

## CHAPTER XXI

### ACTIVITIES OF THE BANK OF ISRAEL

#### 1. SUMMARY OF BALANCE SHEET AT THE END OF 1967

The main developments reflected in the balance sheet and profit and loss account of the Bank of Israel for 1967 are the rapid monetary growth during the period of tension that preceded the outbreak of fighting in June and in the immediate postwar period, the expansion of capital imports as a result of the emergency appeals and the larger sale of State of Israel Bonds abroad, the floundering of a number of banks at the beginning of the year, and the devaluation of the Israeli pound in November 1967. All these found expression in the Bank's balance sheet, leading to a sharp rise in its assets and liabilities, which at the end of 1967 totalled IL 4,380.8 million as compared with IL 3,023.3 million at the end of the previous year—an advance of 44.9 percent as against only 5.8 percent in 1966.

##### (a) *Assets*

##### 1. *Foreign exchange*

The Bank's foreign currency assets expanded appreciably, after declining slightly the year before. 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 at the end of 1967 to IL 2,589.2 million (\$ 739.8 million), as against IL 1,941.9 million (\$ 647.3 million) at the end of 1966.

##### 2. *Government liabilities*

The Government's gross liabilities to the Bank of Israel, as they appear in the balance sheet, rose by IL 591.9 million (from IL 310.0 million at the end of 1966 to IL 901.9 million at the end of 1967). This increase, however, does not reflect the extent of Government financing through the Bank of Israel, but merely the balance sheet change. Part of the sums appearing as Government liabilities in the balance sheet were connected with transactions with commercial banks and open-market operations, and part resulted from crediting the Government at the end of the year with its and the Bank's devaluation differentials. An analysis of Government financing through the Bank of Israel is presented in Chapter XV.

**Table XXI-1**  
**ASSETS AND LIABILITIES OF THE BANK OF ISRAEL, 1966-67**

	IL million		Percent		Increase or decrease (-)	
	1966	1967	1966	1967	IL m.	%
<b>Assets</b>						
Foreign exchange and gold	1,863.0	2,501.1	74.0	63.9	638.1	34.3
Participation in international financial institutions	14.7	17.2	0.6	0.4	2.5	17.0
Clearing accounts	30.7	37.3	1.2	1.0	6.6	21.5
Government securities	106.5 <sup>a</sup>	184.6	4.3	4.7	78.1	73.3
Advances to the Government for early repayment of foreign debts	174.3 <sup>a</sup>	358.5	6.9	9.2	184.2	105.7
Current liabilities of the Govt.	32.6	369.6	1.3	9.4	337.0	1,033.7
Bills rediscounted	261.4	408.6	10.4	10.4	147.2	56.3
Loans to foreign governments and institutions	33.4	33.7	1.3	0.9	0.3	0.9
Other accounts	0.6	3.9	—	0.1	3.3	550.0
<b>Total</b>	<b>2,517.2</b>	<b>3,914.5</b>	<b>100.0</b>	<b>100.0</b>	<b>1,397.3</b>	<b>55.5</b>
Contingent accounts <sup>b</sup>	506.1	466.3	—	—	-39.8	-7.9
<b>Grand total</b>	<b>3,023.3</b>	<b>4,380.8</b>	<b>—</b>	<b>—</b>	<b>1,357.5</b>	<b>44.9</b>
<b>Liabilities</b>						
Notes and coin in circulation	780.0	997.9	31.0	25.5	217.9	27.9
Deposits of the Government	48.4	561.4	1.9	14.3	513.0	1,059.9
Deposits of banking and financial institutions <sup>c</sup>	1,648.8	2,313.3	65.5	59.1	664.5	40.3
Clearing accounts	13.7	9.8	0.5	0.3	-3.9	-28.5
Paid-up share capital and reserves	20.0	20.0	0.8	0.5	—	—
Other accounts <sup>d</sup>	6.3	12.1	0.3	0.3	5.8	92.1
<b>Total</b>	<b>2,517.2</b>	<b>3,914.5</b>	<b>100.0</b>	<b>100.0</b>	<b>1,397.3</b>	<b>55.5</b>
Contingent accounts	506.1	466.3	—	—	-39.8	-7.9
<b>Grand total</b>	<b>3,023.3</b>	<b>4,380.8</b>	<b>—</b>	<b>—</b>	<b>1,357.5</b>	<b>44.9</b>

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

<sup>a</sup> New classification.

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

<sup>c</sup> Including foreign currency deposits of nonresidents.

<sup>d</sup> Including deposits of international institutions.

### 3. *Rediscounting of bills*

Local currency rediscounts in 1967 were up by a substantial IL 139.4 million (from IL 106.4 million at the end of 1966 to IL 245.8 million). This growth was largely connected with the grant of loans to a number of financial institutions which became financially involved (these loans enabled them to honor their obligations to their clients), as well as with the rapid expansion of the export finance funds, in which the Bank of Israel participates. The increase in outstanding bills rediscounted is after the provision of IL 31 million for doubtful debts to cover possible losses in realizing the collateral pledged against the loans.

Foreign currency rediscounts fell from \$51.7 million in 1966 to \$46.5 million, although in IL terms this item too showed an increase as a result of the revision of the exchange rate.

#### (b) *Liabilities*

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

The value of banknotes and coin in circulation rose by 27.9 percent—from IL 780.0 million at the end of 1966 to IL 997.9 million at the end of 1967. Part of the IL 218 million increment stemmed from the accelerated growth of the money supply during the year, but apparently it also reflects the stronger tendency of the Israeli public to hold cash, as well as the cash holdings in the administered areas. During the year reviewed the Israeli pound was declared legal tender in Judea and Samaria, the Gaza Strip, and northern Sinai, but estimates of the amount of money in circulation in these areas were not yet available at the time of preparing this report.

##### 2. *Government and National Institution deposits<sup>1</sup>*

The creditory accounts of the Government and the National Institutions soared by IL 513 million to reach IL 561.4 million, compared with IL 48.4 million at the end of 1966. The growth was connected with the deposit of the proceeds of the overseas emergency appeals conducted in the second half of the year.

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

Local currency deposits of banking and financial institutions advanced by IL 186.9 million in 1967, and their foreign currency deposits by IL 477.6 million. In dollar terms, the increase in the latter totalled \$82.9 million, consisting of \$47.3 million in Pazak accounts, \$18 million in Tamam accounts, \$12 million in Patach deposits, and \$5.7 million in various other types of deposits.

<sup>1</sup> In previous reports this item was defined as "Government deposits".

## 2. FOREIGN EXCHANGE AND GOLD HOLDINGS

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

Gross foreign exchange and gold reserves (including the gross balance in clearing accounts and loans to foreign governments and banks) rose from IL 1,941.9 million (\$ 647.3 million) at the end of 1966 to IL 2,589.2 million (\$ 739.8 million) at the end of 1967.

The Bank's net foreign exchange and gold reserves—i.e. after deducting debitory clearing account balances and deposits of nonresidents in the Bank of Israel (Patach)—moved up from IL 1,836.9 million at the end of 1966 (\$ 612.3 million at the previous exchange rate of IL 3/\$ 1) to IL 2,431.4 million at the end of 1967 (\$ 694.7 million according to the present rate of IL 3.50/\$ 1). The increment thus derived both from the revaluation of the assets in terms of Israeli pounds and from the growth of \$ 82.4 million, or 13.4 percent, in the Bank's net foreign currency holdings. The real increase in foreign exchange reserves can be attributed to the depositing of part of the income derived from the larger capital import in the wake of the emergency appeals and the stepped-up sale of Israel Bonds abroad, in a year which saw no substantial change in the country's goods and services account.

The Bank's gold reserves held steady in 1967, totalling \$ 68.4 million, the same as at the end of 1966; the levelling-off of the figure can be ascribed to the fact that for some time now the Bank of Israel has refrained from buying gold for monetary purposes. Because of the devaluation, the value of the gold reserves in terms of Israeli pounds went up from IL 205.1 million at the end of 1966 to IL 239.5 million. The share of gold in gross foreign exchange holdings, as detailed above, moved down from 10.8 percent at the end of 1966 to 9.3 percent at the end of 1967.

The foreign exchange reserves—excluding loans to foreign institutions and clearing account balances—were all held in freely convertible currencies, mainly 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. A small percentage of the reserves were kept in non-interest-bearing demand deposits in order to finance the Bank's current operations.

Despite the much larger investment of foreign exchange reserves, interest income therefrom was only \$ 2.5 million higher (\$ 34.5 million as against \$ 32 million in 1966), owing to the stability, and in several cases even the decline, of interest rates in the world capital markets in the first three quarters of the year. In addition, investments in the United States for a period in excess of one year were expanded by \$ 200 million, and the income from these investments was somewhat lower than that received previously. The average annual yield on foreign exchange reserves, including gold, was 5.2 percent, following a record 5.7 percent in 1966 and 4.1 percent in 1965.

Table XXI-2  
FOREIGN EXCHANGE AND GOLD BALANCES HELD BY  
THE BANK OF ISRAEL, 1966-67

(\$ million)

End of period	Foreign exchange	Gold	Foreign loans	Net balance in clearing accounts	Total balances (gross)	Less: Deposits of non-residents	Net balances
1966 December	552.6	68.4	11.1	5.7	637.8	25.5	612.3
1967 January	545.9	68.4	10.7	6.7	631.7	24.5	607.2
February	541.0	68.4	10.6	6.4	626.4	24.9	601.5
March	553.4	68.4	10.4	6.9	639.1	28.8	610.3
April	544.9	68.4	10.2	7.7	631.2	31.0	600.2
August <sup>a</sup>	707.9	68.4	9.3	12.1	797.7	32.2	765.5
September	701.0	68.4	9.1	12.3	790.8	35.7	755.1
October	686.8	68.4	11.0	8.5	774.7	36.8	737.9
November	652.2	68.4	10.7	8.0	739.3	32.9	706.4
December	646.2	68.4	9.6	7.9	732.1	37.4	694.7

<sup>a</sup> Monthly data for May-July were not published in accordance with the Emergency Regulations (Nonpublication of Certain Reports of the Bank of Israel), 5727-1967 (*Kovetz Ha-Takkanot* No. 2048, May 31, 1967).

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

At the end of 1967 the Bank of Israel maintained clearing accounts with ten countries with which Israel had trade and payments agreements. The number of such countries decreased by one during the year, when the payments agreement with Rumania expired at the end of April; since then trade between the two countries has been conducted, under the various agreements concluded during the year, in freely convertible currency. In addition to these accounts, there is a clearing account with the Soviet Union which did not originate in a trade and payments agreement, but from the proceeds of the sale to the Israel Government of buildings and land owned by the U.S.S.R. The proceeds are to be used for the purchase of goods in this country, but even before the severance of diplomatic relations by the Soviet Union, it had not made use of this account during the year. In continuation of the trend of the past few years, Israel had a favorable balance in these accounts in 1967 too, i.e. she exported more to these countries than she imported from them. The credit balances amounted to IL 37.2 million (\$ 10.6 million) at the end of 1967, and the debit balances to IL 9.7 million (\$ 2.8 million). The net balance to Israel's credit thus stood at IL 27.5 million (\$ 7.8 million), as against IL 17 million (\$ 5.7 million) at the end of 1966—a rise of \$ 2.1 million as against \$ 600,000 in 1966.

**Table XXI-3**  
**BALANCES IN CLEARING ACCOUNTS, 1966-67**

(\$ thousand)

(End of period)			
Country	1966	1967	Increase or decrease (-)
Brazil	-1,576	-652	924
Bulgaria	271	923	652
Czechoslovakia	465	465	—
Ghana	493	232	-261
Greece	300	293	-7
Hungary	878	1,703	825
Poland	3,841	3,530	-311
Portugal	-1,125	-952	173
Rumania	1,562	—	-1,562
Turkey	1,111	1,895	784
Yugoslavia	2,835	2,047	-788
Balances in transit and other accounts	-3,393	-1,628	1,765
Total	5,662	7,856	2,194
Total in IL'000	16,986 <sup>a</sup>	27,496 <sup>b</sup>	7,679

NOTE: A negative sign indicates a balance to Israel's debit, and no sign indicates a balance to Israel's credit.

<sup>a</sup> According to the exchange rate IL 3 = \$ 1.

<sup>b</sup> According to the exchange rate IL 3.50 = \$ 1.

### (c) *Foreign currency deposits*

Foreign currency deposits of banking institutions with the Bank of Israel added up to IL 1,601.3 million (\$ 457.5 million) at the end of 1966, as compared with IL 1,123.7 million (\$ 374.6 million) at the end of the previous year—an increase of \$ 82.9 million, or 22.1 percent. The rise in IL terms was higher, owing to the alteration of the exchange rate. 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 depositor's option, the deposits may either be renewed or converted into Israeli pounds at the prevailing 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 1967 these deposits totalled IL 1,018.7 million (\$ 291.1 million), as against IL 731.3 million (\$ 243.8 million) at the end of 1966—an increase of \$ 47.3 million. Interest on these deposits is paid by the Government and the

Bank of Israel at the following rates: deposits for three months—3 percent; six months—4 percent; nine months—5 percent; 12 months—6 percent. The rate on deposits for 12 months was reduced from 7 percent in February 1967—after remaining at that level from 1962—as part of the Bank's effort to reduce interest rates in the economy.

(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 must deposit 33 percent of their total foreign currency transfers. Such deposits may be withdrawn in foreign currency in order to finance foreign travel, buy foreign securities, 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 1967 Tamam balances totalled IL 399.1 million (\$ 114 million), as compared with IL 287.9 million (\$ 96 million) at the end of 1966—an increase of \$ 18 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 or the receipt of dividends on foreign securities. These funds may be used only 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 on these deposits as well (they do not bear interest). At the end of 1967 they amounted to IL 27.8 million (\$ 8 million), as against IL 15.9 million (\$ 5.3 million) at the end of 1966—an increase of \$ 2.7 million.

(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 1967 such deposits totalled IL 130.9 million (\$ 37.4 million), as against IL 76.5 million (\$ 25.5 million) at the end of the previous year—an increase of \$ 11.9 million. Total Patach balances in banking institutions amounted to \$ 242.2 million. The banks are required to maintain 30 percent liquidity on these deposits, and must hold at least 15 percent of the balances with the Bank of Israel; the remaining 15 percent may be invested in foreign securities. Deposits subject to the liquidity regulations at the end of 1967 added up to \$ 190.8 million. The minimum amount which the banks were required to redeposit with the Bank of Israel thus came to \$ 28.6 million, or IL 100.2 million; however, they actually redeposited IL 130.9 million, 37.4 percent more than required.

Since March 1968 the Bank of Israel pays the following rates of interest on 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.

**Table XXI-4**

**FOREIGN CURRENCY DEPOSITS OF BANKING INSTITUTIONS  
WITH THE BANK OF ISRAEL, BY TYPE, 1966-67**

(\$ million)

	End of 1966	End of 1967	Increase
Time deposits of Israeli residents (Pazak)	243.8	291.1	47.3
Deposits of residents transferring currency (Tamam)	96.0	114.0	18.0
Foreign securities dividend accounts (Natad)	5.3	8.0	2.7
Deposits of nonresidents (Patach)	25.5	37.4	11.9
Blocked and registered accounts (Pahab)	0.1	0.3	0.2
Foreign currency accounts of the banks (Pamaz)	3.4	5.8	2.4
Import deposit accounts (Hay)	0.5	0.9	0.4
	374.6	457.5	82.9

(5) Other accounts, including 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 24.7 million (\$ 7 million) at the end of 1967, as contrasted with IL 12.1 million (\$ 4 million) at the end of 1966 — an increase of \$ 3 million.

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

Examination of the Government accounts by balance sheet item shows a rise of IL 592 million in the Government's gross liabilities to the Bank of Israel. But net of the increase in creditory accounts, the growth came to only IL 78.5 million<sup>1</sup> owing, as already noted, to the substantially larger foreign currency deposits of the Government and the National Institutions.

<sup>1</sup> See "Government liabilities" on p. 541.



Table XXI-5

GOVERNMENT ACCOUNTS WITH THE BANK OF ISRAEL,<sup>a</sup> 1966-67

(IL million)

End of period	1966	1967	Increase or decrease (-)
<b>Debit</b>			
Ordinary advances to the Government	32.6	369.6	337.0
Total current liabilities	32.6	369.6	337.0
Special advances and Government securities <sup>b</sup>	10.8	14.1	3.3
Treasury bills	15.2	138.3	123.1
Land bills	77.2	21.4	-55.8
Long-term advances to the Government	174.2	358.5	184.3
Total long-term debt	277.4	532.3	254.9
Total liabilities	310.0	901.9	591.9
<b>Credit</b>			
Compulsory saving deposits	33.2	25.0	-8.2
Foreign currency accounts	15.2	536.4	521.2
Total credit accounts	48.4	561.4	513.0
Balance	-261.6	-340.5	78.9
<b>Contingent accounts</b>			
Food surplus accounts	154.7	118.3	-36.4

<sup>a</sup> Excluding capital accounts.<sup>b</sup> Excluding other securities.(a) *Debit accounts*

The Government's long-term debt in 1967 was IL 262 million above the previous year's figure; the increase was due to the receipt of two advances during the year, one for IL 42 million and the second for IL 220 million. The Bank also purchased additional treasury bills to the tune of IL 115 million, in accordance with a decision of the Knesset on March 29, 1967 and under the Treasury Bills Ordinance, 1948. On the other hand, there was a decline of IL 65 million in land bills, while the balance of the Absorption and Defense Advance, which stood at IL 66 million at the end of 1966, disappeared entirely from the balance sheet. 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.

Long-term advances were about IL 20 million larger in 1967; this was due to the rise in the IL nominal value of the foreign currency advances following the devaluation of the Israeli pound.

During the year the Bank purchased IL 10.7 million worth of securities in the open market; for the most part these were Government securities.

IL 42.5 million of the Bank's 1967 profits and IL 77.5 million in devaluation differentials on Government deposits were earmarked, under an agreement between the Government and the Bank, for the early repayment of long-term advances, instead of being used for financing current expenditure. In the Bank's balance sheet at the end of 1967 the amount is included in the Government's current balances.

(b) *Credit accounts*

The balance of compulsory saving deposits declined during the year by IL 8.2 million following the repayment of relatively small sums in accordance with the prescribed terms.

The Government's foreign currency deposits<sup>1</sup> rose by IL 521 million as a result of the considerable proceeds from the emergency campaigns conducted abroad and the increased sales of State of Israel Bonds.

Net of the credit accounts, the Government's debt to the Bank of Israel went up by IL 78.9 million.

(c) *Contingent accounts*

The balance of contingent accounts, which are connected with agricultural surpluses made available to the Government of Israel by the United States Government, fell from IL 154.7 million at the end of 1966 to IL 118.3 million at the end of 1967. This can be attributed to the utilization of some of these sums by the American authorities, and the fact that, owing to changes in the arrangements for financing the food surpluses, no further sums were deposited in these accounts.

(d) *Government imports*

In 1967 the Bank opened documentary credit accounts to the amount of \$55.1 million, as compared with \$53.1 million in 1966, in order to finance imports by Government departments. The amount of documentary credits received by the Bank in 1967 from foreign banks and suppliers for collection from Government departments totalled \$17.6 million, as against \$11 million at the end of 1966.

<sup>1</sup> In January 1968 this item was redefined as "Deposits of the Government and the National Institutions".

#### 4. 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 rose from IL 1,648.8 million at the end of 1966 to IL 2,313.3 million at the end of 1967. These figures include both local and foreign currency accounts. Local currency deposits advanced from IL 525.1 million at the end of 1966 to IL 712.0 million, and foreign currency deposits from IL 1,123.7 million (\$ 374.6 million) to IL 1,601.3 million (\$ 457.5 million). A breakdown of the deposits appears in Table XXI-7.

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.

Table XXI-6

#### DEPOSITS OF BANKING INSTITUTIONS WITH THE BANK OF ISRAEL, 1966-67

(IL million)

End of period	1966	1967	Increase	
			IL m.	%
<b>Israeli currency</b>				
Minimum balance	263.1	352.6	89.5	34.0
Other demand deposits	18.2	49.9	31.7	174.2
Time deposits	243.7	309.5	65.8	27.0
Total	525.0	712.0	187.0	35.6
<b>Foreign currency<sup>a</sup></b>	1,123.7	1,601.3	477.6	42.5
Total deposits	1,648.7	2,313.3	664.6	40.3

<sup>a</sup> See Table XXI-4.

In 1967 interest rates on liquidity deficiencies were cut to 8 percent per annum on deficits not exceeding 2 percent of the deposits requiring liquid cover, and up to a maximum of 11 percent on deficits of over 4 percent of such deposits. These reductions took effect on February 2, 1967. However, in view of the national emergency and accelerated withdrawal of cash, all interest rates on

deficits arising between May 25, 1967 and June 21, 1967 were pared to 1 percent per annum. In November 1967 this reduction was extended retroactively to the period between January 1 and October 31, 1967.

The rates of interest paid on the various foreign currency deposits were given in section 2(c).

(b) *Rediscounts and loans*

The balance of rediscounted bills and loans to banks amounted to IL 408.6 million at the end of 1967—IL 147.2 million above the end-1966 figure. Of this increment, IL 23.7 million came from the revaluation of bills in foreign currency. In 1966 the balance of rediscounted bills rose by IL 122 million.

The growth in this item during the year reviewed was largely connected with the grant of loans to a number of banking institutions experiencing difficulties, in order to enable them to honor their obligations to clients, as well as with the continued rapid expansion of the export finance funds in which the Bank of Israel participates (see section 9 (e) below).

The increment of IL 147.2 million is after the provision of IL 31 million for doubtful debts to cover possible losses in realizing the collateral on the loans.

**Table XXI-7**  
**REDISCOUNTS, BY SECTOR,<sup>a</sup> 1966-67**  
(IL million)

	1966		1967	
	Local currency	Foreign currency	Local currency	Foreign currency
Agriculture	18.0	0.8	7.5	—
Industry	87.2	108.5	124.7	112.9
Commerce	—	5.9	2.7	17.2
Public services	—	27.1	1.0	23.3
Local authorities	—	—	0.4	—
National Institutions	—	12.8	—	9.4
Services	1.1	—	1.8	—
Miscellaneous	—	—	0.2	—
<b>Total</b>	<b>106.3</b>	<b>155.1</b>	<b>138.3</b>	<b>162.8</b>
Bank of Israel loans	—	—	107.5 <sup>b</sup>	—
<b>Total rediscounts and loans, in local and foreign currency</b>	<b>261.4</b>		<b>408.6</b>	

<sup>a</sup> New classification.

<sup>b</sup> After provision of IL 31 million for doubtful debts.

## 5. CURRENCY IN CIRCULATION

### (a) *Cash in circulation*

The monthly average of currency in circulation (calculated according to Wednesday figures) soared 26.5 percent—from IL 808.0 million in December 1966 to IL 1,021.9 million in December 1967—as compared with a rise of 12.0 percent in 1966 and 11.7 percent in 1964 and 1965. Means of payment also increased rapidly in 1967 in comparison with the three preceding years. Cash holdings went up by IL 218 million, with the increase concentrated entirely in the first half of the year. The difficulties encountered by a number of banks at the beginning of the year was one of the main reasons for the accelerated withdrawal of cash and for the concentration of about half of the annual increase in the first four months of the year. As for the remainder, nearly all of it occurred in the month of national emergency and mobilization that preceded the Six Day War: in May alone cash in circulation with the public swelled by IL 115 million. The anticipated decline in holdings after the war did not materialize, owing to the additional large demand on the part of the population in the administered areas.

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

In 1967 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 77.0 to 80.9

Table XXI-8

#### CURRENCY IN CIRCULATION, 1967

(IL thousand)

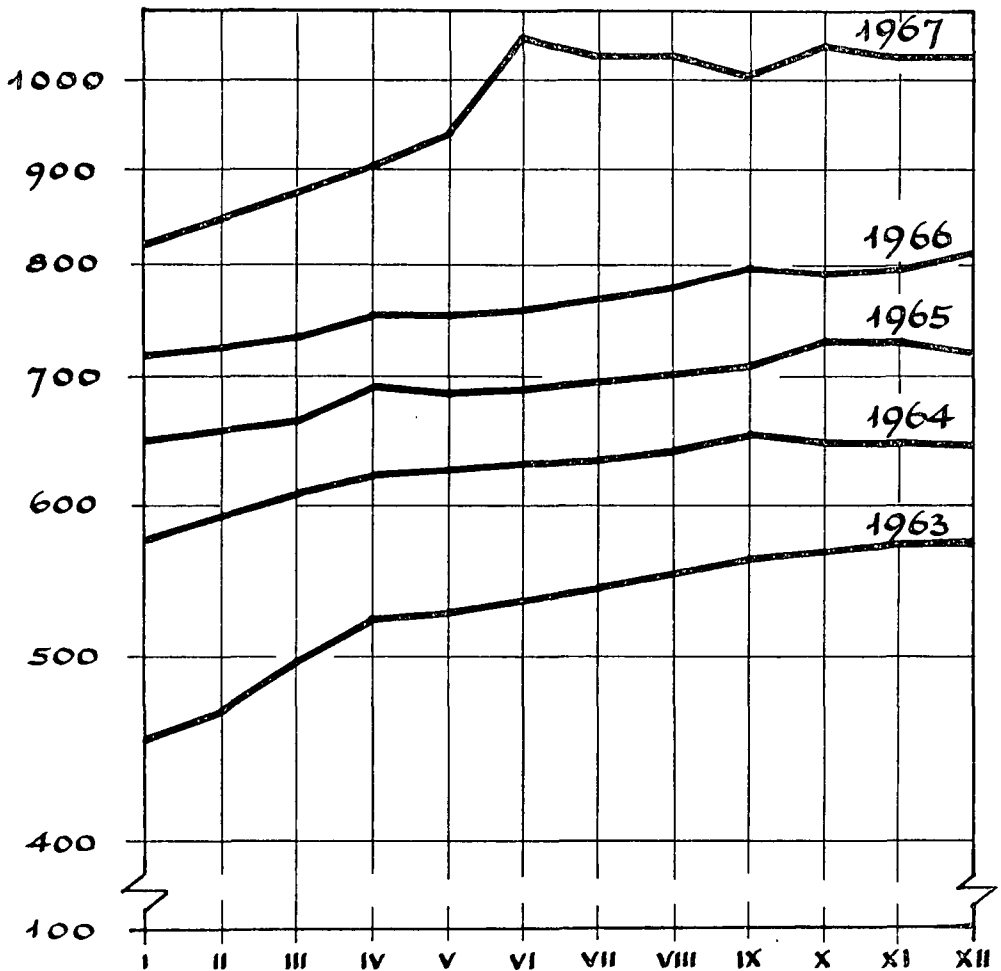
(Wednesday averages)

Month	Currency in circulation
1966 December	807,985
1967 January	817,816
February	847,451
March	872,607
April	900,432
May	936,070
June	1,040,735
July	1,024,248
August	1,020,554
September	1,009,439
October	1,032,192
November	1,023,084
December	1,021,868

Diagram XXI-1

CURRENCY IN CIRCULATION (WEDNESDAY AVERAGES), 1963-67

(IL thousand)



percent. The proportion of IL 10 banknotes declined from 18.7 to 15.4 percent, of IL 5 notes from 2.3 to 2.0 percent, and of IL 1 notes from 1.9 to 1.6 percent (to the IL 15.3 million in IL 1 banknotes should be added IL 4.4 million worth of IL 1 coins, making a total of IL 19.7 million). There was virtually no change in the share of IL ½ banknotes, which accounted for 0.1 percent of total banknotes in circulation. These banknotes have virtually been 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 being held by collectors.

During 1967, IL 6.6 million worth of new coins denominated in agorot,

in IL ½, and IL 1 (new design), as well as commemorative coins, were put into circulation, as follows:

Coin	Value (IL million)
1 agora	0.1
5 agorot	0.2
10 agorot	0.4
25 agorot	0.3
IL ½	0.7
IL 1 (new design)	2.7
Commemorative coins	2.2
Total	6.6

At the end of 1967 the new coins denominated in agorot (including those in denominations of IL ½ and IL 1) constituted 73.8 percent of the value of all coins in circulation, as compared with 76.2 percent at the end of 1966. The decline stemmed from a rise in the share of commemorative coins from 15.0 percent to 19.3 percent. The share of the old coins (denominated in prutot) continued downward, from 8.8 percent at the end of 1966 to 6.9 percent at the end of 1967.

The composition of the coins in circulation at the end of 1967 was as follows:

Type	Percent
Old coins (denominated in prutot)	6.9
New coins (denominated in agorot)	36.2
IL 1 and IL ½ coins	37.6
Commemorative coins	19.3
Total	100.0

### (c) *Damaged currency*

In 1967 unusable banknotes to the value of IL 271.7 million were destroyed. They consisted of both damaged currency and currency from earlier series which were withdrawn from circulation before 1967.

During the year the Bank of Israel received 467 requests for the exchange of damaged currency, totalling IL 31,671; 368 requests, totalling IL 30,804, were approved.

Table XXI-9

## NOTES AND COIN IN CIRCULATION, BY DENOMINATION, 1966-67

End of period	1966		1967	
	IL'000	%	IL'000	%
<b>Banknotes</b>				
IL ½	501	0.1	490	0.1
IL 1	14,324	1.9	15,326	1.6
IL 5	17,473	2.3	19,846	2.0
IL 10	141,606	18.7	149,087	15.4
IL 50	583,680	77.0	784,111	80.9
Total	757,584	100.0	968,860	100.0
<b>Coins</b>				
1 pruta	5	—	5	—
5 prutot	48	0.2	48	0.2
10 prutot	301	1.3	295	1.0
25 prutot	165	0.7	165	0.6
50 prutot	501	2.2	500	1.7
100 prutot	337	1.5	336	1.2
250 prutot <sup>a</sup>	601	2.7	601	2.1
500 prutot (silver)	22	0.1	22	0.1
1 agora	1,118	5.0	1,265	4.3
5 agorot	1,913	8.5	2,081	7.2
10 agorot	4,748	21.2	5,181	17.8
25 agorot	1,741	7.8	2,000	6.9
IL ½	5,835	26.1	6,543	22.5
IL 1	1,698	7.6	4,391	15.1
Total	19,033	84.9	23,433	80.7
<b>Commemorative coins</b>				
IL ½	27	0.1	27	0.1
IL 1	307	1.4	287	1.0
IL 5 (silver)	1,625	7.3	1,737	6.0
IL 10 (silver)	—	—	1,350	4.6
IL 20 (gold)	201	0.9	201	0.7
IL 50 (gold)	600	2.7	599	2.1
IL 100 (gold)	594	2.7	1,395	4.8
Total	3,354	15.1	5,596	19.3
Total coins	22,387	100.0	29,029	100.0
Total currency in circulation	779,971	—	997,889	—

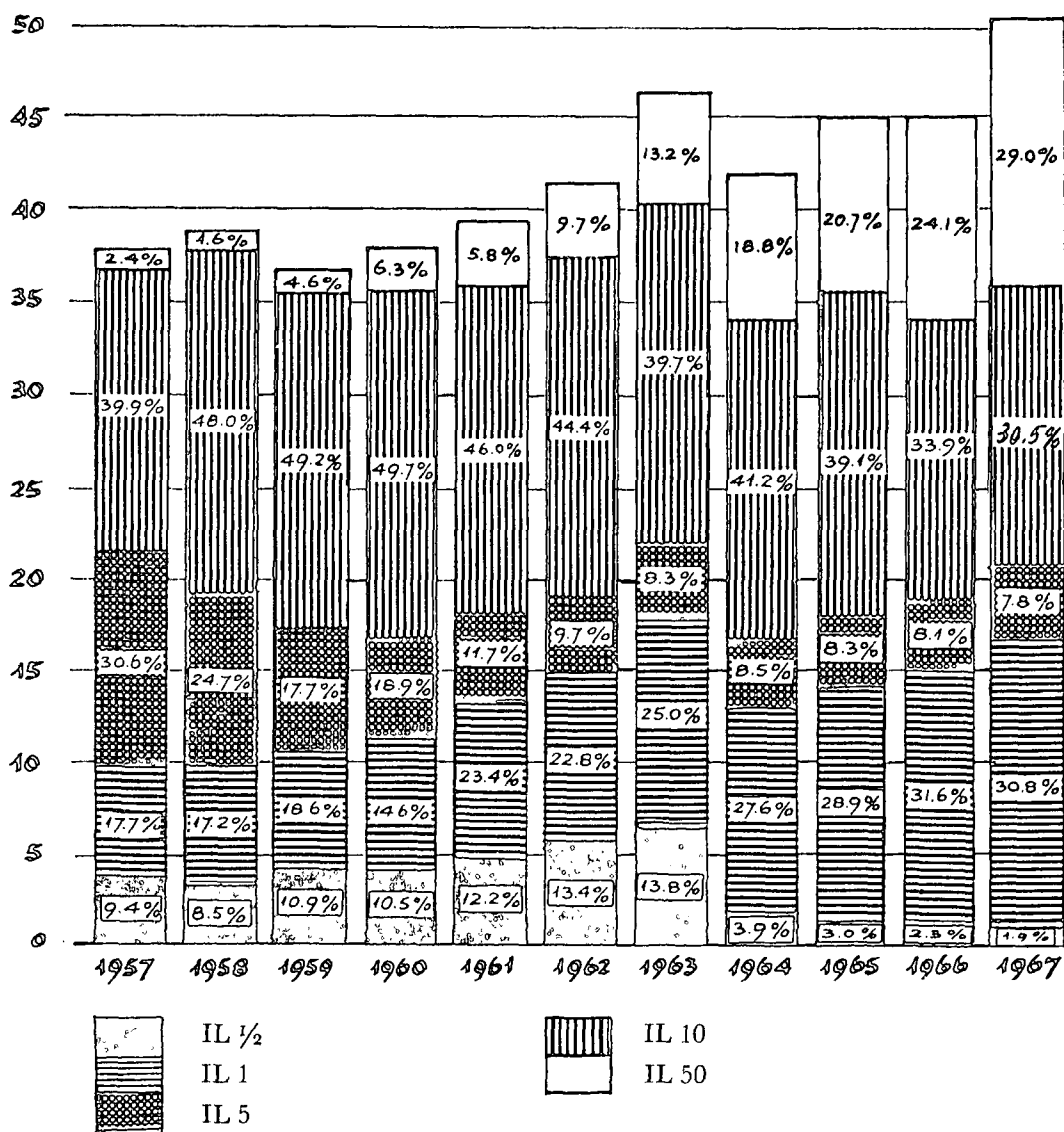
<sup>a</sup> Including paper tokens and silver coins.



# Diagram XXI-2

## NUMBER OF BANKNOTES IN CIRCULATION, BY DENOMINATION, 1957-67

(millions of units)



(d) *Agencies for the supply of cash*

The Bank of Israel now has agencies in Beersheba, Hadera, Tiberias, Netanya, Petah Tikva, Safad, and Rehovot. These agencies supply cash to banking institutions in the provincial towns and absorb their surplus cash. 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 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 in normal times and even more so at a time of emergency, such as the tense prewar and war period in 1967.

(e) *Exchange of currency in the new areas*

In accordance with a Government decision, the Bank of Israel undertook, on behalf of the Military Government, to exchange the currency in the administered areas.

The exchange of Jordan dinars into Israeli pounds was carried out in East Jerusalem between June 15 and July 31, 1967. The conversion of Egyptian currency in the Gaza Strip and Sinai was carried out progressively until its completion in February 1968. In that month, an order of the Military Governor abolished the Egyptian pound as legal tender in the Gaza Strip and Sinai and required all inhabitants holding such currency to convert it.

The exchange of Syrian pounds in the Golan Heights was accomplished in June 1967.

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

(a) *Income*

The Bank of Israel had a much larger income in 1967, the figure advancing from IL 123 million in 1966 to IL 174 million, after the provision of IL 31 million for doubtful debts. The main reason for this growth was the devaluation of the Israeli pound in November 1967—net revaluation increments amounted to IL 63 million. The increase in ordinary income thus came to about IL 19 million, and was due primarily to larger interest earnings on foreign currency reserves and on rediscounting operations, which advanced *pari passu* with the rise in the balance of these two items during the year.

(b) *Expenses*

The Bank's expenses in 1967 totalled IL 86 million, IL 18 million more than in 1966. The rise is mainly attributable to the increased interest payments on foreign currency deposits (mainly Pazak, Tamam, and Patach) and on the

balances of banking institutions—two items whose average annual level advanced substantially during the year—as well as to the dearer cost of minting currency.

(c) *Distribution of profits*

The Bank's net profit, after the allocation of IL 31 million for doubtful debts, added up to IL 87.9 million in 1967. The entire sum was transferred to the Government, in conformity with the Bank of Israel Law. However, under an agreement between the Government and the Bank, IL 42.5 million of this sum was frozen (in addition to IL 77.5 million in revaluation differentials on Government deposits, which was also frozen under this arrangement), by being earmarked for the repayment of IL 120 million in Government long-term debts to the Bank of Israel. The remaining IL 45.4 million in profits was transferred to the Government, in accordance with the provisions of the Bank of Israel Law, as budgetary income.

## 7. NOTE AND COIN ISSUE

(a) *Minting of commemorative coins*

The Bank of Israel minted three commemorative coins in the year reviewed. Two of them were minted in two forms, ordinary and proof. The coins marked the 19th Independence Day of the State and victory in the Six Day War.

The 19th Independence Day coin has a 90 percent silver content and a face value of IL 5, weighs 25 grams, and is 34 mm. in diameter. The coin depicts Eilat Port, while the reverse bears a design showing the city of Eilat on the seacoast and an inscription "The First Decade of Eilat Port". The obverse of the coin bears, as usual, the name of the State, the value of the coin, and the year of issue. The year of the State is incised on the rim. The coin was issued in ordinary and proof condition.

The victory coins were issued after the Six Day War: a silver coin—ordinary and proof—and a gold proof coin. The silver coin is made of sterling silver (935/1000), has a face value of IL 10, weighs 26 grams, and has a diameter of 37 mm. The gold coin is 22 carat gold, has a face value of IL 100, weighs 26.68 grams, and has a diameter of 33 mm.

The subjects of the gold and silver victory coins are identical: the obverse bears the emblem of the Israel Defense Forces against a stylized star, the name of the State in Hebrew, Arabic, and Latin letters, and the value of the coin. The reverse shows the Western Wall and the date of the liberation of Jerusalem. The dates of the beginning and end of the Six Day War appear on the rim.

The commemorative coins minted by the Bank of Israel through 1966/67 are summarized in Table XXI-10.

Table XXI-10

COMMEMORATIVE COINS ISSUED BY THE BANK OF ISRAEL,  
1960/61 TO 1966/67

Coin	Place minted	Number minted		
		Regular	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 (Torah is Light)	Berne	250,000	5,000	255,000
1959/60 (Degania)	Utrecht	100,000	5,000	105,000
1960/61 (Henrietta Szold)	Utrecht	17,000	3,000	20,000
1961/62 (Maccabees)	Utrecht	20,001	10,000	30,001
1962/63 (Hanukka A)	Berne	10,090	6,100	16,190
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 <sup>a</sup>	2,000	100,051
1957/58 (Ingathering of Exiles)	Berne	27,249 <sup>b</sup>	4,792 <sup>c</sup>	32,041
1959/60 (Herzl)	Berne	34,472 <sup>d</sup>	4,923 <sup>e</sup>	39,395
1960/61 (Bar Mitzva)	Utrecht	19,541 <sup>f</sup>	5,000	24,541
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	7,680 <sup>g</sup>	32,932
	Utrecht	32,503	10,500	43,003
1966/67 (Eilat)	Utrecht	30,250	7,755	38,005
5. Victory coins, 1966/67				
Silver, regular	Berne	234,589	—	234,589
Silver, proof	Kreschmer, Jerusalem	—	50,499	50,449
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

<sup>a</sup> After 1,949 units were melted down.<sup>b</sup> After 72,850 units were melted down.<sup>c</sup> After 208 units were melted down.<sup>d</sup> After 10,528 units were melted down.<sup>e</sup> After 77 units were melted down.<sup>f</sup> After 459 units were melted down.<sup>g</sup> After 70 units were melted down.

(b) *Coins in circulation*

In 1967 the following coins were minted for the Bank of Israel at the Israel mint in Jerusalem:

Coin	No. of units	Value (IL)
1 agora	11,192,915	111,929.15
5 agorot	2,470,106	123,505.30
10 agorot	5,851,348	585,134.80
25 agorot	200,020	50,005.00
IL ½	1,530,188	765,094.00
IL 1	4,583,385	4,583,385.00
Total	25,827,962	6,219,053.25

With the exception of the IL 1 coin, all these coins were in continuation of the existing series, which have been in circulation since 1960. The design of the previous IL 1 coin, which was withdrawn from circulation in 1963, was similar to the IL ½ coin, and the public apparently found it difficult to distinguish between the two. Following a study conducted on behalf of the Bank, it was decided to change the design and reeding of the IL coin but not its size or weight. The new coin, which was put into circulation in the middle of September 1967, is thus identical with its predecessor in weight (9 grams) and diameter (27.5 mm.). One side depicts three pomegranates on a stalk, a design based on a shekel from the Second Commonwealth period, and the name and emblem of the State. The other side of the coin bears the words "One Israel Pound", the figure "1" with stars on either side taken from the coins of Alexander Jannai, and the year of issue. This coin circulates together with the IL 1 banknote, and is in great demand.

The various agorot, IL ½, and IL 1 coins minted for the Bank of Israel up to and including 1966/67 are summarized in Table XXI-11.

(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 1967 the committee continued with the planning of the new series of Bank of Israel notes scheduled to go into circulation in 1969. Members of the committee are Dr. A. Witkon (Chairman), Mr. A. Ardon, Dr. A. Biran, Mr. R. Dayan, Mr. A. Ayalon, Mr. S. Golan, Dr. R. Hecht, Mr. T. Lurie, Mr. K. Katz, Mr. A. Kindler, and Dr. M. Spitzer.

Table XXI-11

## COINS MINTED FOR THE BANK OF ISRAEL, 1964/65 TO 1966/67

(units)

Value	Place minted	1964/65	1965/66	1966/67
1 agora	Berne	10,000,024	1,680,000	
	Tel Aviv	10,707,625	8,484,502	
	Jerusalem			6,781,271
	Total	20,707,649	10,164,502	6,781,271
5 agorot	Tel Aviv	201,281	290,866	
	Jerusalem			2,195,114
	Total	201,281	290,866	2,195,114
10 agorot	Tel Aviv	200,561	7,276,610	
	Jerusalem			6,426,438
	Total	200,561	7,276,610	6,426,438
25 agorot	Tel Aviv	186,544	320,000	
	Jerusalem			325,041
	Total	186,544	320,000	325,041
IL ½	Tel Aviv	1,551,167	2,139,000	
	Jerusalem			1,941,579
	Total	1,551,167	2,139,000	1,941,579
IL 1	Tel Aviv	166,053	290,000	
	Jerusalem			4,010,404*
	Total	166,053	290,000	4,010,404

\* Consisting of 180,066 units of the old design and 3,830,388 units of the new.

## 8. ADMINISTRATION OF STATE LOANS

(a) *Domestic loans*

New loan issues in 1967, excluding the Short-Term Loan and Absorption Loan certificates distributed during the year, totalled IL 498 million gross. This includes a one-time IL 300 million Defense Loan issue, of which IL 283 million was taken up in 1967 and the remainder in the first few weeks of 1968. Excluding this loan, gross issues came to IL 215 million, compared with IL 62 million in 1966. All of the increase was in the option-type bonds, sales of which soared during the year reviewed.

The amount of Absorption Loan certificates distributed, which does not represent a change in the outstanding balance of this debt, rose from IL 16 million in 1966 to IL 67 million in 1967.

Net issues (i.e. less redemption) of long-term loans, mainly of the option type, added up to IL 125 million, as compared with only IL 21 million in 1966. No Defense Bonds were redeemed in 1967, while repayments of the Absorption Loan came to IL 2 million, so that the net value of certificates distributed was IL 65 million, as contrasted with IL 16 million in 1966.

In addition to these, several series of the Short-Term Loan were issued and redeemed during the year. While this loan constitutes a liability of the Government, it is not used to finance its operations, but serves the Bank of Israel as an instrument in its open-market operations. In 1967, IL 668 million worth of certificates were sold and IL 551 million worth were redeemed, so that the net increment at the end of the year was IL 117 million. In 1966 gross issues of this loan came to IL 407 million and redemption to IL 323 million, the net increase thus amounting to IL 85 million.

The outstanding balance of domestic loans administered by the Bank of Israel, which represents only part of the State's domestic debt, soared by 76 percent to stand at IL 1,400 million. The increase stemming from linkage differentials due to the devaluation of the Israeli pound in November 1967 amounted to IL 17.7 million, or only 2 percent of the debt balance.

At the end of 1967 the Bank was administering 169 series of State loans, including 60 series added in the course of the year: 37 series of the option-type bonds, 17 series of the Defense Loan, and six series of other loans. Details of these loans are presented in Table XXI-12.

### *1. Development Loan*

Sales of the option-type bonds were very brisk in 1967. As compared with nine series, totalling IL 44.4 million, issued in 1966, this year 37 series were floated, to a total of IL 181.0 million. As regards both the number of series and issue amount, 1967 was the peak year since the option-type Development Loan was instituted in December 1963. The authorized amount of this loan was increased in August 1967 from IL 350 million to IL 500 million, but in view of the strong demand, the figure was again revised in February 1968 by an additional IL 350 million, to IL 850 million.

The unprecedented growth in sales of the option-type bonds is attributable to the relatively high return thereon as compared with other investments. The downtrend in interest rates—set off by the lowering of the yield on the Short-Term Loan, which was followed by the reduction of the return on bill brokerage transactions—enhanced the attraction of option-type loans that could be redeemed ahead of maturity beginning two years after the date of issue. The right of early redemption was abolished in September 1967 with respect to new issues. From the beginning of the year until September, IL 114.0 million worth of bonds carrying the right of early redemption were issued, while from September to the end of the year IL 67 million worth were issued without this right. In

**Table XXI-12**  
**DOMESTIC STATE LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1967**  
 (IL thousand)

	Number of series	Amount author- ized	Balance at end of 1966	Amount issued <sup>a</sup> in 1967	Principal redeemed in 1967	Balance at end of 1967	Interest paid in 1967	Linkage differentials on principal <sup>b</sup>
<b>1. Nonlinked loans</b>								
<b>A. Interest-bearing</b>								
3½% Government Loan, 1953-57	1	4,400 <sup>c</sup>	1	—	—	1	—	—
3½% War Loan, 1954-59	1	7,500	139	—	9	130	—	—
4% Compulsory Loan, 1952	1	20,870 <sup>d</sup>	5,066	—	1,318	3,748	179	—
2½% Compulsory Loan, 1953	1	9,021 <sup>c</sup>	3,206	—	605	2,601	78	—
3% Special Popular Loan, 1954	1	•	74	—	—	74	2	—
Immigrant Housing Loan Savings Bonds, 1957	1	<sup>e</sup>	41	—	17	24	6	—
6% Short-Term Loan, 1960	4	620,000 <sup>f</sup>	273,977	654,771	538,469	390,279	17,165	—
6% Short-Term Loan, 1960 (to banks)	1	50,000 <sup>g</sup>	33,820	13,496	12,320	34,996	1,109	—
<b>Total</b>	11	—	316,324	668,267	552,738	431,853	18,539	—
<b>B. Prize-bearing bonds</b>								
Popular Loans	6	41,000	31,452	43 <sup>h</sup>	210	31,285	1,326	—
Mandatory Bearer Bonds	4	10,000	699	1	164	536	20	—
<b>Total</b>	10	—	32,151	44	374	31,821	1,346	—
<b>Total nonlinked loans</b>	21	—	348,475	668,311	553,112	463,674	19,885	—
<b>2. Index-linked interest-bearing loans</b>								
6½%, 4¾% Defense Loan, 1956	1	40,000	2,595	—	1,271	1,324	234	887
6%, 4½% Immigrant Housing Loan, 1957	8	70,000	5,024	—	1,686	3,338	457	1,035
6%, 5½%, 5% Development Loan, 1960 (long-term)	21	500,000	90,297	15,000	23,412	81,885	8,168	8,038
4.84% <sup>i</sup> Defense Loan, 1960 (option) <sup>j</sup>	63	<sup>k</sup>	128,433	181,035	12,395	297,073	3,017	—
4.84% <sup>i</sup> Defense Loan, 1967	17	300,000	—	282,466	—	282,466	—	—
4% Absorption Loan, 1961 <sup>l</sup>	1	—	15,666	7,019	1,504	21,181	1,189	325
4% Absorption Loan, 1962 <sup>l</sup>	1	—	33,228	8,075	—	41,303	1,898	—
4% Absorption and Compulsory Saving Loan, 1963 <sup>l</sup>	1	—	3,484	51,624	—	55,108	—	—
4% Compulsory Saving Loan, 1952 <sup>m</sup>	1	—	33,253	—	8,226	25,027	1,293	73
6% Insurance Companies Loan, 1962	5	100,000	19,816	12,022	28	31,810	1,807	11



6% Insurance Companies Loan, 1965	1	100,000	1,483	—	—	2,100	500	—
6% Insurance Companies Loan (3 years)	2	10,000	6,191	—	6,191	—	504	1,219
Total	122	—	339,470	557,926	54,713	842,683	19,037	11,588
<b>3. Dollar-linked loans</b>								
<b>A. Interest-bearing</b>								
3% National Loan, 1948-53	1	—	52	—	5	47	...	—
3½% Tavei Dollar, 1951	1	87,500 <sup>a</sup>	15,571	2,377	8,061	9,887	457	—
3½% Savings Certificates, Dollar- Linked, 1951	1	10,000 <sup>c</sup>	12,077	1,245	3,650	9,672	412	—
6%, 4¾% Defense Loan, 1956	1	<sup>f</sup>	6,142	718	3,073	3,787	317	—
6%, 4½% Immigrant Housing Loan, 1957	10	<sup>f</sup>	19,867	2,543	5,501	16,909	927	—
6% Development Loan, 1960	4	<sup>k</sup>	26,870	4,041	3,307	27,604	1,590	—
6% Insurance Companies Loan	2	<sup>f</sup>	—	11,241	497	10,744	286	—
Total	20	—	80,579	22,165	24,094	78,650	3,989	—
<b>B. Prize-bearing bonds</b>								
Defense Loan, 1956	1	<sup>f</sup>	9,704	1,020	3,316	7,408	427	—
Immigrant Housing Loan, 1957	1	<sup>f</sup>	9,153	10 <sup>g</sup>	7,245	1,918	455	—
Total	2	—	18,857	1,030	10,561	9,326	882	—
Total dollar-linked loans	22	—	99,436	23,195	34,655	87,976	4,871	—
<b>4. Combined-linked interest-bearing loans</b>								
6% Development Loan, 1960	4	<sup>k</sup>	10,687	987	1,446	10,228	754	277
Grand total	169	—	798,068	1,250,419 <sup>a</sup>	643,926	1,404,561	44,547	11,865

<sup>a</sup> Includes revaluation increments of IL 17,663,000 on dollar-linked loans.

<sup>b</sup> Linkage differentials on index-linked loans only. Dollar-linked loans (including combined linkage) have been revalued.

<sup>c</sup> Amount actually sold by the end of 1967.

<sup>d</sup> Amount actually sold by the end of 1967—including tax vouchers.

<sup>e</sup> Included in the authorized amount of the Popular Loan Premium Bonds.

<sup>f</sup> Included in the authorized amount of the index-linked loan.

<sup>g</sup> A new series may be issued to replace a series fully redeemed.

<sup>h</sup> The amount issued as a result of the redemption of bonds held on behalf of the Accountant General.

<sup>i</sup> If the option-type bonds are redeemed without linkage, the rate of interest is 10.76 percent.

<sup>j</sup> New classification; other five-year loans are listed under the long-term Development Loan.

<sup>k</sup> Included in the authorized amount of the long-term Development Loan.

<sup>l</sup> Only certificates actually sold.

<sup>m</sup> Under the agreement between the Government and the Bank of Israel, proceeds from this loan are deposited in the Bank of Israel and cannot be used by the Government.

<sup>n</sup> The amount authorized and issued is denominated in U.S. dollars and totalled \$ 25 million. The equivalent IL value was calculated at the official rate of exchange.

<sup>o</sup> According to the linkage terms of the loan, each IL equals \$ 2.80.

**Table XXI-13**  
**NET NEW BOND ISSUES, 1966-67**  
(IL million)

	1966			1967		
	Gross issue	Redemption	Net issue	Gross issue	Redemption	Net issue
Short-term loans	407	323	85	668	551	117
Option-type loans	44	—	44	181	12	169
Long-term loans	18	4	14	34	31	3
Other loans <sup>a</sup>	—	37	-37	—	47	-47
<b>Total</b>	<b>469</b>	<b>364</b>	<b>106</b>	<b>883</b>	<b>641</b>	<b>242</b>
Defense Loan	—	—	—	283	—	283
<b>Total</b>	<b>469</b>	<b>364</b>	<b>106</b>	<b>1,166</b>	<b>641</b>	<b>525</b>
Absorption Loan <sup>b</sup>	16	—	16	67	2	65
<b>Total</b>	<b>485</b>	<b>364</b>	<b>122</b>	<b>1,233</b>	<b>643</b>	<b>590</b>

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

<sup>a</sup> Redemption on account of loans of previous years.

<sup>b</sup> Value of certificates distributed only.

1967 holders of bonds of series 25-35, the first series featuring the early redemption clause and which went on sale in January 1965, were able to exercise this right for the first time. The total amount so redeemable was IL 50 million, but the amount actually redeemed was IL 12.4 million, or one-quarter of the potential sum.

In 1967 three series of the long-term Development Loan were issued, to a total of IL 15 million; this is a 17-year loan bearing 5.5 percent interest. In 1966 sales of this loan came to IL 7.3 million. However, net holdings by the public declined, since IL 23.4 million worth of bonds were redeemed during the year, as contrasted with only IL 2.4 million in 1966.

## 2. *Defense Loan*

The floating of the Defense Loan began immediately after the Six Day War. The maximum amount was originally fixed by law at IL 250 million, of which IL 100 million was earmarked for banks. Following the favorable response of the public, the ceiling was raised to IL 300 million. By the end of 1967 sales aggregated IL 282.5 million, and the balance was taken up in the first few weeks of 1968. Owing to the special nature of the loan—it was purchased by all sections of the population—it was necessary to print certificates on a large scale, which is not customary with other loans of this type, where a credit note

from the bank is generally issued in place of a certificate. In this case, certificates were actually issued to the purchasers, and two million certificates in various denominations were printed in preparation for the start of distribution in the last quarter of the year.

The terms of this loan are identical with those of the option-type loans without the right of early redemption. The loan was listed on the Stock Exchange at the beginning of 1968. Contrary to some predictions, there was no evidence of a particularly increased tendency on the part of the public to sell their bonds after the listing of the loan on the Exchange. In the first week after the listing, trade in the Defense Loan totalled IL 1.8 million, but the volume gradually decreased to IL 1.2 million a week in February 1968.

### 3. *Short-Term Loan*

The rising trend in the balance of this loan, which began in June 1966 when it was transferred to the Bank of Israel for administration, gathered momentum in 1967 despite the further trimming of the nominal yield. Net issue amount (i.e. incremental holdings of the public) totalled IL 117 million in 1967, as compared with IL 85 million the year before. The balance of the loan in December 1967 stood at IL 390.3 million, as against IL 274 million the previous December. The Bank of Israel froze all proceeds in accordance with an agreement with the Government, and in return applied them toward the reduction of the Treasury's long-term obligations to the Bank of Israel.

**Table XXI-14**

#### **NET ANNUAL YIELD ON SHORT-TERM LOAN SERIES, 1967**

(percentages)

Series	Jan. 1, 1967 to Jan. 31, 1967	Feb. 1, 1967 to Aug. 1, 1967	Aug. 2, 1967 to Oct. 17, 1967	From Oct. 18, 1967
3 months	7.50	6.50	6.00	5.75
6 months	7.71	6.75	6.50	6.25
12 months	8.25	7.50	7.25	6.75
18 months <sup>a</sup>	8.40	7.50	—	—

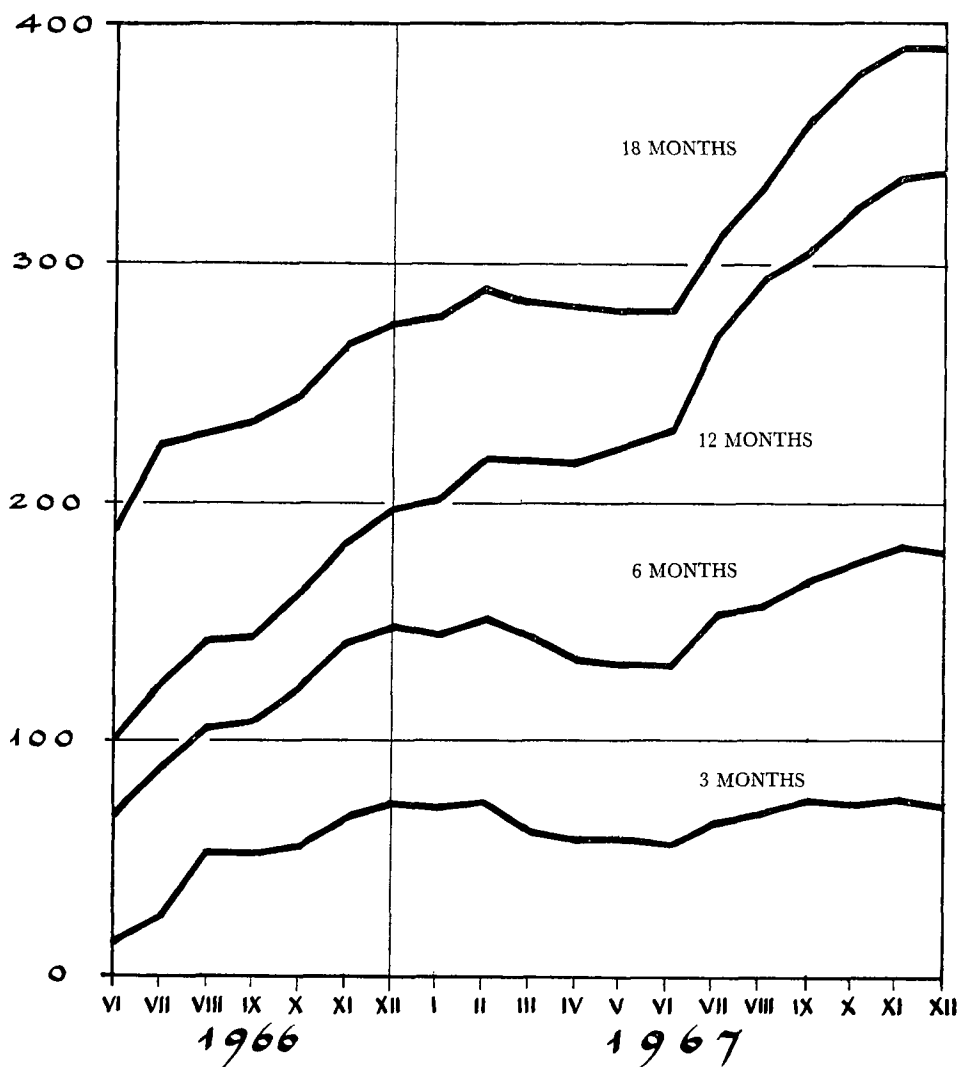
<sup>a</sup> Compound interest.

The development of the outstanding balance during 1967 was not uniform. In the first half of the year the figure declined, under the Bank's policy of stimulating economic activity. Interest rates were reduced three times in about

Diagram XXI-3

OUTSTANDING SHORT-TERM LOAN HOLDINGS OF THE PUBLIC, BY SERIES,  
JUNE 1966 TO DECEMBER 1967

(IL million)



two months, and in certain periods only part of the demand for certificates was met. Between February and May the balance dipped by IL 13 million. Sales of the 18-month series dropped to a new low, mainly because of the increased sales of the option-type loan carrying the right of early redemption, and issuance of the series was suspended in March 1967 (being resumed only a year later, in March 1968). Following the rapid monetary expansion in the months April-June, demand rose sharply toward the end of June, and the outstanding balance

began to soar. The stability of prices and the relatively high real yield made it possible to further cut the interest rate in August and again in October 1961.<sup>1</sup>

The yields on the various loan series are presented in Table XXI-14. There was an especially big increase in sales of the 12-month series, owing to the anticipated further decrease in the rate of return. The share of this series in total holdings of the loan came to 46 percent in December 1967, as compared with only 18 percent the previous December (see Diagram XXI-3).

Despite the reduction of the interest rates during the year, real income increased: in 1966, when the nominal yield was 8 percent, the price level rose by that very rate, whereas in 1967, when the nominal yield was 7 percent, prices went up by only some 2 percent.

After the lowering of the interest rates in October 1967 and the restriction of sales, total holdings of the public began to level off in November, and in December 1967 and January 1968 the figure even turned slightly downward. However, the rising trend reasserted itself at the end of February and the beginning of March, and on March 13 the balance reached a new high of IL 417 million.

Banks selling the Short-Term Loan are entitled to buy treasury bills at the rate of IL 1 for every IL 5 of proceeds deposited with the Bank of Israel. 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 one-year deposits kept by banks 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 re-acquisition at the end of the period; this enables them to avoid "breaking" their fixed-term deposits with the Bank of Israel, with the loss of interest involved. The extent to which the right to sell such bills to the Bank of Israel was utilized during the year fluctuated sharply, from 2 percent of total bank holdings of this paper at the end of June 1967 to 41 percent at the end of November 1967 (see Diagram XXI-4).

From the inception of their sale to banks in June 1966 until May 1967, the treasury bills were handled by the Stock Exchange Clearinghouse. In May 1967 they were turned over to the State Loans Administration. In March 1967 the Knesset, in conformity with the provisions of the Treasury Bills Ordinance, 1948, raised the ceiling on Bank of Israel holdings from IL 69.4 million to IL 184.4 million, and the Bank accordingly bought IL 115 million worth of bills as part of the deficit financing measures aimed at stimulating the economy. As noted, the Bank of Israel uses these bills to encourage sales of the Short-Term Loan.

Five series of the special Short-Term Loan to banks were floated in 1967, to a total of IL 13.5 million, and five series, totalling IL 12.3 million, were redeemed; the net increase in the outstanding balance was thus IL 1.2 million.

<sup>1</sup> The causes of these developments and others discussed below are analyzed in Chapter XV.

Diagram XXI-4  
PURCHASES OF TREASURY BILLS BY BANKING INSTITUTIONS, 1967  
(IL million)



#### *4. 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, under the terms of the linked life insurance policies they issue. These deposits are converted into Insurance Companies Loan (1962 and 1965) certificates at set dates during the year. The bonds are issued for periods of five to forty years, at the option of the insurance company and in accordance with the terms of the linked life insurance policies it has sold. Of the first loan (1962), index-linked bonds were issued in 1967 to a value of IL 12 million (IL 8.8 million in 1966), and for the first time bonds were redeemed, to a total of IL 28,000. Dollar-linked bonds were issued to the tune of IL 11.2 million, 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 16.2 million at the end of 1967. As to the second loan, IL 700,000 worth of bonds were issued during 1967, compared with IL 1.5 million in 1966.

The outstanding balance of the IL 10 million three-year loan issued for the insurance companies stood at IL 6.2 million at the end of 1966. This was repaid in full during the year reviewed.

#### *5. Absorption Loan*

The Government's total debt on account of the Absorption Loans (i.e. the amount deducted from wage earners and collected from the self-employed on account of the loans for the years 1961, 1962, and 1963) totalled IL 185 million at the end of 1967: IL 22.6 million for 1961, IL 57.7 million for 1962, and IL 104.6 million for 1963. The distribution of loan certificates by the Bank of Israel continued in 1967, and by the end of the year the cumulative total came to IL 120 million. IL 46 million worth were distributed in the first quarter of 1968, so that only IL 19 million worth were not yet distributed by the end of March 1968. Certificates totalling IL 6.7 million are being held for 58,000 persons who have not been located by the Post Office. In 1967, IL 67 million worth of certificates were distributed to 195,000 persons.

The second redemption of the Compulsory Saving Loan, 1962, took place on April 1, 1967, with one-quarter of the principal being repaid plus the 20 percent interest accumulated over four years. The first redemption of the Absorption Loan, 1961, took place on the same date, with 10 percent of the principal being repaid. Annual interest on this loan is 4 percent. In April 1967 the Absorption Loans began to be traded on the Stock Exchange. The 1961 series was listed and traded under the usual terms, while the 1962 and 1963 series were traded in the free market. After the start of trade in these loans, their share in the bond market ranged between 8 and 21 percent. The high yield rates—10 to 11 percent in April–June—induced many to invest in these loans. The price moved up

steadily, with a corresponding decline in the yield, which averaged 7 percent by the end of the year.

Bonds of the 1962 and 1963 series will be converted into bearer bonds on April 1, 1968, thereby making it possible to list and trade in them on the Exchange under the usual terms.

## *6. Stock Exchange operations*

The Bank of Israel began to operate in the open market on a large scale in June 1966, when the Government Short-Term Loan was transferred to it for administration under an agreement with the Treasury.<sup>1</sup> The change of monetary policy as from the middle of 1966 with a view to encouraging economic activity led to the revision of the distribution terms of the Short-Term Loan in November 1966; in cutting the interest rates on the Short-Term Loan, the Bank of Israel touched off a downward movement in interest rates in the economy, for this step was followed by a similar cut in the interest rate on bill brokerage credit and fixed-term deposits.

In its stock market activities the Bank of Israel serves as a regulatory and stabilizing influence, meeting excess demand and absorbing excess supply in order to maintain market stability. Trade in the Short-Term Loan rose by 9 percent in 1967, to IL 64 million, and its share in total Stock Exchange volume came to 30 percent. In 1967 the Bank of Israel accounted for IL 47 million, or 73 percent, of total Short-Term Loan transactions; of this sum, IL 32 million represented purchases and IL 15 million sales.

Bank of Israel operations in the bond market, excluding the Short-Term Loan, totalled IL 31 million in 1967, as compared with IL 11 million in 1966. This consisted of IL 21 million in purchases and IL 10 million in sales.

The proceeds of State loans and other public loans administered by the Bank are deposited to the credit of the Stock Exchange Clearinghouse and of non-member banks. The clearing balances are credited or debited by the clearinghouse each day to the members' accounts. The Bank of Israel receives and delivers securities in accordance with notices issued by the Stock Exchange Clearinghouse to its members. Other deposits are held to the credit of the Accountant General, the Administrator General, and insurance companies. In 1967, 5.9 million bonds were transferred by the clearinghouse, compared with 3.1 million in 1966.

## *7. Administrative activities*

The Bank of Israel redeemed 381,000 certificates of various loans in 1967, compared with 216,000 the year before. The increase was due mainly to the final redemption of the prize-bearing Immigrant Housing Loan, series Number

<sup>1</sup> See Bank of Israel Annual Report for 1966, p. 518.



**Table XXI-15**  
**DOMESTIC LOANS (OTHER THAN STATE LOANS) ADMINISTERED BY THE BANK OF ISRAEL, 1967**  
 (IL thousand)

	Number of series	Amount authorized	Balance at end of 1966	Amount issued in 1967 <sup>a</sup>	Principal redeemed in 1967	Balance at end of 1967	Interest paid in 1967	Linkage differentials on principal <sup>b</sup>
<b>1. Index-linked interest-bearing loans</b>								
6½%, 6% Local Authorities Loan	2	15,000	901	—	299	602	86	173
6% Debentures, Industrial Bank of Israel Ltd.—long-term	2	25,000	3,678	—	795	2,883	332	416
4.84% Debentures, Industrial Bank of Israel Ltd.—option <sup>c</sup>	1	5,000	5,000	—	—	5,000	—	—
6½%, 5½%, 5% Debentures of Tefahot Israel Mortgage Bank	20	212,750	139,820	67,750	1,488	206,082	11,498	316
4.84% Debentures of Israel Mortgage Bank—option <sup>c</sup>	1	5,000	—	5,000	—	5,000	—	—
<b>Total</b>	<b>26</b>	<b>—</b>	<b>149,399</b>	<b>72,750</b>	<b>2,582</b>	<b>219,567</b>	<b>11,916</b>	<b>905</b>
<b>2. Dollar-linked loans</b>								
<b>A. Interest-bearing</b>								
6% Debentures, Industrial Bank of Israel Ltd.	2	<sup>d</sup>	2,297	250	767	1,780	135	—
6½%, 6% Local Authorities Loan	2	<sup>d</sup>	11,683	1,745	3,376	10,052	629	—
5% National Oil Company Ltd.	1	10,000	7,956	1,040	1,528	7,468	346	—
6½% Debentures of Tefahot Israel Mortgage Bank	1	<sup>d</sup>	3,633	519	519	3,633	236	—
<b>Total</b>	<b>6</b>	<b>—</b>	<b>25,569</b>	<b>3,554</b>	<b>6,190</b>	<b>22,933</b>	<b>1,346</b>	<b>—</b>
<b>B. Prize-bearing bonds</b>								
Jewish Agency Immigration Loan	1	10,000	2,603	-405 <sup>e</sup>	1,660	538	39	—
<b>Total</b>	<b>7</b>	<b>—</b>	<b>28,172</b>	<b>3,149</b>	<b>7,850</b>	<b>23,471</b>	<b>1,385</b>	<b>—</b>
<b>3. Combined-linked interest-bearing loans</b>								
6% Debentures, Industrial Bank of Israel Ltd.	1	15,000	10,158	833	2,144	8,847	715	490
<b>Grand total</b>	<b>34</b>	<b>—</b>	<b>187,729</b>	<b>76,732<sup>a</sup></b>	<b>12,576</b>	<b>251,885</b>	<b>14,016</b>	<b>1,395</b>

<sup>a</sup> Including IL 4,386,000 in revaluation differentials on dollar-linked loans.

<sup>b</sup> Linkage differentials on index-linked loans only. Dollar-linked loans (including mixed linkage) have been revalued.

<sup>c</sup> The rate of interest on bonds redeemed without linkage is 10.76 percent.

<sup>d</sup> Included in the authorized amount of index-linked loans.

<sup>e</sup> Loan cancelled at the request of the Jewish Agency.

13 of the Development Loan, and the first redemption of the 1961 Absorption Loan. There was a slight decline in the number of coupons redeemed—1.79 million as against 1.83 million in 1966.

During the year 21 drawings of prize-bearing loans were held, as well as 15 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 the loans floated by five public bodies. In 1967 seven new loans were issued, to a total of IL 72.7 million. During the year IL 12.6 million was paid out on account of principal and linkage differentials on dollar-linked loans and IL 1.4 on index-linked. Total interest payments, including linkage on these loans, came to IL 14.0 million.

The net amount outstanding, including linkage differentials due to the devaluation in November 1967, rose from IL 187.7 million at the end of 1966 to IL 251.9 million, or by IL 64.2 million.

(c) *Foreign loans*

A special issue of the Development Loan was floated abroad at the end of 1966, in an authorized amount of \$ 100 million. This series was designed for companies, organizations, and other bodies. Interest was fixed at 4.75 percent, compared with 4 percent for earlier series. The period to maturity is longer—20 years as against 12–15 years in the other series. Sales of this series totalled \$ 34.1 million in 1966 and \$ 28.3 million in the year reviewed.

A further series—the fourth—of the Development Loan was floated this year, in an authorized amount of \$ 500 million. This series went on sale in September 1967, and by the end of the year the figure reached \$ 32.5 million. Sales of the third series during the year totalled \$ 159.4 million. All told, \$ 191.9 million worth of Development Bonds were sold during the year reviewed, in contrast to \$ 79.1 million in 1966. This substantial rise can be ascribed to the Six Day War and the resulting larger volume of donations and Bond purchases as an expression of the self-identification of World Jewry with Israel.

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 \$ 20.3 million in 1967, compared with \$ 18.3 million the year before. Interest payments, at \$ 1.2 million, were about the same as in the previous year. The increased volume of contributions transferred directly to various institutions in Israel during the prewar and war period in the form of Independence and Development Bonds

Table XXI-16

## FOREIGN LOANS ADMINISTERED BY THE BANK OF ISRAEL, 1967

(\$ thousand)

Loan	Amount subscribed at end of 1967	Amount redeemed <sup>a</sup> by end of 1967	Amount owing at end of 1967	Amount converted into IL in 1967	Interest paid in Israel only in 1967
Independence Loan	145,533	145,533	—	37	13
Development Loan					
First series	234,140	167,587	66,553	1,473	189
Second series	293,620	122,029	171,591	8,578	682
Third series	392,752	49,016	343,736	10,157	361
Fourth series	32,463	115	32,348	63	—
Special investment series	62,372	2,529	59,843	—	—
Total	1,160,880	486,809	674,071	20,308	1,245

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

resulted in the doubling of the share of these institutions in conversions, from 21 percent in 1966 to 41 percent in 1967. Of the remainder, 32 percent was used to finance investments in local enterprises by foreign investors, 21 percent was spent by tourists during their stay in Israel, and 6 percent was paid to Israeli residents, temporary residents, and new immigrants.

Details of sales, outstanding balances, conversion, and interest paid on the foreign loans are presented in Table XXI-16.

## 9. EXAMINATION OF BANKING AND FINANCIAL INSTITUTIONS

At the end of 1967 the Department of the Examiner of Banks in the Bank of Israel exercised control over 84 banking and financial institutions, the same number as at the end of the previous year.

The number of commercial banks remained unchanged. The list of credit cooperatives was reduced by one following the transfer by Kupat Ahvah Co-operative Credit and Saving Society Ltd. of its business to Kupat Aliya Co-operative Credit and Saving Society Ltd.

Mashkantaot le-Tel Aviv Ltd. received permission from the Governor of the Bank of Israel to change its name to Bank Mashkantaot le-Tel Aviv Ltd.

Table XXI-17

**BANKING AND FINANCIAL INSTITUTIONS UNDER  
BANK OF ISRAEL SUPERVISION, 1966-67**

(End of period)		
Type of institution	1966	1967
Commercial banks	28	28
Cooperative credit societies	18	17
Mortgage and investment banks	19	20
Financial institutions	19	19
<b>Total</b>	<b>84</b>	<b>84</b>

(a) *Audits*

The Department conducted 73 examinations of banking and financial institutions during the year reviewed. These included general audits and partial audits of credit and collateral, time deposits, daily reporting on liquid assets, acceptances, documentary credits, and other subjects.

The special audits that had to be carried out in institutions which became financially involved and those that had to be made of bank branches in the administered areas considerably increased the work load of the auditing staff of the Department, and it was therefore decided to employ independent public accounting firms to carry out certain audits in accordance with the Department's directives.

The Department continued to examine in particular instances in which credit and guarantees had been granted to several clients in excessively large amounts relative to the bank's capital. The Department followed up the growth of these liabilities, and demanded that they be reduced and that the bank obtain adequate collateral as regards quality and value in relation to the debt. In these audits, the amount provided for doubtful debts was also examined, and in some cases the management was required to increase the provision.

The audit of banking and financial institutions uncovered bill brokerage transactions that did not comply with the minimum conditions detailed in the Examiner of Banks' directives. Instances of faulty accounting and reporting to the Department of the Examiner of Banks were also found.

The examiners continued to stress the shortcomings in internal control which were discovered, as well as the absence of proper internal control in some institutions. The Department called on the institutions to establish internal control units staffed by competent personnel.

### 1. *I. L. Feuchtwanger Bank Ltd.*

In a routine audit of the I. L. Feuchtwanger Bank carried out by the Department in the second half of 1966, it was discovered that some of the bank's shareholders had received credit directly from the bank or indirectly through its subsidiaries and affiliated companies, and also that the bank had issued guarantees in their favor for substantial sums which were out of all proportion to the volume of its business. These debts were secured mainly by liens on real estate which could not be readily realized without considerable loss (see Bank of Israel Annual Report for 1966, p. 528).

In the middle of January 1967, after it became clear that the management was incapable of improving the bank's condition, an agreement was reached (with the Government's consent) between it and the Governor of the Bank of Israel concerning the appointment of a managing director and a board of directors to run both Feuchtwanger and Ellern's Bank—which was under the same management—after the existing board tendered its resignation.

On January 24, 1967 the Bank of Israel informed the public of the changed management of the Feuchtwanger and Ellern's Banks, and stated that arrangements had been made to ensure that every depositor would receive his money, in accordance with the terms of the deposit. In addition, all other legal guarantees and liabilities of these banks would be honored on their due date.

After the appointment of a new management for Feuchtwanger Bank, Bank of Israel examiners uncovered further facts that had previously been concealed from them. These showed that the bank's position was even worse than originally thought. In the course of the audit suspicion arose that some of the previous management's activities had been of a criminal nature. Details were submitted to the Attorney General, and after a police investigation carried out with the help of the Department of the Examiner of Banks, charges were pressed against two of the former directors at the beginning of 1968.

### 2. *Israel Credit Bank Ltd.*

In 1961 this bank was taken over by a new group of investors. Thereafter the Department of the Examiner of Banks closely followed the bank's position in view of its large liquidity deficiency. Despite the pressure exerted by the Department, the bank's deficiency continued to increase.

In an audit carried out in 1962 it was discovered that the bank had been in the practice of granting credit to a small number of clients which were actually subsidiaries or affiliated companies of the bank's shareholders and directors, and also that the bank had issued guarantees in their favor for substantial sums which were out of all proportion to its business volume and without obtaining sufficient collateral. The Department insisted that the bank's management reduce these clients' liabilities and obtain adequate collateral. However, despite the promises of the directors to comply with this request, the situation did not

improve but even worsened. In addition, it transpired that one of the bank's affiliated companies—one not subject to Bank of Israel control—had granted further credit to the same borrowers from funds it had mobilized from the bank's clients in the form of deposits and investments in bill brokerage.

When the public learned of the difficulties experienced by the Feuchtwanger Bank, it became aware of the risks involved in investing through a banking institution without its guarantee. The clients of the Israel Credit Bank, who had invested in bill brokerage without the guarantee of the bank or in its affiliated company, demanded that the bank return their money immediately or else convert their investments into deposits or guarantee the bills which they had bought. The bank had to comply with these demands, and this greatly increased the liabilities of the aforementioned firms which had received credit from the affiliated company. The withdrawal of funds wiped out all of the bank's liquid assets, and at the beginning of February 1967 the management applied to the Bank of Israel for a loan, which was granted against appropriate collateral.

Subsequently, the Department followed the development of the bank's business even more closely. It discovered that the amount owed the bank by its affiliated companies had increased as a result of financing operations of the above-mentioned company which previously had not been known to the Department and which were now transferred to the bank's books. The existence of liabilities that had not been entered in its books was also discovered.

When the extent of the bank's involvement became clear, the Department reached the conclusion that the management was unable to put it back on a sound footing. It was accordingly agreed, in April 1967, by the Governor of the Bank of Israel (with the consent of the Government) and the management of the Israel Credit Bank Ltd. that the Bank of Israel would take over control of the latter.

On April 26, 1967 the public was informed of the financial involvement of the bank and that Bank Leumi le-Israel B.M. had agreed to second one of its senior employees to run the concern. The announcement also stated that the Bank of Israel would provide liquid funds to enable the bank to continue with its banking business.

On May 21 the Government and the Bank of Israel signed an agreement with Bank Leumi concerning the management by the latter of Israel Credit Bank Ltd. on behalf of the Bank of Israel.

### *3. Kupat Ahvah Cooperative Credit and Saving Society Ltd.*

An audit of this society conducted in 1966 (see the Bank of Israel Annual Report for 1966, p. 529) revealed serious faults in its operations, and doubts arose as to its solvency. Following discussions on the findings of the audit, the manager of the society and his two assistants were dismissed.

The Department of the Examiner of Banks continued to deal with the faults

uncovered, and together with the new management sought ways of rehabilitating the society. After publication in the press of the society's difficulties in February 1967, a run on the institution ensued, seriously endangering its position. The management entered into negotiations with Kupat Aliya Cooperative Credit and Saving Society, and within a few days Kupat Ahvah transferred its business to the latter society.

#### *4. Other findings*

Examination of the collateral received by a certain banking institution against credit which it had extended to one of its clients—a limited company—in a large sum relative to its capital and business volume revealed that the collateral was a current lien on the client's property, which consisted mainly of real estate. It transpired that the mortgage on the property was entered in the Land Registry but not in the company file maintained by the Registrar of Companies. Non-registration of the mortgage with the Registrar is liable to result in a heavy loss to the banking institution, since the debtor company has meanwhile gone into liquidation.

Following complaints received from the client of a certain institution against the manager and cashier of one of its branches, an investigation was conducted in the branch. It uncovered a number of organizational and administrative shortcomings, particularly with respect to internal control and supervision of the branch by the central management. However, no evidence was found to substantiate the client's suspicion as to the probity of the employees.

Audit of another banking institution revealed a fictitious transaction involving a substantial sum and intended to conceal the receipt of a deposit and the grant of a loan therefrom. The transaction as it was recorded in the institution's books was voided and recognized as the receipt of a deposit and the grant of a loan.

A general audit in another banking institution revealed many shortcomings of both a commercial and administrative nature. The management had made no effort to collect debts from borrowers who had fallen far behind in their payments. This resulted in a large volume of doubtful debts relative to the institution's equity capital, without adequate provision being made to cover possible losses. Owing to the gravity of the institution's position, the Governor of the Bank of Israel—upon the recommendation of the Examiner of Banks and the Advisory Committee on Matters Relating to Banking Business—decided to withdraw the institution's license, and at the beginning of 1968 its banking business was transferred to another institution.

Following delays in the submission of current reports to the Department, an inspection was made of an investment bank which actually had not been active since its founding. The audit revealed that the bank had not kept proper books and that it had engaged in unauthorized business. It also transpired that the

bank's principal asset was an uncollectible loan. In view of these findings, the Governor of the Bank of Israel—upon the recommendation of the Examiner of Banks and the Advisory Committee on Matters Relating to Banking Business—decided to order the institution to delete the word “bank” from its name.

(b) *Audit of bank branches in the administered areas*

Immediately after the occupation of the new areas, the Military Governors ordered the closure of all banks therein. The Military Government, with the assistance of the Department of the Examiner of Banks, undertook to count the cash in the banks' safes and this was turned over to the Bank of Israel for safe-keeping. The sum came to almost half a million Jordanian dinars and half a million Egyptian pounds. The books of the bank branches were also examined to determine their position on the eve of their closure, and trial balances were drawn up.

These steps were carried out in 30 bank branches in East Jerusalem, Judea, and Samaria, 11 branches in the Gaza Strip and northern Sinai, and one branch in the Golan Heights.

(c) *Bill brokerage*

The upward trend in the bill brokerage trade (including loan transfers through the banking institutions), which had prevailed in previous years, came to an end in 1967, when the balance fell sharply from IL 1,021 million at the end of 1966 to IL 742 million at the end of 1967—a decrease of IL 279 million, or 27 percent, as against a rise of IL 247 million, or 32 percent, in 1966.<sup>1</sup>

The balance of bills sold without a bank guarantee plummeted from IL 143 million at the end of 1966, when they constituted 14 percent of total bill brokerage transactions, to IL 18 million, or a mere 2 percent of such transactions. As in previous years, the Department of the Examiner of Banks insisted that banking institutions reduce the volume of nonguaranteed transactions. After the involvement of the Feuchtwanger and Israel Credit Banks came to light, the public began to realize the danger of investing in bill brokerage on a nonguaranteed basis, and this type of transaction is now on the way out.

(d) *Annual financial reports*

The Examiner of Banks held discussions with the Advisory Committee on Matters Relating to Banking Business, the liaison committee of the Association of Certified Public Accountants in Israel, and with Merkaz Audit Union of the Cooperative Societies for Loans and Savings in Israel Ltd., concerning the proper presentation of the annual financial reports of banking institutions. The talks

<sup>1</sup> For an explanation of this development, see Chapter XV.



dealt mainly with adequate provision for bad debts and for a decline in the value of other investments of the institutions.

The Department also held discussions with the managements of banking institutions and with their accountants concerning the annual financial reports before their final preparation, and it maintained a follow-up of these reports after their publication. Questions or reservations about these reports were discussed with the institutions concerned. In certain cases the latter were requested to introduce suitable changes in future reports.

(c) *Direction of credit*

The Department of the Examiner of Banks is responsible for the execution of the Bank's policy with regard to the direction of credit extended by the banking and financial institutions. As in previous years, it concentrated on the expansion of 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 114.0 million at the end of 1967, compared with IL 102.5 million at the end of 1966. In 1967 it approved (for the first time) credits for buying citrus for industrial processing for the overseas market. Credit for financing overseas shipments amounted to IL 110.5 million at the end of 1967, in contrast to IL 67.2 million at the end of the previous year. This brought up the balance of credit granted by the fund from IL 169.7 million at the end of 1966 to IL 224.5 million—an increase of IL 54.8 million, or 32 percent, compared with IL 46.6 million, or 38 percent, in 1966.

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 amount was made available for financing exports; the effects of this will be felt mainly in 1968.

The balance of credit extended to the diamond industry by the Export Finance Fund totalled IL 118.8 million at the end of 1967, compared with IL 103.5 million at the end of 1966—an increase of IL 15.3 million. Part of this increment was connected with the build-up of inventories during the year. In 1967 diamond plants were entitled to receive credit in an amount up to 85 percent of the value of rough diamonds deposited in banks or consigned to them for processing. In 1968 the quota was reduced to 80 percent.

In addition to financing through the Export Fund, export credits are granted in foreign currency with the approval of the Bank of Israel. Outstanding credit of this type amounted to IL 13.4 million at the end of 1967, as against IL 20.7 million<sup>1</sup> at the end of 1966. Of the 1967 total, IL 3.9 million went to the diamond industry (IL 7.8 million<sup>1</sup> at the end of 1967) and the rest to export companies.

Foreign currency credits for financing imports for export production are pro-

<sup>1</sup> Revised figure.

vided from a special fund. Outstanding credit to the diamond industry from this source totalled IL 84.9 million at the end of 1967, as contrasted with IL 78.1 million at the end of the preceding year.

The amount of credit made available through the Agricultural Export Fund continued to rise in 1967, the balance at the end of the year standing at IL 20.4 million compared with IL 13.9 million at the end of 1966. Of this amount, IL 8.6 million was for financing the cultivation of export crops (IL 6.1 million at the end of 1966), and IL 11.8 million for financing overseas shipments (IL 7.8 million at the end of 1966).

Outstanding credit from the Tourist Industry Finance Fund, which is provided to tourist hotels, came to IL 4.2 million at the end of 1967, as against IL 1.9 million at the end of 1966.

The Industrial Working Capital Fund stood at IL 49.1 million at the end of 1967, compared with IL 33.4 million at the end of 1966. This Fund includes a special fund which provides credit to small industry and crafts. The balance of credit from the latter source at the end of 1967 was IL 2.0 million, compared with IL 1.6 million at the end of the previous year.

#### (f) *Compilation of information*

The Advisory Committee on Matters Relating to Banking Business discussed the experience gained in compiling information on borrowers over the past seven years and the benefit which the banking institutions have derived therefrom. It came to the conclusion that the information, as presented in the past, was deficient, and that the banking institutions stood to gain if it were broadened in scope.

It was therefore decided that the banking institutions should report to the Department of the Examiner of Banks not only on borrowers who received credit of IL 100,000 or more, but on every client whose outstanding debt, including that in the form of bill brokerage, guarantees, etc., amounts to IL 100,000 or more. The banking institutions were also requested to supply this information with respect to their subsidiaries (this had not been required under the previous arrangement). Compilation of the information in this expanded form was begun at the end of September 1967.

In view of the additional work involved, it was decided to compile the data and notify the reporting institutions only twice a year—at the end of March and at the end of September—instead of four times, as before.

At the end of September 1967 information had been received on 2,613 clients, as against 1,669 at the end of 1966. Their outstanding debt added up to IL 3,448.3 million, or 76 percent of all banking institution receivables. Of this sum, outstanding loans amounted to IL 2,450.9 million (80 percent of total banking institution loans), as contrasted with IL 1,843.1 million (63 percent) at the end of 1966.

(g) *List of promissory note defaulters*

The Department of the Examiner of Banks compiles information on signers of notes for IL 2,000 or more who failed to honor them upon their submission to the banking institutions for collection, and sends a list to the institutions which reported.

There was a distinct decline in the number of defaulted notes in 1967. The average weekly number of such notes reported by the institutions during the year was 530, valued at IL 2.3 million, as compared with 708, valued at IL 3.3 million, in 1966.

Owing to the war in June 1967, there was an increase that month in the number of defaulted notes, though the amounts involved were not large. The weekly average that month was 704 notes, totalling IL 2.9 million. As from July, both figures again dropped appreciably.

Table XXI-18

**DISHONORED PROMISSORY NOTES, JAN. 8, 1967 TO JAN. 5, 1968**

Period	No. of weeks	Total		Weekly average	
		No. of notes	IL' 000	No.	IL' 000
Jan. 8, 1967–April 7, 1967	13	8,731	39,882	672	3,068
April 9, 1967–July 7, 1967	13	8,735	37,184	672	2,860
July 9, 1967–Oct. 6, 1967	13	5,869	25,658	452	1,974
Oct. 8, 1967–Jan. 5, 1968	13	4,202	19,438	323	1,495
Jan. 8, 1967–Jan. 5, 1968	52	27,537	122,162	530	2,349

(h) *Bank branches*

At the end of 1967 the number of bank branches, excluding head offices, stood at 704, as against 690 at the end of the previous year—an increase of 14, compared with 22 in 1966. This includes one branch which previously had been the head office of a cooperative credit society and became the branch of another society. Four branches were closed down in 1967 and the number of new branches opened was 17, including six in East Jerusalem. Three of the closures resulted from the transfer of Feuchtwanger and Ellern's Bank branches to new sites by other banks, while one branch of another bank was closed for technical reasons.

Most of the branches of Ellern's, Feuchtwanger, and the Israel Credit Banks were taken over by other banks during the year.

After the Six Day War four Israeli banks opened 11 branches in the administered areas—eight in various towns in Judea and Samaria and three in Gaza.

Toward the end of 1967 the subcommittee of the Advisory Council of the Bank of Israel on branches decided to consider requests for the issuance of permits to open branches in 1968 and 1969, and to review appeals against previous decisions. The subcommittee also drew up guidelines for granting permits to open new branches. These pertain mainly to the location of the branch, the conditions entitling a bank to obtain a permit, and a scale of preferences in the event of a large number of applications. These guidelines were not substantially different from those laid down in previous years (see Bank of Israel Annual Report for 1964, p. 471).

The subcommittee expressed the view that in general the opening of new branches should not be permitted in these two years except in special cases and in conformity with the above guidelines.

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

In 1967 the Committee continued its deliberations on the condition of the banking system and the work of the Department of the Examiner of Banks. The following subjects were assigned to a subcommittee for consideration: the limiting of the total debt which any one client could owe a banking institution, banking institution investments in subsidiary and affiliated companies, the handling by the banking institutions of defaulted checks and promissory notes, and the institution of current reporting by the banking institutions for the purpose of calculating their liquidity position and ascertaining their solvency. The Committee likewise discussed the annual financial reports prepared by the banking institutions, particularly the matter of adequate provision for doubtful debts and for a decline in the value of investments.

A subcommittee of the Advisory Committee continued to discuss amendments to the Banking Ordinance, which *inter alia* would invest the Examiner of Banks with new powers enabling him to demand of a banking institution that it correct faults uncovered in an audit and that it discontinue certain activities if he deemed it necessary to prevent complications. After the Feuchtwanger Bank affair came to light, it was decided to enlarge the scope of the draft law to include broad powers for the Governor of the Bank of Israel enabling him to act, when necessary, to maintain the soundness of a banking institution.

The Examiner of Banks consulted during the year with a subcommittee dealing with serious shortcomings discovered in the examination of banking institutions. In view of the findings at two institutions, the cases were brought before the Committee plenum; the latter advised the Governor of the Bank of Israel to exercise his authority under Section 8 of the Banking Ordinance, 1941, in one instance to order an investment bank to delete the word "bank" from its name, and in the second instance to order a cooperative credit society not to accept from the public funds withdrawable by check or order.

Members of the Committee are Messrs. E. Shimoni (Chairman), Y. Arnon,

H. Barkai, E. Bawly, H. Burla, Y. Foerder, E. A. Kirschner, E. Lehmann, K. A. Mossberg, D. Recanati, D. Shoham, Y. Voet, Y. Wechsler, A. Zabarski, and S. Zack.

(j) *Advisory Committee on Cooperative Credit Societies*

The Committee discussed the special problems of credit cooperatives. Members of the Committee are Messrs. E. Shimoni (Chairman), L. Garfunkel, H. Mevorach, A. Schweitzer, Y. Shachor, A. Shtacher, and B. Vinitzki.

## 10. THE CLEARINGHOUSES

(a) *Development of the clearing system*

In 1967 the three clearinghouses in Jerusalem, Tel Aviv, and Haifa operated in accordance with the procedures worked out in previous years by the Clearinghouse Committee. With the exception of special procedures instituted at the time of the national emergency and war with respect to the clearing of returns, the clearinghouses operated normally even during this period. It was necessary to change the clearing of returned items because of the absence of a good part of the banking institutions' staff, and the new procedures were cancelled immediately after the termination of the emergency. It was the cooperation between the banking institutions and the clearinghouses that facilitated the regular functioning of this vital service during this difficult period, when it assumed even greater importance than in normal times.

The clearinghouses in the three large cities are administered by the Bank of Israel, under the guidance and supervision of the Clearinghouse Committee, which is composed of eight members appointed for a two-year period by the Governor of the Bank. The present Committee began its term on October 1, 1966.

(b) *Volume of clearing*

The trend toward a slower rise in the value of checks and notes cleared, which began several years ago, was even more pronounced in 1967. Compared with increases of 15.2 percent in 1965 and 10.5 percent in 1966, the growth in 1967 amounted to only 0.2 percent. This can be attributed, apart from the secular trend, to the recession during the first part of the year, and above all to the Six Day War and the period of tension that preceded it, which resulted in a contraction of economic activity and consequently in the volume of checks and notes in circulation.

Contrary to expectations, there was an absolute decline of IL 26 million, or 2.1 percent, in the value of items returned in 1967; this compares with an increase of IL 312 million, or 33.1 percent, the year before.

**Table XXI-19**  
**VOLUME OF CLEARINGS,<sup>a</sup> 1965-67**  
(IL million)

	1965		1966		1967	
	Items presented	Items returned	Items presented	Items returned	Items presented	Items returned
Urban clearings						
Jerusalem	3,038	69	3,299	85	3,663	94
Tel Aviv	15,132	721	16,832	975	16,692	953
Haifa	3,367	152	3,670	194	3,501	181
Total	21,537	942	23,801	1,254	23,856	1,228
Local clearings <sup>b</sup>	36	—	40	—	36	—
All clearinghouses	21,573	942	23,841	1,254	23,892	1,228
Increase or decrease (-) as against previous year						
IL million			2,268	312	51	-26
Percent			10.5	33.1	0.2	-2.1

<sup>a</sup> Excluding credit notes.

<sup>b</sup> The value of checks returned from the local clearinghouses is included in the figures on urban clearinghouse returns.

The value of items returned in 1967 amounted to 5.1 percent of the value of instruments presented, as compared with 5.3 percent in 1966.

**Table XXI-20**  
**CLEARING OF CREDIT NOTES, 1964-67**

Clearinghouse	1964	1965	1966	1967
Jerusalem	926	1,281	1,168	1,351
Tel Aviv	1,354	1,201	1,026	1,559
Haifa	188	136	71	82
All clearinghouses	2,468	2,618	2,265	2,992

## 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 1967 and the beginning of 1968 were the following:

1. A periodic internal survey of the main economic developments, as well as a periodic survey of developments in the monetary field.
2. The Distribution of Net Worth in Israel in 1963/64.
3. Relative Responsiveness of New and Veteran Firms to Economic Change.
4. Trends in the Components of Private Consumption—Time Series Analysis.
5. Income and Expenses of Banking Institutions in 1966.
6. The Pattern of Industrial Corporate Profit Distribution in Israel 1956–1964.
7. The Effect of Pazak and Tamam Arrangements on the Saving of Restitution Recipients.

*Flow of Funds in Israel's Economy, 1958–1966*, by Meir Heth, was published in Hebrew in February 1968. The book was dedicated to the memory of Carmela Monetta, a senior member of the Research Department, who met an untimely death in February 1961.

Another book by Meir Heth, *The Legal Framework of Economic Activity in Israel* (in English), was the second in the series of research studies published for the Bank of Israel by Frederick A. Praeger of New York. The first book in the series, also published in 1967, was Gur Ofer's *Service Industry in a Developing Economy: The Case of Israel*.

"Savings Survey 1963/64" and "Savings Survey 1964/65", prepared jointly by the Research Department of the Bank of Israel and the Central Bureau of Statistics, were published in 1967 in cooperation with the latter as part of its series of special publications.

In preparation for the Second United Nations Conference on Trade and Development which took place in New Delhi, a special team was set up to centralize the planning of Israel's participation in the Third Committee (the Finance Committee) of the Conference. The Research Department was represented on the team by Dr. E. Sheffer, who served as chairman, and Dr. E. Ahiram. A study by G. Marks on "The Israel Merchant Marine, 1960–1966", was prepared for the UNCTAD Secretariat under a special service contract.

An abridged version of a study on "Changes in Wage Differentials by Occupational Groups, 1957/58–1963/64", by H. Levy, was published in May 1968. The research is scheduled to appear *in toto* in 1968. Among the research studies presently nearing completion is one dealing with the construction of a short-run econometric model of Israel's economy.

A study on "Dynamic Input-Output, Trade and Development", prepared jointly by Dr. M. Bruno of the Hebrew University, who serves as an adviser to the Department, Mr. M. Fraenkel of the Department, and Mr. C. Dougherty of Harvard University, was submitted to the Fourth International Conference on Input-Output Technique held in Geneva at the beginning of 1968.

After the Six Day War the Department was requested to prepare a series of surveys on the economic situation in the administered areas and the various

plans drawn up to deal with them. Most of these papers were classified as confidential, but the following were published for restricted circulation:

1. The Monetary Situation of the West Bank—July 1967.
2. Estimated Resource Uses and Branch Interdependence on the West Bank—August 1967.
3. Public Sector Activities on the West Bank—August 1967.
4. Effect of Expanded Building Activity on Employment, Income, and Imports on the West Bank—October 1967.

On August 22, 1967 the Governor of the Bank of Israel submitted to the Government and the Knesset Finance Committee, in accordance with Section 35 of the Bank of Israel Law, a report on the rise in means of payment in excess of 15 percent, during the period between April 30, 1966 and April 30, 1967.

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

On November 15, 1967 a loan agreement was signed in Washington with the International Bank for Reconstruction and Development (the World Bank), under which the Israel Industrial Development Bank Ltd. received \$ 15 million. This is the second World Bank loan granted to the institution; the first, signed on September 16, 1965, was for \$ 20 million. Like the previous one, the new loan is guaranteed by the State of Israel. It is for a period of 15 years, with repayment beginning in 1970 and terminating in 1982. Unlike previous World Bank loans, the interest is not fixed but will be determined at each repayment date in accordance with the interest terms prevailing at the time with respect to other World Bank loans. This loan brings the total amount Israel has borrowed from the World Bank up to \$ 109.5 million. A breakdown of the loans and their position at the end of 1967 is given in Table XXI-21.

Negotiations in connection with the new loan were conducted in Israel and Washington by the Governor of the Bank of Israel. The loan agreement was initially scheduled to be signed in the middle of 1967, and a World Bank delegation which visited Israel at the beginning of the year concluded its investigation of the position of the Industrial Development Bank and submitted a report to the directorate of the World Bank. Owing to the outbreak of war, signing of the contract was deferred, and subsequently the directorate of the World Bank expressed a desire to conduct, through delegations of the Bank then in Israel, a brief re-examination of the borrowing institution and a general survey of Israel's economy after the war. This was the first postwar economic survey undertaken in the country, and it confirmed that Israel's repayment capacity and credit standing justified the granting of additional loans.

Israel's annual consultations with the International Monetary Fund, as required under section 14 of the Fund's Articles of Agreement, were scheduled to take place in Jerusalem in May 1967. Owing to the war and the period of



Table XXI-21

## WORLD BANK LOANS TO ISRAEL—POSITION ON DECEMBER 31, 1967

(\$ million)

Recipient and purpose	Date of loan	Repayment period	Interest (%)	Original amount	Cancellations	Repayments	Sold by lender	Effective loan	Amount disbursed
<b>Direct loans</b>									
Ports Authority—Ashdod	9.9.60	1965–85	5.75	27,500	87	55	1,850	25,507	27,412
Israel Government—roads	17.10.62	1967–80	5.50	22,000	—	351	754	20,895	22,000
<b>Government-guaranteed loans</b>									
Dead Sea Works Ltd.	11.7.61	1966–76	5.75	25,000	—	759	2,519	21,722	25,000
Industrial Development Bank Ltd.	16.10.65	1968–81	5.50	20,000	—	—	—	20,000	17,399
Industrial Development Bank Ltd.	15.11.67	1970–82	<sup>a</sup>	15,000	—	—	—	15,000	—
<b>Total</b>				109,509	87	1,165	5,123	103,124	91,811

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

tension preceding it, the talks were postponed until the beginning of 1968. In January 1968 a delegation of the International Monetary Fund, headed by the Deputy Director of the Fund's European Department, spent over two weeks in Israel, during which the consultations took place in a series of meetings with the Governor of the Bank of Israel, the Minister of Finance, and various Government ministries. The delegation also met with prominent economists and businessmen from other sectors of the economy. The delegation's report was submitted to the Director of the Monetary Fund for approval and for the adoption of decisions with respect to Israel's economic policy. Participating *ex officio* in the deliberations of the delegation, as an observer, was Mr. H.M.H.A. van der Valk, Alternate Executive Director of the International Monetary Fund. After discussing the delegation's report, the executive board of the Fund approved the following resolutions:

"1. The inflationary pressures in the Israel economy were brought to a halt by mid-1966. Since then prices and wages have been stable, but in both 1966 and 1967 the rate of growth of the gross national product slowed down to 1 percent and unemployment rose markedly. Under the impact of more expansionary economic policies, there was a new upswing in the economy in the second half of 1967, but wage and price stability has continued to prevail. A flexible monetary policy played a key role in both dampening excessive activity and later in stimulating a revival. Another important element in bringing about price stability was the negotiated standstill in wages that has existed since mid-1966. The trade deficit has decreased steadily over the last three years, and, despite a sharp increase in 1967 in overseas defense spending, the goods and services deficit was unchanged from 1966 to 1967. There was a large increase in transfer payments and long-term capital inflow in 1967, and the gold and foreign exchange holdings of the Bank of Israel increased by \$ 94 million. At the end of that year, they stood at \$ 715 million, which is equal to about one year's imports.

"2. In the course of 1968 the upswing is expected to continue and yield a substantial rise in the gross national product. In order to obtain a substantial rate of growth of the GNP and to further strengthen the balance of payments on current account, it is essential that measures be taken in time to prevent the re-emergence of inflationary pressures, as these would prevent Israel from gaining the full benefit of the stabilization policies of recent years and of the devaluation of November 1967. The Fund notes that the authorities are alert to this danger and welcomes their readiness to modify existing fiscal and monetary policies promptly should the situation warrant it.

"3. Only a small proportion of imports remains subject to quantitative restrictions. Israel has reduced tariffs on a wide range of imports and further reductions are to be made during 1968. The Fund believes that these moves to expose domestic industry to more foreign competition should encourage efficiency and a rational allocation of resources. The Fund regrets, however, that Israel has not made progress in reducing the number of bilateral payments

agreements with Fund members, and urges the Israel authorities to reconsider their continued resort to these agreements."

Mr. Aaron Broches, legal adviser of the World Bank and Director of the International Center for the Settlement of Investment Disputes, visited Israel as a guest of the Bank of Israel in the latter part of 1967 and held a series of talks at the Bank on matters of common interest to the World Bank and the Bank of Israel.

In September 1967 the Governor of the Bank of Israel and the Minister of Finance participated in the annual conference of the Governors of the International Monetary Fund and the World Bank, held in Rio de Janeiro. The Minister of Finance represents Israel on the Board of Governors of the International Monetary Fund, and the Governor of the Bank of Israel represents this country on the Board of Governors of the World Bank and its affiliated institutions. Mr. Y. Milo, senior director in the Bank of Israel, served as deputy to the Governor of the Monetary Fund, and Dr. Y. Arnon, Director General of the Ministry of Finance, served as deputy to the Governor of the World Bank.

### 13. ADVISORY COMMITTEE AND ADVISORY COUNCIL

The Bank's Advisory Committee and Advisory Council, after hearing the Governor's periodic surveys, discussed developments in the economy. Three of the subjects considered were specific to the year 1967, and several sessions were devoted to the various aspects thereof. These were the difficulties encountered by certain banks at the beginning of the year, the Six Day War and its economic consequences (including economic problems and especially currency problems in the administered areas), and the devaluation of the Israeli pound in November 1967 in order to maintain its parity with the pound sterling.

In addition to these matters, the Committee and the Council discussed a number of other subjects, including economic policy (especially the monetary aspects), credit policy, the position of the banking system, liquidity regulations and ratios, Bank of Israel activities in the securities market (especially in connection with the Short-Term Loan), wage policy of the banks and of the Bank of Israel, the Bank's relations with international financial institutions, and the Bank's administration.

The Advisory Committee and the Advisory Council approved the Bank's balance sheet as of the end of 1966, the profit and loss account for 1966, and the Bank's operating budget for 1967, after these were examined and discussed by subcommittees appointed for the purpose.

In conformity with the Bank of Israel Law, the Advisory Committee approved the change in the structure of the Bank's balance sheet. Instead of presenting the Government's debit accounts in detail according to currency, these are now listed according to type of financing, i.e. distinguishing between ordinary advances

to the Government, which it is obligated by law to repay at the end of each fiscal year, and long-term advances to the Government.

The Advisory Council approved the issue of the 1967 commemorative coins, as well as the issue of a new IL 1 trade coin, as required by the Bank of Israel Law, and also discussed the Bank's plans for future issues.

Members of the Advisory Committee are Messrs. Y. Chorin (Chairman), M. Chazani (Deputy Chairman), S. Bejarano, Y. Foerder, E. Hacoheh, A. Zabarski, and H. Zadok. The Chairman and Deputy Chairman serve in the same capacity on the Advisory Council, which consists of all the members of the Advisory Committee, with the addition of Messrs. Y. Bader, A. Becker, N. Feingold, Z. Onn, A. Ostashinsky, D. Patinkin, D. Recanat, and A. Schechter.

#### 14. THE BANK AND ITS STAFF

In May 1967 the Governor of the Bank of Israel, Mr. D. Horowitz, was elected a member of the Executive Council of the Society for International Development, a voluntary society which gives public backing to international development institutions. The Governor serves as one of the three Asian representatives.

At the initiative of the Italian Institute for International Affairs, it was decided to establish a special institute to study the development and financing of developing countries, to be named after Mr. Horowitz, in appreciation of his role as initiator of the idea of financing developing states. The institute, which has its center in Rome, was inaugurated on July 18, 1967, with a lecture by the President of the Inter-American Development Bank, Mr. Felipe Herera.

The Finance Committee (the Third Committee) of the United Nations Conference on Trade and Development decided at its April 1967 session in New York to request UNCTAD's Secretary General to examine, with the assistance of experts, the influence of the changes in world capital markets on the prospects of implementing the Horowitz Proposal, which deals with the mobilization of capital in developed countries for providing investment finance to developing countries on preferential credit terms.

The report, prepared by the UNCTAD secretariat and submitted to the Second UNCTAD conference at New Delhi in February 1968, points out that the main factors hampering the implementation of the Horowitz Proposal are not economic but political, and these should be overcome so that the plan can be activated.

Dr. Fanny Ginor, economic adviser in the Bank of Israel, represented Israel at the Third Committee session and at the session of the UNCTAD Council held in Geneva in August 1967 to prepare the agenda for the New Delhi conference.

At the Second UNCTAD conference in New Delhi, the Governor of the Bank of Israel, together with the Minister of Commerce and Industry and Minister

Yosef Saphir, headed the Israeli delegation. In his address to the conference he resubmitted the plan that bears his name and whose economic soundness had again been approved, and argued for its adoption. Dr. F. Ginor and Dr. E. Ahiram of the Research Department were members of the Israeli delegation.

The Committee to Examine the Distribution of National Income in Israel, appointed by the Government in March 1962 and which was headed by the Governor of the Bank of Israel, submitted its report at the beginning of 1967.

Mr. Y. Taub, Secretary General of the Bank, was appointed a member of the Standing Committee of Directors-General for the Administered Areas.

Dr. E. Sheffer, Joint-Director of the Research Department, served as a member of the Committee to Examine Aviation Policy in Israel. Mr. Z. Weiss, of the Research Department, coordinated the committee's economic work.

Mr. H. Duvshani, Adviser on Open-Market Operations, was appointed Director of the West European Division of the International Monetary Fund's European Department.

Mr. A. Gilshon, Chief Economist in the Research Department, served as chairman of a team appointed to examine the employment situation in the Gaza Strip and northern Sinai and to suggest employment plans for these areas.

During the Six Day War, 189 employees of the Bank's three branches were mobilized, while many others were employed in special tasks in the Bank's premises, particularly during the shelling of Jerusalem. Among other things, they saw to the regular supply of cash throughout the country even while fighting was going on. The Bank's guards remained on constant duty in all branches during the hostilities. All those mobilized, the guards, and the employees who manned the Bank's head office in Jerusalem during the shelling received letters of appreciation from the Bank's management together with a souvenir Victory Coin. The Victory Coin, accompanied by letters signed by the Governor of the Bank, was presented to two employees who lost their sons in the war, and to a third employee whose brother fell in battle.

The Bank's employees purchased Defense Bonds in the amount of IL 176,150 when sale of the loan began, and before that, on the outbreak of war, they contributed about IL 40,000 to the State Treasury.

Members of the Bank staff assisted in the conversion of currency in East Jerusalem and the administered areas, from the end of June to the end of the year. As many as 40 were simultaneously engaged in this task.

The year reviewed saw the first group of the Bank's personnel to go out on pension. They were eight in number, bringing up the total number of benefit recipients, including survivors, to 19 at the end of the year.

Employees of the Mechanization Unit at the Bank's office in Jerusalem took special courses during the year in preparation for the operation of a new electronic computer. Various plans and work processes were adapted to the requirements of a computerized program even before the computer was installed.

The new machine, which replaced five conventional ones, was installed at the end of 1967 and its operation has begun.

In the final months of the year, the Bank's staff committee demanded the award of the 5 percent wage increase that had been frozen for 1967. The Governor informed the committee that the circumstances which had led to the agreement to freeze the increase—the economic situation in the country and the reluctance to touch off another round of wage rises in the country in general and in the banking system in particular—still applied, and he therefore asked that the freeze be continued without infringing on any rights or agreements. The committee did not accept the Governor's view and announced its intention of applying to the courts for an interpretation of its wage agreement with the Bank.

The number of Bank of Israel employees in the main office in Jerusalem and in the Tel Aviv and Haifa branches totalled 619 at the end of 1967, in addition to 52 guards and 36 trainees.

STATEMENT OF ASSETS AND LIABILITIES  
AS AT DECEMBER 31, 1967

*and*

PROFIT AND LOSS ACCOUNT FOR THE  
YEAR ENDING DECEMBER 31, 1967

## BANK OF ISRAEL

## STATEMENT OF ASSETS AND LIABILITIES AS AT DECEMBER 31, 1967

ASSETS			(IL thousand)		LIABILITIES	
	Dec. 31, 1967	Dec. 31, 1966			Dec. 31, 1967	Dec. 31, 1966
Gold	160,762	137,551	Capital		10,000	10,000
Gold—quota in International Monetary Fund	78,750	67,500	Reserve fund		10,000	10,000
Foreign currency assets	2,261,639	1,657,969	Banknotes and coin in circulation		997,888	779,971
Clearing accounts in connection with trade agreements	37,263	30,729	Clearing accounts in connection with trade agreements		9,768	13,741
Participation in international financial institutions	17,152	14,723	Deposits of international financial institutions		3,353	2,869
Treasury bills	138,374	15,163	Demand deposits of banking institutions (including financial institutions)		402,487	281,320
Land bills	21,376	77,150	Time deposits of banking institutions (including financial institutions)		309,505	243,725
Other securities	24,877	14,211	Foreign currency deposits of banking institutions		1,601,267	1,123,715
Long-term advances to the Government	358,471	174,241	Government deposits—compulsory savings		25,027	22,253
Provisional advances to the Government	369,598	32,559	Government deposits in foreign currency		536,418	15,170
Bills rediscounted—local currency	245,785 <sup>a</sup>	106,363	Deposits on account of U.S. food surplus purchases (see assets)		118,328	154,692
Bills rediscounted—foreign currency	162,833	155,004	Liabilities for documentary credits in connection with payments agreements (see assets)		78,325	115,072
Advances to foreign governments and institutions	33,706	33,384	Liabilities in connection with guarantees (see assets)		269,631	236,371
Food surplus account (see liabilities)	118,328	154,692	Other accounts		8,759	3,375
Premises, equipment, etc.	—	—			4,380,756	3,023,276
Documentary credits in connection with payments agreements (see liabilities)	78,325	115,072				
Guarantees (see liabilities)	269,631	236,371				
Other accounts	3,887	595				
	<u>4,380,756</u>	<u>3,023,276</u>				

<sup>a</sup> After provision of IL 31 million for doubtful debts.



# BANK OF ISRAEL

## PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDING DECEMBER 31, 1967

(IL thousand)

	Dec. 31, 1967	Dec. 31, 1966		Dec. 31, 1967	Dec. 31, 1966
<b>EXPENSES</b>			<b>INCOME</b>		
Interest paid, administrative expenses, and other expenses	85,950	67,826	Interest, commission, and other income, including devaluation increments <sup>a</sup>	173,868	122,729
Net profit	87,918	54,903			
	<u>173,868</u>	<u>122,729</u>		<u>173,868</u>	<u>122,729</u>

### DISTRIBUTION OF PROFITS

To the Government for redemption of long-term advances from the Bank of Israel	42,527	—	Net profit	87,918	54,903
Transferred to the Accountant General	45,391	54,903			
	<u>87,918</u>	<u>54,903</u>		<u>87,918</u>	<u>54,903</u>

<sup>a</sup> After provision of IL 31 million for doubtful debts.

BANK OF ISRAEL  
THE GOVERNOR AND MEMBERS OF THE ADVISORY  
COMMITTEE AND ADVISORY COUNCIL  
MAY 1968

*Governor*

D. HOROWITZ

*Advisory Committee*

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

*Advisory Council*

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