

CHAPTER VIII

MONEY AND CAPITAL MARKETS

1. MAIN DEVELOPMENTS

Developments in the money and capital markets in 1982 were dominated by an accelerated nominal and real¹ expansion of total financial assets, which was largely influenced by the stock market boom, and a faster nominal growth this year of liquid assets (which nevertheless lagged behind the rise in the rate of inflation, with the result that their real balance declined). The nominal and real increase in the average balance of bank credit slackened, and in real terms the level was 20 percent below the 1979 peak; however, in the final part of the year the nominal rise gathered momentum and there was even a real increase (this was erased at the beginning of 1983). The flow of medium- and long-term credit expanded greatly this year. The interest on nondirected (free market) credit fell in both nominal and real terms,² and there was a concomitant narrowing of the interest rate gap between the various types of credit and between bank borrowing and lending rates.

These developments took place against the backdrop of a swelling public sector demand surplus, a marked worsening of the balance of payments current account, and a monetary policy designed to prevent a real growth of total bank credit while lowering the real interest rate (before tax) on free market credit, narrowing the spread between interest rates, and expanding the unlinked monetary base.

The public sector demand surplus was reduced, as stated, after an exceptional increase in 1981; this was achieved primarily through a much larger tax collection, which more than covered the incremental government expenditure. The contraction of the demand surplus was accompanied by a steep real decrease in the public sector's net borrowing from the public,³ a result of the discontinuation of the more attractive savings terms offered in 1981, and a net purchase of tradable bonds from the public (as in 1981) instead of a net sale. Thus in the year reviewed the demand surplus was financed by the government injection,⁴ which reached IS34 billion (a real decrease of

¹ In this chapter real values were calculated using the consumer price index as a deflator (unless otherwise indicated).

² It may be that for firms which in the past did not take full advantage of the tax concessions the posttax rate of interest rose; this is discussed in the section on credit.

³ Net borrowing from the public is defined as the sale of financial assets to it by the government, less net long-term credit from the latter to the public.

⁴ This consists mostly of Bank of Israel credit to the government and the conversion of the government's foreign currency holdings.

Table VIII-1
MONETARY DEVELOPMENTS AND INDICATORS OF THE COST OF CREDIT, 1980-82
 (IS billion)

	1980	1981	1982		Percent annual increase			
			June	Dec.	Nominal		Real	
					1981	1982	1981	1982
A. Monetary developments								
1. Narrow monetary base ^a	4.5	9.6	10.6	19.2	113	100	6	-14
2. Unlinked liquid assets ^b	9.5	20.7	27.9	58.2	117	181	8	21
3. Liquid assets	62.3	127.7	204.0	291.2	105	128	2	-1
4. Liquid assets and bank shares	86.0	199.2	311.2	520.1	132	161	16	13
5. Total financial assets, excl. nonbank shares	219.5	504.9	788.9	1,297.2	130	157	14	11
6. Total financial assets	232.4	542.2	867.5	1,601.8	133	195	16	28
7. Bank credit, excl. oil, to the private nonfinancial sector	37.9	69.0	97.9	164.4	82	138	-10	3
8. Net financial wealth of the private nonfinancial sector	147.2	337.8	539.5	896.6	130	165	14	15
B. Actual real cost of short-term credit^c (Percentages, at annual rates)								
1. Overdraft accounts	18	34		5				
2. Nondirected credit in foreign currency	16	43		13				
3. Total short-term credit (directed and nondirected)	5	17		4				

^a Source: Table VIII-A2.

^b Money, CDs, and time deposits.

^c The cost before tax (the posttax cost is presented in Table VIII-A12).

SOURCE: Bank of Israel calculations.

only 4 percent from the previous year). This was more than enough to cover the demand surplus, which amounted to IS30 billion—a real drop of 37 percent from 1981. The country's current account deficit expanded noticeably this year following the deepening of the world economic recession and the slow adjustment of the exchange rate of the sheqel against a basket of foreign currencies. The growth of the deficit, which was accompanied by a net purchase of IS23 billion of foreign currency by the private sector, resulted in the absorption of liquidity, but in real terms not to a significantly greater extent than in 1981. The reason for the relatively modest effect of the absorption is explained by the IS15 billion inflow of capital from abroad, following a IS6 billion outflow last year.

The monetary base underwent a drastic change this year. The average real balance shrank 17 percent, in line with the trend evident since 1978, but in the second half of 1982 the level rose 10 percent in real terms. This turnabout can be attributed to the Bank of Israel's policy, which was designed to encourage the growth of the unlinked sheqel base in the financial system in order to help stabilize the inflation rate and to regulate bank credit by controlling the sources of unlinked Israeli currency funds, instead of relying on credit ceilings (these were abolished in November). Another factor in the expansion of the monetary base was the policy of slowing the depreciation of the sheqel, which was introduced in the final quarter of the year.

Bank credit (excluding that for financing oil imports) rose nominally at a faster rate during 1982 than during the previous year (138 vs. 82 percent), but there was very little change in the average level (102 and 103 percent respectively). This disparate development was also apparent in the real balance of such credit: the average level fell 8 percent (compared with a 3 percent decline in 1981), while in the course of the year the level moved up 3 percent (after dropping by a total of 20 percent in 1980–81). All the real increase in bank credit took place in the fourth quarter of the year, and it partly reflected the reversal of the process of disintermediation outside the banking system, which had intensified when the ceilings were in effect (these were abolished in this quarter). In the first quarter of 1983 outstanding bank credit again declined in real terms, by 8 percent, bringing it back to its end-1981 level.

Long- and medium-term credit flows expanded by 30 percent in real terms, compared with 15 percent in 1981. There was no real increase in local currency credit in the year reviewed, but that in foreign currency was stepped up after permission was granted in August to obtain loans from abroad for an average period of two and a half years or more, a step designed to offset the reduction of nondirected (free market) foreign currency credit in the first half of the year.

An attempt was made in 1982 to lower the real interest on free market credit while encouraging the provision of unlinked Israeli currency credit at the expense of short-term foreign currency credit. In addition, the extra interest charged on free market credit in foreign currency was scaled down from 9 to 1 percent. The allowing of foreign borrowing for a period of two and a half years or more helped to dampen the real interest. These measures were adopted after policymakers concluded that the high interest on free market credit in 1980–81 (an average of over 30 percent in real

Table VIII-2
SOURCES OF FINANCIAL ASSET FORMATION BY THE PRIVATE SECTOR, 1980-82^a
 (IS billion)

	1980	1981	1982		Flows/monetary base (annual average)			
			Total	1st half	2nd half	1980	1981	1982
1. Total contribution of public sector to financial asset formation ^b	10.1	32.9	56.7	25.6	31.1	4.04	4.82	4.06
2. Bank of Israel rediscounts and other factors ^c	4.2	2.7	4.3	6.4	-2.1	1.68	0.40	0.28
3. Private sector purchase of foreign currency ^d	4.6	13.0	23.3	15.5	7.8	1.82	1.90	1.52
4. Total sources of financial asset formation by the private sector (1+2-3)	9.7	22.6	37.7	16.5	21.2	3.90	3.30	2.46
a. Purchase of medium- and long-term assets ^e	4.5	20.0	29.7	11.6	18.1	1.81	2.92	1.94
b. Purchase of tradable bonds ^f	1.2	-4.9	-6.3	-3.5	-2.8	0.47	-0.71	-0.41
c. Purchase of foreign currency deposits ^g	1.8	2.4	4.9	7.4	-2.5	0.72	0.35	0.32
d. Change in monetary base	2.2	5.1	9.4	1.0	8.4	0.90	0.74	0.61

^a The private sector is defined as the general public and the system of financial intermediaries. The purchase of assets (liabilities) by the private sector creates liabilities (assets) of the public sector, the Bank of Israel, and the rest-of-the-world sector. Unlike the tables that show the purchase of assets by the public alone (Tables VIII-3 and VIII-A16), this table shows the purchase of assets by the total private sector, including the system of financial intermediaries. In this table intrasector claims between the public and the financial intermediaries are offset against each other, and the public's deposits with the intermediaries are not treated as an asset. Thus, for example, it is the public that accumulates money, while the private sector accumulates base money.

^b The public sector's domestic demand surplus and net government development credit granted to the private sector (lines 1 and 2 in Table VIII-3).

^c Detailed in Table VIII-3.

^d See note h to Table VIII-3.

^e Includes the government's net borrowing from the public, less the early redemption of Israel Bonds and foreign currency deposits with the Bank of Israel against restitution deposits of the public with commercial banks.

^f Net purchases of tradable bonds at source, less Bank of Israel purchases in the secondary market.

^g Includes foreign currency deposits with the Bank of Israel against foreign currency deposits of local and foreign residents.

SOURCE: Bank of Israel calculations.

terms) could not be maintained for long without distorting the allocation of resources and hurting the economy's growth potential. The reduction of interest on free market credit was also intended to help lower production costs.

The year reviewed witnessed an unprecedented stock market boom. This was reflected by the soaring of nonbank share prices at a record 140 percent real rate and by a steady 28 percent real advance in bank shares. The strongly bullish market induced a 37 percent real increase in new issues this year. The boom came to an abrupt end at the beginning of 1983, when nonbank share prices tumbled precipitously, and real yields in the first four months of the year fell to -40 percent. Bank shares, on the other hand, weathered the crisis, as the banking concerns actively supported their equities. Thus they again proved to be a very attractive asset capable of competing successfully with the financial instruments offered by the government, a fact that hampered the conduct of monetary policy.

To sum up, the most striking monetary developments in 1982 were, on the one hand, the curbing of the public sector demand surplus and the absorption of liquidity through private sector purchases of foreign currency to finance its current account deficit, and on the other hand, the increased weight of the injection in financing the demand surplus, the expansion of medium- and long-term credit, and a record stock market boom.

These developments found expression in a 128 percent nominal growth of liquid financial assets, after a 105 percent increase in 1981. This represented a real decline of 1 percent, which took place primarily in the second half of 1982 and compares with a 2 percent real rise the year before. If bank shares are included, liquid financial asset holdings expanded 161 percent in 1982, in contrast to 132 percent in the previous year—real increases of 13 and 16 percent respectively. This development was influenced by the heavier purchase of bank shares and unlinked Israeli currency assets as a substitute for medium- and long-term assets, foreign currency deposits, and tradable government bonds.⁵

Another striking change this year was a decline in the real cost of free market credit in the form of overdraft facilities, following an increase in 1980-81. The real cost of free market foreign currency credit also fell in 1982, owing to the softening of world interest rates, the reduction of the interest surcharge on foreign currency credit, and the slower depreciation of the sheqel toward the end of the year. On the other hand, the interest on directed credit rose under the Bank of Israel's policy of unifying

⁵ The acquisition of liquid financial assets and bank shares consists of the increase in the money supply as customarily defined (currency plus demand deposits); the accumulation of negotiable certificates of deposit, long-term Israeli currency deposits, Patam local residents' foreign currency deposits, and tradable bonds held by the public; and the purchase of bank shares by the public. Because of the highly elastic supply of tradable bonds, Patam, and bank shares—due to the policy of stabilizing the real secondary market prices of bonds, the exchange rate, and the prices of bank shares (which are regulated by the banks)—there is a high degree of substitutability between these assets and money holdings. In view of this, the Bank of Israel has in recent years used the change in total liquid assets plus bank shares as one of its principal indicators for analyzing monetary developments.

domestic interest rates. The real pretax cost of total short-term credit (free market and directed) dipped from 17 percent in 1981 to 4 percent in the year reviewed, bringing it back to its 1980 level. It should be noted that following the amendment of the tax laws the posttax marginal cost of financing went up for firms which could deduct interest payments for tax purposes but did not take full advantage of this right.⁶ There is nevertheless evidence of a drop in the marginal cost of financing in the economy, in particular the change in inventories and the investment in machinery and equipment.

In view of the nominal and real growth of the monetary aggregate consisting of liquid financial assets and bank shares, the year reviewed can be characterized as one of monetary expansion, although less so than in 1981.

The public's total wealth rose 5 percent in real terms, compared with 11 percent in 1981. This year's gain reflected increases of 15 percent in net financial holdings and 1 percent in tangible assets. The growth of financial wealth was the resultant of a 16 percent real expansion of the liquid assets portfolio (excluding nonbank shares) and a real 20 percent increase in total liabilities of the public. The lagging of physical wealth behind the growth of financial wealth continued the trend of the three preceding years, which is probably explained by the fact that the public does not consider all of the increase in its financial wealth to be of a lasting, stable nature, but regards part of it as a kind of reserve for the payment of future taxes.

The drop in interest rates on free market credit moderated the slackening of economic activity in 1982. Monetary developments were not a weighty factor in the worsening of inflation this year. This was due primarily to the fiscal policy pursued—the cutting of subsidies and the raising of taxes—in response to developments in the past, especially the fiscal and monetary expansion engendered by the upping of subsidies in 1981, together with the abundant liquidity in the year reviewed, which enabled producers to pass on the additional costs. It can therefore be said that the escalation of inflation was influenced more by monetary developments in the previous year than in 1982.

2. MONETARY DEVELOPMENTS AND THEIR EFFECT ON ECONOMIC ACTIVITY AND PRICES

Monetary developments in 1982 and their influence on economic activity and the rate of inflation should be examined in the light of the unusual fiscal measures implemented in the previous year. Fiscal policy focused on the heavy subsidization of controlled products and services, and since this was not accompanied by the cutting of other expenditures or an increase in taxes, the public sector demand surplus

⁶ For households, economic units that do not have to pay tax for various reasons, and those which took full advantage of the possibility of reducing their tax debt, the marginal cost of financing was that before tax.

swelled. In order to mitigate the short-run impact of the demand surplus on the balance of payments deficit and the level of inflation, the government offered better medium- and long-term savings terms, and this resulted in a much larger net borrowing from the public (described in the 1981 Annual Report, Chapter VIII). Nevertheless, such borrowing failed to match the growth of the demand surplus, with the result that there was a larger injection that year, especially in the second half.

Because of the difficulty of persisting in such a course—in particular because of its repercussions on the balance of payments, and in the long run also on the rate of inflation⁷—fiscal policy changed direction in 1982. This was reflected by a greatly increased collection of existing taxes and the imposition of new ones. The incremental tax revenue far exceeded the growth of public sector spending, and so the sector's formidable demand surplus shrank, reducing its financing requirements. Consequently, the more attractive savings scheme terms were not renewed, and sales of medium- and long-term financial assets offered by the government tumbled. The latter development was also connected with the mounting tax burden: Despite the heavier taxation, the public did not curtail its consumption (in fact it even spent more), but it reduced its purchases of government assets. These two factors altered the financing of the public sector demand surplus, with the weight of net medium- and long-term borrowing declining and the weight of the injection rising.

This year's smaller financing requirements of the public sector and the nonrenewal of the attractive medium- and long-term savings scheme terms (which was tantamount to a decrease in the yield) were consonant with the policy objective of lowering the real interest on free market credit, for the smaller public sector resort to domestic sources of funding made it possible to divert these resources to the private sector, and was one of the factors that helped to dampen the real interest on free market credit.

The contraction of the public sector demand surplus, which permitted some easing of the credit squeeze, helped to bring down the interest rates on free market credit from their high level of 1980-81 (see Table VIII-A13). It is a reasonable inference that had it not been for the decline in real interest, economic activity would have slackened even more than it did, in view of the setback in exports. The change in real interest made its impact felt particularly in investment in fixed assets and inventories, which expanded somewhat this year despite the sluggishness of the economy.

Inflation again reached 130 percent this year, after being toned down in 1981. Nevertheless, it seems that monetary developments were not the principal cause of the sharply fluctuating rate of inflation in the last three years. The main influence was the changes in subsidy, taxation, and currency depreciation policy. The relatively stable rate of increase of uncontrolled prices in 1980-82 stands out against the conspicuous swings in controlled prices, and this, together with the similar rate of inflation in 1982 and 1980, suggests that the heavier subsidization in 1981 did not significantly alter the underlying rate of inflation; this is determined in the long run

⁷ Besides its adverse long-run effect on inflation and the balance of payments, a heavier subsidization policy militates against efficient resource allocation.

Table VIII-3
CHANGES IN LIQUID FINANCIAL ASSETS, 1980-82
 (IS billion, at current prices)

	1980	1981	1982		Percent real change ^a		
			Total	1st half	2nd half	1981	1982
1. Contribution of public sector demand surplus to financial asset formation ^b	5.2	24.1	30.1	15.0	15.1	95	-37
2. Net development and other credit by the public sector ^b	4.9	8.8	26.6	10.6	16.0	-15	36
3. Net purchase of medium- and long-term assets ^c	4.0	18.3	24.5	10.5	14.0	106	-37
4. Contribution of public sector to liquid financial assets (1+2-3)	6.1	14.6	32.2	15.1	17.1	3	10
a. Public sector injection ^d	4.9	17.2	34.0	15.1	18.9	44	-4
5. Bank of Israel rediscounts ^e	3.6	-1.1	2.5	1.6	0.9	—	—
6. Other factors ^f	0.6	3.8	1.8	4.8	-3.0	165	-53
7. Foreign currency deposits of restitution recipients	0.6	1.7	5.2	1.1	4.1	33	59
8. Private sector balance of payments deficit on current account ^g	2.5	7.1	38.2	15.4	22.8	37	131
a. Change in net liabilities to foreign sector (8b-8)	-2.0	-5.9	14.9	-0.1	15.0	—	—
b. Private sector purchases of foreign currency ^h	4.5	13.0	23.3	15.5	7.8	15	1
8'. Sale of foreign currency resulting from the import of capital for granting domestic free credit in foreign currency ⁱ	-1.9	-2.6	3.0	-5.4	8.4	—	—
9. Net injection into liquid financial asset base (4+5+6-7-8b)	5.2	2.6	8.0	4.9	3.1	-16	39
10. Increase in liquid financial assets due to domestic banking operations ^j (11-9)	3.9	11.6	23.4	5.1	18.3	29	-12
a. Free Israeli and foreign currency credit from domestic sources ^k and the banks' participation in directed credit	1.3	5.5	25.7	7.4	18.3	90	85
11. Purchase of liquid financial assets and bank shares	9.1	14.2	31.4	10.0	21.4	-31	-2
a. Unlinked assets ^l	4.6	9.3	29.9	5.3	24.6	-10	36
b. Patam deposits ^m and bonds	3.5	1.1	-7.9	4.5	-12.4	—	—
c. Bank shares	1.0	3.8	9.4	0.2	9.2	72	-5

12. Exchange rate and devaluation differentials	44.3	98.0	286.2	97.6	188.6	6	30
13. Total change in liquid financial assets ⁿ	53.4	112.2	317.6	107.6	210.0	-1	26
14. Total short-term credit flows (5+8'+10a)	3.0	1.8	31.2	3.6	27.6	-58	361

^a Deflated semiannually.

^b Source: Table VIII-A18.

^c Includes net long-term borrowing from the public by the government, less early redemption of Israel Bonds.

^d The injection in (4), less the net public sector absorption through the sale of tradable government bonds. This absorption is not identical to the purchase of tradable bonds presented in Table VIII-2 (line 4b) because of the Bank of Israel's open-market operations.

^e Bank of Israel rediscounts in connection with the directed credit funds, plus an imputation for the transfer of the financing of the funds from the Bank of Israel to the commercial banks (see note h). Also includes discount-window lending to the banks.

^f Consists mainly of the injection or absorption generated by the Bank of Israel's income and expense accounts.

^g Source: Table VII-A13—import surplus less unilateral transfers (quarterly data), translated into IS terms according to the quarterly average exchange rate.

^h Private sector purchases of foreign currency from the Bank of Israel, plus an imputation for the transfer of the financing of the directed credit funds from the Bank of Israel to the commercial banks (see note e). This imputation is for the total change in the funds, whereas in Table VII-A13 the imputation was made only for the transitional period.

ⁱ Estimated on the assumption that part of the free foreign currency credit originated in capital imports and another part from the banks' freely loanable Patam funds (estimated at about 6 percent of the change in the dollar balance of Patam, translated into IS terms).

^j Residually calculated. Most of the difference between this item and free credit (10a) stems from bank credit to the government and the purchase of real and financial assets by the banks.

^k The increase resulting from free foreign currency credit from domestic sources is estimated as described in note i (about 6 percent of the change in the dollar balance of Patam, in IS terms).

^l The increase in money (M1) is estimated as the December-to-December change in the balances, and the increase in CDs and time deposits is estimated as the change in the balances less accrued interest after tax.

^m Local residents' foreign currency deposits.

ⁿ Liquid assets include nonresident deposits permitted to be held by certain categories of Israeli residents; the private sector's purchases of foreign currency have been adjusted accordingly (line 8b). Bond purchases here differ from the datum in Table VIII-A16, since statistical limitations precluded the separation of purchases by commercial banks.

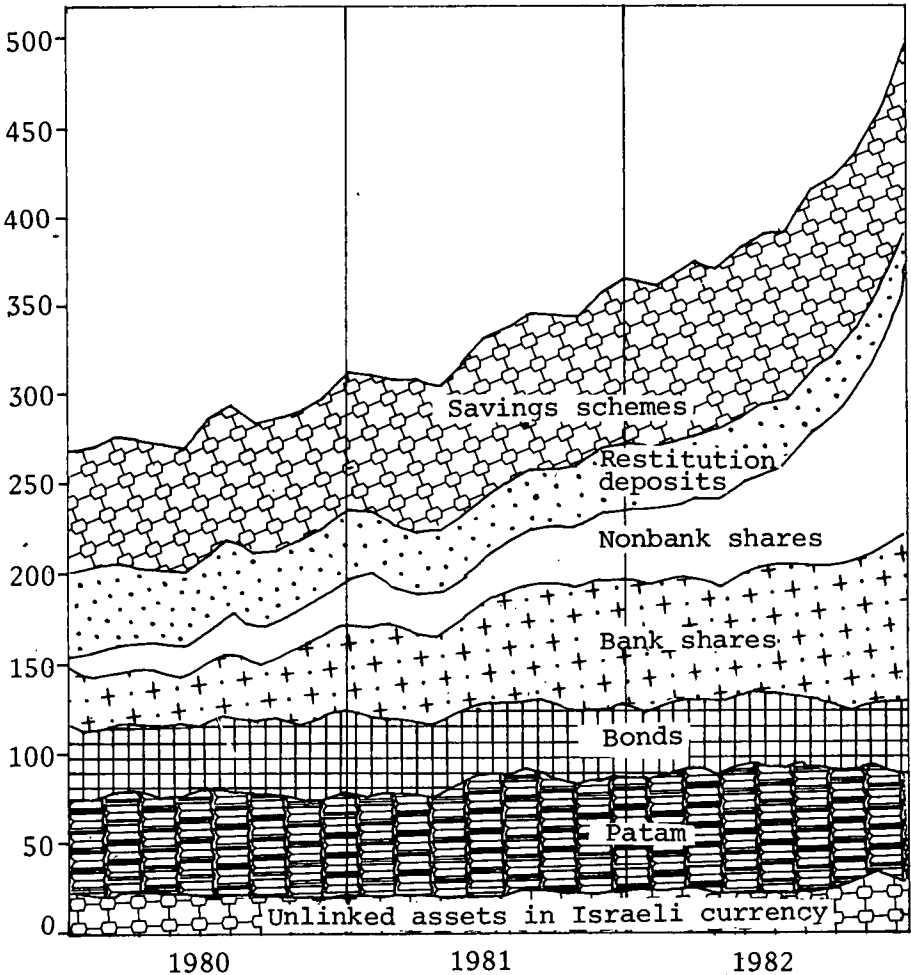
SOURCE: Bank of Israel calculations.

by the public sector's demand surpluses and especially by monetary developments in previous years.

The subsidy, taxation, and exchange rate policy measures immediately affect the price level, while the impact of monetary developments on inflation and real activity (which are influenced by changes in the demand surplus, its financing mix and the liquidity of the component assets, and the Bank of Israel's overall credit policy) finds its full expression only after fairly long, irregular lags. In a small, open economy like Israel the balance of payments developments and the structure of the monetary system determine the length of the lags and the intensity of their effect.

Figure VIII-1

FINANCIAL ASSETS OF THE PUBLIC, 1980-82
(IS billion, at Dec. 1981 prices)



The changes in the country's current account deficit, along with exchange rate policy and interest rates in Israel and abroad, determine the magnitude and timing of the lagged inflationary effects latent in a monetary expansion, through its leakage via the balance of payments. An example of this is the policy of slowing the nominal depreciation of the sheqel which was introduced in September 1982; as long as this policy can be sustained, it is possible to defer part of the inflationary effects of a nominal monetary expansion. But it is hard to know if future conditions will permit the continuation of such a policy, and so it is difficult to estimate the intensity of the lagged impact of a monetary expansion on inflation and its timing.

What is more, the structure of Israel's monetary system increases the difficulty of assessing this effect, for the government and the Bank of Israel do not have a great deal of control over the basket of assets financing the public sector demand surplus, which would make it possible (at least in the short and medium term) to neutralize the potential inflationary impact of the surplus. In other words, the monetary system is still characterized by insufficient control over a nominal monetary expansion, mainly because of the inability to fully control the sheqel monetary base. The demand surplus financing mix is largely determined by the public, in accordance with its expectations regarding the rate of inflation and the real return on the various assets offered by the government and the central bank.⁸

Various institutional factors hamper the conduct of an effective monetary policy. Among these are the high rate of linkage of assets and credit, the accommodation of government injections to the prevailing inflation, and the limited ability to alter the return on government bonds and Patam (local residents' foreign currency deposits). Consequently, a rise in prices or a rise in the exchange rate automatically results in a nominal growth of credit and financial assets. However, an attempt was made this year to rectify the situation: in addition to the action taken by the Bank of Israel in June, a 2 percent tax was imposed on sales of securities in the secondary market, thereby reducing the liquidity of various financial assets. These steps were intended, on the one hand, to foster the growth of the unlinked sheqel base in the monetary system by encouraging the holding of the unlinked local currency deposits introduced this year and the use of unlinked credit, and on the other hand, to reduce the liquidity of linked assets, thereby arresting the falling trend in the unlinked sheqel base which had prevailed during the past decade. Action was also taken to reduce the weight of foreign currency credit in favor of that in Israeli currency.

In the allocation of government credit for investment and housing purposes 1982 saw an increased shift to linked loans, in line with the policy adopted in 1979. In addition, the Bank of Israel continued to adjust the rate of interest in the directed credit funds to the free market rate (for both Israeli and foreign currency credit). The encouragement of sheqel deposits and the linkage of government loans brought up

⁸ Even though it is usually the public that largely determines the demand surplus financing mix, the authorities influence it to some extent by offering more attractive savings terms from time to time. A striking example was the introduction in 1981 of savings schemes maturing in only two years.

the share of the inflation tax in GNP; i.e. it increased the public sector's income deriving from the erosion of the private sector's unlinked liabilities.⁹ Concurrently, it further depressed the weight in GNP of the subsidy component of the various types of credit granted on concessionary terms. This subsidy, whose real volume is largely a function of the rate of inflation, is still higher than the inflation tax, but the gap between them is narrowing significantly. It should be emphasized that despite the high inflation Israel experienced during the past decade, the inflation tax (even without taking into account the credit subsidy) is not an important source of government revenue, amounting to only 2 percent of GNP (see Table VIII-A5); hence it can be replaced by the pruning of the demand surplus to a similar extent.

3. THE BANK OF ISRAEL'S MONETARY POLICY

In 1982 the Bank of Israel continued to put the emphasis on restricting the growth of bank credit to the nongovernment sector. Like the other components of public sector borrowing, the volume of credit provided by the banks to the government (which rose this year) is beyond the Bank of Israel's control. Several important changes occurred this year in the banks' lending to the public. First of all, the Bank of Israel took steps to reduce the interest rate differentials as well as the segmentation between the various types of credit: it raised the interest on directed credit granted by the Export Shipments and Export Production Funds while making more funding available from these sources; it also reduced the interest surcharge on free market credit denominated in foreign currency from 9 to 1 percent. Efforts were made to lower the real interest on overdraft accounts and to reduce the amount of credit exempted from the ceilings and penalties for liquidity deficiencies. As a consequence of these measures, the weight of free market credit rose at the expense of directed credit and that exempt from the ceilings and penalties.

Monetary policy also aimed to increase the weight of the unlinked components of the monetary system (financial assets and credit). The small dimensions of the unlinked base has greatly inhibited monetary policy: over the years, with the acceleration of inflation, the public steadily expanded its holdings of assets linked to the consumer price index or the exchange rate, until by 1981 they accounted for 80 percent of the total liquid financial assets portfolio. In addition, the public could purchase assets that appreciated automatically with an increase in inflation, such as bank shares and savings schemes. The weight of liquid assets in the financial portfolio fell from 44 percent at the end of 1977 to 24 percent at the end of 1982. As a

⁹ The inflation tax increased this year because prices rose faster than the rate of decrease in the real monetary base (i.e. the inflation tax base); in 1980 the opposite occurred. The difference between the two years is explained by the policy of encouraging the expansion of the unlinked sheqel base in the financial system. The larger the inflation tax base, the greater the possibility of obtaining the same amount of income from this source with a lower rate of inflation.

result, the weight of the inflation tax base declined and the growth of the wide aggregate M4 (i.e. total liquid assets) became to a large extent endogenous. Monetary policy lost much of its control over the nominal value of financial assets, and therefore the acceleration of inflation was largely made possible by their automatic appreciation.

In 1982 efforts were made to change this situation: linked assets were made less attractive by imposing a fine for withdrawing Patam time deposits before maturity and by discontinuing the payment of interest on Patam demand deposits. In addition, a 2 percent tax was levied on stock exchange trade, including that in government bonds. At the same time, the Bank of Israel introduced new time deposits with very short maturities and bearing tax-exempt interest. These steps induced a shift to unlinked sheqel assets. As regards credit, monetary policy strove to increase the weight of sheqel credits at the expense of those in foreign currency by abolishing the ceilings on sheqel credits and lowering those on foreign currency credits by 30 percent, while allowing the real growth of free market credit denominated in foreign currency.

The Bank of Israel began to rely more on influencing the volume of credit via changes in the monetary base, instead of placing the stress on credit ceilings for individual banks. To this end, in November the Bank stiffened the fines for liquidity deficiencies and upped the liquidity ratios on both credit and deposits subject to the

Table VIII-4
VELOCITY OF DEMAND DEPOSITS AND MONETARY AGGREGATES, 1978-82

	Average velocity of demand deposits in IS ^a	Average velocity of Patam deposits ^b	Annual average velocity of monetary aggregates relative to domestic uses ^c		
			Money supply	Money supply and unlinked deposits	Total liquid assets ^d
1978	45.22		11.88	9.34	2.75
1979	69.19		17.17	13.53	3.14
1980	104.29		22.26	16.90	3.13
1981	160.97	12.34	27.28	18.40	3.42
1982	193.66	15.46	31.92	17.92	3.62

^a Total debits to Israeli currency demand deposits in banks, divided by the annual average volume of such deposits.

^b Foreign currency deposits of local residents.

^c Total domestic uses excluding direct defense imports (as defined in Table II-1), divided by the annual average balance of the monetary aggregates.

^d Money supply, unlinked assets, Patam and Patach foreign currency deposits of local residents, and tradable bonds held by the public.

SOURCE: Velocity of demand deposits—Department of the Examiner of Banks, *Banking Statistics*; money supply and unlinked deposits—Table VII-A1; total liquid assets—Table VIII-A7; domestic uses (excluding direct defense imports)—Table II-1.

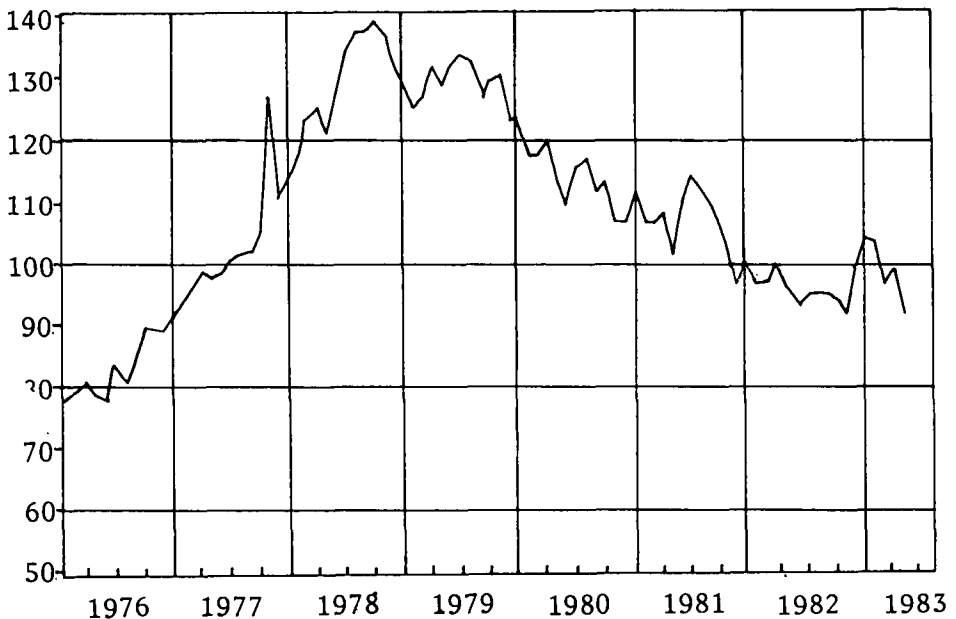
liquidity regulations. In addition, the interest was raised on directed foreign currency credit, which is exempt from the liquidity regulations and the ceilings. These measures succeeded in narrowing the spread between bank lending and borrowing rates and reversed the process of disintermediation outside the banking system, which had intensified during the three years the credit ceilings were in force.

To make its open-market operations more effective, the Bank of Israel began to plan the issue of nonindexed 90-day treasury bills as its main instrument in this sphere. Such operations entail, of course, more flexible nominal and real interest rates than were in force in 1982.

The overall interest level on short-term credit fell from 17 percent in 1981 to 4 percent, which was close to the 1980 figure. At the same time, the effective posttax cost rose from -24 percent in 1981 to 2 percent; thus it is not certain whether the real effective interest rate rose or declined this year.

The main credit policy target in 1982 was to prevent a real growth of bank credit to the public. The Bank of Israel concluded that, given the prevailing conditions and institutional arrangements, a tight monetary policy, especially a credit squeeze, should not be the main element of a disinflationary policy. A highly stringent monetary strategy which drives up the real cost of free market credit to 30 percent or more (as happened in 1980 and 1981) cannot be maintained for long without exacting a high price: the dampening of investment and the impairment of

Figure VIII-2
INDEX OF TOTAL BANK CREDIT, EXCL. OIL, 1976-83
(In real terms; Dec. 1981=100)



the economy's growth potential.¹⁰ Hence the Bank of Israel advocated the trimming of the government demand surplus in order to preclude a severe credit squeeze, which could only harm the economy.

It should be stressed, however, that without appropriate monetary restraint, i.e. without a significant slowing of the nominal growth of the monetary aggregates (the monetary base, credit, and financial assets), it will not be possible to reduce for any length of time the high inflation that prevailed during the past decade. The present rates of inflation cause a distorted, wasteful allocation of resources, heighten uncertainty, discourage investment, warp the tax system, and arbitrarily influence income distribution; in the end this will greatly lower the welfare level of the general public.

An effective anti-inflation policy must be a comprehensive, coordinated one operating on several fronts: wages, prices, taxes, and the exchange rate. It must begin, first and foremost, on a fiscal policy that will lead to a diminished public sector intervention in the economy, and especially the cutting of government spending. Such a fiscal policy must be complemented by a monetary policy capable of regulating the sources of expanding credit and financial assets by controlling the unlinked monetary base.

¹⁰ It should be noted that besides free market credit there are other types—directed, linked sheqel, and long-term credit—whose real cost is much lower. Moreover, the high real cost of free market credit is due, among other things, to the distortional tax system, which stimulates demand for credit because of tax considerations. The real posttax rate of interest faced by economic units (which are allowed to deduct interest payments from taxable income when the credit finances nontaxable activities) is well below the cost of credit before tax. However, the possibility of deducting financing costs on tax-free activities does not exist for households or for firms that do not have to pay tax because of losses, special tax concessions, and the like. The real cost faced by these units is the pretax cost, and the high real interest rate level saddles them with a heavy financing burden.

Table VIII-A1
MONEY SUPPLY AND UNLINKED DEPOSITS OF THE PUBLIC, 1980-82
 (Balances in IS million)

End of period	Money supply			Unlinked deposits			Total	
	Unadjusted for seasonality		Seasonally adjusted Total (4)	Negotiable certificates of deposit (5)	Time deposits in IS (Pazak) (6)	Deposits against liabilities in IS (7)	IS million (3+5+6+7) (8)	Percent increase over previous period (9)
	Currency in circulation (1)	Demand deposits (2)						
1980	2,128	4,878	7,006	1,884	344	305	9,540	116.9
1981	4,392	8,102	12,494	5,854	671	1,638	20,657	116.5
1982	8,405	17,975	26,380	19,388	10,326	2,059	58,153	181.5
January	4,466	9,168	13,634	13,870	5,632	689	20,604	-0.3
February	4,825	11,126	15,951	16,495	5,470	713	22,685	10.1
March	5,497	12,294	17,791	17,058	5,932	665	26,117	15.1
April	5,560	11,162	16,722	16,891	7,540	787	25,700	-1.6
May	5,755	11,519	17,274	17,120	8,048	940	27,001	5.1
June	6,135	12,243	18,378	18,305	7,669	1,025	27,854	3.2
July	6,729	12,447	19,176	18,930	7,130	1,123	29,352	5.4
August	6,798	13,321	20,119	19,920	7,854	1,620	33,544	14.3
September	7,625	15,376	23,001	22,528	10,601	3,224	38,268	14.1
October	7,341	16,012	23,353	24,100	13,416	9,037	47,072	23.0
November	7,881	17,821	25,702	26,227	15,117	11,898	66,531	41.3
December	8,405	17,975	26,380	26,119	19,388	10,326	58,153	-12.6

SOURCE: Department of the Examiner of Banks, *Banking Statistics*; monthly balance sheet of the banking institutions.

Table VIII-A2
THE MONETARY BASE BY COMPONENT, 1980-82
 (Balances in IS million)

End of period	Currency in circulation (1)	Liquid assets of banking institutions (2)	Narrow monetary base (1+2) (3)	Liquidity exemptions (4)	Recognized liquidity deficiencies (5)	Broad monetary base (3+4+5) (6)	Percent increase in broad monetary base (7)
1980	2,128	2,415	4,543	657	6	5,206	88.3
1981	4,392	5,237	9,629	1,221	62	10,912	109.6
1982	8,405	10,814	19,219	2,823	64	22,106	102.6
January	4,466	5,241	9,707	1,211	88	11,006	0.9
February	4,825	6,666	11,491	1,248	479	13,218	20.1
March	5,497	7,419	12,916	1,164	482	14,561	10.2
April	5,560	6,008	11,568	1,738	75	13,381	-8.1
May	5,755	5,346	11,101	1,739	98	12,937	-3.3
June	6,135	4,503	10,638	1,757	118	12,513	-3.3
July	6,729	6,610	13,339	2,190	103	15,632	24.9
August	6,798	9,492	16,290	2,238	91	18,619	19.1
September	7,625	7,009	14,634	2,478	84	17,196	-7.6
October	7,341	12,191	19,532	2,738	79	22,349	30.0
November	7,881	19,657	27,538	2,837	61	30,437	36.2
December	8,405	10,814	19,219	2,823	64	22,106	-27.4

SOURCE: Liquid assets of banking institutions—monthly balance sheet of the banking institutions; liquidity exemptions and recognized deficiencies—Department of the Examiner of Banks, *Banking Statistics*.

Table VIII-A3
SOURCES AND COMPONENTS OF CHANGE IN LIQUID ASSET BASE, 1982
 (IS million)

	Jan.	Feb.	Mar.	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1. Contribution of public sector to liquid assets (basic injection) ^a	1,174	1,215	2,330	1,626	4,409	4,284	1,454	6,089	5,658	281	1,749	1,858
Thereof: Government	1,006	965	2,042	1,345	4,035	3,973	1,037	5,645	5,467	-335	1,026	1,452
2. Bank of Israel injection	675	-861	3,186	1,913	23	-1,746	667	-2,359	-7,632	-908	-2,199	-9,015
Directed Israeli currency credit	1	227	-305	2,236	87	93	1,695	126	1,015	965	505	379
Directed foreign currency credit	118	-3,748	1,154	274	-58	-5,349	-1,871	-3,524	-4,545	-2,315	-1,761	-2,248
Credit to banks	0	1,955	1,905	-902	-543	2,290	-67	1,107	-1,404	-12	-997	-1,517
Other factors ^b	556	705	432	305	537	1,220	910	-68	-2,698	454	54	-5,629
3. Total exogenous injection (1+2)	1,849	354	5,516	3,539	4,432	2,538	2,121	3,730	-1,974	-627	-450	-7,157
4. Private sector sales or purchases (-) of foreign currency	-2,209	-279	-525	-5,726	-4,418	-1,064	2,210	-1,928	2,083	995	6,097	-341
5. Change in narrow liquid asset base (3+4)	-360	74	4,991	-2,187	14	1,474	4,331	2,102	-4,057	368	5,647	-7,498
6. Liquidity exemptions and recognized deficiencies	1,299	1,727	1,646	1,813	1,837	1,875	2,293	2,330	2,563	2,817	2,898	2,888
7. Change in broad liquid asset base (5+6)	939	1,801	6,637	-374	1,851	3,349	6,624	4,432	-1,494	3,185	8,545	-4,611
Change in broad monetary base	1,377	3,510	3,072	465	1,369	1,412	4,994	5,281	907	7,715	11,014	-5,574
Increase in Patam time and demand deposits	-173	-233	4,337	-23	480	2,155	2,256	-847	-2,018	-2,808	-868	-606
Bond purchases (net)	-265	-1,476	-772	-816	2	-218	-626	-2	-383	-1,722	-1,601	1,569
8. Change in liquidity deficiencies	-64	-177	-448	-120	-85	-3,749	-130	134	524	-171	-226	-92

^a The public sector injection as customarily defined, plus net proceeds from the direct sale of bonds to the public.

^b Consists mainly of the absorption or injection through the Bank of Israel's income and expense accounts (such as interest paid on liquid assets in Israeli and foreign currency, fines for liquidity deficiencies, etc.), the absorption or injection through Patam restitution deposits, and discrepancies between the balance sheets of the commercial banks and that of the Bank of Israel.

SOURCE: Bank of Israel calculations.

Table VIII-A4
ESTIMATED CONVERSION OF PATAM RESTITUTION DEPOSITS, 1980-82
 (IS million)

	Personal restitution receipts (1)	Accrued interest (2)	Currency valuation changes (3)	Total potential increase (1+2+3) (4)	Actual increase (5)	Amount converted into IS (4-5) (6)	Conversion rate (%)	
							A ^a (6/4) (7)	B ^b (6/[1+2]) (8)
1980	2,401	941	9,036	12,378	9,607	2,771	22	83
1981	4,780	2,676	16,030	23,486	17,844	5,642	24	76
1982	10,680	6,014	42,139	58,833	45,559	13,274	23	80
January	668	275	1,820	2,763	2,227	536	19	57
February	591	122	1,786	2,499	2,432	67	3	9
March	670	711	1,877	3,258	2,099	1,159	36	84
April	760	399	4,815	5,974	5,510	464	8	40
May	762	253	3,823	3,838	2,777	1,061	28	105
June	833	692	2,833	4,358	2,989	1,369	31	90
July	868	428	4,103	5,399	5,345	54	1	4
August	987	269	2,702	3,958	4,187	-229	-6	-18
September	1,170	891	2,938	4,999	4,235	764	15	37
October	1,059	595	2,622	4,276	6,234	-1,958	-46	-118
November	1,092	376	5,769	7,237	1,957	5,280	73	360
December	1,220	1,003	8,051	10,274	5,567	4,707	46	212

^a This calculation assumes that the recipients treat currency valuation changes in the same manner as restitution and interest receipts.

^b This calculation assumes that the recipients treat currency valuation changes as capital gains on the deposits.

SOURCE: Personal restitution receipts and currency valuation changes—Controller of Foreign Exchange; interest on restitution deposits—Bank of Israel balance sheet; actual increase—monthly balance sheet of the banking institutions.

Table VIII-A5
ESTIMATED INFLATION TAX ON THE MONETARY BASE AND THE CREDIT
SUBSIDY, 1976-82^a
 (IS million, at Dec. 1982 prices)

	Average monetary base (tax base) (1)	Rate of tax (%) (3/1) (2)	Gross tax ^b		Total subsidy on short- and long-term credit ^d		Gap between inflation tax and credit subsidy	
			Amount (3)	Percent of GNP ^c (4)	Amount (5)	Percent of GNP ^c (6)	Amount (3-5) (7)	Percent of GNP ^c (8)
1976	49,017	29	14,282	2.6	53,835	9.8	-39,553	-7.0
1977	55,536	30	16,605	2.8	53,217	9.0	-36,612	-5.9
1978	47,884	34	16,320	2.5	51,860	8.0	-35,540	-5.5
1979	35,359	66	23,292	3.4	77,539	11.3	-54,247	-7.8
1980	25,106	71	17,794	2.6	65,852	9.5	-48,058	-6.9
1981	21,477	50	10,767	1.4	50,912	6.6	-40,145	-5.2
1982	17,728	76	13,473	1.7	39,218	5.1	-25,745	-3.3

^a Revised data.

^b The inflation tax on the private sector monetary base is estimated on the basis of the monthly inflationary erosion of the monetary base, less interest paid on the commercial banks' liquid asset deposits with the Bank of Israel—and this on the assumption of long-term equilibrium (which does not necessarily hold at every point in time).

^c GNP at current prices.

^d The subsidy component of long-term credit is a mid-period estimate of the current disbursements on account of the subsidy. It is calculated as the average real balance of total subsidized long-term credit (nonindexed) granted by the government, multiplied by the difference between the rate of price increase plus 4 percent real interest p.a. and the weighted interest on the outstanding credit balance. The subsidy component of short-term credit is estimated by multiplying the real balance of the rediscount component of directed credit in Israeli currency by the difference between the effective average interest rate on overdraft accounts and the discount rate on directed credit in Israeli currency.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table VIII-A6
RATES OF RETURN ON FINANCIAL ASSETS AND THEIR STANDARD DEVIATIONS, 1980-82^a
 (Percentages)

	Average monthly return during the period					Monthly standard deviation in last 12 months			
	1982					1982			
	1980	1981	Total	1st half	2nd half	1980	1981	1st half	2nd half
Money supply	-7.3	-6.1	-7.3	-7.0	-7.5	1.8	1.6	1.24	1.03
Negotiable certificates of deposit ^b									
Before tax	-2.2	-0.6	-2.4	-2.2	-2.6	1.5	1.5	1.15	0.90
Less tax deducted at source ^c	-3.8	-2.3	-2.8	-2.9	-2.6	1.5	1.3	1.05	0.96
Dollar deposits									
Demand	-0.7	0.2	-0.6	0.4	-1.6	2.5	3.9	1.87	1.81
Time ^d	0.0	1.0	0.0	1.1	-1.1	2.4	3.9	1.87	1.90
Restitution time deposits (DM)	-1.4	-0.5	-0.5	-0.4	-0.6	4.2	3.7	2.40	2.20
Indexed bonds	0.9	-0.7	0.0	-0.3	0.2	4.0	2.4	2.30	2.81
Shares									
All shares	4.5	2.2	4.7	1.8	7.6	9.2	7.5	4.22	4.41
Bank shares	3.2	2.5	2.1	0.2	4.1	8.9	5.3	2.54	2.74
Nonbank shares	7.4	2.3	7.9	4.4	11.4	12.8	15.6	11.39	8.40

^a The real yield to maturity on savings schemes was 4 percent in 1982, compared with 3 percent in 1981 and 2 percent in 1980. The real yield to maturity on social insurance funds is about 4 percent; in 1982 it may have been a little higher because of the funds' return on their share holdings.

^b The return varies considerably between customers.

^c Since August 1981 the at-source tax deduction is 15 percent; in the second half of 1982 the tax was abolished on interest received by individuals.

^d Less tax deducted at source.

SOURCE: Bank of Israel calculations.

Table VIII-A7
FINANCIAL ASSETS OF THE PUBLIC, 1980-82^a
 (Balances in IS billion)

End of period	1982				Weight in total assets (%)		Percent real increase over previous period ^b				Percent real increase in annual average balance	
	1980	1981	June	Dec.	1981	1982	1982			1981	1982	
							Total	June	Dec.			
A. Liquid assets	62.3	127.7	204.0	291.2	24	18	2	-1	6	-8	4	7
1. Money	7.0	12.5	18.4	26.4	2	2	-12	-9	-2	-7	-12	-8
2. Pazak and CDs	2.5	8.2	9.5	31.8	1	2	60	68	-23	117	33	38
3. Patam deposits ^c	28.1	65.4	110.2	142.8	12	9	16	-6	12	-16	10	9
4. Bonds ^d	24.5	41.7	65.9	90.2	8	6	-16	-7	5	-11	-1	3
Thereof: In foreign currency	1.7	3.5	5.8	9.5	1	1	2	17	11	6	-5	-8
B. Bank shares	23.3	71.5	107.2	229.0	13	14	52	38	0	38	72	28
C. Total liquid assets and bank shares	85.5	199.2	311.2	520.1	37	32	16	13	4	8	20	14
D. Nonbank shares	12.9	37.3	78.6	304.6	7	19	43	253	41	151	60	154
E. Medium-term assets	59.9	135.8	209.7	336.2	25	21	12	7	3	4	7	9
1. Restitution deposits	19.6	37.5	55.5	84.1	7	5	-5	-3	-1	-2	-13	1
2. Savings schemes and linked deposits	40.3	98.3	154.2	252.1	18	16	21	11	5	6	19	13
F. Long-term assets ^e	74.0	169.9	268.0	440.9	31	28	14	12	5	7	—	—
G. Total financial assets	232.4	542.2	867.5	1,601.8	100	100	16	28	7	20	17	27
Thereof:												
1. Money and CDs	9.5	20.7	27.9	58.2	4	4	7	22	-10	35	-1	7
2. Foreign currency assets	50.0	106.4	171.5	236.4	20	15	6	-4	8	-11	-1	7
3. Linked short- and medium-term assets	63.1	136.5	210.3	331.7	25	21	7	5	3	2	9	-2

^a In this table the "public" excludes the government, Bank of Israel, commercial banks, and the rest-of-the-world sector. For lack of data no adjustment was made for the rest-of-the-world sector; i.e. financial assets of foreigners were not deducted and foreign financial assets of Israeli residents were not added.

^b Calculated from unrounded data.

^c Includes foreign residents' deposits permitted to be held by certain categories of Israeli residents.

^d Total bonds issued to noninstitutional investors, less bonds in the Bank of Israel's and commercial banks' portfolio; includes tradable bonds of the type sold to the public and held by social insurance funds and other institutional investors.

^e Includes social insurance fund assets and life insurance reserve.

SOURCE: Bank of Israel calculations.

Table VIII-A8

MAIN INDICATORS OF CREDIT GROWTH, 1980-82^a
(IS billion, at current prices)

	1980	1981	1982	Percent of activity financed by credit ^b		
				1980	1981	1982
1. Commercial bank credit, excl. oil—average balance	25.9	52.7	105.9	15.8	13.8	12.3
2. Gross long- and medium-term credit ^c	10.2	24.7	77.2	42.9	43.9	60.2
a. To households	2.9	7.9	24.2	30.1	35.3	51.3
b. To the business sector	6.9	16.2	51.8	48.8	47.8	63.9
3. Long- and medium-term credit, less repayments	5.9	15.6	52.7	3.6	4.1	6.1

^a Excludes credit to local authorities and the National Institutions.

^b Lines 1 and 3— relates to total uses (less direct defense imports); line 2 — relates to fixed investment; line 2a — relates to private dwelling investment; line 2b—relates to fixed nondwelling investment.

^c Includes credit to the public through the National Institutions which cannot be classified by economic sector.

SOURCE: Bank of Israel calculations.

Table
OUTSTANDING CREDIT TO THE PUBLIC
 (Balances in IS million,

End of period	For financing exports				
	Credit in Israeli currency (1)	Foreign currency credit, excl. diamonds (1+2) (2)	Total export credit, excl. diamonds (3)	Diamond Fund (4)	Total export credit (3+4) (5)
1980	3,369	7,649	11,018	8,634	19,653
1981	6,275	16,750	23,025	11,993	35,017
1982	14,466	33,637	48,103	18,582	66,685
January	6,227	17,740	23,967	12,309	36,276
February	6,433	18,988	25,421	12,944	38,365
March	6,002	20,500	26,502	14,213	40,715
April	8,948	21,730	30,318	14,329	44,646
May	8,935	22,184	31,120	14,660	45,780
June	9,029	22,830	31,859	15,636	47,495
July	11,236	24,360	35,596	16,374	51,970
August	11,484	25,095	36,579	16,588	53,167
September	12,715	26,300	39,015	17,225	56,240
October	14,032	28,122	41,154	17,825	59,979
November	14,540	30,262	44,802	18,546	63,348
December	14,466	33,637	48,103	18,582	66,685

^a Includes indexation increments.

^b Includes credit from Israeli bank branches abroad.

SOURCE: Monthly balance sheet and monthly liquidity report of the banking institutions.

VIII-A9

FROM THE BANKING SYSTEM, 1980-82
at current prices)

For financing domestic activities				Total credit to the public, excl. diamonds and oil		Total credit to the public
Directed Israeli currency credit (6)	Nondirected Israeli currency credit ^a (7)	Nondirected foreign currency credit ^b (8)	Total (6+7+8) (9)	Total, excl. oil (10)	(3+10) (11)	
431	9,421	18,456	28,307	19,645	30,663	47,960
435	19,619	33,607	53,661	36,582	59,607	88,678
510	67,133	71,611	139,254	103,618	151,720	205,939
441	20,104	35,359	55,904	37,706	61,674	92,181
461	23,164	36,571	60,196	40,395	65,816	98,561
474	27,814	38,489	66,777	45,511	72,013	107,492
478	28,202	39,352	68,032	46,127	76,444	112,678
509	29,121	42,044	71,674	47,941	79,060	117,454
534	33,792	45,241	79,566	53,608	85,467	127,061
542	35,416	48,522	84,480	58,394	93,990	136,450
566	40,563	53,032	94,160	66,260	102,839	147,327
597	45,609	57,212	103,418	71,392	110,407	159,658
496	45,691	59,880	106,067	74,314	116,468	166,046
522	57,428	68,515	126,464	91,292	136,094	189,812
510	67,133	71,611	139,254	103,618	151,728	205,939

Table VIII-A10
COMMERCIAL BANK CREDIT TO THE PUBLIC, 1981-82

	End-year balance (IS billion)		Percent increase over previous year						
			Dec. levels		Annual average	1981		1982	
	1981	1982	1981	1982	1982	1st half	2nd half	1st half	2nd half
Credit for financing domestic activities ^a	51.1	133.3	90	161	107	62	17	50	74
Thereof:									
Nondirected credit in Israeli currency	17.8	62.6	112	252	171	61	32	76	100
Nondirected credit in foreign currency	32.9	70.2	82	113	77	65	10	36	57
Directed export credit	35.0	66.7	78	91	86	37	30	36	40
Excl. diamonds	23.0	48.1	109	109	108	46	43	39	51
Diamond Fund	12.0	18.6	40	55	52	26	11	30	19
Credit for oil imports	17.1	35.6	97	108	85	90	4	52	37
Total bank credit, excl. diamonds and oil	57.0	145.8	95	156	114	48	31	44	77
Total bank credit, excl. oil	69.0	164.4	82	138	102	43	27	42	68
Total bank credit	86.1	200.0	85	132	98	52	22	44	61
Consumer price index			101	131	120	39	45	50	54

^a Includes linkage differentials on the linked portion of nondirected credit in Israeli currency and credit from Israeli bank offices abroad; excludes credit for oil imports; includes directed credit for financing domestic activities, which amounted to IS 500 million at the end of 1982. The definition here differs from that in other Bank of Israel publications and in Table VII-A9, in that in this table credit for financing domestic activities does not include credit to local authorities and the National Institutions, which amounted to IS 6 billion at the end of 1982 and IS 2.6 billion at the end of 1981.

SOURCE: Table VIII-A9; credit to local authorities and the National Institutions is from the report on the sectoral distribution of credit.

Table VIII-A11
COMPOSITION OF SHORT-TERM CREDIT BY TYPE, 1979-82

End of year	IS billion		Percent		
	1982	1979	1980	1981	1982
Nondirected credits, excl. oil	108.7	100	100	100	100
Overdraft facilities and excess					
drawings on overdraft accounts	33.0	22	24	27	30
Indexed Israeli currency credit	26.0	14	18	19	24
Other Israeli currency credit ^a	12.0	6	7	7	11
Foreign currency credit ^b	37.7	58	51	47	35
Total short-term credit	173.7	100	100	100	100
Nondirected	108.7	56	49	52	63
Directed	65.0	44	51	48	37

^a Nonindexed fixed-term loans in Israeli currency.

^b Includes credit from Israeli bank offices abroad.

Table VIII-A12
ANNUAL REAL COST OF CREDIT BEFORE AND AFTER TAX, 1980-82
(Percentages)

	Before tax			After maximum tax deductions ^{a, b, c}		
	1980	1981	1982	1980	1981	1982
1. Nondirected short-term bank credit						
Overdraft accounts	18	34	5	-27	-16	2
In Israeli currency, indexed ^b	7	7	7	-25	-25	3
In foreign currency	16	43	20	-31	-18	9
2. Directed credit						
In Israeli currency	-39	-28	-38	-50	-43	-18
In foreign currency	-3	18	7	-36	-22	3
3. Total short-term credit ^c						
Cost	5	17	4	-34	-24	2
Standard deviation	14.9	21.1	15.2	6.0	6.7	7.0
4. Long-term credit ^d						
For housing	-18	-14	-6			
Industrial development loans	-9	-6	-2	-18	-16	-2

^a Assuming that interest on credit is recognized as an expense for tax purposes and that the tax rate was 60 percent in 1980-81 and 54 percent in 1982; for development loans the tax is assumed to be 30 percent. Until 1981 nominal interest was recognized as an expense for tax purposes, as were linkage differentials on development loans. Beginning in 1982, following the passage of the law for taxation under inflationary conditions, only real interest may be deducted for tax purposes; i.e. nominal interest deflated by the rise in prices.

^b Assuming a 100 percent annual inflation rate during the period of the loans.

^c Weighted by the components of short-term credit (see Table VII-A11). If we assume that only half of the credit was eligible for maximum tax deductions, the posttax cost of short-term credit in 1980, 1981, and 1982 would be -14.5, -3.5, and 2 percent respectively.

^d Assuming an 80 percent average annual price rise during the period of the loans. The cost of such credit has been estimated by weighting linked and unlinked loans actually granted.

Table VIII-A13
QUARTERLY CHANGES IN INTEREST RATES ON NONDIRECTED CREDIT,
CONSUMER PRICE INDEX, AND EXCHANGE RATE, 1980-82
 (Percentage changes at annual rates)

	Average effective interest on overdraft facilities ^a	Interest on excess drawings on overdraft accounts	Interest on nondirected foreign currency credit, in dollar terms ^b	Increase in consumer price index	Change in \$/IS rate
1980					
I	171	252	36	96	89
II	159	231	32	154	106
III	179	251	29	116	100
IV	197	256	35	174	166
1981					
I	174	233	34	98	90
II	170	225	35	91	201
III	172	225	36	102	75
IV	167	221	33	116	82
1982					
I	146	220	32	109	128
II	140	213	31	141	150
III	136	213	25	158	112
IV	138	213	19	120	79

^a The basic interest rate, commitment fees, and the higher interest charged for drawings in excess of approved ceilings.

^b The basic interest rate on dollar credits granted during the quarter for a three-month period, plus the interest charged by the Bank of Israel, at annual rates.

SOURCE: Bank of Israel.

Table VIII-A14
CHANGES IN THE PRIVATE NONFINANCIAL SECTOR'S FINANCIAL WEALTH, 1980-82
 (IS billion, at current prices)

	1982				Percent real annual increase ^a		
	1981	Total	1st half	2nd half	1980	1981	1982
1. Contribution of the public sector demand surplus to asset formation	24.1	30.1	15.0	15.1	63	96	-37
2. Private sector balance of payments deficit on current account	7.1	38.2	15.4	22.8	-62	37	131
3. Flows of liabilities between the public and other sectors	9.7	62.2	17.6	44.6	-37	-34	132
a. Development and other credit from the public sector ^b	8.8	26.6	10.6	16.0	18	-15	36
b. Credit from the Bank of Israel ^c	-1.1	2.5	1.6	0.9	-24	—	—
c. Credit from domestic sources of financial intermediaries, other factors, and unidentified sources ^d	7.9	18.2	5.5	12.7	-32	118	-3
d. Net flow of liabilities from abroad ^e	-5.9	14.9	-0.1	15.0	—	—	—
4. Purchases of assets by the public (1-2+3)	26.7	54.1	17.2	36.9	14	13	-11
					Percent of financial wealth at beginning of period		
5. Revaluation of financial items in portfolio ^f	253.8	790.8	275.7	515.1	2.09	1.72	2.34
6. Total change in the public's financial assets (4+5)	280.5	844.9	292.9	552.0	2.31	1.91	2.50
7. Revaluation of the public's liabilities ^f	80.1	223.0	73.6	149.4	0.58	0.54	0.66
8. Total change in the public's liabilities (3+7)	89.8	286.1	91.2	194.9	0.78	0.61	0.85
9. Change in financial wealth of the public (6-8)	190.7	558.8	201.7	357.1	1.53	1.30	1.65

^a Deflated semiannually.

^b Includes net government credit to the private nonfinancial sector, less net long-term capital raised for local authorities and the National Institutions.

^c Directed credit in Israeli and foreign currency and discount-window lending.

^d Includes other Bank of Israel income and expense accounts, items related to security and real estate transactions between the public and financial intermediaries, and errors and omissions.

^e Calculated as the difference between the import surplus of the private sector net of unilateral transfers and the sector's net purchases of foreign currency.

^f Valuation changes during the period due to linkage and exchange rate differentials, variations in market prices of tradable assets, and changes in liabilities on account of long-term credit due to its subsidy component.

Table
ESTIMATED WEALTH OF THE PRIVATE
(IS million at current prices.)

Assets	1979	1980	1981	1982
Liquid assets^a	30,716	81,924	193,325	542,036
Money supply	3,544	7,006	12,494	25,539
Time deposits and CDs	833	2,314	6,852	29,700
Foreign currency deposits (incl. time deposits)	10,921	27,301	64,736	142,856
Tradable bonds	9,061	20,033	34,288	75,758
Shares of financial intermediaries	6,357	25,270	74,955	268,183
Medium-term financial assets^b	26,481	62,438	135,702	360,911
Earmarked deposits of the public	1,424	2,946	7,536	19,137
Savings schemes and long-term linked deposits	15,096	39,858	90,688	257,615
Patam restitution deposits	9,961	19,634	37,478	84,159
Long-term financial assets	25,845	74,026	169,863	440,900
Deposits in social insurance funds	23,938	68,931	157,703	410,100
Life insurance	1,907	5,095	12,160	30,800
Other wealth	154,263	353,861	783,420	1,838,484
Compulsory loans ^c	6,510	14,800	28,400	68,469
Physical assets ^d	147,753	339,061	755,020	1,770,015
Durables	17,302	39,646	83,243	215,263
Residential buildings	56,829	135,575	340,496	741,370
Nonresidential structures and equipment	73,622	163,840	331,281	813,382
Total assets	237,305	572,249	1,282,310	3,182,331

^a The differences between this item and the liquid assets item in Table VIII-A7 stem from the difference in the definition of "the public" and the "private nonfinancial sector" (see note a to Table VIII-A7). Time deposits and CDs consist of deposits in commercial banks and other financial institutions. Foreign currency deposits consist of demand and time deposits in the banking system, nonresident deposits of Israeli residents, Patam local residents' deposits, and importers' deposits. Tradable bonds are total bonds issued to the public less bonds held by the Bank of Israel, commercial, investment, and mortgage banks, other financial institutions required to report to the Examiner of Banks, and insurance companies; they do not include dollar-linked bonds issued by the business sector. Shares of financial intermediaries consist of shares issued by commercial banks, mortgage banks, specialized financial institutions, and insurance companies.

^b The differences between this item and the corresponding items in Table VIII-A7 stem from the inclusion here of earmarked deposits of the public, as well as savings schemes and linked

VIII-A15

NONFINANCIAL SECTOR, 1979-82

(end-of-year data)

Liabilities	1979	1980	1981	1982
Short-term liabilities^e	20,693	49,103	98,282	230,579
Nondirected credit				
Israeli currency	4,289	8,680	19,058	64,919
Foreign currency	5,269	12,996	27,492	60,542
Directed credit				
Israeli currency	1,714	3,805	6,714	14,976
Foreign currency	6,597	16,284	27,869	49,998
Credit from abroad (supplier and direct)	2,824	7,338	17,149	40,144
Medium- and long-term liabilities^f	9,128	22,118	62,765	216,559
Long-term Israeli currency credit	4,263	12,034	42,025	137,366
Long-term foreign currency credit	4,865	10,084	20,740	79,193
Total liabilities	29,821	71,221	161,047	447,138
Net wealth^g	207,484	501,028	1,121,263	2,735,193

deposits in investment and mortgage banks (in addition to the savings schemes and linked deposits in commercial banks). The data on savings schemes include the accrued value of the grant and not the full amount recorded at the time the accounts were opened.

^e Calculated by discounting the adjusted stream of repayments at a 5 percent interest rate (the interest on social insurance fund bonds). The present value of the Operation Peace for Galilee Loan is assumed to be equal to 25 percent of the adjusted value.

^d Revised data.

^e Nondirected Israeli currency credit comprises credit from the commercial banking system and short-term credit from mortgage banks (to building contractors) and insurance companies, less credit to local authorities. Nondirected foreign currency credit includes credit from the banking system in Israel, *inter alia* for oil imports. Credit from abroad is granted by overseas branches of Israeli banks, suppliers, and others (excludes credit to local authorities).

^f The subsidy component of long-term Israeli currency credit is estimated as the present value of the stream of repayments according to the actual inflation rate. In this calculation repayments are spread over six years (the estimated average period of the loans), with interest on the stock of loans weighted accordingly. The subsidy component of foreign currency credit is calculated in a similar manner.

^g Calculated as the difference between total assets and total liabilities of the private nonfinancial sector; includes the estimated subsidy component of long-term Israeli and foreign currency credit.

SOURCE: Bank of Israel calculations.

Table VIII-A16

ASSET ACQUISITION BY THE PRIVATE NONFINANCIAL SECTOR, 1980-82
(IS million, at current prices)

	1980	1981	1982	1981		1982	
				Ist half	2nd half	Ist half	2nd half
Money ^a	3,462	5,488	13,045	2,332	3,156	5,884	7,161
Time deposits and CDs ^a	852	2,453	15,096	602	1,851	227	14,869
Tradable bonds ^b	-1,182	-6,663	-9,270	-2,738	-3,925	-4,419	-4,851
Foreign currency deposits ^c	-14	491	-11,352	86	405	3,353	-14,705
Shares of financial concerns ^{b, d}	1,208	2,820	9,912	795	2,025	-1,050	10,962
Restitution deposits	-370	-861	-2,596	-806	-55	-371	-2,225
Linked and other deposits in financial institutions	611	1,856	1,372	1,214	642	795	577
Savings schemes ^e	1,888	10,969	17,093	5,459	5,510	5,002	12,091
Social insurance funds	3,674	8,584	16,590	3,583	5,001	6,468	10,122
Life insurance	636	1,477	4,220	625	852	1,278	2,942
Total asset accumulation	10,765	26,614	54,110	11,152	15,462	17,167	36,943

^a The acquisition of money is estimated as the change in the balance during the period; the acquisition of time deposits and negotiable certificates of deposit is estimated as the change in the balances, less accrued interest after tax.

^b Transactions in tradable securities in the secondary market between the private nonfinancial sector and the system of financial intermediaries, in particular social insurance funds and the commercial banking system. Because of the difference in definition, the data are not identical with those for this item in Table VIII-3.

^c Demand deposits, time deposits, and nonresidents' deposits held by Israeli residents.

^d Includes purchases of original-issue shares of the insurance, finance, and bank group, less dividends of the private nonfinancial sector.

^e Savings schemes administered by commercial banks and financial institutions.

SOURCE: Bank of Israel calculations.

Table VIII-A17

LINKED ASSETS OF THE PUBLIC IN THE BANKING SYSTEM AND ITS BOND AND SHARE HOLDINGS, 1980-82
(IS million)

End of period	Approved savings scheme deposits		Linked long-term deposits ^a	Foreign currency deposits (Patam) ^b		Tradable bonds ^c	Tradable shares ^d		Total linked assets (1+3+4+5+6+7)
	Total (1)	Principal (2)		Restitution (4)	Other (5)		Total (7)	Bank shares (8)	
1980	37,183	11,903	3,155	19,634	28,139	23,420	36,207	23,323	147,737
1981	90,464	27,498	7,885	37,478	65,377	39,145	108,762	71,507	349,111
1982	233,947	61,520	18,176	84,120	142,810	84,354	533,533	228,964	1,096,940
January	96,221	28,806	8,158	39,706	69,040	41,385	120,541	75,995	375,050
February	105,742	30,781	8,601	42,138	75,370	42,027	127,722	82,454	401,600
March	113,410	32,773	9,656	44,237	81,463	44,282	136,758	85,942	429,805
April	119,903	34,082	9,974	49,747	90,457	50,910	151,966	86,255	472,957
May	132,719	35,918	10,475	52,524	98,527	54,792	171,749	97,272	520,786
June	142,409	38,216	11,807	55,513	110,161	59,075	185,809	107,189	564,774
July	153,404	41,799	12,333	60,858	118,655	62,440	212,042	120,277	619,731
August	173,644	49,932	12,985	65,045	127,799	65,343	262,259	137,844	707,075
September	187,038	51,718	14,926	69,280	127,566	69,520	305,142	155,004	773,472
October	200,306	53,049	15,666	72,514	129,416	72,781	369,708	174,072	860,392
November	216,719	55,496	16,489	77,471	132,131	74,291	433,388	191,721	950,488
December	233,947	61,520	18,176	84,120	142,810	84,354	533,433	228,964	1,096,940

^a Includes linkage increments.

^b Includes valuation adjustments due to changes in the external value of the various currencies. The data can be translated into foreign currency terms by dividing by the relevant exchange rate. Includes nonresident deposits of local residents.

^c At market prices; excludes bonds held by the commercial banks and the Bank of Israel; includes bonds held by social insurance funds and other institutional investors.

^d At market prices; includes shares held by commercial banks.

SOURCE: Monthly balance sheet of the banking institutions and calculations of the Tel Aviv Stock Exchange and Bank of Israel.

Table VIII-A18
ESTIMATED PUBLIC SECTOR DEMAND SURPLUS, 1980-82^a
 (IS million, at current prices)

	1980	1981	1982			Percent real increase		
			Total	1st half	2nd half	1980	1981	1982
1. Net govt. borrowing from the public through bond sales and receipt of deposits ^b	5,978	18,344	26,782	11,934	14,848	-2	44	-30
2. Net govt. credit to the private sector ^c	4,919	8,817	26,538	10,568	15,970	18	-15	36
3. Net long-term financial resources raised by the public sector (1-2)	1,059	9,527	244	1,366	-1,122	-49	360	-96
4. Public sector injection ^d	4,916	17,235	34,036	15,125	18,911	103	44	-4
5. Injection generated by public sector demand surplus ^e	5,163	24,067	30,120	14,982	15,138	63	96	-37
6. Public sector contribution to financial asset formation (2+5)	10,082	32,884	56,658	25,550	31,108	38	43	-17

^a The demand surplus is defined as the difference between the public sector's domestic expenditures and its revenue from taxes. The estimate here differs from that in the national accounts (see the chapter on the public sector) owing to the inclusion of several financial items in the demand surplus as defined in the national accounts, as well as to advance payments for services.

^b Includes tradable and special bond issues and deposits with the Treasury; in contrast to Tables VIII-2 and VIII-3, does not include early redemption of Israel bonds.

^c Excludes government credit to local authorities; includes net credit received by local authorities and the National Institutions from the private sector, but not the changes in their short-term credit balances; in the second half of 1982 includes net government credit for the purchase of savings schemes.

^d The change in Bank of Israel credit to the government and government foreign currency conversions, less transfers between the government and the Bank of Israel.

^e Calculated as the sum of lines 3 and 4, less early redemption of Israel Bonds, which are included in the public sector injection (line 4) and do not constitute one of the sources of financing the demand surplus.

SOURCE: Table VIII-A19, Bank of Israel calculations.

Table VIII-A19
FINANCIAL OPERATIONS OF THE PUBLIC SECTOR AND ITS ESTIMATED DEMAND SURPLUS, 1980-82
 (IS million, at current prices)

	1980	1981	1982	1981		1982	
				1st half	2nd half	1st half	2nd half
1. Bond issues and receipt of earmarked and other deposits	10,809	28,903	55,732	10,858	18,045	23,409	32,323
2. Redemption of bonds and earmarked and other deposits	4,831	10,559	28,950	5,113	5,446	11,475	17,475
3. Net govt. borrowing from the public ^a (1-2)	5,978	18,344	26,782	5,745	12,599	11,934	14,848
4. Govt. credit to the private sector	5,726	11,522	36,387	4,947	6,575	12,450	23,937
5. Repayment of govt. credit to the private sector	1,207	2,843	10,861	1,122	1,721	2,383	8,478
6. Net govt. credit ^b (4-5)	4,519	8,679	25,526	3,825	4,854	10,067	15,459
7. Financial resources raised by the govt. (3-6)	1,459	9,665	1,256	1,920	7,745	1,867	-611
8. Long-term resources raised by the local authorities and National Institutions ^c	-400	-138	-1,012	189	-327	-501	-511
9. Total net long-term resources raised by the public sector (7+8)	1,059	9,527	244	2,109	7,418	1,366	-1,122
10. Public sector injection	4,916	17,235	34,036	4,607	12,628	15,125	18,911
11. Public sector injection generated other than through its demand surplus ^d	812	2,695	4,160	948	1,747	1,509	2,651
12. Injection generated by public sector demand surplus ^e (9+10-11)	5,163	24,067	30,120	5,768	18,299	14,982	15,138

^a Sale of tradable bonds, deposits, and nontradable bonds held against long- and medium-term savings.

^b Excludes credit to local authorities and repayments thereof; in 1982 includes IS6.3 billion of credit granted for the purchase of savings schemes and IS4.8 billion in repayments.

^c Includes long-term credit inflows and outflows between local authorities and the National Institutions and the private sector; excludes changes in the Institutions' short-term credit balances.

^d Early redemption of Israel Bonds, which is included in the public sector injection (line 10) and does not finance the government's real activity.

^e The difference between this estimate and the national accounts estimate in Chapter V is due to the inclusion of several financial items in the demand surplus as defined in the national accounts, as well as to advance payments.

SOURCE: Bank of Israel calculations.

Table VIII-A20
DOMESTIC SOURCES AND USES OF FUNDS FOR THE GOVERNMENT'S MEDIUM- AND LONG-TERM FINANCIAL
TRANSACTIONS, 1980-82^{a, b}
 (Gross flows in IS million)

	1980	1981	1982		
			Total	1st. half	2nd half
Sources					
1. Sale of government bonds	5,220	4,246	12,652	5,298	7,354
2. Financial institution deposits of earmarked security issue proceeds	4,630	21,843	42,769	17,840	24,929
3. Non earmarked deposits of commercial banks and financial institutions	959	2,814	311	271	40
4. Repayment of deposits with financial institutions ^c	836	1,993	4,654	1,654	3,000
5. Direct repayment of credit	428	1,000	2,060	830	1,230
6. Receipts o/a of the government's securities portfolio (incl. sales of shares from the portfolio)	97	100	200	90	110
7. Surplus of domestic sources (-) or uses (+)—residual	-1,347	-9,277	-2,308	-1,385	-923
Total domestic sources	10,823	22,719	60,330	24,598	35,740
Uses					
1. Redemption of government bonds	2,108	3,659	7,000	2,997	4,003
2. Repayment of financial institution deposits of earmarked security issue proceeds	2,094	5,378	18,913	7,248	11,665
3. Repayment of non earmarked deposits of commercial banks and financial institutions	394	1,391	2,394	939	1,455
4. Savings scheme grants (in place of interest) and interest compensation to pension funds	235	131	643	291	352
5. Deposits in financial institutions for granting loans ^c	3,852	8,301	22,339	8,583	13,756
6. Credit provided directly	2,701	3,989	8,799	4,420	4,379
7. Purchase of shares and bonds	69	140	250	120	130
Total domestic uses	10,823	22,719	60,338	24,598	35,740

^a This table is based on flows of funds between the government and the rest of the economy, including financial transactions between the government and the local authorities.

^b In previous years net payments on account of exchange rate and linkage insurance were included in the government's financial transactions. But since these payments are recorded as a credit subsidy, they should be treated as a fiscal rather than financial transaction. Nevertheless, the financial transactions include an unidentified subsidy component of credit granted directly by the government (other than the exchange rate and insurance facility).

^c Excludes short-term loans to commercial banks to promote the sale of savings schemes.

SOURCE: Bank of Israel estimates.

Table VIII-A21
OUTSTANDING ISRAELI CURRENCY CREDIT TO THE GOVERNMENT FROM THE BANKING SYSTEM, 1981-82
 (IS million)

	From the Bank of Israel			From banking institutions ^c			Total net Israeli currency credit to the govt. (3+7) (8)	
	Credit to the govt. ^a (1)	Govt. and National Institution deposits ^b (2)	Net Bank of Israel credit (1-2) (3)	Credit to the govt. ^d (4)	Govt. securities ^e (5)	Less: Govt. deposits ^f (6)		Net credit from banking institutions (7)
1981 December	28,746	17,045	11,701	9,972	6,973	289	16,655	28,356
1982 December	81,253	30,861	50,392	21,086	17,637	692	38,031	88,423
1982								
January	21,424	10,443	10,981	11,327	6,988	223	18,092	29,073
February	23,662	11,065	12,597	12,807	7,314	249	19,873	32,470
March	27,441	13,778	13,663	13,997	7,070	261	20,806	34,469
April	25,467	11,960	13,507	14,783	7,804	216	22,371	35,878
May	25,341	11,778	13,563	15,604	8,558	293	23,869	37,432
June	30,715	10,767	19,948	16,397	9,160	357	25,200	45,148
July	32,340	8,314	24,026	17,537	10,019	322	27,234	51,260
August	36,617	6,880	29,737	17,954	14,108	392	31,670	61,407
September	46,427	9,477	36,950	18,344	14,805	519	32,629	69,579
October	44,203	7,331	36,872	18,616	14,651	569	32,699	69,571
November	47,917	6,646	41,271	18,972	14,790	495	33,268	74,539
December	81,253	30,861	50,392	21,086	17,637	692	38,031	88,423

^a Includes the monthly debits to the government's account for Bank of Israel profits transferred to the Treasury.

^b Includes the Bank of Israel's capital and the "other accounts" item in its balance sheet.

^c Excludes linkage differentials.

^d The big increase in such credit originated in linked long-term deposits of banking institutions with the Accountant General, which for the most part were placed against dollar-linked savings schemes.

^e Excludes treasury bills and Short-Term Loan certificates held by the banks.

^f The government's Israeli currency deposits, its participation in the working capital funds, and the difference between its deposits for loan purposes and the loans actually granted.

SOURCE: Bank of Israel balance sheet and the monthly balance sheet of the banking institutions.

Table
INDICATORS OF THE BANKING INSTITUTIONS'
(IS

	Required liquidity on ordinary deposits ^a	Required liquidity on CDs ^b	Required liquidity on other items ^c	Total gross required liquidity
1980	2,865	406	499	3,771
1981	4,248	918	1,998	7,164
1982	7,068	5,373	4,399	16,840
January	4,673	923	613	6,209
February	5,553	890	730	7,174
March	6,268	974	1,973	9,216
April	4,761	1,182	940	6,884
May	4,939	1,323	953	7,215
June	5,277	1,234	1,227	7,739
July	4,641	1,519	2,487	8,648
August	5,159	1,730	4,131	11,021
September	6,177	2,409	1,220	9,805
October	6,169	4,031	1,337	11,536
November	6,398	4,844	16,303	27,545
December	7,068	5,573	4,399	16,840

^a Demand deposits and deposits against liabilities in Israeli currency.

^b Includes time deposits and such deposits withdrawn before maturity.

^c Nondirected credit, savings, directed credit, and unutilized balance of earmarked deposits.

^d Liquidity deficits represent the balance between liquid assets and the required liquidity net of liquidity exemptions. The liquid assets on which this table is based are from liquidity reports,

VIII-B1

LIQUIDITY IN ISRAELI CURRENCY, 1980-82
(million)

Required liquidity less liquidity exemptions	End-of-month liquidity surplus (+) or deficit (-) ^d	Average daily liquidity deficit	Deficit/gross required liquidity ^e (daily average, %)	Deficit/net required liquidity (daily average, %)
3,107	-1,159	-473	-14.4	-18.2
5,881	-1,500	310	5.4	7.0
13,954	-3,053	1,265	8.0	9.8
4,910	-550	265	4.2	5.3
5,447	-422	114	1.8	2.2
7,570	-1,466	-271	-3.8	-5.0
5,071	314	585	8.6	11.7
5,378	40	564	7.8	10.4
5,864	-1,617	-823	-10.7	-14.2
6,355	509	-720	-8.6	-11.6
8,692	1,188	1,081	12.3	16.6
7,243	54	-671	-5.8	-7.4
8,719	3,483	171	1.5	2.0
24,647	-4,395	2,395	18.5	23.6
13,954	-3,053	1,265	8.0	9.8

and include certain adjustments which do not appear in the liquid assets data from the banking institutions' monthly balance sheet, which are presented in Table VIII-A2.

^e Gross required liquidity before deduction of liquidity exemptions and recognized liquidity deficiencies; the net required liquidity is after subtraction of these items.

SOURCE: Monthly liquidity report of the banking institutions and Department of the Examiner of Banks, *Banking Statistics*.

Table VIII-B2
MAIN SECURITY MARKET INDICATORS, 1980-82
 (IS billion)

	1980	1981	1982		
			Total	1st half	2nd half
1. New issues ^a	9.7	17.8	24.3	3.7	20.6
Bank shares (%)	70	65	41	14	46
Other shares (%)	30	35	49	86	54
2. Market value, end of year ^a	169.8	251.2	533.5	286.8	533.5
Bank shares (%)	64	66	43	58	43
Other shares (%)	36	34	57	42	57
3. Stock exchange trade on and off the floor ^a	215.3	415.5	553.8	251.4	302.4
Bank shares (%)	72	64	38	48	30
Other shares (%)	28	36	62	52	70
4. Annual rate of turnover ^b	2.00	3.04	1.75	1.94	1.58
Bank shares	2.01	2.77	1.25	1.54	0.96
Other shares	1.99	3.64	2.36	2.50	2.22
5. Overall real rate of return (%)	62.9	25.3	71.0	10.7	54.5
Bank shares	40.6	32.5	28.3	1.1	26.9
Other shares	117.7	14.3	140.2	27.2	88.8

^a At December 1982 prices; new issues and trading volume have been deflated monthly.

^b The ratio between the monthly volume of stock exchange trade on and off the floor and the average monthly market value of the stock of securities.

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table VIII-B3
MAIN BOND MARKET INDICATORS, 1980-82
 (IS billion)

	1980	1981	1982		
			Total	1st half	2nd half
1. Market value of listed bonds (end of period) ^a	162.9	148.8	152.4	153.2	152.4
Thereof:					
Held by the public (%)	66.5	58.8	54.6	56.3	54.6
Held by commercial banks (%)	27.0	31.5	36.1	32.2	36.1
2. Stock Exchange bond trade (at current prices)	3.7	11.0	40.8	16.0	24.8
Bank of Israel intervention (%) ^b	9.5	37.6	73.3	70.7	75.0
3. Net issue of tradable bonds ^a	8.4	-9.8	0.9	-2.6	3.5
4. Annual rate of turnover ^c	0.17	0.23	0.40	0.39	0.41
5. Overall real rate of return on indexed bonds (%)	10.4	-8.2	-0.3	1.4	-1.7

^a At December 1982 prices. Item (3) was deflated monthly.

^b The ratio between the sum of the Bank of Israel's purchases and sales of bonds in the secondary market and total Stock Exchange trade in bonds. The figure here differs from that in Table IX-A1.

^c The ratio between total Stock Exchange trade in bonds and the market value of the total stock of bonds. The figure for 1980 is an end-year average; for 1981 and 1982 the figure is a monthly average over the year.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table VIII-B4
MARKET VALUE OF SECURITIES LISTED FOR TRADING ON THE TEL AVIV STOCK EXCHANGE, 1980-82
 (IS billion)

	Market value			Weight in total listed securities at market value			Percent real increase in market value		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
A. Bonds									
1. Linked to and traded in foreign currency	2.37	5.36	16.00	3.4	3.1	2.3	-14.5	12.2	28.9
2. Index-linked issued to the public ^b	29.78	55.06	128.04	42.1	31.9	18.7	17.3	-8.24	0.4
3. Double-option (linked to the index or dollar)	1.9	3.3	7.33	2.7	1.9	1.1	-16.5	-13.8	-4.1
4. Estimated bonds not yet listed for trade ^c	0.44	0.03	0.90	0.6	0.0	0.1			
5. Total bonds	34.49	63.75	152.27	48.8	36.9	22.2	15.6	-8.3	-3.2
B. Shares and convertible securities									
6. Traded in Israeli currency	35.85	108.26	531.51	50.7	62.8	77.5	94.8	94.9	112.1
7. Traded in foreign currency	0.35	0.54	0.02	0.5	0.3	0.3	-24.9	-23.4	-61.6
8. Total shares and convertible securities	36.2	108.80	533.53	51.2	63.1	77.8	91.8	49.2	111.8
C. Total securities	70.69	172.55	685.80	100.0	100.0	100.0	45.1	21.1	71.7

^a Excludes securities not intended to be listed for trade, such as certain institutional bonds.

^b Excludes bonds issued to institutional investors; includes option-type loans (linked and unlinked).

^c The market value, calculated as the face value plus accrued linkage differentials and interest.

SOURCE: Tel Aviv Stock Exchange and Bank of Israel.

Table VIII-B5
SECURITIES HELD BY THE PUBLIC, 1980-82

End of year	Market value (IS billion)			Percentage distribution			Percent real annual increase in market value		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
Bonds									
1. Total tradable bonds	34.49	63.75	152.27	100.00	100.00	100.00	15.5	-8.3	2.7
2. Bonds held by commercial banks	7.76	15.85	48.40	22.50	24.86	31.79	14.8	1.3	31.9
3. Bonds held by Bank of Israel	2.27	6.18	13.66	6.58	9.69	8.97	-13.8	35.0	-4.5
4. Estimated holdings of the public ^a (1-2-3)	24.46	41.72	90.21	70.92	65.45	59.24	19.5	-15.4	-6.6
Shares and convertible securities									
5. Total shares and convertible securities	36.20	108.80	533.53	100.00	100.00	100.00	91.7	49.1	111.9
6. Shares and convertible securities held by banks	1.30	2.98	9.00	3.59	2.74	1.69	32.8	13.7	30.5
7. Estimated holdings of the public ^b (5-6)	34.90	105.82	524.53	96.41	97.26	98.31	94.9	50.4	114.2
Total securities held by the public	59.36	147.54	614.74	83.97	85.51	89.64	54.7	23.3	80.0

^a This estimate is biased upward since some institutional investors hold bonds of the type issued to the public; includes investment through mutual funds.

^b Includes shares held by institutional investors.

SOURCE: Tel Aviv Stock Exchange and Bank of Israel.

Table
STOCK EXCHANGE

Year	Bonds				
	Total	Linked to consumer price index		Linked to exchange rate or traded in foreign currency	Double-option
		Short-term	Medium- and long-term		
					IS
1979	1,887	270	1,470	49	98
1980	3,655	194	3,243	121	97
1981	10,619	49	10,157	267	146
1982	40,723	7,052	30,329	2,220	1,122
					Percent annual
1980	93.7	-28.1	120.6	146.9	-1.0
1981	190.5	-74.7	213.2	120.7	50.5
1982	283.5	14,291.8	198.6	731.5	668.5
					Weight in total Stock
1979	43.8	6.3	34.1	1.1	2.3
1980	21.6	1.1	19.2	0.7	0.6
1981	18.1	0.0	17.3	0.5	0.3
1982	20.1	3.5	15.0	1.1	0.6

^a According to reports of Stock Exchange members.

SOURCE: Tel Aviv Stock Exchange.

VIII-B6

TURNOVER, 1979-82

Shares and convertible securities			Total shares and convertible securities traded on and off the floor ^a	
Total shares	Commercial banks	Total securities	Total	Commercial banks
million				
2,419	1,390	4,306	7,644	5,316
13,092	7,260	16,747	33,590	24,433
48,000	29,229	58,619	134,087	85,958
161,602	62,162	202,325	405,092	172,053
increase				
441.2	422.3	288.9	339.4	321.9
266.6	302.6	250.0	299.2	283.2
236.6	112.7	245.2	202.1	100.2
Exchange turnover (%)			Stock Exchange trade as a percent of total trade	
56.2	32.3	100.0	31.6	26.1
78.2	43.4	100.0	39.0	32.4
81.9	49.9	100.0	35.8	34.0
79.9	30.7	100.0	39.9	36.1

Table VIII-B7
SECURITY ISSUES AND ESTIMATED NET BORROWING FROM THE PUBLIC, 1979-82
 (IS million, at current prices)

	Net borrowing through bonds								
	From the public ^a				Savings schemes (5)	Provident and pension funds and insurance companies (6)	Total net borrowing through bonds (4+5+6) (7)	Shares and convertible securities ^c (8)	Total net borrowing (9)
	Amount issued (1)	Amount redeemed (2)	Open-market operations ^b (3)	Net borrowing (1-2-3) (4)					
1979	1,573	1,456	281	-164	290	1,624	1,750	204	1,954
1980	3,399	2,182	-264	1,481	323	4,161	5,965	1,432	7,397
1981	1,625	3,430	1,539	-3,344	7,186	8,348	12,190	5,884	18,074
1982	5,209	5,301	-1,973	1,881	4,101	15,247	21,229	21,264	42,493
January	310	131	-41	220	1,517	1,125	2,862	422	3,284
February	98	199	302	-403	1,185	90	872	150	1,022
March	348	391	1,488	-1,531	969	1,719	1,157	1,753	1,730
April	140	747	22	-629	-35	58	-606	27	-579
May	572	320	-278	530	-111	1,240	1,659	82	1,741
June	1,077	378	95	554	-210	1,024	1,368	749	2,117
July	908	363	-104	669	1,035	1,758	3,442	934	4,376
August	354	389	-1,469	1,434	1,214	1,767	4,415	658	5,073
September	298	460	606	-768	251	1,640	1,123	2,225	3,348
October	241	392	897	-1,048	22	-103	-1,169	791	-378
November	473	637	769	-933	41	1,572	680	3,173	3,853
December	440	894	-4,260	3,806	-1,777	3,397	5,426	11,480	16,906

^a Includes bonds purchased through mutual funds.

^b Net purchases (+) by the Bank of Israel on and off the floor.

^c Where shares were issued by both the parent company and its subsidiary, only the parent company's issue is included.

SOURCE: State Loans Administration.

Table VIII-B8
MARKET VALUE OF EXISTING SHARES BY ISSUING GROUP AND NEW ISSUES OF SHARES
AND CONVERTIBLE SECURITIES, 1979-82^a
 (IS million)

	Market value of listed shares and convertible securities			Weight of group in total new issues of shares and convertible securities against cash (%) ^b					Weight of new issues in total market value of group's shares at beginning of year (%)
	Weight of group in total market value, end-1982		Percent real increase in market value of shares in 1982	1982					
	IS million	%		1979	1980	1981	1982		
			%				IS million		
Commercial banks and bank holding companies	228,964	43.0	38.0	63.1	70.3	64.7	45.1	9,645	6.0
Mortgage banks	20,308	3.8	156.3	0.0	4.6	1.2	2.6	564	9.5
Specialized financial institutions	4,629	0.8	103.7	2.0	1.6	1.7	0.6	131	7.0
Insurance companies	21,004	3.9	430.8	5.6	5.7	1.7	4.9	1,056	33.7
Total financial sector	274,905	51.5	53.0	70.7	82.2	69.3	53.2	11,396	6.8
Commerce and services	25,418	4.8	387.1	2.3	2.6	0.5	4.1	881	23.1
Land, building, development, and citrus ^c	61,200	11.5	463.7	5.3	7.2	6.8	11.3	2,419	28.7
Industry	91,250	17.1	203.5	15.4	3.6	10.7	18.5	3,948	15.3
Investment and holding companies	80,758	15.1	211.6	6.3	4.4	12.7	12.9	2,744	12.1
Total	533,531	100.0	112.0	100.0	100.0	100.0	100.0	21,388	9.6

^a Excludes stock dividends, conversion of convertible bonds, issues not against cash, and existing shares listed for trade on the Stock Exchange.

^b In 1981 and 1982 issues to the public do not include convertible bonds and the exercise of options.

^c Includes oil exploration companies.

SOURCE: Tel Aviv Stock Exchange and Bank of Israel.

Table VIII-B9
OVERALL RATE OF RETURN INDEX FOR LISTED ORDINARY AND PREFERRED SHARES, 1979-82
 (December 1981=100)

End of period	General Stock Exchange index	Finance and insurance						Industry	Commerce and services	Land, building, develop- ment
		Total	Com- mercial banks	Insurance companies	Mortgage banks	Specialized financial institutions	Investment companies			
1979	10.4	11.3	11.4	12.2	10.9	16.0	12.9	5.8	6.1	6.0
1980	39.4	38.2	37.3	55.1	49.1	47.7	50.4	44.2	30.1	38.6
1982	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
1982										
I	125.0	120.3	120.4	140.3	110.9	101.9	130.0	137.8	145.8	133.5
II	166.6	154.2	153.5	205.7	139.2	150.3	180.0	189.2	279.3	203.8
II	259.4	222.3	218.2	333.4	234.8	240.0	345.3	291.7	468.3	417.3
IV	395.5	322.1	299.4	646.9	538.5	494.2	595.6	442.9	636.8	771.2
Real change in 1982 (%)										
December levels	70.9	39.2	29.4	179.5	132.7	111.7	157.4	91.2	175.2	233.2
Annual average ^a	43.6	20.1	19.7	105.7	42.5	19.4	77.1	79.2	171.7	125.7

^a Deflated monthly by the consumer price index.

SOURCE: Central Bureau of Statistics.

Table VIII-B10
MONTHLY REAL OVERALL RATE OF RETURN ON VARIOUS FINANCIAL ASSETS, 1979-82
(Index: December 1981=100)

	Linked bonds			Shares and convertible securities		Foreign currency deposits ^a		Mutual funds
	Total	Linked to consumer price index	Linked to exchange rate or traded in foreign currency	Total	Commercial banks	German mark	Dollar	
1980	100.6	98.7	98.7	49.0	53.7	131.8	90.0	82.7
1981	107.3	109.0	90.1	79.8	75.5	108.8	88.8	96.2
1982	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
January	99.6	99.5	100.9	104.2	99.3	98.5	101.0	99.8
February	101.4	103.6	104.5	102.5	98.7	98.0	104.2	99.7
March	98.6	100.7	105.7	102.6	98.2	95.4	103.1	99.4
April	99.9	102.0	105.4	107.5	95.6	96.7	102.2	100.7
May	102.2	104.4	108.2	112.6	99.9	97.8	102.7	105.0
June	101.2	101.4	112.3	110.7	101.1	96.1	106.8	106.8
July	100.7	99.5	110.3	114.2	103.9	95.8	105.6	104.8
August	102.7	102.3	107.6	129.6	110.1	92.9	105.2	112.1
September	99.1	98.6	105.0	136.3	113.9	90.1	103.8	114.7
October	98.4	98.0	102.1	148.3	117.9	87.3	101.4	120.9
November	96.4	95.8	102.2	159.7	122.0	90.8	101.2	129.1
December	100.1	99.7	103.8	171.1	128.4	91.4	99.9	145.7
	Real overall rate of return—percent							
Jan.-June	2.2	1.4	12.3	10.7	1.1	- 3.9	6.8	6.8
July-Dec.	-2.0	-1.7	-7.7	54.5	26.9	-4.9	-6.5	36.5
Jan.-Dec.	0.1	-0.3	3.8	71.7	28.4	-8.6	-0.1	45.7

^a Includes interest for a three-month period on Patam deposits, net of at-source tax deduction of 35 percent.

SOURCE: Central Bureau of Statistics; foreign currency and mutual funds—Bank of Israel.

Table VIII-B11
AVERAGE REAL NET YIELD TO MATURITY OF INDEXED BONDS, MONTHLY, 1982^a
 (Percentages)

Percent indexation	100	80	100
Years to maturity	3-3½	7-7½	10
1981			
1st half (monthly average)	0.8	1.3	1.9
2nd half (monthly average)	1.0	1.5	2.1
1982			
January	1.3	1.7	2.1
February	2.1	1.8	2.1
March	2.0	1.8	2.0
April	1.7	1.6	1.9
May	1.4	1.3	1.8
June	1.2	1.5	1.9
July	0.8	1.6	1.8
August	1.5	1.7	1.9
September	1.3	1.2	1.5
October	2.2	1.8	1.7
November	2.5	1.9	1.8
December	2.5	2.0	2.0

^a The yields shown in this table are averages of end-of-week data for government bonds. The yields were calculated according to the actual price index, with an adjustment made for the loss of one monthly indexation increment on redemption. The rate of inflation at maturity is assumed to be the same for all bonds, and is equal to that which prevailed during the second half of 1982.

SOURCE: Bank of Israel calculations.

Table VIII-B12
BANK OF ISRAEL OPERATIONS ON THE STOCK EXCHANGE, 1979-82
 (IS million)

	1979	1980	1981	1982		Total
				Jan.- June	July- Dec.	
Net purchases in the secondary market ^a	161	-232	-1,145	139	-4,767	-4,628
Total trade in bonds Bank of Israel	610	348	3,995	11,284	18,594	29,878
intervention (%) ^b	32.7	9.5	37.6	70.7	75.0	73.3

^a Does not include off-the-floor transactions. Net purchases in Table VIII-B7 include redemptions and purchases of newly issued bonds for the Bank of Israel's portfolio, and so they differ from the data presented here.

^b The Bank of Israel's weight in total trade indicates its intervention in the market. It is calculated by summing its purchases and sales and dividing by the total volume of Stock Exchange trade. The data are biased upward, since they do not include off-the-floor transactions.

SOURCE: State Loans Administration.

Table VIII-B13
MUTUAL FUND OPERATIONS, 1979-82

	1979	1980	1981	1982	
				1st half	2nd half
1. Mutual fund assets at end of period (IS billion, at December 1982 prices)	46.8	63.6	52.8	55.7	99.2
2. Ratio of net issues to total mutual fund assets at beginning of period (%)	-10.7	20.8	-0.9	2.5	45.1
3. Mutual fund assets as a percent of tradable assets ^a	15.6	16.7	11.8	11.0	13.9
Bonds denominated in Israeli currency	37.9	39.9	37.0	34.8	40.9
Foreign currency assets (incl. securities)	6.5	6.5	4.2	6.2	6.1
Shares denominated in Israeli currency	6.7	8.6	6.2	6.1	11.4
4. Composition of mutual funds' portfolio at end of period (%) ^b	100.0	100.0	100.0	100.0	100.0
Bonds denominated in Israeli currency	70.0	66.6	62.0	54.2	33.3
Foreign currency assets	18.4	11.7	9.1	14.8	7.0
Shares denominated in Israeli currency	11.6	21.7	28.9	31.0	59.7

^a Tradable assets consist of bonds held by the public, foreign currency deposits, and shares and convertible securities listed on the Tel Aviv Stock Exchange.

^b Excludes cash.

SOURCE: Bank of Israel calculations.

Table VIII-B14
ASSETS PORTFOLIO OF MUTUAL FUNDS AND THEIR OVERALL RATES OF RETURN, 1982

Classification of funds by specialization ^a	Composition of assets portfolio, 31.12.1982 (%) ^b			Market value of assets. (end-year) (IS million)		Rate of return weighted by market value of funds, 1982 (%)			Standard deviation of real monthly rate of return, 1982 (%) ^c
	Indexed and option bonds	Foreign currency	Shares in Israeli currency			Jan.- June	July- Dec.	Jan.- Dec.	
				1981	1982				
Indexed securities	81.2	1.0	17.7	10,777	23,134	54.1	63.3	151.7	2.7
Foreign currency Shares	0.4	90.1	9.5	792	1,621	75.3	58.6	178.0	4.5
Dual foreign currency-indexed	4.7	1.0	94.3	1,569	39,597	82.7	185.7	421.9	44.2
Dual shares-indexed	62.5	31.1	6.4	1,519	2,418	58.2	54.9	145.1	3.0
Dual shares-foreign currency ^d	37.6	5.2	57.2	2,116	9,154	63.5	104.0	233.6	6.3
Mixed with guaranteed indexed	7.3	53.4	39.2	—	919	69.0	73.7	193.6	4.0
Mixed with guaranteed foreign currency	66.4	7.3	26.3	2,446	7,010	56.9	72.5	170.6	3.4
Mixed with guaranteed shares	3.4	76.4	20.2	140	1,127	65.8	60.2	165.6	3.2
Pure mix	14.9	5.7	79.4	858	1,401	72.7	137.6	310.3	11.4
Money market fund	36.2	26.6	37.2	1,193	5,048	65.0	94.1	220.3	6.0
Total funds	8.3	3.9	87.8	1,408	7,736	62.2	156.6	316.1	13.0
	33.3	7.0	59.7	22,817	99,163	71.7	127.3	290.2	8.9

^a A speciality fund is one which invests at least 75 percent of its assets in a particular category. A dual fund is one where the weight of the two asset categories comes to at least 80 percent and the weight of each to at least 30 percent. A mixed fund is one which invests at least 50 percent of its assets in a particular category. A money market fund is one with no spread between its bid and ask price. A pure mix refers to those funds not included in the above classification. The classification here is based on the average composition of the funds' portfolios in the last 18 months.

^b Does not add up to 100 percent because of the omission of cash and rounding.

^c The standard deviation measures the risk associated with quarterly changes in the real return on mutual fund shares in the last 18 months. The data here are not comparable with the standard deviations of the returns on other financial assets which appear in Table VIII-A6, since they were calculated here as three-month moving averages and not on a monthly basis.

^d Did not exist in 1981.

SOURCE: Bank of Israel calculations.

Table VII-B15

**SOURCES AND USES OF MEDIUM- AND LONG-TERM FUNDS OF THE CAPITAL
MARKET INTERMEDIARIES, 1980-82^a**

(Gross flows in IS million)

	1980	1981	1982		
			Total	1st half	2nd half
Sources					
1.Savings of the public	4,913	17,814	28,200	8,844	19,356
2.Loan repayments	4,038	8,313	20,298	9,932	10,366
By households	883	1,708	5,296	2,115	3,181
By business	2,387	4,971	11,835	6,252	5,583
By local authorities	768	1,634	3,167	1,565	1,602
3.Other sources	137	2,233	2,687	349	2,338
National Institutions (net)	271	55	205	27	178
Foreign sector (net)	-399	1,833	1,792	24	1,768
Bank of Israel (net)	76	-30	—	43	-43
Other	189	375	690	255	435
4.Total sources	9,088	28,360	51,185	19,125	32,060
Uses					
5.Total medium- and long-term credit	7,369	18,994	46,648	18,534	28,114
6.Net transfer of funds	-521	6,678	-3,624	-1,870	-1,754
To the government	-1,354	6,796	-2,099	-1,678	-421
To banking institutions	833	-118	-1,525	-192	-1,333
7.Net short-term uses (incl. currency and demand deposits)	1,261	1,114	3,522	1,069	2,453
8.Surplus of expenditure over income	1,161	2,473	6,488	2,360	4,128
9.Dividends and other net payments ^b	-182	-899	-1,849	-968	-881
10.Total uses	9,088	28,360	51,185	19,125	32,060

^a Defined as the system of financial intermediaries engaged primarily in the mobilization of medium- and long-term funds for investment in financial assets, such as loans, deposits, and securities. For a detailed definition see the Annual Report for 1977.

^b Mainly in connection with general insurance transactions.

SOURCE: Bank of Israel estimates.

Table VIII-B16
FLOW OF FUNDS BETWEEN THE CAPITAL MARKET INTERMEDIARIES ^a AND THE GOVERNMENT AND BANKING
INSTITUTIONS, 1980-82
 (IS million)

	Long term assets and liabilities ^b			Current long- term transactions ^c			Total surplus receipts (3+6) (7)
	Receipts o/a assets (1)	Payments o/a liabilities (2)	Surplus of receipts over payments (1-2) (3)	Receipts (4)	Payments (5)	Surplus of receipts over payments (4-5) (6)	
Government 1980	6,691	880	5,811	3,840	8,915	-5,075	736
1981	14,055	1,993	12,062	8,031	26,889	-18,858	-6,796
1982	36,520	4,654	31,866	22,346	52,111	-29,767	2,099
First half	14,584	1,741	12,843	8,583	19,748	-11,165	1,678
Second half	21,936	2,913	19,023	13,761	32,363	-18,602	421
Banking institutions ^d 1980	195	692	-497	1,266	1,586	-320	-817
1981	2,508	1,132	1,376	4,177	5,435	-1,258	118
1982	6,650	3,187	3,463	9,166	11,104	-1,938	1,525
First half	2,111	2,563	-452	3,475	2,831	644	192
Second Half	4,539	624	3,915	5,691	8,273	-2,582	1,333

^a See note to Table VIII-B15.

^b Deposits, loans, and securities (including interest and linkage increments received and paid). In the case of the government col. 1 consists mainly of repayments of past deposits by the Accountant General, and col. 2 of repayments of deposits of the Accountant General with the capital market intermediaries and Finance Ministry participation in savings scheme grants.

^c Deposits, loans, and sales and purchases of securities. Col. 4 consists mainly of sums redeposited by the government.

^d The commercial banking system, less medium- and long-term transactions included in the data on the capital market intermediaries.

SOURCE: Bank of Israel estimates.

Table VIII-B17

**LIABILITIES AND ACCUMULATION OF SOCIAL INSURANCE FUNDS AND LIFE
INSURANCE COMPANIES, 1980-82**

(IS billion)

	Liabilities to the public, at Dec. 1982 prices			Net accumu- lation	Percent real increase in accumulation ^a		
	1980	1981	1982	1982	1980	1981	1982
Social insurance funds							
Pension	120.4	135.4	142.0	2.5	6	-24	9
Provident	148.9	165.1	186.6	7.3	10	0	-29
Thereof: Financial sector	121.3	138.0	154.2	6.4	14	-3	-22
Severance pay	27.1	29.4	34.0	1.8	0	59	-25
Advanced study	9.7	14.4	25.0	3.6	26	63	24
Other funds	1.9	3.7	1.6	1.4			
Total	321.3	365.1	410.1	16.6	10	10	-13
Insurance companies							
Life insurance reserve ^b	23.8	28.2	30.8	4.2	-5	6	24
Total balance sheet of insurance companies	45.6	52.6	57.4				

^a Deflated semiannually.

^b Less reinsurance.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.

Table VIII-B18^a
FLOW OF SAVINGS IN SOCIAL INSURANCE FUNDS, 1980-82^a
 (IS million)

	1980	1981	1982	Percent real annual increase ^b		
				1980	1981	1982
Deposits						
Pension funds	1,947	4,283	9,664	11.0	1.9	3.5
Provident funds	2,886	6,659	14,059	7.2	7.4	-3.8
Financial sector	2,316	5,408	11,685	9.2	7.3	-0.8
Histadrut and companies	570	1,251	2,374	-0.1	8.1	-16.9
Severance pay funds	678	1,707	4,045	0.0	18.7	4.1
Other funds	842	2,510	7,052	29.5	40.5	22.2
Total	6,353	15,159	34,820	10.0	11.3	3.4
Payments to members and withdrawals						
Pension funds	1,245	3,184	7,181	14.0	15.6	1.5
Provident funds	742	2,094	6,792	-0.1	29.8	52.0
Financial sector	585	1,761	5,258	-0.1	38.2	44.3
Histadrut and companies	157	333	1,534	13.5	-2.1	91.9
Severance pay funds	349	566	2,270	1.7	-19.7	60.6
Other funds	342	731	1,987	35.7	5.8	18.7
Total	2,678	6,575	18,230	9.8	13.8	24.8
Net accumulation						
Pension funds	702	1,099	2,483	5.6	-24.5	9.4
Provident funds	2,144	4,565	7,267	10.4	-0.3	-29.2
Financial sector	1,731	3,647	6,427	14.5	-3.0	-22.1
Histadrut and companies	413	918	840	-0.1	12.2	-58.8
Severance pay funds	329	1,141	1,775	-0.1	59.1	-25.4
Other funds	500	1,779	5,065	25.7	63.1	23.7
Total	3,675	8,584	16,590	10.1	9.5	-13.0

^a The social insurance funds are classified according to function and not the institutional division used previously.

^b Deflated by the semiannual average change in the consumer price index.

SOURCE: Based on Central Bureau of Statistics data.

Table VIII-B19
SOURCES AND USES OF SOCIAL INSURANCE FUNDS, 1980-82
 (IS million)

Sources	1980	1981	1982	Uses	1980	1981	1982
Net savings deposits ^a	3,675	8,584	16,590	Net transfers ^b	3,086	8,137	15,459
Repayment of medium- and long-term loans	177	504	1,013	Medium- and long-term credit	335	673	851
				Net short-term credit (up to two years)	-27	835	558
				Net change in other short-term uses ^c	309	-193	198
				Surplus of expenditure over income and net purchase of real assets	149	-364	537
Total sources	3,852	9,088	17,603	Total uses	3,852	9,088	17,603

^a Net of payments to members; contributions to severance pay funds are treated as household savings.

^b Net purchase of securities from original issues and in the secondary market.

^c Includes the increase in outstanding short-term assets less the increase in short-term liabilities, as well as adjustment items.

SOURCE: Based on Central Bureau of Statistics data.

Table VIII-B20
BALANCE SHEET OF SOCIAL INSURANCE FUNDS, 1980-82^a
 (IS million)

	1980	1981	1982	Percentage distribution		
				1980	1981	1982
Assets						
Securities	65.6	149.7	390.6	95.2	94.9	95.2
Loans to members ^b	0.3	0.8	1.6	0.5	0.4	0.4
Deposits and loans to others	1.4	5.2	11.5	2.0	3.3	2.8
Fixed assets	0.7	0.5	2.3	1.1	0.4	0.6
Employer's debt	0.2	0.4	0.9	0.3	0.3	0.2
Accrued interest and indexation increments receivable and other current assets	0.7	1.1	3.2	0.9	0.7	0.8
Total assets	68.9	157.7	410.1	100.0	100.0	100.0
Liabilities						
Pension reserve	25.9	58.5	142.0	37.6	37.0	34.6
Provident and advanced study reserve	33.9	77.4	212.1	49.2	49.1	51.7
Severance pay, social benefit, and other reserves	5.9	14.6	35.6	8.6	9.3	8.7
Other reserves and undistributed profits	2.2	6.6	19.2	3.1	4.7	4.7
Current liabilities	1.0	0.6	1.2	1.5	0.4	0.3
Total liabilities	68.9	157.7	410.1	100.0	100.0	100.0

^a Linkage increments are included in the relevant balance sheet items.

^b Directly and through banks and financial institutions.

SOURCE: Central Bureau of Statistics.