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June 14, 1984

To: Members of the Executive Board

From: The Acting Secretary

Subject: Report on the Meetings of the GATT Committee on Balance of Payments Restrictions

Attached for the information of Executive Directors is a report by the Fund representative on meetings of the GATT Committee on Balance of Payments Restrictions, held in Geneva from May 22 to 25, 1984.

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INTERNATIONAL MONETARY FUND

Meetings of the GATT Committee
on Balance of Payments Restrictions

Report by the Fund Representative

June 13, 1984

The GATT Committee on Balance of Payments Restrictions met in Geneva during May 22-25, 1984, under the chairmanship of Mr. J.N. Feij (the Netherlands), to hold full consultations with Hungary and Israel, and consultations under simplified procedures with India and Yugoslavia. In preparation for the consultations, the Fund had transmitted, for use by the CONTRACTING PARTIES, its latest Recent Economic Developments reports on the four consulting countries, 1/ as well as a Supplementary Background Material paper on Yugoslavia. 2/ In addition, pursuant to existing arrangements for Fund-GATT cooperation, statements of the Fund's findings on Hungary and Israel had been prepared for the CONTRACTING PARTIES and approved by the Executive Board. 3/ The Fund representative was Mr. S. J. Anjaria.

1. Hungary

In addition to the Fund documentation, the Committee had before it documents prepared by the Hungarian authorities and the GATT secretariat. 4/ In his introductory statement, the representative of Hungary outlined recent developments in Hungary's external position. In 1983, the principal objective of Hungary's economic policy was to achieve a significant and sustainable improvement in the current account in convertible currencies. To achieve this, the authorities had relied mostly on internal economic policy measures, such as restraining real consumption through curbs on wage increases, raising social security contributions, and reducing consumer price subsidies. Measures had also been taken to curb investment expenditure. The 7 percent devaluation of the forint in 1983, followed by a further 3 percent devaluation in early 1984, had been aimed at promoting a more rational use of foreign exchange and raising the profitability of exports. In 1983, the trade surplus in convertible currencies was $877 million, or about $100 million higher than in the previous year, but still less favorable than had been expected. The current account surplus in convertible currencies amounted to $297 million in 1983, representing an improvement of $390 million over the previous year. Export performance had been impeded in 1983 by the effects of drought on agricultural production, unfavorable price trends, and the effects of lasting protectionist measures abroad.

1/ Hungary: SM/83/261 (12/28/83); Israel: SM/84/103 (5/8/84); India: SM/84/15 (1/10/84); and Yugoslavia: SM/83/40 (2/25/83).
2/ SM/84/88 (4/24/84).
3/ EB/CGATT/84/2 (5/14/84), and EB/CGATT/84/3 (5/14/84).
4/ GATT documents BOP/243 (5/4/84); and BOP/W/79 (5/2/84).

More recently, external economic conditions facing Hungary had not improved, the Hungarian representative stated. Nevertheless, in 1984 the authorities had eased some of the import restrictions introduced for balance of payments reasons in 1982, and they remained committed to the goal of achieving a sustainable balance of payments position. Achievement of Hungary's economic policy objectives would be facilitated if confidence in Hungary's own adjustment efforts were maintained by the international financial community, and if these were supported and accompanied by corresponding trade policy measures by its trading partners to liberalize, facilitate, and improve the conditions of market access for Hungary's export products.

The Fund representative made a statement on Hungary, the text of which is reproduced in Appendix I. The Committee then discussed Hungary's measures under two broad headings: Hungary's balance of payments situation and prospects, and alternative measures to restore equilibrium; and the system and effects of the restrictions in force.

Under the first heading, several Committee members made comments or raised questions on Hungary's demand management policy and recent balance of payments developments. The representative of the United States said that, for the fifth consecutive year, the burden of Hungary's adjustment effort would be borne by investment expenditures; he asked whether the Hungarian authorities were taking steps to ensure that cutbacks in investment plans would not unduly jeopardize future export and GDP growth. He requested further information on budgetary policies, and in particular on plans to cut back subsidies. The representative of Hungary responded that his authorities sought to minimize the longer term consequences of reliance on investment cutbacks by ensuring that available resources were not absorbed by less efficient projects, and by directing development credits toward export-oriented and energy-saving activities. As regards budget subsidies, they continued to constitute a significant portion of expenditure. One half of subsidy expenditure was destined to sustain consumption, and one half to restructure industries. While the objective was to reduce subsidies, reduction of consumption subsidies must proceed cautiously because of social considerations, the representative of Hungary noted.

The representatives of Canada, the European Communities, the Philippines, and the United States, welcomed the improvement in Hungary's external position in convertible currencies, and the removal of the import surcharge and liberalization of import quotas that had taken place earlier this year. In reply to a question, the representative of Hungary said that, at the end of 1983, Hungary's external reserves were equivalent to five months' imports. The adequacy of the current level of reserves depended on the continued confidence of the international financial markets in Hungary.

The representative of the European Communities noted that a variety of factors was responsible for Hungary's balance of payments situation, and questioned whether the background documentation submitted did not unduly emphasize the presumed negative effects of the Common Agricultural Policy on Hungary's agricultural exports. In any event, the remaining restrictions applied by Hungary still covered a significant portion of trade. The representative of Hungary stressed that the importance given to Hungary's problems of market access reflected the significance of the particular measures cited in the background documentation.

The representatives of Canada and the European Communities commented on the increasing trade deficits Hungary had recently registered with Eastern trading area countries, in contrast to the improvement in the trade balance in convertible currencies. In response to a question on subsidies given to exports to the Eastern trading area, the Hungarian representative stated that the subsidies were made necessary by the different price-setting methods of Hungary's partners for trade settled in rubles.

Under the second heading, the representatives of Canada, the European Communities, Sweden, and the United States welcomed the recent liberalization of trade restrictions by Hungary. They asked whether the Hungarian authorities could announce a timetable for the liberalization of the remaining restrictions. The representative of the Philippines requested clarification on the likely effect of the recent removal of the 20 percent import surcharge. The representative of Hungary reiterated that his authorities were making every effort, through the adjustment efforts under way, to reach a stage where restrictive import measures would no longer be necessary. The external environment was beyond the control of the authorities, and an improvement in the external economic and trading environment would certainly facilitate Hungary's adjustment efforts. The representative of Hungary stated that it would be difficult for his authorities to announce a specific liberalization schedule, even though they were strongly determined to remove the restrictions as soon as possible. He noted that the removal of the import surcharge, or the phasing out of other import restrictions, need not result in a rise in imports, as measures to contain domestic demand would be expected to have an effect on the volume of imports.

Following further discussion, the Committee on Balance of Payments Restrictions adopted the following conclusions:

> The Committee noted that, since the last consultation, Hungary's balance of payments situation had improved as demand management measures began to take hold. The Committee also noted the efforts made by Hungary to ease the restrictions introduced in 1982, and welcomed in particular the lifting of the 20 percent import surcharge on April 1, 1984, and the partial elimination of quantitative restrictions. Taking into account the multiplicity of factors affecting Hungary's balance of payments position, the Committee reiterated the hope that, in the light of progress achieved in internal adjustment, Hungary would soon be in a position to announce a timetable for the phasing out of the remaining restrictions and the return to automatic licensing, in accordance with Paragraph 1(c) of the 1979 Declaration on Trade Measures Taken for Balance of Payments Purposes.

2. Israel

The Committee based its discussion on documentation prepared by the Fund, the Israeli authorities, and the GATT secretariat. 1/ In his opening remarks, the representative of Israel stated that, since the previous GATT consultation with his country in late 1982, the expected improvement in Israel's balance of payments had not materialized. The civilian current account deficit rose from $3.8 billion in 1980 to over $5 billion in 1983, reflecting mainly a sizable increase in imports, while exports were roughly unchanged. Two factors underlying these trends were the weakness in foreign demand and the effects on Israeli competitiveness of the depreciation of the main European currencies against the U.S. dollar. In the 12 months to October 1983, incomes and private consumption in Israel had increased strongly, while the shekel had appreciated in real terms. The authorities had attempted--by slowing down the rate of currency depreciation, increasing subsidies for consumer products, reducing indirect taxes, and controlling prices of some government services--to moderate the rate of inflation. In the course of 1983, however, balance of payments pressures had grown, and the authorities had shifted the emphasis of economic policy. With the major exchange rate adjustment of October 1983 and the current policy of adjusting the exchange rate to take account of the rate of inflation, the authorities were giving first priority to preventing a further deterioration in the balance of payments by restoring the profitability of Israel's exports and improving the competitive position of Israeli manufacturers in the home market. For 1984, the authorities planned to reduce the civilian current account deficit by about $1 billion, and, to this end, were pursuing a policy based on restraints on public and private consumption, reduction in government expenditure (including subsidies), higher indirect taxes, a restrictive monetary policy, and a tighter incomes policy. In early 1984, it appeared that these policies were beginning to take hold, particularly in containing balance of payments pressures, although no progress had so far been made in reducing inflation. Israel continued to adhere to a liberal trade philosophy. The temporary import restrictions now in effect could not be liberalized in 1983, owing to adverse developments; however, these measures had had a limited impact on trading partners. The Israel authorities probably would have no choice but to renew the import deposit scheme on June 1, 1984, when it was scheduled to expire, but the extension would be for a period of six months only.

Inviting the Fund representative to make a statement on Israel, the Chairman welcomed the Fund's contribution, which had made possible a timely GATT consultation with Israel. The text of the Fund representative's statement is reproduced in Appendix II. Following the statement, the Committee discussed the balance of payments situation and prospects of Israel, and the system and effects of the restrictions.

Under the first heading (balance of payments situation), several Committee members referred to the imbalances prevailing in the Israeli

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1/ GATT documents BOP/244 (5/10/84); and BOP/W/78 (5/9/84).

economy. The representative of the United States applauded the adjustment measures introduced since October last year; he wondered, however, if they would be sufficient to redress the situation. He asked if the Israeli authorities considered that they would secure adequate external financing on appropriate terms to cover the current account deficit in 1984, should it turn out to be larger than programmed. The representatives of the Philippines and the United States asked for clarification regarding Israel's budgetary targets for next year. The representative of the European Communities requested further information on recent trade and balance of payments developments.

In response to the questions on the external situation and prospects, the representative of Israel said he could not be sure that the measures being taken would be sufficient to attain the long-range targets established by the authorities. The 1984 target of a $1 billion reduction in the civilian current account deficit was probably attainable; any small shortfall from the 1984 target could be met by additional external financing which would not pose problems in view of Israel's good standing in capital markets. The longer range target was to reduce the civilian current account deficit to about $2 billion, or half the 1983 level, by 1987. Regarding the trade balance, merchandise imports during the first four months of 1984 had amounted to $2.6 billion, compared to $2.7 billion in the corresponding period of 1983; merchandise exports had increased from $1.6 billion to $1.8 billion over the same period. The authorities were committed to taking complementary steps, if necessary, to achieve their targets. The representative of Israel stressed that the current exchange rate policy aimed to ensure that the exchange rate of the shekel remained broadly in line with expected differences in inflation rates between Israel and its major trading partners.

The representative of Israel reiterated the importance his authorities attached to reducing the budget deficit. In response to the questions on budgetary targets, he noted that, due to institutional and social constraints, it would be difficult to target a reduction of more than 3.5 percent per year in real government expenditure; on the revenue side, direct and indirect taxes in Israel were already high by international standards. A proposed tax reform was unlikely to come into effect before the end of 1984. As regards subsidies, the authorities aimed to reduce these to less than 25 percent of the price of the subsidized products, as against the present 50-100 percent. The representative of Israel also clarified the operation of the current scheme for indexation of wages to changes in the cost of living.

Under the second heading, viz., the system of import restrictions and their effect, the representative of the United States stated that his authorities would encourage Israel to eliminate the import deposit requirement on schedule, and the 2 percent import levy as soon as possible. Along with the representatives of Canada, the European Communities, and the Philippines, he asked for a further explanation of the import licensing system. Members of the Committee expressed their concern about the multiplicity of trade measures in Israel, and asked when the remaining trade restrictions would be phased out. On the purposes of the licensing system, the Israeli representative stated that it had a balance of payments justification in all cases. The representative of Israel also noted that it would be untimely to remove the import deposit scheme; indeed, he reiterated that it would probably be extended for a further six-month period.

Following the discussion, the Committee reached the following conclusions:

> The Committee recognized that Israel faced serious and persistent balance of payments difficulties, and that policies pursued in the recent past had not led to an improvement of the situation. The policies now being followed comprised a wide range of measures, priority being currently given to alleviating balance of payments problems. There were initial signs that these policies were showing positive effects.
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> The Committee noted that, in relation to its balance of payments situation, Israel had not had excessive recourse to trade restrictive measures. However, several trade policy instruments were being used simultaneously. In this connection, the Committee asked the secretariat to seek clarification about the status of the licensing measures notified by Israel.
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> The Committee recommended that, pursuant to paragraphs 1(b) and 1(c) of the 1979 Declaration on Trade Measures for Balance of Payments Purposes, Israel avoid the cumulation of different trade measures taken for similar ends, and indicate, as soon as practicable in line with improvements in the balance of payments situation, a time schedule for the phasing out of the restrictions.

3. Consultations under simplified procedures 1/

The Committee concluded that full consultations were not desirable and decided to recommend to the GATT Council that India and Yugoslavia be deemed to have fulfilled their obligations under Article XVIII:12(b) for 1984.

4. Other business

a. The representative of Brazil recalled that, on the occasion of the GATT consultations with Brazil in December 1983, the Brazilian authorities had put forth three specific proposals for action by Brazil's major trading partners to improve Brazil's access to their markets. 2/

1/ The Committee had before it the following GATT documents: India, BOP/245 and Add. 1 (5/4/84), BOP/W/81 and Corr. 1 (5/7/84); Yugoslavia, BOP/242 (4/17/84), BOP/W/80 (5/3/84), BOP/W/57 and Add. 1 (5/2/84).
2/ SM/83/254 (12/20/83), p. 2.

His authorities had now submitted to the governments of Brazil's main trading partners lists of cooperative actions they could autonomously adopt on a most-favored-nation basis during the adjustment period. The trading partners approached thus far included Australia, Austria, Canada, the EC, Japan, Sweden, Switzerland, and the United States. The representative of Brazil undertook to keep the Committee informed of the results of the bilateral consultations.

b. The Chairman drew the Committee's attention to import restrictions notified recently by Colombia for balance of payments purposes. The representative of the United States expressed concern about lack of full compliance by contracting parties of the procedures with regard to notification and consultations on import restrictions, including restrictions for balance of payments purposes. He noted that, according to unofficial information, Argentina had also introduced a series of measures since mid-1982, apparently for balance of payments purposes. The representative of the United States urged the GATT secretariat to get in touch with the authorities of Argentina and Colombia to obtain further information on the nature of the recent measures introduced.

GATT--Committee on Balance of Payments Restrictions

Consultation with Hungary

Statement by the Representative
of the International Monetary Fund

May 22, 1984

The key objective of Hungarian economic policy over the past several years has been to achieve a sustained improvement in the balance of payments position. The external current account deficit in convertible currencies was reduced, from US$727 million in 1981 to US$63 million in 1982 (or by the equivalent of nearly 3 percentage points of GNP). Although this strengthening permitted a moderate recovery in official reserves during the last three quarters of 1982, the external liquidity position remained very tight. The authorities' adjustment efforts were thus strengthened in late 1982. A stand-by arrangement for SDR 475 million was approved by the Fund on December 8, 1982.

However, the buoyancy of demand, already apparent in mid-1982, carried over into early 1983, and necessitated additional action in the course of 1983. In the early months of the year, measures were adopted which sought to reduce the rate of investment through a tightening of credit and an acceleration of credit repayment schedules. Measures to restrain consumption were introduced around midyear and included a reduction of consumer subsidies, increases in administered prices, a virtual freezing of wages in the government sector, and a depreciation of the forint. Steps were also taken to reduce the liquid funds of enterprises further and to increase the cost of investment.

The efforts of the authorities in pursuit of their adjustment program in 1983 met with only partial success. The current account surplus in convertible currencies for the year as a whole reached some US$300 million, about half the original target. The shortfall from the objective of the program stemmed mainly from a greater-than-expected fall in the terms of trade and a sharp drought-related reduction in the supply of farm exports. Nonetheless, the volume of exports settled in currencies other than the ruble is estimated to have grown--after adjustment for the effect of increased re-exports--by some 4.9 percent. The forint was depreciated against the basket of currencies to which it is pegged by about 18 percent in nominal terms--7 1/2 percent in real terms--between the middle of 1982 and the end of 1983.

Despite the various measures to contain domestic demand introduced in 1983, final domestic absorption is estimated to have been reduced substantially less than originally programmed. Household incomes grew more rapidly than envisaged, and the increase in consumer prices, at 7.3 percent, fell short of expectations. However, the resulting overrun on real personal consumption was more or less matched by additional output. The latter was associated in large part with a greater-than-anticipated expansion of private economic units, whose activities the authorities had liberalized in 1982. Fixed investment outlays also declined less in real terms than foreseen under the program. The stronger-than-programmed demand, however, appears to have spilled over into trade in convertible currencies only to a limited extent. The import restrictions vis-a-vis the convertible currency area introduced in September 1982, were maintained. The excess in fixed investment expenditures was accommodated by a rundown of machinery stocks, larger-than-anticipated imports from the nonconvertible currency area, and additional output in the construction sector. On the whole, real domestic demand is estimated to have fallen by 1.5-2 percent in 1983.

The stronger current account has brought a significant improvement in the attitude of financial markets toward Hungary. During the first six months of 1983, there was still a net outflow--albeit on a smaller scale than in 1982--of maturing short-term deposits. Since then, the availability of both short- and long-term capital has improved. In particular, short-term capital inflows amounted to SDR 390 million in 1983, compared to an outflow of SDR 900 million in the preceding year. At the same time, the maturity structure of the stock of external liabilities began to improve. Gross official reserves in convertible currencies rose to the equivalent of 5.6 months of imports in convertible currencies at the end of 1983, compared with 3.6 months of imports a year earlier.

A new one-year stand-by arrangement for Hungary in an amount equivalent to SDR 425 million (80 percent of quota) was approved by the Executive Board on January 13, 1984, in support of a program designed to strengthen the external position further. Key demand management policy elements include wage and price measures aimed at achieving a small reduction in real household income, improved incentives to save, a tighter credit policy, and a further improvement of the position of the state budget. Reflecting these measures, domestic demand is programmed to be reduced by 2 percent in real terms in 1984. In addition, structural reform measures are being implemented to increase the efficiency of production and the intersectoral allocation of resources. These include steps to liberalize the process of price and wage formation, increase the autonomy of enterprises, and improve financial intermediation.

The authorities are committed to continue making active use of exchange rate policy vis-à-vis the convertible currency area, in order to ensure the profitability of exports and promote a more rational use of imports. The forint was devalued further, by 3 percent, against its basket of currencies on February 7, 1984; at the same time, tax rebates to exporters and fees on imports were reduced.

The program for 1984 envisages a current account surplus in convertible currencies of US$400 million, with most of the US$100 million improvement over 1983 deriving from an increase in the trade surplus.

The larger trade surplus is expected to be achieved despite a projected further worsening of the terms of trade and the introduction of further liberalization measures. Accordingly, a strong performance of exports, with a further small gain in market shares, will again be required.

Effective September 1, 1982, several measures were introduced to restrict imports. Imports of specified primary products were made subject to quantitative restrictions, while imports of component parts became subject to a 20 percent surcharge. In addition, all import licenses were made subject to discretionary individual approval. The import license is subject to Fund jurisdiction as a joint exchange and trade license. Also, the quotas on imports of certain raw materials are part of this licensing system. The tightening of the import licensing system and the imposition of certain import quotas since September 1982 amounted to an introduction of an exchange restriction, which the Fund approved on a temporary basis under Article VIII, Section 2. Hungary avails itself of the transitional arrangements of Article XIV with respect to certain other exchange measures.

While the authorities had intended, in 1983, to eliminate the restrictions introduced in late 1982, unfavorable developments on the capital account in early 1983, and uncertain prospects for the remainder of the year concerning both capital inflows and foreign prices, resulted in a postponement of their removal. Nevertheless, the quota and import licensing restrictions were eased partially as of January 1, 1983. Additional steps were taken in early 1984. From January 1, 6 of the 12 existing quotas applying to imports of raw materials were removed. This represents more than one quarter of the value of imports of raw materials subject to quotas. In the first half of 1984, reference limits for large and frequent importers have been raised by 14.35 percent compared to the limits applied in the first half of 1983. The reference limits are set for the first six months of 1984, rather than quarterly, as in 1983. In addition, the 20 percent surcharge on imports of component parts was removed with effect from April 1, 1984. On the export side, the policy of authorizing domestic producers to export directly rather than through foreign trade organizations is to be continued. Foreign trading rights for export and import will be granted liberally upon proof of the ability of the enterprise to deal in foreign markets, and competition among foreign trading organizations will be permitted by the elimination of administrative restrictions on their activities.

The Fund welcomes the recent liberalization of the restrictions introduced in 1982, and believes that continuing adjustment efforts should permit Hungary to further liberalize its restrictive system.

GATT--Committee on Balance of Payments Restrictions

Consultation with Israel

Statement by the Representative
of the International Monetary Fund

May 23, 1984

The pace of growth of the Israeli economy slowed markedly in the last two years, to about 1 percent per year in 1982-83, compared to a growth of over 3 percent in 1980-81. During much of 1983, the imbalances in the Israeli economy deepened, with the external resource gap widening further and inflation rising. From the autumn of 1982, economic policy had focused on reducing the inflation rate by decelerating the growth of key nominal magnitudes, including the exchange rate and controlled prices. This policy did not succeed in significantly reducing inflation--over the year to September 1983, consumer prices increased by 128 percent, compared with 131 percent in the preceding 12-month period--partly because of institutional rigidities and deeply ingrained inflationary expectations, but also because of a deepening in the economy's real imbalances.

In the face of a rapidly deteriorating external position, and a mounting demand for foreign currency, the shekel was depreciated moderately in real terms in August 1983 and more substantially in October 1983. The second depreciation was accompanied by a basic change in exchange rate policy to ensure maintenance of the real effective rate; at the same time, budget subsidies were cut back substantially and steps were taken to begin reducing other expenditures. This heralded a change in the immediate focus of policy from reducing inflation to strengthening the balance of payments--which the Government has indicated that it intends to carry forward in 1984, when it is aiming to secure a reduction of about US$1 billion in the external goods and services deficit, primarily through a substantial reduction in the budget deficit.

As in the two previous years, aggregate demand--which increased by 5 percent--grew substantially faster than output during 1983. This reflected strong rises in both private consumption (7 percent) and public consumption (8 percent); fixed investment was also buoyant. The shift in pricing policy in October 1983 led to a release of repressed inflation--in the six months from September 1983, consumer prices rose by more than 120 percent and, by March 1984, stood more than 240 percent higher than a year earlier. Since real wages are adjusted incompletely and with a lag through indexation, real earnings fell by 15 percent in the fourth quarter, after having risen substantially earlier in the year. This sharp fall in real wages, combined with an erosion of the real value of the public's financial asset holdings in the fourth quarter of 1983 due to a collapse in the stock market, led to a turndown of domestic expenditure and output and a rise in unemployment.

The budgetary situation weakened markedly during 1983/84. The policy of tackling inflation in the first half of the fiscal year was responsible for higher price subsidies and increased outlays under an exchange rate insurance scheme; domestic defense costs and public sector wages also rose in real terms. Despite a number of measures to strengthen the budget from August 1983--including cuts in various programs--the deficit continued to widen in the second half of the fiscal year, due in part to a decline in both tax and nontax revenues. For the fiscal year as a whole, the budget deficit widened by the equivalent of 8 percentage points of GNP, to 26 percent of GNP. About one half of this deficit was financed by credit from the Bank of Israel. This monetary financing contributed importantly to a 9 percent real increase in the public's liquid financial assets during 1983. The public's holdings of total financial assets, by contrast, fell by 30 percent in real terms during 1983, reflecting the sharp fall in values on the Israeli stock market.

Israel's external goods and services deficit rose from US$4.7 billion in 1982 to US$5.0 billion in 1983, with a decline in defense imports (mostly financed by aid) more than offset by a further sharp rise in nondefense imports. As receipts from private and official transfers also fell slightly, the overall deficit on the current account rose by US$0.5 billion in 1983 to reach US$2.6 billion, or nearly 11 percent of GNP (compared to 9 1/2 percent in 1982 and 6 1/2 percent in 1981). The devaluations of August and October 1983, and subsequent exchange rate policy, have returned the real value of the shekel to around the level of September 1982; there are signs of improvement in the trade deficit in the second half of 1983 and early 1984. Gross external debt minus the foreign assets of commercial banks is estimated to have increased by US$1.4 billion, or 6 percent, in 1983 to US$22.3 billion (92 percent of GNP). The short-term component of debt declined marginally in 1983 to 14 percent of total debt; 70 percent of total debt was long-term, mainly at concessionary interest rates. Debt service remained unchanged at 22 percent of current receipts in 1983.

Although in 1977 most restrictions on payments and transfers for current international transactions and multiple currency practices were eliminated, new restrictions have been introduced, and some old restrictions reintroduced, as the external position has deteriorated more recently. The 3 percent import levy introduced in June 1982 and originally intended to lapse on April 1, 1983, was extended first to April 1, 1984 and then through March 31, 1985, though the rate of levy was reduced to 2 percent effective from April 6, 1983, when a levy on the purchase of foreign exchange by the public equivalent to 1 percent of the value of all transactions was introduced. On June 1, 1983, a noninterest bearing 15 percent deposit for one year on a range of imports was introduced, equivalent to a tax approaching 10 percent at average interest rates during the second half of 1983; this deposit scheme was renewed for a further six months on December 1, 1983. As from April 1, 1983, a travel tax on Israeli citizens traveling abroad was reintroduced. Exporters continued to benefit from the exchange rate insurance scheme introduced in July 1981: net payments under the scheme were estimated at US$435 million in 1983 (8 percent of exports). The 2 percent surcharge on proceeds from the sale of domestically traded securities by residents and nonresidents, as well as on the proceeds from foreign-traded securities by residents introduced in June 1982, remains in force. In the face of continued sizable purchases of foreign currency by Israeli residents, foreign currency controls were tightened in both November 1983 and January 1984.

Given the imbalances in the Israeli economy, the current policy strategy aims appropriately at improving the balance of payments substantially through a sizable reduction in the budget deficit. The Fund hopes that the authorities, by further strengthening the adjustment effort, will be able to return to a more liberal exchange and trade system in the near future.