

CHAPTER III

FOREIGN TRADE AND THE BALANCE OF PAYMENTS

1. THE BALANCE OF PAYMENTS

THE MOST important developments in Israel's balance of payments during 1956 arose from the large increase of security expenditure in foreign currency, which led to a deterioration of the balance. The deficit on current account (exclusive of security expenditure) grew only to a moderate extent, and, but for the security expenses peculiar to the year under review, an entirely different payments position might have evolved on current account and in the other components of the balance of payments.

Imports of goods and services increased by \$102 million in 1956, as against 1955, while exports of goods and services expanded by \$27 million. The deficit in the current balance thus grew by \$75 million, reaching approximately \$358 million. The increase of the deficit was much larger in 1956 than in 1955 (\$43 million), although the previous year had already been marked by a significant deterioration as compared with former years. On the other hand, excluding from the current account the item including government services, the current deficit will be found to total \$249 million in 1955 and \$264 million in 1956; the increase for the year is thus only \$15 million.

It may therefore reasonably be asserted that, had it not been for the larger volume of security expenses and changes in world market prices (the latter being quantitatively of lesser importance), the balance of payments would have improved by comparison with the trends evident in 1955. In fact, however, as a result of heavier security expenditure—with other outlays remaining undiminished—the balance assumed a different character.

The larger deficit in the current balance necessarily involves a greater surplus in the balance of unrequited receipts and in the capital account. Indeed, unrequited transfers increased somewhat, as a result of greater receipts from Jewish communities abroad. However, the growth of the deficit on current account was made possible chiefly by advances received on account of unrequited payments due in future years, and by an increase of the foreign debt. In 1956, net liabilities on capital account increased by \$93 million, whereas in 1955 they had increased by \$77 million, and in 1954 they had declined by \$21 million. The structure of these commitments is particularly disturbing. In contrast to 1955, which ended with a net expansion of long- and medium-term liabilities by \$82 million and a decline of short-term debts by \$5 million, long-term liabilities increased by \$72 million in the year under review and short-term liabilities by

TABLE III-1
The Balance of Payments, 1955 and 1956
(in \$ millions)

	1955			1956		
	<i>Credit</i>	<i>Debit</i>	<i>Net Credit (+) or Debit (-)</i>	<i>Credit</i>	<i>Debit</i>	<i>Net Credit (+) or Debit (-)</i>
A. Goods and Services	143.9	426.7	- 282.8	171.3	529.3	- 358.0
1. Goods	88.9	333.6	- 244.7	106.5	362.8	- 256.3
2. Tourism & Travel	7.3	2.2	+ 5.1	6.4	2.1	+ 4.3
3. Transport	26.9	16.9	+ 10.0	33.4	20.7	+ 12.7
4. Insurance	10.9	11.9	- 1.0	11.4	13.7	- 2.3
5. Capital Servicing	1.7	20.3	- 18.6	2.8	25.4	- 22.6
6. Government and Miscellaneous	8.2	41.8	- 33.6	10.8	104.6	- 93.8
B. Grants and Other						
<i>Unrequited Payments</i>	215.5	5.1	+210.4	248.8	5.7	+243.1
<i>Private Transfers</i>						
7. Private Transfers by Residents and Im- migrants	24.5	0.2	+ 24.3	26.6	0.3	+ 26.3
8. Personal Restitution from Germany	18.7	—	+ 18.7	25.7	—	+ 25.7
9. Gifts	10.8	—	+ 10.8	8.3	—	+ 8.3
<i>Transfers by the Government and by Public Institutions</i>						
10. German Reparations	87.5	—	+ 87.5	87.7	—	+ 87.7
11. U.S. Grant-in Aid	20.5	—	+ 20.5	6.7	—	+ 6.7
12. U.N. Technical Assistance	0.4	—	+ 0.4	0.4	—	+ 0.4
13. United Jewish Appeal and Other Institutions	41.3	4.5	+ 36.8	59.2	5.1	+ 54.1
14. Consolidation Loan	6.3	—	+ 6.3	28.8	—	+ 28.8
15. Transfers in Kind by Institutions	5.5	0.4	+ 5.1	5.4	0.3	+ 5.1
Total A and B	359.4	431.8	- 72.4	420.1	535.0	- 114.9

	1955			1956		
	Credit	Debit	Net Credit(+) or Debit(-)	Credit	Debit	Net Credit(+) or Debit(-)
<i>C. Net Capital Movements</i>	89.3	12.0	+ 77.3	121.6	28.5	+ 93.1
<i>Long-and Medium-term Loans</i>	84.1	1.6	+ 82.5	92.7	20.5	+ 72.2
16. Independence and Development Loans	32.2	—	+ 32.2	47.5	—	+ 47.5
17. U.S. Loans and Deposits within the Framework of the Grant-in-Aid	31.6	—	+ 31.6	40.7	—	+ 40.7
18. Other Long-Term Loans	—	1.6	- 1.6	—	6.2	- 6.2
19. Medium-Term Loans	6.6	—	+ 6.6	—	14.3	- 14.3
20. Net Foreign Invest- ments	13.7	—	+ 13.7	4.5	—	+ 4.5
<i>Short-Term Capital Movements</i>	5.2	10.4	- 5.2	28.9	8.0	+ 20.9
21. Short-Term Loans	4.0	—	+ 4.0	18.3	—	+ 18.3
22. Clearing Accounts	1.2	—	+ 1.2	3.0	—	+ 3.0
23. Foreign Deposits in Israel Banks	—	1.5	- 1.5	—	4.4	- 4.4
24. Foreign Currency Balances Abroad	—	8.9	- 8.9	7.6	—	+ 7.6
26. Monetary Gold	—	—	—	—	3.6	- 3.6
<i>Total A, B and C</i>	448.7	443.8	+ 4.9	541.7	563.5	- 21.8
<i>Net Errors and Omissions</i>	—	4.9	- 4.9	21.8	—	+ 21.8

SOURCE: Economic Advisory Office, Ministry of Finance, and Calculations of the Bank of Israel.

\$21 million. At the same time it should be noted that there was a certain improvement in the composition of long-term foreign commitments. The main increase of this item was due to the sale of Development Bonds (\$47 million in 1956, as against \$32 million in 1955) and to U.S. Government loans complementing the Grant-in-Aid, which are repayable in Israel currency thirty years after receipt. Other long- and medium-term loans in the amount of \$21 million, were repaid during the year.

However, attention should be drawn to the increases in certain items of the unrequited payments account which, although not formally constituting liabilities, are tantamount to forfeiture of foreign currency receipts in the not too distant future. This mainly applies to the so-called Consolidation Loans, which represent obligations of Jewish communities in the United States to banks abroad, and are repayable in future years out of the income of the United Jewish Appeal.

A loan of this kind, to the amount of \$55 million, was obtained in 1954—chiefly in order to consolidate the economy's short-term debts, and partly to create foreign currency reserves. In 1956, \$29 million were borrowed under similar conditions, to finance the deficit on current account, while net short-term indebtedness was allowed to rise by \$21 million, as already stated. The larger volume of payments on account of the German reparations agreement must likewise be noted, which means that this source is being drawn upon at an accelerated pace, and will necessarily be depleted sooner than originally intended. The disturbing growth of liabilities due for redemption in the near future, which occurred despite the earlier drawing upon foreign currency income accruable in future years, is summarized in table III-2.

TABLE III-2
Change in Foreign Liabilities Due for Redemption in the Near Future
(in \$ millions)

	1955	1956
Net Short-Term Liabilities ^a	- 5	21
Medium-Term Loans ^b	7	-14
Unrequited Receipts on Account of Future Years	22	47
<i>Total</i>	24	54

^a Up to 12 months.

^b One to five years.

SOURCE: Calculations of the Bank of Israel.

The increase of the deficit on current account (excluding Government expenditure) is equal to the additional deficit that would have been caused by higher prices, had the physical volume of imports and exports remained at its 1955 level. The price of commodity imports increased by 7 per cent in 1956—a rate of increase similar to that of 1955. As in the preceding year, this increase

was caused by higher freight charges and f.o.b. prices. Freight charges alone increased by 15 per cent. Export commodity prices likewise rose by 7 per cent, mainly because of a rise in the price of citrus fruit resulting from frost and poor crops in Spain, and the higher prices obtained for diamonds. In fact, the increase of both items, imports and exports, was larger than the amount accounted for by higher prices. In absolute terms, the physical volume of imports (other than Government purchases) expanded to an extent approximately equal to that of exports, but the relative increase of the latter was much greater.

The slight increase of imports (at constant prices) should be judged in consideration of the growth of the population, which was more rapid in 1956 than in the immediately preceding years. Import restrictions do not seem to have been tightened to any significant extent and the limitation of the growth of imports cannot, therefore, be ascribed to this factor. An important reason for the comparative stability of imports is the limited rise in private consumption relative to that of local output. While wage increases justified the expectation of a tendency to substitute import goods for local products, factors operating in the opposite direction prevented any pronounced fall in the relative prices of imported goods. One such factor, already mentioned, was the rise of import prices.

Another factor which was presumably operative in 1956 as in previous years (although to an unknown extent) was the rise of the actual domestic market prices paid for imported consumer goods. This was mainly caused by increased import duties. A further factor which probably favoured the demand for local goods in 1956, as in former years, was the improved quality of local products.

These trends—a fairly stable local demand for consumer goods, and the absence of any appreciable change in the relative prices of local and imported commodities—prevented an increase of demand for imports. This is borne out by the fact that the import of consumer goods and raw materials, at constant prices, actually declined by about 5 per cent (though the lack of data concerning stocks requires reservations concerning the economic significance of this decline). The growth in the total volume of commodity imports was due entirely to increased imports of investment goods, which, at constant prices, were approximately 30 per cent larger than in 1955. The import of investment goods is chiefly determined by the budgets of the Government and other public institutions, which provided in 1956 for larger imports of investment goods. At the same time, there was a growing private demand for such imports, largely owing to the reduced relative cost of foreign goods (the effective exchange rate for which remained unchanged) as compared with the higher cost of local factors of production.

Commodity exports in 1956 showed a remarkable expansion, the increase amounting to \$18 million, (about the same amount as in 1954 and 1953), but the development is a striking one by comparison with 1955, when exports did

not increase at all. About one-third of the increase in the value of exports was due to higher prices, especially marked in the case of citrus fruit. This year's favourable weather conditions, contrasting sharply with the drought of the preceding year, favoured agricultural exports. Exports of diamonds also grew, as did industrial exports, although to a lesser extent.

Exporters of industrial products were faced with a number of difficulties during 1956:

(a) Wage increases exceeded the rise in productivity (and not everywhere was there higher productivity), and raised production costs. Citriculture benefited from an exceptionally steep rise in European citrus prices (the supply of this commodity is inelastic in the short run, being largely determined by climatic changes). The diamond industry was aided by higher world market prices, while foreign prices of other industrial exports rose only slightly, to an extent which was not, itself, sufficient to offset the higher local costs.

(b) In previous years, the major part of industrial exports went to countries with which Israel had trade or payments agreements. Trade with these countries, which had begun to recede in 1955, owing to specific difficulties, declined further in 1956.

As against the above difficulties, a number of measures designed to encourage exports—and especially industrial exports—were introduced during the year. The most important of these was the raising of the local currency revenue from industrial exports, by payment of a government participation in the costs of the value added locally. This participation was fixed at IL.0.500 per \$1.00 in February 1956 and raised to IL.0.700 per \$1.00 in July 1956. It is granted for exports to hard-currency markets, as well as for exports to some of the countries with which Israel has bilateral agreements.

In addition to this support, which constituted the main encouragement given to exporters during 1956, various other activities were undertaken such as market research and the dissemination of commercial information. In some cases exporters were also aided by Government participation in specific production costs, e.g. transport. Particular mention should be made in this regard of the special expansion of export credit. Accommodation was granted chiefly through re-discounts by the Bank of Israel and by means of a revolving export fund.

The portfolio of foreign currency bills rediscounted by the Bank of Israel amounted to IL.6.2 million at the end of 1955, and rose to IL.7.5 million at the end of 1956 (exclusive of a further IL.7.8 million given to the "Shilumim" Reparation Corporation at the end of 1956). These facilities were used partly to finance the import of materials required for the processing of export goods and partly to enable exporters to extend credits to customers abroad. The monies at the disposal of the revolving fund, which were contributed *pari passu* by the Government and the banks, increased during 1956 by more than IL.7 million, reaching IL.13.5 million at the end of the year. The average amount of out-

standing loans was about IL.9 million in 1956, and the total turnover of the loans (granted at an interest rate of 8 per cent per annum) was IL.36.5 million.

Owing to the difficulties encountered by exporters in bilateral trade (especially with Turkey) and to the encouragement of export to hard-currency markets and selected bilateral agreements countries, there was a considerable rise in the share of these countries in Israel's industrial exports. This fact tends to obscure somewhat the real increase in industrial exports during 1956. The value of all exports is recorded in dollars at the official exchange rate of the various currencies. In fact, prices in some of the bilateral agreements countries are considerably higher than world market prices.

Statistically, the trend to shift exports from bilateral agreement countries to hard-currency markets tends to understate the value of exports. Yet, if the disagio applied to export proceeds with regard to clearing countries is being allowed for, then exports will be seen to have expanded not by 7 per cent (from \$32.8 million in 1955 to \$35.2 million in 1956), as would appear from the balance of payments, but by 10.7 per cent (from \$38.9 million to \$32 million).

The combination of these factors—difficulties in exporting to bilateral agreement countries (past exports to which have carried a low average percentage of locally added value) and government participation in locally added value—also contributed to the increasing rate of added value contained in the total revenue from industrial exports.

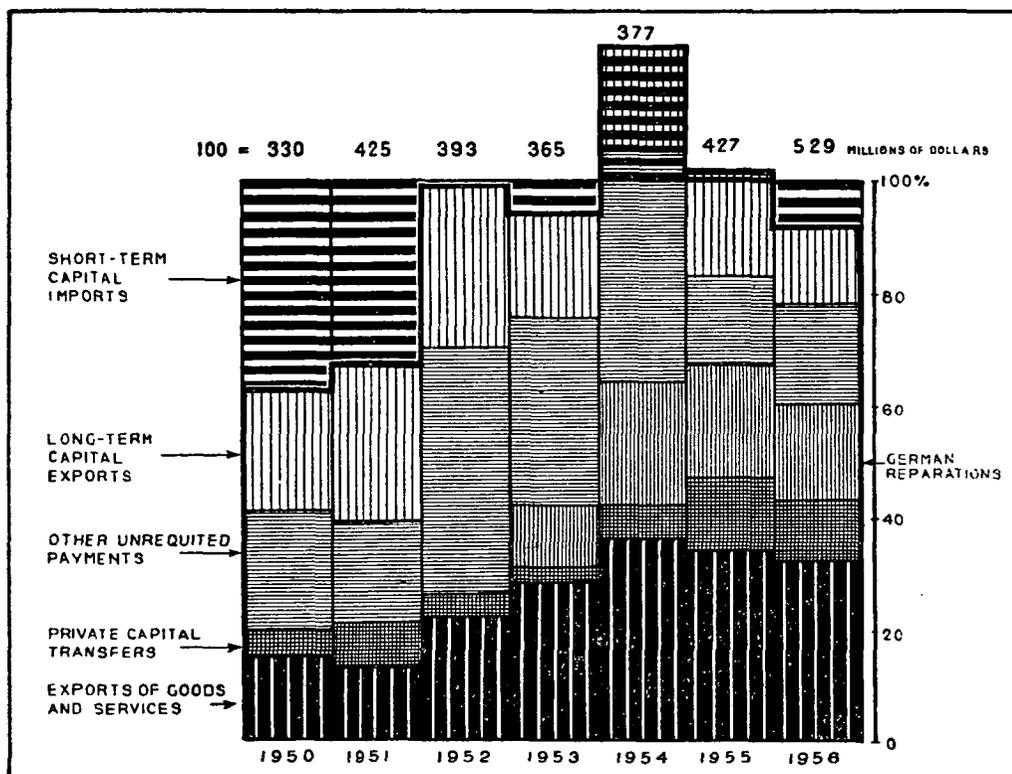
In fact, government participation in lowering costs has largely superseded the aid previously given through the admission of foreign currency deposits ("Pamaz" accounts), though exporters are free not to avail themselves of the government participation, receiving instead the right to creditary "Pamaz" accounts. The significance of the "Pamaz" accounts is that they permit exporters to draw on the foreign currency proceeds of their exports in order to purchase raw materials required to produce for the foreign and local markets and thus to benefit from the high prices obtained on the latter. The "Pamaz" system suffered from two shortcomings:

(a) The amount of support received was not equal for all products, but varied according to the respective prices prevailing on the local market. This meant that production was encouraged not necessarily in those industries in which Israel had a comparative international advantage, but rather in those branches which for various reasons, such as the existence of import restrictions, promised relatively high local prices. From this point of view the system of participation in costs is undoubtedly an improvement, though for the time being it has not yet been applied to all export branches.

(b) Normally, the restriction of local demand should have stimulated exports. The "Pamaz" system, however, implies that the profitability of exports declines as local demand decreases. Hence, it is even possible that in certain export branches the effective export proceeds of local currency fell during 1956, or at least during part of that year.

As regards the encouragement of exports through credit facilities, it should be noted that, owing to the quantitative control of the volume of credit on the one hand, and the ceiling of interest rates on the other hand, the supply of credit is in any case rationed, both directly and indirectly, by the Bank of Israel, the banking institutions and the credit funds established for specific purposes. Under these circumstances, the allocation of export credit is really a necessity. There is no harm in cheap accommodation as long as its amount does not exceed the sums technically required as working capital. Beyond this limit, however, cheap credit granted supposedly in order to reduce production costs is tantamount to cheapening the cost of using equipment or of holding excessive stocks, so as to compensate the exporter for the high level of other production costs, particularly wages. This type of accommodation tends to encourage the mechanization of production processes, and to channel production into branches

DIAGRAM III-1
Balance of Payments, 1950-1956
(offsetting items to the imports of goods and services)



Part of the columns above the thick line include apart from additional short-term capital imports, net errors and omissions. Omissions represented 18 and 26 per cent in 1950 and 1951 respectively. Short-term debts were repaid in 1954 and 1955.

requiring relatively much capital rather than labour; it also facilitates the accumulation of stocks. In general, assistance given in the form of a payment on account of locally added value as a whole is preferable to the cheapening of any particular factor of production.

The main developments in the balance of payments during 1956 were:

(a) A steep rise in security expenditure, reflected by greatly expanded imports.

(b) An absence of any attempt to reduce imports for other purposes by restricting Government demand for goods not connected with defence requirements, and civilian demand generally, or by tightening controls.

(c) The consequent large-scale drawing upon foreign currency revenue on account of future years, though certain unrequited receipts increased.

(d) An encouraging rise in exports, which was partly due to higher prices and partly to satisfactory crops. To some extent, this expansion was furthered by the endeavour to abandon the excessive reliance on trade agreements and by the tendency of dropping the "Pamaz" system in favour of direct assistance.

2. EXPORTS

Total income from the export of commodities and services increased by 19 per cent in 1956 as compared with 1955, reaching \$171.3 million, as summarized in table III-3.

TABLE III-3
Exports of Commodities and Services, 1955 and 1956
(in \$ millions)

	1955	1956	Change in 1956 as against 1955	
			\$ millions	per cent
Commodities	88.9	106.5	+17.6	+19.8
Services	55.0	64.8	+ 9.8	+17.8
<i>Total</i>	143.9	171.3	+27.4	+19.0

SOURCE: Ministry of Commerce and Industry, and Economic Advisory Office, Ministry of Finance.

(a) *Commodity Exports*

The increase of total receipts by almost 20 per cent was partly due to the fact that export prices were, on the average, 7 per cent higher than in 1955. The increase of exports, calculated at constant prices, thus totalled only 12 per cent.

The rise in prices obtained abroad did not greatly affect industrial exports. The volume of industrial exports, at constant prices, was 5 per cent higher in

1956 than in 1955, as compared with a rise of 7 per cent at current prices. On the other hand, the export prices of citrus fruit increased considerably; the export proceeds of this branch at constant prices were only 14 per cent greater than in 1955, while the increase at current prices amounted to 28 per cent. Prices obtained for diamonds rose likewise, and at constant prices exports increased by 14 per cent. Commodity exports are detailed in table III-4.

TABLE III-4
Commodity Exports, 1955 and 1956
(in \$ millions)

<i>Description</i>	1955	1956	<i>Change in 1956 as against 1955</i>	
			<i>\$ millions</i>	<i>per cent</i>
Agricultural goods	34.1	43.6	+ 9.5	+ 27.9
Industrial goods	32.8	35.2	+ 2.4	+ 7.3
Diamonds	20.6	24.5	+ 3.9	+ 19.0
Other goods	1.4	3.2	+ 1.8	+128.6
<i>Total</i>	88.9	106.5	+17.6	+ 19.8

SOURCE: Ministry of Commerce and Industry.

There was no particularly marked increase in industrial exports but their composition improved. The main expansion of exports in 1956 occurred in branches with a high proportion of locally added value, such as citrus products, foodstuffs, chemicals and handicraft products. These changes were due partly to the particularly favourable citrus season, which also affected the export of citrus by-products, and partly to the encouragement and direction of exports through government assistance given on the basis of locally added value rather than total receipts.

On the other hand, there was a diminished export of goods with a small content of locally added value (such as motor vehicles and metal products), the main reason being a contraction of the Turkish market, which previously had been the largest buyer of these commodities. Details of commodity exports by industrial branches are given in chapter X, Table X-6.

As a result of the above developments, the average locally added value of industrial exports increased. Estimates of locally added value are given in table III-5.

The large increase of agricultural exports, which contain a high proportion of locally added value, and the growing percentage of locally added value in industrial exports, resulted in a rise of \$11.5 million, i.e. 30 per cent, in the net income from exports.

The distribution of exports by countries of destination showed an appreciable change in 1956. This is mainly reflected by the decline of exports to Turkey

TABLE III-5

Exports: Income and Estimated Locally Added Value, 1955 and 1956
(in \$ millions)

<i>Description</i>	<i>Gross income</i>	<i>Percentage of locally added value (estim.)</i>	<i>Net income</i>	<i>Gross income</i>	<i>Percentage of locally added value (estim.)</i>	<i>Net income</i>
Agricultural Goods	34.1	70	23.9	43.6	73	31.8
Industrial Goods	32.8	37	12.1	35.2	43	15.1
Diamonds	20.6	17	3.5	24.5	17	4.2
<i>Total</i>	87.5	45	39.5	103.3	49	51.1

SOURCE: Calculations of the Bank of Israel.

and, to a lesser extent, to other bilateral agreement countries. Both in 1955 and in 1956, the United Kingdom and the United States together absorbed about 40 per cent of Israel's total exports. In both years, Israel goods were exported to about 80 countries, of which about 90 per cent went to 20 countries.

During the year under review trade and payment agreements were in force with 16 countries and payment agreements only with two countries. These agreements included all those which had existed in 1955, with the addition of Burma and Brazil.

In 1956, a disagio was in use, applied to the exchange of exports proceeds to six countries—Turkey, Yugoslavia, Brazil, Argentina, Hungary and Poland. Exports to Burma, Italy, Holland and France (countries with which Israel has an import surplus which must be covered in hard currency) were given some assistance, although to a smaller extent than that granted to exports to the dollar and sterling areas and other hard-currency markets. As a result of this policy exports to Turkey and Yugoslavia diminished while those to France, Burma and Italy increased.

The policy of aid to exports is not, however, the only factor guiding their flow. The volume of exports to some countries depends very largely on the availability of specific goods which can be imported from or exported to them. Thus, for example, exports to Denmark increased despite the absence of government participation in costs, while those to Holland declined somewhat although such participation was granted.

Changes in the destination of exports are illustrated in table III-6. Exports to hard-currency countries and to those bilateral agreements countries with which Israel has an import surplus which must be covered in hard-currency rose by 35 per cent, while exports to other bilateral agreements countries and miscellaneous countries declined by 7 per cent.

Countries linked to Israel by payment agreements still figured prominently in the list of export markets during 1956. But while their relative share in Is-

TABLE III-6
Exports by Type of Payment
(in \$ millions)

	1955		1956		Change in 1956 as against 1955	
	\$ millions	per cent	\$ millions	per cent	\$ millions	per cent
Dollar	17.8	20.0	20.6	19.3	+2.8	+15.7
Sterling	21.9	24.6	29.5	27.7	+7.6	+34.7
Other Hard-Currencies ^a	11.1	12.5	17.5	16.4	+6.4	+57.7
Trade Agreements						
Eligible for Government participation in Lower- ing Costs ^b	6.3	7.1	9.5	8.9	+3.2	+50.8
	57.1	64.2	77.1	72.3	+20.0	+35.0
Trade Agreements not Eligible for "Participation" ^c	14.6	16.4	15.4	14.4	+0.8	+ 5.5
Trade Agreements with Disagio ^d	15.0	16.9	10.3	9.7	- 4.7	-31.3
Other Currencies	2.2	2.5	3.7	3.6	+1.5	+68.2
	31.8	35.8	29.4	27.7	- 2.4	- 7.5
Total	88.9	100.0	106.5	100.0	+17.6	+19.8

^a Hard Currency countries—exports to which are being supported—Belgium, West Germany, Sweden and Switzerland.

^b Italy, Burma, Holland and France.

^c Iceland, Bulgaria, Denmark, Greece, Norway, Finland, Rumania and the U.S.S.R.

^d Argentina, Brazil, Hungary, Yugoslavia, Poland and Turkey.

SOURCE: The Ministry of Commerce and Industry.

rael's total trade had been steadily rising in the past, it fell sharply in 1956. The value of exports to bilateral agreement countries declined by only \$0.6 million, but their share in total exports fell from 40 to 33 per cent.

TABLE III-7
Exports to Bilateral Agreements Countries, Compared with Total Exports
1955 and 1956
(in \$ millions)

	1955			1956		
	Total Exports \$ mill.	Exports under trade agreements		Total Exports \$ mill.	Exports under trade agreements	
		\$ mill.	per cent of total		\$ mill.	per cent of total
Industrial and Other	34.2	21.4	62.7	38.4	18.9	49.2
Agricultural	34.1	13.2	38.7	43.6	15.3	35.0
Diamonds	20.6	1.2	5.8	24.5	1.0	4.1
<i>Total</i>	88.9	35.8	40.3	106.5	35.2	33.1

SOURCE: Ministry of Commerce and Industry.

These countries still constitute an important market for industrial exports, but in 1956 they ceased, for the first time, to be the chief destination of such exports. Agricultural produce and diamonds were—in 1956 as in previous years—mainly exported to hard-currency countries.

(b) *Export of Services*

TABLE III-8
Export of Services, 1955 and 1956
(in \$ millions)

Description	1955	1956	Change in 1956 as against 1955	
			\$ millions	per cent
Travel and Tourism	7.3	6.4	-0.9	-12.3
Transport	26.9	33.4	+6.5	+24.2
Insurance	10.9	11.4	+0.5	+4.6
Capital Servicing	1.7	2.8	+1.1	+64.7
Government and Various	8.2	10.8	+2.6	+31.7
<i>Total</i>	55.0	64.8	+9.8	+17.8

SOURCE: Economic Advisory Office, Ministry of Finance.

The total income from export of services rose from \$ 55 million in 1955 to \$ 65 million during the year under review. The main expansion occurred in the revenue from transport services, chiefly as a result of the increase in shipping receipts, rising from \$20.5 million in 1955 to \$27.4 million in 1956. Most of this income accrued from freight, which during 1956 brought in \$20.7 million, while only \$3.8 million were earned by carrying passengers and \$3 million by harbour services. The rise of this item was partly due to price increases: freight charges were approximately 9 per cent higher in 1956 than in 1955. Calculated at constant prices, the value of transport services supplied, increased by 14 per cent.

Exports of most services expanded, with the exception of tourism, receipts of which were lower in 1956 than in 1955 owing to a reduction in the number of tourists resulting from the tense security situation.

3. IMPORTS

The volume of commodity imports, at constant prices, increased only by 2 per cent, although at current prices the rise totalled nearly 9 per cent. Prices of imported commodities rose by an average of 6 to 7 per cent during 1956. Total imports expanded from \$427 million in 1955 to \$529 million in 1956.

TABLE III-9
Imports of Goods and Services, 1955 and 1956
(in \$ millions)

<i>Description</i>	1955	1956	<i>Change in 1956 as against 1955</i>	
			<i>\$ millions</i>	<i>per cent</i>
Goods	333.6	362.8	+ 29.2	+ 8.7
Services	93.1	166.5	+ 73.4	+78.8
Total	426.7	529.3	+102.6	+24.0

SOURCES: Central Bureau of Statistics, and Economic Advisory Office, Ministry of Finance.

(a) *Imports of Goods*

In 1956 again, as in the preceding year, the main expansion of commodity imports took place in the matter of investment goods. At current prices, imports of investment goods increased by \$ 27 million: Imports of goods for direct consumption increased to a smaller extent while imports of raw materials diminished somewhat. The value of imports other than investment goods rose during the year under review by less than one per cent.

TABLE III-10
Commodity Imports by Economic Destination, 1955 and 1956
(in \$ millions)

Description	1955	1956	Change in 1956 as against 1955	
			\$ millions	per cent
A. Manufactured				
<i>Consumption Goods</i>	51.3	56.0	+ 4.7	+ 9.2
Foodstuffs	29.3	29.6	+ 0.3	+ 1.0
Durable Goods	6.1	7.8	+ 1.7	+27.9
Other Goods	15.9	18.6	+ 2.7	+17.0
B. Raw Materials	172.1	170.0	- 2.1	- 1.2
For the Food Industry	41.2	42.7	+ 1.5	+ 3.6
For other Industries	103.3	105.4	+ 2.1	+ 2.0
For Agriculture Fodder	14.7	13.2	- 1.5	-10.2
Other Materials	12.9	8.7	- 4.2	-32.6
C. Investment Goods*	76.7	103.7	+27.0	+35.2
Industrial Equipment	23.0	35.0	+12.0	+52.5
Agricultural Equipment	9.4	13.4	+ 4.0	+42.6
Other Equipment	3.6	4.0	+ 0.4	+11.1
Building Materials	14.4	21.6	+ 7.2	+50.0
Transport	26.3	29.7	+ 3.4	+12.9
D. Fuel	33.0	32.4	- 0.6	- 1.8
E. Other Imports	0.5	0.7	+ 0.2	+40.0
Total	333.6	362.8	+29.2	+ 8.7

* The breakdown of investment goods in this table is not identical with that of Chapter V and X (Investment and Industry), because of the use of different definitions.
 SOURCES: Central Bureau of Statistics, and Economic Advisory Office, Ministry of Finance.

TABLE III-11
Commodity Imports at Current and Constant Prices, 1955 and 1956
(in \$ millions)

Description	1955		1956	Change in 1956, as against 1955 in 1956 prices	
	At current prices	at 1956 prices		\$ millions	per cent
	Consumption	51.3			
Raw Materials	172.1	180.7	170.0	-10.7	- 5.9
Investment Goods	76.7	82.1	103.7	+21.6	+26.3
Fuel	33.0	36.0	32.4	- 3.6	-10.0
Total	333.1	355.2	362.1	+ 6.9	+ 1.9

SOURCE: Calculations of the Bank of Israel.

Table III-11 shows that imports of investment goods at constant prices rose to the extent of nearly 30 per cent, while other imports declined by an average of about 5 per cent, at constant prices, and in the case of fuel by as much as 10 per cent.

The expansion of imports at current prices was more rapid than the growth of the population. In 1955, the *per capita* value of imports was \$191, while in 1956 it reached \$199—a rise of 4 per cent. The same trend was manifest in previous years. At constant prices, however, per capita imports declined in 1956. At 1956 prices, imports amounted to \$202 per capita in 1955. The real decline in 1956 thus totalled about 2 per cent.

Since *per capita* imports, at constant prices, had been rising during every year since 1953, their decline in 1956 indicates a new trend.

Imports for consumption, i.e. total imports less imports directly or indirectly destined for investment, were valued at \$224 million in 1955, and at \$222 million in 1956. Per capita imports for consumption declined from \$134 to \$127, or in terms of constant prices—from \$142 to \$127.

The United States, Western Germany and the United Kingdom remained Israel's most important suppliers in 1956, together accounting for 60.6 per cent of total imports, as compared with 58.6 per cent in 1955.

The importance of bilateral agreement countries is smaller in the case of imports than in the case of exports, (in 1956 these countries supplied 16.7 per cent of total imports) as compared with 18.9 per cent in 1955. The expansion of imports was entirely confined to hard-currency countries. The distribution of imports by currencies of payment is given in table III-12.

TABLE III-12
Imports according to Currencies of Payment, 1955 and 1956

	1955			1956			
	\$ millions		per cent	\$ millions		per cent	
Dollar	94.7		28.4	118.2		32.6	
Sterling	39.5		11.8	32.9		9.1	
Other Hard Currencies	82.9		24.9	93.1		25.7	
Trade Agreements							
Eligible for Government Participation	28.4	245.5	8.5	73.6	31.4	275.6	8.6
Trade Agreements not Eligible for Government Participation	13.9		4.2	15.9		4.4	
Trade Agreements with Disagio on Exports *	20.7		6.2	13.3		3.6	
Other Imports	53.5	88.1	16.0	26.4	58.0	87.2	16.0
<i>Total</i>		333.6	100.0		362.8		100.0

* See notes to table III-6.

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

(b) *Imports of Services*

Imports of services increased from \$93.1 million in 1955 to \$166.5 million in 1956 i.e. by nearly 80 per cent. Though most items showed larger outlays, the main expansion took place in Government expenditure, which increased by more than 150 per cent.

Expenditure on maritime transport rose from \$9.1 million in 1955 to \$12 million in 1956, and on air transport from \$7.8 million in 1955 to \$8.6 million in 1956. The main items of expenditure on maritime transport during 1956 were: port services—\$4.1 million; fuel purchases and repairs abroad—\$4.4 million; and the chartering of ships—\$2.1 million. Receipts from transport services exceed expenditure on these services because imports are registered at c.i.f. prices, while exports are recorded at f.o.b. prices.

TABLE III-13
Imports of Services, 1955 and 1956
(in \$ millions)

<i>Description</i>	1955	1956	<i>Change in 1956 as against 1955</i>	
			<i>\$ millions</i>	<i>per cent</i>
Travel and Tourism	2.2	2.1	- 0.1	- 4.5
Transport	16.9	20.7	+ 3.8	+22.5
Insurance	11.9	13.7	+ 1.8	+15.1
Capital Servicing	20.3	25.4	+ 5.1	+25.1
Government and Miscellaneous	41.8	104.6	+62.8	+150.2
<i>Total</i>	93.1	166.5	+73.4	+ 78.8

SOURCE: Economic Advisory Office, Ministry of Finance.

“Capital servicing” includes dividends and profits of foreign investors (some of which have been re-invested in Israel), as well as interest and commissions charged by banks on Government liabilities (including accrued interest on Independence Bonds and Development Bonds). Expenditure on account of this item increased from some \$20 million to approximately \$25 million.

4. GRANTS AND OTHER UNREQUITED RECEIPTS

Although the total of unrequited receipts did not reach the record of 1954 (\$263.4 million), it was considerably higher in 1956 than in 1955. Grants and other unrequited receipts totalled \$243.1 million during the year under review, i.e. \$32.7 million more than in 1955.

“Private Transfers” comprise private transfers by residents and immigrants, personal restitution payments from Germany, and gifts. “Transfers of Jewish Institutions” include i.a. the Consolidation Loan and transfers in kind by institutions. These items are listed in table III-1.

TABLE III-14
Grants, Donations and Other Unrequited Receipts, 1955 and 1956
(in \$ millions)

<i>Description</i>	1955	1956	<i>Change in 1956 as against 1955</i>	
			<i>\$ millions</i>	<i>per cent</i>
Private Transfers	53.8	60.4	+ 6.6	+12.3
German Reparations	87.5	87.7	+ 0.2	+ 0.2
U.S. Grant-in-Aid and Technical Assistance	20.9	7.1	-13.8	-66.0
Transfers by Jewish Institutions	48.2	87.9	+39.7	+82.3
<i>Total</i>	210.4	243.1	+32.7	+15.5

SOURCE: Economic Advisory Office, Ministry of Finance.

In 1956 a greater proportion of the U.S. Grant-in-Aid was given as a loan. In 1955, Israel received goods and services from the U.S. Government to the value of \$50.2 million in the form of a grant or surplus agricultural produce. Of this sum, \$29.7 million were received as loans. In 1956, goods and services received from the U.S. Government totalled \$46.1 million (only \$4 million less than in the previous year), of which, however, no more than \$6.7 million constituted a grant, while \$32.6 million were received in the form of long-term loans repayable in Israel currency; the counterpart of the remaining \$8.1 million was immediately paid to the United States Government in Israel currency.

Besides the Grant-in-Aid, there were decreases in the items "Gifts" and "Transfers in Kind."

A new consolidation loan was received in 1956 from the Jewish communities in the United States on account of future receipts of the United Jewish Appeal. This totalled \$28.8 million. Moreover, the normal income of Jewish institutions rose by the considerable extent of nearly 50 per cent.

Income from reparations remained on the same level as in the preceding year. In both years part of the goods received under the Reparations Agreement were on account of future years.

The upward trend of personal restitutions payments from Germany continued, reaching \$26 million in 1956.

5. CAPITAL MOVEMENTS AND GOVERNMENT DEBTS

Israel's commitments in foreign exchange (i.e. public debts or debts guaranteed by the Government), apart from contingent liabilities created by the opening of letters-of-credit for imports, increased from \$450 million at the end of 1955 to \$501 million at the end of 1956, a rise of \$51 million or about 11 per cent.

TABLE III-15
Foreign Exchange Commitments, 1955 and 1956
(in \$ millions)

<i>Description</i>	<i>31.12.1955</i>		<i>30.6.1956</i>		<i>31.12.1956</i>		<i>Change 31.12.56 as against 31.12.55</i>	
	<i>\$ millions</i>	<i>per cent</i>	<i>\$ millions</i>	<i>per cent</i>	<i>\$ millions</i>	<i>per cent</i>	<i>\$ millions</i>	<i>per cent</i>
Independence Loan and Development Loan	198.3	44	220.2	47	245.8	49	+47.5	+24.0
Other Long-Term Liabilities	155.3	35	152.5	32	149.1	30	- 6.2	- 4.0
Medium-Term Liabilities	65.5	14	68.1	14	57.3	11	- 8.2	-12.5
Short-Term Liabilities	31.0	7	30.6	7	49.3	10	+18.3	+59.0
<i>Total</i>	450.1	100	471.4	100	501.5	100	+51.4	+11.4

SOURCE: Foreign Exchange Division, Ministry of Finance.

The larger amount of the item "Independence Loan and Development Loan" (which includes a rise of \$2.4 million on account of accrued interest) accounts for the major part of the increase in total liabilities. Apart from these loans, Israel's foreign exchange commitments increased by only \$3.9 million.

The composition of these liabilities according to due dates underwent considerable changes during 1956. The proportion of long- and medium-term liabilities—other than the Independence Loan and the Development Loan—fell from 49 per cent of total commitments in 1955 to 41 per cent in 1956, while the proportion of short-term liabilities increased from 7 to 10 per cent. The weight of the Independence and Development Loans in total commitments likewise increased. A debt of \$6.1 million was repaid to the Central Bank of Finland during the year under review. This debt had arisen from a loan received five years ago within the framework of the Israel-Finnish Trade Agreement, in order to facilitate Israel purchases in Finland.

Two new loans were contracted in 1956 with the Government of the United States: \$22.1 million for the purchase of surplus agricultural produce, and \$10.5 million as part of the Grant-in-Aid. These are mainly long-term loans, and they can be repaid in Israel currency. U.S. Government deposits created by sales of surplus foodstuffs and books (the latter under the Informational Media Guarantee Program) increased by \$8.1 million during the year. In other words, the counterpart of some books and surplus foodstuffs was paid in cash.

Net Government foreign exchange commitments, i.e. the various loans and debts after deduction of foreign currency balances at the Government's disposal, are detailed in table III-16. Of the capital movements cited in part C of the Balance of Payments (table III-1) foreign investments have not been included in table III-16, as aggregate figures are not available.

The net foreign currency liabilities include all foreign loans less foreign currency deposits abroad. They totalled \$354 million at the end of 1954, \$417.5 million at the end of 1955, and \$506.2 million at the end of 1956.

TABLE III-16
Foreign Exchange Commitments 1954-1956
(in \$ millions)

	31.12.54	31.12.55	31.12.56
LIABILITIES			
A. Medium and Long-Term Liabilities	388.0	456.8	524.5
Independence Loan and Development Loan	166.1	198.3	245.5
Loans and Deposits of the U.S. Government within the Framework of the Grant-in-Aid	—	31.6	72.3
Other Long-Term Loans	156.9	155.3	149.1
Medium Term Loans	65.0	71.6	57.3
B. Short-Term Liabilities	53.0	55.2	73.3
Short-Term Loans	27.0	31.0	49.3
Liabilities on account of Trade Agreements	2.5	2.2	6.4
Foreign Currency Deposits in Local Banks	23.5	22.0	17.6
ASSETS			
C. Deposits Abroad	87.0	94.5	91.6
Balance in Foreign Currency	80.3	89.3	81.6
Balance on account of Trade Agreements	5.6	4.1	5.3
Monetary Gold	1.1	1.1	4.7
Net Foreign Exchange Commitments	354.0	417.5	506.2

SOURCE: Calculations of the Bank of Israel.

Total foreign investments, apart from capital transfers by immigrants, amounted to only \$6.9 million in 1956, as compared with \$15.8 million in 1955. These figures include investments of foreign insurance and film companies, as well as profits of foreign investors. A rather sizeable reduction of Israel's fuel stocks largely accounts for the smaller amount of investments. Israel also made some additional investments abroad during the year, totalling \$2.4 million. These include investments in the "Incode" Company, operating in Abyssinia. Net foreign investments in 1956 thus totalled only \$4.5 million, as compared with \$13.7 million in 1955.

Foreign currency balances are subject to seasonal fluctuations of receipts. In the past four years foreign currency receipts were at their highest during the

Seasonal Fluctuation in Foreign Currency Receipts, 1953-1956

DIAGRAM III-2
Total Receipts

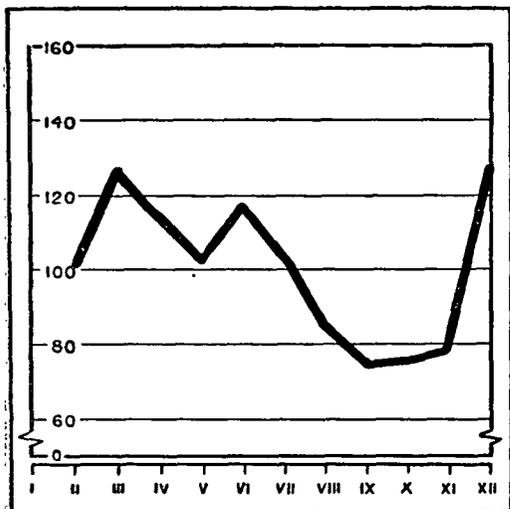


DIAGRAM III-3
Exports

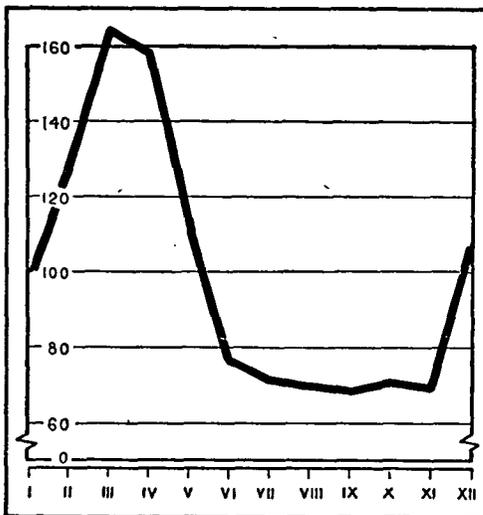


DIAGRAM III-4
Returns from Independence and Development Bonds

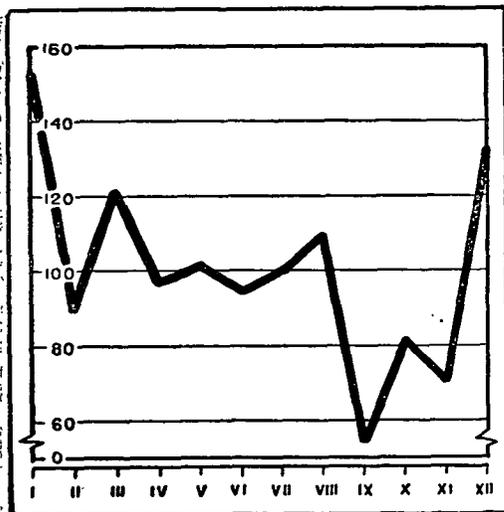
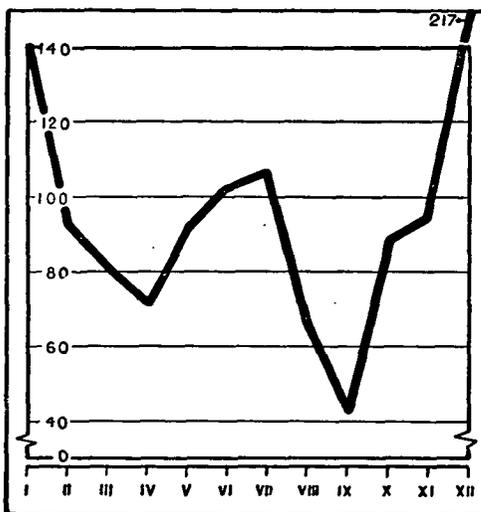


DIAGRAM III-5
Public Institutions' Receipts



months December-June; foreign currency balances have usually begun to swell in December, continued so until June, to fall off during the months July to November.

The seasonal fluctuations are specially marked as regards receipts from exports. They reach their peak between February and May (March being the peak month), when most of the payments for citrus exports are being effected. Receipts from exports are at their lowest between June and November.

Transfers by Jewish institutions and revenue from the Development Loan reach their peak in December and January. Here, the lowest months are September and October, though income is also relatively small during the summer months.

Payments on account of the Consolidation Loan have concentrated in certain periods (e.g. March and April, 1954, as well as May to July, 1956), affecting the level of the balance during these months.

Income from the U.S. Grant-in-Aid is usually greatest in the last months of the American financial year, especially June. This is probably due to the closing of accounts for the current year.

Seasonal fluctuations are marked in one item only of receipts under the Reparations Agreement: Payments for fuel have been received in two equal instalments, in April and August, and they inflate total receipts in these months.

A summary of net capital movements given in part C of the balance of payments (table III-1) shows that in 1956 liabilities to foreign countries increased by \$93 million.