CHAPTER XV

PERSONAL SAVING

PRIVATE DISPOSABLE INCOME[1] amounted to IL. 2,435 million in 1957, while private consumption was estimated at IL. 2,213 million for this period. The balance, representing private saving, amounted to IL. 222 million[2] as compared with IL. 175 million in 1956. Thus, private saving represented 9.1 per cent of private disposable income in 1957 and accounted for 33.4 per cent of net domestic capital formation in that year.

As a source of capital expenditure, private savings play only a minor role compared with the more ample means available for this purpose from public capital imports. On the other hand, the low ratio of private saving to disposable incomes reflects a high propensity to consume.

The aforementioned figures represent private saving in the wider sense of the term, i.e. the saving of the economy as a whole with the exception of the public sector (the central Government, the local authorities, and the national institutions). Private savings include the savings of households and businesses (incorporated as well as unincorporated)—as distinct from personal savings, which cover only that part of *personal* income which is not spent on consumption. Personal savings are, therefore, equal to the increment of the aggregate net worth of individual earners during the year.

The data in this Chapter refer only to personal savings and, more particularly, to those deposited with savings institutions.

1. THE PROMOTION OF SAVING

Saving is the abstention from consumption. Its importance to the national economy lies in the fact that it releases resources for capital formation and economic development. In periods of inflationary pressure, saving assumes a particular importance, because it curbs the demand for consumer goods and decelerates the rise of the price level. Contractual saving, especially, reduces consumers' liquidity and thus affects future demand for consumer goods and services.

[1] National income *less* direct taxes *plus* current net transfer payments from the public sector to the private sector and personal transfer payments from abroad.

[2] See Chapter II, Resources, Product and National Income. The national accounts in that Chapter show savings as a residual of two relatively large amounts—disposable income and consumption. A relatively slight error in either of these amounts is, of course, apt to affect the estimate of savings substantially.

In 1957, the Government adopted various measures with a view to the promotion of saving and its channelling to capital formation. The Government absorbed some savings through the issue of new securities[1], and further encouraged saving through the intermediary of banking institutions and provident funds which were required to invest in Government bonds and in development loans the major part of savings so accumulated. To safeguard the purchasing power of these savings, the Government continued to link a substantial portion thereof to the dollar exchange rate or to the consumers' price index. Also, as a result of the new regulations promulgated in 1957; provident funds for self-employed were established. The introduction of "linked" life insurance was yet another innovation in the field of saving.

The main features of the official saving policy in 1957 were: (a) the granting of tax relief to savers; (b) purchasing power guarantees through the linking of some types of saving to the dollar exchange rate or to the consumers' price index; (c) the exercise of controls over the placements of some institutional investors; and (d) the introduction of sliding interest rates in certain cases.

2. The Different Forms of Personal Saving

Savings statistics in this country are as yet incomplete. In particular, it is difficult to gauge the breakdown of private savings into business and personal savings. Furthermore, no data are available on personal saving in the guise of direct —as distinct from financial—investment. Most of the information available so far refers to savings through the intermediary of financial institutions. Fragmentory though they are, these data may well indicate the order of magnitude of personal savings accumulating in financial institutions, such as banks, credit co-operative societies, provident funds, life insurance companies, etc.

In the absence of data relating to personal *dissaving*, the discussion in this chapter will be confined to those items of households which reflect *positive* savings[2]. Dissaving, or the annual increase in consumers' commitments towards the rest of the economy, includes inter alia: consumer credit granted by suppliers, bank credit to individuals for other than commercial purposes. It is evident that in the absence of these latter data, the available finances are inadequate to determine the volume of net saving.

Selected items of personal savings are listed in Table XV–1. The figures in that table represent changes in balances, mainly of personal savings accruing with financial institutions.

[1] See Chapter XVI, The Security Market.

[2] Some savings items, however, e.g. the increment of personal savings with provident funds and life insurance companies, are stated as net figures, i.e. after deduction of the increase in the outstanding amounts of advances granted by these institutions to individuals.

TABLE XV-1

Institutional Saving, Selected Items, 1957

(millions of IL.)

End of period

Institution	Balance 1957 over 1956
(1) Banking institutions	
Foreign exchange deposits[a] and foreign securities	8.2
Time deposits: foreign currency	3.3
Israel currency	4.9
Saving schemes	15.1
Housing mortgages: repayment	4.5
(2) Post Office Bank	1.0
(3) Provident funds	
Employees (provident and insurance funds), net	33.5
Self-employed	0.7
(4) Insurance companies	2.6
(5) Saving schemes outside banking institutions	
"Save to build"[b]	17.6
Others[c]	0.9
(6) New securities subscribed by individuals (net) including Government bonds allotted as premium to transferers of foreign exchange	17.9

[a] "Transfer Pamaz".
[b] Including the "Save to Build" scheme for immigrants.
[c] "Citrus grove through saving" and "Hessekh".

3. SAVING THROUGH BANKING INSTITUTIONS

In Israel, banking statistics do not separate personal from business accounts. Hence, in an analysis of personal saving, the discussion must be limited to such accounts as may be presumed to be mainly personal ones, even if it is possible that to some extent they also represent business savings. These accounts are: time deposits, approved saving schemes administered by banking institutions, and personal accounts in foreign exchange. The following reserves should, however, be borne in mind:

(i) An increase in these balances need not necessarily stem from *current* saving; it may be the result of a change in past savings. A case in point are the approved savings accounts in banking institutions. An analysis of these accounts undertaken in 1957 showed that these accounts consisted in part of lump-sum deposits of at least IL. 500 each. This suggests that some of these balances originated in the transfer of certain amounts previously held on current account; this shift was induced by the higher rates of interest paid on long-term accounts, and reflects a reduced liquidity of past savings rather than a net increase of current savings. The same holds true for time deposits and for other long-term saving projects.

(ii) Some balances held in long dated accounts, in particular time deposits in foreign exchange, did not originate from savings in the accepted sense—the non-consumption of current income—but from capital receipts in the form of non-recurrent transfer payments from abroad. However, as these balances constitute additional net worth, they have been included in our estimates of saving for the period under review.

(*a*) *Foreign exchange depotists ("PAMAZ transfer" or "TAMAM" accounts*).

These deposits are fed by specified personal transfer payments from abroad[1]. Recipients of such transfer payments are authorized to retain ("PAMAZ transfer" or "TAMAM" accounts) with local banks 20 per cent of the amounts so received in foreign currency accounts. These funds may be used for the financing of certain transactions abroad and do not require the approval of the Controller of Foreign Exchange. In 1957, personal restitution payments received by individuals from Germany alone accounted for IL. 79.3 million. "PAMAZ transfer" accounts consequently rose by IL. 7.79 million, from IL. 1.26 million at the end of 1956 to IL.9.05 million at the end of 1957, apart from purchases of foreign securities by Israel residents to the amount of approximately IL.450,000 in 1957.

(*b*) *Time deposits in Israel currency.*

Time deposits in Israel currency rose in 1957 by IL. 8.9 million, from IL. 62.8 million at the beginning of the year to IL. 71.7 million at its end. Provident funds accounted for approximately half of this increase; the increase in personal accounts under this heading was estimated at about IL. 4.9 million. This figure, however, is subject to reserve, no information being available with respect to the portion within this amount representing business accounts.

(*c*) *Time deposits in foreign exchange ("PAZAK" accounts*)

These deposits, like the accounts mentioned under (a) above, also derive from personal transfer payments from abroad. However, "PAZAK" deposits differ from the "PAMAZ" accounts in so far as their expenditure in foreign exchange is subject to the approval of the Controller of Foreign Exchange. Practically, the "PAZAK" accounts represent a sort of "linked" deposits. Interest rates vary, according to the time length of deposits, from 3 per cent per annum for three months to 6 per cent per annum for a period of 12 months. In 1957, the total balances of these deposits increased by IL. 3.3 million, from IL. 2.3 million to IL. 5.6 million.

[1] Personal restitution payments, legacies, liquidation of property abroad, etc.

(d) Approved saving schemes

Balances held by banking institutions in savings schemes approved under the Encouragement of Saving Law rose from IL. 11.4 million at the end of 1956 to IL. 26.5 million at the end of 1957. Under most of these schemes, the interest from deposits maintained for a period exceeding 3 years is exempted from income tax; interest is cumulative and rates are staggered according to the period of saving. Banking institutions administering these schemes are required to invest 60 per cent of the accumulating balances in specified securities according to the directions of the Government, and a further 25 per cent in loans for development purposes. In general, these deposits are not linked.

(e) Repayment of principal to mortgage banks

About IL. 4.5 million were collected in 1957 by mortgage banks on account of the principal of housing mortgages. The reduction of these liabilities by private individuals to banks also represents personal saving.

At the same time, however, outstanding balances of housing mortgages increased by IL. 7.9 million, from IL. 67.7 million to IL. 75.6 million.

4. The Post Office Bank

The number of saving deposits with the Post Office Bank rose by about 14,000 in 1957, to stand at 44,000 at the end of the year. Net annual accumulation was IL. 974,000 in 1957, the balance of deposits amounting to IL. 2.8 million at the end of the year. This amount includes IL. 24,000 in saving certificates (holder) issued during the period under review. These certificates carry interest and are redeemable after 5 years from the day of their issue or, prior to that date, upon one month's notice. Interest paid is staggered in accordance with the period of saving and varies between 3 per cent per annum for the first three years to an average of 6 per cent per annum after five years.

5. Provident Funds and Insurance Funds

Among the forms of personal saving prevalent in Israel, saving through provident funds and insurance funds[1] takes the pride of place. Under conditions of steady or increasing employment, this form of saving is by its very nature most stable—contributions to these funds consisting of a definite percentage of wages and salaries collected respectively from employees and employers. Provident funds have for some time past been playing an increasingly important rôle[2] in

[1] The structure and the operations of these institutions have been described in greater detail in the Annual Report for 1956, page 317. In this section, the term Provident Fund should be understood to refer also to insurance funds, unless otherwise specified.

[2] See Chapter XVI, The Security Market.

the Israel capital market. In 1957 the Government promulgated regulations[1] concerning the investment of savings administered by those funds which are enjoying tax relief. A first attempt to expand this form of saving to the self-employed was made in the year under review by the establishment of provident funds for this category.

(*a*) *The growth of fund assets and the scope of their savings in 1957.*

At the end of 1957, the assets of these funds were estimated at IL. 225 million, i.e. about IL. 49.4 million or 28 per cent more than at the end of 1956. The annual increase in 1956 was about IL. 48.8 million or 38 per cent.

Net personal saving accumulated in 1957 in these funds was estimated at IL. 33.5 million. As will be seen from Table XV–2, this amount is somewhat lower than the corresponding one for 1956.

(*b*) *The composition of fund assets*

On the asset side of the provident funds' balance sheets (see Table XV–2) there was in 1957 a particular increase in the items "securities" and "investments effected through Gmul"—the investment company of the provident funds. These items jointly rose by about IL. 27 million to IL. 88 million at the end of 1957 against IL. 61.5 million at the end of 1956. Their share among total fund assets rose from about 35 to 40 per cent.

Outstanding balances of advances to members rose by about IL. 9 million—from IL. 27 million at the end of 1956 to IL. 36 million at the end of the period under review. This increase represented about 18 per cent of the total gross accumulation in the funds in 1957, as against 6 per cent in 1956. The ratio was, on the average, higher in provident funds than in insurance funds. Whereas the increase in advances granted by insurance funds was about 6 per cent of total gross accumulation, the rise in provident funds was estimated at 40 per cent in 1957, as compared with 16 per cent in 1956.

The main difference between provident funds and insurance funds is that while provident funds are attached to a specific place of work, the pension and insurance funds cover many enterprises, and in some cases even all the workers in a given industry. The insurance funds are larger institutions than the provident funds and the advances to members of the former are mostly handled through banking institutions, which in itself exerts a restraining influence on borrowers. Provident funds, on the contrary, mostly serve the employees of individual enterprises, and the loan procedure is easier in their case. The considerable increase in the volume of advances granted by provident funds to members in the period under review was largely due to the desire on the part of this group of savers to anticipate the coming into force of the new regulations described below. And

[1] Income Tax Regulations (Rules Governing the Approval of Provident, Pension and Compensation Funds) 5717–1957.

since our estimates of personal savings through provident funds are net of advances to members, it follows that in 1957 net personal saving through provident funds and insurance funds was lower than in the previous year.

The increase in employers' liabilities to provident funds and insurance funds was estimated at IL. 4 million in 1957; they stood at about IL. 21 million at the end of the year and represented some 9 per cent of the total assets of these funds. Quite possibly the increase in employers' liabilities was greater than reflected by Table XV–2, because the item "sundry debtors and bills for collection" may well include additional debts of this category.

There was an increase of about IL. 36 million in the capital of provident funds, which was estimated at IL. 162 million at the end of 1957. The difference between capital and total assets is made up by: (a) the severance funds which are not really personal savings, as they are not credited to employees; (b) profits not yet credited to member accounts; (c) risk insurance funds, leave funds; and (d) by other specific funds.

(c) *General tendencies*

The tendency towards the merging of small funds with larger ones continued during the period under review. The trend to convert provident funds into pension funds also gained strength. Two of the five insurance funds—viz. the building workers' fund and that of hired agricultural workers—set up pension funds during the period under review. The number of enterprises affiliated to the Workers' Social Insurance Institute Ltd. increased. At least one of the insurance funds had an actuarial deficit in the pension fund administered by it. A deficit of this type is tantamount to dissaving and apt to cause difficulties in the following years.

(d) *Regulations for the Approval of Provident Funds*

New income tax regulations with respect to the tax assessment of so-called approved[1] funds were introduced in August 1957. In accordance with these regulations, employers' contributions are exempt from income tax and are not chargeable to the assessable earnings of employees. Employees benefit from a 25 per cent tax exemption on their own contributions to the funds; and the profits of these funds are totally exempt from tax. On the other hand, the approved funds must fulfil certain obligations: they are to report periodically to the authorities and to submit annual balance sheets audited by a "controlling body"[2]. An approved fund is required to place not less than 65 per cent of its assets in authorized investments. These include:

[1] Funds which were granted approval by the Controller of Saving for purposes of tax exemption in accordance with the new regulations.

[2] Until now ten "controlling bodies" have been approved: six audit unions, two trust companies and banking institutions, one commercial bank and the Association of Certified Public Accountants in Israel.

TABLE XV-2

Estimated Assets of Provident Funds and of Insurance Funds, 1955–1957

(millions of IL. and percentages)

End of period

Asset	*1955*[a]	*1956*[a]	*1957*	*Increase or decrease (–)* *From 1955 to 1956*	*Increase or decrease (–)* *From 1956 to 1957*
			Million IL.		
Cash and demand deposits	6.3	6.7	6.4	0.3	– 0.3
Time deposits	20.5	27.0	32.0	6.5	5.1
Sundry debtors and bills	13.4	12.5	15.0	– 0.9	2.5
Loans to members, including bank deposits earmarked for loans	23.5	26.6	35.7	3.1	9.1
Employers' liabilities (arrears)	12.1	17.4	21.0	5.4	3.7
Loans to organizations and enterprises	7.3	9.9	10.0	2.6	0.1
"Gmul" Ltd.—deposits and investments	23.0	33.6	45.0	10.6	11.5
Securities	12.0	27.9	43.3	15.9	15.4
Immovable assets	7.3	6.5	8.9	– 0.8	2.5
Office equipment and miscellaneous	1.5	7.6	7.7	6.1	0.2
Total	126.9	175.6	225.0	48.8	49.4
Capital[b]	93.4	126.4	162.1	33.0	35.7
Accumulated net savings	86.7	124.4	157.9	37.7	33.5
			Percentages		
Cash and demand deposits	5.0	3.8	2.8	0.7	– 0.6
Time deposits	16.1	15.4	14.2	13.3	10.3
Sundry debtors and bills	10.6	7.2	6.7	– 1.8	5.0
Loans to members, including bank deposits earmarked for loans	18.5	15.1	15.9	6.3	18.4
Employers' liabilities (arrears)	9.5	9.9	9.4	11.0	7.4
Loans to organizations and enterprises	5.8	5.7	4.4	5.4	– 1.3
"Gmul" Ltd.—deposits and investors	18.1	19.1	20.0	21.8	23.1
Securities	9.5	15.9	19.3	32.7	31.1
Immovable assets	5.7	3.7	3.9	– 1.6	4.9
Office equipment and miscellaneous	1.2	4.2	3.4	12.2	0.4
Total	100.0	100.0	100.0	100.0	100.0
Capital	73.6	71.9	72.0	67.6	72.3
Accumulated net savings	68.3	70.8	70.2	77.5	67.7

Note: Discrepancies due to rounding.
[a] Revised estimates.
[b] For further details see page 216.

(i) Investments in Government and Government-guaranteed securities, and securities which have been privileged in accordance with the Encouragement of Saving law. These securities must be subscribed by the fund at the time of their issue and not be purchased from previous holders.

(ii) Deposits in a banking institution which has come to an arrangement with the Minister of Finance relating to such investments[1].

An approved fund is not authorized to advance to members amounts exceeding 25 per cent of its assets; such advances may be granted only to finance housing expenditure or the establishment of auxiliary farms. An approved fund is authorized to take out life insurance on behalf of its members or to make other investments to the extent of 10 per cent of its assets, subject to approval of the "controlling body."

The new regulations had been drafted well in advance of their promulgation. The essentials of the proposed regulations were not quite unknown to the public, and a number of funds consequently raised the amount of new advances to members during the period preceding their promulgation.

Not all the funds applied for the approval required for tax relief. By the end of 1957 the number of funds which had applied was 486 (of about 550 to 600 of the existing funds) and 398 applications had been approved.

The purpose of the new regulations is to control the provident funds so as to protect the interests of fund members and to prevent the savings accumulating in the funds from being lent out for the financing of current consumption. The new regulations are designed to channel these savings into investments to which official priority has been accorded.

(*c*) *Provident funds for self-employed.*

In the latter half of 1957 four provident funds for self-employed were established: three of them by commercial banks and one by a credit cooperative society. These funds are intended for persons most of whose income is not derived from wages or salaries. By the end of the year, 7,600 savers had joined these funds; accumulation in these funds at that time amounted to IL. 700,000.

These funds are managed on similar lines as the employees' provident and pension funds; they do, however, benefit only from members' contributions. The income tax regulations outlined above apply to them as well, both with respect to tax exemptions and as regards investment policy.

6. Life Insurance

At the end of 1957 about 7 per cent of the population was covered by life insurance. In recent years saving through life insurance has been impeded by

[1] In accordance with the agreements concluded by a number of banking institutions with the Ministry of Finance, such deposits will also be invested in securities of the above mentioned type and in development loans, at the ratio of 60 per cent to 40per cent.

the declining purchasing power of the currency. The public was unwilling to invest in long-term financial assets the face value of which was not guaranteed by an escalator clause, insofar as purchasing power is concerned. With a view to encourage saving through life insurance, linked life policies were introduced during the period under review.

The amount saved in 1957 through life insurance was estimated at IL. 2.6 million; i.e. it did not exceed the amount saved in 1956, in spite of the increase in premium payments (IL. 6.2 million in 1957 as against IL. 5.8 million in 1956). Personal savings refer to the increase in life insurance funds, in "special" funds, and in death claims outstanding *less* the increase in advances against insurance policies and in other private loans granted by insurance companies on account of life insurance business.

The above figures do not allow for saving through linked life insurance introduced in 1957. The introduction of this type of insurance was made in two stages: (a) In accordance with the Encouragement of Saving Law, a plan for purchasing power guaranteed life insurance was approved in March 1957. Life policies were issued for periods of ten years against single premiums payable in advance; (b) In November 1957, the Israel insurance companies introduced a plan for linked life insurance, covering the usual types of life insurance policies. The amounts insured and the current premiums are linked to the consumers' price index or to the dollar exchange rate, according to the option of the policy-holder. To protect their assets in a similar manner, the insurance companies concluded an agreement with the Palestine Electric Corporation Ltd. (P.E.C.) and the Ministry of Finance, following which the P.E.C. undertook to issue linked bonds guaranteed by the Ministry of Finance. These bonds mature pari passu with the linked policies issued by the insurance companies[1]. During the last months of 1957, about 1,300 linked policies (mostly new policies and some conversions of old ones) were issued by the four large insurance companies. At the end of the period under review the total amount insured under these policies was about IL. 5.7 million; premium payments were estimated at IL. 220,000 in 1957. However, from the point of view of personal saving, the first premium payments are unimportant, as the lion's share of these payments is taken up by commissions and administrative expenses.

[1] Chapter XVI, The Security Market. It may be mentioned that insurance companies undertook to invest in these bonds 60 per cent of the amounts accumulating in their linked life insurance funds. Of the balance, 20 per cent may be invested in these bonds, at the insurance companies' option while no arrangements have so far been made for the remaining 20 per cent.

7. Saving Schemes

(a) The "Save to build" scheme[1]

About 4,500 new savers joined this scheme in 1957. Annual accumulation under this scheme was IL. 15.9 million.

(b) "Save to build" scheme for immigrants

This scheme was introduced in 1957 and is similar to the scheme mentioned under (a) above. However, the mortgage loans granted to the prospective apartment owners are higher than those under the other public housing schemes. An immigrant is required to make an advance payment of only IL. 1,000 for the purchase of an apartment costing IL. 6,200 to IL. 7,000. Mortgages of IL. 4,500 to 6,000 are extended for 25 years, a longer period than usual in the case of housing schemes. In 1957, close to 1,500 savers joined this scheme and the accumulation amounted to about IL. 1.7 million.

(c) "Citrus grove through saving"[2]

The number of savers under this scheme was 800 in 1957; annual accumulation amount to IL.0.7 million. The number of members has not risen since 1956, the subscription to the scheme having been closed.

(d) "Hessekh"—the saving scheme for secondary education[3]

In 1957, accumulation under this scheme amounted to about IL. 200,000.

8. Subscription to New Securities

The estimated amount of new securities subscribed in 1957 by the public was IL. 17.9 million (net of redemptions).

Some IL. 8.6 million (nominal value) of the new securities were subscribed by recipients of personal restitution and other transfer payments from abroad, who were allocated Government bonds as premiums against the sale of foreign currency. Thus, a portion of the new subscriptions is the reflection of capital receipts rather than of current personal savings. Another unknown portion out of the amount of IL. 17.9 million was subscribed on business rather than on personal accounts. Thus, the above figure must be accepted with reserve as regards personal savings.

[1] See Annual Report for 1955, page 212.
[2] See Annual Report for 1955, page 213.
[3] See Annual Report for 1955, page 326.