CHAPTER V

EXPORTS

1. MAIN DEVELOPMENTS

Exports rose by 4 percent in both 1978 and 1979 following two years of more rapid growth (13 percent annually on the average).[1]

Expansion decelerated mainly in those sectors with a low value added: diamonds and refined petroleum products among commodity exports and transport among service exports. Exports of other commodities advanced 9 percent in 1978 and 1979, just off the long-term growth rate. At the same time the added value of exported services grew 11 percent, a rate which exceeded the relevant multi-year trend. The share of exports in the national product and in business uses continued to expand, accounting for approximately half of the GNP expansion registered in the year surveyed.

A shift in the development of relative prices assisted the expansion of exports in 1979. In contrast to the previous year, export prices mounted more quickly than the prices of business sector domestic uses. At the same time, the subsidy contained in the cost of credit from export funds swelled to equal 20 percent of the exchange rate. This phenomenon changed the export funds from an instrument to ensure the availability of capital to the export sector—their original purpose—to a subsidization tool. The higher subsidy was the result of accelerated inflation coupled with a delay in adjusting the interest rate on such funds to reflect the inflation. This method of subsidizing exports has a number of drawbacks in addition to those

[1] The rates refer to total exports (including exports to the administered areas), with services based on a c.i.f. valuation of commodity imports, which include factor receipts from abroad and exclude public sector interest receipts. The following discussion of commodity exports separates diamonds and fuel from the remaining commodities in order to deal with an aggregate which is fairly sensitive to changes in relative prices and to developments in the economy. The diamond branch is excluded from the discussion due to its substantial weight in the world diamond trade and its low sensitivity to the factors influencing other exports; the exports of refined fuel products are discussed separately since they are subject to sharp random fluctuations. To the net aggregate are added the exports of transportation services, tourism, and other services—for similar reasons, to be explained below. This group of services is termed group A, and the entire aggregate—commodity exports excluding diamonds and fuel and group A services—is termed exports A in the tables and in the analysis in the text; where no other term is mentioned, the reference is to exports A. This sum includes approximately two-thirds of total exports, excluding those to the administered areas.

which characterize any incentive other than that provided through the exchange rates. The principal one is that the size of the subsidy is unrelated to the value-added component. Thus exports with lower value added are encouraged and an incentive is awarded to exports which may even be unprofitable from the viewpoint of the economy as a whole. The extensive scope of the export funds also poses a serious obstacle to the successful management of a contractionary monetary policy. Because the availability to credit for exports was fully maintained in 1979, the policy designed to restrain the overall volume of bank credit involved tight constraints on the amount extended to other economic sectors and a considerable rise in its cost.[2] This situation calls for introducing more varied means for encouraging exports. At the present time, when the link between a nominal devaluation and a domestic price rise is becoming stronger, an exchange rate policy loses effectiveness in promoting exports. Accordingly, a policy which curtails local demands and at the same time selectively reduces customs duties is likely to be more appropriate, especially since it is consistent with the need to curb price hikes.

The severance of trade connections with Iran at the beginning of 1979 impeded the development of exports this year. The process of adjusting to the new situation has not yet been completed despite rapid progress toward the end of the year, and has left a clear mark on the export data. Particularly hard hit were defense exports, transport services, the livestock sector, and a number of other subbranches. Since world trade expanded in 1979 at the same pace it had the previous year,[3] the net result was constrained growth in the world demand for Israeli products.

The development of domestic demand also changed in 1979. The recovery of demand in 1978, together with expectations of a continued acceleration of economic activity, helped to divert a larger portion of the output increment in 1978 to the domestic market in those export sectors that face competitive domestic demand generated by private consumption and private sector investment. When these expectations were not fully realized in the course of 1979—the increase in demand was diverted mainly to imports—a limited number of sectors shifted back to export markets.

Beyond the specific year-to-year developments, 1979 also witnessed the continuation of a long-term trend—the increase of the share of exports in the product and uses. This trend demonstrates the advantage of specializing in certain lines of production, an advantage which a small economy such as Israel can only attain by

[2] As a result, the scope of the export funds reached 52 percent of all bank credit in the economy.
[3] See Table V-1: Exports of industrial countries. The imports of those industrial countries which are the main destinations of Israeli exports include trade in raw materials in which Israeli exports have no share (except for quarried products). The exports of the industrial countries resemble those of Israel, and their development may serve as an approximation of changes in Israel's export markets, even though the countries of destination are not always identical.

Table V-1

INDICATORS OF THE GROWTH OF EXPORTS AND EXPORT MARKETS, 1975-79
($ million)

	1975	1976	1977	1978	1979
A. Exports					
1. Total exports	4,021	4,743	5,873	6,960	8,398
2. Commodities	1,810	2,278	2,937	3,685	4,277
3. Services	1,782	1,993	2,385	2,815	3,589
4. Exports to the administered areas	429	472	551	460	532
	Percent increase from previous period				
	1973-79	1973-75	1976-77	1978	1979
B. Quantitative growth of exports					
1. Total exports[a]	6.5	4	13	4	4
2. Commodities[b]	6	3	17	-2	2
3. Commodities, excl. diamonds and fuel[b]	9.5	3	19	9	9
4. Total services[a]	8	2	10	14	7
5. Services (A)[c]	9.5	3	14	19	8
6. Commodities (A), excl. diamonds and fuel and services (A)	9.5	3	17	13	8.5
C. Quantitative increase in value added[d]					
1. Commodity exports[b]	7.5	4	19	2	5.5
2. Commodity exports, excl. diamonds and fuel[b]	9.5	3.5	19	8	9
3. Services (A)[c]	9.5	2	15	20	11
4. Commodities, excl. diamonds and fuel and services (A)	9.5	3	17.5	11.5	9.5
D. Quantitative growth of export markets					
1. Exports of industrial countries	6	5.5	8	5.5	6
2. Imports of industrial countries	5	2	9	5.5	8
E. Relative growth of exports					
1. Exports[e]/domestic uses of business sector[f]		29	42	44	47
2. Weight of industrial exports in industrial output		16.5	21	22.5	24

[a] Services here are as defined in the national accounts. They are based on a c.i.f. evaluation of commodity imports, exclude public sector interest receipts, but include factor receipts from abroad.
[b] According to foreign trade definitions: excludes exports to the administered areas (see also Table V-4).
[c] Transport, tourism, and other services; excludes exports to the administered areas (see also Table V-6).
[d] Calculated at 1978 prices.
[e] As defined in line B-6 above.
[f] Domestic uses at factor cost; excludes direct defense imports, housing services, and the product of the public sector and nonprofit institutions. The ratio is calculated at current prices.
Source: Based on Central Bureau of Statistics data; section D—IMF data.

Table V-2

EXPORTS, EXPORT INCREMENT, AND VALUE ADDED, 1979
($ million)

		Export increment		Value added		Distribution of value added in incremental export (%)	Percent value added	
	Exports	$ million	Percentage distribution	Exports	Export increment		Exports	Export increment
A. Commodity exports	**4,355**	**594**	**59**	**2,525**	**445**	**57**	**58**	**75**
1. Agricultural	556	101	10	451	82	10	81	81
2. Industrial[a]	3,799	493	49	2,074	363	46	55	74
Thereof:								
Diamonds	1,224	-93	-9	346	-26	-3		
Metal and electronics	967	172	17	672	120	15		
Chemicals	505	166	17	259	85	11		
Other industrial products	1,103	248	24	797	181	23		
B. Service exports—Group A	**2,197**	**412**	**41**	**1,664**	**341**	**43**	**76**	**83**
Thereof:								
Transport	874	38	4	552	24	3		
Tourism	787	195	19	630	156	20		
Other services	536	179	18	482	161	20		
C. Total	**6,552**	**1,006**	**100**	**4,189**	**786**	**100**	**64**	**78**

[a] The commodity exports in this item are exports f.o.b. according to foreign trade data. "Other exports" (see Table V-4) are included here in industrial exports. Services exports are Group A exports as defined in Table V-6. Current value added was calculated using input-output coefficients estimated for 1972/73. The coefficients for tourism and other services are based on assumptions. The data were calculated at 1979 prices.

producing for export. For many years this trend has been promoted by subsidizing investment in private sector export firms[4] and developing the capacity for export production in those sectors influenced directly by the government through ownership or guidance (particularly in the defense industry, chemicals, mining, and other branches.)

The relative contribution of each of the various branches to the overall increase in exports has altered in recent years.[5] The share of industrial exports, excluding diamonds, in the export increment grew to more than half in 1979; service exports (group A) contributed another 40 percent, while agricultural exports accounted for the remaining 10 percent. The relatively rapid growth of branches with a high value added raised the overall value-added component to 78 percent of the export increment, compared with an average of 64 percent for all exports. In fact, the value-added component of exports has climbed every year without interruption since 1974. This phenomenon reflects the adverse development of diamond exports, which dropped quantitatively in 1978 and 1979 as a result of the reduction in world demand following the substantial rise of diamond prices in 1977 and 1978. As prices mounted, considerable stocks were accumulated, but such stockpiling was abandoned in 1978 since the branch's terms of trade shifted (for a more detailed discussion, see section 3).

2. FACTORS INFLUENCING EXPORTS

The sluggish growth of exports[6] for the second year in a row stemmed mainly from two specific developments which were basically exogenous to the Israeli economy. The quantitative fall in diamond exports—12 percent in the year reviewed (following a fall of 17 percent the previous year)—constituted in itself a drop of some 4 percent in total exports. In addition, the cessation of exports to Iran was at first equivalent to a contraction of over 5 percent of exports,[7] although the shift to alternative markets compensated in part for this loss.

For a wide range of branches and firms the sudden closing of the Iranian market to Israeli exports came as a fairly severe jolt. In 1978 civilian commodity exports from Israel to Iran amounted to $97 million; nearly half came from the metals and electronics branch, $21 million in chemicals, $12 million from agriculture (mostly the livestock sector), and the rest from other industrial branches. In addition, there was a considerable export of defense products. Due to the Iranian crisis, the overall quantity of exports from the defense sector did not increase in 1979, follow-

[4] This is not to minimize the disadvantages of this method; primarily a distorted allocation of resources and the creation of capital gains.
[5] See Table V-2. Exports here include exports of all commodities and group A services.
[6] Total exports of commodities and services.
[7] Exports A.

ing their rapid growth the previous year, and a number of firms ran into serious difficulties. Service exports were hit for the same reason. It is difficult to estimate the full extent of the damage, but in transport services alone approximately $100 million in trade was lost, mainly that connected with the transport of oil from Iran to foreign ports.

The reaction to the closing of the Iranian market differed from one branch to the next depending on their capacity for adjustment and the existence of alternative markets. In some sectors, as stated, the damage was reflected by a quantitative reduction or severe slowdown of activity. Other sectors, although they found alternative markets, probably suffered some loss due to the need to lower prices. The metals and electronics branch adjusted with greater ease, and their exports rose impressively despite the upset and the costs involved in shifting production lines.

An analysis of export prices and profitability naturally focuses on those segments which are relatively sensitive to prices: exports A, including commodity exports (without diamonds and fuel) and industrial exports. Calculating the price of value added in exports—i.e. the price of the product in exports—as against other components of national product involves making various assumptions, some of which are arbitrary. As an approximation, Table V-3 presents the development of export prices as against the prices of directly competitive domestic uses—business sectors domestic uses.[8] The indicator shows that export prices seriously deteriorated in 1978, improving somewhat—but not enough to constitute full compensation—in 1979. If the subsidy element in credit from export funds is fully taken into account, the cumulative improvement over these two years can be figured at 4 percent for exports A and twice as much for commodities, since the export funds were constructed principally to suit commodity exports.

The profitability indicators for industrial exports (Table V-3) delineate the development of export prices from a different viewpoint. The first two represent an index of the prices received by the exporter relative to input costs and as index of the prices received by the exporter relative to domestic output prices. Both of them indicate an improvement in export profitability in 1979, a picture which is reversed when the subsidy element in credit is deducted from the price to the exporter.[9]

The index measuring the return to value added in exports in relation to wages per unit of output takes into account both the development of the exchange rate and the change in the terms of trade. Accordingly, it directly indicates shifts in the

[8] The calculation of this index also depends on many assumptions; indeed all of the indices involve estimating the value of exports in product prices. Since both indices show a similar development, only the first is presented here.

[9] The deterioration may rise for technical reasons. The return to the exporter is adjusted to reflect the influence of the subsidy, whereas input prices (such as wages) and domestic output prices already adjust themselves, in part, to reflect the overall return to the exporter. The result is a deterioration in the index.

Table V-3

CHANGES IN EXPORT PRICES AND INDICATORS OF EXPORT PROFITABILITY, 1973-79

(Percentages)

	1973	1974	1975	1976	1977	1978	1979	Plus export credit 1978	Plus export credit 1979
Prices of exports (A)[a]									
1. Change in export prices	20	41	47	24	43	49	81	50	90
2. Change in commodity prices, excl. diamonds and fuel	25	41	51	18	44	44	91	46	104
3. Change in prices of domestic uses, business sector	22	39	38	27	37	62	70		
4. Change in export prices/price of domestic uses, business sector (1/3)	-2	2	6	-2	4	-8	7	-7	12
5. Change in commodity prices excl. diamonds and fuel/price of domestic uses, business sector (2/3)	2	1	9	-7	5	-11	12	-10	20
Indicators of industrial export profitability									
1. Change in export prices (in dollars)	20	25	2	-1	8	14	14		
2. Change in effective exchange rate for exports	5	11	34	26	27	37	46	38	62
3. Change in prices received by the exporter/input prices	3.5	-5	4	-2	2	2	-6	3	4.5
4. Change in prices received by the exporter/domestic output price	6	-6	5	-2	4	3	-6	3.5	4
5. Change in return to export value added/per unit wages	8	1	9	-3	-1	1	-9.5	3	10

[a] Commodity exports (excluding diamonds and fuel) and service exports group A, which includes transport, tourism, and other services (see also Table V-6). Domestic uses are at factor cost, and exclude direct defense imports, the product of the public sector and nonprofit institutions, and imputed housing services. Export prices were calculated by dividing the change in exports at the effective exchange rate by the quantitative change according to foreign trade data. The price deflator for domestic output was calculated from the national accounts.

[b] Industrial exports, excluding diamonds, fuel, and quarried products. For details and explanations see Table V-A3 and the notes thereto.

[c] Includes export incentives till the end of 1977.

profitability of producing industrial exports. In the year surveyed this indicator manifestly reveals the influence of the export funds, since the subsidy is related entirely to export value added. As measured by this indicator, export profitability in 1979 would have declined 9.5 percent had it not been for the credit subsidy; the latter's inclusion transforms the decrease into an increase of 10 percent. The subsidy element was in fact probably responsible for the substantial wage hike which was registered in the export branches.

The subsidization of exports through cheap credit must not be attributed the same effectiveness as a change in the exchange rate, and this because of the manner of its distribution. The delay in adjusting interest rates on local currency credit from the funds to the prevailing rate of interest on nondirected credit augmented the subsidy. It was further swollen by the imposition of a 12 percent interest surcharge on nondirected foreign currency credit, from which foreign currency credit from the funds was spared.

The principal drawback to subsidizing exports through credit, in contrast to the devaluation of the exchange rate, which affects export value added, is that in addition to ensuring the availability of credit to help exporters in times of credit restraint, it explicitly subsidizes imports for exports. Therefore, the aim should be to adjust the interest rate for the Imports-for Export fund to that charged on nondirected credit, since there is no use, from the economy's point of view, in subsidizing the import component. The Export Production Fund, through which most of the subsidy is awarded, finances production both on the basis of the value-added component (the calculation of which may also be biased) and according to the length of the production cycle, so that in the end it again loses its link to the value-added component.

EXPORT CREDIT SUBSIDY, 1977-79

	1977	1978	1979
1. Interest on nondirected local currency credit (%)[a]	64	64	111.5
2. Interest in the Export Production Fund (%)	12	12	15
3. Interest on nondirected foreign currency credit[b]	8	11.5	23.5
4. Interest in the Imports-for-Export and Export Shipments Funds	5.5	4	4.75
5. Subsidy component in all the funds—IL per export dollar[c]	0.90	1.41	5.11
6. Effective exchange rate for exports excl. the subsidy (IL/$)	12.74	17.46	25.40
7. Percent incentive in the subsidy (5/6)	7	8	20

[a] Average effective interest on overdraft accounts.

[b] Until the foreign currency reform in 1977 it was not possible to obtain nondirected foreign currency credit. As in the following two years, the rate of interest was taken to be the interest on the Eurodollar, plus a 2 percentage point margin for the banks. In 1979 the Bank of Israel added a 12 percentage point surcharge to the interest rate.

[c] The calculation and analysis include three of the export funds: Export Production, Imports-for-Export, and Export Shipments. These are mainly intended to help finance the export of nondiamond industrial products and noncitrus agricultural products, which are the exports included in the calculations.

The Export Shipments Fund is intended to bridge the time-gap between the outlay of production expenses and the receipt of the return by the exporter. It finances customer credit to the purchasers of exports and guarantees the exchange rate between the time the goods are supplied and the time the return is received. Here too the exporter obtains a subsidy, since the interest rate is not adjusted often enough to reflect shifts in the interest on nondirected credit; hence the subsidy again is not related to the value- added component.

Also to be stressed is the difficulty in implementing any monetary policy which aims to determine the volume of credit in the economy while ensuring the full availability of credit for export. In 1979, when the overall amount of credit in the economy was reduced, the share of export credit soared to 52 percent.

Moreover, the credit subsidy, which constitutes an incentive to export, does not apply to import substitutes, as would shifts in the exchange rate. Yet import substitutes contribute to the balance of payments, in principle, just as exports do. Some import substitutes are protected by customs duties but, due to their varying incidence, the distortion in one case does not offset the harm done in another.

The long term buildup of export production capacity was marked this year by the continued expansion of the chemicals sector, metals and electronics (in which there developed some surplus capacity due to the halt in the growth of the defense sector) and in the light industries—especially optics and gold jewelry. The bolstering of export production capacity is reflected by the cumulative investment since 1975 and the rise in the export share of output in all industrial branches (see Table V-5).

The foreign currency reform at the end of 1977, which unified the exchange rates, may have had a delayed impact on exports in 1979. On the one hand, the unification of rates exposed exports whose unprofitability to the economy had been concealed by the previous system of export incentives. It may be assumed that this excercised a moderating influence on the expansion of exports in 1978 and a marked shift to different exports this year. On the other hand, it is possible that certain export sectors which benefitted from a relatively high rate of devaluation with the unification of the exchange rates fully exploited that improvement by accelerating their growth in 1978, a dynamism which cooled slightly in 1979.

Furthermore, there were specific factors operating in each branch. These factors sometimes carry considerable weight, as Israeli exports are highly concentrated: 24 firms account for approximately half of total exports. A few of these developments are discussed below.

Table

COMMODITY

($ million,

	1975	1976	1977	1978	1979
1. Agricultural exports	**278**	**325**	**385**	**455**	**556**
Citrus	177	172	190	203	255
Other	101	153	195	252	301
2. Industrial exports	**1,518**	**1,939**	**2,554**	**3,240**	**3,725**
Metal and electronics[a]	297	455	615	795	967
Excl. defense exports					
Chemicals	186	222	270	339	505
Excl. fuel					
Diamonds (net)[b]	548	712	1,003	1,317	1,224
Mining and quarrying	84	61	77	78	102
Food	125	154	178	211	253
Textiles, clothing, leather	162	196	222	255	348
Other light industries[c]	116	139	189	245	326
Industrial exports excluding diamonds	971	1,227	1,551	1,923	2,501
Industrial exports excluding diamonds, fuel, and defense exports					
3. Other exports	**51**	**62**	**47**	**66**	**74**
4. Total commodity exports (1+2+3)	1,847	2,326	2,986	3,761	4,356
Total exports, excl. diamonds	1,300	1,615	1,984	2,444	3,131
Total net exports[a,d]	**1,835**	**2,306**	**2,963**	**3,716**	**4,301**
5. Exports to the administered areas	370	392	466	390	446
6. Commodity exports (net) adjusted to national accounts definition	**2,180**	**2,670**	**3,403**	**4,075**	**4,723**

[a] Basic metals, metal products, machinery, transport equipment, electrical and electronic equipment.

[b] Excludes returned exports. Diamonds are recorded net throughout this table. Other exports are gross unless stated otherwise.

[c] Wood, paper, printing and publishing, rubber and plastics, nonmetallic minerals, and miscellaneous industries.

[d] Adjusted to foreign trade definitions (see also Table V-A1).

[e] Includes exports to the administered areas; adjusted to balance of payments and national accounts definitions (see Table V-A1).

Source: Central Bureau of Statistics.

EXPORTS, 1975-79
at current prices)

Percent annual increase							
Quantity				Price			
1973-75	1976-77	1978	1979	1973-75	1976-77	1978	1979
7	**9.5**	**8**	**8**	**12**	**7**	**9**	**14**
4	0	- 4	5	13	4	11	20
9	24	21	9	14	12	7	9
3	**19**	**-3**	**2**	**15**	**9**	**30**	**13**
19	37	12	10	15	5	16	11
13	22	3	30				
11	26	17	9	30	-5	7	37
18	14	21	20				
2	12	-17	12	10	21	58	6
-4	19	-4	-4	2			
-4	13	2	7	31	-20	7	27
-4	10	1	17	14	5	16	12
-3	20	6	14	12	7	13	17
3	24	9	10	16	7	21	17
0	16	6	16	19	2	14	19
3	16	0	2	15	9	27	13
3	20	9	9				
3	**7**	**-2**	**2**	**18**	**3**	**13**	**18**
				15	9	27	13

3. COMMODITY EXPORTS[10]

Total commodity exports (excluding those to the administered areas) edged up 2 percent in 1979, after slipping by that much in 1978. The decline in 1978, like the moderate rise in 1979, mainly reflected the fall in diamond exports (and in 1979 the dip in fuel exports as well). Excluding diamonds and refined petroleum products, commodity exports in 1979 expanded at a rate similar to that recorded the previous year—9 percent—but behind the pace registered in the previous two years. Commodity exports to the administered areas also declined quantitatively following a nominal drop in 1978.

The development of exports in the course of the year was irregular due to the existence of large transactions in a number of export sectors; the timing of these deals created a lack of continuity in the development during the year. Nevertheless one may discern an accelerated expansion of industrial exports (excluding diamonds and fuel), which continued into the first quarter of 1980:

Quantitative Rate of Change (Half-Year Compared with Corresponding Period Year Before)

	1978	1979
First half	17	10
Second half	3	14

The weight of exports in industrial output again began to rise, a trend that had been halted in 1978 (the weight of exports in output climbed to 24 percent in 1979 as opposed to 22.5 and 22 percent in 1978 and 1977 respectively).[11] The larger total weight of industrial exports reflects the increase in the share of exports in the output of two branch groups. The first consists of branches in which export production capacity has been enlarged, and the expanded exports are an outgrowth of the fruition of these investments as well as the growth in world demand for these products. This group includes chemicals, jewelry, transport equipment, potash, and phosphates. The second group comprises branches faced with low or even falling domestic demand in 1979 following its acceleration in 1978. In 1979 these branches enlarged the share of output marketed abroad after it had contracted in 1978. Included here are textiles and clothing, paper and printing, rubber and plastics, basic metals, and electronics.[12] These branches are mainly tied to the demand for

[10] See Tables V-4 and V-A2.
[11] See the chapter on industry and Table V-5.
[12] The weight of exports in the leather and wood industries (which resemble the other branches in this group) fell in 1978 and remained unchanged in 1979, apparently an indication of the difficulty of shifting back to exports.

private consumption goods, and to a lesser extent with investments in agriculture and construction. A third branch group, for which the share of exports in total output fell, was particularly affected by the severance of trade with Iran, in particular machinery and metal products and nonferrous minerals.

The curbing of the expansion of diamond exports in 1977 developed into a quantitative decrease in the following two years, which amounted to 26 percent of the branch's exports in 1977. The sector's development is presented in the following table.

THE DIAMOND INDUSTRY, 1975-79
($ million, unless otherwise stated)

	1975	1976	1977	1978	1979
1. Diamond exports (net,[a] at current prices)	549	712	1,003	1,318	1,224
2. Diamond imports (net,[a] at current prices)	412	616	937	1,053	846
3. Contribution to balance of payments (at current prices) (1—2)	137	96	66	265	378
4. Contribution deflated by commodity export prices, excluding diamonds (1975 = 100)	100	71	46	162	197
5. Ratio of exports to imports (at current prices)	1.33	1.16	1.07	1.25	1.45
6. Index of stockbuildup: quantitative change in imports/quantitative change in exports (1975=100)	100	122	155	128	107
7. Terms of trade index: change in export prices/change in import prices (1975=100)	100	106	124	120	116

[a] After deducting returned exports and imports.
Source: Central Bureau of Statistics.

When diamond imports in the same year are taken into account, the quantitative drop in diamond exports apparently does not reflect a diminution of their contribution to the balance of payments. So far this had not been done in the analysis of diamond exports as part of total exports. In fact, in dollar terms the contribution of diamonds grew in 1978 and 1979 as compared with the previous two years. Even if the figures are adjusted in terms of the prices of other commodities, there is still a significant increase (line 4). In 1976 and 1977, a large inventory was accumulated, apparently due to expectations of a price rise, which is indeed what happened in 1977. When the price rise ran its course, the trend was reversed and imports fell faster than exports quantitatively. The lag in the rise of rough diamond prices in 1976 and 1977 and the compensatory increase over the next two years are reflected in the index of the branch's terms of trade (line 7). The general picture reveals a particularly successful inventory management executed by exploiting the availability of credit. The fruits of this were reaped in 1978 and 1979 despite the apparent recession in exports during these two years.[13]

Exports of potash expanded by 2.5 percent in 1978 and present productive capacity is now almost fully utilized. The next stage of investment is to mature in 1982, with a view towards an anticipated rise in prices stemming from a shortage on the world market. Exports of phosphates climbed approximately 49 percent as a result of the maturation of large-scale investment in the branch itself and in improvements in handling facilities in recent years. Large quantities of phosphates are processed and are therefore included in the exports of basic chemicals. In recent years this subbranch has experienced a considerable quantitative growth of exports of various kinds of fertilizers, reflecting the substantial investments made in the past few years. Another part of the increase this year came from petrochemical industry. The latter was actually built to replace imports, but until the entire investment in all the links in the processing chain is completed—from refining to the final product—surpluses of intermediate products are being sold for exports. But these exports, as stated, are temporary, due to the noncompletion of the investment, and their profitability to the economy is doubtful. The firms in this industry have borne losses the past two years despite the support awarded them both through the price of subsidized inputs and through the export funds.

Exports of textiles and clothing expanded impressively this year—by 25 percent (textile) and 15 percent (clothing). Besides developments in domestic demand which encouraged textile exports, the latter also grew due to the emergence of a special situation in Europe. There a price rise (due to the organization of cartels), coupled with the closing of the market to imports from the Far East, created favorable trading conditions and few competitors for Israeli exports. Clothing exports also enjoyed indirect protection in Europe arising from the ban on imports from the Far East.

Exports of jewelry, especially gold chains, prospered in 1979, but import quotas in the United States—the destination of most jewelry exports—limited their growth.

In 1979 agricultural exports grew 7 percent compared with an 8 percent advance in 1978. About half of the increment came from the citrus branch; the remainder came from cotton and avocados. Flower growing, which expanded greatly in recent years and accounted for some 60 percent of the growth in agricultural exports in 1978, suffered a serious crisis, which first cropped up at the end of 1977. The crisis intensified and reached its peak in 1978 and the beginning of 1979 (the 1978/79 ex-

[13] The statistical data for this branch, especially the price indices, are less reliable than those for other foreign trade branches; nevertheless, the trends that emerge are sufficiently clear to demonstrate this development.

Table V-5

WEIGHT OF DIRECT EXPORTS IN INDUSTRIAL OUTPUT BY INDUSTRY GROUP, 1972-79

(Percentages)

	1970-72	1973-75	1976-77	1978-79
Light industries				
Growth of exports	13.5	3.3	12.8	7.0
Growth of total output	9.1	2.3	5.8	6.0
Thereof: Share of direct exports	2.5	-0.6	2.1	1.2
Weight of exports in output	19.1	16.3	18.0	17.8
Weight of exports in output[a]	16.6	14.6	14.9	16.3
Chemical industries				
Growth of exports	15.2	17.6	16.2	16.4
Growth of total output	15.8	7.0	9.2	6.3
Thereof: Share of direct exports	4.7	6.0	6.8	8.1
Weight of exports in output	31.2	39.5	44.7	54.8
Weight of exports in output[a]	26.4	35.2	37.4	60.9
Metal and electronics industries				
Growth of exports	16.0	20.2	35.2	10.3
Growth of total output	10.6	7.5	4.3	7.6
Thereof: Share of direct exports	1.5	2.3	5.8	2.5
Weight of exports in output	9.9	12.1	22.3	24.8
Weight of exports in output[a]	11.5	13.3	24.6	27.2
Total industry				
Growth of exports	14.2	5.0	20.6	9.8
Growth of total output	10.0	4.4	5.5	6.6
Thereof: Share of direct exports	2.3	0.8	3.8	2.2
Weight of exports in output	16.7	16.5	21.4	23.1
Weight of exports in output[a]	15.6	15.9	20.1	23.6

Note: Light industries comprise food, textiles, clothing, leather, wood, paper and publishing, nonmetallic minerals, rubber and plastics, and miscellaneous industries. Chemical industries comprise chemicals, excluding fuel exports. Metal and electronics industries comprise metal and metal products, machinery, transport equipment, electrical and electronics products. Total industry comprises all industries excluding diamonds, quarried products, and fuel.

[a] At current prices and effective exchange rate. Elsewhere the calculation is at constant 1972 producer prices.

Source: Bank of Israel calculations.

port season).[14] Flower exports increased by only 9 percent quantitatively, after shooting up 86 percent the year before, while dollar prices tumbled 8 percent. Several factors combined to bring about the crisis. The demand for flowers in Europe contracted at the beginning of 1979 due to difficult weather conditions and at the same time marketing and organizational problems plagued the branch due to its rapid growth. The closing of the Iranian market led to a fall in the exports of the livestock sector, part of which are production surpluses (mainly edible eggs) and part profitable exports for which no alternative market has yet been found.

[14] See the chapter on agriculture.

Table V-6

EXPORTS OF SERVICES, 1972-79
($ million, at current prices)

	1975	1976	1977	1978	1979	Percent annual increase 1973-75	1976-77	1978	1979
1. Service exports (A)	**1,035**	**1,254**	**1,527**	**1,785**	**2,197**	**16**	**21**	**17**	**23**
Transport	557	621	736	836	874	21	15	15	3
Export cargo	78	86	99	101	148	32	13	2	47
Shipments between foreign ports	264	307	332	426	366	25	12	28	-14
Passenger	107	132	178	166	200	10	29	-7	20
Other	108	96	127	143	160	16	8	13	12
Tourism	292	425	559	592	787	11	38	6	33
Other	186	208	232	357	536	13	12	50	54
2. Service Exports (B)	**552**	**561**	**651**	**805**	**1,121**	**23**	**9**	**24**	**39**
Insurance	207	228	258	291	338	12	12	13	16
Export cargo	9	7	12	13	16	14	15	8	23
Other	198	221	246	278	322	12	12	13	16
Capital services	321	312	371	494	764	36	8	33	55
Government n.e.s.	24	21	22	20	19	-4	-4	-9	-5
Total A and B	**1,587**	**1,815**	**2,178**	**2,590**	**3,318**	**18**	**17**	**19**	**28**
3. Exports to the administered areas	59	80	85	70	86	10	20	-18	23
Total according to the balance of payments (1+2+3)	**1,646**	**1,895**	**2,263**	**2,660**	**3,404**	**18**	**17**	**18**	**28**

4. Adjustment of services to a c.i.f. recording of commodity imports	195	178	207	225	271	36	3	9	20
Import cargoes by Israeli carriers	181	165	193	210	256	36	7	9	22
Insurance thereon	14	13	14	15	15	33	0	7	0
Total exports according to c.i.f. recording of commodity imports	**1,841**	**2,073**	**2,470**	**2,885**	**3,675**	**19**	**16**	**17**	**27**
Total exports according to national accounts[a]	**1,729**	**1,974**	**2,382**	**2,773**	**3,385**	**17**	**17**	**16**	**22**
Quantity increase in service exports (A)						3	14	19	8
Quantity increase in total service exports[b]						2	10	14	7

[a] Total exports according to c.i.f. recording of commodity imports, less public sector interest receipts.

[b] According to national accounts definitions. Service exports are at the official exchange rate plus export subsidies and factor receipts from abroad.

Source: Central Bureau of Statistics.

On the other hand, the contribution of the citrus branch improved, as opposed to the 1978 decline in such export, attributable to the poisoning of oranges and the merchant marine strike at the beginning of the year. The stability of the citrus branch in recent years reflects a certain equilibrium; a given share of citrus exports to the European market is in Israeli hands, but there is no expansion to new markets. The changes in exports stem mainly from fluctuations in demand and shifts in the supply offered by competing countries.

4. EXPORT OF SERVICES

Exports of services[15] grew in 1979 by $612 million, compared with a $391 million gain in 1978. The quantitative increase in exports was about 7 percent, compared with 14 percent in the previous year.[16] For consistency in the analysis of the balance of payments, exports as defined here include a component connected with commodity imports: the transport and insurance of imported cargoes by Israeli firms. In addition, they include items grouped together in Table V-6 as group B: insurance, capital services, and "government n.e.s." These items are largely insensitive to changes in the exchange rate and the forces of supply and demand. Exported services whose development is related to economic variables have been combined in group A, i.e. export of transport and tourism services and "other services"—an item consisting mainly of factor receipts from abroad, the export of know-how, the management and maintenance of import agencies, projects executed abroad, commissions, and royalties of various kinds. This group is also included in the export A aggregate dealt with in the foregoing discussion.

The quantitative growth of service exports in group A was 8 percent, compared with a 19 percent advance in 1978 and a 14 percent rate of annual expansion in the two previous years. The acceleration of such exports in 1978 was concentrated mainly in "other services" item—a result of the particularly large devaluation from which these receipts benefited following the unification of exchange rates. The sluggish growth the following year stemmed entirely from a contraction in the export of transport services, which were particularly hard hit by the cessation of trade with Iran. This item includes the output of the Eilat-Ashkelon oil pipeline, which ceased operation, causing grave consequences to the shipping branch, where most of the shipping capacity had been devoted to carrying oil from Iran to Israel and other countries. This blow can be clearly seen in the drop in exports of

[15] Based on a c.i.f. valuation of commodity imports, including exports to the administered areas and adjusted to the national accounts definition.

[16] This growth was estimated on the basis of national accounts data, which include factor receipts from abroad. A quantitative analysis of services is problematic due to the lack of reliable price indices for the various items. For this reason, among others, it was decided to concentrate on group A service exports as defined below.

"transport between foreign ports" and in some components of "other transport services".

Passenger transport, which originates wholly in the output of the international aviation branch, increased considerably this year (10 percent nominally in dollar terms) due to the prolonged strike in El Al in 1978, which depressed this item's income last year. Accordingly, air passenger transport grew at an accelerated rate this year despite the slackened expansion of total air transport in the world in general and between Israel and other countries in particular. Export cargo transport this year increased faster than exports themselves, following an opposite development in 1978. This was also due to the low base in the previous year. Total exports in the transport branch slipped 5 percent, due, as mentioned, to the complete stoppage of oil transport from Iran.

Income from tourism climbed 16 percent, compared with 12 and 17 percent gains in 1978 and 1977 respectively. This additional income reflects the 5.4 percent rise in the number of tourist-days in Israel (the number of tourists increased 4 percent), as well as higher income received per tourist-day. This may have been connected with the spread of package tours, which boosts income per day spent in Israel.

"Other services" advanced 23 percent quantitatively, following a steep rise of approximately 70 percent in 1978, a development which the unification of exchange rates at the end of 1977 strongly encouraged. An important component is "agency fees"—payments to agencies in Israel representing foreign firms. This item develops in accordance with the amount of imports, and it has grown in the past two years with the expansion of imports.

The value-added component in service exports is relatively high, and their larger weight in total exports contributed to the heightened value added for exports in general, as shown in Table V-2.

The insurance of export cargoes is a small item, not subject to large fluctuations. With respect to other insurance, the credit and debit sides of the balance of payments are closely linked, since claims on the credit side are matched against payments for premiums and commissions on the debit side, and vice versa. The net balance of other insurance was positive this year, reaching $10 million, compared with a negative balance of $6 million and $1.7 million in 1978 and 1977 respectively.

The credit side of capital services includes dividends and profits on investments and also the return on the economy's foreign currency balances invested abroad. In 1979 the rate of interest rose along with the expansion of foreign currency assets invested abroad. This item also includes lump-sum receipts, which are part of the interest receipts of the public sector included in this item.[17]

[17] See Chapter VI: Capital Imports and Foreign Debt.

APPENDIX TABLES

Table V-A1

EXPORTS ACCORDING TO THE BALANCE OF PAYMENTS AND NATIONAL ACCOUNTS, 1974-79
($ million)

	1974	1975	1976	1977	1978	1979
Commodity exports						
1. Exports, foreign trade data (net)	1,737	1,835	2,306	2,963	3,716	4,301
2. Exports to administered areas	299	370	392	466	390	446
3. Balance of payments adjustments	-31	-25	-28	-26	-31	-24
4. Total according to balance of payments and national accounts	**2,005**	**2,180**	**2,670**	**3,403**	**4,075**	**4,723**
Service exports						
5. Exports of services[a]	1,637	1,587	1,815	2,178	2,590	3,318
6. Exports to administered areas	77	59	80	85	70	86
7. Total exports, balance of payments data (5+6)	**1,714**	**1,646**	**1,895**	**2,263**	**2,660**	**3,404**
8. Transport of import cargoes by Israeli carriers and insurance thereon	182	195	178	207	225	271
9. Adjustment to c.i.f. recording of commodity imports (7+8)	1,896	1,841	2,073	2,470	2,385	3,675
10. Interest receipts of the public sector	-129	-112	-99	-88	-112	-290
11. Total services according to balance of payments (9—10)	**1,767**	**1,729**	**1,974**	**2,382**	**2,773**	**3,385**
Total exports according to national accounts						
12. $ million (4+11)	**3,772**	**3,909**	**4,644**	**5,785**	**6,818**	**8,108**
13. IL million[b]	**18,812**	**27,021**	**40,458**	**67,329**	**120,353**	**209,907**

[a] On the basis of an f.o.b. recording of commodity imports.
[b] Includes factor receipts from abroad; at the official exchange rate and including export incentives.

Table

COMMODITY EXPORTS (F.O.B) BY BRANCH

($ million,

	1975	1976	1977	1978	1979
Agricultural exports					
Citrus	176.4	172.4	189.8	202.7	254.6
Other	101.4	152.6	195.0	252.5	301.2
Total agricultural exports	**277.8**	**325.0**	**384.8**	**455.2**	**555.8**
Industrial exports					
Mining and quarrying	84.4	60.8	76.5	78.5	101.8
Potash	55.4	38.3	54.9	55.9	76.3
Phosphates	14.3	12.5	13.5	14.4	23.9
Food	125.4	154.2	177.8	211.1	252.8
Citrus preserves	57.0	72.6	81.8	96.8	118.9
Textiles, clothing, leather	161.8	195.7	222.3	254.7	348.4
Textiles	52.3	62.4	63.9	77.0	112.2
Clothing	104.1	125.4	149.3	169.5	226.6
Leather	5.4	7.9	9.1	8.2	9.6
Wood	12.8	20.3	27.7	33.1	37.8
Plywood and building carpentry	8.4	10.4	14.5	20.3	25.4
Furniture	3.3	8.2	10.3	9.3	9.1
Paper	2.8	3.9	4.5	4.1	9.7
Printing and publishing	18.6	11.1	14.5	14.3	16.2
Rubber and plastics	44.7	53.6	67.5	72.1	85.1
Tires and tubes	29.4	31.9	37.2	37.3	35.1
Chemicals	185.9	221.5	269.9	338.7	505.2
Basic chemicals	99.6	86.9	112.9	157.0	239.0
Pharmaceuticals	27.7	39.5	32.2	32.2	40.9
Pesticides	49.7	36.8	49.7	58.8	71.5
Chemicals excl. refined petroleum products					
Nonmetallic minerals	6.5	7.1	9.7	14.2	9.9
Glass and glass products	4.4	4.5	5.8	7.1	5.7
Basic metals	26.1	19.8	34.0	29.1	38.1
Nonferrous metals	5.6	9.8	20.3	19.8	31.9
Metal products	67.4	118.8	147.5	230.5	264.0

AND MAJOR GROUP, 1975-79
at current prices)

Percent annual increase							
Quantity				Price			
1976	1977	1978	1979	1976	1977	1978	1979
-1.9	1.9	-4.8	4.7	-0.4	8.0	11.5	20.0
28.7	19.1	20.5	9.4	17.0	7.3	7.2	8.9
9.2	**9.9**	**8.4**	**7.3**	**7.1**	**7.7**	**9.1**	**13.7**
-2.8	44.9	-4.2	1.8	-25.9	-13.2	7.2	27.5
-9.9	70.1	-6.8	2.5	-23.3	-15.7	9.3	33.2
35.3	14.1	4.8	48.6	-35.4	-5.3	1.8	11.7
22.0	5.3	2.1	6.9	0.8	9.5	16.3	12.1
21.0	2.4	-3.2	33.5	5.3	10.0	22.2	11.9
15.2	5.1	1.5	17.1	5.0	8.1	12.9	17.1
19.7	-5.4	9.1	19.5	-0.3	8.2	10.5	22.3
13.0	10.0	-0.5	17.0	6.6	8.2	14.1	14.4
23.3	9.8	-16.1	-8.9	18.6	4.9	7.5	32.5
48.7	20.0	6.6	-3.8	6.7	13.8	12.1	19.0
13.7	23.6	29.1	4.8	8.9	12.8	8.4	19.4
138.6	9.6	-24.0	-16.5	4.1	14.6	18.8	18.5
38.1	8.9	-20.7	108.4	0.9	6.0	14.9	10.0
-40.9	23.2	-14.2	3.0	0.9	6.0	14.9	10.0
21.3	17.6	-4.7	2.0	-1.2	7.1	12.1	15.4
9.4	10.0	-7.8	-21.6	-0.8	6.0	8.7	20.0
32.3	10.4	17.2	8.6	-9.9	1.2	7.1	37.2
3.9	32.0	38.5	30.1	-16.0	-1.5	0.4	17.1
49.6	-22.0	-11.7	6.2	-4.7	4.6	13.2	19.6
-11.1	34.0	1.8	5.0	-7.1	0.4	16.8	15.8
8.9	19.9	20.8	20.0				
5.7	19.1	26.5	-40.1	3.3	14.7	15.7	16.4
-1.8	14.5	5.1	-29.7	4.1	12.6	16.4	16.2
-18.9	61.4	-15.0	7.9	-6.5	6.4	0.7	23.0
76.2	81.5	-6.0	32.3	-0.7	14.1	3.7	21.7
75.6	11.5	34.8	4.4	0.4	11.4	16.0	9.7

Table

COMMODITY EXPORTS (F.O.B.) BY BRANCH

($ million,

	1975	1976	1977	1978	1979
Machinery	62.5	104.1	140.0	158.2	132.3
Transport equipment	43.8	100.2	162.6	240.1	364.1
Aircraft and parts	35.6	83.2	110.0	200.0	314.5
Ships and parts	0.5	0.8	35.3	21.2	29.3
Electrical and electronic equipment	97.7	112.3	130.7	137.2	168.4
Communications equipment	48.5	60.2	60.5	55.4	43.2
Total metals and electronics	**297.5**	**455.2**	**614.8**	**795.1**	**966.0**
Excl. defense exports					
Diamonds					
Gross	640.8	799.8	1,099.0	1,477.4	1,419.0
Net	548.6	712.0	1,002.7	1,317.5	1,224.1
Other industrial products	31.1	44.0	66.0	107.0	167.3
Total industrial exports	**1,612.3**	**2,027.2**	**2,650.2**	**3,400.3**	**3,920.1**
Excl. diamonds	971.5	1,227.4	1,551.2	1,922.9	2,501.1
Excl. diamonds and fuel					
Excl. defense exports					
Other exports	**50.9**	**62.2**	**46.6**	**65.8**	**74.4**
Bunkers and stores for foreign ships and aircraft	18.2	23.2	23.5	33.9	41.3
Sale of old ships and aircraft	6.2	23.6	9.3	13.5	9.9
Total commodity exports (gross)	**1,941.0**	**2,414.4**	**3,083.2**	**3,921.3**	**4,550.3**
Returned exports	106.2	108.6	118.9	205.1	251.4
Total commodity exports (net)					
Incl. diamonds and fuel	**1,834.8**	**2,305.8**	**2,962.7**	**3,716.2**	**4,298.9**
Excl. diamonds	**1,285.6**	**1,592.5**	**1,957.8**	**2,398.6**	**3,074.8**
Excl. diamonds & fuel					

Source: Central Bank of Statistics, foreign trade data.

V-A2 (cont.)

AND MAJOR GROUP, 1975-79
at current prices)

Percent annual increase							
Quantity				Price			
1976	1977	1978	1979	1976	1977	1978	1979
68.1	20.6	-2.7	-24.8	-0.9	11.5	16.1	11.2
125.8	46.1	26.1	38.3	1.3	11.1	17.1	9.7
157.1	19.2	55.4	43.7	3.1	11.0	17.0	9.4
57.0	..	-48.7	25.0	1.5	11.1	17.1	9.7
15.0	8.6	-10.3	10.8	0.0	7.2	17.0	10.7
23.9	-4.8	-21.4	-27.0	0.2	5.6	16.6	7.1
53.4	**22.9**	**11.8**	**9.0**	**-0.3**	**9.0**	**15.7**	**10.7**
19.2	24.6	2.8	30.0				
16.4	1.3	-14.7	-9.2	7.3	35.6	57.6	5.7
21.0	3.9	-16.6	12.1	7.3	35.6	57.6	5.7
35.2	28.4	20.4	32.1	4.6	16.8	34.7	18.6
24.6	**11.3**	**-1.6**	**1.8**	**0.9**	**17.4**	**30.4**	**13.3**
30.4	18.8	8.9	9.6	-3.1	6.4	13.8	18.8
26.0	18.6	9.1	11.8				
13.9	17.5	6.5	16.3				
22.2	**10.1**	**0.0**	**2.4**	**1.8**	**16.0**	**27.3**	**13.3**
23.5	**10.8**	**-1.5**	**2.1**	**1.8**	**16.0**	**27.3**	**13.3**
24.9	**15.3**	**8.5**	**9.0**	**-0.9**	**6.7**	**12.8**	**17.7**
23.7	15.2	8.6	9.4				

Table

INDICATORS OF INDUSTRIAL

	Prices received by the exporter (in IL) (1)	Change from previous period (1")	Price of imported inputs (in IL) (2)	Wages per unit of output (3)	Domestic input prices (4)	Weighted price of inputs (5)	Change from previous period (5")
1973	125.5	25.5	129.0	113.6	120.6	121.2	21.2
1974	173.3	38.1	184.7	149.9	185.6	176.8	45.9
1975	246.8	42.4	246.8	207.5	255.1	241.4	36.5
1976	305.6	23.8	304.4	266.7	325.2	305.5	26.6
1977	423.2	38.5	420.3	374.0	432.9	415.4	36.0
1978	667.0	57.6	687.0	566.5	657.7	643.7	55.0
1979	1,110.6	66.5	1,188.6	1,006.7	1,179.4	1,140.4	77.2
1977 I	639.6	7.3	361.3	320.2	380.3	360.8	5.4
II	391.5	5.9	383.6	365.5	404.0	389.2	7.9
III	426.2	8.9	418.1	385.3	439.1	420.5	8.0
IV	505.3	18.6	520.1	423.1	508.2	491.0	16.8
1978 I	585.6	15.9	607.8	480.8	558.2	553.0	12.6
II	627.9	7.2	651.1	537.8	626.9	612.1	10.7
III	698.5	11.2	719.4	583.2	677.7	666.3	8.9
IV	756.2	8.3	774.8	660.9	767.9	744.1	11.7
1979 I	814.0	7.6	845.0	759.6	864.0	833.8	12.1
II	986.8	21.2	1,054.9	901.6	1,038.8	1,010.2	21.2
III	1,190.7	20.7	1,300.7	1,078.2	1,255.8	1,225.3	21.3
IV	1,450.9	21.9	1,595.3	1,277.1	1,558.2	1,500.7	22.5
					Indicators of industrial export		
1978	673.4	59.1	687.0	566.5	657.7	643.7	55.0
1979	1,246.0	85.0	1,188.6	1,006.7	1,179.4	1,140.4	77.2

Note: The data are for industrial exports excluding diamonds, quarried products, and fuel (refined petroleum products). A number of changes have been introduced in the table this year. Because of the sensitivity of the indexes to the reduction of subsidies on basic commodities, and the fact that changes in subsidies are not reflected in producer prices and in any case are only tenuously related to exports, it was the practice to deduct the estimated effect of the subsidy cuts from the wholesale price index. This year these influences have been systematically deducted by excluding the food industry from the wholesale price index. This method alters the index in that it eliminates the accelerating effect of the commodity subsidies when they are reduced, as well as the moderating effect they exert between one round of cuts and the next. This change significantly reduces the cumulative increase in the index of prices received by exporters and to a lesser degree the index of the profitability of exports relative to inputs. The quarterly behavior of the indexes does not differ greatly. (See this table in the 1978 Bank of Israel Annual Report for 1978.)

V-A3

EXPORT PROFITABILITY, 1973-79

Profitability of exports relative to inputs (1/5) (6)	Change from previous period (6")	Domestic output prices (7)	Change from previous period (7")	Relative return to exporter (1/7) (8)	Change from previous period (8")	Return to value added/ wages per unit of output (9)	Change from previous period (9")
103.5	3.5	118.5	18.5	105.9	5.9	108.0	8.0
98.0	-5.3	174.6	47.3	99.3	-6.3	109.3	1.2
102.2	4.3	237.5	36.0	103.9	4.7	119.0	8.9
100.0	-2.2	298.8	25.8	102.2	-1.6	114.9	-3.4
101.9	1.9	398.6	33.4	106.2	3.8	113.8	-1.0
103.6	1.7	612.5	53.7	108.9	2.6	114.8	0.9
97.4	-6.0	1,080.4	77.7	102.0	-6.3	104.0	-9.5
102.4	1.8	350.1	6.4	105.6	0.9	117.5	4.2
100.6	-1.8	374.2	6.9	104.6	-0.9	108.9	-7.3
101.4	0.8	401.6	7.3	106.1	1.4	112.4	3.1
102.9	1.5	468.4	16.6	107.9	1.7	116.6	3.7
105.9	2.9	518.9	10.8	112.9	4.6	118.1	1.3
102.6	-3.1	584.4	12.6	107.4	-4.8	113.3	4.1
104.8	2.2	634.1	8.5	100.2	2.5	116.8	3.2
101.6	-3.1	712.7	12.4	106.1	-7.3	112.1	-4.0
97.6	-3.9	798.4	12.0	102.0	-3.9	103.8	-7.4
97.7	0.1	978.1	22.5	100.9	-1.0	103.3	-0.5
97.2	-0.5	1,154.3	18.0	103.2	2.2	102.0	-1.2
96.7	-0.5	1,423.0	23.3	102.0	-1.2	104.4	2.3
profitability incl. credit subsidy							
104.6	2.6	612.5	53.7	109.9	3.5	116.9	2.7
109.3	4.5	1,088.4	77.7	114.5	4.2	128.4	9.8

This year's Annual Report reflects, for the first time, the influence on the profitability indexes of the credit subsidy granted through the export funds. The subsidy is estimated as the difference between the interest on nondirected credit and the rate charged by the fund, multiplied by the annual average balance of the fund. As the interest rate on nondirected credit we use the average effective rate on overdraft accounts, and as the interest rate on nondirected foreign currency credit we use the Eurodollar interest rate, plus a 2 percentage point margin and a 12 point interest surcharge imposed by the Bank of Israel at the beginning of 1979. The exchange rate used here was derived from the arbitrage equation, on the assumption that there was a shift from nondirected credit in Israeli currency to that in foreign currency. This gives the estimated exchange rate expected in the market, and so it is suitable for estimating the expected subsidy in the fund. The discrepancy arising from the difference between the exchange rate in the past (positive or negative) and that expected in the future is not necessarily limited to recipients of credit from the funds.