CHAPTER III

THE BALANCE OF PAYMENTS

1. Main Developments[1, 2, 3]

The trade deficit dropped steeply in 1967, commodity exports expanding and imports declining. This reflected the economic slowdown, which lasted until the middle of the year. On the other hand, the deficit on services account widened considerably as a result of increased imports for security purposes. The net outcome of these opposing changes was a slight decline of $ 8 million, or 2 percent, in the import surplus.

Economic, political, and military conditions also influenced the capital inflow, which showed marked changes. Because of the war and state of emergency, institutional transfers and net receipts from the sale of Independence and Development Bonds soared. On the other hand, economic conditions in the country and the rise in interest rates abroad caused a steep drop in foreign investment and foreign borrowing. The economic influences—the recession in Israel and the monetary changes abroad—represent to some extent the continuation of trends prevailing in the two preceding years.

The most pronounced effect of the recession was a decline in the trade deficit: in 1967 it was pared by $ 126 million (39 percent) to $ 195 million.[4]

[1] 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).

[2] 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.

[3] The 1967 estimates presented here are provisional, and include an errors and omissions item (on the debit side) of $ 114 million, whose dimensions make it necessary to view the data with caution. Nevertheless, the commodity data (except those for trade with the administered areas) appear to be fairly complete, so that the errors and omissions can be attributed mainly to the service and capital movement items.

[4] According to the c.i.f. recording of commodity imports.

Table III–1

THE BALANCE OF PAYMENTS, BY MAJOR ITEM, 1966–67

($ million)

	1966			1967		
	Credit	Debit	Net	Credit	Debit	Net
A. Current account						
Commodities (f.o.b.)	474.6	734.4	–259.8	532.2	668.8	–136.6
Government services	25.0	158.7	–133.7	34.3	255.4	–221.1
Other services	332.6	378.0	–54.4	351.9	431.5	–79.6
Total	832.2	1,277.1	–444.9	918.4	1,355.7	–437.3
B. Unilateral transfers						
To the private sector	244.2	5.5	238.7	263.4	7.3	266.1
To the public sector	55.4	2.2	53.2	276.4	10.3	266.1
Total	299.6	7.7	291.9	539.8	17.6	522.2
C. Capital movements						
Long- and medium-term	417.6	233.9	183.7	433.8	176.3	257.5
To the private sector	*138.5*	*52.7*	*85.8*	*90.5*	*76.9*	*13.6*
To the public sector	*279.1*	*181.2*	*97.9*	*343.3*	*99.4*	*243.9*
Short-term	34.3	38.2	–3.9	51.1	279.3	–228.2
Gold and foreign exchange reserves	*19.0*	—	*19.0*	—	*215.9*	*–215.9*
Other short-term accounts	*15.3*	*38.2*	*–22.9*	*51.1*	*63.4*	*–12.3*
Total	451.9	272.1	179.8	484.9	455.6	29.3
Grand total	1,583.7	1,556.9	26.8	1,943.1	1,828.9	114.2
D. Net errors and omissions	—	26.8	–26.8	—	114.2	114.2

SOURCE: Central Bureau of Statistics.

In 1965–66 it was also narrowed, but not to the same extent. Over the past three years the trade deficit declined by $ 259 million, or 57 percent, from the $ 454 million peak in 1964. This steep drop was achieved by increasing exports and reducing imports.

As regards imports, the change in the level of economic activity was reflected differently in the various component categories. Demand for current production inputs for domestic uses began to slacken in 1965 as output slowed down. This item remained unchanged in 1966, and in 1967 it declined slightly. Exports continued upward during this period, and so did imports for export production. In the last two years total requirements of current production inputs (according to constant input-output coefficients) rose somewhat. However, actual imports (excluding uncut diamonds) held steady in 1966 and fell by 8 percent in 1967, reflecting in the main the running-down of existing stocks.

The recession did result in a sharply curtailed import of certain types of capital goods. Total imports of capital items, excluding ships and aircraft, fell by $ 26 million (21 percent) compared with 1966, and by $ 52 million (35 percent) compared with 1965. In industry and construction the decline totalled $ 16 million (25 percent) compared with 1966, and $ 40 million (45 percent) compared with 1965.

Imports for direct consumption were also smaller in the year reviewed (down $ 8 million from 1965), with most of the decrease being in durables.

Analysis of the influence of economic activity on foreign trade does not reveal a uniform trend in 1967. In the first half of the year the slump was in full swing, and this was reflected by a steep cut in imports. As regards inputs, there was only a slight decline in current requirements, but there was apparently a fairly heavy depletion of existing stocks. Imports of capital goods also fell off conspicuously, in some cases amounting to only half the previous year's figure.

In the second half of the year economic activity began to revive, following a large increase in public consumption and the introduction of various incentives, and this also changed the import picture. In the third quarter the decline came to an end, and there were signs of an upswing, which in the following quarter gathered momentum. In some categories the volume of imports at the end of 1967 had already reached the peak level of previous years and even surpassed it. Imports of current inputs other than diamonds were 24 percent higher in the last quarter of the year than the average of the first three quarters, and in industry they were 30 percent higher.

Together with this growth of imports in the final quarter, current production requirements also expanded rapidly, and the imports were apparently inadequate to replenish the stocks drawn down in preceding periods, particularly the second and third quarters of the year. The level of economic activity achieved in the fourth quarter entailed an annual import of about $ 500 million worth of current inputs (except for diamonds), not counting those needed to replace depleted stocks.

The upturn, of course, was not equally rapid in all component groups. Imports of investment goods were most severely affected by the slackening of economic activity; the percentage decrease here was extremely steep, and came on top of a slowdown and even an absolute decline in various branches in previous years. As regards capital spending, it takes some time for a change in business outlook to be reflected by changes in investment plans and in their actual implementation. The import of investment goods in the last quarter of the year grew more slowly than other import categories compared with the preceding three quarters, and its level was still far below that of 1965, when economic activity and investments began to drift downward. In industry and construction, imports in the final quarter of 1967 were still running 34 percent lower (on an annual average) than in 1965. The upturn in investments was apparently just beginning to get under way in this period.

Table III–2

SUMMARY BALANCE OF PAYMENTS, 1961–67

($ million)

	1961	1962	1963	1964	1965	1966	1967
Imports of goods and services	–843.5	–938.4	–1,025.0	–1,191.7	–1,231.1	–1,277.1	–1,355.7
Exports of goods and services	397.9	471.8	576.8	619.2	710.7	832.2	918.4
Import surplus	–445.6	–466.6	–448.2	–572.5	–520.4	–444.9	–437.3
Unilateral transfers and long- and medium-term capital movements	532.8	539.7	498.9	614.9	557.1	475.6	779.7
Unilateral transfers	*346.3*	*330.7*	*346.2*	*334.9*	*327.2*	*291.9*	*522.2*
Long- and medium-term capital movements	*186.5*	*209.0*	*152.7*	*280.0*	*229.9*	*183.7*	*257.5*
Short-term capital movements	10.3	27.7	54.4	–48.1	50.5	–22.9	–12.3
Accumulation of gold and foreign exchange reserves	–94.9	–140.6	–109.1	–21.3	–105.8	19.0	–215.9
Errors and omissions	–2.6	39.8	4.0	27.0	18.6	–26.8	–114.2

SOURCE: Central Bureau of Statistics.

The export drive slowed down considerably in 1967 compared with the two preceding years. The different component items also displayed a marked change in trend. Side by side with the factors stimulating exports—the weakening of domestic demand, which began in 1965 and grew more pronounced in 1966 and early 1967, and the introduction of new export incentives in 1966, which began to leave their impress in 1967—there were factors at work in the year reviewed restraining the expansion of overseas sales. The most important of these was the decline of business in some developed countries, which severely hit several major export items, first and foremost diamonds. Other important developments were the severance of trade relations by several East European states, which reduced exports on a clearing basis, and the war and preceding period of tension with their consequent interruption of foreign trade (it seems, though, that this factor was mainly responsible for postponing, rather than reducing, export shipments). It is also likely that sales to the administered territories (estimated at $ 15 million) were made at the expense of exports to other countries.

Total commodity exports were up 12 percent in 1967; excluding the administered areas, the rise came to 9 percent. Sales of locally produced items[1] advanced 5 percent only, as against 17 percent in 1966 and 15 percent in 1965. At constant prices, the growth amounted to 6.5 percent as against 11 percent in 1966 and 12 percent in 1965.

Farm products showed a 15 percent gain, in contrast to 9 percent in 1966. The biggest contribution was made by citrus—the leading item in this category—and resulted from a large physical increase, which was partly offset by a fall in prices.

Industrial exports showed a much slower growth rate—3 percent only, compared with 19 percent in 1966 and 12 percent in 1965. But the growing weight of branches with a high value added brought up the incremental value added component of all industrial exports to 4 percent at current prices and 6 percent at constant prices.

The year 1967 witnessed a change in the sources of export growth. Industries marketing the overwhelming share of their output abroad—diamonds and minerals—experienced a decline, whereas in previous years they had recorded very rapid gains and contributed to the growth of exports at rates far exceeding the average. On the other hand, exports of the broad group of industries orientated primarily to the domestic market rose at an accelerated rate. However, a small number of industries accounted for a disproportionate share of this increase.

The changes in export trends reflect changes in the relative importance and direction of the factors influencing exports. In the middle of 1965 the expansion of economic activity began to slow down, and in the first half of 1966 the level

[1] That is, excluding the sale of old ships and planes, personal effects of passengers, antiques, works of art, etc.

Table III-3

IMPORTS, EXPORTS, AND IMPORT SURPLUS,[a] 1962-67

($ million)

	1962	1963	1964	1965	1966	1967	Percent increase or decrease (–) as against previous year: Quantity				Price				Value			
							1964	1965	1966	1967	1964	1965	1966	1967	1964	1965	1966	1967
Imports																		
Commodities	613.8	647.5	803.4	794.4	795.3	727.1	24	–1	—	–9	2	1	2	—	22	–2	–2	–9
Services	355.9	407.4	424.8	474.9	521.7	668.8	4	12	10	28	1	4	2	—	3	8	8	28
Total	969.7	1,054.9	1,228.2	1,269.3	1,317.0	1,395.9	16	3	4	6	2	2	2	—	14	1	2	6
Exports																		
Commodities	271.4	337.1	349.4	404.0	474.6	532.2	4	16	17	12	—	3	6	–1	4	13	10	13
Services	231.8	269.6	306.3	344.9	397.5	426.4	14	13	15	7	2	6	3	2	12	7	12	5
Total	503.2	606.7	655.7	748.9	872.1	958.6	8	14	16	10	1	4	5	1	7	10	20	9
Import surplus	466.6	448.2	572.5	520.4	444.9	437.3												

[a] Commodity imports valued c.i.f. and commodity exports f.o.b.
SOURCE: Central Bureau of Statistics.

began to dip, continuing in this direction until the middle of 1967. The recession had a twofold effect: on the one hand, it depressed demand in the home market, thereby inducing producers to turn to the export markets, and on the other hand, it checked the rise of labor and other costs and alleviated the shortage of skilled workers.

An additional factor stimulating exports was the increased return thereon as a result of the system of direct incentives. These were introduced in April 1966, and in November their rates were doubled to 8–14 percent of the value added by export. In March 1967 the incentive was raised by up to 10 percent of the value-added dollar for a number of growth industries. Increments were also awarded during the year to various other commodities (these were abolished with the devaluation of 1967). Since the incentives were increased mostly in the latter part of 1966, the effect of the increments was presumably felt only in 1967.

In November 1967 the dollar parity of the Israeli pound was reduced by 16.7 percent (from IL 3.00 to IL 3.50 per dollar) following the devaluation of the pound sterling, but this came too late in the year to affect the country's foreign trade in 1967.

At the same time, an important constraining factor was at work—the slackening of the growth of the world economy in the last part of 1966 and throughout most of 1967. This considerably weakened demand for imports in most countries.

The influence of the aforementioned factors was felt in varying degrees in the different groups of export commodities. Products marketed predominantly abroad were much more seriously affected by price declines, which offset the additional incentives either wholly or in part. On the other hand, their supply is hardly affected by changes in domestic demand, so that despite the lower prices fetched, there was a further physical increase in this export, thanks largely to investments made in the past.

The diamond industry was hit particularly hard. In addition to sagging demand and the consequent decline in prices at the beginning of 1967, the World Diamond Syndicate upped the price of rough diamonds, depressing the industry's returns in comparison with previous years. In the second half of 1967 prices of polished diamonds began to rise following a reduction of supply.

The other group of industrial exports consists of items produced chiefly for the local market and in respect of which exports are of secondary importance. Most of them represent a more advanced stage of processing, and the prices fetched abroad fell relatively slightly, so that the effects of the export incentives were not offset in this case. The fact that the output of these commodities is sold mostly in the domestic market means that the supply for export is likely to be very elastic within a certain price range and under suitable local demand conditions.

One of the outstanding features of the increased export of this group was the disproportionate place held by a relatively small number of branches, where the growth rate reached an exceptionally high level. It is difficult to give a clear explanation of this development on the strength of the data available. To some extent it may have been due to random factors or to the fact that these branches happened to be going through an expansionary phase as a result of long-run trends in the economy. The degree to which domestic demand weakened probably varied from branch to branch. In addition, the export incentives may have had a different effect on various branches owing to the practice of basing the incentives on f.o.b. values (furthermore, this arrangement was applied to commodity groups with broad value-added ranges); as a result, the incremental returns to the direct exporter also varied from branch to branch. The different reaction of the branches may also reflect to some extent the wide range of effective rates of protection in force, which results in widely varying degrees of competitiveness in the world market.

A further reason for the interbranch differences in export growth was the contraction of sales under clearing agreements with Eastern Europe. Most affected were branches with a low competitive standing, which are thus much more dependent on clearing markets for their exports.

The disparate growth rates between 1966 and 1967 of commodities occupying a relatively lower position in Israel's export list may be due to yet another factor. Undoubtedly, the difference can be partly explained by the fact that a certain period of time is required for a shift from domestic to export marketing, and some lag is therefore to be expected before a reduction in local demand makes its impact felt, insofar as it constitutes an effective export stimulant. On the other hand, it should be pointed out that world market conditions were far less favorable in 1967.

The additional factor underscored by the disparity is the increased incentives. Under a system of high effective rates of protection and a big price spread between export and domestic marketing, there is a limit as to how much the share of export in the final destinations of output can be stepped up by restricting local demand. This does not reduce costs materially, nor does it permit the development of new export commodities at an effective rate slightly higher than the prevailing one but far lower than the effective rate of protection enjoyed by a large percentage of locally made items.

The exceptionally striking changes in the capital items of the balance of payments reflect the political and security situation in 1967. In the wake of the prewar tension and fighting, World Jewry increased its contributions to Israel many times over, this finding expression in two of the items. Transfers by the National Institutions grew more than fivefold compared with their average level during the four preceding years and came to \$ 276 million. There was also a sharp rise in sales of Independence and Development Bonds, net proceeds reaching \$ 175 million as against \$ 11 million in 1966 and an average of about \$ 30 million per annum in 1961–65.

Smaller, yet significant, changes took place in other capital-account items. These reflect the changes in both the domestic and world economic situation and in the world capital market. One of the most striking consequences of the economic recession in Israel was the drop in investments from abroad. Foreign investments[1] amounted in 1967 to $ 52 million, after having declined steadily from their 1964 level of $ 169 million. At the same time, a larger volume of foreign investments was repatriated, so that net investments from abroad in 1967 stood at $ 20.5 million, in contrast to $ 159 million in 1963—a drop of 87 percent.

Table III-4

TRADE DEFICIT, TRANSFERS, AND CAPITAL IMPORTS, 1961-67

($ million)

	1961	1962	1963	1964	1965	1966	1967
Deficit on current account	-446	-467	-448	-573	-520	-445	-437
Unilateral transfers, net	346	331	346	335	327	292	522
Surplus of transfers over deficit	-100	-136	-102	-238	-193	-153	85
Medium- and long-term capital movements	187	209	153	280	230	184	258
Surplus of capital imports over deficit	87	73	51	42	37	31	343

SOURCE: Central Bureau of Statistics.

Net credit from abroad, apart from Independence and Development Bonds, also fell off. One of the main causes was the tight-money policy and the rise in interest rates in most developed countries in the last few years.

Borrowings from such sources as the World Bank have declined in recent years. The decrease in U.S. Government loans is undoubtedly due to the balance of payments difficulties experienced by that country.

Net foreign credit from all sources (excluding the Independence and Development Loans) to the public and private sectors amounted in 1967 to $ 28 million, compared with $ 83 million in 1966 and $ 182 million in 1965.

The tighter monetary situation and higher interest rates in the money and capital markets of the world was accompanied by the easing of the monetary situation in Israel, reflected by the greater possibilities of obtaining bank credit, the fall of the interest rate in the bill brokerage market, and the abolition of value linkage on long-term loans. The effect of these changes was felt most strongly in such a sensitive item as short-term foreign credit to the private sector. In 1967 there was a net outflow of $ 28 million, as against $ 11 million in 1966 and an inflow of $ 47 million in 1965; in other words, between 1965 and 1967 there was a decline of $ 75 million.

[1] Excluding the ploughing-back of profits, the estimate of which is very weak.

Another factor which may be mentioned is the substitutability of sources. Thus, for instance, the larger receipts from the Independence and Development Loans and from transfers reduced the public sector's dependence on other credit sources.

The huge increase in National Institution transfers almost doubled the total value of unilateral transfers, and whereas in former years the latter ran $ 100–200 million below the deficit on current account, in 1967 they exceeded it by $ 85 million. Medium- and long-term capital movements showed no conspicuous change in aggregate terms, but they underwent a drastic change in composition. In 1967 capital imports were $ 343 million larger than the deficit on current account, whereas they exceeded it by $ 30–40 million per annum in 1964–66, and by a slightly higher sum in earlier years.

2. Imports

(a) *Commodity imports*[1]

Total commodity imports[2] dropped by $ 68 million, or 9 percent, in 1967 and amounted to $ 727 million. Excluding the Israel-controlled territories, the figure came to $ 725 million.

Import prices remained unchanged on the average. There were rises in two major items: one of 3 percent in rough diamonds and of 4 percent in cereals. All other items, with few exceptions, showed a falling price trend in most branches

Table III–5

IMPORTS, BY SELECTED ECONOMIC DESTINATIONS,[a] 1965–67

($ million, at annual rates)

	1965	1966	1967	1967 I–IX	1967 X–XII	1968 I–III
Total imports, excl. ships and aircraft and rough diamonds	696	675	593	562	684	782
Total current inputs, excl. rough diamonds	460	466	425	402	497	559
Of which: Inputs to industry	312	305	278	259	337	392
Investment goods for industry and construction	89	65	48.5	45	59	78
Durable consumer goods	26	23	18	16	25	30

[a] For quarterly breakdown in 1967, see note to Table III–7.
SOURCE: Central Bureau of Statistics.

[1] The discussion here does not include purchases by Israelis in the administered areas. See note [2] on p. 39.

[2] At c.i.f. values.

and stability in others. This reflects the worsening of the economic situation in several leading industrial countries and the consequent decline in world demand. The main price decreases took place in agricultural products other than cereals and field crops (down 4 percent), foodstuffs (4 percent), and textile products (5 percent); decreases in other industrial commodities were much smaller.

The smaller import for the year as a whole was the result of two contrasting movements: the declining trend, which began in the first half of 1966 with the deepening of the recession, was reversed in the third quarter of 1967 with the general recovery of the economy. In the first three quarters of 1967 imports, excluding ships and aircraft, were almost $ 100 million (16 percent) lower than in the corresponding period of 1966, while in the last quarter of 1967 they were $ 15 million (8 percent) higher than in the same period the year before.

The change in import trend, which, as stated, was connected with the economic recovery, was expressed in varying degrees in the different import categories, just as the impact of the recession varied as between the categories. In some cases the turning point was reached earlier and the resulting increase was more rapid—e.g. in current inputs, which in the last quarter of the year reached a considerably higher level than in the past, while other items, such as investment goods, experienced a slower recovery and the level in the last quarter of 1967 was still far below that of preceding years.

Consumer goods in 1967 were down $ 16 million, or 18 percent, with the component items displaying different trends. Foodstuffs were much lower, with all of the decrease being in frozen meat. The smaller figure for this item, which is imported directly by the Government, can be attributed to reduced consumption and apparently also to some depletion of stocks. The drop in frozen meat consumption was due to a rise in its consumer price (the revision of the customs duty and the imposition of additional levies brought up the price by 10–15 percent), together with the expanded supply of local meat and a slight drop in its price.

FOOD IMPORTS, 1963–64

($ million)

	1963	1964	1965	1966	1967
Frozen meat	6.5	12.5	18.6	27.9	14.9
Sugar (for direct consumption)	18.2	13.4	4.0	3.7	3.7
Other foodstuffs	10.5	10.6	12.6	11.2	12.5
Total	25.2	36.5	35.2	42.8	31.1

The import of durable consumer goods and nonfood items for current consumption together fell off 9 percent, amounting to $ 45 million as against $ 49

Table

COMMODITY IMPORTS,[a] BY

	IL million						Quantity		
	1962	1963	1964	1965	1966	1967[b]	1963	1964	1965
Consumer goods									
Food	18.1	25.2	36.5	35.2	42.8	31.1	4	36	1
Other current consumption items	13.1	15.0	18.5	21.4	22.9	24.8	–13	15	21
Durable goods	13.2	17.7	27.5	26.0	24.8	18.5	31	53	–7
Total consumer goods	44.4	57.9	82.5	82.7	90.5	74.4	11	37	1
Production inputs									
For agriculture	29.2	32.3	29.7	34.1	48.0	52.0	9	–8	12
For industry	251.1	251.7	308.7	312.1	304.7	279.6	—	21	–1
For construction	17.5	12.5	16.8	17.4	9.8	7.6	–29	31	2
Spare parts	36.8	32.8	38.5	43.2	45.2	32.6	–20	34	6
Fuel	40.1	44.5	46.6	53.2	58.3	55.4	11	11	16
Subtotal	374.7	373.8	440.3	460.1	466.0	427.2	–1	19	2
Rough diamonds, net	67.2	93.2	102.3	96.5	124.9	125.4	39	2	–9
Total production inputs	441.9	467.0	542.6	556.6	590.8	552.6	5	15	1
Investment goods									
For agriculture	8.0	6.3	8.5	5.2	5.5	4.8	–21	34	–41
For industry	72.7	75.7	74.0	88.7	65.1	48.7	4	–3	17
For transportation and communications	26.9	27.4	38.0	33.5	28.2	23.3	2	38	–15
Other investment goods	13.7	14.3	16.9	19.4	22.0	18.1	5	17	12
Total, exclusive of ships and aircraft	121.3	123.7	137.5	146.8	120.8	94.9	2	10	4
Ships and aircraft	21.7	16.4	59.9	31.9	18.8	34.1	–24	265	–47
Total investment goods	143.0	140.1	197.4	178.7	139.6	129.0	–2	40	–11
Total imports[a]	629.3	665.0	822.5	818.0	821.0	756.0	5	22	–2
Less: Imports returned and adjustments	15.5	17.5	19.1	23.6	25.7	30.9			
Net commodity imports c.i.f., according to balance of payments[c]	613.8	647.5	803.4	794.4	795.3	725.1			

[a] Gross, except for rough diamonds, which are cited net.
[b] Excluding imports from the administered areas (see note [2], p. 39.

[II-6

ECONOMIC DESTINATION, 1962–67

Percent increase or decrease (–) as against preceding year											
		Price					Value				
1966	1967	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
22	–25	34	7	–5	—	–3	39	45	–4	22	–27
7	9	32	7	–4	—	–1	15	23	—	7	8
–7	–25	2	1	2	2	—	34	55	–5	–5	–25
8	–16	17	4	–1	1	–2	30	42	—	9	–18
40	4	2	—	3	1	4	11	–8	15	41	8
–5	–8	—	2	2	3	—	—	23	1	–2	–8
–46	–22	—	2	2	3	—	–29	34	4	–44	–22
4	–29	11	–13	6	1	1	–11	17	12	5	–28
12	–5	—	–5	–2	–2	—	11	5	14	10	–5
—	–9	1	–1	2	1	1	—	18	4	1	–8
21	–3	—	8	3	7	3	39	10	–6	29	—
4	–7	1	1	2	2	1	6	16	3	6	–6
4	–13	—	1	3	2	—	–21	35	–39	6	–13
–28	–25	—	1	3	2	—	4	–2	20	–27	–25
–18	–17	—	1	3	2	—	2	39	–12	–16	–17
11	–18	—	1	3	2	—	5	18	15	13	–18
–20	–21	—	1	3	2	—	2	11	7	–18	–21
–41	81	—	—	—	—	—	–24	265	–47	–41	81
–24	–8	—	1	2	2	—	–2	41	–9	–22	–8
–2	–8	1	2	1	2	—	6	24	–1	—	–8

[c] Including nonmonetary gold.
SOURCE: Central Bureau of Statistics.

Table III-7

COMMODITY IMPORTS,[a] BY ECONOMIC DESTINATION, QUARTERLY, 1963–67

($ million, at current prices)

Year and quarter		Total imports excl. ships, aircraft, and rough diamonds	Total imports excl. ships and aircraft	Consumer goods		Rough diamonds, net	Production inputs excl. rough diamonds		Investment goods excl. ships and aircraft	
				Total	Of which durables		Total	Of which for industry	Total	Of which for industry and construction
1963	I	123.7	145.3	11.7	3.7	21.6	82.4	53.5	29.6	18.3
	II	144.4	166.0	14.6	4.1	21.6	96.7	65.7	33.1	21.1
	III	137.3	163.9	12.2	4.7	26.6	92.8	61.8	32.3	18.8
	IV	149.4	172.6	20.3	5.1	23.2	100.0	69.3	29.1	16.9
1964	I	165.7	189.0	24.1	6.3	23.2	107.6	75.5	33.9	17.7
	II	168.6	199.1	19.2	6.9	30.5	110.7	76.2	38.7	19.8
	III	157.2	185.6	17.4	7.5	28.4	103.8	71.7	36.0	19.8
	IV	170.6	190.7	21.6	6.6	20.1	118.4	85.7	30.6	17.1
1965	I	162.0	182.9	19.8	6.0	20.9	110.4	76.2	31.8	18.6
	II	180.4	200.9	19.8	6.6	20.5	120.1	80.5	40.5	25.5
	III	166.7	192.4	18.6	6.3	25.4	110.6	73.7	37.5	23.7
	IV	180.5	210.3	24.6	7.2	29.8	119.0	82.1	36.9	20.7
1966	I	180.2	205.5	26.0	7.3	25.3	119.0	81.2	35.4	18.6
	II	169.4	204.4	18.4	4.9	35.0	119.0	76.1	32.0	16.6
	III	170.8	198.7	23.9	5.5	27.9	118.7	74.9	28.2	16.9
	IV	154.2	191.1	19.6	4.8	36.9	108.6	72.6	26.0	12.6
1967	I	152.4	186.2	19.3	3.9	33.8	110.9	75.5	22.5	12.0
	II	127.1	155.8	15.7	3.5	28.7	89.4	57.9	21.5	9.9
	III	142.3	169.8	17.3	4.6	27.5	100.8	60.6	24.2	12.1
	IV	171.0	206.6	21.6	6.2	35.6	124.2	84.2	25.2	14.7

NOTE: This table does not fully correspond to Table III–6, since the breakdown here is based on earlier figures. Table III–6 contains several corrections introduced after the preparation of this table but which could not be included here.

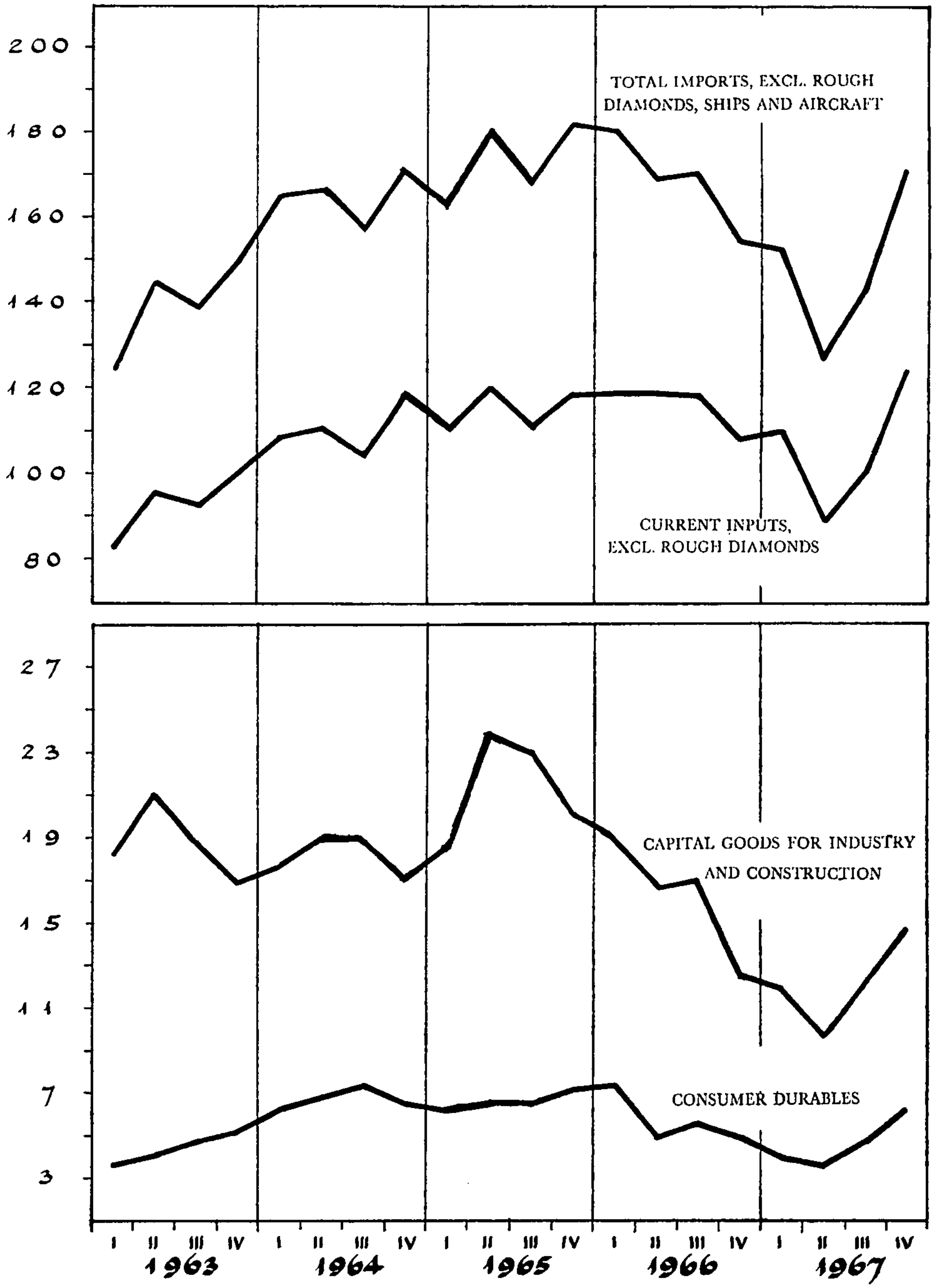
[a] Gross imports, apart from rough diamonds, which are cited net in the table.

SOURCE: Central Bureau of Statistics.

Diagram III-1

IMPORTS, BY ECONOMIC DESTINATION, QUARTERLY, 1963–67

($ million)



million in 1966.[1] One item, however, showed a conspicuous rise of $ 3 million—personal effects of persons entering Israel (immigrants, returning residents, and tourists) and postal gift parcels. This item was reclassified in 1967, and a separation into its durable and current consumption components therefore lacks significance. The increase stemmed from the larger number of residents returning after the Six Day War. Net of this item, the drop in current consumption imports came to 11 percent, and in durable goods to 27 percent.

The import of commodities for current consumption did not display a uniform trend. Most items registered a decrease, in line with the general import trend, but some moved upward. One reason for the rise was apparently the liberalization of imports, which proved to be effective in certain cases and led to a much larger import. This applies to footwear, and apparently also to some textile goods. In other cases the growth was presumably due to changes in consumer behavior or to long-run trends which were not completely checked by the recession.

Table III–8

IMPORTS FOR CURRENT CONSUMPTION (EXCL. FOOD), 1966–67

($ million)

	1966	1967
Cigarettes and tobacco	0.6	0.7
Textiles and clothing	0.8	1.0
Books and newspapers	3.3	2.7
Footwear and leather and plastic goods	0.8	1.0
Pharmaceuticals	2.8	2.8
Glassware and ceramics	1.1	0.9
Photographic film	1.5	1.8
Records and tapes	0.3	0.3
Miscellaneous	5.6	3.8
Total, excl. personal effects of those entering Israel and gifts	16.8	15.0
Personal effects of those entering Israel and gifts[a]	6.1	9.8
Total	22.9	24.8

[a] Owing to a change in classification, a differentiation between this item and the corresponding item in Table III–9 is meaningless.
SOURCE: Central Bureau of Statistics.

Imports of durable consumer goods fell off precipitately in 1967, with all component items, apart from vehicles, showing much lower figures. In several respects durables resemble investment goods: their acquisition involves a relatively big outlay, and by and large they provide a flow of future services; hence future

[1] See Tables III–8 and III–9.

Table III-9

IMPORTS OF DURABLE CONSUMER GOODS, 1966–67

($ million)

	1966	1967
Radio and television sets	3.4	2.6
Furniture	2.2	1.6
Watches and clocks	2.3	1.6
Electrical household appliances and household articles[a]	2.2	1.4
Rugs	0.7	0.4
Works of art, antiques, collectors' pieces, etc.[b]	2.8	1.2
Automotive vehicles	6.8	6.1
Miscellaneous	4.1	3.2
Subtotal	24.9	18.3
Personal effects of those entering Israel[c]	1.3	0.8
Total[d]	26.2	19.1

[a] Washing machines, mixers, vacuum cleaners, electric razors, etc.
[b] In the Central Bureau of Statistics classification, half of this item is included under imports of investment goods.
[c] Owing to a change in classification, a differentiation between this item and the corresponding item in Table III–8 is meaningless.
[d] The total here is different from that in Table III–6. See note [b] above.
SOURCE: Central Bureau of Statistics.

expectations have an important bearing on their acquisition. They also resemble each other in their marked sensitivity to fluctuations in economic activity. In both categories the import decline reached considerable proportions and was much greater than in the others. The effects of the recession were more quickly felt here as well, the import figure turning downward as early as 1966.

Within the durables group there was a sharp divergence between automotive vehicles and other commodities. The import of vehicles for private use was down by a relatively small 15 percent, while in all other commodities the decrease came to a third, following a drop of 15 percent in 1966.

The import of passenger cars presents a problem. Some of the cars are used for business purposes (there were also times when the reverse was true, some commercial vehicles being acquired for private use), but no data are available which would permit a reliable separation between the two final uses. The existing distinction is based on weak indicators, and hence it is preferable to treat vehicle imports as a single item. It showed a smaller decline than other durables and investment goods as a whole—11 percent, following a drop of 12 percent in 1966. But these decreases came on top of a striking decline of more than a third in 1965 following the raising of customs duties in the last quarter of 1964. Imports in 1967 were less than half the level during the first eight months of 1964, before the revision of customs rates.

IMPORTS OF PASSENGER CARS, 1964–67

($ million)

	1964	1965	1966	1967
For private use	11.2	7.4	6.5	5.8
For business purposes	6.3	3.9	3.5	3.1
Total	17.5	11.3	10.0	8.9

One aspect in which the difference between durables and investment goods is strikingly revealed is in their reaction to the economic recovery. Whereas the import of durables moved up rapidly (in the last quarter of 1967 the figure was more than 50 percent higher than the average for the first three quarters, and it even reached the average level of 1965), in investment goods the trend only just began to turn upward by year's end. This lagged reaction is ascribable to the fact that investment in producer goods requires a much longer period of planning and that its implementation is also a more protracted process.

Imports of investment goods other than ships and aircraft were down 21 percent; this followed a drop of 18 percent, so that the decrease over the two years was 35 percent. Two component groups showed sharper declines: the figure for industry and construction was 45 percent ($ 40 million) below that of 1965; in land transport (mainly vehicles) the decline set in earlier—in 1965—and in 1967 the level was 39 percent lower than in 1964. These developments reflect the slump in construction activity, which preceded the general recession, and its repercussions on the trucking industry. The recession, of course, accentuated the downtrend. At the same time, there were other factors at work: the raising of customs tariffs on passenger vehicles in 1964, and the reduced import of trucks following the start of local production. Other investment items recorded a relatively slight decrease in 1967, following a rise the year before. This group includes imports for the commerce and service sectors, which were less affected by the recession, and equipment for scientific and research institutions,[1] which is undoubtedly less sensitive to changes in economic trends.

It therefore transpires that the recession affected, above all, the import of investment goods for industry and building, though with intragroup divergences. Equipment imports for electric power generation have displayed a mildly advancing trend for several years; this can be ascribed to the expansion of the industry, which was initiated before the recession and is based on long-term considerations. The fact that this is a public sector company also renders investment less sensitive to fluctuations in general economic activity.

[1] In Table III–6 this item also includes half the sum for "works of art, collectors' pieces, and antiques".

Table III-10

IMPORTS OF EQUIPMENT FOR INDUSTRY, CONSTRUCTION, ELECTRICITY, AND WATER,[a] 1962–67

($ million)

	1962	1963	1964	1965	1966	1967
For industry						
Food, beverages, and tobacco	2.1	3.1	2.7	3.5	3.5	2.5
Textiles and clothing	11.7	8.6	7.0	6.0	5.7	4.4
Basic metals and metal products	6.4	6.3	5.2	4.6	4.2	3.4
Electrical and electronic equipment	0.4	0.2	0.2	1.6	1.0	0.5
Chemicals	0.8	1.3	0.9	0.6	0.2	0.2
Miscellaneous	8.1	12.7	15.0	16.1	12.1	8.6
Total	29.5	32.2	31.0	32.4	26.7	19.6
For electric power generation	6.4	5.5	5.3	11.7	11.7	12.0
For mining, construction, and roadbuilding	14.8	12.0	12.5	17.2	4.8	2.3
Motors and turbines	3.0	3.3	2.4	3.7	1.6	0.3
Pumps	4.2	5.2	4.9	5.5	4.0	3.2
Instruments, tools, containers, etc.	14.9	17.2	14.9	18.0	15.9	10.9
Grand total	72.7	75.7	74.0	88.5	64.7	48.5

[a] This table does not fully correspond to Table III-6, since the breakdown here is based on earlier data.

SOURCE: Central Bureau of Statistics.

The import of construction equipment fell off very steeply in 1966—by fully three-quarters—reflecting the severe slump that hit this sector.

There were also significant, but less drastic, declines in equipment imports for various industrial branches. Textile plant and equipment from abroad reached a record high in 1962, when the industry underwent large-scale expansion. Thereafter imports moved steadily downward, the decline accelerating in 1966 and 1967, when the investments made earlier reached maturity simultaneously with the weakening of demand in both the domestic and the world market.

Other items showed a more sluggish growth or decline even before 1966. In 1966 and 1967, however, the downward trend was steep and general. The deceleration or decline before 1966 might have been due to some extent to random factors, since the expansion of an industry is not always a gradual process. Sometimes several large projects are launched in the same year, and this causes the investment figure to jump. The slowdown and falling trend of the years 1963–65 may have been due to the effects of the devaluation of 1962, which made imported equipment dearer relative to local equipment. The deceleration of these years, however, embraced all industrial equipment and not only imports. This may have reflected another constraining factor—the reduced profitability of industry during the period of administrative price restraint in 1963 and 1964, when industrial output prices were kept down while wages and other costs (imported inputs and services) continued upward.

Imported investment goods for industry also showed a change of trend at the end of 1967, but to a much more moderate degree. In the last quarter of the year imports were 30 percent higher than in the three preceding quarters, but were still 34 percent lower than in 1965. This development contrasts markedly with that in the import of current inputs, but it was to be expected, since it takes much more time for a change in economic conditions and in the business outlook to find expression in the planning and implementation of capital outlays than is required for expanding current production. To be sure, unlike the import of current inputs, the connection here between the level of activity and the volume of imports is more tenuous; however, it seems that because of the lagged reaction the trend did not turn upward until the end of 1967.

Table III–11

AVERAGE IMPORT COMPONENT OF LOCAL PRODUCTION, BY FINAL USE, 1965–67

(percentages; at current producer prices)

	1965	1966	1967
Exports	39.4	39.4	37.3
Of which commodities	*41.4*	*41.7*	*39.1*
Private consumption	19.1	19.3	19.1
Public consumption	23.5	19.6	20.8
Investment	15.0	15.3	15.7
Total	23.5	24.0	23.9

Imports of current production inputs were 6 percent lower than in 1966, and exclusive of rough diamonds—8 percent; this contrasts with a slight increase in the two preceding years—1 percent in 1966 and 5 percent in 1965. This decrease took place at a time when the annual level of economic activity virtually held steady.

Analysis with the help of input-output data shows that the volume and composition of domestic production in 1967 should have entailed the import of current inputs on a scale similar to that of 1966 (see Table III–12), and slightly higher (by 3 percent) than both expected and actual imports in 1965. This increase, at a time when the national product was unchanged compared with 1965, can be attributed to various changes—in part offsetting one another—in the structure of the country's production. Between 1965 and 1967 the share of export in the economic destinations of output increased, while that of investment declined. There was also a steep rise in the share of public con-

Table III–12

EXPECTED AND ACTUAL IMPORT OF CURRENT INPUTS, 1963–67

($ million)

	Expected import of current inputs[a]								Total actual import, excl. rough diamonds	Difference between actual and expected import
	For export	For domestic uses	Of which: Invest-ment	Private con-sumption	Public con-sumption	Change in stocks	Grand total	Grand total, excl. rough diamonds		
A. At current prices										
1963	164.6	294.2	71.3	201.3	17.9	3.7	458.8	376.4	373.8	–2.6
1964	182.2	334.9	81.0	224.8	19.3	9.8	517.1	426.2	440.3	14.1
1965	202.8	354.1	82.5	242.5	23.8	5.3	556.9	457.0	460.1	3.1
1966	231.8	352.5	69.9	254.0	22.6	6.0	584.3	466.7	466.0	–0.7
1967	240.9	343.5	57.2	248.3	38.0	[b]	584.4	470.5	427.2	–43.3
B. At 1963 prices										
1963	164.6	294.2	71.3	201.3	17.9	3.7	458.8	376.4	373.9	–2.5
1964	175.8	333.5	80.2	224.4	19.4	9.6	509.3	424.4	443.4	19.0
1965	192.3	351.3	79.4	243.3	23.6	5.0	543.6	452.3	453.8	1.5
1966	213.0	347.5	67.1	252.4	22.3	5.7	560.5	459.7	458.6	–1.1
1967	221.2	340.7	55.1	247.9	37.7	[b]	561.9	467.2	421.2	–46.0

[a] According to input-output coefficients of the Bank of Israel, updated for the period 1962–64.
[b] At the time of preparing this Report, no data were available on inventory changes in 1967.

sumption in 1967. Export has a much higher import component, on the average, than other final uses, but even here changes occurred, the average import component moving up slightly in 1966 and falling again in 1967, mainly because of the reduced weight of diamond exports.[1] The slight rise in the average import component of investments stemmed from a decline in the share of construction, where the import component is below average. As a result of all these changes, the average import component went up slightly between 1965 and 1966 and held steady in 1967.

Actual imports of current inputs in 1967 were $ 43 million (10 percent) lower than expected according to input-output coefficients.[2] This discrepancy, insofar as it does not arise from intrasector structural changes, can be explained by two factors: the substitution of imports by local production, and the reduction of existing stocks of imported inputs. The time period in question was too short to expect any large-scale import substitution, nor did any changes take place in the rates of protection accorded local production which would justify expectations of an appreciable import substitution (moreover, the liberalization of imports, insofar as it proves effective, reduces the rates of protection). Hence, the difference can apparently be ascribed, as will be shown below, to the depletion of inventories.

A running-down of the stock of imported inputs is characteristic of the final stages of an economic recession and the onset of recovery. At the start of a slump the existing stock is geared to a higher level of activity. It may even expand initially as production slows down or falls off, since imports adjust to a lower level of production only after a certain lag. At a later stage current imports are reduced relative to production, in order to adjust stocks to the lower level of activity.[3] When the economy starts to pick up, imports do not expand immediately with an increase in production, but adjust only after some time-lag.

It seems, therefore, that in 1967 the stock of imported inputs declined, a development which, as already noted, is characteristic of the final stages of a recession and the early stages of recovery. The data available are very rough, but quarterly indicators tend to corroborate this conclusion.

In the first quarter the actual import of current inputs was slightly lower than the expected import, the discrepancy apparently reflecting primarily the downward adjustment of stocks to the slump. In the second and third quarters the import of inputs was much lower than expected, and it was then that most of the contraction of stocks took place. This was apparently due to a combination

[1] The import component, however, rose in 1967 because of the relatively higher price of rough diamonds.

[2] There are no data on changes in stocks of locally produced goods in 1967. If there was a positive investment in inventories, the difference between the actual and expected import would be greater.

[3] The accumulation of an inventory of finished goods, typical of a slump period, is a burden on the firms and prompts them to reduce raw material stocks as well.

Table III–13

EXPECTED IMPORT OF CURRENT INPUTS,[a] BY FINAL USE, QUARTERLY, 1967[b]

($ million)

	Expected import						Actual import[e]	Difference	
					Public consumption				
	Private consumption	Investment	Export	Total	Assumption A[c]	Assumption B[d]		A	B
I	59.3	13.8	35.8	108.9	9.5	7.5	110.9	–7.5	–5.5
II	56.9	12.4	29.4	98.7	9.5	11.5	89.4	–18.8	–20.8
III	64.3	15.0	29.6	108.9	9.5	11.5	100.8	–17.6	–19.6
IV	67.8	16.0	32.2	116.0	9.5	7.5	124.2	–1.3	+0.7
Total	248.3	57.2	127.0	432.5	38.0	38.0	425.3	–45.2	–45.2

[a] Excluding rough diamonds.

[b] A quarterly breakdown was available for private consumption, investment, and export. In calculating the expected import for these final uses we have assumed a constant ratio between domestic output and import in all four quarters, as well as a constant branch composition of each final use. (This assumption, particularly in the case of export, is not completely valid. The branch composition of export, for example, is not constant, an obvious instance being citrus, most of the export of which takes place in the first quarter. In this case the calculation overstates imports in the first quarter.) As no data were available for the breakdown of public consumption, the expected import was divided according to two alternative assumptions—one of equal distribution over the year, and the other of a greater concentration in the second and third quarters. But since public consumption does not significantly affect the import of current inputs, the different assumptions do not materially alter the overall picture.

[c] Equal distribution over the year.

[d] A greater concentration in the second and third quarters.

[e] The actual imports cited in this table do not correspond exactly to those found in Table III–12. Actual imports here are based on Table III–7, which varies from Table III–6 (and from Table III–12), where corrections were introduced at a later stage (see note to Table III–7).

of factors. At the beginning of 1967 the recession reached its nadir, leading to a further reduction of raw material stocks. Then imports were curtailed because of the war; in the third quarter recovery set in and output expanded, without an accompanying increase in imports (owing to the aforementioned time-lag). The last quarter of the year saw a much larger import of inputs, but at the same time import requirements also grew appreciably as a result of the rapid expansion of economic activity. Imports in this quarter apparently were still insufficient to replenish the greatly depleted stocks—a stage which presumably will be reached in 1968.

(b) *Services*

In contrast to the decline in commodity imports, imports of services rose by a substantial $ 150 million approximately (28 percent) to reach nearly $ 670 million. Whereas commodity imports had tapered off in 1965 after a big spurt the year before and then declined in absolute terms as a result of the recession, so that in 1967 they were $ 75 million lower than in 1964, imports of services increased rapidly during this period and in 1967 were some $ 245 million (about 60 percent) above their 1964 level. These developments brought up the relative share of services in imports from a third to almost a half in the last three years.

In some items imports in 1967 showed a similar trend as in previous years, while others underwent a change because of the recession; a third group was affected by special factors.

Most of the 1967 increment—nearly $ 100 million—was in Government services, in the main for security purposes.

Another item displaying a marked increase was capital servicing; all of the increment was in interest payments abroad, whereas the repatriation of profits on foreign investments fell slightly, for the second year running. The rapid growth of interest payments continued the trend which began in 1964. Over the last four years the volume of interest payments has almost doubled, amounting in 1967 to $ 95.5 million as against $ 51.6 million in 1963.

Tourist expenditure abroad was up by a substantial $ 17 million. To some extent, this was the net result of two contrary developments. At least partly because of the recession, the amount spent by Israelis overseas fell off by 10 percent—from $ 49 million in 1966 to $ 44 million. On the other hand, Israelis purchased goods in the administered territories to the tune of $ 21.7 million (it should again be emphasized that this estimate is very tenuous). The year reviewed also saw a change in the composition of expenditure. Whereas in Israeli expenditure abroad a high percentage goes to cover the cost of the tourists' stay, the expenditure of Israelis in the administered areas actually represents purchases of commodities, mainly from stocks of imported goods available at the end of the war.

Table III–14

IMPORTS OF SERVICES,[a] 1962–67

($ million)

	1962	1963	1964	1965	1966	1967	Increase or decrease (–) as against previous year					
							IL million			Percent		
							1965	1966	1967	1965	1966	1967
Transportation	68.7	70.6	83.1	93.5	102.8	96.3	10.4	9.3	–6.5	12.5	9.9	–6.3
Passenger	*8.0*	*10.2*	*12.1*	*12.5*	*14.9*	*13.8*	*0.4*	*2.4*	*–1.1*	*3.3*	*19.2*	*–7.4*
Other	*60.7*	*60.4*	*71.0*	*81.0*	*87.9*	*82.5*	*10.0*	*6.9*	*–5.4*	*14.1*	*8.5*	*–6.1*
Foreign travel	26.0	38.0	37.3	43.7	48.8	65.7	6.4	5.1	16.9	17.2	11.7	34.6
Insurance	27.8	31.1	41.0	49.5	60.2	63.1	8.5	10.7	2.9	20.7	21.6	4.8
Capital servicing	69.9	72.1	83.0	94.1	106.9	123.3	11.1	12.8	16.4	13.4	13.6	15.3
Government, n.e.s.	123.6	145.7	129.2	147.4	158.7	255.4	18.2	11.3	96.7	14.1	7.7	60.9
Miscellaneous	39.9	49.9	51.2	46.7	44.3	65.0	–4.5	–2.4	20.7	–8.8	–5.1	46.7
Total	355.9	407.4	424.8	474.9	521.7	668.8	50.1	46.8	147.1	11.8	9.9	28.2

[a] Calculated according to the c.i.f. value of commodity imports.
SOURCE: Central Bureau of Statistics.

Table III–15

IMPORTS AND EXPORTS OF TRANSPORTATION SERVICES, 1963–67

($ million)

	1963	1964	1965	1966	1967
Imports					
Passenger transport					
Sea	2.5	2.7	2.4	2.3	1.1
Air	7.7	9.4	10.1	12.6	12.7
Total	10.2	12.1	12.5	14.9	13.8
Other transportation expenditure	60.4	71.0	81.0	87.9	82.5
Total, according to the c.i.f. value of commodity imports	70.6	83.1	93.5	102.8	96.3
Transport of commodity imports by foreign companies	16.8	21.7	21.9	18.0	15.1
Total, according to the f.o.b. value of commodity imports	87.4	104.8	115.4	120.8	111.4
Exports					
Passenger transport					
Sea	9.1	11.1	12.7	11.3	9.2
Air	24.3	25.8	29.8	30.0	34.1
Total	33.4	36.9	42.5	41.3	43.3
Cargo transport					
Exports	8.8	8.8	15.4	13.5	15.3
Between foreign ports	27.7	29.6	34.9	41.9	39.2
Other income from transportation	16.3	16.2	18.7	22.8	28.0
Total, according to the f.o.b. value of commodity imports	86.2	91.5	111.5	119.5	125.8
Transport of commodity imports by Israeli companies	28.6	35.0	36.5	40.5	41.2
Total, according to the c.i.f. value of commodity imports	114.8	126.5	148.0	156.0	167.0

SOURCE: Central Bureau of Statistics.

There was a rise of $ 21 million (47 percent) in the item "miscellaneous services". Most of the growth was in administrative expenses of Israeli companies (including shipping and aviation firms) abroad, which more than doubled; in advertising outlays, which also were doubled following a steep decline in 1966; in equipment rental fees, mainly for electronic computers; and in outlays of Israeli contracting firms operating abroad, following the expansion of their activities.

Insurance services also increased. While the figure for 1967 represents a weak provisional estimate, the item has risen at a rapid and steady rate since 1962. However, it should be stressed that in this item greater importance attaches to the net balance, since both sides of this account are closely interrelated. An increase in insurance and reinsurance business with foreign companies is reflected on the credit side in commissions and payments to agents. There is also a very close connection in the long run between premium receipts and payments of insurance claims. During the five years 1962–66 there was an average debit balance of $ 700,000 in insurance services.

In contrast to the aforementioned increases, the transportation services item was down 6 percent in 1967. There was a slight drop in fares paid by Israelis to foreign carriers. The other component of this item, "other transportation expenditure", which represents the outlays abroad of Israeli shipping and aviation concerns, decreased by 6 percent. It should be noted, however, that not all of these expenditures are directly connected with shipping and aviation operations, and certainly not with the volume of output. One of the largest components is "repairs and maintenance", which undoubtedly displays considerable fluctuations bearing no direct connection with the scope of operations.

Freight outlays on imports transported by foreign carriers (included in Table III–15 but not in Table III–14, which is based on the c.i.f. value of imports) were down 16 percent, which was more or less in line with the general decline in imports.

3. Exports

(a) *Commodity exports*[1]

Commodity exports expanded by 12 percent in 1967 to reach $ 532 million, compared with $ 475 million the year before. Excluding sales to the administered areas, the figure came to $ 517 million—a rise of 9 percent. Much of the increase stemmed from the sale of old ships (mainly the passenger liner s.s. Shalom). Exports of locally produced goods (excluding the administered areas) grew more slowly—by 5 percent—to stand at $ 493 million, as against $ 467 million in 1966.

[1] The discussion here excludes exports to the administered areas. See note [2] on p. 39.

Farm products gained 15 percent—a higher rate than for total exports and exceeding the average growth of this category in the past. In industrial products, the advance was only 3 percent—far below the average of the last 20 years.

1. Agricultural exports

Most of the change in agricultural exports (about three-quarters of the $ 10.6 million increment) was accounted for by citrus, which constituted some 80 percent of all agricultural exports. In 1967 the quantity shipped overseas rose sharply, accompanied by a drop in prices. The growth of 14 percent in the value of citrus exports was the resultant of a 20 percent physical increase and a 5 percent price decrease. Two other items contributing substantially to the increment were cotton (up $ 1.5 million) and eggs ($ 2 million).

There were noteworthy declines in such "traditional" items as bananas ($ 1.2 million) and potatoes ($ 900,000), where export is intended primarily to dispose of surpluses under an arrangement with the central marketing organizations. Banana sales were undermined by the appearance of new competitors in the traditional markets, which led to a drop in prices and subsequently to the reduction of exports and the area of plantations.

Several other agricultural products recorded higher figures in 1967—chiefly avocados, flowers and plants, and winter vegetables grown in greenhouses or under plastic covers. The export of these products has been systematically encouraged, mainly in the form of grants and loans for investment purposes and the guarantee of minimum export prices.[1] These items have shown rapid and continuous growth in recent years. In 1967 overseas sales of avocados, strawberries, and flowers amounted to $ 2.75 million, compared with $ 0.5 million in 1964, while sales of vegetables (excluding potatoes) totalled $ 2.2 million, as against $ 0.9 million in 1964.[2]

2. Industrial exports

Industrial exports, as stated, advanced by a very modest 3 percent, at both current and constant prices. However, there was a change in composition: the weight of branches with a high value added[3] rose and that of branches with a low value added (mainly diamonds) declined; this brought up the total incremental value added to 4 percent.

In 1967 value added was detrimentally affected by the relative changes in export prices and prices of imported inputs, which shaved nearly a third off the economy's incremental value added (see Table III–19). Measured according to 1966 prices—i.e. net of the effect of changes in input and output prices—the

[1] In most cases the prices fetched exceeded the minimum, so that no subsidies had to be paid.

[2] However, part of the vegetable export also comes under the category of surplus disposal.

[3] Value added in this chapter is cited gross, i.e. less imported intermediate products but not primary imported inputs (depreciation, interest, etc.).

quantitative increase in value added in 1967 amounted, in the case of industrial exports, to 6.4 percent, compared with 12.3 percent in 1966, 9.2 percent in 1965, and 6.2 percent in 1964.[1]

Prices of industrial exports averaged 1 percent lower, a reflection of the worsening of economic conditions in several major industrial countries and its repercussions on world trade. Most of the significant price declines were in standard commodities: 11 percent in potash, 7.5 percent in phosphates, 12 percent in edible oils, and 7 percent in cement. Diamond prices started drifting downward at the end of 1966, but the average level in 1967 was 2 percent higher due to a big rise the year before.

The sluggish growth of industrial exports in 1967 occurred despite the existence of important factors stimulating overseas sales: on the one hand incentives were raised, and on the other domestic demand fell off, the rise of production costs was checked, and pressure on the labor market disappeared. However, the influence of these developments was largely offset by the decline (or slower rise) of demand abroad. These factors affected Israel's export in varying degrees, as evidenced by the contradictory trends in several commodity groups.

Most of the decline in overseas marketing was concentrated in two predominantly export industries—diamonds and minerals—where the figure turned downward after a long period of rapid expansion, during which they contributed a disproportionately large share to the export growth (sometimes even accounting for most of the increment). Demand conditions abroad were the main reason for the decrease in 1967.

On the other hand, the growth rate accelerated slightly in a broad group of economic branches oriented primarily toward the local market and for which export is of secondary importance. This development can be attributed to the recession and the increased export incentives, which more than offset the unfavorable demand conditions in the world market.

[1] In this calculation the quantitative growth is based on the preceding year's prices. It is sometimes the practice to use a series based on constant price values, which of course yields different results. For comparative purposes, we list below the quantitative growth of value added by industrial export, at 1963 prices and then at the preceding year's prices (figures refer to percentage increase).

	At 1963 prices	At preceding year's prices
1964	6.2	6.2
1965	10.2	9.2
1966	12.8	12.3
1967	10.0	6.4

Obviously, the more remote the base year, the less significant the data obtained.

Table III–16

NET COMMODITY EXPORTS, BY MAIN CATEGORY,[a] 1963–67

($ million)

	1963	1964	1965	1966	1967	Percent increase or decrease (–) as against preceding year				Weight in total exports (%)		Weight in export increment (%)		
						1964	1965	1966	1967	1965	1967	1965	1966	1967
Agricultural exports														
Citrus	74.8	52.9	71.3	74.9	85.5	–29.3	34.8	5.0	14.2	17.8	17.3	34.5	5.3	41.7
Poultry products and cotton	7.4	8.7	7.7	9.2	12.9	17.6	–11.5	19.5	40.2	1.9	2.6	–1.9	2.2	14.6
Other agricultural products	7.0	5.5	7.4	10.3	10.2	–21.4	34.5	39.2	–1.0	1.9	2.1	3.6	4.3	–0.4
Total	89.2	67.1	86.4	94.4	108.6	–24.8	28.8	9.3	15.0	21.6	22.0	36.2	11.8	55.9
Industrial exports														
Diamonds	104.0	118.2	131.9	165.1	158.3	13.7	11.6	25.2	–4.1	33.0	32.1	25.7	49.1	–26.8
Minerals and scrap	12.3	19.8	27.1	34.4	30.7	61.0	36.9	26.9	–10.8	6.8	6.2	13.7	10.8	–14.6
Copper-cement	*4.3*	*9.3*	*7.6*	*12.3*	*10.3*									
Potash	*5.4*	*7.7*	*13.2*	*12.9*	*13.6*									
Phosphates	*1.2*	*1.1*	*2.9*	*4.5*	*4.9*									
Scrap	*1.0*	*1.2*	*3.0*	*4.7*	*1.9*									
Textiles and clothing	32.1	39.7	40.3	44.9	51.7	23.7	1.5	11.4	15.1	10.0	10.5	1.1	6.8	26.8

Citrus products	12.8	18.1	18.6	19.0	24.0	41.4	2.8	2.2	26.3	4.7	4.9	0.9	0.6	19.7
Other chemical products	7.6	9.4	10.0	15.6	16.2	23.7	6.4	56.0	3.8	2.5	3.3	1.1	8.3	2.4
Other metal products	16.5	7.9	9.9	10.1	8.6	–52.1	25.3	2.0	–14.9	2.5	1.7	3.8	0.3	–5.9
Aircraft and parts	2.0	2.3	2.2	1.9	5.7	15.0	–4.3	–13.6	200.0	0.5	1.2	–0.2	–0.4	15.0
Edible oils	5.6	6.1	7.5	7.1	2.3	8.9	23.0	–5.3	–67.6	1.9	0.5	2.6	–0.6	–18.9
Other industrial products	53.5	58.0	66.0	75.0	86.8	8.4	13.8	13.6	15.7	16.5	17.6	15.0	13.3	46.4
Total industrial exports	246.4	279.5	313.5	373.1	384.3	13.4	12.2	19.0	3.0	78.4	78.0	63.8	88.2	44.1
Total, excl. diamonds and minerals	130.1	141.5	154.5	173.6	195.3	8.8	9.2	12.4	12.5					
Total commodity exports from domestic output	335.6	346.6	399.9	467.5	492.9	3.3	15.4	16.9	5.4	100.0	100.0	100.0	100.0	100.0
Sales of used ships and aircraft	0.4	2.1	2.7	5.1	18.8									
Equipment shipments by Israeli firms operating abroad[b]				0.3	1.0									
Works of art, antiques, collectors' pieces, personal effects, etc.	3.6	4.6	4.7	4.6	5.5									
Total commodity exports	339.6	353.3	407.3	477.5	518.2	4.0	15.3	17.2	8.5					
Adjustments	–2.5	–3.8	–3.5	–2.9	–1.0									
Net commodity exports, according to balance of payments	337.1	349.5	403.8	474.6	517.2	3.7	15.5	17.5	9.0					

[a] Excluding exports to the administered areas (see note [2] on p. 39).
[b] Bank of Israel estimates.
SOURCE: Central Bureau of Statistics.

Table III–17

GROWTH OF ISRAEL'S EXPORT MARKETS,[a] 1963–67

	1963	1964	1965	1966	1967
			Percentages		
Increase in imports					
Of developed countries		13.8	7.8	7.9	4.4
Of other countries		1.7	23.1	13.3	2.0
Total		12.1	10.0	8.8	4.0
			$ million		
Israeli exports from local production (excl. diamonds)[b]	218.0	219.1	264.1	291.7	
Of which:					
To developed countries	156.0	147.7	175.5	196.2	
To other countries	25.4	24.4	33.8	38.0	
Total	181.4	172.1	209.3	234.2	
To East European clearing countries[c]	15.3	22.9	24.8	31.2	
Percent of total exports					
To developed countries	71.6	67.4	66.4	67.2	
To other countries	11.7	11.1	12.8	13.0	
To East European clearing countries[c]	7.0	10.5	9.4	10.7	

[a] The growth of total imports of a given country serves here as a measure of the expansion of the market for Israel's export 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. The table does not include all of Israel's exports, as countries with an insignificant share of the total have been excluded. The countries included in the calculation account for 90 percent of the total export, apart from that to the East European clearing countries.
[b] Also excluding the export of "other metal products" and items not produced locally, such as used ships and aircraft, personal effects of passengers, antiques, works of art, etc.
[c] Excluded from the calculation of the increase in Israel's export markets.

In other export commodities there were special influences at work, reflected by the differential pattern of growth rates.

The subsiding (or slower growth) of demand in foreign markets, a result of the economic difficulties experienced by several important developed countries and the more sluggish expansion of the world economy in general, was, as already noted, one of the main reasons for the slower expansion of Israel's export markets (see Table III–17).[1]

The worsening of demand conditions and the sharpening of competition did not affect all of Israel's export commodities to the same extent. Hardest hit were

[1] The decline in the growth rate was actually greater than indicated by the table, since part of the incremental value of the import of these countries in 1967 stemmed from the higher cost of transporting petroleum after the closure of the Suez Canal. Discounting this factor, the weighted import growth rate came to about 3 percent.

Table III–18

EXPORTS[a] AND VALUE ADDED, 1963–67

($ million)

	Exports					Value added					Weight in exports, 1966	Weight in incremental exports, 1967	Weight in value added, 1966	Weight in incremental value added, 1967
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967				
Citrus	74.8	52.9	71.3	74.9	85.5	62.8	41.8	56.7	60.1	67.6	16.0	42.4	24.7	45.1
Other agricultural products	14.4	14.2	14.9	20.2	23.1	11.6	10.7	11.8	16.6	18.3	4.3	11.5	6.8	10.2
Diamonds	104.0	118.2	131.9	165.1	158.3	20.1	25.8	30.4	45.6	42.5	35.3	–27.2	18.8	–18.7
Textiles	32.1	39.8	40.3	44.9	51.7	16.4	20.5	19.9	21.0	23.0	9.6	27.2	8.6	12.0
Minerals	11.4	18.7	24.2	29.8	29.4	9.4	15.8	20.0	25.1	24.2	6.4	–1.6	10.3	–5.5
Citrus products	12.8	18.1	18.6	19.0	24.0	8.7	12.1	12.5	12.7	16.0	4.1	19.9	5.2	19.9
Other industrial goods	86.2	84.6	98.5	113.9	120.9	48.9	44.7	53.4	62.1	68.3	24.4	27.9	25.5	37.2
Total[a]	335.7	346.5	399.9	467.9	492.8	177.8	171.5	204.7	243.2	259.8	100.0	100.0	100.0	100.0
Total excl. diamonds	142.5	161.2	181.7	207.7	225.9	83.4	93.2	105.9	121.0	131.4				

[a] This table does not fully correspond to Table III–16, as it is based on earlier data.

the export-oriented commodities: minerals and diamonds. In minerals, as already noted, prices fell precipitately; in potash and copper the decline was due also to the expansion of supplies. In some cases the reason was apparently the existence of a perfect market, where declining demand and sharper competition drive down prices; while as regards highly processed products, mainly those where the firm's reputation is a weighty factor, a price decline—or at least an overt price decline—is a rarer occurrence. It should also be noted that in the case of standard commodities a price decline can be easily measured, whereas with less standard commodities the measurement of price changes is apt to be problematic.

For the Israeli exporter, the price obtainable abroad is more or less a given datum. Hence in those cases where he has to sell below the prevailing world price, the effect of the direct export incentive is partly offset.

Minerals and mineral products are marketed entirely abroad. The raising of incentives here was bound to have only a very slight effect in the short run, since exports cannot be stepped up at the expense of the domestic market. Moreover, the drop in prices partly offset the effect of the additional incentives. The low elasticity of supply in the short run is reflected by the smaller proceeds from export, even though the quantity shipped abroad was increased following the expansion of productive capacity—the result of investments made in earlier years.

The diamond industry also suffered from the weakening of demand—in the main in Germany, where economic activity fell off. The contraction of demand also affected export to other countries which comes partly under the category of transit trade. The smaller export to Hong Kong was due to the political tension prevailing there, while sales to Japan fell off because of difficulties arising from faulty commercial arrangements. Demand shrank in several other countries as well. Diamond prices had risen strongly in 1965 and 1966, reaching a peak in the final quarter of the latter year (the average level in 1966 was 13.3 percent higher than in 1965). At the beginning of 1967, with the sharpening of the fall in demand and with the expansion of supplies, prices started to drift downward, the decline generally reaching 5–6 percent.[1] In the second half of the year supply contracted and prices began to rise slowly; at the end of the year they were only 2 percent below the end-1966 level.

Developments in the diamond industry must be viewed in the light of the special arrangement governing its operations. The Diamond Syndicate, as a monopolistic body, in effect controls nearly the entire supply of rough stones, and it can determine prices by regulating supply. In 1966 and 1967 the Syndicate charged higher prices following an increase in polished diamond prices, though after a certain time-lag. The substantial price rises of recent years have not made much difference to diamond polishers and merchants, apart from

[1] Except for July, when prices were 20 percent below the peak level at the end of 1966.

Table III–19

INCREASE IN VALUE ADDED, BY QUANTITY AND PRICE COMPONENTS, 1964–67

($ million)

	1964				1965				1966				1967			
		Incremental value added				Incremental value added				Incremental value added				Incremental value added		
	Incremental export	Total	Due to change in prices	Due to change in quantities	Incremental export	Total	Due to change in prices	Due to change in quantities	Incremental export	Total	Due to change in prices	Due to change in quantities	Incremental export	Total	Due to change in prices	Due to change in quantities
Citrus	–21.9	–21.0	–14.4	–6.6	18.4	14.9	4.6	10.3	3.5	3.4	2.3	1.1	10.6	7.5	–4.1	11.6
Other agric. products	–0.2	–0.9	–1.6	0.7	0.7	1.1	0.3	0.8	5.2	4.8	0.7	4.1	2.9	1.7	–0.2	1.9
Diamonds	14.2	5.6	5.0	0.6	13.7	4.6	2.7	1.9	33.2	15.2	12.1	3.1	–6.8	–3.1	–0.5	–2.6
Textiles	7.7	4.1	1.2	2.9	0.6	–0.6	–0.5	–0.1	4.6	1.0	0.3	0.7	6.8	2.0	—	2.0
Minerals	7.3	6.4	2.5	3.9	5.5	4.3	1.6	2.7	5.6	5.1	1.2	3.9	–0.5	–0.9	–2.3	1.4
Citrus products	5.3	3.4	–0.2	3.6	0.5	0.3	–0.4	0.7	0.4	0.3	—	0.3	4.9	3.4	–0.2	3.6
Other ind. products	–1.6	–4.1	0.6	–4.7	13.9	8.7	2.8	5.9	15.4	8.7	—	8.7	7.0	6.1	–0.2	6.3
Total[a]	0.8	–6.3	–7.0	0.7	53.3	33.2	11.2	22.0	67.9	38.5	16.5	22.0	24.9	16.6	–7.5	24.1

[a] See note to Table III–18.

the temporary profits earned because of the lag in revising rough diamond prices. In 1967 the position of the industry worsened in comparison with previous years, and output and employment were curtailed. This, however, was not reflected in its export, part of which was made from existing stocks.

The basic factors influencing export in 1967 had a different effect on the broad group comprising most of the other industrial commodities. The weight of this group total export is a little smaller than that of diamonds and minerals, but it accounts for more than 90 percent of total industrial output.

These products generally represent a more advanced stage of processing, and price changes apparently play a relatively slight role in interfirm competition. In the case of Israel as well, the slower growth of demand did not lead to a general downward movement of these prices. Note should be taken, however, of the aforementioned reservation regarding the measurement of price changes in these commodities. Export prices in 1967 dropped by half a percent on the average, with slight interbranch variations.

Exports of industrial commodities other than minerals and diamonds advanced more rapidly than in the two preceding years—by 14 percent as against 10.5 percent in 1966 and 9 percent in 1965. However, within this group as well there are some predominantly export items (such as citrus products) and certain commodities whose export reflects specific influences more than general conditions in Israel's economy.

Overseas sales of citrus products (nearly 95 percent of the output is earmarked for the foreign market) rose 26 percent ($5 million), with only a slight drop in prices. Two factors were responsible for the growth: on the one hand, production by local industry expanded owing to the larger quantity of culls made available to it in 1966/67, and on the other hand, the quantity offered the European market by U.S. canneries, Israel's biggest competitor, was below the previous year's level, making it possible even to penetrate the American market.

If we eliminate several export commodities of a special character, such as petroleum products, edible oils, aircraft, and other metal products, two large groups remain: the textile and garment industry, which constitutes a group in itself, and all other industrial export commodities, which represent the overwhelming share of local industry. Both groups experienced considerably faster growth rates in 1967: textiles and garments advanced 15 percent, compared with 11 percent in 1966 and 1.5 percent in 1965, while other industrial commodities gained 16 percent, compared with 14 percent in 1965 and 1966 and 8 percent in 1964. A decisive factor in these increases was the institution of a system of direct incentives, which has proved particularly effective in the group for which export is of secondary importance. This can be ascribed to the relatively greater degree of substitutability existing here between the domestic market and export, so that under certain conditions the quantity made available for export is highly elastic in the short run. Moreover, these branches generally

Table III–20

GROWTH OF EXPORTS AND VALUE ADDED, 1964–67

(percentages)

	Quantitative increase in exports				Quantitative increase in value added				Increase in exports at current prices				Increase in value added at current prices			
	1964	1965	1966	1967	1964	1965	1966	1967	1964	1965	1966	1967	1964	1965	1966	1967
Citrus	–10.5	24.6	1.6	19.8	–10.5	24.6	1.9	19.4	–29.3	34.8	5.0	14.2	–33.3	35.6	6.0	12.4
Other agricultural products	10.0	2.5	31.7	15.4	6.4	7.0	34.6	11.7	–1.4	4.9	35.6	14.4	–7.8	10.3	40.7	10.2
Diamonds	3.0	7.4	10.4	–5.9	3.0	7.4	10.4	–5.8	13.7	11.6	25.2	–4.1	28.4	17.8	50.0	–7.0
Textiles	20.4	2.5	10.3	16.9	17.8	–0.6	3.8	9.8	24.0	1.3	11.4	15.1	25.0	–1.3	5.5	9.5
Minerals	42.4	20.2	18.2	6.3	42.1	16.8	19.5	5.6	64.0	29.4	23.1	–1.3	68.1	26.6	25.5	–3.6
Citrus products	42.2	6.2	1.7	28.5	42.1	6.2	1.7	27.4	41.4	2.8	2.2	26.3	39.1	3.3	1.6	26.0
Other industrial products	–2.8	15.2	15.4	6.6	–9.6	13.0	16.4	10.1	–1.9	16.4	15.6	6.1	–8.6	19.5	16.3	10.0
Total[a]	3.3	11.8	10.9	6.5	0.3	12.8	10.7	9.9	3.2	15.4	17.0	5.3	–3.5	19.4	18.8	6.8
Total excl. diamonds	10.1	11.6	13.2	10.8	7.0	9.8	12.9	11.0	13.1	12.7	14.3	8.8	11.8	13.6	14.2	8.6

[a] See note to Table III–18.

Table III-21

INDUSTRIAL EXPORTS AND EXPORT PRICE INDEX, BY MAIN COMPONENT, 1967

(IL million)

Branch	Export in 1967		Index of f.o.b. export prices, 1967 (1966=100)
	At current prices	At 1966 prices	
Food	34.1	34.7	98.1
Textiles and clothing	51.7	52.5	98.4
Metal and machinery	34.7	34.6	100.4
Other industrial products[a]	69.7	69.3	100.6

[a] Excluding edible oils and cement. This table does not fully correspond with Table III-16, which is based on later figures.

possess unutilized production capacity, which can be activated for export when the return thereon renders it worthwhile.

It should also be noted that the ebbing of world demand as a rule depressed prices only slightly, and consequently failed to completely offset the additional return from the direct incentives.

Enlarged incentives were only one of the factors stimulating export. Others were the impact of the recession on local demand and on the labor market. The items showing the most impressive gains in 1967 belong mostly to branches geared predominantly to the local market, where they fetch a much higher price than from export. The weakening of local demand results in unexploited production capacity, which under certain conditions is worthwhile utilizing for export. The decline in economic activity and increased unemployment brought an end to the incessant round of wage rises and made it possible to keep prices firm. Moreover, the shortage of skilled workers, which had affected many branches during the boom years, disappeared. As a result of the increased incentives plus the moderate level of demand, the higher export return was not wiped out by mounting costs, and unutilized production capacity could be diverted to export without having to compete with the more profitable domestic market.

This combination of factors, however, proved effective only for a relatively small percentage of the country's industrial commodities, and the latter accounted for most of the export increment during the year.

Table III-22 lists a number of industries whose export growth rates were generally far above average. In 1967 they accounted for about a third of "other industrial exports" and less than 10 percent of total industrial production, but they contributed more than 90 percent of the net increment to industrial export. These branches not only enjoyed a high growth rate in 1967, but their exports were considerably larger than in any previous year. Several other branches

Table III–22

INDUSTRIES WITH HIGH EXPORT GROWTH RATES, 1962–67

($ million, at f.o.b. values)

	1962	1963	1964	1965	1966	1967
Export of "other industrial products"[a]		53.5	58.0	66.0	75.0	86.8
Increase — in $ million			4.5	8.0	9.0	11.8
in percent			8.4	13.8	13.6	15.7
Of which by industries with high growth rates						
Printing and publishing	1.7	2.0	2.6	2.1	2.7	3.3
Tanning	0.1	0.5	0.5	0.5	1.0	1.2
Pharmaceuticals, perfumery and cosmetics, pesticides	1.9	2.6	3.4	4.7	5.8	9.3
Basic chemicals	3.0	4.7	5.9	8.6	8.3	10.5
Industrial machinery	0.4	0.8	0.7	0.9	1.5	2.7
Communication equipment	—	—	0.1	0.1	0.2	1.1
Precision instruments	0.2	0.1	0.2	0.2	0.4	1.1
Jewelry and watches	0.3	1.7	2.1	2.5	2.8	3.2
Kitchen utensils and tools	0.3	0.6	0.7	0.8	1.4	2.1
Electrical installations	0.3	0.2	0.2	0.4	0.4	0.7
Basic iron and steel	—	—	—	—	—	0.3
Total	8.0	13.4	16.5	21.0	24.5	35.6
Increase — in $ million		5.3	3.2	4.5	3.5	11.1
in percent		66.4	23.9	27.1	16.7	45.3
Share of group in incremental export of "other industrial products"			71.1	56.3	38.9	94.1

[a] See Table III–16 above.

experienced rapid growth in 1967, but generally not to the same extent (extremely high growth rates were also posted by certain branches with only a small export volume); however, these are relatively veteran branches whose sales display an erratic pattern, and the 1967 increase was no exception in this respect, the figures being only slightly higher (and sometimes even lower) than the peak levels of recent years.[1]

Short of an exhaustive examination, it is difficult to pinpoint the reasons for the differential development of these branches. Branch data aggregate a number

[1] Outstanding examples are: plywood—export in 1967 of $ 8.4 million (a growth of 15 percent over 1966 and 3.4 percent over 1965); cement—$ 1.9 million (up 15.6 percent from 1966 and 5 percent from 1962); plastic goods—$ 1.1 million (up 11.3 percent from 1966 but down 24 percent from 1964).

of commodities, and this may blur contrasting trends within the branch. However, some possible explanations may be put forth.

First, a much larger export by a particular branch may be due to the establishment of a plant producing a commodity not manufactured before in Israel. Technological and demand developments may render worthwhile what was previously considered unprofitable. This applies also to random instances of new initiative. General economic conditions may, of course, help or hinder such developments, but they are not the decisive factor.

Secondly, in an economy undergoing development there may emerge new branches based mainly on the domestic market, with exports being of marginal importance. In many cases considerations of economies of scale lead to the establishment of enterprises working only partly for the domestic market. Sometimes a concern is established with a capacity in excess of present requirements because demand for its products is expanding rapidly. When such branches experience rapid development, exports are also likely to expand rapidly. This factor presumably explains the vigorous development of the chemical industry in recent years. In 1966 exports fell off somewhat because of stronger local demand. The increase in 1967 can be attributed to a further enlargement of capacity.

The most important factor stimulating overseas sales in 1967 was, as already indicated, the increased return thereon combined with the weakening of domestic demand. It is difficult to determine, on the strength of the data available, the reason for the interbranch differences in the effectiveness of this factor. Conceivably, the divergences reflect differences in demand conditions abroad. Differences in the degree to which local demand contracted may be another reason: the reorientation of export policy by a concern for which export had previously been of only minor importance and motivated not so much by purely commercial considerations as by the desire to ensure a high rate of protection or a monopolistic position in the home market, for instance, involves considerable expense and effort, and sometimes a complete reorganization of the firm. This represents a long-term investment, and it is not worthwhile when the decline in domestic demand is relatively slight and thought to be a transient phenomenon.

There may also be interbranch differences in the degree of the effective increase of the incentives. The incentives are applied at a uniform rate to groups with widely divergent value-added components, so that within each group the incentive is higher relative to the value added the lower the latter magnitude. Discrepancies may also arise between the branches due to the rough system of calculation used. Another point that should be noted is that under conditions of constant input prices it is only the direct exporter who benefits from the incentives—when his profit is relatively small, the incentive greatly increases his return on export.

A further reason why the combination of incentives and recession proved effective for only a small percentage of industrial branches may lie in the distorted

Table III–23

INDUSTRIAL EXPORTS, BY BRANCH DISTRIBUTION AND DESTINATION, 1966[a]

Industrial branches by percent of output exported directly[b]	Weight in industrial output[b] (%)	Weight in industrial exports (%)	Value of exports (IL million)				Percent of total exports to:		
			Total	To developed countries	To clearing, other East European, & Medit. countries	To other countries	Developed countries	Clearing, other East European, & Medit. countries	Other countries
Under 5	51.2	3.4	13.0	6.0	3.8	3.2	46.1	29.2	24.7
5–10	9.3	2.7	10.3	5.0	4.1	1.2	48.7	39.8	11.5
10–20	13.3	11.6	44.7	28.7	12.5	3.5	64.3	27.9	7.8
20–30	3.2	3.8	14.7	11.3	1.7	1.6	77.3	11.4	11.3
35+	10.2	66.7	257.8	203.5	25.4	29.0	78.9	9.8	11.3
Textiles[c]	12.8	11.8	45.5	26.7	13.6	5.3	59.6	29.8	11.6
	100.0	100.0	386.0	281.2	61.0	43.8	72.9	15.8	11.3

[a] The breakdown is based on gross exports; excludes exports to unspecified countries of destination.
[b] In 1965.
[c] In 1965, 15.8 percent of output was exported.

structure of effective exchange rates applied to the final destinations of output. A large part of industry is protected from the competition of imports by high tariff walls or administrative import restrictions. This creates big price differentials in favor of the local market and stimulates the development of branches with production costs far exceeding the international price. This system of differential rates of protection produces interbranch differences in the margin between production costs and the world price, and the incentives are less effective for branches whose current costs are much higher than the world price.

In branches whose costs approach the world price it is also easier to reallocate resources to export production following a drop in local demand that is not accompanied by an increased return on export. This is perhaps one of the reasons why those exports which expanded appreciably in 1967 rose at above-average rates in 1966 as well. In 1967 the divergence in growth rates between the fast-rising commodities and the other group was greater than in the past. Apart from the effectiveness of the increased incentives, this can be partly attributed to the fact that the less competitive group relied much more heavily on the clearing markets, and in the second half of 1967 exports to Eastern Europe on such a basis were suspended, except in the case of Rumania (trade with whom assumed a different character in 1967). Total exports to the four countries in question fell by $ 8 million, and together with Turkey (exports to her were reduced at Israel's initiative), the decrease amounted to $ 10 million.

No data are available on the effective rates of protection or on the cost of the dollar saved on the production of import substitutes in the various branches, and it is not possible to determine the dispersion of these values and the disparity between them and the official exchange rate. A breakdown of exports by branch and by country of destination as compared with the distribution of output (see Table III–23) may serve as a rough indicator of the existence of a wide degree of dispersion. This shows that branches accounting for half of total industrial production made an insignificant contribution to export.[1] Branches marketing less than 10 percent of their output abroad accounted for 60 percent of industrial output but only 6 percent of the export. These branches showed a further striking characteristic: while their share in exports to developed countries was only 4 percent, their share in the second group of countries (mainly those trading with Israel on a clearing-account basis) came to 13 percent. Lumping together all branches with an export of less than 20 percent (these doubtless include several export-oriented commodities), we find that they accounted for 33.4 percent of all sales to these markets, as contrasted with 14 percent in the case of the developed countries.

It therefore seems that for most branches of the economy export is highly

[1] The comparison relates to branches and not commodities; the data may therefore include some items marketed almost exclusively abroad and which are not greatly dependent on the effective rates of protection.

marginal in character and is subject to sharp annual fluctuations. They rely largely on clearing arrangements, while their penetration of developed markets, where most of the world trade takes place, is relatively limited in scope.

(b) *Services*

Exports of services expanded by 7 percent in 1967 and amounted to $ 426 million. Discounting the administered areas, the increase was 6 percent. Income from transportation services was up 4 percent, the result of a slight increase in the passenger branch and a decrease in cargo haulage. Most of the growth stemmed from the chartering of ships to foreign firms.

Income from tourism fell off by $ 7 million (12 percent), apparently because of the tense situation prevailing before and after the Six Day War and the economic difficulties experienced during the year by several developed countries. Despite the smaller amount spent by Israelis abroad in 1967, the balance in the tourist services account (excluding purchases in the administered areas) declined, net income amounting to $ 8 million, compared with $ 10 million in 1966, $ 11 million in 1965, and a larger average sum in preceding years.

Capital servicing (interest receipts from abroad) increased by $ 6 million (13 percent), reflecting the expansion of the country's foreign currency reserves. This item has moved up rapidly and continuously in recent years as a result of both the larger volume of reserves and the rise in interest rates in the world market since 1962.

Exports of Government services n.e.s. were appreciably larger in 1967, continuing the trend of recent years. Most of the growth in this item, which includes the expenditure of foreign governments in Israel, stemmed from the utilization of U.S. Government counterpart funds for various purposes, one of the most important being the performance of research by Israeli institutions on behalf of U.S. bodies.

The increase in "other services", excluding the administered areas, was due to the larger volume of personal transfers by Israelis returning from abroad, particularly after the Six Day War, when their numbers rose. As against this, foreign companies in Israel spent a smaller sum in 1967.

Income from insurance services was slightly higher in 1967, but this is based on a very weak provisional estimate.[1]

4. The Rate of Exchange

The system of export subsidies, which was considerably enlarged in 1966,[2] remained essentially unchanged in the year reviewed. One noteworthy change was the application of direct incentives to citrus in April 1967.

[1] See the discussion on p. 65.

[2] A detailed discussion appears in the Bank of Israel Annual Report for 1966, pp. 63 ff.

Table III-24

EXPORTS OF SERVICES,[a] 1962–67

($ million)

	1962	1963	1964	1965	1966	1967	Increase or decrease (–) as against previous year: $ million			Percent		
							1965	1966	1967	1965	1966	1967
Transportation	116.4	114.8	126.5	148.0	157.7	163.9	21.5	9.7	6.2	17.0	6.6	3.9
Passenger	*35.5*	*33.4*	*36.9*	*42.5*	*41.3*	*43.3*	*5.6*	*–1.2*	*2.0*	*15.2*	*–2.8*	*4.8*
Cargo	*59.0*	*65.1*	*73.4*	*86.8*	*93.6*	*92.6*	*13.4*	*6.8*	*–1.0*	*18.3*	*7.8*	*–1.1*
Other income	*21.9*	*16.3*	*16.2*	*18.7*	*22.8*	*28.0*	*2.5*	*4.1*	*5.2*	*15.4*	*21.9*	*22.8*
Tourism	38.4	53.4	54.8	55.0	59.1	52.2	0.2	4.1	–6.9	0.4	7.5	–11.7
Insurance	26.9	30.6	42.8	47.7	58.1	59.5	4.9	10.4	1.4	11.4	21.8	2.4
Capital servicing	21.3	26.3	28.7	36.9	48.2	54.5	8.2	11.3	6.3	28.6	30.6	13.1
Government, n.e.s.	10.4	15.2	21.1	20.2	25.0	34.3	–0.9	4.8	9.3	–4.3	23.8	37.2
Other services	18.4	29.3	32.4	37.1	49.4	62.0	4.7	12.3	12.6	14.5	33.2	25.5
Total	231.8	269.6	306.3	344.9	397.5	426.4	38.6	52.6	28.9	12.6	15.3	7.3

[a] Calculated according to the c.i.f. value of commodity imports.
SOURCE: Central Bureau of Statistics.

The system of direct incentives itself underwent several changes: initially it was extended with the granting of a special premium to growth industries and various other groups, but later this arrangement was abolished.

Direct incentives were first introduced in April 1966, and their rates were doubled in November of that year. These incentives are intended to serve as a tax refund on indirect inputs for export production. Industrial exports were divided for this purpose into four groups classified by their value-added component, and a uniform rate was fixed for each group. The rate rises the greater the percentage of value added, ranging in the three highest groups from approximately 8 to 14 percent of the value added in each group, with the rate being highest on items with the lowest percentage of value added within each group.

Table III–25

DIRECT EXPORT INCENTIVES, 1966–67

(percentages)

Value added[a]	Subsidy from Nov. 1966	Subsidy since devaluation of Nov. 1967[b]	Subsidy rate on value added	
			Before devaluation	After devaluation[b]
Under 25	1.0	—	4+	—
25–45	3.5	3.3	8–14	7–13
46–65	6.0	6.7	9–13	10–15
66+	8.5	10.0	10–13[c]	12–15[c]

[a] From the point of view of the economy.
[b] Calculated at the rate of IL 3 per dollar.
[c] For a value added of 85 percent.

It should be pointed out that an exact calculation of value added from the point of view of the economy requires detailed data on the composition of inputs of the branch concerned and on indirect imported inputs. When a rough calculation is made, errors are liable to crop up which may change the relative position of the branch.

It should also be noted that when input prices remain unchanged, the sole beneficiary of the incentives is the direct exporter. In this case the effective rate is liable to be far higher than the rate based on value added; further, it may vary considerably between exporters in accordance with the weight of their profit in the total value added of the commodity. This factor may also explain the disparate reaction of branches receiving the same incentive.

At the beginning of March 1967 direct subsidies to a group classified as growth industries were increased. These industries, all of which are in the high value-added category (over 65 percent), thereafter received a 15 percent premium on the f.o.b. value of their export instead of 8.5 percent.

Subsequently, the incentive was raised to 11.5 percent for another group of commodities, which gradually came into being in response to demands from various quarters. These increases constituted some deviation from the uniform subsidy rate fixed for the four original groups.

These increments were abolished after the November devaluation, and the original four-group system reinstituted. However, while the two middle groups continued to receive the same incentive, the incentive was eliminated for the lowest group (comprising mainly diamonds) and increased for the highest group (with a value added of 66 percent or more). As a result of these changes, the middle groups benefited to the full extent of the devaluation[1] (insofar as their exports were to countries which had not devalued), while in the upper group there were two diverse developments: the effective increase in the incentive on value added in the growth industries was 11–12 percent, whereas in others it reached 18–19 percent.

The Israeli pound was devalued on November 19, 1967, the dollar parity being increased from IL 3 to IL 3.5—i.e. by 16.7 percent. This followed the devaluation of the pound sterling on the preceding day. The devaluation came too late in the year to influence the export figures. Following Britain's example, several other countries devalued their currency, but taken together they do not occupy an important place in Israel's foreign trade. Nearly 84 percent of the commodity exports and 80 percent of the invisibles went to countries which did not alter their exchange rates. This export benefited from the full rate of the devaluation; for all exports, the devaluation increased the return by approximately 14 percent on an average.

As to the countries which devalued, analysis of the factors influencing Israel's export to them is a more complex matter. On the one hand, this export is liable to be adversely affected by the rise in input prices;[2] on the other hand, the devaluation enhances Israel's ability to compete compared with countries which did not devalue.

The devaluation also failed to affect imports in 1967. About 80 percent of the imports originated in countries which did not devalue, and in order to reduce the effect of the devaluation on the price level, import duties were cut by 15–20 percent.[3] The reduction of customs duties, of course, had a greater impact on commodities subject to higher rates of duty, since the higher the duty and the greater its weight in the final price of the commodity, the greater will be the

1 16.7 percent when calculated according to the rate of IL 3=$ 1. When calculated according to the return on value added at the time of devaluation, the increment averaged 15 percent. The calculations here are rough and are cited mainly for purposes of illustration; they do not take account, for instance, of the fact that the price of imported inputs did not rise proportionately to the rate of devaluation. It should also be noted that direct current inputs for export production are exempt from customs duties.

2 Possible effects of changes in demand are not taken into account here.

3 In order to prevent the dearer cost of nondutiable inputs from driving up prices, the purchase tax was lowered on some finished products.

effect on the final price of a given cut in the rate.[1] Such a change in the customs tariffs tends to reduce the wide dispersion of effective import rates, in itself a positive development. But this alone is not a sufficient criterion. Devaluation, which is intended to correct a low exchange rate, raises the average price of import goods and the average return on exports. This, however, does not imply that the prices must also be raised of those import commodities whose effective rate is considerably higher than the official exchange rate or a reasonable long-run rate.

5. Capital Imports

Capital inflow in 1967 reached a record $ 780 million, compared with a deficit of $ 437 million on current account. This figure far exceeds that of any previous year, and can be ascribed to large-scale transfers by Jewish institutions abroad and the high level of Development Bond sales. Most of the other capital-account items, however, fell off, in some instances to a considerable extent. The $ 343 million difference between capital imports and the deficit on goods and services account includes a rise of $ 217 million in foreign exchange reserves and a drop of $ 12 million in other short-term capital movements; there is, however, a large residual of $ 114 million representing errors and omissions, which makes it difficult to analyze the data and draw unambiguous conclusions, since it is not clear to which of the balance of payments items these errors and omissions belong.

The previous high in capital imports was reached in 1964, when the figure came to about $ 615 million. In 1965 and 1966 there were decreases, partly because of the termination of the Reparations Agreement with West Germany, but in the main owing to the sharp decline in private investments from abroad, which carried over through 1967.

1 The following table illustrates the percentage increases in the c.i.f. price of imported commodities plus import duties (the margin between this and the retail price is accounted for by such local costs as transportation, marketing, and vendors' profits) in several customs groups.

Rates of duty before devaluation (%)	Rates of duty after devaluation (%)	Percent increase in c.i.f. price plus duty
—	—	16.7
25	20	12.3
50	40	10.9
80	65	6.9
120	100	6.1
150	125	5.0
180	150	4.2
220	180	2.1
270	220	0.9

Table III-26

THE BALANCE OF PAYMENTS, 1966-67

($ million)

	1966			1967		
	Credit	Debit	Net	Credit	Debit	Net
A. **Current deficit**	832.2	1,277.1	-444.9	918.4	1,355.7	-437.3
B. **Unilateral transfers**						
Private transfers						
In cash	81.9	1.3	+80.6	87.5	2.4	+85.1
In kind	6.9	4.2	+2.7	5.7	4.9	+0.8
German restitution	110.4	—	+110.4	123.2	—	+123.2
German reparations	—	2.0	-2.0	—	2.0	-2.0
Intergovernmental transactions	3.4	0.2	+3.2	0.3	8.3	-8.0
Institutional transfers						
In cash	93.7	—	+93.7	320.4	—	+320.4
In kind	3.3	—	+3.3	2.7	—	+2.7
Total	299.6	7.7	+291.9	539.8	17.6	+522.2
C. **Long- and medium-term capital movements**						
Independence and Development Loans	124.3	113.0	+11.3	232.2	57.4	+174.9
World Bank loans	48.2	31.0	+17.2	8.2	2.5	+5.7
Export-Import Bank loans	8.3	9.1	-0.8	10.7	10.0	+0.7
U.S. Government D.L.F. and A.I.D. loans	29.1	13.1	+16.0	28.5	16.2	+12.3
U.S. Govt. loans in connection with food surpluses	29.2	3.3	+25.9	23.6	5.3	+18.3
Other long- and medium-term loans	96.0	53.1	+42.9	101.9	70.6	+31.3
Investments from abroad, net	82.5	11.3	+71.2	28.6	14.3	+14.3
Total	417.6	233.9	+183.7	433.8	176.3	+257.5
D. **Short-term capital movements**						
Short-term loans	—	31.1	-31.1	30.4	44.4	-14.0
Deposits with International Monetary Fund	—	10.0	-10.0	—	—	—
Clearing accounts	—	1.5	-1.5	—	1.2	-1.2
Foreign deposits	15.3	—	+15.3	20.7	—	+20.7
U.S. Govt. deposits	—	5.6	-5.6	—	17.8	-17.8
Foreign exchange reserves	19.0	—	+19.0	—	215.8	-215.8
Monetary gold	10.0	—	+10.0	—	0.1	-0.1
Total	44.3	48.2	-3.9	51.1	279.3	-228.2
Total (C)+(D)	461.9	282.1	+179.8	484.9	455.6	+29.3
Grand total	1,593.7	1,566.2	+26.8	1,943.1	1,828.9	+114.2
Net errors and omissions		26.8	-26.8	—	114.2	-114.2

SOURCE: Central Bureau of Statistics.

(a) *Unilateral transfers*

Since the cessation of receipts on account of German reparations and of U.S. Government grants-in-aid (all aid from this source is presently given in the form of loans), most of the unilateral transfers are concentrated in three items: personal transfers, transfers on account of personal restitution payments from West Germany, and institutional transfers.

Transfers by Jewish institutions in 1967 reached a record total of about $ 323 million. This includes transfers to nonprofit institutions, which remained about the same as in previous years (some $ 45 million per annum), and also the transfer to the National Institutions of the proceeds of the regular appeals as well as the Emergency Appeal. The $ 276 million approximately received by the National Institutions (compared with $ 52 million in 1966) represents the actual sum transferred to Israel, i.e. it does not include expenditure abroad on account of immigrant transportation, administration, and capital servicing, which are also excluded from the expenditure side of the balance of payments. The unprecedented growth of these transfers was due to the special emergency appeals conducted in connection with the Six Day War. Most of the sum was transferred in May and June, though the level remained unusually high from July to September; in the last quarter of the year income returned to its 1966 level.

Relatively small changes took place in other unilateral transfers. Both personal transfers and restitution receipts rose somewhat. The ratio between nonrecurrent income from Germany and pension payments from her was, at 47 and 53 percent respectively, about the same as in the two preceding years.

Intergovernmental transfers include those by the Government of Israel to the administered areas.

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

The State's long- and medium-term foreign debt increased by about $ 257 million in 1967—some $ 74 million more than in 1966. However, the increment consisted of an extraordinarily large rise in sales of Development Bonds and a net decline in other borrowed receipts and primarily in foreign investments.

In 1967 sales of Development Bonds (together with cumulated interest on savings certificates) totalled $ 232 million, compared with some $ 124 million in 1966 and $ 100 million in 1965. This is a particularly high figure, considering that only about $ 25 million worth of bonds matured in 1967, as against $ 61 million the year before. The amount redeemed, exchanged, and converted into Israeli pounds added up to $ 57 million, so that net receipts from this source stood at $ 175 million—considerably higher than in any previous year. Even in years when no bonds matured, net receipts from this source never topped the $ 50 million-mark.

Conversions into Israeli pounds amounted to about $ 20 million, compared

Table III-27

CAPITAL IMPORTS, 1964-67

($ million)

	1964	1965	1966	1967	Increase or decrease (–) from 1966 to 1967
Unilateral transfers					
(1) Transfers to the private sector	270	257	239	256	17
Private transfers	*96*	*98*	*84*	*86*	*2*
Personal restitution from Germany	*134*	*113*	*110*	*123*	*13*
Transfers to nonprofit institutions	*40*	*46*	*45*	*47*	*2*
(2) Transfers to the public sector	65	70	53	266	213
German reparations, net	*17*	*17*	*–2*	*–2*	—
Intergovernmental transfers	*8*	*5*	*3*	*–8*	*–11*
Transfers to National Institutions	*40*	*48*	*52*	*276*	*224*
Total unilateral transfers	335	327	292	522	230
Capital movements					
(1) To the private sector	143	83	71	14	–57
Foreign investments in Israel, net	*143*	*83*	*71*	*14*	*–57*
(2) To the public sector	137	147	112	243	131
Independence and Development Loans, net	*24*	*33*	*11*	*175*	*164*
World Bank loans, net	*13*	*23*	*17*	*6*	*–11*
U.S. Government loans (incl. Export-Import Bank)	*53*	*52*	*41*	*32*	*–9*
Other long- and medium-term loans, net	*47*	*39*	*43*	*31*	*–12*
Total long- and medium-term capital movements	280	230	183	257	74
Total capital imports	615	557	475	779	304

SOURCE: Central Bureau of Statistics.

with $ 18 million in 1966. Of this sum, about $ 4 million worth were converted by tourists and $ 8 million by the Jewish Agency and other institutions, over $ 6 million worth were converted for investment purposes, while the remainder were converted by residents and new immigrants. The sum for investment was lower than in the preceding year, while conversions by institutions were higher.

Total liabilities on account of the Development Loan amounted to $ 718 million at the end of 1967. This includes about $ 44 million in cumulated interest, $ 66 million on account of the first Development Loan (redemption of which will be completed in 1969), $ 172 million on account of the second Development Loan, $ 344 million on account of the third Development Loan, $ 60 million on account of a special loan whose sale began in 1966, and $ 32 million on account of the fourth Development Loan, launched in 1967.

U.S. Government aid is now given entirely in the form of loans, and most of the loans previously granted in the form of food surpluses have to be repaid in dollars. The outstanding balance of U.S. Government loans rose by $ 32 million at the end of 1967, compared with $ 41 million the year before.

Other net medium- and long-term liabilities rose by $ 31 million, somewhat less than in former years.

The State's foreign currency debt (apart from deposits of nonresidents) amounted at the end of 1967 to about $ 1,556 million, as against approximately $ 1,320 million the year before. Short-term liabilities, which constitute only a small part of the total, fell considerably in 1967.

Foreign investments, which reached a peak in 1964, have been moving downward since then and were especially low in 1967—$ 14 million only, compared with nearly $ 71 million in 1966.

Investments from abroad shrank from about $ 104 million to $ 52 million. The biggest decreases were in capital transfers in cash and in equity investment, which together form most of the investment item. The steep decline was apparently the result of several factors, both international and local. The year reviewed witnessed the slackening of economic activity in several countries, a development which presumably affected the supply of capital, but the decline in investment was mostly due to the recession in Israel, which reached its nadir in the first half of the year, and to the uncertain security situation before and after the Six Day War. Moreover, the country's urgent security needs in 1967 impelled potential investors to buy Development Bonds or increase their contributions to the emergency appeals. Foreign investments liquidated in Israel were somewhat larger than in former years, and this also contributed to the fall in investments.

(c) *Foreign exchange reserves*

Israel's foreign exchange reserves totalled approximately $ 944 million at the end of 1967—an increase of $ 216 million over the previous year. The decline in foreign currency accumulation which marked 1966 carried over into the

Table III–28

FOREIGN INVESTMENTS IN ISRAEL, 1961–67

($ million)

	1961	1962	1963	1964	1965	1966	1967
Investments in Israel by nonresidents							
In foreign currency	35.2	63.5	134.4	139.1	92.4	85.6	38.8
In Israeli currency	1.0	3.2	4.3	9.1	4.8	3.7	1.9
In Independence and Development Bonds	13.5	13.1	10.5	10.6	9.4	9.7	7.0
Capital transfers in kind	9.9	12.9	19.5	10.6	8.3	5.3	3.9
Total	59.6	92.7	168.7	169.4	114.9	104.3	51.6
Less: Liquidation of foreign investments in Israel	–2.6	–7.1	–10.1	–17.1	–27.9	–27.0	–31.1
Net total	57.0	85.6	158.6	152.3	87.0	77.3	20.5
Reinvestment of profits[a]	3.2	3.6	4.0	4.4	4.8	5.2	4.3
Total investments by nonresidents, net	60.2	89.2	162.6	156.7	91.8	82.5	24.8
Israeli investments abroad	8.5	6.9	27.2	13.8	9.3	11.3	10.5
Total foreign investments in Israel, net	51.7	82.3	135.4	142.9	82.5	71.2	14.3

[a] This estimate is weaker than that of the other foreign investment items.

early months of 1967, and at the end of April the reserves were about $ 30 million lower than at the end of December 1966, despite a drop in the balance of payments deficit on current account. The trend was reversed following the increased capital inflow in the postwar period, while the deficit on current account remained at a relatively low level. Nonresidents' and other foreign deposits in Israel rose by about $ 21 million, but even net of this sum, foreign currency accumulation still expanded by nearly $ 195 million.

In addition to the expansion of reserves, there was a decline in short-term liabilities, which is analogous to an increase in foreign currency reserves. Total short-term capital movements (including foreign exchange reserves) decreased by approximately $ 230 million, compared with a decline of some $ 4 million in 1966.

Table III–29

ISRAEL'S FOREIGN EXCHANGE RESERVES, 1961–67

($ million)

End of year	Deposits abroad (incl. gold and I.M.F.)		Less: Deposits of foreign banks and nonresidents in Israel's banking system	Foreign currency deposits, net	
	Total	Increase or decrease (–)		Total	Increase or decrease (–)
1961	370	—	95	275	—
1962	511	141	118	393	118
1963	620	109	139	481	88
1964	641	21	145	496	15
1965	747	106	155	592	96
1966	728	–19	170	558	–34
1967	944	216	191	753	195