

CHAPTER XX

ACTIVITIES OF THE BANK OF ISRAEL

1. SUMMARY OF BALANCE SHEET AT THE END OF 1968

THE BALANCE SHEET of the Bank of Israel totalled IL 4,441.4 million at the end of 1968, compared with IL 4,380.8 million at the end of the previous year—an increase of 1.4 percent only; this contrasts with a rise of 44.9 percent in 1967 (which was an exceptional year) and 5.8 percent in 1966. The abrupt fall in the growth rate is ascribable to the decline in foreign currency assets and in deposits of the Government and National Institutions (they withdrew most of their 1967 deposits), which offset most of the increase in other balance sheet items.

(a) *Assets*

1. *Foreign exchange*

The Bank's foreign currency assets contracted in 1968, after expanding greatly the year before as a result of the emergency fund-raising campaigns conducted abroad that year. In the year reviewed there was a decline in the State's foreign currency balances, including those held with the Bank of Israel. Gross foreign exchange and gold holdings, including loans to foreign governments and institutions, the gross balance in clearing accounts, and the Bank's participation in international institutions, amounted to IL 2,415.5 million (\$ 690.1 million), as against IL 2,589.2 million (\$ 739.8 million) at the end of 1967—a decrease of \$ 49.7 million or 6.7 percent.

2. *Government liabilities*

The Government's gross liabilities to the Bank of Israel, as they appear in the balance sheet, rose by IL 222.4 million in 1968 (from IL 912.7 million at the end of 1967 to IL 1,135.1 million). This increase, however, does not reflect the full extent of Government financing through the Bank of Israel, since it comprises transactions in Government securities with commercial banks and the public, and does not include changes in Government deposits with the Bank.

3. *Rediscounts*

Local currency rediscounts went up by only IL 10.2 million—from IL 245.8 million at the end of 1967 to IL 256.0 million. This relatively small rise was the net

Table XX-1
ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1967-68

	IL million		Percent		Increase or decrease (-)	
	1967	1968	1967	1968	IL m.	%
Assets						
Foreign exchange and gold	2,501.1	2,320.0	63.9	57.6	-181.1	-7.2
Participation in international financial institutions	17.2	18.3	0.4	0.5	1.1	6.4
Clearing accounts	37.3	15.8	1.0	0.4	-21.5	-57.6
Government securities	184.6	140.0	4.7	3.5	-44.6	-24.2
Long-term advances to the Government	358.5	305.0	9.2	7.6	-53.5	-14.9
Current liabilities of the Govt. Bills rediscounted and loans to banks	369.6	690.1	9.4	17.1	320.5	86.7
	408.6	450.1	10.4	11.2	41.5	10.2
Loans to foreign governments and institutions	33.7	61.3	0.9	1.5	27.6	81.9
Other accounts	3.9	24.9	0.1	0.6	21.0	538.5
Total	3,914.5	4,025.5	100.0	100.0	111.0	2.8
Contingent accounts ^a	466.3	415.9	—	—	-50.4	-10.8
Grand total	4,380.8	4,441.4	—	—	60.6	1.4
Liabilities						
Notes and coin in circulation	997.9	1,124.0	25.5	27.9	126.1	12.6
Deposits of the Government	561.4	27.4	14.3	0.7	-534.0	-95.1
Deposits of banking and financial institutions ^b	2,313.3	2,821.3	59.1	70.1	508.0	22.0
Clearing accounts	9.8	10.6	0.3	0.3	0.8	8.2
Paid-up share capital and reserves	20.0	20.0	0.5	0.5	—	—
Other accounts ^c	12.1	22.2	0.3	0.5	10.1	83.5
Total	3,914.5	4,025.5	100.0	100.0	111.0	2.8
Contingent accounts ^a	466.3	415.9	—	—	-50.4	-10.8
Grand total	4,380.8	4,441.4	—	—	60.6	1.4

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

^a Including agricultural surplus accounts, documentary credits, and guarantees.

^b Including foreign currency deposits of nonresidents.

^c Including deposits of international institutions.

result of marked changes in the various components of this item. The increment is after the provision of IL 42.1 million for doubtful debts, while the volume of bills rediscounted grew by IL 54.3 million, with most of the sum going to finance exports through the various funds set up for this purpose.

Foreign currency rediscounts expanded to a greater extent—from \$ 46.5 million in 1967 to \$ 55.4 million.

(b) *Liabilities*

1. *Banknotes and coin in circulation*

The value of banknotes and coin in circulation rose by 12.6 percent, from IL 997.9 million at the end of 1967 to IL 1,124.0 million. This is only slightly below the percentage increase in the money supply during 1968. As in the previous year, part of the incremental currency in circulation can presumably be attributed to the more widespread use of Israeli currency in the administered areas.

2. *Government and National Institution deposits¹*

The creditory accounts of the Government and the National Institutions plummeted by IL 534.0 million to stand at only IL 27.4 million, as against IL 561.4 million at the end of 1967. This precipitate drop, coming on the heels of a huge increase in the previous year, when the proceeds of the overseas emergency appeals were deposited with the Bank of Israel, reflects the utilization of these funds during the year surveyed.

3. *Deposits of banking and financial institutions*

Local currency deposits of banking and financial institutions advanced by IL 184.8 million in 1968, and foreign currency deposits by IL 323.2 million. In dollar terms, the increase in the latter totalled \$ 92.3 million, consisting of \$ 68.7 million in Pazak accounts, \$ 26.3 million in Tamam accounts, and a decline of \$ 2.8 million in Patach deposits.

2. PROFIT AND LOSS ACCOUNT AND DISTRIBUTION OF PROFITS

(a) *Income*

In 1968 the Bank's income continued upward, from IL 174.0 million to IL 198.0 million. This figure is after the provision of IL 42.0 million for doubtful debts (compared with IL 31.0 million in 1967). Most of the incremental income was in foreign currency, and stemmed from a growth in the average volume of foreign currency holdings and a rise in interest rates in most of the world's capital markets during the year. In addition, larger profits were earned on foreign currency transactions, and there was an increase in income from interest on the Bank's foreign exchange reserves and on Government liabilities.

¹ Until January 1968 this item was defined as "Government deposits".

(b) *Expenditure*

The Bank's expenses totalled IL 122 million in 1968, up IL 36 million over the previous year. Most of the increase stemmed from the larger interest payments on foreign currency deposits (Pazak and Tamam) following a rise in their outstanding balance, on local currency balances of banking institutions (also due to the growth of such balances), and on the Government Short-Term Loan, in line with the increase in the public's holdings of this paper.

(c) *Net profit*

The net profit of the Bank, after setting aside IL 42.0 million for doubtful debts, amounted to IL 76.0 million in 1968. The entire sum was transferred to the Government, in accordance with the Bank of Israel Law.

3. FOREIGN EXCHANGE AND GOLD HOLDINGS

(a) *Foreign exchange and gold*

Gross assets in foreign exchange and gold reserves (including loans to foreign governments and banks, the gross balance in clearing accounts, and participation in international institutions) amounted to IL 2,415.5 million (\$ 690.1 million) at the end of 1968, as against IL 2,589.2 million (\$ 739.8 million) at the end of the previous year—a decline of \$ 49.7 million, or 6.7 percent. The Bank's net foreign exchange and gold reserves, after deducting debitory clearing account balances and deposits of nonresidents (Patach), fell from IL 2,431.4 million (\$ 694.7 million) to IL 2,265.5 million (\$ 647.2 million)—i.e. by \$ 47.5 million or 6.8 percent.

The Bank's gold reserves held more or less steady, edging up from IL 239.5 million (\$ 68.4 million) at the end of 1967 to IL 239.9 million (\$ 68.5 million). The share of gold in gross foreign exchange holdings rose from 9.3 percent at the end of 1967 to 10.0 percent at the end of 1968, following the contraction of foreign exchange reserves.

Foreign exchange reserves fell from IL 2,261.6 million (\$ 646.2 million) at the end of 1967 to IL 2,080.1 million (\$ 594.3 million) at the end of 1968—i.e. by \$ 51.9 million or 8.0 percent. The entire amount was held in freely convertible currencies. A very small percentage was kept in non-interest-bearing demand deposits in order to finance the Bank's current operations. The preponderant share was held in the form of treasury bills and bills of foreign banks, bonds of other countries and international financial institutions, and interest-bearing time and demand deposits in foreign banks. Owing to the high level of the reserves up to the middle of the year, which brought the average annual balance above that for 1967, and because of the upward trend in interest rates in the world's capital markets, interest income from the holdings rose from \$ 34.5 million in

1967 to \$ 41.9 million, and the average annual yield on the reserves, excluding gold, advanced from 5.4 to 6.2 percent. Including gold, the rise was from 5.2 to 5.6 percent.

Table XX-2
FOREIGN EXCHANGE AND GOLD BALANCES HELD BY
THE BANK OF ISRAEL, 1967-68

(\$ million)

End of period	Foreign exchange	Gold	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of non-residents	Net balances ^a
1967 December	646.2	68.4	9.6	7.9	732.1	37.4	694.7
1968 January	667.6	68.4	9.2	8.5	753.7	50.4	703.3
February	697.7	68.5	9.2	7.7	783.1	39.2	743.9
March	702.1	68.5	9.0	7.4	787.0	34.8	752.2
April	696.2	68.5	9.4	6.2	780.3	31.0	749.3
May	675.4	68.5	10.0	7.1	761.0	31.0	730.0
June	676.0	68.5	9.0	6.3	759.8	32.2	727.6
July	717.8	68.5	8.6	3.3	798.2	31.8	766.4
August	695.7	68.5	8.5	4.6	777.3	32.7	744.6
September	683.8	68.5	8.6	3.5	764.4	31.9	732.5
October	651.7	68.5	16.3	3.0	739.5	33.4	706.1
November	620.5	68.5	16.4	3.7	709.1	33.3	675.8
December	594.3	68.5	17.5	1.5	681.8	34.6	647.2

^a Excluding liabilities to local residents.

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

At the end of 1968 the Bank of Israel maintained clearing accounts with eight countries with which Israel had trade and payments agreements. During the year the payments agreements with Ghana and Poland expired—the first by mutual consent, and the second upon the notification of the Israel Government to Poland, after the latter had failed to live up to the terms of the agreement. Since then trade with these two countries has been conducted in freely convertible currency.

Israel's credit balances amounted to IL 15.8 million (\$ 4.5 million) at the end of 1968, and the debit balances to IL 10.6 million (\$ 3.0 million). The net balance to Israel's credit thus stood at IL 5.2 million (\$1.5 million), as against IL 27.5 million (\$ 7.8 million) at the end of 1967. The decline was due to some extent to the sale of part of the credit balances in certain accounts, in exchange for bills issued by European commercial banks in freely convertible currency and bearing a relatively low interest rate.

Table XX-3
NET BALANCES IN CLEARING ACCOUNTS, 1967-68

(\$ thousand)			
(End of period)			
Country	1967	1968	Increase or decrease (-)
Brazil	-652	-770	-118
Bulgaria	923	456	-467
Czechoslovakia	465	465	—
Ghana	232	—	-232
Greece	293	9	-284
Hungary	1,703	1,789	86
Poland	3,530	—	3,530
Portugal	-952	-1,101	-149
Turkey	1,895	-89	-1,984
Yugoslavia	2,047	759	-1,288
Balances in transit and other accounts	-1,628	-38	1,590
Total	7,856	1,480	-6,376
Total in IL '000	27,496	5,181	-22,315

(c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel added up to IL 1,924.5 million (\$ 549.8 million) at the end of 1968, as contrasted with IL 1,601.3 million (\$ 457.5 million) at the end of 1967—an increase of \$ 92.3 million, or 20.2 percent.

These deposits fall into the following categories:

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

These are foreign currency deposits in banking institutions made by Israeli residents receiving transfers from abroad, mainly recipients of restitution payments from West Germany. At the end of the agreed period and at the depositors' option, the deposits may either be renewed or converted into Israeli pounds at the official rate of exchange. The banking institutions are required to redeposit the entire amount of such accounts with the Bank of Israel, i.e. to maintain 100 percent liquid cover. At the end of 1968 these deposits totalled IL 1,259.2 million (\$ 359.8 million), as against IL 1,018.7 million (\$ 291.1 million) at the end of the previous year—an increase of \$ 68.7 million.

At the beginning of 1969, when the foreign currency controls were altered so as to allow any Israeli resident to receive foreign currency from tourists in payment for goods or services, all local residents were permitted to open Pazak accounts and to deposit these receipts therein.

Interest on these deposits is paid by the Government and the Bank of Israel at the following rates: deposits for three months—3 percent; for six months—4 percent; for nine months—5 percent; for 12 months—6 percent.

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

These are restricted foreign currency deposits made by recipients of restitution payments from Germany and by several other groups transferring foreign currency, mainly discharged and disabled veterans of World War II, who may deposit up to a third of their total foreign currency transfers. Such deposits may be withdrawn in foreign currency in order to finance foreign travel, buy foreign securities—it is the resale of these to other Israeli residents that has created the Natad (investment) dollar market—or pay for legal expenses connected with restitution claims. These sums too must be redeposited in full by the banking institutions with the Bank of Israel. At the end of 1968 Tamam balances totalled IL 491 million (\$ 140.3 million), as against IL 399.1 million (\$ 114 million) at the end of the previous year—an increase of \$ 26.3 million.

The Government and the Bank of Israel pay interest on these deposits as follows: deposits for three months—2 percent; six months—3 percent; nine months—4 percent; 12 months—4.5 percent.

3. *Foreign securities dividend accounts (Natad)*

These are restricted foreign currency deposits of Israeli residents in banking institutions, which originated from the sale of foreign securities or the receipt of dividends or interest thereon. These funds may be used 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. Banking institutions are required to maintain 100 percent liquidity also on these deposits, which pay no interest whatsoever to the public and only 1.5 percent to banking institutions. At the end of 1968 they amounted to IL 32.3 million (\$ 9.2 million), as against IL 27.8 million (\$ 8.0 million) at the end of 1967—a rise of \$ 1.2 million only.

4. *Deposits of nonresidents (Patach)*

These are freely transferable funds deposited by nonresidents (including foreign investors, immigrants, foreign experts employed in Israel, etc.), as well as balances held by Israeli banks for correspondents abroad, and redeposited with the Bank of Israel. At the end of the year reviewed these deposits came to IL 121.1 million (\$ 34.6 million), out of a total balance of IL 651.1 million (\$ 186.0 million) in Patach accounts in banking institutions. At the end of 1967 the deposits amounted to IL 130.9 million (\$ 37.4 million) out of a total balance of IL 616.8 million (\$ 176.2 million). The decline of \$ 2.8 million can be attrib-

Table XX-4

**FOREIGN CURRENCY DEPOSITS OF BANKING INSTITUTIONS
WITH THE BANK OF ISRAEL, BY TYPE, 1967-68**

(\$ million)

End of period	1967	1968	Increase or decrease (-)
Time deposits of Israeli residents (Pazak)	291.1	359.8	68.7
Deposits of residents transferring currency (Tamam)	114.0	140.3	26.3
Foreign securities dividend accounts (Natad)	8.0	9.2	1.2
Deposits of nonresidents (Patach)	37.4	34.6	-2.8
Blocked and registered accounts (Pahab)	0.3	0.2	-0.1
Foreign currency accounts of the banks (Pamaz)	5.8	4.6	-1.2
Import deposit accounts (Hay)	0.9	1.1	0.2
Total	457.5	549.8	92.3

uted partly to the fact that toward the end of the year the Bank of Israel ceased to pay interest on Patach and demand deposit accounts in German marks (see below). The banks are required to maintain a minimum balance of at least 15 percent with the Bank of Israel, after deducting deposits for the granting of loans authorized by the latter. The minimum amount which the banks had to redeposit with the Bank of Israel came to IL 102.1 million at the end of 1968; thus they actually redeposited 18.6 percent more than required.

From March 1968 until December 15, the Bank of Israel paid the following rates of interest on all currencies held in Patach accounts: on deposits withdrawable on demand and up to the minimum balance—4 percent; on the remainder of such deposits above the minimum balance—1.5 percent; on three-month deposits—4.25 percent; on six-month deposits—4.5 percent; on deposits for one year—5 percent. In the middle of December 1968, the Bank of Israel discontinued payment of interest on demand and time Patach deposits in German marks following the imposition of restrictions by the Deutsche Bundesbank on deposits by non-German residents. This policy was instituted in the wake of the franc crisis of November 1968, and was intended to forestall the flow of speculative short-term capital from abroad because of the unstable situation in many financial markets. At the same time, the Bank of Israel raised the interest rates payable on U.S. dollar and sterling deposits in Patach accounts, in line with the rise of interest rates in these two markets, and cut the rate on Patach

deposits in Swiss francs. The rates in force at the end of 1968 were as follows:

	U.S. dollars and sterling	Swiss francs	Other currencies, excl. German marks
Demand deposit accounts up to the minimum reserve	4.50	3.00	4.00
Demand deposit accounts in excess of the minimum reserve	1.50	1.50	1.50
3-month deposits	4.75	3.25	4.25
6-month deposits	5.00	3.50	4.50
One-year deposits	5.50	4.00	5.00

5. *Other accounts*

Included under this head are foreign currency accounts of the banks (Pamaz); blocked and registered accounts (Pahab), arising from the deposits of insurance and shipping companies, hotels, enterprises approved under the Law for the Encouragement of Capital Investments, etc.; and import deposit accounts connected with the import of goods (Hay). These accounts aggregated IL 20.8 million (\$ 5.9 million) at the end of 1968, as contrasted with IL 24.7 million (\$ 7.0 million) at the end of 1967—a decline of \$ 1.1 million.

4. THE BANK OF ISRAEL AS BANKER TO THE GOVERNMENT

Examination of the Government accounts by balance sheet item shows a rise of IL 222 million in the Government's gross liabilities to the Bank of Israel. Plus the IL 534 million decrease in creditory accounts, the growth in the Government's net debt to the Bank came to IL 756 million. This does not indicate the extent of Government financing through the Bank of Israel, which amounted to IL 901 million in 1968. The difference between the two figures represents the Bank's open-market operations in Government paper and the sale of such securities to the banking institutions (this is discussed in Chapter XV).

(a) *Debit accounts*

The Government's long-term debt to the Bank of Israel was cut by IL 98.1 million in 1968. The Bank advanced IL 130 million to the Government, but on the other hand the IL 21.4 million balance of land bills in the Bank's hands disappeared from the balance sheet, and advances from previous years were reduced by some IL 183.5 million. These decreases do not reflect the actual repayment of debts to the Bank, but the sale of Short-Term Loan certificates by the Bank of Israel to the public, the proceeds of which are applied, under an agreement between the Government and the Bank, to the reduction of the Government's long-term liabilities to the Bank.

Table XX-5
GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,^a 1967-68
(IL million)

End of period	1967	1968	Increase or decrease (-)
Debit			
Ordinary advances to the Government	369.6	690.1	320.5
Total current liabilities	369.6	690.1	320.5
Special advances and Government securities	24.9	26.9	2.0
Treasury bills	138.3	113.1	-25.2
Land bills	21.4	—	-21.4
Long-term advances to the Government	358.5	305.0	-53.5
Total long-term debt	543.1	445.0	-98.1
Total liabilities	912.7	1,135.1	222.4
Credit			
Compulsory saving deposits	25.0	16.4	-8.6
Foreign currency accounts	536.4	11.0	-525.4
Total credit accounts	561.4	27.4	-534.0
Balance	-351.3	-1,107.7	-756.4
Contingent accounts			
Food surplus accounts	118.3	78.4	-39.9

^a Excluding capital accounts.

The balance of Government securities purchased by the Bank of Israel in the open market amounted to IL 26.9 million at the end of 1968, IL 2 million more than at the end of the previous year.

(b) *Credit accounts*

Foreign currency deposits of the Government and the National Institutions fell, as already noted, by IL 525.4 million during the year.

Compulsory saving deposits declined by IL 8.6 million as a result of repayments in accordance with the terms of the scheme.

Net of the credit accounts, the Government's debt to the Bank of Israel shot up by IL 756.4 million during the year.

(c) *Contingent accounts*

The balance of contingent accounts, which are connected with agricultural surpluses made available to the Government of Israel by the U.S. Government, dropped from IL 118.3 million at the end of 1967 to IL 78.4 million at the end of 1968. This can be attributed to the utilization of some of these sums by the American authorities.

(d) *Government imports*

Documentary credit accounts opened in 1968 in order to finance imports by Government departments totalled \$ 45.5 million, compared with \$ 55.1 million the year before. The amount of documentary credits received by the Bank in 1968 from foreign banks and suppliers for collection from Government departments amounted to \$ 27.2 million, as against \$ 17.6 million in 1967.

The total value of Government imports financed by credits from the Bank of Israel was \$ 72.7 million, about the same as in 1967.

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

(a) *Deposits of banks and financial institutions*

Deposits kept by banking institutions with the Bank of Israel increased from IL 2,313.4 million at the end of 1967 to IL 2,821.3 million at the end of 1968. These figures include both local and foreign currency accounts. Local currency deposits (which represent the bulk of the institutions' liquid assets) rose from IL 712 million at the end of 1967 to IL 896.8 million, and foreign currency deposits from IL 1,601.3 million (\$ 457.5 million) to IL 1,924.5 million (\$ 549.9 million). A breakdown of the deposits appears in Table XX-6.

Table XX-6

DEPOSITS OF BANKING INSTITUTIONS WITH THE BANK OF ISRAEL, 1967-68

(IL million)

End of period	1967	1968	Increase	
			IL m.	%
Israeli currency				
Minimum balance	352.6	398.6	46.0	13.0
Other demand deposits	49.9	78.2	28.3	56.7
Time deposits	309.5	420.0	110.5	35.7
Total	712.0	896.8	184.8	26.0
Foreign currency	1,601.3	1,924.5	323.2	20.2
Total deposits	2,313.3	2,821.3	508.0	22.0

^a Details are given in Table XX-4.

Following are the interest rates paid by the Bank of Israel, as of February 1, 1967, on local currency accounts of the banking and financial institutions. On the first third of the minimum balance that must be kept with the Bank of Israel, no interest at all is paid, while on the remaining two-thirds the rate is 2 percent per annum. Interest of 4 percent is paid on demand deposits in excess of the

minimum balance. Annual interest rates on time deposits are as follows: deposits for three months—5.5 percent; six months—6.0 percent; nine months—6.7 percent; 12 months and over—7.5 percent.

(b) *Rediscounts and loans*

The balance of rediscounted bills and loans to banks amounted to IL 450.1 million at the end of 1968—IL 41.5 million above the figure for the previous year. The balance of rediscounted bills in local and foreign currency rose by IL 76.5 million in 1968. Most of the increment went to industry—in both foreign and local currency and mainly for financing exports—and to the National Institutions—in foreign currency only, for the purpose of paying foreign debts. A breakdown by currency shows that IL 49.3 million was in Israeli pounds and IL 27.2 million in foreign currency.

The sum provided for doubtful debts in connection with loans to banks came to IL 42.3 million, compared with IL 31 million in 1967. This aggregate allocation of IL 73.3 million was to cover possible losses in realizing the collateral on the loans which the Bank of Israel granted to three banks that ran into difficulties in 1967—Feuchtwanger, Ellern's, and Israel Credit Bank—and which were intended to enable them to honor their obligations to clients. Net of this amount, the balance of loans outstanding stood at IL 79.2 million at the end of 1968.

Table XX-7
REDISCOUNTS, BY SECTOR, 1967^a-68
(IL million)

(End of period)

Sector	1967		1968	
	Local currency	Foreign currency	Local currency	Foreign currency
Agriculture	6.5	—	9.9	—
Industry	119.9	112.9	165.8	129.2
Commerce	—	17.2	—	5.8
Public services	—	23.3	—	13.0
National Institutions	—	9.4	—	42.0
Services	1.1	—	1.1	—
Total	127.5	162.8	176.8	190.0
Bank of Israel loans	118.3 ^b	—	79.2 ^c	4.1
Total rediscounts and loans in local and foreign currency	408.6		450.1	

^a Revised data and new classification.

^b After provision of IL 31 million for doubtful debts.

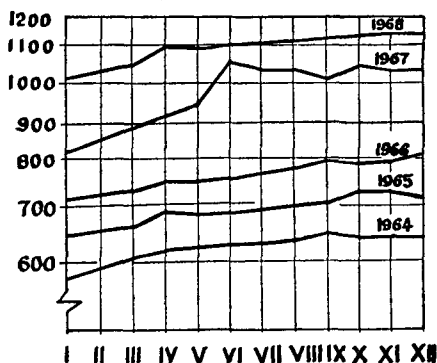
^c After provision of IL 73.3 million for doubtful debts.

6. CURRENCY ISSUE

(a) *Currency in circulation*

The monthly average of currency in circulation (calculated according to Wednesday figures) advanced 11.3 percent—from IL 1,021.9 million in December 1967 to IL 1,158.8 million in December 1968; this compares with a rise of 26.5 percent in 1967, 12.0 percent in 1966, and 11.7 percent in 1964 and 1965.¹

Diagram XX-1
CURRENCY IN CIRCULATION
(WEDNESDAY AVERAGES), 1964-67
(IL thousand)



The increase of some IL 360 million in the money supply in 1968 was composed of IL 125 million in currency in circulation and approximately IL 235 million in demand deposits. The currency component accounted for about 35 percent of the incremental money supply in 1968, compared with some 40 percent in the preceding year. The higher proportion in 1967 was due to the large-scale exchange of currency in all the administered areas, whereas in 1968 conversion was on a much more modest

scale and confined to the Gaza Strip and Sinai.

Currency in circulation rose steadily throughout the year, the rate accelerating somewhat in the second half. In March and April cash holdings of the public grew by IL 65 million, because of the seasonal demand associated with the Passover period, and apparently also because of the exchange of Egyptian pounds in Sinai and the Gaza Strip.

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

In 1968 the total value of IL 50 banknotes in circulation continued to rise, and their relative share in the value of all banknotes went up from 80.9 to 82.6 percent. The upward movement came to an end at the beginning of 1969, with the introduction of a IL 100 note.

The proportion of IL 10 banknotes fell from 15.4 to 13.8 percent, that of IL 5

¹ The data for 1968 do not include gold commemorative coins whose gold content equals or exceeds the nominal value. These coins, the total nominal value of which came to IL 2,416,800, were excluded from the data on currency in circulation on the State Controller's recommendation that the Bank's balance sheet should not list assets as obligations against gold coins if the value of the gold equals or exceeds the nominal value of the coin. Accordingly, in 1968 no gold coins issued by the Bank of Israel, except for the "Jerusalem" gold coin of 1968, appeared in the balance sheet among liabilities.

Table XX-8
CURRENCY IN CIRCULATION, 1968
 (IL thousand)
 (Wednesday averages)

Month	Currency in circulation
1967 December	1,021,868
1968 January	1,017,535
February	1,046,266
March	1,069,840
April	1,111,007
May	1,104,486
June	1,112,922
July	1,120,151
August	1,137,519
September	1,148,469
October	1,156,517
November	1,166,057
December	1,158,814

notes edged up from 2.0 to 2.1 percent, while the share of IL 1 notes declined from 1.6 to 1.5 percent (to the IL 16.2 million in IL 1 banknotes should be added IL 9 million in IL 1 coins, making a total of IL 25.2 million). Of the IL 9 million in IL 1 coins, IL 1.7 million was of the old design, bearing the emblem of the State and minted up to 1966/67, while IL 7.3 million was of the new design currently in circulation.

The share of IL ½ banknotes slipped from 0.1 percent to less than a tenth of a percent of the value of all banknotes in circulation. These banknotes have been almost completely withdrawn from circulation following the issuance of coins in that denomination in 1963; most of the IL ½ notes recorded as being in circulation have either been lost or are held by collectors.

During the year reviewed IL 10.3 million worth of new coins denominated in agorot, in IL ½, and IL 1, as well as commemorative coins, were put into circulation as follows:

Coin	Value (IL million)
1 agora	0.2
5 agorot	0.2
10 agorot	0.8
25 agorot	0.2
IL ½	0.5
IL 1 (new design)	4.7
Commemorative coins	3.7
Total	10.3

Table XX-9

NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1967-68

End of period	1967		1968	
	IL'000	%	IL'000	%
Banknotes				
IL ½	490	0.1	482	—
IL 1	15,326	1.6	16,173	1.5
IL 5	19,846	2.0	22,347	2.1
IL 10	149,087	15.4	150,450	13.8
IL 50	784,111	80.9	897,628	82.6
Total	968,860	100.0	1,087,080	100.0
Coins				
1 pruta	5	—	5	—
5 prutot	48	0.2	48	0.1
10 prutot	295	1.0	290	0.7
25 prutot	165	0.6	165	0.4
50 prutot	500	1.7	498	1.3
100 prutot	336	1.2	334	0.9
250 prutot*	601	2.1	600	1.5
500 prutot (silver)	22	0.1	22	0.1
1 agora	1,265	4.3	1,470	3.7
5 agorot	2,081	7.2	2,316	5.9
10 agorot	5,181	17.8	5,998	15.2
25 agorot	2,000	6.9	2,245	5.7
IL ½	6,543	22.5	7,034	17.9
IL 1	4,391	15.1	9,044	23.0
Total	23,433	80.7	30,069	76.4
Commemorative coins				
IL ½	27	0.1	82	0.1
IL 1	287	1.0	289	0.7
IL 5 (silver)	1,737	6.0	1,755	4.5
IL 10 (silver)	1,350	4.6	3,555	9.0
IL 20 (gold)	201	0.7	210	0.5
IL 50 (gold)	599	2.1	686	1.8
IL 100 (gold)	1,395	4.8	2,771	7.0
Total	5,596	19.3	9,294	23.6
Total coins	29,029	100.0	39,363	100.0
Total currency in circulation	997,889	—	1,126,443	—
Less: Gold commemorative coins with a gold content equal to or exceeding their nominal value				
Total	—	—	-2,416	—
Total	997,889	—	1,124,027	—

* Including paper tokens and silver coins.

At the end of 1968 the new coins denominated in agorot (including those in denominations of IL ½ and IL 1) constituted 71.4 percent of the value of all coins in circulation (30.5 percent were in agorot and 40.9 percent in IL 1 and IL ½), as compared with 73.8 percent at the end of 1967. The decline stemmed from a rise in the share of commemorative coins from 19.3 to 23.6 percent. The proportion of the old coins (denominated in prutot) continued downward, from 6.9 percent at the end of 1967 to 5.0 percent.

(c) *Damaged currency*

In 1968 unusable banknotes to the value of IL 272 million were destroyed, while IL 5.2 million worth of coins withdrawn from circulation were melted down. During the year the Bank of Israel received 468 requests for the exchange of damaged currency, totalling IL 50,612; 375 requests, totalling IL 48,637, were approved.

(d) *Agencies for the supply of currency*

In 1968 the Bank of Israel opened new agencies in Eilat and Ashdod. There are now agencies in Beersheba, Hadera, Tiberias, Netanya, Petah Tikva, Safad, and Rehovot. These agencies supply currency to banking institutions in the provincial towns and absorb their surplus currency. In addition to these, there are agencies in the head offices of the three largest banks in Tel Aviv and in their main Haifa branches, 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. NOTE AND COIN SUPPLY

(a) *Minting of commemorative coins*

The Bank of Israel minted one commemorative coin in the year reviewed—the 20th Independence Day coin. The coin was minted in two denominations: one coin is of sterling silver (900/1000), was issued in ordinary and proof form, has a nominal value of IL 10, weighs 26 grams, and has a diameter of 37 mm.; the second is made of gold (800/1000), was issued in proof form only, has a nominal value of IL 100, weighs 25 grams, and has a diameter of 33 mm. The subjects of both coins are identical. The coin depicts a four-column facade of the Temple of Solomon, a replica of that appearing on the Bar Kochba silver sela, while the obverse features a schematic panorama of reunified Jerusalem. The obverse of the coin also bears the name of the State in Hebrew, Arabic, and Latin letters, the face value, and the year of issue. The Hebrew inscription,

Table XX-10

**COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,*
1957/58 TO 1967/68**

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 (Hanukka A)	Berne	9,657	6,040	15,697
1963/64 (Hanukka B)	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 (Menorah)	Utrecht	98,051	2,000	100,051
1957/58 (Ingathering of 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)				
1965/66 (The People of Israel Lives On)	Rome	25,252	7,660	32,912
	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
Proof	Kreschmer, Jerusalem	—	50,499	50,499
1967/68 (Jerusalem)	Berne	50,000	20,501	70,501
6. Gold coins				
IL 20 1959/60 (Herzl)	Berne	10,510	—	10,510
IL 50 1960/62 (Weizmann)	Berne	—	6,202	6,202
IL 100 1960/62 (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

* After the melting down of various coins from the Bank of Israel's stock.

"The 20th Year of the State of Israel", is incized on the rim of the silver coin and appears on the bottom of the obverse of the gold coin.

All commemorative coins minted by the Bank of Israel through 1967/68 are summarized in Table XX-10. The data are after the deduction of coins from the Bank's stock that have been melted down.

(b) *Coins in circulation*

In 1968, 33.4 million coins were minted for the Bank of Israel at the Israel Mint in Jerusalem. During the Hebrew year 1967/68 (Israeli coins carry the Hebrew date) 35.2 million coins were minted. Following is a breakdown of the data.

Coin	Number of units minted	
	1968	1967/68
1 agora	19,166,000	20,899,000
5 agorot	3,545,000	4,020,000
10 agorot	4,400,000	4,825,000
25 agorot	450,000	445,000
IL ½	512,000	1,183,000
IL 1	5,291,063	3,932,061

After the design of the IL 1 coin was changed, it was decided to melt down the stock of old-design coins in the Bank's hands. Accordingly, in the year reviewed 3,076,500 units were destroyed, out of a total minting of 4,848,119 units.

(c) *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 by it and recommends to the Governor of the Bank the designs which it has approved from among those submitted by artists participating in the closed competitions. In 1968 the Committee continued with the planning of the new series of Bank of Israel notes, the first of which, the IL 100 note, was put into circulation at the end of February 1969. Members of the Committee are Dr. A. Witkon (Chairman), Mr. M. Ardon, Dr. A. Biran, Mr. S. Golan, Mr. R. Dayan, Dr. R. Hecht, Mr. K. Katz, Mr. A. Kindler, Mr. D. Karavan, Dr. E. Lehman, Mr. T. R. Lurie, and Dr. M. Spitzer.

8. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

New loan issues in 1968, excluding the Short-Term Loan and the Absorption Loan certificates distributed during the year but including the Defense Loan, totalled IL 378 million gross, compared with IL 498 million in 1967 and IL 62 million in 1966. All items under this head, with the exception of the Short-Term Loan, contributed to the decline from the record level attained in 1967.

The amount of Absorption Loan certificates distributed, which does not represent a change in the outstanding balance of this debt, also dropped—from IL 67 million in 1967 to IL 58 million.

Net issues (i.e. less redemption) of long-term loans totalled IL 297 million, compared with IL 408 million in 1967 and only IL 21 million in 1966. Less the Defense Loan, net issues in 1968 totalled IL 101 million, as against IL 125 million in the previous year. Redemption of Absorption Loan certificates came to IL 17 million in the year reviewed, compared with IL 2 million in 1967. There was no redemption in 1966. The net value of certificates distributed therefore amounted to IL 41 million in 1968, as contrasted with IL 65 million in 1967 and IL 16 million in 1966.

Gross sales of the Government Short-Term Loan in 1968 totalled IL 875

Table XX-11

NET NEW BOND ISSUES, 1966-68

(IL million)

	1966			1967			1968		
	Gross issue	Redemption	Net issue	Gross issue	Redemption	Net issue	Gross issue	Redemption	Net issue
Long-term									
Option-type	44	—	44	181	12	169	145	30	115
Defense Loan	—	—	—	283	—	283	196	—	196
Others*	18	4	14	34	30	4	37	4	33
Loans issued in previous years	—	37	-37	—	48	-48	—	47	-47
Total long-term	62	41	21	498	90	408	378	81	297
Short-term	407	323	85	668	551	117	875	770	105
Total long- and short-term	469	364	106	1,166	641	525	1,253	851	402
Absorption Loan^b	16	—	16	67	2	65	58	17	41
Grand total	485	364	122	1,233	643	590	1,311	868	443

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

* Development loans and Insurance Companies Loan.

^b Value of certificates distributed only.

million and redemptions IL 770 million. This brought up the outstanding balance of the loan by IL 105 million, compared with a net growth of IL 117 million in 1967.

The outstanding balance of domestic loans administered by the Bank of Israel (representing only part of the State's domestic debt) rose by 32 percent to stand at IL 1,800 million. At the end of 1968 the bank was administering 216 series of State loans, including 49 series added in the course of the year: 30 series of the option-type bonds, 12 series of the 1968 Defense Loan, two series of the 1967 Defense Loan, and five series of other loans. Details of these loans are presented in the appendix to this chapter.

1. Defense Loan

The authorized amount of the 1968 Defense Loan, like that floated the year before, was fixed at IL 300 million, of which IL 100 million was earmarked for banks and the remainder for sale to the public. Several changes were introduced in the terms of the 1968 loan: (a) The yield on bonds sold to the public is net of tax. (b) The unlinked yield was reduced—in the case of the loan to the public, the net return was lowered from 8.45 percent in 1967 to 7.42 percent, while the bank loan yielded 10.4 percent gross in 1968, as against 10.76 percent in the previous year. The yield on a linked basis remained unchanged at 4.84 percent gross. (c) The maturity period of the loan was doubled to 10 years. At the end of five years, accumulated interest will be paid, while at the end of 10 years the principal will be redeemed together with interest for the second five-year period. (d) The payment period for those purchasing bonds in installments was doubled from five to 10 months.

The 1968 Defense Loan was launched in May. Because of the spreading-out of payments over a ten-month period, to April 1969, proceeds in 1968 were smaller than in the previous year—IL 180 million as against IL 283 million. At the end of 1968 outstanding purchase obligations from the public totalled IL 50 million, and from the banks IL 30 million.

At the beginning of 1968 the IL 16 million still outstanding on the 1967 Defense Loan was paid in. This loan was listed on the Tel Aviv Stock Exchange in January 1968, and it accounted for a fairly high proportion of all transactions in bonds, ranging from 23 to 39 percent and averaging 30 percent.

2. Development Loan

Sales of the option-type series sagged noticeably in 1968—IL 65 million as contrasted with IL 181 million in 1967. The figure for 1966, however, was IL 44 million, so that compared with that year sales were stronger in 1968.

Special series of the option-type Development Loan were issued to the banking institutions in 1968 under the terms of an agreement with the Treasury. The

banks undertook to take up IL 100 million of this special loan during the 1968/69 fiscal year, and by the end of 1968 purchases came to IL 80 million. In all, 30 series totalling IL 145 million were issued in 1968, as against 37 series totalling IL 181 million in 1967. The authorized amount of this loan was raised in February 1968 from IL 500 million to IL 850 million.

Eighteen of the series issued in 1965 and 1966 featured the right of early redemption. In 1968 the total amount of such holdings came to IL 90 million, or double the 1967 figure. The sum actually redeemed ahead of maturity was IL 25.7 million in 1968, compared with IL 12.4 million in 1967; there was no change in the ratio between early redemptions and the outstanding balance of bonds carrying this right.

In December 1968 the retirement of the first series of the option-type Development Loan, issued in 1963 without the early redemption clause, was completed. The amount redeemed on an unlinked basis exceeded that on a linked basis. It should be noted that the loan was actually sold for a five-year period, without linkage, at an interest rate of 10.76 percent.

In the year reviewed four series of the long-term Development Loan were issued, to a total of IL 20 million, compared with IL 15 million in 1967. This is a 17-year paper, linked to the consumer price index, and bearing 5.5 percent interest. Redemption totalled IL 3.6 million in 1968, as contrasted with IL 23.4 million in 1967, most of it being of the nonoptional five-year series. All told, net holdings of the medium- and long-term nonoptional Development Loan series rose by IL 16.3 million, compared with a decline of IL 8.4 million in 1967.

3. *Short-Term Loan*

The rising trend in the balance of the Short-Term Loan carried over through 1968. A peak was reached in November 1968, when the figure topped IL 500 million. Gross issue amount for the year came to IL 875 million, compared with IL 668 million in 1967, while redemption totalled IL 770 million and IL 551 million respectively. The net amount issued was thus IL 105 million in 1968, compared with IL 117 million the year before. However, it should be pointed out that sales of the special Short-Term Loan to banks dipped by IL 23.6 million, compared with a rise of IL 1.2 million in 1967 (see below). Discounting this special series, the public's holdings increased by IL 129 million, as against IL 116 million in 1967. The Bank of Israel has frozen all proceeds from the sale of this loan since June 1966 in accordance with an agreement with the Government, and in return has applied them toward the reduction of the Treasury's long-term obligations to the Bank of Israel.

In March 1968 issuance of the 18-month series of the Short-Term Loan was resumed, after being discontinued in March 1967. Purchases of this series accounted for two-thirds of the public's incremental holdings in 1968, and its

relative share in the outstanding debt came to 21 percent at the end of the year.

Table XX-12
OUTSTANDING SHORT-TERM LOAN HOLDINGS, BY SERIES, 1967-68

Series	1967		1968		Increase or decrease (-)	
	IL m.	%	IL m.	%	IL m.	%
3 months	71.6	18	67.2	13	-4.4	-6
6 months	109.1	28	154.8	30	45.7	42
12 months	180.1	46	187.5	36	7.4	4
18 months	29.4	8	109.3	21	79.9	272
Total	390.2	100	518.8	100	128.6	33

The yield on the Short-Term Loan issued to the public remained unchanged in the year reviewed—5.75 percent for the three-month series, rising by $\frac{1}{2}$ percent for each series up to 7.25 percent for those maturing in 18 months. Banks are entitled to purchase treasury bills at the rate of IL 1 for every

Diagram XX-2

**OUTSTANDING SHORT-TERM LOAN
HOLDINGS OF THE PUBLIC,
BY SERIES, JAN. 1967 TO DEC. 1968**

(IL million)

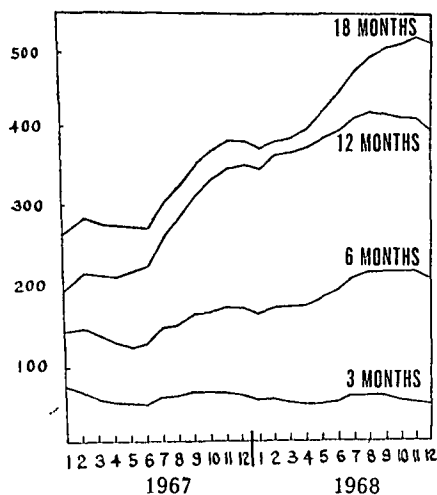
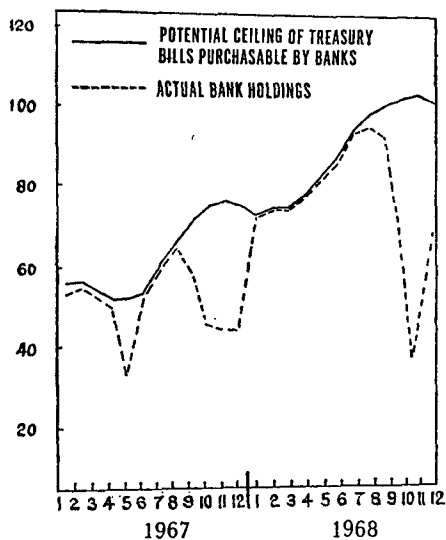


Diagram XX-3

**PURCHASES OF TREASURY BILLS
BY BANKS, 1967-68**

(IL million)



IL 4 of 18-month Short-Term Loan certificates, as compared with a 1:5 ratio for other series. The bills, which are recognized as liquid assets for the purpose of calculating liquidity, bear interest of 9.5 percent per annum, as compared with 7.5 percent on deposits for one year or more with the Bank of Israel. In addition to the higher return earned on treasury bills, the banks may resell them to the Bank of Israel for an interim period, with the option of reacquisition at the end of the period. This enables them to avoid "breaking" their fixed-term deposits, with the loss of interest involved. The banks exercised this option to a much greater extent in 1968, especially in the last quarter.

Four series of the special Short-Term Loan to banks—the proceeds of which are transferred to the Treasury and are not included in the above-mentioned agreement of June 1966 between the Bank of Israel and the Government—were floated in 1968, to a total of IL 10.3 million, and eight series, totalling IL 33.9 million, were redeemed; the outstanding balance therefore fell by IL 23.6 million. This loan was issued for a three-year period, and amounts not renewed reached final maturity in 1968.

4. Absorption Loan

The Government's total debt on account of the Absorption Loans (i.e. the amount deducted at source from wage earners and collected from self-employed on account of the loans for the years 1961, 1962, and 1963) totalled IL 186 million at the end of 1968: IL 23 million for 1961, IL 62 million for 1962, and IL 101 million for 1963. The distribution of loan certificates by the Bank of Israel continued in 1968, and by the end of the year the cumulative total was IL 175 million; the amount not yet distributed therefore came to only IL 11 million. Certificates totalling IL 6 million were being held at the end of the year for persons who had not been located by the Post Office. In the year reviewed approximately 208,000 certificates, totalling IL 57 million, were distributed to some 130,000 persons; about 80 percent of this sum was distributed in the first quarter of the year.

The third redemption of the Compulsory Saving Loan, 1962, took place on April 1, 1968, with one-quarter of the principal being repaid plus 20 percent accumulated interest. The second redemption of the 1961 Absorption Loan and the first redemption of the 1962 Absorption Loan took place on the same date, with 10 percent of the principal being repaid on each of the loans. Annual interest is 4 percent. The first redemption of the Absorption and Compulsory Saving Loan, 1963, likewise took place on April 1, with one-seventh of the principal being repaid plus 16 percent interest accumulated over four years.

Bonds of the 1962 and 1963 series were converted into bearer bonds on April 1, 1968. They were listed on the Tel Aviv Stock Exchange on the same day and traded under the usual terms (up to that time these series were traded in the free market). Turnover in these bonds was very high in April and May,

averaging IL 1.0–1.4 million per week; this is ascribable to the exceptionally large distribution in March (IL 4.0 million) and heavy sales by institutions and companies which waited until after the conversion. Subsequently, turnover declined to an average weekly level of IL 640,000. The yield at the end of 1968 was 1 ¼–2 percent higher than at the end of the previous year.

5. *Insurance Companies Loan*

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 (1962 and 1965) certificates. The bonds are issued for periods of five to 40 years, at the option of the insurance company and on terms matching those of the linked life insurance policies it has sold. Of the first loan (1962), index-linked bonds were issued in 1968 to a total value of IL 13.8 million (IL 12 million in 1967). Annual redemption of this series reached IL 216,000 in 1968, compared with IL 28,000 in the previous year. In 1967 dollar-linked bonds were issued for the first time, for deposits made from 1962 to 1967; these amounted to IL 11 million (including linkage differentials). In the year reviewed IL 2 million worth of these bonds were issued and IL 500,000 worth were redeemed. The balance of deposits in the Bank of Israel against which bonds had not yet been issued totalled IL 15.6 million at the end of 1968.

Of the second loan (1965), bonds were issued in 1968 to a value of IL 1.4 million, compared with IL 0.7 million in 1967; the balance of deposits stood at IL 0.9 million at year's end.

6. *Open-market operations*

The Bank of Israel stepped up its open-market operations in 1968. It serves as a regulatory and stabilizing influence in the bond market, meeting excess demand and absorbing excess supply in order to maintain market stability. Trade in the Short-Term Loan rose by 54 percent in 1968, to IL 100 million—representing one-quarter of all bond trading on the Exchange. The Bank of Israel accounted for IL 76 million of total Short-Term Loan transactions this year; of this sum, IL 53 million represented purchases and IL 23 million sales.

Excluding the Short-Term Loan, the Bank's operations in the bond market totalled IL 25 million, compared with IL 31 million in 1967. This consisted of IL 8 million in purchases and IL 17 million in sales.

The number of certificates of State and other public loans handled by the Bank's State Loans Administration on Stock Exchange members' account amounted to approximately 4.8 million in 1968, compared with 5.9 million the year before. All of the decline was in Defense Loan certificates; this can be

attributed to the fact that, in contrast to the practice with the 1967 series, certificates were issued in the year reviewed only against cash sales, while the remainder will be issued upon completion of payments.

7. *Administrative activities*

The Bank of Israel redeemed 291,000 certificates of various loans in 1968, compared with 381,000 the year before. The decrease was due mainly to the final redemption in 1967 of the prize-bearing Immigrant Housing Loan and the 13th series of the Development Loan, which were held by a large number of investors. The number of coupons redeemed fell somewhat, from 1.7 million in 1967 to 1.5 million.

During the year 19 drawings of prize-bearing loans were held, as well as 16 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 40 loans floated by five public bodies. In 1968 four new loans were issued to a total of IL 42.7 million. In addition, in August two loans denominated in foreign currency and with a nominal value of \$ 5 million were transferred to the Bank for administration. The value of these loans at the current exchange rate is IL 17.5 million. The outstanding balance of loans administered by the Bank of Israel advanced in 1968 by 16 percent to stand at IL 293 million.

During the year IL 18.6 million was paid out on account of principal and linkage differentials on dollar-linked loans, and IL 1.6 million on index-linked. Total interest payments, including linkage on these loans, came to IL 20.1 million.

Details on domestic loans administered by the Bank of Israel appear in the appendix to this chapter.

(c) *Foreign loans*

The second issue of the Development Loan was floated abroad in 1968, in an authorized amount of \$ 200 million. As with the earlier series, this one was issued for a 20-year period and designed for companies, organizations, and other bodies. Interest was fixed at 5.5 percent, compared with 4.75 percent for the first series and 4.0 percent for other series of the Development Loan.

The new series went on sale in August 1968, and by the end of the year the figure reached \$ 54 million. Sales of the first series totalled \$ 10 million in 1968, while those of the fourth series of the regular Development Loan reached \$ 103 million. All told, \$ 167 million in Development Bonds were sold abroad in the year reviewed, as contrasted with \$ 192 million in 1967 and \$ 79 million in 1966. Sales were \$ 35 million lower in 1968 than in 1967, when a new high was

reached as a result of the energetic campaign conducted in connection with the national emergency.

The Bank of Israel handles the conversion and early redemption of Independence and Development Bonds. The Bonds are converted in accordance with the terms of the loan, set forth in the agreement with Israel's fiscal agent in the United States (the Chase Manhattan Bank), and subject to the instructions of the Foreign Currency Division of the Treasury. The value of Independence and Development Bonds converted into Israeli pounds amounted to \$ 26.7 million in 1968, compared with \$ 20.3 million the year before. The increase can be ascribed entirely to the growth of tourism from abroad.

Table XX-13

FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1968
(\$ thousand)

Loan	Amount subscribed at end of 1968	Amount redeemed* by end of 1968	Amount owing at end of 1968	Amount converted into IL in 1968	Interest paid in Israel only in 1968
Independence Loan	145,533	145,533	—	39	12
Development Loan					
First series	234,140	183,635	50,505	1,070	183
Second series	293,621	131,979	161,642	7,588	798
Third series	392,630	69,887	322,743	14,328	581
Fourth series	135,516	3,437	132,079	2,782	22
Special investment series A	72,300	46,995	25,305	895	8
Special investment series B	53,988	—	53,988	—	—
Total	1,327,728	581,466	746,262	26,702	1,604

* Bonds redeemed in Israeli pounds or dollars or exchanged for later issues.

A breakdown shows that conversion by tourists (for covering their expenses in Israel) amounted to 37.5 percent of the total, as against 20.5 percent in 1967. The proportion used for financing investments in local enterprises declined from 32.4 percent in 1967 to 24.7 percent, but the absolute sum held steady at \$ 6.6 million. The relative share of institutions receiving contributions in the form of Independence and Development Bonds fell from 41 percent in 1967 to 29.8 percent. The remaining 8 percent was converted by Israeli residents, temporary residents, and new immigrants.

9. EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1968 the Department of the Examiner of Banks in the Bank of Israel exercised control over 80 banking and financial institutions, as compared with 84 at the end of the previous year.

In the latter part of 1968 the Holland Bank Union transferred the business of its Israeli branches to the Israel Discount Bank. Early in the year the co-operative credit and savings society Otzar l'Ashrai Shel Hapoel Hamizrachi Tel Aviv Ltd. transferred its banking business to Agudat Israel Bank Ltd. The number of mortgage and investment banks remained unchanged, while two institutions ceased functioning as supervised financial institutions.

Table XX-14

BANKING AND FINANCIAL INSTITUTIONS UNDER BANK OF ISRAEL SUPERVISION, 1967-68

(End of period)

Type of institution	1967	1968
Commercial banks ^a	28	27
Cooperative credit societies	17	16
Mortgage and investment banks	20	20
Financial institutions	19	17
Total	84	80

^a Including the Israel Bank of Agriculture and Yaad Agricultural Development Bank.

(a) *Audits*

The Department carried out 53 examinations of banking and financial institutions during the year reviewed; these included three audits performed by independent firms of accountants at the request of the Examiner of Banks, in continuation of the policy initiated in the previous year.

The audits were varied in nature and included general audits, the examination of credit and collateral, and partial audits of time deposits, overseas bank deposits, documentary credits, etc.

In addition to these audits, the Department continued to closely follow the current position of a number of banking and financial institutions which had granted credit and guarantees to several clients in excessively large amounts relative to the institutions' capital. The managements of the institutions concerned were instructed to reduce the volume of such indebtedness and to take steps to secure suitable collateral. In the course of these audits the amount provided for doubtful debts was also examined.

(b) *Direction of credit*

The Department of the Examiner of Banks is responsible for the execution of the Bank's policy with regard to the qualitative control of credit extended by the banking and financial institutions. As in previous years, the Department concentrated on the operation of the export finance funds.

The amount of finance provided by the Industrial Export Fund (excluding the diamond industry) for production and domestic purchases came to IL 158.8 million at the end of 1968, compared with IL 114.0 million the year before. Credit for financing overseas shipments added up to IL 163.7 million at the end of 1968, as against IL 110.5 million at the end of the previous year. The total sum provided for industrial exports therefore came to IL 322.5 million at the end of 1968, in contrast to IL 224.5 million at the end of 1967—a rise of IL 98 million or 44 percent, as against IL 54.8 million (32 percent) in the previous year. The increase was due to the growth of exports in 1968 and to the fact that after the devaluation of the Israeli pound on November 19, 1967 credit quotas were calculated according to the new exchange rate, with the result that a larger sum was made available for financing exports, the effects of which were felt primarily in 1968.

The balance of credit extended to the diamond industry by the Export Fund totalled IL 125.6 million at the end of 1968, compared with IL 118.8 million at the end of 1967—an increase of IL 6.8 million.

In addition to providing finance in local currency, the Fund grants export credits in foreign currency with the approval of the Bank of Israel. Outstanding credit of this type reached IL 27.4 million at the end of 1968, as against IL 13.4 million at the end of 1967. Of the 1968 total, IL 21.5 million went to the diamond industry (IL 3.9 million at the end of 1967), and the rest to export companies.

Some of the foreign currency credits for financing imports for export production are provided from a special fund. The balance of credit to the diamond industry from this source totalled IL 117.4 million at the end of 1968, as contrasted with IL 84.9 million at the end of the preceding year.

The amount of credit made available through the Agricultural Export Fund continued to rise in 1968, the balance at the end of the year reaching IL 31.5 million as against IL 20.4 million at the end of 1967. Of this sum, IL 14.5 million went to finance the cultivation of export crops (IL 8.6 million at the end of 1967), and IL 17.0 million (IL 11.8 million at the end of 1967) to finance overseas shipments.

Outstanding credit from the Tourist Industry Finance Fund came to IL 4.3 million at the end of 1968, compared with IL 4.2 million the year before.

The Industrial Working Capital Fund stood at IL 45.2 million at the end of 1968, as against IL 49.1 million at the end of 1967. This Fund includes a special fund set up to finance small industry and crafts. The balance of credit from the

latter source amounted to IL 1.2 million at the end of 1968, compared with IL 2.0 million at the end of 1967.

As a result of discussions held by the Bank of Israel, the Ministry of Commerce and Industry, and the banking institutions, it was decided to unify the terms for the credits granted by the industrial working capital funds administered by the Bank of Israel and others. Accordingly, the composition of the general Fund was revised, as from October 1, 1968, as follows: 40 percent of the credits will be in the form of exemptions from the liquidity requirements, 30 percent will be financed by Treasury deposits or by Bank of Israel rediscounts, and the remaining 30 percent will come from the banking institutions' free resources.

(c) *Compilation of information*

At the end of September 1967 the banking institutions started to report to the Department of the Examiner of Banks in greater detail, listing *inter alia* all clients whose outstanding debt, including that in the form of bill brokerage, guarantees, etc., amounted to IL 100,000 or more. At the end of September 1968 the total of such debts accounted for 78 percent of all banking institution receivables. The Department compiles this information and notifies each of the institutions which reported on the liabilities of such borrowers.

Table XX-15
MAJOR BORROWERS, 1967-68

	30.9.67	31.3.68	30.9.68
Number of banking institutions submitting reports	43	42	43
Number of clients listed in reports	2,613	2,981	3,231
Total value of loans granted to major borrowers (IL million)	3,448.3	3,929.7	4,304.3
Percent of total loans granted by banking institutions	76	75	78

(d) *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 their due date, and sends a list to the reporting institutions. As in 1967, there was a distinct downward trend in the volume of such notes. The average weekly number of dishonored notes reported by the institutions during 1968 was 241, valued at IL 1.2 million, compared with 530 (IL 2.3 million) in 1967.

Table XX-16

DISHONORED PROMISSORY NOTES, JAN. 7, 1968 TO JAN. 3, 1969

Period	No. of weeks	Total		Weekly average	
		No. of notes	IL'000	No. of notes	IL'000
Jan. 7, 1968–April 5, 1968	13	3,577	16,594	275	1,276
April 7, 1968–July 5, 1968	13	3,262	15,848	251	1,219
July 7, 1968–Oct. 4, 1968	13	2,558	12,622	197	971
Oct. 6, 1968–Jan. 3, 1969	13	3,134	16,595	241	1,277
Jan. 7, 1968–Jan. 3, 1969	52	12,531	61,659	241	1,186

(c) *Bank branches*

At the end of 1968 the number of bank branches, excluding head offices, stood at 721, as against 704 at the end of the previous year—an increase of 17, compared with 14 in 1967. This includes two branches that were formerly head offices—one belonging to a cooperative credit society and the other to a commercial bank. Two branches closed down in 1968, while the number of new branches opened was 21, including 6 subbranches situated in moshavim¹ and which are open only several hours a week.

In 1968 three Israeli banks opened four more offices in the administered areas—two in Judea and Samaria, one in the Gaza Strip, and one on the Golan Heights. This brought the total number of branches operating in the administered areas up to 15.

(f) *Bill for the amendment of the Banking Ordinance (No. 9)*

At the beginning of 1968 the Minister of Justice submitted the draft of a bill for the amendment of the Banking Ordinance (No. 9) to the Ministerial Economic Committee for discussion. It was subsequently tabled in the Knesset and gazetted on June 5, 1968. After the first reading, the bill was referred to the Finance Committee, and by the end of the year it had almost completed its deliberations. The second and third readings took place at the beginning of 1969, and on March 24 the amendment went into effect after being gazetted on the same date.

The bill is designed to invest the Examiner of Banks with new powers enabling him to instruct any institution subject to his control to correct any shortcomings uncovered in an audit, to provide broad powers to the Governor of the Bank

¹ Cooperative smallholders' villages.

of Israel enabling him to take such action as may be necessary to prevent the financial involvement or collapse of any bank or financial institution or even to take over effective control himself, and to impose legal restrictions on such activities as are liable to impair the stability of a banking institution.

(g) *Annual financial reports*

The Examiner of Banks held discussions with the liaison committee of the Association of Certified Public Accountants in Israel on matters concerning the annual financial reports. At the end of 1968 the Examiner of Banks sent a circular to all commercial banks requesting them to include in their profit and loss statements the linkage differentials that had accrued even if the items had not yet fallen due at the balance sheet date. Previously, the procedure had been to credit the increment to the profit and loss account only in the year in which the linked loan or receivable fell due.

Another circular explained the method of evaluating securities and their balance sheet presentation; this supplemented the instructions on the form of balance sheet presentation which were circulated in December 1965.

The Examiner of Banks also held discussions with the Advisory Committee on Matters Relating to Banking Business and with the Association of Certified Public Accountants concerning the preparation of the commercial banks' profit and loss statements. As a result of these discussions, it was decided to request commercial banks to publish, together with the balance sheet, a profit and loss statement to be drawn up in a standard form and in accordance with prescribed guidelines (these had not yet been finalized by the end of 1968).

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

A special subcommittee considered the problem of the form of reporting to be required of banking institutions for the purpose of calculating their liquidity position. Its recommendations were approved in principle by the Committee, but at the behest of the Examiner of Banks, they are to be re-examined in the light of updated data on the banks as of September 30, 1968, after which they will be resubmitted to the Committee for final approval. Another subcommittee dealt with the bill for the amendment of the Banking Ordinance (No. 9) (see section 9 [f] above). The Committee also dealt with proposals for changing the calculation of the permitted volume of credit guarantees and with the form in which profit and loss accounts were to be prepared by commercial banks (see section 9 [g] above).

Members of the Committee were: Messrs. E. Shimoni (Chairman), Y. Arnon, H. Barkai, E. Bawly, H. Burla, Y. Foerder, E. A. Kirschner, E. Lehman, E. Levi, K. A. Mossberg, D. Recanati, D. Shoham, J. Voet, A. Zabarski, and S. Zack.

(i) *Advisory Committee on Cooperative Credit Societies*

The Committee discussed the special problems of credit cooperatives and the auditing of the cooperatives by the Audit Union. Members of the Committee were Messrs. E. Shimoni (Chairman), L. Garfunkel, H. Mevorach, Y. Shachor, A. Shtacher, B. Vinitzki, and Y. Yakir.

10. THE CLEARINGHOUSES

The year 1968 saw a considerable increase in the volume of checks and notes passing through the clearinghouses administered by the Bank of Israel in the three main cities. The total value of items cleared went up 24.8 percent, as compared with a mere 0.2 percent in 1967 and 10.5 percent in 1966. Whereas the low 1967 figure reflected the influence of the economic recession, the Six Day War, and the preceding period of national emergency, the big jump in 1968 was due to the recovery of economic activity after the war.

Table XX-17
VOLUME OF CLEARINGS,^a 1966-68
(IL million)

	1966		1967		1968	
	Items presented	Items returned	Items presented	Items returned	Items presented	Items returned
Urban clearings						
Jerusalem	3,299	85	3,663	94	4,546	136
Tel Aviv	16,832	975	16,692	953	20,784	1,198
Haifa	3,670	194	3,501	181	4,371	162
Total	23,801	1,254	23,856	1,228	29,701	1,496
Local clearings ^b	40		36			
All clearinghouses	23,841	1,254	23,892	1,228	29,701	1,496
Increase or decrease (-) as against previous year						
IL million			51	-26	5,809	268
Percent			0.2	-2.1	24.3	21.8

^a Excluding credit notes.

^b The value of checks returned from the local clearinghouses is included in the figures on urban clearinghouse returns.

There was also a rise, though more restrained, in the total number of clearings—the average daily number of items presented in 1968 was 97,500, compared with 90,200 in 1967.

The total value of items returned in 1968 was IL 1,496 million—IL 268 million more than in 1967, when there was a decline of IL 26 million. At the same time, the ratio between items returned and items presented edged down from 5.3 and 5.1 percent in 1966 and 1967 respectively to 5.0 percent in the year under review.

Table XX-18
CLEARING OF CREDIT NOTES, 1966-68
(IL million)

Clearinghouse	1966	1967	1968
Jerusalem	1,168	1,351	1,305
Tel Aviv	1,026	1,559	2,397
Haifa	71	82	96
<i>All clearinghouses</i>	<i>2,265</i>	<i>2,992</i>	<i>3,798</i>

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 Committee which took office on October 1, 1968 was composed of the following members: Messrs. A. Lojter (Chairman), D. Winogradov, A. Kuker, and M. Weiss—representing the Bank of Israel; and I. Porat, D. Elallouf, M. Rapoport, and Mrs. H. Lahmi—representing the Association of Banks in Israel. In addition, the following alternate members were appointed: Mrs. I. Kaufmann (Chairman), and Messrs. B. Shchori, A. Shalmon, and P. Barsel—representing the Bank of Israel; and D. Hershkovitz, M. Freed, and R. Sadka—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, in the periodic bulletins of the Department, and in special publications. Among the research studies published in 1968 were the following:

1. Periodic internal surveys of the main economic developments and of developments in the monetary field.
2. Bill Brokerage in Israel, 1963-1967.
3. Determinants of Security Ownership.
4. Changes in Wage Differentials by Occupational Group, 1957/58-1963/64.
5. Income and Expenses of Banking Institutions in 1967.
6. Industrial Trade Credit in Israel, 1956/57-1964/65.
7. Export Financing and Insurance in Israel.

The Bank's Research Department prepared, together with the Economic Planning Authority and the Economic Advisory Bureau of the Ministry of Finance, the National Budget for 1969, which was tabled in the Knesset together with the Government budget in December 1968.

The study on Export Financing and Insurance in Israel was commissioned by the United Nations Secretariat under its program of encouraging exports from the developing countries, and was issued as an official United Nations document.

The Economic Development of Israel, by Nadav Halevi and Ruth Klinov, was brought out in 1968 by Frederick A. Praeger of New York, in the series of research studies which it is publishing on Israel. Previous books in the series were *The Legal Framework of Economic Activity in Israel*, by Meir Heth, and *Service Industry in a Developing Economy—the Case of Israel*, by Gur Ofer.

The full version of Haim Levy's study, *Changes in Wage Differentials by Occupational Group, 1957/58–1963/64*, was issued as a special publication of the Research Department.

On April 21, 1968 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 April 30, 1967 to January 31, 1968.

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

The International Monetary Fund's plan for introducing "special drawing rights" was presented to member-countries for their approval on June 1, 1968, after being approved by the Board of Governors of the Fund on May 31. On June 26 the Government of Israel duly approved the amendments to the International Monetary Fund's Articles of Agreement for the purpose of giving effect to the implementation of the plan, and empowered the Governor of the Bank of Israel to take such steps as were required of Israel in order to execute this decision. In January 1969 the Governor duly advised the Secretary of the International Monetary Fund that Israel accepted all obligations devolving on member-countries participating in the plan.

Following a series of meetings between the Governor of the Bank of Israel and the President of the World Bank, Mr. R. McNamara, and its management concerning the renewal of World Bank financing of Israel's development projects, the Bank dispatched a delegation to Israel in October 1968 charged with surveying economic developments and future prospects. The delegation's report was due to be completed by March 1969.

Israel's annual consultations with the International Monetary Fund, as required under article 14 of the Fund's Articles of Agreement, were held in Jerusalem in

Table XX-19

WORLD BANK LOANS TO ISRAEL—POSITION ON DECEMBER 31, 1968

(\$ thousand)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Cancellations	Repayments	Sold by lender	Effective loan	Amount disbursed
Direct loans									
Ports Authority—Ashdod Port	9.9.60	1965–85	5.75	27,500	87	895	1,850	24,667	27,412
Israel Government—roads	17.10.62	1967–80	5.50	22,000	—	1,581	754	19,665	22,000
Government-guaranteed loans									
Dead Sea Works Ltd.	11.7.61	1966–76	5.75	25,000	—	2,161	2,519	20,320	25,000
Industrial Development Bank Ltd.	16.10.65	1968–81	5.50	20,000	—	1,035	—	18,965	19,998
Industrial Development Bank Ltd.	15.11.67	1970–82	*	15,000	—	—	—	15,000	1,693
Total				109,500	87	5,672	5,123	98,617	96,103

* 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.

January 1968. The decisions adopted were approved by the Director of the Fund in April 1968, and were published in the Bank of Israel's Annual Report for 1967 (p. 590). The consultations for the current year were scheduled to take place in Jerusalem at the end of May 1969.

The Governor of the Bank of Israel and Minister Pinhas Sapir participated in the annual conference of the Governors of the International Monetary Fund and the World Bank, held in Washington in September 1968. The Minister represented Israel on the Board of Governors of the International Monetary Fund, and the Governor of the Bank of Israel represented this country on the Board of Governors of the World Bank and its affiliated institutions. Mr. Y. Taub, Secretary-General of the Bank of Israel, served as deputy to the Governor of the International Monetary Fund, and Dr. Y. Arnon, Director-General of the Ministry of Finance, served as deputy to the Governor of the World Bank.

In January 1969 Mr. Ze'ev Sharef, Minister of Finance and of Commerce and Industry, replaced Mr. Sapir as Israel's Governor on the Board of the IMF.

13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council met periodically to discuss developments in the economy as surveyed by the Governor of the Bank, with special emphasis on the monetary aspects and the Bank's role therein. In addition to these general matters, the Advisory Council discussed a number of topics specifically affecting the Bank and the banking system and such monetary problems as the liquidity regulations, foreign exchange reserves, the merging and licensing of banks, securities and the Bank of Israel's open-market operations, and its relations with international financial institutions.

The Advisory Council approved the issue of the 1968 gold and silver commemorative coins, as required by the Bank of Israel Law.

On December 8, 1968 the Government appointed for a further two-year term, in accordance with the Bank of Israel Law, the Advisory Committee and Advisory Council, with the following membership for the Advisory Committee: Messrs. Y. Chorin (Chairman), M. Chazani (Deputy Chairman), Y. Foerder, E. Hacohen, Z. Susayeff, A. Zabarski, and H. Zadok. The Chairman and Deputy Chairman serve in the same capacity on the Advisory Council, which consists of the members of the Advisory Committee, with the addition of Messrs. Y. Bader, H. Barkai, A. Becker, N. Feingold, Y. Foerder, E. Hacohen, Z. Onn, A. Ostashinsky, D. Recanati, A. Schechter, Z. Susayeff, A. Zabarski, and H. Zadok. Mr. Susayeff replaced Mr. S. Bejarano on the Advisory Committee and Advisory Council, and Prof. Barkai replaced Prof. D. Patinkin on the Advisory Council.

14. THE BANK AND ITS STAFF

At the beginning of 1968 the Knesset passed the Bank of Israel Law (Amendment), 5728-1968. Under the prior law, the Bank was obligated to supply Israeli currency in registered denominations of banknotes and coins, upon tender of the appropriate amount of currency for exchange. The amendment limits this obligation, so that the Bank is not required to supply currency having special characteristics, or issued, printed, or minted in a specific year. The amendment also provides that the Bank shall sell coins designated as commemorative coins only to a company duly appointed for the purpose by the Government and subject to its control.

On December 1, 1968, the anniversary of the opening of the Bank in 1954, the cornerstone of its permanent premises in Government City, Jerusalem, was laid by the Governor of the Bank and the Chairman of the Advisory Council. At this stage, the plans call for the construction of the vaults only, while work on the building itself will get under way only when the supply of building labor in Jerusalem permits.

On Independence Day, 1968 the Governor of the Bank, Mr. David Horowitz, was awarded the Israel Prize in the Social Sciences for his contribution to the development of economic thought in Israel and his research studies of the economy.

The Governor of the Bank, together with the Minister of Commerce and Industry and Minister Yosef Saphir, headed the Israeli delegation to the Second UNCTAD Conference, which took place in New Delhi in February-March 1968. In his address to the conference, the Governor resubmitted the plan that bears his name and whose economic soundness had again been approved in a report presented by the UNCTAD secretariat. The plan was adopted, but without mentioning the name of its author, by the group of 77 developing countries in a document called the Algiers Charter.

The Inter-American Development Bank, a joint institution of all American states devoted to the economic development of Latin America, adopted the Horowitz Proposal after it had won the support of the Alliance for Progress, and is taking steps for its implementation by member-states.

Dr. Fanny Ginor, economic advisor to the Governor of the Bank, and Dr. E. Ahiram, formerly of the Bank's Research Department, were members of the Israeli delegation to the Second UNCTAD Conference. Dr. Ginor also represented Israel on a number of bodies of the conference during the year, in particular at the sessions of the Third (Finance) Committee.

Mr. E. Shimoni, Examiner of Banks, retired on pension at the end of 1968, after having held that post for eight years, prior to which he served as Deputy Examiner. He was succeeded by Mr. Meir Heth, formerly a chief economist in the Bank's Research Department.

Mr. Z. Sussman and Dr. E. Sheffer, Joint-Directors of the Research Depart-

ment, and Mr. Y. Taub, the Bank's Secretary-General, were members of the Israeli delegation to the International Economic Association Conference held in Montreal. Dr. Sheffer was invited by the Under-Secretary-General for Economic Affairs to be a member of a team of experts appointed by the UN at the beginning of 1969 to study export financing problems in developing countries.

At the beginning of 1968, the electronic computer that had been installed at the Jerusalem head office at the end of the previous year was put into operation. The computer performs various jobs for the State Loans Administration, the Department of the Examiner of Banks, the Research Department, and the general secretariat. By the end of the year preparations for the current daily recording of the Bank's local and foreign currency transactions were nearing completion.

This year saw the introduction of advanced training courses in banking and economics, conducted by senior members of the Bank's staff for some 15 members of intermediate grades. The courses are held at the Bank's Tel Aviv branch.

The Bank set up a fund for financing the advanced training of professional members of its staff. The fund, similar to that for professional and technical personnel in the civil service, covered some 70 employees by year's end.

Members of the staff purchased about IL 265,000 in Defense Bonds during 1968, paid for in part out of compensation received in lieu of accumulated annual leave.

At the beginning of 1968 the Bank's staff committee applied to the courts for an interpretation of the wage agreement with the Bank, after the Governor had turned down a request for the award of the 5 percent wage increase that had been frozen for 1967. The courts did not accept the committee's interpretation that the increase should take effect as from the beginning of 1967, but ruled that it should take effect as from the beginning of 1968.

The number of Bank employees in the head office in Jerusalem and in the Tel Aviv and Haifa branches totalled 666 at the end of 1968, in addition to 33 trainees and 59 guards.

On August 23, 1968 Shmuel Tamari fell in the line of duty while serving as a reservist in the Jordan Valley. He wrote the chapter on industry in the 1967 and 1968 Annual Reports of the Bank, and in his passing the Bank was deprived of one of its most promising members—one who was still at the threshold of his career.

STATEMENT OF ASSETS AND LIABILITIES
AS AT DECEMBER 31, 1968

and

PROFIT AND LOSS ACCOUNT FOR THE
YEAR ENDING DECEMBER 31, 1968

BANK OF ISRAEL

STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1968

ASSETS

(IL)

LIABILITIES

	Dec. 31, 1968	Dec. 31, 1967		Dec. 31, 1968	Dec. 31, 1967
Gold	161,162,858	160,761,911	Capital	10,000,000	10,000,000
Gold—quota in International Monetary Fund	78,750,166	78,750,166	Reserve fund	10,000,000	10,000,000
Foreign currency assets	2,080,075,681	2,261,638,746	Banknotes and coin in circulation	1,124,026,520	997,888,317
Clearing accounts in connection with trade agreements	15,777,201	37,263,182	Clearing accounts in connection with trade agreements	10,595,951	9,767,983
Participation in international financial institutions	18,285,949	17,151,533	Deposits of international financial institutions	3,380,157	3,352,591
Treasury bills	113,202,000	138,374,000	Demand deposits of banking institutions (including financial institutions)	476,796,898	402,486,840
Land bills	—	21,376,000	Time deposits of banking institutions (including financial institutions)	419,990,000	309,505,000
Other securities	26,908,291	24,876,583	Foreign currency deposits of banking institutions	1,924,497,456	1,601,266,735
Long-term advances to the Government	304,970,017	358,471,458	Government deposits—compulsory savings	16,409,812	25,027,310
Provisional advances to the Government	690,141,374	369,598,147	Government and National Institution deposits in foreign currency	10,976,594	536,417,644
Bills rediscounted—local currency	256,044,664	245,784,597	Deposits on account of U.S. food surplus purchases (see assets)	78,375,886	118,328,488
Bills rediscounted—foreign currency	194,059,458	162,832,680	Liabilities for documentary credits in connection with payments agreements (see assets)	62,444,349	78,325,060
Advances to foreign governments and institutions	61,342,960	33,705,732	Liabilities in connection with guarantees (see assets)	275,119,738	269,630,778
Food surplus account (see liabilities)	78,375,886	118,328,488	Other accounts	18,800,352	8,759,115
Premises, equipment, etc.	1	1			
Documentary credits in connection with payments agreements (see liabilities)	62,444,349	78,325,060			
Guarantees (see liabilities)	275,119,738	269,630,778			
Other accounts	24,853,120	3,886,799			
	<u>4,441,413,713</u>	<u>4,380,755,861</u>		<u>4,441,413,713</u>	<u>4,380,755,861</u>

BANK OF ISRAEL

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1968

(IL)

	Dec. 31, 1968	Dec. 31, 1967		Dec. 31, 1968	Dec. 31, 1967
EXPENSES			INCOME		
Interest paid, administrative expenses, and other expenses	122,357,699	85,949,581	Interest, commission, and other income ^a	198,543,039	173,868,080
Net profit	76,185,340	87,918,499			
	<u>198,543,039</u>	<u>173,868,080</u>		<u>198,543,039</u>	<u>173,868,080</u>

DISTRIBUTION OF PROFITS

To the Government for redemption of long-term advances from the Bank of Israel	—	42,527,359			
Transferred to the Accountant General	76,185,340	45,391,140	Net profit	76,185,340	87,918,499
	<u>76,185,340</u>	<u>87,918,499</u>		<u>76,185,340</u>	<u>87,918,499</u>

^a After provision of IL 42.3 million for doubtful debts.

BANK OF ISRAEL
THE GOVERNOR AND MEMBERS OF THE ADVISORY
COMMITTEE AND ADVISORY COUNCIL
MAY 1969

Governor

D. HOROWITZ

Advisory Committee

Y. CHORIN, *Chairman*
M. CHAZANI, *Deputy Chairman*
Y. FOERDER
E. HACHOEN
Z. SUSAYEFF
A. ZABARSKI
H. ZADOK

Advisory Council

Y. CHORIN, *Chairman*
M. CHAZANI, *Deputy Chairman*
Y. BADER
H. BARKAI
A. BECKER
S. BEJARANO
N. FEINGOLD
Y. FOERDER
E. HACHOEN
Z. ONN
E. OSTASHINSKY
D. RECANATI
A. SHECHTER
Z. SUSAYEFF
A. ZABARSKI
H. ZADOK