

## CHAPTER XVII

### FINANCIAL INSTITUTIONS

THE FINANCIAL INSTITUTIONS discussed in this chapter are those other than banking institutions,<sup>1</sup> holding companies, insurance companies, or provident funds. These institutions are unable to influence the quantity of the money supply as they do not create demand deposits, but they can exert monetary influence by increasing the total amount of liquid assets in the hands of the public. In the Israel economy, however, such influence is quite limited, since most of the deposits in the financial institutions are special deposits earmarked for the granting of loans and, in contrast to ordinary fixed-term deposits,<sup>2</sup> are not regarded as a liquid asset by the account-holders.

As the bulk of the credit granted through these institutions is from special deposits earmarked for loans, the institutions serve mainly as an instrument for extending loans on behalf of their depositors; consequently, they themselves have no direct say on the terms or destination of the credit, these generally being determined by the depositor. Since most of their funds are deposits of the Government in the framework of the development budget, and since the Government also holds shares and bonds of the financial institutions (altogether, it provides over half their financial resources), the Government's policy greatly influences the terms and destination of the credit given through these institutions, including even that from non-governmental sources. The activities of the financial institutions should therefore be examined against the background of their close ties with the Government.

A number of large financial institutions, such as the Industrial Development Bank of Israel, the Israel Bank of Agriculture, and the Tourist Industry Development Corporation, were established by the Government, and are either wholly or partly owned by the latter and receive most of their funds from it. Through these and other financial institutions, the Government transfers a substantial portion of its loans to the various sectors of the economy.

The financial institutions actually serve the Government in two ways. On the one hand, the Government grants development budget loans through them, and on the other, they issue debentures in their own name, on the initiative and with the approval of the Government, and transfer the proceeds to the

<sup>1</sup> The reference is to commercial banks and credit cooperative societies.

<sup>2</sup> A more detailed discussion can be found in the Bank of Israel Annual Report for 1960, p. 317.

Table XVII-1

**LIABILITIES<sup>a</sup> OF THE FINANCIAL INSTITUTIONS, BY SECTOR,  
1960-62<sup>b</sup>**

(End of period)

Sector	IL million			Per cent		
	1960	1961	1962	1960	1961	1962
Government	578.4	676.0	905.4	67.0	56.0	50.2
National Institutions and local authorities	13.2	24.1	16.7	1.5	2.0	1.0
Public sector companies	0.4	11.9	23.2	0.1	1.0	1.3
Banking institutions	29.4	59.8	72.8	3.4	5.0	4.0
Provident funds	32.9	82.3	164.9	3.8	6.8	9.1
Insurance companies	4.0	3.8	8.6	0.5	0.3	0.5
Private businesses <sup>c</sup>	54.3	50.2	58.5	6.3	4.1	3.2
Non-profit institutions	11.0	15.2	12.5	1.3	1.2	0.7
Rest of the world	26.6	77.0	171.8	3.1	6.4	9.5
Households	7.7	20.5	48.5	0.9	1.7	2.7
Accumulated balance of transactions within fi- nancial institutions sector	49.0	24.8	22.4	5.7	2.1	1.2
Accumulated profits (be- fore income tax) and capital gains <sup>d</sup>	24.3	72.1	177.4	2.8	6.0	9.8
Unspecified <sup>e</sup>	31.8	89.2	121.5	3.7	7.4	6.7
<b>Total</b>	<b>863.0</b>	<b>1,206.9</b>	<b>1,804.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Including equity capital.<sup>b</sup> Including linkage differentials.<sup>c</sup> Including agricultural settlements.<sup>d</sup> The large increase in 1962 stemmed mainly from the revaluation of the balance sheet.<sup>e</sup> Including sales on the stock exchange.

latter for financing the development budget. In view of the considerable decline in the issue of long-term Government debentures, this arrangement may be regarded as an attempt to shift the emphasis in the mobilization of funds from the public through debentures from the Government to non-governmental bodies.

In 1962 the financial institutions deposited with the Treasury the sum of IL 59 million mobilized in this manner. This represented about 85 per cent of the IL 70 million worth of debentures<sup>1</sup> sold by them during the year. In this way the Treasury receives a substantial portion of the monies of the provident funds, since the debentures of the financial institutions are among the approved debentures in which the provident funds are required to invest most

<sup>1</sup> This sum does not include the debentures issued by Gmul Ltd. and Bitzur Ltd., and therefore differs from the figure given in Chap. XX, Table 10.

of their funds. Debentures issued by the financial institutions constituted about 60 per cent of all debenture sales in 1962.<sup>1</sup>

The settlement of the problem of dollar-linked mortgages, which became acute following the devaluation, can also be attributed to the close ties existing between the financial institutions and the Government. The Government and the mortgage banks reached an agreement whereby the latter permitted borrowers to convert their dollar link to an index link, while the Treasury on its part undertook to compensate the mortgage banks for losses incurred because of this concession. In return, the mortgage banks transferred to the Treasury a substantial part of the premature mortgage repayment proceeds, even in cases where the funds from which the loans had been made did not originate in Government deposits. The Treasury will return these sums to the banks, together with the differentials arising from the dollar link according to the original terms of the loan. As a result of this arrangement, IL 54 million was deposited with the Treasury during the year, half of it from the redemption of loans advanced from Treasury funds and half representing loans to the Treasury from the redemption of mortgages from the banks' own resources.

The ratio of liabilities to the Government to total liabilities<sup>2</sup> declined from 67 per cent at the end of 1960 to 50 per cent at the end of 1962. This was due to the more rapid growth of the other sources of financing: provident funds, the rest of the world, and accumulated profits (see Table XVII-1). At the end of 1962, liabilities to the Government totalled IL 905.4 million,<sup>3</sup> of which the balance of Government deposits earmarked for loans accounted for IL 686.8 million; shares of the Industrial Development Bank of Israel, the Israel Bank of Agriculture, and the Tourist Industry Development Corporation, for IL 191 million; and bonds of the Maritime Bank of Israel Ltd. and Tfahot Ltd., for IL 27.6 million.

The consolidated balance sheet of the financial institutions totalled IL 1,804.2 million<sup>4</sup> at the end of 1962, an advance of IL 597.3 million, or 50 per cent, over 1961. About half the increase stemmed from the revaluation of the balance sheet.

If the revaluation increment is deducted, the increase amounts to only 26 per cent, as against one of 30 per cent in 1961. The weight of the financial institutions in the entire financial sector—which also includes the banking institutions, provident funds, and insurance companies—remained unchanged at 32 per cent.<sup>5</sup> Nor was there any change in the number of financial insti-

<sup>1</sup> Excluding the Government Short-Term Loan.

<sup>2</sup> Including equity capital.

<sup>3</sup> Including linkage differentials.

<sup>4</sup> Including linkage differentials, but excluding contingent accounts.

<sup>5</sup> It should be kept in mind that the balance sheet of the financial institutions does not include all the linkage differentials, since the institutions engaged in agricultural financing have not yet revalued their assets.

tutions, which stood at 71. Six new institutions were established during the year (two mortgage banks, three investment companies, and the Maritime Bank), but at the same time six went out of existence.<sup>1</sup> The latter all dealt in personal loans, and their closing largely reflected the completion of the execution of the Bank of Israel's instructions of 1960 calling for the closing of the banking institutions' subsidiaries engaging in regular banking activities.

Among the financial institutions four large ones predominate—the Industrial Development Bank of Israel, the Israel Bank of Agriculture, the General Mortgage Bank, and the Housing Mortgage Bank, which together accounted for about 58 per cent of the financial institutions' consolidated balance sheet at the end of 1962.

The Government has a substantial holding in six of the institutions, which accounted for about 50 per cent of the consolidated balance sheet in 1962. Also of considerable importance are the 18 subsidiaries companies of banking institutions and non-financial (mostly building) concerns. The majority are either investment companies—behind each of which stands a banking institution—or mortgage banks; the latter accounted for 86 per cent of the total balance sheet of the mortgage banks.

In contrast to previous years, the financial institutions have not been classified into two broad groups, public and private. The reason is the decline in the weight of the latter—which even formerly had been low—to only 6 per cent of the financial institutions' consolidated balance sheet.

## 1. MONEY FLOWS, BY SECTOR

The volume of the financial institutions' transactions<sup>2</sup> with the other sectors amounted to IL 337.7 million in 1962, a decline of IL 30 million from 1961. This contraction is particularly glaring in view of the increase registered by the other financial sectors. It was due to several contrary developments: whereas there was a slight rise in the transactions of institutions financing industry, the local authorities, and tourism, there was a decline in the transactions of the mortgage banks, agricultural finance institutions, and the small personal loan companies. The decrease in the transactions of the mortgage banks stemmed from the advance redemption of mortgage loans and larger collections on account of such loans, which totalled about IL 80 million; gross credit granted by the mortgage banks during 1962 totalled IL 90 million, the

<sup>1</sup> Two financial institutions, Gmul and Bitzur, have not been included in this tabulation, since both their assets and liabilities are reflected in the balance sheets of the banking institutions and the provident funds. These institutions serve as secondary financial intermediaries, and their inclusion would only distort the picture.

<sup>2</sup> Defined in this chapter as the change in the balance sheet, less linkage differentials.

same as in 1961.<sup>1</sup> The decline in the agricultural finance institutions was due to the reluctance of the agricultural settlements to borrow for development purposes until the matter of linkage was cleared up. The decline in the small personal loan companies was connected with the closing of six of these institutions during 1962, and with the greater degree of control exercised over them by the Bank of Israel, which made some of them subject to the liquidity regulations. In addition, the volume of personal deposits in these institutions contracted, since better alternatives became available, such as trading in promissory notes.

(a) *The Government*

Receipts originating with the Government totalled IL 131 million in 1962 as against IL 97.6 million in 1961, i.e. an increase of 34 per cent; payments to the Government totalled IL 94 million as against IL 20 million in 1961. Net receipts from the Government thus amounted to only IL 37 million in 1962 as against IL 78 million the year before.

The growth of receipts from the Government was partly due to the fact that the financial institutions are increasingly serving as the Government's agents for the granting of development budget loans, in place of the banking institutions. Government funds channelled to the financial institutions in 1962 were distributed as follows: deposits for the granting of loans—IL 88 million; purchase of shares in financial institutions<sup>2</sup>—IL 27 million; and purchase of their debentures<sup>3</sup>—IL 16 million.

The large increase in payments to the Government during 1962 stems in part from the deposit of the proceeds from the sale of the financial institutions' debentures, and in part from the deposit of monies from the repayment of linked mortgage loans, both those given from the funds of the financial institutions and those given in the past from the funds of the Treasury<sup>4</sup> through the Accountant General. The substantial increase in payments to the Government also led to a rise in the relative share of outstanding loans to the Government among total assets from 7.2 per cent in 1961 to 14 per cent in 1962 (see Table XVII-3).

<sup>1</sup> The redemption of mortgage loans causes a contraction in the volume of transactions as defined here—the difference between end-year balance sheets—since the balance of outstanding loans is smaller at the end of the year in question.

<sup>2</sup> Mostly shares of the Industrial Development Bank of Israel.

<sup>3</sup> Mostly debentures of the Maritime Bank, which do not constitute an actual receipt (see discussion below on public sector companies).

<sup>4</sup> These sums have provisionally been recorded as a deposit with the Accountant General and have not been deducted from the Government's deposits in the financial institutions, since the proportion of Government mortgage money in the total amount repaid has not yet been determined.

(b) *Public sector companies*

Payments to public sector companies totalled IL 56.5 million in 1962 as against IL 32.5 million the previous year. Only part of this increase represents an expansion of credit—mainly to the public housing companies Rassco, Amidar, and Shikun Upituah. The remainder stemmed from the transfer to

Table XVII-2

**"BALANCE OF PAYMENTS" OF THE FINANCIAL INSTITUTIONS,  
BY SECTOR, 1961-62<sup>a</sup>**

(IL million)

Transaction and sector	Receipts			Payments			Balance of receipts over payments	
	1961	1962	Increase or decrease (-)	1961	1962	Increase or decrease (-)	1961	1962
Non-financial transactions	47.8	63.8	16.0	38.5	42.4	3.9	9.3	21.4
Transactions in financial assets								
Government	97.6	130.6	33.0	19.9	93.8	73.9	77.7	36.8
National Institutions and local authorities	10.9	-8.6	-19.5	23.4	17.2	-6.2	-12.5	-25.8
Public sector companies	11.5	9.1	-2.4	32.5	56.5	24.0	-21.0	-47.4
Banking institutions	30.4	8.7	-21.7	8.3	3.0	-5.3	22.1	5.7
Provident funds	49.4	49.7	0.3	—	—	—	49.4	49.7
Insurance companies	-0.2	3.5	3.7	0.8	0.1	-0.7	-1.0	3.4
Private businesses <sup>b</sup>	-4.1	2.0	6.1	134.9	117.7	-17.2	-139.0	-115.7
Non-profit institutions	4.2	-2.7	-6.9	-8.6	-0.6	8.0	12.8	-2.1
Rest of the world	50.4	59.1	8.7	1.0	3.0	2.0	49.4	56.1
Households	12.8	18.6	5.8	88.2	—	-88.2	-75.4	18.6
Unspecified <sup>c</sup>	57.4	3.9	-53.5	—	—	—	57.4	3.9
<b>Total transactions in financial assets</b>	<b>320.3</b>	<b>273.9</b>	<b>-46.4</b>	<b>300.4</b>	<b>290.7</b>	<b>-9.7</b>	<b>23.8</b>	<b>-15.5</b>
Intra-sector transactions				20.3	-12.8	-33.1	-20.3	12.8
Errors and omissions				8.9	17.4	8.5	-8.9	-17.4
<b>Total receipts and payments</b>	<b>368.1</b>	<b>337.7</b>	<b>-30.4</b>	<b>368.1</b>	<b>337.7</b>	<b>-30.4</b>	<b>—</b>	<b>—</b>

<sup>a</sup> Excluding linkage differentials.

<sup>b</sup> Including agricultural settlements.

<sup>c</sup> Including sales on the stock exchange.

the Maritime Bank of IL 16 million in Government loans to the Zim Navigation Company, in return for which the Government acquired a considerable percentage of the bank's debentures.

(c) *Provident funds*

As in previous years, the provident funds were again a major source of funds for the financial institutions, primarily through the purchase of the latter's debentures as part of their "authorized" investments. The financial institutions' receipts from the provident funds totalled, as in 1961, about IL 50 million. For the most part these receipts did not remain at the financial institutions' disposal but were transferred to the Government. The share of the provident funds in total liabilities rose from 3.8 per cent in 1960 to 9.1 per cent in 1962 (see Table XVII-1).

(d) *Private enterprises*<sup>1</sup>

Payments to this sector declined from IL 134.9 million in 1961 to IL 117.7 million in 1962, but still accounted for a considerable percentage of the financial institutions' total payments. The decline was due to the repayment of linked loans after the devaluation and to the curtailment of credit to agriculture.

(e) *Rest of the world*

Receipts from abroad also accounted for a significant share of total means mobilized by the financial institutions. Although the dollar volume contracted from \$ 28 million in 1961 to \$ 20 million in 1962, in terms of local currency there was an increase from IL 50.4 million to IL 59.0 million, owing to the alteration of the exchange rate. The foreign capital was raised through the sale of shares, primarily those of the Industrial Development Bank of Israel, to the amount of IL 21.1 million, and by the sale of debentures, mainly of the Jassour Mortgage Bank, to the amount of IL 39.4 million. On the other hand, foreign deposits in Israel financial institutions were IL 1.4 million lower. The institutions' liabilities to the rest of the world rose from 3.1 per cent of total liabilities in 1960 to 9.5 per cent in 1962.

(f) *Households*

The household sector, which in 1961 received net credit to the amount of IL 75 million, in 1962 was a net lender to the extent of IL 19 million. This marked change was primarily due to the larger mortgage loan repayments, which exceeded the volume of new credit granted to the sector, as well as to the IL 5.8 million increase in payments by households.

<sup>1</sup> Including agricultural settlements.

Table XVII-3

**ASSETS AND LIABILITIES OF THE FINANCIAL INSTITUTIONS,  
1961-62\***

(End of period)

	IL million		Per cent		Increase or decrease (-) from 1961 to 1962	
	1961	1962	1961	1962	IL million	%
<b>Assets</b>						
Cash and deposits with banks	21.1	24.7	1.7	1.4	3.6	17.1
Credit to the public from own means	537.1	771.9	44.5	42.8	234.8	43.7
Credit to the public from Government deposits	454.6	594.1	37.7	32.9	139.5	30.7
Credit to the public from deposits earmarked for loans	52.6	73.1	4.4	4.0	20.5	39.0
Loans to the Government (including deposits with the Accountant General)	86.7	252.3	7.2	14.0	165.6	191.0
Non-governmental securities	44.6	77.8	3.7	4.3	33.2	74.4
Immovable assets	10.2	10.3	0.8	0.6	0.1	0.1
<b>Total</b>	<b>1,206.9</b>	<b>1,804.2</b>	<b>100.0</b>	<b>100.0</b>	<b>597.3</b>	<b>49.5</b>
<b>Liabilities</b>						
Equity capital	280.8	400.4	23.3	22.2	119.6	42.6
Debentures	206.2	429.1	17.1	23.8	222.9	108.1
Deposits and loans from banks	38.2	26.7	3.2	1.5	-11.5	30.1
Government deposits	505.0	686.8	41.8	38.1	181.8	36.0
Deposits earmarked for loans	42.2	75.0	3.5	4.1	32.8	77.7
Other deposits and loans	80.9	95.0	6.7	5.3	14.1	17.4
Demand deposits	6.1	6.6	0.5	0.4	0.5	8.2
Other accounts (net)	47.5	84.6	3.9	4.7	37.1	78.1
<b>Total</b>	<b>1,206.9</b>	<b>1,804.2</b>	<b>100.0</b>	<b>100.0</b>	<b>597.3</b>	<b>49.5</b>
<b>Contingent accounts</b>						
Customers' liabilities and guarantees	68.2	115.3	—	—	47.1	69.1
<b>Grand. total</b>	<b>1,275.1</b>	<b>1,919.5</b>	<b>—</b>	<b>—</b>	<b>644.4</b>	<b>50.5</b>

\* Including revaluation differentials.

## 2. ASSETS AND LIABILITIES

Other important changes occurred in the financial institutions' balance sheet during the year reviewed. The share of non-governmental securities in total assets rose from 3.7 per cent in 1961 to 4.3 per cent in 1962. This increase was due to the expanded operations of investment companies, the purchase of Jewish Agency securities by the financial institutions, and larger purchases of industrial equities, particularly by mortgage banks.

The most striking development on the liabilities side was the 108 per cent rise in the debentures item, whose weight in total liabilities thus went up from 17 to 24 per cent. This increase was connected with the agreement between the Treasury and the financial institutions, particularly the mortgage and industrial investment banks, whereby the bulk of the proceeds from the sale of debentures—which are issued with the approval of the Treasury—were transferred to the Treasury for financing the development budget. The contingent accounts showed an increase of 69 per cent in 1962. This stemmed in part from the transfer of these accounts from the books of the banking institutions to those of their subsidiary finance companies, and in part from the expansion of financial transactions conducted by the financial institutions themselves.

## 3. CREDIT

Credit extended through the financial institutions consists mainly of long-term loans for investment and development purposes. Investments in industry and agriculture and the financing of housing purchases constituted 80 per cent of the institutions' outstanding credit at the end of 1962.

The institutions' credit balance, including linkage differentials, amounted to IL 1,691 million at the end of 1962—a rise of IL 560 million, or 50 per cent, over 1961; most of the increase occurred in outstanding loans owed to the institutions. The rise in the credit balance, excluding linkage differentials, which indicates the amount of credit granted,<sup>1</sup> totalled IL 269 million,<sup>2</sup> or 24 per cent, as compared with an increase of IL 281.8 million, or 33.2 per cent, in 1961. The slower rate of growth in 1962 is explained in part by the rise in the ratio of payments to the credit balance from 11 per cent in 1961 to 17 per cent in 1962,<sup>3</sup> and by the rise in the ratio of payments to new credit extended from 29 to 59 per cent.

<sup>1</sup> Henceforth all credit data are net of linkage differentials.

<sup>2</sup> This figure includes IL 36 million which does not represent new loans but the transfer of existing loans from building companies to mortgage banks and from the Government to the Maritime Bank.

<sup>3</sup> These ratios relate the payments during the year to the credit balance at the end of the preceding year. The calculation has been made for mortgage and industrial investment banks.

Among the financial institutions, those specializing in credits to a single sector occupy a prominent place, accounting for a considerable share of total credit granted by the institutions to the various sectors.

**Table XVII-4**  
**FINANCIAL INSTITUTIONS, BY SECTORIAL SPECIALIZATION,**  
**END OF 1962**

Sector	Balance of credit granted sector by institutions specializing therein (IL million)	Ratio to total credit granted sector by all financial institutions (%)
Industry	356.6	92
Agriculture	197.2	98
Construction <sup>a</sup>	341.4	82
Public and private services	71.2	65
Private individuals	19.7	100

<sup>a</sup> Mainly credit for financing housing.

### *Destination of credit*

#### *1. The Government*

The balance of loans extended by the financial institutions to the Government rose in 1962 by IL 94 million, or 108 per cent, as against a rise of IL 20 million, or 30 per cent, in 1961. This increase stemmed, as has been noted, from the deposit with the Accountant General of the proceeds of the financial institutions' debenture sales and mortgage redemption receipts.

#### *2. Industry*

Net credit advanced by the financial institutions to industry totalled IL 80 million in 1962 as against IL 83.4 million the year before. Of this sum, IL 40 million came from the Industrial Development Bank of Israel alone, and the remainder from other industrial investment banks and investment companies. The financial institutions' share of total industrial credits granted by the Government (directly or through the banking and financial institutions) amounted to 54 per cent in 1962. The share of industry in outstanding loans granted the economy by the financial institutions rose slightly, from 27 per cent in 1960 to 28 per cent in 1962.

Under the arrangements made in connection with the linkage provision, the Treasury and the industrial investment banks agreed to allow borrowers to extend the repayment period for old loans up to a maximum of one-third,

depending on the rate of linkage. As for new loans, the borrower is now given the choice between linking to the cost-of-living index and the payment of a 4 per cent premium.

Table XVII-5

BALANCE OF CREDIT GRANTED BY THE FINANCIAL INSTITUTIONS,  
BY FIRST SECTOR OF DESTINATION, 1960-62

(End of period)

Sector	1960	1961	1962	
			Including linkage differentials	Excluding linkage differentials
<b>IL million</b>				
Government (including deposits with Accountant General)	66.8	86.7	252.3	180.5
Industry	228.4	311.8	511.7	391.6
Agriculture	194.3	202.9	206.7	205.0
Construction <sup>a</sup>	209.3	346.3	485.9	418.0
Commerce	9.5	10.1	12.7	11.6
Public services	23.9	25.6	45.9	40.2
Services <sup>b</sup>	43.9	43.3	86.0	74.0
Households	22.4	29.6	19.9	19.8
Miscellaneous <sup>c</sup>	50.7	74.7	70.3	59.4
<b>Total</b>	<b>849.2</b>	<b>1,131.0</b>	<b>1,691.4</b>	<b>1,400.1</b>
<b>Percentages</b>				
Government	7.9	7.7	14.9	12.9
Industry	26.9	27.6	30.2	27.9
Agriculture	22.9	17.9	12.2	14.6
Construction <sup>a</sup>	24.6	30.6	28.7	29.9
Commerce	1.1	0.9	0.8	0.8
Public services	2.8	2.3	2.7	2.9
Services <sup>b</sup>	5.2	3.8	5.1	5.3
Households	2.6	2.6	1.2	1.4
Miscellaneous <sup>c</sup>	6.0	6.6	4.1	4.3
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

<sup>a</sup> Including credit for home financing.

<sup>b</sup> Transport, hotels and other guest accommodation, education, health, and religion.

<sup>c</sup> Including credit to local authorities, the National Institutions, and financial institutions the destination of which has not been identified.

### *3. Agriculture*

In 1962 the financial institutions advanced only IL 2.1 million in loans to agriculture for investment and development purposes, as compared with IL 8.6 million in 1961. The share of agricultural loans in the financial institutions' outstanding credit declined from 23 per cent in 1960 to 14.6 per cent in 1962. This continued the static farm investment trend apparent in recent years, and was connected with the uncertainty which prevailed for a considerable time after devaluation as to the question of linkage.

The principal institution engaged in agricultural financing is the Israel Bank of Agriculture. As of the end of 1962, it accounted for 67 per cent (IL 138.4 million) of the outstanding loans granted the sector by all the financial institutions. Besides this institution, there are 14 settlement funds which deal in loans to kibbutzim and other farm settlements.

The problem of the linkage of agricultural loans was discussed by a special committee established for the purpose. The fate of these loans has not been settled definitely, it being decided to postpone a final solution for three years. Until then the agricultural settlements will continue to repay their loans without the linkage differentials. For this reason, most of the financial institutions dealing primarily in agricultural loans have not revalued their balance sheets. As for new loans, it was decided to allow a choice between linking them to the cost-of-living index and paying a 3 per cent premium.

### *4. Construction*

Credit extended to this sector in 1962, in the main for financing housing purchases, totalled IL 72 million as against IL 137 million in 1961. This decline is explained by the larger repayment of mortgage loans during the year reviewed. Despite this big drop, the sector's share in the balance of aggregate credit granted by the financial institutions was still considerable—approximately 30 per cent, as compared with 24.6 per cent in 1960. The IL 72 million increase in the credit balance includes, in addition to new credit granted in 1962, the transfer of IL 23 million in existing loans from building companies to their subsidiary mortgage banks.

Outstanding among the 11 mortgage banks are three which are affiliated with the three largest banking institutions. Their share in the credit balance of all mortgage banks was 70 per cent at the end of 1962, as against 80 per cent at the end of 1961 (when there were only nine mortgage banks).

The devaluation of the currency left its mark on the activity of the mortgage banks during 1962. Immediately after devaluation, many borrowers sought to redeem their mortgages and save the dollar-link differentials. The mortgage banks accepted the payments, but until the issuance of the Government's directives they treated them only as deposits. After a time, the Government announced a series of concessions for tenants in housing schemes sponsored

by the Ministry of Housing and for those in privately-built homes with an area not exceeding 84 square meters. The tenants were allowed to choose between three alternatives by June 7, 1962: (1) conversion of the dollar link to an index link as of the date of the receipt of the loan; (2) repayment of the balance of the loan or part thereof at the rate of IL 1.80 per dollar, plus an annual service charge of 3 per cent on the amount repaid; (3) retention of the dollar-link but with the period for repayment of the balance of the loan extended by one-third. These concessions applied to loans granted both from Government deposits and from resources of the mortgage banks. With regard to the latter, the Treasury agreed to compensate the mortgage banks for losses incurred as a result of these concessions. Most of the premature repayment of mortgage loans was due to these concessions.

Table XVII-6

**GROWTH IN OUTSTANDING CREDIT BALANCE OF FINANCIAL INSTITUTIONS, BY FIRST SECTOR OF DESTINATION, 1961-62\***

(From end of year to end of year)

Sector of destination	IL million		Per cent increase or decrease (-) as against preceding year	
	1961	1962	1961	1962
Government (including deposits with Accountant General)	19.9	93.8	29.8	108.2
Industry	83.4	79.8	36.5	25.6
Agriculture	8.6	2.1	4.4	1.0
Construction <sup>b</sup>	137.0	71.7	65.5	20.7
Commerce	0.6	1.5	0.6	14.9
Public services	1.7	14.6	7.1	57.0
Services <sup>c</sup>	-0.6	30.7	-1.4	70.9
Households	7.2	-9.8	3.2	-33.1
Miscellaneous <sup>d</sup>	24.0	-15.3	47.3	-20.4
<b>Total</b>	<b>281.8</b>	<b>269.1</b>	<b>33.2</b>	<b>23.8</b>

\* Excluding linkage differentials.

<sup>b</sup> Including credit for financing home purchases.

<sup>c</sup> Transport, hotels and other guest accommodation, education, health, and religion.

<sup>d</sup> Including credit to local authorities, the National Institutions, and financial institutions the destination of which is unspecified.

In August the Government, wishing to reduce the liquidity of the economy, announced a further series of concessions for those paying off their debts completely or partly by the end of November 1962. A borrower who repaid at least IL 500 by that date was granted a discount on account of principal and the interest and linkage differentials due on the date of repayment. The discount was related to the life of the mortgage: 5 per cent for loans due to be redeemed between April 1963 and September 1965, 10 per cent for those between October 1965 and March 1969, and 15 per cent for mortgage loans falling due after that date. A borrower who repaid at least IL 500 of the principal was exempted from linkage on a sum equal to that repaid, provided that he paid the linkage differentials due on the date of repayment.

Of the amount received from the advance collection of mortgage loans, about IL 54 million was deposited with the Accountant General; about half of this was in repayment of loans granted from Government deposits, and the balance in repayment of loans granted from the mortgage banks' own resources. In addition, the mortgage banks deposited with the Accountant General the sum of IL 29 million obtained from the sale of their debentures.

#### *5. Public and private services*

Most of the credit for public and private services was extended through three financial institutions. Two of them are Government-owned—the Tourist Industry Development Corporation and the Maritime Bank, which was established in 1962—while the third, the Local Authorities Bank, is owned jointly by the Government, the local authorities, and the banking institutions. The share of these three financial institutions in the consolidated balance sheet at the end of 1962 was only 5.4 per cent.

#### 4. INVESTMENT COMPANIES<sup>1</sup>

In 1962 there were nine investment companies, all of them subsidiaries of banking institutions, as against six such companies in 1961. The major ones are the Bank Leumi Investment Company and the Discount Bank Investment Company, which together accounted for 90 per cent of the total balance sheet of the investment companies at the end of 1962, as against 86 per cent at the end of 1961. Their share in the total securities portfolio of the investment companies amounted to 66 per cent at the end of 1962—a similar rate as the year before.

The investment companies expanded their volume of business in 1962. Their securities portfolio rose from IL 28 million at the end of 1961 to IL 36 million at the end of 1962, i.e. by 29 per cent. But their operations are not confined to the acquisition of securities; they also grant loans, mainly from Govern-

<sup>1</sup> Excluding unit trust funds.

ment deposits. The bulk of the credit—93 per cent—was advanced by the two large companies. It should be noted that in the acquisition of securities the investment companies are not guided solely by the object of spreading their risks, but some of them show a tendency to acquire a controlling voice in various industrial concerns—a policy not usually associated with investment companies.