

8

MONEY AND CAPITAL MARKETS

1. MAIN DEVELOPMENTS

The year under review saw a decline of real interest rates, both short- and long-term, and a narrowing of the gap between lending and borrowing rates in the unindexed local currency sector, together with a real-term expansion of the M3 aggregate and net domestic credit.¹

The real interest rate on overdraft facilities fell from about 39 percent per annum in 1987 to some 25 percent in 1988, and the average real interest on total short-term banking credit declined from 19 to 14 percent. Real yields to maturity of long-term government bonds and private-sector bond issues decreased by 0.8 and 0.5 percentage points, respectively. The spread between the interest rate on overdraft facilities and on one-month CDs declined from 36 percent in 1987 to 28 percent in 1988 (see Tables 8.2 and 8.A-16).

The fall in interest rates was due to an expansion of the money supply (M3), while the demand for money apparently declined as a result of higher expectations of devaluation. This had the effect of shifting the public's demand

¹ Net domestic credit is the sum of the contributions of the commercial banks and the Bank of Israel to money creation (M3 growth), through net domestic credit to the government and the public.

Net domestic credit to the government by the banking system and the Bank of Israel is that part of the government deficit which is not financed by the sale of bonds to the public or the government's foreign currency receipts, but by borrowing from the Bank of Israel or the commercial banks. These credits contribute to money supply expansion by increasing currency in circulation and deposits of the public which are part of the money supply. Net domestic credit to the public is increased by the operation of the multiplier (since liquidity ratios are less than unity) when credit to the public is increased, and by an expansion of the Bank of Israel's discount-window lending, which lowers effective liquidity ratios. Total gross credit to the public differs from net domestic credit in two respects: Firstly, because it includes bank credit in foreign currency. Monetary expansion due to foreign currency credit is reflected indirectly by its effect on foreign currency reserves. Secondly, gross credit to the public is a source of increase of all assets. Since an increase in long-term assets, such as saving schemes or bonds, is an absorption and not a monetary expansion, the increment to these assets is deducted from total gross credit to the public to arrive at net domestic credit.

from sheqel-denominated assets to foreign currency-linked assets. In the first nine months of the year, the effect of the increased supply of M3 on interest rates was further enhanced by the Bank of Israel's demand that commercial banks reduce interest rates on short-term credit, and accept narrower financial margins. This demand was essential in view of the small number of banking institutions and their power to set their financial margins in the unindexed sheqel sector, without full consideration of the changes in monetary circumstances.

The money supply changed as a result of two factors—changes in the foreign reserves and in net domestic credit. Due to the public's increased purchases of foreign currency, the change in the foreign reserves this year contributed to a real decrease in the supply of money. To expand supply and bring about a decline in interest rates, the Bank of Israel took steps to increase net domestic credit, by augmenting the banks' lending capacity. This was done by increased discount-window lending to the banks and the reduction of reserve requirements on sheqel assets.

In 1988 net domestic credit to the government and the public increased, on average, by 40 percent as compared to 1987. This real-term expansion of some 20 percent, while reserves remained unchanged, implies a real-term decline of 16 percent. The average increase of the money supply (M3) was 19 percent, or a 2 percent expansion in real terms (see Table 8.1).²

The average data on monetary developments reflect very different events in the first nine months of the year and the last quarter: In the first three quarters interest rates were on a gradual decline. From October, the public's expectations of a devaluation rose, its foreign currency purchases increased considerably, and the banks' liquid assets dwindled. The commercial banks therefore increased their demand for discount-window loans. Since this higher demand was met only partially by an increased supply of discount-window loans, the interest rates paid on the auctioned monetary loans rose by more than 20 percentage points. The M3 aggregate contracted in the last quarter of 1988 by some 3 percent (8 percent in real terms), and borrowing rates rose steeply. Thus, for example, nominal interest on 14-day CDs rose from 13.5 percent in

² The narrow money aggregates, M1 and M2, recorded a faster growth (see Table 8.1), but it should be kept in mind that the process of adjustment of these aggregates to the fall in the inflation rate after the 1985 stabilization program was probably concluded only in the course of 1987. The comparison of the 1987 average to that of 1988 therefore still shows a rise in the narrow money aggregates, partly due to the expansion of demand. The average increase in these aggregates cannot therefore be an indication of monetary expansion.

TABLE 8.1

**The Monetary Aggregates, the Sources of Change in M3,
and the Consumer Price Index, 1986–88**

	1986	1987	1988	1988			
				I	II	III	IV
				<i>Monthly average change, percent</i>			
M1 ^a	169	60	32	-0	5	11	-0
M2 ^a	128	72	25	4	7	7	-11
M3 ^a	45	33	19	4	4	6	-3
<i>Sources of M3 growth</i>							
Net domestic credit	27	14	40	8	-2	17	19
Foreign currency reserves ^b	74	55	0	-0	10	-4	-29
<i>Consumer price index</i>	48	20	16	4	5	2	5
				<i>Change during period, percent</i>			
M1 ^a	120	51	11	10	-2	11	-7
M2 ^a	72	52	-0	7	6	3	-15
M3 ^a	27	30	10	6	3	4	-3
<i>Sources of M3 growth</i>							
Net domestic credit	20	21	54	10	-4	23	18
Foreign currency reserves ^b	36	39	-35	2	11	-13	-34
<i>Consumer price index</i>	20	16	16	4	4	3	5

^a M1 – currency in circulation and demand deposits.

M2 – M1 plus interest-bearing sheqel deposits.

M3 – M2 plus residents' foreign-currency deposits (Patam).

^b All the U.S. aid is received in October-November, but in order to correct for the fluctuations in the data this causes, the grants-in-aid were distributed evenly over the year.

October to 23.4 percent in December, while the interest on overdraft facilities increased more moderately—by about 6 percentage points.

Government borrowing in 1988 exceeded the requirements of financing its deficit and the recycling of the public debt (see Table 8.6). The government was apprehensive of its ability to recycle, within a short time, the bank shares under the 'arrangement' which fell due for redemption in October. The government therefore sold bonds on a large scale before that date, with the eventual result of excess public borrowing. This absorption by the government, together with the public's acquisitions of foreign currency, led to a contraction of the money base and the M3 base. As a result, the entire increment to the public's nominal demand for money was supplied by credit expansion. As mentioned earlier, the main increment to the banks' resources came from short-

TABLE 8.2

**Real Actual Interest Rates on Various Types of Credit
and the Public's Assets, 1986-88**

(Annual percent change)

	1986	1987	1988	1988			
				I	II	III	IV
<i>Short-term credit to the public</i>							
Total ^a	8.2	18.8	13.8	14.7	13.1	21.5	6.4
<i>of which:</i> Overdraft facilities	33.4	38.5	25.4	29.0	24.3	29.8	18.7
Fixed term credit	16.6	20.1	14.6	15.2	13.1	19.7	10.4
Private capital issues ^b (indexed)	7.9	6.7	6.2	6.7	6.4	5.8	5.8
<i>Financial assets of the public</i>							
Time deposits for one month	-0.9	2.5	-2.4	-2.8	-5.1	1.0	-2.5
Indexed 6-year government bonds	6.0	4.8	4.0	4.3	4.2	4.1	3.5

^a Includes directed credit and nondirected foreign-currency-linked credit.

^b Includes* an imputed 1.6 percent cost of floating an issue; for 1986—average for July–December.

term discount-window borrowing. During the year, this led to a substantial expansion of short-term bank credit (especially nondirected local currency credit, both in nominal and real terms; see Table 8.A-2). At the same time, there was a slight real-term contraction in the flows and balances of long-term credit (see Table 8.A-3), which to some extent reflected a lesser availability of long-term resources, due to the government's borrowing on the capital market. It seems, however, that most of the decline was due to a fall in demand for long-term credit as investment contracted in the face of an emerging recession. Another cause of the contraction in demand for long-term credit was that alternative short-term credit became cheaper.³

The slack in the economy was also reflected in the stock market; prices of stocks fell and turnovers shrank. This situation, combined with the government's excess borrowing for the second year running, hampered the private sector's ability to raise capital. Together with the fall in investment, this caused private share and bond issues to contract—despite the fact that real interest rates on such issues decreased, in line with the general decline in interest rates. It should, however, be pointed out that interest rates in this segment fell less

³ The relative cheapening of short-term credit was due to the fall in interest rates on short-term local-currency credit as well as to an expected rise in the cost of foreign currency credit as a result of devaluation expectations. This had the result of a shrinkage in long-term credit flows linked to foreign currency, with an apparent shift to short-term credit (see Chapter 7).

than on indexed government bonds, apparently as a result of the higher risk of private bonds in a time of recession.

2. MONETARY POLICY AND ITS RESULTS

In the framework of the 'package deals' of 1984 and the 1985 stabilization program, monetary policy was restrictive, expressing itself in very high real interest rates on unindexed local currency credit and a steep rise in borrowing rates.

In 1986 a process of lowering interest rates was initiated. The government cut its deficit, the inflation rate was reduced and the balance of payments improved. This trend was interrupted in January 1987, when—under full employment conditions—a devaluation of the currency was supported by raising interest rates. The reduction of nominal interest rates was resumed from the second quarter of 1987. But since inflation slowed, this fall in nominal interest rates became a decline of real interest only in the last months of the year. Although down from their mid-1985 peak, real short- and long-term interest rates in the post-stabilization period remain substantially higher than prior to the stabilization program.

The high level of real interest rates helped stabilize the balance of payments position—because in Israel there is an inverse relationship between interest rates and the import surplus (see below, section 3). The high level of interest rates thus provided support to maintaining a stable exchange rate regime, which in turn affected the inflation rate.

There is, however, a high cumulative price to be paid for keeping interest rates high for a long period; the improvement in the balance of payments is achieved, among other things, by a contraction of private sector investment. Moreover, high interest rates have a detrimental effect on the supply of output since they raise production costs and impair the profitability of business firms, with a consequent fall in investment. A substantial part of the reduction of the import surplus in the years following the stabilization program resulted from the fall of investment (see Chapter 2); in addition, profits declined after 1985 (see Chapters 1 and 6). We do not attribute the contraction of investment and profitability wholly to the high interest rates. Other supply-side factors, such as wage increases, apparently had an even greater share in these developments. Nevertheless, there were firms and economic sectors which were particularly hurt by the high interest rates. It seems that the main brunt was borne by highly credit-dependent firms which had no access to cheap credit (such as

TABLE 8.3
Growth of M3, excl. Treasury Bills Held by the Public, 1982-88

	Percentage of GNP ^a										
	1987	1988		1985		1986			1988		1987
		Total	1st half	2nd half	Average 1982-85 ^b	2nd half	Total	1st half	2nd half		
A. Contribution of balance of payments and net domestic credit											
	<i>NIS current million</i>						<i>Percent</i>				
1. Transfers of foreign currency ^b	1,269	-3,056	906	-3,961	-1.9	4.8	2.3	2.5	-4.4	2.9	-11.7
2. Change in net domestic credit ^c	1,873	3,799	201	3,598	10.3	1.6	3.3	3.4	5.7	0.6	10.8
<i>of which:</i> To the government	-1,002	-322	-961	639	1.6	-3.5	-3.1	-1.9	-0.6	-3.1	1.9
To the public	2,875	4,121	1,162	2,959	8.7	5.1	6.4	5.3	6.3	3.7	8.9
3. Total purchases of M3 (1+2)	3,143	744	1,107	-363	8.3	6.4	5.6	5.9	1.3	3.5	-0.9
B. Contribution of revaluations											
1. Revaluation of foreign currency reserves	734	554	-32	586	14.5	3.7	0.8	1.5	0.8	-0.1	1.7
2. Revaluation of net domestic credit	-588	110	210	-101	7.7	2.3	-0.9	-1.1	0.2	0.7	-0.3
<i>of which:</i> Credit to the government	78	219	796	-577	10.3	6.0	-0.7	0.1	0.4	2.5	-1.8
Credit to the public	-666	-110	-586	476	-2.6	-3.7	-0.2	-1.2	-0.2	-1.8	1.5
3. Revaluation of M3 (1+2)	146	664	178	485	19.2	6.0	-0.1	0.4	1.0	0.6	1.4
C. Total change in M3 balances (A+B)											
1. Change in foreign currency reserves	2,003	-2,502	874	-3,375	12.4	8.6	3.2	4.0	-3.6	2.8	-10.0
2. Change in net domestic credit	1,285	3,909	411	3,498	15.1	3.8	2.4	2.2	5.9	1.3	10.5
<i>of which:</i> To the government	-924	-103	-165	62	8.7	2.5	-3.8	-1.8	-0.2	-0.6	0.1
To the public	2,209	4,011	576	3,435	6.3	1.4	6.2	4.0	6.1	1.9	10.4
3. Total change in M3 balances	3,288	1,407	1,285	122	27.5	12.4	5.5	6.2	2.3	4.1	0.5

^a See note *b* to Table 8-2.

^b 1985—first half only.

^c Excluding revaluations.

directed and foreign currency-linked credit), as well as by enterprises which had run into difficulties for other reasons (such as inefficient management). These were hard-pressed to supply good collateral and therefore had to turn to high-cost credit, which in turn aggravated their difficulties. An analysis of the data by principal industries shows that the rise in the interest burden weighed especially heavily on the agricultural sector, and was apparently among the factors which aggravated its financial crisis (see Chapter 6).

The role of interest rates is not limited to their impact on the import surplus. Since they also affect capital movements, they have, under a stable exchange rate regime, an important function in guarding the foreign reserves. Reserve-preserving considerations only assumed a dominant role in the shaping of monetary policy towards the end of 1988.

In the year under review, the dilemma facing monetary policy-makers became sharper: On the one hand, the fall in business profitability (due to supply-side problems of recent years) had a cumulative contributory effect on the recessionary trend which had begun in the second half of 1987, the intensity of which became gradually evident in the course of 1988. On the other hand, balance of payments problems related to capital movements began to emerge at the end of 1987. From the beginning of 1987 until the end of 1988 the exchange rate against the currency basket was held fixed. The purpose of the stable exchange rate regime was to anchor prices and inflationary expectations in the medium term. But the exchange rate does not provide an absolutely firm anchor. For various reasons, inflationary expectations remained relatively high in the two years following the devaluation of early 1987. The public realized only gradually that the government was determined to lower the inflation rate by stabilizing the exchange rate for relatively long periods, regardless of a certain measure of real damage. Persistent inflationary expectations led to wage and price rises, particularly in non-tradeable goods and services (see Chapter 3). The exchange rate was held stable against the background of an inflation rate higher than that prevailing in Israel's trading partner countries, eroding the real exchange rate. This erosion, in turn, aroused expectations of devaluation, and in late 1987, generated waves of speculative acquisitions of foreign currency.⁴

The interest rate policy eventually adopted in 1988 reflected a priority of domestic policy goals (improvement of business profitability and the promotion of output growth), as long as expectations of devaluation were not

⁴ The various channels through which the public purchases foreign currency are described in Chapter 7, the section on capital imports.

unduly strong. When the price of continued adherence to this policy became high, in terms of the public's increased purchases of foreign currency, priority was given to preserving the foreign reserves.

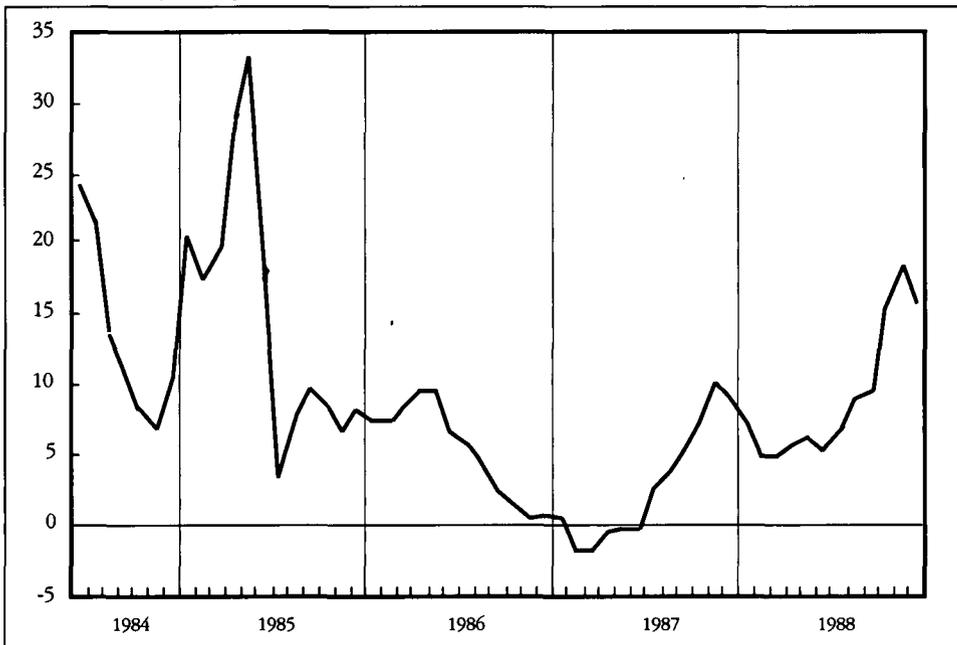
Following a steep rise in the public's purchases of foreign currency in the last few months of 1987, and an increase to 8.9 percent in the black market dollar premium in the last quarter of that year, expectations of a proximate devaluation abated at the beginning of 1988. In the first half of 1988, the black dollar premium declined to 5.7 percent (see Figure 8.1), and the public's monthly foreign exchange acquisitions averaged \$35 million. In view of these moderate purchases, the Bank of Israel decided to continue lowering interest rates. Since the decline of interest rates had already started earlier, the levels of real interest rates in the unindexed local currency sector were lower than the average for the year. This meant that maintaining the end-1987 levels of interest would by itself lead to a lower level in 1988, compared to the 1987 average. Although there was no real increase in the M3 aggregate in this period (and there is no reason to believe that the demand for M3 changed substantially), local currency interest rates in fact continued to fall in the first half of 1988. This development apparently had two causes—the direct pressure of the Bank of Israel on the commercial banks to reduce their lending rates on unindexed credit (especially in the second quarter of the year), and a delayed reaction to the increase in the money supply in the preceding period. The first explanation finds partial support in the fact that since the last quarter of 1987 there had been no significant decline in the yields to maturity of indexed bonds, and interest rates on private sector bond issues even rose slightly (see Table 8.A-26).

Expectations of devaluation strengthened in the second half of the year, especially in the last quarter. The black dollar premium rose to 8.6 percent in the third quarter and 16.7 percent in the fourth. Residents' foreign currency demand deposits (Patam) have been prohibited since 1985. Since then, expectations of devaluation are expressed in a steep rise in foreign currency purchases because other foreign currency-linked assets do not provide full short-term protection against devaluation. The public's foreign currency acquisitions rose to \$210 million and \$660 million a month respectively in the third and fourth quarter. The concentration of devaluation expectations in the months after October was apparently due to the public's judgment that there would be no devaluation before the November elections. Also, the bank shares under the 'arrangement' fell due for redemption in October. The public believed that the government would not want to steeply increase its liabilities for redeeming these foreign currency-linked shares by a devaluation prior to their due date.

In the third quarter of the year—when the recessionary trend in the economy was already clear—the Bank of Israel felt that the public's purchases of foreign currency were not so large as to justify a change of policy. The Bank acted on the assumption that the exchange rate would still be adjusted before the elections or, at the latest, immediately after them. The Bank therefore refrained from promptly raising interest rates, which would have further impaired economic activity. These considerations persuaded the Bank to adhere to its policy of lowering interest rates. The Bank acted to offset the foreign currency purchases, and also to expand the money supply, by increasing net domestic credit through its discount-window lending.

When the public's foreign currency acquisitions rose steeply in the last quarter, the Bank changed its policy, attempting to curb the purchases by

Figure 8.1
Premium on Black Market Dollar, 1984–88
(Percent, monthly average)



allowing interest rates to rise drastically. The delay in devaluing the currency, even after October (a result of the protracted coalition negotiations) enhanced the public's belief of imminent devaluation. Consequently, the public's heavy foreign currency purchases ceased only after a preliminary devaluation of 5 percent at the end of December, and a second round, of 8 percent, in early

January 1989. After the devaluations the public returned to selling foreign currency to the Bank of Israel; by April 1989 these sales totalled about \$2 billion. The liquid reserves of the commercial banks increased, and the Bank of Israel reduced its discount-window lending only partially and gradually, thus creating the conditions to resume interest rate reduction. At the end of April 1989 the interest rate on overdraft facilities had fallen to a level lower than that of October 1988, the lowest rate for several years running.

The pressures on the banking system's resources in the last quarter of 1988 resulted, as stated earlier, in a steep rise of nominal short-term borrowing rates and a more moderate increase of the lending rates in the unindexed local-currency sector. The opposite trend was observed in early 1989: following an improvement in their liquidity position, the commercial banks quickly reduced their borrowing rates while reducing their lending rates only slowly.

The fluctuations in short-term borrowing rates—in response to the Bank of Israel's policy—have since 1984 been sharper than those of lending rates. Therefore, borrowing rates rose quickly and the gap between borrowing and lending rates narrowed when the Bank raised its discount-window loan rates; a reduction of the Bank's lending rate increased this gap.⁵ Under certain conditions these events are consistent with oligopolistic conduct by the banks. Competition in lending indeed seems to be limited. (In borrowing from the public, the Bank of Israel competes against the commercial banks by issues of Treasury bills and medium-term indexed bonds.) The conduct of the banks at the end of 1988 may also have been due to heavy public pressure in recent years for a reduction of interest rates, which deterred the banks from raising their lending rates even when called for by monetary policy. This impaired the effectiveness of monetary policy, whose signals, at the end of 1988 and in the beginning of 1989, were not fully and promptly enough transmitted to the lending sector.

* * *

The effect of lower real interest rates in the year under survey was countered by powerful forces which had a dominant influence on investment, output and private capital issues on the capital market. The fall in short- and long-term interest rates as such acted to increase investment, but the slack in the economy had an opposite effect so that in sum, gross investment declined this year by 2 percent, following a 3 percent rise in the previous year.

Purchases of consumer durables in 1988 increased by 2 percent, but their rate

⁵ See D. Geva and D. Rotenberg, "Interest Rates in the Unindexed Local Currency Sector," *Banking Issues* No. 8, 1989.

TABLE 8.4

Net Purchase of M3 (excl. Treasury bills) and its Components, 1982–88

	1987	1988		1985		1986		1987		1988		
		Total	1st half	2nd half	Average 1982–85 ^b	2nd half	Total	1st half	2nd half	Total	1st half	2nd half
	<i>NIS current million</i>						<i>Percent of GNP^a</i>					
1. Money supply	3,143	744	1,107	-363	8.3	6.4	5.6	5.9	1.3	3.5	-0.9	
2. Means of payment	1,115	371	248	123	2.5	2.9	2.9	2.1	0.6	0.8	0.4	
3. Time deposits and CDs	1,115	371	248	123	2.5	2.9	2.9	2.1	0.6	0.8	-0.4	
4. Foreign currency demand deposits	-186	275	-123	398	2.5	-12.1	-2.2	-0.4	0.4	-0.4	1.2	
5. Foreign currency time deposits	-216	382	-134	516	-1.3	2.8	0.3	-0.4	0.5	-0.4	1.5	
6. Total purchases of M3, excl. Treasury bills	3,143	744	1,107	-363	8.3	6.4	5.6	5.9	1.3	3.5	-0.9	
7. Change in the M3 base	842	-534	-381	-153	4.2	-0.5	-0.4	1.6	-0.9	-1.3	-0.5	
<i>of which:</i> Change in money base	1,285	-997	-321	-676	2.3	10.2	1.8	2.5	-1.5	-1.1	-2.0	
8. M3 growth caused by banking system (1–7)	2,301	1,278	1,487	-210	4.1	6.9	6.1	4.3	2.2	4.8	-0.4	

^a See note *a* to Table 8.3.^b 1985—first half only.

TABLE 8.5

Monetary Policy Indicators, 1985–88*(Percent of GNP^a)*

	1985				1988		
	2nd		1986	1987	1st	2nd	
	Total	half			Total	half	
Addition to unlinked short-term asset base^b							
1. Discount-window loan	0.0	0.9	0.5	1.2	3.8	1.8	9.4
2. Increase in banks' liquidity deficiencies	0.8	1.1	0.1	-0.7	0.7	0.3	1.2
3. Sale of Treasury bills	-0.4	-1.1	0.1	-1.3	0.3	-2.3	2.8
<i>of which:</i> To banks	0.0	0.0	0.0	-0.5	0.1	-1.5	1.7
4. Open-market operations	0.0	-0.0	-0.0	-0.1	0.2	0.3	0.1
5. Bank of Israel injection due to other factors	0.9	1.9	0.5	1.0	0.7	0.9	0.5
6. Injection generated by directed credit ^c	1.0	0.2	-0.1	0.0	-0.1	0.2	-0.3
7. Total addition to unlinked short-term asset base (1 through 6)	2.3	1.2	1.0	0.1	5.6	-2.5	13.7
Other increments to unlinked short-term assets							
8. Due to changes in foreign currency credit ceilings	-0.1	-0.7	0.3	0.0	0.0	0.0	0.1
9. Due to changes in liquidity ratios ^d	-4.7	-9.3	4.0	1.2	4.0	3.7	4.3
10. Total increase in assets, excl. composition effect of monetary policy (8+9)	-4.7	-10.0	4.3	1.2	4.0	3.7	4.3
11. Composition effect ^e	6.0	10.6	2.3	2.0	3.3	3.3	3.4

^a Calculated as the arithmetic mean of monthly ratios. The numerators are current prices, the denominator (GNP) is derived from quarterly data.

^b The change in the asset base is smaller than that of assets because of the operation of the multiplier.

^c Adjusted for the transfer of export credit funds from the Bank of Israel to the commercial banks in 1985.

^d The changes in the sources of commercial bank sheqel credit due to changes in the liquidity ratios on sheqel assets during the period.

^e A change in the composition of assets due to a change in yields alters the volume of credit as a result of differential liquidity ratios.

of increase was much slower than in previous years (see Table 2.A–2). In this area, too, developments are to be attributed to factors other than interest rates, such as adjustment to the long-term trend of income and the fluctuations in expectations of devaluation (see Chapter 2). Real interest rates were high enough to prevent a significant increase in the public's foreign currency purchases in the early months of the year. But as the expectations of a devaluation gathered

TABLE 8.6

**Domestic Deficit of the Public Sector
(Government and Bank of Israel) and its Financing, 1983–88**
(Percent of GNP^a)

	1983	1984	1985				1988		
			Total	2nd half	1986	1987	Total	1st half	2nd half
Deficit									
Public sector expenditures ^b	50.2	44.1	42.2	40.2	40.2	43.2	45.9	44.4	47.4
Tax revenue ^c	47.0	39.3	44.8	45.8	48.4	47.6	46.3	46.3	46.2
Deficit excl. interest paid ^d	3.2	4.8	-2.6	-5.6	-8.2	-4.4	-0.4	-1.9	1.2
Interest (adjusted) ^c	2.7	3.7	6.0	6.0	6.1	5.8	5.6	5.6	5.6
Total domestic deficit	5.9	8.5	3.3	0.4	-2.1	1.4	5.2	3.7	6.7
Financing of the Deficit									
Change in M3 base	7.4	3.7	0.9	-0.5	-0.4	1.6	-0.9	-1.3	-0.5
<i>of which: M1 base</i>	2.2	2.9	6.2	10.2	1.8	2.5	-1.5	-1.1	-2.0
Net increase in domestic debt ^e	-7.9	-2.3	-1.0	-0.2	-2.7	1.7	4.4	4.6	4.3
Sale of foreign currency	6.1	7.3	4.5	2.1	2.4	-0.0	5.8	-1.0	12.5
Net effect of monetary policy on sheqel segment ^f	0.3	-0.2	-1.0	-1.0	-1.3	-1.9	-4.1	1.4	-9.7

^a Calculated as the arithmetic mean of monthly ratios. The numerators are current prices, the denominator (GNP) is derived from quarterly data.

^b Includes Bank of Israel profits.

^c Purchases, wage bill, transfer payments and subsidies.

^d Interest payments in this table are an estimate of the real interest on the domestic debt, in addition to adjustments required by the national accounts. These estimates differ from the interest payments and the deficit including them in other tables of this chapter, where they are nominal interest payments.

^e Increment to the government asset base (excluding Patam and net credit granted by the government).

^f Interest on the money base, plus the fiscal burden of discount-window lending, less fines for liquidity deficiencies (-); see Table 8.7.

force, even a precipitous rise of interest rates failed to obviate the need for exchange rate adjustment to check these purchases.

The decline in the average interest on short-term local currency credit caused a relative relief in the financing burden of firms highly dependent on such credit. This, however, does not provide a solution for the problems of firms and sectors which have run into financial difficulty, which require comprehensive programs to deal with the root causes of their difficulties.

Even after the reduction of interest rates in early 1989, short-term lending rates remain much higher than in the past and than rates in other industrialized

countries. Such high interest rates are very difficult to raise further when a restrictive monetary policy is called for (for example, to regulate speculative buying of foreign currency). The continuing slack in the economy has induced the Bank of Israel to persistently pursue a lowering of the high rates.

TABLE 8.7

Potential and Actual Revenue from Money Creation, 1984–88

(Percent of GNP^a)

	1984	1985		1986	1987	1988		
		Total	2nd half			Total	1st half	2nd half
1. Inflationary erosion	3.0	2.6	2.1	1.2	1.1	1.0	0.9	1.0
2. Money creation	2.9	6.2	10.2	1.8	2.5	-1.5	-1.1	-2.0
3. Change in discount-window loan	0.6	0.0	-0.9	0.5	1.2	3.8	-1.8	9.4
4. Interest on money base	0.7	1.7	2.4	0.8	0.8	0.4	0.4	0.3
5. Interest on discount-window loan and liquidity deficiency fines	1.1	0.7	0.5	0.0	0.0	-0.0	-0.0	0.0
6. Revenue from money creation (2-3-4+5)	2.6	5.2	9.2	0.5	0.6	-5.6	0.4	-11.6
7. Revenue from money creation excl. changes in discount-window loan (2-4+5)	3.2	5.2	8.3	1.0	1.8	-1.9	-1.5	-2.3

^a See note *a* to Table 8.6.

TABLE 8.8

Velocity of Demand Deposits and Monetary Aggregates, 1960–88

	Average annual velocity of monetary aggregates relative to domestic uses ^a				
	Demand deposits ^b	Money (M1)	M1 + un-	Unlinked short-	Total short-
			linked de-	term assets &	term assets
(1)	(2)	posits (M2) ^c	Patam (M3)	(M) ^d	
1960	16.4	6.3			
1966	21.8	6.7			
1970	21.5	8.4	4.5	3.9	2.6
1976	35.8	13.2	7.5	5.5	2.6
1980	104.3	23.3	17.6	5.4	3.3
1981	161.0	28.6	19.3	5.8	3.6
1982	193.7	34.0	19.1	5.9	3.8
1983	227.5	41.1	18.6	5.6	3.9
1984	345.9	59.5	21.0	4.9	3.8
1985	428.5	47.9	11.7	4.4	3.5
1986	306.3	28.6	8.2	4.9	3.6
1987	236.0	23.0	6.2	4.6	3.3
1st half	261.0	26.5	6.8	4.8	3.5
2nd half	211.1	20.3	5.7	4.3	3.1
1988	206.0	20.6	5.9	4.6	3.2
1st half	172.2	22.0	6.0	4.7	3.3
2nd half	153.8	19.3	5.7	4.4	3.1

^a Total domestic uses, excl. direct defense imports as defined in Table 8.1, divided by the average total of the monetary aggregates.

^b Total debits to Israeli currency demand deposits, divided by the average balance.

^c Excludes non-residents' foreign-currency deposits of Israeli residents.

^d All the assets in column 4 plus tradable bonds held by the public.

SOURCE: Turnover of demand and Patam deposits—Banking Supervision Department, Banking Statistics; M1, unlinked deposits, Treasury bills and negotiable bonds held by the public—Table 8.A-9; domestic uses (excluding direct defense imports)—Table 2.1.

3. TRENDS OF REAL INTEREST RATES

Table 8.9 below presents several indicators of the long-term development of short- and long-term interest rates. The series were constructed on the basis of partial information which was complemented by several assumptions. The data should therefore be treated with caution (see notes to the table), but permit some general conclusions.

A. Real interest rates rose steeply in 1984–85 and declined subsequently, but have not returned to their 1976–83 level in any of the listed categories.

B. The real short-term borrowing rate was negative in nearly all the years covered by the table, but approached the positive range in the last three years.

C. The gap between short-term borrowing and lending rates, and the banks' financial margins in the unlinked sheqel segment increased gradually during the years 1970 to 1985. Since 1985, the gap between the interest rates has narrowed significantly. In 1988 this gap, and the banks' financial margin, were similar to those of the period before the stabilization program (1978–83). This occurred despite a considerable increase in lending risk in recent years—as reflected in the banks' provision for doubtful debts. It may also be mentioned that the size of the unlinked sheqel segment has increased greatly; the banks' profits would therefore have increased even without any change in their financial margins.

D. Interest rates in the unlinked sheqel segment have, in recent years, been higher than during 1970–75, while yields on indexed bonds were lower. In 1975 and 1976 the government reduced the terms on which it sold bonds. Yields to maturity also dropped in the secondary market. The fall in long-term borrowing rates seems to have affected short-term interest rates, which also declined. Yields to maturity of long-term bonds stabilized in 1976–83, but short-term borrowing rates continued to fall. Lending rates, in contrast, rose steadily until 1985, and the gap between borrowing and lending rates widened. We cannot offer a full explanation for the different movements, until 1983, of lending and borrowing rates and the widening gap between them. Preliminary examinations indicate that this development may at least partly be related to efforts of the banking system to compensate itself for low profitability in other areas of activity which are subject to controls, where the government has set narrow financial margins. The limited competition in short-term credit apparently made it possible for the banks to increase the gaps between borrowing and lending rates and their financial margins in the unlinked sheqel segment. As stated earlier, in 1988 the Bank of Israel applied pressure on the commercial

TABLE 8.9

Indicators of Real Interest Rates and Financial Margins, 1970–88*(Percent)*

	1970– 1975	1976– 1977	1978– 1983	1984– 1985	1986	1987	1988
A. Real short-term interest rate on unlinked local-currency credit							
1. Lending rate ^a	0.4	-0.1	7.0	77.8	33.4	38.6	25.4
2. Borrowing ^b	-8.7	-14.1	-23.4	-9.5	-2.1	1.2	-4.1
3. Difference between borrowing and lending rates (1–2)	9.1	14.2	30.4	87.3	36.8	39.8	29.5
4. Financial margin in unlinked sheqel segment	4.5	5.7	17.5	33.8	15.1	18.4	(16.0) ^c
B. Average real interest rate on total short-term bank credit							
			3.7 ^d	22.5	8.2	18.8	13.8
C. Real yields to maturity of CPI-indexed bonds^e							
3-year term	-	-	-0.5	6.9	5.5	4.2	3.2
5-year term	4.8	1.0	0.9	5.2	5.8	4.4	4.1
10-year term	-	-	1.7	4.9	6.4	5.3	4.5

^a Since 1978—interest rate on overdraft facilities; for the period before 1978 the series was chained according to the changes in interest rates on short-term time deposits.

^b Since 1982—interest rate on CDs; for earlier years the series was chained according to the changes in the interest rate on short-term time deposits.

^c Preliminary estimate.

^d From 1983—new series; changed for the earlier years to the older series.

^e For some years, no data are available. Yields to maturity for these years were calculated from data on bonds with similar terms and indexation.

banks to reduce the difference between interest rates and to accept lower financial margins.

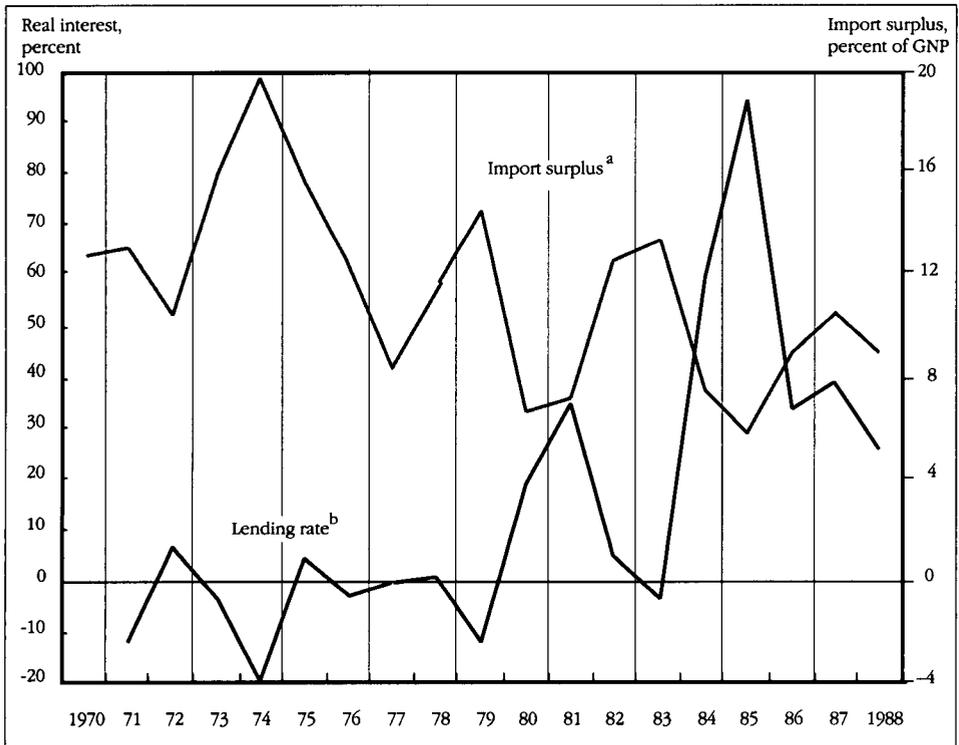
E. Figures 8.2 and 8.3 compare the interest rates on overdraft facilities with the ratio of the import surplus to GDP, and the rate of inflation. The comparison describes the links between the development of interest rates and the other variables which have at times been objectives of interest rate policy.

Preliminary investigations made in a study still under way indicate that changes in interest rates in Israel, particularly in short-term lending rates, cause changes in the opposite direction in investment and private consumption (the period covered by the study is 1965–86). It may therefore be expected that under full employment conditions a rise in interest rates will lead to a decline in the import surplus. Indeed, Figure 8.2 shows that since 1970 there has been

a negative correlation between the level of interest rates and the import surplus as a percentage of GNP. Overall, it may be concluded that at least in the short run interest rate policy has influenced the balance of payments.

Figure 8.3 illustrates that there is in fact a positive correlation between the inflation rate and the level of real lending rates, and not the negative correlation that might have been expected if causality ran from interest rates to inflation. Moreover, it seems that in the 1980s the rise of the inflation rate was accompanied, with a lag of one period, by rising interest rates. This raises the possibility that causality ran in the opposite direction: a rise in the inflation rate caused monetary policy to become tighter, with the result that interest rates went up.⁶

Figure 8.2
Lending Rates and Import Surplus, 1971–88

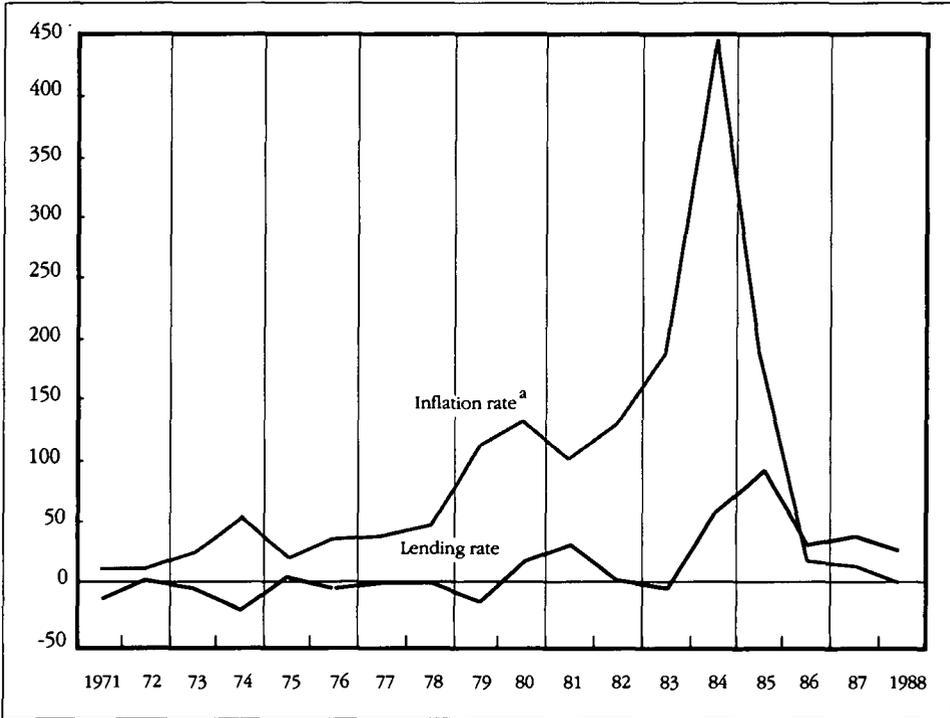


^a Import surplus according to national accounts; percent of GNP.

^b See note to Table 8.9.

⁶ This approach is to some extent consistent with the work of Liviatan and Piterman, which describes past monetary policy as mainly accommodative to the level of inflation after a first stage in which attempts were made to prevent, through a restrictive monetary policy, a rise to a higher plateau of inflation due to a balance of payments crisis. (Liviatan, N. and Piterman, S. "Accelerating Inflation and Balance of Payments Crises, 1973–1984," in Ben-Porath, Y. (ed.) *The Israeli Economy—Maturing Through Crises*.)

Figure 8.3
Lending Rate and Inflation, 1971-88



^a See note to Table 8.9.

4. THE PUBLIC'S WEALTH

The public's wealth consists of tangible and financial assets; financial wealth is the difference between assets and liabilities. The composition of this portfolio is determined by considerations of liquidity, term structure, indexation systems, and other risk/yield considerations. The public may hold its financial wealth in the form of government liabilities (the domestic public debt) or, alternatively, as liabilities of the rest of the world.⁷

The public's financial assets increased in 1988 by some 2 percent in real terms, while its liabilities increased by about 7 percent. The public's total financial wealth thus declined (see Figure 8.5).⁸ Tangible wealth also declined during the year in real terms, and the fall in the public's total wealth amounted to about 3 percent (Table 8.A-5 and Figure 8.4). The ratio of financial to tangible assets was similar to that of the previous year. The bank share crash in 1983 caused a considerable erosion of financial wealth as compared to tangible assets. Financial wealth amounted to 53 percent of tangible wealth before the crash and fell to 41 percent after it. Mounting inflation in 1984 and the beginning of 1985 did not allow this ratio to return to its former level,⁹ and it rose again only after the implementation of the 1985 stabilization program. The rise was immediate, to a stable level of 47 percent, but it did not return to the level prior to the bank shares crash.

Financial Assets and Liabilities

In the year under review, financial assets and liabilities were primarily affected by the redemption of the bank shares under the 'arrangement' and the expectations of devaluation.

The bank shares covered by the 'arrangement'—in the amount of \$5.6 billion—fell due for redemption in October 1988. About 40 percent of this amount was reinvested in the continuation scheme. The rest of the redemption

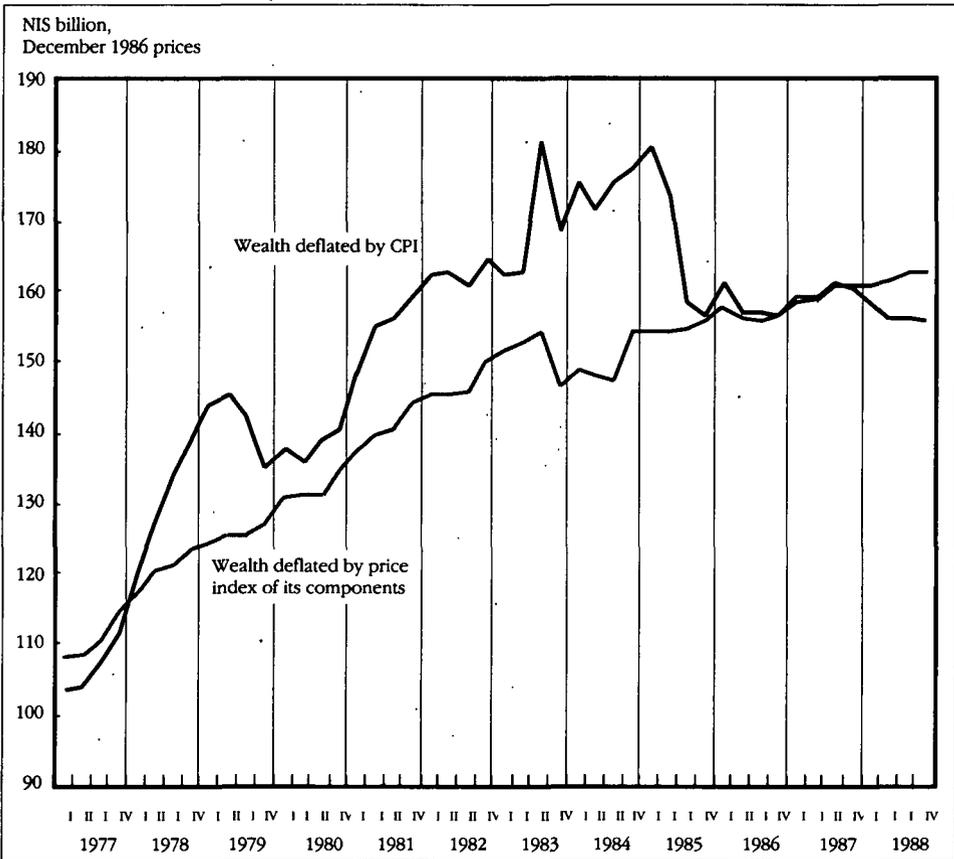
⁷ Financial liabilities of individuals held by other individuals offset each other.

⁸ This figure should be treated with some caution. The errors and omissions item in the private sector's balance of payments (see Chapter 7) increased by approximately NIS1 billion in the second half of 1988. This may point to an accumulation of foreign assets not included in the definition of wealth here.

⁹ CPI-indexed assets are linked to the last published CPI, which represents the average price level of the previous month. Indexed assets thus do not include the price rise of the last month and a half.

funds was held in other financial assets, mainly in social security funds and savings schemes. Expectations of a devaluation increased demand for indexed and foreign currency-linked bonds, and their real yields were therefore low and even negative. In contrast, the savings schemes and deposits in social security funds, which are not negotiable, continued to offer high yields. The premium for liquidity thus rose considerably in this period. The relatively large increase in savings schemes is partly also due to the small penalty on breaking foreign currency-linked savings schemes, which encouraged people to invest in them and break them immediately after a devaluation. This partial shift from bank shares to less liquid assets reduced the overall liquidity of the public's asset portfolio (the ratio of liquid assets, excluding financial shares, remained unchanged).

Figure 8.4
The Public's Wealth, 1977–88



Since the stabilization of the exchange rate, the foreign currency component of the public's financial wealth has been on a decline, because the exchange rate was stabilized, since the expected yield on local currency assets, whether linked or not, has been higher. It may be assumed that the redemption of the bank shares, which are foreign currency-linked assets, reinforced this trend. But the expectations of devaluation which arose in early 1988 and became stronger towards the end of the year caused this decline to slow down, apparently temporarily. The proportion of foreign currency-linked assets in the public's total financial wealth thus declined in 1988 by one percentage point, as against 4 percentage points in the previous year.

The abolition of residents' foreign currency demand deposits (Patam) in 1985 eliminated a key instrument for making easy profits from devaluation, through the purchase of foreign currency for a very short period and its re-sale immediately after a devaluation. Dollar-linked bonds are liquid assets, but unlike the former Patam accounts, they are negotiable; their price therefore reflects expectations as they are being formed. Their sale after a devaluation therefore does not assure a full capital gain. This seems to be the main reason for the only moderate decline in the proportion of foreign currency assets in total financial wealth (see Table 8.A-5).¹⁰

The aggregate of unlinked assets, M2, increased rapidly from the start of the stabilization program until mid-1987. It then slowed until mid-1988. Towards the end of the year, as expectations of a devaluation strengthened, these assets fell by about 18 percent in real terms. The greater part of the decline was in assets carrying a nominal interest; where the means of payment are concerned, the transaction motive is stronger than portfolio considerations. The proportion of unlinked assets in the total declined by the end of 1988 to 9.5 percent (see Table 8.A-4), and all components of M2, except for currency in circulation, moved similarly.

While unlinked assets decreased in the second half of 1988, there was a rise in residents' foreign currency deposits—mainly of exporters and other residents exempt from certain foreign exchange regulations. Bond holdings rose throughout the year, and their increase accelerated in the second half of the year. These substantial real changes offset each other, with the result that the real increase of the M4 aggregate was only 2.4 percent.

The prominent development on the liabilities side was the shift from long-term to short-term liabilities (see Table 8.A-7). This shift, which characterized

¹⁰ See note 8.

the entire period since the start of the stabilization program, may be explained by an accumulation of outstanding interest payments which were not yet disbursed at year's end, and are recorded in the financial statements as short-term liabilities. At the high levels of interest which still prevailed in 1988, these amounts were of significant size. This explanation is supported by the fact that in 1987, when interest rates were higher than in 1988, the balance of short-term credit increased more rapidly. Another reason may be that, in times of difficulty in the repayment of debts, current unmet obligations on account of long-term debt (long-term debts due for redemption within a year) at first become short-term debt.

The Domestic Public Debt

The domestic public debt, as a percentage of GNP, increased rapidly in the 1970s, as shown by the estimate presented in Figure 8.5.¹¹ At that time, the government granted credit to the public on a large scale, nearly entirely in the form of unlinked loans, while financing its deficits by selling linked assets. As inflation mounted, the value of these government loans was eroded, while its liabilities maintained their real value. A substantial part of the erosion showed up in the government's deficits only after several years. When the stock of unlinked loans shrank in real value, the domestic public debt stabilized at the end of the 1970s at a level of about 123 percent of GNP. The 'bank share arrangement' of 1983 increased the public debt at one fell stroke by 11.5 percentage points of GNP. In the first few months after the 'arrangement', bank share prices declined, due to uncertainty regarding the government's ability to redeem them, but they recovered quickly.¹² In 1985, before the stabilization program, the public debt stabilized, mainly because inflation eroded the value of indexed bonds and saving schemes which fell due for redemption at that time.

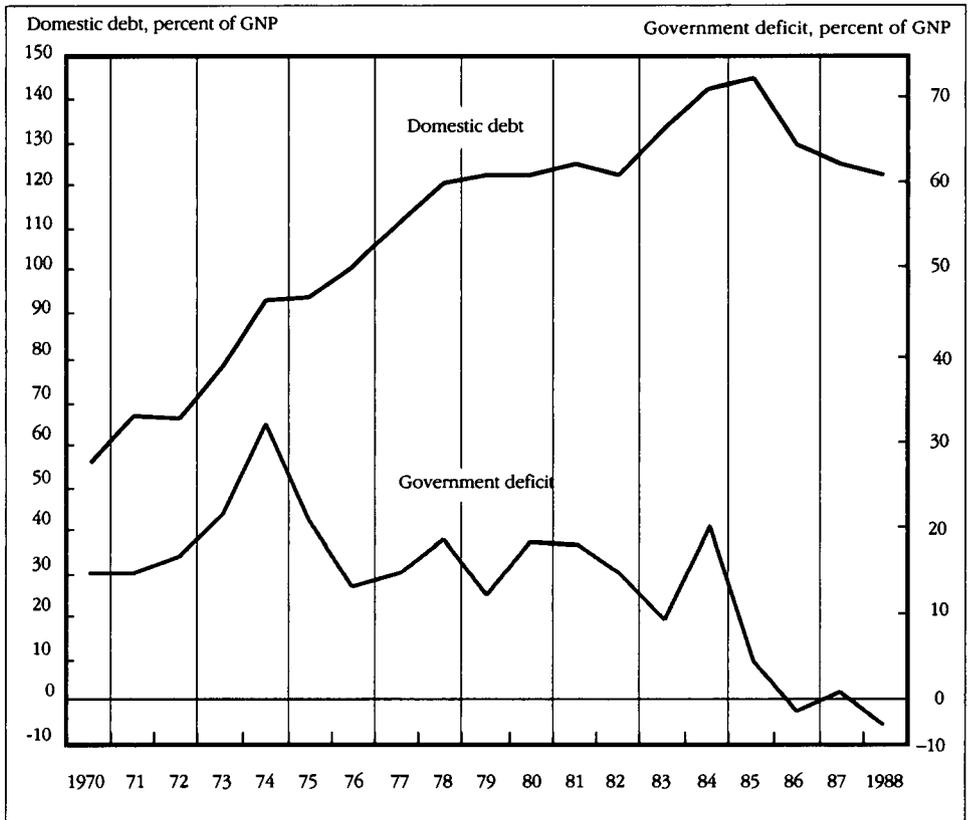
¹¹ The domestic debt here is calculated as the difference between the public's financial wealth and the net claims of the private nonfinancial sector towards the rest of the world. According to the definition used here, the money base is not included in the public debt, but it includes the balance of the government's liability on account of the 'bank share arrangement' of October 1983 and its continuation arrangements. The debt is net of the deduction of the government loans to the public.

¹² The value of the bank shares under the 'arrangement' is calculated here according to market prices. This is a good measurement, since it takes into account the various probabilities perceived by the public at different times, such as a full, partial, or no discharge of the government's obligations under the 'arrangement'. In the years following the crash, the risk premium on the bank shares was stable as compared with similar dollar-linked bonds.

A turning point came after the adoption of the stabilization program, and the debt declined rapidly from 145 percent of GNP at the end of 1985, to about 125 percent at the end of 1987. The decrease was mainly due to the reduction of the government deficits and the accelerated GDP growth.

In 1988, the domestic public debt declined by an additional 4 percentage points of GNP. This may be a temporary decline, because the foreign currency reserves fell at the same time—which implies a temporary substitution, on the eve of the devaluation, of foreign debt for domestic debt.¹³

Figure 8.5
The Domestic Public Debt and the Government Deficit, 1970–88
(Percent of GNP)



¹³ As expectations of a devaluation gathered strength, the public bought foreign currency from the Bank of Israel, financing these purchases by selling local-currency financial assets.

TABLE 8.A-1
Real^a Cost of Credit, 1985-88
(Percent, annual rate)

	Before tax						After tax ^b							
	1985			1988			1985			1988				
	Total	2nd half	1986	1987	Total	1st half	2nd half	Total	2nd half	1986	1987	Total	1st half	2nd half
Nondirected short-term credit	28.1	33.5	16.4	25.8	16.2	14.7	17.7	12.9	15.4	7.6	14.2	8.9	8.1	9.7
Local currency	67.1	82.0	26.6	30.4	18.3	16.6	20.0	30.9	37.7	12.2	16.7	10.0	9.1	11.0
Overdraft facilities	94.0	107.7	33.4	38.5	25.4	26.6	24.1	43.3	49.5	15.4	21.2	13.9	14.6	13.3
Fixed-term credit	24.4	40.8	16.6	20.1	14.6	14.2	15.0	11.2	18.8	7.7	11.1	8.0	7.8	8.2
Foreign currency ^c	0.4	-4.4	-1.8	6.2	3.0	4.2	1.8	0.2	-2.0	-0.8	3.4	1.7	2.3	1.0
Subject to ceiling	14.7	11.2	12.3	17.9	12.5	14.6	10.5	6.7	5.2	5.6	9.9	6.9	8.0	5.8
Exempt from ceiling	-5.7	-11.3	-9.2	-2.3	-3.0	-2.7	-3.4	-2.6	-5.2	-4.2	-1.2	-1.7	-1.5	-1.9
Directed credit	1.5	-10.5	-6.5	0.1	-2.8	-2.3	-3.2	0.7	-4.8	-3.0	0.0	-1.5	-1.2	-1.8
Local currency	-25.7	-1.8	-1.4	2.4	-1.0	-2.2	0.2	-11.8	-0.8	-0.6	1.3	-0.6	-1.2	0.1
Foreign currency ^c	5.9	-8.3	-6.5	0.1	-2.8	-2.3	-3.2	2.7	-3.8	-3.0	0.0	-1.5	-1.2	-1.8
Total short-term credit^d														
Average cost, weighted	16.4	13.4	8.2	18.8	13.8	13.9	13.7	7.6	6.2	3.8	10.4	7.6	7.6	7.5
Standard deviation, weighted	45.3	66.0	15.3	16.7	9.8	9.8	9.9	20.8	30.3	7.1	9.2	5.4	5.4	5.4
Long-term credit^e														
Directed housing credit			0.5	3.5	3.6									
Industrial development loans ^d			1.6	0.9						1.2	0.6			
Private bond issues ^f			7.9	6.7	6.2					3.6	3.6			

^a Deflated by an index approximating the end-of-month price level, constructed as the geometric mean of adjacent pairs of the monthly CPI.

^b Assuming that real interest is tax deductible and that the tax rate was 54 percent in 1985 and 1986, and 45 percent in 1987 and 1988 (30 percent on development loans in 1985 and 1986, and 25 percent in 1987 and 1988).

^c Nominal sheqel interest on dollar-linked loans is calculated as $[(1+r)(1+e)-1]100$, where r is the nominal interest rate denominated in dollars and e is the change in the NIS/\$ exchange rate.

^d The cost and its standard deviation are weighted by the composition of credit (average balances).

^e Weighted by the proportion of CPI-indexed, exchange rate indexed and unindexed loans in total credit actually taken up.

^f Average cost excluding underwriting and distribution fees.

SOURCE: Bank of Israel calculations.

TABLE 8.A-2

Commercial Bank Credit to the Nonfinancial Private Sector, 1987-88

	End-of-year balance		Real average balance, 1987=100			Nominal change during period, %			
	NIS million		Total	1988		1987	1988		
	1987	1988		1st half	2nd half		Total	1st half	2nd half
Nondirected credit ^a	15,761	23,362	135.7	127.7	143.7	78.3	48.2	17.9	25.7
Credit lines and overdrafts	5,685	8,486	133.0	124.2	141.8	79.5	49.3	15.2	29.6
Other nonindexed fixed-term sheqel credit	4,309	6,327	115.0	105.6	124.3	75.2	46.8	10.5	32.9
Indexed sheqel credit	4,016	6,635	142.7	133.0	152.5	141.9	65.2	37.3	20.3
Nondirected foreign currency credit	1,750	1,913	87.9	90.7	85.1	12.8	9.3	0.8	8.4
<i>of which:</i> Credit for fuel imports	634	527	91.3	95.3	87.2	39.2	-16.8	-2.1	-15.0
Directed export credit	3,043	3,248	85.7	86.9	84.4	2.6	6.7	11.7	-4.5
<i>of which:</i> Diamond fund ^b	507	599	96.0	94.7	97.3	-2.5	18.2	25.4	-5.8
Other	2,537	2,649	83.7	85.4	82.0	3.7	4.4	9.0	-4.2
Total, excl. indexed sheqel credit	14,788	19,974	107.7	102.9	112.5	45.8	35.1	11.4	21.3
Total	18,804	26,610	124.8	118.8	130.7	59.3	41.5	16.9	21.0
Consumer price index						16.1	16.4	8.5	7.3

^a Includes indexation differentials on the indexed portion of nondirected sheqel credit, and credit from overseas offices of Israeli banks; includes credit to local authorities.

^b Includes doubtful debts of diamond firms.

TABLE 8.A-3

Medium- and Long-Term Credit to the Public, 1984-88^a*(NIS million, current prices)*

	1984	1985	1986	1987	1988		Percent real change ^b			
					Total	1st half	2nd half	1986	1987	1988
Gross credit granted ^c	713	3,084	5,194	6,099	6,842	3,374	3,468	14.3	-2.4	-3.4
To households	246	814	1,387	1,800	2,602	1,187	1,415	14.1	8.7	24.2
To business sector	453	2,202	3,715	4,190	4,125	2,126	1,998	15.3	-6.5	-15.2
Credit granted less repayments	272	889	1,600	1,635	1,727	1,209	517	22.1	-15.0	-8.1
Credit outstanding ^d										
Average balance	2,644	11,710	18,494	23,572	27,346	26,477	28,216	1.3	6.5	-0.0
End of period	5,888	17,014	20,715	25,464	29,629	27,692	29,629	1.8	5.9	-0.1

^a The data for long-term credit are revised due to institutional changes.

^b The credit flows were deflated semi-annually by the consumer price index, and the balances by the end-of-period CPI.

^c Includes unclassified credit granted by the National Institutions.

^d As recorded, i.e. not net of the subsidy component.

SOURCE: Bank of Israel calculations.

TABLE 8.A-4
Estimated Wealth of the Private Nonfinancial Sector,^a 1981-88
(Billions of current NIS, end of period)

	Real percent change ^b											
	1988				Average				1988			
	1986	1987	1st half	2nd half	1981-85	1986-88	1986	1987	Total	1st half	2nd half	
1. Assets	84.0	105.1	115.0	125.1	5.8	4.2	2.8	7.7	2.2	0.7	1.4	
a. Short-term assets + tradeable bonds	16.3	22.4	24.7	28.3	1.7	10.0	3.5	18.4	8.6	1.5	7.0	
b. Shares of financial intermediaries	5.6	7.4	6.5	2.7	-1.8	-30.0	-3.5	13.0	-68.5	-18.8	-61.2	
c. Medium- and long-term assets	62.2	75.4	83.8	94.1	8.1	5.0	3.3	4.5	7.2	2.4	4.6	
2. Liabilities	34.1	45.8	51.3	57.2	14.8	11.8	12.5	15.6	7.4	3.3	4.0	
a. Short-term liabilities	13.4	20.2	23.6	27.5	4.9	24.0	25.6	29.8	16.8	7.2	9.0	
b. Long-term liabilities	20.7	25.5	27.8	29.7	23.7	3.8	5.3	6.4	-0.1	0.1	-0.2	
3. Net financial wealth (1-2)	49.9	59.4	63.7	67.9	2.0	-0.8	-2.9	2.4	-1.8	-1.2	-0.6	
4. Tangible and other assets^c	106.9	126.8	133.2	142.6	2.2	0.1	1.7	2.2	-3.4	-3.2	-0.2	
a. Tangible and other assets, deflated by price indexes for their components					3.5	2.5	2.4	2.8	2.2	1.1	1.1	
5. Total net wealth (3+4)	156.8	186.2	196.8	210.4	2.1	-0.2	0.2	2.2	-2.9	-2.6	-0.3	
a. Total net wealth, deflated by the price indexes of its components (3+4a)					3.0	1.4	0.7	2.6	0.9	0.4	0.6	

^a The nonfinancial private sector includes households and nonfinancial firms. The estimate of its wealth is the difference between its claims against and liabilities to the public sector, the Bank of Israel, the rest of the world, and the financial intermediaries. The latter include the commercial banks, cooperative savings and loan associations, the mortgage banks, investment banks, financial institutions required to publish financial statements, and the pension and provident funds. These institutions represent most of the financial intermediation system. For lack of data, institutions not required to publish financial statements are not classified as financial intermediaries. They are therefore classified as part of the nonfinancial private sector. This definition of the financial intermediation system is the reason for differences between the data on the public's assets and liabilities in this table and other tables of this chapter. For greater detail of the aggregates shown in this table, see Appendix Table 8.A11.

^b Deflated by the CPI, unless otherwise stated.

^c Tangible assets include the stock of consumer durables, dwellings and structures, stocks of finished products, intermediates and equipment held by firms, as well as compulsory loans.

SOURCE: Bank of Israel calculations.

TABLE 8.A-5

Net Financial Wealth of the Public in Foreign Currency, 1982-88

(\$ million)

End of period		Assets ^a	Liabilities ^b	Net (1-2)	(3) as percent of total net financial wealth
		(1)	(2)	(3)	(4)
1982	IV	9,041	6,500	2,541	8.4
1983	III	10,131	6,888	3,243	10.8
	IV	12,639	7,015	5,624	24.0
1984	IV	14,867	7,281	7,585	32.0
1985	II	16,592	7,331	9,261	40.3
	IV	16,432	8,021	8,412	29.4
1986	IV	17,596	8,938	8,658	25.8
1987	IV	18,066	9,717	8,348	21.6
1988	I	17,680	9,809	7,871	20.2
	II	17,296	9,630	7,666	19.5
	III	17,270	9,401	7,869	19.5
	IV	15,895	8,479	7,416	19.7

^a Resident deposits (Patam), nonresident deposits (Patach) of Israeli residents, indexed bonds (\$ or other exchange rate), restitution deposits, dollar-linked savings schemes, and supplier credit to foreigners. Bank shares covered by the bank share arrangement (including shares converted to saving schemes) are included from December 1983.

^b Credit via the banking system (directed and nondirected) and from earmarked deposits in commercial, mortgage and investment banks, direct credit, and supplier credit. Excludes credit for fuel imports.

SOURCE: Bank of Israel.

TABLE 8.A-6
Financial Assets of the Public, 1987-88^a

	NIS million, end-of-period balances				Percent of total assets, end-of-period			
	1987		1988		1987		1988	
	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
Nonindexed short-term assets	10,381	11,541	13,146	11,502	10.8	11.0	11.6	9.5
Money supply (M1)	2,614	3,296	3,543	3,666	2.7	3.1	3.1	3.0
<i>of which:</i> Currency in circulation	1,139	1,374	1,571	1,650	1.2	1.3	1.4	1.4
Time deposits, CDs, treasury bills	7,767	8,245	9,603	7,836	8.1	7.9	8.5	6.5
Residents' foreign currency deposits and tradeable bonds	10,861	11,626	12,486	15,821	11.3	11.1	11.0	13.0
Residents' foreign currency deposits (Patam)	5,631	5,836	5,877	8,320	5.8	5.6	5.2	6.9
<i>of which:</i> Nonresidents' deposits of Israelis	2,203	2,448	2,567	3,612	2.3	2.3	2.3	3.0
Bonds held by the public ^b	5,230	5,790	6,610	7,501	5.4	5.5	5.8	6.2
Total short-term assets	21,242	23,166	25,632	27,323	22.1	22.1	22.6	22.5
Bank shares	5,807	6,737	6,759	2,615	6.0	6.4	6.0	2.2
Total short-term assets + bank shares	27,049	29,903	32,391	29,937	28.1	28.5	28.5	24.6
Nonbank shares	6,986	7,040	5,582	6,271	7.3	6.7	4.9	5.2
Restitution deposits	5,396	5,664	5,543	6,340	5.6	5.4	4.9	5.2
Savings schemes and indexed deposits	19,008	19,609	22,014	25,702	19.7	18.7	19.4	21.2
Social insurance funds and life insurance	37,891	42,762	47,953	53,204	39.3	40.7	42.3	43.8
Total financial assets	96,329	104,977	113,483	121,455	100.0	100.0	100.0	100.0
<i>of which:</i> Nonbank shares	6,986	7,040	5,582	6,271	7.3	6.7	4.9	5.2
Foreign currency-linked assets ^c	26,497	26,095	26,083	26,721	27.5	24.9	23.0	22.0
CPI-linked assets	52,465	60,302	68,672	76,961	54.5	57.4	60.5	63.4

^a In this table the 'public' excludes the government, Bank of Israel, and commercial banks. For lack of data no adjustment was made for the rest-of-the-world sector; i.e. financial assets of foreigners were not deducted and foreign financial assets of Israeli residents were not added.

There is some double-counting in this table, since financial assets include liabilities issued by financial institutions to the public and tradeable financial assets held by these institutions.

^b Total bonds of the type issued to the public, less bonds held by commercial banks, the Bank of Israel, and social insurance funds.

TABLE 8.A-6 continued.

	Average real balances (index, 1987 = 100)			Percent real change during period			
	1988			1987	1988		
	Total	1st half	2nd half		Total	1st half	2nd half
Nonindexed short-term assets	108	109	107	30.8	-14.4	4.9	-18.4
Money supply (M1)	114	111	118	30.1	-4.4	-0.9	-3.5
<i>of which:</i> Currency in circulation	117	114	120	21.5	3.2	5.3	-2.0
Time deposits, CDs, treasury bills	106	109	103	31.0	-18.4	7.3	-23.9
Residents' foreign currency deposits and tradeable bonds	102	100	103	6.6	16.9	-1.1	18.1
Residents' foreign currency deposits (Patam)	92	89	94	-12.3	22.5	-7.2	32.0
<i>of which:</i> Nonresidents' deposits of Israelis	101	97	105	1.1	26.7	-3.4	31.2
Bonds held by the public ^b	113	112	114	36.1	11.3	5.2	5.8
Total short-term assets	105	104	105	17.4	1.3	1.9	-0.6
Bank shares	84	100	68	13.8	-66.7	-7.6	-63.9
Total short-term assets + bank shares	100	103	97	16.6	-14.0	-0.2	-13.8
Nonbank shares	68	71	65	11.2	-23.5	-27.0	4.7
Restitution deposits	89	92	86	1.8	-3.8	-9.8	6.6
Savings schemes and indexed deposits	101	98	103	1.4	12.6	3.4	8.9
Social insurance funds and life insurance	107	105	110	8.3	6.9	3.3	3.4
Total financial assets	100	100	100	8.9	-0.6	-0.4	-0.2
<i>of which:</i> Nonbank shares	68	71	65	11.2	-23.5	-27.0	4.7
Foreign currency-linked assets ^c	84	87	80	-9.1	-12.0	-7.9	-4.5
CPI-linked assets	111	108	114	14.9	9.6	4.9	4.5

^c The bank shares under the 'bank share arrangement' redeemed in October 1988 were counted as foreign-currency linked assets; the same holds for arrangement shares converted into savings schemes that fall due in October 1989, and other savings schemes with an option of linkage to foreign currency or to the CPI.

^d Average end-of-month balances, deflated by the CPI.

SOURCE: Bank of Israel.

TABLE 8.A-7
Main Share Market Indicators, 1986-88
(NIS million)

	1986	1987	1988		
			Total	1st half	2nd half
New issues	147	418	158	97	61
Bank shares (percent)	0	4	0	0	0
Other shares (percent)	100	96	100	100	100
Market value, end of year ^a	19,658	21,692	9,133	19,192	9,133
Bank shares (percent)	62	60	32	69	32
Other shares (percent)	38	40	68	31	68
Stock exchange trade on and off the floor ^a	5,411	9,173	4,082	2,231	1,851
Bank shares (percent)	27	29	41	36	48
Other shares (percent)	73	71	59	64	52
Annual rate of turnover ^b	0.28	0.40	0.23	0.22	0.23
Bank shares (percent)	0.11	0.20	0.16	0.13	0.19
Other shares (percent)	0.59	0.65	0.36	0.40	0.31
Overall real rate of return (percent) ^c	4.0	5.3	-14.2	-11.8	-2.7
Bank shares	-8.8	5.1	-2.6	2.4	-4.9
Other shares	35.9	6.4	-31.3	-32.8	2.3

^a At December 1988 prices; new issues and trading volume have been deflated monthly.

^b The ratio between the monthly volume of stock exchange trade on and off the floor and the average monthly market value of the stock of securities.

^c Deflated by the consumer price index (adjusted to approximate the price level at the end of the month).

SOURCE: Central Bureau of Statistics and Bank of Israel.

TABLE 8.A-8

Main Bond Market Indicators, 1986-88*(NIS million)*

	1986	1987	1988		
			Total	1st half	2nd half
Market value of listed bonds (end of period)	12,736	18,601	26,058	21,310	26,058
<i>of which held by:</i>					
The public (percent)	39	36	34	31	34
Commercial banks (percent)	22	23	22	22	22
Social insurance funds (percent)	33	38	40	44	40
Stock exchange bond trade (current prices) ^a	2,101	2,670	2,895	1,201	1,694
Bank of Israel intervention (percent)	0.00	5.77	1.93	9.63	1.93
Net issue of tradeable bonds ^b	1,452	4,254	4,284	2,206	2,078
Annual rate of turnover ^c	0.18	0.19	0.13	0.12	0.14
Overall real rate of return (percent)					
Indexed bonds	-1.3	7.9	4.6	3.2	1.4
Foreign currency-linked bonds	-21.5	1.1	3.5	5.1	-1.5

^a At December 1988 prices. Bonds not held by the public or the banks are held by the Bank of Israel (see Table 8.A-11).

^b The ratio between the sum of the Bank of Israel's purchases and sales in the secondary market and total stock exchange trade in bonds.

^c The ratio between total stock exchange trade in bonds and the market value of the total stock of bonds; calculated from monthly ratios.

SOURCE: Central Bureau of Statistics, the Bank of Israel's Monetary Department and Research Department calculations.

TABLE 8.A-9
Mutual Fund Operations, 1986-88

	1986	1987	1988	
			1st half	2nd half
Mutual funds assets, NIS million, end of period	2,323.6	3,529.4	3,236.1	3,895.8
	<i>Percent</i>			
Real overall annual rate of return	3.5	8.5	-7.7	-4.1
Standard deviation of real monthly rate of return ^a	2.1	3.0	3.2	2.0
Mutual fund assets/tradeable assets, end of period ^b	9.2	10.5	9.4	12.0
Bonds denominated in Israeli currency	41.5	32.4	28.0	34.9
Foreign currency assets	6.7	5.6	5.8	7.2
<i>of which: 'Arrangement bank shares'</i>	12.1	8.6	9.1	23.9
Nonbank shares	8.0	12.0	10.1	9.0
Unlinked assets	3.9	6.8	4.9	5.9
Composition of mutual fund portfolio, end of period	100.0	100.0	100.0	100.0
Indexed bonds	36.4	37.4	42.0	50.0
Foreign currency assets	35.7	22.6	26.0	23.7
<i>of which: 'Arrangement bank shares'</i>	26.5	16.4	19.1	16.0
Nonbank shares	18.7	24.0	17.4	14.4
Unlinked assets	9.2	15.9	14.6	11.8

^a Standard deviation for last 18 months.

^b Tradeable assets consist of unlinked assets, tradeable bonds held by the public, foreign currency deposits, shares and convertible securities, as defined in Table 8.A-6.

SOURCE: Bank of Israel calculations.

TABLE 8.A-10
Monetary Indicators, 1983-88
(NIS million, average balances)

	1983	1984	1985	1986	1987	1988
1. Narrow money base	34	132	1,145	2,558	3,827	3,779
2. M1	42	137	620	1,671	2,678	3,543
3. Unlinked short-term assets ^a	94	388	2,535	5,793	9,945	12,453
4. Unlinked short-term assets + Patam	309	1,667	6,816	9,838	13,484	15,992
5. [4] excl. Treasury bills	309	1,664	6,718	9,737	12,940	15,396
6. Short-term assets ^b	514	2,526	10,093	15,400	20,925	25,441
7. Short-term assets + bank shares	851	3,256	13,549	20,268	26,901	31,179
8. <i>Total financial assets</i> ^b	2,450	10,748	46,874	73,691	97,198	112,828
9. Bank credit to private nonfinancial sector ^c	312	1,444	6,028	9,894	15,484	22,287
10. Medium- and long-term credit ^d	489	2,644	11,710	18,494	23,572	27,346
11. Net financial wealth of the private nonfinancial sector ^e	1,619	6,657	29,479	46,065	55,429	63,608

^a M1, CDs, time deposits and Treasury bills, as detailed in Table 8.14.

^b As detailed in Table 8.14.

^c As detailed in Table 8.10.

^d As detailed in Table 8.11.

^e As detailed in Table 8.12.

SOURCE: Bank of Israel calculations.

TABLE 8.A-11

Non-indexed Sheqel Assets of the Public, 1985-88*(NIS million, end of period)*

		Money supply (M1)				Nonindexed sheqel deposits				Total (3+5+6+7+8)	
		Currency in	Demand	Total	Total (3),	CDs	Time	Deposits	Treasury	NIS	Change over
		circulation	deposits	(1+2)	seasonally		deposits	against	bills	million	preceding
		(1)	(2)	(3)	adjusted	(5)	(6)	liabilities	(8)	(9)	period, %
					(4)			(7)			(10)
1985		481	508	989	937	2,066	1,153	39	166	4,414	479.2
1986		974	1,207	2,181	2,173	2,812	2,392	58	159	7,600	72.2
1987		1,374	1,922	3,296	3,201	4,096	3,517	77	555	11,541	51.8
1988		1,650	2,016	3,666	3,574	2,532	4,788	88	429	11,502	-0.3
1988	January	1,325	1,586	2,911	3,112	4,022	3,857	46	440	11,275	-2.3
	February	1,401	1,736	3,137	3,281	2,265	4,578	47	461	11,588	2.8
	March	1,574	2,057	3,632	3,367	3,287	4,824	65	541	12,349	6.6
	April	1,538	1,756	3,294	3,692	3,301	4,872	57	672	12,197	-1.2
	May	1,540	1,825	3,365	3,533	3,144	5,207	44	692	12,452	2.1
	June	1,571	1,973	3,543	3,632	3,239	5,504	63	796	13,146	5.6
	July	1,649	2,001	3,650	3,662	3,008	5,754	55	804	13,270	0.9
	August	1,665	2,081	3,746	3,734	3,259	5,803	54	712	13,574	2.3
	September	1,722	2,210	3,932	3,747	3,133	5,777	49	607	13,498	-0.6
	October	1,739	2,344	4,083	3,800	3,192	5,102	54	485	12,916	-4.3
	November	1,627	1,930	3,557	3,669	2,528	5,033	40	506	11,665	-9.7
	December	1,650	2,016	3,666	3,574	2,532	4,788	88	429	11,502	-1.4

SOURCE: Bank of Israel, Banking Supervision Department, *Monthly Statistics of the Banking Institutions*; Bank of Israel Monetary Department, *Weekly Survey of the Capital Market*; State Loan Administration, *Survey*.

TABLE 8.A-12

The Money Base, 1985-88*(NIS million, end of period)*

	Cash (1)	Liquid assets of banking institutions (2)	Narrow money base (1+2) (3)	Broad money base		Change over preceding period, % (6)
				Recognized liquidity deficits (4)	Total (3+4) (5)	
1985	481	1,662	2,143	24	2,168	666.9
1986	974	1,913	2,887	4	2,891	33.4
1987	1,374	2,798	4,172	2	4,174	44.4
1988	1,650	1,525	3,175	8	3,183	-23.7
1988 January	1,325	2,748	4,073	2	4,075	-2.4
February	1,401	2,250	3,651	2	3,653	-10.4
March	1,574	2,696	4,270	4	4,275	17.0
April	1,538	2,085	3,623	5	3,628	-15.1
May	1,540	2,249	3,789	3	3,792	4.5
June	1,571	2,280	3,850	6	3,856	1.7
July	1,649	2,339	3,988	6	3,993	3.6
August	1,665	2,432	4,097	6	4,103	2.8
September	1,722	1,842	3,564	8	3,572	-12.9
October	1,739	2,324	4,063	8	4,071	14.0
November	1,627	1,573	3,200	9	3,209	-21.2
December	1,650	1,525	3,175	8	3,183	-0.8

SOURCES: Liquid assets of the banking institutions—*Monthly Financial Statements of the Banking Institutions*; recognized liquidity deficit—*Monthly Liquidity Report of the Banking Institutions*; cash—Banking Supervision Department, *Monthly Banking Statistics*.

TABLE 8.A-13

Linked Deposits of the Public in Banking Institutions and its Securities Holdings, 1985-88*(NIS million, current prices, end of period)*

	Approved savings scheme deposits		Linked long-term deposits ^a	Resident deposits ^b		Bonds ^c	Tradeable securities			
	Total	Principal		Restitution	Other		All shares ^d	Bank shares ^d	Total (1+3) to 7)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	
1985	10,876	2,858	1,278	4,194	6,434	2,718	7,582	4,600	33,082	
1986	12,325	4,750	2,459	4,790	5,727	3,663	10,551	5,100	39,515	
1987	15,113	7,902	4,165	5,664	5,836	5,790	13,776	6,737	50,344	
1988	20,308	12,991	5,055	6,340	8,320	7,501	8,885	2,615	56,409	
1988	January	15,353	8,110	4,334	5,648	5,868	6,200	12,681	6,540	50,084
	February	15,489	8,432	4,488	5,642	5,829	6,714	12,388	6,746	50,548
	March	15,555	8,879	4,572	5,632	5,852	6,362	12,593	6,622	50,567
	April	15,932	9,196	4,699	5,643	5,817	6,467	13,133	6,649	51,691
	May	16,390	9,548	4,865	5,596	5,776	6,511	13,131	6,736	52,269
	June	16,725	9,925	4,950	5,543	5,877	6,610	12,340	6,759	52,044
	July	16,938	10,263	4,857	5,470	5,926	6,513	12,353	7,094	52,058
	August	17,066	10,569	4,795	5,474	5,974	6,535	12,516	6,931	52,360
	September	17,511	11,010	4,792	5,470	6,106	7,009	13,147	7,039	54,034
	October	18,584	12,012	4,918	5,546	6,289	7,534	8,700	2,593	51,571
	November	19,233	12,443	5,002	5,594	6,847	7,430	8,714	2,531	52,821
	December	20,308	12,991	5,055	6,340	8,320	7,501	8,885	2,615	56,409

^a Includes linkage increments.^b Includes valuation adjustments for changes between foreign exchange rates. They are given in NIS millions, and can be translated into foreign currency by using the relevant exchange rate. Includes nonresident deposits of Israeli residents.^c At market prices. Excludes bonds held by commercial banks, the Bank of Israel, social insurance funds, and other institutional investors.^d At market prices. Includes shares held by banks; excludes shares held by the government.

SOURCE: Bank of Israel calculations and the Tel Aviv Stock Exchange.

TABLE 8.A-14

Sources of Change in Nonindexed Local Currency Assets, 1985-88*(Percent of GNP)*

	1985				1988		
	Total	2nd half	1986	1987	Total	1st half	2nd half
Public sector contribution (injection plus net sale of Treasury bills)	4.9	2.6	1.3	0.8	-0.6	0.1	-1.3
Bank of Israel contribution	1.4	0.2	0.9	2.2	4.4	-0.8	9.6
Discount-window loan	0.0	-0.9	0.5	1.2	3.8	-1.8	9.4
Directed credit	0.5	-0.8	-0.1	0.0	-0.1	0.2	-0.3
Other factors	0.9	1.9	0.5	1.0	0.7	0.9	0.5
Resident and restitution deposits	-4.6	-10.0	-2.0	-0.7	0.3	-0.2	0.9
Purchase (-) of foreign currency by the private sector	-4.5	-2.1	-2.4	0.0	-5.8	1.0	-12.5
Domestic banking activities	6.4	5.6	5.7	4.3	2.2	5.8	-1.3
Purchase of unlinked financial assets	12.8	16.3	7.5	8.0	-0.1	6.3	-6.5
Money (M1)	2.6	2.9	2.9	2.1	0.6	0.8	0.4
Time deposits and CDs	10.0	12.8	4.6	4.6	-0.2	3.6	-4.0
Treasury bills	0.2	0.6	-0.1	1.4	-0.5	2.0	-2.9
Treasury bill valuation changes	0.3	0.5	-0.0	-0.5	0.3	-1.3	1.8
Total change in nonindexed local currency assets	13.1	16.8	7.5	7.5	0.2	5.1	-4.7

TABLE 8.A-15

Sources of Growth in Purchases of M3 (excl. Treasury Bills), 1982-88

	Percentage of GNP ^a											
	1988				1985				1988			
	1987	Total	1st half	2nd half	Average 1982-85 ^b	2nd half	1986	1987	Total	1st half	2nd half	
A. Change in foreign currency reserves	<i>NIS current million</i>						<i>Percent</i>					
1. Private sector sales of foreign currency	-137	-3,931	317	-4,248	-5.6	-2.1	-2.4	0.0	-5.8	1.0	-12.5	
Current balance of payments deficit	811	149	149		5.6	-1.7	0.9	1.5	0.4	0.4		
Capital imports (derived)	674	-3,782	466		0.1	-3.8	-1.4	1.5	-5.3	1.4		
2. Foreign currency transfers by government ^c	1,406	875	589	286	4.7	6.9	4.7	2.5	1.4	1.9	0.9	
3. Total (1+2)	1,269	-3,056	906	-3,961	-1.9	4.8	2.3	2.5	-4.4	2.9	-11.7	
B. Change in net domestic credit to public sector												
1. Total, public sector (a+b+c+d+e-f)	-1,635	-944	-1,194	250	4.3	-4.8	-3.3	-3.1	-1.5	-3.8	0.7	
a. Public sector deficit ^d	-2,218	-187	-576	389	4.1	-5.6	-8.2	-4.4	-0.4	-1.9	1.2	
b. Interest payments on domestic debt	2,995	3,175	1,649	1,526	5.0	5.4	5.7	5.6	4.9	5.3	4.6	
c. Net government credit to private sector	62	-330	-151	-179	3.1	0.2	1.2	0.2	-0.5	-0.5	-0.5	
d. Net government borrowing ^d	1,066	2,730	1,531	1,199	3.7	-2.0	-2.6	2.0	4.2	4.8	3.6	
e. Change in bank credit to the government	-1	3	3	-0	-0.2	0.0	0.0	-0.0	0.0	0.0	0.0	
f. Foreign currency transfers by government	1,406	875	589	286	4.7	6.9	4.7	2.5	1.4	1.9	0.9	
2. Total, Bank of Israel (g+h+1)	633	622	233	389	-2.7	1.3	0.2	1.2	1.0	0.7	1.2	
g. Open-market operations	59	-124	-89	-35	-0.2	0.0	0.0	0.1	-0.2	-0.3	-0.1	
h. Conversion of Patam ^e	-122	190	2	187	-1.0	-0.7	-0.3	-0.2	0.3	0.0	0.6	
i. Other ^f	696	557	320	237	-1.6	2.0	0.5	1.3	0.9	1.0	0.7	
3. Total (B.1 + B.2)	-1,002	-322	-961	639	1.6	-3.5	-3.1	-1.9	-0.6	-3.1	1.9	

(continued)

(Table 8.A-15 continued)

	Percentage of GNP ^a											
	1988				1985				1988			
	1987	Total	1st half	2nd half	Average 1982-85 ^b	2nd half	1986	1987	Total	1st half	2nd half	
C. Change in net domestic credit to the private sector, total (D-A.3-B.3)	2,875	4,121	1,162	2,959	8.7	5.1	6.4	5.3	6.3	3.7	8.9	
<i>of which</i> : Discount-window lending	672	2,641	-556	3,197	1.0	-0.9	0.5	1.2	3.8	-1.8	9.4	
Directed credit	20	-43	55	-99	3.1	-0.8	-0.1	0.0	-0.1	0.2	-0.3	
D. Total purchases of M3, excl. Treasury bills (A3+B2+C1)	3,143	744	1,107	-363	8.3	6.4	5.6	5.9	1.3	3.5	-0.9	

^a See note a to Table 8.3.

^b 1985—first half only.

^c Foreign currency transfers by the government include interest receipts on the foreign currency reserves. The U.S. civilian grants, all of which are received in October-November, are distributed evenly over the year in order to eliminate the fluctuations in the data on the foreign reserves and net domestic credit that would otherwise appear.

^d Net domestic deficit of the public sector (government and national institutions), excluding net interest payments.

^e Restitution residents' foreign currency deposits.

^f Includes Treasury bills.

^g This item includes the increment to net domestic credit resulting from the final accounts of the Bank of Israel.

TABLE 8.A-16

Effective Monthly Interest Rates, 1987-March 1989*(Percent, annualized rates)*

	<i>Lending rate</i>							<i>Borrowing rate</i>					
	π	E/\$	OV	OVE	FTC	DWt	C\$c	TBC	LAm	CD	TB	RD\$	YMm
1987	16.1	4.4	60.9	74.6	42.5	25.3	37.0	38.0	20.2	17.6	19.1	9.9	19.8
1988	16.4	3.1	46.0	56.4	33.4	19.0	31.0	32.5	11.7	13.4	14.7	9.6	15.3
1987	January	29.0	95.5	62.3	74.4	43.2	157.0	82.3	20.4	17.9	21.6	103.0	21.6
	February	12.2	34.9	63.0	76.0	44.9	80.0	53.7	28.9	26.5	30.8	40.8	28.2
	March	16.9	2.5	78.0	90.5	56.3	38.3	42.0	34.8	27.1	32.4	6.9	29.1
	April	30.3	-11.7	72.9	87.5	52.8	19.5	31.9	32.1	25.5	29.1	-6.8	31.8
	May	7.8	-8.9	65.4	79.4	46.7	20.5	31.4	22.7	18.5	19.0	-3.8	22.9
	June	12.3	11.4	58.3	72.7	40.4	46.7	40.2	18.2	14.4	15.6	17.5	17.3
	July	2.7	7.6	58.6	72.5	40.4	39.7	38.2	17.1	15.0	14.4	13.1	14.4
	August	15.9	1.6	56.1	69.6	39.3	33.3	33.8	14.8	12.2	12.7	7.0	13.0
	September	12.0	-11.5	53.9	68.0	37.8	13.9	26.1	14.8	12.7	12.7	-5.8	14.6
	October	20.2	-1.6	55.2	68.4	37.8	25.3	26.9	32.3	14.8	13.3	13.8	4.1
	November	20.6	-18.7	53.4	67.1	35.8	23.9	4.0	23.3	14.5	14.7	15.0	-1.4
	December	16.5	-10.3	55.5	70.2	36.1	26.8	15.0	29.5	12.6	14.4	13.8	-5.2
1988	January	20.8	11.1	55.8	69.8	36.1	21.0	41.9	39.1	12.6	14.7	15.1	16.9
	February	10.4	14.9	49.6	62.6	34.6	17.9	46.6	37.9	12.6	12.7	13.8	20.5
	March	21.7	-10.0	49.7	61.5	35.8	18.2	14.9	27.9	12.1	12.6	14.2	-5.3
	April	37.7	-4.6	48.0	59.8	33.8	16.1	22.1	29.4	11.5	10.5	11.8	0.7
	May	15.8	4.3	46.8	57.0	33.8	17.2	33.8	32.9	11.5	10.3	11.6	10.5
	June	3.2	20.8	45.4	55.8	32.9	16.2	55.6	38.4	11.5	11.0	12.5	28.3
	July	1.0	28.0	45.6	55.3	33.6	16.7	60.9	41.2	11.5	11.1	12.3	36.5
	August	9.7	9.5	44.6	54.6	32.8	16.4	38.2	34.1	11.5	11.0	12.2	17.3
	September	22.6	-0.7	41.2	50.2	31.5	15.0	25.3	28.8	11.5	12.2	15.2	6.0

continued—see notes on next page.

Table 8.A-16 continued

		Lending rate							Borrowing rate					
		π	E/\$	OV	OVE	FTC	DWt	C\$c	TBC	LAm	CD	TB	RD\$	YMm
	October	32.3	-14.2	40.2	48.2	28.7	15.6	8.2	22.9	11.5	13.5	15.9	-8.5	15.3
	November	22.0	-19.4	41.2	49.5	31.7	27.8	0.9	23.0	11.5	18.8	19.5	-14.0	15.0
	December	6.0	9.2	43.9	53.4	35.1	30.9	38.5	35.7	11.5	23.4	22.9	17.3	14.5
1989	January	73.5	345.7	47.0	58.4	37.5	21.8	465.0	109.0	11.5	17.9	21.7	380.0	15.7
	February	21.9	-8.2	42.4	52.7	34.9	14.6	14.6	27.0	11.5	13.7	16.7	-0.7	16.3
	March*	5.6	4.0	40.0	49.4	33.9	13.3	29.9	31.2	11.5	11.7	15.4	12.5	12.4

* Preliminary data.

Notation::

- π – Inflation rate.
- E/\$ – Average change in the dollar exchange rate.
- OV – Credit lines and overdrafts; includes regular interest, additional interest on borrowings in excess of approved credit lines, and 'credit allocation fees' and commissions.
- OVE – Overdrafts in excess of approved overdraft facilities.
- FTC – Other unlinked fixed-term credit.
- DWt – Auctioned monetary loans. In October 1987 the Bank of Israel changed the reserve requirements regime, and at the same time began to offer its discount-window loans by tender. The interest shown in the table is the weighted average of the actual interest on these loans.
- C\$c – Nondirected dollar credit subject to ceilings. The interest shown is nominal, i.e. $100 \times ((1+rd)(1+dif(er)) - 100)$, where rd is the dollar interest rate, in percent, and $dif(er)$ is the average percent change in the exchange rate against the dollar.
- TBC – Total bank credit; average, weighted according to the actual composition of total credit; Bank of Israel estimate.
- LAm – Liquid assets held with the Bank of Israel, in the marginal bracket.
- CD – CDs; median of the system—over NIS10,000; on the assumption that CDs are renewed every 3 days, and there are no 'jumbo' deposits. From September 1988, the data is the average of all deposit brackets.
- TB – Treasury bills; over NIS10,000 for 14 days. From September 1988 the data is the average of all Treasury bills with maturities of up to a year.
- RD\$ – Residents' foreign currency deposits in dollars; average for the total—over \$50,000 for 12 months; end of month, gross. The dollar interest rate was multiplied by the average change in the exchange rate against the dollar in order to obtain the nominal NIS yield.
- YMm – Yield to maturity of 1 month Treasury bills.

TABLE 8.A-17

Credit to the Public from the Banking System, 1985-88*(Current NIS million, end-of-year balances)*

	Export finance			Finance of domestic activity			Total credit to the public (3+7) (8)		
	Total, excl. diamond fund	Diamond fund ^a	Total (1+2)	Nondirected NIS credit ^b	Directed NIS credit	Nondirected foreign currency credit ^c		Total (4+5+6)	
	(1)	(2)	(3)	(4)	(5)	(6)		(7)	
1985	2,385	437	2,823	3,450	2	1,814	5,267	8,089	
1986	2,441	520	2,961	7,287	5	1,551	8,843	11,804	
1987	2,532	507	3,039	14,011	5	1,750	15,766	18,804	
1988	2,649	599	3,247	21,449	0	1,913	23,362	26,610	
1988	January	2,576	526	3,102	14,427	5	1,802	16,234	19,336
	February	2,674	523	3,198	14,586	5	1,805	16,396	19,593
	March	2,608	527	3,136	15,002	3	1,786	16,792	19,927
	April	2,617	527	3,144	15,612	3	1,825	17,441	20,585
	May	2,664	573	3,238	16,086	3	1,753	17,842	21,080
	June	2,762	635	3,398	16,823	3	1,765	18,591	21,989
	July	2,786	627	3,413	17,260	3	1,776	19,039	22,452
	August	2,838	641	3,479	17,515	3	1,813	19,331	22,810
	September	2,835	656	3,492	18,507	1	1,886	20,395	23,886
	October	2,677	597	3,274	19,396	1	1,782	21,178	24,452
	November	2,451	539	2,990	20,031	0	1,707	21,738	24,728
	December	2,649	599	3,247	21,449	0	1,913	23,362	26,610

^a Includes doubtful debts of diamond firms.^b Includes indexation increments.^c Includes credit from overseas offices of Israeli banks.

SOURCE: Monthly statements of the banking institutions and their liquidity reports to the Bank of Israel.

TABLE 8.A-18

Local Currency Credit to the Government, 1985-88*(NIS million, end-of-period balances)*

	From the Bank of Israel			From banking institutions			Total net credit in local currency (3+6) (7)
	Credit ^a (1)	Government and National Institu- tions deposits ^b (2)	Net credit (1-2) (3)	Credit (4)	Government deposits (5)	Net credit (4-5) (6)	
1985	8,665	3,150	5,515	1,541	21	1,520	7,035
1986	8,140	3,805	4,335	1,424	17	1,407	5,742
1987	8,801	5,077	3,724	2,007	18	1,989	5,712
1988	9,905	5,800	4,106	1,769	27	1,743	5,848
1988							
January	9,122	5,208	39,14	1,821	28	1,793	5,707
February	8,064	4,573	3,492	1,868	22	1,845	5,337
March	9,592	5,239	4,353	2,060	28	2,032	6,385
April	9,597	5,883	3,713	2,126	17	2,109	5,823
May	9,571	5,930	3,642	2,094	21	2,074	5,715
June	9,464	5,428	4,036	2,279	22	2,257	6,293
July	9,383	5,466	3,917	2,021	14	2,007	5,924
August	9,329	5,182	4,147	1,898	16	1,882	6,030
September	9,257	4,555	4,702	1,832	8	1,824	6,526
October	9,292	5,934	3,358	1,773	23	1,750	5,108
November	9,315	6,092	3,223	1,815	16	1,798	5,021
December	9,905	5,800	4,106	1,769	27	1,743	5,848

^a Excludes indexation increments on long-term advance. Includes monthly accrual of Bank of Israel profits.

^b Includes the Bank of Israel's equity and net balances in the 'other accounts' item in its balance sheet.

SOURCE: Financial statements of the Bank of Israel and monthly statements of the banking institutions.

TABLE 8.A-19

"Demand and Supply" of Bank Reserves, November 1987 to April 1989*(NIS million, by 'liquidity ratio accounting months')*

		Supply of reserves									
					Non-borrowed reserves		Discount-window loan				
					Total, excl.						
		Total	Required	Surplus	Total	Treasury	Treasury	Total	Regular	By tender	Net free
		(2+3+4+7)	reserves	reserves	(5+6)	bills held	bills held	(8+9)	(8)	(9)	reserves
		(1)	(2)	(3)	(4)	by banks	by banks	(7)	(8)	(9)	(10)
1987	November	3,334.6	3,034.2	300.4	2,587.2	34.8	2,552.4	747.4	637.4	110.0	-447.0
	December	3,039.2	3,026.4	12.8	2,264.5	253.8	2,010.7	774.7	361.9	412.9	-761.9
1988	January	2,967.4	3,000.1	-32.8	3,040.5	293.8	1,746.7	926.9	174.9	750.0	-959.6
	February	3,048.6	3,037.4	11.2	2,329.0	216.0	2,013.0	719.7	58.7	661.0	-708.4
	March	2,463.3	2,614.0	-150.6	2,058.7	285.6	1,773.2	404.6	109.4	295.2	-555.2
	April	2,699.0	2,686.1	12.9	2,407.8	344.4	2,063.4	291.2	17.2	274.0	-278.3
	May	2,765.8	2,751.9	13.9	2,490.7	339.2	2,151.6	275.1	57.1	218.0	-261.2
	June	2,672.5	2,747.5	-75.0	2,282.9	339.3	1,943.6	389.5	10.7	378.8	-464.6
	July	2,958.4	2,796.7	161.7	2,549.8	511.1	2,038.7	408.5	72.0	336.5	-246.9
	August	2,734.7	2,888.4	-153.7	2,171.3	321.8	1,849.5	563.4	43.4	520.0	-717.1
	September	2,828.4	2,964.9	-136.5	1,956.4	320.0	1,636.4	572.0	60.1	811.8	-1,008.5
	October	2,328.0	2,401.2	-73.2	1,014.0	249.2	764.8	1,313.9	188.9	1,125.0	-1,387.2
	November	2,170.4	2,217.1	-46.7	5.6	241.5	-236.0	2,164.9	1,402.0	762.9	-2,211.6
	December	1,994.8	2,114.5	-119.7	-901.7	229.1	-1,130.8	2,896.5	1,696.5	1,200.0	-3,016.2
1989	January	2,383.0	2,319.6	63.5	-511.1	332.6	-843.7	2,894.1	1,494.1	1,400.0	-2,830.7
	February	2,587.7	2,422.8	164.9	698.0	438.9	259.1	1,889.7	489.7	1,400.0	-1,724.8
	March	2,330.5	2,177.6	152.9	1,129.7	413.5	716.2	1,200.8	62.7	1,138.1	-1,047.9
	April	2,491.4	2,267.7	223.8	2,128.2	382.4	1,745.8	363.8	0.2	363.5	-139.4

SOURCE: Bank of Israel.

TABLE 8.A-20

Estimated Wealth of the Private Nonfinancial Sector, 1985-88*(Millions of current NIS, end of year)*

	1985	1986	1987	1988
Assets				
Short-term assets^a	18,008	21,887	29,73	30,9904
Money supply (M1)	989	2,181	3,296	3,666
Time deposits and CDs	3,386	5,362	8,167	7,745
Foreign currency deposits ^b	6,434	5,727	5,836	8,320
Tradeable bonds	2,342	3,010	5,078	8,563
Shares of financial intermediaries	4,858	5,608	7,358	2,696
Medium-term financial assets^c	21,577	25,242	29,581	37,456
Earmarked deposits of the public	921	1,079	1,230	1,531
Savings schemes and linked deposits	14,766	17,673	20,729	27,213
Restitution deposits	4,194	4,790	5,664	6,340
Exporters' customer credit	1,696	1,700	1,959	2,372
Long-term financial assets	28,731	36,916	45,826	56,645
Deposits in social insurance funds	24,238	30,794	39,026	48,763
Life insurance	1,730	3,209	3,736	4,442
Compulsory loans ^d	2,763	2,913	3,064	3,440
Tangible assets^e	87,858	106,885	124,819	142,577
Consumer durables	10,187	13,586	17,497	21,722
Dwellings	36,515	41,679	47,816	51,444
Nonresidential structures and equipment	37,152	46,029	54,749	61,586
Inventories	4,004	5,592	6,758	7,825
Total assets	156,174	190,930	231,961	267,668
Liabilities				
Short-term liabilities^f	8,942	13,432	20,247	27,542
Nondirected credit				
Local currency	3,728	7,596	13,979	21,064
Foreign currency	1,075	1,207	1,186	1,436
Directed credit				
Local currency	2	5	5	0
Foreign currency	2,823	2,961	3,039	3,247
Credit from abroad (supplier and direct)	1,314	1,663	2,039	1,796
Medium- and long-term liabilities^g	16,400	20,668	25,532	29,699
Long-term local currency credit	9,584	13,214	16,844	20,860
Long-term foreign currency credit	6,815	7,454	8,688	8,838
Total liabilities	25,342	34,100	45,778	57,241
Net wealth^h	130,832	156,830	186,182	210,427

^a The discrepancies between these items and the corresponding items in Table 8.14 stem from the difference in the definition of the 'public' and the 'private nonfinancial sector.' Time deposits and CDs are deposits in commercial banks and other financial institutions. Foreign currency deposits are nonresident deposits of Israeli residents, loan deposits, and importers' deposits. Tradeable bonds are total bonds issued to the public, less bonds held by the Bank of Israel, commercial, investment, and mortgage banks, other financial institutions subject to the supervision of the Supervisor of Banks, social insurance funds, and insurance companies; excluding dollar-linked bonds issued by the business sector. Shares of financial intermediaries are shares issued by commercial banks, specialized financial institutions, mortgage banks, and insurance companies.

(continued from preceding page)

^b Includes time deposits.

^c The discrepancies between these items and the corresponding items in Appendix Table 8.14 stem from the inclusion here of earmarked deposits of the public, as well as savings schemes and linked deposits in investment and mortgage banks (in addition to the savings schemes and linked deposits in commercial banks). The data on savings schemes include the accrued value of the grant and not the full amount recorded at the time the accounts were opened.

^d Calculated by discounting the adjusted stream of repayments at 5 percent (the interest rate on social insurance fund bonds). The present value of Peace for Galilee bonds is assumed to be equal to 25 percent of the adjusted value.

^e Revised data.

^f Nondirected local currency credit consists of credit from the commercial banking system, mortgage banks (to building contractors), and insurance companies, less credit to local authorities. Nondirected foreign currency credit includes credit from the banking system in Israel other than for fuel imports. Credit from abroad is granted by overseas branches of Israeli banks, suppliers, and others (excludes credit to local authorities).

^g The subsidy component of long-term local currency credit is estimated as the present value of the stream of repayments according to the actual inflation rate. In this calculation repayments are spread over six years (the estimated average period of the loans), with interest on the stock of loans weighted accordingly. The subsidy component of foreign currency credit is calculated in a similar manner, with the Eurodollar market rate being used for determining the present value of the stream of repayments.

^h Calculated as the difference between total assets and total liabilities of the private nonfinancial sector; includes the estimated subsidy component of long-term local and foreign currency credit.

SOURCE: Bank of Israel calculations.

TABLE 8.A-21

Securities Held by the Public, 1986-88

	Market value, NIS million			Percentage distribution			Percent real annual change in market value		
	1986	1987	1988	1986	1987	1988	1986	1987	1988
Tradeable bonds									
1. Total	9,420	15,977	26,058	100.0	100.0	100.0	26.6	46.1	40.1
2. Held by commercial banks	2,068	3,686	5,804	22.0	23.1	22.3	10.9	53.5	35.2
3. Held by Bank of Israel	523	462	755	5.6	2.9	2.9	-48.0	-23.9	40.4
4. Held by social insurance funds	3,142	6,039	10,517	33.4	37.8	40.4	138.1	65.5	49.6
5. Held by the public (1-2+3+4)	3,687	5,790	8,982	39.1	36.2	34.5	13.4	35.2	33.2
Shares and convertible securities									
6. Total	14,540	18,632	9,133	100.0	100.0	100.0	6.3	10.3	-57.9
7. Held by commercial banks	9	10	0	0.1	0.1	0.0	-28.0	2.9	100.0
8. Held by the government	2,155	4,105	9,853	14.8	22.0	107.9	-3.3	64.0	106.2
9. Bank shares converted into savings schemes	1,267	1,553	365	8.7	8.3	4.0	-6.6	5.6	-79.8
10. Held by social insurance funds	718	751	1,029	4.9	4.0	11.3	-29.9	-10.0	17.8
11. Held by the public (6-7+8+9+10+11)	10,391	12,213	-2,114	71.5	65.5	-23.1	14.7	1.2	114.9

SOURCE: Tel Aviv Stock Exchange and Bank of Israel.

TABLE 8.A-22
Security Issues and Net Borrowing from the Public, 1986-88
(NIS million, at current prices)

	Public sector									Private sector			
	Tradeable bonds ^a				Nontradeable bonds					Bond issues	Total	Shares and convertible securities	Grand Total
	Amount issued	Amount redeemed	Open-market operations	Treasury bills	Net total (1-2+3+4)	Approved savings schemes	Provident & pension funds and insurance companies	Total, net					
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)		
1985	912.8	791.8	4.0	75.3	200.3	151.7	-338.3	186.6	13.7	275.8	37.0	312.8	
1986	2,502.1	1,519.3	0.2	2.1	985.1	-628.0	-728.8	-1,356.8	-371.7	628.8	98.2	727.0	
1987	3,725.7	1,133.1	63.4	770.0	3,426.0	-2,652.5	-1,002.7	-3,655.2	-229.2	1,043.2	338.9	1,382.1	
1988	7,141.8	2,668.6	-113.7	-316.7	4,042.8	-2,840.0	-731.3	-3,571.3	471.5	1,020.1	146.8	1,166.9	
Jan.	96.2	47.9	-26.6	-76.9	-55.2	-9.2	-96.7	-105.9	-161.1	37.4	18.7	56.1	
Feb.	350.0	88.3	38.1	119.6	419.4	-114.4	-52.6	-167.0	252.4	139.5	0.0	139.5	
March	215.9	106.2	-39.5	246.3	316.5	-307.1	-110.4	-417.5	-101.0	72.9	48.2	121.1	
April	258.9	84.5	-6.0	158.9	327.3	-26.4	18.9	-7.5	319.8	0.0	1.4	1.4	
May	828.3	211.8	-41.3	-45.2	530.0	-93.8	-253.3	-347.1	182.9	83.2	12.9	96.1	
June	427.8	177.7	-8.5	236.1	477.7	-146.4	-197.7	-344.1	133.6	37.9	6.0	43.9	
July	578.6	236.7	-22.3	-262.4	57.2	-49.6	-140.4	-190.0	-132.8	85.8	0.0	85.8	
Aug.	722.1	314.0	-4.9	-259.5	143.7	-19.3	-94.7	-114.0	29.7	47.2	3.7	50.9	
Sept.	587.1	162.4	-0.3	-150.4	274.0	16.0	-25.4	-9.4	264.6	137.8	24.9	162.7	
Oct.	1,833.1	542.4	-2.3	-176.1	1,112.3	-2,360.4	452.3	-1,908.1	-795.8	0.0	13.7	13.7	
Nov.	698.2	406.1	0.0	28.7	320.8	246.4	-118.9	127.5	448.3	9.5	17.3	26.8	
Dec.	545.6	290.6	-0.1	-135.8	119.1	24.2	-112.4	-88.2	30.9	368.9	0.0	368.9	

^a Includes bonds issued for commercial banks and social insurance funds; excludes purchases and redemptions for the Bank of Israel's portfolio.

SOURCE: Bank of Israel, Monetary Department.

TABLE 8.A-25

Overall Rate of Return on Listed Shares (Ordinary and Preferred), 1985-88*(End-of-period index, December 1987 = 100)*

	1985	1986	1987	1988				Real change in 1988 ^a , %
				I	II	III	IV	
General stock exchange index	64.8	82.0	100.0	93.9	95.1	100.5	101.4	-14.2
Commercial banks	74.0	82.2	100.0	104.3	110.4	114.0	115.1	-2.6
Insurance companies	59.0	105.6	100.0	78.7	74.5	82.1	78.2	-33.8
Mortgage banks	37.0	70.4	100.0	85.0	91.7	109.0	102.8	-13.0
Specialized financial institutions	64.2	76.8	100.0	102.8	101.3	114.3	108.4	-8.3
Investment companies	41.6	73.2	100.0	77.7	68.8	76.3	79.1	-33.1
Industry	57.6	84.1	100.0	78.0	70.8	79.3	83.6	-29.3
Commerce and services	37.8	76.8	100.0	71.7	64.0	71.4	71.2	-39.7
Land, building, development	40.7	85.3	100.0	78.0	75.2	78.1	72.2	-38.9

^a Deflated monthly by the consumer price index.

SOURCE: Central Bureau of Statistics.

TABLE 8.A-25

Market Value of Listed Shares and Convertible Securities, 1988^a

	Market value, end of 1988 ^a			New issues ^a		
	Percent			Percent		
	NIS million	Percent of total	real change ^b	NIS million	Percent of total	market value ^c
Commercial banks and bank holding companies	2,894	31.7	-77.8	0.0	0.0	0.0
Mortgage banks	281	3.1	-19.0	4.1	6.0	1.9
Specialized financial institutions	226	2.5	-5.5	0.0	0.0	0.0
Insurance companies	303	3.3	-11.0	14.4	21.1	6.8
Total financial sector	3,704	40.6	-73.4	18.5	27.1	0.2
Commerce and services	590	6.5	-30.3	18.5	27.1	0.2
Land, building, development, citrus	915	10.0	-24.7	17.7	26.0	3.4
Industry	2,659	29.1	-30.6	36.6	53.7	4.7
Investment and holding companies ^d	1,143	12.5	-26.3	25.8	37.9	1.1
Total	9,133	100.0	-57.9			

^a Excludes stock dividends, conversion of convertible bonds, noncash issues, and newly listed shares issued in previous years.

^b Percent change over end of 1987.

^c At beginning-of-year prices (monthly deflation).

^d Includes oil exploration companies.

SOURCE: Tel Aviv Stock Exchange and Bank of Israel.

TABLE 8.A-26

Real Net Yield to Maturity of CPI-indexed Bonds, 1987-88^a

(Annual rate, percent)

Percent indexation		New issues		Secondary market	
		100	100	80	100
Years to maturity		5	10	3-4 ¹ / ₂	9-10
1987	I	3.26	3.46	3.46	3.65
	II	3.86	4.04	4.06	4.25
	III	2.92	3.33	3.08	3.41
	IV	2.73	3.23	2.74	3.26
1988	January	2.46	3.35	2.65	3.20
	February	2.69	3.33	2.78	3.30
	March	2.81	3.30	2.78	3.21
	April	2.46	3.14	2.47	3.00
	May	2.46	3.26	2.22	3.01
	June	2.62	3.52	2.54	3.20
	July	2.53	3.18	2.66	2.96
	August	2.62	3.24	2.70	3.13
	September	2.40	3.34	2.36	3.00
	October	2.40	3.34	1.94	2.54
	November	2.00	2.80	1.76	2.28
	December	1.90	2.90	1.78	2.44

^a Calculated from end-of-week data. Corrected for the loss of one month's indexation at redemption.

SOURCE: Bank of Israel calculations.

TABLE 8.A-27

Mean and Standard Deviation of Selected Rates of Return, 1986-88*(Monthly rate, percent)*

	Rate of Return					Standard deviation ^a			
	1986	1987	1988			1986	1987	1988	
			Total	1st half	2nd half			1st half	2nd half
Demand deposits ^b	-1.66	-1.23	-1.40	-1.25	-1.55	0.80	0.37	0.54	0.74
CDs ^c	-0.31	0.13	-0.77	-0.30	-1.24	0.98	0.44	0.53	1.02
Resident deposits ^c									
Demand	-1.69	-0.90	0.02	-0.33	0.37	1.00	2.62	1.89	4.01
Time ^d	-1.40	-0.57	0.30	-0.05	0.65	1.02	2.61	1.87	4.03
Restitution deposits ^e	0.10	1.11	-0.52	-2.30	1.26	4.14	4.91	2.21	3.60
CPI-indexed bonds	-0.09	0.68	0.39	0.53	0.25	2.04	3.00	1.08	1.46
All shares	0.38	0.58	-1.24	-2.03	-0.45	3.40	5.69	3.77	2.36
Bank shares	-0.72	0.44	-0.20	0.42	-0.82	3.18	2.19	2.23	1.98
Nonbank shares	2.81	1.24	-2.80	-6.05	0.45	7.09	12.40	9.43	7.62

^a For 12 months up to and including the end of the stated period.^b High intercustomer variance.^c Denominated in dollars.^d Net of tax deducted at source.^e Denominated in DM.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.