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Peres Interviewed on Economic, Political Issues
TA060525 Jerusalem Television Service in Hebrew 1940 GMT 5 Mar 86

[Interview with Prime Minister Shim'on Peres by moderator Nisim Mish'al; economic affairs correspondent 'Oded Shahar; and political correspondent Yoram Ronen, in the framework of the weekly "Moqed" program — live, at the Prime Minister's Office in Jerusalem]

[Excerpt] [Mish'al] Good evening to you, Mr Prime Minister. Let us begin with the economy, with what is termed the economic growth or the economic growth crisis. I would like to pose a direct question to you: What has happend to Prime Minister Shim'on Peres, who woke up one morning demanding a plan for renewed economic growth, a plan which runs counter to the opinion of most economists, as I understand it. Is it possible that the political timetable, the rotation, beat the economic timetable?
[Peres] I know it is difficult for you to think otherwise, but I will answer your question. I began with the economic growth together with the economic plan. In fact, when we started the economic plan, together with the scheme for decreasing inflation, we also began a scheme for bringing about economic growth. This is why we formed the task force [last two words in English]; to this end we began seeking possibilities for raising capital, increasing exports and so on and so forth. There is a two-part explanation for why we are pushing for this now: First, capital has become obtainable from the capital market as the government consumes less. You know, there were those who said that nothing could be done, but 2 days later the Ministerial Committee on Economic Affairs decided to direct $450 million to growth. Secondly, there are plants and organizations to which we owe action. For instance, would you like us to tell the development towns to wait 2 or 3 more years if we can solve their problems now? Incidentally, whoever thinks the solution lies only in extending funds is mistaken; this is a narrow outlook. I do not want to sound boastful, but I am not a Jew who has not created plants in Israel; I do know how they are created. Therefore, if you again take the development towns as an example, I have very interesting proposals on my table which can alleviate their distress without the printing of money, without deviation from the budget framework. The two points above, the availability of capital and the burning needs of the development towns, the agriculture and construction sectors, and exports, made the present time the proper time for growth.

[Shahar] However sir, in the meeting you held with senior economics professors at this time exactly one week ago, most of the speakers then in fact opposed the economic growth plan, or opposed beginning it now. Were you convinced by them?
[Peres] No. I was also not convinced when they expressed opposition to the first economic program. I remember all the letters I received from the best of professors. I do not underrate them. They have intellectual skepticism or skeptical intellectualism, whichever way you want to look at it. One should listen to what they say but decide on what is necessary. I do not see any risk in economic growth; I see only positive aspects in it and I will not forgive myself if, for one reason or another, we do not begin today to prepare workplaces for the young people in the state of Israel. Every year 50,000 young people are discharged from the army and join the workforce in Israel. If we start economic growth today the results will only be obtained in 2 to 3 years. If we wait for another 2 to 3 years, there will be thousands, perhaps tens of thousands of young people in Israel whose employment was neglected by everyone. My responsibility is not toward professors, with all due respect, nor toward journalists; my responsibility is toward the people. This is my duty.

[Mish'al] Mr Peres, Mr Prime Minister. You are saying that economists, professors, have a slightly sceptical outlook. However, let me quote Finance Minister Yitzhaq Moda'i who is a man of action in this field. He said today — let me quote here — that if you, Mr Prime Minister, do not rethink your attempt to take over the economic issue, the government will break up, the economic program will be ruined, and the responsibility for this will lie at your door since you acted out of narrow partisan considerations. Thus far I quote from the finance minister's remarks.
[Peres] You know, the argument right now involves the Likud's opposition. I spoke with Mr Moda'i who agreed to establish a ministerial committee on economic growth affairs. I spoke with Mr Shamir and he also agreed to this. Afterward, for reasons which, in my opinion, are not national in nature, they changed their minds. I presented this plan. Besides, I hope I will not insult Mr Moda'i if I say that in the past too he has been mistaken about certain matters.

[Mish'al] Could you give us an example?
[Peres] Some examples of this are when it was desired to begin the economic plan with a 30-percent devaluation to which I was opposed, or when it was desired to use emergency decrees. I agreed to the decrees but was opposed to using them against the Histadrut. My belief is that the problem does not lie only in a program per se. A program may be only 20 percent of the entire issue; 80 percent lies in the implementation, namely, in creating national coalitions, in achieving an agreement for the implementation of a program. I am already used to this. When you launch a program you first meet the opponents, and only then do you achieve the agreement.

[Mish'al] However, there is a strange coalition of economics professors, finance ministers, does this not trouble you? It is as if you are going it alone with this idea, and you are trying...
[Peres, interrupting] This is not terrible, this is not terrible. I am not troubled. First, there are many who support my view. I talk to a Jew like Moshe Zanbar, for instance [former governor of the Bank of Israel], or with Economics Professor Ben-Shahar, or Eytan Berglass [former senior Treasury official, the head of the Budget Department] — to my regret Economics Professor Mikha'el Bruno is abroad at the moment — these are people who advised us, advised me, in the initial stages of the economic plan. I listen to them very attentively. I do not expect that we will see eye-to-eye on everything, but I do find support from them.

[Shahar] Mr Prime Minister, let us perhaps talk about the quality of growth. Vice Prime Minister Yitzhaq Shamir was quoted during a meeting with economics professors, as saying that when people talk about growth, they are actually talking about rescue operations, such as rescuing Solel Boneh, the Histadrut sick fund, the Moshavim. How do you respond to this?
[Peres] First of all, why be ashamed? Is unemployment cheaper than growth? Will the dismissal of let us say 12,000 employees

save the economy? What are the alternatives? Now I have heard all these arguments. I have my own opinion. These are all old approaches. The problem is not to whom does a factory belong. The problem is the people who work in the factory. Just as I have dealt with the problem of the Elscint Electronics Company, I have no interest in who owns that company. There are 2,000 people — engineers, technicians, employees — working there. What do you want me to do, let this company collapse? What is the alternative. There are, however, more serious problems. Firstly, there is the Histadrut sick fund. What is this sick fund? Eighty-five percent of the citizens of Israel are insured by this sick fund. Are 85 percent of the country's population Alignment supporters? Mr Ya'aqov Gadish told me that if the government had ignored the sick fund, it would have cost us additional millions of dollars.

[Shahar] But, sir, excuse me, is revitalizing the sick fund economic growth?
[Peres] I did not say that, you did. 'Oded, you should be careful because even in the first program you were mistaken in your criticism. You leveled criticism; good for you, but you were mistaken. Let us first of all maintain the correct proportion of the matter. I think that rescuing agriculture in Israel is an urgent national task. We dare not be left without any land beneath us. There is no country in the world — neither capitalistic nor socialistic — that does not assist its farmers. How can our farmers pay 80 percent interest? Does land produce 80 percent interest? What do we want to be left with: with no farmers, without land? Can we postpone this? Really, you know, this is an attempt to really reduce a serious matter to an unimportant, spiteful, partisan one.

[Mish'al] Mr Peres, I must intervene here to talk about your last sentence referring to spiteful, partisan matters. There is a ministerial committee for economic affairs headed by the finance minister. Do you not trust your finance minister to implement a program, to assist the economy?
[Peres] Since you ask, the prime minister is not answerable to the finance minister; the finance minister is answerable to the prime minister. I must act in a way which appears to me to be correct.

[Mish'al] Do you not think that the finance minister can head a committee?
[Peres] I certainly do think so. The government comprises 25 members. This is a very large, heavy body. This is the reality, I am not complaining. By the time we concede an issue, the day is already over. The ministerial committee comprises 15 ministers, actually 17 ministers, and it too is overburdened with issues. I want to say very clearly that if there were a narrow government, and if I were prime minister, I would take a group of four or six ministers that would deal with the future, with growth, with the preparation of places of employment, and with the examination of what can be done in the development towns and in the construction sector. In the construction sector, for example, the problem is not giving money to the building companies; the problem is the speeding up of decisions so that work can be created. For instance, there is the problem of the Mamila plan in Jerusalem. Why should this be delayed?

[Mish'al] What? Then, do you want....?

[Peres, interrupting] I want a small group of ministers that will deal with preparations for the future....

[Mish'al, interrupting] Headed by you?
[Peres] I am the prime minister; yes, headed by me. This is my right.

[Shahar] Would it comprise of three Likud ministers and three Alignment ministers?
[Peres] This is not so important to me. We are not talking about matters of defense, and I do not think that the ministers should be divided according to the parties, Alignment or Likud. I have already noticed that on economic matters, they are not always divided. However, I feel that we must begin acting to overcome the bureaucracy, and also to obtain a little relief from the pressing problems. Therefore, I believe that we must respond to the development towns, to the farmers, construction workers, and to the young generation. Who will do this?

[Mish'al] Mr Peres, something strange is happening, here, and I would like you to explain it. You took something called economic growth, and the issue has turned into something so important that it is threatening the government's integrity. It is, in fact, hard to understand where you are taking this matter. There is a finance minister, and you want to take authority away from him. The Likud objects.
[Peres] Just a minute. First of all, you are determining facts; these are not questions. I do not want any of the finance minister's authority. The finance minister has authority and it will remain his. I do not want to take anything away from anybody. But I ask myself, if I had been a minister in the previous governments, I could also have said: The authority exists, everything is arranged, the economy is just going into a decline. I see that the economy has suffered from two or three things, not one. It not only suffered from inflation; it also suffered from a freeze. Our national product, that is, our national income hardly grew. Exports increased in dollars, but not in genuine value. Exports over the past 10 years have increased from $2.5 to $5.5 billion, but the dollar dropped by 56 percent. So I ask myself: What is the task of a minister, or certainly a prime minister? Just as we overcame inflation — and there was a great deal of skepticism about the path I proposed which was not one of the decrees but of national agreement to sit down for days and nights until we reached an agreement — so now, too....

[Mish'al interrupting] To the point of a crisis, Mr Peres?
[Peres] The country's crisis is no less important than that... [changes thought] Let me ask you: If you had known 5 years ago that there would either have to be a government crisis to prevent inflation, or the governments's integrity would be retained at the cost of inflation, what would you have done? You must look ahead and I am looking ahead as far as I can, as clear-sightedly as possible and without fear. I think there are situations we have to cope with. We have coped with inflation. Now we have to cope with the freeze.

[Shahar] Mr Peres, I would, perhaps, like to wrap up the growth issue in one sentence. You are determined...
[Peres, interrupting] Excuse me, you called this a growth crisis. Why is it a crisis?

[Shahar] There is a crisis between the Likud and the Alignment.
[Peres] There is no crisis. Growth does not stand in contradiction of the economic plan; it is a part of it. I spoke about it when I presented the Cabinet to the Knesset. I worked for it when we established the task team [tzevet mesima], and we have now begun to gather ideas about new measures to cope with the economy's genuine needs.

[Mish'al] But sir, is there not a danger that now, when the government begins to funnel money, inflation will be renewed? And when inflation is renewed, will the government have to take further economic measures to cut down on the influence...
[Peres, interrupting] Such a danger exists. I am proposing that money be funneled. What are we arguing about? Am I proposing that we print money? Am I proposing that we increase the budget?

[Mish'al] You are proposing recruiting resources from the finance market.
[Peres] No, resources that have become free, with everyone's agreement. After all, all the ministers have agreed that we need to direct $450 million from government consumption to investment in industry or tourism. Now, I also believe that we can recruit from private and public sources in the United States. I am proposing that we should implement the decision we made to sell companies. Why are they not being sold?

[Mish'al] If this is so good, Mr Peres, why does the Likud object?
[Peres] Why are you asking me? In my view, they have not looked at the matter in depth, seriously, and I feel it is my duty, my prime duty, just as we reduced inflation, to make the national cake bigger. I do not want to wake up in another 2 years and have somebody say: Why is there unemployment in Israel; why did you not prepare anything? Why did you not think? Why did you sit back complacently? Why? Because you argued over authority? Because you could not overcome bureaucracy? I have to think about tomorrow's answers, not only yesterday's questions.

[Mish'al] From what you have said so far can I draw the conclusion that you are determined, on this issue, even to the point of a government crisis?
[Peres] I am not looking for a crisis. I am looking for a solution to the genuine problems of our life. A government is created to serve the country and serve its residents and I am terribly sorry that each time we start a plan... [changes thought] and the media are also looking for reasons to criticize on this matter. Why do you not believe — if you do not believe; I hope you do believe — that I really view the future of this economy with profound concern and as our highest priority? I repeat that I am a man who has experience in the founding of factories, perhaps the largest factories in the country, and to this day they are standing and standing firm, thank goodness, and I think we must now move forward. Now I want to tell you something else.

[Mish'al] My question was — perhaps I will remind you, Mr Peres — are you prepared to move forward on this matter, even at the price of a government crisis?

[Peres] If I have to choose between a freeze in the economy at the price of no crisis and furthering the economy, even at the price of a crisis, furthering the economy comes first. The goals must lead the government. Otherwise, it is a government that is marking time.

[Shahar] Do you have a target date for achieving this?
[Peres] The problem is not a target date. First of all, I am trying to persuade, and I hope that we will persuade and we will yet raise glasses of juice to the success of the growth plan, too.

[Shahar] The debts of the Histadrut Sick Fund, Solel Boneh, and Zim, just these three bodies' debts total a horrifying sum of $1.5 billion. Such a debt is not created overnight. Why did you not deal with that crisis when you entered office?
[Peres] First of all, because there were more urgent matters, and, secondly, we knew that a plan for economic rehabilitation also has its price. For example, during an inflationary period a great deal of money is taken, a great deal of money is returned, and high interest is paid. During a period of stability — once stability is created — the interest and the shekel are suddenly taken seriously. This plan also creates problems. Now, what could we have done about Zim? What we did today we could have done a year ago. It was not the most urgent thing. Now, with regard to the Sick Fund, it is the high interest rate that has apparently eaten up the Sick Fund.

[Mish'al] Mr Peres, we are nearing the end of the economic part of our program. I thank 'Oded, and, unless you want another sentence to conclude, we will move on to the political....
[Peres, interrupting] I repeat that the matter of growth is not in contradiction to the economic plan; it is a part of it. There is no question of funneling money, nor of printing money, nor of deviating from the budget; there is a question of new ideas, as yet unacceptable, and there is also a question of additional resources, not those already in existence.

[Mish'al] With your permission we will move to other issues. Yoram, please go ahead.
[Ronen] Mr Prime Minister, next Thursday the Labor Party Central Committee will convene to discuss a proposal on canceling the rotation of the premiership. Are you unambiguously opposed to this proposal?
[Peres] Yes.

[Ronen] Why?
[Peres] Because we agreed on this and the agreement must be honored. I would like to remind you that we agreed on three matters: promoting peace, restoring the economy and bringing about economic growth -- incidentally, the word growth is mentioned in the coalition agreement -- and rotating the premiership. I am for honoring all three agreements.

[Ronen] What if one of these goals is not met? Let us say you decide that the economy is not being restored as you would like.
[Peres] If one of the goals is not carried out, it would be as if we have no agreement at all. However, I hope we reach an agreement on the economic issue. In any event, I would not like to link this subject to another issue. You asked me about the rotation, and I am telling you that the motion on the rotation of the premiership in the Labor Party Central Committee is not connected with any other issue. This is a separate issue that exists on its own merit. Therefore, I will object to this proposal, and I will voice my opinion clearly in our meeting.

JCRC
Jewish Community Relations Council
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April 1, 1986

Mr. Max Green
Special Assistant for Public Liason
The White House
Washington D.C. 20500

Dear Mr. Green,

The week of May 11-18, 1986 will mark the tenth annual celebration of national Jewish Heritage Week in New York City and across our great nation. Through this unique, multi-faceted program schoolchildren and adults join in exploring Jewish history, culture and contributions to American life.

In past years we have been honored with a White House ceremony at which the President proclaimed Jewish Heritage Week, calling upon all government officials and citizens to observe this week with appropriate ceremonies, activities and reflection. There is special significance as this year also marks the 10th anniversary of the founding of the JCRC.

We respectfully request that a White House ceremony be scheduled and hope that the President might once again present the proclamation. We are prepared to have a select delegation or a larger group present for the event. The program can be scheduled to the President's convenience, preferably in May. The opportunity might be used as well for additional briefings on domestic and international issues.

As always we are grateful for your assistance and thoughtfulness.

Sincerely yours,

Peggy
Peggy Tishman
President

Malcolm
Malcolm Hoenlein
Executive Director

Bob Abrams
Robert Abrams
Chairman
Jewish Heritage Week

CEGI

Committee for Economic Growth of Israel

Executive Office — 5301 North Ironwood Road, P.O. Box 2053
Milwaukee, Wisconsin 53201 (414) 961-1000
Israel Office — 22 Bar Ilan Street, Tel Aviv (03) 226612

April 30, 1986

Dear Friend:

We are substantially stepping up our activities in CEGI to tell 1,000 Presidents and International Vice Presidents of major U.S. companies about the opportunities that exist for them to do business in Israel.

I have felt for a long time that while we do a fair to adequate job of telling the Jewish community about business opportunities in Israel; that we need to go to the general American business community to provide information as to the benefits Israel offers -- particularly as a result of the Free Trade Agreement between the U.S. and Israel.

To accomplish this goal we have sent out a newsletter to 1,000 senior business executives in the U.S. We will send them a newsletter of the type enclosed every two months. Don't you agree that by the end of the year, we will have expanded the knowledge of the general business community about Israeli business opportunities and how American companies are taking advantage of these opportunities through operating facilities in Israel.

I hope you approve of this newsletter. I would like to receive your comments.

What can you do to be helpful? I would urge you to make five photocopies of the attached letter and send them to friends of yours in the business community who might have an interest in doing business in Israel. Add a note from you attached to the photocopy saying, "I thought you'd be interested in knowing how your company can increase its sales by operating in Israel. Here's some information of importance to you."

Thanks for pitching in. We need your help to get this letter into the hands of as many senior U.S. business executives as possible.

Very truly yours,

Elmer

Elmer L. Winter
Chairman

ELW:bb
Enclosure

lished by the Government of Israel, write for a copy to the Government of Israel Trade Center, 350 Fifth Avenue, 19th Floor, New York, NY 10118.

Arnold & Porter, a Washington, DC, legal firm, has prepared a Brief Summary on the U.S.-Israel FTA. If you wish a free copy of the summary prepared by Arnold & Porter, write for #B-44 - **"New Opportunities for Israeli Commerce: the Agreement Between the United States and Israel to Establish a Free Trade Area."**

U.S. COMMERCE DEPARTMENT OPENS ISRAEL INFORMATION CENTER. In conjunction with the new U.S.-Israel Free Trade Area Agreement, the U.S. Department of Commerce has opened its new Israel Information Center in Washington, DC.

The Center will assist U.S. companies seeking business opportunities in Israel and will provide publications and U.S.-Israel trade and investment data.

To reach the Center with specific questions about the Free Trade Area Agreement, phone (202) 377-3652/4441 from 8:30 a.m. to 5:00 p.m.

ISRAEL'S ECONOMY ON THE UPSWING. Here are the facts -- and nothing but the facts: Export figures for 1985 show a rise of 7% over 1984. Industrial exports for the period January through November totaled \$3.719 billion. Agricultural exports fell by 8%.

Israel's trade deficit shrank by 25% during the first 11 months of the year compared to the same period last year. Imports over exports totaled \$1.9 billion for the period. Foreign currency reserves are in excess of \$3 billion.

1985 exports to the U.S. exceeded \$2 billion. Reports indicate that exports from Israel to the U.S. increased by 30.3% in 1985 compared to 1984. Imports from the U.S. to Israel dropped by 5.3%. Keep in mind that the Free Trade Agreement between the U.S. and Israel did not become effective until September 1985.

The cost of living index in Israel rose by 1.6% during February 1986 after falling by 1.3% in January 1986.

Finance Minister Moday presented his economic forecast for Israel for 1986. He pointed out that Israel has reached an economic cool down with an inflation rate similar to that of several European countries.

ISRAEL TO REFUND \$51.6 MILLION TO USA. In a most unusual move, the Government of Israel offered to refund \$51.6 million to the USA to help the U.S. Government reduce its budget deficit. This voluntary pay back is in accordance with the Gramm, Rudman budget cut back program.

THE CUT IN EGYPTIAN OIL PRICES COULD SAVE ISRAEL $54 MILLION A YEAR. Egypt supplies Israel with 35-40% of its crude oil. The downward trend in world oil prices could mean that 1986 would be the first year in many in which Israel spends less than $1 billion for its oil imports.

THE GOVERNMENT OF ISRAEL HAS ISSUED A DOCUMENT OUTLINING ITS ECONOMIC POLICIES. We would be pleased to send you, without charge, a copy of the December, 1985, Government report on its proposed 1986 economic stabilization policy. The goals of the Government's budgetary policies; a revenue analysis; monetary policy; wage and income policies are all outlined in this report. Write for a free copy of **Israel's Economic Policy,** #B-45.

150 AMERICAN COMPANIES ARE AT WORK IN ISRAEL. Many of these U.S. companies are members of the Fortune 500 list. If you wish to receive a listing of these **American companies with facilities in Israel,** please write for a free copy of #B-46.

THE GOVERNMENT OF ISRAEL OFFERS UNIQUE OPPORTUNITIES TO FOREIGN COMPANIES TO PARTICIPATE IN THE COMMERCIALIZATION OF SOME OF ITS DEFENSE TECHNOLOGY. Israel is the only country that offers foreign companies an opportunity to participate in R&D and marketing of products developed by Israel's Defense Ministry. A new company, Galram, a division of Rafael (Israel's Armament Development Authority) is establishing subsidiaries for specific technologies such as electro optical devices, electronic systems, computers, etc.

RESEARCH FUNDS ARE AVAILABLE TO YOU IN ISRAEL. You can receive a 50% R&D grant through the BIRD Foundation in Israel. The Bi-national Research Development Fund (BIRD-F) was created by the U.S. and Israel in 1977 to stimulate, promote and support mutually profitable cooperation between the private sectors of U.S. and Israeli non-defense high technology industries.

The total project cost to be incurred by the U.S. and Israeli companies and to which BIRD-F will contribute 50% -- ranges from about $200,000 for a one-year project to over $2 million for a three-year project. For further information as to how you can participate in R&D in Israel and receive 50% grants, write for a free copy of the **BIRD-F Report,** #B-47.

ACTIVITIES OF U.S. COMPANIES IN ISRAEL. M/A-COM launches Israeli subsidiary: M/A-COM Telecommunications Division of M/A-COM, Inc., of San Diego, CA, has announced plans to establish a wholly-owned subsidiary in Israel. The new company, Linkabit, Ltd., will perform research and development, design implementation, and delivery of telecommunication systems to the Israeli, European and U.S. markets. Slated to be the engineering front-end of M/A-COM Telecommunications Divison in Israel, Linkabit will support design, integration, installation and servicing of systems built in the U.S. and sold to Israel and Europe.

Daisy Systems Corporation invests in Israel. Daisy Systems Corporation, the computer-aided engineering company in Sunnyvale, California, has reported the establishment of a wholly-owned subsidiary in Israel, Daisy Systems (Israel) Ltd.

During the next two years, Daisy will carry out phase one of its investment plan in Israel, which calls for planning and development of computer-aided engineering systems (CAE) in Israel. After the initial period, Daisy's Israeli plant will produce as well as service CAE systems for the European market.

Daisy is expected to invest $7 million, including $1.5 million in equipment, with projected employment for 70 people at the Israeli plant by the end of 1985.

Elisra Electronics System's Israeli sales reached $67 million in 1985. That's a new record for Elisra (a subsidiary of AEL Company of Philadelphia). This company has maintained a 20% annual sales growth in its Israeli operations. The President of AEL is Dr. Leon Riebman, Vice Chairman of CEGI.

Motorola (Israel) has developed a new communication chip. It is reported that Motorola (Israel) has developed a miniaturized integrated circuit, that makes instant communication between different types of computers possible. Produced at the specific request of the General Motors Corporation, this electronic element makes it possible to combine many different types of data processing equipment into a single integrated system.

Over the years, GM built up a large number of computer arrays, using equipment from different manufacturers to serve many different purposes. Now the giant firm finds that many of those systems are not compatible: unable to "speak to each other."

In order to solve this problem, GM asked a number of leading firms in this field to devise a technically and economically feasible solution. Although the world's leading computer firms -- among them both IBM and Digital -- participated in this effort, Motorola Semiconductors of Ramat Gan, was the first to produce a practical answer to the problem. This is now being demonstrated before GM experts in Detroit.

Motorola, an Illinois-based company, operates a number of facilities in Israel. It employs 1500 engineers, scientists and technicians in Israel.

Intel expands in Israel. A new $4m. building was recently inaugurated by Intel at the Haifa Scientific Industries Center, for the use of its design and development unit there. The company is presently also building a large production facility in Jerusalem.

Scitex establishes subsidiary with Continental Can. It is reported that Scitex Ltd. established a joint subsidiary with Continental Can Company, a leading U.S. producer of tin cans and other packaging materials. The new enterprise, initially capitalized at $1m., will develop computerized color graphics systems to meet the specific needs of package designers and manufacturers.

Scitex is an Israel high technology firm that already has gained international renown for its computerized systems for the color printing industry. Its equipment is used by many of the world's leading publishers.

A joint venture agreement was entered into between International Imaging Systems of California and Elpak 2000 Computers, Ltd. The project is budgeted at $2.1 million, half of which will be funded by the U.S.-Israel Binational Research and Development Foundation (BIRD-F).

General Electric has entered into an agreement with Comfuture Ltd. of Israel to market their Visual Information Management System -- a series of electronic LED boards composed of single, modular display units.

Grumman Data Systems has acquired the exclusive rights to provide the systems integration services for a software program developed by Central Software and Automation Ltd. This program is a facilities management and maintenance package.

Sidellity Medical Inc. of Milburn, New Jersey, will soon begin marketing an improved electrocardiograph developed by researchers at Tel Aviv University.

General Electric, in a joint venture with Luz of Israel has been awarded a $119 million contract to build a solar/coal power station in the Dominican Republic.

National Semiconductor (California): A report from Israel discloses a new generation of 32-bit microprocessors was designed and developed entirely by National Semiconductor in Israel. This puts Israel in the world center in the design and development of these products. National has invested $50 million in Israel and $4 million in its new microprocessor.

ISRAELI COMPANIES CONTINUE TO COME TO WALL STREET FOR PUBLIC FINANCING. Eshed Robotec has come to Wall Street with a "best efforts" offering to sell up to $1.75 million shares of common stock for $1.00 a share. The company manufactures an educational robot to teach students how to handle the robots they would be working with. For more information, contact the lead underwriter, Yves Hentic & Company, Inc., 30 Montgomery Street, Jersey City, New Jersey, 07302; telephone #201-451-3300.

Oshap Technologies Ltd. completed an 800,000 unit offering in the USA. Oshap raised $5.8 million. Oshap designs and manufactures automated factory systems. For more information, contact D. H. Blair, underwriter at 44 Wall Street, New York, NY 10005. Check over-the-counter listings (NASDAQ) symbol OSHUP.

U. S. Navy places order for $25.8 million in Drones from Mazlat Company of Israel. The U.S. Navy has ordered three systems of remotely controlled pilotless mini-planes (RPVs) from Mazlat. Each system includes eight planes, a land-based control station, and auxiliary equipment. The U.S. Navy reserved the right to order $50m. more equipment.

U.S. Eximbank assists National Semiconductor. The Export-Import Bank of the United States has approved financial support for $23 million in U.S. exports of high technology equipment to National Semiconductor (Israel). The equipment will be used in a new manufacturing facility that will produce and test prototypes of semiconductor wafers designed in the Israeli company's research and design center. Once the new designs have been established, the wafers will be mass produced in National Semiconductor's Arlington, Texas, plant.

THE GOVERNMENT OF ISRAEL IS CONSIDERING THE SALE OF FIVE GOVERNMENT-OWNED COMPANIES. The "Jerusalem Post" reported: "The five companies up for sale are Maman (the airport cargo clearance firm), Israel Chemicals, Zion Cables, Paz Oil and Teshet (which provides catering services to the airlines).

No decision was taken on how much of the equity in any of these companies would be up for sale, but the government's target is raising $150 million, which is to be used to finance renewed growth in the economy."

WHAT WILL ISRAEL'S ROLE BE IN THE STAR WARS PROGRAM? The "Jerusalem Post" reports: "The Israel Government is 'studying whether it needs to formalize our unequivocal willingness' to cooperate with the U.S. in its Strategic Defence Initiative, Prime Minister Peres disclosed last week. Peres noted that the U.S. Government 'has not asked us to take a formal position, in the way that Great Britain and West Germany have done. If the U.S. asks us -- we will give an unequivocally affirmative response . . . We have let it be known that Israeli companies are authorized to set up contacts with a view to participating in this research.'"

High technology firms and civilian research institutes already have submitted proposals for 28 separate R&D projects, within the framework of President Reagan's proposed Strategic Defense Initiative (SDI). While no official decision has as yet been taken on this subject at any governmental level, many are convinced that Israelis have much to contribute to such a program, and are likely to benefit from it.

It is reported that U.S. General James Abramson, head of the Strategic Defense Initiative, stated in Israel that Israeli scientists have already made useful proposals for possible Israeli contributions to Star Wars research. He pointed out, "You also have some advanced work in electronics, in electronic counter-measures, you have some people here who have ideas about advances in free electron lasers -- there is a large series about specific kinds of things ... a whole range of your technical community (the Israel aircraft industries, the Rafael weapons production industries, the Technion and the nuclear research facilities) have already presented us with some good ideas."

Two Accounting and Tax Booklets available to you. We have received two well-prepared booklets relating to doing business in Israel. These booklets have been prepared by two major Israeli accounting firms. We would be glad to send free copies of these booklets to you. Write for the following:

#B-48 - **Doing Business in Israel 1985** by Kesselman & Kesselman
#B-49 - **Manual for the Investor in Israel 1986** by Igal Brightman and Company

A large number of Israeli companies have opened sales offices in the United States to sell and service American buyers. These companies substantially have cut the lines of communication between the U.S. and Israel. We would be glad to make available to you a **Directory of Israeli Industrial and Defense Products and Services Available in the United States.** This listing gives you the products being offered; the name of the Israeli company; its U.S. representative, address, telephone number, etc. Write for a free copy #B-50.

New Solar Center will promote oil independence for Israel. Weizmann Institute of Science reports a new major effort in its search for diverse energy sources since it must import 98% of its energy from abroad. The new center will concentrate on solar energy which will be achieved by using 63 large mirrors (each one 63 sq. meters in area) all of which will reflect the sun's radiation into experimental targets.

Israeli companies are interested in barter or counter-trade. Israel has entered into a number of barters, counter-trade and counter-purchase agreements, particularly with countries who suffer from serious foreign currency shortages. Several major Israeli companies have established counter-trade subsidiaries to market products in Europe, Mexico, South America, Africa, etc. For further information on activity in this area, write for a free copy of #B-51, **a Report on Israel's Barter Programs.**

DUN'S ISSUES A REPORT ON THE 100 LARGEST COMPANIES IN ISRAEL. If you want to know about the major Israeli companies, their products, management, sales, etc., order a copy of Dun's book entitled, "Dun's Guide Israel 85/86," 105 Hahashmonaim Street, Tel Aviv, Israel.

Eilat becomes a Free Trade area. As an investment area, Eilat now enjoys the following benefits:

***Full** exemption from income and company tax for seven years following the first revenues. Afterwards, firms will be obligated to pay only a 30% company tax and no income tax.

***Dividends** are subject only to a 15% tax.

***Exemption** from inflationary capital gains tax in shekels.

***Exemption** from inflationary capital gains tax in all currencies for foreigners.

***Entrepreneurs'** assets will be exempt from property tax.

***Exemption** from city tax for the first two years of the enterprise.

***A reduction** of up to 20% in an employer's wage bill due to decreased payroll-tax payments.

These benefits apply to factories owned by a "registered entrepreneur," constructed in the free-port area, and exporting at least 90% of their output.

In essence, Eilat has become an A+ development area.

Traveling to Israel -- keep in mind the old Israeli 1,000 Shekel note is replaced by a new one Shekel coin worth about 66 cents, or 1.5 Shekels to the Dollar. This does not represent an upward valuation of the Shekel; it is simply a matter of removing three zeroes.

BOOKLETS AVAILABLE FROM CEGI. We are pleased to make available to you, without charge:

#B-52 - **12 Reasons Why You Should Open a Facility in Israel**
#B-53 - **12 Reasons Why You Should Conduct R&D in Israel**
#B-54 - **Importers of Food, Wine and Liquor from Israel**
#B-55 - **Importers of Fashion/Textile from Israel**

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CEGI'S ISAM AFFILIATE

We invite you to use the services of the Committee for Economic Growth of Israel and its affiliated company, ISAM International, if you are interested in:

1] Locating distributors in Israel;
2] Finding a joint venture partner to operate a factory in Israel;
3] Locating an Israeli company to license your technology;
4] Finding an Israeli company to manufacture OEM products for you;
5] Locating Israeli developed technology that you can license;
6] Assisting you in finding a joint venture partner to conduct R&D in Israel and obtain 50% grants.

Contact Elmer L. Winter or Charlotte Slater at the CEGI office, 5301 North Ironwood Road, Milwaukee, WI 53217, telephone 414-961-1000; or Shraga Tzur, 22 Bar Ilan Street, Tel Aviv, Israel, telephone 03-226-612.

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To: Elmer L. Winter, Chairman
COMMITTEE FOR ECONOMIC GROWTH OF ISRAEL
5301 North Ironwood Road
Milwaukee, WI 53217 USA

Dear Elmer:

In response to your newsletter, **"U.S.-Israel Business News,"** dated April 15, 1986, please send to me -- without charge -- the following:

[ ] #B-42 - What the U.S.-Israel Free Trade Agreement Means to You

[ ] #B-43 - A Plan to Sell Your Products (Duty-free) in the USA Market, Via Israel

[ ] #B-44 - New Opportunities for Israeli Commerce: the Agreement Between the United States and Israel to Establish a Free Trade Area

[ ] #B-45 - Israel's Economic Policy

[ ] #B-46 - American Companies with Facilities in Israel

[ ] #B-47 - BIRD-F Report

[ ] #B-48 - Doing Business in Israel 1985

[ ] #B-49 - Manual for the Investor in Israel 1986

[ ] #B-50 - Directory of Israeli Industrial and Defense Products and Services Available in the United States

[ ] #B-51 - Report on Israel's Barter Programs

[ ] #B-52 - 12 Reasons Why You Should Open a Facility in Israel

[ ] #B-53 - 12 Reasons Why You Should Conduct R&D in Israel

[ ] #B-54 - Importers of Food, Wine and Liquor from Israel

[ ] #B-55 - Importers of Fashion/Textile from Israel

Name ______________________ Company Name ______________________

Address ______________________ City/State/Zip Code/Country ______________________

Telephone # ______________________ Telex # ______________________

Ex

World's

Economy

WASH.POST:12-15-85

Israel as Public-Works Project

Can It Afford an Economy That Pays Its Own Way?

By Lawrence Meyer 174

JERUSALEM — With its military enemies and the plague of quadruple-digit inflation at least temporarily at bay, the Israeli government is approaching a decision of watershed dimensions that it has avoided for all the country's 37 years:

• Will it continue to build the Jewish State by using the nation's economy as a kind of massive public-works project — with all the featherbedding that the term implies?

• Or will it risk driving Jews from Israel by tolerating unemployment in order to steer Israel toward economic efficiency, encouraging enterprises that are productive and allowing those that are not to die? The goal would be building an economy that can support the Western lifestyle that Israel's citizens so clearly want.

The simple fact is that Israel's economy suffers from serious structural problems. It has a low-wage, labor-intensive Third World economy. However, it has managed — by massive borrowing — to satisfy First World tastes for such commodities as video cassette recorders, luxury automobiles and vacations abroad.

Stopping inflation — the problem that has pre-occupied both Israeli economists and the Reagan administration's policy-makers — will not change this fact. Even leaving out military expenditures, Israel will remain in serious economic trouble until it figures out how to climb out of its current stagnation, create productive jobs, export more than it imports, and pay its bills without massive handouts from abroad.

What life-support systems are to medicine, American foreign aid has become to Israeli life. Without the continuing flow of that aid — roughly 19 percent of the government's budget in 1985 — Israel would not be able to defend itself and to maintain a society that boasts five universities, sees one-seventh of its citizens travel abroad annually, has 50 percent of its work force employed in government, finance and service jobs (ranking behind only the United States and Canada — countries far more developed than Israel) and has 29 percent of its civilian workforce on the government — which is to say the public — payroll.

Compared with seven leading industrial countries (the United States, Germany, Japan, Canada, the United Kingdom, Italy and Sweden) Israel has the lowest percentage of workers employed in industrial jobs except Canada.

In its 1978 report, the Bank of Israel analyzed structural problems in the country's economy.

It found that in "recent years there has been a marked structural change in employment, with the public-services sector absorbing most of the additional manpower. Since the government's ability to siphon off more money through taxes is limited . . . and since a diminished dependence on external sources of finance [foreign aid] has become a prime national target, there is no escaping the need to reduce the share of public services in total resource use.

"In other words, the freezing, and perhaps even absolute decrease, of public sector employment is necessary for relieving pressure in the labor market and making more resources available to the business sector."

This warning was not heeded by the government of Menachem Begin. If anything, rather than reducing Israel's dependence on American foreign aid, the Likud government increased that dependence. Civilian consumption was not brought under control, even when the Israeli invasion of Lebanon in 1982 resulted in an absolute decline in productivity. Consumption in that year increased. An analysis of the distribution of employment in the Israeli economy among the various sectors finds no significant difference today from what the Bank of Israel described in 1978.

Of course there are reasons for the fix that Israel is in, reasons that make it all the more difficult to solve the problem.

One of the unique features of Israel as the Jewish State has been the role of the economy — even before the state was created — as an instrument of nation-building. In political Zionism — the ideology that saw the creation of a Jewish State as the only realistic solution to the "problem" of European Jewry — the state was the end-point. A corollary of Zionist ideology in the prestate days held that Jews should do the work, among other reasons in order to provide jobs for the Jews who were coming to Palestine in answer to Zionism's call. In the history of the United States, immigrants came here to fill jobs. In Israel's history, jobs were created to hold immigrants.

After the state was founded, full employment became a governmental goal — not simply because it was better to have able-bodied persons working, and not simply because the country was desperately in need of development, but because Jews who did not have jobs would leave Israel. In the last 10 years in Israel, unemployment has run from a low of 2.9 percent in 1979 to the current rate which is somewhere between 7 and 8 percent, although the possibility of a rate as high as 11 percent has been mentioned.

Americans have grown accustomed to unemployment rates that Israelis find high precisely because the United States government has backed away from massive spending programs to stimulate employment. To a large extent, then, Israel's economy from its early days can be viewed as a kind of ongoing public-works project.

This strategy *has* had its benefits. In its first 30 years, Israel increased its exports by 3,600 percent, to use only one index of success. An infrastructure, including roads, bridges and a complex water-supply system, was built. But there is no way to measure how much more successful the Israeli economy would have been if higher unemployment rates — in the short term at least — had been tolerable.

They were not. Where other nations might use standards of efficiency to measure the benefit of investments, Israel was willing for years to subsidize businesses that otherwise could not survive because they provided jobs. By the same token, government payrolls were padded with unnecessary workers doing non-essential jobs because economic efficiency was not a primary consideration.

Not all the jobs in Israel were make-work to be sure. Thousands of jobs were created by privately-owned (and some government-owned) companies where economic efficiency was extremely important. Israel's sophisticated high-tech industries have to compete in world markets against other companies that receive no government subsidies or help. Some of these workers, better educated and often of European descent, prospered in their private-enterprise jobs. A wealthy class developed alongside the middle class and the poor.

This situation made it especially difficult for a popularly-elected government to change policies and to begin using economic efficiency as a standard for measuring policy. As consumption among wealthier Israelis increased, the poorer class of Israelis — often "Oriental" or Sephardic Jews — began to demand their own share of the pie. A succession of Israeli governments responded by continuing the official make-work policy, supplemented by a combination of subsidies and welfare programs.

This policy would have been expensive enough without the enormous defense costs that Israel has had to bear, especially in the last 18 years.

But whatever the reasons for Israel's economic predicament, the question now is what happens next? If — and despite the optimism of many Israelis on the subject, it's still a big if — if inflation is really under control now, where does the Israeli economy go from here? The central fact of the Israeli economy is that it is not growing. Indeed, after years of growing, the Israeli economy has been contracting.

According to figures released by the government's finance ministry, Israel's national income for 1985 will be about $400 million less than it was in 1981. Israel has three clear economic choices: continued contraction, stagnation or growth. The first two are obviously undesirable, but how can growth be resumed? Since the founding of the Jewish State, a substantial amount of economic growth has been achieved by borrowing — from other countries, especially the United States, from world Jewry and from banks. In the current Israeli government budget, debt service accounts for slightly more than half of the total. As a result, in the near term at least, Israel will probably have to forego large-scale borrowing as a way to resume growth.

The other classic way of achieving economic growth is by increasing productivity, and this gets to the core of the problem: Increasing productivity in Israel would require substantial structural changes, changes that run against the Israeli ideological and political grain.

Israel has never had a year in which its exports exceeded its imports. The reason for achieving higher productivity would be to reverse this situation, turning a deficit into a surplus. If we think of productive labor as being that which brings capital into Israel — whether the job is in the industrial or service sector — then part of what Israel needs to become self-sufficient is clear. Thousands of workers now on government payrolls, or working in factories producing items under Israeli government contract, or working as social workers, are not doing productive labor under this definition. They are not helping Israel to pay its bills abroad, a vital necessity for a country that must import virtually all of its raw materials.

If it were within a government's power to wave a wand and move workers from one sector of the economy to another painlessly — that is, without unemployment — the problem still would not be solved. Israel is one of the most heavily unionized countries in the world. More than 75 percent of the Israeli workforce belongs to a union. Even white-collar workers and professionals have their union.

Virtually all the unions in Israel are components of the Histadrut, the unique labor union that is also a worker-owned industrial conglomerate and the largest non-governmental employer in Israel. Because of its size and power, and because the Histadrut pre-dated the state, it has been characterized as a state within a state.

As a labor union, the Histadrut watches out for the interest of its members, who vote for the leadership in periodic, partisan elections. And, as a labor union, the Histadrut enforces the work rules and principles it has negotiated with management to safeguard the union's idea of what is best for the workers. It will come as no surprise to anyone familiar with labor unions to say that the idea of a worker producing more without necessarily being paid more, or producing more without fully sharing in the benefit of his or her increased production does not sit well with unions.

Nor does the idea of laying people off on the basis of merit rather than seniority sit well with labor unions. Keeping a junior worker, who happens to be more capable, on the job while laying off a more senior worker is anathema to the labor-union ethic.

But that, in stark terms, is what increasing productivity is all about. What is needed now in Israel is a sea change in public policy. If the Israeli economy is ever to be self-sustaining, the Israeli government may have to tolerate a period of relatively high unemployment — perhaps 10 percent or more — and resist the temptation to create jobs to put people back to work. The whole idea of this exercise would be to let ingenuity — which Israelis have in abundance — guided by market demand, determine where Israeli workers earned their pay.

The joker in the deck is that no Israeli government — for practical as well as ideological reasons — can tolerate substantial emigration of Jews. Israel's most capable technicians, scientists and engineers are on a par with quality professionals anywhere in the Western world. If they cannot find work in Israel, they can find it abroad. It is no different for less highly-trained workers, who also take the responsibility of providing for their families no less seriously.

The other major restraint against a basic restructuring of Israel's economy is political. Israel is a democracy, albeit one at present with a government of national unity. Under the best of circumstances, it is hard for democracies to undertake programs that require long-term sacrifice by the population. Even if the government's policy is well-conceived, the temptation by the opposition party to engage in demagoguery may prove irresistible.

Given the pre-existing splits in Israeli society — between the religious and non-religious, between European and Oriental Jews, between those who would give up the West Bank for peace and those who would not — it is hard to imagine — not inconceivable, but hard to imagine — that a government could sustain a long-term policy of austerity in order to restructure the economy without unrest creating pressure to change the government.

These are the Hobson's choices facing the Israeli government. It is understandable that Israelis, and those who wish them well in the United States, may fasten on the apparent success that Israel has enjoyed in curbing inflation. But that apparent success ought not to obscure the deeper, more complex and potentially far more momentous economic problem that Israel has yet to confront.

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THE ISRAELI ECONOMY

UPDATED 04/16/86

BY

Clyde Mark

Foreign Affairs and National Defense Division

Congressional Research Service

ISSUE DEFINITION

For the first 25 years of independence, Israel sustained economic growth, full employment, rapid industrialization, and a rising standard of living despite heavy defense spending, an unfavorable balance of trade, and a doubling of the population through immigration. But today, Israel faces an economic crisis marked by triple-digit inflation, rising unemployment, a $5 billion balance of payments deficit, heavy debt servicing, and no economic growth. The new National Unity Government, led by Prime Minister Shimon Peres, has asked the United States for help in restoring Israel's economic health. The 99th Congress will be considering whether and how the United States may offer Israel assistance with its economic problems.

BACKGROUND AND POLICY ANALYSIS

This issue brief will discuss:

- -- Historical Background of the Israeli Economy
- -- Past Government Efforts to Control the Economy
- -- The Need for Economic Reforms and the National Unity Government
- -- The National Unity Government's Economic Steps
- -- U.S. Aid to Israel
- -- Congressional Considerations and Options

An Appendix follows, which includes:

Table I -- Selected Economic Indicators
Table II -- The Israeli Budget
Table III -- Israeli Trade Statistics
Table IV -- Israel's Debt and Debt Service Payments
Table V -- Israel's Capital Imports
Table VI -- U.S. Aid to Israel

For further information on related issues, see:

U.S. Assistance to Israel Issue Brief 85066
United States-Israel free Trade Area, Issue Brief 84117

HISTORICAL BACKGROUND OF THE ISRAELI ECONOMY

Israel's socialist economy is based on the premise that social equality can be provided by economic growth. The Government provided social welfare services, allocated resources, became a major partner in industrialization, and stimulated economic growth through an unrestrictive easy credit monetary policy. From 1950 to 1976, the Israeli Gross National Product (GNP) grew at an average rate of 9% per year in real terms, and the per capita GNP grew at an average rate of 4.7% per year. By 1976, per capita GNP reached $3,370, a level comparable to Spain, Italy, East Germany, and the Soviet Union. Over the same period, exports grew more than 15% per year, and industry expanded to become 30% of the GNP. In those 25 years, agricultural productivity increased an average of 9.6% per year, and the value of the crops increased

23% per year, although agriculture provided only 5% of the Gross Domestic Product. Industrialization and economic expansion were accomplished despite Israel's involvement in four wars with its Arab neighbors and the attending inordinately high defense requirements, despite an almost total absence of raw materials and natural resources, and despite the need to house, educate, train, and employ a wave of immigrants.

Israel's dynamic growth and development was assisted by an infusion of $1 billion per year in foreign capital from German reparations and restitution, gifts from world Jewry, commercial loans, Israel Bonds, and U.S. aid. The innovative Israelis utilized the foreign capital to establish a future-oriented high technology industrial base. The capital imports also allowed Israel to sustain high demand without an accompanying high inflation -- inflation averaged 6% per year for the years 1950 to 1970, low by international standards.

But, Israel's economic system also had its shortcomings. One persistent problem has been the balance of trade deficit. Resource-poor Israel must import consumer necessities and raw materials for its manufacturing industries. Since the 1948 founding of the state, imports have exceeded exports. A second problem has been the private and public borrowing to finance the growing balance of payments deficit. Israel's $24 billion foreign debt is equal to its $24 billion GNP. A third problem has been a public policy that caters to the Israeli desire for a higher standard of living, which has resulted in increasing imports of luxury goods, higher wages, and deficit spending for consumer subsidies and social programs. A fourth problem has been inflation, a "necessary evil" associated with economic growth that became a permanent fixture in the Israeli economy because of labor-management-government agreements to index wages to prices. Israeli inflation jumped from the 6% per year of the early years up to an average of 34% per year for the years 1970-1979. A fifth problem has been the heavy defense spending necessary to maintain a level of security the Israelis find acceptable. A sixth problem, which began to emerge in the late 1960s and early 1970s, is the economic dichotomy between Sephardic Jews (from Middle Eastern and North African countries) and Ashkenazi Jews (from Europe and North America). Sephardic Jews, now a majority of the population, want to maintain the social welfare system which benefits their less affluent numbers, and also want greater access to economic policy positions dominated by Ashkenazi Jews.

These and other problems approached a critical stage in the late 1970s. World recession reduced the demand for Israeli exports. World inflation raised prices of Israeli imports. Israeli economic growth stopped and productivity fell. Israeli inflation rates reached 40% in 1974, 50% in 1978, and near 80% in 1979; and consumer demand for luxury imports remained high.

PAST GOVERNMENT EFFORTS TO CONTROL THE ECONOMY

Yitzhak Rabin's Labor Government (1974-1977) tried, with partial success, to reduce imports through taxes, in the hope that reduced demand for imported consumer goods would also slow the 30%-plus inflation rate and that reduced imports would narrow the balance of payments gap. The central bank (Bank of Israel, founded 1954) adopted more restrictive monetary policies to tighten credit and absorb excess purchasing power, but high levels of government spending fueled the inflation spiral. The balance of payments deficit fell from $4 billion in 1975 to $2.6 billion in 1977, but inflation stayed in the 30% per year range.

Menachem Begin's Likud Government, elected in May 1977, wanted to reduce government involvement in the economy and rely on market forces and the private sector for economic growth, with a long-term goal of establishing a free enterprise economy. Likud envisioned selling off government enterprises to domestic and foreign investors. Finance Minister Simcha Ehrlich cut government subsidies for basic commodities (food, fuel, utilities), in order to reduce the government budget and reduce the government's role in the economy. The government raised indirect taxes, abolished currency controls, and allowed the Israeli pound to float. The plan was intended to stimulate the economy, encourage foreign investment, and increase exports. But imports increased because Israeli consumers borrowed money overseas (taking advantage of the relaxed currency controls) to finance imports of durable goods. The new wave of consumer buying increased inflation, which soon cancelled the advantage enjoyed by Israel's overseas customers when the floating pound devalued. The balance of payments gap widened and inflation climbed to 50% for 1978. (See table I in the appendixes at the end of this Issue Brief.)

New Finance Minister Yigal Hurvitz introduced the "New Economic Policy" (NEP) in 1979 to cut the budget by eliminating subsidies and reducing the government work force, to cut imports by introducing a 10% import deposit, to increase exports by dropping taxes on export industries, and to reduce inflation by imposing a 1-year freeze on all wage negotiations (hence a freeze on wages). The Bank of Israel tightened its already restrictive monetary policy by raising interest rates from 38% in 1978 to 90% in 1979 and setting an upper limit on credits to slow the wage-price inflation spiral and to reduce money in circulation. But the plan foundered for lack of political support. Histadrut, the union federation, opposed the wage freeze (without a corresponding price freeze) and the government work force reduction. Lower income people, primarily Sephardic Jews, opposed the subsidy cuts. The middle class opposed import restrictions. Other government ministries defended their budgets against reductions in funding and work force. For example, the Education Ministry, a traditional bailiwick of the religious parties, not only rejected tighter budgets and reduced work force but tried to increase its budget and raise the salaries of teachers. The government voted the teacher salary increase, in part to keep the religious parties content, and Hurvitz resigned. The NEP did increase exports by some 20%, but imports also increased and the balance of payments deficit approached the 1975 level of $4 billion. In accordance with Israeli law, the government balances the budget by borrowing from the Bank of Israel. The Bank of Israel provides the funds by printing money. The unsupported shekels (shekels replaced the pound in March 1980, a cosmetic change) fueled inflation; inflation jumped from 78% in 1979 to 131% in 1980.

1981 was an election year. New Finance Minister Yoram Aridor took steps prior to the election which had the appearance of political, rather than economic, motivation. Aridor reinstated basic commodity subsidies (reversing the Ehrlich-Hurvitz plan to reduce and eliminate subsidies) and reduced purchase taxes, including import taxes. Subsidies and lower taxes were popular with the lower and middle classes, Likud's constituency, who then had more money in their pockets to spend on luxury and durable goods, mostly imported. Likud won re-election. The temporary pause in inflation, caused by the lower taxes, was soon overtaken by the consumer buying spree and by more currency injections from the Bank of Israel, and inflation resumed its upward course. To slow inflation, Aridor reversed the policy again, cut subsidies and cut the government budget by 5% in late 1981. Inflation for the year dropped to 100%, but the balance of payments deficit climbed to $4.4 billion.

Another subsidy cut in early 1982 sent food prices and inflation up. The invasion of Lebanon in June 1982 increased government spending, stopped tourism (a major source of foreign currency and employment) and lowered industrial productivity because workers were mobilized for military duty. The government paid for the Lebanon invasion by raising the value-added tax (which was inflationary because higher prices brought automatic wage increases), by taxing stock market transactions, and by imposing a compulsory bond sale. For 1982, exports fell, imports rose, and inflation increased to 130%.

In 1983, Aridor tried to slow imports by adding a tax on foreign exchange purchases and reintroducing the import deposit -- this time at 15% of the value of the import. The Bank of Israel raised interest rates from 136% to 400%, but the restrictive monetary policy was frustrated by the continuing demand for government money infusions into the economy. In September 1983, Prime Minister Begin resigned, which added to existing uncertainty over rumors that the government was considering a tax increase, a budget cut, and a devaluation of the shekel. Israelis liquified their assets to turn shekels into dollars before the devaluation and to buy durable goods before a new wave of taxes. One available asset was bank stock; a run on bank stocks wiped out about one-third the value of the stock exchange before trading stopped and the government devalued the shekel. Banks were forced to borrow money overseas to purchase their own stocks. At that point, early October 1983, Aridor suggested "dollarization," permanently linking the shekel to the the dollar. Aridor resigned amid a public outcrying for his removal ostensibly because of his perceived unpatriotic suggestion that Israel become dependent upon the United States. For 1983, inflation reached 190% and the balance of payments deficit passed $5 billion.

New Finance Minister Yigal Cohen-Orgad, like Finance Ministers before him, believed Israel's economic salvation rested in increasing exports, reducing imports, and reducing public sector involvement in the economy by cutting the government budget. In January 1984, Cohen-Orgad introduced a $23 billion budget and asked for an across-the-board 9% cut in the budget. (See table II.) Cabinet Ministers agreed to the 9% cut in principle, but each began defending his own Ministry budget, trying to shift the cuts to other Ministries, and using what might be described as "creative accounting" to minimize the budget reductions. After the cabinet maneuvering, the proposed budget reduction amounted to between 4% and 5%. Cohen-Orgad tried another tack: an across-the-board reduction of $1 billion to be allocated by the Ministers. But the cabinet could not agree on the allocation and the maneuvering continued. The Knesset approved the full, uncut budget of $23 billion for the Israeli fiscal year 1984/1985, which began on Apr. 1, 1984.

THE NEED FOR ECONOMIC REFORMS AND THE NATIONAL UNITY GOVERNMENT

Most economists agree on steps Israel should take to resolve its economic problems:

- -- end indexing, which automatically links wages and prices in an inflationary spiral;
- -- cut the government budget;
- -- increase exports and reduce imports to end the balance of trade deficit;
- -- stop borrowing overseas, to stop the growing debt and

the growing debt servicing expense;
-- stabilize the shekel;
-- reform the tax system, both to stop tax evasion and to streamline the unwieldy tax structure;
-- reduce consumption, which means lowering the standard of living;
-- resume economic growth, primarily by restoring industrial and worker productivity; and
-- end the plague of work stoppages, union walkouts, and wildcat strikes.

Over the past several years, the government and the succession of Finance Ministers have been unwilling or unable to take these steps. Some steps are unpopular, such as reducing the budget by cutting the basic commodity subsidies. Some steps are difficult to negotiate, such as reaching an agreement among labor unions, the business community, the government, and employers to end indexing without leaving one segment at a disadvantage. Some steps are counterproductive, such as correcting the trade balance by restricting imports that could affect the production and investment imports upon which the export industry depends. Some steps may be beyond the government's capacity to monitor or implement, such as ending workers' strikes or reforming tax collection. It has been the accepted political wisdom in Israel that no government could institute all or most of the economic reforms needed and remain in office. Segments of the society, such as Sephardic Jews or business or Histadrut members or the religious parties, could rely on "their" Knesset or cabinet members to oppose changes deemed detrimental to the group. Fragile coalition governments often were held hostage by smaller parties and special interest groups that could vote against the government in a vote of confidence.

The political wisdom was confirmed when the Tami party vote to dissolve the government on Mar. 22, 1984. Tami represents poor, North African Jews. Its three Knesset members were part of the ruling Likud coalition, and controlled the social services portfolio. In early 1984, the Ministry issued a report that said poverty was growing and that poor people needed more government services. Other cabinet ministers disagreed with the report and the recommendations. According to the Jerusalem Post, Tami threatened to vote against the coalition unless the government raised the income tax threshold, provided more benefits to children, and passed a minimum wage law. When the Likud government failed to meet the demands, Tami broke ranks with the Likud coalition and voted with the Labor opposition to dissolve the Knesset.

The July 23, 1984, elections were inconclusive; neither Likud nor Labor won a majority and neither party could form a governing coalition. After six weeks of negotiations, a Labor-Likud national unity government was approved by the Knesset on Sept. 13 by a vote of 98 to 18, with one abstention. Likud controls the Finance Ministry and Labor controls the Economic Planning Ministry, the two Ministries that head an economic council composed of 10 Ministers, five from each major party. In theory, the economic council was supposed to devise an economic reform plan that would save the Israeli economy. But based on the deep-seated partisan differences and the past performance of Israeli governments acquiescing to smaller parties and interest groups, skeptics questioned Labor's and Likud's capacity to cooperate and their willingness to resist interest group pressure. Optimists believed the paramount importance of economic reform would override partisan politics and special interests.

THE NATIONAL UNITY GOVERNMENT'S ECONOMIC STEPS

The new unity government did not announce an overall plan for the economy, but a series of steps for cutting the government budget, absorbing excess purchasing power, slowing inflation and de-linking the index, reducing the balance of payments deficit, and seeking assistance from the United States.

Step One -- the Government Budget

The first step was to cut the government budget. According to Prime Minister Peres, about one-half of the $23 billion budget is committed to debt servicing and the other one-half is for government operating expenses, of which about $5 billion is for defense, $5 billion for other operating and administrative expenses, and $1.5 billion is for government subsidies for food, credit, and exports. (Note: the Prime Minister's figures, given in a speech to the Knesset on Oct. 22, 1984, differ somewhat with the government budget in table II.) Israelis believe that cutting money for debt servicing would mean defaulting on payments, which could harm Israel's credit rating. Israelis also believe that cutting defense would jeopardize Israel's security. Cutting subsidies for exports could delay the development of export industries upon which Israel depends for its economic salvation. Cutting subsidies for food, fuel, and credit, or cutting any of the welfare budget (pensions, allowances for children of poor families, unemployment payments, health benefits) could create a hardship for poorer people and trigger social unrest.

At its first meeting on Sept. 16, 1984, the cabinet authorized Finance Minister Modai to cut the budget by $1 billion, which started another round of arguments among cabinet ministers over where the cuts would fall, and triggered a series of strikes and work stoppages to protest wage cuts.

While the arguing continued, Finance Minister Modai introduced another proposal to cut $550 million from the budget. The cabinet agreed to $375 million. Of the total of $1.375 billion in cuts approved by the cabinet, only $210 million had actually been cut by mid January 1985.

The Israeli "White Paper" presented to the U.S. Government in December 1984, requesting aid for the U.S. fiscal year 1986, said Israel would cut $1.54 billion from the FY84/85 and FY85/86 budgets in two stages; the first stage cut of $1 billion from FY84/85, and the second stage cut of $540 million from FY85/86. But the document then listed cuts totalling $300 million for the first stage without an explanation of where the remaining $700 million in cuts would fall, and offered no breakdown of the second stage $540 million proposed cuts.

About Jan. 20, 1985, the Finance Minister presented the fiscal year 1985/1986 budget to the cabinet for approval; the Israeli fiscal year began Apr. 1, 1985. On Jan. 27, 1985, the cabinet approved a budget of $22.978 billion, which, according to the Ministry of Finance spokesmen, included a $1.8 billion cut. But when the FY84/85 budget of $22.708 is compared to the FY85/86 budget of $22.978, there appears to be an increase, not a cut. Finance Ministry spokesmen explained that the $1.8 billion cut is to be implemented over two years, $330 million in FY84/85 budget (which ended on Mar. 31, 1985) and the remainder, presumably $1.47 billion, in the FY85/86 budget. It is not clear how the new cut of $1.8 billion announced on Jan. 27 equates with the previously announced cabinet approved cuts of $1.375 billion for the FY84/85 budget, most of which has not yet been implemented. Also, it is not clear if the $330 million cut to be applied to the FY84/85 budget duplicates the cuts already implemented or if the figure represents additional cuts. Such questions aside, the Ministerial Committee on Economic Affairs approved a budget proposal of $22.4 billion on Feb. 20; again, no explanation of the difference between the $22.978 billion and the $22.4 billion was offered.

The budget issue became more confused on Feb. 18, 1985, when the Knesset passed a "first reading" of a $1.9 billion supplemental budget for FY84/85 that ended on Mar. 31, 1985. (Knesset bills become final after votes on each of three "readings.") A February 19 Jerusalem Post article said $400 million of the $1.9 billion supplemental was a "bookkeeping item", that has no "economic implementation." But whatever the figure, $1.9 billion or $1.5 billion, the supplemental appeared to negate any actual or planned budget cuts. The Knesset Finance Committee approved the supplemental budget on Feb. 21, 1985.

Another conflicting report appeared in the Jerusalem Post of Mar. 9, 1985, which said the FY84/85 budget was $24.2 billion, and the FY85/86 budget was $23.3 billion, with the difference between the two figures described as a "cut" of $856 million. With all the conflicting and unexplained numbers, it is difficult to know what the budget is or if there is any real attempt to cut the budget. On Mar. 29, 1985, the Knesset approved the 20 trillion shekel, $23.3 billion budget for FY85/86.

Step Two -- Reduce Purchasing Power

The Finance Ministry's second step was to reduce the public's purchasing power. On Sept. 23, 1984, Finance Minister Modai announced "preparatory steps," which he said would absorb excess money in circulation. The "steps" included a $350 million cut in government subsidies for food and fuel and a series of taxes intended to absorb money that otherwise might be spent for consumer goods. Histadrut opposed Modai's "preparatory steps" because the wage earners would be paying more for food and would pay most of the surtax on income through payroll deductions. The business community opposed the inventory, building, and equipment tax. According to the Jerusalem Post, some economists expressed doubts on the effectiveness of the business taxes because so many industries and businesses sought exemptions. finally passed the Knesset in late May 1985.

Step Three -- Balance of Payments

The next economic step addressed the balance of payments deficit. Israel averaged $4.3 billion trade deficit for the 5 years 1979-1983, but was able to pay for the extra imports by importing about $4 billion in capital each year for the same period (from U.S. aid, West German reparations, loans, and gifts from world Jewry; see table IV). The portion of imports directed at the consumer market had risen dramatically from 5% of total imports in 1980 to over 10% in 1983. Previous governments had taxed luxury consumer imports in their attempts to reduce the deficit, but without success. No government could reduce investment or production imports, the machinery and raw materials needed for Israel's industry, without injuring exports; increasing exports was Israel's hope for future economic solvency. On Oct. 2, 1984, Minister of Industry and Trade Ariel Sharon announced a 6-month ban on imports of some 50 luxury items. Import deposits on other items were raised by 25%, up to 40% of the value of the item. To avoid price-gouging and a run on inventories, the government imposed price controls on imported and comparable domestically produced items. The amount of money Israelis traveling abroad may take out of the country was reduced from $2,000 to $1,000 in an attempt to slow the drain on foreign currency reserves. (One report said 750,000 Israelis, or almost one-fifth of the population, traveled abroad in 1983.) The day Sharon announced the import ban, Oct. 2, the Jerusalem Post reported that Israel's foreign reserves fell to $1.7 billion, one-half the $3.5 billion average for the past 5 years.

But, despite its dramatic impact, the import ban could not solve Israel's trade and payments problem. The government estimated that the Oct. 2 import ban would save $700 million, but that is only 14% of the estimated $5 billion balance of payments deficit. The 6-month ban violated Israel's 1975 agreement with the European Community (EC), which allowed 3-month import bans under certain economic conditions. The EC accepted Israel's explanation of the need for the 6-month ban, and agreed not to take action against Israel. The United States also accepted the Israeli explanation; the import ban came in the midst of U.S.-Israeli negotiations for a free trade area agreement. (See CRS Issue Brief 84117, The U.S.-Israel Free Trade Area.) The import ban had its share of Israeli critics: Bank of Israel officials and some cabinet ministers opposed the ban because it would increase unemployment; some Israeli consumers wanted the banned goods; some Israeli economists believed Israeli industries would change their focus toward the domestic market and away from the export market.

The Israeli newspaper Hadashot reported on Nov. 2 that the Ministry relaxed the freeze on some imported items to stop price increases (despite the price controls) on comparable domestic items. The import ban adjustment added to the confusion of the "package deal" price-wage freeze.

In early February 1985, after the second "package deal" went into effect, the import ban was dropped two months before the intended date. No reason was given for ending the import ban early. The government also raised the travel tax from $100 to $150 for each Israeli leaving the country, added a 15% tax on the value of airplane tickets, and raised the import deposit from 40% to 60% of the value of the imported item. The government also stopped banks from paying interest on savings accounts linked to foreign currency for the first year of deposit.

Step Four -- Inflation and the Index

Reducing public purchasing power (see step 2 above) was a prelude to step 4, the general plan to reduce inflation and to de-link the index. The key to the inflation-index problem was the union-government-business "package deal," intended to freeze wages and prices, which would stop the automatic inflation inherent in the index. But the negotiators had to implement the freeze without placing any sector of the economy at a disadvantage. A price-wage freeze could erode real wages because wage increases were based on 80% of the cost-of-living index and lagged 2 months behind prices. (See table I.) For example, the 16.5% August, 1984 cost-of-living increase would result in an 11% October wage increase; the 21.4% cost-of-living increase for September meant a 17% wage increase in November. Wage earners were concerned about the decrease in buying power, the fear of growing unemployment caused by the government budget cuts, and a slowdown in the economy caused by the wage-price freeze. Similarly, a price freeze would not allow the business community to raise prices to compensate for increasing prices of imported raw materials or for higher wages. Manufacturers were concerned about declining worker productivity resulting from real wage declines and about high interest rates. The Bank of Israel dropped its annualized interest rate and began setting monthly rates. When interest reached 20% per month, businesses found borrowing prohibitive.

Package Deal I

The "package deal" signed on Nov. 2, 1984, froze all wages, prices, services, taxes, rents, and profits for 3 months. During the first month (November), wages would increase at two-thirds of the 80% of the cost of living, and during the second month the difference between the cost of living and the wage increase could not exceed 5%. Salaried workers would receive a 5% tax credit for 3 months beginning in February 1985 to compensate for the reduced cost-of-living increment. All transactions will be in shekels, not dollars as was the practice for many transactions. The "package deal" was approved by the manufacturers' association and Histadrut on Nov. 3, and proclaimed by the government on Nov. 4. No one addressed the question of what happened at the end of the 3-month freeze.

The cabinet decided on Nov. 4 to apply the freeze to subsidies, which destroyed Modai's budget-cutting program. The Industry and Trade Ministry issued a price list for some 400 items, but understated some prices because they miscalculated the value-added tax and overstated other prices (no explanation for the higher prices was offered). The Ministry recalled the first list to issue a revised list. The government also established centers for consumers to report price-gouging and seven special courts to try merchants accused of charging unauthorized high prices. And the government launched a campaign against black market trading in dollars. On Nov. 15, the October inflation rate was announced -- 24.3%, which meant a wage increase of 12.8% for December. The acrimony over subsidies, price lists, price-gouging, black market, and eroded wages led some to speculate that the "package deal" would not last through December.

Package Deal II

The government, Histadrut, and the employers began negotiations in January 1985, to arrange a new, longer range "package deal." The negotiators were encouraged by the Jan. 15 report that the cost-of-living increase for December 1984 was 3.7%, a significant drop from the 19.5% of November. The "package deal" was working. On Jan. 23, a new 8-month "package deal" was announced to begin Feb. 4, 1985. The new "package deal" provided for immediate cuts in subsidies, which meant price increases in public transportation, food, fuel, water, and electricity by an average of 13%, but these increases would not be calculated into the cost-of-living index upon which wage increases would be based. Other prices would be allowed increases of between 3 and 5%, on a case-by-case bases which, it was believed, were necessary to keep unemployment down and to reflect increased business expenses. On Feb. 24, the manufacturers announced that they would withdraw from the "package deal", but changed their minds the next day following negotiations with the government and Histadrut that decided upon a 12% subsidy price increase for March. In early March, Histadrut complained that the "package deal" was violated when the Industry and Trade Ministry released a new price list that raised prices on some 60 items by an average of 7%, well above the 3 to 5% maximum in the "package deal." The January 1985 inflation rate was 5.3% and the February rate was 13.5%.

According to a complicated formula included in the second "package deal," wages were to increase after the first three months of the year. Histadrut wanted a 13.2% wage increase for March, but the employers believed the increase should be 12%. Also, the employers wanted price increases on some 320 items, but both the government and Histadrut opposed the increases. The three parties to the "package deal" began another round of negotiations during the week of Mar. 25, 1985.

Package Deal III

Package Deal III resulted from the deadlock between the manufacturers' demand for higher prices and Histadrut's refusal to accept the price increases without a wage increase. Package Deal III, signed on Mar. 31, called for a 7% price increase on non-subsidized goods and a 15% increase in prices of subsidized goods, followed by a 2-month price freeze. At the end of the 2-month freeze, prices of non-subsidized goods would increase by 80% of the amount the shekel devalued over the 2-month period, and the price of subsidized goods would increase by the full amount of the shekel devaluation over the 2-month freeze. (Note: on Jan. 4, 1985, the exchange rate was 648.38 shekels to one dollar, and on Mar. 1 was 765.96 shekels to one dollar, and on May 1 was 954.35 shekels to the dollar.) The March inflation rate was 12.1%, and the April inflation rate shot up to 19.4% for the month. Following the June 1 end to the 2-month freeze, subsidies were cut and prices went up by about 25% which led many to believe the June inflation rate would be as high as April. A cabinet decision announced on May 19 pledged to continue "Package deal III for another two months".

Cabinet Decisions, May 19, 1985

On May 19, 1985, the cabinet approved some 20 proposals for economic reforms, including a 10% decrease in income tax, a 5% decrease in employer's tax, a 2% increase in the value added tax (from 15% to 17%), a 10% to 20% increase in purchase tax for imported luxury goods, a 3-month freeze on government transactions, an increase in rent for government-owned housing, a $150 increase in travel tax (from $150 to $300), a $200 reduction in overseas travel allowance (from $1000 to $800), a 3-year phased end to the Bank of Israel financing government deficits, and others. The income and employer's tax reductions will reduce government revenues, thus exacerbating the government budget deficit, and could stimulate consumer spending, thus increasing inflation. But the government believes the revenue loss will be offset by the VAT increase, and that higher rents, import and travel taxes, and the government transaction freeze will reduce consumer buying power and reduce inflationary pressures.

Finance Minister Modai said on May 19 that the proposals were part of an economic recovery plan that also included a government budget cut, continuation of the package deal, and protecting foreign exchange reserves. But, on May 21, Modai said the approach toward economic recovery would be gradual, rather than by introducing an economic reform plan. Modai said the government would not abolish the wage-price index or devalue the shekel, steps that many economists, including Secretary of State Shultz, believe are necessary to restore Israel's economic health. Some cabinet ministers said the cabinet proposals were part of an economic reform plan, while others called for Modai's resignation because he had not introduced an economic reform plan. plan. The most critical of the proposals for Israel's long-term economic recovery appears to be the Bank of Israel law, currently before the Knesset, which would end the government's practice of financing the budget deficit by borrowing money from the Bank (which prints the money it loans to the government).

Cabinet Decisions, July 1, 1985

Inflation dropped from the 19.4% rate of April to 6.8% in May, an indication that the "package deal III" freeze was working, but the lower rate (below 12%) also meant that workers would not receive a cost of living increase in June. Manufacturers complained that prices did not go up enough, while wage earners complained that wages remained too low. The freeze coupled with the June 1 price increases, both in accordance with the May 19 cabinet decision, triggered another series of wildcat strikes, walk-outs, and work slow-downs. On June 14, Finance Minister Modai announced he would not recommend another extension of the package deal beyond the end of July because he hoped to have his economic plan ready. On June 22, the manufacturers announced they would withdraw from "package deal III" on July 5. "Package deal III" had collapsed and the cabinet began a series of late-night sessions to head off the crisis.

On July 1, the cabinet announced a one-year economic stabilization program, the first three months of which was an emergency period. For the emergency period, during which the cabinet hoped to reduce the inflation rate, the cabinet proposed:

-- to cut the budget by $750 million on an annual basis (it was not clear if the cut was $750 million or $562.5 million because the year was one-quarter gone);
-- to devalue the shekel by 18.8% (the new exchange rate was 1,500 shekels to the dollar);
-- to levy a one-time 8.3% tax on corporations and self-employed persons;
-- to levy a tax on luxury apartments;
-- to pay compensation to low wage earners to reduce adverse effects on real wages;
-- to fire 3% (10,000) of the government workers; and
-- to freeze wages and prices for three months (through September) following a subsidy cut and price increase effective July 2.

The subsidy cut increased food prices between 45% and 75%, and the across-the-board price increase on non-subsidized goods averaged 17%; the total price increase for both subsidized and non-subsidized goods and services averaged 24%.

Histadrut called a 24-hour general strike for July 2 to protest the government's move, which apparently had some effect -- the government postponed the dismissal of the 10,000 public service workers for two weeks.

The emergency plan touched off a new round of cabinet discord, with some Ministers calling for Deputy Prime Minister Levy's resignation because he would not support the plan, other Ministers complaining that the defense budget should be cut while Defense Minister Rabin called for cuts in other Ministries, most Ministers defending workers in their Ministries against the proposed dismissals, and rumored divisions within the Labor party and in Likud (the Liberals threatened to leave but later voted to stay in the Likud coalition). Over the next month, the debate raged around the supplemental payments to workers and the dismissal of the government workers. After a July 3 shouting match between Finance Minister Modai and Histadrut chairman Qessar on a television interview program, the two began negotiations to resolve the supplemental payment and dismissal questions. By early August, it had been agreed that government workers would receive a supplemental payment for their July wages of 14% rather than 11% as compensation for higher food prices; the 14% was the same as received by private sector workers. But in exchange for the supplemental, the Histadrut agreed to a phased reduction in the government workforce of 6% (or about 20,000 workers), a 3% reduction immediately and another 3% at some undetermined point in the future. The compromise caused divisions within the union federation; civil service and clerical workers threatened to go to court to enforce the Civil Service Law that states that a total of 96 days must elapse before a government worker can be dismissed (counting notification, negotiation, and appeal time). By mid-August, the compromise appeared to be in place, with the union threat to challenge the arrangement fading. But no action had been taken to begin the government worker dismissals. During the course of the negotiations, the Central Bureau of Statistics announced the June inflation rate of 14.9%. The July rate, announced on Aug. 15, was 27.5%, Israel's highest inflation rate and a sobering reminder that the purpose of the emergency plan was to cut inflation.

The inflation rate for August dropped to 3.9%. Foreign currency reserves, which remained at the $2 billion level through August, rose to $2.423 billion after Sept. 12, when the United States transferred $750 million of the $1.5 billion in supplemental FY85 assistance. Maariv reported on Sept. 19 that the Finance Ministry used about $200 million to pay outstanding debts, placed some in the foreign reserve account, and according to "government sources," invested the remainder of the $750 million to earn interest. Maariv said the Finance Ministry was undecided on what to do with the remaining supplemental assistance and with the $1.2 billion FY86 U.S. assistance due in October. The trade deficit dropped by 27% for the first eight months of 1985 compared to 1984 (imports of $5.232 billion against exports of $3.778 billion) and Finance Minister Modai predicted that the trade deficit would be reduced by $800 million for the year. Prime Minister Peres told an interviewer on Sept. 6, that the GNP would grow at a rate of 3% for the year, a significant increase given the zero growth of last year. The Jerusalem Post reported on Sept. 7 that 288,400 Israelis traveled abroad from January through July 1985, compared to 381,000 for the same period last year, a sign that the travel tax was working.

But, against the good news, other reports showed the Israeli recovery still had problems. A Finance Ministry report released in mid-Sept. said unemployment reached 8%, or 115,000 wage earners out of work; the report came out the same day the first 2,000 government worker dismissal notices were delivered. The number of people below the poverty line increased by 25% over the past year. And, the Finance Ministry was reminded that the bank shares held from the 1983 crash could be redeemed in October 1985, at a potential cost to the government of $677 million. Modai told the Knesset on Oct. 15 that real wages had decreased to 1980 levels, and should stay down through the next fiscal year. On Oct. 30, 1985, the United States gave Israel $1.2 billion in economic assistance grants for FY86, which raised Israel's foreign exchange reserves to about $3.2 billion.

The July cabinet decisions began to have an effect on inflation. The

September rate was 3%, October rate was 4.7%, and the November rate was 0.5% for the month, and the Finance Ministry announced that the price freeze would be extended until the end of the Israeli fiscal year, Apr. 1, 1986. In mid-December, Finance Minister Modai announced his "nominal plan," steps he hoped to implement to ensure economic stability; to end the index during 1986, except for a wage-productivity index; to implement more budget cuts; to end the Bank of Israel interjections to finance budget deficits; and to aid automatic price increases. Modai announced his proposed budget for the Israeli fiscal year to begin on Apr. 1, 1986, of $21.4 billion, which appeared to be a reduction from the $23 billion levels of the previous two years. But Israeli economists pointed out that the shekel-dollar exchange rates were low and that the new budget was about the same as the current year. Government borrowing from the Bank of Israel fell off during the last quarter of 1985, which helped slow inflation and stabilized the shekel. Preliminary trade data suggested that imports fell and exports grew for the second and third quarters of 1985, which was good news for the balance of trade deficit. Modai's intention to extend the price freeze could be undermined by the wage compensation payments to low income wages earners, due to be paid December through February, and the predicted complaint of the manufacturers that prices should be increased as well. 1985 ended on a positive note: the December inflation rate was 1.3%, for an annual rate for calendar year 1985 of 182.5%, well below the 1984 rate of 445%.

1986

The year 1986 began well. Cost of living for January decreased 1.3% (that is, minus 1.3% for the month) and inflation for February increased by 1.5%; the monthly average for the previous seven months (August 1985-February 1986) was 1.95% per month. Preliminary trade figures for calendar year 1985 showed a trade deficit of $2 billion, less than one half the trade deficits for each of the previous five years. Unemployment began dropping from the 7% to 8% range of late 1985 to a 6% range in early 1986. The budget, which passed its first Knesset reading on Jan. 21, 1986, appeared to be lower than the 1985-1986 budget.

But two other issues, connected to the budget, reopened the political sparring among cabinet ministers. First, some cabinet ministers wanted to drop the Lavi fighter aircraft program and use the U.S. aid that is financing the project for other defense expenditures. Lavi opponents assumed that the U.S. aid, an earmarked $300 million for FY86, would be available for defense expenditure in Israel even if the Lavi program ended. Lavi proponents wanted to continue the program, first because in their judgement Israel needed the plane, and second because they were not certain that the United States would allow the $300 million for Israeli defense expenditures other than the Lavi. The debate was resolved by Defense Minister Rabin who said that the Lavi program would continue.

The second issue revolved around Prime Minister Peres' plan to form a cabinet committee to administer a fund for economic growth. Peres, not Finance Minister Modai, would administer the fund. Modai and others opposed the Peres proposal because, in their view, the economy was not sufficiently stable to support an economic growth plan. The argument over the growth plan was more than economic: some observers said Peres was trying to use the growth fund to support Histadrut industries, such as the financially crippled construction company Solel Boneh, in order to gain favor among the union members for an election bid before the planned change to the Likud-led government in September 1986. Peres supporters claimed that Likud opposed his economic growth plan because Likud wanted to wait until after the September change-over in order to claim the credit for themselves. Also, Modai wanted to use government funds, about $500 million, for the economically depressed "development towns," Likud political strongholds, and Peres claimed he would raise the $500 million for the economic growth fund from U.S. investors and the U.S. aid program. The debate over whether or not to have an economic growth fund, who would finance it, and the targets for the funds became acrimonious and sent the two sides, Labor and Likud, into late-night negotiating sessions. Progress on the budget waited for a resolution of the economic growth plan. The budget battle was resolved on March 31, when the two sides agreed to a compromise: Likud's leaner budget in exchange for a $450 million fund to bail out Solel Boneh and other sick industries. The budget for 1986/1987 was $20 billion, about $3 billion less than budgets for the previous two years. On Apr. 5, 1986, Finance Minister Modai accused Prime Minister Peres of using the budget to favor labor-related industries. Peres demanded Modai's resignation because he had violated the coalition agreement not to criticize cabinet members. On Apr. 13, 1986, after a week of negotiations, threats to bring down the government, and more accusations, Likud agreed to switch Justice Minister Nism and Finance Minister Modai.

The Economic Steps -- a Scorecard

After nineteen months in office, the national unity government's economic performance received mixed reviews. On the positive side, the government approved some budget cuts and promised to make further cuts. The import ban and import taxes reduced the balance of payments deficit. The "package deals" and the emergency measures were necessary first steps toward dismantling the index. On the negative side, government has waffled in implementing the so-called steps. At best only 15% of the budget cuts approved have been implemented, and those cuts may have been negated by the budget supplemental. Cabinet infighting continues, and special interest groups maintain their influence. All of the special taxes intended to reduce purchasing power have not passed the Knesset. The import ban was dropped early and may have been too symbolic, affecting only a small segment of the balance of payments problem. After a good start the "package deals" collapsed with prices rising higher than the agreements allowed. Strikes and work slow-downs continue. Foreign exchange reserves were kept above $2 billion only by U.S. aid. Israel's economic future will depend upon the government's ability to handle growing unemployment, to institute FY86/87 budget cuts, to capitalize on the wage-price freeze to end the index, and to rectify the balance of trade.

U.S. AID TO ISRAEL FY86

(See Issue Brief 85066, U.S. Assistance to Israel.) The United States and Israel agree that Israel will have to save itself through economic reforms and that U.S. aid might help in implementing those reforms. An Israeli-U.S. economic advisory commission began meeting in early November 1984, and continues to meet to discuss aid and economic reforms.

The Israeli Request

In what may be described as the fifth preliminary step toward economic recovery, Israel requested assistance from the United States. The Israeli request, presented in December 1984, had three significant aspects. First, Israel asked for an additional $800 million economic grant for the current year, U.S. FY85, to raise economic aid to $2 billion and total aid for FY85 to $3.4 billion. The $800 million supplemental aid appeared to be the "bail out fund" sought by Israel as reported in the press since August 1984. Second, Israel asked for significant increases in both military and economic assistance for FY86; $1.85 billion in economic (FY85 was $1.2 billion) and $2.2 billion in military (FY85 was $1.4 billion), for a total for FY86 of $4.05 billion. Third, Israel asked that the FY85 supplemental and the FY86 aid be all grant, that the FY86 aid be made available to Israel in the first quarter of FY86 (Oct.-Dec., 1985), and that $250 million of the military aid be made available in Israel for development of the Lavi aircraft.

The U.S. Administration Request to Congress

The Administration budget request presented to Congress on Feb. 4, 1985, included a request for $1.8 billion in military grants for FY86 for Israel. The Administration submitted a second request on May 15, for $1.2 billion in economic grants and a $1.5 billion FY85 supplemental economic grant.

Congressional Action P.L. 99-83, signed on Aug. 8, 1985, included $1.5 billion supplemental for FY85, and $1.2 billion ESF grants and $1.8 billion FMS grants for FY86 and FY87 for Israel. P.L. 99-88, signed on Aug. 15, 1985, appropriated $1.5 billion supplemental aid for Israel for FY85. Israel received $750 million on Sept. 12, 1985, and will receive the other $750 million in 1986.

On May 22, the House Appropriation Committee reported H.R. 2577 (H.Rept. 99-142), a supplemental FY85 appropriation that included $1.5 billion for Israel. The House passed H.R. 2577 on June 12 by a vote of 271 to 156. The Senate passed H.R. 2577 on June 20 by voice vote. The House agreed to the conference report (H.Rept. 99-236) on July 31 by a vote of 320-106, and the Senate agreed to the conference on Aug. 1 by a voice vote. The President signed the bill on Aug. 15, 1985, P.L. 99-88. Israel received $750 million of the $1.5 billion supplemental on Sept. 12, 1985.

The House Appropriations Committee approved H.R. 3228 (H.Rept. 99-252) on Aug. 1, 1985, which included $1.8 billion in FMS grants and $1.2 billion in ESF grants for Israel.

The Senate Appropriations Committee reported S. 1816 on Oct. 31, 1985 (S.Rept. 99-167) which included $1.2 billion in ESF grants, $1.8 billion in FMS grants, and $532 million in debt reduction. If it had passed, the $532 million would have reimbursed the Federal Financing Bank for the difference between the 11% interest and 5% interest owed by Israel to the U.S. for past loans. The measure would, in effect, "buy down" the interest rate and relieve Israel of repaying $532 million owed to the U.S.

The continuing resolution for FY86, signed by the President on Dec. 19, 1985 (P.L. 99-190), appropriated $1.2 billion in ESF and $1.8 billion in FMS for Israel for FY86. (It should be noted that the $1.2 billion ESF grant had already been paid to Israel on Oct. 30, 1985.) Of the $1.8 billion FMS grants, $150 million is for Lavi research and development in the United States and $300 million is for Lavi and other procurement in Israel. The Gramm-Rudman-Hollings law reduced Israel's FY86 aid to $1.148 billion ESF and $1.723 billion FMS.

=U.S. AID TO ISRAEL -- FY87

Early in December 1985, Israeli and U.S. government officials began discussing aid for Israel for FY87 based on an Israeli request submitted to the United States. In their presentation, the Israelis stated that they needed $1.29 billion in economic assistance and $2.305 in military assistance to meet financing requirements for FY87, plus an additional $98 million to meet a FY86 military financing shortfall. Israel requested that the $1.3 billion ESF be a grant and that it be disbursed to Israel in the first quarter of the U.S. 1987 fiscal year (Oct.-Dec. 1986). Israel also requested that the $2.4 billion FMS be a grant and that $300 million of the total be transferred to Israel for procurement for the Lavi aircraft and other Israeli procurement needs.

According to press accounts, Israeli and U.S. officials "agreed" during the December 1985 discussions that Israel's aid for FY87 should be $1.2 billion in ESF grants and $1.8 billion in FMS grants.

CONGRESSIONAL CONSIDERATIONS AND OPTIONS

1. Should the United States set economic conditions on aid to Israel?

The United States might condition assistance on Israeli actions to end the wage-price index, reduce the standard of living, implement budget cuts, reform income tax collection, stabilize the currency, or other long-term economic reforms. One suggestion along these lines has been an "IMF approach," based on the model of the International Monetary Fund recommending reforms for a nation and providing capital in installments as the suggested reforms are implemented ("performance before aid"). Theoretically, the United States and Israel would agree on a long-term economic plan, including a U.S. contribution, and the U.S. assistance to Israel would be provided as the steps were implemented.

Critics of the "IMF approach" say the United States should provide assistance and allow Israel to implement its own reforms without U.S. pressure ("aid before performance"). Other critics say the United States will take over the Israeli economy. But, supporters of economic conditions say that the levels of U.S. aid combined with the fragility of the Israeli government and its capacity to manage the economy dictate that the United States receive some assurances of substantial economic progress before giving Israel more aid. Apparently, the U.S. Administration adopted a "performance before aid" approach as evidenced by the delay in presenting the request for FY85 supplemental and FY86 economic aid to Congress. The Congress apparently took the opposite approach, providing aid to Israel without conditions.

2. Could U.S. assistance take another form?

Israel owes the United States about $1 billion per year for the next four years (1985-1988) as payments on Israel's $10 billion debt to the United States. (See table IV.) There have been various suggestions on ways to relieve Israel of those payments: reschedule the debt payments to allow smaller annual payments spread out over a longer time span; waive or cancel payments for certain years; postpone payments until a later date; cancel all or part of the debt; or provide Israel with the money to make the payments. (Section 534 of P.L. 98-473, the Continuing Resolution for FY85, states that it is the U.S. "policy and intention" that ESF aid shall not be less than the amount Israel owes the United States.) Some Israeli Finance Ministry officials oppose any waivers or debt rescheduling because it would have an adverse affect on Israeli credit. Skeptics point out that waiving debt payments will release Israel from a temporary burden but will not help Israel resolve its long-term economic problems. Also, Congress will have to appropriate an amount equal to the cancelled debt to balance the books because at least some of the loans were off-budget.

On Apr. 4, 1985, Senator Daniel Inouye announced that he would introduce an amendment to an appropriation act to "buy down" the Israeli debt by reducing the interest rate from 11% to 5%. The proposal would cost about $3.9 billion. The Senate Appropriations Bill for foreign assistance (S. 1816, reported on Oct. 31, 1985) included $532 million to "buy down" Israel's debt repayment for FY86, but the bill was not considered, and aid to Israel was provided through a continuing resolution.

TABLE I
Israel: Selected Economic Indicators

Calendar Years	1978	1979	1980	1981	1982	1983	1984	Forecast 1985
GNP Real Growth Rate % per year	5.2	4.9	2.3	4.6	0	0.9	0.9	2.0
Balance of Payments deficit, billion $	-3.349	-3.883	-3.927	-4.430	-4.747	-5.106	-4.755	-4.315
Foreign Exchange Reserve billion $	2.678	3.120	3.394	3.542	3.836	3.694	3.098	3.190 1/
Industrial Production % increase/decrease (-)	5.7	4.9	-3.9	6.3	0.3	2.7	4.2	4.0
Worker Productivity % increase/decrease (-)	1.0	0.8	1.3	2.5	-1.6	1.8	-1.5	4.0
Unemployment Rate %	3.6	2.9	4.8	5.1	5.0	4.5	5.9	8.0
Labor force (million workers)	1.252	1.286	1.340	1.367	1.379	1.402	1.444	1.477
Average Wage Index % per year increase	N.A.	N.A.	126.6	137.1	116.6	142.7	-0.8	-6.5
Consumer Price Index % increase	51	78	133	102	132	191	445	183 2/
Wholesale Price Index % per year increase	53.2	79.0	135.1	122.8	125.7	144.4	396.5	?
Money Supply, bil. shkls. 3/	2.7	3.5	7.0	12.5	26.4	57.6	256.6	?
Exchange Rate, shekels 3/ per dollar, end of year	1.90	3.54	7.55	15.60	33.65	107.70	627.86	1500.00 4/

1/ Reserves had fallen below $2 bil. in September 1985, before transfer of $750 million in supplemental FY85 U.S. aid.
2/ Preliminary figure for calendar year 1985.
3/ In March 1980, Israel changed from pounds to shekels at a rate of 10 pounds per 1 shekel. Figures for 1978 and 1979 have been converted to shekels for convenience. On 4 Sept. 1985, Israel introduced the "new" shekel, dropping 3 zeros from the old shekel. Figures cited here in old shekels.
4/ Exchange rate fixed by cabinet, 1 July 1985.

urces: U.S. Department of Commerce. International Trade Administration. Foreign Economic Trends and their implications for the United States, Israel. Issued annually. 1978-1985.
Israel. Ministry of Finance. Israel's Need for U.S. Aid for Fiscal year 1986. Dec. 1984.
Israel. Central Bureau of Statistics. Statistical Abstract of Israel, 1982. Jerusalem, 1982.

TABLE IV
ISRAELI FOREIGN DEBT AND DEBT SERVICING
(Billions of Dollars)

	1981	1982	1983	1984	1985 Estimate	Forecast 1986	1987	1988	1989
Total Foreign Debt 1/	18.230	20.920	22.784	23.391	23.440	23.385	23.145	22.905	22.535
of which: Short Term	2.390	3.210	3.685	3.498	3.450	3.350	3.250	3.250	3.250
of total: Amount owed to U.S. Government	N.A.	8.287	9.225	9.997	10.140	10.505	10.390	10.185	9.890
Total Annual Debt Service	3.325	3.670	3.454	3.903	4.105	4.065	4.120	4.080	4.225
of which: Owed to U.S. Government	N.A.	.908	.927	1.025	1.065	1.100	1.175	1.215	1.300

1/ According to U.S.A.I.D., Bureau of Near East, Economic Report on Israel, dated April 1984, Israel's foreign debt was broken down as follows:

	1980	1981	1982	1983
Private (includes Israel overseas bank liabilities)	$5.8	5.9	7.7	8.5
Public (Israel Government)	10.7	12.3	13.2	14.6
Total Foreign Debt	$16.5	18.2	20.9	23.1

Sources: Israel. Ministry of Finance. Israel's need for U.S. aid for fiscal year 1985. Jerusalem, December 1983. p. 76-77 (data for years 1980-1982).

__________. Israel's need for U.S. aid for fiscal year 1987. Jerusalem, December 1985, p. 58-59 (data for years 1983-1989).

TABLE V
ISRAEL'S CAPITAL IMPORTS
(billion dollars)
(calendar years)

	1981	1982	1983	1984	Estimate 1985	Projected 1986	1987	1988	1989
Unilateral Transfers	1.514	1.362	1.244	1.072	1.040	1.030	1.030	1.030	1.030
Gross Foreign Investment	.096	.159	.839 1/	.024	.030	.050	.060	.060	.080
Israel Bonds	.518	.557	.491	.407	.500	.500	.500	.500	.500
Medium/Long Term Loans	.728	.643	1.031	.852	.540	.540	.640	.660	.690
U.S. Aid	2.533	2.329	2.651	3.169 2/	3.915 2/	4.770 2/			
Total Gross Capital Imports	5.389	5.050	6.256	5.524	6.025	6.890			
less Medium/Long term debt maturities and investment repatriation	-1.310	-1.190	-1.228	-1.113	-1.320	-1.480	-1.510	-1.485	-1.640
Net Capital Imports	4.079	3.850	5.028	4.411	4.705	5.410			

1/ Includes some $800 million transfered by Israeli commercial banks from their overseas branches to Israel to support bank shares during the stock market crash of October 1983.

2/ U.S. aid, as defined by Israel, includes supplemental assistance, unutilized aid from previous years, and Israeli assistance "needs," not U.S. actual obligations.

Sources: Israel. Ministry of Finance. Israel's need for U.S. aid for fiscal year 1985. Jerusalem, December 1983. p. 75. (data for 1981 and 1982).

__________. Israel's need for U.S. aid for fiscal year 1986, Jerusalem, December 1984, p. 74 (data for year 1983).

__________. Israel's need for U.S. aid for fiscal year 1987, Jerusalem, December 1985, p. 57 (data for years 1984-1989).

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Friday

WASHINGTON POST 12 DECEMBER 1986 Pg.1

Israeli Economy Depends on No-Questions-Asked Arms Sales

By Glenn Frankel
Washington Post Foreign Service

JERUSALEM, Dec. 11—When the Carter administration cut off military aid to the rightist regime of Guatemala because it refused to accept human rights requirements, Israel was one of several countries that filled the gap. Today Guatemalan troops wear Israeli uniforms, tote Israeli automatic rifles and conduct counterinsurgency operations learned from Israeli instructors.

When the contra rebels in Nicaragua faced a congressionally mandated cutoff of U.S. aid, Israel was one of the countries the CIA turned to. Private Israeli arms merchants—one of whom was later involved in the secret White House arms sales to Iran—sold the contras light arms funneled through Honduras at around the same time that Washington sources have said Israel's government supplied several million dollars in aid at the behest of CIA Director William J. Casey.

When the United Nations ratified a mandatory arms embargo against South Africa in 1977, Israel was one of the states that quietly defied the ban by maintaining its own pipeline of military equipment to the white minority government there, according to informed sources here and in South Africa. Last July, South Africa unveiled a new jet fighter bearing an uncanny resemblance to the Israeli Kfir, and an Israeli Cabinet minister privately has confirmed that key parts of the plane are indeed the same.

While Israel publicly has denied involvement in each of the above cases, senior officials privately concede that such deals take place.

The justifications they offer include the need to support friendly regimes in an international climate hostile to Israel; the need to honor requests and aid the interests of the United States, Israel's chief ally, and the role arms sales can play in providing a form of life insurance for small, vulnerable Jewish communities in Third World states.

But another factor invariably has come to dominate Israel's decisions about where and to whom it should sell arms: the economic imperative.

Israel's drive to develop one of the world's most sophisticated and competitive arms industries compelled it to become a weapons exporter in order to help foot the bill. And its drive to maintain and constantly improve that industry at a time of economic hardship has pressed the Jewish state to search for new customers and, at times, seek opportunities and take risks that larger and wealthier arms exporters might avoid.

We're not doing anything different than a dozen other countries I could name," said a senior Israeli official who asked not to be identified.

"We just get a lot more scrutiny than the others. The fact is that there's a highly competitive arms market and either you sell what you can and not ask too many questions about where it's all going or you lose out."

Such sales have helped give Israel "global reach" far beyond what a postage stamp-sized nation of 4 million could otherwise expect to wield, says Prof. Aaron Klieman, a Tel Aviv University political scientist and expert on arms sales. "Conventional arms have been converted by Israel into unconventional diplomacy," he wrote in a recent study.

But critics contend Israel's reliance on its defense industry has given arms dealers too much power over government policy and tarnished the country's image.

"The needs of the arms manufacturing establishment dictate much of Israel's foreign policy," said Yossi Sarid, a left-wing Knesset deputy who sits on the parliament's key foreign affairs and defense committee. He called this phenomenon "unfortunate and very dangerous."

The controversy over Israel's role in brokering the arms-for-hostages exchange between the United States and Iran—and the disclosures, still denied by officials here, that Israel sold millions of dollars in weapons and spare parts to the Khomeini regime long before the exchange began in 1985—has focused unusual public attention on a vast part of Israeli society that generally has remained hidden from view. It has exposed a shadowy world of middlemen that the government can use to obscure its role in arms dealings it prefers to conceal.

It has also exposed the cold pragmatism that is at the core of Israel's arms sales policy.

"If an Iranian regime is friendly, we let them have arms to celebrate the friendship," says senior statesman Abba Eban, chairman of the Knesset foreign affairs and defense committee and a subdued but persistent critic of Israel's role in the Iran affair. "But if it is hostile, we let them have arms to mitigate the hostility. We end up in a situation where the selling of arms is the only constant."

Officials here like to emphasize that, compared with the world's arms giants, Israel is a small fish. It is ranked by experts between 9th and 15th worldwide, depending on the source.

"When it comes to arms sales, you won't find Israel near the top of any list," said former defense minister Moshe Arens in an interview before the Iran affair became public.

But a more revealing figure to some analysts is that Israel's estimated $1.2 billion in annual arms sales and security services now amounts to nearly one-fourth of its total industrial exports. The country's defense industry employs between 140,000 and 200,000 people to make and sell arms—roughly 10 percent of the country's work force.

In its early days, Israel's defense industry manufactured light arms and refitted other nations' aircraft and tanks. But these days Israel is identified more with "big ticket" items such as high-performance aircraft and tanks, missile systems, radar and small naval craft—all of it battle-tested in Arab-Israeli wars.

Lately it has also moved into the business of terrorism control. An estimated 30 private military consulting agencies have sprung up in recent years, manned by former career military officers. The officers retain their commissions while

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on reserve status and offer services ranging from setting up security systems for hotel chains and supplying bodyguards to VIPs to training police or antiterror units in Third World nations.

Recent incidents have caused embarrassment to the government, including charges in New York that a retired Israeli general was involved in an illegal scheme to peddle $2.5 billion worth of warplanes and other military hardware to Iran. Such incidents led Defense Minister Yitzhak Rabin earlier this year to issue a new set of regulations tightening restrictions on foreign arms deals.

Nonetheless, industry sources say the pressure to sell abroad has actually increased due to extensive cuts in Israel's defense budget at a time when the nation is seeking to cure its chronic economic ills through fiscal austerity. One smaller producer of jet engines, Bet Shemesh, is already in receivership and several other defense companies are said to be tottering on the brink.

To make those foreign sales, companies rely upon extensive networks of contact men and go-betweens. Among those middlemen are estimated to be between 700 and 800 former career military officers whose training and work experience qualifies them for little else. These are the kind of men that the government itself turned to when seeking to forge the Iran connection, and they have been active for many years in areas such as Central and Latin America and Africa.

The Israeli connection in Nicaragua dates back nearly 40 years, to the time when the late Nicaraguan president Anastasio Somoza Garcia provided diplomatic cover for arms smuggling to the Jewish underground in Palestine and a U.N. vote in favor of the creation of the Jewish state.

Israel maintained arms shipments to the regime of Somoza's beleaguered son and heir, Anastasio Somoza Debayle, long after the United States and many other western nations had ceased. Indeed, a strong warning from the Carter administration compelled Jerusalem to order back to port two shiploads of arms on their way to Somoza in 1979, an event that the deposed dictator later cited as one of the reasons he finally fled the country.

Israel has repeatedly denied any involvement with the contra rebels, although Prime Minister Yitzhak Shamir has frequently criticized Nicaragua's Sandista regime for its support of the Palestine Liberation Organization. Defense Minister Rabin told the Israeli Knesset last week in a carefully worded statement that Israel "does not maintain contacts or ties with the rebels in Nicaragua. Nor does it supply arms from here to them. Israel did not grant permission to any Israeli to assist, supply know-how or sell weapons from Israel to the rebels in Nicaragua."

But informed sources here contend Israeli shipments to the contras may date back as far as 1982, when the rebels began using large quantities of Soviet-made AK47 automatic rifles said to have been captured by the Israelis in Lebanon. Later shipments reportedly took place in 1984, after a congressional cutoff of aid to the rebels.

The weapons—Soviet-made rocket-propelled grenade launchers and grenades, assault rifles and ammunition—were shipped to the Honduran Army, according to end-user certificates signed by Honduran military officials, copies of which were obtained and published last year by the Hebrew language newspaper Maariv. The newspaper cited interviews with unnamed arms dealers as saying the weapons ultimately ended up with the contras. One tip-off was that the Honduran Army is not known to use the RPG7 grenade launcher, but the contras are.

The newspaper account, some of which has been confirmed by knowledgeable sources here, names three Israeli middlemen as involved in the contra dealings: Yaacov Nimrodi, Pesah Ben Or and David Marcos Katz.

Nimrodi, a London-based arms dealer who was former military attache at the Israeli Embassy in Iran in the days of the shah, also played a key role in setting up the secret exchange between Washington and Tehran. He reportedly handled shipments of arms to the contras purchased with Israeli funds supplied at CIA director Casey's behest in 1984. He has refused to comment on his role.

Ben Or, a former Israeli paratrooper who divides his time between Guatemala and Miami, arranged the three shipments that were delivered to the contras via the Honduran Army, according to Maariv. He could not be reached for comment.

Katz, who lives in Mexico City and reportedly specializes in sales of jet fighters, artillery and radar, helped broker another deal with the contras in 1985, according to an unnamed business associate interviewed recently by the Miami Herald. He could not be reached either.

Official sources here have denied that either Ben Or or Katz operate with Israeli government sanction. But both men appear to have acted in semiofficial capacities in previous arms dealings.

Ben Or was a key figure in supplying Israeli arms and military communications equipment to Guatemala after the Carter administration's cutoff in the late 1970s. Among the equipment he reportedly helped supply were spare parts for Guatemala's U.S.-made helicopter fleet, a key part of the regime's war against leftist guerrillas.

Israel contends its arms sales to Guatemala were insignificant. But they were important enough for two senior members of the ruling junta to publicly thank Israel for its support in the early 1980s.

"We went on rather too long selling to Guatemala at a time when other western countries had stopped," says Abba Eban. "There has to be a point when you decide it's time to turn off the tap."

As for Katz, the Hebrew press reported that he accompanied then defense minister Ariel Sharon on a much-publicized tour of Central America in 1982. Sharon at the time denied making any arms deals during the tour, but soon afterward Katz was reported to have signed several deals with the Hondurans.

In the case of South Africa, Israeli policymakers such as Foreign Minister Shimon Peres publicly have condemned the apartheid system and insisted that Israel has no military links with Pretoria. At the same time, however, informed analysts contend that military sales to South Africa in defiance of the U.N. arms embargo consistently top $50 million per year—roughly 5 percent of Israel's total arms exports. Even that figure may be an under-

CONTINUED NEXT PAGE

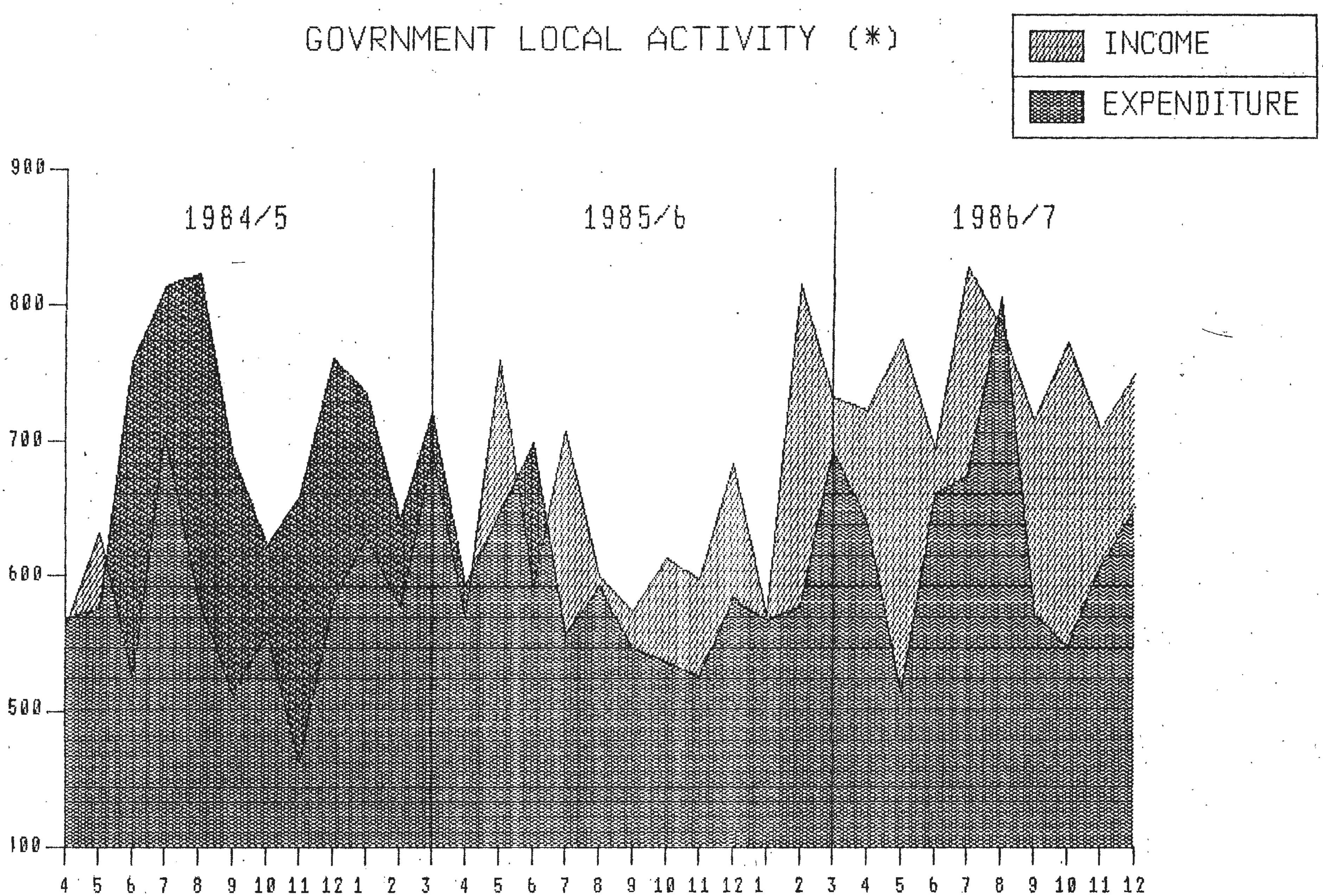
Israel's Economy

STATE OF ISRAEL
MINISTRY OF FINANCE

Office of
The Deputy Director General
for Economic Affairs

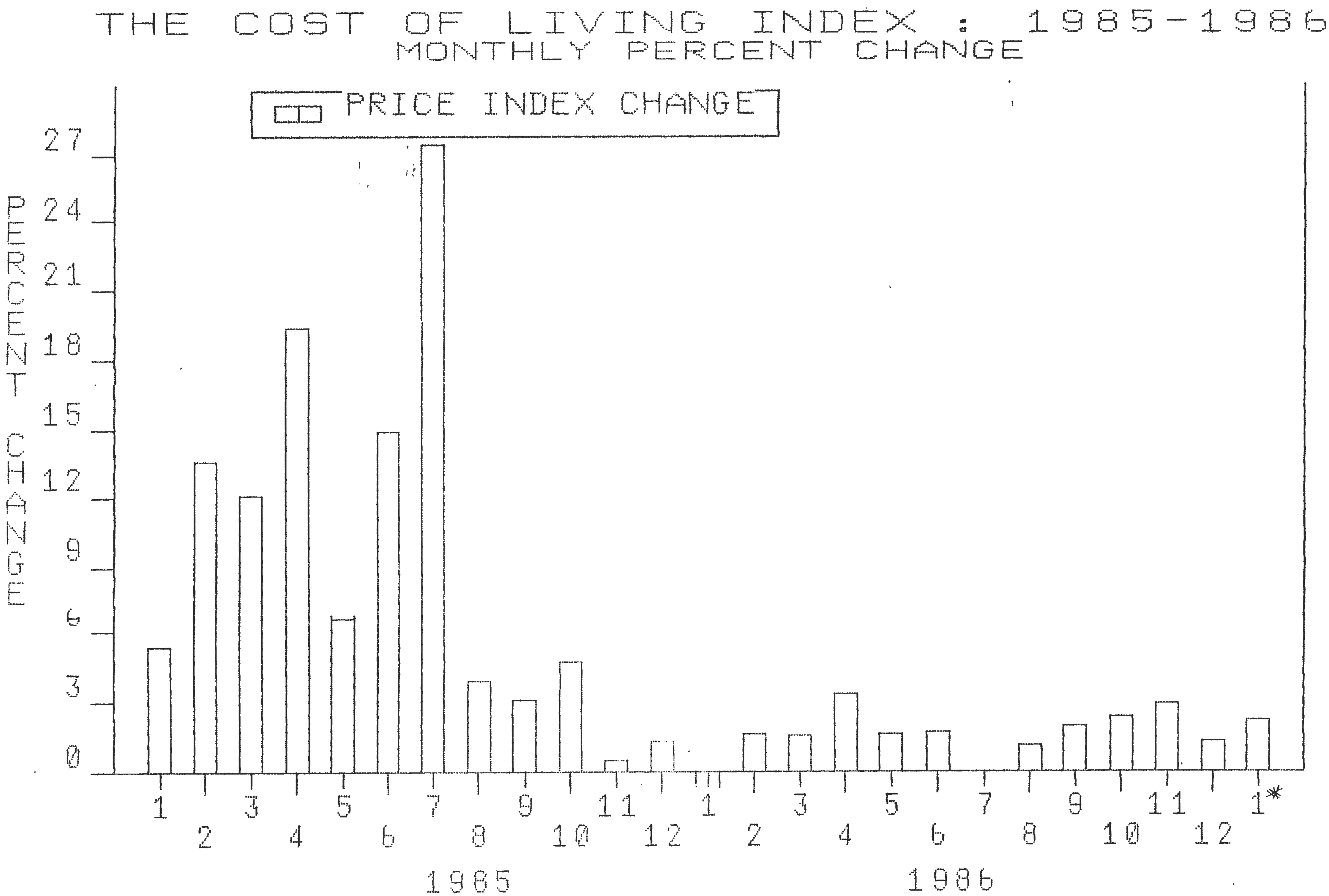
ISRAELI
MACROECONOMIC INDICATORS
1985 - 1986

JANUARY 1987

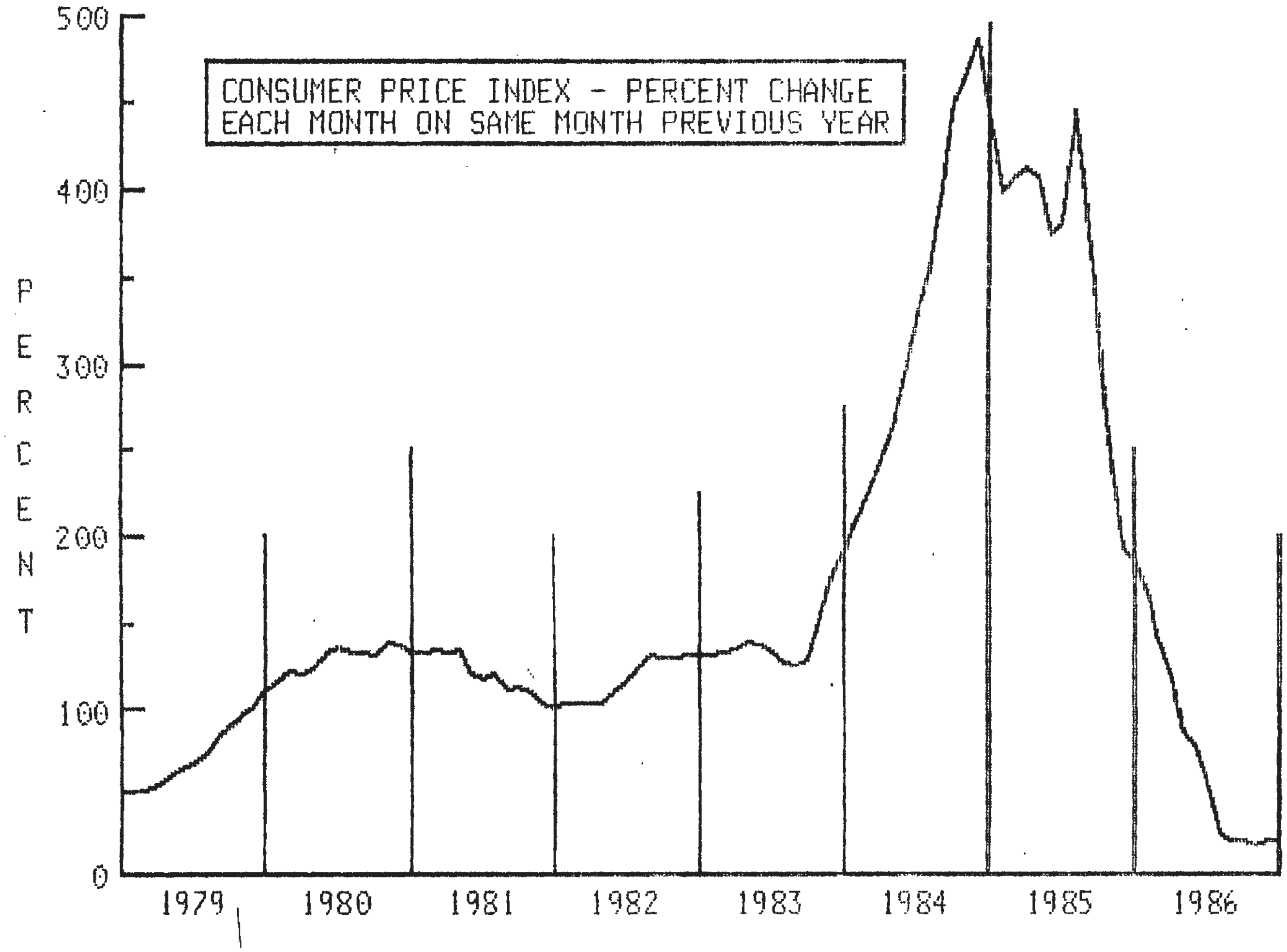


(*) NOT INC. INTEREST PAYMENTS AND NET CREDIT LENDING

IN FIRST Q., 1985 PRICES



* ROUGH ESTIMATE ONLY.


CONSUMER PRICE INDEX - PERCENT CHANGE
EACH MONTH ON SAME MONTH PREVIOUS YEAR
PERCENT
500
400
300
200
100
0
1979
1980
1981
1982
1983
1984
1985
1986

NSUMER PRICE INDEX - PERCENT CHANGE
H MONTH ON SAME MONTH PREVIOUS YEAR

1979 1	1979 2	1979 3	1979 4	1979 5	1979 6
52	53	56	61	65	68

1979 7	1979 8	1979 9	1979 10	1979 11	1979 12
73	83	92	96	102	111

1980 1	1980 2	1980 3	1980 4	1980 5	1980 6
116	121	120	123	134	136

1980 7	1980 8	1980 9	1980 10	1980 11	1980 12

3501 COLUMN 1

133	133	132	138	138	133

1981 1	1981 2	1981 3	1981 4	1981 5	1981 6
133	134	134	134	121	117

1981 7	1981 8	1981 9	1981 10	1981 11	1981 12
121	112	114	110	103	101

1982 1	1982 2	1982 3	1982 4	1982 5	1982 6
103	104	104	104	110	117

1982 7	1982 8	1982 9	1982 10	1982 11	1982 12
123	132	130	129	131	132

1983 1	1983 2	1983 3	1983 4	1983 5	1983 6

3531 COLUMN 1

132	133	134	139	138	132

1983 7	1983 8	1983 9	1983 10	1983 11	1983 12
126	125	128	154	175	191

1984 1	1984 2	1984 3	1984 4	1984 5	1984 6
208	225	241	263	293	330

1984 7	1984 8	1984 9	1984 10	1984 11	1984 12
354	394	450	465	486	445

1985 1	1985 2	1985 3	1985 4	1985 5	1985 6
399	406	412	407	374	380

1985 7	1985 8	1985 9	1985 10	1985 11	1985 12

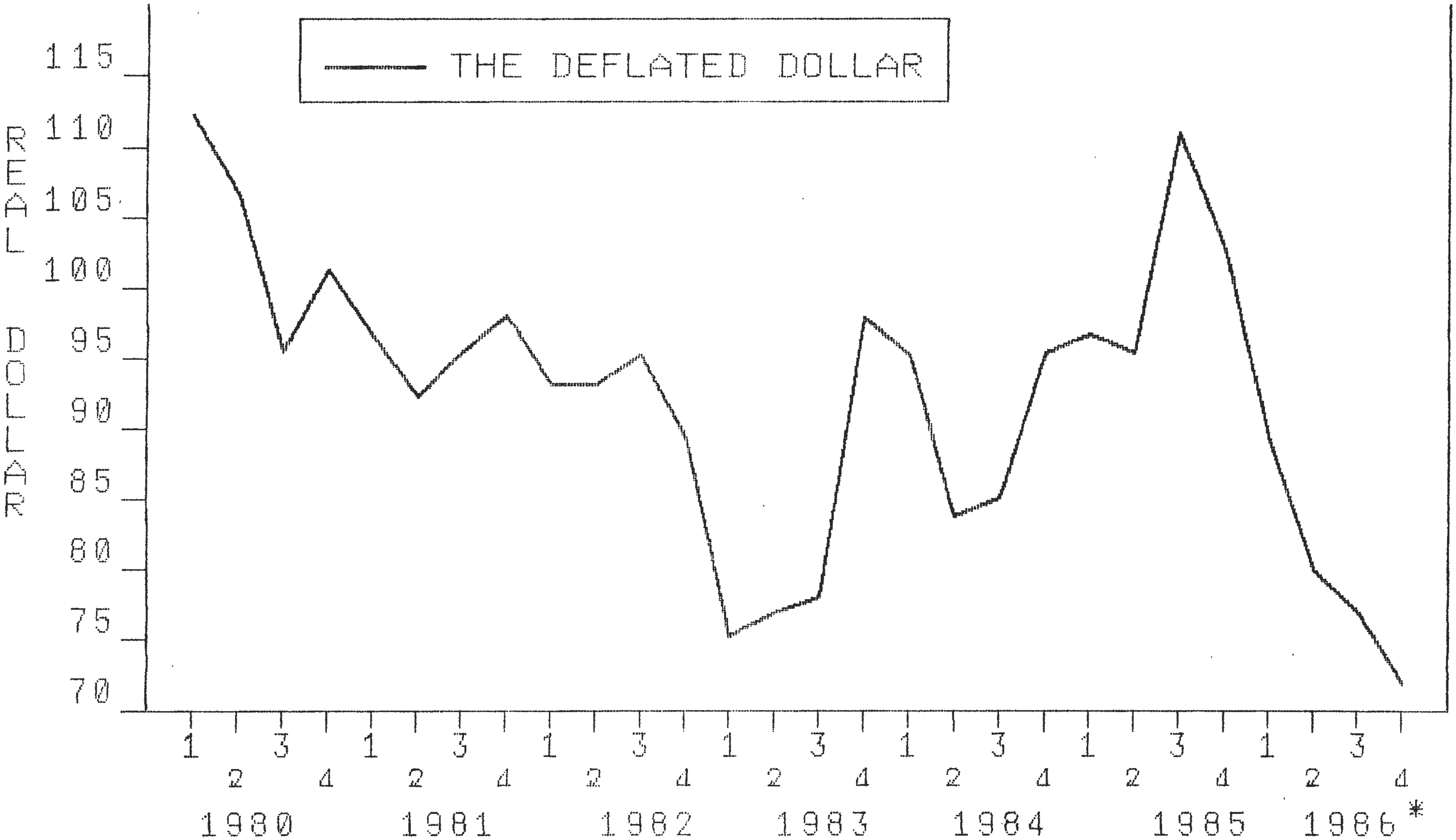
3561 COLUMN 1

445	386	313	248	192	185

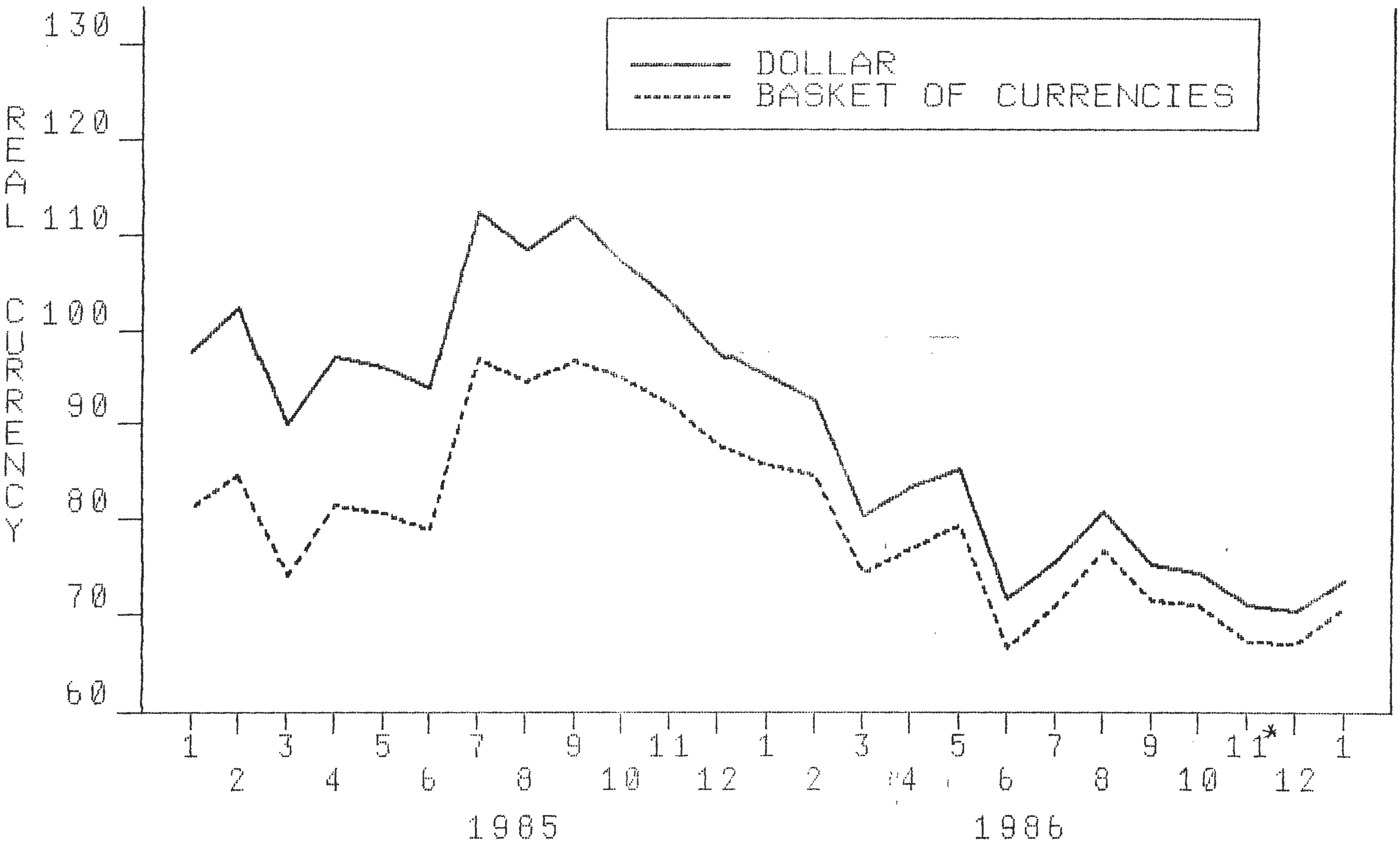
1986 1	1986 2	1986 3	1986 4	1986 5	1986 6
167	139	117	88	79	58

1986 7	1986 8	1986 9	1986 10	1986 11	1986 12
24	21	19	17	19	19

THE REAL DOLLAR : 1980-1986(QUARTERLY)
DEFLATED BY TOTAL WAGES
(AVERAGE FISCAL YEAR 1980=100)

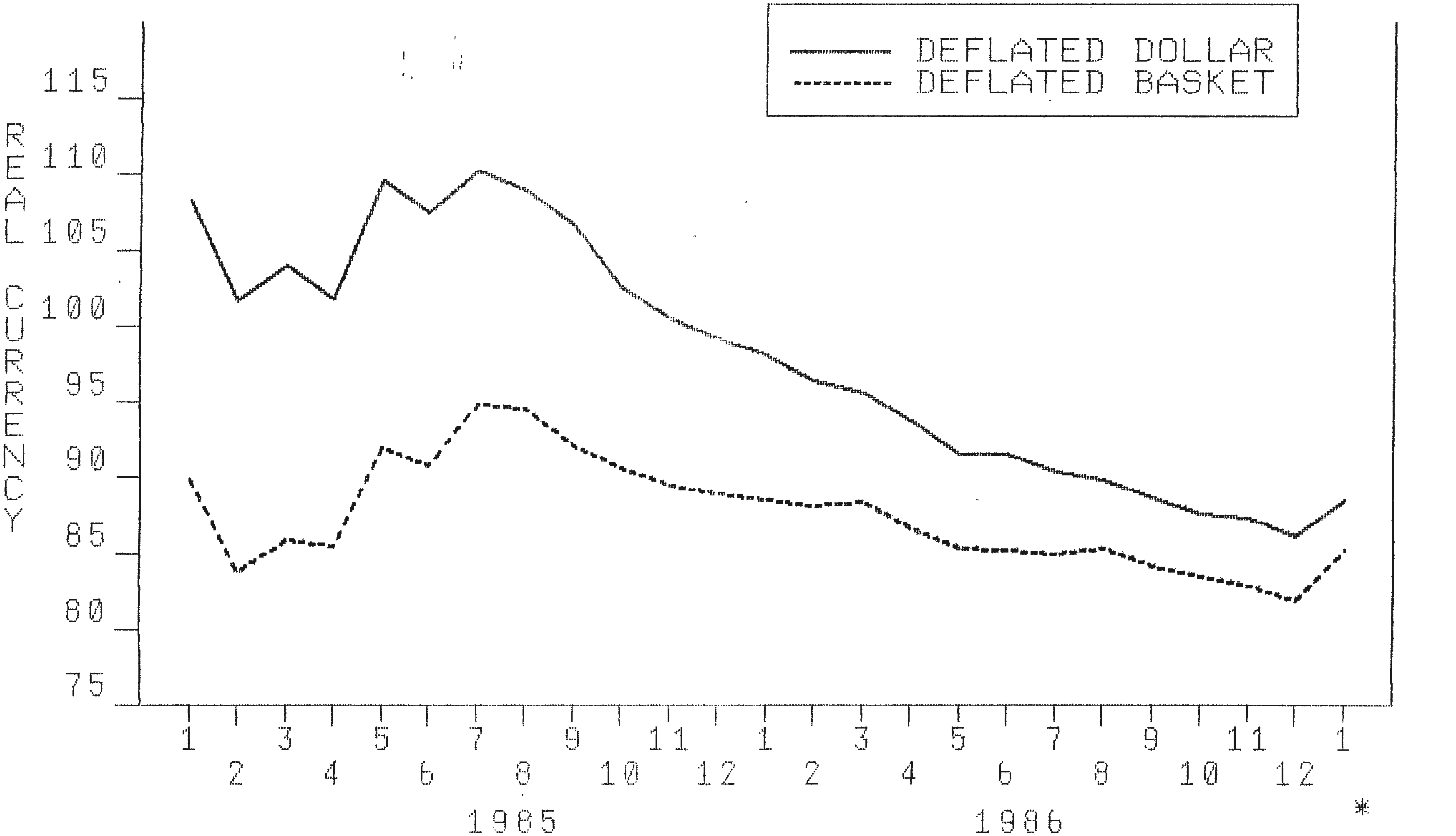


REAL CURRENCY DEFLATED BY TOTAL WAGES
AVG. FISCAL YEAR 1980=100



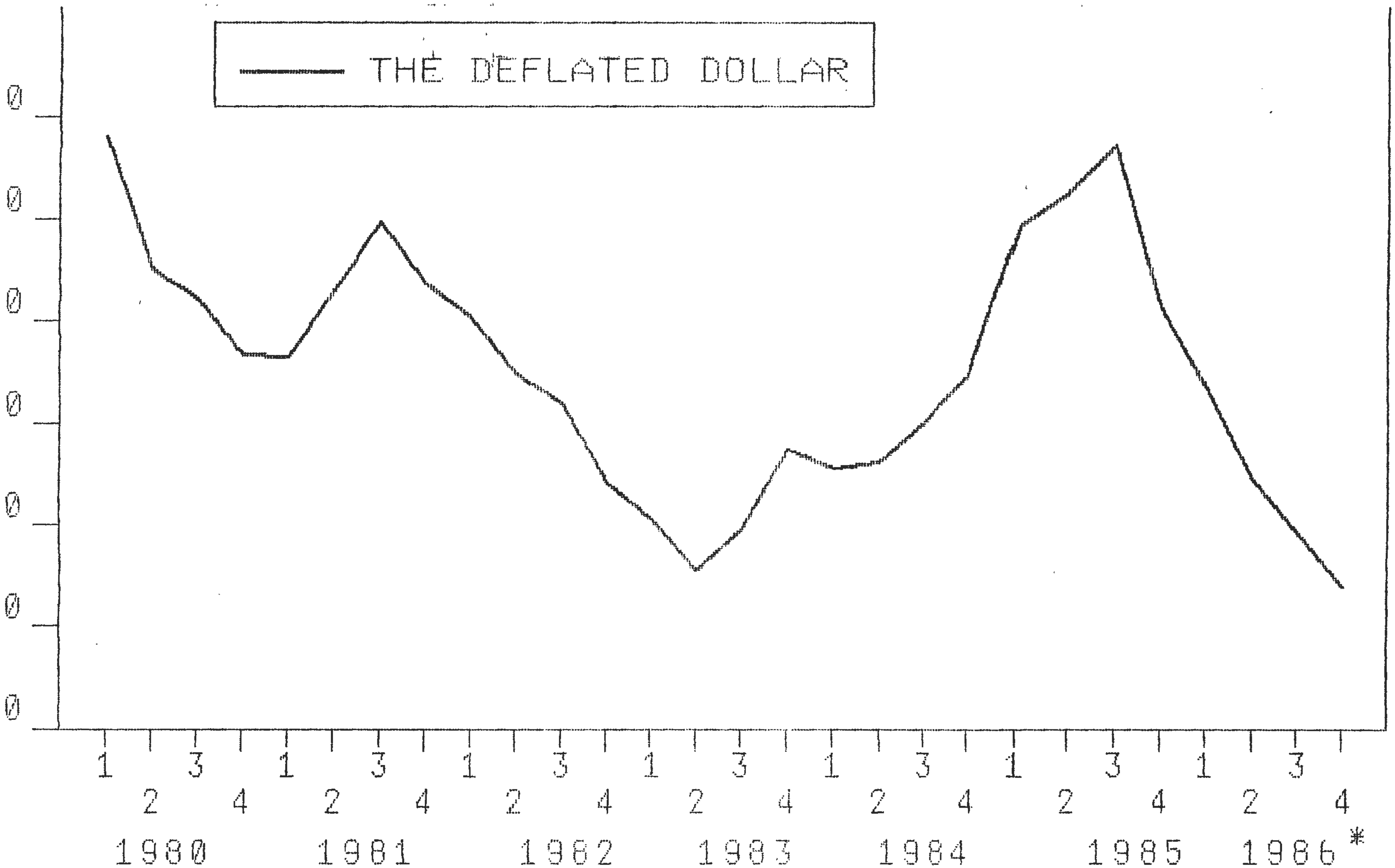
ROUGH WAGE ESTIMATE ONLY

THE BASKET OF CURRENCIES AND U.S. DOLLAR
DEFLATED BY THE INDUSTRIAL PRICE INDEX
(AVERAGE FISCAL YEAR 1980=100)



* ROUGH ESTIMATE ONLY

THE REAL DOLLAR : 1980-1986 (QUARTERLY)
DEFLATED BY THE INDUSTRIAL PRICE INDEX
(AVERAGE FISCAL YEAR 1980=100)



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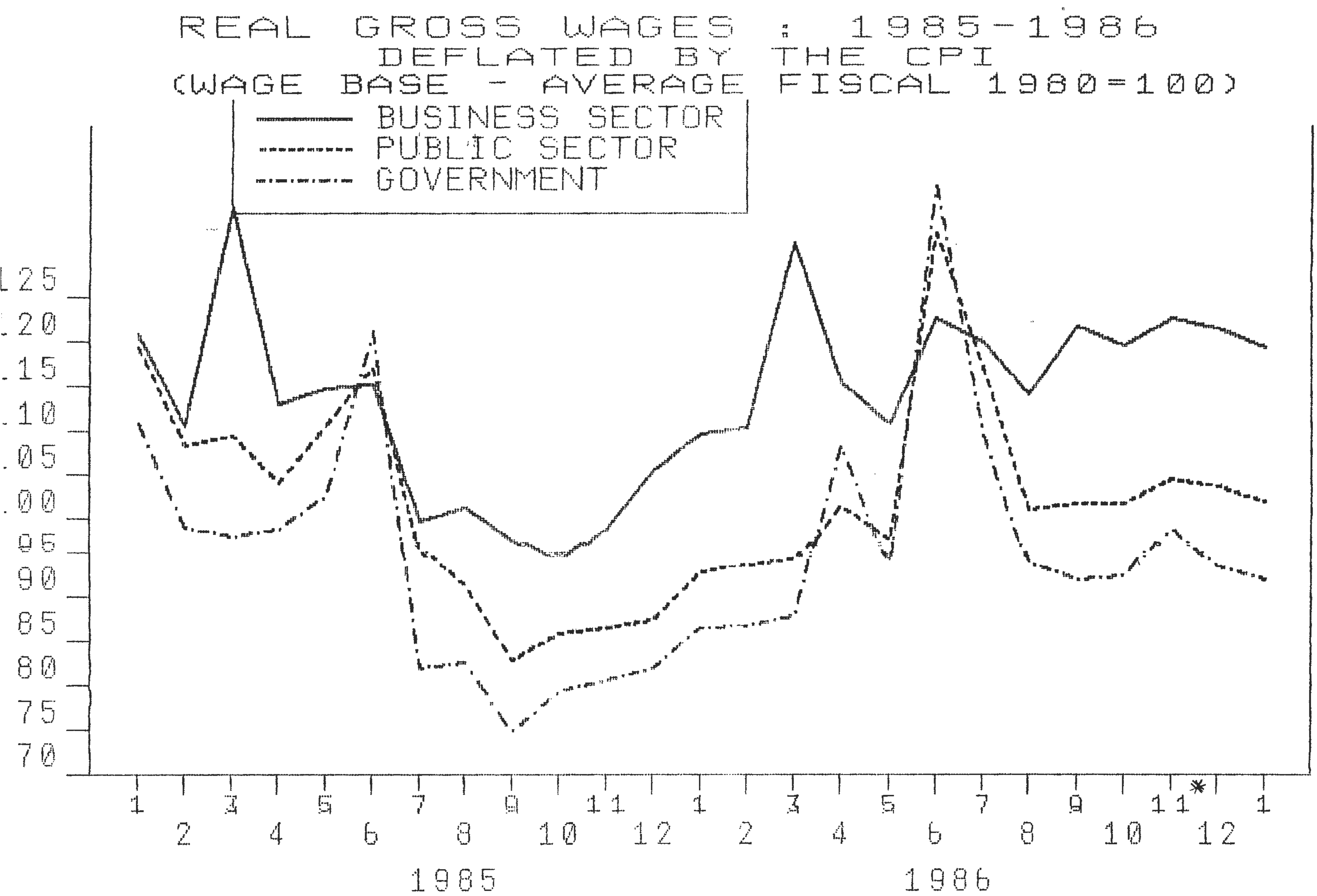

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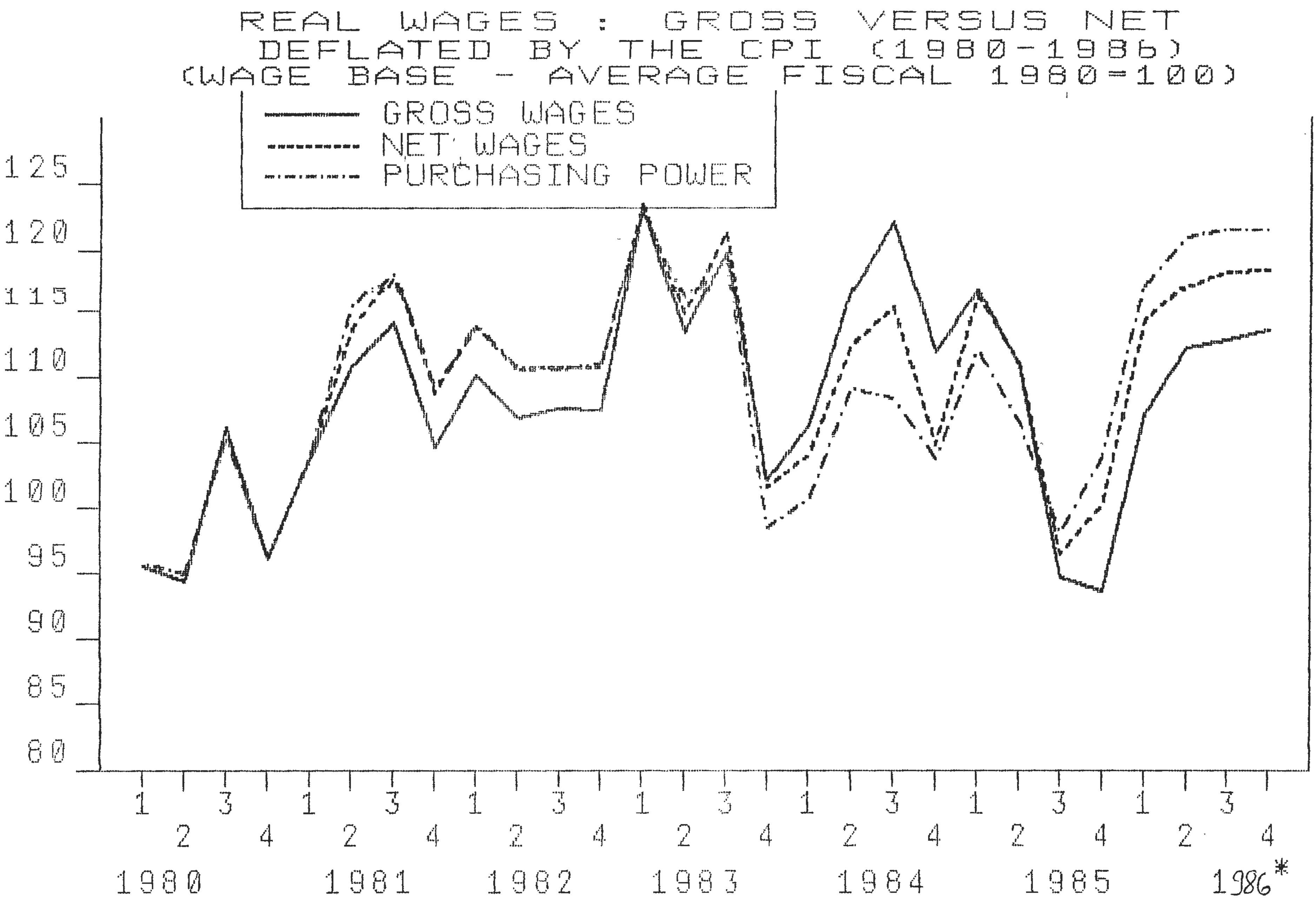

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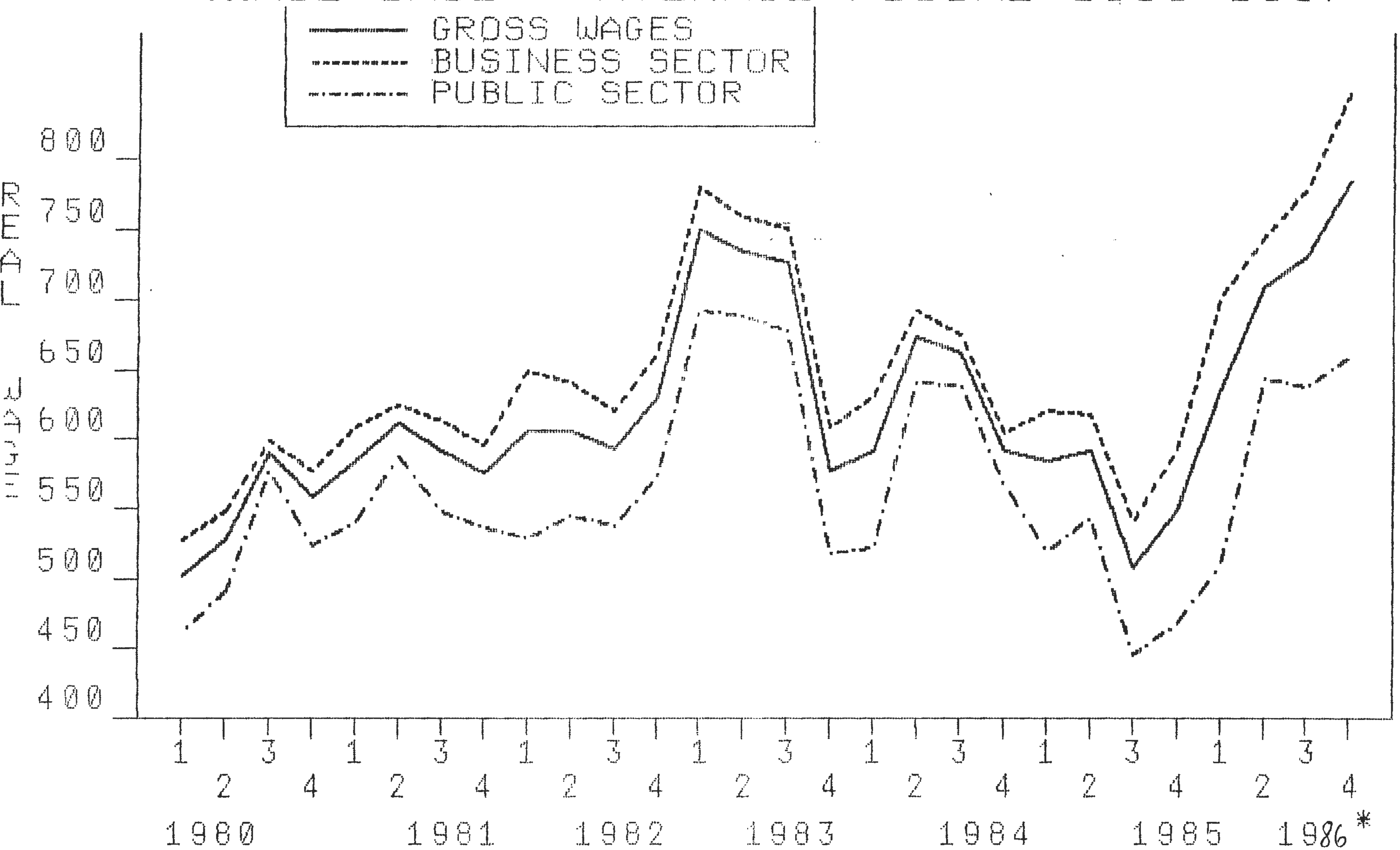
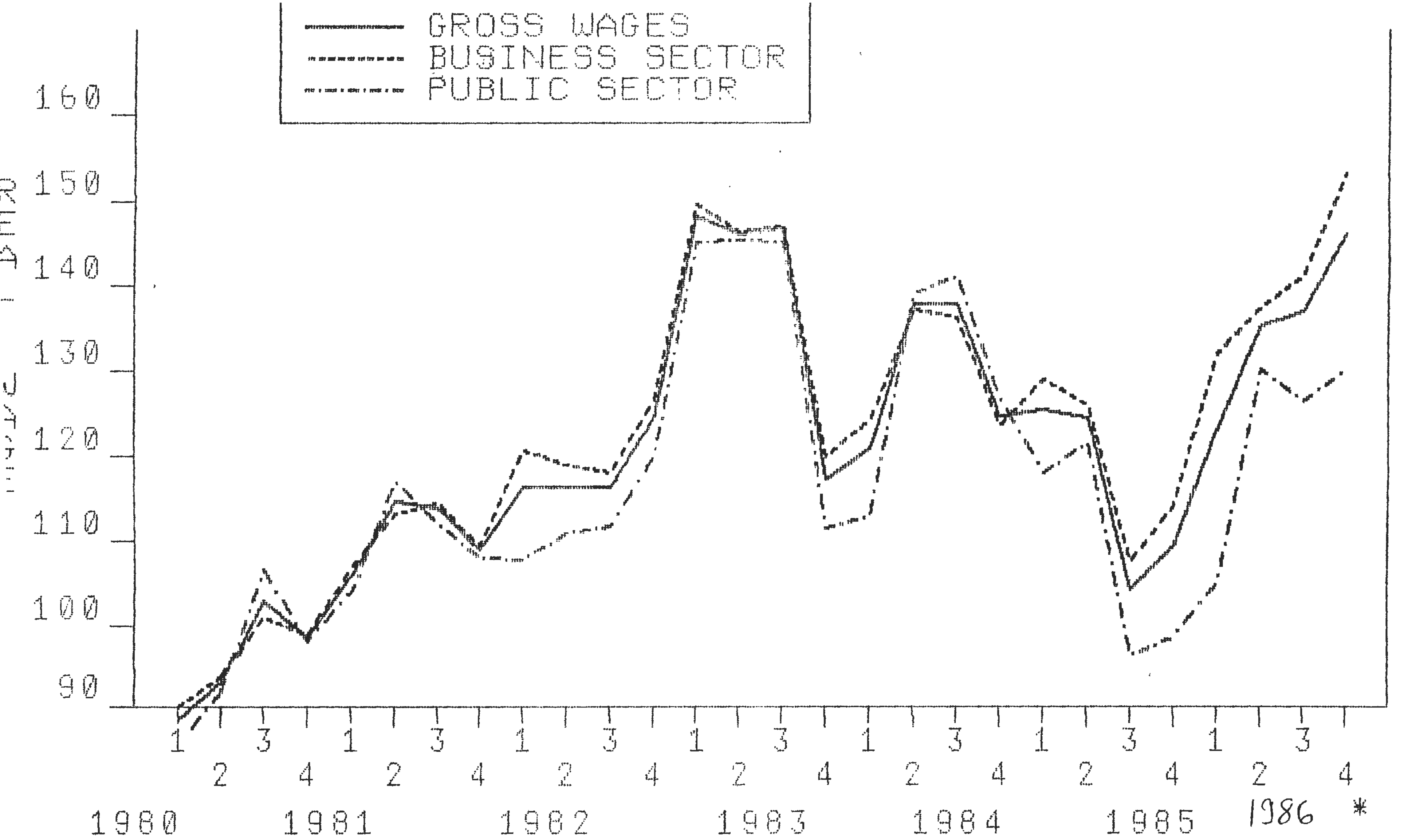
REAL GROSS WAGES : 1980-1986 (QUARTERLY)
DEFLATED BY THE DOLLAR EXCHANGE RATE
(WAGE BASE - AVERAGE FISCAL 1980=100)

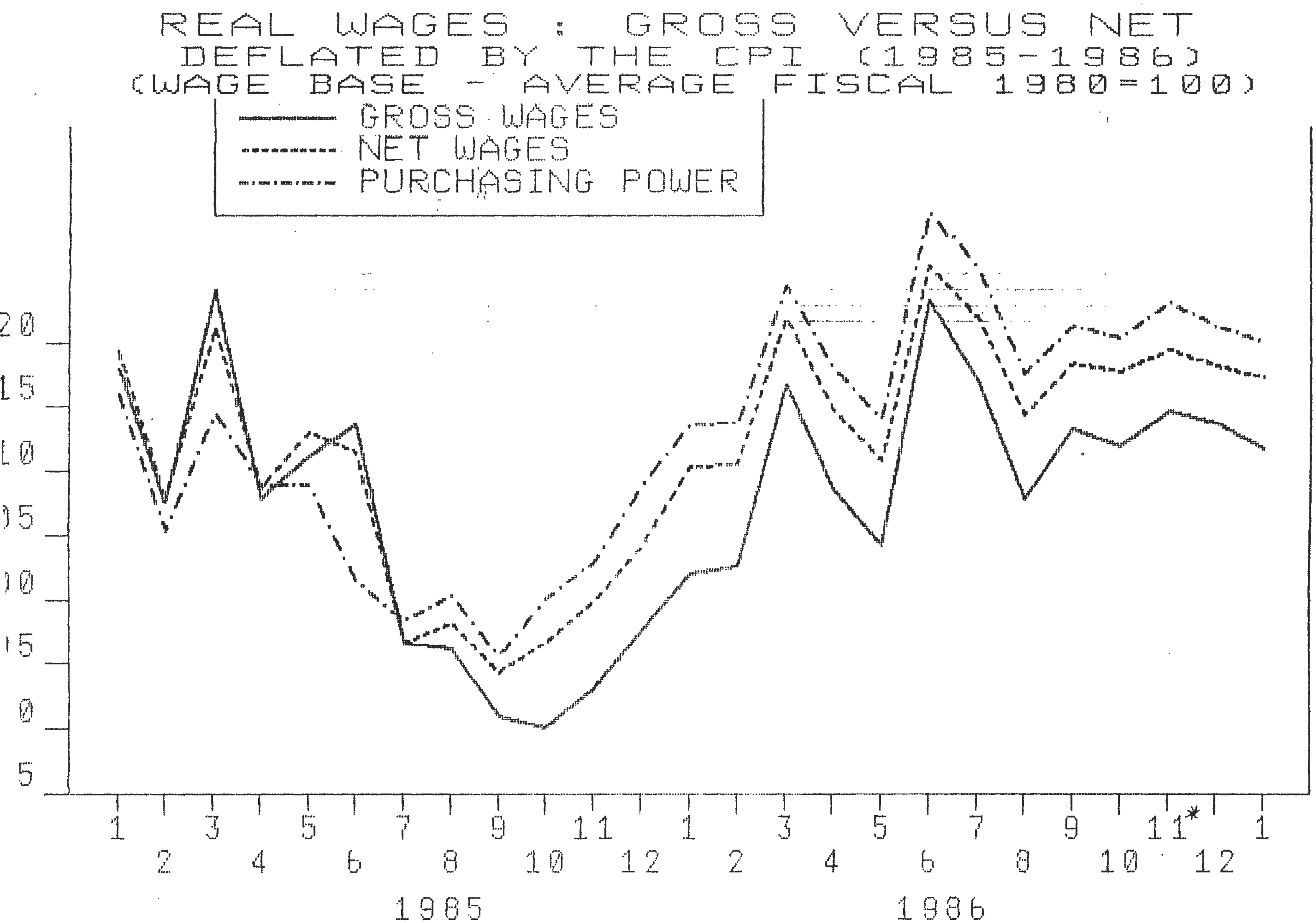


ROUGH ESTIMATE ONLY

REAL GROSS WAGES : QUARTERLY (1980-1986)
DEFLATED BY THE BASKET OF CURRENCIES
(WAGE BASE - AVERAGE FISCAL 1980=100)



ROUGH ESTIMATE ONLY



GH ESTIMATE ONLY

01/15/87

THE REAL WAGE LEVELS : 1980-1986 (QUARTERLY)
IN DOLLAR TERMS AND CONSTANT PRICES
(AVE FISCAL YEAR 1980 = 100)
****

	DOLLAR WAGE				REAL WAGE					
	TOTAL	BUSINESS SECTOR	PUBLIC SECTOR	GOVERNMT	TOTAL SECTOR	BUSINESS SECTOR	PUBLIC SECTOR	GOVERN	NET WAGE	PURCHASING POWER
E 1980	564.3	582.4	532.5	713.6	100.0	100.0	100.0	100.0	100.0	100.0
E 1981	595.0	619.7	549.9	711.5	109.8	110.8	107.7	103.9	113.4	114.1
E 1982	643.8	674.9	586.0	757.3	111.1	112.9	107.2	103.4	113.8	113.7
E 1983	656.5	686.1	600.8	743.5	110.3	111.7	106.8	98.4	110.4	108.4
E 1984	627.2	647.2	590.5	739.6	116.6	116.7	116.2	108.5	112.0	108.2
E 1985	570.3	612.7	490.9	614.0	101.5	105.5	92.8	86.6	105.4	106.4
1 83 +	748.5	779.6	691.3	885.0	123.0	124.1	120.4	115.0	123.4	122.8
2 83	732.6	757.0	687.6	906.4	113.2	113.3	112.7	110.8	114.7	116.0
3 83	726.0	750.8	676.5	809.2	119.7	120.0	118.1	105.4	121.3	118.7
4 83	576.5	607.8	517.5	620.2	102.0	104.2	97.1	86.8	101.5	98.4
1 84	591.0	628.8	521.5	638.2	106.2	109.5	99.2	90.6	103.9	100.5
2 84	673.0	691.4	639.7	827.6	116.4	115.8	117.2	113.1	112.1	109.0
3 84	661.2	673.5	637.8	788.5	122.0	120.4	124.8	115.0	115.1	108.2
4 84	590.7	604.1	566.0	706.7	111.7	110.7	113.4	105.6	104.7	103.7
85	583.9	619.7	518.5	635.7	116.4	119.7	109.6	100.3	116.0	111.9
2 85	590.2	616.2	542.5	707.9	110.7	112.0	107.9	105.0	110.9	106.4
3 85	507.5	540.6	443.5	527.9	94.6	97.6	87.7	77.8	96.3	98.0
4 85	549.0	592.1	467.3	583.9	93.5	97.7	84.4	78.7	100.2	103.9
86	634.8	701.9	510.4	636.5	107.1	114.7	91.3	84.9	114.1	117.1
2 86	708.2	743.2	643.0	884.5	112.0	113.9	107.8	110.6	117.1	120.8
3 86	730.6	778.0	636.3	788.7	112.6	116.2	104.0	96.2	118.1	121.4
86 *	783.7	848.2	658.1	811.8	113.2	118.7	100.8	92.7	118.3	121.3

ESTIMATED DATA IN THIS QUARTER *
RTER BEING DEFINED BY THE CALENDAR YEAR (JAN-MAR) +

01/15/87
THE REAL WAGE LEVELS OF 1985/6
IN DOLLAR TERMS AND CONSTANT PRICES
(AVE FISCAL YEAR 1980 = 100)
****

	DOLLAR WAGE				REAL WAGE					
	TOTAL	BUSINESS SECTOR	PUBLIC SECTOR	GOVERN	TOTAL SECTOR	BUSINESS SECTOR	PUBLIC SECTOR	GOVERNMENT	NET WAGE	PURCHASING POWER
5	575.2	596.8	535.9	668.0	117.8	118.4	116.3	108.1	119.1	115.8
5	549.4	571.4	509.7	626.3	107.5	108.3	105.7	96.9	107.8	105.4
5	627.1	691.0	509.9	612.9	124.0	132.4	106.9	95.8	121.0	114.4
5	581.3	616.6	517.3	659.1	107.8	110.8	101.6	96.6	108.5	108.8
5	586.9	613.2	538.1	670.2	111.0	112.4	107.9	100.2	112.9	109.0
5	602.3	618.6	572.2	794.4	113.5	112.9	114.2	118.3	111.3	101.5
5	500.3	523.2	456.8	524.0	96.6	97.9	93.4	80.0	96.6	98.2
5	519.0	553.0	452.9	549.7	96.2	99.3	89.0	80.6	98.1	100.2
5	503.0	545.7	420.9	510.0	90.9	95.6	80.6	72.9	94.3	95.6
5	525.4	559.2	460.1	570.3	90.1	92.9	83.6	77.3	96.7	100.0
5	545.5	587.3	466.6	583.7	93.0	97.0	84.3	78.7	99.9	102.9
5	576.0	629.7	475.1	597.7	97.5	103.3	85.3	80.0	104.1	108.7
6	593.9	645.7	497.7	621.3	102.0	107.5	90.6	84.4	110.3	113.5
6	609.3	662.4	511.8	636.4	102.6	108.1	91.4	84.7	110.4	113.6
6	701.2	797.7	521.7	651.8	116.6	128.5	92.0	85.7	121.7	124.2
6	676.7	727.4	582.5	834.3	108.6	113.1	99.1	105.9	114.7	118.0
6	662.3	711.6	570.4	735.5	104.4	108.6	95.2	91.6	110.7	113.9
6	785.6	790.6	776.2	1083.8	123.1	120.1	128.9	134.3	125.8	130.5
6	745.4	774.5	688.1	865.0	116.8	117.6	114.3	107.2	121.8	125.7
6	698.1	745.8	602.3	750.2	107.9	111.7	98.6	91.6	114.3	117.4
6	748.5	813.5	618.4	750.8	113.3	119.3	99.2	89.8	118.3	121.2
6	756.9	819.4	635.2	773.4	111.7	117.2	99.4	90.3	117.6	120.3
6 *	793.8	859.1	666.6	847.5	114.6	120.2	102.0	96.7	119.3	122.8
6	800.4	866.0	672.6	814.4	113.4	118.8	101.0	91.2	117.9	120.9
7	766.8	829.4	644.8	780.7	111.4	116.8	99.3	89.7	117.0	119.0
GE 1980	564.3	582.4	532.5	713.6	100.0	100.0	100.0	100.0	100.0	100.0
GE 1981	595.0	619.7	549.9	711.5	109.8	110.8	107.7	103.9	113.4	114.1
GE 1982	643.8	674.9	586.0	757.3	111.1	112.9	107.2	103.4	113.8	113.7
GE 1983	656.5	686.1	600.8	743.5	110.3	111.7	106.8	98.4	110.4	108.4
GE 1984	627.2	647.2	590.5	739.6	116.6	116.7	116.2	108.5	112.0	108.2
GE 1985	570.3	612.7	490.9	614.0	101.5	105.5	92.8	86.6	105.4	106.4

ESTIMATE FROM THIS MONTH ON *
ESTIMATE CPI FOR JAN 87 - 2.2% **

01/15/87

FOREIGN EXCHANGE - U.S. DOLLAR AND BASKET OF CURRENCIES
DEFLATED BY CPI,WPI AND WAGES

****

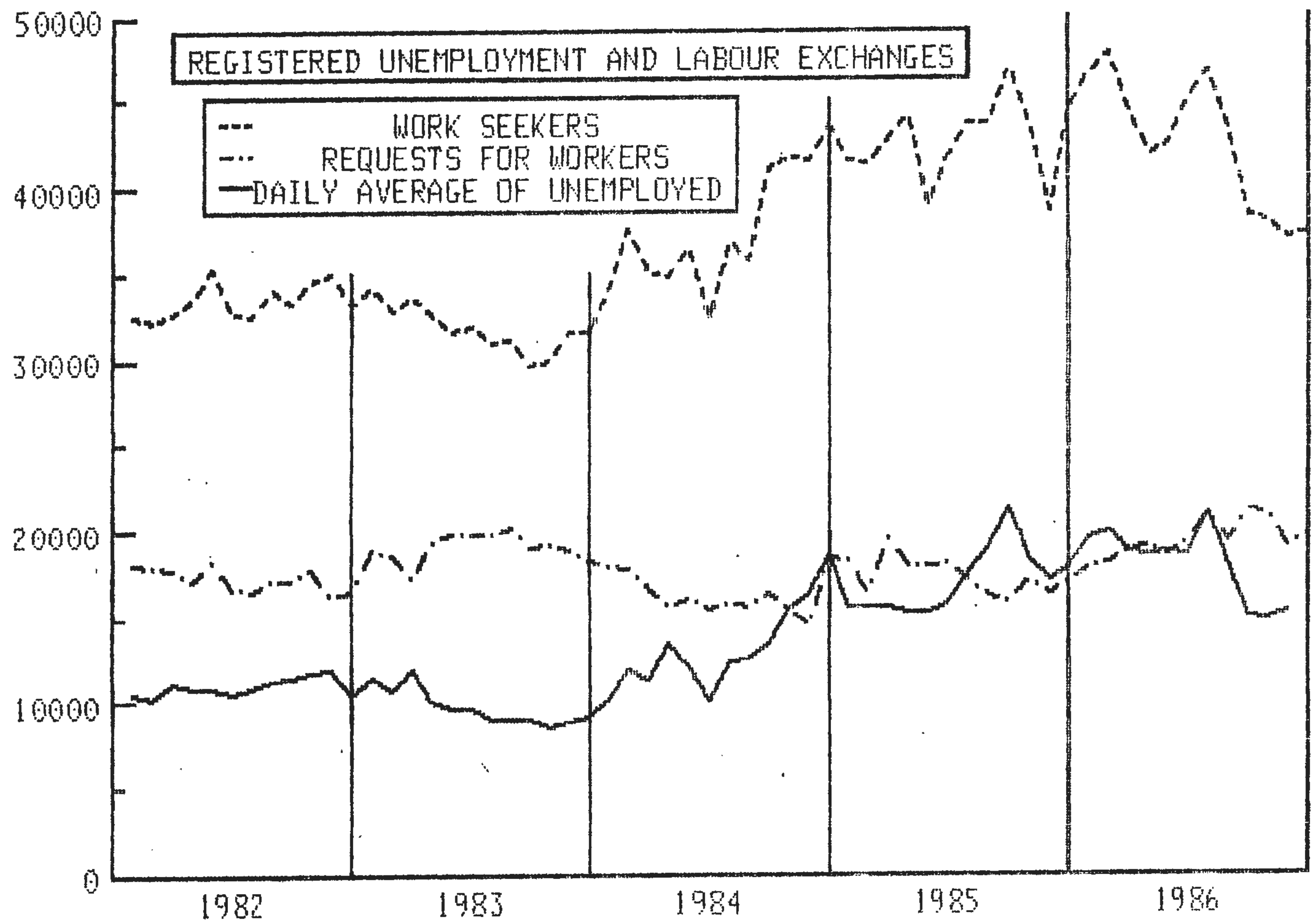
	U.S.$ DEFLATED BY CPI	BASKET DEFLATED BY CPI	U.S.$ DEFLATED BY WPI	BASKET DEFLATED BY WPI	U.S.$ DEFLATED BY WAGES	BASKET DEFLATED BY WAGES	U.S.$ DEFLATED BY BASKET	EXCHANGE RATE OF DOLLAR	CPI
	******	******	******	******	******	******	******	*****	******
	115.6	95.9	108.2	89.7	97.8	81.1	120.5	.664	5.3
	110.4	90.9	101.6	83.6	102.4	84.3	121.4	.720	13.5
	111.6	92.0	104.0	85.7	89.7	74.0	121.2	.815	12.1
	104.6	87.8	101.8	85.4	96.7	81.2	119.1	.912	19.4
	106.7	89.5	109.5	91.8	95.8	80.4	119.2	.994	6.8
	106.3	89.7	107.4	90.6	93.4	78.8	118.5	1.138	14.9
	108.9	93.6	110.2	94.7	112.4	96.6	116.3	1.486	27.5
	104.6	90.8	108.9	94.5	108.4	94.0	115.2	1.483	3.9
	102.0	88.0	106.6	92.0	111.8	96.4	115.9	1.490	3.0
	96.7	85.4	102.5	90.5	107.0	94.5	113.2	1.479	4.7
	96.2	85.6	100.3	89.3	103.1	91.7	112.3	1.478	.5
	95.6	85.7	99.0	88.8	97.6	87.5	111.5	1.487	1.3
	97.0	87.4	98.1	88.4	94.7	85.4	110.9	1.489	-1.3
	95.1	86.9	96.3	88.0	92.3	84.4	109.4	1.483	1.6
	93.9	86.8	95.5	88.3	80.2	74.1	108.1	1.487	1.5
	90.6	83.7	93.7	86.5	83.1	76.8	108.2	1.483	3.3
	88.9	82.9	91.5	85.3	84.9	79.2	107.2	1.479	1.6
	88.4	82.3	91.4	85.0	71.6	66.6	107.4	1.495	1.6
	88.4	83.1	90.3	84.8	75.4	70.9	106.4	1.495	.0
	87.2	82.8	89.7	85.2	80.6	76.5	105.3	1.490	1.1
	85.4	81.1	88.6	84.1	75.1	71.3	105.3	1.487	1.9
	83.3	79.4	87.5	83.4	74.3	70.8	104.8	1.485	2.4
	81.5	77.3	87.2	82.7	70.8	67.2	105.4	1.494	2.9
	79.9	76.1	86.1	82.0	70.3	66.9	105.0	1.488	1.5
	82.0	79.0	88.5	85.2	73.3	70.6	103.8	1.560	2.2
1980	100.0	100.0	100.0	100.0	100.0	100.0	100.0	.006	133.7%
1981	104.2	96.9	102.1	94.9	94.6	88.0	107.5	.014	110.0%
1982	97.8	88.4	93.8	84.9	88.2	79.8	110.6	.029	127.0%
1983	95.4	83.6	90.9	79.7	86.9	76.1	114.1	.080	173.8%
1984	105.2	88.9	97.4	82.3	90.2	76.1	118.3	.444	404.6%
1985	100.6	88.1	103.0	90.2	99.4	87.1	114.1	1.367	231.3%

TE FROM THIS MONTH ON*

01/15/87
WPI AND HOUSING PRICES
(AVE FISCAL YEAR 1980 = 100)
****

	WPI DEFLATED BY CPI	WPI DEFLATED BY U.S. $	WPI DEFLATED BY BUSINESS SECTOR WAGE	HOUSING PRICES DEFLATED BY CPI	HOUSING PRICES DEFLATED BY CONSTRUCTION PRICE INDEX
	******	******	******	******	******
5	106.8	92.4	89.9	122.1	121.9
5	108.7	98.4	100.0	119.6	121.9
5	107.3	96.2	80.8	119.5	122.0
5	102.8	98.2	92.5	126.9	137.3
5	97.5	91.3	86.4	126.3	137.3
5	98.9	93.0	87.3	120.3	134.4
5	98.9	90.7	100.7	118.6	135.5
5	96.1	91.8	96.4	119.2	135.2
5	95.6	93.7	99.7	115.2	138.1
5	94.3	97.5	101.2	117.4	146.9
5	95.9	99.6	98.5	120.9	146.9
5	96.5	100.9	93.1	122.7	146.9
6	98.8	101.9	91.6	110.5	129.2
6	98.7	103.8	91.0	111.7	129.1
6	98.2	104.6	76.2	111.0	129.1
	96.7	106.7	85.2	106.2	125.4
	97.2	109.3	89.2	106.3	125.4
	96.8	109.4	80.3	106.9	122.9
	97.9	110.7	83.0	103.2	117.0
	97.1	111.4	86.7	103.2	117.0
	96.4	112.9	80.5	103.7	116.9
	95.2	114.2	80.9	104.5	120.0
	93.4	114.7	77.5	105.2	120.5
	92.8	116.1	77.8	104.2	120.5
*	92.6	112.9	79.1	104.0	120.5
	------	------	------	------	------
E 1980	100.0	100.0	100.0	100.0	100.0
E 1981	102.0	98.0	92.0	111.9	105.7
E 1982	104.1	106.6	92.4	114.1	110.4
E 1983	104.8	110.0	94.0	117.4	118.2
E 1984	108.0	102.8	92.6	123.7	120.8
E 1985	97.7	97.3	92.9	118.4	137.2
	------	------	------	------	------

MATE FROM THIS MONTH ON *



REGISTERED UNEMPLOYMENT AND LABOUR EXCHANGES
WORK SEEKERS
REQUESTS FOR WORKERS
DAILY AVERAGE OF UNEMPLOYED
50000
40000
30000
20000
10000
0
1982
1983
1984
1985
1986

REGISTERED UNEMPLOYMENT AND LABOUR EXCHANGES

	1982 1	1982 2	1982 3	1982 4	1982 5	1982 6
WORK SEEKERS	32450	32250	32700	33550	35200	32750
REQUESTS FOR WORKERS	17950	17800	17650	17150	18150	16650
DAILY AVG. UNEMPLOYED	10470	10200	11130	10830	10830	10510

	1982 7	1982 8	1982 9	1982 10	1982 11	1982 12
WORK SEEKERS	32450	34000	33350	34500	35000	33150
REQUESTS FOR WORKERS	16550	17050	17100	17750	16250	16450
DAILY AVG. UNEMPLOYED	10800	11280	11440	11780	11920	10440

	1983 1	1983 2	1983 3	1983 4	1983 5	1983 6
WORK SEEKERS	34250	32850	33600	32700	31550	31900
REQUESTS FOR WORKERS	18850	18550	17150	19300	19650	19700
DAILY AVG. UNEMPLOYED	11400	10750	11850	10050	9600	9600

LINE 2706 COLUMN 1 HOLD

	1983 7	1983 8	1983 9	1983 10	1983 11	1983 12
WORK SEEKERS	31000	31200	29650	29950	31650	31650
REQUESTS FOR WORKERS	19700	20200	18950	19100	18750	18200
DAILY AVG. UNEMPLOYED	9000	8950	8950	8500	8900	9150

	1984 1	1984 2	1984 3	1984 4	1984 5	1984 6
WORK SEEKERS	34250	37600	35050	34800	36450	32400
REQUESTS FOR WORKERS	17850	17750	16600	15550	16050	15400
DAILY AVG. UNEMPLOYED	10250	11850	11300	13400	12000	10150

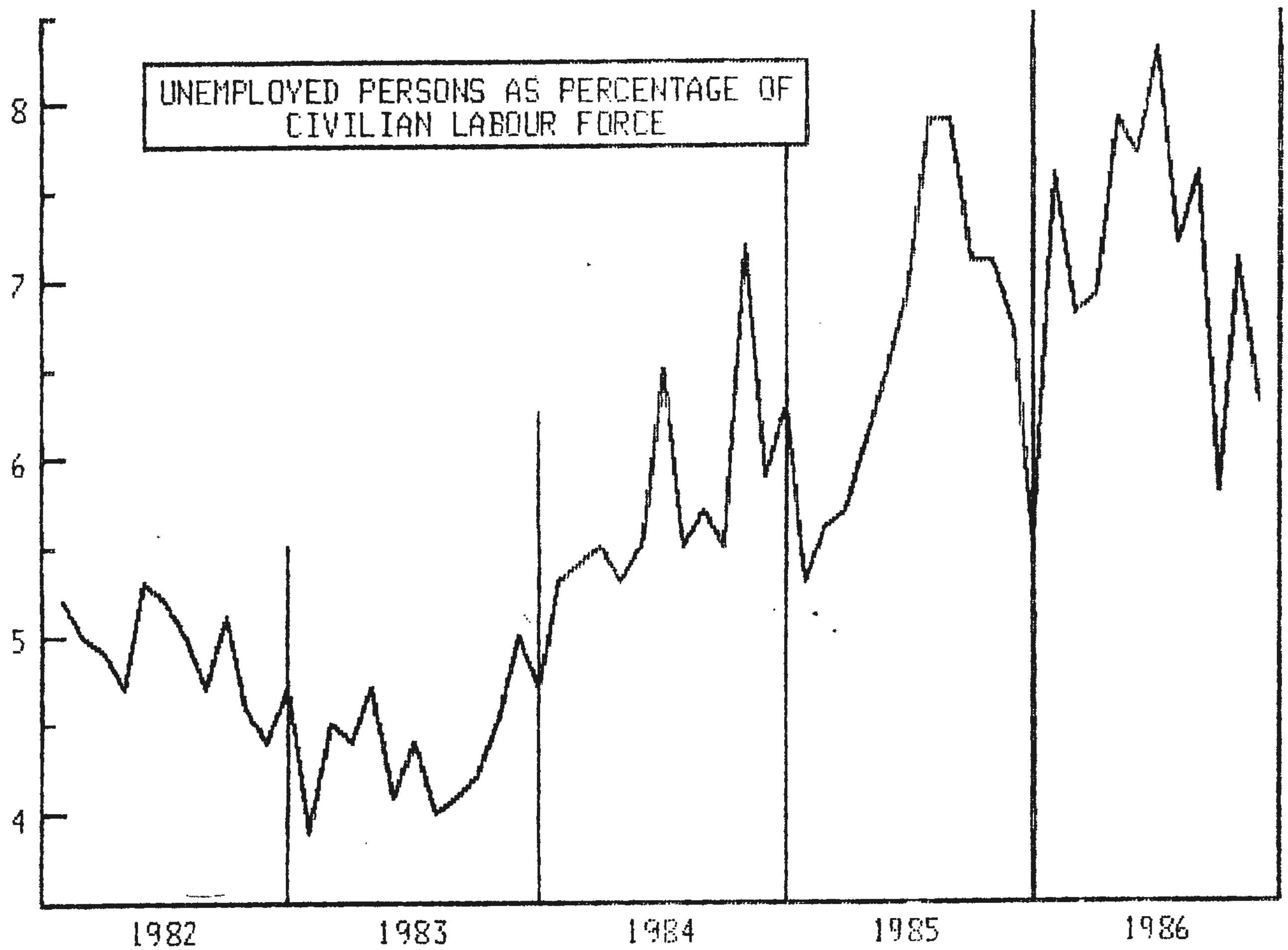
	1984 7	1984 8	1984 9	1984 10	1984 11	1984 12
WORK SEEKERS	36850	35750	41100	41700	41550	43500
REQUESTS FOR WORKERS	15950	15500	16350	15450	14500	18350
DAILY AVG. UNEMPLOYED	12350	12550	13400	15400	16300	18500

	1985 1	1985 2	1985 3	1985 4	1985 5
	41500	41450	42800	44200	39000
	18100	16400	19400	17900	17800
	15600	15550	15500	15200	15300

	1985 7	1985 8	1985 9	1985 10	1985 11
	43600	43750	46850	43600	38700
	17050	16250	15950	17100	16400
	17450	18900	21250	18150	17050

	1986 1	1986 2	1986 3	1986 4	1986 5
	46550	47750	44750	41850	42450
	17750	17950	18800	19000	19500
	19450	19800	18650	18500	18700

	1986 7	1986 8	1986 9	1986 10	1986 11
	46800	43200	38300	38000	36950
	20850	19300	21100	20850	19000
	20950	17900	14950	14800	15200


UNEMPLOYED PERSONS AS PERCENTAGE OF CIVILIAN LABOUR FORCE
8
7
6
5
4
1982
1983
1984
1985
1986

LINE 2782 COLUMN 1

HOLDING

UNEMPLOYED PERSONS AS PERCENTAGE OF CIVILIAN LABOUR FORCE

1982 1	1982 2	1982 3	1982 4	1982 5	1982 6
5.2	5.0	4.9	4.7	5.3	5.2

1982 7	1982 8	1982 9	1982 10	1982 11	1982 12
5.0	4.7	5.1	4.6	4.4	4.7

1983 1	1983 2	1983 3	1983 4	1983 5	1983 6
3.9	4.5	4.4	4.7	[illegible]	4.4

1983 7	1983 8	1983 9	1983 10	1983 11	1983 12
4.0	4.1	4.2	4.5	5.0	4.7

LINE 2812 COLUMN 1

1984 1	1984 2	1984 3	1984 4	1984 5	1984 6
5.3	5.4	5.5	5.3	5.5	6.5

1984 7	1984 8	1984 9	1984 10	1984 11	1984 12
5.5	5.7	5.5	7.2	5.9	6.3

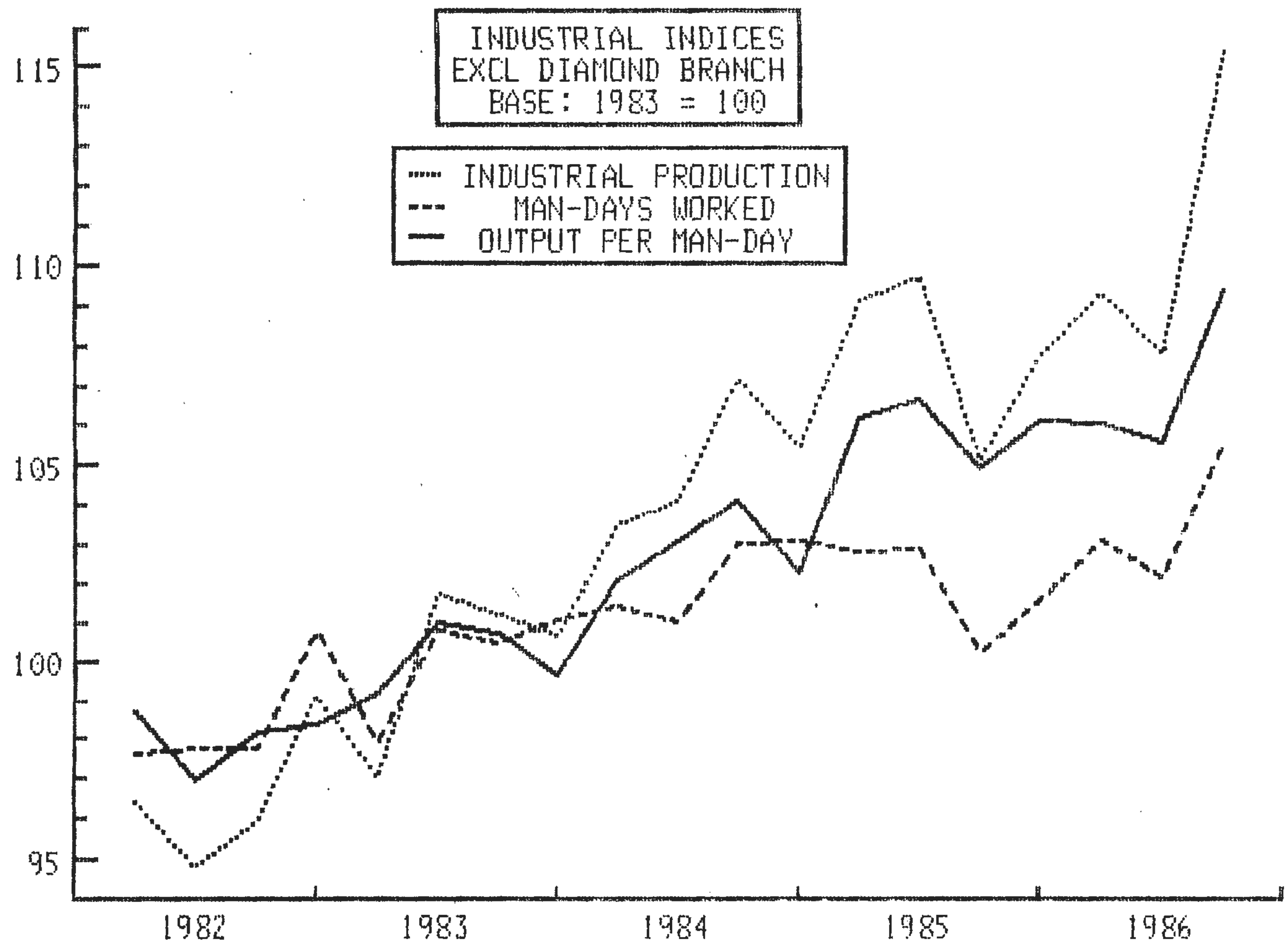
1985 1	1985 2	1985 3	1985 4	1985 5	1985 6
5.3	5.6	5.7	6.1	6.5	6.9

1985 7	1985 8	1985 9	1985 10	1985 11	1985 12
7.9	7.9	7.1	[illegible]	6.7	5.8

1986 1	1986 2	1986 3	1986 4	1986 5	1986 6
7.6	6.8	6.9	7.9	7.7	8.3

LINE 2842 COLUMN 1

1986 7	1986 8	1986 9	1986 10	1986 11
7.2	7.6	5.8	7.1	6.3


INDUSTRIAL INDICES
EXCL DIAMOND BRANCH
BASE: 1983 = 100
INDUSTRIAL PRODUCTION
MAN-DAYS WORKED
OUTPUT PER MAN-DAY
115
110
105
100
95
1982
1983
1984
1985
1986

LINE 2617 COLUMN 1 HOL.

INDUSTRIAL INDICES
EXCL DIAMOND BRANCH
BASE: 1983 = 100

	1982 1	1982 2	1982 3	1982 4
INDUSTRIAL PRODUCTION	96.4	94.8	96.0	99.1
MAN-DAYS WORKED	97.6	97.8	97.8	100.8
OUTPUT PER MAN-DAY	98.7	96.9	98.1	98.3

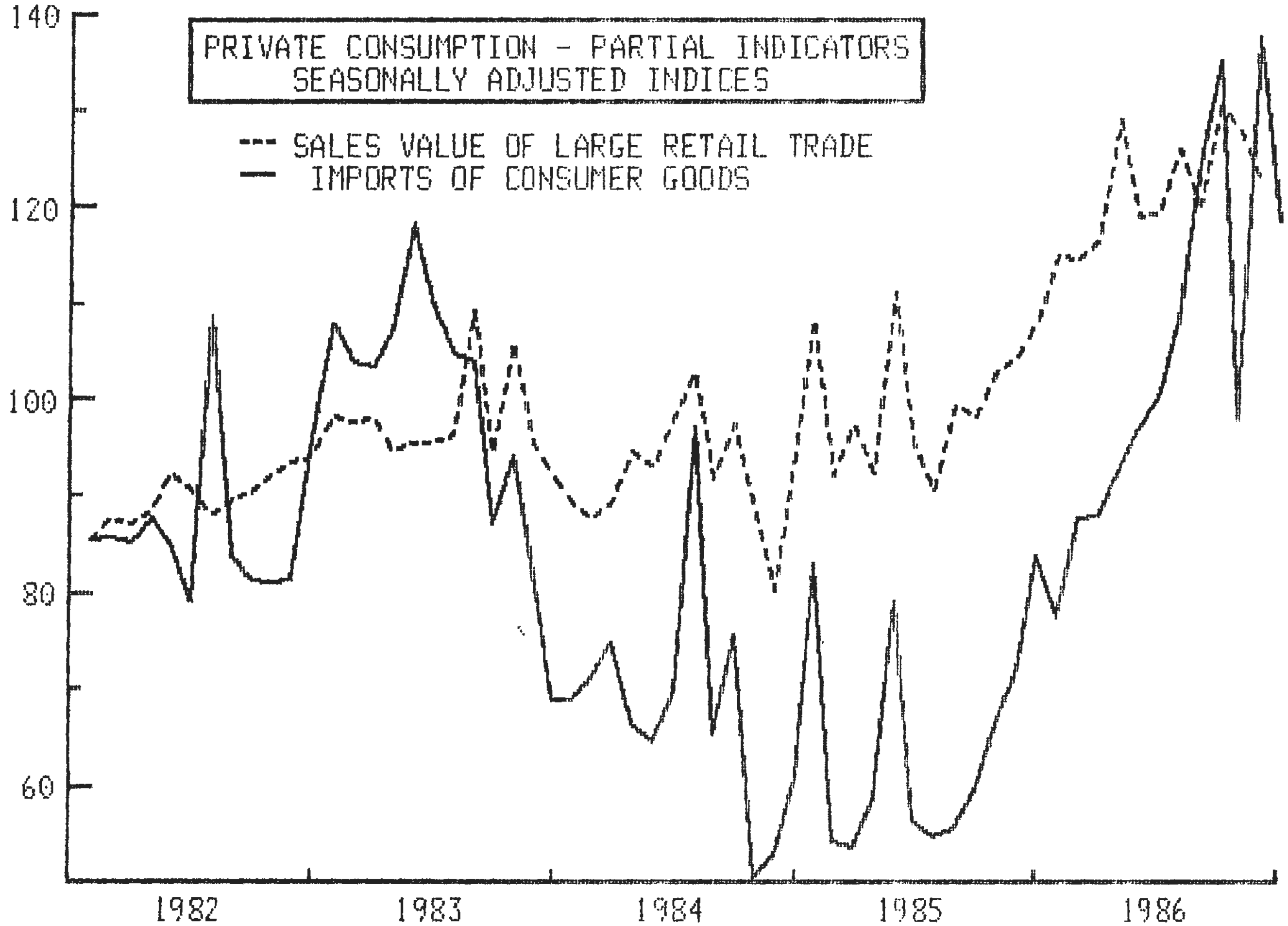
	1983 1	1983 2	1983 3	1983 4
INDUSTRIAL PRODUCTION	97.0	101.7	101.2	100.7
MAN-DAYS WORKED	97.9	100.8	100.4	101.0
OUTPUT PER MAN-DAY	99.1	101.0	100.7	99.6

	1984 1	1984 2	1984 3	1984 4
INDUSTRIAL PRODUCTION	103.5	104.1	107.2	105.4
MAN-DAYS WORKED	101.4	101.0	103.0	103.1
OUTPUT PER MAN-DAY	102.1	103.1	104.1	102.3

LINE 2647 COLUMN 1 I

	1985 1	1985 2	1985 3	1985 4
INDUSTRIAL PRODUCTION	109.1	109.7	105.1	107.7
MAN-DAYS WORKED	102.8	102.9	100.2	101.5
OUTPUT PER MAN-DAY	106.1	106.6	104.9	106.1

	1986 1	1986 2	1986 3
INDUSTRIAL PRODUCTION	109.3	107.8	115.4
MAN-DAYS WORKED	103.1	102.1	105.5
OUTPUT PER MAN-DAY	106.0	105.6	109.4


PRIVATE CONSUMPTION - PARTIAL INDICATORS
SEASONALLY ADJUSTED INDICES
SALES VALUE OF LARGE RETAIL TRADE
IMPORTS OF CONSUMER GOODS
140
120
100
80
60
1982
1983
1984
1985
1986

LINE 2879 COLUMN 1

PRIVATE CONSUMPTION - PARTIAL INDICATORS
SEASONALLY ADJUSTED DATA

A: SALES VALUE INDEX OF LARGE RETAIL TRADE
B: IMPORTS OF CONSUMER GOODS ($ MILLIONS)

	1982 1	1982 2	1982 3	1982 4	1982 5	1982 6
A	85.6	87.8	87.0	88.5	92.5	90.8
B	68.4	68.5	68.2	70.2	68.0	63.2

	1982 7	1982 8	1982 9	1982 10	1982 11	1982 12
A	87.9	89.6	90.5	92.0	93.[illegible]	94.0
B	86.8	67.0	65.1	64.9	65.0	76.8

	1983 1	1983 2	1983 3	1983 4	1983 5	1983 6
A	98.2	97.4	97.9	94.6	95.2	95.2
B	86.1	83.1	82.7	85.7	94.6	87.7

	1983 7	1983 8	1983 9	1983 10	1983 11	1983 12

LINE 2909 COLUMN 1

A	96.2	109.1	94.2	105.9	95.3	92.2
B	83.7	83.1	69.7	75.1	65.5	55.1

	1984 1	1984 2	1984 3	1984 4	1984 5	1994 6
A	89.4	87.7	89.3	94.6	92.8	98.1
B	55.2	57.0	59.8	53.1	51.7	55.8

	1984 7	1984 8	1984 9	1984 10	1984 11	1984 12
A	102.7	91.7	97.2	88.8	80.2	94.4
B	77 7	52.4	60.4	40.4	42.1	4[illegible] 6

	1985 1	1985 [illegible]	1985 3	1985 4	1985 5	1985 6
A	108.2	92.0	97.4	92.4	111.0	95.4
B	66.4	43.4	42.8	46.9	63.4	45.0

	1985 7	1985 8	1985 9	1985 10	1985 11	1985 12

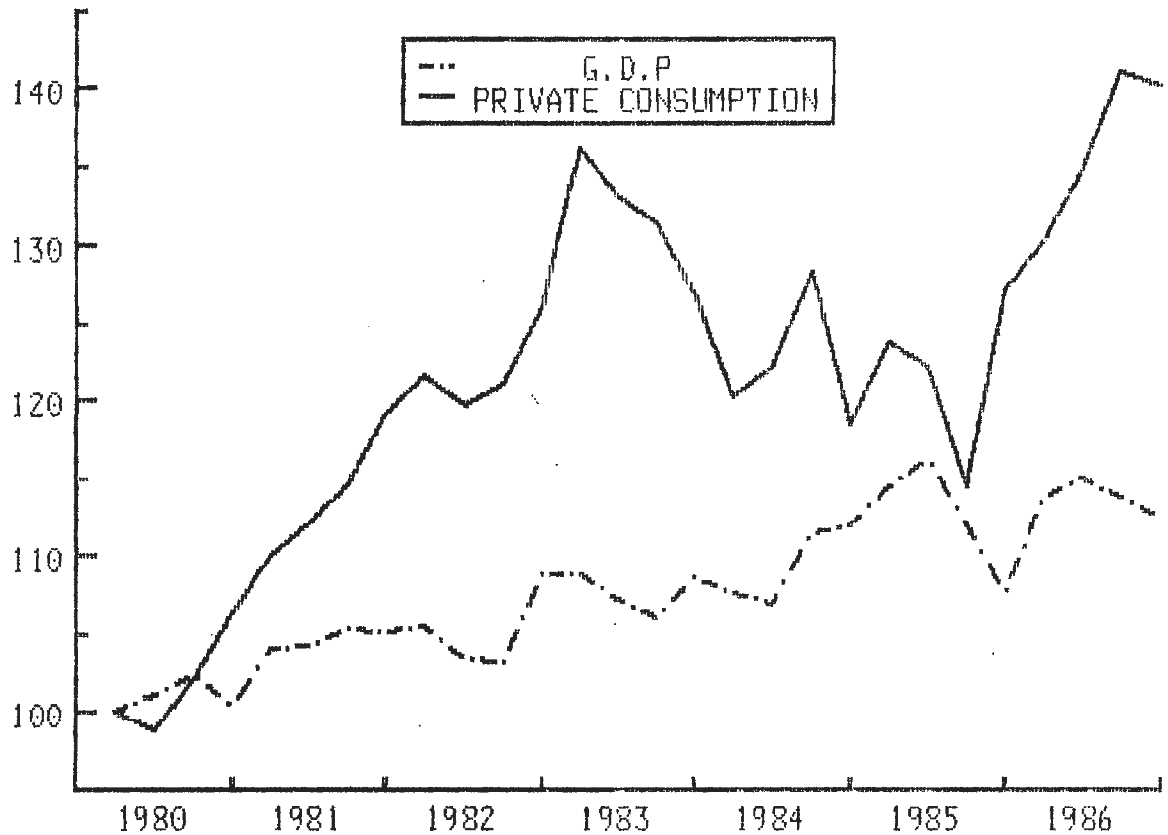
LINE 2939 COLUMN 1

A	90.4	99.3	98.1	102.8	104.5	107.8
B	43.7	44.3	47.4	53.2	57.6	67.0

	1986 1	1986 2	1986 3	1986 4	1986 5	1986 6
A	114.8	111.6	116.4	129.0	119.0	119.3
B	61.9	70.2	70.3	74.0	77.3	80.1

	1986 7	1986 8	1986 9	1986 10	1986 11
A	125.8	120.1	130.2	128.0	122.9
B	86.7	99.6	108.0	78.2	109.9

G.D.P AND PRIVATE CONSUMPTION
1980 PRICES, SEASONALLY ADJUSTED DATA
INDICES, BASE: I 1980 = 100



LINE 2981 COLUMN 1 HOLDING

G.D.P AND PRIVATE CONSUMPTION
1980 PRICES, SEASONALLY ADJUSTED DATA
INDICES, BASE: I 1980 = 100

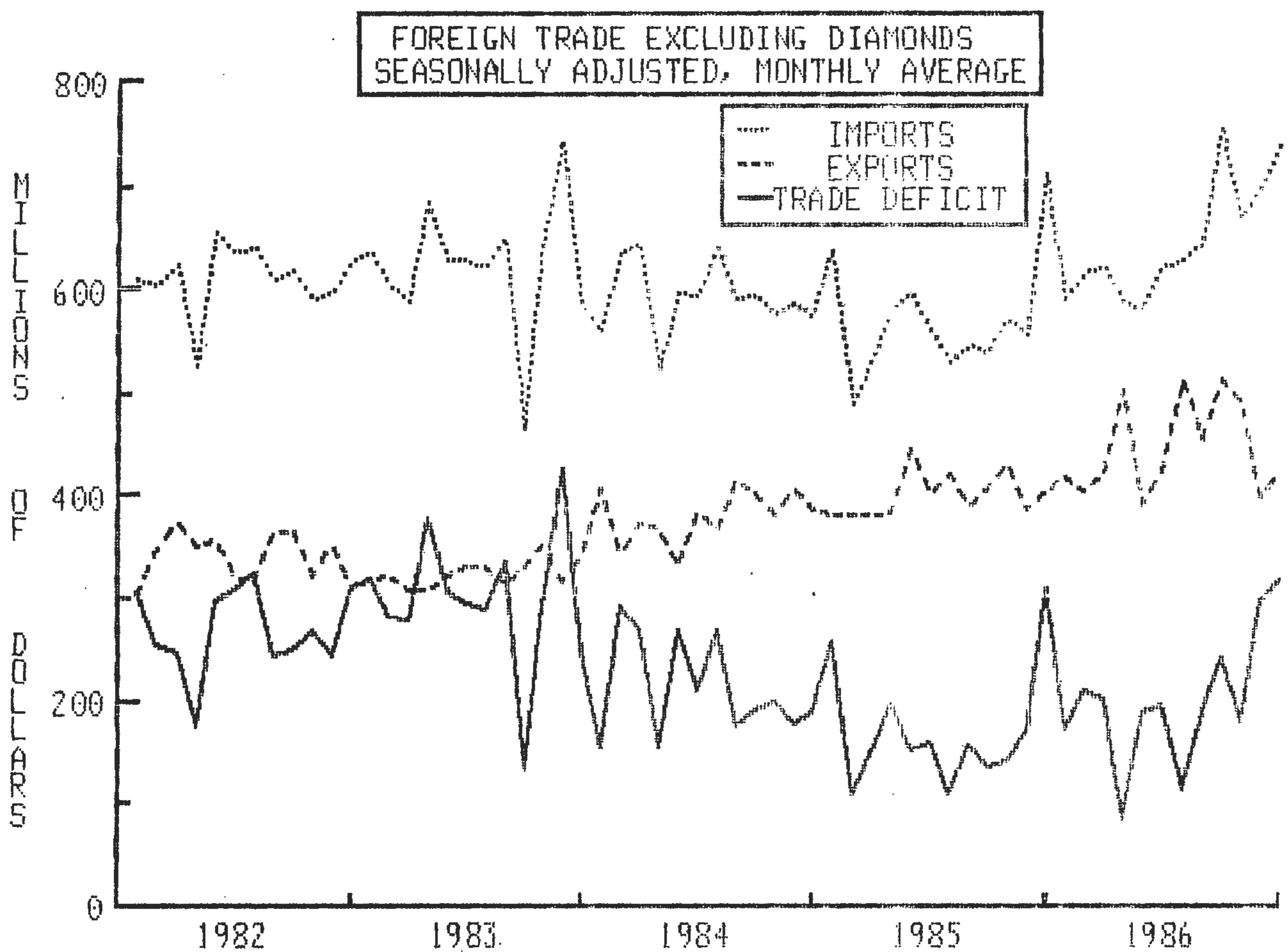
	1980 1	1980 2	1980 3	1980 4	1981 1	1981 2	1981 3	1981 4
G.D.P.	27326	27637	27965	27464	28440	28477	28777	28727
PRIVATE CONSUMPTION	14680	14519	14988	15607	16152	16480	16837	17487

	1982 1	1982 2	1982 3	1982 4	1983 1	1983 2	1983 3	1983 4
G.D.P.	28857	28244	28215	29727	29743	29335	28960	29682
PRIVATE CONSUMPTION	17857	17580	17777	18509	19992	19522	19309	18618

	1984 1	1984 2	1984 3	1984 4	1985 1	1985 2	1985 3	1985 4
G.D.P.	29419	29231	30452	30606	31292	31753	30598	29422
PRIVATE CONSUMPTION	17651	17935	18832	17406	18173	17948	16795	18655

	1986 1	1986 2	1986 3	1986 4
G.D.P.	31105	31435	31100	30718
PRIVATE CONSUMPTION	19131	19754	20722	20586

LINE 3011 COLUMN 1 INPUT


FOREIGN TRADE EXCLUDING DIAMONDS
SEASONALLY ADJUSTED, MONTHLY AVERAGE
IMPORTS
EXPORTS
TRADE DEFICIT
MILLIONS OF DOLLARS
800
600
400
200
0
1982
1983
1984
1985
1986

LINE 3116 COLUMN 1 HOLDING

FOREIGN TRADE EXCLUDING DIAMONDS
SEASONALLY ADJUSTED, MONTHLY AVERAGE

	1982 1	1982 2	1982 3	1982 4	1982 5	1982 6
IMPORTS	609	602	622	527	653	632
EXPORTS	302	346	375	351	356	322
TRADE DEFICIT	307	256	247	176	297	309

	1982 7	1982 8	1982 9	1982 10	1982 11	1982 12
IMPORTS	640	608	619	591	594	624
EXPORTS	316	362	368	321	350	312
TRADE DEFICIT	324	246	250	269	245	312

	1983 1	1983 2	1983 3	1983 4	1983 5	1983 6
IMPORTS	635	603	589	684	628	627
EXPORTS	319	322	309	308	321	331
TRADE DEFICIT	316	281	280	376	307	296

LINE 3146 COLUMN 1 HOLDING

	1983 7	1983 8	1983 9	1983 10	1983 11	1983 12
IMPORTS	618	648	464	642	743	586
EXPORTS	328	314	330	351	317	369
TRADE DEFICIT	290	334	134	291	426	247

	1984 1	1984 2	1984 3	1984 4	1984 5	1984 6
IMPORTS	558	635	641	521	597	593
EXPORTS	405	342	372	367	328	384
TRADE DEFICIT	153	293	269	154	268	209

	1984 7	1984 8	1984 9	1984 10	1984 11	1984 12
IMPORTS	637	590	593	577	584	574
EXPORTS	368	415	401	379	406	386
TRADE DEFICIT	269	175	193	198	178	188

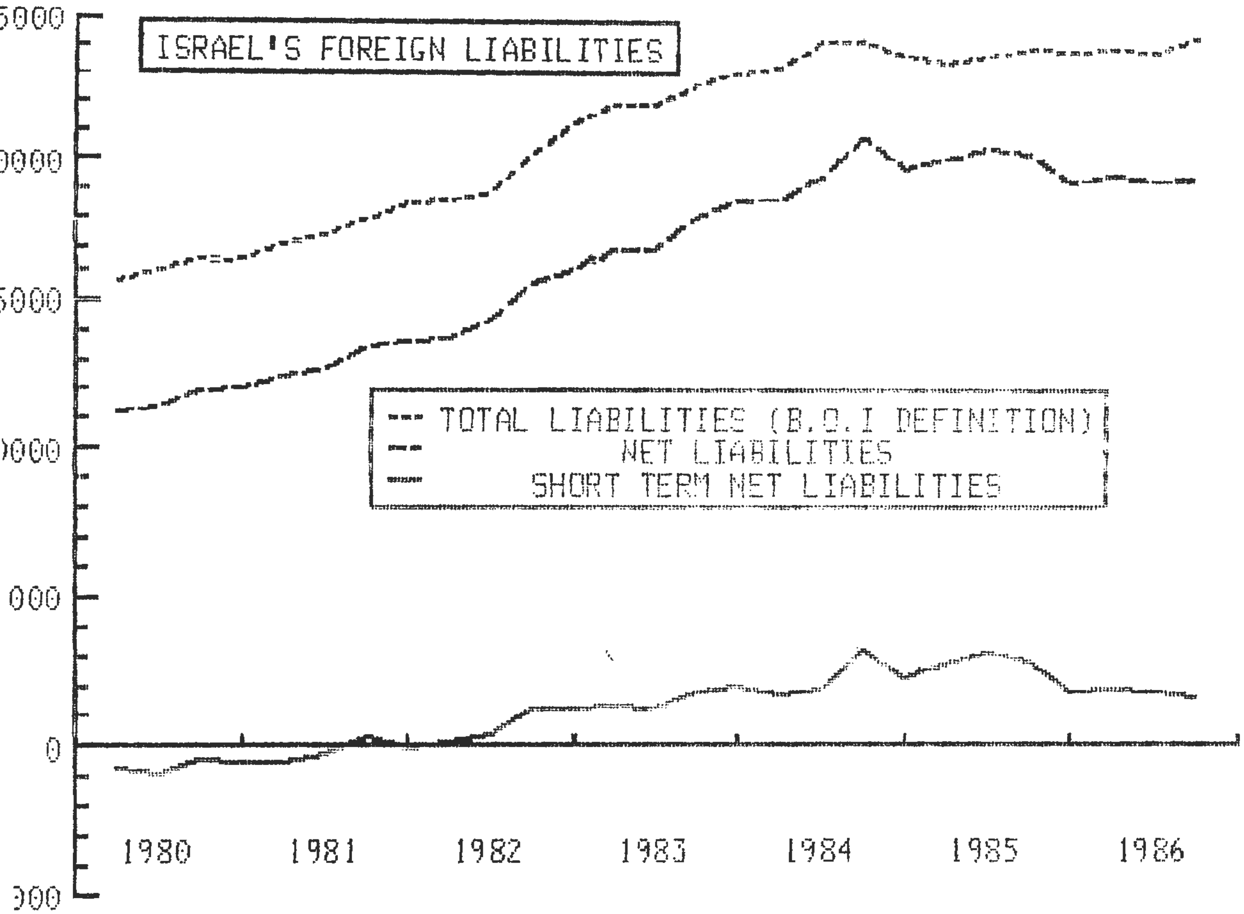
	1985 1	1985 2	1985 3	1985 4	1985 5	1985 6
IMPORTS	639	489	533	581	596	562
EXPORTS	381	380	381	384	445	402
TRADE DEFICIT	259	109	152	197	151	160

LINE 3176 COLUMN 1 INPUT

	1985 7	1985 8	1985 9	1985 10	1985 11	1985 12
IMPORTS	528	546	540	572	[illegible]	712
EXPORTS	420	389	405	432	395	404
TRADE DEFICIT	108	157	135	140	170	309

	1986 1	1986 2	1986 3	1986 4	1986 5	1986 6
IMPORTS	589	615	623	587	590	618
EXPORTS	418	404	420	503	391	422
TRADE DEFICIT	172	210	203	84	199	196

	1986 7	1986 8	1986 9	1986 10	1986 11	1986 12
IMPORTS	626	644	754	668	696	738
EXPORTS	513	454	512	488	[illegible]	[illegible]



ISRAEL'S FOREIGN LIABILITIES
TOTAL LIABILITIES (B.O.I DEFINITION)
NET LIABILITIES
SHORT TERM NET LIABILITIES
0
000
1980
1981
1982
1983
1984
1985
1986

LINE 3232 COLUMN 1 ~~HOLDING~~

ISRAEL'S FOREIGN LIABILITIES

A: TOTAL LIABILITIES (B.O.I DEFINITION)

B: NET LIABILITIES

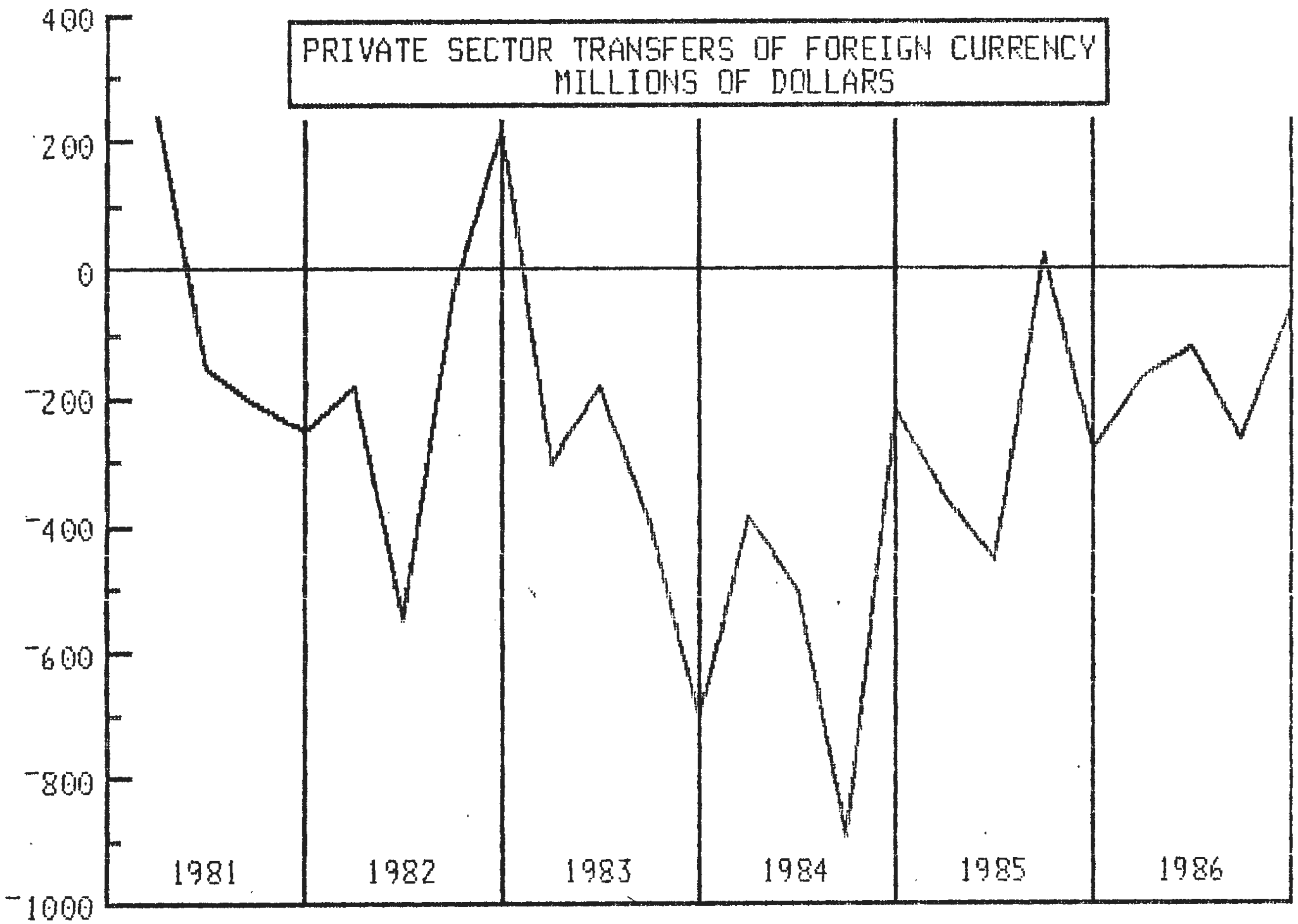
C: SHORT TERM AND BANKING SYSTEM NET LIABILITIES

	1980 1	1980 2	1980 3	1980 4	1981 1	1981 2	1981 3	1981 4
A	15645	16003	16341	16661	17077	17334	[illegible]	18474
B	11248	11436	11929	12064	12373	12696	13455	12616
C	¯734	¯873	¯440	¯528	¯505	¯210	282	¯68

	1982 1	1982 2	1982 3	1982 4	1983 1	1983 2	1983 3	1983 4
A	18533	19952	20188	21274	21972	21939	22633	[illegible]
B	13659	14347	15566	15999	16921	16890	17964	[illegible]
C	116	403	1212	1244	1290	1265	1741	1917

	1984 1	1984 2	1984 3	1984 4	1985 1	1985 2	1985 3	1985 4
A	23275	24190	24213	23753	23472	23900	24064	23953
B	18663	19493	20876	19792	20090	20460	20250	19315
LINE 3262	COLUMN 1							~~INPUT~~
C	1676	1912	3149	2277	2663	3083	2774	1795

	1986 1	1986 2	1986 3
A	24091	23961	24445
B	19592	19414	19432
C	1872	1766	1562



PRIVATE SECTOR TRANSFERS OF FOREIGN CURRENCY
MILLIONS OF DOLLARS
400
200
0
-200
-400
-600
-800
-1000
1981
1982
1983
1984
1985
1986

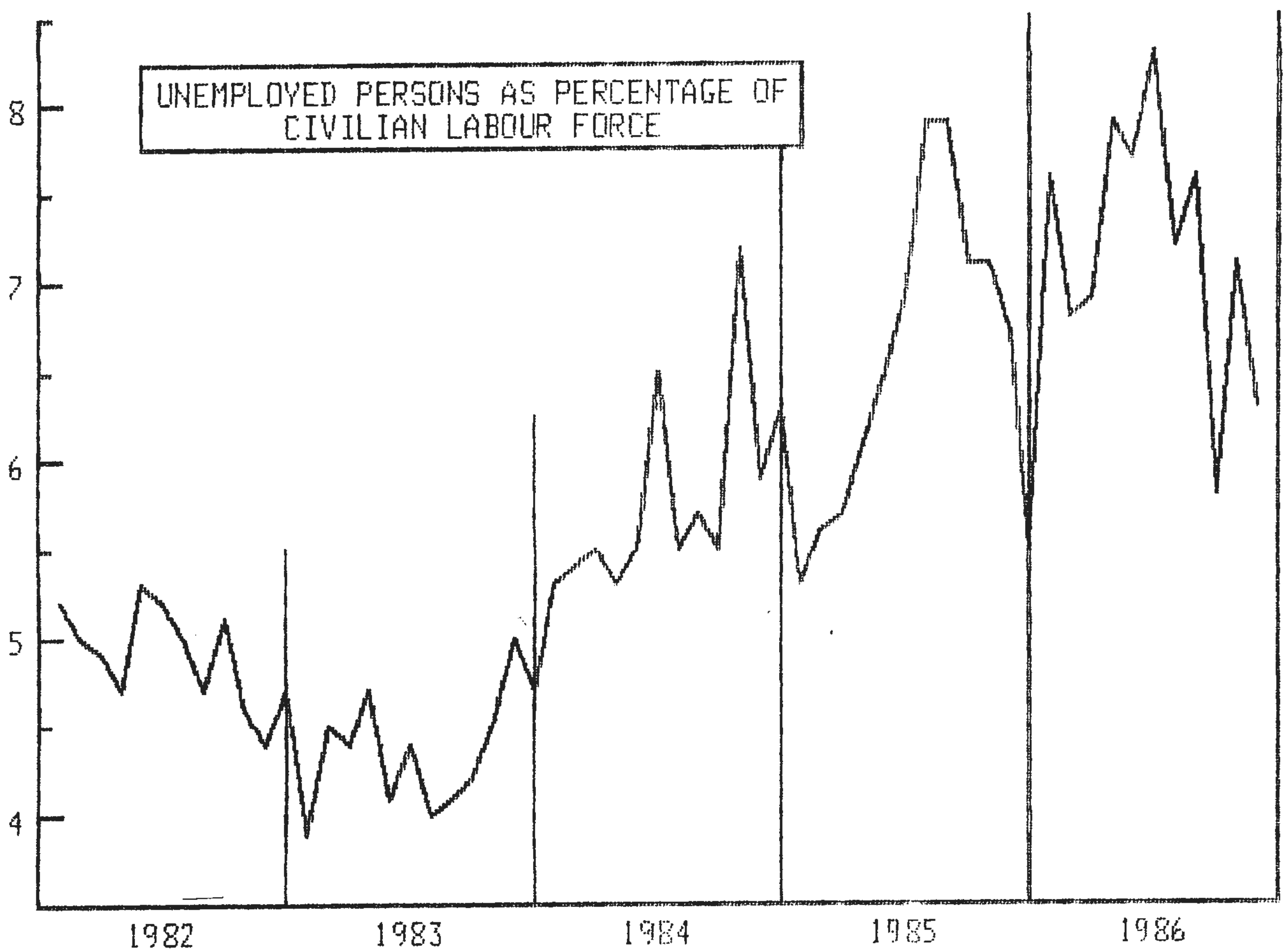
LINE 3280 COLUMN 1 INPUT

PRIVATE SECTOR TRANSFERS OF FOREIGN CURRENCY
MILLIONS OF DOLLARS

1981 1	1981 2	1981 3	1981 4	1982 1	1982 2	1982 3	1982 4
239	¯155	¯211	¯253	¯184	¯545	¯36	217

1983 1	1983 2	1983 3	1983 4	1984 1	1984 2	1984 3	1984 4
¯302	¯187	¯391	¯703	¯387	¯504	¯893	¯217

1985 1	1985 2	1985 3	1985 4	1986 1	1986 2	1986 3	1986 4
¯356	¯458	23	¯280	¯171	¯122	¯264	¯62



UNEMPLOYED PERSONS AS PERCENTAGE OF CIVILIAN LABOUR FORCE
8
7
6
5
4
1982
1983
1984
1985
1986

LINE 3377 COLUMN 1 HOLDING
3 6 8 0 ⎕xyULTEXT'ITROTNET'

FOREIGN CURRENCY RESERVES
AT THE BANK OF ISRAEL
MILLIONS OF DOLLARS

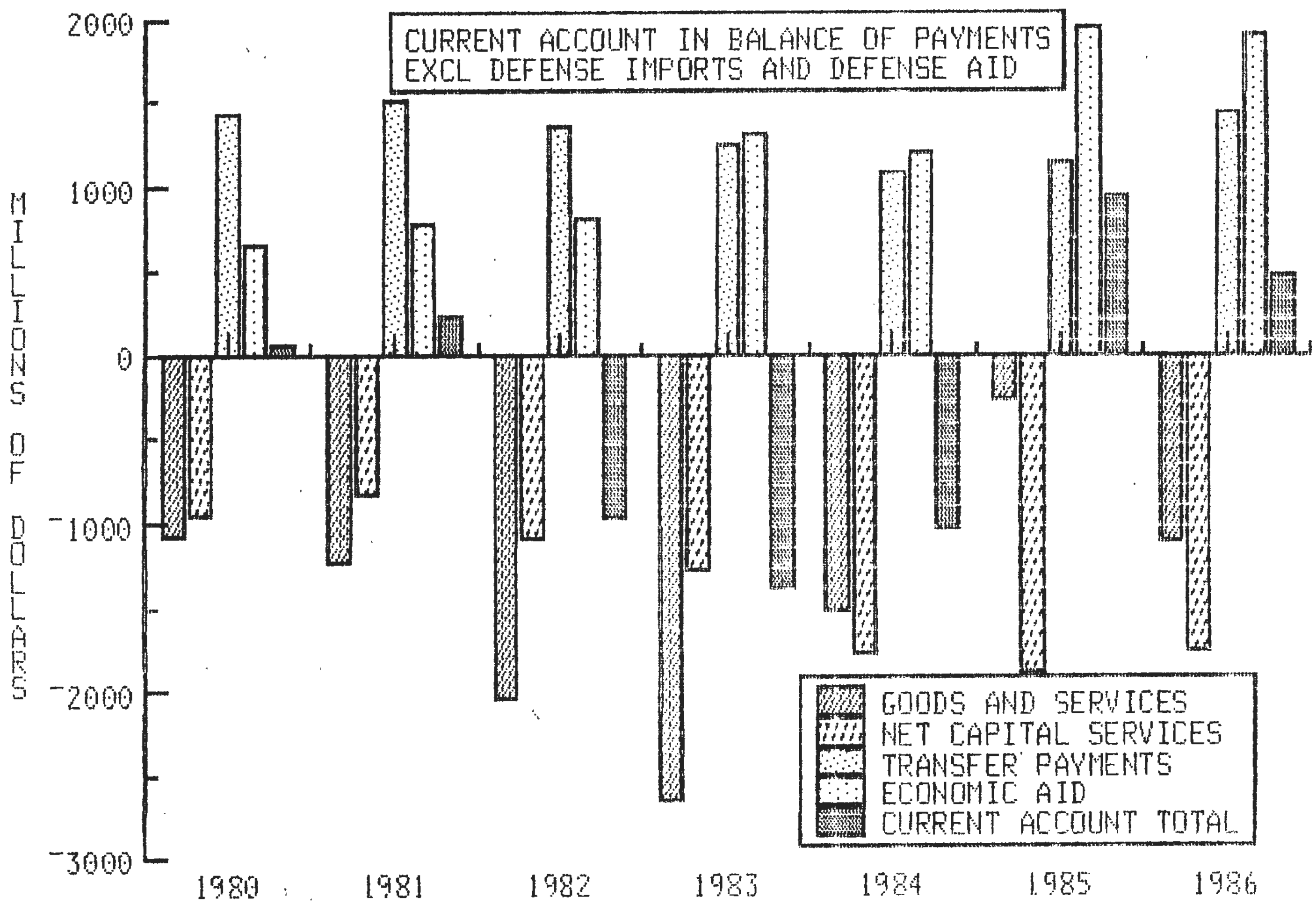
1982 1	1982 2	1982 3	1982 4	1982 5	1982 6
2881	2860	2860	2869	2886	2862
1982 7	1982 8	1982 9	1982 10	1982 11	1982 12
2891	2909	2918	2934	2959	2994
1983 1	1983 2	1983 3	1983 4	1983 5	1983 6
3196	3193	3197	3200	3189	3181
1983 7	1983 8	1983 9	1983 10	1983 11	1983 12

LINE 3407 COLUMN 1 HOLDING

3122	3052	2954	2778	2690	2873
1984 1	1984 2	1984 3	1984 4	1984 5	1984 6
3067	3070	2995	2998	3003	2954
1984 7	1984 8	1984 9	1984 10	1984 11	1984 12
2603	2411	2088	1994	2821	2601
1985 1	1985 2	1985 3	1985 4	1985 5	1985 6
2319	2183	2130	2086	2025	1952
1985 7	1985 8	1985 9	1985 10	1985 11	1985 12
1955	1961	2423	2402	3257	3199
1986 1	1986 2	1986 3	1986 4	1986 5	1986 6

LINE 3437 COLUMN 1 INPUT

3150	3078	3001	3054	3098	3097
1986 7	1986 8	1986 9	1986 10	1986 11	1986 12


CURRENT ACCOUNT IN BALANCE OF PAYMENTS
EXCL DEFENSE IMPORTS AND DEFENSE AID
MILLIONS OF DOLLARS
2000
1000
0
⁻1000
⁻2000
⁻3000
1980
1981
1982
1983
1984
1985
1986
GOODS AND SERVICES
NET CAPITAL SERVICES
TRANSFER PAYMENTS
ECONOMIC AID
CURRENT ACCOUNT TOTAL

LINE 3347   COLUMN 1   INPUT

25 7 7 0 ⎕xyULTEXT'SHOROT,RIBIT,HAVPOT,MAPNAK,SHOTE?'

CURRENT ACCOUNT IN BALANCE OF PAYMENTS
EXCL DEFENSE IMPORTS AND DEFENSE AID
($ MILLIONS)

	1980	1981	1982	1983	1984	1985	1986
GOODS AND SERVICES	¯1092	¯1225	¯2073	¯2454	¯2502	164	[illegible]
NET CAPITAL SERVICES	¯953	¯831	¯1097	¯1272	¯1782	¯1979	¯1767
TRANSFER PAYMENTS EXCL US	1427	1502	1358	1240	1090	1173	1430
ECONOMIC US AID	655	772	795	1363	1200	1950	1899
CURRENT ACCOUNT TOTAL	47	219	979	1766	¯1024	[illegible]	[illegible]

MINISTRY OF FINANCE
OFFICE OF THE DEPUTY DIRECTOR GENERAL
FOR ECONOMC AFFAIRS
JANUARY 1987   72,20 72YG.WID

THE ISRAELI ECONOMY
MAIN INDICATORS 1976-1986

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Est. 1986
	Percentage Increase in Real Terms										
A. RESOURCES AND USE OF RESOURCES *											
1. TOTAL RESOURCES AND USES	-0.0	-0.1	6.5	4.0	-0.3	5.9	1.8	3.9	0.8	0.9	4.3
2. TOTAL DOMESTIC USES	-3.9	-3.3	7.0	4.2	-2.3	6.5	3.5	4.5	-3.7	-1.7	3.6
3. GROSS DOMESTIC PRODUCT	1.9	1.6	4.1	4.7	3.5	3.7	0.5	2.3	1.7	2.8	1.1
4. G.D.P PER EMPLOYED PERSON	0.6	-0.6	-1.0	1.8	2.2	2.3	-2.0	-1.0	-1.1	2.9	-0.5
5. GROSS DOMESTIC PRODUCT OF THE BUSINESS SECTOR	0.7	0.8	3.9	5.0	4.1	4.6	-0.7	2.6	1.6	3.8	1.9
6. PRIVATE CONSUMPTION	4.8	4.8	8.2	8.0	-2.8	12.0	7.1	8.0	-7.2	-0.4	12.0
7. PER CAPITA PRIVATE CONSUMPTION	2.5	2.5	5.9	5.3	-5.1	10.0	5.0	5.9	-9.0	-2.2	10.2
8. PUBLIC CONSUMPTION	-9.7	-13.4	8.4	-8.7	9.1	6.0	-7.0	-4.7	5.9	3.2	-11.4
of which: civilian	5.5	2.9	5.4	2.1	-1.2	1.1	0.1	0.4	0.9	0.2	-1.7
defense	-14.4	-19.6	9.8	-13.7	14.7	9.7	-11.9	-8.9	10.3	5.9	-18.8
of which: domestic	-9.2	-4.5	0.5	1.8	3.0	2.3	5.2	0.6	-0.9	-3.3	-9.4
imports	-18.0	-34.5	35.6	-31.3	25.8	21.3	-32.2	-31.4	37.5	24.1	-33.4
9. PUBLIC CONSUMPTION, EXCLUDING DEFENSE IMPORTS	-4.6	-2.0	-1.4	2.5	3.5	1.3	3.1	2.6	0.8	-1.5	-5.2
10. GROSS DOMESTIC INVESTMENT	-12.2	-7.3	2.6	12.0	-14.1	-5.8	13.8	10.3	-7.6	-13.4	6.8
11. GROSS FIXED DOMESTIC INVESTMENT	-10.7	-11.4	5.7	12.1	-9.8	3.7	4.2	13.9	-12.8	-10.1	-6.8
of which: housing	-12.6	-21.1	-2.0	14.6	5.6	1.8	-3.9	-5.4	-8.4	-13.7	-17.3
12. GROSS FIXED NON RESIDENTIAL INVESTMENT	-9.6	-5.7	9.5	11.0	-16.8	5.0	9.4	25.0	-14.7	-8.5	-2.1
of which: Industry	-4.6	-10.5	15.3	-3.4	-13.2	3.8	23.1	18.5	0.2	3.0	

Source: Central Bureau of Statistics and "National Budget"
* definitions set to U.N standards from 1980 onwards.

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Est. 1986
13. GROSS DOMESTIC PRODUCT (NIS millions, current Prices)	10.3	15.0	24.2	45.7	110.4	259.5	581.6	1,490	7.288	26,745	40,355
14. NATIONAL INCOME (NIS. millions, current prices)	8.2	12.0	18.7	35.3	83.2	207.9	449.2	1,138	5,517	19,360	28,376
15. PER CAPITA PRIVATE CONSUMPTION (NIS - 85 prices)	3,311	3,395	3,594	3,786	3,591	3,950	4,148	4,392	3,997	3,909	4,308
16. RATE OF PRIVATE SAVING FROM ALL SOURCES	26	28	33	30	33	34.4	28.2	24.7	35.6	27.8	21

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Est. 1986
						Thousands					
B. POPULATION AND EMPLOYMENT											
1. Population (End of Year) of which:	3,575	3,653	3,738	3,836	3,922	3,978	4,064	4,119	4,200	4,266	4,334
Jewish Population	3,020	3,077	3,141	3,218	3,283	3,320	3,373	3,413	3,472	3,522	3,572
2. Gross Immigration	20	21	26	37	20	13	14	17	20	11	11
3. Civilian Labour Force *	1,169	1,207	1,258	1,277	1,318	1,349	1,367	1,403	1,444	1,446	1,476
4. Employed Persons	1,127	1,159	1,213	1,241	1,255	1,280	1,298	1,339	1,359	1,349	1,371
5. Unemployed Persons	43	47	45	37	64	68	68	63	85	96.8	105.6
6. Average Population (Per cent Increase)	2.3	2.3	2.2	2.5	2.4	1.8	2.0	2.0	2.0	1.8	1.6
7. Employed Persons (Per cent Increase)	1.3	2.9	4.6	2.3	1.1	2.0	1.4	3.2	1.5	0.7	1.6
8. Unemployment Rate (Percent)	3.6	3.9	3.6	2.9	4.8	5.1	5.0	4.5	5.9	6.7	7.2

* From 1985 onwards Civilian Labour Force Based on 1983 Census and Includes ages 15+.

C. BALANCE OF PAYMENTS* (1

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Est. 1986
					(Millions of U.S. Dollars)						
1. TOTAL EXPORTS**	4,602	5,685	6,856	8,328	10,109	10,739	10,456	10,318	10,819	11,020	11,935
2. EXPORTS OF GOODS*** (2	2,278	2,937	3,685	4,270	5,215	5,239	4,907	4,823	5,566	5,998	6,856
of which:											
a. Industrial exports excl. Diamonds	1,252	1,575	1,957	2,539	3,340	3,637	3,510	3,357	4,009	4,311	4,657
b. Diamonds	712	1,003	1,318	1,224	1,409	1,067	905	1,001	1,035	1,263	1,666
c. Agricultural Exports	325	385	455	556	556	600	552	504	529	469	558
of Which: Citrus	172	189	203	255	231	246	186	163	116	172	174
Other	153	196	253	301	325	353	367	341	413	297	384
3. EXPORTS OF SERVICES***	1,853	2,199	2,704	3,468	4,188	4,710	4,768	4,634	4,496	4,291	4,147
of which:											
a. Tourism	425	565	685	789	896	971	890	1,010	1,034	1,103	921
b. Transportation	804	930	1,058	1,163	1,381	1,435	1,288	1,225	1,397	1,300	1,298
4. TOTAL IMPORTS**	7,658	8,041	9,943	11,947	13,837	15,006	15,097	15,289	15,587	14,991	16,045
5. IMPORTS OF GOODS*** (3	3,902	4,516	5,383	7,044	7,539	7,523	7,650	8,094	7,771	7,649	8,880
of which: Oil	685	737	775	1,406	2,116	2,043	1,914	1,607	1,593	1,510	924
6. IMPORTS OF SERVICES***	1,903	2,130	2,636	3,278	4,077	4,657	5,309	5,419	5,744	5,002	5,173
of which:											
Capital Services	737	787	1,025	1,414	2,006	2,316	2,746	2,682	2,964	2,774	2,579
Tourism	180	240	343	454	526	639	644	770	711	525	724

* Source: Central Bureau of Statistics
** Including Administered Areas in Judea Samaria & Gaza Strip.
*** Excluding administered Areas in Judea Samaria & Gaza Strip.

1) Exports F.O.B, IMPORTS C.I.F
2) The difference between the total and sum of the various items contains adjustments, returned exports and other exports.
3) Excluding direct defense imports.

C. BALANCE OF PAYMENTS (Continuation)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Est. 1986
7. Direct Defense Imports	1,519	1,047	1,565	1,183	1,693	2,205	1,518	1,043	1,463	1,828	1,236
8. Total Imports excl. defence*	6,139	6,994	8,378	10,764	12,144	12,801	13,579	14,247	14,125	13,163	14,809
9. Trade Deficit** (1)	1,624	1,579	1,698	2,774	2,324	2,284	2,743	3,271	2,205	1,651	2,024
10. Deficit in Services Account**	50	-69	-68	-190	-111	-53	541	785	1,248	711	1,026
11. TOTAL CURRENT DEFICIT*	3,067	2,367	3,087	3,619	3,728	4,261	4,641	4,971	4,767	3,972	4,110
12. Civilian Deficit*	1,548	1,320	1,522	2,436	2,035	2,056	3,123	3,928	3,304	2,143	2,874
of which: Capital Services Deficit	426	416	531	607	953	831	1,087	1,273	1,783	1,879	1,767
Civilian Deficit excl. Capital Services	1,122	904	991	1,829	1,082	1,225	2,036	2,656	1,522	264	1,107
13. Surplus in Goods and Services Account with Administered Areas.	137	201	109	148	178	169	161	127	147	219	176
a. Imports	334	349	358	442	529	621	620	734	610	512	756
b. Exports	471	550	467	590	706	791	781	861	757	731	932
14. Exports as % of Imports*	60	71	69	70	73	72	69	67	69	74	74
15. Exports as % of Imports* excl. Military Imports	75	81	82	77	83	84	77	72	77	84	81
16. Goods and Services Deficit as % of Total Resources ***	16	12	14	14	10	12	14	15	11	8	10

* Including Administered Areas in Judea Samaria and Gaza Strip. (1) Excluding Direct Defense Imports.
** Excluding Administered Areas in Judea Samaria and Gaza Strip.
*** Calculation is made in terms of national accounts (in NIS 1980 prices).

C. BALANCE OF PAYMENTS (continuation)

Annual Percentage Changes

	1978		1979		1980		1981		1982		1983		1984		1985		Est. 1986
	Real	Nom.	Real	Nom.	Real	Nom.	Real	Nom.	Real	Nom.	Real	Nom.	Real	Nom.	Real	Nom.	Real
17. TOTAL EXPORTS* (2)	5	21	3	21	6	21	4	6	-3	-3	2	-1	14	5	8	2	6
18. EXPORT OF GOODS**	-2	29	2	16	10	22	7	0	-1	-6	2	-2	17	15	10	8	14
Industrial Exports excl. diamonds	9	24	9	30	15	32	12	9	0	-3	-1	-4	20	19	8	8	8
Diamonds	17	31	-12	-7	9	15	-19	-24	-10	-15	14	11	10	3	27	22	32
Agricultural exports	8	18	7	22	-15	0	16	8	7	-8	-5	-9	9	5	-9	-11	19
Agricultural exports excluding citrus	21	29	9	19	-12	8	16	9	19	4	1	-7	19	21	-12	-28	29
19. EXPORTS OF SERVICES ** (1)	21	21	6	20	2	18	3	3	-6	-4	1	4	13	3	3	2	-10
20. TOTAL IMPORTS *(2)	11	24	2.8	20	-6.4	16	10	8	3.8	1	6.3	1	-0.5	2	-2	-4	9
21. IMPORT OF GOODS EXCL. Defense Imports**	2	19	6	31	-12	7	3	0	11	2	11	6	-3	-4	2	-2	19
22. IMPORT OF SERVICES**1)	13	20	5	16	-3	11	17	13	12	9	9	7	5	2	-21	-20	0.4
23. DIRECT DEFENSE IMPORTS (2)	36	49	-31	-24	26	43	21	30	-32	-31	-31	-31	38	40	24	25	-33
24. TOTAL IMPORTS EXCL. Defense Imports*(1)	5	18	7	27	-9	8	7	3	11	3	11	7	-2	-3	-6	-7	15

* Including Administered Areas in Judea Samaria and Gaza Strip.
** Excluding Administered Areas in Judea Samaria and Gaza Strip.

(1) Excluding Factor payments from (or paid) abroad.
(2) The real change is in terms of National Accounts.

C. BALANCE OF PAYMENTS * and External Debt**

	1976	1977	1978	1979	1980	1981	1982	1983	1984	Est. 1985	1986
1. Current Account	-634	-292	-859	-813	-745	-1,335	-2,025	-2,113	-1,415	1,098	1,290
of which: transfer payments (net)	2,433	2,075	2,228	2,806	2,983	2,926	2,616	2,858	3,392	5,070	5,400
2. Capital Flows (L& M term)	1,327	1,010	1,071	1,279	1,221	1,212	1,222	2,316	1,165	-81	-90
Long and medium term loans	1,893	1,637	1,922	2,413	2,315	2,464	2,470	2,829	2,226	1,080	1,440
Principal maturities	620	724	895	1,119	1,042	1,243	1,141	983	1,054	1,252	1,560
Net capital investment	54	97	44	-15	-52	-9	-67	470	-7	91	30
3. Basic Account	693	718	212	466	476	-123	-803	203	-250	1,017	1,200
4. Total Debt service	1,294	1,440	1,863	2,470	2,978	3,455	3,753	3,499	3,873	3,903	4,016
5. Net foreign reserves (end of year)	1,156	1,359	2,242	2,570	2,781	2,847	2,994	2,873	2,601	3,190	4,153
6. External Debt (end of year)	9,478	10,808	12,598	15,221	16,661	18,474	21,274	22,975	23,719	23,926	24,437(1
of which: short term loans	805	875	1,338	2,237	2,371	2,389	3,104	3,580	3,506	3,349	3,418(1
Loans from U.S Government	2,960	3,690	4,380	5,320	6,470	7,380	8,287	9,224	9,997	9,888	9,903(1

* Source: Central Bureau of Statistics
** Source: Bank of Israel
1) End of September.

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	Est. 1986
					(Percentage changes)						
E. CONSUMER PRICES *											
1. CALENDAR YEAR											
Increase during the year	38.0	42.5	48.1	111.0	132.9	101.5	131.5	190.7	444.9	185.2	19.7
Annual average increase	31.3	34.6	50.6	78.6	131.0	116.8	120.3	145.6	373.8	304.6	48.1
2. BUDGET YEAR											
Increase during the year	34.0	49.6	56.1	120.4	133.5	104.3	134.0	240.5	412.3	116.9	26 (2)
Annual average increase	33.3	35.2	52.0	95.2	133.6	110.1	127.0	173.8	404.6	231.3	30.6 (2)
F. WAGES * - CALENDAR YEAR											
1. NOMINAL WAGES PER EMPLOYEE (based on current NIS *)	33	48	54	93	126	139	119	156	383.9	254.9	63.6
2. REAL WAGES PER EMPLOYEE	1	11	2	10	-3	10.5	-0.4	6.1	-0.3	-9.1	7.2
3. REAL NET WAGES PER EMPLOYEE						13.2	0.4	3.4	-5.4	-3.0	8.2
G. OFFICIAL EXCHANGE RATE *					(Current NIS)						
1. NIS PER DOLLAR - CALENDAR YEAR											
End of year	.0009	.0015	.0019	.0035	.0075	.0156	.0337	.1078	.6387	1.487	1.494
Annual average	.0008	.0010	.0017	.0025	.0051	.0114	.0243	.0562	.2933	1.180	1.488
2. Percentage change - during the year	24	75	24	86	114	107	116	220.3	492.6	132.8	0.5
- annual average	26	32	67	45	103	123	112	131.8	421.6	302.3	26.3
3. NIS PER DOLLAR - BUDGET YEAR											
End of year	.0009	.0016	.0021	.0041	.0089	.0192	.0396	.1533	.8585	1.490	1.647(2
Annual average	.0008	.0001	.0018	.0030	.0063	.0137	.0291	.0797	.4438	1.367	1.522(2
H. MONETARY DEVELOPMENTS ** (NIS MILLIONS)											
1. MONEY SUPPLY (M1) (End of Year)	1.4	1.9	2.7	3.5	7.0	12.5	26.4	61.3	277.5	989.4	2,102
Percentage Increase (During the Year)	27	39	45	31	98	78	111.2	132.5	352.4	256.6	112
Increase in Real Terms ***	8	3	-2.1	-38	-15	-11.7	-8.8	-20.1	-16.9	25.0	78
2. TOTAL BANKING CREDIT (End of Year)	3.4	5.1	8.7	21.2	48.0	88.7	206.3	493.9	2,979.6	8,085.1	11,509
Increase in Real Terms ***	23	5	15	16	-3	-8	0	-17.6	10.4	-3.7	19.2
Free Credit (Excl. Credit for Oil)(1)	1.6	2.4	4.4	10.7	19.2	33.3	91.7	192	1,211	4,256	8,144

* Source: Central Bureau of Statistics
** Source: Bank of Israel
*** Deflated by the Consumer Price Index
(1) Excl. credit for oil shipping and saving schemes.
(2) Forecast.

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
3. SHARE PRICES (PERCENT CHANGE DURING THE YEAR)	27	108	40	61	279	154	296	-5.8	586.9	192.2	31.8

I. GOVERNMENT BUDGET* (BUDGET YEARS)

	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
1. TOTAL BUDGETARY EXPENDITURE (NIS MILLION)	9.2	14.3	21.2	41.3	105.5	222.7	500.2	1,451.5	8,681	26,977	28,894
OF WHICH: DEFENSE	3.5	4.6	6	14	31	65.1	144.1	405.8	2,171	6,623	7,295
DEBT SERVICE	1.8	3.9	5.9	9.5	29.6	58.6	133.8	428.3	3,601	12,623	11,773
ORDINARY BUDGET	2.8	4.4	7.4	13.4	33.9	80.9	181.3	519.2	2,476	6,432	8,146
DEVELOPMENT BUDGET	1.1	1.4	1.8	4.4	11	18.1	41	98.2	433	1,299	1,680
2. TOTAL TAX REVENUE	4.6	6.5	10.2	20.9	44.9	106.6	273.5	746.2	3,480	12,030	15,760
OF WHICH: DIRECT TAXES	2.2	3.4	5.7	12.5	27.8	63.7	158.1	407.9	1,797	6,215	8,833
INDIRECT TAXES	2.3	3.2	4.6	8.4	17.1	42.9	115.4	338.3	1,683	5,816	6,927

* EXCLUDING DEBT REPAYMENT TO CENTRAL BANK

1986 - PROPOSED BUDGET