CHAPTER XIX

SAVING[1]

THE MOST STRIKING fact emerging from the saving computations for 1961 was that overall national saving reversed its downward turn of 1960 and resumed its long-run upward trend, quite likely reaching a new high both absolutely and as a percentage of net national product[2] (see Table XIX–1 and Diagram XIX–1).

Another striking disclosure was that the increase in total saving, far from being distributed evenly among the different sectors, was for the most part the result of a large growth in public sector saving. In the non-public sectors (see the column "total private sectors" in Table XIX–3), the figures suggest a moderate rise in saving, both absolutely and in relation to income. But the change was not large enough to enjoy the same degree of certainty as the rise in Government saving.

The increase in the public sector's saving continued, at a very accelerated pace, a long-run upward trend. But it was only in 1961 that public saving reached a positive level, and thus for the first time formed an addition (albeit a small one) to the saving of the household and business sectors, which have traditionally been the only sources of positive saving in the Israel economy.

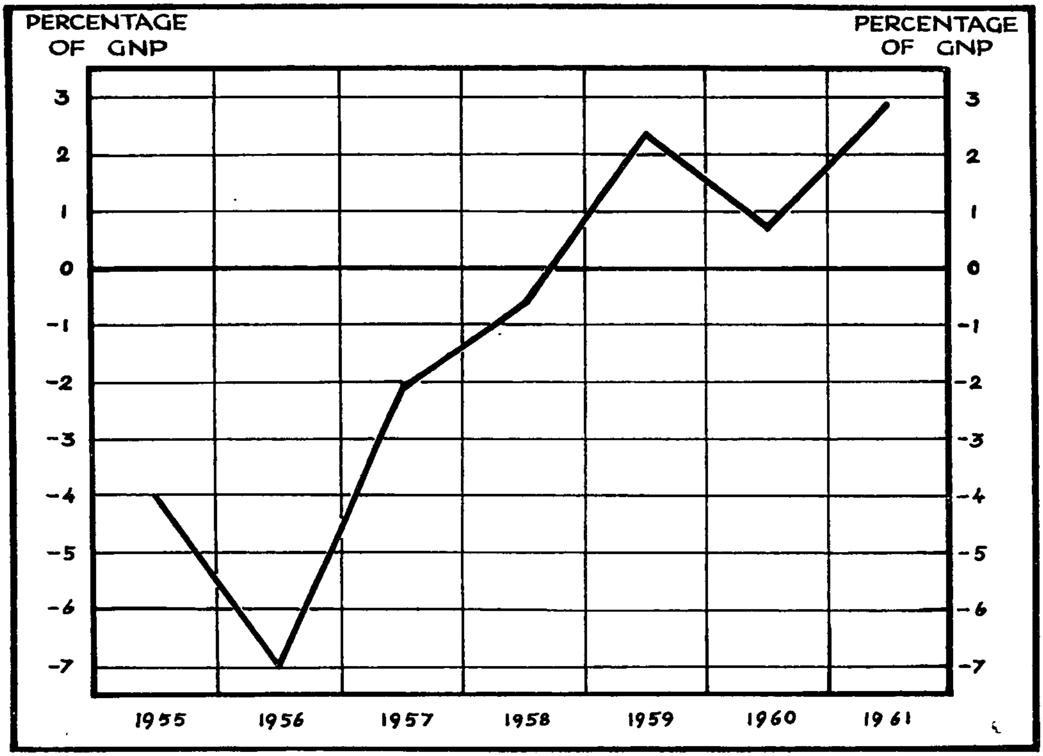
It should be mentioned that the absolute level of saving, which appears to have reached a fairly substantial figure by 1961, would drop back below zero if the net capital import were to be evaluated at the effective import and export rates of exchange which prevailed during the year (taking duties and export premiums into account). Since the import surplus is deducted from total resources to derive national product or income, its revaluation would reduce

[1] In this chapter national saving is derived from estimates of national product (gross and net), less consumption. The reason for preferring this approach to the direct estimate of saving from the national income data was explained in the Appendix to the 1960 Annual Report. The national income method gives a lower saving estimate but does not alter the general development trend. In order to emphasize the level of saving from domestic sources of income, unrequited transfers from abroad have been excluded from current income.

[2] This conclusion should be accepted with some reservation. Saving statistics are without doubt the most indirect, and hence least reliable, among the family of basic national economic accounts. Saving cannot be approached directly. It must, even in principle, be seen as a residual, either of income minus consumption or of investment minus increased liabilities to others. As a result, relatively small margins of error in the magnitude from which it is derived become much larger relative to the residual saving figures. The smaller the residual, the larger the relative error.

DIAGRAM XIX–I

Net National Saving, 1955–61



these estimates, and therefore the saving residual as well, by the same amount. Nevertheless, even such an adjusted calculation would reveal an upward trend in saving, although a less rapid one.

The dissaving of the non-profit institutions in respect of their domestic income remained more or less constant in 1961, so that the change in private saving must be attributed mainly to households and business enterprises taken together. Unfortunately, the available information does not permit a reliable quantitative estimate of the distribution of this change between business enterprises and households.[1]

Gross and net national investment increased in 1961 by a much larger amount than domestic saving. This, of course, implies and was made possible by an increase in capital imports from abroad (credit and equity investment, as well

[1] The data discussed below in connection with Tables XIX–5,6, and 7 suggest that household saving did rise somewhat as the net result of forces working to depress non-linked financial saving forms and to stimulate real assets and linked securities.

as unrequited transfers). The import surplus increased correspondingly to cover the greater excess of total resource uses over national product. Nevertheless, the share of national self-financing (i.e. by saving) of investment increased, while that of capital imports declined (see Table XIX–4).

The large increase in investment (even excluding durable consumer goods) is discernible mainly in the private sectors. In order to finance this increment, the private sectors had to increase their net borrowing greatly, since the rise in investment was far greater than that in saving and unrequited transfers together. In contrast, the public sector increased its investment to a much smaller extent than its saving and transfer receipts from abroad, and was therefore able to considerably expand its net lending to the private sectors.

1. Factors in the Development of Saving

Despite the upward trends noted above, the figures in this chapter show that, absolutely and in relation to national product, national saving as a whole is still very low. The basic cause of this is the existence of a very large capital import, for the most part unrequited transfers. A considerable proportion of these transfers are regarded by their recipients as more or less regular sources of income. This is especially true of the non-profit institutions and, less significantly, of households receiving pensions from abroad. The consumption of sectors receiving such transfers is augmented accordingly, and their saving relative to domestic income is reduced. Moreover, one cannot assume that

Table XIX–1

GNP, Gross and Net National Saving,[a] 1955–61

(IL. million)

Year	Current prices			At 1959 prices[b]			Percentage of GNP[c]	
	GNP	Gross national saving	Net national saving	GNP	Gross national saving	Net national saving	Gross national saving	Net national saving
1955	2,175	86	– 88	2,546	106	–108	4.0	–4.0
1956	2,635	29	–185	2,991	33	–210	1.1	–7.0
1957	3,070	187	– 66	3,228	197	– 69	6.1	–2.1
1958	3,517	263	– 20	3,600	269	– 21	7.4	–0.6
1959	4,091	411	95	4,091	411	95	10.0	2.3
1960	4,494	393	32	4,342	380	21	8.8	0.7
1961	5,338	585	155	4,844	531	141	11.0	2.9

[a] Computed from national product estimates (1958–61 adjusted for Government inventory changes), less consumption estimates.
[b] Deflated according to price index of total resources available to the economy.
[c] Since both saving and GNP figures are deflated by the same price index, the rate of saving is not affected by price deflation.

the rest of the unrequited transfers have no effect on the consumption of the recipients. There is no doubt that one-time restitution receipts have increased household consumption (especially in durable goods), and it is probable that the Government and National Institutions have also been affected by the same temptation to live above their domestic resources (although less so now than in previous years).

In the years 1959–61 the net saving of the household and business sectors (excluding the dissaving of the non-profit institutions) reached 5 to 8 per cent of their net disposable domestic income (see Table XIX–3). But since the public sector and non-profit institutions, which absorb a large fraction of national income, had a dissaving throughout most of this period, the rate of national saving was much lower than that of private saving.

The trends described above were due to several factors operative in 1961. First of all, Government saving rose by the straightforward means of increasing tax revenue faster than current expenditure—in this case a partly planned and partly fortuitous process. The rate of growth of current expenditure was about normal, but that of revenue (particularly indirect tax revenue) was exceptional. The increase in the customs tariff and purchase tax at the end of 1960 and in early 1961 was planned (as in a sense was the increased efficiency in income tax collection methods), but the very sizeable expansion of revenue from indirect taxes (about 21 per cent) was also the result of a shift in the composition of consumption toward the more highly taxed items, especially durable goods such as automobiles.

The expectation of devaluation and price inflation was the other special factor at work, and it manifested itself in a series of speculative shifts in demand, the net effect of which upon consumption is not entirely certain. But there is no doubt that the anticipation of devaluation directly affected the economic behavior of households and private business. It seems that the increase in the Government's tax revenue was partly the product of these changes in the composition of demand and consumption.

The fear of inflation and particularly of devaluation tended to shift investment demands from non-linked financial assets, such as saving accounts, to value-linked financial assets. Insofar as the shift was to durable consumer goods, it

TABLE XIX–2

Unrequited Receipts from Abroad to Households, 1959–61

Year	*IL. million*	*Per cent increase over previous year*
1959	179	—
1960	252	40
1961	283	12

reduced the rate of saving—according to the conventional measurement which excludes durables from investment—but it augmented Government tax revenue. On the other hand, the shift toward shares, linked bonds, and housing did not of course affect total saving. In addition to a relative shift of forms, however, there may quite possibly have been a shift from consumption toward the same preferred investment forms. A boom psychology seems to have been generated, especially in the housing market, with fear of a further price rise drawing households into the market at an earlier date than otherwise.[1] Something similar may have occurred with regard to dollar-linked securities. The data available point to the probability that, in the special circumstances prevailing in 1961, inflationary expectations increased some forms of saving more than they decreased others.

This is also suggested by the behavior of households in regard to their unrequited transfers. A portion of restitution payments is spent on consumption; but in 1961 there was a diminished tendency to convert foreign currency receipts (or dollar-linked deposits) accumulated in previous years, owing to the expectation of an impending devaluation.[2] Consequently, despite the rise in receipts, even the absolute amount converted decreased in 1961.[3]

Thus we find that, owing partly to the structure of the tax system, there was a relative shift in saving in 1961 from the private to the public sector, while the existence of linked securities and the anticipation of price rises in certain fields (devaluation, housing prices, etc.) probably offset, or even more than offset, the usual negative effects of inflation on private saving motivations. A rise in Government saving due to a cut in current expenditures rather than the growth of tax income probably would have permitted an even larger increase in private saving. But it is clear that the net national gain in saving in 1961 would hardly have occurred if the increased public revenue had been allowed to generate a corresponding increase in consumption expenditure by the public sector. The fact that special factors in 1961 may have offset the depressing effect of inflationary expectations on total private saving does not eliminate the distortion in the forms of saving and investment (e.g. the excessive concentration on housing or durables). It seems, therefore, that even if such expectations do not always cause a reduction of private saving, they lead to undesirable changes in the forms of saving.

[1] The exact distribution of the greatly increased housing expenditure in 1961 between households and private business (work in progress) is difficult to determine. But this does not affect the influence of this expenditure on the saving of the two sectors taken together.

[2] See Table XX–9.

[3] Insofar as the deferment of conversion was not offset by a reduction in other forms of saving, the expectation of devaluation had a positive effect on the saving of restitution recipients. In 1960 the position was just the opposite.

TABLE XIX-3

Income Accounts Approach to National Saving, by Major Sectors,[a] 1959–61

	Business enterprises and households[b]		Non-profit institutions		Total private sectors		Public sector		Total domestic sector		Rest of the world
	IL. million	Percentage of disposable income	IL. million	Percentage of disposable income	IL. million	Percentage of disposable income	IL. million	Percentage of disposable income	IL. million	Percentage of disposable income	IL. million
1. Disposable income[c] (net of depreciation)											
1959	2,850	100.0	169	100.0	3,019	100.0	756	100.0	3,775	100.0	1,108
1960	3,071	100.0	199	100.0	3,270	100.0	863	100.0	4,133	100.0	1,267
1961	3,611	100.0	220	100.0	3,831	100.0	1,077	100.0	4,908	100.0	1,484
2. Gross saving[d]											
1959	501	17.6	–49	–29.0	452	15.0	–41	–5.4	411	10.9	597
1960	476	15.5	–50	–25.1	426	13.0	–33	–3.8	393	9.5	631
1961	577	16.0	–49	–22.3	528	13.8	57	5.3	585	11.9	744
3. Net saving[e]											
1959	229	8.0	–60	–35.5	169	5.6	–75	–9.8	95	2.5	597
1960	168	5.5	–64	–32.2	104	3.2	–72	–8.3	32	0.8	631
1961	211	5.8	–66	–30.0	145	3.8	10	0.9	155	3.2	744
4. Net saving including net investment in durable consumer goods[f]											
1959	351	12.3	–60	–35.5	291	7.6	–74	–9.8	217	5.7	597
1960	293	9.5	–64	–32.2	229	7.0	–72	–8.3	157	3.8	631
1961	366	10.1	–66	–30.0	300	7.8	10	0.9	310	6.3	744

5. Net saving plus unrequited transfers from abroad[g]											
1959	408	13.5	25	9.8	433	13.2	162	16.3	595	13.9	97
1960	420	12.6	22	7.7	442	12.3	156	14.3	598	12.7	65
1961	494	12.7	22	7.1	516	12.3	273	20.4	789	14.2	110
6. Net change in real assets[h]											
1959	521	18.3	42	32.0	563	18.6	129	17.1	692	18.3	—
1960	513	16.7	39	19.6	552	16.9	111	12.9	663	16.0	—
1961	699	19.4	37	16.8	736	19.2	163	15.1	899	18.3	—
7. Net investment in financial assets[i]											
1959	−106	−3.7	−17	−10.1	−130	−4.3	33	4.4	−97	−2.6	97
1960	−93	−3.0	−17	−8.5	−110	−3.4	45	5.2	−65	−1.6	65
1961	−205	−5.7	−15	−6.8	−220	−5.7	110	10.2	−110	−2.2	110

[a] The concepts of income and expenditure used here agree with those in Chapter VII—"Public Sector Operations". National account totals have been harmonized with these public sector definitions and therefore differ somewhat from the figures given in Chapter II—"Resources, Uses, and Incomes".

[b] Includes public sector companies and the financial sector.

[c] The disposable income of each domestic sector in this table is its share of net national product (i.e. earned income plus net transfer receipts). The amount in the "total domestic sector" column equals the net national product, while that in the "rest of the world" column equals the imports of Israel.

[d] The gross saving for the rest of the world equals the import surplus.

[e] Equals gross saving less depreciation for each sector (estimated on a replacement cost basis).

[f] The addition of imputed service income from consumer durable goods to disposable income would slightly lower the rates for all years. However, the rise from 1960 to 1961 would still exceed the change in the rate of net saving excluding consumer durable goods (item 3).

[g] This item is expressed as a percentage of net disposable income plus unrequited transfers from abroad, since conceptually it represents saving out of both these sources.

[h] Equals total domestic net investment, adjusted for change in public sector inventories. For each domestic sector it equals balance sheet gross changes in real assets, less replacement cost depreciation estimates.

[i] Indicates the difference between investment (item 6) and own resources available for investment (item 5), i.e. net credit or equity capital given or received from all other sectors. Hence, in respect of the total domestic sector and the rest of the world, this item indicates the net inflow of foreign credit and equity investment implied by the import surplus of goods and services. The difference between these implied net capital movements and the figures shown in column 4 of Table XIX–5 is due to the fact that the latter were derived independently from the sectoral accounts of financial transactions.

2. Saving Approached Through the Income and Consumption of the Major Sectors

Table XIX–3 summarizes the share of the broadest institutional sectors in total saving during the last three years (1959–61). The calculations were made through their income and consumption accounts. (In Table XIX–5 an alternative method has been employed, saving being estimated from changes in the sectors' balance of assets and liabilities.[1])

A number of saving concepts are presented in Table XIX–3, each of which is valid for the different purposes for which saving figures might be desired. The concepts include, first of all, the gross and net saving of each sector out of its disposable domestic income (i.e. earned income plus net current domestic transfer receipts).

It was to gross and net saving so defined that we referred in discussing the significant changes in 1961 (namely, the rise in total saving and the relative gain in the share of public saving). Gross private saving shows a considerably greater rise, but this was offset by the increase in depreciation attributable to the private sector.

The differences between gross and net public saving in 1959 and 1960, as shown in Table XIX–3, are much greater than those indicated in the Bank of Israel Annual Report for 1960. This was due to the introduction of an improved set of sectoral depreciation estimates which were made on a replacement cost basis. The depreciation estimates for other sectors were not altered so radically by this revision. Saving figures for the rest-of-the-world sector refer to its surplus in trade with Israel (i.e. Israel's import surplus or net capital import), which constitutes foreign saving invested in the Israel economy. The rise in this figure reflects the growth of the import surplus in 1961.

The item "net saving plus net investment in durable consumer goods" provides an alternative saving concept which is relatively most significant for the household sector (but, of course, affects the national total as well). The rate of saving including such investment shows a slightly greater increase than the rate of net saving exclusive of it. If household income and saving could be isolated, the effect of this addition would be more pronounced. This follows from the increased share of the household budget spent on durable goods, a long-run trend which greatly accelerated in 1961, when purchases of such

[1] This double approach provides independent estimates of the saving of each sector, including the total of all domestic sectors and the rest-of-the-world sector. A grand total of all the domestic sectors plus the rest-of-the-world sector would not be independent. Domestic plus foreign saving (for Israel) must equal domestic real investment in both tables. The figures for any given sector may differ, because its net financial investment (or net change in financial assets) is derived independently in the two methods. In Table XIX–3 the figures are derived from the sectors' real transactions. In Table XIX–5 they are directly computed from sectoral financial accounts (see Chapter XV—"Flow of Funds").

TABLE XIX–4

The Financing of Domestic Investment 1959–61

(at current prices)

	1959		1960		1961	
	IL. million	*%*	*IL. million*	*%*	*IL. million*	*%*
Gross investment[a]	1,008	100.0	1,024	100.0	1,329	100.0
1. Saving to cover depreciation	316	31.3	361	35.3	430	32.4
2. Saving net of depreciation	95	9.4	32	3.1	155	11.7
Total domestic financing (gross national saving)	411	40.8	393	38.4	585	44.0
3. Unrequited transfers	500	49.6	566	55.3	634	47.7
4. Net long-term private credit and equity finance from abroad[b]	27	2.7	78	7.6	82	6.2
5. Other credit from abroad, net[b]	70	6.9	–13	–1.3	28	2.1
Total foreign financing[c] *(net capital import)*	597	59.2	631	61.6	744	56.0
Total financing of gross investment	1,008	100.0	1,024	100.0	1,329	100.0
Net investment[a]	692	100.0	663	100.0	899	100.0
1. Domestic financing (net national saving)	95	13.7	32	4.8	155	17.2
2. Total foreign financing (net capital import)	597	86.3	631	95.2	744	82.8
Total financing of net investment	692	100.0	663	100.0	899	100.0

[a] Adjusted, as in other tables, for public sector inventory changes.
[b] SOURCE: Balance of payments data. Col. (4)+(5) equals implied net financial investment (item 7 in Table XIX–3).
[c] Total foreign financing (or net capital import) has to equal the goods and services import surplus, although total or gross capital imports may exceed it, and have in fact done so. The excess, however, goes into additional reserves of gold and foreign currency (as well as the small-scale purchase of foreign securities) and technically constitutes a form of capital export, since it is actually an investment in financial claims against the rest of the world.

commodities rose more than twice as fast as in any of the three preceding years.

"Net saving plus unrequited transfers from abroad" suggests an even more unusual, yet quite significant saving concept, namely, the extent to which a sector has managed to forgo consuming the total liability-free resources (i.e. earned income plus transfer receipts) accruing to it during the year. Thus it exactly equals the net increase in the sector's assests (i.e. its increase in net worth). In the relation between saving so defined and disposable income plus receipts from abroad, the private business and household sectors showed no change in 1961 as compared with 1960 (see Table XIX–3).[1]

The breakdown of the increase in net worth (item 5) by real investment (item 6) and financial investment or net credit (item 7) reveals a striking growth in the investment of households and business enterprises in real assets, a growth far exceeding the increment in saving and transfer receipts together, and which was made possible only by a large increase in indebtedness (i.e. negative financial investment).

In 1961 the share of national saving in the financing of domestic investment rose as compared with that of capital import, reaching a new high of 17 per cent. This occurred simultaneously with a considerable advance in domestic investment. Nevertheless, national saving still accounted for only a small part of the total figure. Economically motivated private foreign investment ("net long-term private credit and equity finance from abroad")[2] did not expand noticeably in 1961, but it was much higher than in 1959 and the preceding years. The fact that the import surplus rose more than unrequited transfers plus profit-seeking foreign investment meant there was an increase in other net indebtedness as well (see Table XIX–4).

3. The Balance Sheet Approach to Saving, by Sector

Table XIX–5 presents data on the saving of the various sectors as estimated from changes in their balance of assets and liabilities. The data available, however, do not make possible a distinct separation between the household and private business sectors. For several important items, such as household credit to business (including the purchase of shares) and business credit to households (e.g. consumer credit), no quantitative data are available, only information of a general sort. For this reason, the total figures for households plus private business are more reliable than the breakdown between them.

Table XIX–5 does, however, reduce the household and business enterprise sector of Table XIX–3 by separating from it the public sector companies, banking and financial institutions, provident funds, and insurance companies.

The saving figures derived according to the balance sheet method (Table XIX–5) fall short of those based on estimates of income and consumption (Table XIX–3), both as regards households and private business and as regards

1 This was due to the fact that unrequited transfers grew relatively less than domestic income.

2 These figures are taken from balance of payments data. However, independent data on the flow of funds and Treasury data on securities sold to foreigners suggest a higher figure for 1961.

the domestic economy as a whole, while saving from the rest of the world (i.e. net financial inflow) is greater by a corresponding amount. This difference might in principle be explained by the investment of private business in inventory, which was not reflected in the estimated investment in real assets. This, however, implies that the import surplus in Table XIX–3 is underestimated. Alternatively, it could result from errors in the sectoral financial accounts, which exaggerate the net increase in liabilities of the economy as a whole and hence of the private business residual. Either explanation would increase total domestic and private business saving in Table XIX–5, rather than lower the figures reached in Table XIX–3 (the first by increasing the assets shown in Table XIX–5, the second by reducing the liabilities). For this reason and because Table XIX–3 employs the more direct method of determining saving, the data presented therein must be preferred.[1] The differences between the two tables are labelled "unidentified saving plus errors" in Table XIX–5 (col. 8).

Despite these large absolute discrepancies, the changes in overall public and private saving (and in household and business saving) from 1960 to 1961 indicated by Table XIX–5 are similar to those found in Table XIX–3.

As to the other sectors, the main results revealed by Table XIX–5 are as follows: The level of saving of the non-profit institutions (as is also borne out in Table XIX–3) and public sector companies remained roughly the same as in 1960.[2] Banking and financial institutions substantially increased their saving (as may be seen from the gross saving figures), while the insurance companies showed a smaller advance (the "financial saving" of the provident funds are regarded as part of household saving).

The proper interpretation of the discrepancies between the results of the income account and balance sheet approaches should become clearer as research is pursued in the latter method and the flow of funds between the various sectors. In the meantime it provides a breakdown of the saving totals for each sector in terms of real and financial asset changes, capital movements, depreciation, etc.[3] Total figures reached for the public sector and non-profit institutions agree with and corroborate the results of the income-consumption approach.

1 The inherent improbability of negative net saving by private business (as shown in Table XIX–5) is additional evidence that the total figures (private business is the residual) are too low.

2 The public sector companies include those which as a rule earn a net profit and those which generally incur a net loss (especially Amidar). It may also be noted here that the revision of depreciation by sectors since the 1960 report reduced the depreciation of this sector relative to its net change in real assets. The change in such assets during 1960 as shown in Table XIX–5 is greater than that appearing in the 1960 Bank of Israel Annual Report because of the addition of Amidar and other companies to this sector.

3 A breakdown of the financial asset changes is found in Chapter XV—"Flow of Funds".

TABLE XIX-5

Balance Sheet Approach to Saving, by Major Sectors, 1959–61

(IL. million)

	Change in real assets[a]	*Domestic capital transfer receipts*[b]	*Transfers from abroad*	*Change in financial assets, less liabilities*[c]	*"Identified" gross saving (1)–(2)–(3)+(4)*	*Deprecia-tion*	*"Identified" net saving (5)–(6)*	*"Unidentified" saving and errors*[d]
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1961								
1. Public sector	210	33	263	142	57	47	10	—
2. Non-profit institutions	54	2	88	–15	–51	17	–68	2
3. Public sector companies	245	–5	—	–150	100	80	20	
4. Banking system and financial institutions	5	—	—	34	39			
5. Provident funds and insurance companies	6	—	—	8	14	193	–12 } 114	
6. Private business enterprises[e]	502 } 808	–10	—	–384 } –208	128 } 347			
7. Households[e]	306	–20	283	176	219	93	126	
8. Subtotal (3) to (7)	1,063	–35	283	–316	499	366	133	78
9. Total domestic sector[e]	1,329	—	634	–189	505	430	75	80
10. Rest of the world	—	—	–634	189	823	—	823	–79
1960								
1. Public sector	150	29	228	74	–33	39	–72	—
2. Non-profit institutions	53	2	86	–14	–49	14	–63	–1
3. Public sector companies	228	– 5	—	–134	99	65	34	
4. Banking system and financial institutions	8	—	—	8	16			
5 Provident funds and insurance companies	3	—	—	5	8	165	–19 } 76	
6. Private business enterprises[e]	333 } 582	– 9	—	–220 } -60	122 } 296			
7. Households[e]	249	–17	252	160	174	79	95	

8. Subtotal (3) to (7)	821	-31	252	-181	419	309	110	58
9. Total domestic sector	1,024	—	566	-121	337	361	-24	56
10. Rest of the world	—	—	-566	121	687	—	687	-56
1959								
1. Public sector	162	23	236	57	-40	33	-73	-1
2. Non-profit institutions	53	5	85	-16	-53	11	-64	4
3. Public sector companies	165	- 5	—	-85	85	56	29	
4. Banking system and financial institutions	4	—	—	27	31			
5. Provident funds and insurance companies	2	—	—	9	11	146	204	
6. Private business enterprises[e]	433	- 8	—	-88	377			
7. Households	189 } 622	-15	179			69		
8. Subtotal (3) to (7)	793	-28	179	-137	504	271	233	-4
9. Total domestic sector	1,008	—	500	- 96	411	316	96	-1
10. Rest of the world	—	—	-500	96	596	—	596	1

[a] Derived from balance sheet changes of each domestic sector. The change for private business enterprises is derived as the residual of gross domestic capital formation (plus change in public sector inventories), less changes for all other sectors. Except for public sector inventories, total domestic figures do not intentionally include changes in inventories. The figure for private business enterprises has been adjusted upwards and that for households downwards for the estimated increase in housing under construction. This adjustment amounted to IL. 50 million in 1961, IL.32 million, in 1960, and IL.65 million in 1959. (See footnote [a] in Table XIX-6. Further explanation is given in the Appendix—in Hebrew only.)

[b] Based on capital transfer receipts and payments of the public sector.

[c] Based on balance sheets constructed for each sector for flow of funds analysis (Chapter XV). With the exception of one adjustment (which does not affect the saving figures), the sectoral figures shown here are consistent with those in Chapter XV.

[d] The difference between the saving figures derived in Table XIX-3, according to the income account approach, and those derived here (in column 7). Conceptually, this column includes saving through increases in assets (or reduction of liabilities) not identified (i.e. not included) in the relevant columns of this table. In addition, it may also include errors in the estimation of figures in the columns from which column 7 is derived.

[e] The separate figures for households and for private business enterprises exclude the flow of credit between them; hence the total for both is a more reliable figure.

4. Detailed Household Balance Sheet

Table XIX–6 summarizes the relatively reliable information available concerning the forms in which households invest their savings—or, to put it differently, the changes in assets, liabilities, and capital transfers which constitute household saving.

The changes in credit, or debt, are identified here in terms of immediate rather than ultimate sources and destinations. The most conspicuous changes were as follows: Real assets grew at a considerably higher rate than in 1960, whether we consider housing alone or include durable consumer goods. Among the financial assets one can discern a definite shift away from local non-linked currency deposits (e.g. demand deposits, approved saving schemes, other time deposits, and deposits in financial institutions), all of which increased less than in 1960 or actually declined. Simultaneously, there was an increase in the share of dollar-linked deposits (PAZAK), foreign currency deposits, and securities (the quantitative growth of the last item is unknown). This may be explained by the same factors which increased the relative share of real assets in total assets. No data are available as to the changes that took place in the volume of direct credit extended to private business, but the spread of the practice on the part of the banks of trading in commercial notes suggests an increase in such credit. Further substantiation of this conjecture may possibly be found in the rise in bank guarantees.[1] Security holdings almost certainly increased substantially, although no figure is hazarded in Table XIX–6. However, both Table XIX–7 and other data support this conclusion.

On the liabilities side, the largest increase, as might be expected, was in debts to mortgage banks. The decline in debts to other financial institutions was partly attributable to the merging of many subsidiary financial institutions with their parent banks, following the amendment of Bank of Israel directives pertaining to this matter.

The information presented in Tables XIX–6 and XIX–7 is insufficient to enable one to definitely determine whether the rate of household saving (or its real absolute volume) increased or decreased in 1961.[2] All the main unknowns on both sides—direct credit to business and investment in securities on the assets side, and customer credit on the liabilities side—apparently increased.[3] If the growth in assets predominated, as is likely, it can be concluded that household saving expanded, both absolutely and relative to income.

[1] See Chapter XIV on the banking institutions.

[2] The income of households as such cannot even be statistically separated as yet from that of private business.

[3] The volume of credit extended by households to contractors as an advance on the purchase of homes and that extended by contractors to those buying finished homes are also unknown.

TABLE XIX–6

Detailed Balance Sheet Approach to Household Saving, 1959–61

(IL. million—at current prices)

	Increase or decrease (–) as against previous year		
	1961	*1960*	*1959*
Changes in real assets			
1. Gross national investment in housing	364	293	274
2. Less: Dwellings held by Amidar and Development Authority	8	12	20
3. Less: Dwellings held by other contractors [a]	50	32	65
4. Dwellings owned by households (1)–(2)–(3)	306	249	189
5. Gross investment in consumer durable goods	265	214	194
6. Total change in real assets (4)+(3)	571	463	383
Changes in financial assets			
7. Cash	30	26	6
8. Demand deposits	34	64	36
9. Approved saving schemes	14	12	7
10. PAZAK accounts (linked to the exchange rate)	43	18	19
11. Other IL. time deposits in banks	—	23	11
12. Post Office deposits	– 1	1	1
13. Time deposits in foreign currency	36	34	25
14. Claims on provident funds [b]	112	95	83
15. Claims on insurance companies [c]	7	6	5
16. Deposits in mortgage banks and other savings institutions	–10	–14	10
17. Savings-for-Housing deposits	11	19	15
18. Domestic securities [d]	j	j	j
19. Foreign securities [e]	17	13	10
20. Direct credit to business enterprises [f]	j	j	j
21. Credit to non-profit institutions	4	6	*
22. Total measured change in financial assets [g]	297	303	228
23. Total actual change in financial assets	j	j	j

[a] An explanation of the estimate appears in the Appendix (in Hebrew only).
[b] The change in all financial assets of the funds (except severance pay funds).
[c] The change in the life insurance funds of all companies operating in Israel.
[d] The available data do not permit a quantitative estimate for households alone. Table XIX–7 shows a large increase in the residual constituting the investment of households, business enterprises, and foreign residents. There are strong indications that households shared in this growth (in 1960 there was scarcely any change in securities held, but in 1959 there was an increase, although a smaller one than in 1961).
[e] Securities purchased from TAMAM accounts.
[f] The figure is unknown, but it appears that there was an increase in 1961. (For explanation of the trade in notes, see Chapter XIV—"The Money Supply, Credit, and the Banking System".)

Table XIX–6

Detailed Balance Sheet Approach to Household Saving, 1959–61 (continued)

(IL. million—at current prices)

	Increase or decrease (–) as against previous year			
	1961		1960	1959
Changes in liabilities				
24. Debt to banking institutions	22		13	7
25. Debt to provident funds	20		11	10
26. Debt to insurance companies	5		4	1
27. Debt to private mortgage banks	2		1	—
28. Debt to public mortgage banks	83	53	60	44
29. Debt to other financial institutions	–32		–4	8
30. Debt to Amidar Ltd.	18		24	22
31. Debt to other public sector companies	–1		–9	j
32. Debt to business enterprises[h]	j		j	j
33. Debt to non-profit institutions	6		8	j
34. Debt to public sector—direct	10		9	j
35. Total measured change in liabilities	133		117	92
36. Total actual change in liabilities[h]	j		j	j
Capital transfers				
37. Transfers from abroad	283		252	179
38. Transfers to public sector	20		17	15
39. Total capital receipts (38)+(39)	263		235	164
Depreciation				
40. Depreciation of buildings[i]	93		79	69
41. Depreciation of durable consumer goods	110		89	72
42. Total depreciation	203		168	141
43. Total net saving (excluding durable consumer goods)	j		j	j
44. Total net saving (including durable consumer goods)	j		j	j

[g] The discrepancies between the financial asset and liability changes shown in this table and those in column 4 of Table XIX–5, based on the flow of funds calculations, arise in part from the fact that an allocation of securities to households and others is included in Table XIX–5, but no quantitative allocation was attempted here.

[h] The difference between the measured and total change in household debts is related to the size of the debt to business enterprises for the purchase of homes and durable consumer goods. Credit connected with the purchase of durable consumer goods, even if it did increase in 1961, could not have grown by more than a few million Israel pounds, in view of its short-term nature.

[i] Computed as total depreciation on housing, less depreciation on public rental housing and 40 per cent of the depreciation on private rental housing under rent control.

[j] Unknown.

TABLE XIX-7

Changes in Balances of Domestic Securities, by Sectors, 1960–61

(IL. million)

	1960	*1961*
1. Net domestic issues		
Public sector securities	21	24
Non-public sector, public and private issues (net)	219	509
Total net domestic security issues[a]	240	533
2. Changes in holdings by:		
Banking institutions	24	17
Provident funds	56	123
Insurance companies	5	9
Financial institutions	8	9
Public sector	64	120
Public sector companies	3	4
Total	160	282
3. Changes in holdings of households, business enterprises, and foreign residents (1)–(2)	80	251
4. Estimated share of rest-of-the-world sector in (3)	[b]	30–60%

[a] Equals total of issues approved during the year by the Treasury, and includes bonus shares and shares issued in exchange for debts or other shares.
[b] Unknown.

5. BALANCE SHEET APPROACH TO AGRICULTURAL SAVING

Table XIX–8 presents a broad breakdown of the changes in the balance sheet items of the agricultural sector insofar as they pertain to agricultural operations. The change in real assets includes only gross investment in agricultural assets, as opposed to housing or industrial investment. The long-term credit extended and repaid has been similarly adjusted to exclude items unrelated to agriculture. The data which are missing to complete the picture are short-term credit extended to distributors (i.e. accounts receivable) and changes in share-holdings in cooperative distributing organizations such as Tnuva. Investment as direct or indirect partners in industrial undertakings is not relevant to this table. On the liabilities side, information is lacking about debts to suppliers. It is likely, but not certain, that this item and credit to distributors roughly offset each other.

The lack of data on "other debts" is more serious, since this item includes credit from "black market" sources used for agricultural purposes, and hence it may change from year to year. Available information, however, suggests that such indebtedness decreased slightly in 1960 and by a greater amount in 1961, as a result of Government credit channelled to farmers for this purpose. The

TABLE XIX-8

Balance Sheet Approach to Agricultural Saving,[a] 1959/60 and 1960/61

(IL. million)

	1959/60	1960/61
1. Change in assets		
Real investment by farms (including inventory)	113.5	96.3
Financial assets	a	a
Total change in assets	113.5	96.3
2. Change in liabilities		
Bank credit (short-term)	13.4	13.7
Long-term credit[b]		
Credit received	70.0	62.0
Less: Repayments	–9.0	–12.0
Total long-term credit	61.0	50.0
Various creditors[c]	a	a
Total known change in liabilities	74.4	63.7
3. Gross "identified" saving (1)–(2)	39.1	32.6
4. Depreciation	45.6	51.0
5. Net "identified" saving (3)–(4)	–6.5	–18.4
6. Net actual saving	a	a

[a] Unknown.
[b] Including credit from the National Institutions, local authorities, and Israel Bank of Agriculture.
[c] Including "black market" credit and credit from suppliers.

amounts diverted to this end were about IL. 3 million in 1960 and IL. 20 million in 1961.

If we assume that these figures represent the maximum reduction of "other debts" in these two years, and that the other changes mentioned above offset each other, then there was virtually no change in net agricultural saving from 1960 to 1961.