

CHAPTER III

THE BALANCE OF PAYMENTS

1. MAIN DEVELOPMENTS

THE BALANCE OF PAYMENTS in 1964 was characterized by an accelerated expansion of imports and a slower increase in exports, which together caused an unprecedented growth of \$ 124 million in the import surplus—from \$ 404 million in 1963 to \$ 528 million. This was approximately equal to the total rise in the import surplus over the three years 1960–62.

The large growth of the import surplus was due to a combination of factors: the rise in imports stemming from the intensification of general economic activity; mounting domestic demand, which caused imports of consumer goods and raw materials to expand faster than the national product and also had an adverse effect on exports; and the accumulation of stocks of imported raw materials. In addition, a number of special factors operated in 1964, and their fortuitous occurrence during the early months of the year resulted in a particularly big increase in the deficit during this period.

Imports expanded in 1964 by some 16.5 percent at current prices—an increase of 22 percent in commodities and 6.5 percent in services. Prices were approximately 1.5 percent higher than in 1963, so that at constant prices imports went up by 14.5 percent. Prices of certain foodstuffs—meat, coffee, and sugar—rose appreciably, as did the price of raw diamonds; fluctuations in other import items were slight.

Exports expanded by only 7 percent—less than 4 percent in respect of commodities but 11 percent in services. Though some export items showed very uneven price movements, these fluctuations largely offset one another and average prices went up by some 1.5 percent. The real increase in exports thus came to 5.5 percent.

During the 12 years 1953–64 the average annual growth rate¹ for imports was 11.3 percent, and for exports 18.5 percent. As a result of these trends, the import surplus widened steadily during this period, though the ratio of exports to imports improved.

In the last two years import and export prices rose by 3 to 4 percent, while GNP prices advanced 12–13 percent. Consequently, domestic prices developed adversely in relation to foreign prices during these years.

¹ The average has been computed from the slope of the regression line.

Had imports and exports risen every year at the average rate, imports would have reached \$ 1,023 million in 1963 and \$ 1,139 million in 1964, while exports would have totalled \$ 581 million and \$ 689 million respectively (see Table III-3 and Diagram III-1). However, in 1964 imports were actually larger and exports smaller, whereas in 1963 the opposite was true. One must view the big

Table III-1
THE BALANCE OF PAYMENTS, 1963-64
(\$ million)

	1963			1964		
	Credit	Debit	Net	Credit	Debit	Net
A. Current account	606.7	1,011.1	-404.4	649.0	1,177.0	-528.0
Commodities ^a	337.1	647.5	-310.4	349.6	790.3	-440.7
Government	15.2	105.7	-90.5	21.1	98.6	-77.5
Other services	254.4	257.9	3.5	278.3	288.1	-9.8
B. Unilateral transfers	359.3	12.7	346.6	345.3	10.4	334.9
German restitution	142.8	3.9	138.9	134.2	—	134.2
Other private transfers	91.5	3.0	88.5	100.9	4.3	96.6
German reparations	34.0	5.5	28.5	22.8	5.9	16.9
U.S. Government grant-in-aid	5.9	—	5.9	8.2	—	8.2
U.N. technical assistance	0.4	0.3	0.1	0.4	0.2	0.2
Institutional transfers	84.7	—	84.7	78.8	—	78.8
C. Capital movements	432.6	359.9	72.7	460.1	274.9	185.2
Long- and medium-term	404.1	233.7	170.4	448.6	197.3	251.3
Independence and						
Development Bonds	79.4	56.2	23.2	98.7	74.2	24.5
Export-Import Bank loans	8.0	18.9	-10.9	9.7	21.1	-11.4
World Bank loans	18.8	—	18.8	12.6	0.1	12.5
U.S. Government loans	48.6	5.9	42.7	58.9	5.4	53.5
Other loans	86.7	125.5	-38.8	112.0	72.4	39.6
Investments from abroad	162.6	27.2	135.4	156.7	24.1	132.6
Short-term	28.5	126.2	-97.7	11.5	77.6	-66.1
Clearing accounts	—	0.3	-0.3	1.0	—	1.0
Loans	—	16.8	-16.8	—	20.9	-20.9
U.S. Govt. deposits	7.3	—	7.3	—	21.9	-21.9
Other deposits	21.2	—	21.2	6.3	—	6.3
Deposit with International						
Monetary Fund	—	—	—	—	6.3	-6.3
Gold and foreign exchange						
reserves	—	109.1	-109.1	4.2	28.5	-24.3
Total (A+B+C)	1,398.6	1,383.7	14.9	1,454.4	1,462.3	-7.9
Net errors and omissions	—	14.9	-14.9	7.9	—	7.9

^a Imports c.i.f. and exports f.o.b.

SOURCE: Central Bureau of Statistics.

Table III-2

IMPORTS, EXPORTS, AND THE IMPORT SURPLUS, 1962-64

(\$ million)

	At current prices			At 1962 prices		Percent increase or decrease (-) as against previous year					
						Quantity		Price		Value	
	1962	1963	1964	1963	1964	1963	1964	1963	1964	1963	1964
Imports											
Commodities	613.8	647.5	790.3	636.7	726.6	3.7	19.8	1.7	1.9	5.5	22.1
Services	344.0	363.6	386.7	363.6	383.6	5.7	5.6	—	0.8	5.7	6.4
Total	957.8	1,011.1	1,177.0	1,000.3	1,146.2	4.5	14.6	1.1	1.6	5.6	16.4
Exports											
Commodities	271.4	337.1	349.6	323.2	333.2	19.1	3.1	4.3	0.6	24.2	3.7
Services	231.8	269.6	299.4	269.6	292.4	16.3	8.5	—	2.4	16.3	11.1
Total	503.2	606.7	649.0	592.8	625.6	17.9	5.5	2.3	1.4	20.6	7.0
Import surplus	454.6	404.4	528.0	407.5	520.6	-10.3	27.7	-0.8	2.3	-11.0	30.6

SOURCE: Central Bureau of Statistics.

increase in imports and the small rise in exports in 1964 in the light of developments in 1963, since the growth rates are affected by data for both the current and the preceding year. These developments, of course, led to a big increase in the import surplus between 1963 and 1964.

Of the import increment, 30 percent was used for private consumption, for the most part in the form of raw materials for the local production of consumer goods rather than direct imports of consumer goods. Over 40 percent of the additional import was earmarked for investment, the main increase here being in purchases of ships. The larger import of raw materials for export production accounted for 18 percent of the total increment. Imports for public consumption purposes grew only slightly, and there was apparently a certain expansion of stocks of imported raw materials.

Table III-3

IMPORTS, EXPORTS, AND THE IMPORT SURPLUS, 1963-64

(Actual values compared with values calculated on the basis of average growth rate^a)

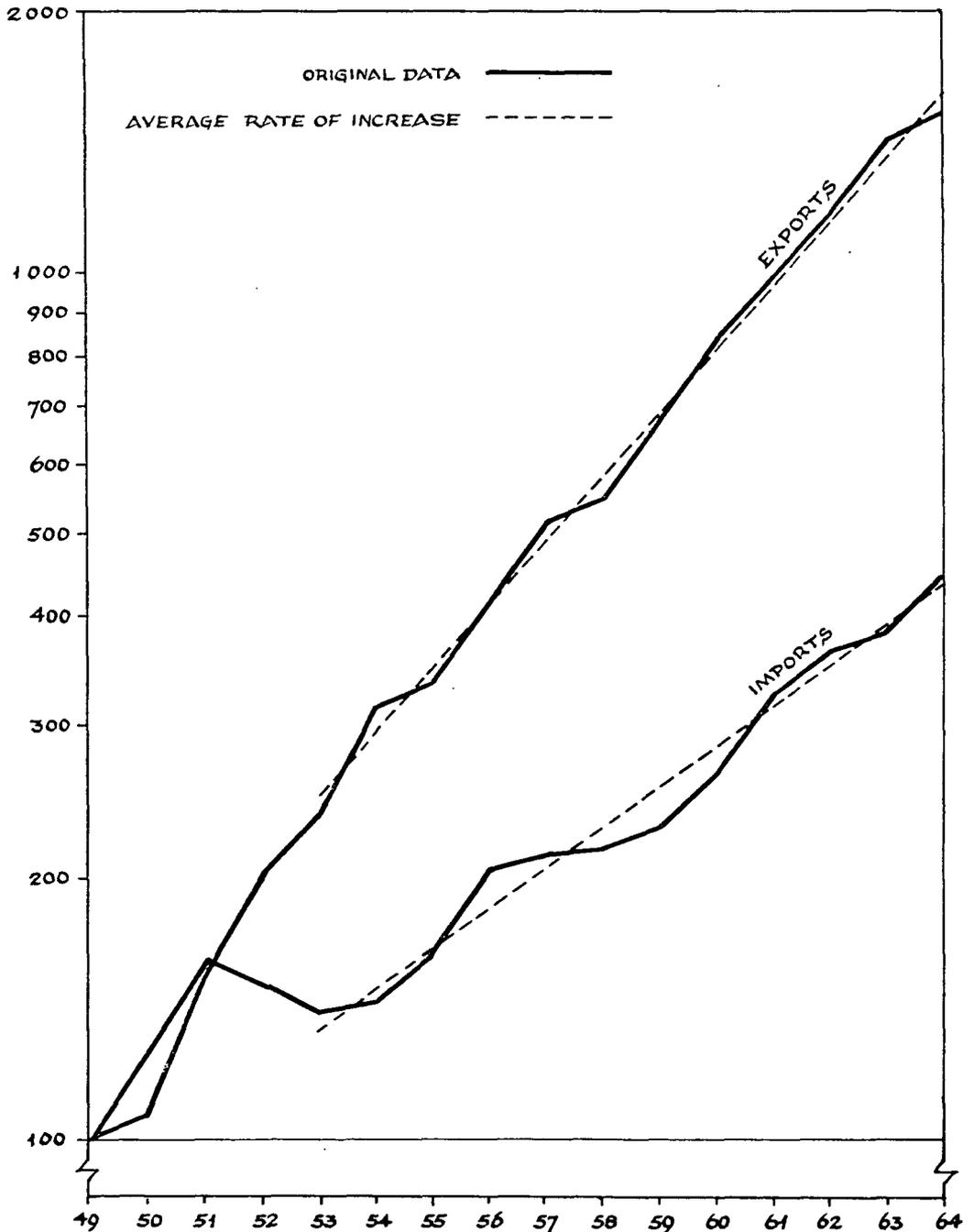
	Year	Imports	Exports	Import surplus
\$ million				
Value expected on the basis of average growth rate	1963	1,023	581	442
	1964	1,139	689	450
Actual value	1963	1,011	607	404
	1964	1,177	649	528
Deviation of actual value from expected value	1963	-12	+26	-38
	1964	+38	-40	+78
Percentages				
Increase expected on the basis of average growth rate	1963-64	11.3	18.5	2.5 ^b
Actual increase	1963	5.6	20.6	-11.0
	1964	16.4	7.0	30.6

^a Average for the years 1953-64. The average has been computed from the slope of the regression line for imports and exports during these years.

^b Average for the two years; the calculations actually show an increase of 3.2 percent in 1963 and 1.8 percent in 1964.

The major cause of the slower growth of exports was the sharp drop in citrus sales following a rapid rise in 1963. There was also a big decrease in metal goods, exports of which were relatively large in 1963 owing to a number of shipments dispatched at the beginning of the year. Developments in other export items were not uniform. Relatively large increases were registered in branches marketing most of their output abroad. On the other hand, exports advanced more slowly in branches where competition exists between the local

Diagram III-1
IMPORTS AND EXPORTS, 1949-64
 (Index: 1949=100)



Semi-logarithmic scale.

and foreign market for the producers' goods, and in some of them foreign sales even declined. The Government's efforts to promote exports were limited in scope and for the most part confined to commodities for which there is a sizeable domestic demand. The Government made a number of arrangements designed to increase the profitability of export as compared with local marketing, but it seems that these measures were inadequate to counteract the impact of mounting domestic demand, or to bridge the gap between the prices obtainable by the producer in Israel and those he could expect to fetch abroad.

The value-added component of export increased by only 3 percent in 1964. This was due to the fall in citrus prices and to the steep decline in the share of agricultural products (which have a relatively high value added) within total exports. Whereas gross export proceeds rose by 7 percent, the value-added component, as stated, went up by only 3 percent.

The marked rise in the import surplus was not accompanied by a corresponding growth in unilateral transfers. Income from German reparations (which virtually came to an end in 1964¹) fell off sharply, and there was even a slight decrease in transfers on account of personal restitution payments from Germany. The proportion of the import surplus financed by unilateral transfers moved down from 77 percent in 1963 to 57 percent in 1964. On the other hand, the volume of long- and medium-term loans was expanded. Unilateral transfers and net long-term capital movements aggregated nearly \$ 585 million, enabling the economy to reduce its short-term liabilities and to accumulate foreign exchange reserves on a limited scale. These reserves increased by only some \$ 25 million in 1964, after having grown by an average of approximately \$ 100 million during the four years 1960-63.

2. IMPORTS²

In 1964 imports were \$ 166 million (16.5 percent) larger than in 1963, reaching \$ 1,177 million. Prices went up 1.5 percent, so that in real terms the import increment amounted to 14.5 percent. This should be viewed in the light of the relatively small rise of 5.5 percent in 1963.

Imports may be divided into three categories: those connected with the

¹ Except for an amount of \$ 35 million, which will be utilized for purchases of fuel in 1965 and 1966.

² The detailed analysis of imports and exports is based on data compiled by the Foreign Trade Section of the Central Bureau of Statistics. In drawing up the balance of payments estimates, various adjustments were made in the data in order to adapt them to the conventional balance of payments definitions. These changes are of a general character, and cannot be detailed for analytical purposes. In discussing imports and exports in this chapter, we generally preferred to rely on detailed foreign trade data. Only one item—the largest—was adjusted: returned imports and returned exports of diamonds were deducted from the gross estimates. Other adjustments were generally not related to specific items, but lumped together in a single figure at the end of the tables.

Table III-4
MAIN COMMODITY IMPORTS,^a 1962-64
(\$ million)

	Imports			Increase or decrease (-) as against preceding year			
	1962	1963	1964	\$ million		Percent	
				1963	1964	1963	1964
Meat	5.3	6.5	12.4	1.2	5.9	22.6	90.8
Wheat and barley	22.6	26.0	15.0	3.4	-11.0	15.0	-42.3
Sugar	4.0	13.3	18.5	9.3	5.2	232.5	39.1
Coffee	2.7	3.3	5.4	0.6	2.1	22.2	63.6
Unprocessed tobacco	1.5	2.2	3.7	0.7	1.5	46.7	68.2
Other food and beverages	38.7	40.4	43.6	1.7	3.2	4.4	7.9
Oilseeds	23.4	21.7	27.7	-1.7	6.0	-7.3	27.6
Wood	26.7	23.1	28.2	-3.6	5.1	-13.5	22.1
Cotton	4.4	4.8	9.8	0.4	5.0	9.1	104.2
Yarns	10.3	10.4	13.8	0.1	3.4	1.0	32.7
Other textiles	8.2	6.3	7.8	-1.9	1.5	-23.2	23.8
Edible oils and fats	8.3	8.9	4.4	0.6	-4.5	7.2	-50.6
Chemicals	34.6	35.4	41.8	0.8	6.4	2.3	18.1
Iron and steel	44.6	42.7	53.3	-1.9	10.6	-4.3	24.8
Nonmetallic minerals	13.7	12.3	16.3	-1.4	4.0	-10.2	32.5
Raw diamonds, net	69.1	93.1	102.6	24.0	9.5	34.7	10.2
Fuel	40.5	45.3	47.0	4.8	1.7	11.9	3.8
Other raw materials	60.0	64.8	73.7	4.8	8.9	8.0	13.7
Machinery	90.6	84.5	88.1	-6.1	3.6	-6.7	4.3
Communication equipment	9.4	7.6	17.2	-1.8	9.6	-19.1	126.3
Electrical equipment	17.5	20.3	23.2	2.8	2.9	16.0	14.3
Automotive vehicles	32.4	39.2	51.3	6.8	12.1	21.0	30.9
Ships and aircraft ^b	29.5	21.3	67.2	-8.2	45.9	-27.8	215.5
Household electrical appliances	1.7	3.0	4.2	1.3	1.2	76.5	40.0
Furniture	0.4	0.7	1.9	0.3	1.2	75.0	171.4
Other manufactures	14.0	17.1	23.2	3.1	6.1	22.1	35.7
Miscellaneous	8.9	10.4	9.7	1.5	-0.7	16.9	-6.7
Total	623.0	664.6	811.0	41.6	146.4	6.7	22.0
Less: Imports returned and adjustments	9.2	17.1	20.7	7.9	3.6
Net commodity imports	613.8	647.5	790.3	33.7	142.8	5.5	22.1

^a This table is based on detailed import data classified according to the Standard International Trade Classification (three digits). The table includes all items showing a change of more than \$ 1 million between 1963 and 1964.

^b Including boats, gliders, and other small craft.

SOURCE: Central Bureau of Statistics.

ordinary activities of the economy and its secular growth trend, those due to the exceptionally big increase in demand in 1964, and those due to chance factors and timing.

In order to differentiate the fortuitous and special element in each import item from that connected with the excessive rise in domestic demand, it would be necessary to undertake a far more detailed study. But generally speaking, the following may be noted. The principal fortuitous factor was the concentration of ship purchases during the first quarter of 1964, when the figure came to \$ 27 million; purchases for the entire year amounted to about \$ 60 million, compared with \$ 16 million in 1963.¹ Some other random and nonrecurrent factors exerted considerable influence during the early months of 1964: there was a particularly striking increase in sugar imports during this period, as well as in imports of diamonds and certain other raw materials. Taking the year as a whole, the importance of these items was far more limited, their growth being partly offset by other special factors, such as the smaller import of wheat and barley because of the bumper local harvests. Nevertheless, the data suggest that stocks of certain raw materials were replenished, after having been allowed to run down in 1963. A large part of the additional import of raw materials in 1964 was concentrated in commodities whose import in 1963 had not increased or had even decreased.

Among the developments connected with the big growth of domestic demand we should first of all list, besides the general rise in raw material imports for consumption purposes, the increase in car imports—from \$ 13 million in 1963 to \$ 17 million in 1964. The growth occurred almost entirely during the first half of the year, when it amounted to \$ 3.5 million as compared with the first half of 1963. The Government's intention of raising import duties on motor vehicles first became known in May 1964, and immediately thereafter demand for imported cars shot up, reaching a peak in July and August. In August the Government announced the increases in duties, to take effect as from September, and during the last three months of the year car imports fell off conspicuously. Altogether, the figure for the second half of 1964 was only \$ 0.5 million larger than during the corresponding period of 1963.

The increase in these imports does not fully reflect the influence of car purchases on the volume of imports, since the number of automobiles assembled in Israel went up by some 50 percent in 1964, and the import component of such production is high. The proportion of locally assembled vehicles in the total number sold rose from 20 percent in 1963 to 22.5 percent in 1964. The effect of the higher taxes on car imports and the cutting of duties on certain locally assembled models can be seen in the rise in the weight of the latter from 19

¹ The average for the years 1956–64 is \$ 30 million, and for 1960–64—\$ 40 million. The forecast for 1965 and 1966 is \$ 32 million p.a.

percent of all car sales in the first half of the year to 27 percent in the second half.

Imports of several other manufactured products expanded considerably, following the growth of demand and the liberalization of imports, but their weight within total imports remained very small. In this category are electrical appliances for household use, furniture, beverages, chocolates and sweets, spices, clothing, and footwear. The import of these items totalled \$ 8.1 million in 1964, compared with \$ 4.8 million the year before. This is a rise of some two-thirds, but since the weight of these items in total imports came to under 1 percent in 1964, they accounted for less than 2 percent of the total import increment.

Among other items should be noted the big increase in meat following the resumption of large-scale foreign purchases of frozen meat, the rise in oilseeds (as against a decline in edible oils), and an appreciable growth in certain raw materials, especially wood and materials for the textile, chemical, and metal industries, where stocks were apparently replenished.

Imports of services expanded by 6.4 percent, a much lower rate than for commodity imports but similar to that for services in 1963.

Table III-5
IMPORTS OF SERVICES, 1962-64
(*\$ million*)

	1962	1963	1964	Percent increase or decrease (-) as against previous year	
				1963	1964
Transportation	68.7	70.6	83.4	2.8	18.1
Passenger	8.0	10.2	12.1	27.5	18.6
Other	60.7	60.4	71.3	-0.5	18.0
Foreign travel	26.0	38.0	37.3	46.2	-1.8
Insurance	27.9	31.1	38.1	11.5	22.5
Capital servicing	69.5	71.8	83.0	3.3	15.6
Government, n.e.s. ^a	113.8	105.7	98.6	-7.1	-6.7
Miscellaneous	38.1	46.4	46.3	21.8	-0.2
Total	344.0	363.6	386.7	5.7	6.4

^a Not elsewhere specified.

SOURCE: Central Bureau of Statistics.

Imports of transportation services went up to the considerable extent of some \$ 13 million, or 18 percent, after tapering off in 1963. Most of the 1964 growth was due to the higher operating expenses incurred abroad by the merchant marine and civilian air fleet following a rise in exports of transportation

services.¹ Of the incremental import, \$ 2 million occurred in the foreign travel item. Nevertheless, tourist outlay abroad did not go up, and the number of Israelis travelling overseas even fell off 15 percent. The latter development was due to the raising of the foreign travel tax and to the suspension of tours to Cyprus, which brought up the minimum sum required for foreign travel. Accordingly, the number of persons going abroad decreased, while average expenditure per trip went up.

Imports of capital services continued upward, mainly because of larger interest outlay abroad following a rise in the Government's foreign debt. Total interest payments to the rest of the world increased from \$ 46 million in 1963 to \$ 50 million.

The average rate of tax on imports remained virtually unchanged. The raising of the foreign travel tax and of import duties under the import liberalization policy was balanced by cuts in customs duties on a number of foodstuffs, designed to offset the rise in their foreign prices and thus hold down their cost to the Israeli consumer. The average tax on commodity imports was IL 0.65 per dollar in 1964, while that on service imports was only IL 0.06; the average for all imports was IL 0.45 per dollar.

(a) *Destination of imports*

Imports may be divided into two categories: those intended for direct final uses, and commodities and services constituting production inputs. The second group accounted for nearly 60 percent of total imports in both 1963 and 1964.

Imports destined for final uses rose by more than \$ 60 million (at 1962 prices) in 1964, compared with some \$ 40 million in 1963. Most of the 1964 increment was earmarked for investment, especially in ships and communication equipment. Imports of other investment goods showed only minor changes: a slight increase in automotive vehicles and agricultural equipment, and a slight decrease in equipment for industry and construction. It should be noted that the latter item had expanded somewhat in 1963, and during the year surveyed it returned to the 1962 level.

Imports of goods and services for direct consumption rose by a little less than \$ 10 million, in contrast to over \$ 20 million in 1963. The slower increase in such imports is mainly ascribable to the foreign travel item, expenditure on which declined slightly in 1964 after having risen by \$ 12 million in 1963. Car imports also expanded more rapidly in 1963 than in 1964; the level for the second half of the year reviewed, as already stated, did not advance over that for the second half of 1963 owing to the raising of taxes on imported models. The incremental consumer goods imported in 1964 consisted of passenger cars, durable goods, furniture, food, and beverages.

¹ Since data for commodity imports are recorded c.i.f., the cost of transporting imported commodities is not included in imports of transportation services.

Table III-6
IMPORTS, 1962-64
(\$ million)

	1962	1963	1964	Percent increase or decrease (-) as against previous year					
				Quantity		Price		Value	
				1963	1964	1963	1964	1963	1964
Consumer goods									
Current consumption	28.4	36.9	52.7	5.1	40.0	23.6	2.3	29.9	42.8
Durable goods	11.4	14.9	21.6	29.0	43.6	1.3	1.0	30.7	45.0
Total	39.8	51.8	74.3	12.0	40.9	16.3	1.8	30.2	43.4
Raw materials									
Diamonds (net)	67.2	93.2	102.6	36.9	2.6	1.3	7.3	38.7	10.1
Others	326.5	318.2	371.8	-2.9	15.0	0.4	1.6	-2.5	16.8
Total	393.7	411.4	474.4	3.9	11.9	0.6	3.0	4.5	15.3
Fuel	40.0	47.7	49.6	19.3	8.1	—	-3.8	19.3	4.0
Investment goods									
Ships and aircraft	21.7	16.4	59.8	-24.4	264.6	—	—	-24.4	264.6
Others	118.6	120.2	132.2	0.7	7.8	0.6	2.0	1.3	10.0
Total	140.3	136.6	192.0	-3.1	38.7	0.5	1.4	-2.6	40.6
Total commodity imports	613.8	647.5	790.3	3.7	19.8	1.7	1.9	5.5	22.1
Service imports	344.0	363.6	386.7	5.7	5.6	—	0.8	5.7	6.4
Total imports	957.8	1,011.1	1,177.0	4.5	14.6	1.1	1.6	5.6	16.4

SOURCE: Central Bureau of Statistics.

Table III-7
IMPORTS, BY ECONOMIC DESTINATION, 1962-64
(\$ million, at 1962 prices)

	Private consumption	Public consumption	Gross investment ^a	Exports	Total	Changes in stocks, errors and omissions	Total actual imports
For production ^b							
1962	265	26	94	220	605	—	605
1963	293	35	100	253	681	-73	608
1964	329	39	111	279	758	-65	693
For final uses							
1962	64	154	135	—	353	—	353
1963	88	156	148	—	392	—	392
1964	97	157	199	—	453	—	453
Total							
1962	329	180	229	220	958	—	958
1963	381	191	248	253	1,073	-73	1,000
1964	426	196	310	279	1,211	-65	1,146
Increase or decrease (-) in \$ million							
For production							
1963	28	9	6	33	76	-73	3
1964	36	4	11	26	77	8	85
For final uses							
1963	24	2	13	—	39	—	39
1964	9	1	51	—	61	—	61
Total							
1963	52	11	19	33	115	-73	42
1964	45	5	62	26	138	8	146
Increase in percentages							
For production							
1963	10.6	34.6	6.4	15.0	12.6	..	0.5
1964	12.3	11.4	11.0	12.3	11.3	..	14.0
For final uses							
1963	37.5	1.3	9.6	—	11.1	..	11.1
1964	10.2	0.6	34.5	—	15.6	..	15.6
Total							
1963	15.8	6.1	8.3	15.0	12.0	..	4.4
1964	11.8	2.6	25.0	10.3	12.9	..	14.6

^a Including part of the domestic investment in stocks of local products.

^b Production inputs have been classified here by economic destination and according to constant 1962 import components for 80 branches of the economy, the output of each being allocated to its various destinations. Hence the figures do not reflect import substitution (positive or negative) in the production processes themselves, but only changes in the volume of imports due to an increase in uses and changes in their composition.

Prices of imported consumer commodities went up by only 2 percent on the average, but some rose very steeply—for example, coffee beans (30 percent) and sugar (50 percent). These increases might have been expected to reduce consumption, but the Government balanced the rise in import prices by cutting the import duty or raising the subsidy so as to hold down the price in the local market. Thus revenue from customs duties levied on sugar, frozen meat, coffee, and rice totalled approximately IL 45 million in both 1963 and 1964, despite the fact that dollar outlay on these commodities was 40 percent larger in 1964.¹ The Government's policy of absorbing the increases in foreign prices prevented the consumer from reacting to them by switching to other items less expensive to the economy.

The growth in imported commodity and service inputs totalled \$ 85 million (at 1962 prices), or 14 percent. This increase is chiefly attributable to the larger national product and to changes in its composition. The gross national product expanded by 10 to 11 percent during the year reviewed, and if we assume that the import component in each of the 80 branches of the economy remained constant, the increase in such imports should have come to 11–12 percent. But since imports actually expanded by 14 percent, we may conclude that there was probably some accumulation of imported stocks.

In 1963 the opposite situation obtained: actual imports hardly went up, though the increase in output and changes in its composition should have resulted in a 12 percent rise on the assumption of constant import components. The conclusion that emerges is that stocks of imported goods shrank in 1963 and were partly replenished in 1964. Indeed, as already mentioned, in 1964 there was a big increase in the import of certain raw materials which in 1963 had not risen at all or had even declined.

A breakdown of raw material imports shows that, of the total increment of \$ 85 million, \$ 36 million was used for the production of consumption goods. Thus imports for private consumption expanded by \$ 45 million all told, accounting for 30 percent of the total import increment. \$ 9 million worth of imports were for direct consumption, and \$ 36 million for producing consumer goods. The total increase in imports for private consumption came to 11–12 percent, and the import component of consumption remained unchanged.

Of the additional raw material imports, \$ 26 million worth were earmarked for export production—i.e. about 10 percent more than in 1963, despite the fact that overseas sales increased by only 5 percent at constant prices. Consequently, the import component of exports rose, while the value-added component decreased. This was due to the smaller weight of agricultural products, which have a low import component, and the bigger weight of industrial items, where the import component is high.

¹ See Chapter VI, "Prices".

(b) *Imports, by country of origin*

In 1964 as well the main sources of Israel's imports were the Common Market countries (29 percent), the United States (about 25 percent), and the United Kingdom (19 percent). However, a number of changes occurred in the relative shares of the different suppliers.

The weight of imports from the Common Market countries increased considerably in 1964—mainly in durable consumer items and investment goods. A large part of the additional import of capital goods must be ascribed to purchases of ships—which for the most part were ordered from Common Market countries. On the other hand, the proportion of goods purchased in these countries for current consumption declined, while the share of such items obtained from countries maintaining payments agreements with Israel went up, mainly because of the purchase of sugar from Poland and Hungary and the import of sugar from Turkey under a trilateral transaction. Whereas the Common Market was the source of most of the commodities imported for current consumption in 1963, during the year reviewed the major suppliers were the countries maintaining payments agreements with Israel, their share rising to more than a quarter.

The proportion of imports from the United States decreased, chiefly because its share in the supply of investment goods declined as a result of the increased weight of ship acquisitions—most of which, as stated, originated in the Common Market countries. As regards other investment goods, there was no change in the percentage supplied by the United States, while the share of goods obtained there for current consumption increased. The United States continued to be the main supplier of raw materials.

There was no change in the relative share of imports from the United Kingdom as compared with 1963.

3. EXPORTS¹

In 1964 exports expanded by \$ 42 million, or 7 percent only. This increment stemmed from a 5.5 percent rise in volume and an advance of 1–2 percent in prices. While the level of export prices showed only a small increase, there were sharp fluctuations in individual items.

Proceeds from citrus sales were down 30 percent compared with 1963—the quantity marketed fell by 10 percent and prices by 20 percent. The drop in prices was partly due to the lower quality of the fruit because of adverse weather conditions during the 1963/64 season. The year 1963 was a particularly successful one from the aspect of both yields and prices, and therefore does not represent a good base period for evaluating results of the year reviewed.

¹ See note ², p. 39.

Compared with 1962, quantities marketed abroad increased by approximately 20 percent in 1964, while prices slipped 10 percent; earnings were thus 7 percent higher.

Eggs sales increased in physical terms, but prices dipped approximately 25 percent. The latter was due partly to the resumption of the downward movement of egg prices in the world market because of the more rapid expansion of supply than demand, and partly to the customs duty imposed on Israeli eggs in the Common Market countries. Other agricultural exports exhibited very little change.

Table III-8
EXPORTS, BY MAIN CATEGORY, 1962-64
($\$$ million)

	1962	1963	1964	Percent increase or decrease (-) as against previous year					
				Quantity		Price		Value	
				1963	1964	1963	1964	1963	1964
Citrus	49.3	74.7	52.8	32.0	-10.5	14.9	-21.0	51.7	-29.3
Other agricultural products	19.1	14.3	14.2	-32.0	11.7	9.9	-11.1	-25.3	-0.7
Total agricultural exports	68.4	89.0	67.0	14.1	-6.9	14.1	-19.1	30.2	-24.7
Industrial products	120.4	144.1	164.4	18.4	10.5	1.1	3.3	19.7	14.1
Diamonds	82.6	104.0	118.2	23.8	3.1	1.7	10.2	25.9	13.6
Total commodity exports	271.4	337.1	349.6	19.1	3.1	4.3	0.6	24.2	3.7
Services	231.8	269.6	299.4	16.3	8.5	—	2.4	16.3	11.1
Total exports	503.2	606.7	649.0	17.9	5.5	2.3	1.4	20.6	7.0

SOURCE: Central Bureau of Statistics.

Income from diamond exports was up 13.5 percent. The price of uncut diamonds was raised at the beginning of the year reviewed, and this induced the local diamond industry to raise its prices too. However, for several months it encountered difficulties in marketing its products at the higher prices. The real increase in diamond exports amounted to only 3 percent, and large stocks were accumulated. But toward the end of 1964 and the beginning of 1965 they began to dwindle again.

Total industrial exports other than diamonds expanded by \$ 20 million, or about 14 percent—quantities increasing by 10.5 percent and prices by 3 per-

Table III-9
MAIN COMMODITY EXPORTS, 1962-64
(\$ thousand)

	1962	1963	1964	Increase or decrease (-) as against previous year			
				\$ thousand		Percent	
				1963	1964	1963	1964
Citrus	49,240	74,718	52,809	25,478	-21,909	51.7	-29.3
Eggs	8,645	5,208	5,588	-3,437	380	-39.8	7.3
Other agricultural products	10,493	9,079	8,426	-1,414	-653	-13.5	-7.2
Total agricultural exports	68,378	89,005	66,823	20,627	-22,182	30.2	-24.9
Citrus products	9,514	13,064	18,087	3,550	5,023	37.3	38.4
Other foodstuffs	7,731	11,147	12,254	3,416	1,107	44.2	9.9
Yarns	11,608	13,152	18,967	1,544	5,815	13.3	44.2
Other textile products and clothing	18,578	18,038	20,486	-540	2,448	-2.9	13.6
Copper-cement	3,299	4,310	9,278	1,011	4,968	30.6	115.3
Potash	4,806	5,448	7,709	642	2,261	13.4	41.5
Fuel	3,802	7,860	9,606	4,058	1,746	106.7	22.2
Other minerals and chemicals	9,853	11,087	12,136	1,234	1,049	12.5	17.8
Wood and wood products	5,685	6,043	7,116	358	1,073	6.3	19.5
Tires and tubes	9,879	8,787	8,430	-1,092	-357	-11.1	-4.1
Metal products	15,257	22,278	14,098	7,021	-8,180	46.0	-36.7
Machinery, electrical equipment, transport equipment	5,741	4,634	5,594	-1,107	960	-19.3	20.7
Other industrial products	14,967	17,614	18,693	2,647	1,079	17.7	6.1
Total industrial exports	120,720	143,462	162,454	22,742	18,992	18.8	13.2
Sales of ships and aircraft	792	1,046	2,880	254	1,834	32.1	175.3
Diamonds, net	82,636	104,020	118,205	21,384	14,185	25.9	13.6
Total	272,526	337,533	350,362	65,007	12,829	23.9	3.8
Less: Goods returned and adjustments	1,126	433	762	-693	329	—	—
Total commodity exports, net	271,400	337,100	349,600	65,700	12,500	24.2	3.7
Services	231,800	269,600	299,400	37,800	29,800	16.3	11.1
Total exports, net	503,200	606,700	649,000	103,500	42,300	20.6	7.0

SOURCE: Central Bureau of Statistics.

cent. In 1963 the real increase totalled 18.5 percent, while export earnings went up approximately 20 percent.

The slower expansion of industrial exports in 1964 is mainly ascribable to metal products: sales here were very large in 1963 owing to special orders, which were not repeated in 1964. In certain other branches the growth rate was also slower. But those industries which accounted for the bulk of the export increment showed a very rapid increase, and their influence on the total volume of exports was relatively greater than that of the others.

Most of the exports of metal products in 1963 occurred in the first quarter of the year, a fact which in the early part of 1964 created an impression of a general decline and in the second half one of recovery. Other industrial exports did not exhibit such a trend, their development being fairly even throughout the year.

The tendency to base industrial exports on branches producing little or nothing for the domestic market,¹ which was already quite apparent in 1962 and 1963, was accentuated during the year reviewed. Thus we find that most of the 1964 export increment consisted of citrus products, yarns, copper-cement, and potash; in 1963 these items accounted for a quarter of total

Table III-10

GROSS EXPORTS OF INDUSTRIAL ITEMS
MARKETED MAINLY ABROAD,^a 1963-64

	1963	1964
	\$ thousand	
Citrus products	13,064	18,087
Yarns	13,152	18,967
Copper-cement	4,310	9,278
Potash	5,448	7,709
Total	35,974	54,041
Increase over previous year	6,747	18,067
	Percentages	
Increase over previous year	23.1	50.2
Weight within total industrial exports ^a	25.1	33.3
Weight of increment within total increment of industrial exports ^a	29.7	95.1

^a Excluding diamonds.

SOURCE: Central Bureau of Statistics.

¹ See Chapter XII, "Industry".

industrial exports, and in 1964 for over one-third, after increasing by 50 percent or some \$ 18 million.

Exports of citrus products advanced 38 percent, since the proportion of fruit unsuitable for direct export and consequently diverted to industry for processing was very high during the 1963/64 season.

The rise in yarn sales was due to the enlarged capacity for producing synthetic yarns, which have good export markets, and to the raising of the premium on exports of cotton yarn. Since the higher premium was already expected in 1963, producers built up inventories in the latter part of that year and marketed them at the beginning of 1964. Toward the end of 1964 the opposite situation obtained—a reduction of the premium was expected in 1965, and consequently producers hastened to sell as much of their output as possible in 1964.

The price of copper-cement soared 50 percent during the year reviewed, owing to a temporary shortage of this commodity in the world market. To reap the maximum benefit from this development, output at the Timna copper mines was stepped up—a development assisted by the discovery of a vein with a high copper content. Consequently, the quantity of copper-cement shipped abroad went up 40 percent; together with the 50 percent rise in prices, this more than doubled the proceeds.

Potash sales were increased following the expansion of capacity at the Dead Sea Works.

Other items which moved upward in 1964, although not to a very great extent, were other foodstuffs, clothing and other textile products, fuel, and plywood. The increase recorded in machinery exports resulted from sales of old ships and aircraft, and thus was not actually connected with industrial output.

Tire sales fell off, since the plants were working at full capacity and the rise in domestic demand could only be met at the expense of exports. A similar development occurred in the case of cement and certain textile products.

The adverse impact of the economic boom on exports was not confined to direct competition on the part of the local market for final products. Under conditions of full employment, the boom eventually results in competition between the local and export markets for factors of production, leading to their diversion to industries producing for the home market.

Exports of services increased by 11.1 percent; although this was lower than the 16.3 percent rise in 1963, it far exceeded the growth of commodity exports.

Income from transportation showed a substantial increase of \$ 11 million. The raising of maritime shipping rates contributed somewhat to this development. Of the total increment, \$ 6.7 million stemmed from the haulage of goods, which was connected, of course, with the big growth in commodity imports during the year reviewed. Earnings from the transport of export cargoes did not rise.

Table III-11
EXPORTS OF SERVICES, 1962-64
(\$ million)

	1962	1963	1964	Percent increase or decrease (-) as against previous year	
				1963	1964
Transportation	116.4	114.8	125.9	-1.4	9.7
Passenger	35.5	33.4	36.7	-5.9	9.9
Cargo	59.0	65.1	71.8	10.3	10.3
Other income	21.9	16.3	17.4	-25.6	6.7
Tourism	38.4	53.4	54.8	39.1	2.6
Insurance	26.9	30.6	36.5	13.8	19.3
Capital servicing	21.3	26.3	28.7	23.5	9.1
Government, n.e.s.	10.4	15.2	21.1	46.2	38.8
Other services	18.4	29.3	32.4	59.2	10.6
Total	231.8	269.6	299.4	16.3	11.1

SOURCE: Central Bureau of Statistics.

Proceeds from tourism hardly went up during the year reviewed. This is surprising, since the number of visitors to the country was some 15 percent greater than in 1964 and the average number of days spent here remained the same. The relatively small rise in income may have been due to the increased weight of popular tourism, though it is doubtful whether this alone could have reduced the average expenditure per tourist by 15 percent.

(a) *Value added*

The smaller relative share of agricultural products, which have a high value added, and the larger share of industrial commodities (including diamonds), which have a smaller value added, brought down somewhat the percentage of value added from export. Total value added was only \$ 14 million more than in 1963.

The decline of over \$ 20 million in citrus exports resulted in a virtually similar drop in value added, owing to the small yields per unit of input and the lower prices obtained abroad. The value added of other agricultural exports likewise decreased slightly, despite a small increase in volume, since their prices also moved down.

In the diamond industry raw material costs rose to a smaller extent than the price of the finished product. While exports went up only 3 percent in real terms, value added rose by more than 10 percent. But since the value added

Table III-12

EXPORTS AND VALUE ADDED,^a 1962-64

(\$ million, at current prices)

Item	Exports			Value added			Increase or decrease (-) as against previous year				Value-added component of exports (%)		
	1962	1963	1964	1962	1963	1964	Exports		Value added		1962	1963	1964
							1963	1964	1963	1964			
Citrus	49.3	74.7	52.8	41.1	63.4	42.6	25.4	-21.9	22.3	-20.8	83.4	84.9	80.7
Other agricultural products	19.1	14.3	14.2	13.0	10.5	9.0	-4.8	-0.1	-2.5	-1.5	68.1	73.4	63.4
Total agricultural exports	68.4	89.0	67.0	54.1	73.9	51.6	20.6	-22.0	19.8	-22.3	79.1	83.0	77.0
Diamonds	82.6	104.0	118.2	15.4	18.3	20.4	21.4	14.2	2.9	2.1	18.6	17.6	17.3
Other industrial goods	120.4	144.1	164.4	66.4	74.4	86.1	23.7	20.3	8.0	11.7	55.1	51.6	52.4
Total industrial exports	203.0	248.1	282.6	81.8	92.7	106.5	45.1	34.5	10.9	13.8	40.3	37.4	37.7
Total commodity exports	271.4	337.1	349.6	135.9	166.6	158.1	65.9	12.5	30.7	-8.5	50.1	49.4	45.2
Services	231.8	269.6	296.8	147.6	178.8	201.5	37.8	27.2	31.2	22.7	63.7	66.3	67.9
Total exports of goods and services	503.2	606.7	646.4	283.5	345.4	359.6	103.5	39.7	61.9	14.2	56.3	56.9	55.6

^a The calculation was made on the basis of 1962 value-added components in 80 branches. The components were adjusted for changes in the current prices of imports and exports. The estimates therefore reflect changes due to shifts in the composition of exports and changes in the terms of trade, but do not reflect changes in the composition of inputs. Hence the estimates cited here do not correspond exactly to the estimates of imports by economic destination cited in Table III-2.

component of diamond exports comes to less than 20 percent, the absolute amount of the incremental value added was small—only some \$ 2 million.

The value-added component of other industrial exports declined somewhat—if the influence of price changes is discounted—owing to the larger weight of industrial products with a relatively low value-added component. The rise in export prices at a faster rate than raw material prices balanced this trend, so that the percentage of value added actually remained the same as in 1963. The total value added of industrial exports increased by \$ 12 million approximately—\$ 7 million as the result of a growth in volume, and nearly \$ 5 million because of advancing prices.

The gross increase in commodity exports totalled \$ 12.5 million, while value added declined by \$ 8.5 million.

In contrast, the value added of service exports went up by over \$ 20 million. Approximately 60 percent of this sum came from services connected with ordinary economic activities—transportation, tourism, and the like. Some \$ 6 million represented receipts on account of insurance claims—an item against which must be set off insurance premiums, appearing among service imports. \$ 2.5 million of the value-added increment accrued from capital servicing.

(b) *Countries of destination*

The main markets for Israel's exports remained unchanged in 1964: the Common Market countries took 28 percent of all commodity exports, the United States some 15 percent, and the United Kingdom—12.4 percent. Exports to these countries represented 55 percent of the aggregate figure.

Several changes occurred in the relative shares of these markets as compared with 1963. The weight of the Common Market countries and of the United Kingdom declined—mainly because of the contraction of citrus shipments, a major component in sales to these markets.

On the other hand, there was a slight increase in the share of the United States owing to the expansion of diamond exports, which account for a relatively high percentage of sales to that country, and the low weight of agricultural products, exports of which decreased.

Citrus prices fell more steeply on the Continent than in the United Kingdom, with the result that a smaller proportion of available fruit was sent to the Common Market countries; their share of Israel's citrus exports accordingly dropped from 41 percent in 1963 to 34 percent during the year reviewed. Sales to the United Kingdom likewise shrank, but its weight among all buyers went up. There was also a slight rise in the proportion of citrus shipped to countries maintaining trade agreements with Israel, and especially to East European states.

The decline in the percentage of agricultural produce other than citrus sent to the Common Market countries in 1964 was even more striking than that

in the case of citrus: whereas in 1963 this market took about half of Israel's agricultural exports other than citrus, in 1964 its share fell to some 40 percent.

There was also a slight drop in the proportion of such exports dispatched to the United Kingdom. On the other hand, in the case of Asiatic countries and of those linked to Israel by trade agreements, there was a big rise.

No major shifts took place in the destination of Israel's diamond exports during the year reviewed. The Common Market countries (especially Belgium) and the United States continued to be the main buyers of polished diamonds, taking nearly 60 percent of the total.

In general, there were no significant changes in 1964 in the markets for Israel's industrial exports other than diamonds. Despite the progress made in integrating the economies of the Common Market countries—the reduction of internal customs barriers and the erection of common external barriers—exports to this market were expanded somewhat, though their share edged down slightly, from 25 percent in 1963 to 23 percent.

(c) *Export incentives*

The development of exports during the years 1962–64 shows that many branches, particularly those marketing a large proportion of their output locally, do not make a satisfactory profit on their exports as compared with domestic uses, so that there is no incentive to divert a sufficiently large percentage of resources to the overseas market. In fact, the data suggest that in many branches the producer obtains a much higher price for his goods in the home market than what he could fetch abroad. In such circumstances he prefers to maximize his profits by taking advantage of the high prices in the home market and the monopolistic position he holds therein, while exporting only such goods as cannot be sold locally, without reducing their price below the optimum level.

As domestic demand mounts, a larger proportion of output is diverted to the local market. In 1964 the economic boom was responsible for the reduced overseas sale of cement, tires, and certain food and textile products, in all of which the growth of capacity lagged behind the growth of domestic demand. Nearly all of the increase in exports during the year reviewed was concentrated in branches where no direct competition exists between the local and the export market, while in other branches exports did not expand, and in some cases even sagged. In the long run even those branches geared predominantly to the export market may suffer, since they will have to compete with the others for available productive factors.

In order to prevent the deterioration of the relative position of exports, conditions must be created that will increase their profitability to the producer. Since the devaluation of 1962, the Government has preferred not to encourage exports by granting a general premium on value added, and most exports have

been executed at the rate of IL 3.00 to the dollar. However, in respect of part of the exports the Government has adopted several aid measures, the most important of which are the equalization funds established in certain branches, and the financing of exports at relatively low interest rates through the Bank of Israel. In addition, there is a large number of indirect supports, though they add up to a very small sum. The most widely employed methods of promoting exports are the cartelization of certain branches and the establishment of equalization funds designed to ensure a higher return to the producer for his export dollar at the expense of his proceeds from domestic sales. A number of funds—especially those connected with agriculture and the textile industry—are operating at a deficit, which is financed from the Government budget. The Government's participation in the funds constitutes, of course, a direct export subsidy. To the extent that the funds are not financed by the Government, they may be regarded as export subsidies financed not by all taxpayers but only by the local consumers of the products concerned. This system artificially links the amount of encouragement offered for the export of a certain product to the volume of its domestic sales. The principal disadvantage of this system is that it is impossible to determine the price paid by the economy for such exports. Another drawback is that it discriminates between branches, since the arrangements exist only in certain branches and vary from branch to branch. This distorts not only the present structure of current production, but also the direction of its future development.

Another incentive employed on a considerable scale is, as stated, the granting of export credit. The average balance of such credit from all sources at the end of 1964 is estimated at IL 350–400 million. The exporter profits from the difference between the interest paid on such credit—about 6.5 percent p.a.—and the rate of interest on ordinary credit. The total differential arising therefrom in 1964 is estimated at IL 20–25 million, i.e. 6–7 percent of the aggregate value of exports. The effectiveness of export credits is thus equivalent to the granting of a premium of 20 agorot per dollar of export. While the export funds were considerably enlarged in 1964, not all the increase reflects a relative improvement in the terms of exporting during the year, since credit from the funds partly replaced that previously obtained at low interest rates from foreign suppliers and others. It should be noted that relatively cheap export credit constitutes a subsidy, but it is paid not on the final product but on one of the productive factors—capital. Thus the subsidy reduces the cost of capital relative to other means of production, encourages its excessive use, and even discriminates in favor of branches requiring a relatively large amount of working capital. Since the economy pays the real price of capital in full, it emerges that the productive factors are not being utilized to the optimum degree.

Other forms of export aid are Government participation in transportation

costs, outlay on overseas advertising, and the maintenance of offices in other countries. In addition, the Government gives outright grants to export companies, covers part of their losses, refunds travel taxes paid by exporters, and exempts them from payment of part of the property taxes to which they are subject. All these forms of support add up to a very small sum.

4. CAPITAL IMPORTS

Capital imports to Israel consist of transfers, long- and medium-term loans, and foreign investments. Such imports expanded by some \$ 40 million in 1964, mainly because of a considerable rise in foreign liabilities. The year 1963 deviated from the usual pattern, for after the advance repayment of \$ 50 million in foreign debts, there was a net decrease in total foreign liabilities. An analysis of capital imports shows that in 1964 unilateral transfers to private individuals remained stable, while unilateral transfers to the public sector declined. Foreign investments in Israel continued at the same rate as in 1963, while loans from abroad were greatly expanded and their weight within total capital imports went up.

(a) *Unilateral transfers*

After rising by nearly \$ 16 million in 1963 to reach a record \$ 347 million, unilateral transfers declined by approximately \$ 12 million during the year reviewed, to about \$ 335 million—only \$ 4 million more than in 1962. While the total volume of such transfers did not change much between 1962 and 1964, they underwent a change in composition, the most striking being the big annual increases in private transfers, together with a decline in transfers to the public sector, particularly on account of German reparations.

Under the Reparations Agreement with West Germany, Israel was to receive goods and services to the total value of DM 3,450 million, or about \$ 830 million. Imports of goods and services from this source aggregated \$ 795 million at the end of 1964. The balance will be utilized in 1965 and 1966 for the purchase of fuel, all other scheduled goods having already been supplied in previous years. During the 10 years in which the Reparations Agreement was implemented, some \$ 50 million was transferred to Jewish organizations abroad as their fixed allotment under the Agreement. Thus net capital imports from this source totalled \$ 745 million at the end of 1964.

Transfers on account of personal restitution payments from West Germany rose from year to year until 1962, and then levelled off. In 1964 they constituted some 40 percent of all unilateral transfers to Israel. Private transfers continued to expand, though at a somewhat slower rate, and represented about 30 percent of total unrequited receipts from abroad.

After a big increase in 1963, institutional transfers declined somewhat in 1964, totalling a little less than \$ 80 million. The data reflect actual transfers and do not take overseas operations into account. Transfers to Israel by the

Table III-13
CAPITAL IMPORTS, 1962-64
(\$ million)

	1962	1963	1964
A. Unilateral transfers			
(1) Transfers to the private sector	239	267	270
Private transfers	68	89	96
Personal restitution from Germany	134	139	134
Transfers to nonprofit institutions ^a	37	39	40
(2) Transfers to the public sector	92	80	65
German reparations, net	47	28	17
U.S. Government grant-in-aid	8	6	8
Transfers to National Institutions ^a	37	46	40
Total unilateral transfers	331	347	335
B. Capital movements			
(1) To the private sector	82	135	133
Foreign investments in Israel, net	82	135	133
(2) To the public sector	130	42	97
Independence and Development Loans, net	33	23	24
U.S. Government loans and deposits ^b	45	50	32
Other long- and medium-term loans, net	52	-31	41
Total long- and medium-term capital movements	212	177	230
Total capital imports	543	524	565

^a These figures are not identical with those cited in Chapter VII, "Public Sector Operations", and Chapter VIII, "Nonprofit Institutions", owing to conceptual differences.

^b This item includes some U.S. Government deposits which in the balance of payments are listed under short-term capital movements. Consequently, there is a difference of \$ 22 million between the capital import figure here and the total of unilateral transfers and long-term capital movements in the balance of payments.

National Institutions (the Jewish Agency, Jewish National Fund, and Keren Hayesod) have fluctuated considerably from year to year, chiefly because of the organizations' overseas outlays and changes in the volume of foreign loan receipts and repayments. National Institution transfers to Israel totalled some \$ 60 million in 1961, \$ 37 million in 1962, \$ 46 million in 1963, and about \$ 40 million in 1964. Other institutional transfers have risen slightly in recent years. Com-

pared with \$ 33–34 million per annum during the 1959–61 period, the figure went up to some \$ 37–40 million in the years 1962–64.

Up to 1962 the bulk of U.S. Government aid to Israel was extended in the form of loans redeemable in Israeli pounds and carrying very low rates of interest. In recent years, however, there has been a change in U.S. policy, and most of the loans now bear interest of 2–3.5 percent per annum, and are repayable in dollars. The total amount of foreign currency loans received from this source in 1964 came to about \$ 23 million, compared with approximately \$ 28 million in 1963. The total volume of U.S. Government aid in 1964 reached \$ 40 million, as against some \$ 56 million in the preceding year.

(b) *Long-term capital movements*

The State's foreign currency liabilities declined in 1963, except for the Independence and Development Loans and obligations to the Government of the United States, but this trend did not carry over into 1964. Total long- and medium-term liabilities expanded by some \$ 41 million during the year.

Liabilities to the International Bank for Reconstruction and Development (the World Bank) totalled about \$ 40 million at the end of 1964—\$ 12.5 million more than at the end of 1963. During the period 1960–62 the World Bank approved three loans to Israel—for Ashdod Port, the Dead Sea Works, and the development of the country's road network. These loans totalled approximately \$ 75 million all told and are being drawn on in stages; the amount exploited at the end of 1964 stood at some \$ 40 million.

Since 1949 the U.S. Export-Import Bank has granted Israel several loans, to an aggregate amount of \$ 223 million. Most of these have been drawn on, and a large part of the sum has even been repaid. In 1964 repayments on account of these loans totalled some \$ 11 million, bringing down the outstanding balance to about \$ 70 million.

Liabilities on account of the Independence and Development Loans reached \$ 499 million at the end of 1964, compared with \$ 475 million at the end of the previous year. During the year reviewed Bond sales totalled \$ 98 million (including cumulated interest), but nearly \$ 74 million worth of Bonds were redeemed, part of them ahead of maturity and part at due date. The net increase in liabilities on account of the Independence and Development Loans totalled \$ 24 million.

The advance redemption of Bonds denominated in foreign currency has not reached any sizeable proportions. The total amount of Independence and Development Bonds so redeemed came to only some \$ 32 million by the end of 1964, the figure for 1964 itself being \$ 4 million. On the other hand, the total amount of Bonds denominated in Israeli pounds that were redeemed ahead of maturity reached \$ 203 million by the end of the year reviewed; of this sum, \$ 25 million worth were redeemed in 1964. The biggest amount was converted by

institutions—about \$ 85 million, some \$ 9 million of it in 1964. Foreign investors converted \$ 77 million worth of Bonds (\$ 10 million in 1964). The amount converted by tourists came to \$ 29 million (\$ 4 million in 1964). The balance was converted by Israeli residents and new immigrants.

In recent years net income from the sale of Bonds has been fairly low. In 1964 transfers totalled about \$ 25 million, but as against this \$ 8 million was paid out in interest¹ and substantial sums were spent on advertising and distribution abroad.

Other long- and medium-term liabilities grew by approximately \$ 40 million in 1964. The amount of indebtedness incurred during the year was larger, but some debts were repaid and there was an increase of \$ 11 million in Israeli loans to other countries.

The level of foreign investment in Israel did not fall below the peak attained in 1963. The most significant change was the relatively big increase in the reinvestment of profits in Israeli currency, but in 1964 as well this amount

Table III-14
FOREIGN INVESTMENTS IN ISRAEL, 1963-64
(\$ million)

	1963	1964	Increase or decrease (-) from 1963 to 1964
Capital transfers in cash	} 134.4	86.7	} 4.7
Investment in shares		52.4	
Capital transfers in the form of Independence and Development Bonds	10.5	10.6	0.1
Capital transfers in kind	19.5	10.6	-8.9
Reinvestment of profits	8.3	13.5	5.2
Total	172.7	173.8	1.1
Less:			
Liquidation of foreign invest- ments in Israel	10.1	17.1	7.0
Israeli investments abroad	15.4	10.8	-4.6
Investments in foreign securities	11.8	13.3	1.5
Total	37.3	41.2	3.9
Total foreign investments in Israel, net	135.4	132.6	-2.8

¹ Excluding interest on savings certificates bearing cumulative interest.

constituted only about 8 percent of total foreign investment in the country, which reached \$ 174 million.

There was also an appreciable rise in the volume of foreign investments liquidated during the year, and a decline in Israeli investments abroad.

(c) *Foreign exchange reserves*

Israel's gross foreign currency balances, which consist of gold and deposits in foreign banks, totalled \$ 646 million at the end of 1964. These reserves expanded rapidly in 1962 and 1963, but much more slowly in 1964: compared with increases of \$ 140 million in 1962 and \$ 109 million in 1963, the increment came to only \$ 31 million in 1964. This was due to the fact that the deficit on current account exceeded that in capital imports.

In addition, in the last few years deposits of foreign banks and nonresidents in local banks, which are set off against the State's foreign exchange reserves, have been on the rise: such deposits totalled \$ 128 million at the end of 1964—some \$ 6 million more than at the end of 1963. As a result, net foreign exchange reserves amounted to \$ 518 million at the end of the year reviewed—\$ 24 million more than at the end of the previous year. The increase in 1963 was \$ 88 million, and in 1962—\$ 118 million.

Table III-15
ISRAEL'S FOREIGN EXCHANGE RESERVES,^a 1962-64
(\$ million)

End of period	1962	1963	1964	Change from the previous year	
				1963	1964
Deposits in other countries (incl. gold and International Monetary Fund)	506.0	615.1	645.7	109.1	30.6
Less:					
Deposits of foreign banks and nonresidents in Israel's banking system	100.1	121.3	127.6	21.2	6.3
Net foreign exchange reserves	405.9	493.8	518.1	87.9	24.3

^a These reserves include not only the balances held with the banking system, as indicated in Chapter XV, but also deposits held directly by the Treasury.