GENERAL AGREEMENT ON

TARIFFS AND TRADE

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Committee on Balance-of-Payments Restrictions

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1993 CONSULTATION WITH ISRAEL

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I. POLICY DEVELOPMENTS

1. The liberalization programme

During the last consultation held in December 1991, Israel presented a reform of its import régime - thus following a recommendation of this Committee made during the previous consultation of 1989.

The implementation of the reform started on September 1, 1991 replacing administrative and quantitative restrictions applied to industrial goods, with temporary increased rates of customs duties that are being gradually reduced. Details of the reductions with the timetable were specified in document No. BOP/307 from November 19, 1991 submitted at the last consultations.

The programme is being constantly monitored (by the Ministry of Industry & Trade together with the Ministry of Finance), until now the implementation has been according to schedule. One change was presented in the programme that refers to the textile and clothing sector.

It was decided that the phasing out period in this sector will be nine years instead of seven years thereby creating a longer period for adjustment and restricting for that sensitive sector.

2. Legal and administrative basis

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 covered by the Free Import Order - 1978, issued by the Minister of Industry and Trade on 20 July 1978.

Individual import licenses are issued by the "Competent Authorities" - officials designated for that purpose by the Ministers concerned (such as Industry and Trade, Agriculture, Housing, Transport, Health, Welfare Communications and police).

3. Methods used for licensing of imports

The Free Import Order - 1978 permits the import of all commodities, except those specifically mentioned in the First Annex to that Order. Commodities included in that Annex were subject to licensing and the necessary import licences were issued by the "Competent Authority".

The reform described above cancelled the previous discretionary licensing of industrial products and the import of most of them does not require any licensing. Imports of certain industrial products are still subject to licence which according to an amendment of the Free Import Order dated September 1st 1991, is issued automatically. This is maintained for reasons of monitoring and information, and is scheduled to be abolished on September 1, 1994.

The foreign exchange required to pay for imports, whether covered by Free Imports Order or individual licence, can be purchased by the importer from "Authorized Dealers", i.e. banks, without limitations.

4. Treatment of imports from different sources

The import reform affects all those countries with which Israel has trade relations and the duties are applied on an MFN basis. This excludes however, the EC, the US and the EFTA states with whom Israel has free trade area agreements - thus no duties and restrictions are applied.

The Free Import Order specifically excludes imports from countries which "prohibit of limit, expressly or otherwise, the imports of commodities from Israel". A list of such countries was last published in the Official Gazette on 4 January 1993. The list includes a number of contracting parties and is subject to review.

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.

5. The affected commodities

As mentioned before, the liberalization programme relates to those products previously subjected to licensing. The First Annex to the Free Import Order now includes the list of products subject to automatic licensing.

Most of the commodities were taken out of this Annex as their import do not require licence anymore. The import of agricultural products is subject to licence.

6. The rôle of State Trading

In the past, the government was the sole importer of a number of essential foodstuffs and livestock feeds. This was carried out by the Government Trade Administration.

Since 1989 a liberalization process has been going on through which imports of wheat and coarse grains were privatized, and the only remaining activities of the Administration are the import of meat, purchases and sale of local growing wheat and ensuring the maintenance of adequate emergency stocks. The import of wheat and coarse grains is subject to licence.

7. Remaining measures

As stated in document L/5361 of September 2nd 1982, Israel has introduced as of 15 June 1982 a train of several measures with the purpose of reducing the balance-of-payments deficit and curbing inflation. The last measure still in force is a temporary import levy.

The import levy has been imposed in the form of a temporary 3 per cent ad valorem additional duty on all imports which are subject to value added tax and has remained in effect at that level until 31 march 1983.

In April 1983 the level of the duty has been reduced to 2 per cent and is going to be further reduced to 1 per cent not later than 31 December 1994.

This reduction follows the recommendation made by this Committee at the last consultations and was notified to the secretariat in a letter from August 27, 1992.

In view of the small magnitude of the measure still in place, we would like to suggest to the Committee to hold the next consultations under the simplified procedure.

II. ECONOMIC REVIEW

8. General

Strong economic growth has been evident in Israel since the most recent GATT consultation held in late 1991. GDP grew by 6.6 per cent in 1992, after increases of approximately 6 per cent in each of the previous two years. Business product increased by 7.9 per cent in 1992 after 7.6 per cent growth in 1991 and 7.2 per cent growth in 1990. Initial indicators point to continued rapid growth of activity in the first few months of 1993. This vigorous upturn in activity coincides with large-scale immigration , which began in late 1989 and has brought nearly 500,000 immigrants to Israel thus far - roughly 11 per cent of the country's population in 1989. The pace of immigration has not been uniform: approximately 200,000 arrivals in 1990, 176,000 in 1991, and 77,000 in 1992. In the first few months of 1993, immigration continued at an annual rate of 80,000. Inflation rate was reduced in 1992 to 9.4 per cent, following rates of 10 to 20 per cent in previous years.

9. Local Demand

Although the rate of economic growth was rather uniform in 1990-92, the differences in composition of demand during this period were salient. At the beginning of the immigration wave, it was growth of local demand that powered growth; in 1992, by contrast, export helped fuel the upturn. Residential building investment increased by 19 per cent in 1990 and by another 74 per cent in 1991. In 1992, this activity decreased by one per cent is expected to fall significantly in 1993. Infrastructure investment expanded by 20 per cent in each of the three years. Other investment in machinery and equipment rose by 27-28 per cent in 1990 and 1991, 8 per cent in 1992, and an annual rate of 20 per cent in the first few months of 1993. Another manifestation of the rapid population growth was a relatively strong upturn in private consumption: 5.3 per cent in 1990, 7.4 per cent in 1991, and 8.3 per cent in 1992. Growth of civilian public consumption was more modest: 3.8 per cent in 1990, 4.6 per cent in 1991, and 5.2 per cent in 1992. Defense consumption contracted in this period.

10. Export and Import Volume

The robust growth of local demand manifested itself in an accelerated increase in merchandise and service imports: 9 per cent in 1990, 16 per cent in 1991, and approximately 10 per cent in 1992. The import growth rate is expected to slow further in 1993. Exports surged by 14.4 per cent in 1992 after slipping by 1.5 per cent in 1991 and increasing at a moderate 2.5 per cent in 1990. Export growth

in 1990 and 1991 was seriously impeded by the harsh effects of the Gulf War crisis, which erupted in mid-1990 and escalated into war in the first quarter of 1991. Incoming tourism plunged as a direct consequence of the crisis and the war; it recovered gradually by the end of 1991. Merchandise exports were also hurt, if to a lesser extent. Furthermore, Israel's export markets around the world were in a state of recession. Accordingly, 1992 was a year of recovery and compensation for the previous two years. During the year, too, a significant expansion in exports to parts of the world where Israel had done little trade theretofore became evident. The upturn in exports to South Asian and Eastern European countries is especially conspicuous. Further vigorous export growth, at a rate of 10 per cent is expected in 1993.

11. Balance of Payments

The developments described above caused the merchandise and service import surplus to increase rapidly - from US$3.9 billion in 1989 to US$7 billion in 1991 and US$6.9 billion in 1992. An influx of unilateral transfers to the public and private sectors has prevented a corresponding worsening in the balance of payments current account thus far. After showing a surplus of US$1.2 billion in 1989, the current account ran a US$0.3 billion deficit in 1991 and generated a surplus of US$0.1 billion in 1992. Unileteral transfers totalled US$7 billion in 1992, divided in roughly equal measures between the public sector and the private sector. However, Israel's foreign reserves fell by US$1.3 billion in 1992, mainly because of an increase in private-sector investments abroad. The gross external debt grew from US$31.5 billion at the end of 1989 to US$33.6 billion at the end of 1992, but the net debt (less foreign-exchange assets) decreased from US$15.8 billion to US$14.7 billion - approximately 23 per cent of GDP.

12. Looking Ahead

Immigration has slowed: from 200,000 per year in 1990-91 to some 80,000 per year in 1992-93. However, the economic absorption of the immigrants who have arrived thus far, and of those who will arrive in the future, is still in full swing. As economic activity has expanded, employment has grown at an annual rate of 4-6 per cent in the past three years. Since this has not kept up with growth of the labour force, the unemployment rate has risen from 8.9 per cent in 1989 to 11.2 per cent in 1992. Starting in 1993, we expect the rate to fall gradually by about one percentage point per year. This assumes that immigration will continue at its present pace, but the possibility of a massive upturn in immigration must be taken into account. This would happen in the event of unexpected developments in the immigrants' countries of origin, or if falling unemployment rates and continued improvement in the economic circumstances of immigrants already in Israel causes the immigration trend to rise protractedly. To maintain economic growth at a pace that would permit good progress in immigrant absorption requires further investment in job creation and rapid export growth in the years to come, too.

13. Reforms

The following economic reforms have continued since the last consultations:

* The gradual opening of local financial and capital markets to foreign markets has continued, internal deregulation has advanced, and new financial instruments have been developed.

* In the field of privatization, deregulation efforts have continued, along with action to introduce competition in areas dominated by State-owned enterprises. These measures have resulted

in the sale of companies such as Israel Chemicals, Ltd:, and Industrial Buildings, Ltd. Reform of the banking system is under way: one bank (Union) has already been sold off, and 20 per cent of equity in the country's largest bank (Bank Hapoalim) is being floated on the exchange at present. Another banking firm, IDB Holding Company, Ltd., was sold in early 1992.

Balance of Payments 1989-1992
(US$ million)

	1989	1990	1991	1992
1. Merchandise (net)	-1,854	-3,015	-4,977	-5,034
Exports	11,061	12,133	12,021	13,282
Imports	-12,915	-15,148	-16,998	-18,316
of which : Defence	-1,170	-1,468	-1,940	1,448
2. Services Account (net)	-2,015	-2,342	-2,080	-1,819
Exports	5,688	6,198	6,541	7,532
Imports	-7,703	-8,540	-8,621	-9,351
3. Goods and Services (1 + 2)	-3,869	-5,357	-7,057	-6,853
4. Transfer Payments (net)	5,100	5,931	6,717	6,940
to the Government	3,059	3,719	4,306	4,038
to the private sector	2,041	2,212	2,411	2,902
5. Current Account (3 + 4)	1,231	574	-339	87
6. Capital flows (net)	-1,131	-700	-583	- 2,768
Long term	123	-24	25	-650
Short term	-1,254	-676	-608	-2,118
7. Foreign reserves	-1,398	-515	38	1,335
8. Statistical discrepancies	1,298	641	884	1,346

14. Concluding Remarks

It may be said that, thus far, the Israeli economy has coped with the immigrant-absorption challenge without deterioration in the balance of payments. However, the process is not yet complete; long-term stability in this regard has not been achieved. The balance-of-payments trend over the next few years is still shrouded in great uncertainty. To mitigate the uncertainty, the United States Government has approved a US$10 billion package of loan guarantees over the next five to six years. Israel used the guarantees to raise US$1 billion in April, 1993. The American guarantees provide the local economy with a safety net and assure the availability of sources for affordable loans - should we need them - to complete the immigrant-absorption process.