CHAPTER III

# THE BALANCE OF PAYMENTS AND FOREIGN TRADE

## 1. The Balance of Payments

THE $304 MILLION deficit on current account[1] in 1959 was 10 per cent smaller than in the preceding year, and the lowest since 1956. Unrequited receipts declined somewhat, while the volume of investment was slightly larger and the country's long-term foreign liabilities increased. On the other hand, short- and medium-term external commitments declined, while foreign currency reserves continued to expand.

The most striking development in 1959 was the big expansion of commodity exports, which reduced the trade deficit from the previous year's $278 million to $246 million, despite a slight increase in the value of commodity imports. Exports and imports of services increased by very similar amounts, the deficit in the balance of services totalling $59 million,—about $3 million more than in 1958.

In 1959, exports of commodities and services covered about half the value of imports. In 1957 and 1958, exports had paid for 40 per cent of imports, and in 1955 and 1956—for only 33 per cent.

The decline in world market prices, which began in 1958, continued in 1959. However, whereas export prices fell by 9 per cent, lowering Israel's foreign currency income by $17 million, import prices declined by only 2 per cent, saving the country no more than $9 million. Altogether, changes in world prices caused the Israel economy a loss of about $8 million in 1959.

Commodity exports have been expanding steadily during the past few years,[2] but the rise during 1959 was particularly marked. During the years 1955 to 1957, agricultural exports had shown the greatest increase, as regards both volume and value. This trend came to a halt in 1958, when citrus prices began to decline. Consequently, though more citrus was exported in 1959, receipts from this branch did not increase, the rise in the overall value of exports being due to large exports of industrial goods and diamonds. The latter were partly the fruit of domestic developments, but the higher level of demand on world markets (and especially in the United States) following the end of the 1958 recession was undoubtedly a contributing factor. Its effect was particularly felt with regard to

[1] Trade and services.
[2] Except for 1958.

diamonds and also helped to increase the exports of certain industrial commodities such as cement, pharmaceuticals and edible oil.

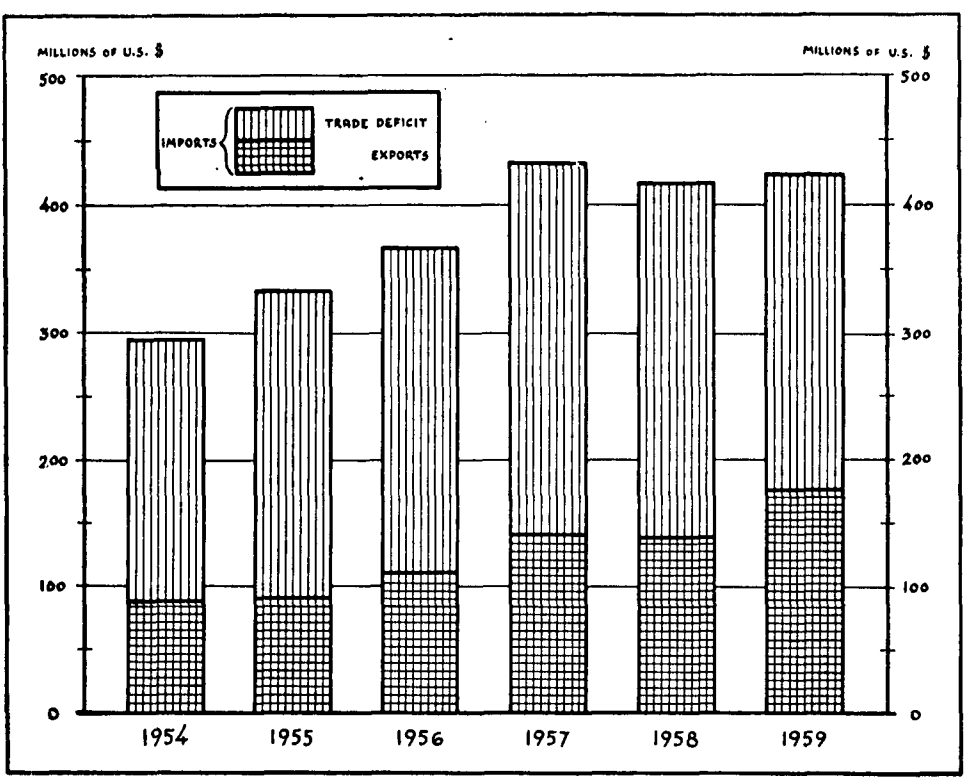
An additional factor aiding the export expansion of 1959 was the maturing of investments made in previous years. This process has been in evidence for some years, during each of which new commodities were added to the export list while certain other items began to be exported in considerably larger quantities. In 1959, a substantial quantity of copper was exported for the first time and exports of potash, brome and citrus products were expanded.

The efforts to penetrate new markets, mainly in Asia and Africa, also began to bear fruit in 1959, and there are prospects for increasing the volume of exports to these countries further.

In 1958, most premiums on industrial exports were granted at a uniform rate of 85 agorot per dollar of added value. During the year under review, this premium was extended to exports within the framework of clearing agreements. Moreover, a higher incentive—up to IL. 1.20 per dollar of added value—was granted in special cases or to exporters trading with new markets. Consequently,

DIAGRAM III-1

*Imports, Exports and the Trade Deficit*
*(millions of U.S. $)*



the average subsidy per dollar of added value was about 10 agorot higher in 1959 than in 1958.

Additional incentives were given to exporters in the form of exemption from customs duties on imports for export, participation in market research or transport costs (if the latter were particularly heavy), etc.

The added value of exports rose from $70 million in 1958 to $82 million in 1959. The increase is comparatively smaller than that in the total value of exports. This is due to a change in their composition, exports of commodities with a low added value (such as diamonds and industrial products) increasing, while those of commodities with a high added value (such as agricultural products) declined.

Most of the exports in 1959 were effected under conditions of free competition on foreign markets, only a small proportion being destined for payments agreement countries.

In contrast to the substantial rise in exports, the volume of imports was only slightly above last year's level: commodity imports increased, at constant prices, by about 3 per cent. In 1955, 1956 and 1958, the annual increase in imports had totalled 4–5 per cent per annum (1957 was the only year in which the increase had been larger). The decline in world prices, which started in 1958, reduced import outlays relatively to the volume of goods imported during the last two years as against the 1954–1957 period.

The volume of raw material imports was 12 per cent larger than in 1958, but imports of consumer goods declined by 16 per cent, mainly because of the smaller imports of U.S. food surpluses. Real imports of capital goods and fuel showed negligible changes.

The liberalization of imports, first introduced in 1956 with respect to certain commodities, was gradually extended during the following years, and in 1959 covered some 85 per cent of the raw materials and investment goods imported for industry. The cancelling of import restrictions on additional commodities in 1959 did not increase imports significantly, since at the prevailing Israel prices, which include customs duty, the demand for imported goods did not exceed their supply.

Unrequited receipts decreased by $20 million during 1959, mainly because they had been relatively high in 1958, when they included an advance on account of the Consolidation Loan from the Jewish communities in the United States, and because part of this advance was repaid in 1959. There was also a decrease in private transfers other than personal restitution from West Germany.

The U.S. Government aid, in its various forms, totalled about $10 million less in 1959, though it should be noted that it had risen in 1958. American aid has recently been chiefly in the form of long-term loans in local currency, only 20 per cent of it constituting an outright grant.

The country's long-term indebtedness, as well as its foreign investments, increased during 1959, while its medium- and short-term liabilities declined. The economy's foreign currency reserves continued to expand. In 1958 they had risen by almost the same amount as the state's medium- and short-term debts (net reserves thus showing only a slight change). On the other hand, in 1959 foreign exchange balances (including gold) increased by almost $40 million, whereas medium- and short-term liabilities declined by approximately $35 million—the net increase in the economy's reserves thus reaching $75 million.

## 2. Commodity Exports

Income from commodity exports increased by 27 per cent in 1959, reaching $177.3 million, despite a 9 per cent drop in export prices. The increase in the physical volume of exports totalled some 40 per cent.

In 1959, industrial exports (excluding diamonds) for the first time exceeded agricultural exports. The latter had previously represented some 40 per cent of total exports, but their weight declined to 32 per cent in 1959, whereas that of industrial exports rose from 34 to 40 per cent. Diamond exports were also larger in 1959, accounting for 27 per cent of the total value of exports.

Table III-1

*Commodity Exports in 1958 and 1959*

*(millions of IL.)*

| *Commodity group* | *1959 export price index (1958=100)* | *1958* | | *1959* | *Increase from 1958 to 1959* | |
|---|---|---|---|---|---|---|
| | | *Current prices* | *1959 prices* | | *Current prices* | *1959 prices* |
| Agricultural products | 84 | 56.8 | 47.7 | 57.9 | 1.1 | 10.2 |
| Industrial products | 92 | 47.1 | 43.3 | 70.2 | 23.1 | 26.9 |
| Diamonds | 99 | 34.3 | 34.0 | 46.8 | 12.5 | 12.8 |
| Other exports | 100 | 1.6 | 1.6 | 2.4 | 0.8 | 0.8 |
| *Total* | 91 | 139.8 | 126.6 | 177.3 | 37.5 | 50.7 |

Source: Central Bureau of Statistics.

Citrus continues to be Israel's major agricultural export. However, in 1954 this commodity accounted for over 90 per cent of the country's agricultural exports, whereas more recently the share of other items (and particularly of eggs) has been increasing. By 1959 the share of citrus fruit had fallen to only 80 per cent. In real terms, citrus exports expanded by 15 per cent in 1959, a record 9.25 million crates being exported during the year. But after having

## TABLE III-2

*The Balance of Payments, 1958 and 1959*

*(millions of U.S. $)*

| | 1958 | | | 1959 | | |
|---|---|---|---|---|---|---|
| | *Credit* | *Debit* | *Net credit (+) or debit (–)* | *Credit* | *Debit* | *Net credit (+) or debit (–)* |
| A. *Commodities and services* | | | | | | |
| (1) Commodities | 139.8 | 417.9 | –278.1 | 177.3 | 423.1 | –245.8 |
| (2) Tourism and travel abroad | 12.2 | 3.2 | + 9.0 | 16.2 | 6.9 | + 9.3 |
| (3) Transport | 53.1 | 33.5 | +19.6 | 60.0 | 39.3 | +20.7 |
| (4) Insurance | 15.8 | 18.2 | – 2.4 | 16.1 | 20.5 | – 4.4 |
| (5) Capital servicing | 4.9 | 33.3 | – 28.4 | 8.2 | 38.2 | – 30.0 |
| (6) Government, n.e.s.[a] | 2.3 | 55.7 | – 53.4 | 2.9 | 54.3 | – 51.4 |
| (7) Miscellaneous | 7.3 | 7.7 | – 0.4 | 8.3 | 11.1 | – 2.8 |
| *Total* (1) to (7) | 235.4 | 569.5 | –334.1 | 289.0 | 593.4 | –304.4 |
| B. *Unrequited transfers* | | | | | | |
| *Private transfers* | | | | | | |
| (8) Gifts and transfers by residents and immigrants | | | | | | |
| (8.1) in cash | 28.8 | 0.3 | +28.5 | 22.4 | 0.6 | +21.8 |
| (8.2) in kind | 8.4 | 0.4 | + 8.0 | 5.9 | 0.3 | + 5.6 |
| (9) Personal restitution from Germany | 66.3 | 0.9 | +65.4 | 70.8 | 0.1 | +70.7 |
| *Transfers by the Government and by public institutions* | | | | | | |
| (10) German Reparations | 72.9 | 3.2 | +69.7 | 66.9 | 3.6 | +63.3 |
| (11) U.S. Government Aid | 16.4 | — | +16.4 | 9.5 | — | + 9.5 |
| (12) U.N. Technical Assistance | 0.4 | 0.1 | + 0.3 | 0.5 | 0.1 | + 0.4 |
| (13) United Jewish Appeal and other institutions | | | | | | |
| (13.1) Donations in cash | 55.5 | — | +55.5 | 71.3 | — | +71.3 |
| (13.2) Consolidation Loan | 10.4 | — | +10.4 | — | 5.8 | – 5.8 |
| (13.3) Transfers in kind | 9.4 | — | + 9.4 | 6.0 | — | + 6.0 |
| *Total* (8) to (13) | 268.5 | 4.9 | +263.6 | 253.3 | 10.5 | +242.8 |
| *Total* A+B | 503.9 | 574.4 | – 70.5 | 542.3 | 603.9 | – 61.6 |

[a] Not elsewhere specified.

## TABLE III-2

*The Balance of Payments, 1958 and 1959 (continued)*

*(millions of U.S. $)*

| | 1958 | | | 1959 | | |
|---|---|---|---|---|---|---|
| | *Credit* | *Debit* | *Net credit (+) or debit (–)* | *Credit* | *Debit* | *Net credit (+) or debit (–)* |
| C. *Net capital movements* | | | | | | |
| (14) Long- and medium-term loans | | | | | | |
| (14.1) Independence and Development Loans | 33.7 | — | +33.7 | 35.3 | — | +35.3 |
| (14.2) U.S. Government loan | 19.3 | — | +19.3 | 15.6 | — | +15.6 |
| (14.3) Other long-term loans | — | 7.4 | - 7.4 | 23.3 | — | +23.3 |
| (14.4) Medium-term loans | 13.5 | — | +13.5 | — | 6.4 | - 6.4 |
| (14.5) Foreign investments | 8.1 | — | + 8.1 | 12.6 | — | +12.6 |
| *Total* (14) | 74.6 | 7.4 | +67.2 | 86.8 | 6.4 | +80.4 |
| (15) Short-term capital movements | | | | | | |
| (15.1) Short-term loans | 8.8 | — | + 8.8 | — | 14.0 | - 14.0 |
| (15.2) Drawings on the I.M.F. and I.B.R.D. | — | 4.3 | - 4.3 | — | 0.5 | - 0.5 |
| (15.3) Clearing accounts | 8.1 | — | + 8.1 | — | 8.4 | - 8.4 |
| (15.4) Foreign deposits in local banks | 4.1 | — | + 4.1 | 5.2 | — | + 5.2 |
| (15.5) U.S. Government deposits | 27.2 | — | +27.2 | 27.4 | — | +27.4 |
| (15.6) Other short-term capital | 0.9 | — | + 0.9 | — | 3.4 | - 3.4 |
| (15.7) Foreign currency reserves | — | 46.3 | - 46.3 | — | 34.2 | - 34.2 |
| (15.8) Monetary gold | — | — | — | — | 4.3 | - 4.3 |
| *Total* (15) | 49.1 | 50.6 | - 1.5 | 32.6 | 64.8 | - 32.2 |
| *Total* (14)+(15) | 123.7 | 58.0 | +65.7 | 119.4 | 71.2 | +48.2 |
| *Total* A to C | 627.6 | 632.4 | - 4.8 | 661.7 | 675.1 | - 13.4 |
| Net errors and omissions | 4.8 | — | + 4.8 | 13.4 | — | +13.4 |

SOURCE: Central Bureau of Statistics.

fetched high prices on foreign markets for several years, citrus proceeds began to decline during the 1958/59 season, the average prices in 1959 falling as much as 16 per cent below their 1958 level. Thus, despite the larger volume of citrus exports, the proceeds from this item declined.

TABLE III-3

*Major Commodity Exports, 1954 to 1959*

*(millions of U.S. $)*

| *Commodity* | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| *Agricultural products* | | | | | | |
| Citrus fruit | 33.7 | 31.7 | 40.8 | 48.5 | 48.6 | 45.9 |
| Eggs | 02. | 0.2 | 0.6 | 0.6 | 4.8 | 6.5 |
| Groundnuts | 1.3 | 1.0 | 1.5 | 1.3 | 1.9 | 1.5 |
| Other products | 0.4 | 1.2 | 1.4 | 4.0 | 1.5 | 4.0 |
| *Total* | 35.6 | 34.1 | 44.3 | 54.4 | 56.8 | 57.9 |
| *Indutsrial products* | | | | | | |
| Citrus products | 2.8 | 2.1 | 3.8 | 4.0 | 5.8 | 7.3 |
| Other food products | 1.4 | 0.4 | 2.1 | 3.5 | 2.6 | 6.0 |
| Minerals | 0.7 | 0.2 | 0.4 | 0.2 | 0.6 | 3.1 |
| Motor cars | 7.1 | 3.5 | 1.7 | 2.1 | 2.0 | 3.8 |
| Tires | 2.3 | 2.6 | 3.7 | 4.7 | 5.8 | 6.3 |
| Machinery, metal products and electrical appliances | 3.1 | 2.8 | 1.9 | 2.9 | 1.6 | 2.2 |
| Cement | 2.5 | 2.6 | 3.0 | 3.5 | 1.7 | 2.7 |
| Plywood | 1.5 | 1.8 | 1.9 | 2.4 | 2.9 | 3.8 |
| Chemicals | 2.7 | 3.1 | 3.6 | 7.1 | 5.7 | 8.1 |
| Textile goods | 4.5 | 5.5 | 5.8 | 7.3 | 8.9 | 11.0 |
| Other products | 4.0 | 8.2 | 8.8 | 9.9 | 9.5 | 15.9 |
| *Total* | 32.6 | 32.8 | 36.7 | 47.6 | 47.1 | 70.2 |
| Diamonds | 15.6 | 20.6 | 24.7 | 35.5 | 34.3 | 46.8 |
| Miscellaneous | 4.0 | 1.4 | 4.0 | 3.3 | 1.6 | 2.4 |
| *Grand total* | 87.8 | 88.9 | 109.7 | 140.8 | 139.8 | 177.3 |

SOURCE: Central Bureau of Statistics and Ministry of Commerce and Industry.

During the years 1955 to 1957, income from citrus exports had been increasing substantially, both because larger quantities were marketed as newly-planted citrus groves began to yield fruit, and due to the higher prices obtained abroad. The fall in European citrus prices during the past two years was general, being caused by the bigger supplies of citrus on world markets, which intensified the competition between producers.

Egg exports began on a limited scale in 1954 when experimental consignments were sent abroad. By 1958, they had increased considerably, and in 1959 the income yielded by this export item totalled $6.5 million—35 per cent more than in the preceding year. However, egg prices in the countries of destination declined by 10 per cent, as a result of larger local supplies.

Groundnut exports have been fetching about $1 million per annum during the last five years. There is a large demand for this commodity on world markets, the only factor preventing bigger sales being the comparatively high prices prevailing in Israel. Exports of other fruit and vegetables have also been expanding, though many are still in the experimental stages.

In recent years, special measures to promote exports—such as market research, the raising of premiums and their extension to additional products, etc.—have been concerned mainly with industrial exports. The results achieved in 1959 demonstrated that these efforts were not in vain. Whereas during the entire 1954 to 1958 period the overall increase in industrial exports was $14 million, in the single year 1959 it reached $25 million. In other words, the value of these exports, at current prices, was approximately 50 per cent higher in 1959 than in 1958. Since industrial export prices fell by 8 per cent, the increase in physical volume was nearly 60 per cent. This expansion was due to the greater demand for industrial commodities in Western Europe and the United States in the wake of the economic boom there, to the penetration of new markets more than offsetting the gradual decline of trade within the framework of payments agreements, and to the maturing of past investments in copper, potash, chemicals, etc. The average premium paid on industrial exports was not much larger than in 1958, though higher premiums were granted in special cases on additional exports, increasing the marginal premium.

TABLE III-4

*Commodity Exports, 1954 to 1959*

*(percentages)*

| *Commodity group* | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| Agricultural products | 42 | 38 | 41 | 39 | 40 | 32 |
| Industrial products | 37 | 37 | 33 | 34 | 34 | 40 |
| Diamonds | 18 | 23 | 23 | 25 | 25 | 27 |
| Miscellaneous | 3 | 2 | 3 | 2 | 1 | 1 |
| *Total* | 100 | 100 | 100 | 100 | 100 | 100 |

Whereas in former years, the increase in industrial exports was confined to a few commodities, most branches of industry expanded their exports in 1959.

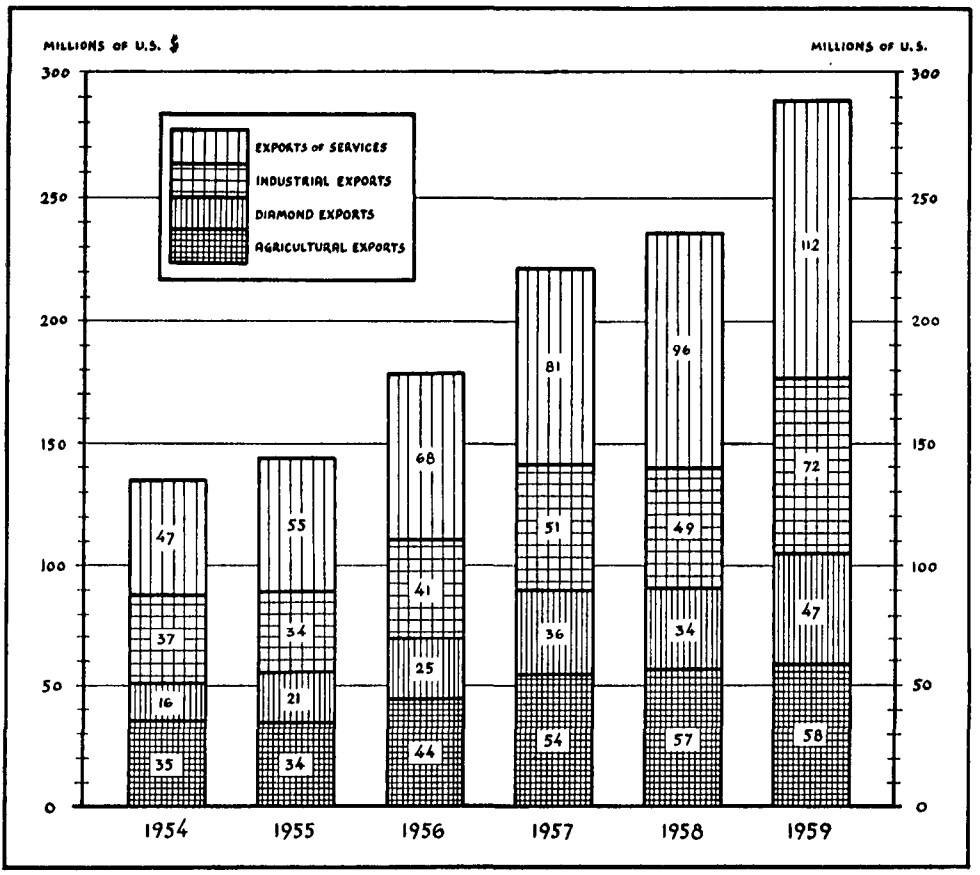
Nevertheless, the number of items on Israel's industrial export list remained comparatively small.

The share of the biggest exporters (each of whom exports goods to a value exceeding $1 million) has been increasing less rapidly than that of the average exporter. The largest relative expansion occurred in the share of enterprises exporting between $500,000 and $1 million worth of goods each.

DIAGRAM III–2

*Exports, by Branch, 1954 to 1959*

*(millions of U.S. $)*




Diamond exports increased by about 40 per cent during the year under review. This was due to the economic recovery in the United States and other major markets for this commodity, as well as to the expansion of the local diamond industry after regular supplies of raw materials for it were assured.

The total added value of exports exceeded $80 million in the year under review—an increase of 15 per cent in comparison with 1958. However, the

average percentage of added value on commodity exports decreased in 1959, both because the composition of exports changed, and due to its decline in each of the component items. The proportion of agricultural exports which have a high added value fell, whilst that of industrial and diamond exports which have a low added value rose.

Moreover, the average added value of agricultural exports was lower due to the drop in citrus prices and the larger volume of egg exports, the added value of which is relatively small. Despite the "deepening" of production, the average aded value of industrial exports also declined somewhat, owing to depressed prices on foreign markets and the marked increase in the export of commodities with a high import component, such as instant coffee, edible oil and motor cars.

TABLE III-5

*The Estimated Added Value of Commodity Exports, 1958 and 1959*

*(millions of U.S. $)*

| *Commodity group* | *1958* | | | *1959* | | |
|---|---|---|---|---|---|---|
| | *Total receipts* | *Added value* | *Percentage of added value* | *Total receipts* | *Added value* | *Percentage of added value* |
| Agricultural products | 56.8 | 40.9 | 72 | 57.9 | 40.5 | 70 |
| Industrial products | 47.1 | 22.1 | 47 | 70.2 | 31.6 | 45 |
| Diamonds | 34.3 | 6.9 | 20 | 46.8 | 9.8 | 21 |
| *Total* * | 138.2 | 69.9 | 51 | 174.9 | 81.9 | 47 |

* Excluding postage stamps, scrap and the sale of ships.
SOURCE: Ministry of Commerce and Industry.

Britain and the United States remained Israel's biggest customers. During the last few years, Germany and Switzerland have been taking a steadily increasing percentage of Israel's exports, while the share of exports to Finland and Turkey has been contracting. The biggest customers are also the largest purchasers of Israel industrial products; however, their position at the head of the list is due to their large purchases of citrus fruit or diamonds. Britain and West Germany buy Israel citrus in quantities far exceeding those sold to other countries. On the other hand, the United States are the major market for Israel diamonds. Britain, Turkey, the United States, Germany and Yugoslavia are the largest purchasers of Israel's industrial exports.

Israel markets her goods to more than 90 countries, but some 75 per cent of her exports are sold to 12 countries only. There was no significant difference in the rate of expansion between exports to these 12 countries and to the others.

During the last two years, there has been a considerable increase in the value

TABLE III-6

*Exports, by Major Countries of Destination, 1954 to 1959*

*(millions of U.S. $)*

| *Country of destination* | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| Great Britain | 19.4 | 16.1 | 23.3 | 27.6 | 29.5 | 32.7 |
| United States | 13.9 | 16.3 | 19.1 | 21.2 | 19.4 | 27.0 |
| Germany | 1.6 | 2.7 | 3.4 | 6.2 | 10.7 | 17.0 |
| Switzerland | 1.5 | 2.2 | 3.2 | 7.6 | 7.9 | 9.6 |
| Belgium | 3.0 | 3.6 | 6.5 | 9.0 | 6.8 | 9.3 |
| Turkey | 12.8 | 10.3 | 5.5 | 9.2 | 3.5 | 8.8 |
| Netherlands | 2.4 | 2.5 | 2.6 | 3.9 | 4.8 | 6.7 |
| Yugoslavia | 1.7 | 3.2 | 2.8 | 4.8 | 5.4 | 5.0 |
| Italy | 0.5 | 0.4 | 1.4 | 3.8 | 2.3 | 3.9 |
| France | 2.1 | 2.1 | 3.8 | 4.9 | 5.5 | 3.9 |
| Sweden | 2.6 | 2.4 | 3.2 | 3.8 | 4.1 | 3.9 |
| Finland | 6.8 | 6.7 | 6.0 | 6.3 | 2.9 | 3.0 |
| Other countries | 19.5 | 20.4 | 28.9 | 32.5 | 37.0 | 46.5 |
| *Total* | | | | | | |
| Million $ | 87.8 | 88.9 | 109.7 | 140.8 | 139.8 | 177.3 |
| Index | 100.0 | 101.3 | 124.9 | 160.4 | 159.2 | 201.9 |
| Percentage of exports to payments agreement countries | 40.5 | 40.4 | 30.0 | 33.3 | 26.2 | 20.0 |

SOURCE: Central Bureau of Statistics.

of exports to Hong Kong, Brazil, Ghana, Japan, Persia, Cyprus, and Colombia. On the other hand, exports to certain other countries (most of which were linked to Israel by payments agreements) declined during 1959. This applies particularly to Bulgaria, Greece, Norway and Poland.

Exports to African countries, which are carried out under rather difficult conditions, were given special encouragement during 1959, both in the form of assistance in their organization and of a higher premium (IL.1.20 per dollar of added value). These measures are partly responsible for the steady expansion of exports to these countries, which totalled $4.5 million in 1959, as against $3.4 million in 1958 and $2.5 million in 1957. Exports to Africa consist exclusively of industrial commodities, in the main cement, tires, motor cars and textiles.

During the last few years, the importance of exports to payments agreement countries has been steadily declining, their weight within total exports falling from 40 per cent in 1954 and 1955 to 20 per cent in 1959. However, the value of exports to these countries has remained virtually unchanged during this period, totalling approximately $35 million per annum.

The above developments were chiefly due to the termination of the payments agreements with several countries,[1] the trade with which is now being conducted freely.

Moreover, exports to certain trade agreement countries (such as Finland) declined, since the liberalization of trade with them made it impossible to maintain the volume of exports at its previous level. It should, however, be pointed out that certain payments agreement countries, such as Turkey and Yugoslavia, are still among the major markets for Israel exports.

A distinction should be made between the payments agreements with countries of Western and Eastern Europe: trade with the former is in fact free, the agreements mainly facilitating payments arrangements. On the other hand, trade with Eastern Europe is largely governed by the conditions laid down in the agreements, and would be impossible without them.

With the growing liberalization of foreign trade in Israel and in countries linked with Israel by payments agreements, transactions within the framework of these agreements began to be based on international prices, and the distinction between trading by agreement and trading freely lost much of its significance. Consequently, most Israel exports are now carried out under conditions of free competition.

### 3. Exports of Services

In 1959, exports of services increased by $16 million, totalling $111.7 million.

Income from transport services was again the major item, yielding $40 million, or $7 million more than last year. Income from passenger transport, which totalled $19.6 million, rose by 25 per cent in 1959, mainly as a result of the larger number of tourists visiting Israel. Air passenger traffic provided the largest part of this increase, receipts rising from $4.6 million in 1957 to $9.4 million in 1958 and $12.4 million in 1959, whereas income accruing from passengers travelling by sea rose from $4.7 million in 1957 to $6.4 million in 1958 and $7.2 million in 1959. Receipts from freight transport, on the other hand, accrued mainly from maritime cargo traffic: this yielded $35.7 million in 1959, as against only $4.6 million received on account of air freights.

Income from tourism, which averaged some $5–7 million per annum during the years 1954–1957, increased to $12 million in 1958 due to the maturing of investments made in the branch during previous years, and the Tenth Anniversary celebrations. In 1959, income from this source totalled $16 million, the number of tourists visiting Israel rising to 92,000, as compared with 75,000 in

[1] The agreement with Denmark was terminated at the end of 1959 and that with France came to an end at the beginning of 1960. The agreements with Holland, Italy and Burma had been terminated in previous years.

1958. The average expenditure per tourist rose from $160 in 1958 to $172 in 1959.

Income from the export of other services, such as insurance and capital servicing, also increased.

TABLE III-7

*Exports of Services, 1954 to 1959*

*(millions of U.S. $)*

| | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| Tourism | 4.9 | 7.3 | 6.4 | 5.5 | 12.2 | 16.2 |
| Transport | 23.8 | 26.9 | 32.8 | 45.9 | 53.1 | 60.0 |
| Insurance | 12.0 | 10.9 | 11.0 | 14.2 | 15.8 | 16.1 |
| Capital servicing | 2.3 | 1.7 | 4.4 | 3.6 | 4.9 | 8.2 |
| Government | 1.3 | 4.3 | 7.0 | 4.9 | 2.3 | 2.9 |
| Miscellaneous | 2.4 | 3.9 | 6.6 | 7.1 | 7.3 | 8.3 |
| *Total* | | | | | | |
| Million $ | 46.7 | 55.0 | 68.2 | 81.2 | 95.6 | 111.7 |
| Index | 100.0 | 117.8 | 146.0 | 173.9 | 204.7 | 239.2 |

SOURCE: Central Bureau of Statistics.

## 4. COMMODITY IMPORTS

At current prices, the value of imported goods rose by 1 per cent, totalling $423.1 million, as compared with $417.9 million in 1958. However, import prices fell by some 2 per cent, so the real volume of imports increased by 3 per cent.

During 1959, the composition of imports underwent considerable changes. There was a substantial decline in food imports (as both current and constant prices) mainly owing to the reduction of U.S. food surplus imports. On the other hand, imports of industrial raw materials increased by 10 per cent at current prices, and by about 12 per cent at constant prices. The value of fuel imports decreased slightly. Fuel prices also declined. Imports of consumer goods (other than foodstuffs) rose somewhat. Imports of investment goods remained at their 1958 level.

The slower rate of import expansion in 1959 reflects the continuation of a trend which began in 1958. Previously, import expenditure had been increasing substantially from year to year. The new trend may be attributed primarily to the fall in import prices during the last two years, in contrast to their continuous rise during the 1954 to 1957 period. Calculated at fixed prices, the volume of imports rose by 4–5 per cent per annum throughout the 1954–1958 period, except for 1957, when it was 11 per cent higher than in the previous year.

TABLE III–8

*Imports, by Economic Destination, 1954 to 1959*

*(millions of U.S. $)*

| *Economic destination* | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| *Imports for direct consumption* | | | | | | |
| Foodstuffs | 29.5 | 28.2 | 30.2 | 24.1 | 30.8 | 18.5 |
| Other consumer goods | 13.2 | 14.4 | 11.6 | 12.6 | 12.2 | 13.4 |
| Durable goods | 6.4 | 7.8 | 8.3 | 13.3 | 10.1 | 10.8 |
| *Total* | 49.1 | 50.4 | 50.1 | 50.0 | 53.1 | 42.7 |
| *Raw materials* | | | | | | |
| For the food industry | 37.6 | 42.1 | 42.8 | 47.2 | 44.1 | 46.4 |
| For other industries | 101.6 | 111.4 | 120.0 | 144.0 | 140.3 | 157.7 |
| For agriculture | 11.4 | 19.5 | 19.1 | 20.1 | 27.4 | 28.9 |
| *Total* | 150.6 | 173.0 | 181.9 | 211.3 | 211.8 | 233.0 |
| *Capital goods* | | | | | | |
| Industrial equipment | 20.4 | 23.6 | 36.4 | 34.6 | 49.6 | 49.2 |
| Agricultural equipment | 19.4 | 8.3 | 11.4 | 8.2 | 7.9 | 9.3 |
| Other equipment | 4.4 | 5.0 | 5.7 | 5.1 | 5.9 | 5.9 |
| Building materials | 12.7 | 14.1 | 20.3 | 19.9 | 17.5 | 18.5 |
| Transport vehicles and parts | 17.4 | 25.7 | 27.8 | 48.3 | 31.3 | 29.3 |
| *Total* | 64.3 | 76.7 | 101.5 | 116.1 | 112.2 | 112.2 |
| *Fuel* | 31.4 | 33.0 | 32.9 | 53.9 | 40.4 | 34.7 |
| *Other imports* | 0.6 | 0.5 | 0.6 | 0.7 | 0.4 | 0.5 |
| *Grand total* | | | | | | |
| Million $ | 296.0 | 333.6 | 367.0 | 432.0 | 417.9 | 423.1 |
| Index | 100.0 | 112.7 | 124.0 | 145.9 | 141.2 | 142.9 |
| Imports per capita ($) | 175 | 191 | 201 | 219 | 209 | 205 |

SOURCE: Central Bureau of Statistics.

During 1954–1959 there was a substantial increase (at current prices) in imports of raw materials and capital goods, whereas imports of consumer goods and fuel expanded at the beginning of the period but later declined. This was largely due to price fluctuations: the prices of capital goods have been rising steadily, but those of other commodities began to fall after 1958. Especially noteworthy were the decline in fuel prices (by 5 per cent between 1954 and 1959) and the small increase in raw material prices, which rose by 2 per cent during the same period.

TABLE III-9

*Commodity Imports, 1958 and 1959*

*(millions of U.S. $)*

| | *1959 price index (1958 =100)* | *1958* | | *1959* | *Increase or decrease (-) from 1958 to 1959 (1959 prices)* | |
|---|---|---|---|---|---|---|
| | | *Current prices* | *1959 prices* | | *Millions of $* | *Percentages* |
| Consumer goods | 96 | 53.1 | 51.0 | 42.7 | - 8.3 | -16.3 |
| Raw materials | 98 | 211.7 | 207.5 | 233.0 | 25.5 | 12.3 |
| Capital goods | 103 | 112.3 | 115.7 | 112.2 | - 3.5 | - 3.0 |
| Fuel | 88 | 40.4 | 35.5 | 34.7 | - 0.8 | - 2.3 |
| Miscellaneous | 100 | 0.4 | 0.4 | 0.5 | 0.1 | 25.0 |
| *Total* | 98 | 417.9 | 410.1 | 423.1 | 13.0 | 3.2 |

SOURCE: Central Bureau of Statistics.

Imports of raw materials have been expanding steadily, their volume, at constant prices, being 50 per cent larger in 1959 than in 1954. Up to 1958, the greatest relative increase was in imports of agricultural raw materials, largely because of U.S. agricultural surpluses. In 1959, the main increase was in uncut diamonds.

Imports of capital goods reached their highest level in 1957,[1] and though declining somewhat subsequently, were still 35 per cent above their 1954 level in 1959. The largest increase was in imports of industrial equipment.

Imports of consumer goods declined substantially in 1959,[1]—a trend noticeable for several years past (except 1958, when imports of U.S. agricultural food surpluses increased considerably). In 1959, the value of consumer goods imported was 23 per cent lower than in 1954. There was a particularly sharp fall in food imports, caused by the expansion of local agricultural and industrial production and the larger quantity of raw materials imported for the food industry. Imports of durable consumer goods have been increasing during the last few years, first as a result of imports by immigrants, and in 1958 and 1959 due to the liberalization of import regulations and the large number of licences granted to recipients of personal restitution from West Germany to import such commodities.

Expenditure on fuel imports, which had been stable between 1954 and 1956, increased considerably in 1957, chiefly because prices rose steeply during that year.[2] After 1957, fuel prices began to fall, and in 1959 were 5 per cent below

[1] At constant prices.

[2] They had risen also during the 1954–56 period, albeit to a lesser extent.

TABLE III-10

*Imports, by Economic Destination, 1954 to 1959*
*(millions of U.S. $—1954 prices)*

| *Economic destination* | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| Consumers goods | 49.1 | 48.9 | 44.3 | 39.1 | 45.0 | 37.8 |
| Raw materials | 150.6 | 163.2 | 163.9 | 188.7 | 203.7 | 228.4 |
| Capital goods | 64.3 | 67.9 | 83.9 | 92.1 | 89.0 | 86.3 |
| Fuel | 31.4 | 31.4 | 28.9 | 39.3 | 37.4 | 36.5 |
| *Total* | 295.4 | 311.4 | 321.0 | 359.2 | 375.1 | 389.0 |
| Imports per capita ($) | 175 | 178 | 178 | 181 | 187 | 187 |

SOURCE: Central Bureau of Statistics.

their 1954 level. At constant prices, fuel imports were 10 per cent larger in 1959 than in 1954.

During the 1954–1959 period, the United States, West Germany and the United Kingdom were Israel's main sources of supply, accounting for 50–60 per cent of her commodity imports. Eight other countries (all, except Turkey, West European) supplied a further 16 to 25 per cent of these imports.

## 5. IMPORTS OF SERVICES

The total outlay on imports of services rose from $151.6 million in 1958 to $171.0 million in 1959 (an increase of 13 per cent), after increasing steadily

TABLE III-11

*Imports of Services, 1954 to 1959*
*(millions of U.S. $)*

| | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| Travel abroad | 1.4 | 2.2 | 2.1 | 2.8 | 3.2 | 6.9 |
| Transport | 16.5 | 16.9 | 25.2 | 30.1 | 33.5 | 40.0 |
| Insurance | 13.0 | 11.9 | 13.8 | 16.0 | 18.2 | 20.5 |
| Capital servicing | 19.0 | 20.3 | 25.6 | 28.1 | 33.3 | 38.2 |
| Government | 26.0 | 36.9 | 96.7 | 43.6 | 55.7 | 54.3 |
| Miscellaneous | 3.9 | 4.9 | 4.1 | 4.5 | 7.7 | 11.1 |
| *Total* | 79.8 | 93.1 | 167.5 | 125.1 | 151.6 | 171.0 |
| *Total excluding Government* | | | | | | |
| Million $ | 53.8 | 56.2 | 70.8 | 81.5 | 95.8 | 116.7 |
| Index | 100.0 | 104.5 | 131.6 | 151.5 | 178.1 | 216.9 |

SOURCE: Central Bureau of Statistics.

during the last few years, except for the expenditure on Government services which has been fluctuating sharply from year to year.

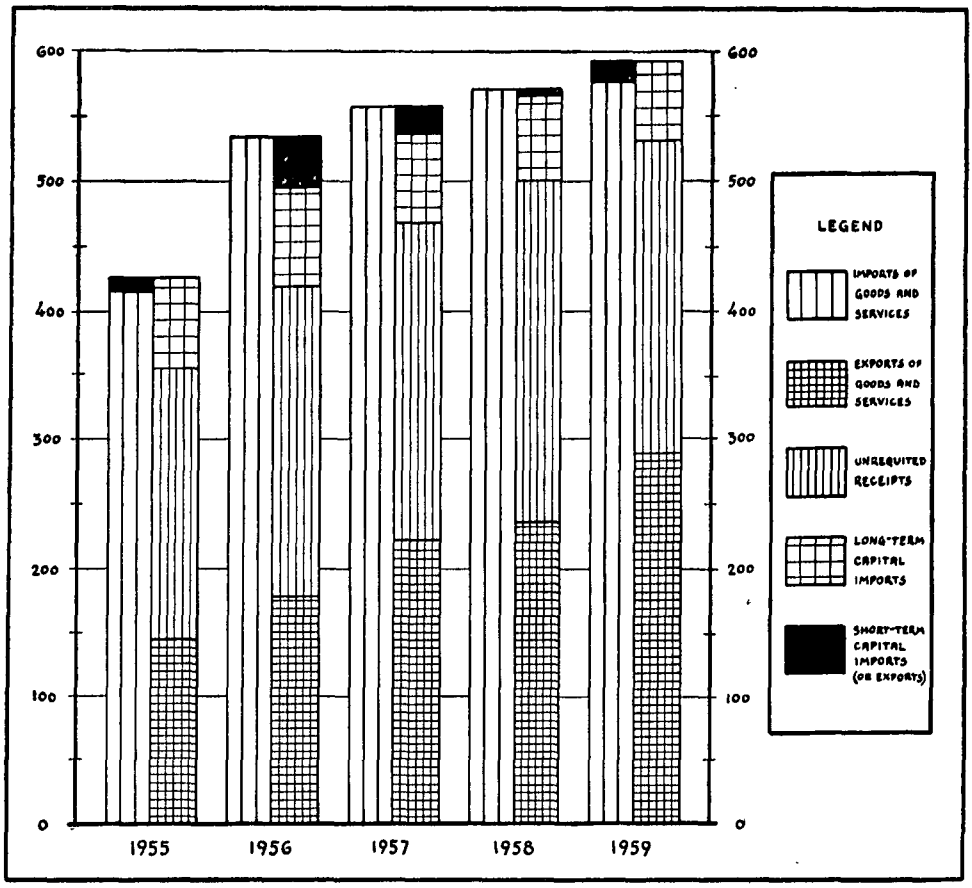
Government expenditure abroad—including defence outlays—was again the main item listed under the import of services. This item remained in 1959 at much the same level as in 1958. Payments for capital services, including interest on foreign loans, increased proportionately to the expansion of these commitments. It should be noted that this item includes the dividends and profits of foreign investors, which totalled $6.7 million in 1959, as compared with $5.7 million in the preceding year.

Payments for passenger transport represent a small proportion of the total foreign currency outlay on transportation services, and totalled only $6 million in 1959—$1.5 million more than in the preceding year. Payments for air freights

DIAGRAM III-3

*The Financing of Imports and Exports, 1955 to 1959*

*(millions of U.S. $)*



remained at the $11.1 million level, after having risen substantially in 1958. Payments for maritime freights rose to $23 million during the year under review.

The expenditure on foreign travel by Israel residents increased considerably during 1959, reaching $6.9 million, as against $2-3 million in 1958 and even less in previous years. This was due to the partial relaxation of foreign exchange controls, Israelis being permitted, *inter alia,* to purchase foreign securities and a certain amount of foreign currency to cover their personal expenses while travelling abroad.

### 6. Unrequited Receipts

Unrequited receipts totalled $243 million in 1959;—i.e. the same as in 1956 and 1957, but 7 per cent less than in 1958.

The biggest increase occurred in the item "Personal Restitution from West Germany." On the other hand, income from Reparations, which had totalled approximately $80 million per annum between 1954 and 1957, declined during the last two years, falling to $63 million in 1959. This amount is somewhat smaller than the appropriation for 1959 stipulated in the Reparations Agreement, since part of the 1959 quota had already been received in previous years, i.e. ahead of time. The value of goods received between the signing of the Reparations Agreement in 1953 and the end of 1959 totalled approximately $500 million,—representing 61 per cent of the total amount of reparations due ($821 million).

The net income accruing to Israel from donations collected abroad is largely determined by the Consolidation Loans obtained or repaid during the particular year concerned. Unrequited receipts reached their highest level in 1954, when transfers by Jewish institutions totalled approximately $120 million. However, nearly half this amount constituted a Consolidation Loan from the Jewish communities of the United States, i.e. an advance on account of future United Jewish Appeal collections in that country.

In 1959 donations transferred by Jewish institutions totalled about $70 million, though $6 million of the Consolidation Loan were repaid. At the end of 1959, the outstanding balance of this loan had declined to $35 million. The average annual amount transferred to Israel by the Jewish institutions during the 1954–1959 period was $80 million.

In the last few years, U.S. Government aid to Israel was extended chiefly in the form of long-term loans for the purchase of agricultural food surpluses repayable in local currency. The share of the outright grant was not very high. In 1959, U.S. assistance totalled $52 million, as compared with $47 million in 1956, $49 million in 1957 and $63 million in 1958. The $52 million included a direct grant of $9.5 million, $33.5 million worth of agricultural surpluses and a $9.5 million loan from the Development Fund.

TABLE III-12

*Unrequited Receipts, 1954 to 1959*

*(millions of U.S. $)*

| | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| Private transfers | | | | | | |
| In cash | 9.4 | 24.3 | 25.4 | 21.2 | 28.5 | 21.8 |
| In kind | 6.5 | 10.8 | 10.2 | 15.5 | 8.0 | 5.6 |
| Personal restitution from Germany | 6.1 | 18.7 | 25.7 | 45.0 | 65.4 | 70.7 |
| German Reparations | 82.3 | 87.5 | 79.2 | 77.9 | 69.7 | 63.3 |
| U.S. Government Aid | 38.6 | 20.5 | 6.8 | 24.1 | 16.4 | 9.5 |
| U.N. Technical Assistance | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.4 |
| U.J.A. and other institutions | | | | | | |
| Donations in cash | 31.5 | 36.8 | 68.9 | 74.2 | 55.5 | 71.3 |
| Consolidation Loan | 55.6 | 6.3 | 18.7 | -18.5 | 10.4 | -5.8 |
| Transfers in kind | 32.0 | 5.1 | 5.1 | 5.6 | 9.4 | 6.0 |
| *Total* | 262.4 | 210.4 | 240.4 | 245.4 | 263.6 | 242.8 |

SOURCE: Central Bureau of Statistics.

Foreign currency transfers by private individuals, excluding personal restitution payments, declined somewhat in 1959. No significant changes had occurred in the composition of such transfers between 1955 and 1958. During the last two years, however, the proportion of cash transfers has been increasing, whilst that of transfers in kind has declined. This was probably due to the liberalization of imports and to the premium granted on part of the amounts transferred in cash.

## 7. CAPITAL MOVEMENTS AND FOREIGN LIABILITIES

Israel's commitments to the rest of the world comprise—in addition to loans repayable in foreign currency—liabilities in local currency, investments of persons resident abroad and clearing account deficits. Their net volume depends also on changes in foreign exchange reserves. The country's net foreign commitments grew during 1959 by $48 million—the smallest annual increase registered during the past few years. They had expanded by about $66 million in 1958 and by $80 million in 1957.

The increase in Israel's foreign exchange liabilities during the six-year period 1953–1959 totalled $227 million, and was due entirely to sales of Independence and Development Loan bonds, the total liabilities on account of which rose by $229 million. These loans, represented one-third of the country's foreign exchange commitments in 1953. By 1959, their share had increased to 58 per cent.

No significant changes occurred in the outstanding balance of other long-term loans during the same period. The balance of medium- and short-term loans showed considerable fluctuations from year to year, ranging from $87 million in 1954 to $132 million in 1958.

During 1959, the country's net foreign exchange commitments increased by $38.3 million, chiefly because net commitments on account of the Independence and Development Loans rose by $35.4 million. Bond sales during the year under review totalled $51.3 million, while the State's liabilities in respect of cumulative interest on bonds rose by $6.1 million. At the same time, $22.2 million worth of bonds were redeemed—of which only $2.8 million in dollars. Of the $19.4 million repaid in Israel pounds, $8.7 million were redeemed by foreign investors, $8 million by institutions receiving donations in the form of bonds, and the remaining $2.7 million by tourists or residents who had received bonds as gifts.

As regards other foreign exchange commitments, medium-term liabilities declined in 1959 by $6.4 million[1] and short-term debts by $14 million.[1] In contrast, long-term liabilities other than the Independence and Development Loans increased by $23.3 million.

Net foreign investments totalled $13 million in 1959. This amount, however, makes allowance for the liquidation of certain foreign investments in Israel (chiefly the purchase of the Haifa Refineries) as well as for Israel's investments abroad, which together totalled $11 million. Gross foreign investment during the year thus reached approximately $24 million. Capital transfers increased by $9 million and investments from foreign residents' blocked accounts in Israel—by nearly $3 million. At the same time, Israel's own investments abroad doubled, and the stocks of foreign companies operating in Israel contracted. All in all, $4.5 million more were invested in Israel in 1959 than in the preceding year.

The short-term capital account for 1959 shows larger foreign currency reserves and a smaller outstanding balance of foreign exchange liabilities. However, local currency liabilities rose. The country's foreign exchange balances (including gold) expanded by $38.5 million in 1959, after having increased by $46.3 million in 1958. These balances include short-term deposits of foreign residents which may be withdrawn without notice. Foreign currency reserves totalled $168.4 million at the end of 1959, an amount equal to 28 per cent of the total import expenditure during that year. Between 1954 and 1957, foreign currency reserves had remained virtually stationary at a level of $80–$90 million. During 1955 and 1956, this amount had covered only 15 per cent of the current imports of goods and services. In 1958, the reserves increased, covering some 23 per cent of imports. This trend continued in 1959, when foreign exchange reserves were sufficient to cover imports for about 3½ months.

Israel's commitments to the rest of the world (excluding foreign investment,

[1] These liabilities consist mainly of credits from foreign banks and suppliers for the financing of imports.

## TABLE III-13

*Israel's Commitments to the Rest of the World, 1954 to 1959*

*(millions of U.S. $)*

*(End of period)*

| | *1954* | *1955* | *1956* | *1957* | *1958* | *1959* |
|---|---|---|---|---|---|---|
| A. *Foreign currency liabilities* | | | | | | |
| (1) Medium- and long-term liabilities | | | | | | |
| Independence and Development Loans | 160.1 | 198.3 | 245.8 | 290.4 | 324.1 | 359.5 |
| Other long-term loans | 156.9 | 155.3 | 149.1 | 132.3 | 124.8 | 148.1 |
| Medium-term loans | 58.9 | 65.5 | 57.3 | 60.7 | 75.7 | 69.3 |
| *Total* | 375.9 | 419.1 | 452.2 | 483.3 | 524.6 | 576.9 |
| (2) Short-term liabilities | | | | | | |
| Short-term loans | 27.8 | 31.0 | 49.3 | 46.3 | 56.6 | 42.6 |
| Liabilities to the I.M.F. | — | — | — | 3.8 | — | — |
| Net liabilities on account of payments agreements | 2.9 | 4.2 | 1.1 | 4.7 | 12.7 | 4.4 |
| Foreign deposits | 23.5 | 22.0 | 17.6 | 16.1 | 20.2 | 25.4 |
| *Total* | 54.2 | 57.2 | 68.0 | 70.9 | 89.5 | 72.4 |
| (3) Foreign exchange reserves | | | | | | |
| Deposits abroad | 80.3 | 89.3 | 82.3 | 80.0 | 126.3 | 160.6 |
| Monetary gold | 1.1 | 1.1 | 4.7 | 3.5 | 3.5 | 7.8 |
| *Total* | 81.4 | 90.4 | 87.0 | 83.5 | 129.8 | 168.4 |
| *Total net foreign exchange liabilities* (1) + (2) − (3) | 348.7 | 385.9 | 433.2 | 470.7 | 484.3 | 480.9 |
| B. *Local currency liabilities to foreign countries* | — | 31.6 | 72.3 | 97.9 | 144.4 | 187.4 |
| *Grand total* | 348.7 | 417.5 | 505.5 | 568.6 | 628.7 | 668.3 |

SOURCE: Central Bureau of Statistics.

TABLE III-14

*Foreign Investment in Israel, by Type, 1957 to 1959*

*(millions of U.S. $)*

| *Type of investment* | *1957* | *1958* | *1959* | *Increase or decrease (–) from 1958 to 1959* |
|---|---|---|---|---|
| Capital transfers in cash, kind and bonds | 11.6 | 14.4 | 23.7 | 9.3 |
| Investment by non-residents from their local currency deposits | 3.9 | –1.8 | 0.9 | 2.7 |
| Changes in stocks of foreign companies | 3.5 | 1.2 | –1.0 | –2.2 |
| *Less:* | | | | |
| Israel's investments abroad and liquidation of foreign investments in Israel | 1.2 | 5.7 | 11.0 | 5.3 |
| *Total* | 17.8 | 8.1 | 12.6 | 4.5 |

SOURCE: Central Bureau of Statistics.

for which no aggregates are available) totalled $873 million in 1959. (This figure includes local currency commitments to the U.S. Government to the equivalent of $187 million.) During the same year, foreign currency reserves reached $168 million. Thus, Israel's net foreign liabilities totalled $669 million.