

## CHAPTER XX

# THE SECURITIES MARKET

### 1. GENERAL TRENDS<sup>1</sup>

THE REVERSAL of the rapid expansion which had characterized the securities market in the early 1960's continued in 1965. Estimated net portfolio investment, in local and foreign currency,<sup>2</sup> by resident investors amounted to IL 215 million in the year reviewed, as against IL 365 million in 1964 and IL 480 million in 1963. Proceeds in Israeli pounds from net new issues in the domestic market totalled IL 126 million—two-thirds less than in either of the two preceding years. Transactions on the Tel Aviv Stock Exchange shrank to about IL 200 million—roughly one-third below the level in 1963-64. On the other hand, a rise of nearly \$ 30 million—i.e. more than in 1963 and 1964 combined—was recorded in resident holdings of foreign currency securities.

The recession was particularly striking in the share market. Domestic issues of equity capital were, at IL 9 million, less than one-tenth of the previous year's figure. Moreover, shares accounted for less than half of the volume of Stock Exchange transactions in 1965, as against four-fifths in the years 1963-64. What was more, the drop of share prices combined with the shrinking volume of new issues actually reduced the aggregate market value of the Tel Aviv Stock Exchange list—or, to be more precise, of the securities traded in Israeli pounds—and brought down the proportion of equities to less than half of the total. Whereas in the preceding years ordinary shares had played an increasingly important part in the new issue and the secondary market, in 1965 this development was sharply reversed.

Trends on the bond market were less clear-cut. The issue of dollar-linked securities was discontinued, as a matter of policy, in 1962 and this particular sector of the market therefore ceased to expand. The net total issue amount in 1965 of bonds linked to the cost-of-living index was, at IL 169 million, about IL 10 million more than in 1964, but this moderate gain was more than offset by a drop of about IL 50 million in the outstanding balance of the Government Short-Term Loan (in the previous year this had increased by IL 60 million). All told, net new loan issues (IL 117 million) amounted in 1965

<sup>1</sup> See Table XX-1.

<sup>2</sup> Local issues of securities listed on the Tel Aviv Stock Exchange, minus capital repayments and plus net purchases of foreign currency securities by residents of Israel.

**Table XX-1**  
**THE SECURITIES MARKET, 1963-65**  
(Indicators)

	1963 <sup>a</sup>	1964 <sup>a</sup>	1965
<b>Net domestic issues</b>			
Proceeds (IL million)			
Bonds	271.1	218.6	116.8
Shares	174.9	107.8	9.2
Total	446.0	326.4	126.0
Net domestic issues of medium- and long-term securities as a percent of gross capital formation			
	16	12	6
Number of issuing bodies			
	51	43	21
<b>Israeli currency securities listed on Tel Aviv Stock Exchange</b>			
(End of year; IL million)			
Par value	1,180	1,350	1,535
Market value	1,552	1,765	1,750
<b>Volume of Stock Exchange transactions</b>			
(IL million)			
Bonds	45.4	73.5	104.6
Shares	241.9	221.5	92.4
Total	287.3	295.0	197.0
<b>Indexes of security prices</b>			
(End of year. Average 1960 = 100)			
Dollar-linked loans	161.8	184.2	186.5
Index-linked loans	133.0	141.5	154.4
Ordinary shares	198.7	171.3	139.7
<b>Foreign securities held by Israeli residents</b>			
(End of year; \$ million)			
	36.8	50.6	80.4

<sup>a</sup> Adjusted and revised figures.

to only about half the 1964 figure. Quotations of dollar-linked bonds fluctuated within a range of 5 percent during the year; there was no notable net change between the beginning and the end of the year. Prices of index-linked bonds, on the other hand, advanced in the course of the year by about 9 percent on the average—roughly 1 percent more than the cost-of-living index itself. At the end of 1965 index-linked bonds were quoted slightly above their face values, adjusted for the rise in the cost-of-living index.

Medium- and long-term capital raised on the new issues market, against securities traded in Israeli pounds, was equivalent to about 6 percent of gross domestic capital formation in 1965, compared with roughly 14 percent in

the years 1963–64. On balance, the new issues went primarily to institutional investors, especially the pension funds which are required by law to invest a specified proportion of their assets in “approved securities”. Net purchases by private investors appear to have been negligible.

To sum up, one may say that whereas the linked-bond market held its own in 1965, holdings of the Short-Term Loan actually diminished and the equities market continued to fall.

Given the increase in consumer prices over the year, the yield in real terms on the Government Short-Term Loan was next to nil, and private investors seem to have switched extensively to foreign currency assets, linked bonds, and promissory notes.

In this connection, purchases may be mentioned of a new type of Government paper—the five-year Development Loan, with an optional cost-of-living index link (or, alternatively, a higher nominal interest rate) and facilities for anticipated surrender two years after issue.<sup>1</sup> As already noted, there has also been a considerable increase in holdings of foreign currency securities. Private purchases have accounted for the bulk of this increase and for the substantial advance in Tamam and Pazak balances.

The insignificance of new share issues must be ascribed to the continued decline in share prices. This in turn was due, above all, to the attitude of investors to share-holding in general, an attitude of scepticism and hesitancy, which had begun to take shape in 1964 and became more pronounced during the year reviewed. Certain conditions which had contributed to the preceding boom—the pattern of capital gains in a rising market, of rapid monetary expansion and the high degree of liquidity in the economy, and the optimistic outlook with regard to company affairs—were absent in 1965. On the contrary, several factors conspired to exert an adverse influence on the stock market: the recession in the building and real estate markets hit land and development companies; the rise in wages and other costs affected many companies; and the stock market slump itself made equity buying less popular in 1965 as compared with previous years and with alternative forms of investment.

## 2. THE STOCK EXCHANGE LIST

The aggregate par value of securities listed on the Tel Aviv Stock Exchange was IL 1,999 million at the end of 1965 (see Table XX-2). The annual increase was IL 312 million, much the same as in 1964.<sup>2</sup>

Listed securities traded in Israeli pounds accounted for IL 1,535 of the total at the close of 1965, or IL 185 million more than a year before. Of

<sup>1</sup> See Chapter XXI, “Activities of the Bank of Israel”, section 7.

<sup>2</sup> There is no identity between the increase in the total par value of listed securities in any one year and the sum of new issues during that year. See Bank of Israel Annual Report for 1963, p. 413 note 1.

Table XX-2

**SECURITIES LISTED ON THE TEL AVIV STOCK EXCHANGE, AT  
ADJUSTED PAR VALUES,<sup>a</sup> 1963-65**

(End of year)

	IL million			Percent		
	1963	1964 <sup>b</sup>	1965	1963	1964 <sup>b</sup>	1965
<b>A. Securities traded in Israeli currency</b>						
Government loans						
Dollar-linked	168	141	122	14.2	10.4	7.9
Index-linked	86	140	192	7.3	10.4	12.5
"Mixed" link	15	14	13	1.3	1.0	0.8
Nonlinked	56	42	35	4.7	3.1	2.3
<b>Total</b>	<b>325</b>	<b>337</b>	<b>362</b>	<b>27.5</b>	<b>24.9</b>	<b>23.5</b>
Other loans						
Dollar-linked	228	205	217	19.3	15.2	14.2
Index-linked	159	207	327	13.5	15.3	21.3
"Mixed" link	81	75	66	6.9	5.6	4.3
Nonlinked	1	1	1	0.1	0.1	0.1
<b>Total</b>	<b>469</b>	<b>488</b>	<b>611</b>	<b>39.8</b>	<b>36.2</b>	<b>39.9</b>
Shares						
Ordinary	326	465	548	27.6	34.4	35.7
Preference	60	60	14	5.1	4.5	0.9
<b>Total</b>	<b>386</b>	<b>525</b>	<b>562</b>	<b>32.7</b>	<b>38.9</b>	<b>36.6</b>
<b>Total securities traded in Israeli currency</b>	<b>1,180</b>	<b>1,350</b>	<b>1,535</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>B. Securities traded in foreign currency</b>						
Bonds	189	277	326			
Shares	19	60	138			
<b>Total securities traded in foreign currency</b>	<b>208</b>	<b>337</b>	<b>464</b>			
<b>Grand total</b>	<b>1,388</b>	<b>1,687</b>	<b>1,999</b>			

<sup>a</sup> Adjusted for linkage increments on linked bonds.<sup>b</sup> Revised figures.

SOURCE: Based on data of the Tel Aviv Stock Exchange.

this, equity capital amounted to IL 562 million, the annual increase being IL 37 million (in 1964 the increment was IL 139 million and in 1963, IL 200 million). Equity capital thus accounted at the end of 1965 for 37 percent of the total par value of listed securities traded in Israeli pounds, as against 39 percent at the end of 1964 and 20 percent at the close of 1962.

The total of loan capital traded in Israeli pounds and listed on the Stock Exchange increased from IL 825 million at the end of 1964 to IL 973 million at the end of 1965 (see Table XX-3).

Table XX-3

SECURITIES TRADED IN ISRAELI CURRENCY LISTED ON THE TEL AVIV STOCK EXCHANGE, AT PAR VALUES,<sup>a</sup> 1963-65

	IL million			Percent		
	1963	1964 <sup>b</sup>	1965	1963	1964 <sup>b</sup>	1965
Dollar-linked loans	396	346	339	33.6	25.6	22.2
Index-linked loans	245	347	519	20.8	25.7	33.8
"Mixed"-link loans	96	89	79	8.1	6.6	5.1
<b>Total value-linked loans</b>	<b>737</b>	<b>782</b>	<b>937</b>	<b>62.5</b>	<b>57.9</b>	<b>61.1</b>
Nonlinked loans	57	43	36	4.8	3.2	2.3
<b>Total loans</b>	<b>794</b>	<b>825</b>	<b>973</b>	<b>67.3</b>	<b>61.1</b>	<b>63.4</b>
Ordinary and preference shares	386	525	562	32.7	38.9	36.6
<b>Grand total</b>	<b>1,180</b>	<b>1,350</b>	<b>1,535</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Including linkage increments.

<sup>b</sup> Adjusted and revised figures.

SOURCE: Based on data of the Tel Aviv Stock Exchange.

Government bonds traded in Israeli pounds and listed on the Stock Exchange advanced in the course of 1965, in terms of par values adjusted for linkage increments, from IL 337 million to IL 362 million, i.e. by hardly more than the equivalent of the year's linkage increment. The proportion of Government loans in the bond section of the Stock Exchange list continued to decline (see Table XX-4).

Table XX-4.

## GOVERNMENT LOANS TRADED ON THE STOCK EXCHANGE, 1963-65

(at par values)

(End of period)

	1963	1964 <sup>a</sup>	1965
	<b>IL million</b>		
1. Government bonds listed on the Stock Exchange	325	337	362
2. Short-Term Loan	214	274	222
3. Total Government loans traded on the Exchange	539	611	584
4. Total loan capital listed on the Exchange	794	825	973
5. Short-Term Loan	214	274	222
6. All loan capital traded on the Exchange	1,008	1,099	1,195
7. Listed securities traded in Israeli currency	1,180	1,350	1,535
8. Short-Term Loan	214	274	222
9. Total securities traded in Israeli currency	1,394	1,624	1,757
	<b>Percentages</b>		
10. Government bonds listed on the Exchange as a percent of all listed securities traded in Israeli currency (1:7)	28	25	24
11. Government bonds listed on the Exchange as a percent of all loan capital listed on the Exchange (1:4)	41	41	37
12. Government loans, including Short-Term Loan, as a percent of all Israeli securities traded in Israeli currency (3:9)	39	38	33
13. Government loans, including Short-Term Loan, as a percent of all loan capital traded on the Exchange (3:6)	53	56	49

<sup>a</sup> Adjusted and revised figures.

SOURCE: Based on data of the Tel Aviv Stock Exchange.

Value-linked bonds outstanding increased in 1965 from IL 782 million to IL 937 million—i.e. by IL 155 million, as compared with IL 45 million the year before. All new issues of value-linked loans were pegged to the cost-of-living index, whereas dollar-linked and "mixed"-link bonds were thinning out owing to redemptions. In consequence of this, and of the linkage increments due to the rise in the cost-of-living index during the year, the proportion of index-linked loans advanced in the course of 1965 from 44 to 55 percent of the aggregate value of linked bonds on the Stock Exchange list (see Table XX-3).

The market value of securities listed on the Tel Aviv Stock Exchange and traded in Israeli pounds declined by about IL 15 million to IL 1,750 million

Diagram XX-1

SECURITIES TRADED IN ISRAELI CURRENCY LISTED ON THE TEL AVIV STOCK EXCHANGE, 1962-65

(IL million, at market values)

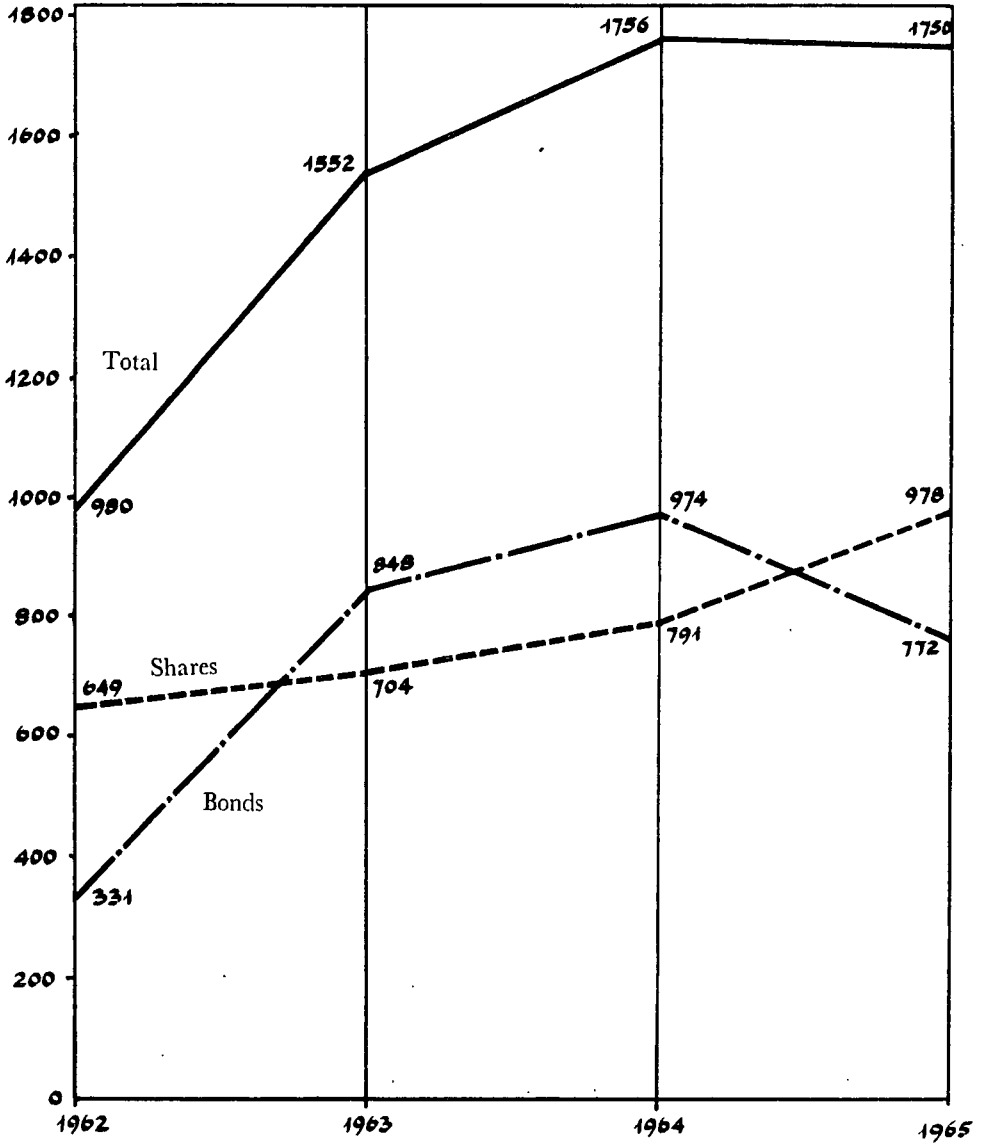


Table XX-5

SECURITIES TRADED IN ISRAELI CURRENCY LISTED ON THE TEL AVIV  
STOCK EXCHANGE, AT MARKET VALUES, 1963-65

End of period	IL million			Percent		
	Bonds	Shares	All securities	Bonds	Shares	All securities
1963	704	848	1,552	45.4	54.6	100.0
1964	791	974	1,765	44.8	55.2	100.0
1965	978	772	1,750	55.9	44.1	100.0

SOURCE: Based on data of the Tel Aviv Stock Exchange.

at the close of 1965. The downward trend was entirely due to the drop in share prices: the market value of listed shares fell in the course of the year by about IL 200 million, or 20 percent, to IL 772 million (see Table XX-5 and Diagram XX-1). Only one company was added in 1965 to the list of those with ordinary shares listed on the Stock Exchange, as against 12 new names in 1964 and 22 the year before (see Table XX-6).

Table XX-6

NUMBER OF COMPANIES WITH ORDINARY SHARES LISTED ON  
THE TEL AVIV STOCK EXCHANGE, BY GROUP, 1963-65

(End of year)

Group	1963	1964	1965	Companies added		
				1963	1964	1965
Public utilities	1	1	1	—	—	—
Banks, insurance companies, and financial institutions	17	23	23	7	6	—
Land and development	8	11	12	4	3	1
Industry and commerce	24	25	25	4	1	—
Fuel and oil	3	3	3	—	—	—
Investment companies	13	15	15	7	2	—
Total	66	78	79	22	12	1

SOURCE: Compiled from data of the Tel Aviv Stock Exchange.

The aggregate par value of securities traded in foreign currency and listed on the Tel Aviv Stock Exchange advanced in 1965 from IL 337 million to IL 464 million, and their market value from IL 355 million to IL 483 million. In part, these represent liabilities of Israeli companies which were authorized to issue share capital or bonds against foreign currency, while the remainder



are securities of foreign companies investing in Israel. To the extent that they are held by residents, they were purchased out of Tamam deposits, either at source at the time of issue, or subsequently from foreign holders. Generally speaking, they have replaced dollar-linked securities, which are no longer issued.

### 3. TRADE ON THE STOCK EXCHANGE

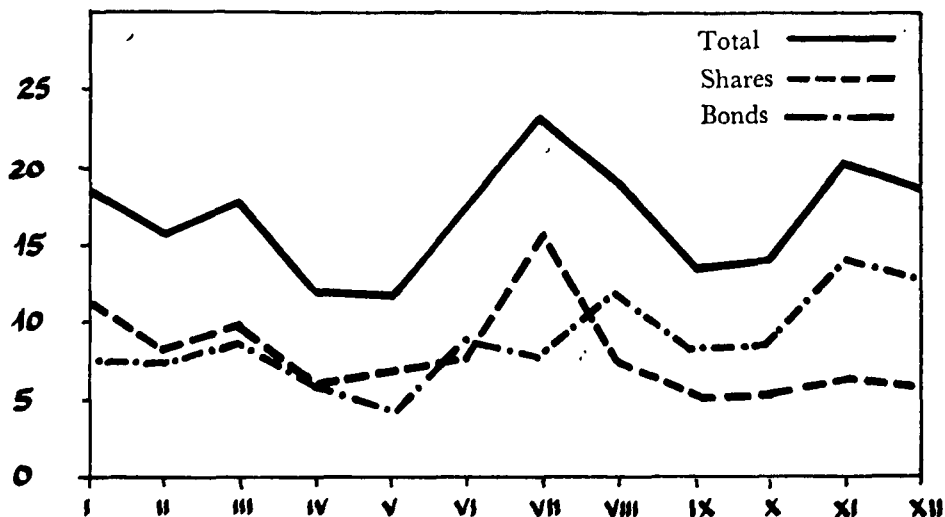
The volume of Stock Exchange transactions, at market prices, amounted to IL 197 million in 1965,<sup>1</sup> compared with about IL 290 million in each of the two preceding years (see Table XX-7). Compared with the previous year, equity trading dropped off by 60 percent to IL 92 million, while that in fixed-interest securities rose by 40 percent to IL 105 million (see Table XX-7). The opposite movement of the two components of Stock Exchange trading actually began in 1964 (see Diagram XX-3): the ratio between equities and fixed-interest securities within the total volume of transactions had been 8:1 in the first quarter of 1964, and dipped to 1.2:1 in the last quarter of that year; in the last quarter of 1965 bonds outstripped equities by 2:1.

In 1965, as in the previous year, the declining volume of equity trading reflected both the reduced level of share prices and the smaller volume of transactions, at par values. These were the symptoms of a creeping recession, in contrast to

Diagram XX-2

#### VOLUME OF TRANSACTIONS ON THE TEL AVIV STOCK EXCHANGE, MONTHLY, 1965

(IL million)



<sup>1</sup> Excluding the proceeds of new securities and the matching of buying and selling orders by individual banks outside the Stock Exchange.

the boom of the early 1960's.<sup>1</sup> Average daily trading in shares fell steadily from half a million Israeli pounds in January 1965 to about a quarter million in December, as against a daily average of a million pounds in 1963 and a record volume of two million pounds, also in 1963. The only break

Table XX-7

A. TRANSACTIONS ON THE TEL AVIV STOCK EXCHANGE,  
MONTHLY, 1965

(IL million)

	Bonds			Shares	
	Long-term	Short-term	Total	Total (IL m.)	Average volume per trading day (IL '000)
January	6.5	0.8	7.3	11.4	542
February	5.2	1.9	7.2	18.2	410
March	5.5	2.8	8.4	9.4	492
First quarter	17.3	5.6	22.9	29.0	460
April	3.8	2.2	5.9	5.9	293
May	3.9	0.8	4.7	6.7	335
June	5.0	3.5	8.5	7.4	355
Second quarter	12.7	6.5	19.1	20.0	328
July	4.9	2.7	7.6	15.5	738
August	7.5	4.2	11.7	6.9	312
September	5.7	2.5	8.2	4.8	254
Third quarter	18.1	9.4	27.5	27.2	438
October	6.8	1.8	8.6	4.9	325
November	9.4	4.7	14.1	5.8	276
December	6.5	5.9	12.4	5.6	254
Fourth quarter	22.7	12.4	35.1	16.3	280

B. ANNUAL VOLUME, 1962-65

	Bonds	Shares	Total	Shares
				Average volume per trading day (IL '000)
1962	54.2	68.4	122.6	280
1963	45.4	241.9	287.3	999
1964	73.5	221.5	295.0	893
1965	104.6	92.4	197.0	379

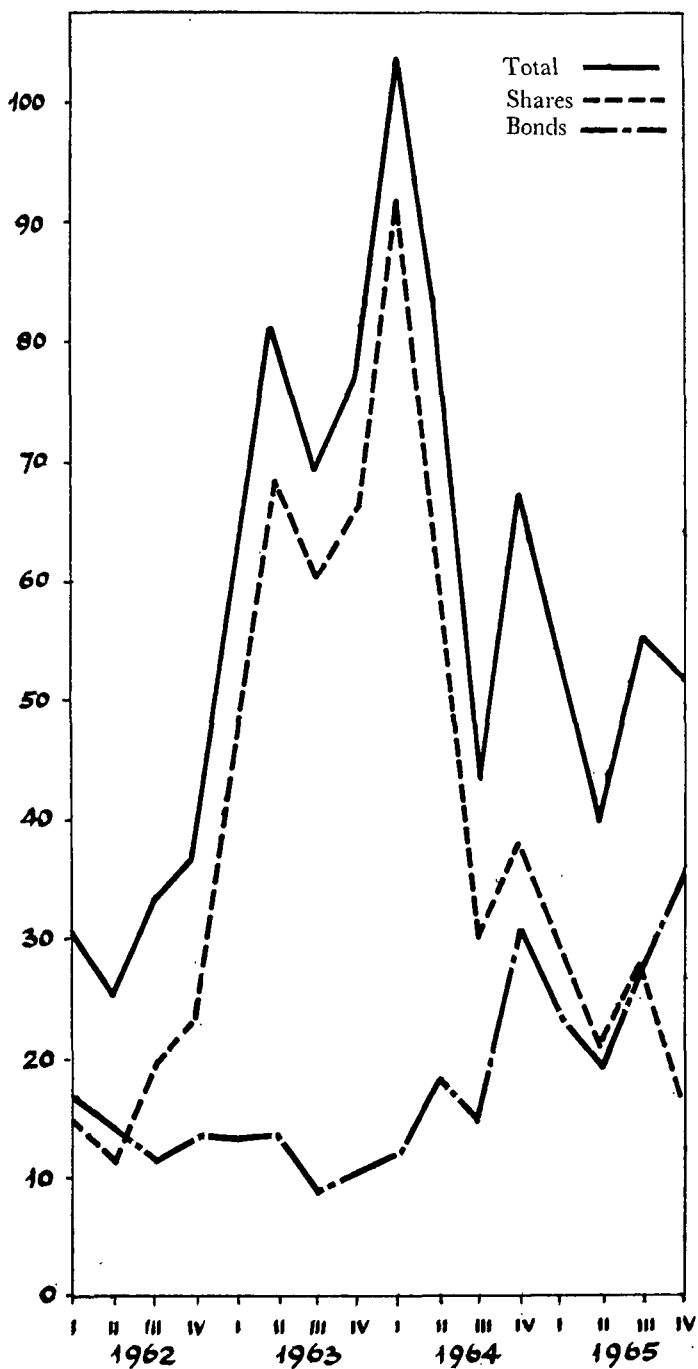
SOURCE: Based on data of the Tel Aviv Stock Exchange.

<sup>1</sup> A boom is characterized by rising prices and a big trading volume; a crisis by steeply falling quotations and a heavy volume of transactions.

Diagram XX-3

VOLUME OF TRANSACTIONS ON THE TEL AVIV  
STOCK EXCHANGE, BY QUARTERS, 1962-65

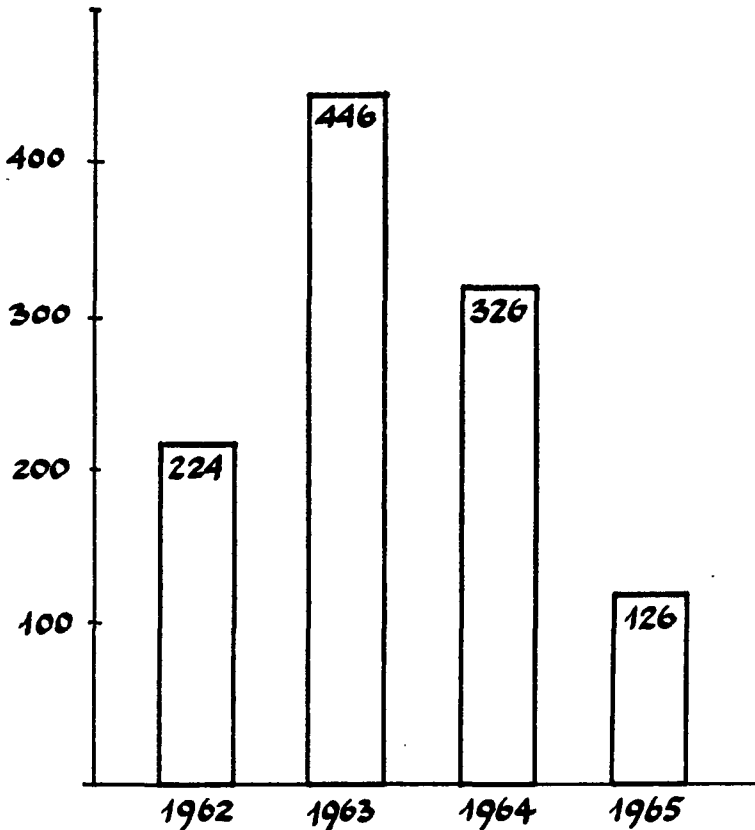
(IL million)



in the downward trend in 1965 was a temporary rally of share prices and trading activity in July (see section 4 below). The annual turnover velocity of equities<sup>1</sup> in 1965 dropped to 0.11, from 0.4 in 1963 and 0.27 in 1964.<sup>2</sup> Trading at "variable" prices on a single day, a practice introduced during the boom for greater flexibility in a swiftly moving market, was of very limited scope in 1965.

Transactions in fixed-interest securities, on the other hand, rose steadily throughout the year, from an average daily volume of IL 365,000 in the first quarter to IL 605,000 per day in the last quarter. Over the year as a whole, the ratio between deals in long- and short-term paper was 2:1. The proportion of dollar-linked bonds within the total volume of transactions in

**Diagram XX-4**  
**NET DOMESTIC ISSUES OF ISRAELI SECURITIES, 1962-65**  
 (IL million)



<sup>1</sup> The ratio between the volume of trade and the market value of the securities listed on the Stock Exchange.

<sup>2</sup> Figures of the Central Bureau of Statistics.

long-term paper fluctuated between one-third and two-thirds. Over the year as a whole, transactions in dollar-linked loans roughly equalled those in index-linked loans. The annual turnover velocity of all linked loans taken together was about 0.06 in 1965, much the same as in the previous year.

#### 4. PRICE TRENDS

Share prices fell throughout the first half of 1965, rallied briefly in July, then continued downward until the end of the year. The prices of index-linked bonds rose slightly more than the index itself. Dollar-linked bonds, as well as nonlinked bonds, fluctuated within fairly narrow limits.

Table XX-8  
INDEXES OF SHARE PRICES, 1965  
(End of 1964 = 100)

End of month	Monthly index of ordinary shares	Daily index					
		All shares	Finance and insurance	Land and development	Industry and commerce	Investment companies	Fuel and oil
1964 December	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1965 January	98.8	98.4	100.2	96.4	97.3	98.5	93.8
February	96.3	95.8	98.85	90.6	94.3	96.5	93.1
March	95.1	94.9	98.4	91.0	93.1	94.35	89.2
April	93.0	93.75	96.6	90.35	92.9	91.9	68.5
May	92.0	92.9	96.1	90.6	91.9	89.8	81.5
June	87.7	90.1	93.4	87.1	90.1	85.1	79.6
July	93.8	95.3	98.8	93.6	94.0	91.9	87.0
August	89.3	91.3	95.5	88.6	89.6	86.1	86.4
September	86.2	88.7	92.5	86.3	87.8	82.85	84.3
October	85.6	88.3	91.7	86.1	87.55	82.6	83.3
November	81.6	84.6	87.7	82.5	85.3	78.4	76.75
December	81.6	83.3	87.8	80.9	83.9	78.8	61.6

SOURCE: Based on data of the Tel Aviv Stock Exchange.

The prices of ordinary shares fell by 18.4 percent during 1965, according to the monthly index of the Central Bureau of Statistics<sup>1</sup> (see Table XX-8). In 1964 there was a decline of 14 percent, so that over the past two years share prices receded by 30 percent. All shares were affected by the slump,

<sup>1</sup> The apparent discrepancy between this figure and the 20 percent cited in section 2 stems, among other things, from the delay in registering new shares, including bonus shares, on the Exchange.

though some more than others, as may be gauged, for instance, from the development of the daily index of share prices and its component groups.<sup>1</sup> The general daily share index dropped by 16.7 percent in the course of 1965, while the fuel and oil, investment company, and land and development groups lost more heavily, and the finance and insurance and the industrial and commercial groups less.

Compared with the record levels achieved in 1963, the general daily index of share prices was down 30 percent at the end of 1965. Groups which lost more than that were fuel and oil (60 percent)—for reasons to be explained later; investment companies (35.6 percent); and land and development (35 percent)—the last-mentioned having previously gained more than the others. As regards finance and insurance and industry and commerce, the retreat from the peak levels of 1963 was slightly less severe (29.6 and 29.7 percent respectively). In the period 1962–65—which included, roughly speaking, two years of boom and two of recession—industrials and commercials were the shares which fluctuated least: they gained only 49 percent during the boom, as against an advance of 82 percent in the general index, but later on suffered the least. With the exception of fuel and oil shares, which lost nearly 30 percent over the four years, all groups gained on balance. The ones which advanced the most were financial and insurance shares (85 percent), while industrials and commercials gained least (about 5 percent). The general average rise over the four years 1962–65 was 28 percent.

Except for minor fluctuations and a short rally in July, the trend of share prices was persistently downward in 1965. At the beginning of 1965 it looked as though some recovery was in store after 18 months of recession, but at the end of January most shares started losing again, a trend that went on until June. Innovations in trading methods designed to shore up the market—such as the sale of bid “options” and the sale of shares on the instalment plan—failed to achieve their object. A commission appointed by the Minister of Finance to advise on methods of reviving the stock market submitted its findings in the spring. Early in May it was announced that three of its recommendations had been accepted: to require various financial bodies to set up equity equalization funds, to request pension funds to invest 2 percent of their assets in the share market, and to set an income tax ceiling of 25 percent on the first IL 500 earned by any one investor from dividends. The market failed to react to this news, but when the capital gains tax on share transactions was abolished early in July—almost exactly one year after its enactment—there was a resurgent demand for shares, which sent quotations up to a level 2 percent above the

<sup>1</sup> The daily securities index of the Central Bureau of Statistics differs from the monthly index both in composition and in weighting, and gives a similar but not identical picture of price trends. The daily share index has the advantage of being broken down into groups (of related stocks) and thus conveys a more detailed picture than the monthly index.

index at the beginning of the year and 13 percent above the lowest level previously recorded in 1965. Shortly afterward, however, the downward movement reasserted itself and continued for the rest of the year.

On the whole, this development cannot be attributed to unsatisfactory dividends or poor business results, with the exception of oil shares and a few companies which did reduce or skipped their dividends for various reasons. Of the 79 companies with shares listed on the Tel Aviv Stock Exchange, 24 paid smaller dividends in 1965 than in the preceding year, but 19 increased theirs.<sup>1</sup> The fuel and oil group was hit in December 1965 by the announcement of one company that in view of accumulating losses it had decided to discontinue drilling operations. A selling flurry caused its shares to tumble by 50 percent within one month and the daily index for the fuel and oil group by 20 percent. Because of the speculative transactions which abound in this section of the market, it has always been a sensitive one. The drop of land and development shares must, of course, be ascribed at least partly to the slump of the real estate market. On the other hand, ordinary and preferred shares of the Israel Electric Corporation advanced substantially, in both Tel Aviv and London, following the announcement of a plan (meanwhile realized) to reorganize the company's capital structure.

Table XX-9  
MONTHLY INDEXES OF SECURITY PRICES, 1965

(End of 1964 = 100)

End of month	Value-linked bonds				Nonlinked bonds	Preference shares	Ordinary shares
	Total	Dollar-linked	Index-linked	"Mixed" link			
1964 December	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1965 January	107.9	101.2	102.5	102.1	100.8	100.6	98.8
February	101.2	99.6	102.5	101.6	100.8	99.7	96.3
March	100.5	98.6	102.3	100.4	101.0	98.6	95.1
April	100.4	97.9	102.75	99.7	102.4	98.6	93.0
May	100.8	98.3	103.5	99.4	102.1	108.4	92.0
June	102.1	99.0	105.5	99.4	99.9	108.7	87.7
July	102.9	100.0	106.1	101.0	100.8	109.6	93.8
August	103.8	100.7	106.8	103.5	102.0	110.7	89.3
September	104.3	102.0	106.6	104.2	101.3	111.5	86.2
October	105.1	103.0	107.3	105.0	102.3	114.8	85.6
November	104.7	101.2	107.9	104.9	102.0	112.8	81.6
December	105.4	101.2	109.1	104.8	102.1	111.1	81.6

SOURCE: Compiled from Central Bureau of Statistics indexes.

<sup>1</sup> The reference is to cash dividends only, not stock dividends.

The recession of 1964 and 1965 was essentially a reaction to the buoyancy of prices in the years 1962-63 and the plethora of new issues, which continued even in 1964. These caused the market to expand more than seven times over within the period 1961-64—from IL 130 million to IL 974 million.<sup>1</sup> During the boom many of the new shareholders built up portfolios in the hope of capital gains after the pattern so common at the time. But the new issues, combined with profit-taking sales, gradually raised supply to a point where it outstripped demand. Beginning in mid-1963, a slow but persistent decline of share prices set in, which eventually destroyed all prospects of short-term gains for potential investors, and led shareholders to unload stocks in an attempt to escape or cut their losses. At this point, one of the weaknesses of the Tel Aviv market became apparent—institutional investors proved unwilling or unable to take up the shares disposed of by private investors. Foremost among institutional investors on the Tel Aviv share market are the investment companies, but these are in the habit of financing net purchases with the proceeds of capital issues of their own, a source which dried up during the recession. The resources of other institutional investors have traditionally been invested outside the share market, and the recommendation mentioned earlier, that pension funds invest part of their resources in shares, failed to change this state of affairs. Moreover, a portion of the share issues of the boom years had been temporarily “blocked”, i.e. the subscribers had undertaken to hold them for a certain minimum period; that period now being over, a new source of supply was created which aggravated the downward pressure on quotations. Five equalization funds were put into operation in 1965. Between them they acquired IL 9.5 million worth of stock, but at best they succeeded in moderating the downward trend of share prices, not in checking it. The IL 9.5 million was more than offset, to take only one factor, by the decline in the combined portfolios of unit trusts from IL 48.1 million to IL 38.2 million—partly as a result of paper losses, but largely due to the redemption of unit certificates.<sup>2</sup>

It seems that in a pronounced recession, just as during a major boom, investment decisions are taken in the light of the trend of share prices rather than the merits of individual shares at given prices. Otherwise, it is difficult to explain why in 1965 the shares of so many companies with a sound business background and a regular dividend record should have dropped below their balance sheet values. Yet even at the end of 1965, with share prices one-third below the peak levels of 1963, dividend yields of most shares were still much lower than interest rates on promissory notes or the return on short-term Government paper. Figured on the basis of share prices at the end of each year, the

<sup>1</sup> The total market value of shares listed on the Stock Exchange.

<sup>2</sup> See Chapter XVII, “Financial Institutions”.



arithmetic mean of cash dividend yields of shares listed on the Stock Exchange<sup>1</sup> was above 7 percent at the close of 1965, as against some 6 percent at the end of 1964. The mode was between 6 and 7 percent at the close of 1965, and less than 5 percent at the end of 1964.

Table XX-10  
INDEXES OF VALUE-LINKED BOND PRICES, 1965

	Dollar-linked bonds		Index-linked bonds	
	Dec. 1964 = 100	Adjusted par value = 100	Dec. 1964 = 100	Adjusted par value <sup>a</sup> = 100
1964 December	100.0	103.3	100.0	99.35
1965 January	101.2	104.5	102.5	100.7
February	99.6	103.0	102.5	100.4
March	98.6	101.9	102.3	99.8
April	97.9	101.1	102.75	97.8
May	98.3	101.5	103.5	98.6
June	99.0	102.5	105.5	98.3
July	100.0	103.3	106.1	99.8
August	100.7	103.7	106.8	101.2
September	102.0	104.9	106.6	102.5
October	103.0	105.8	107.3	101.6
November	101.2	104.2	107.9	101.3
December	101.2	103.4	109.1	101.9

<sup>a</sup> Par value plus linkage increment.

SOURCE: Compiled from Central Bureau of Statistics indexes.

The prices of dollar-linked bonds fluctuated within a range of 5 percent, but on balance changed negligibly during the year (see Table XX-9). An increase of 14 percent in 1964 had taken them slightly above their par values, adjusted for the linkage increment arising from the devaluation of 1962. While trade in these bonds was brisk, the accumulated investment in them dropped owing to their continued amortization. The function of this type of security is being taken over, to all intents and purposes, by securities traded in foreign currency (see section 6).

As in 1964, the prices of index-linked bonds advanced slightly more than the consumer price index itself; at the end of 1965 they reached a level slightly above the par values of these bonds, adjusted for the linkage increment accruing from the rise in consumer prices (see Table XX-10).

<sup>1</sup> The number of shares on the Stock Exchange list (89 at the close of 1965 as against 83 at the end of 1964) exceeds the number of companies listed, since some of the companies have several classes of shares listed.

## 5. NEW ISSUES

Net local issues in Israeli pounds amounted to IL 126 million in 1965, about 60 percent less than in the previous year (see Table XX-11). Most conspicuous was the drop in equity issues—from IL 108 million to IL 9 million. While net issues of long-term Government loans—IL 24 million in 1965—were about IL 11 million more than in 1964, the outstanding balance of the Short-Term Loan dropped by IL 52 million in 1965. The decline was even steeper—about IL 75 million—if one excepts the holdings by banking institutions under a special arrangement. Non-Government loan issues were of the same order as the year before—IL 145 million as against IL 146 million.

**Table XX-11**  
**NET DOMESTIC ISSUES, BY TYPE, 1963-65**

	IL million			Percent		
	1963	1964*	1965	1963	1964	1965
<b>Long-term loans</b>						
Government	-14.8	12.8	23.7	—	3.9	—
Other	172.0	145.7	145.0	—	44.6	—
<b>Total long-term loans</b>	157.2	158.5	168.7	35.3	48.5	—
<b>Short-term Government loans</b>	113.9	60.1	-51.9	25.5	18.4	—
<b>Total loan capital</b>	271.1	218.6	116.8	60.8	67.0	92.7
<b>Shares</b>	174.9	107.8	9.2	39.2	33.0	7.3
<b>Total domestic issues</b>	446.0	326.4	126.0	100.0	100.0	100.0

\* Adjusted and revised figures.

The switch in private holdings from the Short-Term Loan to the new type of Development Loan certificates noted earlier (see section 1 above) resulted in both the reduction and shortening of the outstanding balance of the Short-Term Loan. The amount of the outstanding series with maturities of six months and less was relatively more important at the end of the year than it had been at the end of 1964. Private holdings of the Short-Term Loan dropped by about IL 75 million, but the very short end by only IL 10 million.

The breakdown of new share issues in 1964 and 1965 by issuer group and type of issue is shown in Table XX-12. No public issues were launched on the Tel Aviv market in 1965. Also absent were issues of investment company shares, the most popular group in previous years.

Diagram XX-5

BREAKDOWN OF LONG-TERM DOMESTIC ISSUES OF ISRAELI SECURITIES, 1962-65

(percentages)

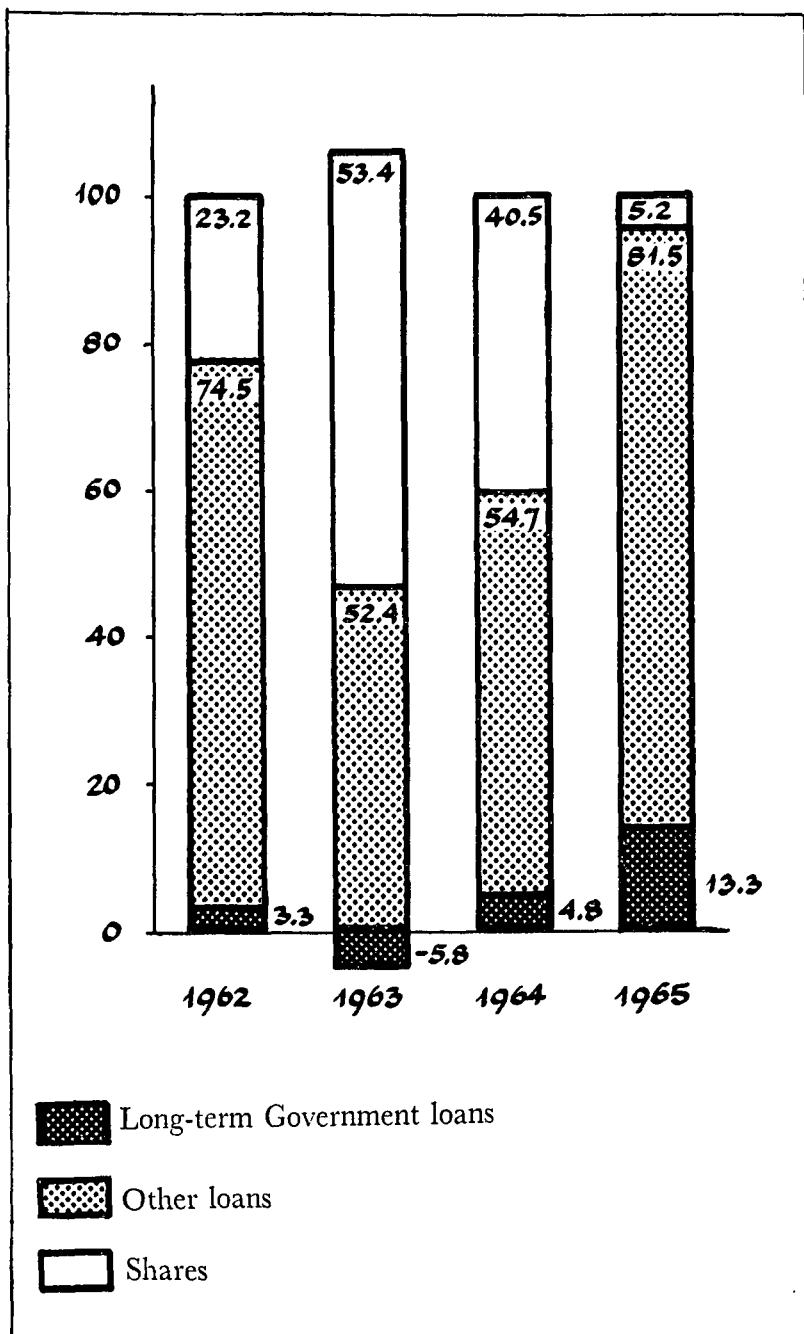


Table XX-12

NEW SHARES, AT ISSUE PRICES, BY GROUP AND TYPE OF ISSUE,  
1964-65

(IL million)

	Finance and insurance		Investment companies		Industry and commerce		Land and development		Total	
	1964	1965	1964	1965	1964	1965	1964	1965	1964	1965
Public issues	38.6	—	14.0	—	5.3	—	4.0	—	61.9	—
Rights issues	23.1	4.5	15.9	—	1.9	0.6	5.0	4.1	45.9	9.2
Total domestic issues	61.7	4.5	29.9	—	7.2	0.6	9.0	4.1	107.8	9.2
Issues abroad	—	7.1	4.2	—	—	0.3	14.2	13.2	18.4	20.6
Grand total	61.7	11.6	34.1	—	7.2	0.9	23.2	17.3	126.2	29.8
Percent	48.9	39.0	27.0	—	5.7	2.9	18.3	58.1	100.0	100.0

SOURCE: Bank of Israel.

Throughout most of the year there was a continuous, month-by-month decline in the volume of new issues (see Table XX-13): the average monthly total was IL 20 million in the first quarter, IL 12 million in the second, and IL 4 million in the third. In the last two months of the year the figures improved, possibly owing to heavier buying by pension funds toward the close of the financial year.

## 6. FOREIGN SECURITIES

The value of foreign currency securities held by Israeli residents amounted to about \$ 80 million at the close of 1965; the increase during the year was bigger than in any previous year. Included in this category are foreign securities proper, as well as equity and loan capital of Israeli companies issued against foreign currency.

Trade in foreign currency securities was particularly brisk in the second half of 1965. Under the foreign currency regulations, it is the holders of Tamam accounts who are entitled to buy such securities in the first place, out of these deposits; other persons may buy foreign currency securities from them. The foreign currency involved in these transactions commands an agio, the rate of which fell during the first half of 1965 from 7 percent above the official exchange rate to 6 percent; it went up to 9 percent in October, and then retreated, under the impact of official sales, to its level in January.

**Table XX-13**  
**NEW DOMESTIC ISSUES, AT ISSUE PRICES, MONTHLY, 1965**

Month	Shares	Government loans				Other loans <sup>a</sup>		Net total, shares and bonds
		Long-term		Short-term		Gross	Net	
		Gross	Net	Gross	Net			
January	13.2	4.1	3.5	30.6	-11.0	9.4	7.5	13.2
February	5.0	5.7	2.3	24.4	0.3	10.2	4.8	12.4
March	—	2.3	2.1	30.7	6.3	29.0	25.0	33.4
First quarter	18.2	12.1	7.9	85.7	-4.4	48.6	37.2	59.0
April	6.3	7.1	5.6	13.0	-5.9	17.7	15.3	21.3
May	—	3.5	-3.2	16.0	-3.5	15.3	12.5	5.8
June	—	4.5	10.3	23.0	-4.7	16.7	5.8	11.4
Second quarter	6.3	15.1	12.7	52.0	-14.1	49.7	33.6	38.5
First half	24.5	27.2	20.6	137.7	-18.5	98.3	70.8	97.5
July	—	3.3	1.6	19.7	-5.0	13.2	8.6	5.2
August	—	1.7	-1.0	19.4	-1.2	11.0	1.2	-1.0
September	—	2.1	2.0	17.4	-5.3	13.0	10.1	6.8
Third quarter	—	7.1	2.6	56.5	-11.5	37.2	19.8	10.9
October	—	2.3	2.1	7.7	-9.4	11.9	9.1	1.8
November	5.3	12.6	11.7	18.0	-5.8	17.6	15.6	26.8
December	—	-5.4	-13.3	20.8	-6.7	38.0	29.7	9.7
Last quarter	5.3	9.5	0.5	46.5	-21.9	67.5	54.4	38.3
Second half	5.3	16.6	3.1	103.0	-33.4	104.7	74.2	49.2
Total	29.8	43.8	23.7	240.7	-51.9	203.0	145.0	146.7

NOTE: Discrepancies in totals are due to rounding.

<sup>a</sup> Including sales from issues floated in 1964 (IL 16.06 million).

**Table XX-14****FOREIGN CURRENCY SECURITIES HELD BY ISRAELI  
RESIDENTS, 1962-65**

(\$ million, at original purchase prices)

<b>End-year</b>	<b>Balance</b>	<b>Annual increment</b>
1962	25.7	5.4
1963	36.8	11.1
1964	50.6	13.8
1965	80.4	29.8

SOURCE: Ministry of Finance.

Investment in foreign securities has actually replaced that in dollar-linked bonds, the issue of which was discontinued in 1962.