

CHAPTER XVII

FINANCIAL INSTITUTIONS

THE FINANCIAL INSTITUTIONS form part of the country's financial intermediaries, which in the broadest sense of the term are defined as concerns which purchase, sell, and hold financial assets. Included in this broad definition are commercial banks, provident funds, and insurance companies, which are dealt with separately.¹ This chapter surveys those financial institutions which raise the bulk of their funds from external sources and transfer them elsewhere, thus fulfilling the function of a financial intermediary.² It does not deal with financial concerns which obtain most of their resources from a limited number of proprietors and are consequently included in the household sector, nor to holding companies, whose resources consist largely of either nonfinancial assets or liabilities of subsidiaries.

In contrast to previous years, unit trusts have also been included under financial institutions.³ Formerly, the investments of unit trusts were defined as a direct investment of households, and therefore the trusts were not included among financial institutions; moreover, the scope of their operations was quite limited. Actually, they should be considered as financial intermediaries which raise money chiefly from households and invest it in securities, since decisions regarding the scope and direction of the investments are made exclusively by the trusts.

In 1963 there was a substantial increase both in the number of financial institutions and in their volume of business. During the year 13 new institutions were opened—eight investment companies and five mortgage banks.⁴ The volume of transactions of the sector expanded by 20 per cent, as against a contraction of 9 per cent in 1962. Its consolidated balance sheet rose by 42 per cent in 1963, as compared with 53 per cent the year before. The establishment of the new investment companies and mortgage banks is attributable to developments in the securities market, which increased the possibilities of raising capital locally, and to the greater possibilities of raising capital abroad. The

¹ See Chapters XV and XVIII.

² For purposes of bank examination, the volume of deposits subject to the liquidity requirements serves as a criterion for including an institution in this sector.

³ Data for earlier years have been adjusted accordingly.

⁴ The discussion in this chapter covers only five new financial institutions—three investment companies and two mortgage banks—either because some of the remaining institutions were not yet active in 1963 or because of the lack of data.

growth of the consolidated balance sheet stemmed partly from the mobilization of new funds and partly from the transfer to the financial institutions of outstanding Government loans for administration. Conspicuous among such transfers in 1963 was the proportion of loans to shipping companies which were transferred to the Maritime Bank.¹ The financial institutions raised most of their funds abroad, in the domestic new issue market, from the Government, and from provident funds, and they extended credit chiefly to persons buying homes, to industrial firms, and to households. In 1963 an arrangement was instituted in the case of industrial and agricultural loans whereby borrowers were granted an option between linkage to the cost-of-living index and payment of a premium at a fixed rate in lieu of linkage. A new development this year was the insuring of financial institutions selling debentures abroad against losses from devaluation.

This year's survey deals with 75 financial institutions, compared with 72² in the 1962 Report. Seven new concerns were added in 1963, of which two were mortgage banks, three investment companies, and two unit trusts. On the other hand, four institutions discontinued operations—Otsar la'Hakla'ut, which merged with the Yaad Agricultural Development Bank, and three household finance companies.

The financial institutions fall into seven subgroups:

1. Industrial investment banks.
2. Agricultural finance institutions.
3. Mortgage banks.
4. Institutions granting loans to other sectors (shipping, tourism, and local authorities).
5. Household finance companies.
6. Investment companies.
7. Unit trusts.

The Government is well represented in each of the first four groups, holding a controlling or partial interest in the largest institutions in each: in industry—the Industrial Development Bank of Israel; in agriculture—the Israel Bank of Agriculture; in construction—Tefahot Israel Mortgage Bank Ltd.; and in other sectors—the Maritime Bank and the Tourist Industry Development Corp. These institutions serve as agents of the Government, handling development budget loans as well as direct Government loans. The Government transfers funds to the financial institutions both in the form of deposits for granting loans and by the acquisition of their debentures or shares. There is a tendency to concentrate the granting of Government loans through financial institutions

¹ These transfers actually amount to a change in recording only. Whereas formerly the loans were recorded in the Government accounts as a debt of the shipping companies to the Government, they are now recorded as a debt of the financial institutions to the Government.

² Including trust funds operating in 1962.

connected with the Government, but they are still being extended through other financial institutions and banks.

1. ASSETS AND LIABILITIES

The consolidated balance sheet of the financial institutions rose from IL 1,813 million in 1962 to IL 2,572 million in 1963—an increase of 42 per cent. But, as pointed out, only part of this gain reflects the actual extension of credit in 1963, while in part it was the result of transfers of old loans to the financial institutions and the revaluation of assets. Such transfers and revaluation increments amounted to approximately IL 340 million: IL 225 million—Government shipping loans transferred to the Maritime Bank; IL 70 million—Amidar loans to home buyers transferred to Tefahot; IL 14 million—the transfer of assets from parent companies to their investment companies; and IL 28 million—the revaluation of the Bank of Agriculture's assets after the 1962 devaluation. Net of these sums, the growth in the 1963 balance sheet came to 23 per cent, compared with an increase of 26 per cent in 1962¹ and 35 per cent in 1961.

Among the different types of financial institutions, the weight of the mortgage banks and industrial investment banks is predominant in the balance sheet (see Table XVII-2). The most rapid growth took place in the unit trusts, which advanced 184 per cent, from IL 13 million in 1962 to IL 38 million in 1963; after them come institutions financing other sectors of the economy, whose asset growth was mainly due to the transfer of Government shipping loans to the Maritime Bank for collection.

(a) *Assets*

The largest asset items (Table XVII-1) were loans to the public from the financial institutions' own resources and credit to the public from Government deposits, which together constituted about 74 per cent of total assets. No significant changes took place in 1963 in the composition of assets. The principal change—an increase in the share of credit to the public from Government deposits—was due to the aforementioned transfer to the Maritime Bank of Government shipping loans.

The substantial rise of 87 per cent in nongovernmental securities is attributable to the expansion of investment companies. The increase in cash and bank deposits chiefly reflects changes in recording procedure.²

¹ Net of transfers and revaluation differentials.

² For example, a Government deposit earmarked for loans in one of the banks was transferred by the latter to its subsidiary investment company and recorded in the bank's balance sheet as a deposit in the investment company; the investment company, on its part, redeposited this sum in the bank, so that in its books the sum appeared both as a deposit received for the purpose of extending loans and as a bank deposit earmarked for loans. In the final analysis, the loans are advanced by the banking institutions, and such recording inflates the balance sheets of both the banking institutions and their investment companies.

Table XVII-1

ASSETS AND LIABILITIES OF THE FINANCIAL INSTITUTIONS, 1962^a-63

	IL million		Per cent		Increase or decrease (-) from 1962 to 1963	
	1962	1963	1962	1963	IL m.	%
Assets						
Cash and bank deposits	47.3	66.1	2.6	2.6	18.8	39.7
Credit to the public from own means	710.7	927.6	39.2	36.1	216.9	30.5
Credit to the public from Government deposits	571.8	962.7	31.5	37.4	390.9	68.4
Credit to the public from deposits earmarked for loans	131.6	140.2	7.3	5.5	8.6	6.5
Loans to the Government (including deposits with the Accountant General)	253.4	296.3	14.0	11.5	42.9	11.7
Nongovernmental securities ^b	88.5	165.4	4.9	6.4	76.9	86.9
Immovable assets	10.0	13.8	0.5	0.5	3.8	38.0
Total	1,813.3	2,572.1	100.0	100.0	758.8	41.8
Liabilities						
Equity capital	412.5	635.9	22.7	24.7	223.4	54.2
Debentures	424.6	519.9	23.4	20.2	95.3	22.4
Deposits and loans from banks	31.6	42.3	1.7	1.7	10.7	33.9
Government deposits	686.8	1,032.5	37.9	40.2	345.7	50.3
Deposits earmarked for loans	93.5	165.7	5.2	6.4	72.2	77.2
Other deposits and loans	73.2	75.2	4.0	2.9	2.0	2.7
Demand deposits	6.7	9.7	0.4	0.4	3.0	44.8
Other accounts (net)	84.4	90.9	4.7	3.5	6.5	7.7
Total	1,813.3	2,572.1	100.0	100.0	758.8	41.8
Contingent accounts						
Customers' liabilities and guarantees	115.5	132.4	—	—	16.9	14.6
Grand total	1,928.8	2,704.5	—	—	775.7	40.2

^a Including linkage differentials.^b Including investment in auxiliary companies.

(b) *Liabilities*

The largest liability items were Government deposits, equity capital, and debentures, which together constituted about 85 per cent of total liabilities.

Following the decline during the past five years in the relative share of liabilities owed to the Government, a slight rise was noticeable in 1963. However, since this increase was mainly due to the transfer of outstanding Government loans to the financial institutions for administration, a comparison exclusive of these transfers would be more meaningful. Net of such transfers, liabilities to the Government amounted to 39 per cent of total liabilities, as against 49 per cent in 1962. This represents a continuation of the downtrend in the weight of such liabilities.

Table XVII-2

CONSOLIDATED BALANCE SHEET OF THE FINANCIAL INSTITUTIONS,
BY TYPE, 1962-63

(End of period)

	IL million		Per cent		Per cent increase or decrease (-) as against preceding year	
	1962	1963	1962	1963	1962	1963
Industrial investment banks	605.1	694.1	33.4	27.0	61.1	14.7
Agricultural finance institutions	292.7	363.7	16.1	14.1	5.3	24.2
Mortgage banks	569.9	820.4	31.4	31.9	60.3	44.0
Financial institutions extending credit to other sectors ^a	137.1	380.0	7.6	14.8	135.2	177.2
Household finance companies	39.5	44.9	2.2	1.7	8.5	13.7
Investment companies	155.6	230.9	8.6	9.0	95.7	48.4
Unit trusts	13.4	38.1	0.7	1.5	116.1	184.3
Total	1,813.3	2,572.1	100.0	100.0	63.1	41.8

^a Tourism, shipping, and local authorities.

Obligations to the Government amounted to IL 1,294.6 million in 1963: IL 1,049.2 million—Government deposits earmarked for loans (including some IL 317 million in Government loans which had been transferred to the financial institutions for handling); IL 231.8 million—Government purchases of financial institution shares (chiefly of the Industrial Development Bank, Israel Bank of Agriculture, the Tourist Industry Development Corporation, and Tefahot); IL 13.6 million—the purchase of Maritime Bank debentures by the Government.

The weight of debentures issued by the financial institutions in their total liabilities declined slightly in 1963. This reflects the fact that debenture issues by

the financial institutions were on the same level in 1963 as in 1962—approximately IL 71 million (see Table XVII-4).¹ Such debentures are purchased chiefly by the provident funds, whose investments are guided by the Government. In 1963 the provident funds transferred considerable sums to the Jewish Agency for financing the construction of immigrant housing, and this led to a relative contraction of the provident funds' investments in financial institution debentures.

Table XVII-3

LIABILITIES^a OF THE FINANCIAL INSTITUTIONS, BY SECTOR, 1961-63

(End of period)

	IL million			Per cent		
	1961	1962 ^b	1963	1961	1962 ^b	1963
Government	676.0	905.4	1,294.6	57.1	49.9	50.3
National Institutions and local authorities	24.2	17.4	23.2	2.0	1.0	0.9
Public sector companies	12.0	23.5	35.6	1.0	1.3	1.4
Banking institutions	51.8	68.8	120.7	4.4	3.8	4.7
Provident funds	82.3	164.9	222.5	6.9	9.1	8.6
Insurance companies	3.8	9.0	7.2	0.3	0.5	0.3
Private businesses ^c	50.2	59.2	79.1	4.2	3.3	3.1
Nonprofit institutions	15.2	21.2	22.6	1.3	1.2	0.9
Rest of the world	77.0	165.8	244.3	6.5	9.1	9.5
Households	20.5	48.6	25.7	1.7	2.7	1.0
Accumulated balance of intrasector transactions	17.2	44.0	58.1	1.5	2.4	2.3
Accumulated profits	68.3	160.0	226.7	5.8	8.8	8.8
Unspecified ^d	86.1	125.5	211.8	7.3	6.9	8.2
Total	1,184.6	1,813.3	2,572.1	100.0	100.0	100.0

^a Including equity capital and participation certificates.

^b Including linkage differentials.

^c Including farms.

^d Including sales on the Stock Exchange.

Proceeds from debenture sales transferred by the financial institutions to the Treasury for financing the development budget were lower than in 1962. However, this is not to be regarded as a significant change, since that part of the proceeds which is not transferred directly to the Treasury is used for granting loans in accordance with Treasury directives.

¹ These sums do not include the debentures issued by Gmul Ltd. and Bitzur Ltd. and therefore differ from the figures appearing in Chapter XX, "The Securities Market".

Table XVII-4

DEBENTURE ISSUES OF THE FINANCIAL INSTITUTIONS, 1960-63^a

	1960		1961		1962		1963	
	Amount issued	Transferred to Treasury						
IL million	14.5	8.5	45.4	31.5	70.5	49.5	71.0	34.0
Per cent	100.0	58.6	100.0	69.4	100.0	70.2	100.0	47.9

^a These sums do not include the debentures issued by Gmul Ltd. and Bitzur Ltd. and therefore differ from the figures appearing in the chapter on securities.

The nonincrease in the financial institutions' debenture issues caused their share of total long-term domestic issues to drop from 39 per cent in 1962 to 22 per cent in 1963.

2. CREDIT

The balance of credit extended by the financial institutions amounted to IL 2,327 million in 1963—an increase of IL 660 million compared with 1962. This rise was partly due to the transfer of Government loans to the financial institutions, which does not constitute a net addition to the amount of credit granted. The growth in outstanding credit, excluding these transfers, came to IL 336 million, or about 20 per cent, as against an increase of 26 per cent in 1962.

Long-term loans for financing investments in industry, agriculture, and construction constituted about 64 per cent of total outstanding credit at the end of 1963.

*Destination of credit**1. The Government*

Government receipts from the financial institutions amounted to IL 43 million in 1963, as against IL 95 million in 1962. It should be noted, however, that the 1962 figure includes the deposit of IL 54 million on account of advance repayments of mortgage loans.

Government receipts from the financial institutions consist of the transfer of part of the proceeds from debenture sales, the purchase of Government securities, and deposits with the Accountant General.

2. Industry

Net credit advanced to industry in 1963 amounted to IL 86 million, as against IL 60 million the year before. Nearly 90 per cent of this sum was extended through the Industrial Development Bank.

The borrower was given an option between linkage to the cost-of-living index and payment of a 4 per cent premium in lieu of linkage. Since the interest on such loans sometimes amounted to 8 per cent and the addition of a premium increased the rate beyond the legal ceiling, it was necessary to amend the Interest Law. Such an amendment was passed by the Knesset in March 1963. In respect of the loans extended in 1963, there was a tendency to prefer

Table XVII-5

**BALANCE OF CREDIT GRANTED BY THE FINANCIAL INSTITUTIONS,
BY FIRST SECTOR OF DESTINATION, 1961-63**

(End of period)

Sector	1961	1962		1963
		Excl. linkage differentials	Incl. linkage differentials	
IL million				
Government (including deposits with Accountant General)	86.7	181.6	253.5	296.3
Industry	308.3	368.7	484.1	570.6
Agriculture	199.2	195.3	195.7	225.1
Construction ^a	342.7	411.2	480.3	693.0
Commerce	5.5	7.8	7.9	8.0
Public services	23.0	42.4	47.4	229.4
Services ^b	43.3	73.3	82.6	124.2
Households	29.6	19.9	19.9	29.5
Miscellaneous ^c	63.0	86.4	96.2	150.7
Total	1,101.3	1,386.6	1,667.5	2,326.8
Percentages				
Government	7.9	13.1	15.2	12.7
Industry	28.0	26.6	29.0	24.5
Agriculture	18.1	14.1	11.7	9.7
Construction ^a	31.1	29.6	28.8	29.8
Commerce	0.5	0.6	0.5	0.3
Public services	2.1	3.1	2.8	9.9
Services ^b	3.9	5.3	5.0	5.3
Households	2.7	1.4	1.2	1.3
Miscellaneous ^c	5.7	6.2	5.8	6.5
Total	100.0	100.0	100.0	100.0

^a Including credit for financing home purchases.

^b Transport, hotels and other guest accommodation, education, health, and religion.

^c Including credit to local authorities, the National Institutions, and financial institutions, the destination of which is unspecified.

the payment of a premium to index-linkage. In some instances borrowers who at the beginning of the year had linked their loans to the index chose to switch to the premium system.

3. Agriculture

In 1963 agriculture received additional net credit of IL 7.5 million from the financial institutions, as against a net repayment of IL 3.9 million in 1962. Despite this rise, agriculture's share in total outstanding credit advanced by the financial institutions fell from 18.1 per cent in 1961 to 9.7 per cent in 1963. Most of the credits were granted through the Agricultural Bank and the various settlement funds.

Table XVII-6
NET CREDIT GRANTED BY FINANCIAL INSTITUTIONS,
BY FIRST SECTOR OF DESTINATION, 1962-63^a

(From end of year to end of year)

Sector	IL million		Per cent increase or decrease (-) as against preceding year	
	1962	1963	1962	1963
Government (including deposits with Accountant General)	94.9	42.8	109.5	16.9
Industry	60.4	86.5	19.6	17.9
Agriculture	-3.9	7.5	-2.0	3.8
Construction ^b	68.5	138.8	20.0	28.8
Commerce	2.3	0.1	41.8	1.3
Public services	19.4	-7.0	84.3	-14.8
Services ^c	30.0	5.6	69.3	6.8
Households	-9.7	9.6	-32.7	48.2
Miscellaneous ^d	23.4	52.5	37.1	54.6
Total	285.3	336.4	25.9	20.2

^a The growth of outstanding credit not actually granted in 1963 is not included here.

^b Including credit for financing home purchases.

^c Transport, hotels and other guest accommodation, education, health, and religion.

^d Including credit to local authorities, the National Institutions, and financial institutions, the destination of which is unspecified.

Here too the borrower was allowed a choice between linking the loan to the index or paying a premium in lieu of linkage. In citriculture the premium is 4 per cent, and in the remaining branches 3 per cent. This arrangement did not become effective until after passage of the above-mentioned amendment to the Interest Law, but in practice it was applied retroactively and included

index-linked loans granted in 1962. In nearly all cases the farmers preferred payment of a premium to index-linkage. The report of an inter-kibbutz committee, which recommended payment of the premium rather than linkage in the case of loans for over five years, probably exerted some influence in this direction.

In 1962 the agricultural finance institutions did not reevaluate their balance sheets because of the discussions on the question of dollar-linked loans, and the revaluation was only carried out toward the end of 1963. Revaluation of the Israel Bank of Agriculture's assets added IL 28 million to its balance sheet.

4. Construction

The additional credit extended in 1963 for construction was mostly for financing home purchases, and amounted to IL 139 million as against IL 68.5 million in 1962. Since the 1962 figure includes advance mortgage loan repayments totalling IL 54 million, the increase in 1963 is actually less than that indicated by the data. Almost no change took place in the construction sector's relative share of outstanding credit granted by the financial institutions, and it stood at 30 per cent. Most of the mortgage loans were linked to the index. An exception to this was the loans of the Jassour Mortgage Bank, which received special authorization to link its loans to the dollar since its resources are mobilized abroad.

Several financial institutions—two mortgage banks and the Tourist Industry Development Corporation—which raised capital abroad in the past, or are currently doing so, have started insuring overseas debenture issues against devaluation. The insurer is the Yuval Insurance Co. of Israel Ltd., which in this case serves as an agent of the Government. The insured institution transfers to Yuval all its index-linkage differentials as well as an additional payment of 0.5 per cent annually on the balance of debentures sold abroad. There is no uniform arrangement as regards the borrower, some banks requiring him to pay the half per cent and others not.

3. MORTGAGE BANKS

The rapid development of the mortgage market continued in 1963 as well, and found expression both in the opening of new mortgage banks and in the expansion of existing ones. During the year five new mortgage banks were established, although only two of them started operations.¹ The balance of mortgage loans rose from IL 436 million in 1962 to IL 661 million, i.e. by IL 225 million. This sum includes the transfer of outstanding loans from Amidar to Tefahot in the amount of approximately IL 70 million. Excluding these transfers, the rise in outstanding loans came to 35 per cent.

¹ The number of mortgage banks discussed in this chapter is 14.

Most of the mortgage banks operate under Government direction. The bulk of the funds at their disposal have been provided by the Government, and their loans are granted exclusively to persons buying homes in public housing schemes (Popular Housing, Saving-for-Housing, new immigrant absorption, liquidation of transit camps and slum clearance, etc.). Those buying homes from private builders have recourse only to four mortgage banks, which account for merely 12 per cent of all mortgage bank resources. These banks obtain most of their funds from foreign investors and are based solely on private capital. Loan terms in the private mortgage market are not as easy as those for public housing mortgages, from the aspect of interest, commission charges,¹ and due dates. In the private mortgage market, loans are granted for up to 25–30 per cent of the value of the home. In the case of housing for evacuees of transit camps and slum areas or for new immigrants, the mortgage may be as high as 50 per cent, and sometimes may even cover the entire cost.

In the Saving-for-Housing Scheme the maximum mortgage loan is fixed at IL 5–6,000. The average amount loaned against mortgage stood at IL 7,000 in 1963, compared with IL 6,200 in 1962.² This increase stemmed from a rise in housing prices.

The two leading mortgage banks in this sector are the General Mortgage Bank Ltd. and Tefahot Israel Mortgage Bank Ltd., which account for about 50 per cent of total outstanding loans granted by all mortgage banks. Tefahot's rapid growth began in 1958 when it passed into the hands of Amidar Ltd., which thereupon transferred its outstanding loans to it. In 1963 the Government acquired a substantial holding in the bank,³ and through it channels a growing proportion of its housing loans from the development budget.

4. INVESTMENT COMPANIES

In 1963 eight new investment companies were established.⁴ This rapid growth is mainly attributable to the development of the domestic capital market. These companies are all subsidiaries of banking institutions or commercial concerns.

The investment companies' balance sheet rose by 48 per cent in 1963. Net of parent companies' transfers to subsidiaries, the increase came to 39 per cent.

¹ A change for the better has taken place in this respect after a Government committee set a limit on commission charges, but there are still cases where the situation has not been rectified.

² The data upon which these findings are based were obtained from eight mortgage banks, which in 1963 accounted for approximately 90 per cent of the balance of outstanding loans granted by all mortgage banks.

³ This was effected by the conversion of deposits into shares.

⁴ Only three of the eight new companies are included in this Report, since the others were established toward the end of 1963 and did not draw up a balance sheet for the year. Eleven companies are surveyed in this chapter.

The firms tend to invest in immovable assets or in enterprises whose shares are not traded on the Stock Exchange, apparently because of the prospects of earning bigger profits through active participation in their management.

5. UNIT TRUSTS

In 1963 there were five unit trusts doing business in Israel. PIA, the largest and oldest, having operated before the establishment of the State, is the only one to distribute dividends. The others were founded during the last two years and operate as cumulative funds, i.e. they do not distribute dividends but re-invest all their income. The rapid development of the unit trusts began in 1961, after promulgation of the law regulating their activities. The rapid expansion of the Stock Exchange during these years contributed not a little to their growth. In 1962 their securities portfolio rose by 116 per cent, and in 1963 by 184 per cent (see Table XVII-2). The par value of the new participation certificates sold by the trusts totalled IL 17 million in 1963, as compared with IL 7.5 million in 1962 and IL 2.4 million in 1961. The boom which they enjoyed in 1963 lasted only until September, and from then until the end of the year they sold scarcely any new certificates; a surplus of certificates was offered on the Stock Exchange, and their quotations were very close to their redemption rate. The reason for this downturn apparently lay in the announcement of the Treasury's intention of imposing a capital gains tax on security transactions. The trusts, wishing to uphold their reputation and avoid calling in the certificates for redemption, saw to it that the parent financial bodies bought the certificates. Total purchases are estimated at IL 1.5-2 million in 1963. It is noteworthy that PIA, which is not a cumulative trust, was less affected than the others.

The purchasers of participation certificates are investors interested in assuring for themselves a reasonable return on their investment at a small risk. The unit trusts reduce their risks by spreading investments over a large number of shares and by including debentures in their portfolios. The composition of the trusts' investments at the end of 1963 was as follows: shares—61 per cent, debentures—29 per cent, and liquid assets (chiefly the Government Short-Term Loan)—10 per cent. These are average rates; among the trusts were some whose investments in shares came to 46 per cent and in debentures to 47 per cent of their portfolio, while there were others whose investments in shares amounted to 71 per cent and in debentures to only 11 per cent.

6. FLOW OF FUNDS, BY SECTOR¹

The volume of the financial institutions' operations rose from IL 367 million in 1962 to IL 441 million in 1963—an increase of 20 per cent. This rise reflects the growth in nonfinancial transactions, transactions with the National Institutions and local authorities, and those with private businesses. On the other hand, there was a decline in transactions with the Government.

The financial institutions, which constitute one of the sectors operating chiefly in the financial sphere, serve mainly as an intermediary between sectors with a supply surplus and those with a demand surplus.² In a flow-of-funds analysis of the financial institutions it should be kept in mind that the financial institutions in Israel, unlike those abroad, exercise only partial control over the funds passing through their hands. Their nonfinancial transactions (see Table XVII-7) include the purchase and sale of nonfinancial assets and of services, chiefly capital servicing.

(a) *The Government*

The financial institutions' receipts from the Government decreased from IL 115 million in 1962 to IL 72 million in 1963. There was also a decline in transfers to the Government—from IL 94 million in 1962 to IL 43 million. Net receipts from the Government thus amounted to IL 29 million in 1963, as compared with IL 20 million the year before. The decrease in payments to the Government is explained by the fact that in 1962 such payments included the deposit of some IL 54 million received on account of advance mortgage loan repayments.

(b) *Banking institutions*

Payments to banking institutions went up by IL 11 million in 1963. This growth stemmed in part from an increase in the bank deposits of the investment companies and an increase in their equity investments in banking institutions.

(c) *Provident funds*

In 1963 the provident funds purchased IL 52 million worth of financial institution debentures as part of their authorized investments. The financial institutions are not free to invest these sums as they wish, their utilization being determined in accordance with Treasury directives. Nor is the magnitude of receipts from the provident funds due to the policy of the financial institutions or the provident funds; rather it is affected by Treasury policy.

¹ The figures presented in the flow-of-funds analysis are net of transfers of outstanding loans.

² For clarification of the concepts "supply surplus" and "demand surplus", see Chapter XVI, "Flow of Funds".

Table XVII-7

"BALANCE OF PAYMENTS" OF THE FINANCIAL INSTITUTIONS, BY SECTOR, 1962-63

(IL million)

Transaction and sector	Receipts			Payments			Balance of receipts over payments	
	1962	1963	Increase or decrease (-)	1962	1963	Increase or decrease (-)	1962	1963
Nonfinancial transactions	63.8	110.6	46.8	42.4	68.3	25.9	21.4	42.3
Transactions in financial assets								
Government	114.6	72.2	-42.4	94.4	42.9	-51.5	20.2	29.3
National Institutions and local authorities	-7.8	5.8	13.6	16.2	30.9	14.7	-24.0	-25.1
Public sector companies	9.5	12.1	2.6	41.1	28.2	-12.9	-31.6	-16.1
Banking institutions	37.0	33.3	-3.7	20.5	31.1	10.6	16.5	2.2
Provident funds	49.7	51.6	1.9	—	0.2	0.2	49.7	51.4
Insurance companies	3.9	-1.8	-5.7	0.1	1.5	1.4	3.8	-3.3
Private businesses ^a	2.0	19.9	17.9	89.3	174.7	85.4	-87.3	-154.8
Nonprofit institutions	6.0	1.4	-4.6	8.1	-10.2	-18.3	-2.1	11.6
Rest of the world	53.2	78.5	25.3	3.2	1.9	-1.3	50.0	76.6
Households	18.6	-22.9	-41.5	—	85.2	85.2	18.6	-108.1
Unspecified ^b	16.7	80.7	64.0	—	—	—	16.7	80.7
Total transactions in financial assets	303.4	330.8	27.4	272.9	386.4	113.5	30.5	-55.6
Intrasector transactions	—	—	—	57.9	-27.9	-85.8	-57.9	27.9
Errors and omissions	—	—	—	-6.0	14.6	20.6	6.0	-14.6
Total receipts and payments	367.2	441.4	74.2	367.2	441.4	74.2	—	—

^a Including farms.^b Including sales on the Stock Exchange.

(d) *Private business enterprises*¹

Net payments to private business totalled IL 155 million in 1963, as against IL 87 million the previous year. The source of this increase was the larger amount of credit extended to industrial concerns by the industrial investment banks and the larger amount of credit granted to shipping companies by the Maritime Bank. It should be emphasized that from the point of view of the shipping companies there was not necessarily an increase in credit, since part of the credit transferred to them from the financial institutions substituted for that formerly extended to them directly by the Government.

(e) *Rest of the world*

The rest-of-the-world sector is today an important source of funds for the financial institutions. Receipts from abroad amounted to IL 79 million in 1963, as against IL 53 million in 1962. Most of this sum originated from the sale of shares, chiefly by the Industrial Development Bank of Israel (IL 24 million) and by Clal Israel Investment Co. Ltd. (IL 15 million), and from the sale of debentures, primarily by the Independent Mortgage Bank (IL 12 million) and Investment and Development of Paz Ltd. (IL 12 million). The balance of the sector's deposits earmarked for loans in Israeli financial institutions rose by IL 4 million during the year reviewed.

(f) *Households*

The household sector, which had become a net lender in 1962 instead of a net borrower in consequence of the advance repayment of mortgage loans, once again became the recipient of net credit from the financial institutions in 1963, in the amount of IL 108 million. The increase in payments to the household sector is attributable to the mortgage banks.

¹ Including farms.