

CHAPTER III

THE BALANCE OF PAYMENTS AND FOREIGN TRADE

1. THE BALANCE OF PAYMENTS

THE IMPORT SURPLUS continued to grow in 1962, rising by \$ 14 million to \$ 416 million. Exports expanded faster than imports—18 vs. 11 per cent—but the absolute increases were \$ 75 million and \$ 90 million, respectively.

The salient feature of 1962 was the devaluation of February 9, when the official rate was raised by 67 per cent, from IL 1.80/\$ 1 to IL 3.00/\$ 1. However, the effective exchange rate actually had not been IL 1.80/\$ 1 even prior to devaluation; there were different rates for different types of transactions, and consequently the change in the effective rate was not uniform. The average effective exchange rate for value added was IL 2.50/\$ 1, and devaluation raised this by 44 per cent¹: for commodities, from IL 2.45/\$ 1, or by 36 per cent; and for services, from IL 1.85/\$ 1, or by 62 per cent. The rate for commodity exports rose by 6 per cent, and for service exports by 53 per cent.

The ramified system of effective exchange rates for imports tended, on the one hand, to artificially protect certain branches, such as those producing consumer goods, and on the other, to excessively stimulate the import of other commodities, such as equipment. The New Economic Policy was intended to correct these distortions, and many of the differential customs duties and levies were abolished in order to unify the rates; thus, the lower the pre-devaluation effective rate, the higher was the increase (see Table III-1).

The alteration of the rate did not immediately reduce the volume of imports. The effect of such a change can, by its very nature, be felt only after a lapse of time, when goods ordered after devaluation are delivered; this time lag varies, extending to several months for some import categories, such as equipment. Although for the whole of 1962 commodity imports were 6 per cent over the 1961 level, a change in trend became apparent as from October: imports for the last part of the year were lower than in the corresponding period of 1961. This trend continued during the first months of 1963.

The more rapid rise in imports in the early months of 1962 is attributable in part to the uncertainty felt immediately after devaluation about the Government's import policy, and in part to factors operative before devaluation which led to increased orders, reflected in the post-devaluation deliveries.

¹ In respect of imports for the local market, the increase was 42 per cent.

Table III-1
EFFECTIVE EXCHANGE RATES FOR IMPORTS, BY ECONOMIC
DESTINATION, 1961-62

	Average 1961 IL per \$ 1	Index of effective rates Average 1961 = 100	
		March 1962	December 1962
Commodities for direct consumption			
Current consumption			
Food	4.47	104.5	108.3
Other current consumption	2.43	144.9	146.1
Durable goods	2.71	138.4	138.4
Total	3.19	124.8	126.6
Raw materials			
For industry	2.20	145.9	148.6
For agriculture	2.73	100.0	119.8
For construction	3.17	130.9	130.9
Fuel	3.75	113.1	120.5
Total	2.50	135.6	138.8
Investment goods			
For industry and construction	2.17	147.0	147.0
For agriculture	2.07	147.3	147.8
For transportation	2.03	160.6	159.1
Other	2.50	142.4	142.4
Total	2.10	153.8	153.8
Total commodity imports	2.45	138.8	140.8
Services	1.85	162.2	162.2

Commodity imports did not rise as much as in the preceding year, primarily because of the steep decline in imports of ships and aircraft, an item whose timing has a large random element. The increase in commodity imports other than ships and aircraft amounted to 14 per cent in 1962, compared with 13 per cent in 1961. In the first nine months of the year reviewed, imports were 18 per cent over the level of the corresponding period of 1961, while in the last quarter there was a 1 per cent decline from the 1961 fourth-quarter figure.

In 1962 import procedures were further streamlined. In respect of about half the value of imports, import licenses are no longer required, while in another 30 per cent the granting of licenses is in fact only a formality. A start has also been made in reducing the degree of protection granted to certain branches of industry, with a view to exposing them to foreign competition, and administrative protection, which had totally prevented the import of some commodities,

Table III-2
THE BALANCE OF PAYMENTS, BY MAIN CATEGORY, 1961-62
(\$ million)

	1961			1962		
	Credit	Debit	Net credit (+) or debit (-)	Credit	Debit	Net credit (+) or debit (-)
(1) Commodities	238.5	574.2	-335.7	272.2	609.7	-337.5
(2) Services	182.4	248.3	- 65.9	223.8	302.3	- 78.5
(3) Unilateral transfers	346.3	—	+346.3	334.8	—	+334.8
(4) Total (1) to (3)	767.2	822.5	-55.3	830.8	912.0	-81.2
(5) Long-term capital movements	135.3	—	+135.3	221.3	—	+221.3
(6) Short-term capital movements (including foreign currency reserves)	—	71.9	-71.9	—	100.5	-100.5
(7) Net errors and omissions	—	8.1	-8.1	—	39.6	-39.6

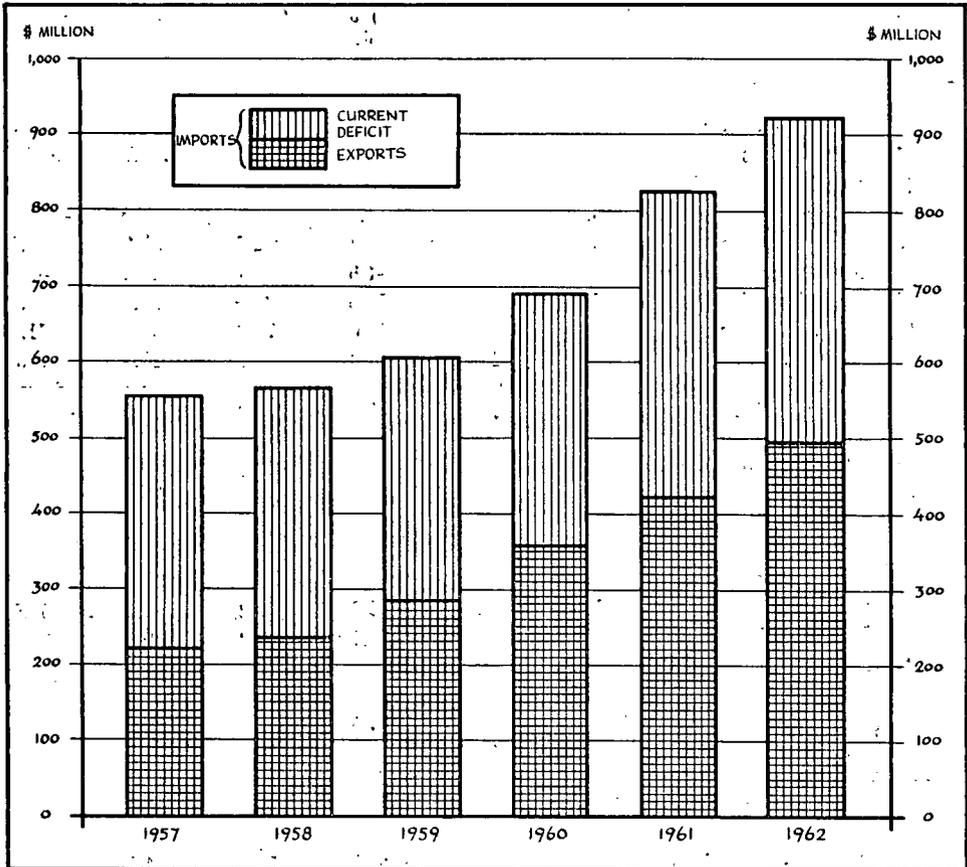
was replaced by fiscal protection. Owing to the short period that has passed since the introduction of these changes, it is difficult to gauge their effect, either on the size of imports or on domestic production.

There was a marked increase in service imports in 1962; however, a considerable part of this additional import was connected with the much higher defense expenditure. Capital servicing also rose, owing to the larger foreign indebtedness and the sharp rise in foreign investment in recent years.

The exchange rates for commodity exports were unified and most premiums abolished. The average effective rate for the value added dollar from exports went up, as stated, by 6 per cent, but the rates of increase varied as between the different export categories, being 19 per cent for citrus, 13 per cent for diamonds, and only 8 per cent for industrial goods and 3 per cent for agricultural produce other than citrus. Exports grew at a similar tempo as in the preceding year, and the trend apparently reflects mainly factors unconnected with devaluation. There was a considerable gain in proceeds from the overseas sale of citrus—despite the drop in prices—and of diamonds, whereas exports of other industrial goods and services rose at the same rate as in 1961. Exports also showed a change in trend toward the end of the year, the figure for the final quarter being 25 per cent over the 1961 fourth-quarter level. Until now the establishment of the Common Market has made itself felt in the difficulties encountered in exporting several commodities, and the share of exports to Com-

mon Market countries has declined. The terms of trade improved somewhat in 1962 after a marked worsening in 1961: import prices declined by about 2 per cent, while export prices declined by only 1 per cent.

Diagram III-1
IMPORTS, EXPORTS, AND THE CURRENT DEFICIT, 1957-62



There was a decline in unilateral transfers, but this affected only those to the public sector—primarily transfers under the Reparations Agreement, the implementation of which is nearing completion. In contrast, there was a striking increase in private transfers, both from personal restitution and from other sources. The relative share of private transfers has been climbing for several years, but in 1962 the rise was especially large. The share of the public sector dropped from 65 to 57 per cent between 1958 and 1961, while in 1962 it came to only 40 per cent. Apparently the downward trend was accentuated by the fact that public-sector transfers were not affected by devaluation, while

Table III-3
THE BALANCE OF PAYMENTS, 1961-62
(\$ million)

	1961			1962 (provisional)		
	Credit	Debit	Net credit (+) or debit (-)	Credit	Debit	Net credit (+) or debit (-)
A. Commodities and services						
(1) Commodities	238.5	574.2	-335.7	272.2	609.7	-337.5
(2) Tourism and foreign travel	30.3	16.4	+13.9	38.4	23.9	+14.5
(3) Transportation	86.1	53.7	+32.4	112.5	67.8	+44.7
(4) Insurance	27.6	29.4	-1.8	21.1	24.9	-3.8
(5) Capital servicing	13.1	64.7	-51.6	21.6	71.6	-50.0
(6) Government, n.e.s. ^a	7.5	60.5	-53.0	12.3	84.2	-71.9
(7) Miscellaneous	17.8	23.6	-5.8	17.9	29.9	-12.0
Total (1) to (7)	420.9	822.5	-401.6	496.0	912.0	-416.0
B. Unilateral transfers						
Private transfers						
(8) Gifts and transfers by residents and immigrants						
(8.1) in cash	37.8	1.2	+36.6	58.2	0.7	+57.5
(8.2) in kind	8.5	0.1	+8.4	10.2	0.1	+10.1
(9) Personal restitution from West Germany	111.5	1.0	+110.5	137.9	4.0	+133.9
Transfers by the Government and by public institutions						
(10) German Reparations	90.9	2.6	+88.3	51.3	4.3	+47.0
(11) U.S. Government aid	10.4	—	+10.4	10.9	—	+10.9
(12) U.N. Technical Assistance	0.4	0.3	+0.1	0.3	0.2	+0.1
(13) Transfers by the Jewish Agency and other institutions						
(13.1) in cash	86.4	—	+86.4	71.8	—	+71.8
(13.2) in kind	5.6	—	+5.6	3.5	—	+3.5
Total (8) to (13)	351.5	5.2	+346.3	344.1	9.3	+334.8
Total A + B	772.4	831.5	-55.3	840.1	921.3	-81.2

^a Not elsewhere specified.

Table III-3
THE BALANCE OF PAYMENTS, 1961-62 (continued)
(\$ million)

	1961			1962		
	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	63.3	31.2	+32.1	65.4	31.3	+34.1
(14.2) U.S. Govt. Loans under Grant-in-Aid	32.3	2.5	+29.8	45.6	2.6	+43.0
(14.3) Other long- and medium-term loans	91.2	70.0	+21.2	157.6	98.7	+58.9
(14.4) Foreign investments	60.2	8.0	+52.2	92.2	6.9	+85.3
Total (14)	247.0	111.7	+135.3	360.8	139.5	+221.3
(15) Short-term capital movements						
(15.1) Short-term loans	—	7.4	-7.4	0.6	—	+0.6
(15.2) Clearing accounts	—	0.4	-0.4	—	5.2	-5.2
(15.3) Foreign deposits in local banks	18.5	—	+18.5	20.3	—	+20.3
(15.4) U.S. Govt. deposits	12.3	—	+12.3	9.8	—	+9.8
(15.5) Foreign currency reserves	—	85.0	-85.0	—	93.9	-93.9
(15.6) Monetary gold	—	9.9	-9.9	—	32.1	-32.1
Total (15)	30.8	102.7	-71.9	30.7	131.2	-100.5
Total (14) + (15)	277.8	214.4	+63.4	391.5	270.7	+120.8
Total A to C	1,050.2	1,042.1	+8.1	1,231.6	1,192.0	+39.6
Net errors and omissions	—	8.1	-8.1	—	39.6	-39.6

in respect of private transfers, the expectation of devaluation during 1961 was a deterring factor and the devaluation itself a motivating factor.

Devaluation also stimulated investments from abroad, the amount coming to \$ 95 million as compared with \$ 60 million in 1961.

The upward trend in foreign currency reserves, which started in 1958, continued during the year reviewed, when the rate was even faster than in previous years. The reserves, including gold, grew by \$ 126 million, and amounted to about \$ 490 million at the end of 1962. Net reserves, i.e. reserves less short-term debt, rose from \$ 260 million at the end of 1961 to \$ 370 million at the end of 1962. The increase took place despite the decline in unilateral transfers, and was accompanied by a more rapid rise in foreign indebtedness than in previous years.

2. EXPORTS

Exports of goods and services expanded by \$ 75 million in 1962; this was a rise of 18 per cent, the same as in 1961. The rate of growth for each of the two main components also remained constant: exports of commodities rose by 13 per cent in 1961 and 14 per cent in 1962, and those of services by 24 and 23 per cent, respectively.

Table III-4
COMMODITY EXPORTS, BY MAIN CATEGORY, 1961-62
(\$ million)

	Price index in 1962 (1961 = 100)	1961	1962		Increase or decrease (-)	
			1961 prices	Current prices	1961 prices	Current prices
Agricultural products	97	62.9	70.5	68.4	7.6	5.5
Industrial goods	97	103.1	123.7	120.0	20.6	16.9
Diamonds	101	65.3	81.5	82.3	16.2	17.0
Miscellaneous	100	7.2	1.5	1.5	-5.7	-5.7
Total	99	238.5	277.2	272.2	38.7	33.7

In 1962 commodity export prices dropped by 1 per cent, so that in real terms exports rose by 16 per cent, compared with 12 per cent in 1961 and 23 per cent in 1960.

The composition of exports was in line with the trends of the preceding years. The increase was concentrated in services and industrial goods—and within the latter in diamonds; while agricultural exports expanded only slightly,

and their weight in the total continued to decline, amounting to only 14 per cent in 1962, as compared with 20 per cent in 1959. The proportion of industrial exports remained more or less constant—about one-quarter of the total—while the weight of diamonds rose somewhat, to 17 per cent. There was a marked rise in the share of service exports, from 39 per cent in 1959 to 45 per cent in 1962.

Table III-5
EXPORTS, BY MAIN CATEGORY, 1959-62

	(percentages)			
	1959	1960	1961	1962
Agricultural products	20.2	17.7	15.0	13.6
Industrial goods and misc.	25.5	25.4	26.3	24.7
Diamonds	15.7	15.8	15.4	16.6
Services	38.6	41.1	43.3	45.1
Total	100.0	100.0	100.0	100.0

Citrus exports expanded considerably, from \$ 40.5 million in 1961 to \$ 49.2 million in 1962. The volume rose even more rapidly—from 7.6 million cases to 9.6 million, or by 27 per cent, compared with the 20 per cent gain in receipts. The increase in volume was primarily due to young plantations reaching fruit-bearing age, and took place entirely in the 1962/63 season, in contrast to the stagnation of the 1961/62 season.

The export of most other agricultural products declined. The sharpest drop, by one-third, was in eggs, and it reflected the policy of restraining the exports of this item, which is not profitable to the economy. Agricultural exports other than citrus and eggs came to \$ 11 million, compared with \$ 10.2 million in 1961.

In 1961 the principal increase in industrial exports was in metal and textile products. Textile exports again received considerable Government encouragement during the year reviewed, but serious marketing difficulties were experienced. The bulk of the growth was in yarn, reflecting the expansion of productive capacity during the last few years. There was also a marked rise in exports of citrus products and food products other than edible oils. The decline in copper cement was due to marketing difficulties, and cement exports fell off because of the larger local demand.

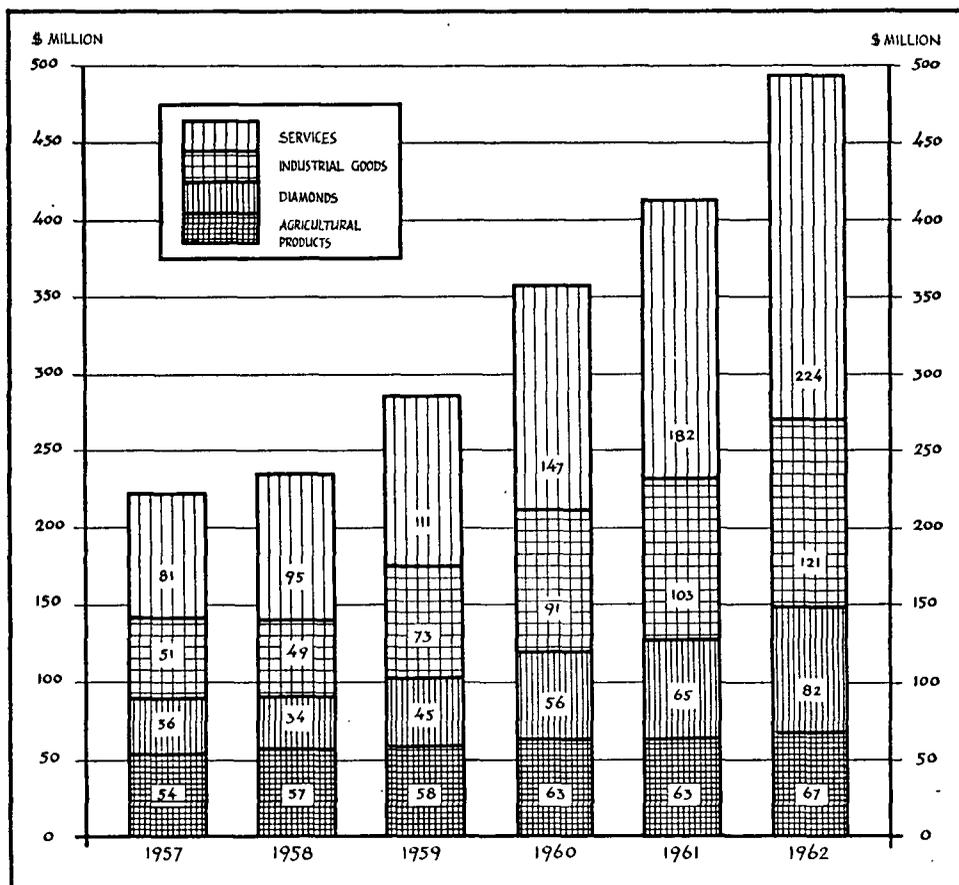
In commodity exports, diamonds showed the fastest growth—26 per cent. This continued the trend of the previous years, a trend which was strengthened in 1962 through the expansion of the industry's capacity and the raising of the raw diamond quota by the world syndicate on the one hand, and as a result

Table III-6
MAIN COMMODITY EXPORTS, 1961-62

(\$ million)

	1961	1962	Increase or decrease (-)	
			\$ million	%
Agricultural products				
Citrus	40.5	49.2	8.7	21.5
Eggs	12.2	8.2	-4.0	-32.7
Groundnuts	2.3	2.0	-0.3	-16.1
Raw cotton	1.4	2.5	1.1	75.8
Other agricultural products	6.5	6.5	—	—
Total	62.9	68.4	5.5	8.7
Industrial products				
Citrus products	8.0	10.0	2.0	24.6
Edible oils	4.1	3.5	-0.6	-14.2
Other foodstuffs	3.9	5.5	1.6	42.2
Potash	4.3	4.4	0.1	2.9
Copper cement	4.1	3.1	-1.0	-25.1
Automotive vehicles	1.2	1.5	0.3	23.2
Tires	8.7	10.1	1.4	17.0
Machinery, metal goods, electrical appliances	14.6	18.5	3.9	26.6
Cement	2.0	1.8	-0.2	-8.6
Plywood	4.4	5.7	1.3	28.9
Chemicals and pharma- ceuticals	4.8	6.0	1.2	25.0
Textiles				
Yarn	7.4	11.6	4.2	56.7
Cloth	3.6	4.4	0.8	21.7
Clothing	12.6	12.9	0.3	2.2
Other products	19.4	21.0	1.6	18.2
Total	103.1	120.0	16.9	16.4
Diamonds	65.3	82.3	17.0	26.0
Miscellaneous	7.2	1.5	-5.7	-79.2
Grand total	238.5	272.2	33.7	14.1

Diagram III-2
EXPORTS, BY MAIN CATEGORY, 1957-62



of greater foreign demand on the other. Exports of diamonds advanced by 46 per cent in the two years 1961 and 1962, compared with 35 per cent for other industrial goods and a mere 7 per cent for agricultural products.

The item "miscellaneous" includes mainly ships, stamps, and scrap. In 1962 the figure conformed to the usual order of magnitude, the big drop being a reflection of the \$ 6 million sale of ships in 1962.

The value added of commodity exports came to \$ 122 million in 1962, compared with \$ 105 million in 1961; this 16 per cent increase is the same as that in total receipts, and thus the per cent of value added remained unchanged. In agricultural products the per cent of value added rose, owing to the increased weight of citrus; on the other hand, the weight of diamonds, which has a low value added, also increased.

The United States, United Kingdom, and West Germany continued to be

Table III-7

**TOTAL VALUE AND ESTIMATED VALUE ADDED OF COMMODITY EXPORTS,
BY MAIN CATEGORY, 1961-62**

(\$ million)

	1961			1962		
	Total value	Value added	Per cent value added	Total value	Value added	Per cent value added
Agricultural products	62.9	40.3	64	68.4	46.5	68
Industrial products	103.1	50.7	49	120.0	57.6	48
Diamonds	65.3	14.4	22	82.3	18.1	22
Total	231.3	105.4	45	270.7	122.2	45

the principal markets for Israel's goods, and their share of the total was 40 per cent. The share of Common Market countries declined markedly, while that of the U.K. and the African countries dropped slightly, and other European countries increased their share.

Table III-8

EXPORTS, BY MAIN COUNTRY OF DESTINATION, 1961-62

	1961		1962	
	\$ million	%	\$ million	%
Common Market countries	68.3	28.6	69.7	25.6
United Kingdom	35.4	14.9	37.9	13.9
Clearing countries	26.8	11.2	32.1	11.8
Other European countries	28.5	11.9	38.9	14.3
United States	37.1	15.6	40.3	14.8
Africa	13.4	5.6	10.7	3.9
Other countries	29.0	12.2	42.6	15.7
Total	238.5	100.0	272.2	100.0

Agricultural exports show a high concentration of destination: the U.K., West Germany, and Italy took 52 per cent, and nine other West European countries accounted for a further 38 per cent. Diamond exports are also highly concentrated: the U.S., Switzerland, and Belgium took 56 per cent, and 23 per cent went to another four countries. The destination of other industrial goods shows a much greater dispersion. Exports within clearing agreements have for some

time ceased to be of importance, and came to 11 per cent of total commodity exports in both 1961 and 1962.

Table III-9
EXPORTS OF SERVICES, 1961-62
(\$ million)

	1961	1962	Increase or decrease (-)	
			\$ million	%
Tourism	30.3	38.4	8.1	26.7
Transportation	86.1	112.5	26.4	30.7
Insurance	27.6	21.1	-6.5	-23.6
Capital servicing	13.1	21.6	8.5	64.8
Government, n.e.s. ^a	7.5	12.3	4.8	64.0
Miscellaneous	17.8	17.9	0.1	0.6
Total	182.4	223.8	41.4	22.7

^a Not elsewhere specified.

Service exports rose by 23 per cent in 1962 and totalled \$ 224 million, compared with \$ 182 million the year before. Half of this amount came from transportation, which grew by \$ 26 million; shipping proceeds were \$ 76 million, and those from aviation \$ 36 million. Passenger transport brought in \$ 35 million, of which \$ 26.4 million was from air services and \$ 8.5 million from shipping.

The biggest rise—over 60 per cent—was in capital servicing and Government services, although even now the weight of these items in total service exports is not very great. Tourist receipts continued to increase, amounting to \$ 38 million as compared with \$ 30 million in 1961. The number of tourists rose by 15 per cent, from 160,000 to 184,000, as against the 27 per cent increase in proceeds. Receipts per tourist went up from \$ 190 to \$ 209, apparently owing to the raising of the official exchange rate.

3. IMPORTS

Imports of goods and services rose by \$ 90 million or 11 per cent in 1962, and came to \$ 912 million; in 1961 the increase was \$ 132 million, or 20 per cent. Service imports went up by 22 per cent, compared with 24 per cent in 1961, and commodity imports by only 6 per cent, as against 17 per cent in 1961. Foreign prices of commodity imports declined by 2 per cent, and the real increase thus came to 8 per cent.

Table III-10

COMMODITY IMPORTS, BY ECONOMIC DESTINATION, 1961-62

(\$ million)

	1961	1962	Increase or decrease (-)	
			\$ million	%
Commodities for direct consumption				
Food	13.9	15.7	1.8	12.9
Current consumption	17.4	15.0	-2.4	-13.8
Durable goods	12.9	13.9	1.0	7.7
Total	44.2	44.6	0.4	0.9
Raw materials				
For food industry	62.5	62.9	0.4	0.6
For other industries	212.5	246.8	34.4	16.2
For agriculture	27.4	29.2	1.8	6.6
Building materials	15.5	17.3	1.8	11.6
Total	317.9	356.2	38.4	12.1
Investment goods				
For industry and construction	64.0	84.5	20.5	32.0
For agriculture	10.9	11.3	0.4	3.7
For transportation	26.9	33.8	6.9	25.6
Ships and aircraft	61.6	21.7	-39.9	-64.8
Other equipment	14.1	16.6	2.5	17.7
Total	177.5	167.9	-9.6	-5.4
Fuel	34.2	40.6	6.4	18.7
Miscellaneous	0.4	0.4	—	—
Grand total	574.2	609.7	35.6	6.2

There was an appreciable decline in imports of ships and aircraft—\$ 22 million in 1962 compared with \$ 62 million the year before. On the other hand, imports of investment goods other than ships and aircraft continued to rise in 1962, the increment being 25 per cent. Raw diamond imports also rose considerably. There was little change in imports of consumer goods, and some increase in imports of fuel and other raw materials.

Table III-11
COMMODITY IMPORTS, BY MAIN COUNTRY OF ORIGIN, 1961-62

	1961		1962	
	\$ million	%	\$ million	%
Common Market countries	177.4	30.9	145.9	23.9
United Kingdom	78.5	13.7	99.3	16.3
Clearing countries	26.1	4.5	24.4	4.0
Other European countries	47.6	8.3	51.2	8.4
United States	169.5	29.5	200.5	32.9
Africa	18.9	3.3	19.0	3.1
Other countries	56.2	9.8	69.4	11.4
Total	574.2	100.0	609.7	100.0

There was no substantial change in the origin of imports, the U.S., U.K., and West Germany continuing to supply about 60 per cent of the total; however, the share of the U.S. and U.K. rose, while that of West Germany declined, reducing the share of the Common Market as a whole (see Table III-11).

Table III-12
IMPORTS OF SERVICES, 1961-62
(\$ million)

	1961	1962	Increase or decrease (-)	
			\$ million	%
Foreign travel	16.4	23.9	7.5	46.7
Transportation	53.7	67.8	14.1	26.2
Insurance	29.4	24.9	-4.5	-15.3
Capital servicing	64.7	71.6	6.9	10.7
Government, n.e.s.*	60.5	84.2	23.7	39.2
Miscellaneous	23.6	29.9	6.6	26.2
Total	248.3	302.3	54.0	21.8

* Not elsewhere specified.

The rise in service imports came to \$ 54 million in 1962, compared with \$ 48 million the year before. The most marked increase was in Government services, although the other items (except for insurance) also rose considerably.

Foreign travel amounted to \$ 24 million and showed the biggest relative increase, apparently owing to the *de facto* removal of restrictions on the acquisition of foreign currency. Shipping and aviation outlays were \$ 40 million and \$ 28 million, respectively. Most of the amount was for freight, passenger travel accounting for only \$ 8 million.

Capital servicing, which is one of the principal service imports, came to \$ 72 million. Profits and dividend payments totalled \$ 16 million, about the same as in 1961. Interest payments went up from \$ 49 million to \$ 56 million: personal and institutional interest payments rose from \$ 13 million to \$ 20 million, while Government payments stood at \$ 36 million in both years.

4. UNILATERAL TRANSFERS

After the 1961 peak, when unilateral receipts reached \$ 346 million, there was a 3 per cent decline in 1962, to \$ 335 million. The biggest absolute drop occurred in transfers under the Reparations Agreement, which is coming to an end. By the end of 1962 imports of goods and services within the Reparations framework amounted to more than \$ 700 million, or close to 90 per cent of the

Table III-13
UNREQUITED RECEIPTS, 1961-62

(\$ million)

	1961	1962	Increase or decrease (-)	
			\$ million	%
Private transfers				
In cash	36.6	57.5	20.9	57.1
In kind	8.4	10.1	1.7	20.2
Personal restitution from				
West Germany	110.5	133.9	23.4	21.2
German Reparations	88.3	47.0	-41.3	-46.8
U.S. Government Grant-in-Aid	10.4	10.9	0.5	4.8
U.N. Technical Assistance	0.1	0.1	—	—
Transfers of Jewish Agency and other institutions				
In cash	86.4	71.8	-14.6	-16.9
In kind	5.6	3.5	-2.1	-27.5
Total	346.3	334.8	-11.5	-3.3

total. The balance has in fact already been allocated: fuel imports from this source will come to \$ 20 million annually for the next three years, and orders have already been placed for the remainder.

United States Government aid has for some time been extended in the form of long-term loans, most of which will be repaid in local currency, while only a small part has been in the form of outright grants. The amount of such loans granted in 1962 was \$ 53 million, compared with \$ 42 million in 1961. Loans

Diagram III-3
THE BALANCE OF PAYMENTS, 1957-62

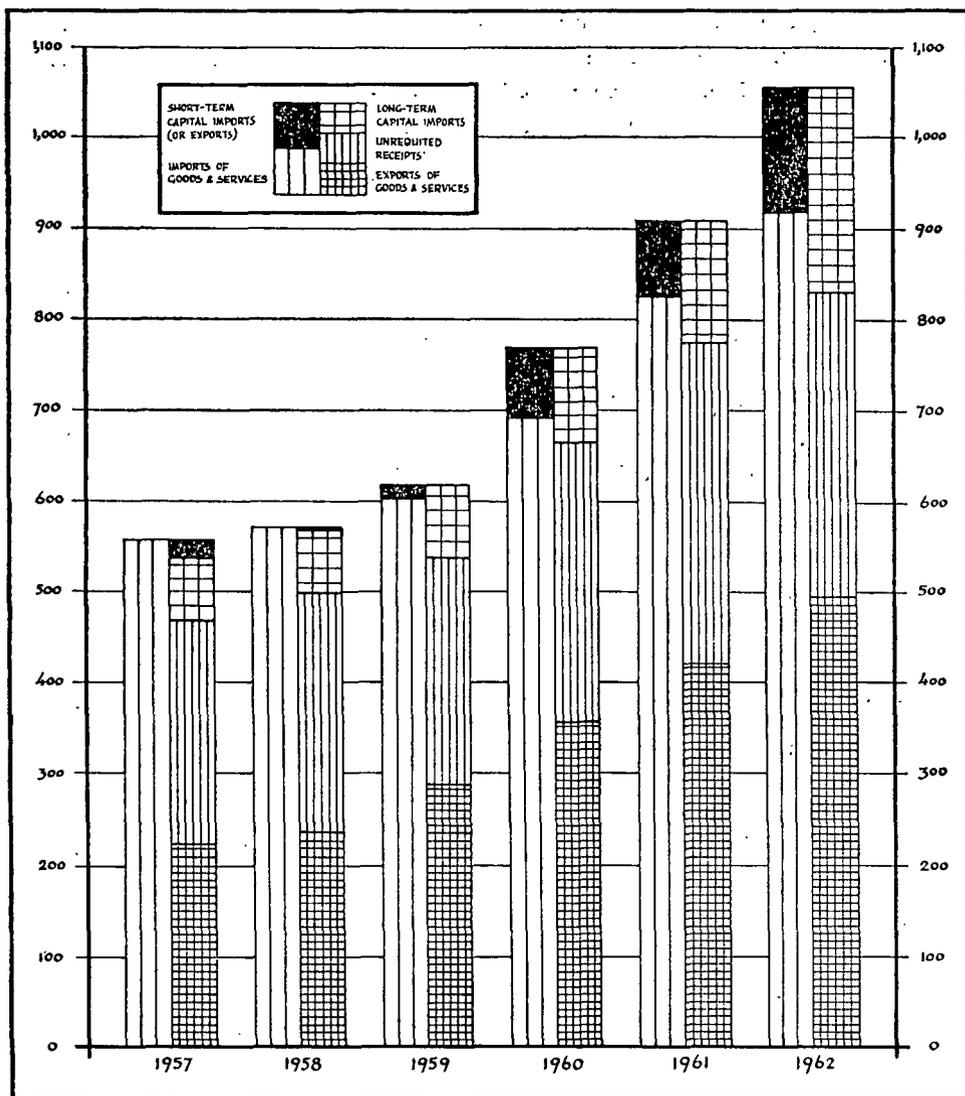


Table III-14
ISRAEL'S FOREIGN LIABILITIES, 1961-62
(\$ million)

(End of period)

	1961	1962	Increase or decrease (-)
A. Foreign currency liabilities			
1. Long- and medium-term			
a. Independence and Development Loans	417.4	451.5	34.1
b. Export-Import Bank Loan	86.6	92.8	6.2
c. U.S. Govt. loan under Grant-in-Aid	—	17.9	17.9
d. Other long- and medium-term loans	144.0	196.7	52.7
Total	648.0	758.9	110.9
2. Short-term			
a. Short-term loans	33.9	47.3	13.4
Total (1) + (2)	681.9	806.2	124.3
3. Foreign deposits with Israel banks			
a. Foreign deposits	80.5	100.8	20.3
b. Loans out of foreign deposits	7.9	20.7	-12.8
Total	72.6	80.1	7.5
4. Foreign currency reserves			
a. Net clearing balances	0.7	5.9	5.2
b. Deposits abroad	348.8	442.7	93.9
c. Monetary gold	16.2	48.3	32.1
Total	365.7	496.9	131.2
Net foreign currency reserves (2) - (3) - (4)	259.2	369.5	110.3
Total foreign currency liabilities (1) + (2) + (3) - (4)	388.8	389.4	0.6
B. Local currency liabilities	279.4	314.3	34.9
C. Net investment from abroad	85.3
Grand total	120.8

from the Development Loan Fund and from the Agency for International Development rose from \$ 15 million in 1961 to \$ 22 million in 1962, most of it in foreign currency, while loans and deposits from the agricultural surpluses counterpart funds totalled \$ 31 million, compared with \$ 27 million in 1961.

In the two preceding years, institutional transfers had been at a particularly high level, but in 1962 they contracted by \$ 17 million, to \$ 75 million. Since 1954 the Jewish communities in America have taken on bank loans in order to increase the amounts transferred in certain years, with the intention of repaying these loans from the Appeal receipts of subsequent years. In 1962 the outstanding balance of these loans contracted by \$ 6.7 million, and stood at \$ 55 million at the end of the year.

Items which showed an increase were personal restitution from Germany and private transfers. It may be assumed that, while devaluation had no effect on Government and institutional transfers, in the case of private transfers expectations of devaluation had been a restraining factor in 1961, while in 1962 the devaluation itself provided a stimulus.

5. CAPITAL MOVEMENTS AND FOREIGN LIABILITIES

In 1962 foreign currency reserves rose by \$ 126 million, compared with a rise of \$ 95 million in 1961. At the end of the year reviewed, the reserves stood at \$ 490 million, while net reserves—i.e. net of short-term capital movements—amounted to \$ 370 million, as against \$ 260 million at the end of 1961.

Table III-15
FOREIGN INVESTMENT IN ISRAEL, 1961-62
(\$ million)

	1961	1962	Increase or decrease (-)
Capital transfers in cash	36.2	66.5	30.3
Capital transfers in bonds (Independence and Development Loans)	13.5	13.1	-0.4
Capital transfers in kind	9.9	12.9	3.0
Reinvestment of profits	3.2	2.4	-0.8
Total	62.8	94.9	32.1
<i>Less:</i>			
Israel investment abroad and liquidation of foreign investments in Israel	3.7	3.7	—
Investment in foreign securities	6.9	5.9	-1.0
Total	10.6	9.6	-1.0
Net foreign investment in Israel	52.2	85.3	33.1

Foreign liabilities rose concurrently with the rapid rise in reserves, and reached \$ 806 million at the end of 1962—\$ 124 million more than at the end of 1961. The balance of Independence and Development Loans rose by \$ 34 million, to \$ 451 million; thus they accounted for 56 per cent of the total foreign currency debt, as compared with 62 per cent in the preceding year. Other long- and medium-term loans rose by \$ 77 million, and short-term loans by \$ 13 million. Long-term loans include \$ 18 million from the Agency for International Development which was granted within the framework of U.S. aid and which must, for the first time, be repaid in foreign currency.

There was a marked increase in foreign investment in Israel, the figure reaching \$ 95 million in 1962, compared with \$ 63 million in 1961 and \$ 35 million in 1960. The principal increase was in cash transfers, and presumably this reflects, *inter alia*, the influence of devaluation.