At its meeting on 22-23 January 1970 the Council of Representatives was informed by the delegation of Israel that Israel had introduced further measures affecting imports, in the form of an import deposit requirement, for the purposes of safeguarding the foreign exchange reserves and restoring internal equilibrium. The Council, on the basis of the information available, agreed that the measure should be examined in relation to the relevant provisions of the General Agreement, and the Committee on Balance-of-Payments Restrictions was instructed to undertake this examination at an early date, taking into account the discussions at the last consultation with Israel on its import restrictions.

Inasmuch as the new measure was stated to have been resorted to for balance-of-payments reasons, the Committee's discussion, which took place on 17 March 1970, covered all the aspects normally covered in a consultation on balance-of-payments restrictions. The Committee generally followed the plan for such consultations recommended by the CONTRACTING PARTIES (BISD, Seventh Supplement, pages 97-98). The Committee considered, therefore, that the discussion may be deemed to constitute Israel's consultation for 1970. The present report follows the usual pattern of a report on such a consultation. The Committee's special recommendations on the import deposit scheme are set forth in the concluding section of the report.

The Committee had before it: (a) the report on the last consultation with Israel (B0P/R/40); (b) a new basic document supplied by the Israeli authorities which contains, inter alia, a description and explanation of the import deposit scheme and to which were attached the relevant administrative regulations (B0P/R/103); and (c) supplementary background material supplied by the International Monetary Fund, dated 26 February 1970.

Consultation with the IMF

Pursuant to the provisions of Article XV of the General Agreement the International Monetary Fund had been invited to consult with the CONTRACTING PARTIES in connexion with these Israeli measures. In accordance with the agreed procedures the representative of the Fund was invited to make a statement concerning the position of Israel. The statement made was as follows:

"The Fund invites the attention of the CONTRACTING PARTIES to the statement made by the Fund representative on the occasion of the CONTRACTING PARTIES 1969 balance of payments consultation with Israel, and to the supplementary background material dated 26 February 1970, which has been transmitted to the CONTRACTING PARTIES."
"The import deposit scheme introduced by Israel on 11 January 1970 was one of a series of measures designed to slow down the decline in foreign exchange reserves. Other measures taken by the Government include increases in income tax and some indirect taxes, higher social security contributions and a compulsory defense loan.

"Israel's balance of payments is characterized by large annual deficits on goods and services which are financed by a surplus on capital account and by a substantial inflow of funds from unilateral transfers. In most of the years during the 1960's, up to 1968, capital inflows and receipts from unilateral transfers exceeded the deficits on goods and services, with the result that Israel was able to increase her holdings of foreign exchange reserves.

"The situation changed rapidly, however, during 1968 and 1969, when rising government expenditure, mainly for defense, and an expansion in domestic activity, particularly a rapid acceleration of investment, led to a sharp rise in imports. In 1968 the deficit on goods and services rose by $165 million, to $696 million. The rapid expansion in domestic activity continued throughout 1969, as Government and private consumption rose by nearly 12 per cent and investment increased by 24 per cent. Imports grew during the year by about 20 per cent, with imports of consumer goods rising by nearly 30 per cent and investment goods by 40 per cent. Commodity exports continued to grow, increasing by 14 per cent. Although exports of citrus fruit did not come up to expectations, increasing by only 5 per cent, exports of other agricultural products rose by 13 per cent and industrial exports were 14 per cent higher. Exports of services rose by less than 2 per cent in 1969 compared with an increase of 29 per cent in 1968: the main reasons for the slowdown in 1969 were a decline of 12 per cent in tourism (following an 84 per cent increase in 1967) and a decline of 16 per cent in investment income.

"The deficit on goods and services grew in 1969 by $208 million, or 29 per cent, to $930 million. Unilateral transfers were $37 million higher and the inflow of medium and long-term capital, at $240 million, was $10 million higher than that of 1968. As a result almost the entire increase in the goods and services deficit had to be financed by a running down of gold and foreign exchange reserves. The Bank of Israel's holdings of gold and foreign exchange declined in 1969 by $250 million to $412 million; this amount was equivalent to two and one half months of imports; a year earlier reserves were equivalent to four and one half months of imports.

"In 1969 Israel purchased the equivalent of $45 million from the International Monetary Fund; this purchase comprised the gold tranche and the first credit tranche. Further on 22 January 1970, Israel used the full amount of her allocation of SDR's ($15.1 million)."
"The import deposit scheme introduced on 11 January 1970, is limited in its impact as it applies only to approximately 16 per cent of total commodity imports. The Fund believes that the effect of the import deposit scheme does not go beyond the extent necessary, in conjunction with other measures, to stop a serious decline in Israel's monetary reserves. The Fund hopes that, when the balance-of-payments situation permits some relaxation of policy, the Israel authorities will accord priority to phasing out the deposit scheme."

Opening statement by the representative of Israel

5. In his opening statement, the text of which is annexed to the present report, the representative of Israel recalled the discussions on the country's balance-of-payments position at the last consultation with Israel in November 1969, and supplied information on more recent developments. Attention was drawn to the mounting deficit on current account and the resulting drastic decline in foreign exchange reserves in 1969 and in the early months of 1970. The import deposit measure taken in January 1970 formed part of a series of policy measures which had been foreshadowed during the November consultation aimed at stabilizing wages and prices and at containing the inflationary pressures in general. In this context the representative of Israel described the main features of a tripartite agreement recently concluded between the Government, the employers and the trade unions, which provided for very limited wage increases, to be paid in the form of Government bonds, which would be matched by equivalent bond purchases by the employer. Parallel to this agreement a number of fiscal measures were taken by the Government, including an increase in the defence levy, higher social security contributions, placing the defence loan on a compulsory basis, a rise in indirect taxes, and a reduction in foreign exchange travel allowances. Other measures, such as the abolition of the legal interest rate ceiling, changes in taxation procedures, and limitations on housing and building projects, were also to be shortly implemented.

6. The import deposit scheme had been introduced in the context of a series of diverse measures designed to stem the drain on the foreign exchange reserves. It was, however, not aimed at lowering the level of imports in absolute terms, but merely at achieving a lower rate of growth of imports which was currently running at an excessively high level. It covered only a small proportion - some 16 per cent - of total imports and affected mainly consumer goods. The bulk of imports, including plant and equipment, raw materials and Government imports, were not affected. The measure was regarded as being of a purely temporary nature, and the Government's basic policy remained one of liberalization of the foreign trade régime. Israel's long-term policy was to solve her balance-of-payments problems through the expansion of exports and foreign exchange receipts rather than through the paring down of imports.

Balance-of-payments position and prospects

7. In discussing the balance-of-payments position of Israel, members of the Committee expressed their understanding and concern for Israel's balance-of-payments difficulty. It was noted that the recent aggravation of these difficulties would
seem to stem in some measure from increased defence expenditures abroad. The increase in imports, especially defence imports, had substantially overtaken the growth in exports and had upset the traditional pattern of Israel's balance of payments, which had historically been characterized by a considerable current account deficit more than adequately covered by capital inflows, preponderantly comprising unilateral transfers from abroad. Defence imports, which had represented some 25 per cent of the deficit on goods and services account in 1964-1966, had, on the average, accounted during the last three years for about 50 per cent of the deficit. During 1969, nearly 40 per cent of the budget and 25 per cent of the gross national product were devoted to defence expenditures, and no alleviation of this burden would seem to be in sight. Added to this, important elements of the Israeli progress toward balance-of-payments equilibrium were precarious, especially in the case of receipts from tourism and the closely-related transportation services, which could be adversely affected by military and political events. In the face of this conglomeration of extremely difficult problems it was probably inevitable that Government officials in Israel should advocate various, often widely divergent, policies. The representative of Israel was invited to comment on the prospects of the various policy lines being followed, on how the Government envisaged dealing with the immediate critical situation, on how it planned to correct its balance-of-payments deficit, particularly the increased deficit in the current account, and on how it viewed the prospects for Israel's balance of payments in 1970. Specifically, he was asked whether his Government expected capital inflow to increase in 1970.

8. The representative of Israel, in reply to these questions, reiterated the principal points in his opening statement relating to his Government's basic policies and long-term objectives. As regards the balance-of-payments prospects for 1970, the Israel representative gave the Committee some tentative projections for comparison with the 1968 and 1969 figures given in the basic document (cf. BOP/103, Annex IV). In discussing these projections the Israeli representative stressed their provisional nature and the likelihood of their being adjusted and revised in the coming months. Apart from the uncertainty of future events, Government policies directly bearing on the flow of foreign currency receipts and expenditures were themselves subject to frequent review and modification. As the main objective of Government policy at present was to stop the boom and to restore a more steady rate of economic growth without bringing about a recession, the various policy measures had to be applied with extreme delicacy and reviewed constantly in the light of their effects and ramifications. Consequently, there could be no question of setting fixed courses to be inflexibly followed over prolonged periods or of giving exact economic forecasts for the coming year.

9. A member of the Committee observed that, even though capital inflow and unilateral transfers to Israel in 1969 had, as had been forecast by the Israeli authorities, both significantly exceeded their 1968 levels (by $37 million and $10 million respectively), these had been insufficient to close the rapidly rising current account payments gap, and this had to be met by running down foreign exchange reserves. As regards 1970, it had been forecast that capital inflow and unilateral transfers would again rise, although in the latter case by a smaller
margin than in 1969. On the other hand, the increased inflow of these capital funds would seem to be increasingly devoted to current, notably defence, expenditure rather than, as previously, to productive investment. The Israeli representative was invited to comment on the long-term implications of this change in the country's debt structure.

10. It was noted in the discussion that the current difficulties met by Israel in its balance of payments and the fall in its foreign exchange reserves must be viewed against the background of a booming economy and a remarkably high rate of growth in the gross national product and in industrial production. Remedies to redress the external disequilibrium, as the Israeli authorities were obviously aware, had to be sought in appropriate domestic and monetary policies. The measures that had been taken in the past year to combat excess demand, e.g. the bank credit restriction introduced last November bearing directly on consumer financing, the rise in the Bank Rate with the ancillary aim of raising commercial lending rates, the wage stabilization agreement mentioned above, etc. would all appear to be appropriate in the circumstances. Invited to comment on the effects of these various internal financial measures, the representative of Israel expressed the view that as the measures had mostly been introduced only recently, it was too early to assess their effects. The credit restrictions and high cost of borrowing should dampen demand, although this had not as yet been reflected in a decline in imports. The boom spell had not yet been broken, and disposable personal income had not yet been reduced to any significant extent; a certain time would have to elapse before the effects of the disinflationary measures were generally felt. In general, public expectation had remained buoyant and the various fiscal measures adopted had had so far only a limited effect on spending. It was to be hoped that when the effects of all these measures became generally felt, their impact would not be so strong as to bring on a full fledged recession.

System and methods of the restrictions

11. Members of the Committee recalled an indication given by the Israeli representative at the consultation last November concerning the pending adoption of a five-year plan providing for tariff reductions on industrial products in 1971-1975, and referred to the growing need for fiscal revenue on the part of the Government. They wished to know the general outline of Israel's tariff policy during the next five years and whether it remained Israel's intention to pursue the previously announced goal of reducing average tariffs to a range of 30 to 60 per cent by 1974, and an eventual goal of 25 to 35 per cent, as described in paragraph 20 of the report on last November's consultation with Israel (BOP/R/40). The representative of Israel replied that there had been no changes in the five-year tariff reduction plan. By 1975, import duties on all products which were also produced locally would be at such a level as to afford the locally produced products effective protection of not more than 35 per cent (i.e. 35 per cent on the value added in domestic production). Despite the difficult balance-of-payments situation tariff reductions scheduled for 1 January 1970 had been effected on that date.
12. Asked whether the five-year plan for tariff reduction had been published, the representative of Israel stated that the policy had been announced and discussed with industry, but that a detailed schedule of proposed tariff reductions for individual items had not been published. As had been explained at the last consultation the value-added element differed not only from industry to industry, but between different producers in a given sector. The calculation of the rate of tariff reduction necessary to bring the protection down to a uniform level would be different in practically every case, and was a laborious and time-consuming process. In order to avoid complications and unnecessary polemics, the authorities had decided not to publish the reduction rates until the appropriate time. In response to a question on how protective duties based on the value-added concept would be calculated for non-locally produced imports, the representative of Israel explained that the protective duties would be applied naturally only to products which were also produced in Israel. Import duties and excise taxes on other products, in fact the vast majority of imports, would be of a fiscal nature and their calculation would not be related to any such criteria.

13. In response to questions concerning the administration of the import controls, the representative of Israel informed the Committee that there had been further removals of administrative controls since last November, for example, certain products mentioned in list "f" as well as in certain other lists had since been taken off the controlled list. A schedule had been worked out for the liberalization of the products mentioned in list "a-2". The process of liberalization had been greatly accelerated in 1969; in the coming years it would be continued at a somewhat slower pace. The accelerated liberalization had met with considerable criticism in Israel, and a special Public Committee had had to be set up to investigate appeals by manufacturers. However, the policy had been to require concrete evidence of disruption and damage before protective tariffs could be raised for a particular industry. In other words the established policy of trade liberalization would be continued.

14. Questions were raised concerning Israel's bilateral agreements. The representative of Israel confirmed that of the five bilateral payments agreements which his Government had had at the time of the last consultation in November 1969, only those with Hungary, Bulgaria, Brazil and Portugal remained in force. The bilateral agreement with Yugoslavia had lapsed in March 1970. He stated that his Government's policy in the past three years had been directed towards the gradual termination of bilateral payments agreements. He recalled that while three years ago there had been ten such agreements, covering some 3 to 4 per cent of Israel's total trade, there were now only four such agreements, covering no more than 1 per cent of the trade.

15. Recalling earlier discussions, some members noted that the purchase tax levied in Israel on certain items, imported into or produced in Israel, was set at rates generally ranging from 2 to 60 per cent of the wholesale value, in some cases exceeding 100 per cent, and that an unexpected increase of up to 16 per cent in this tax had taken effect with respect to a wide range of consumer goods in May 1969. Since then further increases on passenger cars, imported cigarettes,
liquor and food delicacies had been announced in early February 1970. As a result, the tax on full-size imported cars had been over $2,000 per unit, while the same type of cars manufactured in Israel carried a tax of only about $1,000.

This situation had arisen because the present purchase tax on cars assembled in Israel was based on value while motor size and weight were the criteria for taxing most imported cars. In this context, it was asked whether any further rate changes in the Israel purchase tax system were contemplated in the near future.

A question was also asked regarding the purpose of the increase in purchase taxes effective 9 February 1970, and when the Government of Israel expected to adopt a uniform basis for levying the purchase tax to eliminate the higher effective rate falling on certain foreign goods, as compared to similar domestic goods.

16. The representative of Israel replied that the system of taxation was maintained under legislation which existed before Israel joined the GATT and hence was permitted under the terms of its accession. With respect to large cars, it was the Government's policy to encourage for economic and social reasons the use of smaller cars in Israel and for the same reason the local production of large cars, above 1,800 cc, had been halted. While it would not be possible, for technical and administrative reasons, to change over in the immediate future to a unified system of taxation for imported and home-produced vehicles, the recent tax increases had tended progressively to diminish the differential between taxes levied on home-produced and imported vehicles (for example, the purchase tax on home-produced vehicles under 1,300 cc had been raised in February by 21.4 per cent, whereas the tax on similar sized imported vehicles was raised by only 11 per cent. The respective tax rates for medium-sized cars (1,300 to 1,800 cc) were 43 per cent for home-produced vehicles as opposed to 23.5 per cent for imported vehicles. Whilst for large cars (over 1,800 cc) the respective tax increases were 36 per cent for home-produced as opposed to 30.6 per cent for imported cars). This narrowing of the gap had in fact caused some outcry among Israeli producers who claimed that they were being given insufficient protection.

As regards the other specific questions asked, the main purpose of the increase in the purchase tax effective 9 February 1970 was to absorb excess purchasing power. As far as was known to the delegation, no further changes in purchase tax rates were contemplated at the present time. However it might be noted that, for obvious reasons, no government could publish any projected upward revisions in purchase tax in advance. The Israeli delegation would be happy to provide any interested contracting parties with full details of the product coverage and actual rates of the tax applied as from 9 February.

The import deposit scheme

17. At the outset of the discussion of the import deposit scheme the representative of Israel drew attention to the detailed information on the scheme in the basic document for the consultation (BOP/103 and Annex VI) and pointed out that this measure, under examination should be described as an import deposit scheme rather than a "prior" deposit scheme since the deposit was not required prior to the issue of an import licence, which might be several months before the goods were actually imported, but only when the goods were cleared through the customs.
18. Some members of the Committee expressed concern that the scheme, which required importers of all goods bearing a customs duty of 30 per cent or more to deposit one half of the c.i.f. value of imports with the Bank of Israel for a six-month period, would certainly have a restrictive effect on imports, particularly since the Central Bank had publicly urged banks not to grant credit to finance these deposits. It was appreciated that the immediate objective of the imposition of this requirement was to take liquidity out of the economy and to reduce the scope for speculative purchases. However, since most basic food commodities, raw materials and machinery for agricultural or industrial use were exempt, the impact of the deposit requirement was concentrated on such products as non-essential foodstuffs, luxury consumer items and manufactured goods of a type produced in Israel. Countries mainly exporting such products would be particularly bearing the burden. The Government of Israel was therefore urged to phase out the scheme in a non-discriminatory fashion as soon as possible. The representative of Israel stated that the current intention of his authorities was to terminate the scheme by the end of 1970.

19. In reply to a question on what alternative measures had been considered to replace the import deposit scheme, the representative of Israel said that so far no alternative measures had been considered. Nor were any changes planned with respect to the present scheme, either in the deposit rate or in the product coverage. Asked if there were any procedures for providing relief where all or part of the goods on which a deposit was required was re-exported, the representative of Israel said that to the best of his knowledge none of the goods subject to the deposit requirement was intended for re-export. Goods in bond which had not passed through the customs were not subject to the deposit requirement.

On the question of liability to deposit in those cases where specific duty rates were applied, the representative of Israel said that as the import prices were known to the customs authorities, there would be no difficulty in determining whether the ad valorem incidence of the specific duty was above or below 30 per cent. Asked what was the trade value of the manufactures covered by the scheme, he replied that this had amounted to $220 million in 1969. It was queried why a trade restrictive measure had been chosen to assist the balance-of-payments adjustment in lieu of internal measures. The representative of Israel pointed out that it had not been chosen in lieu of, but in addition to, internal measures.

20. While it was appreciated that the import deposit scheme was a temporary measure to be eliminated at the end of 1970, some members of the Committee felt that general fiscal and monetary measures, which, unlike the import deposit would not have the effect of protecting or discriminating in favour of similar domestic products, were preferable alternatives for the purpose of redressing a balance-of-payments situation. Further, the import deposit scheme could also have the effect of diverting productive resources from export industries and thus adversely affect the development of Israel's export capabilities. The representative of Israel stressed that the import deposit scheme was introduced in addition to a wide range of internal measures. While monetary and fiscal measures were evidently more important tools for curtailing consumption, a measure with an immediate psychological impact had been found necessary. The importance of the
scheme resided in the fact that it had an immediate effect on the traders' import planning, particularly with regard to consumer goods. Any adverse effects on the export industries would be negligible.

21. A member of the Committee, noting that the deposit scheme had been accompanied by certain measures of credit restriction, supplemented by the removal of the ceiling on interest rates, asked what was the strength of the request made by the Central Bank for commercial banks not to extend credit to finance import deposits. The representative of Israel replied that the request had been indeed a stern one. In general the Bank of Israel had already done a great deal to limit loans and restrict credit. The Bank held sufficient authority to do this and no further legislative action was needed.

22. In reply to a query on whether the import deposit scheme would be removed in a selective or in a uniform manner, the representative of Israel said that it would be removed for all countries simultaneously in a non-discriminatory manner.

Conclusions

23. The Committee recalled the comments and views put forward at the last consultation with Israel in November 1969 and expressed the hope that the various fiscal and monetary measures that had been taken would be effective in stemming excess demand, and in lessening the pressure on the balance of payments, so as to enable Israel to maintain the import liberalization programme.

24. As regards the import deposit scheme, the Committee noted the view of the IMF that "the effect of the scheme does not go beyond the extent necessary, in conjunction with other measures, to stop a serious decline in Israel's monetary reserves". The Committee shared the hope of the Fund that when the balance-of-payments situation permitted some relaxation of policy, the Israeli authorities would accord priority to phasing out the deposit scheme (cf. paragraph 4 above). In this regard, the Committee welcomed the statement of the Israeli representative that the Israeli authorities intended to terminate the scheme by the end of 1970 and that action to that end would be taken in a non-discriminatory manner.

25. The representative of Israel stated that his delegation had taken note of all the views and comments put forward at this meeting and would convey them to the appropriate authorities in Israel.
1. The present consultation has been called primarily to examine the import deposit scheme and report to the Council. However, I should point out from the beginning that the deposit scheme is only one of a whole series of measures which have recently been decided upon by my authorities in order to remedy Israel's deteriorating balance-of-payments situation. These measures were already foreseen at the last consultation which took place in November 1969, but at that time we were not in a position to inform the Committee of the specific measures which were contemplated. As the import deposit scheme and the other related measures are intimately linked with our balance-of-payments problems, we have thought it advisable to provide the Committee with complete background material relating to our payments situation, updated to 31 December 1969 and we hope therefore that the Committee will regard this present meeting as constituting a full consultation on Israel's balance-of-payments restrictions for 1970.

2. In regard to the background material which appears in document BOP/103, I should like to make one small correction to the heading: the Israel scheme is not a prior deposit scheme, a term which normally applies to schemes where a deposit has to be paid at the time of application for import licences many months before the goods are actually delivered, whereas in the case of our scheme the deposit is payable only at the time the goods are cleared through the customs.

3. The Committee has already received a very detailed picture of our balance-of-payments position both at the last consultation and in the supplementary background material now supplied by the International Monetary Fund and, of course, in the basic document which we have supplied to the Committee for its present meeting. Therefore, it will be sufficient for me to outline the salient features of our present balance-of-payments position. As may be seen from Annex IV of the basic document, the deficit on current account had, in 1969, mounted to the staggering figure of $930 million, as compared with $722 million in 1968 and $530 million in 1967. During the same period the proportion of imports covered by exports of goods fell from 73 per cent in 1967 to only 56 per cent in 1969. Our foreign exchange reserves which stood at the record level of $770 million at the end of March 1968, had fallen, by the end of 1969, to only $412 million and, by the end of February this year, the reserves had declined still further, to $381 million - an amount which is barely sufficient to cover two months of imports of goods and services, which is an extremely low figure taking into account Israel's present situation.

4. The rapid deterioration in the balance of payments during these two years occurred in a period of uninterrupted and unprecedented economic growth. In the two years 1967-69, the gross national product rose by no less than 31.5 per cent. In the same two-year period, industrial production increased by as much as 51 per cent, gross investments rose by 76 per cent, productivity rose by 12.5 per cent and exports of goods increased by 28 per cent, although unfortunately the increase in imports was even greater.
5. The new Government which came into office at the end of 1969 had to take immediate steps to deal with the serious balance-of-payments situation, having regard also to our increasingly onerous security burden and the problems of absorbing the steady flow of new immigrants. Furthermore, at the beginning of 1970, most of the wage agreements between the trade unions and the employers were due to expire and it was clear that the trade unions would demand large wage increases which could further undermine the stability of the economy. Faced with this situation, the Government had intended to impose, as a partial remedy, drastic increases in taxation. In the light of the serious situation, and after consultations between the representatives of the Government, the trade unions and the employers, a unique compromise was hammered out, known as the "package deal", whose main purpose was to ensure the continued stability of prices and wages. The following are the main points of the agreement:

(a) During the coming two years the total wage rise will be limited to a ceiling of 7 per cent, of which 4 per cent will be paid in 1970 in the form of interest-bearing Government bonds (which are taxable) and further 2-3 per cent will be paid in 1971 either in cash or in bonds.

(b) To compensate workers for the fall in the value of real wages due to rising prices, a tax-free cost-of-living increment of 4 per cent will be paid on the basic wage of £700 ($200). A further cost-of-living increment would be paid in 1971 should the index rise by more than 3 per cent during 1970.

(c) The Government will refrain from the imposition of heavy new taxation and tax raises will be limited to a bare minimum on goods and services. The Government will also endeavour to limit increases in taxation by local authorities.

(d) The employers undertake to purchase Government bonds to an amount equal to the value of those purchased by the workers and, furthermore, undertake to try to prevent increases in prices of commodities and services.

6. These are the main features of the agreement. However, the package deal by itself will act no more than a brake on the boom and, in order to siphon off excess purchasing power, a number of internal restrictive measures have been taken by the Government. Among these, I should like to mention the following:

(1) The defence levy has been raised from 10 per cent to 15 per cent of the value of income tax paid.

(2) Employers' contributions to social insurance have been raised by 5.5 per cent, whilst those of the employees have been raised by 1.4 per cent.
(3) The defence loan which was formerly on a voluntary base has now been made compulsory.

(4) Indirect taxes on a broad range of goods (mainly durables) have been raised and stamp taxes and other levies have also been increased.

(5) The foreign exchange allowance for foreign travel has been reduced from $370 to $250 per person.

7. A number of other measures are under actual consideration by the Government and will be implemented within the next few weeks. I will mention here only a few of these: preparations are in an advanced stage for the abolition of the legal interest ceiling, thus allowing interest rates to rise and dampen down excess demand for money. Suppliers, contractors and sub-contractors to the Government and to the building trade will in future be taxed at source and, in addition, taxes will be deducted at source from earnings on foreign investment portfolios. Administrative limitations on private building are being introduced in the near future, and public construction is also being cut back.

8. Following the tripartite package deal and the other measures which I have alluded to, the Government has determined the main lines of its economic policy for the coming period. These are: first, a continuance of the rapid economic growth in order to produce the additional resources required to cover the cost of security and immigration while maintaining the present level of social services. Secondly, limitation of the rate of growth of private and public consumption. Thirdly, exports are to be expanded at a faster rate, particular emphasis being laid on increasing our competitiveness in foreign markets. At the same time, the rate of growth of imports will be slowed down (and this, incidentally, is one of the main purposes of the import deposit scheme). Lastly, the maintenance of overall economic stability, particularly in regard to wages and prices.

9. I now come to the import deposit scheme itself which is the prime cause of our meeting this morning. Full details of the scheme are given in Annex VI of the document which you have before you. The main purposes of the scheme are to slow down the rapid growth in imports (but not necessarily to lower imports in absolute terms) and to absorb means of payment from the economy. We estimate that the quantity of money to be frozen as a result of the operation of the scheme will be in the region of £200 million. As we have pointed out in the basic document, only a relatively small part of our imports (some 16 per cent) will be affected, mainly goods intended for the direct use of the consumer; whereas the vast bulk of imports, including plant and equipment, raw materials and Government imports, remain unaffected by the scheme.

10. During the coming months we shall be reviewing the operation of the scheme in the light of developments in the balance of payments and evaluating it in the light of the results achieved. I should emphasize that we regard the scheme as being of a temporary nature only.
11. I should like to re-emphasize that notwithstanding the application of the scheme, the Government fully intends to pursue its policy of liberalization of imports in the belief that only such a policy can bring about a rational allocation of resources and the development of efficient and competitive export industries. As I have pointed out, our basic strategy aims at closing the gap in the balance of payments by means of expansion of exports rather than by the contraction of imports; but, in order to ensure the success of such a policy, we must be able to guarantee unimpeded access to our most important markets.

12. Here I might remind the Committee of the particular geopolitical situation of Israel which unfortunately, for the present, does not allow our participation in a regional grouping. On the other hand, we are witness today to an increasing crystallization of world trade into large economic blocks. As Europe constitutes our largest market, we view with particular concern the situation which will arise when, as now seems likely, the United Kingdom and some Scandinavian countries become members of the European Common Market.

13. It was with these considerations in mind that we have carried out the recently concluded negotiations with the European Economic Community. As Committee members will have seen in the press, a trade agreement has been concluded, but not yet signed; nor yet has any date been fixed for its implementation. When the agreement is formally signed we shall, of course, together with our partners, carry out the necessary GATT procedures and we are confident that this agreement will be examined with comprehension and with the appropriate understanding by our trading partners members of the GATT. If, however, it should come about that we are prevented from implementing that agreement, which forms a crucial part of the total fabric of our export, import and investment strategy, then it is evident that my Government will be forced to reconsider its whole foreign trade policy and take appropriate measures to protect the economy.