

CHAPTER VII

PUBLIC SECTOR¹ OPERATIONS

1. PUBLIC SECTOR—CONSOLIDATED ACCOUNT

THE SCOPE OF OPERATIONS² of the public sector rose by IL 480 million during 1963, and totalled approximately IL 3,710 million. At current prices, the rate of increase amounted to 15 per cent—somewhat larger than in 1961 and 1960. In 1962, in the wake of the devaluation and the very marked expansion of public consumption, the rate of increase had been unusually large—35 per cent.

Compared with 1962, the real growth of public consumption and investment was slower: imports did not rise and possibly even declined, following a substantial rise in 1962, while the increase in the number of workers was relatively small. At fixed prices, public consumption went up by 9 per cent and investment by 7 per cent, compared with 11 and 23 per cent respectively in 1962. Outlay on subsidies was somewhat lower during the year reviewed: the marked rise in subsidies designed to stabilize consumer prices practically offset the decline in subsidies due to the cancellation in 1962 of export premiums and payment of exchange rate differentials to importers. With the contraction of immigrant housing construction and the continued drop in reparations receipts, the amount of loans granted from the development budget and by the Jewish Agency's Settlement Department did not exceed the 1962 level and in real terms even declined by some 5 per cent. As against this, there was a continued rapid rise in transfer payments and debt repayment.

Tax receipts rose at a slightly slower rate than the national income—in con-

¹ The Government (including the National Insurance Institute), the National Institutions (the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod), and the local authorities (including the religious councils). Current income and outlay of the trading enterprises (such as the Post Office, Israel Railways, and municipal waterworks) have been excluded, except for their surpluses or deficits.

The data in this chapter are based mainly on financial reports of the public sector authorities, and partly on material prepared by the Central Bureau of Statistics, and for the most part refer to calendar years. Data for the year under review are based on provisional monthly summaries, since financial reports for fiscal 1963/64 have not yet been published. Data for the years 1960 to 1962 have been revised.

² With long-term loans recorded on a gross basis and short-term loans on a net basis; excluding changes in the outstanding balance of liabilities or assets arising from the change in the exchange rate. Had long-term loans been recorded on a net basis, operations would have risen by IL 360 million, or 12.5 per cent, and totalled IL 3,215 million.

trast to the development in each of the past few years—owing to the cuts in tax rates on consumption goods. Receipts from long-term domestic loans fell off, but as against this sales of the Government Short-Term Loan continued at a brisk rate. Unrequited receipts from abroad did not go up, while net receipts from foreign loans declined considerably because of increased repayments, partly of loans not yet due. The advance repayment of loans was financed through a special loan from the Bank of Israel.

The economic significance of public sector operations must be examined in the light of developments in the economy as a whole. In determining the fiscal and monetary effects of the operations of the entire sector, it should be noted that the Government's role is predominant.

Since the devaluation, demand pressure in the economy has been mounting. Government steps to ensure stability during this period were directed primarily to stabilizing the price index—*inter alia* by freezing and even reducing indirect tax rates and by enlarging subsidies. And indeed, in 1963 the Government succeeded to a certain extent in preventing the rise of prices, but in doing so it did not eliminate the threat of inflation, and the methods resorted to were such as to increase purchasing power in the hands of the public.

After the devaluation, with the recording of foreign currency outlays at the new exchange rate and in the light of the policies pursued, there was a considerable growth in the demand surplus of the public sector—which is the gap between the direct demand of the sector and the contraction of income in the hands of the public as a result of the fiscal activities of the sector, mainly through the levying of taxes and other compulsory payments. A rise also took place in the gap between total money flows from the public sector to the rest of the economy, including the granting of loans, and the total amount withdrawn from the economy, both by borrowing and by taxes. This difference was financed chiefly by loans and unrequited receipts from abroad, and its effect on the economy mainly found expression in the form of pressure on the balance of payments.

While the demand surplus of the public sector shrank somewhat in 1963 as compared with 1962, there was no decline in the excess of total expenditure, including loans granted, over total domestic receipts, including loans received. This surplus totalled approximately IL 560 million, of which IL 275 million arose from Government operations and the rest from operations of the National Institutions, which are largely dependent on external financing.

As against this, public sector dissaving decreased, following a sharp rise in 1962 when, after the devaluation, imports of Government services were recorded at the new exchange rate. The dissaving of the public sector is the excess of outlay over income on current account alone—as contrasted with the demand surplus, which takes into account investment and domestic receipts on capital account as well. Unilateral receipts from abroad are not considered current income, even when they are earmarked from the outset to finance current outlay.

Devaluation disclosed the concealed deficit which had in fact existed in the

Government's ordinary budget even earlier. After the devaluation, the ordinary budget was balanced only by transferring ordinary expenditure to the development budget on the one hand, and extraordinary receipts from the development budget to the ordinary budget on the other—an expedient testifying that no real solution to the problem has yet been found.

(a) *The effect of the public sector on the level of aggregate demand*¹

In Table VII-1 an attempt has been made to measure the effect of the public sector on the growth of excess aggregate demand.

The first part of the table measures the "demand surplus" of the public sector, which is defined as the difference between total expenditure and income, on both current and capital account, excluding unilateral transfers from abroad.²

Public consumption and investment³ represent the direct demand of the public sector for goods and services, either locally produced or imported. Tax receipts, less local transfer payments, represent the contraction of the public's demand as a result of the reduction of its income by public sector levies.⁴ To the extent that the sector increases its demand more than it decreases the demand of the rest of the economy, a public sector demand surplus is created, which finds expression either in pressure on the domestic price level or enlargement of the import surplus, or both.⁵

The existence of a substantial public sector demand surplus has characterized the Israeli economy from the outset, but following the devaluation and the recording of foreign currency outlay at the new exchange rate, the magnitude of the surplus rose considerably. While it declined somewhat in 1963 as compared with 1962,⁶ the demand surplus still amounted to IL 395 million, or 18 per cent of total purchases (see Diagram VII-1).

In respect of credit as well, the public sector injects into the economy a larger sum than it withdraws from it. In 1963 there was a decline in the amount of

¹ For a more comprehensive discussion, see Chapter XVI, "Flow of Funds". An analysis of the Government subsector is presented below (see Table VII-5).

² Excluding also the devaluation differentials received from the Bank of Israel in 1962, which did not involve any contraction of demand in other sectors of the economy.

³ Purchases, less sales, on current and capital account.

⁴ Less transfer payments and subsidies by the public sector.

⁵ As regards the economy as a whole, the demand surplus is reflected in the deficit on current account in the balance of payments. In respect of a specific sector, it is not feasible to measure separately its contribution to the creation of a demand surplus within the economy and to balance of payments pressure. Even when it is possible to distinguish between domestic and foreign purchases, there exists a not inconsiderable degree of substitution between them, and the substitution of a domestic product for an imported one on the part of one sector could lead to the expansion of imports by another.

⁶ Data for 1962 have been revised, while those for 1963 are provisional. After revision of the provisional data published in the Bank of Israel Annual Report for 1962, the estimated demand surplus of the public sector in 1962 was adjusted upward by IL 75 million.

⁷ Excluding credit from the banking system.

Table VII-1
PUBLIC SECTOR OPERATIONS AND SOURCES OF FINANCING, 1960-63
(IL million)

	1960	1961	1962	1963	Increase or decrease (—) from 1962 to 1963
A. Demand surplus					
Public consumption and investment	1,101	1,311	1,894	2,198	304
Less: Taxes and net transfers from the public ^a	908	1,136	1,465	1,805	340
Demand surplus	193	175	429	393	-36
B. Net credit granted^b					
Loans granted ^c	317	353	413	402	-11
Less: Domestic loans and credit received ^c	100	100	293	237	-56
Net domestic credit granted	217	253	120	165	45
Total A+B	410	428	549	558	9
Financing through receipts from abroad and from the banking system					
C. From abroad					
Unrequited receipts	228	249	233	245	12
Net loans and credit	186	205	389	189	-200
Total	414	454	622	434	-188
Total in \$ million	(231)	(252)	(232)	(145)	(-87)
D. From the banking system					
Total C+D	410	428	549	558	9

^a Receipts from taxes, domestic transfers, interest, and property, less transfer payments and subsidies.

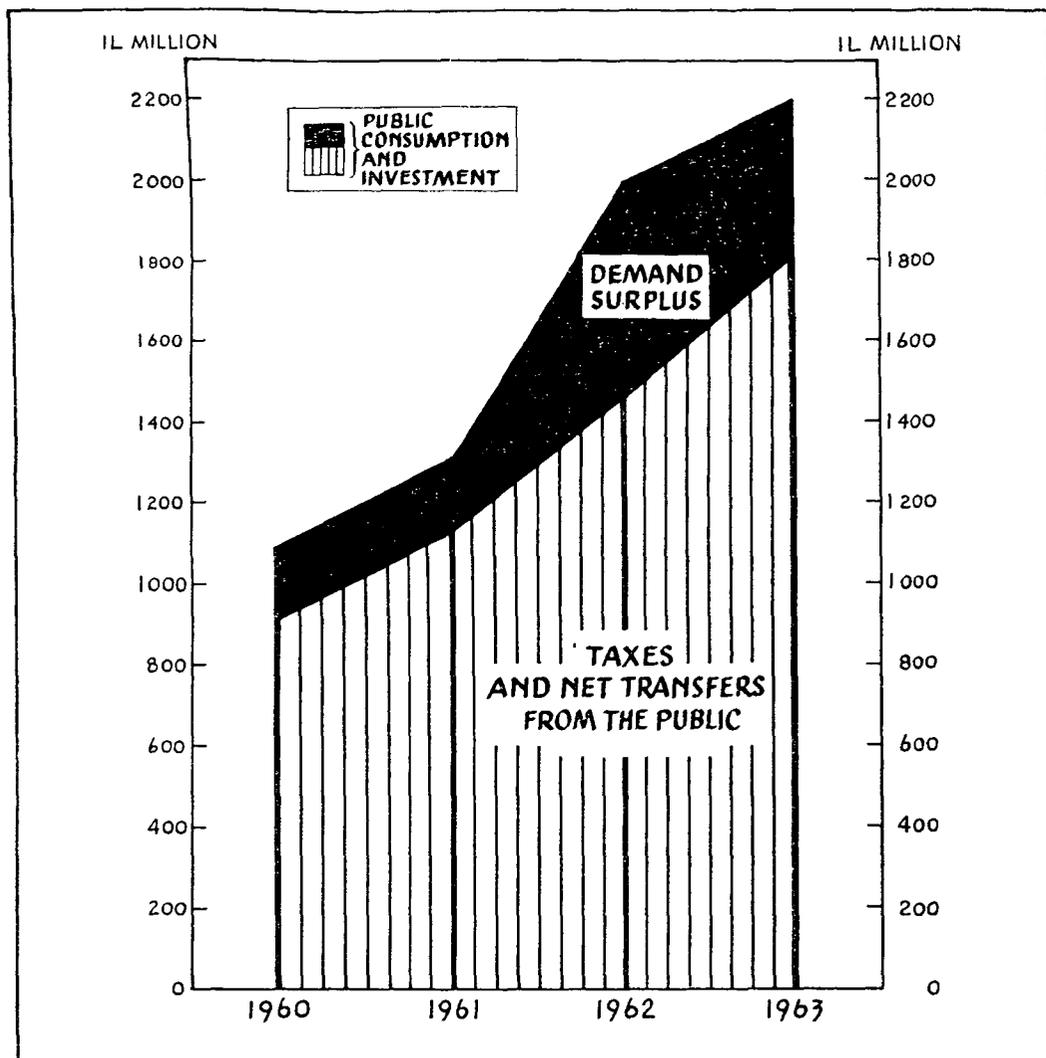
^b Excluding transactions with the rest of the world and with the banking system.

^c Net of repayments.

^d In 1962—a decline of IL 235 million in the debt to the banking system, plus revaluation differentials in the amount of IL 162 million which the Bank of Israel transferred to the Government; in 1963—a rise of IL 149 million due to a special loan granted by the Bank of Israel for the advance repayment of Government debts abroad, and a decline of IL 30 million in other credits.

Note: Classification of receipts and payments for the purpose of calculating the demand surplus differs somewhat in this table from that in Table VII-2 in the Bank of Israel Annual Report for 1962. The purpose of the reclassification was to distinguish between the direct impact of public sector demand on the goods and services market and its impact on the level of personal income; the definition of the demand surplus remains unchanged. A more detailed breakdown appears in the Appendix to this report (in Hebrew only).

Diagram VII-1
DEMAND SURPLUS OF THE PUBLIC SECTOR, 1960-63



loans granted from the development budget and by the Jewish Agency's Settlement Department (net of repayments on past loans), but there was a still larger decrease in borrowing by the sector (net of repayments). Hence the net outflow of credit rose compared with 1962, and amounted to IL 165 million.

The demand surplus of the public sector and net financing of other sectors totalled some IL 560 million in 1963, about the same as in 1962. This amount was financed largely by funds received from abroad—both loans and unrequited transfers.

(b) *Transactions of the public sector*

The "balance of payments" of the public sector for the years 1962 and 1963, by main types of receipts and payments, is presented in Table VII-2. This table distinguishes between transfers and transactions in goods and services—the "real account"—and transactions in credit—the "financial account".¹

In 1963 payments on real account exceeded receipts from taxes and domestic and foreign transfers by the considerable amount of IL 150 million; this was equal to the demand surplus less unilateral transfers from abroad. Parallel thereto, the increase in obligations exceeded loans granted for housing and development purposes. This represents a change compared with the predevaluation period, when ordinary receipts plus unilateral transfers from abroad exceeded ordinary expenditure plus investment, while in its financial transactions the public sector lent to the rest of the economy more than it borrowed both at home and abroad, with foreign currency obligations recorded at the old rate of exchange.

Diagram VII-2 presents a breakdown of the receipts and expenditure of the public sector for the years 1960 to 1963. After the devaluation there was a relative decline in domestic receipts—from taxes, other income, and loans—while the share of receipts from abroad, including loans (recorded at the new rate of exchange), went up. In 1963 domestic receipts increased once again, even disregarding the loan granted by the Bank of Israel for the advance repayment of foreign obligations.

On the payments side, there was a relative rise in 1962 and 1963 in purchases on current and capital account and in debt repayment, which was connected with the change in the exchange rate; on the other hand there was a relative decline in subsidies, with the cancellation of export premiums, and in loans granted, with the drop in reparations receipts.

Current outlay—purchases, transfers, and subsidies—accounted for close to two-thirds of total outlay; an additional quarter was spent on investment and the financing of investment, while the remaining ten per cent was for redemption of long-term domestic and foreign loans.

In 1963, 65 per cent of total outlay was financed out of taxes and other ordinary receipts,² and 35 per cent by domestic and foreign loans and unilateral transfers from abroad. If redemption of loans and collections on account of loans are deducted from receipts and payments, the relative share of ordinary

¹ The commodities and services account is chiefly a current one, since the public sector has not been debited for most of its outlay, this generally being classified as loans to other economic sectors (including the financing of all types of residential construction through the Government's development budget and the financing of agricultural settlement by the Settlement Department of the Jewish Agency). Explanatory notes on the method of constructing the "balance of payments" in this chapter were given in the Appendix to the Bank of Israel Annual Report for 1959 (in Hebrew only).

² Domestic income, excluding loans and collections on account of loans.

Table VII-2

"BALANCE OF PAYMENTS" OF THE PUBLIC SECTOR, BY TYPE OF RECEIPT AND PAYMENT, 1962-63

(IL million)

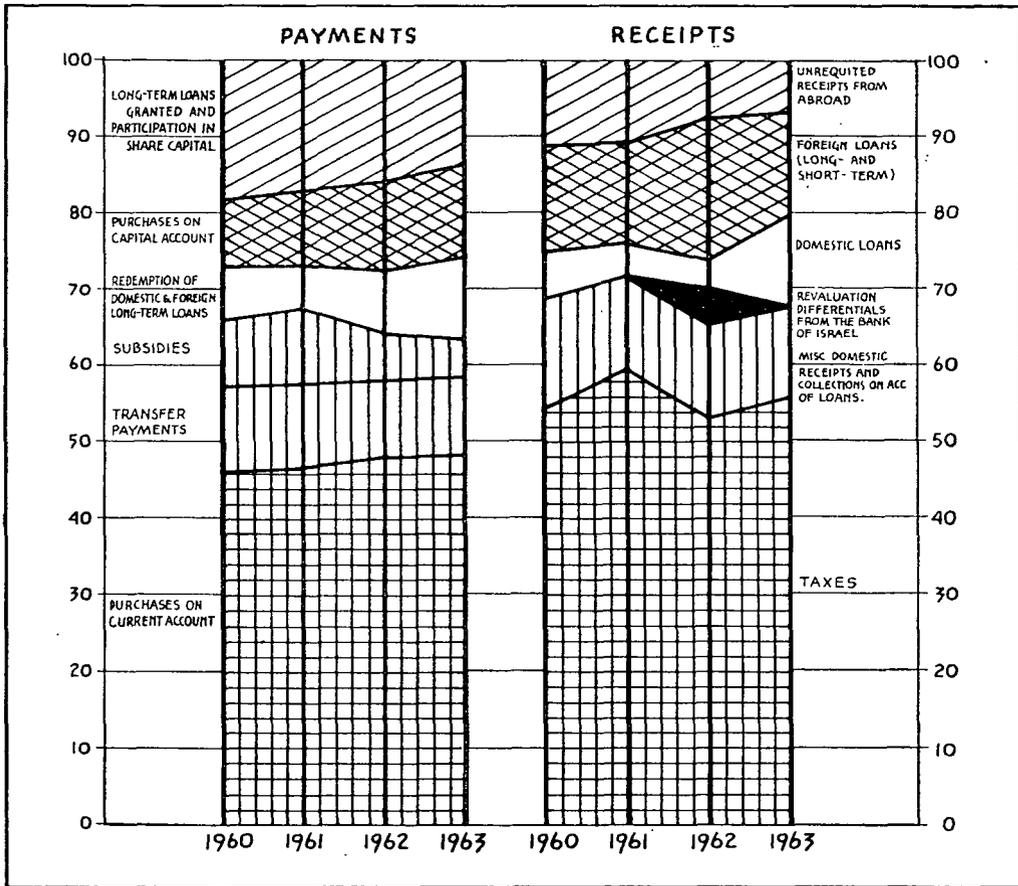
Receipts	1962	1963	Increase or decrease (-)	Payments	1962	1963	Increase or decrease (-)
Transfer payments and transactions in goods and services							
Taxes ^a	1,736	2,076	340	Purchases.			
Miscellaneous domestic receipts	288	343	55	On current account ^a	1,556	1,794	238
Total	2,024	2,419	395	On capital account	377	443	66
Revaluation differentials from				Transfer payments and grants	314	377	63
Bank of Israel ^b	162	—	-162	Subsidies	206	198	-8
Unrequited receipts from abroad	233	245	12				
Total	2,419	2,664	245	Total	2,453	2,812	359
Transactions in financial claims^c							
Collections on account of				Long-term loans granted and			
long-term loans	93	103	10	participation in share capital	507	506	-1
Long-term loans received:				Redemption of long-term loans:			
Foreign	524	591	67	Foreign	212	309	97
Domestic	187	174	-13	Domestic	56	80	24
Short-term credit (net)							
Foreign	78	-92	-170				
Domestic ^d	162	143	-19				
From the banking system ^e	-235	124	359				
Total	809	1,043	234	Total	755	895	120
Total receipts	3,228	3,707	479	Total payments	3,228	3,707	479

^a Excluding customs and purchase tax paid by public sector offices or received in the form of bank guarantees.^b Revaluation differentials on the excess of the Bank of Israel's foreign currency assets over its foreign currency liabilities.^c Excluding changes in the assets and liabilities of the public sector in 1962 due to the alteration of the exchange rate. Receipts and payments have been recorded according to the exchange rate in force on the date of receipt or payment.^d Excluding credit from the banking system; including short-term securities.^e Including long-term loans and securities. In 1962—excluding revaluation differentials on public sector deposits, but including debt redemption out of the revaluation differentials of the Bank of Israel which were transferred to the Government. In 1963—including a Bank of Israel loan

Diagram VII-2

RECEIPTS AND PAYMENTS OF THE PUBLIC SECTOR, 1960-63

(percentages)



receipts comes to 75 per cent, receipts from borrowing to 18 per cent (over half of it from abroad or from the banking system), and unilateral transfers from abroad to 8 per cent.

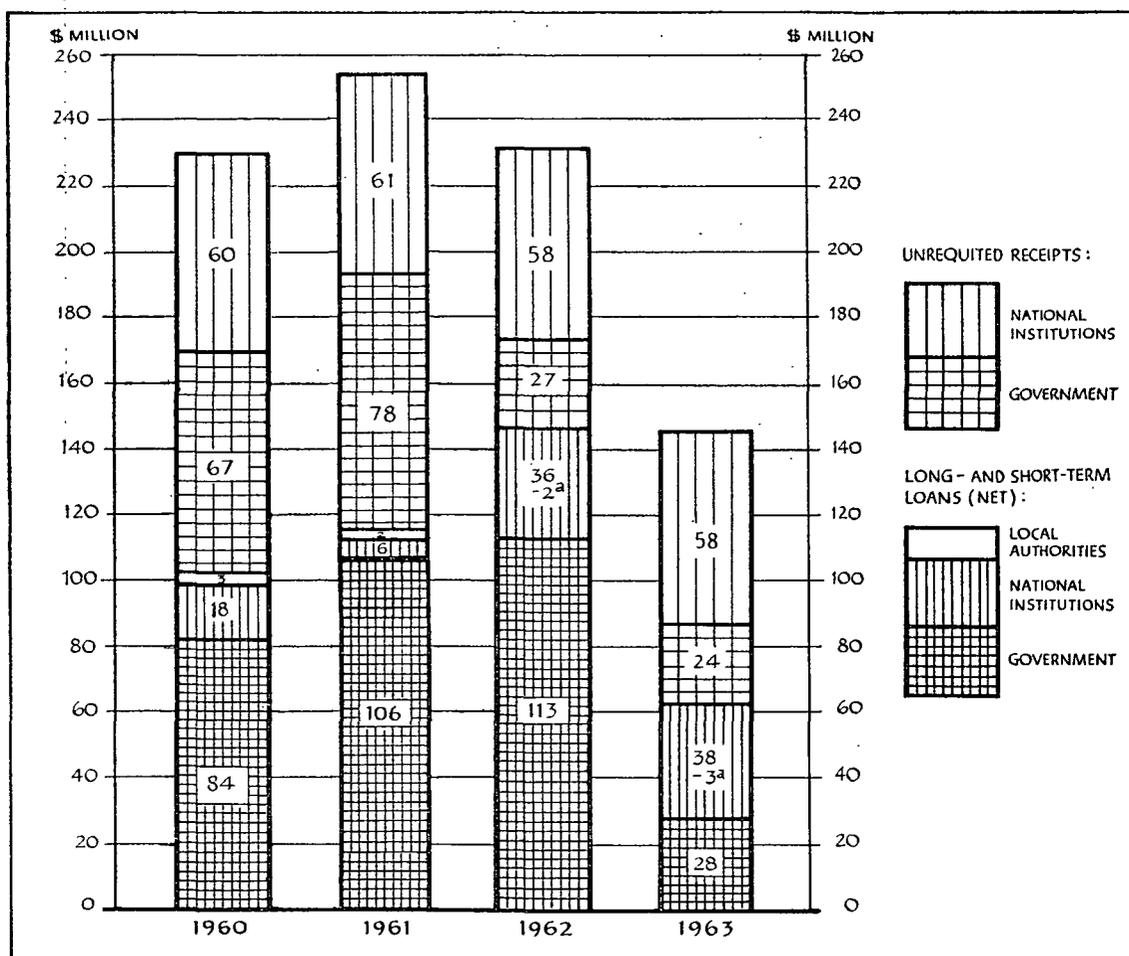
Government operations accounted for 78 per cent of aggregate public sector payments and receipts. The relative share of the National Institutions amounted to 12 per cent of receipts and 10 per cent of expenditure (other than payments to the Government), while the local authorities accounted for 10 per cent of total receipts (excluding transfers from the Government) and 12 per cent of total payments.

Diagram VII-3 gives a breakdown of public sector receipts from abroad in

foreign currency values for the past four years, by type of receipt and subsector. In 1963 total receipts dropped sharply compared with the three preceding years. This was entirely due to the decrease in Government receipts, especially from loans, as a result of the larger repayment of both long- and short-term loans and, to a lesser extent, the continued decline in unilateral transfers. In the last two years the latter item fell off considerably as reparations drew to a close. Nor did the unilateral receipts of the National Institutions advance any, all their additional foreign receipts in the past two years coming from borrowing.

Diagram VII-3

PUBLIC SECTOR RECEIPTS FROM ABROAD, 1960-63



^a Local authorities.

(c) *Public consumption*

Public consumption is defined as purchases of goods and services on current account by the public sector.¹ It consists mainly of wages and salaries of employees (exclusive of employees of commercial enterprises, such as the Post Office and Israel Railways), purchases of locally produced and imported goods for direct use of the public sector other than for investment, and interest payments.

Public consumption rose by 15 per cent in 1963—9 per cent in real terms and 5.5 per cent the result of higher prices. As against 1962, there was a decline in the real growth rate. Government imports, including defense requirements,² did not expand and perhaps even fell somewhat from the high level of 1962; the number of employees rose to a relatively moderate extent; and, compared with 1962, there was no change in the volume of immigration, which affects the consumption of the National Institutions in particular.

Outlay on security and special budgets, which constitutes close to 40 per cent of total public consumption, rose in 1963 by 10 per cent, at current prices, as compared with 1962, when the level of expenditure was especially high, and totalled IL 685 million.

Expenditure on wages and salaries, other than that of the Ministry of Defense, was 12.5 per cent higher than in 1962, and totalled IL 515 million. The increase in the number of workers is estimated at 3.5 per cent, and the average growth in wages per employee at 9 per cent, of which 6.5 per cent was due to the raising of the cost-of-living allowance rate. Wage agreements remained unchanged, in accordance with the wage policy of the Histadrut.

Interest payments have shown a steady upward movement owing to the increased indebtedness of the public sector.³ After the devaluation, these payments rose relative to public consumption and to total outlay, since the preponderant share of interest payments are either in foreign currency or value-linked.

(d) *Public sector saving*

Dissaving of the public sector—which is the excess of current outlay over current income—amounted to IL 45 million in 1963, or IL 85 million less than in

¹ Less subsidies. Current outlays not included in consumption are transfer payments in cash or kind to households and nonprofit institutions and subsidies to producers and importers. The data on public consumption in this chapter differ slightly from those of the Central Bureau of Statistics cited in Chapter II, "Resources, Uses, and Incomes". The variances are as follows: (1) the data in this chapter include total interest payments; (2) they do not include customs duty and purchase tax paid by the various offices of the public sector; and (3) they do not include the municipal expenditure of collective and cooperative settlements.

² The timing of such imports over any two-year period is presumably somewhat fortuitous.

³ The Government also pays part of the interest on the foreign currency accounts of restitution recipients held in the Bank of Israel.

1962.¹ The devaluation led to an appreciable increase in public sector dissaving, chiefly because foreign currency expenditure was recorded at the new rate of exchange. Unrequited transfers from abroad are not defined as current income, and the larger local currency proceeds from this source were not taken into account, even though in the case of the National Institutions a considerable part of such receipts are earmarked from the outset to finance current expenditure.

Current income, largely from taxes, rose in 1963 by IL 365 million, or 19.5 per cent above the previous year's level, while current expenditure increased relatively less—by 13.5 per cent, or IL 280 million—owing to the slower growth of public consumption and subsidies (see Table VII-3).

Table VII-3
PUBLIC SECTOR SAVING, 1960-63

(IL million)

	1960	1961	1962	1963
(1) Income on current account ^a	1,293	1,595	1,925	2,292
(2) Outlay on current account ^b	1,368	1,607	2,055	2,337
(3) Saving or dissaving (-) of the public sector (1) - (2)	-75	-12	-130	-45
Increase in saving (or decrease in dissaving) as against previous year	—	63	-118	85

^a Taxes, domestic transfer receipts, and income from property, including interest.

^b Consumption, including interest paid, subsidies, and current transfer payments.

NOTE: The classification of income and outlay in this table differs from that in Table VII-4 in the Bank of Israel Annual Report for 1962 in that it is made on a gross rather than net basis. The difference in classification does not affect the definition of saving. A more detailed breakdown appears in the Appendix to this report (in Hebrew only).

The decline in dissaving stemmed entirely from Government operations. The dissaving of the National Institutions rose simultaneously with the growth in current expenditure, since these Institutions, which do not levy taxes, have practically no current income. As to the local authorities, they showed hardly any change in their level of dissaving.

Although there is no identity between public sector saving and the size of the

¹ The saving calculation differs from the demand surplus calculation (Table VII-1) in that it deals in transfers and transactions on current account only, and excludes transfers and transactions on capital account.

surplus in the ordinary budgets,¹ as a rule developments in both show a positive correlation. The devaluation revealed that public sector dissaving had actually been higher than it appeared to be, and at the same time disclosed the hidden deficit in the Government's ordinary budget: up to the devaluation current outlay in foreign currency was recorded in the ordinary budget at the official rate, while foreign currency receipts in the development budget in many cases yielded the Government a higher return owing to the levying of imports. These levies were recorded in the ordinary budget and served only in part to cover export premium payments. In each of the three budgets presented to the Knesset by the Government since the devaluation, expenditures which had previously been recorded in the ordinary budget were included in the development budget, while receipts which had formerly been recorded in the development budget were included in the ordinary budget. This proves that a real solution to the problem of a balanced ordinary budget has not yet been found.

(e) *Functional composition of expenditure*

Table VII-4 presents a breakdown of public sector expenditure for the years 1961 to 1963, by function and by public sector authority—the Government, National Institutions, and local authorities (see also Diagram VII-4).

After the devaluation there was a marked decline in the relative outlay of the public sector on economic services, owing to the abolition of export premiums and the reduction of the development budget. On the other hand, there was a rise in expenditures with a relatively high import component—security and special budgets, immigration, and interest.

In the year reviewed only minor changes took place compared with 1962. The proportion spent on education, interest, and subsidies on imported consumption goods went up, and that on housing and transportation declined.

Security and special budgets was the largest single item, accounting for over one-fifth of total expenditure (other than debt repayment, which is not included in this discussion). Other administrative outlays, including municipal services and immigration, accounted for 15 per cent of the total.

¹ The major differences between income and outlay in the saving calculation and as recorded in the ordinary budgets of the public sector authorities (other than interbudgetary transfers after the devaluation) are as follows:

- (a) In the case of the Government, certain receipts which are defined as current income in the saving calculation are recorded in the development and not the ordinary budget; these include net receipts of the National Insurance Institute and levies of the War Risk Insurance Fund, the Absorption Loan, and compulsory saving.
- (b) In the case of the local authorities, all debt repayments, including those on account of principal, are recorded in the ordinary budget, even though they are not current expenditure.
- (c) In the case of the National Institutions, on the other hand, a good part of their ordinary expenditure is financed out of unilateral receipts from abroad, which, as already mentioned, are not included in the saving calculation.

Table VII-4
PUBLIC SECTOR EXPENDITURE, BY FUNCTION* AND PUBLIC SECTOR AUTHORITY, 1961-63
 (percentages)

	1961	1962	1963	Breakdown in 1963 by public sector authority				Total
				Government	National Institutions	Local authorities	Intrasector transactions	
General services								
General administration	6.3	6.1	6.1	60.6	16.3	24.1	-1.0	100.0
Security and special budgets	18.8	21.5	21.2	100.0	—	—	—	100.0
Police and justice	2.5	2.1	2.2	100.0	—	—	—	100.0
Community services n.c.s. ^b	5.1	5.5	5.8	12.5	37.0	50.5	—	100.0
Total	32.7	35.2	35.3	78.7	8.9	12.6	-0.2	100.0
Social services								
Education, culture, and religion	10.6	10.5	11.2	60.8	7.3	36.0	-4.1	100.0
National Insurance and social welfare	7.7	7.2	7.5	88.4	6.4	16.9	-11.7	100.0
Health	4.0	3.8	3.8	84.0	0.8	18.4	-3.2	100.0
Housing	5.5	8.7	6.5	95.4	37.0	1.9	-34.3	100.0
Total	27.8	30.2	29.0	78.7	12.9	21.1	-12.7	100.0
Economic services								
Agriculture and water development	13.2	11.3	11.4	74.1	30.0	1.1	-5.2	100.0
Industry, mining, and electricity	8.6	5.5	5.4	96.1	1.1	2.8	—	100.0
Transport (including roads and oil pipelines) and communications	7.9	6.2	5.2	82.7	—	19.1	-1.8	100.0
Other economic services	2.2	1.4	1.4	95.7	6.4	—	-2.1	100.0
Total	31.9	24.4	23.4	82.4	15.0	5.4	-2.8	100.0
Unallocable services								
Interest payments	5.5	7.1	8.2	76.8	17.0	8.1	-1.9	100.0
Miscellaneous ^c	2.1	3.1	4.1	130.7	—	—	-30.7 ^d	100.0
Total	7.6	10.2	12.3	94.9	11.3	5.4	-11.6	100.0
Grand total	100.0	100.0	100.0	81.6	11.8	12.5	-5.9	100.0
Total in IL million	2,257	2,959	3,318	2,706	391	414	-193	3,318

^a Excluding debt repayment and current expenditure of public sector enterprises (such as Israel Railways, the Post Office, the ports, and municipal waterworks not elsewhere mentioned). Absolute figures appear in the Appendix to this Report (in Hebrew only).

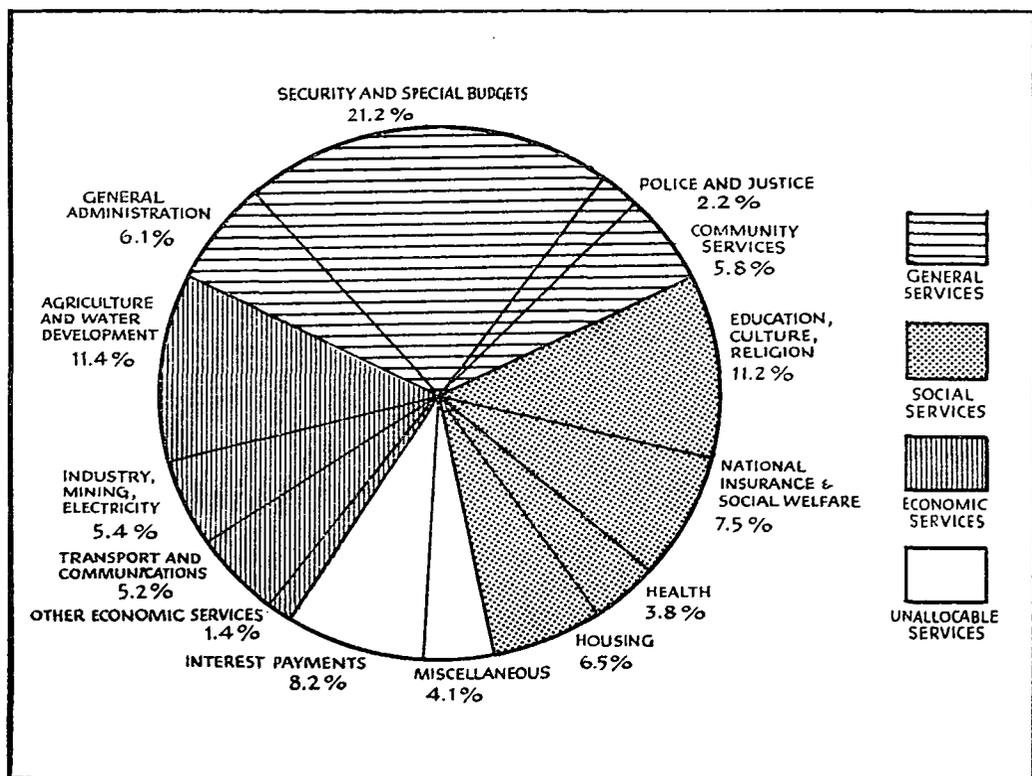
^b Mainly strictly municipal services (such as sanitation and sewerage and street lighting), direct immigration services, and general research.

^c Including subsidies on imported commodities, premiums paid to persons transferring capital (prior to the devaluation), and aid to foreign countries.

Diagram VII-4

FUNCTIONAL BREAKDOWN OF PUBLIC SECTOR EXPENDITURE, 1963

(percentages)



Social services, consisting of education, social welfare, housing, and health, accounted for 29 per cent of total outlay in 1963.

Economic services—largely to agriculture, industry, mining, electric power, and transportation and communications (including roads, posts, and ports)—constituted about 23 per cent of total expenditure. Outlay on agricultural services and water development totalled IL 380 million in 1963, making it the second largest item.

An additional 8 per cent went on interest payments, and 4 per cent on miscellaneous services—largely subsidies on consumer goods (other than domestic agricultural products).

The Government accounted for over 80 per cent of total public sector outlay. Its weight is preponderant in practically all the component items, other than community services, which are made up largely of municipal services and direct

immigration services. Defense, police and justice, social security, and the promotion of industry fall almost exclusively into the Government's sphere.

The National Institutions deal mainly with immigration, agriculture (settlement and afforestation), and the financing of immigrant housing. In addition, of course, they have interest and administrative expenditures—the latter including *inter alia* organizational activities of the World Zionist Organization, land transactions of the Jewish National Fund, and educational activities abroad.

Among the local authorities, in addition to community services ordinarily relegated to municipalities, educational and administrative services occupy a relatively important place.

“Intrasector transactions” are mainly Government transfers to finance activities of the local authorities and also the participation of the National Institutions in the financing of public immigrant housing.¹

2. THE GOVERNMENT

Government outlay, including repayment of long-term debts but excluding transfers to the National Institutions, was 14.5 per cent higher in 1963 than in 1962 and totalled IL 2,990 million.

There was a considerable increase in debt payments, transfers, and investment, particularly in the National Water Carrier and in inventories. On the other hand, the amount of loans granted did not rise, because of the contraction of immigrant housing, while subsidies declined somewhat: although subsidies intended to stabilize consumer prices were considerably larger than in 1962, the Government saved substantial sums because of the cancellation in 1962 of export premiums and payments on account of exchange rate guarantees to importers. Outlay on security and special budgets, as well as on wages and salaries, rose moderately compared with the past few years, owing to the nonincrease of Government imports and the freezing of basic wage rates of Government employees.

On the receipts side, income from taxes went up 19.5 per cent, although direct tax rates were not raised during the year and some indirect tax rates were cut. Net receipts from the National Institutions were also ahead of the 1962 figure. Income from domestic long-term loans declined. Short-term credits from abroad contracted considerably, because of the advance repayment of foreign debts, financed through a special loan from the Bank of Israel.

Total net receipts from abroad declined precipitately, as a result of the increase in debt repayment.

¹ In calculating the outlay of the consolidated public sector presented in Table VII-4, these transfers were deducted to prevent double counting. In calculating the outlay of the individual authorities they were included twice, as expenditure of the financing authority and of the executing authority.

(a) *Government transactions*

In Table VII-5 an attempt has been made to measure the effect of Government activities on the level of aggregate demand in the economy.¹ In the past two years Government demand for goods and services, both from local production and imports, apparently exceeded the net withdrawal of income from the economy (mainly through taxes and other compulsory levies). In 1963 the demand surplus totalled about IL 85 million, or 5 per cent of total purchases. Compared with 1962, the demand surplus declined, both absolutely and relative to total Government purchases.²

In its financial transactions with the rest of the economy, other than the banking system, the Government in 1963 paid out about IL 180 million more than it took in. This gap was much larger than in 1962, because of the marked drop in net receipts from long-term loans.

The excess of payments over receipts in respect of other parts of the public sector has decreased since the devaluation, owing to the larger amount received from the National Institutions; in 1963 it amounted to only IL 10 million.

To sum up, in 1963 Government purchases and credits totalled IL 275 million more than its withdrawals from the rest of the economy.³ This amount was IL 30 million smaller than in 1962, and as in previous years was financed by unilateral transfers and loans from abroad. While in 1963 there was also a rise in the Government's debt to the banking system, it was entirely due to the advance repayment of foreign obligations.

Table VII-6 presents the "balance of payments" of the Government for the years 1962 and 1963. As in Table VII-2, a distinction has been made between transfers and transactions in goods and services (the "real account") and transactions in credit (the "financial account"), while transactions with other parts of the public sector have been recorded separately.

In line with the trends characterizing the public sector as a whole, in which the Government's share is preponderant, the ratio between Government receipts and payments in the real and financial accounts underwent a striking change after the devaluation. In the past two years, outlay on real account exceeded

¹ See also Table VII-1, which deals with the public sector as a whole.

² As already pointed out, data for 1962 have been revised whereas the 1963 data are provisional. After publication of the 1962 Bank of Israel Report, the estimated demand surplus of the Government was adjusted upward by IL 65 million.

³ Nevertheless, it should be pointed out that during the year reviewed the Government had at its disposal an unexploited cash surplus, in the form of deposits in the Bank of Israel and foreign banks. This surplus was not used to enlarge expenditure, even though the authorized budget expenditure was not fully used up. This fact, of course, is not inconsistent with the existence of a considerable demand surplus—as long as the Government receives funds from abroad. It only signifies that, had it so wished, the Government might have created an even larger demand surplus, without having recourse to the Knesset—to the extent that it had at its disposal an incompletely utilized budget—and that it can do so in the future as well.

Table VII-5

GOVERNMENT OPERATIONS AND SOURCES OF FINANCING, 1960-63
(IL million)

	1960	1961	1962	1963	Increase or decrease (-) from 1962 to 1963
A. Demand surplus					
Public consumption and investment	810	969	1,443	1,664	221
Less: Taxes and net transfers from the public ^a	789	986	1,277	1,579	302
Demand or supply (-) surplus	21	-17	166	85	-81
B. Net credit granted^b					
Loans granted ^b	253	286	341	333	-8
Less: Domestic loans and credits received ^c	69	55	235	154	-81
Net domestic credit granted	184	231	106	179	73
C. Net payments to rest of public sector^d	60	67	30	9	-21
Total A+B+C	265	281	302	273	-29
Financing through receipts from abroad and from the banking system					
C. From abroad					
Unrequited receipts	120	139	71	71	--
Net loans and credit	149	190	292	83	-209
Total	269	329	363	154	-209
Total in \$ million	(150)	(183)	(140)	(51)	(-89)
D. From the banking system	-4	-48	61 ^e	119 ^e	180
Total C+D	265	281	302	273	-29

^a Receipts from taxes, domestic transfers, interest, and property, less transfer payments and subsidies.

^b Excluding transactions with the rest of the world and with the banking system.

^c Net of redemptions.

^d Net payments to the local authorities, less net receipts from the National Institutions.

^e In 1962—a decline of IL 223 million in the debt to the banking system, plus revaluation differentials of IL 162 million which the Bank of Israel transferred to the Government; in 1963—a rise of IL 149 million due to the special loan from the Bank of Israel for the advance repayment of Government debts abroad, and a decline of IL 30 million in other credits.

NOTE: Classification of receipts and payments for the purpose of calculating the demand surplus differs somewhat in this table from that in Table VII-8 in the Bank of Israel Annual Report for 1962. The purpose of the reclassification was to distinguish between the direct impact of Government demand on the goods and services market and its impact on the level of personal income; the definition of the demand surplus remains unchanged. A more detailed breakdown appears in the Appendix to this report (in Hebrew only).

both ordinary income¹ and unilateral receipts, whereas before the devaluation the reverse was true. This gap, which is equivalent to the demand surplus less unilateral transfers from abroad, amounted in 1963 to IL 15 million.

In the financial account, the amount of credit received by the Government² from domestic and foreign sources exceeded the amount of credit extended both in 1963 and in 1962, whereas prior to the devaluation, when loans from abroad were recorded at the official rate of IL 1.80 to the dollar, the Government lent more than it borrowed. In 1963 the gap between borrowing and lending amounted to IL 25 million.

The difference between excess payments on real account and excess receipts in the financial account is the net amount paid out to the rest of the public sector. As already noted, these payments contracted considerably after the devaluation: while payments to the local authorities continued to rise, receipts from the National Institutions rose even more.

(b) *Receipts*

1. *Taxes*

In 1963 Government revenue from taxes rose by IL 310 million, or 19.5 per cent, and totalled IL 1,880 million. The rate of increase was similar to that in 1962, but somewhat smaller than that of the national income; in each of the past few years tax receipts expanded at a faster rate than national income.

The year 1963 witnessed a continuation of the main trends characterizing tax revenue since the devaluation: a relative decline in taxes on imports and a relative rise in direct taxes, as well as a slower increase of total tax receipts compared with the year prior to the devaluation.

On the average, direct tax rates were higher than in 1962 because of the compulsory saving levy which was imposed as of August 1962, while indirect tax rates declined—both because of cuts introduced in 1962 and because of additional reductions in 1963, especially of taxes on foodstuffs.

(i) *Direct taxes and other compulsory payments levied on incomes*

Direct tax receipts—income tax, the Absorption Loan, the compulsory saving levy, and National Insurance contributions—rose in 1963 by IL 210 million, or 30 per cent, and totalled IL 900 million. Their relative share of total Government tax revenue advanced from 38 per cent in 1961 to 43 per cent in 1962 and 47 per cent in 1963 (see Tables VII-7 and VII-8 and Diagram VII-5).

The increased collections in 1963 were due primarily to the growth of incomes and the resultant effect of progressive tax rates, and also to more efficient collection and the fact that in 1963 compulsory saving was levied during the

¹ Excluding devaluation differentials received from the Bank of Israel in 1962.

² Excluding the decrease in the debt to the banking system in 1962, which was financed out of devaluation differentials from the Bank of Israel.

Table VII-6
 "BALANCE OF PAYMENTS" OF THE GOVERNMENT, BY TYPE OF RECEIPT AND PAYMENT, 1962-63
 (IL million)

Receipts	1962	1963	Increase or decrease (-)	Payments	1962	1963	Increase or decrease (-)
Transfers and transactions in goods and services							
Taxes ^a	1,572	1,880	308	Purchases:			
Miscellaneous receipts	184	215	31	On current account	1,246	1,417	171
Total	1,756	2,095	339	On capital account	230	278	48
Revaluation differentials from Bank of Israel	162	—	-162	Transfer payments and grants	243	290	47
Unrequited receipts from abroad	71	71	—	Subsidies	203	195	-8
Total	1,989	2,166	177	Total	1,922	2,180	258
Transactions in financial claims^b							
Collections on account of long-term loans	81	90	9	Long-term loans granted and participation in share capital:			
Long-term loans received:				For housing	235	210	-25
Foreign	455	505	50	For other purposes	188	214	26
Domestic	105	48	-57	Total	423	424	1
Short-term credit (net):				Redemption of long-term loans:			
Foreign	18	-159	-177	Foreign	180	262	82
Domestic ^c	160	152	-8	Domestic	30	46	16
From the banking system ^d	-223	119	342	Total	633	732	99
Total	596	755	159				
Transactions with the National Institutions and local authorities							
From National Institutions (net)	26	69	43	To local authorities (net)	56	78	22
Total receipts	2,611	2,990	379	Total payments	2,611	2,990	379

^a Including collections on account of National Insurance, the War Risk Insurance Fund, the Absorption Loan, and compulsory saving, but excluding customs duties and purchase tax paid by Government offices.

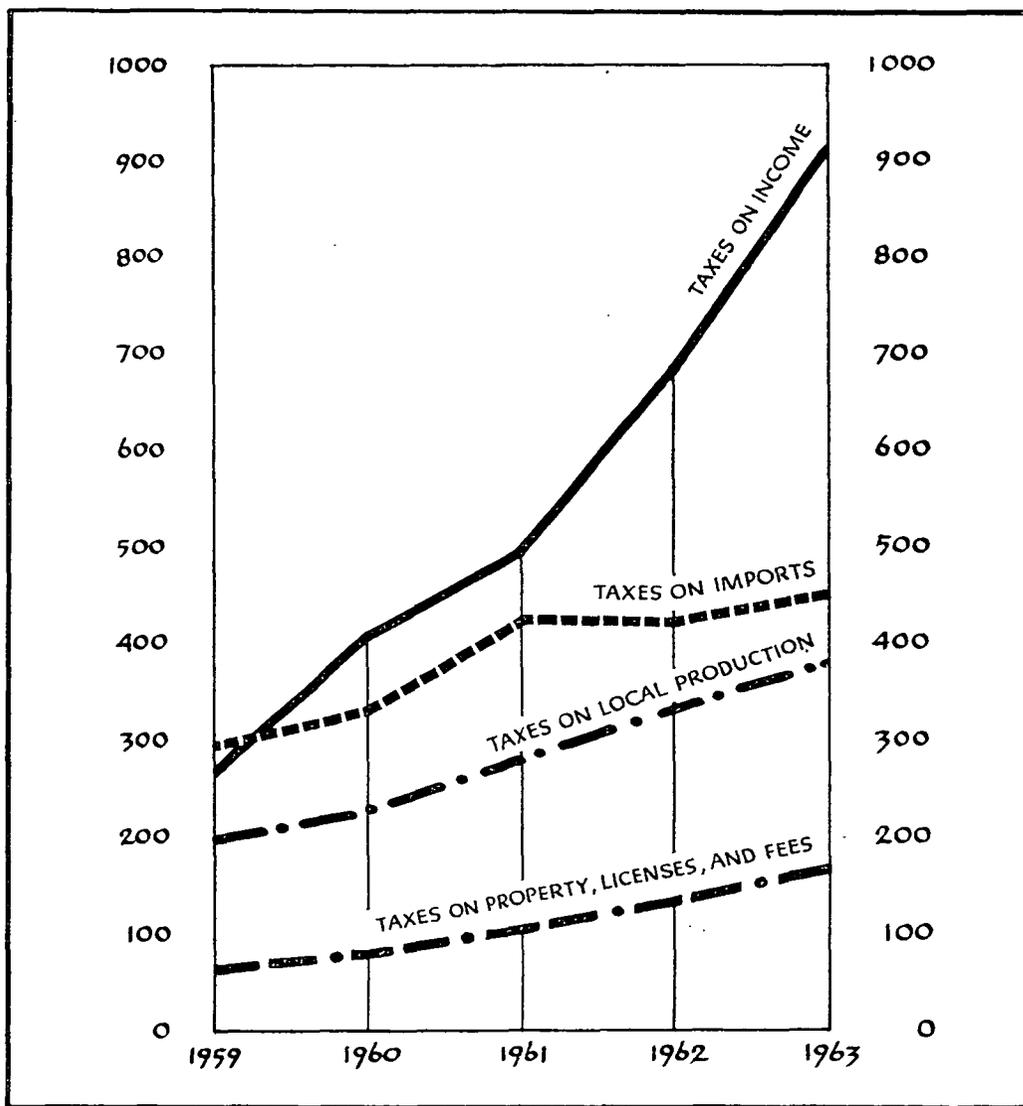
^b Excluding revaluation differentials on the Government's assets and liabilities in 1962 due to the alteration of the exchange rate. Receipts and payments have been recorded at the exchange rate in force when they were received or paid.

^c Excluding credit from the banking system; including short-term securities.

^d Including long-term loans and securities. In 1962—excluding revaluation differentials on deposits, but including debt redemption financed out of the revaluation differentials of the Bank of Israel which were transferred to the Government. In 1963—including a Bank of Israel loan for IL 149 million for the advance repayment of Government debts abroad.

Diagram VII-5

GOVERNMENT TAX REVENUE, BY MAJOR CATEGORY, 1959-63
(IL million)



entire year whereas in 1962 they were collected only in the last five months of the year. Tax rates were not raised in 1963, and in some instances were even lowered; compulsory saving rates were actually reduced. Moreover, amendments were introduced into the income tax law whereby depreciation rates were increased and the payment of linkage differentials was recognized as a deductible

expense for income tax purposes; however, these amendments went into force only in October, so that they had no perceptible effect on revenue from business during the period under review.

Joint collections on account of income tax, the Absorption Loan, and compulsory saving were 35 per cent above the 1962 level, totalling IL 740 million.

Income tax receipts rose by IL 150 million and amounted to IL 640 million—about one-third of total Government tax revenue. Collections from wage earners went up by 30 per cent, and from companies and self-employed by 35 per cent.¹ The latter increase reflects the marked rise in stated income and in temporary assessments for the year 1962/63, on which advances for 1963/64 are based, and indicates a growth in total profits; this applies particularly to citriculture. The abolition of bank secrecy as of February 1963 and the increased responsibility of accountants in respect of the statements submitted by them apparently also affected the amount of declared profits. In addition, there was an improvement in collection: in particular, the examination of returns filed by large income earners was expedited. As a result of all these factors, collections from companies rose to the considerable extent of 43 per cent, and those from the self-employed by 28 per cent. In 1963 there was a continuation of the tendency which began in 1960 for self-employed taxpayers in the higher income brackets to incorporate, since the law imposes a flat 46 per cent tax on companies, whereas for the self-employed the marginal tax rate goes up as high as 60 per cent.

Tax collections at source on income derived from interest and dividends were up 50 per cent and totalled IL 45 million, or 7 per cent of total collections. This increase was connected with the rise in security holdings and the marked expansion of transactions in bills through the intermediation of banks, where tax collection at source is assured. The tax is deducted at a flat rate of 25 per cent, except where the identity of the person receiving the interest is kept secret, in which case the tax rate rises up to 40 per cent.

Collections on account of the Absorption Loan and compulsory saving amounted to IL 100 million, or 15.6 per cent of total income tax collections. In fiscal 1963/64 these two imposts were merged in the interest of administrative efficiency and rates were lowered. For low-income earners compulsory saving was for all intents and purposes abolished, while other assesseees also benefited, as a rule, from reduced rates. The tax was extended for an additional year, and the combined levy was recorded in its entirety as income in the development budget; in 1962/63 income from compulsory saving was frozen in a special account in the Bank of Israel, and not used to finance the budget. The new law imposes a compulsory loan at the rate of 18 per cent of income tax on employees and self-employed, and 12 per cent on companies, which were previously exempt from compulsory saving.

¹ Excluding repayment of loans granted through banks on account of income tax debts, for which a breakdown by type of borrower was not available. These collections have been declining in recent years with the contraction of loans to tax assesseees.

Table VII-7
GOVERNMENT TAX REVENUE, 1962-63
(IL million)

	1962	1963	Increase or decrease (-)	
			IL m.	%
Direct taxes				
Income tax	490	641	151	} 35.5
Absorption Loan and compulsory saving	57	100	43	
National Insurance	146	162	16	11.0
Total	693	903	210	30.3
Indirect taxes				
Customs duties	249	253	4	1.6
Purchase tax	203	252	49	24.1
Excise duties	112	124	12	10.7
Fuel tax	77	84	7	9.1
Property taxes	65	87	22	33.8
Stamp tax, security stamp, and entertainment tax	59	71	12	20.3
Current surplus of Post Office and ports	34	36	2	5.9
Surtax and tax on exchange rate differentials	36	32	-4	-11.1
Vehicle license fees	20	22	2	10.0
Surpluses of agricultural and food equalization funds	17	8 ^a	-9	-52.9
Foreign travel tax	11	12	1	9.1
Licenses, fees, and misc. service charges	18	23	5	27.8
Total	901	1,004	103	11.4
Grand total	1,594	1,907	313	19.6
Less: Indirect taxes paid by Government offices	-22	-27		
Total taxes from the public	1,572	1,880		

^a Agricultural equalization fund exclusively.

NOTE: The definition of direct and indirect taxes in this table is based on accepted national accounting procedures and differs somewhat from that employed by the Accountant General. This table excludes compulsory payments which in the national accounts are defined as transfers—namely, the inheritance tax, the land betterment tax, fines, and certain fees and licenses (such as driving licenses and passport fees). On the other hand, this table includes the net profit of the Post Office and the ports (the deficits incurred by Israel Railways and the airports are included with subsidies). Taxes collected through banks have been recorded on a cash rather than an accrual basis.

SOURCE: Accountant General and National Insurance Institute.

National Insurance contributions increased by only 11 per cent, and totalled IL 160 million. The increment reflects both a rise in the number of gainfully employed and a rise in earnings (including the cost-of-living allowance) among lower income groups earning less than IL 420 per month.¹ There has been no change in the rate of the tax or in maximum earnings subject to tax since April 1960, even though National Insurance benefit rates have been upped several times during this period to compensate for the rise in prices, and in 1963 payments out of the equalization fund to persons serving in the reserves were also raised.

(ii) *Indirect taxes*

Government revenue from indirect taxes grew by only 11 per cent in 1963 as against 1962, and totalled about IL 1,000 million.² To prevent an increase in the prices of certain commodities, customs rates were again reduced in 1963, this time to offset price rises on the world market; in 1962 many customs duties which had served as a substitute for a higher exchange rate were reduced after the devaluation.

Most of the increase took place in property taxes, the purchase tax (especially on passenger vehicles), and licenses and fees. Revenue from customs remained practically unchanged compared with the previous year. Indeed, in 1963 customs revenues did not exceed revenue from the purchase tax, whereas before the devaluation they had been considerably higher. There was a marked decline in income from the agricultural equalization fund following the change in the exchange rate for the import of fodder after the devaluation, while the food equalization fund, through which Government food imports are carried out, showed a large deficit.³ Other collections rose moderately. About half the total increase in indirect tax collections came from taxes on vehicles and property.

Revenue from import taxes rose only 6.5 per cent above the 1962 level, and amounted to IL 455 million. Their relative share of total Government taxes declined from 32 per cent in the two years preceding the devaluation to 27 per cent in 1962 and only 24 per cent in 1963. In the year under review customs rates were reduced on a number of commodities to prevent their prices from going up in the wake of price rises on the world market. As a result, revenue from customs duties on sugar, frozen meat, coffee, cocoa, and rice declined, although imports of these commodities doubled in value (in foreign currency). On the other hand, as already mentioned, taxes on vehicles (customs and purchase tax) rose markedly—by 60 per cent—mainly as a result of an increase in imports.

¹ National Insurance contributions are set as a fixed per cent of income up to a maximum of IL 420 per month; on incomes over that amount, the tax remains unchanged.

² Taxes net of subsidies (other than on exports) rose by only 9.5 per cent, compared with an 18 per cent increase in private consumption.

³ The net deficit is treated in this chapter as a subsidy, whereas in 1962 the net surplus was included with taxes.

Revenue from the foreign travel tax went up only 4 per cent in spite of a much bigger increase in the number of passengers. This was apparently due in large part to the tax exemption granted in the case of group tours to Cyprus. The tax rates remained unchanged during the year.

Receipts from levies on domestic production, which constituted almost 40 per cent of total indirect revenue, increased by only 11 per cent, and totalled IL 380 million. Collections of purchase tax on local products rose more rapidly, owing to a 50 per cent growth in revenue from passenger cars following their expanded production. Excise collections rose relatively less than the volume of production of taxable items; besides the excise cuts introduced after the devaluation in 1962

Table VII-8
INDIRECT TAX REVENUE, BY MAJOR CATEGORY, 1960-63

	1960	1961	1962	1963	Increase or decrease (-) from 1962 to 1963	
					IL m.	%
IL million						
Taxes on income	419	506	693	903	210	30.3
Taxes on expenditure						
Import taxes	336	434	427	455	28	6.6
Taxes on local output	229	283	343	380	37	10.8
Taxes on property	41	48	65	87	22	33.8
Licenses and fees	40	59	66	82	16	24.2
Total*	1,065	1,330	1,594	1,907	313	19.6
Percentages						
Taxes on income	39.3	38.0	43.5	47.4		
Taxes on expenditure						
Import taxes	31.6	32.6	26.8	23.8		
Taxes on local output	21.5	21.3	21.5	19.9		
Taxes on property	3.8	3.6	4.1	4.6		
Licenses and fees	3.8	4.5	4.1	4.3		
Total	100.0	100.0	100.0	100.0		

* Including indirect taxes paid by Government offices.

NOTE: Taxes on income include income tax, Absorption Loan, compulsory saving, and National Insurance contributions.

Taxes on imports include general customs duties, purchase and fuel taxes on imports, surtax and tax on exchange rate differentials, surpluses from equalization funds for imported agricultural and food items, and the foreign travel tax.

Taxes on local output include purchase and fuel taxes on local production, excise levies, current surplus of the Post Office and ports, entertainment tax, security stamp on output, and various levies on local producers.

Taxes on property include collections for the War Risk Insurance Fund, urban and rural property taxes, and land registration fees.

Licenses and fees include the stamp tax and security stamp on documents and licenses, but exclude land registration fees. A more detailed breakdown appears in the Appendix to this Report (in Hebrew only).

on cement, cigarettes, beer, and tires, the tax on cigarettes and tires was further reduced in 1963 in order to prevent price increases. Postal rates were not raised during the year, though expenditure increased as a result of higher costs; and the current surplus of the Post Office accordingly declined.

Income from property taxes went up one-third, reaching IL 85 million. Revenue from this source has been expanding rapidly since the amendment of the property tax law in April 1961. In 1963 there was a further growth in the volume of transactions subject to tax and in assessments, especially of land. Revenue from land registration fees soared more than 50 per cent, owing to the exceptionally large increase in real estate transactions. Other indirect taxes were up 24 per cent as compared with 1962, totalling IL 80 million. Most of the increment was in stamp tax revenue, which expanded by one-third following a rise in the volume of transactions subject to this tax. On the other hand, revenue from vehicle license fees rose by only 10 per cent, while that from radio license fees showed no increase at all.

2. Miscellaneous domestic receipts

Income from domestic transfers, interest, and dividends rose by IL 30 million, or 17 per cent, in 1963, reaching IL 215 million. Most of the increase occurred in interest receipts and land betterment tax collections.¹

Interest² and dividend receipts moved up by approximately 40 per cent, after having increased only very slightly in 1962, and totalled more than IL 90 million. Collections from public sector companies rose very little, after having declined in 1962.

Income from the land betterment tax trebled as compared with 1962, reaching IL 14 million. This extraordinary growth was due to the boom in real estate transactions, and apparently also to the desire to complete transactions before the new law came into effect in August 1963. This law eliminated loopholes existing in the original law, and in effect raised the tax rates, making them also more progressive.

Revenue from property sales by the Development Authority decreased as compared with previous years.

3. Unrequited receipts from abroad

Unrequited receipts from abroad continued to decline in 1963,³ following a considerable decrease in 1962. Most of this income originates in German

¹ In accordance with conventional national accounting definitions, both the land betterment tax and the inheritance tax are classified as transfers on capital account and not as taxes (see note to Table VII-7). A further breakdown of these receipts appears in the Appendix to this Report (in Hebrew only).

² Excluding collections from the National Institutions and local authorities.

³ In terms of foreign currency; in terms of local currency the amount did not change, since part of the receipts in 1962 were recorded at the old exchange rate of IL 1.80/\$ 1.

reparations; between 1961 and 1963 such payments contracted by more than two-thirds in terms of foreign currency.

4. Collections on account of loans¹

Collections on account of development budget loans totalled IL 90 million, as against IL 80 million in 1962, when some IL 40 million in value-linked loans, particularly mortgages, were repaid ahead of maturity.²

The relative share of public sector companies in total collections dropped sharply in 1963, following an earlier decline in 1962. The relative decrease in collections on account of principal and interest from these companies during the last two years was connected with the transfer of outstanding development budget loans to financial institutions for administration, in exchange for shares in these institutions,³ as well as to the conversion of other loans into shares of borrowing companies—on which, of course, interest and principal are not paid.

Collections on account of other loans, excluding advance collections of linked loans, rose considerably as compared with 1962. In 1962 collections were held up pending clarification by Government commissions and the courts of the way in which linkage terms would be applied. The larger collections in 1963 thus reflect the receipt of arrears from the preceding year, as well as the increase in amounts paid on account of linkage differentials.

In 1963 loan repayments amounted to 20 per cent of development budget outlay on new loans and on Government participation in share capital, as compared with 19 per cent in 1962 (when receipts also included advance collections) and 16 per cent in 1960 and 1961.⁴ The ratio between collections and the outstanding balance of loans has also been rising—from 4.5 per cent in 1960 and 1961 to 6 per cent in 1962 and 1963; however, it should be noted that as regards approximately half the outstanding balance, linkage differentials have not been finally determined (or not yet recorded in the accounts).

After the devaluation, the Government abandoned the system of linking development budget loans to the dollar and adopted a new method. In respect of loans to productive enterprises, the borrower now has an option between linkage to the cost-of-living index, or nonlinkage but with payment of a premium, amount-

¹ Excluding collections from the National Institutions and local authorities.

² Loans from Government funds. In addition, IL 20 million was collected on account of mortgage loans granted from nongovernmental sources and deposited with the Accountant General. These collections have been classified in this chapter as a short-term loan to the Government by the mortgage banks (see Table VII-9, note °).

³ Loans granted to Zim and other shipping companies were transferred to the Maritime Bank, while part of the dwellings belonging to Amidar Ltd. were transferred to Tefahot Israel Mortgage Bank. See further detailed discussion in Chapter XVIII, "Financial Institutions".

⁴ However, the relative outlay on development budget financing has been on the decline in recent years.

Table VII-9
INCREASE OR DECREASE (-) IN GOVERNMENT LIABILITIES,
BY MATURITIES AND LENDING SECTOR, 1962-63
(IL million)

	1962 ^a	1963	Increase or decrease (-)
Maturities			
Long- and medium-term ^b			
Gross	560	553	-7
Less: Repayments	210	308	98
Net	350	245	-105
Short-term credit (net) ^c	-45	112	157
Total (net)	305	357	52
Lending sector			
Rest of the world	293	84	-209
Banking system	-223 ^d	119 ^d	342
Financial institutions, provident funds, and insurance companies	104 ^e	69	-35
Households	79	80	1
Rest of the economy	52	5	-47
Total (net)	305	357	52

^a Excluding revaluation of liabilities following the alteration of the exchange rate. Loans and repayments have been recorded according to the exchange rate in force on the date of receipt or repayment.

^b For three years or more; excluding loans from the banking system, all of which are included with short-term loans, and including cumulated interest on savings certificates of the Independence and Development Loans.

^c Net change in end-year credit balances (less receivables and bank deposits) plus short-term securities.

^d In 1962—includes IL 132 million debt repayment to Bank of Israel (paid from revaluation differentials of Bank of Israel which were transferred to the Government), but excludes IL 72 million net revaluation differentials on Government bank deposits. In 1963—an increase of IL 149 million on account of the Bank of Israel loan for the advance repayment of Government foreign debts, and a decrease of IL 30 million in other liabilities.

^e Including a deposit of IL 19 million on account of advance collections of mortgage loans granted from nongovernmental funds.

SOURCE: Based on the debt statement and statement of current assets and liabilities issued by the Accountant General. The sectorial breakdown of debentures has been estimated on the basis of the "balance of payments" of the various sectors, with the figure for households being derived as a residue.

ing to 3 per cent in the case of farm loans and 4 per cent in the case of other loans. In 1963 most borrowers preferred payment of the premium to linkage. Since the devaluation, mortgage loans have been linked exclusively to the index.

5. Increase in indebtedness

From the end of 1962 to the end of 1963, long- and medium-term obligations rose by IL 245 million, while net short-term debts,¹ including those to the banking system, increased by IL 110 million. The Government's total obligations thus rose by IL 355 million. In 1962 the net increase in liabilities came to IL 305 million; however, this was after the repayment of IL 132 million in debts to the Bank of Israel out of nonrecurrent receipts accruing from the devaluation; other obligations increased by IL 437 million.

There was a change in the composition of the Government's credit sources as compared with previous years: loans from abroad, from financial institutions, provident funds, and insurance companies, as well as credits from contractors and suppliers, declined relatively, while loans from the banking system rose (see Table VII-9).

(i) Foreign loans

Net receipts from long- and short-term loans from abroad totalled only IL 85 million, as compared with IL 295 million in 1962. This sizeable drop was not due to any marked contraction of new borrowing, but rather to larger repayments. In 1963 the Government adopted a policy of paying off debts to foreign suppliers ahead of maturity; at the same time the first Independence Bonds sold in 1951 fell due.

Proceeds from long-term loans amounted to IL 505 million, while repayment of long-term loans and the net decrease in short-term liabilities totalled IL 420 million. In this connection mention should be made of the repayment in advance of due date of IL 150 million in debts with the help of a special Bank of Israel loan, as well as the redemption of Independence and Development Bonds to the value of IL 150 million, nearly IL 60 million of it on account of the first Independence Bonds to fall due. In addition, the Government increased its foreign bank deposits by IL 50 million.

About half the proceeds from new long-term foreign borrowing in 1963 came from the sale of Development Bonds, 20 per cent from U.S. Government loans (about half of them redeemable in Israeli currency), and the remainder from the Export-Import Bank, the International Bank of Rehabilitation and Development, and various European banks. A breakdown of net receipts from these loans, however, gives a different picture: half originated in U.S. Government aid and only about a quarter came from Independence and Development Bonds.²

¹ Less deposits and credits granted.

² If interest and marketing costs are added to payments on account of principal, it would appear that Israel Bonds have in fact ceased to be a source of net income to the Government.

(ii) *Domestic loans*

The net debt to the banking system rose by IL 119 million during the year reviewed. This includes the IL 149 million Bank of Israel loan for the advance repayment of foreign obligations, and a net reduction of IL 30 million in other bank debts. At the same time the Government, as already mentioned, had to its credit during the entire year large-scale deposits, which were not drawn upon for financing expenditure.¹

Income from domestic long-term loans totalled IL 48 million and repayments IL 46 million, so that net receipts amounted to only IL 2 million, as compared with IL 75 million in 1962 and IL 90 million in 1961. Net receipts from financial institutions came to IL 13 million, and net redemptions of long-term debentures to IL 11 million. Issues of such debentures were smaller than in 1962, while the amount redeemed, including linkage differentials, rose. Government proceeds from debentures issued by financial institutions (the mortgage banks and the Industrial Development Bank of Israel), which were transferred to it for financing development budget loans, likewise declined in 1963.

Provident funds have been the main buyers of Government long-term bonds in recent years. Such purchases constitute part of their "authorized investments", which benefit from income tax concessions.² Securities of this type have not been able to attract private investors³ despite the fact that they are linked, because of their low rate of interest.

Almost all of the Government's domestic borrowing in 1963 from outside the banking system consisted of short-term credits. Of total net receipts⁴ of IL 150 million, approximately two-thirds came from sales of the Short-Term Loan to the general public, while about a quarter represented deposits of financial institutions, insurance companies, and public sector companies. There was a decline in outstanding debts to building contractors, but on the other hand, outstanding credit from suppliers went up. The Short-Term Loan represented an important source of budgetary financing for the second year running. Net proceeds from the sale of this loan⁵ reached IL 115 million in 1963, as against IL 75 million in 1962. Although these securities are nonlinked, their yield is relatively high.

6. *Net receipts from National Institutions*

Net receipts from the National Institutions continued to rise in 1963. The increase that occurred in 1962 was connected with the improved financial posi-

¹ See Table VI-11. A detailed discussion of the Government's debt to the banking system will be found in Chapter XV, "Money Supply, Credit, and the Banking Institutions".

² Some of the provident funds' demand for securities in 1963 was diverted to debentures of the National Institutions.

³ Private investors preferred to trade in shares, real estate, commercial paper, and the Government Short-Term Loan. For a comprehensive analysis, see Chapter XX, "The Securities Market".

⁴ Less advances and net credit granted.

⁵ Including purchases by banks, which are classified in this chapter as part of the Government's debt to the banking system.

tion of the National Institutions after the devaluation and the resumption of large-scale immigration. Although the National Institutions increased their share in the financing of immigrant housing construction in 1963, the Government reduced its allocations to the Settlement Department of the Jewish Agency.

(c) Payments

Government outlays, other than debt redemption and transfers to the National Institutions, increased in 1963 by IL 280 million, or 11.5 per cent, as compared with 1962, reaching approximately IL 2,680 million. Current expenditure went up 12.5 per cent, while outlay on direct investments and investments financed through development budget loans rose by 7.5 per cent. During the year reviewed ordinary budget expenditure again increased relative to that of the development budget, after a temporary reversal of trend in 1962 because of the devaluation,¹ and accounted for 73 per cent of total outlay, exclusive of debt redemption.

1. Purchases on current account

Current purchases of the Government totalled IL 1,415 million, or 13.5 per cent more than in 1962 (see Table VII-10). In real terms, the increase came to some 8 per cent, while prices rose by 5 per cent. In 1962 the real growth had been larger, amounting to 11 per cent.

Expenditure on security and special budgets, which constituted almost half of total purchases on current account, expanded by 10 per cent, after a much larger increase in 1962, which to a large extent was connected with the higher price of imports following devaluation.

Expenditure on wages and salaries (excluding the Ministry of Defense) rose by IL 35 million, or 11.5 per cent, compared with 1962, and amounted to approximately IL 350 million. The number of employees went up only 2 per cent, most of the increase being in teaching staff. Average wages per employee were 9 per cent higher, and over two-thirds of the increase was due to the rise in the cost-of-living allowance. Basic wages remained unchanged, and in contrast to previous years, retroactive payments were not made. There was also a decrease in the wage drift due to upgrading.²

Interest payments rose by 22 per cent and totalled IL 210 million, nearly 60 per cent of which was paid on foreign debts. The relative share of interest on short-term obligations declined as compared with 1962: although the amount paid on the Short-Term Loan went up owing to larger sales, interest on Tamam deposits was cut (from 7 to 4½ per cent per annum), and the Government also saved interest on foreign debts paid off. Nevertheless, interest on deposits and short-term loans constituted almost 30 per cent of total interest payments.

¹ The import component of development budget expenditure is higher than that of ordinary budget expenditure.

² See detailed discussion in Chapter X, "Wages".

Other purchases went up by 33 per cent at current prices, and net of sales, by 19 per cent. Noteworthy among expenditure items registering increases was Israel's aid to foreign countries, most of it financed from external sources.

2. Purchases on capital account

Investment expenditure of the Government was 21 per cent higher than in 1962, and amounted to IL 280 million: IL 50 million went to increase Government stocks, especially of imported food, and IL 230 million was spent on other investments. The growth of investment, exclusive of inventories, came to

Table VII-10
GOVERNMENT PURCHASES ON CURRENT AND CAPITAL
ACCOUNT, 1962-63
(IL million)

	1962	1963	Increase or decrease (-)
Purchases on current account			
Wages and salaries of civilian staff ^a	312	348	36
Interest payments ^b	170	208	38
Other purchases (excluding security) ^c	143	176	33
Subtotal	625	732	107
Security and special budgets ^c	621	685	64
Total on current account	1,246	1,417	171
Purchases on capital account			
Postal and transport enterprises ^d	82	76	-6
National Water Carrier	66	96	30
Roadbuilding	15	21	6
Public buildings and miscellaneous	33	36	3
Subtotal	196	229	33
Stockpiling ^d			
Food Division of Ministry of Commerce and Industry	20	60	40
Ministry of Housing and miscellaneous	14	-11	-25
Total on capital account	230	278	48
Total purchases	1,476	1,695	219

^a According to the Central Bureau of Statistics; including unemployment relief.

^b Excluding interest paid to the National Insurance Institute and the War Risk Insurance Fund; including cumulated interest on savings certificates of the Independence and Development Loans.

^c Excluding payments of customs duties and purchase tax.

^d Uninstalled equipment of the postal and transport enterprises is recorded in this table as an investment in these enterprises and not as an investment in stocks.

17 per cent—of which 10 per cent represented a real increase and some 6.5 per cent a rise in prices. In 1962 the real increase was considerably larger.

Most of the expansion occurred in the completion of the first stage of the National Water Carrier. Outlay on this project was 40 per cent above the 1962 level (at constant prices), and represented over 40 per cent of the Government's total new investment during the year reviewed, other than the expansion of stocks (see Table VII-10).

An appreciably larger amount was spent in 1963 on new roads and the widening of existing one as part of a five-year plan which is being partially financed by a loan from the World Bank. Investment in the construction of the new port at Ashdod was likewise expanded. On the other hand, investment in postal services decreased, following the large-scale acquisition of equipment in recent years for extending the telephone network.

Expenditure on Government food stocks increased considerably, chiefly because of the rise in import prices. The building material inventory of the Ministry of Housing, on the other hand, contracted, owing to the smaller volume of publicly financed residential construction.

3. Transfer payments and subsidies

Transfer payments and subsidies were 10 per cent larger in 1963 than in 1962, and totalled IL 485 million. Transfer payments rose by IL 50 million, while outlay on subsidies declined somewhat (see Table VII-11).

Subsidies totalled IL 195 million, as compared with IL 200 million in 1962. Subsidies on agricultural output and for the stabilization of consumer prices (especially of imported foodstuffs) increased by as much as IL 65 million, while outlay on indirect promotion of exports was IL 10 million higher than in 1962. On the other hand, there was a decrease of as much as IL 80 million in export premiums—abolished upon devaluation, but still paid in 1962 on exports dispatched before devaluation—and in nonrecurrent subsidies connected with the devaluation itself.

Farm price supports were increased by nearly 45 per cent, and amounted to IL 115 million. The rise occurred in most of the items subsidized—eggs, milk, cotton, sugar beet, and vegetables, and this year also tobacco—as well as water for irrigation, drought compensation, and imported fodder.¹

Subsidies designed to keep down the prices of consumer goods were more than doubled, despite the cancellation of the bread subsidy in August 1962, and totalled IL 65 million. A large part of these subsidies were intended to prevent increases in prices of foodstuffs imported by the Government, such as unprocessed oil, sugar, and frozen meat. Thanks to these subsidies, the prices of margarine and edible oil remained at their predevaluation level throughout 1963; the domestic price of sugar also remained stable despite the fact that on

¹ For a detailed breakdown, see Table XI-11 in Chapter XI, "Agriculture".

Table VII-11
GOVERNMENT TRANSFER PAYMENTS, GRANTS, AND
SUBSIDIES, 1962-63
(IL million)

	1962	1963	Increase or decrease (-)
Transfer payments and grants			
To households			
National Insurance benefits	101	120	19
Pensions and provident payments	34	48	14
Other transfer payments	43	41	-2
Total to households	178	209	31
To nonprofit institutions			
Educational and cultural	37	48	11
Health	24	28	4
Social welfare and religion	4	5	1
Total to nonprofit institutions	65	81	16
Total transfer payments and grants	243	290	47
Subsidies			
On agricultural produce	79	114	35
On other goods and services	36	65	29
Total subsidies on local production	115	179	64
On exports			
Direct subsidies	46	—	-46
Other subsidies	7	16	9
Payments to importers on account of exchange rate differentials	35	—	-35
Total subsidies	203	195	-8
Total transfer payments, grants, and subsidies	446	485	39
Participation in ordinary budgets of local authorities	54	68	14
Grand total	500	553	53

the world market it went up threefold.¹ Among other subsidies that were increased was that to cover the deficit of the Israel Railways, which rose in 1963 owing to the fact that rates were not changed during the year while costs mounted.

Subsidies connected with the penetration of new foreign markets rose in 1963, and amounted to some IL 15 million.

Transfer payments increased by some IL 50 million, or 19 per cent, as compared with 1962, and totalled IL 290 million.

Benefit payments by the National Insurance Institute, which accounted for 40 per cent of all transfer payments, totalled IL 120 million. This represented a rise of 19 per cent as against 1962—of which 10 per cent was due to the raising of benefit rates as compensation for the increase in the cost of living.

Compensation payments to war invalids and to victims of Nazi persecution and pensions to civil servants expanded at the considerable rate of 40 per cent, and totalled approximately IL 50 million. There has been a steady increase in payments to invalids from the Nazi period who immigrated to Israel and are not entitled to restitution from the German Government. These payments are made under a special law passed in 1957, and by the end of 1963 they totalled over IL 70 million. Pension payments to civil servants, which are wholly financed out of the Government budget, also show a steady and rapid rise.

Allocations to nonprofit institutions, especially institutions of higher education and Sick Funds, increased by IL 15 million, or 15 per cent, and totalled IL 80 million.

The slight decline in other transfer payments is made up of a decrease of IL 7 million in nonrecurrent payments (the two special grants designed to compensate lower income groups for the rise in prices after devaluation, and premiums on foreign currency transfers to Israel which were abolished after the devaluation) and a rise of IL 10 million, or 14 per cent, in other transfers, including graded secondary school fees, old-age payments to persons not eligible for National Insurance benefits, relief allotments to needy families granted directly rather than through the local social welfare offices, hospitalization costs covered by the Government, expenditure on food in Government institutions, etc.

Grants to the local authorities grew: the allocations designed to compensate the municipalities for not raising tax rates went up, as did Government participation in outlay on education. On the other hand, social welfare allotments granted through the local social welfare offices rose less than in 1962, owing to the decline in unemployment. Most of the additional outlay on relief payments

¹ These subsidies were designed to cover losses incurred on account of Government food imports as a result of the policy of stabilizing consumer prices at a time when import prices were rising, and they came on the heels of sharp cuts in customs duties on commodities such as sugar and frozen meat.

in the last two years was for needy immigrants arriving in the country during this period.

4. *Development budget financing*

Outlay on development budget loans granted to other sectors of the economy continued to fall in 1963, relative to both total Government expenditure and total domestic investment. This decline was connected with the further drop in financing out of German reparation funds, and also to the growing participation of public financial institutions in the financing of such loans.

At current prices, development budget financing of other sectors of the economy totalled IL 425 million—the same amount as in 1962; with the addition of loans to other parts of the public sector (the National Institutions and the local authorities), there was even an absolute decline of about IL 20 million as compared with 1962.

In real terms,¹ there was a decrease of 5.5 per cent in development budget financing of other sectors: expenditure on residential construction declined by 15 per cent, and outlay on other loans and on the acquisition of share capital rose by 7 per cent.

Most of the decrease in housing expenditure was due to the reduction in the volume of immigrant housing construction. Although the number of housing units completed did not decline, there was a sharp drop in building starts. Nonimmigrant residential construction was only slightly below the 1962 level.²

There was also a considerable cut in the amount of financing extended to the Mekorot Water Company and to farms for irrigation works,³ as well as to the Jewish Agency for agricultural settlement. Loans to the Israel Electric Corporation and to El Al Israel Airlines were likewise reduced.

On the other hand, there was a considerable increase in the amount of financing provided to Israel Mining Industries, Chemicals and Phosphates Ltd., the company for the desalination of sea water, the Hebrew University, and the hotel industry.

A breakdown of development budget financing by economic branch and by borrowing sector is presented in Table VII-12.

5. *Net payments to local authorities*

Net payments to the local authorities totalled IL 75 million, as compared with IL 55 million in 1962. Most of the increase occurred in Government participation in the ordinary budgets of local authorities and in credit earmarked for

¹ Prices were deflated on the basis of the estimated increases in investment prices cited in Chapter V, "Domestic Investment".

² For a more detailed discussion, see Chapter XIII, "Construction and Housing".

³ Excluding the National Water Carrier, which has been classified in this chapter as direct Government investment; expenditure on this project rose considerably (see Table VII-10).

Table VII-12

DEVELOPMENT BUDGET FINANCING,^a BY ECONOMIC BRANCH AND
BORROWING SECTOR, 1962-63

(IL million)

	1962	1963	Increase or decrease (-)
Economic branch			
Housing	235	210	-25
Industry and crafts	78	87	9
Mining, quarrying, and oil drilling	14	38	24
Agriculture and water development ^b	38	27	-11
Transportation and communications	16	13	-3
Electric power	16	14	-2
Services and miscellaneous	26	35	9
Total, excluding public sector	423	424	1
Borrowing sector			
Public sector companies	237	198	-39
Households ^c	103	114	11
Private business enterprises	48	69	21
Public financial institutions	31	29	-2
Nonprofit institutions	3	12	9
Foreign institutions	1	2	1
Total, excluding public sector	423	424	1
National Institutions	37	12	-25
Local authorities	17	20	3
Total financing	477	456	-21

^a Including loans and participation in share capital, but excluding Government investments (see Table VII-10). Loans granted through banks and other financial institutions are classified by the sector of final destination and not as loans to the financial sector.

^b Excluding loans to the National Institutions for agricultural settlement and afforestation and loans for rural housing.

^c For housing, except that remaining under Amidar ownership; in the latter case the loans are classified as loans to public sector companies.

debt redemption, while net financing out of the development budget rose to only a moderate extent.

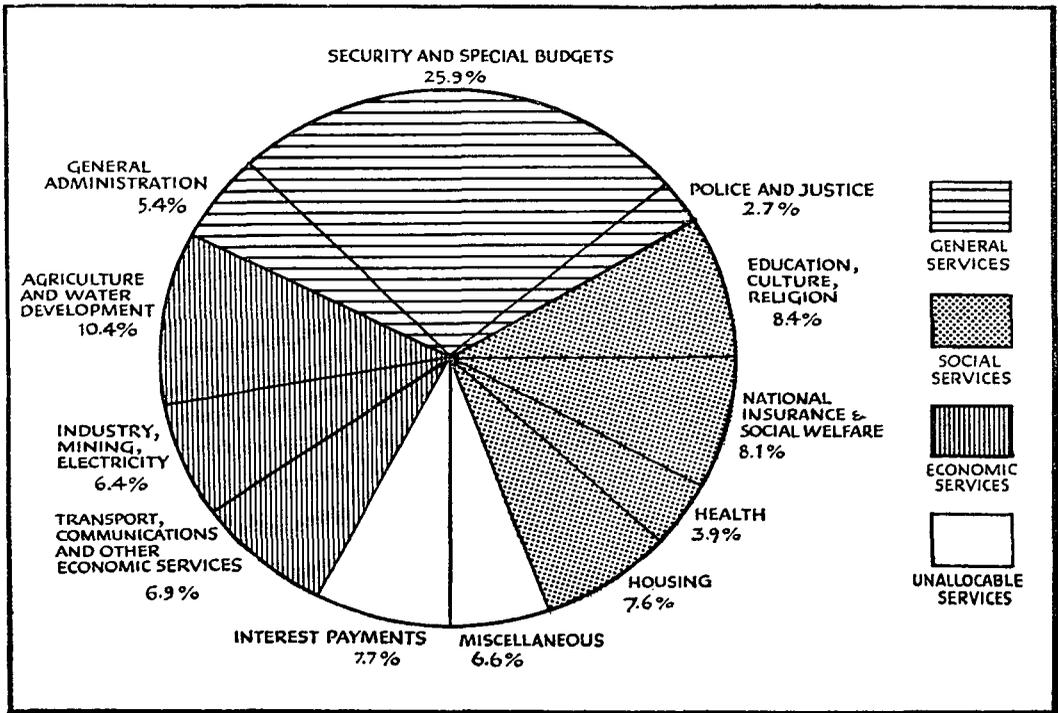
(d) *Functional composition of expenditure*

A breakdown of Government expenditure by function during the last three years is shown in Table VII-13.¹ As already pointed out in the survey of the

¹ Absolute figures are presented in the Appendix to this Report (in Hebrew only). The survey here relates also to transfers to other parts of the public sector, and does not include debt repayment.

Diagram VII-6

FUNCTIONAL COMPOSITION OF GOVERNMENT EXPENDITURE, 1963
(percentages)



public sector as a whole, after the 1962 devaluation marked changes occurred in the composition of expenditure. There was an especially large relative rise in outlay on security, special budgets, and interest, while expenditure on economic services—mainly development budget loans and subsidies to producers—declined.

During the year reviewed there was a relative increase in outlay on educational services, interest, and consumer-price stabilization subsidies, while expenditure on housing and transportation declined.

Relative outlay on security and special budgets remained unchanged in 1963, and it continued to be the largest item of all, accounting for one-quarter of aggregate expenditure (see Diagram VII-6) and exceeding total Government outlay on social services.

The second largest item is agriculture and water development, which still accounts for over 10 per cent of total expenditure, though its weight has been on the decline. It includes investment in the National Water Carrier which, as already pointed out, rose considerably in 1963; development budget loans for agriculture and irrigation works, which were reduced; and price supports for farm produce.

Table VII-13

FUNCTIONAL COMPOSITION OF GOVERNMENT EXPENDITURE,^a
1961-63
 (percentages)

	1961	1962	1963
General services			
General administration	4.6	4.6	4.5
Security and special budgets	22.5	25.8	25.9
Police and justice	3.0	2.5	2.7
Community services n.e.s. ^b	0.8	0.7	0.9
Total	30.9	33.6	34.0
Social services			
Education, culture, religion	7.7	7.7	8.4
National Insurance and social welfare	8.2	7.8	8.1
Health	3.9	3.8	3.9
Housing	6.1	10.2	7.6
Total	25.9	29.5	28.0
Economic services			
Agriculture and water development	12.8	10.5	10.4
Industry, mining, electricity	9.9	6.4	6.4
Transportation and communications	8.4	6.3	5.3
Other economic services	2.6	1.6	1.6
Total	33.7	24.8	23.7
Unallocable services			
Interest payments	5.3	6.9	7.7
Miscellaneous ^c	4.2	5.2	6.6
Total	9.5	12.1	14.3
Grand total	100.0	100.0	100.0
Grand total in IL million	1,882	2,455	2,706

^a Excluding debt payment and current expenditure of the postal and transportation enterprises. Including transfers to local authorities and the total outlay of the National Insurance Institute.

^b Mainly Kol Yisrael (The Voice of Israel) and general research.

^c Including grants and loans to local authorities, import subsidies, premiums paid on capital transfers (prior to the devaluation), and aid to foreign countries.

SOURCE: Based on data of the Accountant General, the Budget Department of the Ministry of Finance, and the National Insurance Institute.

3. THE NATIONAL INSTITUTIONS

Total payments of the National Institutions¹ were IL 100 million higher than in 1962, and amounted to IL 430 million. A large part of the rise was due to the increased participation of the Institutions in the financing of immigrant housing and to the larger amounts paid on account of debts (interest and principal). Other expenditures, which reflect the direct activities of the Institutions, expanded by IL 30 million, or by 12 per cent at current prices. At 1962 prices, the increase is estimated at 5 per cent, and is made up of a 15 per cent rise in current expenditure and a 6 per cent decline in investment and lending.

Unrequited receipts and net loans from abroad went up by only 10 per cent, and in terms of foreign currency, at an even smaller rate.² Some 70 per cent of the additional receipts, net of debt redemption, came from domestic sources, including debenture issues, but the rest-of-the-world sector still accounted for as much as 80 per cent of total net receipts.

The financial position of the Institutions deteriorated somewhat as compared with 1962. The devaluation apparently provided only temporary relief. The higher return on foreign currency receipts was increasingly swallowed up by rising costs, including expenditure in foreign currency. Since the devaluation, outlay on immigrant housing has expanded to a marked degree, while Government allocations to the Institutions have been trimmed appreciably. As already mentioned, there was virtually no rise in 1963 in foreign currency receipts used to cover expenditure, and in fact 1963 outlay was in part financed out of income received in 1962. In the latter year, the Institutions increased their deposits with local and foreign banks, and these were drawn upon to finance expenditure in 1963.

(a) *Transactions of the National Institutions*

The "balance of payments" of the Institutions for 1962 and 1963, by main types of receipts and payments, is shown in Table VII-14. As in Table VII-2 and VII-6, a distinction has been made between transfers and transactions in goods and services (the "real account") on the one hand, and transactions in credit (the "financial account") on the other hand, while net money flows between the Institutions and the Government have been recorded separately.

In recent years expenditure in the real account has been increasing more rapidly than receipts (transfers from abroad and local transfers); this trend has even continued after the devaluation, despite the fact that unrequited receipts

¹ Including debt repayments and net transfers to the Government. The National Institutions include the Jewish Agency for Israel, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod. For the sake of brevity, the National Institutions will be referred to simply as "the Institutions".

² By 4 per cent. From the beginning of 1962 until the devaluation of February 9, foreign currency receipts were recorded at the IL 1.80/\$ 1 exchange rate.

"BALANCE OF PAYMENTS" OF THE NATIONAL INSTITUTIONS, BY TYPE OF RECEIPT AND PAYMENT, 1962-63

(IL million)

Receipts	1962	1963	Increase or decrease (-)	Payments	1962	1963	Increase or decrease (-)
Transfers and transactions in goods and services							
Unrequited receipts from abroad	162	174	12	Purchases on current account			
Miscellaneous domestic receipts	17	21	4	Domestic ^a	68	87	19
				Foreign	55	73	18
				Purchases on capital account ^a	32	35	3
				Transfers, grants, and subsidies	29	35	6
Total	179	195	16	Total	184	230	46
Transactions in financial claims^b							
Collections on account of long-term loans	12	13	1	Long-term loans granted	80	78	-2
Long-term loans received				Redemption of long-term loans			
Foreign	69	85	16	Foreign	27	37	10
Domestic ^c	44	74	30	Domestic	11	14	3
Short-term credit (net)							
Foreign	60	68	8				
Domestic ^c	-9	-11	-2				
From banking system	-27	4	31				
Total	149	233	84	Total	118	129	11
Transactions with the Government							
				To the Government (net)	26	69	43
Total receipts	328	428	100	Total payments	328	428	100

^a Excluding goods and services acquired for transfer to others as loans or grants.

^b Excluding changes in claims or liabilities of the National Institutions in 1962 due to the alteration of the exchange rate. Receipts and payments have been recorded at the rate in force when they were received or paid.

^c Excluding the banking system.

SOURCE: Based on data of the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod.

from abroad are now recorded at the new exchange rate. In the last two years there was even an absolute excess of expenditure over income in the real account, and in 1963 the gap amounted to IL 35 million. In their transactions with the Government during the past two years the Institutions also transferred more money than they received.

The above differences between payments and receipts, which came to IL 105 million in 1963, were financed by a surplus of receipts over payments in the financial account—i.e. borrowing in excess of lending. Prior to devaluation, when foreign loans were recorded at the IL 1.80/\$ 1 exchange rate, the volume of credit granted exceeded net credit received.

The demand surplus of the Institutions, which represents the difference between their total purchases on current and capital account, at home and abroad, on the one hand, and net local transfer receipts¹ on the other, has always been large, since the Institutions do not levy taxes and total domestic income, other than from borrowing, is very small. After the devaluation, the demand surplus increased still further, with the recording of foreign purchases at the new exchange rate. Owing to the continued expansion of current expenditure, the demand surplus in 1963 rose by IL 40 million above the 1962 level, and amounted to IL 210 million.

(b) *Receipts*

1. *Unrequited receipts*

Unrequited receipts from abroad in 1963 totalled IL 175 million, or \$ 58 million. In terms of foreign currency, these receipts did not increase during the past three years (see Diagram VII-3). Their relative share in total receipts has been declining, though it still comes to over 40 per cent.

The main sources are the United Jewish Appeal, German reparations, and contributions to the Jewish National Fund and to Aliyat Hanoar (the Youth Immigration Department of the Jewish Agency). The United Jewish Appeal constitutes the most important source, accounting for some 60 per cent of all unrequited receipts of the Institutions. Income from the U.J.A. did not increase in 1963. Although overseas contributions did rise, the Jewish Agency in New York had to repay out of current income advances made in the past to the Jewish Agency of Israel.

Under the terms of the Reparations Agreement, the Institutions receive 22 per cent of the fixed annual allotment, and this amount remained unchanged in 1963.

2. *Transfers and collections in Israel*

These receipts, which include rents collected by the Jewish National Fund, collections on account of principal and interest on loans granted by the Jewish

¹ The demand surplus equals the excess of expenditure in the real account less unrequited receipts from abroad.

Agency, local donations, and payments for services rendered, totalled IL 35 million, or only 8 per cent of aggregate receipts.

3. *Increase in indebtedness*

Net receipts from borrowing totalled IL 170 million in 1963, as compared with IL 100 million in 1962. The outstanding balance of long- and medium-term loans rose by IL 110 million, drawings on bank deposits (mainly abroad) amounted to IL 25 million, and the balance of short-term credit,¹ excluding deposits, rose by IL 35 million. In 1962 the Institutions increased their local and foreign bank deposits by IL 35 million.

Two-thirds of the additional new debt in 1963 came from foreign sources, and one-third from internal sources.

(i) *Foreign loans*

Net receipts from foreign loans totalled IL 115 million, as against IL 100 million in 1962, and in terms of foreign currency—\$ 38 million and \$ 36 million respectively.

Actually, a considerably larger amount was received in 1962 than in 1963—\$ 46 million as against \$ 30 million—but whereas in 1962 the Institutions deposited \$ 8 million in foreign banks and did not draw on this sum to finance current expenditure, in 1963 they withdrew \$ 6 million.²

Of total net foreign loans in 1963, two-fifths were for periods of three years or more, an additional two-fifths for shorter periods, and the remaining fifth came out of drawings on sums deposited in 1962. The main sources of new loans were Ampal, various foreign banks, Jewish organizations in Europe, and insurance companies in the United States.

(ii) *Domestic loans*

In 1963 domestic loans accounted for approximately one-third of total net borrowing. In 1962 there had been no net income from this source, since the net decline in outstanding short-term credit plus the increase in bank deposits and redemption of old loans completely offset receipts from new borrowing.

The net debt to the banking system rose somewhat. Though there was some repayment of debts from previous years, it was more than offset by the decline in deposits; in 1962, following the accelerated conversion of foreign currency by the Institutions after devaluation, bank deposits, as noted above, were considerably expanded.

¹ Less receivables.

² In Table VII-14 the rise in deposits has been deducted from credit received from abroad in 1962, while drawings are classified as credit obtained in 1963. Some \$ 4 million more was deposited in 1962 in local banks, and this amount has been treated as a reduction in the net debt to the banking system during that year.

Net receipts from internal long-term loans totalled IL 60 million, as compared with less than IL 35 million in 1962. The new loans were raised through debenture issues. The Keren Hayesod floated an issue which was taken up by provident funds as "authorized investments" benefiting from income tax concessions. There was also a rise in local sales of debentures issued by the Jewish Agency subsidiary Hollis; these debentures are denominated in foreign currency and are mainly acquired by recipients of restitution payments.

The balance of short-term nonbank credit declined by IL 10 million, as in 1962.

(c) *Payments*

Expenditure, other than debt redemption and payments to the Government, was 17 per cent above the 1962 level. The increase occurred entirely in current expenditure, which rose by 28 per cent, while outlay on investment and lending remained unchanged. If price increases are discounted, the overall rise was 7 per cent, and was made up of a 20 per cent growth in current expenditure and a 6 per cent drop in investment and loans.¹

Current purchases in Israel and abroad amounted to IL 160 million, as compared with IL 125 million in 1962. In real terms, the increase is estimated at more than 20 per cent if interest is included, and at 14 per cent excluding interest. Most of the rise was in outlay connected with immigration and in interest payments.

Direct immigration expenditure, including transportation of newcomers, continued to go up, after having risen steeply in 1962 as well (even in terms of foreign currency). As in 1962, the number of immigrants reaching the country was larger than in the preceding years.

Wage and salary payments went up by approximately 15 per cent: the number of employees rose by 5.5 per cent, and average wages (including the increased cost-of-living allowance) by 8.5 per cent. The growth in the number of employees was largely due to the expansion of immigration and absorption activities, while the number of employees engaged in agricultural settlement activity declined.

Investment by the Jewish National Fund in afforestation and land reclamation, which constitutes the bulk of the Institutions' aggregate investment, did not rise, and in real terms even declined somewhat.

Transfer payments, which are mainly connected with the absorption of immigrants (including 9,000 youngsters under the Youth Aliyah program) and with grants to educational institutions, rose by 20 per cent. Subsidies to new agricultural settlements were not enlarged.

Loans consist chiefly of equipment and cash allocations supplied to new agri-

¹ The rise in agricultural investment prices served as a deflator in calculating the real change in loans granted.

Table VII-15

**FUNCTIONAL COMPOSITION OF NATIONAL INSTITUTIONS'
EXPENDITURE,^a 1961-63**
(percentages)

	1961	1962	1963
General services			
General administration ^b	12.8	9.3	8.4
Immigration ^c	11.8	18.5	18.2
Total	24.6	27.8	26.6
Social services			
Education and culture ^d	7.6	6.1	6.9
Social welfare and health	4.3	3.8	4.3
Housing	8.5	16.3	20.5
Total	20.4	26.2	31.7
Economic services			
Agriculture and water development	46.4	35.5	28.7
Other economic services	0.5	0.9	1.3
Total	46.9	36.4	30.0
Unallocable services			
Interest payments	8.1	9.6	11.7
Grand total	100.0	100.0	100.0
Grand total in IL million	211	313	391

^a Excluding debt redemption, but including gross payments to the Government other than debt redemption.

^b Including educational expenditure abroad and outlay on land administration.

^c Transportation costs and initial absorption of immigrants.

^d In Israel only (see note ^b).

SOURCE: Based on data of the Jewish Agency, the World Zionist Organization, the Jewish National Fund, and Keren Hayesod.

cultural settlements, and to a minor extent, of outlay on immigrant housing other than that erected through the medium of the Government. For a number of years now, the volume of agricultural settlement loans has been on the decline. During this period virtually no new settlements were established (except for Nahal¹ agricultural outposts, which are only partly financed by the Institutions), and the loans were largely earmarked for the consolidation and expansion of existing settlements.

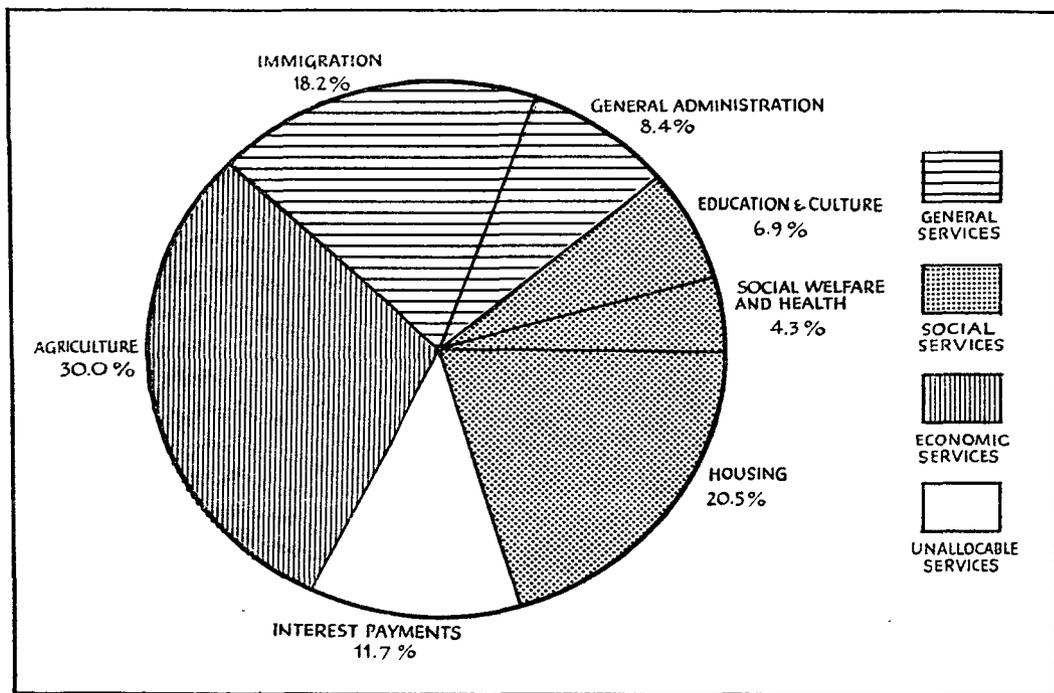
Net payments to the Government increased in 1963: the amount spent on

¹ Soldier-settlers.

Diagram VII-7

FUNCTIONAL COMPOSITION OF NATIONAL INSTITUTIONS' EXPENDITURE, 1963

(percentages)



immigrant housing put up by the Ministry of Housing rose, while Government development budget allocations to the Jewish Agency's Settlement Department were considerably reduced (see Table VII-12). The Institutions financed part of the enlarged outlay on immigrant housing by issuing debentures.

(d) *Functional composition of expenditure*

After the devaluation there was rise in the relative share of expenditure on immigration, housing, and interest, and a decline in that of agriculture (see Table VII-15).¹

The breakdown of expenditure in 1963 is presented in Diagram VII-7. Two-thirds of the total was spent on agricultural, housing, and immigration services, while the remaining third went for administration, interest, education, and social welfare.

¹ Absolute figures are presented in the Appendix to this Report (in Hebrew only). The analysis here includes transfers to the Government, but excludes debt redemption.

The relative share of expenditure on immigration¹ remained unchanged in 1963, after having risen sharply in 1962, with the jump in the volume of immigration and the recording of foreign currency outlay at the new rate of exchange. These services accounted for approximately one-sixth of total expenditure.

Agriculture remains the largest single item, though its relative share has been decreasing steadily—from 45 per cent of total expenditure in 1961 to 30 per cent in 1963.

The amount spent on housing during the last two years went up, as already mentioned, following a rise in the number of immigrants.

Interest payments constitute one-eighth of total expenditure, and they have been increasing with the continuous rise in outstanding debts.

Outlay on educational and social welfare services, excluding education abroad, accounted for 10 per cent of total expenditure during the last two years.

4. THE LOCAL AUTHORITIES

The scope of operations of the local authorities rose 18 per cent above the 1962 level, and totalled IL 435 million.² This is a lower rate of growth than in previous years.

The year reviewed was characterized by a tax freeze and a slower growth of expenditure, except for that on debt redemption, which continued to expand rapidly.

In fiscal 1963/64 tax rates remained virtually unchanged. For the second consecutive year, the Government, as part of its stabilization policy, prevailed upon the local authorities not to increase local rates. Tax revenues went up by 19.5 per cent in 1963, compared with 20.5 per cent in 1962 and 24 per cent in 1961. Though the growth of current expenditure and investment also slowed down, neither the demand surplus of the authorities nor their dissaving declined below the record 1962 level.

In real terms, consumption went up by 8.8 per cent, or 4.6 per cent per capita, while investment expanded by 5 per cent. In 1962 the real increase in consumption amounted to 10.8 per cent—or 6.3 per cent per capita—while investment rose by 4 per cent.³

The relative share of taxes in financing ordinary budget expenditure, including debt repayment, declined for the second consecutive year. Despite the increase in Government grants intended to compensate the authorities for rising costs and the

¹ Direct outlay only on transportation and initial absorption of immigrants.

² With loans from the Government, the banking system, contractors, and suppliers recorded on a net basis, and other loans on a gross basis. The local authorities include the municipalities, local councils, regional councils, religious councils, and regional authorities. For the sake of brevity, the local authorities will hereafter be referred to at times simply as "the authorities".

³ Including participation in share capital.

freezing of tax rates, and despite the special loans received for paying off debts,¹ the local authorities apparently again incurred a considerable ordinary budget deficit.

(a) *Transactions of the local authorities*

Table VII-16 presents the "balance of payments" of the authorities for the years 1962 and 1963, by main type of receipt and payment. The table differentiates between transactions with the Government, transactions in credit (the "financial account"), and other transactions (the "real account").

In the real account, expenditure (purchases on current and capital account plus transfer payments) exceeds revenue (from taxes and other compulsory payments) to an appreciable extent—i.e. the authorities have a demand surplus. As in 1962, the demand surplus amounted to approximately IL 100 million during the year reviewed, but relative to total purchases,² it declined slightly from 32 to 29 per cent.

In 1963 the demand surplus was financed three-fifths by Government grants and two-fifths by loans,³ whereas in 1962 grants covered less than half of the surplus.

(b) *Receipts*

1. *Taxes*

Tax revenue of the local authorities, including the surplus on current account of municipal waterworks and transportation enterprises, rose by 19.5 per cent in 1963, as compared with 20.5 per cent in 1962, and totalled IL 195 million. Property tax rates have not been raised since April 1961. The growth in tax collections reflects a widening of the tax base due to the addition of new residential units, which constitute the main basis for local taxes, as well as higher assessments on buildings and vacant lots. The Tel Aviv-Jaffa Municipality increased the water rate in October 1962, owing to rising costs of water supply services.

2. *Other compulsory levies*

Income from transfers⁴ and from sales on current and capital account increased, as in the two preceding years, by 23 per cent, and totalled IL 105 million.

Approximately half this amount came from assessments on home- and land-owners for financing roads, sidewalks, and sewage disposal, and for the installation of water meters. These receipts increased 30 per cent above the 1962 level, and covered some 40 per cent of the authorities' investment expenditure.

¹ In contrast to other loans, these loans are recorded in the ordinary budget.

² Net of sales.

³ Net of repayment; including Government loans.

⁴ Excluding transfers from the Government.

Table VII-16

"BALANCE OF PAYMENTS" OF THE LOCAL AUTHORITIES, BY TYPE OF RECEIPT AND PAYMENT, 1962-63
(IL million)

Receipts	1962	1963	Increase or decrease (-)	Payments	1963	Increase or decrease (-)	
Transfers and transactions in goods and services							
Taxes ^a	164	196	32	Purchases on current account	187	217	30
Miscellaneous income	87	107	20	Purchases on capital account	115	130	15
				Grants and transfer payments	45	55	10
Total	251	303	52	Total	347	402	55
Transactions in financial claims^b							
Domestic long-term loans	38	52	14	Participation in share capital	4	4	—
Short-term credit, net				Redemption of long-term loans			
From the banking system	15	1	-14	Foreign	5	10	5
Other domestic sources	11	2	-9	Domestic	15	20	5
Total	64	55	-9	Total	24	34	10
Transactions with the Government							
Net grants	48	62	14				
Net loans	8	16	8				
Total	56	78	22				
Total receipts^c	371	436	65	Total payments^c	371	436	65

^a Including net surplus on current account of waterworks and other enterprises.

^b Excluding changes in the local authorities' liabilities in 1962 due to devaluation. Receipts and payments have been recorded at the exchange rate in force on date of receipt or payment.

^c These figures differ from total receipts and payments in the local authorities' financial reports in that current income from enterprises, loans from contractors, suppliers, and banks, and transactions with the Government have been recorded on a net basis.

SOURCE: 1962—Central Bureau of Statistics; 1963—Bank of Israel estimates based on partial data.

About two-fifths of the IL 105 million collected in 1963 were transfer receipts, including service charges in primary schools, tuition fees in nursery, secondary, and vocational training schools run by the authorities, hospitalization fees in municipal hospitals, and parents' participation in the cost of meals provided to children in schools and summer camps.

Sales of land and rents on properties owned by the authorities constituted the remaining revenue.

3. Government grants

Government allocations to local authorities, net of interest payments and participation of the authorities in Government expenditure, rose 30 per cent over the 1962 level, and totalled more than IL 60 million. In 1962 there was an increase of 20 per cent.

The general grant-in-aid, which constitutes approximately half the Government's net allocation, was 35 per cent larger in 1963. This increase was partly intended to compensate the authorities for the freezing of their property tax rates. There was a marked rise in the participation of the Ministry of Education and Culture (30 per cent) and the Ministry of Health, while the Ministries of Social Welfare and of Religious Affairs showed more moderate increases, the former because of the continued drop in unemployment.

Government aid is granted mostly to local authorities other than the large municipalities (with the exception of Jerusalem), which are less dependent on such assistance. The four major cities (including Jerusalem) received only 15 per cent of total Government grant-in-aid in 1963, though their share in total current expenditure of the authorities reached approximately 45 per cent. These cities have a greater taxing capacity, accounting for as much as three-fifths of total tax revenue.

4. Increase in indebtedness¹

Net proceeds from borrowing, including Government loans, totalled IL 45 million, as compared with IL 50 million in 1962. About two-fifths of the loans were obtained from financial institutions and provident funds, about one-third from the Government, and the remainder from the State Lottery, banks, contractors, and parents of schoolchildren.

The amount received through Government development budget loans was only slightly larger than in 1962. (see Table VII-12). The considerable rise in other Government loans was due to the redemption by the Government—under its policy of paying off foreign obligations ahead of maturity—of some of the liabilities of the Haifa Municipality to foreign contractors and suppliers in connection with the construction of the Carmelit subway several years ago.

Government arrangements also enabled the authorities to obtain special large-

¹ Loans net of repayments.

sized loans¹ from a number of financial institutions (including the investment companies of the three major banks and Tefahot Israel Mortgage Bank) in order to balance their ordinary budgets and pay exchange rate differentials on value-linked loans; these loans were granted from the proceeds of bond issues floated by these institutions.

From the State Lottery the authorities received loans totalling IL 10 million, as well as nearly IL 10 million in grants. Gmul Ltd. also provided loans to the authorities, these being recognized as "authorized investments" of the provident funds for purposes of income tax concessions. Receipts under the saving schemes for secondary and higher education totalled several million Israeli pounds.

Since the devaluation, the authorities have received virtually no new loans from abroad; on the other hand, the major cities have continued to redeem loans obtained in previous years, and these payments, of course, are made at the new exchange rate. The especially large increase in such redemptions in 1963 was due to advance repayments of debts connected with the construction of the Carmelit subway which, as already mentioned, were financed by the Government.

The authorities repaid IL 2.5 million (including linkage differentials) on account of joint bond issues floated by them in 1957 and 1958. There was also a decline in outstanding obligations to contractors and suppliers in the framework of the extraordinary budget. On the other hand, open debts to suppliers were increased once again to cover budgetary deficits.

The outstanding debt of the local authorities (excluding revaluation differentials on linked loans obtained before devaluation) rose from the end of March 1962 to the end of March 1963 by some 16.5 per cent, and totalled IL 275 million—the equivalent of four-fifths of the ordinary budget. Payments on account of interest and principal, including linkage differentials, amounted to over one-fifth of total receipts from new loans.

(c) *Payments*

Outlay of the local authorities in 1963, excluding debt redemption and current expenditure of trading enterprises, rose by IL 55 million above the 1962 level, and totalled IL 405 million. The annual rate of increase at current prices amounted to 15.5 per cent—a 6.5 per cent rise in prices and a real increase of 8.5 per cent. About one-fourth of the additional outlay was on investment, and the remainder on current expenses.

1. Current purchases and transfer payments

Current purchases expanded by 16 per cent at current prices, reaching IL 215 million. Wages and salary payments, which account for close to two-thirds of all current purchases, increased by 14.5 per cent—average wages

¹ Totalling IL 10 million in fiscal 1962/63 and an additional IL 15 million in 1963/64.

per employee (including the enlarged cost-of-living allowance) rose by 9 per cent, and the number of persons employed by 5 per cent—and totalled approximately IL 140 million.¹ Interest payments, other than to the Government, went up by one-third, and amounted to IL 18 million.

Table VII-17

FUNCTIONAL COMPOSITION OF LOCAL AUTHORITY
EXPENDITURE,^a 1961-63

(percentages)

	1961	1962	1963
General services			
General administration	12.5	11.9	11.8
Municipal services ^b	25.6	24.6	23.6
Total	38.1	36.5	35.4
Social services			
Education and culture	30.5	31.3	32.4
Social welfare	10.7	10.0	10.1
Health	5.5	5.5	5.5
Housing	0.3	0.9	1.0
Total	47.0	47.7	49.0
Economic services			
Transportation (including roads)	7.3	8.6	8.0
Agriculture, industry, electric power	3.4	2.2	2.2
Total	10.7	10.8	10.2
Unallocable services			
Interest payments	4.2	5.0	5.4
Grand total	100.0	100.0	100.0
Grand total in IL million	289	358	414

^a Excluding debt repayment and the current expenditure of waterworks and transportation enterprises. Absolute figures are presented in the Appendix to this Report (in Hebrew only).

^b Sanitation, sewage disposal, street lighting, fire fighting, public gardens, town planning, and building licensing, as well as investment in waterworks.

SOURCE: Based on summary data prepared by the Central Bureau of Statistics.

¹ Including wages and salaries paid by religious councils, but excluding those paid by trading enterprises or on capital account. Also excluded are the salaries of teachers in kindergartens and schools for children of compulsory school age, since these are paid directly by the Government.

Transfer payments increased by 22 per cent as compared with 1962, and totalled IL 55 million. Social welfare allocations to needy families, including new immigrants, constituted approximately two-thirds of such payments, the remainder consisting of expenditure on food dispensed in schools and in municipal institutions, grants to educational and health institutions, pension payments, and the authorities' participation in graded secondary school fees.

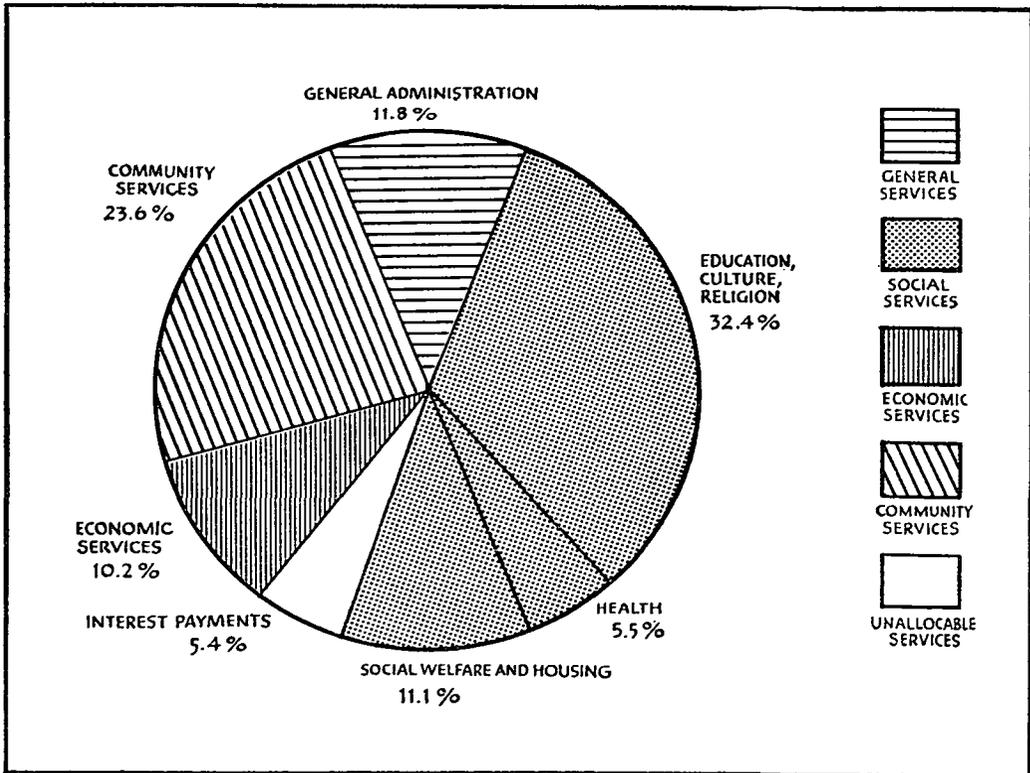
2. *Purchases on capital account and participation in company share capital*

Purchases on capital account, which include investments and purchases of land and buildings, rose by 13 per cent above the 1962 level, and totalled IL 130 million. In real terms, the rate of growth amounted to 5 per cent. Most of the increase was in the construction of schools and other public buildings. Work on the purification of the Tel Aviv seafront also continued.

Other investments were mainly in the paving of roads and sidewalks, expansion of waterworks and sewage disposal plants, installation of water meters in homes, and traffic and parking facilities.

Diagram VII-8

FUNCTIONAL COMPOSITION OF LOCAL AUTHORITY EXPENDITURE, 1963
(percentages)



In 1962 the three largest cities and Petah Tikvah set up joint Government-municipal companies for the rehabilitation of slum areas. By the end of 1963 they had allocated some IL 7 million as their part in the share capital of these companies, as against some IL 13 million allocated by the Government.

(d) *Functional composition of expenditure*

Table VII-17 presents a breakdown of expenditure by function during the years 1961 to 1963 (see also Diagram VI-7). Debt repayment is excluded from this analysis.

The local authorities operate chiefly in the fields of education, social welfare, and strictly municipal services. In the economic field their activities are limited, as a rule, to the transportation sector, including roads and traffic regulation.

In the past two years there was a relative rise in expenditure on education, interest, and housing (the last item was still small, however) and a relative decline in outlay on municipal services (with the completion of a number of large-scale sewage disposal projects), administrative services, and agriculture.

The largest single item—about one-third of total outlay—is education, even though it does not include salaries of teachers in kindergartens and schools for children of compulsory school age, since these are paid directly by the Government. Social services accounted for half of total expenditure.

Community services, chiefly sanitation and sewage disposal, accounted for close to one-fourth of aggregate outlay, making this the second largest item. Administrative services accounted for one-eighth of the total, and interest payments for 5 per cent.