

## CHAPTER III

### THE BALANCE OF PAYMENTS AND FOREIGN TRADE

#### 1. THE BALANCE OF PAYMENTS

THE CURRENT deficit remained virtually unchanged in 1958—totalling \$334 million, as against \$335 million in 1957. No changes occurred in total unrequited receipts and long-term loans, while a certain amount of additional short- and medium-term indebtedness was incurred and foreign currency reserves rose substantially.

Total imports and total exports (commodities+services) registered an almost identical increase. However, if Government payments be deducted from the current account, the current deficit will be found to have declined by approximately \$16 million,—from \$297 million in 1957 to \$281 million in 1958. This is the first year since 1954 during which such a development has taken place. Certain aspects of the deficit are brought out in Table III-1.

TABLE III-1  
*Deficits in the Balance of Payments Accounts, 1956-1958*  
(millions of U.S. dollars)

|  | 1956 | 1957 | 1958 |
|--|------|------|------|
| (1) Total current deficit (including Government services)                          | 357  | 335  | 334  |
| (2) Current deficit <i>less</i> Government services                                | 267  | 297  | 281  |
| (3) Current deficit + unrequited receipts <sup>a</sup>                             | 135  | 71   | 94   |
| (4) Current deficit + unrequited receipts+long-term capital movements <sup>b</sup> | 64   | —    | 12   |

<sup>a</sup> Excluding the Consolidation Loan.

<sup>b</sup> Including U.S. Government deposits.

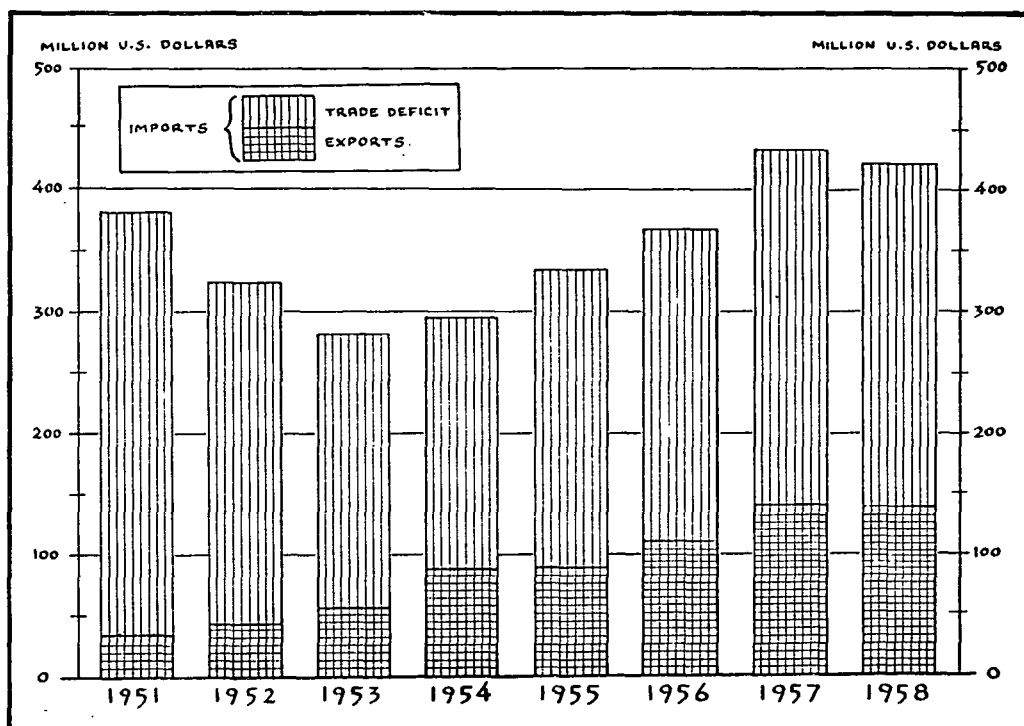
The lower current deficit in 1958 was mainly due to the drop in international prices, which markedly affected Israel. However, whereas export prices fell by 2 per cent, import prices were 7 per cent lower—a significant improvement in the terms of trade. Moreover, as the value of imports by far exceeds that of exports, Israel's trade balance tends to show a marked improvement in periods of

price slumps. At 1957 prices, the Israel economy would have had to spend \$36 million more on its imports in 1958, while its additional income from exports would have totalled only \$3 million. Thus, if 1957 prices had prevailed in 1958, the country would have had to incur an additional expenditure of \$33 million for an equivalent volume of exports and imports.

### DIAGRAM III-I

#### *Imports, Exports and the Trade Deficit, 1951-1958*

(millions of U.S. dollars)



Commodity imports rose, at constant prices, by approximately 5 per cent in 1958, after having risen by 12 per cent between 1956 and 1957. Imports of foodstuffs and raw materials for the agricultural sector were increased. This applies particularly to imports of food surpluses from the United States, which were partly diverted to the replenishing of stocks. Real imports of other raw materials remained at their previous level, but real imports of industrial and electrical equipment rose substantially, while imports of equipment for the transport sector were considerably reduced.

TABLE III-2  
The Balance of Payments, 1957-1958  
(millions of U.S. dollars)

|   | 1957   |       |                                   | 1958   |       |                                   |
|---|--------|-------|-----------------------------------|--------|-------|-----------------------------------|
|   | credit | debit | net<br>credit (+)<br>or debit (-) | credit | debit | net<br>credit (+)<br>or debit (-) |
| <b>A. Goods and services</b>                                      |        |       |                                   |        |       |                                   |
| (1) Goods   | 140.8  | 432.1 | -291.3                            | 139.2  | 421.5 | -282.3                            |
| (2) Tourism and travel<br>abroad                                  | 5.5    | 2.8   | + 2.7                             | 11.9   | 3.2   | + 8.7                             |
| (3) Transport   | 45.9   | 30.1  | + 15.8                            | 55.4   | 32.5  | + 22.9                            |
| (4) Insurance   | 14.2   | 16.0  | - 1.8                             | 17.5   | 19.6  | - 2.1                             |
| (5) Capital servicing   | 3.6    | 28.1  | - 24.5                            | 4.9    | 34.9  | - 30.0                            |
| (6) Government, n.e.s.*   | 4.9    | 43.6  | - 38.7                            | 2.0    | 55.7  | - 53.7                            |
| (7) Miscellaneous   | 7.1    | 4.5   | + 2.6                             | 7.8    | 5.6   | + 2.2                             |
| <i>Total (1) to (7)</i>   | 222.0  | 557.2 | -335.2                            | 238.7  | 573.0 | -334.3                            |
| <b>B. Unrequited transfers</b>                                    |        |       |                                   |        |       |                                   |
| <i>Private transfers</i>  |        |       |                                   |        |       |                                   |
| (8) Gifts and transfers by<br>residents and immigrants            |        |       |                                   |        |       |                                   |
| (8.1) in cash   | 21.5   | 0.3   | + 21.2                            | 25.6   | 0.3   | + 25.3                            |
| (8.2) in kind   | 15.7   | 0.2   | + 15.5                            | 9.5    | 0.4   | + 9.1                             |
| (9) Personal restitution<br>from Germany                          | 45.9   | 0.9   | + 45.0                            | 66.3   | 0.9   | + 65.4                            |
| <i>Transfers by the Government<br/>and by public institutions</i> |        |       |                                   |        |       |                                   |
| (10) Reparations<br>from Germany                                  | 82.1   | 4.2   | + 77.9                            | 72.9   | 3.2   | + 69.7                            |
| (11) U.S. Government<br>Grant-in-aid                              | 24.1   | —     | + 24.1                            | 11.2   | —     | + 11.2                            |
| (12) U.N. Technical<br>Assistance                                 | 0.2    | 0.1   | + 0.4                             | 0.4    | 0.1   | + 0.3                             |
| (13) United Jewish Appeal<br>and other institutions               |        |       |                                   |        |       |                                   |
| (13.1) Donations in<br>cash                                       | 74.2   | —     | + 74.2                            | 50.4   | —     | + 50.4                            |
| (13.2) Consolidation<br>Loans                                     | —      | 18.5  | - 18.5                            | 10.4   | —     | + 10.4                            |
| (13.3) Transfers in<br>kind                                       | 5.6    | —     | + 5.6                             | 9.2    | —     | + 9.2                             |
| <i>Total (8) to (13)</i>  | 269.6  | 242   | +245.4                            | 255.9  | 4.9   | + 83.3                            |
| <i>Total A+B</i>  | 491.6  | 581.4 | - 89.8                            | 494.6  | 577.9 | - 83.3                            |

TABLE III-2  
The Balance of Payments, 1957-1958 (continued)  
(millions of U.S. dollars)

|   | 1957   |       |                                   | 1958   |       |                                   |
|---|--------|-------|-----------------------------------|--------|-------|-----------------------------------|
|   | credit | debit | net<br>credit (+)<br>or debit (-) | credit | debit | net<br>credit (+)<br>or debit (-) |
| <b>C. Net capital movements</b>   |        |       |                                   |        |       |                                   |
| (14) Long and medium-term loans   |        |       |                                   |        |       |                                   |
| (14.1) Independence and Development Loans   | 44.7   | —     | + 44.7                            | 33.7   | —     | + 33.7                            |
| (14.2) U.S. Government loan within the framework of the grant-in-aid              | 20.4   | —     | + 20.4                            | 43.9   | —     | + 43.9                            |
| (14.3) Other long-term loans  | —      | 16.9  | - 16.9                            | —      | 7.4   | - 7.4                             |
| (14.4) Medium-term loans  | 3.4    | —     | + 3.4                             | 15.0   | —     | + 15.0                            |
| (14.5) Investments from abroad  | 17.8   | —     | + 17.8                            | 8.4    | —     | + 8.4                             |
| Total (14.1) to (14.5)  | 86.3   | 16.9  | + 69.4                            | 101.0  | 7.4   | + 93.6                            |
| (15) Short-term capital movements   |        |       |                                   |        |       |                                   |
| (15.1) Short-term loans   | —      | 3.0   | - 3.0                             | 6.5    | —     | + 6.5                             |
| (15.2) Drawing on I.M.F. and I.B.R.D.   | 3.8    | —     | + 3.8                             | —      | 4.3   | - 4.3                             |
| (15.3) Clearing accounts  | 3.5    | —     | + 3.5                             | 8.1    | —     | + 8.1                             |
| (15.4) Foreign deposits in local banks  | —      | 1.4   | - 1.4                             | 4.3    | —     | + 4.3                             |
| (15.5) Deposits of the U.S. Government (within the framework of the grant-in-aid) | 4.8    | —     | + 4.8                             | 3.0    | —     | + 3.0                             |
| (15.6) Other short-term capital   | —      | 0.6   | - 0.6                             | 4.3    | —     | + 4.3                             |
| (15.7) Foreign exchange balances  | 0.9    | —     | + 0.9                             | —      | 46.0  | - 46.0                            |
| (15.8) Monetary gold  | 1.2    | —     | + 1.2                             | —      | —     | —                                 |
| Total (15.1) to (15.8)  | 14.2   | 5.0   | + 9.2                             | 26.2   | 50.3  | - 24.1                            |
| Total (14) + (15)   | 100.5  | 21.9  | + 78.6                            | 127.2  | 57.7  | + 69.5                            |
| Total A to C  | 592.1  | 603.3 | - 11.2                            | 621.8  | 635.6 | - 13.8                            |
| Net errors and omissions  | 11.2   | —     | + 11.2                            | 13.8   | —     | + 13.8                            |

\* Not elsewhere specified.

SOURCE: Central Bureau of Statistics.

The liberalization of imports, first introduced in 1956 in respect of certain commodities and considerably extended thereafter, was facilitated by the decline in import prices in 1958. Today, most commodities may be imported freely, except for equipment and Government imports, which include fuel, wheat, sugar, meat, oils, rice and coffee. The significance of liberalization in Israel is that any authorized importer may obtain an import license upon application, though sources of supply may sometimes be limited. When a certain commodity is "liberalized", the usual immediate reaction is a big increase in its import, some of the increment being channelled to stocks. Thereafter, imports tend to decline, though not to their previous level. So as to prevent the expansion of imports beyond the levels determined by the foreign currency budget, additional customs duties—designed to restrict demand—were imposed on liberalized commodities. In 1958, the effective demand for most consumer goods and raw materials did not exceed the available supply.

The import of timber, hides, textiles and chemicals had already been liberalized in previous years. The main change in 1958 was the liberalization of metal imports. The quantities of metals imported were considerably greater than in 1957, but—owing to the drop in world metal prices—the additional foreign currency outlay was slight. Imports of textiles and hides, which had increased in the year following the liberalization of these commodities, resumed their previous level. On the whole, the duties imposed on liberalized commodities did not significantly raise domestic prices. An additional factor helping to keep Israel prices of raw materials stable in 1958 was the decline in world market prices.

A further liberalization occurred in the imports of services, Israeli residents travelling abroad being allocated foreign currency to the amount of \$100.

The entire increase in exports was concentrated in the services account, mainly in the form of higher receipts from transportation and tourism. Commodity exports remained at their 1957 level—in contrast to the upward trend they had shown in 1956 and 1957. This was due to several factors: As regards Israel's major export branch—citrus and other agricultural produce—investments made in previous years had not yet matured in 1958. Whereas during preceding years the steady rise in world citrus prices had increased receipts from the export of this commodity, in 1958 citrus prices remained virtually unchanged. Diamond exports contracted, probably because the demand for diamonds in foreign markets declined owing to the recession. This applies particularly to the United States—the major buyer of this commodity. The recession caused industrial export prices to fall by 4 per cent, after having risen slightly in previous years. Nevertheless, the local currency counterpart received by exporters in exchange for their foreign currency earnings apparently did not decline to any considerable extent, since the premium granted on industrial exports was made applicable to an additional number of countries. Moreover, an important change in the premium structure occurred with regard to citrus exports, which were granted a premium

of 250 pruta per dollar of added value. On the other hand, the local currency counterpart for exports under the PAMAZ scheme declined, emphasising the shift from the PAMAZ to the premium system. Whereas in 1956 the volume of industrial exports within the framework of these alternative systems was more or less equal, 48 per cent of the total volume of industrial exports in 1957 were effected under the premium system, the PAMAZ system accounting for only 37 per cent. The remaining 15 per cent, consisting chiefly of exports to trade agreement countries, did not benefit from these arrangements. Despite the absence of data, it is certain that the volume of exports effected within the framework of the premium system continued to increase in 1958, while the share of exports under the PAMAZ system declined.

An additional factor tending to reduce industrial exports was the growing liberalization of trade in countries with which Israel maintains commercial and clearing agreements. The new import policy of Turkey, in the past a market absorbing the bulk of Israel's industrial exports, was of particular significance to the Israel economy, exports to Turkey being substantially reduced as a result. Though these developments were partly offset by the channelling of exports to new markets (especially to certain countries of Asia and Africa), no substitute markets could be found for certain commodities, the export of which was prevented by liberalization in foreign countries.

Unrequited receipts remained at their 1957 level but there were changes in their composition. Personal restitution payments from Germany again increased by \$20 million, after having risen by the same amount between 1956 and 1957. Income from German Reparations, however, declined. Transfers of the United Jewish Appeal and other institutions likewise increased, though not as a result of higher donations. In 1958, the Consolidation Loan—consisting of funds borrowed for Israel by the Jewish communities of the United States and repayable from future U.J.A. receipts—was expanded, after declining in 1957. Israel received \$7 million more within the framework of the U.S. grant-in-aid, but the increase was mainly in the form of long-term loans, while the share of unrequited receipts fell.

Income from the Independence and Development Loans was lower than in the preceding year. The balance of long-term loans likewise declined. On the other hand, short- and medium-term loans in foreign currency, which had remained stable during 1957, were considerably increased.

Israel's foreign exchange reserves rose substantially in 1958, reaching a new peak. Simultaneously, however, short-term liabilities rose by \$18.9 million, and medium-term obligations by \$15.0 million. To these must be added the additional obligation contracted in respect of the Consolidation Loan, which—though not formally constituting a loan of the Israel Government—is redeemed from funds earmarked for Israel.

## 2. COMMODITY EXPORTS

Income from commodity exports declined, at current prices, from \$140.8 million in 1957 to \$139.2 million in 1958—a decrease of approximately 1 per cent. At constant prices, there was a 1 per cent increase, export prices being 2 per cent lower in 1958. The value of agricultural exports rose, at current prices, by \$2 million, while that of industrial exports fell by approximately \$1 million. At constant prices, however, industrial exports rose by 2 per cent, owing to the 4 per cent drop in industrial export prices. Exports of diamonds were somewhat smaller, at current as well as at constant prices.

TABLE III-3  
*Commodity Exports, 1957-1958*  
(millions of U.S. dollars)

| Commodity group    | 1958<br>export<br>price<br>index<br>(1957=100) | 1957              |                | 1958  | Percentage<br>increase or decrease (-)<br>from 1957 to 1958 |                |
|--------------------|--|-------------------|----------------|-------|---|----------------|
|                    |  | current<br>prices | 1958<br>prices |       | current<br>prices   | 1958<br>prices |
| Agricultural goods | 100  | 54.4              | 54.4           | 56.6  | 4.0   | 4.0            |
| Industrial goods   | 96   | 47.6              | 45.7           | 46.7  | - 1.9   | 2.2            |
| Diamonds           | 98   | 35.5              | 34.8           | 34.3  | - 3.4   | - 1.4          |
| Other exports      | 100  | 3.3               | 3.3            | 1.6   | -51.5   | -51.5          |
| <i>Total</i>       | 98   | 140.8             | 138.2          | 139.2 | - 1.1   | 0.7            |

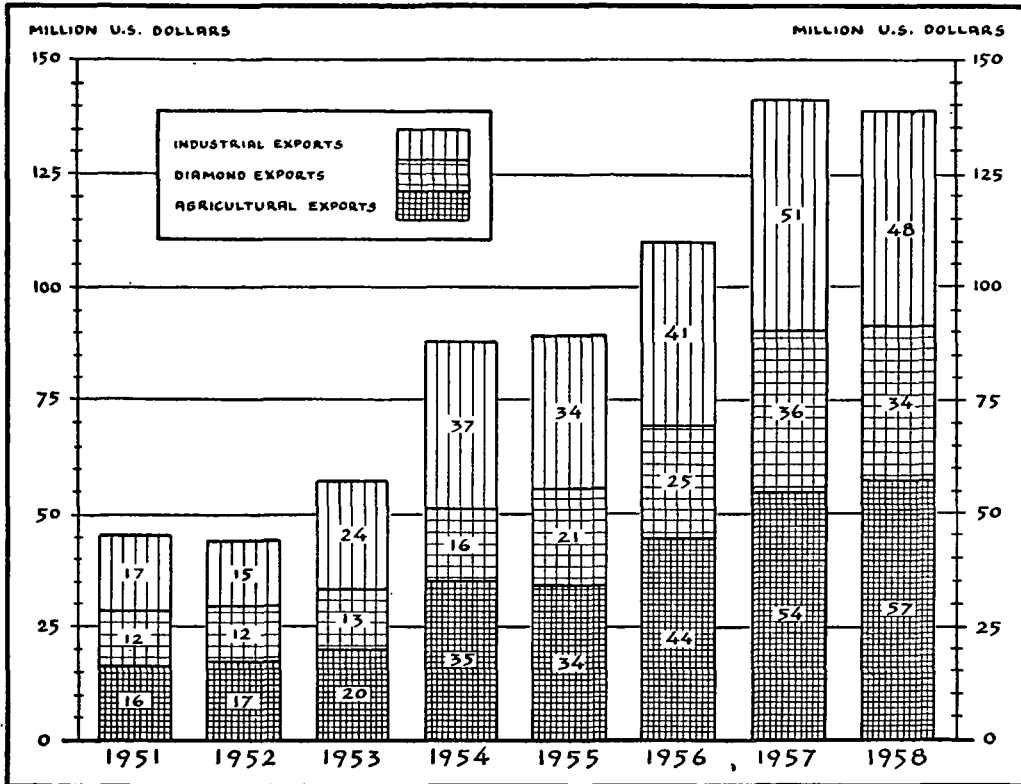
*Note:* Discrepancies are due to rounding.  
*SOURCE:* Central Bureau of Statistics.

The share of agricultural goods within the total volume of commodity exports rose from 38 per cent in 1957 to 41 per cent in 1958. Income from citrus exports remained at a level of approximately \$49 million. The number of crates exported had risen from 8 million in 1956 to 8.4 million in 1957 (when there was less windfall unsuitable for export), but declined again to 8 million in 1958. As in the two previous seasons, world citrus prices rose substantially during the winter of 1957/58. During the 1958/59 season, however, the early months of which fall in 1958, a decline set in. Thus the average level for 1958 was only 2 per cent higher than in 1957. The largest increase occurred in the export of eggs, which—despite lower prices—yielded \$4.8 million in 1958, as against only \$0.6 million in 1957. No durum wheat was exported in 1958, owing to the drought, whereas in 1957 this item yielded \$2.5 million.

### DIAGRAM III-2

#### *Exports, by Sectors, 1951-1958*

(millions of U.S. dollars)



Whereas at current prices industrial exports declined somewhat, their physical volume actually rose by 2 per cent, following the 4 per cent drop in their prices on foreign markets. The value of exports to Turkey, consisting entirely of industrial goods, plummeted from \$9.2 million in 1957 to \$3.5 million in 1958, as severe import restrictions were imposed within the framework of the economic reform in that country. Other factors also contributed to the decrease in exports to Turkey. (Exports of pharmaceuticals, for instance, had been particularly large in 1957, when Greece and Turkey suffered from Asian influenza epidemics). It should be noted that more industrial exports were sold to free currency countries, while exports to trade agreement countries declined.

The share of the large exporters in total industrial exports continued to increase. Seventy-eight out of more than 600 exporters accounted for over \$100,000 worth of exports each, or for 80 per cent of total industrial exports



TABLE III-4  
*Major Changes in Exports of Selected Commodities*  
*(current prices), 1957-1958*  
*(millions of U.S. dollars)*

| <i>Commodity</i>   | <i>1957</i> | <i>1958</i> | <i>Increase or decrease (-)<br/>from 1957 to 1958</i> |
|--------------------|-------------|-------------|---|
| <i>increase</i>    |             |             |   |
| Eggs               | 0.6         | 4.8         | 4.2   |
| Citrus products    | 4.0         | 5.8         | 1.8   |
| Tires              | 4.6         | 5.5         | 0.9   |
| Raincoats          | 1.6         | 2.2         | 0.6   |
| Potash             | 2.5         | 3.0         | 0.5   |
| Groundnuts         | 1.3         | 1.8         | 0.5   |
| <i>decrease</i>    |             |             |   |
| Iron pipes         | 0.9         | 0.1         | -0.8  |
| Cardboard products | 1.6         | 0.8         | -0.8  |
| Scrap              | 1.4         | 0.2         | -1.2  |
| Pharmaceuticals    | 2.7         | 0.9         | -1.8  |
| Cement             | 3.5         | 1.5         | -2.0  |
| Durum wheat        | 2.5         | —           | -2.5  |

SOURCE: Central Bureau of Statistics.

(see Table III-5). Of the nine firms which exported over \$1 million worth of goods each in 1957, seven expanded their exports further in 1958, while only one reduced its foreign sales. Certain producers united to form marketing companies, but whereas agricultural marketing companies expanded their exports considerably in 1958, industrial companies are still in the initial stages of their operations and their exports were limited.

TABLE III-5  
*Industrial Exports, by Magnitude Groups, 1957-1958*  
*(millions of U.S. dollars)*

| <i>Magnitude group</i>   | <i>1957</i>                    |                                |                                  | <i>1958</i>                    |                                |                                  |
|--------------------------|--------------------------------|--------------------------------|----------------------------------|--------------------------------|--------------------------------|----------------------------------|
|                          | <i>number of<br/>exporters</i> | <i>millions of<br/>dollars</i> | <i>cumulative<br/>percentage</i> | <i>number of<br/>exporters</i> | <i>millions of<br/>dollars</i> | <i>cumulative<br/>percentage</i> |
| \$1,000,000 and over     | 9                              | 17.5                           | 36.8                             | 10                             | 19.5                           | 41.8                             |
| \$500,000 to \$1,000,000 | 9                              | 6.2                            | 49.8                             | 8                              | 5.8                            | 54.2                             |
| \$100,000 to \$500,000   | 58                             | 10.4                           | 71.6                             | 60                             | 12.0                           | 79.9                             |
| Up to \$100,000          | 470                            | 13.5                           | 100.0                            | 560                            | 9.4                            | 100.0                            |
| <i>Total</i>             | 546                            | 47.6                           |                                  | 638                            | 46.7                           |                                  |

SOURCE: Ministry of Commerce and Industry.

Diamond exports declined, at current prices, by about 3 per cent. At constant prices the fall was one per cent. These exports were seriously affected by the recession in their chief market—the United States.

The added value of exports was slightly higher in 1958 than in 1957. The average added value of agricultural exports fell somewhat, owing to the large proportion of egg exports, the added value of which is relatively low. The added value of diamond exports rose slightly with the shift to smaller stones, as did that of industrial exports (see Table III-6).

TABLE III-6

*Receipts and Estimated Added Value of Commodity Exports, 1957-1958*  
(millions of U.S. dollars)

|                           | 1957            |                                  |                              | 1958            |                                  |                              |
|---------------------------|-----------------|----------------------------------|------------------------------|-----------------|----------------------------------|------------------------------|
|                           | <i>receipts</i> | <i>percentage of added value</i> | <i>amount of added value</i> | <i>receipts</i> | <i>percentage of added value</i> | <i>amount of added value</i> |
| Agricultural goods        | 54.4            | 74                               | 40.3                         | 56.6            | 72                               | 40.7                         |
| Industrial goods          | 47.6            | 46                               | 21.9                         | 46.7            | 47                               | 22.1                         |
| Diamonds                  | 35.5            | 19                               | 6.7                          | 34.3            | 20                               | 6.9                          |
| <i>Total</i> <sup>a</sup> | 137.5           | 50                               | 68.9                         | 137.6           | 51                               | 69.7                         |

<sup>a</sup> Excluding postage stamps, scrap and the sale of ships.

SOURCE: Ministry of Commerce and Industry and Bank of Israel.

Britain and the United States remained Israel's biggest customers. It should be noted that of the 90-odd countries to which Israel exports, 45 bought goods for less than \$100,000 each, while only 7 bought for more than \$5 million each. The main changes were that exports to Turkey and Finland declined, while exports to West Germany rose. Turkey, which had been the main market for Israel's industrial exports during the last few years, took only fourth place in 1958—after Britain, the United States and Yugoslavia.

Though Israel exported industrial goods to a large number of countries, 65 per cent of her industrial exports in 1958 were sent to only ten countries, with six of which she had trade agreements. In 1957, 75 per cent of total industrial exports were taken by the ten largest purchasers.

Agricultural exports were less dispersed, 90 per cent being absorbed by the ten major countries of destination, while Britain alone accounted for 35 per cent.

Almost the entire export of diamonds was destined to eight countries only, the United States alone absorbing 40 per cent.

Special encouragement was given to exports to Asia and Africa, which expanded considerably, reaching \$10.5 million in 1958 as against \$3.5 million in

TABLE III-7  
Exports, by Country of Destination, 1957-1958  
(millions of U.S. dollars)

| Country of destination | 1957  | 1958                 |                    |                     |       | cumulative percentage of total |
|------------------------|-------|----------------------|--------------------|---------------------|-------|--------------------------------|
|                        | total | agricultural exports | industrial exports | exports of diamonds | total |                                |
| Great Britain          | 27.6  | 20.2                 | 8.0                | 1.3                 | 29.5  | 21.2                           |
| United States          | 21.2  | 0.2                  | 6.1                | 13.1                | 19.4  | 35.1                           |
| West Germany           | 6.2   | 9.1                  | 1.2                | 0.4                 | 10.7  | 42.8                           |
| Switzerland            | 7.6   | 1.6                  | 1.2                | 5.1                 | 7.9   | 49.5                           |
| Belgium                | 9.0   | 2.5                  | 0.5                | 3.8                 | 6.8   | 54.4                           |
| Yugoslavia             | 4.8   | 1.1                  | 4.3                | —                   | 5.4   | 58.3                           |
| France                 | 4.9   | 3.8                  | 0.7                | 0.9                 | 5.4   | 62.2                           |
| Netherlands            | 3.9   | 3.0                  | 0.6                | 1.1                 | 4.7   | 65.6                           |
| Sweden                 | 3.8   | 3.7                  | 0.4                | —                   | 4.1   | 68.5                           |
| Turkey                 | 9.2   | —                    | 3.5                | —                   | 3.5   | 71.0                           |
| Denmark                | 1.6   | 2.6                  | 0.3                | —                   | 2.9   | 72.6                           |
| Finland                | 6.3   | 2.1                  | 0.8                | —                   | 2.9   | 74.2                           |
| Other countries        | 34.7  | 6.7                  | 20.7               | 8.6                 | 36.0  | 100.0                          |
| <i>All countries</i>   | 140.8 | 56.6                 | 48.3               | 34.3                | 139.2 |                                |

*General Note:* The countries have been arranged according to the value of their imports from Israel in 1958.

*SOURCE:* Central Bureau of Statistics.

1956 and \$5 million in 1957. This development may be partly attributable to the opening of Eilat harbour to navigation. Some 30,000 tons of goods were exported through Eilat in 1958, as compared with 19,000 tons in 1957.

In 1958, Israel maintained 17 active payments agreements. The bilateral accounts with Italy and Burma were abolished during the year, trade with these countries now being conducted in free currencies. New agreements were concluded with Portugal and Ghana, the latter including—in addition to the commercial account—a development credit account from which Ghana will be able to draw up to £7.5 million for a period of 5 to 6½ years.

Most of Israel's commerce within the framework of trade and payments agreements is conducted at approximately the international price level. An important exception in the past was the trade with Turkey. During the winter of 1957/58, there was a large outstanding credit balance in the account with Turkey, which was gradually liquidated during the following months. Devaluation and economic reform in Turkey brought trade with this country closer to the level of international prices. However, since in certain cases Turkish importers find it easier to obtain licenses for imports from countries linked with Turkey by trade agreements, Israeli exporters have been able to compete effectively with exporters from hard currency countries.

As the differences between trade agreement countries and free currency countries are gradually disappearing, these agreements have become less important and their weight in Israel's trade is decreasing. Such agreements usually fix a list of commodities to be traded by the two countries concerned, and determine a swing limit beyond which any outstanding balances are to be paid in free currencies. On the whole, Israel's imports from trade agreement countries far exceeded her exports to them, and as the balance was normally paid by Israel in hard currencies, there were no grounds for preferring to import from these rather than from free currency countries. On comparing Israel's import and export figures with each of the trade agreement countries during the last two years, it will be found that the only positive balance—and not a very large one at that—was with Yugoslavia and Turkey, all other trade agreement balances being negative.

The total volume of exports to trade agreement countries declined in 1958, but—as already stated—this distinction is gradually losing its significance. For as long as a real gap existed between the prices paid within the framework of the trade agreements and world market prices, it was reflected by disaggio as well as by the limiting or voiding of Government participation in production costs. When the gap diminished, recourse to these measures was likewise reduced. At the beginning of 1958, disaggios existed only in respect of exports to Turkey and Yugoslavia. During the year, these also were abolished. At the end of 1958, the Government was participating in the production costs of commodities exported to all countries. The participation was graded only as regards exports to Poland, Rumania, Bulgaria, Uruguay, Argentina and Brazil.

TABLE III-8  
*Exports, by Type of Payment, 1956-1958*  
(millions of U.S. dollars)<sub>1</sub>

|                                    | 1956  | 1957  | 1958  |
|------------------------------------|-------|-------|-------|
| Free currencies                    | 76.8  | 93.9  | 102.6 |
| Payments agreements                |       |       |       |
| With countries of Western Europe * | 19.8  | 25.8  | 18.3  |
| With other countries               | 13.1  | 21.1  | 18.3  |
| <i>Total</i>                       | 109.7 | 140.8 | 139.2 |

\* Including currency areas of these countries outside Europe.

SOURCE: Central Bureau of Statistics.

Exports to certain African countries encounter special difficulties. Already in 1957, the Government increased its participation in the production costs of commodities destined to these countries to IL.1.200 per one dollar of added

value (as against IL.0.850 for exports to other countries). The value of exports to Africa rose from \$0.9 million in 1956 to \$1.5 million in 1957 and \$2.3 million in 1958.

### 3. EXPORTS OF SERVICES

In 1958, exports of services were substantially expanded, totalling \$99.5 million, as compared to \$81.2 million in 1957.

The largest increase occurred in income from tourism, which rose by more than 100 per cent. This was partly due to the particularly low receipts from this branch in 1957, during the early months of which a travel ban was imposed on U.S. citizens as a result of the tense security situation. The main reason, however, was the considerably larger number of tourists visiting Israel, due to the Tenth Anniversary celebrations. In 1957, 42,500 tourists arrived in the country. In 1958, their number rose to 75,000. The average number of days spent here remained unchanged.

TABLE III-9  
*Exports of Services, 1957-1958*  
(millions of U.S. dollars)

|                                 | 1957 | 1958 | Increase or decrease (-)<br>from 1957 to 1958 |             |
|---------------------------------|------|------|---|-------------|
|                                 |      |      | millions of<br>dollars                        | percentages |
| Tourism                         | 5.5  | 11.9 | 6.4   | 116.4       |
| Transport                       | 45.9 | 55.4 | 9.5   | 20.7        |
| Insurance                       | 14.2 | 17.5 | 3.3   | 23.2        |
| Capital servicing               | 3.6  | 4.9  | 1.3   | 36.1        |
| Government, n.e.s. <sup>a</sup> | 4.9  | 2.0  | -2.9  | -59.2       |
| Miscellaneous                   | 7.1  | 7.8  | 0.7   | 9.9         |
| <i>Total</i>                    | 81.2 | 99.5 | 18.3  | 22.5        |

<sup>a</sup> Not elsewhere specified.

SOURCE: Central Bureau of Statistics.

The biggest absolute increase occurred in income from the transport services, consistently the most important branch of Israel's invisible exports. The transportation of passengers yielded \$15.8 million, as compared to \$9.5 million in 1957. During the latter year, receipts from this source were almost equally divided between sea-borne transportation (\$4.7 million) and air traffic (\$4.8 million), but in 1958 they totalled \$6.4 million and \$9.4 million respectively. Maritime cargo traffic yielded \$32.1 million, and air freights—\$7.6 million.

#### 4. COMMODITY IMPORTS

At current prices, the value of goods imported declined from \$432.1 million in 1957 to \$421.5 million in 1958—a decrease of 2.5 per cent. However, as import prices fell by some 7 per cent, a calculation at constant prices shows an increase of nearly 5 per cent.

The most significant decrease—at current prices—occurred in fuel imports, which had been very large in 1957 due to the accumulation of stocks and to high prices. Whereas between 1953 and 1956 the value of fuel imports averaged \$30 to \$35 million per annum, in 1957 it rose to \$53 million. During the year under review, fuel imports fell by 21 per cent to \$42 million, after fuel prices had dropped to the considerable extent of some 20 per cent.

TABLE III-10  
*Imports, by Economic Destination, 1957-1958*  
(millions of U.S. dollars)

|                                       | 1957 <sup>a</sup> | 1958  | Increase or decrease (-)<br>from 1957 to 1958 |             |
|---------------------------------------|-------------------|-------|---|-------------|
|                                       |                   |       | millions<br>of dollars                        | percentages |
| <i>Imports for direct consumption</i> |                   |       |   |             |
| Foodstuffs                            | 24.1              | 30.1  | 6.0   | 24.9        |
| Other consumer goods                  | 12.6              | 11.6  | - 1.0   | - 7.9       |
| Durable goods                         | 13.3              | 11.4  | - 1.9   | -14.3       |
| <i>Total</i>                          | 50.0              | 53.1  | 3.1   | 6.2         |
| <i>Raw materials</i>                  |                   |       |   |             |
| For the food industry                 | 47.8              | 44.0  | - 3.8   | - 7.9       |
| For other industries                  | 144.0             | 140.1 | - 3.9   | - 2.7       |
| For agriculture                       | 20.1              | 27.3  | 7.2   | 35.8        |
| <i>Total</i>                          | 211.9             | 211.4 | - 0.5   | - 0.2       |
| <i>Capital Goods</i>                  |                   |       |   |             |
| Industrial equipment                  | 34.6              | 50.6  | 16.0  | 46.2        |
| Agricultural equipment                | 8.2               | 8.0   | - 0.2   | - 2.4       |
| Other equipment                       | 5.1               | 5.9   | 0.8   | 15.7        |
| Building materials                    | 19.9              | 18.6  | - 1.3   | - 6.5       |
| Transport equipment and parts         | 48.2              | 31.3  | -16.9   | -35.1       |
| <i>Total</i>                          | 116.0             | 114.4 | - 1.6   | - 1.4       |
| <i>Fuel</i>                           | 53.3              | 42.0  | -11.5   | -21.5       |
| <i>Other imports</i>                  | 0.7               | 0.6   | - 0.1   | -14.3       |
| <i>Grand total</i>                    | 432.1             | 421.5 | -10.6   | - 2.5       |

<sup>a</sup> This classification differs somewhat from that used in previous years.

SOURCE: Central Bureau of Statistics.

Imports of ships and aircraft likewise declined steeply: In 1957, the amount spent on the purchase of ships was \$24.1 million, while the value of imported aircraft reached \$8.6 million; the corresponding figures for 1958 were \$12.4 million and \$2 million respectively. Imports of other capital goods, consisting chiefly of industrial and electrical equipment, exceeded the 1957 level, rising from \$73 million to \$100 million.<sup>1</sup> The prices of building materials, which are also included in this category, declined, but equipment prices rose by about 2 per cent. The average prices of capital goods remained, therefore, at their 1957 level.

TABLE III-11  
*Commodity Imports, 1957-1958*  
(millions of U.S. dollars)

|                | 1958<br>price<br>index<br>(1957=100) | 1957              |                | 1958  | Increase or decrease (-)<br>from 1957 to 1958<br>(at 1958 prices) |                  |
|----------------|--------------------------------------|-------------------|----------------|-------|---|------------------|
|                |                                      | current<br>prices | 1958<br>prices |       | millions of<br>dollars  | percen-<br>tages |
| Consumer goods | 92                                   | 50.0              | 46.3           | 53.1  | 6.8   | 14.7             |
| Raw materials  | 93                                   | 211.9             | 196.7          | 211.4 | 14.7  | 7.5              |
| Capital goods  | 100                                  | 116.0             | 116.0          | 114.4 | -1.6  | -1.4             |
| Fuel           | 79                                   | 53.5              | 42.3           | 42.0  | -0.3  | -0.7             |
| Total          | 93                                   | 431.4             | 401.3          | 420.9 | 19.6  | 4.9              |

SOURCE: Central Bureau of Statistics.

As regards consumer goods, food imports were increased, primarily owing to larger amounts of agricultural food surpluses (chiefly butter and cheese) purchased from the United States, which were in part diverted to stocks, whereas the level of other food imports remained unaffected. The countervalue of the agricultural surpluses constitutes a long-term loan repayable in local currency. The cost of food imports rose less than their volume, since the prices of food-stuffs fell sharply. Imports of durable consumer goods, however, declined. This category includes many commodities brought by new immigrants. Imports of these commodities increased in the wake of the larger number of immigrants in 1957, while the smaller immigration in 1958 was an important factor in their decline.

The value of imports of raw materials for industry declined by 4 per cent—

<sup>1</sup> It should be noted that the distribution of imports by economic branches is somewhat different from previous years. These figures are, therefore, not comparable with corresponding data for the period prior to 1957.

following the 7 per cent drop in the prices of these commodities. At constant prices, however, these imports increased.

Imports of raw materials for the agricultural sector, which formed the bulk of the agricultural surpluses received from the United States, rose substantially.

Imports per capita—calculated at current prices—decreased from \$216 in 1957 to \$211 in 1958. Per capita imports for consumption (i.e., total imports less capital goods and imports for exports) declined from \$123 in 1957 to \$119 in 1958—a decrease of about 3 per cent. At constant prices however, imports for consumption rose by approximately 10 per cent, in contrast to the downward trend evident in their volume during 1957.

TABLE III-12  
*Commodity Imports, by Country of Origin, 1957-1958*  
(millions of U.S. dollars)

| Country of origin    | 1957                |                       | 1958                |                       |
|----------------------|---------------------|-----------------------|---------------------|-----------------------|
|                      | millions of dollars | cumulative percentage | millions of dollars | cumulative percentage |
| United States        | 108.6               | 25.1                  | 123.4               | 29.3                  |
| West Germany         | 76.3                | 42.7                  | 64.3                | 44.6                  |
| Great Britain        | 50.3                | 54.3                  | 53.5                | 57.3                  |
| France               | 10.4                | 56.7                  | 16.2                | 61.1                  |
| Netherlands          | 14.1                | 60.0                  | 15.0                | 64.7                  |
| Switzerland          | 13.3                | 63.1                  | 11.5                | 67.4                  |
| Finland              | 11.4                | 65.7                  | 8.7                 | 69.5                  |
| Italy                | 14.2                | 69.0                  | 8.6                 | 71.5                  |
| Belgium              | 4.3                 | 70.0                  | 7.4                 | 73.3                  |
| Brazil               | 3.0                 | 70.7                  | 6.2                 | 74.8                  |
| Turkey               | 4.1                 | 71.6                  | 6.1                 | 76.2                  |
| Sweden               | 4.8                 | 72.7                  | 5.6                 | 77.5                  |
| Other countries      | 117.3               | 100.0                 | 95.0                | 100.0                 |
| <i>All countries</i> | 432.1               |                       | 421.5               |                       |

*General Note:* The countries have been arranged according to the value of their imports to Israel in 1958.

SOURCE: Central Bureau of Statistics.

The United States, West Germany and the United Kingdom were Israel's main sources of supply in both 1957 and 1958, accounting for 57 per cent of total commodity imports.

## 5. IMPORTS OF SERVICES

Government expenditure abroad—including defence outlays—is the main item listed under the import of services, but it is an item which fluctuates con-



siderably from year to year: It totalled \$97 million in 1956, \$44 million in 1957, and \$56 million during the year under review.

Imports of other services have been showing a moderate increase every year.

TABLE III-13  
*Imports of Services, 1957-1958*  
(millions of U.S. dollars)

|                                 | 1957  | 1958  | Increase from 1957 to 1958 |             |
|---------------------------------|-------|-------|----------------------------|-------------|
|                                 |       |       | millions<br>of dollars     | percentages |
| Tourism                         | 2.8   | 3.2   | 0.4                        | 14.3        |
| Transport                       | 30.1  | 32.5  | 2.4                        | 8.0         |
| Insurance                       | 16.0  | 19.6  | 3.6                        | 22.5        |
| Capital servicing               | 28.1  | 34.9  | 6.8                        | 24.2        |
| Government, n.e.s. <sup>a</sup> | 43.6  | 55.7  | 12.1                       | 27.8        |
| Miscellaneous                   | 4.5   | 5.6   | 1.1                        | 24.4        |
| <i>Total</i>                    | 125.1 | 151.5 | 26.4                       | 21.1        |

<sup>a</sup> Not elsewhere specified.

SOURCE: Central Bureau of Statistics.

Payments to airlines accounted for most of the increase in the transport item, rising from \$8.9 million in 1957 to \$11.4 million in 1958, while payments to shipping companies remained at their 1957 level of \$21.1 million. Of the total \$32.5 million, \$4.5 million were spent on passenger transport by foreign carriers, while \$28 million represented the operating costs of Israeli ships and aircraft.

Capital services include, in addition to payments of interest and profits, an amount of \$5.5 million representing the accrued interest on savings bonds of the Development Loan (which totalled \$5 million in 1957). The main change in capital services during 1958 was in respect of interest payments, which increased from \$23 to \$28 million.

## 6. UNREQUITED RECEIPTS

Unrequited receipts rose to \$251 million, as compared with \$245 million in 1957. The total of these receipts showed little change, but considerable fluctuations occurred in individual items: Personal restitution payments from Germany increased, reaching \$65 million—as against \$26 million in 1956 and \$45 million in 1957. This present level of income from this source is likely to be maintained for the next two or three years.

TABLE III-14  
*Unrequited Receipts, 1957-1958*  
(millions of U.S. dollars)

|  | 1957  | 1958  | Increase or decrease (-)<br>from 1957 to 1958 |             |
|--|-------|-------|---|-------------|
|  |       |       | millions<br>of dollars                        | percentages |
| Private transfers                              |       |       |   |             |
| In cash  | 21.2  | 25.3  | 4.1   | 19.3        |
| In kind  | 15.5  | 9.1   | -6.4  | -41.3       |
| Personal restitution from Germany              | 45.0  | 65.4  | 20.4  | 45.3        |
| Reparations from Germany                       | 77.9  | 69.7  | -8.2  | -10.5       |
| U.S. Government grant in-aid                   | 24.1  | 11.2  | -12.9   | -53.5       |
| U.N. Technical Assistance                      | 0.4   | 0.3   | - 0.1   | -25.0       |
| United Jewish Appeal and<br>other institutions |       |       |   |             |
| In cash  | 74.2  | 50.4  | -23.8   |             |
| Consolidation Loan                             | -18.5 | 10.4  | 28.9  | 9.2         |
| In kind  | 5.6   | 9.2   | 3.6   | 64.3        |
| <i>Total</i>                                   | 245.4 | 251.0 | 5.6   | 2.3         |

SOURCE: Central Bureau of Statistics.

On the other hand, Reparation payments declined somewhat. The \$70 million received in 1958 exceeded the annual appropriation from this source, as this amount included advances on account of future years financed by credits from German banks and suppliers. However, the volume of such credits expanded at a slower rate than in previous years. The total value of goods and services received between the signing of the Reparations Agreement and the end of 1958 is \$440 million. The total amount payable under the Reparations Agreement is \$821 million, the goods received up to the end of 1958 thus representing 53 per cent thereof. To date, the annual appropriations within the framework of the Agreement total only \$380 million, the value of goods and services received in excess of this amount being \$60 million. The latter sum will be repaid from Reparation receipts due in the coming years.

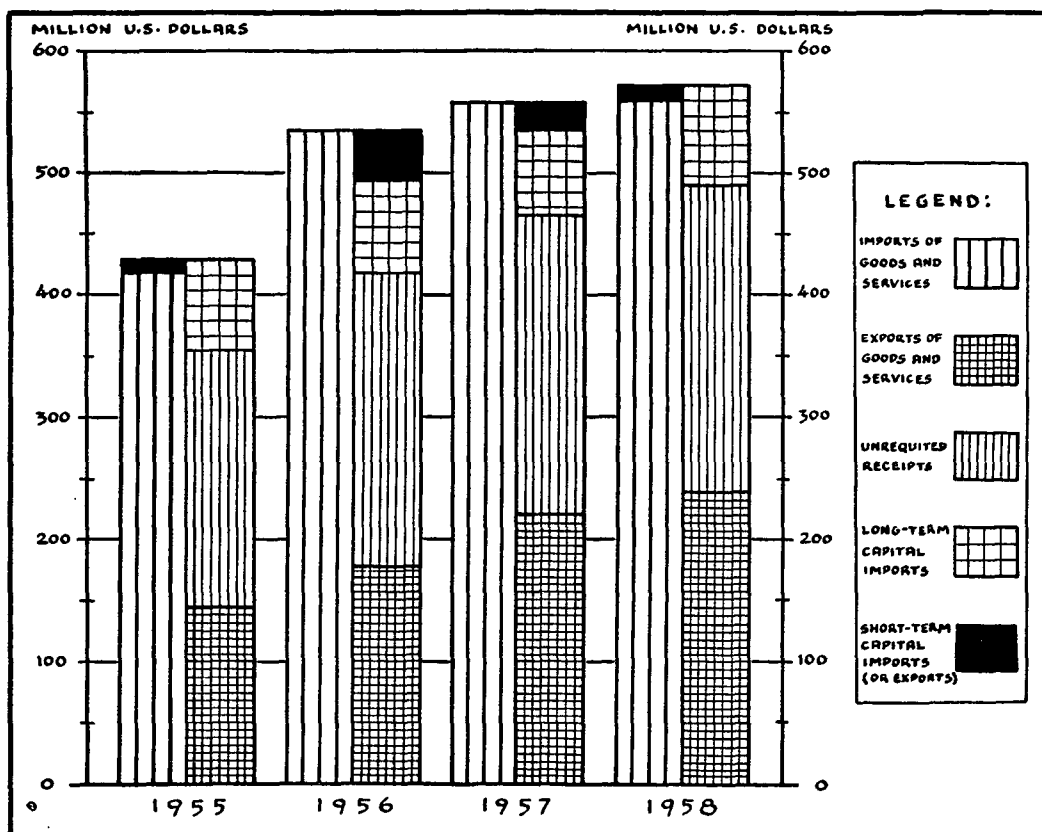
Since 1955, U.S. aid is only partly extended in the form of an outright grant, the rest constituting a long-term loan. The local currency counterpart of agricultural food surpluses from the United States, which Israel has been purchasing since 1955, is likewise considered a long-term loan. With the exception of 1957, when the share of the outright grant was high, the U.S. Government has been showing a marked preference for lending rather than extending aid in the form of grants. U.S. aid totalled \$47 million in 1956, \$49 million in 1957 and \$57 million in 1958, this latter amount including a \$14 million grant, \$38

million worth of agricultural surpluses and a \$5 million loan from the Development Fund.

### DIAGRAM III-3

#### *Imports and their Counter-Payment, 1955-1958*

(millions of U.S. dollars)



Transfers of the Jewish institutions and the United Jewish Appeal have remained virtually unchanged in the last two years. However, it should be borne in mind that during 1957 nearly \$19 million had been repaid on account of the Consolidation Loan. The amounts transferred to Israel represented, therefore, only part of these institutions' receipts—which totalled \$74 million. The additional loans, to the amount of \$10.4 million, incurred during 1958 within the framework of the Consolidation Loan, bring the outstanding balance of this loan up to \$40.7 million.

## 7. CAPITAL MOVEMENTS AND FOREIGN LIABILITIES

Israel's obligations to the rest of the world comprise—in addition to debts repayable in foreign currency—liabilities in local currency, investments of persons resident abroad, deficits in clearing accounts, and foreign deposits held in this country. If the increase in the state's foreign currency reserves be deducted, these liabilities increased by \$70 million during 1958, as against a rise of \$79 million in 1957 (as detailed in part 3 or Table III-2).

The Government's foreign exchange liabilities totalled \$670 million at the end of 1958, an increase of \$88 million over the preceding year, of which the Independence and Development Loans accounted for \$34 million.

Total net liabilities on account of the Independence and Development Loans—after deducting the value of bonds redeemed by institutions and others, in local as well as in foreign currency—reached \$324 million (including cumulative interest on savings bonds) and represented 56 per cent of the State's total foreign exchange indebtedness. In 1957, bonds to the value of \$9 million were redeemed. In 1958, \$45.1 million worth of bonds were sold, while the State's liabilities in respect of cumulative interest increased by \$5.5 million. However, the \$50.6 million increase was partly offset by the premature redemption of bonds to the amount of \$16.9 million, of which \$2.1 million were redeemed in foreign currency and the rest in local currency. Redemptions in local currency cover bonds redeemed by institutions (\$8.1 million), by foreign investors (\$4.4 million) and by others, mainly tourists (\$2.3 million).

Other long-term commitments in foreign currency declined by approximately \$7 million, following the partial repayment of the Export-Import Bank loans. Short- and medium-term foreign currency liabilities increased by \$21 million in 1958, reaching a total of \$130 million at the end of the year.

Short-term liabilities increased by some \$19 million. This, however, was more than offset by the \$46 million increase in foreign currency reserves. Israel drew from the International Monetary Fund an amount of \$3.8 million in 1957, which was repaid during 1958. Net liabilities within the framework of the clearing agreements grew by \$8 million, credit balances in clearing accounts declining by \$1.2 million, while debit balances rose by \$6.8 million. Medium-term liabilities likewise increased.

Israel's total commitments to the rest of the world (excluding investments, for which no aggregates are available) rose by \$107 million, from \$652 million in 1957 to \$759 million at the end of 1958. The latter figure includes loans and deposits of the U.S. Government repayable in local currency, which reached \$145 million, as against \$98 million in the preceding year. Israel's deposits abroad increased by \$46 million, reaching \$130 million; foreign commitments, excluding investments, thus totalled \$629 million at the end of 1958—a rise of \$61 million over the 1957 level.

TABLE III-15

*Israel's Commitments to the Rest of the World, 1957-1958<sup>a</sup>**(millions of U.S. dollars)**End of period*

|   | 1957  | 1958  | Increase or decrease (-) |
|---|-------|-------|--------------------------|
| <i>A. Foreign currency liabilities</i>                        |       |       |                          |
| (1) Medium- and long-term liabilities                         |       |       |                          |
| Independence and Development                                  |       |       |                          |
| Loans   | 290.4 | 324.1 | 33.7                     |
| Other long-term liabilities                                   | 132.2 | 124.8 | - 7.4                    |
| Medium-term liabilities                                       | 60.7  | 75.7  | 15.0                     |
| <i>Total</i>  | 483.3 | 524.6 | 41.3                     |
| (2) Short-term liabilities                                    |       |       |                          |
| Short-term loans  | 46.3  | 56.6  | 10.3                     |
| Liabilities to the I.M.F.                                     | 3.8   | —     | - 3.8                    |
| Net liabilities on account of payments agreements             | 4.7   | 12.8  | 8.1                      |
| Foreign deposits  | 16.1  | 20.4  | 4.3                      |
| <i>Total</i>  | 70.9  | 89.8  | 18.9                     |
| (3) Foreign exchange reserves                                 |       |       |                          |
| Deposits abroad   | 80.4  | 126.4 | 46.0                     |
| Gold  | 3.5   | 3.5   | —                        |
| <i>Total</i>  | 83.9  | 129.9 | 46.0                     |
| <i>Total net foreign exchange liabilities (1) + (2) - (3)</i> | 470.3 | 484.5 | 14.2                     |
| <i>B. Local currency liabilities</i>                          |       |       |                          |
| Loans and deposits of the U.S. Government                     | 97.9  | 144.8 | 46.9                     |
| <i>Grand total</i>  | 568.2 | 629.3 | 61.1                     |

<sup>a</sup> Excluding increases in foreign investments, totalling \$17.8 million in 1957 and \$8.4 million in 1958, as shown in Table III-15.

Investments from abroad totalled only \$8.4 million in 1958, as compared with \$17.8 million in the preceding year, despite the fact that direct investments—in the form of capital transferred in cash, kind and bonds—rose from \$11.6 million in 1957 to \$14.4 million in 1958. This was more than offset by the decline in investments from foreign residents' blocked accounts in Israel. Moreover, the stocks of foreign companies operating in the country increased to a lesser extent than in 1957 (see Table III-16).

TABLE III-16

*Foreign Investments in Israel, 1957-1958*  
*(millions of U.S. dollars)*

|  | 1957 | 1958  | <i>Increase or<br/>decrease from<br/>1957 to 1958</i> |
|--|------|-------|---|
| Cash capital transfers, in kind and bonds (1)                                      | 11.6 | 14.4  | 2.8   |
| Investments out of local currency deposits<br>of non-residents (2)                 | 3.9  | - 1.8 | -5.7  |
| Changes in stocks held by foreign companies (3)                                    | 3.5  | 1.2   | -2.3  |
| Israeli investments abroad and liquidation of<br>foreign investments in Israel (4) | -1.2 | - 5.4 | -4.2  |
| <i>Total (1) + (2) + (3) - (4)</i>   | 17.8 | 8.4   | -9.4  |

SOURCE: Central Bureau of Statistics.