

CHAPTER VI

CAPITAL IMPORTS, RESERVES, AND THE FOREIGN DEBT

1. MAIN DEVELOPMENTS

Long- and medium-term capital imports jumped sharply in 1978, amounting to \$ 3.6 billion compared with \$ 2.7 billion in 1977 and \$ 3.3 billion during the previous two years. The expansion of capital imports this year coincided with a significant rise in the current deficit, but the latter was less steep. The level of capital imports was higher than the level of the deficit, which explains part of the growth of the economy's foreign currency reserves. The uptrend in Israel's foreign debt continued to slow this year; its composition improved somewhat, and there was no significant rise in the debt servicing burden. These positive developments in the financing of the current deficit occurred against the backdrop of the liberalization of foreign currency control at the end of 1977 on the one hand, and the renewal of growth and other signs of a rebounding of economic activity on the other.

After rising by a little over \$ 500 million a year, U.S. government aid reached \$ 2.2 billion in 1978, with the share of grants declining. The significant growth of loans from this source over the past few years has put the U.S. at the head of the list of creditors of the Israeli economy, with a debt balance totaling more than \$ 4 billion by the end of 1978.

The flow of capital from Jewish sources diminished this year, while personal restitutions remained steady in real terms. On the other hand, there was a sharp rise in gross cash investments from abroad and in private transfers. The year reviewed saw an unprecedented surge in purchases of foreign securities by local residents with an increase in their transfers for the foreign sector. Short-term capital flows, and the volume of transactions by commercial banks with foreign interests were far higher than usual, a consequence of the foreign currency liberalization.

The international reserves of the Bank of Israel grew significantly during the year to reach \$ 2.2 billion, as against \$ 1.36 billion in 1977. There was a further growth of the outstanding foreign debt, which reached \$ 12.2 billion as against \$ 10.7 billion in 1977. Total payments on account of principal and interest came to \$ 1.6 billion, compared with \$ 1.3 billion in 1977. The pressure of such payments on the economy's resources nevertheless dropped this year because of the advance in output, the notable expansion of capital imports, and the rise in import and export prices.

TABLE

FINANCING OF THE CURRENT
(\$)

	1975	1976	1977	1978
A. Current account and long-term capital movements				
Balance on current account	-4,016	-3,200	-2,563	-3,400
Thereof: Defense imports	-1,846	-1,555	-1,084	-1,612
Unilateral transfers	1,770	2,210	2,082	2,429
Balance on current account and transfers	-2,246	-990	-481	-971
Long-term capital movements				
Investments from abroad, net	68	58	100	182
Independence and Development Loans	138	163	174	156
U.S. government loans	1,197	652	403	778
Other loans	141	174	-36	101
Total long-term capital movements	1,544	1,047	641	1,217
Total capital imports (including transfers)	3,314	3,257	2,723	3,646
Surplus of capital imports over deficit	-702	57	160	246
B. Israeli investments abroad	17	-12	-9	-110
C. Short-term credit, net (nonfinancial)	191	3	126	-187
D. Financial sectors				
Foreign bank deposits	567	248	596	1,712
With commercial banks	565	243	596	1,715
With Bank of Israel	2	5	-	-3
Commercial banks loans to foreigners	-185	64	93	110
Bank of Israel loans	12	-171	13	-63
IMF loans	215	89	-	-14
Subtotal	42	-18	106	33
Foreign exchange reserves	-60	-317	-979	-1,838
Change in reserves				
Central monetary authorities	-31	-174	-307	-1,013
Other monetary institutions	-29	-143	-672	-825
Foreign currency valuation adjustments	-46	53	127	209
Total change in reserves due to economic transactions	-106	-264	-852	-1,629
Total, financial sectors	503	-34	-150	116
E. Errors and omissions	-7	-14	-129	-64

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ACCOUNT DEFICIT, 1975-78

(million)

1977				1978			
I	II	III	IV	I	II	III	IV
-502	-703	-733	-625	-868	-838	-1,064	-630
-229	-306	-225	-324	-470	-371	-497	-274
433	474	491	684	554	585	633	657
-69	-229	-242	59	-314	-253	-431	17
22	22	17	39	31	34	53	63
62	38	31	43	58	33	16	49
70	92	56	185	235	169	165	209
33	-19	-38	-12	-19	75	-14	60
187	133	66	255	305	311	220	381
620	607	557	939	859	896	853	1,038
118	-96	-176	314	-9	58	-211	408
-4	-12	-3	10	0	-18	-44	-48
-40	49	-28	146	-55	-111	20	-41
-207	153	105	545	-1	368	325	1,020
-207	153	90	560	-	358	336	1,021
-	-	15	-15	-1	10	-11	-1
53	33	20	-13	112	-6	29	-25
-59	103	15	-46	103	20	-31	-155
-	-	-	-	-33	-28	70	-23
-6	136	35	-59	182	-14	68	-203
23	-191	-80	-730	92	-177	-468	-1,284
-136	-39	-17	-114	-210	36	-141	-697
159	-152	-63	-616	302	-213	-327	-587
-10	19	14	104	62	-19	127	39
13	-172	-66	-626	154	-196	-341	-1,245
-200	117	74	-140	335	158	52	-428
128	-58	132	-331	-273	-82	183	108

TABLE

CAPITAL IMPORTS BY SOURCE

(\$)

	1975	1976	1977	1978
Private sector				
Unilateral transfers	731.9	683.2	810.8	934.9
Personal restitution	358.6	313.7	350.1	406.5
Other transfers, net	261.1	246.7	328.0	429.8
Transfers to nonprofit institutions	112.2	122.8	132.7	98.6
Investments from abroad, net	67.3	57.8	100.1	182.1
Net long-term loans	73.0	119.0	10.0	113.0
Total private sector	872.2	860.0	920.9	1,230.0
Public sector				
Unilateral transfers	1,039.7	1,526.6	1,271.2	1,494.6
To National Institutions	397.7	418.6	342.2	341.6
Intergovernmental transfers	642.0	1,108.0	929.0	1,153.0
Long-term loans, net	1,403.5	869.3	533.5	921.5
Independence and Development Loans	138.0	163.0	174.0	156.0
U.S. government loans	1,190.5	650.3	400.5	783.5
Other loans	75.0	56.0	-41.0	-18.0
Total public sector	2,443.2	2,395.9	1,804.7	2,416.1
Total capital imports	3,315.4	3,255.9	2,725.6	3,646.1
Less Israeli investments abroad	-16.8	12.0	8.5	110.4
Total net capital imports	3,332.2	3,243.9	2,717.1	3,535.7

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AND SECTOR, 1975-78

million)

1977				1978			
I	II	III	IV	I	II	III	IV
170.1	177.4	193.7	269.6	205.5	202.2	261.6	265.6
83.1	87.5	81.9	97.6	102.5	95.0	102.0	107.0
53.2	63.3	80.6	130.9	78.2	87.6	128.1	135.9
33.8	26.6	31.2	41.1	24.8	19.6	31.5	22.7
21.9	21.9	17.0	39.3	31.7	34.4	53.1	62.9
23.0	-17.0	-27.0	31.0	-34.0	109.0	12.0	26.0
215.0	182.3	183.7	339.9	203.2	345.6	326.7	354.5
262.3	297.4	297.8	413.7	349.8	382.6	371.6	390.6
94.3	85.4	63.8	98.7	76.8	71.6	66.6	126.6
168.0	212.0	234.0	315.0	273.0	311.0	305.0	264.0
141.4	129.0	77.0	186.1	309.3	164.4	153.7	294.1
62.0	38.0	31.0	43.0	58.0	33.0	16.0	49.0
70.4	95.0	48.0	187.1	237.3	168.4	163.7	214.1
9.0	-4.0	-2.0	-44.0	14.0	-37.0	-26.0	31.0
403.7	426.7	374.8	599.8	659.1	547.0	525.3	684.7
618.7	608.7	558.5	939.7	862.3	892.6	852.0	1,039.2
3.6	11.5	3.1	-9.7	-0.2	17.8	44.4	48.4
615.1	597.2	555.4	949.4	862.5	874.8	807.6	990.8

2. BACKGROUND TO CAPITAL IMPORT DEVELOPMENTS

After contracting in 1977, long- and medium-term capital imports shot up in 1978 to their highest nominal level in recent years.

Capital imports to the public sector, which are influenced mainly by noneconomic considerations, rose significantly, though their share in the economy's total capital inflow remained the same. The outstanding developments here were the shrinkage of the flow from Jewish sources and the sharp rise in U.S. government aid. The decline in capital mobilization from Jewish sources abroad seems to be related to the rapid rise in interest rates in the United States which began in 1977. The increase in U.S. government assistance (grants and loans together) is related to the growth of defense imports, the bulk of which are financed from this source.

Capital imports to the private sector were higher in most component items this year; its share of total capital receipts came to about a third, as in 1977. The growth of the private sector's capital inflow, which is largely determined by economic considerations, should be viewed against the backdrop of a number of basic developments: first of all, the revision of institutional arrangements upon the liberalization of foreign currency control at the end of 1977 permitted the adjustment of investment portfolios of local residents, which found expression in a sharp growth of Israeli investments abroad and in a concomitant significant increase in capital transfers to the foreign sector. Secondly, the large devaluation at the end of 1977, which was effectively highest for capital account transactions (and even "caught up" with the exchange rate for exports), greatly diminished the expectation of a further large devaluation and, in view of the domestic-foreign interest rate differential, contributed to a stronger demand for foreign loans. The lifting of many of the restrictions on overseas borrowing under the liberalization made it possible to meet the growing demand for such loans. Thirdly, the renewal of the uptrend in GNP, the expansion of investments, and the boom in both the real estate and stock markets this year also greatly stimulated the flow of private capital into the economy.

3. UNILATERAL TRANSFERS

After declining last year for the first time in a long while, unilateral transfers rebounded to reach \$ 2.4 billion, as against \$ 2.1 billion in 1977 and \$ 2.2 billion in 1976. This year's rise was the net result of a much higher volume of intergovernmental and private transfers and a slow decline in institutional transfers

Private sector transfers remained steady, in nominal terms, from 1972 to 1977, fluctuating between \$ 700 million and \$ 800 million; this year they broke through this barrier,

TABLE VI-3

U.S. GOVERNMENT AID AND DEFENSE IMPORTS, 1972-78
(\$ million)

	Grants	Loans received	Loans repaid	Total aid		Direct defense imports
				Gross	Net	
1972	71	330	125	401	276	-490
1973	820	369	118	1,189	1,071	-1,253
1974	672	301	155	973	818	-1,225
1975	642	1,361	148	2,003	1,855	-1,846
1976	1,176	892	215	2,068	1,853	-1,496
1977	977	656	253	1,633	1,380	-942
1978	1,181	1,004	226	2,185	1,959	-1,612

reaching \$ 935 million, as a consequence of a growth in transfers other than personal restitutions and for nonprofit institutions.

In personal restitutions there was an increase this year in pensions, while lumpsum payments remained steady. The growth in pension payments was due to a rise in the German mark (in which the restitutions are paid) against the dollar (in which the payments are recorded in the balance of payments), as well as to the increase in the cost of living in Germany, according to which the pensions are updated each year.

Transfers by new immigrants¹ rose sharply during the year, reversing the rapid and continuous decline from 1972 until the final months of 1977. This was consistent with the trend in immigration from the affluent countries, which fell off sharply from 1973 to 1976 and then turned up modestly in 1977 and more strongly in 1978. It seems that a number of other influences combined with this predominant factor this year, including the expansion of economic activity, the rise in the differential between domestic and foreign interest rates, the diminished expectation of a large devaluation during the year, and apparently also the liberalization of foreign currency control,² which was followed by a sharp growth in these transfers.

¹ Conversions by new immigrants into Israeli pounds.

² While new immigrants were free to convert and reconvert foreign currency before the liberalization, it seems that it increased their confidence and simplified such transactions.

TABLE

UNILATERAL
(\$)

	1975	1976	1977	1978
Personal restitutions from West Germany	358.6	313.7	350.1	406.5
Lump-sum	121.7	57.5	46.3	47.9
Pensions	236.9	256.2	303.8	358.6
Personal transfers in cash	274.8	261.7	363.7	498.2
Immigrants	62.9	39.7	69.2	141.9
Others	211.9	222.0	294.5	356.3
Personal transfers in kind	9.3	14.0	15.3	17.6
Total personal transfers from abroad	642.7	589.4	729.1	922.3
Personal transfers to the rest of the world	23.0	29.0	51.0	86.0
Total net personal transfers	619.7	560.4	678.1	836.3
Institutional transfers	509.0	541.4	474.9	440.2
Nonprofit institutions	112.2	122.8	132.7	98.6
National institutions	394.6	416.0	336.3	338.4
Transfers in kind	3.1	2.6	5.9	3.2
Intergovernmental transfers	642.0	1,108.0	929.0	1,153.0
Total unilateral transfers	1,771.6	2,209.8	2,082.0	2,429.5

Foreign transfer receipts by local residents also increased this year; most of the factors which explain the growth of transfers by new immigrants (except for the expansion of immigration) probably also account for the larger volume of transfers by Israelis from abroad. It should nevertheless be noted that the sharp upsurge in these transfers in late 1977 was apparently connected with the large devaluation of the Israeli pound and the expectation that the domestic price level would adjust to this change.

Transfer payments by local residents also expanded significantly: as stated, this was apparently related to the foreign currency liberalization. The lag in expanding these transfers

TRANSFERS, 1975-78
(million)

1977				1978			
I	II	III	IV	I	II	III	IV
83.1	87.5	81.9	97.6	102.5	95.0	102.0	107.0
10.8	12.8	10.4	12.3	11.6	9.9	14.0	12.4
72.3	74.7	71.5	85.3	90.9	85.1	88.0	94.6
68.6	73.5	85.8	135.8	96.3	112.7	141.5	147.7
14.5	10.2	14.4	30.1	24.9	33.4	39.3	44.3
54.1	63.3	71.4	105.7	71.4	79.3	102.2	103.4
3.6	3.8	3.8	4.1	3.9	3.9	4.6	5.2
155.3	164.8	171.5	237.5	202.7	211.6	248.1	259.9
19.0	14.0	9.0	9.0	22.0	29.0	18.0	17.0
136.3	150.8	162.5	228.5	180.7	182.6	230.1	242.9
128.1	112.0	95.0	139.8	101.6	91.2	98.1	149.3
33.8	26.6	31.2	41.1	24.8	19.6	31.5	22.7
93.0	82.0	63.2	98.1	75.4	71.0	66.0	126.0
1.3	3.4	0.6	0.6	1.4	0.6	0.6	0.6
168.0	212.0	234.0	315.0	273.0	311.0	305.0	264.0
432.4	474.8	491.5	683.3	555.3	584.8	633.2	656.2

from the last quarter of 1977 to the first quarter of 1978 can apparently also be attributed to the implications of the devaluation.

Public sector transfers shot up in 1978. The growth of U.S. government grants partly offset the decline in National Institution receipts. These two variables are in practice divorced from domestic economic developments, their development during the year being connected with political and other factors. The heavier volume of U.S. grants was due to the rise in defense imports, which the grants help to finance, while the decline in transfer receipts of the National Institutions was apparently associated with the rise in interest rates in the United States.

TABLE

FOREIGN INVESTMENT IN ISRAEL AND
(**\$**)

	1975	1976	1977	1978
Investment in Israel by nonresidents				
In foreign currency	68.4	25.5	58.8	111.7
Investments	91.0	57.1	68.1	140.9
Investments repatriated	-22.6	-31.6	-9.3	-29.2
In Israeli currency from blocked accounts	-28.9	-14.2	-13.2	-
In Independence and Development Bonds	10.7	10.2	12.8	13.0
In kind	9.1	28.3	33.7	47.4
Total	59.3	49.8	92.1	172.1
Reinvestment of profits	8.0	8.0	8.0	10.1
Total, net	67.3	57.8	100.1	182.1
Israeli investments abroad				
Direct	-1.9	5.7	5.7	1.3
Portfolio				
Private individuals	-9.2	-2.2	-0.8	67.1
Banks	-5.7	8.5	3.6	42.0
Total	-16.8	12.0	8.5	110.5
Net foreign investment in Israel	84.1	45.8	91.6	71.7

4. FOREIGN INVESTMENTS

After gross cash investments had shrunk steadily since 1973, they turned up strongly this year to reach a level more than double the average for the previous two years. At the same time there was an exceptional growth in Israeli investments abroad, which broke all previous records. These two contrasting developments left the net figure at a level similar to last year's. Because of their low absolute level relative to the other flows, the sharp fluctuations in the investment items did not, however, have a significant impact on the total flow of capital to the economy.

ISRAELI INVESTMENT ABROAD, 1975-78

(million)

1977				1978			
I	II	III	IV	I	II	III	IV
11.7	11.5	13.7	21.9	19.7	16.4	37.5	38.1
12.9	13.5	17.0	24.7	29.3	24.2	42.2	45.2
-1.2	-2.0	-3.3	-2.8	-9.6	-7.8	-4.7	-7.1
-2.4	-5.4	-5.4	-	-	-	-	-
2.9	2.6	4.4	2.9	2.5	3.5	2.5	4.5
7.7	11.2	2.3	12.5	7.0	12.0	10.6	17.8
19.9	19.9	15.0	37.3	29.2	31.9	50.6	60.4
2.0	2.0	2.0	2.0	2.5	2.5	2.5	2.5
21.9	21.9	17.0	39.3	31.7	34.4	53.1	62.9
-0.2	2.1	-0.1	3.9	-0.2	0.2	-0.4	1.7
1.5	1.2	-3.5	-	-11.7	3.6	36.3	38.9
2.3	8.2	6.7	-13.6	11.7	14.0	8.5	7.8
3.6	11.5	3.1	-9.7	-0.2	17.8	44.4	48.4
18.3	10.4	13.9	49.0	31.9	16.6	8.7	14.5

The heavier foreign investment in Israel was stimulated by a number of factors: first, with the liberalization of foreign currency control restrictions were rescinded on the timing of withdrawals of principal and dividends from this country, this endowing such investments with greater flexibility; secondly, the stagnation of the economy which had prevailed during the two previous years came to an end; thirdly, the real estate market experienced a boom; and finally, the bullish tone of the stock market was sustained.

By permitting the purchase of foreign securities, the liberalization opened up new overseas investment possibilities; but these were not widely exploited until the second

half of 1978. This belated response was almost certainly connected with the jump in domestic prices expected after the drastic devaluation of the exchange rate under the reform. The magnitude of Israeli investments abroad, which this year hit a level unprecedented in the history of the State,³ was extraordinary even for economies with a similar or lower degree of development. This should therefore be regarded as a one-time adjustment of investment portfolios.

5. LONG- AND MEDIUM-TERM LOANS

After dipping two years, gross foreign loan receipts turned sharply upward in 1978. Because of the growth of repayments, net receipts did not advance quite as steeply, but were still double the previous year's figure. Since the end of 1977 gross borrowed proceeds had stabilized at about \$ 450 million, but in the last quarter they jumped to \$ 560 million.

The lion's share of the increase was in government receipts, which grossed some \$ 1.5 billion. The gross figure for the private sector also rose precipitately to stand at almost double the 1977 level, an all-time high.

Overseas sales of the Development Loan (Israel Bonds) continued to grow despite the gradual rise in interest rates in the United States since early 1977. Redemptions were significantly higher this year, pulling down net income from this source below its 1977 level.

U.S. government loans amounted to about \$ 1 billion, while repayments were smaller than in 1977. These capital flows were related to the financing of specific imports – mainly defense – and were affected to a relatively small extent by economic considerations. By contrast, private sector loans, which this year rose significantly, were apparently influenced by two major factors: first, the liberalization of foreign currency control, which made it easier for the sector to borrow abroad; and secondly, the large devaluation of the Israeli pound, which dampened expectations of another appreciable devaluation in the near future. The implementation of a tight monetary policy by the Bank of Israel, which pushed up the interest rate on nondirected credit in the final part of 1978, and the relative stability of the Israeli pound in relation to the dollar during the second half of the year also spurred borrowing from foreign sources.

In December, 1978 private sector loans jumped sharply; most of them are for a period of one to two years and carry interest ranging from 14 to 17 percent. Although their weight is not particularly great compared to those generally made until the final part of 1977, their terms are less convenient and they will increase the pressure on the balance of payments in the short run.

³ Israeli investments abroad during 1978 were equal, in nominal terms, to the total volume from the establishment of the State to 1977.

TABLE VI-6

LONG- AND MEDIUM-TERM FOREIGN LOANS, 1975-78
(\$ million)

	1975	1976	1977	1978	1977				1978			
					I	II	III	IV	I	II	III	IV
Loans received												
Government	1,763	1,284	1,034	1,504	240	259	186	349	447	302	313	442
Thereof:												
Independence Loan	(310)	(347)	(355)	(400)	(94)	(84)	(77)	(100)	(108)	(95)	(72)	(125)
U.S. government	(1,319)	(815)	(633)	(982)	(132)	(158)	(107)	(236)	(296)	(201)	(232)	(253)
Other	247	340	234	410	72	34	40	88	29	177	84	120
Total	2,010	1,624	1,268	1,914	312	293	226	437	476	479	397	562
Loans repaid												
Government	360	401	502	585	99	131	109	163	138	138	160	149
Thereof:												
Independence Loan	(172)	(184)	(181)	(244)	(32)	(46)	(46)	(57)	(50)	(62)	(56)	(76)
U.S. government	(129)	(165)	(234)	(201)	(62)	(64)	(59)	(49)	(59)	(33)	(69)	(40)
Other	174	221	224	297	49	51	67	57	63	68	72	94
Total	534	622	726	882	148	182	176	220	201	206	232	243
Net loans received												
Government	1,403	883	532	919	141	128	77	186	309	164	153	293
Thereof:												
Independence Loan	(138)	(163)	(174)	(156)	(62)	(38)	(31)	(43)	(58)	(33)	(16)	(49)
U.S. government	(1,190)	(650)	(399)	(781)	(70)	(94)	(84)	(187)	(237)	(168)	(163)	(213)
Other	73	119	10	113	23	-17	-27	31	-34	109	12	26
Total	1,476	1,002	542	1,032	164	111	50	217	275	273	165	319

6. OTHER CAPITAL FLOWS

In 1978 the nonfinancial sector had a net short-term capital outflow amounting to hundreds of millions of dollars. This stemmed mainly from the much larger volume of credit granted through the export funds. The financial sector, on the other hand, was a net importer of capital. Besides covering the current account deficit, these capital import developments made it possible to greatly augment the economy's international reserves.

Since the liberalization of the foreign exchange regime the financial sector's transactions with the foreign sector have expanded greatly, as reflected both in the size of the flows and in their fluctuations. During the last quarter of the year, and especially in December, most of the asset and liability items of the banking system shot up sharply.

Foreign exchange reserves at the Bank of Israel continued to expand, for the third straight year, with this year's growth being the most striking. The net level reached \$ 2.2 billion, after shooting up \$ 900 million during the year; 20 percent of this gain represented revaluation increments arising from the decline of the dollar against other currencies in which some of the reserves were held.

The growth of reserves on the one hand and the more moderate rise in imports of goods and services during the year on the other increased the ratio between net reserves and the value of imports. The net holdings of the Bank of Israel were adequate this year to cover 2.7 months of imports, as against two months in 1977 and about 1.8 months in 1976. The level of import coverage had been considered too low in previous years, while the level for 1978 was roughly equal to what in various countries is generally held to be necessary for the orderly financing of imports.

Since the implementation of the reform, commercial bank deposits overseas have doubled to stand at \$ 2.9 billion by year's end. There was an even larger growth in the sector's foreign liabilities, from \$ 3 billion in September 1977 to \$ 5.3 billion at the end of 1978. The increment was evenly split between nonresident deposits and deposits and loans of foreign banks.

7. THE EXTERNAL DEBT

For the second consecutive year the growth of the country's foreign debt slackened. At the end of the year outstanding liabilities reached \$ 12.2 billion, as against \$ 10.7 billion in 1977 and \$ 9.3 billion in 1976. The significance of this slow rise shrinks appreciably when viewed in conjunction with the expansion of domestic output and of the capital flow from overseas and with the continued rise of world prices.

TABLE VI-7

FOREIGN EXCHANGE RESERVES HELD AT BANK OF ISRAEL, 1978
(\$ million)

End of month	Gross reserves	Less Foreign bank deposits	Less Patach deposits	Net reserves	Change in reserves		
					Before adjustment	Exchange rate differentials	Adjusted for differentials
1977 December	1,571	10	202	1,359			
1978 January	1,597	9	221	1,367	8	-5	13
February	1,612	9	248	1,355	-12	33	-45
March	1,671	9	275	1,387	32	15	17
April	1,736	9	274	1,453	66	-25	91
May	1,737	9	277	1,451	-2	-7	5
June	1,750	20	273	1,457	6	26	-20
July	1,780	8	283	1,489	32	33	-1
August	1,804	8	278	1,518	29	26	3
September	1,920	8	300	1,612	94	24	70
October	2,102	8	320	1,774	162	130	32
November	2,140	8	335	1,797	23	-143	166
December	2,646	8	396	2,242	445	57	388
Total					883	164	719

TABLE
FOREIGN CURRENCY ASSETS
(\$)

	1975	1976	1977	1978
A. Foreign assets in Bank of Israel				
1. Foreign currency	1,134.5	1,318.4	1,494.4	2,597.0
Gold	46.5	44.8	49.5	53.5
Gold quota in IMF	—	—	—	—
Special Drawing Rights	2.6	10.0	27.0	27.4
Total (1)	1,183.6	1,373.2	1,570.9	2,677.9
2. Bank of Israel liabilities				
Foreign banks	2.0	10.1	9.8	7.7
Patach ^a	142.1	206.8	202.0	396.0
Total (2)	144.1	216.9	211.8	403.7
3. Net balance with Bank of Israel	1,039.5	1,156.3	1,359.0	2,242.0
B. Other monetary institutions				
1. Assets				
Deposits abroad of other central monetary organizations ^b	105.0	89.8	198.9	104.6
Commercial bank deposits	1,211.0	1,364.8	2,014.3	2,876.1
Other	13.9	16.1	38.7	1.5
Total, net (1)	1,329.9	1,470.7	2,251.9	2,982.2
2. Liabilities				
Foreign bank deposits and loans	1,391.2	1,571.5	2,069.4	2,899.3
Patach accounts in commercial banks	1,303.7	1,372.6	1,582.1	2,371.6
Total (2)	2,694.9	2,944.1	3,651.5	5,270.9
C. Total assets in banking system				
Assets (A1+B1)	2,513.5	2,843.9	3,822.8	5,660.1
Liabilities (B2+ foreign banks)	2,696.9	2,954.2	3,661.3	5,278.6
Net assets	-183.4	-110.3	161.5	381.5
Foreign currency valuation adjustments (-)	-514.1	73.1	271.8	220.0
(-) rate adjustments	2.1	-43.8	-16.7	83.9
Change in net assets due to economic transactions	-512.0	29.3	255.1	303.9

^a According to the daily balance of the Bank of Israel.

VI-8

IN THE BANKING SYSTEM, 1975-78
million)

1977				1978			
I	II	III	IV	I	II	III	IV
1,376.2	1,380.0	1,394.2	1,494.4	1,589.8	1,664.7	1,845.3	2,597.0
45.9	46.1	46.0	49.5	50.4	50.6	52.4	53.5
-	-	-	-	-	-	-	-
11.0	10.4	16.9	27.0	31.6	34.1	23.2	27.4
1,433.1	1,437.3	1,457.1	1,570.9	1,671.8	1,749.4	1,920.9	2,677.9
10.0	10.0	25.0	9.8	9.3	19.5	8.5	7.7
199.2	206.6	205.6	202.0	275.0	273.0	300.0	396.0
209.2	216.6	230.6	211.8	284.3	292.5	308.5	403.7
1,223.9	1,220.7	1,226.5	1,359.0	1,387.0	1,457.0	1,612.0	2,242.0
166.0	201.1	198.7	198.9	308.4	195.3	164.7	104.6
1,214.0	1,366.2	1,416.2	2,014.3	1,750.5	1,963.3	2,289.8	2,876.1
8.4	8.0	20.9	38.7	0.1	0.1	0.4	1.5
1,388.4	1,575.3	1,635.8	2,251.9	2,059.0	2,158.7	2,454.9	2,982.2
1,383.8	1,480.1	1,531.2	2,069.4	1,717.4	1,936.1	2,082.8	2,899.3
1,362.6	1,434.1	1,480.2	1,582.1	1,741.4	1,874.3	2,121.6	2,371.6
2,746.4	2,914.2	3,011.4	3,651.5	3,458.8	3,810.4	4,204.4	5,270.9
2,821.5	3,012.5	3,092.9	3,822.8	3,730.8	3,908.1	4,375.8	5,660.1
2,756.4	2,924.2	3,036.4	3,661.3	3,468.1	3,829.9	4,212.9	5,278.6
65.1	88.3	56.5	161.5	262.7	78.2	162.9	381.5
175.4	23.2	-31.8	105.0	101.2	-184.5	84.7	218.6
19.6	-4.5	-7.4	-24.4	135.2	12.7	-69.1	5.1
195.0	18.7	-39.2	80.6	236.4	-171.8	15.6	223.7

^b As defined in the balance of payments.

TABLE

FORECAST OF ISRAEL'S FOREIGN
(\$)

END OF YEAR	1969	1970	1971	1972
				Repayment
Up to one year	244	398	475	435
Thereof: Short-term loans	(82)	(155)	(183)	(187)
One to two years	195	195	223	263
Two to three years	136	174	202	241
Three to four years	124	136	159	268
Four to five years	109	117	193	238
Five years or more	1,316	1,602	2,178	2,636
Total	2,124	2,622	3,430	4,081
				Percentage distribution
Up to one year	11.5	15.2	13.8	10.7
Thereof: Short-term loans	(33.6)	(38.9)	(38.5)	(43.0)
One to two years	9.2	7.4	6.5	6.4
Two to three years	6.4	6.6	5.9	5.9
Three to four years	5.8	5.2	4.6	6.6
Four to five years	5.1	4.5	5.6	5.8
Five years or more	62.0	61.1	63.5	64.6
Total	100.0	100.0	100.0	100.0
				Cumulative percentage
Up to one year	11.5	15.2	13.8	10.7
Up to two years	20.7	22.6	20.3	17.1
Up to three years	27.1	29.2	26.2	23.0
Up to four years	32.9	34.4	30.8	29.6
Up to five years	38.0	38.9	36.4	35.4
Five years or more	100.0	100.0	100.0	100.0

^a The forecast does not take into account premature redemption (in IL and foreign currency) of the Israel Bonds.

VI-9

DEBT, BY REPAYMENT DATE, 1969-78^a
 million)

1973	1974	1975	1976	1977	1978
date					
549	956	1,414	1,480	1,826	2,038
(190)	(564)	(927)	(805)	(875)	(995)
329	504	490	785	950	1,289
351	423	511	850	1,165	1,539
327	439	628	725	1,071	1,202
369	481	530	813	777	980
3,168	3,447	4,044	4,717	4,926	5,136
5,093	6,250	7,617	9,371	10,715	12,184
by repayment date					
10.8	15.3	18.6	15.8	17.0	16.7
(34.6)	(59.0)	(65.6)	(54.4)	(48)	(48)
6.5	8.1	6.4	8.4	8.9	10.5
6.9	6.8	6.7	9.1	10.9	12.6
6.4	7.0	8.2	7.7	10.0	9.9
7.2	7.7	7.0	8.7	7.2	8.0
62.2	55.1	53.1	50.3	46.0	42.2
100.0	100.0	100.0	100.0	100.0	100.0
distribution					
10.8	15.3	18.6	15.8	17.0	16.7
17.3	23.4	25.0	24.2	25.9	27.2
24.2	30.2	31.7	33.3	36.8	39.8
30.6	37.2	39.9	41.0	46.8	49.7
37.8	44.9	46.9	49.7	54.0	57.7
100.0	100.0	100.0	100.0	100.0	100.0

In December, 1978 the debt soared by about \$ 500 million, the overwhelming share of it being direct obligations of the government. The government's foreign indebtedness rose during the year by about 14 percent to reach \$ 9.1 billion, bringing up its proportion of the total to nearly three-quarters. This debt, the major part of which is in dollars, bears relatively low interest rates, and the grant element is large in comparison to both other liability items and other debtor nations. Topping the list of creditors is the United States government, with a figure of more than \$ 4 billion. The liability on account of the Development Loan (Israel Bonds) came to nearly \$ 2.5 billion this year, while that owed to the government of Germany was close to \$ 1 billion. The weight of the U.S. government has been moving up rapidly in recent years, while the share of the Development Loan has been on the downgrade due to the slow growth of sales and a heavier redemption.

The maturity schedule of the debt improved this year, with the share of short- and medium-term obligations dropping a notch, and that of long-term obligations rising to 84 percent. It should nevertheless be noted that there was an absolute growth in short-term obligations, which amounted to \$ 925 million; this represents about half the total amount of principal which must be repaid during the coming year.

Despite the improvement in the maturity schedule, an examination of the terms of past borrowings points to an increased pressure of principal repayments which must be made within the next two to three years. Within three years the economy will have to repay about 40 percent of the present outstanding debt, a fact which greatly limits the degree of flexibility in managing the national external debt. The share of the debt falling due within three years, which gradually declined until 1972, has risen continuously since 1973 and reached a peak this year.

A conventional yardstick of the current repayment burden is the share of the economy's foreign currency income on current account which goes to service the debt. In recent years the ratio between debt services and export proceeds has fluctuated, making it difficult to analyze the effect of the current debt servicing burden on the balance of payments. In 1978 there was a slow growth in this ratio compared to the previous year, but it remained below the average level in most of the preceding years. As regards the Israeli economy, which has always enjoyed a large volume of unilateral transfers, it is customary to use an additional indicator for measuring the current debt servicing burden, viz. the ratio of such services to export proceeds plus unilateral transfers. This indicator too points to a similar development this year in the impact of the current debt servicing burden on the balance of payments.

Another indicator used for evaluating the current burden, which takes into consideration changes in domestic output, capital imports, and world prices, shows a change of

TABLE VI-10

INDICATORS OF THE DEBT SERVICING BURDEN, 1969-78
(\$ million)

	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
1. Interest payments	109	141	147	179	262	389	530	552	620	757
2. Principal repayments (long- and medium-term)	250	248	330	432	420	469	534	622	726	882
3. Total debt servicing (1+2)	359	389	477	611	682	858	1,064	1,174	1,346	1,639
4. Exports of goods and services	1,290	1,402	1,875	2,222	2,784	3,634	3,825	4,566	5,664	6,634
5. Unilateral transfers	464	650	792	1,059	2,190	1,718	1,770	2,210	2,082	2,429
6. Ratio (3/4)	27.8	27.7	25.4	27.5	24.5	23.6	27.8	25.7	23.8	24.7
7. Ratio 3/(4+5)	20.5	19.0	17.9	18.6	13.7	16.0	19.0	17.3	17.4	18.1

TABLE

FOREIGN CURRENCY TRANSACTIONS
(\$)

	1975	1976	1977	1978
1. Current account deficit	-4,016	-3,200	-2,563	-3,410
A. Government deficit ^a	-2,046	-1,784	-1,381	-2,000
B. Private sector deficit	-1,970	-1,416	-1,182	-1,410
2. Private sector capital import ^b	889	848	913	1,119
Surplus of capital imports over private sector deficit (2+1B)	-1,081	-568	-269	-291
3. Commercial banking system and short-term capital flows				
A. Short-term nonfinancial private capital	316	35	127	-37
B. Reduction of commercial bank balances	-37	-131	-615	-763
C. Loans received by banks from abroad and Patach accounts	565	243	596	1,717
D. Loans given by banks to foreign sector	-185	64	93	110
E. Less public sector transfers to banks	-282	101	-280	-1,008
Total financing given by commercial bank and short-term capital flows	377	312	-79	19
4. Total computed sales of foreign currency to Bank of Israel (2+1B+3)	-704	-256	-348	-272
5. Errors and omissions ^a	-7	-14	-129	-54
6. Actual sales to Bank of Israel ^b	-770	-559	-748	-342

^a Reflects principally short-term capital flows.

OF THE PRIVATE SECTOR, 1975-78

million)

1977				1978			
I	II	III	IV	I	II	III	IV
-502	-703	-733	-625	-868	-838	-1,064	-640
-289	-387	-287	-418	-534	-489	-548	-429
-213	-316	-446	-207	-334	-349	-516	-211
211	171	181	350	203	328	282	306
-2	-145	-265	143	-131	-21	-234	95
-33	-5	-56	221	-50	6	31	-25
154	-147	-60	-562	321	-220	-286	-577
-207	153	90	560	-	358	336	1,023
53	33	20	-13	112	-6	29	-25
-45	-23	-25	-187	-211	-383	-291	-123
-78	11	-31	19	172	-245	-181	273
-80	-134	-296	162	41	-262	-415	368
128	-58	132	-331	-273	-82	183	118
-74	-264	-253	-157	-317	-112	-227	314

b There is an unexplained difference between (4+5) and (6).

trend in the year reviewed. In 1973 the debt repayment burden began to bulge, and it peaked in 1977 as an all-time high. In 1978 there was some easing of the burden, according to this indicator, principally because of the renewed growth of output, the soaring of capital imports, and a further rise in world prices.

The escalation of world prices in recent years has reduced the debt balance in real terms, since sums borrowed in previous years are not linked to price changes in international markets. The real change in the burden can be estimated by deflating it by the rise in the prices fetched by Israel's exports. In 1978, these prices went up 18 percent, so that the real burden shrank 14 percent compared with last year.