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Middle East Africa

ISRAEL 33-34

Prime Minister Yitzhak Rabin narrowly won endorsement on February 23 as the Labor Party's candidate for prime minister in the general election scheduled for May 17. The choice was made at the party's pre-election convention, which also must write a platform acceptable to Labor's quarreling factions and an allied group.

Rabin's margin of victory over his challenger, Defense Minister Shimon Peres, was only 41 votes out of some 3,000 cast. Following the vote, Rabin said that Peres had agreed to accept a cabinet post in a new government headed by Rabin. Rabin will need Peres' support in any

future negotiations with the Arabs.

The Labor Party has dominated Israeli politics since the country's independence in 1948. This year it faces a tough election fight against the right-wing Likud bloc, the main opposition group in the present Knesset, and a new party, the Democratic Movement for Change, which has made inroads into Labor's traditional sources of strength. Labor's popularity has been eroded by inflation, corruption scandals, and widespread disenchantment with Rabin's leadership.

Rabin's nomination should make it easier for the left-wing Mapam Party to maintain its eight-year alliance with Labor. Mapam leaders had threatened to abandon the alliance if Peres won. Mapam is also demanding that the Labor platform explicitly acknowledge a readiness to make territorial concessions on the West Bank in peace negotiations—something Peres' hard-line faction opposes.



Prime Minister Rabin (l) and Defense Minister Peres

Labor Party prospects in the election will depend partly on the sincerity of Peres' willingness, expressed after his defeat this week, to work to unite the party and on his ability to deliver voters who share his hard-line views on peace negotiations.

Rabin will base his campaign on foreign policy and defense issues, portraying the Labor Party as best qualified to negotiate with the Arabs and protect Israel's security interests while maintaining close and stable relations with the US.

Improving Economy 35-37

Israel's economy performed better in 1976 than the government had anticipated. The current-account deficit, down \$800 million to \$3.1 billion, was easily covered by foreign gifts and loans. Real gross national product rose by 3 percent; the government had forecast a 1-percent decline.

The smaller deficit resulted from a slight decline in imports and a substantial increase in exports. Devaluations of the Israeli pound, some reduction in defense deliveries, and the drawdown of raw material stockpiles limited imports. The economic rebound in Western Europe and the US spurred exports of goods and services. Exports to the US rose by 40 percent.

Israel's \$3.8-billion financing requirement was exceeded by transfers, long-term loans, and US assistance. The government used the cushion to reduce short-term debt by \$140 million and to increase foreign exchange reserves by \$150 million. The balance-of-payments situation should continue to brighten this year, allowing Israel to trim its financial requirement by \$200 million. At the same time, Israel will have access to an even larger pool of foreign assistance, including more than \$2.5 billion from the US.

With exports again leading the way, GNP is likely to rise by 5 percent this year, still well below the 10-percent average achieved between the 1967 and 1973 wars. Much depends, however, on the government's ability to deal with labor

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