CHAPTER II

THE PRODUCT AND DOMESTIC DEMANDS

1. MAIN DEVELOPMENTS

The economic slowdown in 1980 was reflected by a paltry growth of the domestic product, sagging domestic demands,[1] stagnant employment, and a rise in unemployment. The decline in domestic demands was particularly steep, and consequently total resource use shrank despite a respectable export gain. Imports fell even more and the gross domestic product edged up a bit, as did the business sector product.[2]

The turnabout in domestic demands began in mid-1979; the buoyant level in the first months of the year gave way to a slump in the final part, and it deepened in early 1980. This cut short the rising phase of the business cycle, which began toward the end of 1977 and was briefer and more moderate than previous ones (even at its height the growth rate was less than half of that in earlier boom periods). Domestic demands began to gradually pick up in the second half of 1980. The sharp quantitative drop in imports and in the import surplus this year reduced the balance of payments deficit only marginally, owing to an inordinate jump in oil prices in 1979 and 1980. The increase in the oil import bill in 1980 as compared with 1978 in effect constituted an external tax on the Israeli economy, equal to 4.5 percent of total domestic uses.[3] The steady acceleration of inflation during the past few years was arrested in 1980, but it plateaued at the high level reached in the second half of 1979.

The 1980 recession encompassed all segments of the economy, with the exception of export production, and was reflected in both the goods and the labor market. Private consumption slumped at an unprecedented rate, investment

1 Excluding direct defense imports.

2 There is a difference of 3 percentage points between the two alternative estimates of the real business sector product. A measurement from the uses side shows a growth of 2 percent, whereas a measurement according to sectoral origin points to a 1 percent decline. It is hard to judge which calculation is more reliable, particularly in a period of three-digit inflation, which makes it difficult to estimate relative prices. Different methods of estimating the price increases could account for this differential in the real business product. In calculating national and disposable income it is customary to use GNP data based on uses, and that is what will be done here. It should be noted that these estimates are likely to be biased upward by as much as 3 percent, and so in discussing these aggregates we shall take the average of the two estimates.

3 For details of the calculation see Chapter VII, "Balance of Payments".

Table II–1
RESOURCES AND USES, 1978–80
(IS million, at current prices)

			Average		Percent annual increase					
					Quantity			Price		
	1979	1980	1968–72	1974–77	1978	1979	1980	1978	1979	1980
Resources										
Gross domestic product	44,645	103,485	11.0	1.8	4.9	4.2	1.8	55.7	82.9	127.6
Imports of goods and services[a]	31,661	70,131	11.2	–0.3	10.3	3.0	–5.5	73.3	70.2	134.5
Thereof: Civilian	28,213	59,782	10.6	1.8	5.7	10.1	–9.6	74.8	70.8	134.3
Total resources	**76,306**	**173,616**	**11.0**	**1.0**	**7.0**	**3.7**	**–1.1**	**63.0**	**77.4**	**130.0**
Uses										
Private consumption	27,710	61,387	7.2	3.0	7.8	5.7	–3.4	53.9	78.7	129.3
Public consumption	15,307	37,593	10.0	–5.2	12.1	8.1	7.6	57.8	48.6	128.1
Public consumption, excl. direct defense imports	11,859	27,244	8.7	–2.5	2.5	2.8	1.8	54.4	93.2	125.6
Gross domestic investment	12,270	23,726	18.4	–6.1	4.1	14.0	–16.7	72.9	73.8	132.0
Thereof: investment in dwellings	3,708	9,826	33.5	–10.7	–2.5	15.2	8.1	64.9	106.0	145.1
Total domestic uses, excl. defense imports	**51,839**	**112,357**	**10.2**	**–0.5**	**5.8**	**6.8**	**–5.3**	**57.9**	**80.8**	**129.0**
Exports, at market prices[b]	21,019	50,910	13.2	9.7	3.5	4.8	6.0	75.1	73.1	128.4
Total uses										
Excl. direct defense imports	**72,858**	**163,267**	**10.9**	**1.9**	**5.2**	**6.3**	**–2.4**	**62.7**	**78.4**	**129.5**
Incl. direct defense imports	**76,306**	**173,616**	**11.0**	**1.0**	**7.0**	**3.7**	**–1.1**	**63.0**	**77.4**	**130.0**
Net factor payments abroad	1,760	3,598	11.0	–0.2	10.8	22.3	–10.2	86.4	84.3	127.7
Gross national product, at market prices	42,885	99,887	10.9	1.9	4.7	3.6	2.3	55.2	82.4	127.7
Gross domestic product of the business sector, excl. ownership of dwellings, at market prices[c]	30,288	72,928	12.2	1.0	5.2	4.3	2.1	56.2	72.2	135.9

[a] Valued at c.i.f. prices. Excludes factor payments abroad and interest paid by the public sector.
[b] Valued at f.o.b. prices. Includes export subsidies and since 1978 the estimated subsidy component of export credit; excludes factor receipts from abroad and interest received by the public sector.
[c] The gross domestic product, less ownership of dwellings and public and nonprofit institution services.
SOURCE: Central Bureau of Statistics.

was cut back sharply, and even public civilian consumption turned down, for the first time in years. As a result, domestic uses (excluding direct defense imports) were 5 percent below their 1979 level. The slowdown was also evident in the labor market: the labor input shrank, real wages and salaries dropped, unemployment rose, and the number of persons seeking work through the labor exchanges increased. The reversal of trend in the labor market also occurred in 1979, when it became clear that the acceleration of economic growth—which apparently was the basic reason for the high level of employment and real wages set at the start of the year—would not materialize.

The flagging of the economy during 1979 began as an adjustment to the surging of demands at the start of the year, and was exacerbated by the stringent monetary and fiscal policies adopted. At the beginning of 1979 private sector demands—consumption and investment (including inventory buildup) expanded strongly in the expectation that the 1978 growth trends would continue and even intensify with the realization of the peace process (the Camp David agreements) and the start of the military redeployment in the Negev. Along with the higher consumption and investment, there was a marked shift to imports and a smaller demand for domestic products. But as it turned out, the demand derived from the military redeployment fell short of expectations, since much of the work was carried out by American companies and that performed by local contractors will be spread over several years. As a result, the investment in equipment and transport vehicles and the labor force increment exceeded actual demand. In addition, Israel's terms of trade began to deteriorate badly due to the jump in oil prices. The adjustment to a lower level of economic activity affected all segments of the economy: the labor input contracted, leading to higher unemployment; real wages were eroded by mounting inflation; and the capital stock was reduced by cutting back investment, mainly in inventories.

The cooling of domestic demands and economic activity was aggravated by the introduction of a policy of fiscal restraint at the end of 1979 and a stringent monetary policy in the middle of that year. The change in fiscal policy began with the pruning of subsidies on domestic production at the end of 1979, which severely depressed real income and wages, and continued in 1980 with budgetary restraint in general and a smaller absorption of workers in the public sector in particular. The policy of monetary restraint included the hiking of interest rates and the quantitative restriction of nondirected (free market) credit, which proved effective throughout most of 1980. The failure to adjust company profits tax for the escalation of inflation in recent years has led to the erosion of equity capital and the financing of an increasing share of business activity through borrowing. The rising cost of credit and the credit restrictions put a damper on economic activity in 1980. The higher real cost of credit made it much more expensive to maintain inventories, and the consequent destocking aggravated the slump.

Another contributory factor was the indexation of housing and development loans in mid-1979, which discouraged investment and the purchase of homes. The intention to index such loans was known in advance, and this initially spurred investment at the beginning of 1979 and depressed it when indexation went into force. The almost total desubsidization of basic goods at the end of 1979 and the passing on of the bulk of the oil price rise to consumers constituted a change in the government's subsidy policy, sharply pushing up the prices of these goods and reducing wages and real income. Expectations of a continuation of the restrictive policy and perhaps even its intensification, coupled with the weakening of the labor market, caused private consumption to shrink at the end of 1979 and beginning of 1980 by more than was warranted by the actual decline in income and wages. Declarations about the intention to cut public sector employment, which was actually carried out with the implementation of the 1980/81 budget, also contributed to the feeling that the slowdown would continue and heightened uncertainty regarding employment, thereby apparently exerting a dampening effect on private consumption. This overreaction was redressed in the course of the year, when it became clear that the downswing in government demand halted and incomes also turned up fractionally.

In contrast to the slackening of domestic demands, exports continued to forge ahead this year in line with the long-term trend, which was sustained in spite of the laggard expansion of Israel's foreign markets in 1980; the subsiding of domestic demands goes some way to explain this favorable development. Import volume fell sharply as the business cycle swung downward. This generally hits imports hardest, a development accentuated this year by a heavy depletion of stocks in response to the dearer cost of credit.

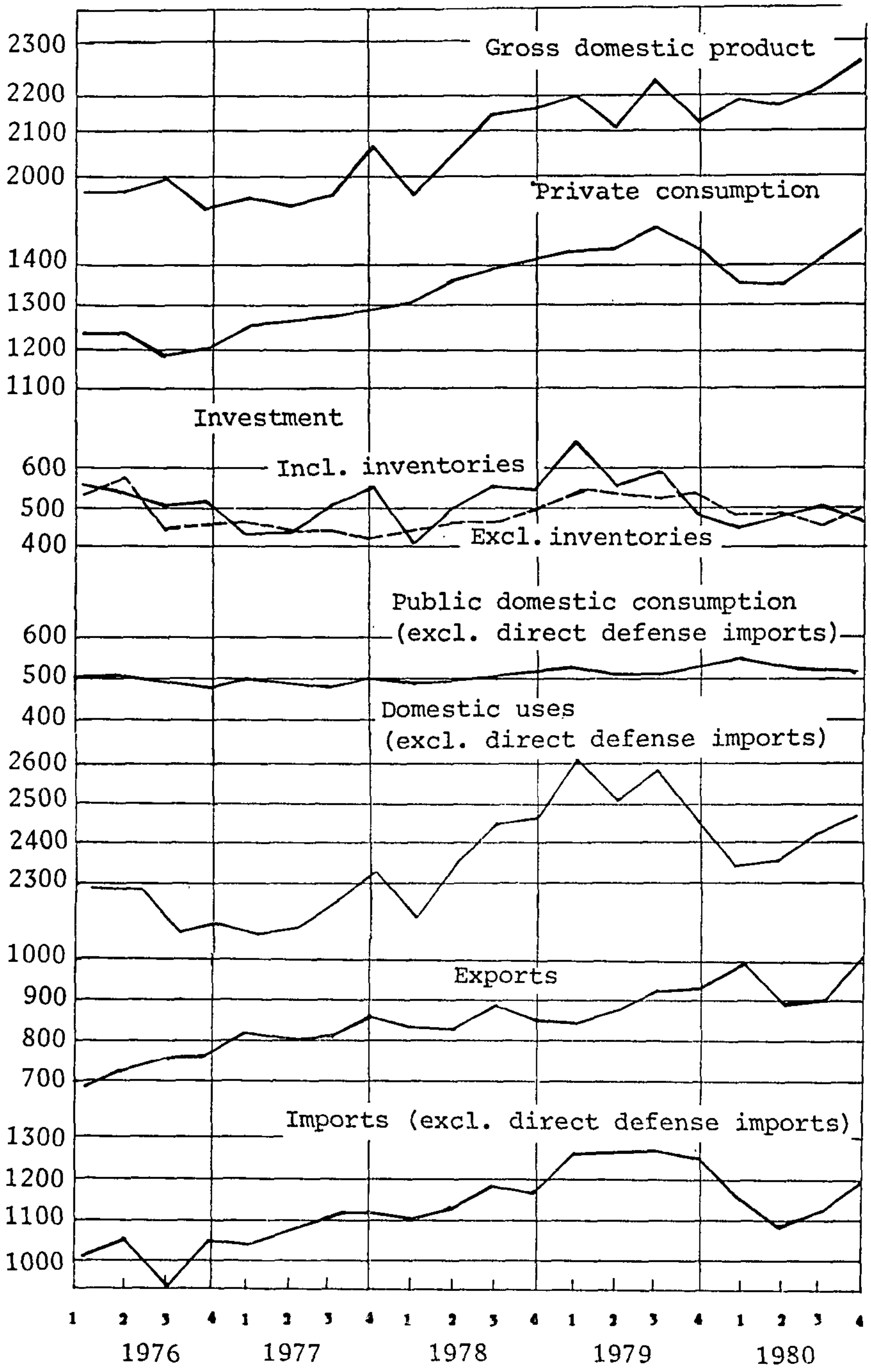
The gross national product at factor cost[4] rose this year by 2 percentage points less than its market price measurement, owing to the increase in indirect taxes and the sizable real 14 percent reduction of subsidies. In contrast to the previous

[4] The gross national product at factor cost as customarily defined. In recent years the Central Bureau of Statistics has included in the calculation the estimated subsidy component of government loans to the business sector, a practice which the Bank of Israel has not accepted. The conventional definition of national income is therefore used in this Report, for several reasons: Part of the capital gains earned on nonindexed credit is unexpected, arising from the acceleration of inflation by more than was envisaged at the time the loans were given. Hence they are not subsidies but transfer payments, which are not included in national income. The expected portion too should not be added, as some of it is already included in national income—the investments are already measured at factor cost (the prices received by the sellers of the investment goods). Since there is no simple way of distinguishing between these two parts and in order to preclude the incorporation of inflationary expectations in the national accounts, we preferred to stick to the generally accepted method of calculating national income. The directed export credit subsidy is now included in the value of exports, a method we find acceptable for the same reason of consistency with past practice in calculating the product at the effective exchange rate. Directed export credit is granted for short terms, and the capital gains thereon are expected; this in effect constitutes an export subsidy, and is thus part of the effective exchange rate.

Figure II-1

RESOURCES AND USES, 1976-80

(IS million at 1975 prices; quarterly seasonally adjusted data)



year, the worsening of Israel's terms of trade was mostly borne by consumers, and in view of the slashing of subsidies on basic products it was expected that the niggardly real gain in the product at market prices would be reflected by an appreciable decline in real national income; however, this is not evident in the current-price data on the product (see section 8 below).

A sectoral analysis of the real product reveals a 3–4 percent drop in industry and in transportation and communications and a similar percentage growth in agriculture and construction. The net outcome of these contrasting developments was a 1 percent decrease in the business sector product. The difference between this figure and the estimated change in the business sector's real product as measured from the uses side makes this year's discussion of productivity problematic, since the data based on uses show that the product per manhour worked in the business sector rose 4 percent and overall productivity by 1 percent, whereas the sectoral origin measurement indicates a zero growth in product per manhour and a decline in overall productivity. However, any discussion of productivity must refer to the multiyear trend, and here both indicators point to continued stagnation since 1975.

2. THE DOMESTIC PRODUCT AND PRODUCTIVITY

The gross domestic product of the business sector rose only a notch in 1980 (as stated, the estimate based on sectoral origin shows a slight decline). This marked the end of the short-lived rising phase of the business cycle, which began in the latter part of 1977 following a prolonged slump in the wake of the Yom Kippur War and the 1973 oil crisis. The 1977–80 cycle was remarkable for its low annual growth rates, which, at their peak of 5 percent, were less than half the rates recorded in earlier boom periods.

Several factors were responsible for this development. The most salient one was the much more sluggish increase in inputs: whereas the 1950s and 1960s witnessed a rapid population growth, fed by a large immigration, and a sizable capital stock accumulation, in the 1970s immigration fell off, pulling down the population growth rate, and the capital stock expanded more slowly. Secondly, the oil crisis and the ballooning of the defense burden following the Yom Kippur War severely strained the country's balance of payments. The retrenchment policy adopted, which mainly found expression in the cutting back of investment, was intended to effect a structural change which would lead to the shrinkage of the import surplus. Consequently, the economy did not expand at the rate warranted by the growth of productive factors and productivity in the past. A third factor was the continued encouragement of capital-intensive production through a heavy capital subsidy, which swelled with the escalation of inflation and to some extent was unplanned. When the cost of capital to the investor is much cheaper than its cost to the economy, resources are wasted

Table II–2

BUSINESS SECTOR PRODUCT[a] BY FINAL USES, 1973–80

(Percentages)

	Distribution of the product by final uses			Percent annual increase in product			Contribution of uses to growth of product		
	1973–75	1979	1980	1978	1979	1980	1978	1979	1980
Private consumption	39	39	37	7	2	–7	2.9	0.7	–2.6
Public consumption	12	9	10	0	2	5	0.0	0.2	0.5
Investment[b]	23	17	15	—	9	–8	—	1.4	–1.4
Thereof: In fixed assets	—	—	—	2	6	–3	0.4	1.0	–0.4
Total domestic uses	**74**	**65**	**62**	**4.8**	**3.5**	**–5.1**	**3.3**	**2.3**	**–3.5**
Exports	26	35	38	8	8	8	2.6	2.6	2.9
To administered areas	3	3	3	–5	–4	9	–0.2	–0.1	0.3
Other	23	32	35	10	9	8	2.8	2.7	2.6
Total final uses	**100**	**100**	**100**	**5.8**	**4.9**	**–0.6**	**5.8**	**4.9**	**–0.6**

NOTE: The data here have been calculated on the basis of input-output coefficients. In order to render them comparable with the data on resource uses, the latter have been adjusted downward as follows: private consumption excludes ownership of dwellings and compensation of employees (wages and salaries plus fringe benefits) of nonprofit institutions; public consumption excludes compensation of public sector employees; and exports exclude factor payments abroad, interest received by the public sector, and sundry domestic factor income. In addition, the direct import component has been deducted from all uses.

[a] Gross domestic product at factor cost, excluding public sector and nonprofit institution services.

[b] Includes changes in domestically produced inventories in 1979–80.

SOURCE: Central Bureau of Statistics data adjusted in accordance with Bank of Israel input-output data for 1975/76.

because the return to the economy from the use of capital in the long run falls short of its cost. This is also reflected in the low capital utilization rates.

The OPEC oil shock of 1973 inhibited economic growth in most industrialized countries; in Israel the problem was exacerbated by the heavy defense burden and the two other above-mentioned factors, and so this country was hit harder and longer. The second oil crisis of 1979 also hurt Israel more than most other countries because of its total dependence on imported oil since the return of the Sinai oil fields to Egypt. The mounting cost of oil in 1979–80 added $900 million to Israel's import bill in comparison with 1978; in effect this constituted an external tax of 4.5 percent on total domestic uses (for details of this computation see the chapter on the balance of payments).

The negligible growth of the domestic product in 1980 was the net outcome of two opposite trends: a 3 percent increase in the product attributable to exports and a similar percentage drop in the product attributable to domestic uses. Table II–2 shows the sustained, consistent contribution of exports to GNP growth in recent years, which was fairly similar in all the sectors producing tradables (as described in detail in Chapter VI.) Among domestic uses, the downturn in private consumption had the greatest effect on the product, followed by investment, where half of the decline was due to destocking. The slump in domestic demands developed in the course of 1979 in response to the arresting of the uptrend in residential construction and the fact that the demand for domestic factors of production related to the military redeployment fell short of expectations. In early 1979 consumption and investment growth accelerated, with much of the increment consisting of imports, whose relative price dropped during this period. With the flagging of demand for domestic goods, production contracted, inventories began to accumulate, and the labor market showed signs of weakness toward year-end. The recessionary trend which appeared in mid-1979 grew more pronounced in the final months due to the restrictive credit policy, the lifting of subsidies, and the increase in oil prices; in mid-1979 development loans and housing mortgages were linked to the consumer price index (partial linkage during a transitional period and full linkage thereafter), the amount of credit was curbed, and the interest on nondirected credit hiked. In November 1979 most of the subsidies on basic goods were abolished, the price of oil was raised to the full extent of its extra cost to the economy, and the expansion of nondirected credit was further tightened. The stringent monetary policy, which pushed up interest rates steadily in 1979 and 1980 and effectively limited the volume of credit during most of this period, directly contributed to the cooling of the economy. The profit taxation system is not geared to an economy in the throes of a protracted inflation, since it discriminates between profits from business activity and those from other sources, besides treating interest and indexation differentials as deductible expenses. This spurred the financing of a growing share of business activity by credit in recent years; hence a rise in the cost of credit or the restriction of its volume has a dampening effect.

This explains the sharp downturn in consumption, investment, and various import items toward the end of 1979 and the intensification of this trend at the beginning of 1980 (see Figure II–1).

The precipitate increase in interest rates resulted in a drastic contraction of inventories, pulling down imports and slowing domestic production. The latter development was reflected in the labor market by an increase in registered unemployment at the end of 1979 and a rise since early 1980 in the unemployment rate as measured in the labor force surveys. The industrial production index moved up at a more laggard pace in the second half of 1979 and tumbled 10 percent in the first quarter of 1980. The 1980/81 government budget also mirrored the dampening effect of public domestic consumption, primarily the checking of the steady growth in public service employment. The economic situation at the start of 1980 appeared to be the result of an overreaction to past policy measures, fears that the slump would continue, and uncertainty with regard to employment, inflation, relative prices, and, above all, future policy steps. In the second half of 1980 real wages and salaries rose above their first-half level, and domestic demands gradually perked up despite the continuation of the policy of monetary stringency. Inventories were apparently so low that they too began to grow, and along with them imports, including production inputs.

Table II–3

CHANGES IN GROSS DOMESTIC PRODUCT,[a] FACTOR INPUT, AND BUSINESS SECTOR PRODUCTIVITY, 1960–80

(Percent annual real increase)

	Average								
	1960–72	1968–72	1975–80	1975	1976	1977	1978	1979	1980
Gross domestic product[a]	10	13	2	3	0	–1	5	4	2
Labor input	4	7	2	4	0	1	4	4	–2
Stock of fixed nondwelling capital (beginning of year)	9	9	6	8	6	5	4	5	5
GDP/labor input	6	6	1	–1	0	–1	1	0	4
GDP/capital stock	1	5	–3	–4	–6	–6	1	0	–3
Productivity[b]	4	6	–1	–2	–2	–3	1	0	1

[a] Measured according to uses. For a similar table in which the business sector product is measured according to sectoral origin see Chapter VI.

[b] Labor weighted 2/3 (a calculation in which labor is weighted 1/2 produces similar results).

As mentioned above, there are two estimates of the change in measured productivity in 1980 due to two different business product estimates. However, any discussion of productivity must refer to the multiyear trend, and here the differences between the two estimates are small and point to virtual stagnation during the years 1972–80. Productivity growth in most western countries slowed during this period, with the cause generally being attributed to the oil crisis and resulting balance of payments strain. Altering the production structure by switching to oil substitutes and developing new fuel-efficient production processes is a long, drawn-out matter, and during the transitional period the drop in production efficiency drags down productivity. In Israel the situation has been aggravated by the effects of spiraling inflation, with its inherent uncertainty and a heavy subsidization of capital; these have led to distortions and inefficient production. It is difficult to quantify these effects, but is seems that they are partly responsible for the decline in productivity (a more comprehensive discussion of this subject appears in Chapter VI).

3. PRIVATE CONSUMPTION

Private consumption fell at an unprecedented rate in 1980: the total figure was down 3.4 percent and per capita by 6 percent; excluding housing and nonprofit institution services,[5] the level sank 5.8 and 8 percent respectively. Although this took place against a 4 percent drop in per capita disposable private income, the latter was slightly less steep than the reduction in per capita consumption. As a result, the saving rate moved up a notch, which was also an exceptional phenomenon, for hitherto a fall in per capita income had been accompanied by a decline in the saving rate.[6] There were apparently special factors at work in 1980 which helped to depress consumption by more than was warranted by the sagging of income: in the final part of 1979 most of the subsidies on basic goods were abolished under the policy of reducing the public sector's demand surplus, and the price of oil shot up. The resulting across-the-board price increases, together with the declarations about the continued implementation of a resolute policy of restraint and the first signs of slackness in the labor market, apparently generated fears of a further worsening of the situation with respect to employment and real income. Consequently, private consumption dipped sharply in late 1979 and early 1980. Although this overreaction was later redressed, over the year as a whole consumption shrank faster

[5] These two items are not actually included in current household expenses: consumption of housing services is an imputation, based on the change in the dwelling stock, while consumption of nonprofit institution services is determined by the institutions' budgets.

[6] Per capita income fell in 1966, 1974, 1975, and 1979, and in each of these years the saving rate also declined (see Figure II–2).

than wage and nonwage income. But in this connection the problematic nature of the product and income estimates this year must be borne in mind (see notes 2 and 14 in this chapter): a calculation of disposable income with the product measured by sectoral origin shows a 2–3 percent larger decrease in per capita disposable income and no change in the saving rate. Hence we shall not elaborate further on the relationship between the change in consumption and that in income, but shall focus on the nature of the growth in consumption and its components. In the discussion of savings we shall emphasize the multiyear trend (section 8 below).

The downturn in consumption encompassed all commodity categories, with the relative decline in each being consistent with its specific nature. Consumer goods are divided into three principal groups. The first consists of food and household fuel and light, which constitute the current consumption of households. The second group is composed of nondurable industrial products, clothing, and footwear, whose consumption inherently differs from that of the first group. The third group is durables.

Purchases of durables generally plummet when the economy slides into a recession, while purchases of the second group slump more mildly, and current consumption falls off least. In boom times too the sharpest response is in durables, followed by the second group, while current consumption items rise at the most moderate rate. In 1978 and early 1979 there was an exceptional upsurge in purchases of durables, a sizable increase in clothing, footwear, and other industrial goods, and a moderate one in household fuel and food. This adjustment pattern was also evident when consumption slackened in 1980: current consumption of food and household fuel and light was down 4 percent, clothing, footwear, and other industrial nondurables fell 12 percent, while durables (excluding TV sets) tumbled 30 percent. Two additional factors had a strong impact this year: the steep jump in food and fuel prices and the appearance of a new product on the market—color television—with the introduction of color transmission in this country.

When real income falls, households can cut their consumption of current items (as defined above) to some extent but cannot postpone it, in contrast to other goods, notably durables. Hence the annual fluctuations in this group are generally small, even when income changes appreciably. However, 1980 was an exception to this rule: per capita consumption of food dropped 9 percent and fuel and light by 2 percent. For comparative purposes it should be noted that in 1976 real per capita income dipped 9 percent, but expenditure on these items edged down by a mere 1 percent. The deviant development in 1980 is explained by the precipitate rise in the relative price of this component; whereas total consumption prices (excluding housing and nonprofit institution services) rose 138 percent, the current group became 168 percent dearer. This steep relative price increase was likely to have a dampening effect since, apart from the income distribution factor, food accounts for a sizable share of the lower

Table II-4

PRIVATE CONSUMPTION OF GOODS AND SERVICES BY MAJOR COMPONENTS, 1977–80

(IS million, at current prices)

			Percent annual increase							
			Quantity				Price			
	1979	1980	1977	1978	1979	1980	1977	1978	1979	1980
Goods										
Food, beverages, tobacco	7,043	17,660	5	5	2	–5	41	48	76	164
Household fuel and light	989	2,935	3	6	3	0	31	52	76	197
Clothing, footwear, and nondurable industrial goods	3,216	6,021	5	13	–1	–12	34	53	68	114
Durables	3,260	5,522	0	23	34	–11	37	58	49	90
Excl. T.V. sets					19	–31				
Services										
Nonprofit institutions	3,001	6,453	4	3	3	–1	53	57	87	117
Housing	5,698	12,296	6	5	4	4	21	58	117	108
Other services and misc.	5,633	12,765	7	8	6	–2	42	55	71	132
Total domestic consumption	**28,840**	**63,652**	**5**	**8**	**6**	**–4**	**37**	**54**	**79**	**129**
Consumption of Israelis abroad	1,122	2,675	19	15	12	3	42	63	60	131
Less: Consumption of foreign nationals in Israel	2,250	4,940	20	12	13	–6	47	59	68	133
Total private consumption, excl. housing and nonprofit institutions	**19,011**	**42,638**	**5**	**11**	**7**	**–6**	**39**	**50**	**69**	**138**
Total private consumption	**27,710**	**61,387**	**4.3**	**7.8**	**5.7**	**–3.4**	**36.2**	**53.8**	**78.6**	**129.3**

income groups' consumption, and their total consumption slumped significantly in response to the precipitate jump in food prices.

The downswing in current consumption was already evident in the last quarter of 1979 and carried over through the first half of 1980. The almost total desubsidization of basic goods in November 1979 immediately doubled the price of food, and in the last quarter of 1979 it went up 35 percent, twice the third-quarter rate. Prices continued to mount at roughly this pace in the first quarter of 1980, after which they softened a bit. The prices of household fuel and light were jacked up several times in 1980 following the rise in world oil prices; this item went up 40 percent in the first quarter and at a somewhat slower rate the rest of the year.

Regarding the smaller acquisition of durables in 1980 following a two-year increase, it should be noted that these goods provide a stream of services for a fairly long period in exchange for a large one-time outlay. Purchases in a given year represent only a small percentage of the total stock of durable goods, and can therefore be deferred without causing an immediate slowdown in the stream of services they provide. When income declines, the sagging of such purchases barely affects current consumption. This explains the cyclical behavior of this item: in 1975 and 1976, when per capita income dropped, purchases fell sharply, slowing the growth of the stream of services; when income picked up again, the uptrend in purchases reasserted itself. In 1980, despite the much smaller outlay on durables, the growth of their services did not ebb significantly. Another factor which depressed purchases in 1980 was the sharp downturn in immigration as compared with the previous two years, for new arrivals tend to spend heavily on durables around the time of their immigration. The dearer cost of credit was also a contributory factor.

This development does not include color television sets, which were acquired in large quantities in 1979 and 1980. This product provides a new consumption service—the reception of color programs—and so the timing of its purchase is less elastic than in the case of durables which replace old goods providing the same service.

Spending on other services (excluding housing and nonprofit institutions) was down 4.5 percent per capita in real terms, with the path traced over the year being similar to that for total consumption. Consumption of housing services, which in the main reflects the change in the stock of dwelling units, rose 2 percent per capita, as in the two preceding years. Consumption of nonprofit institution services, which include health, welfare, university education, etc., was off 3 percent per capita, after holding steady for two years.

An examination of the relative prices of private consumption in 1980 points up the sharp rise in food and household fuel and the precipitous drop in durables and housing, reflecting the much weaker demand for these items this year.

Table II–5

CHANGES IN REAL CONSUMPTION OF DURABLE GOODS, 1968–80[a]

(Percentages)

	Weight in 1979	Average 1968–69	Average 1970–74	1975	1976	1977	1978	1979	1980
Purchases									
Furniture	24	29	9	–2	–5	4	9	2	–15
Household equipment	59	71	5	–10	–2	–6	32	53	8
Personal transport equipment	27	61	12	–49	7	5	29	43	–55
Total	**100**	**54**	**8**	**–16**	**–1**	**–6**	**23**	**34**	**–11**
Stock of durables[b]									
Furniture	33	11	11	9	7	5	6	7	5
Household equipment	50	15	13	12	9	7	9	13	14
Personal transport equipment	17	17	16	9	3	3	7	10	6
Total	**100**	**14**	**13**	**10**	**7**	**6**	**7**	**10**	**10**

[a] This table has been calculated at 1970 prices except for the rates of change in purchases in 1976–80, which have been calculated at 1975 prices

[b] The percentage change in the stock of durables is an estimate of the consumption of the services they provide.

4. PUBLIC CONSUMPTION

Public domestic consumption was up 2 percent in real terms this year, the resultant of a 0.5 percent drop in civilian consumption and a 4 percent increase in domestic defense outlays, mostly in connection with the military redeployment in the Negev. Defense imports rose 26 percent, also due primarily to the redeployment.

The downturn in civilian consumption in 1980 reversed the steady 3–5 percent annual growth rate of the past few years. Particulary noteworthy was the checking of the continuous expansion of public sector employment, which occurred in both boom and slack periods and brought up the weight of public services in total employed.[7] The arresting of the advancing trend in civilian consumption in general and in public sector employment in particular can be attributed to the government's policy in this sphere, which was aimed primarily at reducing the number of civil servants; in contrast to this development, local authority employment continued to increase.

In domestic noncivilian consumption only the components related to the military redeployment grew in 1980, whereas other purchases declined and the number of persons on the defense establishment payroll remained unchanged.

Public domestic consumption began to tail off in the second quarter of 1980, following the approval of the 1980/81 government budget (see Figure II–1). The decline was registered in all components except construction in the Negev, and was achieved through a number of budget cuts, notably restrictions on new hires in the civil service and on government purchases and payments. The drawn-out budget discussions and the lack of clarity with respect to the final cuts contributed to the atmosphere of uncertainty in the economy during this period.

A long-term analysis shows that the weight of civilian public consumption in GNP or in total resource use has remained stable while that of noncivilian consumption has moved up strongly compared with the period before the Six Day War (see Table V–1). This increase took place in two stages: a sharp jump immediately following the 1967 war, after which the curve flattened a bit, and another strong upsurge in the post–Yom Kippur War period. In spite of its decline in recent years, the weight of noncivilian consumption in total uses in 1980 still eclipsed the figure before the Yom Kippur War. The increase encompassed both domestic defense outlays and foreign military procurements. The government's tendency to maintain civilian services at their current level while shouldering the onerous defense burden of recent years has been one of the factors stoking inflation since 1973. To tone down the spiraling of prices it is

[7] This discussion is based on National Insurance Institute data, which are used for calculating public consumption in the national accounts. Labor force survey data show a 1.5 percent increase in public sector employment, a moderate rate compared with previous years.

necessary to reduce aggregate public sector demand, in continuation of the trend evident in 1980—namely the reduction of either the defense or the civilian component of public spending.

5. INVESTMENT

Gross domestic investment fell in 1980 as the result of a steep drop in nondwelling investment and inventories, which was only partially offset by an increase in residential construction. The downswing in nondwelling investment, which was also reflected by a much more sluggish expansion of the capital stock, was part of the cyclical trend characteristic of demands and economic activity; it came after two years of vigorous growth, primarily in equipment and vehicles. The lower figure this year can be partly ascribed also to the deliberate cutting back of public sector investment and the pruning of private sector investment subsidies with the hiking of interest on development loans following their indexation.

The larger housing investment this year is explained by an exceptional expansion of public sector starts in 1979 and early 1980, in contrast to the reduced volume of starts by private builders.[8] Residential construction displays a marked cyclical pattern, as described in detail in the past two Annual Reports; the current cycle is discussed in the section on construction in Chapter VI of this Report.

Total inventory investment fell off in 1980, with diamond and fuel stocks expanding and all others being drawn down drastically. Because of the rocketing of oil prices in the last two years, the current-price data on inventory changes show a slight rise. But exclusive of oil and diamonds, which is the inventory affected by economic developments, the level turned down (following an increase in 1979) owing to the soaring real cost of credit.

Nondwelling investment was down 17 percent in 1980, after advancing 13 and 9 percent in 1979 and 1978 respectively. In 1979 there was a heavy expenditure on imported equipment and machinery, due partly to the anticipation of large construction projects scheduled in the Negev and the awarding of soft credits for purchasing trucks, and partly to the expectation of a continued strong rebounding of economic activity which prevailed at the beginning of 1979. In addition, fears that the investment subsidy would be cut[9] with the linkage of

[8] The area of public sector starts rose from a quarterly average of 140,000 square meters in 1978 to 320,000 in 1979 and 765,000 in the first three months of 1980. Private sector starts shrank from 750,000 square meters per quarter in 1978–79 to 650,000 in 1980.

[9] The capital subsidy is discussed in detail in the section on industry in Chapter VI. It should be noted that the indexation of development loans will only partially solve the problem of the distortions arising from the investment subsidy as long as the system of taxation has not been adjusted for the prevailing inflationary conditions and large investment grants are still given.

Table II-6

GROSS FIXED INVESTMENT BY TYPE OF ASSET, 1977–80
(IS million, at current prices)

	1979	1980	Percent annual quantitative change				Price change 1980 (%)
			1977	1978	1979	1980	
1. Residential construction	3,708	9,826	–21	–2	15	8	145
Private	2,989	7,042	–7	5	13	–2	140
Public	719	2,784	–48	–26	25	50	159
2. Nonresidential construction	2,417	4,814	–4	2	–8	–12	125
3. Total construction	**6,125**	**14,640**	**–14**	**0**	**4**	**0**	**139**
4. Domestically produced equipment	1,051	2,272	–3	10	7	–3	123
5. Imported equipment	2,863	4,920	–15	13	24	–17	107
6. Land transport vehicles	1,066	1,670	–13	41	58	–30	124
7. Total gross fixed investment, excl. ships and aircraft (3+4+5+6)	**11,105**	**23,502**	**–13**	**6**	**13**	**–7**	**128**
8. Ships and aircraft	407	59	116	–20	64	–93	96
9. Total gross domestic investment (7+8)	**11,512**	**23,561**	**–12**	**5**	**13**	**–9**	**126**
10. Change in inventories	758	165					
11. Total gross investment (9+10)	**12,270**	**23,716**	**–9**	**4**	**14**	**–17**	**132**

development loans led to the advancing of investments. (When linkage went into force in mid-1979, investment projects already approved could be implemented under the previous terms, loans in the process of approval were partially linked, and only loans not yet approved were fully linked.) It turned out that the scope of construction in the Negev did not justify the large investment in trucks and building equipment, much of which lay idle; this created excess capacity, and consequently investment in these items fell off sharply in 1980. The reversal of the uptrend in demands in mid-1979, along with the dearer cost of credit (due to the linkage of development loans and the hiking of interest on nondirected credit) depressed other investments too; in 1980 spending on building equipment was down 32 percent (after more than tripling in real terms in 1979), and investment in industry, agriculture, transportation, trade, and business services declined 10–20 percent. A special factor which should be noted was the unusually large purchase of buses in 1980 (see the section on imports in Chapter VII).

Examination of investment financing rates shows a drop in the weight of credit and grants in total industrial investment between 1977 and 1978, due to the termination of the complementary funding arrangement,[10] and stability thereafter. The business sector as a whole recorded a slight rise in its financing rate in 1980. In industry, however, the figure edged down a bit; this is surprising, and it may have stemmed from statistical problems arising from the fact that the financing and investment estimates are from different sources. Another possible reason for the diminished resort to long-term investment credit was that industrialists took greater advantage of the tax concessions in 1980.

This discussion of nondwelling investment deals primarily with private sector capital expenditures which respond quickly to changing market conditions and are directly affected by the level of economic activity. Two additional components of nondwelling investment are direct investments by the public sector and those by public sector companies. This year all three components sagged by similar rates, but for different reasons. Direct public sector investment was deliberately cut back under the general restrictive policy. As to investments by public sector companies, which are affected by both government policy and market conditions, trends were mixed: capital outlays on electricity grew, reflecting primarily the implementation of large, multiyear projects, whereas industrial investments were reduced.

It is of interest to compare the change in investment in machinery and equipment with that in nonresidential construction. In recent years the latter has been on the decline, while equipment and vehicles have displayed strong cyclical fluctuations; these partly reflect the long-term trend, which is attributable to the shorter life of equipment compared with buildings and other structures. After a heavy investment in infrastructure and nonresidential buildings in the

[10] See Bank of Israel, *Annual Report 1977*, p. 482.

1960s, demand for buildings and earthwork eased. On the other hand, equipment and vehicles depreciate faster, and consequently even a slow growth in the capital stock necessitates a substantial investment. The 1980 downturn in non-dwelling investment resulted in a mere 3 percent growth of the nondwelling capital stock, a very low rate compared with earlier years. Half the gross investment this year was for the replacement of obsolescent equipment. The sluggish expansion of the capital stock will make its impact felt primarily in the 1981 GNP growth rate.

6. EXPORTS

Commodity and service exports[11] forged ahead 6 percent in 1980, following gains of 4 percent in each of the two preceding years and 14 percent p.a. in 1976 and 1977. Industrial goods fared better this year, agricultural products retreated, and a higher figure was also posted for services; diamonds picked up, regaining some of the ground lost in the two preceeding years.

Export trends in the last two years were affected by both foreign and domestic demands. The weakening of domestic demands began in the second half of 1979 and grew more pronounced in early 1980, after which they recovered. The expansion of Israel's foreign markets slowed in mid-1979 in response to the higher oil prices, and continued to tail off in the second half of 1980. The combined effect of these two factors was a healthy export advance (notably in industrial goods) in the second half of 1979 and the beginning of 1980 and the halting of this trend in the second half of the year. The indicators of export profitability also show a higher profitability level in 1979, which was largely due to the growth of the export credit subsidy with the rise in inflation, and stability in 1980. An exception to this trend was agricultural exports, which contracted in 1980 after several years of formidable gains. In some branches exports were deliberately curtailed through the setting of quotas, because, of their large share in the European market; the quantitative decrease was accompanied by steep price rises. In other branches the downturn was due to unfavorable weather conditions and competition from other countries.

The export share of the business sector product has been on the rise for many years, and in 1980 this stands out all the more in view of the slackening of domestic demands. In a small economy like Israel the advantages of specialization can only be realized through production for export, and one of the factors which contribute to the steady expansion of foreign sales is investment in research and development with a view to developing new specialized products for sale abroad and for penetrating new markets. In Israel this applies in

[11] According to the national accounts definition, which does not include factors receipts from abroad or interest received by the public sector.

particular to agricultural, electronic, chemical, and some military items. Expenditure on R&D has been stepped up in recent years but is still fairly small compared with spending on physical capital. The expansion of export production capacity has hitherto been stimulated through a heavy subsidy of investment in plant and equipment and even the current output of export enterprises. Even if some support can be justified in the initial stages of investment and production, under the present system and volume of subsidies it has many shortcomings.[12] The steps taken recently to curtail the investment subsidy through the linkage of development loans and to trim the subsidy component in current financing provided through the directed credit funds are helping to diminish the distortions and waste of resources brought on by the subsidy policy followed all these years.

7. IMPORTS

The economic slowdown in mid–1979 and its aggravation in early 1980 were accompanied by a steep quantitative drop in most import items.[13] Import prices rose sharply, notably that of imported oil, thereby increasing the import bill (in dollars). The slackening of import volume was basically a cyclical response to the previous two years' growth, but it was exacerbated by the unprecedented running down of stocks because of the much costlier nondirected credit in 1980. In 1978, as the economy pulled out of a slump lasting several years, imports expanded greatly, and they rose even faster in the first half of 1979. During this period the boom was expected to continue, and so large stocks of imported raw materials were built up—a process mainly rendered worthwhile by the income tax inventory relief granted to industry. The turnabout in demand growth in the course of 1979 reversed the rising import trend. In addition, development loans were linked during this period and the interest on credit shot up, as did outlays on fuel. All this sharply depressed most import items at the end of 1979 and beginning of 1980. In the second half of 1980 the uptrend in imports reasserted itself as domestic demands picked up somewhat and destocking ran its course.

Imports[13] declined quantitatively by 10 percent in 1980, following a similar percentage increase in 1979 and a 6 percent rise in 1978. Most of the contraction was in commodity imports, while services held steady at their 1979 real level, after moving up in the two preceding years. Smaller figures were recorded for consumer products, capital goods, and production inputs other than fuel and

[12] For a more detailed discussion see the section on industry in Chapter VI.

[13] Imports of goods and services other than direct defense imports, as defined in the national accounts, which exclude factor payments abroad and interest paid by the public sector.

diamonds, three categories which rose significantly in the previous two years. More oil was bought in 1979 and 1980 than was consumed, and so the oil inventory expanded. Imports of rough diamonds were also higher this year, after falling for two years, during which stocks continued to expand owing to the availability of cheap credit. The quantitative decline in other imports is explained by the cyclical slump in economic activity, which was aggravated by the dearer cost of credit and the restriction of its volume. Production inputs were down 15 percent, evidence of an unprecedented inventory depletion. The renewed growth in late 1980 apparently signified the end of the destocking process, which stimulated imports even without a renewed buildup of inventories. Consumer goods, notably durables, respond quickly to changes in the level of activity. Consequently they rose strongly in 1978 and 1979 and fell sharply in 1980; another factor in the downswing was the jump in the interest rate. Capital goods peaked in 1979, and then nosedived owing, besides the factors already mentioned, to the linkage of development loans in mid-1979.

The stabilization of service imports at their 1979 level was the net result of an increase in tourist services and passenger fares, due to the larger number of Israelis going abroad, and a decline in the other items, most of them related to freight transport and insurance. The smaller import of services from the administered areas, which consist mainly of wage payments to area residents, reflected the reduced employment of these workers in Israel, this too connected with the economic slump.

8. INCOME AND SAVING

Estimates of the gross domestic product at market prices for 1980 show an increase of 132 percent, reflecting a real growth of 2 percent and a 128 percent price rise. The latter is probably biased upward by about 1 percent due to an overestimate of the price of residential construction investment, which is calculated to have gone up 145 percent.[14]

Net indirect taxes on domestic production rose 150 percent, creating a differential of 2 percentage points between the gain in GNP at market prices and its

[14] This consists of rises of 159 percent in public and 140 percent in private residential construction. The direct residential construction indexes show a clear drop in prices in 1980: construction inputs became 127 percent dearer, the housing item in the consumer price index rose 119 percent, and the dwelling survey shows an even milder increase. A price rise of 145 percent for housing investment is not consistent with these indexes, especially as the construction input index does not include contractors' profits, which are included in the price of investment, a component which tends to decline when the housing market is depressed. Revising investment prices in line with construction input prices would shave 1–1.5 points from the GNP deflator and thus from nominal GNP as well.

Table II-7

NATIONAL PRODUCT AND INCOME, 1977–80

(IS million, at current prices)

	1977	1978	1979	1980	Percent annual increase 1978	1979	1980
1. Gross national product, at market prices	13,958	22,686	42,885	99,887	62.5	89.0	132.9
2. Indirect taxes on domestic production	1,879	3,017	5,852	13,781	60.6	94.0	135.5
3. Subsidies on domestic production	458	770	1,511	2,971	68.1	96.2	96.6
4. Net indirect taxes (2–3)	1,421	2,247	4,341	10,810	58.1	93.2	149.0
5. Gross national product, at factor cost (1–4)	**12,537**	**20,439**	**38,544**	**89,077**	**63.0**	**88.6**	**131.1**
6. Depreciation	1,975	3,585	6,531	15,411	81.5	82.2	136.0
7. National income (5–6)	**10,562**	**16,854**	**32,013**	**73,666**	**59.6**	**89.9**	**130.1**

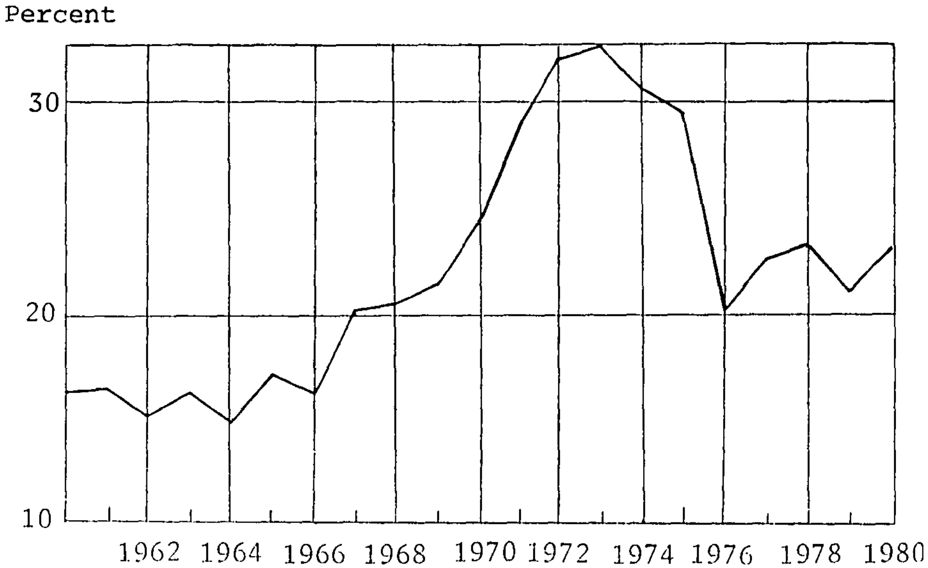
SOURCE: Central Bureau of Statistics and Bank of Israel.

factor cost measurement. As stated, the slashing of subsidies on basic goods would have resulted in a larger differential were it not for the heavier subsidization of fuel, even though its price to consumers was raised to almost the full extent of its extra cost to the economy. This is explained by the smaller consumption of gasoline, which is highly taxed, and the larger consumption of other types of fuel, which are subsidized. This created a deficit in the Fuel Equalization Fund, which is treated as a domestic production subsidy.

Direct tax revenue, in particular that collected on wages and salaries, grew in real terms. Transfer payments to households were also larger in real terms, while other transfer payments shrank. As a result of these changes, there was a real decline of 2 percent in gross private disposable income, as may be seen from Tables II–7, 8, and 9. This figure, however, should be accepted with reservation, because of the problems mentioned above (see notes 2 and 14 in this chapter) and the fact that it does not include the unexpected capital gains stemming from the subsidy component of government loans to the business sector. As stated, these gains should not be added to national income but should be treated as transfer payments and added to disposable income (see note 4 above).[15] For this reason the estimated change in disposable income in 1980

Figure II–2

RATE OF SAVING FROM DOMESTIC SOURCES, 1960–80



[15] Several alternative estimates of inflationary expectations point to a rise in the unexpected part of the 1979 price advance and a real 35 percent decline in 1980 (see Table V–11); there was probably a similar development in the unexpected capital gains associated with this credit. In this case their addition to transfer payments would result in a larger increase in disposable income in 1979 and a greater decline in 1980.

which appears in Table II–8 is apparently upward–biased, as is the rise in the saving rate listed in Table II–9. We shall therefore discuss the multiyear trend of the saving rate. As may be seen from Figure II–2, the rate moved up steadily in the mid–1960s and early 1970s, a period of vigorous economic growth, turned down sharply in the mid–1970s, and then stabilized at a new level as the economy shifted into lower gear.

Analysis of the distribution of national income between the wage and nonwage components also runs into the problem of a possible upward bias in the national income estimate. Wage payments in the entire economy (including fringe benefits) were up 122 percent in 1980, compared with 99 percent the year before; in the business sector the figures were 127 and 94 percent respectively. These figures indicate that the share of wages in the product edged down a bit, after rising in 1979; however, the decrease was much milder if the national income estimates for 1980 are adjusted downward.

Table II-8

GROSS DISPOSABLE PRIVATE INCOME, 1978–80

(IS million, at current prices)

	1978	1979	1980	Percent annual increase 1978	1979	1980
1. National income	16,854	32,013	73,666	59.6	89.9	130.1
2. Public sector property and entrepreneurial income	523	1,176	3,275	14.4	124.9	178.5
3. Depreciation	3,585	6,531	15,411	81.5	82.2	136.0
4. Gross private income from economic activity (1–2+3)	19,916	37,368	85,802	64.9	87.6	129.6
5. Income tax	3,654	7,418	18,547	55.5	103.0	150.0
6. National insurance contributions	1,575	2,997	7,342	63.9	90.3	145.0
7. Total direct taxes (5+6)	5,229	10,415	25,889	57.9	99.2	148.6
8. Net transfer payments	4,612	8,089	19,137	69.7	75.4	136.6
9. Gross disposable income from domestic sources (4–7+8)	19,299	35,042	79,050	68.0	81.6	125.6
10. Personal transfers from abroad	1,587	2,690	5,793	80.3	69.5	115.4
11. Gross disposable private income from all sources (10+11)	20,886	37,732	84,843	68.9	80.7	124.9
12. Gross private saving from domestic sources	4,625	7,332	17,663	75.4	58.5	140.9
13. Gross private saving from all sources	6,212	10,022	23,456	76.6	61.3	134.0

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table II-9

DISPOSABLE INCOME,[a] CONSUMPTION, AND SAVING, 1975–80

(Percent annual real increase)[b]

	1975	1976	1977	1978	1979	1980
Gross disposable private income from domestic sources	-0.8	-7.7	8.1	9.2	1.6	-1.6
Gross disposable private income from all sources	-1.0	-7.8	8.7	9.8	1.1	-1.9
Total private consumption	0.6	4.3	4.3	7.8	5.7	-3.4
Gross disposable private income per capita from domestic sources	-3.0	-9.8	5.7	6.8	-0.9	-3.8
Gross disposable private income per capita from all sources	-3.3	-9.9	6.3	7.6	-1.4	-4.1
Per capita private consumption	-1.7	2.0	2.0	5.5	3.1	-5.6
			Percentages[c]			
Rate of gross saving from domestic sources	29.7	20.5	23.0	24.0	20.9	23.3
Rate of gross saving from all sources	34.3	25.6	28.3	29.7	26.6	27.6

[a] See footnotes 2 and 14 in the text.
[b] Deflated by the implicit price index for private consumption.
[c] Calculated from current-price values of income and saving.

Table II–A1

GROSS FIXED INVESTMENT BY SECTOR, 1977–80

(IS million, at current prices)

	1979	1980	Percent annual increase 1977	1978	1979	1980	Price change 1980 (%)
1. Agriculture[a]	540	931	–5	7	–1	–18	111
2. Water	132	405	8	17	29	37	124
3. Electricity	565	1,317	13	15	3	10	112
4. Industry, mining and quarrying	1,785	3,228	–13	14	5	–15	112
5. Construction equipment	261	386	–51	25	233	–32	107
6. Transportation and communications[b]	1,863	3,314	–14	17	38	–19	121
Thereof: Excl. transportation equip.	797	1,644	–15	1	20	–6	120
7. Trade, hotels, and business services[c]	737	1,443	10	–4	5	–10	117
8. Public services[c]	1,513	2,670	–9	5	–6	–21	122
9. Total nondwelling investment (1 to 8)[b]	**7,396**	**13,676**	**–8**	**9**	**12**	**–14**	**116**
10. Housing construction	3,708	9,826	–21	–2	15	8	145
Private	2,989	7,042	–6	5	13	–2	140
Public	719	2,784	–48	–26	25	50	159
11. Total fixed investment[b] (9+10)	**11,104**	**23,502**	**–13**	**6**	**13**	**–7**	**128**

NOTE: Rounded data, except for the rates of change, which have been calculated from unrounded data.

[a] Agriculture, forestry, land amelioration, and changes in livestock inventories.

[b] Excludes ships and aircraft.

[c] For lack of direct data on the distribution of investment in domestically produced equipment among the services subbranches, the distribution here between business and public services is a Bank of Israel estimate. For the purpose of this estimate it has been assumed that such investments are distributed similarly to those in imported equipment. Public services include the nonprofit institutions.

SOURCE: Central Bureau of Statistics.

Table II–A2
NONDWELLING INVESTMENT[a] BY INVESTING SECTOR, 1978–80
(IS million, at 1975 prices)

	1978	1979	1980	Percent annual real increase 1979	Percent annual real increase 1980
1. Government, local authorities, and National Institutions	274	275	211	0	–23
Thereof:					
Services	175	180	145	3	–19
Roads	44	40	28	–9	–30
2. Government enterprises[b]	79	108	110	37	2
3. Total public sector (1+2)	**353**	**383**	**322**	**8**	**–16**
4. Nonprofit institutions	81	65	57	–20	–12
5. Total public sector and non-profit institutions (3+4)	**434**	**448**	**379**	**11**	**–15**
6. Public sector companies	241	249	229	3	–8
7. Private sector[c]	476	529	471	11	–11
Thereof:					
Agriculture	99	92	75	–7	–18
Industry	230	248	237	8	–4
Services	132	139	125	5	–10
Total nondwelling investment, excl. transportation equipment	**1,151**	**1,226**	**1,078**	**7**	**–12**

[a] Excluding transportation equipment.
[b] The trading enterprises of the public sector, including the Post Office, Israel Railways, air– and seaports, and local authority enterprises.
[c] Calculated as a residual.

Table II–A3
MEDIUM– AND LONG–TERM CREDIT, GRANTS, AND INDUSTRIAL INVESTMENT, 1977–80
(Percentages)

	Long- and medium-term industrial credit[a]/ industrial investment	Grants and credit/ industrial investment	Development loans disbursed/ total long- and medium-term credit	Proportion of approved industrial development loans disbursed
1977	83.0	98.7		
1978	71.2	81.0	69.0	68.4
1979	67.9	80.4	65.5	62.9
1980	59.0[b]	73.7	62.1	52.6

[a] Government development loans, loans from earmarked foreign currency deposits, and other long-term credit.
[b] Includes capital raised by industrial firms through dollar bond issues totaling IS1 billion in 1980.