CHAPTER XVIII

THE SECURITIES MARKET

1. Main Developments

Developments in the new issue market during the year reviewed were influenced by the imposition of two compulsory Government loans in April, in place of the 1968 and 1969 Defense Loans (purchases of which can be credited mainly to the exertion of public pressure, even though formally these were not forced loans). As a result of this step, the total amount of capital raised from the public increased from IL 915 million in 1969 to IL 1,264 million (see Table XVIII–1). Compulsory loan collections between April and December 1970 added up to IL 523 million, while the amount collected on account of the 1968 and 1969 Defense Loans declined by IL 176 million.[1] All told, collections of both types of loans rose from IL 337 million in 1969 to IL 685 million.

The imposition of the compulsory loans dampened sales of other bonds offered to the general public[2] by IL 85 million. On the other hand, long-term index-linked bonds, intended primarily for institutional investors, grossed IL 109 million more than in 1969, so that total sales of noncompulsory loan certificates increased during 1970 by IL 24 million.

The different types of bonds offered to the general public showed a contrasting development in the year reviewed. Sales of option-type bonds[3] were down IL 163 million—only IL 15 million of Development Loan certificates were sold in 1970, compared with IL 147 million the year before. By contrast, net sales of bonds traded in foreign currency—the second component of this category—were IL 77 million over their 1969 level.

This decline in sales of option-type bonds can be directly attributed to the more sluggish growth of real disposable income because of the imposition of compulsory loans, higher tax rates, and rising prices. An indirect factor was the

[1] Collections on account of these loans were actually discontinued in April 1970. Sums collected after that date represented payments of arrears, chiefly by banks under an agreement with the Treasury.

[2] Including option-type loans, apart from the 1968 and 1969 Defense Loans, and bonds traded in foreign currency; excluding sales of long-term bonds, which are intended primarily for social insurance funds (the funds buy them at source, in accordance with Treasury regulations).

[3] Option-type loans permit the investor to choose, upon maturity, between a high rate of interest without linkage of the principal, and a lower rate with the principal linked to the consumer price index.

slower accumulation in approved saving schemes, the major customer for option-type loans. An additional reason is to be found in the distribution of certificates of the 1965 Absorption Loan and the 1968 and 1969 Defense Loans. A large offer of these bonds depressed their price and consequently raised their yield, enabling them to compete with new issues. In the second half of the year sales of option loan certificates picked up, in response to the rise in consumer prices.

The heavier sales of bonds traded in foreign currency indicate that expectations of an imminent currency devaluation waned toward the end of 1969, after having previously strengthened the demand for Natad (investment) dollars,[1] which bear no interest but have a fairly high liquidity. With this change in expectations, there was a shift to interest-bearing foreign currency assets. Another factor boosting sales of bonds traded in foreign currency was the reduced competition on the part of foreign securities because of the softening of their quotations on U.S. stock exchanges and the crisis that overtook foreign mutual funds. The increase in net sales of foreign securities declined from $ 23 million in 1969 to $ 14 million.

The Short-Term Loan made a strong comeback in 1970, netting a total of IL 92 million. Sales came to IL 82 million in the first half of the year, but to only IL 10 million during the second half, when nonlinked debt instruments suffered from the general rise of prices in the economy and the resulting interest in index-linked assets. The largest gain was in the three-month series, while the 18-month series registered a decline.

As to equities, there was not a single new issue in 1970, even though company profits were good. The listlessness of this market has persisted for several years, and is explained on the supply side by the availability of more advantageous ways of raising capital, and on the demand side by the lack of interest in shares.

Total security holdings of the public, including compulsory loans, rose strongly in 1970. Voluntary loans, however, increased at a slower rate than in 1969, largely because of the imposition of compulsory loans, which also affected acquisitions by institutional investors. The growth of approved saving schemes slackened, as did sales of participation certificates in mutual funds run by banks, so that the percentage rise in the portfolio investment of these groups of institutions fell below that of the previous year. Another institutional investor—social insurance funds—showed a substantially higher figure in the year reviewed because of a change in Ministry of Finance regulations, a larger annual accumulation due to the rapid development of the bank-administered social insurance schemes for self-employed, and the accelerated rise of wages and salaries per employee.

The outstanding feature of the Tel Aviv Stock Exchange during the year reviewed was the setback experienced by the equities market. Trading volume

[1] For a definition of Natad dollars see section 5.

plummeted 51 percent during the year, with the general index of share prices slipping 7.3 percent.

Stock Exchange transactions in bonds increased in 1970, but to a lesser extent than in the previous year (5 as against 16 percent). Development trends differed in the various types of bonds. Turnover in long-term index-linked paper was up 46 percent, with most of the rise taking place in the second half of the year, when the 1965 Absorption Loan was listed on the Exchange (in September).[1] The general rise of prices in the economy made this type of security more attractive, pushing up its quotations by 12.2 percent and depressing yields. Trade in option-type bonds remained stable, in spite of the listing of the 1968 Defense Loan on the Exchange in July. The effect of this listing was offset by a sharply lower turnover in Development Loans, due to fewer new issues. As with long-term index-linked loans, trading volume moved upward in the second half of the year, accompanied by a 3.3 percent price rise.

Contrasting developments also took place in the group of foreign currency bonds. Turnover in dollar-linked bonds was down 39 percent, while that in bonds traded in foreign currency went up by 23 percent. These trends were reinforced by the fluctuations in the price of the Natad dollar. Throughout most of the year, especially after April, it drifted downward, reaching a low of IL 4.05 at the end of October. In December it reversed direction, jumping to IL 4.22, compared with IL 4.35 at the end of 1969. It was the much greater offer of dollars, originating in the appreciably larger volume of personal restitution receipts from Germany, that depressed the price of the Natad dollar in the face of mounting demand.

2. New Issues in 1970

(a) *Bonds*[2]

Between April and December 1970 the Government raised a total of IL 522.8 million from the public through compulsory loans (see Table XVIII–1), which in effect took the place of the Defense Loan issues of the three preceding years. The terms of the new loans differ widely from those of the earlier Defense Loan issues. The latter are option-type paper and mature in either five (the 1967 issue) or ten years (the 1968 and 1969 issues). The new compulsory loans are linked to the cost-of-living index, and one of them matures in 16

[1] Between July and September, i.e. from the date when distribution of the certificates got under way until the listing of the loan on the Exchange, there was a brisk over-the-counter trade in them, which competed with trade in other series of the loan (see the discussion on the bond market).

[2] The data on bond issues relate to actual sales less redemptions, and not to the nominal value of the issues. Data on redemptions pertain partly to scheduled redemptions and partly to the actual amounts repaid (principal plus linkage increments thereon—see the notes to Table XVIII–1).

Table XVIII-1

DOMESTIC SECURITY ISSUES,[a] 1969–70

(IL million)

	1969			1970			Increase or decrease (–) in net issue
	Gross issue	Redemption[b]	Net issue	Gross issue	Redemption[b]	Net issue	
Regular bonds							
Long-term	441.1	118.2	322.9	564.0	131.7	432.3	109.4
Government loans[c]	33.9	27.2	6.7	20.5	20.6	–0.1	–6.8
Nongovernmental loans[d]	407.2	91.0	316.2	543.5	111.1	432.4	116.2
Option-type	351.8	110.5	241.3	206.1	127.5	78.6	–162.7
Development Loan	147.2	76.9	70.3	14.5	43.6	–29.1	–99.4
Nongovernmental loans[e]	204.6	33.6	171.0	191.6	83.9	107.7	–63.3
Bonds traded in foreign currency	76.3	41.8	34.5	152.3	40.4	111.9	77.4
Total	**869.2**	**270.5**	**598.7**	**922.4**	**299.6**	**622.8**	**24.1**
Absorption and Defense							
Loans[f]							
Absorption Loans	25.2	46.2	–21.0	15.2	58.4	–43.2	–22.2
Defense Loans, 1967 and 1968[g]	337.4	—	337.4	161.8	—	161.8	–175.6
Defense and Savings Loans, 1970	—	—	—	522.8	—	522.8	522.8
Total	**362.6**	**46.2**	**316.4**	**699.8**	**58.4**	**641.4**	**325.0**
Total bonds	**1,231.8**	**316.7**	**915.1**	**1,622.2**	**358.0**	**1,264.2**	**349.1**
Short-Term Loan			–27.9			92.0	119.9
Shares			28.5			—	–28.5

[a] Excluding sales of foreign securities in Israel and sales of bonds without a prospectus; including sales to banks under an arrangement with the Treasury (IL 82.3 million of the Defense Loan in 1969 and IL 86.7 million in 1970; and IL 62.1 million and IL 6.3 million respectively of the Development Loan).
[b] Scheduled redemptions (principal plus linkage differentials). Includes actual data on the early redemption of option-type loans and redemption of securities traded in foreign currency.
[c] In 1969 includes IL 16 million in sales of Jewish Agency bonds held by the Accountant General. These sales apparently served as a substitute for new issues by Hevrat Ovdim, a major issuer of nongovernmental securies taken up by Histadrut-administered social insurance funds, and it is reasonable to assume that had it not been for these sales other bonds would have been issued.
[d] Includes issues by financial institutions, social insurance funds, insurance companies, and other institutions.
[e] The data were converted into Israeli pounds at the official rate of exchange.
[f] The amount collected from the public and not the value of certificates distributed.
[g] Legally, these are voluntary loans. For the reasons for including them with nonvoluntary loans, see the discussion on new issues.
SOURCE: State Loans Administration.

years.[1] Another major difference is that the certificates of the new loans will be distributed only after a long period and will not be negotiable, whereas certificates of the earlier Defense Loans were distributed without much of a lag and could be traded on the market.

The new compulsory loans reduced collections of the earlier Defense Loans by IL 175.6 million, but the amount yielded by all compulsory loans[2] soared from IL 316.4 million in 1969 to IL 641.4 million. The total amount of loan capital raised by compulsory[3] and other issues rose strongly during the year, from IL 915.1 million to IL 1,264.2 million.

The compulsory loans have also largely supplanted voluntary purchases of fixed-interest securities by the investing public. Net sales of the new loans (option-type and bonds traded in foreign currency[4]) to voluntary purchasers declined from IL 275.8 million in 1969 to IL 190.5 million, i.e. by IL 85.3 million.

Option-type loans were hardest hit, their sales falling off by IL 162.7 million. In contrast to this, there was a rise of IL 77.4 million in sales of bonds traded in foreign currency. Option-type loans are acquired directly by the public and through approved saving schemes administered by the banks. Two principal reasons can be advanced to explain the smaller volume of sales in 1970. First is the fact that, despite a nominal increase in disposable private income in 1970, there was hardly any growth in real terms because of the imposition of the compulsory loans, the raising of direct tax rates (especially National Insurance contributions), and the general rise of prices. The more sluggish growth of disposable income had a marked impact on indirect purchases of option-type paper: saving scheme deposits grew by only IL 241 million in 1970, as opposed

1 There are two compulsory loans—Savings and Defense—and both carry interest of 5 percent. Distribution of Savings Loan certificates will be completed by April 1, 1974, and the loan will be redeemed in three annual installments, beginning October 1974. The certificates will not be negotiable. Certificates of the Defense Loan will be distributed by April 1, 1977; interest will be paid in three annual installments beginning in October 1977, and the loan will be redeemed in December 1985. The certificates will not be negotiable, nor may they be pledged as collateral or transferred except for transfers by operation of law. In both loans the principal is linked to the index and interest is exempt from income tax.

2 While the 1968 and 1969 Defense Loans were formally regular option-type issues, in reality they were largely of a compulsory nature. The new loans are therefore a substitute for them, and it is obvious that the decrease in the amount raised through the Defense Loans in 1970 was to a large extent technical only; for this reason they are bracketed together with the compulsory loans. These amounts also include collections on account of the Absorption Loan.

3 As mentioned above, the terms of the compulsory loans differ widely from those of other issues. But despite the tax-like nature of these loans, they are an instrument for mobilizing capital from the public, like all other bond issues (in the sense that they form part of the owners' net worth), and it was therefore decided to lump them together with the regular issues.

4 Long-term bonds are sold in accordance with Treasury regulations and are acquired mainly by social insurance funds (see the discussion below).

Table XVIII-2

GROSS SALES OF DOMESTIC LOANS, 1969–70

(IL million)

Year	Quarter	Short-Term Loan (net sales[a])	Option-type loans[b]	Long-term loans	Bonds traded in foreign currency
1969	I	-24.3	75.9	99.9	15.0
	II	54.0	110.7	87.1	14.9
	III	-28.0	95.3	104.5	19.5
	IV	-10.3	69.9	98.2	26.9
1970	I	33.8	42.1	81.9	44.5
	II	24.6	39.6	84.5	43.8
	III	19.9	62.2	164.5	30.8
	IV	-21.8	63.2	191.6	33.2

[a] Direct sales to the public only, i.e. excluding sales by the Bank of Israel in the open market.
[b] Excluding the Defense Loans.
SOURCE: State Loans Administration.

to IL 323 million the year before. In addition, sales of participation certificates of mutual funds, one of the customers for option-type loans, fell off (see the discussion in section 3).

The second reason for the reduced sales of option-type loans is that the yields on bonds purchased on the Tel Aviv Stock Exchange far exceeded those of securities bought at source, and this of course diminished the attraction of new issues in comparison with 1969. In this context it should be noted that the Treasury does not require approved saving schemes to acquire option-type bonds at source, and therefore they are drawn to the secondary market, where they can earn a higher return. These high Stock Exchange yields can be ascribed primarily to the large-scale distribution of certificates of the Absorption Loan and option-type bond issues in 1969 and 1970, which resulted in a much greater offer in the market.[1] There are also signs that the investing public acquired bonds directly in the secondary market instead of investing through approved saving schemes and mutual funds (see the discussion in Chapter XIV on approved saving schemes).

[1] No exact data are available on the distribution of Defense Loan certificates. Certificates of the 1968 issue were distributed in April 1969, and those of the 1969 issue in the following April. The value of Absorption Loan certificates distributed increased from IL 57.7 million in 1968 to IL 112.1 million in 1969, and continued upward in the year reviewed.

Two other factors influenced sales of option-type loans:

(1) In 1970 there were only a few issues of the Development Loans, with the result that the breakdown of sales of option-type bonds as between Development and nongovernmental loans underwent a change. From the viewpoint of the economy, there is no significant difference between Government and nongovernmental issues, since the allocation of nearly all funds raised through nongovernmental issues is determined by the Government.[1] Both types of issues offer the same terms, and the change in their distribution is explained by the weakening of demand for these bonds and the desire of the Government to enable nongovernmental issuers to place their securities on the market rather than issue them itself.

(2) While the average annual level of sales was lower than in 1969, trading was livelier in the second half of the year (see Table XVIII–2). This is attributable to the raising of indirect taxes in August 1970 and its impact on domestic prices,[2] which enhanced interest in index-linked bonds. It also influenced saving scheme deposits, their balance rising slightly faster in the second half of the year than in the first half.

In the other type of bonds acquired voluntarily—those denominated in foreign currency—sales jumped from IL 34.5 million in 1969 to IL 111.9 million.[3] This suggests a change in the public's expectations—from those of an imminent devaluation which prevailed in 1969, when the international money market was highly unsettled, to a possible devaluation in the more remote future (see section 5). After April it became clear that the Government intended to introduce internal fiscal measures and not devalue the Israeli pound; as a result, demand rose for interest-bearing assets denominated in foreign currency, such as bonds. Another factor stimulating sales of such securities was the softening of prices in the U.S. stock markets and the crisis that befell the foreign mutual funds.

The second half of the year witnessed a decline in sales of bonds traded in foreign currency in comparison with the first half (see Table XVIII–2); this was mainly due to mounting interest in index-linked bonds.

The IL 109.4 million growth in net sales of long-term bonds linked to the index is explained by institutional factors. These bonds are not purchased by the general public but are issued primarily for social insurance funds, which are obligated to purchase them at source in accordance with Treasury regulations. In 1970 the regulations were tightened, so that instead of having to invest 80 percent of their annual accumulation in these long-term bonds, the funds must now invest 85 percent of their assets (the annual accumulation plus their

[1] For a more detailed discussion on this see Bank of Israel, *Annual Report 1967,* pp. 504–10.

[2] Between January and June the consumer price index moved up by 3 percent, compared with 7 percent, between July and December. The accelerated rise in the second half of the year was accompanied by brisk sales of index-linked bonds (see the discussion in section 4 below).

[3] Calculated at the official rate of exchange.

assets accumulated from previous years). Moreover, their annual accumulation grew more rapidly in the year reviewed because of the accelerated development of the bank-administered social insurance schemes for self-employed and the faster rise of wages and salaries per employee. The second half of the year was marked by advancing sales of long-term bonds (see Table XVIII–2), which reached a record high in December. Since the amendment of the regulation went into force only at the end of 1970, it is reasonable to assume that the social insurance funds deferred their investments in the new bonds in favor of more attractive alternatives.

Net sales of the Absorption Loans continued downward; gross sales represented collections of arrears on account of this loan, and they fell below redemptions.[1] On the other hand, the value of Absorption Loan certificates distributed rose from IL 112.2 million in 1969 to IL 149.9 million. The certificates were of the 1965 Absorption Loan, which was listed on the Tel Aviv Stock Exchange in September. The distribution of certificates made this loan a liquid asset, and is thus liable to influence the public's behavior as regards the purchase and holding of other securities (see section 3 and the discussion of the bond market in section 4).

The above-described trends in new bond issues resulted in a considerable lengthening of the "life" of the economy's securities portfolio. In 1970 long-term bonds constituted 94 percent of the total value of new issues, compared with 71 percent the year before. The terms of the new issues (interest rates and maturities) did not change at all in 1970, despite the amendment of the Interest Law.

(b) *Short-Term Loan*

After slumping noticeably in 1969, when net sales of the Government Short-Term Loan were of a negative magnitude (–IL 28 million), the trend turned upward in 1970, a IL 92 million gain being registered. The increase was concentrated chiefly in the first half of the year (IL 82 million), with the main growth factors being the raising of the yield on this paper in November 1969 and the expectation that consumer prices would firm as a result of the Government's policy of restraining private consumption.[2]

Most of the increase in Short-Term Loan holdings was in the short series, especially that for three months. The figure for the 18-month series fell off (see Table XVIII–3). Net sales of the three-month series rose at a fairly rapid rate during the first three quarters of the year but slowed down in the

[1] Collection of the Absorption Loans was discontinued in fiscal 1966/67.

[2] These two factors only partly explain the increase in net sales. While the Short-Term Loan has the properties of a security, it serves mainly as a financial asset, and therefore a full anaylsis of developments in this loan belongs to the discussion of the money market in Chapter XIV.

Table XVIII-3

SHORT-TERM LOAN HELD BY THE PUBLIC, BY REDEMPTION DATE, 1969–70, AND QUARTERLY CHANGES IN 1970

(IL million)

No. of days to redemption	Dec. 31, 1969	March 26, 1970[a]	July 2, 1970	Sept. 30, 1970	Dec. 31, 1970	Quarterly changes, 1970				
						I	II	III	IV	Total
Up to 91	164.6	194.6	226.2	264.4	272.3	30.0	31.6	38.2	7.9	107.7
98–182	126.1	119.3	156.3	154.5	146.9	–6.8	37.0	–1.8	–7.6	20.8
189–364	118.7	138.0	132.5	124.1	122.1	19.3	–5.5	–8.4	–2.0	3.4
371–546	57.4	49.4	35.1	18.1	18.9	–8.0	–14.3	–17.0	0.8	–38.5
Total	**466.8**	**501.3**	**550.1**	**561.1**	**560.2**	**34.5**	**48.8**	**11.0**	**–0.9**	**93.4**

[a] The interest rate ceiling was abolished on this date.
SOURCE: State Loans Administration.

final quarter. The upswing is partly explained by the uncertainty that prevailed about future Government policy, which engendered a propensity to hold short-term assets. The amendment of the Interest Law at the beginning of the second quarter did not dampen sales of the short series, even though the rate of interest paid thereon was not changed while that paid on the closest substitute—time deposits—went up slightly.[1] In the second half of the year the rise of prices in the economy led to a reduction of holdings of the longer series, while those of the three-months series held relatively steady, although in the final quarter they too began to turn downward.[2] Another reason for the decline in the longer series is the competition it faced from such alternative investment outlets as the 1967 Defense Loan, whose maturity date is close to that of the longer series, and which not only offers a higher yield than the Short-Term Loan but is also value-linked.

(c) *Shares*

No new equity issues were floated in 1970, and thus the listlessness that has characterized the market in recent years continued in 1970. Business profits stabilized at the high level of the two preceding years, and firms with listed shares

[1] It should be noted that of the IL 31.6 million increase in holdings of series of up to three months that was recorded during the first three months after the amendment of the Interest Law, the overwhelming share (IL 27 million) took place in the first month. This may have been a sign of diminishing expectations of a rise in interest rates after April. In contrast to the very short series, in those for three to six months holdings grew by IL 37 million during the same period; in the first month the figure dropped by IL 4.8 million, but in the next two it went up by IL 41.8 million.

[2] It is noteworthy that the rise of prices did not lead to a slowdown in time deposits (see Chapter XIV).

even experienced a growth of profits—conditions favorable for new share issues. But both demand and supply factors have militated against this. On the supply side, potential share issuers can obtain more favorable financing from other sources, particularly Government or Government-directed loans with attractive terms. This being so, the protracted preparation and high costs involved in floating a share issue render it hardly worthwhile. On the demand side, buyers have been deterred by the slump in the market which has persisted for several years and deepened in 1970 (a discussion of the share market follows below). Moreover, a limited market like that in Israel is characterized by sharp price fluctuations resulting from relatively small shifts in supply and demand, and this too deters many investors from buying equities. Index-linked bonds compete with shares in the market, even at a time of inflationary pressures and rising prices. Thus there is a vicious circle: the limited size of the market discourages the flotation of new equity issues, while the lack of new issues perpetuates its smallness. One major reason for this is that institutional investors shy away from equities, in contrast to the situation in other countries, where they generally hold a substantial portion of their portfolio in this type of instrument.

3. Behavior of Bond and Share Purchasers in 1970

The imposition of compulsory loans in 1970 resulted in a contraction of voluntary security holdings by the general public. But if these loans are treated as securities, then the economy's portfolio grew[1] during the year reviewed—from IL 974.4 million in 1969 to IL 1,478.1 million (see Table XVIII-4). The public undoubtedly viewed part of this sum as a tax, since a considerable portion of the compulsory loans would not have been acquired had their purchase been voluntary. For the present at least, these loans reduce disposable income, and hence they also dampen other forms of saving or current consumption;[2] that is, they have the effect of a tax. Were it not for the lagged distribution of compulsory loan certificates, or were it possible to sell them immediately upon receipt (as was the case with the 1968 and 1969 Defense Loans), even at a price below their nominal value,[3] these loans could be regarded as regular securities. But the certificates will be distributed only after a considerable period and legally will not be negotiable.[4] Thus it is possible to treat these loans as forced savings, and doubts may arise as to whether or not they should be included in the economy's securities portfolio.

[1] Growth is defined as the net sale of new issues. In the case of the Absorption Loan, the reference is to the value of certificates distributed and not to collections (see the discussion below).

[2] The principal form of private saving in Israel is contractual saving.

[3] In this respect at least, Defense Loans can be considered as securities, although it may be argued that the difference between their nominal and market value actually constitutes a tax.

[4] See note 1 on p. 389 for the terms of the new loans.

Table XVIII-4

GROWTH OF SECURITY PORTFOLIOS, BY TYPE OF PURCHASER, 1969–70

(IL million)

	1969		1970	
	IL m.	%	IL m.	%
(1) Increase in the economy's portfolio[a]	974.4	100.0	1,478.1	100.0
(2) Less: Purchases by institutional investors	691.1	70.9	883.9	59.8
Social insurance funds	332.0	34.1	543.0	36.7
Insurance companies	64.4	6.6	64.6	4.4
Approved saving schemes	278.0	28.5	243.0	16.4
Banking institutions	–4.2	–0.4	39.6	2.7
Financial institutions	20.9	2.1	–6.3	–0.4
(3) Increase in portfolio of the general public				
Mutual funds run by banks	125.5	12.9	22.4	1.5
Direct investments	157.8	16.2	571.8	38.7
Less: Compulsory loans	—	—	492.0[b]	33.3
Total increase in voluntary holdings	**283.3**	**29.1**	**102.2**	**6.9**

[a] The data include the value of Absorption Loan certificates distributed and not the sums collected. See the discussion in the text.

[b] Estimate derived by subtracting the amount paid by institutional investors from total collections.

SOURCE: Based on data of the Treasury, State Loans Administration, and the Bank of Israel Research Department.

As for the Absorption Loans, which were also compulsory, there is the problem of how to evaluate them—whether according to the actual sums collected or the value of certificates distributed. Since it is the distribution of the certificates that has made the loans liquid assets, and thus more significantly reflects the expansion of the public's securities portfolio, we have used the data on the distribution of certificates—IL 112.4 million in 1969 and IL 149.9 million in 1970. The increase in the year reviewed was due to the distribution of the 1965 Absorption Loan certificates, which began in the third quarter.

The increase in the public's security holdings is calculated as the difference between the total rise in the securities portfolio of the economy and the incremental holdings of institutional investors. Contradictory trends were evident for the two principal categories of institutional investors—social insurance funds and approved saving schemes administered by banks. In the social insurance funds growth accelerated from IL 332 million in 1969 to IL 543 million,[1] owing to

[1] The data include issues of Gmul Ltd., which serves as an investment agent for some of the social insurance funds.

several factors. The main one was a change in Treasury regulations: up to 1969 the funds were required to invest 80 percent of their annual accumulation in securities, but in 1970 this was changed to 85 percent of their total asset balances.

Saving scheme deposits grew more slowly in 1970 than in the previous year—IL 241 million as against IL 323 million—and consequently the schemes' portfolio investment likewise expanded less than in 1969—IL 234 million as opposed to IL 278 million. This can apparently be ascribed to the influence of the new compulsory loans and the raising of direct tax rates, which reduced disposable income. In addition, the high yields on bonds acquired in the secondary market prompted investors to buy securities directly on the Stock Exchange instead of through the saving schemes.[1] At the same time, it is interesting to note that the conversion-type saving schemes showed an increase in deposits in both absolute and relative terms—from IL 105 million in 1969 to IL 124 million—a development that stands out all the more in view of the slower growth experienced by the saving schemes as a whole. In the conversion-type schemes deposits are made partly in cash and partly in Absorption Loan certificates; the growth of deposits in the form of certificates went up from IL 47 million to IL 70 million during the year. This change in the breakdown of approved saving scheme deposits is explained by the higher return obtainable on the conversion-type schemes and not by the distribution of the 1965 Absorption Loan certificates, since they are not eligible for this type of scheme.

In contrast to the slower expansion of the saving schemes' portfolio investment, purchases by the banks on own account went up far more rapidly in 1970 than in the previous year. On balance, the banking institutions as a whole showed a somewhat more rapid growth of portfolio investment in the year reviewed. There were two main reasons for this: (a) the improvement in the banks' liquidity position, particularly in the second half of the year; and (b) the availability of bonds yielding a high return, which made it more worthwhile to invest in them.

The larger volume of institutional purchases in the year reviewed accounted for only part of the total increase in the economy's securities portfolio (including compulsory loans). It can therefore be concluded that the growth of security holdings by the general public was greater in 1970 than in the previous year, but if we ignore the compulsory loans, voluntary holdings expanded more slowly than in 1969. Purchases by mutual funds operated by banks were down sharply from their 1969 level, owing to sagging sales of participation certificates to the public. The latter development can apparently be attributed to the same factors accounting for the deceleration of portfolio investment by the approved saving schemes.[2]

[1] This is discussed in detail in Chapter XIV.

[2] For a discussion of the mutual funds see Chapter XVI.

4. Trade on the Stock Exchange

(a) *General trends*

The slowdown in Stock Exchange turnover, which began in 1969, became more pronounced in the year reviewed. The outstanding feature in 1970 was the reverses suffered by the share market, reflected in a 51 percent fall in the volume of transactions as compared with 1969 (see Table XVIII–5) and in a steep drop in share prices, mainly during the first half of the year. Bond turnover rose moderately, by 4.5 percent as against 15.6 percent in 1969, but with divergent trends in the various types of bonds. As to the Short-Term Loan, in marked contrast to the trend in 1968–69 (during which the volume of transactions moved up by 54 and 37 percent respectively), in 1970 there was a decline of 16 percent.

Publication of data on over-the-counter transactions, including offsetting buy and sell orders, was instituted in April, in addition to data on listed securities. A summary of the last three quarters of the year shows that over-the-

Table XVIII–5

GENERAL TRENDS IN STOCK EXCHANGE TRADING, 1969–70

(IL million)

	1969	1970					Percent increase or decrease (–)
		I	II	III	IV	Total[a]	
				Turnover			
Bonds							
Linked to the exchange rate	32.3	6.3	4.2	4.6	4.4	19.6	–39.3
Linked to the cost-of-living index	34.0	10.0	8.9	11.1	19.8	49.8	46.5
Option-type	102.9	22.8	21.2	30.1	28.3	102.3	–.06
Traded in foreign currency	39.6	12.6	10.9	11.5	13.8	48.9	23.5
Total bonds[b]	**212.2**	**52.0**	**45.5**	**57.6**	**66.6**	**221.7**	**4.5**
Short-Term Loan	137.2	32.6	25.5	29.4	28.1	115.7	–15.7
Shares	107.1	17.2	12.4	10.1	12.6	52.3	–51.2
				Percentage distribution			
Bonds	46.5					56.9	
Short-Term Loan	30.1					29.7	
Shares	23.5					13.4	
Total	**100.0**					**100.0**	

[a] Discrepancies in totals are due to the rounding of quarterly figures.
[b] Including nonlinked bonds and bonds with a mixed linkage (i.e. linked partly to the cost-of-living index and partly to the exchange rate).
Source: Based on data of the Tel Aviv Stock Exchange.

counter trading exceeded transactions in listed securities. But in only one group—finance and insurance—was trade outside the Stock Exchange larger in every single month. In the other groups Stock Exchange turnover tended to be greater.

1. Listing of new securities

In 1970 there was a big increase in listings of index-linked bonds, mainly the 1965 Absorption Loan (see Table XVIII–6). Since the Absorption Loans account for almost all transactions in index-linked bonds, the increase in listings partly explains the spurt in turnover in this type of debt instrument. On the other hand, in option-type loans trading volume held steady, while listings of Government loans (which, as in the case of index-linked bonds, account for almost all transactions) rose sharply. The larger volume of Government loans listed in 1970

Table XVIII–6

SECURITIES LISTED ON THE TEL AVIV STOCK EXCHANGE, AT PAR VALUE, 1969–70

(IL million)

	1969	1970	Increase or decrease (–)
Bonds linked to the exchange rate	127.6	111.2	–16.4
Bonds linked to the cost-of-living index	987.5	1,239.6	252.1
Thereof: Government loans	310.6	416.7	106.1
Bonds traded in foreign currency	623.4	776.0	152.6
Option-type loans	1,268.6	1,454.5	185.9
Thereof: Government loans	621.9	769.6	147.7
Total bonds[a]	**3,076.1**	**3,642.4**	**566.3**
Shares	**955.7**	**1,040.9**	**85.2**

[a] Including bonds with a mixed linkage and nonlinked bonds.
SOURCE: *Tel Aviv Stock Exchange.*

was the resultant of the registration of the 1968 Defense Loan and a decline in Development Loan issues. It appears that trading in Development Loans is strongly influenced by the number of new issues,[1] and therefore the increase in listings of option-type Government loans did not prevent the volume of transactions from levelling off. The larger turnover in securities traded in foreign currency in 1970 was connected with the growth of new issues listed on the Exchange.

[1] Turnover in Development Loans was down 20 percent compared with 1969.

2. *Structure of trading*

Several changes took place in 1970 in the breakdown of Stock Exchange turnover among the three component categories—bonds, shares, and the Short-Term Loan. The most notable change was the decrease in the weight of shares—from 23.4 percent of total turnover in 1969 to 13.4 percent in 1970 (see Table XVIII–5).

Another result of the contraction of share trading was the increased weight of shares with a low turnover. The number of shares where the figure came to less than IL 1 million rose substantially, from 50 in 1969 to 70 in the year reviewed, and their weight in total turnover moved up from 18.5 to 44 percent (see Table XVIII–7).

Table XVIII–7

DISTRIBUTION OF LISTED SHARES AND BONDS, BY ANNUAL TRADING VOLUME, 1970

Annual volume (IL '000)	Shares: Number of shares	Shares: Percent of total trading volume	Bonds[a]: Number of bonds	Bonds[a]: Percent of total trading volume
Under 100	19	1.4	56	0.5
100–250	16	5.9	15	1.1
250–500	20	14.2	10	1.5
500–1,000	15	22.5	11	3.9
1,000–2,500	12	39.6	7	4.7
2,500–5,000	2	16.4	4	7.0
5,000–10,000	—	—	1	3.9
Over 10,000	—	—	7	77.4
Total	**84**	**100.0**	**111**	**100.0**

[a] Excluding the Short-Term Loan.
SOURCE: Tel Aviv Stock Exchange.

(b) *The share market*

The outstanding features of the share market in 1970 were, as mentioned, the drastic drop in trading volume and the decreased weight of equity transactions in spite of the rising profitability of firms whose shares were listed. Although the market rallied in the second half of the year, this failed to offset the effects of the downturn during the first half.

The decline in volume was due to sagging demand, reflected by an 11.2 percent retreat in prices from January through July. In July the market began to revive, and the general index of share prices went up 4.4 percent by year's end. For the year as a whole the decrease was 7.3 percent, compared with a decline of 0.8 percent in 1969 (see Table XVIII–8).

Table XVIII-8

SHARE PRICE INDEXES AND YIELDS,[a] BY GROUP, 1969–70

Share group	1969				1970			
	End-year prices[b]	Percent annual change in prices	Overall rate of return[c] (%)	Dividend yield on Dec. 31, 1969 (%)	End-year prices[b]	Percent annual change in prices	Overall rate of return[c] (%)	Dividend yield on Dec. 31, 1970 (%)
Banks, insurance, and financial institutions	113.5	–1.1	5.7	8.5	108.6	–4.3	2.4	9.9
Land and development	86.2	–8.5	–4.2	7.8	86.7	0.7	–0.4	11.3
Industry and commerce	160.7	3.8	13.2	7.0	141.2	–12.1	–7.4	9.9
Fuel and oil	111.3	–13.8	–13.7	8.2	85.7	–23.0	–9.0	8.9
Investment companies	117.9	–0.9	1.7	7.8	112.2	–4.8	–5.7	10.6
Total	**124.6**	**–0.8**	**4.3**	**7.8**	**115.5**	**–7.3**	**–3.0**	**10.1**

[a] The overall rate of return and dividend yield were calculated as the arithmetic means for each group, thereby assuming an equal investment in each share of the group.
[b] Daily index of share prices. Base: March 31, 1967=100.
[c] Calculated from a sample of shares in each group.

In contrast to the price rises in all groups[1] of shares at the start of 1969, the early part of 1970 saw a softening of prices in all groups; this apparently reflected the uncertainty that prevailed in the economy at the time. The downtrend continued until July and encompassed even industrials and commercials, which in previous years had performed differently from the other groups.[2] The decline in this group during the year the reviewed was even sharper than that of the general index. In July prices in most groups began to pick up, but only in land and development shares, where the rally got underway ahead of the other groups, did year-end prices regain their January level.

The setback in the equities market occurred despite a rise in dividend payments from IL 92.3 million in 1969 to IL 101.8 million, with all groups apart from land and development sharing in the increase. The sagging of prices, coupled with the growth of dividends, brought up dividend yields in comparison with 1969 (see Table XVIII–8), but overall rates of return, which reflect price changes, fell off.[3]

The uncertainty prevailing in the economy in early 1970 regarding Government policy was one of the factors influencing developments in the equity market. Another was the competition from the bond market, which enjoyed high yields, especially during the first half of the year, when the fall of share prices was at its sharpest (see the following discussion on the bond market). In the final quarter of the year bond yields declined as a result of steep price increases.[4] This perhaps explains to some extent the rally in the share market during the second half of 1970. Another contributory factor was the low level to which share prices had dropped, which made it more worthwhile to invest in this type of security.

(c) *The bond market*

Bond transactions slackened in 1970 compared with the previous year, the increase being 4.5 percent as against 15.6 percent. But despite the general slowdown, the different types of bonds displayed a divergent pattern. The

[1] The discussion here generally excludes the fuel and oil group, because of its strongly speculative nature and because two leading shares in this group, those of Lapidot and Naphtha, are not listed on the Stock Exchange.

[2] In 1969 prices of industrials and commercials rose, while those of all other groups receded, a development suggesting some selectivity on the part of the investing public.

[3] The overall rate of return shows the profit earned by the investor who buys a share on January 1 and sells it on December 31 of the same year. It is defined as follows (in percent):

$$\frac{\text{Price at end of year} + \text{dividends} - \text{price at beginning of year}}{\text{Price at beginning of year}} \times 100$$

[4] Because of the existence of bonds pegged to the cost-of-living index, inflationary pressures have no immediate and direct impact on share prices, but affect them only after yields on index-linked bonds have dropped appreciably.

slower growth of turnover stands out all the more in view of the listing of two major loans: the 1965 Absorption Loan and the 1968 Defense Loan.[1]

Transactions in the two types of index-linked bonds were influenced in 1970 by the same factors: (a) the listing of heavily traded bonds; (b) the general rise of prices in the economy during the second half of the year, which heightened interest in value-linked investments. Nevertheless the two categories developed differently during the year.

Turnover in long-term linked bonds was up 46.4 percent from 1969. Most of the growth took place in the second half of the year, especially after the listing of the 1965 Absorption Loan in September (see Table XVIII-5).[2] The listing, signifying a shift from over-the-counter[3] to Stock Exchange trading, somewhat dampened trade in other Absorption Loans, although the level held steady in the last quarter of the year.[4] This development is partly explained by the steeply rising quotations for the 1965 Absorption Loan due to heavy demand in anticipation of listing. This of course depressed the yield, so that upon listing it was similar to that of other loans. Another reason was the general interest shown in index-linked loans during the period of rising prices in the economy. In 1970 quotations for index-linked bonds moved up 12.2 percent, compared with 8.2 percent in 1969. Most of the increase took place in the last quarter: at the end of September the level was up 3.6 percent, going up by a further 8.3 percent by year's end. The advance was due primarily to the rise in the consumer price index following the indirect tax hikes in August. Yields, of course, declined sharply[5] during the last quarter, indicating a strong demand in the market and a willingness to accept lower yields. It may be concluded that the

1 Trading in the various Absorption Loans constitutes some 95 percent of all transactions in index-linked bonds, while Government loans (the 1967 and 1968 Defense Loans and the Development Loans) account for fully 99 percent of all trading in option-type bonds. Since these two types of loans comprise some 70 percent of total turnover in the bond market, they strongly influence developments in the market as a whole. Trade on the Stock Exchange is concentrated largely in Government loans, since most of the transactions in nongovernmental loans represent the matching of buy and sell orders.

2 Before listing, i.e. between January and August, turnover rose by only 2.3 percent compared with the same period in the previous year. Exclusive of the 1965 Absorption Loan, there was no increase at all in 1970 in the annual volume of transactions in linked bonds.

3 Over-the-counter transactions in this loan by banks began in July, simultaneously with the distribution of certificates in that month and in August. The low price of the certificates raised the yield even more in comparison with listed bonds, and trade on the Exchange slumped sharply during these months because of the lively trade over the counter.

4 This was in contrast to what happened in September 1969, when the 1964 Absorption Loan was listed.

5 Yields declined not only in the case of the 1965 Absorption Loan but in all earlier issues of this loan, especially those of 1963 and 1964. It should be noted that most of the trading was in these loans, since both principal and interest are index-linked, whereas in the 1961 and 1962 loans only the principal is linked. After the listing of the 1964 Absorption Loan in September 1969, yields on other loans moved up until the end of the year, i.e. listing tended to dampen demand for these loans.

Table XVIII-9

PRICES AND YIELDS OF DOMESTIC BONDS, 1969-70

	End-1969	1970 (end of quarter)				Percent increase or decrease (–) from end of 1969 to end of 1970
		I	II	III	IV	
Prices[a]						
Linked to the exchange rate	226.6	226.7	219.5	216.4	217.9	-3.9
Linked to the index	176.2	177.9	179.2	182.6	197.7	12.2
Option-type	105.6	105.3	105.2	107.1	109.1	3.3
Yields[b]						
Linked to the exchange rate		1.8	1.7	2.9	3.0	
Linked to the index		5.7	7.0	5.4	5.7	
Option-type[c]		12.5	12.0	12.2	12.4	

[a] Base: 1960=100. For a monthly distribution see Appendix Table XVIII-7 (in Hebrew only).
[b] For a monthly distribution see Appendix Table XVIII-8 (in Hebrew only).
[c] Calculated on a nonlinked basis.

demand for index-linked bonds was sufficient to absorb the supply of the 1965 Absorption Loan without reducing demand for previous issues of this loan.

Turnover in option-type loans held steady in 1970, being influenced by the listing of the 1968 Defense Loan. However, there was a marked decline in new issues and in listings of Government Development Loans.[1] The downturn in Development Loan transactions offset the rise in the Defense Loan, so that on balance there was no increase in trading in option-type loans in 1970. As with index-linked bonds, trade in option-type loans expanded strongly in the second half of the year (see Table XVIII-5). This is explained by the listing of the 1968 Defense Loan in June 1970, and by the interest evinced by investors in index-linked bonds in the wake of the general price rise in the economy. Before listing, there was lively trading in the 1968 and 1969 Defense Loans over the counter, which competed with that on the Stock Exchange because of the higher yields obtainable on these issues compared with the listed option-type

[1] In 1970 only three series were issued, two of them by May and the third in December; that is to say, there were no new issues from May until December. As a result, turnover declined much faster in the second half of the year.

loans. As a result, Stock Exchange volume fell off sharply from February through May.

In contrast to what happened before the listing of the 1965 Absorption Loan, prices of the 1968 Defense Loan did not rise in 1968 in over-the-counter trading in the period before listing, and it appears that demand was not sufficient to absorb the incremental supply. Even after listing, prices did not advance much, so that the loan maintained its relatively high yield level. This can be ascribed to the continuing competition of the 1969 Defense Loan in over-the-counter trading. Toward the end of the year, however, prices of the 1968 Defense Loan moved up steeply. These developments nevertheless failed to depress the volume of Stock Exchange transactions in the 1967 Defense Loan; in fact, they expanded considerably during this period. There were three reasons for this:

1. Despite the higher yield of the 1968 Defense Loan, its redemption will take place eight years from now, whereas the 1967 Defense Loan will mature in only two years.
2. There was a growing propensity to value-link portfolio investments, and this influenced all linked securities.
3. The decline in Development Loan transactions occurred mainly in the second half of the year, owing to the lack of new issues.

Prices of option-type loans held steady during the first half of the year, but went up 3.3 percent during the second half. The upturn reflected the general price increase in the economy, but as it was more moderate than the general increase, yields rose slightly by the end of the year. Apparently the public preferred to link its investments through long-term index-linked loans rather than option-type bonds.

Turnover in bonds traded in foreign currency or pegged to the exchange rate displayed a divergent development in 1970, the former rising by 23.3 percent and the latter declining by 39.4 percent. The heavier turnover in bonds traded in foreign currency reflected the mounting interest in this type of security, which led to an increase in new issues. By contrast, the lack of issues of bonds linked to the exchange rate partially explains the reduced turnover in this type of paper. Another factor was the larger supply of dollars in the Natad market (owing to an increase in German restitution payments) and the drop in the Natad dollar rate. The much smaller turnover in bonds linked to the exchange rate, due to weaker demand, was accompanied by a price decline of 3.8 percent.[1] However, the resulting rise in yields was insufficient to attract investors to these bonds.

[1] No clear trend emerged during the year, as the prices of these bonds fluctuated sharply. This can apparently be attributed to the relatively small stock of this type of security.

5. Securities Traded in Foreign Currency[1] and the Natad Market[2]

Developments in securities traded in foreign currency were influenced by three principal factors: (a) A change in devaluation expectations. Events in the international money markets in 1969 engendered expectations of a change in the exchange rate for the Israeli pound, but when this failed to materialize after the elections of November 1969 or at the beginning of the 1970/71 fiscal year, the expectations waned.[3] (b) The much larger supply of dollars available for purchasing securities traded in foreign currency. (c) U.S. stock market developments, especially the precipitate drop in share quotations and the crisis that overtook Investors' Overseas Services, which shook investors' confidence in foreign mutual funds.

Table XVIII–10

FOREIGN CURRENCY SECURITIES HELD BY ISRAELI RESIDENTS, 1968–70

($ million)

	Dec. 31, 1968[a]	March 31, 1969	Dec. 31, 1969[a]	March 31, 1970	Dec. 31, 1970
Outstanding balance					
Israeli securities traded					
in foreign currency		154.7		159.9	194.1
Hollis		68.4		69.8	70.2
Others		86.3		90.1	123.9
Foreign securities		59.8		54.7	58.2
Total	**188.2**	**214.5**	**239.2**	**214.6**	**252.3**
Annual increment					
Gross	52.0		51.0		13.1
Revaluation increment	35.0		18.7		–33.0
Net	**17.0**		**32.3**		**46.1**
Israeli securities traded					
in foreign currency	8.3		9.3		32.0
Foreign securities	8.7		23.0		14.1

[a] No breakdown by type of securities is available for this date.
Source: Based on data of the Foreign Currency Department of the Treasury.

[1] These securities fall into two categories: (a) those issued by companies or other bodies in Israel and which are denominated in foreign currency and listed on the Tel Aviv Stock Exchange; and (b) securities listed on stock exchanges abroad.

[2] The Natad market sprang up as the result of an arrangement designed to enable certain categories of foreign currency owners, especially recipients of personal restitution from W. Germany, to legally offer part of their holdings to Israelis, at the current market price, for the purpose of purchasing securities traded in foreign currency.

[3] Expectations of an imminent devaluation accentuate the demand for Natad deposits, even though they do not bear interest, and they become preferable to securities. For this reason, there is a certain degree of substitutability between investments in securities traded in foreign currency and those in Natad dollars.

Holdings of securities traded in foreign currency expanded by $ 46.1 million in 1970, compared with $ 32.3 million the year before (see Table XVIII–10). However, in contrast to 1969, when most of the increase was in foreign securities ($ 23 million as against $ 9.3 million in Israeli securities), in the year reviewed interest focused primarily on Israeli securities, sales of which netted $ 32 million as opposed to $ 14.1 million for foreign securities.

The downward revaluation of investors' portfolios in the year reviewed was due primarily to the softening of share prices on U.S. stock exchanges, since there was an upswing in the prices of Israeli securities denominated in foreign currency. The average annual level of Natad balances was much higher in 1970 than in the preceding year—IL 56.6 million compared with IL 39.2 million.[1] However, a comparison of year-end figures shows an increase of only IL 10 million in 1970 as against IL 17 million in 1969, indicating a weakening of devaluation expectations. The price of the Natad dollar was firm during the first quarter, but thereafter it began to drop, reaching a low of IL 4.05 at the end of October. In December it rebounded, reaching IL 4.22 by the end of the year (see Table XVIII–11).[2]

Devaluation expectations were affected most significantly in April, when the announcement of the Government's new fiscal policy made it clear that the parity of the Israeli pound would not be revised in the near future. Until then uncertainty reigned, and there was a steep rise both in net sales of Israeli securities traded in foreign currency (compared with the last quarter of 1969)[3] and in Natad deposits (see Table XVIII–11). But this demand pressure did not push up the Natad dollar rate, since there was a large increase in the supply of dollars. The additional dollars came from two major sources: (a) a larger volume of restitution proceeds, which averaged $ 44 million per quarter in the last quarter of 1969 and the first quarter of 1970, compared with an average of $ 31 million during the first three quarters of 1969; (b) an increase in conversions of restitution receipts—many restitution recipients refrained from converting their proceeds in the second half of 1969 because of expectations of an imminent devaluation, and with the change in expectations, the volume of conversions swelled, augmenting the supply of dollars. As a result of these demand and supply developments, the Natad dollar rate stabilized in the final quarter of the year.

1 Although it is not possible to purchase securities traded in foreign currency without going to the Natad market, Natad dollars may be held without purchasing such securities.

2 The price of the Natad dollar is not identical with the official rate of exchange, but is determined by supply and demand.

3 This actually represented the continuation of a trend that began at the end of 1969. After the elections of November of that year, expectations of an immediate devaluation ebbed, resulting in an upsurge in net sales of securities traded in foreign currency; concurrently Natad balances fell from IL 55.8 million at the end of October to IL 49.7 million at the end of 1969.

Table XVIII–11

NATAD DOLLAR RATE AND BALANCES IN NATAD ACCOUNTS, 1969–70

(IL million, at the official rate of exchange)

End of month	1969		1970	
	Natad balances	Natad dollar rate	Natad balances	Natad dollar rate
January	29.8	3.99	54.0	4.36
February	30.7	4.16	53.4	4.22
March	27.9	4.22	58.0	4.31
April	30.9	4.26	64.7	4.12
May	31.6	4.35	59.8	4.14
June	35.9	4.44	53.1	4.17
July	38.0	4.43	52.7	4.08
August	40.4	4.69	54.2	4.17
September	46.0	4.65	55.0	4.15
October	55.8	4.40	56.2	4.05
November	53.3	4.33	59.3	4.08
December	49.7	4.35	58.9	4.22

SOURCE: Bank of Israel.

In the second quarter of the year, after it became evident that no immediate devaluation was in the offing, Natad balances shrank, but sales of securities denominated in foreign currency remained unchanged. The Natad dollar rate fell from IL 4.31 at the end of March to IL 4.12 at the end of April, and hovered at this level until December. During this period share prices on U.S. exchanges tumbled, and this too weakened the demand for dollars.

During the second half of the year sales of securities denominated in foreign currency again turned downward. The market was influenced during this period by the general rise of prices in the economy, which, as already mentioned, heightened interest in index-linked bonds and thus led to a large increase in issues of such securities (see Table XVIII–2). At the same time, however, emissions of bonds denominated in foreign currency declined appreciably, with the result that the excess balances augmented Natad deposits. New issues of this type of paper appeared in December, and its sale perked up. This in turn generated pressure in the Natad market, and the Natad dollar rate shot up from IL 4.08 at the end of November to IL 4.22 at the end of December. The upswing, however, was short-lived, for in the early months of 1971 the downward trend reasserted itself, and at the end of April the rate stood at IL 4.00.