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Central Intelligence Agency

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DIRECTORATE OF INTELLIGENCE

26 September 1984

ISRAEL: Alternative Economic Policies

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Summary

, we ran two scenarios to measure the impact on Israel's economic performance of policies designed to improve the financial gap. Domestic demand would have to be constrained to such a low level that economic growth would decline.

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Scenario 8. In this scenario, we kept the financial gap--the sum of the civilian goods and services deficit, self-financed military payments, and debt repayment--at the 1984 level of \$6.4 billion for 1985-87 by reducing private and public consumption. On average, there is no economic growth from 1985-87, and the unemployment rate increases to 10.7 percent in 1987, compared with 8.5 percent in the baseline. Investment declines at an average annual rate of 15 percent compared with a fall of 5.6 percent in the baseline. The civilian goods and services deficit in 1987 is \$3.9 billion compared with \$5.6 billion in the baseline.

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Scenario 9. We assumed \$4.5 billion is a "financeable level" for the financial gap and targeted this level for 1987. To achieve this goal, private and domestic government consumption decline by an annual average of 9.1 percent and 5.7 percent, respectively, from 1984 to 1987. Investment is assumed to decline no more than it does in the baseline; otherwise it would reach negative values. GNP declines an average of 3.4 percent a year, and the unemployment rate increases to 12.9 percent in 1987.

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This memorandum was prepared by the Israel/Palestinian Branch, Arab-Israeli Division, Office of Near Eastern and South Asian Analysis. It was requested by Russell Misheloff, Deputy Director, Office of Middle East and European Affairs.

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Information as of 25 September 1984 was used in its preparation. Questions and comments should be directed to Chief, Arab-Israeli Division, at 351-5955.

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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	111.19	111.18	110.43
PERCENT CHANGE	1.34	2.42	0.78	-0.01	-0.67
GNP DEFlator	12.62	53.28	251.65	1448.71	11143.50
PERCENT CHANGE	150.09	322.13	372.34	475.68	669.20
CAPACITY UTILIZATION RATE	90.88	92.47	92.68	92.31	91.79
UNEMPLOYMENT RATE	4.49	5.96	7.27	8.86	10.74
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.34	83.80	83.98	86.96	89.83
PERCENT CHANGE	7.05	4.30	0.21	3.55	3.30
TOTAL INVESTMENT	27.36	26.60	25.58	21.57	16.23
PERCENT CHANGE	5.92	-2.79	-3.85	-15.65	-24.76
GOVERNMENT CONSUMPTION	35.38	39.77	38.95	40.47	40.13
PERCENT CHANGE	-4.24	12.39	-2.06	3.90	-0.83
EXPORTS	51.38	54.12	56.60	58.13	60.50
PERCENT CHANGE	2.24	5.32	4.59	2.70	4.07
IMPORTS	80.98	88.51	88.36	90.09	90.28
PERCENT CHANGE	5.65	9.30	-0.17	1.96	0.22
NET FACTOR IMPORTS	5.76	5.44	5.56	5.87	5.97

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.83	12.68	14.06
OF WHICH: DIAMONDS	1.21	1.39	1.58	1.72	1.97
IMPORTS	13.96	15.22	16.02	16.72	17.92
OF WHICH: GEMS	1.61	1.63	1.64	1.64	1.72
DIAMONDS	0.85	0.98	1.12	1.22	1.40
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-4.20	-4.05	-3.86
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-6.42	-6.42	-6.42
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	-0.19	0.37	0.94

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ISRAEL
DETAILED COMPONENTS OF REAL GNP

(BILLIONS OF 1980 SHEKELS)

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	1983	1984	1985	1986	1987
PRIVATE CONSUMPTION	80.34	83.80	83.98	86.96	89.83
PERCENT CHANGE	7.05	4.30	0.21	3.55	3.30
TOTAL INVESTMENT	27.36	26.60	25.58	21.57	16.23
PERCENT CHANGE	5.92	-2.79	-3.85	-15.65	-24.76
COMPONENTS OF INVESTMENT					
PRIVATE NONRESIDENTIAL	14.58	13.58	12.64	9.42	3.92
PERCENT CHANGE	21.78	-6.88	-6.94	-25.46	-58.36
PRIVATE RESIDENTIAL	6.98	6.40	6.69	6.13	6.46
PERCENT CHANGE	-4.56	-8.30	4.47	-8.36	5.37
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
PRIVATE INVENTORY	-0.83	-0.02	0.05	0.03	0.03
PERCENT CHANGE	1791.33	-97.58	-350.00	-40.00	0.00
GOVERNMENT NONRESIDENTIAL	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00
GOVERNMENT RESIDENTIAL	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVERNMENT CONSUMPTION	35.38	39.77	38.95	40.47	40.13
PERCENT CHANGE	-4.24	12.39	-2.06	3.90	-0.83
COMPONENTS OF GOVERNMENT CONSUMPTION					
DOMESTIC NONMILITARY	12.84	13.22	12.89	12.28	11.79
PERCENT CHANGE	0.78	3.00	-2.50	-4.70	-4.00
TOTAL MILITARY	22.56	26.54	26.06	28.18	28.34
PERCENT CHANGE	-6.75	17.64	-1.84	8.16	0.55
FOREIGN MILITARY	5.73	9.19	9.23	12.05	12.87
PERCENT CHANGE	-33.54	60.44	0.52	30.53	6.80
DOMESTIC MILITARY	17.35	17.87	17.33	16.64	15.97
PERCENT CHANGE	6.94	3.00	-3.00	-4.00	-4.00
DEFENSE SALES	0.51	0.51	0.51	0.51	0.51
PERCENT CHANGE	-20.31	0.00	0.00	0.00	0.00
COMPONENTS OF FOREIGN TRADE SECTOR					
EXPORTS	51.38	54.12	56.60	58.13	60.50
PERCENT CHANGE	2.24	5.32	4.59	2.70	4.07
IMPORTS	80.98	88.51	88.36	90.09	90.28
PERCENT CHANGE	5.65	9.30	-0.17	1.96	0.22
COMPONENTS OF IMPORTS					
CIVILIAN IMPORTS	62.02	65.79	65.68	65.23	64.85
PERCENT CHANGE	8.62	6.07	-0.16	-0.69	-0.58
SHIPS AND PLANES	0.46	0.51	0.46	0.41	0.39
PERCENT CHANGE	57.92	10.00	-10.00	-10.00	-5.00
DIRECT DEFENSE IMPORTS	4.76	7.63	7.67	10.02	10.70
PERCENT CHANGE	-35.66	60.44	0.52	30.53	6.80
IMPORTS TAXES	13.74	14.58	14.54	14.43	14.34
PERCENT CHANGE	15.80	6.11	-0.24	-0.77	-0.60
NLI FACTOR IMPORTS	5.76	5.44	5.56	5.87	5.97
PERCENT CHANGE	12.23	-5.59	2.18	5.53	1.81

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ISRAEL
ASSUMED VALUES FOR EXOGENOUS VARIABLES

	1983	1984	1985	1986	1987
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(BILLIONS OF 1980 SHEKELS)

*** GOVERNMENT VARIABLES					
DOMESTIC NONMILITARY EXPEND.	12.84	13.22	12.89	12.28	11.79
PERCENT CHANGE	0.78	3.00	-2.50	-4.70	-4.00
DOMESTIC MILITARY EXPEND.	17.35	17.87	17.33	16.64	15.97
PERCENT CHANGE	6.94	3.00	-3.00	-4.00	-4.00
GOVI RESIDENTIAL INVEST.	1.68	1.65	1.49	1.41	1.34
PERCENT CHANGE	-21.56	-2.00	-10.00	-5.00	-5.00
GOVI NONRESIDENTIAL INVEST.	4.48	4.48	4.26	4.17	4.09
PERCENT CHANGE	8.01	0.00	-5.00	-2.00	-2.00

(BILLIONS OF 1980 SHEKELS)

NET TRANSFERS TO PRIVATE SECT.	20.44	20.44	20.44	20.44	20.44
PERCENT CHANGE	0.00	0.00	0.00	0.00	0.00
NET CREDIT ABSORP. BY GOVI	-25.60	-20.00	-10.00	-5.00	5.00
PERCENT CHANGE	-21.89	-50.00	-50.00	-200.00	-200.00
PUBLIC SECTOR WAGES	22.24	23.13	21.98	20.88	19.83
PERCENT CHANGE	4.00	-5.00	-5.00	-5.00	-5.00
BOI CREDIT TO PRIVATE SECTOR	6.54	6.70	6.75	6.75	6.71
PERCENT CHANGE		2.42	0.77	-0.01	-0.67

(PERCENT)

*** TAX RATES					
DEFENSE IMPORT TAXES	0.20	0.20	0.20	0.20	0.20
INVENTORY SURTAX	-0.01	-0.29	0.12	0.19	0.19
BUSINESS INCOME TAX	0.06	0.06	0.06	0.06	0.06
DOMESTIC PROD. TAX (INCL. VAT)	0.19	0.19	0.19	0.19	0.19
IMPORT TAX	0.20	0.20	0.20	0.20	0.20
NATIONAL INSURANCE TAX	0.13	0.13	0.13	0.13	0.13
WAGE TAX	0.14	0.14	0.14	0.14	0.14
TAXES ON OTHER INCOME	0.13	0.13	0.13	0.13	0.13

(PERCENT CHANGE)

*** BALANCE OF PAYMENTS					
REAL GROWTH IN US AND EC		3.90	3.00	2.00	3.50
DOLLAR PRICE OF IMPORTS	-2.18	3.87	4.85	4.28	7.17
DOLLAR PRICE OF OIL	-13.77	0.00	0.00	0.00	5.20
WORLD INTEREST RATE	9.20	8.80	9.10	8.60	8.60
EXCHANGE RATE (LEVEL)	56.21	228.46	1029.19	5681.64	40779.41

(BILLIONS OF US DOLLARS)

FOREIGN DEBT REPAYMENTS	0.97	1.25	1.45	1.70	1.82
DIRECT DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
NET FOREIGN BORROWING BY GOVI.	2.23	2.17	2.05	2.72	3.03
TOTAL GROSS CAP FLOW (NOT FMS)	3.24	5.68	6.24	6.79	7.36
US ECONOMIC ASSISTANCE	1.50	1.10	1.10	1.10	1.10
US FMS	1.00	1.63	1.40	1.40	1.40

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ISRAEL
MAIN ECONOMIC INDICATORS, 1983-1987

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(BILLIONS OF 1980 SHEKELS)

	1983	1984	1985	1986	1987
GROSS NATIONAL PRODUCT	107.73	110.34	109.11	105.03	99.49
PERCENT CHANGE	1.34	2.42	-1.12	-3.74	-5.28
GNP DEFlator	12.62	53.28	263.33	1835.12	19660.86
PERCENT CHANGE	150.10	322.13	394.26	596.90	971.36
CAPACITY UTILIZATION RATE	90.88	92.47	90.94	87.14	82.32
UNEMPLOYMENT RATE	4.49	5.96	7.48	9.80	12.94
COMPONENTS OF AGGREGATE DEMAND					
PRIVATE CONSUMPTION	80.34	83.80	79.24	71.76	62.94
PERCENT CHANGE	7.05	4.30	-5.45	-9.44	-12.29
TOTAL INVESTMENT	27.36	26.60	25.68	24.29	22.37
PERCENT CHANGE	5.92	-2.79	-3.48	-5.39	-7.93
GOVERNMENT CONSUMPTION	35.38	39.77	38.57	39.60	38.45
PERCENT CHANGE	-4.24	12.39	-3.01	2.67	-2.89
EXPORTS	51.38	54.12	56.44	57.61	59.67
PERCENT CHANGE	2.24	5.32	4.30	2.06	3.59
IMPORTS	80.98	88.51	85.22	82.21	77.73
PERCENT CHANGE	5.65	9.30	-3.71	-3.54	-5.45
NET FACTOR IMPORTS	5.76	5.44	5.60	6.02	6.21

BALANCE OF PAYMENTS

(BILLIONS OF DOLLARS)

CIVILIAN GOODS AND SERVICES					
EXPORTS	9.95	10.68	11.76	12.42	13.62
OF WHICH: DIAMONDS	1.21	1.39	1.58	1.70	1.93
IMPORTS	13.96	15.22	15.50	15.35	15.57
OF WHICH: FUELS	1.61	1.63	1.62	1.58	1.60
DIAMONDS	0.85	0.98	1.12	1.21	1.37
INTEREST	2.16	2.22	2.42	2.63	2.89
CIVILIAN GOODS AND SERVICES DEFICIT	-4.01	-4.54	-3.74	-2.93	-1.95
DIRECT DEFENSE IMPORTS	1.03	1.76	1.85	2.52	2.89
DEFENSE IMPORT PAYMENTS	1.27	2.26	2.18	2.07	2.14
US FINANCED PAYMENTS	1.00	1.63	1.40	1.40	1.40
NON-US FINANCED IMPORTS	0.27	0.63	0.78	0.68	0.74
DEBT REPAYMENT	0.97	1.25	1.45	1.70	1.82
TOTAL DEBT	23.12	25.99	28.35	31.02	34.12
FINANCIAL GAP	-5.26	-6.42	-5.96	-5.30	-4.91
EXTERNAL FUND	3.24	5.68	6.24	6.79	7.36
OF WHICH US SSA	1.50	1.10	1.10	1.10	1.10
BALANCE	-0.47	-0.74	0.28	1.49	2.85

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SUBJECT: ISRAEL: Alternative Economic Policies



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