Chapter 8
Activities of the Bank of Israel

1. SUMMARY OF THE BALANCE SHEET AT THE END OF 1989[1]

The Bank of Israel's assets and liabilities stood at NIS 25.6 billion at the end of 1989, compared with NIS 21.5 billion at the end of 1988 (a decline of 1.4 percent in real terms). Net income came to NIS 987 million in 1989, compared with NIS 454 million in 1988.

Net foreign reserves held by the Bank of Israel rose by $997 million to stand at $4,430 million at the end of 1989. Income from the reserves was $466 million compared with $124 million in 1988.

Net credit to the government decreased by NIS 2.5 billion, chiefly because of NIS 2.9 billion in government absorption during the year.

The banks' local-currency deposits with the Bank of Israel decreased by a real 22 percent during the year, mainly because liquidity ratios were reduced in February and August and because since June banks have been permitted to hold an additional 10 percent of the liquidity requirement in Treasury bills.

The balance of restitutions deposits fell by $72 million during 1989, because of a further reduction in the liquidity ratio.

Nonresident deposits grew by $242 million during 1989; most (about $150 million) of the increment was due to a technical transfer to the Bank of Israel of amounts deposited with the Treasury in 1984. Other resident deposits decreased by $230 million, primarily because new resident time deposits can no longer be opened (since August). A local-currency deposit indexed to the exchange rate was introduced at the same time, as a substitute for resident deposits.

Coins and banknotes in circulation rose by 9 percent in 1989 (4 percent in 1988).

2. MONETARY POLICY MEASURES IN 1989

The Monetary Department is charged with current monetary policy, and, together with the Credit Control Department and the Controller of Foreign Exchange, was engaged in furthering reform of the financial market by lowering the administrative barriers that have compartmentalized this market.

[1] These findings appeared in full in the Bank of Israel's Financial Statements for 1989.

Table 8.1
Discount Window Lending

(monthly average, NIS millions)

Interest bracket	12	13[b]	14	15	17	17¼	18	21	25	29	33	Auction	Total
1988													
December						846			845	211	254	1,200	3,356
1989													
January				317		846		634	845	211	254	1,400	4,507
February				845		797		845	845	211	254	1,400	5,197
March				749		374		749	749	187	225	1,320	4,353
April				748		374		749	749	187	225	800	3,832
May				748		374		749	749	187	225	540	3,572
June	681			681		340		681	681	170	204	600	4,638
July	681			681		340		681	681	170	204	1,500	4,938
August	681			681		340		681	681	170	204	1,500	4,938
September	639			639		319		639	639	159	191	1,100	4,325
October	639	570	326	639		319		639	639	159	191	1,200	5,321
November	639	532	532	639		319		639	639	159	191	1,200	5,489
December	669	615	615	669		334		669	669	167	200	1,200	5,807
1990													
January	669	669	669	669	226	334		669	669	167	200	1,500	6,441
February	334	334	1,338	669	669	..	446	669	669	167	200	1,500	6,995
March	..[c]	..	1,253	1,253	1,253	..	475	569	569	142	171	1,500	7,185

[a] Annual rates (compounded quarterly).
[b] Until 11.10.89, 13½ percent.
[c] Abolished.

Table 8.2
Interest on Discount Window Loans and Deposits with Central Banks

	Interest rate					Utilization of discount-window loans (NIS millions, monthly average)		
	Deposits with central bank		Discount -window loans					
			Auction					
	Reserve requirement	Liquidity surplus	Average	Closing	Total	Auction	Allocation[a]	Total
1988								
December	13.75	11	28.9	27.4	24.4	1,200	1,731	2,931
1989								
January	13.75	11	26.3	25.9	22.0	1,400	1,495	2,895
February	13.75	11	14.9	14.6	14.8	1,400	490	1,890
March	13.01	11	13.6	13.5	13.6	1,138	60	1,198
April	12.75	11	13.0	13.0	13.0	364	0	364
May	12.75	11	10.6	10.4	10.5	600	227	827
June	10.00	6	10.9	10.7	11.0	1,200	185	1,385
July	10.00	6	9.9	9.7	9.9	1,500	5	1,505
August	10.00	6	12.2	12.0	11.9	1.100	538	1,638
September	10.00	6	16.2	15.5	14.5	1,200	2,064	3,264
October	10.00	6	15.0	14.9	13.9	1,200	2,095	3,296
November	10.00	6	15.5	15.4	14.2	1,200	2,492	3,692
December	10.00	6						
1990								
January	10.00	6	17.0	16.6	14.9	1,500	3,014	4,515
February	11.25	6	17.8	17.6	15.4	1,500	3,516	5,016
March	12.50	6	17.2	17.0	15.7	1,500	3,634	5,134

[a] Includes special loan to cover liquidity deficit.

Monetary policy

In 1989 the emphasis was on lowering interest rates in order to contain the recession, while keeping close watch on the foreign reserves. Accordingly, the Bank acted to counter the effects of cyclical devaluation expectations and, in most cases, to offset government absorption. The major policy tool used for this purpose was lending at the discount-window (these loans are described in Chapter 7 of the 1988 issue of this Report, and in Tables 8.1 and 8.2 of the present volume). The other major tools of monetary policy were liquidity requirements (Table 8.3) and open-market operations (Table 8.4). A new instrument—foreign-currency options—was introduced at the end of the year.

The January 1989 devaluation was followed by sales of foreign exchange which enabled the banks to repay a large part of their discount-window loans, while interest rates declined rapidly. The outstanding balance decreased from NIS 3.5 billion at the

Table 8.3
Reserve Requirements on Local-Currency Deposits

(percent)

	1989			1990
	23.2[a]	3.8	31.8	26.4
1 to 6 days	21		15	10
Bracket 1	8		8	8
Bracket 2	13		7	2
1 week to 3 months	12		10	7.5
Bracket 1	4		4	4
Bracket 2	8		6	3.5
3 months to 1 year	9		7.5	5
Bracket 1	2		2	2
Bracket 2	7		5.5	3
1 year or more	7.5		5	3.5
Bracket 1	1		1	1
Bracket 2	6.5		4	2.5
Exchange-rate indexed time deposit[b]	7.5		7.5	5
Bracket 1	1		1	1
Bracket 2	6.5		6.5	4
Foreign currency linked deposit		67.5	67.5	5[c]
Bracket 1		1	1	1
Bracket 2		6.5	6.5	4[c]
Indexed with Bank of Israel.		60	60	0[c]

[a] For the classification of deposits by term and reserve requirements until February 23, 1989, see *Annual Report 1988*, Table 9.4 .

[b] For 1 year or more.

[c] New deposits only.

end of December 1988 to NIS 0.3 billion in May 1989 and the interest rate set at auction dropped from 28.9 to 13.0 percent (Table 8.2). The Bank also reduced the liquidity ratios on local-currency in order to bring required reserves closer to the level consistent with prudent liquidity management. Concurrently, the Bank absorbed NIS 0.9 billion by open-market operations; this slowed down the repayment of discount-window loans and was intended to increase the public's holdings of Treasury bills, thereby augmenting the effect of this monetary instrument.

In the last six months of 1989 the net sales of foreign exchange turned to net purchases. In view of the persistent recession, the Bank injected money into the system —chiefly by increasing its discount-window lending, so that the interest rate rose, though not as steeply as it would otherwise have done. Thus the volume of discount-window loans increased to NIS 3.7 billion in December 1989, while the interest rate set at auction rose from 9.9 percent in August to 15.5 percent in December. Concurrently, local-currency liquidity ratios were lowered, and the volume of Treasury bills held by the public decreased slightly.

Capital market reform

The Bank pushed ahead the reform of the financial market, thereby releasing sources for nondirected credit and helping to lower interest rates as well as reducing the spread between different kinds of credit and between borrowing and lending rates.

The major measures taken with respect to the financial market are described below:

1. Liquidity ratios on unindexed local-currency deposits were reduced twice during the year: by 4 percent on average in late February and by another 4 percent in late August. A further reduction of 3 percent was approved in late March 1990, reducing the average liquidity ratio to about 9 percent.

2. The ceiling on foreign-currency credit was raised, and the method of allocation among the banks was modified, making it possible for individual banks to allocate this type of credit on the basis of the volume of nonresident deposits it attracts. Moreover, the liquidity ratio on resident deposits (restitutions) was reduced from 100 to 90 percent (half of the decrease was implemented in late 1988). The sources thus released for the granting of nondirected credit to residents were excluded from the foreign-currency credit ceiling, as was credit from abroad for terms of four years or more. Concurrently, restrictions on direct borrowing from abroad were relaxed, and changes in the regulations governing the directed-credit funds made directed credit more similar to nondirected credit.

3. A one-year deposit indexed to the exchange rate (with tax-exempt exchange-rate differentials and bearing interest taxable at a reduced rate) was introduced in August. The liquidity ratio on this deposit was initially set at 7.5 percent in unindexed liquid assets and 60 percent in exchange-rate indexed deposits with the central bank (10 percentage points of this liquidity requirement may be held in tradable bonds). The liquidity ratio for

Table 8.4
Open-Market Operations (Treasury Bills), 1985–89

(NIS million)

	Sale	Redemption	Net absorption	Holdings[a] of The public[b]	Holdings[a] of Banks	Daily average turnover
1985	1,269.6	1,263.8	5.8	124.9		7.0
1986	1,006.0	1,006.1	-0.1	158.7		10.3
1987	3,907.4	3,338.3	569.1	828.5		20.9
1988	2,270.9	2,654.7	-383.8	636.8	208.8	39.7
1989	3,273.8	2,445.1	828.7	1,703.6	657.0	20.0
January	997.8	195.0	802.8	1,471.5	661.0	46.0
February	452.3	111.0	341.3	1,841.2	712.0	42.0
March	110.2	183.5	-73.3	1,809.6	532.0	29
April	304.2	183.5	120.7	1,957.7	617.0	20.0
May	247.9	329.0	-81.1	1,910.4	555.0	32.0
June	228.2	319.5	-91.3	1,818.9	569.0	22.0
July	258.9	304.2	-45.3	1,785.3	769.0	14.0
August	240.6	337.4	-96.8	1,697.2	851.0	8.0
September	-22.9	114.9	-137.8	1,566.5	654.0	18.0
October	207.1	54.5	152.6	1,739.7	674.0	15.0
November	13.9	133.2	-119.3	1,629.4	520.0	18.0
December	235.6	179.4	56.2	1,703.6	657.0	20.0

[a] End of period.
[b] Including banks.

new deposits under this rubric was modified in March 1990: the indexed portion of the requirement was abolished and the unindexed ratio was reduced to 5 percent. The liquidity ratio on fully taxable deposits of the same type was reduced from 7.5 to 5 percent.

The new exchange-rate indexed deposits were introduced when local currency deposits in resident time deposits (which are foreign-currency denominated) were no longer permitted. The twin measures increased the resources available for the granting of exchange-rate-indexed credit.

4. The Bank took several steps to expand the market for Treasury bills and to increase their liquidity through secondary-market trading. In March, the Bank reduced distribution fees and came to an agreement with the members of the Tel Aviv Stock Exchange to waive redemption and sales commissions and to limit purchase commissions to 0.1 percent; at the same time the Bank of Israel agreed to pay a holding commission of 1 percent p.a. Investment requirements for social insurance funds were revised in June, and they may invest 5 percent of their assets in Treasury bills as part of the requirement to invest in government bonds. By the end of 1989, the funds had purchased no more than NIS 150 million in Treasury bills.

5. The liquidity ratios on nonresident deposits were raised from 10 percent to 15 percent on deposits of up to 6 days, and reduced from 7.5 percent to 5 percent and 2.5 percent on deposits of 2.5–5 years and over 5 years, respectively. The secondary liquidity ratio was reduced from 30 percent to 10 percent and certain exemptions were cancelled, thus maintaining the effective secondary liquidity ratio at a similar level.

6. In November 1989 the Bank introduced foreign-exchange options, with the intention of promoting the development of forward markets, moderating cyclical pressures on domestic interest rates and the foreign-exchange market and permitting the central bank to intervene in the forward foreign-exchange market.

Table 8.5
Yield to Maturity of Treasury Bills, by Months to Maturity, 1985–89[a]

(percent)

	0–1	1–2	2–3	3–4	4–5	5–6	7–9	10–12
1985	32.3	32.0	29.7					
1986	21.5	21.6	22.0					
1987	15.4	15.9	16.6					
1988	16.3	16.7	17.0	17.2	17.4	117.7		
1989	13.3	13.1	13.1	13.1	13.3	13.6	14.0	14.1
January	19.6	19.2	19.2	19.2	19.1	19.1	19.0	18.6
February	15.8	16.1	16.2	16.3	16.3	16.4	16.4	16.6
March	13.1	12.8	12.8	13.0	13.1	13.0	12.6	13.2
April	12.5	12.3	12.2	12.1	12.2	12.1	12.3	12.7
May	11.6	11.0	10.7	10.8	10.7	10.9	11.3	10.8
June	9.9	9.2	8.9	8.7	8.9	8.9	10.5	10.8
July	9.7	8.9	8.8	8.8	9.1	9.7	11.7	11.8
August	10.1	10.1	10.2	10.9	11.3	12.6	13.2	13.4
September	11.0	11.5	12.0	12.1	12.8	13.0	13.3	13.5
October	14.4	14.8	14.9	14.9	15.1	15.1	15.3	15.2
November	14.1	14.2	14.0	14.1	14.4	14.8	15.3	15.2
December	17.4	16.8	16.8	16.7	17.0	17.1	17.4	17.4

[a] Thursday averages.

Funding the government budget

In its capacity as banker to the government, the Bank of Israel raises medium and long term funds for financing the budget and rolling over the internal debt by issuing bonds and accepting deposits directly from financial institutions on behalf of the Ministry of Finance.

3. STATE LOANS ADMINISTRATION

Redemption of voluntary loans came to NIS 4,208 million, compared with NIS 3,082 million in 1988.

Payments for redemption of banking corporations deposits meant to cover savings schemes and premature withdrawals totaled NIS 2,754 million in 1989 compared with NIS 2,235 million in 1988.

Final and early redemptions of compulsory loan certificates (including interest, indexation, and late-redemption payments) totaled NIS 1,610 million in 1989 compared with NIS 1,066 million in 1988.

Redemption of foreign loans (Bonds)

The Bank of Israel also handles early redemption of the State of Israel Bonds and of State of Israel certificates issued abroad. Redemptions and conversions of these loans in Israel grew by 20 percent in 1989, reaching $66 million. Most of the redemptions were by institutions (65 percent) and tourists (28 percent).

4. CREDIT CONTROL DEPARTMENT AND CONTROLLER OF FOREIGN EXCHANGE

Directed credit

Directed credit, meant for exporters, is administered by the Bank of Israel Credit Control Department through the banking system, assisted by interdepartmental committees. Directed credit is usually given out of the commercial banks' own sources.

Such credit totaled $2,012 million in 1989 compared with $2,050 million in 1988—a 1.9 percent decrease, compared with a 9 percent increase in the exports thus financed.

Financing of exports excluding diamonds decreased by 2.3 percent in 1989 relative to 1988, compared with a 9 percent increase in exports excluding diamonds.

Foreign exchange control

The Controller of Foreign Exchange, empowered by the Exchange Control Law, 5738–1978, implements secondary legislation based on this law as authorized by the General Permit, a set of permits for defined population groups (categorized permits), and a set of specific permits. The Controller of Foreign Exchange modifies and updates the general and categorized permits as warranted by circumstances and as prescribed by foreign-currency and monetary policy. The Controller also sets procedural instructions for banks and authorized dealers, and issues specific permits for Israeli residents who wish to engage in foreign-currency transactions of various kinds, such as overseas investments and the establishment of corporations abroad.

Table 8.6
Directed Export Credit Funds, 1988–89

	$ millions				Percent change from 1988 to 1989	
	1988		1989			
	End of year	Annual average	End of year	Annual average	End of year	Annual average
Export finance	610	624	515	663	15.6	6.2
Shipment finance						
Short term	759	932	733	788	–3.4	–15.5
Medium and long term[a]	143	151	235	216	64.3	43.0
Subtotal	**1,512**	**1,707**	**1,483**	**1,667**	–1.9	–2.3
Diamonds	319	343	333	345	4.4	0.6
Total	**1,831**	**2,050**	**1,816**	**2,012**	–0.8	–1.9

[a] Includes marketing fund.

To deal with foreign-currency offenders, the Controller of Foreign Exchange, in concert with the Attorney General and the police, established a plea-bargain committee.

The liberalization of foreign-currency controls continued in 1989, and some restrictions applying to the General Permit and specific permits were relaxed.

Table 8.7
Foreign Reserves: Income and Yield, 1985–89

	1985	1986	1987	1988	1989
Income ($ millions)					
Total income[a]	417	520	776	124	466
of which Exchange rate-differentials	274	278	330	327	484
Rate of return[b] (percent p.a.)					
Dollar rate of return	15.3	14.4	15.0	3.2	8.8
of which Interest and capital gains	9.8	7.5	6.3	6.2	9.2
Exchange rate differentials	5.1	6.4	8.1	–2.8	–0.4
Deutschmark rate of return	–6.3	–7.0	–5.4	15.3	4.8
Return in terms of expected use of reserves	9.5	8.3	9.1	6.4	8.7
of which Effect of managing currency composition	–0.2	0.8	2.4	0.1	–0.5

[a] According to profit and loss statement.
[b] The rates of return refer to income and reserves excluding gold, calculated on daily basis.

5. SUPERVISION OF BANKS[2]

The last few years have seen a gradual change in the activities of the banking system. Competition has increased, as has the risk level to which the banks are exposed. In this changing environment, the Supervisor of Banks is constantly revising supervisory and regulatory procedures, with emphasis on risk. For this purpose two departmental teams have been at work on developing methods of analysing bank stability and on overhauling the data base. The first of these has completed its work and several of its recommendations have already been implemented, and the second is due to report soon.

During the current recession, many firms have got into difficulties. In these circumstances, the Supervisor of Banks has concentrated on improving the banks' management of credit risk. This year a minimum capital ratio for banking corporations and auxiliary corporations was set at 8 percent of risk-weighted assets (balance-sheet and off-balance sheet items). The new regulations, which in Israel have come into effect in 1990, are in the main based on the guidelines which the Basle Committee recommended for adoption in 1992.

Once methods of estimating other types of risk have been developed, the minimum capital ratio requirements will take these into account too. In addition, the regulations concerning single borrowers have been tightened and banks whose credit portfolio includes a large component of problem loans have been required to increase their general provision for doubtful debts.

The liberalization of banking activity has increased the banks' exposure to a variety of risks—indexation, basis, interest, and liquidity risks. In particular, liquidity ratios on local currency were reduced in order to bring required reserves closer to the level needed for liquidity management. This means that closer control is now required on the part of both the banks and the supervisory authorities.

Further steps have been taken to increase the scope and improve the content of information which banks must publish, in order to allow market forces more play, an aspect to which the Supervisor of Banks attaches great importance.

Criteria for approval of investors have been revised in preparation for the sale of the Arrangement banks, and guidelines have been laid down for the sale of certain banks separately from their parent banks, with a view to increasing competition within the banking system and maximizing the proceeds of the sale.

[2] See also Supervisor of Banks, *Israel's Banking System: Annual Survey 1989* (Jerusalem: Bank of Israel, June 1990; Hebrew, English forthcoming).

6. ISSUE OF BANKNOTES, COINS, AND COMMEMORATIVES

Circulation[3]

The value of currency in circulation was NIS 2,654 million at the end of 1989, compared with NIS 2,024 million at the beginning of the year—a 31.1 percent increase. In real terms, circulation grew by 8.6 percent compared with 3.5 percent a year ago. These rates of growth are moderate compared with 40.3 percent, 54.8 percent, and 20.8 percent in 1985, 1986, and 1987, respectively. Banknotes accounted for 96 percent of circulation, and coins for only 4 percent.

The value of banknotes in circulation at end-year was NIS 2,600 million and their number (excluding the NIS 1 note, whose production was terminated) stood at 63.6 million compared with 52.5 million at the beginning of the year.

Coins in circulation were worth NIS 103.7 million at end-year compared with NIS 93.6 million at end-1988—10.8 percent growth. The number of coins in circulation grew from 432.5 million to 479.4 million. Consumption totaled 46.9 million pieces compared with 67.7 million in 1988—down 31 percent.

7. FOREIGN DEPARTMENT

The Foreign Department deals chiefly with the management of the Bank's foreign reserves. It also functions as the banker for government ministries engaging in import-export activities, and manages the commercial banks' foreign-currency accounts, which are kept with the Bank of Israel as prescribed by the liquidity regulations. Discharging the Bank of Israel's function as the central bank, the Department conducts the banks' daily trade in foreign currency against local currency. In January 1989 an exchange-rate regime was introduced whereby the sheqel was permitted to fluctuate 3 percent on either side of a midpoint. This was broadened to 5 percent in either direction in March 1990, with the intention of allowing market forces to play a greater role in determining the exchange rate.

The Department manages the Bank's foreign reserves so that they can be used to finance imports and repay the foreign debt when the basic balance-of-payments deficit grows.

In managing the reserves, the Bank of Israel adopts a prudent approach, endeavoring to ensure adequate liquidity, minimize risks, and obtain a suitable yield on investment. Accordingly, investments are diversified and the need to meet unexpected foreign-currency demand is taken into account.

To minimize exchange-rate risks and protect the purchasing-power of the reserves, the Bank of Israel maintains the reserves in a currency composition similar to that in which

[3] For further information and detailed tables on this subject, see *Annual Survey 1989*, the Currency Department, Jerusalem, March, 1990 (Hebrew).

import transactions are made and the foreign debt is paid. Minor deviations are allowed only when warranted by expected exchange-rate trends. This currency composition (rather than the dollar or any other currency) is, therefore, the criterion by which income from investing the reserves should be assessed. Table 8.7 presents the rates of yield on the foreign reserves between 1985 and 1989 in terms of import and foreign-debt repayment terms on the one hand, and dollars and Deutschmarks on the other. The table also presents revenues denominated in dollars, in the customary way.

The yield, in terms of the currency composition of imports (line 7), is scarcely affected by exchange-rate fluctuations because of the two measures adopted: the policy of investing the reserves in a composition similar to that of imports and foreign-debt repayment, and assessing the results on the basis of a criterion which is compatible with the uses made of the reserves.

8. ECONOMIC RESEARCH

In 1989 the Research Department brought out the following publications:

1. Governor's Report on the Increase in the Money Supply (Hebrew)
2. Recent Economic Developments (four issues, bilingual: Hebrew and English)
3. The National Budget for 1990 (in cooperation with the Ministry of Finance and the Ministry of Economics and Planning) (Hebrew)
4. A Plan for Economic Policy During a Period of Immigration (Hebrew)
5. Internal policy documents on exchange-rate management, liberalization of the foreign-exchange markets, and monetary policy (Hebrew)
6. Main Israeli Economic Data (Hebrew and English)

In addition to ongoing research, the following basic studies were published in the *Bank of Israel Economic Review*:

1. CPI Announcements and the Efficiency of the Israeli Securities Market (Hebrew)
2. Capital Market Reform in Israel: Goals and First Results (Hebrew and English)
3. Real and Nominal Interest Rates on the Internal and External Debt (Hebrew)
4. The Interest Burden of Short-Term Bank Credit by Industry, 1983–1988 (Hebrew)

The following studies have been or are about to be published abroad:

1. On the Determinants of Creditworthiness: the Case of Israel, 1971–1983
2. The Determinants of the Tariff Structure of the Israeli Industrial Sector, 1965–1977
3. Wage Policy in a High Inflation Economy: the Israeli Experience

The Research Department also published the following discussion papers in 1989:

1. The Factorial Distribution of Income in the Union Bargaining Model
2. Erosion of the Real Exchange Rate: Demand and Growth—A Diagrammatic Clarification

3. High-Tech Firms in Israeli Industry
4. The Bank of Israel's Review of Corporations—a Re-appraisal (Hebrew)
5. Forecasting Short-Run Inflation in Israel, 1983–1987: an Evaluation
6. The Effect of Interest Rates on Nondwelling Investments in Israel's Business Sector, 1962–1987 (Hebrew)
7. Technological Progress, Structural Change, and Productivity in Industry: the Case of Israel
8. Price Indices of Tradable and Nontradable Goods (Hebrew)
9. The Balance-of-Payments Offset to Monetary Policy: An Examination of the Israeli Case

Several additional studies are in progress. Below are the major themes:
1. An Econometric Model for the Israeli Economy (Hebrew).
2. The Effect of Wage Inertia on the Labor Market (Hebrew)
3. Monetary Aggregates and the Balance of Payments: Israel, 1970–1988
4. Development of Transfer Payments in Israel, 1965–1988 (Hebrew)
5. High Interest Rates, Spreads, and Margins in Israel—An Analytical Review.
6. The Term Structure of Interest Rates on Term Credit in a Period of Inflation in Israel (Hebrew)
7. Tax Smoothing and Tests of Ricardian Equivalence.
8. The Measurement of Business Fluctuations: Israel's case.
9. The Costly Transition from Stabilization to Sustainable Growth: Israel's Case.
10. Short and Long term Production in the Israeli Business Sector (Hebrew)
11. The Cost of Labor in Israeli Industry (Hebrew)
12. Development of the Black-Market Dollar Premium, 1985–1989 (Hebrew)

9. BANK OF ISRAEL PUBLICATIONS

In 1989 the Bank of Israel brought out the following publications:

Research Department
1. Annual Report 1988 (English edition abridged)
2. Recent Economic Developments, Nos. 46, 47, 48, and 49 (bilingual: Hebrew and English)
3. Economic Review, No. 64 (Hebrew)
4. National Budget 1989 (Hebrew)
5. Main Israeli Economic Data (binder and weekly updates, bilingual: Hebrew and English)
6. Program for the Resumption of Growth and Reduction of Inflation (Hebrew)

Banking Supervision Department
1. Israel's Banking System,: Annual Survey 1988 (Hebrew and English)
2. Banks in Israel—Selected Figures, 1988 (bilingual: Hebrew and English)
3. Banking Statistics (monthly, bilingual: Hebrew and English)
4. Directory of Israeli Bank Branches on 1.1.89 (Hebrew)
5. Banking Review, Nos. 8 and 9 (Hebrew)
6. Directions for the Preparation of Annual Financial Statements (Hebrew)
7. Banking Review No. 2 (English)

Comptroller
1. Financial Statements for the Year 1989 (Hebrew and English)

State Loans Administration
1. Redemption Orders for Bearer State Loans (binder, periodic update) (Hebrew)
2. Redemption Orders for Israel Bonds (binder, periodic update) (Hebrew)
3. Terms of Deposits as Coverage of Saving Schemes (Hebrew)

Currency Department
1. Annual Survey 1989 (Hebrew)

General Counsel
1. Legislation and Directives (updates, Hebrew)

Controller of Foreign Exchange
1. Foreign Currency Control Directives (updates and Controller's circulars, Hebrew)
2. Foreign Currency Liabilities (biennial, Hebrew)
3. Private-Sector Balance of Payments, Cash-based (biennial, Hebrew)

Monetary Department
1. Capital Market Developments, Annual Review 1989 (Hebrew)
2. Treasury Bills, Annual Yields (Hebrew)

Foreign Department
1. Foreign Currency Exchange Rates in Israel, 1989 (bilingual: Hebrew and English)
2. Representative Sheqel Exchange Rates (weekly data sheet, bilingual: Hebrew and English)

10. GOVERNOR'S OFFICE AND SENIOR MANAGEMENT

On January 1, 1990, Abraham Jacoby replaced Mayer Lahav as Director of the Computer Services Department.

11. ADVISORY COMMITTEE AND COUNCIL

The Advisory Committee and the Advisory Council heard regular economic reviews from the Governor and members of senior management. Major economic subjects were discussed, including the Bank of Israel's operations to reduce local-currency interest rates, the economic measures (including exchange-rate adjustments) introduced by the Bank of Israel and the Ministry of Finance in June 1989 and February 1990; the need to reform the budget, taxation, and investment, along with the continued reform of the money and capital markets in order to encourage sustainable growth, and the steps taken to cope with the expected mass immigration. The Supervisor of Banks reviewed banking system developments and reported on the equalization of voting rights of the shares of the Arrangement banks. The Bank of Israel's plans to introduce options for the sale of foreign exchange, stimulate competition in foreign-currency trading, and change the activities of the specialized banks were also presented to the committee.

The Committee approved liquidity modifications meant to facilitate the implementation of monetary policy and the continued stimulation of competition in the financial and capital markets. These changes include the reduction of liquidity ratios on local-currency deposits, CPI-linked deposits, resident deposits indexed to the exchange rate, and saving schemes; a change of approach toward foreign currency credit ceilings; and the abbreviation of the minimum credit term for loans obtained directly from overseas. The Advisory Council approved the minting of a five-sheqel coin as well as special commemoratives.

The tenure of the Advisory Committee and the Advisory Council expired in April, 1989; the Government appointed a new Advisory Committee in June and a new Advisory Council in November.