

## CHAPTER III

### THE BALANCE OF PAYMENTS

#### 1. MAIN DEVELOPMENTS

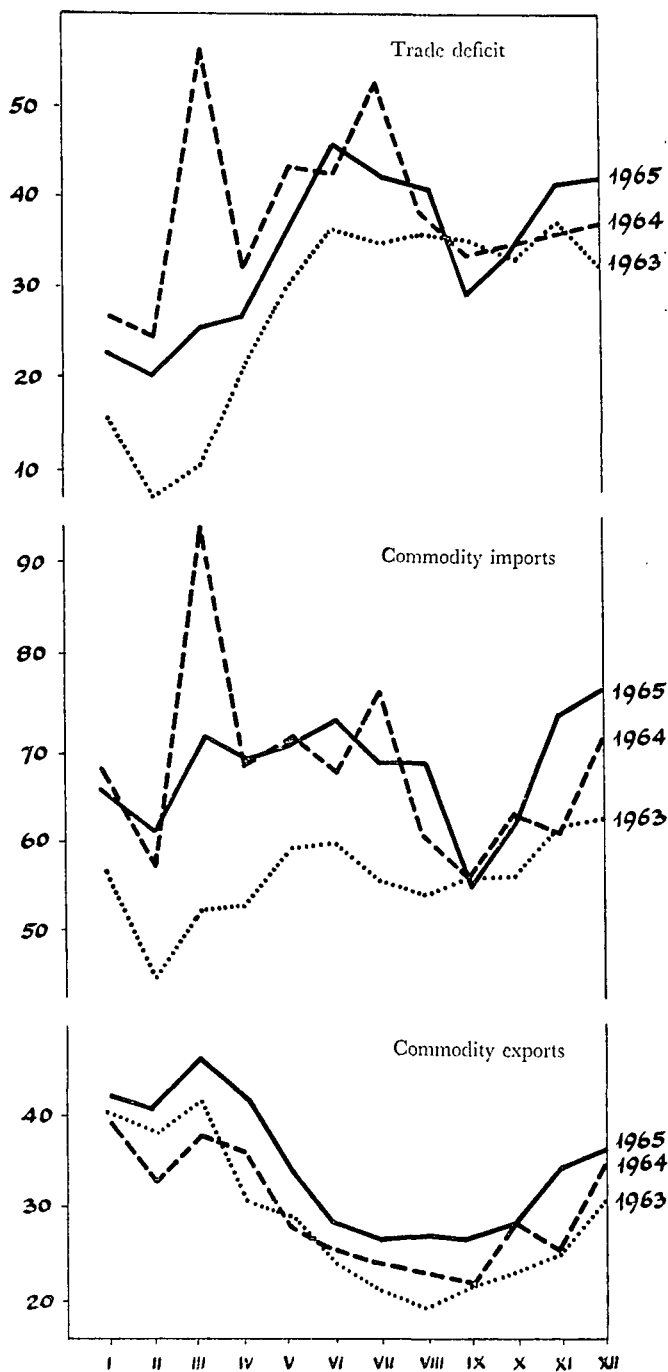
THE IMPORT SURPLUS shrank by some \$ 48 million, or 9 percent, in 1965, and totalled \$ 521 million as against \$ 569 million in the previous year. Capital imports likewise declined during the year reviewed. The volume of unilateral receipts and investments from abroad contracted, but this was partly offset by an

**Table III-1**  
**THE BALANCE OF PAYMENTS, BY MAJOR ITEM, 1964-65**  
(\$ million)

	1964			1965		
	Credit	Debit	Net	Credit	Debit	Net
<b>A. Current account</b>	<b>619.2</b>	<b>1,188.5</b>	<b>-569.3</b>	<b>711.4</b>	<b>1,232.5</b>	<b>-521.1</b>
Commodities <sup>a</sup>	349.4	741.6	-392.2	403.4	733.0	-329.6
Government services	21.1	98.6	-77.5	20.8	130.7	-109.9
Other services	248.7	348.3	-99.6	287.2	368.8	-81.6
<b>B. Unilateral transfers</b>	<b>362.9</b>	<b>11.6</b>	<b>351.3</b>	<b>349.4</b>	<b>8.8</b>	<b>340.6</b>
To the private sector	274.4	4.3	270.1	261.0	4.1	256.9
To the public sector	88.5	7.3	81.2	88.4	4.7	83.7
<b>C. Capital movements</b>	<b>452.2</b>	<b>224.8</b>	<b>227.4</b>	<b>483.8</b>	<b>265.1</b>	<b>218.7</b>
Long- and medium-term	452.2	177.1	275.1	406.6	159.1	247.5
To the private sector	156.7	10.8	145.9	98.2	0.2	98.0
To the public sector	295.5	166.3	129.2	308.4	158.9	149.5
Short-term	—	47.7	-47.7	77.2	106.0	-28.8
Gold and foreign exchange reserves	—	21.3	-21.3	—	106.0	-106.0
Other short-term accounts	—	26.4	-26.4	77.2	—	77.2
<b>Total (A + B + C)</b>	<b>1,434.3</b>	<b>1,424.9</b>	<b>9.4</b>	<b>1,544.6</b>	<b>1,506.4</b>	<b>38.2</b>
Net errors and omissions	—	9.4	-9.4	—	38.2	-38.2

<sup>a</sup> Commodity imports and exports valued f.o.b.  
SOURCE: Central Bureau of Statistics.

Diagram III-1  
FOREIGN TRADE BALANCE, 1963-65  
(\$ million)

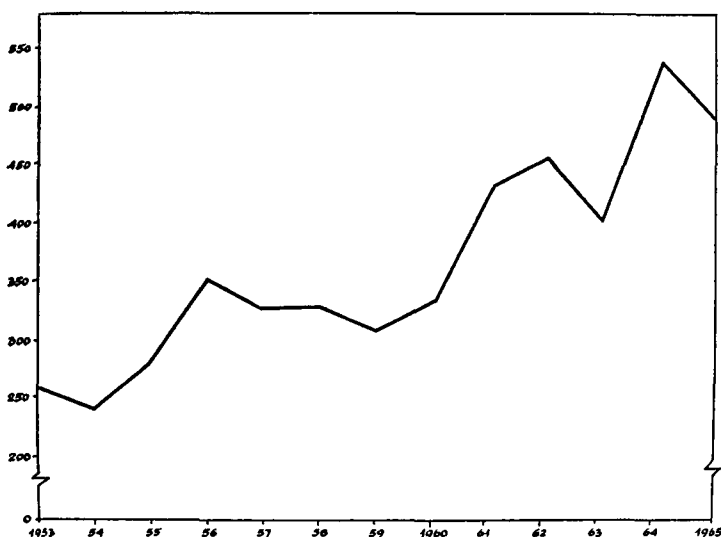


Semi-logarithmic scale.

Diagram III-2

**BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT,  
1953-65**

(\$ million)



increase in long- and medium-term borrowing and a big rise in short-term liabilities, which brought the total amount of foreign transfers and credit above the 1964 level. This increase was accompanied by a decline in the adverse balance on current account, and permitted the further accumulation of foreign exchange reserves. Accumulation exceeded the 1964 figure by more than \$ 100 million, compared with a growth of only \$ 20 million the year before.

Imports expanded by \$ 46 million in 1965—a rise of some 3.8 percent, compared with 17.6 percent in 1964. At constant prices, the increase came to only 1.7 percent, as against 15.7 percent in 1964. Commodity imports remained at the previous year's level, after having gone up 24 percent in 1964. The entire increment was accounted for by services, the rise here being 12 percent as against 7 percent in the preceding year.

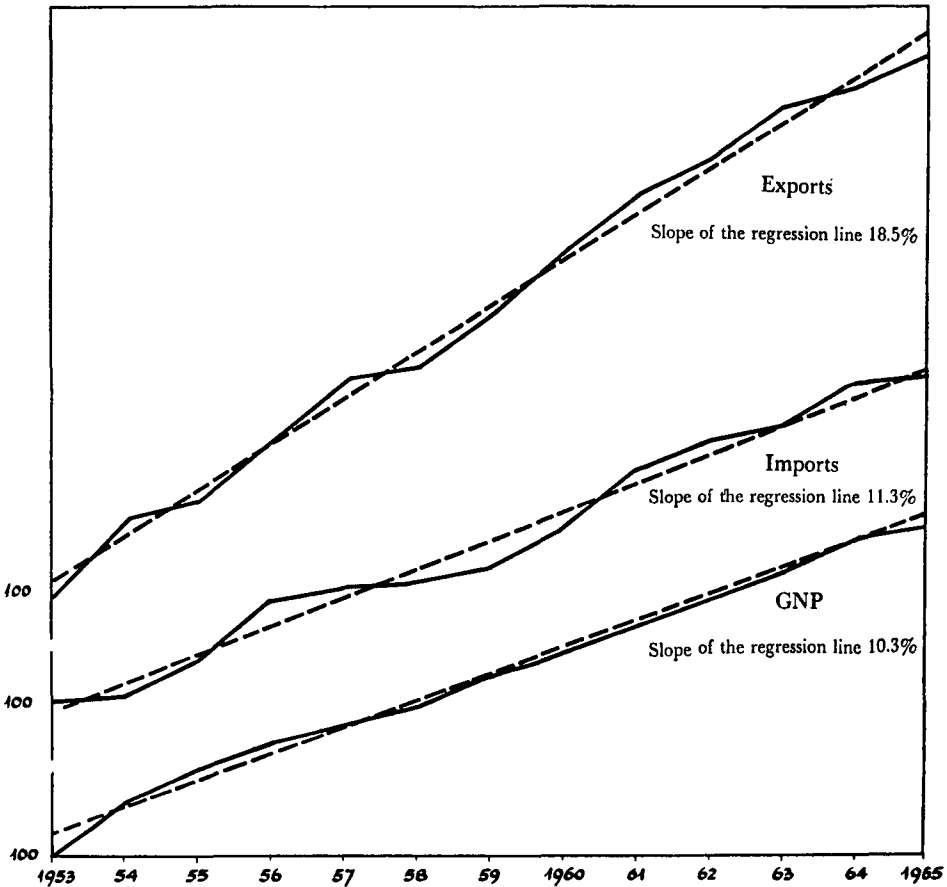
Exports increased much more rapidly than in 1964—14.4 as against 7 percent; at constant prices, the growth amounted to 9 and 7 percent respectively. Industrial exports expanded at a more sluggish rate, continuing the previous year's trend. Of the total increment of industrial exports other than diamonds, approximately one-third was accounted for by potassium chloride, and another third by other chemicals. The only other items showing substantial gains were certain foodstuffs, clothing, metal products, and scrap.

In comparison with 1964, there was thus an improvement in the economy's position as regards its dependence on capital imports. However, it should be recalled that in 1964 there was a particularly big rise in imports and a very

Diagram III-3

GROSS NATIONAL PRODUCT, IMPORTS, AND EXPORTS, 1953-65

(Index: 1963=100)



Semi-logarithmic scale.

small one in exports. A boom atmosphere prevailed that year, reflected by a big increase in imports of raw materials and certain durable consumer goods (following the liberalization of administrative import restrictions). In addition, there was a substantial increase in purchases of ships and aircraft and of sugar for stockpiling. The concentration of these imports in 1964 and their decline in the following year were the result of chance timing, for which no special economic explanation should be sought. Examination of the seasonally adjusted monthly data shows that imports rose throughout 1963, reaching a peak in mid-1964. In the second half of that year, the import curve dipped, but toward the end it reversed itself and continued upward during all of 1965.

**Table III-2**  
**SUMMARY BALANCE OF PAYMENTS, 1962-65\***

(\$ million)

	1962	1963	1964	1965
Imports of goods and services	-951.3	-1,011.5	-1,188.5	-1,232.5
Exports of goods and services	471.8	576.8	619.2	711.4
Import surplus	-479.5	-434.7	-569.3	-521.1
Unilateral transfers and long- and medium-term capital movements	552.9	531.0	626.4	588.1
Unilateral transfers	330.7	346.6	351.3	340.6
Long- and medium-term capital movements	222.2	184.4	275.1	247.5
Short-term capital movements	57.3	28.2	-26.4	77.2
Accumulation of gold and foreign exchange reserves	-140.6	-109.1	-21.3	-106.0
Errors and omissions	9.9	-15.4	-9.4	-38.2

\* Commodity imports and exports are valued f.o.b. All items are shown net; a positive sign denotes a credit balance, and a negative sign a debit balance.

SOURCE: Central Bureau of Statistics.

The faster expansion of exports during the year reviewed can be attributed to the much larger proceeds from citrus sales as compared with 1964, when the poor citrus harvest of the 1963/64 season resulted in a small export in early 1964; the 1965 figure, however, was still somewhat below that of 1963. Industrial exports displayed an upward trend from the last quarter of 1964 until mid-1965, after which it turned downward.

The annual percentage rises in imports and exports have exhibited marked fluctuations, owing to short-run developments and nonrecurrent factors. These fluctuations tend to balance out over a period of several years, and on the whole imports have grown at a slightly higher rate than the national product. This is explained by the fact that the relative weight of branches with a high import component has been rising, so that the economy has had to expand raw material imports at a somewhat faster rate than output growth. At the same time, there has been an increase in the weight of imported goods within private consumption, due to the high income elasticity of demand for such items; this development has been particularly striking since 1962, when the import liberalization policy was introduced. These trends have not been fully offset by the production of import substitutes.

Exports have been expanding faster than imports. However, a certain deceleration is evident: whereas during the years 1959-62 the annual increase in exports ranged from 18 to 24 percent and averaged 21 percent per annum, the growth rates in 1964 and 1965 came to only about half this figure. More-

Table III-3

## IMPORTS, EXPORTS, AND THE IMPORT SURPLUS, 1962-65

(\$ million)

	1962	1963	1964	1965	Percent increase or decrease (–) as against previous year								
					Quantity			Price			Value		
					1963	1964	1965	1963	1964	1965	1963	1964	1965
Imports													
Commodities	613.8	647.5	803.4	797.3	4.5	21.7	–1.8	1.0	2.0	1.0	5.5	24.1	–0.8
Services	368.9	393.9	421.6	473.7	6.8	6.2	8.1	—	0.8	4.0	6.8	7.0	12.4
Total	982.7	1,041.4	1,225.0	1,271.0	5.4	15.7	1.7	0.6	1.6	2.1	6.0	17.6	3.8
Exports													
Commodities	271.4	337.1	349.4	403.4	19.4	3.6	11.2	4.0	—	3.9	24.2	3.6	15.5
Services	231.8	269.6	306.3	346.5	16.3	10.9	6.7	—	2.4	6.0	16.3	13.6	13.1
Total	503.2	606.7	655.7	749.9	18.0	6.9	9.2	2.2	1.1	4.8	20.6	8.1	14.4
Import surplus	479.5	434.7	569.3	521.1	–7.9	28.3	–6.9	–1.5	2.1	–1.7	–9.3	31.0	–8.5

\* Commodity imports valued c.i.f. and commodity exports f.o.b.

SOURCE: Central Bureau of Statistics.

over, while in recent years exports have expanded more rapidly than imports, the absolute increase in exports has fallen behind that in imports, so that the import surplus has tended to rise.

Export prices went up faster than import prices in 1965, resulting in some improvement in the terms of trade. Of the \$ 48 million decrease in the import surplus, about one-fifth can be attributed to this factor.

Most of the rise in export prices occurred in the citrus and mineral branches. Prices fetched by citrus products declined, as did those of most textile goods. The drop in respect of citrus products partly reflects the influence of the discriminatory tariffs imposed by the European Economic Community (the Common Market), while the textile industry appears to be meeting growing competition in European and American markets, which has depressed the prices for these products. The imposition of higher customs duties in the United Kingdom has also had a detrimental effect.

Comparison with a year in which import was extremely large tends to make the figure for the year reviewed relatively low and to suggest a slowdown in the growth rate. The large import in 1964 led to the buildup of inventories. In 1965, with the decrease in the economy's liquidity and the rise in the interest rate, the accumulated inventories apparently sufficed to meet part of the economy's needs and enabled it to import less than usual. Moreover, in 1965 economic activity was less intense—the rise in the national product was slower and investment declined. As a result, there was a smaller demand for raw materials—for both current production and stocks—while demand for imported investment goods likewise weakened.

There was also a striking decrease in automobile imports, owing to the raising of the import duties on this item at the end of 1964. Imports of most other consumer goods went up more rapidly, and expenditure on trips abroad likewise increased after having remained unchanged in 1964. Government imports were considerably larger, following a decline in both 1963 and 1964.

Imports apparently were not affected to any significant extent by the advancing prices of domestic products during the year reviewed, though neither import prices nor customs duties and other import taxes were higher. The tariff walls protecting local products create a big gap between their prices and the prices of imported goods, so that price increases of 5 to 10 percent—such as occurred during 1965—are apparently insufficient to induce a switch to imports. Nevertheless, the very possibility of competitive imports may have been a factor stabilizing prices in some branches, as well as an incentive to improving quality. At the same time, liberalization was marked in 1965 by the appearance of foreign products which previously could not be imported. Owing to the high customs duties, the prices of these commodities were very high, and in a few cases the imported items acted as price leaders, tending to push up the prices of similar domestic products.

As regards the encouragement of exports, there were no new developments in

1965. The arrangements in individual branches and the various direct and indirect incentives remained in force but were not extended. This system leads to discrimination in favor of certain branches and to an increase in the export of items that are not most profitable to the economy. At the same time, the export trade in general is discriminated against in favor of the sheltered local market. Under these conditions, there is a danger that productive factors may be shifted from inefficient export production to still more inefficient production for the home market. Enterprises refrain from expanding their exports at the pace required by the economy and—even more significantly—hesitate to invest in the expansion of their export-production capacity.

The rise in the prices of citrus, minerals, and diamonds brought up the percentage of value added in these commodities and of exports as a whole. Whereas overseas sales advanced by 14 percent, value added went up 18 percent.

## 2. IMPORTS

Imports expanded by \$46 million, or about 3.8 percent, during 1965; at constant prices, the increase was only 1.7 percent. Commodity imports fell a little below the 1964 level, the entire increment being due to imports of services, which went up by 12.4 percent. In 1964 the growth of imports amounted to 17.6 percent—24 percent in commodity imports and 7 percent in services.

The stability of commodity imports was caused by a certain easing of demand for imported goods following the deceleration of economic activity; by the decline in liquidity, which reduced the demand for imported raw materials and perhaps also for investment goods; and by a sharp drop in the import of commodities which for various reasons—partly economic and partly fortuitous—were imported in 1964 on a greater scale than was required for current production.

The distribution of imports by economic destination points to a slower rate of expansion in all items, and in certain cases there was even a decrease in the absolute value of imports.

### (a) *Consumer goods*

Imports for current consumption went up by 4.4 percent in 1965. This item includes sugar, which was imported on a large scale in 1964 in order to build up stocks; in 1965 imports were smaller and prices fell steeply. There was also a slight decrease in imports of coffee, tea, and cocoa. On the other hand, imports of frozen meat were some 50 percent larger. As regards other current consumption items, the rise in imports came to roughly 30 percent, and the monthly data even show an acceleration toward the end of the year.

Imports of consumer durables did not increase at all in 1965. This was mainly due to the drop in the number of cars brought into the country after



Table III-4  
IMPORTS,\* 1962-65  
(\$ million)

	1962	1963	1964	1965	Increase or decrease (-) as against preceding year					
					\$ million			Percent		
					1963	1964	1965	1963	1964	1965
Meat and fish	10.0	9.8	15.5	21.2	-0.2	5.7	5.7	-2	58	37
Milk and dairy produce	1.4	2.0	3.1	5.6	0.6	1.1	2.5	43	55	81
Cereals and rice	44.9	41.0	44.6	44.0	-3.9	3.6	-0.6	-9	9	-1
Sugar and honey	4.0	13.3	19.4	7.9	9.3	6.1	-11.5	232	46	-59
Coffee, tea, cocoa	5.2	6.1	8.7	7.0	0.9	2.6	-1.7	17	43	-19
Unprocessed tobacco	1.5	2.2	3.7	4.1	0.7	1.5	0.4	47	68	11
Other food and beverages	7.8	17.3	9.7	10.0	9.5	-7.6	0.3	122	-44	3
Oilseeds	23.4	21.7	28.7	29.1	-1.7	7.0	0.4	-7	32	1
Wood	26.7	23.3	29.7	31.0	-3.4	6.4	1.3	-13	28	4
Raw cotton	4.4	4.8	9.8	8.4	0.4	5.0	-1.4	9	104	-14
Yarns	10.3	10.4	13.8	15.0	0.1	3.4	1.2	1	33	9
Other textiles	8.2	5.6	7.3	7.0	-2.6	1.7	-0.3	-32	30	-4
Edible oils and fats	8.3	8.9	4.9	8.9	0.6	-4.0	4.0	7	-45	82
Chemicals	34.6	35.4	41.9	45.4	0.8	6.5	3.5	2	18	8
Iron and steel	44.6	42.7	54.1	54.9	-1.9	11.4	0.8	-4	27	1

Nonferrous metals	13.7	12.3	16.3	17.8	-1.4	4.0	1.5	-10	33	9
Raw diamonds, net	69.1	93.1	102.3	96.7	24.0	9.2	-5.6	35	10	-5
Fuel	40.5	45.3	47.3	53.9	4.8	2.0	6.6	12	4	14
Other raw materials	60.0	65.3	74.9	79.3	5.3	9.6	4.4	9	15	6
Machinery	83.0	79.1	81.9	85.2	-3.9	2.8	3.3	-5	4	4
Generators and electrical equipment	25.1	25.7	24.4	41.9	0.6	-1.3	17.5	2	-5	72
Communication equipment	9.4	7.6	17.2	16.3	-1.8	9.6	-0.9	-19	126	-5
Automotive vehicles	32.4	39.2	52.2	47.8	6.8	13.0	-4.4	21	33	-8
Ships and aircraft	29.5	21.3	67.2	36.3	-8.2	45.9	-30.9	-28	215	-46
Electrical household appliances	1.7	3.0	4.2	4.8	1.3	1.2	0.6	76	40	14
Furniture	0.4	0.7	1.9	2.9	0.3	1.2	1.0	75	171	53
Miscellaneous	29.2	29.4	37.8	37.3	0.2	8.4	-0.5	1	29	-1
<b>Total</b>	<b>629.3</b>	<b>666.5</b>	<b>822.5</b>	<b>819.7</b>	<b>37.2</b>	<b>156.0</b>	<b>-2.8</b>	<b>6</b>	<b>23</b>	<b>—</b>
Less: Imports returned and adjustments	15.5	19.0	19.1	22.4	3.5	0.1	3.3	—	—	—
<b>Total commodity imports, net</b>	<b>613.8</b>	<b>647.5</b>	<b>803.4</b>	<b>797.3</b>	<b>33.7</b>	<b>155.9</b>	<b>-6.1</b>	<b>6</b>	<b>24</b>	<b>—</b>
Imports of services	368.9	393.9	421.6	473.7	25.0	27.7	52.1	7	7	12
<b>Total imports</b>	<b>982.7</b>	<b>1,014.4</b>	<b>1,225.0</b>	<b>1,271.0</b>	<b>58.7</b>	<b>183.6</b>	<b>46.0</b>	<b>6</b>	<b>18</b>	<b>4</b>

<sup>a</sup> Commodity imports valued c.i.f.

SOURCE: Central Bureau of Statistics.

the raising of import duties at the end of 1964; such imports totalled only \$ 7.2 million, as compared with \$ 11.2 million in 1964. These data may possibly exaggerate the decline in vehicle imports for private use after the raising of taxes, since this policy measure has apparently resulted in the greater use of commercial vehicles for private purposes. In the estimates cited here, commercial vehicles are not defined as consumer goods.

Other consumer durables imported in smaller quantities during 1965 include gas ranges and hot plates, air conditioners, refrigerators, and television sets. These items added up to \$ 3.4 million in 1964, while in 1965 the figure fell to \$ 2.5 million. With the exception of television sets, imports of these goods constitute only a small percentage of the total quantity marketed in Israel, and the decline in imports was accompanied by larger sales of local products. As there is no local manufacture of television sets, the reduced import in this case reflects the smaller number of sets supplied to the economy.

The contraction of the above-mentioned imports is difficult to explain. It may reflect fluctuations in dealers' stocks, for after the liberalization policy was applied to these items, a large number of appliance shops were opened in 1963 and 1964, increasing stock requirements in the branch. It is also possible that importers initially overestimated local demand for imported products of this type. Owing to the high tariff walls, a big majority of the consumers purchased local products, and this apparently led to the accumulation of somewhat larger stocks during 1964 than had been planned, while in 1965 these stocks were reduced and goods imported in 1964 were sold. The smaller import of television sets was no doubt connected also with the raising of the duty on this item at the end of 1964, and possibly with the announcement that the establishment of a general television network in Israel would be postponed.

In contrast to the drop in the aforementioned items, there were big increases in imports of washing machines, radios, phonographs, tape recorders, knitting machines, sewing machines, vacuum cleaners, mixers, musical instruments, and personal requisites. Imports of furniture likewise expanded appreciably. Altogether, imports of the items mentioned here rose from \$ 10.7 million in 1964 to \$ 14.1 million. Moreover, tourist spending abroad was up nearly 20 percent. Though the latter is not included in commodity imports, the determinative factors are similar to those stimulating purchases of durable goods.

Large-scale imports of consumer durables actually became possible only with the liberalization policy. The rates of customs duty levied on these articles are very high, ranging from 60 percent on electric refrigerators and furniture to 165 percent on phonographs and still higher on commodities subject to a specific duty. Nevertheless, imports of durable goods other than cars expanded from some \$ 5 million in 1961 to \$ 20 million in 1965.

It should be noted that this increase cannot be attributed entirely to the liberalization policy, for had imports of these goods been banned, the demand

Table III-5  
IMPORTS,\* BY ECONOMIC DESTINATION, 1962-65  
(\$ million)

	1962	1963	1964	1965	Percent increase or decrease (-) as against previous year								
					Quantity			Price			Value		
					1963	1964	1965	1963	1964	1965	1963	1964	1965
<b>Consumer goods</b>													
Food	18.1	25.2	35.8	35.7	3.6	32.8	3.4	34.4	7.0	-3.6	39.2	42.1	-0.3
Other current consumption items	13.1	15.0	18.6	21.1	-11.4	15.3	20.4	29.3	7.5	-5.8	14.5	24.0	13.4
Durable goods	13.2	17.7	27.0	27.1	31.5	51.0	-1.5	2.0	1.0	1.9	34.1	52.5	0.4
Total	44.4	57.9	81.4	83.9	11.2	34.8	5.7	17.3	4.3	-2.5	30.4	40.6	3.1
<b>Production inputs</b>													
For agriculture	29.2	32.3	30.2	34.2	8.4	-6.5	10.0	2.0	—	2.9	10.6	-6.5	13.2
For industry and construction	268.6	264.1	326.1	328.1	-1.7	22.3	-1.2	—	1.7	1.8	-1.7	24.4	0.6
Spare parts	36.8	32.8	38.4	42.4	-10.9	15.4	7.7	—	1.5	2.5	-10.9	17.1	10.4
Raw diamonds, net	67.2	93.2	102.3	96.6	38.7	1.8	-8.2	—	7.9	2.8	38.7	9.8	-5.6
Total	401.8	422.4	497.0	501.3	4.0	16.3	-1.6	1.1	1.6	2.5	5.1	18.2	0.9
Fuel	40.1	44.5	46.6	53.3	10.8	10.3	16.8	—	-5.1	-2.2	10.8	4.7	14.4
<b>Investment goods</b>													
For agriculture	8.0	6.4	8.5	9.8	-20.0	30.8	12.5	—	1.5	2.5	-20.0	32.8	15.3
For industry and electric power	72.7	75.7	73.1	85.4	4.1	-4.8	14.0	—	1.5	2.5	4.1	-3.4	16.8
Ships and aircraft	21.7	16.4	59.9	31.9	-24.4	265.2	-46.7	—	—	—	-24.4	265.2	-46.7
Other investment goods	40.6	43.2	56.0	54.1	6.4	27.7	-5.8	—	1.5	2.5	6.4	29.6	-3.4
Total	143.0	141.7	197.5	181.2	-0.9	38.0	-10.1	—	1.0	2.0	-0.9	39.4	-8.3
Total commodity imports	629.3	666.5	822.5	819.7	4.9	21.0	-1.3	1.0	2.0	1.0	5.9	23.4	-0.3
Less: Imports returned and adjustments	15.5	19.0	19.1	22.4	21.4	-1.5	16.1	1.0	2.0	1.0	22.6	0.5	17.3
Total commodity imports, net	613.8	647.5	803.4	797.3	4.5	21.7	-1.8	1.0	2.0	1.0	5.5	14.1	-0.8
Imports of services	368.9	393.9	421.6	473.7	6.8	6.2	8.1	—	0.8	4.0	6.8	7.0	12.4
Total imports	982.7	1,041.4	1,225.0	1,271.0	5.4	15.7	1.7	0.6	1.6	2.1	6.0	17.6	3.8

\* Commodity imports valued c.i.f.  
SOURCE: Central Bureau of Statistics.

would have been channelled exclusively to local manufactures. As the import component of most durable goods is relatively high, imports of production inputs would have risen in place of the finished products, though of course not to the same extent. The very presence of the foreign durables spurred local manufacturers to improve the quality of their products. This was particularly noticeable in the furniture branch. To a certain extent (though perhaps not sufficiently), these imports released productive factors for other, more efficient, types of output.

#### (b) *Production inputs*

Despite the increase in diamond exports, imports of uncut diamonds declined, owing to the reduction of stocks accumulated in 1964 when marketing difficulties were encountered abroad. Another factor partially responsible for this development was the smaller volume of credit granted through export funds for financing diamond imports.

Imports of other production inputs increased by 2.5 percent, as compared with 20 percent in 1964. This is partly attributable to the big increases in certain commodity imports in 1964, which were followed in 1965 by a reduction of stocks. However, the stability in raw material imports must also be ascribed to the slower rate of expansion in various branches of production during the year reviewed. A big rise in imports in 1964 and virtual stability in 1965 was characteristic of the following major items in particular: iron and steel, wood, oilseeds, and raw materials for the textile industry. Though there is an evident connection between the stable level of imports in 1965 and the developments of the previous year, it is difficult to determine the exact correlation between them, since the sharp rise in 1964 followed a decline in imports of the items concerned in 1963. It may thus be assumed that the imports of 1964 to some extent served to replenish stocks depleted during 1963. At any rate, the developments of 1964 only partly explain those of 1965. The smaller import was also connected with the reduction of liquidity in the economy and the slowdown of activity in branches for which these items constitute inputs. Thus the nonincrease in respect of iron, steel, and wood was connected with the nonincrease in construction activity and the slower expansion of production in the metal industry. Output in some branches of the textile industry likewise expanded somewhat more slowly, while oil refining declined 20 percent.

#### (c) *Investment goods*

Random fluctuations are most pronounced in imports of ships and aircraft. After reaching a record high in 1964, such imports fell by \$ 28 million in 1965. Imports of other capital goods also contracted, as the level of investment tapered off during the year reviewed, especially in the industrial sector. The

only increase was in foreign equipment for the Israel Electric Corporation, which doubled its investments in 1965.

(d) *Services*

Imports of services went up by 12 percent in 1965, as compared with a rise of nearly 7 percent in each of the two preceding years. Approximately 60 percent of the increment was due to larger Government imports: these expanded by 33 percent, after having declined in 1963 and 1964. Expenditure on foreign travel rose by 17 percent, following a drop in 1964 in the number of Israelis going abroad and the nonexpansion of outlay owing to the suspension of tourism to Cyprus and the imposition of higher taxes on foreign travel. In 1965 the number of persons going abroad increased by some 8 percent, and average expenditure per trip by 9 percent.

The fares charged by international airlines were lower in 1965 than in 1964. Consequently, outlay on passenger transport did not go up despite the larger number of Israelis making flights.

Maritime freight charges were raised in 1965, and this resulted in a 6 percent increase in payments to foreign companies for the transport of import cargoes, despite the fact that the volume of imports remained unchanged. Among the transport service items, there was a big rise in expenses incurred abroad by Israeli ships and aircraft.

All told, the import of transportation services increased by less than 10

**Table III-6**  
**IMPORTS OF SERVICES,\* 1962-65**  
(\$ million)

	1962	1963	1964	1965	Percent increase or decrease (-) as against previous year		
					1963	1964	1965
Transportation	68.7	70.6	83.1	91.1	2.8	17.7	9.6
Passenger	8.0	10.2	12.1	12.7	27.5	18.6	5.0
Other	60.7	60.4	71.0	78.4	-0.5	17.5	10.4
Foreign travel	26.0	38.0	37.3	43.8	46.2	-1.8	17.4
Insurance	27.9	31.1	41.0	45.4	11.5	31.8	10.7
Capital servicing	76.6	80.8	93.8	105.5	5.5	16.1	12.5
Government, n.e.s.	113.8	105.7	98.6	130.7	-7.1	-6.7	32.6
Miscellaneous	55.9	67.7	67.8	57.2	21.1	0.1	-15.6
<b>Total</b>	<b>368.9</b>	<b>393.9</b>	<b>421.6</b>	<b>473.7</b>	<b>6.8</b>	<b>7.0</b>	<b>12.4</b>

\* Calculated according to the c.i.f. value of commodity import.

SOURCE: Central Bureau of Statistics.

**Table III-7**  
**IMPORTS AND EXPORTS OF TRANSPORTATION SERVICES, 1963-65**  
(\$ million)

	1963	1964	1965
<b>Imports</b>			
Passenger transport			
Sea	2.5	2.7	2.5
Air	7.7	9.4	10.2
<b>Total</b>	<b>10.2</b>	<b>12.1</b>	<b>12.7</b>
Other transportation expenditure	60.4	71.0	78.4
<b>Total, according to the c.i.f. value of commodity imports</b>	<b>70.6</b>	<b>83.1</b>	<b>91.1</b>
Transport of commodity imports by foreign companies	16.8	21.7	22.7
<b>Total, according to the f.o.b. value of commodity imports</b>	<b>87.4</b>	<b>104.8</b>	<b>113.8</b>
<b>Exports</b>			
Passenger transport			
Sea	9.1	11.1	13.6
Air	24.3	25.8	29.8
<b>Total</b>	<b>33.4</b>	<b>36.9</b>	<b>43.4</b>
Cargo transport			
Exports	8.8	8.8	15.3
Other commodities	27.7	29.6	34.7
Other income from transportation	16.3	16.2	19.8
<b>Total, according to the f.o.b. value of commodity imports</b>	<b>86.2</b>	<b>91.5</b>	<b>113.2</b>
Transport of commodity imports by Israeli companies	28.6	35.0	36.9
<b>Total, according to the c.i.f. value of commodity imports</b>	<b>114.8</b>	<b>126.5</b>	<b>150.1</b>

percent, while income from the export of transportation services was up nearly 20 percent.

With the growth of Israel's foreign indebtedness, outlay on capital services went up from \$ 94 million in 1964 to \$ 105 million, i.e. by 12 percent. This brought up the ratio of such expenditure to 14 percent of total export proceeds.

### (e) *Taxes on imports*

Taxes collected on imports increased more rapidly than the import itself, bringing up the effective exchange rate for imports from IL 3.40 per dollar in 1964 to IL 3.45 in 1965. The rise was due to the following:

(a) A higher rate of customs duty was levied on sugar. (The Government keeps the price of sugar constant by imposing customs duty at a rate compensating for price fluctuations in the world market. In 1965 the price of sugar fell to almost half the 1964 level; the price of coffee also fell, and the Government therefore raised the duty on these two items.)

(b) Customs duty and purchase tax were raised on various commodities, chiefly automobiles.

(c) Proceeds on account of customs levied on goods imported in the previous year increased somewhat.

The changes in the composition of imports did not affect the effective exchange rate, the reduced weight of automobiles within total imports being offset by the rise in that of consumer goods subject to a high duty.

## 3. EXPORTS

Export proceeds increased by 14.4 percent in 1965, compared with 8.1 percent the year before; after discounting the rise of prices, the growth amounted to 9 and 7 percent respectively. The acceleration was due entirely to agricultural exports, especially citrus. Other categories of commodity exports increased somewhat more slowly than in 1964.

### (a) *Agricultural products*

The quantity of citrus marketed in 1965 was almost 25 percent larger than in 1964 and 12 percent larger than in 1963. Prices went up 8 percent, mainly because of the higher quality of the fruit, but also as a result of the frost in Spain, which reduced orange supplies in Europe toward the end of the season and led to a rise of some 35 percent in the prices fetched by Israel for her Valencias. Altogether, income from citrus exports was 34 percent higher than in 1964.

The export of eggs on a large scale is not profitable to the economy, being made possible only by subsidies. Following the decision to reduce the volume of these exports, the quantity of eggs marketed abroad in 1965 was appreciably smaller than in the previous year. Supplies from other countries were apparently reduced as well; as a result, the average prices obtained were higher, so that income from egg exports actually increased. Sales of fresh vegetables and fruit other than citrus soared nearly 50 percent.



Table III-8

EXPORTS, BY MAIN CATEGORY,<sup>a</sup> 1962-65

(\$ million)

	1962	1963	1964	1965	Percent increase or decrease (-) as against previous year								
					Quantity			Price			Value		
					1963	1964	1965	1963	1964	1965	1963	1964	1965
Agricultural exports	68.4	89.0	67.0	86.8	13.7	-7.2	21.5	14.4	-18.9	6.7	30.1	-24.7	29.6
Citrus	49.2	74.7	52.8	70.9	31.4	-10.1	24.4	15.5	-21.4	8.0	51.8	-29.3	34.3
Other agricultural products	19.2	14.3	14.2	15.9	-31.8	10.8	8.5	9.3	-10.4	3.2	-25.5	-0.7	12.0
Industrial goods	119.6	143.1	161.3	181.2	16.3	9.7	8.2	2.8	2.7	3.8	19.6	12.7	12.3
Diamonds	82.6	104.0	118.2	131.7	24.6	2.6	7.6	1.0	10.8	3.5	25.9	13.7	11.4
Ships and aircraft	0.8	1.0	2.9	3.7	25.0	190.0	27.6	—	—	—	25.0	190.0	27.6
Total commodity exports	271.4	337.1	349.4	403.4	19.4	3.6	11.2	4.0	—	3.9	24.2	3.6	15.5
Services	231.8	269.6	306.3	346.5	16.3	10.9	6.7	—	2.4	6.0	16.3	13.6	13.1
Total exports, net	503.2	606.7	655.7	749.9	18.0	6.9	9.2	2.2	1.1	4.8	20.6	8.1	14.4

<sup>a</sup> Commodity exports are valued f.o.b.; service exports have been calculated according to the c.i.f. value of commodity imports.

Source: Central Bureau of Statistics.

(b) *Industrial and mine and quarry products*

Exports of diamonds continued upward, but income from this source rose a little more slowly than in 1964.

Industrial exports other than diamonds advanced by roughly \$ 20 million, about the same amount as in 1964 but less in percentage terms. Most of the increment was accounted for by a very small number of items—\$ 5.5 million by potassium chloride (potash) and \$ 4.0 million by phosphates and other chemicals. Sales of certain other items increased to a moderate extent, including citrus products, wood and wood products, miscellaneous metal goods, and scrap. Exports of most other industrial branches did not increase, while in some there was even a decline.

In the Annual Report for 1964 it was pointed out that the bulk of the export increment was accounted for by items marketed almost exclusively abroad. Among these were, first and foremost, such minerals as copper-cement and potassium chloride, as well as citrus products—items in which Israel enjoys a natural relative advantage. Also mentioned were exports of textile and synthetic yarns, which are not based on any natural advantage but on the fact that at a certain stage of the country's industrial development the output capacity of the branches concerned was expanded far beyond the needs of the local market, and the enterprises have continued to exist only because they market their products abroad with the aid of price supports.

As regards three of the above-mentioned items, exports in 1965 were approximately of the same volume as in 1964. Sales of copper-cement, it will be recalled, were doubled in 1964; during the year reviewed, output was slightly smaller since the copper content of the seams worked was lower, but this was not fully reflected in the export figures, as copper prices in the world market continued to rise.

Exports of citrus products increased somewhat, but more slowly than the output of citrus; this is explained by the fact that the quality of the fruit was better, so that the proportion diverted to industry was smaller. However, prices of citrus products edged down somewhat, owing primarily to tariff discrimination by the Common Market.

As regards spun yarn, export capacity was fully exploited in 1964, and exports declined in 1965. Prices of yarn likewise weakened, particularly in the U.K. following the raising of customs duties there at the end of 1964.

The only item whose production capacity was expanded in 1964 and exploited during the year surveyed was potassium chloride. Overseas sales of this commodity advanced from \$ 7.7 million in 1964 to \$ 13.2 million in 1965. Also contributing to the export increment were a number of chemical enterprises which had either started production or expanded their output following the maturing of investments made in previous years. These were Israel Petrochemical Enterprises, Chemicals and Phosphates Ltd., and Bromine Compounds

Table III-9  
MAIN EXPORT ITEMS,\* 1962-65  
(\$ million)

	1962	1963	1964	1965	Increase or decrease (-) as against previous year					
					\$ million			Percent		
					1963	1964	1965	1963	1964	1965
Citrus	49.2	74.7	52.8	70.9	25.5	-21.9	18.1	52	-29	34
Eggs	8.6	5.2	6.0	5.2	-3.4	0.8	-0.8	-40	15	-13
Fresh fruit and vegetables	10.6	9.1	3.6	5.5	-1.5	-0.9	1.9	14	-10	53
Other agricultural products			4.6	5.2			0.6			13
Total agricultural products	68.4	89.0	67.0	86.8	20.6	-22.0	19.8	30	-25	30
Citrus products	9.5	13.1	18.1	18.6	3.6	5.0	0.5	38	38	3
Other processed foodstuffs	7.7	11.1	12.2	14.4	3.4	1.1	2.2	44	10	18
Yarns	11.6	13.2	19.3	17.4	1.6	6.1	-1.9	14	46	-10
Other textiles and clothing	18.6	18.0	20.1	22.9	-0.6	2.1	2.8	-3	12	14
Copper-cement	3.3	4.3	9.3	8.5	1.0	5.0	-0.8	30	116	-9
Potassium chloride	4.8	5.4	7.7	13.2	0.6	2.3	5.5	12	43	71
Fuel	3.8	7.9	9.6	10.2	4.1	1.7	0.6	108	21	6
Other minerals and chemicals	9.9	11.2	12.8	16.8	1.3	1.6	4.0	13	14	31
Wood and wood products	5.7	6.0	7.1	8.1	0.3	1.1	1.0	5	18	14
Tires and tubes	9.9	8.8	8.4	8.8	-1.1	-0.4	0.4	-11	-5	5
Metal goods and scrap	15.3	22.3	14.2	19.2	7.0	-8.1	5.0	46	-36	35
Machinery, electrical equipment, and transport vehicles	5.7	4.6	5.4	5.1	-1.1	0.8	-0.3	-19	17	-6
Other industrial products	13.8	17.2	17.1	18.0	3.4	0.1	0.9	25	-1	5
Total industrial products	119.6	143.1	161.3	181.2	23.5	18.2	19.9	20	13	12
Diamonds, net	82.6	104.0	118.2	131.7	21.4	14.2	13.5	26	14	11
Sales of ships and aircraft	0.8	1.0	2.0	3.7	0.2	1.9	0.8	25	190	28
Total commodity exports, net	271.4	337.1	349.4	403.4	65.7	12.3	54.0	24	4	15
Services	231.8	269.6	306.3	346.5	37.8	36.7	40.2	16	14	13
Total exports, net	503.2	606.7	655.7	749.9	103.5	49.0	94.2	21	8	14

\* Commodity exports are valued f.o.b.; service exports have been calculated according to the c.i.f. value of commodity imports.

SOURCE: Central Bureau of Statistics.

Ltd. Their combined export went up from \$ 3.3 million in 1964 to \$ 6.3 million.

Other commodities marketed abroad in appreciably larger quantities than in 1964 were certain items of clothing (though exports of raincoats and bathing suits contracted), metal products, scrap, plywood, and unrefined edible oil.

(c) *Export incentives*

There were no changes in the Government's export promotion policy in 1965. This policy is implemented through three main instruments:

(a) The cartelization of certain branches and the establishment of equalization funds to subsidize exports; these funds are financed by a levy on goods which are permitted to be sold in the local market at a higher price.

(b) Export subsidies paid from the Government budget and designed to win new foreign markets; these subsidies include Government participation in the financing of export funds for individual branches of the textile industry, its participation in various outlays connected with export, and the refund of certain taxes paid by exporters.

(c) The financing of exports and imports for export production through credits granted on easier terms than those obtainable for other types of production.

The branch arrangements were not extended in 1965. Government activities designed to promote industrial exports are valued at an estimated IL 14.5 million in 1964 and IL 18.5 million in 1965. The average subsidy per dollar of industrial export thus rose slightly in 1965, from 9 to 10 agorot. There were no changes in credit arrangements for exporters, the volume of such credit expanding at the same rate as exports.

The fact that industrial export did not show any marked gain is therefore not surprising. In most branches the establishment and development of enterprises has been orientated to the home market. Prices in the domestic market are far higher than those obtainable abroad, so that export has come to be looked on only as an outlet for production surpluses.

Even at the time of the 1962 devaluation, the profitability of export in most branches was lower than that of production for the home market, which is protected by tariff walls. Export has been largely based, therefore, on the existence of surpluses over and above the local market requirements, as well as on direct and indirect incentives—whether in the form of Government financing or the setting of higher prices in the local market.

Since the devaluation the profitability of export has gradually deteriorated, owing primarily to mounting demand in the home market. As the producer can obtain a higher price in the sheltered home market, the very expansion of domestic demand causes the diversion of a larger proportion of output to this market, at the expense of sales abroad. Since the end of 1964 the growth of

such demand has also been accompanied by a general upward movement of prices in Israel, a trend which has further decreased the relative profitability of export and provided an additional reason for reducing its share within total final uses.

During this period the absolute profitability of export may also have declined, owing to the rise in production costs, which in certain branches was not offset by an improvement in productivity or higher prices in foreign markets.

This system, which discriminates between the different branches, encourages export by those in which the economy enjoys no relative advantage, stimulates unprofitable export, and thus leads to an inefficient allocation of the economy's available productive factors. However, in the absence of general and direct incentives, export in general is discriminated against in favor of the sheltered home market, and consequently the developments of the last few years have caused a gradual deceleration in the expansion of overseas industrial sales. Its reduced profitability has not only affected export directly; it also has an adverse effect on investments designed to enlarge export-production capacity, thus diminishing the possibilities of expanding overseas sales in the future.

#### (d) *Services*

Exports of services increased by 13 percent in 1965. There was a rise of some 20 percent in income from the transportation of passengers by El Al Israel Airlines and local shipping companies. This growth rate more or less corresponds to that in the volume of tourism to Israel. The number of air

**Table III-10**  
**EXPORTS OF SERVICES, 1962-65**  
(\$ million)

	1962	1963	1964	1965	Percent increase or decrease (-) as against previous year		
					1963	1964	1965
Transportation	116.4	114.8	126.5	150.4	-1.4	10.2	18.7
Passenger	35.5	33.4	36.9	43.4	-5.9	10.5	17.6
Cargo	59.0	65.1	73.4	86.9	10.3	12.7	18.4
Other income	21.9	16.3	16.2	19.8	-25.6	-0.6	22.2
Tourism	38.4	53.4	54.8	55.5	39.1	2.6	1.3
Insurance	26.9	30.6	42.8	46.4	13.8	39.9	8.4
Capital servicing	21.3	26.3	28.7	36.8	23.5	9.1	28.2
Government, n.e.s.	10.4	15.2	21.1	20.8	46.2	38.8	-1.4
Other services	18.4	29.3	32.4	36.9	59.2	10.6	13.9
<b>Total</b>	<b>231.8</b>	<b>269.6</b>	<b>306.3</b>	<b>346.5</b>	<b>16.3</b>	<b>13.6</b>	<b>13.1</b>

\* Imports of services have been calculated according to the c.i.f. value of commodity imports.  
SOURCE: Central Bureau of Statistics.

passengers went up to a greater extent, but this was offset by the lower fares charged and the increased weight of group flights at reduced rates. Other income from transportation services also rose by 15–20 percent (see the section on service imports, p. 46).

Income from tourism remained virtually unchanged, though the number of visitors went up by 18 percent. There was apparently a further rise in the proportion of popular tourism, and the average length of stay in Israel decreased slightly. The average amount spent in the country per tourist fell from \$ 220 in 1964 to \$ 190 in 1965.

#### (e) *Countries of destination*

Several changes occurred in the destination of exports during the year reviewed. The incremental citrus yield was channelled almost entirely to the Common Market countries, bringing up their share in Israel's citrus exports from 34 percent in 1964 to 42 percent. Shipments to the United Kingdom increased only slightly, and its share fell from 33 to 27 percent.

Agricultural exports other than citrus to the Common Market dropped, while those to the United Kingdom and the rest of the European Free Trade Association, as well as to countries linked with Israel by trade agreements, were larger.

As for industrial products other than diamonds, the biggest increase was in sales to clearing countries and to Africa. Of the total gain of \$ 21.4 million in industrial exports other than diamonds, \$ 6 million was accounted for by clearing countries—especially Turkey, Poland, and Ghana—and a further \$ 6.5 million by other African states. The increase in industrial sales to Africa, inclusive of Ghana (which has a clearing agreement with Israel), reached \$ 8.5 million, or 40 percent of the entire increment. The proportion of Israel's industrial exports to Africa rose from 7.4 percent in 1964 to 11 percent in 1965. Exports to Europe and the United States also increased, but at a below-average rate, so that their weight moved down somewhat. Shipments of industrial goods to Asia and Latin America remained unchanged.

As regards exports to the Common Market countries, the effects of the discriminatory customs rates are beginning to be felt. The branch which already appears to have been harmed by this is the citrus canning industry, whose products fetched somewhat lower prices in these countries. Most of the incremental sales to the Common Market were of goods not subject to customs duties.

#### (f) *Value added*

The percentage of value added in Israel's exports rose to a relatively marked extent in 1965; this was mainly due to an improvement in the terms of trade, export prices rising more than the prices of imported inputs.

**Table III-11**  
**EXPORTS AND VALUE ADDED,<sup>a</sup> 1962-65**  
(\$ million, at current prices)

Item	Exports				Value added				Increase or decrease (-) in value added as against previous year			Value-added component of exports (%)			
	1962	1963	1964	1965	1962	1963	1964	1965	1963	1964	1965	1962	1963	1964	1965
Citrus	49.2	74.7	52.8	70.9	41.0	63.7	42.8	58.3	22.7	-20.9	15.5	83.3	85.3	81.1	82.2
Other agricultural products	19.2	14.3	14.2	15.9	13.1	10.1	8.7	11.3	-3.0	-1.4	2.6	68.2	70.6	61.3	71.1
Total agricultural exports	68.4	89.0	67.0	86.8	54.1	73.8	51.5	69.6	19.7	-22.3	18.1	79.1	82.9	76.9	80.2
Diamonds	82.6	104.0	118.2	131.7	15.4	20.3	24.7	30.2	4.9	4.4	5.5	18.6	19.5	20.9	22.9
Other industrial goods	119.6	143.1	161.3	181.2	66.3	77.4	87.1	106.9	11.1	9.7	14.8	55.4	54.1	54.0	59.0
Total industrial products	202.2	247.1	279.5	312.9	81.7	97.7	111.8	137.1	16.0	14.1	25.3	40.4	39.5	40.0	43.8
Sales of ships and aircraft	0.8	1.0	2.9	3.7	—	—	—	—	—	—	—	—	—	—	—
Total commodity exports, net	271.4	337.1	349.4	403.4	135.8	171.5	163.3	206.7	35.7	-8.2	43.4	50.0	50.9	46.7	51.2
Services	231.8	269.6	306.3	346.5	147.6	178.8	208.0	232.8	31.2	29.2	24.8	63.7	66.3	67.9	67.2
Total exports	503.2	606.7	655.7	749.9	283.4	350.3	371.3	439.5	66.9	21.0	68.2	56.3	57.7	56.6	58.6

<sup>a</sup> Commodity exports valued f.o.b.; service exports calculated according to the c.i.f. value of commodity imports.

The total increase in added value came to \$ 43 million, following a decline in 1964. Approximately half the 1965 increment stemmed from the rise in export volume. This growth in value added was proportional to the increase in total exports, so that the changed composition of exports did not affect the percentage of value added. The greater weight of citrus and potassium chloride, which have a high value-added component, was offset by the smaller weight of other export items with a high value added, such as copper-cement and citrus products.

The rest of the incremental value added stemmed from the improvement in the terms of trade—primarily the higher prices obtained for citrus, diamonds, and minerals in foreign markets.

#### 4. CAPITAL IMPORTS

Capital imports, including unilateral transfers, long- and medium-term loans, and U.S. Government deposits, added up to \$ 596 million in 1965, slightly below the 1964 figure (\$ 604 million). Their composition, however, was less favorable during the year reviewed: a decline in unilateral transfers and investments, accompanied by an increase in loans. Moreover, there was a considerable rise in short-term liabilities, as a result of credits obtained abroad by the Government and the banks.

The decline in transfers and loans occurred mainly in items destined for the private sector, bringing down its share in total capital imports from 69 to 60 percent. The weight of capital imports for the private sector had moved up steadily between 1959 and 1963—from about 40 percent in 1959 to a high of some 75 percent in 1963—but declined in 1964 and 1965.

The bigger proportion of loans as against transfers, and the larger weight of short-term loans relative to long-term loans, reflect a worsening in the terms of financing the current deficit, and will considerably increase the amount of interest payable in the future as well as the burden of debt redemption.

##### (a) *Unilateral transfers*

Unilateral transfers decreased by some \$ 10 million to stand at \$ 341 million. In contrast to previous years, the decline occurred only in transfers to the private sector, while those to the public sector expanded somewhat.

Restitution payments from West Germany have constituted the largest private transfer item in recent years; they remained at approximately the same level during the years 1962–64, but in 1965 fell by some \$ 20 million following the completion of a large number of transfers under the old law. Germany passed a new restitution law in 1965, but its influence will be felt only in future years. On the other hand, transfers to private individuals continued to increase. The volume of such transfers has been growing from year to year, although at a



**Table III-12**  
**THE BALANCE OF PAYMENTS, 1964-65**  
(\$ million)

	1964			1965		
	Credit	Debit	Net	Credit	Debit	Net
<b>A. Current deficit</b>	—	—	-569.3	—	—	-521.1
<b>B. Unilateral transfers</b>						
Private transfers						
In cash	90.4	1.2	89.2	94.6	1.3	93.3
In kind	9.8	3.1	6.7	8.7	2.8	5.9
German restitution	134.2	—	134.2	112.7	—	112.7
German reparations	22.8	5.9	16.9	19.8	3.1	16.7
U.S. Govt. grant-in-aid	8.2	—	8.2	4.7	—	4.7
U.N. technical assistance	0.4	0.2	0.2	0.4	0.2	0.2
Institutional transfers						
In cash	94.4	1.2	93.2	106.0	1.4	104.6
In kind	2.7	—	2.7	2.5	—	2.5
Total	362.9	11.6	351.3	349.4	8.8	340.6
<b>C. Long- and medium-term capital movements</b>						
Independence and Development Loans	98.7	74.2	24.5	100.4	67.1	33.3
Export-Import Bank loans	9.7	21.1	-11.4	8.0	23.5	-15.5
World Bank loans	12.6	0.1	12.5	23.5	0.4	23.1
U.S. Government loans	58.9	5.4	53.5	73.5	6.2	67.3
Other long- and medium-term loans	115.6	62.5	53.1	103.2	56.1	47.1
Investments from abroad, net	156.7	13.8	142.9	98.0	5.8	92.2
Total	452.2	177.1	275.1	406.6	159.1	247.5
Total (B) + (C)	815.1	188.7	626.4	756.0	167.9	588.1
<b>D. Short-term capital movements</b>						
Short-term loans	—	5.6	-5.6	62.7	—	62.7
Clearing accounts	1.0	—	1.0	—	3.1	-3.1
Foreign deposits	6.2	—	6.2	10.1	—	10.1
U.S. Government deposits	—	21.8	-21.8	7.5	—	7.5
Deposits with International Monetary Fund	—	6.2	-6.2	—	—	—
Foreign exchange reserves	—	25.5	-25.5	—	105.9	-105.9
Monetary gold	4.2	—	4.2	—	0.1	-0.1
Total	11.4	59.1	-47.7	80.3	109.1	-28.8
Total (C) + (D)	463.6	236.2	227.4	486.9	268.2	218.7
<b>Net errors and omissions</b>	—	9.4	-9.4	—	38.2	-38.2

SOURCE: Central Bureau of Statistics.

slower rate: whereas in 1964 the rise totalled some 8 percent, in 1965 it was only about 3 percent.

The Reparations Agreement with West Germany terminated at the beginning of 1966. In 1965 imports under this agreement totalled approximately \$ 17 million, similar to the previous year's figure. The balance still to be transferred is about \$ 15 million, which will be utilized for purchases of fuel during 1966.

Transfers to the National Institutions and nonprofit institutions totalled \$ 107 million, compared with \$ 96 million in 1964. For the first time, the Institutions' foreign currency income not transferred to Israel was recorded in the balance of payments, as was their expenditure abroad—most of it under "Capital servicing". Transfers to the National Institutions and nonprofit institutions were approximately 11 percent larger in 1965 than in the previous year.

#### *(b) Long- and medium-term capital movements*

The State's long- and medium-term foreign debt, exclusive of the Independence and Development Loans, rose by \$ 55 million in 1965—about the same as in 1964. Together with the Independence and Development Loans, the increase came to IL 155 million, as against IL 132 million in 1964. The average interest paid on these debts remained unchanged or even decreased slightly, despite the rise in international interest rates.

U.S. Government aid, i.e. the value of goods obtained from this source, totalled some \$ 80 million during the year reviewed, as against approximately \$ 40 million in 1964 and \$ 56 million in 1963. The direct grant-in-aid constituted a small proportion of total American aid, amounting to only some \$ 5 million in 1965, as against \$ 8 million in 1964. The remainder was given in the form of loans—approximately \$ 48 million as a 20-year loan repayable in dollars at 3½ percent interest p.a., and some \$ 20 million as a long-term loan repayable in Israeli pounds at 4½ percent interest p.a. In 1964 loans repayable in dollars amounted to \$ 23 million, and those repayable in Israeli currency to about \$ 30 million. U.S. Government deposits increased by some \$ 7 million in 1965, after having declined by \$ 21 million in 1964.

Total liabilities to the World Bank reached \$ 64 million in 1965—\$ 24 million more than at the end of 1964. Since 1962 the World Bank has approved loans to Israel to a total of \$ 91 million, for the construction of Ashdod Port, the Dead Sea Works' expansion program, the development of the road network, and for the Industrial Development Bank; in 1965, \$ 20 million was approved for industrial development. These loans are drawn on in stages, and there remains an approved unutilized balance.

Outstanding liabilities to the Export-Import Bank, on the other hand, have been declining from year to year. Since 1949 Israel has borrowed \$ 223 million from this source. In 1965 repayment was completed of the first loan, obtained in 1949 in the amount of \$ 135 million. At the end of the year

reviewed, the outstanding debt to the Export-Import Bank was \$ 55 million—about \$ 16 million less than at the end of 1964.

In 1965 sales of Independence and Development Bonds totalled \$ 89 million, while cumulated interest on savings bonds increased by \$ 11 million. In 1964 Bond sales came to \$ 87 million, and cumulated interest on savings bonds to \$ 12 million. However, redemption in 1965 was below the previous years' figure—\$ 67 million as against \$ 74 million—owing to the smaller amount converted into Israeli currency ahead of maturity—\$ 17 million as against \$ 25 million. The conversion of Bonds before due date, which totalled some

Table III-13  
CAPITAL IMPORTS, 1962-65  
(\$ million)

	1962	1963	1964	1965	Increase or decrease (-) from 1964 to 1965
<b>A. Unilateral transfers</b>					
(1) Transfers to the private sector	239	267	270	257	-13
Private transfers	68	89	96	99	3
Personal restitution from Germany	134	139	134	113	-21
Transfers to nonprofit institutions <sup>a</sup>	37	39	40	45	5
(2) Transfers to the public sector	102	79	81	84	3
German reparations, net	47	28	17	17	—
U.S. Government grant-in-aid	8	6	8	5	-3
Transfers to National Institutions <sup>a</sup>	47	45	56	62	6
Total unilateral transfers	341	346	351	341	10
<b>B. Capital movements</b>					
(1) To the private sector	82	135	143	92	-51
Foreign investments in Israel, net	82	135	143	92	-51
(2) To the public sector	149	56	110	163	53
Independence and Development					
Loans, net	33	23	24	33	9
U.S. Govt. loans and deposits <sup>b</sup>	45	50	32	75	43
Other long- and medium-term					
loans, net	71	-17	54	55	41
Total long- and medium-					
term capital movements	231	191	253	255	2
Total capital imports	572	537	604	596	-8

<sup>a</sup> These figures are not identical with those cited in Chapter VII, "Public Sector Operations", and Chapter VIII, "Nonprofit Institutions", owing to the use of different definitions.

<sup>b</sup> This item includes some U.S. Government deposits which are listed as short-term capital movements in the balance of payments.

SOURCE: Central Bureau of Statistics.

\$ 30 million per annum during the years 1960–62, has been declining since then, chiefly because the Independence Loan has reached maturity. Of the \$ 17 million prematurely redeemed, approximately \$ 9 million was reinvested in Israel, while some \$ 4 million was converted by tourists, and a further \$ 4 million by the Jewish Agency and other institutions. The biggest decrease as compared with 1964 was in conversions by the Jewish Agency.

Sales of Independence and Development Bonds between 1955 and the end of 1965 aggregated about \$ 828 million, while some \$ 338 million worth have been redeemed. The liability on account of cumulated interest on savings bonds amounted to \$ 42 million, so that the total outstanding debt on account of Bonds reached \$ 532 million at the end of 1965, as against \$ 499 million at the end of 1964—an increase of \$ 33 million.

Since 1961 about \$ 73 million has been paid in interest on coupon bonds; of this sum, approximately \$ 9 million was paid in 1965.

The first loan of this type—Independence Bonds—went on sale in 1951, and by the end of 1954 a total of \$ 145 million worth had been disposed of. Repayment began in 1963 and will be completed in 1966. At the end of 1965, outstanding liabilities on account of this loan totalled about \$ 33 million.

**Table III-14**  
**FOREIGN INVESTMENTS IN ISRAEL, 1964-65**  
(\$ million)

	1964	1965	Increase or decrease (-)
Capital transfers in cash	86.7	64.2	-22.5
Investment in shares	52.4	32.8	-19.6
Capital transfers in the form of Inde- pendence and Development Bonds	10.6	9.4	-1.2
Capital transfers in kind	10.6	8.3	-2.3
Reinvestment of profits	13.5	9.4	-4.1
<b>Total</b>	<b>173.8</b>	<b>124.1</b>	<b>-49.7</b>
<b>Less:</b>			
Liquidation of foreign investments in Israel	17.1	26.1	9.0
Israeli investments abroad	10.8	0.3	-10.5
Investments in foreign securities	3.0	5.5	2.5
<b>Total</b>	<b>30.9</b>	<b>31.9</b>	<b>1.0</b>
<b>Total foreign investment in Israel, net</b>	<b>142.9</b>	<b>92.2</b>	<b>-50.7</b>

SOURCE: Central Bureau of Statistics.

The net total of other long- and medium-term liabilities increased by some \$ 47 million in 1965, as against a rise of some \$ 53 million in 1964.

The growth in liabilities involves a rise in interest payments (which are included in the services account). Interest payments totalled \$ 106 million in 1965, of which \$ 76 million was on debts and the remainder represented profits of foreign investors. In 1964 payments totalled \$ 94 million, of which \$ 69 million was on debts.

After several years of steady expansion, investments from abroad dropped sharply in 1965. Net of investments liquidated, the figure stood at \$ 98 million as against \$ 157 million in 1964, a decrease of \$ 59 million.

Capital transfers in cash, which account for approximately half of total foreign investment, were off by some \$ 23 million, and equity investment by about \$ 20 million or nearly 40 percent.

Foreign investments liquidated increased in 1965—\$ 26 million as compared with \$ 17 million in 1964. The value of foreign securities held by Israeli residents also increased during the year.

### (c) *Foreign exchange reserves*

Israel's foreign exchange reserves reached \$ 749 million at the end of 1965—\$ 106 million more than at the end of the previous year. In 1964 they had increased by only \$ 28 million. The reserves amounted to some 61 percent of total imports in 1965, about the same proportion as in 1963; in 1964 the figure was only about 54 percent.

Net foreign currency deposits (after deducting deposits of foreign banks and nonresidents) also expanded rapidly. The increment totalled \$ 96 million,

Table III-15  
ISRAEL'S FOREIGN EXCHANGE RESERVES, 1961-65  
(\$ million)

Year	Deposits abroad (including gold and I.M.F.)	Increase over previous year	Less: Deposits of foreign banks and nonresidents in Israel's banking system	Foreign currency deposits, net	Increase over previous year
1961	376	—	80	296	—
1962	506	130	100	406	110
1963	615	109	121	494	88
1964	643	28	128	515	21
1965	749	106	138	611	96

NOTE: These reserves include not only balances held with the banking system, but also deposits held directly by the Treasury abroad.

SOURCE: Bank of Israel.

a little more than in 1963 and considerably greater than in 1964, when it was only \$ 21 million.

The growth of foreign currency balances was due partly to the fact that the decrease in the trade deficit (about \$ 48 million) exceeded the decrease in capital imports (about \$ 8 million), and partly to the big increase in short-term foreign liabilities. Whereas in 1964 short-term indebtedness (including loans on account of payments agreements) contracted by some \$ 5 million, in 1965 it went up by about \$ 60 million. Short-term debts, which are usually the most expensive of all, remained more or less stable in recent years; in 1965, however, there was a sharp departure from this trend, the outstanding balance nearly doubling.