

## CHAPTER III

# THE BALANCE OF PAYMENTS

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

THE ENDING of the recession and the return to a high level of economic activity which marked 1968 found expression in a substantial increase in all categories of commodity imports and, despite the rapid expansion of commodity exports, in a sharp rise in the trade deficit. The latter reached \$ 392 million,<sup>3</sup> as compared with \$ 198 million in 1967; it was also considerably greater than the \$ 321 million deficit recorded in 1966, when the recessionary conditions and the standstill in the national product led to the tapering-off of commodity imports.<sup>4</sup>

The deficit on services account fell slightly in 1968, owing to the strong growth of several service export items, but it still approximated the high level reached in 1967 because of the steep increase in security imports. The 1968 deficit amounted to \$ 304 million as against \$ 333 million in 1967,<sup>5</sup> which was two-and-a-half times greater than in the five preceding years (\$ 120–\$ 140 million per annum).

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

<sup>2</sup> Commodity imports and exports in the balance of payments include trade between Israel and the administered areas, as well as overseas trade. The detailed tables, however, contain only the flows between Israel and the rest of the world excluding the administered areas. Trade with the latter is relatively small, and the figures on it are rough and sometimes very tenuous estimates; moreover, commodity detail is available only for very broad groups. According to such estimates as exist, the volume of imports from the administered areas was negligible. Exports to them differ from those to the rest of the world—essentially this is a case of the enlargement of the protected domestic market, and sales here do not reflect the country's export problems. Trade with the administered areas totalled as follows (in millions of dollars; figures in parentheses are estimates for 1967): commodity exports—52.4 (15.0); commodity imports—14.6 (2.0); service exports—6.1 (4.6); service imports—30.3 (21.7).

<sup>3</sup> With commodity imports recorded on a c.i.f. basis.

<sup>4</sup> In 1968 the trade deficit excluding the administered areas was \$ 430 million, compared with \$ 211 million in 1967.

<sup>5</sup> In 1968 the deficit on services account, excluding the administered areas, was \$ 280 million, as compared with \$ 316 million in 1967.

Table III-1

## SUMMARY BALANCE OF PAYMENTS, 1961-68

(\$ million)

	1961	1962	1963	1964	1965	1966	1967	1968
Current account <sup>a</sup>								
Imports of goods and services	-844	-938	-1,025	-1,192	-1,231	-1,277	-1,440	-1,824
Exports of goods and services	398	472	577	619	711	832	908	1,128
Import surplus (or deficit on current account)	-446	-467	-448	-533	-520	-445	-532	-696
Long- and medium-term capital imports								
Unilateral transfers	346	331	346	335	327	292	521	425
Long- and medium-term capital movements	187	209	153	280	230	184	303	230
Total capital imports	533	540	499	615	557	476	824	654
Excess of capital imports over deficit on current account	87	73	51	42	37	31	293	-42
Accumulation of gold and foreign exchange reserves <sup>b</sup>	-95	-141	-109	-21	-106	19	-228	52
Other short-term capital movements	10	28	54	-48	51	-23	-50	16
Errors and omissions	-3	40	4	27	19	-27	-15	-26

<sup>a</sup> With commodity imports recorded on a f.o.b. basis.<sup>b</sup> A negative sign indicates an increase in reserves.

SOURCE: Central Bureau of Statistics.

As a result of these two developments, the total current deficit reached an all-time high of \$ 696 million, compared with \$ 531 million in 1967 (when the trade deficit fell precipitately because of the economic slowdown) and \$ 445 million in 1966 (before the big jump in security imports).<sup>1</sup>

Commodity imports went up 42 percent in 1968 to stand at \$ 1,042 million, as contrasted with \$ 731 million in 1967 and \$ 794 million in 1966. Practically all categories of imports were larger in the year reviewed, but those hardest hit by the recession showed the biggest increases. Imports of investment assets for industry and construction, which were halved during the slowdown, soared by 122 percent, and imports of durable goods by 111 percent.

There was also a substantial rise in most current inputs. Total imports of inputs other than rough diamonds went up to about the same extent as total imports (38 percent), and far more rapidly than the growth of economic activity; they were even greater than what might have been expected as a result of the structural change in output. A not insignificant proportion of the increased import of inputs can apparently be ascribed to changes in inventories connected with the level of economic activity. Part of the increment was intended to replenish stocks which had run down in 1967. The steep rise in this item relative to the level of economic activity stemmed from the fact that in 1967 imports were below current production requirements, while in 1968—because of the buildup of stocks—they exceeded current requirements. The contribution of inventory changes to the expansion of imports is clearly brought out by the growth trend of the latter in the course of the year reviewed.

Imports began to move up strongly in the last quarter of 1967, shortly after the onset of economic recovery, and continued advancing at a rapid rate through the first quarter of 1968. Thereafter the rise decelerated, and toward the end of the year and the beginning of 1969 the trend tapered off and even turned slightly downward.

During the period of rapid growth, industrial inputs were the decisive factor. Subsequently their expansion began to sag noticeably; in the latter part of the year the level stabilized, and at the beginning of 1969 it even fell slightly.

Other categories of imports also began to slow down after the first quarter of 1968, though to a much smaller extent. The upswing in imports of investment goods for industry and construction and of durable consumer goods began at a relatively early stage of the economic recovery. However, during the recessionary period these items had fallen off more steeply than inputs, and in contrast to the latter, their import at the end of 1967 was still much lower than before the recession. The rapid expansion of these items continued throughout the year reviewed, and together with spare parts, they accounted for most of the incremental import between the first and last quarters.

<sup>1</sup> Excluding the administered areas, the deficit was \$ 710 million in 1968, as against \$ 527 million in 1967.

Industrial goods contributed most to the rapid growth of commodity exports in 1968. Agricultural exports expanded at a low rate, because of a physical decline in citrus sales and the lower prices fetched. Diamonds went up 22.9 percent as a result of heavier foreign demand.

There was a marked acceleration in the group of commodities produced primarily for the local market. The picture here is not entirely uniform, as there were contrasting inter- and intrabranh trends. The explanation is presumably to be found in the complex nature of the factors that influenced exports.

First was the level of economic activity, although it did not exert a one-way effect. On the one hand, the influence of the economic slowdown, which induced local producers to turn to export markets, was still felt; on the other hand, the constraining influence of rising domestic demand was already apparent in 1968. Another factor was the rise in export proceeds, due both to the institution of a system of direct incentives in 1966 and to the devaluation of November 1967. A third factor was the expansion of the world market and the larger demand for imports with the pickup in economic activity in a number of major countries which had experienced some slackening in 1967. Yet another factor was the greater competitiveness of Israeli goods in the last two years, ascribable to the stability of wages at a time when in other industrial economies hourly wages were still going up rapidly.

In the course of 1968 the contractionary influence of the buoyant domestic demand began to outweigh the expansionary impact of the factors tending to increase exports; thus by the middle of the year the upward trend of those goods which have a domestic market was halted, but the level remained far above that of the corresponding months of 1967. This was also the situation at the beginning of 1969.

A similar conclusion emerges from an analysis of exports according to exporters. This shows that a not insignificant number of exporters made strong headway during the recession, and accounted for a considerable proportion of the total increment; in 1968 their overseas sales dropped steeply, and they lost much of the ground previously gained.

In the services account, the most striking development was the jump in Government imports—mostly for defense—which began in 1967. In 1968 there was a further slight rise, bringing the level up to \$ 347 million, more than double that before 1967.

Income from tourism rose conspicuously, to \$ 97 million, or 64 percent over its previous peak in 1966. The transportation items also showed marked increases, mainly as a result of the larger volume of export and import cargoes and the growth of tourist movement.

On the debit side, the continued rapid uptrend in foreign currency debt service payments stood out.

**Table**  
**IMPORTS, EXPORTS,**  
**(\$**

	1962	1963	1964	1965	1966	1967	1968
<b>Imports</b>							
Commodities	613.8	647.5	803.4	794.4	795.3	730.8	1,041.6
Services	355.9	407.4	424.8	474.9	521.7	749.3	834.8
<b>Total</b>	<b>969.7</b>	<b>1,054.9</b>	<b>1,228.2</b>	<b>1,269.3</b>	<b>1,317.0</b>	<b>1,480.1</b>	<b>1,876.4</b>
<b>Exports</b>							
Commodities	271.4	337.1	349.4	404.0	474.6	533.1	649.5
Services	231.8	269.6	306.3	344.9	397.5	416.2	531.0
<b>Total</b>	<b>503.2</b>	<b>606.7</b>	<b>655.7</b>	<b>748.9</b>	<b>872.1</b>	<b>949.3</b>	<b>1,180.5</b>
<b>Import surplus</b>	<b>466.6</b>	<b>448.2</b>	<b>572.5</b>	<b>520.4</b>	<b>444.9</b>	<b>530.8</b>	<b>695.9</b>

<sup>a</sup> Commodity imports valued c.i.f., and commodity exports f.o.b.

In the services account exclusive of the Government, the more rapid expansion of exports turned the 1967 deficit of \$ 40 million into a surplus of \$ 10 million.

Capital imports were lower than in 1967, when they reached a new peak because of the special conditions created by the Six Day War, but their level was high compared with the pre-1967 period. In 1968 unilateral transfers and medium- and long-term capital imports added up to \$ 655 million; this contrasts with \$ 824 million in 1967 and an average of slightly over \$ 500 million in preceding years.

Capital imports underwent a noticeable structural change, in respect of both recipients—the share of the public sector declined while that of the private sector increased—and sources.

Transfers to the National Institutions, which in 1967 jumped from an annual average of \$ 40–50 million to \$ 278 million as a result of the emergency fund-raising campaigns conducted abroad, fell to \$ 123 million in the year surveyed. By contrast, there was a considerable rise in transfers to the private sector. Most of the increase was in transfers by individuals, which went up from \$ 84 million in 1967 to \$ 134 million. New immigrants and temporary residents accounted for most of the growth, a reflection of the larger immigration from affluent countries. Personal restitution from Germany rose from \$ 123 million to \$ 143 million following the amendment of the German law, which increased the number of persons eligible for such payments. Unilateral transfers reached \$ 425 million, as against \$ 520 million in 1967 and just over \$ 300 million in previous years.

### III-2

#### AND IMPORT SURPLUS,\* 1962-68

(million)

Percent increase or decrease (-) as against previous year														
Quantity					Price					Value				
1964	1965	1966	1967	1968	1964	1965	1966	1967	1968	1964	1965	1966	1967	1968
24	-1	—	-8	42	2	1	2	—	-2	22	-2	-2	-8	45
4	12	10	44	11	1	4	2	—	2	3	8	8	44	9
16	3	4	12	27	2	2	2	—	—	14	1	2	12	27
4	16	17	12	22	—	3	6	-1	-2	4	13	10	13	24
14	13	15	5	28	2	6	3	2	2	12	7	12	3	25
8	14	16	9	24	1	4	5	—	—	7	10	20	9	24

SOURCE: Central Bureau of Statistics.

In medium- and long-term capital movements as well, there was a decline in the item that had risen most sharply in 1967—net proceeds from the Independence and Development Loans. These aggregated \$ 79 million in 1968 compared with \$ 171 million the year before, though this too was much higher than the level before 1967. On the other hand, there was an increase in other medium- and long-term loans—\$ 107 million as against \$ 82 million in 1967 and smaller amounts in earlier years. This rise was connected with the much larger volume of Government service imports, mainly for security purposes.

Investments by nonresidents in Israel remained at the 1967 level of \$ 25 million net, which was well below the prerecession figure. The brighter economic picture in 1968 apparently had no effect on this item, neither on new investments nor on the repatriation of investments.

Capital imports were nearly \$ 50 million smaller than the deficit on current account. This was partly responsible for the depletion of net foreign exchange reserves (after deducting the liquid foreign currency deposits of nonresidents) by nearly \$ 98 million.

## 2. IMPORTS

The recovery of economic activity and the resumption of rapid growth led to a sharp rise in imports. Another contributory factor was the expansion of exports, which entailed a larger import of raw materials for export production. The net rise in imports totalled 41 percent,<sup>1</sup> from \$ 754 million in 1967 to \$ 1,062 million.

<sup>1</sup> Excluding ships and aircraft, the rise was 42.3 percent.

**Table**  
**COMMODITY IMPORTS,**

	IL million					
	1962	1963	1964	1965	1966	1967
<b>Consumer goods</b>						
Food	18.1	25.2	36.5	35.2	42.8	33.3
Other current consumption items	13.1	15.0	18.5	21.4	22.9	24.7
Durable goods	13.2	17.7	27.5	26.0	24.8	18.5
Total consumer goods	<b>44.4</b>	<b>57.9</b>	<b>82.5</b>	<b>82.7</b>	<b>90.5</b>	<b>76.5</b>
<b>Current production inputs</b>						
For agriculture	29.2	32.3	29.7	34.1	48.0	51.9
For industry (excl. diamonds)	251.1	251.7	308.7	312.1	304.7	282.6
For construction	17.5	12.5	16.8	17.4	9.8	7.7
Spare parts and tools	36.8	32.8	38.5	43.2	45.2	32.8
Fuel	40.1	44.5	46.6	53.2	58.3	55.3
Subtotal	<b>374.7</b>	<b>373.8</b>	<b>440.3</b>	<b>460.1</b>	<b>466.0</b>	<b>430.3</b>
Rough diamonds, net	67.2	93.2	102.3	96.5	124.9	125.4
Total production inputs	<b>441.9</b>	<b>467.0</b>	<b>542.6</b>	<b>556.6</b>	<b>590.8</b>	<b>555.7</b>
<b>Investment goods</b>						
For agriculture	8.0	6.3	8.5	5.2	5.5	4.9
For industry and construction	72.7	75.7	74.0	88.7	65.1	48.7
For land transport and communications	26.9	27.4	38.0	33.5	28.2	23.3
Other investment goods	13.7	14.3	16.9	19.4	22.0	19.4
Total, excl. ships and aircraft	<b>121.3</b>	<b>123.7</b>	<b>137.5</b>	<b>146.8</b>	<b>120.8</b>	<b>96.2</b>
Ships and aircraft	21.7	16.4	59.9	31.9	18.8	34.1
Total investment goods	<b>143.0</b>	<b>140.1</b>	<b>197.4</b>	<b>178.7</b>	<b>139.6</b>	<b>130.3</b>
Total imports <sup>a</sup>	<b>629.3</b>	<b>665.0</b>	<b>822.5</b>	<b>818.0</b>	<b>821.0</b>	<b>762.5</b>
Less: Imports returned, excl. diamonds	3.1	3.0	7.0	6.0	7.2	8.5
Net commodity imports	<b>626.2</b>	<b>662.0</b>	<b>815.5</b>	<b>812.0</b>	<b>813.8</b>	<b>754.0</b>
Less: Balance of payments adjustments	12.4	14.5	12.1	17.8	18.5	24.7
Net commodity imports, according to balance of payments <sup>c</sup>	<b>613.8</b>	<b>647.5</b>	<b>803.4</b>	<b>794.9</b>	<b>795.3</b>	<b>729.3</b>

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

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

## III-3

BY ECONOMIC DESTINATION, 1962-68<sup>b</sup>

Percent increase or decrease (-) as against preceding year										
1968	Quantity						Price		Value	
	1963	1964	1965	1966	1967	1968	1967	1968	1967	1968
36.0	4	36	1	22	-20	14	-4	-5	-22	8
35.1	-13	15	21	7	10	43	-2	-1	8	42
39.0	31	53	-7	-7	-22	113	-2	-1	-25	111
<b>110.2</b>	<b>11</b>	<b>37</b>	<b>1</b>	<b>8</b>	<b>-13</b>	<b>48</b>	<b>-2</b>	<b>-3</b>	<b>-15</b>	<b>44</b>
50.9	9	-8	12	40	5	3	3	-5	3	-2
407.1	—	21	-1	-5	-7	47	—	-2	-7	44
15.5	-29	31	2	-46	-21	105	—	-2	-21	101
56.1	-20	34	6	4	-27	73	—	-1	-27	71
62.7	11	11	16	12	-5	13	—	—	-5	13
<b>592.3</b>	<b>-1</b>	<b>19</b>	<b>2</b>	<b>—</b>	<b>-8</b>	<b>41</b>	<b>—</b>	<b>-2</b>	<b>-8</b>	<b>38</b>
162.0	39	2	-9	21	—	26	3	2	—	29
<b>754.3</b>	<b>5</b>	<b>15</b>	<b>1</b>	<b>4</b>	<b>-7</b>	<b>39</b>	<b>1</b>	<b>-2</b>	<b>-6</b>	<b>36</b>
6.4	-21	34	-41	4	-13	33	—	—	-13	33
108.0	4	-3	17	-28	-25	122	—	—	-25	122
30.8	2	38	-15	-18	-17	32	—	—	-17	32
23.0	5	17	12	11	-12	19	—	—	-12	19
<b>168.2</b>	<b>2</b>	<b>10</b>	<b>4</b>	<b>-20</b>	<b>-20</b>	<b>75</b>	<b>—</b>	<b>—</b>	<b>-20</b>	<b>75</b>
37.8	-24	265	-47	-41	81	11	—	—	81	11
<b>206.0</b>	<b>-2</b>	<b>40</b>	<b>-11</b>	<b>-24</b>	<b>-7</b>	<b>60</b>	<b>—</b>	<b>-1</b>	<b>-7</b>	<b>58</b>
<b>1,070.5</b>	<b>5</b>	<b>22</b>	<b>-2</b>	<b>-2</b>	<b>-7</b>	<b>43</b>	<b>—</b>	<b>-2</b>	<b>-7</b>	<b>40</b>
9.1										
<b>1,061.4</b>										
34.3										
<b>1,027.1</b>										

<sup>c</sup> Including nonmonetary gold.

SOURCE: Central Bureau of Statistics.



Import prices edged down 2 percent, so that at constant prices the increase was 43 percent.

Almost all categories of imports showed larger figures, with the exception of a few highly erratic items, but the biggest increases were in items hit hardest by the recession. Imports of investment goods for industry and construction, which were halved during the slump, rose by 122 percent, and imports of durable consumer goods by 111 percent.

The import of most inputs was considerably larger in 1968. Those for construction went up by 101 percent, and spare parts and tools for current production by 71 percent. Inputs for industry, which make up the bulk of imported inputs, were 44 percent larger in 1968. Total imported inputs other than rough diamonds increased to a similar extent as total imports—38 percent—and at a much higher rate than economic activity, or even what might have been expected on the strength of the import coefficients for each of the economic branches.

Imports began to move up appreciably in the last quarter of 1967, shortly after the upturn in economic activity in the wake of the Six Day War.<sup>1</sup> The rapid rise continued until the first quarter of 1968, after which the rate slowed down (see Diagram III-1 and Table III-4). The composition of the import increment also underwent a drastic change during this period. Initially industrial inputs were of decisive importance: during the period of most rapid expansion, from the third quarter of 1967 to the first quarter of 1968, this item accounted for two-thirds of the increment. Subsequently the rise slowed down markedly, and toward the end of the year the curve levelled off and even fell slightly.

In other import items the deceleration after the first quarter of 1968 was more moderate (in a few cases there was even an acceleration), and they accounted for most of the incremental import. Capital goods for industry and construction and durable consumer goods started to rise rapidly at an early stage of the recovery. However, the upward trend here came after a decline of two years running, and in contrast to current inputs, these two items were at the end of 1967 far below their prerecession peak. The drop in their growth rate after the first part of 1968 was smaller, and imports continued upward at a fairly strong rate throughout the year. These two items, together with spare parts and tools for current production (the import of which accelerated in 1968), accounted for 60 percent of the incremental import (excluding rough diamonds, ships, and aircraft) between the first and last quarters of 1968.

<sup>1</sup> The influence of the emergence from the slump is not clearly reflected in the import data (Table III-5), since imports fell off in the second quarter of 1967 because of the standstill in economic activity during the period of mobilization and war, while import shipments that had been held up for this reason inflated third-quarter figures, without any connection with the economic recovery (the first signs of which began to appear at the time). Comparison of the data for the final quarter of 1967 (after adjusting for seasonality) with the average for the second and third quarters shows a rise of 27 percent.

Imports of current inputs were the first to be affected by the recovery of economic activity. In the last quarter of 1967 they began to rise sharply to meet the requirements of expanding production and replenishment of stocks which had been heavily depleted during the recession. In the first quarter of 1968 imports of industrial inputs (excluding rough diamonds) were, after adjusting for seasonal variations, 35 percent higher than the figure for the two recessionary quarters immediately preceding the war (the last quarter of 1966 and the first quarter of 1967). After the first quarter of 1968, the growth rate slowed down noticeably. Seasonally adjusted data show an increase of 13.3 percent up to the last quarter of 1968, or an average of 4.3 percent per quarter. The deceleration continued throughout the year. The level stabilized at the end of 1968 and the beginning of 1969, and there were even signs of a downturn. In the last quarter of 1968 the level was 2.8 percent higher than in the previous quarter (after adjusting for seasonality); in the first quarter of 1969 there was a decline, the figure returning to that of the first quarter of 1968.

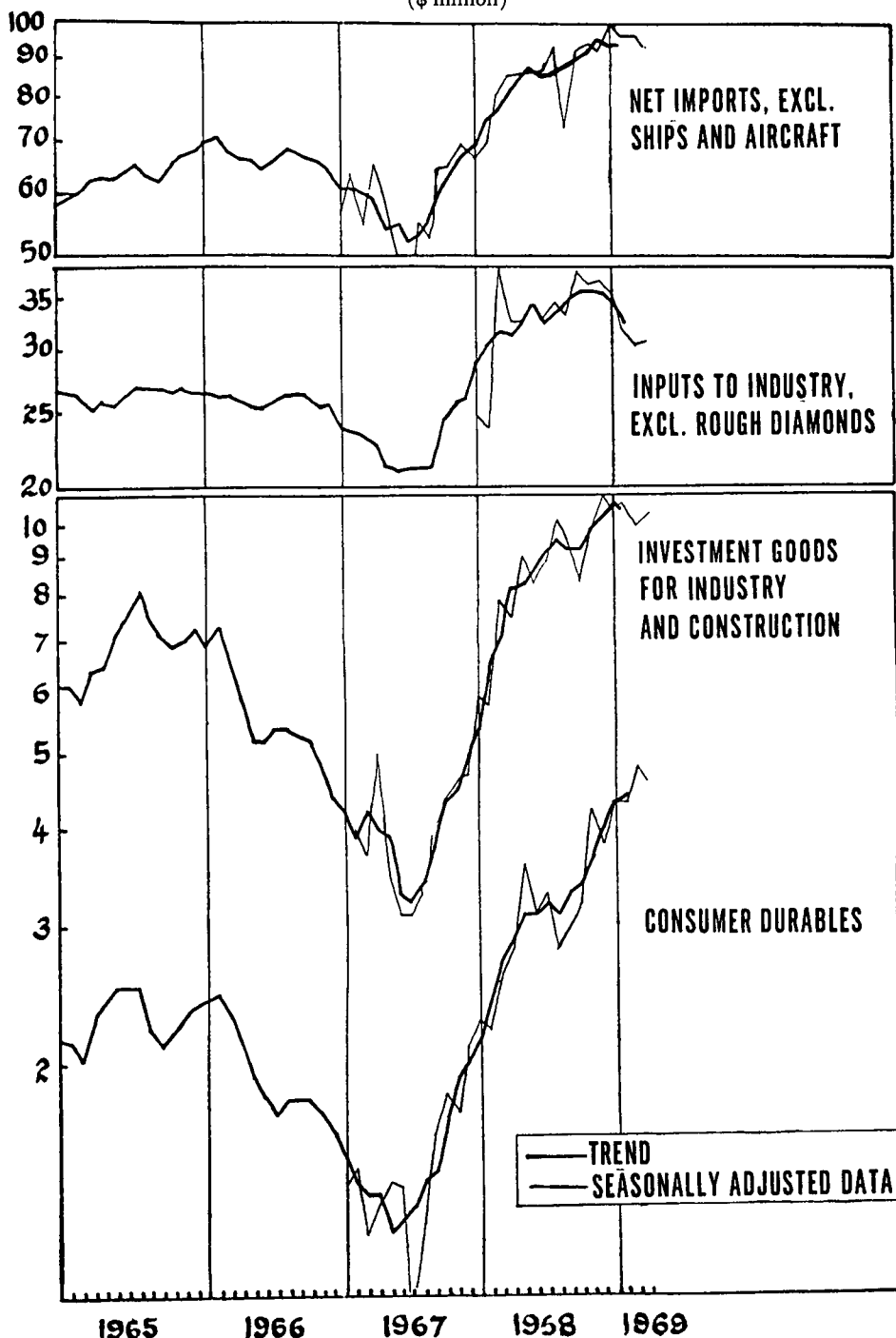
**Table III-4**  
**INCREASE IN IMPORTS, QUARTERLY, 1967-68**  
(percentages)

	Average quarterly increase			
	Original data		Seasonally adjusted data	
	III 1967- I 1968	I 1968- IV 1968	III 1967- I 1968	I 1968- IV 1968
Inputs to industry	27.6	2.8	18.4	4.3
Investment goods for industry and construction	27.6	16.7	36.1	14.9
Durable consumer goods	29.6	18.2	27.2	17.4
Total imports, excl. ships and aircraft	15.9	7.8	16.5	6.6

From the path followed by the import of industrial inputs—the rapid rise in the last quarter of 1967 and the first quarter of 1968, well in excess of the expansion of production, followed by a deceleration, stability, and even a slight decline—it can be seen that imports for the replenishing of stocks were a major cause of the higher import volume. In other words, the high growth rate in 1968 is explained by the fact that in the base period the running-down of stocks kept imports of inputs below the level required for current production, while later they exceeded the level because of the renewed buildup of stocks.

In another input item—spare parts and tools for current use—the rapid upswing came after a longer time-lag from the onset of the recovery than in the case of current industrial inputs. Expansion was relatively slow until the first quarter of 1968 and, as with imports of investment goods for industry, the

**Diagram III-1**  
**NET IMPORTS, BY MAIN ECONOMIC DESTINATION, 1965-69**  
 (\$ million)



Semi-logarithmic scale.

SOURCE: Central Bureau of Statistics.

level was still below that immediately prior to the recession. However, between the first and the last quarter of 1968 there was a rise of 73 percent, with a big jump in the last quarter.<sup>1</sup>

While spare parts are included with current inputs, they actually lie somewhere between them and investment goods. In fact, from the aspect of the time-lag between economic recovery and the rise in their import, they more closely resemble investment goods in behavior. On the other hand, from the viewpoint of the impact of the recession on imports, there was a greater similarity to developments in current inputs, for imports declined much less during the recession than did investment goods.

No convincing explanation has as yet been found for the accentuation at the end of 1968 of the rapid rise in imports of spares that marked the year. Presumably this was due to some extent to a special factor, which had a noticeable effect on various other items as well. The reference is to the international monetary crisis, which aroused fears in the latter part of the year of a devaluation of the French franc and sterling, and in its wake the Israeli pound too. These apprehensions led to the accelerated import of various items. The fact that spare parts are largely imported by dealers (whereas other current inputs are generally imported directly by the final users) may explain the sensitivity of this item to such speculative considerations.

Analysis with the help of input-output coefficients likewise indicates that a considerable share of the incremental import for current production was intended for stock replenishment. It also reveals that the process of building up stocks was largely completed in 1968. A comparison of expected imports, based on final demands and calculated according to import coefficients, with actual imports suggests that stocks of inputs were run down in 1967. This apparently took place in the second and third quarters of the year, with the ending of the recession and the onset of recovery.<sup>2</sup> In 1967 actual imports were \$ 72 million lower than what could have been expected, while in 1968 they were higher by \$ 29 million (see Table III-6).

Such an analysis cannot determine the exact contribution of inventory depletion in 1967 and replenishment in 1968 to the total import of inputs in these two years. The coefficients were updated to 1962-64; in the intervening years there may have been some substitution of local production for imported inputs, so that the quantity of imports actually required for a given level of economic activity (see Table III-6, col. 7) was less than what the available coefficients indicate. If this is so, then the difference between expected and actual imports (Table III-6, col. 9) in 1967 would be lower and that in 1968 greater.

Inaccuracies in the calculation of expected imports may also be caused by changes from year to year in the structure of branches which the table treats

<sup>1</sup> Comparisons are based on original data unadjusted for seasonal variations.

<sup>2</sup> See Bank of Israel, *Annual Report 1967*, p. 60, and Tables III-10 and 11.

Table III-5

## COMMODITY IMPORTS, BY ECONOMIC DESTINATION, QUARTERLY, 1963-69

	Total imports, excl. ships, aircraft, and rough diamonds	Total imports, excl. ships and aircraft		Consumer goods				Production inputs				Investment goods		
				Total		Of which durables		Rough diamonds, net	Total, excl. rough diamonds	Of which for industry		Total, excl. ships and aircraft	Of which for industry and construction	
		Original data	Seasonally adjusted data	Original data	Seasonally adjusted data	Original data	Seasonally adjusted data			Original data	Seasonally adjusted data		Original data	Seasonally adjusted data
1964 I	165.9	189.1	186.6	24.3	21.4	6.3	6.4	23.2	107.6	75.6	73.7	33.9	17.7	18.7
II	168.4	198.9	187.0	19.2	17.9	6.9	7.1	30.5	110.5	76.0	74.8	38.7	19.8	17.7
III	157.3	185.7	182.4	17.4	17.8	7.5	7.3	28.4	103.9	71.9	78.8	36.0	19.8	18.0
IV	170.5	190.6	179.2	21.6	18.7	6.6	6.5	20.1	118.4	85.6	83.0	30.6	17.1	18.4
1965 I	162.4	183.3	181.4	19.9	19.1	6.0	6.2	20.9	110.6	76.4	73.6	31.9	18.5	19.1
II	180.5	201.0	188.9	19.9	20.4	6.7	8.3	20.5	120.1	80.4	79.0	40.5	25.4	22.5
III	166.6	192.0	194.9	18.6	20.5	6.4	6.4	25.4	110.7	73.6	80.7	37.3	23.8	21.2
IV	180.1	209.9	207.7	24.6	23.0	6.6	7.1	29.8	118.7	81.7	79.8	36.8	20.8	21.8
1966 I	180.5	205.8	206.6	26.9	26.5	8.2	7.3	25.3	119.3	81.4	77.4	34.4	18.5	20.3
II	170.5	198.4	197.9	19.6	20.4	6.1	4.9	35.0	118.6	75.7	75.6	32.3	16.6	15.7
III	170.8	198.7	203.5	24.2	26.3	5.7	5.6	27.9	118.6	74.9	81.6	28.0	16.9	16.0
IV	155.7	192.3	186.3	19.6	18.6	4.8	4.7	36.9	110.1	73.0	71.3	26.0	13.0	12.9
1967 I	152.4	186.2	184.9	19.4	18.3	4.0	4.0	33.8	110.9	75.6	70.5	22.1	11.8	12.7
II	127.7	156.4	151.6	15.9	16.8	3.7	3.6	28.7	89.5	58.0	58.1	22.3	10.2	9.7
III	146.8	174.3	173.9	19.3	18.6	4.6	4.7	27.5	102.8	26.3	68.5	24.7	12.1	11.5
IV	176.0	211.6	201.8	22.2	20.4	6.3	6.1	35.6	126.8	86.7	85.4	27.0	14.7	15.2
1968 I	199.4	234.1	236.2	24.3	23.3	7.7	7.6	34.7	143.3	101.4	95.9	31.8	19.7	21.3
II	215.9	257.6	254.1	27.2	28.3	10.2	10.0	41.7	145.6	99.9	100.0	43.1	27.3	26.2
III	215.4	248.4	256.9	27.9	29.2	8.5	9.0	33.0	143.8	95.5	105.4	43.7	29.9	27.9
IV	240.0	292.6	286.0	30.8	29.4	12.7	12.3	52.6	159.8	110.3	108.7	49.4	31.3	32.3
1969 I	229.3	275.8	276.2	34.0	32.8	13.6	13.7	46.3	144.7	100.3	93.1	50.3	29.2	31.5

SOURCE: Central Bureau of Statistics.

as homogeneous. For these reasons, the numerical findings must be treated with some reservation.

On the other hand, the degree to which imported inputs fluctuated in relation to current production in 1967 and 1968 rules out the possibility of attributing these swings primarily to structural changes in production (whether from year to year or long-run trends which were not taken into account in updating the table). Nevertheless, it is conceivable that such changes may explain part of the fluctuations.

**Table III-6**  
**EXPECTED AND ACTUAL IMPORT OF CURRENT INPUTS, 1963-68**  
(\$ million, at 1968 prices)

	Expected import of current inputs <sup>a</sup>							Total actual im- port, excl. rough dia- monds	Dif- ference between actual and expected import
	For export	For do- mestic uses	Of which:			Grand total	Grand total, excl. rough dia- monds		
			Invest- ment	Private con- sumption	Public con- sumption				
1963	178.7	285.9	72.5	195.7	17.7	464.6	366.4	373.9	7.5
1964	190.9	318.9	81.6	218.1	19.2	509.8	407.7	443.4	35.7
1965	208.8	344.0	83.6	236.5	23.9	552.8	443.1	455.5	12.4
1966	231.1	344.0	69.6	245.3	29.1	575.1	454.3	456.9	2.6
1967	242.3 <sup>b</sup>	367.0	64.5	256.9	45.6	609.3	494.0	421.9	-72.1
1968	299.0 <sup>b</sup>	405.7	76.8	275.4	53.5	704.7	563.5	592.3	28.8

<sup>a</sup> In previous Annual Reports changes in stocks of locally produced goods were included with expected imports. Because of the limited reliability of these data, they were omitted in 1968. It should therefore be noted that the account presented here is not complete, and that if there was a positive investment in stocks of local products, the figures on expected imports would be higher.

<sup>b</sup> Including exports to the administered areas.

The pattern of fluctuations in input imports—the sharp drop (relative to current production) at the end of the recession and the onset of recovery, the rapid rise during the next stage of the recovery, followed by stabilization of the level—strongly suggests that the explanation lies in fluctuations of stocks. At first, there was a running-down of stocks in adjustment to the lower level of production, and then as the result of a time-lag in adjusting to a sharp upswing in production; this was followed by the expansion of stocks in adjustment to the rising level of production. This explanation, which might be expected from a theoretical analysis and from the experience of other countries, accords both

with the import data and with the findings of the input-output analysis.<sup>1</sup> It follows from the aforesaid that changes in the economy's stock of inputs are a significant determinant of fluctuations in the import of inputs.

A further current input, uncut diamonds (which are not included in the above analysis), is not directly connected with the general level of economic activity but is intended almost entirely for export production. This item rose steeply in 1968 (29 percent). Exports of polished diamonds also expanded, but there was apparently some buildup of stocks. There was a particularly large increase—\$20 million—in the last quarter of 1968, which explains about half the total incremental import (excluding ships and aircraft) in this quarter. In the light of the arrangements governing the import of this commodity—the formal simplicity of transactions and ease of transport—and in view of the nature of the branch as a whole, it can be assumed that the devaluation fears made themselves felt more here than elsewhere, and that most of the increase in the final quarter of 1968 was due to speculative motives.

The year reviewed saw an increase of 75 percent in the import of investment goods other than ships and aircraft. Most of the increment went to industry and construction. This item suffered most during the recession (in 1967 the import figure was only a little more than half of that in the peak year, 1965), and in 1968 it rose by an impressive 122 percent. Imports of equipment for electric power generation, which are included here, are not influenced by annual changes in the level of economic activity; such investments are a product of long-range planning, and the incremental import in 1968 was relatively small. Excluding this item, the increase was 153 percent, with equipment for construction, mineral extraction, and roadbuilding recording the highest growth rates.

The sharp upturn in imports of industrial equipment began in the last quarter of 1967, shortly after the start of the economic recovery. In contrast to current inputs, where the steep rise ceased after the first quarter of 1968, the upward trend continued, though at a somewhat slower pace, until the end of the year. The contraction during the recession had been much greater here than for current inputs, and the marked expansion until the end of 1967 was not sufficient to restore the figure to its prerecession level. Whereas in the case of current inputs stocks had apparently been largely replenished by the end of the first quarter of 1968, after being run down because of the upturn in economic activity, in the case of investment goods (as well as of durable consumer goods, the import of which also fell sharply during the recession), they were still far from having fully

<sup>1</sup> Direct inventory estimates show a somewhat different picture: total stocks in the economy fell by IL 65 million in 1967 and rose by IL 175 million in 1968. However, these data are not strictly comparable with those cited above, as they include, apart from imported inputs, also inputs from local production, finished goods, and goods in process. It may well be that in 1967, for instance, which was largely a year of sluggish economic activity, there was an increase in finished goods inventories and that input stocks declined to a greater extent than the aggregate inventory estimate.

adjusted at the end of 1967 to the level of activity and incomes in an economy enjoying full employment. Thus imports continued to expand rapidly, until almost the end of 1968 in the case of industrial equipment, and to the beginning of 1969 in the case of consumer durables.

It is difficult to judge from the available data to what extent imports of investment goods were affected by the devaluation of November 1967. The change in the dollar parity of the Israeli pound made imports from those countries that did not devalue on the same day 17 percent dearer. To be sure, the devaluation was accompanied by the cutting of import duties with a view to limiting the rise of prices, but this did not benefit commodities which were in any case duty-free or where the duty was below 15 percent, while commodities with low rates of duty benefited only slightly. Most investment goods (other than transport equipment) apparently belong to this group. The drop in the growth rate for investment goods at the end of 1968 may reflect the impact of the devaluation, but at present there is no way of isolating this factor from the others influencing imports of investment goods.

An increase in the cost of imported investment goods may have two possible substitutional effects—the substitution of locally produced goods for imported items, and the substitution of labor for capital. The first is apparently limited by the small extent to which relative prices changed, a constraint accentuated by the differential rates of protection accorded local goods. The system of protective tariffs has enabled certain branches to continue operating even through the effective exchange rate for their value-added dollar is higher, and sometimes much higher, than the official rate. This has had the effect of limiting the number of items whose production will be rendered profitable by a fairly small change in the exchange rate.

Imports of consumer goods rose 44 percent in 1968 (in quantitative terms the increase was 48 percent). The various components of this category differ widely in character. Food imports consist largely of frozen meat and sugar imported by the Government, and here fluctuations are due *inter alia* to changes in stocks in Government warehouses. Food imports rose 8 percent in 1968, but as there was a decline in prices, the physical increase came to 14 percent.

#### FOOD IMPORTS, 1963–68

(\$ million)

	1963	1964	1965	1966	1967	1968
Frozen meat	6.5	12.5	18.6	27.9	16.9	18.2
Sugar (for direct consumption)	18.2	13.4	4.0	3.7	3.9	3.9
Other foodstuffs	10.5	10.6	12.6	11.2	12.5	13.9
Total	35.2	36.5	35.2	42.8	33.3	36.0



Two items accounted for the increase in food imports—purchases of frozen meat by the Government, and the import of \$1.4 million worth of eggs to meet the shortage caused by the smaller output following the outbreak of Newcastle disease. As to other food imports, the dollar amount remained stable, but there was a slight rise in quantitative terms.

Two other categories of consumer goods showed outstanding rises: products for current consumption—42 percent (43 percent at constant prices); and durables—111 and 113 percent respectively. The larger import for current consumption was mainly accounted for by the item “personal effects of persons entering Israel and gifts”. Half of the growth here stemmed from the larger number of immigrants from western countries and returning residents during the last two years. Imports of other consumption goods rose by about a third.

**Table III-7**  
**IMPORTS FOR CURRENT CONSUMPTION, 1967-68**  
(\$ million)

	1967	1968
Footwear	0.5	1.0
Clothing	2.0	1.7
Books and periodicals	3.2	2.7
Pharmaceuticals	2.7	3.9
Cigarettes and tobacco	0.7	1.0
Recreational goods and hobbies	2.1	2.5
Household equipment	1.6	2.2
Miscellaneous	2.4	5.1
<b>Total, excl. personal effects of those entering Israel and gifts</b>	<b>15.2</b>	<b>20.1</b>
Personal effects of those entering Israel and gifts	9.5	15.0
<b>Total</b>	<b>24.7</b>	<b>35.1</b>

SOURCE: Central Bureau of Statistics.

As regards durable consumer goods, most of the increase was in two items: motor vehicles more than doubled, and television sets jumped from \$0.5 million to \$9 million. All the other items also showed increases, but not so pronounced.

The much larger import of television sets, which accounted for 80 percent of all sets acquired in the last two years, is explained by the inauguration of a television service in Israel. Another factor stimulating purchases was the reduction of retail prices following cuts in the duty. Presumably these acquisitions were to some extent made at the expense of other consumer durables.

**Table III-8**  
**IMPORTS OF DURABLE CONSUMER GOODS, 1967-68**  
(\$ million)

	1967	1968
Passenger cars	6.3	13.0
Motorcycles	0.6	0.6
Household equipment	4.4	14.9
Of which: Television sets and transistor radios	2.2	11.2
Furniture	2.5	3.7
Watches and clocks	1.6	2.1
Phonographs, dictaphones, and tape recorders	0.9	1.2
Miscellaneous	2.4	3.5
Total	18.7	39.0

SOURCE: Central Bureau of Statistics.

The steep rise in automobile sales was in large measure a corollary of the decline during the recession, when potential buyers deferred purchases. In addition, there is apparently a high income elasticity of demand for this commodity at income levels being reached by large sections of the Israeli public. Furthermore, it is typical of consumer durables that fashion, or consumers' tastes, influences what goods are bought. Car imports fell more slowly than those of other durables during the recession—22 percent between 1965 and 1967 as against 32 percent for other goods (the sharpest drop in car imports—34 percent—took place in 1965, when increases in customs duty, fuel taxes, and license fees dampened sales).

**IMPORTS OF PASSENGER CARS, 1964-68**  
(\$ million)

	1964	1965	1966	1967	1968
For private use	11.2	7.4	6.5	6.1	13.0
For business purposes	6.3	3.9	3.5	3.7	8.3
Total	17.5	11.3	10.0	9.8	21.3

### 3. EXPORTS

In 1968 the growth of exports accelerated noticeably. Commodity exports went up 16.3 percent, compared with 8.4 percent in 1967. Total exports of

Table

## NET COMMODITY EXPORTS,

(\$

	1963	1964	1965	1966	1967	1968
<b>Agricultural exports</b>						
Citrus	74.8	52.9	71.3	74.9	85.5	88.4
Poultry products and cotton	7.4	8.7	7.7	9.2	12.0	8.7
Other agricultural products	7.0	5.5	7.4	10.3	11.0	15.1
<b>Total</b>	<b>89.2</b>	<b>67.1</b>	<b>86.4</b>	<b>94.4</b>	<b>108.5</b>	<b>112.2</b>
<b>Industrial exports</b>						
Diamonds	104.0	118.2	131.9	165.1	157.9	194.1
Minerals and scrap	12.3	19.8	27.1	34.4	30.8	33.7
Copper-cement	4.3	9.3	7.6	12.3	10.4	11.6
Potash	5.4	7.7	13.2	12.9	13.6	13.5
Phosphates	1.2	1.1	2.9	4.5	4.6	6.9
Scrap	1.0	1.2	3.0	4.7	2.0	1.3
Textiles and clothing	32.1	39.7	40.3	44.9	52.3	63.7
Citrus products	12.8	18.1	18.6	19.0	24.0	25.4
Other chemical products	7.6	9.4	10.0	15.6	16.3	17.9
Other metal products	16.5	7.9	9.9	10.1	8.0	26.2
Aircraft and parts	2.0	2.3	2.2	1.9	5.8	8.1
Edible oils and oilcake	5.6	6.1	7.5	7.1	2.3	5.8
Other industrial products	53.5	58.0	66.0	75.0	86.5	105.3
<b>Total industrial exports</b>	<b>246.4</b>	<b>279.5</b>	<b>313.5</b>	<b>373.1</b>	<b>383.9</b>	<b>480.2</b>
<b>Total, excl. diamonds and minerals</b>	<b>130.1</b>	<b>141.5</b>	<b>154.5</b>	<b>173.6</b>	<b>195.2</b>	<b>252.4</b>
<b>Total commodity exports from domestic output</b>	<b>335.6</b>	<b>346.6</b>	<b>399.9</b>	<b>467.5</b>	<b>492.4</b>	<b>592.4</b>
Sales of used ships and aircraft	0.4	2.1	2.7	5.1	18.8	3.8
Equipment shipments by Israeli firms operating abroad <sup>a</sup>				0.3	1.0	0.1
Works of art, antiques, collectors' pieces, personal effects, etc.	3.6	4.6	4.7	4.6	5.4	5.6
<b>Total commodity exports</b>	<b>339.6</b>	<b>353.3</b>	<b>407.3</b>	<b>477.5</b>	<b>517.6</b>	<b>601.9</b>
Adjustments and exports returned	-2.5	-3.8	-3.5	-2.9	0.5	-3.9
<b>Net commodity exports, according to balance of payments</b>	<b>337.1</b>	<b>349.5</b>	<b>403.8</b>	<b>474.6</b>	<b>518.1</b>	<b>598.0</b>

<sup>a</sup> Excluding exports to the administered areas (see note 2 on p. 26).<sup>b</sup> Bank of Israel estimates.

## III-9

## BY MAIN CATEGORY,\* 1963-68

million)

Percent increase or decrease (-) as against preceding year					Weight in total exports (%)			Weight in incre- mental exports (%)		
1964	1965	1966	1967	1968	1965	1967	1968	1965	1967	1968
-29.3	34.8	5.0	14.2	3.5	17.8	17.4	14.9	34.5	42.6	2.9
17.6	-11.5	19.5	30.4	-27.5	1.9	2.4	1.5	-1.9	11.2	-3.3
-21.4	34.5	39.2	6.9	37.3	1.9	2.2	2.5	3.6	2.8	4.1
-24.8	28.8	9.3	14.9	3.4	21.6	22.0	18.9	36.2	56.6	3.7
13.7	11.6	25.2	-4.4	22.9	33.0	32.1	32.8	25.7	-28.9	36.2
61.0	36.9	26.9	-10.5	9.4	6.8	6.3	5.7	13.7	-14.5	2.9
23.7	1.5	11.4	16.5	21.8	10.0	10.6	10.8	1.1	29.7	11.4
41.4	2.8	2.2	26.3	5.8	4.7	4.8	4.3	0.9	20.0	1.4
23.7	6.4	56.0	4.5	9.8	2.5	3.3	3.0	1.1	2.8	1.6
-52.1	25.3	2.0	-20.8	227.5	2.5	1.6	4.5	3.8	-8.4	18.2
15.0	-4.3	-13.6	205.3	39.6	0.5	1.2	1.1	-0.2	15.6	2.3
8.9	23.0	-5.3	-67.6	152.2	1.9	0.5	1.0	2.6	-19.2	3.5
8.4	13.8	13.6	15.3	21.7	16.5	17.6	17.8	15.0	46.3	18.8
13.4	12.2	19.0	3.1	25.1	78.4	78.0	81.1	63.8	43.4	96.3
8.8	9.2	12.4	12.4	30.2						
3.3	15.4	16.9	5.3	20.3	100.0	100.0	100.0	100.0	100.0	100.0
4.0	15.3	17.2	8.6	16.1						
3.7	15.5	17.5	9.0	15.2						

SOURCE: Central Bureau of Statistics.

locally produced goods<sup>1</sup> gained 20.3 percent, far above the 1967 rate of 5.3 percent and even exceeding the high rates of 1966 and 1965 (16.9 and 15.4 percent respectively). In the last two years export prices receded somewhat, so that in quantitative terms growth was even more striking—22.7 percent in 1968 as against 6.4, 10.7, and 11.8 percent in the three preceding years. Data on value added reveal a similar picture: the quantitative increase was 24.0 percent in 1968, as against 10.5, 10.7, and 12.8 percent in the three preceding years (see Table III-12).

A no less striking feature of 1968 was the strong acceleration—compared with all the last few years—of the growth rate in a broad group of commodities produced primarily for the home market. In earlier years big export gains were accounted for by items oriented mainly toward the overseas market (citrus, diamonds, and minerals), the supply of which is fairly inelastic, at least in the short run. This inelasticity is due to the almost complete absence of local demand (hence exports cannot be stepped up directly by reducing local sales), or to a dependence on natural conditions. For part of the goods (citrus and diamonds), there are also constraints on the demand side, because of the large (and sometimes decisive) share of the Israeli product in the export markets; in such cases sales can be boosted only by reducing prices.

Owing to their special characteristics, these branches are less sensitive than others, particularly in the short run, to changes in economic policy; the annual fluctuations in their export are largely a result of exogenous factors.

In 1968, more than in any other year in the recent past, the expansion of exports was due to increases in the broad group of industrial exports, other than diamonds and minerals, in which most branches are represented in some degree

**Table III-10**  
**EXPORTS OF LOCALLY PRODUCED GOODS—VALUE, PRICE,**  
**AND QUANTITY INDEXES, 1964-68**

(1964=100)

	Value	Price	Quantity	Increase in quantity (%)
1964	100.0	100.0	100.0	
1965	115.4	103.2	111.8	11.8
1966	134.9	109.0	123.8	10.7
1967	142.0	107.8	131.7	6.4
1968	170.8	105.7	161.6	22.7

<sup>1</sup> Net of sales abroad of items not produced locally, such as old ships and aircraft and other types of equipment, as well as personal effects of travellers, works of art, antiques, etc.

or other. The figure for this group went up by 30.2 percent in 1968, compared with 12.4 percent in 1967, 12.4 percent in 1966 and 9.2 percent in 1965 (see Table III-9). In view of the existing supply and demand constraints in the predominantly export-oriented commodities, it would seem that most of the potential for the rapid expansion of exports of existing commodities lies in this group. However, it is a far from homogeneous group, and there are marked divergences among branches and subbranches, reflecting the whole complex of factors affecting exports in 1968.

#### (a) *Agricultural exports*

The growth of agricultural exports slowed down noticeably in 1968—from 15 percent in 1967 to 3 percent. The chief reason for this was the much lower prices fetched by citrus, which continues to account for 75–80 percent of total farm exports. The remaining quarter has undergone a structural change in recent years: the relative share of traditional items has fallen (in some cases there has even been an absolute decrease), while that of a new group of products, which are not agricultural surpluses but crops grown specifically for export, has risen sharply.

The slipping of citrus prices was due to a number of causes: a decline in quality as the result of a higher percentage of culls, the larger supply of other fruit, devaluation in the United Kingdom, and the continued integration of the European Common market, which has diminished the Israeli Citrus Marketing Board's control of the market.<sup>1</sup>

The drop in citrus prices amounted to 8 percent. This came on top of a decline in 1967 as well, so that in the last two years together prices receded by 12 percent. In 1968 they reached their lowest point in recent years; as a consequence, a physical growth of 12 percent yielded only 3.5 percent more in proceeds as compared with the previous year. This contrasts with a rise of 20 percent in quantity and 14 percent in value in 1967.

Two veteran export items—bananas and poultry products—lost considerable ground (28 percent). Poultry farming is subsidized, and export here serves as a means of disposing of surpluses. The smaller export in 1968 was due to the decline in production following the outbreak of Newcastle disease, which killed off many fowls and made it necessary to import eggs.

The appearance of American competitors in Israel's banana markets has undermined sales, the figure plummeting by nearly 60 percent in the last two years. In this branch as well, export is a means of disposing of surpluses, and the decline in overseas sales has resulted in the reduction of the area of plantations and of output.

In 1968 overseas cotton sales were down 20 percent compared with 1967,

<sup>1</sup> For a detailed discussion of this point, see Chapter XI, "Agriculture".

but this was due simply to delays in marketing the crop of the current agricultural season, which ended in October. The quantity exported from the 1968 crop will in all likelihood not be less than that from the 1967 crop. Following devaluation and the raising of export incentive payments, which considerably increased the return from exports as well as the price to local industry (which is based on the world price), cotton raising ceased to be subsidized.

The rapid growth in a number of new branches developed in the last few years was sustained in 1968. The reference is to winter vegetables, certain fruits, and flowers. Exports of melons, vegetables, fruit (excluding bananas and grapes), and other agricultural products (flowers) added up to \$ 9.8 million, compared with \$6.1 million in 1967, \$3.4 million in 1966, and \$1.8 million in 1965. Unlike most of the traditional items (other than citrus), these crops are grown specifically for the overseas market. The rapid expansion of exports is ascribable to the acquisition of expertise and to research on the one hand, and to special aid measures, such as grants and loans for investment purposes and the guarantee of minimum prices, on the other. The guarantee of minimum prices is essential for inducing small producers to export under uncertain conditions; however, the prices fetched were generally high, so that in actual fact growers did not have to be compensated.

#### (b) *Industrial exports*

Industrial exports gained 25 percent in 1968, as contrasted with only 3 percent the year before. This also exceeded the not inconsiderable increases of 1965–66 (19 and 12 percent respectively). In quantitative terms, growth in 1968 was even more striking—26 percent as against 4 percent in 1967, 11 percent in 1966, and 9 percent in 1965.

The year reviewed differed from previous ones also in the sources of growth and in the relative importance of the various factors which combined to influence industrial exports. Some of these factors were specific to certain branches, while others reflected general trends in the local economy and abroad.

Two export-oriented items—diamonds and minerals—have fluctuated sharply in the past few years. By contrast, the expansion of other industrial exports accelerated in 1968, after a mildly rising trend in previous years—30 percent as against 12–13 percent in 1966–67 and 9 percent in 1965 and 1964. In quantitative terms, the difference was even greater, as prices of industrial exports other than diamonds and minerals fell by 2.3 percent, following a drop of 0.8 percent in 1967.

Even more striking was the increase in value added<sup>1</sup> for this group—35 percent compared with 11–12 percent in the three preceding years; in quantitative terms the increase was 39 percent, as against 8–13 percent. In 1967 this group accounted

<sup>1</sup> Value added here and in Tables III-11 and III-12 is gross value added, i.e. exports less imports of current inputs only, but not primary inputs (interest and depreciation).

for 50.8 percent of industrial exports and 61.7 percent of value added; in 1968 it accounted for 75.7 percent of the incremental value added in quantitative terms (compared with 59 percent of incremental industrial exports).

Among the commodities marketed predominantly abroad, diamonds with a growth of 23 percent contributed most to the incremental export—36 percent. This rise followed a decline of 4 percent in 1967, and can be ascribed to the heavier demand after the slackening of 1967. Israel commands a major share of the world market for polished diamonds, particularly the type of stone in which the country specializes, so that world demand is a primary determinant of the development of this export. Another factor is the effective monopolistic control of the supply of uncut stones by the London Diamond Syndicate. Prices of polished diamonds rose sharply until the last quarter of 1966 as the result of strong demand. Subsequently demand began to sag, and prices turned downward; in 1967 the market picked up and prices returned more or less to their peak level. However, in August 1966 the Syndicate raised the prices of rough diamonds by nearly 15 percent, so that despite the high prices obtained for the industry's output, the margin between them and the raw material prices was narrowed considerably in 1967–68.

Mineral exports rose by 9.4 percent, after a fall of 10.5 percent in 1967. This industry has no domestic market to speak of, so that local demand conditions do not affect the supply for the overseas market. Moreover, these are capital-intensive products, and changes in wages and other costs have little effect on them in the short run. Hence, supply is also inelastic in the short run, while foreign demand is of crucial importance. The quantities supplied to the world market (particularly potash) have been expanding, and in 1967 prices began to retreat, with those of potash and phosphates continuing to lose ground in 1968.

Another branch influenced by special factors is citrus products. The foremost factor is Israel's large share in the European market, which renders this item sensitive to fluctuations in demand, so that demand constitutes an effective constraint. The second major factor is the fact that the quantities of fruit made available to the canneries are surpluses that are not marketed for direct consumption. The precipitate fall of the price of fresh fruit in 1967, and even more so in 1968, resulted in the diversion of larger quantities for processing; the resulting expanded production of citrus products depressed prices sharply—by 7 percent, following a decline of 2 percent in 1967—and added to the unsold stocks held by producers.

Apart from export-oriented products, where all or most of the output is directed to the overseas market, there is a large and varied group of products based on the local market, with exports accounting for only a small proportion of their output. Here too it is possible to distinguish between branches subject to special influences—for instance, textiles and clothing, with their specific



Table  
EXPORTS AND VALUE  
(\$)

	Exports						1963
	1963	1964	1965	1966	1967	1968	
Citrus	74.8	52.9	71.3	74.9	85.5	88.4	62.8
Other agricultural products	14.4	14.2	14.9	20.2	23.0	23.8	11.6
Diamonds	104.0	118.2	131.9	165.1	157.9	194.1	20.1
Textiles	32.1	39.8	40.3	44.9	52.3	63.7	16.4
Minerals	11.4	18.7	24.2	29.8	30.8	33.7	9.4
Citrus products	12.8	18.1	18.6	19.0	24.0	25.4	8.7
Other industrial products	86.2	84.6	98.5	113.9	119.8	163.4	48.9
Total exports	335.7	356.5	399.9	467.9	493.4	592.5	177.8
Total industrial exports, excl. diamonds	142.5	161.2	181.7	207.7	227.0	286.2	83.4

Table  
GROWTH OF EXPORTS  
(per-

	Quantitative increase in exports					Quantitative increase in value added			
	1964	1965	1966	1967	1968	1964	1965	1966	1967
Citrus	-10.5	24.6	1.6	19.8	12.3	-10.5	24.6	1.9	19.3
Other agricultural products	10.0	2.5	31.7	14.4	2.3	6.4	7.0	34.6	12.0
Diamonds	3.0	7.4	10.4	-6.1	22.3	3.0	7.4	10.4	-5.7
Textiles	20.4	2.5	10.3	18.3	23.8	17.8	-0.6	3.8	10.5
Minerals	42.4	20.2	18.2	13.1	9.6	42.1	16.8	19.5	13.5
Citrus products	42.2	6.2	1.7	28.9	13.1	42.1	6.2	1.7	29.1
Other industrial products	-2.8	15.2	15.4	5.4	38.8	-9.6	13.0	16.4	8.2
Total <sup>a</sup>	3.3	11.8	10.9	6.7	22.6	0.3	12.8	10.7	10.5
Total industrial exports, excl. diamonds	10.1	11.6	13.2	11.4	28.7	7.0	9.8	12.9	11.8

### III-11

#### ADDED, 1963-68

(million)

Value added					Share in exports, 1967 (%)	Share in incremental exports, 1968 (%)	Share in value added, 1967 (%)	Share in incremental value added, 1968 (%)
1964	1965	1966	1967	1968				
41.8	56.7	60.1	67.5	68.7	17.3	2.9	25.9	2.4
10.7	11.8	16.6	18.5	20.3	4.7	0.8	7.1	3.6
25.8	30.4	45.6	42.5	50.8	32.0	36.5	16.3	16.7
20.5	19.9	21.0	23.5	29.4	10.6	11.5	9.0	11.8
15.8	20.0	25.1	25.2	27.5	6.2	2.9	9.7	4.6
12.1	12.5	12.7	16.0	16.3	4.9	1.4	6.1	0.6
44.7	53.4	62.1	67.3	97.3	24.3	44.0	25.8	60.2
171.5	204.7	243.2	260.5	310.4	100.0	100.0	100.0	100.0
93.2	105.9	121.0	132.0	170.6				

### III-12

#### AND VALUE ADDED, 1964-68

(centages)

1968	Increase in exports, at current prices					Increase in value added, at current prices				
	1964	1965	1966	1967	1968	1964	1965	1966	1967	1968
12.5	-29.3	34.8	5.0	14.2	3.4	-33.3	35.6	6.0	12.3	1.8
8.4	-1.4	4.9	35.6	13.9	3.5	-7.8	10.3	40.7	11.4	9.7
22.4	13.7	11.6	25.2	-4.4	22.9	28.4	17.8	50.0	-7.0	19.5
27.0	24.0	1.3	11.4	16.5	21.8	25.0	-1.3	5.5	11.9	25.1
9.6	64.0	29.4	23.1	3.4	9.4	68.1	26.6	25.5	0.4	9.1
11.8	41.4	2.8	2.2	26.3	5.8	39.1	3.3	1.6	26.0	1.9
47.2	-1.9	16.4	15.6	5.2	36.4	-8.6	19.5	16.3	10.8	44.6
23.8	3.2	15.4	17.0	5.4	20.1	-3.5	19.4	18.8	7.1	19.2
32.1	13.1	12.7	14.3	8.8	26.1	11.8	13.6	14.2	9.1	29.2

branch arrangements—and a broad group of branches which are affected primarily by general trends in the local economy and the world market.

Most branches of the economy are represented to some degree or other under the heading “other industrial products” (see Table III-9). The accelerated growth of these exports in 1967 gathered further momentum in the year reviewed, the rise amounting to 22 percent, compared with 15 percent in 1967 and 14 percent in 1966. Since prices drifted downward somewhat in 1967-68, after holding steady in the two preceding years, the quantitative growth was even greater.

The rapid expansion of these products can be attributed to a variety of factors, some of which operated in opposite directions and the relative importance of which changed during the period concerned. Without a detailed study, employing refined techniques, it is impossible to quantify the different influences, but it is possible to list them and indicate their direction.

First is the general level of economic activity. For two years, from the end of 1965 to almost the end of 1967, economic activity sagged, and even in 1968 unutilized capacity was still greater than in the prerecession years. Such conditions may very likely have a twofold effect on exports: a direct effect, reflected by the creation of idle production capacity, which previously was employed to supply local demand and which under certain circumstances may be profitably diverted to export production; and an indirect effect, reflected by the easing of pressure in the labor market, the checking of the upward movement of wages and other costs, and elimination of the problem of a skilled-labor shortage. This makes it possible to step up export production, utilizing factors of production released from production for the home market.<sup>1</sup>

During the recession the level of economic activity had a favorable impact on exports, but in 1968, with the economic recovery, its importance in stimulating exports gradually diminished, and it began to impose a constraint on exports. However, it must be remembered that this factor has a lagged effect. Quite some time may elapse from the time it begins to operate until it shows results in the expansion of exports. This time-lag, as well as that in the opposite direction, may vary from branch to branch.

Those firms which were exporting any sizable quantities before the recession had all the technical facilities at their disposal for stepping up sales abroad following the ebbing of local demand—knowledge of the market, commercial connections, and marketing organization. For these enterprises the boosting of exports was a matter of diverting output from one marketing outlet to another (though here too a drastic change may require a period of adaptation). In the case of a firm that markets its entire output locally (or for which export is mar-

<sup>1</sup> A slowdown in economic activity apparently is not in itself sufficient to bring about another type of indirect substitution of export production for domestic production: it does not dampen costs to a significant extent, and hence it does not permit the development of new export branches.

ginal, being made occasionally when the opportunity arises, or where export is based on clearing or other markets of a special character), exporting demands a radical change of orientation, which may be a protracted process. Foreign market conditions have to be studied, commercial links established, marketing channels set up, and frequently the product itself has to be modified, entailing the reorganization of production and possibly even new investments. A fairly large proportion of the incremental overseas sales during the recession (and in 1968) was apparently made by new exporters, and presumably this positive influence still made itself felt in 1968.

It should also be remembered that the recession was a comparatively novel phenomenon in an economy that had consistently performed at a vigorous rate. Producers have come to realize that a slowdown may recur, particularly in view of the country's balance of payments position. Consequently, firms that have invested in the development of exports and seriously turned to the overseas market will probably not hurry to abandon it or the investment made even if domestic market conditions again enable them to dispose of their entire output locally. Even apart from the possible recurrence of a recession in the near future, the very investment made in establishing commercial connections and in studying the market might well render export more profitable, as it now involves only current outlays and not the capital expenditure required before the recession.

Another factor operating to expand exports was the increased return thereon, first as a result of the direct export incentives and later as a consequence of the November 1967 devaluation. Since November 1966 the direct incentive has ranged between 8 and 14 percent of value added.<sup>1</sup> The devaluation increased the return on sales to those countries which did not devalue by 17 percent, and on exports as a whole by an average of 14 percent. These two increments are by no means negligible: they have brought up the return per value-added dollar by 25 percent or more, and for those exporters who have been classified in a higher value-added group than they really should be, the increase is even higher.

Changes in export prices were small relative to those in the return per value-added dollar, and the above figures largely reflect the change in the relative profitability of export as opposed to domestic marketing. In the local market, prices averaged 3 percent higher over the last two years taken together,<sup>2</sup> while export prices fell to a comparable extent. However, the decline in the latter was concentrated in a few branches: prices fetched by canned fruit and vegetables (chiefly citrus products) were 8.5 percent lower in 1968 than in 1966 (see Table III-13), minerals were down 9 percent, edible oils and cement by 15 percent,

<sup>1</sup> See Bank of Israel, *Annual Report 1967*, p. 83. An additional factor that should be noted is the shifting of some products from lower to higher value-added groups (for purposes of determining the rate of direct incentive) as a result of administrative response to pressure from various quarters.

<sup>2</sup> According to the wholesale price index of industrial output.

and food, n.e.s. by 7 percent (reflecting mainly the lower price for instant coffee). For other industrial products the drop was slight, and in no case exceeded 1.5 percent for the two years together.

In view of the above changes, it will be seen that the decisive factor in the relative change in the profitability of export compared with the domestic market was the increased return per value-added dollar as a result of the direct incentives and devaluation. Here too there is probably a considerable time-lag until this factor finds its full expression in a larger export, and there are undoubtedly inter-firm divergences as well.

**Table III-13**  
**EXPORTS AND EXPORT PRICES, 1966-68**  
(\$ thousand, at 1966 prices)

	1966	1967	1968	Price index (1966=100)	
				1967	1968
Citrus	74,887	89,690	100,661	95.3	87.8
Other agricultural products	19,542	22,900	23,413	100.5	101.6
Canned fruit and vegetables	24,863	29,590	36,038	98.1	91.5
Food, n.e.s.	684	1,162	1,399	99.7	93.4
Milk products, meat, sugar, edible oils, and beverages	2,471	3,336	3,819	98.1	99.2
Minerals	29,901	33,733	36,961	91.4	91.3
Textiles and clothing	45,387	53,112	65,772	98.4	96.8
Diamonds	165,087	154,977	189,559	101.9	102.4
Cement	1,681	2,090	1,411	92.9	84.7
Oil and soap	7,316	2,891	6,800	88.4	85.2
Metals and metal products	18,817	17,705	38,772	100.4	98.5
Machinery and equipment	13,886	21,104	29,693	100.1	99.8
Other industrial products (chemicals, wood, paper, leather, rubber and plastics)	64,038	66,709	76,902	100.3	98.7
Total industrial exports, excl. minerals	344,230	352,676	450,165	100.4	99.3

A third factor was the change in demand conditions abroad. In 1968 economic activity picked up in several major countries which had experienced some slackening the year before, and there was a livelier demand for imports. If the rise in total imports of the countries buying Israel's goods is taken as a measure of the growth of demand for imports, including those from Israel, we find a marked difference between 1967 and 1968. Whereas in 1967 there was an expansion of 4 percent in Israel's export markets, in 1968 the increase was

12.5 percent. These two years showed the lowest and highest growth rates during the past five years (see Table III-14).

**Table III-14**  
**GROWTH OF ISRAEL'S EXPORT MARKETS, 1964-68**  
(percentages)

	1963	1964	1965	1966	1967	1968
Increase in imports <sup>a</sup>						
Of developed countries		13.8	7.8	7.9	4.4	12.5
Of other countries		1.7	23.1	13.3	2.0	12.4
Total		12.1	10.0	8.8	4.0	12.5
Share of above countries in Israel's total exports (%)	83.3	78.5	79.2	80.2	83.8	

<sup>a</sup> The growth of total imports of a given country serves here as a measure of the expansion of the market for Israel's exports in that country. The import growth rate of each group of countries is a weighted average of the rates for the different countries, with Israel's export to each country in the previous year serving as the basis for weighting. Excluded from the table are East European clearing countries, for which no import data are available (it is doubtful whether such data are relevant), and countries importing less than \$1 million worth of goods from Israel.

A fourth factor explaining the country's larger export in 1968 was the enhanced competitiveness of Israeli-made goods as a result of the relative decline in unit costs compared with other countries. From the middle of 1966 until almost the end of 1968, wages were for the most part kept down, and in a few branches they even declined. By contrast, wages continued upward in the industrial countries, and in some of them even more rapidly than before. The index of hourly wages, if not viewed in conjunction with output per man-hour, is a very crude index, but it is an indicator of trends and changes therein.<sup>1</sup> From 1966 to 1968 hourly wages in Israel fell by 8 percent relative to average hourly wages in the industrial countries (see Table III-15). This change, together with the higher return on exports (which, as stated, was of the order of 25 percent or more of value added), rendered Israeli goods much more competitive in foreign markets.

<sup>1</sup> It is theoretically possible, with the aid of data on changes in employment, to allow for changes in output per worker so as to calculate the changes in costs per unit of output. However, in periods of fluctuating economic activity changes in output are not necessarily accompanied by corresponding changes in employment, since firms often continue to hold on to workers, for one reason or another, even when output is cut back. In such cases employment figures do not indicate the actual labor input, and their introduction into the calculation is liable to distort rather than correct the picture.

Table III-15

**HOURLY WAGES IN ISRAEL AND DEVELOPED  
INDUSTRIAL COUNTRIES, 1964-68**

	Hourly industrial wages in Israel		Hourly wages in developed industrial countries <sup>a</sup>		Wage ratio between Israel and industrial countries <sup>b</sup> (1963= 100)
	Index	Percent change	Index	Percent change	
	(1)	(2)	(3)	(4)	(5)
1963	100	—	100	—	
1964	109.8	9.8	107.3	7.3	102.3
1965	138.5	26.2	114.4	6.7	121.0
1966	163.2	17.8	121.8	6.5	134.0
1967	169.7	4.0	128.3	5.4	132.3
1968	170.2	0.3	137.4	7.0	123.9

<sup>a</sup> The index is a weighted average of the indexes for the eleven largest industrial countries. The weighting is based on the share of each country in the total exports of the group. These 11 countries accounted for 69 percent of total world exports in 1967 (excluding the communist countries), and more than 90 percent of total industrial exports.

<sup>b</sup> Column 1 divided by column 3, multiplied by 100.

The picture drawn here is complex, and it becomes even more so when an attempt is made to allow for the lagged effect of the various factors and to examine developments within narrower limits. The questions that are hard to answer are the relative significance of the various factors influencing exports and the time-lag involved—whether the effect of a given factor is already fully or almost fully felt, or whether its impact will be felt in the future. This point is of particular importance as regards a rise in domestic demand.

Monthly data on exports in 1968 show that the restrictive effect of mounting domestic demand apparently grew stronger during the year relative to the factors stimulating exports. This was presumably the chief reason for the slower growth of exports in the second half of 1968 (see Diagram III-2 and Table III-16). On this point, the data on industrial exports, apart from certain special groups,<sup>1</sup> are particularly illuminating. This export consists of products which are not subject to any special supply constraints or to demand constraints in foreign markets, nor display a markedly erratic pattern; on the other hand, since they are intended mostly for the home market, they are very sensitive to fluctuations in local demand. Analysis of seasonally adjusted data reveals that

<sup>1</sup> Diamonds, minerals, ships, and "other metal products".

the upward trend tapered off after the middle of 1968. This is probably the clearest evidence of the restrictive effect on exports of the buoyant domestic demand.

In 1967 most of the growth in the broad group of "other industrial exports", which embraces most of local industry, took place in a small number of branches; though they accounted for less than 10 percent of local industrial output, their share of the incremental export of "other industrial products" was one-third. Sales by this group continued upward during 1968, but at a slower pace than previously (see Table III-3 in the appendix). Some of the branches listed in the table experienced a much more sluggish, or complete cessation of, growth in 1968, or even an actual decline. In some cases export was apparently of a one-time nature. On the other hand, in other branches rapid expansion was maintained.

**Table III-16**  
**QUARTERLY DEVELOPMENT OF EXPORTS, 1966-68**  
(\$ million)

Year and quarter	Total net exports <sup>a</sup>			Industrial exports, excl. diamonds, minerals, ships and "other metal products"		
	Original data	Seasonally adjusted data	Trend	Original data	Seasonally adjusted data	Trend
1966 I	150.5	114.3	110.8	39.1	39.6	39.5
II	116.0	115.5	116.7	46.2	45.7	43.7
III	95.4	126.0	124.2	44.2	43.8	45.2
IV	115.0	125.1	125.9	46.1	46.1	45.4
1967 I	166.6	128.0	125.5	42.5	43.3	45.6
II	115.6	111.8	120.1	46.5	46.4	45.8
III	98.0	128.9	121.7	52.3	51.4	48.9
IV	137.8	147.6	138.0	57.1	56.3	53.5
1968 I	170.9	131.2	140.0	52.6	53.1	55.7
II	154.1	154.8	148.8	58.2	58.7	57.4
III	125.8	165.1	163.7	61.5	60.2	60.7
IV	150.9	162.6	160.1	64.1	64.1	62.0
1969 I	196.4	151.2		62.9	63.5	

<sup>a</sup> This series and the data in Diagram III-2 have been adjusted for seasonal variations in a different manner from that employed by the Central Bureau of Statistics in its monthly foreign trade figures.

SOURCE: Central Bureau of Statistics.

In 1968 several new items were added to those with strong growth rates—furniture, office equipment, jewelry, plumbing fixtures, chocolate and sweets, and food n.e.s. In all these branches only a small percentage of output was



sold abroad, and some had shown no distinct upward trend in the past. In some instances the increase may conceivably reflect a change in orientation toward export.

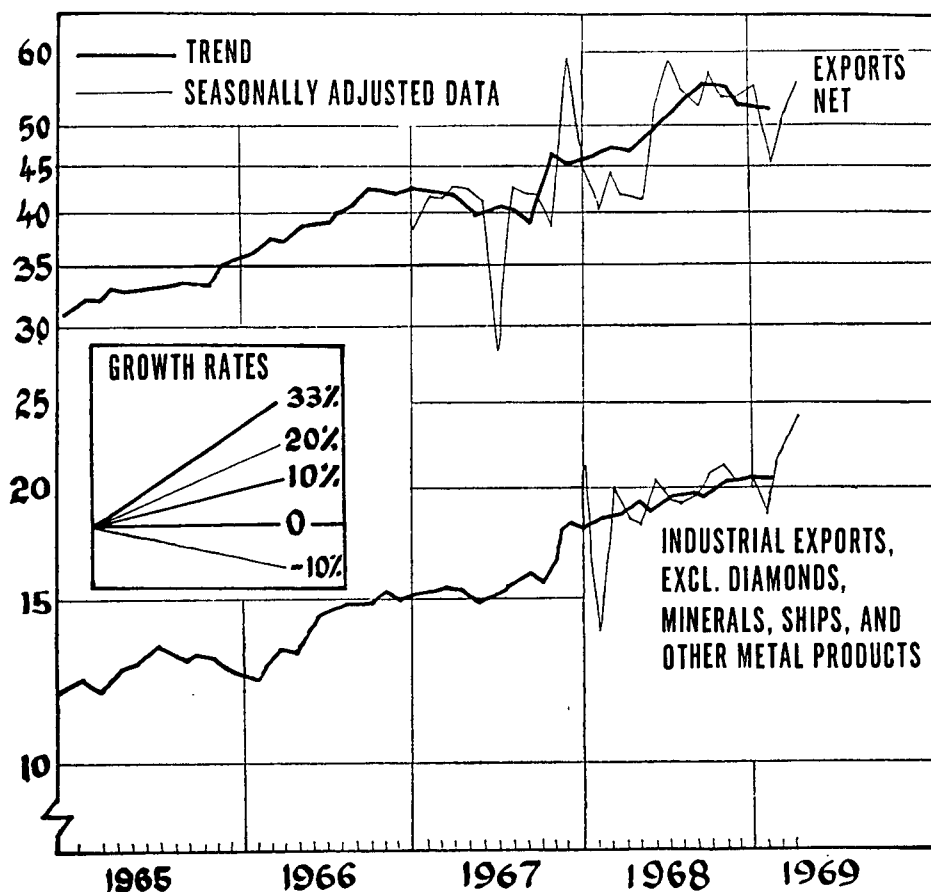
In contrast to the above branches, there was a decline in exports connected with the construction trades, where cement, plywood, and asbestos products are of great importance. Plywood is a well-established export product, with more than half of the output being shipped abroad. Prices in the local market are much higher than those fetched abroad (in 1968, before the introduction of incentive payments, the differential was more than 40 percent in favor of local market prices); under these conditions, export is carried out under an industry-wide arrangement designed to assure that all the firms benefit equally from the more profitable local marketing. In 1966 exports fell off because of sagging demand in the principal overseas market—the United Kingdom (where import restrictions were imposed). In 1967 exports reached a new high. In 1968, with the revival of local demand, the figure fell by 10 percent despite the expansion of production capacity. This brought down the share of exports (in quantitative terms) from 65 to 53 percent of output.

Another group of branches producing construction inputs—cement, glass, and asbestos products—experienced a decline from \$5.3 million in 1966 to \$4.8 million in 1967 and \$3.8 million in 1968, or a total of 28 percent. In this group as well various trends can be distinguished. Cement fell by 40 percent, after a steep rise during the two years of recession. Asbestos products have been losing ground since 1965, the main reason being a drop in world demand owing to the appearance of new substitutes, particularly of plastic materials (in 1968 exports were only 40 percent of their 1965 level). Nevertheless, here too the positive effects of the recession and the negative effects of recovery can be observed. The export of sheet glass actually represents surplus production, and it has remained at a fairly constant level over the years. On the other hand, various products in this group, apparently new items not connected with construction, are displaying a rising export trend.

The industries producing building materials constitute a clear example of the influences bearing on export. Here the buoyant state of the economy has played a decisive role. Elsewhere the picture is generally more complex. In branches reporting gains it is difficult to determine without a detailed examination what factor was decisive—the increased return to exports, the push given by the recession, or long-run trends, such as the rapid development of branches due to mounting demand or technological advances.

The picture is further complicated by the fact that local demand conditions may operate in opposite directions within the same branch: overseas sales of some products rose in 1966 and 1967 as a result of the recession and then turned downward in 1968, while others moved upward in 1968, probably a lagged reaction to the subsiding of demand a year or two earlier.

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



Semi-logarithmic scale.

SOURCE: Central Bureau of Statistics.

Some of the branches with rapid growth rates in 1967 (see Table III-3 in the appendix) also showed above-average rises in previous years, a development which may suggest that they are undergoing rapid expansion due to technological advances or growing local demand for their products. In such industrial branches there is frequently a parallel increase in exports; sometimes this is due to expectations of a further expansion of production, and sometimes, for reasons of economies of scale, there is generally surplus production capacity, which is utilized for exportation. These growth industries, which in any case market part of their output abroad, are capable of quickly stepping up overseas sales, and they may also be more sensitive to a contraction of local demand.

Table

## INDUSTRIAL EXPORTS, BY BRANCH AND

(\$ million,

Branch	Exporters with big increases in 1968				Exporters with big increases during the recession and a sharp fall in 1968				1965
	1965	1966	1967	1968	1965	1966	1967	1968	
Chemical and refined petroleum products	7.5	8.9	10.8	17.4	0.5	2.1	1.8	0.9	18.4
Metal products <sup>a</sup>	0.3	0.5	1.1	3.5	0.3	0.9	0.6	0.3	0.5
Rubber and plastics (excl. tires)	0.0	0.1	0.3	0.7	0.1	0.4	0.3	0.1	0.6
Electrical and electronic equipment	0.4	1.3	2.5	4.8	0.2	0.6	0.9	0.4	—
Leather and leather products	0.0	0.1	0.1	0.5	—	—	—	—	0.1
Basic metals	0.1	0.3	0.3	0.7	2.1	2.9	2.2	1.9	1.5
Nonmetallic minerals	—	—	—	—	1.8	2.3	2.5	1.7	2.9
Total	8.4	11.1	14.6	27.7	3.2	9.1	9.2	5.2	24.0

<sup>a</sup> This table is based on Ministry of Commerce and Industry data, the branch classification of which differs somewhat from that of the Central Bureau of Statistics.

It should be pointed out in this context that aggregative branch data often obscure conflicting trends. One example is provided by the plastics industry, which in Table III-3 of the appendix appears among the branches with high export growth rates in 1967. In actual fact, only part of the products showed a strong rise, whereas others experienced a decline. In 1963 the major export items were plastic doilies, adhesive strips, and insulating materials. These products, which then made up 80 percent of total plastic exports, accounted for only 18 percent in 1968 (some even disappeared entirely from the export list). By contrast, decorated laminated plates and plastic sheets went up from 12 to 55 percent during the same period. The situation was similar in various other branches.

The existence of conflicting trends, which are blurred in the global figures, shows up when the figures are examined from another point of view. Analysis of overseas sales by exporters in a given branch often reveals contrasting trends very distinctly (see Table III-17). In some industrial branches there were groups

PERFORMANCE OF GROUPS OF EXPORTERS, 1965-68<sup>a</sup>

at current prices)

Other exporters of over \$ 100,000 <sup>b</sup>			Small exporters				Total			
1966	1967	1968	1965	1966	1967	1968	1965	1966	1967	1968
20.6	23.4	26.8	3.4	3.7	4.4	5.1	29.8	35.3	40.4	50.2
1.6	1.6	1.8	1.4	1.1	1.3	1.2	2.5	4.1	4.6	6.8
0.6	0.6	0.7	0.7	0.4	0.6	0.7	1.4	1.5	1.8	2.2
—	—	—	0.2	0.3	0.2	0.3	0.8	2.2	3.6	5.5
0.2	0.2	0.2	0.0	0.0	0.1	0.1	0.1	0.3	0.4	0.8
1.5	1.9	2.0	0.1	0.2	0.2	0.3	3.8	4.9	4.6	4.9
2.8	2.3	2.1	0.1	0.0	0.1	0.1	4.8	5.1	4.9	3.9
<b>27.3</b>	<b>30.1</b>	<b>33.5</b>	<b>6.0</b>	<b>5.8</b>	<b>6.9</b>	<b>7.8</b>	<b>41.5</b>	<b>53.3</b>	<b>60.8</b>	<b>74.2</b>

<sup>b</sup> In small branches—over \$ 50,000.<sup>c</sup> Excluding the military and aircraft industries.

of exporters who made a big stride forward in 1968; these groups, which accounted for a quarter of the exports of the branches examined, doubled their overseas sales in 1968, and their growth rate exceeded that for the branch as a whole. Another group of exporters made strong headway during the recession, the figure trebling from 1965 to 1966, but in 1968 they lost considerable ground. The reason for the decline can be pinpointed only by examining each case separately. However, even granting that there is a certain element of randomness in every branch, the extent of the fluctuations in this group suggests that for it export is of a highly marginal character, and that it was natural for such export, which made its appearance during the recession, to disappear with the recovery. It is also likely that part of the overseas sales of new exporters during the recession were experimental, and were discontinued after their initial failure.

On the other hand, in the first group the stimulative factors—the larger return on exports, growing foreign demand, and possibly also the spur of the local recession—prevailed over the restrictive effect of mounting domestic demand.

#### 4. IMPORTS AND EXPORTS OF SERVICES

The deficit on services account was cut by 9 percent in 1968, after it had risen more than two-and-a-half times in 1967. The decline was the resultant of an increase of 28 percent in exports and of 11 percent only in imports (following a rise of 44 percent in the previous year).

The jump in the deficit in 1967-68—from \$120-140 million in the five preceding years to more than \$300 million—stemmed entirely from the growth of Government imports, nearly all for security purposes, to more than twice their previous volume. All other changes in this account pale in comparison.

In the services account, excluding the Government, a greater increase in exports (29 percent) than in imports (15 percent) converted a deficit of \$40 million into a surplus of \$10 million—a situation similar to that in 1966. Excluding the administered areas, the improvement in the services account was \$57 million—from a deficit of \$22 million to a surplus of \$34 million. In the discussion which follows the services account with the administered areas is segregated from that with overseas countries; the analysis begins with the latter.

The outstanding change in 1968 was the larger income from tourism. 1967 was a poor tourist year because of the war and the tension which preceded it. But even in comparison with 1966 the rise was sharp—32 percent in the number of visitors and 62 percent in earnings from this source.

Expenditure of Israeli tourists abroad in 1968 was only 6 percent higher than in 1966 (in 1967 the figure fell off), so that net income from tourism was several times higher in 1968 than in any previous year. This accounts for two-thirds of the improvement in the services account (excluding the Government) in the year reviewed.

Other items showed less striking changes, and in general followed the trends of previous years.

In transportation services there was a marked rise in both exports and imports. Income from the conveyance of goods to and from Israel was up considerably, reflecting the country's larger import and export and a 4 percent rise in freight tariffs. Cargo volume carried between foreign ports was also higher in 1968, but income from passenger business was halved following the reduction of Zim's passenger fleet.

As to expenditures, the 50 percent rise in charter hire, due to the larger number of foreign vessels chartered to cope with the country's growing maritime commerce, should be noted (this was accompanied by a larger income from chartered vessels). Other foreign currency shipping outlays rose by a relatively slow 8 percent, so that net foreign currency earnings went up.

Civil aviation yielded 37 percent more in 1968, following an increase in the number of tourists flying to Israel and a 6 percent cut in fares. However, costs

Table III-18

## IMPORTS AND EXPORTS OF SERVICES (NET), 1962-68

(\$ million; based on the c.i.f. value of commodity imports)

	1962	1963	1964	1965	1966	1967	1968
Transportation	47.7	44.2	43.4	54.5	54.9	61.1	68.8
(Transportation—based on the f.o.b. value of commodity imports)	27.6	27.4	21.7	32.6	36.9	45.9	42.9
Tourism	12.4	15.4	17.5	11.3	10.3	8.2	44.3
Insurance (excl. cargo insurance)	-5.1	-4.0	-1.6	-5.3	-5.6	-11.2	-9.6
Cargo insurance	3.3	3.5	3.4	3.5	3.5	4.3	6.1
Capital services	-48.6	-45.8	-54.3	-57.2	-58.7	-68.8	-76.8
Miscellaneous services	-21.5	-20.6	-18.8	-9.6	5.1	-16.0	1.6
Total, excl. Government account	-11.8	-7.3	-10.4	-2.8	9.5	-22.4	34.4
Government account	-113.2	-130.5	-108.1	-127.2	-133.7	-293.6	-314.2
Total, incl. Government account	-125.0	-137.8	-118.5	-130.0	-124.2	-316.0	-279.8
Services account with the administered areas						-17.1	-24.2
Grand total						-333.1	-303.0

rose by a similar amount—the biggest rises were in charter hire and operating expenses—so that there was no change in net foreign currency earnings from this source.<sup>1</sup>

There was a marked growth in income from other transportation services—the outlays of foreign shipping and air companies operating in Israel.<sup>2</sup>

Both the export and import of insurance services (excluding cargo insurance) amount to a sizable sum, but the two are closely connected and must be treated together. The net balance is relatively small. On the debit side, 80 percent represents premium payments to foreign companies for the direct writing of insurance and reinsurance. Such payments have been moving up at the rapid rate of 20–30 percent per annum. Another (and smaller) item that has risen strongly is reinsurance benefits paid by Israeli companies. This reflects the expansion of this type of business, placed mostly with branches of foreign insurance companies operating in Israel. Reinsurance premium receipts have trebled in the past five years.

On the credit side, the major items are claims payments by foreign companies to Israelis (approximately half of total receipts) and commissions paid to local agents of foreign insurers and to Israeli reinsurers (about one-quarter). The fourth item is premium receipts of Israeli companies from reinsurance business.

There is a fairly constant ratio between premium receipts and commissions paid. A similar relationship may be found in the longer run between premium payments and benefits received. In 1967<sup>3</sup> benefits received increased by less than premium payments, and consequently the debit balance in the insurance account rose from approximately \$5 million in previous years to \$11 million in 1968.

The debit balance in the capital services item also rose appreciably. This was due to the much higher interest outlay on foreign debts, accompanied by a smaller increase in interest received in the past two years on the country's foreign currency holdings. All of the growth on the debit side was in the interest item. In 1968 income of foreign nationals from direct investments in Israel was about the same, in absolute terms, as in 1965, after a slight fall during the recession. On the other hand, during the same period interest paid on foreign loans (which accounts for 80 percent of the capital services item) rose by 35 percent.

Miscellaneous services form a heterogeneous item, consisting of a large number of small component items. On the credit side, most of the increase in the last two

<sup>1</sup> As recorded in the balance of payments. For a breakdown of total income from aviation services, see Chapter XIV, section 4(c).

<sup>2</sup> The transportation services account has been calculated according to the c.i.f. value of commodity imports. The cost of transporting commodity imports by foreign companies is therefore included in the value of the goods and does not appear in the services account.

<sup>3</sup> For 1968 there is only a weak global estimate.

Table III-19

## IMPORTS OF SERVICES,\* 1962-68

(\$ million)

	1962	1963	1964	1965	1966	1967	1968	Increase or decrease (-) as against previous year							
								IL million				Percent			
								1965	1966	1967	1968	1965	1966	1967	1968
Transportation	68.7	70.6	83.1	93.5	102.8	99.8	129.2	10.4	9.3	-3.0	29.4	12.5	9.9	-2.9	29.5
Passenger	8.0	10.2	12.1	12.5	14.9	13.8	16.7	0.4	2.4	-1.1	2.9	3.3	19.2	-7.4	21.0
Other	60.7	60.4	71.0	81.0	87.9	86.0	112.5	10.0	6.9	-1.9	26.5	14.1	8.5	-2.2	30.8
Foreign travel	26.0	38.0	37.3	43.7	48.8	65.7	74.2	6.4	5.1	16.9	8.5	17.2	11.7	34.6	12.9
Insurance	27.8	31.1	41.0	49.5	60.2	67.8	73.4	8.5	10.7	7.6	5.6	20.7	21.6	12.6	8.3
Capital services	69.9	72.1	83.0	94.1	106.9	123.3	135.0	11.1	12.8	16.4	11.7	13.4	13.6	15.3	9.5
Government, n.e.s.	123.6	145.7	129.2	147.4	158.7	324.3	347.1	18.2	11.3	165.6	22.8	14.1	7.7	104.3	7.0
Miscellaneous	39.9	49.9	51.2	46.7	44.3	68.4	75.9	-4.5	-2.4	24.1	7.5	-8.8	-5.1	54.4	11.0
Total	355.9	407.4	424.8	474.9	521.7	749.3	834.8	50.1	46.8	227.6	85.5	11.8	9.9	43.6	11.4

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

SOURCE: Central Bureau of Statistics.



**Table III-20**  
**EXPORTS OF SERVICES,<sup>a</sup> 1962-68**  
(\$ million)

	1962	1963	1964	1965	1966	1967	1968	Increase or decrease (-) as against previous year							
								\$ million				Percent			
								1965	1966	1967	1968	1965	1966	1967	1968
Transportation	116.4	114.8	126.5	148.0	157.7	160.9	198.0	21.5	9.7	3.2	37.1	17.0	6.6	2.0	23.1
Passenger	35.5	33.4	36.9	42.5	41.3	43.4	53.8	5.6	-1.2	2.1	10.4	15.2	-2.8	5.1	24.0
Cargo	59.0	65.1	73.4	86.8	93.6	93.0	113.2	13.4	6.8	-0.6	20.2	18.3	7.8	-0.7	21.7
Other income	21.9	16.3	16.2	18.7	22.8	24.5	31.0	2.5	4.1	1.7	6.5	15.4	21.9	7.5	26.5
Tourism	38.4	53.4	54.8	55.0	59.1	52.2	97.2	0.2	4.1	-6.9	45.0	0.4	7.5	-11.7	86.2
Insurance	26.9	30.6	42.8	47.7	58.1	60.9	70.1	4.9	10.4	2.8	9.2	11.4	21.8	4.8	15.1
Capital services	21.3	26.3	28.7	36.9	48.2	54.5	58.2	8.2	11.3	6.3	3.7	28.6	30.6	13.1	6.8
Government, n.e.s.	10.4	15.2	21.1	20.2	25.0	30.7	32.9	-0.9	4.8	5.7	2.2	-4.3	23.8	22.8	7.2
Other services	18.4	29.3	32.4	37.1	49.4	57.0	74.6	4.7	12.3	7.6	17.6	14.5	33.2	15.4	30.9
Total	231.8	269.6	306.3	344.9	397.5	416.2	531.0	38.6	52.6	18.7	114.8	12.6	15.3	4.7	27.6

<sup>a</sup> Calculated according to the c.i.f. value of commodity imports.

years stemmed from the transfer of funds by returning Israeli residents.<sup>1</sup> The rise is attributable to the larger number of persons returning during this period.

Another item rising noticeably in 1968, after a fall in 1967, includes the sale of expertise abroad and the expenditure of foreign companies operating in Israel. On the debit side, there was no change in 1968, after an increase of more than 50 percent in 1967. Several of the component items have displayed a relatively strong upward movement for the past several years: maintenance of offices of Israeli companies abroad, which rose 12 percent in 1968 and more than doubled in the past two years; payments to overseas agents—up 24 percent in 1968 and 35 percent in 1967–68; computer rental fees—up 17 percent in 1968 and more than doubling since 1967; and advertising outlays abroad. These four subitems accounted for more than half of the miscellaneous services item in 1968.

In the services account with the administered areas, the leading debit item was purchases by Israelis (about three-quarters of the total). The remainder consisted mostly of wages earned by inhabitants of the areas in Israel. The credit side was much smaller (about a quarter of total debits), and consisted chiefly of the income of Israelis staffing the Military Government, other outlays of the latter, and expenditure of the U.N. Relief and Works Agency.

## 5. CAPITAL IMPORTS

Capital imports reached unprecedented proportions in 1967—an outcome of the larger volume of aid extended to Israel by world Jewry in the wake of the Six Day War, in the form of contributions to the emergency fund-raising campaigns and the purchase of Independence and Development Bonds. In analyzing developments in 1968, the comparison must therefore be made not only with 1967 but also with preceding years.

Capital imports, which consist of unilateral transfers and long- and medium-term capital movements, added up to \$654 million in 1968. This was \$170 million less than the 1967 record high, but still much greater than in any earlier year. The previous peak was reached in 1964—\$615 million. After contracting in 1965 and 1966, the figure soared in 1967 owing to the exceptionally large volume of institutional transfers from abroad and the brisk sale of Development Bonds. Income from these sources remained above average in 1968, but was smaller than in 1967. In the year reviewed institutional transfers and proceeds from Development Bond sales were considerably lower than in 1967, but most of the other unilateral transfers showed higher figures.

In 1964–66 about two-thirds of the capital imports went to the private

<sup>1</sup> Since 1966 the level has been much higher than in earlier years. This may be due to difficulties in the method of recording, as a result of which part of these funds was formerly included under unilateral transfers.

**Table III-21**  
**THE BALANCE OF PAYMENTS, 1967-68**  
(\$ million)

	1967			1968		
	Credit	Debit	Net	Credit	Debit	Net
<b>A. Current deficit</b>	908.4	1,439.9	-531.5	1,128.1	1,824.0	-695.9
<b>B. Unilateral transfers</b>						
Personal transfers						
In cash	87.5	2.4	+85.1	130.8	2.6	+128.2
In kind	3.4	4.4	-1.0	9.8	4.0	+5.8
German restitution	123.2	—	+123.2	143.3	—	+143.3
Institutional transfers						
In cash	321.8	—	+321.8	162.6	—	+162.6
In kind	2.7	—	+2.7	1.8	—	+1.8
Intergovernmental transactions	—	10.8	-10.8	—	16.9	-16.9
Total	538.6	17.6	+521.0	448.3	23.5	+424.8
<b>C. Long- and medium-term capital movements</b>						
Independence and Developmnt Loans	232.3	60.8	+171.5	181.9	102.7	+79.2
World Bank loans	8.2	2.7	+5.5	5.3	5.3	—
Export-Import Bank loans	10.7	10.0	+0.7	7.6	8.5	-0.9
U.S. Government D.L.F. and A.I.D. loans	34.1	9.6	+24.5	50.9	12.2	+38.7
U.S. Govt. loans in connection						
with food surpluses	13.0	2.4	+10.6	—	3.0	-3.0
Other long- and medium-term loans	165.9	83.5	+82.4	216.4	108.9	+107.5
Investments from abroad, net	59.8	51.9	+7.9	60.9	52.9	+8.0
Total	524.0	220.9	+303.1	523.0	293.5	+229.5
<b>D. Short-term capital movements</b>						
Short-term loans	30.4	83.5	-53.1	4.7	31.6	-26.9
Deposits with International Monetary Fund	—	—	—	—	—	—
Clearing accounts	—	1.2	-1.2	8.0	—	+8.0
Foreign deposits in Israel	22.3	—	+22.3	46.0	—	+46.0
U.S. Govt. deposits	—	17.8	-17.8	—	11.4	-11.4
Deposits abroad	—	228.1	-228.1	52.0	—	+52.0
Monetary gold	—	0.1	-0.1	—	0.1	-0.1
Total	52.7	330.7	-278.0	110.7	43.1	+67.6
Total (C+D)	576.7	551.6	+25.1	633.7	336.6	+297.1
Grand total	2,023.7	2,009.1	+14.6	2,210.1	2,184.1	+26.0
<b>Net errors and omissions</b>	—	14.6	-14.6	—	26.0	-26.0

sector. The public sector accounted for all of the 1967 increment, and as a result its share of total capital imports rose to 68 percent. The decline in 1968 was also concentrated entirely in the public sector, while private sector transfers even went up somewhat. In 1968 the capital import was evenly divided between the two sectors.

Since the balance of payments deficit on current account exceeded capital imports, the State's foreign currency reserves dropped. Net balances, i.e. deposits abroad less changes in deposits of foreign banks and nonresidents with the local banking system, fell by \$98 million, after a rise of \$206 million in 1967.

(a) *Unilateral transfers*

Unilateral receipts consist of three items: private transfers, personal restitution from Germany, and institutional transfers. In the last two years a payments item has been added to the list—intergovernmental transfers, which consist primarily of Government transfers to the administered areas. Flows of goods and services to and from these areas appear in the current account, and there are some capital movements as well, mostly short-term. Government transfers to the areas reached \$17 million in 1968, compared with \$11 million the year before.

As in 1967, the leading item was institutional transfers. These comprise the regular campaign funds of the National Institutions, the proceeds of the emergency appeals, and transfers of nonprofit institutions. For several years institutional transfers totalled \$80–90 million a year. In 1967 emergency fund-raising campaigns were conducted abroad in connection with the Six Day War, as a result of which institutional transfers shot up to \$325 million. In 1968 the figure was \$164 million, which was still about double the pre-1967 level. National Institution transfers represent the sums actually transferred to Israel and converted into Israeli pounds. They do not include the Institutions' expenditure abroad. For this reason, the figures in this chapter are not identical with those cited in the chapter on the public sector. Nonprofit institution transfers totalled \$42 million, \$5 million less than in the two preceding years. The decline was mainly due to the smaller volume of aid extended to scientific institutions by the U.S. Government from the counterpart funds generated by the purchase of food surpluses.

Personal transfers totalled \$134 million, \$50 million over the previous year. The main reason for this high level was the larger influx of immigrants from affluent countries, who brought with them a relatively sizable amount of property. In former years as well, rises in the level of personal transfers had been associated with increased immigration from such countries.

Personal restitution receipts from West Germany, which had declined somewhat in previous years, resumed their upward movement in 1968, following the amendment of the German law, which increased the number of eligible beneficiaries.

Of total receipts of \$143 million, 62 percent were of a nonrecurrent nature and

**Table III-22**  
**CAPITAL IMPORTS, 1964-68**  
(\$ million)

	1964	1965	1966	1967	1968	Increase or decrease (-) in 1968
<b>Unilateral transfers</b>						
(1) Transfers to the private sector						
Personal remittances	96	98	84	84	134	50
Personal restitution from Germany	134	113	110	123	143	20
Transfers to nonprofit institutions	40	46	45	47	42	-5
Total	270	257	239	254	319	65
(2) Transfers to the public sector						
Intergovernmental transfers	25	22	1	-11	-17	-6
Transfers to National Institutions	40	48	52	278	123	-155
Total	65	70	53	267	106	-161
Total unilateral transfers	335	327	292	521	425	-96
<b>Capital movements</b>						
(1) To the private sector—foreign investments in Israel, net	143	83	71	8	8	—
(2) To the public sector	24	33	11	171	79	-92
Independence and Development Loans, net	13	23	17	6	—	-6
World Bank loans, net	53	42	41	36	35	-1
U.S. Government loans, net						
Other long- and medium-term loans, net	47	39	43	82	107	25
Total	137	147	112	295	221	-74
Total long- and medium-term capital movements	280	230	183	303	229	-74
Total capital imports	615	557	475	824	654	-170

SOURCE: Central Bureau of Statistics.

38 percent were pension payments. The relative share of nonrecurrent payments has been growing since 1966, while that of pensions has been falling. This too is due to the larger number of eligible recipients.

**Table III-23**  
**FOREIGN INVESTMENTS IN ISRAEL, 1964-68**  
(\$ million)

	1964	1965	1966	1967	1968
<b>Investments in Israel by nonresidents</b>					
In foreign currency	139.1	92.4	85.6	38.8	31.2
In Israeli currency	9.1	4.8	3.7	1.9	1.5
In Independence and Development Bonds	10.6	9.4	9.7	7.0	7.1
Capital transfers in kind	10.6	8.3	5.3	3.9	14.4
Total	<b>169.4</b>	<b>114.9</b>	<b>104.3</b>	<b>51.6</b>	<b>54.2</b>
Less: Liquidation of foreign investments in Israel	-17.1	-27.9	-27.0	-31.1	-32.7
Net total	<b>152.3</b>	<b>87.0</b>	<b>77.3</b>	<b>20.5</b>	<b>21.5</b>
Reinvestment of profits <sup>a</sup>	4.4	4.8	5.2	4.3	4.0
Total investments by nonresidents, net	<b>156.7</b>	<b>91.8</b>	<b>82.5</b>	<b>24.8</b>	<b>25.5</b>
Israeli investments abroad	13.8	9.3	11.3	16.9	17.5
Total foreign investments in Israel, net	<b>142.9</b>	<b>82.5</b>	<b>71.2</b>	<b>7.9</b>	<b>8.0</b>

<sup>a</sup> This estimate is weaker than that of the other foreign investment items.

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

The State's long- and medium-term foreign debt rose in 1968 by \$229 million, \$74 million less than in the previous year. This change was the resultant of two contrasting developments: proceeds from the Development Loan fell off substantially, while all other items went up.

Total indebtedness on account of the Development Loan came to \$895 million, including \$49 million in accumulated interest. This constituted nearly half the State's total foreign currency debt.

Development Bonds carry an annual interest of 4 percent and have maturities of 12-20 years. Bond sales (including accumulated interest) reached \$182 million in 1968, compared with \$232 million in 1967. However, as in the case of institutional transfers, 1967 was an exceptional year, sales being much higher than in the past (\$124 million in 1966 and \$100 million in 1965). This is a reflection of the special effort made to aid Israel after the war.

The amount redeemed, exchanged, and converted into Israeli pounds reached \$103 million in 1968, as against \$60 million the year before; net receipts from this source thus totalled \$79 million, compared with \$172 million in 1967. The value of bonds redeemed in dollars and exchanged for later series amounted

to \$66 million. Conversions into Israeli pounds came to \$26 million, as against \$20 million in 1967. A much larger sum was converted by tourists in the year reviewed—\$9 million as contrasted with \$4 million in 1967—as well as by residents and new immigrants—\$3 million as against \$1 million. This was due to the heavy influx of tourists and new immigrants during the year. Conversions by institutions and investors edged up slightly, from \$7 million in 1967 to \$8 million.

Since 1968 all U.S. Government loans have to be repaid in dollars, and their terms almost resemble those of ordinary commercial credit. The loans granted in the last few years have been intended primarily for the purchase of food surpluses, mainly wheat and fodder. The 1968 agreements involved an amount similar to that of the previous year. \$ 50 million was received in loans, but \$ 15 million was repaid to the U.S. Government on previous loans.

Other medium- and long-term loans were at a particularly high level in 1968, mainly because of the huge defense imports, which were partly financed by long-term credit. In 1967 as well, outstanding loans rose considerably compared with previous years.

Investments from abroad, which in 1967 shrank to about half their 1966 volume, picked up slightly in the year reviewed. This item fell steadily as from 1964, and the special incentives granted in the last two years to attract potential investors are only just beginning to bear fruit. The numerous plans prepared and those approved in 1968 will be implemented only in the coming years; the low level of foreign investment in 1968 was still a consequence of the recessionary period.

Investments of Israelis abroad in the last two years consisted mostly of foreign security purchases, and this because Israelis may purchase unlimited amounts of foreign securities through Natad accounts (foreign securities dividend accounts). These purchases amounted to \$11 million in 1967 and \$15 million in 1968.

On balance, there was no change in net investments from abroad, which remained at their low level of \$8 million.

### (c) *Foreign exchange reserves*

Foreign currency assets declined by \$52 million in 1968. In addition, there was a rise of \$46 million in deposits of foreign banks and foreign nationals with Israeli banks, so that the State's net foreign currency balances contracted by \$98 million. This contrasts with an increase of \$206 million in 1967.

The foreign currency assets consist mostly of foreign currency and gold balances of the Bank of Israel, the country's principal free foreign assets; these totalled \$663 million at the end of 1968. The foreign currency holdings of the commercial banks are usually offset by short-term liabilities abroad, in the main nonresidents' deposits and liabilities to foreign banks. Treasury

deposits abroad are usually earmarked for various payments, mainly of Development Bonds which have reached maturity but have not yet been presented for redemption and must be repaid on demand.

**Table III-24**  
**ISRAEL'S FOREIGN EXCHANGE RESERVES, 1967-68**  
(\$ million)

End of year	1967	1968	Increase or decrease (-)
Balances with the Bank of Israel (incl. gold)	715	663	-52
Balances with commercial banks	120	162	+42
Treasury deposits abroad	133	91	-42
<b>Total</b>	<b>968</b>	<b>916</b>	<b>-52</b>
Less: deposits of nonresidents and foreign banks in Israel	191	237	+46
<b>Net foreign exchange reserves</b>	<b>777</b>	<b>679</b>	<b>-98</b>

In 1966 and early 1967 foreign exchange reserves began to shrink. They turned sharply upward with the large capital imports after the Six Day War. The inflow continued at a fairly high level in 1968 as well, but the growing balance of payments deficit on current account resulted in a heavy drain on the reserves.

Other short-term obligations declined, but to a smaller extent than in the previous year. Total short-term capital movements (the difference between the deficit on current account and capital imports) rose by \$68 million, compared with a drop of nearly \$280 million in 1967.