went up from IL 1,322 million at the end of 1970 to IL 1,635 million – i.e. by IL 313 million or 23.7 percent. The accelerated rise in the year reviewed reflected the expansion of the money supply, although the share of currency in the money supply edged down from 37.8 percent at the end of 1970 to 37.1 percent.

2. *Deposits of banking and financial institutions*

Banking and financial institution deposits with the Bank of Israel grew by IL 2,684 million, from IL 4,096 million at the end of 1970 to IL 6,779 at the end of 1971. Banking institution deposits were up by IL 2,712 million, while those of financial institutions declined by IL 28 million. IL 769 million of the increase consisted of local currency deposits, which are a liquid asset, and IL 143 million represented IL deposits made in connection with export financing, which are not deemed to be a liquid asset. The growth of foreign currency deposits and deposits denominated in foreign currency came to

IL 1,784 million, of which IL 766 million can be attributed to the August 1971 devaluation.

The banking institutions' liquid asset holdings expanded by IL 817 million, since to their incremental deposit balances should be added the IL 32 million increase in their portfolio of treasury bills, which are also a liquid asset.

The strong growth of foreign currency deposits and deposits denominated in foreign currency stemmed chiefly from the swelling of the Pazak and Tamam accounts of recipients of personal restitution from Germany, which the institutions redeposit in full with the Bank of Israel. These balances shot up in 1971 as a result of the larger volume of restitution, the revaluation of the German mark, and the devaluation of the Israeli pound.

The \$86 million expansion of nonresidents' accounts represents the liquid asset cover which the banks deposited against these accounts with the Bank of Israel (see below). The rapid rise in nonresident and immigrant deposits in Patach accounts in 1971 led to an increase in the amount redeposited with the Bank of Israel.

PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

(a) *Income*

The Bank's income advanced from IL 286 million in 1970 to IL 371 million, with foreign currency holdings yielding IL 151 million (\$39 million), as against IL 103 million (\$29.4 million) in 1970. To the 1971 gain should be added \$34 million for the appreciation of holdings due to the change in the exchange rate of the German mark and other currencies. The incremental foreign currency income stemmed chiefly from the expansion of the Bank's foreign currency holdings, and it more than compensated for the drop in income due to the fall of interest rates on the international markets during the year.

The revaluation of the German mark increased the Bank's expenses, since most of the liabilities on account of Pazak and Tamam deposits are denominated in this currency; the total rise came to IL 262 million in 1971. On the other hand, the devaluation of the Israeli pound in August 1971 augmented the Bank's profits by IL 86.7 million. After foreign currency income, the item contributing most to the income growth was interest on the Government's debt to the Bank, which moved up *pari passu* with the rise in these liabilities. There was no appreciable change in income from interest on rediscounts and loans to the public, since interest rates held steady and there was no significant difference in the volume of credit supplied to the public in comparison with 1970.

(b) *Expenditures*

The Bank's expenses totalled IL 270 million, IL 87 million more than the IL 183 million recorded in 1970. Most of the increase resulted from the larger amount of interest paid to banking institutions on their foreign currency deposits (mainly Pazak and Tamam), liquid asset holdings, Israeli currency deposits, and treasury bills discounted at the Bank of Israel.

(c) *Net profit*

The Bank's net profit in 1971 amounted to IL 101 million, compared with IL 103 million the year before. The entire sum was transferred to the Treasury in accordance with the Bank of Israel Law.

3. FOREIGN CURRENCY ASSETS AND LIABILITIES AND GOLD HOLDINGS

Gross foreign exchange reserves went up by \$273 million in 1971 – from \$459 million at the end of 1970 to \$732 million (gold and Special Drawing Rights are valued here at \$35 per fine ounce of gold). Net of the Bank's incremental liabilities to foreign banks and nonresidents, the reserves grew by \$214 million.

In 1971 Israel received its second allocation of 14 million Special Drawing Rights. With the enlarging of the country's quota in the International Monetary Fund by \$40 million at the end of 1970, in the year reviewed Israel exercised its right under the IMF Articles of Agreement and drew \$20 million from the Fund.

Analysis of the Bank's foreign currency assets shows that the changes during the year (especially the last quarter) in the exchange rates of various foreign currencies contri-

Table XIX-2
FOREIGN EXCHANGE AND GOLD BALANCES HELD BY
THE BANK OF ISRAEL, 1970-71
(\$ million)

	1970	1971	Percent increase or decrease (—)
Assets			
Gold	43.4	43.4	—
Special Drawing Rights	—	13.1	13.1
Gold quota in IMF	32.5	32.5	—
Foreign currency assets	405.2	675.5	270.3
Clearing accounts	7.2	3.1	—4.1
Participation in international financial institutions	7.5	8.2	0.7
Loans to foreign governments and institutions	15.9	26.1	10.2
Total assets	511.7	801.9	290.2
Liabilities			
Clearing accounts	3.0	3.7	0.7
Deposits of international financial institutions	46.0	65.8	19.8
Allocation of Special Drawing Rights	15.1	29.0	13.9
Deposits of foreign banking institutions	37.5	9.8	—27.7
Deposits of nonresidents	59.9	146.2	86.3
Total liabilities	161.5	254.5	93.0
Net assets	350.2	547.7	197.2

buted \$45 million to the total growth of reserves, and net of incremental liabilities to foreign banks and nonresidents – \$35 million.

(a) *Foreign exchange and gold*

Gross assets in gold and foreign currency (excluding local assets and liabilities in foreign currency) added up to \$802 million at the end of 1971, compared with \$512 million at the end of the previous year. The net balance came to \$547 million, as opposed to \$350 million at the end of 1970 – a rise of \$197 million.

In 1970 the International Monetary Fund began allocating Special Drawing Rights to its members and Israel received 15 million SDRs, then equivalent in value to \$15 million. A second allocation was made in 1971 and Israel received another 14 million SDRs (worth \$14 million). In 1970, because of the contraction of its foreign exchange reserves, Israel utilized that year's allocation in foreign currency. At the end of 1971, after payment of interest to the IMF on its SDR accounts, Israel held SDRs worth \$13 million (at the rate of \$35 per ounce of gold).

Despite a \$3 million appreciation due to the exchange rate changes, foreign banking institution deposits in foreign currency shrank from \$37.5 million at the end of 1970 to \$9.8 million at the end of 1971.

As a result of the aforementioned \$20 million drawing on Israel's quota in the IMF, deposits of international institutions with the Bank of Israel increased by an equal amount to reach \$66 million (IL 277 million) at the end of 1971.

A small fraction of the foreign currency balances, required to finance the Bank's current foreign currency operations, was held in non-interest-bearing demand deposits. The preponderant portion was held in the form of treasury bills, bills of foreign banks, bonds of foreign countries and international financial institutions, and interest-bearing time and demand deposits in foreign banks. The Bank's net income in 1971 from interest-bearing foreign currency assets (not counting \$34 million in increments due to the currency revaluations) came to \$39 million, as opposed to \$29 million in 1970. The average yield on foreign currency balances (less gold and SDRs) edged down from 8.3 percent in 1970 to 7.7 percent, in line with the world trend during the year, but the Bank's larger foreign currency holdings more than compensated for the reduced interest.

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

At the end of 1971 the Bank of Israel maintained clearing accounts with four countries with which Israel had trade and payment agreements. In March 1970 the payments agreement with Yugoslavia expired, and the outstanding balances with that country were settled at the beginning of 1971. The outstanding balances arising out of the payments agreement with Turkey, which had expired in 1969, were also settled. Trade with these countries is now being conducted in freely convertible currencies.

Israel's debit balances in the clearing accounts added up to \$3.6 million, while its credit balances totalled \$3 million. The net balance to Israel's debit therefore stood at \$0.6 million at the end of 1971, as against a \$4.2 million credit balance at the end of 1970 – a decline of \$4.8 million.

Table XIX-3
NET BALANCES IN CLEARING ACCOUNTS, 1970-71
(\$ thousand)

(End of period)

Country	1970	1971	Increase or decrease (-)
Brazil	-1,305	-2,713	-1,408
Bulgaria	1,920	841	-1,079
Czechoslovakia	465	465	-
Hungary	2,555	1,885	-670
Portugal	-1,108	-886	222
Turkey	-474	-	474
Yugoslavia	2,429	-	-2,429
Net balances in transit	-279	-72	207
Total	4,203	-480	-4,683

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

Foreign currency deposits and deposits denominated in foreign currency rose from IL 3,679 million at the end of 1970 to IL 6,471 million at the end of 1971. Total foreign currency liabilities and those denominated in foreign currency went up during the same period from IL 3,390 million to IL 5,272 million, so that the surplus of assets over liabilities grew from IL 289 million to IL 1,199 million, or by IL 910 million.

(d) Foreign currency deposits

Foreign currency deposits of banking institutions with the Bank of Israel aggregated \$466 million at the end of 1971, compared with \$297 million at the end of 1970 – up \$169 million or 56.9 percent.

1. Deposits of residents transferring currency (Tamam)

These are restricted foreign currency deposits placed with the banking institutions by recipients of restitution payments from Germany and by discharged and disabled veterans of World War II, who are generally entitled to deposit up to one-third of their foreign currency receipts in these accounts (several small groups may deposit a higher proportion of their receipts). These deposits may be withdrawn in foreign currency to finance foreign travel, purchase foreign securities, or defray legal expenses connected with restitution claims. They may also be converted into Israeli pounds through Natad accounts.¹ The banking institutions must redeposit these sums in full with the Bank of Israel. At the end

1. This is discussed in the next section.

Table XIX—4
ASSETS AND LIABILITIES IN FOREIGN CURRENCY
AND DENOMINATED IN FOREIGN CURRENCY, 1970-71
(IL million)

	1970	1971	Increase or decrease (—)
Assets			
Foreign currency assets ^a	1,790	3,368	1,578
Long-term advances to the Govt.	1,193	2,169	976
Bills discounted in foreign currency	696	934	238
Total	3,679	6,471	2,792
Liabilities			
Foreign currency liabilities ^a	566	1,069	503
Bank deposits ^b			
Pamaz	18	35	17
Tamam	731	1,166	435
Pahab	3	24	21
Hay	18	26	8
Natad	59	91	32
Pazak	1,959	2,824	865
Diamond accounts	1	3	2
Government and National Institution deposits	31	26	—5
Other liabilities	4	8	4
Total	3,390	5,272	1,882

^a These are detailed in Table XIX—2.

^b The various types of deposits are described below.

of the year reviewed these deposits amounted to \$277.7 million, compared with \$208.8 million at the end of 1970 — an increase of \$69 million. The realignment of exchange rates during the year appreciated this item by \$22 million.

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

2. *Foreign securities dividend accounts (Natad)*

These are restricted foreign currency deposits of Israeli citizens deriving from the sale of foreign securities or the receipt of dividends and interest thereon. They may be withdrawn in foreign currency solely for the purchase of foreign securities in accordance with the directives of the Controller of Foreign Exchange. Securities purchased in this manner may be resold to the general public. Actually, both Natad and Tamam deposits are traded in Israeli currency in the Natad market, which is freely maintained by the commercial banks. The banking institutions are required to hold 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 1971 these accounts totalled \$21.7 million, compared with \$16.8 million at the end of 1970 – an increase of \$4.9 million.

3. *Deposits of nonresidents (Patach)*

These are freely transferable funds deposited by nonresidents and immigrants with Israeli banks and redeposited in the Bank of Israel. In 1971 the banks were required to maintain a minimum balance of 20 percent (15 percent in 1970) of these accounts with the Bank of Israel, after deducting deposits for the granting of loans authorized by the latter and foreign currency held in the banks' vaults. The sum required to be redeposited with the Bank of Israel at the end of 1971 was IL 575 million, but the amount actually deposited was IL 614 million; this was equivalent to \$146.2 million, and compares with \$59.9 million in 1970 – an increase of \$86.3 million.

Because of the interest rate developments in the world money markets, in August 1971 the Bank of Israel ceased payment of interest to banking and financial institutions on current accounts and on deposits in German marks. In September it also ceased payment of interest on deposits in pounds sterling, Swiss francs, and French francs, and in December 1971 on German mark deposits of private individuals and all deposits in Dutch guilders.

At the end of 1971 the following interest rates were in force: demand deposits up to the minimum required balance not covered by time deposits, excluding the aforementioned currencies on which payment of interest was stopped – 4.5 percent p.a.; demand deposits in excess of the minimum balance – 1.5 percent; 3-month deposits – 4.75 percent; six-month deposits – 5.5 percent; deposits for one year – 7 percent. A new scale of interest payments on these accounts was introduced in 1972, reflecting more closely the developments in the various currency markets.

The various exchange rate changes appreciated Patach balances by \$6 million at the end of 1971.

4. *Blocked and registered deposits (Pahab)*

These are foreign currency accounts of insurance and shipping companies, enterprises approved under the Law for the Encouragement of Capital Investments, etc., which are redeposited with the Bank of Israel. The liquidity requirements applying to the Patach deposits also apply to these deposits. At the end of 1971 the balance of these accounts was \$5.6 million, up \$4.7 million from 1970. Interest paid by the Bank of Israel on such redeposits is at the same rate as that paid on Patach accounts, with the exception of one-year deposits, which earn 6 percent interest.

5. *Import deposit accounts (Hay)²*

These are accounts in which commercial banks hold importers' deposits in connection with the procurement of import licenses on a cash financing basis. In May 1969 the foreign currency regulations were amended to limit the amount of foreign currency

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

transferable abroad to 30 percent of the purchase price; the importer has to deposit the balance in a Hay account until receipt of the goods in Israel.

The banking institutions are required to redeposit these sums in full with the Bank of Israel. At the end of 1971 these deposits aggregated \$6.3 million, as against \$5.4 million in 1970 – an increase of \$0.9 million.

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

These are accounts with the Bank of Israel in which banks deposit foreign currency to be paid abroad. At the end of 1971 these balances totalled \$8.3 million, compared with \$5.2 million in 1970 – an increase of \$3.1 million.

(e) *Deposits denominated in foreign currency*

These deposits, which are payable 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 income in foreign currency. The banks are required to redeposit these sums in full with the Bank of Israel. At the end of 1971 Pazak accounts totalled IL 2,824 million (\$672.4 million) – up \$112.6 million, or 20.1 percent, from the previous year's level of IL 1,959.3 million (\$559.8 million). The realignment of exchange rates during the year added \$48 million to Pazak balances. Interest on these deposits was paid by the Government and the Bank of Israel at the rates prevailing in 1969, namely: deposits for three months – 3 percent; six months – 4 percent; nine months – 5 percent; and one year – 6 percent. Holders of Pazak accounts originating in personal restitution payments from Germany do not pay income tax on their interest receipts; other Israeli residents have 25 percent withheld at source.

2. *Diamond accounts*

These accounts are connected with transactions in diamonds and were opened in compliance with a 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 1971 they added up to IL 3.2 million, as against IL 0.5 million at the end of the previous year.

(f) *Foreign banking institution deposits*

These are foreign currency deposits of foreign banks placed with the Bank of Israel for varying periods. At the end of 1971 they totalled \$9.8 million, compared with \$37.5 million at the end of 1970 – a decline of \$27.7 million.

4. THE BANK OF ISRAEL AS BANKER TO THE GOVERNMENT

Examination of the Government's accounts by balance sheet item shows a growth of IL 1,251.9 million in the Government's liabilities. Less the IL 17.6 million increase in creditory accounts, the Government's debt went up by IL 1,234.3 million, compared with IL 757.1 million in 1970. The incremental financing provided includes IL 360 million in net linkage differentials – IL 364 million on advances linked to the exchange rate, less IL 4 million differentials on Government and National Institution deposits with the Bank of Israel.

The net growth in the amount of financing supplied to the Government, less linkage differentials, was actually IL 1,062 million, compared with IL 894 million in 1970. The difference between this figure and the balance sheet change in the Government's net debt (IL 874 million), which does not include linkage differentials, stemmed from the Bank's sale of IL 155 million of Short-Term Loan certificates to the public and of IL 32 million worth of treasury bills to the banking institutions. These transactions were carried out under the administration's monetary policy and did not reduce the Government's debt to the Bank (this is discussed in Chapter XIV).

Table XIX—5

GOVERNMENT ACCOUNTS^a WITH THE BANK OF ISRAEL, 1970-71
(IL million)

End of period	1970	1971	Increase or decrease (—)
Debit			
Ordinary advances to the Government	649.9	1,102.3	452.4
Long-term advances to the Government	2,452.4	3,276.0	823.6 ^b
Treasury bills	72.5	40.3	—32.2
Government securities	16.8	24.9	8.1
Total debit balances	3,191.6	4,443.5	1,251.9
Credit			
Compulsory savings deposits	5.7	5.2	—0.5
Import deposits	155.9	179.6	23.7
Foreign currency accounts	31.2	25.6	—5.6
Total credit balances	192.8	210.4	17.6
Balance	2,998.8	4,233.1	1,234.3
Contingent accounts			
Food surplus accounts	49.9	6.3	—43.6

^a Excluding capital accounts.

^b Including IL 363.7 million devaluation differentials on dollar-linked advances.

(a) *Debit accounts*

The Government's long-term debt to the Bank of Israel (including securities) grew by IL 823.6 million. In 1971 the Knesset authorized a new long-term advance of IL 650 million. Outstanding long-term advances from previous years rose by IL 363.7 million because of the dollar-linkage of part of these loans. On the other hand, repayments amounted to IL 190.1 million, of which IL 37.5 million was on account of advances that fell due, while IL 152.6 million represented the proceeds from sales of Short-Term Loan certificates to the public, which, under an agreement between the Government and the Bank, are applied to the reduction of the Government's long-term liabilities to the latter. Another IL 4.4 million of Short-Term Loan proceeds were applied to the repayment of Absorption and Defense Advances.

The Bank's holdings of treasury bills, which are sold to commercial banks in a stipulated ratio to their Short-Term Loan sales, dropped in 1971 by IL 32.2 million, while its portfolio of Government securities expanded by IL 8.1.

Table XIX-6

LONG-TERM BANK OF ISRAEL ADVANCES TO THE GOVERNMENT, 1970-71
(IL million)

Year of Advance Law	Balance at end of 1970	Repay- ments in 1971	Linkage differ- entials	Balance at end of 1971
1966	13.9	13.9	—	—
1967	49.0	3.1	9.5	55.4
1968	130.0	20.5	24.2	133.7
1969	400.0	152.6 ^a	—	247.4
1969	659.5	—	—	659.5
1970	1,200.0	—	200.0	1,400.0
1971 ^b	—	—	130.0	780.0
Total	2,452.4	190.1	363.7	3,276.0

^a Repaid from Short-Term Loan proceeds.

^b Including IL 650 million authorized in March 1971.

(b) *Credit accounts*

Total deposits of the Government and the National Institutions increased by IL 17.6 million in 1971: import deposits went up by IL 23.7 million, deposits of Compulsory Savings Loan proceeds were down IL 0.5 million, and foreign currency deposits dropped by IL 5.6 million (after deduction of IL 4.1 million in devaluation increments).

(c) *Contingent accounts*

Contingent account balances, which derive from local currency payments for agri-

cultural surpluses made available to the Government of Israel by the U.S. Government, fell from IL 49.9 million at the end of 1970 to IL 6.3 million.

(d) *Government imports*

Documentary credit accounts opened for the financing of imports by Government departments totalled \$73.3 million in 1971, compared with \$51.3 million in the previous year. The value of documents received by the Bank of Israel from foreign banks and suppliers for collection from the various Government departments was \$36.0 million in 1971, as against \$38.9 million the year before.

The total value of Government imports financed by Bank of Israel credits was \$118.8 million, compared with \$78.4 million in 1970 — an increase of \$40.4 million.

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 expanded by IL 2,683.4 million — from IL 4,095.8 million at the end of 1970 to IL 6,779.2 million. Israeli currency deposits grew from IL 1,096.1 million to IL 1,996.0 million, with most of the increment consisting of liquid assets and IL 142.9 million in deposits for financing exports (see above).

Table XIX—7
BANKING AND FINANCIAL INSTITUTION DEPOSITS
WITH THE BANK OF ISRAEL, 1970—71
(IL million)

End of period	1970	1971	Increase or decrease (—)
Israeli currency			
Liquid assets ^a	927.4	1,696.6	769.2
Deposits exempt from liquidity requirements	25.3	13.1	—12.2
Export finance deposits	143.4	286.3	142.9
Total	1,096.1	1,996.0	899.9
Foreign currency^b	2,999.7	4,783.2	1,783.5
Grand total	4,095.8	6,779.2	2,683.4

^a Minimum balances, other demand deposits, and time deposits.

^b Details are given in Table XIX—2.

Foreign currency deposits went up by \$168.7 million — from \$297.0 million at the end of 1970 to \$465.7 million, of which \$30 million resulted from the various exchange rate changes. Most of the increase was in Tamam and Patach accounts. Deposits denom-

inated in foreign currency rose by \$113.1 million – from \$560 million at the end of 1970 to \$673.1 million, of which \$48 million represented exchange rate differentials.

Following are the rates of interest (percent p.a.) paid by the Bank of Israel on banking and financial institution accounts and the changes therein in 1971.

	From Jan. 1, 1971	From May 13, 1971	From Aug. 23, 1971	From Dec. 16, 1971
1. On an amount equal to the total of –				
15 percent of the ordinary deposits with the institution				
8 percent of its fixed-term deposits (four to six months)				
5 percent of its fixed-term deposits (six months or more)	0	0	0	0
2. On the amount by which 8 percent of the institution's ordinary depos- its exceed the total directed ex- port credit it has extended (only authorized dealers)	3	3	3	3
3. On the liquid cover which the banking institution is required to hold against deposits for the granting of loans, savings deposits, and excess Bank of Israel rediscounts				3
4. On the deficiency in the institution's deposits in the Export Shipments Finance Fund				8
5. On an additional amount by which the total of (a) below exceeds that of (b) below:				
(a) 50.5 percent of the institution's ordinary deposits				
17 percent of its fixed-term de- posits (four to six months)				
10 percent of its fixed-term deposits (six months or more)				
(b) The sum total of deductions according to section 8 of the Liquidity Directions				
The amount of treasury bills deemed to be a liquid asset according to section 10 (3) of the Liquidity Directions				
The amount of bank notes and coin in Israeli currency held by the institution which are deemed to be a liquid asset				

	From Jan. 1, 1971	From May 13, 1971	From Aug. 23, 1971	From Dec. 16, 1971
according to section 10 (2) of the Liquidity Directions		8	8	8
6. On an additional amount equal to the total of –				
2 percent of the institution's ordinary deposits				
3 percent of its fixed-term deposits (four to six months)				
3 percent of its fixed-term deposits (six months or more)			11.5	12.25
7. On an additional amount equal to the institution's incremental required liquidity on fixed-term deposits for six months or more, in accordance with Bank of Israel (Liquid Assets) (Amendment) Directions, 5732-1971				15
8. On an additional amount in excess of the totals				
of (1) and (2)	8			
of (1), (2), and (5)		11.5		
of (1), (2), (5), and (6)			16	
of (1) through (7)				16

6. CURRENCY ISSUE

(a) *Currency in circulation*

The monthly average of currency in circulation (calculated according to Wednesday figures) went up 22.9 percent, from IL 1,355.4 million in December 1970 to IL 1,666.4 million³ in December 1971; this compares with an increase of 12.3 percent in 1970, 4.2 percent in 1969, and 11.3 percent in 1968 (see Table XIX-8).

The volume moved up at a fairly even rate throughout the year, except in March and April when it jumped by more than IL 100 million as a result of the usual high seasonal demand associated with the Passover Festival. Despite the growth of this component during the year, its weight in the total money supply fell steadily, a development characteristic of a period of increased liquidity infusion.

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

The value of IL 100 banknotes in circulation, which has been advancing steadily since they were first put into circulation in February 1969, continued upward in 1971,

3. Including commemorative coins with a total face value of IL 14.6 million (IL 12.9 million at the end of 1970), which are only formally included in this item.

Table XIX-8
CURRENCY IN CIRCULATION, 1970-71
(IL thousand; Wednesday averages)

	1970	1971
January	1,201,610	1,363,363
February	1,204,538	1,393,326
March	1,230,747	1,431,886
April	1,274,229	1,499,432
May	1,281,398	1,500,123
June	1,289,385	1,509,762
July	1,295,671	1,543,455
August	1,316,952	1,575,409
September	1,319,011	1,598,803
October	1,351,430	1,643,218
November	1,353,599	1,665,247
December	1,355,427	1,666,347

and their share in the total value of banknotes in circulation rose from 46.2 percent in 1970 to 56 percent. By contrast, the value of IL 50 banknotes declined, depressing their share from 40 to 32.1 percent. These changes in the relative shares continued the pattern evident since the IL 100 banknotes were introduced.

The proportion of IL 10 banknotes edged down from 11.5 percent to 10 percent and that of IL 5 notes from 2 to 1.7 percent. The figure for IL 1 notes (which have been replaced by coins) inched down from 0.3 percent to 0.2 percent. The total value of IL 1 notes and coins at the end of 1971 came to IL 30.1 million (IL 3.4 million in notes and IL 26.7 million in coins). There was hardly any change in the percentage of half-pound banknotes, which were replaced by coins of the same denomination in 1963, and it can be assumed that by now most of these have either been lost or are in the hands of collectors.

During the year reviewed IL 7.0 million worth of new agorot, half-pound, and commemorative coins were put into circulation, and at year's end agorot, IL 0.5, and IL 1 coins accounted for 75.3 percent of the total value of coins in circulation, compared with 75.1 percent in 1970.

(c) *Damaged currency*

In 1971 unusable banknotes to a value of IL 564 million were destroyed, while 516

Table XIX-9

BANK NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1970-71

End of period	1970		1971	
	IL '000	%	IL '000	%
Banknotes				
IL ½	481	—	493	—
IL 1	3,817	0.3	3,410	0.2
IL 5	24,798	2.0	26,888	1.7
IL 10	145,753	11.5	155,918	10.0
IL 50	505,804	40.0	504,540	32.1
IL 100	583,950	46.2	879,287	56.0
Total	1,264,603	100.0	1,570,536	100.0
Coins				
1 pruta	5	—	5	—
5 prutot	48	0.1	48	0.1
10 prutot	286	0.5	284	0.4
25 prutot	165	0.3	165	0.2
50 prutot	495	0.8	494	0.7
100 prutot	332	0.6	331	0.5
250 prutot ^a	600	1.0	600	0.9
500 prutot (silver)	22	—	22	—
1 agora	1,793	3.0	1,938	2.9
5 agorot	2,749	4.6	3,181	4.8
10 agorot	6,937	11.6	7,913	11.9
25 agorot	2,655	4.4	3,097	4.6
IL ½	6,732	11.3	7,400	11.1
IL 1	23,987	40.2	26,678	40.0
Total	46,806	78.4	52,156	78.1
Commemorative coins				
IL ½	28	—	28	0.1
IL 1	289	0.5	289	0.5
IL 5 (silver)	1,755	2.9	1,755	2.6
IL 10 (silver)	5,926	9.9	7,595	11.4
IL 20 (gold)	210	0.4	210	0.3
IL 50 (gold)	686	1.2	686	1.0
IL 100 (gold)	4,021	6.7	4,021	6.0
Total	12,915	21.6	14,584	21.9
Total coin	59,721	100.0	66,740	100.0
Total currency in circulation	1,324,324	—	1,637,276	—
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value	2,417	—	2,417	—
Total, net	1,321,907	—	1,634,859	—

^a Including paper tokens and silver coins.

applications to exchange damaged currency in the amount of IL 76,297.50 were submitted. The Bank of Israel approved 441, totalling IL 71,376.50.

(d) *Agencies for the supply of currency*

The Bank has nine agencies for the supply of currency, located in Ashdod, Beer-sheba, Eilat, Hadera, Netanya, Petah Tikva, Rehovot, Safad, and Tiberias. They 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 improvement 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 January 13, 1972 the Bank of Israel introduced into circulation a IL 5 note bearing the portrait of Prof. Albert Einstein and a IL 50 banknote bearing the portrait of Dr. Chaim Weizmann. These banknotes complete the Bank's third series of banknotes; they follow a IL 100 banknote with the portrait of Dr. Theodor Herzl, introduced at the beginning of 1969, and a IL 10 banknote bearing the portrait of Chaim N. Bialik, which was introduced in August 1970.

(b) *Commemorative coins*

In 1971 the Bank of Israel issued a special commemorative coin whose subject was "Let My People Go", with a nominal value of IL 10. It is of sterling silver (900/1000), weighs 26 grams, has a diameter of 37 mm. and a plain edge, and was issued in ordinary and proof form.

The legend "Let My People Go" also appears on a special gold commemorative coin issued in 1971 with a nominal value of IL 100. It has a gold content of 900/1000, weighs 22 grams, and has a 30 mm. diameter and a milled edge.

The 23rd Independence Day Coin (5731) was also issued in 1971. It has a nominal value of IL 10 and is made of sterling silver (900/1000); it weighs 26 grams and has a diameter of 37 mm. Its theme is "Science-Based Industries", and it was issued in ordinary and proof form.

As in 1970, the Bank issued a special Pidyon ha-Ben (Redemption of the Firstborn) coin, with the same nominal value, composition, weight, and diameter as the Independence Day coin. The coin is for use in the ceremonial redemption of the firstborn from the priesthood, and its subject is the biblical verse "All the firstborn of thy sons shalt thou redeem." It was issued in ordinary and proof form (the latter with a milled edge). As

stated, this is the second coin on the same subject, and the denomination side (reverse) was changed along with the Hebrew date.

The year 5731 was the first in which the Bank of Israel issued a series of special coins, identical to the ordinary coins in circulation but minted on special blanks and with a mint mark in the form of a tiny Star of David. All six existing denominations – 1, 5, 10, and 25 agorot, and IL ½ and IL 1 – were issued in this series of 175,002 units, which are intended for collectors.

Table XIX-10
COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,
1957/58 TO 1970/71^a

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. Independence Day coins – IL 10				
1966/67 Ordinary	Berne	234,589	—	234,589
1966/67 Proof	Kreshmer, Jm.	—	50,499	50,499
1967/68 (Jerusalem)	Berne	50,000	20,501	70,501
1968/69 (Peace)	San Francisco	40,000	20,000	60,000
1968/69 (Peace)	Kreshmer, Jm.	20,199	—	20,199

Table XIX-10 (contd.)
COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,
1957/58 TO 1970/71^a

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
1969/70 (Mikve Israel Centenary)				
Ordinary	Kreshmer, Jm.	47,704	—	47,704
1969/70 (Mikve Israel Centenary)				
Proof	Berne	—	22,500	22,500
1970/71 (Science-Based Industries)				
Ordinary	Jerusalem	22,700	—	22,700
1970/71 (Science-Based Industries)				
Proof	Utrecht	30,000	17,501	47,501
6. Pidyon ha-Ben (Redemption of Firstborn)				
1969/70 Ordinary	Jerusalem	50,933	—	50,933
1969/70 Proof	Berne	—	15,500	15,500
1970/71 Ordinary	Jerusalem	30,201	—	30,201
1970/71 Proof	San Francisco	—	15,500	15,500
7. Special issue				
1970/71 (Let My People Go)	Jerusalem	50,900 ^b	20,300	71,200
8. Gold coins				
IL 20 1959/60 (Herzl)	Berne	10,510	—	10,510
IL 50 1962/63 (Weizmann)	Berne	—	6,202	6,202
IL 100 1962/63 (Weizmann)	Berne	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Berne	6,014	1,502	7,516
IL 100 1966/67 (Victory)	Berne	—	9,004	9,004
IL 100 1967/68 (Jerusalem)	Berne	—	12,500	12,500
IL 100 1968/69 (Peace)	Utrecht	—	12,500	12,500
IL 100 1970/71 (Let My People Go)	Berne	—	10,001	10,001

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

^b Provisional datum.

(c) *Coins in circulation*

In 1971 some 30 million coins were minted for the Bank of Israel at the Israel Mint in Jerusalem. During the Hebrew year 5731 (1970/71) about 35 million were minted. Following is a breakdown of the mintings:

Coin	Number of units minted	
	1971	5731 (1970/71)
1 agora	7,488,000	10,290,000
5 agorot	11,090,000	14,010,000
10 agorot	1,700,000	6,810,000
25 agorot	308,030	500,030
½ IL	398,008	500,008
1 IL	3,057,663	2,993,000

(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 of Israel the designs which it has approved from among those submitted by artists participating in closed competitions. It is also responsible for the actual planning of another new series of banknotes.

Members of the Committee are: Dr. A. Witkon (Chairman), M. Ardon, Dr. A. Biran, I.M. Brin, Mrs. E. Cohen, R. Dayan, S. Golan, Dr. R. Hecht, Dr. D. Karavan, G. Keich, A. Kindler, T.A. Lurie, and Dr. M. Spitzer. Mr. Brin replaced Mr. Zabarsky, who had requested the Governor of the Bank to release him from membership.

8. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

New Government medium- and long-term loans issued through the Bank of Israel, excluding Absorption Loan certificates distributed during the year, grossed nearly twice as much as in 1970 – IL 362 million as against IL 197 million. All of the increase was in option-type bonds. Sales of the 1969 Defense Loan fell off, the only new issue being the special series for banks. In 1970/71 the Defense Loan became a compulsory loan; the sums collected for 1970 and 1971 were transferred directly to the Treasury, with the certificates to be distributed at a later date. The proceeds recorded by the State Loans Administration in the year under review represented the completion of collections on account of the 1969 Defense Loan.

The upward trend in Short-Term Loan sales grew stronger in 1971: gross sales soared by IL 1,400 million, as against some IL 1,000 million in 1970, and net sales by IL 165 million as against IL 57 million. The brisker 1971 sales can be attributed to the abundant liquidity in the economy and the raising of the yield on this paper.

The value of Absorption Loan certificates distributed fell off in 1971. This did not represent a change in the Government's debt on account of the Absorption Loan, but a slackening in the distribution of certificates following the notable rise of the previous year – IL 63 million as contrasted with IL 150 million in 1970. Because of the comparatively large volume of redemptions during the year, the net figure increased by only IL 7 million, compared with IL 102 million in 1970.

All told, gross issues expanded by 36 percent, from IL 1,300 million in 1970 to IL 1,800 million. Redemptions were up 28 percent, from IL 1,000 million to IL 1,300 million. Net issues increased by 53 percent, compared with a net decline of 28 percent in 1970.

At the end of 1971 the Bank of Israel was administering 360 series of Government loans. The outstanding balance of these loans (representing only part of the State's domestic debt) went up during the year by IL 500 million, from IL 2,600 million to IL 3,100 million; this represented an increase of 19 percent, compared with 13 percent in 1970.

Table XIX-11
NET NEW BOND ISSUES, 1970-71
(IL million)

	1970			1971		
	Gross issue	Redemption	Net issue	Gross issue	Redemption	Net issue
Long-term	197	62	135	362	57	305
Option-type	15	41	-26	223	40	183
Defense Loan 1969	162	-	162	101	-	101
Other long-term loans ^a	20	8	12	38	9	29
Loans issued in previous years	-	13	-13	-	8	-8
Short-Term Loan	996	939	57	1,398	1,233	165
Absorption Loan ^b	150	48	102	63	56	7
Total	1,343	1,049	294	1,823	1,346	477
Percent annual change	-4	14	-38	36	28	53

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

^a Development Loan and Insurance Companies Loan.

^b Value of certificates distributed.

1. Short-Term Loan

Sales of the Short-Term Loan were much brisker in 1971, the gross figure soaring 40 percent, while net sales (less sales from the Bank's own portfolio) tripled.

The advance was not uniform throughout the year. The outstanding balance held steady during the first quarter, when sales matched redemptions. From April through June the curve ascended gradually. In order to step up the absorption of funds in the open market as part of its general policy, the Government raised the yield on the short series by 0.75 of a percentage point and by half a point on the longer series.

Table XIX-12
ANNUAL NET YIELD ON SHORT-TERM LOAN, 1971
(percentages)

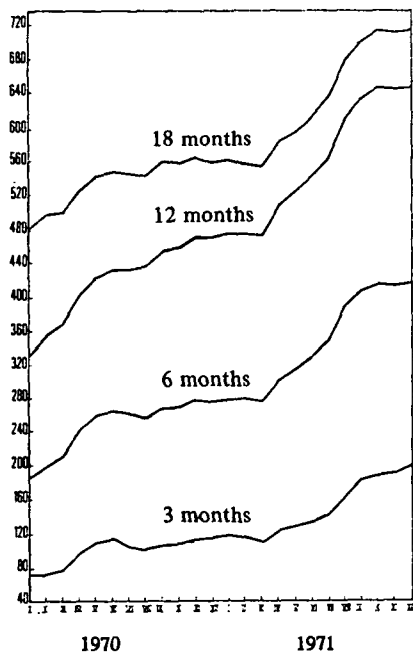
Series	Jan. 1, 1971 to Aug. 3, 1971	From Aug. 4, 1971
3 months	7.75	8.50
6 months	8.00	8.75
12 months	8.50	9.00
18 months	8.625	9.125

Table XIX-13
SHORT-TERM LOAN HOLDINGS OF THE PUBLIC,
BY REDEMPTION DATE, 1970-71
(IL million)

No. of days to redemption	1970		1971		Increase or decrease (-)	
	IL m.	Weight (%)	IL m.	Weight (%)	IL m.	Weight (%)
Up to 91	272	49	390	54	118	43
92-182	147	26	171	24	24	16
183-364	122	22	135	19	13	11
365-546	19	3	21	3	2	11
Total	560	100	717	100	157	81

This move had the desired effect. During the three months of August to October, sales netted IL 94.3 million, or 54 percent of the annual growth, and the public's holdings in the first week of November reached an all-time high of IL 721 million. Toward the end of the year a seasonal decline set in.

Figure XIX-1
OUTSTANDING SHORT-TERM LOAN
HOLDINGS OF THE PUBLIC,
BY SERIES, 1970-71



Over the year as a whole the outstanding balance of this loan went up by IL 165 million: the Bank of Israel's holdings rose by IL 8 million, and those of the public by IL 157 million – from IL 560 million to IL 717 million. The changes in the public's holdings in 1970 and in 1971 are presented graphically in Figure XIX-1.

A breakdown of the outstanding balance by period to maturity reveals a definite preference on the part of the public for the shortest series (up to 91 days), where the increase in 1971 was 43 percent, compared with 28 percent in the total balance. As a result, the weight of this series rose to 54 percent of the total at the end of the year.

The public's holdings of the three to six-month series rose 16 percent, bringing its weight up to 24 percent. The growth of the longer series came to 11 percent, and their weight stood at 22 percent at year's end.

On August 4, 1971, along with the change in yields on the Short-Term Loan, the terms for the purchase of treasury bills by the banks in conjunction with their Short-

Term Loan sales were also revised; they were permitted to buy treasury bills at the rate of IL 1 for every IL 4 of Short-Term Loan certificates sold, instead of at the previous ratio of 1:3.

As a result, total sales of treasury bills declined despite the higher volume of Short-Term Loan sales; however, this hardly affected the banks since, together with the change in the ratio, nominal interest on treasury bills was raised from 9.5 to 12 percent.

2. Development Loan

Sales of the option-type Development Loan were much larger in the year reviewed. Whereas in 1970 two series totalling IL 11 million were issued to the general public and one for IL 4 million to the banks, the year reviewed saw the issue of 31 series to the public in the amount of IL 223 million (under an agreement with the Treasury most of the issues taken up by the banks in 1971 were of the 1969 Defense Loan). The banks purchased only IL 0.5 million worth of certificates of the option-type Development Loan. Sales to the public far eclipsed the previous peak figure of 1967 and were the highest ever recorded since the loan was launched in 1963.

Most of the expansion occurred after the devaluation of the Israeli pound in August, when expectations of a rise in prices generated a heavy demand for index-linked assets. Between August and the end of the year sales were nearly ten times the volume between January and July – IL 202 million as against IL 21 million.

Redemption of the option-type Development Loan totalled IL 40 million: IL 25 million worth of certificates featuring the right of early redemption were cashed in, while IL 15 million represented the redemption of certificates of nine series featuring this right but which were actually held to maturity. The total nominal value of the series falling due was IL 45 million; it follows that two-thirds of the sum was cashed in ahead of maturity and one-third held until due date – a ratio similar to that of 1970.

At the end of 1971 the outstanding debt on account of all option-type loans reached IL 637 million, of which IL 491 million was held by the general public and IL 146 million by the banking institutions. The outstanding balance of series redeemable ahead of maturity was IL 42 million (their redemption will begin in 1972).

Sales of the long-term Development Loan, which is linked to the consumer price index, were also much brisker in 1971, reaching IL 31 million as against only IL 2.4 million the year before. Redemptions totalled IL 8 million, while the outstanding balance held by the public rose by IL 23 million to IL 114 million. An important factor in the year's growth was the raising, at the beginning of August, of the interest payable on the linked Development Loan series sold to the pension and provident funds from 5.5 percent to 6 percent for provident funds and to 6.5 percent for pension funds.

3. Defense Loan

In April 1970 the Defense Loan was made a compulsory loan, with responsibility for collection devolving on the income tax authorities. Under an agreement with the Treasury, the banks purchased certificates of the 1969 Defense Loan series issued especially for them. For this purpose, the authorized ceiling of the loan was raised from IL 475

million to IL 625 million, and 18 additional series were issued during the year, all of them intended for the banks; they yielded IL 101 million gross. At the end of the year the outstanding balance reached IL 504 million, of which IL 239 million was held by the public and IL 265 million by banks.

There was no change in the outstanding debt on account of the 1967 and 1968 Defense Loan issues; the outstanding balance of the former stands at IL 298 million and that of the latter at IL 278 million.

4. Absorption Loan

The distribution of Absorption Loan certificates by the Bank of Israel, acting as the Treasury's agent, slowed in 1971 for technical reasons. During the year IL 10 million worth of certificates of the 1961 to 1965 series were distributed. The distribution of certificates of the 1966 series began in December of 1971 and by the end of the year reached IL 53 million, with the pace accelerating in early 1972. The total value of certificates distributed in 1971 thus came to IL 63 million, as against IL 150 million in 1970.

Redemption of the 1961 to 1965 series totalled IL 56 million, IL 48 million more than in 1970. As a result of the relatively sluggish distribution on the one hand and the heavy redemption on the other, the net distribution for the year was only IL 7 million — the lowest figure since the Absorption Loan was levied in 1964.

By the end of 1971 the total value of certificates mailed to the public came to IL 502 million. Redemption of principal totalled IL 143 million (face value), and the balance held by the public at the end of 1971 was IL 359 million; this includes IL 23 million worth of certificates which had fallen due, but were not presented for payment. The outstanding debt at the end of 1971 therefore totalled IL 336 million.

5. Insurance Companies Loan

Deposits of insurance companies with the Bank of Israel in connection with the 1962 Insurance Companies Loan⁴ increased in 1971, but the value of certificates issued to them (a purely technical operation) declined. In 1971, IL 6.4 million worth of index-linked certificates and IL 30 million worth of dollar-linked certificates were issued, compared with IL 13.3 million and IL 2.4 million respectively in the previous year. On the other hand, the balance of deposits against certificates not yet issued rose from IL 22.5 million in 1970 to IL 43.4 million. Redemptions were restricted to index-linked series, and totalled IL 737 million as against IL 770 million in 1970.

The outstanding balances held by the insurance companies at the end of 1971 were as follows:

4. In conformity with the directives 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.

6 percent index-linked	IL 43.7 million
5.8 percent index-linked	IL 32.6 million
6 percent dollar-linked	IL 14.6 million
5.8 percent dollar-linked	IL 5.4 million

The figures for the dollar-linked series listed above include IL 3.3 million in devaluation increments.

The value of certificates of the 1965 Insurance Companies Loan issued in 1971 reached IL 733,000, compared with IL 1.5 million in the previous year. There was no redemption of this series, and the insurance companies' holdings at the end of 1971 stood at IL 6.8 million. The balance of deposits with the Bank of Israel against certificates not yet issued was IL 2.4 million.

6. *Open-market operations*

The Bank's principal Stock Exchange function consists in meeting excess demand for the Short-Term Loan and absorbing excess supply of this paper in order to regulate and stabilize the market. The growth of Short-Term Loan sales and holdings in 1971 led to a heavier volume of transactions in the secondary market as well. The total volume of Stock Exchange transactions in all securities expanded by 30 percent in 1971, but that of the Bank of Israel went up by a slower 21 percent. Bank of Israel purchases in the open market were up 28 percent, while sales increased by only 10 percent; as a result, the Bank's share in total Stock Exchange trade in this loan declined from 74 percent in 1970 to 69 percent. The Bank's total open-market transactions (sales and purchases) reached IL 103 million, as against IL 85 million in 1970.

7. *Redemptions and payments*

In 1971 the State Loans Administration paid out IL 1,300 million on account of principal on various loans and in linkage differentials on dollar-linked loans and IL 25 million in differentials on index-linked loans. Interest payments and linkage differentials together came to IL 94 million.

The number of certificates presented for redemption was up slightly in 1971, but the number of coupons presented continued downward. A total of 470,000 certificates were redeemed in the year reviewed, as against 429,000 in 1970, while the number of coupons presented fell from 900,000 to 683,000.

During the year 13 drawings of prize-bearing loans were held, as well as 16 for the redemption of principal on State Loans and four for the redemption of principal on other loans.

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

In 1971 the Bank administered 47 loans floated by local authorities and four other public entities: the Jewish Agency, the Industrial Development Bank of Israel, Tefahot Israel Mortgage Bank, and the Israel National Petroleum Company. In the course of the year Tefahot floated three new index-linked issues totalling IL 35 million and one \$5

million foreign currency issue. Total issues for the year added up to IL 54 million, compared with IL 68 million in 1970; devaluation increments in 1971 amounted to IL 6 million. The outstanding balance of all non-Government domestic loans administered by the Bank of Israel went up 11 percent to stand at IL 390 million at year's end.

In 1971, IL 19 million was paid out on account of principal and linkage differentials on dollar-linked loans and IL 5 million in linkage differentials on index-linked loans. Total interest payments, including linkage differentials, amounted to IL 25 million.

(c). *Foreign loans*

Two new issues of foreign loans, totalling \$1,000 million, were floated in 1971: the fifth series of the Development Loan, amounting to \$750 million and bearing 4 percent interest, of which \$116 million was taken up by the end of the year; and the third of a special series for institutional investors, totalling \$250 million and bearing 5.5 percent interest, of which \$79 million was taken up by the end of the year. Sales of earlier issues amounted to \$65 million. Total sales for the year came to \$260 million, as against \$205 million in 1970.

Redemptions of foreign loans totalled \$90 million; net sales therefore amounted to \$170 million, compared with \$138 million in 1970. The balance outstanding at the end of 1971 was \$1,107 million, as against \$937 million at the end of 1970 – an increase of 18 percent.

Table XIX-14
FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1971
(\$ thousand)

	Amount subscribed at end of 1971	Amount redeemed at end of 1971	Amount outstand- ing at end of 1971	Amount converted into IL in 1971	Interest paid in Israel only in 1971
Independence Loan	145,533	145,533	—	12	6
Development Loan					
First series	234,140	234,140	—	82	28
Second series	293,621	184,713	108,908	3,718	672
Third series	392,630	133,371	259,259	12,919	1,327
Fourth series	475,301	67,241	408,060	29,843	1,311
Fifth series	115,894	2,930	112,964	2,810	9
Special investment series A	72,300	60,355	11,945	32	2
Special investment series B	151,027	22,509	128,518	1,298	18
Special investment series C	78,618	958	77,660	250	3
Total	1,959,064	851,750	1,107,314	50,964	3,376

The State Loans Administration handles the conversion and redemption of Israel's foreign bond issues. The face value of certificates converted into Israeli pounds amounted to \$51 million in 1971, compared with \$35 million at the end of 1970 – an increase of 44 percent. A breakdown of these figures shows a significant rise in all items except conversions for financing investments in Israel. Even this moved up slightly in absolute terms, but its relative share dropped from 13 percent in 1970 to 9 percent in the year under review. On the other hand, conversions by Israeli institutions went up from 43 percent of the total to 47 percent.

Interest paid in Israeli pounds on certificates converted in the country was equivalent to \$3.4 million, compared with \$2.3 million in 1970.

Table XIX-15
CONVERSIONS IN ISRAEL OF FOREIGN LOANS,
BY HOLDER, 1970-71

Holder	1970		1971		Percent increase or decrease (—)
	\$ '000	%	\$ '000	%	
Institutions	15,248	43	24,129	47	58
Tourists	12,388	35	17,115	34	38
Investors	4,457	13	4,741	9	6
Residents	1,665	5	2,317	5	39
New immigrants	1,517	4	2,662	5	75
Total	35,275	100	50,964	100	44

9. SUPERVISION OF BANKING AND FINANCIAL INSTITUTIONS

(a) *Institutions subject to supervision*

At the end of 1971 the Department of the Examiner of Banks in the Bank of Israel exercised supervision over 74 banking and financial institutions, compared with 77 at the end of the previous year.

Table XIX-16
BANKING AND FINANCIAL INSTITUTIONS UNDER
BANK OF ISRAEL SUPERVISION, 1970-71

(End of period)

Type of institution	1970	1971
Commercial banks	28	26 ^a
Cooperative credit societies	14	14
Mortgage banks	16	16
Investment banks	3	4
Financial institutions	16	14
Total	77	74

^a Including the Israel Bank of Agriculture and three inactive banks.

In 1971 the Israel Loan and Savings Bank (Formerly Jaffa-Tel Aviv Ltd.) transferred its business to Bank Hapoalim. The Ya'ad Agricultural Development Bank ceased to operate as a commercial bank but continued its operations as an investment bank. At the end of 1971 Barclays Bank International Ltd. (previously Barclays Bank D.C.O.) transferred its Israeli branches to a new bank — Barclays Discount Bank Ltd., which is owned jointly by the former and the IDB Bankholding Corp. Ltd. The Industrial Fund of Haifa Ltd. and Tnuva (Finance and Insurance) Ltd. ceased operating as financial institutions which receive deposits.

(b) *Organization*

The reorganization of the Department of the Examiner of Banks in 1970 made itself felt in the year surveyed. The newly established Research and Systems Unit began the mechanization of the Bank's supervisory work, and the first stage, covering directed credit and the liquidity of the banks, was almost completed when this Report was prepared. Computer processing of statistical data for publication was also begun.

(c) *Audits*

The Department carried out 65 examinations in 31 banking and financial institutions, of which 22 were general audits or surveys on various subjects designed to ascertain the position of the institutions, the soundness of their management, and the adequacy of their internal control system. Special audits were performed to examine the credit granted by the banks and the collateral received by them, to verify reports submitted to the Bank of Israel, to examine unusual developments, etc.

An examination of the Agudat Israel Bank Ltd. revealed that the debts of the principal shareholders and their associated companies were excessively large relative to the bank's equity and were inadequately secured. The Governor of the Bank of Israel thereupon instructed the bank not to permit an increase in these debts. When it was discovered that part of the collateral was in fact worthless and that large debts of other clients had become doubtful, the Bank of Israel requested the bank to find a way of merging with some other institution. Accordingly, on January 14, 1972 its business was transferred to Bank Leumi le-Israel.

(d) *Mortgage banks*

At the beginning of 1971 a special audit team was set up to deal with all aspects of the Bank of Israel's supervision of mortgage banks. During 1971 this team dealt, among other things, with the following:

1. Reports to the Bank of Israel — monthly and periodical reports were revised and adapted to the structure of mortgage bank business.

2. Asset insurance, service charges, and various debits — a comprehensive study was made of these subjects in order to learn at first hand the existing situation; in the light of the findings discussions were held with the Treasury on the one hand and with the managers of the mortgage banks on the other in order to lay down standard procedures in these matters.

3. Linkage differentials — the various methods used for calculating and recording linkage differentials were studied, after which further discussions were held with the representatives and auditors of five mortgage banks in order to hear their opinion on the methods employed in the individual concerns. The matter is still under discussion.

4. Approved deposits — a new study was begun of this subject during the year with a view to formulating policy. The study is still being pursued.

In addition to these activities, special audits were made in 1971 on specific matters that arose in two mortgage banks, and on the basis of the findings appropriate steps were taken.

(e) *Bank branches*

During the year 29 new bank branches were opened and six closed. In addition, 43 branch offices of the Israel Loan and Savings Bank (Formerly Jaffa-Tel Aviv Ltd.) were closed; 37 were taken over by Bank Hapoalim and five by Japhet Bank Ltd.

One branch was opened in the administered areas during 1971, in Sharm el-Sheikh, bringing the total number of Israeli branches in the areas up to 18. Of these, 10 are in Judea and Samaria, six in the Gaza Strip and Sinai, and two in the Golan Heights.

Dr. Y. Orgler, of the Tel Aviv University's School of Business Administration, conducted, in cooperation with the Department of the Examiner of Banks, a study on "Branch Banking in Israel — Its Development and Criteria for Its Expansion". Its purpose was to examine the possibilities of laying down objective criteria for decision making with respect to the opening of new branches. These criteria are intended both for banking institutions considering the expansion of their branch network and the selection of suitable sites and for the Bank of Israel, which must authorize the opening of new branches. The possibility is being considered of having the conclusions of the study adopted by the Bank of Israel's subcommittee on bank branches, which recommends the granting of permits for the opening of new offices.

(f) *Banking statistics*

The quarterly analysis of the sectoral distribution of bank credit was revamped in 1971, with the sectors being redefined according to the Central Bureau of Statistics classification. For the first time, credit was also analyzed according to source (ordinary bank credit, directed credit, credit from earmarked deposits, etc.).

The analysis of bank deposits of the public, whose publication began in 1970, was improved in 1971. The large cities were divided into districts as defined by the Central Bureau of Statistics.

(g) *Compilation of information*

Commercial banks and credit cooperatives report at the end of March and September of each year on all their clients whose debt balance on those dates is IL 100,000 or more. At the end of September 1971, 37 institutions submitted such reports (41 in September 1970), covering 4,909 clients (4,932 in September 1970); the sum total of their debts and contingent liabilities was IL 8,607.1 million (IL 6,592.0 million in 1970).

In addition to these reports, commercial banks, credit cooperatives, mortgage and investment banks, and financial institutions report at the end of June and December of each year on all clients whose outstanding indebtedness on those dates amounts to IL 500,000 or more. On June 30, 1971, 64 institutions reported to the Bank of Israel on 2,045 clients (1,745 in June 1970), with total debts and contingent liabilities of IL 10,248.7 million (IL 8,202.8 million in June 1970).

(h) *List of promissory note defaulters*

The Department of the Examiner of Banks compiles information on signers of notes for IL 2,000 or more which were submitted to the banking institutions for collection but were not honored on due date, and sends it to all the reporting institutions. The average weekly number of notes reported in default by the institutions was virtually the same as in 1970: 227, totalling IL 1.2 million, as compared with 229 (IL 1.1 million).

(i) *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 Advisory Committee on Matters Relating to Banking Business on questions pertaining to the annual financial reports of the commercial banks. Until 1970 the banks had been required to publish only an annual balance sheet. On March 30, 1971 the Examiner of Banks notified the commercial banks that, starting with the 1971 report, they would also have to publish a profit and loss statement, prepared in a standard manner according to the illustrative form and the guidelines prescribed. Another major innovation was the obligation to disclose sums transferred to and from the bank's inner reserves.

In the latter part of 1971 the Examiner of Banks issued new guidelines regarding the treatment of linkage differentials on the commercial bank's bond holdings in their annual financial statements. It was stipulated that the differentials were henceforth to be included in the profit and loss statement on an accrual basis instead of the previous cash basis.

Discussions were begun of a comprehensive draft of the guidelines for annual financial reporting by commercial banks, including a requirement to publish consolidated accounts.

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

The Advisory Committee and its subcommittees dealt with the following subjects: deposit insurance; payments to depositors in the guise of lotteries, free gifts, etc; interest rates and commission charges of mortgage banks; the broadening of interbank exchange of information; interest-bearing bankers' checks; matters relating to the annual financial reports of the commercial banks; and banking activities conducted outside bank premises.

Members of the Committee were: Dr. M. Heth (Chairman), A. Agmon, D. Bawly, D. Golan, J. Haft, N. Halevi, E.I. Japhet, E.A. Kirschner, E. Lehmann, E. Levi, J. Levinson, S. Magriso, A. Meir, K.A. Mossberg, T. Ophir, D. Recanati, Z. Shuval, and S. Zack.

(k) *Advisory Committee on Cooperative Credit Societies*

The Committee discussed developments in the cooperative credit system in 1971 and

dealt with the profitability of the credit cooperatives and the proposed law for deposit insurance.

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

(1) Direction of credit

The Department of the Examiner of Banks is responsible for the qualitative control of credit extended by the banking institutions. In the operation of the various funds providing such financing it is assisted by a number of committees, composed of representatives of the various economic ministries directly concerned with the funds. The Department is also responsible for implementing the Bank of Israel's policy on exemptions from the liquidity requirements in both local and foreign currency.

1. Management of the export finance funds

These funds provide credit for financing export production (credit for imports-for-exports is given in foreign currency, and for export production in local currency) and overseas shipments (in foreign currency); a special fund finances the diamond industry (in foreign currency).

In 1971 the computerizing of the funds' operations led to fundamental changes in their management. The computerization of the Fund for Financing Export Shipments was completed and that of the Export Production Fund was nearing completion toward the end of the year. The use of computers makes it possible to directly supervise the application of every loan and ensures automatic cancellation on due date. It also facilitates the more efficient calculation of the relative participation in the fund of the commercial banks and of the Bank of Israel (by way of rediscounts and liquidity exemptions). From the exporter's standpoint, computerization obviates the long, complicated process of obtaining approval for every loan and also facilitates and expedites the periodic settlement of his accounts with the funds.

(i) Export Production Fund

The year under review saw two new developments in this fund. The first was a comprehensive examination that determined the turnover of production and inventories of every exporter on the basis of his balance sheet and accounts. Credit allocations were trimmed considerably in the light of the findings. Secondly, with the computerization of the fund's operations, the method of authorizing every loan individually was abandoned, and each exporter received a credit book allowing him to draw upon his allocation at his convenience and at any bank.

(ii) Fund for Financing Export Shipments

The main contribution of computerization here has been to ensure the automatic cancellation of loans when they fall due (after 190 days). Competition in the international markets in 1971 once more obliged the fund to grant loans for more than 190 days on shipments to certain countries. Because of the various exchange rate changes during the

year and with a view to preventing speculation in their wake, it was decided that loans would henceforth be extended only in the currency in which the export proceeds are received.

2. *Development of the export finance funds*

(i) *Industrial Production Fund*

In 1971 this fund expanded by some 46 percent, from which must be deducted certain items which for procedural reasons were included in 1971 but not in 1970 (such as a market research fund, retroactive compensation for underfinancing in 1970, etc.). Excluding these items and the amount by which the financing provided for the production of import substitutes exceeded the average level of 1970, the fund grew by 31.7 percent. Since the amount of financing per dollar of exports was raised in 1971 by about 10 percent, the growth rate of the fund matched that of industrial exports, or fell a little below it.

Table XIX-17
EXPORT FINANCE FUNDS, 1970-71
(IL million)

Type of fund	Balance at end of 1970	Average balance in 1970	Balance at end of 1971	Average balance in 1971	Percent increase or decrease (-)	
					End-year balance	Average balance
Export production						
Industry	301.9	975.4	367.8	401.6	21.8	45.8
Agriculture	20.9	14.8	31.1	19.7	48.8	33.1
Imports for export production	133.4	128.8	159.7	139.2	19.7	8.1
Export shipments						
Excl. diamonds	310.5	280.4	421.2	357.1	35.7	27.4
Diamonds	330.3	326.4	408.1	350.8	23.6	7.5
Tourism	8.1	6.2	6.3	7.2	-22.2	16.1
Total	1,105.1	1,732.0	1,394.2	1,275.6	26.2	24.3

(ii) *Imports-for-Exports Fund*

In 1971 there was a great deal more import substitution, which was reflected by a shift from foreign currency financing through this fund to local currency financing from the Export Production Fund. For this reason, the 8 percent growth in imports-for-exports credit does not mirror the real growth of financing through this fund. The increase in import substitution can be attributed chiefly to devaluation expectations rather than to an expansion of local production.

(iii) Export Shipments Fund

The growth of this fund, which provides credit in foreign currency, stemmed mainly from the increments due to the August devaluation. Its actual growth was relatively slow.

(iv) Diamond Fund

The amount of financing provided by this fund was fairly stable in 1971; net of devaluation differentials, the level even declined somewhat. On the face of it, the recovery of the diamond industry in 1971 should have resulted in some expansion of the fund; but even though turnover increased, the ratio of inventory to turnover declined.

There was a substantial growth in each of the two working capital funds in 1971. In the industrial fund it resulted predominantly from the switching to this fund of part of the indirect export financing, as well as from the special loans granted in mid-1971 to firms whose credit allocation from the export fund decreased as a result of the recalculation of their turnover. The growth of the Agricultural Working Capital Fund stemmed mostly from the heavier financing of citrus exports in the year reviewed.

Table XIX-18
WORKING CAPITAL FUNDS, 1970-71
(IL million)

	Balance at end of 1970	Balance at end of 1971	Percent increase or decrease (-)
Industrial			
Fund A	102.3	110.6	8
Fund B	40.0	79.7	99
Consolidated agricultural fund ^a	—	31.8	—
Exemptions from liquidity requirements — outside the framework of agricultural funds ^b	} 241.9	197.6	} 22
Institutions and local authorities		97.2	

^a Established in 1971 by merging a large number of small funds.

^b A breakdown of the data was not available for 1970. The figures are annual averages.

10. THE CLEARINGHOUSES

The year 1971 saw a marked growth in the volume and value of checks and notes passing through the three clearinghouses administered by the Bank of Israel — in Jerusalem, Tel Aviv, and Haifa. This followed a moderate growth in 1970 relative to 1969 and earlier years. The total value of items cleared in 1971 was IL 52,693 million, as against IL 40,747 million in 1970 — an increase of 29.3 percent, compared with 13.2 percent in 1970 and 21.2 percent in 1969.

Table XIX-19
VOLUME OF CLEARINGS, 1969-71
(IL million)

	1969		1970		1971	
	Items presented	Items returned	Items presented	Items returned	Items presented	Items returned
Urban clearings						
Jerusalem	5,563	161	6,572	198	8,551	271
Tel Aviv	25,305	1,160	28,472	1,478	36,975	2,111
Haifa	5,138	200	5,703	232	7,167	318
Total	36,006	1,521	40,747	1,908	52,693	2,700
Annual increase						
IL million	6,305	35	4,741	387	11,946	792
Percent	21.2	2.3	13.2	20.4	29.3	41.5

The total value of items returned rose from IL 1,908 million in 1970 to IL 2,700 million — i.e. by IL 792 million or 41.5 percent. The proportion of items returned to items presented edged up from 4.7 to 5.1 percent.

The average daily number of clearings was 26,600 greater than in 1970, rising from 145,900 to 172,500.

Table XIX-20
CLEARING OF CREDIT NOTES, 1969-71
(IL million)

Clearinghouse	1969	1970	1971
Jerusalem	1,297	1,875	2,666
Tel Aviv	3,260	3,922	4,012
Haifa	130	122	146
Total	4,687	5,919	6,824

The clearinghouses are administered by the Clearinghouse Committee, whose members are appointed by the Governor of the Bank of Israel for a two-year term. The present committee took office on October 1, 1970 and is composed of the following members: A. Lojter (Chairman), J. Sarig (Deputy-Chairman), A. Kuker, and D. Winogradow — representing the Bank of Israel; N. Barhava, D. Allalouf, M. Freed, and I. Porat — repre-

senting the Association of Banks in Israel. In addition, the following alternate members were appointed: D. Ashbel, P. Barsel, A. Shalmon, and I. Tsur — representing the Bank of Israel; Mrs. H. Lahmi, R. Arie, Sh. Elitzur, and Sh. Segal — representing the Association of Banks.

11. ECONOMIC RESEARCH

Current research on developments in Israel's economy, conducted by the Research Department, is published in the Bank's *Annual Report*, the periodical *Economic Review*, and special studies and publications. Among the research studies published in 1971 were the following:

1. Periodic internal surveys of the main economic developments and of developments in the monetary field.
2. The Influence of Economic Recovery (1967-68) on Israel's Industrial Companies.
3. Import Liberalization Policy in Israel, 1962-67.
4. Income and Expenses of Banking Institutions in 1969.
5. Price Control in Israel, 1949-58.
6. Some Problems of Structure in Israel's Diamond Industry.
7. Financial Ratios of Israel's Industrial Companies.
8. The Adjustment of the Quantity of Money to Changes in the Price Level in Israel, 1955-1965.
9. Effective Rates of Exchange in Israel's Foreign Trade, 1962-70.
10. The Relationship Between the Money Supply and the Money Base.
11. Factor Use in the Metal and Textile Industries.

The Bank's Research Department, together with the Economic Advisory Bureau of the Ministry of Finance, prepared the National Budget for 1972, which was presented to the Knesset, together with the Government Budget for 1972/73, in February 1972.

Another work in the series published in cooperation with Praeger Publishers of New York appeared in 1971: *Economic Productivity in Israel*, by Dr. A.L. Gaathon. A Hebrew edition of this book was also published in the year under review by the Bank.

The construction of an input-output table for 1965/66 was completed at the beginning of 1971. It will serve as the basis for future input-output tables, and was already being used by the Central Bureau of Statistics in early 1972 to prepare a table for 1968/69. The Bank and the Central Bureau of Statistics are working on a joint publication of tables. In addition, a study of the structural changes which the Israeli economy underwent during the years 1958-68 is now being made on the basis of these tables.

Two other research studies are now in the final stage. One deals with the effective protection of local production from 1965 to 1969; the other with the subsidization of the economy through cheap credit. A savings survey for 1973, which will be conducted jointly with the Central Bureau of Statistics, is now in the planning stage.

On March 16, 1971 the Governor of the Bank of Israel submitted to the Government and the Finance Committee of the Knesset, in accordance with section 35 of the Bank of

Israel Law, a report on the increase in the money supply in excess of 15 percent during the period from January 30, 1970 to December 31, 1970. On September 12, 1971 the Governor submitted a second report, for the period between January 1, 1971 and June 30, 1971.

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

(a) *International Monetary Fund*

Israel's annual consultations with an IMF mission, as required by Article XIV of the Fund's Articles of Agreement, were held in Jerusalem in November 1970. At the conclusion of the consultations, the executive board of the Fund approved (on February 24, 1971) Israel's continuation of foreign currency control and the general economic policy adopted by the Government and the Bank of Israel in 1970 (see the 1970 *Annual Report*, pp. 445-46).

On January 1, 1971 the second allocation of Special Drawing Rights was made by the IMF, with Israel's share coming to \$13.9 million; in January 1970 it had received \$15.1 million. The third, and for the present final, allocation of Special Drawing Rights was made in early January 1972, when Israel received \$13.8 million.

At the end of February 1971 Israel drew \$20 million from the International Monetary Fund, depositing the equivalent amount in Israeli pounds in the Fund's account with the Bank of Israel. In the same manner Israel had drawn from the Fund in 1969 its gold tranche and its "first credit tranche", totalling \$45 million, against its quota of \$90 million. After the raising of the quota in late 1970 to \$130 million, Israel made a further drawing on both accounts, one quarter of the quota in each case, thus bringing its total drawings up to \$65 million.

On August 21, 1971 the executive board of the Fund approved, in conformity with Article IV of the Fund's Articles of Agreement, the changing of the exchange rate of the Israeli pound from IL 3.50 per dollar to IL 4.20 per dollar.

In December 1971 the IMF approved Israel's notice of that month that, in accordance with the new international monetary arrangements decided upon at the end of 1971 (the Smithsonian Agreement), she elected to operate the Israeli pound under a central rate of IL 4.20/\$ instead of under a par value of IL 4.20/\$, and that she would avail herself of the possibility afforded her to effect a wide margin of 4.5 percent in setting the exchange rate of the Israeli pound vis-a-vis all other currencies except the U.S. dollar.

(b) *The World Bank*

On July 13, 1971 the World Bank approved a \$30 million loan for the development of Israel's road network, bearing 7.25 percent interest and for a period of 20 years. This is the eighth loan extended to Israel by the World Bank and the second granted for this purpose (the first, for \$22 million, was granted in 1962); it will finance the foreign currency component of a number of projects in the highway development program and the execution of the first stage of the Ayalon Freeway Project in Tel Aviv, as well as the

Table XIX-21
WORLD BANK LOANS TO ISRAEL – POSITION ON DECEMBER 31, 1971
(\$ thousand)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Repaid by Dec. 31, 1971	Balance out-standing	Thereof: Undis-bursed
Direct loans							
Ports Authority – Ashdod Port	9. 9.60	65-85	5.75	27,500	5,653	21,847	–
Government of Israel – roads	17.10.62	67-80	5.50	22,000	6,345	15,655	–
Government of Israel – roads	14. 7.71	76-91	7.25	30,000	–	30,000	30,000
Government-guaranteed loans							
Dead Sea Works Ltd.	11. 7.61	66-76	5.75	25,000	11,243	13,757	–
Industrial Development Bank Ltd.	16. 9.65	68-81	5.50	20,000	7,656	12,344	–
Industrial Development Bank Ltd.	15.11.67	70-82	a	15,000	1,961	13,039	1,505
Industrial Development Bank Ltd.	15. 6.70	72-84	7.00	25,000	–	25,000	18,890
Israel Bank of Agriculture	21.10.70	74-87	7.25	20,000	–	20,000	13,605
Total				184,500	32,858	151,642	64,000

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

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

construction of four multilevel interchanges at the approaches to the city. The Bank of Israel was responsible for preparing the loan application and coordinating the Israeli side of the negotiations. Representatives of the Bank participated in the final discussions and in the loan negotiations.

An additional loan request is presently in the pipeline — for the improvement and completion of a national sewerage network.

Various World Bank missions came to Israel during the year under review in connection with the latter's loan application and to examine the utilization of previous loans. In addition, the World Bank sent an economic mission to this country at the end of 1971 to prepare a survey of its economy for the use of the Bank's executive directors in their future discussions with Israel.

Mr. D. Horowitz, then Governor of the Bank of Israel,⁵ and Mr. A. Agmon, Director General of the Ministry of Finance, participated in the annual conferences of the Boards of Governors of the World Bank and the International Monetary Fund, held in Washington in September 1971. Mr. Horowitz represented Israel on the Board of Governors of the World Bank; the International Development Association, and the International Finance Corporation, and Mr. Agmon represented Israel on the Board of Governors of the International Monetary Fund. Mr. Y. Milo, Senior Director of the Bank of Israel, served as Alternate to the Israeli Governor of the International Monetary Fund, and Mr. E. Dovrat, Deputy Director General of the Ministry of Finance, served as Alternate to the Israeli Governor of the World Bank.

In early April 1971 Dr. Alfred Rinnooy-Kan of the Netherlands assumed his duties as Executive Director of the World Bank for Israel, the Netherlands, Yugoslavia, and Cyprus, succeeding Prof. Pieter Lieftinck, who resigned from the Board of the World Bank, though he continues as Executive Director of the International Monetary Fund for these four countries.

The Governor of the Bank of Israel,⁵ Mr. Moshe Sanbar, visited Washington in early 1972 and held discussions with the President of the World Bank, the Managing Director of the International Monetary Fund, and other staff members of these institutions on a number of subjects connected with Israel's relations with these bodies.

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 and his staff, with special emphasis on monetary developments and the Bank's monetary policy in the face of the rapid expansion of the money supply in 1971. The latter necessitated the submission, in accordance with section 35 of the Bank of Israel Law, of two reports on an increase in means of payment in excess of 15 percent, which were discussed by the Committee and the Council. Other matters taken up were the Bank's activity with respect to credit policy, interest rates, liquidity regulations, foreign exchange reserves manage-

5. See section 14 below.

ment policy, the policy and administration of the various export funds, and allied subjects. The August 1971 devaluation of the Israeli pound and the postdevaluation policy of the Government and the Bank of Israel were also discussed, as were problems and developments in the banking system and certain banking institutions. In the wake of the devaluation of the U.S. dollar and the Smithsonian Agreement, several sessions were devoted to a discussion of the international monetary situation and its possible repercussions on the Israeli economy. The Governor of the Bank surveyed these developments for the two bodies and reported on his overseas meetings, particularly those with the International Monetary Fund and the World Bank.

The Advisory Committee and the Advisory Council approved the Bank's balance sheet and profit and loss statement as of December 31, 1970, as well as the operating budget for 1971, after they had been examined by subcommittees appointed for this purpose. Another subcommittee that met in the course of the year was one set up to deal with foreign exchange reserves. A special committee was appointed to formulate separate rules of procedure for the Advisory Committee and the Advisory Council, which subsequently approved them.

The Advisory Council approved the issue of commemorative coins, the Pidyon ha-Ben (Redemption of the Firstborn) special coin, and the new banknotes, as required by section 31 of the Bank of Israel Law.

Mr. Eliezer Hacohen, who had been a member of both the Advisory Committee and Advisory Council for many years and had made an important contribution to their work, died in June 1971. In accordance with sections 20 and 23 of the Bank of Israel Law, the Government appointed Mr. Aharon Efrat to fill the vacancies on the Advisory Committee and Advisory Council left by Mr. Hacohen's death.

In October 1971 Mr. Yehuda Chorin, Chairman of the Advisory Committee and the Advisory Council, requested the Government to release him from membership in these two bodies after having served on them and chaired them for many years. The Government acceded to Mr. Chorin's request, while noting his dedicated service to the Bank, which had been commended on various occasions by the President of Israel, the Prime Minister, and members of the Advisory Committee and Advisory Council. Mr. Chorin completed his term of office on November 1, 1971, and his duties were assumed by Mr. David Horowitz, who until that time had served as Governor of the Bank, a post from which he resigned at his own request. These changes were marked by a special session of the two bodies and also by a special meeting with the Bank's new Governor, Mr. M. Sanbar, and senior officials of the Bank.

At the end of 1971 members of the Advisory Council were: D. Horowitz (Chairman), Y. Bader, Ch. M. Basok, A. Becker, A. Efrat, N. Feingold, E. Lehmann, J. Levinson, M. Olenik, Z. Onn, A. Ostashinsky, D. Recanati, Z. Susayeff, and H. Zadok.

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

14. THE BANK AND ITS STAFF

The President of the State of Israel, Mr. Zalman Shazar, appointed Mr. Moshe Sanbar to the Governorship of the Bank of Israel in an official ceremony held in his office on October 26, 1971. The appointment came into effect on November 1, 1971. Mr. Sanbar succeeded Mr. David Horowitz, who at his own request was relieved from the post he had held from 1954. On the same date Mr. Horowitz assumed his duties as Chairman of the Bank's Advisory Committee and Advisory Council.

The committee set up to examine the distribution of income and social inequality, which was headed by Mr. Horowitz, submitted its report at the end of July 1971 to the Prime Minister, Finance Minister, Governor of the Bank of Israel, and the Secretary General of the Histadrut (General Federation of Labor).

Dr. Fanny Ginor economic adviser to the Governor of the Bank of Israel since the Bank's inception, retired at the end of 1971.

The Senate of the Hebrew University conferred an honorary doctorate on Dr. A.L. Gaathon, chief economist in the Bank, as a token of appreciation for his contribution to the country's economic research.

The Shmuel Tamari Prize, named after an economist in the Bank's Research Department who fell in the line of duty, was granted in 1971 to Mr. Uri Litvin for his M.A. thesis, "Estimates of Production Functions for Primary Education", submitted to the Hebrew University of Jerusalem

Mr. Aharon Gilshon, chief economist in the Research Department, was loaned to the Bank of Zambia where he will serve for two years as its Deputy Governor.

The second series of the annual David Horowitz Lectures, sponsored by the Association of Banks in Israel and the Hebrew University to mark the 70th birthday of Mr. D. Horowitz, was given by Prof. James Tobin of Yale University. The first series, given by Prof. P. Machlup of Princeton University, was published in book form by Praeger Publishers of the U.S.A.

Several senior officials and economists of the Bank of Israel were invited to participate in various professional congresses and conferences during the year, including the meeting of the European Conjectural Research Institutions (Dr. F. Ginor); the conference of the International Association for Research in Income and Wealth (Dr. A.L. Gaathon); the World Bank Advisory Group on the Ethiopian Economy (Mr. Y.J. Taub); a U.N. Interregional Seminar on the Mobilization of Personal Savings in Developing Countries (Mr. Victor Medina); a European seminar on International Monetary Problems (Mr. Y.J. Taub); the 11th Session of the Finance Committee of UNCTAD (Dr. F. Ginor). Mr. M. Tamari served for four months as special adviser to the British Department of Trade and Industry in the analysis of financial data of small firms.

Dr. Eliezer Sheffer, Director of the Research Department,⁶ spent a year in London for advanced study in his fields of interest.

The year under review saw the further development of the Bank's data processing operations, which had been computerized in the course of previous years. Toward the end

6. Since August 1972 Director General of the Bank.

of 1971 the Bank was connected to the bigger, more sophisticated 370/165 computer that had been installed in the Office Mechanization Center in Jerusalem; this facilitated the expansion of the Bank's computerized operations.

In 1971 the Bank continued to conduct advanced courses in foreign languages and various professional subjects for its staff.

The number of Bank employees in the head office in Jerusalem and in the Tel Aviv and Haifa branches numbered 799 at the end of 1971, in addition to 37 trainees and 58 guards.

During the year the following staff members passed away: Naftali Artstein, Joseph Goldenberg, Yohanan Galandaier, and Leah Havivi.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1971

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1971

BANK OF ISRAEL

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER, 31, 1971

(IL)

ASSETS			LIABILITIES		
	Dec. 31, 1971	Dec. 31, 1970		Dec. 31, 1971	Dec. 31, 1970
Gold	182,212,023	151,942,947	Capital	10,000,000	10,000,000
Special Drawing Rights	55,191,574	-	Reserve fund	10,000,000	10,000,000
Gold - quota in International Monetary Fund	136,500,200 ^a	113,750,166	Banknotes and coin in circulation	1,634,859,087	1,321,906,688
Foreign currency assets	2,837,034,736	1,418,136,733	Clearing accounts in connection with trade agreements	15,421,249	10,567,344
Clearing accounts in connection with trade agreements	12,854,365	25,276,725	Deposits of international financial institutions	276,557,067	161,114,720
Participation in international financial institutions	34,497,110	26,396,849	Allocations of Special Drawing Rights	121,926,000	52,920,000
Treasury bills	40,278,000	72,532,000	Deposits of foreign banking institutions in foreign currency	41,117,200	131,109,840
Other securities	24,913,097	16,844,935	Deposits of banking institutions (incl. financial institutions)	1,709,702,258	952,756,842 ^b
Long-term advances to the Govt.	3,276,000,850	2,452,442,471	Deposits of banking institutions - export finance	286,263,777	143,363,453
Provisional advances to the Govt.	1,102,335,134	649,902,394	Banking institution deposits in foreign currency	1,956,139,238	1,039,499,968
Bills discounted in local currency, securities acquired under re-purchase agreements, and loans	356,603,393	310,088,459	Banking institutions deposits denominated in foreign currency	2,827,091,282	1,960,159,263
Bills discounted in foreign currency	934,276,519	696,180,451	Government deposits - compulsory savings	5,203,665	5,696,542
Advances to foreign governments and institutions	109,764,625	55,489,714	Government accounts - import deposits	179,607,078	155,871,480
Food surplus account (see liabilities)	6,277,184	49,933,218	Government and National Institution deposits in foreign currency	25,567,851	31,246,892
Premises, equipment, etc.	1	1	Deposits on account of U.S. food surplus purchases (see assets)	6,277,184	49,933,218
Documentary credits in connection with payments agreements (see liabilities)	79,066,965	111,469,290	Liabilities for documentary credits in connection with payments agreements (see assets)	79,066,965	111,469,290
Guarantees (see liabilities)	473,760,979	389,453,625	Liabilities in connection with guarantees (see assets)	473,760,969	389,453,625
Other accounts	7,089,285	3,293,127	Other accounts	10,095,160	6,063,940
	<u>9,668,656,040</u>	<u>6,543,133,105</u>		<u>9,668,656,040</u>	<u>6,543,133,105</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, 1971

(IL)

	<u>Dec. 31, 1971</u>	<u>Dec. 31, 1970</u>		<u>Dec. 31, 1971</u>	<u>Dec. 31, 1970</u>
EXPENSES			INCOME		
Interest paid, administrative expenses, and other expenses	269,996,747	182,713,984	Interest, commission, and other income	371,045,417 ^a	285,997,358 ^b
Net profit	<u>101,048,670</u>	<u>103,283,374</u>			
	<u>371,045,417</u>	<u>285,997,358</u>		<u>371,045,417</u>	<u>285,997,358</u>
DISTRIBUTION OF PROFITS					
To the Government	<u>101,048,670</u>	<u>103,283,374</u>	Net profit	<u>101,048,670</u>	<u>103,283,374</u>

^a After provision of IL 324,530 for doubtful debts.

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

BANK OF ISRAEL
THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL
MAY 1972

Governor

M. SANBAR

Advisory Committee

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

Advisory Council

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