

CONTENTS

| | |
|---|--------------------|
| Letter to the Government and the Finance Committee of the Knesset . . . | <i>Page</i> iii |
|---|--------------------|

PART ONE

THE DEVELOPMENT OF THE ECONOMY

| | | |
|-------------|--|-----|
| CHAPTER I | MAIN ECONOMIC DEVELOPMENTS | 3 |
| CHAPTER II | RESOURCES, USES, AND INCOMES | 11 |
| | 1. Main Developments | 11 |
| | 2. The National Product | 13 |
| | 3. Causes of the Turn in Israel's Economy | 18 |
| | 4. Some Consequences of the Slower Growth of Demand | 26 |
| CHAPTER III | THE BALANCE OF PAYMENTS | 35 |
| | 1. Main Developments | 35 |
| | 2. Imports | 41 |
| | 3. Exports | 53 |
| | 4. Export Incentives | 63 |
| | 5. Capital Imports | 72 |
| CHAPTER IV | PRIVATE CONSUMPTION | 78 |
| | 1. Main Developments | 78 |
| | 2. The Growth of Consumption and Composition Thereof | 83 |
| CHAPTER V | DOMESTIC INVESTMENT | 97 |
| | 1. Main Developments | 97 |
| | 2. Investment, by Type of Investor | 102 |
| | 3. Investment, by Economic Sector | 105 |
| | 4. Investment, by Type of Asset | 113 |
| | 5. Investment Prices | 115 |
| | 6. Capital Stock | 115 |
| | 7. Investment in Inventories | 118 |
| | 8. Public Financing of Investment | 119 |
| | 9. Gross Investment, by District | 119 |

| | <i>Page</i> |
|--------------|---|
| CHAPTER VI | PRICES 122 |
| | 1. Main Developments 122 |
| | 2. Background and Causes of Price Developments 125 |
| | 3. Relative Prices 131 |
| CHAPTER VII | PUBLIC SECTOR OPERATIONS 144 |
| | 1. The Public Sector-Consolidated Account 144 |
| | 2. The Government 155 |
| | 3. The National Institutions 181 |
| | 4. The Local Authorities 186 |
| CHAPTER VIII | NONPROFIT INSTITUTIONS 194 |
| | 1. Main Developments 194 |
| | 2. Role of the Nonprofit Institutions and the Public Sector in the Provision of Services 197 |
| | 3. Changes in the Composition of Expenditure, by Function 199 |
| | 4. "Balance of Payments" of Nonprofit Institutions 200 |
| | 5. Demand Surplus and Financing of Purchases on Capital Account 208 |
| | 6. Concentration of Nonprofit Institutions 211 |
| CHAPTER IX | POPULATION, LABOR FORCE, AND EMPLOYMENT 213 |
| | 1. Main Developments 213 |
| | 2. Population and Labor Force 217 |
| | 3. Unemployment 221 |
| | 4. Employment 227 |
| CHAPTER X | WAGES 235 |
| | 1. Main Developments 235 |
| | 2. Wages and Wage Earners, by Economic Sector 247 |
| | 3. Cost-of-Living Allowance 252 |
| | 4. Disposable Income 253 |
| | 5. Labor Relations 254 |

PART TWO

SURVEY OF THE PRINCIPAL ECONOMIC SECTORS

| | |
|------------|------------------------------------|
| CHAPTER XI | AGRICULTURE 259 |
| | 1. Main Developments 259 |
| | 2. Output 265 |
| | 3. Input 275 |

| | <i>Page</i> |
|---|-------------|
| 4. Incomes | 281 |
| 5. Investment and Financing | 283 |
| CHAPTER XII INDUSTRY | 293 |
| 1. Main Developments | 293 |
| 2. Output | 299 |
| 3. Export | 306 |
| 4. Investment | 312 |
| CHAPTER XIII CONSTRUCTION AND HOUSING | 315 |
| 1. Main Developments | 315 |
| 2. Volume of Construction | 322 |
| 3. Inputs | 333 |
| 4. Employment and Wages | 335 |
| CHAPTER XIV TRANSPORTATION AND COMMUNICATIONS | 337 |
| 1. Main Developments | 337 |
| 2. Domestic Transport and Communication Services | 339 |
| 3. Domestic Aviation, Postal Services, and Petroleum Pipelines | 346 |
| 4. International Transport Services | 348 |
| 5. Investment | 359 |

PART THREE

MONETARY DEVELOPMENTS

| | |
|---|------------|
| CHAPTER XV MONEY SUPPLY, CREDIT, AND THE BANKING INSTITUTIONS | 363 |
| 1. Main Monetary Developments | 363 |
| 2. The Money Supply | 370 |
| 3. Less Liquid Deposits of the Public | 373 |
| 4. Sources of Monetary Expansion | 378 |
| 5. The Liquidity of Banking Institutions | 389 |
| 6. The Development of Banking Institutions | 395 |
| 7. Income and Expenses of Banking Institutions | 399 |
| CHAPTER XVI FLOW OF FUNDS | 402 |
| 1. Conceptual Framework | 402 |
| 2. Main Developments | 404 |
| 3. Demand Surpluses, by Sector | 408 |
| 4. Financing the Demand Surpluses | 412 |
| 5. The Financial Sectors in the Money-Flows System | 414 |
| 6. Credit Flows | 416 |

| | <i>Page</i> |
|--|-------------|
| CHAPTER XVII FINANCIAL INSTITUTIONS | 425 |
| 1. Main Developments | 425 |
| 2. Types of Financial Institutions | 428 |
| 3. Loan Linkage Policy | 429 |
| 4. Assets and Liabilities | 430 |
| 5. Credit | 433 |
| 6. Developments, by Type of Institution | 436 |
| 7. Flow of Funds, by Sector | 440 |
| CHAPTER XVIII SOCIAL INSURANCE FUNDS AND INSURANCE COMPANIES | 442 |
| I. Social Insurance Funds | 442 |
| 1. Main Developments | 442 |
| 2. Accumulation and Saving | 443 |
| 3. Balance Sheet Developments | 445 |
| 4. Money Flows, by Sector | 448 |
| II. Insurance Companies | 451 |
| 1. Life Insurance | 451 |
| 2. General Insurance | 454 |
| 3. Balance Sheet Developments | 455 |
| 4. Money Flows | 459 |
| CHAPTER XIX SAVING | 460 |
| 1. Main Developments | 460 |
| 2. Private Saving | 463 |
| 3. Private Saving, Including Consumer Durables | 469 |
| 4. Comparison of Household Saving Rates, 1957/58 to 1964/65 | 470 |
| 5. Saving of the Public Sector and Nonprofit Institutions | 477 |
| CHAPTER XX THE SECURITIES MARKET | 480 |
| 1. Main Trends | 480 |
| 2. The Stock Exchange List | 484 |
| 3. Trade on the Stock Exchange | 487 |
| 4. Price Trends | 489 |
| 5. Foreign Securities | 494 |

PART FOUR

THE BANK OF ISRAEL

| | |
|--|-----|
| CHAPTER XXI ACTIVITIES OF THE BANK OF ISRAEL | 499 |
| 1. Summary of Balance Sheet at the End of 1966 | 499 |
| 2. Foreign Exchange and Gold Holdings | 501 |

| | <i>Page</i> |
|---|-------------|
| 3. The Bank of Israel as Banker to the Government . . . | 505 |
| 4. The Bank of Israel as the "Bankers' Banker" | 508 |
| 5. Currency in Circulation | 510 |
| 6. Note and Coin Issue | 515 |
| 7. Administration of State Loans | 518 |
| 8. Examination of Banking and Financial Institutions . . | 526 |
| 9. The Clearinghouses | 536 |
| 10. Profit and Loss Account and Distribution of Profits . . | 538 |
| 11. Economic Research | 538 |
| 12. The Bank of Israel as Representative of the Government in International Financial Institutions . . | 539 |
| 13. Advisory Committee and Advisory Council | 540 |
| 14. The Bank and Its Staff | 541 |