CHAPTER II

THE PRODUCT AND DOMESTIC DEMANDS

1. MAIN DEVELOPMENTS

The year reviewed saw a marked decline in the product growth rate (the domestic product edged up only 1 percent) and an appreciable increase in the import surplus. Both were due to an unprecedented 2.5 percent decline in exports and the rapid expansion of domestic demands, accompanied by a shift to imports. All components of domestic demand rose: private consumption by 7.5 percent, public domestic consumption by 5 percent (owing to Operation Peace for Galilee), and investment by 14 percent.

The recession in the West and the softening of European currencies against the dollar were among the principal causes of the downturn in exports. The world slump affected the demand for Israeli products, and since real wages per unit of output[1] did not adjust to the sagging demand and in fact rose, Israeli exports were hurt. The exchange rate developments[2] made sales to Europe less profitable and those to the United States more profitable; at the same time imports from Europe became cheaper and those from the U.S. more expensive. Since the economy does not adjust to such changes immediately, exports to Europe suffered, and so too, to some extent, the production of import substitutes. These developments affected the product, whose growth had been led by exports during the past decade.

In 1981-82 the sheqel appreciated against the basket of currencies. This was the net outcome of a real depreciation in relation to the dollar and a real appreciation against the European currencies.[3] In September 1982 steps were taken to harness inflation, *inter alia* by moderating the advance of controlled prices and by a slower nominal depreciation of the currency. However, domestic inflation was not reduced to the same extent as the exchange rate of the sheqel. This can perhaps be explained by a possible downward rigidity of inflation—a phenomenon which, together with the slower depreciation of the currency, could impair export profitability and increase the profitability of producing import substitutes, with a consequent

[1] I.e. wage costs per unit of labor plus the change in output per manhour, from the standpoint of the producer.

[2] This is discussed in Chapter VII.

[3] The term "real appreciation" as used here means that Israeli wholesale prices, deflated by the nominal rate of depreciation, rose faster than prices abroad.

contraction of GNP and the widening of the current account deficit.[4]

Israel has, of course, no control over the world crisis and the change in relative international prices. The damage they do to the country's economy in terms of GNP cannot be remedied, and in the end it will be at the expense of consumption (public or private). The immediate reduction of consumption would prevent balance of payments deterioration in the current year, but any postponement, as happened in 1982, will temporarily increase the import surplus.[5]

Fixed investment was up 5 percent in 1982, compared with a 2 percent increase the year before. Machinery and equipment rose by 12 percent and land transport equipment by 33 percent, while investment in construction was cut back 4 percent. In spite of the much heavier spending on machinery and equipment this year, the level of domestic investment did not differ significantly from estimated discards. Investment net of discards therefore increased the capital stock by only 4 percent, as against 3 percent in 1981. This was apparently consistent with the low economic growth rate of the last few years. It is nevertheless reasonable to assume that the new investment has improved the composition of the capital stock, thereby enhancing the economy's growth potential, even if not to a sufficient degree.

Public sector infrastructure investment rose 4 percent, after a steep downtrend in the last few years. Capital spending by public sector companies continued to fall off in 1982. Various indicators point to a growing deficiency in infrastructure investment in several areas. This can be attributed to the fact that whenever the public sector decides to restrain its spending, infrastructure investment is an easy target for the ax since the results are not felt immediately. In the long run, however, this affects business sector activity and the economy's growth potential.

Total public consumption declined by 7 percent in 1982, the net outcome of a smaller direct defense import bill and a 5 percent larger domestic spending. The latter reflected, on the one hand, the freeze on civilian expenditures, as in the past three years, and an exceptional increase (9 percent) in defense outlays because of Operation Peace for Galilee.

Private consumption was 7.5 percent up on 1981, with the most noteworthy change being a 19 percent rise in consumer durables (38 percent in 1982). Disposable private income fell by 3 percent. The actual growth of private consumption was 3 percent higher than the increase implied by the permanent income trend. Such a deviation is not a rare occurrence; this year it was perhaps due partly to random factors, and in part it resulted—particularly in the case of durables—from developments specific to 1982, among them the fear of a rise in relative prices, which led to the advancing of

[4] An inertial rate of inflation, along with the slower depreciation of the currency, is consistent with economic developments in the year reviewed. However, in the absence of independent empirical evidence, there may be other explanations of the inertia of the inflation rate.

[5] Even if investment is the first to be hit, this will affect future consumption. From the economic viewpoint there is no advantage in an immediate decline in consumption; it would make better sense to spread the process over several years, while allowing the import surplus to rise temporarily.

Table II-1

RESOURCES AND USES, 1980–82

(IS million, at current prices)

				Percent annual increase								
				Quantity						Price		
	1980	1981	1982	1969–1972	1974–1978	1979	1980	1981	1982	1980	1981	1982
Resources												
Gross domestic product	106,892	250,796	559,827	11.0	3.2	5.0	3.1	3.4	1.2	127.4	127.0	120.5
Imports of goods and services[a]	66,913	159,937	343,471	11.3	1.6	2.8	-6.4	9.8	4.2	135.1	117.6	106.1
Thereof: Civilian	56,633	131,759	302,123	10.7	2.9	10.2	-10.7	7.8	11.3	135.4	115.8	106.0
Total resources	**173,805**	**410,733**	**903,298**	**11.1**	**2.6**	**4.2**	**-0.5**	**5.9**	**2.4**	**129.9**	**123.2**	**114.8**
Uses												
Private consumption	63,260	153,629	356,126	7.3	5.1	8.0	-2.7	11.0	7.5	128.6	118.9	115.6
Public consumption	37,098	91,191	188,184	10.6	-0.3	-8.7	9.1	6.3	-6.6	128.0	131.2	120.9
Public consumption, excl. direct defense imports	26,818	63,013	146,836	8.8	1.0	2.5	3.5	0.7	4.6	125.7	133.3	122.9
Gross domestic investment	23,711	52,480	129,543	18.5	-3.6	13.7	-16.3	-5.4	13.7	132.6	134.0	117.1
Thereof: Excl. change in inventories	23,770	56,231	128,193	19.4	-3.9	12.4	-9.7	1.7	4.7	126.9	132.5	117.6
Total domestic uses, excl. defense imports	**113,789**	**269,122**	**632,505**	**10.3**	**2.0**	**8.1**	**-4.5**	**5.1**	**8.0**	**128.8**	**125.0**	**117.6**
Exports, at market prices[a]	49,736	113,433	229,445	13.6	7.1	3.3	6.3	4.4	-2.6	128.7	118.4	107.6
Total uses												
Excl. direct defense imports	**163,525**	**382,555**	**861,950**	**10.9**	**3.2**	**6.8**	**-1.8**	**4.9**	**4.8**	**129.4**	**123.0**	**115.0**
Incl. direct defense imports	**173,805**	**410,733**	**903,298**	**11.1**	**2.6**	**4.2**	**-0.5**	**5.9**	**2.4**	**129.9**	**123.2**	**114.8**
Net factor payments abroad	4,694	7,729	20,875	11.1	1.6	24.9	12.2	-23.7	42.4	137.3	115.8	89.7
GNP at market prices	102,198	243,067	538,952	11.0	3.3	4.4	2.7	4.6	-0.2	126.9	127.3	122.1
Business sector GDP at market prices[b]	76,135	175,212	390,662	12.5	2.5	5.4	3.4	3.9	0.4	134.4	121.4	122.1

[a] Imports c.i.f., exports f.o.b. Excludes factor payments to and from abroad and public sector interest payments and receipts.

[b] The gross domestic product, less ownership of dwellings and public and nonprofit institution services.

SOURCE: Central Bureau of Statistics.

purchases. Since the consumption trend has been quite steady in the last few years, this year's deviation is not serious in the long run. It must be borne in mind, however, that total domestic consumption (public and private) has for the past several years amounted to around 90 percent of GNP and in 1982 its share increased to 93 percent.

The rise in the consumption/GNP ratio this year mainly reflected, as stated, the deviation from the long-run trend of public consumption, private consumption, and GNP; all the same, even 90 percent is a high rate, even if unilateral transfers are taken into account. Such a high level does not leave the economy sufficient autonomous resources for financing direct defense imports, the replacement of investment discards, and the growth of the capital stock. In this situation the expansion of the capital stock for renewing economic growth can only be effected by an undesirable increase in the country's foreign debt.

Part of the rise in the consumption/GNP ratio during the past decade stemmed from a slight slowdown in private consumption and an increase in the public consumption growth rate; the principal factor, however, was the slackening of productivity and product growth. The low sensitivity of private consumption to short-run changes in taxation,[6] together with the adverse effect on economic activity of the stiffening of the already high taxes, would make it inadvisable to resort to further taxation to curb consumption. The government is therefore left with two main courses of action: a significant dampening of the growth of public consumption and the pruning of the budget deficit, and the reduction of distortions caused by the high taxes and inflation. Adoption of the latter strategy would facilitate the restoration of the productivity and economic growth rates prevailing before the 1973 turning point, or at least bring them closer to this level.

2. PRODUCT

The gross domestic product rose by only 1 percent this year and the business sector product even less. There were several reasons for this, the most important being the world recession and a concomitant change in the relative international prices of goods, and perhaps also the slower devaluation of the sheqel at a time of continued high domestic inflation, especially in the final part of the year. These factors directly affected exports and dampened the growth of the economy. How much each of them contributed to the loss is not known, but a rough estimate can be made of the extent to which the product departed from its long-run trend.

In the business sector growth averaged 3 percent a year in 1973-81. To maintain this trend in 1982, the sector's product should have expanded by 2-3 percentage points more than it actually did. As may be seen from Table II-2, the deviation of exports from their multiyear trend was the principal cause of the more sluggish expansion of product in 1982. Domestic uses, on the other hand, did not diverge

[6] There is a difference of opinion among economists regarding the long-range effect of taxes on consumption.

Table II–2

BUSINESS SECTOR PRODUCT BY FINAL USES, 1979–81[a]

(Percentages)

	Final use composition of product					Contribution of uses to product growth			
	1975	1979	1980	1981	1982	1979	1980	1981	1982
Private consumption	37.8	38.3	36.5	37.3	37.6	1.5	-2.3	2.8	1.1
Public consumption	11.2	8.0	8.4	8.4	8.8	-0.1	0.2	0.5	0.6
Investment									
In fixed assets	22.8	16.5	15.6	14.4	13.9	1.1	-1.0	-0.4	-0.3
Change in inventories	0.1	0.3	-0.1	-0.3	-0.2	-0.6	-0.4	-0.2	0.0
Total domestic uses	**71.8**	**63.1**	**60.3**	**59.8**	**60.1**	**1.9**	**-3.4**	**2.7**	**1.4**
Exports									
To foreign countries	26.6	35.4	38.0	38.5	38.5	2.6	2.2	2.5	0.8
To administered areas	1.6	1.6	1.7	1.7	1.4	0.0	0.1	0.1	-0.2
Total final uses	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**4.5**	**-1.1**	**5.3**	**2.0**

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.

SOURCE: Central Bureau of Statistics data adjusted in accordance with Bank of Israel input-output data for 1977/78.

significantly from their average long-run contribution to the product, apart from public consumption, which accounted for a larger share this year because of Operation Peace for Galilee.

3. INVESTMENT[7]

In 1982 investment activity did not differ significantly in its main characteristics from the preceding year. Fixed investment was up 5 percent, slightly eclipsing the 1981 advance, which had reversed the previous year's downtrend. In 1982 as well the growth reflected a respectable increase in equipment and transport equipment and a deepening of the slump in construction.

The share of machinery and equipment in nondwelling investment has displayed a long-run rising trend. This trend became more pronounced in 1982, similarly to what happened in the major countries from which Israel imports capital goods, but investment in structures was cut back in all the principal production and service sectors. All told, investment in nonresidential construction declined 4 percent. Expenditure on machinery and equipment was much higher this year in all sectors and in all branches of industry. The increase encompassed most capital goods, with a steep jump recorded in computer imports.

Investment is intended to replace obsolescent and scrapped assets and to expand (or reduce) the capital stock in response to variations in demands. Thus, an expansion of the product stimulates investment,[8] while the slowing of product growth has an opposite effect. The year reviewed witnessed a slackening of economic growth: as stated, both the domestic and business sector product drifted up only 1 percent or less, and this, together with the developments in the two preceding years, should have depressed capital spending. But in fact nondwelling investment was stepped up by 10 percent, reflecting rises of 12 percent in machinery and equipment and 33 percent in transport equipment, and a 4 percent drop in structures and earthwork. Part of this year's increment apparently represented an increase in replacement investment (see the section on the capital stock); the new investment was made in modern equipment, which will enhance the economy's growth potential.

In 1982 ample financing was available for implementing investment plans. This can be ascribed to two factors: a real 66 percent expansion of medium- and long-term credit (this year too the source of such financing was medium- and long-term foreign loans, the bulk of which were procured in the second half of the year) and the stock market boom, which permitted a much larger capital mobilization, mostly by firms which went public for the first time.

Investment influences economic activity in two ways: by expanding productive capacity in the future and by influencing the demand for product in the current year.

[7] The discussion here will focus on nondwelling investment. For a detailed description of investment in residential construction see Chapter VI.

[8] Investment in the current year is largely influenced by the changes in the product in the three preceding years.

Table II-3

GROSS FIXED INVESTMENT BY TYPE OF ASSET, 1979–82

(IS million, at current prices)

					Percent annual increase							
					Quantity				Price			
	1979	1980	1981	1982	1979	1980	1981	1982	1979	1980	1981	1982
1. Residential construction	3,699	9,619	22,371	47,180	14.6	5.6	−1.2	−3.6	105.6	146.2	135.4	118.8
Private	2,957	6,766	16,008	36,283	11.9	−5.4	0.3	3.6	103.2	141.8	136.0	118.8
Public	742	2,853	6,363	10,897	26.6	48.6	−4.7	−21.7	117.9	158.8	134.0	118.6
2. Nonresidential construction	2,473	4,829	10,791	23,010	−6.7	−13.0	−6.7	−4.0	87.5	124.5	139.5	122.2
Structures	1,444	2,727	5,727	12,251	−3.1	−15.5	−10.8	−1.9	88.5	123.4	135.4	118.0
Earthwork	1,029	2,102	5,064	10,759	−11.2	−9.6	−1.4	−6.5	86.3	126.0	144.4	127.3
3. Total construction (1+2)	6,172	14,448	33,162	70,190	4.7	−2.1	−3.0	−3.8	97.6	139.1	136.7	119.9
4. Machinery and equipment	3,957	7,593	18,167	45,192	14.6	−10.3	5.3	12.0	65.8	113.9	127.1	122.1
Domestic production	1,207	2,683	6,479	14,371	6.8	1.9	4.2	−1.0	69.2	118.2	131.6	124.0
Imports	2,750	4,910	11,688	30,821	19.3	−16.8	5.9	19.0	63.0	114.6	124.7	121.6
5. Transport equipment	1,473	1,729	4,902	12,811	57.8	−44.0	25.7	32.8	61.5	109.7	125.5	96.7
Thereof: Ships and aircraft	407	59	777	1,484								
6. Total gross fixed investment (3+4+5)	**11,602**	**23,770**	**56,231**	**128,193**	**12.4**	**−9.7**	**1.7**	**4.7**	**82.9**	**126.9**	**132.5**	**117.6**
7. Change in inventories	581	−59	−3,751	1,350								
8. Total gross domestic investment	**12,183**	**23,711**	**52,480**	**129,543**	**13.7**	**−16.3**	**−5.4**	**13.7**	**72.6**	**132.6**	**134.0**	**117.1**

SOURCE: Central Bureau of Statistics.

Table II–4

GROWTH OF CAPITAL STOCK BY SECTOR, 1960–83[a]

	Percent annual quantity increase						Change in capital stock in 1982, at 1975 prices (IS million)				Discards and capital stock in 1982, at current prices (IS million)	
	Average											
	1960-1965	1965-1972	1972-1983	1981	1982	1983	Stock at beginning of 1982	Gross investment	Discards	Stock at beginning of 1983	Discards	Capital stock
Agriculture	6.0	3.4	4.0	2.6	2.3	2.1	2,122	98	52	2,168	2,957	5,854
Water	9.9	3.0	2.7	3.8	4.0	2.8	935	30	4	961	257	1,426
Industry	9.9	7.1	7.2	4.8	4.2	5.0	4,887	394	148	5,133	8,139	16,899
Construction equipment	14.2	2.9	3.4	2.1	-1.8	-2.0	341	26	33	334	1,893	1,957
Electricity	7.7	6.2	8.2	9.8	8.4	4.9	1,280	87	24	1,343	1,378	3,569
Transportation and communications	15.1	11.5	4.5	0.5	-0.7	2.8	5,048	364	221	5,191	12,278	15,704
Private services	16.0	10.3	6.3	3.1	5.2	5.7	1,607	169	78	1,698	4,397	6,503
Total business sector	**10.6**	**7.7**	**5.5**	**3.2**	**2.6**	**3.7**	**16,210**	**1,168**	**560**	**16,828**	**31,297**	**51,912**
Public services	15.8	12.0	7.4	3.7	3.1	3.0	4,792	241	95	4,937	5,360	5,062
Total nondwelling stock	**11.3**	**8.4**	**5.9**	**3.3**	**2.8**	**3.6**	**21,012**	**1,409**	**655**	**21,765**	**36,657**	**56,974**
Dwellings	9.7	7.2	7.3	5.5	5.2	4.7	13,842	681	30	14,493	2,075	23,985
Total fixed capital stock	**10.7**	**8.0**	**6.4**	**4.1**	**3.7**	**4.0**	**34,854**	**2,089**	**685**	**36,258**	**38,732**	**80,959**

[a] Capital stock data are for beginning of stated years.

SOURCE: Central Bureau of Statistics and Bank of Israel.

The data reveal that the heavier investment in 1982 had a small effect on demand for product, since construction, which has a low import component (i.e. a high product component), was cut back this year and most of the additional investment was made, as stated, in imported machinery and equipment and transport equipment.

Capital Stock

The significantly slacker expansion of the business sector product during the past decade should have left its impress on the capital stock: the rate of growth of the business sector product dipped from an average of 9 percent per annum during the period 1965-72 to 3 percent in the past decade (the industrial product showed a similar change). But contrary to expectation, there was no discernible reduction of the capital stock; in the case of industrial equipment there was even a faster increase, while in the business sector as a whole such investment drifted down only slightly. Studies made in the principal countries from which Israel purchases capital goods point to a shortening of the economic life of equipment, and hence to a more rapid scrapping of assets and a greater need to replace discards. In these countries,[9] as in Israel, the share of machinery and equipment in total investment has risen steadily relative to nonresidential structures.

4. PRIVATE CONSUMPTION, DISPOSABLE INCOME, AND SAVING

Private consumption expanded 7.5 percent in 1982, even though disposable income shrank 3 percent. This implied a steep drop in the rate of private saving: after rising in 1980-81, the rate turned down this year and fell below its level of 1979 (thus deviating from its relatively stable trend of recent years). About a third of the incremental private consumption in 1982 stemmed from a steep 19.4 increase in durables (the most striking change here was a 40 percent larger purchase of private cars), in continuation of the trend begun at the end of 1980.

The expansion of private consumption in the year reviewed partly reflected the adjustment to the rising disposable income trend (which went up more strongly following an appreciable 16.2 percent increase in 1981). But in 1982 there were other factors at work which stimulated consumption by more than can be attributed to the disposable income trend: the expectation of a rise in the relative price of imported consumer goods in general and of durables in particular, the abundant liquidity in the economy at the beginning of the year, and apparently also the high level which equity prices reached on the stock exchange.

In determining its consumption, the public is mainly guided by long-term considerations based on its evaluation of the disposable income trend. When income grows at a constant pace, consumption can be expected to expand at a similar rate. But if there are marked changes in disposable income, only those which the public

[9] The U.S., Germany, U.K., and Italy.

Table II-5

TOTAL PRIVATE CONSUMPTION, 1979–82

(IS million, at current prices)

					Percent annual increase							
					Quantity				Price			
	1979	1980	1981	1982	1979	1980	1981	1982	1979	1980	1981	1982
Current consumption goods	11,596	27,447	63,021	145,268	1.8	-6.0	9.0	5.7	73.8	151.8	110.7	118.0
Durables	3,600	6,236	17,066	41,169	36.6	-8.5	38.1	19.4	50.4	89.3	98.1	102.1
Other services	5,676	13,033	31,313	71,724	6.9	-0.9	5.9	3.3	70.2	131.7	127.0	121.8
Consumption of Israelis abroad	1,217	2,862	7,469	16,858	20.7	2.9	21.8	8.9	60.6	128.6	114.2	107.2
Less: Consumption of foreign nationals in Israel	2,261	5,089	12,116	24,274	0.5	-2.1	1.3	-11.3	70.2	129.9	135.1	125.9
Total private consumption, excl. housing and nonprofit institutions	**19,828**	**44,489**	**106,753**	**250,745**	**9.7**	**-5.1**	**13.9**	**9.3**	**68.5**	**136.4**	**110.7**	**114.8**
Housing services	5,092	10,912	27,954	64,403	4.2	4.2	4.2	4.6	103.8	105.7	145.8	120.3
Nonprofit institution services	3,506	7,859	18,922	40,978	3.2	1.6	3.8	0.4	95.5	120.5	132.0	115.6
Total private consumption												
Incl. durables	**28,426**	**63,260**	**153,629**	**356,126**	**8.0**	**-2.7**	**11.0**	**7.5**	**77.1**	**128.6**	**118.9**	**115.6**
Excl. durables	**24,826**	**57,024**	**136,563**	**314,957**	**4.4**	**-1.7**	**8.0**	**5.9**	**81.3**	**133.7**	**121.8**	**117.8**

Table II-6

PRIVATE CONSUMPTION AND DISPOSABLE INCOME, 1977–82

(Percent real annual increase)

	1977	1978	1979	1980	1981	1982	1977-1981	1977–1982
Private consumption	4.8	8.1	8.0	–2.7	11.0	7.5	5.7	6.0
Disposable income	11.2	4.5	3.0	–1.6	16.2	–2.9	6.5	4.8
Total								
Excl. subsidy component of govt. loans to business sector	12.2	5.4	2.0	–1.3	17.5	–2.6	6.9	5.3
GNP	2.2	3.4	4.4	2.7	4.6	–0.2	3.5	2.9

regards as being of a permanent nature (i.e. a shift in the trend) will be reflected in private consumption. In every period new information reaches the public, and it reassesses the disposable income trend and adjusts its consumption accordingly.

It is hard to precisely measure the rate of increase in disposable income as the public views it, but a rough estimate can be made. One of the interesting features revealed by an examination of the data on the private saving rate in 1964-82 was its relative stability from the middle of the 1970s (1976-81), in contrast to earlier years. This accorded with the probability that during this period the public regarded the growth of disposable income as constituting an increase in its permanent income. In 1977-82 disposable income went up at a 4.8 percent average yearly rate; it follows that in the absence of a severe liquidity constraint,[10] the disposable income trend of the past few years would explain a 4-5 percent growth of private consumption in 1982. The remaining 3 percent increase cannot be attributed to the adjustment of consumption to the disposable income trend, but stemmed from other factors. One possible reason was the stock market boom this year. It is reasonable to assume that this made the investing public feel richer, and so it spent more freely. Another likely factor was the expectation of a rise in the relative price of imported consumer goods: in the year reviewed European currencies weakened against the dollar, and this helped to depress the relative price of European goods and services (this influenced in particular the consumption of Israelis traveling abroad and the acquisition of durable goods). The public presumably regarded the rise of the dollar relative to European currencies as a temporary phenomenon, and so it tended to advance purchases. An additional reason for the advancing of purchases of durables was the abundant liquidity in the economy at the beginning of 1982, an outcome of the massive injection in the previous year. A high level of liquidity can induce the purchase of durables earlier than planned mainly because of the transactions costs involved in shifting from one asset to another. Certain other private consumption items (such as spending by Israeli tourists abroad, clothing, footwear, and personal effects) have characteristics similar to those of durables, and so they too can be influenced by a high level of liquidity.

[10] As stated, at the beginning of 1982 there was a high level of liquidity in the economy.

Table II–7

PRIVATE DISPOSABLE INCOME, CONSUMPTION, AND SAVING, 1980–82

(IS million, at current prices)

				Percent annual increase					
				Nominal			Real[a]		
	1980	1981	1982	1980	1981	1982	1980	1981	1982
Gross disposable private income from domestic sources	85,052	218,057	457,924	126.0	156.4	110.0	-1.2	17.1	-2.6
Gross disposable private income from all sources	90,924	231,257	483,954	125.1	154.3	109.3	-1.6	16.2	-2.9
Private consumption	63,260	153,629	356,126	122.5	142.9	131.8	-2.7	11.0	7.5
Gross private saving from domestic sources	21,792	64,428	101,798	136.7	195.6	58.0	3.5	35.1	-26.7
Gross private saving from all sources	27,664	77,628	127,828	131.2	180.6	64.7	1.1	28.2	-23.6
		Percentages							
Rate of gross saving from domestic sources	25.6	29.5	22.2						
Rate of gross saving from all sources	30.4	33.6	26.4						

[a] Deflated by the implicit price index for private consumption.

Table II–A1

GROSS FIXED INVESTMENT BY SECTOR, 1981–82

(IS million, at current prices)

	1982			Percent real annual increase[a]					
				Total		Equipment		Structures	
	Total	Equip-ment	Struc-tures	1981	1982	1981	1982	1981	1982
1. Agriculture	5,853	2,774	3,079	0.5	8.6	9.0	15.2	-6.4	2.0
2. Water	1,741	346	1,395	6.5	-24.1	-7.0	-47.1	13.4	-14.3
3. Industry	21,659	19,518	2,141	0.4	21.9	4.4	25.7	-20.9	-4.2
4. Construction equipment	1,504	1,504		-28.8	8.6	-28.8	8.6		
5. Electricity	4,974	3,291	1,683	-3.8	-28.5	-16.7	-28.1	31.9	-29.3
6. Transport and communications	21,318	17,025	4,293	9.6	22.3	17.7	26.1	-16.4	2.7
Thereof: Land transport equipment	11,327	11,327		9.2	38.0	9.2	38.0		
7. Private services	9,548	7,856	1,692	30.4	8.5	39.1	14.9	7.1	-13.5
8. Business sector (1 through 7)	66,597	52,314	14,283	5.1	10.8	8.0	16.8	-3.4	-11.5
9. Public services	14,416	5,689	8,727	-2.9	5.5	13.6	9.8	-11.5	2.6
10. Total nondwelling investment (8+9)	**81,013**	**58,003**	**23,010**	**3.6**	**9.9**	**9.1**	**16.5**	**-6.4**	**-4.5**
11. Residential construction	47,180		47,180	-1.2	-3.6			-1.2	-3.6
Total fixed investment (10+11)	**128,193**	**58,003**	**70,190**	**1.7**	**4.7**	**9.1**	**16.5**	**-3.1**	**-3.9**

[a] Calculated at 1980 prices.

Table II-A2

ESTIMATED NONDWELLING INVESTMENT BY INITIATING SECTOR, 1976–82[a]

(Percent real annual increase)

	1976	1977	1978	1979	1980	1981	1982	IS million, at current prices 1982
Structures								
Public sector[b]	-14.2	-5.9	-1.1	-5.5	-16.3	-12.3	2.6	13,913
Public sector companies[c]	-20.1	-9.5	27.2	-3.7	-3.7	10.9	-20.0	3,678
Total public sector	-15.3	-6.6	3.8	-5.2	-13.6	-6.7	-3.8	17,590
Private sector	-5.1	1.7	6.4	-8.3	-7.8	1.6	-13.0	8,909
Total structures	**-11.1**	**-3.0**	**1.8**	**-6.7**	**-12.9**	**-6.4**	**-4.5**	**22,821**
Equipment								
Public sector	-17.0	-25.9	30.4	28.9	-13.2	9.4	6.3	8,289
Public sector companies	-12.4	6.3	4.0	19.9	-0.7	-11.8	-17.1	7,574
Total public sector	-14.8	-10.3	15.3	24.3	-6.9	-1.9	-4.9	15,863
Private sector	-9.4	-8.0	10.0	16.4	-7.3	4.1	13.1	37,143
Total equipment	**-10.9**	**-11.3**	**13.2**	**18.6**	**-8.4**	**5.1**	**11.8**	**45,432**
Structures and equipment								
Public sector	-14.9	-11.3	5.9	3.9	-15.3	-4.7	4.1	22,202
Public sector companies	-15.5	0.2	12.1	10.5	-1.7	-4.1	-18.2	11,252
Total public sector	-15.1	-7.9	7.9	6.1	-10.6	-4.5	-4.3	33,454
Private sector	-8.3	-5.4	8.9	9.4	-7.4	3.5	7.0	46,052
Total	**-11.0**	**-7.6**	**7.8**	**7.3**	**-10.2**	**0.8**	**6.1**	**68,254**

[a] Excludes transportation equipment.

[b] Includes nonprofit institutions and government enterprises (railway, sea- and airports, and the Post Office), as well as investment in highways, afforestation, land reclamation, and some construction equipment.

[c] This category includes electricity and water production, the estimated investment in the chemical and refined petroleum products industries, mining and quarrying, and additional investment of government companies in industry, transportation, and services.

SOURCE: Bank of Israel.

Table II-A3

MEDIUM- AND LONG-TERM CREDIT BY DESTINATION, 1979–82

(IS million, at current prices)

Destination	1979	1980	1981	1982	Percent real annual increase[a] 1980	1981	1982
Business sector[b]	3,285	6,898	16,172	51,770	-2.0	3.1	47.2
Industry	1,212	1,805	5,804	21,070	-31.7	43.1	65.7
Agriculture	601	1,130	2,994	10,970	-13.1	6.8	60.1
Construction	194	329	982	2,440	-18.2	26.3	11.5
Other	1,278	3,643	6,391	17,290	33.9	-21.8	27.9
Households	1,261	2,942	7,952	24,170	-9.1	15.8	38.9
Directed housing credit	615	1,793	4,483	13,253	13.6	6.2	35.1
Other credit[c]	646	1,149	3,469	10,917	-30.7	28.2	43.8
Local authorities	545	860	2,073	3,050	-29.1	4.5	-33.1
National Institutions	174	312	567	1,250	-19.4	-20.3	0.3
Total	**5,265**	**11,012**	**26,740**	**80,240**	**-9.9**	**5.9**	**38.3**

[a] Deflated by the relevant investment price indexes.

[b] Includes IS14,500 million earmarked deposits from abroad (other than for equipment imports) in the second half of 1982, as follows (in IS million): industry—3,387; agriculture—3,815; construction—1,577; other sectors—5,720.

[c] Includes nondirected credit for housing.

SOURCE: Bank of Israel.

Table II–A4

INDUSTRIAL INVESTMENT FINANCING, 1979–82

(IS million, at current prices)

	1979	1980	1981	1982	Percent real annual increase 1980	1981	1982
Medium- and long-term credit[a]	1,212	1,805	5,804	21,070	-31.7	40.4	65.7
Thereof: Development loans	657	953	2,123	5,330	-33.5	-2.7	14.6
Dollar-linked bond issues	—	116	113	398			
Investment grants	225	477	1,138	2,500	-2.8	4.2	0.2
Industrial share issues	31	52	630	3,948			
Self-financing (incl. errors and omissions)	401	1,077	423	-6,527			
Total financing	**1,869**	**3,527**	**8,108**	**21,659**	**-13.2**	**0.4**	**21.9**
Percentage distribution of development loans by type of linkage							
Unlinked	86.1	22.6	15.5	5.7			
Loans in the pipeline[b]	13.9	64.0	47.9	24.8			
Fully linked[c]	—	13.4	36.6	69.5			
Total	**100.0**	**100.0**	**100.0**	**100.0**			

[a] In 1982 includes IS3,387 million credit out of earmarked deposits from abroad (other than for equipment purchases).

[b] Most of these loans are partially linked.

[c] Loans applied for after May 29, 1979; either 100 percent linkage to the consumer price index plus 0.5-1.5 percent interest, or 100 percent dollar linkage plus 6-7.5 percent interest.

SOURCE: Bank of Israel.

Table II–A5

NATIONAL PRODUCT AND INCOME, 1979–82

(IS million, at current prices)

					Percent annual increase			
	1979	1980	1981	1982	1979	1980	1981	1982
1. GNP at market prices	43,844	102,198	243,067	538,952	88.8	133.1	137.8	121.7
2. Net indirect taxes on domestic production	4,375	10,706	12,444	41,222	89.0	144.7	16.2	231.3
a. Indirect taxes	5,886	13,551	28,363	66,308	90.8	130.2	109.3	133.8
b. Less: Subsidies	1,511	2,845	15,919	25,086	96.2	88.3	459.5	57.6
3. GNP at factor cost (1–2)	**39,469**	**91,492**	**230,623**	**497,730**	**88.8**	**131.8**	**152.1**	**115.8**
4. Depreciation	6,030	14,275	34,084	75,907	85.7	136.7	138.8	122.7
5. Credit subsidy[a]	1,848	3,913	7,529	14,305	126.7	111.7	92.4	90.0
6. National income (3–4+5)	**35,287**	**81,130**	**204,068**	**436,128**	**91.0**	**129.9**	**151.5**	**113.7**
7. National income excl. credit subsidy	33,439	77,217	196,539	421,823	89.4	130.9	154.5	114.6

[a] Subsidy component of government loans for current business sector production.
SOURCE: Central Bureau of Statistics.

Table II-A6

GROSS DISPOSABLE PRIVATE INCOME, 1979–82

(IS million, at current prices)

					Percent annual increase			
	1979	1980	1981	1982	1979	1980	1981	1982
1. National income	35,287	81,130	204,068	436,128	91.0	129.9	151.5	113.7
2. Public sector property and entrepreneurial income	1,273	3,199	5,383	16,303	274.4	151.3	68.3	202.9
3. Depreciation	6,030	14,275	34,084	75,907	85.7	136.7	138.8	122.7
4. Gross private income from economic activity (1–2+3)	**40,044**	**92,206**	**232,769**	**495,732**	**87.3**	**130.3**	**152.4**	**113.0**
5. Income tax	7,404	18,613	42,928	97,681	102.6	151.4	130.6	127.5
6. *National insurance contributions*	2,997	7,342	18,211	38,834	90.3	145.0	148.0	113.2
7. Total direct taxes (5+6)	10,401	25,955	61,139	136,515	98.9	149.5	135.6	123.3
8. Net transfer payments	7,990	18,801	46,427	98,707	82.3	135.3	146.9	112.6
9. Gross disposable income from domestic sources (4–7+8)	**37,633**	**85,052**	**218,057**	**457,924**	**83.3**	**126.0**	**156.4**	**110.0**
10. Personal transfers from abroad	2,760	5,872	13,200	26,030	71.2	112.8	124.8	97.2
11. Gross disposable private income from all sources (9+10)	**40,393**	**90,924**	**231,257**	**483,954**	**82.4**	**125.1**	**154.3**	**109.3**
12. Net compulsory loans	129	-1,070	-1,390	2,792				
13. Total disposable income excl. compulsory loans (11–12)	**40,264**	**91,994**	**232,647**	**481,162**	**81.4**	**128.5**	**152.9**	**106.8**

SOURCE: Central Bureau of Statistics and Bank of Israel.

Table II–A7

REAL GROWTH OF RESOURCES AND USES, 1972–82

(Percentages)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Resources											
Gross national product	12.6	4.1	5.5	3.5	1.8	2.2	3.4	4.4	2.7	4.6	-0.2
Imports[a]	1.7	33.5	-1.1	3.9	-3.0	-2.4	10.7	2.8	-6.4	9.8	4.2
Civilian imports	3.8	17.5	3.8	-4.4	2.2	6.6	6.5	10.2	-10.7	7.8	11.3
Total resources	**8.8**	**14.2**	**2.9**	**3.9**	**0.0**	**-0.1**	**6.3**	**4.2**	**-0.5**	**5.9**	**2.4**
Uses											
Private consumption	10.1	8.3	7.7	0.3	4.8	4.8	8.1	8.0	-2.7	11.0	7.5
Public consumption	-1.5	45.3	2.8	10.2	-9.7	-13.4	8.4	-8.7	9.1	6.3	-6.6
Public consumption, less direct defense imports	1.2	19.1	14.0	-0.9	-4.6	-2.0	-1.4	2.5	3.5	0.7	4.6
Gross domestic investment	12.5	5.6	-4.5	5.3	-12.4	-7.9	1.4	13.7	-16.3	-5.4	13.7
Domestic uses, less direct defense imports	**8.9**	**9.6**	**5.7**	**1.2**	**-1.9**	**0.3**	**4.6**	**8.1**	**-4.5**	**5.1**	**8.0**
Exports, at market prices[a]	13.3	5.2	1.4	1.8	16.4	11.3	4.7	3.3	6.3	4.4	-2.6
Total uses											
Excl. direct defense imports	**9.8**	**8.6**	**4.8**	**1.4**	**2.0**	**3.0**	**4.6**	**6.8**	**-1.8**	**4.9**	**4.8**
Incl. direct defense imports	**8.8**	**14.2**	**2.9**	**3.9**	**0.0**	**-0.1**	**6.3**	**4.2**	**-0.5**	**5.9**	**2.4**
Net factor payments abroad	5.1	56.1	-6.3	20.0	3.3	-23.6	14.7	24.9	12.2	-23.7	42.4
Gross domestic product	12.5	5.1	5.2	3.9	1.9	1.3	3.7	5.0	3.1	3.4	1.2
Gross domestic product, business sector[b]	14.7	2.0	4.9	3.6	0.7	-0.1	3.3	5.4	3.4	3.9	0.4

[a,b] See notes a,b to Table II–I.

SOURCE: Central Bureau of Statistics.

Table II–A8

RESOURCES AND USES, 1972–82
(IS million, at current prices)

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Resources											
Gross domestic product	3,041	3,871	5,487	7,965	10,293	14,945	23,933	45,607	106,892	250,796	559,827
Imports[a]	1,563	2,510	3,473	5,080	6,571	9,035	17,354	30,389	66,913	159,937	343,471
Civilian imports	1,307	1,857	2,786	3,770	5,113	7,681	14,284	26,949	56,633	131,759	302,123
Total resources	**4,604**	**6,381**	**8,960**	**13,045**	**16,864**	**23,980**	**41,287**	**75,996**	**173,805**	**410,733**	**903,298**
Uses											
Private consumption	1,709	2,218	3,296	4,645	6,262	8,931	14,867	28,426	63,260	153,629	356,126
Public consumption	929	1,635	2,211	3,407	4,063	5,140	8,832	14,919	37,098	91,191	188,184
Public consumption, less direct defense imports	673	982	1,524	2,097	2,605	3,786	5,762	11,479	26,818	63,013	146,836
Gross domestic investment	973	1,290	1,750	2,468	2,717	3,516	6,208	12,183	23,711	52,480	129,543
Total domestic uses, less direct defense imports	**3,355**	**4,490**	**6,570**	**9,210**	**11,584**	**16,233**	**26,837**	**52,088**	**113,789**	**269,122**	**632,505**
Exports, at market prices[a]	993	1,238	1,703	2,525	3,822	6,393	11,380	20,468	49,736	113,433	229,445
Total uses											
Excl. direct defense imports	**4,348**	**5,728**	**8,273**	**11,735**	**15,406**	**22,626**	**38,217**	**72,556**	**163,525**	**382,555**	**861,950**
Incl. direct defense imports	**4,604**	**6,381**	**8,960**	**13,045**	**16,864**	**23,980**	**41,287**	**75,996**	**173,805**	**410,733**	**903,298**
Net factor payments abroad	57	111	156	275	349	355	711	1,763	4,694	7,729	20,875
Gross national product	2,984	3,760	5,331	7,690	9,944	14,590	23,222	43,844	102,198	243,067	538,952
GDP business sector[b]	2,311	2,808	3,972	5,857	7,529	10,781	17,240	31,417	76,135	175,212	390,662

[a,b] See notes a.b to Table II–I.
SOURCE: Central Bureau of Statistics.

Table II–A9
CONSUMPTION OF NONDURABLE GOODS, 1979–82
(IS million, at current prices)

					Percent annual increase							
					Quantity				Price			
	1979	1980	1981	1982	1979	1980	1981	1982	1979	1980	1981	1982
Food, beverages, tobacco	7,106	17,858	37,828	87,811	1.9	-4.7	6.2	6.0	75.9	163.7	99.5	118.9
Household fuel and light	999	2,949	6,173	14,986	3.4	0.9	1.9	8.1	76.0	192.4	105.4	124.6
Clothing, footwear, and personal effects	2,079	3,914	11,901	25,875	-1.1	-8.4	22.5	1.5	67.8	105.5	148.2	114.2
Other	1,412	2,726	7,119	16,596	4.6	-14.1	15.6	8.3	71.6	124.7	125.9	115.3
Total	**11,596**	**27,447**	**63,021**	**145,268**	**1.8**	**-6.0**	**9.0**	**5.7**	**73.8**	**151.8**	**110.7**	**118.0**

SOURCE: Central Bureau of Statistics.

Table II–A10

PURCHASES OF DURABLE GOODS, 1979–82

(IS million, at current prices)

					Percent annual increase							
					Quantity				Price			
	1979	1980	1981	1982	1979	1980	1981	1982	1979	1980	1981	1982
Furniture	1,007	1,804	4,994	12,298	7.2	−10.5	24.2	18.5	65.1	100.2	122.9	107.8
Household equipment	1,704	3,547	7,598	16,193	57.3	8.8	22.2	10.3	39.4	91.3	75.4	93.3
Personal transportation equipment	889	885	4,474	12,678	43.1	−54.5	130.7	39.6	53.0	118.7	119.1	103.0
Total	**3,600**	**6,236**	**17,066**	**41,169**	**36.6**	**−8.5**	**38.1**	**19.4**	**50.4**	**89.3**	**98.1**	**102.1**

SOURCE: Central Bureau of Statistics.

Table II–A11

RATE OF NATIONAL SAVING FROM INCOME AVAILABLE TO THE ECONOMY, 1972–82[a]

(Percentages)

	Gross	Net
1972	23.6	16.7
1973	20.1	12.9
1974	11.4	2.0
1975	9.3	-0.8
1975[b]	11.6	2.1
1976	14.5	5.1
1977	16.5	6.4
1978	11.9	-0.2
1979	15.7	4.4
1980	14.6	2.8
1981	11.0	-1.5
1982	8.9	-4.4

[a] Income available to the economy consists of the gross national product and unilateral transfers from abroad (less net public sector interest payments), at the effective rate of exchange.

[b] From 1975 onward according to the new series of unilateral transfers from abroad.

SOURCE: Central Bureau of Statistics and Bank of Israel calculations.