

## CHAPTER XV

### FLOW OF FUNDS

#### 1. MAIN DEVELOPMENTS

AS REFLECTED in a flow-of-funds analysis, 1969 saw a further large reduction of the supply surplus<sup>1</sup> of the household and business sector (or a rise in the demand surplus of the business subsector), offset by an even larger increase in the supply surplus of the rest of the world—i.e., in the country's import surplus. This development occurred during a year in which the economy completed its return to a state of full employment and therefore grew somewhat less rapidly than in 1968. In the main, the growth of the demand surplus took the form of an above-average increase in investment (although far below the "boom" increase of 1968), without anything like a corresponding growth in either private or public saving.<sup>2</sup>

It is not extraordinary for business investment to continue to expand more rapidly than business saving, even during the latter stages of a cyclical upswing. But the inability of other sectors to supply a larger part of the necessary finance from increased saving was due to special factors affecting the economy in 1969, primarily the strain of defense requirements on the public sector, and probably also a speculative increase in purchases of consumer durables by households. Finally, the failure of long-term capital imports to fill the financial gap meant that most of the incremental investment was actually financed by a fall in Israel's foreign currency reserves.

The business sector was not alone in its expansion of net demand (which, of course, was at the root of the problem described). It was accompanied by a small expansion of the public sector's demand surplus and by significant increases in the demand surpluses (or reductions in the supply surpluses) of all other real sectors, including households, public sector companies, and non-profit institutions.

The business sector appears to have financed its increased demand surplus in large part by reducing its net credit (supplier and other forms of credit)

<sup>1</sup> A supply surplus implies that a given economic sector spends less than it receives in earnings or domestic transfers. A demand surplus implies the opposite, namely, that the sector spends more than it receives and hence requires credit from other sectors.

<sup>2</sup> However, the much slower growth of exports in 1969, due in part to the weakening of foreign demand, goes far to explain the rise in the demand surplus of the business sector, as well as the corresponding increase in the supply surplus of the rest of the world.

to the public sector and to banks (various types of deposits), while substantially increasing its borrowing from these sources.

The Government, however, also played an important direct and indirect role in financing the growth of the demand surpluses of the business and other real sectors. It borrowed much more (net) from the banking sector than in previous years and used part of the loans to offset the decline in its net credit receipts from the rest of the world. The balance was passed on as net credit to business, public sector companies, and households—this was substantially larger in the year reviewed. For the most part, this flowed directly, as already noted, in financial transactions with private business. But it also took an indirect form: the directed credits of banks and financial institutions, granted from earmarked deposits or the proceeds of security issues, which show up as flows between financial and real sectors in the tables presented here.

Of the large increase in gross banking sector credit to real domestic sectors, nearly half went to the Government and the remainder to business and households (see Table XV-4). The net increase roughly (and necessarily) equalled the increase in the net credit flow to the banking sector from abroad (i.e. the loss of foreign currency reserves). The rise in gross credit, however, is explained by several factors: (a) most of the incremental credit was direct Bank of Israel credit to the Government; (b) monetary policy during the year largely offset the contractionary effects of the loss of foreign currency upon commercial bank liquidity; and (c) bill brokerage transactions (which are recorded in our system as bank credit) and credit based on time deposits likewise rose. The portion of incremental banking institution credit associated with a net increase in the money supply was therefore very small.

In general, the evidence (including data on the circulation velocity of the relatively stable monetary aggregate and on interest rates) supports an interpretation of the banking sector's credit increment as arising primarily from the expanded credit demand of business and Government to finance real demand in both sectors. In other words, it suggests that in 1969, at least, causation moved from increased real demand to increased credit, rather than the other way around.

## 2. FLOW-OF-FUNDS ANALYSIS

The conceptual framework of flow-of-funds analysis has been described elsewhere.<sup>1</sup> We shall merely note that the analysis presented here is designed to estimate the gross and net credit flows and to relate them to the net real demand and supply surpluses of nine sectors of the Israeli economy: house-

<sup>1</sup> See previous Bank of Israel *Annual Reports* and M. Heth, *The Flow of Funds in Israel*, New York: Praeger Publishers, in cooperation with the Bank of Israel, 1970.

holds; nonfinancial business; the public sector (Government, National Institutions, and local authorities); public sector companies; nonprofit institutions; the banking system (including the Bank of Israel), whose distinguishing characteristic is its ability to create money; financial institutions (e.g. mortgage and investment banks); social insurance funds and insurance companies; and finally the rest of the world, which represents a major source of both credit and trade for the domestic economy.

In principle, the analysis is quite simple. From data on income, expenditure, and transfer payments we compute the net demand and supply surpluses of the various sectors. From the sectoral balance sheets we compute the credit flows between each pair of sectors. The supply and demand surplus concepts are equivalent to what is sometimes referred to as "cash saving" and "cash dissaving". Since the rest-of-the-world sector is included in the system, the net demand surpluses of some sectors must necessarily be offset by the supply surpluses of the others, and the latter sectors must provide enough net credit to finance the demand surpluses of the former.

In Table XV-2 we present the demand and supply surpluses, in Table XV-3 the net sources of financing the demand surpluses (i.e. transfers from abroad and net credit from all other sectors), and in Table XV-4 the entire matrix of credit flows among the nine sectors.

Unfortunately, the theoretical simplicity does not extend to practical calculations, and the system presented suffers from significant shortcomings in the availability and the consistency of the data required to construct it. The most serious problems are (a) the absence of data on credit flows between the household and nonfinancial private business sectors, and (b) inconsistencies in the financial data obtained from the flow-of-funds statements of the various sectors. These inconsistencies apply, among other things, to the flows through financial intermediaries (for example, banks may record a deposit with a financial institution for the purpose of a consortial loan to business as simply a loan to business, while the financial institution involved may record both a deposit from banks and a loan to business).

Because of these shortcomings, the tables in this chapter should be regarded as providing only a general picture of financial developments. Only broad movements should be considered as significant. This is particularly true for the combined household and business sector, whose real and financial flows are derived partly as residuals and therefore tend to accumulate errors in the estimates of the other sectors when these are not explicitly allocated to the "errors and omissions" item.

It should also be noted that the direction of causation (whether from increased credit to increased demand, or vice versa) is not indicated by the analysis. It has already been pointed out that the distinction between credit arising from an increase in the money supply and that which does not is not

made explicit. Nevertheless, the integrated picture emerging from the tables may help, together with other information, in the formulation of reasonable and testable interpretations of the economic scene.

A few points regarding the various sectors should be recalled here. The flows of credit through the financial sectors (notably banks and financial institutions) are ignored when the intermediary is completely unable to control its use. Thus, earmarked Government deposits in banks are recorded as flowing directly from the Government to the final borrowing sector. On the other hand, ordinary deposits in, or the proceeds of bonds issued by, financial concerns are recorded as credit flowing to them. The distinction between these flows and those which we have "short-circuited" to final users is only one of degree. The same applies to the social insurance funds and insurance companies sector.<sup>1</sup>

### 3. DEMAND SURPLUSES OF THE REAL SECTORS

Tables XV-1 and XV-2 provide a general view of the development of real demand and supply in the various sectors. The most prominent facts have already been noted. The sharp decline in the supply surplus of households and business and the rise in the demand surplus of public sector companies undoubtedly arise from the same source—an increase in the real demand of business firms, whether privately or publicly owned. This demand was apparently directed toward the expansion of investment in both fixed assets and inventories as the economic recovery begun in 1967 reached its approximate completion. However, the growth of inventory demand and that of household demand for durable goods were also stimulated in the latter part of the year by mounting expectations (due to the marked deterioration in the balance of payments) of tax increases or of price rises due to a possible currency devaluation. Table XV-2 provides an "indirect" breakdown of the household and business sectors, which, despite the reservations expressed, suggests that the household supply surplus did in fact shrink somewhat, while the business demand surplus increased considerably.<sup>2</sup> The gap between alternative approaches to the combined household and business surplus is very large this year, and it is not clear whether the sector as a whole merely reduced its sizable supply surplus of 1968 to a small sum, or actually converted it into

<sup>1</sup> For example, the social insurance funds must invest 80 percent of their assets in securities approved by the Treasury (of which half must be securities of Histadrut enterprises).

<sup>2</sup> Independent data from a large sample of business firms (covering 200 firms with a turnover of over IL 1 million each), which permit a direct calculation of changes in their demand surplus in 1968 (1969 data were not available in time for this report), support the change shown in Table XV-2—the turning of a business sector supply surplus in 1967 into a demand surplus in 1968. Although business saving grew in 1968, investment rose to a much larger extent, thus increasing the demand surplus.

**Table XV-1**  
**DEMAND OR SUPPLY SURPLUSES, BY SECTOR, 1967-69<sup>a</sup>**  
(IL million)

	Purchases		Sales	Net purchases (1+2-3)	Transfers		Net transfers (5-6)	Demand or supply (-) surplus (4-7)
	On current account	On capital account			To domestic sectors	From domestic sectors		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
<b>Business and households<sup>b</sup></b>								
1967	—	945	—	—	—	—	—	-784
1968	—	1,724	—	—	—	—	—	-530
1969	—	2,152	—	—	—	—	—	-137
<b>Public sector<sup>c</sup></b>								
1967	4,113	503	574	4,042	1,283	3,169	1,886	2,156
1968	5,006	593	734	4,865	1,651	3,932	2,281	2,584
1969	5,799	652	842	5,609	1,927	4,900	2,973	2,636
<b>Public sector companies<sup>d</sup></b>								
1967	1,199	307	1,396	110	15	52	37	73
1968	1,632	628	1,928	332	33	74	31	301
1969	1,755	757	2,053	472	35	70	35	424
<b>Nonprofit institutions<sup>e</sup></b>								
1967	866	149	220	795	26	609	583	212
1968	916	178	233	861	23	676	656	205
1969	1,024	225	250	999	27	769	742	257
<b>Social insurance funds and insurance companies<sup>f</sup></b>								
1967	231	10	278	-37	252	226	-26	-11
1968	266	7	315	-42	290	265	-25	17
1969	308	12	355	-35	331	292	-39	-4
<b>Banking system<sup>g</sup></b>								
1967	495	14	602	-93	91	—	-91	-2
1968	618	31	789	-140	103	—	-103	-37
1969	916	33	1,074	-125	107	—	-107	-18
<b>Financial institutions<sup>h</sup></b>								
1967	288	-4	342	-58	40	—	-40	-18
1968	354	3	430	-77	47	—	-47	-26
1969	428	1	521	-92	53	—	-53	-39
<b>Rest of the world<sup>i</sup></b>								
1967		2,780	4,406	-1,626	—	—	—	-1,626
1968		4,014	6,528	-2,514	—	—	—	-2,514
1969		4,397	7,524	-3,127	—	—	—	-3,127

<sup>a</sup> The 1968 figures have been revised.

<sup>b</sup> Calculated as a residual by deducting the supply surpluses of other sectors from the demand surpluses.

<sup>c</sup> As defined in Chapter VII, "Government and Non-Government Public Sector", except that here purchases include interest and other payments to the rest of the world.

<sup>d</sup> Companies in which the public sector holds at least 25 percent of the equity capital and actively participates in the management.

<sup>e</sup> As defined in Chapter VIII, "Nonprofit Institutions".

<sup>f</sup> As defined in Chapter XVII, "Social Insurance Funds and Insurance Companies".

<sup>g</sup> Commercial banks, cooperative credit societies, and the Bank of Israel.

<sup>h</sup> As defined in Chapter XVI, "Financial Institutions".

<sup>i</sup> Sales are identical with imports as recorded in the balance of payments, and purchases are identical with exports.

**Table XV-2**  
**INDIRECT ESTIMATE OF HOUSEHOLD AND BUSINESS SECTOR**  
**SURPLUSES, 1967-69<sup>a</sup>**  
 (IL million)

	1967	1968	1969
<b>Households</b>			
(1) Credit received <sup>b</sup>	252	231	534
(2) Transfer receipts from abroad	622	979	1,057
(3) Total financial resources (1+2)	874	1,210	1,591
(4) Credit granted <sup>b</sup>	1,437	1,775	1,985
(5) Indirect estimate of demand or supply (-) surplus (3-4)	-563	-565	-394
<b>Business</b>			
(6) Credit received <sup>b</sup>	997	2,110	2,520
(7) Credit granted <sup>b</sup>	1,112	1,921	1,827
(8) Indirect estimate of demand or supply (-) surplus (6-7)	-115	139	693
<b>Private sector</b>			
Indirect estimate of demand or supply (-) surplus (5+8)	-678	-426	299
Residual estimate of demand or supply (-) surplus <sup>c</sup>	-784	-530	-137
Difference between estimates <sup>d</sup>	-106	-104	-436

<sup>a</sup> Figures for 1967-68 have been revised.

<sup>b</sup> According to Table XV-4. In the 1968 *Annual Report* the credit data were shown net, but this year they are presented gross.

<sup>c</sup> As shown in Table XV-1.

<sup>d</sup> Identical with errors and omissions for the private sector in Table XV-3.

a net demand surplus in 1969. But in either event, there was definitely a strong downward trend.<sup>1</sup>

The public sector demand surplus continued to increase in 1969, but at a considerably reduced pace compared with the previous year. Nonprofit institutions also shared in the general trend toward increased demand surpluses, while, as already noted, the rest-of-the-world sector provided, by means of a large increase in its supply surplus, the wherewithal to finance the general expansion of domestic demand in excess of domestic supply.

<sup>1</sup> In 1969 there was an exceptionally big disparity between the financial resources apparently available to the household and business sector and the total known uses of these resources (i.e. credit to other sectors), as reflected by the large "errors and omissions" item of this sector. This gap may have been due in part to an unrecorded increase in the delayed repatriation of export earnings. More importantly, the relatively large errors and omissions item in the balance of payments (the rest-of-the-world sector in our tables) is related to this gap. If the size of the errors for the foreign sector was due to an underestimation of imports, so that the supply surplus of the sector was in fact larger than cited here, then the residually derived supply surplus of the household and business sector would be converted into a demand surplus, with the errors and omissions for that sector being reduced accordingly.

#### 4. FINANCING THE DEMAND SURPLUSES

Table XV-3 provides the general financial complement to the development of real surpluses set forth in the two preceding tables. Here we see explicitly the financing of the larger net demand surplus of the domestic sectors by the rest of the world, partly by an increase in unilateral transfers, but mainly by an increase in net credit granted. As noted, the latter mainly took the form of a reduction of the banking sector's foreign currency reserves, which in flow-of-funds accounting is regarded as net credit from the rest of the world to the banking sector. Indeed, net foreign credit extended directly to the public sector was substantially reduced, reflecting primarily a growth in repayments and a decline in short-term lending.

The steep drop in net credit from the household and business sector to the rest of the economy clearly reflected the increased demand surplus of business discussed above; the household credit outflow (net and gross—see Table XV-2) remained rather stable.

The drop in household and business sector credit was accompanied by a large increase in net credit granted by the public sector to real sectors and in that obtained from the financial sectors. The need for the additional financial sector credit was accentuated by the fall in the public sector's net borrowed receipts from overseas. Further light is thrown on these changes in the detailed analysis of intersectoral credit flows presented below.

In the public sector companies the statistical situation is perhaps the least satisfactory. However, the data appear to indicate an increase in its demand surplus and in its net financing.<sup>1</sup>

The general picture for the other sectors is relatively less eventful, with the exception of the banking sector. Here we see again the rise in net credit from overseas (a drop in foreign exchange reserves), passed along as increased net credit to real domestic sectors.

Although a large portion of commercial bank liabilities constitutes means of payment, the increase in gross credit granted by the banking sector in 1969 does not provide a measure of the growth of the money supply. Most of the credit flow actually bypassed the commercial banks: the central bank simply advanced credit for foreign purchases by the public sector, thus converting foreign currency into domestic loans without affecting the money supply. While commercial bank reserves were reduced by the foreign currency drain,

<sup>1</sup> The 1969 estimates for this sector are based on an extrapolation from a sample of the larger firms, since data from many of the companies were not available in time for this report. This increases the risk of error in calculating the demand surplus, which is derived as a relatively small residual from the extrapolations of purchases and sales. The credit data of other sectors actually suggest a moderate decline in the net borrowed receipts of this sector, while data from the sample of public sector companies show an increase more or less in line with that in the sector's demand surplus.

the net effect of monetary policy was only to offset much of this loss (through intrabanking sector credit flows, which do not appear in the tables here). But the banks, responding to increased credit demand pressure, managed to reduce somewhat their effective liquidity ratio and thus achieve a small expansion of demand deposits (and means of payment).<sup>1</sup>

## 5. INTERSECTORAL CREDIT FLOWS

Table XV-4 provides us with a more detailed picture of the sources and uses of credit in the economy.<sup>2</sup>

Because of the inconsistencies described earlier, which are partly reflected in the "errors and omissions" column, we should not rely upon the small changes shown in the table. However, some additional insight may be gained from the larger changes, which seem to clarify or support other data discussed earlier in this chapter.

Households apparently increased substantially their gross borrowing from other sectors, notably from banks and financial institutions, while maintaining relatively unchanged their gross lending to these sectors (except for a significant increase in the case of financial institutions). Private business showed an even more pronounced tendency to cut its credit outflow, especially to the public sector and banks, while increasing its borrowing from these sectors.

The public sector borrowed much less from all real domestic sectors (especially business and public sector companies) and much more from the financial sectors. At the same time its gross credit to the real sectors remained about constant. This apparently reflected a tendency for business to gain financial resources by reducing supplier credit to the Government. Gross credit from the public sector to the rest of the world rose substantially, a reflection of heavier repayments on outstanding debts, while gross credit received grew only slightly. Indeed, the increased debt repayments abroad and the reduced credit from the business sector and public sector companies explain, along with the increase

<sup>1</sup> In flow-of-funds accounting the net domestic credit extended by the banking sector must equal its net credit from abroad (plus its own small business saving). If, however, monetary policy (i.e. credit from the central bank) had not largely offset the contractionary effect of the loss of foreign currency reserves on the banking institutions' liquidity, the necessary net increase in the amount of credit granted by the banking sector in 1969 would have had to consist of a fall in the gross credit outflow of the commercial banks and a more drastic fall in their liabilities and in the money supply.

<sup>2</sup> The gross credit figures represent in general new loans granted, minus the repayment of old loans. However, a net repayment is generally recorded as a credit flow in the opposite direction (i.e. negative gross credit figures are generally avoided). For many purposes the net intersectoral credit flow (equal in Table XV-4 to the gross credit granted less that received from a given sector) is more significant than the gross flow. Such net flows can be computed from the figures in the table, and they are presented in the appendix to this chapter (in Hebrew only).

Table XV-3

## FINANCING OF SECTORAL DEMAND SURPLUSES, 1967-69\*

(IL million)

	From the rest of the world		Net credit from domestic sectors			Total net credit received or granted (-) (2+5)	Total financing	Demand or supply (-) surplus <sup>c</sup> (1+6+7)	Errors and omissions <sup>d</sup>
	Transfers	Net credit <sup>b</sup>	Financial sectors <sup>b</sup>	Real sectors <sup>b</sup>	Total				
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
<b>Business and households</b>									
1967	622	-349	-1,051	100	-951	-1,300	-678	-784	-106
1968	979	-29	-1,165	-211	-1,376	-1,405	-426	-530	-104
1969	1,057	-216	-653	112	-541	-757	300	-137	-437
<b>Public sector</b>									
1967	813	740	853	-261	592	1,332	2,145	2,156	11
1968	385	1,004	1,321	-71	1,250	2,254	2,639	2,584	-55
1969	464	767	1,855	-488	1,367	2,134	2,598	2,636	38
<b>Public sector companies</b>									
1967	—	-86	41	120	161	75	75	73	-2
1968	—	-3	59	255	314	311	311	301	-10
1969	—	52	11	286	296	348	348	424	76

Nonprofit institutions									
1967	159	—	12	40	52	52	211	212	1
1968	157	—	28	27	55	55	212	205	-7
1969	153	—	8	90	98	98	251	257	6
Social insurance funds and insurance companies									
1967	—	-4	-222	216	-6	-10	-10	-11	-1
1968	—	—	-267	247	-21	-21	-21	17	37
1969	—	—	-292	247	-45	-45	-45	4	49
Banking system									
1967	—	-221	8	175	183	-38	-38	-2	36
1968	—	151	69	-80	-159	-8	-8	-37	-29
1969	—	996	66	-1,131	-1,065	-69	-69	-18	51
Financial institutions									
1967	—	24	214	-246	-32	-8	-8	-18	-10
1968	—	-4	346	-410	-64	-68	-68	-26	42
1969	—	39	226	-336	-110	-71	-71	-39	32
Rest of the world									
1967	-1,594	—	200	-304	-107	-104	-1,698	-1,626	72
1968	-1,521	—	-147	-972	-1,119	-1,119	-2,640	-2,514	126
1969	-1,674	—	-1,035	-603	-1,638	-1,638	-3,312	-3,127	185

<sup>a</sup> The data for 1968 and some of the data for 1967 have been revised. There remain some small conceptual differences between the data for 1967 and those for 1968 and 1969.

<sup>b</sup> From Table XV-4.

<sup>c</sup> From Table XV-1.

<sup>d</sup> The errors and omissions of the rest-of-the-world sector correspond to those in the country's balance of international payments. They show an excess of about \$ 50 million in the capital inflow over the measured real import surplus in 1969; this may point to a similar underestimate of imports. The errors and omissions of other sectors, especially households and business, reflect both this and several other significant inequalities in the data available from alternative sectors on the same credit flows. When no basis exists for reconciling such inequalities, they are allocated to "errors and omissions".

**Table XV-4**  
**GROSS INTERSECTORAL CREDIT FLOWS, 1968-69<sup>a</sup>**  
 (IL million)

Borrowing sector	Public sector	Public sector companies	Non-profit institutions	Business	Households	Total credit to real domestic sectors	Rest of the world	Banking system	Social insurance funds and insurance companies	Financial institutions	Total credit granted
<b>Lending sector</b>											
<b>Public sector</b>											
1968	× ×	384	31	347	162	924	484	—	1	208	1,617
1969	× ×	308	67	456	184	1,015	795	48	13	225	2,096
<b>Public sector companies</b>											
1968	122	× ×	—	76	21	219	60	25	3	-3	304
1969	59	× ×	—	74	24	157	69	16	3	22	267
<b>Nonprofit institutions</b>											
1968	22	—	× ×	—	—	22	—	42	—	20	84
1969	3	—	× ×	—	—	3	—	18	—	8	29
<b>Business</b>											
1968	443	68	9	× ×	<sup>b</sup>	520	1,127	265	40	19	1,971
1969	195	101	13	× ×	<sup>b</sup>	309	1,301	120	62	35	1,755
<b>Households</b>											
1968	266	22	9	<sup>b</sup>	× ×	297	44	948	428	58	1,827
1969	270 <sup>c</sup>	34	13	<sup>b</sup>	× ×	317	79	977	481	131	1,985

Rest of the world											
1968	1,488	57	—	1,142	—	2,687	× ×	369	—	-1	3,055
1969	1,562	121	—	1,164	—	2,847	× ×	1,396	—	45	4,288
Banking system											
1968	1,089	12	45	299	-85	1,360	218	× ×	-1	263	1,840
1969	1,613	6	27	600	64	2,310	400	× ×	-1	184	2,893
Social insurance funds and insurance companies											
1968	127	17	—	50	31	225	—	101	× ×	167	493
1969	216	19	—	27	50	312	—	108	× ×	187	607
Financial institutions											
1968	314	55	45	196	102	712	3	82	2	× ×	799
1969	312	26	7	199	212	756	6	141	4	× ×	907
Total credit granted											
1968	3,871	615	139	2,110	231	6,966	1,936	1,832	473	731	11,938
1969	4,230	615	127	2,520	534	8,026	2,650	2,824	562	837	14,899
Errors and omissions <sup>d</sup>											
1968	-55	-10	-7	-104			126	-29	37		42
1969	38	76	6	-437			185	51	49		32

<sup>a</sup> The data for 1968 have been revised.

<sup>b</sup> Insufficient data are available for computing credit flows between these sectors.

<sup>c</sup> Excluding IL 54 million in credit from the Post Office Bank to the Government, the source of which is unidentified.

<sup>d</sup> As derived in Table XV-3.

in real imports, the public sector's heavier recourse to borrowing from the domestic financial sectors—primarily the banking sector, but to some extent the social insurance funds and insurance companies as well.

The changes in the credit flows of the other sectors—apart from those of the banking and rest-of-the-world sectors, discussed earlier in this chapter—were not large enough to require comment.

To recapitulate, the credit-flows structure of the economy remained generally stable, with one important exception: the substantial increase in net banking sector credit to the public and business sectors, which occurred concurrently with the heavy depletion of foreign currency reserves as a result of the entire complex of forces operating in the economy. In addition, the public sector indirectly channelled most of its incremental net bank credit receipts to the business sector (by using them to compensate for a fall in net credit from business), while using a relatively small portion to compensate for the drop in its net credit from overseas.