

## CHAPTER III

# THE BALANCE OF PAYMENTS

### 1. MAIN DEVELOPMENTS<sup>1, 2</sup>

ISRAEL'S IMPORT surplus increased in 1969 by \$ 176 million, or 24 percent, to reach \$ 894 million. Whereas imports went up by 15 percent, exports expanded by only 10 percent.

The import growth rate was somewhat lower than in the previous year, reflecting a rise of 5 percent in prices and about 10 percent in quantitative terms, as compared with a 30 percent quantitative increase in 1968.

In 1969 imports moved up slightly more slowly than gross national product (11 percent), owing to the more sluggish growth of import-intensive final uses—investment and exports.

The rise in imports is attributable to the continuation of the upswing in economic activity discernible since the latter part of 1967 (when the recession came to an end), the larger volume of security imports,<sup>3</sup> and speculative purchases of certain items (particularly consumer durables and rough diamonds).

Import growth was more rapid in commodities than in services (excluding Government services)—17 as against 11 percent. In current commodity inputs (excluding rough diamonds) the increase was at a rate required to meet current production plus inventory additions equivalent to about 5 percent of these imports. The larger volume of capital goods<sup>4</sup> acquired from abroad (a rise of 45 percent, coming on top of an 80 percent increase in 1968) is ex-

<sup>1</sup> The balance of payments tables in this chapter show commodity imports (and exports) f.o.b., with insurance and freight paid to foreign carriers included in service imports. However, the commodity detail of imports is available only on a c.i.f. basis and according to foreign trade definitions, which differ slightly from balance of payments definitions; consequently, the tables in this chapter dealing with the commodity detail show imports c.i.f. (with the appropriate adjustments to service imports and exports).

<sup>2</sup> Commodity imports and exports in the balance of payments include trade between Israel and the administered areas. The detailed tables, however, present only the flows between Israel and the rest of the world exclusive of the administered areas. Trade with the areas was as follows (in \$ millions; figures in parentheses are estimates for 1968): commodity exports—67.4 (51.1); commodity imports—13.3 (13.5); service imports—15.6 (20.6); and service exports—12.9 (12.6).

<sup>3</sup> Security imports are mainly imports of Government services, whereas imports for civilian purposes are defined as commodities plus all other service imports.

<sup>4</sup> Excluding ships and aircraft.

plained by the sharp fall in these imports during the recession and the subsequent adjustment of the stock of productive capital to the rapid economic growth of the past two years.

The 26 percent expansion of consumer goods imports was marked by a particularly sharp rise in durables—60 percent. These increases can be ascribed to the growth of incomes in 1968 and 1969, as well as to consumers' expectations of a devaluation and of higher indirect taxes.

**Table III-1**  
**SUMMARY BALANCE OF PAYMENTS, 1965-69**  
( \$ million )

	1965	1966	1967	1968	1969
Imports of goods and services	1,231	1,277	1,440	1,865	2,150
Exports of goods and services	711	832	908	1,147	1,256
Deficit on current account	520	445	532	718	894
Unilateral transfers	327	292	521	435	478
Long- and medium-term capital movements	230	184	303	260	215
Total capital imports	557	476	824	695	693
Excess of capital imports over deficit on current account	37	31	293	-23	-201
Accumulation of gold and foreign exchange reserves <sup>a</sup>	-106	19	-228	52	190
Foreign currency valuation adjustments	—	—	—	—	31
Other short-term capital movements	51	-23	-50	7	33
Errors and omissions (net)	19	-27	-15	-36	-53

<sup>a</sup> A negative sign indicates an increase in reserves. Includes the reserves of the Bank of Israel, the Treasury, and commercial banks.

SOURCE: Central Bureau of Statistics.

Although the upward trend in imports coincided with a big rise in the relative prices of imports after the devaluation of November 1967, no steps were taken by the authorities in 1969 to raise the prices of imports relative to domestic prices.

Export growth was comparatively slow in 1969, because of sluggish advances in several of the leading branches (citrus and diamonds) and a decline in the tourist trade. These branches, which are geared primarily to exports, were hit by sagging demand for their products abroad. Most of the remaining export branches (in the industrial sector, apart from diamonds and minerals), which produce for both the domestic and overseas markets, boosted their overseas sales by about 19 percent. Presumably these exports were not greatly affected

Table III-2

IMPORTS, EXPORTS, AND IMPORT SURPLUS,<sup>a</sup> 1965-69

(\$ million)

	1965	1966	1967	1968	1969	Percent annual increase or decrease (-)								
						Quantity			Price			Value		
						1967	1968	1969	1967	1968	1969	1967	1968	1969
<b>Imports</b>														
Commodities	794.4	795.3	730.8	1,070.0	1,255.0	-8	46	17	—	-2	5	-8	49	11
Services	474.9	521.7	749.3	846.8	956.0	44	13	13	—	2	4	44	11	9
Total	1,269.3	1,317.0	1,480.1	1,916.8	2,211.0	12	29	15	—	—	5	12	29	10
<b>Exports</b>														
Commodities	404.0	474.6	533.1	649.0	746.5	12	22	15	-1	-2	5	13	24	10
Services	344.9	397.5	416.2	549.6	571.2	5	32	4	2	2	4	3	29	—
Total	748.9	872.1	949.3	1,198.6	1,317.7	9	26	10	—	—	5	9	26	5
Import surplus	520.4	444.9	530.8	718.2	893.3									

<sup>a</sup> Commodity imports valued c.i.f., and commodity exports f.o.b. Including trade with the administered areas.  
SOURCE: Central Bureau of Statistics.

by the absorption of resources and factors of production by the local market. The notable growth of these exports can apparently be credited to their increased profitability since the devaluation of November 1967.

Average export prices rose at the same rate as import prices (5 percent), so that, besides the quantitative growth of the import surplus, the change in import-export prices added approximately \$ 40 million to the trade deficit.

Table III-3

CUMULATIVE TRADE DEFICIT AND NATIONAL DEBT,<sup>a</sup> 1953-62 AND 1964-69

(Indexes: 1953=100; 1964=100)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962
Cumulative trade deficit	100	117	137	162	185	208	230	254	285	317
National debt	100	106	115	127	136	149	156	163	183	202

	1964	1965	1966	1967	1968	1969	
						Index	\$ m.
Cumulative trade deficit	100	109	117	127	140	156	8,586
National debt	100	117	126	148	181	200	2,101

<sup>a</sup> Data on the national debt relate to the end of fiscal years (e.g. data for 1953 refer to the end of 1953/54).

SOURCE: 1953-62—*Bank of Israel Bulletin*, No. 20 (Hebrew).

1964-69—Foreign Currency Department, Ministry of Finance.

An appreciable 28 percent of the 1969 import surplus was financed out of the liquid reserves of the State,<sup>1</sup> as compared with 7 percent the year before. By contrast, in 1967 the increase in the import surplus was accompanied by the expansion of reserves. In a reversal of the previous trend, the share of loans in financing the trade deficit has been on the increase since 1965. This poses a serious problem, as financial resources will have to be diverted in the future to making principal and interest payments.

## 2. IMPORTS

Imports grew by about 15 percent in 1969, with prices averaging approximately 5 percent higher and quantities 10 percent.

Commodity imports (excluding ships and aircraft) moved up at an uneven pace during 1969. The first quarter saw a strong upsurge with the clearing

<sup>1</sup> As defined by the International Monetary Fund, these reserves consist of gold and foreign currency holdings of the Bank of Israel and Israel's gold quota with the Fund.

of the backlog at U.S. ports, which had been strike-bound at the end of 1968. The level then held steady until the last quarter of the year reviewed, when there was another jump because of anticipated changes in economic policy following the elections. Partial data for the beginning of 1970 show a slight downturn.

**Table III-4**  
**IMPORTS,<sup>a</sup> QUARTERLY, 1967-69**  
( \$ million )

	Net imports, excl. ships and aircraft		Inputs to industry, excl. diamonds		Capital goods for industry		Durable consumer goods	
	Original data	Seasonally adjusted data	Original data	Seasonally adjusted data	Original data	Seasonally adjusted data	Original data	Seasonally adjusted data
1967	184.8	182.4	112.6	107.4	11.9	12.8	4.0	3.9
	154.4	156.1	89.4	89.5	9.9	9.7	3.7	3.4
	171.3	172.0	87.1	96.8	12.1	11.2	4.6	5.1
	209.2	208.5	124.2	116.2	14.7	15.1	6.3	6.2
1968	232.8	231.1	139.3	135.3	19.7	21.2	9.3	9.1
	256.1	259.2	145.6	146.8	27.4	26.9	9.9	9.4
	248.6	252.6	119.6	135.7	30.1	28.0	8.6	9.6
	292.3	289.3	169.8	158.4	31.4	32.2	12.6	12.3
1969	274.8	275.1	152.2	147.8	29.6	32.0	13.9	13.8
	327.2	337.8	178.5	183.1	44.3	43.9	15.8	15.6
	292.6	298.3	145.7	167.8	37.5	35.8	12.6	14.2
	364.3	348.0	192.5	172.7	46.3	45.9	18.9	17.8

<sup>a</sup> Excluding imports from the administered areas.

SOURCE: Central Bureau of Statistics.

The growth of imports in 1969 should be viewed in the light of developments during the three preceding years. During the recession—1966 and the first half of 1967—commodity imports fell and service imports moved up at a modest rate. But in 1967 security imports far exceeded the figure of the two previous years, and this high level was not only maintained but exceeded in 1968 and 1969. At the same time (from mid-1967), the revival of the economy was accompanied by an upswing in imports of goods and services, which has continued almost unabated.

In quantitative terms, imports increased much more slowly in 1969 than in the previous year (10 as against 30 percent). They rose at a slightly lower rate than gross national product (11 percent) because of a change in the composition of final uses: the expansion of import-intensive uses—exports and investment—sagged noticeably compared with 1968 (exports rose by 5 percent in 1969 as against 27 percent the year before, and investment by 15 and 46 percent respectively).

The import component of domestic uses (total imports as a percentage of domestic uses) displayed a mildly rising tendency in the past two years (see Table III-5). The import component of investment rose considerably, a development consistent with the changed composition of investment: an increase in the share of equipment. There was very little change in the import component of other domestic uses—private and public consumption. The import component of exports also grew because of structural changes in these uses.

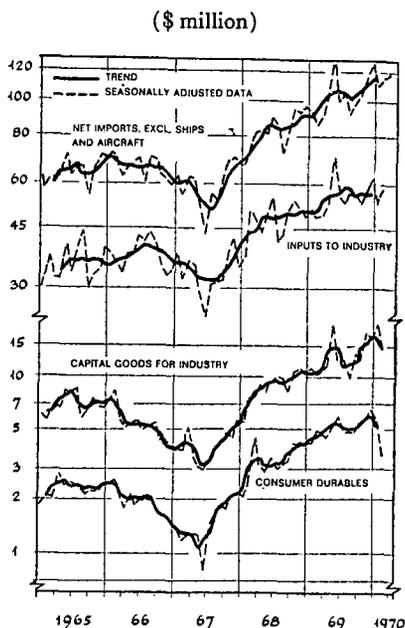
(a) *Composition of imports*

Imports of finished goods and direct services rose more rapidly in 1969 than those of indirect inputs for two domestic uses—investment and private consumption.<sup>1</sup> This suggests a switch from domestic production to direct importation for these two uses.

About half of the additional civilian imports consisted of current commodity inputs. In quantitative terms, actual imports of these inputs (excluding rough diamonds) were higher than required for the expansion of current production. It therefore seems that stocks were replenished to the tune of about \$ 35 million, or 5 percent of total imports of these inputs. While this estimate is a very rough approximation, being based on constant technical coefficients, it does indicate the direction and magnitude of changes in the ratio between imported inputs and production.

<sup>1</sup> Of total imports for private consumption, finished goods and services accounted for about 35 percent and inputs for around 65 percent. Direct imports accounted for about 64 percent of imports for investment purposes.

Figure III-1  
NET IMPORTS, BY MAIN ECONOMIC DESTINATION, 1965-69



**Table III-5**  
**IMPORT COMPONENT OF FINAL USES,<sup>a</sup> 1967-69**  
(\$ million, at 1968 prices)

	Exports <sup>b</sup>	Domestic uses	Private consumption	Gross investment <sup>c</sup>	Public consumption
1967	379	1,038	461	176	401
1968	454	1,242	524	278	440
1969	482	1,444	587	353	504
<b>Total imports as a percent of final uses</b>					
1967	43.3	25.7	19.6	30.0	36.6
1968	42.8	26.3	19.9	32.8	35.5
1969	44.6	27.0	19.9	35.5	36.0

<sup>a</sup> Direct imports of finished products, plus expected imports of inputs as calculated according to constant input-output coefficients. Excluding changes in inventories and in imports from the administered areas.

<sup>b</sup> Excluding exports of capital services and exports to the administered areas.

<sup>c</sup> Excluding ships and aircraft.

Imports of agricultural inputs edged down about 1 percent, owing to reduced purchases of packing materials in the wake of the smaller citrus yield. In construction inputs the figure returned to its level of 1964-65, after soaring

**Table III-6**  
**EXPECTED AND ACTUAL IMPORTS OF CURRENT COMMODITY INPUTS, 1967-69<sup>a</sup>**  
(\$ million, at 1968 prices)

	1967	1968	1969
Expected imports of current commodity inputs <sup>a</sup> (incl. rough diamonds)			
For export	239	293	319
For domestic use	366	409	472
Investment	64	77	95
Private consumption	257	280	310
Public consumption	45	52	67
Total	605	702	791
Total expected imports of inputs, excl. rough diamonds	490	561	634
Total actual imports of inputs, excl. rough diamonds	417	592	669
Difference between actual and expected imports	-73	+31	+35

<sup>a</sup> Excluding imports from the administered areas.

**Table III-7**  
**COMMODITY IMPORTS,\* BY ECONOMIC DESTINATION, 1965-69**  
(\$ million)

	1965	1966	1967	1968	1969	Percent annual increase or decrease (-)								
						Quantity			Price			Value		
						1967	1968	1969	1967	1968	1969	1967	1968	1969
<b>Consumer goods</b>														
Food	35.2	42.8	33.3	37.7	42.3	-19	19	9	-4	-5	3	-22	13	12
Other current consumption items	21.5	22.9	24.6	35.1	36.5	9	49	1	-2	-4	3	7	43	4
Consumer durables	26.0	24.8	18.5	38.5	61.3	-23	110	54	-2	-1	3	-25	108	59
<b>Total</b>	<b>82.7</b>	<b>90.5</b>	<b>76.4</b>	<b>111.3</b>	<b>140.1</b>	<b>-14</b>	<b>51</b>	<b>22</b>	<b>-2</b>	<b>-3</b>	<b>3</b>	<b>-16</b>	<b>46</b>	<b>26</b>
<b>Current production inputs</b>														
For agriculture	34.1	48.0	51.9	51.0	50.2	5	4	-1	3	-6	-2	8	-2	-2
For industry (excl. diamonds)	312.1	304.7	282.5	407.4	468.4	-6	48	8	-1	-3	6	-7	44	15
For construction	17.4	9.8	7.7	15.5	18.7	-20	107	14	-1	-3	6	-21	101	21
Spare parts, tools, and instruments	43.2	45.2	32.8	55.9	76.5	-27	75	29	—	-3	6	-27	70	37
Fuel	53.2	58.3	55.4	62.7	70.3	-5	15	10	—	-2	2	-5	13	12
<b>Total</b>	<b>460.0</b>	<b>466.0</b>	<b>430.3</b>	<b>592.6</b>	<b>684.1</b>	<b>-8</b>	<b>42</b>	<b>10</b>	<b>—</b>	<b>-3</b>	<b>5</b>	<b>-8</b>	<b>38</b>	<b>15</b>

Rough diamonds, net	96.7	124.9	125.4	162.0	192.8	—	26	10	3	2	8	—	29	19
Total production inputs	<b>556.7</b>	<b>590.9</b>	<b>555.7</b>	<b>754.6</b>	<b>876.9</b>	<b>-7</b>	<b>39</b>	<b>10</b>	<b>1</b>	<b>-2</b>	<b>5</b>	<b>-6</b>	<b>36</b>	<b>16</b>
<b>Capital goods</b>														
For agriculture	5.2	5.5	4.8	6.4	9.2	-13	34	37	—	-1	5	-13	33	44
For industry and construction	88.7	65.1	49.0	109.4	157.4	-25	125	37	—	-1	5	-25	123	44
For land transport	33.5	28.1	23.3	31.7	50.3	-17	37	51	—	-1	5	-17	36	59
Other	19.4	22.0	19.3	25.6	34.9	-12	34	30	—	-1	5	-12	33	36
Total, excl. ships and aircraft	<b>146.8</b>	<b>120.7</b>	<b>96.4</b>	<b>173.1</b>	<b>251.8</b>	<b>-20</b>	<b>82</b>	<b>38</b>	<b>—</b>	<b>-1</b>	<b>5</b>	<b>-20</b>	<b>80</b>	<b>45</b>
Ships and aircraft	31.9	18.8	34.1	57.6	31.8	81	71	-48	—	-1	5	81	69	-45
Total, incl. ships and aircraft	<b>178.7</b>	<b>139.5</b>	<b>130.5</b>	<b>230.7</b>	<b>283.6</b>	<b>-7</b>	<b>79</b>	<b>17</b>	<b>—</b>	<b>-1</b>	<b>5</b>	<b>-7</b>	<b>77</b>	<b>23</b>
Total imports <sup>b</sup>	<b>718.1</b>	<b>821.0</b>	<b>762.6</b>	<b>1,096.6</b>	<b>1,300.6</b>	<b>-7</b>	<b>47</b>	<b>12</b>	<b>—</b>	<b>-2</b>	<b>5</b>	<b>-7</b>	<b>44</b>	<b>18</b>
Less: Imports returned, excl. diamonds	6.0	7.2	8.5	9.1	10.5									
Net commodity imports	<b>812.1</b>	<b>813.7</b>	<b>754.1</b>	<b>1,087.5</b>	<b>1,290.1</b>									
Less: Balance of payments adjustments	17.8	18.5	25.3	31.0	48.4									
Net commodity imports according to the balance of payments	<b>794.3</b>	<b>795.2</b>	<b>728.8</b>	<b>1,056.5</b>	<b>1,241.7</b>									

<sup>a</sup> Excluding imports from the administered areas.

<sup>b</sup> Gross, except for rough diamonds, which are cited net.

SOURCE: Central Bureau of Statistics.

140 percent in 1967–68 from its sharply depressed level of the recession period. Industrial inputs from abroad (excluding rough diamonds) showed a quantitative growth of 60 percent over the past two years, which is consistent with the real output gain of this sector during the same period (nearly 50 percent).

Imports of rough diamonds rose at approximately double the rate of exports (19 and 10 percent respectively). Both import figures and direct data on inventory changes indicate some stockpiling by producers. This was of a strictly voluntary nature and not actuated by a desire to maintain London Diamond Syndicate allocations. Purchases from this source declined in 1969, while those from other sources went up 40 percent. Inventory was built up for speculative reasons connected with anticipated changes in the exchange rate.

Overseas purchases of tools and spare parts increased at about the same rate as that of capital goods (a higher rate than for other inputs). These items, which largely complement purchases of equipment, are really more in the nature of capital goods than current inputs.

Imports of capital goods rose by 23 percent (17 percent in quantitative terms). Excluding ships and aircraft, which display sharp fluctuations, the increase was about 45 percent. Over the past two years the total growth (excluding ships and aircraft) came to approximately 150 percent. This is explained by the sharp cutback in investment during the recession, including that in imported capital goods, and the adjustment of the stock of productive capital to the strongly rising output level of the past two years. The share of equipment, much of which is imported, rose from 33 percent in 1967 to 41 and 44 percent respectively in the next two years. The ratio of investment in equipment (excluding ships and aircraft) to that in buildings (excluding dwellings) went up from 0.73 in 1967 to 0.99 in 1968 and 1.33 in 1969, compared with an average ratio of 0.88 for 1961–66. One possible explanation of the upsurge in equipment acquisitions is that speculative motives led to the early renewal of certain types of equipment and to the purchase of new equipment even before the buildings to house it were ready.

Of the total 1969 increase of approximately \$80 million in imported capital goods (excluding ships and aircraft), about 30 percent was acquired for industry and 20 percent for transportation and communications (in the latter sector the growth rate was double that of the previous year).

The larger import of equipment for electricity generation (a rise of about \$10 million) was connected with the construction of the Reading “D” power station in Tel Aviv. All the other sectors (agriculture, mining and quarrying, and services) stepped up their purchases of equipment from abroad by 35–40 percent.

In 1969 imports of consumer goods rose by about 26 percent, after a jump of 46 percent the year before. Durables showed an exceptionally high rate of increase—60 percent, after doubling in 1968. Prices of imported consumer goods went up less than the average for all imports.

The substantially larger import of consumer durables can be partly attributed to the growth of incomes in 1968 and 1969, which followed a sharp fall in purchases during the recession. Another contributory factor was the advancing of purchases in anticipation of a devaluation and the raising of indirect taxes; the steep rise during the last quarter of 1969, when the elections<sup>1</sup> were held, seems to bear this out. In addition, with the introduction of a local television service, there were heavier purchases of a new import item—television sets.

Most of the increase in food imports was in meat and sugar, and was associated more with changes in stocks than with greater consumption.

There was only a very small rise in imports of current consumption goods other than food, and the composition of this group remained unchanged.

(b) *Relative import prices*

The growth of imports in the past two years was accompanied by an increase in the prices of imports relative to those of domestic uses, an outcome of the devaluation at the end of 1967 (see Table III-8). But a comparison with data for the early sixties suggests that the change in 1968 may only have reduced the

Table III-8

CHANGES IN IMPORT, EXPORT, AND GNP PRICES, 1967-69

(Index: 1966=100)

	1967	1968	1969
1. C.i.f. import prices (\$)	100	98	103
2. Effective exchange rate for imports <sup>a</sup>	100	117	119
3. Import prices (IL) (1×2)	100	115	122
4. GNP prices (excl. exports)	101	105	109
5. Import prices/GNP prices	99	110	112
6. Prices of value-added component of exports (\$)	97	95	99
7. Effective exchange rate for value-added component of exports	105	121	122
8. Prices of value-added component of exports (IL) (6×7)	102	115	121
9. Prices of value-added component of exports/GNP prices	101	110	111

<sup>a</sup> Imports for domestic uses (i.e. excluding imports for export).

<sup>1</sup> To the Knesset (Israel's parliament), Histadrut (General Federation of Labor), and local authorities.

gap created by prices of domestic goods moving up more rapidly than those of imported goods. There are indicators pointing to such a development between the two devaluations of the Israeli pound (1962 and 1967). In 1969, a year which saw a marked widening of the country's balance of payments deficit on current account, the authorities took no steps to raise the relative price of imports.

### 3. EXPORTS

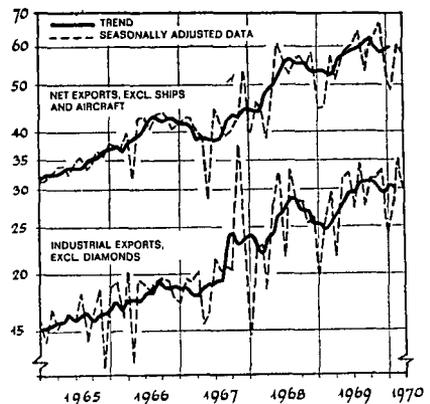
Exports grew more slowly in 1969 than in the previous year—10 as against 26 percent. In quantitative terms, the difference was even larger, since export prices went up 5 percent in 1969 after remaining stable in 1968. The deceleration affected both goods (up 22 percent in 1968, 15 percent in 1969) and services (up 32 and 4 percent respectively).

The more sluggish increase in commodity exports was due mainly to the smaller gain posted by diamonds and the levelling-off of the growth rate for citrus—branches which accounted for 45 percent of all goods sold overseas.

As in 1968, industrial products contributed more than half of the total rise in commodity exports (excluding diamonds). They went up by 18 percent on an annual average, with the curve rising strongly during the first eight months and tapering off in the last four. Export-oriented branches—citrus, diamonds, and minerals—recorded an advance of only 9 percent because of sagging demand for citrus and diamonds in foreign markets. The other branches, most of which produce for both the home and overseas markets, boosted their exports by about 20 percent. The reason for this relatively high growth rate may be found in the greater profitability of exports since 1968 (following the devaluation of the previous November). Apparently these sectors were not affected by the partial shift of resources and productive factors from exports to the domestic market; the appreciable additions of capital and manpower to the economy in the past two years allowed adequate output for both purposes.

Net foreign currency returns from commodity exports grew more slowly than total exports (11 as against 13 percent). Most of the 2 percent decrease in the value-added component of commodity exports was accounted for by textiles; this was due to the structural change in overseas shipments of this item, primarily

Figure III-2  
TOTAL AND INDUSTRIAL EXPORTS,  
MONTHLY, 1965-69  
(\$ million)



**Table III-9**  
**EXPORTS,<sup>a</sup> QUARTERLY, 1967-69**  
(\$ million)

Year and quarter	Total exports (net)			Industrial exports (excl. diamonds)		
	Original data	Seasonally adjusted data	Trend	Original data	Seasonally adjusted data	Trend
1967 I	166.6	128.8	125.4	52.4	55.5	50.2
II	115.6	110.6	120.0	54.1	52.1	56.4
III	98.0	126.6	117.6	59.6	62.9	61.3
IV	137.1	150.2	143.1	66.6	83.2	67.9
1968 I	171.0	132.1	141.3	61.2	60.7	72.5
II	154.6	155.3	150.0	81.3	79.0	78.4
III	125.7	163.8	167.7	73.3	84.5	82.2
IV	150.8	165.4	161.7	79.3	80.2	77.1
1969 I	197.3	155.9	159.0	73.4	74.4	74.4
II	168.0	168.2	168.6	88.0	86.3	84.4
III	138.7	181.3	180.0	85.0	89.9	93.0
IV	179.1	189.3	182.4	99.9	96.9	91.3
1970 I	206.0	163.1	—	86.6	87.1	89.0

<sup>a</sup> Excluding exports to the administered areas.

SOURCE: Central Bureau of Statistics.

the above-average expansion of fabrics, which has a particularly low value added. All other commodity exports showed only minor changes in value-added percentages in comparison with the previous year.

#### (a) *Agricultural exports*

Agricultural exports other than citrus, which in 1969 accounted for about a quarter of all overseas sales of farm products and half of their growth, rose by about 12 percent in both value and quantity, there being hardly any change in the average prices for this group.

The share of bananas and poultry products continued to fall, while that of other fresh fruit, fresh vegetables, and raw cotton moved up.

##### 1. *Citrus exports*

The value of citrus exports rose by approximately 3 percent in 1969. As usual, about 90 percent of the shipments were made in the first months of the calendar year (the second half of the agricultural year).

A 4 percent decrease in the citrus crop and the high proportion of fruit unfit for export (35 percent of the Shamuti oranges) led to a 6 percent drop in the quantities marketed abroad in the 1968/69 agricultural year and a 17 percent increase in that supplied to industry.

Table III-10  
**EXPORTS<sup>a</sup> AND VALUE ADDED,<sup>b</sup> 1968-69**

(\$ million)

	1968			1969				Quantitative increase in 1969	
	Exports	Value added	Percent of value added	Exports	Value added	Percent of value added	Share in incremental value added	Exports	Value added
Citrus	88.4	68.7	77.8	91.3	71.3	78.2	7.5	-2.4	-2.4
Other agricultural products	23.8	19.9	83.7	26.7	22.2	83.2	6.6	9.7	9.8
Diamonds	194.1	50.7	26.1	215.5	55.6	25.8	14.2	4.2	4.2
Textiles	63.7	29.4	46.2	80.6	34.3	42.6	14.2	22.0	13.0
Minerals	33.7	27.6	82.0	38.5	31.9	82.9	12.4	8.4	9.6
Citrus products	26.4	17.3	65.5	32.6	21.1	64.8	11.0	15.7	16.0
Other industrial products	163.1	97.4	59.7	187.5	109.2	58.3	34.1	13.2	12.4
Total commodity exports	593.2	311.0	52.5	672.7	345.6	51.4	100.0	8.5	7.4
Total industrial exports, excl. diamonds	286.9	171.7	59.8	339.2	196.5	58.0	71.7	14.9	12.0

<sup>a</sup> Excluding exports to the administered areas and exports of capital services.

<sup>b</sup> Gross value added; i.e. exports less imported inputs only, but not primary inputs (interest and depreciation).

SOURCE: Central Bureau of Statistics.

**Table III-11**  
**NET COMMODITY EXPORTS, BY MAIN CATEGORY,\* 1965-69**  
(\$ million)

	1965	1966	1967	1968	1969	Percent annual increase or decrease (-)			Weight in incremental exports (%)		
						1967	1968	1969	1967	1968	1969
<b>Agricultural exports</b>											
Citrus	71.2	74.7	85.3	88.4	91.5	14.2	3.6	3.5	42.1	3.1	3.9
Poultry products and cotton	7.3	8.9	12.8	8.7	9.6	43.8	-32.0	10.3	15.5	-4.0	1.1
Other agricultural products	7.6	10.8	9.6	15.0	17.0	-11.1	56.3	13.3	-4.8	5.3	2.5
<b>Total</b>	<b>86.1</b>	<b>94.4</b>	<b>107.7</b>	<b>112.1</b>	<b>118.1</b>	<b>14.1</b>	<b>4.1</b>	<b>5.4</b>	<b>52.8</b>	<b>4.4</b>	<b>7.6</b>
<b>Industrial exports</b>											
Diamonds	131.8	164.7	157.9	194.8	215.9	-4.1	23.4	10.8	-27.0	36.4	26.8
Minerals and scrap	30.3	36.4	30.8	33.7	38.5	-15.4	9.4	14.2	-22.2	2.9	6.1
Copper-cement	8.5	12.2	10.4	11.6	15.0						
Phosphates	2.9	4.4	4.6	6.9	7.6						
Scrap	3.1	4.5	2.0	1.3	2.5						
Other minerals	15.8	15.3	13.8	13.9	13.4						
Textiles and clothing	40.6	45.5	51.9	63.7	80.6	14.1	26.4	22.9	25.4	11.6	21.5
Citrus products	18.6	19.0	25.1	26.4	32.6	32.1	5.2	23.4	24.2	1.3	7.9
Other chemical products	10.3	15.8	16.3	18.0	15.6	3.2	10.4	-13.3	2.0	1.7	-3.0
Other metal products	9.9	10.8	8.0	26.4	24.1	-25.9	230.0	-8.7	-11.1	18.1	-2.9
Aircraft and parts	2.2	1.9	5.8	8.6	6.8	205.3	49.7	-20.9	15.4	2.8	-2.3
Edible oils and oilcake	7.5	7.1	2.3	5.8	7.5	-67.6	152.2	29.3	-19.0	3.4	2.2
Other industrial products	61.6	71.4	86.4	104.0	132.4	21.0	20.4	27.3	59.5	17.4	36.1
<b>Total industrial exports</b>	<b>312.8</b>	<b>372.6</b>	<b>384.5</b>	<b>481.4</b>	<b>554.0</b>	<b>3.2</b>	<b>25.2</b>	<b>15.1</b>	<b>47.2</b>	<b>95.6</b>	<b>92.4</b>
<b>Total, excl. diamonds   and minerals</b>	<b>150.7</b>	<b>171.5</b>	<b>195.8</b>	<b>252.9</b>	<b>299.6</b>	<b>14.2</b>	<b>29.2</b>	<b>18.5</b>			
<b>Total commodity exports   from domestic output</b>	<b>398.9</b>	<b>467.0</b>	<b>492.2</b>	<b>593.5</b>	<b>672.1</b>	<b>5.4</b>	<b>20.6</b>	<b>13.2</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
Sales of used ships and aircraft	2.7	5.1	18.8	3.4	5.9						
Equipment shipments by Israeli firms operating abroad	—	0.3	1.0	0.1							
Works of art, antiques, collectors' pieces, personal effects, etc.	4.7	4.6	5.4	5.6	5.7						
<b>Total commodity exports</b>	<b>406.3</b>	<b>477.0</b>	<b>517.4</b>	<b>602.6</b>	<b>683.7</b>	<b>8.5</b>	<b>16.5</b>	<b>13.5</b>			
Adjustments and exports returned	-2.5	-2.4	0.4	-4.7	-4.6						
<b>Net commodity exports,   according to balance   of payments</b>	<b>403.8</b>	<b>474.6</b>	<b>518.1</b>	<b>597.9</b>	<b>679.1</b>	<b>9.2</b>	<b>15.4</b>	<b>13.6</b>			

\* Excluding exports to the administered areas.  
SOURCE: Central Bureau of Statistics.

Overseas sales of oranges, which account for over three-quarters of total citrus exports, were approximately 6 percent over the 1968 level. Prices went up by 11 percent, while the quantities sold fell off. The U.K. and the Common Market accounted for most of the decline: exports to the former expanded by only 3 percent at current prices, while Spanish and North African exports to this market went up by 25 percent. In the Common Market, Israel's share in total orange sales also fell, mainly because of Italian competition.

**Table III-12**  
**CITRUS EXPORTS, 1968-69**  
(\$ million)

	1968	1969	Percent increase or decrease (-)		
			Value	Quantity	Price
Total citrus exports	88.1	91.0	3.2	-5.7	9.3
Thereof:					
Oranges	65.7	69.8	6.2	-5.1	11.3
Grapefruit	17.5	16.4	-6.3	0.2	-6.5
<b>Percentage distribution by main markets, 1969</b>					
	Total	Common Market	United Kingdom	Other Western European countries	Other countries
Total citrus	100.0	43.2	23.2	24.3	9.3
Thereof:					
Oranges	76.8	40.1	24.1	27.3	8.5
Grapefruit	18.0	65.3	22.6	11.4	0.7
Other	5.2				
<b>Nominal percentage rates of growth, 1969</b>					
Total citrus	3.2	-5.6	3.2	15.7	
Oranges	6.2	-2.5	3.5	18.4	
Grapefruit	-6.3	-8.5	2.9	-14.4	

Prices fetched by grapefruit, of which Israel is Europe's major supplier, slipped 6 percent, but the quantities sold held steady at the 1968 level.

(b) *Industrial exports*

Industrial exports other than diamonds expanded by 18 percent, with prices averaging 3 percent higher than in 1968. Nearly 30 percent of the total gain was recorded in textiles and clothing. Fabrics, knitwear, and synthetic yarns accounted for most of the growth in these items (23 percent).

Citrus products also made good headway (23 percent) as a result of the

larger quantity of culls supplied for processing. Minerals advanced 4 percent in quantitative terms, but receipts were up 14 percent because of the much higher prices commanded abroad.

Two branches working partly for the defense establishment, "other metal products" and the aircraft industry, curtailed their exports by 12 percent.

The heterogenous group of "other industrial products" recorded a 27 percent rise and contributed about 36 percent of the total export growth. There were particularly notable increases in electrical and electronic equipment, machinery, plastic and rubber products, printing and publishing, and leather goods. As to machinery and electrical and electronic equipment (which showed growth rates of 63 and 70 percent respectively), most of the gain was in products demanding specialized skills—industrial machinery, refrigerating and airconditioning equipment, transmitting and receiving apparatus, electronic components, and other specific electronic instruments. Rubber and plastics were up 50 percent, mainly because of larger tire sales to the United States. The 12 percent decline in non-metallic mineral products is attributable to smaller overseas sales of such construction inputs as glass and cement, as the result of stronger domestic demand for these items.

### *1. Diamond exports*

Exports of polished diamonds moved up about 11 percent in 1969 (prices rose 6 percent), with almost all the gain resulting from a 22 percent increase in the first half of the year compared with the first six months of 1968. In the second half of the year the level edged up by only 1 percent. The 1969 growth rate was the lowest since 1958 (apart from 1967, when there was an absolute drop).

The slower rise in the year reviewed was due to a smaller percentage increase in sales to the United States (which takes nearly 30 percent of Israel's diamonds) and an absolute decline in sales to the Netherlands and the U.K. On the other hand, exports to Hong Kong soared 38 percent, making it Israel's third largest customer, after the United States and Belgium.

These sagging growth rates cannot be explained satisfactorily, because of the importance of secondary transactions (such as returned exports, unsold stock consigned abroad at a discount, etc.) which characterize the diamond trade between Israel and these countries.

The main reason for the sluggish growth of sales to the United States is undoubtedly to be found in American market conditions in 1969. During the second half of the year interest rates in that country mounted to over 9 percent, and this led to the reduction of diamond stocks held by dealers because of the higher cost involved. Expectations of a possible recession also tended to dampen demand.<sup>1</sup>

<sup>1</sup> Partial data on the stock of polished diamonds in Israel indicate a rise in this stock as well as in the stock of uncut stones.

These factors resulted in a 9.4 percent drop in Israel's diamond exports to the United States in the second half of the year (by comparison with the same period in 1968), after a first-half gain of 18.4 percent. The slower increase in 1969 cannot be attributed to competition from other sources, as the share of the U.S. market commanded by Israel even rose slightly.

(c) *Profitability of exports*

In 1968 the IL price of the value-added component of exports rose more than the prices of domestic uses, thereby stimulating exports that year, as well as in 1969, even though in the latter year the prices of the value-added dollar and domestic uses moved up at about the same rate.

Table III-13 shows the factors affecting the profitability of commodity exports over the past four years. On the income side it sets out the changes in IL export proceeds, and on the costs side the changes in IL prices of imported inputs, in wages per unit of output, and in the prices of domestically produced inputs. Whatever method of weighting is used in calculating the profit margin, it will be seen that in 1968 the profitability of exports rose appreciably—both because of the 1967 devaluation and because of the fall in per unit wage-labor costs. In 1969 the increase in the profitability of exports was much smaller in spite of a further decline in wage costs per unit of output and a 5 percent rise in the dollar prices of exports.

**Table III-13**  
**PROFITABILITY OF EXPORTS, 1966-69**  
(percentages)

	Annual increase or decrease (-)			
	1966	1967	1968	1969
Export prices (IL) <sup>a</sup>	9	2	15	5
Prices of imported inputs (IL) <sup>b</sup>	2	2	13	5
Wages per unit of output <sup>c</sup>	6	1	-7	-5
Prices of domestic inputs <sup>d</sup>	5	1	2	2

<sup>a</sup> The components of the changes in export prices were as follows:

	1966	1967	1968	1969
Changes in export prices (\$)	7	-2	-1	5
Changes in effective exchange rates	2	4	16	—

<sup>b</sup> The components of the changes in imported input prices were as follows:

	1966	1967	1968	1969
Changes in the prices of imported inputs	2	1	-2	5
Changes in the effective exchange rates	—	1	15	—

<sup>c</sup> In the private sector only.

<sup>d</sup> Prices of industrial output in the domestic market.

The indexes presented below, which compare the changes in wages per unit of output in a group of highly industrialized countries with those in Israel, serve as an indicator of the competitive strength of Israel both in the export market and in the domestic production of import substitutes. The decline in the comparative index (the Israeli index divided by that for the industrial countries) over the past two years came in the wake of a protracted steady upward trend.

Table III-14

**WAGES PER UNIT OF OUTPUT IN ISRAEL AND DEVELOPED INDUSTRIAL COUNTRIES, 1964-69**

Per unit wage cost (index: 1963=100)	1964	1965	1966	1967	1968	1969
Developed industrial countries	102	106	109	113	118	
Israel	108	119	139	137	134	131
(1):(2)	106	112	128	121	114	

SOURCE: Production and Incomes Research Institute, *Report No. 5*.

Another factor affecting the volume of exports is the level of economic activity abroad, which is reflected in the demand for imports. Imports in a group of countries which take roughly 80 percent of Israel's industrial exports (excluding diamonds) rose by 15 percent in 1969,<sup>1</sup> with sales of Israeli industrial products to them rising by 18 percent.

#### 4. IMPORTS AND EXPORTS OF SERVICES

The surplus on services account (excluding the Government and the administered areas) amounted to \$ 15 million in 1969, as against \$ 44 million in the previous year. Most of the decline stemmed from a \$ 24 million drop in net income from tourism and a \$ 9 million increase in the deficit in the capital services item (see Table III-15).

Receipts from tourism fell by about \$ 12 million. However, this was after the doubling of the figure in 1968, so that the level remained about \$ 40-45 million higher than before the Six Day War. The decline in the number of tourists and nights spent in hotels (about 5 percent) was smaller than the drop in income from tourism (10 percent), partly because in 1969 visitors were allowed to make payments in foreign currency without first converting their money through banks.

<sup>1</sup> With the imports of these countries weighted according to the weight of each country in Israel's total industrial exports. See the discussion of this indicator in the Bank of Israel *Annual Report 1968*, p. 55.

On the other hand, Israelis spent 28 percent more abroad than in 1968. Expectations of devaluation and of cuts in foreign currency allocations for overseas travel may have had an effect here.

Imports of capital services rose by \$ 16 million, the net result of a \$ 22 million higher interest outlay on foreign debts and a \$ 6 million decline in income of foreign nationals from direct investments in Israel. Foreign currency debt servicing was twice as high as in 1965, owing to the doubling of the State's external indebtedness since 1964. The smaller income of foreign nationals on their Israeli investments was due to a lower volume of new investment in the past few years and the repatriation of previous investments.

**Table III-15**  
**NET<sup>a</sup> IMPORTS AND EXPORTS OF SERVICES, 1965-69**  
( \$ million; based on the c.i.f. value of commodity imports)

	1965	1966	1967	1968	1969
Transportation	54.5	54.9	61.1	71.5	72.8
Tourism	11.3	10.3	8.2	44.3	19.8
Insurance	-1.8	-2.1	-6.9	-4.1	1.1
Capital services	-57.2	-58.7	-68.8	-70.5	-79.8
Miscellaneous services	-9.6	5.1	-16.0	2.8	1.2
Total, excl. Government account	-2.8	9.5	-22.4	44.0	15.1
Government account	-127.2	-133.7	-293.6	-333.1	-397.2
Total, incl. Government account	<b>-130.0</b>	<b>-124.2</b>	<b>-316.0</b>	<b>-289.1</b>	<b>-382.1</b>
Services account with the administered areas			-17.1	-8.0	-3.0
Grand total			<b>-333.1</b>	<b>-297.1</b>	<b>-385.1</b>

<sup>a</sup> Exports less imports.

SOURCE: Central Bureau of Statistics.

Gross income from capital services, which consists mostly of interest on foreign currency holdings, went up by nearly \$ 7 million. This increase, despite the depletion of such holdings, is explained by the rise of interest rates abroad and a \$ 105 million growth in the foreign currency holdings of commercial banks, the return on which is relatively high.

The surplus in the transportation item rose by about a million dollars to reach \$ 73 million; this followed a \$ 7 million increase in cargo haulage and a \$ 6 million decline in passenger conveyance. The latter development stemmed from a drop in revenue from air passenger services because of a fall in tourism to Israel. After the disposal of most of Zim's passenger ships, air transport now accounts for more than 90 percent of total receipts in the passenger branch.

Table III-16

EXPORTS OF SERVICES,<sup>a</sup> 1965-69

(\$ million)

	1965	1966	1967	1968	1969	Annual increase or decrease (-)									
						\$ million					Percent				
						1965	1966	1967	1968	1969	1965	1966	1967	1968	1969
Transportation	148.0	157.7	160.9	202.0	217.4	21.5	9.7	3.2	41.1	15.4	17.0	6.6	2.0	25.5	7.6
Passenger	42.5	41.3	43.4	54.3	49.6	5.6	-1.2	2.1	10.9	-4.7	15.2	-2.8	5.1	25.1	-8.7
Cargo	86.8	93.6	93.0	115.0	131.1	13.4	-6.7	-0.6	22.0	16.1	18.3	7.8	-0.7	23.7	14.0
Other income	18.7	22.8	24.5	32.7	36.7	2.5	4.1	1.7	8.2	4.0	15.4	21.9	7.5	33.5	12.2
Tourism	55.0	59.1	52.2	101.7	89.6	0.2	4.1	-6.9	49.5	-12.1	0.4	7.5	-11.7	94.8	-11.9
Insurance	47.7	58.1	60.9	71.8	79.3	4.9	10.4	2.8	10.9	7.5	11.4	21.8	4.8	17.9	10.4
Capital services	36.9	48.2	54.5	65.4	72.5	8.2	11.3	6.3	10.9	7.1	28.6	30.6	13.1	20.0	10.9
Government, n.e.s.	20.2	25.0	30.7	32.6	27.4	-0.9	4.8	5.7	1.9	-5.2	-4.3	23.8	22.8	6.2	-16.0
Other services	37.1	49.4	57.0	76.1	84.2	4.7	12.3	7.6	19.1	8.1	14.5	33.2	15.4	33.5	10.6
Total	344.9	397.5	416.2	549.6	570.4	38.6	52.6	18.7	133.4	20.8	12.6	15.3	4.7	32.0	3.8

<sup>a</sup> Including the administered areas.

SOURCE: Central Bureau of Statistics.

Table III-17  
 IMPORTS OF SERVICES,<sup>a</sup> 1965-69  
 (\$ million)

	1965	1966	1967	1968	1969	Annual increase or decrease (-)									
						IL million					Percent				
						1965	1966	1967	1968	1969	1965	1966	1967	1968	1969
Transportation	93.5	102.8	99.8	128.7	141.8	10.4	9.3	-0.3	28.9	13.1	12.5	9.9	-2.9	28.9	10.2
Passenger	12.5	14.9	13.8	15.7	17.1	0.4	2.4	-1.1	1.9	1.4	3.3	19.2	-7.4	13.8	8.9
Other	81.0	87.9	86.0	113.0	124.7	10.0	6.9	-1.9	27.0	11.7	14.1	8.5	-2.2	31.4	10.4
Foreign travel	43.7	48.8	65.7	68.0	68.2	6.4	5.1	16.9	2.3	0.2	17.2	11.7	34.6	3.5	0.3
Insurance	49.5	60.2	67.8	75.5	78.0	8.5	10.7	7.6	7.7	2.5	20.7	21.6	12.6	11.4	3.3
Capital services	94.1	106.9	123.3	135.9	152.3	11.1	12.8	16.4	12.6	16.4	13.4	13.6	15.3	10.2	12.1
Government, n.e.s.	147.4	158.7	324.3	365.7	423.3	18.2	11.3	165.6	41.4	57.6	14.1	7.7	104.3	12.8	15.8
Miscellaneous	46.7	44.3	68.4	73.0	91.9	-4.5	-2.4	24.1	4.6	18.9	-8.8	-5.1	54.4	6.7	25.9
Total	474.9	521.7	749.3	846.8	955.5	50.1	46.8	227.6	97.5	108.7	11.8	9.9	43.6	13.0	12.8

<sup>a</sup> Including the administered areas.  
 SOURCE: Central Bureau of Statistics.

Income from cargo shipments rose by 14 percent, both because of the growth in the volume of imports and exports and because of an 8 percent hike in shipping tariffs. The haulage of cargoes between foreign ports yielded about 8 percent more in the year surveyed.

Charter hire was approximately 10 percent above the 1968 figure, as was revenue from the operation of these ships. Other transportation services (port and miscellaneous services) showed a deficit of nearly \$ 9 million.

In the heterogenous item "miscellaneous services" there was an \$ 8 million increase on the credit side. Three subitems—management fees, agents' fees, and construction activity—rose by \$ 12 million all told: but this was partly offset by a decline in money transfers by returning Israeli residents following an appreciable rise in the two preceding years. On the debit side, "miscellaneous services" showed an increase of \$ 9 million, most of it in payments to foreign agents and in computer rental fees.

The services account with the administered areas was in deficit by about \$ 3 million, as compared with \$ 8 million in 1968. The credit side was unchanged, but on the debit side there was a sharp decline in tourism to the areas, which was largely counterbalanced by increased payments to the areas' workers employed in Israel.

## 5. CAPITAL IMPORTS

Capital imports remained at the previous year's level, but the balance of payments deficit on current account was considerably higher than in 1968, so that there was a sharp fall in the foreign currency reserves of the State. The current deficit exceeded capital imports by \$ 201 million, as compared with \$ 23 million in 1968, but the drop in foreign currency reserves was greater than \$ 200 million because short-term loans to Israel also declined.

Capital imports totalled \$ 693 million in 1969, about the same as in 1968. This was \$ 130 million below the unprecedented level of 1967, but higher than in earlier years. The year reviewed saw an improvement in the composition of capital imports. The share of unilateral transfers, which had fluctuated between 61 and 63 percent of total capital imports in previous years, rose to 69 percent in 1969 following an increase in both personal and institutional transfers, a decline in long- and medium-term capital movements, and a slower rise in net loan receipts. In spite of the increased weight of unilateral transfers in the total capital inflow, in recent years they have been covering a declining proportion of the current deficit. In 1969 they covered only 56 percent, as compared with 61 percent in 1968 and 66 percent in 1966 (1967 was an exceptional year because of the high level of institutional transfers). During the period 1958–63 unilateral transfers covered 80 percent of the current deficit, slipping to 60–66 percent in 1964–68.

The share of the public sector in capital imports continued downward in

1969. The higher share of this sector in previous years had been due both to the larger volume of institutional transfers and to heavier borrowing abroad.

**Table III-18**  
**THE BALANCE OF PAYMENTS, 1968-69**  
(\$ million)

	1968			1969		
	Credit	Debit	Net	Credit	Debit	Net
<b>A. Current deficit</b>	1,146.8	1,865.0	-718.2	1,256.2	2,149.8	-893.6
<b>B. Unilateral transfers</b>						
Personal transfers						
In cash	130.8	2.6	128.2	158.7	1.5	157.2
In kind	9.8	4.0	5.8	11.6	6.4	5.2
German restitution	143.3	—	143.3	137.5	—	137.5
Institutional transfers						
In cash	162.6	—	162.6	179.1	—	179.1
In kind	1.8	—	1.8	2.2	—	2.2
Intergovernmental transactions	—	7.0	-7.0	—	3.0	-3.0
Total	<b>448.3</b>	<b>13.6</b>	<b>434.7</b>	<b>489.1</b>	<b>10.9</b>	<b>478.2</b>
<b>C. Long- and medium-term capital movements</b>						
Independence and Development Loans	181.9	103.9	78.0	183.8	120.5	63.3
World Bank loans	4.3	5.0	-0.7	6.4	6.5	-0.1
Export-Import Bank loans	7.6	8.5	-0.9	16.7	7.6	9.1
U.S. Government loans	51.2	15.2	36.0	39.7	29.4	10.3
Other long- and medium-term loans	235.3	96.5	138.8	222.9	120.0	102.9
Investments from abroad, net	62.0	52.9	9.1	90.9	61.4	29.5
Total	<b>542.3</b>	<b>282.0</b>	<b>260.3</b>	<b>560.4</b>	<b>345.4</b>	<b>215.0</b>
<b>D. Short-term capital movements</b>						
Short-term loans	—	35.4	-35.4	—	83.4	-83.4
Clearing accounts	8.0	—	8.0	0.4	—	0.4
U.S. Government deposits	—	11.4	-11.4	—	3.3	-3.3
Foreign deposits in Bank of Israel	—	—	—	30.0	—	30.0
Other foreign deposits	46.0	—	46.0	66.1	—	66.1
Deposits with International Monetary Fund	—	—	—	22.5	—	22.5
International Monetary Fund—gold tranche	—	—	—	22.5	—	22.5
Deposits abroad	52.0	—	52.0	168.1	—	168.1
Foreign currency valuation adjustments	—	—	—	30.7	—	30.7
Monetary gold	—	0.1	-0.1	—	—	—
Total	<b>106.0</b>	<b>46.9</b>	<b>59.1</b>	<b>340.3</b>	<b>86.7</b>	<b>253.6</b>
Total (C+D)	<b>648.3</b>	<b>328.9</b>	<b>319.4</b>	<b>900.7</b>	<b>432.1</b>	<b>468.6</b>
Grand total	<b>2,243.4</b>	<b>2,207.5</b>	<b>35.9</b>	<b>2,646.0</b>	<b>2,592.8</b>	<b>53.2</b>
<b>Net errors and omissions</b>	—	35.9	-35.9	—	53.2	-53.2

(a) *Unilateral transfers*

Unilateral transfers totalled \$478 million, \$43 million above the 1968 level. After drifting downward in 1966 and 1967, personal transfers reversed their direction in 1968 and continued to rise in 1969, reaching \$162 million. The main reason for this high level is the larger influx in the last two years of immigrants from affluent countries, many of whom brought property with them. It may also be assumed that, because of the amendment of the currency regulations to permit tourists to make payments in foreign currency without exchanging their money at banks, part of these tourist expenditures have also been included in this item.

Transfers to the National Institutions and nonprofit institutions likewise increased. Remittances to the former added up to \$123 million; this includes the proceeds of the emergency fund-raising campaigns conducted abroad but not the Institutions' overseas expenditures. While these transfers were appreciably lower than in the war year (1967), they were still much higher than before. Most of the additional nonprofit institution transfers went to the Hebrew University and other scientific institutes.

The third major component of unilateral transfers—personal restitution from West Germany—declined slightly after rising in the two previous years, and totalled \$137 million. The share of lump-sum payments, which began to move up in 1966 and reached 61 percent of total personal restitution in 1968, showed a reversal of trend in 1969, with an approximately even division between them and pension payments. This was due to the payment of pensions on account of earlier years.

The intergovernmental transfers item still includes a small amount of German reparations. It also includes Government transfers to the administered areas, i.e. the difference between income and expenditure from Government operations in these areas.

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

Foreign investments in Israel expanded in 1969, while the State's long- and medium-term foreign debt grew more slowly than in the two preceding years.

Gross investment from abroad reached \$76 million, \$20 million more than in 1968 but still below the level of 1960–66. The low level in 1967, and even in 1968, was a consequence of the local recession. To be sure, in the latter year foreign investments started to pick up, but it takes several years before the special incentives given to attract potential investors begin to bear fruit and the investment plans approved by the Government are implemented. Since 1965 repatriation of foreign investments have totalled about \$30 million a year; total net investments from abroad thus amounted to \$47 million in 1969 (see Table III–20).

Israeli investments abroad consisted entirely of purchases of foreign securities

**Table III-19**  
**CAPITAL IMPORTS, 1966-69**  
(\$ million)

	1966	1967	1968	1969	Increase or decrease (-) in 1969
<b>Unilateral transfers</b>					
(1) Transfers to the private sector					
Personal remittances	84	84	134	162	28
Personal restitution from W. Germany	110	123	143	138	-5
Transfers to nonprofit institutions	45	47	54	58	4
Total	239	254	331	358	27
(2) Transfers to the public sector					
Intergovernmental transfers	1	-11	-7	-3	4
Transfers to National Institutions	52	278	111	123	12
Total	53	267	104	120	16
Total unilateral transfers	292	521	435	478	43
<b>Capital movements</b>					
(1) To the private sector— foreign investments in Israel, net	71	8	9	29	20
(2) To the public sector					
Independence and Development loans, net	11	171	78	63	-15
World Bank loans, net	17	6	-1	—	1
U.S. Government loans, net	41	36	35	20	-15
Other long- and medium- term loans, net	43	82	139	103	-36
Total	112	295	251	186	-65
Total long- and medium-term capital movements	183	303	260	215	-45
Total capital imports	475	824	695	693	-2

through Natad accounts;<sup>1</sup> these amounted to \$ 15 million in 1968 and \$ 20.7 million in 1969. As a result of the liquidation of their other investments abroad, net foreign investments of Israelis were lower in 1969 than in the previous year.

On balance, net foreign investments from abroad rose appreciably and totalled \$ 29.5 million in 1969. However, the level of the two preceding years had been inordinately low, so that in 1969 it was still far below that of 1966, not to speak of the peak year 1964, when net investments topped \$ 143 million.

**Table III-20**  
**FOREIGN INVESTMENTS IN ISRAEL, 1965-69**  
( \$ million )

	1965	1966	1967	1968	1969
<b>Investments in Israel by nonresidents</b>					
In foreign currency	92.4	85.6	38.8	31.2	52.6
In Israeli currency	4.8	3.7	1.9	2.6	-0.5
In Independence and Development Bonds	9.4	9.7	7.0	7.1	4.7
Capital transfers in kind	8.3	5.3	3.9	14.4	29.3
Total	<b>114.9</b>	<b>104.3</b>	<b>51.6</b>	<b>55.3</b>	<b>76.1</b>
Less: Liquidation of foreign investments					
in Israel	-27.9	-27.0	-31.1	-32.7	-33.8
Net total	<b>87.0</b>	<b>77.3</b>	<b>20.5</b>	<b>22.6</b>	<b>42.3</b>
Reinvestment of profits	4.8	5.2	4.3	4.0	5.2
Total investments by nonresidents, net	<b>91.8</b>	<b>82.5</b>	<b>24.8</b>	<b>26.6</b>	<b>47.5</b>
<b>Israeli investments abroad</b>	9.3	11.3	16.9	17.5	18.0
Total foreign investments in Israel, net	<b>82.5</b>	<b>71.2</b>	<b>7.9</b>	<b>9.1</b>	<b>29.5</b>

Although long- and medium-term foreign borrowing increased at a slightly lower rate in 1969 than in the previous year, growth was faster than in the years before 1967. The State's total foreign currency debt reached \$ 2,018 million at the end of 1969; this compares with \$ 1,810 million in 1968, \$ 1,480 million in 1967, and \$ 1,210 million in 1966. This heavy debt burden explains the rapid increase in the amount of funds that have to be diverted to servicing it.

Sales of Development Bonds remained high in 1969—\$ 184 million compared with \$ 182 million in 1968. However, since redemptions and conversions rose from \$ 104 million in 1968 to \$ 121 million, net proceeds amounted to only \$ 63 million as against \$ 78 million in 1968. Total Development Loan obligations,

<sup>1</sup> For a description of Natad accounts see Chapter XVIII, section 5.

including accumulated interest on the savings certificates and bonds that have matured but not been cashed in, reached \$ 884 million at the end of 1969. In 1969 redemptions were particularly high because repayment of the first Development Loan, sold during the years 1954–59, was completed. Most of the sales in 1969 were of the fourth series of the Development Loan and the second series of the special Development Loan issued to investors, which had been launched in 1967.

Early redemption in Israeli pounds was also somewhat higher, totalling \$ 30.5 million as against \$ 26.4 million in 1968. This increase was due mainly to conversions by the Jewish Agency and other institutions, which amounted to \$ 16.5 million in 1969 as against \$ 8 million the year before. Conversions by residents and immigrants rose somewhat, from \$ 3.2 million to \$ 4.6 million, while those by tourists fell from their high 1968 level of \$ 8.8 million to \$ 7.4 million. Conversions for investment purposes also decreased—from \$ 6.6 million to \$ 4.3 million.

U.S. Government loans were down from \$ 51 million in 1968 to \$ 40 million, and since a larger sum was repaid in 1969 on account of previous loans, net receipts amounted to only \$ 10 million as against \$ 36 million in 1968. On the other hand, there was a heavier drawing on Import-Export Bank loans, and Israel's liabilities to this institution rose by \$ 9 million.

#### (c) *Short-term capital movements*

Total receipts from short-term capital movements were appreciably larger in 1969. Apart from the decline in foreign currency reserves, there was a heavier mobilization of funds abroad. Deposits of nonresidents and foreign banks with local commercial banks rose by \$ 66 million, and those with the Bank of Israel by \$ 30 million. Foreign currency was also drawn from the International Monetary Fund.

At the same time there was a fall in net short-term indebtedness, due in part to the flow of funds from the administered areas, but mainly to the smaller volume of short-term borrowed receipts. This apparently reflected mounting expectations of devaluation, which led to local exporters granting credit to their foreign customers, the expediting of debt repayments, and the avoidance of new short-term foreign obligations.

#### (d) *Foreign exchange reserves*

Total international liquidity, defined as the gold and foreign currency reserves held by the Bank of Israel, fell by \$ 250 million in 1969 to stand at \$ 412 million at year's end (see Table III–21). Net of the \$ 30 million growth in deposits of foreign banks with the Bank of Israel, the decline amounted to \$ 280 million, depressing the level of liquid reserves to \$ 382 million. In the balance of payments, foreign currency reserves also include the foreign currency

Table III-21

## ISRAEL'S FOREIGN EXCHANGE RESERVES, 1968-69

(\$ million)

Assets	Dec. 31, 1968	Dec. 31, 1969	Increase or decrease (-)	Liabilities	Dec. 31, 1968	Dec. 31, 1969	Increase or decrease (-)
Balances with Bank of Israel	594.3	366.7	-227.6	Deposits of nonresidents and foreign banks in Israel	237.2	303.3	66.1
Gold with Bank of Israel	46.0	45.7	-0.3	Deposits of foreign banks with Bank of Israel	—	30.0	30.0
Gold with International Monetary Fund	22.5	—	-22.5	Deposits of inter- national institutions	1.0	23.5	22.5
Total international liquidity	662.8	412.4	-250.4	Total foreign deposits	238.2	356.8	118.6
Balances with commer- cial banks	161.8	263.7	101.9				
Treasury deposits abroad	91.6	49.5	-42.1				
Total	253.4	313.2	59.8				
Gross foreign currency	916.2	725.6	-190.6	Net foreign currency assets	678.0	368.8	-309.2
Foreign currency valuation adjustments			-30.7	Foreign currency valuation adjustments			-30.7
Grand total			-221.3	Grand total			-339.9

holdings of commercial banks and Treasury deposits abroad, which are of somewhat lower liquidity.

The \$ 221 million decline in foreign currency assets consisted of a \$ 168 million contraction of deposits abroad; a \$ 22.5 million drawing from the International Monetary Fund, representing the gold tranche of Israel's quota in the Fund; and the netting-out of \$ 31 million in foreign currency valuation adjustments, which does not constitute income from economic activity (see Table III-21).

At the end of 1969 gross foreign currency assets stood at \$ 726 million, while gross foreign currency liabilities, including deposits of nonresidents and foreign banks and another \$ 22.5 million loan from the International Monetary Fund, amounted to \$ 357 million. Net foreign currency reserves thus totalled \$ 369 million.