

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

BOP/230

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Committee on Balance-of-Payments
Restrictions

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ISRAEL - BALANCE-OF-PAYMENTS IMPORT RESTRICTIONS

Basic Document for the 1982 Consultation¹

1. Legal and administrative basis of the import restrictions

The Import Export Ordinance of 1979 provides the legal basis for Israel's control and regulation, of the foreign trade.

The Licensing of Imports Order 1939 commits all imports to licensing. However, the bulk of imports is now covered by the Free Imports Order 1978, issued by the Minister of Industry and Trade on 20 July 1978.

Individual import licences, where still required, are issued by the "Competent Authorities" - officials designated for that purpose by the Ministers concerned (Industry and Trade, Agriculture, Transport, Health, Welfare, Communications and Finance).

2. Methods used in restricting imports

As of 9 June 1978 the Free Imports Order permits the import of all commodities, except those specifically mentioned in the first annex to that order. Commodities included in that annex are subject to licensing and the necessary import licences are issued at the discretion of the "Competent Authority". In the exercise of the discretion the following points, inter-alia, are taken into consideration :

- a) the need to reduce the current account deficit,
- b) the necessity to protect infant industries,
- c) programmes to safeguard agricultural incomes,
- d) other relevant considerations of public policy covered by Article XX of the General Agreement.

Foreign exchange required to pay for imports, whether covered by the Free Imports Order or individual licence, can now be purchased by the importer from "Authorized Dealers" (banks) without restriction.

3. Treatment of imports from different sources

Israel's foreign trade policy is based on the principle of non-discrimination and the "Competent Authorities" do not, generally, interfere in the choice of the source of supply made by the importer. Furthermore, Israel no longer maintains any bilateral trade agreements which would necessitate such interference.

¹Material supplied by the Israeli authorities.

The Free Imports Order specifically excludes imports from countries which "prohibit or limit, expressly or otherwise, the imports of commodities from Israel". A list of such countries was published in the Official Gazette on 27 January 1977. The list includes a number of contracting parties and is subject to review. Imports from these countries require individual licences.

The choice of the source of supply by the importer is at times influenced by the availability of credit facilities offered by the supplier or by banking channels in the country of origin. In addition, purchases of major items of capital equipment are on occasion directed to bound sources of finance extended as development assistance to Israel.

4. Commodities affected by import restrictions

The list of commodities contained in the first annex to the Free Imports Order 1978 and therefore subject to import licensing is included in Annex I to this document.

5. The use of State trading in restricting imports

The Government is the sole importer of a limited number of essential foodstuffs and animal feeds. These imports are carried out by the Government Trade Administration in order to assure the orderly supply of basic foodstuffs at stable prices. The Government Trade Administration also ensures the maintenance of adequate emergency stocks.

Details on its activities, including the list of commodities involved, the purchases effected from local sources and the quantities imported, are contained in Annex II. In effecting purchases from abroad, the Administration makes use of facilities which might be available for purchases on concessionary terms under surplus disposal schemes.

6. Measures taken since last consultation

(a) As stated in document L/4891 of 4 December 1979, and mentioned in the Basic document for the 1980 Consultation (BOP/203 of 16 April 1980), Israel introduced as of 19 November 1979, a temporary import deposit scheme.

This scheme was terminated on 19 November 1980.

(b) As stated in document L/5361 of 2 September 1982, Israel introduced as of 15 June 1982 a temporary import levy with the purpose of reducing the balance of payment deficit and curbing inflation.

The import levy has been imposed in the form of a temporary three per cent ad valorem additional duty on all imports which are subject to Value Added Tax and will remain in effect until 31 March 1983.

7. Effects of import measures

Since imports are recognized to be a major cause for the increase in the trade deficit of 1982, it was considered necessary to include amongst policy measures introduced recently an element related to imports, so that the policy package as a whole would be seen to be balanced.

As a result of the relatively low rate of the levy, this measure will have a marginal, if any, impact upon actual trade.

The import component in private consumption is about 30 percent and in investment 35 percent. The 3 percent levy on imports may, therefore, result in an increase in average prices of consumer goods and investments of less than 1 percent.

Under the expected conditions of slack aggregate demand, this increase will probably be absorbed by importers, manufacturers and traders. Even when passed on to the consumer, the relatively small increase in prices will have only a marginal effect on total demand for imported goods.

8. General Economic Policy considerations

A comprehensive and balanced package of economic policy measures, relating to a wide range of economic activities, was recently introduced. This package had three major goals :

- an improvement in balance of payments trends;
- a slowdown in the rate of inflation;
- the continuation of controlled and selective economic growth.

While the latter two goals are justified in themselves, they are also preconditions for a sustained improvement in Israel's balance of payments.

a. The major immediate policies adopted are as follows :

1. In 1982, regular and development budgets were cut by 6.4 percent in real terms.
2. Measures are being taken to raise the efficiency of the tax collecting system.

3. Value added tax was increased from 12 to 15 percent.
4. An import levy of 3 percent was introduced.
5. A compulsory loan of between 2 to 5.5 percent from employees and of 10 percent from companies was enacted.
6. Monetary policy availed itself of a whole range of instruments in order to restrict the increase of credit and the money supply. The increase in credit ceilings lagged behind inflation. Real interest rates on regular bank credit were maintained at the level of 7 percent.
7. In 1981 and 1982 several new attractive saving programs were introduced.
8. Special emphasis is being placed on the formulation of a balanced wage and incomes policy. According to the wage agreements, it seems as though a decline in real wages may take place in 1982.
9. A substantial reduction in subsidies has been introduced in recent months, together with a 116 percent rise in the price of fuel between January and September, 1982.
10. Social insurance payments made by employers are to be reduced, which will contribute to a decline in costs of production and prices, and to an increase in employment, due to the reduction in labor costs.

ANNEX I
IMPORTS SUBJECT TO LICENSING

B T N	Description
01.02	Live animals of the bovine species
01.04	Live sheep and goats
01.05	Live Poultry
<u>Ch. 2</u>	<u>Meat and edible Offals (Entire chapter)</u>
02.01	Animals within headings 01.01, 01.02, 01.03, 01.04, fresh, chilled or frozen
02.02	Dead poultry (i.e., fowl, ducks, geese, turkeys, guinea fowl) and edible offals thereof (ex.liver) fresh, chilled or frozen
02.03	Poultry liver, fresh, chilled, frozen, salted or in brine
02.04	Other meat and edible meat offals, fresh, chilled or frozen
02.05	Unrendered lard free of lean meat and unrendered poultry fat, fresh, chilled, frozen, salted, in brine, dried or smoked
02.06	Meat and edible meat offals (except poultry liver), salted in brine, dried or smoked.
<u>Ch. 3</u>	<u>Fish, Crustaceans and Molluscs</u>
03.01	Fish, fresh (live or dead) chilled or frozen. Entire heading except : 03.01.4030
03.02	Fish, dried, salted or in brine, smoked fish, whether or not cooked before or during the smoking process. Entire heading, except 03.02.2000.
<u>Ch. 4.</u>	<u>Dairy Products: Birds eggs: Natural honey. Edible products of animal-origin, not elsewhere specified or included.</u> <u>Entire chapter except 04.02.1000</u>
05.04	Guts, bladders and stomachs of animals (other than fish thereof, whole or pieces.

05.05	Fish waste
05.14	Ambergris, castoreum, civet and musk, cantharides, bile, whether or not dried, animal products, fresh, chilled or frozen or otherwise provisionally preserved, of a kind used in the preparation of pharmaceutical products
05.15	Animal products NES or included, dead animals of Chapter 1 or chapter 3, unfit for human consumption
06.01	Bulbs, tubers, tuberous roots, corms, crowns and rhizomes, dormant, in growth or in flower.
06.02	Other live plants, including trees, shrubs, bushes, roots cuttings and slips.
06.04	Foliage, branches and other parts (other than flowers or buds) of trees. Entire heading.
07.01	Vegetables, fresh or chilled
07.02	Vegetables (whether or not cooked), preserved by freezing.
07.05.1000	Peas for sowing only
07.06	Ex. sweet potatoes
<u>Ch. 8</u>	<u>Edible fruit and nuts, melon or of citrus fruit.</u> Entire chapter, except 08.01 Ex. coconut, 08.05 Ex chestnut
09.01	Coffee, coffee substitutes containing any percentage of coffee.
09.02.9990	Tea in big packages over 1 kg.
09.10.1000	Dill seeds.
<u>Ch. 10</u>	<u>Cereals.</u> Entire chapter except: 10.04, 10.07.1000, 10.07.3000
11.01	Cereal flours
11.02.1000	Except buckwheat.
12.01.1000	Poppy seeds
12.01.2000	Groundnuts
12.01.3500	Cotton seeds
12.01.5500	Soya beans

12.01.9900	Other
12.02.1000	Of poppy seeds
12.03	Seeds fruit and spores, of a kind used for sowing.
13.03.1020/4	Saps and extracts as follows: opium aloes, curare, podophyllum, manna, belladonna, black alder, cascara-sagrada, gentian, jalap, kola, cinchona, rhubarb, valerian, coca, colocynth, male fern, henbane, ergot of rye, ephedra, condurango fluid, hydrastis cand., ipecac. concentr., protinet, rhatanhaie (krameria), senegae, viburni, prunifolii, fuci visculosi,
15.01	Lard, other pig fat and poultry fat, rendered or solvent-extracted
15.02	Fats of bovine cattle, sheep or goats, unrendered (Entire heading)
15.03	Lard stearin, oleostearin and tallow stearin (Entire heading)
15.06	Other animals oils and fats (Entire heading)
15.07	Vegetables oils, not fixed, fluid or solid
15.07.1031	Soya bean oil
15.07.1032	Cotton seed oil
15.07.1034	Olive oil
15.07.1035	sunflower seed oil
15.07.1036	Cocunut (copra) oil
15.07.1037	Palm oil, palm kernel oil, rape oil, colza oil and mustard oil
15.07.1090	Other n.e.s.
15.07.9990	Other oils and fats; other
15.12	Animal or vegetable oils and fats, wholly or partly hydrogenated or solidified or hardened by any other process (Entire heading)
15.13	Margarine, imitation lard and other prepared edible fats
<u>Ch. 16</u>	<u>Preparations of Meat, Fish, Crustaceans or Molluscs.</u> Entire chapteer except 16.04.2010, 16.04.3000

17.01.1000	Raw sugar
17.01.9900	Other
17.04.5000	Halva
18.06	Chocolate and other food preparations containing cocoa. Entire heading, except chocolate
19.02.9900	Other, flowers products especially diatetical and baby foods.
19.03	Macaroni, spaghetti and similar products.
19.07	Breads, ships' biscuits and other ordinary baker wares, not containing added sugar, honey, eggs, fats, cheese, or fruit.
19.08	Pastry, biscuits, cakes and other fine baker's wares, whether or not containing cocoa in any proportion.
20.06	Canned plums only.
20.07.9900	Other, fruit juices.
21.02	Coffee, tea extracts and substitutes.
21.03	Mustard flour and prepared mustard
21.04	Sauces; mixed condiments and mixed seasonings
21.05	Soups and broths, in liquid, solid or powder form; homogenized composite food preparations.
21.06	Natural yeast (active or inactive); prepared baking powders
21.07	Food preparations not elsewhere specified or included
22.03	Beer made from malt
22.04	Grape must, in fermentation or with fermentation arrested other wise than by the addition of alcohol
22.05	Wine of fresh grapes; grape must with fermentation arrested by addition of alcohol
22.06	Vermouth and other wines of grapes flavoured with aromatic extracts.
22.08	Ethyl alcohol or natural spirits. Entire heading.

22.09.1000	Compound alcoholic preparations. Entire subheading
22.09.9900	Other. Entire subheading
22.10	Vinegar and substitutes for vinegar.
23.01	Flours and meals, of meat, offals, fish, crustaceans or mulluscs unfit for human consumption.
23.04	Oil cake and other residues (ex.dregs) resulting from the extraction of vegetable oils.
23.05	Wine lees : argal
23.07.3000	Animal feed containing 20%-30% protein and minimum 10% fats.
23.07.9900	Animal feed n.e.s.
24.01.9900	Other
24.02.3000	Tabbacos manufactured n.e.s.
24.02.9900	Other, tobacco extracts and essents n.e.s.
27.01	Coal, briquettes ovoids and similar solid fuels manufactured from oil.
27.02	Lignite, whether or not agglomerated.
27.04	Coke and semi-coke of coal of lignite or of peat
27.06	Tar distilled from coal from lignite or from peat. Entire heading.
27.09	Petroleum oils and oils obtained from bituminous minerals, crude.
27.10.1500	Petrol. Entire subheading.
27.10.2500	Kerosene
27.10.3000	Solar
27.10.3500	Mazut
27.10.4000	diesel
27.10.5500	Lubricating oils
27.10.6000	Greases
27.10.9990	Other

27.11	Petroleum gases and other gaseous hydrocarbons.
27.14.9900	Other
27.15	Bitumine and asphalt
27.16	Bituminous mixtures based on natural asphalt, etc. Entire heading.
28.04.9900	(Phosphorus)
28.32	Chlorates and perchlorates. Entire suheading.
28.39	Nitrites and nitrates
28.50	Fissile chemical elements and isotopes, other radio-active chemical elements, etc. Entire heading.
28.51	Isotope and their compounds, inorganic and organic, etc. Entire heading.
28.52	Compounds, inorganic or organic, of thorium or uranium, etc. Entire heading.
29.16.2000	Citric acid and its salts
29.16.4000	Malic acid.
29.42	Vegetable alkaloids, natural or produced by synthesis, and their salts, etc.
29.44	antibiotics
29.45	Other organic compounds
30.01	Organo-therapeutic glands or other organs, dried, whether or not powdered, etc.
30.02	Antisera; microbial vaccines, toxics, microbial cultures (including ferments, etc.), and similar products.
30.03	Medicaments (including veterinary medicaments).
34.02.9920	Organic surface - active agents : in packing cont. more than 25kg.
35.01	Casein, caseinates and other casein derivatives : casein glues.
35.02	Albumins, albuminates and other albumin derivatives.
35.03	Gelatin (including gelatin rectangles, whether or not coloured or surface worked) etc. Entire heading.

35.07	Enzymes
36.06	Matches (ex. Bengal matches).
38.11.1000	Substances of a kind used in the prevention and control of animal or plant pests and diseases. Entire subheading
39.01.3510	...made of spongy layers of phenolic and aminoplastic resins.
39.02.5590	Other
39.07.1410	...made of spongy layers of phenolic and aminoplastic resins
39.07.3400	Laboratory ware.
39.07.3700	Articles specialized for medical, dental and veterinary purposes.
44.15.2000	Plywood
48.01.1010	Released before 1.1.78
48.01.4000/3	Cigarette paper
48.07.8000	Paper and cardboard of a kind used in automatic registration apparatus
48.10	cigarette paper, cut to size, whether or not in the form of booklets or tube.
48.21.2000	Recording dials, sheets or rolls of a kind used for self-recording apparatus
<u>Ch. 49</u>	<u>Printed books (in Hebrew)</u>
51.04	Woven fabrics of man-made fibers (continuous)
53.07.1000	which contains acryls or modacryls in any percentage
53.08.1000	which contains acryls or modacryls in any percentage.
53.09.1000	which contains acryls or modacryls in any percentage.
53.10.1000	which contains acryls or modacryls in any percentage.
53.11	Woven fabrics of sheep's or lambs'wool or of fine animal hair.
55.06	Cotton yarn, not put up for retail sale.
55.09	Other woven fabrics of cotton

56.01.1010	Acryls or modacryls
56.01.1091	which contains acryls or modacryls in any percentage.
56.01.2010	which contains acryls or modacryls in any percentage.
56.02.1010	Acryls or modacryls.
56.02.1091	which contains acryls or modacryls in any percentage.
56.02.2010	which contains acryls or modacryls in any percentage.
56.04.1011	Acryls or modacryls.
56.04.1012	Other, containing acrylic or modacrylic fibres in any percentage.
56.04.1021	which contains acryls or modacryls in any percentage
56.05.1091	Acryls or modacryls.
56.05.1092	Others which contain acryls or modacryls in any percentage.
56.05.2094	Yarn listed under Sec 2093 which contains acryls or modacryls in any percentage
56.06.1091	Acryls or modacryls.
56.06.1092	Others which contain acryls or modacryls in any percentage
56.06.2094	Yarn listed under Sec. 2093 which contains acryls or modacryls in any percentage
56.07	Woven fabrics of man-made fibres (discontinuous or waste)
59.05	Nets, netting and made-up nets of a kind, etc.
60.01	Knitted or crocheted fabrics not elastic nor rubberised

63.10/6	Clothing, clothing accessories, household linen and furnishing articles (other than articles falling within heading No. 58.02, 58.01 or 58.03) of textile materials, footwear and headgear of any material showing signs of appreciable wear and imported in bulk or in bales sacks or similar bulk becking.
69.08	Glazed setts, flags and paving, hearth and wall tiles.
69.11	Tableware and other articles of a kind commonly used for domestic or sanitary purposes.
69.12	Tableware and other articles of a kind commonly used for domestic purposes and of other kinds of pottery.
70.10.2090	Bottles of glass volume over 200cc.
71.02.1099	Other/worked diamond less than 1 carat and over 0.02 carat.
71.07	Gold including platinum-plated gold, unwrought or semi-manufactured Entire heading.
71.08	rolled gold on base-metal or silver, unworked or semi-manufactured.
71.09	Platinum and other metals of the platinum group, unwrought or semi-wrought
71.10	Rolled platinum or other platinum group metals on base metal or precious metal, etc.
71.11	Goldsmiths', silversmiths, and jewellers' sweeping, residues, etc.
71.12	Articles of jewellery and parts thereof, etc. entire heading
71.13	Articles of goldsmiths' or silversmiths' and parts thereof, etc. Entire heading.
71.14	Other articles of precious metal or rolled precious metal
71.15	Articles consisting of, or incorporating, pearls, precious or semi-precious stones, (natural, synthetic or reconstituted)
72.01.9910	Gold coins.
73.10.3500	Idented bars

73.10.9992	Cold rolled of a thickness exceeding 0.25mm, but not more than 3 mm, containing less than 0.55% carbon excluding those coated with another metal
73.10.9999	Other.
73.14	Iron or steel wire, whether or not coated but not insulated
73.15.2010	Wire rod.
73.15.2099	Other, except X
73.17	Tubes and pipes, of cast iron
73.20.4000	Cast fittings
73.36.1000	Heated by petroleum oils or oils obtained from bituminous materials
76.03.9900	Other
76.04.9900	aluminium foil of thickness not exceeding 0.20 mm. Other
84.09	Mechanically propelled road rollers, netweight over 7000 kg, used
84.11	Air compressor, output 160 cubic feet/minute. Used
84.15.9900	Other
84.18.1090	Machinery for the kind used to extract edible oil
84.19.9990	Other
84.20.5020	Table scales showing the weight as well as the amount.
84.20.5050	with automatic regulation of flow into packaging containers.
84.20.5060	For weiging mixtures of building materials providing they are mechanically equipped, etc.
84.20.5090	Other
84.20.9010	Scale beams, with or without casings for weighing incorporating electric printing mechanism
84.20.9090	Other
84.21	Mechanical appliances for projecting, dispersing or spraying powders (in agricultural use).

84.22.2010 For temporary installation during construction.

84.22.3000 Jacks, including those for tipping lorry bodies

84.22.5010 Cranes of total weight exceeding 100 T each

84.22.5020 Cranes for loading or discharging vessels.

84.22.5031 Used for conveying flour in flour mills for the preparing of fodder mixtures for animals, etc.

84.22.6000 Machinery mounted or adapted for mounting on a tractor, etc.

84.22.8091 Of kinds used for earth, stone, road making or building work

84.22.9930 Safety frames or safety cabins, etc.

84.23 Machinery stationary or mobile, for earth, minerals or ores, etc. Entire heading.

84.24 Agricultural and horticultural machinery for soil preparation or cultivation etc.

84.25 Harvesting and threshing machinery, etc. Entire heading

84.26 Dairy machinery, etc

84.28 Other agricultural, horticultural, poultry-keeping and bee-keeping machinery, etc. Entire heading.

84.29 Machinery of the kind used in the bread grain milling industry and other machinery. Entire heading.

84.40.3010 Having a washing tank of a volume not exceeding 150 LT.

84.47.9910 wood nailing machines.

84.52.2000 Cash registers

84.59.1559 Road finisher used

84.59.1590 Machinery and Mechanical appliances of a kind suitable for the production of edible oils.

84.59.9900 Other

85.03.1099 Other

85.13.1010 Telephoen apparatus with amplifier, etc

85.13.1050 Carrier-current line systems.

85.13.1090	Other.
85.15.1000	Radio-telegraphic and radiotelephonic transmission and reception apparatus.
85.15.2000	Radio-navigational aid apparatus, radar apparatus and radio remote control apparatus
85.15.3000	Transmitters not specified in paragraph 1000, Entire subheading
85.15.4500	Television receivers whether or not combined with other apparatus. entire subheading.
85.16	Electric traffic control equipment for railways, roads or inland waterways, and equipment, etc.
85.17.1000	Electric fire alarms.
85.17.2000	specially designed for aircraft or vessels.
85.17.9900	Other
85.20.1090	Other
85.20.2020	Fluorescent lamps length 59cm - 121cm.
87.01.1000	Tractors for agricultural or ear
87.01.9930	Tractors for trailers and semi-trailers driven by a compression ignition (diesel)engine.
87.02.1010	Motor vehicles for transport of persons or goods
87.02.1500	Motor vehicles used for burial purposes, etc
87.02.2510	Ambulances
87.02.2600	Buses
87.02.3010	Motor vehicles imported with the approval of the chief fire brigade inspector, etc.
87.02.4010	Fire engines if imported with the approval of the chief fire brigade inspector.
87.02.4020	Vehicles specially built for street cleaning, etc
87.02.5000	dumpers, bitumen tankers, cement bulk distributors, Entire subheading
87.02.5520	Delivery vans having an authorised total weight not exceeding 2,200 kg. Used.

- 87.02.9919 Other
- 87.02.9990 Commercial vehicles propelled by a compression ignition engine etc. entire subheading.
- 87.03.1000 Lorries specially constructed and used for cleaning streets, air field runways, etc.
- 87.03.3000 Mobile derricks (ie. lorries fitted with a derrick assembly, etc.)
- 87.03.4000 Fire engines and fire escapes imported with the approval of the chief fire brigade inspector, etc.
- 87.03.5000 Vans specially built for the preparation or sale of food and drinks (e.g., mobile canteens, etc).
- 87.03.6000 Refuse vehicles.
- 87.03.6500 Concrete mixer vehicles except those under 6600
- 87.03.6600 concrete mixer vehicles which fulfill all the following conditions :
A. Mixer whose capacity does not exceed 3600 LT.
B. equipped with hydraulic apparatus for self-loading, etc.
- 87.03.7000 Concrete pumps, mobile.
- 87.03.8000 Cranes, mobile, mounted on a chassis specially constructed for carrying cranes.
- 87.04 Chassis fitted with engines, for the motor vehicles falling within heading No. 87.01, 87.02 or 87.03. Entire heading
- 87.05 Bodies (including cabs) for the motor vehicles falling within heading No. 87.01, 87.02 or 87.03, used.
- 87.05.2000 Safety frames or safety cabins, etc.
- 87.07.1000 Fork lifts and parts thereof. entire heading
- 87.07.9900 Others
- 87.09 Motor-cycles, auto-cycles and cycles fitted with an auxiliary motor with or without side cars, side cars of all kinds.
- 87.11 Invalid carriages

- 87.14 Other vehicleless (including trailers), not mechanically propelled and parts.
- 88.02 Flying machines, etc. Entire heading
- 89.01 Ships, boats and other vessels not falling within any of the following headings of this chapter.
- 90.17.7010 Certified by the Director General of the Ministry of Health as not produced in Israel and released before 1.4.78
- 90.19.3000 Hearing aids, heart pacemakers.
- 90.26.1000 Electricity supply or production meters.
- 90.27.4000 Revolution counters, taximeters, speed indicators, of the kind used in motor vehicles and bicycles
- 90.28.6021 Taximeters, accumulating
- Ch. 93 Arms and ammunition, parts thereof. Entire chapter
- 98.05.5000 Pencils covered by any material, where the cover is thicker than 1mm
- 98.05.9900 Other

Annex II

State Trading

ACTIVITIES OF THE GOVERNMENT TRADE ADMINISTRATION
(Quantities in thousand metric tons)

Commodity	Source	Fiscal year (April/March)	
		80 / 81	81 / 82
Wheat	local	201	178
	import	475	469
coarse grains	local	-	-
	import	1097	1107
Soyabeans	local	-	-
	import	422	473
Edible oils	local	6	-
	import	13	1
Frozen beef	local	-	-
	import	30	41

ANNEX III
ECONOMIC DEVELOPMENTS AND THE BALANCE OF PAYMENTS

A. GENERAL

The Israeli economy confronts two major problems: the problem of the balance of payments and the problem of a high inflation rate. While the problem of inflation has become increasingly serious in recent years, the problem of the balance of payments has existed since the establishment of the State.

Over the years Israel's current deficit has increased despite the satisfactory performance of the export sector. Exports increased at an average annual rate of 18 percent in the years 1955 to 1981, signifying the doubling of exports every 4-5 years. At the same time civilian imports increased at a lower average annual rate of 14 percent. In spite of the faster average growth rate of exports as compared to the growth rate of imports, the civilian deficit in the balance of payments continued to grow. This is due to the initial low level of exports as compared to the level of imports, which resulted in a greater increase in imports as compared to the increase in exports, in absolute dollar terms.

In spite of the increase in the current deficit, the basic trends in Israel's balance of payments are positive. The relative improvement which has taken place over the years in the balance of payments is reflected in the decline of the deficit, as related to total resources in the economy, from 20 percent in 1975 and 17.5 percent in 1979, to 14 percent in 1981. As a result of a faster increase of exports as compared to the rate of increase in non-military imports, the share of non-military imports financed by exports increased from 65 percent in 1979 to 84 percent in 1981.

B. THE PROBLEM OF THE BALANCE OF PAYMENTS

The problem of the balance of payments has two main aspects: the first is the large current deficit, which has to be financed every year by massive capital imports, a major share of these capital imports being in the form of foreign borrowing; the second aspect is the resulting rapid increase in the foreign debt and debt-service.

The Trade Deficit, Civilian Deficit and Current Deficit
1955-1981 and Forecast for 1982-1983

Millions of Dollars

Year	Trade Deficit	Civilian Deficit*	Current Deficit
1955	250	285	315
1965	400	540	640
1972	730	590	1,080
1973	1,410	1,370	2,620
1975	1,950	2,170	4,020
1981	2,050	2,200	4,430
1982 estimate	2,240	2,770	4,370
1983 forecast	2,200	2,740	3,870

* including the trade deficit and deficit in the service account, excluding military imports.

1. The Trade Deficit and Civilian Deficit

Israel's civilian deficit increased from 285 million dollars in 1955 and 590 million dollars in 1972, to 2.2 billion dollars in 1981. In the same period, the trade deficit increased from 250 million dollars to 2 billion, respectively.

The increase in the deficit over the years has been due mainly to the rapid growth in imports, which has been determined by the following major factors:

- a. The fast growth of the Israeli economy. This growth was dictated by the need to absorb mass immigration and develop a barren country characterized by a limited and undeveloped industrial infrastructure. Israel's population grew from 800 thousand in 1948 to just under 4 million in 1981 - an average annual growth of 4.7 percent. GNP increased by an annual average of 9 percent in the period 1950-1972 with investments increasing by 4.6 percent in the same period. It is only since 1973 that the growth in GNP slowed down, averaging 3.4 percent in the period 1973-1982.

- b. The cumulative rise of import prices. Import prices rose between 1972 and 1981, by about 195 percent. The price of oil alone increased in this period tenfold while the prices of other imports increased by 88 percent. Israel's dependence on imports is dictated to a large extent by its limited natural resources and shortage of raw materials, especially fuel. Thus, imports comprise about 40 percent of Israel's total resources. Imports of oil alone, increased from 100 million dollars in 1972 to 2 billion dollars in 1981.
- c. The fast rising interest payments abroad resulting from the growth of the foreign debt. Interest payments went up from 90 million dollars in 1968 to 2.1 billion dollars in 1981 and is estimated at 2.4 billion dollars in 1982.

2. The Foreign Debt

The need to reduce Israel's current deficit is emphasized by the rapid increase in the foreign debt which grew from 650 million dollars at the end of 1960 to 18.3 billion dollars at the end of 1981 and an estimated 20.4 billion dollars in 1982. At the same time, the debt service increased from 150 million dollars in 1960 to 3.2 billion dollars in 1981, and is estimated to reach 3.9 billion dollars in 1982. The major part of this debt is long term and at preferential terms. Long-term debt made up 74 percent of the total debt in 1981, while medium-term debt amounted to 13 percent, and the remaining 13 percent was short-term debt.

Forty-one percent of the debt is owed at favorable terms to the US Government, 5 percent to the Government of the Federal Republic of Germany, and 16 percent to the holders of Israel Bonds. In spite of this favorable debt structure, Israel recognizes the need to reduce its current deficit so as to avoid continuous fast growth of its foreign debt.

C. THE TRADE ACCOUNT 1981-1982

In 1981, the civilian deficit amounted to 2.2 billion dollars - the same sum as in the previous year. The trade deficit amounted in this year to 2 billion

dollars as compared to 1.9 billion dollars in the previous year. The stabilization of the deficit in this year may be viewed with satisfaction, as it followed a steep decline (of 500 million dollars) in the civilian and trade deficits in the previous year.

Foreign trade in 1981 was characterized by a decline in both import and export prices. Despite inflation abroad, the prices of international trade declined in dollar terms, due to the strengthening of the dollar against the European currencies. Israel's terms of trade improved in 1981 by about 0.5 percent, as export prices declined at a somewhat lower rate than import prices.

The civilian deficit is estimated to grow in 1982 by about 570 million dollars, amounting to about 2.8 billion dollars.

The trade deficit in 1982 is estimated at 2.2 billion dollars, an increase of 190 million dollars compared to the previous year. In this period January-August 1982, the trade deficit amounted to about 2 billion dollars, an increase of about 150 million dollars compared to the same period in 1981.

The growth in the civilian deficit in this year is to be attributed to the considerable slowdown in exports, export of goods and services being expected to grow by only 3 percent. Exports were adversely affected by slack demand in major export markets and by the continued weakening of the European currencies against the dollar. At the same time civilian imports are estimated to increase by 7 percent.

1. Exports

Exports of goods and services amounted to 11.2 billion dollars in 1981, of which 5.9 billion dollars were goods. This represents an increase of 750 million dollars in total exports compared to 1980, a nominal increase of 7 percent, representing an increase of 8 percent in volume and a 1 percent decline in prices.

Exports of goods increased by only 130 million dollars, or by 2.5 percent, after an increase of 5 percent in volume and a decrease of 2.5 percent in prices.

The drop in export prices resulted mainly from a weakening of the European currencies against the dollar, by an average of about 21 percent in 1981, and a further 13 percent between January and September 1982. It should be noted that 47 percent of Israel's exports in 1981 were directed to Europe.

The growth of Israeli exports has been accompanied by fundamental structural changes in its industry and exports. Israel has successfully entered the market of sophisticated and technology-intensive products in which it has a relative advantage, due to the availability of a highly qualified and technology-oriented labor force, at relatively low cost.

The volume of exports of manufacturing industries, excluding diamonds, grew in 1981 by 11 percent, and by 9 percent in current prices. Especially impressive was the sizeable increase in exports of know-how intensive goods and services based on Israeli Research and Development. Thus, the volume of export of electronic and electrical products increased by 44 percent, transport equipment by 20 percent, metal products by 18 percent, and mining and quarrying equipment by 17 percent. At the same time, food exports grew by 12 percent and clothing and footwear decreased by 8 percent only.

The expected recovery of the diamond market failed to materialize in 1981, when diamond exports dropped by 24 percent, representing a 20 percent fall in volume and a 5 percent fall in prices.

In 1982, total exports are estimated to reach 11.6 billion dollars, of which 6 are exports of goods. Partial figures available at present indicate, that the advantages which helped the promotion of exports in 1981 were not sufficient to ensure the continuation of rapid export growth in 1982. Therefore, this year growth in total exports is expected to reach only 400 million dollars, a nominal increase of only 3 percent over the previous

year, following an increase in volume of less than 2 percent and an expected rise in prices of 1 percent.

The export of goods is estimated to stabilize at the 1981 level after an increase of 1 percent in volume and a decrease of 1 percent in prices.

According to these estimates, the export of diamonds will continue to fall this year by 12 percent, the volume of industrial exports (excluding diamonds) will rise by only 2.5 percent, agricultural exports will increase by 2 percent, and the export of services by 5 percent.

This year also witnessed a slowdown in the number of tourists visiting Israel, partially due to a slowdown in world tourism. Between January and August of 1982, 10 percent fewer tourists entered Israel than in the same period in 1981.

The slowdown in exports in 1982 is reflected in the data for the period January-September. In this period, total exports of commodities were 6 percent below those in the same period in the previous year. This decline was mainly due to a 21 percent decline in the export of diamonds, while industrial exports other than diamonds declined by 1 percent. Agricultural exports declined by 9 percent due to a 21 percent decline in citrus exports and only a 1 percent increase in other agricultural exports.

2. Imports

Civilian imports amounted in 1981 to 13.4 billion dollars of which 8 billion dollars were imports of goods. Civilian imports increased by about 0.8 billion dollars, an increase of 6 percent, resulting from a 9 percent increase in volume and a 2.8 percent decrease in import prices. Imports of goods increased in the same year by 40 million dollars, representing a 0.5 percent increase over the previous year.

In 1982, civilian imports are estimated to amount to 14.3 billion dollars of which about 8.2 billion dollars are goods. Civilian imports increased by almost 1 billion dollars, an increase of 7.2 percent, resulting from a 7.7

percent increase in volume and a 0.4 percent decrease in imports prices. Imports of goods are expected to increase by 260 million dollars, a nominal increase of 3.5 percent.

The accelerated growth in imports in 1982 results mainly from an increase in imports of investment goods and from an increase in imported inventories which had declined in the previous two years.

3. Capital Imports and Reserves

Israel succeeded to finance its deficit by increased capital imports. Gross capital imports amounted to 5.2 billion dollars in 1981 and are estimated at 6.4 billion dollars in 1982. Net capital imports amounted to 3.7 billion dollars in 1981 and are estimated at 4.6 billion dollars in 1982, after debt redemptions of 1.1 and 1.5 billion dollars, respectively.

Unilateral transfers amounted in these years to about 52 percent of gross capital imports while long and medium-term loans amounted to 45 percent. As a result, external debt grew in 1981 by 1.7 billion dollars and is expected to increase a further 2 billion dollars in 1982, reaching about 20 billion dollars at the end of this year.

Total debt service amounted to 3.2 billion dollars in 1981 and 3.9 billion in 1982.

Capital imports were at a sufficient volume to enable Israel to maintain the level of foreign reserves, amounting at the end of 1981 to 2.9 billion dollars and estimated to remain at about the same level at the end of 1982.

D. THE LEVEL OF ECONOMIC ACTIVITY

In 1981, there was an upturn in the pace of economic activity after a prolonged period of very slow growth which had begun in 1974. The renewal of growth was reflected in the faster growth of GNP. Private consumption grew significantly and investment in fixed assets started to grow again while the rate of growth of exports began to slow down due to slack demand abroad.

In spite of the faster economic growth a slight increase in unemployment occurred, together with a considerable increase in productivity in manufacturing industries and agriculture.

In 1982, the rate of economic growth is estimated to be similar to that of the previous year.

The unemployment rate is expected to stabilize at last year's level.

Inflation accelerated in 1982 following the considerable decline in 1981.

1. Gross National Product

In the years 1975-1980, the average growth rate of GNP was 2.7 percent. In 1981, GNP increased by 4.6 percent. The product of manufacturing industries, transportation and communications increased by about 5 percent, agricultural product increased by 8 percent, while the product of the construction industry decreased by 3 percent.

Total resources and uses increased in 1981 by 6.5 percent. Private consumption amounted to 36 percent of total uses, public consumption to 23 percent, investment to 12 percent and exports to 29 percent.

In 1982, the GNP is expected to increase again at a rate of about 4.5 percent. Total resources and uses are estimated to increase by 2.5 percent.

2. Productivity

The acceleration in economic activity in 1981 was accompanied by an increase in productivity. GNP per employed person increased by 2.5 percent in 1981, following a 1.5 percent increase in the previous year. Output per working hour increased by 4 percent, the increase in manufacturing industries being 5 percent and in agriculture 8 percent.

The increase in GNP in 1982 is expected to be considerably greater than that in employment, pointing to a further increase in productivity.

3. Investment

The prolonged downward trend in investment changed course in 1981, gross investment in fixed assets increasing by 2 percent and investment in fixed assets other than housing increased by 4.5 percent. Investment in housing declined in 1981 by 1 percent after an 8.5 percent rise in 1980.

Gross domestic investment is estimated to increase in 1982 by 9.5 percent, investment in fixed assets by 2 percent, and investment in housing by 1 percent.

4. Private Consumption

Following a steep decline of 5.5 percent in 1980, per capita private consumption increased by 8.5 percent in 1981. Consequently, the average annual growth for the two-year period is 1.25 percent. The increase in private consumption in 1981 was caused to a great extent by the considerable decline in the rate of inflation which resulted in an increase in real wages.

The rate of increase in private consumption declined considerably in 1982; per capita private consumption being estimated to increase by about 3 percent. Whereas the indicators for private consumption show stability in the first half of 1982 compared to the second half of 1981, a decline is expected in the second half of 1982.

These forecasts assume that the high rate of private savings (33% of the disposable income in 1981) will persist in 1982.

5. Public Consumption

In 1981, public consumption increased by 7.5 percent, mainly due to a random increase in military imports. Domestic public consumption increased by 3 percent.

In 1982, public consumption is estimated to decrease by 4.5 percent, resulting from a freeze in domestic civilian public consumption, as a result of the restrictive budgetary policy, and the decline in military imports.

6. Employment

The 4.5 percent increase in economic activity in 1981 resulted from an increase of 2 percent in the number of employed and a 2.5 percent rise in productivity (output per employed). The total civilian labor force rose, however, by close to 2 percent, resulting in a slight rise in the rate of unemployment, from 4.8 percent of the labor force in 1980 to 5.1 percent in 1981.

For 1982, no major change in the field of employment is envisaged, assuming a 4.5 percent growth of GNP accompanied by a 3 percent increase in productivity and a 2 percent growth in the labor force.

7. Inflation

Historically, the rate of inflation in Israel has always exceeded the rates common in the industrial countries, due to structural problems specific to Israel - high military expenditures together with a fast rate of development.

The beginning of 1981 saw a decline in the rate of inflation from its exceedingly high level in the last quarter of 1980. During 1981, prices rose by 101 percent, down from the 133 percent of 1980.

The deceleration in the rate of inflation in 1981 resulted from a combination of factors: the reduction of extremely high indirect purchase taxes and the moderate increase in prices of goods and services controlled by the government. The most important factor contributing to the slowing down of inflation was a clear change in inflationary expectations, caused, among other things, by the highly visible anti-inflationary policy measures implemented.

The consumer price index is estimated to rise by about 125 percent in 1982. It proved to be impossible to achieve a further immediate reduction in inflation in 1982 for a number of reasons. In 1982, several policy measures which had an immediate one time impact on prices were implemented. Value Added Tax was increased from 12 percent to 15 percent, a 3 percent levy on imports was introduced and a temporary levy on travel abroad was imposed. Prices of imported goods rose by 76 percent in the period January-August as a result of the depreciation of the Israeli currency alone. Subsidies were cut substantially, causing a rise in prices of subsidized items far exceeding the overall rate of inflation.

These measures, although resulting in an immediate rise in prices which will manifest itself in the rate of inflation for 1982, are anti-inflationary in their long range effect, and will continue to absorb liquidity in the coming years. At the same time, these measures will contribute to the improvement of developments in the balance of payments.

E. PROSPECTS OF MEDIUM-TERM DEVELOPMENTS

Despite the large deficit in the current account and other problems Israel has had to face, a sound economic base has been constructed. Israel's economic achievements are manifested in the productive absorption of mass immigration; the establishment of a sound social and economic infrastructure; the extensive increase in product capacity in manufacturing industries, agriculture and services; and particularly in the rapid growth of exports. In the course of time, a structural change in investment, production and employment has taken place, reflected in the increasing weight of exports in production and in the development of a whole range of sophisticated export products and services sold in all major exports markets.

There are good reasons to believe that the disruption of the positive trends in 1982 is of a temporary nature, and that the economy will soon return to the favorable course which characterized the previous year. It is towards this end that the current and long range economic policies are geared.

Israel's medium term economic forecasts assume that, as a result of the economic policies to be implemented, in particular the restraint of both private and domestic public demand, a gradual reduction in inflationary pressures will take place, and the current account deficit in the balance of payments will start to diminish. Because of the prevailing trends in exports, a substantial decline in the trade deficit is to be expected only after 1983.

The basic concept underlying these forecasts is one of controlled and selective growth, based on a scale of priorities. Growth is to be directed at exports and investment, while public and private consumption is to be restrained.

GNP is forecast to grow by an average annual rate of 5 percent during the period 1983-1986.

This forecast assumes a relatively small average increase in per capita private consumption, from a 2 percent decline in 1983 to an annual increase of 1 to 3 percent in the years 1984-1986.

Per capita civilian public consumption is expected to decline by an annual average of about 0.5 percent, resulting from cuts in real terms in budgetary expenditure, including a freeze in public sector employment.

Gross domestic investment is forecast to grow at an average annual rate of 7 percent. The renewal of growth in investment became absolutely necessary after a prolonged period of decline, a trend which has already started to change in 1982. The resumption of investment growth is also a prerequisite for sustained technological progress, a continued increase of productivity, and the greater competitiveness of Israeli products abroad.

The major contributors to the expected rise in exports will be the manufacturers of industrial goods. The volume of industrial exports is expected to increase at an average annual rate of 15.5 percent, or a cumulative increase of 70 percent in the period 1983-1986. Based on past

experience, this export target, though optimistic, is attainable.

Growth in the volume of total exports of goods and services is forecast to accelerate from 5.5 percent in 1983 to about 10.5 percent in 1986. The share of total resources (excluding military imports) allocated to exports is forecast to increase from 19 percent in 1975 and 29 percent in 1981 to 36 percent in 1986. At the same time, the share of non-military imports financed by exports is forecast to increase from 74 percent in 1981 to about 90 percent in 1986.

APPENDIX I

THE BALANCE OF PAYMENTS
1979-1981 AND ESTIMATES FOR 1982
(Millions of Dollars)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	Estimates	January-	
				<u>1962</u>	<u>1981</u>	<u>August</u> <u>1982</u>
1. Imports of Goods*	7,408	7,936	7,977	8,240	5,255	5,200**
2. Imports of Services	3,867	4,670	5,380	6,090	..	..
3. <u>=(1+2) Total Civilian</u> <u>Imports</u>	11,275	12,606	13,357	14,330	..	..
4. Military Imports	1,233	1,725	2,226	1,605	..	..
5. <u>=(3+4) Total Imports</u>	<u>12,508</u>	<u>14,331</u>	<u>15,538</u>	<u>15,935</u>	<u>..</u>	<u>..</u>
6. Export of Goods	4,716	5,797	5,929	6,000	3,405	3,200
7. Export of Services	3,854	4,613	5,230	5,560	..	..
8. <u>=(6+7) Total Export</u>	<u>8,570</u>	<u>10,410</u>	<u>11,159</u>	<u>11,560</u>	..	..
9. <u>=(1-6) Trade Deficit</u>	2,692	2,139	2,048	2,240	1,850	2,000
10. <u>=(2-7) Deficit in Service</u> <u>Account</u>	13	57	150	530	..	..
11. <u>=(5-8) Current Deficit</u>	3,938	3,921	4,424	4,375	..	..
12. <u>=(3-8) Civilian Deficit*</u>	2,705	2,196	2,198	2,770	..	..

* Excluding Direct Military Imports

** As data for February and March 1982 are not yet available, an estimate was used for these months.

APPENDIX I (cont'd)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	Estimates <u>1982</u>	January- August <u>1981</u>	<u>1982</u>
13 Gross Capital Imports	4,657	5,385	5,152	6,375		
14 Net Capital Imports	3,500	3,992	3,732	4,650		
15 Net Foreign Exchange Reserves	2,570	2,781	2,847	2,850		
16 Foreign Debt	15,284	16,624	18,330	20,470		

APPENDIX II

CIVILIAN IMPORTS OF GOODS AND SERVICES*

1979-1981 and January-August 1981, 1982

(Millions of Dollars)

	Jan.-Aug.				
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1981</u>	<u>1982**</u>
<u>TOTAL IMPORTS OF GOODS AND SERVICES</u>	<u>11,275</u>	<u>12,606</u>	<u>13,357</u>	<u>..</u>	<u>..</u>
1. <u>TOTAL IMPORTS OF GOODS</u>	<u>7,408</u>	<u>7,940</u>	<u>7,977</u>	<u>5,255</u>	<u>5,200</u>
a. Consumption Goods	626	543	756	487	560
b. Investment Goods	1,195	969	1,033	631	770
c. Production Inputs	5,584	6,429	6,116	4,179	3,960
Of which: Diamonds	920	1,120	529	350	300
Fuel	1,406	2,116	2,048	1,495	1,360
Other inputs	3,258	3,193	3,539	2,334	2,300
d. Other imports and adjustments	-161	-229	-217	-42	-90
e. Imports from administered territories	164	224	289	..	..
2. <u>TOTAL IMPORTS OF SERVICES</u>	<u>3,867</u>	<u>4,670</u>	<u>5,380</u>	<u>..</u>	<u>..</u>
a. Transport	948	1,040	1,092		
b. Tourism	454	525	600		
c. Insurance	385	439	477		
d. Capital Services	1,380	1,899	2,216		
e. Government	131	148	118		
f. Other	298	335	562		
g. Import from administered territories	271	284	315		

* Not including military imports

** As data for February and March 1982 are not yet available an estimate was used for these months.

APPENDIX III

EXPORTS OF GOODS AND SERVICES
1979-1981 and January to September 1981, 1982
(Millions of Dollars)

	Jan-Sept				
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1981</u>	<u>1982</u>
<u>TOTAL EXPORTS OF GOODS AND SERVICES</u>	<u>8,570</u>	<u>10,410</u>	<u>11,159</u>	<u>..</u>	<u>..</u>
<u>1. EXPORTS OF GOODS</u>	<u>4,716</u>	<u>5,796</u>	<u>5,929</u>	<u>3,378</u>	<u>3,539</u>
a. Agricultural Exports	556	556	599	440	401
b. Industrial Exports	3,762	4,749	4,711	3,319	3,125
1. Diamonds	1,224	1,409	1,067	837	665
2. Industrial exports excl. diamonds	2,538	3,340	3,644	2,482	2,460
(i) Metal	433	566	678	458	460
(ii) Electrical & Electronical	171	287	387	262	265
(iii) Transport Equipment	364	398	473	320	320
(iv) Chemicals	530	723	736	559	531
(v) Mining and Quarrying	102	158	195	145	151
(vi) Food	256	298	339	243	241
(vii) Textile, Clothing & Leather	349	473	395	287	270
(viii) Light Industrial Exports	333	437	441	208	222
c. Other Exports and Adjustments	-48	-89	-61	..	..
d. Exports to Administered Territories	446	581	680	..	..
<u>2. TOTAL EXPORTS OF SERVICES</u>	<u>3,854</u>	<u>4,613</u>	<u>5,230</u>	<u>..</u>	<u>..</u>
a. Transport	1,147	1,360	1,412		
b. Tourism	789	896	949		
c. Insurance	411	457	486		
d. Capital Services	808	1,052	1,474		
e. Government	19	15	14		
f. Other	577	713	774		
g. Export to Administered Territories	103	120	121		

APPENDIX IV

Resources and Uses
1981-1983
Real Changes - Percent

	<u>1981</u>	<u>Estimate</u> <u>1982</u>	<u>Forecast</u> <u>1983</u>
Total Resources and Uses*	5.2	5.2	4.1
<u>Resources</u>			
Gross Domestic Product	4.6	4.3	3.3
Civilian Imports*	9.1	7.7	4.8
<u>Uses</u>			
Private Consumption	10.5	5.0	0.0
Private Consumption per capita	8.4	3.5	-1.5
Public Consumption - Total	7.7	-4.6	5.4
Of Which: Civilian	1.3	0.0	0.0
Defense	11.0	-6.8	-8.1
Local Public Consumption	2.8	8.6	2.6
Investment	-1.0	9.5	5.6
Exports	8.2	2.3	5.5

* Excluding military imports