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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

CURRENT ECONOMIC POSITION AND PROSPECTS OF ISRAEL

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Europe, Middle East and
North Africa Department

CURRENCY EQUIVALENTS

1 Israeli pound	=	.285 U.S. dollars
1 U.S. dollar	=	3.5 Israeli pounds

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This report is based on the findings of an economic mission to Israel in October/November 1968, composed of Messrs. O. Maiss, R. Armstrong and M. Payson.

BASIC DATA

Area: 8,000 square miles

Population: 2.82 million (mid-1968)
Rate of growth (1961-1967): 3.3%
of which due to natural increase: 1.9%
Density per square mile: 354

Total Resources, 1968 est.: IL 20,130 million

Gross National Product, 1968 est.: IL 14,020 million
Per capita: $ 1,420 /1

Average Annual Growth Rates /2	1961-1964	1965-1967	1968
Gross National Product	10.8	3.8	14.2
Gross National Product per capita	6.7	.6	10.4

Composition of Gross National Product /2	Percent of GNP		
	1960-1966	1967	1968
Private Consumption	66.4	68.0	65.8
Public Consumption	21.8	27.9	28.6
Gross Investment	25.9	15.0	20.1
Gross National Savings	12.5	4.1	5.6
Import Surplus	13.4	10.9	14.5

Sectoral Origin of Gross National Product /2	Percent of GNP	
	1964	1968
Agriculture	7	7
Manufacturing and Mining	26	29
Construction	10	6
Transportation and Communications	10	10
Housing	10	11
Services of the Public Sector	16	18
Finance, Commerce, and Personal Services	21	19

Money, Credit and Prices	Dec. 31, 1968 (IL millions)	Rate of Change (%)		
		1966	1967	1968
Total Money Supply	2,890	6	26	14
Time and Savings Deposits	3,360	25	63	38
Bank Credit to Public	2,780	24	33	36
Bank Credit to Government	1,680	82	93	106
	1960/65			
Rise in Consumer Price Index	6.2	8.0	1.6	2.2

/1 At official exchange rate
/2 In constant 1967 prices

Central Government Budget Summary

In IL millions

	1966/67	1967/68	1968/69
Current Revenue	2,986	3,295	4,076
Current Expenditure	3,157	4,022	4,617
Current Deficit	- 171	- 727	- 541
Capital Expenditures	1,048	1,154	1,217
Overall Deficit	- 1,219	-1,881	- 1,758
Domestic Borrowing, net	943	1,230	1,234
Foreign Financing, net	276	651	524

External Public Debt

	1965	1966	1967	June 1968
Total debt outstanding ($ million)	1,097	1,209	1,475	1,521
Ratio of debt service to foreign exchange earnings (%)				14

Balance of Payments ($ million)

	1966	1967	1968
Commodity Exports	475	541	685
Commodity Imports	795	750	1,065
Net Invisibles	- 125	-240	- 220
Deficit on Current Account	- 445	-449	- 600
Unilateral Transfers	292	530	435

Concentration of Exports

	1967 %	1960-65 Average %
Diamonds	30	31
Citrus	16	18

Foreign Exchange Reserves ($ million) (End of Year)

	1965	1966	1967	1968
Total Reserves	749	730	949	850 /e
of which Bank of Israel	643	621	715	663

/e Estimate

SUMMARY AND CONCLUSIONS

i. Israel's past economic performance has been remarkable. Against great odds such as a conspicuous dearth of natural resources, inability to trade with neighboring countries, and the need to provide a large inflow of immigrants with housing and other facilities, real GNP has been growing at an average annual rate of some 10 percent since 1950 while per capita production increased by an average of 5 percent. These achievements were largely the result of two factors: a capable and determined population with a broad base of well-educated and energetic people who proved able to overcome the difficulties of economic development with great ingenuity; and a relatively large and continuous flow of foreign capital originating chiefly from private donations of American Jews and from reparation payments by Germany. Israel's "economic miracle" would have been impossible if one of these two growth factors - human skill and foreign capital - had been lacking.

ii. At present, Israel appears to have little in common with underdeveloped countries. Her per capita income is approximately the same as that of the industrialized European countries and in some fields - particularly in agriculture and education - her achievements are comparable to that of the most advanced nations. The important industrial sector, on the other hand, still needs considerable protection although it is now in the midst of a modernization process. Above all, Israel's economy still has a long way to go to become self-supporting. The present high level of economic activity is kept alive largely by the continuous inflow of foreign capital provided mostly on concessional terms. Without these external resources which augment the country's foreign exchange earnings by about one half, Israel's economic life would be severely weakened, and the level of production, investment and consumption would fall drastically.

iii. The heavy dependence on foreign resources is not a reflection of poor export performance. On the contrary, Israel has been very successful during the past in increasing its own foreign exchange earnings. Between 1950 and 1968, exports of goods and services have risen from $45 million to $1,200 million or at an average rate of 20 percent a year. But the rapid expansion of GNP during this period led to a parallel growth of imports which rose from $333 million to $1,800 million or at about 10 percent per annum. Thus, even though the country's reliance on foreign capital inflows decreased in relative terms, the absolute amount of the external gap continued to rise. Under the circumstances, the Government has made great efforts to mobilize enough foreign resources to finance the persistent import gap. However, as this gap rose in absolute terms, the authorities became increasingly concerned about the prospect of a shortfall in the supply of foreign funds which would prevent the continuation of fast economic growth at full employment.

iv. The first signs that such a situation was approaching appeared in the mid-1960's. Up to that time, net foreign capital inflows were sufficient not only to finance Israel's current account deficit but also to permit the accumulation of substantial foreign exchange reserves. By 1964, however, the external deficit on current account had risen to a record level of $573 million. As a continuation of past trends would have led to even higher deficits, for which foreign financing was not assured, the Government became concerned

about the possibility of large-scale losses in exchange reserves. Accordingly, it decided to curtail the foreign trade deficit through monetary restrictions and a slow-down in public spending, despite the fact that signs pointed to a decline in economic activity. As a result, economic growth came to a virtual standstill, while unemployment rose to about 10 percent of the labor force. In 1967, the economy began to recover from this setback largely because of an expansionary monetary policy; increased government spending caused partly by the massive rise in defense expenditure since the war with the Arab states; and new confidence in the country's political and economic future which has stimulated private investment activity. In 1968 real GNP grew by about 14 percent. As rapid growth was resumed, however, the current account deficit in the balance of payments rose quickly to an estimated $600 million in 1968 and may be even higher this year if the present boom continues. Until mid-1968, the generous donations of World Jewry in the wake of the last war have enabled the country to finance the increased gap without any significant losses in reserves. But as the flow of such donations has already tapered off somewhat from the high 1967 rate reserves have started to fall in the second half of 1968, and more substantial losses may be expected for 1969.

v. Public deficits also assumed very large proportions because - as part of the policy to overcome the recession - the increase in public spending was not matched by a similar rise in domestic revenue. However, despite the mounting pressure originating from these deficits, internal prices have so far been remarkably stable. During 1967, the consumer price index rose by only 1.6 percent while wholesale prices showed even lesser increases. In 1968, the rise in prices averaged 2 to 3 percent. The relative price stability is partly the result of a higher liquidity preference of the public caused by the 1967 war and the slowdown of economic activity during the recession. In addition, the existence of large-scale unemployment and unused production capacity had a dampening effect on prices. Unemployment, for example, was still considerably higher in the second half of 1968 than in 1965 when economic growth started to decline. Equally important, however, was the fact that the Government in cooperation with the trade unions and employers adopted an incomes policy which led to a virtual freeze of basic wages and salaries since early 1966. This policy of price and wage restraint is a complete break with Israel's past development pattern which was characterized by strong inflationary pressure and a fast moving price-wage spiral. But the present balance is rather precarious mainly because the restraint on wages and salaries is not being matched by equal efforts to reduce public sector deficits. There are already indications that these deficits will create excessive demand on the country's resources and that it will be difficult to maintain relative price stability in a fast growing economy without increasing the public savings effort.

vi. The Government's longer term development strategy aims at maintaining a high rate of economic expansion accompanied by a rapid modernization of production facilities. The expansionary policy is motivated by the need to absorb an increased flow of immigrants, to broaden the economic basis for the heavy defense burden, and to prevent the recurrence of a recession with large-scale unemployment. At the same time, the Government continues to strive for an adjustment of the country's balance of payments to the expected decline in

non-commercial capital inflows. It is assumed by the authorities that with rising efficiency particularly of the manufacturing sector, Israel will become more competitive in the world markets, and that exports will continue to grow at a faster percentage rate than imports so that in the longer run, the trade gap would be narrowed at a higher level of income and production. Over the medium run, this would still entail large current deficits in the balance of payments, which are not likely to be fully financed by the special capital transfers available to Israel - private donations, development bonds and raparations - thus forcing the country to draw down its reserves, and to mobilize additional sources of capital.

vii. Whether this strategy will be successful is still an open question, although some achievements can already be observed. Exports of goods and services have risen by about 26 percent in 1968 and prospects for further sustained expansion at an annual rate of about 12 percent are fairly good. Imports, which rose strongly after the recession, are likely to grow at a slower rate of some 9 percent a year assuming that GNP expands at about 8 1/2 percent. Further efforts will have to be made by the Government to promote new export ventures, to generate additional domestic savings and to secure a reasonable degree of internal financial stability. In addition, there is need for improvement in economic planning and resource allocation while recent attempts to strengthen the international competitiveness of local industries should be continued.

viii. If Israel does not succeed to mobilize sufficient funds to fill the future gaps in the balance of payments, her reserves may well decline to a point where for economic and security reasons further losses cannot be tolerated. Under the circumstances, the Government would probably take steps to slow down economic growth even if this led to another recession as in 1966/67. Such a development would not only create substantial unemployment and make the absorption of new immigrants more difficult but it might also hold back expansion of export industries, thus delaying further the time when Israel could enter the phase of self-sustained growth.

ix. Israel's medium- and long-term external public debt has risen fast in recent years, reaching a total of just over $1.5 billion in mid-1968. In addition, there were some $80 million short-term obligation on that date. Interest and amortization payments on public debt grew apace; but as foreign exchange earnings have risen even faster, the ratio between service payments and gross earnings has declined from some 20 percent in the early 1960's to about 14 percent in the recent past. For 1969 the service payments are scheduled to reach a peak of $175 million, falling off to an average of $113 million over the following four years. Assuming that foreign exchange earnings will rise at the rate projected above, the debt service burden on existing obligations would fall from its present 14 percent to only 6 percent in 1973. Thus even if the country continues to borrow abroad on a large scale the total debt service burden on existing and new loans is unlikely to rise in the foreseeable future, particularly as a large share of the new loans - Development Bonds and bilateral aid - will be obtained on concessional terms. Israel therefore appears to be creditworthy for additional borrowing on conventional terms.

I. PAST ECONOMIC DEVELOPMENT

1. Since the establishment of the State, Israel's economy has been growing at a fast rate. Between 1950 and 1968, real GNP expanded at an average of 10 percent a year while per capita production increased by about 5 percent. The main stimulus for this remarkable growth performance was a rapidly expanding population 1/ -- swelled by a continuous flow of immigrants-- for which food, housing, consumer goods, public services as well as employment had to be provided. The two chief factors that made possible these achievements were a broad base of well-educated and energetic people who proved able to overcome the difficulties of economic development with great ingenuity; and a relatively large and sustained inflow of foreign capital originating primarily from private donations of American Jews and from reparation payments by Germany. Israel's "economic miracle" would have been impossible if one of these two growth factors -- human skill and foreign capital -- had been lacking.

2. In more technical terms, the high growth rate of GNP was approximately equally attributable to increases of the labor force, an expanding capital stock and improvements in factor productivity, i.e. the efficiency with which labor and capital were used. Between 1950 and 1965, a period for which these growth factors have been identified in a recent study, 2/ the labor force grew at some 5 percent a year while the capital stock expanded at an average of 13 percent. Gains in total factor productivity averaged 3 to 4 percent a year although they have somewhat declined in the latter part of the period. However, this trend is not detectable within the commodity producing sectors -- industry and agriculture -- indicating that efficiency gains have maintained their momentum as the sophistication of production processes has increased.

3. Israel's past economic growth is all the more remarkable as it was achieved against considerable odds such as a conspicuous scarcity of natural resources, the limitations of a small domestic market, and the impossibility of establishing trade relationships with neighboring countries. As a result of these obstacles and of various political, social and security considerations, the available resources were not always efficiently allocated which led to the establishment of a number of high-cost industries both in agriculture and manufacturing. Yet, given the fact that the Government was under great pressure to expand the economy as quickly as possible in order to absorb the large inflow of immigrants, the promotion of some investments with low economic returns was probably unavoidable.

4. Following the rapid economic expansion in the last two decades, Israel's per capita income has now reached a level comparable to that of the major industrialized countries in Europe. In 1968, GNP per person amounted

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1/ A brief analysis of population trends in Israel is given in the Appendix on Population and Immigration.

2/ A. C. Gaathon, "Economic Productivity in Israel", unpublished manuscript. See also Table 10 in Statistical Appendix.

to approximately IL 5,000 or US$ 1,420 at the official rate of exchange. As the consumption rate has been traditionally high reaching some 95 percent of GNP in the last two years, this places the Israelis among the well-to-do people in the world, even if one considers that military spending is heavy and that many consumer goods are still relatively expensive. Yet, the high level of economic activity and consumption is kept alive to a considerable extent by the large and continuous inflow of foreign capital provided mostly at concessional terms. Without these external resources which augment the country's foreign exchange earnings by about one-half, Israel's economic life would be severely weakened and production, investment and consumption would fall drastically.

5. The heavy dependence on foreign resources does not, however, reflect an insufficient export drive. On the contrary, Israel has been very successful during the past in increasing its own foreign exchange earnings. Between 1950 and 1968, exports of goods and services have risen from $45 million to $1,200 million or at a compound rate of 20 percent a year. But the rapid expansion of GNP during the same period led to a parallel growth of imports which rose from $333 million to $1,800 million or at about 10 percent per annum. Thus, even though the country's reliance on foreign capital inflows decreased in relative terms, the absolute amount of the external gap continued to rise and Israel still has a long way to go to become self-supporting. Under the circumstances, the Government has made strong efforts in mobilizing the foreign resources required to finance the persistent import gap. However, as this gap rose in absolute terms, the authorities became increasingly concerned about a possible shortfall in the supply of foreign funds which would prevent the continuation of fast economic growth at full employment.

6. The first signs that such a situation was approaching appeared in the mid-1960's. Up to that time net foreign capital inflows were sufficient not only to finance Israel's current account deficit but also to permit the accumulation of substantial foreign exchange reserves. By 1964, however, the external deficit on current account had risen to a record level of $573 million, compared to an average of $330 million during 1958/60. As a continuation of past trends would have led to even higher deficits, for which foreign financing was not assured, the Government became concerned about the possibility of large-scale losses in exchange reserves. Accordingly, it decided to take steps that would bring the import gap down to more manageable proportions. In line with this new policy, the expansion of public spending was restrained and stricter monetary controls were imposed in order to slow down the overall rate of growth and the demand for imports. At the same time, additional export incentives were given so as to increase the price competitiveness of locally manufactured products in the world markets.

Table A: Chief Economic Indicators

	Average 1950/65		1966	1967	1968
Annual rise of GNP (percent)	11		1	1	14
Attributable to:					
Labor input	3 1/2				
Capital input	4				
Productivity gains	3 1/2				
Rise in consumer price index (percent)	11		8	2	2
Public sector account (IL billion)		1965	1966	1967	
Revenue		3.48	4.07	4.05	
Expenditure		4.85	5.80	6.93	
Deficit		-1.37	-1.73	-2.88	
Foreign financing		.99	.82	1.52	
Domestic financing		.38	.91	1.36	
Balance of payments ($ million)	1960	1964	1967	1968	
Exports	210	350	541	685	
Imports	442	803	750	1,065	
Trade deficit	-232	-453	-209	-380	
Net invisibles	-105	-120	-240	-220	
Current account deficit	-337	-573	-449	-600	
Unilateral transfers	311	335	530	435	
Foreign reserves ($ million; end of year)	270	643	949	850	

7. The change in development strategy coincided with a general decline of economic activity which was triggered by a slow-down in housing construction partly due to a drop in immigration, and which quickly spread to other sectors as no counter-cyclical measures were taken by the authorities. The growth rate of GNP fell from an average of 10 percent during 1960/64 to 8 percent in 1965 and only 1 percent in 1966. In the first half of 1967, when the recession had reached its trough, national output even declined in absolute terms. Over the same period, gross capital formation shrank by some 40 per cent while unemployment rose to about 10 percent of the labor force.

8. In the course of the recession, the import surplus of goods and services dropped from $573 million in 1964 to $449 million in 1967. The improvement of the trade balance was more striking as the trade deficit fell from $454 million to $209 million over these years. To some extent, this

change in the external accounts was due to a general decline of imports, especially investment goods and raw materials. Exports continued to rise primarily because of previous investments in new export ventures while the weakening of domestic demand apparently had little effect since at the given cost structure and owing to limitations in the variety and quality of output, local production could not easily be diverted from domestic to foreign markets.

9. Eventually, economic decline and mounting unemployment could no longer be tolerated by the Government. Late in 1966 and again early in 1967, monetary restrictions were relaxed and steps were taken to increase public investment. The most important change occurred, however, during the second quarter of 1967, when the Government's military expenditures rose sharply under the impact of the Middle Eastern crisis. The rising level of public spending supplemented a recovery which had already begun in certain industrial branches while in others it led to a direct growth of output. Construction and transport also picked up, and the economy entered a new phase of expansion. Other factors which supported the rise in economic activity were a revival of immigration and private investment stimulated by growing confidence in the country's political and economic future. GNP, which in the first half of 1967 was about 4 percent lower than during the same period of 1966, recovered strongly during the second half of 1967 and rose by approximately 14 percent in 1968. Total investment expanded quickly while unemployment dropped sharply in the course of last year.

10. As the economic upswing gained momentum, imports rose fast and the trade gap widened despite the continuing expansion of exports. At the same time, there was a sharp increase in the deficit of service payments, reflecting in large part higher purchases of military equipment. Consequently, the current account deficit widened to $600 million in 1968, compared to an average of $447 million in the two preceding years. Yet, the higher deficit was financed temporarily without difficulties as unilateral transfers almost doubled in the wake of the 1967 war with the Arab States. Foreign reserves went up considerably since the middle of that year although they started to decline during the second half of 1968.

11. As the massive increase in public spending was not matched by a similar rise in revenue, the deficit in the public sector assumed very large proportions. Yet, despite the mounting pressure on available resources originating from these deficits, internal prices have so far been remarkably stable. During 1967, the consumer price index rose by only 1.6 percent while wholesale prices showed even lesser increases. In 1968, the rise in prices averaged 2 to 3 percent. The relative price stability is partly the result of a higher liquidity preference of the public caused by the 1967 war and the slowdown of economic activity during the recession. In addition, the existence of large-scale unemployment and unused production capacity had a dampening effect on prices. Unemployment, for example, was still considerably higher in the second half of 1968 than in 1965 when economic growth started to decline. Equally important, however, was the fact that the Government in cooperation with the trade unions and employers adopted an incomes policy which led to a virtual freeze of basic wages and salaries since early 1966. This policy of price and wage restraint is a complete break with Israel's past development pattern which was characterized by strong inflationary

pressure and a fast moving price-wage spiral. However, the present balance is rather precarious mainly because the restraint on wages and salaries is not being matched by equal efforts to contain public sector deficits. There are already indications that these deficits will create excessive demand on the country's resources and that it will be difficult to maintain relative price stability in a fast growing economy without increasing the public savings effort.

12. The experience of the 1966/67 recession has convinced the Israeli Government that economic stagnation is too high a price for a reduction in the country's external gap. Moreover, it has shown that a deliberate effort to contain effective domestic demand does not automatically lead to a corresponding shift of locally produced goods from domestic to foreign markets, at least not in the short-run. Given this structural weakness in Israel's economy, the Government has therefore decided to make a determined effort in modernizing existing production facilities and building up new viable export industries. Such an export-oriented growth policy would permit the country to maintain a fast rate of economic expansion which in the longer run will lead to a greater degree of economic independence at a high level of exports, income and employment. Its success hinges largely on the Government's willingness and ability to continue its export drive, to maintain relative price stability, to further liberalize imports, and to supplement private initiative with a well-designed public investment program. In addition it will require considerable foreign capital inflows as long as the country's own resources are insufficient to meet the growing investment needs.

II. DEVELOPMENT OF MAJOR SECTORS

Agriculture

13. Agricultural policy in Israel has been strongly influenced by the need to achieve and maintain a certain minimum of autarky in domestic food supply while for political reasons great emphasis was given to establishing Jewish settlements in rural areas throughout the country. Particularly during the early years of the State, the promotion of agricultural settlement through large-scale investments, training programs and marketing assistance was a prime policy objective of the Government, which wanted to overcome an acute food shortage, and to populate the areas occupied during the War of Independence. In the course of implementing this policy, the agricultural sector reached a high degree of technical sophistication. Present production methods are generally capital intensive and yields per unit of land or livestock are among the highest in the world. Other factors which made these achievements possible, were the good educational background of many settlers, their pioneering spirit and the predominance of relatively large collective or cooperative farming units -- Kibbutzim and Moshavim -- which facilitated the use of mechanical equipment.

14. To a considerable extent, the intensive cultivation pattern has been enforced by severe limitations in natural resources. As large parts of the country are arid and semi-arid, a shortage of water has restricted the area of land suitable for agricultural production. With natural precipitation often too low even for extensive dry-farming, irrigation increasingly was required. At present the dry-farming areas cover about three-fifths of the total agricultural land, but they contribute only a small fraction to the whole agricultural output. The provision of irrigation water has been expensive, and costs of supplying additional water are becoming almost prohibitive. Increasing emphasis is therefore given to raising irrigation efficiency through the introduction of new watersaving techniques.

15. Between 1949 and 1959, agricultural production expanded at an average rate of 14 percent a year or well above that of GNP. In the 1960's, the growth rate slowed down to about 6 percent a year, falling behind the average growth rate of the economy. At present, agriculture accounts for about 7 percent of GNP, 12 percent of employment, and 17 percent of the country's exports. The slower growth of output in recent years was mainly the result of a saturation of domestic food markets which had suffered from acute supply shortages during most of the 1950's. Local demand for foodstuffs also grew less rapidly in the 1960's due to the slower increase in population and the declining food share in total consumption. Another limiting factor was the high cost of developing additional sources of water. As labor productivity continued to grow at a high rate, employment in agriculture actually declined slightly in recent years.

Table B: Agricultural Indicators

	1967	Annual Growth Rates 1949/59	1959/67
Agricultural production (IL million)	1,610	14	6
Crops	942	12	7
Livestock	668	17	5
Purchased inputs (IL million)	572	.	.
Agricultural subsidies (IL million)	156	.	.
Employment (1,000)	110	8	-1
Cultivated area (1,000 ha)	417	10	0
Irrigated	162	15	4
Dry farming	255	9	-2
Water consumption (million cu. meter)	1,220	18	3
Exports (US$ million)	109	12	8
Citrus	86	10	8
Other	23	30	8

16. Due to the limitations of small domestic markets and to adverse natural conditions, the gains in output could often be made only at the price of high production costs. This is particularly true for livestock products - mainly poultry and dairy - which are sold almost exclusively for local consumption and which account for about two-fifths of total agricultural output. Production units are often too small to be efficient, while scarcity of domestic feed supply has raised the costs of inputs. With the saturation of local markets at prevailing support prices, output control became the main problem in these branches, since technological improvements and the lack of alternative sources of income for many farmers created a production potential far in excess of domestic demand. The Government has attempted to export some of the surpluses, but low profitability has restricted the scope for such exports.

17. Conditions are similar for a number of crops such as locally consumed fruits and vegetables for which marketing of additional quantities has become difficult. Profitability to growers is maintained through protection from foreign competition and strict marketing control within the country. Field crops have expanded slowly in recent years because land increasingly was needed for more intensive cultivation. The output of grains has actually declined while some industrial crops - tobacco, groundnuts, and sugar beet - have remained stagnant. Only cotton production continued to expand rapidly although the absolute value of this crop is still small.

18. In order to maintain a desirable level of output, the Government had to support local production through import protection and subsidies. The amount of direct subsidies paid out of public funds in recent years reached

some IL 150 million, representing more than one-third of the farmers' net income. With rising income expectations and a slowly expanding domestic demand, these transfers are placing a growing burden on the economy. Given this situation, the Government is now aiming to shift agricultural production increasingly to lines where Israel has a comparative advantage. Accordingly, greater resources are now being allocated to promoting export crops at the expense of sub-marginal production for local markets. Over the next four to five years, agricultural exports are planned to increase by more than half, raising their share in total agricultural output from 23 percent in 1966/67 to about 30 percent in 1972/73. The average growth rate of exports would thus reach some 9 percent a year compared to an annual growth rate for locally consumed products of less than 2 percent.

19. Approximately half of the additional exports are expected to come from citrus fruits which at present account for about three-quarters of all agricultural exports. During the first half of the 1960's, citrus production expanded fairly rapidly, and plantations now cover about one-third of the irrigated area. However, despite very high and increasing productivity as a result of efficient cultivation and marketing techniques, the profitability of the citrus industry is showing signs of declining. In addition, there is growing apprehension of a possible fall in export prices due to increasing world supply and to higher import levies imposed by the European Economic Community. New plantings have therefore been reduced in recent years, and production is expected to grow slower in the future. Given the high quality of Israel's citrus, marketing the larger crops will not be too difficult, though export prices may well come under pressure in the next few years due to the reasons mentioned above.

20. Exports of other agricultural products - mainly vegetables, flowers and various subtropical fruits - are becoming increasingly important. Technological advances have been made in these products through improved varieties, mechanization, and the introduction of vegetable and flower growing under plastic covers and in hot houses. The latter techniques, together with Israel's mild climate, permit the production of high-value crops during the winter months when prices in Europe are high, and no restrictions are applied to imports into the Common Market. Given the efforts presently being made by the authorities and marketing organizations to expand the production and marketing of such crops, it can be expected that out-of-season exports of roses, strawberries, carrots, melons, avocado and some other varieties will grow very rapidly in the near future.

21. The difficulties in reaching the targets for agricultural exports are formidable. It will require careful planning of production, organization, marketing, and transportation. It will also call for considerable new investments in the export-oriented branches. But past experience has shown that the agricultural sector is quite capable of adapting itself to new conditions, and that it can count on the efficient support of various government agencies which provide educational facilities, extension workers, planning services and marketing organizations.

Manufacturing and Mining

22. From 1950 to 1968 industrial output rose at an average rate of over 10 percent while its share in GNP amounted to 27 percent in the latter year. As in other sectors of the economy, growth has been made possible to a large extent by the expanding inputs of labor and capital, industrial employment having risen at an average annual rate of 5 percent and capital stock at about 6 percent. These factors alone are insufficient to explain the industrial growth rate, however, and total factor productivity appears to have grown at about 4 percent a year. 1/ More recently, industrial production and employment were severely affected by the recession, and output actually declined in 1967. But during 1968 the sector recovered strongly in response to rising demand generated mainly by increased public spending; tentative estimates indicate that industrial production and employment grew by 28 percent and 8 percent, respectively.

Table C: Indicators of Industrial Development

	1968 1/	Annual Percentage Changes 1950/68	1965	1966	1967	1968
Industrial production (IL million)	8,500	10	10	1	-3	28
Employment (thousand)	226	5	2	-2	-5	8
Output per worker (IL thousand)	37.5	5	8	3	2	19
Capital stock (IL million)	4,800	6	9	6	3	4
Exports ($ million)	582	20	13	19	4	36
Diamonds	235	18	12	25	-4	22
Other	347	21	14	14	8	48

1/ Estimate

23. In the early 1950's industrial activity was concentrated principally in the final processing of imported semi-finished products and the production of basic goods for domestic final consumption. By 1965, when the last industrial census was made, intermediate goods constituted almost half of total industrial production. Nevertheless, Israeli industry is still very much dependent on imports for its current production needs and investment requirements. Food processing and textiles are the largest industrial branches, together representing close to one-third of industrial employment and output. Wood products, paper and printing account for another 15 percent while the share of transport equipment, metal products, machinery and electrical equipment is about 20 percent. The remaining branches include chemicals, rubber, plastic products, minerals (together 23 percent) and a number of miscellaneous items. Some of the latter industries - in particular chemicals, rubber,

1/ See Table 10 in Statistical Appendix.

plastics and some minerals - have been expanding rapidly in recent years. However, as most of these branches are capital intensive their effect on industrial employment was only small.

24. Over the years, industrial exports have grown at a rate twice as high as that of industrial production, approximately doubling every four years. In the 1960's the percentage increase has slowed down to an average of 15 percent a year; but in absolute terms industrial exports expanded much faster than in the 1950's. At present, close to one-fourth of Israel's industrial products is exported, representing an estimated value of US$ 582 million in 1968. The net contribution of industry to the country's foreign exchange earnings is, however, much less since the average imports component of exports is more than one-half. In the case of diamonds which are by far the most important industrial export, the import content is as high as 70 to 80 percent. Other important exports are textiles and clothing, food products, basic chemicals and minerals; but exports of more sophisticated goods such as machinery, electrical or transport equipment are still small.

25. The physical achievements of Israel's industrial development should be viewed in the light of the country's limited natural resources and the size of its domestic market, which, although expanding fast, is still relatively small. The presence of these constraints has meant that industrial development could proceed at a rapid pace only with substantial government support, which, to an extent varying with the manufacturing activity involved, has created artificial incentives for production, sometimes at considerable economic cost. The market for local manufacturers has been highly protected, at first by means of quantitative import restrictions and, following the 1962 devaluation, primarily by tariffs. At the beginning of 1968, tariff protection of at least 50 percent was given to two-thirds of total industrial output exposed to foreign competition. One-third of these enjoyed more than 100 percent protection. Government support has encouraged industrial investment through Development Budget loans and a variety of tax incentives, in certain instances primarily to provide employment opportunities or to develop remote areas resulting in some uneconomic or marginally viable undertakings. Exports have received direct government subsidies and indirect assistance in the form of reductions in raw materials costs or favorable terms on loans to meet operating and investment requirements.

26. The limited domestic market has influenced the size of industrial enterprises. Although there were 700 enterprises employing 50 or more persons in 1965, these represented only 4 percent of the number of firms classified as "industrial". Seventy-six percent of the number of establishments employed less than 10 persons, accounting for 22 percent of total industrial employment. In spite of the large number of small units, production in many fields is quite concentrated, particularly in those requiring heavy capital investment. In some capital intensive branches, particularly mining, chemicals, transport and defense equipment, the Government has established its own enterprises.

27. The structure of Israel's industrial sector has also been influenced by the social and institutional environment. The federated labor movement (Histadrut), for instance, which represents three-quarters of the civilian

work force, has played a significant role in determining industrial wages and working conditions. Furthermore it is operating a considerable number of industrial plants, employing about 15 percent of all industrial workers. Some of these enterprises are expected primarily to provide training and employment or to establish new industries, whereas maximization of economic return is considered a subsidiary objective. However, the majority of all factories representing about 76 percent of total employment, are classified as private enterprises. Public ownership accounts for only about 9 percent of employment and output in the sector. Through financial and administrative support the Government has, however, played a much larger role in allocating resources to industrial investment and in orienting industrial activity than is indicated by data on ownership.

28. Past industrial development was primarily directed towards the domestic market. As the country has become virtually self-sufficient in most consumer articles and various intermediate goods further opportunities for replacing imports in these fields are limited. Although possibilities remain of replacing imports of machinery and equipment, economic production of such goods depends on a market considerably larger than the domestic one. The future development of Israel's industry will therefore have to rely on growth in domestic demand for those products already manufactured locally, and more significantly at the margin, on the development of exports. In physical terms output of items related to defense will also contribute to growth, but the principal economic benefits to be derived from the defense sector will be in the spillover of research and the improvement of technology. The cost of these benefits will in all probability be high.

29. The fundamental problem facing Israel's industry is high production costs relative to those prevailing in international markets. The authorities are aware of this difficulty, and have taken steps to rationalize the existing structure and increase the competitiveness of the industrial sector. For instance, the Government's efforts to liberalize competitive imports gained new momentum in October 1968 when tariffs on all products for which administrative protection had been eliminated, were reduced by 15 percent. A further reduction in import duties took place in January, 1969. Although the level of protection remains high, the gradual reduction of tariffs is a signnificant step in the right direction. Other measures are attempts to equalize export conditions, and to promote mergers. During the past, a number of industries such as textiles have received special export subsidies which in the longer run caused serious distortions in the allocation of resources. Recognizing that continuation of these incentives is not economic, the authorities have now decided to reduce some of the preferential payments during 1969. The merger of certain enterprises is to be encouraged through tax regulations. This policy will be applied on the one hand to enterprises already having substantial market power but able to benefit from shared administrative and development expenses, and on the other to small enterprises which in general could benefit from economies of scale.

30. In addition to the rationalization of domestic industry expected to be achieved through increased exposure to international competition, direct and indirect measures have been taken to encourage a greater degree of export

orientation. General incentive payments, considered by the Israeli authorities as refunds of indirect taxes, are paid on exported products at rates ranging from 7 to 15 percent per dollar of added value. "Approved enterprise" status is granted to new firms which export at least half of their output or to existing enterprises which expand by 50 percent and undertake to export at least half of the additional output. Approval entitles an enterprise to substantial tax reductions as well as access to government loans and grants, which may together total as much as 80 percent of the proposed investments. Government support is also being given to export companies and organizations through the allocation of grants and the provision of technical and administrative services. Organizations for exports to particular countries or regions have been established. In April 1968 a series of meetings were held in Israel with foreign investors who had been invited by the Government to advise and assist in modernizing the economy. As a result of this International Economic Conference the Israel Corporation Ltd. was established which will finance export-oriented projects in industry and other sectors, and provide managerial services.

31. There are indications that some manufacturers are beginning to move into new export lines and to undertake investment programs designed to increase their efficiency in response to the new incentives and in the face of the anticipated increase in competition. Examples are the manufacture of telephone exchanges, and the application of advanced technology in food processing and textiles. Moveover, a considerable effort is being made in some lines of activity to form associations with foreign firms and to develop specialized marketing outlets abroad. However, the large structural shift in orientation envisaged by Israeli officials has yet to take place.

32. Israel's known mineral resources are not very rich. They consist mainly of potash extracted from the Dead Sea, and phosphate and copper deposits located in the Negev desert. Almost all minerals are exported directly, earning some US$ 30 million in 1968. The capacity of the Dead Sea Works, financed partly by an IBRD loan, is about 600,000 tons of potash a year. The Timna Copper Mines can produce the equivalent of 11,000 tons of pure copper, while Negev Phosphates has a capacity of some 800,000 tons of phosphate rock. A chemicals plant in Haifa, which manufactures fertilizer and other chemicals, is affiliated with Negev Phosphates through a parent company, and an independent institute under Israel Mining Industries conducts research on inorganic and organic chemicals with supporting services for applied and development work.

33. While world market conditions have made the production and export of copper profitable, investments to offset Israel's high unit transport costs for the medium to low quality phosphate ores have not earned satisfactory returns. The Dead Sea Works has encountered financial difficulties, principally as a result of the unanticipated development of Canadian deposits and a decline in the international price of potash from around $30 to $22 per ton. Since the June war the loss of Eastern European markets has also affected minerals exports. Faced with these circumstances Israel's strategy for the further development of minerals is directed at increasing the value of phosphate resources through further processing and greater utilization of phosphate products in an expanded domestic chemicals and fertilizer industry.

An expansion of the capacity of the Dead Sea Works is also under way to lower unit costs as well as to permit the production of other chemical products, including bromine and soda ash. Moreover, the Government intends to consolidate the country's minerals and chemicals industries to coordinate their development plans and integrate their operations.

Other Sectors

34. Growth in the production and sale of electric power by the Israel Electric Corporation (IEC) which accounts for about three quarters of total electricity generation, has exceeded overall economic trends. During the 18 year period ending in 1968 electricity consumption rose at an annual average rate of 14 percent. Installed capacity of the IEC climbed from 100 MW in 1950 to over 1,000 MW in 1968, and about 10,000 km in high voltage transmission and distribution lines was added to transport capacity. In 1965 and 1966 the system load factor was in the order of 70 percent, one of the highest in the world. The average price for electricity is less than 2 US cents per kwh, ranging from about 1 cent for industrial and irrigation use to over 3 cents for commercial and public use.

35. Investment in generating facilities -- to date all powered by fuel -- has run to progressively larger units. In the 1950's and early 1960's units ranging from 20 MW to 75 MW were installed. In 1966 and 1967 two units of 114 MW each were put into operation, and work is now going forward on two units of 214 NW each, which are expected to go on line in 1970 and 1971. The average investment cost per kilowatt of the new facilities is about $130, or approximately $30 million per plant. New capacity to be installed in 1973/74 and thereafter is likely to be based on units of 300 MW, and some consideration is being given to even larger plants. At present it does not appear that it would be economic to utilize nuclear power for the sole purpose of power production; however, consideration is still being given to the possibility of building dual purpose nuclear stations for the generation of electricity and the desalination of sea water.

36. The June war and its aftermath have had a major impact on tourism and its prospects for the future. The immediate effect of the war was a drop in tourist visits during the second and third quarters of 1967, which was not offset by the recovery that occurred in the last three months of the year. Foreign exchange receipts fell by $7 million for 1967 as a whole, while nights spent declined by some 300,000. In 1968 there was a dramatic increase in tourist activity in large part due, however, to the inclusion of East Jerusalem in Israel's tourist trade. Foreign exchange receipts and tourist nights spent are both previsionally estimated to have increased by about 60 percent over their 1966 levels.

37. For the next few years tourist entries are projected by the authorities to rise at an annual rate of 15 percent. The average number of nights spent in Israel per foreign tourist is expected to increase somewhat, but expenditure per tourist is projected to decline as a result of less emphasis on luxury facilities and an increase in religious pilgrimages. On balance foreign exchange receipts could be expected to grow at about the same rate as

tourist entries. This prospect assumes no major hostilities in the area and could be revised upward in the event of a peace settlement.

38. Investment in hotels was running at about IL 18 million per year in the four years ending in 1966, mainly for expansions. In 1967 investment rose to IL 26 million and is expected to be in the order of IL 40 million in 1969. Towards the end of 1968 there were about 6000 rooms available in the principal tourist centers of Tel Aviv and Jerusalem, which making provision for domestic tourists and assuming average stays by foreign tourists of 6 nights in both centers combined, would provide enough capacity for 450,000 tourists. As about 400,000 tourists entered Israel in 1968, it is evident that occupancy ratios have been high. Throughout Israel 1100 new rooms are expected to be completed in 1969, and 1300 rooms are planned for 1970. The expected growth in tourism could, therefore, be limited on the supply side unless additional capacity is installed.

39. The transport and communications sector of the economy has increased its product since 1950 at an annual rate of about 12 percent -- somewhat more rapidly than that of the economy as a whole. There have been substantial investments in this field; moreover, the investment rate has been rising over time to nearly 30 percent of gross capital formation in the late 1960's. Over the years, the composition of such investments has changed significantly. In the early 1950's, a very large proportion went into overland transportation improvements, especially the interurban road network and links to new settlements. In the late 1950's, considerable outlays were made in shipping and aviation, and the oil pipeline from Eilat was laid. During the 1960's there has been an upsurge in the number of vehicles, which has led in turn to renewed pressures on the road network, while the shipping and aviation industries have continued to grow rapidly. Railroads, owned and operated at a deficit by the Government, have been relatively insignificant, carrying in recent years only some 20 percent of freight traffic and 4 percent of passenger traffic.

40. At present, there do not appear to be any critical bottlenecks, although major investments are contemplated to deal with the growing problems of congestion both at the principal airport and on the roads -- especially in the Tel Aviv area. Work is proceeding on a large oil pipeline connecting the Gulf of Aqaba to the Mediterranean. The first stage of this project was estimated at $60 million and is expected to be completed in 1969. The closing of the Suez Canal has already provided a stimulus to the growth of Israeli ports, and serious study and consideration are being given to the development of an Eilat-Ashdod "land bridge" which could make Israel a major container entrepot. This would be a massive undertaking, however, and no immediate steps towards implementing such a project are contemplated. Investments in railroads over the next five years are planned at an average level of about IL 12 million annually, with substantial traffic increases expected only in the haulage of mineral and chemical products.

41. Much more firm are the expansion plans of the aviation and shipping lines, both of which reported respectable profits during the last year. The merchant marine, which now carries about half of the country's foreign trade, aims to maintain this share through increasing its gross tonnage by about 60 percent over the next four years. Investment outlays for ports and shipping

over the next five years are planned at over IL 500 million. Rapidly growing tourist traffic is expected to double within five years this year's total of a million passengers at Lod International Airport. A development scheme for Lod projected at IL 160 million is now underway, and new aircraft have already been ordered. Investments in air transport are expected to exceed IL 400 million during the next five years. Meanwhile, the number of vehicles on Israeli roads is rising fast, requiring major investments in both urban and intercity roads. Such investments could average more than IL 150 million over the next several years. In all -- including vehicles, other infrastructure and communications -- investment outlays are now projected by Israeli officials at the rate of some IL 750 million ($210 million) per year.

42. When the State of Israel was established, it had the benefit of a very large proportion of people with secondary and higher education, relative both to other countries and to the amount of tangible assets and output of the country. In the early years of the State, the average educational level declined considerably, mainly due to the composition of immigration in those years. An immediate consequence was a widening of income diffentials attributable to skill and education, a problem which persists to the present time. From the mid-1960's, the average level of formal education of the Israeli population remained approximately constant, although school attendance at every level rose substantially at all levels.

43. Education continues to receive high priority among the sectors competing for Israeli resources. Between 1964 and 1968 expenditure on education has risen from 6.5 percent of GNP to about 8 percent. The challenges of social absorption and national integration of the immigrants have been paramount, but concern for coordinating manpower supplies and demands has not been absent. While educational planning in Israel is still quite informal and uncoordinated, there does appear to be both a general readiness to respond to felt or foreseen needs, and a broad consensus concerning the long-run economic implications of developments in education. Immediate needs are being felt in the fields of higher education in technical and science subjects, secondary education in many places, and in institutions to meet the shortages in middle-level technicians and administrators.

III. DOMESTIC FINANCE

44. The share of Israel's domestic resources ploughed back for future development has been relatively low. An indicator of this is given by the national savings rate, i.e. the ratio between gross national savings and GNP, which was in the order of 11 to 14 percent during the first half of the 1960's. Considering the country's high per capita income such a savings rate appears rather disappointing. Even more significant, however, is the fact that in the course of the 1966/67 recession the savings rate dropped drastically to only 4 percent in the latter year, and that it was probably not much higher in 1968 when the economy recovered from the earlier setback. Although during most years the inadequate domestic savings effort has been offset by large foreign capital inflow, the present low level of domestic savings is a potential source for inflationary pressure, and through restraining investment may well become a major bottleneck for future economic growth.

Table D: National Savings Rates
(as percentages of GNP)

Years	Gross National Savings	Private Sector Savings	Public Sector Savings
1960	13	15	- 2
1961	14	15	- 1
1962	11	14	- 3
1963	12	14	- 2
1964	14	14	0
1965	14	15	- 1
1966	10	13	- 3
1967	4	14	-10
1968	6	16	-10

45. The sharp decline in national savings was exclusively due to a deterioration of public savings. In fact, savings of the public sector 1/ have been negative during most years since the establishment of the State even though current deficits remained fairly small in the first half of the 1960's. More recently, however, these deficits have widened quickly reaching

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1/ Besides the conventional authorities of central government and municipalities the public sector includes the National Institutions -- Jewish Agency, Jewish National Fund, Keren Haysod and World Zionist Organization -- which existed already before the establishment of the State. Their main function is to promote immigration and land settlement and to provide various social services in the fields of education, culture and health. Additional public services are financed by the Non-profit Institutions which, although legally private organizations, are de facto part of the public sector. The three biggest units are the General Sick Fund, the Hebrew University and the Histadrut (Federation of Labor).

an amount of IL 1.5 billion in 1967 equal to 12 percent of GNP. 1/ Private sector savings, on the other hand, have been quite satisfactory. Although the statistical evidence on such savings, which include savings of individuals and private enterprises, is weak there are indications that between 1962 and 1967 private savings have almost doubled in real terms, and that their share in GNP reached some 13 to 15 percent. To a considerable extent, the rise in private savings is the result of fast growing personal incomes. But it also reflects the effort made by government authorities and the buiness sector to offer a wide range of institutional arrangements and incentives -- including value linking of interest payments to offset erosion through inflation -- aimed at meeting the different needs and preferences of individual savers.

Public Finance

46. The recent deterioration in public savings performance has its roots in a sharp increase of public consumption caused largely by the Government's policy to reflate the economy, and by rising defense expenditures. As public revenue did not keep pace with the rapid growth of public spending the current deficit became very large. Table E, which presents the consolidated accounts of all public entities, shows these developments. It also reveals that public investment has hardly expanded during this period reflecting in part the severe financial constraint on the public sector. To some extent the rising overall deficit, which amounted to almost IL 3 billion in 1967, could be financed from additional external resources made available to the country through contributions from World Jewry during and after the Six-Day War. Thus, more than half of the total deficit has been covered by foreign funds in that year. But the domestic financing component has been growing even faster adding considerably to the internal liquidity of the economy.

47. During 1968, the financial position of the public sector did not improve. A general increase in tax revenue caused by the expansion of income and production was offset to a large extent by further increases in current spending. At the same time, the inflow of foreign funds which had reached a peak in the previous year declined somewhat. The net claim on domestic credit markets was therefore of the same magnitude as in 1967 and the strong expansionary forces generated by the public sector continued unabatedly.

48. The bulk of public revenues and expenditures are channelled through the government budget, which reflects even more clearly the above-mentioned trends in the flows of resources passing through the public sector, and the financial problems associated with them. Between the fiscal years 1964/65 and 1967/68 current government spending more than doubled, reaching a level of over IL 4 billion in the latter year. By far the largest increase both in absolute and relative terms, occurred in the defense budget which more than tripled during that period. Non-defense expenditures rose at a somewhat

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1/ This figure is taken from Table E which shows higher current deficits for the public sector than the national account data given in Table D and in Table 8 of the Statistical Appendix. The discrepancy between these two statistical sources could not be reconciled.

slower rate although they still expanded faster than GNP or tax revenue. Particular emphasis was given to additional spending on education, health, social welfare, and export subsidies.

Table E: Consolidated Public Sector Account, 1965-1967
(IL million)

	1965 Total	1966 Total	1967 P/ Total	Central Government & National Institutions	Local Authorities	Non-profit Institutions
Current Revenue	3,478	4,065	4,048	3,030	428	590
Taxes	2,839	3,263	3,236	2,900	336	-
Other	639	802	812	130	92	590
Current Expenditure	3,621	4,497	5,572	4,495	454	623
Goods and services	2,843	3,435	4,249	2,968	455	826
Transfers a/	778	1,062	1,323	1,150	150	23
Intrasector transfers	-	-	-	377	-151	-226
Current Deficit	- 143	- 432	-1,524	-1,465	- 26	- 33
Capital Expenditure	1,226	1,303	1,359	1,098	134	127
Goods and services	727	795	625	336	162	127
Net loans granted	499	508	734	734	-	-
Intrasector transfers	-	-	-	28	- 28	-
Overall Deficit	-1,369	-1,735	-2,883	-2,563	-160	-160
Domestic financing b/	380	914	1,361	1,176 c/	161	24
Foreign financing	989	821	1,522	1,387	- 1	136
Unilateral receipts	443	329	1,059	923	-	136
Net borrowing	546	492	463	464	- 1	-

Source: Bank of Israel

a/ Includes subsidies and interest payments
b/ Includes private cost-sharing in capital expenditure
c/ Includes IL 218 million revaluation differential
P/ Preliminary estimate

49. The rise in defense spending accelerated sharply in 1967 as a consequence of the war with the Arab States. It continued to grow fast in 1968, bringing the total defense burden of the country to a record level of approximately 20 percent of GNP, 1/ or almost half of total government spending. The increase of current non-defense expenditures, on the other hand, slowed down as the financial constraint in the budget became more pronounced. In 1968, they even declined although this had some technical reason as part of the government outlays for education and welfare were temporarily taken over by the National Institutions, which in the wake of the 1967 crisis had obtained unusually large contributions from abroad. Total current non-military public spending thus continued to grow.

50. The development of government revenue has been less dynamic. In fact, over the last five years the Government has taken virtually no steps to raise the overall tax burden so that practically the whole increase in tax revenue during this period merely reflected the growing national income. The ratio between government revenue and GNP has changed very little since 1963/64. Although it is close to 30 percent and thus seems to be high by international standards, this may not be enough in view of the rapid expansion in government spending. The present tax system places much emphasis on direct taxation while the burden of indirect taxes does not appear to be excessive, particularly if it is compared with some European or Latin American countries. Under these circumstances it seems imperative for the Government to demand additional sacrifices from the people through higher taxation if public expenditures are not reduced and at the same time a minimum degree of financial stability is to be maintained in the economy.

51. The lagging tax effort in the face of fast growing current spending led to a situation in which government savings, which in 1963/64 had still financed almost two-fifths of government investment, completely disappeared and a large current deficit developed amounting to one-sixth of total current spending in 1967/68. This brought substantial pressure on the capital budget, forcing the Government to postpone the implementation of a number of its development projects. As a result, the present level of capital expenditure is probably not higher in real terms than it was five years ago.

52. The overall deficit in the government budget tripled between 1963/64 and 1967/68. Part of the additional gap was filled by an increase in foreign financing which almost doubled during that period. But the bulk of the deficit still had to be financed domestically, diverting a large and growing share of private savings to the public sector. Especially disturbing is the rapid expansion of bank credit to the Government which increases the internal liquidity of the economy and confronts the monetary authorities with the difficult problem of offsetting the resulting inflationary demand pressure.

1/ This includes spending for "special budgets" (see Tables 25 and 26 of Statistical Appendix) which are mostly earmarked for defense programs.

53. The other public entities -- local authorities and National Institutions -- and the Non-profit Institutions followed a less expansionary policy than the Government, largely because their access to domestic credit is more limited. To a considerable extent, their activities also depend on government transfers and foreign contributions. It is not surprising, therefore, that on the whole their expenditures have been growing somewhat slower than those of the Government, and that their capital spending in particular has suffered from the recent financial constraint. Nevertheless, there were some differences in trends between the various entities reflecting in part differences in their functions as well as their financial situation.

54. The expenditures of local authorities have in fact grown fairly rapidly between 1963 and 1966, largely because their receipts from taxes and government transfers expanded fast during this period. In 1967, however, current expenditures rose at a much slower rate while capital expenditures had to be reduced considerably because of the tightening financial situation. The overall deficit also declined, without affecting, however, the net amount of money borrowed from the banking system.

55. The financial position of National Institutions, on the other hand, greatly improved in 1967. Their main source of financing is unilateral receipts from abroad, which rose sharply during the Middle Eastern crisis. The Institutions could, therefore, afford to assume responsibility for some of the ordinary government expenditures in the field of education and social welfare. As a result, their level of current spending almost doubled. But even so they accumulated large reserves which will enable them to continue their support of the general budget until about 1970.

56. The Non-profit Institutions rely chiefly on receipts from membership fees, sales of services and goods, and private donations. But they also obtain large transfers from the government and considerable foreign donations. Over the last five years their expenditures -- mainly for health, education and welfare -- showed trends similar to those of local authorities, growing at a steady and rapid rate up to 1966 and slowing down drastically in 1967. Capital expenditures actually declined in that year while current spending increased by only 4 percent compared to 14 percent in 1966.

Money and Prices

57. The revival of economic activity since mid-1967 and the simultaneous large increase in budget deficits were accompanied by a rapid monetary expansion. Total money supply -- cash and demand deposits -- rose by IL 531 million or 26 percent in 1967 compared to only 6 percent in 1966. During 1968, however, the rate of expansion slowed down considerably and the amount of money increased by IL 350 million or 14 percent. Most of the additional means of payments was held in the form of demand deposits, but the circulation of bank notes and coins also grew fast during this period.

58. The main forces responsible for the monetary expansion were a large accumulation of foreign currency assets and a strong upsurge in bank credits. Foreign currency assets expanded by IL 669 million in 1967, almost half of

which was, however, due to local currency gains caused by the devaluation of the Israeli pound in November of that year. The amount of new bank credits reached some IL 800 million as against IL 468 in 1966 and IL 191 in 1965. The higher demand came from the government as well as the public, although in the latter case it constituted in part a shift from the free bill brokerage market 1/ to regular bank loans caused mainly by changes in the structure of interest rates. Virtually all sectors of the economy participated in the new credit boom with industry, construction and local authorities leading the way. In 1968, the increase in foreign currency assets became less pronounced. For the whole year they may even turn out to be a contractionary factor, as foreign reserves have already started to fall in the second half of the year. Bank credits, on the other hand, continued their rapid expansion, since demand for new loans remained strong both from the public and the private sector.

59. To a considerable extent these expansionary forces were offset by an unusually large accumulation of longer-term deposits. In 1967, such deposits rose by almost IL 1 billion, more than three times as much as in the preceding year. Some of this increase was, however, the result of devaluation adjustments for deposits kept in foreign currency or linked to the exchange rate. There was also a shift of funds from the bill brokerage market into regular time deposits corresponding to the above-mentioned change in credit demand. But in large part the new deposits were made because they had become more attractive to the public, which had developed a stronger liquidity preference following the depression and political disturbance, and which was also offered higher real interest rates by the banks.

60. The increased liquidity preference of the public has led to a general decline in the circulation veolocity of money which to some extent neutralized the inflationary impact of the fast growing money supply. In addition, a fair amount of the monetary expansion during 1967 -- some IL 80 to 100 million -- was the result of currency conversions in the occupied territories after the June war. The sharp rise in money supply was therefore not associated with a corresponding growth in effective demand, and since idle capacities were still subtantial while wages remained virtually stable, there was little pressure on prices. In fact average price increases were at an all-time low during 1967. Wholesale prices advanced by only 1 percent that year while the cost of living index rose by less than 2 percent. Even the 17 percent devaluation in November 1967 had little impact on domestic prices, partly since compensating tariff reductions were made by the Government for imports from countries that had not devalued. In addition, the prices for fuel, electricity and a number of important foodstuffs were frozen by the Government.

61. But as economic activity expanded further in 1968 and the economy approached full employment, the monetary authorities became increasingly concerned about the rising liquidity, continuously being fed by large budget deficits and strong credit demand from the public. Monetary policies, which had been eased to stimulate domestic demand during the 1966/67 recession,

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1/ The mechanism of this market, which operates outside the banking system, was explained in the previous Bank report on Israel (EA-167c).

became more restrictive during the second half of 1967 and in 1968. The Bank of Israel raised reserve requirements for commercial banks, reduced rediscounts and loans, and absorbed some excess liquidity through open market operations. As a result of these measures, the rate of monetary expansion slowed down in the second half of 1968. Yet as long as the main expansionary force -- public deficits -- remains active and strong the effectiveness of restrictive monetary policies is likely to be limited.

IV. BALANCE OF PAYMENTS

62. The salient feature of Israel's balance of payments continues to be its large import surplus, supported mainly by unilateral transfers and other capital inflows received on concessional terms. However, there are also distinct signs that the country's dependence on external resources is gradually decreasing, at least in relative terms. Over the years, exports have grown at a much faster rate than imports and the current account deficit, although still rising in absolute terms, has declined from 29 percent of total resources in 1950 to 11 percent in 1968. By the same token, the share of imports of goods and services financed from Israel's own foreign exchange earnings has risen from 14 percent to 67 percent during this period. Even in the shorter run, this trend can clearly be observed. For example, between 1964 and 1968 -- two boom years with high employment and economic activity -- the external gap increased very little despite the fact that the total amount of real resources used by the economy rose by almost one-third.

63. A variety of measures were taken by the authorities to stem the growing import surplus. These included periodic devaluations as well as protective tariff and subsidy practices aimed at conserving foreign exchange through encouraging import substitution. More recently, greater emphasis has been given to export promotion. Thus, in 1966 an enlarged and revised system of export subsidies -- officialy described as a tax refund on inputs for export production -- was introduced to enhance the competitiveness of export industries in the manufacturing sector. Another stimulus to exports was added in 1967 when legislation was passed offering tax reductions, cash grants and subsidized public loans to new or expanding firms which undertake to export at least half of the additional output. Together with the 17 percent devaluation in November 1967, and new steps toward import liberalization these measures have helped to correct the previous situation in which exports of industrial products tended to be penalized relative to highly protected import substitutes. Moreover, both the Government and business community are now becoming increasingly export-conscious. The 1968 International Economic Conference mentioned in paragraph 30, was a notable example of new initiatives currently being taken to develop new outlets and marketing channels for the country's exports.

Table F: Summary Balance of Payments
(US $ million)

	1964	1965	1966	1967	1968 1/
1. Exports of goods and services	655	749	872	956	1,200
(a) Commodity exports	349	404	475	541	685
(b) Exports of services	306	345	397	415	515
2. Imports of goods and services	1,228	1,269	1,317	1,405	1,800
(a) Commodity imports	803	794	795	750	1,065
(b) Imports of services	425	475	522	655	735
3. Deficit on current account	-573	-520	-445	-449	-600
(a) Trade deficit	-453	-390	-320	-209	-380
(b) Invisibles	-119	-130	-125	-240	-220
4. Unilateral transfers	335	327	292	530	435
5. Net capital inflow	232	280	161	239	171
6. Changes in reserves	- 21	-106	19	-223	97
7. Errors and omissions	27	19	-27	- 97	-103

1/ Estimate

64. As a result of the strong export drive Israel's commodity exports increased from $349 million in 1964 to $685 million in 1968, or at a compound rate of 18 percent a year. This rapid expansion was accompanied by a growing diversification away from the two leading commodities, polished diamonds and citrus fruit. Their share in total exports has gradually fallen over the last four years, a trend which can be expected to continue in the future. Although exports of diamonds and citrus kept rising at fairly high rates, the major thrust of Israel's efforts to raise foreign exchange earnings has now focussed on the industrial sector, covering a wide range of products such as chemicals and minerals, machinery and metal products, transport and electrical equipment. In addition, exports of a variety of consumer goods -- mainly food products and textiles -- have increased considerably partly because of new market opportunities in the occupied Arab territories. Total industrial exports excluding diamonds thus reached approximately $352 million in 1968 compared to $164 million in 1964. Exports of agricultural products other than citrus also grew fast during this period although in absolute terms they are still not very important.

65. Impressive gains were also made in exports of services which rose from $306 million in 1964 to $515 million in 1968. Major items in this field are earnings from transportation, tourism and insurance as well as income from investments abroad, including the country's foreign exchange reserves.

66. Imports of goods and services, on the other hand, have been growing at much lower percentage rates than exports although, in absolute terms, they

expanded somewhat faster than foreign exchange earnings. The Government has utilized a wide range of measures to control payments abroad, including high protective duties, import licensing, and other direct controls. Since the devaluation of 1962 it has been the Government's policy to effect a transition from administrative to fiscal control of imports and gradually to reduce tariff protection, forcing domestic producers to become more competitive in world markets. Whereas in 1962 most imports were still controlled directly, at present about 40 percent of all imported goods are unrestricted or require a license which is grated automatically. More recently, this has been accompanied by a gradual reduction of protective import duties. The first general reduction of tariffs by an average of 10 percent occurred in 1965. It was followed by a 15 percent cut in October 1968 and another 15 percent reduction in January 1969. These import liberalization measures appear substantial enough to place some restraint on the price level and some pressure on inefficient producers. Yet, a large part of industry is still highly protected by tariff walls or administrative barriers which, in extreme cases, raise the effective exchange rate to IL 10 per dollar, or about three times the official rate. The Government is, therefore, determined to continue its import liberalization program with another series of tariff reductions between 1970 and 1973, by which time it is hoped that protective duties would be lowered to an effective exchange rate of IL 4.50 to IL 5.50 per dollar.

67. The most notable recent development in commodity imports was their decline during the 1965/67 recession, followed by a substantial increase in 1968 as the economy recovered from the earlier setback. The absolute reduction of imports after 1964 was largely a result of the weakening demand for foreign investment goods -- reflecting the substantial drop in overall investment during this period -- while imports of production inputs and consumer goods remained more or less stagnant. In 1968, all categories of imports rose quickly adding some $315 million to the country's annual foreign exchange bill.

68. Purchases of foreign services continued to rise throughout the recession mainly because of growing expenditures for defense and foreign capital servicing. Government service imports, which include purchases of military hardware, almost doubled in the last two years reflecting the rising defense needs. Expenditures for capital servicing expanded by more than half following the rapid growth of Israel's external debt. Other items contributing to the rise of service imports were insurance fees, tourism and transportation.

69. As a result of recent trends in imports and exports the current account deficit, after declining from a peak of $573 million in 1964 to $449 million in 1967, has risen again to a record level of $600 million in 1968. However, as can be seen from Table F, the higher deficit was due only to the substantial increase in net payments for invisibles -- including defense items -- while the trade gap was slightly reduced.

70. The large deficits on current account were more than covered by unilateral transfers and net capital inflows. Unilateral transfers to the private sector, the largest item of which is personal restitution from Germany, changed relatively little over time averaging some $220 million a year.

Transfers to the public sector, on the other hand, rose steeply from an average of $106 million during 1964/66 to $318 million in 1967, reflecting record donations from World Jewry in the wake of the war with the Arabs. Thus total unilateral transfers alone were even higher than the current deficit in that year.

71. Significant changes occurred in the composition of long and medium term capital movements. Foreign net investments, which had steadily increased to a level of about $140 million in 1963/64, dropped sharply to only $8 million in 1967. Principal factors accounting for this decline were the depressed state of economic activity compounded by the uncertain security situation in 1967. Loans to the public sector, on the other hand, increased considerably between 1964 and 1967 when the emergency situation permitted the sale of $232 million Development Bonds, compared to $124 million in 1966 and $100 million in 1965 and 1964. On a net basis, receipts from these bonds rose from an average of $23 million in 1964/66 to $175 million in 1967, exceeding by far the gradual decline in capital inflows from other sources.

72. While the record capital inflow of 1967 was attributable to the special circumstances of that year, Israel succeeded in sustaining the interest and financial commitment on the part of World Jewry which developed in that year. Fund raising is continuing on an emergency basis, and new means are being devised to increase the flows of direct investment, donations, and bond sales. In 1968, unilateral transfers are estimated to have reached $435 million while net sales of Development Bonds amounted to about $150 million. Other capital inflows remained rather low, even though there are indications that direct investments have recovered somewhat from their 1967 low. In this context it should be noted that the Israeli authorities have persisted in keeping down the average cost of suppliers' credits and other foreign capital. This policy is effected through government controls on new short- and medium-term borrowing. As of Nobember 1968, the effective ceiling for local borrowers (including public enterprises) was 7 percent, with a maximum of 7-1/2 percent for special cases.

73. As a consequence of the changes in capital flow and import surpluses, Israel's foreign reserves continued to grow reaching an all time high of $949 million at the end of 1967. In the course of 1968, however, the upward trend was reversed, and exchange balances started to decline even though at the end of that year they still amounted to about half of the country's annual import bill for goods and services.

V. DEVELOPMENT PROSPECTS

74. There can be little doubt that Israel has considerable potential for further economic development. Her domestic markets, although still small by international standards, are expanding fast owing to the increase of incomes and population as well as further opportunities to develop new lines of production for local markets. There are also good prospects for maintaining a high growth rate of exports. On the production side, there is need and scope for substantial productivity improvement while the supply of manpower is likely to grow somewhat faster than population. Yet, at the same time, Israel is facing a number of difficult problems which she will have to overcome in order to utilize her development potential. Over the next few years the country will have to mobilize even larger amounts of foreign capital than in the past if a fast rate of growth is to be sustained. Great effort will have to be made to generate additional domestic savings and to secure a reasonable degree of internal financial stability. In addition, there is need for improvement in economic planning and resource allocation while recent attempts to strengthen the international competitiveness of local industries should be continued.

Prospects for 1969

75. Looking at the immediate future, there are strong indications that the present economic boom will maintain its momentum throughout 1969. According to official forecasts for this year, effective domestic demand for goods and services is expected to grow by about IL 1.8 billion, or more than 11 percent beyond the already high 1968 level. Most of the additional demand will be for private and public consumption, although in relative terms investments are likely to show the fastest expansion, growing at a rate of some 21 percent. This, together with rising claims for exports, will further stimulate domestic output and imports. The increase of GNP will, however, be somewhat less than in 1968 when large idle capacities were brought back into production. But real growth may still be in the order of 9 percent during 1969 compared to over 14 percent last year. The production gains will be made possible by further increases in employment, additions to capital stock, and continued improvements in total factor productivity.

76. On the whole, the demand pressure on domestic and foreign resources is likely to be even stronger than in 1968. To a large extent this reflects the expansionary fiscal policy of the Government, which is prepared to tolerate as large a budget deficit as in the preceding two years. The draft budget for 1969/70, submitted to Parliament in January 1968, provides for an 19 percent rise in government spending while no significant steps are foreseen to contain private consumption through higher tax rates. The financial strains which have developed in the course of last year's economic boom may thus become even more acute during the coming months. This, in turn, will make it increasingly difficult for the Government to pursue its restrictive incomes policy, although it is determined not to allow general increases of basic wages before 1970. On the other hand, recent steps toward import liberalization and a tighter monetary policy may help to maintain relative price stability.

77. The rapid economic growth and continued financial pressures are likely to lead to a further deterioration in the balance of payments. Although exports are expected to grow by some 13 percent, the current account deficit will almost certainly be higher than in 1968 because of the fast rising import demand for raw materials, intermediate and capital goods. Allowing for further military imports, the current deficit for 1969 may well reach $700 million, compared to $600 million in 1968. It will be very difficult for the Government to mobilize enough foreign capital to finance this gap. Unilateral transfers will probably amount to some $450 million while another $150 million could be raised through the sale of Israel Development bonds. Additional $200 million may come from foreign direct investments and other capital inflows such as US and German loans. Against this stand some $200 million amortization payments so that a deficit of about $100 million would remain to be financed from reserves if no other funds can be obtained.

Prospects for 1970/73

78. The Government's longer term development strategy aims at maintaining a high rate of economic expansion accompanied by a rapid modernization of production facilities. The expansionary policy is motivated by the need to absorb an increased flow of immigrants, to broaden the economic basis for the heavy defense burden, and to prevent the recurrence of a recession with large-scale unemployment. At the same time, the Government continues to strive for a reduction in the country's reliance on non-commercial capital inflows. It is expected by the authorities that with rising efficiency particularly of the manufacturing sector, Israel will become more competitive in the world markets, and that exports will continue to grow at a faster percentage rate than imports so that in the longer run, the trade gap would be narrowed at a higher level of income and production.

79. It must be emphasized, however, that political factors may well be decisive for Israel's future economic development as they have been in the past. The following attempt to quantify the likely course of economic events in the medium run is therefore essentially illustrative. It is based on the assumption that no major political disturbances occur in the Middle East which might force the Government to change its policies, or have a strong impact on foreign trade and capital flows. Given this assumption it can be estimated that the implementation of the above mentioned official strategy would result in an average annual growth of real GNP of 8 to 9 percent over the next few years. The important industrial sector would expand at some 11 to 12 percent per annum which, in view of past trends, does not appear unrealistic. Particular emphasis will be given to such branches as machinery, electrical and electronic equipment, aircraft, metal products, chemicals, rubber and plastics. But some export-oriented consumer industries such as clothing and certain textiles are also expected to grow faster than the manufacturing sector as a whole. Agricultural production, on the other hand, may increase only at about 5 percent a year although a large proportion of the additional output will be exported. A relatively fast expansion is expected for tourism while most other service branches are likely to grow pari passu with the commodity-producing sectors.

80. One principal constraint to sustained rapid growth may well be the availability of manpower, especially in the skilled categories required for the development of sophisticated products and processes, even though a relatively large share of the new immigrants is now coming from industrialized countries. Another key factor for achieving the desired rate of economic expansion is capital formation which has been depressed during the recession. Considerable efforts are therefore required to step up manpower training and to raise the level of investment over the next few years. Moreover, great emphasis will have to be given to a rational allocation of resources.

81. Long-term investment planning in Israel is somewhat impeded by the absence of an operational development plan. The Economic Planning Authority has purely advisory functions and is responsible for the preparation of proposals for comprehensive four to five year plans. Since its establishment in 1962, three draft plans have been put forward, the latest published in March 1968 covering the period 1968-1971. But the assumptions and targets of these proposals have not been accepted as official policy, partly because of the rapid pace of events. Their usefulness as operational documents has also been hindered by the fact that there is no mechanism within the administration to allocate investible funds systematically among sectors according to agreed long-term priorities. Public investment decisions, including those of public enterprises, are made on the basis of sectoral programs which in some cases have reached a high degree of sophistication, while inter-sectoral allocations are left to the annual government budget. Although the recent draft of the Planning Authority has helped to clarify the issues and opportunities associated with national development planning, it appears that more consideration could be given in the future to using long-term plans as an official tool of economic policy.

82. Equally great is the need for effective financial planning to ensure the mobilization of adequate domestic savings. Recent developments indicate that private and possibly public consumption are claiming an excessive share of national and foreign resources. The Government will therefore have to determine the rate at which current public spending both for non-military and defense purposes can be increased in the next few years without creating harmful inflationary pressures. It may also have to raise taxes or take alternative steps to contain private consumption. These measures will have to be supplemented by a responsible wage policy which keeps future wage increases in line with productivity gains.

83. A successful development program based on such policies would probably permit Israel's economy to grow at the rate indicated above without widening its external gap. In the longer run, the current account deficit could even be reduced and a higher degree of financial independence achieved. Imports may be expected to rise slightly faster than national production in the foreseeable future although the increase should not exceed 9 to 10 percent a year on the average. For exports, an average expansion of 12 percent appears feasible provided that sufficient emphasis is given to export promotion and the establishment of new export-oriented industries. Promising opportunities are seen particularly for additional industrial exports such as chemicals, refined oil products, vehicles and aircraft, machinery, electric and electronic equipment as well as a number of consumer goods. In addition, there will be a rapid expansion in the new lines of agricultural exports.

Table G: Export Projection

	1963	1968	1973	Annual Rate of Change 1963/68	1968/73
	(US $ million)			(percent)	
Agriculture products	89	113	180	5	10
Citrus fruit	75	88	120	3	6
Other	14	25	60	12	19
Industrial products	248	572	1,020	18	12
Diamonds	104	235	330	18	7
Mining products	13	30	50	18	11
Other	131	307	640	18	16
Total commodity exports	337	685	1,200	15	12

84. On the basis of these trends, the current account deficit in the balance of payments would still be in the order of $700 million by 1973. To this must be added the average amortization payments, including payments on debt contracted after 1968, which account for about $150 million. A large amount of this gap will be financed from unilateral transfers which are officially estimated to reach $350 million in that year. Other established sources of foreign capital include Development Bonds, bi-lateral aid from the US and Germany, and various loans from suppliers or banks which together may account for some $300 million. In addition, there may be foreign direct investment in the order of $100 million. After this, there still remains a gap of some US $100 million for which foreign financing appears not yet assured.

85. It must be stressed that these estimates are particularly tenuous because of the great uncertainties concerning military and political developments in the area. The events of 1967 clearly demonstrated the unreliability of past trends as a basis for predicting future capital inflows. The remarkable financial response of World Jewry in the aftermath of the 1967 war gives grounds for confidence that the greater needs during the years ahead will be met by continuing large flows of funds from unilateral transfers and bond sales. Nevertheless, prudence dictates a projection of gradual declines in the flow of concessionary capital, though it now appears likely that a higher rate will be maintained than would have seemed possible before mid-1967.

86. As a consequence of both the general revival in economic activity and of specific promotional measures, the flow of direct foreign investment and other commercial capital is expected to recover by the early 1970's from the depressed levels of 1967 and 1968. This projection is particularly hazardous for even a few major investment decisions might make the inflows substantially higher, while increased political tensions in the area might well make them far lower. To some extent, one may expect variations in certain categories of

capital imports to be offsetting, depending on such circumstances. For example, to the extent that military and political considerations deter potential direct investments, they may serve to reinforce contributions to fund drives and purchases of development bonds.

87. It seems likely, therefore, that uncertain as the estimates of the total capital inflow may be, these are probably more reliable than the forecasts of the individual components. Obviously, no simple formula is applicable to this complex situation. But one can venture with some confidence the prediction that the total availability of foreign funds will be greater the more serious appear to be the dangers confronting Israel, notwithstanding the lower rate of commercial capital inflows this would imply.

Table H: Projected Balance of Payments
(US $ million)

	1968	1973
Exports of goods and services	1,200	2,100
Commodity exports	685	1,200
Invisibles	515	900
Imports of goods and services	1,800	2,800
Commodity imports	1,065	1,700
Invisibles	735	1,100
Current account deficit	- 600	- 700
Unilateral transfers	435	350
Direct foreign investment, net	20	100
Long-term capital, gross	335	300
Development bonds	150	100
Bilateral aid	90	100
USA	55	65
Germany	35	35
Other	95	100
Amortization	- 184	- 150
Loss of reserves	97	100
Errors and omissions	- 103	-

88. Still, there is a strong possibility that the country may not succeed in mobilizing sufficient funds to fill the large foreign exchange gap over the next few years, and that the present pace of economic activity could only be maintained through a reduction of existing reserves. The decline of official reserves has already started in 1968 and is expected to assume larger proportions in the current year. But the readiness of the Israeli authorities to draw upon their reserves will progressively diminish as this trend continues, until they reach the point where for economic and security reasons further losses cannot be tolerated. Under such circumstances and unless additional sources of capital can be found in the meantime, the Government would probably take steps to slow down economic growth even if this led to another recession

as in 1966/67. Such a development would not only create substantial unemployment and make the absorption of new immigrants more difficult but it might also hold back expansion of export industries, thus delaying further the time when Israel could enter the phase of self-sustained growth.

External Debt

89. Israel's medium- and long-term external public debt (including private debt guaranteed by the Government) has risen fast in recent years, reaching a total of just over $1.5 billion in mid-1968. In addition, there were some $80 million short-term obligation on that date. Interest and amortization payments on public debt grew apace; but as foreign exchange earnings have risen even faster, the ratio between service payments and gross earnings has declined from some 20 percent in the early 1960's to about 14 percent in the recent past. For 1969 the service payments are scheduled to reach a peak of $175 million, falling off to an average of $113 million over the following four years. Assuming that foreign exchange earnings will rise at the rate projected above, the debt service burden on existing obligations would fall from its present 14 percent to only 6 percent in 1973.

90. Israel's debt and the implications of its burden for the country's balance of payments should be evaluated in the light of two special circumstances: the high proportion of the debt consisting of concessional-type obligations such as Development Bonds or bilateral aid loans; and the large amounts of unilateral transfers adding to the total inflow of foreign exchange. As of mid-1968, for example, outstanding Independence and Development Bonds amounted to almost $750 million, or nearly half of the total debt. These long-term bonds, bearing nominal interest rates between 3-1/2 and 4-1/2 percent, are currently being redeemed at a rate fluctuating between $60-120 million annually. However, since a large proportion of these bonds are virtually automatically renewed or "rolled over" as they become due, the net claims on Israel's balance of payments are not nearly as great as might otherwise be presumed. Moreover, significant amounts of these bonds are never repaid in foreign exchange, instead being redeemed in local currency for private transfers, investments, or tourist outlays. These conversions have recently ranged between $20-30 million a year -- a rate which is expected to increase somewhat in the future. Similar conditions exist for bilateral aid obligations which in mid-1968 accounted for about one-fifth of the total debt.

91. The debt burden also appears considerably less weighty when the large size of unilateral transfers is taken into account. Adding the transfer payments, on which Israel can rely with reasonable assurance for the future, to the exchange earnings results in a reduction of the servicing burden from 14 percent to 10 percent for 1968 and to only 5 percent in 1963 -- based on 1968 obligations and projected export earnings. Thus, even if the country continues to borrow abroad on a large scale, the total debt service burden on existing and new loans appears unlikely to rise in the foreseeable future, particularly since a large part of the new capital will be obtained on concessional terms. Israel therefore appears to be creditworthy for additional borrowing on conventional terms.

APPENDIX: POPULATION AND IMMIGRATION

1. The Government of Israel estimates the present population of Israel as being approximately 2.8 million. 1/ Of this some 2.4 million are Jews, while the remaining .4 million consist mainly of Arabs. Since the end of the first war with the Arab countries in 1949, the number of people living within the boundaries of the State of Israel have risen by over 1.5 million, growing at an average rate of about 5 percent a year.

2. This unusually rapid population increase cannot, be evaluated without some qualification. Approximately two-fifths of the total population growth was due to immigration from abroad, while the natural population increase has remained below the world average. Promotion of Jewish immigration has been a principle policy objective of the Israeli Government following the establishment of a national home for the Jewish people in Palestine. It was the dominant factor of population expansion during the early years of the State when mass immigration led to a doubling of Jewish population within a three-year period. Immigration was also substantial between 1955 and 1957, and again in the early 1960's. Altogether, more than one million Jewish immigrants have come to the country in the last two decades.

3. The natural reproduction rate of Jewish people in Israel has not exceeded 2 percent a year over the last two decades. Moreover, there are indications that it has declined somewhat over time, and that the natural increase of Jewish population is now about 1-3/4 percent a year. The non-Jewish population, on the other hand, has grown at a rate of more than 4 percent, although in absolute terms this has not been very significant.

4. Net immigration of Jews declined sharply in 1966 and 1967. It recovered to about 20,000 in 1968, a rate which is expected to continue for some years. As the trend of Jewish natural increase is expected to decline further, the Government is concerned about having a Jewish population growth lower than that desired. Official policy therefore encourages higher birth rates among Jewish families although such efforts are presently not very significant relative to those aimed at promoting immigration.

1/ The Israeli authorities include in this figure the population of East Jerusalem, which came under Israeli control after the 1967 war.

SOURCES OF GROWTH OF THE POPULATION BY GROUPS, 1948-1967
(in thousands)

Period	Population at beginning of period		Natural increase		Net immigration		Total increase		Population at end of period		Percent of annual increase		Percent of net immigration in total increase	
	Jews	Non-Jews	Jews	Non-Jews	Jews	Non-Jews	Jews	Non-Jews	Jews	Non-Jews	Jews	Non-Jews	Jews	Non-Jews
Total, 1952-1966	1,404.4	173.4	512.3	139.9	428.2	-0.8	940.5	139.1	2,344.9	312.5	3.5	4.0	45.5	-.6
1948-1951 1/	649.6		88.4		666.4		754.8		1,404.4		23.7		88.3	
1950-1951		160.0		11.4		2.0		13.4		173.4		4.1		14.9
1952-1954	1,404.4	173.4	101.4	18.2	20.2	0.2	121.6	18.4	1,526.0	191.8	2.8	3.4	16.6	1.1
1955-1957	1,526.0	191.8	100.7	21.2	136.1	0.2	236.8	21.4	1,762.8	213.2	4.9	3.5	57.5	0.9
1958-1960	1,762.8	213.2	101.5	26.1	46.9	-0.1	148.4	26.0	1,911.2	239.2	2.8	4.0	31.6	-0.4
1961-1964	1,911.2	243.3 2/	134.2	44.0	193.8	-0.9	328.0	43.1	2,239.2	286.4	4.1	4.2	59.1	-2.1
1961	1,911.2	243.3	32.7	9.5	37.8	-0.3	70.5	9.2	1,981.7	252.5	3.7	3.8	53.6	-3.3
1962	1,981.7	252.5	32.2	10.5	55.0	-0.1	87.2	10.4	2,068.9	262.9	4.4	4.1	63.1	-1.0
1963	2,068.9	262.9	33.7	11.4	53.0	0.2	86.7	11.6	2,155.6	274.5	4.2	4.4	61.1	1.7
1964	2,155.6	274.5	35.6	12.6	48.0	-0.7	83.6	11.9	2,239.2	286.4	3.9	4.3	57.4	-5.9
1965	2,239.2	286.4	37.0	13.0	22.9	-0.1	59.9	12.9	2,299.1	299.3	2.7	4.5	38.2	-0.8
1966	2,299.1	299.3	37.5	13.3	8.3	-0.1	45.8	13.2	2,344.9	312.5	2.0	4.4	18.1	-0.8
1967	2,344.9	312.5	34.4	12.3	4.3	-0.3	38.7	77.8 3/	2,383.6	390.3 3/	1.7	3.8 4/	11.1	-2.5

1/ As from Registration of Population of May 1948.
2/ Revised according to 1961 census data.
3/ Including the population of East Jerusalem (about 66,000).
4/ Excluding addition of East Jerusalem population.

Source: Statistical Abstract of Israel, 1968.

STATISTICAL APPENDIX

Table No.

Table No.

Table 1

EXTERNAL MEDIUM- AND LONG- TERM DEBT
(U.S. $ million)

	Debt Outstanding			
	Dec. 31 1965	Dec. 31 1966	Dec. 31 1967	June 30 1968
EXTERNAL PUBLIC DEBT, TOTAL	1,013	1,107	1,361	1,367
Publicly-issued bonds	532	542	718	748
IBRD loans	64	82	86	86
U.S. Government loans	170	181	224	225
A.I.D.	105	117	160	164
D.L.F.	10	10	9	9
Export-Import Bank	55	54	55	52
Suppliers' credits	61	52	52	45
Other loans a/	186	250	281	263
EXTERNAL PRIVATE DEBT, TOTAL b/	84	102	114	154
Suppliers' credits	25	22	18	28
Other loans a/	59	80	96	126
TOTAL MEDIUM- AND LONG- TERM DEBT	1,097	1,209	1,475	1,521

a/ Mainly banks and government agencies.

b/ With government guarantee for transfer of exchange.

Source: Bank of Israel

Table 2

ISRAEL - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING EXCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST. (BEGIN OF PERIOD) EXCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
	TOTAL EXTERNAL PUBLIC DEBT			
1968	1,360,183	82,455	28,862	111,317
1969	1,277,728	126,361	29,463	155,824
1970	1,151,367	72,259	27,151	99,410
1971	1,079,108	74,923	28,155	103,078
1972	1,004,185	75,895	28,795	104,690
1973	928,290	77,927	28,506	106,433
1974	850,363	67,917	22,240	90,157
1975	782,446	49,157	17,273	66,430
1976	733,289	76,739	25,268	102,007
1977	656,550	84,138	29,410	113,548
1978	572,412	91,273	31,759	123,032
1979	481,139	165,244	67,054	232,298
1980	315,895	54,650	9,486	64,136
1981	261,245	49,957	7,781	57,738
1982	211,288	87,151	5,538	92,689
1983	124,137	15,060	3,957	19,017
1984	109,077	13,824	3,689	17,513
1985	95,253	11,478	9,169	20,647

Note: Compiled from data prepared by the Bank of Israel.

See footnote at end of table.

Table 2

ISRAEL - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING EXCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST. (BEGIN OF PERIOD) EXCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
	PUBLICLY ISSUED BONDS			
1968	717,848	21,831	14,175	36,006
1969	696,017	73,031	14,289	87,320
1970	622,986	23,196	14,539	37,735
1971	599,790	24,616	16,034	40,650
1972	575,174	24,958	17,558	42,516
1973	550,216	26,895	19,346	46,241
1974	523,321	19,926	14,415	34,341
1975	503,395	11,017	10,988	22,005
1976	492,378	42,367	20,145	62,512
1977	450,011	54,479	25,383	79,862
1978	395,532	64,407	28,431	92,838
1979	331,125	139,376	64,271	203,647
1980	191,749	32,287	7,243	39,530
1981	159,462	30,355	5,988	36,343
1982	129,107	69,264	4,093	73,357
1983	59,843	-	2,808	2,808
1984	59,843	-	2,808	2,808
1985	59,843	-	7,020	7,020
	SUPPLIERS' CREDITS			
1968	52,526	8,514	352	8,866
1969	44,012	9,483	212	9,695
1970	34,529	7,600	110	7,710
1971	26,929	7,122	77	7,199
1972	19,807	6,808	47	6,855
1973	12,999	6,532	33	6,565
1974	6,467	4,521	20	4,541
1975	1,946	1,246	9	1,255
1976	700	-	-	-
1977	700	700	-	700

Table 2

ISRAEL - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING EXCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST. (BEGIN OF PERIOD) EXCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
		IBRD		
1968	86,130	5,029	2,384	7,413
1969	81,101	5,311	2,203	7,514
1970	75,790	5,617	2,013	7,630
1971	70,173	5,936	1,810	7,746
1972	64,237	6,279	1,597	7,876
1973	57,958	6,633	1,371	8,004
1974	51,325	7,015	1,131	8,146
1975	44,310	7,419	879	8,298
1976	36,891	7,845	613	8,458
1977	29,046	5,042	376	5,418
1978	24,004	5,318	267	5,585
1979	18,686	5,625	152	5,777
1980	13,061	3,185	31	3,216
1981	9,876	1,758	-	1,758
1982	8,118	1,860	-	1,860
1983	6,258	1,969	-	1,969
1984	4,289	2,084	-	2,084
1985	2,205	2,205	-	2,205
		U.S. GOVERNMENT LOANS		
1968	223,588	18,915	3,564	22,479
1969	204,673	19,232	3,127	22,359
1970	185,441	18,591	2,742	21,333
1971	166,850	20,226	2,363	22,589
1972	146,624	19,980	1,975	21,955
1973	126,644	19,232	1,602	20,834
1974	107,412	16,849	1,312	18,161
1975	90,563	12,429	1,049	13,478
1976	78,134	10,490	858	11,348
1977	677,644	10,212	728	10,940
1978	57,432	10,001	602	10,603
1979	47,431	9,321	501	9,822
1980	38,110	8,448	395	8,843
1981	29,662	8,451	289	8,740
1982	21,211	7,771	185	7,956
1983	13,440	4,835	111	4,946
1984	8,605	3,483	65	3,548
1985	5,122	3,075	55	3,130

See footnote at end of table.

Table 2

ISRAEL - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT OUTSTANDING EXCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST. (BEGIN OF PERIOD) EXCLUDING UNDISBURSED	PAYMENTS DURING PERIOD		
		AMORTI-ZATION	INTEREST	TOTAL
		OTHER LOANS		
1968	280,091	28,166	8,387	36,553
1969	251,925	19,304	9,632	28,936
1970	232,621	17,255	7,747	25,002
1971	215,366	17,023	7,871	24,894
1972	198,343	17,870	7,618	25,488
1973	180,473	18,635	6,154	24,789
1974	161,838	19,606	5,362	24,968
1975	142,232	17,046	4,348	21,394
1976	125,186	16,037	3,652	19,689
1977	109,149	13,705	2,923	16,628
1978	95,444	11,547	2,459	14,006
1979	83,897	10,922	2,130	13,052
1980	72,975	10,730	1,817	12,547
1981	62,245	9,393	1,504	10,897
1982	52,852	8,256	1,260	9,516
1983	44,596	8,256	1,038	9,294
1984	36,340	8,257	816	9,073
1985	28,083	6,198	2,094	8,292

/1 Debt with an original or extended maturity of one year or more.

Statistical Services Division
Economics Department
January 27, 1969

Table 2

ISRAEL - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PRIVATE DEBT OUTSTANDING EXCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 /1

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST. (BEGIN OF PERIOD) EXCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
	TOTAL EXTERNAL PRIVATE DEBT			
1968	109,133	32,274	5,805	38,079
1969	76,859	14,338	3,858	18,196
1970	62,521	8,993	3,183	12,176
1971	53,528	10,740	2,890	13,630
1972	42,788	8,441	2,445	10,886
1973	34,347	6,048	1,922	7,970
1974	28,299	7,633	1,592	9,225
1975	20,666	6,064	1,182	7,246
1976	14,602	3,455	809	4,264
1977	11,147	2,589	586	3,175
1978	8,558	1,984	384	2,368
1979	6,574	2,013	519	2,532
1980	4,561	1,518	166	1,684
1981	3,043	1,335	83	1,418
1982	1,708	449	39	488
1983	1,259	413	33	446
1984	846	382	26	408
1985	464	193	61	254

Note: Compiled from data prepared by the Bank of Israel.

See footnote at end of table.

Table 2

ISRAEL - ESTIMATED FUTURE SERVICE PAYMENTS ON EXTERNAL PRIVATE DEBT OUTSTANDING EXCLUDING UNDISBURSED AS OF DECEMBER 31, 1967 /1 (CONT.)

Debt Repayable in Foreign Currency

(In thousands of U.S. dollars)

YEAR	DEBT OUTST. (BEGIN OF PERIOD) EXCLUDING UNDISBURSED	PAYMENTS DURING PERIOD AMORTI-ZATION	INTEREST	TOTAL
		SUPPLIERS CREDIT		
1968	17,847	4,816	1,315	6,131
1969	13,031	3,022	625	3,647
1970	10,009	2,611	399	3,010
1971	7,398	2,352	528	2,880
1972	5,046	3,240	413	3,653
1973	1,806	1,027	197	1,224
1974	779	526	176	702
1975	253	253	84	337
		OTHER LOANS		
1968	91,286	27,458	4,490	31,948
1969	63,828	11,316	3,233	14,549
1970	52,512	6,382	2,784	9,166
1971	46,130	8,388	2,362	10,750
1972	37,742	5,201	2,032	7,233
1973	32,541	5,021	1,725	6,746
1974	27,520	7,107	1,416	8,523
1975	20,413	5,811	1,098	6,909
1976	14,602	3,455	809	4,264
1977	11,147	2,589	586	3,175
1978	8,558	1,984	384	2,368
1979	6,574	2,013	519	2,532
1980	4,561	1,518	166	1,684
1981	3,043	1,335	83	1,418
1982	1,708	449	39	488
1983	1,259	413	33	446
1984	846	382	26	408
1985	464	193	61	254

/1 Debt with an original or extended maturity of one year or more.

Statistical Services Division
Economics Department
January 27, 1969

Table 3

EXTERNAL SHORT-TERM DEBT
(U.S. $ million)

	Debt Outstanding			
	Dec. 31 1965	Dec. 31 1966	Dec. 31 1967	June 30 1968
EXTERNAL PUBLIC DEBT, TOTAL	16	11	1	1
Banks' import credits	12	5	a/	-
Other	4	6	a/	1
EXTERNAL PRIVATE DEBT, TOTAL	93	84	70	80
Banks' import credits	24	23	15	18
Suppliers' credits	16	11	9	15
Loans out of foreign deposits	18	16	15	16
Other	35	34	31	31
TOTAL SHORT-TERM DEBT	109	95	71	81

a/ Less than $500,000.

Source: Bank of Israel

Table 4

THE POPULATION, BY PRINCIPAL GROUPS, 1949-1968
(end of period figures, in thousands)

Year	Jews	Non-Jews	Total	Percent increase over previous year, total
1949	1,013.9	160.0	1,173.9	28.3
1950	1,203.0	167.1	1,370.1	16.7
1951	1,404.4	173.4	1,577.8	15.2
1952	1,450.2	179.3	1,629.5	3.3
1953	1,483.6	185.8	1,669.4	2.4
1954	1,526.0	191.8	1,717.8	2.9
1955	1,590.5	198.6	1,789.1	4.2
1956	1,667.5	204.9	1,872.4	4.7
1957	1,762.8	213.2	1,976.0	5.5
1958	1,810.2	221.5	2,031.7	2.8
1959	1,858.8	229.9	2,088.7	2.8
1960	1,911.3	239.1	2,150.4	3.0
1960 a/	1,910.8	243.3	2,154.1	-
1961	1,981.7	252.5	2,234.2	3.7
1962	2,068.9	262.9	2,331.8	4.4
1963	2,155.6	274.5	2,430.1	4.2
1964	2,239.2	286.4	2,525.6	3.9
1965	2,299.1	299.3	2,598.4	2.9
1966	2,344.9	312.5	2,657.4	2.3
1967 b/	2,383.6	390.3	2,773.9	4.4
July 1968	2,415.5	401.3	2,816.8	2.4 c/

a/ New series, based on Census of May 1960; the old series is based on a population registration of November, 1948.

b/ Including the population of East Jerusalem, numbering about 67,000.

c/ Increase over July, 1967.

Source: Statistical Abstract and Statistical Bulletin.

Table 5

RESOURCES AND USES 1960-1968
(in millions of Israeli pounds)

	1960	1961	1962	1963	1964	1965	1966	1967	Provisional 1968
In Current Prices									
Private consumption	3094	3647	4408	5245	6087	7136	7909	8166	9225
General government consumption	836	1038	1393	1654	1805	2207	2643	3354	4010
Gross investment	1187	1532	2067	2284	2940	3012	2504	1808	2820
Exports of goods and services	626	732	1351	1688	1830	2070	2418	2828	4075
Uses = Resources	5743	6949	9219	10871	12662	14425	15474	16156	20130
Imports of goods and services	1190	1457	2613	2985	3470	3544	3620	4018	5935
Gross domestic product at market prices	4553	5492	6606	7886	9192	10881	11854	12138	14195
Less: net factor payments abroad	26	54	84	39	50	56	81	123	175
Gross national product at market prices	4527	5438	6522	7847	9142	10825	11773	12015	14020
In 1967 Prices									
Private consumption	4753	5263	5854	6459	7170	7757	7997	8166	9075
General government consumption	1526	1787	1984	2220	2270	2466	2646	3354	3805
Gross investment	1826	2167	2435	2529	3111	3052	2514	1808	2625
Exports of goods and services	1227	1424	1668	1918	2038	2202	2472	2828	3565
Uses = Resources	9332	10641	11941	13126	14589	15477	15629	16156	19070
Imports of goods and services	2091	2606	3024	3252	3699	3696	3701	4018	5195
Gross domestic product at market prices	7241	8035	8917	9874	10890	11781	11928	12138	13875
Less: net factor payments abroad	52	108	104	48	57	57	83	123	150
Gross national product at market prices	7189	7927	8813	9826	10833	11724	11845	12015	13725

Source: Bank of Israel; for 1967 and 1968 revised data.

Table 6

EXPENDITURE ON GROSS NATIONAL PRODUCT, 1960-1968

(millions of 1967 Israeli pounds)

	1960	1961	1962	1963	1964	1965	1966	1967	Provisional 1968
Private consumption	4753	5263	5854	6459	7170	7757	7997	8166	9025
Households	4212	4665	5211	5765	6424	6899	7160	7304	
Nonprofit institutions	541	598	643	694	746	858	837	862	
Public consumption	1526	1787	1984	2220	2270	2466	2646	3349	3750
Government	1199	1422	1581	1746	1758	1422	(2209	(2894	
National institutions	81	105	122	147	145	133			
Local authorities	246	260	283	327	367	411	437	455	
Gross investment	1826	2167	2435	2529	3111	3052	2514	1868	2600
Fixed investment	1592	1901	2163	2283	2715	2769	2407	1934	
housing	541	660	831	823	914	978	782	528	
other construction	590	640	746	851	961	989	835	750	
equipment	461	601	586	609	840	802	790	656	
Inventories	234	266	272	246	396	283	107	-66	
Net imports of goods and services (-)	844	1182	1356	1334	1661	1494	1229	1151	1625
Exports	1247	1424	1668	1918	2038	2202	2472	2736	3160
Imports	2091	2606	3024	3252	3699	3696	3701	3887	4785
Gross domestic product at market prices	7241	8035	8917	9874	10890	11781	11928	12232	13750
Net factor payments abroad	52	108	104	48	57	57	83	123	150
Gross national product at market prices	7189	7927	8813	9826	10833	11724	11845	12109	13600

Source: Bank of Israel; for 1967 and 1968 unrevised data.

Table 7

SECTORAL DISTRIBUTION OF GROSS NATIONAL PRODUCT 1964-1968

(at constant 1967 prices)

	1964	1965	1966	1967	Provisional 1968
Agriculture	738	720	720	868	905
Manufacturing and mining	2715	2986	2983	2818	3659
Transportation and communication	1019	1101	1090	1090	1224
Construction	1036	1046	836	660	816
Dwellings	1089	1166	1249	1317	1364
Commerce, finance and services	2167	2329	2378	2311	2474
Public sector and non-profit institutions	1734	1868	2004	2229	2359
Total gross national product estimated from the output side	10498	11216	11260	11293	12801
Errors and Omissions	335	508	585	816	799
Total gross national product estimated from the expenditure side	10833	11724	11845	12109	13600

Source: Bank of Israel; for 1967 and 1968 unrevised data.

Note: Official data on GNP or GDP at constant factor cost by industrial origin do not exist. The sectoral distribution of GNP was estimated by the Bank of Israel. Errors and omissions represent the difference between official estimates of GNP from the expenditure and output sides.

Table 8

INVESTMENT AND SAVING

	1960	1961	1962	1963	1964	1965	1966	1967	1968
	In millions of Israeli pounds (current prices)								
1. Gross investment	1187	1532	2067	2284	2940	3012	2504	1808	2820
Fixed capital formation	1101	1440	1942	2181	2758	2926	2394	1874	2675
Changes in inventories	86	92	125	103	182	86	110		145
2. Gross national savings	597	753	721	948	1250	1482	1221	495	785
Private sector	666	816	918	1119	1209	1612	1487	1697	2204
Public sector	-69	-63	-197	-171	41	-130	-266	-1202	-1419
3. Resource gap (1-2) 1/	590	779	1346	1336	1690	1530	1283	1313	2035
	As a percentage of GNP								
Gross investment	26	28	30	29	32	28	21	15	20
Gross national savings	13	14	11	12	14	14	10	4	6
Private sector	15	15	14	14	14	15	13	14	16
Public sector	-2	-1	-3	-2	0	-1	-3	-10	-10

1/ Current account deficit of the balance of payments

Sources: Bank of Israel for division between private and public saving, tables on resources and uses and balance of payments for other elements. For 1967 and 1968 revised data.

Table 9

FIXED INVESTMENT BY ECONOMIC SECTOR 1960-1968

(in millions of 1967 Israeli pounds)

	1960	1961	1962	1963	1964	1965	1966	1967	1968
Agriculture	173	162	168	148	162	142	140	157	160
Irrigation	75	85	121	128	80	70	77	68	55
Industry and construction	275	317	299	344	381	385	273	200	320
Mining and quarrying	21	37	71	79	81	48	38	42	110
Electricity	55	54	83	65	62	106	93	81	110
Transportation	216	317	246	288	501	440	332	409	670
(Ships and aircraft)	(98)	(153)	(62)	(47)	(163)	(86)	(47)	(n.a.)	(n.a.)
(Motor vehicles)	(49)	(77)	(105)	(141)	(177)	(174)	(138)	(n.a.)	(n.a.)
(Other items)	(69)	(87)	(79)	(100)	(160)	(180)	(147)	(n.a.)	(n.a.)
Commerce, services, ports	290	332	395	459	599	664	668	449	525
Total non-dwelling fixed investment	1105	1304	1383	1511	1866	1855	1621	1406	1950
Dwellings	487	597	780	772	849	914	786	528	550
Total fixed investment	1592	1901	2163	2283	2715	2769	2407	1934	2500

Source: Bank of Israel; for 1967 and 1968 unrevised data.

Table 10

PRODUCTIVITY INDICATORS, 1950-1965
Average Annual Growth Rate and Percentage Shares
(at 1955 prices)

	Growth of GDP at factor cost	Growth of labor input	Growth of capital input	Share in growth of GDP attributable to labor input	capital input	residual
	(1)	(2)	(3)	(4)	(5)	(6)
Total Economy						
1950-1965	11.0	5.0	13.1	3.5	4.0	3.5
1950-1955	13.3	6.5	17.4	5.2	4.0	4.1
1955-1960	9.6	4.0	11.2	2.9	3.5	3.2
1960-1965	10.0	4.7	10.8	3.0	4.1	2.9
Manufacturing and mining						
1950-1965	10.7	6.3	14.4	4.3	4.5	1.9
1950-1955	6.8	6.8	19.7	4.9	4.6	-2.7
1955-1960	11.6	5.6	12.0	4.0	3.9	3.7
1960-1965	13.8	6.6	11.7	4.3	4.6	4.9
Agriculture						
1950-1965	11.6	3.2	9.9	2.0	4.2	5.4
1950-1955	12.5	6.7	13.1	4.6	4.4	3.5
1955-1960	15.0	3.5	9.5	2.2	4.2	8.6
1960-1965	7.5	-0.4	7.1	-0.2	3.4	4.3
Transportation						
1950-1965	14.0	4.6	15.1	3.2	5.3	5.5
1950-1955	17.0	6.0	19.3	4.6	5.2	7.2
1955-1960	12.7	3.1	11.0	2.0	4.1	6.6
1960-1965	12.3	4.7	15.2	2.8	6.8	2.7
Total private non-dwelling						
1950-1965	11.1	4.4	12.5	3.2	3.6	4.3
1950-1955	11.9	4.6	16.1	3.7	3.6	4.6
1955-1960	10.6	4.1	11.0	3.0	3.3	4.3
1960-1965	10.7	4.5	10.6	3.0	3.8	3.9

Source: Dr. A.C. Gaathon, "Economic Productivity in Israel", unpublished manuscript.

Notes: Columns (1) - (3) are derived from estimates of Gross Domestic Product at factor cost and of real labor and capital inputs. Columns (4) and (5) are the rates of change of labor and capital input weighted by the share of each in total output. For example in the total economy for 1950-1965 the weighted labor rate is (5.0 x 0.7 = 3.5) and the weighted capital rate is (13.1 x 0.3 = 4.0). Column 6, "the residual", represents that part of the growth of output not attributable to the increased inputs, and is a measure of total factor productivity. For a fuller explanation of total factor productivity see IBRD Economics Department Working Paper No. 13, "Productivity Growth and Development in Latin America", dated May 31, 1968 by Henry J. Bruton.

Table 11

AVERAGE GROSS CAPITAL TO OUTPUT RATIOS
1950-1965

	Total economy	Private non-dwelling economy	Agriculture and irrigation	Mining and manufacturing	Transportation
1950	2.22	1.55	4.38	0.93	3.29
1951	2.10	1.46	4.89	0.93	3.01
1952	2.45	1.71	4.02	1.44	3.55
1953	2.87	2.07	4.43	1.64	4.35
1954	2.69	1.92	4.03	1.66	3.67
1955	2.64	1.86	4.48	1.65	3.65
1956	2.71	1.87	4.11	1.67	3.59
1957	2.76	1.91	4.20	1.75	3.56
1958	2.84	1.94	3.70	1.68	3.74
1959	2.79	1.87	3.41	1.66	3.52
1960	2.84	1.89	3.53	1.68	3.39
1961	2.85	1.88	3.55	1.62	3.54
1962	2.84	1.86	3.55	1.66	3.56
1963	2.85	1.84	3.37	1.60	3.58
1964	2.84	1.82	3.22	1.56	3.57
1965	2.95	1.89	3.46	1.53	3.84

Source: Dr. A. L. Gaathon, "Economic Productivity in Israel," to be published shortly.

Note: These ratios show gross capital stock relative to gross domestic product, both at constant prices.

Table 12

OCCUPATIONAL DISTRIBUTION OF EMPLOYED LABOR FORCE, 1961-1967
(Annual Average)

Year	Total Employed	Agri-culture	Industry	Building	Elec-tricity & Water	Commerce & Finance	Trans-port	Services: Total	Services: Govt.& Public Admin.	Services: Health Education etc.	Services: Personal & Enter-tainment	Not known
						Absolute Figures						
1961	746,500	127,600	177,400	67,900	13,200	88,400	47,700	223,100	59,800	110,200	53,100	1,200
1962	787,900	125,900	194,900	75,200	15,900	98,600	47,800	227,400	57,900	109,500	60,000	2,200
1963	809,000	112,600	203,000	82,400	13,700	102,900	56,200	236,400	62,900	114,500	59,000	1,800
1964	854,100	109,900	216,300	87,000	16,200	107,600	61,700	253,600	64,000	122,600	67,000	1,800
1965	879,200	114,400	222,900	92,000	15,500	110,400	60,100	261,600	63,700	134,300	63,600	2,300
1966	873,900	107,400	227,400	75,600	17,600	113,300	57,500	272,000	202,500		69,500	3,100
1967	830,700	104,100	203,800	63,000	18,500	111,600	61,200	266,800	62,700	137,300	66,800	1,700
						Percentages						
1961	100.0	17.1	23.8	9.1	1.8	11.9	6.4	29.9	8.0	14.8	7.1	
1962	100.0	16.0	24.8	9.6	2.0	12.5	6.1	29.0	7.4	14.0	7.6	
1963	100.0	14.0	25.0	10.2	1.7	12.8	7.0	29.3	7.8	14.2	7.3	
1964	100.0	12.9	25.4	10.2	1.9	12.6	7.2	29.8	7.5	14.4	7.9	
1965	100.0	13.0	25.4	10.5	1.8	12.6	6.9	29.8	7.3	15.3	7.2	
1966	100.0	12.3	26.1	8.7	2.0	13.0	6.6	31.3	23.3		8.0	
1967	100.0	12.6	24.6	7.6	2.2	13.5	7.3	32.2	7.6	16.5	8.1	

Source: Central Bureau of Statistics

Table 13

AGRICULTURAL PRODUCTION

(IL million, at 1966/67 prices)

	Agricultural years a/				
	1963/64	1964/65	1965/66	1966/67	1968 p/
1. Crops	847	933	944	942	1,027
(a) Citrus	248	291	308	317	370
(b) Other fruit	200	215	195	174	200
(c) Vegetables	118	130	128	139	160
(d) Cereals and pulses	83	86	89	88	70
(e) Industrial crops b/	111	116	117	120	120
(f) Miscellaneous	87	95	107	104	107
2. Livestock	629	647	670	668	680
(a) Meat	266	286	287	282	290
(b) Milk	155	154	163	164	170
(c) Eggs	144	143	155	159	150
(d) Fish	38	39	40	40	45
(e) Miscellaneous	26	25	25	23	25
3. Total Production (1&2)	1,476	1,580	1,614	1,610	1,707

a/ October-September
b/ Cotton, sugar beet, tobacco, groundnuts
p/ Preliminary estimate

Source: Ministry of Agriculture and Bank of Israel

Table 14

AGRICULTURAL INPUTS

(IL million; at 1966 prices)

	Agricultural Years[a]						
	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
Fodder	158	165	168	160	200	231	241
Water	48	54	55	48	52	57	51
Fertilizer	26	31	27	28	33	30	32
Pesticides	17	20	18	17	18	18	22
Seeds	6	6	6	5	4	4	4
Packing materials	37	38	52	52	59	62	71
Transportation	30	31	35	39	43	47	53
Spare parts and repairs	23	27	27	36	36	34	33
Fuel and electric power	12	12	14	18	19	19	21
Services	8	9	11	12	14	14	16
Taxes	15	15	17	16	16	16	17
Miscellaneous	5	6	6	6	7	8	11
Total purchased input	385	414	436	437	501	540	572
Depreciation	72	77	86	93	100	103	110
Total input[b]	457	491	522	530	601	643	682

Source: Bank of Israel a/ October-September b/ Excluding wages for hired labor, interest and rent.

Table 15

CULTIVATED AREA

(1000 hectares)

	Agricultural Years[a]						
	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67
Irrigated	136	145	151	150	154	157	162
Dry farming	279	261	250	264	262	249	255
Total	415	406	401	414	416	406	417

Source: Bank of Israel

a/ October/September

Table 16

WATER CONSUMPTION

(million cu. meter)

	Fiscal Years[a]						
	1960[b]	1961	1962[b]	1963	1964	1965[b]	1966[e]
Agriculture	1,087	1,047	1,144	1,039	1,075	1,153	1,203
Urban use	197	184	174	192	200	206	211
Industry	54	56	55	57	54	59	61
Total	1,338	1,287	1,373	1,288	1,329	1,418	1,475
of which							
Fresh water	.	.	.	.	1,228	1,302	1,352
Saline water	.	.	.	.	101	116	123

Source: Bank of Israel

a/ April to March

b/ Drought years

e/ Estimate

Table 17

AGRICULTURAL SUBSIDIES

(IL million)

	Agricultural Years[a/] 1965/66	1966/67
Milk	30	25
Eggs	24	22
Meat	4	12
Cotton	8	10
Wheat	4	12
Vegetables	9	7
Sugar beets	5	6
Fruits	4	6
Groundnuts	3	3
Miscellaneous	2	2
Total output subsidies	93	105
Fodder	25	33
Water	15	13
Fertilizer	3	3
Total factor subsidies	43	49
Drought compensation	14	2
Total subsidies	150	156

Source: Bank of Israel

a/ October - September

Table 18

INDUSTRIAL PRODUCTION INDEX
(Base: Average 1958=100) 1/

	Weight 1963	1960	1961	1962	1963	1964	1965	1966	1967	First half 2/ 1967	1968
TOTAL	100.00	128.7	149.1	168.8	192.7	219.7	241.7	245.1	237.4	218.2	290.7
Mining and Quarrying	4.26	156	172	184	210	253	314	331	313	303	363
Manufacturing	95.74	128	148	168	192	218	239	242	234	215	288
Food	16.45	112	125	135	143	162	172	183	193	185	208
Textiles	11.44	128	160	188	214	246	271	285	268	236	324
Clothing	2.88	129	140	160	181	212	264	272	268	245	318
Wood, wood products	6.23	121	144	182	219	260	299	306	285	259	376
Paper, paper products	2.59	131	153	169	201	236	250	265	293	275	352
Printing, publishing	4.13	134	150	158	180	202	220	242	285	250	320
Leather	1.65	118	131	155	164	170	190	183	162	147	197
Rubber, plastic products	4.00	133	160	186	225	271	301	312	310	272	424
Chemicals	8.26	131	153	171	193	222	261	287	301	273	376
Non-metallic minerals	7.99	123	137	159	182	197	207	193	144	139	173
Diamond industry	3.07	165	192	244	304	313	335	373	350	362	407
Basic metals	2.95	146	175	202	227	242	261	242	202	176	269
Metal products	6.51	124	137	161	186	209	219	210	179	165	235
Machinery	4.30	133	158	173	209	233	247	224	198	169	251
Electrical and electronic equipment	3.66	143	175	199	240	271	306	291	246	216	364
Transport equipment	8.07	130	152	170	187	220	229	204	202	175	274
Miscellaneous	1.56	176	193	173	184	226	242	223	248	236	326

1/ Since 1964, the index is based on a new set of weights, a new sample and is computed on the base: average 1963 = 100. In order to present it on the base 1958 = 100 it has been chained to the previous index on the base: average 1958 = 100 through the average of 1963.

2/ Six month average of seasonally adjusted monthly data.

Source: Central Bureau of Statistics

Table 19

FIXED INVESTMENT IN INDUSTRY

(millions of IL)

Fiscal Year	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68
Mining and Quarrying	66.6	78.6	91.1	54.1	37.1	31.4
Food	35.5	44.4	60.2	69.0	72.9	29.1
Textiles	45.2	42.4	39.5	45.9	39.5	20.7
Clothing	3.0	2.0	3.6	2.6	2.5	8.7
Wood and Furniture	7.9	10.8	9.4	13.1	15.5	7.1
Paper and Cardboard	5.0	3.2	2.3	11.0	20.9	9.7
Printing and Publishing	6.3	4.6	8.2	11.6	4.9	2.2
Leather	0.8	0.8	2.3	2.7	3.3	0.2
Rubber and Plastics	7.2	8.2	13.3	13.8	9.8	10.1
Chemicals	15.9	23.6	40.4	37.3	26.4	9.7
Non-Metallic Minerals	16.5	25.7	36.1	32.4	27.4	13.8
Diamonds	0.9	1.3	0.5	0.6	2.1	1.4
Basic Metals	6.4	8.0	8.8	12.3	11.9	2.3
Metal Products	8.7	12.9	18.3	21.6	12.1	10.3
Machinery	6.1	5.4	10.0	8.5	7.3	4.8
Electrical Equipment	4.4	8.1	11.8	7.2	10.8	20.0
Transport Equipment	14.6	12.9	17.0	28.1	25.6	24.3
Miscellaneous	2.1	4.3	2.3	3.4	1.3	2.2
TOTAL	253.1	297.2	375.2	375.2	331.3	208.0
Calendar Year	**1962**	**1963**	**1964**	**1965**	**1966**	**1967**
National Accounts Estimates 1/	339	413	469	454	310	237

Source: Based on annual sample surveys of industry taken by the Central Bureau of Statistics. Includes estimates of the Ministry of Commerce and Industry of investment in new plants which had not yet reached the stage of production during the survey years. Periods covered are fiscal years ending March 31.

/1 Includes investment in construction industries as well as manufacturing and mining industries. Separate estimates of investments in construction industries are not available.

Table 20

NUMBER OF EMPLOYED PERSONS IN INDUSTRY[1/]

(thousands)

Branch	1960/61	1961/62	1962/63	1963/64	1964/65	1965/66	1966/67	1967/68
TOTAL:	1388	1547	1666	1784	1887	2147	2003	2002
Mining & Quarrying	28	32	31	37	39	42	40	39
Food[2/]	216	230	248	261	277	299	304	319
Textiles	153	197	215	225	249	258	239	228
Clothing	60	70	71	80	91	133	126	141
Wood & Furniture	105	114	129	140	149	190	166	158
Paper & Cardboard	25	29	31	33	31	35	37	38
Printing & Publishing	64	70	76	80	85	86	82	79
Leather	40	40	45	44	47	73	69	74
Rubber & Plastics	36	40	49	53	59	61	56	56
Chemicals[2/]	75	81	73	79	86	86	83	82
Non-Metallic Minerals	94	101	110	110	108	116	104	85
Diamonds	55	60	68	80	73	74	87	97
Basic Metals	34	42	44	41	41	45	40	39
Metal Products	123	126	126	133	149	168	140	132
Machinery	57	65	76	78	92	108	88	85
Electrical Equipment	52	62	67	80	77	87	82	79
Transport Equipment	142	157	173	191	199	234	210	220
Miscellaneous	29	31	34	37	35	51	50	51

1/ Including Extractive Industries, but excluding Military Industry; up to 1964/65 (inclusive) Minerals Prospecting and self-employed, who do not engage employees, are al so excluded. Fiscal year ending March 31.

2/ Up to 1961/62 "Production of Edible Oils" is included in "Chemicals"; as from 1962/63, however, it is included in "Food".

Source: Ministry of Commerce and Industry (Based on data published by the C.B.S.)

Table 21

PRODUCTION AND SUPPLY OF ELECTRICITY
BY THE ISRAEL ELECTRIC CORPORATION

SUPPLY	Unit	1950	1955	1960	1962	1964	1965	1966	1967	Provisional 1968	Estimate 1969
Installed generating capacity	MW	100	230	410	560	720	720	720	1012	1012	1012
Generation	million KWH	543	1258	2205	2807	3543	4061	4461	4632	5651	6210
Annual peak load	MW	110	242	420	508	690	750	792	830	905	970
Fuel consumption	1000t	193	393	636	772	961	1091	1193	1204	1440	1580
DISTRIBUTION											
HV transmission and distribution lines	km	1801	2982	4770	5805	6486	6826	7174	7507	n.a.	n.a.
LV distribution lines	km	1867	3030	4565	4986	5301	5468	5632	5704	n.a.	n.a.
Distribution power transformers	No.	1613	3050	4831	5636	6414	6876	7298	7647	n.a.	n.a.
Capacity of distribution transformers	MVA	214	544	992	1259	1546	1728	1898	2035	n.a.	n.a.
PURCHASES	million KWH	464	1047	1857	2370	2991	3450	3823	3968	4840	5310
Industry	"	141	302	669	866	1101	1210	1270	1259	1640	1880
Water pumping	"	117	336	430	612	679	840	990	980	1080	1180
Others	"	206	409	758	892	1211	1400	1563	1729	2120	2280
Number of consumers	1000	181	333	571	656	745	792	828	857	n.a.	n.a.

Sources: 1950-67 Central Bureau of Statistics. 1968-69 Economic Planning Authority, and IBRD estimates based on discussions with Electric Corporation officials.

Table 22

INDICATORS OF TOURIST DEVELOPMENT 1960-1969

	1960	1961	1962	1963	1964	1965	1966	1967	Provisional 1968 1/	Estimate 1969 1/
Investment (millions of I £)	20	31	16	22	17	17	18	26	35	40
No. of hotels	175	192	207	213	213	215	217	229	277	290
Capacity in rooms at year end	5886	6571	7321	8050	8482	9174	9648	10135	13647	14747
Total tourist entries (1000)	118	160	184	219	252	297	328	291	410	480
One day by ship	n.a.	14	18	20	22	37	38	23	40	45
Other	n.a.	146	165	198	230	260	290	267	370	435
Foreign tourist nights spent (thousands)	n.a.	1136	1267	1560	1799	1876	2101	1819	2960	3480
Foreign exchange earnings (millions of dollars)	27	30	38	53	54	55	59	52	73	86
Average days of stay	n.a.	7.8	7.7	7.9	7.8	7.2	6.9	6.8	8.0	8.0
Average foreign exchange, receipts per tourist in dollars 2/	n.a.	199	220	259	239	200	194	180	190	190

Source: Ministry of Tourism and Economic Planning Authority

1/ Includes East Jesuralem

2/ Total income, less income from one-day visitors by ship estimated at $75 per tourist, divided by the total number of other tourists.

Table 23

SUMMARY OF CENTRAL GOVERNMENT BUDGET

(IL million)

	Fiscal years[a/]						
	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	196970
	(Actuals)					(Budget Estimates)	
Current revenue[b/]	2,082	2,459	2,865	2,986	3,295	4,076	4,960
Current expenditure	1,707	2,309	2,625	3,157	4,022	4,617	5,798
Current surplus/deficit	375	150	240	- 171	- 727	- 541	- 838
Capital expenditure	977	886	1,135	1,048	1,154	1,217	1,165
Overall deficit	- 602	- 736	- 895	- 1,219	- 1,881	- 1,758	- 2,003
Domestic borrowing, net[c/]	245	310	423	943	1,230	1,234	n.a.
Foreign financing, net[d/]	357	426	472	276	651	524	n.a.

Source: Bank of Israel and Ministry of Finance

a/ April to March
b/ Includes revenue from capital budget
c/ Includes changes in cash position
d/ Includes foreign grants

Table 24

CURRENT GOVERNMENT REVENUE

(IL million)

	Fiscal years						
	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	(Actuals)					(Budget Estimates)	
Direct Taxes	787	997	1,193	1,305	1,299	1,732	2,045
Income tax	690	876	1,056	1,163	1,204	1,477	1,828
Property tax	76	97	117	126	82	241	194
Other direct taxes	21	24	20	16	13	14	23
Indirect Taxes	936	1,111	1,295	1,217	1,287	1,478	2,043
Custom duties	274	349	424	341	369	398	625
Purchase tax	268	319	386	307	321	400	530
Fuel tax	93	114	125	169	191	220	228
Excise taxes	124	135	149	147	151	174	202
Other indirect taxes	177	194	211	253	255	286	458
Interest	117	130	163	199	222	222	235
Amortization on government loans	141	101	83	93	134	322	400
Other revenue a/	101	120	131	172	353	322	237
Total Current Revenue	2,082	2,459	2,865	2,986	3,295	4,076	4,960

Source: Bank of Israel and Ministry of Finance
a/ Includes revenue from capital budget

Table 25

CURRENT GOVERNMENT EXPENDITURE

(IL million) Fiscal years

	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	(Actuals				)	(Budget Estimates	)
Defense and Security	600	819	927	1,080	1,492	2,026	2,617
Defense	545	751	850	984	1,384	1,907	2,490
Police	55	68	77	96	108	119	127
Education and Welfare	404	480	699	820	791	663	874
Education	199	254	390	457	402	351	450
Health	91	107	146	159	156	123	191
Labor	59	59	74	100	110	101	97
Social Welfare	38	40	54	62	63	46	59
National Insurance Institute	17	20	35	42	60	42	77
Subsidies	150	212	216	271	365	453	549
Price Stabilization	144	200	189	191	212	235	269
Export promotion	6	12	27	80	153	218	280
Interest payments	249	271	301	343	407	380	585
Transfers to Local Authorities	30	53	77	68	78	39	160
Special budgest and reserves	24	164	12	131	388	540	526
Other	250	310	393	444	501	516	597
Total Current Expenditure	1,707	2,309	2,625	3,157	4,022	4,617	5,798

Source: Bank of Israel and Ministry of Finance

Table 26

GOVERNMENT CAPITAL EXPENDITURE

(IL million)

	Fiscal Years[a]						
	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	(Actuals)					(Budget estimates)	
Agriculture	57	66	88	104	82	79	n.a.
Water development	99	54	46	24	24	10	n.a.
Industry	76	22	26	41	156	102	n.a.
Mining	42	39	36	44	108	147	n.a.
Electric power	36	26	52	17	20	25	n.a.
Tourism	10	8	15	18	38	16	n.a.
Transport	134	159	194	114	138	153	n.a.
Postal services	43	78	106	143	123	95	n.a.
Housing	241	342	327	289	130	174	n.a.
Local authorities	10	14	15	11	33	20	n.a.
Public institutions	20	43	52	59	74	69	n.a.
Special budgets and reserves	124	-	158	108	182	299	45
Working capital	75	20	10	55	29	5	n.a.
Others	10	15	10	21	17	23	n.a.
Total Capital Expenditure	977	886	1,135	1,048	1,154	1,217	1,165

Source: Bank of Israel and Ministry of Finance
a/ April to March

Table 27

FINANCING OF GOVERNMENT DEFICIT

(IL million)

	Fiscal years						
	1963/64	1964/65	1965/66	1966/67	1967/68	1968/69	1969/70
	(Actuals)					(Budget Estimates)	
Domestic borrowing, gross	317	422	608	1,049	1,471	1,401	n.a.
Banking system, net[a]	- 109	50	139	477	551	550	n.a.
National Insurance Institute	84	87	129	122	91	86	n.a.
Bond issues and other domestic borrowing	259	173	192	280	729	730	n.a.
Compulsory loans	83	112	148	170	100	35	n.a.
Foreign financing, gross	596	637	680	571	885	847	n.a.
Loans[b]	472	534	580	569	885	847	n.a.
Grants[c]	124	103	100	2	-	-	n.a.
Repayment of Loans	311	323	393	401	475	490	n.a.
Domestic	72	112	185	106	241	167	n.a.
Foreign	239	211	208	295	234	323	n.a.
Total net financing	602	736	895	1,219	1,881	1,758	n.a.
Domestic	245	310	423	943	1,230	1,234	n.a.
Foreign	357	426	472	276	651	524	n.a.

Source: Bank of Israel and Ministry of Finance

a/ Includes changes in cash position.
b/ Development bonds, US Government loans, IBRD loans, and German Government loans
c/ German reparations

Table 28

INTERNAL GOVERNMENT DEBT

(IL million)

	Amount outstanding at end of March				
	1963	1964	1965	1966	1967
Treasury notes and bills	147	147	147	147	262
Loans from central bank	97	246	193	236	149
Government bonds	447	575	595	550	703
Bonds purchased by financial institutions	286	301	344	448	568
Loans from National Insurance Institute	373	457	544	673	795
Sub total	1,350	1,726	1,823	2,054	2,477
Compulsory loans	90	209	318	466	626
Total	1,440	1,935	2,141	2,520	3,103

Source: Bank of Israel

Table 29

REVENUE AND EXPENDITURE OF LOCAL AUTHORITIES
(IL million)

	Calender Years				
	1963	1964	1965	1966	1967 P/
Current Revenue	319	381	445	510	579
Taxes	210	250	268	301	336
Government transfers	62	77	113	127	151
Other	47	54	64	82	92
Current Expenditure	284	361	461	562	605
Current Surplus/Deficit	35	20	- 16	- 52	- 26
Capital Expenditure	138	190	221	195	162
Overall Deficit	- 103	- 170	- 237	- 247	- 188
Financing	103	170	237	247	188
Government loans and grants	16	12	31	31	28
Banking system, net	1	5	52	50	55
Other domestic a/	96	151	155	164	106
Foreign, net	- 10	2	- 1	2	- 1

Source: Bank of Israel

a/ Includes private cost-sharing in capital expenditure
P/ Preliminary

Table 30

REVENUE AND EXPENDITURE OF NATIONAL INSTITUTIONS[a]
(IL million)

	Calender Year				
	1963	1964	1965	1966	1967[e]
Current revenue	15	17	19	19	12
Current spending, gross	248	237	240	220	399
Social services[b]	124	74	74	77	...
Immigration	71	68	55	36	...
Other	53	95	111	107	...
Less: Capital transfers to Government	- 50	- 20	- 17	- 2	...
Current spending, net	198	217	223	218	399
Current deficit	- 183	-200	- 204	- 199	- 387
Capital expenditure	84	54	57	36	31
Direct expenditure[c]	34	34	40	34	31
Transfers to government	50	20	17	2	...
Overall deficit	- 267	-254	- 261	- 235	- 418
Financing of deficit	267	254	261	235	418
Foreign sources	289	262	263	220	976
Unilateral receipts	174	192	221	174	922
Loans, net	115	70	42	46	54
Domestic credit, net	- 22	- 8	- 2	15	- 558[d]

Source: Bank of Israel

a/ Jewish Agency, Jewish National Fund, Keren Haysod and World Zionist Organization
b/ Education and culture, health, social welfare and housing
c/ Mainly for agricultural settlements
d/ Largely accumulation of reserves
e/ Estimate; in 1967 the National Institutions took over additional responsibilities from the government as their income from unilateral receipts had vastly improved.

Table 31

RECEIPTS AND EXPENDITURES OF NONPROFIT INSTITUTIONS[a/]
(IL million)

	Calender Years				
	1963	1964	1965	1966	1967[P/]
1. Receipts	446	536	632	757	816
a) Own receipts[b/]	338	406	467	565	590
b) Transfers [c/]	108	130	165	192	226
2. Current expenditure	503	582	719	818	849
a) Health	216	244	313	352	352
b) Education	150	181	226	265	292
c) Welfare	70	77	89	86	92
d) Others	67	80	91	115	113
3. Current deficit (1-2)	- 57	- 46	- 87	- 61	- 33
4. Capital expenditure	77	112	130	160	127
a) Health	16	24	35	54	40
b) Education	42	64	74	79	60
c) Welfare	10	14	11	14	15
d) Others	9	10	10	13	12
5. Overall deficit (3-4)	- 134	- 158	- 217	- 221	- 160
6. Financing	134	158	217	221	160
a) Foreign transfers	128	151	156	146	136
b) Domestic credit	6	7	61	75	24

Source: Bank of Israel

a/ Legally private institutions which however provide public services (health, education, welfare) either free or at low fees.
b/ Membership dues and fees, sales of services and goods, and private transfers.
c/ From the public sector
P/ Provisional

Table 32

CHANGES IN MONEY SUPPLY AND CIRCULATION VELOCITY

(IL million)

1. Increase of Money Supply

Year	Cash	Demand Deposits	Total Money Supply
1961	45	44	89
1962	65	222	287
1963	116	237	353
1964	65	33	98
1965	67	125	192
1966	94	15	109
1967	215	316	531
1968/e	140	210	350
Outstanding Money Supply, Dec. 31, 1968 /e	1,110	1,780	2,890

e/ Estimate

2. Circulation Velocity of Money

Year	Average Annual velocity of money in relation to: National Income	Total resources
1961	4.3	6.5
1962	4.4	7.1
1963	4.2	6.3
1964	4.3	6.5
1965	4.7	6.8
1966	4.7	6.7
1967	4.1	5.7
1968e/	3.8	5.3

e/ Estimate

Source: Bank of Israel

Table 33

FACTORS AFFECTING MONEY SUPPLY

(IL million)

Increase/Decrease (-)	1963	1964	1965	1966	1967 c/	1968 d/
Money supply	353	98	192	109	531	375
Foreign currency assets	227	54	219	-70	669	184
Bank credit, net	274	243	191	468	801	744
to the government	(119)	(95)	(55)	(200)	(392)	(-)
to the public	(155)	(148)	(136)	(268)	(509)	(-)
Less liquid deposits	87	156	202	299	942	628
local currency a/	(20)	(23)	(27)	(157)	(525)	(430)
foreign currency b/	(67)	(133)	(175)	(142)	(417)	(198)
Other factors	- 61	- 43	-16	10	3	75

Source: Bank of Israel

a/ Time and saving deposits
b/ Foreign currency deposits and deposits linked to the exchange rate.
c/ Includes devaluation adjustments
d/ January/August

Table 34

BANK CREDIT TO THE PUBLIC BY SECTORS

(IL million)

	End of Year					
	1963	1964	1965	1966	1967	1968 b/
Agriculture	169	195	221	247	310	272
Industry	487	606	644	815	977	1,061
Construction	72	79	83	134	212	263
Commerce	113	118	126	125	178	240
Services	87	101	147	209	258	276
Private individuals	122	137	147	180	210	205
Financial institutions	29	46	79	91	131	211
Sub total	1,079	1,282	1,447	1,801	2,276	2,528
Local authorities	59	64	128	178	292	308
National institutions	26	34	32	35	57	62
Sub total	85	98	160	213	349	370
Miscellaneous	53	56	76	67	108	120
Total a/	1,217	1,436	1,683	2,081	2,733	3,018

Source: Bank of Israel
a/ Includes loans from earmarked deposits and credits against government deposits.
b/ End of June

Table 35

CONSUMER PRICE INDEX

1. Average 1964=100.0

	1962	1963	1964	1965	1966	1967	1968 e/
Agricultural Goods and Services	94.7	98.8	100.0	109.3	112.9	117.1	...
Industrial Production	95.3	98.7	100.0	105.9	112.7	114.7	...
Food Industry	93.3	98.6	100.0	107.8	115.1	117.9	...
Building and Housing Services	68.9	81.7	100.0	111.0	120.2	117.7	...
Electricity and Water	94.4	100.0	100.0	105.2	113.3	121.6	123.5
Transport and Ports	90.3	98.7	100.0	111.9	123.9	126.9	127.0
Services (Public & Personal)	95.2	98.1	100.0	109.2	122.2	125.1	...
Insurances and Taxes	86.6	93.5	100.0	101.6	127.1	135.4	137.1
Total	89.2	95.1	100.0	107.7	116.3	118.2	120.8

2. Annual Changes (per cent)

	1963	1964	1965	1966	1967	1968 e/
Agricultural Goods and Services	4.3	1.2	9.3	3.3	3.7	...
Industrial Production	3.6	1.3	5.9	6.4	1.8	...
Food Industry	5.7	1.4	7.8	6.8	2.4	...
Building and Housing Services	18.6	22.4	11.0	8.3	- 2.1	...
Electricity and Water	5.9	0.0	5.2	7.7	7.3	1.6
Transport and Ports	9.3	1.3	11.9	10.7	2.4	.0
Services (Public & Personal)	3.0	1.9	9.2	11.9	2.4	...
Insurances and Taxes	8.0	7.0	1.6	25.1	6.5	1.3
Total	6.6	5.2	7.7	8.0	1.6	2.2

Source: Bank of Israel

e/ Preliminary estimate

Table 36

INDEX OF AVERAGE MONTHLY WAGES

(January 1961=100)

	All	Agriculture	Industry	Construction	Electricity Water	Commerce	Transport Communication	Public Services	Personal Services
1961 Average	105	114	104	104	107	106	109	105	101
1962 Average	121	103	116	126	108	118	121	125	190
1963 Average	135	150	130	143	114	137	139	135	124
1964 Average	152	175	146	165	125	150	155	148	139
1964 March	151	183	148	162	119	152	152	145	135
June	150	174	145	166	121	146	151	148	137
September	154	170	148	162	121	160	171	149	149
December	162	164	158	190	138	155	159	157	148
				(January 1965=100)					
1965 March	109	111	107	106	105	119	107	110	103
June	107	108	106	105	98	106	100	111	104
September	113	117	110	98	105	123	125	114	110
December	117	112	114	111	102	116	126	120	112
1966 March	137	136	128	121	131	141	151	145	131
June	132	135	127	122	113	132	148	134	131
September	134	136	131	114	118	148	148	133	131
December	130	120	126	118	118	134	140	132	126
1967 March	132	126	128	118	119	138	156	132	129
June	123	112	112	103	117	124	134	132	115
September	135	139	130	120	121	146	144	136	127
December	132	132	126	118	122	135	146	134	124
1968 March	134	132	132	120	123	137	155	133	125
June*	133	127	127	117	124	137	153	136	131

Source: Bank of Israel

* Preliminary figures.

Table 37

BALANCE OF PAYMENTS 1962-68
(U.S. $ million)

	1962	1963	1964	1965	1966	1967	1968
Exports of goods and services	503	607	655	749	872	956	1,200
Commodity exports a/	271	337	349	404	475	541	685
Exports of services	232	270	306	345	397	415	515
Imports of goods and services	970	1,055	1,228	1,269	1,317	1,405	1,800
Commodity imports b/	614	648	803	794	795	750	1,065
Imports of services	356	407	425	475	522	655	735
Deficit on current account	-467	-448	-573	-520	-445	- 449	-600
Trade deficit	-343	-311	-454	-390	-320	- 209	- 380
Net invisibles	-124	-137	-119	-130	-125	- 240	- 220
Unilateral transfers	331	346	335	327	292	530	435
Transfers to private sector c/	202	228	230	211	194	212	245
Transfers to public sector d/	129	138	105	116	98	318	190
Capital movements, net	237	207	232	280	161	239	171
Changes in foreign reserves	-141	-109	-21	-106	19	- 223	97
Errors and omissions	40	4	27	19	-27	- 97	- 103

a/ f.o.b.

b/ c.i.f.

c/ Private transfers and German restitution.

d/ Institutional transfers, German reparations, and intergovernmental transfers.

Source: Bank of Israel

Table 38

COMMODITY COMPOSITION OF EXPORTS, 1962-1968
(in U.S. $ millions)

	1962	1963	1964	1965	1966	1967	1968 a/
Agricultural Exports							
Citrus Fruit	49	75	53	71	75	85	88
Eggs	9	5	6	5	4	6	.
Other	10	9	8	11	16	17	25
Total Agricultural	68	89	67	87	95	108	113
Industrial Exports							
Diamonds (polished)	89	116	137	154	190	193	235
Textiles and clothing	30	31	39	40	45	52	n.a.
Tires and tubes	10	9	8	9	10	9	n.a.
Chemicals	12	14	17	25	25	31	n.a.
Mining products	6	7	13	14	19	18	n.a.
Processed food	17	24	31	33	35	37	n.a.
Aircraft and parts	n.a.	2	2	2	2	6	n.a.
Other	47	60	55	63	77	82	n.a.
Total Industrial	211	263	303	340	403	428	582
Sales of used ships and aircraft	-	-	2	3	5	19	5
Total Gross Exports	279	352	372	430	503	555	700
Less goods returned and adjustments	-8	-15	-23	-26	-28	-14	-15
Total Net Exports	271	337	349	404	475	541	685

a/ Preliminary

Source: Monthly Foreign Trade Statistics and Bank of Israel

Table 39

EXPORTS AND ADDED VALUE, 1963-67

	Exports (U.S. $ million)					Added Value a/ (U.S. $ million)					Added Value as percent of exports				
	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967	1963	1964	1965	1966	1967
Citrus	75	53	71	75	86	63	42	57	60	68	84	79	80	80	79
Other agricultural products	14	14	15	20	23	12	11	12	17	18	81	79	80	85	79
Diamonds	104	118	132	165	158	20	26	30	46	43	19	22	23	28	27
Textiles	32	40	40	45	52	16	21	20	21	23	51	53	50	47	45
Minerals	11	19	24	30	29	9	16	20	25	24	83	84	83	83	82
Citrus products	13	18	19	19	24	9	12	13	13	16	68	67	68	68	67
Other industrial goods	86	85	99	114	121	49	45	53	62	68	57	53	54	54	57
Total b/	335	347	400	468	493	178	173	205	244	260	53	50	51	52	53

a/ Gross value of exports minus import component.

b/ This table does not fully correspond to Table , as it is based on earlier data.

Source: Bank of Israel

Table 40

COMMODITY IMPORTS BY MAJOR CATEGORIES, 1962-68
(U.S. $ million)

	1962	1963	1964	1965	1966	1967	1968
PRODUCTION INPUTS, TOTAL	442	467	544	555	590	553	730
Rough diamonds	67	93	102	96	125	125	n.a.
Other industrial inputs	269	264	326	329	314	287	n.a.
Agricultural inputs	29	32	30	34	48	52	n.a.
Spare parts	37	33	39	43	45	33	n.a.
Fuel	40	45	47	53	58	56	n.a.
INVESTMENT GOODS, TOTAL	144	139	198	179	140	129	200
For industry	73	76	74	89	65	49	n.a.
For transportation and communications	27	27	38	34	28	23	n.a.
Ships and aircraft	22	16	60	32	19	34	n.a.
For agriculture	8	6	9	5	6	5	n.a.
Other	14	14	17	19	22	18	n.a.
CONSUMER GOODS, TOTAL	44	58	84	82	91	74	105
Food	18	25	37	35	43	31	n.a.
Other current consumption items	13	15	19	21	23	25	n.a.
Durable goods	13	18	28	26	25	18	n.a.
Imports returned and adjustments	-16	-16	-23	-22	-26	- 6	30
TOTAL COMMODITY IMPORTS	614	648	803	794	795	750	1,065

Sources: Bank of Israel and Central Bureau of Statistics

Table 41

DIRECTION OF TRADE, 1967
(in U.S. $ millions)

	Exports	Percent of Total Exports	Imports	Percent of Total Imports
Europe	334	60	422	55
Common Market (E.E.C.)	160	29	184	24
Germany (Fed. Rep.)	59	11	62	8
Belgium and Luxembourg	36	6	27	3
Netherlands	31	6	35	5
France	24	4	33	4
Italy	10	2	27	3
Free Trade Area (E.F.T.A.)	128	23	203	26
United Kingdom	71	13	146	19
Switzerland	27	5	27	3
Sweden	10	2	10	1
Other E.F.T.A.	20	3	20	3
Other European Countries	46	8	35	5
United States	90	16	197	26
Canada	9	2	4	-
Other Western Hemisphere Countries	6	1	14	2
Hong-Kong	21	4	1	-
Japan	21	4	19	2
Iran	11	2	1	-
Other Asian Countries	19	3	6	1
African Countries	24	4	27	4
All Others and Unclassified	20	3	77	10
Total, All Countries	555	100	768	100

Source: **Central Bureau of Statistics**

Table 42

EXPORTS AND IMPORTS OF SERVICES, 1962-1968
(U.S. $ millions)

	1962	1963	1964	1965	1966	1967	1968 a/
EXPORTS OF SERVICES, TOTAL	232	270	306	345	397	415	515
Transportation	116	115	127	148	158	164	205
Tourism	38	53	55	55	59	52	95
Insurance	27	31	43	48	58	61	65
Capital servicing	21	26	29	37	48	55	60
Government	10	15	21	20	25	31	30
Other	20	50	31	37	49	52	60
IMPORTS OF SERVICES, TOTAL	356	407	425	475	522	655	735
Government	124	146	129	147	159	256	300
Capital servicing	70	72	83	94	107	123	130
Transportation	69	71	83	94	101	102	120
Tourism	26	38	37	44	49	44	50
Insurance	28	31	41	50	60	68	70
Other	39	49	52	46	46	62	65

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a/ Preliminary

Sources: Bank of Israel and Central Bureau of Statistics

Table 43

CAPITAL MOVEMENTS, 1962-1968
(U.S. $ millions)

	1962	1963	1964	1965	1966	1967	1968a/
Foreign Direct investment, net	82	135	143	83	71	8	20
Gross investment by non-residents	89	162	157	92	82	29	35
Israeli investment abroad	7	27	14	9	11	21	15
Long-and medium term capital, net	127	18	137	147	113	244	151
Gross inflow	259	224	297	309	335	405	335
Development bonds	67	79	99	100	124	232	150
I.B.R.D. loans	b/	b/	13	24	48	8	5
U.S. loans	38	49	69	82	67	63	55
Other loans	154c/	96c/	116	103	96	102	125
Repayments	132	206	163	153	222	161	184
Development bonds	33	56	74	67	113	57	60
Other loans	99	150	89	86	109	104	124
Short-term capital, net	28	54	-48	51	-23	-13	n.a.
Total capital movements, net	237	207	232	280	161	245	171

a/ Preliminary

b/ Included in "other loans"

c/ Because of differences in reported figures, this item has been adjusted + 6 for 1962 and -19 for 1963 to achieve consistency with the latest data.

Source: Bank of Israel Annual Reports, 1963-1967

Table 44

FOREIGN RESERVES, 1960-1968
(U.S. $ million)

End of Year	Bank of Israel			Other Monetary Institutions	Commercial Banks	Grand Total	Change from Previous year
	Gold	Foreign Exchange	Total				
1960	6	207	213	1	56	270	+102
1961	16	263	279	1	85	365	+ 95
1962	47	372	419	14	71	504	+139
1963	66	449	515	31	69	615	+111
1964	68	477	545	22	76	643	+ 28
1965	68	575	643	21	84	748	+105
1966	68	523	621	8	101	730	- 18
1967	69	646	715	114	120	949	+219
1968	69	594	663	n.a.	n.a.	850 /e	- 99

/e Estimate

Source: Bank of Israel