

CHAPTER XVIII

PERSONAL SAVING

1. MAIN DEVELOPMENTS IN PERSONAL SAVING

A CONSIDERABLE proportion of investments in the Israel economy is made possible by an inflow of resources from abroad, which must necessarily be regarded as temporary, since it consists largely of unrequited capital transfers. Some of these resources will be depleted in the near future, while the volume of the remainder is, in most cases, subject to circumstances over which the economy has no control. The volume of and changes in domestic private savings are therefore crucial not only for attaining a higher level of investments in the present, but also for maintaining at least the current level in the future. This is particularly true in view of the fact that the volume of savings today is very small relative to the actual volume of investment.

The total savings of the economy, as shown in the national accounts¹, represent the difference between national income and aggregate consumption. They are determined partly by the volume of Government consumption, which varies considerably in accordance with security requirements and, partly by private and public consumption, which are both appreciably affected by the scale of immigration. Private saving, on the other hand, reflects the abstention of private persons from consuming all their disposable income. This releases resources for investment.

Personal saving, as discussed in this chapter, relates to that part of private saving (including undistributed business profits) which has been invested in financial assets; it excludes, however, savings invested in physical assets.

Most personal saving in Israel seems to be done through institutional channels, the most important of which are provident, pension and insurance funds. These latter forms of saving are of a compulsory character, as the individual employee's contribution to the provident fund is not a matter of free choice; it constitutes an integral part of his general conditions of work and is automatically deducted from his pay.

Actually, from the available information, estimates can be made only for the personal savings made in institutional frameworks, and it must therefore be assumed that the figures cited below represent but a part of total existing personal savings. A not insignificant proportion of personal savings accumulated during any given period consists of cash and bank deposits. The lower average

¹ See Chapter II above.

velocity of the circulation of demand deposits during 1956, described in Chapter XV, may be considered as an indicator of somewhat larger savings in the form of bank deposits.

An estimate of total financial investments representing personal saving is shown in table XVIII-1, while the main forms in which such savings are made are analyzed in the course of this chapter². This estimate cannot be regarded as more than an indicator of the volume of personal savings, since it is impossible to determine how large a part actually constitutes new saving.

TABLE XVIII-1
Estimate of Investments in Financial Assets Representing Personal Saving, 1956
(in IL. millions)

1. New Securities Issued in 1956 ^a		37.3	
Less: Purchases of "Gmul" ^b	15.3		
Purchases of Provident funds, Pension and Insurance Funds, other than through "Gmul"	7.5		
Purchases of Banking Institutions ^c	5.5		
Purchases of Investment Companies and Other Financial Institutions	1.0		
Purchases of Insurance Companies	1.2	30.5	
Securities Purchased by Private Persons and Firms			6.8
2. Gross Annual Accumulation in Provident Funds, Pension and Insurance Funds		47.0	
Less: Loans to Members		12.0	
Net Annual Accumulation in Provident Funds, Pension and Insurance Funds			35.0
3. Accumulation of Life Insurance Companies			3.5
4. Savings Accounts in Banking Institutions			8.0
5. The "Save to Build" Scheme ^d			8.3
6. The "Citrus Groves through Saving" Scheme			0.6
<i>Total Investments in Financial Assets Representing Personal Savings</i>			62.2

^a Total issue at nominal value, exclusive of the Defence Loan.

^b This sum includes all purchases of "Gmul" to 31.3.1957. It must be presumed that most of the securities bought between 31.12.1956 and 31.3.1957 were Defence Loan bonds, which are not included in the total of new issues cited.

^c Within the framework of approved saving schemes.

^d Only part of the deposits accruing during 1956 constituted new savings. The remainder represented savings accumulated in previous years.

² Payments to the National Insurance Institute have not been dealt with in this chapter, since they are of the same nature as taxes, being tantamount to an addition to income tax for the employee and a tax on labour costs for the employer. Moreover, pensions and other benefits paid by the National Insurance Institute are similar—for the purpose of discussing personal saving—to other Government services provided for the population regardless of the ratio between the payment made and the value of the service received.

As table XVIII-1 shows, the net accumulation in provident, pension and insurance funds had a decisive weight in the capital market. The financial investment policy of these institutions underwent a structural change during 1956. Despite its present small scale in relation to the total volume of private saving and investment in the economy, this is of special importance, since it signifies the beginning of a new trend. Previously, the channelling of investments to industries and firms was subject to the decisions of the provident funds and of the central institutions of the Histadrut. But with the growing proportion of Government loans in the invested annual accumulation of funds, the Government's influence upon the direction of a considerable part of personal saving in the economy was necessarily strengthened. This development was due to the fact that, in the middle of 1955, the Government and other bodies acting with the Government's approval, began to issue loans which, bearing a purchasing power guarantee, were in themselves an attractive form of investment for financial institutions. However, the conditions on which future income tax concessions will be granted to savings accruing in provident funds and insurance companies, or to savings accounts in banks, expressly state that 65 per cent of the new savings must be invested in "approved investments" to be determined by the Treasury.

This trend must be regarded as a turning point in the development of all the main forms of saving—through the security market, provident funds, insurance companies and bank savings accounts. While previously the Government exercised a decisive influence on the structure of investment through the channelling of its own direct investments, or of investments it had sponsored, it will now also be able to affect the direction of a considerable part of the personal saving accruing in the economy. The interest paid on such savings becomes, in fact, a payment the Government is ready to make to individuals in return for their willingness to save, and there need no longer be any link between this rate of interest and the interest paid by the undertakings for the use of the capital thus raised.

2. PROVIDENT, PENSION AND INSURANCE FUNDS³

The gross accumulation in provident, pension and insurance funds during 1956⁴ amounted to an estimated IL.47.0 million, as compared with IL.37.5 million in 1955. After deducting loans to members, amounting to approximately IL.12.0 million, the net saving within the framework of these institutions totalled about IL.35.0 million during the year under review, as against nearly IL.30.0

³ This analysis is based to a great extent on an unpublished study carried out by the Falk Foundation for Economic Research in Israel, which this institution was kind enough to put at the disposal of the Bank of Israel. The estimates for the year 1954 here cited are based on the above study.

⁴ The annual increment to total assets. In institutions such as provident funds, almost all the assets consist of own capital.

million during the preceding year. The four pension and insurance funds accounted for some IL.14 million of this net saving; the remaining IL.21 million accumulated in nearly 600 provident funds.⁵

The increase in the annual accumulation resulted chiefly from the estimated 13 per cent rise of nominal wages and from a 5–6 per cent increase in the number of employees organized in provident, pension and insurance funds. The number of workers thus organized was estimated at 240,000 at the end of 1956, or about two-thirds of the wage-earners in the economy.

The total amount of money accumulated in the provident and insurance funds accrues from approximately equal contributions of workers and employers.⁶ In 1956, the value of these contributions was equivalent to about 7 per cent of total wages. Since some of this money invariably flows back to members in the form of loans, only a part can be regarded as net personal saving. During the year under review, loans accounted for about one quarter of the annual accumulation. In the case of the provident funds, the proportion of loans exceeded one-third of the annual increase of assets and seems to have been somewhat higher than in previous years. The pension and insurance funds also appear to have increased the amount of loans to their members, though in these institutions the share of loans within the total annual accumulation reached only about 10 per cent.

A considerable part of the net accumulation, after deduction of loans to members, is invested in advances to employers, chiefly in the form of deferred payment of their contributions to the funds and payment in promissory notes, often without interest charges. The granting of such direct loans to employers contravenes the conditions under which the Government grants income tax concessions to the funds. The remaining 60 per cent of the revenue accumulated during the year under review, totalling IL.28 million, was chiefly invested in various other financial assets.

The savings through provident and insurance funds represent a considerable proportion of total personal savings in Israel (though it should be recalled that, relative to the existing volume of investment, the scale of the entire private saving in the economy is very small). Moreover, since savings in this form are made by the deduction of a fixed percentage of the workers' nominal wages, they are not likely to be affected by changes in the individual's propensity to consume in response to inflationary expectations, nor are they liable to decline as a result of variations in the real disposable income caused by price or tax adjustments.

The investment policy of provident funds and insurance funds underwent a conspicuous change in 1956, though the new trend had become apparent during the second half of 1955. Previously, most of the resources of these institu-

⁵ Including the Central Pension Fund of Histadrut Employees, and the Kupat Holim Employees' Pension Fund, which in their scope are more similar to the insurance funds.

⁶ In certain funds employers pay, in addition, about 8 per cent of the wages into a Severance Pay Fund.

tions (apart from those lent to members and employers) had been invested in establishments of Hevrat Haovdim (the Workers' Society Ltd., which is the holding company of the Histadrut) or in loans floated by the national institutions. As from the middle of 1955, however, a continuously increasing part of the liquid resources was invested in linked debentures, most of which are either Government loans or loans guaranteed by the Government.

Estimates of the principal assets of the provident, pension and insurance funds, as well as of their net annual accumulations are given in table XVIII-2.

TABLE XVIII-2

*Estimate of the Principal Assets of Provident, Pension and Insurance Funds,
1954-1956
(in IL. millions)*

	1954	1955	Increase in 1955	in per cent of increase	1956	Increase in 1956	in per cent of increase
Loans to Members	18.6	26.3	7.7	20.5	37.3	11.0	23.3
Deposits and Invest- ments in "Gmul" Ltd.	15.0	28.3	13.3	35.4	41.7	13.4	28.4
Securities	7.0	10.0	3.0	8.0	17.5	7.5	15.9
Employers' Debts	18.7	24.3	5.6	14.9	32.0	7.7	16.3
Time Deposits ^a	22.6	22.5	-0.1	—	25.0	2.5	5.3
Loans to Undertakings and Institutions	2.4	3.9	1.5	4.0	31.5	5.0	10.8
Other Assets ^b	16.1	22.6	6.5	17.2			
<i>Total Assets</i>	100.4	137.9	37.5	100.0	185.0	47.1	100.0

^a Time deposits in provident funds are chiefly amounts deposited with banks for the granting of loans to various firms and institutions. In insurance funds, most of these deposits are destined for loans to members.

^b Including cash and demand deposits, and immovable as well as movable assets.

SOURCE: Calculations of the Bank of Israel.

The Structure of the Provident, Pension and Insurance Funds

Permanent workers are organized in provident funds, while the four insurance funds fulfil most of the functions of provident funds for temporary or part-time workers. Three functions are common to both types of funds:

(a) Long-term saving, intended to provide wage-earners with a financial reserve in the event of the termination of their employment, whatever the reason.

(b) The creation of a savings fund for the granting of loans to members.

(c) Life insurance for members, and sometimes also for their families.

In addition to these tasks, the insurance funds also centralize the collection of the various social benefit payments to temporary and part-time workers as stipulated by the collective wage agreements. Since there is no permanent link between these workers and any given employer, the latter is unable to carry out

this function, as is customary in the case of enterprises with a permanent staff. These social benefit payments include vacation allowances, sickness allowances, and trade union dues for which the funds also act as collectors.

In the course of time, the insurance funds have developed into financial institutions of considerable magnitude. Among small funds, which cannot or do not wish to operate independently, a tendency to merge was evident in 1956, in order to gain the advantages of centralized administration. This process implies widening the framework of the insurance funds, which originally were intended only to serve temporary and part-time workers. The same tendency has also been manifest in the merger of the relatively large provident funds of Histadrut institutions into the Central Pension Fund.

The majority of temporary workers are today organized in four insurance funds: "Mivtahim"—the Workers' Social Insurance Institute, Ltd.—has some 60,000 to 70,000 active members, most of whom are employed in industry and the services. The Insurance Fund for Building and Public Works Employees had about 37,000 active members at the end of 1956. The Insurance Fund for Agricultural Workers and the Insurance Fund for Packing Workers numbered together between 18,000 and 23,000 members. The number of active members in all four funds at the end of 1956 thus ranged between 115,000 and 130,000.⁷

The number of provident funds reached about 600 at the end of the year under review. Of these, about 400 were registered as co-operative societies, while the remainder were either registered as limited companies or not registered at all. The total number of members in all the provident funds together was estimated at 115,000 as shown in table XVIII-3.

Provident funds registered as co-operative societies are organized in audit unions, of which the largest is the "Audit Union of Provident Funds," controlling nearly 340 funds. This audit union, as well as the Audit Union of the Co-operative Centre, which controls a further 40 funds, are the bodies through which Hevrat Haovdim, the Workers Society Ltd., (i.e. the Histadrut) supervises the financial and organizational activities of most funds. This supervision is exercised by means of financial reports and by examining the application of monies accumulating in the provident funds. Moreover, the audit unions act as auditors for the funds, and all the funds' investments are subject to their prior approval. Finally, the funds, in common with all other cooperative societies, are subject to the general supervision of the Registrar of Co-operative Societies, who is an official of the Ministry of Labour.

The mutual relations between the provident funds and the employers are usually governed by explicit provisions in the collective labour agreements signed by the General Federation of Labour (the Histadrut) with various employers'

⁷ The considerable instability characterizing the employment of temporary workers and the numerous accounts held for workers no longer belonging to the funds, permit only a rough estimate of the number of active members.

organizations, or with individual employers. The amounts to be contributed to the funds by each party are stipulated in these agreements.

Most funds provide life insurance for their members, and often also for their families. This is usually done on the mutual insurance principle, i.e. the responsibility is collective and premiums are uniform, regardless of the age or state of health of the person insured.

TABLE XVIII-3
Provident Funds according to Legal Structure, Volume of Assets
and Number of Members, 1954-1956*

	1954	1955	Increase in 1955	1956	Increase in 1956
Number of Funds	580	580	—	580-600	0-20
<i>of which:</i>					
Co-operative Societies	429	425	- 4	402	-23
Volume of Assets:					
in I.L. millions	66.0	92.0	26.0	124.0	32.0
Number of Members	97,000	108,000	11,000	115,000	7,000

* Excluding pension and insurance funds.

SOURCE: Estimates of the Bank of Israel, Publications of the Ministry of Labour, and Estimates of the Falk Foundation for Economic Research in Israel.

The members' accounts in the funds are personal. According to the regulations of the audit unions, a loan to any member must not exceed the sum standing to his credit, but in practice the policy of the funds has been elastic on this point and the regulations are very often circumvented. There is also little adherence to the regulations with regard to the purposes for which loans may be granted; although only housing and auxiliary farms are recognized as legitimate purposes, no effective examination of the purposes of loans is in fact made.

The structure and operations of the insurance funds are strikingly different from those of the provident funds. The very nature of the former, which organize temporary workers, makes it impossible to maintain, as in the provident funds, a general assembly of members as the supreme and deciding body. Thus, the current management of insurance funds is in the hands of a permanent administration, and the connection between such an administration and the individual members is necessarily less intimate than in the case of the provident funds. The members of insurance funds have no direct influence upon the funds' policies or operations, except through the central institutions of the Histadrut. Hence the control of the Histadrut institutions over the insurance funds is stricter, and their influence upon their activities greater than in the case of the provident funds. This is reflected by the lower percentage of loans to members in the accumulated annual revenue. The great mobility of workers organized in the

insurance funds also makes for a much looser attachment of the individual member to the fund than in the case of the provident funds.

Investments

With the expansion of the funds and of the resources accumulated in them, many individual funds found it difficult to manage their investments so as to safeguard the real value of their members' savings against depreciation during years of inflation. In order to provide an appropriate instrument for this purpose, and on the initiative of the governing bodies of the Histadrut, which were interested in the existence of a central financial instrument for the development of the Histadrut's economic enterprises, the "Gmul" Investment Company Ltd. was established. This company acts as an investment broker for an increasing number of provident funds, and has been expanding its activities rapidly. The outstanding balance of investments in and through the "Gmul" company by the provident and insurance funds reached about IL.42 million at the end of 1956, as compared with some IL.28 million at the end of 1955. The increase in the scope of activities of "Gmul" is demonstrated by table XVIII-4.

TABLE XVIII-4
The Activities of the "Gmul" Investment Company, Ltd., 1954-1956

	1954	1955	<i>Increase in 1955</i>	1956	<i>Increase in 1956</i>
Number of Provident Funds and Pension Insurance Funds investing in and through "Gmul"	207	215	8	313	98
Own Capital and Funds, in IL. thousands	465	783	318	1,389	606
Deposits of the Funds, in IL. thousands ^a	18,700	31,812	13,112	43,046	11,234
Investments through "Gmul," in IL. thousands	19,814	32,815	13,001	51,879	19,064
Income from Interest, in IL. thousands	1,349	2,122	773	3,212	1,090
Additional Income from Interest, in IL. thousands ^b	—	—	—	272	272
Average Interest, in Per Cent	8.32	8.06		7.58	
Addition to Nominal Interest				0.65	

^a In 1956, "Gmul" invested considerably larger amounts than those deposited with it by the provident and insurance funds, and for this purpose incurred liabilities vis-a-vis other institutions. The surplus of investments over deposits represents mainly purchases of securities issued during the year under review,—among them the Defence Loan.

^b The increment is due to the linking of investments to the consumers' price index.

SOURCE: Annual Reports of the "Gmul" Investment Company, Ltd.

Nowadays, most investments of the provident and insurance funds carried out through "Gmul" are linked to the consumers' price index, to the official

exchange rate, or to the prices of the commodity produced by the borrower. The linking of loans had been practised by "Gmul" from 1951. A breakdown of these investments, by type and the proportion so linked, is given in table XVIII-5.

TABLE XVIII-5
Distribution of the Investments of "Gmul" at the End of 1956
(in IL. millions and in per cent)

	<i>Loans</i>		<i>Securities</i>		<i>Total investments^a</i>	
	<i>in IL. millions</i>	<i>in per cent</i>	<i>in IL. millions</i>	<i>in per cent</i>	<i>in IL. millions</i>	<i>in per cent</i>
Linked	21.1	65	17.8	98½	38.9	75
Unlinked	12.5	35	0.4	2	13.0	25
Total	33.6	100	18.2	100	51.9	100

^a Discrepancies due to rounding.

SOURCE: Annual Reports of the "Gmul" Investment Company, Ltd.

The investments of "Gmul" during the year under review were mostly in securities. This represents a turning point in the investment policy of the funds, the resources of which had previously been largely diverted by "Gmul" to direct loans. The new investments of "Gmul" during 1956 totalled about IL.19 million, of which approximately IL.14.5 million—or 76 per cent—represented purchases of securities. The provident, pension and insurance funds have thus become the biggest buyers on the Israel security market. In 1956, their purchases accounted for about 50 per cent of all the new securities issued.

Loans to Members

Next to financing investments, the most important use of the monies accumulated in the provident, pension and insurance funds was for loans to members. These loans totalled an estimated IL.12.0 million during the year under review, i.e. a little more than one-quarter of the new saving accrued during the year. In 1955, loans to members totalled approximately IL.7.5 million out of a total annual accumulation of some IL.37.5 million. Thus the proportion of loans increased somewhat during 1956, especially as regards the pension and insurance funds, though the absolute volume of loans granted by the latter is still smaller than that of loans granted by provident funds (see table XVIII-6).

The use of a certain proportion of the monies accumulated in provident and insurance funds for the granting of loans to members is one of the objectives for which the funds were established and, to a certain extent, the members indeed regard these loans as an institutional condition for the existence of the funds. The larger volume of loans granted during 1956 was partly due to the expecta-

tion of changes likely to be caused by the new income tax regulations for the fiscal year 1957/58, according to which the funds will not be permitted, after a certain transitional period, to utilize more than 25 per cent of their accumulated capital for the granting of loans to members. In 1956, loans to members constituted more than a third of the accumulated assets. The new regulations also stipulate the reduction of the period for which the loans are to be given and introduce certain other restrictions. In expectation of these imminent changes, the members of the funds began to exert a growing pressure for loans during the year under review. Apart from this new factor which made its appearance in 1956, loans to members have tended to increase in recent years in consequence of the declining purchasing power of the accumulated savings, which are registered in the personal accounts of the members at their nominal value, since all the assets of the funds are entered in their books at historical values. In the case of a member leaving the fund, he is therefore credited only with the nominal amount of his savings. This seems to have motivated heavy pressure by members of the provident funds for the return of the largest possible proportion of their savings in the form of loans. This pressure became particularly strong in 1956, when the public in general and, workers organized in provident funds, in particular, became more actually conscious of the depreciation of the real value of savings, as a result of the more widespread application of the linking principle to various types of financial obligations.

TABLE XVIII-6

Loans to Members of Provident Funds and Insurance Funds, 1955 and 1956
(in IL. millions)

	<i>Assets in 1954</i>	<i>Assets added in 1955</i>	<i>Increment as a per- centage of total assets</i>	<i>Assets added in 1955</i>	<i>Increment as a per- centage of total assets</i>
Annual Accumulation of Assets in Provident Funds	66.0	26.0	100.0	32.0	100.0
Loans to Members of Provident Funds ^a	18.0	8.0	30.8	11.0	34.4
Annual Accumulation of Assets in Insurance Funds	34.4	11.5	100.0	15.1	100.0
Time Deposits in Insurance Funds ^b	12.6	0.9	7.8	1.5	9.9

^a In the case of provident funds, a certain proportion of accumulated monies is also loaned out to members from time deposits. The sum appearing in their balance sheets as "Loans to Members" must therefore be regarded as understating the actual volume of loans.

^b In the case of insurance funds, time deposits serve to a decisive extent for the granting of loans to members.

SOURCE: 1954: Estimates of the Falk Foundation for Economic Research in Israel.
1955 and 1956: Estimates of the Bank of Israel.

The fact that insurance funds lend a considerably smaller proportion of their annual accumulation to their members than the provident funds (as shown in table XVIII-6) is due to the greater influence exercised on the policy of the former by the central institutions of the Histadrut. Loans granted from third-party deposits, which is the usual lending practice of the insurance funds, are similar in character and procedure to bank advances, and this also tends to limit their volume. It must likewise be taken into consideration that a larger part of the insurance funds' resources is frozen due to delays in employers' payments.

Deferred Employers' Payments and Loans to Institutions and Firms

Employers' liabilities to the provident funds totalled about 8 per cent of the total annual accumulation during 1956. In the insurance funds, this percentage exceeded 33 per cent. In the case of provident funds, the relative volume of these debts contracted somewhat as compared with 1955, when they constituted about 10 per cent of the accumulated monies. By contrast, the debts of employers to the insurance funds were considerably larger in 1956 than in 1955, when they totalled only 27 per cent of the gross annual increment. This increase may be partly due to the agreements made by the insurance funds with a number of employers, especially in the building sector, according to which they receive a certain proportion of the payments in promissory notes redeemable within one year, and often interest-free.

Since 1953, the share of employers' liabilities has tended to increase, both as regards provident funds and insurance funds. These debts have generally taken the form of deferred payment of the employers' contributions to the funds, and occasionally also of delays in the transfer of amounts deducted from wages. It seems that the above development is due to the tighter liquidity position of employers, which in turn has been caused by the restrictive credit policies of recent years.

The loans to institutions and firms (other than those with whom the lending funds are directly linked) are given mainly through the intermediary of the "Gmul" company. The proportion of loans granted directly by provident funds to institutions and undertakings is not large, though in the case of insurance funds the balance of such loans reached about IL.4 million (i.e. some 9 per cent of the accumulated assets) at the end of 1955. Data for the balance at the end of 1956 are not yet available. Most of these loans were granted to Histadrut economic enterprises and to institutions connected with the Histadrut.

Investments in Securities

A major increase in the securities portfolio occurred in 1956, following the issue of linked debentures. Most of the securities held by the funds themselves were, as already stated, purchased through the "Gmul" company. The proportion of total annual receipts invested in securities rose from 8 to about 16 per cent

during the year under review. The major part of the securities bought with the monies of provident and insurance funds is kept with the "Gmul" company, and thus appears as an investment of that company. Many of the securities concerned are registered debentures, which are not quoted on the stock exchange.

The chief factor for the increase of investments in securities during 1956 was the purchasing-power guarantees, which made this kind of investment particularly suitable for institutions accumulating long-term savings, such as the provident and insurance funds. Another fact was the relatively high rate of interest paid on linked debentures. A further expansion of investments in securities may, however, be anticipated in the future, since the new income tax regulations stipulate that income tax concessions will be granted only if not less than 65 per cent of the accumulated capital is invested in "Approved Investments," according to terms to be agreed between the banking institution in which it has been deposited and the Ministry of Finance. Securities will constitute a considerable proportion of such "Approved Investments."

Provident Funds for Independent Earners

In view of the new income tax regulations, which allow a 25 per cent tax credit on amounts not exceeding IL.700 per annum saved through provident funds, certain banking institutions decided in 1956 to introduce provident funds for independent earners. The actual establishment of these funds, which represent a new institutional form of personal saving in the country, took place in 1957.

3. OTHER FORMS OF SAVING

(a) Saving through Banks

A certain proportion of additional time deposits and demand deposits in banking institutions must be assumed to represent personal savings.

The banking institutions began to introduce saving schemes towards the end of 1955. The interest paid on deposits within the framework of these schemes was higher than that normally paid on other kinds of time deposits.

At the end of 1956, the outstanding balance of deposits within the framework of such saving schemes reached IL.11.4 million, as compared with IL.0.7 million at the end of the preceding year. However, since, under most of these saving schemes, deposits can be withdrawn upon very short notice, it is difficult to establish to what extent the increase of IL.10.7 million represents new savings, and to what extent it simply reflects the transfer of idle balances previously kept in the form of demand deposits to a form of deposit which yields higher interest. Such transfers cannot be regarded as saving out of current income, and in many cases (owing to the relative ease with which the savings deposits may be drawn upon) they do not even represent the exchange of liquid assets for other assets of lesser liquidity.

Despite these reservations, it seems that the inclusion of the banks' saving schemes within the estimate of total personal saving in the economy will not lead to an exaggerated estimate of total saving, since a part of the additional amount of cash held by the public and of other deposits also constitutes saving. The increase in time deposits during the year under review, as against 1955, is given in table XVIII-7.

TABLE XVIII-7
Time Deposits of the Public in Banking Institutions, 1955 and 1956
(in IL. millions)

	1955	1956	Change
Time Deposits	75.6	87.6	12.0
of which: Saving Schemes	0.7	11.4	10.7

SOURCE: Bank of Israel.

(b) *Life Insurance*

Saving in the form of life insurance, which is one of the major forms of institutional saving in more developed countries, remained at the low level of previous years. The main reason for the relative stagnation of life insurance in Israel is the public's disinclination towards any long-term saving in nominal terms when the purchasing power of the currency is falling. While many other kinds of financial obligations can now be linked, no such arrangements have yet been made with regard to life insurance. At the end of 1956 various projects involving the linking of life insurance to the consumers' price index or to the exchange rate of the dollar were under discussion, but none of them had been implemented prior to the end of the year.

Premiums paid during 1956 totalled IL.7.4 million, as against IL.6.1 million in 1955. After deducting the companies' payments on account of deaths, the redemption of policies, and loans against policies, the net saving amounted to about IL.3.5 million, as shown by table XVIII-8.

TABLE XVIII-8
Net Saving through Life Insurance, 1955 and 1956
(in IL. thousands)

	1955	1956
Receipts of Insurance Companies (Premiums and Loans Redeemed)	6,120	7,350
Payments (Deaths, Redemption of Policies, and Loans against Policies)	3,030	3,850
<i>Net Saving</i>	3,090	3,500

SOURCE: 1955: The Superintendent of Insurance, Ministry of Finance.
1956: Estimates of the Bank of Israel based on provisional data received from the Superintendent of Insurance.

(c) *Public Savings Projects Financed from Personal Savings*

Apart from the "Save to Build" and "Citrus Grove through Saving" projects, which had been inaugurated in 1955 and continued during the year under review, two additional saving schemes were introduced in 1956: the "Hessekh" saving project for secondary education sponsored by the Haifa Municipality, and the "Citrus Grove through Saving for Agricultural Workers" project of the Ministry of Finance.

The "Save to Build" Project

Registration for this project began in May, 1955, and continued during the year under review, 4,150 new members being registered in 1956 in addition to the 13,700 registered during 1955. The value of the saving deposits reached IL.15.4 million at the end of 1956, as compared with approximately IL.7.1 million at the end of 1955.

Current payments of members totalled about IL.8.3 million,⁸ and the saving within the framework of this project reached IL.15,418,000⁸ at the end of 1956; it must, however, be remembered that only part of the latter sum represents current saving; most of it constitutes savings from former periods.

"Hessekh"—The Saving Project for Secondary Education

During the year under review, the Haifa Municipality founded a limited company called "Hessekh," which is intended for Haifa residents who desire to ensure the continuation of their children's studies after the termination of compulsory education, by saving in advance. The Haifa Municipality undertook to participate by paying one-third of the education fees and an additional bonus of IL.10 for every child born to a participant in the scheme. According to the terms offered by the company, parents desiring to ensure secondary education for their children will make monthly payments into a saving account. The amount paid is determined in advance and varies with the age of the child registered.

The deposits will carry compound interest at a rate of 3 per cent per annum, the principal being linked to an index of education fees, to be calculated every year. Moreover, every participant can ensure the continuation of payments in the event of his death by paying an additional premium of about IL.1 per year.

Registration for this project began in February 1956, and by the end of 1956 the number of participants had reached about 4,000. The amounts collected by the end of the year totalled IL.116,000, while a further IL.2,700 were collected on account of insurance premiums for the continuation of payments in the event of the participant's death.

⁸ The amounts are not identical with the sums deposited in the Bank of Israel, since some monies were not withdrawn by the depositors, but in connection with the commencement of actual construction.

The "Citrus Grove through Savings" Project

This project, inaugurated in 1955, was continued and expanded in 1956 in the form of the "Citrus Grove through Savings for Agricultural Workers" scheme, the terms of which are similar to those of "Citrus Grove through Saving." Owing to the shortage of suitable land, the general project "Citrus Grove through Saving" was not expanded, the additional scheme being restricted to agricultural workers of small towns, with the object of providing them with an extra source of stable income.

The number of persons participating in the new scheme reached 550 at the end of 1956 and payments received totalled IL.118,000.

The scale of the original "Citrus Grove through Saving" project was not expanded during the year under review, and savings collected during 1956 amounted to about IL.500,000—i.e. a sum similar to that saved during 1955. The number of participants at the end of 1956 remained virtually unchanged and was 800. The scope of this project and collections within its framework are shown in table XVIII-9.

TABLE XVIII-9

*The "Citrus Grove through Saving" Project—Valid Commitments
and Total Collections, 1955 and 1956
(in IL.)*

Commitments and Agreements Valid at the End of 1956	5,870,000
Actual Payments:	
1955	500,000
1956	525,000
<i>Total Payments since the start of the Project</i>	<u>1,025,000</u>

SOURCE: The Commissioner of Savings, Ministry of Finance.