

## CHAPTER XIX

### ACTIVITIES OF THE BANK OF ISRAEL

#### 1. SUMMARY OF BALANCE SHEET AT THE END OF 1970

THE BALANCE SHEET of the Bank of Israel totalled IL 6,543.1 million at the end of 1970, compared with IL 5,173.3 million at the end of the preceding year—an increase of IL 1,369.8 million, or 26.5 percent, compared with a rise of 16.5 percent in 1969. Significant changes took place in two major asset items: Government liabilities to the Bank and Bank of Israel credit to the public. On the liabilities side, there was an increase in banking institutions' foreign currency deposits, their Israeli currency deposits (which constitute liquid assets), and in currency in circulation.

##### (a) *Assets*

##### 1. *Foreign exchange*

The Bank's foreign currency assets rose in 1970, after declining sharply in both 1968 and 1969. Gross foreign exchange and gold holdings—including loans to foreign countries and institutions, the gross balance of clearing accounts, and the Bank's participation in international financial institutions—reached IL 1,791.0 million or \$ 511.7 million, as against IL 1,627.6 million (\$ 465.0 million) at the end of 1969. This represents an increase of \$ 46.7 million, or 10 percent.

The Bank's net foreign currency holdings (i.e. less its foreign currency liabilities, consisting in the main of deposits of nonresidents and foreign banks and liabilities to international financial institutions) went up from \$ 341.9 million at the end of 1969 to \$ 350.1 million—i.e. by \$ 8.2 million, or 1 percent.

##### 2. *Government liabilities*

The Government's gross liabilities to the Bank of Israel, as listed in the balance sheet, grew by IL 903.3 million during the year—from IL 2,288.4 million at the end of 1969 to IL 3,191.7 million. This increase, however, includes Government securities, which do not represent actual Government financing through the Bank, and it excludes changes in Government deposits with the Bank. If these are disregarded, the net increase in the amount of financing supplied to the Government was IL 757 million; this compares with IL 1,167 million in the previous year. Together with the Bank's open-market operations in Government securities, the amount of credit provided to the Government came to IL 894 million. This item has grown appreciably since 1967, reflecting

**Table XIX-1**  
**ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1969-70**

	IL million		Percent		Increase or decrease (-)	
	1969	1970	1969	1970	IL m.	%
<b>Assets</b>						
Foreign exchange and gold	1,522.4	1,683.6	32.1	28.1	161.2	10.6
Participation in international financial institutions	22.8	26.4	0.5	0.4	3.6	15.8
Clearing accounts	14.6	25.3	0.3	0.4	10.7	73.3
Government securities	161.9	89.4	3.4	1.5	-72.5	-44.8
Long-term advances to the Government	1,306.6	2,452.4	27.6	40.9	1,145.8	87.7
Current liabilities of the Govt.	819.9	649.9	17.3	10.9	-170.0	-20.7
Bills discounted, securities acquired under repurchase agreements, and loans <sup>a</sup>	821.7	1,006.3	17.3	16.8	184.6	22.5
Loans to foreign governments and institutions	67.8	55.5	1.4	0.9	-12.3	-18.1
Other accounts	3.0	3.3	0.1	0.1	0.3	10.0
<b>Total</b>	<b>4,740.7</b>	<b>5,992.1</b>	<b>100.0</b>	<b>100.0</b>	<b>1,251.4</b>	<b>26.4</b>
Contingent accounts <sup>b</sup>	432.6	550.8	—	—	118.2	27.3
<b>Grand total</b>	<b>5,173.3</b>	<b>6,542.9</b>	<b>—</b>	<b>—</b>	<b>1,369.6</b>	<b>26.5</b>
<b>Liabilities</b>						
Notes and coin in circulation	1,166.3	1,321.9	24.6	22.1	155.6	13.3
Deposits of the Government and National Institutions	46.6	192.8	1.0	3.2	146.2	313.7
Deposits of international financial institutions	160.9	161.1	3.4	2.7	0.2	0.1
Allocation of Special Drawing Rights	—	52.9	—	0.9	52.9	—
Foreign currency deposits of banking institutions abroad	105.0	131.1	2.2	2.2	26.1	24.9
Deposits of banking and financial institutions <sup>c</sup>	3,223.1	3,952.2	68.0	65.9	729.1	22.6
Deposits of banking institutions—export finance	—	143.6	—	2.4	143.6	—
Clearing accounts	12.1	10.6	0.3	0.2	-1.5	-12.4
Paid-up share capital and reserves	20.0	20.0	0.4	0.3	—	—
Other accounts	6.7	6.1	0.1	0.1	-0.6	-9.0
<b>Total</b>	<b>4,740.7</b>	<b>5,992.3</b>	<b>100.0</b>	<b>100.0</b>	<b>1,251.6</b>	<b>26.4</b>
Contingent accounts <sup>b</sup>	432.6	550.8	—	—	118.2	27.3
<b>Grand total</b>	<b>5,173.3</b>	<b>6,543.1</b>	<b>—</b>	<b>—</b>	<b>1,369.8</b>	<b>26.5</b>

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

<sup>a</sup> See offsetting "Deposits of banking institutions—export finance" under liabilities.

<sup>b</sup> Including agricultural surplus accounts, documentary credits, and guarantees.

<sup>c</sup> Including foreign currency deposits of nonresidents; excluding export finance deposits.

the Government's mounting dependence on credit from the Bank in order to cover its much heavier spending, especially on defense.

### 3. *Credit to the public*

Gross credit to the public, listed in the Bank's balance sheet as "Bills discounted, securities acquired under repurchase agreements, and loans", increased in 1970 by IL 185 million. Local currency rediscounts fell by IL 161.1 million—from IL 471.2 million at the end of 1969 to IL 310.1 million—while foreign currency rediscounts rose by IL 345.6 million, from IL 350.6 million to IL 696.2 million. The net increase in this item was much smaller, amounting to only IL 41.2 million. Both the decline in local currency rediscounts and loans and the rise in foreign currency rediscounts stemmed from the changes introduced in 1970 in the method of financing the export funds and the switchover in the financing of export shipments from Israeli to foreign currency. Under the new arrangements the Bank discounts the full amount of the credit granted; of this sum, the commercial banks deposit 50 percent with the Bank of Israel, in Israeli currency. These deposits, which appear in the balance sheet as "deposits of banking institutions—export finance", totalled IL 143.4 million in 1970. Net of these deposits, the increase in credit to the public was IL 41.2 million, most of it in that provided through the export finance funds; the corresponding figure for 1969 was IL 372 million. The smaller increase in the year reviewed can be attributed to the Bank's policy of monetary restraint and to the repayment of the credit extended to the banks in 1969 because of special circumstances prevailing that year.

#### (b) *Liabilities*

##### 1. *Banknotes and coin in circulation*

The value of banknotes and coin in circulation went up from IL 1,166.3 million at the end of 1969 to IL 1,321.9 million—i.e. by IL 155.6 million, or 13.3 percent, compared with a rise of IL 42.3 million in 1969. The proportion of currency in the money supply held steady during the year.

##### 2. *Government and National Institution deposits*

Government and National Institution deposits with the Bank of Israel were, at IL 192.8 million, IL 146.2 million higher than in 1969. The increase was due to the IL 155.9 million balance of importers' deposits, which were introduced at the beginning of 1970 under the policy of moderating monetary expansion.

##### 3. *Deposits of banking and financial institutions*

Banking and financial institution deposits with the Bank of Israel expanded by IL 872.7 million over the year to reach IL 4,095.8 million. IL 371.0 million of the increase consisted of local currency deposits, of which IL 227.6 million

was in liquid assets and IL 143.4 million represented deposits made under the new export financing arrangement described above. The growth of foreign currency deposits and deposits denominated in foreign currency came to IL 501.6 million (\$ 143.3 million). Banking institutions accounted for IL 838 million of the total increase, and financial institutions for IL 35 million.

Deposits of foreign banking institutions expanded from IL 105 million (\$ 30.0 million) at the end of 1969 to IL 131.1 million (\$ 37.5 million).

## 2. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

### (a) *Income*

The Bank's income in 1970 advanced from IL 208 million to IL 286 million, with foreign currency holdings yielding IL 103 million (\$ 29.4 million), as against IL 118 million (\$ 33.7 million) in 1969 (the 1969 figure does not include the appreciation of holdings due to changes in exchange rates). The decrease in foreign currency income stemmed from a decline from \$ 535 million to \$ 426 million in the average annual level of foreign currency balances.

Income received in local currency, consisting mainly of interest on the Government's debts to the Bank and interest on rediscounts and loans to the public, rose steeply, from IL 90 million in 1969 to IL 183 million, in line with the growth of these balance sheet items.

### (b) *Expenditure*

The Bank's expenses totalled IL 183 million in 1970, up IL 42 million from the previous year. Most of the increase resulted from the larger amount of interest paid to banking institutions on their foreign currency deposits and on deposits denominated in foreign currency, from the raising of the interest rate on Short-Term loan certificates, and from interest paid on importers' deposits.

### (c) *Net profit*

The Bank's net profit in 1970 amounted to IL 103 million, compared with IL 67 million the year before. The entire sum was transferred to the Government in accordance with the Bank of Israel Law.

## 3. FOREIGN CURRENCY ASSETS AND LIABILITIES AND GOLD HOLDINGS

### (a) *Foreign exchange and gold*

Gross assets in gold and foreign currency added up to IL 1,790.9 million (\$ 511.7 million) at the end of 1970, compared with IL 1,522.5 million (\$ 465.0 million) at the end of the previous year—an increase of 46.7 percent, or 10 per-

Table XIX-2

## FOREIGN EXCHANGE AND GOLD BALANCES HELD BY THE BANK OF ISRAEL, 1969-70

(\$ million)

End of period	Gold	Foreign exchange	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of non- residents	Less: Deposits of foreign banks	Less: Debit balances in clearing accounts	Net balances
1969 December	68.2	366.7	19.4	4.1	458.4	43.7	30.0	3.4	381.3
1970 January	68.2	360.6	22.3	3.9	455.0	43.0	30.0	4.0	378.1
February	68.2	362.9	22.7	2.1	455.9	42.7	29.9	3.6	379.7
March	68.2	369.5	23.2	2.7	463.6	43.6	30.0	3.1	386.9
April	68.2	387.3	23.0	2.8	481.3	44.6	30.2	2.8	403.7
May	68.1	392.1	24.2	3.5	487.9	41.9	30.2	2.7	413.1
June	68.1	395.0	24.7	3.8	491.6	44.8	30.2	2.3	414.3
July	68.1	408.2	25.5	5.0	506.8	45.8	40.0	2.8	418.2
August	68.0	406.9	25.5	5.2	505.6	46.7	40.0	3.3	415.6
September	68.0	410.5	25.1	7.0	510.6	48.9	40.0	2.9	418.8
October	68.0	402.5	16.8	6.5	493.8	53.9	30.2	2.9	406.8
November	75.9	400.2	15.6	6.8	498.5	57.0	33.8	3.0	404.7
December	75.9	405.2	15.8	7.2	504.1	59.9	37.5	3.0	403.7

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

cent. The net balance, as stated, came to IL 1,225.3 million (\$ 350.1 million) in 1970, as opposed to IL 1,196.7 million (\$ 341.9 million) in 1969—up \$ 8.2 million or 1 percent.

Gold reserves aggregated IL 265.7 million (\$ 75.9 million). Of this amount, IL 151.9 million (\$ 43.4 million) was in free gold, which was down \$ 2.3 million from the previous year's level of IL 160 million (\$ 45.7 million). The \$ 2.3 million was transferred to the Bank's gold deposit with the International Monetary Fund, which was increased, with the enlargement of Israel's quota in the Fund, from IL 78.7 million (\$ 22.5 million) to IL 113.7 million (\$ 32.5 million), or by \$ 10 million. The difference of \$ 7.7 million constituted new gold acquisitions by the Bank of Israel. The gold deposit with the International Monetary Fund represents a quarter of Israel's quota, which was enlarged in 1970 from \$ 90 million to \$ 130 million.

Israel made no purchases from the IMF in 1970, and the outstanding sum purchased in 1969 remained unchanged at \$ 45 million. Of this amount, \$ 22.5 million constituted the country's "gold tranche" in the Fund, and \$ 22.5 million its "first credit tranche".

The share of gold in the Bank's total gross assets in foreign currency and gold was, at 15 percent, roughly the same as in 1969.

Foreign exchange reserves held with the Bank of Israel—which consist of gold, deposits, and investments abroad, less deposits of foreign banks in Israel—totalled \$ 363 million at the end of the year reviewed, compared with \$ 339 million at the end of the previous year—an increase of \$ 25 million, following a \$ 290 million decline in 1969.

A small fraction, the amount required to finance the Bank's current foreign currency operations, was held in non-interest-bearing demand deposits. The preponderant portion was held in the form of treasury bills, bills of foreign banks, bonds of foreign countries and international financial institutions, and interest-bearing time deposits in foreign banks. Net income (interest received from the investment of these assets, less interest paid on foreign banks' deposits) dropped from \$ 32.9 million in 1969 to \$ 28.7 million in 1970. Despite the decline in the average annual balance of interest-bearing foreign currency assets, their yield went up from 5.7 percent in 1969 to 7.3 percent owing to the rise of interest rates in the international money and capital markets.

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

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

**Table XIX-3**  
**NET BALANCES IN CLEARING ACCOUNTS, 1969-70**

(\$ thousand)

(End of period)

Country	1969	1970	Increase or decrease (-)
Brazil	226	-1,305	-1,531
Bulgaria	1,232	1,920	688
Czechoslovakia	465	465	—
Hungary	2,360	2,555	195
Portugal	-1,021	-1,108	-87
Turkey	-1,336	-474	862
Yugoslavia	-801	2,429	3,230
Net balances in transit	-399	-279	120
<b>Total</b>	<b>726</b>	<b>4,203</b>	<b>3,477</b>
<b>Total in IL '000</b>	<b>2,542</b>	<b>14,710</b>	<b>12,168</b>

Israel's credit balances in the clearing accounts added up to IL 25.2 million (\$ 7.2 million) at the end of 1970, and its debit balances totalled IL 10.5 million (\$ 3 million). The net balance to Israel's credit therefore stood at IL 14.7 million (\$ 4.2 million), as against IL 2.5 million (\$ 0.7 million) at the end of 1969—a rise of \$ 3.5 million.

(c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel aggregated IL 1,039.5 million (\$ 297 million) at the end of 1970, compared with IL 878.2 million (\$ 250.9 million) at the end of 1969—up \$ 46.1 million or 18.4 percent.

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

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

<sup>1</sup> This is discussed in the following section.

Table XIX-4

**FOREIGN CURRENCY DEPOSITS OF BANKING INSTITUTIONS  
WITH THE BANK OF ISRAEL, BY TYPE, 1969-70**

(\$ million)

(End of period)

	1969	1970	Increase or decrease (-)
<b>Deposits in foreign currency</b>			
Deposits of residents transferring currency (Tamam)	174.8	208.8	34.0
Foreign securities dividend accounts (Natad)	14.2	16.8	2.6
Deposits of nonresidents (Patach)	43.7	59.9	16.2
Import deposit accounts	13.9	5.4	-8.5
Blocked and registered accounts	0.2	0.9	0.7
Foreign currency accounts of banks	4.1	5.2	1.1
<b>Total</b>	<b>250.9</b>	<b>297.0</b>	<b>46.1</b>
<b>Deposits denominated in foreign currency</b>			
Time deposits of Israeli residents (Pazak)	462.5	559.8	97.3
Diamond traders accounts	0.3	0.2	-0.1
<b>Total</b>	<b>462.8</b>	<b>560.0</b>	<b>97.2</b>

must redeposit these sums in full with the Bank of Israel. At the end of the year reviewed these deposits amounted to IL 730.8 million (\$ 208.8 million), compared with IL 611.9 million (\$ 174.8 million) at the end of 1969—an increase of \$ 34 million.

The Government and the Bank of Israel pay interest on these deposits at the following rates (unchanged in 1970): deposits for three months—2 percent; for six months—3 percent; for nine months—4 percent; and for 12 months—4.5 percent.

## 2. *Foreign securities dividend accounts (Natad)*

These are restricted foreign currency deposits of Israeli citizens deriving from the sale of foreign securities or the receipt of dividends or interest thereon. They may be withdrawn in foreign currency solely for the purchase of foreign securities in accordance with the directives of the Controller of Foreign Exchange. Securities purchased in this manner may be resold to the general public. In actual fact, both Natad and Tamam deposits are traded in Israeli currency in the Natad market, which is maintained by the commercial banks. The banking institutions are required to maintain 100 percent liquidity against these deposits, which pay no interest whatsoever to the public and only 1.5 percent to banking institutions. At the end of 1970 these accounts totalled IL 58.9 million (\$ 16.8



million), compared with IL 49.7 million (\$ 14.2 million) at the end of 1969—an increase of \$ 2.6 million.

### 3. *Deposits of nonresidents (Patach)*

These are freely transferable funds deposited by nonresidents (including investors, immigrants, foreign experts, etc.) with Israeli banks and redeposited in the Bank of Israel. At the end of 1970 these accounts added up to IL 209.8 million (\$ 59.9 million), as against IL 152.9 million (\$ 43.7 million) at the end of 1969—a rise of \$ 16.2 million. In 1970 the banks were required to maintain a minimum balance of at least 15 percent of these accounts with the Bank of Israel, after deducting deposits for the granting of loans authorized by the latter. Since the Patach accounts against which minimum balances were required to be kept with the Bank of Israel amounted to IL 174.9 million at the end of the year reviewed, the proportion redeposited with it came to 17.1 percent.

In May 1970 the Bank of Israel raised the interest rate on Patach deposits for one year or more and unified the rates for all currencies (from December 1968 to May 1970 it had paid interest to the banks on deposits in certain currencies—German marks, Swiss francs, dollars, and pounds sterling—at different rates in accordance with those prevailing in the international money markets). At the end of 1970 the following interest rates were in force: demand deposits up to the minimum required balance—4.5 percent; demand deposits in excess of the minimum balance—1.5 percent; 3-month deposits—4.75 percent; 6-month deposits—5.5 percent; deposits for one year—7 percent.

### 4. *Blocked and registered accounts (Pahab)*

These are foreign currency accounts of insurance and shipping companies, enterprises approved under the Law for the Encouragement of Capital Investments, etc., which are redeposited with the Bank of Israel. The balance of these accounts at the end of 1970 was IL 3.2 million (\$ 0.9 million), \$ 0.7 million over the 1969 figure.

The banks are required to maintain a balance of at least 15 percent of these deposits with the Bank of Israel. Interest paid by the latter on such redeposits is at the same rate as that paid on Patach accounts, with the exception of one-year deposits, which earn interest of 6 percent.

### 5. *Import deposit accounts (Hay)*<sup>1</sup>

These are accounts in which commercial banks hold importers' deposits in connection with the procuring of import licenses on a cash financing basis. In

<sup>1</sup> These are foreign currency accounts unrelated to the import deposits in Israeli currency introduced in January 1970.

May 1969 the foreign currency regulations were amended to limit the amount of foreign currency transferable abroad for imports to 30 percent of the purchase price; the importer has to deposit the balance in a Hay account until receipt of the goods in Israel.

The banking institutions are required to redeposit these sums in full with the Bank of Israel. At the end of 1970 these deposits aggregated IL 18.8 million (\$ 5.4 million), as against IL 48.3 million (\$ 13.9 million) at the end of 1969—a drop of \$ 8.5 million.

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

These are accounts with the Bank of Israel in which banks deposit foreign currency to be paid abroad. At the end of 1970 these balances totalled IL 18 million (\$ 5.2 million), compared with IL 14.3 million (\$ 4.1 million) at the end of 1969—an increase of \$ 1.1 million.

#### *(d) Deposits denominated in foreign currency*

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

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

These are deposits in banking institutions by Israeli residents receiving income in foreign currency, and may be withdrawn in Israeli currency at the prevailing rate of exchange. The banks are required to redeposit these sums in full with the Bank of Israel. At the end of 1970 Pazak accounts aggregated IL 1,959.3 million (\$ 559.8 million), up \$ 97.3 million, or 21 percent, from the previous year's level of IL 1,618.9 million (\$ 462.5 million).

Interest on these deposits was paid by the Government and the Bank of Israel at the rates prevailing in 1969, namely: deposits for three months—3 percent; six months—4 percent; nine months—5 percent; and 12 months—6 percent. Holders of Pazak accounts originating in personal restitution payments from Germany do not pay income tax on their interest receipts; other Israeli residents pay 25 percent tax at source.

#### *2. Diamond accounts*

These accounts are connected with transactions in diamonds and were opened in compliance with the directive of the Controller of Foreign Exchange issued in October 1969. The banks are required to redeposit these amounts in full with the Bank of Israel. At the end of 1970 they added up to IL 0.9 million, as against IL 1 million at the end of 1969.

(c) *Foreign banking institutions' deposits*

These are foreign currency deposits of foreign banks placed with the Bank of Israel for varying periods. At the end of 1970 they totalled IL 131.1 million (\$ 37.5 million), as compared with IL 105 million (\$ 30 million) at the end of 1969—an increase of \$ 7.5 million.

#### 4. THE BANK OF ISRAEL AS BANKER TO THE GOVERNMENT

Examination of the Government's accounts by balance sheet item shows a growth of IL 903.3 million in the Government's gross liabilities to the Bank of Israel in 1970. Less the IL 146.2 million increase in creditory accounts, the Government's debt went up by IL 757.1 million, compared with IL 1,134.1 million in 1969. The net increase in the amount of financing provided the Government was actually larger than indicated by the balance sheet, amounting to IL 894 million (IL 1,167 million) in 1969. The difference of IL 137 million stemmed from the Bank's sale of IL 92 million of Government securities on the open market and of IL 45 million worth of treasury bills to banking institutions. These transactions were carried out within the framework of the administration's monetary policy and did not reduce the Government's debt to the Bank (this is discussed in Chapter XIV).

Table XIX-5  
GOVERNMENT ACCOUNTS\* WITH THE BANK OF ISRAEL, 1969-70  
(IL million)

(End of period)

	1969	1970	Increase or decrease (-)
<b>Debit</b>			
Ordinary advances to the Government	819.9	649.9	-170.0
Total current liabilities	819.9	649.9	-170.0
Government securities	44.7	16.9	-27.8
Treasury bills	117.2	72.5	-44.7
Long-term advances to the Government	1,306.6	2,452.4	1,145.8
Total long-term debt	1,468.5	2,541.8	1,073.3
Total debit balances	2,288.4	3,191.7	903.3
<b>Credit</b>			
Import deposits	—	155.9	155.9
Compulsory savings deposits	7.5	5.7	-1.8
Foreign currency accounts	39.1	31.2	-7.9
Total credit balances	46.6	192.8	146.2
<b>Balance</b>	-2,241.8	-2,998.9	757.1
<b>Contingent accounts</b>			
Food surplus accounts	66.8	49.9	-16.9

\* Excluding capital accounts.

(a) *Debit accounts*

The Government's long-term debt to the Bank of Israel shot up by IL 1,073.3 million during 1970. At the beginning of the year the Government received a new long-term advance of IL 1,200 million, which was included in the Government's account with the Bank for the fiscal year 1969/70. On the other hand, outstanding advances from previous years were reduced by IL 54.2 million, of which IL 26.7 million was applied against the 1966 advance and IL 27.5 million against that for 1967. These transactions did not reflect any actual repayment of debts to the Bank but represented the proceeds from the sale of Short-Term Loan certificates to the public, which are applied, under an agreement between the Government and the Bank, to the reduction of the Government's long-term liabilities to the latter.

The Bank's holdings of Government securities and treasury bills dropped in 1970 by IL 27.8 million and IL 44.7 million respectively, following sales to banking institutions.

(b) *Credit accounts*

Total deposits of the Government and the National Institutions, as already noted, increased by IL 146.2 million in the course of the year. Import deposits appear in the balance sheet for the first time (this advance deposit scheme was introduced at the beginning of 1970). Government deposits of Compulsory Savings Loan proceeds declined by IL 1.8 million as the result of repayments. The whole of this forced loan had fallen due at the end of 1969, and the balance of IL 5.7 million appearing in the Bank's balance sheet represents sums not yet claimed.

Net of the credit accounts, the Government's debt to the Bank, as shown in the balance sheet, went up by IL 757.1 million during the year.

(c) *Contingent accounts*

Contingent account balances, which derive from local currency payments for agricultural surpluses made available to the Government of Israel by the U.S. Government, fell from IL 66.8 million at the end of 1969 to IL 49.9 million following the utilization of approximately IL 17 million of these funds by the American authorities.

(d) *Government imports*

Documentary credit accounts opened for the financing of imports by Government departments totalled \$ 51.3 million in 1970, compared with \$ 48.3 million in the previous year. The value of documents received by the Bank of Israel from foreign banks and suppliers for collection from the various Govern-

ment departments was \$ 38.9 million in 1970, as against \$ 30.5 million the year before.

The total value of Government imports financed by Bank of Israel credits was \$ 90.2 million, compared with \$ 78.8 million in 1969—an increase of \$11.4 million.

## 5. THE BANK OF ISRAEL AS THE BANKERS' BANKER

### (a) *Deposits of banks and financial institutions*

Deposits kept by banking and financial institutions with the Bank of Israel increased by IL 872.7 million—from IL 3,223.1 million at the end of 1969 to IL 4,095.8 million. Israeli currency deposits grew from IL 725.1 million to IL 1,096.1 million, with most of the increment stemming from the addition of a new item, "deposits of banking institutions—export finance", and the raising of the minimum balances banks had to hold under the liquidity regulations in force during 1970.

Foreign currency deposits and deposits denominated in foreign currency went up over the same period from IL 2,498.1 million (\$713.7 million) to IL 2,999.7 million (\$ 857.1 million). (Details of these deposits were given above and a breakdown is presented in Table XIV-6.) Most of the increase resulted from the larger volume of Pazak and Tamam deposits of personal restitution recipients, which banks must redeposit in full with the Bank of Israel, and from the growth of nonresidents' deposits, against which the banks must maintain a minimum reserve of 15 percent.

Table XIX-6

### DEPOSITS OF BANKING AND FINANCIAL INSTITUTIONS WITH THE BANK OF ISRAEL, 1969-70

(IL million)

	1969	1970	Increase or decrease (-)	
			IL m.	%
<b>Israeli currency</b>	725.1	1,096.1	371.0	51.2
Liquid balances <sup>a</sup>	725.1	952.7	227.6	31.4
Export finance deposits	—	143.4	143.4	—
<b>Foreign currency<sup>b</sup></b>	2,498.0	2,999.7	501.7	20.1
<b>Total deposits</b>	<b>3,223.1</b>	<b>4,095.8</b>	<b>872.7</b>	<b>27.1</b>

<sup>a</sup> Minimum balances, other demand deposits, and time deposits.

<sup>b</sup> Details are given in Table XIX-4.

Of the total increase of IL 873 million in banking and financial institutions' deposits with the Bank of Israel, the former accounted for IL 838 million and financial institutions for IL 35 million. In 1969 banks' deposits rose by IL 430 million, while those of financial institutions dropped by IL 29 million.

Interest rates paid by the Bank of Israel since February 1, 1967 on local currency accounts of the banking and financial institutions are as follows: on the first third of the minimum balance that must be kept with the Bank no interest at all is paid, while on the remaining two-thirds the rate is 2 percent per annum; on deposits arising out of the unfulfilled portion of the export financing quota—3 percent; on demand deposits in excess of the required minimum balances and on export credits—4 percent. Annual interest rates on time deposits are as follows: deposits for three months—5.5 percent; for six months—6 percent; for nine months—6.7 percent; for 12 months or more—7.5 percent.

On March 15, 1971 the Bank of Israel announced the termination, with effect from January 1, 1971, of the system of deposits detailed above and its replacement by a new system under which part of the banking institutions' local currency deposits will not earn any interest, while 8 percent will be paid on the balance. The part on which no interest will be paid will be equal to the sum of (a) 15 percent of the public's demand deposits in the institution; (b) 8 percent of its time deposits for four to six months; and (c) 5 percent of its time deposits for more than six months.

Interest of 3 percent p.a. will be paid to a banking institution authorized to deal in foreign currency on the difference between a sum equal to 8 percent of the demand deposits held with it and the amount of directed export credit it has granted (the existence of such a difference indicates that the institution has fully met its export financing quota).

All banking institution time deposits with the Bank of Israel in existence on January 1, 1971, or opened between that date and March 15, 1971, will be transferred to the institutions' demand deposit account with the Bank.

## 6. CURRENCY ISSUE

### (a) *Currency in circulation*

The monthly average of currency in circulation (calculated according to Wednesday figures) went up 12.3 percent—from IL 1,207.1 million in December 1969 to IL 1,355.4 million in December 1970; this compares with an increase of 4.2 percent in 1969, 11.3 percent in 1968, and 26.5 percent in 1967.

The growth of IL 413 million in the money supply in 1970 consisted of about IL 152 million in currency in circulation and IL 261 million in demand deposits. Currency thus made up some 38 percent of the additional money supply in the year reviewed, as against 66 percent in 1969. This component moved up at a fairly even rate throughout the year, except in March and

**Table XIX-7**  
**CURRENCY IN CIRCULATION, 1969-70**  
 (IL thousand; Wednesday averages)

	1969	1970
January	1,157,130	1,201,610
February	1,168,267	1,204,538
March	1,199,989	1,230,747
April	1,228,760	1,274,229
May	1,227,250	1,281,398
June	1,228,083	1,289,385
July	1,234,613	1,295,671
August	1,250,814	1,316,952
September	1,255,622	1,319,011
October	1,235,362	1,351,430
November	1,223,656	1,353,599
December	1,207,056	1,355,427

April, when it jumped by nearly IL 70 million as a result of the usual high seasonal demand associated with the Passover Festival. The trend continued upward to the end of the year, whereas in 1969 it had turned down in the last quarter.

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

The value of IL 100 banknotes in circulation, which has been advancing steadily since they were first put into circulation in February 1969, continued upward throughout 1970, and their share in the total value of banknotes in circulation rose from 30 percent in 1969 to 46.2 percent. By contrast, the value of IL 50 banknotes declined, bringing their share down from 54.6 to 40 percent.

The proportion of IL 10 banknotes edged down from 12.7 to 11.5 percent, and that of IL 5 notes from 2.1 to 2 percent. IL 1 notes dropped from 0.6 percent to 0.3 percent (these notes are being replaced by coins and the Bank no longer puts them into circulation). The total value of IL 1 notes and coins at the end of 1970 came to IL 28 million (IL 3.8 million in banknotes and IL 24 million in coins). There was hardly any change in the percentage of half-pound banknotes, which were replaced by coins of the same denomination in 1963, and it can be assumed that by now most of these have either been lost or are in the hands of collectors.

During the year reviewed IL 7.5 million worth of new agorot, half-pound, pound, and commemorative coins were put into circulation, and at year's end agorot, IL ½, and IL 1 coins accounted for 75.1 percent of the total value of coins in circulation, compared with 76.1 percent at the end of 1969.

Coin	Percent of total value of coins in circulation
Old coins (denominated in prutot)	3.3
New coins (denominated in agorot)	23.7
IL 1 and IL ½	51.4
Commemorative coins	21.6
Total	100.0

(c) *Damaged currency*

In 1970 unusable banknotes to a value of IL 716 million were destroyed, while 455 applications to exchange damaged currency in the amount of IL 56,189 were submitted. The Bank of Israel approved 386 applications, totaling IL 46,282.

(d) *Agencies for the supply of currency*

The Bank has nine agencies for the supply of currency, located in Ashdod, Beersheba, Eilat, Hadera, Netanya, Petah Tikva, Rehovot, Safad, and Tiberias. They supply currency to banking institutions in the provincial towns and absorb their surplus currency.

In addition to these agencies, the Bank maintains agencies in the head offices of the three largest banks in Tel Aviv and Haifa, as well as in the main Bank Leumi le-Israel branch in Jerusalem. These agencies ensure greater economy and security in the transfer of money to and from the Bank of Israel and further improvements in the technical work connected with the circulation of banknotes both in normal times and in periods of emergency.

## 7. CURRENCY SUPPLY

(a) *Banknotes*

On August 6, 1970 the Bank of Israel introduced into circulation a IL 10 banknote bearing the portrait of Chaim N. Bialik. This was the second in the Bank's third series of banknotes; it follows a IL 100 banknote with the portrait of Dr. Theodor Herzl, introduced at the beginning of 1969. Other notes planned for this series are a IL 50 note showing the portrait of Dr. Chaim Weizmann, and



Table XIX-8

## NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1969-70

End of period	1969		1970	
	IL '000	%	IL '000	%
<b>Banknotes</b>				
IL ½	484	—	481	—
IL 1	6,436	0.6	3,817	0.3
IL 5	23,374	2.1	24,798	2.0
IL 10	141,910	12.7	145,753	11.5
IL 50	609,008	54.6	505,804	40.0
IL 100	335,295	30.0	583,950	46.2
Total	1,116,507	100.0	1,264,603	100.0
<b>Coins</b>				
1 pruta	5	—	5	—
5 prutot	48	0.1	48	0.1
10 prutot	288	0.6	286	0.5
25 prutot	165	0.3	165	0.3
50 prutot	496	1.0	495	0.8
100 prutot	332	0.6	332	0.6
250 prutot <sup>a</sup>	600	1.2	600	1.0
500 prutot (silver)	22	—	22	—
1 agora	1,676	3.2	1,793	3.0
5 agorot	2,443	4.7	2,749	4.6
10 agorot	6,287	12.0	6,937	11.6
25 agorot	2,341	4.5	2,655	4.4
IL ½	6,443	12.3	6,732	11.3
IL 1	20,556	39.4	23,987	40.2
Total	41,702	79.9	46,806	78.4
<b>Commemorative coins</b>				
IL ½	28	—	28	—
IL 1	289	0.6	289	0.5
IL 5 (silver)	1,755	3.4	1,755	2.9
IL 10 (silver)	4,765	9.1	5,926	9.9
IL 20 (gold)	210	0.4	210	0.4
IL 50 (gold)	686	1.3	686	1.2
IL 100 (gold)	2,771	5.3	4,021	6.7
Total	10,504	20.1	12,915	21.6
Total coin	52,206	100.0	59,721	100.0
Total currency in circulation	1,168,713	—	1,324,324	—
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value				
	2,417	—	2,417	—
Total, net	1,166,296	—	1,321,907	—

<sup>a</sup> Including paper tokens and silver coins.

a IL 5 note with the portrait of Prof. A. Einstein. These banknotes will be put into circulation as soon as the stock of these denominations in the present series is exhausted.

(b) *Commemorative coins*

During 1970 the Bank of Israel issued one commemorative coin—the 22nd Independence Day coin. It was issued in ordinary and proof form, has a nominal value of IL 10, is of sterling silver (900/1000), weighs 26 grams, and has a diameter of 37 mm. The subject of the coin is “Mikve Israel Centenary”. The Bank also issued a Pidyon ha-Ben (Redemption of the Firstborn) coin, with the same nominal value, composition, weight, and diameter as the Independence Day coin. The coin is for use in the ceremonial redemption of the firstborn son from the priesthood, and its subject is the biblical verse “All the firstborn of thy sons thou shalt redeem.” The coin was issued in ordinary and proof form and has a milled edge.

A complete list of commemorative coins minted by the Bank of Israel through 1969/70 is given in Table XIX-9.

(c) *Coins in circulation*

In 1970, 35.9 million coins were minted for the Bank of Israel at the Israel Mint in Jerusalem. During the Hebrew Year 5730 (1969/70), 34.1 million were minted. Following is a breakdown of the mintings:

Coin	Number of units minted	
	1970	5730 (1969/70)
1 agora	18,205,002	17,748,000
5 agorot	6,071,457	4,004,000
10 agorot	5,191,002	6,131,000
25 agorot	676,640	417,000
½ IL	972,025	1,001,023
1 IL	4,805,038	1,793,663

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

This Committee, headed by Supreme Court Justice Witkon, assists the Bank in planning the banknotes and coins to be issued and recommends to the Governor of the Bank the designs which it approves from among those submitted by artists participating in closed competitions.

Members of the Committee are: Dr. A. Witkon (Chairman), Mr. M. Ardon, Dr. A. Biran, Mrs. E. Cohen, Mr. R. Dayan, Mr. S. Golan, Dr. R. Hecht, Dr. D. Karavan, Mr. G. Keich, Mr. A. Kindler, Mr. T. R. Lurie, Dr. M.

**Table XIX-9**  
**COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,<sup>a</sup>**  
**1957/58 TO 1969/70**

Coin	Place minted	Number minted		
		Ordinary	Proof	Total
1. Half-shekel coins				
1960/61	Utrecht	20,004	5,000	25,004
1961/62	Utrecht	20,000	10,000	30,000
2. Hanukka coins—IL 1				
1958/59 (Tora is Light)	Berne	150,000	5,000	155,000
1959/60 (Degania)	Utrecht	50,000	5,000	55,000
1960/61 (Henrietta Szold)	Utrecht	16,883	3,000	19,883
1961/62 (Maccabees)	Utrecht	18,916	9,428	28,344
1962/63 (Italian Hanukka Lamp)	Berne	9,657	6,040	15,697
1963/64 (North African Hanukka Lamp)	Utrecht	10,000	5,500	15,500
3. Silver coins denominated in prutot				
250 prutot	Birmingham	44,225	—	44,225
500 prutot	Birmingham	43,767	—	43,767
4. Independence Day coins—IL 5				
1957/58 (Menora)	Utrecht	98,051	2,000	100,051
1958/59 (Ingathering of the Exiles)	Berne	27,249	4,792	32,041
1959/60 (Herzl)	Berne	34,472	4,923	39,395
1960/61 (Bar Mitzva)	Utrecht	19,541	4,561	24,102
1961/62 (Development)	Utrecht	10,450	5,050	15,500
1962/63 (Seafaring)	Rome	5,990	4,500	10,490
1963/64 (Israel Museum)	Rome	11,100	4,500	15,600
1964/65 (Knesset)	Rome	25,252	7,660	32,912
1965/66 (The People of Israel Lives On)	Utrecht	32,503	10,500	43,003
1966/67 (Eilat)	Utrecht	30,250	7,755	38,005
5. Victory Coins—IL 10				
1966/67 Ordinary	Berne	234,589	—	234,589
1966/67 Proof	Kreshmer, Jm.	—	50,499	50,499
1967/68 (Jerusalem)	Berne	50,000	20,501	70,501
1968/69 (Peace)	San Francisco	40,000	20,000	60,000
1968/69 (Peace)	Kreshmer, Jm.	20,199	—	20,199
1969/70 (Mikve Israel Centenary) Ordinary	Kreshmer, Jm.	47,704	—	47,704
1969/70 (Mikve Israel Centenary) Proof	Berne	—	22,500	22,500
6. Pidyon ha-Ben (Redemption of Firstborn)				
1969/70 Ordinary	Jerusalem	50,933	—	50,933
1969/70 Proof	Berne	15,500	—	15,500
7. Gold coins				
IL 20 1959/60 (Herzl)	Berne	10,510	—	10,510
IL 50 1962/63 (Weizmann)	Berne	—	6,202	6,202
IL 100 1962/63 (Weizmann)	Berne	—	6,203	6,203
IL 50 1964/65 (Bank of Israel)	Berne	6,014	1,502	7,516
IL 100 1966/67 (Victory)	Berne	—	9,004	9,004
IL 100 1967/68 (Jerusalem)	Berne	—	12,500	12,500
IL 100 1968/69 (Peace)	Utrecht	—	12,500	12,500

<sup>a</sup> After the melting down of various coins from the Bank of Israel's stock.

Spitzer, and Mr. A. Zabarsky. Mr. Zabarsky replaced Dr. E. Lehman, who had requested the Governor of the Bank to release him from membership, and Mrs. Cohen replaced Mr. K. Katz, who resigned.

(e) *Amendment of section 33A of the Bank of Israel Law*

Section 33A of the Bank of Israel Law, 5714–1954, stipulates that the distribution of commemorative coins issued by the Bank of Israel shall be entrusted to a company appointed by the Government for that purpose and operating under its control. This section was amended by the Knesset during the year reviewed to also include “special coins”, which are not commemorative coins but have a mint mark. The first series of these coins, the agora series of 5731 (1970/71) of 5, 10, and 25 agorot, IL½, and IL 1 denominations and with a mint mark in the form of a tiny six-pointed Star of David, were issued at the beginning of 1971.

## 8. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

New loan issues through the Bank of Israel grossed only some 4 percent less than in 1969, but the net figure plunged 38 percent.

Gross sales of the Government Short-Term Loan rose strongly, reaching almost IL 1,000 million compared with IL 780 million in 1969. Net sales also improved, following a decline in 1969.

Gross new issues of long-term loans, excluding the Absorption Loan, fell sharply—from IL 503 million in 1969 to IL 197 million, with both the Defense Loan and option-type issues being affected. In 1970/71 the Defense Loan became a compulsory loan; the amounts collected were transferred directly to the Treasury, with the certificates to be distributed at a later date. The proceeds recorded by the State Loans Administration in the year reviewed represented collections on account of the 1969 Defense Loan.

The slackening of sales of option-type paper was due to the imposition of two compulsory loans in 1970—Defense and Savings—which affected investment in all voluntary loans. Furthermore, because of the low prices prevailing throughout the year on the Stock Exchange for the various types of compulsory loans, a far higher return could be obtained on bonds purchased in the secondary market than on those acquired at source.

There was a sharp rise in the value of Absorption Loan certificates distributed during the year. The gross amount was up 43 percent from 1969, but because of the comparatively large volume of redemptions during the year, the net figure increased by only 12 percent.

The outstanding balance of domestic loans administered by the Bank of Israel

**Table XIX-10**  
**NET NEW BOND ISSUES, 1969-70**  
(IL million)

	1969			1970		
	Gross issue	Redemption	Net issue	Gross issue	Redemption	Net issue
Long-term						
Option-type	147	78	69	15	41	-26
Defense Loans	338	—	338	162	—	162
Other long-term <sup>a</sup>	18	4	14	20	8	12
Loans issued in previous years	—	33	-33	—	13	-13
Total long-term	503	115	388	197	62	135
Short-Term Loan	779	787	-8	996	939	57
Total long- and short-term	1,282	902	380	1,192	1,001	191
Absorption Loan <sup>b</sup>	112	21	99	150	48	102
Grand total	1,393	923	471	1,342	1,049	293
Percent annual change	+6	+6	+6	-4	+14	-38

(representing only part of the State's domestic debt) went up 13 percent, from IL 2,300 million in 1969 to IL 2,600 million. At the end of 1970 the Bank was administering 295 series of Government loans, including 17 issued during 1970—12 series of the 1969 Defense Loan and five series of other loans.

### *1. Defense Loan*

In 1970 the Defense Loan, as already mentioned, was made a compulsory loan, with responsibility for collection devolving on the income tax authorities. However, the Bank of Israel continued to make collections on account of the 1969 Defense Loan. The amount issued exceeded the original estimates, and in June 1970 the Knesset raised the authorized ceiling by IL 100 million to IL 475 million. Twelve additional series were issued during the year, yielding IL 162 million gross. At the end of 1970 the balance outstanding was IL 402 million, as against a IL 278 million balance for the 1968 Defense Loan and IL 298 million for the 1967 Loan. According to Treasury estimates, some IL 520 million was collected on account of the two compulsory loans—Defense and Savings—during the year surveyed.

## *2. Development Loan*

During 1970 three series of the option-type Development Loan were issued—two to the general public and one to the banks under their agreement with the Treasury. Sales to the general public aggregated IL 10.9 million, while the banking institutions took IL 3.6 million worth. Redemptions of the option-type Development Loan totalled IL 41 million: IL 26 million worth of certificates featuring the right of early redemption were cashed in, while IL 15 million represented the redemption of certificates of nine series featuring this right but which had been held to maturity. In other words, of these nine series, with a total nominal value of IL 45 million, two-thirds was cashed in ahead of maturity and one-third remained in the hands of the purchasers until falling due. At the end of the year the outstanding balance of series redeemable ahead of maturity was IL 160 million (nominal value), as compared with IL 205 million at the end of 1969. The outstanding debt on account of these series (less redemptions ahead of maturity) amounted to IL 83 million. The outstanding balance of all option-type loans declined by IL 26 million to IL 454 million, of which IL 309 million was held by the general public and IL 145 million by the banking institutions.

During the year under review there was a single issue of the long-term Development Loan—a 17-year bond linked to the consumer price index and bearing 5.5 percent interest.

Sales of all issues of the Development Loan during the year added up to IL 2.4 million, compared with IL 1.5 million in 1969. Redemptions totalled IL 6.9 million, so that net holdings of the public fell by IL 4.5 million to IL 91.7 million.

## *3. Short-Term Loan*

Sales of the Short-Term Loan moved up almost unbrokenly throughout the year, with the upswing being particularly steep in the first half as a result of the raising of the yield in November 1969. In the second half of 1970 sales continued to climb from the already high level attained, but at a much slower rate than before. Gross sales for the year were IL 57 million, in contrast to negative sales of IL 8 million in 1969. Less redemptions of special series issued to the banks, net sales to the public amounted to IL 65 million, compared with negative sales of IL 5.5 million the year before.

From the beginning of the year until mid-July, weekly sales advanced almost without interruption, and the public's holdings (less the value of certificates held by the Bank of Israel in its portfolio) rose from IL 467 million at the end of December 1969 to IL 551 million in the second week of July 1970. From that date until the third week of August, sales sagged and the public's holdings fell by IL 8 million to IL 543 million. This was followed by a resumption of the upward movement, which reached its peak in the third week of November, when

Figure XIX-1

### OUTSTANDING SHORT-TERM LOAN HOLDINGS OF THE PUBLIC, BY SERIES, JAN. 1969 TO DEC. 1970

(IL million)

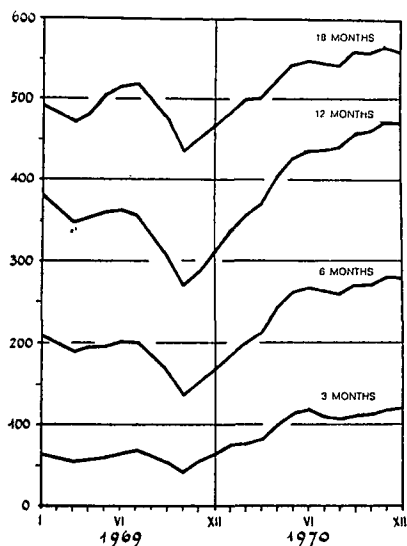
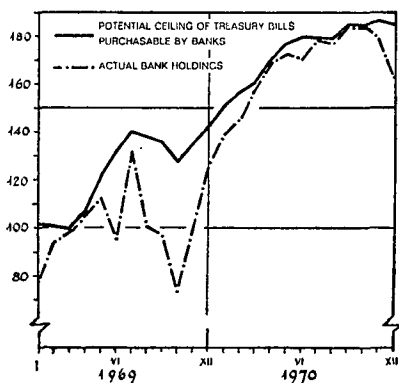


Figure XIX-2

### PURCHASES OF TREASURY BILLS BY BANKS, 1969-70

(IL million)



the public's holdings reached a record high of IL 567 million. A seasonal decline then set in, and by year's end the figure had dipped slightly to IL 560 million. Over the year as a whole the value of certificates owned by the public went up by IL 92 million, compared with a decline of IL 28 million in 1969. The increment consisted of IL 57 million in new issues and IL 35 million in open-market sales to the public and banking institutions from the Bank's own portfolio.

No further issues of the special Short-Term Loan to banks were made during 1970, and this loan was terminated with the redemption in the course of the year of the outstanding balance of IL 8.8 million.

#### 4. Absorption Loan

During the year under review the Bank, acting as the Treasury's agent, continued to distribute Absorption Loan certificates. A total of IL 150 million worth of certificates were mailed to 560,000 recipients; this compares with IL 112 million worth sent to 412,000 persons in 1969. Distribution of certificates of the 1965 series was begun, and by the end of the year the value of certificates sent out totalled IL 140 million, almost the entire amount collected on account of this loan. In addition, IL 7 million worth of certificates of the 1964 series and IL 3 million of the 1961, 1962, and 1963 series were distributed. At the end of

the year<sup>1</sup> a total of IL 439 million in certificates had been mailed out; redemptions amounted to IL 87 million, so that the outstanding balance came to IL 352 million.

On April 1, 1970 the following series of the Absorption and Compulsory Savings Loan fell due: (a) the fourth redemption of the 1961 Absorption Loan and the third redemption of the 1962 Absorption Loan—10 percent of the principal plus accumulated interest at 4 percent per annum; (b) the third redemption of the 1963 Absorption and Compulsory Savings Loan and the first redemption of the 1964 series—one-seventh of the principal, plus 24 percent interest accumulated for six years on the 1963 series, and 20 percent for five years on the 1964 series. The first redemption of the 1965 series, also planned for April 1, was postponed to October 1. Redemption of the 1965 series also amounted to one-seventh of the principal, plus accumulated interest of 18 percent for four and a half years.

The 1961–64 series of the Absorption Loan are listed and traded on the Stock Exchange, while the 1965 series was listed only on September 16, 1970. From January to August 1970, prior to the listing of the 1965 series, weekly turnover averaged about IL 687,000, but following its listing turnover more than doubled to reach a weekly level of IL 1,560,000.

## 5. *Insurance Companies Loan*

In 1970, IL 13.3 million worth of index-linked bonds and IL 2.4 million of dollar-linked bonds of the 1962 Insurance Companies Loan<sup>2</sup> were issued, compared with IL 13 million and IL 2.1 million respectively in the previous year. Redemptions totalled IL 770,000 (index-linked only), as against IL 151,000 in 1969. The balance outstanding at the end of 1970 was composed of the following: 6 percent index-linked—IL 44.4 million; 5.8 percent index-linked—IL 26.3 million; 6 percent dollar-linked—IL 12.2 million; and 5.8 percent dollar-linked—IL 4.5 million.

At the end of the year the balance of insurance companies' deposits with the Bank of Israel against certificates not yet issued stood at IL 22.5 million. Against the second (1965) loan a further IL 1.5 million of certificates were issued in 1970, compared with IL 1 million in 1969. There were no redemptions during the year, so that the balance of this loan outstanding at the end of the year was

<sup>1</sup> Certificates deposited with the Treasury by the banks under the "conversion-type" saving schemes are included in the balance outstanding regardless of whether or not they have been redeemed.

<sup>2</sup> In conformity with the instructions of the Commissioner of Insurance, insurance companies make deposits with the Bank of Israel to the credit of the Treasury, on the same terms as those applicable to the linked life insurance policies they issue. These deposits are converted into Insurance Companies Loan certificates (1962 and 1965) at fixed dates during the year. The bonds are issued for periods of 5–40 years at the option of the insurance companies and on terms matching those of the policies they have sold.



IL 6.1 million, while the balance of deposits against which certificates were still to be issued came to IL 1.5 million.

## *6. Open-market operations*

The Bank's principal function on the Stock Exchange is that of meeting excess demand for the Short-Term Loan and absorbing excess supply in order to regulate and stabilize the market. During 1970 trade in this paper was down by 15 percent in spite of larger holdings by the public. The Bank's share of market transactions in the Short-Term Loan held steady at about 75 percent and totalled IL 85.4 million (sales and purchases).

The number of certificates of State and other public loans handled by the Bank's State Loans Administration during the year under review came to 8.8 million (5.4 million deposited and 4.3 million issued), compared with 13 million in 1969 (7.2 million deposited and 5.8 million issued). The decline can be entirely ascribed to the fact that there was no distribution of 1970 Defense Loan certificates, in contrast to the situation in previous years (see the discussion above).

## *7. Redemption and payments*

In 1970 the State Loans Administration paid out IL 1,049 million on account of principal and linkage differentials on dollar-linked loans and IL 15 million in differentials on index-linked loans. Interest payments and linkage differentials together came to IL 85 million.

Fewer certificates were presented for redemption in 1970. A total of 383,000 were redeemed through the banks and 46,000 directly at the Bank of Israel's own branches, as against 393,000 and 78,000 respectively in 1969. The decrease is explained by the fact that 1969 saw the final redemption of the 1962 Compulsory Savings Loan, which brought up the figure that year. The partial redemption of the 1964 and 1965 Absorption Loans had only a minor effect on total redemptions. The number of coupons redeemed was again below that of the previous year—900,000 as against 1,170,000 in 1969.

During the year 13 drawings of prize-bearing loans were held, as well as 20 drawings for the redemption of principal on State and various other loans.

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

The Bank of Israel administers 43 different loans floated by five public bodies: the Jewish Agency, local authorities, the Industrial Development Bank, Tefahot Israel Mortgage Bank, and the Israel National Petroleum Company. In the course of the year Tefahot floated three new index-linked issues totalling IL 54 million and a \$ 4 million foreign currency issue. Total issues in Israeli pounds amounted to IL 68 million, as against IL 20 million in 1969. The outstanding

balance of all non-Government domestic loans administered by the Bank of Israel went up by 18 percent to stand at IL 350 million at the end of 1970.

During the year IL 15 million was paid out on account of principal and linkage differentials on dollar-linked loans and IL 3 million on index-linked loans. Total interest payments, including linkage differentials, on these domestic loans amounted to IL 20 million.

Details on domestic loans administered by the Bank appear in the appendix to this chapter (in Hebrew only).

(c) *Foreign loans*

Sales of the Development Loan, floated abroad and sold to private individuals and institutional investors, grossed \$ 205 million in 1970, up 23 percent from the previous year's figure of \$ 166 million. Redemptions during the year amounted to \$ 67 million, so that net proceeds came to \$ 138 million. The balance outstanding at year's end was \$ 937 million, as contrasted with \$ 799 million at the end of 1969.

The State Loans Administration handles the conversion and early redemption of Development Bonds. The value of certificates converted into Israeli pounds amounted to \$ 35 million in 1970, compared with \$ 31 million in the previous

Table XIX-11

FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1970

(\$ thousand)

	Amount subscribed at end of 1970	Amount redeemed <sup>a</sup> at end of 1970	Amount owing at end of 1970 <sup>b</sup>	Amount converted into IL in 1970	Interest paid in Israel only in 1970
Independence Loan	145,533	145,533	—	11	6
Development Loan					
First series	234,140	234,140	—	114	35
Second series	293,621	164,314	129,307	3,521	583
Third series	392,630	113,979	278,651	15,148	1,083
Fourth series	431,200	31,832	399,368	15,688	540
Special investment series A	72,300	58,485	13,815	213	3
Special investment series B	129,455	13,859	115,596	580	10
Total	1,698,879	762,142	936,737	35,275	2,260

<sup>a</sup> Bonds redeemed in Israeli pounds or dollars or exchanged for later issues.

<sup>b</sup> The value of Independence and Development Bonds which matured but were not submitted for redemption was deposited with the Chase Manhattan Bank of New York, the trustee for the bondholders.

year. A breakdown of this figure shows an increase in the relative share of conversions by tourists—from 30 to 35 percent—while conversions by Israeli institutions went up slightly in absolute terms but percentagewise fell from 46 to 43 percent of the total. The amount used for financing investments in local enterprises held steady at \$4.5 million, but its weight edged down from 14.5 to 12.6 percent. The remaining 9 percent (the same proportion as in 1969) was converted by Israeli residents, new immigrants, and temporary residents.

Interest paid in Israeli pounds on certificates converted in this country amounted to the equivalent of \$2.3 million in 1970, as compared with \$1.8 million in 1969.

Details on sales, outstanding balances, and conversions of foreign loans administered by the Bank of Israel are given in Table XIX-12.

## 9. SUPERVISION OF BANKING AND FINANCIAL INSTITUTIONS

### (a) *Institutions subject to supervision*

At the end of 1970 the Department of the Examiner of Banks in the Bank of Israel was supervising 77 banking and financial institutions, the same number as at the end of the previous year.

Two new commercial banks were added to the list in 1970: a local branch of the Exchange National Bank of Chicago, and Bank Otzar Ha-Hayal Ltd., which changed its status from a financial institution to a commercial bank. The Industrial and Commercial Bank Ltd. merged with the Israel Loan and Savings Bank (Formerly Jaffa-Tel-Aviv) Ltd.

The number of cooperative credit societies and mortgage and investment banks remained unchanged in 1970, while the number of financial institutions was reduced by one because of the conversion of Otzar Ha-Hayal Ltd. into a commercial bank.

Table XIX-12

### BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1969-70

(End of period)

Type of institution	1969	1970
Commercial banks <sup>a</sup>	27	28
Cooperative credit societies	14	14
Mortgage and investment banks	19	19
Financial institutions	17	16
Total	77	77

<sup>a</sup> Including the Israel Bank of Agriculture and Ya'ad Agricultural Development Bank.

### (b) *Organization*

During the year reviewed the Department of the Examiner of Banks was reorganized, with two new units being established. One is a staff unit formed to follow up the current operations of the institutions subject to the Bank's supervision and thereby supplement the field audits performed by the Audit Unit. Its functions include the processing of all the data submitted to the Department (periodic and special reports, audit reports, etc.) and the evaluation of various aspects of the individual banking institutions' operations; this is in addition to checking on the implementation of the Bank of Israel's regulations (liquidity and guarantees)—a task performed hitherto by the Department. The second new unit is a Research and Systems Unit, formed to utilize the computer as a tool for supervision, the compilation of information, and the general work of the Department. One of the functions of this new unit will be to develop a policy of mechanized processing within the banking system which will meet the Department's information and supervisory requirements and facilitate the future transmission of data by means of computers. Another task is to carry out surveys and research projects required for the formulation of control policies.

The above changes were nearing completion as 1970 drew to a close and to some extent were reflected in the work of the Department during the year. In 1970 the computerization of various aspects of supervision was introduced on a fairly large scale, and a number of research projects were launched by the unit.

### (c) *Audits*

The Department carried out 60 examinations at 36 banking and financial institutions during 1970. The 48 audits performed on banking institutions covered three principal areas: (a) credit and collateral—an examination of the loan portfolio of head offices or main branches of the institutions, with reference to the security of credit granted and the degree to which the procedures defining the division of authority and decision-making with respect to credits are adhered to; (b) branches—checking the soundness of branch management, with particular emphasis on the existence of adequate internal control procedures and compliance with standard work procedures laid down by head offices; (c) special audits—the verification of reports submitted to the Bank of Israel, transactions with overseas banks, time deposits, etc.

Nine audits were performed on mortgage banks. These reviewed their accounting systems, operations, and the composition and utilization of their financial resources.

A special audit team was set up to centralize the systematic supervision of this type of institution.

Three audits—two of them general—were made of financial institutions during the year.

(d) *Bank branches*

At the end of 1970 the banking institutions operated 753 branches (excluding head offices), as against 733 at the end of 1969—an increase of 20, compared with 12 in 1969. The net rise breaks down as follows: 18 new branches were opened; eight existing branches were closed down; and 10 branches of what was formerly a financial institution (Otzar Ha-Hayal Ltd.) were incorporated into the banking system.

The number of Israeli bank branches in the administered areas increased by one during the year, bringing the total network up to 16.

(e) *Compilation of information*

Commercial banks and credit cooperatives report at the end of March and September of each year on all their clients whose debt balance on those dates is IL 100,000 or more. At the end of September 1970, 41 institutions submitted such reports (40 in September 1969), covering 4,932 clients (3,740 in September 1969); the sum total of their debts and contingent liabilities was IL 6,592 million (IL 5,432.9 million in 1969).

In addition to these reports, commercial banks, credit cooperatives, mortgage and investment banks, and financial institutions report at the end of June and December of each year on all clients whose outstanding indebtedness on those dates amounts to IL 500,000 or more. On June 30, 1970, 63 institutions reported to the Bank of Israel on 1,745 clients (1,406 in June 1969), with total debts and contingent liabilities of IL 8,202.8 million (IL 6,759.3 million in June 1969).

(f) *List of promissory note defaulters*

The Department of the Examiner of Banks compiles information on signers of notes for IL 2,000 or more submitted to the banking institutions for collection but not honored on due date, and sends it to all the reporting institutions. In 1970 the volume of such notes increased slightly. The average weekly number of notes reported in default by the institutions was 229, totalling IL 1.1 million, as compared with 214 (IL 1 million) the year before.

(g) *Direction of credit*

The Department of the Examiner of Banks is responsible for the quantitative and qualitative control of credit extended by the banking institutions. In the operation of the various funds providing such financing it is assisted by a number of committees, comprising representatives of the various economic ministries directly concerned with the funds.

## 1. *Export finance funds*

These funds provide credits at an annual interest rate of 6 percent for financing export production and overseas shipments (of industrial and agricultural products); a special fund finances the diamond industry.

In 1970 the funds continued to grow at a much faster rate than exports, though more slowly than in 1969. The dearer cost of ordinary bank credit resulted in a continued heavy demand for financing from the funds, but the Bank of Israel introduced a number of measures aimed at tightening the control of credit allocations to individual exporters, and these slowed the expansion of the funds.

The rapid growth of the Fund for the Financing of Export Shipments carried over through the first half of 1970. This can be attributed to the strong demand for cheap financing, a speculative element arising from the fact that the Fund supplies credit in Israeli currency whereas the export proceeds are received in foreign currency, and the high level of interest rates abroad. This situation prompted the Bank of Israel, together with the Treasury, to switch from a system of local currency to foreign currency financing, so that exporters must now repay their credits from the Fund in the same currency as that received for their

**Table XIX-13**  
**EXPORT FINANCE FUNDS, 1969-70**  
(IL million)

Type of fund	Balance at end of 1969	Average balance in 1969 <sup>a</sup>	Balance at end of 1970	Average balance in 1970 <sup>a</sup>	Percent increase	
					End-year balance	Average balance
Industry, excl. diamonds						
Export production	223.4	205.0	301.9	275.4	53.1	34.3
Export shipments	254.5	188.8	284.4	254.5	11.7	34.8
Imports for export production	121.1	106.8	133.4	128.8	10.1	20.6
Diamonds	333.4	311.5	330.3	326.4	-0.9	4.8
Agriculture	37.1	35.1	47.0	40.7	26.7	16.0
Cultivation of export crops	17.5	14.8	20.9	14.8	19.4	—
Export shipments	19.6	20.3	26.1	25.9	33.2	27.6
Tourism	6.7	3.7	8.1	6.2	20.9	67.6
<b>Total</b>	<b>969.5</b>	<b>847.2</b>	<b>1,097.0</b>	<b>1,025.8</b>	<b>13.2</b>	<b>21.1</b>

<sup>a</sup> Based on average monthly balances, which in turn are based on Wednesday averages.

goods. This revision was introduced in June 1970 and resulted in an immediate, sharp drop in the Fund's rate of expansion; as a consequence, the growth of the Fund in the latter part of the year matched the growth of exports during the same period.

Following the fiscal changes instituted in August 1970, it was decided in November to increase the rate of financing for export shipments from 95 percent of the total value to 100 percent. It was also decided to increase the amount of export production credit granted per dollar of export, but the effect of this change will be felt only in 1971.

Toward the end of 1970 the Bank of Israel decided to simplify the administrative procedures of the export funds so as to allow the exporter greater freedom in the utilization of his credit quota as far as the period of the loan is concerned, and to reduce the number of authorizations required from the Bank of Israel. These changes will take effect at the beginning of May 1971.

## *2. Size of the export finance funds*

In view of the notable expansion of the export finance funds and in line with the Bank of Israel's policy of meeting all export credit needs without setting a ceiling on the funds, it became necessary in 1970 to make certain changes in their sources of finance. Toward this end, the Bank of Israel increased the banking institutions' exemption from liquidity in connection with directed credits from 25 to 28 percent of their demand deposit holdings. The Bank also increased the portion of the exemption intended for financing exports from 8 to 9 percent of the banks' demand deposits. These changes took effect in June 1970.

Yet another change was the Bank of Israel's increased participation in the funds (in the form of rediscounts of exporters' bills) from 40 to 50 percent of the total, with the share of the banks being reduced correspondingly. This change, together with the expansion of the funds, became necessary because of the rise in bank interest rates after the amendment of the Interest Law in March 1970, in spite of which the rate of interest charged on loans from the funds remained at a low 6 percent.

In 1970, too, a large part of the credit authorized for financing imports for export production (in foreign currency) was not utilized. Instead, the exporters preferred to obtain credit in local currency in order to finance the purchase of locally produced substitutes. However, the extent of this shift is indicative more of a desire on the part of exporters to reduce their foreign currency liabilities than of a real deepening of local production.

## *3. Financing of diamonds*

No changes took place in 1970 in either the operation of the diamond financing fund or the criteria for determining eligibility for credits. Since the changeover from local to foreign currency financing, which was completed at

the beginning of 1970, the volume of credit granted by the fund has remained fairly steady. The contraction in the amount of credit provided in 1970 was much smaller than the decline in diamond exports during the year; this means that there was an increase, although a small one, in the financing of diamond stocks, even though they were reduced during the year.

(h) *Bank deposits*

In 1970 the Examiner of Banks published, for the first time, statistical analyses on the composition of the public's deposits with Israeli banking institutions. The first part of this publication covers deposits in local currency as at the end of 1968 and 1969 (this was a continuation of the statistics previously included in the Department's monthly publications). Detailed breakdowns are given by type of deposit (demand, time, savings scheme, etc.), size, rate of interest paid, and bank size-group. Breakdowns are also given by settlement and type of settlement, the number of banking offices and their personnel in each settlement, the population served by each office, the amount of deposits held by each office, and deposits per capita. The second part of the publication presents data on foreign currency deposits (compiled for the first time) at the end of 1969.

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

The Advisory Committee and its subcommittees dealt with the following subjects: amendment of the Interest Law and its repercussions on the banking system; amendment of the Banking (Ratio of Credit Guarantees) Order; the insuring of deposits; the use to be made of the authority granted to the Examiner of Banks under the Banking Ordinance; questions relating to the annual financial reports of the commercial banks; the engaging of banks in insurance brokerage; payments to depositors in the guise of lotteries, free gifts, etc.; interest rates and commission charges of mortgage banks.

Members of the Committee were: Messrs. M. Heth (Chairman), A. Agmon, Dr. Bawly, D. Golan, J. Haft, E. I. Japhet, E. A. Kirschner, E. Lehman, E. Levi, J. Levinson, S. Magriso, K. A. Mossberg, Y. Nizan, Z. Ophir, D. Recanati, Z. Shuval, and S. Zack. The late Dr. Dr. Y. Foerder also served as a member of the Committee until his death.

(j) *Advisory Committee on Cooperative Credit Societies*

The Committee discussed developments in the credit cooperative system in 1970 and dealt with a number of subjects, including *inter alia* developments in the wake of the amendment of the Interest Law, democracy in credit cooperatives, insurance business, and the profitability of the cooperatives.

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



late Mr. H. Mevorach served as a member of the Committee until his death.

(k) *Annual financial reports*

The Examiner of Banks held discussions with the liaison committee of the Association of Certified Public Accountants in Israel and the Advisory Committee on Matters Relating to Banking Business on questions pertaining to the annual financial reports of the commercial banks. Agreement was reached on guidelines for the balance sheet valuation of the banks' holdings of approved investment bonds, which will be carried at cost without regard to their market price fluctuations. This accounting treatment of bonds went into effect in respect of the 1970 reports. Discussions on a standard presentation of profit and loss statements continued but were not finalized.

## 10. THE CLEARINGHOUSES

The year 1970 saw a further increase in the volume and value of checks and notes passing through the three clearinghouses administered by the Bank of Israel—in Jerusalem, Tel Aviv, and Haifa—but in comparison with previous years the increase was more modest. The total value of items cleared in 1970 was IL 40,747 million, as against IL 36,006 million in 1969—a rise of 13.2 percent; this compares with increases of 21.2 percent in 1969 and 24.8 percent in 1968.

**Table XIX-14**  
**VOLUME OF CLEARINGS, 1968-70**  
(IL million)

	1968		1969		1970	
	Items presented	Items returned	Items presented	Items returned	Items presented	Items returned
Urban clearings						
Jerusalem	4,546	136	5,563	161	6,572	198
Tel Aviv	20,784	1,198	25,305	1,160	28,472	1,478
Haifa	4,371	162	5,138	200	5,703	232
Total	29,701	1,496	36,006	1,521	40,747	1,908
Annual increase						
IL million	5,809	268	6,305	35	4,741	387
Percent	24.3	21.8	21.2	2.3	13.2	20.4

The total value of items returned reached IL 1,908 million, compared with IL 1,521 million in 1969—a rise of IL 387 million or 20.4 percent. The ratio of items returned to items presented edged up from 4.2 to 4.7 percent.

The average daily number of clearings was 16,000 greater than in 1969, rising from 129,000 to 145,900.

**Table XIX-15**  
**CLEARING OF CREDIT NOTES, 1968-70**  
(IL million)

Clearinghouse	1968	1969	1970
Jerusalem	1,305	1,297	1,875
Tel Aviv	2,397	3,260	3,922
Haifa	96	130	122
Total	3,798	4,687	5,919

The clearinghouses are administered by the Clearinghouse Committee, whose members are appointed by the Governor of the Bank of Israel for a two-year term. The present Committee took office on October 1, 1970 and is composed of the following members: Messrs. A. Lojter (Chairman), Y. Sarig (Deputy-Chairman), A. Kuker, and D. Winogradow—representing the Bank of Israel; Messrs N. Barhava, D. Ellalouf, M. Freed, and I. Porat—representing the Association of Banks in Israel. In addition, the following alternate members were appointed: Messrs. D. Ashbel, P. Barsel, A. Shalmon, and I. Tsur—representing the Bank of Israel; Mrs. H. Lahmi and Messrs. R. Arie, Sh. Elitsur, and Sh. Segal—representing the Association of Banks.

## 11. ECONOMIC RESEARCH

Current research on developments in Israel's economy, conducted by the Research Department, is published in the Bank's *Annual Report*, the periodical *Economic Review*, special research studies, and special publications. Among the research studies published in 1970 were the following:

1. Periodic internal surveys of the main economic developments and of developments in the monetary field.
2. The Influence of Changes in Investment on Product and Employment in Boom and Slump Periods in Israel.
3. Influence of the Recession on Israel's Industrial Companies.
4. Changes in the Relative Yields of Financial Assets in a Tighter Money Market.

5. *Approved Saving Schemes, 1955–69.*
6. *A Model for the Explanation and Prediction of Residential Construction.*
7. *Measurement of Productivity and Sources of Private Product Growth, 1950–67.*
8. *Investment and Induced Employment in the Development and Coastal Districts, 1963–67.*
9. *The Relationship between Industrial Trade and Bank Credit in Israel.*
10. *Simultaneous Estimates of Consumer Demand Parameters in Israel, 1952–67.*
11. *The Influence of Economic Recovery (1967–68) on Israel's Industrial Companies.*
12. *Import Liberalization Policy in Israel, 1962–67.*
13. *Income and Expenses of Banking Institutions in 1969.*
14. *Price Control in Israel, 1949–56.*

The Bank's Research Department, together with the Economic Advisory Bureau of the Ministry of Finance, prepared the National Budget for 1971, which was presented to the Knesset, together with the Government Budget for 1971/72, in February 1971.

Another work in the series published in cooperation with Praeger Publishers of New York appeared in 1970: *The Flow of Funds in Israel*, by M. Heth, which was first published in Hebrew by the Research Department in 1968. A further publication in this series, *Economic Productivity in Israel*, by Dr. A. L. Gaathon, was brought out at the beginning of 1971; a Hebrew edition is scheduled to appear later in the year. An English edition of *Restitution Receipts, Household Savings and Consumption Behavior in Israel*, by M. Landsberger, appeared in December 1970. On March 16, 1971 the Governor of the Bank of Israel submitted to the Government and the Finance Committee of the Knesset, in accordance with section 35 of the Bank of Israel Law, a report on the increase in means of payment in excess of 15 percent during the period January 30, 1970 to December 31, 1970.

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

### (a) *International Monetary Fund*

Israel's annual consultations with an IMF mission, as required by article XIV of the Fund's Articles of Agreement, were held in Jerusalem in November 1970. At the conclusion of the consultations, the executive board of the Fund approved (on February 24, 1971) the Bank's policy of currency control and the general economic policy adopted by the Israel Government and the Bank of Israel in 1970, and recommended that they be continued in 1971. In its decision the executive board noted that the policies adopted during 1969 and

1970 "played an important role in dampening the economy at a time when public expenditure was increasing strongly . . . While welcoming the measures already taken, the Fund believes that, in light of continuing pressures on the balance of payments and prices, it is essential to continue a restraining monetary and fiscal policy during 1971." The Fund also welcomed the termination of a bilateral payments agreement between Israel and another Fund member (see above).

The decision of the IMF's Board of Governors to increase members' quotas went into effect in October 1970, with Israel's quota being enlarged from \$ 90 million to \$ 130 million. On November 6 the Bank of Israel took the necessary steps to comply with the decision and deposited with the IMF the sum of \$ 10 million in gold, representing one-quarter of the additional quota.

Following the approval of the quota increase, the Governor of the Bank of Israel took up with the management of the Fund Israel's request for a further increase on the grounds that the determination of quotas under a general formula discriminated against states developing at a rate faster than the world average, and in particular against Israel, which is experiencing an especially rapid growth of its national product and foreign trade.

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

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

#### (b) *The World Bank*

In June 1970 an agreement was signed in Washington with the World Bank providing for a \$ 25 million loan to the Industrial Development Bank of Israel, bearing 7 percent interest and repayable over the period 1972-84. The first World Bank loan to be granted to Israel in several years, it was the outcome of negotiations conducted between the Governor of the Bank of Israel and the President and management of the World Bank, which resulted in a decision to restore to Israel its eligibility to receive loans from the Bank. The Industrial Development Bank of Israel had previously received two loans from the World Bank—one in 1965 and another in 1967. All three loans were intended to help the Israeli institution finance industrial investments, mostly in foreign currency.

In October 1970 another loan agreement with the World Bank was signed

Table XIX-16

## WORLD BANK LOANS TO ISRAEL—POSITION ON DECEMBER 31, 1970

(\$ thousand)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Cancellations	Repayments	Sold by lender	Effective loan	Amount disbursed
<b>Direct loans</b>									
Ports Authority—Ashdod Port	9.9.60	65–85	5.75	27,500	87	2,721	1,850	22,841	27,412
Government of Israel—roads	17.10.62	67–80	5.50	22,000	—	4,181	754	17,065	22,000
<b>Government-guaranteed loans</b>									
Dead Sea Works Ltd.	11.7.61	66–76	5.75	25,000	—	6,411	2,519	16,070	25,000
Industrial Development Bank Ltd.	16.10.65	68–81	5.50	20,000	—	5,448	—	14,552	20,000
Industrial Development Bank Ltd.	15.11.67	70–82	<sup>a</sup>	15,000	—	749	—	14,251	11,685
Industrial Development Bank Ltd.	15.6.70	72–84	7.00	25,000	—	—	—	25,000	1,663
Israel Bank of Agriculture	21.10.70	74–87	7.25	20,000	—	—	—	20,000	—
Total				154,500	87	19,510	5,123	129,780	107,760

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

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

in Washington, under which the Israel Bank of Agriculture received \$ 20 million at 7.25 percent interest, repayable over the years 1974–87. Project agreements were signed with the Ya'ad Agricultural Development Bank and Nir Ltd., providing for the channelling of part of the loan funds to them. Both the industrial and agricultural loans were guaranteed by the Government of Israel. The Bank of Israel was responsible for preparing the loan applications and coordinating the Israeli side of the negotiations. Representatives of the Bank took part in the final discussions and in the loan negotiations.

Two further loan applications are presently in the pipeline—one for the development of the Israeli road network and the other for improving the sewerage network in various parts of the country. A number of World Bank missions came to Israel during the year in connection with these applications, and negotiations were still going on at the beginning of 1971.

The Governor of the Bank of Israel and the Minister of Finance, Mr. P. Sapir, participated in the annual conferences of the Boards of Governors of the World Bank and the International Monetary Fund, held in Copenhagen in September 1970. The Minister of Finance represented Israel on the Board of Governors of the International Monetary Fund, and the Governor of the Bank of Israel represented the country on the Board of Governors of the World Bank, the International Development Association, and the International Finance Corporation. Mr. Y. Taub, Secretary General of the Bank of Israel, served as Alternate to the Israeli Governor of the Monetary Fund; and Mr. A. Agmon, Director General of the Ministry of Finance, served as Alternate to the Israeli Governor of the World Bank.

At the beginning of 1971 Prof. Pieter Liefstinck, who had served as the Executive Director of the International Monetary Fund and the World Bank for Israel, the Netherlands, Yugoslavia, and Cyprus since 1955, submitted his resignation from the board of the World Bank. The four Governors of the World Bank for these countries elected Dr. Alfred Rinnooy Kan, also of the Netherlands, to succeed him.

### 13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council met periodically to discuss developments in the economy as analyzed by the Governor of the Bank, with special emphasis on the monetary aspects and the Bank's role therein, in the light of the changes brought about by the amendment of the Interest Law and the growth of the money supply. Among the specific subjects discussed were the Bank's open-market operations, Government financing, interest and credit policy, and the liquidity regulations. Other matters taken up were the banking system and its development during the year and other activities of the Bank. Among the specific subjects were the banking system and bank mergers, export financing and the imposition of import surcharges, banking business in the ad-

ministered areas, the Bank's relations with international institutions, interest rates on deposits with the Bank of Israel, the supervision of banks, and allied subjects.

The Advisory Committee and the Advisory Council approved the Bank's balance sheet and profit and loss account as of December 31, 1969, as well as the operating budget for 1970, after they had been examined by subcommittees appointed for the purpose. In accordance with section 58(2) of the Bank of Israel Law, the Advisory Committee approved several changes in the presentation of the Bank's balance sheet, in particular those arising from the introduction of the Special Drawing Rights and the revised presentation of the Bank's foreign currency accounts.

The Advisory Council approved the issue of the 1970 Pidyon ha-Ben (Redemption of the Firstborn) commemorative coins and the new banknotes, as required by section 31 of the Bank of Israel Law.

Dr. Y. Foerder who had been a member of the Advisory Council since its establishment and a member of the Advisory Committee since August 1957, died in June 1970. His passing was a grave loss to the Israeli banking community and the economy as a whole. In accordance with sections 20 and 23 of the Bank of Israel Law, the Government appointed Dr. E. Lehman to fill the vacancies on the Advisory Committee and Advisory Council left by Dr. Foerder's death.

On December 13, 1970 the Government appointed the Advisory Committee and Advisory Council for a further two-year-term, in accordance with sections 20, 23, and 26 of the Bank of Israel Law.

Members of the Advisory Council are: Messrs. Y. Chorin (Chairman), Y. Bader, Ch. M. Basok, A. Becker, N. Feingold, E. Hacohen, E. Lehman, J. Levison, M. Olenik, Z. Onn, A. Ostashinsky, D. Recanati, Z. Susayeff, and H. Zadok. Members of the Advisory Committee are: Messrs. Y. Chorin (Chairman), Ch. M. Basok, E. Hacohen, E. Lehman, J. Levison, Z. Susayeff, and H. Zadok. Mr. D. Recanati was appointed an observer with the right to participate in the proceedings of the Committee.

#### 14. THE BANK AND ITS STAFF

To mark the 70th birthday of Mr. David Horowitz, Governor of the Bank of Israel, the Association of Banks in Israel, together with the Kaplan School of Economics of the Hebrew University, established the David Horowitz Lectures. The first series of these annual lectures was given in January 1970 by Prof. F. Machlup of Princeton University, and the second, in January 1971, by Prof. J. Tobin of Yale University.

The Horowitz Proposal for increasing the flow of capital to the developing countries gained the support and approval of the Perkins Committee in its report to the President of the United States, Mr. Richard Nixon. This Committee, whose members were appointed by the President, was set up to study

world development problems and the part that the United States should play in solving them. The Horowitz Proposal was also discussed by various organs of UNCTAD (U.N. Committee on Trade and Development), and progress was made toward its future implementation.

In October 1970 Tel Aviv University awarded an honorary doctorate in economics to the Governor of the Bank, and at the end of the year a public committee headed by the Minister of Finance established the Horowitz Institute for Research into the Developing Countries at Tel Aviv University.

Among the guest lecturers invited by the Governor of the Bank to conduct symposiums and seminars for its staff of economists during the year were Prof. Arthur P. Burns, Chairman of the Board of Governors of the U.S. Federal Reserve System; Prof. Sherman Maisel, a Governor of the Federal Reserve System; Prof. Hollis Chenery, economic advisor to the President of the World Bank; and Prof. Robert Mosse, of Grenoble University.

The Bank of Israel, in cooperation with the Hebrew University, was host to a seminar on "The Theory of Economic Growth", which was held by the International Economic Association at Ma'ale Hahamisha in April 1970.

The new Bank of Israel branch in Haifa was opened to the public at the end of January 1970.

Dr. Z. Sussman and Dr. E. Sheffer, Joint Directors of the Research Department, represented the Bank of Israel in various stages of the negotiations with the World Bank in connection with the loan agreements described above. Dr. Sussman was invited by the World Bank to serve as an advisor to its Economic Department.

Several senior officials and economists of the Bank of Israel were invited to participate in various professional congresses and conferences during the year, including a Seminar on Banking and Workers' Banks in Latin America (Mr. Y. Taub); the First Asian Conference on Agricultural and Cooperative Credit (Mr. M. Heth); the International Conference on Agricultural Economics at Minsk (Mr. A. Gilshon); meetings of the European Conjectural Research Institutions (Dr. F. Ginor); study tours of U.S. financial institutions at the invitation of the United States Government (Mr. S. Bronfeld); a European Seminar on Monetary Problems (Mr. D. Genachowski). Mr. H. Francuz completed a four-year assignment as a senior economist in the European Department of the IMF.

The year under review saw a marked development of the Bank's computer system, with all banking operations being adapted to the new equipment. The Bank's IBM 360/20 computer was connected to the 360/65 computer in the Office Mechanization Center in Jerusalem, and toward the end of the year a 2780 terminal was also put into operation. These changes will put at the Bank's disposal a large, sophisticated computer and thereby meet its data processing requirements. In introducing these changes it was necessary to overcome various problems connected with the coordination and organization of the system. With the conversion to the new equipment, stress has been placed on laying the



groundwork for further expansion, which was not possible with the Bank's previous equipment, as it was working at full capacity. The new equipment has also enabled the Department of the Examiner of Banks to develop a number of additional projects.

In 1970 the Bank continued to conduct advanced courses in foreign languages and various professional subjects for its staff.

The number of Bank employees in the head office in Jerusalem and the Tel Aviv and Haifa branches totalled 764 at the end of 1970, in addition to 41 trainees and 68 guards.

During the year under review the following staff members passed away: Yaakob Einshtain, Reuben Bieberfeld, Batia Nusim, Ibolya Kaufmann, Baruch Shchori, and Yosef Chahbur (who fell while serving in the reserves).

STATEMENT OF ASSETS AND LIABILITIES  
AS AT DECEMBER 31, 1970

*and*

PROFIT AND LOSS ACCOUNT FOR THE  
YEAR ENDING DECEMBER 31, 1970

## BANK OF ISRAEL

## STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1970

(IL)

## ASSETS

## LIABILITIES

	Dec. 31, 1970	Dec. 31, 1969		Dec. 31, 1970	Dec. 31, 1969
Gold	151,942,947	160,033,565	Capital	10,000,000	10,000,000
Gold—quota in International Monetary Fund	113,750,166 <sup>a</sup>	78,750,166 <sup>a</sup>	Reserve fund	10,000,000	10,000,000
Foreign currency assets	1,418,136,733	1,283,582,189	Banknotes and coin in circulation	1,321,906,688	1,166,295,992
Clearing accounts in connection with trade agreements	25,276,725	14,609,904	Clearing accounts in connection with trade agreements	10,567,344	12,068,197
Participation in international financial institutions	26,396,849	22,844,349	Deposits of international financial institutions	161,114,720	160,909,187
Treasury bills	72,532,000	117,161,000	Allocations of Special Drawing Rights	52,920,000	—
Other securities	16,844,935	44,662,373	Deposits of foreign banking institutions in foreign currency	131,109,840	105,000,000
Long-term advances to the Govt.	2,452,442,471	1,306,626,974	Demand deposits of banking institutions (incl. financial institutions)	579,216,842	415,458,202
Provisional advances to the Govt.	649,902,394	819,923,711	Time deposits of banking institutions (incl. financial institutions)	373,540,000	309,635,000
Bills discounted in local currency, securities acquired under repurchase agreements, and loans	310,088,459	471,197,458	Deposits of banking institutions—export finance	143,363,453	—
Bills discounted—foreign currency	696,180,451	350,545,923	Banking institution deposits in foreign currency	1,039,499,968	878,181,002
Advances to foreign governments and institutions	55,489,714	67,758,406	Banking institution deposits denominated in foreign currency	1,960,159,263	1,619,875,446
Food surplus account (see liabilities)	49,933,218	66,762,267	Government deposits—compulsory savings	5,696,542	7,522,577
Premises, equipment, etc.	1	1	Government accounts—import deposits	155,871,480	—
Documentary credits in connection with payments agreements (see liabilities)	111,469,290	88,240,436	Government and National Institution deposits in foreign currency	31,246,892	39,079,801
Guarantees (see liabilities)	389,453,625	277,547,864	Deposits on account of U.S. food surplus purchases (see assets)	49,933,218	66,762,267
Other accounts	3,293,127	3,034,186	Liabilities for documentary credits in connection with payments agreements (see assets)	111,469,290	88,240,436
			Liabilities in connection with guarantees (see assets)	389,453,625	277,547,864
			Other accounts	6,063,940	6,704,801
				6,543,133,105	5,173,280,772
	<u>6,543,133,105</u>	<u>5,173,280,772</u>			

<sup>a</sup> Gold tranche purchased in accordance with the provisions of section 3, Article V, of the Articles of Agreement of the International Monetary Fund.

# BANK OF ISRAEL

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1970

(IL)

	Dec. 31, 1970	Dec. 31, 1969		Dec. 31, 1970	Dec. 31, 1969
<b>E X P E N S E S</b>			<b>I N C O M E</b>		
Interest paid, administrative expenses, and other expenses	182,713,984	140,841,561	Interest, commission, and other income	285,997,358 <sup>a</sup>	207,741,787 <sup>b</sup>
Net profit	103,283,374	66,900,226			
	<u>285,997,358</u>	<u>207,741,787</u>		<u>285,997,358</u>	<u>207,741,787</u>

### DISTRIBUTION OF PROFITS

To the Government	<u>103,283,374</u>	<u>66,900,226</u>	Net profit	<u>103,283,374</u>	<u>66,900,226</u>
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<sup>a</sup> After provision of IL 413,549 for doubtful debts.

<sup>b</sup> After provision of IL 195,854 for doubtful debts.

BANK OF ISRAEL  
THE GOVERNOR AND MEMBERS OF THE ADVISORY  
COMMITTEE AND ADVISORY COUNCIL  
MAY 1971

*Governor*

D. HOROWITZ

*Advisory Committee*

Y. CHORIN, *Chairman*  
CH. M. BASOK  
E. HACHOEN  
E. LEHMAN  
J. LEVISON  
Z. SUSAYEFF  
H. ZADOK

*Advisory Council*

Y. CHORIN, *Chairman*  
Y. BADER  
H. BARKAI  
CH. M. BASOK  
A. BECKER  
N. FEINGOLD  
E. HACHOEN  
E. LEHMAN  
J. LEVISON  
M. OLENIK  
Z. ONN  
E. OSTASHINSKY  
D. RECANATI  
Z. SUSAYEFF  
H. ZADOK