

CHAPTER III

THE BALANCE OF PAYMENTS AND FOREIGN TRADE

1. BALANCE OF PAYMENTS

THE DEVELOPMENTS reflected in the balance of payments in 1957 were: (a) A considerable rise in commodity exports; a large absolute rise in imports—though smaller relative to exports. As a result, the trade deficit increased from \$257 million in 1956 to \$293 million in 1957; (b) A major decrease—mainly in defence—in the Government's foreign exchange expenditure, leading to a fall in the deficit on current account, i.e. goods and services, from \$357 million in 1956 to \$337 million in 1957. The first tendency, i.e. the larger rise of exports relative to imports, had begun in 1956 (see Table III-1), but gained strength in 1957. The fall in foreign currency expenditure cannot really be termed a trend, being the result of political and defence developments. The more meaningful deficit in the light of trends of developments is illustrated by Table III-1 showing the deficit on current account *less* the item "Government".

World market prices rose in 1957. From the viewpoint of the Israel economy, this resulted in a 5 per cent increase in import and a 6 per cent increase in export prices. These rates of increase were similar to those of 1956 over 1955. The price increases in themselves were responsible for a rise of \$16 million in the trade deficit. Since Israel's imports substantially exceed her exports, any increase in world market prices leads to higher absolute import payments in excess of the rise in her export receipts.

The volume increase in commodity exports—as distinct from their value increase at current prices—was \$24 million or 21 per cent. This was largely the result of a 31-32 per cent increase in the export of industrial commodities and diamonds and due in part to the rise of about 12 per cent in agricultural exports. It would seem that the rise in industrial exports was largely the result of the increased production capacity of enterprises principally working for the export trade. The diamond industry works wholly for the export trade and it would appear that, in 1957, possibilities to buy rough diamonds abroad improved, mainly for piece-work processing.

The increase in the volume of commodity imports, about \$45 million or 12 per cent, was mainly caused by the following factors: (a) The increase in the gross national product, necessarily entailing higher imports of raw materials in the short run; (b) a high level of demand generating additional imports in two ways: automatic, in respect of commodities whose importation is free; and as a Govern-

ment reaction designed to curb the ascending price spiral; (c) a notable increase in imports of investment goods, which was to a certain extent an accidental phenomenon caused by the delivery in 1957 of a considerable number of ships and of "Britannia" aircraft; and (d) the increase in stocks of imported commodities, depleted by the end of 1956, may have constituted an additional factor.

TABLE III-1
Imports, Exports and the Balance of Payments Deficit, 1954-1957

	1954	1955	1956	1957
<i>At current prices</i>				
<i>Millions of U.S. dollars</i>				
Imports of goods	296	334	367	432
Exports of goods	88	89	110	139
Trade deficit	208	245	257	293
Deficit on services account	32	38	99	44
Deficit on services account <i>less Government services</i>	7	3	10	6
Deficit on current account <i>less Government services</i>	215	248	267	299
<i>Index numbers</i>				
Imports of goods	100	113	124	146
Exports of goods	100	101	125	158
Trade deficit	100	118	124	141
Deficit on services account	100	119	309	138
Deficit on services account <i>less Government services</i>	100	115	124	139
<i>At 1957 prices</i>				
<i>Millions of U.S. dollars</i>				
Imports of goods	355	375	386	432
Exports of goods	104	100	115	139
Trade deficit	251	275	271	293
<i>Index numbers</i>				
Imports of goods	100	106	109	122
Exports of goods	100	96	111	134
Trade deficit	100	110	108	117

SOURCES:

Current prices: 1954—The Falk Project for Economic Research in Israel and the Central Bureau of Statistics;
 1955 and 1956—Ministry of Finance;
 1957—Central Bureau of Statistics;
 1957 prices : Bank of Israel.

TABLE III-2
Balance of Payments, 1956-1957
(millions of U.S. dollars)

	1956			1957*		
	Credit	Debit	Net credit (+) or debit (-)	Credit	Debit	Net credit (+) or debit (-)
A. Goods and services						
(1) Goods	109.7	367.0	-257.3	139.1	431.9	-292.8
(2) Tourism and travel abroad	6.4	2.1	+ 4.3	5.5	2.8	+ 2.7
(3) Transport	32.8	25.2	+ 7.6	45.8	30.1	+ 15.7
(4) Insurance	11.0	13.8	- 2.8	13.7	17.1	- 3.4
(5) Capital servicing	4.4	25.6	- 21.2	4.8	29.4	- 24.6
(6) Government, n.e.s.	7.0	96.7	- 89.7	6.5	44.9	- 38.4
(7) Miscellaneous	6.6	4.1	+ 2.5	7.1	3.7	+ 3.4
<i>Total (1) to (7)</i>	177.9	534.5	-356.6	222.5	559.9	-337.4
B. Unrequited receipts						
<i>Private transfers</i>						
(8) Gifts and transfers by residents and immigrants						
(8.1) in cash	25.8	0.3	+ 25.5	20.2	0.3	+ 19.9
(8.2) in kind	10.3	0.1	+ 10.2	15.7	0.2	+ 15.5
(9) Personal restitution from Germany	25.7	—	+ 25.7	45.9	0.9	+ 45.0
<i>Transfers of the Government and of public institutions</i>						
(10) Reparations from Germany	82.5	3.3	+ 79.2	79.7	3.7	+ 76.0
(11) U.S. Grant-in-aid	6.8	—	+ 6.8	24.1	—	+ 24.1
(12) U.N. Technical Assistance	0.5	0.1	+ 0.4	0.5	0.1	+ 0.4
(13) United Jewish Appeal and other institutions						
(13.1) Donations in cash	68.9	—	+ 68.9	74.2	—	+ 74.2
(13.2) Consolidation Loan	18.7	—	+ 18.7	—	18.5	- 18.5
(13.3) Transfers of goods	5.1	—	+ 5.1	5.6	—	+ 5.6
<i>Total (8) to (13)</i>	244.3	3.8	+240.5	265.9	23.7	+242.2
<i>Total A + B</i>	422.2	538.3	-116.1	488.4	583.6	- 95.2

SOURCE: Central Bureau of Statistics
* Provisional figures.

TABLE III-2
Balance of Payments, 1956-1957 (Continued)
(millions of U.S. dollars)

	1956			1957 ^a		
	Credit	Debit	Net credit (+) or debit (-)	Credit	Debit	Net credit (+) or debit (-)
C. Net capital movements						
(14) Long- and Medium-term loans						
(14.1) Independence and Development Loans	47.4	—	+ 47.4	44.7	—	+ 44.7
(14.2) U.S. Government loans within the framework of the grant-in-aid	32.6	—	+ 32.6	20.4	—	+ 20.4
(14.3) Other long-term loans	—	6.2	- 6.2	—	16.9	- 16.9
(14.4) Medium-term loans	—	14.3	- 14.3	3.4	—	+ 3.4
(14.5) Investments from abroad	17.0	—	+ 17.0	17.6	—	+ 17.6
<i>Total (14.1) to (14.5)</i>	97.0	20.5	+ 76.5	86.1	16.9	+ 69.2
(15) Short-term capital movements						
(15.1) Short-term loans	18.3	—	+ 18.3	—	3.0	- 3.0
(15.2) Drawings on the I.M.F.	—	—	—	3.7	—	+ 3.7
(15.3) Clearing accounts	3.0	—	+ 3.0	3.6	—	+ 3.6
(15.4) Foreign deposits in Israel Banks	—	4.4	- 4.4	—	1.5	- 1.5
(15.5) Deposits of the U.S. Government within the framework of the grant-in-aid	8.1	—	+ 8.1	5.3	—	+ 5.3
(15.6) Advance payments	—	4.0	- 4.0	4.0	—	+ 4.0
(15.7) Outstanding balances of foreign exchange	7.6	—	+ 7.6	0.9	—	+ 0.9
(15.8) Monetary gold	—	3.6	- 3.6	1.2	—	+ 1.2
<i>Total (15.1) to (15.8)</i>	37.0	12.0	+ 25.0	18.7	4.5	+ 14.2
<i>Total (14) + (15)</i>	134.0	32.5	+101.5	104.8	21.4	+ 83.4
<i>Total A+B+C</i>	556.2	570.8	- 14.6	593.2	605.0	- 11.8
<i>Net Errors and Omissions</i>	14.6	—	+ 14.6	11.8	—	+ 11.8

The deficit on net services account (excluding the Government) did not show considerable changes in 1957: in fact, it has been negligible in all these years. However, in 1957, as in previous years, the composition of this account changed. On the one hand, receipts from transport continued to rise as a result of the development in shipping.¹ On the other hand, payments of interest and profits to the rest of the world continued to rise, in view of the increase in the economy's indebtedness, both to foreign lenders and to those making direct investments in Israel.

The most striking measure of Government trade policy adopted in 1957 was the expanded liberalization of imports. The first liberalization measures were introduced in 1956: they were, however, considerably expanded in 1957. In addition to the officially liberalized imports, the import of many other commodities is practically free, as import quotas fixed for these goods were adequate to satisfy demand at the conditions prevailing over the year. It may be assumed that, during the major part of 1957, about 40 per cent of all commodities could be freely imported either officially or effectively—from such sources of supply as did not require payments in dollars. The expanded liberalization of commodity imports was accompanied by a rise in import levies imposed on these commodities, largely designed to prevent an increase in commodity imports over and above the level previously fixed by the import quotas.

At this stage, it is difficult to evaluate the impact of the liberalization and of the import levies on the quantity and prices of commodity imports. It may be assumed that, with the introduction of liberalization, there is an increased demand for imports which are channelled to stocks. The suspension of stock accumulation at a later stage is, however, not unlikely. It would seem that there was a quantitative increase in imports of certain liberalized commodities which first went to stocks; their accumulation eventually caused market prices to fall. Prices of other commodities rose somewhat with the imposition of the levies. It would, furthermore, appear that, for a number of commodities, import duties were high enough to prevent an expansion of imports in the conditions of 1956. However, when demand rose in 1957, the quantities imported increased.

The Government continued to follow the measures for export promotion, initiated in 1955 and 1956. The rate of Government participation in the production costs of industrial exports was somewhat raised—from 700 prutot to 850 prutot per dollar added value. Although the "PAMAZ" (foreign exchange deposit) system remained in force, a certain transition to export premiums was, however, noticeable. It is not unlikely that export proceeds in Israel currency showed a real increase for some commodities to which the "PAMAZ" system was applicable. This was the result of high domestic demand, which ensured large profits for raw materials bought out of the "PAMAZ" funds and intended for sale in the domestic

¹ It should be noted that expenditure on goods transported by foreign companies is hardly reflected in the balance of payments, as commodity imports are shown therein at c.i.f. prices, including transport costs, while exports are given at f.o.b. prices.

market. Other measures of export promotion by the Government included market research; the establishment of agencies abroad; participation in trade fairs; export insurance, and credit for the financing of production and marketing of exports.

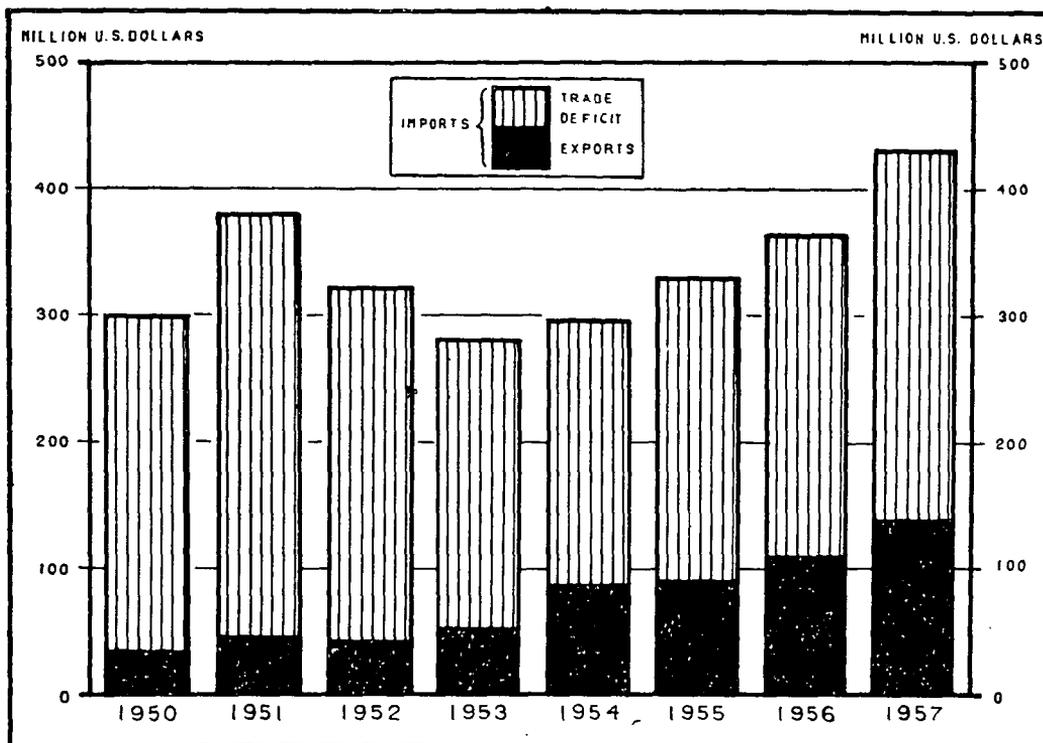
The sum total of unrequited receipts did not change considerably; but there was a notable improvement in their composition. There was a substantial increase—by about \$20 million—in transfers of personal restitution payments from Germany. This was largely due to the increase in restitution payments, and apparently, to a certain extent, to the higher amounts transferred, in view of the increase in local currency counterpart payments made to recipients. There was, however, a decline in transfer payments from the United Jewish Appeal. This was not caused by a fall in contributions, but was the result of the partial repayment of the Consolidation Loan in 1957, while in 1956 the sum of this loan was increased. Thus a liability has been written off which, if not affecting an institution in Israel, nevertheless represents a claim on future receipts of the Israel economy. No considerable changes occurred in the amounts of reparation payments. The same is true for the U.S. grant given both in the form of a direct grant-in-aid, and as loans and deposits by the U.S. Government.

Income from the Development Loan was close to the 1956 level. The fall in outstanding balances of other long term loans in foreign exchange continued at an accelerated pace, in particular the loan of the Export-Import Bank. During the period under review, total direct investments from abroad—mainly private investments—also remained close to the level of the previous year.

As the sum total of unrequited receipts, of long term loans and of investments was approximately the same as in 1956, while the deficit on current account was smaller, short term liabilities remained virtually unchanged in 1957, while they had shown a sharp increase in 1956. However, the decline in the economy's reserves continued. The balances of gold and free foreign exchange which in 1956 declined by \$4 million, fell by a further \$2 million in 1957. Clearing accounts, too, showed a rise in Israel's net debit balance of about \$4 million. It should be borne in mind that this amount was affected by the considerable rise in Israel's credit balance with Turkey; it would appear that this balance will have to remain unutilized for some time to come, in view of the conditions prevailing in Turkey. Excluding outstanding balances with Turkey, the total net increase in debit balances of clearing accounts amounted to \$8 million. The total increase in foreign exchange liabilities to be repaid within the coming years, including unrequited receipts on future account, came to \$8.5 million in 1957.

It is encouraging to note that, in 1957, the relative rate of increase in exports was higher than that of imports, and that the value of imports and their surplus over exports rose less than the increase in the national output. In spite of this, developments in 1957 cannot be called satisfactory. Should the tendencies which were operative during the period under review as well as in the years preceding it persist, a continued rise in the deficit on current account is bound to occur while the

DIAGRAM III-1
Imports, Exports and the Trade Deficit, 1950-1957
 (millions of U.S. \$)



economy's unrequited receipts will shortly decline very considerably, while payments of interest as well as repayment of the principal of foreign loans will increase at the same time. The position of the economy's reserves also gives rise to concern as their present level, compared with the size of imports and the level considered essential by most countries, is very low. Therefore, it is imperative to increase reserves as long as this is rendered possible by the high level of unrequited receipts.

2. EXPORTS OF GOODS

Income from commodity exports was \$139 million in 1957, against \$110 million in 1956, a rise of 27 per cent. This rise exceeded the relative increase of former years. The increase was only in part caused by the rise of about 5 per cent in export prices. At constant prices, exports rose 21 per cent.

The rise in export prices was particularly great in agricultural exports which rose by only 12 per cent at constant prices, while industrial exports and diamonds rose by more than 30 per cent.

TABLE III-3
Exports of Goods, 1956-1957
(millions of U.S. dollars)

Commodity group	1957 Export Price Index (1956- =100)	1956		1957	Increase or decrease (-)			
		Current prices	1957 prices		Current prices		1957 prices	
					Million U.S. \$	Percen- tages	Million U.S. \$	Percen- tages
Agricultural goods	110	44.3	48.7	54.4	10.1	22.8	5.7	11.7
Industrial goods	102	36.7	37.4	49.3	12.6	34.3	11.9	31.8
Diamonds	101	24.7	24.9	32.7	8.0	32.4	7.8	31.3
Other exports	100	4.0	4.0	2.7	- 1.3	-32.5	- 1.3	-32.5
<i>Total</i>	105	109.7	115.0	139.1	29.4	26.8	24.1	21.0

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

The rise in industrial exports exceeded the average increase and raised their share in total exports. The increase was limited in the main to a number of commodity exports; nine commodities, each rising by more than half a million dollars, were responsible for \$8 million out of the \$12 million increase in industrial exports.

The reasons for these increases are particular to each commodity: the opening of the Eilat harbour led to an increase in oil exports; while the export of pharmaceuticals rose following the intensified demand for these commodities generated by the epidemic of Asian influenza abroad. However, almost all these commodities have something in common. The domestic market is limited and cannot easily absorb the rise in output, so that producers have to rely on foreign markets: in some cases they work almost wholly for the export trade. In recent years, production capacity has been expanded in almost all export industries. As certain branches work under the "PAMAZ" system and others under the premium system, it cannot be said that the increase in export is connected with either of these methods. However, it did happen that certain export branches operating under the "PAMAZ" system deemed it profitable to sell to the Ministry of Finance some of their "PAMAZ" dollars against export premiums. This applied to cases where exports of a given branch rose considerably, so that imports for the domestic market at the full counterpart value would have been likely to lower the proceeds receivable therefrom.

Industrial exports became more centralized during the period under review. Of the hundreds of exporters in 1957, 21 sold goods for over half a million dol-

TABLE III-4
Increase in Exports of Selected Industrial Goods, 1956-1957
(millions of U.S. dollars)

<i>Commodity</i>	<i>1956</i>	<i>1957</i>	<i>Increase</i>
Tyres	3.7	4.7	1.0
Cement	3.0	3.5	0.5
Woollen yarn	1.6	2.6	1.0
Pharmaceuticals	1.4	2.5	1.1
Potash	0.8	2.5	1.7
Plywood	1.9	2.4	0.5
Cardboard products	0.6	1.6	1.0
Edible oil	0.2	1.1	0.9
Ammonium sulphate	—	0.6	0.6
<i>Total</i>	13.2	21.5	8.3
<i>Other industrial eports</i>	23.5	27.8	4.3
<i>Grand total</i>	36.7	49.3	12.6

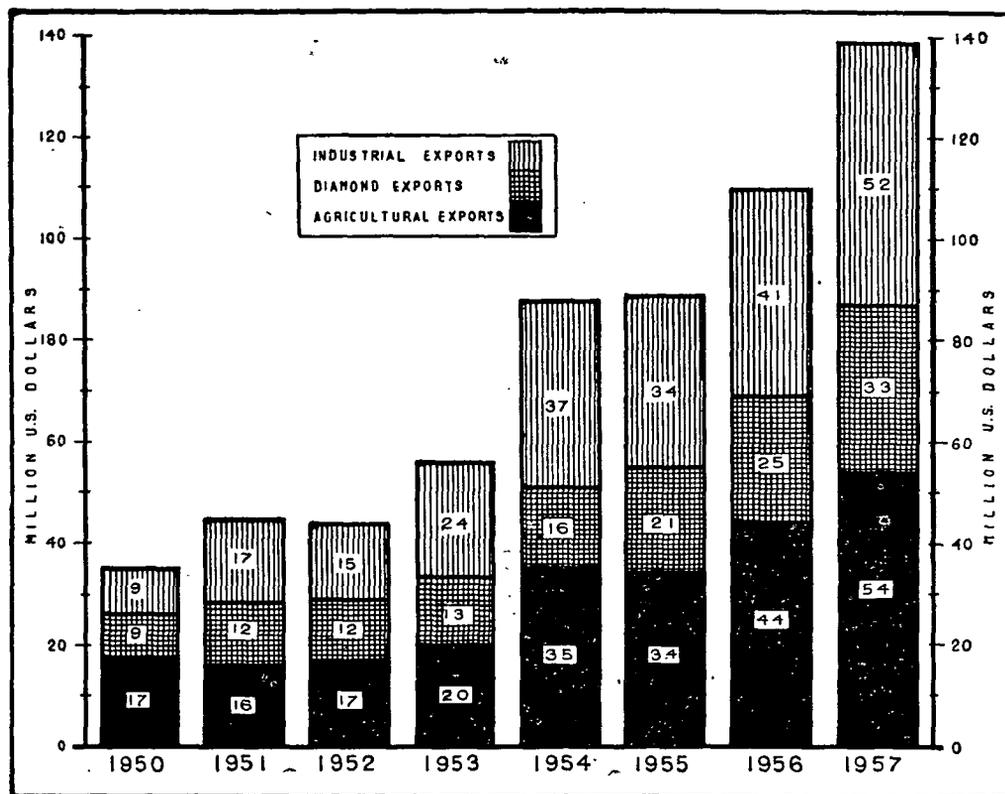
SOURCE: Ministry of Commerce and Industry.

lars each, the value of their exports accounting for 51 per cent of total industrial exports. Exports by smaller exporters, whose exports amounted to less than \$100 thousand each, fell from \$11.7 million in 1956 to \$9.7 million in 1957. This may be explained by the considerable expenses involved in penetrating foreign markets, which the relatively smaller firms were afraid to incur. The Government tried to remedy this, by establishing export companies designed to facilitate market research, to find overseas agencies, to undertake marketing, etc.

Citrus is the main item on the agricultural export list. Its export volume is largely limited in the short run as it takes seven years for the fruit to reach the market from the time the citrus grove is planted. Fluctuations in the volume of these exports are therefore primarily the result of weather conditions determining the physical volume of fruit suitable for export. World market prices also influence the proceeds of these exports. In 1956 and 1957, citrus exports were favourably influenced by these two factors. The number of boxes exported rose from 8 million in 1956 to 8.4 million in 1957, and fruit prices rose on the average by 11 per cent. The good crop year also produced large harvests of durum wheat, whose exports amounted to about \$2.5 million. This kind of wheat, used for the manufacture of macaroni, was exported to Italy at higher prices than those paid for imported soft wheat for bread.

Value added in exports rose by about 30 per cent and was \$69 million in 1957 against \$53 million in 1956. The calculation of added value is but a rough esti-

DIAGRAM III-2
Exports by Sectors, 1950-1957
 (millions of U.S. \$)



mate, and no special importance should be attributed to the slight changes which occurred either in the total percentage of value added or in its percentage breakdown by sectors.

The number of countries buying Israel's export produce was about 80, of which 18 countries bought over 90 per cent: the main countries of destination were the United Kingdom and the United States, together absorbing 36 per cent of total exports.

Turkey was the biggest purchaser of Israel's industrial exports, accounting for 20 per cent thereof in 1957. The dispersion of countries of destination is relatively large for industrial exports. Agricultural exports are concentrated on a few European countries, with the United Kingdom the largest client, taking 37 per cent of these exports. Diamond exports are even more concentrated: in 1957, 85 per cent went to the following five countries: Belgium, Canada, Switzerland, the United Kingdom and the United States; the last is the biggest client and accounted for 45 per cent of Israel's diamond exports.

TABLE III-5

Estimated Added Value in Exports of Goods, 1956-1957
(millions of U.S. dollars)

	1956 ^a			1957		
	<i>Export receipts</i>	<i>Percentage of added value</i>	<i>Total added value</i>	<i>Export receipts</i>	<i>Percentage of added value</i>	<i>Total added value</i>
Agricultural goods	44.3	73	32.3	54.4	74	40.3
Industrial goods	36.7	45	16.5	49.3	46	22.7
Diamonds	24.7	19	4.7	32.7	19	6.2
<i>Total^b</i>	105.7	51	53.5	136.4	51	69.2

SOURCE: Bank of Israel.

^a Revised figures.

^b Excluding exports of postage stamps and sales of ships.

The value of exports to East Africa and the Far East rose from \$2.6 million to \$3.8 million. Exports to these areas were particularly affected by the opening of the Eilat harbour to free navigation.

During 1957, Israel operated 16 payments agreements. The agreement with the USSR, which has not been operative since 1956, was in fact annulled upon the payment of Israel's outstanding debit balance in November 1957: apart from this payment no transactions were made under this agreement. Upon Israel's joining the convertible guilder area, trade with the Netherlands was liberalized and the payments agreement with this country was not renewed. Payments in this area may be made in the currency of any one of the member countries. The countries comprising the convertible guilder area are the members of the European Payments Union, (excluding Greece and Turkey) and include some other countries such as Finland and Israel.

As export prices of certain countries with whom Israel has bilateral agreements came closer to the international price level, no discount was made on the receipts from exports to Argentina, Brazil, Hungary and Poland. At present, discounts are only made on proceeds from exports to Turkey and Yugoslavia.

In certain cases there is but a formal difference between the countries with which Israel operates trade and payments agreements and those with which trade is free. The agreement fixes the list of import and export commodities, and the terms of payment provide that balances outstanding at the end of a period agreed to in advance will be paid in convertible currencies. In these instances, Israel regularly pays in convertible currency for part of the imports bought from these countries. Moreover, exports to these countries enjoy the same encouragement as those destined for hard currency countries.

In cases where the trade agreement shows a real gap between domestic and world market prices, graded Government participation in production costs, in

addition to discounts, reflected the purchasing power of the currencies concerned. The use of these measures as well as of discounts was reduced during the period under review. Whereas in 1956 the Government did not participate in the cost of exports to discount countries—Argentina, Brazil, Hungary, Poland, Turkey, and Yugoslavia—nor in those to Bulgaria, Denmark, Finland, Greece, Iceland, Norway and Romania, the number of these countries declined in 1957, and included only Bulgaria, Hungary, Iceland, Turkey and Yugoslavia.

TABLE III-6
Exports by Type of Payment, 1956-1957

<i>Type of Payment</i>	<i>1956</i>		<i>1957</i>	
	<i>Million U.S.\$</i>	<i>Percentages</i>	<i>Million U.S.\$</i>	<i>Percentages</i>
Dollars	22.6	20.6	24.8	17.8
Sterling	29.9	27.3	33.8	24.3
Other hard currencies ^a	27.1	24.7	41.3	29.7
<i>Total</i>	79.6	72.6	99.9	71.8
Trade agreements allowing for discounts on exports ^b	8.3	7.6	14.0	10.1
Others ^c	21.8	19.8	25.2	18.1
<i>Total</i>	30.1	27.4	39.2	28.2
<i>Grand Total</i>	109.7	100.0	139.1	100.0

SOURCE: Ministry of Commerce and Industry.

^a Burma, Belgium, France, Western Germany, Italy, Netherlands, Sweden and Switzerland.

^b Turkey and Yugoslavia.

^c Including trade agreement countries on exports to which graded Government support is given; countries on whose exports from Israel no such support is given; and also countries with whom no trade agreements have been concluded, and which do not appear under other items.

TABLE III-7
Outstanding Balances in Payments Agreements, 1956-1957
(millions of U.S. dollars)

<i>End of period</i>	<i>1956</i>	<i>1957</i>	<i>Increase or decrease(-)</i>
Credit (excluding Turkey)	3,943	2,047	-1,896
Debit (excluding Turkey)	6,359	12,776	6,417
Net balances (excluding Turkey)	-2,416	-10,729	-8,313
Balance in the account with Turkey	1,296	6,012	-4,716
Net balances in all accounts	-1,120	-4,717	-3,597

SOURCE: Bank of Israel.

The type of payment for exports remained virtually unchanged. In the past two years, over 70 per cent have been paid for in hard currency and the remaining 30 per cent in other currencies.

There was a notable increase in exports to countries where discounts are applied, largely as a result of the rise in industrial exports to Turkey.

Outstanding balances in clearing accounts were considerably affected by Israel's credit balance with Turkey. Their sum total, excluding Turkey, fell over the year by \$8.3 million, and only the rise of \$4.7 million in the account with Turkey limited their fall to \$3.6 million.

3. EXPORTS OF SERVICES

Income from services increased, with the exception of receipts from tourism. There was but a small increase in the number of tourists—from 42.5 thousand to 44.5 thousand—as tourist movements were influenced by the travel ban to the Middle East imposed on U.S. citizens, which remained in force until April 1957. The average number of days spent by tourists in Israel fell from 70 to 66 days, so that the fall in the number of days spent was one per cent. It appears that there was also a decline in the average expenditure by tourists per day.

TABLE III-8
Exports of Services, 1956-1957
(millions of U.S. dollars)

	1956 ^a	1957	Increase or decrease (-)	
			Million U.S.\$	Percentage
Tourism	6.4	5.5	- 0.9	-14.1
Transport	32.8	45.8	13.0	39.6
Insurance	11.0	13.7	2.7	24.5
Capital servicing	4.4	4.8	0.4	9.1
Government, n.e.s.	7.0	6.5	- 0.5	- 7.1
Miscellaneous	6.6	7.1	0.5	7.6
<i>Total</i>	68.2	83.4	15.2	22.3

SOURCE: Central Bureau of Statistics.

^a Revised figures.

Income from transport services (the sector which carries the largest weight in the export of services) rose substantially. Shipping receipts amounted to \$36.3 million, of which cargoes accounted for \$22.1 million while passenger traffic represented \$4.7 million. Air transport brought in \$9.4 million, of which \$4.8 million was from passenger traffic.

4. IMPORTS OF GOODS

At current prices, total imports rose in 1957 by 18 per cent. At constant prices, the increase was 12 per cent. The increase in imports covered all economic destinations: imports of raw materials rose by 12 per cent, and those of manufactured consumer goods by 8.6 per cent. As food imports—included in the latter item—fell somewhat, the increase mainly applied to other imports for consumption. Imports of capital goods were particularly high, as the ships and planes, ordered in previous years, were delivered in 1957. Imports of other capital goods which amounted to \$89 million fell somewhat as compared with 1956. Nevertheless, their level continued to be above that of the 1953–1955 period, when these imports stood at about \$65 million a year.

TABLE III-9
Imports by Economic Destination, 1956–1957
(millions of U.S. dollars)

	1956	1957	Increase or decrease (-)	
			Million U.S. \$	Percentages
<i>Imports for direct consumption</i>				
Food	30.5	27.2	- 3.3	-10.8
Other current consumption	19.1	25.0	5.9	30.9
Durable goods	7.6	9.9	2.3	30.3
<i>Total</i>	57.2	62.1	4.9	8.6
<i>Raw materials</i>				
For the food industry	42.6	45.9	3.3	7.7
For other industries	107.8	126.2	18.4	17.1
For agriculture—feed	13.5	16.7	3.2	23.7
other raw materials	8.6	6.5	- 2.1	-24.4
<i>Total</i>	172.5	195.3	22.8	13.2
<i>Capital goods</i>				
Equipment for industry	35.0	34.0	- 1.0	- 2.9
Equipment for agriculture	13.4	10.1	- 3.3	-24.6
Other equipment	4.0	4.2	0.2	5.0
Building materials	21.6	19.4	- 2.2	-10.2
Transport equipment and parts	29.7	52.7	23.0	77.4
<i>Total</i>	103.7	120.4	16.7	16.1
<i>Liquid fuel</i>	32.9	53.5	20.6	62.6
<i>Other imports</i>	0.7	0.6	- 0.1	-14.3
<i>Grand total</i>	367.0	431.9	64.9	17.7

SOURCE: Central Bureau of Statistics and the Ministry of Transport and Communications.

There was an especially large increase in liquid fuel imports, partly because world market prices of oil rose following Egypt's nationalisation of the Suez Canal, but largely because of an increase in stocks. The value of liquid fuel imports did not rise between 1953 and 1955: it fluctuated between \$30 and \$35 million a year, as the continual rise in physical consumption was offset by the tendency towards lower prices and freight rates, as well as by a change to cheaper sources of supply and cheaper kinds of liquid fuel.

This trend was interrupted in 1956; it was, however, not reflected by the value of imports, because the liquid fuel used came from stocks. In 1957, the value of stocks increased considerably, and prices rose as a result of the change in sources of supply and the rise in freight rates.

World market prices began to decline in the second half of 1957 and, by the end of the year, they were considerably lower than in the same period in 1956. The average annual prices for 1957 were, however, higher than in the previous year. Only part of Israel's imports were affected by the fall in world prices, which applied chiefly to primary products, while most of the commodities imported into this country are finished and semi-finished goods, the price of which declined to a lesser extent.

TABLE III-10
Imports of Goods, 1956-1957
(millions of U.S. dollars)

Commodity group	1957 Import Price Index ^a (1956=100)	1956			Increase or decrease(-)	
		Current Prices	1957 Prices	1957	Million U.S. \$	Per- centages
Consumer goods	113	57.2	64.5	62.1	- 2.5	- 3.9
Raw materials	101	172.5	174.2	195.3	21.1	12.1
Capital goods	104	103.7	107.6	120.4	12.8	11.9
Liquid fuel	120	32.9	39.5	53.5	14.0	35.4
<i>Total imports of goods</i>	106	366.3	385.9	431.3	45.4	11.8

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

^a Rounded figures.

The United States, Western Germany and the United Kingdom continued to be Israel's main sources of supply, but their percentage share in the import trade fell from 60 per cent to 54 per cent. This was largely due to the decline in food imports from the United States as a result of the good domestic wheat harvests, and owing to the transfer of part of Israel's wheat purchases to other sources.

Per capita imports for consumption at current prices rose from \$95 to \$98. At constant prices, however, there was a fall of about 3 per cent.

5. IMPORTS OF SERVICES

Imports of services fell by \$40 million, or close to 25 per cent. This was the result of the decline in Government expenditure, which fell by more than \$50 million as compared with 1956. Other items showed but minor increases. Of the expenditure of \$30 million on transport services, shipping accounts for \$21 million, while \$7 million were spent on air transport.

TABLE III-11
Imports of Services, 1956-1957
(millions of U.S. dollars)

	1956	1957	Increase or decrease (-)	
			Million U.S. \$	Percentages
Tourism	2.1	2.8	0.7	33.3
Transport	25.2	30.1	4.9	19.4
Insurance	13.8	17.1	3.3	23.9
Capital Servicing	25.6	29.4	3.8	14.8
Government, n.e.s.	96.7	44.9	-51.8	-53.6
Miscellaneous	4.1	3.7	- 0.4	- 9.8
<i>Total</i>	167.5	128.0	-39.5	-23.6

SOURCE: Central Bureau of Statistics.

Capital services include, apart from payments of interest and profits, a sum of \$5 million which was the accrued interest on Savings Bonds of the Development Loan.

6. UNREQUITED RECEIPTS

No changes occurred in the sum total of unrequited receipts as compared with 1956, in spite of the fact that there were no receipts during the year from the Consolidation Loan. The sum total of unrequited receipts was \$242.2 million against \$240.5 million in 1956. The breakdown of unrequited receipts is shown in Table III-2, The Balance of Payments.

A particularly large increase was shown in personal restitution receipts from Germany, which rose from \$25.7 million to \$45.0 million. On the other hand, there was a certain decline in reparation payments. The accelerated use of this source continues; but the volume of advances on account of future years was lower than in the two preceding years.

The total amount of the Reparations Agreement, signed in 1952, is \$821 million or DM3,450 million, of which DM3,000 million are intended for the Government of Israel, and DM450 million for World Jewish institutions. Annual appropriations amounted in recent years to \$60 million, and the sum

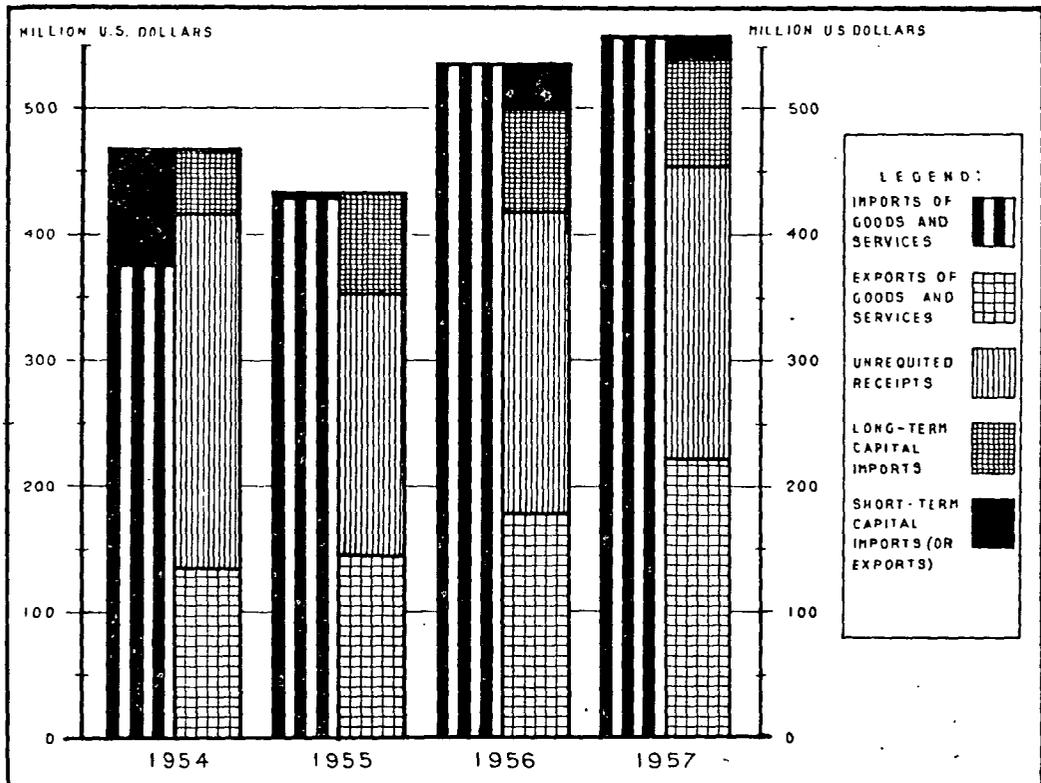
total of annual appropriations was \$318.5 million by the end of 1957. However, owing to the accelerated implementation of this agreement, goods and services received by the end of 1957 amounted to \$371.6 million, while the total value of goods ordered represented \$416.3 million.

The value of goods and services received within the framework of the U.S. grant-in-aid as well as that of the food surplus agreement was similar to that in the previous year. However, the composition of these grants and loans changed. The share of the grant-in-aid rose—from \$7 million to \$24 million—while that of loans (to be repaid in Israel currency within 30 years) fell to \$20 million, against \$33 million last year. Income from the Consolidation Loan was

DIAGRAM III-3

Balance of Payments, 1954-1957

(offsetting items to the imports of goods and services)



\$91 million for 1954-1956. This loan was taken from commercial banks in the United States, against the security of future income from collections in that country. The loan thus did not represent real additional income, but advanced

receipts. Repayment of the Consolidation Loan had been begun in former years: the outstanding balance of this debt amounted to \$55 million at the end of 1956, and to \$36 million at the end of 1957, net repayments for this period thus representing \$19 million.

7. CAPITAL MOVEMENTS AND STATE LIABILITIES

Israel's net liabilities¹ to the rest of the world including liabilities in Israel currency, rose by \$83 million over the year (see Table III-1, Section C). Of this amount, the increase in the Government's foreign exchange liabilities² represented \$30 million.

The Independence and Development Loans showed a net increase of \$44.7 million. This amount includes accrued interest on savings bonds amounting to \$5 million. With the exception of these loans, the State's long-term indebtedness in foreign exchange fell by \$16.9 million as a result of debt repayments. The partial repayments of the loan to the Export-Import Bank, amounting to \$11.5 million, was largely responsible for this fall.

Total indebtedness within the framework of the Independence and Development loans was \$290 million at the end of 1957, representing over half of the State's foreign exchange liabilities. Other long-term commitments fell from \$149 million to \$132 million. Medium and short-term liabilities remained at \$107 million—the same level as in the previous year.

No changes occurred in the sum of investments from abroad. These amounts also cover, apart from capital transfers for investment, investments out of foreign deposits in Israel, as well as changes in the stocks of foreign petroleum companies. These stocks rose in 1957. Total investments, less changes in liquid fuel stocks, were somewhat lower in 1957 than in 1956.

Net short-term liabilities rose by \$14 million. The Government of Israel purchased \$3.75 million from the International Monetary Fund. In addition, Israel's gold and foreign exchange reserves fell somewhat. Clearing accounts also showed a rise in net liabilities, as debit balances—rising from \$6.4 million to \$12.8 million—exceeded the increase in credit balances, which rose from \$5.3 million to \$8.1 million. It should be borne in mind that the increase in credit balances was mainly the result of the rise in the account with Turkey, amounting to \$8.3 million. Deposits of the United States Government under the grant-in-aid also rose; and the advance payment, of \$4 million, made on the "Britannia" aircraft ordered in the preceding years, was cancelled out.

Israel's commitments to the rest of the world include apart from foreign ex-

¹ Including, in addition to debts, liabilities to the U.S. Government in Israel currency and U.S. Government deposits also in Israel currency; as well as the net increase in debit balances in clearing accounts, and the net decrease in foreign exchange balances and investments from abroad.

² Including direct Government obligations as well as those with guaranteed convertibility.

change commitments, other liabilities (other than private investments for which cumulative amounts are not available).

Total state indebtedness (excluding investments) rose from \$592.4 million to \$652.1 million, while outstanding balances of foreign exchange fell from \$87.0 million to \$84.9 million.

Thus, the sum total of net liabilities to the rest of the world (excluding direct investments) rose by \$61.8 million.

TABLE III-12
Israel's Commitments to the Rest of the World
(millions of U.S. dollars)

<i>End of period</i>	1956	1957	<i>Increase or decrease (-)</i>
<i>(1) Medium- and long-term liabilities</i>			
Independence Loan	245.7	290.4	44.7
Loans and deposits of the U.S. Government	72.3	98.0	25.7
Other long-term loans	149.1	132.2	-16.9
Medium-term loans	57.3	60.7	3.4
<i>Total</i>	524.4	581.3	56.9
<i>(2) Short-term liabilities</i>			
Short-term loans	49.3	46.3	- 3.0
Liabilities to the International Monetary Fund	—	3.7	3.7
Net liabilities on account of payments agreements	1.1	4.7	3.6
Foreign deposits	17.6	16.1	- 1.5
<i>Total</i>	68.0	70.8	2.8
<i>Total (1)+(2)</i>	592.4	652.1	59.7
<i>(3) Foreign exchange reserves</i>			
Deposits abroad	82.3	81.4	- 0.9
Gold	4.7	3.5	- 1.2
<i>Total</i>	87.0	84.9	- 2.1
<i>Total net liabilities(1)+(2)-(3)</i>	505.4	567.2	61.8

SOURCE: Ministry of Finance and the Bank of Israel.