

CHAPTER IV

IMPORTS OF GOODS AND SERVICES

1. MAIN DEVELOPMENTS

Imports of goods and services totaled \$12,154 million in 1979, \$1,850 million more than in 1978. Excluding direct defense imports, which declined in nominal terms, the figure came to \$10,996 million, an increase of \$2,314 million.¹ The accelerated growth in the value of imports (27 percent in 1979 compared with 18 percent in 1978) was due to three factors: a rapid rise in import prices because of the sharpening of world inflation, a jump in fuel prices, and a quantitative increase in most import categories.

The aggravation of global inflation caused Israel's commodity import prices, excluding fuel and diamonds, to rise 16 percent in 1979, compared with 13 percent in 1978 and 7 percent in 1977.²

The oil crisis was largely responsible for the increase in import prices, adding over \$500 million to the country's fuel import bill. This, however, does not reflect the full effect of the jump in oil prices during the year, which will require another significant outlay in 1980. In addition, the rise in fuel prices is expected to further aggravate global inflation which, in turn, will affect Israel's import prices in 1980.

The volume of imports expanded in 1979 due to the exceptional increase in consumer and capital goods; however, the overall growth rate slowed, as rough diamond imports declined in the wake of the crisis in the diamond industry which began in 1978.

Imports outpaced uses this year, which implies that imports grew at the expense of demand for domestic goods. At constant prices, there was a continuation of the upward trend in the ratio of civilian imports to uses (see Table IV-2), which began with the renewal of economic growth following the stagnation of 1975-76. In 1979

¹ The following discussion is confined to civilian imports. Defense imports are the result of decisions which do not necessarily reflect economic developments, and are therefore excluded.

² Changes in diamond prices are independent of developments in the economy and other import prices. In 1978 rough diamond prices soared 63 percent, whereas in 1979 they rose only 9 percent, thus exerting a moderating influence on the prices of total imports.

Table IV-1
GROWTH OF IMPORTS BY COMPONENTS, 1975-79^a
(\$ million)

	1975	1976	1977	1978	1979
Net civilian commodity imports, excl. administered areas	4,006	3,981	4,653	5,521	7,174
Thereof: Fuel	638	685	738	775	1,337
Rough diamonds	412	616	937	1,053	846
Commodity imports from administered areas	123	143	154	165	164
Direct defense imports	1,864	1,561	1,099	1,624	1,158
Total commodity imports	5,975	5,685	5,906	7,310	8,496
Imports of services, excl. administered areas	1,853	2,066	2,332	2,808	3,392
Thereof: Capital services	718	743	787	993	1,372
Imports of services from administered areas	210	192	193	188	266
Total services imports	2,063	2,258	2,525	2,996	3,658
Total imports of goods and services	8,038	7,943	8,431	10,306	12,154

^a C.i.f. valuation of commodity imports.

the ratio reached a peak of 39.4 percent.³

A number of factors contributed to the rapid expansion of imports: the economic recovery and expectations of its continuation; an unanticipated real upward revaluation of the IL at the beginning of 1979 and expectations that the trend would be reversed; a high level of liquidity in the economy during the year, especially at the beginning; negative real rates of interest at the start of 1979 due to the lag in adjusting nominal interest rates to the rate of inflation, thus creating an investment incentive; and retroactive wage payments, which led to a one-time increase in household incomes. The incremental imports consisted mainly of investment and consumer durable goods, evidence of the cyclical nature of the demand for these items: over and above the impact of economic growth on investments in machinery and equipment and the effect of the larger disposable income on consumption, imports were stimulated by the prevailing expectations and other special factors.

Investments accounted for 62 percent of the incremental imports (according to an analysis by final uses—see Table IV-8). Most of the increase in investments and private consumption found its expression in direct imports, which far outpaced the growth of uses.

³ The measurement was made at constant 1975 prices (see Table IV-2). At current prices, the upward import price trend was even stronger. The data were calculated exclusive of diamonds in order to eliminate the effect of the crisis in this branch in 1978 and 1979, and of the large import of rough diamonds in 1977. Even so, the trend hardly changed, except for a sharper increase in the imports/uses ratio in 1979.

Table IV-2

CHANGES IN IMPORT PRICES AND IMPORTS/USES RATIO, 1972-79^a
(Percent annual increase)

	Import prices		Prices of uses		Relative price of imports		Imports as a percent of uses, at 1975 prices	
	Total	Excl. diamonds	Total	Excl. diamonds	Total	Excl. diamonds	Total	Excl. diamonds
1972	18.5		15.6		2.5		34.5	33.1
1973	21.0	20.9	21.2	20.9	-0.2	0.0	37.5	36.3
1974	43.9	46.1	37.9	39.0	3.7	5.1	38.3	37.7
1975	42.6	43.7	38.9	38.9	2.7	3.5	36.8	36.1
1976	32.1	30.0	28.8	28.5	2.6	1.2	36.9	35.7
1977	41.2	39.1	42.4	41.1	-0.8	-1.4	37.1	36.0
1978	75.8	70.8	62.3	59.1	8.3	7.4	38.3	37.3
1979	72.3	76.8	75.4	77.5	-1.8	-0.4	39.4	38.8

^a Imports and uses, excluding direct defense imports.
Source: National accounts.

Relative prices of imports showed no clear trend in 1979: compared to total uses, they fell, but if diamonds are eliminated from the calculation (see Table IV-2), there was no change. Comparison with the business product alone shows a relative increase in import prices. The annual change in the relative prices of imports masks contrasting developments during the year: at the end of 1978 and beginning of 1979 there was an upward real revaluation of the IL due to the stability of the exchange rate in the face of continued inflation. This heightened demand for imported products, whereas in the second half of 1979 the relative prices of imports rose and demand fell.

The annual analysis of commodity imports disguises the fact that imports were stable in 1979 (see Table IV-5). The uptrend in imports which began in the second half of 1978 reached a peak in early 1979 and then leveled off during most of the year, turning down slightly only in the final months. This stability characterized the two main import components: production inputs and capital goods.

In the course of the year imports of consumer goods, especially durables, fluctuated. In the first quarter consumer goods soared, but subsequently they began to fall, with the decline growing sharper in the final quarter. The last quarter's downswing was due to the economic measures adopted by the government in November, particularly the imposition of credit restrictions and the introduction of an obligatory deposit of 10 percent of the value of the imports. Other factors may have contributed to the slowdown of imports prior to the adoption of these measures, such as the rapid rise in interest rates in the second half of the year, and perhaps also the cyclical nature of commodity imports.

Table
IMPORTS BY ECONOMIC
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	1975	1976	1977	1978	1979
Consumer goods					
Food	154.4	132.3	150.1	152.9	274.3
Other current consumption	57.1	61.4	72.4	94.2	119.0
Durables	101.5	103.1	101.0	144.1	232.9
Thereof: Transport equipment	32.2	35.0	43.6	71.7	107.2
Total	313.0	296.8	323.5	391.2	626.2
Production inputs					
For current production	1,745.5	1,568.6	1,744.7	2,148.3	2,693.3
Spare parts	350.3	293.8	385.1	484.4	642.3
Subtotal, excl. fuel and diamonds	2,095.8	1,862.4	2,129.8	2,632.7	3,335.6
Fuel	637.9	684.8	737.6	774.9	1,337.4
Subtotal, incl. fuel	2,733.7	2,547.2	2,867.4	3,407.6	4,673.0
Rough diamonds (net)	411.8	616.0	937.3	1,053.0	845.5
Total inputs	3,145.5	3,163.2	3,804.7	4,460.6	5,518.5
Capital goods					
Plant and equipment	543.0	493.3	467.1	604.2	855.9
Land transport equipment	63.2	67.6	64.2	102.4	186.0
Total capital goods, excl. ships and aircraft	606.2	560.9	531.3	706.6	1,041.9
Ships and aircraft	42.7	53.3	94.7	74.5	155.0
Total capital goods	648.9	614.2	626.0	781.1	1,196.9
Goods n.e.s.	7.8	11.9	15.8	17.3	14.1
Total gross imports	4,115.2	4,086.1	4,770.0	5,650.2	7,355.4
Imports returned, excl. diamonds	6.5	9.5	10.1	19.2	22.6
Total net imports	4,108.7	4,076.6	4,759.9	5,631.0	7,332.8
Total imports, excl. diamonds	3,696.9	3,460.6	3,822.6	4,578.0	6,487.3
Total imports, excl. fuel	3,470.8	3,391.8	4,023.9	4,856.1	5,995.4
Total imports, excl. fuel and diamonds	3,059.0	2,775.8	3,086.6	3,803.1	5,149.9

^a On the discrepancy between total imports in this table and in Table IV-1 see Table IV-10.

IV-3

DESTINATION, 1975-79^a

million)

Percent increase									
Price					Quantity				
1975	1976	1977	1978	1979	1975	1976	1977	1978	1979
12.2	-30.1	2.3	7.4	25.2	-4.4	22.6	10.9	-5.2	43.3
8.8	1.4	8.9	16.6	10.9	-18.6	6.0	8.3	11.6	13.9
14.0	2.0	9.6	19.7	12.1	-40.3	-0.4	-10.6	19.2	44.2
.. ^b
12.1	-14.6	5.8	13.7	18.0	-21.9	11.0	3.0	6.3	35.7
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4.5	-4.3	5.9	8.1	16.8	-4.9	-7.1	8.0	14.4	8.5
-4.1	3.7	8.1	-0.5	62.1	11.5	3.5	-0.4	5.6	6.5
2.3	-2.2	6.5	5.9	27.4	-1.2	-4.7	5.7	12.2	7.6
2.7	1.1	15.7	63.3	9.3	-1.5	48.0	31.5	-31.2	-26.5
2.3	-1.5	8.8	17.4	24.0	-1.2	2.1	10.6	-0.1	-0.2
11.7	-0.3	11.1	18.3	11.3	13.9	-8.9	-14.8	9.3	27.3
18.8	4.3	11.0	20.6	9.2	-58.0	2.6	-14.4	32.3	65.6
12.3	0.1	11.0	18.7	10.9	-2.5	-7.6	-14.7	12.0	33.0
..
12.3	0.1	11.1	18.7	11.0	-17.9	-5.4	-8.2	5.1	38.0
4.5	-2.4	8.8	17.3	21.4	-5.8	1.7	7.3	1.0	7.2
..
..
4.7	-3.0	7.2	9.7	23.5	-6.3	-3.5	3.1	9.1	14.7
6.3	-3.5	8.9	20.7	14.6	-8.8	1.3	8.9	0.0	7.7
6.7	-4.5	7.0	12.6	15.6	-9.6	-5.0	3.9	9.4	17.1

^b Breakdown not available.

Source: Central Bureau of Statistics.

The fuel import burden became heavier in 1979: an annual average 62 percent price rise increased its cost to the economy by \$1.3 billion; prices rose by some 112 percent during the year, so that the fuel bill in 1980 will be significantly higher.

There was a change in the geographical origin of commodity imports in 1979 (see Table IV-11). After a steady increase in 1975-78 in the share of European countries (especially members of EFTA) in total imports at the expense of imports from the U.S., the situation was reversed in 1979: Europe's share fell and that of the U.S. rose. Evidently, along with the decline in imports of rough diamonds, there was a rapid growth in capital goods imports, which originate primarily in the U.S.

2. IMPORTS OF GOODS

(a) Consumer Goods

Imports of consumer goods grew 36 percent in physical terms in 1979—an exceptional increase compared with that in previous years (see Table IV-3), the rise in private consumption (6 percent in 1979), and the overall growth in commodity imports (8 percent). This expansion reflected a substantial increase in consumer durables—44 percent—and a more moderate 14 percent rise in nonfood current consumption goods.⁴ The increase in durable goods was mainly due to expanded imports of transport equipment and household electrical appliances, especially television sets.⁵

A cyclical development is discernible in the import of consumer durables: they peaked in 1979 following the low registered in the recessionary years 1975-77. The expansion of such imports, especially vehicles, was aided by a number of special factors: an unexpected real revaluation of the IL at the end of 1978 and beginning of 1979; retroactive wage payments, which gave the public more money to spend; a high level of liquidity in the economy, especially at the beginning of the year; expected low, and even negative, real interest rates in early 1979 due to the lag of the nominal rate behind prices; and finally, expectations of a rise in the relative prices of durables and in the rate of interest, which spurred the demand for such goods.

The decision to introduce color television transmission in Israel (which has been partially implemented in the meantime) led to a wave of imports of TV sets: 143,000 sets of all types were purchased abroad in 1979, compared with 60,000 in 1978 and 40,000 in 1977. Due to the limited domestic production of color sets, im-

⁴ During the past two years there were sharp fluctuations in food imports, due almost entirely to fluctuations in imported meat stocks. These changes distort the picture of imports of current consumption goods, and therefore food has been eliminated from the discussion. However, it should be pointed out that meat imports rose from \$51 million in 1978 to \$137 million in 1979. Excluding meat, food imports were up 7-8 percent.

⁵ These items accounted for 55 percent of the consumer durables imported in 1978 and 95 percent of the increment in 1979.

Table IV-4

CONTRIBUTION OF ECONOMIC DESTINATIONS TO GROWTH OF COMMODITY IMPORTS IN 1979

(In current and previous year's prices^{a,b})

	Increase, at 1978 prices		Increase due to price changes		Total increase, at current prices	
	\$ million	Contribution (%)	\$ million	Contribution (%)	\$ million	Contribution (%)
Consumer goods						
Food	66	3.4	55	2.9	121	6.3
Durables	64	3.3	25	1.3	89	4.6
Other current consumption	13	0.7	12	0.6	25	1.3
Total	143	7.5	92	4.8	235	12.3
Production inputs						
Fuel	50	2.6	513	26.8	563	29.4
Other	224	11.7	479	25.0	703	36.7
Total, excl. diamonds	274	14.3	992	51.7	1,266	66.0
Capital goods	297	15.5	118	6.2	415	21.6
Total imports, excl. diamonds	714	37.2	1,203	62.8	1,917	100.0

^a Imports excluding rough diamonds.

^b The contribution of each category is measured as the ratio of its contribution in dollar terms to the increase in total imports at current prices.

ports rose and domestic production, which is mainly of black-and-white sets, fell. The result, as stated, was a rapid rise in purchases of durables goods, most of them imported, and so consumer goods imports outpaced private consumption.

Expanded imports of consumer durables was not alone responsible for the growth in the import component of private consumption. Substitution occurred in other categories too: nonfood current consumption goods and nonmeat food imports increased in physical terms by 14 and 8 percent, respectively, more than the growth of total consumption of these items.

Despite the increase in annual terms, there was a slight decline in the import of durables over the course of the year, which became stronger in the last quarter. This might reflect a cyclical downturn following the peak reached at the beginning of 1979. It was also connected with the government's decision in November to freeze credit, abolish subsidies, and increase the price of imports. The data for vehicles imports reflect this development: in the first three quarters of 1979 the volume of such imports was 68 percent higher than in the corresponding period in 1978, whereas in the last quarter it was 19 percent lower than the comparable 1978 figures.

Preliminary data for the beginning of 1980 indicate a continuation and even an intensification of the sluggish trend in the import of consumer goods (especially durables).

(b) Production Inputs

Imports of production inputs, excluding fuel and diamonds, were up 9 percent in 1979, after rising 14 percent in 1978. Prices, however, jumped 17 percent, as against 8 percent in 1978, in the wake of spiraling world inflation.

The import of inputs, excluding fuel and diamonds, was greater than required for current production according to input-output coefficients, which might indicate that the stockpiling which occurred in 1978 continued in 1979.⁶ This trend was the opposite of what happened in 1976-77 when stocks were drawn down. The accumulation this year presumably reflected expectations of continued economic growth and perhaps also of world price rises, coupled with easy financing terms due to increased liquidity in the economy and reduced import prices at the beginning of the year. The inventory tax relief law may also have had an effect on the buildup of inventories. The figure for derived input imports—an increase of 4 percent—compared with a 7 percent rise in actual imports,⁷ indicates a continuation and even expansion of stockbuilding in 1979. The increase in derived imports, excluding fuel and diamonds exports, was due primarily to an approximately 75 percent rise in exports and secondarily to the expansion of investment and private consumption (14 and 6 percent respectively).

(c) Fuel

The Iranian crisis and upheavals in the oil market led to the sharp hiking of prices and instability in 1979, which carried over into 1980. Imported fuel prices rose 62 percent in 1979, greatly increasing the economy's burden despite the fact that the volume of fuel imports rose only 6 percent. Whereas Israel's fuel bill in 1978 was \$775 million, in 1979 it jumped to \$1,337 million, bringing up the share of fuel in total imports from 14 to 18 percent and its share in the economy's incremental expenditure to 33 percent.

⁶ This analysis is based on the input-output table for the Israeli economy in 1972/73 (see Table IV-6). An alternative analysis using the input-output table for 1975/76 (a partial updating of the 1972/73 table) slightly changes the figures but not the trend. The differences between actual and derived imports in the two tables are as follows (in \$ million, at current prices):

	1975	1976	1977	1978	1979
Difference according to 1972/73 table	33	-91	-66	155	171
Difference according to 1975/76 table	-5	-185	-159	17	171

⁷ In order to compare derived imports with actual imports, a number of adjustments were made to actual imports in order to render them comparable with the definitions of imports in the input-output tables. These adjustments explain the difference between the growth rates in Tables IV-3 and IV-6 (see Table IV-6).

Table IV-5

QUARTERLY GROWTH OF COMMODITY IMPORTS, 1974-79
(Quantity indexes, seasonally adjusted: 1977=100)

	Total imports excl. fuel and diamonds	Consumer goods	Thereof: Durables	Production inputs, excl. diamonds and fuel	Capital goods, excl. ships and aircraft
1977					
I	100	100	100	100	100
II	102	118	137	100	116
III	112	118	126	110	124
IV	110	111	116	111	112
1978					
I	108	101	116	108	112
II	117	127	126	119	115
III	122	128	147	122	132
IV	128	124	174	122	150
1979					
I	141	171	216	130	164
II	138	171	211	130	170
III	139	163	211	131	171
IV	135	143	168	128	163

The rise in oil prices has a twofold impact on imports: the direct effect is to increase the expenditure for fuel purchases, while the indirect effect is to accelerate world inflation, which in turn raises the prices of other import items. The indirect effect was only partially felt in 1979. Although the average price of fuel went up 112 percent in the course of the year, only part of this rise affected imports in 1979 since a considerable portion of the fuel was purchased before the price rises. As stated, the full effect will only be felt in 1980.

The fuel import burden depends on its relative price: due to world inflation, the relative price of oil is decreasing and the terms of trade of the oil-consuming countries are improving. A comparison shows that between 1975 and 1978 the price of fuel imports to Israel rose 7 percent, while the prices of other imports rose 35 percent. Thus the relative price of fuel, in terms of total imports, dropped 21 percent, so that it had a moderating effect on the price increase of the import basket. This downtrend in the relative price of fuel began after the oil crisis of 1974 and lasted until the rise of fuel prices in 1979, as shown by the following table:

	1972	1973	1974	1975	1976	1977	1978	1979	1979 IV
Index of fuel prices	100	142	536	514	533	576	573	929	1,203
Index of other import prices	100	127	155	165	159	174	210	240	253
Index of the relative price of fuel	100	112	346	312	335	330	273	387	475

Table IV-6
ACTUAL INPUT IMPORTS AND IMPORTS DERIVED FROM USES OF DOMESTIC
OUTPUT, 1975-79^{a,b}

	Exports	Domestic uses				Total uses	Actual imports	Actual less derived imports	Actual less derived imports, at 1979 prices
		Total	Private consumption	Public consumption	Fixed investment				
\$ million at current prices									
1975	676	1,455	769	293	393	2,131	2,164	33	42
1976	735	1,326	732	264	330	2,061	1,970	-91	-122
1977	907	1,387	799	271	317	2,294	2,228	-66	-83
1978	1,033	1,534	872	295	367	2,567	2,722	155	181
1979	1,395	1,843	1,032	360	451	3,238	3,409	171	171
Percent increase at 1975 prices									
1976	11.4	-3.8	3.4	-8.9	-14.0	1.0	-4.9		
1977	15.1	-2.1	3.0	-4.9	-11.8	3.9	6.8		
1978	6.2	4.1	6.1	-3.1	4.7	4.9	13.0		
1979	6.7	1.6	0.6	2.8	3.5	3.6	7.2		

^a Excluding fuel and diamonds.

^b Derived input imports were calculated using the 1972/73 input-output tables.

^c Includes defense establishment input imports; hence the difference between these figures and those in Table IV-3.

Table IV-7
DIAMOND IMPORTS AND EXPORTS, 1975-79

	Thousands of carats			\$ million, at 1972 prices		
	Imports (rough)	Exports (polished)	Ratio of imports to exports	Net imports	Net exports	Imports as a percent of exports
1975	5,879	2,701	2.18	274.5	407.6	67.3
1976	8,624	3,304	2.61	406.1	493.1	82.4
1977	11,213	3,357	3.34	534.1	512.1	104.3
1978	6,993	2,570	2.72	366.4	427.2	85.8
1979	4,995	2,152	2.32	269.9	374.7	72.0
1978						
I	2,663	754	3.53	128.2	121.3	105.7
II	1,566	614	2.55	85.5	99.9	85.6
III	1,340	627	2.14	70.1	107.6	65.2
IV	1,424	575	2.48	82.6	98.4	83.9
1979						
I	1,564	592	2.64	82.3	105.1	78.3
II	798	501	1.59	38.5	82.4	46.7
III	1,277	503	2.54	72.8	88.2	82.5
IV	1,356	556	2.44	76.2	99.5	76.6

Although there was a partial erosion of the relative price of fuel between 1975 and 1978, in 1978 it was still 170 percent higher than in 1972. The 1979 price rises brought up the relative price of fuel to a level 37 percent higher than in 1974. If Israel's nonfuel terms of trade do not deteriorate, the continuation of world inflation will lead to an improvement of Israel's overall terms of trade, a fact that may compensate for the rise in import prices.

(d) Rough Diamonds

The crisis in the diamond industry continued in 1979: imports of rough stones contracted 27 percent, after dropping 13 percent in 1978. At the end of 1979 and beginning of 1980 signs of recovery could be discerned. When analyzing rough diamond imports a distinction must be made between those for processing and export and changes in diamond inventories. An estimate of changes in rough diamond stocks, based on a comparison of imports and exports in terms of carats (the customary average ratio is about 2.3) shows no change in 1979 from the level reached after the buildup of stocks in 1978 and the especially large speculative stockpiling in 1977.

The alternative analysis, which is slightly more complicated and is based on input-output tables, also supports these conclusions, with one slight difference: it shows some destocking in 1979, reflected by an excess of derived imports over actual imports of rough diamonds.

(e) Capital Goods

Imports of capital goods, excluding ships and aircraft, expanded 33 percent in 1979; this was an exceptionally large increase compared with the past, and it stands out when viewed against the 1975-77 contraction and the 12 percent increase in 1978. This item accounted for much of the growth of total imports.⁸ The advance was led by transport equipment (up 66 percent), primarily trucks and vans; machinery and equipment imports increased 29 percent.

The much larger import of capital goods was due to a number of factors. On the one hand, the renewal of economic growth, together with the military redeployment in the Negev, heightened investors' expectations.⁹ At the same time there were special conditions conducive to the import of capital goods in 1979: a temporary upward revaluation of the IL, the abundance of liquidity (especially in the first half of the year), the increase in the subsidy element of nonindexed development loans as a result of accelerated inflation, and fears of a worsening of the terms of such credit upon the announcement of the intention to index future loans, which spurred the advancing of investment plans, especially the import of capital goods.

The demand for these assets is more responsive than other investment items to changes in the prevailing conditions. In addition, the trucking industry received loans to renew the truck fleet, and this too led to a large import. The acceleration of capital goods imports, which began in the second half of 1978, resulted in a high and stable level of imports throughout 1979: in the first half it was 47 percent higher than in the corresponding period of 1978, while in the second half it leveled off. The slight drop at the end of 1979 and the slowdown evident at the beginning of 1980 may indicate a downturn after the peak level attained in mid-1979.

3. IMPORTS OF SERVICES¹⁰

Service imports amounted to \$3,392 million in 1979 compared with \$2,808 million the year before. The increase was due mainly to capital services, which rose to \$1,372 million and accounted for 40 percent of total service imports. The growth in imports of capital services is explained principally by the larger volume of interest paid on deposits, which shot up from \$160 million in 1978 to \$376 million in 1979, and on intergovernmental loans and other items, which rose from \$550 million to \$700 million during this period. These high growth rates were due to the sharply higher volume of foreign deposits in Israeli banks and of loans granted to

⁸ The contribution of the incremental investment in 1979 to the total increase in commodity imports can be seen in Table IV-4. In 1979 capital goods accounted for 42 percent of the real rise in commodity imports, compared with only 17 percent in 1978.

⁹ These expectations did not materialize. The new vehicles were not employed on construction jobs in the Negev, and spare capacity was created in the branch (see the discussion in Chapter XIV).

¹⁰ Based on a c.i.f. recording of commodity imports; excluding imports from the administered areas.

Table IV-8

**DISTRIBUTION OF IMPORTS AND IMPORT INCREMENT BY FINAL USES,
1976-79^{a,b}**

(\$ million, at current prices)

	Imports				Import increment, at 1978 prices					
					\$ million			Percentage distribution		
	1976	1977	1978	1979	1977	1978	1979	1977	1978	1979
Private consumption	1,654	1,873	2,179	2,921	107	207	221	23.2	61.8	43.6
Direct imports	528	621	810	1,150	60	123	199	13.0	36.7	39.3
Indirect imports	1,126	1,252	1,369	1,771	47	84	22	10.2	25.1	4.3
Civilian public consumption	181	177	220	228	-21	31	-28	-4.5	9.3	-5.5
Direct imports	126	114	150	131	-26	27	-31	-5.6	8.1	-6.1
Indirect imports	55	63	70	97	5	4	3	1.1	1.2	0.6
Domestic noncivilian consumption	349	356	371	492	-24	-17	10	-5.2	-5.1	-2.0
Fixed investment	1,027	1,021	1,228	1,773	-127	55	313	-27.5	16.4	61.7
Direct imports	614	626	781	1,197	-67	38	297	-14.5	11.3	58.6
Indirect imports	413	395	447	576	-60	17	16	-13.0	5.1	3.1
Changes in imported commodity stocks ^c	56	267	365	410	333	-56	-85	72.1	-16.7	-16.8
Exports, excl. diamonds	1,266	1,544	1,745	2,328	194	115	76	42.0	34.3	15.0
Total uses, excluding diamonds exports	4,533	5,238	6,108	8,152	462	335	507	100.0	100.0	100.0
Diamond exports	575	689	932	896	42	-185	-114			
Imports of capital services, insurance, and other services	1,097	1,215	1,401	1,787						
Errors and omissions	-90	-49	-23	-196						
Total imports	6,115	7,093	8,418	10,639						

^a Excludes direct defense imports and imports from the administered areas.

^b Indirect imports were estimated using the 1972/73 input-output table.

^c Estimated as the difference between actual input imports and input imports derived from changes in uses.

the economy.¹¹

Excluding capital services, imports of services increased about 12 percent. In quantitative terms the level held steady, following a 10 percent increase in 1978. This stabilization was the net result of contrasting developments: a 15 percent increase in the number of Israelis going abroad led to a 25 percent higher expenditure on passenger fares and tourist spending overseas, which is a reasonable figure considering the rise in foreign prices abroad. Payments for port services, which are included in the transportation item, increased mainly because of the rise in fuel prices; in quantitative terms the level remained unchanged. Charter hire dropped substantially in real terms following the rapid growth in this item in 1978, which apparently can be attributed to the large number of ships chartered by

¹¹ For a more detailed discussion see the chapter on capital movements.

Table IV-9
SERVICE IMPORTS, 1975-79^a
(\$ million)

	1975	1976	1977	1978	1979	Percent annual increase			
						1976	1977	1978	1979
Transportation	460	555	657	760	896	21	18	16	18
Travel abroad	173	180	240	344	429	4	3	43	25
Insurance	248	246	278	287	317	0	13	3	10
Capital services	718	743	787	993	1,372	3	6	26	38
Government n.e.s.	102	126	114	150	131	24	-10	32	-13
Other services	152	216	256	273	247	42	19	7	-10
Total	1,853	2,066	2,332	2,808	3,392	12	13	20	21

^a Based on a c.i.f. valuation of commodity imports. Imports of shipping services and import cargo insurance are included in commodity imports.

Israeli firms during the shipping strike in this country at the beginning of the year (see the chapter on transportation in the Bank of Israel Annual Report for 1978). There was a nominal drop in government expenditure abroad, which consists mainly of the expenses of Israeli foreign representations, and in other service imports, which consist mainly of management fees and fees paid to foreign agents of Israeli exporters.

Table IV-10

**COMMODITY AND SERVICE IMPORTS ACCORDING TO FOREIGN TRADE,
BALANCE OF PAYMENTS, AND NATIONAL ACCOUNTS DEFINITIONS, 1975-79**
(\$ million)

	1975	1976	1977	1978	1979
Commodity imports					
a. Net civilian imports (foreign trade definitions)	4,109	4,077	4,760	5,631	7,333
b. Balance of payments adjustments	103	96	107	110	159
c. Net civilian imports (balance of payments definition), excl. imports from administered areas (c.i.f.) (a—b)	4,006	3,981	4,653	5,521	7,174
d. Imports from administered areas	123	143	154	165	164
e. Direct defense imports (c.i.f.)	1,846	1,561	1,099	1,624	1,158
f. Net commodity imports (balance of payments definition, c.i.f.) (c+d+e)	5,975	5,685	5,906	7,310	8,496
g. Adjustment of imports from c.i.f. to f.o.b. valuation ^a	324	304	349	416	517
h. Total net commodity imports (balance of payments definition, f.o.b.) (f-g)	5,651	5,381	5,557	6,894	7,979
Service imports					
i. Service imports, excl. administered areas (c.i.f.)	1,853	2,066	2,332	2,808	3,392
j. Imports from administered areas	210	192	193	188	266
k. Total service imports (c.i.f.)	2,063	2,258	2,525	2,996	3,658
l. Adjustment of imports from c.i.f. to f.o.b. valuation ^b	128	126	142	194	246
m. Total service imports (balance of payments definition, f.o.b.) (k+l)	2,190	2,384	2,667	3,190	3,904
n. Public sector interest payments	267	275	333	395	432
o. Total service imports, adjusted to national accounts definition (c.i.f.) (k—h)	1,795	1,983	2,192	2,601	3,226
p. Total imports of commodities and services (c.i.f.) (f+k)	8,038	7,943	8,431	10,306	12,154
q. Total imports of commodities and services, national accounts definition (f.o.b.) (h+m)	7,841	7,765	8,224	10,084	11,883
r. Total imports, adjusted to national accounts definition (c.i.f.) (f+o)	7,770	7,668	8,098	9,911	11,722

^a Transport of import cargoes by Israeli and foreign carriers and insurance thereon.

^b Transport of import cargoes by foreign carriers and insurance thereon.

Table IV-11

**DISTRIBUTION OF COMMODITY IMPORTS BY COUNTRY OF PURCHASE,
1975-79^a
(Percentages)**

	1975	1976	1977	1978	1979
Europe	61.8	63.4	65.2	68.1	63.1
EEC ^b	50.7	52.1	48.4	48.6	44.6
EFTA ^c	8.2	8.6	14.5	17.0	15.7
Asia	4.1	4.6	4.9	4.3	4.3
Thereof: Japan	2.7	2.9	3.1	2.4	2.3
Africa	1.9	2.3	1.9	2.2	2.8
Thereof: South Africa	1.2	1.5	1.3	1.6	2.5
America	32.1	29.3	27.4	25.0	29.0
Thereof: U.S.A.	27.8	26.5	24.1	22.0	24.9
South America	2.6	1.5	1.4	1.5	2.2
Oceania	0.1	0.4	0.6	0.3	0.7
	\$ million				
Total commodity imports	3,789.6	3,755.8	4,845.2	5,843.4	7,471.0
Thereof: unclassified imports	650.4	657.5	778.9	820.7	1,408.5

^a Gross commodity imports according to foreign trade definitions. The percentage distribution was calculated according to total commodity imports classified by country of purchase.

^b European Economic Community,

^c European Free Trade Association.