

CHAPTER XVI

FINANCIAL INSTITUTIONS¹

1. MAIN DEVELOPMENTS

THE FINANCIAL INSTITUTIONS continued to expand their operations in 1969, after regaining their prerecession growth level in 1968. Net credit² provided to the different sectors of the economy (excluding the Government) totalled IL 702 million, compared with IL 581 million³ in 1968 and IL 394 million in 1967. Since the institutions' receipts in 1968-69 included a large volume of arrears from the 1967 recession year, the increase in the gross credit outflow during this period was presumably greater than indicated by the net credit data. Most of the incremental net credit was for financing construction and housing (IL 235 million as against IL 160 million in 1968) and industry (IL 153 million and IL 96 million respectively).

Of the additional credit for construction and housing, the bulk went to households for financing home purchases; gross credit for this purpose was stepped up by 42 percent compared with 1968 and nearly 100 percent compared with 1967. This appreciable increase is apparently explained not only by the larger number of dwellings bought, but also by the fact that buyers found it worthwhile to take on mortgage loans (most of which are nonlinked and carry interest of 7-12 percent) at a time when dwelling prices were moving up strongly. A relatively milder growth was recorded in the year reviewed in credit to contractors and building companies for financing current construction, as well as in gross mortgage loans to other sectors; the reasons for this are discussed in section 3.

Gross industrial credit supplied by the financial institutions was some 60 percent greater in 1969, whereas industrial investment expanded by about 45 percent. This notable increase in the volume of industrial financing was

¹ Financial institutions, as discussed in this chapter, are defined as financial intermediaries engaged primarily in the mobilization of medium- and long-term funds for investment in financial assets, such as loans and securities. Excluded from this definition are banking institutions, most of whose liabilities are short-term; companies financed by a limited number of proprietors; and holding companies, whose investments are in subsidiaries. Although conceptually they come under the category of financial institutions, social insurance funds and insurance companies are also omitted from this chapter, as they are discussed separately.

² Incremental outstanding credit.

³ Excluding write-offs.

apparently due to the heavier demand for such credit following the rise of interest rates in the open market.

As in 1968, the amount of agricultural financing far exceeded that in previous years, even though there was almost no change in the level of investment in this sector.

Outstanding credit to the services sector remained almost stationary, after an increase of IL 89 million in 1968, most of it for financing the new Eilat-Ashkelon oil pipeline.

As in previous years, the net amount of credit provided to the various economic sectors¹ was largely made possible by the expansion of financial resources under public sector control. The year reviewed apparently saw an even greater dependence on these sources (this is discussed in section 2).

Noninstitutional demand for financial institution bonds fell off in 1969. Although social insurance funds, approved saving schemes, and mutual funds administered by banks together took IL 340 million worth of such securities, as against IL 295 million in 1968, the sector reduced its new issues from about IL 372 million in 1968 to IL 348 million in the year reviewed.

Mutual funds experienced an exceptional growth of business in 1969. Expectations of rising prices and a devaluation of the Israeli pound led to a striking expansion of funds investing predominantly in linked assets, with sales of their participation certificates amounting to IL 129 million (at par value) as against IL 29 million in 1968.

The combined balance sheet of the financial institutions sector reached IL 5,765 million at year's end and, together with deposits with the Accountant General, it came to IL 7,343 million.

2. GOVERNMENT INFLUENCE OVER FINANCIAL INSTITUTION OPERATIONS

In Israel, nearly all the medium- and long-term financial intermediation is performed by social insurance funds, insurance companies, commercial banks (through their approved saving schemes), financial institutions, and the Government (through its development budget operations). Whereas all these groups, apart from financial institutions, are in the main primary financial intermediaries (the intermediaries in direct contact with the saving public), financial institutions are as a rule secondary intermediaries: the bulk of their financial resources are provided to them by the primary intermediaries, and their direct dealings are mostly with the borrowing public.

The Government's influence over the financial institutions' operations (and over the capital market in general) far exceeds the weight of the sector's direct financial liabilities to the Government² (as regards the capital market

¹ Excluding credit to the Government and intrasector credit flows.

² See Table XVI-1.

in general, it far exceeds the Government's share in total financial intermediation). The Government in fact also controls the allocation of the overwhelming portion of the funds supplied to the sector by the social insurance funds and bank-administered saving schemes (which at the end of 1969 accounted for about 28 percent of the total resources of the sector, excluding the mutual funds), whether through the purchase of the institutions' bonds or in the form of social insurance fund deposits for loan purposes. The Government's domination of most of the domestic sources of finance of the institutions (as well as of the economy in general) derives from the income tax exemptions and concessions which it grants on the returns from approved investments,¹ and also from the regulations prescribing the composition of the investment portfolios of social insurance funds, saving schemes, and insurance companies.

In addition, the Government directs, by means of foreign currency control, the allocation of most of the loan and share capital mobilized by the sector

Table XVI-1
LIABILITIES OF FINANCIAL INSTITUTIONS,^a BY SECTOR, 1967-69

| | IL million | | | Percent | | |
|--|----------------|-------------------|----------------|--------------|-------------------|--------------|
| | 1967 | 1968 ^b | 1969 | 1967 | 1968 ^b | 1969 |
| Government | 2,019.7 | 2,362.5 | 2,722.5 | 39.9 | 39.9 | 39.7 |
| National Institutions and local authorities | 88.7 | 119.2 | 147.3 | 1.7 | 2.0 | 2.1 |
| Public sector companies ^c | 187.9 | 184.8 | 207.2 | 3.7 | 3.1 | 3.0 |
| Banking institutions | 322.2 | 478.9 | 663.3 | 6.4 | 8.1 | 9.7 |
| Social insurance funds | 890.3 | 1,078.6 | 1,280.9 | 17.6 | 18.3 | 18.7 |
| Insurance companies | 10.9 | 12.9 | 17.6 | 0.2 | 0.2 | 0.3 |
| Private business ^d | 230.0 | 248.5 | 283.1 | 4.5 | 4.2 | 4.1 |
| Nonprofit institutions | 42.0 | 62.2 | 71.0 | 0.8 | 1.0 | 1.0 |
| Rest of the world | 544.0 | 542.7 | 588.4 | 10.7 | 9.2 | 8.5 |
| Households | 196.1 | 227.3 | 243.1 | 3.9 | 3.8 | 3.5 |
| Accumulated profits | 315.0 | 370.7 | 397.4 | 6.2 | 6.3 | 5.8 |
| Unspecified ^e | 221.0 | 232.0 | 244.7 | 4.4 | 3.9 | 3.6 |
| Total | 5,076.8 | 5,920.4 | 6,866.5 | 100.0 | 100.0 | 100.0 |
| Intrasector liabilities | 130.6 | 185.9 | 290.9 | | | |
| Grand total | 5,198.4 | 6,106.3 | 7,157.4 | | | |

^a Excluding mutual funds.

^b Revised data.

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

^d Including farms.

^e Including sales on the Tel Aviv Stock Exchange.

¹ Securities issued by enterprises where the allocation of the proceeds is subject to Government control.

abroad, as well as part of the funds supplied by households to the sector (Saving-for-Housing scheme deposits). A glance at Table XVI-1 shows that, although the weight of the Government in total liabilities of the sector (exclusive of mutual funds) came to about 40 percent at the end of 1969, the preponderant share of the institutions' financial resources is actually under public sector control.¹

Government influence over the capital market in general, and the financial institutions in particular, is not confined to the direction of credit, but expresses itself also in the determination of the financing terms for borrowers (rates of interest, type of value-linkage or the premium to be paid in lieu of linkage, repayment terms, etc.). This is true of both credit from earmarked Government deposits and the overwhelming share of financing from the proceeds of approved bonds (i.e. approved for income tax exemptions and concessions) sold to social insurance funds, bank-administered saving schemes, etc. Wherever necessary, the Treasury compensates financial institutions for any difference that may arise between the cost of the capital they mobilize (including value-linkage) and the price of credit granted, leaving them a profit margin of 1-2 percent. When directed unlinked credit is granted from the institutions' value-linked resources, the Accountant General collects the premium which in his opinion must be imposed on the borrower (as a rule, 2-4 percent per annum on the outstanding credit) and assumes responsibility for covering linkage differentials. Under existing arrangements, part of the bond issue proceeds is used directly by the financial institutions for extending loans at the Government's behest, while the remainder is deposited with the Accountant General, who in turn returns all or part to the institutions (together with approvals of loan applications) in the form of earmarked Government deposits. The deposit terms take into account the price at which the loans are to be granted and the profit margin of the financial institutions. This procedure of depositing the issue proceeds with the Accountant General and redepositing them with the institutions obviously artificially inflates the balance sheet totals of the financial institutions sector.

Credit granted for the development of industry, agriculture, crafts, and the tourist trade in accordance with Government directives now generally carries interest of 6-9 percent and is unlinked.² However, most of the credit to the services sector (including part of that provided to local authorities, but excluding credit for developing tourism) is still linked to the index or the rate

¹ In Table XVI-1 it was not possible to deduct from the liability items the financing of the security operations of the investment companies (which also engage in credit business). Such an adjustment would doubtless further accentuate the extent of Government control over the institutions' credit activities.

² With regard to the gradual abolition of value-linkage on directed medium- and long-term loans from 1962 to 1968, see Bank of Israel, *Annual Report 1967*, pp. 458-59, and *Annual Report 1968*, pp. 378-79.

of exchange and bears interest at rates ranging from 5 to 11 percent. Mortgage loans are mostly unlinked and bear interest of 7–12 percent.

The debitory interest rates enumerated above, as well as the terms offered to purchasers of bonds issued by the financial institutions and other institutional issuers, are in a sense exogenously determined, since they are not changed as a result of developments in the monetary field or the domestic capital market.

The extension of the arrangement whereby linkage is being abolished on most of the credit granted by the financial institutions at the Government's behest, without a compensatory increase in the rate of interest charged the borrower and without modification of the linkage arrangements in the bond market, has in recent years enhanced Government control over the capital market in general and the financial institutions in particular; this was especially true of 1969, when there was a tightening of the money market. If to the 1969 increase in the institutions' resources supplied directly by the public sector are added the proceeds of bond sales to social insurance funds and to bank-administered saving schemes which were not deposited with the Accountant General, the growth of social insurance fund deposits for the granting of loans, and the amount of financing obtained from abroad—all of which resources are, as already mentioned, largely directed by the public sector—it turns out that the aggregate increase therein covered about 83 percent of the additional net credit supplied by the institutions to the rest of the economy in 1969, as compared with 72 percent in 1968.¹ More than that, the growth of these directed resources exceeded by IL 45 million the incremental net credit granted by the sector in 1969. These findings suggest that the stringent money situation prevailing during the year limited the amount of funds which the sector could mobilize on its own for its credit transactions,² and that as a result it became even more dependent on funds placed at its disposal either directly or indirectly by the public sector.

3. FINANCIAL INSTITUTION CREDIT, BY SECTOR

Since the financial institutions sector, as already noted, derives most of its funds directly or indirectly from the Government, it is only slightly affected by developments in the money market. These may affect the composition of the financial resources placed at its disposal, but not the level of its activity, which is in effect dictated by the Government's development policy.

The amount of financing provided by the sector to the rest of the economy continued to expand in the year reviewed: the net credit outflow to the non-Government sectors totalled IL 702 million, as compared with IL 581 million³ in 1968 and IL 394 million³ in the 1967 recession year. These data do not

¹ Excluding credit to the Government and intrasector credit flows.

² Not counting the sector's security transactions.

³ Excluding write-offs.

Table XVI-2

BALANCE OF CREDIT GRANTED BY FINANCIAL INSTITUTIONS, BY FIRST SECTOR OF DESTINATION, 1967-69

| | 1967 | 1968 ^a | 1969 | Annual increase or decrease (-) | | |
|--|----------------|-------------------|----------------|---------------------------------|---------------------------------|--------------|
| | | | | 1967 | 1968 | 1969 |
| IL million | | | | | | |
| Industry | 957.9 | 988.5 | 1,141.1 | 109.1 | 30.6(95.6) ^b | 152.6 |
| Agriculture | 399.4 | 490.2 | 585.4 | 43.0 | 90.8 | 95.2 |
| Construction and housing | 1,458.9 | 1,619.2 | 1,854.5 | 67.8 | 160.3 | 235.3 |
| Commerce | 21.8 | 20.2 | 23.3 | -3.3 | 1.6 | 3.1 |
| Local authorities | 462.1 | 558.2 | 646.8 | 120.4 | 96.1 | 88.6 |
| Services | 332.2 | 420.7 | 425.1 | -48.5(21.5) ^b | 88.5 | 4.4 |
| Banking and financial institutions | 140.4 | 163.2 | 243.8 | 26.7 | 22.8(27.8) ^b | 80.6 |
| Households | 30.0 | 36.1 | 51.9 | 1.9 | 6.1 | 15.8 |
| Miscellaneous | 75.6 | 92.6 | 119.4 | 7.2 | 17.0 | 26.8 |
| Total, excl. Government | 3,878.3 | 4,388.9 | 5,091.3 | 324.3(394.3)^b | 510.6(580.6)^b | 702.4 |
| Government (mainly deposits with the Accountant General) | 939.4 | 1,308.9 | 1,679.5 | 256.7 | 369.5(304.5) ^b | 370.6 |
| Total, incl. Government | 4,817.7 | 5,697.8 | 6,770.8 | 581.0(651.0)^b | 880.1(885.1)^b | 1,073 |
| Percentages | | | | | | |
| Industry | 24.7 | 22.5 | 22.4 | 12.9 | 3.2(10.0) ^b | 15.4 |
| Agriculture | 10.3 | 11.2 | 11.5 | 12.1 | 22.8 | 19.4 |
| Construction and housing | 37.6 | 36.9 | 36.4 | 4.9 | 11.0 | 14.5 |
| Commerce | 0.6 | 0.5 | 0.5 | -13.1 | -7.3 | 15.3 |
| Local authorities | 11.9 | 12.7 | 12.7 | 35.2 | 20.8 | 15.9 |
| Services | 8.6 | 9.6 | 8.3 | -12.7(6.5) ^b | 26.6 | 1.0 |
| Banking and financial institutions | 3.6 | 3.7 | 4.8 | 23.5 | 16.2(19.8) ^b | 49.4 |
| Households | 0.8 | 0.8 | 1.0 | 6.8 | 20.3 | 43.8 |
| Miscellaneous | 1.9 | 2.1 | 2.4 | 10.5 | 22.5 | 28.9 |
| Total, excl. Government | 100.0 | 100.0 | 100.0 | 9.1(11.1)^b | 13.2(15.0)^b | 16.0 |
| Government (mainly deposits with the Accountant General) | — | — | — | 37.6 | 39.3(32.4) ^b | 28.3 |
| Total, incl. Government | — | — | — | 13.7(15.4)^b | 18.3(18.4)^b | 18.8 |

^a Revised data.^b Excluding write-offs.

fully reflect the additional gross credit granted, because an increase in the sector's total assets naturally results in a rising volume of current loan repayments, thereby slowing down the growth of outstanding credit.

Most of the additional net lending by the sector in 1969 was for financing construction and housing—where the increase came to IL 235 million as compared with IL 160 million in 1968—and to industry, where the corresponding figures were IL 153 million and IL 96 million. Incremental credit to the services sector fell off conspicuously, from IL 89 million in 1968 to only IL 4 million in 1969 (most of the additional credit in 1968 was for financing the new petroleum pipeline).

Outstanding credit to the Government rose by IL 370 million. As will be seen later, at least part of the 1969 growth in the sector's portfolio of Government securities (which represents credit to the Government) did not actually constitute a flow of funds to the Treasury.

(a) *Government*

Outstanding credit to the Government is defined in this chapter as the total amount of Government securities held by financial institutions and their deposits with the Accountant General. These deposits consist of the bond issue proceeds transferred to the Treasury, Saving-for-Housing scheme balances, certain loans received by the institutions from various sources, early debt repayments made to the institutions in the wake of the concessions granted by the Treasury to those paying off their debts ahead of maturity, etc. Approximately 75 percent of the sector's outstanding balances with the Accountant General stemmed from the arrangements whereby the sector generally deposits 50–70 percent of its bond issue proceeds with the Accountant General for the purpose of financing the development budget. The amount so transferred to the Accountant General in 1969 was IL 197 million—57 percent of the financial institutions' domestic bond issue proceeds; this compares with IL 241 million (65 percent) in 1968.

The balance of the sector's deposits with the Accountant General increased in 1969 by IL 326 million and totalled IL 1,577 million at year's end.

The sector's portfolio of Government securities increased by a substantial IL 45 million during the year reviewed, compared with IL 9 million and IL 10 million in 1967 and 1968 respectively. Most of the growth was recorded by the bond funds administered by banks, which acquired their Government securities—in the main Absorption and Defense Loan certificates—from households, and hence it does not represent an actual flow of funds to the Treasury.

(b) *Construction and housing*

That Israeli households, who in the great majority of cases buy their own homes, are among the most important customers for medium- and long-

term credit is clearly reflected in the size of outstanding credit for the purchase of housing: at the end of 1969 this balance reached nearly 25 percent of all credit granted by the financial institutions sector (excluding that to the Government).

In the wake of the compensatory agreements concluded by the Treasury and the mortgage banks, under which the Treasury guarantees linkage differentials accruing on the mortgage banks' external sources of funds in exchange for the collection of a premium of 3 to 4 percent per annum, linkage was lifted for the majority of the outstanding mortgage loans, and today by far the greatest part of mortgage credit to home buyers is granted on an unlinked basis and at interest rates of 7-12 percent. Those enjoying relatively cheap credit are new immigrants, persons buying homes under the slum-clearance program, and other subsidized groups. A small proportion of the loans is still being granted on a linked basis and at 10 percent interest.

In 1969 there was a much greater demand for mortgage bank financing. This is explained both by the increase in sales of dwellings and their prices and by the advantage of taking on mortgage loans after the abolition of linkage. During the boom years before the 1967 recession, expectations of a substantial rise in the level of consumer prices in general and in dwelling prices in particular resulted not only in a stronger demand for dwellings (reflected by the advancing of purchases, the improvement of housing standards, etc.), but also in deterring home buyers from taking on mortgage loans, which at the time were value-linked, or at least in inducing them to reduce insofar as possible value-linked financing from outside sources—a development which tended to moderate the growth of housing demand. In contrast, the same expectations in 1969 stimulated demand for mortgage loans, because it paid to obtain unlinked loans on properties the nominal value of which was expected to rise steadily. Apparently these speculative considerations augmented the demand for mortgage loans (as well as for housing) over and above what could have been expected given the size of immigration and the increase in new households. Despite the much larger amount of mortgage bank credit granted during the year under review to home buyers of all types, the excess demand for such financing that could not be satisfied apparently increased.

Gross credit granted directly by mortgage banks to those buying private or public housing rose by about 42 percent in comparison with 1968 (and by about 100 percent in comparison with 1967), and totalled IL 220 million. While the sum provided for publicly sponsored housing grew by approximately 31 percent (IL 30 million) to IL 149 million, that for private housing went up by 73 percent (IL 35 million) and totalled IL 71 million. The latter increment consisted of a rise of 49 percent in the number of loans (bringing the total up to 5,060) and of 16 percent in the average loan, which in 1969 amounted to almost IL 14,000. Considering the jump in dwelling prices in 1969 and the steady improvement in building standards, it appears that the

percentage of the value of private dwellings financed by mortgage banks declined in the year reviewed. This development, along with the big increase in the number of loans granted, may serve as an indicator of the heavy demand for mortgage bank credit.

An estimate of the amount of credit provided to contractors and building companies in 1969 for financing current construction, based on data supplied by part of the mortgage banks, shows a moderate rise of about 10 percent. This of course is a fairly low rate considering the sizable expansion of new construction in 1969. Possible explanations of this development are (1) the difficulties encountered by mortgage banks, at a time of tight money, in raising nongovernmental funds for financing construction; and (2) the slower increase in the amount of financing required by contractors following the notable expansion of their activities—a fact ascribable to the booming housing market, which acted to reduce the period of construction, as well as the period between completion of the building and its sale, even leading to the sale of homes before completion (and in certain cases even before building got under way).¹

Gross mortgage credit supplied by mortgage banks to local authorities and the business sector (hotels, institutions, companies, etc.) was reduced in 1969 by about 10 percent to IL 120 million. All of the decrease was in loans to local authorities; those to the business sector showed a slight increase in comparison with 1968.

Net credit granted by financial institutions to the construction and housing sector continued upward, reaching IL 235 million as against IL 160 million in 1968 and only IL 68 million in the 1967 recession year. Although the growth of outstanding credit during the year reviewed was smaller than in 1964, it should not be inferred from this that the expansion of the sector's operations in the financing of construction and housing was smaller in 1969 than in the prerecession period; on the contrary, the level of the sector's assets (almost twice as high as in 1964) explains the slow growth of net credit compared with the gross credit outflow (the volume of current debt repayments is a function of the total amount of loans outstanding).

(c) *Industry*

Net credit granted by the financial institutions to the industrial sector totalled IL 153 million, as compared with IL 96 million² in 1968 and IL 109 million in 1967. This brought up the balance of industrial credit outstanding at the end

¹ A drop of about IL 20 million was recorded in 1969 in outstanding credit granted by mortgage banks to the private business sector. This decline, coupled with the growth of contractors' deposits (about IL 20 million) and the volume of current mortgage debt repayments on private homes, explains how mortgage banks were able to provide some IL 71 million in financing to those buying homes from private builders.

² Excluding write-offs.

of the year reviewed to IL 1,141 million, representing 22.5 percent of total outstanding credit granted by the institutions (other than to the Government).

The increase in outstanding industrial credit in the past three years is not a good indicator of the financial institutions' share in financing current industrial investments during this period. Despite the low level of capital outlays in 1967, there was a flow of net credit to the sector because of arrears in the payment of debts. This incremental credit, which was of a temporary nature and had no connection with the sector's investments, was apparently repaid during 1968-69, and led to a smaller rise in outstanding credit in these two years despite the much greater volume of gross credit granted.

Gross credit provided by the group of industrial development banks (which accounts for about 90 percent of all financial institution credit to this sector) is estimated at IL 275 million in 1969, as against IL 170 million in 1968; this is an increase of about 62 percent, and contrasts with the 45 percent rise in total industrial investment during the year reviewed. This growth in the share of directed industrial development loan capital can apparently be attributed to heavier demand pressure on the part of entrepreneurs because of the more stringent monetary situation, which tended to widen the difference between the cost of equity capital (i.e. interest rates in the free market) and the much cheaper credit available from financial institutions (medium- and long-term loans for industrial development are generally granted at interest of 6-9 percent, without linkage).

(d) *Agriculture*

Outstanding farm loans increased by IL 95 million in 1969, as compared with IL 91 million in 1968 and IL 43 million in 1967. The changes in the level of agricultural investment during these years (which displayed a downward trend, with the exception of 1969 when a rise of about 7 percent was recorded) do not explain the exceptionally large growth of net credit granted during the past two years by the financial institutions.¹ The lack of correlation between changes in net credit granted and those in the level of agricultural investment can be ascribed partly to the larger volume of net short-term funds furnished by the financial institutions to finance the sector's current operations, and apparently also to the larger amount of medium- and long-term lending for consolidating agricultural settlements or putting them on a stronger financial footing. It may also be that some of the credits were used, not for financing purely agricultural activities, but for financing other development projects.

¹ Net of capital outlays on water projects, land reclamation and conservation, and afforestation, the bulk of which are direct investments of the public sector, agricultural investment increased by IL 17 million and IL 16 million in 1968 and 1969 respectively. However, this explains only a small part of the appreciable increase in net credit granted to this sector during the last two years.

The amount of gross credit extended in 1969 by the major agricultural finance institutions (which account for almost 85 percent of total outstanding farm credit granted by the sector) increased in 1969 by about 14 percent to stand at IL 182 million, of which IL 52 million was short-term credit and IL 124 million medium- and long-term loans.

4. DEVELOPMENTS BY TYPE OF INSTITUTION

The financial institutions sector, as surveyed in this chapter, numbers 86 intermediaries classified into seven groups by area of specialization (see Table XVI-3). An analysis of the sources and uses of funds of the various groups makes it possible to trace the sectoral flows of funds generated by the different activities of the financial institutions.

(a) *Mortgage banks*

This group, which numbers 17 institutions, accounts for by far the greatest part of the funds made available by the sector for financing construction and the purchase of housing. Even though the amount of Government financing—either direct (earmarked Government deposits) or indirect (bond issue proceeds not deposited with the Accountant General)—obtained by the mortgage banks is substantial—about IL 1,250 million at the end of 1969—they nevertheless derive 35–40 percent of their external financing from other (nongovernmental) sources. The ratio between the group's equity capital and its liabilities is inordinately low (less than 7 percent), but the group's operations are to a large extent guaranteed by the Treasury. The tight money situation and the capital market developments in 1969 did not affect the growth of the mortgage banks' financial resources. The net increase in their resources (excluding funds channelled to the Government) came to approximately IL 290 million, as against some IL 213 million in 1968 and IL 183 million in 1967. But the domestic monetary developments did find expression in the composition of the incremental resources. The dependence of the mortgage banks upon direct and indirect Government financing increased in 1969, because of their much greater finance requirements on the one hand and the difficulty encountered in mobilizing "nongovernmental" funds on the other. Whereas in 1968 some 62 percent of the incremental mortgage bank liabilities had stemmed from the growth of Government deposits and purchases of bonds by social insurance funds and bank-administered saving schemes, in 1969 the proportion reached 73 percent.

The composition of incremental liabilities in effect also dictated the allocation of the institutions' additional resources. Net credit provided to households was stepped up from IL 94 million in 1968 to IL 192 million, and that to agricultural settlements from about IL 7 million to IL 42 million. On the other

Table XVI-3

**COMBINED BALANCE SHEET TOTALS* OF FINANCIAL INSTITUTIONS,
BY TYPE OF INSTITUTION, 1967-69**

| | Number of insti- tutions | IL million | | | Percent | | | Annual increase or decrease (-) | | | | | |
|-------------------------------|-----------------------------------|----------------|-------------------|----------------|--------------|-------------------|--------------|---------------------------------|------------|--------------|-------------|--------------|-------------|
| | | 1967 | 1968 ^b | 1969 | 1967 | 1968 ^b | 1969 | 1967 | | 1968 | | 1969 | |
| | | | | | | | | IL m. | % | IL m. | % | IL m. | % |
| Mortgage banks | 17 | 1,704.8 | 1,917.6 | 2,207.2 | 39.4 | 39.1 | 38.3 | 182.5 | 12.0 | 212.8 | 12.5 | 289.6 | 15.1 |
| Industrial development banks | 5 | 943.8 | 959.2 | 1,117.2 | 21.8 | 19.5 | 19.4 | 82.5 | 9.6 | 15.4 | 1.6 | 158.0 | 16.5 |
| Institutions granting loans | | | | | | | | | | | | | |
| to other sectors ^c | 4 | 463.3 | 560.9 | 579.4 | 10.7 | 11.4 | 10.1 | -23.2 | -4.8 | 97.6 | 21.1 | 18.5 | 3.3 |
| Agricultural credit funds | 19 | 585.5 | 673.2 | 769.2 | 13.6 | 13.7 | 13.3 | 60.7 | 11.6 | 87.7 | 15.0 | 96.0 | 14.3 |
| Investment companies | 15 | 542.3 | 660.7 | 812.1 | 12.5 | 13.5 | 14.1 | 17.9 | 3.4 | 118.4 | 21.8 | 151.4 | 22.9 |
| Household finance companies | 15 | 72.6 | 83.0 | 95.0 | 1.3 | 1.7 | 1.6 | 7.1 | 10.8 | 10.4 | 14.3 | 12.0 | 14.5 |
| Mutual funds | 11 | 30.7 | 55.4 | 185.4 | 0.7 | 1.1 | 3.2 | -1.6 | -4.9 | 24.7 | 80.5 | 130.0 | 234.7 |
| Total | 86 | 4,343.0 | 4,910.0 | 5,765.5 | 100.0 | 100.0 | 100.0 | 325.9 | 8.1 | 567.0 | 13.1 | 855.5 | 17.4 |
| Deposits with the | | | | | | | | | | | | | |
| Accountant General | — | 891.7 | 1,251.8 | 1,577.3 | — | — | — | 279.3 | 45.6 | 360.1 | 28.8 | 325.5 | 26.0 |

* Excluding deposits with the Accountant General.

^b Revised figures.

^c For tourism and shipping and to local authorities.

hand, the net amount lent to local authorities dropped from IL 64 million in 1968 to IL 37 million, while that to private business was down IL 20 million, compared with a decline of IL 3 million the year before.

The group's balance sheet (excluding deposits with the Accountant General) reached IL 2,207 million at the end of 1969, representing about 38 percent of the combined balance sheet of the financial institutions sector.

(b) *Industrial development banks*

This group numbers five institutions, in the largest of which, the Industrial Development Bank, the Government holds approximately half of the paid-up share capital. This group is characterized both by an exceptionally high ratio between own and external sources of funds (almost 65 percent at the end of 1969) and by its almost total dependence on direct and indirect Government financing.¹ Earmarked Government deposits, funds raised abroad with Government approval and its guarantee, and the sale of bonds to social insurance funds and saving schemes account, in fact, for about 80 percent of the group's external financial resources, and, together with its equity capital, for over 90 percent of its aggregate resources. Since the preponderant share of these funds is used for financing industrial development in accordance with Government guidelines and at particularly low interest rates, it is obvious that monetary developments have little or no bearing on the group's expansion, which is actually determined by the development policy of the public sector.

In 1969 the group experienced a strong expansion. The net growth of its financial resources came to IL 158 million, compared with IL 82 million in 1968, and most of the increment was again supplied directly or indirectly by the Government. The bulk of the additional financing went to private business, public sector companies, and agricultural settlements (to finance their industrial operations).

(c) *Agricultural credit funds*

This group of 18 institutions, which specialize in the financing of agricultural settlements, is headed by the Israel Bank of Agriculture and the Ya'ad Agricultural Development Bank, which together account for about 65 percent of the combined balance sheet. The Government holds much of the paid-up capital of these two institutions. Most of the other institutions are joint funds connected with various agricultural and settlement organizations; there are also several connected with the Jewish Agency.

The Government's equity participation in the two largest institutions, plus the larger amount of earmarked deposits placed in the group as a whole in

¹ The Government's share in the paid-up share capital of the group, plus earmarked Government deposits.

1969, accounted for about 60 percent (IL 455 million) of the group's total resources at the end of the year (excluding the proceeds of bond sales, the bulk of which is deposited with the Accountant General).

Most of the remaining financial resources are obtained from the National Institutions, the financial sector, and to a certain extent from farm settlements themselves (their participation in the paid-up capital of the institutions).

The net increase in the financial resources of this group (less transfers to the Accountant General) totalled IL 96 million, as compared with IL 88 million in 1968.

(d) *Institutions financing other sectors*

The four institutions in this group, in order of size, are the Maritime Bank, the Tourist Industry Development Corporation, the Local Authorities Bank, and Igarot. They mainly finance the local authorities and the service sectors (shipping, tourism, etc.).

Whereas the other groups continued to expand rapidly in 1969, the operations of this group increased at a much more sluggish rate than in the previous year. The net growth of their financial resources (less transfers to the Accountant General) amounted to IL 19 million, a sharp drop from the IL 98 million figure of 1968. This was due primarily, not to the growing tightness of the domestic money market, but to monetary developments in the international market and expectations of a devaluation of the Israeli pound. These factors slowed down the expansion of one of the large institutions in the group, part of whose funds are mobilized abroad and are lent out at medium maturities, value-linked to the exchange rate, and bearing interest at a rate similar to that in the world market. In 1969 this institution reduced its operations and transferred a substantial part of its current repayment receipts to the Accountant General. Whereas in 1968 there was a net increase of IL 56 million in outstanding credit granted directly by this group¹ to private business and public sector companies, in the year reviewed there was a decline of IL 25 million.

(e) *Investment companies*

This group numbers 15 institutions established to mobilize funds from a large number of investors and to spread their portfolio over a wide array of domestic securities. It does not include holding companies, since they generally do not meet the basic criterion of diversification of the investment portfolio, or companies financed by a limited number of proprietors. Since there is no special law in this country regulating investment company operations and

¹ Credit for financing tourist enterprises is granted by this group through banking institutions and other financial institutions, at interest of 6-9 percent and without linkage.

confining them to the securities market, some of the concerns engage in the mobilization of funds for loan purposes. In most cases both the mobilization and allocation of these funds are subject to the Government's directives and enjoy its guarantee. As a result, the composition of the assets and liabilities of several of the companies does not differ from that of other financial intermediaries, such as industrial development banks, and the greater part of their means is used for credit transactions. At the same time, they are distinguished from the other institutions (which hold securities for liquidity reasons and/or in order to gain control of companies), in that portfolio management is for them an end in itself.

Most of the investment companies surveyed here were set up by banking institutions. Even though the founding banks no longer hold the majority of the share capital, they have ensured control over the companies by according preferential voting rights to a certain class of shares.

As in previous years, most of the growth was again recorded by the largest companies in the group and resulted from the supplying of medium- and long-term loan capital to various sectors of the economy under the guidance (direct and/or indirect) of the Government, as well as from the mobilization of funds in the bond market for financing the development budget (the bond proceeds are deposited with the Accountant General).

Less deposits with the Accountant General, the group's assets expanded by IL 151 million, as against IL 118 million in 1968, even though the amount of bond issue proceeds available for allocation at the companies' own discretion¹ declined from IL 80 million in 1968 to IL 52 million in 1969. The continued expansion of operations was made possible by the raising of some IL 26 million abroad and by an increase (compared with 1968) of IL 30 million in the financial sector's contribution to the companies' resources. The growth of equity capital added about IL 20 million to the group's resources, slightly more than in the previous year.

Although the recovery of the securities market that marked 1968 was checked and in most months of the year reviewed security prices receded, the investment companies enlarged their nongovernmental securities portfolio by IL 37 million, compared with IL 27 million in 1968. This is explained by the very low level to which most share prices had sunk, which, together with the larger corporate profits earned in 1969, induced investment companies, which are guided by long-run considerations, to expand their portfolios. But while their portfolios reached IL 255 million in 1969, this was still lower than the companies' equity capital, which stood at IL 281 million at year's end.

¹ Proceeds of bond issues not transferred to the Accountant General; here too, however, the Government has the final say.

(f) *Mutual funds*

This group numbered 11 institutions in 1969, compared with nine in 1968 and seven in the years 1964–67. The four founded during the past two years invest most of their resources in bonds, in contrast to the veteran funds, which continue to place between 65 and 95 percent of their investments in shares.

As in 1968, the development of the various funds was not uniform. The drop in share prices on the Tel Aviv Stock Exchange and the increase in yields to maturity on index-linked bonds traded outside the Exchange (especially the 1968/69 Defense Loan), together with the prevailing expectations of a rise in the consumer price index and a devaluation of the Israeli pound, resulted in the continued stagnation of the older funds and enabled the new funds, which specialize in bonds linked to the exchange rate or the c-o-l index, to expand to an unprecedented degree.

Net redemption of participation certificates in the veteran mutual funds totalled IL 3.5 million in 1969 (at par value), as against IL 1.5 million in 1968, and their total assets (at market prices) dropped from IL 31.5 million at the end of 1968 to IL 26.7 million (i.e. by about 15 percent).

On the other hand, the bond funds succeeded in selling participation certificates to the tune of IL 129.2 million (at par value), compared with only IL 28.7 million in 1968. A total of IL 45 million (34 percent of the incremental investment) was placed in bonds issued by financial institutions, even though the bond funds—unlike social insurance funds and saving schemes—are not subject to any legal restrictions on the composition of their investment portfolios. These purchases apparently facilitate the marketing of financial institution bonds; this was especially true of 1969, a year in which the securities offered by these institutions to the public (i.e. excluding issues sold to social insurance funds and saving schemes) had to face sharp competition from the Absorption and Defense Loans, whose low prices ensured relatively high yields to maturity.

As a result of the standstill of the veteran mutual funds¹ and the impressive expansion of the bond funds, the weight of bonds in the group's aggregate portfolio went up from 28 percent in 1967 to 60 percent in 1968 and to nearly 77 percent in 1969. The funds' aggregate portfolio, at issue prices, expanded by IL 130 million (more than three times as much as in 1968) and totalled IL 185 million.

Although the overwhelming share of the funds' participation certificates are apparently bought by households, not all of the sum raised from this source can be considered household saving. About 25 percent of the growth of the funds' investment portfolio consisted of Absorption and Defense Loan certificates acquired from households. In these transactions the funds did not

¹ A decline in share prices on the stock exchange always has a detrimental effect on mutual funds since, unlike the investment companies, they always have to be ready to liquidate part of their investment portfolio.

perform their regular function of intermediation between saving and investing units. This can be attributed to the special conditions created in the bond market by the issuing of the Absorption and Defense Loans. These loans were not purchased by households out of economic considerations. Upon receiving the certificates, a large percentage of the households sold them at prices far below their par value, so that they became in a sense a sort of private bond issue, guaranteed by the Government and bearing an exceptionally high yield.

This development is of significance in assessing the extent to which the Absorption and Defense Loans contributed to the expansion of household saving. During the period when payments on these loans were being collected (before the certificates were distributed), household saving (by individuals who did not intend to save at all, or intended to save a smaller sum and could not adjust their desired saving to the higher level of forced saving by borrowing the difference) did increase; but an examination for the period including that during which trading in these loans took place among households after distribution of the certificates shows that the incremental household saving resulting from the issuance of these loans was much smaller than the volume of such loans. What was actually attained was a growth of household saving in one period (when collections were being effected) at the expense of saving in the subsequent period (that of the distribution and trading in the certificates).

(g) *Household finance companies*

This is the smallest group of financial institutions, its combined balance sheet amounting to only IL 95 million at the end of 1969. All of the 15 companies in this group, with the exception of Otzar Hahayal, Idud, Yahav, and the Consumer Cooperation Fund, have assets of less than IL 3 million each.

The financial resources of these institutions originate from the Government (about 35 percent), the National Institutions, nonprofit institutions, and the household sector itself. In 1969 the group expanded its total assets by IL 12 million, as against IL 10 million in 1968 and IL 7 million in 1967.

5. ASSETS AND LIABILITIES

The combined balance sheet of the financial institutions' sector (excluding deposits with the Accountant General) increased by IL 856 million in 1969, compared with IL 637 million¹ in 1968 and IL 525 million¹ in 1967. This brought the total at the end of the year reviewed up to IL 5,766 million (IL 7,343 million if deposits with the Accountant General are included).

(a) *Liabilities and capital*

The sector's liabilities and capital accounts consist predominantly of medium- and long-term obligations, with the weight of equity capital amounting to about

¹ Excluding write-offs.

Table XVI-4
ASSETS AND LIABILITIES OF FINANCIAL INSTITUTIONS, 1967-69

| | IL million | | | Percent | | | Annual increase or decrease (-) | | | | | |
|---|----------------|-------------------|----------------|--------------|-------------------|--------------|---------------------------------|-------------|--------------|-------------|-------------------------|-------------|
| | 1967 | 1968 ^a | 1969 | 1967 | 1968 ^a | 1969 | 1968 | | 1969 | | 1968 (excl. write-offs) | |
| | | | | | | | IL m. | % | IL m. | % | IL m. | % |
| Assets | | | | | | | | | | | | |
| Cash and bank deposits | 91.0 | 82.9 | 81.4 | 2.1 | 1.7 | 1.4 | -8.1 | -8.9 | -1.5 | -1.8 | | |
| Credit to the public from own means | 1,723.3 | 1,803.4 | 1,993.1 | 39.7 | 36.7 | 34.6 | 80.1 | 4.6 | 189.7 | 10.5 | 145.1 | 8.4 |
| Credit to the public from Govt. deposits | 1,657.4 | 1,979.4 | 2,331.5 | 38.2 | 40.3 | 40.4 | 322.0 | 19.4 | 352.1 | 17.8 | 327.0 | 19.7 |
| Credit to the public from deposits earmarked for loans | 497.6 | 606.1 | 766.7 | 11.4 | 12.4 | 13.3 | 108.5 | 21.8 | 160.6 | 26.5 | | |
| Government securities | 47.8 | 57.1 | 102.2 | 1.1 | 1.2 | 1.8 | 9.3 | 19.5 | 45.1 | 79.0 | | |
| Nongovernmental securities ^b | 293.6 | 346.1 | 454.9 | 6.8 | 7.0 | 7.9 | 52.5 | 17.9 | 108.8 | 31.4 | | |
| Immovable property | 32.3 | 35.0 | 35.7 | 0.7 | 0.7 | 0.6 | 2.7 | 8.4 | 0.7 | 2.0 | | |
| Total | 4,343.0 | 4,910.0 | 5,756.5 | 100.0 | 100.0 | 100.0 | 567.0 | 13.1 | 855.5 | 17.4 | 637.0 | 14.7 |
| Liabilities and capital | | | | | | | | | | | | |
| Equity capital | 1,103.0 | 1,213.7 | 1,413.9 | 25.4 | 24.7 | 24.5 | 110.7 | 10.0 | 200.2 | 16.5 | | |
| Bonds | 1,439.1 | 1,802.5 | 2,154.9 | 33.1 | 36.8 | 37.4 | 363.4 | 25.3 | 352.4 | 19.6 | | |
| Proceeds deposited with Accountant Gen. ^c | 650.0 | 930.0 | 1,115.0 | 15.0 | 18.9 | 19.4 | 280.0 | 43.0 | 185.0 | 19.9 | | |
| Net proceeds | 789.1 | 872.5 | 1,039.9 | 18.1 | 17.8 | 18.0 | 83.4 | 10.6 | 167.4 | 19.2 | | |
| Deposits and loans from banks | 78.9 | 99.1 | 178.9 | 1.8 | 2.0 | 3.1 | 20.2 | 25.6 | 79.8 | 80.5 | | |
| Govt. deposits earmarked for loans | 1,667.3 | 2,002.6 | 2,356.9 | 38.4 | 40.8 | 40.9 | 335.3 | 20.1 | 354.3 | 17.7 | 340.3 | 20.4 |
| Nongovernmental deposits earmarked for loans | 560.3 | 654.0 | 748.0 | 12.9 | 13.3 | 13.0 | 93.7 | 16.7 | 94.0 | 14.4 | | |
| Other deposits and loans | 261.4 | 286.2 | 339.3 | 6.1 | 5.8 | 5.9 | 24.8 | 9.5 | 53.1 | 18.5 | | |
| Demand deposits | 26.6 | 31.2 | 28.2 | 0.6 | 0.6 | 0.5 | 4.6 | 17.3 | -3.0 | -9.6 | | |
| Other accounts (net) | -143.6 | -249.3 | -339.6 | -3.3 | -5.1 | -5.9 | -105.7 | -73.6 | -90.3 | -36.2 | -40.7 | -28.3 |
| Deposits with the Accountant General, excl. bond proceeds | -241.7 | -322.0 | -462.3 | -5.6 | -6.6 | -8.0 | -80.3 | -33.2 | -140.3 | -43.6 | -15.3 | -6.3 |
| Other accounts (net) | 98.1 | 72.7 | 122.7 | 2.3 | 1.5 | 2.1 | -25.4 | -25.9 | 50.0 | 68.8 | | |
| Total | 4,343.0 | 4,910.0 | 5,765.5 | 100.0 | 100.0 | 100.0 | 567.0 | 13.1 | 855.5 | 17.4 | 637.0 | 14.7 |

^a Revised data.

^b Including investments in subsidiary companies.

^c Estimate.

25 percent at the end of 1969. This ratio is unusually high considering that the institutions' operations consist to a large extent of the provision of loans from funds placed at their disposal by others and at the latter's responsibility.

The principal developments in the sector's liability and capital structure in 1969 were the halting of the downward trend in the weight of equity capital and the continuation of the rising trend in the weight of bonds and deposits earmarked for loans.

Equity capital rose by IL 200 million, compared with IL 110 million in 1968, and totalled IL 1,414 million. Much of this growth was accounted for by the mutual funds, which succeeded in mobilizing IL 125 million during the year reviewed. The rest of the increase stemmed mainly from the issue of bonds abroad and to the Government and from transfers to reserves.

The rise in outstanding bonds (IL 352 million as against IL 363 million in 1968) explains about 42 percent of the total balance sheet growth, as compared with 62 percent in 1968. During the year surveyed the financial institutions managed to issue only IL 348 million worth of bonds, as against IL 372 million in 1968, even though social insurance funds, saving schemes, and mutual funds run by banks together took a total of IL 340 million, compared with IL 295 million in 1968. Apparently the weakening of noninstitutional demand for financial institution bonds is explained not only by the tightness of the money market in 1969, but chiefly by the large offer of Absorption and Defense Loan certificates which, as already mentioned, depressed their prices far below their real value and thereby resulted in a much higher yield to maturity on these loans than on bonds issued by the financial institutions.

Outstanding Government deposits for loan purposes went up by IL 354 million to IL 2,357, or 41 percent of total liabilities.

Deposits and loans from banks and other institutions (domestic and foreign) were up by an appreciable IL 227 million net, as against IL 140 million in 1968. Nevertheless, it appears that a large proportion of this sum did not actually augment the financial resources of the sector as a whole, because some of the financial institutions lend out funds through other institutions in the sector and sometimes even through the intermediation of banking institutions.

(b) *Assets*

The asset portfolio of the financial institutions consists predominantly (about 90 percent) of loans, and only to a small extent of securities (about 10 percent) and immovable assets (less than 1 percent).

Outstanding credit to the public from the institutions' "own means" expanded by more than in 1968—IL 190 million as against IL 145 million.¹ However, this does not mean that there was a growth in the sector's autonomous financing operations (see the discussion in section 2 above). The 1969

¹ Excluding write-offs.

increase in the net credit outflow of the institutions financing the various sectors of the economy was made possible thanks to the expansion of their equity capital (especially through the issue of shares to the Government and the rest of the world), the mobilization of loan capital abroad, and the Treasury's agreement to allocate to the institutions a larger proportion of the funds raised in the local bond market (despite the drop in proceeds from the institutions' own bond issues).

Another striking change in the asset structure was the marked expansion of the financial institutions' securities portfolio, almost all of it attributable to the mutual funds and investment companies (see the discussion above). The sector's portfolio of Government securities rose by IL 45 million, as against IL 9 million in 1968, while nongovernmental securities increased by IL 109 million and IL 53 million respectively.

6. FLOW OF FUNDS, BY SECTOR

This analysis of the flow of funds between the financial institutions and other domestic sectors is based on the institutions' balance sheets and profit and loss accounts. A balance sheet comparison of two consecutive years shows the flow of receipts and payments arising from transactions in financial assets, while the profit and loss statements show the flow defined as "nonfinancial transactions" (see Table XVI-5).

In flow-of-funds analysis all balance sheet changes that do not represent actual flows but bookkeeping changes only, such as revaluations, transfers to reserves, etc., must be eliminated. In the flow-of-funds statement presented in Table XVI-5, however, no adjustments have been made for changes stemming from the revaluation of assets and liabilities, and part of the transfers to reserves, which could not be identified in the balance sheets, were not deducted.

The financial institutions' business volume expanded by 24.3 percent over 1968 (and by 64.9 percent over the recession year of 1967), and stood at approximately IL 1,559 million.

Most of the net credit to the financial institutions in 1969 was provided by the banking institutions and the social insurance funds, with much smaller amounts being supplied by the foreign sector and the Government.¹ The chief borrowers were private business, households, and local authorities.

¹ The net flow of funds from the Government to the financial institutions (see Table XVI-5) does not indicate the degree of Government influence over the institutions' financing operations in the loan market for two reasons: (a) A large share of the institutions' business financed from nongovernmental sources is also conducted in accordance with Government directives (see the discussion in section 2); (b) A substantial proportion of the sector's net disbursements to the Government is made from funds raised by the institutions with Government approval, since the Government controls an overwhelming share of the local capital market, as well as the mobilization of funds abroad. In these activities the institutions actually function as the Government's financial agents.

Table XVI-5

FLOW-OF-FUNDS STATEMENT OF THE FINANCIAL INSTITUTIONS,^a BY SECTOR, 1968-69

(IL million)

| | Receipts | | | Payments | | | Balance of receipts over payments | |
|---|-------------------|----------------|--------------------------|-------------------|----------------|--------------------------|-----------------------------------|-----------------------------|
| | 1968 ^a | 1969 | Increase or decrease (-) | 1968 ^a | 1969 | Increase or decrease (-) | 1968 ^a | 1969 |
| Nonfinancial transactions | 430.1 | 521.0 | 90.9 | 404.3 | 482.0 | 77.7 | 25.8 | 39.0 |
| Transactions in financial assets | | | | | | | | |
| Government | 342.9 | 359.9 | 17.0 | 369.6 | 370.5 | 0.9 | -26.7 (43.3) ^b | -10.6 (21.4) ^b |
| National Institutions and local authorities | 30.5 | 28.1 | -2.4 | 109.9 | 80.9 | -29.0 | -79.4 | -52.8 |
| Public sector companies | -3.1 | 22.4 | 25.5 | 71.2 | 26.3 | -44.9 | -74.3 (-78.3) ^b | -3.9 |
| Banking institutions | 156.7 | 184.4 | 27.7 | 11.2 | 34.7 | 23.5 | 145.5 (140.5) ^b | 149.7 |
| Social insurance funds | 188.3 | 202.3 | 14.0 | 1.7 | -1.6 | -3.3 | 186.6 | 203.9 |
| Insurance companies | 2.0 | 4.7 | 2.7 | 0.7 | 5.5 | 4.8 | 1.3 | -0.8 |
| Private business ^c | 18.5 | 34.6 | 16.1 | 160.4 | 327.9 | 167.5 | -141.9 (-202.9) ^b | -293.3 |
| Nonprofit institutions | 20.2 | 8.8 | -11.4 | 45.1 | 7.4 | -37.7 | -24.9 | 1.4 |
| Rest of the world | -1.3 | 45.7 | 47.0 | 2.7 | 6.3 | 3.6 | -4.0 | 39.4 |
| Households ^d | 58.4 | 130.6 | 72.2 | 102.1 | 212.4 | 110.3 | -43.7 | -81.8 (-113.8) ^e |
| Unspecified ^f | 11.0 | 16.7 | 5.7 | — | — | — | 11.0 | 16.7 |
| Total transactions in financial assets | 824.1 | 1,038.2 | 214.1 | 874.6 | 1,070.3 | 195.7 | -50.5 | -32.1 |
| Errors and omissions | | | | -24.7 | 6.9 | 31.6 | 24.7 | -6.9 |
| Total receipts and payments | 1,254.2 | 1,559.2 | 305.0 | 1,254.2 | 1,559.2 | 305.0 | — | — |

^a Revised data.^b Less write-offs (see the note on p. 338).^c Including farms.^d Including contractors' deposits sold to households through banking institutions.^e Less estimated purchases of Government securities from households.^f Including securities sold on the Stock Exchange.

Net receipts from the banking institutions rose from IL 141 million in 1968 to IL 150 million, even though the banks' investment of approved saving scheme funds in financial institution bonds increased by slightly less than in 1968 (IL 116 million as against IL 129 million).

Net receipts from social insurance funds rose by IL 17 million to stand at IL 204 million.

Whereas in preceding years the importance of the rest-of-the-world sector as a source of funds dwindled until in 1968 it became a net borrower instead of a net lender (because of repayments of financial institution debts abroad), in the year reviewed it provided IL 39 million in net credit.

As in previous years of buoyant financial institution operations, the Government is shown as a source of net credit in 1969, net receipts from it amounting to IL 21 million as against IL 43 million¹ in 1968. Were it not for a large deposit with the Accountant General made under special circumstances² by one of the financial institutions, net receipts from the Government would have been 50 percent higher than in 1968.

Net payments to private business rose by some 45 percent to IL 293 million, while those to households went up by IL 114 million, compared with IL 44 million in 1968. Had it not been for the sharply higher sales of mutual fund participation certificates, the leading customer for which is apparently the household sector, net payments to the latter would have been closer to those made to business, owing to the conspicuous growth in outstanding mortgage bank credit to households.

¹ Excluding write-offs.

² This sum was not available to the depositing institution for financing its activities. See the explanation in section 4(d).