

CHAPTER IV

BALANCE OF PAYMENTS CURRENT ACCOUNT

1. MAIN DEVELOPMENTS

Israel's commodity imports declined 6 percent in real terms in 1975, after a 3 percent rise the year before. The ships and aircraft item, which is highly erratic and not necessarily connected with current economic developments, was partly responsible for the change of trend. Rough diamonds, which are also only tenuously connected with current developments, inched down about 1.5 percent in real terms. Excluding these two items, the level dipped 3 percent, after an 11 percent quantitative increase in 1974.

The downswing was the resultant of several factors working in opposite directions. The government's retrenchment policy, which led to the slowing of economic activity and some rise in the relative price of imports, depressed their volume. The recurrent waves of devaluation expectations, which did not disappear with the introduction of the creeping devaluation, had a stimulative effect, mainly in the middle of the year, after imports had slackened in the first quarter in the wake of the November 1974 devaluation.

Consumer goods fell off quantitywise, chiefly in nonfood products for current consumption and in durables. This was due to the government's economic squeeze measures, which dampened real income and made imports relatively dearer.

The more sluggish real import of capital goods other than ships and aircraft reflected two contrasting developments: a decline in land transport equipment and a 13 percent increase in plant and equipment. The latter coincided with a heavier outlay this year on locally produced plant and equipment, although it trailed behind the real growth of imports despite the rise in their relative price. The larger import in 1975 is explained by the launching of several large projects in mineral and electricity production by public

sector companies, as well as new investment in the metal and other export industries in anticipation of an accelerated expansion of overseas sales.

Imports of nondiamond inputs were down 1.5 percent in real terms; however, calculations based on constant input coefficients show that this item should have fallen off even more steeply compared with actual imports in 1974 (17 percent). That this did not happen can apparently be attributed to the continued buildup of stocks, which began in 1973 because of the primary commodity price explosion at the end of the previous year and the weakening of the dollar in the first half of 1973. The anticipated increase in import prices under the government's new economic policy in 1974 and the renewal of devaluation expectations in the second half of 1975 because of the grave erosion in the country's balance of payments position stimulated an import of intermediates in excess of current requirements.

Table IV-1
COMMODITY IMPORTS, EXPORTS, AND THE TRADE DEFICIT, 1972-75
(\$ million)

	Net imports ^a			Net exports ^a			Net trade deficit ^a			Ships and aircraft	
	Unad-justed	Seasonally adjusted	Quantity index 1972=100	Unad-justed	Seasonally adjusted	Quantity index 1972=100	Unad-justed	Seasonally adjusted	Quantity index 1972=100	Imports	Exports
Annual data											
1972	1,896.8			1,086.7			810.1			63.8	13.1
1973	2,743.8			1,372.7			1,371.1			224.8	8.7
1974	4,026.0			1,722.6			2,303.4			150.5	14.1
1975	4,076.7			1,828.7			2,248.0			42.7	6.2
Quarterly data											
1972 I	455.0	454.4	98.4	286.0	253.1	99.2	169.0	201.3	97.5	13.8	—
II	478.9	452.7	94.9	259.5	256.7	95.6	219.4	196.0	94.0	13.8	8.2
III	414.6	456.5	96.3	229.0	272.0	100.0	185.6	184.5	91.3	16.1	0.5
IV	548.3	536.5	110.3	312.2	307.7	105.2	236.1	228.8	117.2	20.1	4.4
1973 I	584.4	573.0	113.0	353.3	312.6	104.9	231.1	260.4	124.0	4.7	2.1
II	713.0	673.0	117.5	360.9	357.1	105.8	352.1	315.9	133.2	94.7	3.9
III	762.4	815.3	128.0	356.5	408.6	117.5	405.9	406.7	142.2	94.7	0.3
IV	684.0	700.6	94.9	302.1	306.3	81.4	381.9	394.3	113.1	30.7	2.4
1974 I	913.2	902.5	113.7	424.5	379.5	105.2	488.7	523.0	125.1	2.2	0.6
II	1,074.3	1,005.2	123.0	442.6	431.8	108.3	631.7	573.4	142.9	35.8	0.8
III	966.4	1,051.6	123.4	383.4	445.0	111.0	583.0	606.6	140.1	48.0	3.9
IV	1,072.2	1,078.7	122.7	472.1	471.1	110.4	600.1	607.6	139.3	64.5	8.8
1975 I	1,055.3	1,063.0	118.1	497.6	458.5	106.1	557.7	604.5	134.5	3.7	0.4
II	1,047.3	984.3	110.0	458.2	446.9	107.2	589.1	537.4	113.8	—	—
III	956.9	1,025.5	121.3	373.0	425.9	110.4	583.9	599.6	135.8	2.5	5.4
IV	1,017.3	1,018.1	121.0	499.9	497.2	118.7	517.4	520.9	124.1	36.5	0.4

^a Excludes ships and aircraft.

SOURCE: Central Bureau of Statistics.

Import prices moved up by a modest 5 percent in the year reviewed, after soaring 76 percent in 1973-74. The softening of primary commodity prices on the world markets since the second half of 1974 and the strengthening of the dollar in the second half of 1975 are what retarded the advance in Israel's import prices.

Nonoil import prices rose about 80 percent in dollar terms between 1970 and 1975, while export prices of the industrial countries went up 70 percent in local currency terms. The divergence was partly due to the depreciation of the dollar and the IL (which was still pegged to the dollar) against the leading European currencies. These two currencies slipped 12 percent during this period (see Table IV-11). Disregarding the weakening of the dollar, Israel's import prices went up 60 percent, with the improvement in the country's relative position beginning in 1974.

Imports (excluding ships and aircraft) did not advance at an even pace in 1975, the level dipping in the first half and reversing direction in the second (see Table IV-4). The 7 percent first-half quantitative decrease (compared with the first half of 1974) is explained by the spurting of the main groups at the end of 1974 with the intensification of expectations of a devaluation and of the introduction of tough policy measures. The 6 percent growth in the second half of 1975 (compared with the first half) occurred primarily in capital goods and uncut diamonds. In the first quarter of 1976 the nominal import bill dropped 3 percent from the previous quarter, with the steepest declines being in intermediates and consumer durables. In view of the continued strengthening of the dollar in the first quarter of 1976 and the fall of world raw material prices, it is too early to say whether this represented a real decrease.

In exports, there were no clear signs of a significant acceleration of growth, which is a prerequisite for extricating the economy from the stagnation into which the balance of payments constraints have mired it. The upswing in overseas sales in the second half of the year reviewed cannot be taken as indicative of a real change of trend, as regards either its dimensions or the product mix. Very little progress was made in 1975, in comparison with either earlier years or the balance of payments requirements. The increase came to a niggardly 2 percent overall. In manufactures other than diamonds and minerals, which constitute the principal group and the greatest potential for expanding the country's overseas sales, there was actually a complete standstill.

The export picture is a complex one, from the aspect of the multiplicity of forces at work, changes in their relative importance and direction, and the variability of trends during the year and in the various component items.

Agricultural products made impressive strides forward, advancing 23 percent in quantity

Table IV-2

ISRAEL'S TERMS OF TRADE, 1969-75

	Including diamonds			Excluding diamonds		
	Import price index	Export price index	Terms of trade ^a	Import price index	Export price index	Terms of trade
Annual data^b						
(1968=100)						
1969	105.0	104.7	99.7	104.4	103.7	99.3
1970	105.6	104.4	98.9	106.7	103.5	97.0
1971	109.2	108.4	99.3	111.9	105.6	94.4
1972	115.8	116.2	100.4	118.0	109.9	93.1
1973	148.1	142.9	96.5	151.3	131.5	86.9
1974	202.9	169.1	83.3	212.3	167.5	78.9
1975	211.9	177.0	83.5	222.2	181.6	81.7
Quarterly data^c						
(1973=100)						
1973 I	84.5	89.6	106.0	83.2	88.5	106.4
II	94.2	99.3	105.4	93.3	98.9	106.0
III	107.2	108.3	101.0	107.2	109.9	102.5
IV	114.3	106.3	93.0	115.8	108.0	93.3
1974 I	140.6	109.8	78.1	146.2	113.7	77.8
II	150.2	120.3	80.1	155.3	123.1	79.3
III	143.9	119.4	83.0	149.3	125.9	84.3
IV	144.6	120.7	83.5	153.3	131.0	85.5
1975 I	158.1	125.0	79.1	167.0	136.5	81.7
II	158.5	122.9	77.5	166.5	137.6	82.6
III	149.6	120.6	80.6	156.0	131.8	84.5
IV	146.4	120.0	82.0	152.6	129.1	84.6

^a The export price index divided by the import price index.

^b The indexes calculated according to 1968 prices are Paasche indexes. In 1973 the Central Bureau of Statistics chained the base of the price indexes to 1972=100. The price indexes for 1973 and 1974 based on 1968=100 were obtained by linking these indexes based on 1972=100 to 1972 based on 1968=100.

^c For quarterly comparisons we assumed a fixed (1973) basket of goods throughout in order to separate out the influence of changes in the basket on the price indexes.

SOURCE: Central Bureau of Statistics.

terms and commanding 17 percent higher prices abroad. The gain in citrus tonnage and the accompanying steep price rise can be credited to the continued buoyant foreign demand. Other agricultural exports expanded 34 percent, thus resuming the vigorous uptrend of the past decade, which had been blunted in the two preceding years because of the war.

The poor performance of minerals, where both tonnage and prices sagged, is explained by the cooling of the world market for such products. The stagnation of diamonds, for the second consecutive year, was accompanied by a precipitate fall in their relative price--by a total of 20 percent in the last two years compared with the national export average. The world economic retreat and the contraction of income in the industrial countries go a long way to explain these developments.

Overseas industrial sales exclusive of diamonds and minerals flattened in 1975, after three years of very sluggish growth--a 6 percent real average in 1972-74, as against more

than 20 percent a year until 1971. In industrial exports two broad groups can be distinguished which differ sharply from each other from the aspect of their development. The more technologically advanced industries (electronics, equipment, and metal) posted healthy gains in the last two years (with some interindustry and intertemporal differences), while in the "traditional" industries, which are not in the front rank technologically speaking (food, textiles and clothing, leather, wood, paper, and rubber and plastics), sales have been steadily losing ground in the last few years.

The movement of industrial exports during 1975 was not even. Seasonally adjusted data show that the level was generally stable from the beginning of 1974 until the third quarter of 1975, jumping steeply in the final quarter; according to preliminary estimates the uptrend was sustained in the first quarter of 1976. The advance was paced by military goods, whereas other products tumbled after having risen at the end of 1975. The nature of the export expansion--its confinement to a special narrow segment of the manufacturing sector which is subject to sharp fluctuations--raises a question how to interpret it: to what extent it is indicative of a real change of trend according with the country's export requirements, and to what extent its source lies in fortuitous factors.

2. COMMODITY IMPORTS

Commodity imports were a shade lower in 1975 in current price terms, amounting to \$4,126 million as against \$4,197 million the year before. Import prices went up 5 percent, and so the real decline came to 6 percent, after a 3 percent rise in 1974 (see Table IV-3). Excluding ships and aircraft and rough diamonds (which, as stated, are only slightly connected with current economic activity), the level slipped 3 percent, compared with an 11 percent increase in 1974.

The highly irregular ships and aircraft item totaled \$43 million in 1975, as contrasted with \$151 million in 1974. Net nominal imports of rough diamonds were a notch higher than in 1974--\$412 million vs. \$407 million. In real terms the level was down 1.5 percent, after sagging 21 percent in 1974. The decline in the year reviewed is explained by the persistence of the world retreat in this industry, which began to leave its impress at the end of 1973. Another sign of the slump was the high rate of imports returned this year--12 percent compared with 8 percent in 1974.

All three main commodity import groups recorded real decreases this year. Consumer goods were down 16 percent, after a 2 percent rise the year before; nondiamond intermediates inched down 1.5 percent, compared with a 12 percent increase in 1974; and

Table IV-3
COMMODITY IMPORTS,^a BY ECONOMIC DESTINATION, 1973-75

(\$ million, at current prices)

	1973		1974		1975	Percent annual increase					
						Price			Quantity		
						1974		1974			
	Jan.- Sept.	Entire year	Jan.- Sept.	Entire year		Jan.- Sept.	Entire year	1975	Jan.- Sept.	Entire year	1975
Consumer goods											
Food	88.1	118.6	95.0	139.3	167.0	36.6	41.3	12.2	-21.1	-16.9	6.8
Other nondurables	43.3	57.3	48.8	64.4	56.9	10.4	13.9	8.8	2.1	-1.3	-18.8
Durables	85.6	110.5	113.1	148.8	106.9	10.6	8.6	14.0	19.5	24.0	-37.0
Thereof: transport equipment	31.3	40.0	45.6	60.5	37.1	10.6	8.6	14.0	31.7	39.3	-46.2
Total	217.0	286.4	256.9	352.5	330.8	20.0	20.8	12.1	-1.3	1.9	-16.3
Production inputs											
For current production	817.5	1,119.4	1,296.9	1,812.3	1,739.4	35.6	30.3	4.5	17.0	24.3	-8.2
Spare parts, tools, etc.	172.7	225.2	208.5	297.5	347.6	35.6	30.3	4.5	-11.0	1.4	11.8
Subtotal	990.2	1,344.6	1,505.4	2,109.8	2,087.0	35.6	30.3	4.5	12.1	20.4	-5.3
Fuel	105.5	211.0	429.0	597.2	637.7	369.8	278.6	-4.1	-11.4	-25.2	11.3
Subtotal, incl. fuel	1,095.7	1,555.6	1,944.4	2,707.0	2,724.7	66.4	52.3	2.3	6.6	14.3	-1.6
Rough diamonds (net)	403.4	448.0	340.6	407.0	412.0	18.2	15.6	2.7	-28.6	-21.4	-1.4
Total	1,499.1	2,003.6	2,285.0	3,114.0	3,136.7	56.0	47.8	2.3	-2.3	5.2	-1.5
Capital goods											
Plant and equipment	273.2	350.4	312.8	430.2	541.3	8.1	9.2	11.7	5.9	12.4	12.6
Land transport equipment	69.1	107.0	98.8	127.0	66.9	8.1	4.9	18.8	32.3	13.1	-55.7
Total, excl. ships and aircraft	342.3	457.4	411.6	557.2	608.2	8.1	8.3	12.3	11.2	12.5	-2.8
Ships and aircraft	194.1	224.8	86.0	150.5	42.7						
Total, incl. ships and aircraft	536.4	682.2	437.6	707.7	650.9	8.1	8.3	12.3	-14.2	-4.2	-18.1
Goods n.e.s.	0.1	0.1	2.7	5.2	7.7						
Total gross imports	2,252.6	2,972.3	3,042.2	4,179.4	4,126.1	42.6	37.0	4.5	-5.3	2.6	-5.5
Total imports, excl. ships and aircraft and diamonds	1,655.1	2,299.5	2,615.6	3,621.9	3,671.4	47.5	42.1	4.8	7.1	10.8	-3.3
Imports returned (excl. diamonds)	3.0	3.7	2.2	2.9	6.6						
Total net imports	2,249.6	2,968.6	3,040.0	4,176.5	4,119.5						
Less: Balance of pay- ments' adjustments	51.6	72.6	86.2	104.0	100.1						
Total net imports, excl. administered areas (according to balance of pay- ments)	2,198.0	2,896.0	2,953.8	4,072.5	4,019.4						
Commodity imports from the administered areas	50.7	66.7	75.9	103.4	123.1						
Total net imports, incl. administered areas (according to balance of pay- ments)	2,248.7	2,962.7	3,029.7	4,175.9	4,142.5						

^a C.i.f. values.

SOURCE: Central Bureau of Statistics.

capital goods other than ships and aircraft fell 3 percent after a 13 percent growth in 1974. In consumer goods durables and nonfood products for current consumption were responsible for the quantitative decrease; food imports, on the other hand, were up 7 percent in real terms, reversing the steep 17 percent drop of the previous year. The food item consists chiefly of two products: frozen meat, which is imported by the government, and sugar, which is imported partly by the government and partly by private dealers. The 1974 decrease occurred in frozen meat, owing to the accumulation of a large stock with the dragging of sales. In 1975 this subitem soared 90 percent quantitywise, mainly because of catchup demand after the previous year's decrease, and accounted for the bigger food import this year.

Consumer durables plummeted 37 percent in real terms, after rising 24 percent in 1974 and by a 17 percent average in 1968-72. The downswing was led by land transport equipment--46 percent. Other items, such as furniture and household equipment, also fell noticeably. Nondurables other than food declined for the second consecutive year--19 percent in 1975 and 1 percent in 1974--after moving up at a 9 percent average annual rate in 1968-72.

Imports of consumer goods are influenced by changes in real disposable income, the expectation of relative price changes (including devaluations), and the government's economic measures, both fiscal (which in turn influence these factors) and administrative. In 1975 the government continued its policy of economic stringency, aimed at transferring factors of production from domestic to export destinations in order to whittle down the balance of payments deficit. As regards private consumption, this policy depressed real disposable income and pushed up the relative price of imports. The shrinkage of income dampened private consumption, including imports. The dearer cost of foreign consumer goods led to some substitution of domestically produced commodities (both durables and nondurables other than food), and hence reduced the direct import share of these items.¹ The year reviewed was the second consecutive one to witness a decline in the direct import share of total private consumption, after it had been on the rise from 1968 (apart from 1970): whereas in 1968-73 private consumption of goods grew 48 percent in quantity terms, imports of consumer products went up 83 percent; in 1973-75, however, the trend was reversed, the former inching up 1.5 percent and the latter dropping .15 percent.

1. No precise data are available on the change in the price ratio between imported and domestically produced consumer goods, but national accounts data show that in 1975 imported and domestically produced durables became 46 percent dearer, with imports rising at least 47 percent. In wearing apparel and personal consumption articles the total price increase was 28 percent, and in imports alone it was 41 percent.

Another determinant of consumer behavior in the short run is the public's expectations. After the likelihood of a change in the IL exchange rate had spurred the advancing of overseas purchases in 1974, such expectations subsided in the first half of the year reviewed following the devaluation of November 1974. This led to a sharp drop in real imports of durable goods (see Table IV-4). The continued worsening of the balance of payments position triggered a renewed expectation of an import price rise in the second half of the year, and this resulted in a somewhat larger volume during this period.

Another reason for the downturn in consumer goods imports was the government's banning, in November 1974, of the overseas purchase of luxury items for a six-month period. In some products, such as private cars, the ban was extended for another three months. Even so, during this period there was some import of the restricted items, which apparently represented the shipment of goods that had been ordered before the ban went into effect. The sagging of immigration in 1975 was another factor behind the smaller import of consumer goods.

Capital goods other than ships and aircraft were down 3 percent in real terms, after rising 13 percent the year before. Trends here were mixed: land transport equipment tumbled 56 percent, while plant and equipment were up 13 percent, after a 12 percent increase in 1974. As a rule, imports of capital goods are not influenced by short-term considerations, for investment is a protracted process, with considerable time elapsing between the planning and completion stages, and it is not quickly alterable; in addition, delivery dates are usually quite far ahead. A more telling determinant is the business outlook. The year reviewed witnessed a slowdown of the economy, but even so there was a larger real expenditure on plant and equipment, both domestically manufactured and imports. The hefty increase in foreign capital goods was conceivably due to the implementation of several big projects: the exploitation of new phosphate deposits at Nahal Zin, the development of petrochemicals, and the expansion of electricity production--completion of the Eshkol III power station and continuation of work on Eshkol IV. These investments were made by public sector companies, whose operations are not directly influenced by current business conditions and depend not on short-term government policy but on long-range development programs. In addition, several industries (e.g. metal fabrication) apparently stepped up their capital spending in anticipation of an expansion of their export markets.

Imports of nondiamond inputs were down 1.5 percent in real terms, following a 14 percent physical increase in 1974. After dipping 25 percent in 1974, fuel was up 11 percent in tonnage terms in the year reviewed. This is explained by the running down of

Table IV-4
COMMODITY IMPORTS, BY ECONOMIC DESTINATION, QUARTERLY, 1973-75

(\$ million)

	Total ^a			Consumer durables			Intermediates ^c			Capital goods ^a		
	Unad-justed	Season-ally ad-justed	Quantity index ^b	Unad-justed	Season-ally ad-justed	Quantity index ^b	Unad-justed	Season-ally ad-justed	Quantity index ^b	Unad-justed	Season-ally ad-justed	Quantity index ^b
Annual data												
1973	2,743.8			110.5			1,344.6			457.4		
1974	4,026.0			148.8			2,109.8			557.2		
1975	4,076.7			106.9			2,087.0			608.2		
Quarterly data												
1973 I	584.4	573.0	99.6	26.5	25.4	105.1	292.1	278.6	105.8	101.0	101.6	103.1
II	713.0	673.0	103.6	29.3	15.6	105.5	329.7	322.5	102.0	113.2	108.5	95.4
III	762.4	815.3	112.9	29.9	33.0	98.5	366.1	379.9	105.8	129.4	137.4	107.3
IV	684.0	700.6	83.7	24.8	23.2	90.9	356.7	371.0	86.4	113.8	110.5	94.2
1974 I	913.2	902.5	100.3	35.4	34.5	114.8	435.3	418.5	109.4	134.7	135.8	116.4
II	1,074.3	1,005.2	108.5	43.6	43.9	140.4	543.4	524.2	118.0	149.5	144.9	113.3
III	966.4	1,051.6	108.8	34.2	37.7	114.8	526.8	555.4	125.4	127.5	137.4	107.9
IV	1,072.2	1,078.7	108.2	35.6	34.0	125.8	604.3	620.3	129.2	145.5	137.4	114.3
1975 I	1,055.3	1,063.0	104.1	37.4	37.3	97.6	557.7	545.4	119.1	145.5	150.2	101.0
II	1,047.3	984.3	97.0	24.9	25.2	68.0	544.9	528.5	112.0	163.4	159.6	106.0
III	956.9	1,025.5	107.0	23.3	25.2	70.6	482.0	501.8	111.2	141.5	148.3	111.0
IV	1,017.3	1,018.1	106.7	21.3	19.8	71.5	502.4	513.5	113.8	157.8	149.0	121.9

^a Excludes ships and aircraft.

^b Average 1973=100; see note ^b to Table IV-2.

^c Excludes diamonds and fuel.

stocks in 1974 (see Table IV-7) and by the tendency to maintain larger stocks after the return of the Abu-Rodeis oilfield. Not counting fuel, physical volume was down 5 percent, as contrasted with a 20 percent increase in 1974.

Required imports of inputs in 1975, calculated according to constant input coefficients for the various sectors of the economy, fell short of actual imports this year.² Excluding diamonds, they should have been 17 percent below their actual 1974 level. In 1972 the gap between required and actual imports was smaller; it widened in the next two years and in 1975 narrowed somewhat, although it still surpassed the 1973 figure.

A cardinal factor in the divergence was fluctuations in inventory investment due to speculative motives. In 1972 there were no devaluation expectations, the European foreign exchange markets had calmed down, and the cost of maintaining stocks was high because of

2. Required imports of inputs are calculated according to the input-output table for 1968/69, assuming constant technological coefficients. This is a strong assumption, considering the amount of time that has elapsed since then, and therefore the computations should be regarded with considerable caution. Moreover, inventory is not included in the final uses from which the import requirements were calculated, so that there is a downward bias in total required imports. Consequently, the differentials between actual and required imports were really smaller than shown in Table IV-7.

Table
COMMODITY IMPORTS^a BY

(\$ million,

	1968	1969	1970	1971	1972	1973	
						Old classification	New classification
Private consumption	445.1	505.0	524.8	561.0	623.8	683.6	646.1
Direct imports	143.0	176.8	172.7	201.4	228.5	261.1	223.6
Indirect imports	302.1	328.2	352.1	359.6	395.3	422.5	422.5
Investment, excl. ships and aircraft	291.3	403.6	446.0	489.0	597.3	629.9	557.6
Direct imports	202.7	285.9	312.6	342.5	421.3	445.8	373.5
Indirect imports	88.6	117.7	133.4	146.5	176.0	184.1	184.1
Total private domestic demand	736.4	908.6	970.8	1,050.0	1,221.1	1,313.5	1,203.7
Public consumption	75.0	86.5	91.7	115.9	111.7	133.5	133.5
Total domestic demand	811.4	995.1	1,062.5	1,165.9	1,332.8	1,447.0	1,337.2
Exports, excl. diamonds (incl. administered areas)	170.9	200.0	222.9	258.8	284.1	284.1	284.1
Total imports, excl. diamonds, ships and aircraft	982.3	1,195.1	1,285.4	1,424.7	1,616.9	1,731.1	1,621.3
Exports of diamonds	163.5	169.8	158.4	210.7	273.7	306.7	306.7
Total imports, excl. ships and aircraft	1,145.8	1,364.9	1,443.8	1,635.4	1,890.6	2,037.8	1,328.0
Total actual imports, excl. ships and aircraft and diamonds ^a	1,029.2	1,223.2	1,315.9	1,470.6	1,586.8	1,793.3	1,793.3
	Percent of total imports, excl. diamonds						
Private consumption	45.3	42.3	40.8	39.4	38.6	39.5	39.9
Direct imports	14.6	14.8	13.4	14.1	14.1	15.1	13.8
Indirect imports	30.7	27.5	27.4	25.3	24.5	24.4	26.1
Investment, excl. ships and aircraft	29.7	33.8	34.7	34.3	36.9	36.4	34.4
Direct imports	20.6	23.9	24.3	24.0	26.0	25.8	23.0
Indirect imports	9.1	9.9	10.4	10.3	10.9	10.6	11.4
Total private domestic demand	75.0	76.1	75.5	73.7	75.5	75.9	74.2
Public consumption	7.6	7.2	7.2	8.1	6.9	7.7	8.2
Total domestic demand	82.6	83.3	82.6	81.8	82.4	83.6	82.5
Exports, excl. diamonds	17.4	16.7	17.4	18.2	17.6	16.4	17.5
Total imports, excl. diamonds	100.0	100.0	100.0	100.0	100.0	100.0	100.0

^a This table presents the direct imports for the various final demands and indirect imports as calculated according to input-output coefficients. Hence there is a discrepancy between total imports as listed here and actual total imports. Until 1972 direct imports are according to the old classification, and from 1974 onward according to the new classification.

the alternative rates of return obtainable in Israel's financial and real estate markets. In the following year the economy apparently began to move to a higher level of inventories. At the end of 1972 international commodity prices started to boom, and the perceptible weakening of the dollar on the European markets in the first half of 1973 sharply pulled up Israel's import prices and made it pay to stockpile, especially in view of the strong demand pressures prevailing in the domestic economy. In the first half of 1974 world prices continued to spurt, and to this was added the belief that the government would move to make imports costlier under its new economic policy. The rebounding of the

IV-5

FINAL DEMAND, 1968-75

at 1972 prices)

		Percent annual quantitative increase						
1974	1975	1969	1970	1971	1972	1973	1974	1975
671.6	640.7	13.5	3.9	6.9	11.2	9.6	4.0	-4.6
227.8	190.7	23.6	-2.3	16.6	13.5	14.3	1.9	-16.3
443.8	450.0	8.6	7.3	2.1	9.9	6.9	5.0	1.4
607.0	591.7	38.6	10.5	9.6	22.2	5.5	8.9	-2.5
420.0	408.3	41.1	9.3	9.6	23.0	5.8	12.5	-2.8
187.0	183.4	32.8	13.3	9.8	20.1	4.6	1.6	-1.9
1,278.6	1,232.4	23.4	6.9	8.2	16.3	7.6	6.2	-3.6
155.6	151.9	15.3	6.0	26.4	-3.6	19.5	16.6	-2.4
1,434.2	1,384.3	22.6	6.8	9.7	14.3	8.6	7.3	-3.5
333.8	347.5	17.0	11.5	16.1	9.8	—	17.5	4.1
1,768.0	1,731.8	21.7	7.6	10.8	13.5	7.1	9.1	-2.0
293.2	290.2	3.9	-6.7	33.0	29.9	12.1	-4.4	-1.0
2,061.2	2,022.0	19.1	5.8	13.3	15.6	7.8	6.9	-1.9
2,014.6	1,943.3							
		Percent of incremental imports, excl. diamonds						
38.0	37.0	28.2	21.9	26.0	32.7	52.4	17.4	-85.4
12.9	11.0	15.9	-4.5	20.6	14.1	28.6	2.9	-102.5
25.1	26.0	12.3	26.4	5.4	18.6	23.8	14.5	17.1
34.3	34.2	52.8	47.0	30.9	56.4	28.6	33.7	42.3
23.8	23.6	39.1	29.6	21.5	41.0	21.5	31.7	-32.3
10.6	10.6	13.7	17.4	9.4	15.4	7.1	2.0	-9.9
72.3	71.2	81.0	68.9	56.9	89.0	80.9	51.1	-127.6
8.8	8.8	5.4	5.8	17.4	-2.2	19.1	15.1	-10.2
81.1	80.0	86.4	74.7	74.2	86.8	100.0	66.1	-137.8
18.9	20.0	13.7	25.4	25.8	13.2	—	33.9	37.8
100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	-100.0

^b Obtained by summing the imports for the various final demands at 1972 prices.

economy, jitters about a possible rationing of foreign currency, the opportunity made available by the government to finance raw material imports by way of foreign credit, all these stimulated stockpiling.

In 1975 expectational trends were mixed: the first half witnessed the fading of the likelihood of a big change in the IL rate after the November 1974 devaluation, but the picture changed in the second half with the deterioration in the country's balance of payments position, the difficulties of obtaining American aid, and the stiffening of the aid terms. This expectational change was reflected in both the big differential between

Table IV-6

USES OF DOMESTIC OUTPUT AND THEIR IMPORT COMPONENT, 1971-75

	Exports			Domestic uses			Total uses		
	Incl. diamonds	Excl. diamonds	To administered areas	Total	Private consumption	Public consumption	Investment	Incl. diamonds	Excl. diamonds
Uses of domestic output									
(IL million, at 1968/69 producer prices)									
1971	5,707	4,879	331	13,660	7,567	2,394	3,699	19,698	18,870
1972	6,429	5,350	438	15,266	8,351	2,423	4,492	22,133	21,054
1973	6,594	5,385	458	16,236	8,842	2,672	4,722	23,289	22,080
1974	7,052	5,903	537	17,264	9,299	3,204	4,761	24,853	23,704
1975	7,269	6,130	658	17,099	9,369	3,103	4,627	25,026	23,887
Required imports of current commodity inputs									
(\$ million, at 1972 prices)									
1971	439	228	31	623	360	116	147	1,092	881
1972	518	244	40	683	395	112	176	1,241	967
1973	548	241	43	741	423	134	184	1,331	1,024
1974	575	282	52	787	444	156	187	1,413	1,120
1975	573	283	65	785	450	152	183	1,423	1,133
Percent increase in uses of domestic output									
1972	12.6	9.7	32.1	11.8	10.4	1.2	21.4	12.4	11.6
1973	2.6	0.7	4.6	6.4	5.9	10.3	5.1	5.2	4.9
1974	6.9	9.6	17.1	6.3	5.2	19.9	0.8	6.7	7.4
1975	3.1	3.8	22.6	-1.0	0.8	-3.1	-2.8	0.7	0.8
Percent increase in required imports of current inputs									
1972	18.0	7.0	29.0	9.6	10.0	-3.4	19.7	13.6	9.8
1973	5.8	-1.2	7.5	8.5	7.1	19.6	4.6	7.3	5.9
1974	4.9	17.0	20.9	6.2	5.0	16.4	1.6	6.2	9.4
1975	-0.3	0.4	25.0	-0.2	1.4	-2.6	-2.1	0.7	1.2

the official rate of the dollar and its price on the free market on the one hand, and the high price of the Natad dollar and the dent in foreign currency sales by the private sector in the second half of the year on the other. The diminished attraction of index-linked financial assets (notably bonds), because of the anticipated worsening of their terms (such as the taxation of devaluation gains) and the deceleration of the price advance in the second and third quarters of the year, induced a switch to the commodity markets despite the rise in real interest rates in the third quarter.

The swings in the aforementioned differential reflected, as stated, the expectational pattern over the year. The heightening of devaluation expectations in the final quarter of 1974 gave a fillip to inventory investment; in the first quarter of 1975 there was some destocking (although the level still exceeded that in mid-1974); and there was a further decline in the second quarter. In the next three months the sharpening of expectations led to a heavier inventory investment. In the final quarter, even though there was no

Table IV-7

REQUIRED AND ACTUAL IMPORTS OF COMMODITY INPUTS, 1971-75

(\$ million)

	Required imports								Total imports, excl. diamonds			Total imports, excl. diamonds and fuel		
	Exports			Domestic destinations				Total required imports	Re-quired	Actual ^a	Dif-ference	Re-quired	Actual	Dif-ference
	Incl. dia-monds	Excl. dia-monds	To admin-istered areas	Total	Invest-ment	Private consump-tion	Public consump-tion							
At current prices														
1971	410	220	29	595	142	342	111	1,034	844	975	131	755	886	131
1972	518	244	40	683	176	395	112	1,241	967	1,030	63	867	933	66
1973	692	306	58	968	239	559	170	1,718	1,332	1,556	224	1,182	1,345	163
1974	1,068	640	156	1,621	356	944	321	2,844	2,416	2,707	291	1,746	2,110	364
1975	1,025	587	194	1,675	347	1,013	315	2,894	2,456	2,725	269	1,869	2,087	218
At 1972 prices														
1971	439	228	31	623	147	360	116	1,091	881	1,016	135	782	916	134
1972	518	244	40	683	176	395	112	1,241	967	1,030	63	867	933	66
1973	548	241	43	741	184	423	134	1,331	1,024	1,196	172	917	1,048	131
1974	575	282	52	787	187	444	156	1,413	1,120	1,367	247	993	1,261	268
1975	573	283	65	785	183	450	152	1,423	1,133	1,344	211	1,017	1,194	177
Percent annual quantitative change														
1972	18.0	7.0	29.0	9.6	19.7	10.0	-3.4	13.8	9.8	1.4			1.8	
1973	5.8	-1.2	7.5	8.5	4.6	7.1	19.6	7.3	5.9	16.1			12.3	
1974	4.9	17.0	20.9	6.2	1.6	5.0	16.4	6.2	9.4	14.3			20.4	
1975	-0.3	0.4	25.0	-0.2	-2.1	1.4	-2.6	0.7	1.2	-1.6			-5.4	
Percent of total imports, excl. diamonds (at 1972 prices)														
1971		25.9	3.5	70.7	16.7	40.9	13.2		100					
1972		25.2	4.1	70.6	18.2	40.9	11.6		100					
1973		23.5	4.2	72.4	18.0	41.3	13.1		100					
1974		25.2	4.6	70.3	16.7	39.6	13.9		100					
1975		25.0	5.7	69.3	16.2	39.7	13.4		100					
Percent of incremental imports (at 1972 prices)														
1972		18.6	10.5	69.8	33.7	40.7	-4.7		100					
1973		-5.3	5.3	101.8	14.0	49.1	38.6		100					
1974		42.7	9.4	47.9	3.1	21.9	22.9		100					
1975		7.7	1.0	-15.4	-30.8	46.2	-30.8		100					

^a The data presented here for 1971 and 1972 are according to the new classification; the figures according to the old classification are \$ 889.5 million and \$ 937.0 million respectively.

weakening of expectations, there was some stockshedding because of the unexpected rebounding of several demands: a real increase in private consumption of domestically produced goods and the growth of industrial exports, which apparently led to a greater use of imported intermediates.

The demands depressing imports of nondiamond inputs were investment and public consumption; those stimulating imports were private consumption and exports excluding diamonds and the administered areas. This of course reflected the real contraction of capital expenditures and public consumption of domestically produced goods and the increase in other uses. As regards direct imports for the various uses (Table IV-5), the year surveyed was the first since 1968 to see a real decline in the total volume.³

The sole final use to take a larger import in 1975 was nondiamond exports, whereas those for all other destinations declined in quantity terms. In other words, domestic uses accounted for the downturn in imports, for the first time since 1968. The most striking change was the drop in the weight of direct and indirect imports for private consumption from 45 percent of total nondiamond imports in 1968 to 37 percent in 1975. In investment (excluding ships and aircraft) there was very little change this year. In public consumption the weight of imported inputs fell from their high 1968 level (due to the Six Day war) until 1973 (except for 1971)--years in which there was a relatively calm security situation--but shot up again in the wake of the Yom Kippur War. In nondiamond exports the level held fairly steady in 1968-73 but rose in the last two years, accounting in 1975 for about 20 percent of total imports for the various final uses (excluding diamonds).

Examination of the sources of import growth (Table IV-8) reveals that in 1975 the economy moved to a basket of uses with a lower import content than in the previous year,⁴ due to the declining weights of private consumption, investment, and public consumption. The contraction of total uses explains only some 10 percent of the import drop. The dent in the direct import share of private consumption, which was only slightly offset by the rise in direct imports for investment, was responsible for roughly 80 percent of the total decrease in imports. In domestic output uses there was a shift to a basket with an import

3. The data in Table IV-5 relate to both direct and indirect imports for the various final uses. The indirect imports were calculated with the help of input-output tables, and total imports include inputs for the various uses as computed according to input-output coefficients and not actual inputs. Thus there is a difference between total imports as listed in the table and total actual imports, amounting to the difference between actual and required imports of inputs so calculated. In this table exports exclude diamonds but include the administered areas.

4. The uses referred to in Table IV-8 are private consumption, public consumption excluding direct defense imports (henceforth public consumption), investment other than ships and aircraft (henceforth investment), and exports excluding diamonds but including the administrative areas (henceforth exports).

Table IV-8
GROWTH OF COMMODITY IMPORTS^a BY COMPONENT,^b 1969-75

(\$ million, at 1972 prices)

	1969	1970	1971	1972	1973	1974	1975	1969-75
Increase in imports due to:								
1. Increase in total uses	130.6	90.9	150.4	162.4	137.4	129.7	-3.5	797.9
2. Change in composition of uses	40.5	12.4	-3.3	25.8	-32.2	15.7	-5.5	53.4
Domestic uses	41.9	1.8	-22.7	26.6	-10.9	9.4	-24.2	21.9
Export	-1.4	10.6	19.4	-0.8	-21.3	6.3	18.7	31.5
3. Change in local production-direct import shares of uses	30.0	-6.1	-2.0	16.5	-1.5	-15.7	-28.4	-7.2
Thereof: Domestic uses	30.0	-6.1	-2.0	16.5	-1.5	-15.7	-28.4	-7.2
4. Change in sectoral origin of demand for domestic output	11.3	-6.9	-5.9	-12.7	10.6	17.0	1.2	-14.6
Domestic uses	3.6	-4.1	3.7	-9.3	13.4	-3.7	5.5	9.1
Export	7.7	-2.8	-9.6	-3.4	-2.8	20.7	-4.3	5.5
Total calculated increase in imports ^c	212.4	90.3	139.2	192.0	114.3	146.7	-36.2	858.7
Domestic uses	183.4	67.3	103.3	166.7	122.1	97.0	-49.9	682.1
Export	29.0	23.0	35.9	25.3	—	49.7	13.7	176.6
Actual increase in imports	194.0	92.7	154.7	116.2	206.6	221.3	-71.3	934.8

^a Excludes diamonds and ships and aircraft.

^b The data here include direct imports for the various uses and indirect imports as calculated with the help of input-output tables. Hence there is a discrepancy between total imports as listed here and actual imports, amounting to the difference between total actual imported inputs and total required inputs computed according to input-output coefficients.

The uses referred to in this table are private consumption (excluding direct defense imports), investment (excluding ships and aircraft), and exports (excluding diamonds and including the administered areas).

The sources of the increase in imports are as follows: (1) The change in total uses as defined here; (2) the change in the weights of these uses in total uses due to the difference between the rate of increase in total uses and the rate of change in the total commodity import increase; (3) the change in the direct import-domestic output shares of each use; (4) the change in the sectoral origin of demand for domestic output. Until 1973 the increase in imports was calculated according to the old classification, and from 1973 onward according to the new classification.

^c See note ^b.

component only a shade higher than in 1974.

The year reviewed was the first since 1968 in which the total effect of these factors was to depress imports and the change in total uses accounted for only a small fraction of the downturn in imports. In 1972 the economy had moved to a basket of uses with a higher import content, and over 80 percent of the incremental import stemmed from the expansion of total uses. The rising weight of investment in total uses and that of direct imports in both private consumption and investment also contributed to the import growth, which was only partly offset by a slightly greater preference in all uses for domestic inputs.

In 1973 there was a drop in the import content of the uses, and the larger import was due to the increase in total uses. The altered composition of uses--a decline in the investment and export proportions--caused imports to sag, and this was only partly balanced by a shift to a more import-intensive branch composition of private consumption and public consumption from domestic output. In 1974 the weight of investment continued to drift down and there was a drop in private consumption too; public consumption and

exports, on the other hand, moved up. The share of direct imports fell off in private consumption and rose in investment. The net result was a decline in the weight of direct imports in total uses and a more import-intensive branch composition of uses from domestic output, with exports playing the dominant role.

Table IV-9
INDEX OF COMODITY IMPORT PRICES, 1969-75

	Total imports			Consumer goods		Inputs excl. diamonds and fuel	Fuel	Capital goods
	Incl. diamonds	Excl. diamonds	Excl. diamonds and fuel	Total	Food			
Annual averages				1968=100				
1969	105.5	104.4	104.6	102.8	103.1	104.7	102.1	105.1
1970	105.6	107.2	107.6	106.1	107.9	106.6	100.5	108.1
1971	109.2	111.9	111.3	117.5	132.0	109.1	112.8	108.4
1972	115.8	118.0	117.1	128.5	155.9	112.8	135.2	117.1
1973	148.4	151.9	148.7	161.2	216.9	144.8	191.5	144.1
				1972=100^a				
1973	127.9	128.2	127.1	128.1	138.6	128.4	141.6	122.5
1974	175.2	180.0	157.0	154.8	195.8	167.3	536.3	132.7
1975	183.0	188.4	167.7	173.5	219.8	174.8	514.1	149.0
Quarterly data				1972=100				
1974 I	168.2	172.1	145.4	142.3	167.4	155.5	583.9	124.9
II	173.5	178.5	157.5	150.2	194.6	169.0	575.2	132.9
III	180.0	184.9	158.2	155.3	194.2	168.6	494.6	132.9
IV	181.5	186.5	165.5	173.0	230.5	173.9	485.7	140.0
1975 I	187.5	194.0	176.9	200.6	280.2	182.9	481.0	155.0
II	189.3	195.5	173.3	190.0	254.5	178.5	537.5	155.3
III	180.6	185.1	163.9	155.3	178.1	174.0	520.2	143.5
IV	175.2	179.5	157.3	155.8	173.1	164.0	522.7	142.3

^a In 1973 the Central Bureau of Statistics chained the base of the price indexes to 1972=100. Calculation of the indexes for 1973 on the basis of 1968=100 would of course yield different results from a calculation based on 1972=100.

SOURCE: Central Bureau of Statistics.

After a strong two-year surge (76 percent between 1972 and 1974), import prices went up by a fairly mild 5 percent in 1975. The factors which had previously pushed the level up at an inordinate rate lost momentum in the year reviewed, and at times even reversed direction. In 1973 most of the upward thrust had been engendered by the world primary commodity price boom and the depreciation of the dollar against the principal European currencies. In 1974 the predominant factor was the fuel price explosion. On the other hand, many primary commodity prices began to soften in midyear and the dollar was less volatile than in 1973. In 1975 the index of Israel's import prices mirrored the sagging of

world primary commodity prices since the middle of 1974.⁵ The appreciable strengthening of the dollar, mainly since the third quarter of the year (about 8 percent between June and December 1975), also pulled down Israel's import prices (the IL was pegged to the dollar in 1975). As a result, Israel's import prices moved up at a modest pace on an annual average and even turned down in the course of the year (see Table IV-9).

A comparison of Israel's nonfuel import prices (which are in dollars) with the export prices of the industrial countries (which in Table IV-10 are in local currency terms) shows that in 1970-75 the former outstripped the rise in the latter--80 vs. 70 percent. This was partly due to the fall of the dollar against the leading European currencies (12 percent in 1970-75). If the weakening of the dollar is discounted, Israel's import prices rose 60 percent during this period. The improvement in Israel's relative position has been going on since early 1974, when the country's import prices, adjusted for the change in the dollar rate, began to trail behind the price advance in the industrial nations; from the beginning of 1974 to the end of 1975 Israel's import prices so adjusted went up 7

Table IV-10

IMPORT PRICE INDEX OF ISRAEL AND SIX INDUSTRIAL COUNTRIES, 1970-75

	Israeli import prices, excl. fuel (in dollars)		IL rate against basket of selected currencies ^a		Israeli import prices, excl. fuel, adjusted for change in IL rate		Export price index of industrial countries (in local currency)		Israeli import prices (adjusted)/ export prices of industrial countries	
	Index	Percent change	Index	Percent change	Index	Percent change	Index	Percent change	Index	Percent change
Annual data										
1970	100.0		100.0		100.0		100.0		100.0	
1971	102.7	2.7	102.8	2.8	99.9	-0.1	103.1	3.1	96.9	-3.1
1972	108.6	5.7	104.4	1.6	104.0	4.1	106.2	3.0	97.9	1.0
1973	137.8	26.9	111.3	6.6	123.8	19.0	119.0	12.1	104.0	6.2
1974	168.8	22.5	109.6	-1.5	154.0	24.4	151.2	27.1	101.9	-2.0
1975	179.3	6.2	112.1	2.3	159.9	3.8	170.0	12.4	94.1	-7.7
Quarterly data										
1974 I	157.5		106.5		147.9		139.2		106.3	
II	170.2	8.1	111.5	4.7	152.6	3.2	148.9	7.0	102.5	-3.6
III	169.9	-0.2	109.4	-1.9	155.3	1.8	157.1	5.5	98.9	-3.5
IV	176.5	3.9	110.8	1.3	159.3	2.6	163.3	3.9	97.6	-1.3
1975 I	187.3	6.1	116.2	4.9	161.2	1.2	167.4	2.5	96.3	-1.3
II	184.7	-1.4	115.8	-0.3	159.5	-1.1	168.4	0.6	94.7	-1.7
III	176.3	-4.5	109.3	-5.6	161.3	1.1	170.4	1.2	94.7	—
IV	169.5	-3.9	107.3	-1.8	158.0	-2.0	173.8	2.0	90.9	-4.0

^a Weighted by the composition of Israel's imports in 1972.

SOURCE: Central Bureau of Statistics, *Monthly Foreign Trade Statistics*, April 1976, and Bank of Israel calculations.

5. The import price index is calculated according to the prices on the dates the goods are released from customs and not the purchase dates. Since quite some time usually elapses between the two dates, a change in international prices shows up in the index after a considerable lag.

percent, compared with 25 percent in the industrial countries.⁶ Conceivably this partly reflected the lagged effect of the softening of world prices on Israel's import price index (see note 5 above), and it may also be that Israel's import basket during this period was cheaper than the industrial countries' export basket.

3. COMMODITY EXPORTS

Israel's industrial export progress is predominantly determined by two factors: foreign demand and the economy's competitive standing. The picture for 1975 is not clearcut, there being a change of trend during the year and differences between the various industrial branches.

The ebbing of overseas demand greatly retarded Israel's exports this year. The developed industrial countries slid into their deepest recession in the entire post-World War II period. After a much slower expansion of Israel's export markets in 1974, there was a complete standstill in 1975; this compares with a 10 percent average annual growth in the five preceding years. The slump in world demand bottomed out in the first half of 1975; in the second half the trend began to pick up, and this was apparently one of the reasons Israel's foreign sales accelerated during this period.

The drastic change in the economic climate undoubtedly played a central role in the flattening of industrial exports in 1975. But this was only one of a whole string of factors, and it seems that it exerted a differential effect, as evidenced by the sharp interbranch divergences in trend.

Israel's competitive position apparently did not undergo any significant change in the year reviewed, even though an improvement in export profitability was one of the foremost economic policy targets. Various indicators show a slight average upturn in 1975 compared with the previous year (see Table IV-19), but the figure still fell short of its 1973 level; what is more, there were sharp fluctuations during this period, and in the second half of 1975 the level even sank noticeably. The main indicators presented here are the ratio between export prices to the exporter and production costs, and the ratio between export prices to the exporter and domestic output prices.⁷ These two measures highlight a salient fact: in recent years export profitability has not changed much, in glaring contrast to the rising trend in 1967-69 (and to some extent even afterward), which was the

6. The strengthening of the dollar since the second half of 1975 has further bolstered Israel's relative position.

7. The latter measure apparently overstates profitability, for domestic output prices represent the market and not producer prices, and in the last few years the former rose faster because of the hiking of indirect taxes.

key factor behind the vigorous strides made by exports during that period. Another prominent feature is that the failure to make any real progress was accompanied by a marked aggravation of price inflation and the describing of a more jagged path by the profitability curve over the year. This greatly heightened the element of uncertainty and reduced the effective contribution of a given average improvement in profitability to the export drive.⁸ Obviously a 5 percent rise in the price received by the exporter relative to that paid for inputs has an entirely different weight in a period of general price stability than in one of high inflation, when it may completely vanish within a few weeks. This is a very telling factor, particularly when the export policy goals entail a restructuring of the economy, which is inherently a protracted process.

Israel's ability to effectively compete abroad can be examined from several other angles. A comparison of industrial unit wage costs between Israel and the developed

Table IV-11

EXPORTS BY MAIN GROUPS: QUANTITY INDEXES AND QUARTERLY RATES OF CHANGE, 1971-75

(seasonally adjusted data)

	Net exports, excl. ships and aircraft		Citrus		Other agricul- tural exports		Industrial ex- ports, excl. diamonds		Industrial ex- ports, excl. dia- monds, minerals, and fuel		Diamonds (gross)	
	Quan- tity index	Percent change	Quan- tity index	Percent change	Quan- tity index	Percent change	Quan- tity index	Percent change	Quan- tity index	Percent change	Quan- tity index	Percent change
1971 (average)	100.0	—	100.0	—	100.0	—	100.0	—	100.0	—	100.0	—
1972 I	110.8	10.8	97.0	-3.0	128.0	28.0	101.9	1.9	102.1	2.1	117.0	17.0
II	106.8	-3.6	87.3	-10.0	101.0	-21.1	111.0	8.9	111.4	9.1	110.8	-5.3
III	111.8	4.7	98.2	12.5	99.3	-1.7	102.2	-7.9	101.7	-8.7	137.6	24.2
IV	117.6	5.2	97.5	-0.7	127.7	28.6	106.1	3.8	111.4	9.5	139.0	1.0
1973 I	117.3	-0.3	89.2	-8.5	118.6	-7.1	104.5	-1.5	107.0	-3.9	142.9	2.8
II	118.4	0.9	71.1	-20.3	127.0	7.1	104.2	-0.3	108.0	0.9	151.9	6.3
III	131.5	11.1	90.2	26.9	133.2	4.9	116.8	12.1	116.2	7.6	166.3	9.5
IV	91.1	-30.7	86.9	-3.7	97.9	-26.5	90.0	-22.9	94.7	-18.5	104.6	-37.1
1974 I	117.8	29.3	86.6	0.3	91.5	-6.5	114.5	27.2	116.8	23.3	139.5	33.4
II	121.2	2.9	113.5	31.0	143.8	57.1	113.7	-0.7	114.6	-1.9	136.0	-2.5
III	124.2	2.5	90.5	-20.3	106.6	-25.9	124.9	9.8	123.0	7.3	129.6	-4.7
IV	123.6	-0.5	95.8	5.9	123.1	15.5	113.0	-9.5	114.0	-7.3	146.7	13.2
1975 I	118.8	-3.9	105.9	10.5	143.0	16.2	112.3	-0.6	118.0	3.5	136.3	-7.1
II	120.0	1.0	144.9	36.9	133.9	-6.4	107.8	-4.0	114.3	-3.1	141.1	3.5
III	123.6	3.0	37.5	-74.1	158.3	18.2	111.3	3.2	119.4	4.5	140.5	-0.4
IV	132.8	7.5	107.9	187.6	191.8	21.2	128.6	15.5	140.8	17.9	143.2	1.9

8. Examination of the profitability performance from another angle, namely the effect of the changes in the component elements on the return to capital in export production reveals a similar picture: a steep rise until 1970 and subsequently relatively minor changes, but with a marked sharpening of the price inflation and of period-to-period fluctuations.

Table IV-12
COMMODITY EXPORTS, 1971-75
(\$ million, at current f.o.b. prices)

	1971	1972	1973	1974	1975
Agricultural exports					
Citrus	113.8	109.0	108.7	120.8	176.8
Other	41.0	51.9	63.0	71.3	101.1
Total agricultural exports	154.8	160.9	171.7	192.1	277.9
Industrial exports					
Mining and quarrying	41.9	42.3	48.1	90.1	84.4
Food, beverages, tobacco	78.9	95.0	105.5	128.8	125.7
Textiles, clothing, leather	123.9	129.6	154.8	167.3	161.9
Rubber and plastic products	27.4	30.5	29.2	36.3	44.7
Chemicals	53.9	61.8	79.7	218.4	185.9
Metal, machinery, transport equipment	80.3	82.9	109.4	154.8	199.2
Electrical and electronic equipment	25.3	29.6	27.9	59.8	97.8
Diamonds (net)	268.0	389.0	562.8	562.6	548.9
Other	42.2	51.9	63.7	72.0	70.7
Total industrial exports	741.8	912.6	1,181.1	1,490.1	1,519.2
Total agricultural and industrial exports	896.6	1,073.5	1,352.8	1,682.2	1,797.1
Other exports					
Bunkers and stores supplied to foreign ships and aircraft	10.8	10.6	9.3	28.8	18.2
Sale of old ships and aircraft	5.3	13.1	8.8	14.0	6.2
Miscellaneous	6.1	10.4	23.4	21.0	27.3
Total other exports	22.2	34.1	41.5	63.8	51.7
Total exports (foreign trade definition)	918.8	1,107.6	1,394.3	1,746.0	1,848.4
Exports returned (excl. diamonds)	-4.1	-5.7	-6.1	-9.4	-13.8
Adjustments	-14.2	-19.3	-23.0	-33.9	
Total exports, excl. administered areas (balance of payments definition)	900.5	1,082.6	1,365.2	1,702.7	
Exports to administered areas	93.8	129.6	191.2	297.1	
Total net commodity exports, f.o.b., incl. administered areas (balance of payments definition)	994.3	1,212.2	1,556.4	1,999.8	

SOURCE: Central Bureau of Statistics.

countries shows a marked decrease in Israel's favor until 1972 (see Table IV-21). This trend was checked, and even reversed direction, in 1973-74, but again turned downward in 1975. At first blush this would seem to attest to a bolstering of Israel's competitive standing, and to some extent it was contrary to the actual development of exports.⁹ But this must be viewed in its proper perspective, and the picture here is not so sharp.

In reality profitability is affected by changes in total production costs, which include, besides labor, domestically purchased inputs, some of them nontradables. The prices of these components do not necessarily move in step with those of the others,

9. The lagged effect of developments in this area and the adverse change at the end of 1975 must be borne in mind.

particularly in a period of drastic changes in the balance of payments and in relative prices. In contrast to Israel, the balance of payments strain in the developed industrial countries in the last few years was accompanied by a striking alteration of relative prices (see Table IV-23). In 1972-74 export prices in these countries rose 16 percent relative to the product, whereas in Israel they went up only 3 percent.¹⁰

The implications of these developments regarding the competitiveness of the various countries are quite plain. The prices of nontradable inputs and domestic inputs as a whole in relation to exports rose less steeply in the industrial nations than in Israel. In other words, total production costs relative to exports rose faster in Israel and more slowly in the industrial countries than what a comparison of per unit labor costs alone indicates. One other point that should be noted is that the unit labor cost indicator does not allow for the effect on competitiveness of trend differences in the prices to the exporter. An equal rise in this measure in two countries does not imply a constant relative competitiveness if one of them experienced a stronger export price advance. Thus a comparison of relative price trends in the industrial countries and in Israel may also blur the picture of Israel's competitive standing as revealed by the per unit labor cost figures.

The discussion so far has not dealt with another development which played a formidable role in Israel's industrial export trends in the last four years, namely the big disparity between the two broad component groups. One consists of the products of the electronics, machinery, and metal industries, which in general may be regarded as more advanced technologically speaking, while the second group consists of the less technologically advanced industries: food, textiles, clothing, leather, wood, and rubber and plastics. What characterizes the first group is its impressive export performance (with of course some interindustry and intertemporal differences). In the last four years its overseas sales swelled 86 percent in real terms, and even in 1975, when world commerce shrank, it racked up a 13 percent gain. By contrast, the second group has been slipping perceptively since 1972 (a cumulative decrease of 10 percent over this period), after it had made only sluggish headway previously (see Tables IV-15 and IV-16).

These changes, of course, altered the weights of the two groups in industrial output,

10. This comparison does not accurately reflect the relevant developments, for export prices also include the effect of the import component. A more precise comparison would be between output prices for export and those for domestic uses. A hypothetical calculation of the relative changes in output prices between these two destinations, based on general assumptions regarding the import components and the export share of the product, is presented for illustrative purposes in the appendix to this chapter (in Hebrew only). It shows that the divergence between the movement of relative prices in Israeli and in the industrial countries was probably even more pronounced.

Table IV-13

COMMODITY EXPORTS BY BRANCH AND MAJOR GROUP, 1971-75

(\$ million, at current prices)

	1975 (\$ m.)	Quantity index: 1971=100				Percent annual change in quantity				Percent annual change in price			
		1972	1973	1974	1975	1972	1973	1974	1975	1972	1973	1974	1975
Agricultural exports	277.9	101.6	97.5	100.7	124.2	1.6	-4.0	3.2	23.3	2.3	11.2	8.8	17.3
Citrus	170.8	95.6	90.2	93.6	108.9	-4.4	-5.6	3.7	16.4	0.2	5.6	7.2	25.7
Other	101.1	118.7	115.1	116.2	155.7	18.7	-3.0	0.9	34.0	6.6	25.2	12.2	5.8
Mining and quarrying	84.4	97.3	85.6	100.3	85.1	-2.7	-12.0	17.1	-15.1	3.8	29.2	60.0	10.3
Food, beverages, tobacco	125.7	115.0	115.1	113.3	103.5	15.0	0.1	-1.6	-8.6	4.7	10.9	24.1	6.8
Textiles	52.3	90.0	88.7	80.4	74.5	-10.0	-1.4	-9.4	-7.3	2.6	35.7	13.5	-10.0
Clothing	104.1	105.1	96.8	98.2	99.2	5.8	-8.5	1.4	2.0	5.1	22.3	10.9	4.6
Leather	5.5	127.2	117.9	108.2	127.9	27.2	-7.3	-8.2	18.2	4.8	18.0	8.9	-5.7
Wood	12.8	119.6	116.7	88.1	82.8	19.9	-2.4	-24.5	-6.1	-1.0	40.2	26.5	-8.5
Paper	2.8	107.4	90.8	73.3	61.2	7.4	-15.5	-19.2	-16.5	4.3	22.5	62.1	-14.9
Printing and publishing	18.6	100.6	94.0	78.3	88.1	0.6	-6.6	-16.7	12.6	10.9	22.5	62.1	-14.9
Rubber and plastic products	44.7	102.5	93.6	85.5	93.3	2.5	-8.7	-8.6	9.1	8.6	5.4	36.4	13.0
Chemicals	185.9	110.4	123.8	213.5	174.0	10.4	12.1	72.5	-18.5	3.9	15.0	58.9	4.4
Nonmetallic mineral products	6.5	55.8	57.3	114.0	122.0	-44.2	2.8	98.7	7.0	6.5	19.4	8.1	4.7
Basic metals	25.5	95.0	124.5	144.8	145.4	-5.0	31.1	16.3	0.4	4.0	30.6	45.6	9.5
Metal products	103.2	105.0	82.6	101.1	148.3	5.0	-21.3	22.4	46.6	3.5	20.0	15.1	8.8
Machinery	30.8	132.2	170.8	210.4	229.6	32.2	29.2	23.2	9.1	7.2	24.3	6.4	6.1
Transport equipment	39.7	96.8	124.1	155.4	130.7	-30.2	77.8	25.2	-15.9	4.4	23.8	9.1	17.1
Electrical and electronic equipment	97.8	106.7	82.2	165.4	257.7	6.7	-23.0	101.3	55.8	9.6	22.5	6.5	5.0
Diamonds													
Gross	611.1	125.9	141.5	137.0	137.7	25.9	12.4	-3.2	0.5	17.6	28.8	6.3	-1.6
Net	548.9	130.1	146.1	137.3	136.2	30.1	12.3	-6.0	-0.8	17.6	28.8	6.3	-1.6
Misc. industrial exports	30.0	138.3	139.1	122.9	118.3	38.3	0.6	-11.7	-3.7	9.9	21.4	13.3	10.1
Total industrial exports													
Gross	1,611.4	113.3	118.2	124.8	124.9	13.3	4.3	5.6	0.1	7.9	24.8	19.7	2.6
Excl. diamonds	1,970.3	105.3	103.1	116.9	115.5	-5.3	-2.1	13.4	-1.2	-4.9	20.6	32.2	5.9
Excl. diamonds and minerals	885.9	106.1	104.8	118.6	118.8	6.1	-1.2	13.1	0.2	5.0	19.9	29.9	5.5
Total industrial and agricultural exports	1,889.3	111.8	115.5	121.6	124.8	11.8	3.3	5.3	2.6	6.7	22.7	18.4	5.6
Other exports	51.8	109.9	102.9	132.1	36.3	9.9	-6.4	28.4	-27.1	18.0	30.0	19.7	11.4
Total exports (foreign trade definition)	1,941.1	111.7	115.1	122.0	123.8	11.7	3.0	6.0	1.5	7.0	22.9	18.4	4.7

Table IV-14
GROWTH OF INDUSTRIAL EXPORTS^a BY MAJOR GROUP, 1972-76

(index: 1971=100)

	At current prices			At constant prices			
	Total	Defense	Other	Total	Defense	Civilian technologically advanced ^b	Other
Annual data							
1972	112.4	117.1	111.6	109.6	109.6	88.9	109.6
1973 ^c	131.0	110.1	134.6	110.2	87.5	105.7	113.7
1974	187.8	160.2	192.4	119.6	110.1	178.3	121.0
1975	208.6	276.6	197.1	126.3	176.0	179.3	118.7
Quarterly data							
1973 I	107.3	105.4	107.7	98.6	98.3	71.3	98.6
II	125.5	98.2	141.9	114.2	76.0	118.0	120.1
III	150.1	126.9	154.1	117.8	88.1	127.8	122.4
1974 I	153.2	139.9	155.6	97.6	96.1	126.0	97.8
II	186.4	140.5	194.2	118.7	96.6	170.2	122.2
III	198.8	158.7	205.7	126.6	109.1	237.2	129.4
IV	212.3	201.7	214.3	135.3	138.6	180.0	134.8
1975 I	189.5	231.0	182.5	109.4	140.8	163.4	104.5
II	203.4	269.4	192.6	119.1	163.6	144.4	112.2
III	195.2	247.9	186.4	120.8	162.7	145.0	114.3
IV	246.0	358.5	227.1	155.9	236.9	264.2	141.3
1976 I	211.6	368.3	185.2				

^a Excludes diamonds, minerals, and refined petroleum products.

^b Metal, machinery, transport equipment, electrical and electronic equipment.

^c The first three quarters, at annual rates.

and even more in industrial exports. Whereas the weight of the second group in industrial output moved down between 1971 and 1975 from 55 to 51 percent, that of the first group rose from 38 to 41 percent and its share in incremental output came to 56 percent, as against 34 percent for the second group. The first group accounted for 112 percent of the industrial export increment, compared with -20 percent for the second group. During this period exports took 34 percent of the incremental output of the first group.¹¹ Since it too is far from homogeneous, it follows that a large percentage of its overseas sales was made by establishments that are highly oriented toward the foreign market.

Another interesting fact brought out by the data is that demand grew faster in the first group, and that the retreating of exports in the second group in the last two years was accompanied by the flagging of domestic sales. Production in these industries was cut back 5 percent in the last two years, so that they had plenty of unused capacity; but they were unable to exploit this to step up exports. In this connection it should be pointed

11. 60 percent of the incremental output in 1974-75.

Table IV-15

INDUSTRIAL OUTPUT AND EXPORTS BY INDUSTRY TYPE,^a 1971-75.

	1971		1972	1973 ^b	1974	1975
	1968=100	1971=100				
Total industry						
Total output	145.9	100	108.2	119.1	119.8	122.6
Output for domestic market	141.8	100	108.4	121.7	120.2	122.4
Exports	173.3	100	107.3	106.1	118.2	123.4
Exports as a percent of output	12.8 ^c	16.1	16.0	15.3	16.0	16.3
"Traditional" industries ^d						
Total output		100	107.1	119.5	117.3	114.2
Output for domestic market		100	108.3	124.6	122.6	119.3
Exports		100	102.2	98.3	94.7	92.5
Exports as a percent of output		19.2	18.3	15.7	15.5	15.5
Technologically advanced industries ^e						
Total output		100	108.9	119.5	124.8	133.8
Output for domestic market		100	108.1	119.7	118.6	125.8
Exports		100	114.3	118.1	165.0	185.9
Exports as a percent of output		13.4	14.1	13.3	17.7	18.6
Total industry — percent annual increase						
Total output	13.5 ^f		8.2	10.1	0.6	2.3
Output for domestic market	10.8		7.0	10.3	-1.1	1.6
Exports	2.7		1.2	-0.2	1.7	0.7

^a Excludes diamonds, minerals, and refined petroleum products. The data are based on 1968 producer prices; exports have been valued at domestic market prices (i.e. the price differences between the two markets as estimated from the input-output table).

^b The first three quarters of the year, at annual rates.

^c In 1969.

^d Food, leather, textiles and clothing, wood and wood products, paper and paper products, rubber and plastics.

^e Basic metals, chemicals, transport equipment, electronic equipment, machinery, and metal products.

^f Average for 1968-71.

out that the revival of world demand has been felt mostly in consumer goods, and hence is more relevant to the second group, where a large proportion of the output is destined for consumption.

The existing data do not permit a reliable analysis of the background to these developments, but they apparently reflect a long-term structural change in world commerce and in Israel's relative advantages. A comparison of per unit labor costs (Table IV-21) seems to indicate a notable improvement in Israel's competitive ability, at least until 1972, but the comparison is with developed industrial nations. The picture they reveal is chiefly relevant to those industries that made technical strides during this period; they are less relevant to those "traditional" industries that lagged behind in this respect, for this period witnessed the steady loss of the relative advantages enjoyed by the industrial states to those on a lower rung of industrial development: Korea, Formosa, Hong Kong, Brazil, Mexico, etc. One manifestation of this trend has been the growing tendency

of large manufacturing concerns in the developed world to set up subsidiaries in these countries and to transfer to them the simpler stages of production. A measurement of the international competitiveness of Israel's traditional industries should therefore be made not with the developed industrial countries, but with those lower down on the development ladder. A preliminary examination shows that here there may have been a noticeable turn for the worse.

Table IV-16
TOTAL AND INCREMENTAL INDUSTRIAL OUTPUT AND EXPORTS,
BY INDUSTRY TYPE, 1971 AND 1975

(percentages, at constant prices)

	1971	1975
"Traditional" industries		
Output	54.9	51.1
Exports	65.1	48.7
Incremental output, 1971-75		34.4
Incremental exports, 1971-75		-20.3
Technologically advanced industries		
Output	37.8	41.2
Exports	31.4	47.1
Incremental output, 1971-75		56.5
Incremental exports, 1971-75		112.3
Other industries		
Output	7.3	7.7
Exports	3.5	4.2
Incremental output, 1971-75		9.1
Incremental exports, 1971-75		8.0

These changes in the composition of Israel's industrial exports and in its ability to compete have an important bearing on the restructuring of the economy which is necessary for mending the balance of payments. Because of the marked changes in the relative competitiveness of the various branches, in diverting resources to exports the emphasis should be not so much on directly altering the economic destinations of the output of the existing industries as on the more painstaking restructuring of the economy: the alteration of the branch composition of investments and the shifting of workers from some branches to others. The slackening of demand for the products of those industries whose international competitive standing has weakened and the resulting hidden unemployment are not calculated to induce them to shift to exports.¹² Thus there can arise a situation of underemployment in some industries side by side with a shortage of labor in others.

12. If a large hidden unemployment is what induces them to eye the foreign market, this is an export based on short-term considerations and is not profitable to the national economy.

The nature of the requisite structural change--the transformation of the industry makeup of the economy and the new investment involved, the time required for doing this, and the need for greater labor mobility--makes it imperative that the relative price structure be such as to properly guide entrepreneurs in their decision-making and be credible enough for taking decisions that will bear fruit only after several years.

(a) Exports by Branches

Commodity exports edged up 2 percent in real terms in 1975, compared with a 4.5 percent

Table
EFFECTIVE EXCHANGE RATE FOR

Date change announced ^b	Date change went into force	Official rate (ago- rot per dollar)	Incentive (agorot per dollar) by value-added group (%)						
			0-25	26-35	36-45	46-55	56-65	66+	
	1.4.66	300	1.0		4.5		7.5		10.5
	1.11.66	300	1.8		10.5		18.0		25.5
	1.3.67	300	—		18		25.5		34.5 (45 ^c)
19.11.67	19.11.67	350	—		10		20		35
17.2.70	19.2.70 ^d	350	—		20		35		55
16.8.70	17.8.70	350	—		80		90		105
19.5.71	1.1.71	350	—	83		90	95	100	112
22.8.71	22.8.71	420	—	85		86	87	88	89
22.8.72 ^e	1.1.72	420	—	95		96	97	98	99
10.4.73	1.1.73	420	—	102		105	108	111	114
5.8.73	1.8.73	420	—	105		109	113	117	121
19.2.74	5.11.73	420	—	126		130	134	138	142
2.7.74	3.7.74	420	—	168		172	176	180	184
10.11.74	10.11.74	600	—	108		114	120	126	130
19.1.75	1.1.75	600	—	123		134	145	156	164
21.5.75	1.4.75	600	—	127		140	152	165	174
28.5.75	1.5.75	600	—	129		143	155	169	178
28.5.75	1.6.75	600	—	131		145	158	173	182
22.6.75	19.6.75 ^f	612	—	132		148	160	176	185
5.8.75	5.8.75	624	—	132		148	160	176	185
9.9.75	9.9.75	636	—	132		148	160	176	185
28.9.75	28.9.75	700	—	132		148	160	176	185
24.11.75	24.11.75	710	—	132		148	160	176	185

^a For diamonds and certain other items under the control of the Ministry of Commerce and Industry's Diamond Department a different schedule of indirect tax rebates was in force (see also note ^e).

^b This column lists the dates on which the changes were officially announced. In some cases the change was announced with effect retroactive, but exporters were generally aware of the impending change close to the date it went into force.

^c In March 1967 a special incentive was granted to growth industries; this was abolished after the November 1974 devaluation.

^d In April 1970 the Ministry of Commerce and Industry added to the list of items eligible for incentives a group of textile products, which received the following rates:

Date	Incentive (agorot per dollar)
7.4.70	10
17.8.70	70
19.5.71	72
22.8.71	85

average annual advance in the two preceding years. This slight gain was achieved thanks to the vigorous expansion of farm sales, which more than outweighed the stagnation in manufactures. The contribution of agriculture to the nominal expansion of total exports was even greater, for the prices it commanded abroad rose much faster than those of manufactures.

Agriculture: After growth had tailed off a bit in the two preceding years, farm exports made big strides in 1975, with both citrus and other products sharing in the

IV-17

INDUSTRIAL EXPORTS,^a 1966-75

Effective exchange rate (agorot per dollar) by value-added group (%)						Import defense levy	Effective rate for imports- for- exports	
0-25	26-35	36-45	46-55	56-65	66+	Percent	Agorot per dollar	
301	304.5			307.5	310.5			
301.8	310.5			318.0	325.5			
	318.0			325.5	334.5(345)			
350	360			370	385			
350	370			385	405			
350	430			440	455	20	70	420
350	433	440	445	450	462			
420	505	506	507	508	509	20	84	504
420	515	516	517	518	519			
420	522	525	528	531	534			
420	525	529	533	537	541			
420	546	550	554	558	562	25	105	525
420	588	592	596	600	604	35	147	567
600	708	714	720	726	730	15	90	690
600	723	734	745	756	764			
600	727	740	752	765	774			
600	729	743	755	769	778			
600	731	745	758	773	782			
612	744	760	772	788	797	15	91.8	703.8
624	756	772	784	800	809	15	93.6	717.6
636	768	784	796	812	821	15	95.4	731.4
700	832	848	860	876	885	15	105	805.0
710	842	858	870	886	895	15	106.5	816.5

Subsequently these products were granted the incentives for the 26-35 percent value-added group.

^e In August 1972 a 10 agorot increase in incentives was announced, to replace the government's participation in the financing of export promotion. For the majority of products this simply represented the awarding of a higher incentive. The arrangement did not apply to a group of items which the Ministry of Commerce and Industry deemed ineligible for this type of support (diamonds, minerals, refined petroleum products, soybean oil and oilcake, arms and ammunition, scrap, cement, and exports via the Jordan bridges). After the changes introduced subsequently these goods received 10 agorot less than the amounts listed in the table. This group has become slimmer over the years, as some of the items have become eligible for the extra incentive.

^f The IL was officially devalued on June 18, 1975.

advance. In the case of citrus this is explained by the buoyant foreign demand for Israeli fruit, after the crops of such rivals as Spain and Cyprus were damaged by adverse natural conditions and Morocco turned to the Eastern European markets. This made it possible to step up overseas sales of fresh fruit at the expense of supplies to the canneries.

The formidable expansion of other farm exports can be ascribed, on the supply side, to the full utilization of productive capacity after the previous underutilization due to the Yom Kippur War. All the increment went abroad, where higher prices were fetched this year. That this gain was achieved despite the recession in Israel's principal markets for such products can apparently be credited to the fact that the population groups buying these commodities are less vulnerable to short-run changes in income. In addition, the foreign markets for these items are expanding steadily. Some of the products are newcomers to the list, and Israel is also gaining a foothold in new areas with items that have long been sold abroad. Noncitrus products are largely dispatched by air at tariffs far above the going international level--a factor constraining a stronger expansion of overseas sales.

Diamonds: The faltering of world demand for diamonds, evident since the beginning of 1974, was accompanied in 1975 by swings in both directions in the prices of polished stones, but the average level remained relatively low compared with other world prices (at the end of 1975 diamond prices stood at their level in the third quarter of 1973). Despite

Table IV-18
EFFECTIVE EXCHANGE RATES FOR EXPORTS AND IMPORTS, 1973-75

(IL per dollar)

	Official IL rate	Export incentive for highest value-added group (IL)	Effective exchange rates	
			Exports	Imports
Annual data				
1973	4.20	1.15	5.35	5.07
1974	4.50	1.51	6.01	5.64
1975	6.33	1.74	8.07	7.28
Quarterly data				
1973 I	4.20	0.99	5.19	5.04
II	4.20	1.07	5.27	5.04
III	4.20	1.18	5.38	5.04
IV	4.20	1.34	5.54	5.17
1974 I	4.20	1.42	5.62	5.25
II	4.20	1.42	5.62	5.25
III	4.20	1.84	6.04	5.67
IV	5.40	1.35	6.75	6.37
1975 I	6.00	1.60	7.60	6.90
II	6.02	1.75	7.77	6.92
III	6.25	1.80	8.05	7.19
IV	7.04	1.81	8.85	8.10

the 1975 dent in both quantities and prices, toward the end of the year there were signs of a pickup, which was apparently connected with the fact that the industrial countries began to pull out of their business slump. Data for the first quarter of 1976 point to a definite continuation of the uptrend (an increase of 12 percent in seasonally adjusted money terms over the final quarter of 1975). Conceivably the appreciation of the dollar during 1975 weakened one element of the demand for diamonds, namely that stemming from short-run considerations connected with the adjustment of asset portfolios; the other element rose even more strongly at the end of the year. The disparate diamond export and import price changes (-1.6 percent for exports and 2.8 percent for imports) would seem to attest to a decline in the industry's value added, but it should be stressed that the price indexes here are quite deficient, and so caution must be exercised in drawing conclusions on this point.

Minerals: The depressed state of the world market for all the principal minerals exported by Israel caused overseas sales to dip 6 percent in value and 15 percent in tonnage, after a resounding 90 percent spurt in 1974. The crisis cropped up in the course of the year reviewed, and after exports had peaked at some \$30 million in the first quarter, the level fell to about half in the last three months.

The item hit hardest was phosphates. Morocco, the number one exporter of this product, succeeded until the middle of 1974 in fixing prices four to five times as high as those prevailing at the end of 1973, and even at this level a shortage was felt in the market. The collapse of prices and slackening of demand at the beginning of 1975 were due to several factors. Unlike the oil cartel, that organized by Morocco was unable to hold its own, and the junior partners began to undercut the fixed tariffs in order to boost sales. In addition, the drastic phosphate price rise led to a more rational use of fertilizers (especially in the developed countries) and to a sharp break in demand. This followed the easing of demand on the part of the developing countries, which began in 1974 because of the paucity of foreign exchange they have suffered since the oil price explosion. The speculative stockpiling during the boom period (which gave a further twist to the price spiral) now helped to create a feeling of oversupply. Israel's phosphates are inferior to those of most of its competitors, and this restricts its use. During the 1974 price boom the country benefited from some substitution effect and managed to step up its exports at a faster quantitative rate than its rivals. The year reviewed saw a reversal of trend, with Israel's sales tumbling more than four times as fast as the world average.

This led to the cutting back of potash production as well. The market for this product, also used as a fertilizer, differs from that for phosphates, and Israel's position here is

also different. The 1974 boom was more modest and prices slipped less dramatically in the second half of 1975. World trade in this commodity did not shrink on average in 1975, although growth slowed from a 10 percent annual average in recent years to a mere one percent this year. In contrast to phosphates, the difficulties encountered in marketing potash induced a policy of stockpiling in anticipation of a recovery in 1976.

Even at the present low world price level, phosphate and potash sales are profitable to the economy. This does not apply, however, to copper-cement. The collapse of prices in 1975, which was primarily associated with the world recession, exposed the economic weakness of the Timna works and led to its closure at the beginning of 1976, despite a

Table
INDICATORS OF INDUSTRIAL

	1966	1967	1968	1969	1970	1971	1972
1. Prices received by the exporter							
Percent annual change	3.5	11.6	8.8	3.8	10.4	12.8	14.3
Index (1965=100)	103.5	115.5	125.7	130.5	144.1	162.5	185.8
2. Prices paid by the importer for imported intermediates ^b (in IL)							
Percent annual change	1.0	-1.0	9.8	4.5	10.2	21.9	18.3
Index (1965=100)	101.0	100.0	109.8	114.7	126.4	154.1	182.3
3. Domestic input prices							
Percent annual change	4.7	1.1	2.3	1.9	6.5	9.6	12.2
Index (1965=100)	104.7	105.8	108.2	110.3	117.5	128.8	144.5
4. Wages per unit of output							
Percent annual change	11.1	-0.2	-4.7	0.0	10.8	5.6	7.8
Index (1965=100)	111.1	110.9	105.7	105.7	117.1	123.7	133.4
5. Price of capital per unit of output							
Percent annual change	5.3	7.6	-14.0	-1.5	9.1	18.2	13.9
Index (1965=100)	105.3	113.3	97.4	95.9	104.6	123.6	140.8
6. Weighted index of input prices ^c							
Percent annual change	5.2	0.6	1.7	2.0	8.5	12.5	13.1
Index (1965=100)	105.2	105.8	107.6	109.7	119.1	134.0	151.6
7. Domestic output prices ^d							
Percent annual change	4.8	1.1	2.4	1.9	6.2	9.4	11.1
Index (1965=100)	104.8	106.0	108.5	110.6	117.5	128.5	142.8
8. Prices received by the exporter/weighted index of input prices							
Percent annual change	-1.6	11.0	7.0	2.7	0.8	0.2	0.9
Index (1965=100)	98.4	109.2	116.8	120.0	121.0	121.3	122.4
9. Prices received by the exporter/domestic output prices ^e							
Percent annual change	-1.2	10.3	6.3	1.8	3.9	3.2	2.8
Index (1965=100)	98.8	109.0	115.9	118.0	122.6	126.5	130.1

^a Excludes diamonds, minerals, and refined petroleum products.

^b Imports-for-exports.

^c Weighted according to the composition of inputs to industry, excluding diamonds, minerals, and refined petroleum products, according to the 1968/69 input-output table.

likely slow rebounding of prices during the year.

(b) *Industrial Exports Other Than Diamonds and Minerals*

Overseas sales of manufactures remained unchanged in physical terms in 1975, while the prices received rose 5.5 percent--a much milder rate than in previous years. This group includes refined petroleum products, whose export is quite erratic and has a small value added. Excluding diamonds, minerals, and refined petroleum products, industrial sales abroad forged ahead 5.3 percent in real terms in 1975, roughly the same average rate as in the two preceding years. Trends in the various branches and product groups were mixed in

IV-19

EXPORT PROFITABILITY,^a 1966-75

1973	1974	1975	1974				1975			
			I	II	III	IV	I	II	III	IV
25.1	42.1	42.6	6.6	9.3	11.6	15.1	17.9	1.2	-2.4	7.1
232.4	330.3	471.0	280.2	306.2	341.8	393.5	464.1	469.8	458.7	491.4
29.0	43.2	34.1	2.2	8.6	6.9	16.6	14.7	-2.8	0.2	6.5
235.2	336.7	451.7	292.4	317.5	339.5	355.8	453.8	440.9	441.7	470.3
18.8	55.9	43.6	19.5	11.5	7.6	18.0	14.3	2.7	1.4	9.2
171.6	267.6	384.8	226.3	252.4	271.5	320.3	366.1	376.0	381.2	416.3
13.3	31.4	38.7	6.6	10.0	17.2	0.2	19.3	2.8	4.0	3.2
151.1	198.5	275.2	170.0	187.0	219.1	219.5	261.9	269.2	279.9	288.9
22.8	36.3	40.4	5.9	9.7	9.8	17.6	15.9	1.2	-3.1	12.0
172.9	235.7	335.7	199.9	210.2	240.7	283.1	328.1	332.2	321.9	360.6
21.4	46.0	39.5	10.4	10.1	9.1	10.6	19.3	0.9	1.2	7.5
184.0	268.7	374.9	229.7	253.0	275.9	305.0	363.7	366.8	371.2	398.9
18.1	48.0	38.8	16.1	12.2	7.6	14.9	12.1	-3.2	1.4	8.3
168.7	253.3	351.5	214.8	240.1	259.3	297.9	333.9	344.6	349.4	378.4
3.2	-2.7	2.2	-3.4	-0.8	2.4	4.1	-1.1	0.4	-3.2	-0.3
126.3	122.9	125.6	122.0	121.0	123.9	129.0	127.6	128.1	123.6	123.2
5.9	-5.4	2.8	-8.2	-2.5	3.7	0.2	5.2	-2.0	-3.7	-1.1
137.8	130.4	134.0	130.4	127.1	131.8	132.1	139.0	136.3	131.3	129.9

^d Wholesale price index, weighted according to the composition of industrial exports, excluding diamonds, minerals, and refined petroleum products.

^e Prices to the user and not the producer, since they include taxes. This indicator is therefore biased when the price change is due to a change in taxes (and subsidies).

Table IV-20

GROWTH OF ISRAEL'S EXPORT MARKETS^a AND INDUSTRIAL EXPORTS, 1966-75

(percentages)

	Growth of Israel's export markets			Real growth of Israel's industrial exports ^b
	Developed countries	Other	Total	
Weighted by the composition of exports in 1972, excl. diamonds				
1966	7.7	7.5	7.7	11.3
1967	5.3	4.6	5.2	14.0
1968	13.8	12.2	13.6	31.3
1969	10.7	10.4	10.7	14.5
1970	7.9	10.3	8.3	15.8
1971	6.3	9.9	6.8	25.8
1972	8.2	7.7	8.0	6.7
1973	10.3	14.8	11.6	3.6
1974				
1972 weights	-0.4	14.3	4.1	8.2
1974 weights	0.1	15.6	4.9	
1975 (1974 weights)	-8.3	17.3	0.4	-0.4
1974 first half	-1.2	-2.7	-1.7	
1975 first half	-8.2	17.1	0.3	
second half	-1.3	7.8	4.3	
Weighted by the composition of exports in 1974, incl. diamonds				
1974	0.3	15.0	4.4	
1975	-8.8	11.7	-2.5	
1974 first half	-1.5	-4.2	2.3	
1975 first half	-8.1	13.6	-1.7	
second half	1.2	6.6	3.1	

^a The measure of market expansion is the rate of quantitative increase in the total imports of the countries of destination, weighted by each country's share in Israel's exports.

^b Excludes diamonds, minerals, and old ships and aircraft.

1975, the level flattening at the beginning of the year and moving up at an accelerating pace in the final part.

1. Developments during the year

The turnabout in industrial exports other than diamonds, minerals, and refined petroleum products in the third quarter of 1975¹³ pulled this group out of the slump into which it had sunk in the prewar quarter. The question of whether the uptrend will be sustained in 1976 can be examined tentatively on the strength of partial data for the first quarter of the year. These show a slight downturn compared with the final quarter of

13. Theoretically there was reason to believe that the cutting in July 1975 of the Common Market tariffs on Israeli goods by 60 percent for most industrial products would influence exports. But in a breakdown of Israel's overseas sales by country of destination it is hard to detect such an impact.

Table IV-21

UNIT WAGE COSTS IN MANUFACTURING IN ISRAEL AND SIX LARGEST INDUSTRIAL COUNTRIES 1966-75

(index: 1965=100)

	Unit wage costs		Ratio of (1) to (2)	Index of effective rate of IL relative to currencies of the Six	Unit wage-cost ratio between Israel and the Six (3÷4)	Unit export wage-cost ratio between Israel and the Six ^c
	Israel ^a	Six major industrial countries ^b				
	(1)	(2)	(3)	(4)	(5)	(6)
Annual data						
1966	111.1	102.8	108.1	103.5	104.4	104.6
1967	110.9	95.3	116.4	115.5	100.8	101.3
1968	105.7	95.6	110.6	128.3	86.2	88.3
1969	105.7	98.9	106.9	128.3	83.3	85.5
1970	117.1	104.5	112.1	140.4	79.8	86.2
1971	123.7	110.5	111.9	153.0	73.1	83.0
1972	133.4	115.0	116.0	187.3	61.9	72.1
1973	151.1	120.5	125.4	205.5	61.0	69.7
1974	198.5	136.1	145.8	226.1	64.5	68.5
1975	275.2	158.3	173.8	308.5	56.2	64.4
Quarterly data						
1974 I	170.0	126.8	134.1	207.3	64.7	67.8
II	187.0	132.3	141.3	213.7	66.1	70.0
III	219.1	139.2	157.4	226.9	69.4	74.1
IV	219.9	146.8	149.5	256.7	58.3	63.0
1975 I	261.9	153.0	171.2	300.5	57.0	63.0
II	269.2	158.6	169.7	307.2	55.2	62.4
III	279.9	163.4	171.3	301.9	65.5	65.5
IV	288.9			326.4		

^a In Israeli currency.^b In local currencies.^c Column 5 adjusted for the change in the price of Israel's exports relative to those of the six industrial countries (see Table IV-22).

1975; but if account is taken of seasonal influences and a possible further softening of prices, this can probably be construed as a slight real rise. However, the gain was dominated by military goods, whose sale is not governed solely by those forces ordinarily influencing industrial exports as a whole, and which are also subject to sharp fluctuations during the year. In other industrial exports the first quarter of 1976 saw a 20 percent nominal contraction, which represented a steep decline in seasonally adjusted real terms. It is this that casts doubt on the durability of the turnabout in the industrial export trend.

The business revival in the industrial countries is apparently insufficient stimulus to ensure the sustained rapid expansion of Israel's exports in the absence of very weighty complementary factors. The world market boom has given an especially strong fillip to consumer goods exports. Construction-related industries have experienced a similar

rebounding, while nonmetallic mineral products have displayed an irregular trend. There has been no significant change in the difficulties bogging down the chemical industry. The metal, machinery, and electronics industries, which produce mainly for investment and public consumption, enjoyed vigorous growth throughout 1975. The picture for the first quarter of 1976 seems less bright, but it is premature to draw any conclusions.

2. Developments by industry and commodity groups

The reverses suffered by the chemical industry (excluding refined petroleum products, which in 1974 accounted for 22 percent of total industrial exports) go a long way to explain the standstill in the year reviewed. The crisis in world fertilizer consumption has already been mentioned. Compounding this was the apparently increased domestic use of fertilizer, which of course affected foreign sales. Plastic materials, which together with fertilizers make up the basic chemicals industry, had to contend with a weakening of prices and demand. Products based on crude oil or its derivatives suffered a noticeable drop in profitability, both because of the high prices paid for raw materials and because of lower production costs in the European countries using natural gas. In pesticides the

Table IV-22
INDUSTRIAL EXPORT PRICE INDEX OF ISRAEL AND SIX INDUSTRIAL COUNTRIES, 1966-75

(prices in dollars; 1965=100)

	Index for Israel, excl. diamonds and fuel	Index for six industrial countries	Ratio of (1) to (2)
	(1)	(2)	(3)
Annual data			
1966	102.3	102.5	99.8
1967	102.2	102.7	99.5
1968	99.7	102.1	97.6
1969	103.2	106.0	97.4
1970	104.4	112.8	92.6
1971	104.1	118.2	88.1
1972	109.4	127.5	85.8
1973	131.2	150.0	87.5
1974	170.6	181.2	94.2
1975	179.9	206.0	87.3
Quarterly data			
1974 I	155.1	162.5	95.4
II	170.1	180.2	94.4
III	175.2	186.9	93.7
IV	180.4	195.0	92.5
1975 I	188.5	208.4	90.5
II	186.2	210.3	88.5
III	175.9	203.3	86.5
IV	171.6	202.0	85.0

retreat was milder, with such profitable items as bromine and bromides faring better this year and other products losing ground.

Tire sales, which dominate the rubber and plastics industry, were not affected in 1975, and in fact they even made further headway thanks to the foresight of the producer. Anticipating a falling demand for automobile tires, the factory switched much of its production to alternative lines where demand was not hit.

The poorer export performance of the textile and garment industry was connected both with the slackening of demand for consumer goods in general and with the persistent loss of competitiveness of some Israeli-made products. This was probably one of the reasons the Common Market lowered the customs duties on these products in the middle of 1975, in addition to the pickup in demand for consumer goods during this period. The drop was steepest in textiles, where Israeli mills have to vie with very large and efficient firms. In garment manufacture, where exclusive fashion goods are of mounting importance, Israel seems to be in a stronger position. In this connection it should be mentioned that in recent years the incentives granted through the various branch funds have been cut sharply without a compensatory increase in direct incentives.

Processed foodstuffs also fared less well in 1975, for the second consecutive year. Most affected were citrus products, which is explained by Brazil's aggressive competition in Europe and by the successful season enjoyed by fresh citrus. At the beginning of the year Brazil seemed to be undercutting its rivals in Europe, but later on prices firmed and Israel was able to hold its own. The banner season in fresh citrus led to the diversion of fruit to direct export, which was more profitable to the grower, and limited supplies to

Table IV-23
EXPORT AND GNP PRICE INDEXES OF ISRAEL AND SIX INDUSTRIAL COUNTRIES, 1972-75

(in local currencies; 1972=100)

	Index of implicit GNP deflator	Index of export prices	Ratio of (1) to (2)	Index of import prices
	(1)	(2)	(3)	(4)
Six industrial countries				
1973	107.1	110.3	103.0	113.4
1974	119.8	139.4	116.4	161.6
1975	132.8	152.5	115.2	174.8
Israel				
1973	120.7	123.0	101.9	120.7
1974	163.2	167.4	102.6	172.8
1975	224.2	236.8	105.6	250.1

Table IV-24

EXPORT PRICE INDEX, 1969-75

	Total exports ^a		Total industrial exports, excl. diamonds	Agricultural exports	
	Incl. diamonds	Excl. diamonds		Total	Citrus
Annual averages			1968=100		
1969	104.7	103.7	103.5	104.5	105.9
1970	104.4	103.5	105.1	99.4	99.9
1971	108.4	105.6	105.7	105.1	107.6
1972	116.2	109.9	110.9	107.2	107.7
1973	145.1	131.6	133.8	124.8	121.4
			1972=100^a		
1973	122.9	119.6	120.6	111.2	105.6
1974	145.5	150.7	159.5	121.0	113.1
Quarterly data			1972=100		
1974 I	134.0	136.2	144.6	113.3	104.4
II	134.0	136.2	144.6	113.3	104.4
III	149.8	161.9	144.6	142.8	166.5
IV	150.9	164.4	169.3	139.1	122.3
1975 I	156.1	166.3	177.7	131.2	122.6
II	155.0	171.8	174.9	156.6	167.5
III	146.6	155.7	165.0	123.2	166.6
IV	148.7	155.5	159.8	139.2	141.3

^a In 1973 the Central Bureau of Statistics chained the base of the price indexes to 1972=100. Calculation of the indexes for 1973 on the basis of 1968=100 will of course yield different results from a calculation based on 1972=100.
SOURCE: Central Bureau of Statistics.

the canneries. The data for the beginning of 1976 reveal a similar picture.

In all other items demand sagged during most of 1975 but turned up toward the end. In poultry-meat products, however, exports have been on the rise for several years, and the trend gained impetus in 1975. Here too exports have to compete with sales to domestic industry.

Exports of the wood industry, which is dominated by plywood and other construction products, continued to lose ground in 1975 because of the softening of Israel's principal market, the U.K. Paper manufacture had to contend with sinking prices after an acute shortage in 1974, and exports fell off.

While on the whole Israel's exports lost vigor in 1975, the metal, machinery, transport equipment, and electrical and electronic equipment industries continued to make impressive headway: 28 percent in real terms as opposed to 38 percent in 1974. In this group military goods play a very important role, and they have made very formidable progress in recent years. In 1973 overseas sales of these industries contracted, mainly because of the war; in 1974 however, they posted a real 25 percent gain, and in 1975 they shot up by an additional 60 percent. Military exports are characterized by several distinctive features.

First of all, Israel is one of the few countries than can offer weapons systems that have undergone the test of actual combat--an advantage which even seasoned and advanced manufacturers turning out a wider array of weapons do not possess. Secondly, most of the products in this group are of a highly sophisticated nature; hence quality, and especially the type of service they supply, outweigh the price factor.

These industries managed to boost their exports appreciably even though during this period (and even more in previous years) they also greatly stepped up domestic sales. The fact that they have been undergoing very rapid expansion for the past several years proves that when there is an adequate profitability the concern or industry can expand capacity and overcome productive factor constraints much more easily than is usually thought possible. Behind this growth process, of course, lies the fact that at least in the initial stages these industries enjoyed a buoyant domestic demand. This assured them of a good price and a large volume of orders for a relatively long period ahead, thus enabling them to mobilize the sizable investment capital required.

Turning to the nondefense production of these industries we find that pipe exports moved ahead more slowly than in 1974, when there was an ebullient world demand for this item because of the numerous oil drillings; however, the 1975 growth rate (30 percent) was still impressive, and in the last three years sales doubled. The share of other basic metal products in total exports of the metal, machinery, and transport equipment industries has been on the decline. It seems that with the expansion of these industries metal products have either been exported more in an indirect than a direct manner, or have been diverted to domestic uses.

The smaller overseas marketing of transport equipment should be viewed in conjunction with the special character of the production process here, namely the relatively long time required to turn out the product and its indivisibility. This results in sharp oscillations in overseas sales, even from year to year. For example, in 1974 Israel sold an \$8.5 million floating drydock abroad, whereas in 1975 there was no export whatsoever by the shipbuilding industry, even though production for foreign customers went on and exports will be resumed in 1976 and thereafter.

4. EXPORTS AND IMPORTS OF SERVICES

The surplus on invisibles,¹⁴ excluding defense imports and transactions with the administered areas, shrank from \$143 million in 1974 to \$78 million; exports inched ahead

14. With commodity imports valued c.i.f.

Table IV-25
IMPORTS AND EXPORTS OF SERVICES, 1971-75

(\$ million)

	1971	1972	1973	1974	1975
A. Excl. administered areas and defense					
Transportation, f.o.b. ^a					
Credit	265	325	371	584	548
Debit	258	271	348	491	551
Net	7	54	23	93	-3
Tourism					
Credit	178	212	230	194	234
Debit	60	70	106	142	157
Net	118	142	124	52	77
Freight insurance, f.o.b. ^a					
Net	-1	-4	-4	-2	-2
Other insurance					
Net	-12	-19	-34	-20	-28
Capital services					
Credit	120	127	240	354	321
Debit	207	247	384	585	709
Net	-87	-120	-144	-231	-388
Other services					
Credit	117	137	145	173	186
Debit	98	121	123	156	174
Net	19	16	22	17	12
Government, n.e.s.					
Credit	34	27	19	26	42
Debit	60	55	95	102	102
Net	-26	-28	-76	-76	-78
Net total, excl. net defense imports	18	41	-89	-167	-410
B. Defense imports, net	-555	-490	-1,253	-1,224	-1,846
Net total, incl. defense	-537	-449	-1,342	-1,391	-2,256
C. Net transactions with administered areas	-25	-61	-96	-135	-151
Total balance on services, f.o.b.	-562	-510	-1,438	-1,526	-2,407
D. Adjustment from f.o.b. to c.i.f. recording of commodity imports	128	135	200	310	332
Total balance on services, c.i.f.	-434	-375	-1,238	-1,216	-2,075

^a The adjustment from an f.o.b. to a c.i.f. recording of commodity imports is presented in Tables IV-26 and IV-27.
SOURCE: Central Bureau of Statistics.

only 2 percent in 1975, as against 36 percent the year before, while imports grew by a more rapid 16 percent, as opposed to 37 percent in 1974. If commodity imports are valued f.o.b., there was an adverse balance in services for the past three years: \$89 million in 1973, \$167 million in 1974, and \$410 million in 1975. Two items were most responsible for the steep jump this year: capital services, where the deficit shot up from \$231 million in 1974 to \$388 million, and transportation, which had wound up the previous year with a surplus.

Table IV-26
EXPORTS OF SERVICES, 1971-75

(\$ million)

	1971	1972	1973	1974	1975	Annual increase							
						\$ million				Percent			
						1972	1973	1974	1975	1972	1973	1974	1975
Transportation, f.o.b.	265.1	324.5	370.7	584.4	548.4	59.4	46.2	213.7	-36.0	22.4	14.2	57.7	-6.2
Passenger	68.6	86.5	88.0	118.0	115.0	17.9	1.5	30.0	-3.0	26.1	1.7	34.1	-2.5
Freight	123.5	167.8	206.0	347.0	331.0	-2.8	6.5	141.0	-16.0	35.9	22.8	68.5	-4.6
Other income	73.0	70.2	76.7	119.4	102.4	-2.8	6.5	42.7	-17.0	-3.8	9.3	55.7	-14.2
Travel	178.3	212.2	230.0	194.0	233.6	33.9	7.8	-36.0	39.6	19.0	8.4	-15.7	20.4
Insurance, f.o.b.	131.3	142.0	166.0	235.0	275.0	10.7	24.0	69.0	40.0	8.2	16.9	41.6	17.0
Capital services	119.8	127.0	240.0	354.0	321.0	7.2	113.0	114.0	-33.0	6.0	89.0	47.5	-9.3
Government, n.e.s	33.7	27.0	19.0	26.0	24.0	-6.7	-8.0	7.0	-2.0	-19.9	-29.6	36.8	-7.7
Other services	117.0	137.0	145.2	172.6	185.6	20.0	8.2	27.4	13.0	17.1	6.0	18.9	7.5
Total	845.2	969.7	1,170.9	1,566.0	1,587.6	124.5	201.2	395.1	21.6	14.7	20.8	33.7	1.4
Exports to administered areas	35.1	44.0	51.1	77.0	59.4	8.9	7.1	25.9	-17.6	25.4	16.1	50.7	-22.9
Grand total, f.o.b.	880.3	1,013.7	1,222.0	1,643.0	1,647.0	133.4	208.3	421.0	4.0	15.2	20.6	34.5	0.2
Adjustment to a c.i.f. recording of commodity imports													
Import cargoes by Israeli carriers	62.9	71.7	104.8	167.5	185.3	8.8	33.1	62.7	17.8	14.0	46.2	59.8	10.6
Insurance thereon	5.9	6.1	12.2	14.6	15.6	0.2	6.1	2.4	1.0	3.4	1.0	19.7	6.9
Total service exports, c.i.f.													
Excl. administered areas	914.0	1,047.5	1,287.9	1,748.1	1,788.5	133.5	240.4	460.2	40.4	14.6	23.0	35.7	2.3
Incl. administered areas	949.1	1,091.5	1,339.0	1,825.1	1,847.9	142.4	247.5	486.1	22.8	15.0	22.7	36.3	1.3

SOURCE: Central Bureau of Statistics.

The turn for the worse in capital services was due primarily to the contraction of income (\$33 million), for the first time since 1971; in outlays the uptrend slowed from 56 and 52 percent in 1973 and 1974 respectively to 21 percent. Most of the increase was in public sector interest payments, which should be seen against the swelling of the country's external indebtedness from \$6.25 billion in 1974 to \$7.6 billion.

In transportation (with commodity imports recorded f.o.b.)¹⁵ income fell off \$36 million, after having soared \$214 million in 1974. On the expenditure side the level moved up much more sluggishly in 1975--\$60 million as against \$143 million the year before. All subitems contributed to the drop in income. Cargo transport receipts were off 5 percent in both value and quantity (prices, which are in dollars, held steady). The downturn here was

15. In an f.o.b. valuation of commodity imports insurance on import freight carried by foreign companies is included on the expenditure side (import), while that on import cargoes hauled by Israeli companies is not included on the income side. A discussion of total Israeli shipping and air revenues appears in Chapter XV.

caused by the smaller throughput of the Eilat-Ashkelon petroleum pipeline, mainly in the transshipment of fuel, which fell off because of the subsiding of foreign demand for petroleum products; income from export cargo volume, on the other hand, rose. Passenger fares yielded 3 percent less this year in nominal and 8 percent in real terms. The number of tourist arrivals held steady in 1975; the drop in earnings was due predominantly to the declining share of Americans and rising share of Europeans in the year reviewed, and to some extent to the larger percentage arriving overland at the expense of those coming by air. The third source of revenue is the expenditure of foreign shipping and air companies in Israel and income from the chartering of ships and aircraft, which are included under "other income". In 1975 revenue from charter hire was down 9 percent in money terms but up 8 percent in real terms. Sales of bunkers to foreign ships and aircraft dipped from \$26 million in 1974 to \$14 million; excluding this item, the outlays of foreign crews in Israel held steady in value, but fell off 9 percent in quantity.

On the expenditure side, passenger conveyance was down 7 percent in value (12 percent in quantity), compared with increases of 23 and 2 percent respectively in 1974. This subitem includes payments to foreign shipping and air carriers by Israelis going abroad. Since the number of such travelers was unchanged in 1975, it follows that the proportion of those using Israeli carriers rose at the expense of foreign carriers. Other transport outlays (commodity imports recorded f.o.b.) were up 14 percent in value this year, compared with 43 percent in 1974. Purchases of bunkers by Israeli companies totaled \$74 million, as against \$65 million in 1974. Other overseas expenditure by Israeli crews rose 25 percent in value (11 percent in quantity), while the amount spent on charter hire went up 49 percent, from \$82 million to \$122 million.

Tourism yielded 20 percent more this year, after a 16 percent decline in 1974. The figures for the past two years may be understated, for part of the time the big gap between the official and unofficial price of the dollar prompted many to convert foreign currency on the black market. The expenditure side of this item, which includes the foreign currency travel allowance to Israelis going abroad, increased 10 percent in value, after soaring 51 and 34 percent in 1973 and 1974 respectively. The slacker rise in such allowances this year is explained by the tapering off of the number of Israeli travelers because of the economic slowdown and the high level reached in the two preceding years.

The insurance item (f.o.b.) is large on both the credit and debit sides, but the net balance is small, for there is a close connection between payments and receipts: premium payments are offset by claims payments by foreign insurers to Israelis and commission paid to local agents of foreign companies.

Table IV-27
IMPORTS OF SERVICES, 1971-75
(\$ million)

	1971	1972	1973	1974	1975	Annual increase							
						\$ million				Percent			
						1972	1973	1974	1975	1972	1973	1974	1975
Transportation, f.o.b.	257.7	270.6	348.0	490.8	551.0	12.9	77.4	142.8	60.2	5.0	28.6	29.1	12.3
Passenger	20.2	22.7	26.0	32.0	29.9	2.5	3.3	6.0	-2.1	12.4	14.5	23.1	-6.6
Other	237.5	247.9	322.0	458.2	521.1	10.4	74.1	136.8	62.3	4.4	39.4	42.5	13.6
Travel	60.1	70.2	106.0	142.4	156.8	10.1	35.8	36.4	14.4	16.8	51.0	34.3	10.1
Insurance, f.o.b.	144.7	165.0	203.7	257.0	305.0	20.3	38.7	53.3	48.0	14.0	23.5	26.2	18.7
Government, n.e.s.	206.9	246.8	384.0	585.0	709.0	39.9	137.2	201.0	124.0	19.3	55.6	52.3	21.2
Capital services	60.3	55.0	95.0	102.0	102.0	-5.3	40.0	7.0	..	-8.8	72.7	7.4	..
Other services	97.7	120.6	122.7	156.0	173.5	22.9	2.1	33.3	17.5	23.4	1.7	27.1	11.2
Total (excl. defense), f.o.b.	827.4	928.2	1,176.0	1,733.2	1,997.3	100.8	331.2	473.8	264.1	12.2	35.7	37.6	15.2
Defense imports	554.6	490.0	1,253.0	1,224.0	1,846.0	-64.6	763.0	-29.0	622.0	-11.7	155.7	-2.3	50.8
Imports from administered areas	60.4	105.0	146.6	211.8	209.7	44.6	41.6	65.2	-2.1	72.8	39.6	44.5	-1.0
Total service imports, f.o.b.	1,382.9	1,466.1	2,575.6	3,169.0	4,053.0	83.2	1,109.5	593.4	884.0	6.0	75.7	23.4	27.9
Adjustment from f.o.b. to c.i.f. recording of commodity imports													
Transport of import cargoes by foreign carriers	52.4	49.2	74.3	118.0	120.1	-3.2	25.1	43.7	2.1	-6.1	51.0	58.8	1.8
Insurance of import cargoes transported by foreign carriers.	7.1	7.9	9.1	9.8	10.5	0.8	1.2	0.7	0.7	11.3	15.2	7.7	7.1
Total imports of services													
Excl. defense and administered areas	767.9	871.1	1,176.0	1,605.4	1,866.7	103.2	304.9	429.4	261.3	13.4	35.0	36.5	16.3
Incl. defense and administered areas	1,382.9	1,466.1	2,575.6	3,041.2	3,922.4	83.2	1,109.5	465.5	881.2	6.0	75.7	18.1	29.0

SOURCE: Central Bureau of Statistics.

In the heterogeneous "other services" item there was a nominal rise of 8 percent on the credit side and 11 percent on the debit side. As regards income there was a larger outlay by foreign exporters to their Israeli agents and in transfers by returning Israeli residents. The debit side showed an increase in commissions paid by Israeli exporters to their overseas agents.

In transactions with the administered areas exports tumbled 23 percent in value, after a 51 percent gain in 1974, while the value of imports edged down 1 percent, after soaring 45 percent the year before. The overwhelming share of imports--\$178 million in 1975, or some 85 percent of the total--consisted of wage payments to workers from the areas, which were virtually unchanged this year. On the export side wage payments to Israeli workers in the areas fell from \$56 million in 1974 to \$43 million.