

CHAPTER XVII

FINANCIAL INSTITUTIONS

1. MAIN DEVELOPMENTS

THE RAPID EXPANSION of the financial institutions continued in 1964. Their consolidated balance sheet rose by 26 percent, to IL 3,244 million. In 1963 the increase came to 42 percent; however, if we deduct the effect of transfers of outstanding loans to the institutions for administration, the growth of the balance sheet amounted to 22 percent during the year reviewed—about the same as in 1963.

The balance of credit extended by this sector went up by IL 458 million, or nearly 20 percent. The construction and housing sector accounted for more than half the credit increment—IL 236 million, the overwhelming share of which was granted to households for financing home purchases, the rest going to contractors and construction companies. The increase in industrial credits came to IL 122 million, or approximately 21 percent.

The rapid growth of the financial institutions does not have the same effect as the expansion of the banking system, but reflects a high level of activity in those sectors that are financed by such institutions. The volume of business here depends largely on the amount of resources placed at the institutions' disposal by the Government, either directly or indirectly, and by the various institutional arrangements instituted by the latter.

In contrast to previous years, the overwhelming share of the credit granted in 1964 to the industrial and agricultural sectors was not value-linked, since borrowers were given the option of taking on loans without linkage in exchange for an annual premium of 3 to 4 percent. This arrangement did not apply to housing loans, which were linked to the consumer price index.

The balance of portfolio investment increased by IL 107 million, reaching IL 272 million. Most of the securities were acquired by investment companies, but a large part of them are not traded on the Stock Exchange.

The marked rise in the volume of financial transactions was largely financed through Government funds—Government deposits in the institutions for the granting of loans and purchases of shares aggregated IL 165 million. Additional capital was raised through the issue of debentures and shares in Israel and abroad. Most of the IL 71 million worth of debentures issued in the country were purchased by provident funds. Gross receipts from abroad totalled approximately IL 85 million, of which some IL 40 million was from

bond sales. The preponderant share of this sum was raised by mortgage banks and the Industrial Development Bank.

The raising of capital in other countries has been considerably stepped up in recent years, and a substantial proportion of such monies has been utilized for granting mortgage loans to home buyers. The encouragement given to the mobilization of funds abroad for financing housing is inconsistent with the effort to check monetary expansion, which was fed in the past few years by the accumulation of foreign exchange reserves. In view of this, and also because of the relatively high cost of some of the capital raised, the Government recently decided to adopt a more selective attitude toward the mobilization of funds abroad. The effect of this decision, however, is not reflected by the data for 1964.

During the year reviewed 10 new financial institutions began operations. Of these, four were investment companies; two—mortgage banks; and two—agricultural credit funds.

2. TYPES OF FINANCIAL INSTITUTIONS

Financial institutions are defined here as economic units which engage primarily in the purchase, sale, and holding of financial assets. Excluded from this sector are banking institutions, provident funds, and insurance companies, which are discussed separately, as well as holding companies, a large part of whose assets consist of real estate¹ or investments in subsidiaries² and which obtain the greater part of their resources from a limited number of proprietors and consequently cannot be regarded as financial intermediaries.

Financial institutions in Israel finance most of their credit and portfolio investment activities from Government funds deposited for the purpose of granting loans, and by the issuance of shares and debentures. Most of their funds cannot be allocated at their own discretion, but only at the behest of the depositors, mainly the Government. Some of the institutions, including the largest among them, are either owned by the Government or connected with its financing operations; on the one hand the Government deposits debentures, and on the other hand it guides them in the use of these funds. It is the Government that determines the destination and terms of the credit granted from its deposits and often even guarantees repayment; part of the resources mobilized by the institutions themselves are also subject to Government control. Among these institutions are, as stated, several of the largest in the sector, such as the Industrial Development Bank of Israel, Israel Bank of Agriculture, Tefahot Israel Mortgage Bank, General Mortgage Bank, Housing Mortgage Bank, the Maritime Bank, and the Tourist Industry Development Corp.

¹ E.g. the Mizrahi Bank Investment Company.

² E.g. Koor Industries and Crafts Co. and the Israel Central Trade and Investment Co.

Other financial institutions are not so closely connected with the Government as far as financing and the destination of credit are concerned, and therefore fulfill the role of financial intermediary as conventionally understood. They obtain funds primarily from households and the rest of the world, and utilize them for investments in securities and for extending credit to various sectors.

This year's survey deals with 83 financial institutions, which fall into seven groups:

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

3. ASSETS AND LIABILITIES

The consolidated balance sheet of the financial institutions rose from IL 2,572 million in 1963 to IL 3,244 million in 1964—an increase of IL 672 million. Part of this growth does not reflect an actual expansion of operations, but the transfer of outstanding loans and deposits to the financial institutions for management. Thus IL 101 million was transferred to Tefahot Israel Mortgage

Table XVII-1

CONSOLIDATED BALANCE SHEET TOTALS OF FINANCIAL INSTITUTIONS, BY TYPE, 1963-64

(End of period)

	IL million		Percent		Percent increase or decrease (-) as against previous year	
	1963	1964	1963	1964	1963	1964
Industrial investment banks	694.1	805.3	27.0	24.8	14.7	16.0
Agricultural credit funds	363.7	398.2	14.1	12.3	24.2	9.5
Institutions granting loans to other sectors ^a	380.0	421.4	14.8	13.0	177.2	10.9
Mortgage banks	820.4	1,185.0	31.8	36.5	44.0	44.4
Household finance companies	44.9	51.6	1.7	1.6	13.7	14.9
Investment companies	230.9	340.2	9.0	10.5	48.4	47.3
Unit trusts	38.1	42.7	1.5	1.3	184.3	12.1
Total	2,572.1	3,244.4	100.0	100.0	41.8	26.1

^a For shipping, tourism, and to local authorities.

Table XVII-2

ASSETS AND LIABILITIES OF THE FINANCIAL INSTITUTIONS, 1963-64

	IL million		Percent		Increase or decrease (-) from 1963 to 1964	
	1963	1964	1963	1964	IL m.	%
Assets						
Cash and bank deposits	64.9	63.7	2.5	2.0	-1.2	-1.8
Credit to the public from own means	927.6	1,183.0	36.1	36.5	255.4	27.5
Credit to the public from Government deposits	962.7	1,083.3	37.4	33.3	120.6	12.5
Credit to the public from deposits earmarked for loans	140.2	235.8	5.5	7.3	95.6	68.2
Loans to the Govt. (including deposits with the Accountant General and Govt. securities)	297.5	385.5	11.6	11.9	88.0 ^a	29.6
Nongovernmental securities ^b	165.4	272.1	6.4	8.4	106.7	64.5
Immovable assets	13.8	21.0	0.5	0.6	7.2	52.2
Total	2,572.1	3,244.4	100.0	100.0	672.3	26.1
Liabilities						
Equity capital	635.9	899.3 ^c	24.7	27.7	263.4	41.4
Debentures	519.9	606.4 ^d	20.2	18.7	86.5	16.6
Deposits and loans from banks	42.3	45.8	1.7	1.4	3.5	8.3
Government deposits earmarked for loans	1,032.5	1,125.6	40.2	34.7	93.1	9.0
Nongovernmental deposits earmarked for loans	165.7	238.4	6.4	7.3	72.7	43.9
Other deposits and loans	75.2	190.0	2.9	5.9	114.8 ^a	152.7
Demand deposits	9.7	9.9	0.4	0.3	0.2	2.1
Other accounts (net)	90.9	129.0	3.5	4.0	38.1	41.9
Total	2,572.1	3,244.4	100.0	100.0	672.3	26.1
Contingent accounts	108.0	101.5	—	—	-6.5	-6.0

^a The increase stemmed primarily from the transfer of IL 86 million deposited under the Saving-for-Housing scheme to the Tefahot Bank for management.

^b Including investments in subsidiary companies.

^c Of this sum, 43 percent was held by the Government.

^d Of this sum, IL 150 million was in foreign currency. In 1963 the balance of debentures denominated in foreign currency came to IL 127 million.

Bank—IL 86 million deposited in the Saving-for-Housing scheme, and IL 15 million in mortgage loans from Amidar Ltd. Net of these sums, the increase in the consolidated balance sheet amounted to 22 percent, similar to the rate in 1963.

Mortgage banks and industrial investment firms accounted for more than 60 percent of aggregate financial institution assets in 1964 (see Table XVII-1). Outstanding changes during the year were the continued rapid expansion of mortgage banks (44 percent)¹ and investment companies (47 percent). Agricultural finance institutions and unit trusts reported smaller increases than in 1963.

(a) *Assets*

Most of the assets of this sector are financial assets, i.e. loans, deposits, and securities. Loans to domestic sectors, excluding the Government, constituted 77 percent of total assets; loans to the Government—about 12 percent; and investment in nongovernmental securities—about 8 percent. In 1964 the weight of loans from Government deposits declined from 37 percent of total assets to 33 percent. In contrast, there was a considerable rise in loans from nongovernmental deposits earmarked for loans; most of these were deposited by contracting firms for providing mortgage loans to home buyers (the mortgage banks actually make the loans and see to their repayment). Another striking development was the increase in nongovernmental securities, mainly as a result of the expansion of the investment companies, among which Clal Israel Investment Co. Ltd., whose main sources of funds are located abroad, has begun to occupy a prominent place.

(b) *Liabilities*

The three main liability items in this sector are deposits (mostly earmarked for loans), equity capital, and debentures. These account for nearly 90 percent of total liabilities (see Table XVII-2).

Equity capital rose in 1964 by IL 263 million, bringing up its weight in total resources from 24.7 to 27.7 percent. There was also an increase in nongovernmental deposits earmarked for loans and other deposits and loans, which together reached 13.2 percent of total liabilities at the end of 1964, compared with 9.3 percent in 1963. About IL 70 million of the incremental equity capital arose from the conversion of Government deposits into shares of the Industrial Development Bank, the Israel Bank of Agriculture, and the Maritime Bank. The rise in other deposits and loans largely stemmed from the transfer of Saving-for-Housing scheme deposits to the Tefahot Bank and from the growth of deposits by contracting companies, as mentioned previously.

¹ Including the transfer of IL 101 million in outstanding loans and deposits to the Tefahot Bank.

Table XVII-3

LIABILITIES^a OF THE FINANCIAL INSTITUTIONS, BY SECTOR, 1962-64

	IL million			Percent		
	1962 ^b	1963	1964	1962 ^b	1963	1964
Government	905.4	1,294.6	1,475.1	49.9	50.4	45.5
National Institutions and local authorities	17.4	27.4	35.0	1.0	1.1	1.1
Public sector companies ^c	23.5	33.5	73.4	1.3	1.3	2.3
Banking institutions	68.8	116.5	138.1	3.8	4.5	4.3
Provident funds	164.9	229.8	290.4	9.1	8.9	9.0
Insurance companies	9.0	7.2	8.0	0.5	0.3	0.2
Private businesses ^d	59.2	81.9	150.5	3.3	3.2	4.6
Nonprofit institutions	21.2	22.6	23.7	1.2	0.9	0.7
Rest of the world	165.8	244.3	312.5	9.1	9.5	9.6
Households	48.6	25.1	106.6	2.7	1.0	3.3
Accumulated profits	160.0	226.7	292.3	8.8	8.8	9.0
Unspecified ^e	169.5	262.5	338.8	9.3	10.2	10.4
Total	1,813.3	2,572.1	3,244.4	100.0	100.0	100.0

^a Including equity capital and participation certificates.

^b Including linkage increments.

^c Companies owned by the Government, National Institutions, and local authorities.

^d Including farms.

^e Including sales on the Stock Exchange.

In contrast to the expansion of equity capital, the share of Government deposits earmarked for loans decreased. Obligations to the Government grew in 1964 by IL 180 million—IL 86 million in shares and IL 94 million in earmarked deposits. However, if we discount the conversion of deposits into shares, we find that of the additional liabilities only IL 16 million was in shares, while IL 164 million was in the form of deposits.

The changes in the liability structure resulting from the conversion of deposits into shares did not alter the total amount of Government funds available to the financial institutions, but this does not mean that the changes lack significance. After the conversion, Government receipts from the collection of development budget loans as well as its interest income declined, but on the other hand the Government-owned financial institutions broadened their financial base, thus strengthening somewhat their position as autonomous institutions.

Besides the changes in the composition of liabilities to the Government, there was a decline in their weight in total resources (see Table XVII-3). This, however, does not indicate a corresponding decline in the Government's role in determining the destination of credit, since part of the sums mobilized from among the public is invested under Government direction. As in several preceding years, the Government enabled the financial institutions to raise funds

by issuing securities, but a large part of the issue proceeds were deposited with the Accountant General and the balance was utilized for granting loans in accordance with Government policy considerations and under its direction.

As in the previous year, there was a drop in the amount of proceeds from debenture sales transferred to the Treasury for financing the development budget (see Table XVII-4). This decrease is not to be regarded as a significant change, since those proceeds that are not transferred to the Treasury are also used for granting credit at the Government's behest; hence this change actually affects only the size of the development budget but not the amount of funds loaned under Government direction.

Table XVII-4
DOMESTIC DEBENTURE ISSUES OF FINANCIAL
INSTITUTIONS, 1960-64

Year	Amount issued	Transferred to the Treasury	
		IL m.	%
1960	14.5	8.5	58.6
1961	45.4	31.5	69.4
1962	70.5	49.5	70.2
1963	71.0	34.0	47.9
1964	71.0	13.8	19.4

The weight of debentures in total liabilities decreased in 1964, as in the previous year, although the sum outstanding rose by IL 86 million to IL 606 million, of which some 25 percent was in foreign currency. Gross issue proceeds in 1964 came to IL 111 million; of this sum, IL 71 million was issued in Israel—about the same as in 1963—while issues abroad amounted to approximately IL 40 million, or 36 percent of the total.

More than half of the debentures were issued by mortgage banks, which sold IL 32 million worth in Israel and IL 35 million worth abroad against foreign currency.

Paid-up share capital of the financial institutions totalled IL 736 million at the end of 1964. Of this sum, the Government held 43 percent, mainly in industrial investment banks, the Israel Bank of Agriculture, and the Maritime Bank. Foreign investors held some 17 percent, mainly in industrial investment banks, investment companies, and mortgage banks. The financial sector—banking institutions, provident funds, and insurance companies—accounted for 7 percent, but this figure may be somewhat understated (it is not possible to identify the owners of bearer shares), and it certainly does not fully reflect the influence of the banking institutions, which completely or partially control

some of the major financial institutions. The remaining paid-up capital was in the hands of households and business enterprises.

4. CREDIT

The balance of credit extended by the financial institutions amounted to IL 2,888 million at the end of 1964—a rise of IL 560 million compared with the previous year. About IL 100 million of this increase originated in the transfer of existing deposits and loans to the financial institutions for administration (Tefahot Bank). Excluding this sum, the growth of outstanding credit reached IL 458 million, compared with IL 338 million in 1963 (see Table XVII-5)—an increase of nearly 20 percent.

Of total outstanding credit, one-third had been granted to the construction and housing sector, one-fourth to industry, and about one-third to agriculture.

Destination of credit

1. The Government

Because of the special relationship existing between the Government and some of the financial institutions, it is necessary to differentiate between purchases of Government bonds by the financial institutions and the placing of deposits with the Accountant General, both of which are included under credit to the Government. The credit extended by the financial institutions to the Government in the form of deposits with the Accountant General is not of an ordinary nature: it stems from the necessity to coordinate the activities of the financial institutions with development-budget financing requirements, and formerly was connected with the arrangements instituted after the devaluation for the early repayment of mortgage loans.

In 1964 the financial institutions purchased IL 12 million worth of Government securities and deposited with the Accountant General approximately IL 14 million in proceeds from debenture issues, but they withdrew IL 24 million from previous deposits; as a result, net Government receipts fell to IL 2 million, compared with IL 43 million in 1963.

2. Industry

The net amount lent by the financial institutions to the industrial sector in 1964 came to IL 122 million, an increase of 21.5 percent over the previous year. Nearly 85 percent of the sum was extended by the Government-owned Industrial Development Bank and by banking institutions. After the devaluation industrial loans were linked to the consumer price index (in most cases they were fully linked) and generally bore interest of 8 percent per annum. As from December 1963, borrowers were given an option between linking the loans to the consumer price index at the usual rate of interest and payment of an annual

premium of 3–4 percent in lieu of linkage. In 1964 most of the loans were given without linkage and at an interest rate of 11.5–12 percent, including the premium.

Under this arrangement the Government assumes responsibility for compensating the financial institutions for an increase in the index in excess of the premium (or for devaluation), so as to enable them to cover their linked obligations—an arrangement that differs essentially from the methods of financing formerly practised.

Table XVII-5

BALANCE OF CREDIT GRANTED BY THE FINANCIAL INSTITUTIONS,
BY FIRST SECTOR OF DESTINATION, 1963–64

Sector	1963	1964	Increase over previous year ^a	
			1963	1964
IL million				
Government (incl. deposits with Accountant General)	297.5	385.5 ^b	44.0	88.0 (1.5)
Industry	570.6	693.0	86.5	122.4
Agriculture	225.1	257.3	29.4 (7.5)	32.2
Construction ^c	693.0	943.8	212.7 (138.8)	250.8 (235.8)
Commerce	8.0	10.8	0.1	2.8
Services ^d	353.6	358.4	223.6 (-1.4)	4.8
Households	29.5	31.0	9.6	1.5
Miscellaneous ^e	150.7	207.8	54.5 (52.5)	57.1
Total	2,328.0	2,887.6	660.4 (337.6)	559.6 (458.1)
Percentages				
Government	12.7	13.3	16.9	29.6 (0.5)
Industry	24.5	24.0	17.9	21.5
Agriculture	9.7	8.9	15.0 (3.8)	14.3
Construction ^c	29.8	32.7	44.3 (28.8)	36.2 (34.0)
Commerce	0.3	0.4	1.3	35.0
Services ^d	15.2	12.4	172.0 (-8.0)	1.4
Households	1.3	1.1	48.2	5.1
Miscellaneous ^e	6.5	7.2	56.7 (54.6)	37.9
Total	100.0	100.0	39.6 (20.2)	24.0 (19.7)

^a Figures in parentheses are net of the increase in outstanding credit not actually extended during the year in question.

^b Including IL 49.7 million in Government securities.

^c Including credit for financing home purchases.

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

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

3. *Agriculture*

Net credit to agriculture totalled IL 32.2 million in 1964, compared with IL 7.5 million in 1963.

Most of the increment stemmed from the expanded operations of the Israel Bank of Agriculture, whose resources were enlarged by the floating of a public issue of preferred shares and from the growth of earmarked Government deposits. At the end of 1964 the bank accounted for 70 percent of all outstanding credit to agriculture.

In this sector as well borrowers have been given the option of converting the index link to an annual premium ranging from 3 to 4 percent, depending on the purpose of the loan. Interest rates on short-term loans are 9–10 percent per annum, while on long-term loans they range from 9.5 to 11 percent, including the premium.

4. *Construction and housing*

The construction and housing sector received IL 236 million in net credit, compared with IL 139 million in 1963. The outstanding balance at the end of 1964 amounted to IL 944 million, about one-third of aggregate outstanding credit provided by the financial institutions. The preponderant share of such credit was granted through the mortgage banks for financing the purchase of homes, mainly in schemes sponsored by the Ministry of Housing.

Since the devaluation of 1962 almost all housing loans are linked to the consumer price index. Loans granted from funds mobilized locally bear interest at rates ranging from 3¹ to 8 percent, depending on the type of housing; the overwhelming portion of such loans are granted at the behest of the Ministry of Housing. It should be noted that the amount lent under the direction of the Government exceeds its participation in the financing of home loans. In respect of certain types of dwellings, such as those in the Saving-for-Housing scheme, the Government does not participate at all in the financing, although it makes available for this purpose funds mobilized by the mortgage banks. The size of the average loan granted in the various housing schemes rose in 1964: loans for immigrant housing averaged IL 12,200, according to a preliminary estimate, as compared with IL 10,500 in 1963; while in the second largest scheme, Saving-for-Housing, the average loan went up from IL 5,500 to about IL 7,400. Immigrant housing loans, which bear a low rate of interest, cover 90 percent or more of the value of the homes and are repayable over a period of up to 30 years. The higher average size loan in these two schemes is explained by the rise in the prices of such dwellings in the last few years.

Loans granted other than under Ministry of Housing direction are also linked—in the main to the consumer price index—but bear a higher rate of

¹ Interest at 3 percent is charged on immigrant housing loans granted from Government funds.

interest; since these loans are mostly granted from funds mobilized abroad under special permits, the provisions of the Interest Law do not apply to them. The rate of interest on loans from such funds is set by the Controller of Foreign Exchange and ranges from 10 to 11 percent. As most of these loans are linked to the consumer price index rather than to the dollar, while the banks' liabilities in connection with such monies are repayable in foreign currency, the Treasury has agreed to insure these obligations against devaluation through the Yuval Insurance Co.; the insured institutions transfer to Yuval all their index-linkage increments plus a premium of 0.5 percent on the outstanding balance of dollar-linked liabilities. It should be noted that the capital mobilized abroad is very expensive, both because of the high costs involved in floating the debenture issues (which reach 10 percent of the issue amount) and because of the relatively high rate of interest.

Loans granted from the mortgage banks' own funds generally do not exceed 40 percent of the value of the home; loans granted at the behest of depositors, mainly the Government, often amount to 90 percent or more of the value,¹ but in this case the depositor is fully or partly responsible for collection.

5. DEVELOPMENTS, BY TYPE OF INSTITUTION

(a) *Industrial investment banks*

This group numbers five institutions, which account for 25 percent of the consolidated balance sheet of the entire sector. The Industrial Development Bank of Israel dominates the group, accounting for 80 percent of its assets.

In 1964 total assets of the group rose by 16 percent, a slightly higher rate than in the previous year but lower than the rate for all financial institutions. The increase here stemmed almost entirely from the expanded activities of the Industrial Development Bank. The balance of credit granted by these institutions went up by IL 111 million, and totalled approximately IL 660 million.

Government funds figure largely in the operations of the three main banks in this group; the weight of the Government in the group's share capital at the end of 1964 reached 61 percent, and in total liabilities—50 percent.

Funds have also been derived from the issue of debentures and shares, which have been taken up mainly by the finance sector and foreign investors.

(b) *Agricultural credit funds*

This group numbered 18 institutions in 1964. Foremost among them is the Government-owned Israel Bank of Agriculture, whose weight in the consolidated balance sheet stands at 67 percent. The remaining institutions are mostly joint

¹ Mainly loans for immigrant housing.

funds of the farm settlements and of agricultural settlement organizations connected with political parties.

The Bank of Agriculture finances the lion's share of its activities from earmarked Government deposits, development budget funds, and Government participation in its equity capital. The other institutions, most of which are affiliated to settlement movements, finance their operations chiefly through loans and deposits of banks and financial institutions and from their own means. They provide credits to settlements and farms belonging to the same movement.

This group developed slowly in 1964 as compared with the previous year and with the other financial institutions: assets rose by 10 percent, compared with 24 percent in 1963 and 26 percent for the entire sector.

(c) *Institutions financing other sectors*

There are five institutions in this group, among them the Maritime and Investments Bank, the Local Authorities Bank, and the Tourist Industry Development Corporation. Total assets rose by IL 41 million in 1964, and amounted to IL 421 million. Outstanding credit at the end of the year reached IL 397 million, of which some 73 percent had been granted to the public services sector (mainly transport services), and about 16 percent to the local authorities. The weight of the Government in total liabilities stands at 75 percent.

(d) *Mortgage banks*

Three mortgage concerns started operations in 1964—the Jerusalem Development and Mortgage Bank, Mortgage and Investment Bank of the Moshavim Ltd., and Tel Aviv Mortgages Ltd. One of them extends loans also against second mortgages, a new feature in this country. The number of institutions in this group has reached 17.

The rapid development of mortgage banks continued in 1964. Outstanding loans amounted to IL 920 million, compared with IL 661 million at the end of 1963. Net credit granted this year, excluding the transfer of the loan portfolio of Amidar Ltd. to the Tefahot Bank, totalled IL 244 million, compared with IL 155 million in 1963—an increase of approximately 60 percent.

More than 80 percent of the outstanding credit was given under Government direction, mainly to households. Most of these loans were extended by the four biggest institutions—General Mortgage Bank, Tefahot, Housing Mortgage Bank, and Mortgage Development Bank—which together accounted for about 82 percent of aggregate mortgage bank assets.

The mortgage banks also grant loans from their own means, most of it raised abroad. The terms of such loans are not as easy from the aspect of price, average size, and period of repayment. The gross amount of capital imported by the mortgage banks by way of overseas debenture issues came to nearly \$ 12 million in 1964; net receipts amounted to only \$ 7.5 million, owing to the rela-

tively short period to maturity of these debentures. The rate of interest is generally higher than that of debentures issued locally. Most of the loans from overseas monies are given by the Jaysour Mortgage Bank and the Independence Bank.

In addition to granting mortgage loans from own resources and from earmarked deposits, the banks administer two value-linked saving schemes for individual home-owners; during the year reviewed these schemes developed slowly. One of the banks introduced a new foreign-currency saving scheme in 1964 for nonresidents. The funds are insured against possible devaluation, similarly to the debentures issued abroad.

The mortgage banks also provide loans to business establishments (particularly hotels) and to local authorities, mainly from Government funds and those of the Government-owned Tourist Industry Development Corporation.

A relatively new feature in housing credit is the development of a market for mortgage loans granted through the agency of commercial banks, with home buyers purchasing earmarked contractors' deposits. These deposits are linked to the consumer price index; they bear interest of 6 percent, but since they are sold at a discount, the effective rate comes to 7.5 percent net.

(e) *Household finance companies*

This survey covers 20 institutions granting loans to households. Among them are Otsar Hahayal, Yahav, Consumer Cooperative Fund, as well as several small private institutions.

Total assets at the end of 1964 reached approximately IL 52 million, i.e. less than 2 percent of the consolidated balance sheet of the entire sector. Outstanding household loans constituted about 65 percent of this group's asset figure.

(f) *Investment companies*

Four new investment companies were opened in 1964, bringing the number up to 14. Most of these firms, which engage chiefly in portfolio investments, were established by banking institutions. Total assets rose by about IL 110 million—an increase of 47 percent, compared with 48 percent in 1963. About 20 percent of the growth stemmed from the expanded operations of Clal Israel Investment Co. Ltd. (established by a number of local banks and companies in cooperation with foreign investors), which enlarged its investments by 130 percent.

The trend toward a relatively larger investment in shares not traded on the Stock Exchange and in real estate, which manifested itself in 1963, continued during the year reviewed.

(g) *Unit trusts*

One new unit trust started business in 1964, increasing the number to six. These institutions raise funds by issuing participation certificates to the general

public through the companies running them (the latter are subsidiaries of commercial banks), and they invest the proceeds in local securities.

Four of the institutions operate as cumulative trusts, i.e. they do not distribute dividends but reinvest all their income, while the other two distribute dividends either in cash or in the form of participation certificates.

The rapid development of unit trusts came to a halt in 1964. The par value of participation certificates sold, which totalled IL 7.5 million in 1962 and IL 18 million in 1963, declined to IL 1.3 million in 1964. Outstanding participation certificates, at issue prices, increased in 1964 by IL 4.6 million, and amounted to IL 43 million.

Of the five trusts operating in 1963, only one sold new participation certificates during the year surveyed, while the others had to redeem part of their certificates following a drop in market value. The latter development can be attributed to the depressed state of the stock market in 1964, which was reflected by a recession of share prices.¹ The value of the trusts' assets is largely determined by the fluctuations in the prices of their equity holdings, which account on an average for 71 percent of total assets and in some cases even reach almost 90 percent. Investment in debentures account for 22 percent of total assets, and investments in liquid assets—cash, bank deposits, and the Government Short-Term Loan—7 percent.

6. FLOW OF FUNDS, BY SECTOR

The financial institutions are one of the financial sectors which channel funds to the real sectors. A sectorial analysis of money flows (see Table XVII-6) shows *inter alia* which sectors serve as a source of funds for the financial institutions and which resort to them for financing. It should be emphasized that the financial institutions' flow of funds is largely determined by other sectors, particularly the public sector, and that these institutions do not have a decisive say as to the size and distribution of such flows.

The volume of financial institution transactions,² excluding transfers of deposits and outstanding loans, totalled IL 706 million, compared with IL 469 million in 1963—an increase of 50 percent. About two-thirds of the increment derived from the expansion of transactions in financial assets, and one-third from the expansion of real transactions.

The sectors which in 1964 constituted a source of net credit for the financial

¹ See Chapter XX, "The Securities Market".

² The volume of transactions is measured here as total current expenditure, which consists mostly of interest payments, outlay on capital account, and the increase in financial assets, less the rise in outstanding loans originally given by other sectors and subsequently transferred to the financial institutions for administration and recorded in their balance sheets. This sum is identical with total current income plus the increase in the financial institutions' income.

Table XVII-6

"BALANCE OF PAYMENTS" OF THE FINANCIAL INSTITUTIONS, BY SECTOR, 1963-64
(IL million)

Transaction and sector	Receipts			Payments			Balance of receipts over payments	
	1963	1964	Increase or decrease (-)	1963	1964	Increase or decrease (-)	1963	1964
Nonfinancial transactions	110.6	174.4	63.8	68.3	115.4	47.1	42.3	59.0
Transactions in financial assets								
Government	72.2	165.5	93.3	44.1	1.5	-42.6	28.1	164.0
National Institutions and local authorities	10.0	7.6	-2.4	30.9	59.0	28.1	-20.9	-51.4
Public sector companies	10.0	39.9	29.9	28.2	-16.6	-44.8	-18.2	56.5
Banking institutions	29.1	21.6	-7.5	29.9	8.1	21.8	-0.8	13.5
Provident funds	58.9	60.6	1.7	0.2	1.6	1.4	58.7	59.0
Insurance companies	-1.8	0.8	2.6	1.5	1.0	-0.5	-3.3	-0.2
Private business ^a	22.7	68.6	45.9	149.7	328.1	178.4	-127.0	-259.5
Nonprofit institutions	1.4	1.1	-0.3	-10.2	25.7	35.9	11.6	-24.6
Rest of the world	78.5	68.2	-10.3	1.9	-3.1	-5.0	76.6	71.3
Households	-23.5	-5.0	18.5	110.2	147.3	37.1	-133.7	-152.3
Unspecified ^b	101.2	102.8	1.6	—	—	—	101.2	102.8
Total transactions in financial assets	358.7	531.7	173.0	386.4	552.6	166.2	27.7	-20.9
Errors and omissions	—	—	—	14.6	38.1	23.5	-14.6	-38.1
Total receipts and payments	469.3	706.1	236.8	469.3	706.1	236.8	—	—

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

institutions were the Government, banking institutions, public sector companies, provident funds, and the rest-of-the-world sector.

Net receipts from the Government rose to IL 164 million, compared with IL 28 million in 1963. This increase resulted from the enlargement of the Government's shareholdings in those institutions in which it is part owner and from the expansion of Government deposits earmarked for loans, as well as from the smaller amount of debenture proceeds transferred to the Accountant General. It should be noted that the volume of Government transactions with the financial institutions does not necessarily reflect the magnitude of the resources which it has placed at the disposal of the different sectors of the economy, since a substantial part of Government credit to the domestic sectors is given either directly or through other financial intermediaries. The changes in money flows between the Government and the financial institutions largely reflect changes in the methods of financing the Government's lending operations.

Net receipts from provident funds amounted to IL 59 million, similar to the 1963 figure. The main item here is proceeds from debenture sales. Provident funds, as pointed out elsewhere in this Report, are required to invest a large part of their accumulation in accordance with Treasury directives, such investment including financial institution debentures. Sums deposited with the institutions for granting loans to provident fund members are a further source of receipts.

Net receipts from abroad amounted to IL 71 million, about IL 5 million less than in 1963. The bulk of the sum was derived from the floating of bond issues to the value of IL 40 million, with the mortgage banks leading the way, and also from the issue of shares, mainly by Clal Ltd.

The sectors receiving net credit from the financial institutions in 1964 were private business enterprises, households, nonprofit institutions, the National Institutions, and the local authorities.

Net payments to the private business sector amounted to IL 260 million, compared with IL 127 million in 1963. Most of the payments were by the industrial investment banks and investment companies. The latter increased their security investments in private firms by about IL 80 million.

Net payments to households amounted to IL 152 million, an increase of 14 percent compared with 1963. Almost all the sums advanced to households are from mortgage banks for the purpose of purchasing homes, with only some 2 percent being given by other financial institutions, mostly privately owned. Payments of households to the financial institutions consist of purchases of financial institution shares and debentures as well as saving scheme deposits. Since it is difficult to ascertain the amount of bearer securities purchased by households, net payments to households are overstated, particularly in a year when the financial institutions issue shares.