

CHAPTER XVII

FINANCIAL INSTITUTIONS

THE FINANCIAL institutions surveyed in this chapter are those other than commercial banks, provident funds, or insurance companies. In contrast to the commercial banks, which engage primarily in the acceptance of demand deposits and the granting of short-term loans, the financial institutions deal in long-term liabilities and assets, and are unable to influence the amount of the money supply by creating demand deposits. The most characteristic attribute of the majority of the financial institutions in Israel is the decisive weight of public funds in their total financial resources, either in the form of deposits earmarked for loans within the framework of the Government's Development Budget or participation in the institutions' paid-up share capital. In the last two years the financial institutions have also begun to mobilize funds from among the public for financing the Development Budget, through the sale of debentures issued in their own name. These two factors—the decisive weight of Government funds and the raising of funds among the public on behalf of the Government—influence the character of the institutions and their activities, even though some of them are privately owned.

Unlike the banking institutions, which grant credit to numerous sectors of the economy, the various financial institutions generally specialize in credits to a single branch. Thus, for example, there are some which supply credit to industry exclusively, while others provide credit to agriculture, to persons buying homes, etc. Only a few small institutions grant credit to more than one branch. Unlike the banking institutions, the financial institutions participate in the ownership of various enterprises by purchasing their shares.

The financial institutions have been divided here into two broad groups: public and private. The yardstick used to distinguish between the two is the proportion of public funds within total liabilities. Under public institutions have been listed all those that have obtained at least 50 per cent of their available resources, including deposits, from the Government or the National Institutions. In the private category have been included those which have received at least half their means from private sources. In most of these institutions the share of private resources comes to considerably more than half.

The consolidated balance sheet of the financial institutions aggregated IL.1,181 million¹ at the end of 1961, as compared with IL.905 million at the end of 1960—an increase of 30 per cent. This rate was almost the same as in 1960 (29 per

¹ Excluding contingent accounts.

cent), but it was the product of contrasting developments in the two broad groups. Whereas the public institutions showed an increase of 36 per cent, the private institutions experienced a considerable drop of 11 per cent. This represented a continuation and further accentuation of the trend which began in 1960. While the public financial institutions have been steadily expanding throughout the past few years, the private institutions flourished up till 1959; their prosperity derived primarily from the regular banking activities in which the subsidiaries of banking institutions engaged, but after the publication of the Bank of Israel Ordinance (Financial Institutions) at the end of March 1960, these institutions experienced a gradual contraction and some even closed down in 1961.

The number of financial institutions fell from 91 in 1960 to 79 in 1961; the decline occurred entirely in the private group, while the number of public institutions even rose by one. In spite of this drop in numbers, the consolidated balance sheet of the financial institutions expanded in 1961, and, as in the previous year, it constituted 30 per cent of the figure for the entire financial sector, including the banking institutions, provident funds, and insurance companies. Since 1958 the weight of the financial institutions has gone up from 25 per cent. The balance of credit extended to the public by and through the financial institutions amounted to IL.1,044 million at the end of 1961, as compared with bank credits of IL.1,050 million. But it should be stressed that bank credit is primarily short-term, while that granted by the financial institutions is generally long-term.

The overwhelming majority of the credits granted by the financial institu-

TABLE XVII-1

*Credit Granted by Financial Institutions,
by Destination, 1961*

	<i>Balance at end of year</i>	
	<i>IL. million</i>	<i>%</i>
Agriculture	205.6	19.7
Industry	310.7	29.8
Building	343.9	32.9
Commerce	11.4	1.1
Public services	16.5	1.6
Local authorities	69.2	6.6
Credit and financial institutions	13.2	1.3
National Institutions	6.5	0.6
Services	31.4	3.0
Private individuals	29.6	2.8
Miscellaneous	6.0	0.6
<i>Total</i>	1,044.0	100.0

tions—some 83 per cent—went to industry, agriculture, and for financing the purchase of homes (see Table XVII-1), while the other branches received only an insignificant share. The financial institutions tend to specialize in a single branch, as stated, and of the IL. 311 million worth of credits granted to industry by all such institutions, IL. 297 million was provided by the three largest ones in this field: the Industrial Development Bank of Israel, the Israel American Industrial Development Bank, and Otzar Le-Ta'asiya. Of the IL. 206 million granted to agriculture, IL. 194 million was provided by the Israel Bank of Agriculture, Nir Ltd., and the funds of the farm organizations; while IL. 293 million out of the IL. 344 million granted for the purchase of homes came from the mortgage banks and the financing companies Tfahot and Pasa.

1. PUBLIC FINANCIAL INSTITUTIONS

The main characteristics of institutions included in this category and the types of activity common to them are the result of the decisive weight of public funds within their total financial resources. In 1961 such funds constituted some 62 per cent of their total means. The allocation of Development Budget funds through these institutions to industry, agriculture, and for housing, decisively determines their investment and credit policy, even in respect of those which are privately owned. This is particularly true as regards credit originating from public sector funds, while that granted from the institutions' own resources is largely given at their own discretion; but, as stated, the relative share of such credit is small.

There are two main types of public financial institutions: those financing investments in various sectors of the economy, and those chiefly concerned with financing the requirements of households, especially the purchase of homes. The large institutions, which belong to the first category, are the two industrial development banks, the Israel Bank of Agriculture, Otzar Le-Ta'asiya, the Bank Leumi Investment Corporation, and the local authorities' bank. In the second category are the eight mortgage banks, Otzar Ha-Hayal, Yahav, Pasa, and several smaller institutions. The share of the first category in the consolidated balance sheet of all the public financial institutions came to two-thirds in 1961, the same as in 1959 and 1960.

At the end of 1961, the number of public financial institutions stood at 23, following the establishment during the year of the Mortgage and Investment Bank for Building in Israel Ltd. The consolidated balance sheet of this group rose from IL. 787 million¹ at the end of 1960 to IL. 1,059 million at the end of 1961, which represented 91 per cent of the consolidated balance sheet of all financial institutions, as compared with 86 per cent at the end of the previous year.

¹ Excluding contingent accounts.

TABLE XVII-2

*Assets and Liabilities of Public Financial Institutions, 1960-61**(IL. million)*

			<i>Increase from 1960 to 1961</i>	
	<i>1960</i>	<i>1961</i>	<i>IL. million</i>	<i>%</i>
<i>Assets</i>				
Cash and deposits with banks	12.5	17.5	5.0	40
Credit to the public from own means	189.3	378.4	189.1	100
Credit to the public from deposits earmarked for loans	30.8	41.2	10.4	34
Credit to the public from Government deposits	468.9	472.7	3.8	1
Loans to the Government	70.0	132.9	62.9	89
Non-governmental securities	11.4	20.5	9.1	80
Immovable assets	4.5	6.1	1.6	36
<i>Total</i>	787.4	1,069.2	281.9	35.7
<i>Liabilities</i>				
Own capital	123.6	234.5	100.9	90
Debentures	79.2	181.7	102.5	129
Deposits and loans from the public	37.5	51.3	13.8	37
Bank loans	1.6	8.0	6.4	400
Deposits earmarked for loans	43.3	50.2	6.9	16
Government deposits	478.5	503.6	25.0	5
Other accounts (net)	23.6	40.0	16.4	70
<i>Total</i>	787.4	1,069.2	281.9	35.7

On the liabilities side, most of the increase occurred in own capital and in debentures. The former expanded by IL. 111 million, and its weight rose from 15.7 per cent of all liabilities to 21.9 per cent. Debentures went up by IL.103 million, and its weight from 10 to 17 per cent. The increased weight of these two items was accompanied by a decline in that of Government deposits, while the weight of the other items remained about the same as in 1960. The growth in the weight of own capital and debentures at the expense of Government deposits first began to be apparent in 1960, and the trend was intensified in the following year. In 1960 own capital and debentures represented about 26 per cent of all liabilities, but in 1961 they accounted for 41 per cent. It should be noted, however, that the expansion of own capital also derived in large measure from public funds. Of the total addition of IL.107 million to paid-in capital, the Government's share amounted to IL.73 million. Moreover, in respect of nearly half the proceeds derived from the sale of debentures to the public

TABLE XVII-3

*Assets and Liabilities of Public Financial Institutions, 1959-61**(Percentages)*

<i>Assets</i>	<i>1959</i>	<i>1960</i>	<i>1961</i>	<i>Liabilities</i>	<i>1959</i>	<i>1960</i>	<i>1961</i>
Cash and deposits with banks	2.2	1.6	1.6	Own capital	14.5	15.7	21.9
Credit to the public	22.4	24.0	35.4	Debentures	10.8	10.1	17.0
Credit to the public from				Deposits and loans from			
deposits earmarked for loans	1.8	3.9	3.9	the public	5.5	4.8	4.8
Credit to the public from				Bank loans	0.5	0.2	0.8
Government deposits	63.5	59.6	44.2	Deposits earmarked for			
Loans to Government	8.7	8.9	12.4	loans	2.6	5.5	4.7
Other securities	0.9	1.4	1.9	Government deposits	64.1	60.8	47.1
Immovable assets	0.5	0.6	0.6	Other accounts (net)	2.0	3.0	3.7
<i>Total</i>	100.0	100.0	100.0	<i>Total</i>	100.0	100.0	100.0

NOTE: Discrepancies are due to rounding.

(which totalled IL.103 million), it was agreed by the institutions and the Government that these funds should actually serve in lieu of Government deposits; and from the viewpoint of the destination of credit, guarantees, and interest, they were to be handled in the same manner as Development Budget deposits. Consequently, proceeds from the sale of these debentures have been listed here as Development Budget receipts.

The changes in the liability structure also produced changes in the composition of the public financial institutions' assets. The weight of credit to the public from the institutions' own means increased from 24 per cent in 1960 to 35 per cent in 1961, while that from Government deposits earmarked for loans dropped from 60 to 44 per cent. However, as already stated, a large part of the institutions' own resources also originated in public funds. The weight of the other asset items showed scarcely any change.

(c) *Money flows*

The transactions of the public financial institutions totalled IL.314 million in 1961—an increase of IL.107 million, or 52 per cent, over 1960. A change took place in the breakdown of receipts by sectors: Although most of the receipts again originated with the Government, its share was lower in 1961, while that of the rest-of-the-world and household sectors rose considerably. On the other hand, there was virtually no change in the breakdown of payments by sector. In 1961 as well, private businesses and households received the predominant share of the credit, while payments to the Government went up from IL.16 million to IL.63 million.

(1) *The Government*

Receipts originating with the Government totalled IL. 97.5 million as against IL.133.8 million in 1960. Actually, however, there was no decline in such receipts, for in both years the proceeds obtained from the sale of debentures to other sectors served in lieu of financial transfers from the Government to the financial institutions. In short, receipts from the Government were more or less equal in these two years. The change that occurred in 1961 affected only the form of the Government's participation in the institutions' financial resources. It substantially increased its participation in paid-up capital—IL. 72.5 million in 1961 as against IL.29.2 million in 1960. There was also a large growth in proceeds from debentures issued to finance the Development Budget. In contrast, the increase in receipts originating with the Government in the form of deposits earmarked for loans was IL.79.6 million smaller in 1961. This is partly explained by the fact that the Government converted deposits totalling IL.22 million, which were held in the Israel Bank of Agriculture, into shares.

The Government's participation in paid-up capital encompassed the two industrial development banks, the Israel Bank of Agriculture, and the Tourist

TABLE XVII-4

The "Balance of Payments" of Public Financial Institutions, by Sector, 1960-61
(IL. million)

Sector and transaction	Receipts			Payments		
	1960	1961	Increase or decrease (-) from 1960 to 1961	1960	1961	Increase or decrease (-) from 1960 to 1961
Transactions in real assets	35.6	47.8	12.2	30.5	38.5	8.0
Transactions in financial assets						
Government						
Paid-up capital	29.2	72.5	43.3			
Deposits earmarked for the granting of loans	104.6	25.0	-79.6			
<i>Total Government</i>	133.8	97.5	-36.3	15.8	63.0	47.2
Rest of the public sector ^a	1.9	10.9	9.0	16.0	24.9	8.9
Banking institutions	9.5	13.6	4.1	5.2	—	-5.2
Private business enterprises	-2.4	12.7	15.1	82.0	95.4	21.1
Households	1.8	35.6	33.8	57.1	83.4	26.3
Non-profit institutions	-0.5	5.2	5.7	2.9	1.8	-8.7
Rest of the world	3.2	58.8	55.6	—	—	—
Provident funds	18.4	26.3	7.9	—	—	—
Insurance companies	2.5	1.2	-1.3	—	—	—
Private financial institutions	—	—	—	0.5	12.0	11.5
<i>Total transactions in financial assets</i>	168.2	261.8	93.6	179.5	280.6	101.1
Transactions within the sector	2.2	4.0	1.8	2.2	4.0	1.8
Errors and omissions	—	—	—	-6.1	-9.5	-3.4
<i>Total receipts and payments</i>	206.1	313.6	105.8	206.1	313.6	107.5

^a National Institutions, local authorities, and public sector companies.

Development Corporation; as for the other institutions, although they increased their paid-up capital (at a much lower rate, however), the Government did not purchase shares in them.

Loans to the Government were considerably higher than in 1960—IL.63 million as against IL.16 million. This sum included IL.1.4 million in Government debentures which were purchased by the financial institutions, and various temporary balances held with the Treasury. But mostly it represented the proceeds from debentures sold to the public under the arrangement for financing the Development Budget.

(2) *Private business enterprises*

The volume of payments to this sector increased from IL.82 million in 1960 to IL.95.4 million. As in 1960, it was again the largest recipient of credit extended by the public financial institutions, but its proportion of all payments declined from 45 per cent in 1960 to 34 per cent in 1961. Of the total amount which it received, IL.86 million was in the form of credits and IL.9 million in the form of security investments by the financial institutions. Receipts from this sector rose considerably as compared with 1960, but still remained low in relation to payments. The figure came to IL.12.7 million, of which IL.4.8 million represented participation in the paid-up capital of the financial institutions, and IL. 7.9 million was in the form of deposits.

(3) *Households*

Payments to the household sector rose from IL.57 million in 1960 to IL.83.4 million in 1961, which represented 30 per cent of all payments by the financial institutions that year. This large growth was mainly due to the expansion of credit to new immigrants and other persons buying homes in public housing schemes, the scope of which was considerably enlarged in 1961. In contrast to private business enterprises and to its own record in 1960, this sector accounted for a substantial part of all financial receipts last year—IL.35.6 million. This sum derived from the purchase of IL.32.6 million worth of debentures of the financial institutions, and a IL.3 million increase in deposits made in connection with savings-for-housing schemes administered by the mortgage banks. The larger purchases of linked debentures was apparently connected with the expectation of devaluation which prevailed in 1961.¹ It seems that most of the additional purchases of financial institution debentures were made at the expense of Government bonds, which were issued on a greatly reduced scale in 1961.

(4) *Rest of the world*

Receipts from abroad grew from IL.3 million in 1960 to IL.59 million in 1961, which accounted for 22 per cent of the aggregate amount. Thus in 1961

¹ See Chapter XX, the Security Market.

this sector for the first time constituted a significant factor in the total amount of funds mobilized by the financial institutions. IL.21 million of the 1961 figure came from the sale of equities, and IL.30 million from the sale of debentures; the balance of IL.8 million consisted of various deposits in the financial institutions.

The large increment in receipts from overseas was partly due to the same reason that accounted for the growth of the public financial institutions' total proceeds from the sale of shares and debentures: As in the case of the mobilization of funds in the domestic capital market, so too in raising funds abroad, the Government preferred the financial institutions to issue debentures rather than issue its own debentures, and the proceeds thereof were used in place of Development Budget funds.

(5) Provident funds

As in 1960, the provident funds were again a major source of funds for the financial institutions. The ordinances stipulating the conditions for income tax concessions require the funds to purchase "authorized" securities, and following the large increase in their assets, they acquired additional securities in 1961 to the amount of approximately IL.35 million. On the other hand, the amount owed them by the financial institutions and the balance of loans extended to them by Gmul Ltd. declined by approximately IL.9 million.

(6) Banking institutions

Receipts from the banking institutions, which totalled IL.13.6 million, consisted mainly of loans and consortial deposits in financial institutions for the purpose of granting credits to various bodies. In 1961 there was no increase in the financial institutions' deposits in banking institutions.

(7) Private financial institutions

The public financial institutions transferred IL.12 million to the private institutions for the purpose of granting loans, chiefly to farms (through the funds of the farm organizations).

2. PRIVATE FINANCIAL INSTITUTIONS

The category of private financial institutions includes those bodies where private funds constitute at least half of the available financial resources (in most cases such resources actually account for considerably more than half). This survey includes various types of institutions: settlement funds, subsidiaries of banking institutions, mutual credit funds of employees, and other credit bodies. In this category as well, there are two main sub-groups.

(1) Institutions whose ownership is distinctly private—the most prominent among them being the subsidiaries of banking institutions.

(2) Institutions whose resources are defined as private but whose activities resemble those of public financial institutions. In this category are the settlement funds and the three Histadrut institutions (Igarot, Public Building, and Bitzur), which finance the Histadrut enterprises through the sale of debentures to provident funds.

TABLE XVII-5

Assets and Liabilities of Private Financial Institutions, 1959-61
(IL. million)

	1960	1961	Increase or decrease (-) from 1960 to 1961	
			IL. million	%
<i>Assets</i>				
Cash and deposits with banks	6.1	3.2	-2.9	-47.0
Credit to the public from own means	101.8	82.3	-19.5	-19.1
Credit to the public from deposits earmarked for loans	7.8	16.6	8.7	11.1
Credit to the public from Government deposits	1.1	0.9	-0.2	-15.9
Loans to the Government	0.4	0.1	-0.3	-72.8
Other securities	6.5	5.9	-0.6	9.1
Immovable assets	0.8	2.4	1.6	199.6
<i>Total</i>	124.5	111.4	-13.1	-10.5
<i>Liabilities</i>				
Own capital	29.9	36.2	6.3	21.0
Debentures	18.3	24.1	5.8	31.8
Deposits and loans from the public	45.2	16.9	-28.3	-62.6
Loans from banks	16.2	12.6	-3.6	-22.3
Deposits earmarked for loans	8.5	16.6	8.1	95.4
Government deposits	1.0	2.1	1.1	100.9
Other accounts (net)	5.4	3.0	-2.4	-45.1
<i>Total</i>	124.5	111.4	-13.1	-10.5

In 1961 the number of such institutions dropped from 69 to 56. The consolidated balance sheet of the private financial institutions contracted by 10.5 per cent, from IL.125 million at the end of 1960 to IL.111 million at the end

of 1961. This reduction was due to the considerable decline in the balance sheet of those institutions that are distinctly private, while the others showed a similar rate of growth as in previous years. The development in respect of the former can be attributed to the extension of the liquidity regulations to the financial institutions as well. According to the Bank of Israel Ordinance (Financial Institutions), 1960 (which went into effect in April of that year), the liquidity restrictions which were applicable to banking institutions are now likewise enforceable on financial institutions holding deposits of the public in excess of IL.100,000. Many credit institutions whose volume of such deposits did not exceed this amount by a substantial margin preferred to reduce their deposits so as to avoid being subject to such control.

The banking institutions were also ordered to gradually liquidate by September 1961 their subsidiary companies which engaged in regular banking activity and thereby made it possible to evade the liquidity regulations. The policy of the Bank of Israel, which was expressed through these regulations, led to an appreciable reduction in the volume of business carried on by financial institutions that are of a predominantly private character. They were permitted to transfer about a quarter of such business to the banking institutions, whereupon it became subject to the control of the Bank of Israel. The institutions in the second category, i.e. those which were exempted from the Bank of Israel's control, continued to expand as before, and in 1961 they accounted for 95 per cent of all assets held by the private financial institutions. In spite of their relatively large volume of liabilities, the sums deposited with them by the public did not reach the limit which would have made them subject to the liquidity regulations. The funds of the farm organizations hold practically no deposits of the public, as most of their funds come from primary credit organizations such as banks and public financial institutions. As for the three Histadrut institutions, their funds, apart from own capital, are derived from the sale of debentures.

The changes which occurred in the composition of the private financial institutions in 1961 led to fundamental changes in their asset and liability structure. Whereas up till 1960 the structure of their balance sheet was similar to that of the banking institutions, in 1961 it more closely resembled that of the public financial institutions. The relative weight of deposits from the public in total liabilities declined from 51 per cent in 1959 to 36 per cent in 1960 and to 15 per cent in 1961. In contrast, there was an increase in those items which constitute most of the liabilities of the settlement funds and the three Histadrut institutions. Own capital went up from 24 per cent in 1960 to 33 per cent in 1961, debentures from 15 to 22 per cent, and deposits earmarked for loans from 7 to 15 per cent.

The changes in the asset structure were less pronounced. The weight of liquid assets and credit against deposits earmarked for loans rose somewhat, while that of credit to the public declined slightly.

TABLE XVII-6

*Assets and Liabilities of Private Financial Institutions, 1959-61**(Percentages)*

<i>Assets</i>	<i>1959</i>	<i>1960</i>	<i>1961</i>	<i>Liabilities</i>	<i>1959</i>	<i>1960</i>	<i>1961</i>
Cash and deposits with banks	5.5	4.9	2.8	Own capital	21.2	24.0	32.5
Credit to the public	84.8	81.7	73.8	Debentures	9.6	14.7	21.6
Credit to the public from deposits earmarked for loans	2.6	6.4	14.9	Deposits and loans from the public	50.9	36.3	15.2
Credit to the public from Government deposits	0.8	0.9	0.8	Bank loans	9.7	13.0	11.3
Loans to Government	0.4	0.3	0.1	Deposits earmarked for loans	3.3	6.8	14.8
Other securities	5.1	5.2	5.4	Government deposits	0.9	0.8	1.9
Immovable assets	0.8	0.6	2.2	Other accounts (net)	4.4	4.4	2.7
<i>Total</i>	100.0	100.0	100.0	<i>Total</i>	100.0	100.0	100.0

TABLE XVII-7

The "Balance of Payments" of Private Financial Institutions, by Sector, 1960-61
(IL. million)

<i>Sector and transaction</i>	<i>Receipts</i>			<i>Payments</i>		
	<i>1960</i>	<i>1961</i>	<i>Increase or decrease (-) from 1960 to 1961</i>	<i>1960</i>	<i>1961</i>	<i>Increase or decrease (-) from 1960 to 1961</i>
Transactions in real assets	4.9	4.0	-0.9	4.5	3.8	-0.7
Transactions in financial assets						
Government	0.7	-0.8	-1.5	—	-0.3	-0.3
Rest of the public sector	1.2	-0.8	-2.0	0.7	—	-0.7
Banking institutions	6.2	4.3	-1.9	1.7	-2.4	-4.1
Private business enterprises	-3.0	-9.4	-6.4	1.6	36.4	34.8
Households	-10.7	-13.3	-2.6	0.4	-36.5	-36.9
Non-profit institutions	0.2	2.5	2.3	—	2.5	2.5
Rest of the world	3.3	-1.8	-5.1	—	0.1	-0.1
Provident funds	7.0	7.3	0.3	—	—	—
Insurance companies	—	0.6	0.6	—	—	—
Public financial institutions	0.5	12.0	11.5	0.8	-0.1	-0.9
<i>Total transactions in financial assets</i>	<i>5.3</i>	<i>0.6</i>	<i>-4.7</i>	<i>5.2</i>	<i>-0.5</i>	<i>-5.7</i>
Transactions within the sector				0.5	1.3	0.8
Errors and omissions						
<i>Total receipts and payments</i>	<i>10.2</i>	<i>4.6</i>	<i>-5.6</i>	<i>10.2</i>	<i>4.6</i>	<i>-5.6</i>

Money flows

The volume of receipts and payments of the private financial institutions was IL. 5.6 million lower in 1961 than in the previous year, amounting to only IL. 4.6 million as against IL. 10.2 million in 1960 and IL. 30 million in 1969.

Receipts from all sectors, except public financial institutions and provident funds, declined. This can be attributed to the changed composition of the institutions. The funds of the farm organizations, which accounted for the lion's share of all transactions of this group in 1961, derive their receipts from other credit institutions and divide them among the member farms; the source of funds for the three Histadrut institutions is the provident funds, which purchase their debentures.

There was a marked change in the breakdown of payments by sectors, which was also due to the changed structure of the institutions in this group. Whereas in 1960 the volume of credit was apportioned among the various sectors in fairly equal measure, in 1961 it was allocated entirely to private business enterprises, since the settlement funds cater to agriculture, while Igarot, Public Buildings, and Bitzur cater to the Histadrut enterprises.