

1. GENERAL

This publication presents a revised summary of the national accounts for 2007. The summary is based on updated and detailed data for the entire year. In addition, estimates of previous years have been adjusted after receipt of updated figures and specifications (see Chapter 6 - Comparison with Previous Publications), and as a result of the continued adjustment of accounts to the new System of National Accounts (SNA93).

In addition to the annual data, quarterly data are also provided on the development of the product and its components - original data and seasonally adjusted data¹ - until the last quarter of 2007. Diagrams describing the developments in the main items of the accounts are presented as well.

Tables 1 to 32 present annual data on the product, real income, labour productivity, private and public consumption expenditure, fixed capital formation, export and import of goods and services, capital stock, employed persons, national disposable income, general government sector accounts, disposable income of households, etc.

Most of the data in the tables are presented at current and constant prices (chained at 2005 prices). In addition, quantitative changes, nominal changes and implicit price changes were all calculated.

Tables 33 to 38 present chained quarterly data on the product and its components seasonally adjusted¹ in 2005 prices.

Tables 39 to 44 present quarterly data on the product and its components at current prices, and chained data at 2005 prices.

The series in the printed publication include data for 1999-2007, whereas the series on the CBS web site contain data for 1995-2007.

2. MAIN FINDINGS

The **Gross Domestic Product** (GDP) at constant prices increased by 5.4% in 2007, following an increase of 5.0%-5.2% in 2004-2006. The GDP is equal to the net value of all goods and services produced in Israel.

The **Gross Domestic Product excluding net taxes on imports** increased in 2007 by 4.9%, at constant prices, following an increase of 5.2% in 2005-2006 and of 4.8% in 2004.

The **Gross Domestic Product per capita** increased in 2007 by a rate of 3.5%, at constant prices, following an increase of 3.2%-3.3% in 2004-2006.

The total **resources** available to the economy in 2007 rose by a rate of 7.3%, at constant prices, which indicates an 11.7% increase in **import of goods and services**. Data on **use of resources** point to an increase of 15.5% in **fixed capital formation**, of 8.5% in **export of**

¹ The seasonally adjusted data are updated for every estimate that is added or changed.

goods and services and an increase of 6.7% in **private consumption expenditure**. Additionally, **general government consumption expenditure** rose by 2.9%.

The relatively great increase in imports compared with the increase in exports resulted in a deficit of \$0.3 billion in the **Goods and Services Account, excluding defense imports**, in 2007, after a surplus of \$3.0 billion in 2006, following a surplus of \$1.8-2.0 billion in 2004-2005.

Real domestic income (GDP plus gains or losses from changes in terms of foreign trade) increased by 4.4% in 2007 – 1.0% less than the increase in the GDP, because of losses due to deterioration in the terms of trade (the rise in import prices was higher than the rise in export prices), a continuation of the losses in 2004-2006.

The following is an additional breakdown of the findings:

The gross domestic product of the business sector (product of all industries excluding general government sector and housing services) increased by 6.2% in 2007, following an increase of 6.2%-6.8% in 2004-2006. The increase in the business product in 2007 reflects the increase in the product of most industries.

The net product of the manufacturing industry, at base prices, increased in 2007 by 3.7%, after an increase of 13.4% in 2006 and of 10.2% in 2005. In 2007 increase of 4.4% was recorded in the production of High Technology Industries; an increase of 8.9% was recorded in Medium-High Technology Industries; an increase of 5.2% was recorded in the production of Medium-Low Technology Industries, and an increase of 2.0% was recorded in the production of Low Technology Industries.

In 2007 increases were recorded in the net product of **transport and communications services** industry (5.2%), the **personal and other services** industry (12.8%), the **commerce and accommodation services** industry (7.2%) and the **financial and business services** industry (8.4%). Also, the net product of **construction** industry increased of 5.5%, following an increase of 8.3% in 2006.

The **net product of the general government and community services industry**, at market prices, estimated by wage payments of the government, local authorities and non-profit institutions which are mainly financed by the government, increased in 2007 by 3.4%, following an increase of 1.3% in 2006.

Income and Savings

National disposable income, at market prices, which includes income from the domestic product plus income from abroad from labour and entrepreneurship, and from net current transfers, reached approximately NIS 86.2 thousand per capita in 2007.

Net national savings constituted 11.2% of the national disposable income in 2007, compared with 12.7% in 2006 and 9.6% in 2005. Net national savings are equal to disposable national income less general government and private consumption expenditures.

Private disposable income per capita, after deduction of the rise in private consumption prices, increased only by 0.9% in 2007, continuing the increase of 4.9% in 2006 and of 2.3% in 2005.

The net private savings rate reached 11.7% of private disposable income in 2007, compared with 14.8% in 2006 and 12.4% in 2005.

The gross private savings rate (savings before deduction of consumption of fixed capital) totaled 22.8% in 2007, compared with 25.7% in 2006 and 23.9% in 2005.

General Government Sector

In 2007 a surplus of NIS 8.2 billion was recorded in the **current account of the general government sector**, following a surplus of NIS 0.4 billion in 2006, compared with deficit of NIS 5.9 billion in 2005. The surplus in 2007 reached 1.2% of the GDP. The current account surplus (or deficit) equals current income less current expenditure of all agencies in the general government sector: the central government, local authorities, national institutions, and non-profit institutions that are mainly financed by the government. The transition to surplus in the current account in 2006-2007 is attributed to the relatively high increase in current general government revenue, compared to the increase in current expenditure. The increase in current general government revenue reflects mainly a 6.4% increase in tax collection (income tax, taxes on domestic production and imports) in 2007, following an 8.5% increase in 2006. The revenue from collection of social insurance contributions increased by 5.0% in 2007, after an increase 4.4% in previous year.

The total surplus in the general government sector, which also includes the capital account deficit, reached 0.2% of the GDP in 2007.

General government consumption expenditure, which includes wage payments, purchases of goods and services, taxes on production and consumption of fixed capital, amounted in 2007 to NIS 169.7 billion or 25.2% of GDP. General government consumption (at constant prices) increased by 2.9% in 2007, following an increase of 2.7% in 2006 and of 1.7% in 2005.

52.4% of the consumption expenditure was for **collective services**: defense, public order and civilian administration services; the rest was for expenditure on **individual services** intended for the welfare of individuals, such as education and health.

Consumption

Private consumption expenditure, at constant prices, increased by 6.7% in 2007, after an increase about 4.0% in 2005-2006.

Private consumption expenditure per capita increased by 4.8% in 2007, after an increase about 2.0% in 2005-2006.

A relatively high increase of 16.5% was recorded in 2007 in the purchases of **durable goods per capita**, following an increase of 4.6% in 2006. A breakdown of purchases of durable

goods shows that purchases of motor vehicles for private use increased by 23.0% per capita; purchases of household equipment (refrigerators, air-conditioners, washing machines, etc.) increased by 17.5% per capita, and purchases of furniture for household use increased by 5.6% per capita.

In 2007 **private consumption expenditures** (excluding durable goods) increased by 3.7% per capita, following an increase of 1.9% in 2006.

Total individual consumption, including private consumption expenditure and general government individual consumption expenditure (general government expenditure for education, health and other services consumed by households on an individual basis), increased by 4.5% per capita in 2007, after an increase 1.7% per capita in 2006.

Final consumption expenditure, which is composed of individual consumption (83.8%) and collective consumption (16.2%), increased by 3.6% per capita in 2007.

Fixed Capital Formation

Fixed capital formation increased by 15.5% in 2007, following a 9.9% increase in 2006, and 2.9% in 2005. Fixed capital formation, excluding ships and aircraft, increased by 13.3% in 2007, following a 9.8% increase in 2006.

Fixed capital formation in various industries of the economy (non-residential construction, machinery, equipment, motor vehicles and software), which comprise three-quarters of fixed capital formation, increased by 18.9% in 2007, after an increase 12.8% in 2006. A breakdown of capital formation of enterprises by type shows a 17.2% increase in investments in machinery and equipment, and a 27.3% increase in investments in land transport equipment.

Capital formation in non-residential construction and other construction work (industrial buildings, offices, educational institutions, roads, etc.) increased by 6.8% in 2007, following an 18.1% increase in 2006.

Capital formation in residential construction increased by 6.0% in 2007, after an increase 2.1% in 2006 and stability in 2005.

Inventories of materials, work in progress, and finished goods increased by 1.4% of the GDP in 2007, following a 1.9% of GDP increase in 2006.

Gross national saving totaled NIS 153.8 billion in 2007, compared to NIS 157.6 billion in 2006. Gross national saving was higher than gross domestic capital formation by 13.6% in 2007, compared to 29.5% in 2006.

Import and Export of Goods and Services

Export of goods and services, in constant prices, increased at a rate of 8.5% in 2007, continuing an increase of 6.1% in 2006 and 4.3% in 2005. The increase in exports in 2007 reflects rises in most of the export components: manufacturing exports, excluding diamonds, increased by 10.2%; agricultural exports increased by 21.1%; diamonds exports increased

by 3.3%; other services exports increased by 9.8% and tourism services exports increased by 4.7%.

Import of goods and services, in constant prices, increased by 11.7% in 2007, following an increase of 3.6% in 2006 and of 3.5% in 2005. Total **imports, excluding defense imports, ships, aircraft, and diamonds**, increased by 13.5% in 2007, following an increase of 5.4% in 2006 and of 5.3% in 2005. The increase in imports in 2007 reflects increases of 13.8% in import of goods (excluding defense imports, fuel, ships, aircraft, and diamonds), 18.2% in import of other services (excluding trips abroad) and of 9.0% in tourism imports. Additionally, import of fuel, ships and aircraft increased by 9.7% and import of diamonds increased by 2.7%.

Prices

Prices of goods and services in the economy (domestic product and import of goods and services) decreased at a rate of 0.8% in 2007, in contrast to an increase of 2.2% in 2006 and of 2.5% in 2005. **Import prices** decreased by 2.0% in 2007 compared to 0.2% decrease in **gross domestic product prices**.

3. DEFINITIONS AND EXPLANATIONS¹

Gross domestic product (GDP) at market prices: The sum of the gross value added of all resident producers at producers' prices, plus taxes less subsidies on imports, plus all non-deductible VAT (or similar taxes).

Gross domestic product less net taxes on imports at market prices: The sum of the gross value added of all resident producers at producers' prices, plus all non-deductible VAT (or similar taxes), but excluding net taxes on imports. This series is preferable for analysis of economic development, because it is not affected by changes in the scope or composition of taxes on foreign trade

Expenditure-based GDP: The total final expenditures at purchasers' prices, including private and government consumption expenditure, gross capital formation (private and government), and the f.o.b. value of export of goods and services, less the f.o.b. value of import of goods and services.

Output-based GDP: The sum of the gross value added of all resident producers at producers' prices, plus taxes less subsidies on imports, plus all non-deductible VAT (or similar taxes).

¹ The definitions are based on the new System of National Accounts (SNA 93), which was prepared by five international organizations: The United Nations, the International Monetary Fund, the World Bank, OECD, and EUROSTAT. The new system is presented in: the *System of National Accounts 1993*, Commission of the European Communities, International Monetary Fund, Organization for Economic Cooperation and Development, United Nations, World Bank, Brussels/Luxembourg, New York, Paris, Washington D.C., 1993.

Output: Consists of all goods or services produced within an establishment, which have become available for use outside that establishment, plus any goods and services produced for own final use. Output in industries that produce goods is defined as the value of all commodities produced for sale, including goods that have not yet been sold. In service industries, output equals the total compensation received for services that have been provided. The term output is distinguished from the term revenue, which entails extensive use of financial reports from the business sector. Revenue can include income from sale of goods that were not produced by the reporting establishment.

Market output: Output that is sold at prices intended to cover the cost of production.

Non-market output: Goods and services produced by the government or by non-profit institutions and are supplied free of charge or at prices that are not intended to cover the cost of production.

The product of the business sector: Includes the product of all industries in the economy, except government services, services of non-profit institutions, and housing services.

Net domestic product, at market prices: Equals the gross domestic product, at market prices, after deduction of consumption of fixed capital.

Net domestic product, at basic prices: Equals the net domestic product, at market prices, after deduction of fixed capital formation and taxes on products and addition of subsidies of products.

Private consumption expenditure: The sum of private consumption expenditure of households and of the consumption expenditure of non-profit institutions serving households, whose expenditure is not mainly financed by the government.

Final consumption expenditure of Israeli Households: Expenditure by resident households in Israel and abroad, on goods and services, including durable goods but excluding dwellings.

Final consumption expenditure of households in the domestic market: Due to lack of detailed current statistics on consumption of Israelis, the breakdown of consumption into its components relates to the combined domestic expenditure of all households (both of Israeli residents and of foreign residents) in the domestic market.

General government consumption expenditure: The value of intermediate consumption of goods and services, compensation of employees, taxes on production (including taxes on wages and employers' tax), and consumption of fixed capital. Compensation of employees includes imputed expenditure, which reflects the government's obligation to pay its staff retirement pensions.

General government consumption expenditure consists of two components:

- (a) The value of individual consumption financed by the general government;
- (b) The value of collective consumption by the general government.

Total actual individual consumption expenditure includes private consumption expenditure and the value of individual consumption financed by the government sector.

Collective government final consumption expenditure includes expenditure on defense and public order and general public administration expenditure.

Total consumption expenditure (total final consumption expenditure): is the sum of total actual individual consumption expenditure and the collective government final consumption expenditure.

The general government sector consists of the totality of institutional units, which, in addition to fulfilling their political responsibilities and their role of economic regulation, produce principally non-market services (possibly goods) at low prices for individual or collective consumption and redistribute income and wealth.

The general government sector in Israel includes the following units: government ministries, the National Insurance Institute, local authorities, national institutions, and non-profit institutions, where the above-mentioned bodies finance the major part of their expenditure.

Gross domestic capital formation is the sum of changes in inventories and gross fixed capital formation, as defined below:

Change in stocks: the market value of the physical change in: (a) stocks of raw materials, work-in-progress and finished products held by resident industries; (b) emergency stocks of vital products held by the government. The value of work-in-progress of buildings, roads and other construction works is regarded as "gross fixed capital formation" and not as increase in stocks.

The value of the physical change in stocks, in the period under review, is calculated as the difference between the value of these stocks at the end of the period and their value at the beginning of the period, both valued at the average prices prevailing in the period.

Capital stock includes tangible as well as intangible productive capital (software). Accordingly, capital stock does not include non-productive capital or financial assets. It also excludes changes in inventories of raw materials, finished goods and work-in-progress.

Gross capital stock is the value of all fixed assets still in use at the end of the accounting period at the actual or estimated prices for new asset of the same type, irrespective of the age of the asset.

Net capital stock is the sum of written-down value of all the fixed assets still in use at the end of an accounting period.

Consumption of fixed capital represents the reduction in the value of the fixed assets whose economic life has not yet ended, as a result of physical deterioration, normal obsolescence and accidental damage.

Gross fixed capital formation: expenditures (purchases and own production) of industries, general government and non-profit institutions, for the addition of new durable goods to their stocks of fixed assets. Included are acquisitions of durable goods (except land and mineral deposits) for civilian use, work-in-progress on construction projects, major renovations; road construction and other infrastructure projects; outlays on the improvement of land and fruit plantations. Also included are intangible assets (mainly expenditures for production and purchases of software for own use and expenditures for oil exploration). Excluded are government expenditures for buildings and equipment for military use.

Gross domestic capital formation in infrastructure: serves the total economy and includes buildings, construction work and equipment in the following industries: transportation (including air and sea ports, trains, roads), communications, energy (including electricity, oil and gas), water (including water, sewage and desalination), and preliminary development (including preparation of business base).

Export of Goods and Services: Export of goods consists of exports from residents to non-residents, which usually involves a change of ownership in the following items: general merchandise, goods for processing, goods procured in domestic ports by non-resident carriers, and non-monetary gold. Export of services includes export by residents to non-residents in the following items: transportation; travel; communications; construction; insurance; financial services; computer and information; royalties and licence fees; other business services; personal services, cultural and recreational services; and government services which were not included in the previously mentioned items.

Import of Goods and Services: Import of goods consists of imports from non-residents to residents, which usually involves a change of ownership in the following items: general merchandise, goods for processing, goods procured in foreign ports by domestic carriers, and non-monetary gold. Import of services consists of import from non-residents to residents of the following services: transportation; travel; communications; construction; insurance; financial services; computer and information services; royalties and licence fees; other business services; personal, cultural, and recreational services; and government services which were not included in the previously mentioned items.

Income received from abroad/paid abroad includes compensation of employees, income from property, and as entrepreneurial income (from interest, dividends, and profits from reinvestment of foreign earnings) and interest paid for the public sector.

Property income is the income receivable by the owner of a financial asset or a tangible non-produced asset in return for providing funds to, or putting the tangible non-produced asset at the disposal of another institutional unit. It consists of interest, the distributed income of corporations (i.e., dividends and withdrawals of profits from income of quasi-corporations), reinvested earnings on direct foreign investment, and rent.

Operating surplus is the difference between the net product at factor cost and compensation of employees and property income.

Gross National Income, at market prices, is equal to the Gross Domestic Product less income (compensation of employees and property income) paid to foreign economic units operating in Israel, plus income paid to Israeli economic units operating abroad.

Real gross domestic income is equal to the sum of gross domestic product at the previous year's prices, plus the trading gain or loss resulting from changes in the terms of trade with the rest of the world, at the previous year's prices. The terms of trade with the rest of the world are the rate at which exports may be traded against imports. If the prices of a country's exports increase more (or decrease less) than the prices of its imports, the terms of trade improve.

Net national income, is equal to the gross national income at market prices, after deducting consumption of fixed capital.

Net national disposable income, at market prices: is equal to net national income, at market prices, plus net current transfers received from abroad.

Private disposable income is equal to national income less taxes on income, contributions to national insurance and property income paid to the general government, plus interest payments and other transfers received by the private sector from the government and from abroad.

Adjusted private disposable income is equal to the private disposable income plus social transfers in kind to households from the government sector and from non-profit institutions. Transfers in kind include mainly education, health, and culture and welfare services.

Government disposable income: the balancing item in the secondary distribution of the income account. It is derived from the balance of primary income account of the general government sector plus taxes on income and wealth, social security contributions, and all current transfers, (except social transfers in kind, received), and less all such transfers paid.

Net national saving is the difference between national disposable income at market prices, and private and government consumption expenditure.

Net saving of the general government in the current account, is the difference between total current receipts and total current expenditures of the general government.

Net private savings is defined as the difference between private disposable income and private consumption expenditure. It includes the savings of households and savings of private non-profit institutions whose expenditures are not financed mainly by the government, and net savings of the business sector.

Surplus/deficit on current transactions with the rest of the world is calculated as the surplus of current receipts over current disbursements in respect of transactions between Israel and the rest of the world.

A surplus means that the amount of national savings is higher than the domestic capital formation. In this case, Israel participates in financing (directly or indirectly) capital formation abroad. This is done through net capital transfers, and net acquisition of intangible assets

and/or net acquisition of foreign financial assets. A deficit means that expenditures are higher than receipts, Israel uses foreign sources to finance the domestic capital formation.

Financing of gross domestic capital formation: gross domestic capital formation is financed by provision for consumption of fixed capital, the net national savings and the deficit in the current transactions with the rest of the world account.

Current transfers: transfers from the current income of the payer, which are added to the current income of the recipient for the purpose of current purchases (e.g., for consumption expenditure). Transfers received from abroad or paid abroad are converted into Israeli currency at the official exchange rate.

Current transfers in kind: goods and services for individual consumption produced or purchased by government units and non-profit institutions serving households, and provided to households by these institutions free of charge.

Capital transfers: transfers designated to finance investments, which derive from the donor's assets or savings, or are non-recurrent for either party to the transaction.

Taxes are compulsory unrequited payments, in cash or in kind, made by an institutional unit to government units.

Taxes on income include current levies by the government, the National Insurance Institute and local authorities:

- a) On income from wages, property, capital gains, from entrepreneurship and from pensions, as well as levies on financial assets, on net-wealth of enterprises, and on ownership of goods.
- b) Payments to the National Insurance Institute - both by the insured and by the employer. From 1995, also includes health tax paid by households.
- c) Mandatory payments for Israeli passports, court fees, etc.

Taxes on production and imports consist of taxes on goods and services when they are produced, transferred, delivered, or otherwise used of by the producer or the importer. Taxes and duties on imports become payable when goods cross the border into Israel, or when services are delivered by non-resident units.

Other taxes on production: All taxes, except taxes on products, which enterprises pay as a result the production process. These payments include taxes on payroll, recurrent taxes on land and buildings, business licenses, stamp taxes, and taxes on international transactions.

Taxes on products: Taxes levied per unit of goods or services. The tax is a specific amount of money per unit of goods or services, and is charged at the time the goods or services are produced, sold, imported, exported, transferred or used for own capital formation. Examples of taxes on products: Value Added Tax, Sales tax, Fuel tax and customs.

Capital taxes: taxes levied at irregular and infrequent intervals on the value of assets or net worth of institutional units, as well as betterment levies, levies on the value of assets transferred between institutional units as inheritances, gifts or other transfers.

Subsidies consist of all current grants paid by the government and local authorities to private industries and public corporations, as well as operating deficits of the government enterprises such as the Israeli railways. In addition to the direct current subsidies, this item also includes the subsidy component of loans to finance current activities, which are granted by the government to producers under preferential conditions (e.g., at interest rates lower than those of the market, such as loans from export funds). However, this item does not include subsidies in the form of non-recurrent loans or loans that are not granted on a regular basis. The grant component in these loans is defined as capital transfer.

Subsidies on products: Subsidies payable per unit of goods or services produced, sold, or imported, as well as subsidies that are otherwise used. The subsidies are calculated as a fixed amount per unit of quantity, as a specific percentage of the price per unit, or as the difference between the market price and a specific target price etc.

Investment grants: capital transfers in cash or in kind made by the government to other resident or non-resident institutional units to finance part or all of the costs for acquiring fixed assets.

Non-produced non-financial assets: non-financial assets that are needed for the production process, but have not themselves been produced.

Primary income: accrued income of institutional units as a result of their involvement in the production process or as a result of the ownership of assets that may be used for that process.

Imputed pension payments are equal in value to the sums that should have been transferred to provident funds in order to insure the de facto employees' entitlements to the social benefits they accumulate.

Net lending is the net amount a unit or sector has, which can be used to finance, directly or indirectly, other units or other sectors. It is a balancing item in the capital account and is defined as – (Net saving plus capital transfers receivable) minus (capital transfers payable) minus (the value of acquisitions less the value of disposals of non-financial assets, less consumption of fixed capital). Negative net lending may also be described as “net borrowing”.

Net value added: the balancing item in the production account: the value of output less the value of both intermediate consumption and consumption of fixed capital. Value added is intended to measure the additional value created by the production process.

Intermediate consumption: the value of goods and services consumed as inputs in a production process, excluding fixed assets whose consumption is recorded as consumption of fixed capital. The goods and services may be either transformed or used up by the production process.

Treatment of value added tax in the product account, at market prices: the value of domestic uses of resources - private and general government consumption and capital formation and the value of imports, includes net V.A.T. (i.e., VAT. paid less VAT. refunded).

The purchaser's price is the amount paid by the purchaser, excluding any deductible VAT or similar deductible tax, in order to receive a unit of a good or a service at the time and to the place required by the purchaser. The purchaser's price of a good includes any transport charges paid separately by the purchaser.

The basic price is the amount receivable by the producer from the purchaser for a unit of a good or a service produced, minus VAT or any similar deductible tax paid by the purchaser, plus any subsidy receivable on that unit as a consequence of its production or sale. This price excludes any transport charges invoiced separately by the producer.

The c.i.f. price (i.e. cost, insurance and freight price) is the price of a good delivered at the border of the importing country, including any insurance and freight charges incurred up to that point, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country.

The f.o.b. price (free on board price) is the c.i.f. price less the costs of transportation and insurance charges, between the customs frontier of the exporting (importing) country and that of the importing (exporting) country.

Classification of product in the national accounts is based on the *Standard Classification of Economic Activities, 1993*, Technical Publication No. 63, Second Edition, published by the Central Bureau of Statistics, with the following differences:

Agriculture: In the national accounts, the agricultural product is the difference between agricultural output of goods defined as agricultural produce, and inputs purchased from other industries. The classification is by goods and not by establishments (agricultural farms), which are classified, by their main activity, in the *Standard Classification of Economic Activities, 1993*, Second Edition.

Imputed housing services: An item that does not exist in the *Standard Classification of Economic Activities, 1993*, Second Edition. This item reflects income deriving from housing services in residential dwellings owned by their tenants. In rented dwellings, receipts from rent are included in the deduction of current operating expenses, and in dwellings owned by their tenants or in key money dwellings, rent is imputed.

4. DEFINITIONS OF WAGES, COMPENSATION AND LABOUR COST

This chapter presents all of the definitions of wages and labour compensation. The definitions are based on the international guidelines for recording wage expenditure and labour cost, as presented in the Manual on National Accounts SNA93, and on the publications of the International Labour Organization (ILO).

A. Wages (= wages and salaries): Wages and salaries are defined as remuneration, in cash or in kind, by the employer to the employee for work carried out during the period of the report, including wages based on units of work time or on a monthly salary.

Wages and salaries include all types of gross payments, as specified below:

- Basic wages, cost of living allowances, seniority payments, back pay, advance payments, overtime, and on-call and shift allowances.
- Bonuses and special allowances such as education and proficiency allowances, "13th month" salary, retirement pay and compensation for unused sickness day quota, etc.
- Transportation allowance, vacation allowance, car allowance, telephone compensation, per diem expenses, clothing allowance, etc.
- Payments in kind (only subject to income tax) such as: meals, housing services, holiday gifts, etc.

B. Supplementary expenses for wages and salaries (= employers' social contributions): include social contributions payable by employers, such: actual contributions to the National Insurance Institute, to pension plans, provident funds, study funds, etc. In addition, these expenses include imputed contributions to pension expenses for employees, which derive from the employer's obligation to pay the workers' retirement pensions instead of contributing to pension funds, for example, imputed contributions to budgetary pension schemes for civil servants.

C. Taxes on wages and salaries: Taxes levied on employers for wage and salary expenses, such as payroll tax and employers' tax.

D. Other components of labour cost: Expenses for vocational training, welfare, recruiting workers, and providing work clothes, maintaining a cafeteria, payments to professional organizations, etc.

E. Compensation of employees/ for employee jobs (formerly: compensation of employees): Compensation of employees/for employee job is defined as the total expenditure for wages and salaries and supplementary expenditures for wages and salaries (items A+B).

F. Imputed compensation of non-employees/for non-employee jobs (formerly: Imputed compensation of non-employees): Compensation of non-employees/for non-employee job (employed persons who are not employees - employers, self-employed persons, members of cooperatives, kibbutz members, and unpaid workers in household enterprises) is the imputed value estimated as the number of work hours multiplied by average compensation of employees per hour in the industry that they are employed in.

G. Compensation of employed persons/compensation for jobs (formerly: Compensation of employed persons): Compensation of employed persons/compensation for jobs includes compensation of employees/employee jobs and the imputed value of compensation of non-employees/non-employee jobs (items E+F).

H. Labour Cost: Labour cost includes compensation of employees/employee jobs, taxes on wages and salaries, and other components of labour cost (items C+D+E). There may be cases in which reported labour costs include only compensation of employees/employee jobs and taxes on wages and salaries (items C+E). In those cases as well, it is recommended to classify the item as labour cost for employees.

I. Employed persons: persons who worked at least one hour in the determinant week in any work for wages, profit or other compensation; all workers in kibbutzim (whether in services or other industries); family members who worked in their family owned business and institution workers who worked without pay for more than 15 hours per week; persons temporarily absent from their regular work who didn't seek other work.

J. Employees: persons who were employed by someone else for daily, monthly or contractual wages or for any other compensation.

Estimates of the changes in the number of employed persons, employees and work hours of employed persons and employees in Israel were usually based on findings from the "Labour Force Survey" in Israel. The estimates relating to residents of the Palestinian Authority who work in Israel are based on the labour force survey of the Palestinian Authority. Before 1996 the estimates were based on family surveys in Judea, Samaria and the Gaza Area and on Employment Service data. Estimates of the number of foreign workers are based on the net entries to Israel of people from developing countries who are not tourists, new immigrants, diplomats or students.

K. Employee jobs (formerly: employees) - Jobs (permanent and temporary) of workers on the payroll of establishments or institutions, who worked for at least one day during the surveyed month (or were on paid leave due to illness, vacation, army reserve duty, etc. at least one day during that month). Jobs on the payrolls of more than one establishment or institution in that month were counted as many times as they appeared on the payroll, so that the data actually refer to the number of jobs for which wages were paid that month.

L. Jobs (formerly: employed persons) - Refer to employee jobs, owners and unpaid family members.

An explanation of Employed Persons, Employees/Jobs, and Employee Jobs is presented below:

EMPLOYED PERSONS, EMPLOYEES/JOBS, EMPLOYEE JOBS

1. Estimates of employment: persons or jobs.

Household surveys: The estimates of employment relate to persons engaged in economic activity.

Source of the data: The household interview.

The Households surveys conducted by the CBS are: Labour Force Surveys, Household Expenditure Surveys, the Income Survey, the Social Survey, and the Census of Population and Housing.

Business surveys: The estimates of employment relate to jobs for pay.

Source of the data: Reports of employers or administrative reports (employee jobs reported to the National Insurance Institute).

Persons (Household surveys)	Jobs (Business surveys)
Employed persons	Jobs
Employees	Employee jobs
Non-employees	Non-employee jobs

2. As of 2005, there has been a change in the terms used for the business surveys: “jobs” and “employee jobs” are used instead of “employed persons” and “employees”. The change in terminology has no effect on the data.
3. Persons holding more than one job with different employers will be counted once in household surveys, but in the business surveys they will be counted once for each job held.
4. Data from these two sources differ from each other due to variations in definitions, in coverage, in sources of information, in methods of data collection, and in estimation procedures, as well as to variability in samples and response errors.

5. SOURCES OF THE DATA

General government consumption expenditure is estimated by the analysis of the Accountant General’s reports, and of the budget provisions, in addition to complementary data received from the Ministries of Finance and of Defence. The estimate of expenditures by local authorities, national institutions, and non-profit institutions is based on data obtained from analysis of financial and budget accounts.

Private consumption expenditure: Food consumption is estimated on the basis of marketing data of agricultural products, and on production and on marketing data of industrial food products and their prices. Expenditure on industrial products, excluding food, is estimated on the basis of the Household Expenditure Survey, reports of establishments on domestic production of major durable goods (refrigerators, washing machines), and on foreign trade statistics.

Housing consumption is estimated on the basis of the growth of residential construction areas, and the rise in prices of housing services.

Under the Other Services item, a significant part of the estimates is based on findings from the Household Expenditure Survey and extrapolation by various indicators in the years between surveys. Another part of the estimates (e.g., supply of electricity, person-nights in hotels, visits to movie theaters, hospitalization days in commercial hospitals, etc.) is based on appropriate data of quantities and prices.

The consumption estimate of foreign residents in the country and of Israelis abroad, is from the Foreign Travel item in the balance of payments, after deducting the estimate for business expenditure.

The **value of services of non-profit institutions** is estimated on the basis of data of payment of wages and other current expenditures. These data are received from questionnaires transmitted to institutions or on the basis of financial statements.

Estimates of gross capital formation in fixed assets are based mainly on the following:

- a) Data on import of machinery, equipment and motor vehicles.
- b) Reports on revenue from sales of domestically produced investment goods;
- c) Quarterly estimates on areas of construction begun and construction completed;
- d) Financial data on investment in residential building carried out by the Ministry of Construction and Housing;
- e) Data received from government ministries, public institutions, and major establishments on the extent of their investments.

Estimates of change in stocks are based on:

- a) Data on quantities of stocks of agricultural produce, stocks of fuel and stocks of vital products held by the government;
- b) Data from the Manufacturing and Commerce Surveys on the value of stocks held by establishments;
- c) The change in the stocks of diamonds, based on the difference between exports and imports, at constant prices.
- d) The value of output which has not yet been sold in software start-up companies and for R&D, which is estimated on the basis of data of investments by capital venture funds in those companies.

Import and export of goods and services are estimated on the basis of data from the balance of payments, adjusted to the definitions of the National Accounts.

Compensation for employees is arrived at by summing up the payments of labour expenses in each industry based on industry surveys, such as The Manufacturing Survey. In industries for which surveys are not conducted, estimates are arrived at from administrative reports, such as employers' reports to the National Insurance Institute or reports from the Accountant-General.

Compensation for non-employees (employed persons who are not employees - employers, self-employed persons, members of co-operatives and kibbutzim, and unpaid workers in a

family-operated enterprise) is estimated according to the number of work-hours of the non-employees, multiplied by the average hourly compensation to employees in the industry in which they are employed.

Estimates at constant prices: the estimates are calculated each year, at the prices of the previous year, and are presented in the tables as chained estimates at 2005 prices, to allow comparisons between non-consecutive years. Because of chaining, estimates for each category of the product components do not add up to the total expenditure for the product.

The quantity changes obtained from these estimates are **Laspeyres indices**. On the other hand, the weighting of the implicit changes in prices (obtained at any level of summing as the ratio between the nominal and the quantity change) is of the **Paasche** type, e.g., weighted at the current value: the prices of each item receive weights which differ in accordance with the composition of the expenditure at the current period. These implicit changes in prices reflect both price changes and changes in the composition of the expenditure, unlike price indices, in which the weights of each item are fixed, such as the Consumer Price Index and the Wholesale Price Index of the manufacturing production to domestic uses. When comparing the annual change in prices of private consumption expenditure with the change in the Consumer Price Index, one should also take into account that some of the differences are due to the fact that in the national accounts the price changes are weighted at monthly or quarterly weights, whereas in the Consumer Price Index an arithmetic average is used.

Another difference is due to the method by which price changes for housing services are calculated. The price changes in this item are based on a quarterly survey of prices of dwellings obtained about three months after the end of the surveyed period. The results of this survey are reflected in the Consumer Price Index for the month in which the survey results are obtained, whereas in the product account they are reflected in the period to which the data relate.

Private consumption expenditure estimates at constant prices were obtained directly by using quantity data or through deflation of the current values according to the corresponding price indices.

For general government consumption expenditure estimates, quantitative changes in the labour expenses were computed according to the change in the labour inputs. Other current expenditures were usually deflated by the wholesale price index of industrial output, which was weighted according to characteristic production activities of the various expenditure items.

The estimate of gross capital formation, at constant prices, was based on the price index of construction cost and on the price index of equipment in Israel and in the main countries from which Israel imports.

Estimates of export and import of goods at constant prices are obtained by multiplying the dollar value of the exports or imports, at constant prices, by exchange rate effective during the base year. In order to calculate the data on dollar values at constant prices, dollar price indices were used, which are listed according to main goods. Estimates of export and import

of services at constant prices are obtained by deflating the current price estimates by the price indices specified according to type of services.

Annual price changes: the tables present annual nominal price changes, quantitative changes and implicit price changes, derived from the ratio between the annual nominal changes and the quantitative changes.

Seasonally adjusted estimates are obtained by dividing the original quarterly estimate by:

- a) The seasonal factors for the regular seasonal adjustment;
- b) The prior adjustment factors for trading day and festival effects.

Estimates of the net domestic product of Agriculture, at current and constant prices, are obtained every year by deducting the estimate of inputs bought (from other industries), from the estimate of agricultural output, which is received from the agriculture surveys.

Estimates of the net domestic product of Manufacturing, excluding diamonds, are based on annual manufacturing surveys. Estimates for years in which an annual survey has not been conducted are based on monthly manufacturing indices.

Net domestic product of diamonds, at current and constant prices, is computed using data on import and export of diamonds of the various types. Estimate of the output are calculated for each type of diamond separately.

The estimates **of the net domestic product of the Construction industry** are obtained according to changes in the main components of the industry's output: investments in buildings and in other construction works (roads, pipe lines, railway tracks, cable laying and other building works) and construction for defence purposes.

For this calculation, it was assumed that there was a constant ratio between input and output, at constant prices, in the main types of construction.

Estimates of the product of Electricity and water are based on input-output tables. For years for which a table is not available, the estimates are based on data on revenue from VAT. Changes of product, at constant prices, are obtained by using indicators of the output: water output measured at cubic meters and electricity supplied at k.w.h.

Estimates of the product of Commerce, accommodation services and restaurants use base-year data from surveys of revenue and input in that industry, which were conducted in order to prepare input-output tables. For the years in which Commerce and Services Survey were conducted, the estimates are obtained by extrapolating base-year estimates from the data of this survey. For the years in which Commerce and Services Survey was not conducted, the estimate is based on extrapolation of revenue data from VAT or on data from Hotel Survey. Product, at constant prices, was obtained by deflating the product at current prices by appropriate price indices.

Estimates of **product of transport, storage and communications** are mostly obtained by analyzing financial reports. In the case of buses, taxis and lorries industries, the product is obtained by a calculation based on the amount of travel. Changes of product, at constant

prices, are obtained by using measures of the output: kilometers traveled by taxis and lorries, loads hauled by ships and number of passengers in Israeli airlines.

For **Banking services**, the product is obtained from a review of the financial reports of the banks published by the Supervisor of Banks. The output of the banks includes two components: One component of the output is fees, which banks charge their customers for services provided. Another component of output derives the higher interest that banks charge on the loans they extend compared with the interest they pay on deposits. The product is calculated as the difference between the banks' outputs and inputs. The output from fees at constant prices is obtained by deflating income from fees at constant prices by a bank services price index. Income from interest at constant prices is the difference between interest on loans at constant prices and interest on deposits at constant prices. Interest on deposits at constant prices is obtained by multiplying the deposits by the interest on deposits in the base year. Interest on loans at constant prices is obtained by multiplying the loans by the interest on loans in the base year. Inputs at constant prices are obtained by deflating inputs by the Consumer price index.

For **Insurance services**, the product is based on a review of the financial reports of the insurance companies prepared by the Ministry of Finance. The output of insurance companies is the sum of the net premiums paid by customers and the profits on investing the actuarial reserves. The product is the difference between the outputs and inputs of the insurance companies. The product at constant prices is obtained by deflating the product at current prices by the implicit price index of the business product.

Estimates of the product in **Business services**, at current prices, in the base year are based on surveys of revenues and inputs, conducted in the process of preparing the input-output tables. For other years, the estimates of the product are based on extrapolation of the estimates from the base year using data on revenue from VAT.

Estimates of product in **Personal services** are based on indicators of private consumption of these services.

For the following industries, the labour input was estimated differently:

In **Manufacturing**, the estimate of changes in the number of employees and their work-hours were based on the Manufacturing and Crafts Survey for years in which a survey was conducted (the last survey was conducted in 2003) and on manufacturing indices for other years. Estimates of workers in the diamond industry and data on workers hired by temporary employment agencies were added to the above-mentioned data. Furthermore, an estimate of workers from the Palestinian Authority not reported in the manufacturing indices was also added.

In the **Hotels and restaurants** industry, estimates are based on workers in food services, on Labour force survey and on estimates of the number of workers from the Palestinian Authority and foreign workers. The data on workers in hotel services industry are based on the findings of the Hotels Survey.

6. COMPARISON WITH PREVIOUS PUBLICATIONS

REVISED ESTIMATES

After receipt of updated data, revisions were made to the estimates for 1995 to 2006. In addition, methodological improvements were made in order to adapt the national accounts of Israel to international requirements.

The main revisions entered into the estimates are:

1. Revision of the private consumption series:
 - a. The estimates of private consumption for the manufacturing and various services products for 2006-2007 were updated, following the integration of the findings of the 2006 Household Expenditure Survey¹. The main items updated were: footwear, newspapers, computers, cleaning materials, cosmetics, medications, eyeglasses and toys. In addition, the survey findings also served to update the consumption of health services, insurance, car maintenance, telephone, cable television and restaurants. This year, data on fruits and vegetables - revised from 1997 - were added to the list of items updated according to the Household Expenditure Survey. The series of expenditures on financial services was updated from 1995, after receipt of bank data on payment of commissions by the household sector.
 - b. The series on purchases of vehicles was revised from 1996, following the redistribution of vehicle imports by purpose: investments by establishments or private consumption. In addition, purchases of second-hand vehicles that transferred from the business sector to households, were added to private consumption. These revisions are based on an analysis of the Licensing Division files regarding the identity of owners of new vehicles and ownership transfers in sales of used cars.
 - c. As of 1996, a new series was added to private consumption of expenditures on renting vehicles from leasing companies, which reflect the benefits employees receive from the arrangement with employers, according to which they are awarded a car which is rented for this purpose by the business companies from the leasing companies.

2. Revisions of general government consumption estimates:

The general government consumption estimates were revised from 1995. The revision was carried out after receipt of final financial reports from the central government, local authorities and non-profit institutions; and after the integration of findings from the new survey of non-profit institutions for 2004.

Following receipt of the above-mentioned files, the rest of the series in the general government sector were also updated from 1995. These include: data on income from property, current and capital transfer payments, fixed capital formation, etc.

¹ *Household Expenditure Survey 2006, General Summary*, CBS, publication 1310, Jerusalem 2008.

In addition, revisions were made in the Local Authorities accounts from 1995, following the addition of imputation to pensions and workmen's compensation for expenditures on wages and reclassification of current transfer payments, in order to achieve optimal consistency with accepted international definitions.

3. Revision of the series of gross fixed capital formation in construction and in machinery and equipment:

The revision was conducted as of 2002, and the main revisions in the series were:

- a. Estimates of gross capital formation in construction from 2002 were adjusted according to updated data of the area of construction completed in various industries, as well as according to the construction data reported by various government ministries and public and private companies. Additionally, data on fixed capital formation of Local Authorities in roads and in other construction projects, were updated on the basis of new reports received.
- b. Estimates of investments in machinery and equipment were adjusted from 1996, following the revision of distribution of imported land transport vehicles between capital formation and private consumption. In addition, the series of capital formation in vehicles was reduced following the reduction of used vehicles sold by the business sector to local households.
- c. Classification of gross capital formation by industry was revised in the following items:
 - The distribution of investment in computers was adjusted from 1996.
 - Investments by water desalination companies were transferred from service industries to the water industry from 2003.
 - The electricity and water industries were presented as a united industry, for data confidentiality reasons.

4. Revision of the estimated import and export of goods and services:

The data were adjusted from 1995, according to revisions in the Balance of Payments.

The database of the national accounts is available on CD-ROM at the Central Bureau of Statistics. The database contains about 5,700 annual and quarterly series, since 1950.

Quarterly estimates of the National Accounts appear regularly in the Monthly Bulletin of Statistics and in the Macro-economic Statistics Quarterly.