CHAPTER VII

# BALANCE OF PAYMENTS

## 1. MAIN DEVELOPMENTS

The balance of payments improved in 1980: the current account deficit[1] decreased, and long-term capital imports rose to a level sufficient to finance the entire deficit and even to enlarge the economy's foreign exchange reserves (see Table VII-1).

The 1980 improvement virtually matched the previous year's deterioration, and it stands out all the more given the further worsening of the terms of trade in 1980 and the growth of the deficit in 1979, which was largely of a structural nature, brought on by the adverse change in the terms of trade. The deterioration in the terms of trade during the past two years is explained by the jump in oil prices in 1979 and the beginning of 1980, which resulted in an extra outlay of $400 million in 1979 and $500 million in 1980. This $900 million was tantamount to a 4.5 percent external tax on total domestic resource use (see Table VII-10).

The financing of such a large incremental expenditure implies a real year-on-year increase in the country's external debt and in current interest payments thereon—a heavy long-term burden on the economy. To counter this adverse structural change a number of measures were adopted with a view to reducing the import surplus.[2] This goal was achieved, and the year reviewed saw an appreciable strengthening of the balance of payments. However, it must be emphasized that this can be partly credited to the slump in economic activity and the drawing down of inventories during this period, and it did not necessarily reflect a long-term structural change in the balance of payments.

The improvement in the balance of payments took place in two main areas: *the current deficit declined even nominally and by 40 percent in real terms,*[3] following a real 15.5 percent increase in 1979 (see Table VII-4). Medium- and long-term capital imports reached $1.3 billion, which was sufficient to finance the

[1] The import surplus less unilateral transfers.

[2] The principal steps taken in 1979 were the raising of interest rates and the imposition of quantitative restrictions on short-term capital imports, the cancellation or lowering of subsidies on basic goods and the hiking of fuel prices, and a policy of wage and employment restraint in the public services.

[3] The nominal decrease deflated by the change in export prices—in other words, the quantitative change plus the change in the terms of trade.

Table VII-1

**GOODS AND SERVICES ACCOUNT, UNILATERAL TRANSFERS, AND CAPITAL ACCOUNT, 1975–80**

($ million, at current prices)

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|
| 1. Net goods and services | -4,016 | -3,200 | -2,564 | -3,372 | -3,883 | -3,832 |
| Private sector | -1,938 | -1,366 | -1,146 | -1,355 | -2,420 | -1,764 |
| Public sector[a] | -2,078 | -1,834 | -1,418 | -2,017 | -1,463 | -2,068 |
| 2. Net unilateral transfers | 1,770 | 2,210 | 2,082 | 2,384 | 2,583 | 2,947 |
| Private sector | 730 | 683 | 811 | 908 | 1,057 | 1,118 |
| Public sector | 1,040 | 1,527 | 1,271 | 1,476 | 1,526 | 1,829 |
| 3. Net current account (1+2) | -2,246 | -990 | -482 | -988 | -1,300 | -885 |
| Private sector | -1,208 | -683 | -335 | -477 | -1,363 | -646 |
| Public sector | -1,038 | -307 | -147 | -541 | 63 | -239 |
| 4. Net medium- and long-term capital movements[b,c] | 1,555 | 1,044 | 700 | 1,178 | 1,098 | 1,319 |
| Private sector | 132 | 174 | 105 | 218 | 93 | -121 |
| Public sector[c] | 1,423 | 870 | 595 | 960 | 1,005 | 1,440 |
| 5. Net basic balance of payments (3+4) | -691 | 54 | 218 | 190 | -202 | 434 |
| Private sector | -1,076 | -509 | -230 | -229 | -1,269 | -767 |
| Public sector | 385 | 563 | 448 | 419 | 1,068 | 1,201 |
| 6. Short-term capital movements[d] | 694 | -296 | -405 | 243 | 1,311 | 513 |
| Private nonfinancial sector | 206 | -272 | -368 | 17 | 471 | 524 |
| Private financial sector | 339 | -19 | -50 | 456 | 730 | 76 |
| Public sector[e] | 149 | -5 | 13 | -230 | 110 | -87 |
| 7. Errors and omissions | 64 | 366 | 425 | 432 | -690 | -527 |
| 8. Surplus or deficit (-) in net capital movements for financing current account[f] (5+6+7) | 67 | 124 | 238 | 865 | 419 | 420 |
| 9. Increase (-) or decrease (+) in foreign exchange reserves[g] | -67 | -124 | -238 | -865 | -419 | -420 |

NOTE: In capital movements an increase in liabilities is a positive magnitude, while an increase in assets appears with a minus sign.

[a] The public sector deficit on goods and services account is defined as follows: direct defense imports, government imports n.e.s., and net interest payments abroad, less port services surplus (excl. fuel) and communication services surplus. Another direct public sector import has not been included here.

[b] Long- and medium-term loans (Table VII-21) and investments from abroad, less Israeli investments abroad, excluding banks (Table VII-22, line 3).

[c] Includes allocations of IMF Special Drawing Rights—$27 million in both 1979 and 1980.

[d] Includes various short-term assets.

[e] Includes the Bank of Israel.

[f] Equal to the change in foreign exchange reserves, but with the opposite sign; therefore lines 8 and 9 sum to zero.

[g] Adjusted for the effect of changes in the value of foreign currencies against the dollar.

SOURCE: Based on Central Bureau of Statistics data.

entire current deficit and expand the country's international reserves.[4] This was a complete reversal of the situation in 1979, when short-term capital imports were needed to finance the growth in foreign exchange reserves and the basic deficit. The reduction of the short-term credit inflow in 1980 was largely due to the Bank of Israel's policy implemented in April 1979, under which the cost of nondirected foreign currency credit was raised and quantitative restrictions imposed (see section 6 below).

These developments slowed the nominal growth of the economy's net foreign currency liabilities to the rest of the world[5] (i.e. liabilities to the foreign sector less foreign currency assets) and stabilized its net liquid liabilities abroad,[6] after a significant rise in 1979 (see Table VII–25).

The expansion of the public sector's unilateral transfers, and even more the daunting 54 percent quantitative contraction of the civilian import surplus following a 15 percent increase in 1979, contributed to the reduction of the current account deficit, which occurred in spite of the countervailing effect of price rises abroad (including the deterioration in the terms of trade) and a much larger direct defense import (see Table VII–4).

The trimming of the civilian import surplus was due equally to the reduction of imports and the expansion of exports. Imports were down 5 percent in quantitative terms, following four years of continuous growth (in 1975 the level fell 2.6 percent), while exports expanded 8 percent, similar to the 1979 figure[7] (after a mere 2 percent advance in 1978).

The sizable quantitative drop in the civilian import surplus in 1980 is primarily explained by the following factors:[8]

(a) The real interest rate on nondirected credit reached an unprecedented level and government development loans were linked.[9] The high real interest depressed the import surplus in two ways: directly, by reducing the demand for import-intensive assets (durables and investment goods) and inducing the drawing down of inventories; and indirectly, by dampening aggregate domestic demand

4 See the comparison in Table VII–1 between the surplus in the basic balance of payments and the growth of foreign exchange reserves.

5 There was a comparable slowdown in the country's net external debt.

6 This is even before subtraction of net capital losses in 1980 arising from the weakening of European currencies against the dollar. Such losses totaled $200 million, after a $60 million capital gain in 1979.

7 Exports, according to the national accounts definition (i.e. excluding factor receipts from abroad and public sector interest receipts from abroad), rose 6 percent in quantitative terms in 1980, compared with 5 percent in 1979.

8 No significant change took place in 1980 in the prices of commodity imports (consumer products, investment goods, and raw materials excluding oil and diamonds) relative to private consumption prices, whereas in the previous year they had declined.

9 For example, the expected real cost (the effective average cost) of nondirected domestic credit (approved overdraft facilities) was negative throughout most of 1979, whereas in 1980 it rose to 18 percent (positive) on an annual average.

Table

**GOODS AND SERVICES**

($ million, at

| | 1977 | 1978 | 1979 |
|---|---|---|---|
| 1. Imports | | | |
| a. Goods, excl. fuel and diamonds | 2,934 | 3,616 | 4,918 |
| b. Oil | 738 | 775 | 1,406 |
| c. Diamonds | 981 | 1,130 | 920 |
| d. Services | 2,334 | 2,833 | 3,517 |
| e. Administered areas (goods and services) | 347 | 353 | 430 |
| f. Total imports, excl. direct defense imports | 7,334 | 8,707 | 11,191 |
| g. Direct defense imports | 1,099 | 1,623 | 1,233 |
| Total imports | **8,433** | **10,330** | **12,424** |
| 2. Exports | | | |
| a. Goods, excl. fuel and diamonds | 1,874 | 2,299 | 2,920 |
| b. Fuel | 60 | 69 | 126 |
| c. Diamonds | 1,003 | 1,317 | 1,224 |
| d. Services | 2,384 | 2,815 | 3,738 |
| e. Administered areas (goods and services) | 550 | 460 | 532 |
| Total exports | **5,871** | **6,960** | **8,540** |
| 3. Trade deficit, excl. administered areas | | | |
| a. Excl. oil and diamonds (1a–2a) | 1,060 | 1,317 | 1,998 |
| b. Net oil imports (1b–2b) | 678 | 706 | 1,280 |
| c. Current surplus on diamonds (2c–1c) | 22 | 188 | 304 |
| Total deficit | **1,716** | **1,835** | **2,974** |
| 4. Surplus on services (2d–1d) | 50 | –18 | 221 |
| 5. Surplus in trade with administered areas (2e–1e) | 203 | 107 | 102 |
| 6. Civilian import surplus (3–4–5) | **1,463** | **1,747** | **2,651** |
| 7. Total import surplus (6+1g)[c] | **2,562** | **3,370** | **3,884** |

[a] Based on a c.i.f. valuation of commodity imports and f.o.b. valuation of commodity exports.

[b] The discrepancy between the rate of change in import surplus prices and import prices reflects the change in the terms of trade; when the change in import surplus prices is greater, this indicates a deterioration, and vice versa.

VII-2

ACCOUNT,[a] 1977-80

current prices)

| | Percent annual increase | | | | | |
|---|---|---|---|---|---|---|
| | Quantity | | | Price[b] | | |
| 1980 | 1978 | 1979 | 1980 | 1978 | 1979 | 1980 |
| 4,476 | 10.1 | 17.7 | -18.8 | 11.9 | 15.5 | 12.1 |
| 2,116 | 5.6 | 11.9 | 3.4 | -0.5 | 62.1 | 45.6 |
| 1,120 | -29.5 | -25.5 | 11.3 | 63.3 | 9.3 | 9.3 |
| 4,286 | 11.9 | 10.8 | 5.5 | 8.5 | 12.0 | 15.5 |
| 471 | 5.5 | 8.5 | -7.0 | -3.6 | 12.3 | 17.8 |
| 12,469 | 4.7 | 9.0 | -5.4 | 13.4 | 17.9 | 17.8 |
| 1,725 | 40.0 | -31.2 | 27.2 | 5.5 | 10.5 | 10.0 |
| **14,194** | **9.3** | **2.7** | **-2.2** | **12.1** | **17.1** | **16.8** |
| 3,696 | 6.5 | 11.7 | 12.6 | 15.1 | 13.7 | 12.4 |
| 113 | 4.6 | -29.2 | -10.0 | 9.9 | 158.1 | -0.7 |
| 1,409 | -16.6 | -12.1 | 9.1 | 57.6 | 5.7 | 5.5 |
| 4,481 | 9.8 | 16.0 | 3.8 | 7.5 | 14.5 | 15.5 |
| 663 | -9.8 | -3.3 | 7.7 | -7.3 | 19.6 | 15.7 |
| **10,362** | **2.3** | **7.5** | **7.6** | **15.9** | **14.1** | **12.7** |
| 780 | 17.2 | 28.3 | -64.7 | 6.0 | 18.2 | 10.6 |
| 2,003 | | | | | | |
| 289 | | | | | | |
| **2,494** | **5.7** | **19.5** | **-41.7** | **1.2** | **35.7** | **43.9** |
| 195 | | | | | | |
| 192 | | | | | | |
| **2,107** | **14.6** | **14.8** | **-47.5** | **4.2** | **32.2** | **51.5** |
| **3,832** | **25.4** | **-7.4** | **-23.8** | **4.9** | **24.4** | **29.5** |

[c] The discrepancies between these figures and those in Table VII-1 are due to rounding here. The exact figures appear in Table VII-1.
SOURCE: Based on Central Bureau of Statistics data.

and slowing economic activity, which in turn pulled down imports and stimulated exports.

(b) The slackening and even a slump in economic activity by more than can be attributed to the real interest rate change.

(c) A worsening of the terms of trade (following the jump in oil prices), which reduced disposable income by more than was warranted by the slowing of GNP growth.[10] In 1980 a large part of the "external tax" stemming from the deteriorating terms of trade (equivalent to some 2.5 percent of total domestic resource use) was borne by consumers, whereas in 1979 they were not affected by the tax since the government increased the oil subsidy.

The slackening of economic activity and the ebbing of domestic demands were reflected not only by a smaller import, but also by an attempt by producers to step up their foreign sales and to find alternative markets for their goods abroad.[11] This effort bore fruit: exports continued to make impressive headway, and in industrial goods they even gained considerable momentum despite the flagging of international commerce and the zero growth of the relative profitability of export.

As stated, the steep quantitative decline in the civilian import surplus was also due this year, among other things, to the drawing down of stocks (see Table VII-9) and a significant weakening of domestic demands (private consumption, public civilian consumption, and investment). Consequently, not all the improvement in the current balance of payments should be regarded as constituting a turn for the better or a reflection of a structural change in the balance of payments; when destocking has run its course and domestic demands rebound, it is reasonable to expect the import surplus to resume its uptrend.

This is not comparable to the effect of a decline in consumption on the balance of payments in the long run. Reducing private and public civilian consumption (including the labor input) and the creation of overt unemployment[12] may constitute a potential basis for restructuring the economy (if trends do not change in 1981), which implies the expansion of the tradable product and the contraction of the import surplus. Capitalizing on the existing conditions to bolster the balance of payments in the long run requires a continued restraining of consumption (private and public), in comparison with the growth

[10] This can be seen in the more rapid rise of import prices, including net taxes on oil, compared with the GNP deflator, which implies an absorption of national income through the balance of payments.

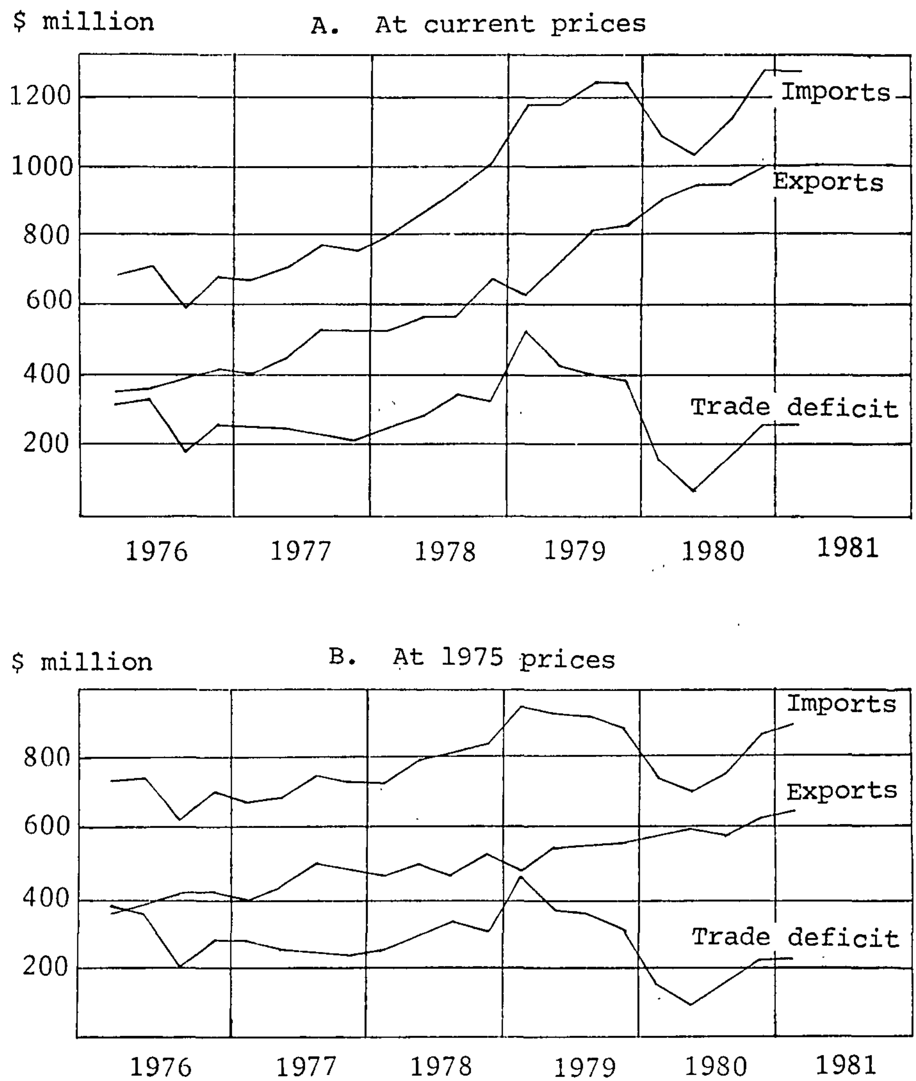
[11] The penetration of new foreign markets involves considerable effort and sometimes also a high initial investment. It is reasonable to assume that after his initial success the producer will strive to maintain his links with the new markets and to tap their potential to the full, unless his exports are of a manipulative character (for example, the elimination of stocks at below-cost prices, i.e. dumping).

[12] For the first time since 1973 the weight in the civilian labor force of the "nontradable" sectors (electricity and water, construction, and private and public services) declined.

Figure VII-1

**EXPORTS, IMPORTS, AND THE TRADE DEFICIT EXCL. DIAMONDS AND OIL,[a] 1976–81I**

(Quarterly seasonally adjusted data)




[a] Also excludes ships and aircraft; exports include refined petroleum products.

of GNP, and the basing of economic recovery on a more vigorous expansion of exports and import substitutes and increasing the relative profitability of the tradable product.[13]

**CHANGES IN RELATIVE PRICES,[a] 1979–80**

(Percent annual increase)[b]

| | 1979 | 1980 |
|---|---|---|
| 1. World prices,[c] in $ (excl. diamonds and fuel) | | |
| Imports | 18 | 6 |
| Exports | 13.5 | 9 |
| 2. Representative exchange rate, IS/$ | 71 | 111 |
| 3. Price of industrial output for the domestic market[d] | 100 | 132 |
| 4. Nominal rate of devaluation, deflated by rate of increase in industrial output prices (2/3) | –14.5 | –9 |
| 5. Relative prices (at the representative rate) (1×2/3) | | |
| Imports | 1 | –3.5 |
| Exports | –3 | –1 |

[a] Excluding export subsidies.
[b] Change in fourth-quarter levels.
[c] According to the Laspeyres index.
[d] Based on Table VII–A1, col. 4. Private consumption prices rose at similar rates: 103 percent in 1979 and 136 percent in 1980.

The nominal devaluation of the sheqel in relation to the dollar was greatly speeded up during 1980, in comparison with both the previous year and the accelerated rise in domestic prices. Nevertheless, export and import prices moved up much more slowly in dollar terms than in 1979, mainly because of the marked strengthening of the dollar against other currencies this year (see Table VII–19). The net result of these two contrasting developments was a further drop in the relative prices of imports and exports at the representative rates in force in 1980.

Analysis of the movement of relative import and export prices during the past three years (1978–80) reveals that even when the nominal devaluation of the Israeli currency was greatly stepped up, over and above the increase in domestic prices, the relative price of exports, calculated at the representative

[13] On the method of subsidizing exports see below.

**Table VII–3**

**THE TRADE BALANCE,[a] QUARTERLY, 1979–81I**

($ million at current prices, seasonally adjusted)

| | 1979 | | | | 1980 | | | | 1981 |
|---|---|---|---|---|---|---|---|---|---|
| | I | II | III | IV | I | II | III | IV | I |
| 1. Commodity imports[a] | 1,196.2 | 1,201.9 | 1,260.7 | 1.256.5 | 1,111.0 | 1,056.9 | 1,157.7 | 1,301.3 | 1,294.9 |
| 2. Commodity exports[b] | 646.6 | 749.5 | 834.7 | 848.7 | 929.1 | 967.9 | 967.4 | 1,020.8 | 1,018.8 |
| 3. Trade deficit (1–2) | 549.6 | 452.4 | 426.0 | 407.8 | 181.9 | 89.0 | 190.3 | 280.5 | 276.1 |
| | **Percent quarter- to-quarter quantitative increase** | | | | | | | | |
| 1. Commodity imports[a] | 13.1 | –2.5 | –0.7 | –3.4 | –15.7 | –5.3 | 7.1 | 14.7 | 2.6[d] |
| 2. Commodity exports[b] | –10.1 | 15.6 | 1.9 | 0.6 | 3.9 | 3.0 | –2.8 | 8.4 | 2.9[d] |
| 3. Trade deficit (1–2) | 53.0 | –20.6 | –4.4 | –9.6 | –49.9 | –35.6 | 64.7 | 36.2 | 1.5[d] |

[a] Excludes ships and aircraft, oil, and diamonds.
[b] Excludes ships and aircraft and diamonds.
[c] At 1975 prices.
[d] Assuming that import and export prices fell 3 percent in the first quarter of 1981 compared with the last quarter of 1980.
SOURCE: Based on Central Bureau of Statistics data.

exchange rate, did not rise (except for a short spell), and the nominal devaluation merely averted a decline.[14] This underlines the difficulty of implementing a real devaluation solely through nominal devaluations in 1978–80. The chief reason for this apparently lay in the growing interdependence between import prices, domestic prices, and wages per employee[15] (the buoyant domestic demands in 1978–79 also hampered the implementation of a real devaluation). In these years the relative profitability of exports improved, thanks to the subsidization of exports in the form of directed credits granted at nominal interest rates far below those charged on nondirected (free market) credit. The steep increase in the subsidy rate in 1979 permitted the relative profitability of exports to grow (despite the drop in the relative price calculated at the representative exchange rate). By contrast, the subsidy rate per export dollar held steady in 1980 on average, and so there was no rise in the relative profitability of industrial exports. The growth of the subsidy through nondirected credit was unplanned, and stemmed from the failure to adjust the interest rate on directed credit for the acceleration of inflation, as well as from the rise of interest rates in the international market.

The present method of subsidizing exports through directed credit is deficient in several respects: the size of the subsidy is not related to the value-added component of exports, nor can it be known in advance, since it depends on the rate of inflation; and the subsidy discriminates between exports and import substitutes, even though the latter also contribute to the reduction of the import surplus. Nevertheless, there are still customs duties which discriminate in favor of most of the segments where there are import substitutes.

The net effect of these distortions is not known, but obviously the existing system inhibits the management of an effective monetary policy because of the large liquidity injection engendered thereby. In certain situations the granting of a temporary export subsidy may be inescapable (as a supplement to nominal devaluations), but the ultimate objective is the reduction of the structural import surplus, and not necessarily the expansion of exports per se. To achieve this goal, a system of subsidization that enhances the relative profitability of the tradable product (e.g. the cutting of taxes on labor in the tradable sectors) is preferable when domestic demands are moderate. It should further be noted that because of the distortions inherent in every system of subsidization, the volume of subsidies must be quantitatively restricted.[16]

[14] For example, since the first quarter of 1979, after the Bank of Israel checked the short-term foreign currency inflow to the economy.

[15] It should be remembered that while average real wages per employee fell in the economy as a whole in 1980, in the business sector there was no decline and per unit labor costs even rose. The downturn occurred entirely in the public services.

[16] The sizable volume of exports (about 30 percent of GNP) necessitates a large subsidy budget regardless of the system used.

Table VII–4

**BALANCE OF PAYMENTS DEFICIT ON CURRENT ACCOUNT AND TERMS OF TRADE IMPACT, 1978–80**

($ million)

| | 1978 | 1979 | 1980 | Percent annual increase 1979 | Percent annual increase 1980 |
|---|---|---|---|---|---|
| A. Total civilian import surplus, at current prices (1+2+3) | 1,749 | 2,650 | 2,107 | 51.6 | -20.5 |
| 1. Quantity (at 1978 prices) | 1,749 | 2,008 | 926 | 14.8 | -53.9[a] |
| a. Imports | 8,710 | 9,492 | 8,979 | 9.0 | -5.4 |
| b. Exports | 6,950 | 7,484 | 8,053 | 7.5 | 7.6 |
| 2. Deterioration in terms of trade[b] | — | 360 | 917 | 17.2 | 53.0 |
| Thereof: Oil | — | 350 | 900 | — | — |
| 3. Price, excl. change in terms of trade[b] | — | 282 | 264 | 14.1 | 12.7 |
| B. Direct defense imports, at current prices (1+2+3) | 1,623 | 1,233 | 1,725 | -24.0 | 39.9 |
| 1. Quantity (at 1978 prices) | 1,623 | 1,116 | 1,407 | -31.2 | 26.1 |
| 2. Deterioration in terms of trade[b] | — | -41 | -86 | -3.2 | -1.6 |
| 3. Price, excl. change in terms of trade[b] | — | 158 | 404 | 14.1 | 12.7 |
| C. Unilateral transfers, at current prices (1+2) | 2,384 | 2,583 | 2,947 | 8.3 | 14.1 |
| 1. Quantity (at 1978 prices) | 2,384 | 2,263 | 2,291 | -5.1 | 1.2 |
| 2. Price (in export terms) | — | 320 | 656 | 14.1 | 12.7 |
| D. Deficit on current account (A+B–C) | 988 | 1,300 | 885 | 31.6 | -31.9 |
| 1. Quantity (at 1978 prices) | 988 | 861 | 42 | -12.9 | -95.1 |
| 2. Deterioration in terms of trade[b] | — | 319 | 831 | 32.4 | 1,130 |
| 3. Price, excl. change in terms of trade[b] | — | 120 | 12 | 14.1 | 12.7 |
| E. Real change in current deficit (D1+D2) | | | | 15.3 | -39.6 |
| Thereof: Private sector | | | | 167.2 | -57.9 |

[a] The discrepancy between the percent change here and in Table VII–2 is due to the fact that here the figure was calculated at 1978 prices and in the other table at the previous year's prices.

[b] Compared with 1978.

SOURCE: Based on Central Bureau of Statistics data.

Table VII-5

COMMODITY TERMS OF TRADE, 1973–80

(Indexes:[a] 1972=100)

| | 1973 | 1974 | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|---|
| Total | 96 | 83 | 83 | 87 | 93 | 101 | 94 | 87 |
| Total, excl. diamonds | 92 | 84 | 87 | 89 | 88 | 92 | 87 | 81 |
| Total, excl. diamonds and oil | 93 | 96 | 98 | 101 | 100 | 102 | 104 | 104 |
| Export prices[b] relative to oil prices | 84 | 28 | 32 | 30 | 30 | 34 | 25 | 19 |

[a] The export price index divided by the import price index. A decrease in the index implies a deterioration in the terms of trade.
[b] Prices of export excl. diamonds and refined petroleum products.
SOURCE: Based on Central Bureau of Statistics data.

Table VII-6

FACTORS INFLUENCING EXPORTS, EXCL. DIAMONDS, 1975–80

(Percent annual increase)

| | Exports of goods and services[a] | | Factors influencing exports | |
|---|---|---|---|---|
| | Total | Excl. diamonds | World trade[b] | Relative price[c] |
| 1971–80 (average) | 9.1 | 9.5 | 5.5 | 1.3 |
| 1975 | 2.0 | 2.4 | -4.7 | 3.1 |
| 1976 | 16.2 | 15.5 | 12.3 | 1.8 |
| 1977 | 11.5 | 12.8 | 5.5 | 5.0 |
| 1978 | 3.5 | 6.7 | 5.5 | 2.7 |
| 1979 | 4.8 | 6.9 | 5.7 | 3.2 |
| 1980 | 6.0 | 5.7 | 0.0 | -0.9 |

[a] As defined in the national accounts, i.e. excluding factor receipts from abroad and public sector interest receipts from abroad.
[b] Source: IMF, *International Financial Statistics* for the relevant years.
[c] The ratio of export prices (excluding diamonds) at the effective exchange rate (including a subsidy in the form of cheap directed credit since 1978) to the price of domestic business sector uses (at factor cost). Domestic business sector uses are defined as private consumption, public consumption, and fixed investment, less direct defense imports, ships and aircraft, the product originating in public and nonprofit institution services, the product originating in housing services, and net taxes on domestic production.
SOURCE: Based on Central Bureau of Statistics data.

Examination of the trade deficit in 1980 (seasonally adjusted data and excluding diamonds and oil—see Table VII-3) shows a sharp decline in the first two quarters and a strong upswing in the last two, but the level in the second half of the year was still significantly short of the average for 1979. The deficit continued to grow quantitatively in the first quarter of 1981. The reason for the increase in the second half of 1980 lay in the sharply higher volume of imports (excluding diamonds and oil) and a more sluggish expansion of nondiamond exports. The growth of imports was due to some recovery in domestic demands and a smaller destocking. The slimmer export gain is explained by the sagging of international trade in 1980 because of the steep jump in oil prices at the end of the previous year.

## 2. IMPORTS[17]

### (a) General Survey

Imports (excluding direct defense items) declined 5 percent in 1980, following increases of 9 percent in 1979 and an average of 4.5 percent in 1976–78 (see Table VII-2). The downswing masked contrasting developments in the various components: oil, diamonds, capital services, and other services (which constitute approximately 45 percent of total imports) declined, while the other component groups—consumer goods, capital goods, other raw materials, and services (excluding capital and other services)—fell off more sharply. The swelling of the import bill which had been expected because of the dearer cost of oil was largely averted due to the significant contraction of commodity imports. Had they remained at their 1979 level, the outlay on imports would have been $800 million higher.

The decline in imports was in part a cyclical response to earlier developments: in 1978 and 1979 foreign purchases expanded rapidly with the renewal of economic growth, peaking in the first half of 1979. In the second half of that year they tapered off and in the final months they dropped. The downturn became more pronounced in early 1980 following the adoption of a policy of economic restraint. The trend was reversed in the second half of 1980, when all component groups resumed their growth; this included inputs, signalling the end of the destocking process. This can be seen in Table VII-7, which presents the changes in imports by uses, calculated with the help of an input-output table. The running down of inventories—especially of raw materials other than diamonds and oil (the latter expanded)—was responsible for roughly half the drop in imports (at 1975 prices).

[17] According to balance of payments definitions and based on a c.i.f. valuation of commodity imports and an f.o.b. valuation of commodity exports. Diamond imports are discussed together with diamond exports. The data on imports and exports, including rates of change, are in quantitative terms unless otherwise stated.

Table

**DISTRIBUTION OF IMPORTS**[a]

($ million, at

| | 1975 | 1976 | 1977 |
|---|---|---|---|
| **A. Uses** | | | |
| 1. Private consumption | **1,695** | **1,749** | **1,980** |
| Food, beverages, and tobacco | 738 | 702 | 772 |
| Other current consumption | 317 | 341 | 369 |
| Durables | 181 | 189 | 195 |
| Nonprofit institution purchases | 48 | 49 | 63 |
| Other services | 411 | 468 | 581 |
| 2. Public consumption | **578** | **566** | **574** |
| Civilian | 146 | 174 | 171 |
| Domestic noncivilian | 432 | 392 | 403 |
| 3. Domestic investment | **1,157** | **1,056** | **1,053** |
| Residential construction | 247 | 207 | 170 |
| Nonresidential construction | 202 | 171 | 170 |
| Equipment | 665 | 625 | 618 |
| Ships and aircraft | 43 | 53 | 95 |
| 4. Inventory investment[b] | **–34** | **–75** | **163** |
| 5. Exports | **1,713** | **1,911** | **2,379** |
| Diamonds | 474 | 582 | 704 |
| Other industrial goods | 457 | 579 | 732 |
| Agricultural products | 64 | 74 | 91 |
| Services | 554 | 508 | 656 |
| Administered areas | 164 | 168 | 196 |
| **B. Imports** | | | |
| Total civilian imports distributed | **5,109** | **5,207** | **6,149** |
| Excl. imports for stockbuilding | 5,143 | 5,282 | 5,989 |
| Direct defense imports[c] | 1,862 | 1,498 | 1,027 |
| Imports not classifiable by a specific use | 1,067 | 1,238 | 1,257 |
| Capital services | 718 | 743 | 787 |
| Other[d] | 349 | 495 | 470 |
| Total imports, balance of payments definition | **8,038** | **7,943** | **8,433** |

[a] Civilian imports, including imports from the administered areas. Indirect imports were distributed using the input-output table for 1975/76.

[b] Estimated as the difference between actual input imports (including diamonds and oil) and input imports derived from changes in final uses, calculated with the help of the input-output table for 1975/76. Such an analysis assumes constant import coefficients, and therefore the data on inventory changes should be treated with reservation and

**VII–7**

**BY USES, 1975–80**

current prices)

| | | | Percent annual increase (at 1975 prices) | | | | |
|---|---|---|---|---|---|---|---|
| 1978 | 1979 | 1980 | 1976 | 1977 | 1978 | 1979 | 1980 |
| **2,285** | **2,986** | **3,372** | **6** | **7** | **10** | **8** | **–10** |
| 800 | 1,047 | 1,170 | 9 | 6 | 3 | 8 | –9 |
| 419 | 503 | 563 | 5 | 1 | 9 | –4 | –10 |
| 256 | 368 | 338 | 2 | –4 | 17 | 21 | –21 |
| 67 | 90 | 111 | 0 | 19 | 2 | 3 | –2 |
| 743 | 978 | 1,190 | 6 | 14 | 20 | 10 | –8 |
| **636** | **757** | **941** | **–4** | **–7** | **1** | **–4** | **2** |
| 212 | 212 | 251 | 11 | –9 | 15 | –14 | 1 |
| 424 | 545 | 690 | –9 | –6 | –5 | 1 | 3 |
| **1,271** | **1,840** | **1,699** | **–9** | **–9** | **5** | **25** | **–18** |
| 181 | 299 | 373 | –16 | –24 | –1 | 32 | 2 |
| 194 | 247 | 252 | –14 | –7 | 3 | 1 | –16 |
| 821 | 1,139 | 1,062 | –6 | –10 | 13 | 24 | –14 |
| 75 | 155 | 12 | 23 | 60 | –33 | 86 | –93 |
| **216** | **255** | **–314** | — | — | — | — | — |
| **2,847** | **3,370** | **4,293** | **10** | **13** | **–1** | **–1** | **8** |
| 957 | 917 | 1,106 | 21 | 5 | –16 | –13 | 11 |
| 861 | 1,166 | 1,680 | 28 | 17 | 8 | 7 | 18 |
| 95 | 127 | 152 | 16 | 15 | 2 | 0 | –9 |
| 753 | 942 | 1,054 | –14 | 20 | 9 | 1 | –5 |
| 181 | 218 | 301 | 5 | 10 | –11 | –4 | 9 |
| **7,256** | **9,208** | **9,991** | **2** | **9** | **4** | **8** | **–11** |
| 7,040 | 8,953 | 10,305 | 3 | 4 | 5 | 7 | –4 |
| 1,567 | 1,193 | 1,698 | | | | | |
| 1,507 | 2,023 | 2,505 | | | | | |
| 990 | 1,378 | 1,875 | | | | | |
| 517 | 645 | 630 | | | | | |
| **10,330** | **12,424** | **14,194** | | | | | |

regarded as merely an indicator of the changes. Moreover, the data probably include errors and omissions since, as stated, they were derived as the difference between two series based on different sources.

[c] Direct defense imports here differ from the data in other tables due to various adjustments to input-output definitions.

[d] Consists mainly of factor payments.

Following are the percent changes in imports, calculated at 1975 prices and adjusted for inventory fluctuations (including errors and omissions):

| | 1978 | 1979 | 1980 |
|---|---|---|---|
| Imports for domestic uses | 8 | 11 | –11 |
| Imports for export | –1 | –1 | 8 |
| Total imports, excl. inventory changes | 5 | 7 | –4 |

### (b) Consumer Goods

Imports of consumer goods were, at $549 million, 12 percent below their 1979 level, reflecting a 26 percent quantitative decline. Most items fell off, with the most striking decreases being recorded for durables and current consumption goods.

In 1978–79 imports of durables rose precipitately, due to their cyclical nature and responsiveness to changes in economic activity. The sharp contraction in the year reviewed was partly a reaction to their high 1979 level and in part was due to the change in the economic scene: the slowing of economic activity, a drop in real wages, and a rise in interest rates. Passenger cars fell by half, from $103 million in 1979 to $53 million. Color TV sets continued to be imported in large quantities (though less so than in 1979), thus moderating the reduction in consumer durables. Food imports fell off owing to a smaller government purchase of frozen meat abroad—$76 million in 1980, compared with $137 million in 1979 and $51 million in 1978. These sharp fluctuations in meat imports over the past three years stemmed from inventory changes; in other food products the fluctuations were much milder.

### (c) Capital Goods

In capital goods there was a steep 23 percent drop, after a 38 percent upsurge in 1979. The decline was especially sharp in ships and aircraft; excluding this item, the downturn was a relatively moderate 12 percent.

Imports of capital goods expanded faster than investment in 1979, owing to the convenient terms offered investors and to expectations that economic activity would continue to grow. In 1980 investment in fixed assets shrank appreciably, and with it imports of capital goods. The latter can be attributed to the linkage of development loans as from 1979, the dearer cost of nondirected credit, and the failure of the bright economic expectations to materialize. Nondwelling investment accounted for most of the drop.

All components of the machinery and equipment item slumped. Land transport equipment fell off only fractionally, as the import of 1,150 buses at a cost of $103 million (compared with a $20 million import in 1979) offset much of the precipitate drop in other items: passenger cars for commercial purposes—from $73 million in 1979 to $37 million, and trucks and vans—from $75 million to $32 million.

### (d) **Production Inputs**

Imports of production inputs, excluding oil and diamonds, were down 14 percent. An input-output analysis (see Table VII–9) shows a 4 percent decrease in derived input imports for domestic uses. The export advance had an expansionary effect, so that total derived imports grew 2.5 percent. The large discrepancy between derived and actual input imports was in contrast to the situation in previous years, and indicates the drawing down of inventories to an unprecedented extent—approximately $500 million—thereby adjusting to the low level of economic activity and the high interest rates. Destocking was heaviest in the first half of the year, and came to an end with the rebounding of the economy in the second half.

An examination of the primary destinations of input imports reveals an especially sharp decline in iron and steel and in farm inputs. The former item was influenced by a combination of exogenous factors and local developments: a slump in worldwide consumption led to supply surpluses and a crisis in the industry, while in Israel demand weakened owing to the slackening of construction; this resulted in the involuntary buildup of stocks, which could not be disposed of abroad because of the depressed state of foreign markets. Eventually part of the stocks was sold at a loss to Egypt, resulting in a larger recorded export of this item.

Most of the decline in imported inputs to agriculture occurred in fodder, which fell from $133 million in 1979 to $85 million. Agricultural raw materials rose for reasons that are not yet clear. Nominal decreases were recorded in the remaining items.

As stated, the drop in input imports was mainly due to the running down of inventories. Thus, even without the resumption of economic growth, such imports can be expected to expand noticeably as destocking has run its course.

### (e) **Oil**

Crude oil imports in the year surveyed rose only 3.5 percent in quantitative terms, following a 12 percent increase in 1979. Exports of refined petroleum products continued to lose ground, and so there was a faster expansion of net than of gross oil imports in the past two years (see Table VII–2). In 1979 such imports had exceeded current consumption and production requirements due to stockpiling, and this was partly responsible for the relatively small increase in the year reviewed. Considering that consumption of this item was only fractionally higher in 1980, oil stocks probably expanded to about the same extent as in 1979. The sharply higher oil import bill in the past two years was due of course to the steep jump in world prices. The price paid by the Israeli economy in the first quarter of 1980 was 2.4 times higher than in the last quarter of 1978, but it plateaued from the first three months of 1980

Table

IMPORTS BY ECONOMIC

($

| | 1977 | 1978 | 1979 |
|---|---|---|---|
| 1. Consumer goods | 323.5 | 391.2 | 626.2 |
| Food | 150.1 | 152.9 | 274.2 |
| Other current consumption | 72.4 | 94.2 | 119.0 |
| Durables | 101.0 | 144.1 | 233.0 |
| 2. Capital goods | 626.0 | 781.1 | 1,194.6 |
| Plant and equipment | 467.1 | 604.2 | 854.6 |
| Land transport equipment | 64.2 | 102.4 | 185.0 |
| Ships and aircraft | 94.7 | 74.5 | 155.0 |
| 3. Production inputs, excl. fuel and diamonds | 2,085.4 | 2,555.7 | 3,258.1 |
| Raw materials for agriculture | 129.1 | 136.8 | 183.3 |
| Raw materials for food industry | 376.9 | 375.3 | 439.9 |
| Textile yarn and thread | 89.2 | 118.4 | 153.1 |
| Iron, steel, and products thereof | 225.5 | 300.5 | 400.2 |
| Spare parts and accessories | 385.1 | 484.4 | 642.5 |
| Chemical and plastic products | | 411.4 | 545.5 |
| Paper, wood, and products thereof | 879.6 | 204.5 | 260.6 |
| Miscellaneous | | 524.4 | 633.0 |
| 4. Oil | 737.6 | 774.9 | 1,406.0 |
| 5. Rough and polished diamonds (net) | 981.1 | 1,130.0 | 920.4 |
| 6. Goods n.e.s., less imports returned | -6.3 | -1.9 | -8.8 |
| 7. Total net commodity imports, foreign trade definition | **4,759.9** | **5,631.0** | **7,396.5** |
| 8. Balance of payments adjustments | -107.0 | -109.8 | -152.2 |
| 9. Commodity imports from administered areas | 154.3 | 165.2 | 163.5 |
| 10. Total net commodity imports, balance of payments definition (c.i.f.) | **4,807.2** | **5,686.4** | **7,407.8** |
| Thereof: Excl. oil, diamonds, and imports from the administered areas | 2,934.2 | 3,616.3 | 4,917.9 |

[a] Based on a c.i.f. valuation of imports.
SOURCE: Central Bureau of Statistics.

**DESTINATION,[a] 1977–80**

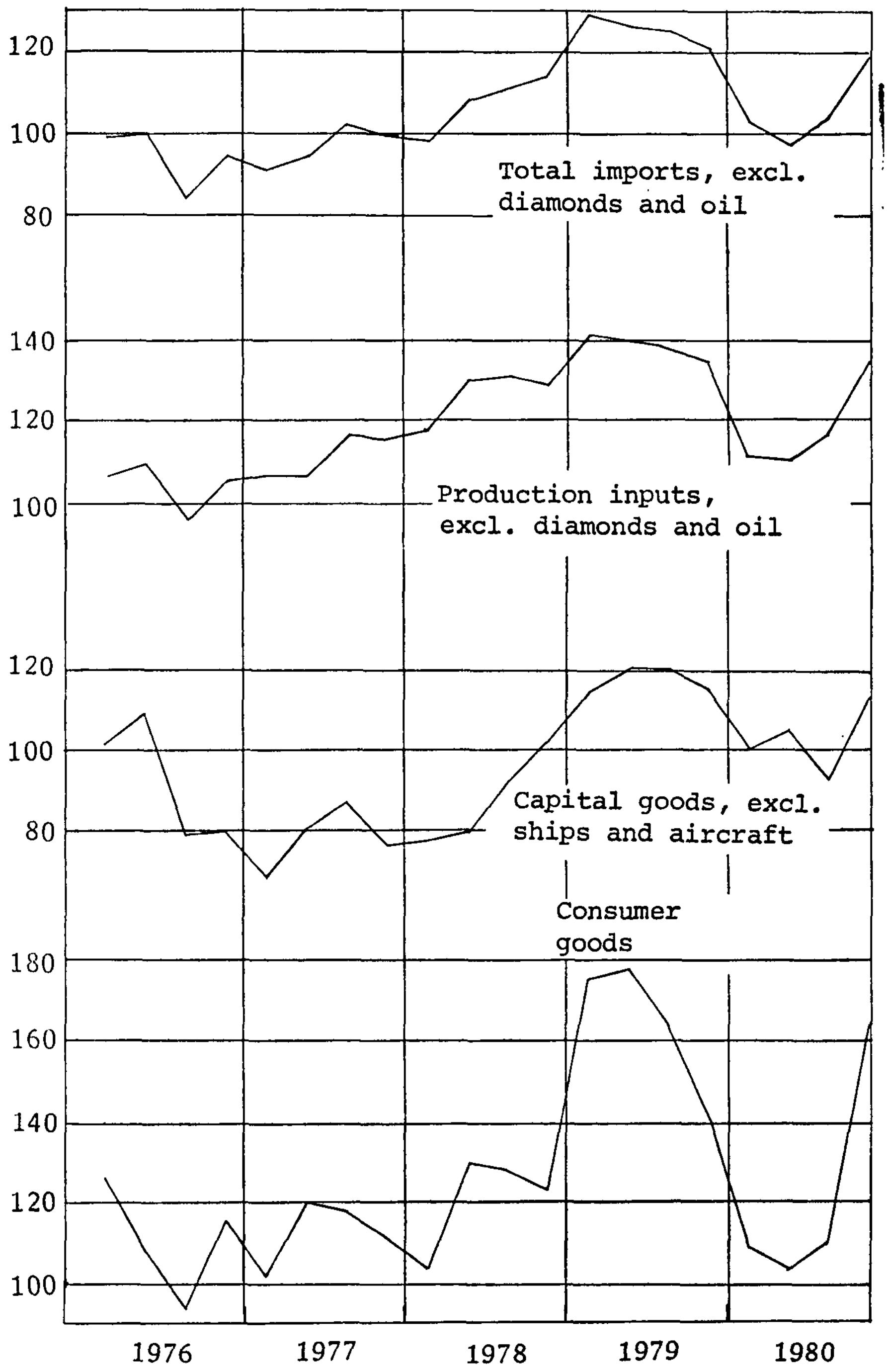
million)

| | Percent annual increase | | | | | |
|---|---|---|---|---|---|---|
| | Price | | | Quantity | | |
| 1980 | 1978 | 1979 | 1980 | 1978 | 1979 | 1980 |
| 548.6 | 13.7 | 18.0 | 18.8 | 6.4 | 35.7 | –26.3 |
| 257.1 | 7.4 | 25.2 | 38.7 | –5.2 | 43.2 | –32.4 |
| 103.0 | 16.6 | 10.9 | 10.8 | 11.6 | 13.9 | –21.9 |
| 188.5 | 19.0 | 12.1 | 4.5 | 19.2 | 44.2 | –22.6 |
| 968.9 | 18.7 | 11.0 | 4.7 | –5.1 | 37.8 | –22.5 |
| 774.1 | 18.0 | 11.3 | 4.4 | 9.3 | 27.1 | –13.2 |
| 182.6 | 20.6 | 9.2 | 5.6 | 32.3 | 65.4 | –6.7 |
| 12.2 | — | — | — | — | — | — |
| 3,187.7 | 8.1 | 16.8 | 13.4 | 13.4 | 9.1 | –13.7 |
| 139.8 | — | — | — | — | — | — |
| 505.0 | — | — | — | — | — | — |
| 160.4 | — | — | — | — | — | — |
| 338.1 | — | — | — | — | — | — |
| 622.0 | — | — | — | — | — | — |
| 485.2 | — | — | — | — | — | — |
| 243.0 | — | — | — | — | — | — |
| 694.2 | — | — | — | — | — | — |
| 2,116.4 | –0.5 | 62.1 | 45.6 | 5.6 | 11.9 | 3.4 |
| 1,119.7 | 63.3 | 9.3 | 9.3 | –29.5 | –25.5 | 11.3 |
| –66.3 | — | — | — | — | — | — |
| **7,875.1** | **17.3** | **21.4** | **19.2** | **0.9** | **8.2** | **–10.7** |
| –163.2 | — | — | — | — | — | — |
| 228.1 | –12.5 | 16.2 | 20.7 | 22.4 | –14.8 | 15.6 |
| **7,940.0** | **16.5** | **21.3** | **19.2** | **1.5** | **7.4** | **–10.1** |
| 4,475.9 | 11.9 | 15.5 | 12.1 | 10.1 | 17.7 | –18.8 |

**Figure VII–2**

**COMMODITY IMPORTS, QUARTERLY, 1976–80**

(Quantity indexes, seasonally adjusted; 1975=100)



## Table VII-9

### ACTUAL INPUT IMPORTS AND IMPORTS DERIVED FROM USES OF DOMESTIC OUTPUT,[a,b] 1975–80

| | Private consumption | Public consumption | Investment | Total domestic uses | Exports | Total uses | Actual imports[c] | Actual less derived imports[d] |
|---|---|---|---|---|---|---|---|---|
| | | | | **$ million, at current prices** | | | | |
| 1975 | 741 | 365 | 418 | 1,524 | 611 | 2,135 | 2,123 | -15 |
| 1976 | 723 | 333 | 355 | 1,411 | 693 | 2,104 | 1,934 | -170 |
| 1977 | 793 | 343 | 340 | 1,476 | 860 | 2,336 | 2,185 | -151 |
| 1978 | 878 | 384 | 402 | 1,664 | 992 | 2,656 | 2,645 | -11 |
| 1979 | 1,016 | 459 | 502 | 1,977 | 1,263 | 3,240 | 3,336 | 96 |
| 1980 | 1,079 | 554 | 531 | 2,154 | 1,640 | 3,794 | 3,260 | -534 |
| | | | | **Percent annual increase, at 1975 prices** | | | | |
| 1976 | 4.2 | -8.5 | -13.4 | -3.7 | 15.5 | 1.8 | -4.8 | |
| 1977 | 4.2 | -4.6 | -11.0 | -1.4 | 15.2 | 4.0 | 5.8 | |
| 1978 | 6.8 | -1.0 | 5.6 | 4.8 | 5.4 | 5.0 | 11.8 | |
| 1979 | 0.5 | 0.7 | 5.6 | 1.7 | 6.3 | 3.4 | 6.9 | |
| 1980 | -6.1 | 3.1 | -6.8 | -4.4 | 14.0 | 2.4 | -14.5 | |

[a] Imports of inputs other than diamonds and oil; includes trade with the administered areas.

[b] Derived input imports were calculated using the 1975/76 input-output table.

[c] Actual input imports have been adjusted to the input-output definitions and therefore differ from the figures in Table VII-8. The data in this table include imports from the administered areas and adjustments for defense imports.

[d] See note [b] to Table VII-7. It should also be pointed out that actual imports in each of the years 1975–78 were lower than derived imports, which suggests a systematic upward bias in the derived imports of production inputs. For this reason too, the discrepancy between actual and derived imports should be regarded as a rough estimate of inventory change (and errors and omissions). This reservation loses some of its significance when viewing the multiyear trend in the discrepancy between the two series.

**Table VII–10**

**EFFECT OF THE OIL CRISIS ON THE ISRAELI ECONOMY, 1973–74 AND 1979–80**

| | 1972 | 1973 | 1974 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|
| Increase in fuel import bill due | | | | | | |
| to terms of trade deterioration[a] | — | 35 | 410 | — | 350 | 900 |
| Total, $ million | | 0.4 | 3.9 | | 2.2 | 5.0 |
| Percent of GNP | | 0.3 | 3.2 | | 1.9 | 4.5 |
| Percent of domestic uses | | | | | | |
| Net oil imports | | | | | | |
| Total, $ million | 93 | 209 | 558 | 706 | 1,280 | 2,003 |
| Percent of exports | 4 | 7 | 14.5 | 10 | 15 | 19.5 |

[a] *1973–74 compared with 1972, and 1979–80 compared with 1978.*

until the end of the year. The cumulative annual average rise in oil prices in 1979–80 in Israel and the OECD countries was similar, as may be seen from the following table (percent change in dollar terms).

| | Israel | OECD |
|---|---|---|
| 1979 | 62 | 48.5 |
| 1980 | 46 | 52 |
| Cumulative rise | 136 | 126 |

In 1979 the prices paid by Israel rose faster than in the OECD countries because of the need to turn to the Rotterdam spot market, where oil was sold at well above the average OPEC price; in 1980 the situation was reversed because of the relative softening of Rotterdam prices.

The extra foreign currency expenditure on oil imports due to the worsening of the terms of trade (which found full expression in 1980) was considerable—about 5 percent of GNP. This was a bit more than in the previous oil crisis (in 1974—see Table VII–10). Calculating the additional outlay in export terms[18] reveals a slightly different picture—an increase of 9.5 percent in 1980 (compared with 1978), as against 10.5 percent in the earlier crisis. It should be remembered, however, that in 1973–74 the deterioration of the economy's terms of trade stemmed not only from the oil price shock but also from an extraordinary rise in major raw material prices. The impact of the latter on Israel's terms of trade eroded over the years (especially in 1975–76—see Table VII–5), but the oil price effect hardly changed.

[18] I.e. the amount of GNP that can be converted into foreign currency in the short term.

### (f) Services

Service imports expanded nominally by 20 percent, similar to the figures for 1978 and 1979. There was a particularly strong increase in capital services; less this item, the level slumped quantitatively by 3 percent, after moving up 6 percent in 1979. The downturn was evident in all items except tourist services and passenger fares, which rose this year following a 5 percent increase in the number of Israelis traveling abroad.

Imports of services from the administered areas, which consist mainly of wage payments to persons working in Israel, contracted in 1980. This was due to the reduction in employment brought on by the slowdown in economic activity, which also resulted in a higher domestic unemployment rate.

**Table VII–11**
**SERVICE IMPORTS,[a] 1977–80**
($ million)

| | | | | | Percent annual increase | | |
|---|---|---|---|---|---|---|---|
| | 1977 | 1978 | 1979 | 1980 | 1978 | 1979 | 1980 |
| Transportation | 659 | 769 | 888 | 997 | 17 | 15 | 12 |
| Passenger fares | 57 | 75 | 109 | 136 | 32 | 45 | 25 |
| Charter hire | 94 | 155 | 159 | 133 | 65 | 3 | –16 |
| Port services | 280 | 330 | 373 | 474 | 18 | 13 | 27 |
| Miscellaneous | 228 | 209 | 247 | 254 | –8 | 18 | 3 |
| Tourism | 240 | 344 | 430 | 513 | 43 | 25 | 19 |
| Insurance | 278 | 288 | 390 | 415 | 4 | 35 | 15 |
| Capital services | 787 | 990 | 1,378 | 1,875 | 26 | 39 | 36 |
| Government n.e.s. | 114 | 150 | 131 | 148 | 32 | –13 | 13 |
| Other services | 256 | 292 | 300 | 338 | 14 | 3 | 13 |
| Agents' fees | 82 | 115 | 115 | 122 | 40 | 0 | 6 |
| Miscellaneous | 174 | 177 | 185 | 216 | 2 | 5 | 17 |
| **Total services, excl. administered areas** | **2,334** | **2,833** | **3,517** | **4,286** | **21** | **24** | **22** |
| Imports from administered areas | 193 | 188 | 266 | 243 | –3 | 41 | –9 |
| Thereof: Wages | 180 | 180 | 256 | 234 | 0 | 42 | –9 |
| **Total service imports** | **2,527** | **3,021** | **3,783** | **4,529** | **20** | **25** | **20** |
| National accounts definition | | | | | | | |
| Services | 1,512 | 1,789 | 2,091 | 2,368 | 18 | 17 | 13 |
| Factor payments abroad | 682 | 837 | 1,259 | 1,610 | 23 | 50 | 28 |
| Public sector interest payments | 333 | 395 | 433 | 551 | 19 | 10 | 27 |

[a] Based on a c.i.f. valuation of commodity imports; imports of shipping services and import cargo insurance are included in commodity imports.
SOURCE: Central Bureau of Statistics.

## 3. EXPORTS[19]

### (a) General Survey

Exports moved up 7.5 percent in 1980, roughly the same rate as in the previous year. This sustained vigorous advance is explained by the accelerated expansion of industrial exports (diamonds and other industrial products), whereas agricultural sales slipped noticeably and service exports (including capital services) rose much more sluggishly this year (see Tables VII-2, VII-12, and VII-18).

The uptrend in nondiamond commodity sales began to lose steam in the second quarter of 1980; in the last nine months of the year and the first three months of 1981 a 12 percent increase was chalked up, compared with 23 percent in the corresponding period the year before (see Table VII-3). The principal reason for the poorer performance was the recession in Israel's export markets brought on by the oil price hike at the beginning of 1980; the slump deepened in the second half of the year, particularly in Europe, the leading customer for Israel's industrial goods. Concurrently domestic demands began to perk up, a development which did not prompt producers to make a more resolute effort to step up foreign sales. This situation was the opposite of that prevailing at the end of 1979 and beginning of 1980, when the marked subsiding of domestic demands encouraged and even forced producers to turn to foreign markets. Neither did the decline in the relative profitability of exports in late 1980 induce the continued rapid expansion of overseas sales: those marketing their goods in Europe were hit particularly hard by the weakening of European currencies against the dollar (approximately 4 percent in the last quarter of 1980 according to an estimate based on a basket of 15 currencies). This trend carried over into the first quarter of 1981, when the dollar rose another 6 percent.

### (b) Agricultural Exports

Most agricultural exports—citrus, flowers, vegetables, subtropical fruits, and melons—dipped sharply in 1980; only cotton remained at its previous year's high level. The downturn was to some degree deliberate, and in part it stemmed from adverse climatic conditions—which mainly affected avocados, whose yield shrank 70 percent, and to a lesser extent citrus (which ripened late) and melons. Quotas were established for some crops in response to the full exploitation of European markets and the lack of any significant development of new markets or new products. In addition, there was an adverse change in the sector's terms of trade because of the rise in oil prices and, in its wake, the prices of water, fertilizers, and pesticides. Since Israel commands a large share of the European

[19] According to balance of payments definitions and based on an f.o.b. valuation of commodity exports and a c.i.f. valuation of commodity imports.

fresh produce market, the reduction in export volume caused prices to rise sharply (except in the case of citrus), thereby partially compensating for the quantitative decline. By contrast, the 18 percent drop in citrus exports followed several years of stability, during which Israel supplied a sizable, given share of the European market but failed to widen its foothold in new markets to any significant extent. Moreover, Israel has had to contend with mounting competition from countries such as Spain and Portugal, which have joined the Common Market.

### (c) Industrial Exports

The impressive headway made by nondiamond industrial exports (see Table VII-12) can be credited mainly to three branches: metal products, electrical and electronic equipment, and textile, clothing, and leather production, which together accounted for 42.5 percent of total overseas sales of nondiamond industrial products in 1980 and 73 percent of the total increment. Their weight in the overall nominal gain came to 50 percent (see Table VII-13), from which it follows that the quantity sold went up faster than the relative price.

As has usually been the case in recent years, there was a wide interbranch divergence in export growth rates in 1980. Metals posted a respectable increase, all of it in civilian products (as in 1979); this can apparently be attributed to the slackening of domestic demands. After falling off in 1979 because of the severance of relations with Iran, defense exports by this branch failed to expand in the year reviewed. Sales of electrical and electronic equipment—both civilian and defense—also rose steeply this year. These are high-technology products, which hold great promise for Israel's exports in the future.

Sales of transport equipment turned down in 1980 following the completion of a specific exceptionally large transaction. In the past two years there was an impressive increase in civilian aircraft, which accounted for a third of the branch total in 1980.

Mining and quarrying continued to make only sluggish progress owing to supply-side constraints. Potash and phosphates, the chief exports of this industry, fetched much higher prices this year (up 47 and 54 percent respectively), continuing the 1979 trend—a development explained by a world shortage of these products.

Chemicals (excluding refined petroleum products) scored a 17 percent gain, similar to the average for 1976-79. Since most of the phosphates are processed, overseas sales of this item are included in basic chemicals. This industry has performed very well in the foreign market in recent years, with sales of pesticides and disinfectants rising by a formidable 40 percent. Petrochemicals, which are essentially an import substitute and whose surplus production is marketed abroad, have also contributed to the export advance although the profitability of this item to the economy is questionable. The industry's prices

Table

**COMMODITY EXPORTS BY**

$ million,

| | 1977 | 1978 |
|---|---|---|
| 1. Agricultural exports | 384.9 | 455.2 |
| a. Citrus | 189.4 | 202.7 |
| b. Other | 195.5 | 252.5 |
| 2. Industrial exports, excl. diamonds | 1,551.2 | 1,922.9 |
| a. Metals | 321.5 | 417.8 |
| b. Electrical and electronic equipment | 130.7 | 137.2 |
| c. Transport equipment | 162.6 | 240.1 |
| d. Chemicals | 269.9 | 338.7 |
| d'. Excl. fuel | 210.2 | 269.9 |
| e. Mining and quarrying | 76.5 | 78.5 |
| f. Food | 177.8 | 211.1 |
| g. Textiles, clothing, leather | 222.3 | 254.7 |
| h. Other light industries | 189.9 | 244.8 |
| Industrial exports, excl. diamonds, fuel, and defense exports | — | — |
| 3. Diamonds, net | 1,002.7 | 1,317.5 |
| 4. Other exports[b] | 46.6 | 65.8 |
| 5. Returned exports[b] | 22.6 | 45.3 |
| 6. Net commodity exports, foreign trade data (1+2+3+4–5) | **2,963.0** | **3,716.1** |
| 7. Balance of payments adjustments | 26.0 | 31.0 |
| 8. Commodity exports to administered areas | 466.0 | 390.0 |
| 9. Total net commodity exports, adjusted to balance of payments definitions (6–7+8) | **3,403.0** | **4,075.1** |
| 10. Thereof: Net commodity exports, excl. diamonds and fuel and exports to the administered areas (9–2d+2d'–3–8) | 1,874.6 | 2,298.8 |

[a] Based on an f.o.b. valuation of exports.
[b] Includes bunkers and stores for ships and aircraft.
SOURCE: Central Bureau of Statistics.

**BRANCH,[a] 1978–80**

at current prices)

| | | Percent annual increase | | | | | |
|---|---|---|---|---|---|---|---|
| | | Quantity | | | Price | | |
| 1979 | 1980 | 1978 | 1979 | 1980 | 1978 | 1979 | 1980 |
| 555.6 | 558.2 | 9.1 | 13.7 | 18.2 | 8.4 | 7.3 | –15.0 |
| 254.6 | 233.6 | 11.5 | 20.0 | 12.0 | –4.8 | 4.7 | –18.0 |
| 301.0 | 324.6 | 7.2 | 8.9 | 22.8 | 20.5 | 9.5 | –12.2 |
| 2,497.2 | 3,265.2 | 13.8 | 18.8 | 11.4 | 8.9 | 9.3 | 17.4 |
| 434.9 | 602.7 | 14.8 | 11.0 | 5.0 | 13.2 | –6.2 | 32.0 |
| 168.3 | 263.2 | 17.0 | 10.7 | 11.3 | –10.3 | 10.8 | 40.5 |
| 364.1 | 371.8 | 17.1 | 9.7 | 4.9 | 26.1 | 38.2 | –2.7 |
| 496.5 | 647.5 | 7.1 | 37.2 | 15.0 | 17.2 | 6.8 | 13.4 |
| 370.8 | 534.5 | 6.3 | 17.1 | 18.8 | 20.8 | 17.3 | 21.3 |
| 102.2 | 158.4 | 7.2 | 27.5 | 50.2 | –4.2 | 1.9 | 3.4 |
| 256.0 | 298.1 | 16.3 | 12.1 | 10.3 | 2.1 | 8.2 | 5.6 |
| 349.2 | 473.4 | 12.9 | 17.1 | 5.3 | 1.5 | 17.1 | 28.7 |
| 326.2 | 450.1 | 21.2 | 17.4 | 17.4 | 6.3 | 13.5 | 17.5 |
| — | — | — | — | — | 6.5 | 16.3 | 23.1 |
| 1,224.0 | 1,409.2 | 57.6 | 5.7 | 5.5 | –16.6 | –12.1 | 9.1 |
| 74.7 | 101.4 | | | | | | |
| 38.1 | 39.6 | | | | | | |
| **4,313.4** | **5,294.4** | **27.3** | **13.3** | **10.2** | **–1.5** | **2.4** | **11.4** |
| 43.2 | 76.7 | | | | | | |
| 446.1 | 572.8 | –8.4 | 22.0 | 16.0 | –27.9 | –6.2 | 10.7 |
| **4,716.1** | **5,790.5** | **22.7** | **14.0** | **10.7** | **–2.4** | **1.5** | **10.9** |
| 2,920.3 | 3,695.5 | 15.1 | 13.7 | 12.4 | 6.5 | 11.7 | 12.6 |

Table VII-13

**DISTRIBUTION OF INDUSTRIAL EXPORTS AND EXPORT INCREMENT, EXCL. DIAMONDS AND FUEL, 1978–80**

(Percentages)

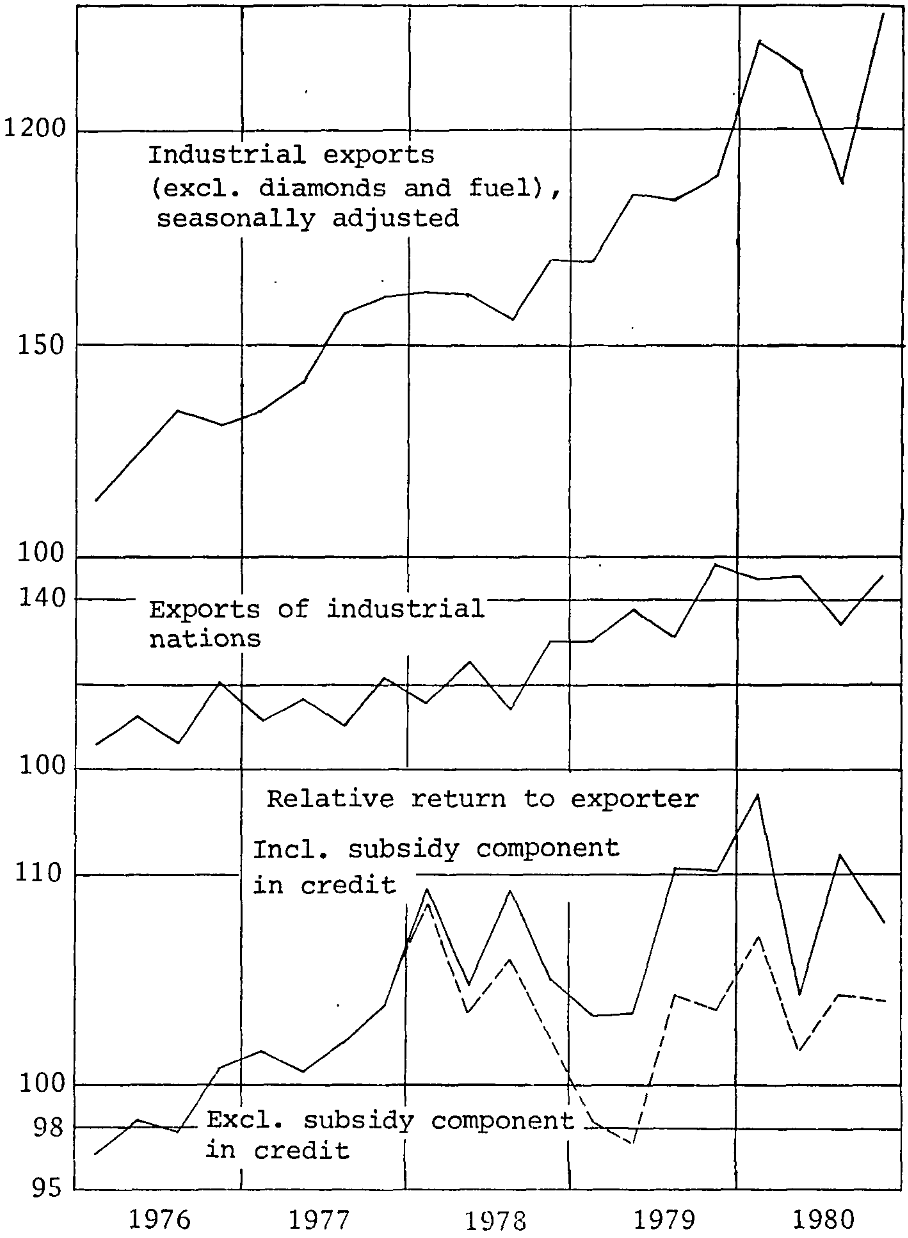
| | Distribution of exports, at current prices | | | Distribution of export increment | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | At current prices | | | At constant prices | | |
| | Average 1976–78 | 1979 | 1980 | 1978 | 1979 | 1980 | 1978 | 1979 | 1980 |
| Metals | 21.7 | 18.3 | 19.2 | 26.5 | 3.1 | 21.9 | 32.7 | –11.0 | 30.8 |
| Electronic and electrical equipment | 8.4 | 7.1 | 8.0 | 1.8 | 5.9 | 11.0 | –12.5 | 7.4 | 16.1 |
| Transport equipment | 11.1 | 15.3 | 11.5 | 21.3 | 23.9 | –0.5 | 32.0 | 37.0 | –6.9 |
| Chemicals, excl. fuel | 14.4 | 16.0 | 17.0 | 16.5 | 21.0 | 20.3 | 35.7 | 25.8 | 16.6 |
| Mining and quarrying | 4.8 | 4.3 | 5.1 | 0.6 | 4.4 | 7.6 | –3.0 | 0.8 | 1.2 |
| Food | 12.0 | 10.6 | 9.5 | 9.1 | 8.1 | 6.0 | 3.1 | 6.6 | 4.9 |
| Textiles, clothing, leather | 14.9 | 14.7 | 15.3 | 9.0 | 18.0 | 17.4 | 2.9 | 20.4 | 25.9 |
| Other light industries | 12.7 | 13.7 | 14.4 | 15.2 | 15.6 | 16.3 | 9.1 | 13.0 | 11.4 |
| **Total industrial exports, excl. fuel and diamonds** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** |

SOURCE: Based on Central Bureau of Statistics data.

Figure VII-3

**INDUSTRIAL EXPORTS (EXCL. DIAMONDS) AND THEIR RELATIVE PRICE, 1976-80**

(Quarterly indexes; 1975=100)



rose precipitously this year owing the much dearer cost of oil, the principal input.

Exports of the food industry were up 7 percent in 1980. The leading item, citrus products, fared much more poorly this year, with the consequence that its weight in the total sank from 47 to 34 percent. This can be ascribed to the appearance of new competitors offering lower prices in the European market; hence a further retreat can probably be expected in 1981. Poultry surpluses were responsible for about half the nominal food export increment, with processed noncitrus fruit and vegetables and edible oils accounting for the balance; this increase offset the decline in citrus sales.

Textiles and clothing advanced 29 percent, despite the flagging of demand in Israel's markets, which resulted in prices rising at a below-average rate (6 percent). A telling factor in the 1980 performance was the weakening of domestic demand, though firms producing largely for the foreign market (bedding, towels, etc.) also recorded healthy gains. The total quantitative growth in clothing (including textile products) was 33 percent, while prices rose 4 percent in dollar terms. Textile exports expanded at a 23.5 percent rate, paced by cotton yarn and fabrics. Synthetic yarn slumped following a particularly rapid increase in 1979, when high prices were fetched in the European market because of cartelization and the closing of the door on imports from the Far East. Israel's textile and clothing sales to Europe also benefited from the restriction of Far Eastern imports.

Exports of light industrial goods consist mainly of precision instruments, optical and photographic instruments, jewelery, works of art, rubber and plastic products, wood and wood products, paper, printing, and publishing, and nonmetallic minerals. Total exports of these branches were 16 percent up on 1979, with more than half the gain being accounted for by the miscellaneous manufactures group, where an exceptional increase was recorded in optical instruments ($3 million in 1978, $6 million in 1979, and $24 million in 1980), an impressive growth in works of art, and only a relatively mild rise in gold chains and jewelery, which reduced the share of gold products in the group's exports from about half in 1979 to a third in the year reviewed. Total foreign sales of miscellaneous manufactures came to $224 million this year, with roughly a third of the increment consisting of rubber and plastic products.

(d) **Diamonds (Exports and Imports)**

Diamond exports were 9 percent higher in 1980, following a sharp 26 percent decline in the two preceding years. Imports rose 11.3 percent, which suggests a further buildup of stocks (see Table VII–14). The nominal current export surplus fell a notch owing to a worsening of the industry's terms of trade.

Diamond exports lost ground in 1980 and the first quarter of 1981. The prospects for a recovery in the immediate future seem slim unless economic activity picks up in the United States and Western Europe.

Table VII-14

THE DIAMOND INDUSTRY, 1975–80

| | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|
| | | | $ million, at current prices | | | |
| 1. Diamond exports, net[a] | 549 | 712 | 1,003 | 1,318 | 1,224 | 1,409 |
| 2. Diamond imports, net[a] | 426 | 638 | 981 | 1,130 | 920 | 1,120 |
| 3. Export surplus | 123 | 74 | 22 | 188 | 304 | 289 |
| | | | Indexes: 1975=100 | | | |
| 4. Export quantity index | 100 | 121 | 126 | 105 | 92 | 102 |
| 5. Import quantity index | 100 | 148 | 195 | 137 | 102 | 112 |
| 6. Export price index | 100 | 107 | 145 | 229 | 242 | 253 |
| 7. Import price index | 100 | 101 | 117 | 191 | 209 | 232 |
| 8. Terms of trade index | 100 | 106 | 124 | 120 | 116 | 109 |
| 9. Other exports price index[b] | 100 | 99 | 106 | 119 | 136 | 155 |
| | | | $ million | | | |
| 10. Derived diamond imports[c] (current prices) | 439 | 538 | 647 | 879 | 846 | 1,037 |
| 11. Export value added (1–10) (current price) | 110 | 174 | 356 | 439 | 378 | 372 |
| 12. Inventory investment, at current prices (2–10) | -13 | 100 | 334 | 251 | 74 | 83 |
| 13. Inventory investment, at 1975 prices[d] | -13 | 101 | 285 | 131 | 35 | 36 |
| 14 Income attributable to exports (1975 prices)[e] | 110 | 176 | 336 | 369 | 278 | 243 |
| 15. Contribution to balance of payments (1975 prices)[f] | 123 | 75 | 21 | 158 | 224 | 190 |

[a] After deducting returned diamonds; diamond imports include some polished stones.
[b] Commodity exports, excluding diamonds and refined petroleum products.
[c] Assuming a 20 percent value added in diamond processing, at 1975 prices.
[d] Deflated by the rise in diamond import prices.
[e] Export value added, deflated by the rise in commodity export prices.
[f] Export surplus, deflated by the rise in commodity export prices, excluding diamonds and refined petroleum products.
SOURCE: Lines 1–9—Central Bureau of Statistics and Bank of Israel calculations.

Soaring diamond prices in 1977 and 1978 depressed world demand, while competition from other countries grew keener, dealing a further blow to Israel's diamond industry from which it has not yet recovered. The slackening of activity was also reflected in export value added, which crept up only slightly in nominal terms in 1978–80 compared with 1977, but was still higher than in 1975–76 (even in real terms—see Table VII–14). This is explained by the greatly improved terms of trade in 1977: despite the steady deterioration in 1978–80, the terms of trade index in 1980 was still 3 percent higher than in 1976.

Notwithstanding the downtrend in diamond polishing in recent years, stocks continued to be built up in 1978–80 following a considerable increase in 1977. This was largely made possible by the availability of cheap credit from the Diamond Fund. This fund, which in 1975 financed about half the year's export, financed almost the total amount in 1980. Steps were taken to lower the rate of financing and to hike the interest rate, but these failed to reduce the volume of credit. Toward the end of 1980 quotas were established and it was decided that the credit would be given at the Eurodollar interest rate. The effect of this change will be felt in 1981.

In view of Israel's waning control of the market for the traditional types of stone, the industry began to diversify its products during the past year; the impact of this change is at present felt more in the marketing than in the processing of diamonds. This also explains the growth of imports and stocks in 1980. Were it not for the import of polished stones, most of which are not of the type in which Israel specializes, there would have been a disinvestment in inventories. With the reduction of credit and the raising of the marginal interest rate to the international level, the industry will have to draw down its stocks.

### (e) **Export Funds**

The balance of directed export credit[20] averaged IS12.7 billion in 1980, about 48 percent of total domestic bank credit, compared with 38 percent in 1979. In dollar terms the increase was 22 percent, similar to the expansion of total commodity exports.[21]

The average balance of the Export Production, Imports-for-Export, and Export Shipments Funds came to IS6.9 billion in 1980; this was 20 percent over the 1979 figure in dollar terms, and compares with a 38 percent growth of exports eligible for credit from these funds (industrial products other than diamonds, refined petroleum products, and some defense items). The decline in the amount of financing per export dollar was accompanied by a rise in the

[20] Export Production, Imports-for-Export, Export Shipments, Diamond, Indirect Export, and the Citrus Funds.

[21] Net commodity exports according to foreign trade data.

**Table VII–15**

**ISRAEL'S TRADE BALANCE BY GEOGRAPHICAL AREA,[a] 1978–80**

| | Percentage distribution | | | | | | $ million | | |
|---|---|---|---|---|---|---|---|---|---|
| | Imports | | | Exports | | | | | |
| | 1978 | 1979 | 1980 | 1978 | 1979 | 1980 | Imports | Exports | Import surplus[b] |
| 1. Common Market | 46.4 | 44.1 | 44.2 | 37.9 | 43.2 | 44.7 | 2,144.1 | 1,703.4 | 440.7 |
| Italy | 7.4 | 7.3 | 6.5 | 3.4 | 5.9 | 7.0 | 314.9 | 266.4 | 48.5 |
| Belgium and Luxembourg | 2.8 | 2.4 | 2.6 | 2.0 | 1.9 | 1.5 | 128.2 | 57.1 | 71.1 |
| Germany | 15.4 | 14.8 | 16.3 | 10.8 | 11.2 | 12.0 | 790.7 | 455.7 | 335.0 |
| Netherlands | 3.9 | 3.2 | 3.3 | 4.9 | 5.1 | 5.5 | 161.5 | 209.4 | –47.9 |
| United Kingdom | 9.3 | 9.1 | 9.1 | 10.1 | 11.6 | 11.3 | 439.3 | 432.6 | 6.7 |
| France | 6.9 | 6.5 | 5.6 | 5.6 | 6.1 | 6.2 | 270.2 | 236.9 | 33.3 |
| Other Common Market countries | 0.7 | 0.8 | 0.8 | 1.1 | 1.4 | 1.2 | 39.3 | 45.3 | –6.0 |
| 2. Free Trade Area (EFTA) | 9.7 | 10.0 | 9.4 | 7.4 | 7.3 | 7.6 | 458.2 | 291.4 | 166.8 |
| 3. Other European countries | 3.1 | 2.8 | 2.8 | 6.1 | 6.6 | 5.1 | 135.7 | 196.0 | –60.3 |
| 4. North America | 28.3 | 29.1 | 31.6 | 13.7 | 14.4 | 11.9 | 1,526.9 | 456.5 | 1,070.4 |
| U.S.A. | 26.6 | 27.6 | 29.9 | 12.9 | 13.6 | 11.3 | 1,446.5 | 432.4 | 1,014.1 |
| Canada | 1.7 | 1.5 | 1.7 | 0.8 | 0.8 | 0.6 | 80.4 | 24.1 | 56.3 |
| 5. Other countries | 7.3 | 9.5 | 7.3 | 4.1 | 4.5 | 5.7 | 352.8 | 216.0 | 136.8 |
| Thereof: Japan | 3.2 | 3.3 | 2.5 | 0.7 | 0.9 | 1.0 | 120.4 | 37.8 | 82.6 |
| South Africa | 2.1 | 3.0 | 2.4 | 1.5 | 1.6 | 2.1 | 117.1 | 78.8 | 38.3 |
| 6. Unclassified countries | 5.2 | 4.5 | 4.7 | 30.8 | 24.0 | 25.0 | 222.3 | 948.3 | –726.0 |
| 7. Grand total | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **100.0** | **4,840,0** | **3,811.6** | **1,028.4** |

[a] Imports and exports, excluding diamonds, oil, and trade with the administered areas.
[b] A minus sign indicates an export surplus.
SOURCE: Central Bureau of Statistics.

Table VII–16

EXPORT CREDIT FUNDS, 1978–80

(Average balances in IS million)

| | 1978 | 1979 | 1980 | Percent annual increase: In sheqalim 1979 | In sheqalim 1980 | In dollars 1979 | In dollars 1980 |
|---|---|---|---|---|---|---|---|
| Total outstanding credit by the funds[a] | **2,712** | **5,114** | **12,682** | **89** | **148** | **30** | **22** |
| Thereof: | | | | | | | |
| Export Production | 489 | 880 | 2,078 | 80 | 136 | 24 | 17 |
| Export Shipments | 520 | 1,198 | 3,033 | 130 | 153 | 59 | 25 |
| Imports-for-Export | 337 | 752 | 1,769 | 123 | 135 | 54 | 17 |
| Total, three funds | **1,346** | **2,830** | **6,880** | **110** | **143** | **45** | **20** |
| Diamond Fund | 1,269 | 2,147 | 5,520 | 69 | 157 | 17 | 27 |

[a] The Indirect Export Fund and the Citrus Fund are included in the total but not in the breakdown.

SOURCE: Bank of Israel data.

subsidy component of a unit of such credit, and consequently the subsidy per dollar of value added remained at its 1979 level of 20 percent.

The average balance of the Diamond Fund reached IS5.5 billion in 1980, up 27 percent in dollar terms; diamond exports, on the other hand, advanced only 15 percent, but it should be noted that the fund primarily finances diamond stocks, and accordingly the volume of credit is largely a function of the growth of such stocks (which was small in 1980—see Table VII–14) and the revaluation of existing stocks. In practice commercial considerations mainly dictate the amount of credit the banks allocate to each client. In the absence of a clear relationship between export volume and the size of the subsidy received, and in view of measurement difficulties, the calculation of the subsidy rate is not presented in detail in the appendix tables; however, the subsidy per dollar of export value added in 1980 was at least double that for other industrial exports according to even the most conservative estimate.

At the end of 1979 and beginning of 1980 clear criteria were laid down with respect to the amount of financing and the interest charge in the export funds, in order to arrest the rapid expansion of such credit and its subsidy component

Table VII–17

**CREDIT SUBSIDY IN THE MAIN EXPORT FUNDS (EXCL. DIAMONDS), 1978–80**

| | 1978 | 1979 | 1980 |
|---|---|---|---|
| 1. Average quarterly effective interest rate (%) | | | |
| On nondirected local currency credit | 10.6 | 17.0 | 29.0 |
| On nondirected foreign currency credit | 2.7 | 5.8 | 7.1 |
| On credit from the export funds in local currency[a] | 3.0 | 3.7 | 9.3 |
| On credit from the export funds in foreign currency[b] | 1.0 | 1.2 | 2.0 |
| 2. Total subsidy component in the funds' financing (IS million) | 203 | 818 | 2,276 |
| 3. Subsidy per export dollar[d] (IS/$) | .11 | .35 | .70 |
| 4. Representative exchange rate for industrial exports (excl. subsidy,[e] IS/$) | 1.75 | 2.54 | 5.13 |
| 5. Subsidy as a percent of the representative exchange rate for industrial exports | 6.3 | 13.8 | 13.6 |
| 6. Subsidy per value added dollar in industrial exports[f] (%) | 9.2 | 20.3 | 20.0 |

NOTE: The data in this table do not completely correspond to those of the Central Bureau of Statistics on the subsidy component of the credit granted by the funds (national accounts). This is due to the different methods of calculation used, and primarily to a different assumption about the time when the interest surcharge imposed by the Bank of Israel in 1979 began to influence the alternative interest rate. This results in a lower CBS subsidy estimate for 1979 and a higher estimate for 1980.

[a] Export Production Fund.

[b] Export Shipments Fund and Imports-for Export Fund.

[c] Export Production, Export Shipments, and Imports-for-Export Funds.

[d] Industrial exports, excluding diamonds, fuel, and noncivilian exports not entitled to credit, and noncitrus agricultural exports.

[e] Industrial exports, excluding diamonds, fuel, and quarried products.

[f] Assuming a 68 percent value added in industrial exports.

which began in 1979. This policy bore fruit and the total amount of credit was reduced relative to the growth of exports: the financing of industrial and agricultural products was whittled down, while diamonds were more heavily financed in 1980. Toward the end of the year steps were taken to reduce subsidized credit: the rates of financing in the Imports-for-Export and Export Production Funds were pruned severely, quotas were set in the Diamond Fund, the interest charged by the remaining foreign currency funds was changed to the going Eurodollar rate, and the Export Production Fund began to charge interest at the market rate applicable to approved overdraft facilities. The effect of these changes on the size of the funds and the subsidy will be felt in 1981.

Table VII-18

**SERVICE EXPORTS,[a] 1977–80**
($ million, at current prices)

| | 1977 | 1978 | 1979 | 1980 | Percent annual increase 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|---|
| 1. Transportation | 929 | 1,051 | 1,139 | 1,337 | 13 | 8 | 17 |
| Passenger fares | 178 | 166 | 195 | 202 | -7 | 17 | 4 |
| Charter hire | 47 | 44 | 54 | 95 | -6 | 23 | 76 |
| Port services | 46 | 57 | 70 | 100 | 24 | 23 | 43 |
| Miscellaneous | 33 | 40 | 45 | 55 | 21 | 13 | 22 |
| Export cargo | 100 | 107 | 158 | 178 | 7 | 48 | 13 |
| Import cargo | 193 | 210 | 261 | 258 | 9 | 24 | -1 |
| Shipments between foreign ports | 332 | 427 | 356 | 449 | 29 | -17 | 26 |
| Total transportation, excl. import cargo | 736 | 841 | 878 | 1,079 | 14 | 4 | 23 |
| 2. Tourism | 559 | 592 | 795 | 863 | 6 | 34 | 9 |
| 3. Insurance, incl. import cargoes | 272 | 301 | 411 | 438 | 11 | 37 | 7 |
| 4. Capital services | 370 | 494 | 808 | 1,052 | 34 | 64 | 30 |
| 5. Government n.e.s. | 22 | 20 | 19 | 15 | -9 | -5 | -21 |
| 6. Other services | 232 | 357 | 566 | 776 | 54 | 59 | 37 |
| Agents' fees | 114 | 186 | 317 | 444 | 63 | 70 | 40 |
| Miscellaneous | 118 | 171 | 249 | 332 | 45 | 46 | 33 |
| 7. Total service exports, excl. administered areas | **2,384** | **2,815** | **3,738** | **4,481** | **18** | **33** | **20** |
| 8. Exports to administered areas | 84 | 70 | 86 | 91 | -17 | 23 | 6 |
| 9. Total service exports | **2,468** | **2,885** | **3,824** | **4,572** | **17** | **33** | **20** |
| National accounts definition | | | | | | | |
| Services | 2,062 | 2,351 | 2,952 | 3,354 | 14 | 26 | 14 |
| Factor receipts from abroad | 318 | 422 | 582 | 907 | 33 | 38 | 56 |
| Public sector interest receipts from abroad | 88 | 112 | 290 | 311 | 27 | 159 | 7 |

NOTE: The discrepancies between the figures in this table and those in Table VII-2 are due to rounding.

[a] Based on a c.i.f. valuation of commodity imports and an f.o.b. valuation of commodity exports.

SOURCE: Central Bureau of Statistics.

(f) **Export of Services**

Service exports grew nominally by 20 percent, following a particularly rapid 33 percent advance in 1979. As with service imports, the biggest increase was in capital services; excluding this item, the level inched up 2 percent, as against 10 percent in 1979. The major contribution was made by "other services", which rose noticeably for the second consecutive year. Transport services were virtually stagnant in 1980 despite the sharp downturn in the previous year because of the severance of trade relations with Iran. The latter factor was responsible for the nominal decrease in transport between foreign ports in 1979, but in 1980 this item moved up 8 percent. A substantially higher figure was also recorded this year for charter hire. The steep rise in port services reflected the higher cost of fuel. Import cargo transport slumped sharply due to a smaller import; passenger fares were up only 4 percent nominally, reflecting the crisis in El Al and the decline in its output. Tourist services expanded nominally by a mere 9 percent—a decrease in real terms. However, it should be noted that in the previous year this item had made impressive headway (more than 15 percent in quantitative terms). Since the number of tourists increased 3.4 percent this year (compared with 6.4 percent in 1979), there was a real decline in average income per tourist.

## 4. UNILATERAL TRANSFERS

Unilateral transfers in 1980 amounted to $2,9 billion, which covered 77 percent of the import surplus, compared with 66.4 percent in 1979 and a 73.1 percent average in 1976–78. The eclipsing of the multiyear import surplus financing rate can be credited to a 14 percent growth in the volume of transfers (a real increase of 1 percent) and a slight nominal contraction of the import surplus.

Private sector transfers expanded nominally by 6 percent, and those by the public sector by 20 percent. The real decline in private transfers (in dollar terms) followed a steady rise in 1977–79. Lower figures were recorded this year for personal restitution from Germany, cash transfers by individuals (other than immigrants), which fell even in nominal terms, and nonprofit institution transfers. By contrast, immigrant cash transfers continued upward in real terms, although more sluggishly than in previous years.

As to the public sector, there was a formidable increase in transfers to the National Institutions (following a slow rise in the previous year and a nominal decline in 1977–78) and in intergovernmental transfers. The latter was due to the larger volume of grants in connection with the military redeployment in the Negev, which for the first time found significant expression in the data, as well as to the expansion of direct defense imports and related grants.

Table

## EFFECT OF CHANGES IN INTERNATIONAL WORLD EXCHANGE

(Percent increase from

| | 1976 | 1977 | 1978 |
|---|---|---|---|
| 1. Export prices | | | |
| Prices adjusted for exchange rate fluctuations | 4.7 | 4.0 | 0.6 |
| Effect of exchange rate fluctuations[b] | –5.8 | 3.7 | 12.1 |
| Change in composition[c] | 2.0 | –1.0 | 0.1 |
| Total price change | –1.2 | 6.7 | 12.9 |
| 2. Import prices | | | |
| Prices adjusted for exchange rate fluctuations | 3.1 | 0.2 | –4.1 |
| Effect of exchange rate fluctuations[b] | –5.7 | 5.5 | 15.7 |
| Change in composition[c] | –1.9 | 1.0 | –0.2 |
| Total price change | –4.6 | 6.8 | 10.7 |
| 3. Terms of trade (1/2) | | | |
| Prices adjusted for exchange rate fluctuations | 1.6 | 3.8 | 4.9 |
| Effect of exchange rate fluctuations | –0.1 | –1.8 | –3.1 |
| Change in composition[c] | 2.1 | –2.0 | 0.3 |
| Total price change | 3.6 | –0.1 | 2.0 |

[a] Exports and imports, excluding diamonds and oil.

[b] The effect of fluctuations in exchange rates on foreign trade prices is estimated as the change in the value of the currency basket against the U.S. dollar. The import and export currency basket reflects the distribution of Israel's foreign trade by country. The basket consists of 14 currencies, including the U.S. dollar. In practice, trade in some of the commodities is not transacted in terms of the national currency, and therefore the quantitative calculation presented in the table should be regarded as indicative of the

**RATES ON ISRAEL'S TRADE PRICES,[a] 1976-80**

previous period)

| | | 1979 | | | | 1980 | | | |
|---|---|---|---|---|---|---|---|---|---|
| 1979 | 1980 | I | II | III | IV | I | II | III | IV |
| 8.2 | 13.4 | 1.6 | 2.4 | 2.5 | 4.0 | 5.2 | 2.4 | 0.8 | 3.6 |
| 5.9 | 0.8 | 0.9 | -2.0 | 3.0 | 0.4 | -0.2 | -0.5 | 2.2 | -3.7 |
| -0.2 | -1.1 | 0.8 | -0.5 | 0.4 | -1.1 | 0.6 | -0.4 | 0.9 | -2.7 |
| 14.4 | 13.0 | 3.3 | -0.1 | 6.0 | 3.3 | 5.6 | 1.5 | 3.2 | -2.9 |
| 8.1 | 13.2 | 1.3 | 4.4 | 3.9 | 2.8 | 5.4 | 2.8 | -0.4 | 1.9 |
| 8.3 | 0.8 | 2.2 | -1.7 | 3.4 | 0.8 | -0.4 | -0.9 | 2.2 | -4.2 |
| -1.3 | -1.8 | -0.4 | 0.4 | -1.7 | -0.4 | -0.1 | -1.4 | 0.4 | 0.5 |
| 15.6 | 12.1 | 3.1 | 3.0 | 5.6 | 3.2 | 4.9 | 0.5 | 2.2 | -1.9 |
| 0.1 | 0.2 | 0.3 | -1.9 | -1.3 | 1.2 | -0.2 | -0.4 | 1.2 | 1.7 |
| -2.2 | 0.0 | -1.3 | -0.3 | -0.5 | -0.4 | 0.2 | 0.4 | 0.0 | 0.5 |
| 1.1 | 0.6 | 1.2 | -0.5 | 2.2 | -0.3 | 0.7 | 1.0 | 0.3 | -3.1 |
| -1.0 | 0.8 | 0.2 | -2.7 | 0.4 | 0.5 | 0.7 | 1.0 | 0.9 | -1.0 |

general trend only. Moreover, the table does not reflect any possible lag between exchange rate fluctuations and their effect on commodity prices.

[c] The table analyzes the change in foreign trade prices according to the Paasche index. The change in composition is calculated as the difference between the Laspeyres index, which measures "pure" changes in prices, assuming a fixed basket, and the Paasche index, which uses current weights and hence includes period-to-period changes in composition.

Table

UNILATERAL TRANS

($

| | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| **Private Sector** | | | | |
| 1. Personal restitution from West Germany | 350.1 | 406.5 | 439.7 | 467.8 |
| 2. Personal transfers in cash | 363.7 | 460.0 | 571.5 | 594.4 |
| Immigrants | 69.2 | 141.9 | 211.4 | 257.4 |
| Others | 294.5 | 318.1 | 360.1 | 337.0 |
| 3. Personal transfers in kind | 15.3 | 17.6 | 26.1 | 27.1 |
| 4. Transfers of nonprofit institutions | 132.7 | 98.6 | 109.5 | 101.3 |
| 5. Personal transfers abroad | 51.0 | 75.0 | 90.0 | 73.0 |
| Total (1+2+3+4–5) | **810.8** | **907.7** | **1,056.8** | **1,117.6** |
| **Public Sector** | | | | |
| 6. Transfers of the National Institutions | 336.3 | 321.6 | 337.0 | 397.3 |
| 7. Institutional transfers in kind | 5.9 | 3.2 | 5.8 | 3.0 |
| 8. Intergovernmental transfers | 929.0 | 1,153.0 | 1,184.0 | 1,428.0 |
| Total (6+7+8) | **1,271.2** | **1,477.8** | **1,526.8** | **1,828.3** |
| Grand total[a] | **2,082.0** | **2,385.5** | **2,583.6** | **2,945.9** |

[a] The discrepancies between the data in this table and those in Table VII-1 are due to rounding.

SOURCE: Central Bureau of Statistics.

VII-20

**FERS, 1977-80**

million)

| 1979 | | | | 1980 | | | |
|---|---|---|---|---|---|---|---|
| I | II | III | IV | I | II | III | IV |
| 113.5 | 103.2 | 107.4 | 115.6 | 118.7 | 112.5 | 117.9 | 118.7 |
| 136.0 | 140.9 | 147.5 | 147.1 | 143.8 | 135.6 | 147.8 | 167.2 |
| 52.1 | 51.0 | 56.3 | 52.0 | 54.9 | 58.3 | 73.6 | 70.6 |
| 83.9 | 89.9 | 91.2 | 95.1 | 88.9 | 77.3 | 74.2 | 96.6 |
| 5.1 | 5.2 | 6.2 | 9.6 | 5.6 | 5.6 | 7.9 | 8.0 |
| 31.3 | 30.0 | 22.7 | 25.5 | 18.9 | 26.4 | 28.5 | 27.5 |
| 22.0 | 20.0 | 22.0 | 26.0 | 20.0 | 17.0 | 16.0 | 20.0 |
| **263.9** | **259.3** | **261.8** | **271.8** | **267.0** | **263.1** | **286.1** | **301.4** |
| 78.3 | 52.0 | 61.4 | 145.3 | 136.1 | 40.4 | 61.3 | 159.5 |
| 1.3 | 1.1 | 1.9 | 1.5 | 0.3 | 0.8 | 1.1 | 0.8 |
| 373.0 | 241.0 | 91.0 | 479.0 | 198.0 | 299.0 | 410.0 | 521.0 |
| **452.6** | **294.1** | **154.3** | **625.8** | **334.4** | **340.2** | **472.4** | **681.3** |
| **716.5** | **553.4** | **416.1** | **897.6** | **601.4** | **603.3** | **758.5** | **982.7** |

## 5. NET LONG- AND MEDIUM-TERM CAPITAL IMPORTS[22]

Net long- and medium-term capital imports rose strongly in 1980, exceeding the surplus on current account; this resulted in a $430 million surplus in the basic balance of payments, following a $200 million deficit in 1979. The surplus was the net outcome of a $220 million increase in long-term capital imports and a $415 million contraction of the current deficit.

### (a) **Public Sector Loans**

The heavier public sector borrowing in 1980 (see Tables VII–1, VII–21, and VII–23) mainly reflected an increase in U.S. government loans under the larger general aid package granted to Israel in 1980; this was the first significant manifestation of U.S. assistance in connection with the military redeployment in the Negev. A substantial percentage of such loans are related to defense imports, which this year expanded by more than required for the redeployment. The loans are given on particularly easy terms, with long maturities and relatively

**Table**
**LONG- AND MEDIUM-TERM**
($

| | 1977 | 1978 | 1979 |
|---|---|---|---|
| 1. Loans received | | | |
| a. Public sector | 1,097 | 1,545 | 1,552 |
| Thereof: Independence and Development Loans | 355 | 430 | 436 |
| U.S. government | 633 | 984 | 943 |
| b. Private sector | 234 | 449 | 367 |
| Total (a+b) | **1,331** | **1,994** | **1,919** |
| 2. Loans repaid | | | |
| a. Public sector | 502 | 585 | 574 |
| Thereof: Independence and Development Loans | 181 | 244 | 303 |
| U.S. government | 234 | 201 | 208 |
| b. Private sector | 224 | 281 | 234 |
| Total (a+b) | **726** | **866** | **808** |
| 3. Net loans received | | | |
| a. Public sector | 595 | 960 | 978 |
| Thereof: Independence and Development Loans | 174 | 186 | 133 |
| U.S. government | 399 | 783 | 735 |
| b. Private sector | 10 | 168 | 133 |
| Total (1–2) | **605** | **1,128** | **1,111** |

SOURCE: Central Bureau of Statistics.

[22] Long- and medium-term loans and net investments from abroad.

low interest rates. In 1980 the interest was raised from 7.85 to 8.5 percent, which was still below the going financial market rate.

Public sector borrowing from other sources, including the West German government, also increased this year.

### (b) **Private Sector Loans**

Gross private sector loans continued downward, in line with the trend begun in the second half of 1979 with the quantitative restriction of credit (designed mainly to curb short-term borrowing) and the hiking of its price by the Bank of Israel.[23] In 1980 two special factors were added: the reduction of civilian imports, part of which is financed by foreign credit, and sharp fluctuations in interest rates (on long- and medium-term loans too), which heightened the risk involved in borrowing for relatively long periods.

The smaller gross inflow of capital was accompanied by a much larger debt repayment in 1980, and consequently there was a negative net capital import.

**VII-21**
**FOREIGN LOANS, 1977-80**
million)

| | 1979 | | | | 1980 | | | |
|---|---|---|---|---|---|---|---|---|
| 1980 | I | II | III | IV | I | II | III | IV |
| 2,002 | 484 | 401 | 275 | 392 | 660 | 357 | 397 | 588 |
| 432 | 100 | 108 | 113 | 115 | 118 | 108 | 90 | 116 |
| 1,379 | 358 | 262 | 98 | 225 | 496 | 187 | 265 | 431 |
| 277 | 100 | 112 | 59 | 96 | 84 | 58 | 73 | 62 |
| **2,279** | **584** | **513** | **334** | **488** | **744** | **415** | **470** | **650** |
| 589 | 131 | 136 | 149 | 158 | 150 | 152 | 161 | 126 |
| 278 | 63 | 77 | 79 | 84 | 73 | 75 | 88 | 42 |
| 220 | 60 | 33 | 65 | 50 | 61 | 41 | 61 | 57 |
| 347 | 69 | 97 | 51 | 17 | 126 | 86 | 67 | 68 |
| **936** | **200** | **233** | **200** | **175** | **276** | **238** | **228** | **194** |
| 1,413 | 353 | 265 | 126 | 234 | 510 | 205 | 236 | 462 |
| 154 | 37 | 31 | 34 | 31 | 45 | 33 | 2 | 74 |
| 1,159 | 298 | 229 | 33 | 175 | 435 | 146 | 204 | 374 |
| –70 | 31 | 15 | 8 | 79 | –42 | –28 | 6 | -6 |
| **1,343** | **384** | **280** | **134** | **313** | **468** | **177** | **242** | **456** |

[23] The Bank of Israel took this step in order to stem the massive flow of capital from abroad at the end of 1978 and beginning of 1979, which had negative repercussions on both the exchange rate and the amount of liquidity in the economy.

Table

**FOREIGN INVESTMENT IN ISRAEL AND**

($

| | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| 1. Foreign investment in Israel | | | | |
| In foreign currency | | | | |
| Investments | 68.1 | 105.0 | 84.6 | 149.9 |
| Investments repatriated | –9.3 | –29.2 | –73.0 | –201.7 |
| Net investments | 58.8 | 75.8 | 11.6 | –51.8 |
| In Israeli currency from blocked accounts | –13.2 | — | — | — |
| In Independence and Development Bonds | 12.8 | 13.0 | 16.1 | 17.1 |
| In kind | 33.7 | 18.8 | 17.3 | 24.3 |
| Subtotal | 92.1 | 107.6 | 45.0 | –10.4 |
| Reinvestment of profits | 8.0 | 7.8 | 8.7 | 9.3 |
| Total | **100.1** | **115.4** | **53.7** | **–1.1** |
| 2. Israeli investments abroad | | | | |
| Direct | 5.7 | 1.3 | 24.6 | –7.4 |
| Portfolio investment—private individuals | –0.8 | 64.3 | 67.9 | 57.7 |
| Total | **4.9** | **65.6** | **92.5** | **50.3** |
| 3. Total net private investment (1–2) | **95.2** | **49.8** | **–38.8** | **–54.4** |
| 4. Portfolio investment abroad—Israeli banks, net | 3.6 | 42.0 | 80.7 | 97.4 |
| Total net foreign investment in Israel (3–4) | **91.6** | **7.8** | **–119.5** | **–148.8** |

SOURCE: Central Bureau of Statistics.

VII–22

**ISRAELI INVESTMENT ABROAD, 1977–80**

million)

| 1979 | | | | 1980 | | | |
|---|---|---|---|---|---|---|---|
| I | II | III | IV | I | II | III | IV |
| 26.5 | 17.0 | 19.9 | 21.2 | 12.1 | 18.6 | 86.8 | 32.4 |
| –22.2 | –16.9 | –12.6 | –21.3 | –42.4 | –37.8 | –43.8 | –77.7 |
| 4.3 | 0.1 | 7.3 | –0.1 | –30.3 | –19.2 | 43.0 | –45.3 |
| — | — | — | — | — | — | — | — |
| 4.6 | 2.5 | 4.3 | 4.7 | 4.0 | 6.4 | 2.3 | 4.4 |
| –1.7 | 5.8 | 4.2 | 9.0 | 5.6 | 4.7 | 5.9 | 8.1 |
| 7.2 | 8.4 | 15.8 | 13.6 | –20.7 | –8.1 | 51.2 | –32.8 |
| 2.1 | 2.2 | 2.2 | 2.2 | 2.5 | 2.4 | 2.2 | 2.2 |
| **9.3** | **10.6** | **18.0** | **15.8** | **–18.2** | **–5.7** | **53.4** | **–30.6** |
| 10.2 | 2.9 | 10.9 | 0.6 | –4.8 | 9.4 | –9.0 | –3.0 |
| 35.8 | 18.5 | 11.2 | 2.4 | –27.6 | 32.8 | 10.9 | 41.6 |
| **46.0** | **21.4** | **22.1** | **3.0** | **–32.4** | **42.2** | **1.9** | **38.6** |
| **–36.7** | **–10.8** | **–4.1** | **12.8** | **14.2** | **–47.9** | **51.5** | **–69.2** |
| 1.0 | 36.4 | 13.7 | 29.6 | 8.5 | 27.0 | 27.2 | 34.7 |
| **37.7** | **–47.2** | **–17.8** | **–16.8** | **5.7** | **–74.9** | **24.3** | **–103.9** |

### (c) Net Investment from Abroad

In 1980 gross foreign investment in Israel increased substantially, but there was also a proportionally larger repatriation of investments, so that the net level fell. The increased liquidation of foreign investments continued the trend that had persisted since 1977.

For the first time since the foreign currency reform, Israeli investments abroad (both direct and in securities) shrank in 1980. The relatively high real domestic interest rates this year and the strongly bullish tone of the Tel Aviv Stock Exchange were probably the main reasons for this development.

The commercial banks stepped up their investment in foreign securities as part of their integration into the international financial system.

**Table VII-23**

**U.S. GOVERNMENT AID AND DEFENSE IMPORTS, 1972-80**

($ million)

| | | | Loans repaid | | Total aid | | |
|---|---|---|---|---|---|---|---|
| | Grants (1) | Loans received[a] (2) | Principal (3) | Interest (4) | Gross (1+2) (5) | Net (5-3-4) (6) | Direct defense imports (7) |
| 1972 | 71 | 330 | 125 | 32 | 401 | 244 | 490 |
| 1973 | 820 | 369 | 118 | 52 | 1,189 | 1,019 | 1,253 |
| 1974 | 672 | 301 | 155 | 74 | 973 | 744 | 1,225 |
| 1975 | 642 | 1,361 | 148 | 86 | 2,003 | 1,769 | 1,846 |
| 1976 | 1,176 | 879 | 215 | 99 | 2,055 | 1,741 | 1,555 |
| 1977 | 977 | 656 | 253 | 155 | 1,633 | 1,225 | 1,084 |
| 1978 | 1,181 | 1,004 | 226 | 200 | 2,185 | 1,759 | 1,612 |
| 1979 | 1,214 | 1,004 | 228 | 268 | 2,218 | 1,722 | 1,225 |
| 1980 | 1,454 | 1,382 | 222 | 363 | 2,836 | 2,251 | 1,713 |

[a] Loans to the public sector (as listed in Table VII-21) and the private sector (mainly Export-Import Bank loans).

SOURCE: Central Bureau of Statistics.

## 6. NET SHORT-TERM CAPITAL IMPORTS

Short-term capital imports, as recorded in the balance of payments, fell sharply in 1980 but were still high compared with other years. The decline occurred in both the public and private sectors (see Table VII–24); in the latter it stemmed from a much smaller inflow to the financial sector (excluding the Bank of Israel), whereas that to the private nonfinancial sector rose a notch.

These findings should be regarded with some reservation, for a comparison of the private sector's current deficit with its foreign currency purchases from the Bank of Israel (see Table VII–26) points to a capital outflow in 1980, whereas the balance of payments data indicate an inflow. If the "errors and omissions" item in the balance of payments is an indicator of unidentified capital movements, then it supports the conclusion that the private sector's short-term capital import

**Table VII–24**

**GROWTH OF SHORT-TERM CAPITAL IMPORTS, 1978–80**

($ million at current prices, quarterly data)

| | | Short-term capital imports | | | Private financial sector | | |
|---|---|---|---|---|---|---|---|
| | | Total (2+6) (1) | Thereof: private sector (3+4) (2) | Private non-financial sector (3) | Total (4) | Thereof: Banks' liquid foreign liabilities (5) | Public sector (6) |
| 1978 | I | –103 | –166 | –71 | –95 | –18 | 63 |
| | II | –13 | 102 | 4 | 98 | 78 | –115 |
| | III | 157 | 140 | 76 | 64 | 82 | 17 |
| | IV | 202 | 397 | 8 | 389 | 408 | –195 |
| 1979 | I | 329 | 449 | 139 | 310 | 261 | –120 |
| | II | 150 | 201 | 57 | 144 | 152 | –51 |
| | III | 529 | 443 | 185 | 258 | 295 | 86 |
| | IV | 303 | 108 | 90 | 18 | 354 | 195 |
| 1980 | I | –266 | –156 | –78 | –78 | –40 | –110 |
| | II | 432 | 303 | 255 | 48 | 88 | 129 |
| | III | 546 | 615 | 332 | 283 | 250 | –69 |
| | IV | –199 | –162 | 15 | –177 | –74 | –37 |

SOURCE: Central Bureau of Statistics.

in 1979 and 1980 was much smaller than appears in the balance of payments ("errors and omissions" may include, for example, payments on account of commodity and service imports which have not yet reached Israel or credit by Israeli exporters to customers abroad).

The trend during the past two years in short-term capital imports as calculated in the manner described above (see Table VII–26) resembled that shown by the balance of payments, although the fluctuations in the former were much sharper. It is difficult to determine which of the two sets of data is more accurate.

Short-term capital imports of the private financial sector began to turn down in the second quarter of 1979 (see Table VII–24), after the Bank of Israel raised the price of nondirected foreign currency credit by 12 percentage points and imposed quantitative restrictions on short-term borrowing from foreign sources. In the first quarter of 1980 there was actually a net capital export. In the next quarter the trend changed and again there was a net inflow, which grew noticeably in the third quarter; the last three months witnessed another net outflow. This pattern closely corresponded to that of the expected real cost of nondirected foreign currency credit relative to overdraft facilities—a decline in the second and third quarters and stability in the last quarter.

Despite the smaller short-term capital import this year there were again sizable gross capital movements to and from the commercial banks, as reflected by a $1.3 billion rise in the banks' foreign liabilities (to private monetary institutions) on the one hand and a $1.1 billion growth in their foreign assets (loans to foreigners and Israeli bank deposits abroad) on the other. This testified to the continued integration of the local banking industry into the international financial system, which got underway with the liberalization of foreign currency control at the end of 1977.

It should be added that the hefty short-term capital import by the private sector (financial and nonfinancial alike) since 1979 has been due *inter alia* to changes in Israel's sources of crude oil and the financing of purchases with short-term capital.

## 7. THE EXTERNAL DEBT[24]

Israel's net foreign currency liabilities to foreigners grew by $1.1 billion in 1980. This was a smaller increase than in the previous year, and reflected the nominal decline in the balance of payments deficit on current account,[25] as may be seen from the following table (data are in $ million).

[24] The extensive international financial operations of Israel's banking system swelled both foreign currency liabilities and assets; it is therefore of greater interest to examine the net foreign currency liabilities, whose growth is largely influenced by the country's current account deficit.

[25] The gap between the current deficit and the net change in foreign currency liabilities to

| | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|
| 1. Current account | 990 | 482 | 998 | 1,300 | 885 |
| 2. Change in net foreign currency liabilities to foreigners[a] | 1,148 | 715 | 1,084 | 1,953 | 1,101 |

[a] Includes liabilities arising from changes in the value of foreign currencies in relation to the dollar. The difference between the two series presented here also stems from net investments of foreigners in Israel and errors and omissions. The data in line 2 were calculated from end-year balances as listed in Table VII-26.

The surplus in the basic balance of payments (in 1979 there was a deficit), coupled with the contraction of short-term capital imports, resulted in the flattening of the economy's net liquid foreign currency liabilities to foreigners, after they had shot up in 1979 (see Table VII-25). The more sluggish nominal growth this year in net foreign currency liabilities reflected a smaller percentage increase in gross liabilities and the continued rapid expansion of foreign currency assets.

The Bank of Israel's international reserves at the end of the year were sufficient to finance 2.7 months of imports (see Table VII-29), similar to the 1979 figure. One of the main reasons for the paltry growth (in dollar terms) was a $140 million capital loss caused by the strengthening of the dollar against the major European currencies, in which part of Israel's reserves was invested.

Net imports of capital services[26] expanded strongly this year compared with 1977-79, bringing up their weight in relation to exports. Repayment of principal on long- and medium-term loans also rose substantially, and consequently there was a real increase in the servicing of the current external debt (including dividends paid on net investments from abroad); this brought up its weight in relation to exports from 18.4 percent in 1979 to 18.9 percent (see Table VII-28). The formidable growth of net capital service imports in 1980 stemmed from two principal factors:

(a) An increase in the weight of short-term loans in total net liabilities in 1979 and a steep rise in international interest rates in 1980. As a result of these developments, the average interest on net liabilities to foreigners moved up from 6 percent in 1979 to 6.8 percent.

(b) A sharp rise in the annual average level of such obligations (17 percent in 1980 as against 12 percent in 1979) owing to their rapid expansion in 1979, which outweighed their deceleration in the year reviewed.

foreigners becomes narrower if account is taken of the approximately $200 million capital loss in 1980 due to the strengthening of the dollar against other foreign currencies (especially European).

[26] Excludes nonrecurring and special income (i.e. other than from interest and dividends) in 1978 and 1979.

Table

**FOREIGN CURRENCY ASSETS**

($ million, at

| | 1975 | 1976 | 1977 | 1978 | 1979 |
|---|---|---|---|---|---|
| 1. Net liabilities[b] (2–3) | **7,003** | **8,151** | **8,866** | **9,950** | **11,903** |
| 2. Foreign currency liabilities[c] | **10,164** | **11,583** | **13,115** | **16,111** | **19,291** |
| a. Government (incl. the Bank of Israel) | 6,201 | 7323 | 8,130 | 9,082 | 10,049 |
| b. Private nonfinancial sector | 1,170 | 1,238 | 1,366 | 1,742 | 2,365 |
| c. Private monetary institutions[d] | 2,793 | 3,022 | 3,619 | 5,287 | 6,877 |
| 3. Foreign currency assets[e] | **3,161** | **3,432** | **4,249** | **6,161** | **7,388** |
| a. Bank of Israel reserves and liquid assets in other financial institutions | 1,289 | 1,463 | 1,769 | 2,783 | 3,235 |
| b. Private bank loans to foreigners | 647 | 601 | 453 | 500 | 754 |
| c. Liquid foreign assets of commercial banks | 1,225 | 1,368 | 2,027 | 2,878 | 3,399 |
| 4. Net liquid foreign liabilities (a+b+c–d) | **1,186** | **1,192** | **1,041** | **876** | **2,136** |
| a. Net liquid foreign liabilities of commercial banks (2c–3c) | 1,568 | 1,654 | 1,592 | 2,409 | 3,478 |
| b. Short-term debts of nonfinancial sector | 285 | 275 | 352 | 442 | 957 |
| c. Repayment (principal) in following year o/a long- and medium-term debt | 622 | 726 | 866 | 808 | 936 |
| d. Bank of Israel reserves and liquid assets in other financial institutions (equal to 3a) | 1,289 | 1,463 | 1,769 | 2,783 | 3,235 |
| 5. Ratio of net liquid liabilities to total net liabilities (4/1×100) | 16.9 | 14.6 | 11.7 | 8.8 | 17.9 |

[a] The nominal percentage change deflated by the percentage change in the price of nondiamond commodity exports during the year. The export prices used were as follows (according to the Paasche index):

| 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|
| 7.0 | 7.5 | 16.3 | 16.0 | 6.7 |

[b] The extensive international financial activity of the Israeli banking system is reflected in the growth of foreign currency assets and liabilities. It is therefore of greater interest to relate to net foreign currency liabilities, changes in which are influenced mainly by the level of the current account deficit. Net liabilities are also influenced by the changes

VII–25

**AND LIABILITIES, 1975–80**

current prices)

| | Percent annual increase | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Nominal | | | | | Real[a] | | | | |
| 1980 | 1976 | 1977 | 1978 | 1979 | 1980 | 1976 | 1977 | 1978 | 1979 | 1980 |
| **13,004** | **16.4** | **8.8** | **12.2** | **19.6** | **9.2** | **8.8** | **1.2** | **–3.5** | **3.1** | **2.3** |
| **21,779** | **14.0** | **13.2** | **22.8** | **19.7** | **12.9** | **6.5** | **5.3** | **5.6** | **3.2** | **5.8** |
| 11,214 | 18.1 | 11.0 | 11.7 | 10.6 | 11.6 | 10.4 | 3.3 | –4.0 | –4.7 | 4.6 |
| 2,415 | 5.8 | 10.3 | 27.5 | 35.8 | 2.1 | –1.1 | 2.6 | 9.6 | 17.1 | 4.3 |
| 8,150 | 8.2 | 19.8 | 46.1 | 30.1 | 18.5 | 1.1 | 11.4 | 25.6 | 12.2 | 11.1 |
| **8,775** | **8.6** | **23.8** | **45.0** | **19.9** | **18.8** | **1.5** | **15.2** | **24.7** | **3.4** | **11.3** |
| 3,526 | 13.5 | 20.9 | 57.3 | 16.2 | 9.0 | 6.1 | 12.5 | 35.3 | 0.2 | 2.2 |
| 803 | –7.1 | –24.6 | 10.4 | 50.8 | 6.5 | –13.2 | –29.9 | –5.1 | 30.0 | –0.2 |
| 4,446 | 11.7 | 48.2 | 42.0 | 18.1 | 30.8 | 4.4 | 37.9 | 22.1 | 1.8 | 22.6 |
| **2,162** | **0.5** | **–12.7** | **–15.9** | **143.8** | **1.2** | **–6.1** | **–18.8** | **–27.7** | **110.2** | **–5.2** |
| 3,704 | 5.5 | –3.7 | 51.3 | 44.4 | 6.5 | –1.4 | –10.4 | 30.1 | 24.5 | –0.2 |
| 1,074 | –3.5 | 28.0 | 25.6 | 116.5 | 12.2 | –9.8 | 19.1 | 8.0 | 86.6 | 5.2 |
| 910[f] | 16.7 | 19.3 | –6.7 | 15.8 | –2.8 | 9.1 | 11.0 | –19.8 | –0.2 | –8.9 |
| 3,526 | 13.5 | 20.9 | 57.3 | 16.2 | 9.0 | 6.1 | 12.5 | 35.3 | 0.2 | 2.2 |
| 16.6 | | | | | | | | | | |

in the value of foreign currencies against the dollar; they do not include net foreign investment in Israel.

[c] Unlike the external debt (Table VII–27), the data here include the foreign liabilities of Israeli banks but not the foreign currency liabilities of Israeli residents to Israeli banks, nor do the data include foreign investment in Israel. The data were adjusted to the balance of payments definitions but, unlike the balance of payments, they include changes in liabilities due to fluctuations in exchange rates.

[d] Foreign residents' deposits plus deposits and loans of foreign banks.

[e] Excludes net supplier credit granted by exporters and Israeli investment abroad.

[f] Estimate.

SOURCE: Based on Central Bureau of Statistics data.

**Table VII–26**

**PRIVATE SECTOR BALANCE OF PAYMENTS, 1977–80**

($ million)

| | | Import surplus (1) | Unilateral transfers (2) | Current account deficit (1–2) (3) | Long- and medium-term capital import (4) | Foreign currency purchases from Bank of Israel (5) | Short-term capital imports: Derived estimate (3–4–5) (6) | Short-term capital imports: Balance of payments data[a] (6′) |
|---|---|---|---|---|---|---|---|---|
| **Annual data** | | | | | | | | |
| 1977 | | 1,146 | 811 | 335 | 105 | 748 | –518 | –418 |
| 1978 | | 1,355 | 908 | 447 | 218 | 342 | –113 | 473 |
| 1979 | | 2,420 | 1,057 | 1,363 | 94 | 894 | 375 | 1,201 |
| 1980 | | 1,764 | 1,118 | 646 | –121 | 924 | –157 | 600 |
| **Quarterly data** | | | | | | | | |
| 1978 | I | 306 | 222 | 84 | 5 | 317 | –238 | –166 |
| | II | 354 | 206 | 148 | 122 | 112 | –86 | 102 |
| | III | 500 | 240 | 260 | –1 | 227 | 34 | 140 |
| | IV | 195 | 240 | –45 | 92 | –314 | 177 | 397 |
| 1979 | I | 580 | 264 | 316 | –6 | –3 | 325 | 449 |
| | II | 517 | 259 | 258 | 4 | 142 | 112 | 201 |
| | III | 787 | 262 | 525 | 4 | 272 | 249 | 443 |
| | IV | 536 | 272 | 264 | 92 | 483 | –311 | 108 |
| 1980 | I | 455 | 267 | 188 | –28 | 344 | –128 | –156 |
| | II | 411 | 263 | 148 | –76 | 129 | 95 | 303 |
| | III | 711 | 286 | 425 | 58 | 191 | 176 | 615 |
| | IV | 187 | 302 | –115 | –75 | 260 | –300 | –162 |

[a] The data are from Table VII–24, column 2.

SOURCE: Based on Central Bureau of Statistics data.

Table VII–27

**ISRAEL'S EXTERNAL DEBT,[a] 1975–80**

($ million)

| End of year | 1975 | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|---|
| 1. External debt | **7,617** | **9,371** | **11,107** | **13,286** | **15,524** | **17,063** |
| Forecast repayment schedule | | | | | | |
| Up to one year | 1,414 | 1,480 | 1,831 | 2,379 | 2,975 | 3,873 |
| One to two years | 490 | 785 | 1,066 | 906 | 1,427 | 1,181 |
| Two to three years | 511 | 850 | 1,211 | 1,130 | 1,117 | 968 |
| Three to four years | 628 | 725 | 1,106 | 852 | 839 | 737 |
| Four to five years | 530 | 813 | 815 | 644 | 637 | 658 |
| Five years or more | 4,044 | 4,717 | 5,078 | 7,375 | 8,529 | 9,646 |
| Sector | | | | | | |
| Government | 5,644 | 6,991 | 8,442 | 9,945 | 10,998 | 12,318 |
| Private | 1,973 | 2,380 | 2,665 | 3,341 | 4,526 | 4,745 |
| Repayment period | | | | | | |
| Short-term | 927 | 805 | 875 | 1,338 | 2,237 | 2,371 |
| Long- and medium-term | 6,690 | 8,566 | 10,232 | 11,948 | 13,287 | 14,692 |
| 2. Net foreign reserves with the Bank of Israel[b] | 1,144 | 1,246 | 1,558 | 2,347 | 2,685 | 2,913 |
| 3. Net external debt (1–2) | **6,473** | **8,125** | **9,549** | **10,939** | **12,839** | **14,150** |
| 4. Nominal increase in net external debt (%) | | 25.5 | 17.5 | 14.6 | 17.4 | 10.2 |

[a] See note a to Table VII–25.
[b] Excludes foreign residents' deposits; includes reserves of other central monetary institutions.
SOURCE: Bank of Israel.

Table VII-28

## INDICATORS OF THE NET DEBT SERVICING BURDEN, 1976-80

($ million, at current prices)

| | 1976 | 1977 | 1978 | 1979 | 1980 |
|---|---|---|---|---|---|
| 1. Interest payments on the external debt | 644 | 711 | 931 | 1,232 | 1,706 |
| 2. Interest receipts from foreign currency assets | 240 | 286 | 362 | 575 | 833 |
| 3. Net interest payments (1-2) | 404 | 425 | 569 | 657 | 873 |
| 4. Interest and dividend payments o/a net foreign investment in Israel (estimate) | 8 | -9 | -57[a] | -43[a] | -50 |
| 5. Total net capital service imports (3+4) | 412 | 416 | 512[a] | 614[a] | 823 |
| 6. Principal repayments o/a long- and medium-term debt | 622 | 726 | 866 | 808 | 936 |
| 7. Total interest and dividend payments and long- and medium-term debt repayment (5+6) | 1,034 | 1,142 | 1,378 | 1,422 | 1,759 |
| | | | **Percentages** | | |
| Percent of exports[b] | | | | | |
| Net capital services | 9.3 | 7.6 | 7.9 | 7.9 | 8.8 |
| Interest and dividend payments and long- and medium-term debt repayment | 23.3 | 20.8 | 21.3 | 18.4 | 18.9 |
| Interest as a percent of: | | | | | |
| Foreign liabilities, annual average | — | — | 6.3 | 7.0 | 8.2 |
| Foreign currency assets, annual average | — | — | 7.4 | 8.5 | 10.4 |
| Net foreign liabilities, annual average | — | — | 5.8 | 6.0 | 6.8 |

NOTE: The differentiation between interest payments on account of the net debt and interest and dividend payments on account of net foreign investments in Israel is a rough estimate.
[a] Excludes nonrecurring income in 1978-79 (not from interest and dividends).
[b] Exports f.o.b.; excludes capital services.
SOURCE: Based on Central Bureau of Statistics data.

**Table VII-29**

**FOREIGN EXCHANGE RESERVES HELD AT THE BANK OF ISRAEL, 1975–80**

($ million)

| End of month | Gross reserves | Less: Foreign bank deposits | Less: Patach deposits | Net reserves | Change in net reserves: Before adjustment | Change in net reserves: Exchange rate differentials | Change in net reserves: Adjusted for differentials | No. of months' imports covered by reserves[a] |
|---|---|---|---|---|---|---|---|---|
| 1975 December | 1,183 | 2 | 142 | 1,039 | –31 | –36 | 5 | 2.0 |
| 1976 December | 1,373 | 10 | 207 | 1,156 | 117 | 57 | 60 | 2.2 |
| 1977 December | 1,571 | 10 | 202 | 1,359 | 203 | 114 | 89 | 2.2 |
| 1978 December | 2,679 | 8 | 429 | 2,242 | 883 | 164 | 719 | 3.1 |
| 1979 December | 3,120 | 13 | 537 | 2,570 | 328 | 43 | 285 | 2.8 |
| 1980 December | 3,395 | 5 | 609 | 2,781 | 211 | –138 | 349 | 2.7 |
| 1980 January | 3,148 | 27 | 524 | 2,597 | 27 | 9 | 18 | |
| February | 3,095 | 25 | 511 | 2,559 | –38 | –38 | — | |
| March | 3,215 | 9 | 484 | 2,772 | 163 | –134 | 297 | |
| April | 3,333 | 8 | 491 | 2,834 | 112 | 129 | –17 | |
| May | 3,411 | 6 | 512 | 2,893 | 59 | 36 | 23 | |
| June | 3,464 | 6 | 524 | 2,934 | 41 | 25 | 16 | |
| July | 3,487 | 6 | 534 | 2,947 | 13 | –36 | 49 | |
| August | 3,496 | 6 | 550 | 2,940 | –7 | –1 | –6 | |
| September | 3,431 | 6 | 563 | 2,862 | –78 | –13 | –65 | |
| October | 3,351 | 6 | 559 | 2,786 | –76 | –82 | 6 | |
| November | 3,291 | 5 | 561 | 2,725 | –61 | –14 | –47 | |
| December | 3,395 | 5 | 609 | 2,781 | 56 | –19 | 75 | |

[a] Monthly average of commodity and service imports (c.i.f.), excluding direct defense imports.
SOURCE: Bank of Israel.

## 8. MAIN DEVELOPMENTS IN THE WORLD ECONOMY

### (a) General

In 1980 the industrial world entered its second general recession since the original OPEC oil price shock of 1973. Real GNP growth of the seven largest economies shrank to only 1 percent for the year and to –1.25 percent by the second half.

The recession was stimulated by a second massive oil price boost, which simultaneously carried average inflation in the industrial countries to a new peak of about 12.5 percent.

World interest rates rose during the year (especially in the U.S.A.), both to discount higher price inflation and mainly as a result of deliberate anti-inflationary monetary policies.

In line with the recession, the growth of world trade (and Israel's export markets) was cut by over half (to a 1–3 percent rate).

### (b) Growth and Inflation

The year reviewed was marked by a slide of the major industrial nations into the first general recession since that which followed the initial OPEC oil price shock in 1973 (see Figure VII–4). Although the present recession appears to be somewhat more moderate, its cost in terms of output forgone is still massive (the output loss for the entire OECD group by 1981 is estimated at $550 billion, equal to 6.5 percent of GNP).

The early stages of recession in the U.S., as well as the storm signals (monetary, inflationary, and fiscal) of the incipient recession in Europe and Japan, were described in the 1979 Annual Report (Chapter VII). These signals proved accurate, in particular the steep fall in the growth rate of the real monetary aggregates. This was the outcome of tighter money policies imposed in the face of the supply–side impetus to price inflation given by the huge oil price increases of 1979 and early 1980 (about 150 percent over the 18 months to mid–1980). The main objective was to prevent the acceleration of ongoing domestic wage-price inflation in consequence of this temporary cost–push factor. This objective was partially realized, but only at the high cost of recession cited above (including higher unemployment).

Figure VII–4 summarizes the interaction of monetary expansion, price inflation, and real growth. We see that, in close harmony with previous relationships, the real GNP growth rate in Europe and the U.S.A. in 1980 followed the fall in real monetary growth the year before. We also see that real monetary growth in 1980 remained very low in Europe, while rising slightly in the U.S., with corresponding implications for trends in GNP growth in 1981 (as confirmed by first-quarter data). Table VII–30 indicates that at the same time fiscal policies,

**Table VII–30**
**ECONOMIC INDICATORS FOR INDUSTRIAL COUNTRIES, 1963–80**

| | U.S.A. | U.K. | W. Germany | France | Italy | Japan | Four large European countries | Total OECD |
|---|---|---|---|---|---|---|---|---|
| GNP growth (%) | | | | | | | | |
| 1963–73 (average) | 4.0 | 2.7 | 4.4 | 5.4 | 4.7 | 9.4 | 4.4 | 5.0 |
| 1979 | 2.0 | 0.5 | 4.5 | 3.0 | 4.0 | 6.0 | 3.0 | 3.3 |
| 1980 | –0.8 | –2.3 | 1.8 | 1.8 | 3.8 | 5.0 | 1.3 | 1.0 |
| First half | –1.4 | –1.2 | 2.8 | 1.2 | 6.4 | 5.5 | 2.3 | 1.1 |
| Second half | –1.8 | –5.8 | –3.0 | 0.5 | –3.5 | 2.8 | –2.9 | –0.8 |
| Inflation rate (consumer price index) | | | | | | | | |
| 1979 | 11.3 | 13.4 | 4.1 | 10.8 | 14.8 | 3.6 | 9.3 | 9.8 |
| 1980 | | | | | | | | |
| Annual average | 13.5 | 18.0 | 5.5 | 13.3 | 21.2 | 8.0 | 14.5 | 12.9 |
| Dec. to Dec. | 12.5 | 15.0 | 6.0 | 13.5 | 21.5 | 7.0 | 12.3 | — |
| Monetary growth ($M_1$)[a] (fourth quarter–fourth quarter) | | | | | | | | |
| 1978 | 8.2 | 16.5 | 13.5 | 11.9 | 25.3 | 17.3 | 15.3 | — |
| 1979 | 7.6 | 10.1 | 4.4 | 10.6 | 25.2 | 5.6 | 12.5 | — |
| 1980 | 7.3 | 6.0 | 4.5 | 9.0[b] | 13.5[b] | –1.8 | 7.2[b] | — |
| Fiscal balance change[c] (percent of GNP) | | | | | | | | |
| 1978 | –1.0 | 0.6 | 0.3 | 0.7 | 0.2 | 1.7 | 0.5 | — |
| 1979 | –0.5 | –0.7 | 0.3 | –0.5 | –0.8 | –0.5 | 0.4 | — |
| 1980 | 1.3 | –0.8 | 0.1 | 0 | –0.4 | –0.6 | –0.3 | — |

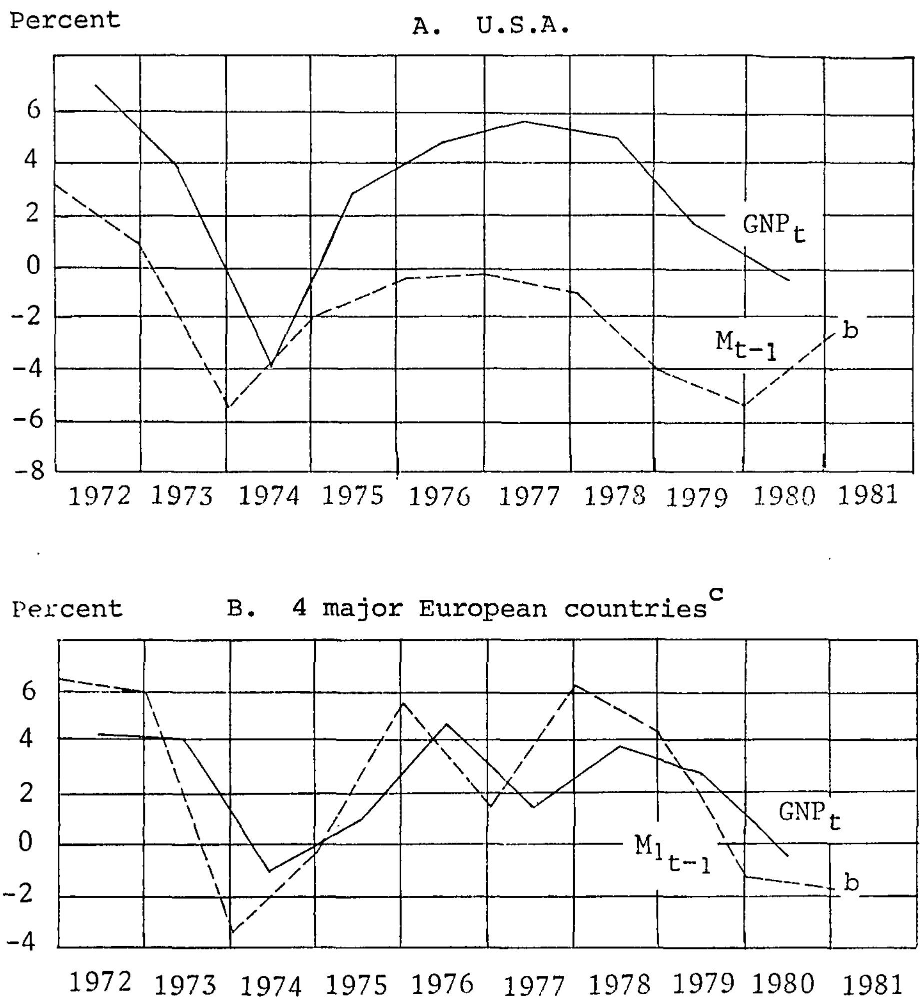
[a] $M_{1b}$ used for U.S.A.
[b] Preliminary estimate.
[c] The net contractionary impact of the fiscal balance change in 1980 (shown in the table) appears negligible, due to the "automatic" expansionary effect of economic recession. The policy component of the fiscal balance change exerted a dampening effect, equivalent to 0.7 percent of GNP in Europe.

SOURCE: OECD, *Economic Outlook* (for GNP growth, prices, fiscal balance change); Federal Reserve Bank of St. Louis (money growth); NIER, *Economist* (some price data).

**Figure VII-4**

**RATE OF REAL GNP GROWTH[a] AND LEADING REAL MONEY GROWTH IN U.S.A. AND FOUR MAJOR EUROPEAN COUNTRIES, 1972–81**

(Percent change in fourth-quarter levels)




[a] Since upward pressures from the cost side (e.g. OPEC price rises) influence demand with very little lag, "leading money growth" here equals the percent change in nominal $M_1$ of the previous year ($t$–1). But in general (including 1980), dividing by the price level of the previous year ($t$–1) also provides a fairly good forecast of the growth of real GNP.

[b] These percent changes in real money for 1981 refer to actual $M_1$ of 1980, divided by the OECD forecast price levels of 1981. The latter reflects the passing of the OPEC effect on price changes in 1979 and 1980.

[c] U.K., Germany, France, and Italy.

SOURCE: Federal Reserve Bank of St. Louis, quarterly data; for some 1980 data—OECD and *The Economist*.

while slightly positive in the U.S.A., generally supported the restrictive effect of monetary developments in Europe.

The actual record for 1980 may be summarized briefly. In the U.S.A. there was a dramatic fall in final demands and output (at an annual rate of over 9 percent) in the second quarter. This followed a rise in the prime interest rate to about 20 percent and some consumer credit rationing. The second half of 1980 witnessed a steady although moderate recovery. In Europe, where a cyclical upswing was underway in 1979, the recession took firm hold only in the second half of 1980 (see Table VII–30). Only in the U.K. did recession begin earlier, largely as the result of demand restraint opposing strong internal wage and tax pressures. In Japan, in line with earlier monetary trends, domestic demand also suffered a clear recession. However, a typically energetic export drive (aided by the significant decline of the yen in 1979) offset most of the contractionary effect on GNP. Even this drive faltered in the second half under the influence of world recession.

### (c) The Second Oil Price Shock

The 1979–80 oil price boom diverted about $145 billion from importing countries to the OPEC group (the direct transfer amounted to about 2.25 percent of national income for the OECD). The effect on nonoil developing countries was even more damaging than in 1974, because this time there was no concurrent boom in other commodity prices (see Table VII–32).

Large as they were, the returns to OPEC were blunted beyond expectations by an exceptional contraction of demand for OPEC exports, from 29.4 million to 23.8 million barrels a day from the second half of 1979 to the second half of 1980. Despite the effects of the Iraq–Iran war (which gave a clear boost to spot oil prices in late 1979 and early 1980), an excess supply situation persisted during the year, and the OPEC share of world oil output fell to about 50 percent, as against 63 percent in 1973.

### (d) Trade and Exchange Rates

The world recession dampened, of course, the growth of world trade in 1980. Intra-OECD exports, for example (a figure reflecting the market for Israeli exports), expanded by only 3.3 percent in quantity, against a rise of 7.5 percent in 1979. (U.N. indexes of total world trade in manufactures, however, show a fall of only 1 percent.) Specific calculations for Israel's market area suggest a similar growth. The performance in 1980 of Israeli exports against this background was surprisingly strong.[27]

[27] Since the devaluation of the sheqel during 1980 relative to the basket of five major currencies was about equal to the difference between Israel's inflation rate and the average for the five countries, this largely offset the negative effect on Israel's exports

Table VII–31

CHANGES IN WORLD TRADE, 1968–80

(Percentages)

| | Average 1968–78 | 1979 | 1980 |
|---|---|---|---|
| All goods (volume) | 6.5 | 6 | 1.5 |
| Manufactures (volume) | 7.5 | 5.5 | 4.5 |
| OECD imports (volume) | — | 8 | -1.5 |
| OECD exports (volume) | — | 5.5 | 5 |
| OECD imports (price) | — | 19 | 21.5 |
| OECD exports (price) | — | 16.5 | 12.5 |
| Intra-OECD imports (volume) | — | 9.7 | 1.5 |
| Intra-OECD exports (volume) | — | 7.5 | 3.2 |

SOURCE: NIER, February 1980; OECD, *Economic Outlook*, December 1980.

### (c) Interest Rates and Capital Movements

World short-term interest rates displayed extraordinary fluctuations during 1980, largely, it appears, in response to the shift toward monetary policies geared to short-term money growth targets (especially in the U.S.), and to exceptional fluctuations in psychological factors affecting the demand for both money and goods. Thus, the steep rise in the U.S. prime rate to about 20 percent in the first quarter of 1980 was followed by a literal crash in consumption, investment, and credit demand in the second quarter, causing short-term rates to plunge by about half (an unprecedentedly rapid fall). Instead of stabilizing, rates then took off on a sustained rise through the third and fourth quarters under the influence of a recovery of all the demands cited above, finally settling in the vicinity of 17–20 percent in the first quarter of 1981. Interest rates in other major countries tended to follow these changes, although in a dampened way. This reflected *inter alia* the tendency of other governments to resist the devaluation of their currencies against the dollar.

of the weakening of the European currencies against the U.S. dollar. It should be pointed out that the diversion of exports from one country to another following changes in exchange rates takes time, and export profitability is impaired in the short run—a problem which exchange rate policy may attempt to mitigate.

Table VII-32

**CHANGES IN OIL (OPEC) AND NONOIL COMMODITY PRICES, 1978–80**

(Percent changes in dollar prices)

| | 1978 | 1979 | 1980 |
|---|---|---|---|
| OPEC (weighted average) | 2.4 | 46 | 68 |
| Food | –16 | 9 | 6 |
| Agriculture—raw materials | 10 | 23 | 12 |
| Metals and minerals | 6 | 29 | 13 |
| All nonoil commodities | –7 | 15 | 15 |
| All nonoil commodities in SDR prices | –14 | 13 | 14 |
| OPEC average prices (in $ per barrel) | 13.09 | 19.01 | 31.87 |

SOURCE: NIER, February 1981.

Table VII-33

**WORLD CURRENT ACCOUNT, 1979–80**

($ billion, including official transfers)

| | 1979 | 1980 |
|---|---|---|
| U.S.A. | –0.8 | 5.5 |
| Four major European countries | –3.1 | –25.7 |
| Japan | –8.8 | –13.3 |
| OECD, total | –39 | –73 |
| OPEC | 68 | 116 |
| Nonoil developing countries | –37 | –50 |
| Other | –3 | –5 |
| World total[a] | –7 | –12 |

[a] Reflects errors and omissions.
SOURCE: OECD, op. cit. Tables 32, 34.

Table VII-34
**GROWTH OF ISRAEL'S EXPORT MARKETS, 1980**
(OECD imports weighted by Israel's exports)

| | Manufactures | | All imports, excl. energy[a] | |
|---|---|---|---|---|
| | A[b] | B[c] | A[b] | B[c] |
| 1) Seven major OECD countries | 2.1 | 3.4 | 0.92 | 0.89 |
| 2) Other OECD countries | 3.8 | 3.0 | 0.92 | 0.89 |
| 3) Total OECD[d] | 2.6 | 3.3 | 0.93 | 1.65 |

[a] Total import growth in the industrial world actually fell in 1980 due to sharp reductions in the import of much higher priced oil. Since oil is not an Israeli export, the more relevant concept is imports excluding energy (available only for OECD countries). It should be noted that higher OPEC imports raised OECD market growth to about 5 percent. This failed under recession (which reduces the relative transmission to imports from developing countries) to raise Israel's market growth to similar levels.

[b] Weighted by total Israeli commodity exports to each country.

[c] Weighted by Israeli commodity exports excluding diamonds.

[d] 73 percent of Israel's exports.

SOURCE: OECD, *Economic Outlook*; Central Bureau of Statistics.

Table VII-35
**MONEY MARKET AND EURODOLLAR INTEREST RATES, 1980**
(Selected months)

| | Jan. | Mar. | April | June | Sept. | Dec. |
|---|---|---|---|---|---|---|
| U.S.A. | 13.8 | 17.2 | 17.6 | 9.5 | 10.9 | 18.9 |
| Eurodollar | 14.4 | 19.9 | 13.9 | 9.8 | 13.9 | — |
| U.K | 15.7 | 16.2 | 16.2 | 15.8 | 14.4 | — |
| W. Germany | 8.3 | 8.6 | 9.1 | 10.0 | 9.3 | 9.1 |
| Japan | 8.1 | 10.7 | 12.2 | 12.6 | 11.4 | 9.4 |

SOURCE: IMF, *International Financial Statistics*, March 1981.

Table VII-36
**CHANGES IN THE SHEQEL[a] EXCHANGE RATE, 1978-80[b]**
(Percentages)

| | In relation to the dollar | In relation to a basket of 5 currencies | In relation to a basket of 14 currencies | |
|---|---|---|---|---|
| | | | Export-weighted | Import-weighted |
| 1978 | 22.4 | 30.9 | 34.5 | 36.2 |
| 1979 | 81.5 | 92.0 | 88.9 | 87.7 |
| 1980 I | 18.5 | 15.5 | 12.5 | 10.4 |
| II | 18.1 | 30.4 | 24.1 | 24.0 |
| III | 20.0 | 13.1 | 19.8 | 19.9 |
| IV | 28.8 | 22.8 | 20.7 | 21.6 |
| I-IV | 117.6 | 109.3 | 102.6 | 104.0 |

[a] In February 1980 Israel's currency was changed from the Israeli pound to the sheqel.

[b] The average change in the daily representative rates during the last month in the period compared with the last month in the previous period.

APPENDIX TABLE

**Table**

**INDICATORS OF INDUSTRIAL**

| | Prices received by the exporter, in IS | | Weighted price of inputs | | Profitability of exports relative to inputs (1/2) | |
|---|---|---|---|---|---|---|
| | Index (1972=100) (1) | Change from previous period (1'') | Index (1972=100) (2) | Change from previous period (2'') | Index (1972=100) (3) | Change from previous period (3'') |
| 1974 | 173.3 | 38.1 | 176.8 | 45.9 | 98.0 | –5.3 |
| 1975 | 246.8 | 42.4 | 241.4 | 36.5 | 102.2 | 4.3 |
| 1976 | 305.5 | 23.8 | 305.6 | 26.6 | 100.0 | –2.2 |
| 1977 | 423.2 | 38.5 | 415.4 | 35.9 | 101.9 | 1.9 |
| 1978 | 667.0 | 57.6 | 643.7 | 55.0 | 103.6 | 1.7 |
| 1979 | 1,112.7 | 66.8 | 1,141.4 | 77.3 | 97.5 | –5.9 |
| 1980 | 2,495.7 | 124.3 | 2,576.8 | 125.8 | 96.9 | –0.6 |
| 1979 I | 814.0 | 7.6 | 833.8 | 12.1 | 97.6 | –3.9 |
| II | 986.8 | 21.2 | 1,010.2 | 21.2 | 97.7 | 0.1 |
| III | 1,190.7 | 20.7 | 1,225.3 | 21.3 | 97.2 | –0.5 |
| IV | 1,459.1 | 22.5 | 1,505.7 | 22.9 | 96.9 | –0.3 |
| 1980 I | 1,821.5 | 24.8 | 1,825.1 | 21.2 | 99.8 | 3.0 |
| II | 2,184.6 | 19.9 | 2,243.3 | 22.9 | 97.4 | –2.4 |
| III | 2,701.1 | 23.6 | 2,770.6 | 23.5 | 97.5 | 0.1 |
| IV | 3,275.4 | 21.3 | 3,437.8 | 24.1 | 95.3 | –2.3 |
| | | | | | | **Including export** |
| 1978 | 681.3 | 61.0 | 643.7 | 55.0 | 105.8 | 3.8 |
| 1979 | 1,209.0 | 77.5 | 1,141.4 | 77.3 | 105.9 | 0.1 |
| 1980 | 2,715.6 | 124.6 | 2,576.8 | 125.8 | 105.4 | –0.9 |

[a] Industrial exports, excluding diamonds, refined petroleum products, and quarried products.
SOURCE: Based on Central Bureau of Statistics data.

VII–A1

**EXPORT PROFITABILITY,[a] 1974–80**

| Domestic output prices | | Relative return to the exporter (1/4) | | Return to value added/per unit wages | |
|---|---|---|---|---|---|
| Index (1972=100) (4) | Change from previous period (4'') | Index (1972=100) (5) | Change from previous period (5'') | Index (1972=100) (6) | Change from previous period (6'') |
| 174.6 | 47.3 | 99.3 | –6.2 | 109.3 | 1.2 |
| 237.5 | 36.0 | 103.9 | 4.6 | 119.0 | 8.9 |
| 298.8 | 25.8 | 102.2 | –1.6 | 114.9 | –3.4 |
| 398.6 | 33.4 | 106.2 | 3.9 | 113.8 | –1.0 |
| 612.5 | 53.7 | 108.9 | 2.5 | 114.8 | 0.9 |
| 1,088.4 | 77.7 | 102.2 | –6.2 | 103.9 | –9.5 |
| 2,451.3 | 125.2 | 101.8 | –0.4 | 102.1 | –1.7 |
| 798.3 | 12.0 | 102.0 | –3.9 | 103.8 | –7.4 |
| 978.0 | 22.5 | 100.9 | –1.1 | 103.3 | –0.5 |
| 1,154.3 | 18.0 | 103.2 | 2.3 | 102.1 | –1.2 |
| 1,423.0 | 23.3 | 102.5 | –0.7 | 103.8 | 1.7 |
| 1,718.2 | 20.7 | 106.0 | 3.4 | 108.5 | 4.5 |
| 2,175.1 | 26.6 | 100.4 | –5.3 | 106.1 | –2.2 |
| 2,613.9 | 20.2 | 103.3 | 2.9 | 100.4 | –5.4 |
| 3,298.1 | 26.2 | 99.3 | –3.9 | 101.2 | 0.8 |
| **credit subsidy** | | | | | |
| 612.5 | 53.7 | 111.2 | 4.7 | 119.5 | 5.0 |
| 1,088.4 | 77.7 | 111.1 | –0.9 | 121.2 | 1.4 |
| 2,451.3 | 125.2 | 110.8 | –0.9 | 120.2 | –0.8 |