

CHAPTER XVI

ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY OF BALANCE SHEET AT THE END OF 1973

THE BALANCE sheet of the Bank of Israel totalled IL 15,488 million at the end of 1973, compared with IL 12,071 million at the end of the preceding year—an increase of IL 3,337 million, or 28 percent, the same rate as in 1972. The sources of the continuing monetary expansion are reflected in the major balance sheet items: foreign currency assets, Government and National Institution accounts, and rediscounts and loans—though in the course of the year these aggregates fluctuated sharply.

As in 1972, most of the growth on the asset side stemmed from the expansion (\$ 628 million) of the economy's net foreign exchange reserves. The liquidity infusion generated by the accumulation and conversion of these balances, which in the past had been the principal cause of the monetary expansion, continued in the first three quarters of the year, though at a slower pace than in 1971-72. The Government siphoned off about IL 600 million during the first quarter, but pumped back a similar amount during the next two quarters, when foreign currency conversions by the private sector also had an expansionary effect. By contrast, until the outbreak of war the Bank of Israel absorbed liquidity through rediscounts and sales of the Short-Term Loan, chiefly in the second and third quarters of the year.

The Government stepped up its liquidity infusion in the wake of the war, and the fourth-quarter figure reached IL 730 million. However, much of this was reabsorbed when the public went over from selling to purchasing foreign currency. The Bank of Israel also injected liquidity into the economy in order to alleviate the financing difficulties which arose during the emergency period and were exacerbated by the heavy deposit withdrawals in October.

Asset items showing especially sharp increases were gold and foreign currency assets, Israeli currency credit (mainly because of the credit extended to purchasers of the War Loan), and foreign currency credit. On the liabilities side there were steep rises in currency in circulation, reflecting the heavy demand for cash in October, and Government and National Institution deposits, which swelled in the aftermath of the war.

Table XVI-1
ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1972-73
 (IL thousand)

	1972		1973		Increase or decrease (-)		
	Balance on Dec. 31	Percent of total	Balance on Dec. 31	Percent of total	IL '000	Percent	Percent of total change
Assets							
Foreign assets	5,722,186	47.4	8,105,740	52.5	2,383,554	41.7	70.6
Gold and assets in foreign currency	5,163,989	42.8	7,436,464	48.1	2,272,475	44.0	67.3
Gold quota in IMF	148,200	1.2	164,667	1.1	16,467	11.1	0.5
Other foreign currency assets	409,997	3.4	504,609	3.3	94,612	23.1	2.8
Credit to the Government	4,161,710	34.5	4,155,321	26.9	-6,389	-0.2	-0.2
Long-term debt	3,785,055	31.4	3,973,407	25.7	188,352	5.0	5.6
Gross	4,358,917	36.1	4,574,599	29.6	215,682	4.9	6.4
Less: Debt redeemed against Short-Term Loan sales	573,862	4.7	601,192	3.9	27,330	4.8	0.8
Treasury bills	50,911	0.4	129,990	0.9	79,079	155.3	2.3
Provisional advances	325,744	2.7	51,924	0.3	-273,820	-84.1	-8.1
Other credit and securities	1,345,868	11.2	2,424,581	15.7	1,078,713	80.1	31.9
Credit	1,273,435	10.6	2,296,879	14.9	1,023,444	80.4	30.3
Gross	1,725,193	14.3	2,786,224	18.1	1,061,031	61.5	31.4
In Israeli currency	451,545	3.7	1,135,736	7.4	684,191	151.5	20.3
In foreign currency	1,273,648	10.6	1,650,488	10.7	376,840	29.6	11.1
Less: Export finance deposits of banking institutions	451,758	3.7	489,345	3.2	37,587	8.3	1.1
Securities	72,433	0.6	127,702	0.8	55,269	76.3	1.6
Other accounts	270,479	2.2	19,478	0.1	-251,001	-92.8	-7.4

Guarantees and documentary credits	571,071	4.7	742,997	4.8	171,926	30.1	5.1
Total assets	12,071,314	100.0	15,448,117	100.0	3,376,803	28.0	100.0
Liabilities							
Banknotes and coin in circulation	2,035,817	16.9	2,812,137	18.2	776,320	38.1	23.0
Foreign liabilities	376,755	3.1	234,239	1.5	-142,516	37.8	-4.2
Deposits of foreign banking institutions in foreign currency	14,700	0.1	—	—	-14,700	-100.0	-0.4
Allocations of Special Drawing Rights	195,214	1.6	216,903	1.4	21,689	11.1	0.6
Deposits of the IMF in connection with drawings	148,200	1.2	—	—	-148,200	-100.0	-4.4
Other liabilities	18,641	0.2	17,336	0.1	-1,305	-7.0	0.0
Government and National Institution deposits	476,745	3.9	1,021,603	6.7	544,858	114.3	16.1
Deposits of importers	168,808	1.4	86,871	0.6	-81,937	-48.5	-2.4
Government and National Institution deposits in foreign currency	307,937	2.5	934,732	6.1	626,795	203.5	18.5
Banking and financial institution deposits in Israel	8,315,195	68.9	10,334,833	66.9	2,019,638	24.3	59.8
Banking institution deposits in IL	2,837,613	23.5	3,535,124	22.9	697,511	24.6	20.7
Financial institution deposits in IL	66,103	0.6	63,271	0.4	-2,832	-4.3	-0.1
Banking institution deposits in foreign currency	2,200,774	18.2	2,675,236	17.3	474,462	21.6	14.0
Banking institution deposits denominated in foreign currency	3,210,705	26.6	4,061,202	26.3	850,497	26.5	25.2
Other accounts	275,731	2.3	282,308	1.8	2,577	2.4	0.2
Capital and reserves	20,000	0.2	20,000	0.1	—	—	—
Liabilities on account of guarantees and documentary credits	571,071	4.7	742,997	4.8	171,926	30.1	5.1
Total liabilities	12,071,314	100.0	15,448,117	100.0	3,376,803	28.0	100.0

(a) *Assets*

1. *Foreign exchange*

The Bank of Israel's foreign currency assets continued to expand rapidly in the year reviewed. The State's net foreign exchange reserves held at the Bank¹ reached \$ 1,697 million at the end of 1973, as against \$ 1,070 million at the end of the previous year—an increase of \$ 628 million, compared with \$ 494 million in 1972. Thus the rapid growth of the two preceding years carried over through 1973, despite a marked widening of the balance of payments deficit on current account. Excluding the influence of the appreciation of European currencies against the dollar, the reserves expanded by \$ 475 million, about the same as in 1972. The 1973 advance can be credited mainly to the enormously larger capital import in the fourth quarter. Exclusive of foreign currency valuation adjustments, net reserves expanded by \$ 155 million in the first nine months of the year and by \$ 320 in the last quarter.

The impact of the negative balance of payments developments grew stronger at the beginning of 1974, with a resulting shrinkage of foreign exchange reserves.

The Bank's gross foreign currency holdings at the end of 1973 were, at \$ 1,930 million, up \$ 567 million from the end-1972 level. Its foreign liabilities continued downward, by \$ 78 million to only \$ 168 million.

2. *Government liabilities*

Government liabilities to the Bank of Israel, as listed in the balance sheet, declined by IL 6 million. Less the growth of treasury bills,² which do not constitute an increase in credit, the Government's debt contracted by IL 85 million. Provisional advances were reduced by IL 274 million to IL 52 million. The Government's net long-term obligations went up by IL 188 million, but excluding the decline in the Short-Term Loan, they dropped by IL 151 million. The decrease in the Government's long-term liabilities and provisional advances does not reflect the influence of its operations on the economy's liquidity, since the changes reducing the Government's debt included balance sheet transfers and entries that had a neutral effect as far as monetary absorption or infusion is concerned. On the other hand, changes in the Government's Israeli currency deposits and the increase in its foreign currency deposits, which do not have a dampening effect on the economy's liquidity, must also be taken into account.

¹ Defined as gold, Special Drawing Rights in the International Monetary Fund, and foreign currency assets, less foreign currency deposits of foreign banks and liquidity held against nonresidents' deposits. Since April 1973 Israel's gold quota in the IMF is also included in the reserves.

² These bills are sold to commercial banks in order to encourage the sale of the Short-Term Loan; since the public's Short-Term Loan holdings fell sharply in the last quarter of the year, the banks sold treasury bills to the Bank of Israel.

Net of all these changes, the amount of liquidity infused into the economy by the Government in 1973 came to IL 740 million. (For an analysis of the change in the Government's net debt to the Bank of Israel and its effect on the economy's liquidity in the various subperiods of the year, see section 4 below.)

3. *Credit to the public*

In 1973 the Bank of Israel stepped up its net credit (excluding that to the Government) by IL 1,024 million. However, less the IL 61 million decline in foreign currency credit extended to the National Institutions for the early repayment of foreign liabilities and less IL 540 million in short-term Israeli currency credit granted to the public to finance its purchases of the Voluntary War Loan (the proceeds of which were transferred in full to the Treasury, thereby reducing the Government's net liabilities), credit to the public expanded by only IL 545 million, most of it for financing exports.

Foreign currency rediscounts (excluding credit to the National Institutions) increased by IL 438 million. Of this sum, IL 350 million was granted through the Diamond Fund, reflecting the impressive advance in exports of this commodity in the first nine months of the year and the raising in June and July of the proportion of rediscounts in the fund at the expense of foreign currency credit. The increment also includes a special IL 58 million credit granted in April outside the funds. In the last quarter of the year the amount of foreign currency credit supplied by the Bank of Israel contracted, reflecting a decline in the Diamond Fund (due to the slowdown in this industry) and in the Fund for Financing Export Shipments (because of the postwar slump in exports).

Net rediscounts in Israeli currency (credit to the public, less the banks' participation in the export funds) went up by IL 647 million. As already mentioned, this included IL 540 million for financing purchases of the Voluntary War Loan, which was credited to the Government's account, thereby reducing its net liabilities to the Bank of Israel. Net rediscounts in Israeli currency thus increased by IL 107 million; this consisted of a special IL 160 million facility granted to the various sectors of the economy to help tide them over during the postwar emergency period and a decline in other items. Similarly, in October the banking institutions were granted a stopgap IL 100 million rediscount facility, which was repaid at the end of November. Another emergency measure was the stepping up of credit in the form of exemptions from liquidity requirements (this was not reflected in the balance sheet).

During the first three quarters of the year net Israeli currency rediscounts were down IL 160 million, mainly because of the restructuring of the export funds. In the Export Production Fund the share of Bank of Israel rediscounts was reduced, and in the Imports-for-Exports Fund a system of obligatory

Table XVI-2

BANK OF ISRAEL CREDIT TO THE PUBLIC, 1972-73

(IL million)

	Dec. 31 1972	1973		Increase or decrease (-)		
		Sept. 30	Dec. 31	Dec. 1972- Sept. 1973	Sept. 1973- Dec. 1973	Dec. 1972 Dec. 1973
Credit in IL	451.5	405.7	1,135.7	-45.8	730.0	684.2
Credit in foreign currency	1,273.6	1,857.4	1,650.5	583.8	-206.9	376.9
Less: Export finance deposits of banking institutions	451.8	565.9	489.3	114.1	-76.6	37.5
Total net credit	1,273.3	1,697.3	2,296.9	424.0	599.6	1,023.6
To the National Institutions	415.1	364.9	354.1	-50.2	-10.8	-61.0
To the public	858.2	1,332.4	1,942.8	474.2	610.4	1,084.6
For War Loan purchases	—	—	539.9	—	539.9	539.9
Other credit	858.2	1,332.4	1,332.7	474.2	70.5	544.7

deposits, similar to that applying in the Export Shipments Fund, was introduced. These changes increased the commercial banks' participation in the sources of nondirected credit, thereby reducing their potential for expanding non-directed credit to the public during the prewar period of rapid monetary expansion. In the last quarter net rediscounts in Israeli currency (less credit for the War Loan) increased by IL 267 million, including the aforementioned IL 160 million emergency facility.

(b) *Liabilities*

1. *Banknotes and coin in circulation*

The sharp upswing in currency in circulation mirrored the monetary expansion in general and the public's preference for holding cash in particular, which grew much stronger during and immediately after the fighting. The value of banknotes and coin in circulation soared IL 776 million, or 38 percent, to reach IL 2,812 million at the end of 1973. This is a high rate compared both with the previous year (25 percent) and with the growth of the public's demand deposits.

The accelerated rise in currency in circulation must be viewed against the background of economic developments in 1973. The rampant inflation dampened the growth of unlinked liquid asset holdings, reflecting a more economical use of such assets. But the slowdown was greater in demand deposits than in currency in circulation, where there is less possibility of using it less intensively, since cash is needed for current day-to-day operations. If part of the demand for liquidity shifted to the linked bond market, this was mainly at the expense of demand deposits. Research has shown that in periods of accelerated liquidity infusion the expansion of currency trails behind that in demand deposits. Since the year reviewed saw a slacker liquidity infusion, the opposite occurred; that is to say, currency outpaced the expansion of demand deposits, bringing up its weight in the money supply. Another noteworthy feature of the year reviewed was the large-scale deposit withdrawals upon the outbreak of war—a development that had occurred in previous war periods as well.

2. *Banking and financial institution deposits*

The expansion of liquidity in the economy is reflected in banking and financial institution deposits in Israeli and foreign currency held with the Bank of Israel. Local currency deposits rose by IL 697 million, or 25 percent—from IL 2,904 million at the end of 1972 to IL 3,598 million at the end of the year reviewed—with most of the increment consisting of the banks' required liquid asset cover. This growth rate was smaller than that for currency in circulation, and it also fell below the figure recorded for this item in 1972.

Foreign currency deposits and deposits denominated in foreign currency rose by IL 1,324 million, of which IL 815 million stemmed from the increase in the

external value of European currencies against the dollar and the Israeli pound which is pegged to it. Most of these deposits originated in personal restitution receipts from West Germany. Foreign currency deposits went up by IL 474 million to reach IL 2,675 million, and those denominated in foreign currency by IL 850 million to IL 4,061 million. Tamam accounts, the largest component of the foreign currency deposits, expanded by IL 414 million, of which IL 250 million was accounted for by the European exchange rate changes. Pazak balances, which constitute the bulk of the banking institutions' deposits denominated in foreign currency, rose by IL 850 million, of which IL 474 million resulted from the appreciation of the German mark.

2. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

(a) *Income*

The Bank's income totalled IL 643 million in 1973, as against IL 467 million the year before. Again most of the gain was in income from foreign currency holdings, which reached IL 367 million (\$ 87.3 million), compared with IL 198 million (\$ 47.2 million) in 1972. These substantial earnings can be attributed to the increase in the annual average balance of foreign currency assets, but do not reflect the sums deriving from the appreciation of European currencies (the investment of the Bank's reserves in such currencies yielded an extra \$ 153 million because of the exchange rate changes).

Interest on the Government's debt to the Bank, the second largest income item, was down fractionally. On the other hand, interest on the deficiencies in the commercial banks' required liquid asset cover soared from IL 2 million in 1972 to IL 31 million.

Income from rediscounts (less interest paid on the banks' participation in the various directed credit funds) amounted to IL 27 million, less than in the previous year.

The annual average balance of net rediscounts came to IL 1,700 million, compared with IL 1,300 million in 1972. The net interest earned by the Bank on its rediscounting operations and loans thus averaged only 1.6 percent. This inordinately small figure reflects, on the one hand, the low interest charged on rediscounts within the framework of the directed credit funds and, on the other hand, the relatively high rate paid to the banks on their participation in the funds—all this in order to make soft financing available to exporters and other recipients of directed credit. In addition, the Bank of Israel participated to the tune of IL 27 million in the Export Production Fund, which grants Israeli currency credits at 6 percent interest. It will thus be seen that the Bank does not, in fact, earn any income on the credit it makes available to the economy, most of it for export purposes.

(b) *Expenditure*

The Bank's expenses totalled IL 554 million in 1973, compared with IL 403 million the year before—up 37 percent, or the same as in income. Most of the increase was in interest paid to banking institutions on their greatly expanded liquid asset holdings. The average yield received by the banks on the liquid cover which they are required to hold in local currency against deposits remained unchanged at 6.7 percent. Another source of increase in the Bank's expenditure was the revaluation of foreign currency deposits with the Bank of Israel, most of which consisted of personal restitution payments from Germany.

(c) *Net profit*

The Bank's net profit amounted to IL 89 million in 1973, compared with IL 64 million the year before. As usual, the entire sum was transferred to the Treasury in accordance with the Bank of Israel Law.

3. FOREIGN CURRENCY ASSETS AND LIABILITIES AND GOLD HOLDINGS

Net foreign exchange reserves (as defined above) expanded by \$ 628 million in dollar terms, from \$ 1,070 million at the end of 1972 to \$ 1,697 million at the end of 1973. The various exchange rate changes during the year accounted for \$ 153 million of the gain.

(a) *Foreign exchange and gold*

Gross foreign currency assets added up to \$ 1,930 million at the end of 1973, as against \$ 1,362 million at the end of 1972 (see Table XVI-4).

At the end of 1973 Israel had 27.9 million Special Drawing Rights, compared with 29.2 million the year before. The value of a Special Drawing Right is equivalent, in gold terms, to the value of the U.S. dollar before the December 1971 and February 1973 devaluations. Israel's holdings of SDRs went up by \$ 22.9 million, from \$ 53.6 million to \$ 76.5 million. Loans to foreign countries and banks amounted to \$ 31.7 million, compared with \$ 33.6 million at the end of the previous year.

Israel's foreign liabilities were, at \$ 168 million, down \$ 78 million from the end-1972 figure. Most of the decrease resulted from the repayment to the International Monetary Fund of \$ 35.3 million on account of Israel's drawings on its gold tranche in previous years, and from a \$ 45 million decline in re-deposits of nonresident deposits, due chiefly to the change in their required liquid cover. Foreign banking institution deposits in foreign currency decreased by \$ 3.5 million, reducing the balance to zero.

The preponderant portion of the Bank's foreign currency balances is denom-

Table XVI-3

**FOREIGN EXCHANGE AND GOLD ASSETS HELD BY
THE BANK OF ISRAEL, 1972-73^a**

(\$ million)

	1972	1973	Increase or de- crease (-)
Assets			
Gold	43.4	46.3	2.9
Special Drawing Rights	31.7	33.6	1.9
Gold quota in IMF	35.3	39.2	3.9
Foreign currency assets	1,154.4	1,690.6	536.2
Clearing accounts	1.0	1.5	0.5
Participation in international financial institutions	8.4	10.4	2.0
Loans to foreign governments and institutions	34.6	31.7	-2.9
Other foreign currency assets	53.6	76.5	22.9
Total assets	1,362.4	1,929.8	567.4
Liabilities			
Clearing accounts	3.4	2.3	-1.1
Deposits of international financial institutions	1.0	1.8	0.8
Deposits of international financial institutions in connection with drawings	35.3	—	-35.3
Allocation of Special Drawing Rights	46.5	51.6	5.1
Deposits of foreign banking institutions	3.5	—	-3.5
Deposits of nonresidents (Patach)	156.4	112.7	-43.7
Total liabilities	246.1	168.4	-77.7
Net assets	1,116.3	1,761.4	645.1

^a See note 1 on p. 448.

inated in European currencies, and the increase in these against the dollar greatly appreciated the balances in dollar terms at the beginning of the year.

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

At the end of 1973 the Bank of Israel maintained clearing accounts with three countries with which Israel had trade and payments agreements: Brazil, Bulgaria, and Portugal. Israel's debit balances in the clearing accounts totalled \$ 1.5 million and its credit balances \$ 2.3 million. The net balance to Israel's credit therefore stood at \$ 800,000 at the end of 1973. The payments agreement with Hungary expired on March 31, 1973.

(c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel reached IL 2,675 million (about \$ 637 million) at the end of 1973, compared with IL 2,200 million (about \$ 524 million) the year before—a rise of IL 475 million (\$ 113 million).

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

These are restricted foreign currency deposits placed with the banking institutions by recipients of restitution payments from Germany and by discharged and disabled veterans of World War II, who are generally entitled to deposit up to one-third of their foreign currency receipts in these accounts (several small groups may deposit a higher proportion of their receipts). These deposits may be withdrawn in foreign currency to finance foreign travel, purchase foreign securities, and defray legal expenses connected with restitution claims. The banking institutions must redeposit these sums in full with the Bank of Israel. At the end of 1973 these accounts amounted to IL 1,805 million (\$ 430 million), compared with IL 1,391 million (\$ 332 million) at the end of 1972—an increase of IL 414 million (\$ 98 million), of which about IL 250 million resulted from the exchange rate changes.

Interest rates paid by the Government and the Bank of Israel on these deposits remained unchanged during the year reviewed, and were as follows: deposits for three months—2 percent; six months—3 percent; nine months—4 percent, and 12 months—4.5 percent.

2. *Foreign securities dividend accounts (Natad)*

These are restricted foreign currency deposits of Israeli citizens deriving from the sale of foreign securities or the receipt of dividends and interest thereon. They may be withdrawn in foreign currency solely for the purchase of foreign securities or securities traded in foreign currency, in accordance with the directives of the Controller of Foreign Exchange. Securities purchased in this manner may be resold to the general public. The banking institutions are required to hold 100 percent liquid cover against these deposits. At the end of 1973 they added up to IL 96.4 million (\$ 23 million), compared with IL 60.3 million (\$ 14.4 million) at the end of 1972—a rise of IL 36.1 million (\$ 8.6 million).

3. *Deposits of nonresidents (Patach)*

These are freely transferable funds deposited by nonresidents and immigrants with Israeli banks and redeposited with the Bank of Israel. The banks are required to hold 20 percent liquid cover against these accounts, of which 10 percent is with the Bank of Israel and another 10 percent either with it or with foreign banks approved for this purpose by the Examiner of Banks (after

deducting deposits for the granting of loans authorized by the central bank). At the end of 1973 these accounts totalled IL 473.3 million (\$ 112.7 million), as against IL 656.8 million (\$ 156.4 million) at the end of the previous year—a decrease of IL 183.5 million (\$ 43.7 million). It was actually IL 244.2 million, but the exchange rate changes added IL 60.7 million to the balances. The decrease can be ascribed primarily to the reduction in September of the required liquid cover from 20 to 10 percent and the possibility of depositing the 10 percent balance with foreign banks.

As in 1972, the rates of interest paid by the Bank of Israel on these accounts were revised repeatedly because of the relative volatility of interest rates in the international money markets. A new scale of rates was introduced at the beginning of 1972, reflecting more closely the developments in these markets. The highest interest was paid on sterling and dollar deposits and the lowest on deposits in Swiss francs and German marks. At the beginning of 1973 the interest paid on deposits in European currencies (other than sterling) dropped, only to rise strongly at the end of the year. In dollar time deposits the opposite occurred, namely a rise in most months of the year and a decline toward the end.

As of August 17, 1972 the rate in force for Patach demand deposits was 1.5 percent on the lowest daily balance each week not exceeding the minimum balance, less time deposits and deposits in Dutch guilders, Swiss francs, and German marks, on which no interest whatsoever was paid. Since March 6 interest of 1.5 percent has been paid only on U.S. dollar accounts.

Following the sharp exchange rate changes in February 1973 and the subsequent movement of speculative capital, the banks in a number of countries placed a limit on the balances which could be held with them in their own currencies and charged a commission on excess balances. The Bank of Israel decided to introduce a similar measure and collect a commission on the incremental bank balances held in those currencies, except for Pazak and Tamam accounts. The commission rates were fixed in accordance with foreign currency developments during the year. The highest rate was imposed in February on excess DM balances, and in March lower rates were set for other European currencies.

As a result of the sharp swings in interest rates in the international money markets, the Bank of Israel introduced a cancellation fee on withdrawals of deposits before their original payment dates. The fee is the highest of the following:

(a) Interest on the sum withdrawn for the remainder of the originally specified period of the deposit, at a rate equal to the difference between the original interest rate on the deposit and the rate paid by the Bank of Israel, on the date of withdrawal, on new deposits in the same currency and for the original term of the deposit.

(b) One-half percent of the amount withdrawn for every month, or part thereof, of the period between the withdrawal date and the original terminal date of the deposit.

(c) One percent of the amount withdrawn.

Until the end of August the minimum amount which could be deposited in Patach accounts was \$ 100, or its equivalent in another currency. On August 3 this was increased to \$ 1,200 or its equivalent.

4. *Blocked and registered deposits (Pahab)*

These are foreign currency accounts of insurance and shipping companies, enterprises approved under the Law for the Encouragement of Capital Investments, etc., which are redeposited with the Bank of Israel. The liquidity and other requirements applicable to Patach accounts also apply to these deposits. At the end of 1973 the balance of these accounts was IL 18.1 million (\$ 4.3 million)—up IL 3.5 million (\$ 0.8 million) from 1972. IL 2.2 million of the increment stemmed from the exchange rate changes. The interest and commission rates on these accounts are the same as for Patach balances.

5. *Import deposit accounts (Hay)*³

These are deposits of importers who purchase foreign currency without transferring it abroad. The foreign currency regulations limit the amount transferable abroad to 30 percent of the documentary credit established; the importer must deposit the balance in a Hay account until receipt of the goods in Israel. Banking institutions are required to redeposit these sums, which are non-interest-bearing, in full with the Bank of Israel. At the end of 1973 these deposits totalled IL 46 million (\$ 11 million), as against IL 25.9 million (\$ 6.2 million) at the end of 1972—an increase of IL 20.1 million (\$ 4.8 million).

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

These are accounts with the Bank of Israel in which banks deposit foreign currency to be paid abroad. These balances, on which no interest is paid, expanded from IL 51.7 million (\$ 12.3 million) at the end of 1972 to IL 65.5 million (\$ 15.6 million) at the end of 1973—i.e. by IL 13.8 million (\$ 3.3 million). In 1973 the rates of commission collected on these accounts were the same as for excess Patach balances.

³ These are foreign currency accounts unrelated to the import deposits in Israeli currency introduced in January 1970.

(e) *Deposits denominated in foreign currency*

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

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

These are deposits in banking institutions by Israeli residents receiving income in foreign currency, some two-thirds of which consists of German restitution payments. The banks are required to redeposit these sums in full with the Bank of Israel. At the end of 1973 these accounts totalled IL 4,053 million (\$ 965 million), compared with IL 3,204 million (\$ 763 million) in 1972—up IL 850 million (\$ 202 million), of which IL 474 million derived from the exchange rate changes. Interest on these deposits was paid by the Government

Table XVI-4

ASSETS AND LIABILITIES IN FOREIGN CURRENCY AND DENOMINATED
IN FOREIGN CURRENCY, 1972-73

(\$ million)

End of period	1972	1973	Increase or de- crease (-)
Assets			
Foreign currency assets ^a	1,309	1,853	544
Long-term advances to the Govt.	665	658	-7
Bills discounted in foreign currency	303	393	90
Other foreign currency assets	54	76	22
Total	2,331	2,980	649
Liabilities			
Foreign currency liabilities ^a	246	168	-78
Bank deposits			
Pamaz	12	16	4
Tamam	332	430	98
Pahab	4	4	—
Hay	6	11	5
Nataad	14	23	9
Pazak	763	965	202
Diamond accounts	1	2	1
Government and National Institution deposits	73	223	150
Other liabilities	2	43	41
Total	1,453	1,885	432

^a Detailed in Table XVI-3.

and the Bank of Israel at the rates prevailing in 1972, namely: deposits for three months—3 percent; six months—4 percent; nine months—5 percent; and one year—6 percent. Most Pazak account holders are recipients of German restitutions and do not pay income tax on their interest receipts; other Israeli residents have the tax withheld at source.

2. *Diamond accounts*

These accounts, which are connected with transactions in diamonds and are non-interest-bearing, must be redeposited in full by the banks with the Bank of Israel. At the end of 1973 they added up to IL 8 million, as against IL 6.3 million at the end of the previous year.

(f) *Foreign banking institution deposits*

These are foreign currency deposits of foreign banks placed with the Bank of Israel for varying periods. Totalling IL 14.7 million (\$ 3.5 million) at the end of 1972, they were all withdrawn during the year reviewed.

(g) *Assets and liabilities in or denominated in foreign currency*

Total foreign currency assets and assets denominated in foreign currency rose from IL 9,788 million at the end of 1972 to IL 12,519 million, while total foreign currency liabilities and those denominated in foreign currency went up from IL 6,104 million to IL 7,915 million. The surplus of assets over liabilities increased from IL 3,684 million to IL 4,605 million, or by IL 921 million (see Table XVI-4).

4. THE BANK OF ISRAEL AS BANKER TO THE GOVERNMENT

Examination of the Government's accounts by balance sheet item shows a IL 424 million contraction in its liabilities to the Bank of Israel. Including the IL 545 million increase in creditory accounts, the Government's debt was pared by IL 969 million (see Table XVI-5 and notes).

The decline in Bank of Israel credit to the Government in 1973 does not reflect the latter's influence on the economy's liquidity, since the changes that reduced the Government's debt include balance sheet transfers and entries which are neutral as far as liquidity absorption or infusion is concerned. If we disregard these, as well as Government and Jewish Agency transactions in foreign currency, the Government injected a total of IL 730 million into the economy in 1973.

This liquidity infusion did not proceed at an even pace during the year: in the first quarter there was a sizable seasonal absorption of some IL 600 million, which was fully pumped back over the next two quarters; in the last quarter an additional IL 730 million was injected into the economy. The

Table XVI-5

GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,^a 1972-73

(IL million)

End of period	1972	1973	Increase or decrease (-)
Debit			
Ordinary advances to the Govt.	325.7	51.9	-273.8
Net long-term advances to the Govt. ^b	4,323.9	4,173.2	-150.7
Total debit balances	4,649.6	4,225.1	-424.5
Credit			
Import deposits	168.8	86.8	-82.0
Foreign currency accounts	307.9	934.7	626.8
Total credit balances	476.7	1,021.5	544.8
Balance	4,172.9	3,203.6	-969.3

^a Excluding IL 234.4 million in treasury bills (the balance held by the Bank of Israel in 1973 amounted to IL 130 million, compared with IL 51 million at the end of 1972).

^b Including operations in connection with the Short-Term Loan.

enormous fourth-quarter infusion was designed to stave off a worsening of the liquidity situation following the large war-induced deposit withdrawals in October and also because of the heavy foreign currency purchases, which siphoned off considerable funds. The liquidity was infused in this quarter by speeding up payments to Government suppliers, but the effect of this step was blunted toward the end of December following an unprecedented sale of index-linked Government and financial institution bonds. The latter development gained strength in January 1974, when the Government already possessed a substantial surplus of revenue in Israeli currency over its domestic expenditure.

(a) *Debit accounts*

The Government's long-term debt to the Bank of Israel was reduced by IL 151 million in 1973. Repayments amounted to IL 403 million, but this was partly offset by a IL 252 million advance for the creation of a Science Fund in accordance with a Knesset decision. This advance did not have any effect on the economy's liquidity.

Short-term advances to the Government were down by IL 274 million. This includes a IL 540 million credit to the Government's account against the credits extended by the Bank of Israel to the public for financing Voluntary War Loan purchases. Crediting the Government by this amount does not represent an absorption of liquidity, since the funds originated in Bank of Israel credit; without it, short-term advances would have grown by IL 266 million.

(b) *Credit accounts*

Total deposits of the Government and the National Institutions expanded by IL 545 million. This was accounted for by a IL 627 million increase in foreign currency deposits originating in the large-scale postwar transfers from abroad. It should be noted that the growth of Government and National Institution foreign currency deposits originating overseas does not have a restrictive effect on the economy's liquidity. Importers' deposits were down IL 82 million (the obligation to deposit 20 percent of the value of imports was abolished at the end of November 1973).

(c) *Government imports*

Documentary credit accounts opened for the financing of imports by Government departments totalled \$ 159.7 million, compared with \$ 78.7 million in the previous year. The value of documents received by the Bank of Israel from foreign banks and suppliers for collection from the various Government departments was \$ 30.9 million, as against \$ 36.6 million the year before. The total amount of Government imports financed by Bank of Israel credit and collections made through the Bank was \$ 164.1 million, compared with \$ 112.7 million in 1972.

A large percentage of the Government's imports financed by such credit consists of foodstuffs purchased by the Ministry of Commerce and Industry. The increase in the Government's import bill was partly due to the higher prices paid for food.

5. THE BANK OF ISRAEL AS THE BANKERS' BANKER

Banking and financial institution deposits with the Bank of Israel expanded by IL 2,020 million—from IL 8,315 million at the end of 1972 to IL 10,335

Table XVI-6
BANKING AND FINANCIAL INSTITUTION DEPOSITS WITH
THE BANK OF ISRAEL, 1972-73

(IL million)

End of period	1972	1973	Increase or decrease (-)
Israeli currency deposits	2,903.7	3,598.4	694.7
Banking institution	2,837.6	3,535.1	697.5
Financial institution	66.1	63.3	-2.8
Deposits in foreign currency and denominated in foreign currency ^a	5,411.5	6,736.4	1,324.9
Total	8,315.2	10,334.8	2,019.6

^a Details are given in Table XVI-4.

million at the end of 1973. Israeli currency deposits grew by IL 697 million, or 25 percent—half the 1972 growth rate. The increase in foreign currency deposits and those denominated in foreign currency was IL 1,325 million, or 24.5 percent.

Following are the rates of interest (percent p.a.) paid by the Bank of Israel on banking and financial institution accounts in Israeli currency and the changes therein in 1973.

	From Jan. 1, 1973	From June 14, 1973
1. On an amount equal to —		
17 percent of the ordinary deposits with the institution,		
8 percent of its fixed-term deposits (four to six months), and		
5 percent of its other fixed-term deposits (six months or more)	0	0
2. On the liquid cover which the banking institution is required to hold against excess Bank of Israel rediscounts	0	0
3. On an additional amount (only, in the case of banks that are authorized dealers) equal to:		
(a) An amount by which 7 percent of the ordinary deposits with the institution exceed the sum total of its deductions on account of export finance loans, according to section 8 of the Liquidity Regulations,		
Less —		
The amount of banknotes and coin in Israeli currency held by the institution which are deemed to be a liquid asset according to section 10(2) of the Liquidity Regulations	0	
(b) An additional amount by which the liquidity exemptions according to section 8 of the Liquidity Regulations are less than 3.5 percent of the total ordinary deposits and fixed-term deposits of the institution,		
Less —		
The amount of banknotes and coin in Israeli currency held by the institution which are deemed to be a liquid asset according to section 10(2) of the Liquidity Regulations		0

	From Jan. 1, 1973	From June 14, 1973
4. On an additional amount by which the total of (a) below exceeds that of (b) below:		
(a) 47.5 percent of the institution's ordinary deposits, 17 percent of its fixed-term deposits (four to six months), and 8.5 percent of its other fixed-term deposits (six months or more), the liquidity cover which the institution is required to hold against deposits for the granting of loans and savings deposits, the deficiency in the institution's deposits in the Export Shipments Finance Fund		
(b) The sum total of deductions according to section 8 of the Liquidity Regulations, the amount of treasury bills deemed to be a liquid asset according to section 10(3) of the Liquidity Regulations, the amount by which 7 percent of the ordinary deposits with the institution exceed the sum total of its deductions on account of export finance loans, according to section 8 of the Liquidity Regulations	8	
5. On an additional amount in excess of the totals		
of (1), (2), (4)	13	
of (1), (3), (4)		13

6. CURRENCY ISSUE

(a) *Currency in circulation*

The monthly average of currency in circulation (calculated according to Wednesday figures) went up 36.8 percent, from IL 2,077 million in December 1972 to IL 2,842.2 million in December 1973;⁴ this compares with increases of 24.6 percent in 1972, 22.9 percent in 1971, 12.3 percent in 1970, and 4.2 percent in 1969.

⁴ Including commemorative coins with a total face value of IL 29.5 million (IL 17.9 million at the end of 1972), which are only formally included in this item.

The level moved up at a rapid rate throughout most of the year (explained above), especially in October when it jumped 10 percent. There were also the usual steep increases associated with the Jewish New Year and the Passover Festival.

Table XVI-7
CURRENCY IN CIRCULATION, 1972-73
(IL thousand; Wednesday averages)

	1972	1973
January	1,683,993	2,076,284
February	1,714,910	2,098,818
March	1,782,486	2,161,537
April	1,841,247	2,264,016
May	1,864,464	2,286,416
June	1,899,887	2,361,761
July	1,942,418	2,427,450
August	1,972,151	2,475,755
September	2,016,443	2,523,755
October	2,040,403	2,685,627
November	2,059,687	2,805,385
December	2,077,245	2,842,215

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

The value of IL 100 banknotes in circulation continued to rise in 1973, bringing up their share in the total value of banknotes from 63.4 percent in 1972 to 69.2 percent. By contrast, the value of IL 50 notes declined, depressing their share from 26.5 to 22.6 percent. These changes in the relative shares continued the pattern evident since the IL 100 notes were introduced in February 1969. (It should be noted in this context that the sharpening of inflation generally results in a greater use of higher denomination banknotes.)

The proportion of IL 10 banknotes edged down from 8.3 percent to 6.8 percent of the total value of notes in circulation, and that of IL 5 notes from 1.6 to 1.3 percent. The share of IL 1 notes, the issue of which was discontinued in 1970, drifted down from 0.2 to 0.1 percent. The total value of IL 1 notes and coins at the end of 1973 was IL 40 million (IL 3.3 million in notes and IL 36.7 million in coins). The proportion of IL 1 and half-pound notes in 1973 was especially low, confirming the assumption that most of these have been lost or are in the hands of collectors.

During the year reviewed IL 22.3 million worth of new agorot, half-pound, IL 1, and commemorative coins were put in circulation, as against IL 11.2 million worth in 1972. Most of the increase stemmed from the issue of three

Table XVI-8

BANK NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1972-73

End of period	1972		1973	
	IL '000	%	IL '000	%
Banknotes				
IL ½	493	—	492	—
IL 1	3,332	0.2	3,309	0.1
IL 5	30,573	1.6	35,777	1.3
IL 10	163,284	8.3	185,481	6.8
IL 50	521,383	26.5	613,190	22.6
IL 100	1,244,804	63.4	1,879,663	69.2
Total	1,963,869	100.0	2,717,912	100.0
Coins				
1 pruta	5	—	5	—
5 prutot	48	—	48	—
10 prutot	283	0.4	283	0.3
25 prutot	164	0.2	164	0.2
50 prutot	494	0.6	494	0.5
100 prutot	331	0.4	331	0.3
250 prutot ^a	600	0.8	600	0.6
500 prutot (silver)	22	—	22	—
1 agora	2,186	2.8	2,398	2.4
5 agorot	3,726	4.8	4,480	4.5
10 agorot	9,135	11.7	10,973	11.0
25 agorot	3,572	4.6	4,055	4.0
50 agorot	8,525	11.0	9,995	10.0
IL 1	30,896	39.7	36,748	36.7
Total	59,987	77.0	70,596	70.5
Commemorative coins				
IL ½	28	—	28	—
IL 1	289	0.4	289	0.3
IL 5 (silver)	2,133	2.7	2,698	2.7
IL 10 (silver)	9,510	12.2	12,426	12.4
IL 20 (gold)	210	0.3	210	0.2
IL 50 (gold)	686	0.9	2,249	2.2
IL 100 (gold)	5,021	6.5	7,896	7.9
IL 200 (gold)	—	—	3,750	3.8
Total	17,877	23.0	29,546	29.5
Total coin	77,864	100.0	100,142	100.0
Total currency in circulation	2,041,733	—	2,818,054	—
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value	5,917	—	5,917	—
Total, net	2,035,816	—	2,812,137	—

^a Including paper tokens and silver coins.

Independence Day gold coins, totalling IL 8.2 million, to mark the 25th anniversary of the State. At year's end agorot, half-pound, and IL 1 coins accounted for 97.2 percent of the total value in circulation, compared with 96.7 percent at the end of 1972. The share of the old prutot coins dropped from 3.3 to 2.8 percent.

(c) *Damaged currency*

In 1973 unusable banknotes totalling IL 554 million were destroyed, while 884 applications to exchange damaged currency in the amount of IL 215,754 were submitted. The Bank of Israel approved 765 applications, totalling IL 203,576.

(d) *Agencies for the supply of currency*

The Bank of Israel has eight agencies for the supply of currency, located in Ashdod, Beersheba, Eilat, Hadera, Netanya, Petah Tikva, Rehovot, and Tiberias. They supply currency to banking institutions in the provincial towns and absorb their surplus currency. The Safad agency was closed in 1973 and its business transferred to Tiberias. In addition to these agencies, the Bank maintains agencies in the head offices of the three largest banks in Tel Aviv and Haifa, as well as in the main Bank Leumi le-Israel branch in Jerusalem. These agencies ensure greater economy and security in the transfer of money to and from the Bank of Israel and further improvement in the technical work connected with the circulation of banknotes both in normal times and in periods of emergency.

7. CURRENCY SUPPLY

(a) *Commemorative and special coins*

In 1973 the Bank of Israel issued the 25th Independence Day coin (5733) to mark the twenty-fifth anniversary of the establishment of the State of Israel. It has a nominal value of IL 10, is made of sterling silver (900/1000), weighs 26 grams, and has a 37 mm. diameter. Its theme is the Proclamation of Independence, and it was issued in ordinary and proof form. A set of three gold coins (900/1000) with the same theme was also issued: one has a nominal value of IL 50, weighs 7 grams, and has a 22 mm. diameter; the second has a nominal value of IL 100, weighs 13.5 grams, and has a 27 mm. diameter; and the third has a nominal value of IL 200, weighs 27 grams, and has a 33 mm. diameter.

As in previous years, the Bank also issued a Pidyon Haben (Redemption of the Firstborn) coin, with the same nominal value, composition, weight, and diameter as the Independence Day coin. It is intended for use in the ceremonial redemption of the firstborn from the priesthood, and its subject is the biblical

Table XVI-9

COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL, 1957/58 TO 1972/73

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
Half-shekel coins				
1960/61	Utrecht	20,004	5,000	25,004
1961/62	Utrecht	20,000	10,000	30,000
Hanukka coins—IL 1				
1958/59 (Tora is Light)	Bern	150,000	5,000	155,000
1959/60 (Degania)	Utrecht	50,000	5,000	55,000
1960/61 (Henrietta Szold)	Utrecht	16,883	3,000	19,883
1961/62 (Maccabees)	Utrecht	18,916	9,428	28,344
1962/63 (Italian Hanukka Lamp)	Bern	9,657	6,040	15,697
1963/64 (North African Hanukka Lamp)	Utrecht	10,000	5,500	15,500
1972/73 (Russian Hanukka Lamp)	Jerusalem	75,000	22,500	97,500
1973/74 (Babylonian Hanukka Lamp)	Jerusalem	95,000	45,000	140,000
Silver coins denominated in prutot				
250 prutot	Birmingham	44,225	—	44,225
500 prutot	Birmingham	43,767	—	43,767
Independence Day coins—IL 5				
1957/58 (Menora)	Utrecht	98,051	2,000	100,051
1958/59 (Ingathering of the Exiles)	Bern	27,249	4,792	32,041
1959/60 (Herzl)	Bern	34,472	4,923	39,395
1960/61 (Bar Mitzva)	Utrecht	19,541	4,561	24,102
1961/62 (Development)	Utrecht	10,450	5,050	15,500
1962/63 (Seafaring)	Rome	5,990	4,500	10,490
1963/64 (Israel Museum)	Rome	11,100	4,500	15,600
1964/65 (Knesset)	Rome	25,252	7,660	23,912
1965/66 (The People of Israel Lives On)	Utrecht	32,503	10,500	43,003
1966/67 (Eilat)	Utrecht	30,250	7,755	38,005
Independence Day coins—IL 10				
1966/67 Ordinary	Bern	234,589	—	234,589
1966/67 Proof	Kreshmer, Jm.	—	50,499	50,499
1967/68 (Jerusalem)	Bern	50,000	20,501	70,501
1968/69 (Peace)	San Francisco	40,000	20,000	60,000
1968/69 (Peace)	Kreshmer, Jm.	20,199	—	20,199
1969/70 (Mikve Israel Centenary)				
Ordinary	Kreshmer, Jm.	47,704	—	47,704
Proof	Bern	—	22,500	22,500
1970/71 (Science-Based Industries)				
Ordinary	Jerusalem	22,700	—	22,700
Proof	Utrecht	30,000	17,501	47,501
1971/72 (Israel Aviation)	Jerusalem	50,000	15,000	65,000
1972/73 (Proclamation of Independence)	Jerusalem	125,000	41,500	166,500

Table XVI-9
COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,
1957/58 TO 1972/73 (cont.)

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
Pidyon Haben (Redemption of the Firstborn)				
1969/70 Ordinary	Jerusalem	50,933	—	50,933
1969/70 Proof	San Francisco	—	15,500	15,500
1970/71 Ordinary	Jerusalem	30,201	—	30,201
1970/71 Proof	San Francisco	—	15,500	15,500
1971/72 Ordinary (with mint mark)	Jerusalem	30,000	—	30,000
1971/72 Ordinary (without mint mark)	Jerusalem	15,000	—	15,000
1971/72 Proof	Jerusalem	—	12,500	12,500
1972/73 Ordinary	Jerusalem	105,000	—	105,000
1972/73 Proof	Jerusalem	—	15,000	15,000
Special issue (silver) — IL 10				
1970/71 (Let My People Go)	Jerusalem	75,000	20,300	95,300
Gold coins				
IL 20 1959/60 (Herzl)	Bern	10,510	—	10,510
IL 50 1962/63 (Weizmann)	Bern	—	6,202	6,202
IL 100 1962/63 (Weizmann)	Bern	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Bern	6,014	1,502	7,516
IL 100 1966/67 (Victory)	Bern	—	9,004	9,004
IL 100 1967/68 (Jerusalem)	Bern	—	12,500	12,500
IL 100 1968/69 (Peace)	Utrecht	—	12,500	12,500
IL 100 1970/71 (Let My People Go)	Bern	—	10,001	10,001
Independence Day coins (gold)				
IL 50 1972/73	Bern	—	31,250	31,250
IL 100 1972/73	Bern	—	28,750	28,750
IL 200 1972/73	Bern	—	18,750	18,750

verse "All the Firstborn of thy sons shalt thou redeem." It was issued in ordinary (BU—brilliant uncirculated) and proof form. The design of the coin on both the obverse and reverse sides differs from that of the previous years. On the reverse side appears the biblical verse surrounded by five silver shekalim struck in Jerusalem during the war against the Romans (66–70 CE), and on the rim the legend "Coin of redemption".

In the year reviewed the Bank issued another in the Hanukka coin series. It has a nominal value of IL 5, is made of sterling silver (500/1000) and copper (500/1000), weighs 20 grams, and has a 34 mm. diameter. Its theme is an eighteenth century Babylonian Hanukka lamp, and the coin was issued in both ordinary and proof form.

The year 1973 was the third in which the Bank of Israel issued a series

of special coins, identical to the ordinary coins in circulation and bearing the Hebrew date 5733, but minted on special blanks with a mint mark in the form of a tiny Star of David. All six existing denominations—1, 5, 10, 25, and 50 agorot and IL 1—were issued in this series of 100,000 units per denomination.

(b) *Coins in circulation*

In 1973 some 38 million coins were minted for the Bank of Israel at the Israel Mint in Jerusalem, including the 600,000 mentioned in the preceding paragraph. During the Hebrew year 5733 (1973/74) it minted a total of 39 million coins; in addition, some 3 million 50 agorot and 10 million IL 1 coins were minted at the Swiss Federal Mint in Bern and 16 million 5 agorot and 10.5 million 10 agorot coins at the Royal Canadian Mint. All the coins bear the Hebrew date 5733 (1973/74). Following is a breakdown of the mintings.

Number of Coins Minted, 1973

Coin	In Israel		Abroad	
	1973	5733 (1973/74)	No.	Place minted
1 agora	20,448,000	20,496,000	—	—
5 agorot	10,210,000	9,380,000	16,340,000	Royal Canadian Mint
10 agorot	3,800,000	5,625,000	10,580,000	Royal Canadian Mint
25 agorot	2,916,000	3,770,000	—	—
50 agorot	310,000	110,000	3,115,000	Swiss Federal Mint, Bern
IL 1	150,041	150,000	10,115,000	Swiss Federal Mint, Bern

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

This Committee, headed by Supreme Court Justice Alfred Witkon, assists the Bank in planning the banknotes and coins to be issued and recommends to the Governor of the Bank of Israel the designs it has approved from among those submitted by artists participating in closed competitions. It is also responsible for the actual planning of another new series of banknotes.

Members of the Committee were: Dr. A. Witkon (Chairman), M. Ardon, Dr. Biran, I. M. Brin, Mrs. E. Cohen, R. Dayan, S. Golan, Dr. R. Hecht, Dr. D. Karavan, G. Keich, A. Kindler, T. A. Lurie (deceased), and Dr. M. Spitzer.

8. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

The expectation of a further aggravation of inflation fueled demand for index-linked Government and financial institution bonds in 1973. The brisk

sales were partly made possible by the continued abundant liquidity in the economy, while another part was financed by disinvesting in unlinked assets, including the Short-Term Loan. The absence of expectations of an imminent devaluation of the Israeli pound in the first nine months of the year lent impetus to this development.

Excluding the Short-Term Loan, new Government loans administered by the Bank of Israel grossed 82 percent more than in 1972—IL 2,387 million as against IL 1,308 million. Issues of index-linked bonds by other financial institutions totalled IL 1,113 million, as against IL 575 million in 1972.

Since redemptions of Government loans were down, net proceeds from such issues rose even more strongly—from IL 826 million in 1972 to IL 2,114 million.

By contrast, demand for the Short-Term Loan weakened noticeably, reflecting, as already noted, the shift from unlinked to linked assets due to the declining yield of this paper in the face of the intensification of inflation. In the last quarter of the year Short-Term Loan sales plummeted after termination

Table XVI-10
NET NEW BOND ISSUES, 1972-73
(IL million)

	1972			1973		
	Gross issue	Redemption	Net issue	Gross income	Redemption	Net issue
A. Long and medium-term	923	411	512	1,851	189	1,662
Option-type	496	380	116	1,255	167	1,088
Seven-year bonds	241	—	241	347	—	347
Other long-term loans ^a	47	14	33	75	16	59
Special issue for banks	129	—	129	160	—	160
Loans issued in previous years ^b	10	17	-7	14	6	8
B. Voluntary War Loan	—	—	—	124	—	124
C. Compulsory loans^c	385	71	314	412	84	328
Absorption Loan	160	71	89	121	82	39
Defense Loan 1970	156	0.1	156	208	1	207
Savings Loan 1970	69	—	69	83	1	82
Total loans, excl. the Short-Term Loan	1,308	482	826	2,387	273	2,114
Percent annual change	207.8	326.6	164.7	82.5	-43.4	155.9
D. Short-Term Loan	1,826	1,781	45	1,638	1,982	-344

^a Development Loan and Insurance Companies Loan.

^b Including the 1966 prize-bearing State Lottery loan, which was transferred to the Bank of Israel.

^c Value of certificates distributed.

of the agreement with the commercial banks whereby they had undertaken to purchase a fixed weekly quota.

Voluntary medium- and long-term loan issues trebled in 1973—IL 1,700 million as against IL 512 million the year before. Most of the sales were of medium-term issues to the general public (for five and seven years), which netted IL 1,400 million compared with IL 350 million in 1972. Of this sum, 75 percent was in option-type bonds for five years and 25 percent in seven-year bonds.

Gross sales of the five-year option-type bonds were up by an impressive 153 percent, from IL 496 million in 1972 to IL 1,255 million. Redemptions were well below the 1972 figure—IL 167 million as against IL 380 million—since most of the 1962 Defense Loan was redeemed in 1972 and only a small fraction at the beginning of 1973. Net issues of option-type bonds thus reached a record IL 1,088 million, as against IL 116 million in 1972, doubling the public's holdings of this paper from IL 1,000 million at the end of 1972 to IL 2,100 million at the end of 1973.

Sales of the seven-year bonds trailed far behind the option-type, amounting to IL 347 million compared with IL 241 million in 1972—a 44 percent gain. Proceeds from bonds issued specifically for banks under an agreement with the Treasury totalled IL 160 million, as against IL 129 million in 1972.

In October a Voluntary War Loan was floated. This yielded the Treasury's coffers IL 124 million in the last quarter of 1973, while purchases financed by short-term credits came to IL 557 million.

The value of compulsory loan certificates distributed rose slightly in the year reviewed. The distribution of 1970 Defense and Savings Loan certificates was stepped up 36 percent, but this was largely offset by the decline in the 1967 Absorption Loan, the last in this series. The total value of compulsory loan certificates distributed in 1973 reached IL 412 million (face value), as against IL 385 million in 1972—up 7 percent.

Gross sales of the Short-Term Loan dropped in the year reviewed from about IL 1,800 million to approximately IL 1,600 million. On the other hand, redemption of principal rose from some IL 1,800 million to IL 2,000 million. Thus there was a negative net issue of IL 344 million in 1973, most of which was recorded in the last quarter of the year following the termination of the underwriting agreement. In 1972 sales of this paper produced a net income of IL 45 million (the development of sales during the year is described below).

At the end of 1973 the Bank of Israel was administering 554 series of Government loans. The net outstanding balance of these loans (representing only part of the State's domestic debt) went up during the year by IL 1,700 million, from IL 4,000 to IL 5,700 million; this represented an increase of 45 percent, compared with 28 percent in 1972. It should be pointed out that the data in this section reflect the activities of the State Loans Administration

and not their economic influence (this is discussed in Chapter XV, "The Securities Market").

1. Short-Term Loan

The galloping inflation dampened sales of this unlinked paper. Demand began to wane in the last quarter of the previous year and weakened further at the beginning of 1973. In January the Bank of Israel reached an underwriting agreement with the large commercial banks whose purpose was patently monetary—to absorb liquidity by boosting net weekly sales of this loan. The banks agreed to increase their net weekly purchases for a period of ten months (with the exception of March), up to the middle of November. Until the outbreak of fighting weekly sales did in fact move up strongly, totalling IL 105 million between February and September and bringing up the outstanding balance of the loan from IL 714 million at the end of January to IL 819 million by the end of September. Because of the national emergency the Bank of Israel agreed to terminate the agreement before the specified date. The result was a drop in the balance by several millions of pounds every week, with a total of some IL 400 million being shaved off by year's end and leaving the public's holdings at IL 420 million. The precipitate decline carried over into early 1974 because of strong expectations of a further spiralling of prices, which put unlinked assets at an even greater disadvantage as far as yields are concerned. The shift from unlinked to linked assets was especially pronounced in the case of the Short-Term Loan in early October, after the termination of the underwriting agreement.

Over the year as a whole gross sales were lower than in 1972—IL 1,600 million as against IL 1,800 million. On the other hand, redemptions rose 11 percent, from IL 1,800 million to IL 2,000 million; there was thus a net in-

Table XVI-11

SHORT-TERM LOAN HOLDINGS OF THE PUBLIC, BY REDEMPTION DATE, 1972-73

(IL million)

No. of days to redemption	1972		1973		Increase or decrease (-)	
	IL m.	%	IL m.	%	IL m.	%
Up to 91	436	58	289	69	-147	-34
92-182	178	24	76	18	-102	-57
183-364	120	16	55	13	-65	-54
365-546	14	2	—	—	-14	—
Total	748	100	420	100	-328	-44

fusion of IL 328 million from this source, as contrasted with a net absorption of IL 31 million in 1972.

The year reviewed saw a continued marked preference for the 91-day series, bringing up its share in total sales from 57 percent in 1972 to 63 percent. The share of the 182-day series held steady at 29 percent, while that of the 364-day series fell from 13 to 8 percent. Sale of the 18-month series was discontinued in March 1973.

The preference displayed for the 91-day series raised its weight in total Short-Term Loan holdings from 58 percent at the end of 1972 to 69 percent at the end of 1973. By contrast, the shares of the series for 182 and 364 days declined from 24 and 16 percent respectively in 1972 to 18 and 13 percent. In the absence of new issues, the outstanding debt on account of the 546 day-series was wiped out.

2. *Development Loan*

Sales of the option-type Development Loan boomed in 1973. During the year 43 series were issued, as against 47 in 1972, but because of the lively demand some series were issued in tens of millions of pounds each, instead of the hitherto customary IL 5 million. Gross sales reached IL 1,255 million, as against IL 496 million in 1972—up 153 percent. The outstanding balance (at face value) held by the public at the end of the year doubled from IL 1,023 million at the end of 1972 to IL 2,131 million.

The heavy demand for this paper brought sales up above the authorized ceiling, and in May 1973 the Knesset increased it by IL 1,000 million to IL 2,750 million. With the continued surging of sales in 1974, the ceiling was doubled to IL 5,500 million.

Issues of the long-term index-linked Development Loan (for 17 and 20 years) were stepped up considerably in the year reviewed, with six series totalling IL 74 million being sold, compared with two series totalling IL 4 million in 1972. Redemptions amounted to IL 8 million at face value. The public's holdings reached IL 177 million at the end of 1973.

For technical reasons, in 1973 new series of the seven-year loan were issued in the form of 1969 Defense Loan rather than Development Loan certificates, with the result that the outstanding balance of the latter loan remained unchanged at IL 159 million.

3. *Defense Loan*

In the year reviewed 30 series of the Defense Loan were issued for a total of IL 347 million, as compared with IL 241 million during the months of April to December 1972 (however, IL 159 million worth were, as mentioned, actually part of the 1960 Development Loan). The public's holdings of the 1969 Defense Loan reached IL 430 million at the end of 1973.

Commercial banks continued to purchase the 1969 Defense Loan under their agreement with the Treasury, with the series being linked to the consumer price index and carrying 7.5 percent interest. During the year 17 series were sold for a total of IL 160 million, as against IL 131 million in 1972. The outstanding balance at the end of 1973 came to IL 437 million, of which IL 254 million was in index-linked 7.5 percent bonds and IL 183 million in the option-type series.

The lively sales of the 1969 Defense Loan to the public and the banks brought the level up to the authorized ceiling, and in April 1973 the Knesset raised it by IL 1,000 million to IL 1,900 million. This year there were no issues of the option-type series, the outstanding balance of which remained unchanged at IL 356 million. Another IL 2 million worth of 1968 Defense Loan certificates were distributed in 1973, and by year's end the public's holdings stood at IL 280 million.

4. 1973 War Loan

After the October War a new loan was floated—the 1973 Voluntary War Loan. In addition, a compulsory War Loan was imposed, payments for which are withheld at source together with income tax. The voluntary loan yielded IL 124 million in cash by the end of the year, while purchases financed by Bank of Israel credit came to IL 557 million. This loan is linked but not negotiable; it matures in 15 years and pays 3 percent interest unlinked.

5. Absorption Loan

The distribution of 1967 Absorption Loan certificates, which got underway at the end of 1972, was stepped up at the beginning of the year reviewed. This is the last series of this loan, and completion of its distribution was scheduled to coincide fairly closely with the initial redemption in April 1973. The total value of certificates distributed reached IL 170 million, of which IL 117 million was recorded in 1973. IL 3.7 million worth of certificates of the series for 1961 to 1966, which were claimed only in 1973, were also distributed. The total value of certificates of all series distributed to the public reached IL 121 million, as against IL 160 million the year before.

Redemption of principal of all series added up to IL 82 million, compared with IL 70 million in 1972; this left the public's holdings at IL 488 million.

6. Insurance Companies Loan

There were no new issues of the 1962 Insurance Companies Loan in the year reviewed. Redemption of index-linked certificates amounted to IL 2.4 million, as against IL 2.6 million in 1972, while the figures for the dollar-linked series were IL 0.8 million and IL 4.2 million respectively. The out-

standing balances held by the insurance companies at the end of 1973 were as follows:

5.8 percent dollar-linked	IL 5.6 million
6 percent index-linked	IL 40.5 million
6 percent dollar-linked	IL 11.1 million
5.8 percent index-linked	IL 70.3 million

There were also no new issues or redemptions of the 1965 Insurance Companies Loan, so that holdings remained unchanged at approximately IL 9 million.

The balance of deposits against certificates of the 1962 loan not yet issued rose by IL 72.5 million to IL 124.5 million. Deposits on account of the 1965 loan totalled IL 2.2 million, bringing the balance up to IL 4.2 million.

7. *1966 Prize-Bearing Loan*

Two additional series of the 1966 Prize-Bearing Loan in the amount of IL 14.4 million were transferred by the State Lottery to the Bank of Israel for redemption in 1973. Redemptions of principal totalled IL 5.5 million at face value, and the outstanding balance at the end of 1973 stood at IL 9.7 million.

8. *Redemptions and payments*

In 1973 the State Loans Administration paid IL 2,300 million on account of principal and linkage differentials on various domestic dollar-linked loans and IL 295 million in differentials on index-linked loans, as against IL 192 million in 1972. Interest payments and linkage differentials thereon totalled IL 296 million, compared with IL 251 million in 1972. During the year 1.1 million certificates were redeemed, as against 1.2 million in 1972. Half the certificates were of the Absorption Loan series and a third of the 1967 and 1968 Defense Loans.

The year reviewed saw 13 drawings of the prize-bearing loans, 17 for the redemption of principal on State loans, and five for the redemption of principal on account of other loans.

9. *Open-market operations*

The Bank of Israel's operations on the open market are confined mainly to the Short-Term Loan. Because of the underwriting agreement with the banks, the Bank's Stock Exchange transactions dropped to about a quarter of the 1972 level—IL 61.5 million as against IL 215.6 million in 1972—with most of the transactions conducted in the period when the agreement was not in force.

The Bank's total open-market transactions (sales and purchases) in the Short-Term Loan both on and outside the Stock Exchange came to IL 72 million, compared with IL 150 million the year before. Most of these transactions consisted of purchases, which amounted to IL 64 million, compared with IL 8

million in sales. Besides the Short-Term Loan, the Bank also dealt in long-term loans, with purchases and sales being fairly equal—IL 16 million and IL 17 million respectively.

(b) *Other domestic loans*

In 1973 the Bank of Israel administered 51 loans floated by public entities: Tefahot Israel Mortgage Bank, Industrial Development Bank of Israel, local authorities, the Jewish Agency, and the Israel National Petroleum Company.

Four new index-linked series totalling IL 75 million were added in 1973. The outstanding balance of all nongovernmental loans administered by the Bank of Israel stood at IL 414 million, of which IL 367 million was linked to the consumer price index.

Redemption of principal totalled IL 32 million, including linkage differentials on loans linked to the foreign exchange rate. An additional IL 20 million was paid in linkage differentials on index-linked loans. Payment of interest and linkage differentials thereon came to IL 36 million.

(c) *Foreign loans*

Sales of foreign loans grossed 73 percent more in the year reviewed—\$ 471 million as against \$ 272 million in 1972. Most of the increase took place in the last quarter of the year, in the aftermath of the war. Sales to the public consisted

Table XVI-12
FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1973
(\$ thousand)

	Amount subscribed	Amount redeemed	Amount outstanding	Amount converted into IL	Interest paid in Israel only
Issued to the general public					
Independence Loan	145,533	145,533	—	7	3
Development Loan					
First series	234,140	234,140	—	26	10
Second series	293,621	224,882	68,739	1,787	349
Third series	392,630	158,124	234,506	8,171	1,223
Fourth series	475,311	126,669	348,642	22,884	1,715
Fifth series	594,603	41,027	553,576	25,967	751
Total	2,135,838	930,375	1,205,463	58,842	4,051
Issued to investors					
Special investment series A	72,300	63,491	8,809	510	3
Special investment series B	151,027	41,286	109,741	4,168	39
Special investment series C	223,671	44,460	179,211	4,987	75
Special investment series D	119,941	1,393	118,548	767	-6
Total	566,939	150,630	416,309	10,432	111
Grand total	2,702,777	1,081,005	1,621,772	69,274	4,162
Percent annual change	21	13	27	15	11

mainly of the fifth series of the Development Loan, while those to institutional investors consisted mostly of the third and fourth series (the latter was issued in March).

Redemptions were, at \$ 127 million, up 25 percent from 1972. Net sales doubled in 1973—\$ 344 million as against \$ 170 million the year before. The outstanding balance of all foreign loans increased by 27 percent, from \$ 1,300 million to \$ 1,600 million; of this sum, about 75 percent (\$ 1,206 million) was held by the public and 25 percent (\$ 416 million) by institutional investors.

The State Loans Administration handles the conversion and redemption of Israel's foreign bond issues. The value of certificates converted into Israeli pounds was up 15 percent, from \$ 60 million to \$ 69 million. Interest paid in Israeli pounds on certificates converted in the country was equivalent to \$ 4.2 million, compared with \$ 3.8 million in 1972.

Table XVI-13
CONVERSIONS IN ISRAEL OF FOREIGN LOANS, BY HOLDER, 1972-73
(\$ million)

Holder	1972		1973		Percent increase or decrease (-)
	\$ m.	%	\$ m.	%	
Institutions	31.8	53	32.4	47	2
Tourists	16.1	27	18.6	27	15
Investors	7.0	12	11.7	17	67
Residents	2.7	4	2.9	4	7
New immigrants and temporary residents	2.8	4	3.7	5	32
Total	60.4	100	69.3	100	15

A breakdown of these figures shows a rise in conversions, especially for financing investments and tourist outlays in the country. Conversions for investment purposes totalled \$ 11.7 million, bringing up the share of this item from 12 to 17 percent. Conversions by tourists totalled \$ 18.6 million, and their share held steady at 27 percent. On the other hand, institutional conversions (the largest item) were roughly the same as in 1972, so that their share dropped from 53 to 47 percent.

9. SUPERVISION OF BANKING AND FINANCIAL INSTITUTIONS

(a) *Institutions subject to supervision*

At the end of 1973 the Department of the Examiner of Banks at the Bank of Israel supervised 69 banking and financial institutions, compared with 70 at the end of 1972. During the year the Ata Workers Cooperative Society for Credit and Savings Ltd. discontinued the business of receiving deposits.

Table XVI-14

**BANKING AND FINANCIAL INSTITUTIONS UNDER
BANK OF ISRAEL SUPERVISION, 1972-73**

(End of period)

Type of institution	1972	1973
Commercial banks ^a	24	24
Cooperative credit societies	13	13
Mortgage banks	15	15
Investment banks	5	5
Financial institutions	13	12
Total	70	69

^a Including three inactive banks.

(b) *Bank branches*

At the end of 1973, 853 branches (including head offices of commercial banks and cooperative credit societies) were operating in Israel.⁵

During the year 36 new branches were opened and nine closed. At the end of 1973, 24 branches of Israeli banks were operating in the administered areas. Three new ones were opened in the administered areas during the year—in Gaza, Rafa, and the Damiya Bridge, bringing the total up to 24. The Jenin branch of the Arab-Israel Bank was transferred in August to Bank Leumi le-Israel.

In 1973 the Bank of Israel's subcommittee on bank branches recommended a change of policy regarding the issue of permits for opening new branches. Acknowledging the need to enable banks to draw up long-term plans, it agreed to let those so desiring to submit a three-year plan for new branches. Following this recommendation 60 new permits were issued for the years 1973-75; this includes the full quota for 1973, two-thirds of that for 1974, and a third of the 1975 quota.

It was decided that permits for new branches in Arab communities would be issued separately, and in accordance with the subcommittee's recommendations 15 permits were granted in 1973, of which 10 were for 1973, three for 1974, and two for 1975.

In addition, new criteria were laid down for the opening of new agencies in hotels. These will cater to tourists, and will be barred from accepting Israeli currency deposits, including savings accounts. Permits for opening such agencies are not included in the annual quota. Of the 36 new branches opened in 1973, 11 were agencies of this type, whose number reached 12 by year's end.

⁵ Excluding the administered areas.

(c) *Annual financial reports*

In March 1973 the Examiner of Banks published new instructions regarding the preparation of annual financial reports by commercial banks. These instructions were prepared with the assistance of the Association of Certified Public Accountants of Israel and in consultation with the Advisory Committee on Matters Relating to Banking Business and the Securities Authority.

The instructions, intended to improve the presentation of bank reports to the public, include *inter alia* a requirement to publish consolidated accounts. They also stipulate that all reserves and surplus accounts in the balance sheet shall be grouped under "capital and other reserves", thus ending the practice of including inner reserves together with liability items or "other accounts". These instructions apply to the balance sheets as of December 31, 1973, while the discontinuation of inner reserves will come into force on December 31, 1974.

(d) *Mortgage banks*

In 1973 the unit supervising mortgage banks was mainly engaged in implementing the guidelines issued by the Examiner of Banks for the granting of mortgage loans. These deal with such matters as commissions and other service fees which mortgage banks may charge their clients, the insuring of mortgaged property, loan terms, etc. Inspections were made in most mortgage banks in order to check their compliance with these instructions and restrictions. The unit also discussed various problems connected with the publication of explanatory pamphlets for clients, as required by the new instructions. Following a decision of the Ministerial Economic Committee, the Examiner of Banks in September 1973 issued new instructions concerning the restriction of mortgage lending, which amended and supplemented those published previously.

Under the new instructions mortgage banks are prohibited from extending loans for the purchase of homes costing more than IL 160,000, except in Jerusalem where the ceiling was fixed at IL 180,000. Where the price exceeds these figures, the maximum loan will be reduced by half of the difference. The maximum was fixed at IL 50,000 for Jerusalem and at IL 40,000 for the other districts. It was also stipulated that the loans will be granted only after completion of the building skeleton.

(e) *Audits*

In 1973 the Department of the Examiner of Banks carried out 63 general and 307 special audits in 38 banking institutions to examine their operations during the emergency. During the first nine months of the year reviewed the audits covered such areas as the credit granted by banks and the collateral

received, the verification of reports submitted to the Bank of Israel, import-export transactions, securities transactions, etc. Special audits were performed in the institutions' head offices and branches of their vault cash and notes and checks for collection. Because of the national emergency and the mobilization of most of its staff the audit unit ceased regular audit work, and examiners who had not been called up were assigned to the task of dealing with pressing problems arising out of the emergency. These were in two main areas: (1) manpower, the shortage of which disrupted current work and reporting; and (2) problems connected with the return of items from clearing-houses, credits extended and collateral received, and liquidity difficulties caused by the slump in economic activity. Toward the end of the year general audits were resumed in the branches, although the stress remained on special problems.

(f) *Research and systems*

Among the major developments in this unit in 1973 the following should be noted:

(1) The first report of the Examiner of Banks on Israel's banking system was published. Intended to supplement the Bank of Israel's *Annual Report*, it surveys a variety of subjects which hitherto had not been given much coverage, such as the structure of the banking system—changes in the institutions, the degree of concentration, bank branching, and sources and uses of funds; a detailed discussion of equity capital, deposits, and credit of all types; the institutions' liquidity position; and their income and expenditure.

(2) Bank reporting on the debts of large borrowers was improved, and an effort made to use such reports more intensively in audits and follow-ups; this was in addition to the information supplied to banking institutions with regard to big borrowers. The reports, submitted twice a year (at the end of the first and third quarters), cover clients whose debit balance with any one bank exceeds IL 100,000. In addition, banking institutions report twice a year (at the end of the second and fourth quarters) on clients whose outstanding indebtedness exceeds IL 500,000.

(3) The computerizing of directed credit operations in all the export funds was completed, and a start made in integrating data on export shipments and financing classified by exporter, sector, branch, and bank.

In addition, the mechanized processing of current periodical reports (weekly and monthly) of banking institutions was begun. This will lay the foundation for a "computerized data bank" providing information on the country's banking system.

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

This committee discussed the following matters in 1973: oversubscription of security issues, the responsibilities and rights of boards of directors, the

schedule of commissions charged by commercial banks, restriction of bank guarantees and other contingent liabilities, information on discharged employees, annual financial reports for the end of 1973, and the banking system in a time of emergency. The committee also set up a new subcommittee to discuss proper banking procedures for verification of clients' accounts (copies of statements, certification of deposit balances, etc.), the holding of foreign securities, and the opening and closing of checking accounts.

Members of the Committee were: Dr. M. Heth (Chairman), A. Agmon, D. Bawly, D. Ben-Dror, C. Berman, M. Diga, D. Golan, J. Haft, E. I. Japhet, E. A. Kirshner, E. Lehman, J. Levinson, S. Magriso, A. Meir, K. A. Mossberg, M. Olenik, D. Recanati, and D. Shoham.

(h) *Advisory Committee on Cooperative Credit Societies*

The Committee discussed developments in the credit cooperative system, the revision of interest rates on liquidity surpluses, equity capital of the societies, limitation of the amount of credit a borrower may receive, restriction of guarantees and other contingent liabilities, authorized agents for foreign currency transactions, and profitability of directed credit.

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

(i) *Direction of credit*

The Department of the Examiner of Banks is responsible for the control of directed credit granted by the various funds, in which task it is assisted by several committees composed of representatives of the Ministries of Finance, Commerce and Industry, and Agriculture.

The low-interest short-term directed credit provided by the Bank of Israel with the participation of the commercial banks is designed primarily to meet the financing requirements of export branches and to provide working capital to industry and agriculture. The bulk of the credit is for export purposes and is given partly in Israeli and partly in foreign currency, at 6 percent interest p.a. Working capital credits are given in Israeli currency at 11 percent interest (details on the directed credit funds are presented in Table XVI-15).

After the war special arrangements were made to provide the additional financing necessitated by the emergency situation.

1. *Export finance funds*

The Export Production and Import-for-Exports Funds finance export production (the former in Israeli and the latter in foreign currency), while the Fund for Financing Export Shipments grants foreign currency credit to cover the cost of shipments. The Indirect Export Fund helps to finance enterprises supplying products to direct exporters.

Table XVI-15

STRUCTURE AND TERMS OF DIRECTED CREDIT FUNDS, 1973

(percentages)

	Sources of funds			Interest	Currency
	Com- mercial banks	Bank of Israel			
		Liquid- ity exemp- tions	Re- discounts		
Export funds					
Export production	65.0	20.0	15.0	6.0	IL
Imports for export production	65.0	25.0	10.0	6.0	Foreign
Export shipments					
Regular	65.0	25.0	10.0	6.0	Foreign
Special	75.0	25.0	—	9.0	Foreign
Diamonds	—	—	100.0	6.0	Foreign
Citrus and cotton	25.0	25.0	50.0	6.0	IL
Indirect exports	50.0	10.0	40.0	9.0	IL
Working capital funds					
Fund B	60.0	20.0	20.0	11.0	IL
General fund	50.0	35.0	15.0	11.0	IL
Agricultural credit fund	45.0	45.0	10.0	11.0	IL
Supervised credit fund	37.5	62.5	—	11.5	IL

Total directed credit by the export funds increased by IL 453 million, or 26 percent, in 1973. The IL 2,200 million balance at the end of the year consisted of IL 972 million in Israeli currency credit—most of which was provided by the Export Production Fund—and IL 1,228 million in foreign currency—more than half of which was granted by the Diamond Fund and the balance by the Fund for Financing Export Shipments.

The annual average balance of export credit better reflects the growth of such financing, since it was less affected by the slump in the latter part of the year in total exports due to the war and the slowdown in the world diamond industry. Including diamonds, the increase was 32 percent; excluding this item, it came to 22 percent—all of it in the Israeli currency component.

Table XVI-16
EXPORT FINANCE FUNDS, 1972-73
(IL million)

Type of fund	1972		1973		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	End-year balance	Average balance
Export production	516.0	477.5	658.7	585.4	27.7	22.6
Industry	479.8	451.9	597.7	544.9	24.6	20.6
Agriculture	36.2	25.6	61.0	40.5	68.5	58.2
Citrus and cotton	200.3	62.6	229.0	162.2	14.3	159.1
Imports for export production	75.2	124.1	91.5	97.4	21.7	-21.5
Indirect exports	32.0	12.8	84.9	56.0	165.3	337.5
Export shipments						
6% interest	480.2	462.0	430.6	492.3	-0.7	6.6
9% interest	—	—	17.0			
Diamonds	444.6	406.1	689.5	649.8	55.1	60.0
Total	1,748.3	1,545.1	2,201.2	2,043.1	25.9	32.2

(a) *Export production funds*

In these funds the exporter's credit ceiling is determined according to his estimated export for the year. The year reviewed saw the completion of several basic changes begun in 1972 with a view to streamlining the operation of the funds. Uniform criteria were established for calculating the credit ceiling, a uniform rate of financing of IL 4 per export dollar was stipulated (previously the rate had been scaled according to value added, thereby resulting in a different rate for each enterprise), and uniform turnover ratios were fixed for the various sectors and branches, instead of the separate ratios previously calculated for each enterprise.

Financing in foreign currency is provided by the Imports-for-Exports Fund and in Israeli currency by the Export Production Fund, according to the weight of the import or value-added component in the total value of production.

In 1973 the Bank of Israel began charging interest on excessive credit—i.e. the amount by which the credit actually utilized exceeded the exporter's credit ceiling. The interest was set at 12 percent on excessive credit not exceeding 10 percent of the estimated export for the year; beyond this the interest is 18 percent. Formerly the amount of excessive credit was taken into account in calculating the credit ceiling for the following year.

The Indirect Export Fund was separated from the Export Production Fund in 1973. The former provides credit to enterprises supplying goods to the direct exporter or to the manufacturer of import substitutes. Its method of

operation is similar to that of the Export Production Fund, except that it charges 9 percent interest. It was actually established in 1972, but the process of transferring export enterprises to this framework was completed only in 1973.

The amount of financing supplied by the Export Production Fund in 1973 was determined according to the forecast growth of industrial and agricultural exports as indicated in the middle of the year. The contraction of exports in the postwar months created a gap between the actual volume of foreign sales and the amount of financing.

A number of technical changes introduced in 1972 but completed only in the year reviewed retarded the growth of the Export Production and Imports-for-Exports Funds. Among these were a switch to uniform turnover ratios and to a uniform rate of financing, the transfer of certain items from the Export Production Fund to the Indirect Export Fund, and the elimination of some items from the Imports-for-Exports Fund. The actual growth of the funds in 1973 was greater than indicated by the data.

(b) *Export shipment funds*

These funds finance the foreign currency credit given by the exporter to his overseas customers. Such financing is granted concurrently with the execution of the export and amounts to the full f.o.b. price of the shipment in foreign currency. The period of such financing is until receipt of payment for the shipment but not later than 180 days. Here too a change was introduced: an additional fund was established which provides credit for more than 180 days at 9 percent interest p.a. The decrease in the Fund for Financing Export Shipments was due to the postwar contraction of shipments.

To help exporters whose shipments were being held up in the country's ports because of the emergency situation, a special fund was established in October which provides Israeli currency credit at 11 percent interest. The balance in this fund stood at IL 55 million by year's end.

(c) *Diamond Fund*

This fund supplies foreign currency credit to finance the industry's operations. The credit is given for two purposes: to finance stocks—on the basis of diamonds deposited with the financing bank—and to finance export shipments (in the same manner as in the Fund for Financing Export Shipments). In order to permit the polishing and sale of diamonds, the deposited stock may be withdrawn under a trust agreement, which stipulates that the bank shall remain in control of the stock. The Diamond Fund expanded appreciably in the first half of the year, in line with the steep rise in both imports of rough diamonds and exports of polished stones. Beginning in September a decline set in, reflecting the growing slump in the world diamond market.

(d) *Citrus and cotton fund*

The Fund for Financing the Export of Citrus Fruit and Cotton, which previously had operated within the framework of the Export Production Fund, was set up as a separate fund in 1972 because of the seasonal nature of such financing. (Credit for these purposes was formerly given in the form of liquidity exemptions.)

2. *Working capital funds*

These funds, which provide working capital to industry, are administered by an interministerial committee comprising representatives of the Ministry of Commerce and Industry, the Ministry of Finance, and the Bank of Israel. In granting credit the committee is guided by such criteria as the concern's export, location (development area), etc.

The balance in these funds stood at IL 332 million at the end of 1973, compared with IL 286 million at the end of the previous year—up 16 percent (see Table XVI-17). The decrease in Fund B stemmed from the repayment of loans received by exporters in 1972 in connection with the change in turnover ratios in the various funds. The General Fund, established in the second half of 1972, supplies credit to enterprises belonging to neither the industrial nor the agricultural sector (e.g. tourism); it replaces the system of credits in the form of liquidity exemptions.

Table XVI-17
WORKING CAPITAL FUNDS, 1972-73
(IL million)

	1972		1973		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	End-year balance	Average balance
Fund A	120.7	115.6	123.9	123.6	2.7	6.9
Fund B (including Artisans Fund)	81.6	82.6	73.3	72.7	-10.2	-12.0
General Fund	39.7	21.8	56.7	48.6	42.8	122.9
Liquidity exemptions	44.0	51.9	78.0	50.5	77.3	-2.7
Total	286.0	271.9	331.9	295.4	16.0	8.6

3. *Financing of agriculture*

The Agricultural Working Capital Fund, established in 1972 to replace the system of liquidity exemptions, provides credit for the cultivation of certain crops. The Supervised Credit Fund provides farm financing according to an

annual agricultural production program prepared by the Ministry of Agriculture and under the control of the financing institution. The various types of agricultural financing are summarized in Table XVI-18.

Table XVI-18
DIRECTED AGRICULTURAL CREDIT, 1972-73
(IL million)

	1972		1973		Percent increase or decrease (-)	
	Balance at end of year	Average balance	Balance at end of year	Average balance	End-year balance	Average balance
Working capital fund	124.4	81.7	151.3	126.2	21.6	6.7
Within the framework of liquidity exemptions (excl. citrus and cotton)	—	36.6	—	—	—	—
Supervised credit fund	65.0	50.4	85.7	76.1	31.8	51.0
Citrus and cotton						
Export fund	200.3	62.6	229.0	162.2	14.3	32.1
Credit within the framework of liquidity exemptions	—	60.2	—	—	—	—
Export production fund	36.2	25.6	61.0	40.5	68.5	58.2
Total	425.9	317.1	527.0	405.0	23.7	27.7

4. *Emergency financing*

After the October war the Bank of Israel took steps to inject liquidity into the economy with a view to meeting the special financing needs which arose during the emergency period. Credits were given to finance exports by industry, agriculture, and crafts, as well as the import of vehicles and the purchase of the Voluntary War Loan by the public. At the end of 1973 the outstanding balance of such credit was IL 600 million. Excluding the Voluntary War Loan, the total amount granted to the public was IL 275 million; some IL 100 million was repaid, leaving an outstanding balance of IL 175 million (see Table XVI-19).

Table XVI-19
EMERGENCY BANK OF ISRAEL CREDIT, 1973
(IL million)

Purpose or recipient	Balance at end of year	Remarks
Industry and crafts	62.4	Discounting at 15 percent interest
Owners of mobilized trucks and equipment	2.3	Deferment of bank loan repayments during the months of October-December 1973, at 14.5 percent interest
Export shipments	54.5	Granted to exporters whose shipments were held up because of the war, at 11 percent interest
Truck imports	31.2	11 percent interest
War Loan	426.3	To finance purchases of the Voluntary War Loan
Agriculture	24.5	Discounting at 15 percent interest; this is in addition to the increase in the agricultural funds
Total	601.2	

10. CLEARINGHOUSES

The year reviewed saw a further increase in the volume and value of checks and notes passing through the clearinghouses administered by the Bank of Israel in Jerusalem, Tel Aviv, and Haifa. The value of items cleared in 1973 was IL 91,632 million, as against IL 68,284 million in 1972—an increase of 34.2 percent.

The data on the volume of clearings are based on monthly reports submitted by member banks. These show that the daily average number of items presented rose from 181,433 in 1972 to 208,197 in 1973—i.e. by 26,754, or 14.5 percent.

As to items returned, deficiencies in the reporting of clearinghouse members were discovered in the course of the year, and it appears that only the figures for the last four months of 1973 are reliable. During this period the percentage of items returned was as follows: September—6.1; October—9.1; November—6.1; and December—6.5. Because of the war mobilized reservists were granted an extension in settling debts, and this probably explains the increase in the proportion of items returned in October, and perhaps in the following months as well.

Table XVI-20
VOLUME OF CLEARINGS, 1970-73
(IL million)

	1970	1971	1972	1973
Urban clearings				
Jerusalem	6,572	8,551	10,560	14,627
Tel Aviv	28,472	36,975	48,588	65,238
Haifa	5,703	7,167	9,136	11,767
Total	40,747	52,693	68,284	91,632
Annual increase				
IL million	4,741	11,946	15,591	23,348
Percent	13.2	29.3	29.6	34.2
Percent of items returned	4.7	5.1	6.1	6.1

The five largest banks—Bank Leumi le-Israel, Bank Hapoalim, Israel Discount Bank, First International Bank of Israel, and United Mizrahi Bank—came to an agreement whereby checks would be encoded with magnetic ink in order to facilitate their clearing. The Bank of Israel is providing informational and other technical assistance, including a book of standards for the printing of checks and magnetic ink encoding, prepared by a technical team of the Department of the Examiner of Banks. Three banks will start operating the special equipment (including electronic sorters and magnetic ink encoding machines) in 1974, and it is hoped that the magnetic clearing of checks and notes between them and their banking subsidiaries will get underway by 1975.

Table XVI-21
CLEARING OF CREDIT NOTES, 1970-73
(IL million)

Clearinghouse	1970	1971	1972	1973
Jerusalem	1,875	2,666	3,880	20,482
Tel Aviv	3,922	4,012	6,056	8,715
Haifa	122	146	163	194
Total	5,919	6,824	10,099	29,391

The clearinghouses are administered by the Clearinghouse Committee, whose members are appointed by the Governor of the Bank for a two-year term. The present committee took office on October 1, 1972 and is composed of the following members: D. Winogradow (Chairman), A. Kuker (Deputy Chairman), D. Ashbel, Z. Karin, and S. Margalit—representing the Bank of Israel; D. Allalouf, N. Goldstein, H. Lahmi, J. Porat, and J. Rieger—representing the Association of Banks. In addition, the following alternate members were appointed: P. Barsel, U. Moualem, A. Shalmon, I. Tsur, and M. Weiss—representing the Bank of Israel; J. Atoun, S. Kaner, M. Navo, H. Shamama, and S. Warach—representing the Association of Banks.

11. ECONOMIC RESEARCH

Current research on developments in Israel's economy, conducted by the Research Department, is published in the Bank's *Annual Report* and in the periodical *Economic Review*, as well as in special studies and publications. Among the research studies published in 1973 were the following:

1. Periodical internal surveys of developments in the monetary field.
2. Two issues of *Recent Economic Developments*.
3. "The Profitability of Investing in Common Stocks on the Tel Aviv Stock Exchange, January 1969 to June 1972".
4. "Price Changes in the Consumption Baskets of Various Income Groups in Israel".
5. "Rates of Return in Israeli Industry during a Business Cycle (1965-68)".
6. "Capital Stock and Investment Patterns in Israeli Industry, 1955-68".
7. *The Economy of the Administered Areas, 1972*.
8. "The National Budget for 1974", prepared by the Bank's Research Department, together with the Economic Advisory Bureau of the Ministry of Finance, and presented to the Knesset in March 1974.
9. Report of the Governor of the Bank of Israel to the Government and the Finance Committee of the Knesset on the increase in the money supply in excess of 15 percent.

10. "Quarterly Consumption Functions in Israel".

Other studies which have either been completed or are in the final stages of preparation, and are scheduled to be published are as follows:

— "Protective Rates in Israel, 1965-68".

— "Development Policy in Israel" (commissioned by the World Bank).

During and immediately after the fighting in October a study was made, at the request of the Emergency Economic Board, of sectoral transport requirements.

The following papers, based on studies conducted by the Research Department, were delivered at professional congresses:

- “Structure of Protection in Israel”.
- “Soft Directed Public Sector Credit and Its Effect on Economic Activity”.
- “Investment Patterns in Israeli Industry”.
- “Factors Influencing Wages in the Metal Industry”.
- “National Budget: Forecast and Reality”.

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

(a) *International Monetary Fund*

Israel's annual consultations with the IMF, which were to be held in Jerusalem in the fall of 1973, were postponed because of the war. An IMF mission visited Israel in April 1974, and a summary of its discussions and its recommendations will be published this year.

In April 1973 Israel repurchased from the Fund the gold tranche of its quota, paying a total of \$ 32.5 million in various currencies. Israel was obliged to do this in view of the sizable growth of its foreign exchange reserves, which, according to the Fund's Articles, is the factor determining when repurchases must be made.

After the devaluation of the U.S. dollar in February 1973, Israel informed the International Monetary Fund that it was continuing to operate the Israeli pound under a central rate of IL 4.20/\$ and that it would avail itself of the possibility afforded it to effect a wide margin of 4.5 percent in setting the exchange rate of the Israeli pound vis-a-vis all other currencies. The fund approved this arrangement.

The “Group of Twenty”, which had been established by the IMF in 1972 to propose an overall reform of the international monetary system, continued its work through September 1973, when it submitted to the Annual Meeting of the IMF Board of Governors a report summarizing its work, but noting that more time would be required to pass from the stage of discussions and clarification of the positions of the various countries to actual preparation of the reform itself. The Board of Governors granted an extension until July 1974 for submission of the reform proposal, but the energy crisis and its repercussions, especially in the monetary field, led to the virtual suspension of the Group's activity.

In the middle of 1973 the Israeli representative in the Group of Twenty, M. Meirav, who is in charge of foreign banking transactions of the Bank of Israel, presented to the plenary session of the Group a working paper prepared by the Governor of the Bank of Israel which proposed the demonetization of gold and its use by the IMF as a means of stabilizing exchange rates and

preventing balance of payments pressures caused by currency fluctuations and speculative expectations. The document, which was later circulated as an official document of the Group of Twenty, was discussed during its deliberations on the future of gold in the monetary system. But, as already mentioned, the work of the Group was in effect suspended in the latter part of 1973.

The devaluation of the dollar necessitated the adjustment of Israel's quota in the Fund, since Fund accounts are denominated in Special Drawing Rights, and the devaluation raised the value of an SDR from IL 4.56 to IL 5.07. The adjustment, totalling IL 65.9 million, will be made in the course of 1974.

Prof. P. Lieftinck, the Executive Director of the Monetary Fund representing Israel (as well as the Netherlands, Rumania, Yugoslavia, and Cyprus) visited the country in August 1973 to discuss Fund matters with the Minister of Finance, the Governor of the Bank of Israel, and senior officials in the various economic ministries.

(b) *The World Bank*

At the Annual Meeting of the Board of Governors of the World Bank held in September 1973, the Governor of the Bank of Israel, Moshe Sanbar, re-submitted his proposal for the establishment by the World Bank, in cooperation with the regional development banks, of an export credit guarantee facility for financing trade between developing countries. This was done after a preliminary examination of the plan by the World Bank, following the initial discussion of the proposal at a meeting of the Board of Governors in September 1972, showed that it was technically feasible and that it would also provide a solution to a problem directly concerning the World Bank and falling within its purview. At the plenary session the proposal was supported by the Netherlands Minister of Finance and the governor of the central bank of Brazil speaking in the name of the 21 member-states of the Latin American Group and the Philippines, as well as several central bank governors in both developed and underdeveloped countries. The two regional development banks, the Inter-American Development Bank and the Asian Development Bank, which would form an integral part of the plan, also gave the proposal their unreserved endorsement.

In a series of discussions with the Governor of the Bank of Israel, the President of the World Bank, Robert S. McNamara, and other World Bank officials supported the plan in principle but felt that several problems, mainly of a technical nature, must first be solved before the World Bank could endorse it.

The latter part of 1973 saw the successful conclusion of the negotiations conducted by the Government of Israel and the World Bank for a second agricultural loan for financing the further development of Israeli agriculture, especially farm exports. The Bank of Israel was responsible for coordinating the Israeli side of

Table XVI-22
 WORLD BANK LOANS TO ISRAEL—POSITION ON DECEMBER 31, 1973
 (\$ thousand)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Repaid by Dec. 31, 1973	Balance outstanding	Thereof: Un-disbursed
Direct loans							
Ports Authority	9.9.60	65-85	5.75	27,500	7,817	19,683	—
Government of Israel—roads	17.10.62	67-80	5.50	22,000	9,405	12,595	—
Government of Israel—roads	14.7.71	76-91	7.25	30,000	—	30,000	28,312
Government of Israel-sewerage	21.12.72	78-97	7.25	30,000	—	30,000	30,000
Government-guaranteed loans							
Dead Sea Works Ltd.	11.7.61	66-76	5.75	25,000	16,283	8,717	—
Industrial Development Bank Ltd.	16.9.65	68-81	5.50	20,000	12,116	7,884	—
Industrial Development Bank Ltd.	15.11.67	70-82	*	15,000	5,880	9,120	—
Industrial Development Bank Ltd.	15.6.70	72-84	7.00	25,000	2,550	22,450	5,278
Israel Bank of Agriculture	21.10.70	74-87	7.25	20,000	—	20,000	1,157
Total				214,500	54,050	160,450	64,746

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

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

the negotiations. The Loan, for \$ 35 million, was officially approved by the Board of Governors of the World Bank in March 1974. Like the previous loan, it is intended for the expansion and development of farm exports and the production of import substitutes deemed economically worthwhile, as well as the introduction of advanced water-economizing techniques. But in contrast to the earlier loan, a large sum is earmarked for financing agricultural research, both because of the direct contribution this can make in furthering the objects of the loan, and because of the benefit that would redound to other countries in whose agricultural development the World Bank is interested. The World Bank noted the success of the first agricultural loan and its speedy disbursement.

Toward the end of 1973 the Bank of Israel informed the World Bank of its intention to apply, in the first half of 1974, for a fourth loan for the Industrial Development Bank of Israel. A World Bank mission is due to arrive in Israel about the middle of 1974 to study the application.

A survey mission of the World Bank visited Israel in June 1973 in order to update the economic report on Israel which had been submitted to the Governors of the World Bank for the discussions relating to the agricultural loan. The emphasis was on problems connected with Israel's balance of payments and external debt.

Dr. A. Rinnooy-Kan, Executive Director of the World Bank on behalf of Israel (as well as the Netherlands, Rumania, Yugoslavia, and Cyprus) came to Israel in May 1973 for a series of talks with the Governor of the Bank, the Minister of Finance, and senior officials of these two offices in connection with Israel's plans for additional World Bank loans and other matters.

(c) *The International Development Association*

In 1973 the developed member-states contributed to the third replenishment of this World Bank affiliate, which provides soft loans to developing countries. In this round Israel contributed \$ 65,000 to the Association in order to retain its relative voting rights therein. As a result of this payment, Israel's voting power was increased from 836 to 2,904. Immediately after completion of the third replenishment another one was started for the mobilization of funds to finance the Association's activities. The World Bank approached the most economically advanced of the developing countries to join in the contributions. The Bank of Israel brought the matter before the Government, and the latter decided to allocate \$ 1 million for this purpose, payable in installments. Yugoslavia and Spain also responded favorably to this request.

(d) *The Inter-American Development Bank*

This is the regional bank which, together with the World Bank, finances economic development on the American continent. Membership was hitherto restricted to the Americas, but the Board of Governors of the IDB decided

to open its membership to other countries. An invitation for Israel to join was extended to the Bank of Israel, because of the great interest shown by this country in the economic development of the region and the close ties long existing between the Bank of Israel and the Inter-American Development Bank. This relationship has found expression, among other things, in the fact that Israel is the only developing country to subscribe to loans floated by this institution. The importance of membership in this organization lies in the fact that countries obtaining loans from it may use the funds for financing development projects implemented only by companies and contractors in member-states. At the end of 1973 the Governor of the Bank of Israel submitted the invitation to the Ministerial Economic Committee for consideration, and it decided in the affirmative. Details of the agreement will be worked out in 1974.

(e) *Miscellaneous*

In the middle of 1973 Rumania became a member of the International Monetary Fund and the World Bank. This was officially confirmed at the Annual Meetings of the Boards of Governors of both institutions in Nairobi in September 1973. Rumania joined the constituency to which Israel belongs, and the Netherlands Executive Director, who until then had represented the Netherlands, Israel, Yugoslavia, and Cyprus, now represent Rumania as well.

13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The principal subjects discussed by the Bank's Advisory Committee and the Advisory Council were developments in the economy and the Banking Law.

Both bodies met periodically to discuss current developments, with special emphasis on monetary problems and the policy to be adopted by the Bank. The Governor and senior officials of the Bank surveyed the current situation, with stress on the growing inflationary pressures during the first three quarters of the year. The Advisory Committee discussed the steps taken by the Bank to restrain the monetary expansion: the raising of liquidity ratios, structural changes in the various export finance funds, and the Short-Term Loan underwriting agreement. After the war discussions were also held on the measures taken by the Bank to reflate economic activity during the emergency period and its activities in connection with the sale of the Voluntary War Loan.

Other matters taken up were developments in the international markets and their possible repercussions on Israel's economy. The weakening of the dollar in the first half of 1973 resulted in the de facto devaluation of the Israeli pound in relation to European and Japanese currencies and necessitated the adoption of various policy measures; in this connection, the Governor of the Bank reported on his contacts with various international monetary authorities. In July 1973 he also submitted a report to the Government and the

Knesset Finance Committee on the increase in the means of payment in excess of 15 percent, as required by section 35 of the Bank of Israel Law. The Governor's recommendations for a policy of restraint in the monetary and other fields, as well as for the issue of special securities to financial institutions, were also discussed.

Between April and July several sessions of the Advisory Committee and Advisory Council were devoted to the draft of the Banking Law prepared by the Examiner of Banks, in continuation of the deliberations held in 1972. In September a draft was completed and submitted to the Government.

The Advisory Committee and Advisory Council approved the Bank's balance sheet and profit and loss account as of December 31, 1972, as well as the operating budget for 1973. The commemorative and special coins mentioned in this chapter were also approved. The Advisory Council also discussed the follow-up report on the implementation of the instructions regarding the responsibilities and rights of boards of directors of banking institutions, as well as the instructions issued in conformity with the recommendations of the subcommittee which dealt with the formulation of rules for preventing malpractice by banks. Other subcommittees functioning in 1973 dealt with the Bank's annual balance sheet and operating budget, the issue of permits for opening new branches, and foreign exchange reserves.

On December 10, 1972 the Government appointed the Advisory Committee and Council for another two-year term. In 1973 members of the Advisory Council were: D. Horowitz (Chairman), Y. Bader, H. Barkai, Ch. M. Basok, A. Becker, A. Efrat, N. Feingold, E. Lehman, J. Levinson, M. Olenik, Z. Onn, A. Ostashinsky, D. Recanati, and H. Zadok.

Members of the Advisory Committee were: D. Horowitz (Chairman), Ch. M. Basok, A. Efrat, E. Lehman, J. Levinson, Z. Susayeff, and H. Zadok. Mr. Recanati continued to serve as observer in an advisory capacity. Dr. E. Lehman resigned in June from both the Advisory Committee and Council following his retirement from the chairmanship of the board of directors of Bank Leumi le-Israel, and Mr. E. I. Japhet was appointed in his place by the Government.

14. THE BANK AND ITS STAFF

In June 1973 the Governor of the Bank of Israel, Moshe Sanbar, visited Italy where he met with the governor of the central bank there. Subsequently he met with bank directors in Germany in connection with various business matters, and in Switzerland he participated in the annual meeting of the Bank for International Settlements, besides giving lectures and talks and holding business meetings with bank directors.

In September Mr. Sanbar headed the Israeli delegation to the Annual Meeting of the Boards of Governors of the World Bank and the International Monetary Fund which was held in Nairobi. He is Governor for Israel on the

Board of Governors of the World Bank and its subsidiaries, the International Development Association and the International Finance Corporation. Other members of the delegation were Dr. E. Sheffer, Director-General of the Bank, E. Dovrat, Economic Adviser to the Minister of Finance and Deputy Director-General of the Ministry, and Mr. Meirav, in charge of foreign currency transactions at the Bank of Israel. Mr. Sanbar later visited Zambia and South Africa and met with their central bank governors.

In April Mr. Sanbar met with the finance ministers of the group of countries represented by the Netherlands at the International Monetary Fund (the Netherlands, Yugoslavia, Rumania, Cyprus, and Israel). At this meeting it was decided to nominate one Israeli official deputy to the Group of Twenty, and Mr. Meirav was appointed to this position jointly with E. Dovrat.

In April the Bank of Israel held a study day for the justices of the Supreme Court, headed by Chief Justice S. Agranat. The subjects discussed were the central bank and its relations with the banking system, the Government, and the public; monetary policy; and the banking system in Israel. Among the participants were the Governor, Director-General, and department heads of the Bank. In May a similar study day was held for Tel Aviv District Court judges.

On the occasion of the 25th anniversary of the State, the Bank of Israel organized a display of ancient Jewish coins from its own collection. Banknotes and coins in use today were exhibited by the Government Medals and Coins Corporation at the Israel Museum in Jerusalem; the exhibition opened around Independence Day and lasted thirty days. Subsequently it was transferred to the Kadman Coins Museum in Ramat Aviv for a three-month period until the end of 1973.

Dov Genachowski, senior economist in the Governor's Office, retired from his post with the Bank, and Mr. A. Steinberg was appointed in his place. Mr. Y. J. Taub, senior director and adviser in the Governor's Office, also retired in 1973. Mr. M. Benousilio, who terminated his appointment as Assistant Secretary-General, was appointed Deputy Director of the Banking Department. Mr. Y. Ben-Zur was appointed Assistant Secretary-General.

The number of Bank employees in the head office in Jerusalem and in the Tel Aviv and Haifa branches reached 883 at the end of 1973, in addition to 51 guards.

The Bank of Israel mourns the loss of the following employees who fell in action during the October war:

Avner Ben-Eliezer

Yaakov Tal

Nehemia Ganor

Meir Yemini

David Tal

Dani Sfarbi

Mr. I. Zchori passed away during the year.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1973

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1973

BANK OF ISRAEL

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1973

(IL thousand)

ASSETS

LIABILITIES

	Dec. 31, 1973	Dec. 31, 1972		Dec. 31, 1973	Dec. 31, 1972
Foreign assets	8,105,740	5,722,186	Banknotes and coin in circulation*	2,812,137	2,035,817
Gold and foreign currency assets ^a	7,436,464	5,163,989	Foreign liabilities	234,239	376,755
Gold quota in the IMF	164,667	148,200 ^b	Deposits of foreign banking		
Other foreign currency assets	504,609	409,997	institutions in foreign currency	—	14,700
Government debt	4,155,321	4,161,710	Allocations of Special Drawing Rights	216,903	195,214
Long-term liabilities			IMF deposits in connection		
Gross ^c	4,574,599	4,358,917	with drawings	—	148,200
Less: Debt redeemed against			Other liabilities	17,336	18,641
Short-Term Loan sales	601,192	573,862	Government and National		
Net	3,973,407	3,785,055	Institution deposits	1,021,603	476,745
Treasury bills	129,990	50,911	Import deposits	86,871	168,808
Provisional advances	51,924	325,744	Government and National Institution		
Other credit and securities	2,424,581	1,345,868	deposits in foreign currency	934,732	307,937
Discounts, advances, and loans	2,296,879	1,273,435	Deposits of banking and		
Gross	2,786,224	1,725,193	financial institutions in Israel	10,334,833	8,315,195
In Israeli currency	1,135,736 ^d	451,545	Banking institution deposits	3,535,124	2,837,613
In foreign currency	1,650,488	1,273,648	Financial institution deposits		
Less: Export finance deposits			In Israeli currency	63,271	66,103
of banking institutions ^e	489,345	451,758	In foreign currency ^h	2,675,236	2,200,774
Securities	127,702	72,433	Banking institution deposits		
Other accounts ^f	19,478	270,479	denominated in foreign currency	4,061,202	3,210,705
Guarantees and documentary			Other accounts	282,308	275,731
credits (see contra)	742,997	571,071	Capital and reserves	20,000	20,000
			Liabilities on account of guarantees		
			and documentary credits (see contra)	742,997	571,071
	<u>15,448,117</u>	<u>12,071,314</u>		<u>15,448,117</u>	<u>12,071,314</u>

^a Includes holdings of Special Drawing Rights totalling IL 141,315,000 on December 31, 1973 and IL 133,208,000 on December 31, 1972.

^b Drawings on the IMF equal to the gold tranche.

^c Includes IL 2,762,925 linked to the U.S. dollar on December 31, 1973 and IL 2,791,863,000 on December 31, 1972.

^d Includes IL 539,904,000 in credit to banks for financing purchases of the Voluntary War Loan by the public.

^e IL deposits in connection with foreign currency re-discounts in the framework of the Fund for Financing Export Shipments.

^f Includes land, premises, and equipment recorded at IL 1.

^g Includes commemorative and special coins with a total face value of IL 24,378 on December 31, 1973 and IL 12,518,000 on December 31, 1972.

^h Includes IL 473,274,000 in nonresidents' deposits on December 31, 1973 and IL 656,773 on December 31, 1972.

BANK OF ISRAEL

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1973

(IL thousand)

	Dec. 31, 1973	Dec. 31, 1972		Dec. 31, 1973	Dec. 31, 1972
EXPENSES			INCOME		
Interest paid, administrative expenses, and other expenses	553,529	402,843	Interest, commission, and other income	642,810 ^a	466,849
Net profit	89,281	64,006			
	<u>642,810</u>	<u>466,849</u>		<u>642,810</u>	<u>466,849</u>

DISTRIBUTION OF PROFITS

To the Government	<u>89,281</u>	<u>64,006</u>		<u>89,281</u>	<u>64,006</u>
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^a After provision of IL 551,000 for doubtful debts.

BANK OF ISRAEL
THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL
MAY 1973

Governor

M. SANBAR

Advisory Committee

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

Advisory Council

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