

GENERAL AGREEMENT ON

RESTRICTED

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TARIFFS AND TRADE

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SUBSIDIES

Notifications Pursuant to Article XVI:1 of the General Agreement

ISRAEL

The following notification has been received from the Permanent Mission of Israel.

I. NATURE AND EXTENT OF THE SUBSIDIES

A. Background and authority

Having regard to the particular conditions and severe problems faced by the Israeli economy at the level of the balance of payments and inflation, the Israeli government operates a restrictive monetary policy, the two basic principles of which are credit limitation and interest rates much higher than those prevailing on international financial markets.

In order to prevent undue prejudice to the competitive capacity of export undertakings by reason of this situation, the government makes credit available to the latter out of special funds and on conditions normally prevailing in international money markets. These credits are designed to allow the financing of part of their production operations and part of their export earnings in the period between delivery and actual payment.

There are two types of export credit funds : two short-term funds and one medium- and long-term fund.

The funds are managed by an interministerial committee. The latter determines the part to be financed out of the various funds in accordance with government policy. It also determines the sectors entitled to the credits granted.

Financial resources are assured by the Bank of Israel for the medium- and long-term fund and by the major commercial banks for the short-term funds.

The Bank of Israel and the Ministry of Industry and Trade examine the eligibility of each exporter for these funds and authorize the credit volume made available to the exporter in accordance with the parameters indicated below *1:

1. Production for export fund

This fund is designed to finance imported and domestic origin inputs used in production process of goods for exports. The volume of credit granted depends on the following parameters :

- a) Value added of production
- b) Annual production turnover, i.e. number of stock renewals during the year.
- c) Financing rate - percentage share of costs financed.

Credits out of this fund are allocated by commercial banks in foreign exchange at an interest rate which is the LIBOR + 2 per cents.

2. Shipment credit fund

This fund serves to finance the exporter until actual payment of goods following their shipment. The credits are granted for a maximum of six months. In this case too, the financing covers only part of the earnings awaited. The financing coverage rate is fixed by the interministerial committee.

Credits from this fund are furnished by commercial banks at the LIBOR interest rate + 2 per cents.

3. Medium- and long-term fund

This fund is available to exporters of capital goods for which payment is spread over a period of three to seven years. In fact this credit allows the undertaking concerned to grant supplier credits over this period. The interest rates applied are those of the OECD consensus.

*1 It should be noted that the subsidy funds mentioned in this notification were the subject of a declaration made by Israel in pursuance of Article 14:5 (SCM/67) on the occasion of Israel's accession to the Agreement on Interpretation and Application of Articles VI, XVI, and XXIII of the General Agreement on Tariffs and Trade.

C. Amount of subsidy

1. Production for export fund

The interest rate charged is LIBOR + 2 per cent

2. Shipment credit fund

The interest rate charged is LIBOR + 2 per cent.

3. Medium- and long-term fund

The rates are those of the OECD.

D. Estimated amount per unit

1. Production for export

What is assured is availability of credit, not financial support.

2. Shipment credit fund

What is assured is availability of credit, not financial support.

3. Medium- and long-term fund

What is assured is availability of credit, not financial support.

II. EFFECT OF SUBSIDY

A. Quantitative trade effects

It is not possible to evaluate this effect because of the rate of inflation, and erratic variations in exchange rates as between foreign currencies (European vis-à-vis US dollar).

B. Statistics

See attached table.

BALANCE OF PAYMENTS STATISTICS

(US \$ Million)

<u>EXPORTS</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
<u>Exports of goods</u>	5,560	5,541	6,189	6,602	7,637
Industrial	4,415	4,358	5,044	5,674	6,321
Agricultural	552	504	529	469	560
Other	593	679	616	459	456
<u>Exports of services</u>	<u>5,024</u>	<u>4,943</u>	<u>4,632</u>	<u>4,631</u>	<u>4,476</u>
Capital	1,791	1,584	1,192	1,039	920
Transport	1,284	1,216	1,295	1,305	1,309
Tourism	890	1,017	1,034	1,095	964
Other	1,024	1,050	1,064	1,192	1,277
TOTAL EXPORTS OF GOODS AND SERVICES	<u>10,584</u>	<u>10,485</u>	<u>10,821</u>	<u>11,235</u>	<u>12,114</u>
 <u>IMPORTS</u>					
<u>Imports of goods</u>	<u>7,909</u>	<u>8,379</u>	<u>7,967</u>	<u>7,841</u>	<u>9,186</u>
<u>Imports of services</u>					
Raw materials	5,860	5,787	6,005	6,162	6,843
Capital goods	1,295	1,778	1,572	1,414	1,604
Consumer goods	832	953	657	621	1,023
Other and adjustments	-78	-139	-267	-356	-284
<u>Imports of Services</u>	<u>5,728</u>	<u>5,924</u>	<u>6,208</u>	<u>5,509</u>	<u>5,746</u>
Capital	2,741	2,669	2,966	2,776	2,591
Transport	1,102	1,031	1,070	938	936
Tourism	665	795	718	543	846
Other	1,220	1,429	1,454	1,252	1,373
TOTAL IMPORTS OF GOODS AND SERVICES EXCLUDING DIRECT MILITARY IMPORTS	<u>13,637</u>	<u>14,303</u>	<u>14,175</u>	<u>13,351</u>	<u>14,932</u>
Imports military	1,517	1,043	1,463	1,828	1,148

TOTAL IMPORTS OF SERVICES

<u>AND GOODS</u>	<u>15,155</u>	<u>15,346</u>	<u>15,637</u>	<u>15,179</u>	<u>16,080</u>
Civilian deficit	3,053	3,818	3,353	2,116	2,818
Total deficit	4,571	4,860	4,816	3,944	3,966

PRODUCTION AND CIVILIAN CONSUMPTION FOR THE YEARS 1981-1985

(Million new shekels at 1980 fixed price)

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>
GDP	114,5	114,9	118,0	120,1	123,5	126,2
Private consumption	66,9	71,8	77,5	71,9	71,6	81,6
of which of durable goods	8,7	9,7	11,4	7,8	7,6	11,2