

## CHAPTER III

### FOREIGN TRADE AND THE BALANCE OF PAYMENTS

#### 1. DEVELOPMENTS IN THE BALANCE OF PAYMENTS

In contrast to 1954, there were, during 1955, unfavourable developments in the balance of payments. The deficit in the commodity trade balance increased from \$ 208 millions in 1954 to \$ 251.9 millions in 1955. The deficit in the current balance, i.e. the balance of trade in goods and services, rose from \$ 240 millions to \$ 303.7 millions. The surplus in the balance of grants and unrequited payments, which stood at \$ 279.6 millions in 1954, fell to \$ 224.4 millions in 1955. However, the latter balance shows a more encouraging picture if the Consolidation Loan, representing a liability of the United Jewish Appeal in future years, is not regarded as a donation but as an ordinary loan. In this case, the surplus in the balance of grants and unrequited payments amounts to \$ 226.8 millions in 1954 and to \$ 218.1 millions in 1955, the reduction in the surplus thus being relatively small.

The total of both the above balances, i.e. the balance of goods and services and the balance of unrequited payments, shows an overall deficit of \$ 79.3 millions in 1955, while in 1954 it showed a surplus of \$ 39.6 millions. (Again, this difference is much reduced if the Consolidation Loan is not included among donations). The deficit in the total of these balances was covered by increasing the State's foreign indebtedness. The net foreign liabilities of the Israel economy increased by some \$ 80 millions in 1955, while in 1954 they were reduced by some \$ 40 millions\*.

It must be noted that the main increases took place in the economy's long term liabilities. A considerable part — over \$ 25 millions — of the increase in long term liabilities is represented by obligations in Israel currency to the United States Government, arising from the fact that surplus food stocks and a part of the U.S. Grant-in-Aid were turned over to Israel in 1955 in the form of a loan, while in 1954 they were given as donations. If these obligations are deducted from total liabilities, the latter will show a net increase of some \$ 35 millions, rising to \$ 55 millions, if net errors and omissions are assumed to relate to the balance of capital movements.

The deterioration in the balance of payments for 1955, as against 1954, is thus mainly due to two factors:

- a) Almost the entire Consolidation Loan was granted during 1954 and, while this loan totalled \$ 55.6 millions in that year, it amounted to only \$ 6.3 millions in 1955.

\* In fact, the balance of capital movements shows a net reduction of \$ 20 millions in the State's foreign indebtedness during 1954, and an increase of some \$ 60 millions in 1955. It should be assumed, however, that most of the net errors and omissions relate to the balance of capital movements.

- b) The decline in the current balance, in which the deficit increased by \$63.7 millions.

While the first of these phenomena was expected, and indeed planned, the second stands in marked contrast to the development in previous years and requires explanation. The increased deficit in the current balance occurred mainly for the following reasons, which are not necessarily enumerated in the order of their importance:

*i. Rising Prices in Foreign Markets*

As long as imports of goods and services exceed exports, any price increases in the world market, even if unaccompanied by a deterioration in the terms of trade, i.e. equally affecting import and export commodities, will increase the deficit in the current balance; always providing, of course, that the volume of imports and exports remains unchanged. In fact, import and export prices rose during 1955 to almost the same extent: import prices rose by about 6.5 per cent, the prices of imported goods rising by 7 per cent, while the price of imported services increased by 4.9 per cent. Export prices rose by some 5.3 per cent. The rise in import prices was mainly caused by two factors:

- (a) An increase in transport charges: marine transport charges rose considerably during 1955\*. It is estimated that this factor alone would have caused the c.i.f. prices of Israel's imports to rise by 3 to 4 per cent.
- (b) Increases in producers' prices abroad: though the price of some commodities fell, especially food prices (the Israel economy benefiting particularly from the cheapness of surplus American agricultural produce), there was an increase in the average f.o.b. prices in supply centres. This applies particularly to imports of investment goods purchased in the West German market, where prices in the machinery and metal goods branches rose by as much as 10 to 30 per cent.

If the volume of both imports and exports had remained fixed at the 1954 levels, the rise in c.i.f. prices would have increased expenditure on imports of goods and services to some \$400 millions, while the value of exported goods and services would have risen to approximately \$143 millions. The deficit in the current balance would thus have amounted to \$257 millions, or \$17 millions more than in 1954. In other words, about a quarter of the additional deficit in the current balance for 1955 is due to rising prices.

*ii. Increased Payments on Account of Capital Servicing*

The payments of interest, dividends and profits to foreign residents and foreign institutions increased from \$19 millions in 1954 to \$30.5 millions in 1955. The deficit under this head rose from \$16.7 millions in 1954 to \$27.5 millions in 1955,

\* During most of the year, the freight rates charged by liners rose by 10 per cent on European lines and by 15 per cent on American lines; there was no change in Mediterranean freight charges on Israel-bound vessels. On the other hand, charter rates for a single journey rose by 50 to 60 per cent and charter rates for longer periods by more than 100 per cent.

i.e. by approximately \$11 millions. This increased deficit resulted almost entirely from interest payments to holders of savings bonds of the Independence and Development Loans, due for the first time in March 1955. Though this interest was not paid out in cash, it represents an increase in the Government's obligation towards the bond holders.

*iii. Greater Increase in Domestic Absorption than in Output*

According to available estimates presented in Chapter II, net national product, at 1954 prices, increased in 1955 by IL. 163 millions. National absorption, i.e. consumption and domestic net investment, rose by IL. 244 millions. The difference of IL. 81 millions (approximately \$45 millions) between the increase in absorption and the increase in output necessarily constitutes a rise in negative investment abroad and, thus, an increase of the deficit in the current balance.

The fact that absorption rose more than the value of the increase in output was, to a large extent, due to a relative increase in domestic demand. This strong monetary demand caused a slowing down in the increase of production in branches producing import substitutes or exports, thus reversing the trend of previous years. Moreover, the booming monetary demand caused a rise in the physical volume of imports. In the Israel economy, the volume of imports is almost completely determined by the number of import licences which the Government issues, and the Government, through the various competent authorities, largely surrendered to the pressure exerted by monetary demand. A considerable proportion of the increase in absorption was caused by the growth of governmental consumption by IL. 68 millions at 1954 prices — consumption which, in part, required the direct importation of goods and services. A significant part of the increase—some IL.92 millions—was due to increased net investment which, likewise, required a considerable measure of direct imports. Private consumption rose by IL. 84 millions. The Government could have reduced imports of consumption goods and, in this case, the increased monetary demand would have manifested itself by a greater demand for locally-produced commodities and a rise in the local price level. These factors, in turn, would have caused reductions in the volume of investment and of exports and at least a partial liquidation of the gains in the balance of payments. The Government, however, chose to slow down the rise in local prices by giving way to the pressure of monetary demand and by granting import licences for consumption goods.

On the other hand, quite apart from the fact that there was little increase of production for export either in existing or new branches owing to the booming internal demand, this same reason, together with others to be mentioned later, was undoubtedly largely responsible for the reduction in the physical volume of exports in many established export branches. The widely available alternative of selling output within the economy itself and the favourable prices obtainable in the local market, led to the virtual suspension of efforts to expand exports in many branches. No detailed research on this point is to hand; but an investigation of the situation, based

on fairly exact data, with regard to three agricultural commodities which are both exported and consumed locally, resulted in the picture shown in Table 14.

**TABLE 14**  
OUTPUT AND EXPORTS OF CERTAIN AGRICULTURAL PRODUCTS, 1953 TO 1955

	1953	1954	1955	<i>Change between 1954 and 1955</i>
<i>Groundnuts *</i>				
Total Output (in tons)	8,075	15,100	20,000	+ 4,900
Exports (in tons)	60	4,100	3,502	— 598
Exports as per cent of Output	0.75	27.1	17.5	— 9.6
<i>Bananas *</i>				
Total Output (in tons)	10,900	11,300	14,000	+ 2,700
Exports (in tons)	560	1,100	974	— 126
Exports as per cent of Output	5.1	10.0	7.1	— 2.9
<i>Eggs</i>				
Total Output (in thousands)	375,500	426,000	505,000	+79,000
Exports (in thousands)	378	5,364	4,093	— 1,271
Exports as per cent of Output	0.1	1.2	0.9	— 0.3

\* *The data for groundnuts and bananas relate to the Jewish years 5713, 5714 and 5715.*

SOURCE: *Calculations of the Bank of Israel from data supplied by the Ministry of Agriculture and the Central Bureau of Statistics.*

The changes which occurred during 1955 in the three commodities detailed above are all of the same character: a considerable rise in output was accompanied by smaller exports and thus, naturally, a lower percentage of total production was exported. Though special causes for the fall in exports can be found for each of the commodities described in Table 14 and the commodities themselves are not a representative sample, there can be no doubt that the situation reflects the influence of the rise in local demand on the reduction of exports. Furthermore, there can be no doubt that higher local demand contributed greatly to the 8 per cent drop in the physical volume of exports.

There are several reasons for the rise in domestic absorption exceeding the rise in output during 1955. These are detailed in other parts of this Report. Here it is sufficient to mention the following:

- (a) Increased investment in capital goods occurred in a number of branches. Investments in stocks also grew considerably. The increase in stocks resulting directly from imports of foodstuffs and metal goods alone amounted to more than \$8.5 millions in 1955.
- (b) As already stated above, Government expenditure was considerably increased, largely due to increased immigration and greater spending on defence.
- (c) Private consumption increased, both as a result of the population increase and owing to greater *per capita* consumption.

The additional investment was slightly larger than the rise in the deficit of the current balance and there was thus a slight increase in net investment. This increase

was relatively small; most of the increased output went to satisfy private and public consumption.

Other factors adversely affecting the current balance, as well as the increased payments on capital servicing mentioned above, though reflected in the size of absorption and of output, are dealt with separately, since they directly influenced imports and exports.

*iv. Difficulties Caused by Climatic Factors*

An important negative factor was the low rainfall, which directly affected the balance of trade causing, on the one hand, an increase in imports — especially imports of grains — and, on the other, a reduction in the citrus crop, and thus of citrus exports. Though changes in the domestic demand for citrus fruit may exercise a certain influence on the size of citrus exports, available data prove that this influence is small. In practice, the owners of citrus groves export the overwhelming proportion of fruit, providing it is of suitable quality. Thus, the smallness of the crop caused the considerable drop in citrus exports.

*v. Special Difficulties of Exporting within the Framework of Commercial Agreements*

Previous years have witnessed a continual rise in commodity exports to countries with which Israel is linked by trade agreements, both as regards the absolute value of these exports and the proportion of total exports they constituted. In 1955, however, the percentage of total exports represented by exports under trade agreements remained the same as in 1954, some 40.5 per cent, and there was virtually no change in their absolute value.

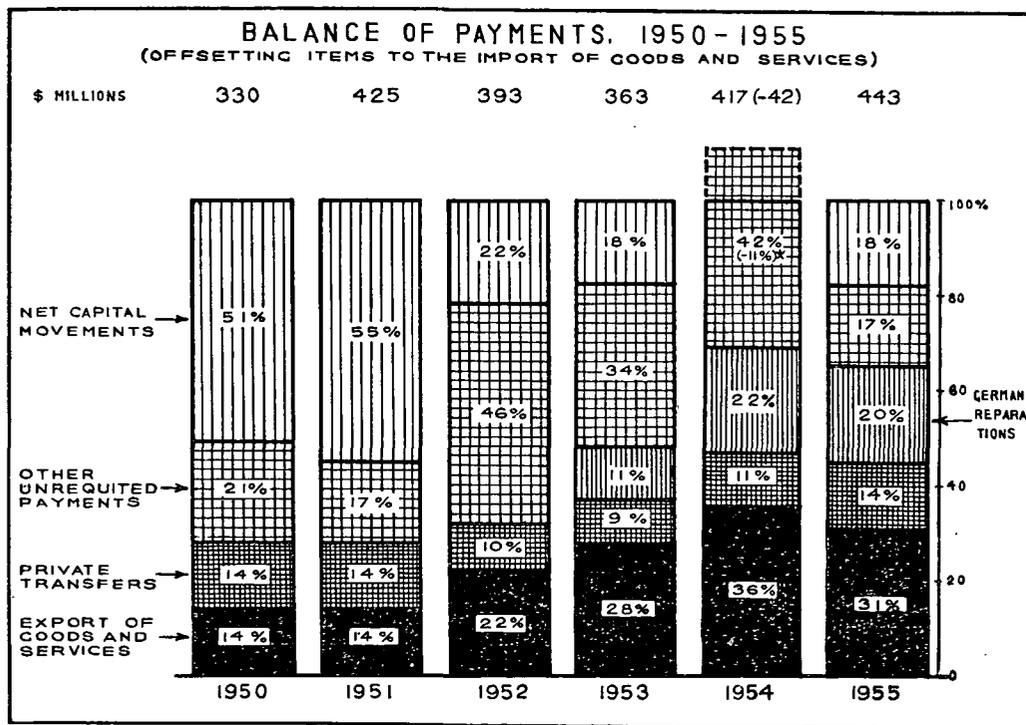
Apart from the general factors making for a standstill in exports, already mentioned above, special difficulties were encountered by export branches which generally send most of their output to countries linked to Israel by commercial treaties. This particularly applies to the motor car and cement industries. The relatively small increase in cement exports, in spite of a considerable rise in cement production, was not caused by a deliberate expansion of domestic absorption, but was the direct result of marketing difficulties abroad, especially in Turkey. The accumulation of large stocks of cement thus represents an involuntary investment, caused by these marketing difficulties.

It may possibly transpire that the difficulties of trading with Israel's two most important customers under existing trade agreements — Turkey and Finland — are temporary. But it is clear that these difficulties are inherent in the nature of this type of commerce and its usual development. Mutual trading under a commercial agreement is based on the assumption that both parties to the agreement implement restrictions on imports and payments, and that the price level within their respective economies of the commodities in which they trade is higher than the current prices of the commodities in the free international markets. Turkey and Finland serve as examples of two alternative developments in trade agreement markets, each of which can undermine the position of Israel's exports as long as these are based on such an assumption.

The Turkish economy experienced obvious inflation, far stronger and more rapid than in Israel. The considerable rise in prices in the Turkish market caused a tendency to restrict Israel's imports from Turkey, and the Israel economy was thus faced with three alternatives:

- (a) To continue encouraging imports from Turkey, in spite of the high, and continually rising, prices in this market.
- (b) To contract exports to Turkey.
- (c) To increase the credits granted to Turkey, i.e. to export capital abroad.

The damage which the adoption of the first or third alternative would cause is obvious and it therefore appears that in such a situation the contraction of exports cannot be prevented. Such a contraction was effected, *inter alia*, by lowering the rate of exchange of the clearing dollar *vis-à-vis* the Israel pound on exports to Turkey through the disagio. (A similar procedure was followed, albeit to a more limited extent, with regard to other countries with which Israel has trade agreements). Indeed, it is possible to use the rate of exchange as a means of ensuring fixed quantities and fixed local prices for imports and exports, even if the prices keep rising in the foreign market. But, quite apart from other difficulties, such a policy requires the implied consent of the foreign partner to the trade agreement and such consent cannot always be expected.



\* IN 1954, AS A RESULT OF DEBT REPAYMENTS, THE NET CAPITAL MOVEMENTS WERE NEGATIVE BY 11% OF THE VALUE OF IMPORTS OF GOODS AND SERVICES.

In contrast, Finland, as a trade agreement partner, exemplifies the gradual transition from an economy in which imports are controlled, to one where commerce is unrestricted. The latter type of economy will give no encouragement to imports from Israel and, if the prices of Israel exports exceed the corresponding prices in the world market, these exports will, of necessity, be reduced. It is to be expected that future developments in economies with which Israel is linked by trade agreements will increasingly be along these lines.

In spite of the fact that the signing of trade and payments agreements with economies that still restrict imports and control foreign transactions may encourage exports, it is unwise to place too much reliance on such agreements. Above all, care must be exercised not to make additional investments in branches dependent only on this type of export, which would prove uneconomical if required to compete in the free world markets.

**TABLE 15**  
THE BALANCE OF PAYMENTS, 1954 AND 1955  
(in \$ millions)

	1954			1955 (provisional)		
	Credit	Debit	Net Credit (+) or Debit (—)	Credit	Debit	Net Credit (+) or Debit (—)
<b>A. Goods and Services</b>	135.0	375.0	—240.0	138.9	442.6	—303.7
1. Goods	88.0	296.0	—208.0	86.2*	338.1	—251.9
2. Tourism and Travel	5.0	2.0	+ 3.0	7.3	3.0	+ 4.3
3. Transport	24.0	16.0	+ 8.0	26.0	16.0	+ 10.0
4. Insurance	12.0	13.0	— 1.0	12.4	13.0	— 0.6
5. Capital Servicing	2.3	19.0	— 16.7	3.0	30.5	— 27.5
6. Government Expenditure, n.e.s.	1.3	26.0	— 24.7	1.0	37.0	— 36.0
7. Miscellaneous	2.4	3.0	— 0.6	3.0	5.0	— 2.0
<b>B. Grants, Donations and Other Unrequited Payments</b>	286.4	4.0	+282.4	228.8	4.4	+224.4
<i>Private Transfers</i>						
8. Private Transfers by						
Residents and Immigrants	10.3	0.9	+ 9.4	10.2	1.0	+ 9.2
9. Net Foreign Investments	19.0	—	+ 19.0	24.2	—	+ 24.2
10. Personal Restitution from Germany	6.1	—	+ 6.1	18.8	—	+ 18.8
11. Gifts	6.5	—	+ 6.5	9.5	—	+ 9.5
<i>Transfers by the Government &amp; by Public Institutions</i>						
12. German Reparations	82.3	—	+ 82.3	88.7	—	+ 88.7
13. U.S. Grant-in-Aid and Technical Assistance	39.0	—	+ 39.0	23.1	—	+ 23.1
14. United Jewish Appeal and Other Institutions	34.3	2.8	+ 31.5	41.3	3.1	+ 38.2
15. Consolidation Loan	55.6	—	+ 55.6	6.3	—	+ 6.3
16. Transfers by Institutions in Kind	33.3	0.3	+ 33.0	6.7	0.3	+ 6.4
<b>Total A and B</b>	421.4	379.0	+ 42.4	367.7	447.0	— 79.3

TABLE 15 — continued

	1 9 5 4			1 9 5 5 (provisional)		
	Credit	Debit	Net Credit(+) or Debit(-)	Credit	Debit	Net Credit(+) or Debit(-)
C. <i>Net Capital Movements</i>	52.1	72.9	— 20.8	73.6	13.5	+ 60.1
<i>Long Term and Medium Term Loans</i>						
17. Independence and Development Bonds	29.2	—	+ 29.2	38.8	—	+ 38.8
18. Loan for the Purchase of U.S. Surplus Agricultural Produce	—	—	—	11.6	—	+ 11.6
19. Other Loans from U.S. Government	—	—	—	14.2	—	+ 14.2
20. Other Loans	22.9	—	+ 22.9	5.0	—	+ 5.0
<i>Short Term Capital Movements</i>						
21. Short Term Loans	—	37.7	—37.7	4.0	—	+ 4.0
22. Clearing Accounts	—	4.0	— 4.0	—	1.8	— 1.8
23. Foreign Deposits in Israel Banks	—	—	—	—	4.2	— 4.2
24. Foreign Currency Balances Abroad	—	31.2	— 31.2	—	7.5	— 7.5
25. Monetary Gold	—	—	—	—	—	—
<i>Total A, B, and C</i>	473.5	451.9	+ 21.6	441.3	460.5	— 19.2
Net Errors and Omissions	—	21.6	— 21.6	19.2	—	+ 19.2

\* After going to press, further information showed that commodity exports in 1955 amounted to some \$ 88 millions, i.e. approximately the same amount as in 1954. The figure of \$ 86.2 millions appearing in the table was taken from provisional data prepared by the Central Bureau of Statistics and was subsequently changed to \$ 86.4 millions. Furthermore, this figure does not include the sale of ships to the amount of \$ 1.3 millions. It is possible that there will be further changes in the value of commodity exports during 1955, since exact prices for some exports, especially citrus fruit, are not yet to hand.

SOURCE: *Economic Advisory Staff, the Ministry of Finance, various other sources and calculations of the Bank of Israel.*

Trade agreements are no substitute for other suitable ways of improving the current balance. This is proved by the decline that occurred during 1955 in exports to countries linked by such agreements with Israel, though, for the time being, this decline has not been particularly pronounced.

The following sections describe developments in Israel's international transactions during 1955 and deal with exports, imports, the balance of grants and other unrequited payments and the balance of capital movements.

## 2. EXPORTS

The total value of commodity exports fell slightly in 1955, in comparison with 1954, but the export of services rose by \$ 5.7 millions. Exports totalled \$ 138.9 millions

in 1955, of which \$86.2 millions were commodity exports and \$52.7 millions were exports of services.

**TABLE 16**  
EXPORT OF GOODS AND SERVICES, 1953 TO 1955  
(in IL. millions)

	1953	1954	1955	Change between 1954 and 1955	
				in IL. millions	in per cent
<i>At Current Prices:</i>					
Goods *	57	88	86.2	- 1.8	- 2
Services	46	47	52.7	+ 5.7	+12
<i>Total</i>	103	135	138.9	+ 3.9	+ 3
<i>At 1953 Prices:</i>					
Goods	57	82	76.0	- 6.0	- 7.3
Services	46	47	49.9	+ 2.9	+ 6.2
<i>Total</i>	103	129	125.9	- 3.1	- 2.4

\* See note to Table 15.

SOURCES: 1953 and 1954: *Economic Advisory Staff*;  
1955: *Calculations of the Bank of Israel*.

**TABLE 17**  
COMMODITY EXPORTS, 1953 TO 1955  
(in \$ millions)

Export Branch	1953	1954	1955	Change between 1954 & 1955	
				in \$ millions	in per cent
Citrus Fruit	19.5	33.7	30.2	-3.5	-10
Groundnuts	—	1.3	1.0	-0.3	-23
Other Agricultural Exports	0.2	0.6	0.6	—	—
<i>Total Agricultural Exports</i>	19.7	35.6	31.8	-3.8	-11
Citrus Products	2.5	2.8	2.1	-0.7	-25
Other Food Products	1.0	1.4	1.3	-0.1	- 7
Motor-Cars & Parts	5.3	7.1	3.5	-3.6	-51
Metals & Metal Products	1.7	3.9	4.6	+0.7	+18
Building Materials	2.0	4.1	4.7	+0.6	+15
Chemicals & Pharmaceuticals	1.3	2.4	3.4	+1.0	+42
Rubber Products	0.8	2.3	2.6	+0.3	+13
Materials and Products of					
Light Industry	1.5	3.0	3.3	+0.3	+10
Textile Materials and Products	5.3	4.6	6.1	+1.5	+33
Minerals	—	0.7	0.4	-0.3	-43
Other Industrial Exports	0.6	0.3	0.1	-0.2	-67
<i>Total Industrial Exports</i>	22.0	32.6	32.1	-0.5	- 2
Diamonds	12.7	15.6	19.9	+4.4	+28
Other Exports	2.1	4.0	2.4	-1.6	-40
<i>Total Exports</i>	56.5	87.8	86.2	-1.8	- 2

SOURCE: *Export Bulletin of the Ministry of Commerce and Industry and calculations of the Bank of Israel*.

Table 16 clearly shows that, while the income from exports rose slightly in 1955, their value at fixed prices fell. The prices of export commodities rose by an average of 5.6 per cent and the price of services by about 4.8 per cent.

#### A. *Export of Goods*

Though no serious change occurred in the total value of commodity exports, there were important changes in their composition. The most obvious of these were the rise in the value of diamond exports by 27 per cent, at fixed prices, while the value of industrial exports dropped by 8.5 per cent and that of citrus fruit by 18 per cent. Export figures computed at current prices show a similar picture. More detailed surveys of agricultural and industrial exports appear in Chapters VIII and IX. Table 17 describes the general situation.

All the data given above relate, of course, to the gross value of exports, including the import component. The economy's net income from exports can be calculated by isolating the added value of the exports. A general idea of the added value of Israel's exports can be obtained from Table 18, though the difficulties of such calculations reduce their absolute accuracy.

**TABLE 18**  
GROSS AND NET INCOME FROM EXPORTS, 1953 TO 1955  
(in \$ millions)

	1953			1954			1955		
	<i>Gross Income</i>	<i>Percentage of Added Value</i>	<i>Net Income</i>	<i>Gross Income</i>	<i>Percentage of Added Value</i>	<i>Net Income</i>	<i>Gross Income</i>	<i>Percentage of Added Value</i>	<i>Net Income</i>
Agricultural									
Exports	19.7	60	11.9	35.6	70	24.9	31.8	70	22.3
Industrial									
Exports	21.0	31	6.5	32.6	39	12.7	32.1	40	12.8
Diamonds	12.7	14	1.8	15.6	14	2.2	19.9	14	2.8
Other Exports	3.1	65	2.0	4.0	75	3.0	2.4	75	1.8
<i>Total</i>	56.5	39	22.2	87.8	49	42.8	86.2	46	39.7

SOURCE: 1953 and 1954: *The Economic Advisory Staff*;  
1955: *Calculations of the Bank of Israel.*

Table 18 shows that the average percentage of added value fell from 49 per cent in 1954 to 46 per cent in 1955. This was due to the smaller proportion of citrus exports, which have a high added value, and to the larger proportion of diamond exports, whose added value is low. On the other hand, the added value of industrial exports rose as a result of the drop in motor car exports, the added value of which being likewise low.

No major changes occurred during 1955 in the distribution of Israel's exports according to their destination, nor were there many changes in the types of commodities (agricultural, industrial or diamonds) purchased by the various countries. The four most important customers of the Israel economy — the United States, the United Kingdom, Turkey and Finland — continued to absorb some 60 per cent

TABLE 19

## EXPORT BY COUNTRY OF DESTINATION, 1953 TO 1955

Country of Destination	1953		1954		1955	
	in \$ m.	in per cent	in \$ m.	in per cent	in \$ m.	in per cent
United States	12.0	21.3	13.9	15.8	16.3	18.9
United Kingdom	15.0	26.5	19.4	22.1	16.1	18.7
Turkey	7.9	14.0	12.8	14.7	10.3	11.9
Finland	5.7	10.1	6.8	7.7	6.7	7.8
Belgium	1.3	2.3	3.0	3.4	3.6	4.2
Yugoslavia	0.3	0.5	1.7	1.9	3.2	3.7
Western Germany	—	—	1.6	1.8	2.7	3.1
Netherlands	1.8	3.2	2.4	2.7	2.5	2.9
Sweden	1.1	1.9	2.6	3.0	2.4	2.8
Norway	2.0	3.6	2.6	3.0	2.2	2.6
Switzerland	0.8	1.4	1.5	1.7	2.2	2.6
France	0.5	0.9	2.1	2.4	2.1	2.4
Other Countries	8.1	14.3	17.4	19.8	15.9	18.4
<i>Total</i>	56.5	100.0	87.8	100.0	86.2	100.0

SOURCE: *Export Bulletin of the Ministry of Commerce and Industry and calculations of the Bank of Israel.*

of Israel's total exports. As can be gathered from Table 19, the rise in exports to the United States was largely caused by increased exports of diamonds, while the smaller proportion of exports to the United Kingdom was the result of reduced citrus exports. Increasing difficulties of selling to Turkey greatly reduced the value of Israel's exports to that country. In all, Israel exported goods to more than 80 countries, although 70 of these made purchases which together totalled less than 20 per cent of exports. In this respect, the situation in 1955 was no different from that in 1954.

TABLE 20

ISRAEL EXPORTS ACCORDING TO TYPE OF PAYMENTS, 1954 AND 1955  
(in per cent of total)

	1954	1955
Payment in Hard Currency	58	57
Payment in Clearing Currency	35	38
Barter	7	5
<i>Total</i>	100	100

SOURCE: *Export Bulletin of the Ministry of Commerce and Industry.*

Countries with which Israel is linked by trade agreements play a most important part in the export programme, especially as regards industrial exports. In the past there were three main motives for the conclusion of trade agreements: the encouragement of exports; the facilitating of capital and property transfers by new immigrants; and the assurance of a steady supply of certain commodities. These circumstances changed with time and the encouragement of exports has recently become the sole important reason for maintaining these trade agreements. Specific arrangements concerning capital transfers are to-day included in only a very few trade agreements (e.g. in the agreement with the Netherlands).

The first commercial agreements were signed by Israel in 1949. By 1955, Israel was a party to 14 such agreements, as well as to one barter agreement and one payments agreement. While, in previous years, there was a continual and sizable increase in the trade between Israel and the countries with which she had trade agreements, there was, during 1955, almost no change in the proportion of Israel's total trade taken up by these countries.

**TABLE 21**  
TRADE WITHIN TRADE AGREEMENTS AS A PROPORTION OF ISRAEL'S TOTAL FOREIGN TRADE, 1949 TO 1955  
(in per cent)

<i>Year</i>	<i>Exports</i>	<i>Imports</i>
1949	0.3	3.6
1950	16.2	6.8
1953	39.7	13.5
1954	40.5	18.3
1955	40.7	18.6

SOURCE: *Calculations of the Bank of Israel.*

With the gradual removal of import restrictions in several countries with which Israel has trade agreements, the difficulties of exporting from Israel to these same countries increased. As a result, the volume of Israel's foreign trade with the countries of northern Europe was reduced. This especially applies to Finland, which is one of the most important customers for Israel's industrial exports. With the object of encouraging exports to Denmark, Finland and Norway, the Israel Government cancelled in April 1955 the disagio in force regarding this group of countries.

The commodities which Israel had been buying in Turkey became increasingly scarce and the prices of such goods obtainable from Turkey rose. Hence, Israel's imports from Turkey had to be restricted and this, in turn, brought about a reduction in Israel's exports to that country. In order to make an expansion of Israel purchases possible in Turkey, and thus ensure the continuation of exports to Turkey at a stable level, a special fund was created for the balancing of trade between the two countries. This fund is financed, in part, by the exporters, and subsidies are made from it, which lower the prices in Israel of Turkish imports.

The position of Israel's accounts with the various countries with which trade agreements have been signed is set out in Table 22.

There was, during 1954 and 1955, almost no change in exports to countries with which Israel has trade agreements. Exports totalled \$35.6 millions in 1954 and \$35.1 millions in 1955. There was also little change in the types of goods exported and their relative value.

Though exports to countries with which Israel has trade agreements accounted for only 40 per cent of total exports, industrial exports to these countries constituted, in 1955, as much as 62 per cent of Israel's total industrial exports. Some of the main export products, such as motor cars and tyres, are almost exclusively sent to these countries. Exports of agricultural products to these countries accounted for about 39 per cent of total agricultural exports, while only 5 per cent of the diamonds exported by Israel in 1955 were purchased by these countries. (See Table 23).

TABLE 22

BALANCE IN ISRAEL'S TRADE AGREEMENT ACCOUNTS, END OF 1954 AND END OF 1955  
(in \$ thousands)

Country	Details of Trade Agreement	Swing Ceiling	Balances on	
			31.12.1954	31.12.1955
Italy	Imports \$ 9 millions No quota for exports	800	— 265	— 705
Iceland	Unlimited balanced trade	420	+ 134	+ 252
Argentina	Imports \$ 1.5 millions Exports \$ 1.5 millions	750	— 971	— 362
Bulgaria	Imports \$ 1.5 millions Exports \$ 1.5 millions	250	—	+ 224
U.S.S.R.	Barter Agreement, balanced trade	—	— 556	+ 655
Denmark	Unlimited balanced trade	578	+ 432	+ 361
Hungary	Unlimited balanced trade	200	+ 166	— 95
Netherlands	Imports \$ 5.9 millions Exports \$ 5.0 millions	263	+ 899	+ 27
Yugoslavia	Imports \$ 3.5 millions Exports \$ 3.5 millions	500	— 263	+ 740
Greece	Payments Agreement, balanced trade	150	— 102	— 117
Norway	Imports \$ 2.42 millions Exports \$ 2.35 millions	699	— 688	— 423
Poland	Unlimited balanced trade	250	240	— 302
France	Exports quota of approximately \$ 3.5 millions	1,000	— 852	— 967
Finland	Imports \$ 8.4 millions Exports \$ 8.3 millions	2,000	+ 456	+ 881
Rumania	Imports \$ 2.55 millions Exports \$ 2.55 millions	250	+ 5	— 80
Turkey	Unlimited balanced trade	1,500	+ 1309	+ 1806

SOURCE: *Bank of Israel.*

TABLE 23

EXPORTS UNDER TRADE AGREEMENTS, IN COMPARISON WITH TOTAL EXPORTS, 1954 AND 1955  
(in \$ millions)

	1954			1955		
	Total Exports	Exports under Trade Agreements	Exports under Trade Agreements as per cent of Total Exports	Total Exports	Exports under Trade Agreements	Exports under Trade Agreements as per cent of Total Exports
Industrial and Other Exports	36.6	22.3	60.9	34.5	21.4	62.0
Agricultural Exports	35.6	13.0	36.5	31.8	12.6	39.6
Diamonds	15.6	0.3	1.9	19.9	1.1	5.5
<i>Total</i>	87.8	35.6	40.5	86.2	35.1	40.7

SOURCE: *Export Bulletin of the Ministry of Commerce and Industry and calculations of the Bank of Israel.*

## B. Export of Services

The income from services rose mainly as a result of increased revenues from tourism and communications (See Table 24).

**TABLE 24**  
EXPORT OF SERVICES, 1953 TO 1955  
(in \$ millions)

	1953	1954	1955	Change between 1954 and 1955	
				in \$ m.	in per cent
Transport	25.0	24.0	26.0	2.0	8
Insurance	12.0	12.0	12.4	0.4	3
Tourism	5.0	5.0	7.3	2.3	46
Various	4.0	6.0	7.0	1.0	17
<i>Total</i>	46.0	47.0	52.7	5.7	12

SOURCE: *Ministry of Finance.*

The main income under the head of transport was from freight charges on cargo, which totalled \$12.5 millions in 1955. Passenger transport brought in \$6.5 millions. Transport charges in general rose by about 7 per cent, so that the 1955 revenue from transport at 1954 prices was approximately \$24.3 millions.

Revenue from tourism increased considerably. The number of tourists rose from 35,000 in 1953 to 39,000 in 1954 and to 48,000 in 1955. This represents a rise of 23 per cent over the last year. Moreover, the average revenue per tourist also increased—from \$104 in 1953, to \$114 in 1954 and to \$135 in 1955\*. The rise in the income from tourism in 1955 shows the continuation of a trend which has become more pronounced over the past few years.

### 3. IMPORTS

There was a considerable rise in the imports of both goods and services during 1955. (See Table 25).

**TABLE 25**  
IMPORTS OF GOODS AND SERVICES, 1953 TO 1955  
(in \$ millions)

	1953	1954	1955	Change between 1954 and 1955	
				in \$ m.	in per cent
<i>At Current Prices:</i>					
Goods	282.7	296.0	338.1	+42.1	+14.2
Services	81.0	79.0	104.5	+25.5	+32.3
<i>Total</i>	363.7	375.0	442.6	+67.6	+18.0
<i>At 1953 Prices:</i>					
Goods	282.7	315.0	337.5	+22.5	+ 7.1
Services	81.0	79.0	99.6	+20.6	+26.0
<i>Total</i>	363.7	394.0	437.1	+43.1	+11.1

SOURCE: 1953 and 1954: *Economic Advisory Staff*;  
1955: *Central Bureau of Statistics, Ministry of Finance and calculations of the Bank of Israel.*

\* These figures are based on the amounts of foreign currency converted by tourists in banks and other institutions authorised for this purpose.

The prices of imported commodities rose in 1955 by an average of 7 per cent, while prices of imported services increased by 4.9 per cent. Foreign currency expenditure on imported commodities rose by 15 per cent, while the volume of commodity imports only increased by some 7 per cent. The total volume of commodity and service imports rose by 11 per cent.

#### A. Import of Goods

The increase in imports was not, however, uniform for the various kinds of goods. The composition of Israel's imports, arranged in accordance with their economic destination, is shown in Table 26.

**TABLE 26**  
COMMODITY IMPORTS BY ECONOMIC DESTINATION, 1953 TO 1955\*  
(in \$ millions)

	1953	1954	1955	Change between 1954 and 1955	
				in \$ m.	in per cent
<b>A. Manufactured Consumption Goods</b>	59.1	52.9	54.0	+ 1.1	+ 2
Food	35.1	32.9	30.5	— 2.4	— 7
Other Goods	24.0	20.0	23.5	+ 3.5	+17
<b>B. Raw Materials</b>	127.4	149.1	171.2	+22.1	+15
For the Food Industry	38.8	35.4	40.8	+ 5.4	+15
For Other Industries	70.1	97.2	102.9	+ 5.7	+ 6
For Agriculture, Fodder	10.1	8.7	14.5	+ 5.8	+67
For Agriculture, Other Materials	8.4	7.8	13.0	+ 5.2	+67
<b>C. Investment Goods</b>	64.9	64.3	77.9	+13.6	+21
Industrial Equipment	28.1	20.4	23.5	+ 3.1	+15
Agricultural Equipment	10.2	11.0	9.9	— 1.1	—10
Other Equipment	2.3	2.8	3.7	+ 0.9	+32
Building Materials	11.9	12.7	14.0	+ 1.3	+10
Transport	12.4	17.4	26.8	+ 9.4	+54
<b>D. Fuel</b>	31.3	31.3	34.2	+ 2.9	+ 9
<b>Grand Total</b>	282.7	297.6	337.3	+39.7	+13

\* These figures do not entirely correspond to those used in other parts of this Report, owing to the lack of uniformity between various sources.

SOURCE: Economic Advisory Staff and Central Bureau of Statistics.

The large increase in imports of investment goods is mainly due to the regulation of imports under the Reparations Agreement, which ensured that these mainly comprised investment goods. For example, it should be noted that, in 1955, imports of ships alone were valued at \$12.5 millions.

The rise in the prices of imported commodities was also not uniform. Table 27 shows changes in the volume of imports, in accordance with their economic destination.

**TABLE 27**  
COMPOSITION OF ISRAEL'S COMMODITY IMPORTS, AT CONSTANT PRICES, 1954 AND 1955  
(in \$ millions)

	1954	1955		Change between 1954 and 1955, at 1954 prices	
		at current prices	at 1954 prices	in \$ m.	in per cent
Consumption Goods	52.9	54.0	52.4	- 0.5	- 1
Raw Materials	149.1	171.2	160.8	+11.7	+ 8
Investment Goods	64.3	77.9	68.9	+ 4.6	+ 7
Fuel	31.3	34.2	32.6	+ 1.3	+ 4
<i>Total</i>	297.6	337.3	314.7	+17.1	+ 7

SOURCE: *Central Bureau of Statistics and calculations of the Bank of Israel.*

The volume of imports of consumption goods fell slightly in comparison with 1954, but the volume of other types of commodity imports rose considerably. It should be noted that most imports of raw materials are for eventual local consumption.

The increase in imports was proportionately greater than the increase in population during the same period. In 1953, the value of imports per head of the population was \$ 170.1, in 1954 it was \$ 171.7 and in 1955 it was \$ 190.5. In terms of 1953 prices, imports per head of population amounted to \$ 170.1 in 1953, \$ 183.6 in 1954 and \$ 190.4 in 1955, representing an increase of 3.7 per cent between 1954 and 1955.

Though Israel's imports were purchased in a large number of countries, the United States, West Germany and the United Kingdom remained the most important suppliers. Imports from these three countries formed 55.7 per cent and 58.5 per cent of total imports in 1954 and 1955 respectively. (See Table 28).

**TABLE 28**  
IMPORTS, ACCORDING TO MAIN SUPPLYING COUNTRIES, 1953 TO 1955  
(in \$ millions)

Country	1953		1954		1955	
	in \$ millions	in per cent	in \$ millions	in per cent	in \$ millions	in per cent
United States	89.1	31.6	79.5	26.9	93.2	27.6
West Germany	12.2	4.3	57.5	19.5	71.2	21.1
United Kingdom	29.8	10.6	27.4	9.3	33.3	9.8
Turkey	12.5	4.4	11.7	4.0	11.8	3.5
Netherlands	5.0	1.8	5.5	1.9	10.9	3.2
France	4.8	1.7	7.4	2.5	8.0	2.4
Finland	4.2	1.5	4.7	1.6	6.5	1.9
Italy	8.0	2.8	6.1	2.1	6.4	1.9
Switzerland	8.6	3.0	4.7	1.6	5.3	1.6
Yugoslavia	2.2	0.8	4.1	1.4	4.9	1.4
Canada	7.8	2.8	10.2	3.5	4.3	1.3
Belgium	12.4	4.4	6.3	2.1	3.2	0.9
Sweden	5.5	2.0	2.2	0.7	3.1	0.9
Other Countries	79.9	28.3	68.4	22.9	76.0	22.5
<i>Total</i>	282.0	100.0	295.7	100.0	338.1	100.0

SOURCE: *Central Bureau of Statistics.*

The importance of countries with which Israel is linked by commercial agreements ranks smaller in the import than in the export trade. During the last two years, these countries supplied some 18 per cent of Israel's total commodity imports.

The distribution of imports by payments areas is given in Table 29. The high proportion of purchases in countries belonging to the Organisation for European Economic Co-operation is mainly due to imports under the Reparations Agreement.

**TABLE 29**  
IMPORTS BY PAYMENTS AREAS, 1954 AND 1955  
(in per cent)

	1954	1955
O.E.E.C. countries	36.9	36.0
Sterling Area	11.9	13.7
Dollar Area	31.2	30.0
Eastern Europe	2.4	1.7
Other countries	17.6	18.6
<i>Total</i>	100.0	100.0

SOURCE: *Central Bureau of Statistics.*

#### B. *Import of Services*

The import of services is set out in Table 30.

**TABLE 30**  
IMPORTS OF SERVICES, 1953 TO 1955  
(in \$ millions)

	1953	1954	1955	<i>Change between 1954 and 1955</i>
Transport	17	16	16	—
Insurance	13	13	13	—
Travel & Tourism	2	2	3	+ 1
Capital Servicing	19	19	30.5	+11.5
Government Expenditure	27	26	37	+11
Various	3	3	5	+ 2
<i>Total</i>	81	79	104.5	+25.5

SOURCE: *Ministry of Finance.*

Payments for capital servicing in 1955 include the following items: dividends and profits — \$5 millions (of which \$3 millions remained in Israel); interest and bank commissions — approximately \$16 millions; accrued interest on Development Loan savings bonds — \$9.5 millions.

Payments of accrued interest on Development Loan savings bonds caused the large increase in the expenditure on capital servicing in 1955. No payments were made under this head in 1954.

#### 4. GRANTS AND OTHER UNREQUITED PAYMENTS

During 1955, grants and other unrequited payments did not reach the high level of 1954 and totalled \$224.4 millions. However, if the Consolidation Loan, both in 1954 and 1955, is deducted from total receipts and considered to be a debt

of the State, the volume of unrequited payments shows a decrease of only \$9 millions, from \$226.8 millions in 1954 to \$218.1 millions in 1955. (See Table 31).

**TABLE 31**  
GRANTS, DONATIONS AND OTHER UNREQUITED PAYMENTS, 1953 TO 1954  
(in \$ millions)

	1953	1954	1955	Change between 1954 and 1955
<i>Private Transfers</i>				
Private Transfers by				
Residents & New Immigrants	2.1	9.4	9.2	— 0.2
Private Foreign				
Investments (net)	21.9	19.0	24.2	+ 5.2
Personal Restitution				
Payments from Germany	3.3	6.1	18.8	+12.7
Gifts etc.	4.8	6.5	9.5	+ 3.0
<i>Transfers by the Government and Public Institutions</i>				
German Reparations	40.9	82.3	88.7	+ 6.4
U.S. Grant-in-Aid and Technical Assistance	47.3	39.0	23.1	—15.9
United Jewish Appeal and other Institutions	47.3	31.5	38.2	+ 6.7
Consolidation Loan	—	55.6	6.3	—49.3
Transfers in Kind by the Government and Public Institutions	27.1	32.0	6.4	—26.6
<i>Total</i>	194.7	282.4	224.3	—58.0

SOURCE: *Ministry of Finance and calculations of the Bank of Israel.*

The large drop in receipts from the Consolidation Loan was caused by the fact that most of this Loan was received in 1954 and only a small part in 1955. The Loan was granted by American Jewish communities to the United Jewish Appeal, with the object of consolidating the short-term debts of the State of Israel. It will be repaid gradually from the income of the United Jewish Appeal.

The reductions in the Grant-in-Aid and Government Transfers in Commodities are purely formal. The reason for the drop in income from the Grant-in-Aid is that a further \$14.2 millions which appears as a loan, is, in fact, a part of the Grant. In other words, the total received under the Grant-in-Aid and the Technical Assistance Programme during 1955 amounted to \$37.3 millions. The surplus agricultural produce received from the United States in 1955 was also given in the form of a loan, while in 1954 it was an outright gift. Agricultural surplus produce to the value of \$11.6 millions thus appears on the list of debts of the Government. Both these loans will have to be repaid to the U.S. Government in Israel currency.

The item, Transfers in Kind by Institutions, includes a sum of \$1.4 millions for the purchase of books in the United States within the framework of the Informational Media Guarantee Programme.

As against the various reductions described above, there was an increase in receipts under the Reparations Agreement and a still larger rise in personal restitution payments from Germany. The income from the United Jewish Appeal and the volume of foreign investments in Israel also increased.

The item, Foreign Investments, includes nearly \$17 millions of capital transfers in cash and goods, \$3 millions of redemptions for Israel currency of Independence and Development Bonds and \$3 millions of foreign investors' profits which were left in Israel. On the other hand, Israel's investments abroad, purchases of the shares of the Palestine Electric Corporation in London and investments in the *Incode* Company, totalling \$3.3 millions, have been deducted from the gross total of investments.

##### 5. CAPITAL MOVEMENTS AND DEBTS OF THE GOVERNMENT

Israel's foreign commitments in foreign exchange, i.e. debts of the Government and debts guaranteed by the Government, apart from contingent liabilities, rose from \$403.7 millions at the end of 1954 to \$450 millions at the end of 1955.

**TABLE 32**  
ISRAEL'S FOREIGN EXCHANGE COMMITMENTS, 1953 TO 1955

	31.12.1953		31.12.1954		31.12.1955		Change between 1954 and 1955	
	\$ millions	per cent	\$ millions	per cent	\$ millions	per cent	\$ millions	per cent
Long Term Liabilities	280.9	72	317.0	78	354.2	79	+37.2	+12
Intermediate Term Liabilities	48.1	12	58.9	15	65.5	14	+ 6.6	+11
Short Term Liabilities	63.9	16	27.8	7	31.0	7	+ 3.2	+12
<i>Total</i>	392.9	100	403.7	100	450.7	100	+47.0	+12

SOURCE: *Department of Foreign Exchange, Ministry of Finance.*

Table 32 shows that Israel's foreign exchange commitments increased in 1955 by \$47 millions, without any significant change in their composition according to dates of redemption.

Bonds of the Independence Loan and the Development Loan constitute a considerable proportion of long term liabilities. At the end of December 1953, the total value of such bonds was \$131 millions. By the end of December 1954, it had risen to \$160.1 millions, while at the end of December 1955 it stood at \$198.9 millions — an increase of \$38.8 millions in the course of 1955. (This total includes, as previously mentioned, accrued interest on savings bonds, to the value of \$9.5 millions). In other words, total liabilities, excluding the Independence Loan and Development Loan, increased by only \$8.2 millions during 1955.

In addition to ordinary loans, Israel received a loan of \$11.6 millions in 1955 from the United States Government for the purchase of surplus agricultural produce and a further loan of \$14.2 millions included in the Grant-in-Aid. These loans were granted for a period of 30 years and can be repaid in Israel currency.

The value of blocked accounts held in banks rose in 1955 by \$0.8 million.

At the end of 1954, the sum total of balances in Israel's accounts with countries linked to her by trade agreements showed neither credit nor debit. At the end of 1955, these accounts showed a credit balance in favour of the Bank of Israel of \$1.8 millions.

The deposits of foreign nationals and foreign institutions in Israel banks fell from \$15.2 millions at the end of 1954 to \$11 millions at the end of 1955, showing a decrease of \$4.2 millions.

Foreign currency balances at Israel's disposal increased by \$7.5 millions during 1955, while no change occurred in the stocks of monetary gold held by the Bank of Israel. Part C of the Balance of Payments (Table 15) shows the general picture of capital movements during the period under review. According to this, total net capital movements during 1955 show an increase of \$60 millions in Israel's liabilities.