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NOTE ON CURRENCY AND BANKING
IN PALESTINE AND TRANSJORDAN*

I. In Palestine:

A. Currency

Under the former Ottoman Empire, several European currencies circulated in Palestine side by side with the Turkish currency, commercial circles before the first world war of 1914-1918 actually preferring French currency (particularly the gold napoleon). At the time of the British occupation (in 1917), it was the Egyptian currency, brought in by the troops, which was considered as the country's legal currency.

It was not until 1926 that the Palestine Currency Board, consisting of representatives of the colonies, the Crown colonies, the Bank of England and the Palestine Financial Secretary, was established in London for the purpose of supervising Palestine's note circulation, supplying it with paper money and watching over Palestine's interests in currency matters.

Starting from November 1927, the Currency Board put into circulation a new currency which in 1928 became the sole legal currency. This was the Palestine pound, equivalent in value to the pound sterling and divided into 1,000 mils. The notes in current circulation in Palestine are £P $\frac{1}{2}$, 1, 5, 10, 50, 100 and 500. There are also silver coins of 50 and 100 mils and bronze and nickel coins of 5, 10 and 20 mils.

* Extracts from "LA PALESTINE" (issued by the Institut National de la Statistique et des Etudes Economiques, 1948), and "LA TRANSJORDANIE" (issued by Documentation Francaise, 21 January 1949).

The Currency Board operated in Palestine through the agency of Barclay's Bank. It was required to exchange on demand the Palestine pound for the pound sterling and vice versa. Finally, it was empowered to invest its reserves in British Government stock or gilt-edged stock. The profits thereby accruing were paid (after transfers to currency reserve) to the Palestine Government, and formed part of the State revenue.

B. Banking Machinery

1) Historical Survey

No banking system existed in Palestine prior to the end of the nineteenth century, so that the fellahin were left entirely at the mercy of the moneylenders. The first banks established in the country were foreign banks which opened branches in Palestine; towards 1900 local Jewish banks were subsequently formed for financing the Zionist settlements; and finally with the multiplication of Jewish settlements a third type of credit institution came into being: the credit co-operatives.

During the decade following the first world war, the presence of the foreign banks and credit co-operatives left little room for the development of local banks. The years of feverish economic development between 1933 and 1936, however, witnessed a veritable proliferation of small banks. In March 1936, apart from the six foreign banks and 100 credit co-operatives, a total of no fewer than seventy local banks, with an average capital and reserves of no more than £P21,227, were operating in Palestine. The Government accordingly felt the need to enact legislation to consolidate the country's banking system.

An ordinance of March 1936, (put into force the following year) made the opening of new banks subject to the issue of a licence by the High Commissioner, and provided for the establishment of a banking supervisory system whereby operative banks were required to submit a monthly balance sheet for audit as well as six-monthly returns of advances and loans granted and bills discounted. The minimum capital required for banking operations was fixed at £P50,000, at least half of which had to be fully paid up. Existing banks were given two years to conform with legal requirements.

The period between 1936 and August 1939 was marked by a fall in the number of local banks from seventy to thirty-five, but their share in the total capital held by banks increased from £P3,105,000 to £P4,580,000, or from 18% to 26%.

During the war years, the banks were faced in the initial stages with a very critical situation. The events of 1939-1940 gave rise to such a powerful movement to withdraw deposits that several banks were unable to meet the necessary legal requirements governing capital transactions and had to close down. Only five foreign banks and twenty local banks were operating at the end of October 1945. After July 1941, banks which had managed to survive 1940 experienced a tremendous increase in deposits, due to three basic factors: (1) military expenditure by the Palestine authorities; (2) the great influx of Jewish capital between 1940 and 1944 (£P38,000,000); and (3) sales of stocks, the replenishment of which was prevented by the lack of imports.

Bank deposits are very unequally distributed among depositors from the racial point of view: estimates made at the end of 1945 gave Jewish deposits at £P67,500,000, Arab deposits at £P12,500,000 and the remainder (consisting of Government deposits or deposits other than Jewish or Arab) at £P4,900,000.

2) Banking Activity

The Palestine banks' total assets (and liabilities) rose from £P24,000,000 in December 1940 to £P136,200,000 in December 1946. During the same period paid-up capital increased from £P1,691,069 to £P4,701,536 and reserve funds from £P388,166 to £P2,043,834.

The principal local Jewish banks are the Palestine Discount Bank; the Workers' Bank Ltd; Jacob, Japhet & Co; Ellern's Bank Ltd; and the Kupat-Am Bank Ltd.

The two big Arab banks are the Arab Bank and the Arab National Bank Ltd.

Lastly, the five big foreign banks are the Anglo-Palestine Bank; Barclay's Bank; the Ottoman Bank; the Holland Bank Union and the (Polish) Polska Kasa Opieki Bank.

II. In Transjordan:

A. Currency

Several currencies circulated in Transjordan under the Ottoman Empire and even during the early years of the Mandate. The Turkish gold pound (4.40 gold dollars), and the Egyptian pound circulated side by side with the French gold franc (one-twentieth of a napoleon). The last-named currency was, indeed, the one most frequently used for large-scale commercial transactions (as was also the case over a large area of the Middle East). The smaller Turkish coinage (piastres), not being linked with gold, varied in value from place to place and was used solely for small payments. During the first world war, the paper money with which Turkey was obliged to make shift failed in practice to establish itself in Transjordan in face of the population's unwillingness to accept it. After the defeat of the Ottoman Empire, the Egyptian pound (paper) was freely accepted, it being the currency in which General Allenby's army carried out its commercial transactions. It was only in 1927 that Transjordan's monetary situation was stabilised by the Mandatory Power on a new basis.

From the currency point of view, Transjordan and Palestine were considered as forming a single economic whole, and a unitary body - the Palestine Currency Board, with headquarters in London - was set up to control the currency circulation of both countries. The Board included representatives of the British colonies, the Bank of England and the Transjordan and Palestine financial administrations. It acted under the supervision and subject to the approval of the United Kingdom Secretary of State for the Colonies, whose executive agent in Palestine and Transjordan alike was Barclay's Bank. The Board invested the funds administered by it in gilt-edged stock, the profits accruing over and above the amounts put to statutory reserve being distributed between Palestine and Transjordan in proportion to the note circulation, while the mandate lasted.

Since the note circulation in Transjordan amounted during the first years of the war to some 6% of the Palestinian circulation, the profits transferred to Transjordan were in the region of £80,000. These sums constituted a voluntary contribution on the part of the Palestine Government (under the British mandate) to Transjordan's economy; they were not statutory obligations of the Currency Board.

They amounted therefore until quite recently to an indirect subsidy granted on the inspiration of the Palestine Mandatory Power and they thus helped to swell Transjordan's credit balance.

The Palestine-Transjordan monetary standard (the Palestinian pound, £P) was linked to the pound sterling at parity rate. On 22 February 1948 the United Kingdom Government announced that Palestine would no longer form part of the sterling bloc (in which she had accumulated some £100,000,000 of sterling credits, the bulk of which is now blocked in London). This step also affected Transjordan, in view of the technical impossibility of differentiating between the currency notes circulating on one or other side of the Jordan. The British Government was careful to add in its announcement that agreements were under discussion with the Government of the Kingdom of Transjordan with the object of ensuring that country's effective return to the sterling zone.

The freezing of Palestine assets does not affect Transjordan, and the establishment of a separate exchange control system has obviated any repercussions resulting from the currency measures adopted by the British against Palestine. Following the introduction of the Israeli pound (August 1948) the possibility arises that an individual currency unit may be created in the Arab part of Palestine and in Transjordan, and that that unit may ultimately be linked to the Iraqi dinar.

B. Banking Machinery

In Transjordan the credit organization is still very primitive; the limited extent of its economy and the poor prospects of industrial development continue to militate against it.

Apart from the Agricultural Bank, which is a Government concern, the various banks operating in Transjordan are branches of foreign banks - either big British banks (Barclays, Ottoman Bank), or Palestine Arab banks (Arab Bank and Agricultural Arab Bank).