

MASTER FILES
ROOM C-525

0450

SM/96/295

CONTAINS CONFIDENTIAL
INFORMATION

December 4, 1996

To: Members of the Executive Board

From: The Associate Secretary

Subject: **Israel - Selected Issues and Statistical Appendix**

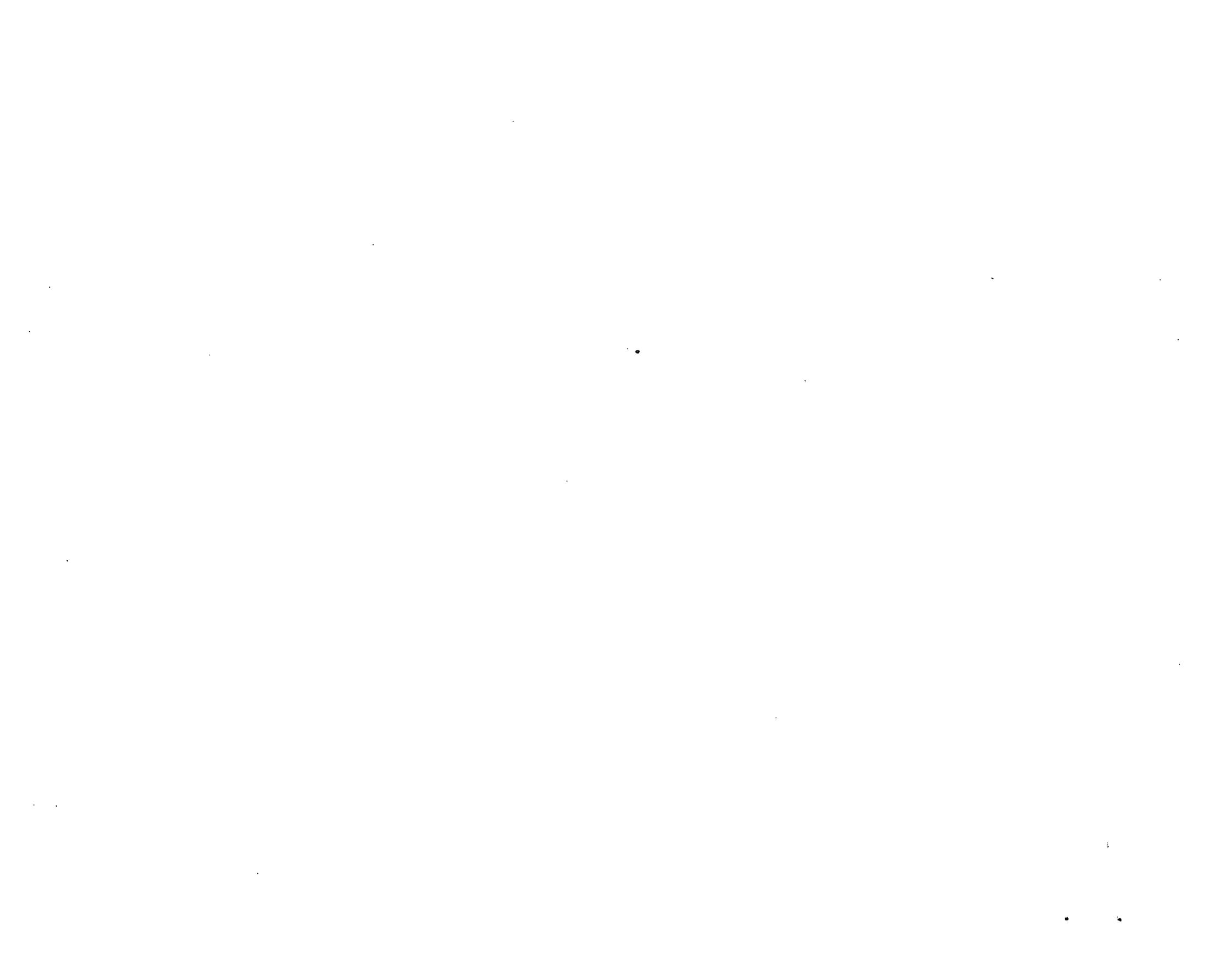
This paper provides background information to the staff report on the 1996 Article IV consultation discussions with Israel, which is to be circulated shortly and is tentatively scheduled for discussion on Wednesday, December 18, 1996.

Mr. Scacciavillani (ext. 36364), Ms. Westin (ext. 34982), or Mr. Zee (ext. 37481) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the European Investment Bank (EIB), the Food and Agriculture Organization (FAO), and the WTO Secretariat, following its consideration by the Executive Board.

Att: (1)

Other Distribution:
Department Heads



INTERNATIONAL MONETARY FUND

ISRAEL

Selected Issues and Statistical Appendix

Prepared by a staff team consisting of Fabio Scacciavillani (EU1),
Ann-Margret Westin (TRE), and Howell Zee (FAD)

Approved by European I Department

December 2, 1996

	Contents	Page
I.	Budget Deficit: Concepts, Measurements, and Developments	4
	A. Introduction	4
	B. Definition of the Deficit	4
	C. Accounting Basis of the Deficit	5
	D. Scope of the Deficit	10
	E. Coverage of the Deficit	11
	F. Concluding Remarks	13
	References	16
II.	Structural Reform Issues	17
	A. Introduction	17
	B. Privatization	17
	C. Capital Market Reform	20
	D. Exchange and Trade Liberalization	25
	E. Other Government Intervention: Investment Subsidies and Price Controls	27
	F. Labor Market Reform	27
	G. Land Reform	28
	References	30

III.	Current Account Sustainability in Israel	40
	A. An Overview of the Israeli Economy and its Transformation in the 1990s	40
	B. A Model of the Current Account Applied to Israel	41
	C. Sustainability Indicators	47
	D. Conclusions	49
	References	50
	Text Tables	
I.	1. Illustrative Cash Flows Under Alternative Indexation Schemes	14
	2. Budget Deficits and Government Debt, 1994-95	15
II.	1. Privatization and Raising of Capital from the Public by Issuance of Shares and Convertible Securities, 1995-August 1996	32
	2. Distribution of Commercially and Noncommercially Oriented Government Companies by Economic Sector	33
	3. The Largest Government Companies as of December 31, 1995	34
	4. Privatization of Banks and the Raising of Capital from the Public by Issuance of Shares and Convertible Securities	35
	5. The Israeli Capital Market, 1995	36
	6a. Recommendations of the Brodet Committee on Capital Market Reform—Proposed Tax Changes	37
	6b. Recommendations of the Brodet Committee on Capital Market Reform—Other Proposals	38
	7. Regulated Prices in the Consumer Price Index	39
III.	1. National Saving, Investment, and the Current Account, 1986-95	51
	2. Commodity Imports by Main Economic Destination	52
	3. Macroeconomic Sustainability Indicators in Selected Countries	53
	4. Sustainability Indicators	54
	Statistical Appendix Tables	
1.	Industrial Production, 1991-95	55
2.	Investment, 1992-95	56
3.	Consumption, 1992-95	57
4.	Gross Private Income and Savings, 1990-95	58
5.	Labor Market Indicators, 1977-95	59
6.	Business Sector Employment and Labor Input by Industry, 1989-95	60
7.	Real Wages, Labor Costs and Productivity, 1988-95	61
8.	Real Wages, 1980-95	62
9.	Consumer Price Index by Economic Sector, 1993-95	63
10.	Selected Price Indexes, 1991-95	64
11.	Bank of Israel Accounts, 1992-96	65

12.	Monetary Survey, 1991-95	66
13.	Financial Assets of the Public, 1993-96	67
14.	Commercial Bank Credit to the Private Sector, 1992-96	68
15.	Interest Rates During 1993-96	69
16.	Nominal Interest Rates on Various Types of Credit and the Public Assets, 1993-96	70
17.	Real Actual Interest Rates on Various Types of Credit and the Public Assets, 1993-96	71
18.	Reserve Requirements on Deposits and Interest Brackets, 1991-95	72
19.	Public Sector Injection and Sources of Nonrevaluation Increments To the M3 Base, 1992-96	73
20.	Factors Affecting M3 Base	74
21.	Principal Stock Market Indicators, 1991-95	75
22.	Principal Bond Market Indicators, 1991-95	76
23.	Institutional Investor Indicators, 1991-95	77
24.	State Budget Balance and Financing, 1992-97	78
25.	State Budget Revenue, 1992-97	79
26.	State Budget Expenditure (Economic Classification), 1992-97	80
27.	State Budget Expenditure (Functional Classification), 1992-97	81
28.	General Government Balance and Financing (National Accounts, 1992-95	82
29.	General Government Expenditure (National Accounts), 1992-95	83
30.	General Government Receipts (National Accounts), 1992-95	84
31.	Structure of General Government Finances (National Accounts), 1992-94	85
32.	The Currency Basket of the Israeli Shekel, 1987-96	86
33.	Exchange Rate Developments, 1986-96	87
34.	Balance of Payments Summary, 1989-96	88
35.	Balance of Payments-Services, 1988-96	89
36.	Civilian Import Volume and Price Indicators, 1988-96	90
37.	Commodity Composition of Civilian Imports (c.i.f.), 1988-96	91
38.	Origin of Imports, 1989-96	92
39.	Commodity Composition of Exports, 1991-96	93
40.	Export Volume and Price Indices, 1988-96	94
41.	Destination of Exports, 1989-96	95
42.	Capital Account Transactions, 1990-96	96
43.	Indicators of External Indebtedness, 1988-96	97
44.	Indicators of Debt Service, 1990-96	98
45.	Assets and Liabilities in Foreign Currency, 1991-96	99
46.	Official Gold and Convertible Foreign Exchange Reserves, 1988-96	100

I. BUDGET DEFICIT: CONCEPTS, MEASUREMENTS, AND DEVELOPMENTS¹

A. Introduction

To instill fiscal discipline, since 1992 the Israeli authorities have each year set a budget deficit target that was lower than that of the preceding year (though not necessarily lower than the preceding year's actual outturn). These targets have been set, however, in terms of a specific deficit definition that is not entirely comparable to that employed in many other countries. Hence, for policy analyses, it is important to understand the nature of this definition and its implications for assessing fiscal developments.

Broadly speaking, three separate conceptual issues are involved in any analytical discussions of a deficit definition. In descending order of specificity, they are: (1) the *accounting basis* on which the deficit is to be measured, e.g., it could be measured on a cash or accrual basis; (2) the *scope* of the transactions for which the deficit is designed to capture, e.g., certain types of revenue and of expenditure could be excluded for specific reasons (such as capital revenue and expenditure, which would result in a deficit that corresponds to government/public sector dissavings; or interest revenue and expenditure, which would lead to a primary deficit); and (3) the *coverage* of the transactions (for a given scope) for which the deficit is to encompass, e.g., it could cover only transactions of the central government, or also those of extrabudgetary funds (such as social security), those of sub-central level governments (usually referred to, together with the central government, as the general government), and those of the nonfinancial state-owned enterprises (making up, together with the general government, the nonfinancial public sector).

The appropriate choice of a deficit definition depends to a large extent on the objective of the investigation—no one definition emerges conceptually as the best alternative under all circumstances. The following sections discuss in turn the basis, scope, and coverage of the deficit definition employed in Israel which, as it turns out, does not fall cleanly into any one of the conventional deficit definitions.²

B. Definition of the Deficit

For the purpose of setting the annual deficit targets, the deficit in Israel is defined as the outcome of a *subset* of transactions in the *state budget*. Specifically, (1) the targets for 1992-96 were set only for the domestic component of the state budget (targets for 1997-2001 would comprise both the domestic and foreign components); (2) net lending operations of the central government have been, and will continue to be, excluded from the deficit definition,

¹Prepared by Howell Zee.

²For a general taxonomic discussion of alternative deficit concepts, see IMF (1985).

although such operations are formally part of the state budget; and (3) the deficit definition also excludes proceeds from the sale of government assets.

The targets are stipulated as a percentage of GDP, which implies that the target in a given year could technically be met even if the actual deficit in nominal terms exceeded the budgeted level in that year, as long as the excess was more than compensated by higher-than-projected growth in nominal GDP. As shown in Table A24, while the (domestic) deficit target so defined declined from 6.2 percent of GDP in 1992 to 2.5 percent of GDP in 1996, both the actual outturn for 1995 and estimated outturn for 1996 exceeded their respective targets. The (total) deficit target for 1997 has been set at 2.8 percent of GDP, declining to 1.5 percent of GDP by 2001.

C. Accounting Basis of the Deficit

The accounts of the state budget are largely, but not entirely, cash-based. This ambiguity arises from the asymmetrical treatment of interest payments on indexed and nominal government debt. To fully understand the significance of the accounting convention adopted by the state budget, some conceptual discussion of the related issues of the cash versus accrual accounting for government finance, the conventional and operational concepts of budget deficit, and the interest payments on indexed and nominal debt is necessary.

Cash versus accrual accounting

In contrast to the generally accepted principles of accrual accounting as it applies to the accounts of a commercial enterprise, government accounts are almost always kept on a cash or payment basis, due to a variety of informational and data limitations. Largely for this reason, some statistical systems recommend reporting fiscal data on a cash/payment basis to avoid complexities arising from timing and valuation issues.³ An important shortcoming of cash-based accounting, however, is that it may result in data that do not reflect the true underlying economic situation in a sufficiently timely manner to be fully useful for policy analyses. There are, therefore, also statistical systems that recommend the adoption of accrual-based accounting for government accounts,⁴ but such an approach would typically

³For example, this is the approach adopted by the IMF's *A Manual on Government Financial Statistics (GFS)*. See IMF (1986).

⁴Examples include the new international *System of National Accounts (SNA)* and the European Union's *European System of Accounts (ESA)*. See EIOUW (1993) and Eurostat (1995), respectively.

involve spelling out a set of adjustment rules for accounts for which data on an accrual basis are not usually and readily available.⁵

A particularly important aspect of the issue of cash versus accrual basis as it relates to government accounts is the treatment of interest expenditure on government debt, as the distinction between interest payments (which are “above the line” transactions and, therefore, would affect the magnitude of the budget deficit) and amortization payments (which are recorded “below the line” and have no impact on the deficit) in any given period is not always straightforward, e.g., payments related to zero-coupon bonds.⁶ Matters become even more complicated when such payments are made under inflationary conditions, and/or when they are related to indexed debt.

Conventional versus operational deficit

Consider first the simpler case where all government bonds are nominal, i.e., nonindexed, with fixed periodic coupon payments over the life of the bonds. Under inflationary conditions, the nominal interest payment on outstanding debt overstates its service burden on the Government, as the real value of the debt stock is being eroded by inflation. Conceptually, it could, therefore, be argued that a portion of the nominal interest payment is really an implicit amortization payment (through inflation) that should be netted out from government expenditure above the line before computing the deficit. Carrying out such an adjustment would clearly result in a deficit, known as the operational deficit, that is smaller than that measured conventionally—either on a cash or accrual basis.⁷

While the conceptual underpinnings of the operational deficit are appealing, its application is not unequivocally meritorious under all circumstances. In particular, it may mask the true underlying budgetary imbalance and, consequently, understate the needed fiscal

⁵For a comparative discussion of the *GFS* and *SNA* as they pertain to government statistics, see Levin (1995).

⁶In a cash-based system such as the *GFS*, interest payments on zero-coupon bonds are recorded as the difference between the issuance and redemption prices only at the time the bonds are redeemed. In contrast, an accrual-based system such as the *ESA* would spread the difference over the life of the bonds as if coupon payments were actually paid and reinvested by the bond holder, thus also necessitating adjustment entries to the value of bonds outstanding in the accounts of both the issuer and holder of such bonds.

⁷In practice, the operational deficit is usually derived by including only the “real” interest payment above the line, the real interest rate being the nominal rate minus the rate of inflation. This procedure may produce a negative real interest rate, however, if the actual nominal interest rate for some reason does not fully compensate for the effects of inflation. The conceptual significance of such an occurrence is extensively discussed in the *SNA*.

consolidation.⁸ Its use so far has not been recommended by any of the internationally recognized statistical systems, although a number of countries with high inflation do employ it.⁹

Nominal versus indexed bonds

An indexed bond is one whose coupon payments and/or redeemable principal value are linked to some price index, typically the CPI. If the indexation is perfect,¹⁰ the before-tax real yield of the bond is protected against inflation risk. Indexed government bonds will give rise to a different complication in measuring the budget deficit when government accounts are cash-based, however, because the intertemporal profile of cash flows from such bonds are conceptually arbitrary, depending on the chosen indexation scheme among many such schemes that are all equivalent in present value terms. In contrast, this complication does not arise with accrual-based accounting.

To see the nature of the above complication in simple analytical terms, consider first the case of no inflation ($\pi = 0$), in which case there is no difference between a nominal and an indexed bond. Let P be the bond's redeemable principal value and r its coupon rate. For simplicity, assume that the bond matures in two periods and its current price is also P (i.e., r is the bond's real yield). The coupon payment from such a bond in each of the two periods is simply $r \cdot P$, implying a present value of P for the bond's cash flow over its life, as expected. This is illustrated in the first row of Table 1.

Consider now the case of positive inflation ($\pi > 0$), which is assumed to be constant over the two periods. For a nominal bond, its coupon rate (i) will rise above r to compensate for the *expected* inflation (π^e), i.e., $i = r + \pi^e + r \cdot \pi^e$ (the discrete-time version of the Fisher equation). The coupon payment each period is now $i \cdot P$, with the redeemable principal value remaining at P (second row in Table 1). The *expected* present value of this cash flow is P^e , which will be equal to P only if $\pi^e = \pi$. Thus, the real yield of a nominal bond can be protected against inflation only when inflationary expectations are correctly realized. Clearly, $P^e > P$ as $\pi > \pi^e$.

⁸For an extended discussion of the merits and shortcomings of the concept of operational deficit, see Tanzi et al. (1987).

⁹The *SNA* does recognize, however, the usefulness of the concept of operational deficit in computing meaningful measures of income and expenditure in "high" inflationary conditions, and, therefore, does not object to its use under such circumstances.

¹⁰This will be assumed for simplicity. In reality, perfect indexation is, of course, not always achieved, as the price index to which the bond is linked could be a biased indicator of inflation, or the linkage mechanism could have a lagged structure.

For an indexed bond, however, there is no inflation risk, because its coupon payments and/or redeemable principal value are adjusted to *actual*, rather than expected, inflation.¹¹ Two particularly illustrative indexation schemes are considered below, each guaranteeing a before-tax real yield of r in the face of positive inflation, but generating a different profile of cash flows.

Indexation of principal

The first scheme—adopted by almost all countries (including Israel) which issue indexed bonds—involves indexing the principal, with the coupon rate r remaining fixed. With a changing principal, however, the coupon payment also changes from one period to the next, i.e., an extra payment (at the rate r) is earned on the adjusted (larger) principal every period. The redeemable principal value is also adjusted upward by the compounded inflation rate (third row in Table 1). Note that, under this scheme, the actual coupon payment in each period still rises with inflation.

Indexation of coupon rate

Instead of indexing the principal, the second—and conceptually equivalent—scheme indexes the coupon rate, with the redeemable principal value P remaining fixed. This alternative essentially involves increasing the original coupon rate r by an adjustment factor ϵ in each period, so that the present value of the entire stream of cash flows is maintained at P . From the Fisher equation, this adjustment factor must clearly be $\epsilon = \pi \cdot (1 + r)$. Hence, the coupon payment in each period under this scheme involves the sum of two terms: the rate r on the *per-period* inflation-adjusted principal, and the compensation for the loss in the redeemable principal value due to inflation, i.e., $\pi \cdot P$ (fourth row in Table 1).

Comparative cash flows under alternative indexation schemes

Comparing the cash flows under the first indexation scheme with that under the second, it is easily seen that the former has a lower coupon payment in the first period but a higher redeemable principal value, than those under the latter. The relative magnitudes of the coupon payment in the second period between the two schemes are, however, ambiguous.¹²

¹¹The absence of inflation risk with respect to an indexed bond refers to its before-tax yield. Inflation risks continue to exist with respect to its after-tax yield, however, as long as the tax system is not entirely inflation proof.

¹²Specifically, in the second period, the coupon payment under the first scheme would be higher (lower) than that under the second if $r \cdot (1 + \pi)$ is greater (less) than unity.

As with the principal indexation scheme, the actual coupon payment in each period under the coupon rate indexation scheme also rises with inflation.¹³

Since the intertemporal profiles of cash flows under the two indexation schemes are different, the intertemporal profile of deficits computed on a cash basis will depend on the chosen indexation scheme, even though the schemes have equivalent present values.¹⁴ The arbitrary nature of this outcome could raise questions about the usefulness of cash-based deficits as a fiscal policy indicator when indexed bonds comprise a significant proportion of outstanding government debt. This potential shortcoming would not arise, however, with accrual-based deficits, because any change in the value of an indexed bond's redeemable principal between the beginning and the end of a particular accounting period due to indexation is treated as interest accruing in that period, in addition to any interest actually paid.¹⁵ Hence, with accrual-based accounting, interest expenditure in a given period always corresponds to that of the coupon rate indexation scheme, *regardless of the indexation scheme actually chosen*; the intertemporal profile of deficits is, therefore, invariant to the choice of the indexation scheme.¹⁶

Interest expenditure in the state budget

According to the accounting convention adopted by the state budget at present, interest expenditure reflects the sum of: (1) *actual* interest paid on foreign debt; (2) *actual* interest paid on domestic indexed debt (based on the principal indexation scheme); and (3) *real* (i.e., nominal less inflation) interest paid on domestic nominal debt. Hence, technically, the computed deficit is partly cash-based (on account of the interest payments on foreign and domestic indexed debt) and partly operational (on account of the monetary correction on the interest payment on domestic nominal debt). In reality, however, the share of nominal debt in the total outstanding stock of government debt, while rising, is still minimal (accounting for only 4.4 percent of total domestic government debt at end-1995; see Table 2). For this reason, the measured deficit in the state budget can be regarded as largely cash-based.

¹³Note that the cash flows under this indexation scheme are identical to that of the nominal bond, when the inflation rate is correctly anticipated. Hence, indexing the coupon rate is analytically identical to the case of the nominal bond with a fully floating coupon rate.

¹⁴As a third indexation example, a zero-coupon indexed bond would generate still another intertemporal profile of deficits.

¹⁵This is explicitly provided for in the *ESA*.

¹⁶The counterpart entry below the line is increased borrowing in an amount equal to the accrued interest so calculated, i.e., the accrued interest is treated as if it had actually been paid to, and reborrowed from, the bond holder.

Budget deficits and government debt

As shown in Table 2, the bulk (about 91 percent during 1994-95) of the domestic government debt (accounting for about three quarters of the total debt during the same period) is CPI-indexed.¹⁷ Hence, a large discrepancy inevitably arises each year between the *change* in the value of outstanding government debt and the amount of measured deficit in the state budget that is financed by the issuance of debt. Based on annual period-average data, the changes in the total government debt were about NIS 23.6 billion in 1994 and NIS 29.2 billion in 1995, which did not bear a meaningful relationship to the debt-financed deficit as recorded in the state budget of NIS -0.2 billion and NIS 10.4 billion in the corresponding periods.

In contrast, once the (largely) cash-based state budget deficits were converted to an accrual basis, the deficits turned out to be about NIS 23.5 billion in 1994 and NIS 27.7 billion in 1995—amounts that corresponded closely to the changes in total government debt in the same periods.¹⁸

D. Scope of the Deficit

As noted earlier, until 1996 three types of transactions in the state budget have been excluded from the definition of the deficit when setting deficit targets, although one—the foreign component—will be included beginning with the 1997 budget. The *foreign* component of the state budget primarily consists of foreign grants on the revenue side (foreign revenue averaged about 4.6 percent of GDP, or 12 percent of total state budget revenue, during 1992-96; see Table A25) and foreign interest and defense imports on the expenditure side (foreign expenditure averaged about 4.7 percent of GDP, or 10 percent of total state budget expenditure, during the same period; see Table A26). While the average deficit in the foreign component has been relatively low as a share of GDP during the past few years, there has been a discernible upward trend in the foreign imbalance since 1993,¹⁹ which is expected to reach 0.8 percent of GDP in the 1997 budget (Table A26). As the foreign balance has an impact on the domestic economy just like the domestic balance, excluding the former in policy formulation and implementation would produce an incomplete picture of the true stance of fiscal policy.

¹⁷The rest of the domestic debt not accounted for by CPI-indexed and nominal debt comprised debt indexed (or optionally indexed) to the U. S. dollar.

¹⁸The small differences between the changes in the government debt and the accrual-based deficits are probably due to the fact that the former had been calculated on the basis of annual period-average data, while the latter had been calculated on the basis of a month-by-month debt conversion.

¹⁹The projected improvement in 1996 is entirely due to an unexpected delay in the receipt of a grant from the United States from the 1995 to the 1996 budget year.

The appropriateness of excluding *net lending* operations in the state budget when setting deficit targets is less clear cut. While the *GFS* recommends that they be classified as expenditure (thus they would have an impact on the measured deficit), on the ground that they involve transactions in claims upon others acquired for purposes of public policy, it also recognizes the potential usefulness in grouping them with financing (thus they would have no impact on the measured deficit) to measure the Government's net financial position.²⁰ Regardless of the procedure adopted, the quantitative impact of their exclusion on the measured deficit has been minimal since 1994 (see Table A27).

The third type of transactions excluded from the definition of the deficit for target-setting purposes concerns the proceeds from the sale of government assets, which, under the *GFS*, such proceeds are classified as revenue. The magnitude of these proceeds has been somewhat erratic from year to year in the recent past, but is budgeted to be about 1 percent of GDP in both the 1996 and 1997 budgets. Given its relatively unpredictable nature, its exclusion from the deficit definition seems justified.²¹

E. Coverage of the Deficit

Technically the state budget is the budget only of the central government. In practice, however, the substantial degree to which the finances of the National Insurance Institute (NII), the local authorities, and other public nonprofit institutions rely on unilateral transfers from the central government renders the overall balance of the state budget not very far from that of the general government on a cash basis, even though the revenue received and expenditure undertaken by these latter units are not properly consolidated with the accounts of the state budget. While the following discussion will focus on the financial interactions between the state budget and the other aforementioned entities on a cash basis, fully consolidated revenue, expenditure, and overall balance of the general government are available (albeit with a longer time lag) on a national accounts basis (see Tables A28-A31).²² On this basis, the general government deficit was about 3.4 percent of GDP, compared to the state budget deficit of about 4.2 percent of GDP, in 1995. This discrepancy was likely to be accounted for mostly by the net deficit (i.e., deficit after unilateral transfers from the state budget) of the local authorities. Data on the net deficit of the local authorities in 1995 are not available, but during 1992-94 it averaged about 1.5 percent of GDP (Table A8).

²⁰Both the *SNA* and *ESA* classify net lending operations of the Government as financing items.

²¹Proceeds from the sale of government assets are treated in the same way as net lending operations in the *SNA* and *ESA*.

²²No data are available on consolidated accounts of the entire nonfinancial public sector.

National Insurance Institute

The NII administers a whole host of social security programs, some of which fall under its own mandate, such as the old age/survivors pensions and child allowances, while others it administers on behalf of the Government, such as a variety of welfare benefits for special population groups. Since 1995, the NII has also been required by law to collect a new health tax from employees and distribute the revenue, together with additional budget funding, to four health funds responsible for the provision of a standardized basket of health services to Israeli residents. Previously, participation in the health funds was voluntary and contributions were made on a private-billing basis.²³ In 1995, about two thirds of NII's current revenue was derived from contributions in one form or another from the state budget; contributions from the public (i.e., national insurance taxes from the employers and employees, the new health tax, and the parallel tax) accounted for the rest.

While the NII's revenue and expenditure accounts are not consolidated with those of the state budget, the impact of the former's current transactions on the latter is fully reflected in the overall balance of the state budget each year. This is because, in addition to explicit budgetary transfers to the NII (5.8 percent of GDP in 1995; see Table A26), the state budget includes as revenue loans from the NII (1.9 percent of GDP in 1995; see Table A25) and as expenditure repayment of loans to the NII (1.1 percent of GDP in 1995; see Table A26). Since by law cash surpluses of the NII are lent to the Government (in 10-15 years indexed bonds at preferred interest rates of 4.5-5 percent presently), the divisions among loans, repayment of loans, and budgetary transfers are somewhat arbitrary. Hence, the net burden on the state budget of NII operations, which is included in the state budget's deficit calculations, was about 5 percent of GDP in 1995.²⁴

Local authorities

Unlike the NII, local authorities, in addition to revenues from property taxes (known as *arnona*), an assortment of fees, and transfers from the state budget, have access to bank credits to finance expenditure. Hence, the impact of the operations of local authorities on the balance of the state budget is only partial—the impact being limited to the extent of explicit budgetary transfers (2.2 percent of GDP in 1995; see Table A26).²⁵

²³In contrast to employees, employers have long been required to contribute to the health funds through a special payroll tax (known as the "parallel" tax); this tax continues to exist under the new regime.

²⁴This figure somewhat understates the burden, because it excludes the interest payment on NII loans, which amounted to about 0.9 percent of GDP in the 1995 budget.

²⁵Since 1994 the Government has continuously sought to put the public finances of local

(continued...)

National and nonprofit institutions

In addition to obtaining sizable transfers from the state budget (5.6 percent of GDP in 1995; see Table A26), these institutions also receive grants directly from foreign sources (0.8 percent of GDP in 1995; see Table A29). While little information is available concerning their financial operations, data on a national accounts basis indicate that the net financial imbalance (after budgetary transfers) of these institutions as a whole is relatively insignificant.

F. Concluding Remarks

The above suggests that the comprehensiveness of the definition of the deficit for target-setting purposes has up till now suffered from three potentially significant limitations: (1) cash-based accounting has excluded the accrued interest liabilities on the stock of *outstanding indexed government debt*; (2) *focus on the domestic component of the state budget* leaves the deficit definition incomplete in its scope in capturing all relevant transactions, and (3) availability of bank credits to local authorities renders the state budget incomplete in its coverage of the relevant activities of the general government that are important in assessing the stance of fiscal policy. As noted earlier, the authorities have already decided to remove the second limitation beginning with the 1997 budget and taken steps to address the third limitation. Quantitatively, however, a conversion from the cash- to accrual-based accounting—insofar as interest expenditure is concerned—to remove the first limitation would have the greatest impact among the three limitations on the measured deficit.

²⁵(...continued)

authorities on a sounder and more transparent basis, including drawing up explicit criteria for allocating transfers and determining local taxing powers. This process is still on-going.

Table 1. Illustrative Cash Flows Under Alternative Indexation Schemes

Type of bonds	Coupon Payment		Redeemable principal value	Present value
	Period 1	Period 2		
No inflation				
Nominal or indexed	rP	rP	P	P
Positive inflation				
Nominal	$rP(1+\pi^e)+\pi^eP$	$rP(1+\pi^e)+\pi^eP$	P	P^e
Indexing principal	$rP(1+\pi)$	$rP(1+\pi)^2$	$P(1+\pi)^2$	P
Indexing coupon rate	$rP(1+\pi)+\pi P$	$rP(1+\pi)+\pi P$	P	P

Source: Staff computations.

Table 2. Budget Deficits and Government Debt, 1994-95

	1994	1995
	(NIS billion)	
Government debt (end of period)		
Domestic	191.8	213.0
Foreign	65.9	70.4
Total	257.7	283.4
Government debt (period average)		
Domestic	180.2	202.4
Foreign	61.2	68.2
Total	241.4	270.6
Change in government debt (period average)		
Domestic	18.2	22.2
Foreign	5.3	7.0
Total	23.6	29.2
Debt-financed state budget deficit 1/		
As recorded	-0.2	10.4
Accrual-interest basis	23.5	27.7
<u>Memorandum items:</u>		
Government debt (period average)/GDP (percent)		
Domestic	81.0	77.0
Foreign	30.0	27.0
Total	111.0	104.0
Debt-financed state budget deficit/GDP (percent)		
As recorded	-0.1	4.0
Accrual-interest basis	10.5	10.6
Type of debt as percent of total (end of period)		
Domestic	74.4	75.2
Of which: CPI-indexed	90.8	90.6
Nominal	1.8	4.4
Foreign	25.6	24.8

Sources: Data provided by the authorities; and staff computations.

1/ Includes only that part of the deficit financed by debt.

References

- Eurostat, *European System of Accounts* (Luxembourg, 1995).
- Eurostat, International Monetary Fund, Organization for Economic Cooperation and Development, United Nations, and World Bank (EIOUW), *System of National Accounts* (Brussels/Luxembourg, New York, Paris, and Washington, 1993).
- International Monetary Fund (IMF), *A Manual on Government Finance Statistics* (Washington, 1986).
- Levin, Jonathan, "Government in the 1993 *System of National Accounts*," in John W. Kendrick (ed.), *The New System of National Accounts* (Boston: Kluwer Academic Publishers, 1995).
- Tanzi, Vito, Mario I. Blejer, and Mario O. Teijeiro, "Effects of Inflation on Measurement of Fiscal Deficits: Conventional Versus Operational Measures," *Staff Papers*, Vol. 34 (1987), pp. 711-38.

II. STRUCTURAL REFORM ISSUES²⁶

A. Introduction

Israel has been, by tradition, a highly regulated and institutionalized economy. Given the magnitude of the task of immigrant absorption at the outset of the creation of the State of Israel, the political leadership was reluctant to delegate the regulation of the economy to market forces. Thus, all natural resources were nationalized in 1949, and state-owned companies were established to exploit them. The new state developed into a "three-sector" economy, consisting of the public, private, and Histadrut²⁷ sectors, with the Government and the Histadrut prominent in heavy and basic industries.

Following the 1985 stabilization program, Israel embarked on a process of structural reform that has contributed to enhancing the efficiency and market orientation of the economy. Progress has been particularly marked in areas of tax reform and financial market exchange and trade liberalization, and there has also been a striking improvement in the functioning of the labor market. More recently, there have also been marked achievements in the areas of antitrust and competition policy and land reform. Meanwhile, there has only been limited progress in the area of privatization and the Israeli economy is still characterized by a large degree of government intervention. Cartels and monopolies are prevalent (firms may operate together as cartels if deemed to be in the public's interest); investment subsidies (and loan guarantees) are provided under the Encouragement of Capital Investments Law; and, a number of retail prices are still regulated or under government supervision.

This chapter reviews the structural reform process in several areas of major importance: privatization, including of the banks; the capital market, exchange and trade regulations; investment subsidies and price controls; labor market reforms; and land reform.

B. Privatization

In 1987, the Israeli Government commissioned the First Boston Corporation to help develop a strategic master plan for its privatization efforts. At that time, the Government owned at least a partial stake in some 160 companies whose output amounted to approximately 10 percent of GDP. The government-owned companies covered a large share of the economy, operating in the fields of natural resources, minerals, and chemicals; infrastructure, tourism, and agriculture; public utilities; transportation; energy and oil exploration; defense and defense-related products; and land development, construction, and housing. The master plan, which was adopted by the Government the following year, identified 75 profit generating companies that could be sold to the private sector, including 30

²⁶Prepared by Ann-Margret Westin.

²⁷ The General Federation of Hebrew Workers.

which could be sold within the next five years. The privatization program, however, got off to a slow start, and did not gain momentum until the beginning of the 1990s. However, after peaking at US\$1.24 billion in 1993, total privatization proceeds declined back to a meager US\$205 million in 1994 against the backdrop of a stock market crisis.

A combination of factors seem to have contributed to the limited progress achieved in the area of privatization, including a lack of political will; resistance from employees, managers, and labor unions; depressed conditions in the Israeli stock market starting in early 1994; as well as the difficult financial situation in many of the companies to be privatized. Furthermore, the notion of "strategic importance" attached to certain companies has complicated the process of finding suitable (and in particular much needed foreign) investors. Also, the authorities have emphasized the importance of enhancing the regulatory framework before the privatization of several current monopolies can take place, further contributing to the delays in the privatization process.

Recent developments

In 1995, as the effect of the decline in stock prices wore off, privatization proceeds picked up to US\$533 million, primarily as a result of a 25 percent share sale of Israel Chemicals and the complete privatization of Israel Housing and Development (Table 1). However, with the approach of the May 1996 election, privatization slowed again and as of end-August this year, only US\$198 million had been raised. Overall, Israel has only raised about US\$2 billion of an expected \$5 billion from sales of shares of state-owned companies since 1986, while bank share sales have generated just US\$1.5 billion compared with a potential US\$4.5 billion.

Even though the number of government companies declined by 24 during the course of 1995 and the first five months of 1996, 116 active companies remain under government control or with a major government ownership share, so called "mixed" companies.²⁸ These companies exclude the state-owned banks which were acquired pursuant to the Bank Shares Arrangement (see below). Approximately half of the government companies are commercially oriented businesses (such as public utilities), with sales accounting for about 16 percent of GDP, while the remainder are non-corporations (airports, ports, etc.) or other non-business companies (Table 2). Several of the commercially oriented companies are quite large, with responsibility for the greater part of activity in their respective areas (Table 3).

The new Government has expressed its support for a continuation of the structural reform and privatization program. Prime Minister Netanyahu has emphasized the importance

²⁸ The majority of the companies privatized during this period were subsidiaries of government-controlled companies in the industry, trade, and chemicals sectors. In fact, while the number of government companies has declined from 147 since 1991 only eleven parent companies have been completely privatized during this period.

of deregulation as key to economic growth and the privatization authority has been relocated from the Ministry of Finance to the office of the Prime Minister. The Government's privatization program, which is to be presented in the very near future, is likely to suggest an acceleration of the privatization process and, according to newspaper reports, to propose sales of up to 70 companies and banks within the next four years, yielding an estimated NIS 18 billion in revenues. The privatization program is likely to include Bezeq Telecommunications Company, Mekorot Water Company, Israel Chemicals, Israel Electric Corporation, Israel Aircraft Industries, as well as the major state-owned banks.

Privatizations have been realized through both direct sales to investor groups and public equity offerings on the Tel Aviv Stock Exchange (TASE). Since the beginning of 1995, most of the sales undertaken have been carried out through direct private placements but according to the authorities, the new Government is likely to make an increasing use of public stock market offerings in Israel and abroad for its privatization program, in part to help revitalizing the ailing Israeli stock market. Meanwhile, a plan by the previous government to distribute options to the public for the purchase of government shares in state-owned companies and banks has been shelved, and is unlikely to be included in the new Government's privatization program.

Banking sector

In 1983, as a consequence of a crisis in the market for bank equities and the subsequent Bank Shares Arrangement, the Government became the owner of most of the shares in Israel's major banks.²⁹ Following the termination of the Shares Arrangement in 1993, a banking sector reform was undertaken, resulting in an amendment of the 1981 Banking Act aimed at increasing the degree of competitiveness and reducing conflicts of interest in the Israeli financial system through, inter alia, limits on banks' nonfinancial holdings. In particular, while banks were allowed to invest up to 25 percent of their equity outside the financial sector, their shares in any one nonfinancial company now had to be limited to 25 percent by the end of 1996. The process of bank privatization was also initiated in the early 1990s, and since 1993, two small banks have been completely privatized. Meanwhile, the privatization of the major banks have only seen limited progress, and the Government still owns a majority stake in four of the six largest banks (Table 4).

As attempts at privatizing the Government's stake in the major banks continued in 1995, the issue of banks' nonfinancial holdings and the concentration of ownership in the Israeli economy re-emerged. In Israel, the banking system is highly concentrated and the three largest banks—Bank Leumi, Bank Hapoalim, and Israel Discount Bank—with subsidiaries account for approximately 80 percent of the total banking business. Given the significant holdings of the two major banks in nonfinancial enterprises, there were concerns that bank privatization would lead to a substantial increase in the concentration of ownership, with a

²⁹ The managerial control of the banks did, however, remain with the original management.

potential buyer obtaining de facto control over a large part of the economy. In response to these concerns, the Government, invoking a clause in the 1993 legislation, appointed a committee in October last year, chaired by the Treasury Director-General, Mr. David Brodet, to examine the issue of the concentration of power in the banking sector. The recommendations of the Brodet Committee, which were presented to the Government in December last year, implied far-reaching changes in the ownership and management structure of the major conglomerates that dominate the Israeli economy.

Despite significant lobbying against the main proposals by the major banks, the Knesset this spring completed the legislative process whereby the main recommendations were passed into law. The amendment to the banking licensing law provide, inter alia, for the following: (a) each Israeli bank will be required to reduce its nonbank holdings to 20 percent of the capital of any nonfinancial corporation by the end of 1998 (25 percent by the end of 1996); (b) the total nonfinancial holdings of each bank will be restricted to 15 percent of the bank's capital after 2001; (c) the percentage of such holdings can be augmented by 5 percent of the bank's capital provided that the holding in each nonfinancial corporation is no more than 5 percent of the company's equity; and (d) each bank is authorized to hold a controlling interest in only one nonbanking corporation in which its capital exceeds NIS 1.25 billion after 1997.

The major banks have started to implement the disinvestment program imposed by the Brodet Committee. Bank Hapoalim has sold large amounts of equity in Clal Israel, lowering its share in the company to 25 percent, as well as some of its excess holdings in Delek Fuel, while Bank Leumi's most significant disinvestment has been its sale of the Migdal Insurance company.³⁰ The importance of nonfinancial income to the banks—and hence their opposition to the Brodet Committee recommendations—was highlighted in the 1995 results: Bank Hapoalim's shares in Koor Industries, Delek Fuel, and other companies contributed 25 percent to the group's net profit, while Bank Leumi's holding in Africa-Israel made a significant contribution to its earnings. Given the banks' reliance on their nonbank activities, some have argued that the imposed disinvestment of their nonfinancial holdings will further hamper the already slow bank privatization process. Others have argued that this development may in fact benefit the privatization process as prospective buyers would face leaner, less diversified banks.

C. Capital Market Reform

The financial deregulation and reform program for the capital markets which started in 1987 has proceeded in a slow and gradual mode. The most notable achievements so far have been a decrease in the segmentation of the credit markets; a narrowing of interest rate spreads; a marked decrease in reserve requirements, and an enhanced functioning of the stock market.

³⁰ The limits on banks' nonfinancial holdings imposed by the Brodet Committee also apply to investments in insurance companies.

However, various regulations and restrictions concerning the portfolio allocations of institutional investors remain and the capital markets are still characterized by a large degree of government intervention and subsidization, including a complex system of tax benefits and the issuance of guaranteed-rate bonds. The Israeli capital market still does not offer the range of financial instruments found in other industrialized countries: corporate bond issues are rare and simple fixed-income money market instruments and certificates of deposit hardly exist. Also, despite a sharp increase in the number of firms listed on the TASE in the last five years as well as recent reforms to allow for continuous trading of shares, the TASE is still characterized by a small and illiquid market; a slow and cumbersome trading system; and an absence of market makers and large institutional investors.

Table 5, which presents the main players and instruments of the Israeli capital market in 1995, highlights the dominance of the major institutions as well as the degree of government intervention. The value of the capital market, including (mainly government) bonds, shares, and other investments of financial institutions, stood at NIS 326 billion at the end of 1995, up by 7 percent compared with 1994 reflecting an increased supply of government bonds (to finance the higher deficit) and Treasury bills sold by the Bank of Israel. The Israel capital markets are dominated by the provident, pension, and mutual funds and the insurance companies, whose total assets amount to approximately two thirds of the entire market. These institutions enjoy extensive tax benefits as well as different degrees of government subsidization. Contributions to pension, provident, and life insurance funds are tax deductible, accumulated profits are tax free, and withdrawals tend to be tax exempt. Subsidized government bonds are still issued to the pension funds, in contrast to the provident funds which can no longer invest in such earmarked bonds. Meanwhile, the insurance companies continue to receive subsidized bonds on accounts opened before 1991. In addition to the special tax benefits applied to these institutions, various instruments also enjoy certain tax breaks, e.g., short- and medium-term investments (which typically are nonlinked) such as Treasury bills and deposits and savings plans are tax exempt.

This section reviews recent developments with the two largest institutional investors, the pension and provident funds, and the recommendations of the Brodet Committee on capital market reform.

Pension funds

Approximately 95 percent of all Israeli pension savings are held in pension funds owned and operated by the Histadrut, covering around 30 percent of the Israeli work force. Israel's pension system has long been recognized to be substantially underfunded; including the subsidy implicit in the issuance of earmarked government bonds to the pension funds, the total actuarial deficit of the existing pension funds was officially estimated at NIS 120 billion

as of December 1994, prior to last year's pension reform.³¹ As a result of the 1995 reforms, the existing pension funds are barred to new members, and limits were imposed on the maximum rate of increase in the pensionable base wage. The introduction of these restrictions, together with proposed administrative reforms, were estimated to reduce the actuarial deficit of the existing funds by NIS 30 billion. However, the 1995 reforms did not require any increase in the level of contributions of existing members, and the accumulated rights of current members and pensioners were maintained. Moreover, the reforms entail the continued issuance to the pension funds of government bonds with a guaranteed real rate of return of 5.56 percent per annum.

While the old pension funds are closed to new members, the 1995 reforms required that new pension funds be set up in an actuarially balanced manner for all new members. Furthermore, ceilings of up to twice the national average wage were set on the maximum rights that a member can accrue in a pension fund, and stricter terms for withdrawals were imposed. However, the new funds are still able to invest up to 70 percent of their assets in earmarked government bonds with an effective guaranteed rate equal to approximately 5 percent per annum above the CPI. The remaining funds assets are to be invested in the Israeli capital markets but are implicitly guaranteed a 3 percent real rate of return. According to government estimates, the total cost of the reform plan will amount to some NIS 70 billion, consisting of approximately NIS 15 billion for pension payments that the pension funds will be unable to make and another NIS 55 billion covering the subsidy component of the special government bonds, over an 80-year period. Critics of the reform plan have noted that, apart from the explicit budgetary cost of the government subsidization of the pension system, by inducing the pension funds to invest the major share of their capital in government bonds and thereby directing the majority of the pension savings to the public sector, the development of the Israeli capital markets will be hampered and the availability of long-term funds for other purposes will be reduced.

As mentioned above, only about one third of the workers in Israel participate in the pension funds. Government employees are not covered by the regular pension funds but instead participate in an unfunded government pension plan mandated by law. The actuarial liabilities of these budgetary pension schemes were estimated at some NIS 105 billion as of December 31, 1994. In March 1996, an agreement between the Government and the Histadrut came into force that provides that new government employees will not participate in the existing budgetary pension schemes but will join the new funded pensions plans, to which the Government will make contributions on their behalf. According to the authorities, this agreement will subsequently be revised to also require employee contributions.

³¹ Approximately 95 percent of all pension funds are invested in guaranteed-rate government bonds, which between 1992 and 1994 paid an average annual above-market return of around 2.5 percent.

Provident funds

Provident funds are the largest single institutional investors in Israel, accounting for approximately 30-40 percent of overall household savings; as of end-1995, total fund assets amounted to some NIS 106 billion. The overwhelming majority of the funds are managed by the five largest banks, with the three largest banks—Bank Hapoalim, Bank Leumi, and Israel Discount Bank—running the three largest funds: Gadish, Otsma, and Tamar, respectively. Contributions to the provident funds, which are encouraged by major tax benefits, complement or substitute for pension fund savings. Once deposited, funds typically cannot be withdrawn until the end of the agreed holding period, usually 15 years from the creation of the account, without paying the usual 35 percent tax on earnings. Until the mid-1980s, the provident funds invested almost exclusively in earmarked government bonds. However, as a result of the capital market reform program of 1987, the Government no longer issues guaranteed-rate bonds to the provident funds, which instead are allowed to invest up to 50 percent of their holdings in financial assets other than government bonds, such as equities. In 1995, the provident funds held on average 11 percent of their assets in equities, down from 14 percent at the end of 1993.

The change in the portfolio allocation initiated in the mid-1980s implied an increased exposure of the provident funds to market risk. While the yield on provident funds averaged about 5 percent in real terms in the early 1990s, yields turned negative in early 1994, primarily reflecting the downturn in the Israeli stock market; in that year, provident funds recorded an 8 percent loss in real terms. The poor performances of the funds, which continued in 1995 and the first half of 1996— in July this year, the three largest funds recorded negative returns ranging from 2.3 percent to 2.8 percent in real terms—have prompted large redemptions, especially from those deposits that had become “liquid”, i.e., that no longer suffered a tax penalty on redemption. While net deposits were almost always positive until 1994, withdrawals have consistently exceeded deposits since 1995, reaching a record NIS 3.5 billion in September this year for a total of some NIS 11 billion for the first nine months of 1996. As much as NIS 40 billion will become “liquid” and could potentially be withdrawn over the next year. According to official estimates, a large portion of the amounts redeemed from the provident funds have been invested in high-interest savings accounts, which were yielding close to 6 percent in real terms following the Bank of Israel’s 1.5 point June rate hike; in the first nine months of 1996, net deposits in savings plans amounted to NIS 5.2 billion.

In order to finance last years’ large and growing redemptions, provident funds were forced to liquidate part of their equity and long-term bond holdings, which in turn depressed equity and bond prices and further exacerbated the situation.³² This summer, the Government and Bank of Israel therefore announced that they would develop a “safety net,” with the Bank

³² As only 10-20 percent of a typical company’s capitalization is available for trading at the TASE, with the remaining shares being held by the principals, interested parties, or long-term institutional investors, even limited transactions can have significant effects on stock prices.

promising to buy up to NIS 15 billion worth of government bonds to support the market; in the event, the Bank only ended up buying some NIS 500 million worth of bonds in market support in July and another NIS 650 million in August. Meanwhile, the Knesset approved a Ministry of Finance proposal to increase the amount of short-term bills that the central bank can issue in order to absorb the liquidity resulting from the support interventions. The situation subsequently stabilized, with most funds reporting positive returns averaging 2 percent in real terms for September this year, and net redemptions declining to NIS 1.1 billion in October.

Committee on capital market reform

In the wake of last summer's provident fund and bond market "crisis," a committee, chaired by Mr. Brodet, was established to consider structural reforms of the Israeli capital markets. In particular, the Committee was to examine the desired structure of savings mechanisms; incentives for and taxation of savings; coordination of legislative, regulatory, and supervisory activities relating to the financial markets; and the functioning of policy tools in the credit, equity, and foreign exchange markets. The recommendations, which were presented in mid-September, listed five major structural problems of the Israeli capital markets: absence of long-term institutional investors; high degree of centralization; tax discrimination between investors and various savings instruments; lack of regulation of financial players; and a relative limited supply of stocks. The proposals centered around the goals of encouraging long-term (retirement) savings at the expense of more short-term investments; attracting more investments into the capital markets; and making more funds available for mortgage lending.

Tables 6a and 6b summarize the Committee's main proposals, both regarding changes in the tax structure as well as more structural capital market reforms. In order to promote long-term savings, the Committee proposed to introduce tax exemptions for savings of at least 10-year maturity, while short- and medium-term savings would be taxed at rates ranging from 5 percent to 10 percent. The Committee also suggested a reduction in the tax on interest income from (tradable) bond investments and in the tax on dividend income, as well as a reduction in the tax on income from foreign securities. In order to stimulate the development of the Israeli long-term capital markets, the Committee proposed a reduction in the amount of bonds with a government-guaranteed (above market) rate of return that the pension funds can buy. According to the Ministry of Finance, this change alone would bring NIS 54 million into the capital markets by 1997 and almost NIS 10 billion by 2010, thereby increasing the availability of long-term capital. Another important proposal is to raise the wage ceiling for which deposits to pension funds, provident funds, and life insurance plans are eligible for tax benefits to twice the average monthly salary (this would presently amount to NIS 10,300) as a means to encourage retirement savings. New provident, pension, and life insurance plans would have to be created to comply with the new guidelines, while existing plans would not be asked to change their current provisions. Similarly, the proposed tax changes would have no impact on existing savings plans, but all changes would relate to new plans only.

While the Committee's recommendations generally were received as welcome first steps in the right direction, in particular as to proposals to promote retirement savings and stock market investments, some critics have opposed the proposition to tax short-term savings in a time when, they argue, Israel above all needs to promote domestic savings. Also the Histadrut has criticized the proposals to reduce the amounts available for pension funds to invest in guaranteed-rate bonds.

The recommendations were proposed to take effect at the start of 1997, taking into account that any changes dealing with the tax structure would require parliamentary legislation. However, in mid-October, the Government voted to adopt only part of the recommendations, while all decisions related to savings, including the politically sensitive tax on short-term savings as well as pension fund reform, were postponed for later. A new compromise proposal on these issues is to be presented to the Government before the end of the year, which may reduce the recommended tax on the nominal interest of nonlinked savings from 5 percent to 3.5 percent. Also, the new proposal may suggest that the tax on short-term savings only be levied on savings of up to five years instead of ten years as was originally proposed.

D. Exchange and Trade Liberalization

Since 1985, the Government's extensive system of foreign exchange controls has been gradually eased and restrictions applying to the business sector have largely been eliminated. As part of its declared policy of attaining full currency convertibility, Israel accepted the obligations of the Fund's Article VIII in 1993. In another important step toward full convertibility of the new Israeli shekel, the Bank of Israel in 1994 authorized banks to operate continuous bilateral currency trading at variable rates, and later that year, limits on direct investments abroad by Israeli companies were eliminated. In addition, regulations on portfolio investments abroad by Israeli companies and institutional investors have been eased.

As part of the liberalization of foreign exchange controls, reserve requirements on domestic foreign-currency deposits were reduced in January 1995 to 6 percent for current deposits, 3 percent for time deposits with a maturity of up to one year, and zero for time deposits with longer maturities. Furthermore, the reserve requirement on foreign currency deposits consisting of restitution payments received by Israeli residents have been gradually lowered from 90 percent in November 1991 to 18 percent on May 31, 1996. These reserve requirements are to continue to be lowered until they reach the level of domestic foreign-currency deposits.

Israel is a signatory to the 1947 and 1994 General Agreements on Tariffs and Trade, and is a founding member of the World Trade Organization. Israel has also concluded free trade area agreements with its major trading partners covering over two thirds of imports, and is the only nation to have concluded free trade agreements with both the United States and the European Union. Israel also has a free trade agreement with the European Free Trade Association, and similar agreements were recently concluded with the Czech and Slovak

Republics. Meanwhile, negotiations of such agreements are currently under way with Hungary, Poland, and Slovenia, and Israel also recently expressed interest in discussing a free trade agreement with India.

In September 1991, a process of trade liberalizing with "third countries", i.e., countries with which Israel does not have free trade agreements, was initiated. The principal features of the Government's trade liberalization policy included the elimination of certain compulsory licensing requirements designed to protect local producers (except for agriculture); the review by the Government of other licensing requirements with a view to eliminating those imposed for protection purposes; and the replacement of administrative and other non-tariff barriers to trade with tariffs, which are being reduced over time. As of September this year, the last stage of this five-year trade liberalization program came into effect, implying that tariffs on most industrial products have been lowered to 8 percent on raw materials and 12 percent on finished and intermediate goods, down from at least 25 percent at the time the trade liberalization program was introduced. However, the tariff reduction process for certain products which are considered to be more sensitive to competition, such as wood products, ceramics, footwear, cables, fertilizers, textiles and clothing, and some steel products will not be concluded until later.³³ The trade liberalization program also provided for assistance to certain enterprises that would be particularly hurt by the implementation of the measures.

However, notwithstanding the recent trade liberalization, a number of trade restrictions remain, including restrictions on agricultural imports, quotas, licensing restrictions, as well as outright prohibitions against imports of certain goods.³⁴ Israel also imposes two forms of protection for locally produced goods: one pre-duty fee applied to the c.i.f. value of the imported good to raise the value of the product to an "acceptable" level for customs valuation, and a post-duty fee which is applied after the imposition of an import duty but before any assessment of purchase taxes. Israel also maintains product standards which in certain instances favor local producers.³⁵ The Ministry of Trade and Industry is currently in the process of revising the standards law to limit the Government's authority to set compulsory standards for products sold in Israel for certain purposes, such as safety, public health, and environmental protection, and to prevent any potential use of this authority for protectionist purposes.

³³ Tariffs on most products, except for tariffs on certain remaining steel products (which will be lowered by September next year) and tariffs on textiles and clothing (which will be reduced by September 2000) will be lowered by September 1998.

³⁴ This includes a ban on imports of non-kosher meat introduced at the end of 1994.

³⁵ In addition, Israel charges importers 1.5 percent of the c.i.f. value of imports for the use of Israeli ports and stevedores.

E. Other Government Intervention: Investment Subsidies and Price Controls

The Israeli Government spends large amounts on direct and indirect subsidies to industry under the Capital Investment Encouragement Law of 1953. The Law, which has been amended several times over the years, includes a number of "economic incentives" aimed at attracting local and foreign investment, including subsidized long-term loans, direct investment grants, research and development financing, and tax relief and rebates. The level of subsidies to the business sector peaked at around 15 percent of GDP in the early 1980s, but has subsequently been gradually reduced. In particular, the direct investment grants were reduced last year from 38 percent of the investment to 34 percent in class A development zones (which designate the most remote regions of the country), and from 20 percent to 17 percent in class B zones (which designate the peripheral regions). Pending approval of the Knesset, the new Government plans to amend the law and further reduce the rates of cash grants in Region A to 20 percent and in Region B to 10 percent.

A number of retail prices, constituting some 18 percent of the consumer price index, still remain under the control of the Government (Table 7). These prices are either set directly by the Government, such as education fees, municipal taxes, utilities, and communications and transportation fees, or are subject to government supervision, requiring approval before they can be increased, such as certain food stuffs, school books, and medicines.

F. Labor Market Reform

Structural changes in the wage bargaining process since the late 1980s have contributed to increased wage flexibility in the private sector and "de-linking" between private and public sector wage developments. Historically, private sector wage negotiations were performed on the national, branch, and workplace levels. Branch level negotiations started to diminish in importance in the late 1970s and since the late 1980s, national level negotiations have also become more limited in scope and now only define the common framework and rules by which each separate business subsequently negotiates its wage contract. National level negotiations now primarily focus on the cost-of-living adjustment (COLA), overtime compensation, and conflict resolution. The COLA has also been reduced, and now only partly compensates for inflation. The COLA negotiated in the private sector in turn becomes normative (binding) for the public sector. With a smaller share of the wage bill negotiated at the national level, firms have obtained more degrees of freedom in wage bargaining at the local level and, consequently, have become more able to negotiate wage settlements in accordance with their ability to pay. Furthermore, the increase in labor supply resulting from the massive immigration from the former Soviet Union since the early 1990s and the decision not to absorb immigrants through public sector employment have contributed to the greater degree of labor market flexibility.

G. Land Reform

National ownership of land has remained of significant importance ever since the creation of the State of Israel. Following an agreement between the State of Israel and the Jewish National Fund, the Israel Lands Administration (ILA) was established in 1961 to administer the usage of land, including planning and development activities. The ILA controls approximately 93 percent of the land of Israel (the remaining 7 percent is mostly located in urban areas). According to one of Israel's basic (constitutional-type) laws, land is not to be sold and usage of land is instead granted through long-term leasing contracts, such as 49-year contracts (corresponding to up to two generations) for residential purposes; 10-15 year contracts for forested land; and 2-3 year contracts for agricultural land.³⁶

Following the massive immigration from the former Soviet Union, residential demand for land rose sharply in the 1990s. While most of the land suitable for dwelling purposes was under the control of the Kibbutzim and the Moshavim by the early 1990s, by 1994 the majority of this land had been transferred to the ILA.³⁷ The ILA subsequently initiated a process to deregulate and "privatize" its activities, and since 1994, the ILA has to an increasing extent begun to contract out many of its services. Contracts to lease, plan, and develop land for residential purposes are offered through public tenders, resulting in currently more than 400 projects being launched outside the Administration. The contractors are responsible for the entire dwelling process, including negotiations with the local authorities and obtaining statutory approval. The ILA has also increased its efforts to file zoning plans and "intensify" the usage of land, resulting in a substantial increase in the supply of residential land in the last years. Up to one million dwelling units currently exist on ILA land, and another 500,000 units are expected to be "marketed" in the next ten years; in 1995 alone, 46,000 housing units became available.

While land cannot be owned, strictly speaking, the "property rights" of the leaseholders have been enhanced in recent years. Last year, a committee consisting of academics, lawyers, and public sector officials was appointed to examine the procedures and modes of operation of the ILA. Among the Committee's recommendations was a proposal to, in the absence of a real land privatization, privatize the "usage of land" by offering residential leaseholders up to four consecutive spells of 49-year leasing contracts, i.e., land ownership for all practical purposes. The frequency of lease installments has also been revised. Traditionally, leaseholders could only pay their lease in annual installments; however, since 1991-92, the

³⁶ Land allocated to the Kibbutzim is, for example, leased on 3-year contracts within a 49-year framework.

³⁷ The Kibbutzim and Moshavim were initially offered "generous" contracts to promote the planning and developing of residential land. However, due to a mixture of lack of interest and internal disputes, there was only limited progress, inducing the ILA to make use of its legal right to confiscate the land.

entire 49-year term must be paid in one single installment.³⁸ By paying the entire lease at once, the leaseholder not only avoids the risk of a price increase over the term of the lease, but it has also implied an increased flexibility regarding decisions concerning house amendments and renovations.

³⁸ Mortgages are available for such lease installments.

References

- Bainerman, Joel, "Israel - Privatization Fails to Take Off," *Euromoney*, May 1996.
- Bank Hapoalim, "Economic Report," monthly issues, 1996.
- _____, "The Israeli Economy: 'Re-inventing Israel'," Economics Department, 1996.
- Bank of Israel, Annual Report, 1996.
- _____, Research Department, "Recent Economic Developments," monthly issues, 1996.
- Bebchuk, Lucian Arye, Louis Kaplow, and Jesse M. Fried, "Concentration in the Israeli Economy and Bank Investment in Commercial Companies," mimeo, Harvard University, 1995.
- Blass, Asher A., "Provident Funds: Performance and Structure 1987-1994," mimeo, Bank of Israel, 1996.
- Blass, Asher A. and Richard S. Grossman, "A Costly Guarantee? The 1983 Israel Bank Shares Crisis Revisited," The Maurice Falk Institute for Economic Research in Israel, Discussion Paper No. 95.05, 1995.
- Economist Intelligence Unit, "Country Report - Israel; The Occupied Territories," quarterly reports, 1996.
- Financial Times, Survey on Israel, July 15, 1996.
- Gurkov, Igor, "Privatization in Israel - The Creation of a Mature Market Economy," *Annals of Public and Co-operative Economy*, vol. 65, 247-79, 1994.
- Israel Lands Administration, Annual Report, summary (translated), 1996.
- Leiderman, Leonardo and Gil Bufman, "Financial Reform in Israel: A Case of Gradualism," Centre for Economic Policy Research Discussion Paper 997, 1994.
- Murphy, Emma, "Structural Inhibitions to Economic Liberalization in Israel," *Middle East Journal*, vol. 48, 65-88, 1994.
- "The Report of the Committee to Examine Structural Changes in the Capital Market," summary (translated), 1996.

Salomon Brothers, "Israeli Equities Road Map - Emerging Market Dynamism and European Affluence," 1996.

State of Israel, prospectus presented to the U.S. Securities and Exchange Commission, 1996.

_____, Government Companies Authority, "Report on the Government Companies 1995," 1996.

Table 1. Privatization and Raising of Capital from the Public by
Issuance of Shares and Convertible Securities 1995-August 1996

(In millions of U.S. dollars)

Company	Total Capital Raised	Percentage Sold	Percentage Held by the State after Sale
1995:			
Housing and Development	288.0	100	0
Israel Chemicals	231.0	25	48
Israel Shipyards	14.0	100	0
Total	533.0		
January-August 1996:			
Lapidoth	8.6	51	0
Tahal	12.9	100	0
Israel Discount Bank	160.0	16	71
Naptha	16.2	44	0
Total	197.7		

Source: Government Companies Authority.

Distribution of Commercially and Non-Commercially Oriented Government Companies by Economic Sector

Sector	1995				May 31, 1996			
	Government Controlled Company	Subsidiary of Government Controlled Company	Mixed Company	Total	Government Controlled Company	Subsidiary of Government Controlled Company	Mixed Company	Total
Commercially Oriented Companies								
Electricity and water	4	3	5	10	3	2	4	9
Industry, trade, and chemicals	5	--	1	7	5	--	1	10
Transport and communication	3	3	1	8	3	2	1	6
Energy and oil exploration	4	2	--	8	5	2	--	8
Defense	5	--	1	8	3	--	1	5
Agriculture	4	--	--	5	4	--	--	5
Building, housing, and development	5	3	--	5	5	3	--	5
Tourism	2	--	--	5	2	--	--	5
Culture and art	--	--	--	5	--	--	--	--
Advanced study funds	2	--	1	3	--	--	1	3
Other services	34	14	10	58	32	15	9	56
Total number of active companies								
Non-Commercially Oriented Government Companies								
Electricity and water	1	--	--	1	1	--	--	1
Industry, trade, and chemicals	2	--	--	4	2	--	--	4
Transport and communication	4	--	1	4	4	1	1	5
Energy and oil exploration	1	--	--	1	1	--	--	7
Defense	--	--	2	6	7	1	--	9
Agriculture	4	--	--	7	7	--	--	6
Building, housing, and development	7	1	--	9	4	--	--	12
Tourism	7	--	1	6	9	--	--	10
Culture and art	4	--	2	12	6	--	7	10
Advanced study funds	9	--	3	10	9	--	2	16
Other services	3	--	7	61	42	2	16	60
Total number of active companies								
	42	2	17	61	42	2	16	60

Table 3. The Largest Government Companies as of December 31, 1995

(In millions of U.S. dollars)

	Total Assets	Total Revenues	Percentage Direct and Indirect Government Ownership
The Israel Electric Corporation	8,651	2,452	100
Bezeq - The Israel Telecommunication Corporation	4,370	2,283	77
Israel Chemicals	2,614	1,387	48
Mekorot - Water Corporation	1,861	427	100
Israel Aircraft Industries	1,599	1,394	100
Oil Refineries	1,218	1,909	74
El-Al Israel Airlines	1,072	1,235	100
Israel Military Industries	496	440	100

Source: Government Companies Authority.

Table 4. Privatization of Banks and Raising of Capital from the Public by Issuance of Shares and Convertible Securities

(In millions of U.S. dollars)

Bank	Date	Total Capital Raised	Percentage Sold	Percentage held by the State after Sale
I.D.B. Holdings	Oct. 1991	229.7	25	42
Israel General Bank	Jul. 1992	15.6	25	0
I.D.B. Holdings	Nov. 1992	349.3	42	0
Union Bank	May 1993	49.6	35	23
Bank Hapoalim	May 1993	244.5	16	80
Bank Leumi	Aug. 1993	275.4	15	80
Bank Hapoalim	Nov. 1993	121.8	6	74
United Mizrahi Bank	Nov. 1994	110.01 ^{1/}	51	46
Israel Discount Bank	Mar. 1996	160.02 ^{2/}	16	71
Total		1,555.9		

Source: Government Companies Authority.

1/ The purchasers of the controlling interest of United Mizrahi Bank (26 percent of its capital) were granted an option to purchase a further 25 percent on the basis of the market value (100%) of the bank, amounting to \$423 million, plus linkage to the CPI and interest at the rate of 3 percent. The proceeds due to arise upon the exercise of the warrant are not included here.

2/ The immediate revenue amounts to \$80 million. Another \$80 million in revenue is expected upon the exercise of the purchase warrants in Israel Discount Bank.

Table 5. The Israeli Capital Market 1995

	Total	Shares 1/	Tradable Bonds 2/	Indexed Earmarked Bonds	Treasury Bills 2/	Other Assets Held by Institutions
End-of-period balances (in NIS billion)						
Institutions						
Provident funds	105.9	11.4	50.0	12.1	1.3	31.0
Pension funds	65.9	0.0	0.0	62.1	0.0	3.8
Life insurance	31.0	0.4	2.7	21.3		6.6
Mutual funds 3/	14.7	6.5	6.8		0.8	0.6
Households and firms	56.7	29.8	21.7		5.2	
Nonresidents	15.1	14.4	0.6		0.1	0.0
Banks	37.1		30.7		6.4	
Total	326.5	62.6	112.6	95.5	13.8	41.9
Real change from 1994 (in percent)						
Institutions						
Provident funds	-4.7	-7.6	-8.8	-31.6	17.0	23.7
Pension funds	6.7	41.9	69.7	7.9		-9.9
Life insurance	11.4	27.9	22.9	4.2		35.3
Mutual funds	-23.3	-24.6	-26.5		58.4	-22.0
Households and firms	17.9	4.0	31.8		76.6	
Nonresidents	59.5	56.6	252.5		98.2	-64.9
Banks	40.3		32.1		98.7	
Total	7.4	5.7	6.0	-0.2	76.3	20.1
Real change in price (in percent)	-0.3	1.0	-1.5			
Change in quantity (in percent)	7.7	4.6	7.6	-0.2	76.3	20.1

Source: Bank of Israel.

1/ Excluding double counting and government-owned quoted companies.

2/ Excluding securities held by the Bank of Israel.

3/ Adjusted for provident funds' and nonresidents' holdings in mutual funds.

Table 6a. Recommendations of the Brodet Committee on Capital Market Reform

Proposed Tax Changes

Instrument	Currently	Proposed
Short-term savings, up to ten years	No taxes	Non-linked: 5 percent tax on interest income 1/ Linked: 10 percent tax on interest income
Long-term savings, ten years and longer	Generally taxed 2/	Tax exempt
Bond investments (tradables) 3/	35 percent on interest income	10 percent
Dividend income from shares traded at TASE	25 percent tax	15 percent tax
Income from foreign securities	35 percent tax	25 percent tax immediately 20 percent tax one year later

1/ The Committee also proposed that subject to appropriate arrangements by the banks, non-linked savings would be divided into savings of up to three months, which would continue to be taxed on the nominal interest, and savings longer than three months, which would be taxed as linked savings at a rate of 10 percent on the interest, i.e., the acquisition cost would be adjusted according to the consumer price index. The real interest rate would be computed by the banks at the time of withdrawal.

2/ Income from provident funds is, for example, tax exempt, if kept until the end of the agreed holding period.

3/ In order to stimulate activity in tradable bonds, it was proposed that the 35 percent tax on interest income from nontradable bonds would be left unchanged.

Table 6b. Recommendations of the Brodet Committee on Capital Market Reform

Other Proposals

Pension Funds	Reduce the amount of bonds with a guaranteed rate of return that the pension funds can buy from contributions from wages of up to twice the average salary to a ceiling of one time the average salary.
Provident Funds	Redemptions will be tax-exempt only if funds are held until retirement age, not after 15 years as is currently the case.
Retirement Savings	Allow investments in IRA-type provident and pension funds and raise the wage ceiling for which deposits are eligible for tax benefits of 25 or 30 percent to twice the average salary from the current "eligible income" in order to encourage more retirement savings.
Investments in Foreign Securities	Increase the amount institutional investors can invest in foreign securities from the current 2 percent of total assets to 5 percent over three years.
Mortgage Market	Promote the establishment of a secondary mortgage market à la Fannie Mae and Freddie Mac.
Securities Trading	Reinforce and strengthen control elements in securities trading and set up an accounting standards board.
Privatization	The privatization of government corporations and banks should be expedited and the previous proposal to distribute share options to the public should be reintroduced. Also, the legislation of the Companies Law should be expedited.
Bank of Israel Money Market Operations	Abolish short-term (Makam) debt instruments and instead allow the Bank of Israel to operate in the money market in the same way as is done in other industrialized countries.
Economic Affairs Court	The Ministry of Justice and the Supreme Court Chief Justice should explore the possibility of setting up an economic affairs court to judge economic offences.

Table 7. Regulated Prices in the Consumer Price Index

(as of August 1996)

	Weight (out of 1000)		Weight (out of 1000)
A. Controlled prices		B. Prices under supervision	
Public bus transportation	14.7	Flour	1.5
Meat	7.8	Margarine	0.8
Municipal taxes	20.0	Yoghurt	5.7
Electricity (for domestic use)	18.4	Bread	9.0
Water (for domestic use)	8.6	Milk	7.6
Education fees	22.7	Cream	1.1
Sick Fund services	8.1	Butter	0.5
Train and domestic flight tickets	0.3	Cheese	9.8
Phone services	20.3	Refrigerators	5.0
Mail services	0.5	School books	4.4
Total	121.4	Medicines	4.2
		Gas (for domestic use)	3.2
		Oil and fuel (for domestic use)	0.4
		Taxi rides	3.4
		Total	56.6

Source: Bank of Israel.

III. Current Account Sustainability in Israel³⁹

The topic of current account sustainability has been long debated among economists, but little consensus has been reached on how to analyze the issue using a formal methodology. In addition to technical difficulties, opinions diverge as to what constitutes an unsustainable current account. Indeed a vast literature is devoted to explaining—ex post—the causes of balance of payments crises, but few studies have attempted to predict a crisis. Lack of confidence in the predictive power of formal economic models is understandable: evidence shows that some countries have maintained current account deficits in excess of 5 percent of GDP (a level many economists believe to be alarming) for extended periods without encountering serious difficulties.

This paper presents a study of external sector developments in Israel and the sustainability of the current account deficit along two lines: (1) a theoretical analysis of some of the causes that have led to a widening external deficit and (2) an assessment of the risks that the current situation poses. The paper is divided into four sections: the first describing the impact of immigration from the former Soviet Union; the second developing a simple consumption-smoothing model and using it to examine the Israeli experience; the third examining the dynamics of a number of sustainability indicators that have recently been discussed in the literature and comparing them with analogous figures from other countries; and, the fourth summarizing the major points.

A. An Overview of the Israeli Economy and its Transformation in the 1990s

In late 1989 a wave of Jewish immigrants began to arrive in Israel, mainly from the former Soviet Union: about 750,000 individuals have arrived over the past 6 years and the flow is expected to continue at a rate of about 70,000 per year. The total population increased over this period on average by 3.5 percent per year, from 4.52 million in 1989 to 5.54 million in 1995. This massive inflow caused not only an extraordinary demand push, but radically transformed the economy.

Average annual GDP growth jumped up from 3.5 percent during the 1980s, to over 6 percent during 1990-95. The expansion was fueled mainly by investment which grew at an annual average rate of 16.2 percent over the period 1990-95, compared to 0.1 percent during the 1980s. Private consumption was also stimulated by demand coming from the new immigrants: over the 1980s private consumption had increased on average by 5 percent a year, while in the last 6 years this rate was 7.1 percent.

The immigrant absorption program, although exacting a large amount of resources, did not itself put undue strain on the fiscal position: indeed although the domestic budget deficit increased from 3.2 percent of GDP in 1989 to 5.3 percent in 1991, it decreased steadily to

³⁹ Prepared by Fabio Scacciavillani.

2.0 percent of GDP in 1994, thanks in part to strict controls on budget execution. However, starting in that year large wage increases were granted to civil servants while revenues were underestimated in both 1995 and 1996. In 1995, the domestic budget deficit reached 3.3 percent of GDP against a 2.75 percent target. Likewise in 1996, the domestic budget is expected to be above 4 percent of GDP, instead of the targeted 2.5 percent.

Perhaps most significantly, unemployment, which peaked at over 11 percent in 1992, was absorbed quickly, so that the rate now stands at around 6.2 percent, while the number of employed has increased from less than 1.5 million in 1989 to almost 2.0 million in mid-1996. More than 60 percent of the new jobs have been created in the business sector.

In the context of these developments, the current account position relative to national income deteriorated from 0.3 percent in 1992 to -4.2 percent in 1995 (Table 1).

B. A Model of the Current Account Applied to Israel

In Israel the current balance of payments deficit stems from a combination of several ingredients. One factor frequently cited is the surge in investment and consumption stemming from the need to provide the new immigrants with an adequate level of both human and non-human capital and cater to their necessities. In addition, however, there are several other explanations: the increase in government spending in the last three years; the effects of a long-term trade liberalization program exposing domestic producers to international competition; the opportunities created by the peace process in terms of access to new markets and foreign investors' interest; a real effective appreciation of the shekel caused by high domestic interest rates; and a worsening of the terms of trade over the last two years.

This section focuses on the first element by developing a formal model to investigate current account developments and then examines how the stylized facts of the recent Israeli experience compare with its qualitative predictions.

The consumption smoothing approach: a basic formulation

A formal model that could explain all the factors influencing the current account balance, their interactions and their relative importance would be extremely complex. For this reason economic theory has focused on specific elements that can provide an insight about particular stylized facts or episodes. Economists in recent years have developed a framework, usually referred to as the consumption smoothing approach, to investigate—among other issues—current account sustainability. The advantage of this framework can be found in its solid microeconomic foundations and in its versatility to incorporate a wide array of features, while its main drawback consists of the difficulty in testing its predictions statistically, unless rather strong—and to some extent arbitrary—assumptions are made. In this section a simple consumption smoothing model is presented which appears to fit the Israeli experience. Because of limitations in the data, and to avoid the imposition of arbitrary assumptions, no attempt is made to estimate the model.

The starting point is an identity linking changes in net foreign liabilities to the investment-savings gap

$$CA_t = A_{t+1} - A_t = r_t A_t + Y_t - C_t - G_t - I_t \quad (1)$$

where: A_t are net foreign liabilities at time t ; r_t is the real interest rate between time $t-1$ and t ; Y_t is GDP; C_t is consumption; G_t is public expenditure; I_t is investment, and CA_t is the current account balance.

By iterating identity (1) over an infinite period one obtains

$$(1+r_t)A_t = \sum_{s=t}^{\infty} R_{t,s}(C_s + G_s + I_s - Y_s) + \lim_{s \rightarrow \infty} R_{t,s}A_s$$

where $R_{t,s}$ is the market discount factor at time t for consumption at future date s , defined as

$$R_{t,s} = \frac{1}{\prod_{v=t+1}^s (1+r_v)}$$

The assumption that foreign lenders will not finance a growing debt indefinitely can be formalized by imposing a transversality condition

$$\lim_{s \rightarrow \infty} R_{t,s}A_s = 0$$

so that the intertemporal budget constraint of the economy can be written as

$$\sum_{s=t}^{\infty} R_{t,s}(C_s + G_s + I_s) = (1+r_t)A_t + \sum_{s=t}^{\infty} R_{t,s}Y_s \quad (1.a)$$

It must be noted that the transversality condition is rather weak and in reality a large external debt might create problems even if the transversality condition is satisfied. In this regard economists make a distinction between the notions of solvency, unsustainability and illiquidity. A country is solvent if the intertemporal budget constraint is not violated, a condition weak enough to accommodate a wide range of current account patterns, but virtually untestable in practice. Sustainability describes a situation that does not require a sharp shift in the current policy stance in order to prevent a crisis. Finally, illiquidity is defined as the impossibility of servicing the external debt for an extended period. The present section is devoted to an analysis

of the effects of immigration on Israel's external borrowing needs and therefore its intertemporal solvency, while the next section focuses on the more general sustainability problem.

The solution to a representative consumer's intertemporal utility maximization problem subject to the constraint (1a) allows the current account balance to be described by the following equation⁴⁰

$$CA_t = (r_t - \tilde{r}_t)A_t + (Y_t - \tilde{Y}_t) - (G_t - \tilde{G}_t) - (I_t - \tilde{I}_t) + \left[1 - \frac{1}{(\tilde{\beta}/\tilde{R})^\sigma} \right] (\tilde{R}A_t + \tilde{Y}_t - \tilde{G}_t - \tilde{I}_t) \quad (2)$$

where a tilde indicates the permanent level of a variable⁴¹.

Equation (2), in essence states that the current account balance is influenced by two factors: on one hand are the deviations of the key variables from their "permanent" levels, on the other the discrepancy between the world market discount rate R and residents' rate of intertemporal preference β , in other words their "impatience" relative to the international interest rate. It is argued below that in the case of Israel the immigration likely produced a sizable effect on both factors.

⁴⁰ Formally, a representative consumer, with rate of intertemporal preference β and elasticity of substitution σ , maximizes a time separable utility function of the form

$$U_t = \sum_{s=t}^{\infty} \beta^{s-t} \frac{C_s^{1-\sigma^{-1}} - 1}{1-\sigma^{-1}}$$

⁴¹ The permanent level of a variable is defined as the infinite sum of its discounted future stream. For example permanent output is

$$\tilde{Y}_t \equiv \frac{\sum_{s=t}^{\infty} R_{t,s} Y_s}{\sum_{s=t}^{\infty} R_{t,s}}$$

A change in intertemporal preferences. When residents are more impatient than the rest of the world, they are willing to borrow because β is lower than the future world interest rates, so

$$\frac{\beta}{\tilde{R}} < 1. \quad (3)$$

Substituting condition (3) into equation (2), it can be seen that the country will tend to have a higher current account deficit (or lower surplus).

The flow of new immigrants into Israel likely changed the parameter β , in the sense of increasing the impatience, because the new comers brought virtually no assets with them and therefore had to be supplied all essentials until they could be productive. As well, the sense of increased security at the onset of the peace process could have induced the public to be more confident in the future.

Shifts in the permanent levels of the variables. The immigration wave was a unexpected phenomenon, which can be modeled as a one time jump in the permanent level of the variables due to a change in economic fundamentals. Indicating by \hat{Y}_t and \hat{I}_t the new permanent levels after the immigration, where $\hat{Y}_t > \bar{Y}_t$ and $\hat{I}_t > \bar{I}_t$, one can argue that $Y_t - \hat{Y}_t$ would be negative, while $I_t - \hat{I}_t$ would be positive until the capital stock is fully adjusted to the increase in the quantity and quality of the new labor force, a process that will take several years to complete. During this time the current account balance would be subject to downward pressures. The permanent level of public expenditures was likely pushed up by the immigration inflow, so $\hat{G}_t > \bar{G}_t$, but the sign of $G_t - \hat{G}_t$ is unclear. Thus in the present framework, the immigration itself would not have caused a deterioration in the current account deficit through the channel of higher government spending unless the Government made an explicit decision to move current spending above its "permanent level". In any case, it is clear that in this framework an expansionary fiscal policy, defined as $G_t > \hat{G}_t$, would lead to such a deterioration.

Investment and consumption: some extensions of the model

Production function. Equation (2) neglects the interrelations between the variables on the right hand side. To understand the relationships between investment, the capital stock, output and the current account the model can be extended to incorporate a production function with capital installation costs. Assuming that the technology can be represented by a homogenous and concave production function $Y = \theta F(K,L)$, where K indicates capital, L labor and θ total factor productivity, the economy can be modeled as a firm maximizing an intertemporal discounted profit function

$$\sum_{s=t}^{\infty} R_{t,s} \left[\theta F(K_s, L_s) - w_s L_s - I_s - \frac{aI_s^2}{2K_s} \right] \quad (4)$$

where w denotes the real wage and the term $aI_t^2/2K_t$ represents the fixed cost of installing new capital. The solution to the intertemporal constrained maximization problem of adjusting the capital stock to the post immigration level of employment \bar{L} yields an equation for the current account in the form

$$CA_t = \left(\left[\theta F(K_t, \bar{L}) - \frac{aI_t^2}{2K_t} \right] - \frac{r}{1+r} \sum_{s=t}^{\infty} \left(\frac{1}{1+r} \right)^{s-t} \left[\theta F(K_s, \bar{L}) - \frac{aI_s^2}{2K_s} \right] \right) - \left[\frac{q_t^{-1}}{a} K_t - \frac{r}{1+r} \sum_{s=t}^{\infty} \left(\frac{1}{1+r} \right)^{s-t} \frac{q_s^{-1}}{a} K_s \right] \quad (5)$$

where q_t can be interpreted as the shadow cost of capital, also known as Tobin's q .

By noticing that the term

$$Y_{N,t} \equiv \theta F(K_t, \bar{L}) - \frac{aI_t^2}{2K_t} \quad (6)$$

represents net output, and that profit maximization requires

$$I_t = \frac{q_t^{-1}}{a} K_t \quad (7)$$

equation (5) can be simplified as

$$CA_t = [Y_{N,t} - \tilde{Y}_{N,t}] - [I_t - \tilde{I}_t] \quad (8)$$

Equation (5), or its simpler version (8)—abstracting from public expenditure—is analogous to equation (2), but shows more clearly the links between capital and output. The jump in the labor force to the new level \bar{L} produces an increase in the stream of K_s (to the indefinite future) which has a twofold negative effect on the current account balance: first it raises permanent net output, so that until current net output fully adjusts, the first term in the right hand side of equation (8) is negative. Second because investment at time t must climb up above its permanent level, the second (negative) term in equation (8) increases. Moreover the

shadow cost of capital q_t grows more than proportionally to the ratio I_{t+1}/K_{t+1} , amplifying the effect on investment. In other words, the higher cost of installing the new capital puts additional pressure on the current account.

Consumption and savings. Table 1 displays the changes in the savings rate, investment and current account in Israel as a percentage of disposable income. Since 1991 private savings have declined in conjunction with the deterioration of the current account, while investment has remained relatively constant after an initial jump in 1991.

How can this be explained in terms of the model presented here? For the sake of simplicity assume that $1+r$ is fixed and equal to $1/\beta$, thereby omitting the "impatience" element, it can be shown that the current account is

$$CA_t = [wL_t - \tilde{w}\bar{L}_t] - (G_t - \tilde{G}_t) - I_t \quad (9)$$

By taking I_t to the left hand side one can write equation (9) in terms of savings S_t ,

$$S_t = [wL_t - \tilde{w}\bar{L}_t] - (G_t - \tilde{G}_t) \quad (10)$$

Equations (9) and (10), in addition to the role of public expenditures already delineated in equation (2), highlight the role of wages, productivity and employment on the current account.

In this framework the absorption of the new immigrants can affect the current account for two reasons. First because L_t is initially below its post-immigration level (although now that the unemployment rate is approaching its lowest level in many years this effect should dissipate). Second, because real wages in the private sector have been constant during the 1990s, reflecting a more flexible labor market (the immigrants were not unionized and willing to accept a lower wage) and sluggish productivity gains (because of lags in the adjustment of the capital/labor ratio).

So far it has been shown that in a simple consumption-smoothing model, the increased immigration into Israel could have led to a deterioration in the current account because of increased demand for consumer goods as well as higher demand for the investment goods needed to increase the capital stock up to its new equilibrium level. How do these predictions of the model compare with the Israeli experience? Consumer goods imports grew by 179 percent over the period 1989-95 (Table 2). At the same time, imports of production goods (excluding diamonds) rose by 115 percent and investment goods by 300 percent. However, in spite of the high rate of investment during these years (Table 1), the capital/GDP ratio in the business sector fell from an average of 2 in 1986-89 to 1.75 in 1995. Thus the stylized facts of the Israeli experience would seem to match the predictions of the simple model developed here.

Clearly there are many important factors that have influenced recent current account developments in Israel beyond the wave of immigration. The role of fiscal policy has only been briefly touched on in the above analysis. As well, movements in the real effective exchange rate and the terms of trade certainly also played a role but these effects are beyond the scope of this paper.

C. Sustainability Indicators

Having examined some of the factors behind the deterioration of the current account balance, attention will now be turned to the risks that such a situation might entail. This section pursues two main lines of analysis: a historic perspective and a comparison with other countries.

Israel's external debt dynamics can be described by rearranging (1) as follows:

$$f_t - f_{t-1} = tb_t + \frac{1}{(1+\gamma_t)(1+\epsilon_t)} f_{t-1} (r_t - \epsilon_t - \gamma_t - \gamma_t \epsilon_t) \quad (11)$$

where the rate of GDP growth is denoted by γ_t , the ratio of net external liabilities to GDP by f_t , the rate of real appreciation of the domestic currency by ϵ_t , and the ratio of trade deficit to GDP by tb_t .

Equation (11) states that the growth in the ratio of net foreign liabilities to GDP is driven by the increase in the trade deficit as a percent of GDP and the burden of the previous period's external debt. The latter moves inversely to the growth rate increase and the exchange rate, but one should note that, as an appreciation of the exchange rate is likely to affect the trade deficit, the overall effect of ϵ_t on the growth of f_t is ambiguous.

Equation (11) can help to explain how the Israeli economy in the past has absorbed a surge in the external deficit due to mass immigration. Between 1949 and 1952 the Jewish population of the State of Israel doubled from 0.76 million to 1.45 million. During that period the current account deficit swelled from US\$ 220 million to US\$ 306 million and the import surplus that in 1950 amounted to 25 percent of GDP rose to almost 29 percent of GDP in 1952. As the flow of immigrants stabilized at a relatively high rate (the population of Israel reached 2.6 million in 1965) the import surplus as a percent of GDP declined to a low of 18 percent in 1960, to raise again towards 20 percent in 1965. Despite this unusually high use of external resources, Israel did not experience any current account crisis thanks to remarkably strong growth: between 1950 and 1965, GDP grew at an annual average rate of 11.4 percent (6.3 percent in per capita terms).

In reality, the sustainability of current account must be analyzed in a broader context than the simple model examined here. In two papers Milesi-Ferretti and Razin (1996a,b) examine episodes of large external imbalances in a number of economies, three of which (Chile 1981, Mexico 1981, and Mexico 1994) led to a balance of payments crisis, i.e., a large

devaluation accompanied by a renegotiation of the external debt. Table 3 reproduces the results by Milesi-Ferretti and Razin summarizing data on variables they identify as critical for the sustainability of the current account position. Although it is difficult to pinpoint the elements that unequivocally signal an impending emergency, one observes that balance of payments crises occurred when the current account deficit was higher than 5 percent of GDP, the exchange rate was overvalued, and the ratios of both exports⁴² and investments to GDP were low.

Even if Table 3 might not provide a formal framework to predict the timing of a crisis, it, nevertheless, indicates quite clearly what kind of action is required to avoid one. All countries in the sample that averted a crisis implemented a major fiscal consolidation. In most cases this led to a downward correction in the level of the real exchange rate which produced an export boom. Despite the fiscal contraction and a lower investment share, GDP growth in the post-adjustment period picked up vigorously. This contrasts sharply with the three episodes where a balance of payments crisis developed and where growth was undermined by the fiscal contraction to the extent that negative growth rates prevailed afterwards.

Table 4 presents indicators for Israel over the last six years. The data in general do not seem to suggest that a crisis is looming: although the current account has reached a high level, Table 2 shows that the bulk of imports are production inputs or investment goods while the share of consumer goods—although increasing rapidly, especially in the first three quarters of 1996—remains relatively low.

The official data on net external liabilities do not raise significant concerns, since net debt as a percentage of GDP is shrinking, as are debt service indicators.⁴³ Moreover, figures on debt maturity provided by the authorities (not reported here) show that short term liabilities are relatively small. Public sector liabilities, which represent 77 percent of total liabilities, are all medium and long term. Even when the private sector and banking sector debts are added, long term liabilities constitute 75 percent of the total. The Bank of Israel forecasts that debt amortization during 1997-2000 will entail annual payments in the order of US\$ 2-2.5 billion, a relatively low amount considering the size of the Bank of Israel's foreign currency reserves (some US\$ 10 billion at end-September 1996).

⁴² For a small economy it is critical to have a large enough export base for two reasons: obviously in order to generate foreign currency proceeds necessary to service the debt, but more importantly to ensure that even if the domestic demand falls after an adjustment, external demand will prevent a large contraction in activity. In Israel, for example, exports grew from 3 percent of GDP in 1950 to about 22 percent in 1965.

⁴³ It should be noted, however, that it is difficult to completely reconcile changes in the stock of net external liabilities with the movements in the capital account. This suggests that some degree of caution should be exercised in using these statistics.

However, despite the generally favorable outlook some risks do exist. A reversal of the recent real appreciation of the shekel would cause the debt indicators to worsen and some borrowers could experience liquidity problems even if there were no real issue of solvency. Second, loan guarantees from the US Government will expire in 1998. Although Israel has so far been able to borrow at quite favorable spreads even without the guarantees, there is no assurance this will continue. Finally, so far Israel has received large unilateral transfers, particularly from the United States. Nothing can be said about the outlook for the continuation of these flows with any certainty.

D. Conclusions

This paper has presented a simple model which can be used to investigate the effect of the large wave of immigration on the Israeli current account. The model suggests that both consumption and investment would have increased due to the immigration; both factors tending to worsen the current account. The stylized facts of the Israeli experience are consistent with the model's predictions.

In the second part of the paper, some cross-country comparisons of current account sustainability indicators are made which suggest that although the Israeli current account deficit is very high, the situation should be manageable assuming an appropriately tight fiscal stance. In particular, international experience shows that countries with large current account deficits were able to avoid balance of payments crises by pursuing tight fiscal policies.

References

- Bank of Israel *1995 Annual Report*, Jerusalem 1996.
- Bank of Israel, Controller of Foreign Exchange, *1995 Annual Report*, Jerusalem 1996.
- Milesi-Ferretti, G.M., and A. Razin (1996a), "Current Account Sustainability: Selected East Asian and Latin American Experiences" *IMF Working Paper 96/110*.
- Milesi-Ferretti G.M., and A. Razin (1996b), "Persistent Current Account Deficits: a Warning Signal?", *International Journal of Finance and Economics*, 1, n.3, 161-182.
- Obstfeld, M., K. Rogoff (1994), "The Intertemporal Approach to the Current Account," *University of California-Berkeley Center for International and Development Economics Research Working Paper no. 94-044*.
- Obstfeld, M., K. Rogoff (1996), *Foundations of International Macroeconomics*, MIT Press, Cambridge, Mass.
- Halevi, N., R. Klinov-Malul (1968), *The Economic Development of Israel*, Praeger, New York.
- Sachs, J.D. (1982), "The Current Account in the Macroeconomic Adjustment Process", *Scandinavian Journal of Economics*, 84, 147-159.

Table 1. Israel: National Saving, Investment, and the Current Account, 1986-95 1/

	Percent of total income									
	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Gross savings	19.10	16.80	17.00	17.50	18.20	21.10	21.90	20.20	18.70	18.00
General government	4.50	1.80	0.60	-2.20	-2.30	-0.80	0.50	0.10	0.40	-0.70
Private	14.60	15.00	16.40	19.70	20.50	21.90	21.40	20.10	18.30	18.70
Gross investment	16.30	17.00	16.20	15.50	17.90	22.40	22.00	21.70	22.00	22.60
Inventories	0.80	-0.50	0.00	0.20	0.80	1.30	1.00	1.40	0.90	1.20
Fixed nonresidential	11.40	12.90	11.60	10.40	11.60	12.50	13.10	14.60	15.60	15.30
Residential	4.10	4.60	4.60	4.90	5.50	8.60	7.90	5.70	5.50	6.10
Current account	3.30	0.30	1.10	2.30	0.70	-1.00	0.30	-1.30	-3.00	-4.20
Civilian import surplus	3.80	4.80	3.20	3.50	5.30	7.00	6.20	6.50	8.00	9.10
Unilateral transfers	7.10	5.10	4.30	5.80	6.00	6.00	6.40	5.30	5.00	4.90
Transfers on capital account	0.50	0.40	0.40	0.40	0.40	0.40	0.30	0.30	0.30	0.30

Source: Bank of Israel Annual Report 1996

1/ Total income is GNP less unilateral transfers from abroad (converted to NIS at official exchange rate).

Table 2. Israel: Commodity Imports by Main Economic Destination

	1989	1990	1991	1992	1993	1994	1995	1996
(In millions of U.S. dollars)								
Consumption goods	1,311.6	1,585.2	1,876.8	2,320.8	2,532.0	3,046.8	3,656.4	4,081.2
Diamonds	2,871.6	2,895.6	2,551.2	2,911.2	3,340.8	3,873.6	4,429.2	4,450.8
Other inputs	6,057.6	6,942.0	7,825.2	8,511.6	9,074.4	10,358.4	12,942.0	13,927.2
Investments goods	1,533.6	2,022.0	2,766.0	3,050.4	3,439.2	4,177.2	4,652.4	5,184.0
TOTAL	11,774.4	13,444.8	15,019.2	16,794.0	18,386.4	21,456.0	25,680.0	27,643.2
(In percent of total)								
Consumption goods	11.1	11.8	12.5	13.8	13.8	14.2	14.2	14.8
Diamonds	24.4	21.5	17.0	17.3	18.2	18.1	17.2	16.1
Other inputs	51.4	51.6	52.1	50.7	49.4	48.3	50.4	50.4
Investments goods	13.0	15.0	18.4	18.2	18.7	19.5	18.1	18.8
(In percent of GDP)								
Consumption goods	2.9	3.0	3.2	3.5	3.9	4.1	4.2	4.3
Diamonds	6.4	5.5	4.3	4.4	5.1	5.2	5.1	4.7
Other inputs	13.5	13.3	13.2	13.0	14.0	14.0	14.9	14.8
Investments goods	3.4	3.9	4.6	4.7	5.3	5.6	5.4	5.5
Memorandum item								
GDP (in mill. of US\$)	44,800	52,300	59,500	65,600	65,000	74,000	86,600	94,300

Source: Central Bureau of Statistics.

Table 3

Macroeconomic Sustainability Indicators in Selected Countries 1/

	Chile 2/	Mexico I 2/	Mexico II 2/	Korea	Ireland	Israel	Malaysia	Australia	Colombia
	1979-81 (1982-83)	1977-81 (1982-83)	1991-94 (1995)	1977-82 (1983-88)	1979-86 (1987-90)	1982-84 (1985-86)	1979-84 (1985-86)	1981-94	1980-84 (1985-88)
CA balance	-9.1 (7.6)	-5.0 (0.3)	-6.7 (-0.3)	-5.4 (2.6)	-8.5 (-0.6)	-7.0 (3.0)	-8.2 (-1.1)	-4.9	-5.1 (0.5)
Savings	7.4 (5.9)	18.7 (22.0)	15.7 (17.9)	25.6 (31.6)	16.0 (15.7)	15.0 (21.0)	26.6 (25.7)	18.3	14.6 (20.5)
Investment	17.0 (13.5)	23.7 (21.8)	22.4 (18.2)	31.0 (29.0)	24.5 (16.3)	22.0 (18.0)	34.8 (26.8)	23.2	19.7 (20.0)
Exports	19.7 (21.3)	10.6 (17.2)	12.7 (24.0)	32.5 (36.9)	52.4 (60.0)	38.0 (41.5)	53.2 (55.6)	17.0	12.6 (18.1)
REER	124.1 (118.5)	126.4 (103.5)	113.9 (76.0)	103.6 (92.2)	101.2 (105.9)	99.2 (93.1)	117.9 (111.8)	93.4	135.5 (80.2)
Fiscal Balance	2.1 (-3.3)	-8.0 (-11.2)	0.4 (0.0)	-2.8 (0.0)	-11.8 (-3.5)	-13.0 (2.0)	-14.5 (-8.9)	-2.2	-3.5 (-1.0)
Growth	7.2 (-7.4)	7.5 (-2.4)	2.6 (-6.9)	5.8 (10.7)	2.8 (5.7)	2.0 (4.0)	6.9 (0.0)	3.0	2.6 (5.1)
Interest Payments	5.5 (8.6)	3.9 (6.7)	2.2 (NA)	5.6 (1.7)	3.7 (2.7)	4.0 (5.8)	4.4 (5.4)	-2.1	3.5 (3.5)
Gross Ext. Debt 3/	48.2 (89.5)	31.4 (62.7)	35.5 (65.1)	50.0 (19.6)	50.0 (32.7)	46.0 (45.0)	55.2 (78.9)	36.0	40.8 (43.3)

Source: Milesi-Ferretti and Razin (1996, a, b).

1/ Current account balance, savings, investment, exports of goods and services, fiscal balance are average ratios of GDP during the period. The growth rate and the CPI-based Real Effective Exchange Rate are period averages (REER: average 1970-1995 = 100). Interest payments and gross external debt are ratios to GDP for the last year of the period and based on data from IMF, *International Financial Statistics*; World Bank, *World Debt Tables* and national sources.

2/ Persistent current account deficit led to a crisis, defined as a devaluation followed by a rescheduling of the debt service.

3/ For Australia and Israel: net external debt.

Table 4. Israel: Sustainability Indicators
(In percent of GDP unless otherwise indicated)

	1989	1990	1991	1992	1993	1994	1995	1996Q2
GDP (in US\$ billions)	44.8	52.3	59.5	65.6	65.0	74.0	86.6	94.3
Current account balance	2.8	1.0	-0.6	0.3	-1.7	-3.2	-4.5	-6.8
Merchandise exports f.o.b.	24.7	23.2	20.2	22.6	21.7	22.6	22.0	19.5
Services export	12.9	12.0	11.2	11.6	11.5	10.7	11.3	10.6
Net external liabilities/GDP	36.6	31.4	27.8	27.0	27.2	25.1	23.6	22.5
Cumulative current account deficits	38.2	37.2	37.8	37.5	39.2	42.4	46.9	53.7
Gross interest on external debt	5.6	5.0	4.1	3.5	3.3	3.2	3.4	3.2
Gross interest/total export	15.0	14.2	13.1	11.1	9.6	9.6	10.1	10.4
Net debt service	7.8	5.7	5.3	4.0	4.5	4.8	4.0	3.9
Net debt service/total export	20.9	16.2	16.9	12.7	13.1	14.4	12.1	12.6
Domestic budget deficit	3.2	4.1	5.2	4.9	2.4	2.0	3.2	3.6
Total budget deficit	5.8	4.8	4.9	4.0	3.5	2.3	4.2	4.1
Relative prices		104.5	119.0	125.3	135.6	150.8	159.0	168.4
Terms of trade		98.0	102.0	104.0	101.0	99.0	94.0	...
Real effective exchange rate		100.0	101.6	99.1	98.1	99.1	99.9	104.0
GDP growth rate	1.2	6.1	6.3	6.8	3.4	6.5	7.1	4.0

Sources: Bank of Israel, Central Bureau of Statistics; and IMF.

Table A1. Israel: Industrial Production, 1991-95 1/

	Weight in Index 1995	Percentage Change at Constant 1990 Prices				
		1991	1992	1993	1994	1995
Mining, quarrying, and nonmetallic minerals	6.5	21.2	11.7	3.6	5.1	18.1
Food, beverages, and tobacco	12.6	1.7	2.8	7.6	6.3	9.5
Textiles, clothing, and leather products	6.6	7.2	7.0	4.6	10.1	3.6
Rubber, plastics, and chemicals	15.2	6.4	11.4	10.9	10.9	7.4
Electronics, electronic equipment, miscellaneous	24.3	4.0	5.5	6.3	7.2	8.6
Transport equipment	5.7	4.5	8.1	-6.9	-8.0	0.1
Metals and machinery	17.0	8.0	7.6	6.6	10.3	11.3
Wood, paper, publishing, and printing	12.1	3.4	9.9	13.0	6.8	4.1
Total industrial production excluding diamonds	100.0	6.7	8.2	6.8	7.4	8.2

Source: Central Bureau of Statistics, *Monthly Bulletin of Statistics*.

1/ According to the CBS new classification.

Table A2. Israel: Investment, 1992-95

	In Millions of New Sheqalim 1995	Percentage change at Constant Prices			
		1992	1993	1994	1995
Gross domestic investment	65,115	6.0	3.6	8.7	10.6
Gross fixed investment	61,733	7.2	1.9	12.7	8.3
Machinery and transport equipment	21,749	5.1	13.2	18.6	9.9
Of which:					
Transport equipment	5,757	22.8	5.8	19.1	-8.4
Construction:					
Residential	17,711	0.0	-23.7	3.1	18.7
Private	14,218	9.8	11.3	15.2	13.3
Public	3,493	-9.0	-60.0	-33.0	46.6
Nonresidential	15,544	24.1	28.3	12.5	7.2

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; and data provided by the Bank of Israel.

Table A3. Israel: Consumption, 1992-95

	In Millions of New Sheqalim	Percentage Change at Constant Prices			
		1992	1993	1994	1995
Private consumption	161,245	8.0	7.2	8.9	7.3
Food, beverages, tobacco and other nondurable goods	61,375	8.1	10.1	9.0	7.2
Durable goods	19,001	24.6	0.5	11.0	15.1
Of which passenger cars	6,823	47.7	-13.9	11.1	8.3
Services	42,734	10.6	7.6	9.4	8.5
Of which housing	35,334	5.2	4.5	3.2	2.8
Less consumption by nonresidents	9,083	49.1	8.0	8.6	16.6
Plus consumption by Israelis abroad	8,253	0.4	14.0	22.9	9.8
Public consumption (excluding net defense imports)	71,749	5.2	0.4	4.0	2.7
Civilian	50,426	6.8	3.2	5.1	12.9
Compensation of employees	35,562	4.2	2.2	5.7	3.9
Consumption of fixed capital	3,413	3.4	3.8	4.1	4.1
Other current purchases	11,459	18.6	6.4	3.6	45.8
Domestic defense	26,336	-7.5	5.8	-8.4	-2.8
Compensation of employees	12,169	-2.3	-1.0	0.0	-0.1
Other current purchases	9,154	2.2	-11.3	4.1	1.1
Defense imports	5,013	-24.6	41.9	-29.1	-11.4
Less sales	564	-32.6	-34.9	7.4	9.0
Public consumption (including net defense imports)	76,198	-0.3	5.4	-0.3	0.6

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; and data provided by the Bank of Israel.

1/ This column gives rates of change, taking into consideration the fact that the government has undertaken to pay the Health Funds directly (in the framework of the National Health Law). This represents a volume decline in private consumption and an equivalent increase in public consumption.

Table A4. Israel: Gross Private Income and Savings, 1990-95

	1990	1991	1992	1993	1994	1995
(In millions of new sheqalim; at current prices)						
Gross national product at market prices	102,979	132,829	158,748	183,529	220,352	257,138
Plus: Subsidies on domestic production	1,741	2,447	3,594	3,818	4,323	4,298
Subsidies on government loans	572	581	537	471	418	363
Less: Indirect taxes on domestic production	14,590	19,658	24,014	26,289	30,930	36,738
Gross national product at factor prices	74,930	96,922	116,458	134,621	161,464	186,278
Less: Public sector's consumption of fixed capital	1,654	2,034	2,328	2,608	2,918	3,413
Public sector income from property and entrepreneurship	1,534	1,914	2,342	2,113	2,346	3,460
Plus: Private transfers from abroad	3,814	4,850	6,258	7,564	9,620	10,946
Net transfer payments	10,108	12,980	15,284	17,925	21,297	25,841
Private income	108,483	138,592	167,210	194,649	233,519	272,270
Less: Direct taxes	19,430	23,249	28,170	34,673	44,669	53,534
Of which: Other property taxes	565	655	827	956	1,092	1,264
Gross private disposable income from all sources	89,053	115,343	139,040	159,976	188,850	218,736
Private consumption	64,926	81,667	97,666	115,787	140,953	161,244
Private savings	24,066	33,536	39,032	42,076	45,551	54,032
(Percent of gross private disposable income)						
Private consumption	72.9	70.8	70.2	72.4	74.6	73.7
Private savings	27.0	29.1	28.1	26.3	24.1	24.7

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; and data provided by the Bank of Israel.

Table A5. Israel: Labor Market Indicators, 1977-95 1/

	Average 1995	Average			1988	1989	1990	1991	1992	1993	1994	1995
		1977-80	1981-85	1986-88								
	(In thousands)	(Percentage change)										
Israeli population of working age	3,903.4	2.3	2.0	1.9	2.0	2.0	3.9	7.1	4.3	3.0	2.9	3.0
Israeli civilian labor force	2,100.4	3.0	2.2	2.4	3.9	3.2	2.9	7.3	4.9	4.8	4.3	3.5
Total Israelis employed	1,968.1	2.7	1.7	2.5	3.5	0.5	2.1	6.1	4.2	6.1	6.9	5.2
Public services	545.0	4.5	2.0	1.4	4.2	1.9	2.3	6.6	3.2	3.5	4.8	4.0
Business sector	1,423.1	1.9	1.7	2.9	3.2	0.0	2.0	5.9	4.7	7.2	7.7	5.6
Workers from Admini- stered areas	60.0	6.1	3.0	9.3	0.4	-4.1	2.7	-9.2	18.1	-27.3	-16.7	-14.3
Foreign Workers	58.0										75.0	107.1
Total employed	2,086.1	2.7	1.9	2.7	3.3	0.2	2.2	5.1	5.0	4.9	6.4	5.9
Memorandum items: 2/												
Participation rate	53.8	49.4	50.0	50.8	51.4	52.0	51.5	51.7	52.0	52.9	53.6	53.8
Unemployment rate	6.3	3.8	5.4	6.5	6.4	8.9	9.6	10.6	11.2	10.0	7.8	6.3

Sources: Bank of Israel, *Annual Reports*; Central Bureau of Statistics, *Monthly Bulletin of Statistics*; and data provided by the Bank of Israel.

1/ Beginning in 1985, the data are based on the 1983 census and correspond to the population aged 15 and over. Prior to 1985, the data correspond to the population aged 14 and over.

2/ For Israeli population.

Table A6. Israel: Business Sector Employment and Labor Input
by Industry, 1989-95 1/

	Employed Persons (in thousands)								
	Absolute Figures		Annual Percentage Change						
	1994	1995	1989	1990	1991	1992	1993	1994	1995
Business sector 2/	1,441	1,535	-0.4	2.1	4.7	5.8	5.2	7.1	6.5
Construction	188	208	-0.2	9.6	16.6	18.6	-5.4	2.7	10.6
Industry	397	412	-3.2	1.8	4.1	2.4	6.6	4.7	3.8
Agriculture	75	76	-1.9	-9.2	-9.6	1.5	8.5	1.4	1.3
Transport	109	117	-1.8	-0.6	4.4	7.8	1.8	2.8	7.3
Commerce and hotels	286	303	2.2	2.3	1.1	2.7	9.3	11.3	5.9
Financing & business services 3/	206	226	-1.4	2.6	8.4	7.2	6.8	12.0	9.7
Personal services	149	164	10.0	2.6	4.5	6.3	12.2	8.8	10.1
Public utilities	18	18	-0.7	15.3	1.2	-13.7	17.2	5.9	0.0

	Labor Input (in millions of man-hours)								
	Absolute Figures		Annual Percentage Change						
	1994	1995	1989	1990	1991	1992	1993	1994	1995
Business sector 2/	57,318	61,474	1.4	2.3	4.7	8.6	5.2	8.7	7.3
Construction	7,761	8,822	5.1	11.8	17.1	21.6	-6.5	6.3	13.7
Industry	16,390	17,018	-0.5	0.9	4.6	6.0	7.8	5.8	3.8
Agriculture	3,011	3,237	-1.0	-10.5	-10.6	1.6	11.9	4.3	7.5
Transport	4,606	4,883	-2.3	2.7	2.9	8.3	4.2	6.4	6.0
Commerce and hotels	11,722	12,361	4.9	1.1	3.8	5.7	11.5	13.3	5.5
Financing & business services 3/	7,922	8,685	0.5	3.2	8.4	10.0	6.2	13.7	9.6
Personal services	4,796	5,308	9.3	2.0	2.9	9.7	12.5	8.4	10.7
Public utilities	728	748	-1.4	15.0	-1.8	-10.6	12.0	11.0	2.7

Source: Bank of Israel.

1/ Employment figures are annual averages; labor input figures are weekly averages.

2/ The data does not sum up because of the "unknown" category.

3/ Includes other employees from the administered areas except for those employed in public services.

Table A7. Israel: Real Wages, Labor Costs,
and Productivity, 1988-95

(Percentage change)

	1988	1989	1990	1991	1992	1993	1994	1995
Real wages per employee post 1/								
Total economy	6.0	1.3	-1.0	-3.0	1.2	0.6	2.3	2.1
Business sector								
Real consumption wages	4.7	-1.7	-1.4	-5.2	1.8	0.3	-0.4	0.2
Real production wages	9.0	1.4	0.4	-4.8	-6.1
Public sector	9.8	0.3	0.1	1.6	-0.4	1.1	9.8	5.6
Labor costs and productivity in the business sector								
Real compensation 2/	2.4	-1.8	3.6	-2.9	-0.8	0.9	1.9	2.7
Labor productivity 3/	2.6	-1.3	6.3	3.1	-0.5	-1.4	-1.0	1.4
Real unit labor costs 4/	-0.2	-0.5	-2.5	-5.8	-0.3	2.3	2.9	1.3

Sources: Bank of Israel, *Annual Reports*; Institute for Research on Output and Productivity; and data provided by the Bank of Israel.

1/ Real wages in the public sector and real consumption wages in the business sector are deflated by the consumer price index; real production wages are deflated by the implicit price index of business sector net domestic product at factor cost.

2/ Measured on an hourly basis; deflated by the implicit price index of business sector net domestic product at factor cost.

3/ Business sector net domestic product per man-hour estimated from the expenditure side.

4/ Ratio of real labor cost per man-hour to labor productivity.

Table A8. Israel: Real Wages, 1980-95 1/

(Average 1989-100)

	Public Services	Business Sector	Total
1980	81.3	76.1	77.6
1981	89.8	83.9	85.7
1982	85.5	85.4	85.4
1983	93.6	89.1	90.6
1984	95.0	88.2	90.3
1985	81.5	82.5	82.2
1986	84.8	90.0	88.6
1987	90.8	97.1	95.6
1988	99.7	101.7	101.3
1989	100.0	100.0	100.0
1990	100.2	98.4	99.0
1991	101.8	93.5	96.0
1992	101.4	95.1	97.2
1993	102.5	95.4	97.7
1994	112.7	94.9	100.2
1995	119.0	95.1	102.3
1993: I	97.0	94.3	95.3
II	106.4	94.4	98.0
III	106.0	95.7	99.0
IV	100.7	97.2	98.5
1994: I	100.6	95.7	97.3
II	117.1	95.2	101.5
III	118.0	94.4	101.2
IV	115.2	94.5	100.5
1995: I	117.9	94.9	100.7
II	117.7	94.6	103.2
III	121.2	96.3	104.5
IV	119.9	94.4	100.7
1996: I	121.8	96.1	102.5

Source: Data provided by the Bank of Israel.

1/ Average monthly wage per employee post at constant prices: Central Bureau of Statistics data based on employers' contributions to the National Insurance Institute, deflated by consumer price index.

Table A9. Israel: Consumer Price Index and its Main Components, 1993-95

	Weight in Index	Percent Change					
		Annual Average	During Year	Annual Average	During Year	Annual Average	During Year
		1993		1994		1995	
General index	1,000	10.9	11.2	12.3	14.5	10.0	8.1
General index excluding agricultural products	957.7	11.5	11.9	11.9	12.7	10.5	10.0
Agricultural products	44.1	1.4	-1.6	16.6	50.7	0.4	-23.6
Fruits, vegetables and field crops	37	0.3	-1.7	23.6	63.3	-0.5	-27.3
Fish and animal products	7.1	6.5	-1.4	-19.8	-18.1	7.6	17.4
Industrial products	381.5	6.5	6.5	7.2	8.5	8.5	8.2
Food, beverages and tobacco	141.5	6.5	8.6	9.5	9.4	9.3	10.0
Clothing and textiles	52.1	6.1	3.9	3.9	7.7	7.3	6.3
Wood and wood products	19.4	7.3	7.2	6.9	10.3	11.8	10.4
Footwear, leather goods, rubber and plastic	17.7	5.5	4.5	5.1	6.8	5.8	3.6
Chemical and fuel products	44.3	5.3	2.4	6.3	9.9	9.6	9.8
Metals, machinery, transport and electronic equipment	74.2	7.1	6.1	5.8	6.3	6.1	4.4
Miscellaneous	32.3	8.0	7.3	8.4	9.6	9.6	9.8
Electricity and water	27.1	7.7	5.7	8.5	8.7	10.0	9.1
Building and housing services	206.5	18.5	22.5	23.1	23.6	14.5	13.9
Transportation and communications	65.8	11.6	10.9	7.0	5.5	6.3	6.8
Services	275.0	12.3	11.0	12.3	13.2	11.2	9.9
Municipal taxes and insurance	61.8	12.9	14.0	15.0	15.5	12.4	10.7
Public sector services	105.8	13.8	10.0	12.8	14.9	11.8	9.8
Education	41.8	14.5	13.7	13.2	13.1	11.6	10.4
Health	64.0	13.3	7.3	12.5	16.5	12.4	8.9
Personal services	107.4	8.6	8.1	9.0	10.2	10.1	9.3
Entertainment	19.4	13.8	13.9	13.1	13.2	12.9	11.0
Other	38.6	6.5	5.9	7.0	8.5	8.6	8.4
Hotels, guest accommodation	41.7	13.0	12.1	11.5	9.7	8.6	9.9
Business services	7.7	14.1	16.8	14.5	14.1	10.7	9.7

Source: Central Bureau of Statistics.

Table A10. Israel: Selected Price Indexes, 1991-95

(Percent increase during the period, at annual rates)

	Weights	1991	1992	1993	1994	1995	1996 1/	1995			
								I	II	III	IV
Consumer price index											
General index	1000.0	18.0	9.4	11.2	14.5	8.1	12.9	1.2	9.5	10.0	12.1
Controlled prices 2/	121.4	22.1	15.7	9.9	12.0	7.1	11.3	3.6	6.6	12.6	5.7
Uncontrolled prices 3/	844.6	17.4	8.3	11.5	14.9	8.0	13.2	-0.4	10.0	10.0	13.0
Tradables 4/	380.4	14.0	8.8	6.5	9.0	7.7	9.3	-0.4	14.8	4.1	13.4
Nontradables 4/	585.6	20.2	9.7	13.7	18.0	8.4	15.1	2.4	6.1	13.9	11.7
Of which											
Housing	207.7	28.1	5.4	23.7	23.6	13.6	18.2	7.8	11.2	17.0	18.8
CPI excluding housing	792.3	15.2	10.6	7.6	12.2	6.4	11.4	-1.2	9.1	7.8	10.4
CPI excluding housing and fruits and vegetables	750.0	15.2	10.4	8.1	9.8	8.8	11.6	5.3	12.1	7.0	10.8
CPI excluding housing, fruits and vegetables, controlled prices, clothes and footwear	535.1	13.7	9.3	7.9	9.3	9.2	13.3	10.4	9.5	9.5	7.8
Wholesale price index of industrial output		14.6	9.1	7.2	9.7	10.0	8.9	10.8	14.8	4.9	9.5

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; *IFS*; and data provided by the Bank of Israel.

1/ Twelve-month rate through July.

2/ The index of controlled prices comprises the following items: public transport, communication services, education, medical services, municipal taxes, electricity, fuel and water, meat.

3/ The index of uncontrolled prices comprises items not listed in the preceding footnote.

4/ Excluding fruit, vegetables, and controlled prices.

Table A11. Israel: Bank of Israel Accounts, 1992-96

(In millions of new sheqalim, end of period)

	1992	1993	1994	1995	1996		
					I	II	III
Net foreign assets	13,400	18,214	19,608	24,830	29,536	27,928	32,607
Assets	14,185	19,063	20,507	25,576	30,168	28,465	32,939
Liabilities	785	849	899	746	632	537	332
Net domestic assets	8,906	10,280	7,028	-5,177	-9,500	-7,029	-9,078
Net claims on government	-1,275	-5,827	-7,480	-8,507	-13,390	-10,371	-10,762
Gross claims	10,419	10,338	9,976	10,818	10,886	10,780	12,490
Long-term debt	8,644	8,373	8,080	7,773	7,772	7,775	7,776
Government securities	1,775	1,965	1,896	3,045	3,114	3,005	4,714
Government deposits	11,694	16,165	17,456	19,325	24,276	21,151	23,252
Claims on deposit money banks	11,053	16,972	15,555	4,503	5,260	4,880	2,829
In NIS	10,613	16,617	15,077	4,082	4,845	4,507	2,565
In foreign currency	440	355	478	421	415	373	264
Other items, net	-872	-865	-1,047	-1,173	-1,370	-1,538	-1,145
Reserve money	21,797	27,943	26,057	19,042	19,440	20,290	22,916
Currency in circulation	4,793	5,652	6,454	7,916	8,320	8,568	9,139
Deposits at Bank of Israel	17,004	22,291	19,603	11,126	11,120	11,722	13,777
In NIS	1,111	2,088	3,190	1,007	1,538	2,477	5,668
In foreign currency	15,893	20,203	16,413	10,119	9,582	9,245	8,109
Private sector demand deposits	104	114	112	115	114	118	119

Sources: IMF; and Bank of Israel.

Table A12. Israel: Monetary Survey, 1991-95

(In millions of new shekels at end of period)

	1991	1992	1992 1/	1993	1994	1995				1996	
						I	II	III	IV	I	II
Net foreign assets	8,415	10,298	9,505	12,545	14,295	16,043	14,474	15,256	16,642	21,416	20,461
Bank of Israel	14,314	13,400	13,400	18,214	19,608	25,618	25,077	25,651	24,830	29,535	27,940
DMBs	-5,898	-3,102	-3,895	-5,669	-5,313	-9,575	-10,602	-10,394	-8,188	-8,120	-7,479
Net domestic assets	121,894	136,483	138,125	158,965	182,146	197,802	209,906	216,758	232,443	236,077	252,246
Domestic credit	133,781	153,134	145,253	167,459	194,692	202,022	213,758	219,601	235,127	239,083	254,341
Claims on:											
Government, net	50,797	51,020	52,117	46,902	41,639	41,152	46,205	45,740	50,988	46,836	51,078
Total gross claims	67,121	71,251	72,513	75,418	76,216	76,097	78,386	78,905	80,716	82,612	85,071
Bank of Israel	10,285	10,419	10,419	10,338	9,975	10,480	10,827	10,990	10,804	10,879	10,806
DMB claims	56,836	60,833	62,094	65,080	66,241	65,617	67,559	67,915	69,912	71,733	74,265
Government bonds	13,081	16,985	16,976	21,784	24,583	25,150	28,538	33,794	36,624	39,107	41,903
From bank resources	13,790	13,685	14,744	13,399	12,078	11,751	10,956	6,9108	7,031	6,688	6,602
Foreign currency credit	1,943	2,687	2,883	2,636	2,336	1,958	1,900	1,471	1,323	1,210	1,158
From earmarked deposits	28,022	27,476	27,491	27,261	27,244	26,758	26,165	25,739	24,933	24,728	24,601
Less: Government deposits	16,324	20,232	20,396	28,516	34,577	34,945	32,181	33,164	29,728	35,776	33,993
Bank of Israel	4,175	5,249	5,249	8,912	11,366	11,523	8,020	8,271	3,044	8,480	5,786
DMBs	12,149	14,982	15,147	19,604	23,211	23,422	24,160	24,894	26,684	27,296	28,207
Mortgage banks	7,515	8,625	8,627	10,260	14,581	14,731	15,600	16,970	18,128	19,348	21,707
Private sector	75,468	93,490	84,509	110,297	138,472	146,139	151,953	156,891	166,012	172,899	181,556
Nondirected sheqalim	47,351	70,896	55,616	80,461	105,515	113,502	115,203	115,711	119,642	124,482	131,099
Nondirected foreign currency	10,082	11,948	12,447	12,587	15,565	22,462	25,732	29,850	33,992	36,042	37,209
Directed sheqalim	0	0	0	0	0	0	0	0	0	0	0
Directed foreign currency	300	441	441	403	491	397	386	385	327	319	291
From earmarked deposits	16,255	8,866	15,018	15,761	15,739	8,636	9,537	9,840	11,012	11,071	11,939
Securities	1,481	1,339	987	1,084	1,161	1,142	1,096	1,106	1,039	984	1,018
Other items, net	-11,887	-16,651	-7,128	-8,494	-12,547	-4,220	-3,852	-2,842	-2,685	-3,006	-2,094
Monetary liabilities	87,394	109,644	110,240	134,667	167,419	172,339	181,097	186,854	199,732	207,759	221,453
M1	7,908	10,390	10,567	13,571	14,608	13,520	14,657	16,139	17,034	17,189	17,909
Quasi-money 2/	79,486	99,254	99,673	121,096	152,811	158,818	166,440	170,716	182,698	190,570	203,544
Time and saving	71,486	88,581	89,152	104,333	139,123	145,897	152,191	156,667	166,354	175,426	187,271
Time deposits	9,934	11,393	11,532	17,494	35,289	39,380	43,989	47,584	52,494	58,384	61,871
Saving schemes	34,101	36,876	36,888	42,908	53,459	57,233	59,993	59,916	61,459	64,314	67,995
Long-term linked deposits	6,664	14,912	10,926	11,364	13,129	12,749	12,016	12,230	12,331	12,857	13,656
Foreign currency deposits	20,782	25,400	29,805	32,567	37,246	36,535	36,192	36,936	40,070	39,872	43,749
Mortgage banks deposits	1	0	0	0	0	0	0	0	0	0	0
CDs	7,842	10,489	10,521	16,763	13,688	12,922	14,249	14,049	16,344	15,143	16,273
Earmarked deposits	37,855	29,890	30,157	28,992	28,834	27,685	27,095	26,700	25,850	25,684	25,684

Source: Bank of Israel Research Department.

1/ From December 1992 data are based on the New Reporting System.

2/ Quasi-money consists of time and savings deposits, CDs, and other deposits.

Table A13. Israel: Financial Assets of the Public, 1993-96 1/

	1993	1994	1995	1996	
				I	II
(In millions of shekels, end of period)					
Broad money assets 2/	163,856	196,412	226,016	233,904	247,560
Liquid financial assets (M3)	67,602	86,531	109,973	115,111	124,153
Money supply (M1)	13,571	14,608	17,034	17,189	17,909
Time deposits and negotiable CDs	34,451	49,172	69,272	73,988	78,568
Resident foreign currency	19,581	22,751	23,667	23,934	27,677
Medium-term assets	96,254	109,881	116,043	118,793	123,406
Restitution deposits	12,986	14,495	16,403	15,938	16,072
Saving schemes 3/	42,848	53,401	61,446	64,314	67,995
Long-term linked deposits	11,364	13,129	12,331	12,857	13,656
Earmarked deposits	29,056	28,857	25,864	25,684	25,684
Short-term Treasury bills	2,560	4,262	7,393	7,402	7,851
Tradable linked government bonds 4/	61,693	64,827	68,613	69,662	69,549
Total assets in banks and government bonds	228,109	265,501	302,022	310,968	324,960
Stocks	151,607	98,800	114,500	108,300	105,889
Total financial assets	379,716	364,301	416,522	419,268	430,849
Of which					
Nonindexed short-term assets	50,582	68,042	93,699	98,579	104,328
(As percentage of total financial assets)					
Broad money assets 2/	43	54	54	56	57
Liquid financial assets (M3)	18	24	26	27	29
Money supply (M1)	4	4	4	4	4
Time deposits and negotiable CDs	9	13	17	18	18
Resident foreign currency	5	6	6	6	6
Medium-term assets	25	30	28	28	29
Restitution deposits	3	4	4	4	4
Saving schemes 3/	11	15	15	15	16
Long-term linked deposits	3	4	3	3	3
Earmarked deposits	8	8	6	6	6
Short-term Treasury bills	1	1	2	2	2
Tradable linked government bonds 4/	16	18	16	17	16
Total assets in banks and government bonds	60	73	73	74	75
Stocks	40	27	27	26	25
Total financial assets	100	100	100	100	100
Of which					
Nonindexed short-term assets	13	19	22	24	24
(Real rate of growth) 5/					
Broad money assets 2/	5	5	6	1	2
Liquid financial assets (M3)	21	12	18	2	4
Money supply (M1)	15	-6	8	-2	0
Time deposits and negotiable CDs	40	25	30	4	2
Resident foreign currency	0	2	-4	-2	11
Medium-term assets	-4	0	-2	0	0
Restitution deposits	-5	-2	5	-5	-3
Saving schemes 3/	4	9	6	2	2
Long-term linked deposits	-7	1	-13	1	2
Earmarked deposits	-13	-13	-17	-3	-4
Short-term Treasury bills	-24	45	60	-3	2
Tradable linked government bonds 4/	-1	-8	-2	-1	-4
Total assets in banks and government bonds	3	2	5	0	0
Stocks	66	-43	7	-8	-6
Financial assets	21	-16	6	-2	-1
Of which					
Nonindexed short-term assets	27	18	27	2	2

Sources: Bank of Israel, Research Department: Recent Economic Developments; and data provided by Bank of Israel.

1/ The public consists of individuals and corporations excluding the Government, Bank of Israel, ordinary banking corporations, and banks abroad. It includes social and life insurance funds but does not include the assets of these funds held out of the ordinary banking system.

2/ Consists of liquid financial assets (M3) and medium-term assets as defined below.

3/ Since February 1984, bank shares that were converted into savings schemes are included under "savings schemes" instead of "bank deposits."

4/ Defined to exclude bond holdings of pension funds and insurance companies.

5/ Nominal rate deflated by consumer price index.

Table A14. Israel: Commercial Bank Credit to the Private Sector, 1992-96 1/

	1992	1993	1994	1995	1995				1996	
					I	II	III	IV	I	II
(In millions of shekels, end of period)										
Total	156,401.5	210,177.4	271,664.1	313,701.8	280,773.6	290,277.9	298,413.0	313,701.9	327,772.4	349,121.1
Commercial bank credit	111,803.5	154,930.8	198,785.2	231,003.7	207,749.0	213,346.2	218,876.1	231,003.8	239,974.7	252,964.9
Short-term credit	47,561.3	64,236.3	79,013.0	100,469.0	86,772.7	89,592.8	93,290.9	100,469.0	103,531.6	106,915.9
Nondirected	47,120.7	63,833.1	78,521.9	100,141.9	86,375.6	89,206.7	92,906.1	100,141.9	103,212.6	106,624.1
in NIS	34,672.7	51,219.5	62,632.7	65,564.1	63,603.4	63,066.4	62,571.7	65,564.1	66,483.7	68,772.1
in U.S. Dollars	12,448.1	12,613.6	15,889.1	34,577.8	22,772.2	26,140.3	30,334.3	34,577.8	36,728.9	37,852.0
Directed	440.6	403.2	491.2	327.0	397.1	386.1	384.9	327.0	319.0	291.8
Unlinked NIS credit	34,672.7	51,219.5	62,632.7	65,564.0	63,303.4	63,066.4	62,571.7	65,564.1	66,483.7	68,772.0
Indexed NIS credit 2/	29,569.5	39,475.0	57,139.5	64,970.7	57,672.9	60,687.0	63,013.5	64,970.7	69,959.4	77,277.0
Medium- and long-term credit	44,598.0	55,246.6	72,878.9	82,698.1	73,024.6	76,931.7	79,536.9	82,698.1	87,797.7	96,156.2
(In percent of total)										
Commercial bank credit	71.5	73.7	73.2	73.6	74.0	73.5	73.3	73.6	73.2	72.5
Short-term credit	30.4	30.6	29.1	32.0	30.9	30.9	31.3	32.0	31.6	30.6
Nondirected	30.1	30.4	28.9	31.9	30.8	30.7	31.1	31.9	31.5	30.5
in NIS	22.2	24.4	23.1	20.9	22.7	21.7	21.0	20.9	20.3	19.7
in U.S. Dollars	8.0	6.0	5.8	11.0	8.1	9.0	10.2	11.0	11.2	10.8
Directed	0.3	0.2	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Unlinked NIS credit	22.2	24.4	23.1	20.9	22.5	21.7	21.0	20.9	20.3	19.7
Indexed NIS credit 2/	18.9	18.8	21.0	20.7	20.5	20.9	21.1	20.7	21.3	22.1
Medium- and long-term credit	28.5	26.3	26.8	26.4	26.0	26.5	26.7	26.4	26.8	27.5
(Nominal percentage increase)										
Memorandum items:										
Commercial bank credit		23.9	31.9	13.5						
(a) Nondirected		35.1	23.0	27.2						
in NIS		35.5	23.0	27.5						
in foreign currency		47.7	22.3	4.7						
Directed		1.3	26.0	117.6						
(b) Unlinked shekel credit		-8.5	21.8	-33.4						
Indexed shekel credit		47.7	22.3	4.7						
(Real percentage increase) 3/										
Memorandum items:										
Commercial bank credit		1.5	15.3	5.0						
(a) Nondirected		11.3	7.5	17.6						
in NIS		11.6	7.5	18.0						
in foreign currency		16.6	6.8	-3.2						
Directed		-5.1	10.1	101.3						
(b) Unlinked shekel credit		-17.8	6.4	-38.4						
Indexed shekel credit		16.6	6.8	-3.2						

Source: Bank of Israel Research Department: Recent Economic Developments; and data provided by the Bank of Israel.

1/ Includes credit to local authorities, the credit excludes deductions for loan-loss provisions.

2/ Includes indexation increments.

3/ Nominal rate deflated by consumer price index.

Table A15. Israel: Interest Rates During 1993-96

(Nominal rates in percent per annum) 1/

	Percent increase over preceeding month 2/ CPI NIS/\$		Lending rates			Bank of Israel auction facility 4/	Monetary loan (maximum bracket)	Euro 5/	Deposit rates				Indexed government bond yield to maturity	
			Effective mean overdraft 3/	Marginal overdraft	Total bank credit				Interest on reserve requirement (highest bracket)	CDs	Time deposits	Yield to maturity on short-term Treasury bills	5 years	10 years
1993	11.2	10.1	18.1	20.3	16.5	11.3	11.3	3.1	1.1	9.7	10.4	11.4	2.8	2.9
1994	14.5	1.8	19.8	21.8	17.4	13.4	12.9	4.6	2.2	11.6	12.2	13.0	2.9	3.2
1995	8.1	3.1	22.5	25.0	20.2	15.5	14.8	5.9	0.3	13.3	14.1	15.4	4.1	4.3
1994														
Jan.	8.5	4.9	17.5	19.3	15.3	11.0	10.7	3.1	1.2	9.4	10.0	10.2	2.4	2.7
Feb.	7.1	-3.3	17.7	19.6	15.6	11.0	10.7	3.4	1.4	9.6	10.1	10.2	2.8	2.9
Mar.	13.2	-1.7	17.4	19.3	15.3	11.0	10.8	3.7	1.3	9.6	10.2	10.4	3.1	3.1
Apr.	26.3	8.8	17.5	19.4	15.3	11.0	10.8	4.0	1.2	9.6	10.2	10.7	3.1	3.2
May	15.3	9.2	17.8	19.8	15.6	11.5	11.2	4.4	1.8	9.9	10.5	11.0	2.9	3.2
June	17.6	13.6	18.4	20.4	16.2	12.2	12.0	4.4	2.0	10.5	11.1	12.0	3.0	3.4
July	13.7	-7.6	19.1	21.0	16.8	12.8	12.5	4.7	2.0	11.0	11.6	12.4	2.8	3.4
Aug.	13.5	3.1	19.7	21.6	17.2	13.3	12.8	4.7	2.4	11.5	12.1	13.5	2.6	3.1
Sept.	14.5	-4.7	21.3	23.3	18.8	15.1	14.5	5.0	2.7	13.0	13.5	14.4	2.6	3.0
Oct.	17.9	-2.0	23.1	25.1	20.3	16.7	15.8	5.4	3.1	14.4	15.0	16.3	3.0	3.2
Nov.	16.5	-1.0	23.1	25.1	20.5	16.7	15.6	5.7	3.6	14.5	15.3	16.3	3.2	3.5
Dec.	10.6	4.6	25.3	27.7	22.4	18.5	17.6	6.2	3.9	16.0	16.6	18.6	3.3	3.7
1995														
Jan.	2.0	-5.8	25.3	27.7	22.8	18.5	17.4	6.2	0.5	16.0	16.8	17.6	3.9	3.8
Feb.	2.0	-0.9	25.3	27.7	22.9	18.3	17.1	6.1	0.2	15.9	16.4	18.1	4.1	4.1
Mar.	-1.0	-12.5	23.9	26.3	21.8	17.2	16.4	6.1	0.4	15.0	15.7	16.4	4.1	4.2
Apr.	11.6	-6.7	22.4	24.8	20.3	15.8	14.9	6.1	0.3	13.3	14.5	15.7	4.1	4.4
May	12.6	20.0	21.7	24.1	19.6	15.0	14.1	6.0	0.3	12.7	13.7	15.1	4.1	4.4
June	4.0	-8.9	21.3	24.1	19.2	14.4	13.9	5.9	0.3	12.3	13.1	14.7	4.0	4.4
July	3.0	-9.9	21.3	24.0	19.0	14.3	13.7	5.8	0.2	12.0	13.0	13.9	4.2	4.5
Aug.	15.7	35.4	20.9	23.6	18.7	14.1	13.4	5.8	0.6	11.9	12.7	13.8	4.1	4.4
Sept.	12.2	1.9	21.0	23.7	18.9	14.1	13.6	5.7	0.7	11.9	12.6	14.4	4.0	4.3
Oct.	13.1	-9.6	21.7	24.2	19.5	14.8	14.0	5.8	0.2	12.4	13.1	15.1	4.4	4.5
Nov.	8.8	13.4	22.3	24.8	19.9	15.2	14.4	5.7	0.1	12.9	13.6	14.7	4.4	4.5
Dec.	15.0	35.4	22.1	24.7	19.9	15.1	14.5	5.6	0.1	12.9	13.8	15.6	4.2	4.2
1996														
Jan.	10.7	3.8	21.4	23.9	19.2	14.6	13.9	5.4	0.2	12.4	13.2	13.6	4.0	4.2
Feb.	11.6	-6.1	21.9	24.4	19.7	14.9	14.1	5.2	0.1	12.6	13.3	13.5	4.2	4.3
Mar.	12.5	-5.3	21.9	24.4	19.7	15.0	14.1	5.3	0.1	12.6	13.4	14.1	4.3	4.4
Apr.	21.8	28.7	22.0	24.5	19.7	15.2	14.4	5.4	0.2	12.8	13.6	14.8	4.2	4.4
May	22.4	38.9	22.8	25.4	20.4	16.0	15.0	5.4	0.2	13.7	14.2	15.6	3.9	4.2
June	9.1	1.0	23.7	26.3	21.3	16.9	15.8	5.4	0.6	14.4	14.6	16.6	4.1	4.4

Source: Bank of Israel.

1/ Monthly rates compounded annually.

2/ CPI - published monthly index. Representative exchange rate, monthly average of daily rate.

3/ Includes basic interest rate, commitment fees and the higher interest charged for drawings in excess of approved ceiling.

4/ On October 1987, the Bank of Israel started using auctions on monetary loans. The interest specified here is the weighted average of these loans.

5/ Euro in dollar terms for three months, is the base for interest on dollar loans.

Table A16. Israel: Nominal Interest Rates on Various
Types of Credit and the Public's Assets, 1993-96

(Annual rates in percent, before tax)

	1993	1994	1995	1994				1995				1996	
				I	II	III	IV	I	II	III	IV	I	II
Short-term bank credit to the private sector 1/	16.0	15.5	17.8	13.1	16.1	14.5	18.3	16.5	16.5	17.9	29.2	13.3	24.7
Nondirected credit	16.1	15.6	17.8	13.2	16.2	14.6	18.5	16.6	16.6	18.0	20.2	13.3	24.8
In NIS	16.5	17.4	20.2	15.4	15.7	17.6	21.1	22.5	19.7	18.9	19.8	19.6	20.5
Overdraft facilities	18.1	19.8	22.4	17.5	17.9	20.0	23.8	24.8	21.8	21.1	22.1	21.7	22.8
Fixed-term credit	15.0	15.6	18.4	13.8	14.1	15.8	19.0	20.6	18.0	17.0	17.9	17.7	18.6
CDs	-9.7	11.6	13.3	9.5	10.0	11.8	15.0	15.6	12.8	12.0	12.7	12.5	13.6
Time deposits 2/	-10.4	12.2	14.1	10.1	10.6	12.4	15.7	16.3	13.7	12.8	13.5	13.3	14.1
One-month Treasury bills	11.4	13.0	15.4	10.2	11.2	13.4	17.1	17.4	15.2	14.0	15.1	13.7	15.7

Source: Data provided by the Bank of Israel.

1/ Includes directed credit and nondirected foreign currency linked credit.

2/ Average for all time deposits, overdrafts, and the rate on certificates of deposit.

Table A17. Israel: Real Actual Interest Rates on Various
Types of Credit and the Public's Assets, 1993-96

(Annual rates in percent, before tax)

	1993	1994	1995	1994				1995				1996	
				I	II	III	IV	I	II	III	IV	I	II
Short-term bank credit to the private sector 1/	4.3	0.9	8.9	3.3	-2.9	0.5	2.9	15.3	6.6	7.1	7.0	1.5	6.1
Nondirected credit	4.4	1.0	9.0	3.3	-2.8	0.6	3.0	15.4	6.6	7.1	7.1	1.6	6.1
In NIS	4.7	2.6	11.2	5.3	-3.2	3.2	5.3	21.3	9.5	7.9	6.7	7.1	2.4
Overdraft facilities	6.2	4.7	13.3	7.2	-1.4	5.4	7.7	23.6	11.5	9.9	8.7	9.0	4.4
Fixed-term credit	3.3	1.0	9.5	3.8	-4.6	1.6	3.5	19.4	7.9	6.3	4.9	5.5	0.8
In foreign currency (Euro) 2/	2.1	-7.0	1.0	-5.7	-3.7	-10.9	-7.5	-1.8	-2.4	3.2	5.0	-8.1	9.1
CDs	-1.4	-2.5	4.8	...	-8.0	-1.8	...	14.5	3.2	1.6	0.4	0.8	-3.4
Time deposits 3/	-0.7	-2.0	5.5	0.5	-7.5	-1.3	0.6	15.1	4.1	2.4	1.1	1.5	-3.0
One-month Treasury bills	0.1	-1.3	6.8	0.6	-7.0	-0.4	1.8	16.2	5.4	3.5	2.5	1.9	-1.6
Indexed 5-year government bonds	2.8	2.9	4.1	2.7	3.0	2.6	3.2	4.0	4.1	4.1	4.3	4.2	4.1
Interest rate spread 4/	7.7	7.5	8.2	7.3	7.3	7.4	7.8	8.1	8.1	8.2	8.4	8.2	8.2

Source: Data provided by the Bank of Israel.

1/ Includes directed credit and nondirected foreign currency linked credit.

2/ Euro in dollar terms for three months is the base for interest on dollar loans, excluding public companies.

3/ Average for all time deposits.

4/ Interest rate differential defined as the gap in nominal percentage points on an annual basis between the effective rate on overdrafts and the rate on certificates of deposit.

Table A18. Israel: Reserve Requirements on Deposits and Interest Brackets, 1991-96

(In percent)

	Demand Deposits	Time Deposits		
		(November 2, 1991 to December 28, 1994)		
		1-6 days (daily)	1 week-3 months	3 months+
Reserve requirement	8	8	6	4
Percentage of reserve requirement on which interest is paid by the Bank of Israel	0	0	33.3	50
		(from December 29, 1994)		
		1-6 days	1 week-1 year	Over 1 year
Reserve requirement	6	6	3	0
Percentage of reserve requirement on which interest is paid by the Bank of Israel	0	0	0	0

Source: Bank of Israel.

Table A19. Israel: Public Sector Injection and Sources of Nonrevaluation
Increments to the M3 Base, 1992-96 1/

(In millions of new shekels)

	1992	1993	1994	1995	1995				1996	
					I	II	III	IV	I	II
Total public sector domestic deficit	8,012	7,053	6,098	11,428	-55	3,811	4,898	2,774	2,462	2,797
<i>Of which</i>										
Absorbed by net borrowing 2/	2,856	4,425	1,158	8,587	1,657	2,090	2,677	2,163	1,887	1,110
Public injection to money base 3/	5,156	2,628	4,940	2,842	-1,712	1,722	2,221	611	575	1,687
Bank of Israel injection	2,884	3,800	-4,188	-21,975	-5,867	-5,999	-6,140	-3,969	-1,762	-1,075
Monetary loans	5,370	5,994	-1,490	-11,002	-5,388	-3,601	-990	-1,023	761	-330
Swap	0	0	0	-5,146	0	0	-2,736	-2,410	-893	498
Open market operations	-108	996	1,386	-3,061	230	-1,836	-1,634	178	-923	317
Other factors 4/	-2,378	-3,190	-4,084	-2766	-709	-562	-781	-714	-707	-1560
Total liquidity injection	8,040	6,428	752	-19,133	-7,579	-4,277	-3,920	-3,357	-1,187	612
Net foreign currency purchases										
By private sector	7,180	4,591	-1,151	-18,413	-6,315	-4,968	-3,830	-3,301	-2,122	125
Additions to money base	860	1,837	1,903	-720	-1,264	691	-90	-56	935	487
	(In percent of total injection)									
Absorbed by net borrowing	26	41	61	-81	-28	-96	-216	-181	270	64
Net foreign currency purchases	74	59	39	181	128	196	316	281	-170	36
Additions to M3 base	66	42	-60	175	107	227	308	276	-303	7

Source: Bank of Israel Research Department: *Recent Economic Developments*; and data provided by Bank of Israel.

1/ Excluding changes resulting from the revaluation of government bonds and Patam deposits.

2/ Net government borrowing from the private sector less the early redemption of the state of Israel bonds.

3/ Includes the injection of the Jewish Agency. Sale of tradable bonds is not considered as absorption. Includes interest payments on internal debt.

4/ Consists mostly of absorption/injection generated by various items in the Bank of Israel's balance sheet. (Such as interest paid on liquid assets in local and foreign currency).

Table A20. Israel: Factors Affecting M3 Base

	1992	1993	1994	1995	1996 1/
	(In millions of shekels)				
1. Narrow money base 2/	5,904	7,740	9,643	9,692	11,308
2. Reserve requirements on Patam deposits	3,236	2,387	1,541	1,935	2,036
3. M3 base (1+2)	9,140	10,127	11,184	11,627	13,345
	(Real percentage increase during the period) 2/				
1. Narrow money base 2/	7.0	17.8	8.9	-7.0	10.5
2. Reserve requirements on Patam deposits	-16.2	-33.7	-43.6	16.1	-61.2
3. M3 base (1+2)	-2.5	-0.4	-3.5	-3.8	-13.8
Percent of increase in narrow liquid asset base due to:					
Revaluation increments	99.8	18.0	1.5	16.3	-42.4
Nonrevaluation increments	0.2	82.0	98.5	83.7	142.4
Memorandum item (flows)					
Increase in M3 base	564.4	986.2	1,057.7	442.9	-377.5
<i>Of which</i>					
Revaluation increments on Patam deposits' reserve requirements	563.2	177.4	16.3	72.2	160.2
Nonrevaluation increments	1.3	808.8	1,041.4	370.7	-537.7

Source: Bank of Israel.

1/ The period of change is June 1996 versus June 1995.

2/ Currency held by public and liquid assets of banking institutions.

3/ Nominal rate deflated by consumer price index.

Table A21. Israel: Principal Stock Market Indicators, 1991-95

	1991	1992	1993	1994	1995
(In millions of constant 1995 shekels unless otherwise indicated)					
New issues 1/ 2/	2,227	5,959	10,816	5,719	1,615
<i>Of which</i>					
Public sector corporations	430	993	2,911	686	0
Private firms	1,797	4,966	7,904	5,033	1,615
Market value 2/	49,068	112,740	187,579	106,771	114,495
Volume of stock exchange trade 2/	33,497	50,701	110,912	88,869	28,608
Annual turnover 3/					
All shares	0.67	0.65	0.79	0.61	0.27
Real overall rate of return 4/					
All shares	31.8	74.4	27.0	-46.1	5.9

Sources: Bank of Israel; and Central Bureau of Statistics.

1/ Shares, convertible securities, and exercised options.

2/ At December 1995 prices. Market value—end-of-year figures; volume of trade—on and off the floor.

3/ Ratio of monthly volume of trade (on and off the floor) to average monthly market value of the stock of shares.

4/ Deflated by end-of-month CPI.

Table A22. Israel: Principal Bond Market Indicators, 1991-95

	1991	1992	1993	1994	1995
(In millions of constant 1995 shekels unless otherwise indicated)					
Market value of listed bonds					
Government	87,281	101,678	103,289	96,660	105,237
Private 2/	14,287	14,854	14,231	11,697	10,454
Total	101,568	116,532	117,520	108,357	115,691
<i>Of which</i>					
Percentage held by:					
Public	26	27	28	26	27
Commercial banks	20	19	19	21	27
Social insurance funds	52	52	51	51	43
Bank of Israel	2	2	2	2	3
Volume of stock exchange trade					
Government	12,177	16,407	18,954	15,855	16,612
Private 1/	2,530	1,711	1,098	1,320	949
Total	14,707	18,118	20,052	17,175	17,561
Bank of Israel intervention 2/ (in percent)	0.02	2.04	2.20	1.84	2.92
Issues of tradable bonds					
Government	13,482	4,536	1,862	-3,462	5,517
Private 1/	507	-1,344	-1,263	-2,206	-1,537
Total	13,989	3,192	599	-5,668	3,980
Annual turnover 3/					
Government	0.15	0.17	0.18	0.15	0.17
Private 1/	0.18	0.12	0.08	0.10	0.09
Total	0.15	0.17	0.18	0.15	0.16
(In percent)					
Real overall rate of return					
CPI-indexed bonds					
Government	-1.2	5.2	-1.6	-3.4	0.8
Private 1/	6.6	7.9	-0.4	-4.0	-0.1
Total	1.5	5.9	-1.5	-3.5	0.7
Exchange-rate indexed bonds					
Government	-1.4	9.2	-5.4	-10.9	0.4
Private 1/	0.6	25.9	-1.2	-17.2	5.4
Total	-1.7	20.3	-4.5	-11.5	0.9

Sources: Bank of Israel; and Central Bureau of Statistics.

1/ Including public sector corporations.

2/ Ratio of the central bank's sales and purchases in the secondary market to total volume of stock exchange trade in bonds.

3/ Ratio of monthly volume of trade (on and off the floor) to market value of the stock of bonds. Calculated from monthly ratios.

Table A23. Israel: Institutional Investor Indicators, 1991-95

	1991	1992	1993	1994	1995
Mutual funds					
Total assets (NIS millions)	20,070	39,477	44,795	20,361	15,752
Real growth rate of total assets	36.7	96.7	13.5	-54.5	-22.6
Real annual rate of return	8.6	27.8	10.3	-29.0	2.8
Tradable assets of funds (percent of total tradable assets)					
CPI indexed bonds	10	11	8	6	4
Foreign-currency indexed bonds	19	37	32	17	11
Nonbank shares	12	13	13	9	7
Unindexed assets	9	12	11	4	3
Provident Funds					
Total assets (NIS billions)	102	116	121	111	106
Real growth rate of total assets	6.7	14.0	4.0	-7.8	-4.7
Real annual rate of return	4.0	11.3	2.7	-8.3	2.5
Tradable assets of funds (percent of total tradable assets)					
Tradable government bonds	51	51	51	49	42
Private bonds	60	58	54	62	56
Nonbank shares	10	10	9	12	10
Unindexed assets	9	9	9	7	6
Pension funds' assets (NIS billions)					
Real growth rate of total assets	-	6.8	5.2	2.6	6.6
Real annual rate of return	5.2	4.9	5.1	5.1	5.1

Source: Bank of Israel; and Central Bureau of Statistics.

Table A24. Israel: State Budget Balance and Financing, 1992-97

	1992	1993	1994	1995		1996		1997
				Budget	Outturn	Budget	Estimated Outturn	
(Percent of GDP)								
Total revenue	38.8	39.2	40.3	40.4	40.0	39.9	37.9	39.1
Total expenditure	48.2	46.1	46.3	47.9	46.1	46.7	46.2	44.8
Budget balance before foreign grants	-9.4	-6.9	-5.9	-7.5	-6.1	-6.8	-8.3	-5.7
Foreign grants	5.6	4.4	3.6	3.7	2.0	3.2	4.0	3.0
Budget balance after foreign grants	-3.8	-2.5	-2.4	-3.8	-4.2	-3.6	-4.3	-2.7
Total financing	3.8	2.5	2.4	3.8	4.2	3.6	4.3	2.7
Foreign (net)	1.2	0.6	0.0	1.0	1.5	0.7	...	0.8
Gross	3.2	2.8	2.5	3.4	3.6	3.7	...	3.2
Repayment	2.0	2.2	2.4	2.4	2.1	3.0	...	2.5
Domestic (net)	2.6	1.9	2.3	2.8	2.7	2.8	...	1.9
Nonbank borrowing (net)	3.4	1.4	-0.1	1.0	2.5	1.9	...	0.9
Gross	11.6	7.7	9.1	7.6	9.3	10.0	...	8.0
Repayment	8.1	6.3	9.2	6.6	6.8	8.2	...	7.1
Bank of Israel credit (net)	-0.1	0.1	1.9	0.0	-0.5	0.0	...	0.0
Sale of assets	0.7	1.7	0.3	1.8	0.7	1.0	...	1.2
Lending (net) (-)	-1.4	-1.4	0.3	-0.0	0.1	-0.0	...	-0.1
Gross (-)	-2.9	-3.0	-1.3	-1.4	-1.4	-1.3	...	-1.4
Of which: housing (-)	-1.6	-1.5	-1.0	-1.2	-1.1	-1.1	...	-1.1
Repayment	1.5	1.6	1.5	1.4	1.4	1.3	...	1.3
Residual	-0.1	-0.0	0.0	-0.0	-0.0	-0.0	...	0.0
<u>Memorandum items:</u>								
Primary balance	3.0	4.4	3.9	3.0	1.8	2.4	...	3.0
Current balance	0.7	0.8	0.4	0.0	-1.8	-0.0	...	0.9
Domestic balance	-4.9	-2.3	-2.0	-2.7	-3.3	-2.5	-4.1	-1.9
Foreign balance	1.1	-0.1	-0.4	-1.0	-0.9	-1.1	-0.2	-0.8
Domestic balance target <u>1/</u>	-6.2	-3.2	-3.0	-2.8	-2.8	-2.5	-2.5	-2.8

Source: Data provided by the authorities.

1/ The 1997 target refers to the overall budget balance.

Table A25. Israel: State Budget Revenue, 1992-97

	1992	1993	1994	1995		1996		1997
				Budget	Outturn	Budget	Estimated Budget outturn	
(Percent of GDP)								
Total tax revenue	31.2	31.8	32.5	33.0	31.6	32.3	31.0	31.6
Taxes on income and profits	12.6	13.8	14.9	15.2	14.5	14.5	13.6	14.1
Companies	2.8	3.3	4.1	3.9	3.5	3.7	3.3	3.7
Individuals	9.8	10.5	10.8	11.3	11.0	10.8	10.4	10.4
Wage & salary	7.4	8.0	8.4	8.6	8.5	8.4	8.1	8.0
Self-employed	2.4	2.5	2.5	2.7	2.5	2.4	2.3	2.4
Employer's tax (nonprofit)	0.5	0.3	0.3	0.3	0.3	0.3	0.4	0.3
Taxes on property	0.8	1.1	1.5	1.6	1.3	1.3	1.3	1.4
Real-estate purchase tax	0.4	0.5	0.7	0.7	0.6	0.6	0.6	0.6
Land betterment tax	0.2	0.4	0.5	0.6	0.5	0.5	0.5	0.5
Property tax	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3
Taxes on domestic goods and services	16.2	15.8	15.5	15.8	15.3	15.9	15.3	15.4
VAT	11.4	10.9	10.9	11.2	11.0	11.3	11.0	11.1
Domestic expenditure & civilian imports	9.6	9.2	9.2	9.4	9.3	9.5	9.2	9.4
Nonprofit entities	1.2	1.1	1.2	1.2	1.3	1.3	1.2	1.2
Financial institutions	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Defense imports	0.4	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Excises	1.9	1.9	1.7	1.6	1.6	1.9	1.8	1.8
Fuel	1.4	1.3	1.2	1.2	1.2	1.4	1.4	1.4
Tobacco	0.3	0.3	0.3	0.3	0.2	0.2	0.3	0.3
Stamp	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2
Purchase tax	2.9	3.0	3.0	2.9	2.7	2.7	2.5	2.5
Domestic	0.4	0.4	0.3	0.3	0.3	0.3	0.2	0.2
Imports	2.5	2.6	2.7	2.6	2.4	2.4	2.3	2.3
Customs duties	1.0	0.6	0.4	0.3	0.4	0.3	0.4	0.3
Adjustment to budget frame	0.1	0.2	-0.1	-0.2	-0.3	0.0	0.0	0.0
Total nontax revenue	7.6	7.4	7.8	7.5	8.3	7.6	7.0	7.5
Interest	0.9	0.7	0.8	0.8	1.1	0.6	...	0.7
Domestic	0.9	0.7	0.7	0.7	0.8	0.6	...	0.7
Foreign	0.1	0.1	0.1	0.1	0.4	0.0	...	0.0
Loans from National Insurance Institute	2.0	1.7	2.1	2.1	1.9	2.2	...	2.0
Fees, royalties, pension provisions, & misc.	2.0	1.5	1.3	1.6	1.9	1.6	...	1.5
Income from Israel Land Adm.	0.3	0.5	0.8	0.3	0.6	0.5	...	0.4
Revenue for revenue-dependent exp.	2.4	3.0	2.8	2.7	2.8	2.8	...	2.9
Total revenue	38.8	39.2	40.3	40.4	40.0	39.9	37.9	39.1
Foreign grants	5.6	4.4	3.6	3.7	2.0	3.2	4.0	3.0
Total revenue and grants	44.4	43.6	43.9	44.1	41.9	43.2	41.9	42.1
<u>Memorandum items:</u>								
Domestic revenue	37.7	38.6	39.8	39.8	39.0	39.5	37.5	38.6
Foreign revenue and grants	6.7	5.0	4.1	4.3	2.9	3.6	4.4	3.4

Source: Data provided by the authorities.

Table A26. Israel: State Budget Expenditure (Economic Classification), 1992-97

	1992	1993	1994	1995		1996		1997
				Budget	Outturn	Budget	Estimated Budget outturn	
(Percent of GDP)								
Current expenditure	43.7	42.9	43.5	44.1	43.7	43.2	...	41.2
Wages	8.9	8.6	9.4	9.5	9.7	9.4	...	9.4
Of which: defense	3.8	3.4	3.6	3.3	3.6	3.1	...	3.3
Goods and services	10.3	9.5	9.7	9.3	9.5	8.9	...	8.1
Of which: defense	6.9	6.1	6.0	6.1	5.9	5.6	...	5.0
Interest	7.7	7.6	7.0	7.5	7.1	6.6	...	6.4
Domestic	5.4	5.4	5.0	5.0	5.3	4.5	...	4.7
Foreign	2.2	2.2	2.1	2.5	1.8	2.1	...	1.7
Subsidies and transfers	16.0	16.1	16.4	16.7	16.2	17.2	...	16.2
Subsidies	2.5	2.4	2.1	1.8	1.9	1.7	...	1.7
nonexport	0.5	0.6	0.7	0.6	0.6	0.6	...	0.5
export	0.4	0.2	0.0	0.0	0.0	0.0	...	0.0
investment grants	1.6	1.6	1.3	1.2	1.3	1.1	...	1.2
Transfers	13.5	13.7	14.3	14.8	14.3	15.6	...	14.5
To local authorities	1.7	1.8	2.1	2.3	2.2	2.3	...	2.2
To National Insurance Institute	5.0	5.2	5.7	5.2	5.8	6.0	...	3.7
To nonprofit institutions	5.9	6.1	5.9	6.6	5.6	6.5	...	7.9
To defense	0.8	0.7	0.7	0.7	0.7	0.7	...	0.7
Repayment to National Insurance Institute	0.9	1.0	1.0	1.1	1.1	1.1	...	1.1
Capital expenditure	4.5	3.4	2.8	2.6	2.4	2.5	...	2.5
Of which: housing	3.3	1.4	0.8	0.6	0.7	0.6	...	0.7
Reserve	0.0	-0.1	0.0	1.2	0.0	1.1	...	1.1
Total expenditure	48.2	46.1	46.3	47.9	46.1	46.7	46.2	44.8
<u>Memorandum items:</u>								
Domestic expenditure	42.6	41.0	41.8	42.6	42.2	42.0	41.6	40.6
Foreign expenditure	5.6	5.1	4.5	5.3	3.8	4.7	4.6	4.2

Source: Data provided by the authorities.

Table A27. Israel: State Budget Expenditure (Functional Classification), 1992-97

	1992	1993	1994	1995		1996		1997
				Budget	Outturn	Budget	Estimated Budget outturn	
	(Percent of GDP)							
General public service	3.2	3.2	3.4	3.8	3.7	3.9	...	3.8
General administration	2.2	2.2	2.3	2.6	2.5	2.7	...	2.7
Public order	1.0	1.0	1.1	1.2	1.2	1.2	...	1.1
Defense	11.5	10.4	9.9	10.2	10.3	9.5	...	9.0
Education	5.1	5.4	6.1	6.8	6.0	6.9	...	6.6
Of which: universities	0.9	0.9	1.1	1.2	1.1	1.2	...	1.2
Health	2.1	2.0	2.7	2.1	2.6	2.3	...	4.1
Labor and welfare	6.2	6.4	6.9	6.5	7.1	7.3	...	5.0
Other social services	8.0	6.3	4.5	4.5	4.1	4.3	...	4.0
Of which: housing	6.8	5.2	3.5	3.4	3.1	3.2	...	3.0
direct absorption	0.8	0.6	0.6	0.5	0.5	0.5	...	0.4
Economic services	3.9	4.5	3.3	3.4	3.3	3.1	...	3.2
General	0.2	0.2	0.2	0.3	0.3	0.2	...	0.2
Agricultural	1.6	1.5	0.3	0.4	0.4	0.4	...	0.3
Manufacturing	0.9	1.1	1.1	1.1	1.2	1.0	...	1.1
Water and energy	0.4	0.4	0.3	0.3	0.3	0.2	...	0.3
Transport and communications	0.6	0.8	0.9	0.8	0.8	0.7	...	0.6
Other	0.3	0.5	0.4	0.5	0.4	0.6	...	0.6
Unallocable and other functions	8.9	8.4	7.9	9.6	7.8	8.3	...	8.0
Interest	7.7	7.6	7.1	7.5	7.1	6.6	...	6.4
Interest and loan subsidy	0.3	0.3	0.2	0.1	0.1	0.1	...	0.1
Subsidy for basic products	0.8	0.8	0.8	0.7	0.6	0.6	...	0.6
Export market development	0.4	0.2	0.0	0.0	0.0	0.0	...	0.0
General transfers	1.1	1.1	1.3	1.4	1.4	1.3	...	1.1
Reserves	0.0	0.0	0.0	1.2	0.0	1.1	...	1.2
Repayment of loans (-)	-1.5	-1.6	-1.5	-1.4	-1.4	-1.3	...	-1.3
Total expenditure and net lending	48.8	46.6	44.7	46.9	44.9	45.7	...	43.9

Source: Data provided by the authorities.

Table A28. Israel: General Government Balance and Financing (National Accounts), 1992-95

	1992	1993	1994	1995
	(Percent of GDP)			
Total receipts	52.8	52.5	51.8	51.7
Total expenditure	56.8	56.0	54.0	55.1
Overall balance	-4.0	-3.5	-2.2	-3.4
Total financing	4.0	3.5	2.2	3.4
Change in monetary base	0.5	1.0	0.9	-0.3
Foreign borrowing (net)	1.8	-2.7	4.4	-3.7
Domestic borrowing (net)	-2.6	0.0	-0.3	6.2
Through government (net)	1.0	0.7	0.2	2.9
Through Bank of Israel (net)	-3.5	-0.7	-0.5	3.3
Sale of assets	0.8	1.7	0.3	0.4
Residual	3.5	3.5	-3.1	0.8
<u>Memorandum items:</u>				
Current balance (net saving)	-0.8	-1.3	-0.9	-2.1
Current balance + depreciation (gross saving)	0.6	0.1	0.4	-0.8
Domestic balance	-7.2	-5.1	-3.2	-4.4
Foreign balance	3.3	1.6	1.0	1.0

Source: Data provided by the authorities.

Table A29. Israel: General Government Expenditure (National Accounts), 1992-95

	1992	1993	1994	1995
	(Percent of GDP)			
Total domestic expenditure	52.3	50.6	49.6	51.3
Current expenditure	45.0	43.8	43.6	45.9
Civilian	16.5	16.6	17.1	19.0
Of which: impact from health law	0.0	0.0	0.0	1.5
Defense	9.0	8.0	8.0	8.1
Transfer payments	10.9	11.1	11.1	11.5
Subsidies	3.0	2.6	2.3	1.9
Credit	0.3	0.3	0.2	0.1
Other	2.7	2.3	2.1	1.8
Interest	5.6	5.5	5.1	5.3
Capital expenditure	7.2	6.9	5.9	5.4
Investment	3.5	3.8	3.8	3.6
Capital grants	3.7	2.6	1.9	1.7
Repayment of compulsory loans	0.1	0.4	0.2	0.1
Total foreign (current) expenditure	4.5	5.3	4.4	3.9
Defense imports	1.9	2.7	1.9	1.3
Interest	2.1	2.1	2.1	2.0
Other	0.5	0.6	0.4	0.6
Total expenditure	56.8	56.0	54.0	55.1

Source: Data provided by the authorities.

Table A30. Israel: General Government Receipts (National Accounts), 1992-95

	1992	1993	1994	1995
	(Percent of GDP)			
Total domestic receipts	45.0	45.5	46.4	46.9
Current receipts	41.2	41.1	42.0	43.0
Taxes and fees	38.3	38.5	39.4	40.0
Indirect taxes	20.9	19.9	19.4	19.6
Domestic production	14.8	14.1	13.8	14.0
Civilian imports	6.1	5.8	5.6	5.5
Direct taxes and fees	12.8	14.0	15.3	14.7
National insurance income	4.6	4.7	4.7	5.7
Of which: health tax	0.0	0.0	0.0	1.8
Transfer payments	1.5	1.4	1.6	1.7
Of which: imputed pensions	1.2	1.2	1.4	1.5
Property income/tax	1.4	1.1	1.0	1.3
Capital receipts	3.8	4.5	4.4	3.9
Transfer payments	2.4	3.1	3.1	2.6
Depreciation	1.4	1.4	1.3	1.3
Total foreign receipts	7.7	6.9	5.4	4.8
Current receipts	7.5	6.7	5.1	4.6
Interest	0.9	0.6	0.3	0.7
Transfer payments	6.5	6.1	4.8	3.9
Intergovernmental	5.6	5.2	4.1	3.1
National and nonprofit institution	0.9	0.9	0.8	0.8
Capital receipts	0.3	0.3	0.2	0.2
Total receipts	52.8	52.5	51.8	51.7

Source: Data provided by the authorities.

Table A31. Israel: Structure of General Government Finances (National Accounts), 1992-94

	1992	1993	1994
	(Percent of GDP)		
Receipts from the public			
Central government	42.7	42.2	41.8
National Insurance Institute	4.6	4.7	4.7
National institutions	0.9	0.9	0.7
Local authorities	3.4	3.5	3.4
Public nonprofit associations	1.2	1.2	1.2
Total	52.8	52.5	51.7
Expenditure on the public			
Central government	36.2	34.4	32.3
National Insurance Institute	7.0	7.4	7.3
National institutions	1.0	0.9	0.8
Local authorities	6.6	7.1	7.3
Public nonprofit associations	6.1	6.3	6.2
Total	56.8	56.0	53.9
Unilateral transfers to other general government entities			
Central government	10.2	10.4	11.7
National Insurance Institute	-3.4	-3.5	-3.8
National institutions	0.0	0.0	0.0
Local authorities	-2.0	-2.0	-2.4
Public nonprofit associations	-4.8	-4.9	-5.4
Total	0.0	0.0	0.0
Overall balance			
Central government	-3.7	-2.5	-2.2
National Insurance Institute	1.1	0.8	1.3
National institutions	-0.1	0.0	-0.1
Local authorities	-1.2	-1.7	-1.6
Public nonprofit associations	-0.1	-0.1	0.4
Total	-4.0	-3.5	-2.2

Source: Data provided by the authorities.

Table A32. Israel: The Currency Basket of the Israeli Shekel, 1987-96

	Absolute Amounts of Currencies in Basket as of December 31, 1995	Percentage Distribution of Currencies on the Basis of Market Rates on:									
		<u>1987</u> Dec. 31	<u>1988</u> Dec. 31	<u>1989</u> Dec. 31	<u>1990</u> Dec. 31	<u>1991</u> Dec. 31	<u>1992</u> Dec. 31	<u>1993</u> Dec. 31	<u>1994</u> Dec. 31	<u>1995</u> Dec. 31	<u>1996</u> July 31
Deutsche mark	0.3964	0.2368	0.2184	0.2310	0.2462	0.2441	0.2387	0.2258	0.2419	0.2424	0.2161
French franc	0.3222	0.0568	0.0520	0.0549	0.0588	0.0581	0.0569	0.0540	0.0569	0.0577	0.0520
Japanese yen	7.0106	0.0568	0.0572	0.0503	0.0501	0.0547	0.0570	0.0646	0.0692	0.0597	0.0542
Pound sterling	0.0604	0.1123	0.1120	0.1008	0.1140	0.1112	0.0938	0.0929	0.0939	0.0819	0.0812
U.S. dollar	0.6372	0.5373	0.5605	0.5631	0.5309	0.5320	0.5537	0.5627	0.5381	0.5583	0.5965

Sources: IMF, *International Financial Statistics*; and data provided by the Israeli authorities.

Table A33. Israel: Exchange Rate Developments, 1986-96

(Index number 1986 = 100; period averages)

	U.S.Dollar/ Shekel	Pound Sterling/ Shekel	Deutsche Mark/ Shekel	Japanese Yen/ Shekel	French Franc/ Shekel	Currency Basket
1986	100.0	100.0	100.0	100.0	100.0	100.0
1987	107.2	119.8	128.9	124.0	123.3	114.3
1988	107.4	130.6	132.3	140.1	124.9	117.0
1989	128.9	143.8	148.0	155.9	139.6	135.9
1990	135.5	165.0	181.3	156.9	172.3	150.2
1991	153.4	184.3	199.3	190.4	187.7	168.9
1992	165.3	198.9	229.0	218.2	216.3	186.2
1993	190.4	194.8	248.2	286.9	232.0	208.7
1994	202.4	211.5	269.8	331.1	252.5	225.0
1995	202.4	217.8	304.7	361.2	280.2	235.5
1991						
I	138.9	180.9	196.0	173.4	184.5	158.1
II	157.5	183.4	195.9	190.1	185.1	170.5
III	158.1	180.9	194.8	193.1	183.5	170.5
IV	158.7	191.7	210.2	204.5	197.1	176.1
1992						
I	157.4	190.4	210.1	204.8	197.6	175.2
II	163.5	201.5	218.6	209.7	207.7	182.4
III	164.3	214.0	242.1	219.4	228.7	190.3
IV	176.3	189.0	244.6	239.0	230.6	196.6
1993						
I	187.6	189.0	247.6	259.5	233.7	205.2
II	184.8	193.3	246.2	281.0	233.8	204.6
III	191.2	196.1	245.6	302.4	226.7	209.3
IV	197.4	200.8	252.9	304.3	233.6	215.4
1994						
I	200.1	203.1	250.6	310.7	235.9	217.3
II	203.0	208.4	264.1	328.3	247.1	223.6
III	203.6	215.1	281.0	342.9	262.7	229.4
IV	203.0	219.4	283.7	342.8	264.6	230.0
1995						
I	201.6	217.6	294.2	350.4	269.7	231.7
II	200.5	218.3	309.3	395.9	281.4	236.7
III	202.1	216.9	304.5	360.4	282.1	235.3
IV	205.5	218.6	311.5	338.0	288.0	238.2
1996						
I	209.3	218.7	307.7	330.5	287.3	239.7
II	217.0	225.5	307.2	337.4	290.3	245.6

Sources: IMF, *International Financial Statistics*; and data provided by the Israeli authorities.

Table A34. Israel: Balance of Payments Summary, 1989-1996

	1989	1990	1991	1992	1993	1994	1995	<u>Q1+Q2</u> 1/ 1996
(In millions of U.S. dollars)								
Current account balance	1,250	535	-358	172	-1,119	-2,334	-3,874	-3,130
Trade balance	-1,833	-2,981	-4,902	-4,924	-5,576	-5,922	-7,626	-4,326
Exports, f.o.b.	11,067	12,139	12,029	13,314	14,804	16,691	19,045	9,713
Imports, f.o.b.	12,900	15,120	16,931	18,237	20,380	22,613	26,671	14,039
Civilian imports	11,730	13,652	14,991	16,790	18,273	21,152	25,378	13,220
Military imports	1,170	1,468	1,940	1,448	2,106	1,461	1,293	819
Civilian trade balance	-663	-1,513	-2,962	-3,476	-3,469	-4,461	-6,333	-3,507
Services balance	-1,962	-2,369	-2,227	-1,727	-2,302	-3,406	-3,512	-1,796
Exports	5,800	6,261	6,439	7,607	7,503	7,935	9,781	4,933
Imports	7,761	8,631	8,666	9,334	9,806	11,340	13,293	6,731
Net transfers	5,045	5,886	6,771	6,823	6,759	6,994	7,264	2,994
Capital account balance	-890	455	195	-826	2,414	1,617	3,864	2,696
Long-term capital	144	213	135	-465	2,134	2,859	2,276	1,311
Short-term capital	-1,034	242	60	-362	280	-1,241	1,588	1,385
Errors and omissions	1,038	-475	-9	-558	184	786	1,158	1,168
Change in reserves	-1,398	-515	173	1,446	-1,480	-70	-1,201	-810
(Growth rates in percent)								
Memorandum items:								
Goods exports	...	9.7	-0.9	10.7	11.2	12.7	14.1	3.8
Goods imports	...	17.2	12.0	7.7	11.8	11.0	17.9	7.4
Services exports	...	7.9	2.8	18.1	-1.4	5.8	23.3	5.4
Services imports	...	11.2	0.4	7.7	5.1	15.6	17.2	10.2

Sources: Bank of Israel; and Central Bureau of Statistics.

1/ The growth rate in percent is compared to same period the previous year.

Table A35. Israel: Balance of Payments - Services, 1988-96

(In millions of U.S. dollars)

	1988	1989	1990	1991	1992	1993	1994	1995	1996 Q2
Freight and transportation, net	-408.8	-452.1	-542.7	-657.9	-733.5	-883.4	-1098.8	-1166.3	-668.9
Receipts	1,262.6	1,340.8	1,494.8	1,546.0	1,682.2	1,764.6	1,792.4	2,163.1	1,066.5
Payments	-1,671.4	-1,792.9	2,037.5	-2,203.9	-2,416.1	-2,648.0	-2,891.2	-3,329.4	-1,735.4
Travel, net	263.3	207.2	-45.7	-246.9	221.1	141.0	-196.6	-230.0	0.2
Receipts	1,346.5	1,467.7	1,396.4	1,303.7	1,895.1	2,192.9	2,398.7	2,918.0	1,358.4
Payments	-1,083.2	-1,260.5	-1,442.1	-1,550.6	-1,674.0	-2,051.9	-2,595.5	-3,148.0	-1,358.2
Insurance, net	-98.9	-151.1	-225.1	-143.5	-58.3	-197.0	-202.0	-222.5	-81.4
Receipts	9.1	-23.5	-11.2	-4.2	-13.5	10.7	10.3	11.0	11.3
Payments	-108.0	-127.6	-213.9	-139.3	-42.8	-207.7	-212.3	-233.5	-92.7
Other, net	-23.9	-89.9	-239.9	-101.4	12.7	24.0	-159.7	-337.7	-172.2
Receipts	1,646.8	1,703.9	1,838.1	1,975.3	2,516.4	2,400.4	2,640.2	2,969.5	1,581.8
Payments	-1,670.7	-1,793.8	-2,078.0	-2,076.7	-2,503.7	-2,376.4	-2,799.9	-3,307.2	-1,754.0
Government, n.e.s., net	-66.6	-72.5	-73.0	-89.7	-110.4	-145.3	-154.2	-153.7	-73.4
Receipts	34.6	41.7	47.1	48.3	53.1	47.0	50.2	64.2	36.8
Payments	-101.2	-114.2	-120.1	-138.0	-163.5	-192.3	-204.4	-217.9	-110.2
Total services, excluding investment income, net	-334.9	-558.4	-1,126.4	-1,239.4	-666.4	-1,060.7	-1,811.5	-2,110.2	-995.7
Receipts	4,299.6	4,530.6	4,765.2	4,869.1	6,133.7	6,415.6	6,891.8	8,125.8	4,054.8
Payments	-4,634.5	-5,089.0	-5,891.6	-6,108.5	-6,800.1	-7,476.3	-8,703.3	-10,236.0	-5,050.5
Investment income, net	-1,647.3	-1,403.2	-1,243.0	-988.1	-1,060.9	-1,241.5	-1,594.3	-1,401.5	-801.6
Receipts	996.3	1,269.2	1,496.1	1,569.5	1,472.9	1,087.6	1,042.9	1,655.5	876.8
Payments	-2,643.6	-2,672.4	-2,739.1	-2,557.6	-2,533.8	-2,329.3	-2,637.2	-3,057.0	-1,680.4
Total services, net	-1,982.2	-1,961.6	-2,369.4	-2,227.5	-1,727.3	-2,302.2	-3,405.8	-3,511.7	-1,797.3
Receipts	5,295.9	5,799.8	6,261.3	6,438.6	7,606.6	7,503.4	7,934.7	9,781.3	4,933.6
Payments	-7,278.1	-7,761.4	-8,630.7	-8,666.1	-9,333.9	-9,805.6	-11,340.5	-13,293.0	-6,730.9

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; and data provided by the Bank of Israel.

Table A36. Israel: Civilian Import Volume and Price Indicators, 1988-96

(Percentage change from previous year)

	1988	1989	1990	1991	1992	1993	1994	1995	<u>Q1</u> 1996
Volume indicators 1/									
Consumer goods	12.7	-9.9	12.9	22.0	20.5	8.9	19.4	11.2	16.8
Nondurables	10.0	1.8	2.4	13.3	15.5	21.4	24.7	9.3	28.5
Durables	15.5	-20.8	26.4	31.4	25.5	-0.8	14.6	12.9	10.6
Input goods	0.3	-1.7	4.3	10.3	11.8	13.2	9.7	11.7	6.3
Diamonds	10.7	-14.3	-10.2	-11.3	5.9	13.5	11.1	19.9	6.3
Fuel	14.9	-3.9	1.4	16.9	22.2	14.6	-2.2	9.3	-29.7
Other	-7.5	1.7	11.8	18.0	11.6	12.8	11.4	8.8	12.8
Investment goods	-6.4	-13.5	22.0	36.9	3.8	13.9	23.8	3.2	9.0
Machinery and equipment	-8.4	-7.7	21.9	28.0	3.9	16.8	17.1	11.4	13.3
Total imports, net	0.6	-4.1	7.3	15.1	11.3	12.7	13.2	10.4	8.2
Total, excluding diamonds	-2.2	-3.3	12.3	21.8	12.1	12.6	13.6	8.6	8.5
Price indicators 2/									
Consumer goods	2.9	-0.8	7.0	-3.0	2.6	0.2	0.8	8.0	-0.1
Nondurables	4.4	2.1	8.9	-0.6	1.1	-3.2	-0.3	8.8	1.4
Durables	1.5	-4.0	4.9	-5.3	4.0	3.5	1.9	7.1	-1.6
Input goods	10.3	9.8	7.4	-5.5	-1.1	-4.4	2.5	9.1	4.1
Diamonds	20.3	24.2	13.7	-0.4	7.7	1.1	4.3	-4.6	5.4
Fuel	-19.5	22.3	21.4	-17.8	-4.9	-11.3	-2.6	10.3	7.2
Other	14.0	4.9	2.5	-4.3	-3.2	-4.9	2.7	14.2	3.2
Investment goods	4.1	-3.1	8.0	-0.1	2.2	-1.3	1.9	6.3	0.3
Machinery and equipment	4.2	-2.0	8.6	1.3	2.2	-3.6	0.3	5.1	0.1
Total imports, net	8.3	6.6	7.4	-4.4	-0.1	-3.3	2.1	8.5	2.8
Total, excluding diamonds	5.9	4.6	6.1	-5.1	-1.5	-4.1	1.8	11.3	2.3

Sources: Central Bureau of Statistics, *Foreign Trade Statistics Quarterly*; and data provided by the Bank of Israel.

1/ Value data deflated by Fisher unit value indices.

2/ Based on data in U.S. dollars.

Table A37. Israel: Commodity Composition of Civilian Imports (c.i.f), 1988-96 1/

	1988	1989	1990	1991	1992	1993	1994	1995	Q1 1996	Q2 1996
(In millions of U.S. dollars)										
Consumer goods	1,467	1,312	1,585	1,876	2,320	2,532	3,047	3,657	1,073	929
Nondurables	704	732	816	919	1,070	1,249	1,549	1,846	567	469
Durables	763	580	769	957	1,250	1,283	1,498	1,811	506	460
Input goods	9,548	10,299	11,537	12,002	13,270	14,355	16,141	19,674	5,354	4,942
Diamonds	2,415	2,872	2,895	2,551	2,911	3,341	3,873	4,429	1,192	997
Fuel	1,061	1,247	1,535	1,474	1,713	1,742	1,658	1,999	430	499
Other	6,072	6,180	7,107	7,977	8,646	9,272	10,610	13,246	3,732	3,447
Investment goods	1,929	1,585	2,194	2,996	3,180	3,577	4,510	4,951	1,387	1,370
Machinery and equipment	1,357	1,228	1,625	2,107	2,240	2,522	2,962	3,468	1,005	982
Other items 2/	-657	-166	-209	-200	-232	-255	-329	-300	-115	-76
Total imports, net	12,287	13,030	15,107	16,674	18,538	20,209	23,369	27,982	7,699	7,165
Total, excluding diamonds	9,872	10,158	12,212	14,123	15,627	16,868	19,496	23,553	6,507	6,168
(In percent)										
Consumer goods	11.9	10.1	10.5	11.3	12.5	12.5	13.0	13.1	13.9	13.0
Nondurables	5.7	5.6	5.4	5.5	5.8	6.2	6.6	6.6	7.4	6.5
Durables	6.2	4.5	5.1	5.7	6.7	6.3	6.4	6.5	6.6	6.4
Input goods	77.7	79.0	76.4	72.0	71.6	71.0	69.1	70.3	69.5	69.0
Diamonds	19.7	22.0	19.2	15.3	15.7	16.5	16.6	15.8	15.5	13.9
Fuel	8.6	9.6	10.2	8.8	9.2	8.6	7.1	7.1	5.6	7.0
Other	49.4	47.4	47.0	47.8	46.6	45.9	45.4	47.3	48.5	48.1
Investment goods	15.7	12.2	14.5	18.0	17.2	17.7	19.3	17.7	18.0	19.1
Machinery and equipment	11.0	9.4	10.8	12.6	12.1	12.5	12.7	12.4	13.1	13.7
Other items 2/	-5.3	-1.3	-1.4	-1.2	-1.3	-1.3	-1.4	-1.1	-1.5	-1.1
Total imports, net	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Bureau of Statistics, *Foreign Trade Statistics Quarterly*, and *Monthly Bulletin of Statistics*.

1/ Excluding imports from occupied areas and direct imports of military goods. A revised classification of commodity categories applies in 1988 and thereafter.

2/ Returned and re-exported imports, and items not specified elsewhere.

Table A38. Israel: Origin of Imports, 1989-96

(Percent of total)

	1989	1990	1991	1992	1993	1994	1995	1996 1/
Imports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
European Community	47.1	49.3	47.5	48.7	49.2	51.0	47.7	48.6
Belgium-Luxembourg	14.2	13.2	11.1	12.6	12.4	12.7	11.8	10.9
Denmark	0.4	0.4	0.5	0.7	0.7	0.6	0.6	0.6
France	3.8	3.9	4.3	4.1	3.8	4.5	4.0	4.1
Germany	10.1	11.7	11.6	11.8	10.4	10.4	9.1	9.0
Greece	0.3	0.3	0.3	0.4	0.4	0.5	0.5	0.5
Ireland	0.2	0.3	0.3	0.3	0.3	0.4	0.6	0.6
Italy	5.4	6.1	6.5	6.9	7.3	7.8	7.6	8.0
Netherlands	3.2	3.4	3.4	3.2	3.4	3.3	3.3	3.3
Portugal	0.2	0.3	0.3	0.3	0.7	0.5	0.3	0.4
Spain	1.0	1.0	1.0	1.1	1.0	1.7	1.8	2.1
United Kingdom	8.2	8.6	8.3	7.2	8.7	8.7	8.0	9.2
Japan	2.5	3.6	4.4	5.3	5.1	4.0	3.2	3.7
United States	16.7	17.8	19.3	17.0	17.4	17.9	18.1	21.2
Canada	0.6	0.9	0.8	0.6	0.5	0.7	0.8	0.6
EFTA countries 2/	10.7	11.4	10.9	9.4	10.2	9.1	8.8	8.4
Other countries	22.4	17.1	17.1	19.0	17.6	17.2	21.4	17.5

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; and IMF, *Direction of Trade Statistics*.

1/ May.

2/ In 1995 the EFTA countries moved to the European Community. In this table they are still classified under EFTA to enable comparison with previous years.

Table A39. Israel: Commodity Composition of Exports, 1991-96 1/ 2/

	1991	1992	1993	1994	1995	<u>Q1</u> 1996	<u>Q2</u> 1996
(In millions of U.S. dollars)							
Agricultural products	643	554	548	594	741	308	197
Citrus fruit	150	115	121	126	203	86	34
Other fruits and vegetables	168	137	143	137	181	77	54
Other	325	302	284	330	357	145	109
Industrial products (excl. diamonds)	7,680	8,637	9,959	11,272	12,302	3,150	3,109
Ores and minerals	295	294	283	332	382	84	82
Food (incl. beverages and tobacco)	520	540	534	559	617	157	165
Textiles (incl. clothing and leather)	794	908	883	968	1,036	258	233
Other light industry products	961	1,151	1,199	1,301	1,574	383	399
Chemicals	1,495	1,589	1,912	2,120	2,370	596	581
Metals, machinery and electronics	3,547	4,080	5,058	5,894	6,222	1,644	1,624
Diamonds, net	2,690	3,049	3,356	4,014	4,622	1,319	1,022
Returns	-206	-239	-220	-171	-232	-43	-113
Total 3/	11,219	12,479	14,083	16,051	17,897	4,820	4,442
(In percent)							
Agricultural products	5.8	4.5	4.0	3.7	4.2	6.4	4.6
Citrus fruit	1.4	0.9	0.9	0.8	1.2	1.8	0.8
Other fruits and vegetables	1.5	1.1	1.0	0.9	1.0	1.6	1.2
Other	3.0	2.5	2.0	2.1	2.0	3.0	2.5
Industrial products (excl. diamonds)	69.7	70.6	71.8	71.0	69.6	65.9	71.8
Ores and minerals	2.7	2.4	2.0	2.1	2.2	1.7	1.9
Food (excl. beverages and tobacco)	4.7	4.4	3.9	3.5	3.5	3.3	3.8
Textiles (excl. clothing and leather)	7.2	7.4	6.4	6.1	5.9	5.4	5.4
Other light industry products	8.7	9.4	8.6	8.2	8.9	8.0	9.2
Chemicals	13.6	13.0	13.8	13.4	13.4	12.5	13.4
Metals, machinery and electronics	32.2	33.3	36.5	37.1	35.2	34.4	37.5
Diamonds, net	24.4	24.9	24.2	25.3	26.2	27.6	23.6
Total 3/	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Sources: Central Bureau of Statistics, *Foreign Trade Statistics Quarterly*, and *Monthly Bulletin of Statistics*.

1/ Including returned exports (except diamonds): excluding exports to Occupied Territories.

2/ The valuation basis used in this table varies from that on which Table A34 is based.

3/ Numbers do not add up because total includes "other exports," mainly scrap metal.

Table A40. Israel: Export Volume and Price Indices, 1988-96

(Percentage change from previous year)

	1988	1989	1990	1991	1992	1993	1994	1995	<u>Q1</u> 1996
Volume indicators 1/ 2/									
Agricultural products	-20.6	3.6	11.5	-3.3	-2.4	1.9	11.2	14.6	30.1
Citrus fruit	-21.4	-21.3	31.4	-25.7	-14.2	-11.4	-0.8	37.0	-3.1
Other fruits and vegetables	-37.1	11.6	36.5	9.4	-8.9	8.1	0.7	21.6	88.5
Other	-9.7	16.2	-8.8	3.1	6.4	4.7	21.7	2.7	32.4
Industrial products (excl. diamonds)	2.6	14.8	3.5	-0.1	10.7	19.2	13.9	3.5	9.4
Ores and minerals	-6.9	-0.0	-4.2	-2.7	-5.1	4.9	18.6	1.4	-15.7
Food	-10.6	11.9	6.1	-8.2	-4.2	10.4	5.5	2.9	7.6
Textiles	-18.0	1.9	14.8	4.4	13.4	2.3	7.9	2.1	0.8
Metals, machinery and electronics	12.1	12.3	5.2	0.6	12.8	25.7	15.6	0.6	17.4
Chemicals	4.3	6.6	4.7	2.8	8.1	27.0	14.6	6.2	2.9
Other industrial products	11.8	9.8	6.0	0.7	17.5	4.4	10.5	14.2	2.8
Diamonds, net	1.3	-0.2	-10.9	-14.7	12.1	-0.2	23.3	12.2	10.2
Total	1.1	5.9	0.4	-3.8	10.5	12.3	15.6	6.5	10.5
Total, excluding diamonds	1.5	9.6	5.7	0.3	9.9	16.7	13.1	4.6	10.6
Price indicators 3/									
Agricultural products	17.4	-10.2	11.6	1.2	-11.8	-2.9	-2.5	8.8	-15.0
Citrus fruit	11.7	-5.1	4.3	11.7	-10.2	18.1	5.5	17.3	-9.3
Other fruits and vegetables	29.6	-7.2	8.9	-3.7	-11.0	-3.1	-4.7	8.3	-22.9
Other	15.6	-13.7	17.1	-0.8	-12.8	-10.1	-4.5	5.1	-14.3
Industrial products (excl. diamonds)	10.0	2.3	5.4	-0.7	1.6	-3.3	-0.6	5.5	1.9
Ores and minerals	15.8	13.3	-1.6	4.6	4.8	-8.0	-1.2	13.2	3.7
Food	31.0	-2.9	8.3	-11.1	8.3	-10.4	-0.7	7.2	5.8
Textiles	20.7	-2.2	9.4	3.7	0.8	-4.9	1.6	4.8	0.3
Metals, machinery and electronics	4.8	1.5	2.8	-0.3	2.0	-1.4	0.8	4.9	1.3
Chemicals	8.0	5.2	8.5	-2.4	-1.7	-5.2	-3.2	5.2	1.3
Other industrial products	6.9	3.2	7.7	1.9	2.0	-0.3	-1.8	5.9	3.7
Diamonds, net	21.5	19.1	13.3	3.2	1.1	10.3	-3.0	2.7	-0.9
Total	13.9	6.7	8.3	0.5	0.7	0.5	-1.4	4.7	0.1
Total, excluding diamonds	10.8	1.1	5.8	-0.5	0.6	-2.5	-0.8	5.4	0.5

Sources: Central Bureau of Statistics, *Foreign Trade Statistics Quarterly*; and data provided by the Bank of Israel.

1/ Value data deflated by Fisher unit value indices.

2/ A revised classification of commodity categories applies in 1992 and thereafter.

3/ Based on data in U.S. dollars.

Table A41. Israel: Destination of Exports, 1989-96

(Percent of total)

	1989	1990	1991	1992	1993	1994	1995	1996
Exports	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
European Community	31.8	34.9	34.3	33.6	29.6	28.4	30.5	31.1
Belgium-Luxembourg	4.9	5.7	5.9	5.2	5.5	5.5	5.4	5.4
Denmark	0.2	0.3	0.3	0.3	0.2	0.2	0.3	0.2
France	4.0	4.7	5.1	4.5	3.9	3.5	3.6	3.6
Germany	4.7	5.8	6.3	5.7	5.3	5.0	5.1	5.3
Greece	1.2	0.9	0.9	0.8	0.6	0.6	0.9	0.8
Ireland	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Italy	3.8	4.2	3.8	3.4	2.9	3.0	2.9	2.9
Netherlands	4.4	4.4	3.7	3.7	3.7	3.6	4.2	4.8
Portugal	0.2	0.3	0.3	0.3	0.3	0.2	0.2	0.3
Spain	1.4	1.4	1.6	1.8	1.4	1.4	1.6	1.7
United Kingdom	6.7	7.0	6.3	7.6	5.6	5.1	6.1	5.8
Japan	6.8	7.3	6.1	5.3	5.2	6.0	7.0	6.4
United States	29.8	28.8	29.7	29.7	31.3	31.6	30.2	28.2
Canada	1.0	0.8	0.8	0.6	0.7	0.6	0.6	0.5
EFTA countries 1/	4.1	4.2	3.9	3.1	3.0	3.4	3.1	2.9
Other countries	26.5	24.0	25.1	27.7	30.1	30.0	28.6	30.9

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*, and IMF, *Direction of Trade Statistics*.

1/ In 1995 Austria, Finland and Sweden moved from EFTA to the European Community. In this table they are still classified under EFTA to enable a comparison with previous years.

Table A42. Israel: Capital Account Transactions, 1990-96

(In millions of U.S. dollars)

	1990	1991	1992	1993	1994	1995	<u>Q1+Q2</u> 1996
Net capital flows (excl. by central monetary institutions) 1/	455	195	-826	2,414	1,617	3,863	2,695
Long-term capital	213	135	-465	2,134	2,859	2,276	1,311
Government liabilities	-8	640	706	2,015	2,113	750	476
Direct investment (net)							
In Israel	98	375	519	560	415	1,516	969
Abroad	165	424	651	763	735	671	614
Investment in securities (net) 2/							
In Israel	-20	15	-35	176	183	386	198
Abroad	-14	345	926	-79	-303	3	-10
Other (net)							
In Israel	3	-24	20	19	27	9	18
Private sector loans (net) 3/	292	-102	-98	48	552	288	256
Short-term capital	242	60	-362	280	-1,241	1,587	1,384
Government liabilities	-26	-4	-14	-2	42	19	-81
Government assets	-190	-180	78	261	-28	-1,230	975
Private liabilities	1,051	373	333	-87	17	889	-68
Private assets	-367	242	303	-502	31	899	833
Banking sector							
Liabilities 4/	376	151	937	280	968	1,114	81
Assets	-603	-521	-1,998	331	-2,271	-104	-356
Foreign currency assets and liabilities of the central monetary institutions	-515	173	1,466	-1,480	-70	-1,200	-809
Liabilities	0	0	254	0	0	-52	-75
Assets	-515	173	1,212	-1,480	-70	-1,148	-734

Source: Central Bureau of Statistics, *Monthly Bulletin of Statistics*.

1/ Excluding errors and omissions.

2/ Investment in securities of a short-term nature. In the long run investment of foreigners in Israel, also included are foreign investments in the primary market out of optimal portfolio considerations which should be also considered as short-term capital flows. These investments amounted to: US\$326 million, US\$89 million and US\$184 million in 1995, 1994 and 1993 respectively. During the two first quarters of 1996 this item reached some US\$363 million.

3/ Loans to the private financial sector.

4/ Due to recent corrections by the CBS, the data in the liabilities of the central monetary institutions should be subtracted from the corresponding listed item of the banking sector.

Table A43. Israel: Indicators of External Indebtedness, 1988-96

(In millions of U.S. dollars)

	1988	1989	1990	1991	1992	1993	1994	1995	<u>Q1+Q2</u> 1996
Gross external liabilities									
Amount	31,617	31,596	33,713	34,281	35,775	37,813	41,888	45,189	45,546
Percentage increase	-1.3	-0.1	6.7	1.7	4.4	5.7	10.8	7.9	0.8
Percent of GDP	73.7	72.7	66.0	58.9	55.5	58.2	57.1	52.9	50.4 1/
Gross external liabilities minus foreign assets of commercial banks									
Amount	24,842	24,168	25,396	25,384	25,014	27,356	28,762	31,627	31,854
Percentage increase	-2.9	-2.7	5.1	-0.0	-1.5	9.4	5.1	10.1	0.7
Percent of GDP	57.9	55.6	49.7	43.6	38.8	42.1	39.2	37.0	35.3 1/
Net external liabilities 2/									
Amount	18,357	15,915	16,018	16,196	17,397	17,657	18,390	20,191	20,354
Percentage increase	1.7	-13.3	0.6	1.1	7.4	1.5	4.2	9.8	0.8
Percent of GDP	42.8	36.6	31.4	27.8	27.0	27.2	25.1	23.6	22.5 1/
Memorandum items:									
Foreign assets	13,260	15,681	17,694	18,085	18,378	20,156	23,498	24,998	25,192
Of which:									
Commercial banks	6,775	7,428	8,317	8,897	10,761	10,457	13,126	13,562	13,692

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; data provided by the Bank of Israel; and the staff calculations.

1/ The GNP data for the two first quarters are expressed in annual terms.

2/ Net of foreign assets of commercial banks, Bank of Israel's reserves, holdings of other monetary institutions, and export credit.

Table A44. Israel: Indicators of Debt Service, 1990-96

	1990	1991	1992	1993	1994	1995	<u>Q1+Q2</u> 1996
(In millions of U.S. dollars)							
1. Gross interest payments	2,608	2,418	2,322	2,136	2,364	2,903	1,528
2. Interest receipts	1,450	1,569	1,473	1,088	1,043	1,655	835
3. Net interest payments	1,158	849	849	1,048	1,321	1,248	693
4. Principal repayments 1/	1,814	2,277	1,801	1,880	2,237	2,247	1,148
5. Debt service (1+4)	4,422	4,695	4,123	4,016	4,601	5,150	2,676
6. Net debt service (5-2)	2,972	3,126	2,650	2,928	3,558	3,495	1,841
Ratio of gross interest payments to exports of goods and services	14.2	13.1	11.1	9.6	9.6	10.1	10.4
Ratio of gross debt service to exports of goods and services	24.0	25.4	19.7	18.0	18.7	17.9	18.3
Ratio of net interest payments to exports of goods and services	6.3	4.6	4.1	4.7	5.4	4.3	4.7
Ratio of net debt service to exports of goods and services	16.2	16.9	12.7	13.1	14.4	12.1	12.6
Memorandum items:							
GNP	51,080	58,159	64,504	64,957	73,315	85,428	45,183
Exports of goods and services	18,400	18,467	20,920	22,307	24,626	28,826	14,646

Sources: Central Bureau of Statistics, *Monthly Bulletin of Statistics*; and data provided by the Bank of Israel.

1/ Excludes short-term debt.

Table A45. Israel: Assets and Liabilities in Foreign Currency, 1991-96

(In millions of U.S. dollars)

	1991	1992	1993	1994	1995	<u>Q1+Q2</u> 1996
1. Gross liabilities	34,281	35,775	37,813	41,888	45,189	45,546
a. Government	17,610	18,190	20,052	22,355	23,251	23,573
b. Nonfinancial private sector	5,017	5,283	5,196	5,671	6,686	6,771
c. Banks	11,654	12,347	12,565	13,862	15,252	15,202
2. Gross assets	18,085	18,378	20,155	23,498	24,998	25,191
a. Bank of Israel reserves	6,298	5,131	6,384	6,795	8,158	8,887
b. Other financial institutions	557	534	669	542	530	375
c. Exporters' credit	2,333	1,951	2,646	3,035	2,748	2,237
d. Banking system	8,897	10,761	10,457	13,126	13,562	13,692
3. Net liabilities (1-2)	16,196	17,397	17,658	18,390	20,191	20,355
4. Total current debt	6,611	5,082	6,684	5,952	6,948	8,676
Banking system	2,727	589	2,187	1,359	1,451	1,342
Nonfinancial private sector	2,083	2,708	2,629	2,531	3,235	3,056
Direct government debt	0	0	0	0	0	0
Medium- and long-term debt (repayable within a year)	1,801	1,785	1,868	2,062	2,262	4,278
5. Net current debt (4-2a-2b-2c)	2,577	2,534	3,015	4,420	4,488	2,823

Source: Central Bureau of Statistics.

Table A46. Israel: Official Gold
and Convertible Foreign Exchange Reserves, 1993-96

(In millions of U.S. dollars; end of period)

		Gold 1/ (1)	SDRs (2)	Reserve Position in the Fund (3)	Foreign Exchange 2/ (4)	Total (5)=(4)+(1)
1993	I	0.4	0.3	--	5,749	5,749
	II	0.4	0.5	--	5,159	5,159
	III	0.4	0.3	--	5,733	5,733
	IV	0.4	0.5	--	6,384	6,384
1994	I	0.4	0.7	--	6,841	6,841
	II	0.4	0.4	--	6,049	6,049
	III	0.4	1.3	--	5,709	5,709
	IV	0.4	0.4	--	6,795	6,795
1995	I	0.5	0.6	--	8,947	8,947
	II	0.5	2.0	--	8,780	8,780
	III	0.5	0.6	--	8,839	8,839
	IV	0.5	0.6	--	8,158	8,158
1996	I	0.4	0.7	--	9,697	9,697

Sources: IMF, *International Financial Statistics*; and data provided by the Bank of Israel.

1/ National value.

2/ At the Bank of Israel.