The period 1966-67 was characterized by the economic slow-down which led on the one hand to structural unemployment and stagnation in economic development but which, on the other hand, brought about a significant improvement in Israel's balance of payments.

Imports decreased in 1967 by $66 million as compared with 1966, whereas in 1966 they had remained at the same level as in 1965. Exports of goods increased at an average annual rate of 13 per cent for the two years and, as a result, the deficit on trade account declined from $390 million in 1965 to $215 million in 1967.

On the other hand there was a deterioration in the balance of services: the deficit increased from $145 million in 1965 to $270 million in 1967.

Whilst in 1966 the deficit on current account fell to $448 million from $535 million in the previous year, it rose to $485 million in 1967. This gap was closed by unilateral transfers as well as by long- and medium-term loans, and as a result Israel's foreign indebtedness increased from $1,226 million in 1965 to $1,584 million in 1967.

During the period between the end of 1965 and mid-1967, the Government of Israel undertook vigorous measures to curb inflationary pressures, for example by imposing considerable cuts in public expenditure. The aim of this policy was to bring about structural adjustments in the economy and in particular a transfer of resources from the over-inflated building sector and the service industries to export-oriented industries and import substitution branches.
However, the latter industries found themselves unable to absorb the redundant labour force at the required rate. In this respect the economy was up against the basic problem of an as yet insufficiently developed industrial sector. As a consequence, for the first time in a decade there was a substantial rise in unemployment. This situation continued until the middle of 1967 after which the employment position began to improve.

The measures taken by the Government to maintain price stability and the ensuing unemployment led to a sharp reduction in the previously very high rate of growth (1-2 per cent in 1966/1967 as compared with an annual average of 10 per cent for the decade 1956-1965). These developments reflected the conflict facing the Government in following the twin objectives of growth on the one hand, stability on the other.

In 1966, net Unilateral Transfers declined from the previous annual average of some $350 million to about $300 million. The main factors contributing to this decline were the termination of German reparations and the lull in personal remittances owing to the declining level of immigration. However, during the latter half of 1967 there was a considerable increase in the Institutional Remittances due to an emergency collection after the June War. This item increased from $105 million in 1966 to 290 million in 1967.

Net capital inflows increased in 1967 by $40 million as compared with 1965, after an interim decline in 1966, the main net increase in 1967 being in Independence and Development Bonds. However, decreases were registered in United States and International Bank for Reconstruction and Development Loans, Other Loans and in Investments.

Increasing external loans and foreign indebtedness cannot be a satisfactory answer to the problem of closing the gap in the balance of payments within the next few years. Israel has already reached the highest per capita level of external debt in the world, which imposes and will impose in the future a very heavy burden on the economy.

Foreign exchange reserves decreased during 1966 and the first half of 1967. However, during the latter part of 1967 they began to rise and at the end of the year reached a figure of $715 million, which covers roughly six months of import requirements - a relatively modest figure in the light of Israel's special situation.
The improvement in the balance of payments during the period under review was achieved, as has been stated, at the expense of a decline in the rate of economic development. This trend manifested itself particularly in a substantial decline in the import of investment goods and equipment. The resumption of activity and the gathering of momentum of the economy will necessarily bring about in the first instance a worsening in the balance-of-payments situation. It is the policy of the Government to stimulate in particular the export-orientated industries.

Most of Israel's present exports are of a type more easily marketable in the developed industrialized economies. These include citrus fruit and citrus products, diamonds, clothing and fashion goods, plywood, chemicals, leather goods and others. It is natural therefore that the greater part of Israel's exports go to Western Europe and North America. In 1967 these two regions absorbed some 70 per cent of total exports (of which the European Economic Community accounted for 29 per cent, European Free Trade Association for 23 per cent and the United States for 16 per cent).

Many of the new branches which Israel is endeavouring to develop will also find a more ready outlet, in the first instance, in the developed industrialized economies. I have in mind science-based industries such as electronics and petrochemicals, specialized agricultural products such as "off-season" fruits and vegetables, printing and craft and fashion industries.

On the other hand, Israel has also been developing certain branches whose products could find expanding markets in the developing countries. These include: fertilizers (such as potash and phosphates) and industries connected with agriculture such as pesticides, irrigation equipment, agricultural machines and equipment for the poultry and dairy industries. During 1967, some progress was made both in Asian and in African markets.

Israel is not a member of any of the regional economic groupings and consequently she finds herself at a disadvantage in most of her major markets vis-à-vis the exports of the member countries of these groupings and vis-à-vis the many countries associated with them. In view of the smallness of our domestic market it can be seen that this constitutes a serious stumbling block to the development of our export industries. This was one of the basic factors underlying our application for associate membership of the EEC in October 1966.

In the light of these factors it can readily be understood that the successful conclusion of the Kennedy Round was of considerable importance to Israel and for this reason we took an active part in the negotiations. As a developing country we were not called upon to give full reciprocity. However, in order to secure concessions for products in which we have a vital interest, we did grant reductions on products which were of major interest to principal supplying countries and we also undertook to bind existing rates on a large range of other commodities.
In the field of tariff negotiations and trade liberalization, Israel attaches greatest importance to the successful outcome of the negotiations in UNCTAD for a general preference scheme in favour of developing countries. Israel is also taking an active part in the negotiations for tariff reductions amongst the developing countries under the auspices of GATT.

On the question of liberalization of the imports, the Government has, during the last two years, continued to pursue its policy of relaxation of administrative controls. Thus, during the period under review a further 120 items were removed from the list of restricted imports, whilst some 140 items will be added to the Free List as from June 1968. All these items are listed in Annexes III and IV of the Basic Document prepared for the present balance-of-payments consultations.

Parallel with the process of freeing imports from administrative controls, the Israel Government has also been carrying out a policy of gradually reducing the general level of customs tariffs. In November 1966, a tariff reduction of 10 per cent was implemented on some 330 items. In November 1967, following the devaluation of the Israel pound, a further reduction of customs duties at the rate of 15 per cent to 20 per cent was applied on almost the whole of the customs tariff.

A new revised customs tariff incorporating these reductions as well as two fifths of the tariff cuts resulting from the Kennedy Round is in preparation and will be made available to the members of the Committee. This volume will also include information on the changes in the import régime to which I have referred earlier.

In conclusion, I would like to assure the Committee that the Government intends to pursue further the policy of liberalization in the hope of reaching the point in the economic development of the country where restrictions will no longer be necessary.