CHAPTER XVII

MONEY SUPPLY, CREDIT AND THE BANKING INSTITUTIONS

1. Main Developments

Monetary development was restrained in 1976. It contributed to the lower level of economic activity and assisted in achieving an improvement in the balance of payments. The Bank of Israel took measures to moderate the growth of free credit and raise the interest rate on it. These measures helped to maintain a low level of economic activity and created incentives for reducing inventories, thus helping to decrease imports and to direct means of production towards export. The restraining monetary measures were implemented selectively in order not to hurt exports.

The accelerated rate of inflation (mainly a reaction to the governmental measures) and higher interest rates caused a decline in demand for money. The real value of the money supply, when discounted by the price increase of domestic uses, decreased at an annual average of 8 percent. The decline of the money supply ceased in the last months of the year and the beginning of 1977, as a result of the lessening of inflationary expectations and expectations of a quick change in the exchange rate.

The annual average level of free credit grew by 29 percent, similar to the rate of price increase for domestic uses. Directed credit for domestic activity grew at an annual average rate of 18 percent, thus lagging behind the rate of price increases.

The restrained development of credit for domestic activity becomes even more prominent during the year. In March, the Bank of Israel initiated an agreement with the banks whereby the latter undertook to maintain the existing volume of free credit. A very high cost was fixed for extending credit above the agreed limit. The initial ceiling was gradually raised, but the total growth of free credit during the year was only 24 percent, while the consumer price index rose by 38 percent.[1]

The directed credit for domestic activity also grew slowly during the year (24 percent), while the credit directed to export increased by 45 percent at an annual average and a similar rate throughout the year, which corresponded with both its quantitative development and change of price.

The high marginal cost fixed for exceeding the ceiling of free credit motivated the banks to continue raising their interest rate (by approximately 8 percent throughout

[1] The price index of final uses is computed as a periodical average only, and therefore the consumer price index was used here for comparison of the different points of time. At an annual average, the Consumer Price Index of 1976 rose at a slightly faster rate than the domestic uses price index (31 percent against 28 percent).

the year). At the same time, the rates of interest on directed, unlinked credit were raised, and part of the directed credit which was unlinked became linked.

The injection by the public sector, and especially by the government, constituted the major factor for enlargement of the money base throughout the year. The money base grew during the year at a faster rate than the consumer price index, but this growth did not serve to create a parallel monetary expansion, because the Bank of Israel pressured the banks to diminish substantially the liquidity deficiencies which they had accumulated in 1975.

The expansion of the money supply accelerated during the last months of 1976 and the beginning of 1977 as a result of an increase in the governmental injection and lower absorption through buying of foreign currency by the private sector. The recent acceleration in the growth of the money supply created a potential pressure on prices, even though by the end of the first quarter of 1977, it had not yet had an effect as the real demand for money increased at the same time.

In the course of 1976 the balance of payments of the private sector improved. This improvement was accompanied by lower imports of short-term private capital from abroad, and did not substantially decrease the absorption via the private sector's acquisition of foreign currency. It is possible that if the Bank of Israel had put heavier pressure on the banks to raise their interest rates during the year, it would have caused a further decrease in absorption through the balance of payments and perhaps even through the mobilization of government capital.

2. Monetary Developments and Monetary Policy

In 1976, the major monetary variables grew at a moderate rate relative to the price increases, which resulted mainly from government measures (taxation; exchange rate changes, etc.) and the economy's reaction to them. The development of the monetary variables contributed to the low level of economic activity, while at the same time stimulating preferred activities, especially exports, as a means of improving the balance of payments. The high interest rate encouraged the reduction of inventories, and that too contributed to the improvement of the balance of payments.

Throughout the year the Bank of Israel took measures to moderate the growth of free credit to the public and to raise its price. The growth of the free credit did in fact lag substantially behind the increase in the Consumer Price Index, while the rate of interest on free credit rose. At the same time directed credit expanded rapidly due to the higher value of exports. The annual average growth of free credit was 29 percent, slightly higher than the increase in the price index of domestic use, which reached 28 percent, while directed credit grew by 36 percent.

The growth of the money supply lagged behind price increases and reached an annual average of 18 percent in 1976 (27 percent throughout the year). The real decrease in the money supply apparently reflects smaller cash demand as well as current bank accounts, due to the accelerated rate of inflation and higher interest rates. It does not reflect a restraining monetary influence on economic activity.

TABLE XVII-1

THE MONEY BASE AND LIQUIDITY DEFICITS OF THE BANKS, 1975–1976

	Increase or (-) decrease[a]				Liquidity deficiency of the banks	Broad money base plus liquidity deficiency, increase or (-) decrease[a]	
	Narrow money base		Broad money base				
	(IL million)	(percent)	(IL million)	(percent)	(IL million)	(IL million)	(percent)
			(annual average)[b]				
1975	7,329	26.4	8,579	27.8	-810	9,389	30.4
1976	8,650	18.0	9,989	16.4	-754	10,743	14.4
			(balances at end of period)				
1975	7,224	4.9	8,569	6.3	-1,519	10,088	24.1
1976	10,549	46.0	11,958	39.5	-381	12,339	22.3
1976 I	7,536	4.3	8,835	3.1	-1,102	9,937	-1.5
II	8,635	14.6	9,960	12.7	-741	10,701	7.7
III	8,943	3.6	10,200	2.4	-944	11,144	4.1
IV	10,549	18.0	11,958	17.2	-381	12,339	10.7

a Annual or quarterly changes as appropriate.

b Annual averages are based on monthly data.

SOURCE: Table XVII-i.

In 1975 the growth of the money base was especially slow, but during 1976 it caught up with price increases. Other monetary variables did not grow as rapidly as the money base, because the banks reduced their liquidity deficiencies under the influence of the Bank of Israel. The money base and liquidity deficiencies grew at a rate of only 22 percent throughout the year (a real decrease of 12 percent).

Monetary expansion was not homogeneous over the year. Free credit grew at a rapid rate in the first quarter of the year, but growth then halted due to measures taken by the Bank of Israel. In contrast, the growth rates of the money base and money supply were lower at the beginning of 1976 and then accelerated towards the end of the year. This rapid development continued at the beginning of 1977.

The fast development at the end of the period was characterized by two factors: (a) a considerable accelerated growth of the money base as a result of wider governmental injection and lower absorption through buying of foreign currency by the private sector, and (b) a real increase in the money supply and a growth in the public's fixed-term deposits after the latter had not changed for several years.

The developments in the money base in the past few years were the result of the difference between two large financial flows: on the one hand injection resulting from activities of the public sector and the directed credit system and, on the other hand, absorption through buying of foreign currency by the private sector. In 1976, the injection deriving from activities of the public sector grew. This was partly the result of less net mobilization of capital by the government. At the same time injection through directed credit continued to grow as exports increased. On the other hand, absorption through buying of foreign currency by the private sector did not increase, and in fact, at the end of 1976 and the beginning of 1977, it actually dropped. As a result, the growth of the money base greatly accelerated during this period.

The high level of acquisitions of foreign currency by the private sector in recent years derives mainly from the basic deficit in the balance of payments of the private sector (the deficit in the current account of the private sector excluding its transfer revenues, loans and private long-term investments). The acquisitions were also influenced by the relative profitability of holding assets in foreign currency. Introduction of the creeping devaluation in June 1975 increased the return on assets in foreign currency and reduced the uncertainty in receiving this return thus causing a rapid growth in acquisitions of foreign currency during the second half of that year. (Expectations for a devaluation at the beginning of 1975 had been very low.)

In 1976 there was an improvement of about half a billion dollars in the current account of the private sector. Had this improvement resulted entirely in a drop in acquisition of foreign currency, it would have lowered absorption through these acquisitions by IL 3 billion and significantly accelerated the growth of the money base. However, in spite of rising interest rates during the year, this did not occur, as the improvement in the private sector's current account was accompanied by a reduction of the sector's capital import from abroad. Acquisitions by the private sector from the Bank of Israel decreased by only IL 730 million during the year. After correcting for the influence of various institutional factors, these acquisitions actually rose slightly.[2]

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2 Acquisitions of foreign currency by the private sector decreased by $ 200 million, or 27 percent. Part of this decrease was directly related to the net effect of two institutional arrangements (export shipments and export fund deposits – see below) excluding this influence, the decrease in acquisitions of foreign currency by the private sector reached 12 percent in dollar terms. Because of the increase in the rate of exchange throughout the year, the growth rate of foreign currency acquisitions expressed in Israeli pounds and in dollar terms are not identical.

In the last months of the year there was a decrease in the expectations for a devaluation as reflected in the agio of the Natad dollar, probably as result of the improvement in the balance of payments, and later, the decision to hold elections earlier than planned. The combination of lower expectations for a devaluation and higher domestic rates of interest could have encouraged receipt of short-term credit from abroad. However, it seems that the rates of interest have not yet created significant incentive to this end, or that this incentive had simply not caused a real reaction by the end of the year. It should be noted that the extent of long-term private loans from abroad and the recourse to foreign currency credit from the banks increased in the last quarter. This increase was apparently the result of special factors (such as the increased scope of exchange rate insurance) and not of lowered expectations for a devaluation, which should have influenced the import of short-term capital.

The low level of acquisitions of foreign currency continued in the first quarter of 1977, but without further information on the balance of payments, it is difficult to study this development.

Whatever the case may be, one cannot disregard the restriction imposed on the monetary policy, because of the endogenous character of the money base: it is influenced, on the one hand, by private capital movements in the balance of payments, and on the other hand, by the extent of capital mobilization by the government (which has a direct effect on the size of its injection). One could imagine a situation in which the monetary authority would not be able to fix an interest rate that assured the desired influence both on domestic demands and on private capital movements (even though such a development has not taken place in 1976). In this respect, the monetary policy cannot be a substitute for fiscal policy, foreign exchange policy and the government's policy of mobilizing capital.

The real drop in money supply continued until the last months of 1976. The decline in the real value of the money supply (after deflating by the domestic uses price index) reached 8 percent and was steeper than the decline of domestic uses (4 percent). This was reflected in an acceleration of the money supply turnover velocity in relation to domestic uses. The turnover velocity has also increased relative to the product and to total uses, both of which have shown a slight rise in real terms (see Table XVII-2). A partial direct measurement of turnover velocity through current deposits also indicates a similar trend.

The real decline in the money supply that has characterized the economy since the Yom Kippur War, renewed in August 1975, after a pause of several months, and continued until October 1976. This decline resulted mainly from the higher price of holding money during a period of accelerated inflation, increase of interest rates and the introduction of the creeping devaluation. Parallel to the development of the money supply, other non-linked monetary assets (fixed-term deposits and short-term loans) declined at a more rapid real rate. The monetary balance of those assets has not changed for several years.

In spite of the accelerated rate of inflation in the past years, the banks have only gradually raised their interest rates for depositors. The banks seem to have felt that the demand for time deposits was rather inelastic in relation to the interest rate. They preferred, therefore, to mobilize for the financing of their activities new sources such as saving programs or raising equity capital. Nevertheless, special groups of large depositors were offered relatively high rates of interest.

TABLE XVII-2

TURNOVER VELOCITY OF DEMAND DEPOSITS AND MONEY SUPPLY, 1973–1976

	Average turnover velocity of demand deposits[a]	Annual average turnover velocity of the money supply		
		Relative to GNP[b]	Relative to economy's uses[c]	Relative to domestic uses[d]
1973	24.2	5.99	9.07	7.04
1974	28.7	6.96	11.05	8.62
1975	31.9	7.55	11.98	9.24
1976	35.8	8.29	13.18	9.80

a Total debiting of demand deposits in Israeli currency in the banks divided by the annual average volume of these deposits.

b GNP at current prices (based on effective exchange rate), divided by the average annual level of the money supply.

c GNP at current prices, plus import, but excluding ships, aircraft, and direct defense imports (based on the effective rate of exchange), divided in the same way as mentioned in the previous footnote.

d Domestic uses: the economy's uses, as defined in the previous footnote, excluding export.

SOURCE: Turnover of demand deposits – Department of the Examiner of Banks, statistics of the banking institutions; the money supply and unlinked assets – Table XVII-8: GNP, the economy's uses and domestic uses – Table II-1.

Table XVII-3 indicates the small share of the public's deposits (including current deposits) in total free sources mobilized by the banks. This weight increased in 1976, but about half of this year's contribution of growth in deposits to the free sources was connected with the unusual rise in the public's deposits during the last months of the year. The growing share of deposits in free sources was also affected in the decreased rates of liquidity on these deposits. When these changes are discounted, there is no significant increase in the weight of deposits on total free sources in the first ten months of 1976, as compared with 1975.

In the last months of 1976 and the beginning of 1977, there was a real increase in the money supply, parallel to the large injection during that period. The public's time deposits showed relatively fast growth as well. This development was evidently connected with the declining expectations of price increases, first during preparations for a package deal and then with the announcement of earlier elections (in fact the Consumer Price Index in the first three months of 1977 increased by only 2.7 percent). The decline of expectations for a devaluation has a similar effect.

The Bank of Israel set a major policy objective for 1976: to restrain free credit and increase the interest on it, and at the same time assisting the banks to reduce the heavy liquidity deficiencies which they had accumulated in 1975. Restricting the growth of free credit and increasing its price were intended to keep domestic demand at bay and to reduce the profitability of acquiring foreign currency following the introduction of the creeping devaluation. In recent years, the banks failed to adjust interest rates in regard to the high rate of inflation (this also applies to the creditory interest rates).

In order to decrease the liquidity deficiences of the banks, which had reached IL 1.5 billion in 1975, the Bank of Israel put at their disposal additional liquid assets, and reduced liquidity requirements to a certain extent, as well as their participation in directed credit. The Bank of Israel felt that a massive reduction of the liquidity deficiencies of the banks without any assistance from the Bank of Israel would have caused a drastic real reduction in free credit to the public and a further undesirable drop in the level of economic activity. Therefore, these measures were taken. The Bank of Israel wanted, however, to ensure that the measures taken to assist the banks would in fact lead to a decrease in the liquidity deficiencies and not to further growth in the extent of free credit, which would, of course, have worked against the rise of interest rates. Therefore, the Bank of Israel conditioned its assistance upon a moderated growth of free credit and considerably increased the cost of overextending credit.

At the beginning of 1976, the Bank of Israel decreased the liquidity requirements for current deposits from 72 percent to 70 percent and those for time deposits by 3 percent. During the year, the banks' participation in directed working capital funds from their own sources was reduced by 10 percent and in directed export funds (with the exception of diamond funds in which they do not participate) by 2.5 percent. These changes contributed a reduction in the liquidity deficiency of these funds of IL 275 million and IL 215 million, respectively, through the end of the year. In May 1976, the Bank of Israel initiated a change in the system of financing export shipments and released additional liquid means totaling IL 175 million. It also granted the banks a special temporary loan of IL 400 million and purchased special bank loan bonds totaling IL 300 million.

In sum, the Bank of Israel put at the disposal of the banks IL 700 million in liquid assets and released a further IL 665 million. This was in addition to its regular activities, especially those pertaining to direct credit. On the other hand, part of the assistance was offset by IL 270 million due to the increased revenue from interest on rediscount.

In March, the Bank of Israel concluded an agreement with the banks to restrain the volume of free credit. According to the terms of this agreement the banks received a loan of IL 400 million at 20 percent interest. In exchange the banks agreed to maintain the same level of free credit that had existed in February.

This agreement created a further, higher, cost for the extension of free credit. It was determined that any bank that maintained free credit at a level exceeding the approved ceiling for a certain period of time would be obliged to hold additional liquid assets equal to the average of the excess for an equal period. As long as the banks suffered liquidity deficiencies, the extension of free credit in Israeli currency entailed an increase of liquidity deficiencies, beyond the growth caused directly by the extension of credit (through liquidity on the free credit, current-deposits and/or loss of liquid assets). This arrangement raised the cost of extending the marginal credit by a large fraction. It does seem that the banks generally directed their activities so as not to exceed the ceiling of free credit.

The ceiling for free credit was not completely inelastic: between the end of May 1976 and January 1977 the Bank of Israel permitted the ceiling to increase gradually by 5.6 percent and permitted a further increase of 5.4 percent through April 1977. Furthermore, the banks were granted exemptions from the ceiling on free credit for arrears of up to a month in quarterly interest payments. This applied to the mobilization of free means within approved savings programs until January 1977, and the mobilization of equity capital starting in June 1976.

The effectiveness of the restriction on free credit depended upon the existence of liquidity deficiencies, and when the banks overcame those deficiencies at the beginning of 1977, it was decided to cancel the loan by May 1977 and do away with the ceiling on free credit in April 1977. In order to maintain a high cost for the extension of free credit, the Bank of Israel raised the penalty on liquidity deficiences at the beginning of 1977, from a maximum level of 18 percent to 22 percent (these penalties are not recognized as expenditures for tax pruposes). In addition, interest on the liquid assets of the banks was raised.

During 1976, the Bank of Israel increased the return received by the banks for their participation in the directed credit funds by 3 percent, and again by 2 percent at the beginning of 1977. At the same time, the government increased the rates of interest to borrowers of unlinked directed credit by 2.8–6 percent during 1976, and by 2–4.2 percent at the beginning of 1977. Those acts came to prevent widening differences between the various rates of return and of interest caused by the accelerated rate of inflation and the increase of interest on free credit.

At the beginning of the year, the Bank of Israel increased the net interest on the Short-Term Loan by 1–1.25 percent, which awakened demand for this loan for a short period.

TABLE XVII-3

FREE MEANS OF THE BANKING SYSTEM – SOURCES AND USES,[a,b] 1975-1976

(IL million)

	1975	1976	1976 Jan.-Oct.
SOURCES			
1. Public's deposits[c]	275	1,293[d]	650[d]
2. Savings programs and long-term linked deposits	969	1,193[e]	944[e]
3. Equity capital and capital promissory notes	879	1,093	483
4. Rediscount in the Bank of Israel and recognized differentials	-33	297	429
5. Other sources, net	278	223	-65
6. Total sources	2,368	4,099	2,441
USES			
7. Credit from the banks' own means, incl. participation in directed credit & credit from deposits (excl. approved loans)	2,366	2,517	1,796
8. Required liquidity on credit	341	83	79
9. Net credit to the government, excl. government bonds & deposits in the Treasury against savings for housing	135	-323	-694
10. Net accumulation of assets above debt holding[f]	978	684	580
11. Total uses	3,820	2,961	1,761
12. Change in liquidity deficit	1,452	-1,138	-680

a The data of this table are in relation to the net influence of the various components of free means.

b The difference between this table and Table XVII-iii is that here the heading "required liquidity on credit" appears under uses and not sources.

c Includes demand deposits, other privileged deposits, and time deposits.

d Of this sum, IL 240 million are attributed to a drop in the rate of liquidity requirement.

e In April 1976 the required deposit against savings programs was raised from 75 to 83 percent.

f Including bonds and shares beyond the required investment, surplus assets in foreign currency, buildings and equipment, inter-bank deposits and net sums in transit.

SOURCE: Table XVII-iii.

3. The Money Base

The rate of growth of the money base accelerated considerably in 1976. The broad money base[3] grew by IL 3,388 million, or 39 percent, the same as the rate of increase in the Consumer Price Index, in contrast to a growth of IL 506 million, or 6 percent in 1975 (in that year there was a real decrease of 14 percent in the money base). The accelerated growth rate of the money base came mainly as a result of the increased government injection, as well as the various acts of the Bank of Israel to assist the banks to overcome the problem of their liquidity deficiencies, and the expansion of direct credit for export.

The money base was subject to considerable monthly and seasonal fluctuations. Its major growth was in the second and fourth quarters affected mainly by the seasonal patterns of government injection and acquisitions of the private sector.

The injection of the public sector increased during the year by IL 2,680 million, or 48 percent (16 percent after deduction of the increase in domestic uses prices) and reached IL 8.1 billion. Contrary to the previous year, the government injection was quite high even in the first quarter of the year,[4] which is the last quarter of the fiscal year (normally tax revenues grow in this period and there is a tendency to restrain expenditures). This year the difference in the seasonal outline resulted from several factors: a) the additional budget, approved towards the end of 1975/76; b) the decline in net government capital mobilization (less revenues) following changes in the terms of issue of bonds in December 1975 and c) the uncertainty arising in the bond market.

The public's foreign currency purchases decreased in 1976 by IL 730 million. This decrease was partially the result of technical changes (see below). After deducting these effects, the public's acquisitions in 1976 reached IL 5,615 million, about IL 200 million more than in 1975. In fact, this slight increase indicates a 12 percent decrease in acquisitions in foreign currency terms. It reflects the developments throughout the year in the balance of payments of the private sector (see Part 2 above). The scope of acquisitions (with the above-mentioned deductions) was especially high in the third quarter and especially low in the last quarter.

From May 1976, commercial banks were permitted to finance credit for export shipments from their credit lines abroad. This technical change led to increased sales of foreign currency by the banks by approximately IL 1,200 million in May-July, and a further IL 200 million by the end of the year. But this arrangement had little overall expansionary influence since it caused other credit for export shipments (within the

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[3] The narrow money base is defined as cash held by the public and liquid assets held by the banks. The wide money base also includes various kinds of releases from liquidity connected mainly to the directed credit system. There is no great difference between the development of the wide and narrow money base.

[4] In the first quarter of 1977 as well, there was a considerable government injection.

framework of the Directed Shipments Fund) to decrease, thus lowering both the rediscount volume of the Bank of Israel and liquidity exemptions. This lowering of rediscounts reached IL 910 million and the releases from liquidity dropped by IL 315 million. Consequently, the overall influence of the agreement (which constituted one of the assistance operations of the Bank of Israel to the banks) equaled IL 175 million. As of the beginning of 1975, the commercial banks were requested to deposit foreign currency in the export fund deposits. The amount to be deposited was fixed as a certain proportion of the credit which they granted to the public from the foreign currency export funds (Diamond Fund and Import for Export Production Fund). This obligatory deposit was later limited and then abolished in two stages (in June and December 1976). The arrangement for export fund deposits resulted in foreign exchange sales by the public of IL 332 million in 1975 and purchases of IL 134 million in 1976. Thus, these changes increased the acquisition of the private sector by IL 466 million in 1976 as compared to the previous year.

The absorption deriving from the accumulation of foreign currency deposits by the private sector reached about IL 2.1 billion in 1976, an increase of approximately IL 650 million over 1975.

The injection, resulting from Bank of Israel activities[5] grew by IL 883 million in 1976, after deducting the effect of changes in shipments and export fund deposits, and reached IL 2,775 million (without deducting these effects the increase was only IL 124 million).

The injection resulting from the credit in foreign currency granted by the Bank of Israel to the public increased by IL 402 million (again, after deducting the effect of export fund deposits) and reached IL 790 million. The reason behind this rise is the rapid growth of directed credit for export in foreign currency and the wider participation of the Bank of Israel in this credit.

The injection through credit of the Bank of Israel in Israeli currency (after deducting the effect of export shipments) reached IL 1,180 million in 1976, or IL 425 million above the previous year. IL 400 million of this amount was granted, as mentioned above, as a special loan to strengthen the liquidity of the banks.

The sharp rise in injection through the actions of the Bank of Israel in the open market in 1976 (from IL 140 million to IL 647 million) was the result of the following two factors:

a) The desire of the Bank of Israel to moderate the strong fluctuations in the prices of government bonds, following changes in the capital market in December 1975, and the fears associated with them. This action was mainly concentrated in the first quarter of the year and diminished with the recovery of the bond market in the second half of the

[5] Those include: injection through credit to the public, both in Israeli and foreign currency, open market activities, liquidity exemptions, recognized differences and other factors.

TABLE

INFLUENCE OF PUBLIC AND PRIVATE SEC-

(Change in

	1975	1976
1. Public sector operations	5,460	8,142
From this: government operations	4,255	6,009
2. Foreign currency sales by the private sector[a]	–5,083	–4,349
Excluding transport		5,749
From this: import fund deposits in foreign currency	332	–134
3. Change in foreign currency deposits of the public	–1,431	–2,085
4. Foreign currency credit to the private sector[b]	38	923
5. Israeli currency credit to the private sector[a]	757	271
6. Open market operations	140	647
7. Other factors	454	–225
8. Total narrow money base	335	3,325
9. Liquidity exemptions and recognized differentials[b]	171	63
10. Total broad money base[b]	506	3,388

[a] Transfer of export shipment financing to foreign credit lines of the banks in May 1976 had the following effects:
1. Limiting foreign currency acquisition by the public by IL 1,133 million from April to June, and by IL 267 million from July to December.
2. Reduction of credit in Israeli currency by IL 736 million from April to June, and by IL 174 million from July to December.

XVII-4

TORS ON THE MONEY BASE, 1975-1976

IL million)

1975 Quarterly averages		1976			
first half	second half	I	II	III	IV
711	2,019	1,754	2,067	1;872	2,449
442	1,689	1,516	1,538	1,073	1,882
–63	–2,478	–1,473	–263	–1,686	–927
		–1,473	1,396	–1,836	–1,044
360	–195	7	–34	22	–128
–260	–455	–502	–644	–389	–550
–239	258	–15	264	228	447
127	252	294	–570	227	270
–53	123	486	56	31	74
83	143	–232	189	–25	–157
306	–138	312	1,099	308	1,606
–11	96	–47	26	–68	152
295	–42	265	1,125	240	1,738

3. Reduction of liquidity exemptions by IL 255 million from April to June, and by IL 60 million from July to December.
4. The net influence of the broad money base totaled IL 142 million from April to June, and IL 33 million from July to December.
b Including the influence of deposits in export funds in foreign currency.
SOURCE: Table XVII-iv; weekly liquidity report of the banking institutions.

year. It can be assumed that the actions of the Bank of Israel had a quieting effect on this market.

b) In the first quarter of the year, the Bank of Israel purchased from the banks special bank loan bonds (not registered on the Stock Exchange) for IL 300 million. The purpose was to inject liquid means to the banks.

The injection by the Bank of Israel through liquidity exemptions and recognized liquidity deficiencies reached IL 378 million in 1976, after deducting the effect of export shipments. This was an increase of IL 207 million from 1975.

Other factors connected with the activity of the Bank of Israel this year caused an absorption of IL 225 million as against an injection of IL 454 million in 1975. During the year, the interest revenues of the Bank of Israel from rediscount increased by IL 270 million (after the volume of the rediscount rose together with the rate of interest on it).

4. THE DEVELOPMENT OF CREDIT

Free and directed bank credit to the public[6], taken together, grew in 1976 by 32 percent and reached IL 20 billion by the end of the year. The Bank of Israel restricted the growth of free credit, and it went up by 24 percent during the year, while there was a rapid growth of directed credit (40 percent), due mainly to the fast expansion of exports (and changes in the exchange rate).

Credit approved from the banks' own foreign currency means, which differs in its characteristics from both free and directed credit (see below), grew during the year at a faster rate (54 percent, or 24 percent in foreign currency terms). Total bank credit, including approved credit, grew during the year by 39 percent and reached IL 28 billion by the end of the year.

The share of credit in foreign currency, or linked to foreign currency, grew in 1976 from 43 percent to 48 percent of the total credit (including credit approved in foreign currency). This growth resulted from the increase of the approved credit from the banks' means (which was faster than the average increase in credit directed to export), the relatively rapid increase in export credits and the transfer of some export financing from export funds in Israeli currency to export funds in foreign currency.

It is possible that the share of credit approved in foreign currency also increased because its cost to the user is not linked to the price of foreign currency (since the broadening of the agreements for exchange rate insurance).

The banks also serve as a channel for transferring credit from governement (and other) deposits to loan grants. This credit is included in the credit system of the capital market and is not discussed under this heading.

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6 In order to isolate the effect of the technical change in the financing of export shipments, the part of that credit financed from the commercial banks' lines of credit is discussed in the paragraph on directed credit.

During the year there was a slight decrease (of IL 145 million) in credit from the commercial banking system to the government. In contrast, there was a substantial increase (of IL 3.7 billion) in credit granted to the government by the Bank of Israel (this credit is discussed in Chapter XX).

A. FREE CREDIT TO THE PUBLIC IN ISRAELI CURRENCY

Free credit in Israeli currency reached an annual average level of IL 7.9 billion, 29 percent higher than the level of 1975. This increase constitutes a rise of one percent in comparison to the price increases of domestic uses.

The Bank of Israel has as one of its prime objectives restriction of the increase of free credit. In order to achieve this objective an agreement was concluded with the banks to limit the growth of free credit (mentioned above). After growing by 12 percent in the first quarter of the year, free credit did in fact stabilize in the second quarter, and increased by only 6 percent and 3 percent in the third and fourth quarters respectively.

Its total growth throughout the year reached 24 percent but with a significant decrease in its real volume (after deducting the 38 percent increase in the consumer price index, there was a real reduction of 10 percent in free credit). It should be noted that the growth rate of free credit (30 percent) in 1975, was faster than the rise in the consumer price index (23 percent).

The demand for free credit was affected by contradictory factors, such as the difficulties with which various enterprises were faced, a decrease in directed credit for domestic activity, a reduction in inventory volume, and fast growth of other credit (which could, indirectly, partially finance some of the activities normally financed entirely out of free credit).

The restriction on increasing the volume of free credit, and the high marginal cost fixed by the Bank of Israel for exceeding the ceiling, caused the rate of interest on free credit to continue rising; it rose by 8 percent. The average rate of interest for large groups of borrowers was about 40 percent, while the marginal level was even higher, exceeding 50 percent.

B. CREDIT DIRECTED TO FINANCE EXPORTS[7]

Total credit for the financing of exports reached IL 8.5 billion at the end of the year, an increase of 47 percent as compared with the previous year (19 percent in terms of foreign currency). The annual average level of credit for exports stood at IL 6.75 billion (45 percent higher than in 1975). This fast rise mainly reflects the effect of a greater volume of exports, changes in exchange rates, and the increase in export prices in foreign currency.

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[7] The discussion here also includes credit for export shipments from the foreign currency means of the banks.

TABLE

OUTSTANDING CREDIT GRANTED TO THE
(EXCL. LINKAGE

	Nondirected IL credit	Directed: For domestic activity	Directed: for: In IL	Directed: for: In foreign currency
	(1)	(2)	(3)	(4)
Annual averages (IL million)				
1975	6,076	1,820	1,884	1,764
1976	7,913[c]	2,145	2,474	2,760
Rate of change (percent)				
1975	20	63	68	77
1976	29[c]	18	31	56
Balances at end of period (IL million)				
1975	7,072	1,856	2,423	2,125
1976	8,958	2,308	3,078	3,559
Annual rates of change (percent)				
1975	30	9	63	51
1976	24[c]	24	27	67
Quarterly rates of change (percent)				
1976 March	12	9	-18	6
June	1	2	10	20
September	6[c]	-2	23	16
December	3	10	15[a]	14

[a] Does not include credit to the government or national institutions. For monthly developments and secondary details, see Tables XVII-v and XVII-vi.

[b] Credit for export shipments from foreign currency credit lines of the banks is included in directed credit for export in IL linked to foreign currency.

XVII–5

PUBLIC[a] BY THE BANKING SYSTEM DIFFERENTIALS), 1975-1976

credit						
export						
In IL linked to foreign currency[b]	Total[b] (3)+(4)+(5) =	Other in foreign currency	Total[b] (2)+(6)+(7) =	Total directed & nondirected credit[b] (1)+(8)=	Foreign currency approved credit from the banks' own means[b]	Total (9)+(10) =
(5)	(6)	(7)	(8)	(9)	(10)	(11)
1,002	4,650	265	6,735	12,811	4,322	17,133
1,512	6,746	274	9,165	17,078[c]	5,951	23,028[c]
76	73	72	70	38	43	53
51	45	3	36	33[c]	38	34[c]
1,280	5,828	267	7,951	15,023	4,993	19,956
1,905	8,542	269	11,119	20,077	7,602	27,679
59	27	10	41	36	47	38
49	47	1	40	32[b]	54	39[c]
6	-4	3	0	6	3	5
8	-14	-4	10	6	10	7
11	17	6	12	9	15	11[c]
18	15	-4	13	9	17	11

[c] In September 1976 IL 220 million in credit was transferred to the local government, from the framework of credit for the government to that of nondirected credit in IL to the public. This credit is included in the absolute data, but is excluded from the calculation of the rate of growth.

SOURCE: Table XVII-v and XVII-vi.

Credit for export was granted partly in Israeli currency in unlinked export funds and partly in foreign currency or funds linked to foreign currency. During the year there was a transfer of credit from unlinked funds in Israeli currency (the Citrus Fund, the Production for Export Fund and the Indirect Export Fund) to the Import for Export Production Fund which is marked in foreign currency. Furthermore, the rate of financing the Israeli currency component in exports was not fully adjusted to the changes in exchange rates. As a result, the growth of unlinked credit for export in Israeli currency lagged behind the growth of credit in foreign currency or linked to foreign currency, and its share in total credit for export dropped from 42 to 36 percent during the year. At the same time, the rates of interest on unlinked credit for export in Israeli currency were raised. The interest rate of the Production for Export Fund and the Cotton and Citrus Funds was raised in March 1976 from 6 to 10 percent, and a further 2 percent at the beginning of 1977. The interest rate of the Indirect Export Fund was raised in March 1976 from 11 to 13 percent, in April to 17 percent and at the beginning of 1977 to 20 percent.

Credit for export in Israeli currency grew by 27 percent during the year (as against 63 percent in 1975) and reached IL 3.1 billion by the end of the year. The Production for Export Fund, the largest of the funds in this framework, grew at the most rapid rate.

Export funds in foreign currency (the Diamond Fund and the Import for Export Production Fund) grew by 67 percent during the year (34 percent in foreign currency terms) as against a growth of 51 percent in 1975 (28 percent in foreign currency), and at the end of the year they totaled IL 3.6 billion.

The Diamond Fund grew by 56 percent; this growth, mainly in the second half of the year, included inventory accumulation due to a fear of supply difficulties in this field. The Import for Export Production Fund, the smallest in volume, grew by 132 percent, mainly due to the previously mentioned transfer of credit from the export funds in Israeli currency.

Credit for financing export shipments, also in foreign currency, grew by 49 percent during the year (20 percent in terms of foreign currency), and reached IL 1.9 billion. Until May 1976 this credit was granted entirely within the framework of the Shipments Fund. Then the banks were granted permission to use their credit lines abroad to finance export shipments, and by the end of the year 83 percent of the shipment credit was transferred to the new arrangement.[8] Following this change, the amount of credit in the Export Shipments Fund decreased by three quarters.

C. DIRECTED CREDIT FOR FINANCING OF DOMESTIC ACTIVITY

Directed credit for domestic activity, from working capital funds and others, grew during the year by 24 percent as against 9 percent in 1975, and by the end of the year had

8 The transfer of one Israeli pound in credit from the Shipments Fund to finance shipments from credit lines abroad releases IL 0.125 in free means to the banks. Since the alternative return of the banks on their free means in other uses was higher than the directed credit (the Shipments Fund), they preferred to carry out this transfer.

reached IL 2.3 billion (two-thirds of that from working capital funds). The annual average level was IL 2.15 billion – approximately 18 percent above its level in 1975.

The rates that grew fastest were those of the Working Capital for Industry Fund (33 percent), the Working Capital for Agriculture Fund (43 percent) and the Employers' Loan Fund (38 percent). However, there was a drop in special credit arrangements established after the Yom Kippur War: the Vehicle and Equipment Fund and the fund for assisting the self-employed whose source of income was harmed. The General Fund also decreased due to the transfer of credit for hotels to the Shipments Fund.

Certain changes took place in the funds during the year, and new funds were established. The Employers' Loan Fund, which grants linked credit to industry in return for employers' loan bonds (also linked) was broadened to include other branches, and the share of those branches in the fund reached one-third. It should be noted that the credit in this fund is expensive and therefore, the benefits of the fund are not fully utilized. In April a fund was established for transport, intended to give assistance in covering debts incurred during and following the war. The loan balance in this fund reached IL 25 million at the end of the year.

The real decrease in the volume of both free and directed credit for domestic activity in Israeli currency created pressure to increase the scope of directed credit, and in fact it was decided to establish a special fund for industrial enterprises. This fund was intended mainly to assist enterprises affected by lower domestic demand and wanted to adapt their production to export. As of the end of the year no credit had yet been granted under this arrangement.

In order not to widen the gap between the rates of interest on free credit and on unlinked directed credit caused by the accelerated rate of inflation, the rates of interest on unlinked directed credit were raised during the year, as previously mentioned. The rates of interest within the Working Capital for Industry Fund and the General Fund were raised from 15 to 20 percent, and by an additional 2 percent at the beginning of 1977. The rates of interest within the Agricultural Fund and the Supervised Agriculture Fund were raised from 15 to 17.8 percent during the year and to 22 percent in January 1977. The interest rate of directed credit of lower priority was also raised, and reached 28 percent at the beginning of 1977.

D. CREDIT APPROVED FROM BANKS' OWN FOREIGN CURRENCY MEANS

Approved foreign currency credit after deducting the financing of export shipments, increased in 1976 by 54 percent (23 percent in foreign currency terms) as compared with an increase of 47 percent in 1975 (24 percent in foreign currency). It had reached IL 7.6 billion (about $870 million) at the end of the year. If we add to this the financing of export shipments from credit lines, the approved credit transferred to the public from the banks' own foreign currency means amounts to IL 9.4 billion.

TABLE XVII-6

MONEY SUPPLY AND UNLINKED ASSETS OF THE PUBLIC, 1975-1976

	Money supply		Other unlinked assets							
			Time deposits		Short-term loans	Unlinked liquid assets		Deposits against liabilities	Total (6)+(8)=	Total (1)+(9)=
		Change		Change		(3)+(5)=	Change			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
	(IL million)	(percent)	(IL million)	(percent)	(IL million)		(percent)	(IL million)		
Annual averages										
1975	9,913	31.0	3,600	3.0	162	3,762	3.6	126	3,888	13,801
1976	11,665	17.7	3,646	1.3	116	3,762	0	164	3,926	15,591
Balances at end of period										
1975	10,614	21.7	3,561	-1.1	83	3,644	-3.2	125	3,769	14.383
1976	13,486	27.1	4,064	14.1	67	4,131	13.4	174	4,305	17,791
1976[a] I	10.904	2.7	3,501	-1.7	153	3,654	0.3	158	3,812	14,716
II	11,664	7.0	3,535	1.0	138	3,673	0.5	179	3,852	15,516
III	12,046	3.3	3,643	3.1	95	3,738	1.8	182	3,920	15,996
IV	13,486	12.0	4,064	11.6	67	4,131	10.5	174	4,305	17,791

[a] Quarterly rates of change.

SOURCE: Table XVII-vii.

Approved credit is partly granted under general approvals (such as imports of fuel and consignments) and partly under specific approvals to various economic units. The growth rate of credit under general approvals reached 34 percent (8 percent in foreign currency terms). Specifically, credit for imports of consignments declined whereas credit for fuel and other purposes (especially import of fodder) grew. The rate of increase of credit under specific approvals grew during the year by 111 percent (70 percent in foreign currency terms).

It should be noted that approved credit in foreign currency is not fully comparable to free credit in Israeli currency or to directed credit. Part of the approved credit serves to finance purposes not connected with current economic activity and is normally granted in the form of long-term credit. It seems, though, that at least part of the approved credit is used either directly or indirectly for purposes similar to those of free and directed credit. Part of the approved credit is insured against changes in exchange rates which turns it, in effect, into unlinked credit (at a price equal to the rate of interest abroad plus the premium for this insurance). The price of this insured credit is low relative to the price of linked or free credit.

5. Money Supply, Unlinked Liquid Assets and Linked Credit Deposits of the Public in the Banking System

A. THE MONEY SUPPLY

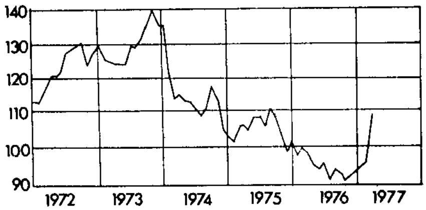
In the first ten months of 1976, the declining trend of the real money supply (after deflating by the Consumer Price Index) continued, and reached 10.5 percent. In the last two months of the year the real money supply began to increase and this trend continued at the beginning of 1977. During all of 1976, the real money supply declined by 8 percent.

This real decline in the money supply is one of the most notable monetary phenomena since the Yom Kippur War[9]. This decline came in two main waves: immediately after the war, and between August 1975 and October 1976. In the first two thirds of 1975 the money supply grew, and this growth was renewed at the end of 1976. In sum, the money supply declined by 31 percent between September 1973 and the end of 1976.

This sharp decline since the Yom Kippur War reflects the adjustment of the demand for money to the increase in the price of holding money. On the one hand, the current rate of inflation has accelerated in recent years (and, as a result, so has anticipated inflation), and the rates of interest have been increasing continuously; on the other hand, the growth rates of the product and domestic uses have dropped considerably and were unable to compensate for the increased price of holding money. Another explanation for the declining demand for money was the wider use of unutilized balances of credit

[9] See Table XVII-7 and Figure XVII-1.

FIGURE XVII-1
REAL MONEY SUPPLY INDEX, 1972-1977
(Base: 1969=100)



from working accounts. Furthermore, the number of bonds near redemption has increased in the last few years. The active trade in these bonds indicates the possibility that they are used as a temporary abode of purchasing power and thus compete in the demand for money.

The renewed decline in real balances at the end of 1975 and during most of 1976 is explained by the introduction of the creeping devaluation, the continuing rise in interest rates and the accelerated inflation of 1976. There was also a further decrease in domestic uses. In contrast, uncertainty in the bonds market acted in the opposite direction.

TABLE XVII-7

DEVELOPMENT OF MONEY SUPPLY AND TIME DEPOSIT INDEXES COMPARED WITH PRICE DEVELOPMENT[a]

	Money supply index	Time deposit index	Consumer Price Index	Money supply index in fixed prices	Time deposits index in fixed prices
September 1973	222.0	422.5	165.4	1.342	2.554
December 1974	289.2	401.9	281.9	1.026	1.426
August 1975	341.0	403.5	308.6	1.105	1.308
December 1975	352.0	397.4	348.2	1.011	1.141
October 1976	405.1	410.9	448.0	0.904	0.917
December 1976	447.2	453.6	480.6	0.931	0.944

a For the first three indexes: 1969 = 100. The last two indexes are ratios of the money supply and time deposit indexes and the Consumer Price Index, respectively.

SOURCE: Department of the Examiner of Banks, the monthly statistics of the banking institutions; the monthly balance of the banking institutions; the Statistical Yearbook of Israel.

Some of these conditions changed at the end of 1976 and the first quarter of 1977. The expectations for a devaluation, as measured by the rate of exchange of the Natad dollar, diminished. The discussions over a "package deal" caused a certain moderation in inflationary expectations, as did the decision to hold early elections. At the same time the money base began to grow at an accelerated rate. Under these conditions of lower expectations for a devaluation, price increases, and approaching elections, it is quite possible that the public wanted temporarily to increase its holdings of liquid assets. In this situation of possible change of expectations, the growth of liquid assets may put upward pressure on prices.

B. UNLINKED LIQUID ASSETS

The same causes that restricted the demand for money have acted vigorously in recent years on the demand for unlinked liquid assets – time deposits and short-term loans. The nominal balance of time deposits did not change between 1973 and the last months of 1976, while the balance of the short-term loans held by the public declined in the same period by 80 percent.

As against the money supply, which gives no liquid return whatsoever, there was a slight rise in the liquid return on other unlinked assets, but it lagged behind the rate of inflation and the return on other assets. The sharp decline of these assets as compared with the money supply, indicated that for most purposes the public did not regard them as close substitutes for money.

In the last months of 1976 there was a certain rise in the demand for time deposits: they grew by 13 percent between August and December, especially in the last two months of the year, and continued to grow at the beginning of 1977. This growth was affected by forces similar to those affecting the money supply during the same period.

The balance of short-term loans held by the public grew from IL 83 million at the beginning of the year to IL 153 million, while the Bank of Israel increased the net return on them by 1–1.25 percent. The balance decreased later as the return was not increased further despite the accelerated rate of inflation.

C. THE PUBLIC'S FOREIGN CURRENCY DEPOSITS

Deposits of the public in foreign currency grew by 54 percent in 1976, in comparison to 26 percent in 1975, and reached IL 22.3 billion. Approximately two-thirds of this amount was held in Pazak and Tamam accounts of people receiving personal restitution.

The fast growth of foreign currency deposits was mainly the result of the accelerated devaluation rate of the Israeli pound and the revaluation of the German mark. In 1975, the exchange rate of the mark dropped by 9 percent against the U.S. dollar and then rose by the same amount in 1976. The holders of accounts linked to the mark suffered capital losses in dollar terms in 1975, and then enjoyed a capital gain in 1976.

After deduction of linkage and rate of exchange differential, the value of foreign currency deposits increased (as a result of deposits and accumulated interest) by 17 percent in 1976, as against 14 percent in 1975.

In the second half of 1975, conversions of revenues from personal restitution declined, parallel to the increase in demand for holdings of other assets in foreign currency. In contrast, in 1976 the rate of conversion did not develop very regularly. (There was actually a distinct drop in the rate of conversion during the last quarter of the year, when the aggio of the Natad dollar decreased.) One explanation for this irregularity is that it is impossible to differentiate between conversions from new revenues and existing deposits, which may develop in different ways.

TABLE XVII-8

LINKED ASSETS OF THE PUBLIC IN THE BANKING SYSTEM, 1974–1976

(IL million)

	Deposits linked to the Consumer Price Index			
		From this: deposits in approved programs		Deposits linked to foreign currency
End of period	Total	Total	In deposit terms	
1974	7,241	7,241	4,529	11,508
1975	12,588	12,532	7,482	14,487
1976 I	13,610	13,548	8,224	16,188
II	15,774	15,690	8,977	17,670
III	17,528	17,432	9,779	19,691
IV	20,242	20,110	10,813	22,333

SOURCE: Table XVII-x.

D. SAVINGS PROGRAMS

The value of accumulation in savings programs, including linkage differentials and bonuses, grew by IL 7.5 billion (about 60 percent) in 1976, and reached IL 20 billion at the end of the year. This growth was mainly the result of these linkage differentials and bonuses; new deposits amounted to only IL 3.3 billion (only 13 percent above the previous year).

The major disadvantage of the savings programs is their lack of liquidity: they cannot serve as collateral for bank loans; drawing from them during the first period of saving is severely restricted; and the main benefits attached to them (such as linkage, tax exemption, one-time bonuses) are granted only gradually during the saving period. This arrangement means that in most savings programs the rate of return increases during the savings period, or in other words, there is a high penalty for early withdrawal.

Two changes worsened the terms of the savings programs during the year:

a) In April, the "10,000 Programs" (the main savings programs) were changed to "18,000 Programs," extending the saving period from 5 to 6 years. This extension, in addition to decreasing the liquidity of deposits, also caused a drop in the rate of return, mainly due to the spreading of the one-time bonus over a longer period of time. Because the interest is unlinked (unlike the capital and the bonus), the extension of the savings period under inflationary conditions causes a decrease in the real return from this interest.

b) In November, the rate of interest on the savings programs was decreased from 4 to 3 percent, following the decrease in the rate of interest on bonds held by the banks against these programs.

TABLE XVII-9

ESTIMATED CONVERSION OF PAZAK RESTITUTION AND TAMAM FUNDS, 1975–1976

	Potential accumulation in Pazak and Tamam				
	Total	w/o rate differentials & devaluation	Total conversion to IL	Conversion rate A[a]	Conversion rate B[a]
		(IL million)			
1975	3,540	2,743	1,664	47	60
1976	7,274	3,261	2,266	31	69
1975 I	961	741	467	49	63
II	844	706	472	56	67
III	727	577	360	50	62
IV	1,008	719	365	36	51
1976 I	1,576	748	462	29	62
II	1,401	747	587	42	79
III	2,032	783	609	30	78
IV	2,265	983	608	27	62

[a] Conversion rate A is the ratio between total conversion to IL and total potential accumulation in Pazak restitution and Tamam accounts. Conversion rate B is the ratio between total conversions and total potential accumulation in Pazak restitution and Tamam accounts discounting exchange rate differentials and devaluation.

SOURCE: Table XXVII-viii.

This first change caused the rate of real return on redemption for the single-time depositor who continues his saving in the "18,000 Programs" to decrease by 0.6 percent in comparison to the return on the "10,000 Programs". The second change reduced the real return by an additional 0.4–0.5 percent. As a result these two changes, the rate of real return on redemption for a single-time depositor who continues his savings in the "18,000 Program" amounted to 2.4 percent at the end of the year (assuming that the rate of inflation is 25 percent). In spite of the worsened conditions, the attraction of the savings programs in comparison to bonds improved during the year. The decline in the rate of linkage of bonds reduced the rate of real return of new bonds on redemption from 2.6 percent at the beginning of December 1975 to 0.5 percent in December 1976 (assuming an inflation rate of 25 percent). In addition, the uncertainty of holding bonds grew. Under those circumstances and with the accelerated rate of inflation during the year, it seems that a higher growth of deposits in savings programs could have been expected, if not for the total decrease in savings in the economy.

During the year, one of the banks initiated a new savings program that assured a partial linkage both to the dollar (up to 35 percent) and to the Consumer Price Index (up to 55 percent). This program promises a real rate of return higher than that of the "18,000 Programs" only when the domestic price of the dollar increases faster than the rate of inflation.

With the introduction of the "18,000 Programs" the banks were required to maintain a higher level of liquidity against the savings programs, 83 percent instead of 75 percent (this liquidity is held mainly through special bonds for banks). This change reduced the relative attraction of the savings programs as a source for mobilizing funds, in comparison with unlinked deposits.

6. Assets and Liabilities in the Banking System

A. Foreign Currency Assets

The foreign currency assets held by the Bank of Israel increased by $ 341 million in 1976, reaching $ 1,645 million by the end of the year. At the same time, foreign currency liabilities increased by $ 83 million and reached $ 397 million. Thus, the net foreign currency assets of the Bank of Israel grew by $ 258 million during the year, after a decline of $ 81 million in 1975, and totaled $ 1,250 million at the end of 1976.

In 1976 the main source of growth in the foreign currency assets of the Bank of Israel was public sector transfers which reached $ 650 million, a decrease of $ 50 million as against 1975. The private sector purchased foreign currency amounting to $ 560 million from the Bank of Israel. The net effect of the new agreement for export shipments financing and the canceling of the agreement for Export Fund deposits was a $ 170 million drop in foreign currency purchases of the private sector. After deducting these factors, the purchases of the private sector reached $ 730 million, a decline of $ 100 million in comparison with 1975. The Bank of Israel accumulated profits from interest and linkage differentials totaling $ 137 million. Profits from linkage differentials alone reached $ 53 million in 1976, after the Bank of Israel suffered losses from linkage differentials in 1975.

TABLE XVII-10

NET FOREIGN CURRENCY ASSETS IN THE BANKING SYSTEM, 1975–1976

($ million)

	Net assets			Change from previous period		
End of period	Bank of Israel	Banking institutions	Banking system	Bank of Israel	Banking institutions	Banking system
1975	990	-783	207	-81	-499	-580
1976	1,248	-869	379	258	-86	172
1976 I	950	-745	205	-40	38	-2
II	1,088	-831	257	138	-86	52
III	1,195	-871	324	107	-40	67
IV	1,248	-869	379	53	2	55

SOURCE: Table XVII-xi.

The net accumulation of assets in foreign currency was concentrated mainly in April-July when the new shipments financing agreement went into effect, and sales of foreign currency by the government were especially high.

Private sector purchases from the Bank of Israel, excluding the effect of the export financing deposits and shipments, increased from a very low level at the beginning of 1975 (after the large devaluation of 1974) to an average monthly level of $ 115 million during the last seven months of that year. In January-August 1976, purchases declined to an average monthly level of $ 65 million and continued to decline to $ 40 million during the last four months of the year.

Foreign currency assets of the commercial banks grew by $ 109 million during the year, reaching $ 1,986 million at the end of 1976. At the same time, foreign currency liabilities increased by $ 195 million and amounted to $ 2,860 million at the end of the year. In sum, there was a net decrease of $ 86 million in foreign currency assets of the commercial banks (following a decrease of $ 500 million in 1975). At the end of 1976 these assets amounted to -$ 869 million.

The main uses causing the increase in net liabilities of the commercial banks were credit granted to Israeli residents under the approved credit plan ($ 173 million) and

TABLE XVII-11

ASSETS AND LIABILITIES OF BANKING INSTITUTIONS,[a] 1975-1976

(IL million, end of year)

	1975				1976			
	Israeli currency (1)	Linkage differentials (2)	Foreign currency (3)		Israeli currency (4)	Linkage differentials (5)	Foreign currency (6)	
ASSETS								
Liquid IL assets at the Bank of Israel[b]	3,254.	–	–		5,772	–	–	
Foreign currency deposits with the Bank of Israel	–	–	12,878		–	–	19,870	
Loans and deposits abroad	–	–	13,311		–	–	17,385	
Nondirected credit	7,072	260	–		8,958	715	–	
Participation in directed credit	2,539	89	5,431		2,485	187	9,813	
Credit to the public from earmarked deposits	8,006	4,789	–		11,112	6,930	–	
Credit to the public from government deposits	4,248	55	–		5,144	1,391	–	
Securities of Israeli companies and institutions.	5,607	2,734	95		8,317	5,643	56	
Premises and equipment	793	–	–		1,096	–	–	
Loans to the government from the banks' own means	1,187	995	1,625		1,161	745	1,634	
Government bonds[c]	1,368	826	–		1,203	1,177	–	
Loans to the government from earmarked deposits	9,254	7,032	2,438		14,398	13,140	2,826	
Balances in transit and deposits in banking institutions	612	225	1,227		1,042	449	1,800	
Other accounts	2,989	117	483		4,707	235	657	
Sundry accounts[d]	3,434[e]	140[e]	3,500[f]		3,256[f]	274[e]	5,588[f]	
Contingent accounts[g]	4,371	136	5,827		6,744	299	6,625	
Total assets[h]	54,734	17,398	46,815	118,947	75,485	31,185	66,254	172,924

LIABILITIES								
Equity capital and capital notes	2,947	16	176		4,046	37	771	
Foreign deposits[i]	–	–	18,872		–	–	24,999	
Rediscounts	207	1	–		581	–	–	
Demand deposits	6,644	–	–		8,710	–	–	
Time deposits	3,561	30	–		4,064	30	–	
Approved savings programs	7,915	4,617	–		11,498	8,612	–	
Linked long-term deposits	56	–	–		132	33	–	
Foreign currency deposits of the public	–	–	14,487		–	–	22,332	
Approved earmerked deposits	16,736	12,268	51		24,357	21,917	167	
Earmarked governmental deposits[j]	4,366	17	12		5,662	24	91	
Government accounts[k]	197	2	1,465		212	0	2,142	
Banking institution deposits and balances in transit	883	296	1,323		1,399	412	1,833	
Other accounts	3,847	6	411		5,248	9	585	
Sundry accounts[d]	3,601[l]	140[l]	3,463[m]		3,430[l]	275[l]	5,648[m]	
Contingent accounts[g]	4,371	136	5,827		6,744	299	6,625	
Total liabilities[h]	55,331	17,529	46,087	118,947	76,083	31,648	65,193	172,924

[a] The balance sheet published by the Department of the Examiner of Banks has been adjusted to conform to the definition in this chapter.

[b] IL deposits with the Bank of Israel treated as liquid assets, treasury bills, and vault cash.

[c] Including the Short-Term Loan.

[d] Includes all adjustments mentioned in note (a).

[e] IL rediscounts for the public (before deducting deposits).

[f] Foreign currency rediscounts for the public (before deducting deposits), rediscounts for the Jewish Agency and Patach funds deposited with the Bank of Israel (as reported by the banking institutions).

[g] The breakdown of the total differs from that in the balance sheet published by the Department of the Examiner of Banks, since in this table rediscounts and credit to the public in the Export Shipment Fund are treated as Israeli currency credit, and deposits in the import funds are treated as foreign currency deposits.

[i] Deposits of foreign banks and overseas branches of Israeli banks, nonresidents, new immigrants, and temporary residents, less deposits with the Bank of Israel.

[j] Utilized earmarked deposits.

[k] Demand, time, and unutilized earmarked government deposits.

[l] As in (e), plus deposits against liabilities, demand deposits of the public in the Israel Bank of Agriculture, and the difference between earmarked government and Jewish Agency deposits as recorded in the banks' liquidity report and in the monthly balance sheet.

[m] As in (f), but with Patach funds according to Bank of Israel data.

SOURCE: Monthly balance sheet of the banking institutions; rediscount – Bank of Israel balance sheet.

transfers to the Bank of Israel for financing export shipments. On the other hand, foreign currency loans granted by commercial banks to the government declined by $ 100 million.

B. THE BALANCE OF COMMERCIAL BANKING INSTITUTIONS[10]

The combined balance of the banking institutions grew by 45 percent in 1976, similar to the increase in 1975, and amounted to IL 173 billion at the end of the year. That part of the balance in Israeli currency increased by 48 percent (49 percent in 1975) and reached IL 108 billion at the end of December 1976. After discounting by the increase in the Consumer Price Index, the growth in the Israeli currency balance reached 7 percent, compared to an increase of 21 percent the previous year. With the acceleration in the rate of inflation, the weight of linkage differentials in the Israeli currency balance rose from 24 percent at the end of 1975 to 29 percent at the end of 1976. That part of the balance in foreign currency increased by 41 percent (14 percent in foreign currency terms) as against 37 percent (16 percent in foreign currency terms) in 1975, and reached IL 66 billion ($ 7.5 billion) at the end of the year. After discounting by the respective price increase, there was a slowdown in the rate of growth of both parts of the balance, compared to 1975.

Among the assets in Israeli currency, the rapid growth in credit to the government from approved deposits is outstanding. This credit increased by 69 percent during the year (including linkage differentials) and amounted to IL 27.5 billion. There was also rapid growth in credit to the public from approved deposits and in the holdings of securities of companies and of local institutions. In contrast, the participation of the banks in directed credit in Israeli currency stabilized. The liquid assets of the Bank of Israel increased from IL 3.3 billion at the end of 1975 to IL 5.8 billion at the end of 1976. This increase constituted a major factor in the decline of liquidity deficiencies (liquid assets in the Bank of Israel declined in 1975). In the liability column in Israeli currency, savings programs and earmarked deposits also showed rapid growth. The growth of equity capital and capital notes also continued, as a result of capital mobilization efforts.

The main increases in foreign currency assets were in foreign currency deposits in the Bank of Israel, and loans and deposits abroad. The total of those two increased by 42 percent (15 percent in foreign currency), amounting to IL 37.3 billion at the end of the year ($ 4.2 billion). There was also rapid growth in the participation of the banks in directed credit in foreign currency. The major factors of the growth in foreign currency liabilities were deposits from abroad and foreign currency deposits of local residents. Mobilization of equity capital and capital notes in foreign currency also increased during the year.

10 The balance sheet of the Bank of Israel is examined in Chapter XX.

TABLE XVII-i

THE MONEY BASE BY COMPONENT, 1974–1976
(IL million)

End of period		Currency in circulation (1)	Liquid assets of banking institutions (2)	Narrow money base (1)+(2)= (3)	Liquidity exemptions (4)	Recognized liquidity deficiencies (5)	Broad money base (3)+(4)+(5)= (6)	Growth of broad money base (7)
								(percent)
1974		3,173	3,716	6,889	1,068	107	8,064	16.1
1975		3,970	3,254	7,224	1,310	35	8,569	6.3
1976	January	4,020	3,139	7,159	1,304	55	8,518	-0.6
	February	4,165	3,232	7,397	1,293	62	8,752	2.7
	March	4,128	3,408	7,536	1,226	73	8,835	0.9
	April	4,255	3,678	7,933	1,380	95	9,408	6.5
	May	4,312	4,334	8,646	1,236	88	9,970	6.0
	June	4,268	4,367	8,635	1,196	129	9,960	-0.1
	July	4,480	4,187	8,667	1,223	53	9,943	-0.2
	August	4,563	4,533	9,096	1,243	60	10,399	4.6
	September	4,634	3,309	8,943	1,204	53	10,200	-1.9
	October	4,624	4,531	9,155	1,274	71	10,500	2.9
	November	4,767	5,317	10,084	1,310	35	11,429	8.8
	December	4,776	5,773	10,549	1,376	33	11,958	4.6

SOURCE: Liquid assets of the banking institutions – monthly balance sheet of the banking institutions; liquidity exemptions and recognized liquidity deficiencies – monthly liquidity report of the banking institutions; currency in circulation – Department of the Examiner of Banks, statistics of the banking institutions.

TABLE

INDICATORS OF THE LIQUIDITY POSITION

End of period		Required liquidity on ordinary deposits[a] (1)	Required liquidity on time deposits[b] (2)	Required liquidity on free credit, in IL (3)
1974		4,070	794	0
1975		4,874	790	340
1976	January	4,565	674	344
	February	4,651	670	345
	March	4,854	665	364
	April	4,866	678	363
	May	4,927	682	356
	June	5,305	686	378
	July	4,955	688	383
	August	5,289	680	384
	September	5,317	688	399
	October	5,445	700	418
	November	5,880	718	422
	December	6,219	760	422

[a] Required liquidity against demand deposits and deposits against liabilities in Israeli currency.

[b] Including required liquidity against time deposits which have been withdrawn.

[c] Including required liquidity on other factors, such as savings, directed credit, unused deposit balances for loan grants.

[d] Free reserves are the difference between liquid assets and required liquidity after reductions. The liquid assets on which this Table is based are taken from liquidity reports, and include certain adjustments not in the liquid assets data of the monthly reports which appear in Table XVII-vi.

OF BANKING INSTITUTIONS, 1974-1976

Total required gross liquidity	Total required liquidity less liquidity exemptions	End of month free reserves[d] (surplus+, deficit-)	Daily average free reserves over the month	Ratio of free reserves to gross liquidity[e] (daily average)	Ratio of free reserves to net required liquidity[e]
(4)	(5)	(6)	(7)	(8)	(9)
(IL million)				(percent)	
4,955	3,780	-67	122	2.5	3.3
6,116	4,770	-1,519	-1,052	-18.8	-24.3
5,613	4,254	-1,163	-1,201	-20.3	-26.5
5,676	4,321	-1,007	-1,262	-21.9	-28.6
5,945	4,646	-1,102	-821	-14.1	-18.4
5,959	4,484	-727	-1,081	-18.3	-24.0
6,032	4,708	-306	-695	-11.4	-14.9
6,471	5,146	-741	-713	-11.6	-14.6
6,151	4,875	-673	-749	-12.2	-15.3
6,445	5,142	-610	-689	-11.1	-13.9
6,500	5,243	-944	-569	-9.0	-11.2
6,684	5,339	-839	-572	-8.7	-10.8
7,205	5,860	-557	-545	-8.1	-10.1
7,542	6,133	-381	-537[f]	-8.2[f]	-10.3[f]

[e] Gross required liquidity is the liquidity requirement without deducting liquidity exemptions, recognized liquidity deficiencies, and net liquidity requirement includes these factors.
[f] Temporary data.

SOURCE: Monthly liquidity report of the banking institutions; Department of the Examiner of Banks – statistics of the banking institutions.

TABLE

THE BANKING INSTITUTIONS'

(IL

	Jan.-Dec. 1975	Jan.	Feb.	March	April
USES					
1. Credit from banks' own resources	2,366	-21	45	841	-381
2. Net credit to the government	135	-82	98	164	120
3. Bond and share purchases in excess of required investments (including linkage differentials)	640	-160[a]	-125[a]	-83[a]	-173[a]
4. Surplus of foreign currency assets	222	-172[b]	-1	101	7
5. Premises and equipment	228	17	17	16	23
6. Inter-bank deposits and cash items in process of collection	-112	30	-44	132	17
7. Total uses	3,479	-388	-10	1,171	-387
SOURCES					
8. Demand deposits, other deposits, and creditors	311	61	37	87	5
9. Time deposits	-36	131	-4	-62	88
10. Required liquid cover on credit	-341	-5	0	-19	0
11. Approved savings schemes and long-term linked deposits[e]	969	178	23	103	98
12. Equity capital and capital notes	879	104	4	-2	2
13. Rediscounts and recognized liquidity dificiencies	-33	39	21	402	-12
14. Other accounts, net (including net linkage differentials other than on securities)	278	-540	60	567	-193
15. Total sources	2,027	-32	146	1,076	-12
16. Change in liquidity deficiencies	1,452	-356	-156	95	-375

[a] After the reform in the capital market in December 1975, the required investment in bonds against approved savings schemes was deposited in the Treasury. This was because the terms of the bonds had not been agreed upon between the Government and the banks. In May 1976 the bonds were purchased at new terms, and therefore there was a drop in deposits in the Treasury.

XVII-iii

FREELY LOANABLE RESOURCES, 1976
million)

May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Jan.-Dec. 1976
-363	847	-197	70	994	-39	242	479	2,517
-597	-18	12	-33	-261	-97	-15	386	-323
680[a]	-13	40	-96	138	147	-79	19	295
-26	22	25	14	-32	-41	51	233	181
21	40	9	46	17	22	23	52	303
-112	80	-88	32	-53	106	-34	-161	-95
-397	958	-199	33	803	98	188	1,008	2,878
27	161	-149	143	12	55	186	145	770[c]
-3	-72	42	19	45	27	95	217	523[d]
7	-21	-6	-1	-14	-20	-4	0	-83
140	6	91	45	161	94	64	185	1,193
-8	328	-17	5	2	65	75	535	1,093
18	31	-57	0	41	-54	-59	-73	297
-157	90	-35	-115	222	36	113	175	223
24	523	-131	96	469	203	470	1,184	4,016
-421	435	-68	-63	334	-105	-282	-176	-1,138

[b] This drop was the result of a substantial rise during December 1975, related to inflated balances.

[c] From this sum IL 132 million is attributed to a drop in the liquidity rate.

[d] From this sum IL 108 million is attributed to a drop in the liquidity rate.

[e] In April 1976, the deposit requirement against approved savings schemes was raised from 75 to 83 percent.

TABLE

INFLUENCE OF PUBLIC AND PRIVATE

(Change in

	1974	1975	Jan.	Feb.
1. Public sector operations	3,502	5,496	508	560
Thereof: Government[b]	2,891	4,291	430	538
2. Import deposits	-157	-36	29	22
3. Foreign currency sales by the private sector[c,d,e]	-5,169	-5,083	-573	-318
4. Change in foreign currency deposits of the public	-286	-1,431	-102	-174
5. Foreign currency credit to the private sector[e]	334	38	-2	-105
6. IL credit to the private sector[d]	1,413	757	118	-42
7. Open-market operations	385	140	120	261
8. Other factors[f]	564	454	-163	34
9. Total increase in narrow money base[g]	586	335	-65	238
10. Liquidity exemptions[d]	454	243	-7	-11
11. Recognized liquidity deficiencies	82	-72	20	7
12. Total increase in broad money base[h]	1,122	506	-52	234

[a] Excluding changes in balances due to thanges in the IL exchange rate.
[b] Changes in net Bank of Israel credit to the government, less purchases of foreign currency (adjusted for food imports) and interest payments.
[c] Excluding revaluation.
[d] Since May 1976 the banks have been permitted to finance export shipments from credit lines abroad, converted to IL. This credit had previously been granted only from the Shipments Fund out of the banks' IL sources, and from rediscount and liquidity exemptions of the banks. This change had the following effect between May and December:
1. On foreign currency sales by the private sector: IL 1 400 million (IL 1,205 million, May-June).

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SECTORS ON THE MONEY BASE[a], 1974–1976
IL million)

1976										Total
March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	1976
609	702	1,080	202	380	1,255	153	835	879	700	7,863
548	615	894	29	173	1,099	-199	738	692	452	6,009
26	25	28	30	32	27	25	35	0	0	279
-582	-309	-36	82	-603	-690	-393	-309	-135	-483	-4,349
-226	-206	-174	-264	62	-247	-204	-223	-129	-198	-2,085
92	88	109	67	-30	169	89	48	100	299	924
218	81	-376	-275	117	34	126	13	154	103	271
105	14	2	40	40	-4	-5	19	46	9	647
-103	2	80	107	34	-115	56	-206	14	35	-225
139	397	713	-11	32	429	-153	212	929	465	3,325
-67	154	-144	-40	27	20	-39	70	36	66	65
11	22	-7	41	-76	7	-7	18	-36	-2	-2
83	573	562	-10	-17	456	-199	300	929	529	3,388

2. On IL credit to the private sector: IL 910 million (IL 783 million, May-June).
3. On liquidity exemptions: IL 315 million (IL 271 million, May-July). These data include the effects of the agreement.

e Export financing deposits influenced the rise in private sector sales, as well as the decline in foreign currency discount by IL 332 million in 1975 and by IL 134 million in 1976 (IL 45 million, January November, and IL 179 million in December).

f Excludes Bank of Israel profits in foreign currency.

g The narrow moey base consists of currency in circulation and the banks' liquid assets.

h The broad money base consists of the narrow money base plus liquidity exemptions and recognized liquidity deficiencies.

SOURCE: Bank of Israel balance sheet and calculations.

TABLE

OUTSTANDING CREDIT GRANTED TO
(Excl. linkage
(IL

		Nondirected commercial bank credit, in IL	Directed credit, in IL[b,c]		Foreign currency credit through funds
			Total	Rediscounts & liquidity exemptions	Total[e]
1974		5,434	3,992	3,121	1,411
1975		7,072	5,559	4,265	2,125
1976	January	7,022	5,654	4,363	2,160
	February	7,136	5,633	4,324	2,099
	March	7,905	5,443	4,117	2,256
	April	7,414	5,688	4,395	2,368
	May	7,197	5,087	3,986	2,616
	June	7,965	4,654	3,559	2,700
	July	7,768	4,870	3,496	2,695
	August	7,756	4,925	3,541	2,886
	September	8,680[g]	5,036	3,596	3,134
	October	8,536	5,260	3,796	3,227
	November	8,615	5,499	3,932	3,414
	December	8,958	5,718	4,439	3,559

a Excludes credit to the government and National Institutions.

b Includes directed IL credit for exports and domestic activity, and directed IL credit linked to foreign currency (the Shipments Fund).

c Since May 1976 the banks have been permitted to finance export shipments from credit lines abroad. The banks made wide use of this possibility which can be seen by the fact that financing of export shipments has been transferred from the item "Directed credit in IL" to "Foreign currency credit outside the funds."

d Approved credit from banks' own means in foreign currency, including financing of export shipments from banks' credit lines and rediscounts outside the funds.

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THE PUBLIC[a] BY THE BANKING SYSTEM
differentials, 1974-1976
million)

Rediscounts & liquidity exemptions	Foreign currency credit outside funds[c,d] Total[f]	Rediscounts & liquidity exemptions	Total bank credit to the public	Credit from earmarked nongovernment deposits	Credit from government deposits (to tax debtors, etc.)	Other credit from earmarked government deposits
1,395	3,608	243	14,445	5,431	606	2,128
1,691	5,200	267	19,956	8,006	1,489	2,761
1,736	5,195	276	20,031	8,177	1,426	2,783
1,671	5,301	277	20,169	8,224	1,441	2,885
1,790	5,379	275	20,983	8,617	1,548	2,872
1,910	5,805	279	12,275	8,869	1,462	2,973
1,993	6,337	266	21,237	9,053	1,352	3,015
2,224	7,050	265	22,360	9,416	1,341	2,909
2,442	7,213	264	22,546	9,519	1,273	3,024
2,647	7,588	272	23,155	9,814	1,261	3,033
3,797	8,122	280	24,972	10,023	1,408	3,133
2,892	8,403	290	25,426	10,328	1,381	3,199
3,095	8,977	275	26,505	10,648	1,411	3,207
3,091	9,444	269	27,679	11,112	1,500	3,644

[e] Includes devaluation differentials: in the first half these differentials totaled IL 270 million, and in the second half, IL 910 million.

[f] Includes devaluation differentials: in the first half these differentials totaled IL 600 million, and in the second half, IL 910 million.

[g] In September 1976 credit was extended to the local authorities, totaling IL 220 million. It was transferred from the framework of government credit from the banks' own means to that of free credit to the public.

SOURCE: Monthly balance sheet of the banking institutions; monthly liquidity report of the banking institutions; monthly balance sheet of the Bank of Israel.

TABLE XVII-vi

BANK CREDIT TO THE PUBLIC, 1975-1976

	Balance at end of year				Annual average			
			Change				Change	
	1975	1976	1975	1976	1975	1976	1975	1976
	(IL million)		(percent)		(IL million)		(percent)	
Free credit	7,072	8,958[a]	30	24[a]	6,076	7,913[a]	20	29
Directed IL credit for domestic activity	1,856	2,308	9	24	1,820	2,145	63	18
Working capital funds	1,133	1,517	20	34	1,045	1,387	109	33
For industry	356	475	51	33	283	423	94	49
For agriculture	318	455	11	43	322	395	60	23
General fund	76	57	19	-25	78	67	24	-14
Employers' loan fund	383	530	8	38	362	502	–	39
Other	723	791	-4	9	775	758	25	2
Directed IL credit for export	2,423	3,078	54	27	1,884	2,474	68	31
Export production fund	1,633	2,171	66	33	1,374	1,819	72	32
Citrus and cotton fund	578	615	52	6	361	417	59	16
Indirect exports fund	212	292	75	38	149	238	59	60
Export credit in foreign currency or linked to it	3,405	5,464	54	60	2,766	4,272	77	54
Shipment credit in IL linked to foreign currency	1,280	1,905	60	49	1,002	1,512	76	51
Shipment fund	1,280	332	60	-74	1,002	669	76	-33

Shipments from credit lines	—	1,573	—	—	—	843	—	—
Diamond fund (foreign currency)	1,802	2,810	49	56	1,488	2,278	72	53
Imports for export production (foreign currency)	323	749	58	132	276	482	114	75
Foreign currency rediscount outside funds	267	269	10	1	265	274	72	3
Approved foreign currency credit from the banks' own means[b]	4,933	7,602	47	54	4,322	5,951	102	38
General approvals[c]	3,662	4,921		34	3,120	4,139		-33
Imports on consignment	954	650		-32		713		
Fuel imports	1,941	2,661		37		2,059		
Fodder	365	846		132		615		
Other	402	764		90		752		
Specific approvals	1,271	2,681		111	1,202	1,812		-51

[a] In September 1976 the sum of IL 220 million in credit was transferred to the local authorities from the framework of credit to the government to that of free Il credit to the public. Data for 1976 include this credit, but it is discounted in calculating the rate of change.

[b] Excluding export shipments credit financed from credit lines abroad, which is included in export credit in foreign currency or in IL linked to foreign currency.

[c] The agreement for credit granted under general approvals went into effect in August 1976.

SOURCE: Monthly balance sheet of the banking institutions; weekly balance sheet of the banking institutions; liquidity report of the banking institutions.

TABLE XVII-vii

OUTSTANDING IL CREDIT GRANTED TO THE GOVERNMENT BY THE BANKING SYSTEM, 1974-1976

(IL million)

	From the Bank of Israel			From banking institutions			
	Credit granted to govt.[a] (1)	Govt. & National Institution deposits[b] (2)	Net credit (1)-(2)=(3)	Credit granted to govt.[a] (4)	Government securities[a] (5)	Less government deposits (6)	Net credit (4)+(5)-(6)
1974	6,712	457	6,255	886	981	228	1,639
1975	7,831	474	7,357	1,135	1,367	148	2,354
1976 January	8,168	576	7,592	1,041	1,338	105	2,274
February	8,717	563	8,154	1,159	1,323	105	2,377
March	8,895	493	8,402	1,383	1,297	143	2,537
April	9,075	539	8,536	1,465	1,299	90	2,674
May	9,669	700	8,969	925[f]	1,276	125	2,076
June	9,929	622	9,307	886	1,274	85	2,075
July	8,875	637	8,238	909	1,275	73	2,111
August	9,738	623	9,115	897	1,271	75	2,093
September	10,007	544	9,463	680[g]	1,275	101	1,854[g]
October	10,610	467	10,143	662	1,272	160	1,774
November	11,209	563	10,646	679	1,298	173	1,804
December	11,313	291	11.022	1,110	1,292	190	2,212

a Includes the monthly debits to the government's account for Bank of Israel profits.

b Includes the Bank of Israels's capital and the "other accounts" item in its balance sheet.

c Excludes treasury bills and the banks' Short-Term Loan holdings.

d Israeli currency deposits, the government's deposits earmarked for loans to the public and the loans actually extended.

e Credit to the government, as shown in Table XVII-ix. This is the net change in the government debt as it appears in this table less government securities and deposits in the Treasury against savings for housing.

f See note (a) in Table XVII-iii.

g See note (g) in Table XVII-v.

TABLE XVII- viii

ESTIMATED CONVERSION OF PAZAK RESTITUTION AND TAMAM FUNDS,[a] 1974-1976

	Personal restitution (1)	Interest on Pazak & Tamam (2)	Exchange rate & linkage differentials (3)	Total potential increase (1)+(2)+(3)= (4)	Actual increase (5)	Amount converted to IL (4)–(5)= (6)	Conversion rate A[b] (6)/(4)= (7)	Conversion rate B[c] (6)/(1+2)= (8)
	(IL million)						(percent)	
1974	1,320	290	3,092	4,702	3,564	1,138	24	71
1975	2,283	460	797	3,540	1,876	1,664	47	60
1976	2,560	701	4,013	7,274	5,008	2,266	31	69
January	190	53	303	546	320	226	41	93
February	165	66	317	548	361	187	34	81
March	219	55	208	482	433	49	10	18
April	179	46	320	545	360	185	34	82
May	182	47	29	258	66	192	74	84
June	241	52	305	598	388	210	35	72
July	198	33	351	582	325	257	44	111
August	221	44	318	583	411	172	30	65
September	224	63	580	867	687	180	21	63
October	261	63	516	840	687	153	18	48
November	245	48	234	527	269	258	49	88
December	235	131	532	898	701	197	22	54

a The data relate to Pazak restitution and Tamam funds, but not to other Pazak accounts.

b This calculation assumes that the recipients treat exchange rate differentials in the same manner as restitution receipts and interest on Pazak and Tamam accounts.

c This calculation assumes that the recipients treat exchange rate differentials as capital gains in the deposits.

SOURCE: Personal restitution receipts and exchange rate, and devaluation differentials – Foreign Exchange Department, Ministry of Finance; interest on Pazak and Tamam – Bank of Israel balance sheet; actual increase – monthly balance sheet of banking institutions.

TABLE

MONEY SUPPLY, THE PUBLIC'S UNLINKED DEPOSIT

End of period		Cash	Demand deposits	General money supply: Total (1)+(2) =	General money supply: Change from previous mont.
		(1)	(2)	(3)	(4)
			(IL million)		(percent)
1974		3,173	5,549	8,722	5.0
1975		3,970	6,644	10,614	3.4
1976	January	4,020	6,410	10,430	-1.7
	February	4,165	6,518	10,683	2.4
	March	4,128	6,776	10,904	2.1
	April	4,255	6,819	11,074	1.6
	May	4,312	6,889	11,201	1.1
	June	4,268	7,396	11,664	4.1
	July	4,480	6,945	11,425	-2.0
	August	4,563	7,391	11,954	4.6
	September	4,634	7,412	12,046	0.8
	October	4,624	7,593	12,216	1.4
	November	4,767	8,131	12,898	5.6
	December	4,776	8,710	13,486	4.6

SOURCE: The Examiner of Banks, statistics of the banking institutions; montly balance sheet of the banking institutions; Government Loan Administration – weekly review of the money and capital markets.

AND SHORT-TERM LOAN BALANCE, 1974–1976

General money supply seasonally adjusted							
Total	Change compared to previous month	Weight of cash in money supply (original data)	IL time deposits	Short-term loan balance of public	Deposits against liabil-ities, in IL	Total (3)+(8)+(9)+(10) =	Change from previous month
(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
(IL m)	(percent)			(IL million)			(percent)
8,740	4.0	36.3	3,501	162	108	12,593	5.0
10,355	1.8	37.4	3,561	83	125	14,383	2.4
10,504	1.4	38.5	3,576	117	111	14,234	-1.0
10,890	3.7	39.0	3,568	152	126	14,529	2.1
10,926	0.2	37.9	3,501	153	158	14,716	1.3
10,975	0.4	38.4	3,506	142	132	14,950	1.6
11,257	2.6	38.5	3,603	132	151	15,087	0.9
11,629	3.3	36.6	3,535	138	179	15,516	2.8
11,623	–	39.2	3,579	127	133	15,264	-1.6
12,063	3.8	38.2	3,590	104	164	15,812	3.6
11,915	-1.2	38.5	3,643	95	182	15,966	1.0
12,119	2.7	37.9	3,682	86	186	16,170	1.3
12,859	6.1	37.1	3,809	78	269	17,054	5.5
13,171	2.4	35.4	4,064	67	174	17,791	4.3

TABLE XVII-x

LINKED ASSETS OF THE PUBLIC IN THE BANKING SYSTEM, 1974–1976

(IL million, numbers in parentheses are devaluation differentials)

End of period		Approved savings scheme deposits			Marked and limited deposits[a]				
		Total	Actual deposits	Long-term linked deposits	Pazak restitutions	Tamam	Other deposits[b]	Free[a,c] and tied deposits	Total
		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974		7,241	4,529	0	5,177	3,138	1,879	1,314	18,749
					(1,477)	(868)	(779)	(403)	(3,527)
1975		12,532	7,482	56	6,312	3,879	2,646	1,650	27,075
					(918)	(582)	(407)	(215)	(2,122)
1976		20,110	10,813	132	9,326	5,873	4,755	2,379	42,575
					(1,693)	(1,063)	(867)	(401)	(4,024)
1976	January	12,760	7,669	58	6,510	4,001	2,779	1,570	27,678
					(124)	(78)	(50)	(31)	(283)
	February	13,105	7,875	58	6,716	4,156	2,956	1,688	28,679
					(123)	(70)	(58)	(30)	(281)
	March	13,548	8,224	62	6,982	4,323	3,168	1,715	29,798
					(122)	(78)	(56)	(30)	(286)
	April	14,013	8,402	66	7,207	4,458	3,423	1,798	30,965
					(138)	(87)	(62)	(35)	(322)
	May	15,036	8,629	78	7,250	4,481	3,489	1,802	32,136
					(141)	(88)	(88)	(35)	(322)

June	15,690	8,977	84	7,507 (140)	4,612 (87)	3,692 (74)	1,859 (36)	33,444 (337)
July	15,971	9,239	89	7,719 (142)	4,725 (87)	3,823 (69)	1,790 (33	34,117 (331)
August	16,984	9,501	99	8,005 (122)	4,850 (77)	3,898 (66)	1,811 (28)	35,647 (293)
September	17,432	9,779	96	8,615 (145)	5,166 (91)	4,072 (81)	7,838 (33)	37,219 (350)
October	18,029	70,053	114	8,811 (150)	5,418 (102)	4,435 (99)	1,863 (36)	38,670 (387)
November	18,873	10,360	119	8,931 (173)	5,567 (107)	4,539 (89)	1,978 (37)	40,007 (406)
December	20,110	10,813	132	9,326 (173)	5,873 (111)	4,755 (95)	2,379 (37)	42,575 (416)

[a] Including rate differentials for changes in relative prices of foreign currencies.

[b] Including other Pazak accounts, Natad, Hani, foreign currency deposits of mortgage banks, as well as other investments and sums which have not yet been categorized.

[c] Including temporary Pazam deposits, Hai, and tied deposits.

SOURCE: The Short-Term Loan – Bank of Israel, State Loan Authority; weekly review of the money and capital markets; other data – monthly balance sheet of the banking institutions.

TABLE

FOREIGN CURRENCY ASSETS AND LIABILITIES

($

End of period		Bank of Israel: Foreign currency assets (1)	Bank of Israel: Non-residents' deposits[a] (Patach) (2)	Bank of Israel: Other liabilities[b] (3)
1974		1,330	129	130
1975		1,304	142	172
1976	January	1,284	140	175
	February	1,280	140	176
	March	1,268	142	176
	April	1,325	151	178
	May	1,410	160	178
	June	1,440	172	180
	July	1,545	175	180
	August	1,573	180	184
	September	1,562	185	182
	October	1,581	185	182
	November	1,650	197	196
	December	1,645	207	190

a Nonresidents; deposits redeposited by the banking institutions with the Bank of Israel.

b Includes deposits of foreign banks and Israeli currency deposits of the International Monetary Fund.

c Loans to and deposits with foreign banks and overseas branches of Israeli banks, loans to nonresidents, foreign securities, and currency.

OF THE BANKING SYSTEM, 1974–1976
million)

	Banking institutions				
Net foreign currency assets (1)-(2)-(3)= (4)	Foreign currency assets[c] (5)	Non-residents' deposits[d] (Patach) (6)	Other liabilities[e] (7)	Net foreign currency assets (5)-(6)-(7)= (8)	Net foreign currency assets in the banking system (9)
1,071	1,816	931	1,169	-284	787
990	1,875	1,007	1,651	-783	207
969	1,613	1,013	1,384	-784	185
964	1,568	1,023	1,298	-753	211
950	1,607	1,036	1,316	-745	205
996	1,573	1,056	1,266	-749	247
1,072	1,549	1,077	1,274	-802	270
1,088	1,607	1,111	1,327	-831	257
1,190	1,627	1,126	1,316	-815	375
1,209	1,637	1,109	1,364	-836	373
1,195	1,701	1,096	1,476	-871	324
1,214	1,787	1,100	1,561	-874	340
1,257	1,829	1,148	1,609	-928	329
1,248	1,984	1,191	1,662	-869	379

[d] Deposits of new immigrants and temporary residents, less Patach deposits redeposited with the Bank of Israel.

[e] Deposits of foreign banks and overseas branches of Israeli banks.

SOURCES: Balance sheet of the Bank of Israel; monthly balance sheet of the banking institutions.