II. THE ECONOMIC AND FINANCIAL FRAMEWORK

The Economy

Following two years of limited economic growth, the Israeli economy is now in a stage of modest recovery.

Statistics for 1989 indicate marginal but positive real gross national product (GNP) growth of 1 per cent. During 1989, Israel managed to reduce its traditional trade deficit, reduce its foreign debt (currently standing at US$17 billion) and increase investments slightly. Unfortunately, the rate of inflation was 20 per cent during the year and while unemployment rose to 9.3 per cent it steadied at 8 per cent by the end of 1989. The Israeli currency, the new shekel, was devalued by just under 18 per cent during 1989.

Because Israel lacks natural resources except for a few deposits of minerals, the economy is largely based on industry and services, which accounted for close to 70 per cent of the gross domestic product (GDP) in 1989. An important and growing element of the industrial sector is high technology. Israel is among world leaders in per capita expenditures on research and development (R&D).

The Israeli economy is structured in a fashion similar to most western economies, with co-existing private and public sectors. The public sector is the main player in the areas of defence production, mining, chemicals, manufacturing and transportation. It should be noted, however, that the Israeli government has agreed to privatize a few of its conglomerates and is currently studying the possibility of further privatization. Israel continues to have a large co-operative sector, the Histadrut or General Federation of Labour. It is widely diversified and has equity in most major conglomerates in Israel.

Israeli industrial policy encourages the development of high technology industries to supply world markets. Many small but growing Israeli firms have developed new technology, especially in the fields of computers, medicine, biotechnology and agrotechnology. The high technology sector is described more fully in following sections.