

THE CAPITAL MARKET

In 1955, the value of total consumption exceeded the value of the net national product. It may therefore be stated that no saving occurred in the economy as a whole during the year; indeed, it seems there was even a certain amount of dissaving, as described in Chapter II. As against the dissaving by public authorities and private individuals, whose current expenditures were in part financed by capital imports, there was considerable saving by companies and other private persons. This chapter gives a survey of the most important types of saving on which it was possible to obtain data.

1. THE SECURITY MARKET

(a) *The Scope of the Security Market*

The scope of the security market in Israel is restricted. At the end of 1955, the securities of some thirty companies, with a nominal value of IL.30.5 millions, as well as 16 Government loans with a nominal value of IL.117.5 millions, were registered on the Tel-Aviv Stock Exchange Limited (see Table 134).

TABLE 134
NOMINAL VALUE OF SECURITIES REGISTERED ON THE TEL-AVIV STOCK EXCHANGE LIMITED,
END OF 1955

<i>Type of Securities</i>	<i>in IL. millions</i>	<i>in per cent</i>
Non-Governmental Securities	30.5	20
of which: Shares	21.0	14
Debentures	9.5	6
Government Loans	117.5	80
<i>Total</i>	148.0	100

SOURCE: *The Tel-Aviv Stock Exchange Limited.*

In addition to the market organised within the Stock Exchange, there existed a free market for securities not registered on it. These securities were generally of a speculative nature (e.g. the shares of oil companies) but also included issues registered in the names of institutions that had no intention of engaging in transactions involving such securities. The turnover in these securities is very small and they are therefore not registered on the Stock Exchange.

Most of the securities registered on the Stock Exchange are owned by private individuals and only a small part is held by institutions. The number of people owning securities registered on the Stock Exchange is estimated at a few thousand. Business on the Stock Exchange can only be transacted by its members, who numbered twenty seven at the end of 1955. Most of these were banking institutions, but there were a few other financial institutions and brokers.

The following were some of the reasons for the limited importance of the security market in Israel:

- (1) The general scope of saving in the Israel economy has been small.
- (2) A large proportion of the public is unaccustomed to invest its savings in securities.
- (3) Most securities have not proved an effective safeguard against losses from inflation in previous years.
- (4) The policy restricting the expansion of the money supply and of credit.

Wide sections of the Israel public, and especially many of the new immigrants, have always been accustomed to hoarding their savings in the form of cash, gold, jewellery or foreign currency. The inflation, which elsewhere is generally a factor encouraging investments in shares, did not have this effect in Israel as, during the years of rapidly rising prices, shareholders were not fully compensated for the fall in the value of money. Generally speaking, such full compensation was only received by owners of debentures linked to the exchange rate of foreign currency. Among these debentures, the Tavei Dollar occupy a place of particular importance. These were issued to the amount of \$25 millions, mainly in exchange for foreign securities, the ownership of which was transferred to the Government in 1950 and 1951.

Changes in security prices during the years 1951 to 1955 are compared with the rise in the general price level in Table 135.

TABLE 135

ANNUAL CHANGES IN THE AVERAGE PRICE LEVEL AND IN THE AVERAGE PRICE OF SECURITIES, 1951 TO 1955
(in per cent)

	1950—51	1951—52	1952—53	1953—54	1954—55	Total 1950 to 1955
Ordinary Shares	30.0	4.6	13.8	47.0	—4.7	116.7
Preference Shares	7.5	1.3	17.3	33.6	—2.6	66.4
Debentures linked with Foreign Currency	10.4	20.0	54.7	43.0	—7.6	170.7
Government Debentures not linked with Foreign Currency	— 1.9	— 0.1	— 0.4	1.1	0.9	— 0.4
Other Debentures not linked with Foreign Currency	—	— 4.0	— 4.8	— 1.5	— 6.0	—15.4
Consumer Price Index	7.0	53.3	28.7	12.3	5.5	150.0
General Price Index	31.0	33.6	21.1	17.9	7.2	169.0

SOURCE: *Central Bureau of Statistics. The general price index, which includes the prices of consumption goods as well as investment prices, was calculated by Dr. Gaathon.*

Although in 1951 and 1952, the rise in the price of debentures linked with the foreign currency exchange rate did not keep pace with the rise in the general price level, their rapid appreciation during 1953 and 1954 fully compensated for this. The rise in the price of debentures linked to foreign currency over the entire period from 1951 to 1955 inclusive, exceeded the rise in the consumer price index and the general

price level during these years. On the other hand, the prices of ordinary shares lagged behind the general price level. The reasons for this were to be found, *inter alia*, in the current level of dividends, which were relatively low when compared with the interest rates prevailing during the last few years, in the calculation of amortisation of plant for income tax purposes according to outdated prices; and in the relatively high income tax rates. Most of the increase in the price of shares took place in 1954. A large part of this increase was due, however, to the rise in the price of Palestine Electric Corporation shares, which were registered in pounds sterling and were exchanged during that year, at a favourable exchange rate, for shares registered in Israel pounds.

Prices of preference shares lagged considerably behind the increase in the general price level, while Government debentures not linked to foreign currency showed practically no change during the 1950 to 1955 period, and the price of non-governmental debentures fell steadily. The relatively low prices of all securities paying interest at a fixed rate were, in part, caused by the rising rate of interest.

The policy of restricting the money supply brought about a lessening in the demand for securities and increased offers of sale for both existing and new securities.

All these factors restricted the scope of the Israel security market and of stock exchange activities. Owing to the limited scope of the Stock Exchange, it has become a market of limited competition as regards certain securities, since the restricted turnover of transactions causes the solitary buyer and the lone seller involuntarily to change the market price of some securities merely by completing their transaction. All this is quite contrary to the conditions of perfect competition under which ordinary buyers and sellers have to transact their business in the developed security markets existing in other countries.

A developed Stock Exchange, presenting a large choice of securities attractive to the general public, could make an important contribution to the encouragement of saving and their channelling to the financing of productive investment. Indeed, some efforts were made during 1955 to increase the interest of the general public in the security market.

(b) *New Securities Issued during 1955*

Securities to the nominal value of IL.43.5 millions were registered on the Stock Exchange in 1955. These securities are listed in Table 136.

Only a part of the securities registered on the Stock Exchange in 1955 were issued for sale to the public during that year. On the other hand, the year witnessed the floating and sale to the public of securities not registered on the Stock Exchange. As securities cannot be registered on the Stock Exchange prior to flotation, the date of registration always follows the date of flotation, sometimes after an interval of several years.

Securities issued by companies and registered on the Stock Exchange in 1955 were all floated during that year. Of the Palestine Electric Corporation debentures,

floated to the total value of IL.10 millions, only the debentures made out to bearer were registered, the value of the latter being IL.5.4 millions. The remaining debentures, to the value of IL.4.6 millions, were inscribed upon issue in the names of various financial bodies (insurance companies, provident funds and other companies) but were not registered on the Stock Exchange.

TABLE 136
SECURITIES REGISTERED ON THE TEL-AVIV STOCK EXCHANGE LIMITED AND THEIR NOMINAL
VALUE, 1955
(in IL. thousands)

<i>Floated by</i>	<i>Type of Security</i>	<i>Amount Registered during the Year</i>	<i>Amount Floated during the Year</i>
Palestine Electric Corporation Limited	6.5 per cent Debentures (linked) 1957—1964	5,426	5,426
Palestine Electric Corporation Limited	4.5 per cent Second Preference (Registered in London)	1,512 *	1,512
<i>Ata</i> Textile Company Limited	Deferred Shares (Registered)	283	283
The Israel Investment Corporation Limited, <i>Inva</i>	8 per cent Debentures 1965 (Registered)	95	95
<i>Total Non-Governmental Securities</i>		7,316	7,316
Government of Israel	4 per cent Compulsory Loan 1956—1967 (Bearer)	20,260	—
Government of Israel	3 per cent Government Loan due 31.10.1960 (Registered)	10,000	10,000
Government of Israel	Prize-Bearing Popular Loan 1952—1977 B	5,923	1,646
<i>Total Government Loans</i>		36,183	11,646
<i>Grand Total</i>		43,499	18,962

* £300,000 reckoned at the exchange rate of £1 = IL.5.040.

SOURCE: *The Tel-Aviv Stock Exchange Limited.*

The terms of the Palestine Electric Corporation debentures floated during 1955 are particularly favourable. These debentures possess the following advantages:

- (1) They pay annual interest at the rate of 6.5 per cent.
- (2) Principal and interest are linked to the official exchange rate of the dollar or to the consumer price index, as selected by the owner.
- (3) Though the income from interest paid on the debentures is subject to the company profits tax, levied at the rate of 25 per cent, the owners are not obliged to declare this income for income tax purposes, as is the case with dividends paid on other debentures. The maximum rate of tax on the income from interest on these debentures is thus 25 per cent.
- (4) The debentures are guaranteed by the Government of Israel.

The partial data available indicate that, of the IL.5.4 millions debentures made out to bearer, IL.2 millions were purchased by investment companies and IL.3.4 millions by other investors.

TABLE 137

ESTIMATED INVESTMENT IN BEARER DEBENTURES OF THE PALESTINE ELECTRIC CORPORATION, FLOATED DURING 1955

	<i>Per cent of Number of Purchases</i>	<i>Per cent of Value of Purchases</i>
Wage and Salary Earners	42.0	21.0
Independent Earners (other than Doctors and Lawyers)	16.0	16.0
Doctors and Lawyers	15.0	11.0
Persons not active in the economy	15.0	10.0
Profession unknown	9.0	4.0
<i>Total — Private Investors</i>	<u>97.0</u>	<u>62.0</u>
Provident Funds	1.5	14.0
Other Institutions	1.0	20.0
Banks and Stockbrokers	0.5	4.0
<i>Total — Institutions</i>	<u>3.0</u>	<u>38.0</u>
<i>Grand Total</i>	<u>100.0</u>	<u>100.0</u>

SOURCE: *Calculations of the Bank of Israel.*

The entire issue of Palestine Electric Corporation debentures was, in fact, subscribed within two days. As the demand at the price of issue far exceeded supply, the banks gave priority to their regular customers, these being, in the main, companies and institutions. This may in part explain why only one third of the debentures was taken up by private investors. After the satisfactory experience with this issue, a second issue of Palestine Electric Corporation debentures, to the amount of IL.6 millions, was floated at the beginning of 1956. Similar issues of other public companies are under discussion or in active preparation at the time of writing.

Compulsory Loan certificates of 5712 (1952), to the nominal value of IL.20.3 millions, were registered on the Stock Exchange in 1955. A 3 per cent Government Loan was floated during 1955, but this is only held by banking institutions. Of the Popular Loan bonds registered during 1955 to the amount of IL.5.9 millions, only IL.1.6 millions were actually floated during the year. The total value of Government loans floated in 1955 was IL.4.5 millions (apart from the Financial Institutions Loans), but the Government also redeemed bonds to the value of IL.3.2 millions during the year. The amount absorbed by the Government from the public through the floating of securities in 1955 was thus no more than IL.1.2 millions.

(c) *Fluctuations in Prices of Securities in 1955*

As in previous years, the security market in 1955 continued to show weakness, for reasons discussed at the beginning of this chapter. The volume of transactions was limited, and the price of most securities fell during most of the year (see Table 138). Although the share market recovered during January, particularly as regards preference shares, this recovery proved temporary, and was caused by the expectation of dividend and bonus distributions by certain companies. A slight rise in security

prices occurred in April and May, apparently as a result of the re-investment through the Stock Exchange of monies freed by the redemption of Government loans. There subsequently began a steady decline in security prices, which lasted until November, when they rose again due to the renewed expectation of price increases and the unexpected rise in the value of oil shares after the discovery of oil at Heletz.

TABLE 138
INDEX OF SECURITY PRICES, 1955
(December 1954=100)

Month	Debentures linked to Exchange Rate of Foreign Currency	Debentures linked to Cost-of-Living Index	Unlinked Debentures		Preference Shares	Ordinary Shares
			Government	Non-Government		
1954 December	100.0	—	100.0	100.0	100.0	100.0
1955 January	99.0	—	101.0	99.8	107.8	101.2
February	95.1	—	101.2	99.7	105.7	99.5
March	92.9	—	101.1	98.7	101.2	96.5
April	96.8	—	100.4	98.8	104.5	101.0
May	96.3	—	101.2	98.8	105.0	100.8
June	92.5	—	100.8	98.4	106.2	97.9
July	94.2	—	100.6	97.6	105.4	96.9
August	94.7	—	99.1	96.3	102.0	93.9
September	94.4	—	99.1	95.5	102.0	92.7
October	92.4	100.0	100.1	94.6	100.9	91.1
November	98.4	103.2	100.9	95.7	102.6	94.0
December	99.1	99.9	100.8	95.7	101.9	93.8

SOURCE: *The Central Bureau of Statistics.*

2. GOVERNMENT INVESTMENT PROJECTS FINANCED FROM THE SAVINGS OF THE PUBLIC

During 1955, the Government implemented two projects designed to finance investments from monies saved by the public. These were the "Save to Build" and the "Citrus Grove through Saving" schemes.

(a) *The "Save to Build" Project*

Registration for the "Save to Build" project started in May 1955. In accordance with the conditions of this scheme, participants must deposit at the time of registration a sum varying between IL.500 and IL.1,000 (depending upon the size of the flat), and thereafter pay IL.25 a month. Should building costs increase, the price of that part of the flat which has not yet been paid for, will be raised accordingly. In this way, the value of the savings is linked to the actual building costs of the flat. These savings carry annual interest at 4 per cent. All participants whose savings have reached 25 per cent of the value of the flat at 1955 prices may take part in lottery drawings for flats. These drawings will take place annually, starting in 1957 and ending in 1961. Participants desiring to withdraw can retrieve the payments made as well as the interest due. If participation has lasted for more than three years, the money

invested is returned with the further addition of an increment representing the rise in the index of building costs for the flat concerned.

The "Save to Build" project enables the public to acquire flats at popular prices, while protecting the value of the savings and facilitating withdrawal of the money saved, should the participant so desire. A part of the monies paid in under this scheme will only be expended by the administrators of the project at a later stage. Hence, if it be assumed that these monies would have otherwise been spent by their owners, the scheme has created an additional saving — from the point of view of the economy as a whole — until the funds concerned are put to use.

Some 13,700 people registered for the "Save to Build" project during the months from May to December 1955, their payments totalling some IL.8.5 millions. These monies were deposited by participants in the Post Office Bank, which transferred a part of them to the Ministry of Labour to finance the purchase of building materials, the remainder being deposited with the Bank of Israel. At the end of 1955, the balance in the account of the "Save to Build" project with the Bank of Israel was IL.5.1 millions.

(b) The "Citrus Grove through Saving" Project

In October 1955, the Government initiated the "Citrus Grove through Saving" project. According to this scheme, participants will be able to purchase citrus groves, in plots of 10, 15 and 20 dunams, at the price of IL.600 per dunam. Participants are required to invest one half of the amount due in two payments of IL.300 to IL.700 each, supplemented by monthly payments over a period of five years. The remaining half is provided by the Government in the form of a loan for fourteen years at 6 per cent interest per annum.

The ownership of the grove is transferred to the participant upon completion of his payments, i.e. five years after registration. Interest payments on the loans received by participants also start five years after registration, repayments of the principal beginning a year later. Payments of interest and repayments of principal are increased in accordance with the rise of the exchange rate at which the Government converts incomes from the marketing of citrus abroad during the year concerned.

During the five years when payments are being made, the cost of the grove is linked to the consumer price index, but increased payments on account of the rise in the price of the grove will be demanded only for that part of the property for which payment has not yet been effected. The participant may thus avoid an increase in the price of the grove by making advance payments. Should it be established at the end of the saving period that planting and maintenance costs have risen to a lesser extent than the consumer price index, the difference will be refunded to the participant. A person giving up his rights under this scheme before the grove is transferred to him, thus receives a refund of all monies paid by him.

The "Citrus Grove through Saving" project includes 10,000 dunams of land belonging to the Development Authority, some of which was planted in 1955; the

remainder will be planted in 1956 and 1957. As planting and maintenance of the orchards were in all cases done within the framework of plans prepared by the Development Authority, their financing from the savings of the public will proportionately reduce development budget expenditure for this purpose.

The number of people registering for the "Citrus Grove through Saving" project was greater than expected. The registration was completed within a few hours and, of the 1,240 applicants, 800 were confirmed by lot. Some 50 per cent of these are officials, 25 per cent merchants and craftsmen, and the remainder members of the free professions, soldiers, policemen and workers.

The scheme only proves advantageous if the investment is fully implemented as planned. Should the participant decide to withdraw, he merely receives back his payments, without increments for rises in the index and without interest.

Up to the end of 1955, the 800 participants in the "Citrus Grove through Saving" project paid in the sum of IL. 500,000, most of which was deposited with the Bank of Israel.

3. INSTITUTIONAL SAVING

Important channels for institutional saving on a large scale are provided by the National Insurance Institute, the provident funds and insurance funds. On the other hand, the importance of life insurance companies is very limited. Savings within the framework of these institutions during 1955 are surveyed below.

(a) *The National Insurance Institute*

The National Insurance Institute was founded in April 1954. Old age insurance, the insurance of dependents, accident insurance and maternity insurance through this Institute are compulsory by law for all citizens of Israel above the age of 18, apart from some exempted categories. Pensions paid by the Institute are linked to the cost-of-living index.

The National Insurance Institute collected IL.32 millions in 1955, while pensions paid out during the same year totalled IL.7 millions. The net savings effected through the Institute were thus IL.25 millions. The monies accruing in the National Insurance Institute are transferred to the Ministry of Finance and constitute a part of the Development Budget revenue. The Ministry of Finance pays interest on the amounts invested by it and safeguards their value by a link with the consumer price index.

(b) *Provident Funds and Insurance Funds*

Some 520 provident funds exist in Israel. Their task is to collect monies which are paid out to employees in the event of their work being terminated. The incomes of the provident funds consist of payments from employers and workers, each paying at the rate of 1.5 to 3 per cent of the gross wage. In addition to the provident funds, there are four insurance funds, the function of which is to pay for holidays, to insure against sickness, accident, partial unemployment, etc. for all employees whose work is of a kind not permitting a permanent link with one employer (e.g. building and agricultural daily workers).

The membership of provident and insurance funds is estimated at 300,000. The income of these funds in 1955 was estimated at IL.50 millions while total payments made by them were assessed at about IL.18 millions. The monies accrued during 1955, which constitute the annual total of net saving through these funds, thus amounted to about IL.32 millions. However, not all this sum represents a saving from the viewpoint of the national economy, for only a part of it is kept in the form of deposits, or invested in securities and real estate. A considerable proportion of the money in provident and insurance funds has been returned to their members in the shape of loans, while a part is retained by employers owing to the continual lag in their payments.

The Income Tax Commission's willingness to recognise payments to provident funds as expenditure is conditioned on the implementation of the Commission's instructions, which stipulate that provident and insurance funds are not entitled to grant loans to employers, while loans to members may be given only for the financing of housing or the establishment of new farms. However, these instructions were repeatedly circumvented. The remaining monies of the provident funds were invested in securities, loans and other assets.

(c) *Insurance Companies*

The volume of business transacted by life insurance companies is far smaller than that of provident and insurance funds, as these companies insure only a small section of the public. One of the reasons for the failure of life insurance to attract wider circles of the public is its inability to safeguard the value of pensions. No data regarding the volume of business transacted by insurance companies during 1955 are available, but the value of premiums paid to life insurance companies during that year has been estimated at IL.6 millions, while payments made by these companies have been assessed at IL.3 millions. Net saving through life insurance companies thus totalled some IL. 3 millions.

Summarised estimates of institutional saving are shown in Table 139.

TABLE 139
ESTIMATES OF INSTITUTIONAL SAVING DURING 1955
(in IL. millions)

<i>Institution</i>	<i>Income</i>	<i>Pension Payments</i>	<i>Saving</i>
National Insurance Institute	32.0	7.0	25.0
Provident and Insurance Funds	50.0	18.0	32.0
Life Insurance Companies	6.0	3.0	3.0
<i>Total</i>	88.0	28.0	60.0

SOURCE: *Calculations of the Bank of Israel.*

4. DEPOSITS IN BANKING INSTITUTIONS

The total of time deposits in banking institutions rose by more than IL.21 millions during 1955. There was even an increase by IL.8 millions in time deposits for periods exceeding one year, as shown in Table 140.

During the year, some of the larger banks prepared special plans designed to stimulate saving. These schemes enable the public to deposit monies in savings accounts in single or monthly payments. The rate of interest paid on such deposits rises with the length of the period for which they are made. One of the schemes confers upon participants the right to receive, upon the termination of the deposit period, the loan of a sum equal to the amount saved.

TABLE 140
TIME DEPOSITS OF THE PUBLIC IN BANKING INSTITUTIONS, 1955
(in IL. millions)

<i>End of Month</i>	<i>Deposits for Periods of 3 to 12 months</i>	<i>Deposits for Periods Exceeding 12 months</i>	<i>Total</i>
1954 December	17.7	24.9	42.6
1955 March	23.1	25.8	48.9
June	26.0	29.6	55.6
September	27.7	31.9	59.6
December	30.9	32.8	63.7

SOURCE: *Bank of Israel.*

Extensive activities to encourage saving were also undertaken by the Post Office Bank. This institution has been especially active in fostering the idea of saving among young people, and enables them to save by the purchase of savings stamps in denominations of 50 pruta and upwards. The Post Office Bank paid annual interest on its savings accounts at the rate of 2.5 per cent until the end of June 1955. As from 1 July 1955, the rate of interest on these savings was raised to 3 per cent per annum. During 1955, some 12,500 savings accounts were opened in the Post Office Bank and the balance of these accounts increased by about IL.800,000.

The Government deems it desirable that saving through time deposits be encouraged. The Encouragement of Saving Law was enacted by the *Knesset* in March 1956 and provides for remission of income tax on income from saving under approved schemes. The latter include also the saving schemes of the banking institutions.