

CHAPTER II

PRODUCT AND DOMESTIC DEMAND

The year 1986 saw a considerable rebound in the expansion of domestic uses (excluding defense imports), after two years of substantial contraction. The expansion was fed by an extraordinary rise in private consumption and by stepped-up investment in stocks, but their impact was slightly moderated by a decline in public consumption and fixed investment. The decrease in public consumption was both in domestic procurement from the business sector and in labor input (which actually is the product of the public services and of the nonprofit institutions). The increment of domestic uses channeled to the business sector translated into a steep rise of the civilian import surplus and an increase of business sector product, productivity and employment, accompanied by a decline in business sector profitability.

A similar picture emerges from the analysis of developments in the course of the year: a steady rise in total domestic uses (excluding investment in stocks), reflecting a boom in private consumption, the effect of which was to some extent offset by the continuous decrease of domestic public consumption, and by the fall in fixed investment in the first quarter of the year and its subsequent stabilization at that lower level. The civilian import surplus also showed a sustained rise during the year. In the second half of the year its level exceeded that of the same period in 1984. An examination of the development of GDP shows substantial growth in the beginning of the year as the economy emerged from the recession in economic activity in the second half of 1985. According to the national accounts data, the level of economic activity attained in early 1986 was maintained for the rest of the year, while the index of industrial output and the data on business sector employment indicate a steady uptrend throughout the year.

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The 3.7 percent average annual growth rate of the business sector product in 1986 was similar to that of the preceding year. This was markedly higher than the average 2 percent growth in 1981–84, and also exceeded the multi-annual average growth rate since 1973 (some 3 percent a year, on average). In the last two years product

¹ Private consumption, plus domestic procurement for public consumption, plus domestic investment.

growth was also accompanied by a rise in productivity (both total and labor productivity), following a continuous decline in 1982–84.

Considering that specific factors operated to retard growth (see below), the accelerated growth rate of the business sector product this year is remarkable. It is nevertheless premature to say that 1986 signals the hoped-for upturn to a growth path. Several factors supported the increase in business sector product: a sharp deceleration of inflation which reduced the uncertainty faced by producers and reinstated, as sources of higher profit, the priority of more efficient production and output growth over the preoccupation with financial speculation. The economic policy adopted in mid-1985, one objective of which was to bring about a structural change in the country's productive system, reduced the product of the public sector, thereby releasing resources for the business sector. The labor input in the public sector and nonprofit institutions contracted in 1986, and reflected itself in a 3 percent fall in the public sector product, which had already declined slightly in 1985. However, in 1986 the production factors set free by the cutback of public sector product (including the nonprofit institutions supplying public services) were apparently not yet fully diverted to alternative uses, so that business sector growth fell short of its potential. This had several causes: the conversion to new production processes and shifts to new markets take time, so that in the transition period unemployment may rise, as has indeed been the case in the year reviewed, especially in its first half. Moreover, there were supply-side constraints: wage increases were larger than warranted by the state of employment or labor productivity, and cut into business sector profitability (as reflected in the steep fall in the rate of return per unit of capital); at the margin, this reined in a faster expansion of output.

The damage to the business sector's profitability was especially marked in exports: since the exchange rate had remained stable for a year, the rise in labor costs exceeded the increase in receipts from export. This prevented a higher utilization of production factors set free from production for the local market for a greater expansion of exports. The contribution of exports to the incremental product was indeed small, especially when compared with its multi-annual share in product growth. This occurred despite the slack in the labor market, especially in the first half of the year. Thus, as stated, growth of the business sector product, which is based on output destined for export, was held back from rising to its full potential.

Two other important factors restrained economic growth in 1986: a) the financial difficulties encountered by several sectors—in particular, construction and agriculture; and b) the big increase in the rate of taxation of returns to capital, which reduced the business sector's net profits. As a result, total GDP rose only by a modest 2.2 percent, a rate close to the multi-annual average.

The sources of the incremental product of the business sector by uses changed greatly in 1986: the predominant source of product growth was the rise in private

Table II-1
RESOURCES AND USE OF RESOURCES, 1983-86^a

	At current prices, NIS million			Percent annual change							
				Quantity					Price		
	1984	1985	1986	1981-86	1983	1984	1985	1986	1984	1985	1986
Resources											
GDP at market prices	7,444	26,948	41,044	2.3	2.7	1.8	2.8	2.2	391.8	252.1	49.0
Imports ^b	4,235	16,593	23,463	4.4	6.4	-0.7	-1.1	8.5	413.7	296.1	30.3
Thereof: Civilian imports	3,669	14,168	21,386	6.1	11.1	-3.6	-3.9	15.1	403.3	301.7	31.1
Total resources	11,679	43,541	64,507	3.1	4.2	0.8	1.3	4.7	400.1	268.2	41.5
Use of Resources											
Private consumption	4,170	15,854	26,115	5.3	8.0	-7.3	-0.4	14.0	404.4	281.7	44.5
Public consumption											
Total	2,857	10,184	13,323	-1.5	-4.7	6.1	3.8	-12.0	406.4	243.5	48.6
Excl. direct defense imports	2,290	7,759	11,246	0.1	1.7	1.0	-0.8	-4.8	395.4	241.4	52.2
Gross domestic investment	1,581	4,988	8,012	0.6	12.0	-7.5	-13.6	8.1	389.6	265.0	48.6
Thereof: Fixed investment ^c	1,511	5,069	7,159	-1.3	14.0	-11.7	-9.9	-5.5	393.8	272.5	49.4
<i>Subtotal: Domestic resource use, excluding direct defense imports</i>	8,042	28,601	45,373	3.0	7.2	-5.3	-3.2	7.8	399.8	267.4	47.1
Exports ^d at local market prices	3,071	12,516	17,057	5.0	2.1	13.9	8.6	4.7	395.5	275.3	30.1
Total resource use excl. direct defense imports	11,112	41,116	62,430	3.6	5.8	-0.3	0.3	6.8	396.9	268.9	42.1
Total use of resources	11,679	43,541	64,507	3.1	4.2	0.8	1.3	4.7	400.1	268.2	41.5
Net factor payments to rest of the world	378	1,088	1,410	6.6							
GNP at market prices	7,066	25,861	39,633	2.1							
Business sector GDP at market prices ^e	5,001	18,457	28,441	2.7	3.1	1.8	3.8	3.7	391.2	255.5	48.6

^a The national accounts for 1980-86 have been compiled in a new form as recommended by the United Nations Statistical Office. The revised national accounts differ from their previous construction mainly in the definition of private and public consumption. The consumption of private nonprofit institutions, formerly classified as private consumption, has mostly been reclassified as public consumption. In the new System of National Accounts (SNA), public consumption also comprises depreciation of the capital stock in the public services, and the imputed government obligations on account of pensions payable to retired public sector employees. These new definitions change the derived GDP accordingly.

^b Imports c.i.f., not including factor payments and interest payments of the public sector to the rest of the world.

^c Total investment less investment in stocks.

^d Exports f.o.b., not including factor payments from the rest of the world and interest received by the public sector from the rest of the world.

^e GDP, less product of public services, private nonprofit institutions, and housing services.

SOURCE: Central Bureau of Statistics.

Table II-1a
RESOURCES AND USES, QUARTERLY DATA, 1984-86^a
 (Seasonally adjusted, percent real change)

	1984				1985				1986			
	I	II	III	IV	I	II	III	IV	I	II	III	IV
1. Private consumption	-5.3	1.7	4.9	-7.5	4.3	-1.5	-6.2	11.5	3.9	2.5	5.2	1.4
2. Public domestic consumption	-1.9	0.5	2.4	-2.1	2.0	-1.3	-2.7	-0.9	-0.9	-1.2	-0.6	-0.8
3. Fixed investment ^b	-6.0	-3.3	1.1	-2.8	-2.8	1.4	-8.0	7.9	-7.4	-2.6	4.5	-1.9
4. Total domestic uses (1+2+3)	-4.6	0.4	3.5	-5.2	2.3	-0.9	-5.6	7.4	0.6	0.7	3.6	0.3
5. Exports of goods and services ^c	7.2	-3.7	5.6	2.0	2.9	2.8	-0.3	1.3	0.6	3.1	6.6	-11.3
6. Civilian imports of goods and services ^{b,d}	-5.6	-4.6	6.7	-5.2	-0.8	3.1	-11.6	17.2	2.0	3.9	6.2	-1.2
7. Civilian import surplus (6-5)	-33.9	-8.0	10.9	-30.9	-20.1	5.1	-86.4	8 times	9.8	7.9	4.3	48.8
8. Gross domestic product	-0.0	0.9	4.5	-1.4	1.7	2.8	-2.6	-3.7	6.0	0.3	0.8	-3.1

^a Rates of change are calculated from the absolute figures of Table II-A2.

^b Excluding ships and aircraft.

^c See note *b* to Table II-1.

^d See note *a* to Table II-1.

SOURCE: Central Bureau of Statistics.

Figure II-1
DOMESTIC USES, CIVILIAN IMPORT SURPLUS, AND GDP, 1983-86
 (Quarterly indexes, 1983 I = 100, seasonally adjusted)

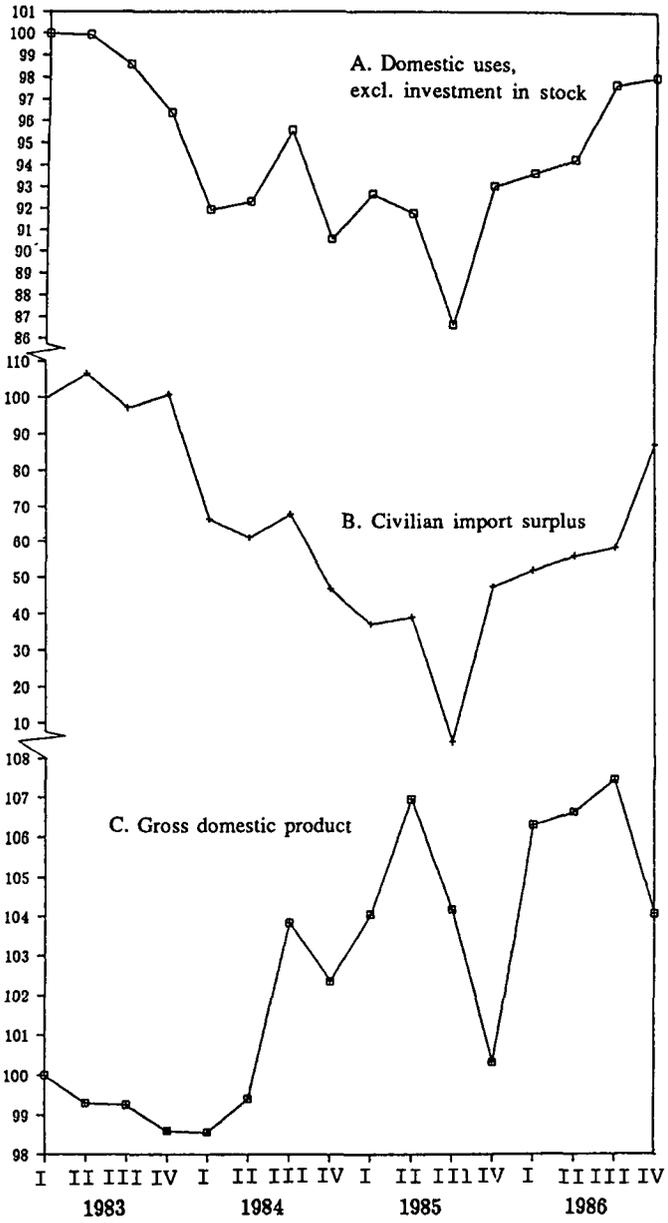
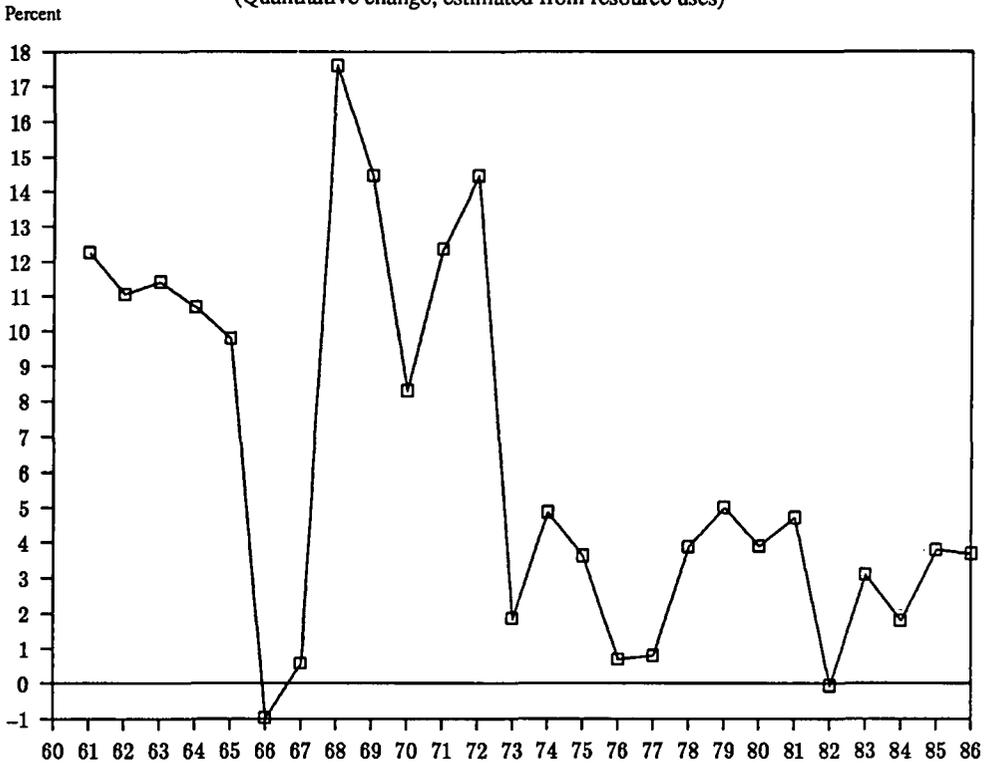


Figure II-2
DOMESTIC PRODUCT OF THE BUSINESS SECTOR, 1961-86
 (Quantitative change, estimated from resource uses)



consumption—in contrast to the two preceding years, when exports were the main contributor to growth. The share of private consumption in the product increment was exceptionally high also by comparison with the multi-annual averages, while the growth induced by other uses was unusually small, and the contribution of public consumption and fixed investment was even negative.

The expansion of domestic uses was entirely based on the private sector and took the form of a large increase in private consumption and investment in stocks. This took place despite the implementation of a tight fiscal policy which, besides having cut domestic public consumption in the last two years, raised the rates of taxation and reduced subsidies (as a percentage of GDP). The higher rate of net taxation in 1986 had the result that disposable income from domestic sources rose less than GNP (in purchasing power terms—by 1.4 percent as against 6.1 percent, respectively). Put differently, private consumption boomed (by 14 percent, in volume) even though disposable income from all sources rose in real terms only by a modest 2.3 percent, following a 9 percent decrease in the previous year. This disparity between the growth rates of disposable income and consumption showed up in the saving rate:

gross private saving dropped to 17 percent of total disposable income (from all sources)—down from an average 27 percent in the years 1982 to 1985, and from an average of 34 percent in the decade 1972–81. The precipitousness of this fall is quite surprising, particularly since the private saving rate fell already in 1985 below the multi-annual average (see Figure II–3). When private consumption is broken down into current consumption versus acquisition of durables, it is seen that current saving has also contracted substantially. The distinction between these two categories of consumption is important because the acquisition of durables is akin to investment by households, and the motivation for it is somewhat different from that of current consumption (see below).

The measurement of private disposable income in Israel does not distinguish between households and businesses. It is therefore possible that for the last few years total disposable income is not a good estimator of disposable household income; the sharp fluctuations in undistributed profits of firms (which equal business sector saving) resulting from swings in the inflation rate and sharp changes in company tax rates, have caused fluctuations in the private saving rate to widen. It is therefore desirable to examine the development of household disposable income with the help of additional indicators, such as net wage earnings plus current transfer payments. This income increased in 1986 by 16.5 percent in real terms, while private consumption, excluding durables, rose 10 percent. Between 1981 and 1986 net wage earnings plus transfer payments increased on average by 4.3 percent a year, with current consumption rising at a similar rate of 4.7 percent (while *total* disposable income went up only 2 percent).

The large increase in gross household income in 1986 reflects a failure of wage policy: its objective had been to reduce the share of wages in total national income. In 1984 and 1985 this policy seemed to have success, with a declining share of returns to labor in the national income, but in 1986 wages rose faster than the national income despite the slack in the labor market. The wage increase for the year as a whole was in a way an overreaction of wage earners to the sharp wage cut in the two preceding years, which had particularly hit the low income groups. The reaction of wage earners disregarded the fact that the sharp decline of real wages per worker in 1985 was entirely the result of government policy, as indirect taxes and prices of subsidized goods and services were raised steeply—whereas from the perspective of employers (that is to say, in terms of labor cost rather than purchasing power) real wages per worker showed some rise even in 1985. Furthermore, in 1986 the cut in tax rates on wage earnings and the large increase in transfer payments to households caused household disposable income to rise even faster than gross earnings.

It has been suggested that individuals set their level of consumption according to the trend of real resources available to the economy, less the resources required for public consumption, and that private saving is in fact identical with national saving

(in absolute terms). Figure II-4 shows that in the last two years the rate of current national saving, having been particularly low in 1981-84, has nearly returned to its average 1974-80 level. However, even according to this line of reasoning, private consumption in 1986 was to some extent above the trend of permanent disposable income, because it should be kept in mind that current income in the last two years includes the non-recurrent emergency grant of the U.S. (which accounted for 4 percent of total income as defined above), and this biased current income upward.

Table II-2
PRODUCT AND PRODUCTIVITY OF THE BUSINESS SECTOR, 1961-86
(Real average annual rate of change, percent)

	1961- 1972	1973- 1986	1975- 1977	1978- 1981	1982- 1986	1983	1984	1985	1986
Product^a									
Estimate A	10.0	2.9	1.7	4.4	2.3	3.1	1.8	3.8	3.7
Estimate B	9.1	3.2	2.5	3.8	2.7	4.7	0.8	1.9	3.7
Factor input									
Labor (man-hours)	3.6	1.2	0.8	2.2	1.5	3.2	2.4	-0.2	2.2
Capital stock^b									
Gross	8.7	4.9	6.1	4.1	3.3	3.1	4.7	3.2	2.4
Net	8.0	3.7	4.5	2.4	2.2	2.2	4.9	2.1	0.6
Productivity									
Product per man-hour									
Estimate A	6.3	1.7	0.9	2.1	0.7	-0.1	-0.6	4.0	1.5
Estimate B	5.4	2.0	1.7	1.5	1.2	1.4	-1.6	2.1	1.5
Capital stock^b per man-hour									
Gross	5.0	3.7	5.2	1.8	1.7	-0.1	2.2	3.4	0.2
Net	4.2	2.5	3.7	0.2	0.7	-0.9	2.4	2.3	-1.5
Total productivity^c									
Estimate A	4.5	0.5	-0.8	1.5	0.2	-0.1	-1.3	2.9	1.4
Estimate B	3.7	0.8	0.0	1.0	0.6	1.5	-2.3	1.0	1.4

^a Estimate A measures the product from the expenditure side (national accounts). Estimate B is based on various indicators of output volume by industry.

^b Beginning-of-year stock.

^c The weights are 0.68 for labor and 0.32 for capital, based on distributive shares of gross national income (long-run average) and examination of the 1977/78 input-output table.

The surge in purchases of durables was of course influenced by the hefty rise of household disposable income; nevertheless, it primarily reflected the change made by households in the composition of their assets: a shift from dollar-linked to other financial assets, and to physical assets. The main reasons for this change in asset composition were as follows: a) The fixed exchange rate of the sheqel, the weakening of the dollar against the European currencies and the yen, and the fall in interest rates,

² Disposable income = GDP plus unilateral transfers, less public consumption.

all combined to change the expected yields on financial assets, causing the desired asset portfolio to become different. This expressed itself in a shift from dollar-linked to other types of financial assets, and to physical assets. b) The bigger supply of bank credit and the decline in real interest rates (which may also have affected current consumption). c) The rise expected during the year in prices of durables, which are mainly imported from Europe and Japan (due to the continued appreciation of the European currencies and the yen) encouraged purchases to be advanced. (Individuals had only a limited alternative of hedging against the appreciation of these currencies by short-term financial investment, since residents' foreign currency deposits are tied down for at least a year.)

As stated earlier, this year firms invested heavily in stocks; most conspicuously, in diamonds (amounting to a stock increase of some \$280 million). The accumulation of diamond stocks reflects a special factor—apprehension of a possible disruption of the regular supply of raw diamonds from South Africa due to the political unrest in that country. In other raw materials investment in stocks was also substantial, apparently reflecting the considerable fall in their world prices, and the decline of interest rates in Israel and abroad, which may have encouraged speculative investments by firms. It may also reflect expectations by firms that growth is about to accelerate in the future, and their preparations for this eventuality.

Table II-3
BUSINESS SECTOR PRODUCT DERIVED^a FROM FINAL USES^b, 1975-86
(Percent)

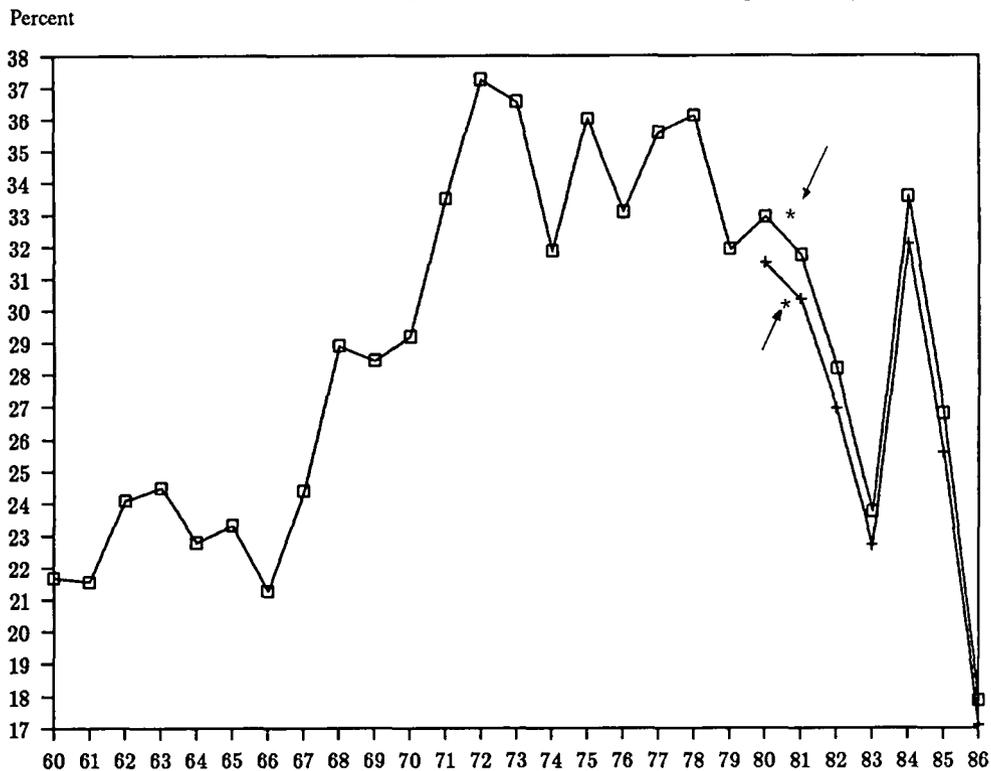
	Share of uses in product			Share in increment of product			
	Annual average			Annual average			
	1980-84	1985	1986	1976-81	1982-84	1985	1986
Private consumption	38.5	37.1	40.7	1.3	0.8	0.3	5.2
Public consumption	8.2	7.6	7.0	-0.2	0.0	-0.2	-0.3
Fixed investment	14.3	11.7	10.4	-0.8	-0.3	-0.9	-0.8
Change in stocks	0.0	0.1	-0.9	-0.0	0.1	-0.1	-1.1
Total domestic uses	61.0	56.5	57.2	0.3	0.6	-0.9	3.0
Exports	39.0	43.5	42.8	3.3	2.0	2.3	1.1
Total final uses	100.0	100.0	100.0	3.6	2.8	1.4	4.1

^a GDP at factor cost, not including services of the public sector services and nonprofit institutions, and excluding housing services.

^b In order to adjust the uses to input-output analysis and to examine their effect on the business sector product, some deductions have been made from the different uses, as follows: imputed housing services and the wage bill of nonprofit institutions—from private consumption; the wage bill of the public sector—from public consumption; receipts of production factors abroad, and receipts and income of local production factors—from exports. The direct import component of all uses was also deducted.

SOURCE: Input-output analysis by the Bank of Israel on the basis of input-output coefficients for 1977/78 estimated by the Central Bureau of Statistics, and data on final uses.

Figure II-3
PRIVATE SAVING RATE OUT OF DISPOSABLE
INCOME FROM ALL SOURCES, 1960-86
 (Calculated on the basis of long term real interest on the domestic public debt)



* See notes to Fig. II-4.

Fixed investment continued to be low in 1986, following two years of substantial contraction. The decline was in residential construction as well as in the economy's industries (in the private as well as in the public sector). The steep fall of the inflation rate, which greatly reduced uncertainty for entrepreneurs, might have been expected to stimulate the business sector to higher investment, but this did not happen. The reason for this is presumably that economic policy failed to check the rise in the business sector's labor costs (a policy which was designed to promote an increase in the return per unit of capital). It is also possible that planned higher investments in the economic sectors have not yet made themselves apparent because the implementation of investment plans takes time (it is noteworthy that imports of capital goods increased in the first quarter of 1987).

The considerable increase in the civilian import surplus in 1986 is the net result of a large rise in civilian imports (by 15.1 percent, following a 4 percent decline in each

of the two preceding years), and of only a modest 5 percent advance in exports—a growth rate similar to the average of the last few years.

As stated earlier, the steep rise in imports was due to a large expansion in particularly import-intensive items of demand (such as durables, foreign travel, and investment in imported raw material stocks), as well as to increases in other uses and a considerable relative cheapening of imports (see Table II-1). The growth of exports was held back by the decline in their relative price, although world trade grew by some 4 percent and might have permitted a faster increase of Israel's exports. It might have been expected that in a year of a slack in the labor market and a substantial contraction in domestic procurement by the public sector, there would be a real depreciation in the course of the year. However, events ran in the opposite direction—there was a real appreciation, mainly due to the extraordinarily high wage

Table II-4
NATIONAL SAVING AND INVESTMENT, 1976-86
(Percent of the economy's total income)

	1976-80	1981-84	1985	1986
1. Gross national saving out of economy's total income ^a	15.1	11.9	18.1	13.5
Thereof: Public saving	-8.9	-8.8	0.8	2.0
Private saving	24.0 ^b	20.7	17.3	11.5
2. Total gross investment	21.9	20.5	15.8	17.2
3. Net external current account ^c				
At effective exchange rate (1-2)	-6.8	-8.6	2.3	-3.7
At official exchange rate	-3.6	-4.3	6.2	2.0

^a Income of the economy = GNP plus net unilateral transfers from abroad (at the effective exchange rate). The national saving rate, calculated at the official exchange rate, is shown in Appendix Table II-A5.

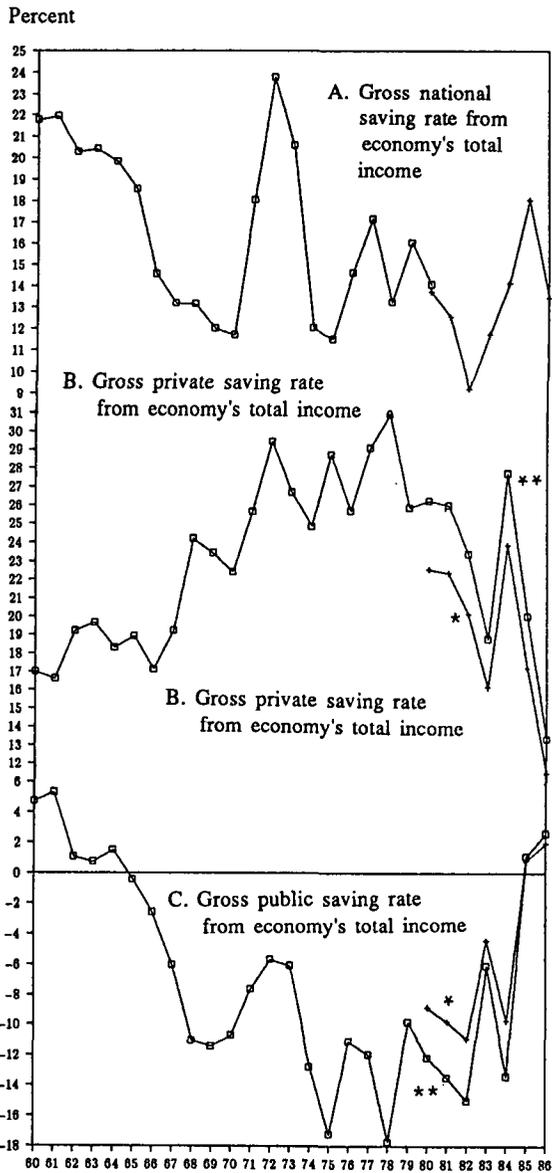
^b Adjusted to the New System of National Accounts (SNA) by chaining (see note *a* to Table II-1).

^c Defense imports include advance payments for imports ordered (in the 1980-86 data).

increase caused by exogenous factors (although a modest wage rise was warranted by the substantial expansion of domestic demand and economic activity).

An alternative examination of the import surplus—as the difference between total domestic investment (including investment in stocks), and national saving (from domestic sources)—shows that the 3.9 percent increase in the share of the civilian import surplus in GNP reflected a rise in the rate of investment (by 0.9 percentage points of GNP) and a decline in the national saving rate (by 3 percentage points of GNP). When unilateral transfers are added to the economy's income, the picture remains largely similar, even though the changes are more moderate (see Table II-4). Despite the decline in the national saving rate in 1986, the average saving rate has in the last two years roughly returned to its average level in 1976-80, and was up from the low level in 1981-84. It should, however, be noted that the economy's income in

Figure II-4
GROSS NATIONAL SAVING RATE OUT OF ECONOMY'S TOTAL INCOME^a AND ITS
DISTRIBUTION BETWEEN PRIVATE AND PUBLIC SECTOR, 1960-86



^a See Tables II-A4 and II-A5.

* The saving rates shown in this diagram are based on the new system of national accounts of the Central Bureau of Statistics; see note a to Table II-1.

** From 1980, the line is chained to accord with the new SNA.

the last two years includes the U.S. emergency grant; the termination of this special aid is likely to reduce the economy's income and the national saving rate. In contrast with the rise in the national saving rate, the rate of investment has fallen continuously, which made it possible for the external current account to improve in the last two years, even by comparison with the average for 1976-80. Higher future growth requires an accelerated increase in the business sector's capital stock, which has slowed considerably in recent years. Investment, in other words, will have to rise to a higher proportion of the economy's income, which makes it essential that the growth of national saving be maintained. Otherwise, the external debt will grow again.

In conclusion it may be said that a crucially necessary condition for the renewal of economic growth is that inflation stabilize at a low rate and that public sector intervention in the economy (direct, through expenditure and taxes, and indirect, through the capital market and administrative controls) continue to be reduced. That, however, is not a sufficient condition: reducing producers' labor costs and increasing the net return per unit of capital (which are interdependent) are of great importance for the renewal of growth; the reform of the direct corporate tax system is a step in the right direction. As regards income taxes of individuals, it would be preferable from the viewpoint of GNP growth, to design tax cuts so as to concentrate their effect on reducing labor costs to employers (for example, by a further reduction of employers' national insurance contributions on account of their workers) rather than merely increasing wage earners' net income.

Table II-5
GROSS NATIONAL PRODUCT AND NATIONAL INCOME, 1983-86^a

	Millions of current NIS				Real annual change, percent ^b			
	1983	1984	1985	1986	1983	1984	1985	1986
1. Gross national product ^c	1,444	7,066	25,861	39,633	5.2	-3.0	-4.1	6.1
2. Depreciation	216	1,122	4,261	6,395	-1.2	3.2	-0.5	3.9
3. Indirect taxes on domestic production	168	752	3,508	5,912	12.5	-11.1	22.3	16.7
4. Subsidies to domestic production	56	332	906	786	-6.3	17.1	-28.4	-40.0
5. Net indirect taxes (3-4)	111	420	2,601	5,126	25.2	-25.3	62.3	36.4
6. Loan subsidy ^d	30	133	483	608	-16.4	-10.9	-4.9	-13.0
7. National income (1-2-5+6)	1,147	5,657	19,482	28,720	4.1	-2.2	-9.8	2.0
8. National income excl. loan subsidy	1,117	5,524	18,999	28,112	4.8	-1.9	-9.9	2.4

^a See note a to Table II-1.

^b Deflated by the implicit price index for private consumption.

^c At market prices.

^d The subsidy element of government loans to the public.

SOURCE: Central Bureau of Statistics.

Table II-6
PRIVATE DISPOSABLE INCOME AND SAVING RATE, 1983-86^a, AT REAL INTEREST RATES^b

	Millions of current NIS				Real annual change, percent ^c			
	1983	1984	1985	1986	1983	1984	1985	1986
1. National income	1,147	5,657	19,482	28,720	4.1	-2.2	-9.8	2.0
2. Public sector income from property	23	126	334	375	-13.1	8.6	-30.6	-22.3
3. Depreciation (private sector)	192	1,002	3,815	5,684	-0.9	3.6	-0.2	3.1
4. Gross private income from economic activity (1-2+3)	1,316	6,533	22,963	34,029	3.7	-1.5	-7.9	2.6
5. Direct taxes, total	336	1,371	6,132	9,792	1.7	-19.6	17.1	10.5
Thereof: Income tax	242	952	4,355	7,077	2.8	-22.1	19.8	12.5
National insurance contributions ^d	94	419	1,777	2,715	-1.2	-13.3	11.0	5.8
6. Non-recurrent property levy and other imposts ^e	4	18	251	428	32.7	-19.3	268.3	17.8
7. Net compulsory loans ^f	3	-59	-101	-321				
8. Net transfer payments	141	756	3,850	5,934	-8.2	6.1	33.3	6.7
9. Gross private disposable income from domestic sources (4-5-6-7+8)	1,114	5,959	20,531	30,064	2.9	6.4	-9.7	1.4
10. Personal transfers from abroad	43	183	778	1,433	-15.9	-16.1	11.6	27.4
11. Gross private disposable income from all sources	1,157	6,142	21,309	31,497	2.1	5.5	-9.1	2.3
12. Private consumption	892	4,170	15,854	26,115	8.0	-7.3	-0.4	14.0
13. Savings rate out of domestic income [(9)-(12)], percent	19.9	30.0	22.8	13.1				
14. Savings rate out of income from all sources [(11)-(12)], percent	22.9	32.1	25.6	17.1				

^a See note a to Table II-1.

^b Interest payments on the domestic debt by the government to the public (which are included in net transfer payments) have been adjusted to reflect real long-term interest payments. The net transfer payments to the public shown in Table II-5A differ from those of the present table since they include the government's nominal interest payments on the domestic debts to the public (in accord with the accounting methods of the Central Bureau of Statistics).

^c Deflated by the implicit price index for private consumption.

^d Including employers' contributions for their workers.

^e Non-recurrent property levy, fees, levies and fines, and inventory surtax.

^f Gross compulsory loans less redemptions of compulsory loans.

SOURCE: Central Bureau of Statistics.

Table II-6a
PRIVATE DISPOSABLE INCOME AND SAVING RATE, AT NOMINAL INTEREST PAYMENTS, 1983-86^a

	Millions of current NIS				Real annual change, percent ^b			
	1983	1984	1985	1986	1983	1984	1985	1986
1. National income	1,147	5,657	19,482	28,720	4.1	-2.2	-9.8	2.0
2. Public sector income from property	46	176	120	680	-31.2	-23.7	-82.1	292.1
3. Depreciation (private sector)	192	1,002	3,815	5,684	-0.9	3.6	-0.2	3.1
4. Gross private income from economic activity (1-2+3)	1,293	6,483	23,176	33,724	5.2	-0.6	-6.3	0.7
5. Direct taxes, total	336	1,371	6,132	9,792	1.7	-19.6	17.1	10.5
Thereof: Income tax	242	952	4,355	7,077	2.8	-22.1	19.8	12.5
National Insurance contributions ^c	94	419	1,777	2,715	-1.2	-13.3	11.0	5.8
6. Non-recurrent property levy and other imposts ^d	4	18	251	428	32.7	-19.3	268.3	17.8
7. Net compulsory loans ^e	3	-59	-101	-321				
8. Net transfer payments	205	1,054	4,153	6,603	-3.5	2.1	3.3	10.1
9. Gross private disposable income from domestic sources (4-5-6-7+8)	1,155	6,206	21,046	30,428	4.9	6.9	-11.2	0.1
10. Personal transfers from abroad	43	183	778	1,433	-15.9	-16.1	11.6	27.4
11. Gross private disposable income from all sources	1,198	6,389	21,825	31,861	4.0	6.0	-10.5	1.1
12. Subsidy element of government loans	30	133	483	608	-16.4	-10.9	-4.9	-13.0
13. Credit subsidies	26	123	476	606	-17.2	-5.1	1.1	-11.8
14. Disposable income excluding subsidy element of government loans, plus credit subsidies	1,194	6,379	21,817	31,860	4.1	6.2	-10.4	1.1
15. Private consumption	892	4,170	15,854	26,115	8.0	-7.3	-0.4	14.0
16. Saving rate out of domestic income [(9)-(15)], percent	22.8	32.8	24.7	14.2				
17. Saving rate out of income from all sources [(11)-(15)], percent								
Aggregate A (9+10)	25.5	34.7	27.4	18.0				
Aggregate B (13-14+15)	25.3	34.6	27.3	18.0				

^a See note *b* to Table II-1.

^b Deflated by the implicit price index for private consumption.

^c Including employers' contributions for their workers.

^d Non-recurrent property levy, fees, levies and fines, and inventory surtax.

^e Gross compulsory loans less redemptions of compulsory loans.

SOURCE: Central Bureau of Statistics.

Table II-7
PRIVATE CONSUMPTION, 1983-86^a

	1983	1984	1985	1986
At current prices (NIS million)				
Goods for current consumption	368	1,694	7,043	11,163
Food, beverages and tobacco	236	1,132	4,771	7,688
Other	131	562	2,272	3,475
Services	224	1,050	4,239	6,917
Consumption of Israelis abroad	47	239	794	1,421
less: Consumption of foreigners in Israel	64	205	1,427	1,625
Subtotal	574	2,778	10,649	17,876
Durables	110	380	1,302	2,716
Services of private nonprofit institutions	34	169	590	944
Housing services	173	844	3,313	4,579
Total	892	4,170	15,854	26,115
Total excluding durables	782	3,790	14,552	23,399
Quantity (percent annual change)				
Goods for current consumption	5.5	-3.2	3.7	9.2
Food, beverages and tobacco	7.0	0.3	2.9	6.9
Other	2.7	-9.7	5.5	13.8
Services	6.8	-3.0	-1.3	5.6
Consumption of Israelis abroad	21.7	-6.8	-25.4	27.8
less: Consumption of foreigners in Israel	3.4	10.9	7.9	-21.3
Subtotal	7.5	-4.8	-1.2	12.8
Durables	18.1	-32.0	-1.4	46.3
Services of private nonprofit institutions	0.9	0.9	0.0	1.6
Housing services	3.4	3.4	3.0	2.3
Total	8.0	-7.3	-0.4	14.0
Total excluding durables	6.4	-3.0	-0.3	10.2
Prices (percent annual change)				
Goods for current consumption	142.9	376.1	300.8	45.1
Food, beverages and tobacco	153.9	377.1	309.9	50.8
Other	126.0	374.7	283.0	34.4
Services	148.5	383.2	309.1	54.6
Consumption of Israelis abroad	123.7	443.1	345.9	40.0
less: Consumption of foreigners in Israel	156.8	186.5	546.0	44.6
Subtotal	141.9	407.9	287.9	48.9
Durables	135.5	409.2	247.6	42.6
Services of private nonprofit institutions	156.9	385.3	250.0	57.5
Housing services	159.8	370.7	281.1	35.1
Total	144.2	404.4	281.7	44.5
Total excluding durables	146.0	399.8	285.0	46.0

^a See note a to Table II-1.

SOURCE: Central Bureau of Statistics.

Table II-8
GROSS DOMESTIC INVESTMENT BY TYPE OF CAPITAL GOOD, 1982-86

	Current NIS million					Percent annual change						
						Quantity					Price	
	1982	1983	1984	1985	1986	1982	1983	1984	1985	1986	1985	1986
Nondwelling construction												
Structures	13	33	145	470	638	-1.2	9.5	-6.5	-4.4	-12.2	238.1	54.8
Earthworks	12	29	99	335	583	-2.1	1.8	-24.8	-4.0	14.9	354.2	51.2
Total	24	61	244	805	1,221	-1.6	5.9	-14.6	-4.2	-1.5	244.6	54.1
Machinery and equipment												
Transport												
Ships and aircraft	1	9	29	-8	2							
Other	11	34	113	401	822	36.2	29.9	-37.4	-15.8	22.9	321.1	66.8
Other machinery and equipment	46	135	654	2,571	3,455	9.7	24.9	-5.7	1.6	-5.6	287.2	42.4
Imported	31	93	444	1,770	2,331	17.4	28.5	-6.7	-3.6	-8.5	313.4	43.9
Of domestic production	15	42	210	801	1,124	-3.4	17.4	-3.2	12.9	-0.2	238.2	40.7
Subtotal: Nondwelling investment	83	240	1,040	3,769	5,501	9.4	25.0	-13.8	-7.7	-0.9	292.7	47.3
Excl. ships and aircraft	82	231	1,011	3,777	5,499	9.4	20.3	-13.2	-2.0	-1.7	281.1	48.1
Dwellings	48	106	470	1,300	1,658	-3.5	-5.1	-6.9	-14.5	-15.9	223.4	51.7
Private	37	85	387	1,091	1,433	3.0	-1.3	-3.7	-13.2	-12.9	225.2	50.8
Public	11	21	84	209	225	-20.1	-17.3	-19.6	-20.5	-31.2	214.4	56.8
Total fixed investment	131	346	1,511	5,069	7,159	4.3	14.0	-11.7	-9.9	-5.5	272.5	49.4
Change in stocks	4	3	71	-81	852							
Total gross domestic investment	135	349	1,581	4,988	8,012	14.0	12.0	-7.5	-13.6	8.1	265.0	48.6

SOURCE: Central Bureau of Statistics.

Table II-9
GROSS FIXED INVESTMENT BY ECONOMIC SECTOR, 1985-86
 (Current NIS thousand)

	Total			Equipment			Structures		
	Amount	Change in quantity		Amount	Change in quantity		Amount	Change in quantity	
		1986	1985		1986	1986		1985	1986
Agriculture	315.9	-0.9	-17.0	174.5	4.7	-19.0	141.3	-7.7	-14.1
Water	72.7	-22.7	16.9	15.5	-18.5	6.8	57.2	-23.9	19.8
Industry	1,824.6	3.2	-5.6	1,705.0	4.7	-4.9	119.6	-10.9	-13.4
Construction equipment	59.1	-32.4	-7.9	59.1	-32.4	-7.9			
Electricity	285.3	-19.5	-4.0	183.8	-29.1	-7.4	101.5	4.2	1.7
Transport and communications	1,334.7	-21.3	12.9	1,134.5	-24.7	10.0	200.2	13.8	32.6
Excluding vehicles	509.8	29.3	-3.7	309.6	35.1	-15.2	200.2	13.8	32.6
Private services	631.2	-5.4	-6.9	5566.1	-3.0	-5.3	65.1	-17.9	-17.2
Subtotal, business sector	4,523.5	-8.6	-1.5	3,838.5	-9.1	-1.9	685.0	-5.8	0.5
Public services	977.5	-3.8	1.8	441.1	-6.0	10.7	536.4	-2.3	-3.9
Total, excluding housing	5,501.0	-7.7	-0.9	4,279.6	-8.8	-0.7	1,221.4	-4.2	-1.5
Housing construction	1,658.4	-14.5	-15.9				1,658.4	-14.5	-15.9
Total fixed investment	7,159.5	-9.9	-5.5	4,279.6	-8.8	-0.7	2,879.9	-11.1	-10.8

Table II-10
FIXED NONDWELLING INVESTMENT
BY INITIATING SECTOR, 1983-86

	Millions of 1980 NIS				Real annual change, percent		
	1983	1984	1985	1986	1984	1985	1986
Total^a							
Public sector ^b	4,597	4,058	4,394	4,472	-11.7	8.3	1.8
Public sector corporations ^c	3,306	2,914	2,817	2,632	-11.9	-3.3	-6.6
Subtotal	7,903	6,972	7,211	7,104	-11.8	3.4	-1.5
Private sector	8,197	7,786	7,534	6,973	-5.0	-3.2	-7.4
Total	16,100	14,758	14,745	14,077	-8.3	-0.1	-4.5
Structures							
Public sector ^b	2,755	2,291	2,313	2,363	-16.8	1.0	2.2
Public sector corporations ^c	918	723	688	736	-21.2	-4.8	7.0
Subtotal	3,673	3,014	3,001	3,099	-17.9	-0.4	3.3
Private sector	1,156	1,109	946	788	-4.1	-14.7	-16.7
Total	4,829	4,123	3,947	3,887	-14.6	4.2	-1.5
Machinery and equipment^a							
Public sector ^b	1,842	1,767	2,081	2,109	-4.1	17.8	1.3
Public sector corporations ^c	2,388	2,191	2,129	1,896	-8.2	-2.8	-10.9
Subtotal	4,230	3,958	4,210	4,005	-6.4	6.4	-4.9
Private sector	7,041	6,677	6,588	6,185	-5.2	-1.3	-6.1
Total	11,271	10,635	10,798	10,190	5.7	1.6	-5.6

^a Excluding transport equipment.

^b Government enterprises (railways, ports, airports, and the Post Office), roads, afforestation, land reclamation, and some construction equipment. Includes also investment of private nonprofit institutions.

^c Water, electricity, estimates for public sector corporations in chemicals, oil products, mining and quarrying, industry, transport and services.

SOURCE: Bank of Israel.