

## CHAPTER IV

### IMPORTS OF GOODS AND SERVICES

#### 1. MAIN DEVELOPMENTS

Imports in 1977 amounted to \$7,967 million, about \$380 million more than in the previous year. The downward trend in defense imports gathered force and dropped by about \$490 million. The real rate of growth of civilian imports<sup>1</sup> accelerated to about 5 percent, following a two percent growth rate in 1976 and a decline of 2 percent in 1975 (see Table III-1).

The accelerated growth of civilian imports reflects a speeding up of commodity imports (an increase of about 7 percent), while imports of services fell quantitatively by about one percent. This development in commodity imports was due to the substantial rise in the quantity of raw diamond imports<sup>2</sup>; when diamonds are excluded, the growth of commodity imports is about 2 percent, following a decline of about 4 percent last year.

Civilian import prices in dollars increased by about 10 percent: commodities by 9 percent, and services by 11 percent.

The reason for the slow growth of imports lies in the continuing slow increase in total domestic uses and in the relative increase in import prices: total uses, excluding defense imports and imports of ships and aircraft, grew by 2.4 percent, compared with 2 percent in each of the past two years; between 1974 and 1977, import prices (excluding those of ships and aircraft and direct defense imports) rose by about 8 percent compared with the product, and by about 7 percent compared with domestic uses.

The slowdown in the growth of imports for the third year running is one of the factors in the improvement of the balance of payments in recent years. But in our opinion, the restraint of economic activity was the primary factor leading to the slowdown in import growth, and the effect of import substitution on the slow growth was minimal.

The halt in the economy's growth rate caused a sharp drop in the import of capital

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<sup>1</sup> The growth rates mentioned below are quantitative unless otherwise specified.

<sup>2</sup> The diamond price index is problematical from the statistical point of view, and its reliability is flawed. In 1977 it appears to have a downward bias.

TABLE IV-1

**IMPORTS OF COMMODITIES AND SERVICES BY FOREIGN TRADE ACCOUNTS,  
BALANCE OF PAYMENTS AND NATIONAL ACCOUNTS, 1973-1977**

	1973	1974	1975	1976	1977
Commodity imports (\$ million)					
Net imports by foreign trade	2,968.6	4,176.5	4,108.7	4,076.6	4,760.7
Import from administered areas	66.7	101.7	123.1	143.3	154.1
Defense imports (CIF)	1,253.0	1,223.9	1,846.3	1,586.9	1,099.0
Balance of payments adjustments	-74.4	-103.6	-102.9	-95.6	-112.6
Total by balance of payments <sup>a</sup> (CIF)	4,213.9	5,398.5	5,975.2	5,711.2	5,901.2
Adjustment of imports from CIF to FOB	-200.4	-309.9	-323.5	-389.7	-474.4
Of which: Civilian imports	(-200.4)	(-309.9)	(-323.5)	(-298.7)	(-318.4)
Defense imports	(-)	(-)	(-)	(-91.0)	(-156.0)
Total by balance of payments (FOB)	4,013.5	5,088.6	5,651.7	5,321.5	5,426.8
Imports of services (\$ million)					
Imports of services (CIF)	1,170.1	1,604.6	1,836.7	2,018.1	2,220.1
Imports from the administered areas	146.6	211.8	209.7	192.1	193.9
Adjustment of imports from CIF to FOB	83.4	127.8	127.9	211.5	277.9
Of which: Civilian imports	(83.4)	(127.8)	(127.9)	(120.5)	(121.9)
Defense imports	(-)	(-)	(-)	(91.0)	(156.0)
Total by balance of payment (FOB)	1,400.1	1,944.2	2,174.3	2,421.7	2,691.9
Interest payments, public sector	108.8	187.1	267.2	259.7	272.2
Total imports of services, adjusted to the National Accounts	1,207.9	1,629.3	1,779.2	1,950.5	2,141.8
Imports by National Accounts <sup>b</sup> (IL million)					
Imports of commodities and services, at current prices	26,910	38,435	56,781	73,547	100,884
Imports of commodities and services, at 1970 prices	15,961	16,382	17,081	16,641	16,138

<sup>a</sup> Adjusted to National Accounts.

<sup>b</sup> Imports at the official exchange rate, plus net taxes on imports.

SOURCE: Central Bureau of Statistics.

goods and a slowdown in the rate of increase of imports required for current production. The actual volume of inputs in the past two years was in fact lower than the level needed for ongoing economic activity; stockpiling of imported inputs in the years 1974 and 1975 allowed for current economic activity to utilize these stocks in the past two years, but this process became somewhat weaker in 1977. The renewal of growth will probably involve a resurgence of imports, mainly of inputs and capital goods, so that the reduction of import's contribution to the balance of payments is only short-term.

The second goal of economic policy, increasing the relative price of imports, was achieved by substantially boosting the prices of both imports and domestic production. The increase in import prices and its effect on the commodities depend on the type of import involved. In contrast to the 8 percent increase in overall import prices relative to the product between 1974 and 1977, the price increase of various consumption items was much larger: 37 percent in current consumption of industrial products and about 40 percent in the consumption of durables. The price of capital goods rose by about 17 percent in relation to the product. The effect of the relative price rise was felt mainly in the consumption of durables, whose share of imports fell by 38 percent, in contrast to a 2 percent increase of these goods in domestic production. Current consumption of imported industrial goods rose quantitatively by 2 percent, and that of goods from domestic production by 13 percent<sup>3</sup>. In summary, the contribution of the relative increase in import prices to the slowdown in growth was not great.

In some of the main subgroups of imports the trends which had developed in the two previous years gained force in 1977, while in others they weakened. The downturn in capital goods imports, excluding ships and aircraft, became stronger during the year: 15 percent, compared with 7 percent in 1976 and 2 percent in 1975. Stocks of imported diamonds and the stock of imported crude oil grew in 1977. Imports of the other inputs (including those of the Defense System) grew by about 7 percent, but this was lower than the level required for current economic activity<sup>4</sup>. The shrinking of inventories slowed in 1977 because of a weakening of those factors that had created the reduction in the previous year. This year prices accelerated abroad, the rise in domestic interest rates moderated, and expectations of a devaluation grew stronger during the second half of the year.

Total import of consumption goods stabilized in 1977.

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<sup>3</sup> According to National Accounts data.

<sup>4</sup> If the import of inputs for domestic production of inventory increments is included in derived imports. See the note to Table IV-6 and footnote 9 of this chapter.

On examining the contribution of various uses to the growth of imports, it is clear that in the past three years exports have caused a rise in imports, while domestic uses contributed to a decline. The effect of domestic uses was stronger than the effect of exports in 1975, while in 1976 and 1977 the effect of exports was the determining factor.

During the first three quarters of 1977 there was a rising trend to total imports, excluding ships, aircraft and diamonds, but in the fourth quarter there was a steep drop in imports. The rise in imports during the year reflects the recovery of demands, while the growth in the third quarter was caused by heightened expectations of a change in the exchange rate following the elections and a slight decline in the relative price of imports during this quarter. The rise in domestic interest rates partially offset these effects. The shrinking of imports in the final quarter was a reaction to the foreign currency policy reform: following the early purchases of the third quarter, it was natural for them to subsequently drop, and in addition, imports became relatively more expensive. The shrinking of imports was partly offset by the rapid growth of uses in this quarter.

Among the governmental measures adopted at the end of October, there was a devaluation, export exchange rates were unified, and the exchange rate method was reformed. Within this framework, the defense levy on imports was cancelled and customs duties were lowered. But the import exchange rate was not unified, and this has resulted in discriminatory rates for the import components of certain uses. Customs duties were lowered by almost identical amounts for all industrial import substitutes, so there has been almost no change in the degree of distribution of protective rates for industrial import substitutes.

The reduction of duties brought about a 4 percent lowering of the component of protection on the industrial import substitution dollar. The difference between the dollar in industrial import substitution production and export, which had reached 20 percent in favor of import substitutes before the reform, expanded to 30 percent in its wake<sup>5</sup>. This difference is liable to distort the allocation of resources in the area of industrial production.

## 2. THE RELATIVE RISE IN IMPORT PRICES

The relative rise in import prices was one of the measures adopted by the government to reduce the size of the balance of payments gap. From 1974 to 1977 imports (excluding defense imports and imports of ships and aircraft) became about 8 percent more expensive in Israeli pounds relative to GNP prices, and about 7 percent more expensive in relation to the prices of domestic uses (excluding defense imports and imports of ships and

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<sup>5</sup> The discussion on the effect of the reform on import substitute protection is based on the article of Y. Baruch which will be published in the next Bank of Israel Survey.

TABLE IV-2

**IMPORTS OF COMMODITIES BY DESTINATION, 1974-1977**  
(\$ million)

Annual data	Net imports excluding ships, aircraft and diamonds			Import of durable consumer goods			Import of inputs, excluding diamonds and oil			Import of capital goods, excluding ships and aircraft			
	Original figures	Seasonally adjusted	Quantity index <sup>a</sup>	Original figures	Seasonally adjusted	Quantity index <sup>b</sup>	Original figures	Seasonally adjusted	Quantity index <sup>a</sup>	Original figures	Seasonally adjusted	Quantity index <sup>a</sup>	
1974	3,619.0		100	149.1		100	2,108.5		100	554.1		100	
1975	6,654.2		96.8	106.2		61.4	2,081.7		95.0	609.9		98.0	
1976	3,407.2		93.2	115.1		66.4	1,834.4		87.6	566.5		90.5	
1977	3,728.7		95.3	111.3		57.9	2,104.6		95.0	538.3		77.8	
Quarterly data													
1974	I	831.0	819.1	95.2	35.5	36.7	102.8	435.0	422.6	187.3	133.9	137.4	105.3
	II	900.9	897.7	99.3	43.7	43.2	114.8	543.1	528.4	98.5	148.7	141.3	100.7
	III	881.5	938.5	102.5	34.2	37.5	100.0	526.5	552.2	106.1	126.8	136.9	98.4
	IV	1,005.7	979.5	103.0	35.7	32.2	81.6	604.0	606.4	108.1	144.7	142.3	95.5
1975	I	948.9	960.1	96.7	21.3	22.9	51.6	557.3	543.0	96.2	145.6	151.8	92.4
	II	933.4	941.3	94.2	22.5	22.2	49.8	542.4	529.5	93.0	164.8	154.6	94.5
	III	858.1	925.3	99.0	24.9	27.3	65.7	479.5	512.2	93.3	141.8	154.3	101.2
	IV	913.8	865.3	97.3	37.5	32.5	78.1	502.4	494.1	94.8	157.8	153.5	103.8
1976	I	859.2	838.2	95.8	33.8	34.9	82.3	456.5	446.8	89.3	150.2	152.7	101.6
	II	899.0	902.6	97.4	35.5	34.6	80.6	481.5	469.4	89.3	174.6	162.6	104.0
	III	765.6	781.6	89.1	20.4	22.6	51.6	412.9	422.7	83.5	120.2	121.3	81.1
	IV	883.4	872.3	90.3	25.3	23.4	50.5	483.5	493.2	85.4	121.5	125.4	75.5
1977	I	875.1	852.9	90.9	24.0	24.6	52.7	489.8	479.2	90.8	115.9	117.9	71.5
	II	902.8	908.6	91.4	31.0	30.6	64.3	507.4	494.3	87.6	143.4	132.3	76.9
	III	985.1	1,029.5	105.8	26.1	28.1	61.1	547.2	572.4	102.8	142.2	148.3	87.5
	IV	965.7	951.1	93.2	30.2	26.7	53.0	560.2	559.1	96.3	136.8	137.9	75.3

<sup>a</sup> Quantity index according to seasonally adjusted data; the adjustment is made on the original series at fixed prices.

<sup>b</sup> Quantity index according to seasonally adjusted data; the adjustment is made in the original series at current prices.

SOURCE: Central Bureau of Statistics and Bank of Israel.

TABLE IV-3

IMPORTS, GNP AND USES<sup>a</sup>, CHANGES IN QUANTITY AND IN IL PRICE TO THE BUYER, 1972-1977

	GNP	Total domestic uses	Total uses	Total imports	Import price relative to price in			Import weight at 1970 prices in		
					GNP	Domestic uses	Total uses	GNP	Domestic uses	Total uses
Price index 1972 = 100										
1972	100	100	100	100	100	100	100	44.2	40.0	33.0
1973	121.0	121.9	121.1	120.9	99.9	99.2	99.8	48.5	42.3	32.7
1974	163.4	168.7	166.8	172.4	105.5	102.2	103.4	51.7	43.9	34.1
1975	224.4	233.3	232.1	246.3	109.8	105.6	106.1	49.3	42.6	33.0
1976	284.3	299.1	298.6	325.2	114.4	108.7	108.9	49.4	44.1	33.1
1977	403.7	418.1	423.2	458.9	113.7	109.8	108.4	51.3	46.8	33.9

<sup>a</sup> Imports and uses excluding direct defense imports, ships and aircraft.

SOURCE: The National Accounts.

TABLE IV-4

CONSUMPTION AND INVESTMENT<sup>a</sup>, CHANGES IN QUANTITY AND IL PRICE, 1971-1977

	Current consumption excluding food				Durable commodities consumption				Investment in plant and equipment			
	(Quantity index: 1972 = 100)		Import weight at 1970 prices	IL import prices to buyer relative to domestic production prices	(Quantity index: 1972 = 100)		Import weight at 1970 prices	IL import prices to buyer relative to domestic production prices	(Quantity index: 1972 = 100)		Import weight at 1970 prices	IL import prices to buyer relative to domestic production prices
	Domes- tic pro- duction	Direct imports			Domes- tic pro- duction	Direct imports			Domes- tic pro- duction	Direct imports		
1971	100.0	100.0	13.3	100.0	100.0	100.0	46.4	100.0	100.0	100.0	65.3	100.0
1973	107.6	114.4	14.1	98.7	115.9	128.3	49.0	114.3	114.2	98.1	61.7	102.5
1974	118.5	123.3	13.8	101.0	124.4	150.4	51.2	98.8	109.5	108.2	65.0	83.1
1975	120.2	112.7	12.6	125.6	130.3	96.8	39.2	127.3	116.5	122.9	66.4	87.4
1976	129.5	116.9	12.2	127.0	120.9	101.5	42.1	125.6	98.9	112.8	68.2	91.8
1977	135.4	125.4	12.6	138.2	126.5	92.6	38.8	138.3	95.4	92.9	64.6	97.5

<sup>a</sup> Selected items.

SOURCE: National Accounts data and Bank of Israel estimates.

aircraft: see Table VI-3). This year's rise in import prices, compared to the GNP, was at a lower rate due to the important improvement in the terms of trade in the diamond branch (as a participant in official statistics), and in fact, with the exception of diamonds, import prices relative to the GNP rose at a higher rate. This relative rise in import prices was achieved while prices were rising in imports as well as in the GNP and in domestic uses, and it did not reduce the weight of imports (at fixed prices) in either of the latter<sup>6</sup>.

The relative price of imports changed at different rates in import groups, and different effects are hidden in it for various types of imports. The sensitivity of durable consumer goods to the relative price is extremely high. Imports of these goods became about 40 percent more expensive between 1974 and 1977 (see Table IV-4), which caused the weight of imports to fall (at 1970 prices) from about 51 percent in 1974 to approximately 39 percent in 1977<sup>7</sup>.

The import prices of industrial goods for current consumption rose relatively by about 37 percent between 1974 and 1977. During this period, imports rose by about 2 percent quantitatively, while consumption from domestic production grew by about 14 percent; the weight of imports (at 1970 prices) declined from about 14 percent in 1974 to about 12.5 percent in 1977<sup>8</sup>.

Changes in the relative price apparently have less effect on investments in plant and equipment, and the possibility of substitution between imports and domestic production is limited. Between 1974 and 1976 the weight of direct imports rose in this item together with the rise in their relative price, though in 1977, following a cumulative rise of about 17 percent from 1974, the weight of imports fell to its 1974 level.

It is more difficult to examine the effect of changes in the relative price on substitution in production. A comparison of actual imports with the level of imports required for current activity (according to the input-output tables, see Table IV-6) shows that in 1977 and 1976 actual imports were lower than those required for current activity, while in the previous two years the reverse situation prevailed. If we also take into account the

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<sup>6</sup> The weight of imports in GNP and in uses in 1977 is influenced by the real growth of diamond imports and exports. This quantitative growth is derived using diamond price indexes, whose reliability is flawed. Except for diamonds, the weight of imports in GNP and uses is lower in 1977 than appears in Table IV-3.

<sup>7</sup> Table IV-4 is based on National Accounts data. The real rates of growth of the miscellaneous item do not always correspond to the real rates of growth in foreign trade data.

<sup>8</sup> According to an alternative calculation, based on foreign trade data, the weight of imports in 1970 prices fell in 1977 by about 11 percent.

required import for the production of larger inventories, from domestic output (which does not appear in this table), actual imports would have been even lower in the past two years from the level of imports required for current activity. A partial explanation of this gap might be import substitution due to the rise in relative prices of imports. It appears from a rough examination of the branches that in recent years there may have been import substitution in the domestic production of milk products, cotton, cotton thread, synthetic threads and cloth, medicines, optical and precision instruments, electronic machinery and equipment and electrical equipment, batteries and accumulators. On the other hand, there are signs that domestic production of woven cloth, plastics products and basic chemical products has been replaced by imports.

### 3. THE DEVELOPMENT OF COMMODITY IMPORTS

In 1977, commodity imports rose in real terms by 7 percent reaching \$4,770 million, which is about \$685 million more than in 1976.

Import of ships and aircraft is marked by great irregularity; it totalled about \$95 million this year, while in 1976 it reached \$53 million. About half of the rise in the value of imports stems from the substantial growth of raw diamond imports; the volume of this import, which is not directly connected to developments in the domestic economy, reached \$937 million, compared to \$616 million last year.

Since (according to calculations of the Central Bureau of Statistics) raw diamond prices rose by about 16 percent, the derived quantitative growth was 32 percent. In contrast to this substantial growth, export data point to a real growth of about one percent, with a 35 percent rise in prices. This development reflects a strengthening of the trend which has existed since 1975 and expressed in a rise in the ratio between imports and exports in carats, from 2.18 in 1975 to 3.34 in 1977. The significance of these developments is a substantial growth in stockpiling of raw diamonds, and it is interesting to examine the reasons for this and for the large delay in import prices of diamonds.

The roots of this stockpiling apparently lie in the reduction of raw diamond supplies by the London syndicate since the last months of 1976 (the syndicate supplies about 85 percent of the raw material in the world). The shrinking of supply, mainly of the type of stones processed in Israel, was due to several factors: the depletion of mines in South Africa, the destruction of mines in the war in Rhodesia, and the reduction of the raw diamond supply to the syndicate from the Soviet Union, which has begun to develop its own industry. Stockpiling as a protective measure against inflation in Israel, and as a defense against the decline in the value of the dollar against the European currencies, was an additional motivation. In 1977 export prices began to rise at a rapid rate, and this added a

speculative motive, since the syndicate was late in raising the prices of raw diamonds. The scope of speculative purchases expanded, and the prices of raw diamonds in the secondary market began to shoot up. The financing at easy terms through the Diamond Fund made stockpiling possible. An additional explanation of the growth of inventories is an attempt to develop a market for trade in diamonds in Israel. Theoretically, there was also another motivation for a fictitious increase in diamond imports until the exchange rate reform: the exchange rate for exports was higher than the free rate, and the possibility of selling dollars at this rate was determined by the volume of imports.

Keeping this in mind, what is surprising is the large delay in import prices as reflected by the statistics. A partial explanation lies in the fact that the price rises for raw diamonds were local, so that those benefiting from the speculative profit were diamond dealers. It should be pointed out that in December 1977 the syndicate raised prices by about 17 percent, and in effect there was another rise through the lowering of the quality of the stones in shipments. In March 1978 the syndicate placed a 40 percent levy on the price in order to end speculation and lower inventories. The syndicate even increased supervision of the polishing plants and reduced the quotas, as well as reducing the credit for diamonds from the banks. These measures, together with a halt in export price rises, caused a standstill in the activity of the branch, and indications hint at a decline in the price of raw material on the secondary market.

Imports of ships, aircraft, and diamonds must be subtracted from total imports in order to examine the effect of economic developments on import trends. After these deductions, imports rose by 2 percent in quantity – after two years of decline in real terms – and 3 and 4 percent in 1975 and 1976 respectively.

#### A. IMPORT BY DESTINATION

The source of the real growth in imports is the rise in the import of inputs, excluding diamonds (about 6 percent), while the import of capital assets excluding ships and aircraft fell by approximately 15 percent, and there was a slight rise in the import of consumption goods of about one percent (Table IV-5).

**Consumption goods.** The quantity of imported consumption goods rose in all principal subitems, except for durables, and excluding vehicles. Food imports rose by 8 percent.

It should be considered that more than half of the value of imports in this item is due to two products: meat, which is a governmental import, and sugar, which is imported both by the government and by private companies. The quantity of imported meat rose by 16 percent, and that of sugar rose in real terms by 13 percent. With the exception of these two items, the quantity of imports in the food item rose by about 10 percent.

There was a 12 percent decline in the import of durables. Imports of vehicles rose by about 5 percent in real terms, but some of this is only a statistical increase, due to the recording of commercial vehicles in this item after the cancellation of tax concessions on them (they were previously classified as capital goods). The imported quantity of other durables fell by 3 percent, mainly in imports of furniture and household goods.

**Capital goods (excluding ships and aircraft).** In the two principal subitems of capital goods - imports of plant and equipment and of land transport equipment - there was a real decline: about 14 percent in the first item, after 9 percent last year, and 13 percent in the second item, after a rise of 5 percent in the previous year.

The import of capital goods is generally influenced by long-term considerations, since the investment process requires advance planning and is not easily subject to rapid changes. The decline of imports this year is an expression of the directed restraint policy of the economy and the investment slowdown which followed the standstill in growth which has continued for the third year in a row.

The upward trend in the weight of direct imports in plant and equipment investments, which started in 1974, changed in 1977: the real decline in imports was higher this year than that in investment from domestic production. The decline in the proportion of direct imports in investment is due to the change in branch structure of total investment: i.e., investment in relatively import-intensive branches fell sharply (this refers to industry, and equipment for construction and excavation).

An examination by branch shows that industry was the only branch in which the weight of direct imports rose, and in the other branches - electricity and water works, trade and services, equipment for construction and excavation, and transport (excluding ships, aircraft and vehicles) - there was a decline in the weight of direct imports (see Table IX-6).

**Inputs, excluding diamonds.** There was a real growth of about 6 percent in input imports, excluding diamonds.

The imported quantity of crude oil remained stable. Since the actual import was higher than oil imports derived from continuing economic activity, there was evidently stockpiling of oil.

Excluding oil and diamonds, the quantity of imported inputs grew by 8 percent, following two years of real decline: 5.5 and 8 percent in 1975 and 1976 respectively.

TABLE

## IMPORTS\* BY DESTINATIONS,

	1973	1974	1975	1976	1977
<b>CONSUMER GOODS</b>					
Food	118.6	144.8	159.8	142.8	158.3
Other current consumption	57.3	64.5	57.1	61.4	72.0
Durables	110.5	149.1	106.4	115.1	111.3
Of which: Transport equipment	40.0	60.6	37.1	47.0	54.3
Total	286.4	358.4	323.3	319.3	341.6
<b>PRODUCTION INPUTS</b>					
For current production	1,119.4	1,808.4	1,740.0	1,558.2	1,799.4
Spare parts	225.2	299.9	341.8	276.2	305.1
Total (excluding fuel and diamonds)	1,344.6	2,108.3	2,081.8	1,834.4	2,104.5
Fuel	211.0	596.4	637.9	684.8	737.7
Total, incl. fuel	1,555.6	2,704.7	2,719.7	2,519.2	2,842.2
Raw diamonds (net)	454.0	407.0	411.8	616.0	937.3
Total current inputs	2,009.6	3,111.7	3,131.5	3,135.2	3,779.5
<b>CAPITAL GOODS</b>					
Plant and equipment	350.4	426.9	543.0	493.3	466.4
Land transport equipment	107.0	126.8	66.9	73.1	71.8
Total capital goods (excluding ships and aircraft)	457.4	553.7	609.9	566.4	538.2
Ships and aircraft	224.8	150.5	42.7	53.3	94.7
Total capital goods	682.2	704.2	652.6	619.7	632.9
Goods n.e.s.	0.1	5.0	7.8	11.9	16.7
Total gross imports	2,978.3	4,179.3	4,115.2	4,086.1	4,770.7
Total imports, excl. ships, aircraft & diamonds	2,299.5	3,621.8	3,660.7	3,416.8	3,738.7
Imports returned, excl. diamonds	9.7	2.8	6.5	9.5	10.1
Total net imports	2,968.6	4,108.7	4,108.7	4,076.6	4,760.6

\*CIT values.

SOURCE: Central Bureau of Statistics.

## IV-5

## 1973-1977

Annual increase or (-) decrease							
Price				Quantity			
1974	1975	1976	1977	1974	1975	1976	1977
41.3	12.2	-30.1	2.3	-13.6	-1.6	27.8	8.4
13.9	8.8	1.4	8.9	-1.2	-18.6	6.0	7.7
8.6	14.0	2.0	9.6	24.2	-37.4	6.1	-11.8
(8.6)	(14.0)	(2.0)	(9.6)	(39.5)	(-46.3)	(24.2)	(5.4)
20.8	12.1	-14.6	5.8	3.6	-19.5	15.6	1.1
30.3	4.5	-4.3	5.9	24.0	-8.0	-6.4	9.0
30.3	4.5	-4.3	5.9	2.2	9.1	-15.6	4.3
30.3	4.5	-4.3	5.9	20.3	-5.5	-7.9	8.3
278.6	-4.1	3.7	8.1	-25.3	11.5	3.5	-0.3
52.3	2.3	-2.2	6.5	14.2	-1.7	-5.3	5.9
15.6	2.7	1.1	15.7	-22.5	-1.5	48.0	31.5
47.8	2.3	-1.5	8.8	4.8	-1.6	1.6	10.8
9.2	11.7	-0.3	11.1	11.6	13.9	-8.9	-14.9
4.9	18.8	4.3	11.0	13.0	-55.6	4.8	-11.5
8.3	12.3	0.1	11.0	11.8	-1.9	-7.2	-14.5
8.3	12.3	0.1	11.1	-4.7	-17.5	-5.1	-8.1
37.0	4.5	-2.4	8.8	2.4	-5.8	1.7	7.3
40.4	4.7	-3.0	7.1	12.2	-3.5	-3.8	2.2

The import of inputs, excluding diamonds and oil, derived from current economic activity, was about one percent higher in 1977 than the figure derived in 1976<sup>9</sup>. Actual import of inputs, also including the inputs of the Defense System, with direct defense imports, grew by 7 percent (see Figure IV-1).

The differences between actual and derived imports can be partially explained by inventory fluctuations, whose causes are speculative considerations and adjustment processes. In the years 1974 and 1975, there was rapid growth in inventories of imported inputs, and starting in 1976, the process reversed with liquidation of inventories; this process weakened in 1977 (taking into account imports of inputs for production of inventory increments; see footnote 9).

The demand for imported inputs is affected by anticipated changes in their relative price, and this price is influenced directly by the international price of inputs, expectations for exchange rate changes, and the cost of financing imports. An additional factor influencing the scope of input imports is the rate of development of domestic activity. In 1974, input imports were affected by the rapid price rises of basic commodities in the world. Expected changes in the exchange rate in the framework of economic policy in 1974, when the credit price rise lagged behind general price rises, increased the profitability of holding inventories, and led to wide-spread stockpiling against the backdrop of rapid growth in uses from domestic output. 1975 was not a year of uniform expectation: the rate of increase of import prices abroad slowed, and expectations of a change in the exchange rate, which had weakened during the first part of the year, gathered renewed force in the second. The level of domestic interest rates was low during the first three quarters, and only rose in the fourth quarter of the year. As a result, there was a relative reduction of stockpiling in 1975.

In 1976 all factors acted to reduce inventories: import prices expressed in dollars declined, the expectations for a drastic change in the exchange rate evaporated once the

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<sup>9</sup> The calculation of derived imports is based on the 1968/69 input-output table, assuming that there has been no technological change. This is a strong assumption, due to the long period that has since passed. Therefore, the results of this calculation should be treated with care, and they should only be used to support the theory.

Among the final uses from which the derived imports were computed, the change in inventories has disappeared, so that there is a deviation in total derived imports. An estimate of the derived imports from increased inventories is about \$150 million, at current prices, during 1976 and 1977.

The derived imports should be compared to input imports, including imports of inputs for the Defense System, which are not included in the foreign trade data but are included in direct defense imports.

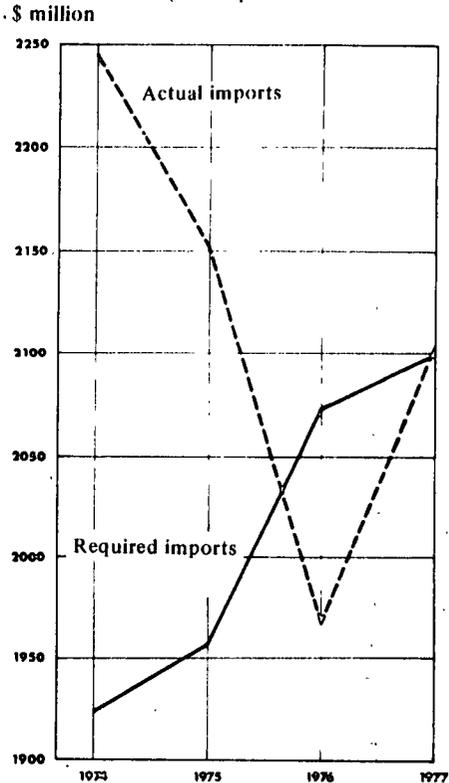
“creeping devaluations” were adopted, and a steep rise began in the price of nondirected credit. To these factors, a sharp deceleration in the growth of uses from output was added, since slower activity requires lower levels of inventories, and consequently there was a great decline in inventories of imported inputs.

The trend changed in some of the factors in 1977: the decline in import prices expressed in dollars halted, and they rose by about 7 percent; the general elections anticipated in the middle of the year weakened expectations for a devaluation during the first part of the year<sup>10</sup>. During the second part of the year, following the elections, expectations for a devaluation increased, as a measure of the new economic policy. The price of nondirected credit rose slightly, but at a rate lower than in the previous year. These factors, added to the more rapid rise in uses from output (mainly during the second half of the year), caused the downward trend in inventories to slacken.

An examination by branch reveals a decline in inventories of basic wood products, carpentry products for construction, paper and carton and products made from them, cement, iron and steel products, metal pipes, metal products and reinforced concrete, and tin and wire products. Some of these declines are related to sharp changes in international prices, and some are apparently the result of the drastic slowdown in the construction branch.

The development of input imports over the year (see Table IV-2) shows the connection between changes in uses from domestic output and input imports: the decline in uses during the second half of 1976 was accompanied by a decline in input imports. During

FIGURE IV-1  
IMPORTS OF COMMODITY INPUTS,  
EXCLUDING DIAMONDS AND OIL,  
1974-1977  
(1974 prices)



<sup>10</sup>The rise in the agio on the Natad dollar in the second quarter of the year was apparently not caused by speculative demand, but rather by acquisitions of the banks to finance their expansion abroad.

TABLE IV-6

## USES IN DOMESTIC OUTPUT AND THEIR DERIVED COMMODITY INPUT IMPORTS, 1972-1977

	Exports			Domestic uses <sup>a</sup>				Actual import less expected imports		Total less dia- monds & fuel		
	Total	Excl. dia- monds	To admin- istered areas	Total	Private consump- tion	Public consump- tion	Invest- ments	Total uses	Uses excl.dia- monds		Actual imports <sup>b</sup> excl.dia- monds	Total less diamonds
Required imports of current inputs – commodities (\$ million at current prices)												
1972	519	260	34	768	398	186	184	1,321	1,062	..	..	..
1973	693	329	54	1,089	563	273	253	1,836	1,472	..	..	..
1974	1,006	600	101	1,797	962	464	371	2,904	2,498	2,841	343	321
1975	1,010	594	121	1,862	1,035	448	379	2,993	2,577	2,888	311	197
1976	1,244	736	121	1,764	1,021	418	325	3,129	2,621	2,659	38	-67
1977	1,534	923	140	1,863	1,125	431	307	3,537	2,926	2,972	46	-44
Required imports of current inputs – commodities (\$ million at 1974 prices)												
1972	903	524	83	1,567	860	357	350	2,553	2,174	..	..	..
1973	956	535	99	1,708	914	423	371	2,763	2,342	..	..	..
1974	1,006	600	101	1,797	962	464	371	2,904	2,498	2,841	343	321
1975	989	587	116	1,800	979	440	381	2,905	2,503	2,819	316	196
1976	1,218	732	120	1,746	1,004	414	328	3,084	2,598	2,657	59	105
1977	1,358	851	130	1,720	1,035	397	288	3,208	2,701	2,789	88	3

## Quantitative increase or (–) decrease in uses from domestic output (percent)

1973	1.9	0.2	14.0	6.1	5.0	10.3	6.0	5.1	4.8
1974	6.6	8.9	6.7	6.1	5.5	20.0	–0.4	6.3	6.8
1975	1.7	2.1	18.3	0.4	0.9	–3.1	1.9	1.1	1.2
1976	15.6	14.6	6.9	–3.4	2.9	–7.3	–13.0	2.2	1.3
1977	14.4	16.4	19.4	–2.4	2.9	–4.7	–12.7	3.5	3.5

## Quantitative increase or (–) decrease in imports of current inputs (percent)

1973	5.9	2.1	19.3	9.0	6.3	18.5	6.0	8.2	7.7	..
1974	5.2	12.1	2.0	5.2	5.3	9.7	–	5.1	6.7	..
1975	–1.7	–2.2	14.9	0.2	1.8	–5.2	2.7	–	0.2	–0.8
1976	23.2	24.7	3.4	–3.0	2.6	–5.9	–13.9	6.2	3.8	–5.7
1977	11.5	16.3	8.3	–1.5	3.1	–4.1	–12.2	4.0	4.0	5.0

<sup>a</sup> Domestic uses do not including additional use, which is the change in the domestic output inventory.

<sup>b</sup> Actual imports include inputs for the Defense Establishment, included in the statistical reports in direct defense imports and not in foreign trade data.

the first quarter of 1977 uses expanded, as did imports, and during the second quarter they subsided once again. The rate of domestic economic activity accelerated slightly during the third quarter followed by a decline, though this development expresses expectations for a change in the exchange rate and the immediate reaction to the exchange rate reform.

## B. IMPORTS BY USES

Total uses from domestic output rose in 1977 by about 4 percent. Domestic uses fell by 2 percent: investments and public consumption fell, while private consumption rose. There was a 14 percent growth in exports, excluding diamonds (see Table IV-6).

The shrinking of domestic uses from domestic output caused a decline in domestic demand for imported inputs: the rise caused by private consumption demand was offset by the decline in investment and public consumption. Exports contributed to a rise in domestic demand for imported inputs.

The outstanding item increasing direct imports (Table IV-7) is the rise in the weight of exports in total imports, which has continued since 1973. The weight of investment, excluding ships and aircraft, has fallen since 1975, while the weight of private consumption has risen.

## C. SOURCES OF IMPORT GROWTH

The growth of imports, excluding diamonds, ships and aircraft, explained by uses, totalled \$33 million in 1977 (at 1974 prices, see Table IV-8). Exports, excluding diamonds, caused a \$129 million rise in imports at 1974 prices, and this rise was offset partially by a decline caused by domestic uses (\$96 million at 1974 prices).

The recovery in the growth of total uses is expressed in the \$82 million increase in import growth (at 1974 prices).

The higher growth rate of exports slightly balanced the effect of the decline in investment and public consumption, so that the various rates of change in uses caused a net decline of \$9 million (at 1974 prices).

The decline in the weight of direct imports in total investment and total private consumption also contributed to the reduction of imports. In the branch structure of total uses from domestic output, import intensity declined slightly from last year. The use that caused this was exports excluding diamonds, while in the other uses from domestic output there was no significant change in import intensity.

## D. IMPORT PRICES

Commodity import prices expressed in dollars, excluding diamonds, rose by about 7

TABLE IV-7

DERIVED INDIRECT IMPORTS AND DIRECT COMMODITY IMPORTS<sup>a</sup> BY FINAL USES, 1973-1977

	1973	1974	1975	1976	1977	Weight in imports				
						1973	1974	1975	1976	1977
	(\$ million, 1974 prices)					(percent)				
Private consumption	1,260	1,320	1,267	1,338	1,372	39.6	38.7	38.0	38.9	39.6
Direct imports	346	358	288	334	337	10.9	10.5	8.6	9.7	9.7
Indirect imports	914	962	979	1,004	1,035	28.7	28.2	29.4	29.2	29.8
Investment, excl. ships & aircraft	867	925	924	832	719	27.2	27.1	27.7	24.2	20.7
Direct imports	496	554	543	504	431	15.6	16.3	16.3	14.7	12.4
Indirect imports	371	371	381	328	288	11.7	10.9	11.4	9.6	8.3
Total private domestic destinations	2,127	2,245	2,191	2,170	2,091	66.8	65.8	65.7	63.2	60.3
Public consumption	423	464	440	414	397	13.3	13.6	13.2	12.1	11.4
Total domestic destinations	2,550	2,709	2,631	2,584	2,488	80.1	79.4	78.9	75.2	71.7
Exports, excl. diamonds (incl. administered areas)	634	701	703	852	981	19.9	20.6	21.1	24.8	28.3
Total imports, excl. diamonds, ships & aircraft	3,184	3,410	3,334	3,436	3,469	100.0	100.0	100.0	100.0	100.0
Total actual imports <sup>b</sup>		3,753	3,650	3,494	3,557					

<sup>a</sup> The commodity imports mentioned in this table include imports for various uses and indirect imports calculated according to input-output tables. Hence there is a discrepancy between total imports as listed here and actual total imports, in the size of the discrepancy between actual imports of inputs (excluding diamonds) and the required imports of inputs (excluding diamonds).

<sup>b</sup> The total actual imports are according to import sums by destinations at 1974 prices and including defense establishment inputs included in direct defense imports.

TABLE IV-8

**GROWTH OF COMMODITY IMPORTS<sup>a</sup> (EXCLUDING DIAMONDS,  
SHIPS AND AIRCRAFT) BY COMPONENT, 1974-1977**  
(\$ million, at 1974 prices)

	1974	1975	1976	1977
Increase in imports due to:				
1. Increase in scope of uses	226.1	64.8	56.7	82.4
Domestic uses	(181.1)	(51.5)	(44.7)	(62.0)
Exports	(45.0)	(13.3)	(12.0)	(20.4)
2. Change in composition of uses	23.9	15.8	-46.7	-8.5
Domestic	(13.8)	(6.7)	(-133.2)	(-130.3)
Exports	(10.1)	(9.1)	(86.5)	(121.8)
3. Change in weight of direct imports in all uses	9.1	-137.5	41.6	-33.8
4. Change in sectorial composition of demand from domestic output	-31.9	-18.3	50.5	-7.5
Domestic uses	(-43.9)	(2.0)	(-0.1)	(6.1)
Exports	(12.0)	(-29.3)	(50.6)	(-13.6)
Total (1+2+3+4)	227.2	-75.2	102.1	32.6
Domestic uses	(160.1)	(-77.3)	(-47.0)	(-96.0)
Exports	(67.1)	(2.1)	(149.1)	(128.6)

<sup>a</sup> The data include direct imports for the various uses and indirect imports as calculated with the help of input-output tables. Hence there is a discrepancy between total imports as listed here and actual imports, amounting to the difference between total actual imported inputs and total required inputs computed according to input-output coefficients. The uses referred to in this table are private consumption (excluding direct defense imports), investment (excluding ships and aircraft), and export (excluding diamonds and including the administered areas).

percent this year, after falling by 3 percent in 1976 and rising at a rate of 5 percent in 1975. The greatest rise was in imports of capital goods (about 11 percent), while the rise in imports of consumption goods and inputs, excluding diamonds and oil, was more moderate – about 6 percent.

Part of the rise in Israeli import prices in 1977 was due to the weakening of the dollar vis-a-vis the European currencies: 2 percent in 1977 compared to 1976. A comparison of Israeli import prices (excluding oil), discounted for the change in the value of the dollar vis-a-vis the European currencies, to the export prices of the industrial countries in local currency shows an improvement in Israel's relative condition (Table IV-9): export prices

of the industrial countries rose by about 10 percent, while discounted import prices rose by 7 percent. This development is a continuation of the trend which began in 1975, whose cause is the relatively large weight of basic commodities in Israeli imports. In 1975 and 1976 after a certain delay, the decline in the world price of raw materials was felt, but this development weakened in 1977. The effect of world price rises, which began in 1976 and continued during the early months of 1977, on Israeli import prices was less than the effect of the previous inflation (in 1973 and 1974) because of the relatively small weight of commodities whose prices rose this year in Israeli imports (coffee, cocoa and tea).

#### 4. IMPORTS OF SERVICES <sup>11</sup>

Service imports, excluding defense imports and imports from the administered areas, totalled about \$2,220 million, representing a 10 percent growth, which is similar to the previous year. In service prices<sup>12</sup> there was an acceleration: they rose by about 11 percent, compared with 6 percent last year. Thus service imports fell by about one percent in real terms, after rising by 3 percent last year.

In the transport item, CIF, which represents more than one fourth of total service imports, there was a deceleration in the rate of growth, from 20 percent on the average in the past four years to about 14 percent this year. In real terms, imports in this item rose by about 6 percent, following a growth of about 13 percent last year. The slowdown in growth was mainly the result of the decline in expenditures in the transport of passengers item, which includes trips abroad of Israelis travelling by foreign carriers. This item decreased by 13 percent this year, after a large expansion in 1976, by 68 percent. Since fares rose by about 6 percent, there was a real decline of about 18 percent in this item. The number of Israelis travelling abroad rose in 1977, so that the share of foreign companies in total revenues from transporting Israelis fell.

There was a 17 percent growth in other transport expenditures, which was similar to 1976. This item, which came to about \$590 million in 1977, includes expenditures of Israeli air and maritime crews abroad (about \$200 million as in 1976). Taking world inflation into account, this item declined by about 6 percent. Fueling expenditures, which totalled about \$120 million, are also included; they rose by about \$25 million from the previous year. Price rises for fuel reached a rate of about 8 percent, so that in real terms,

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<sup>11</sup> Growth rates here refer to growth in value, unless otherwise specified.

<sup>12</sup> Prices indexes of the various items of service imports are only rough estimates, as are the quantitative indexes derived with their help.

TABLE IV-9  
**IMPORT PRICE INDEX OF ISRAEL AND SIX INDUSTRIAL COUNTRIES, 1971-1977**  
 (1970 = 100)

	Israeli import prices excluding fuel (in dollars)		IL rate against basket of selected currencies <sup>a</sup>		Israeli import prices excl. fuel, adjusted for change in IL rate		Export price index of industrial countries (in local currency)		Israeli import prices (adjusted)/export prices of industrial countries	
	Index	Annual change	Index	Annual change	Index	Annual change	Index	Annual change	Index	Annual change
ANNUAL DATA	(percent)		(percent)		(percent)		(percent)		(percent)	
1971	102.7	2.7	102.8	2.8	99.9	-0.1	102.8	2.8	97.2	-2.8
1972	108.6	5.7	104.4	1.6	104.0	4.1	103.9	1.1	100.1	3.0
1973	137.8	26.9	111.3	6.6	123.8	19.0	113.2	9.0	109.4	9.3
1974	168.8	22.5	109.6	-1.5	154.0	24.4	141.8	25.3	108.6	-0.7
1975	179.3	6.2	112.2	2.4	159.8	3.8	158.2	11.6	101.0	-7.0
1976	173.0	-3.5	104.4	-7.0	165.7	3.7	171.3	8.3	96.7	-4.3
1977	188.6	9.0	106.7	2.2	176.8	6.7	187.6	9.5	94.2	-2.6

<sup>a</sup> Weighted by the composition of Israel's imports in 1972.

SOURCE: Central Bureau of Statistics, British National Institute and Bank of Israel calculations.

TABLE IV-10  
IMPORT OF SERVICES, 1973-1977

	1973	1974	1975	1976	1977	Annual increase or (-) decrease			
						1974	1975	1976	1977
Transportation, CIF	273.9	373.0	460.0	555.3	632.3	36.2	23.3	20.7	13.9
Passenger	(26.2)	(31.9)	(30.5)	(51.2)	(44.8)	21.8	-4.4	67.9	-12.5
(+ other shipping costs, FOB)	(322.0)	(459.1)	(546.2)	(705.1)	(853.3)	42.6	19.0	29.1	21.0
(-) import cargo shipping by foreign firms	(74.3)	(118.0)	(116.7)	(201.0)	(265.8)	58.8	-1.1	72.2	32.2
Travel	105.2	142.0	156.8	151.4	179.0	35.0	10.4	-3.4	18.2
Insurance, CIF	196.5	260.5	247.6	246.2	316.1	32.6	-5.0	-0.6	28.4
(-) import cargo insurance by foreign firms	(9.1)	(9.8)	(11.3)	(10.5)	(12.1)	7.7	15.3	-7.1	15.2
Capital services	384.7	585.4	718.2	723.2	739.6	52.2	22.7	0.7	2.3
Government n.e.s.	95.0	102.0	102.0	126.0	114.0	7.4		23.5	-9.5
Other services	114.8	141.7	152.0	216.0	239.1	23.4	7.3	42.1	10.7
Total, CIF	1,170.1	1,604.6	1,836.6	2,018.1	2,220.1	37.1	14.5	9.9	10.0

SOURCE: Central Bureau of Statistics.

refueling costs expanded by about 15 percent. Lease payments totalled about \$85 million, while the miscellaneous item, which includes wage payments to foreign crews, came to about \$185 million, compared with about \$140 million the preceding year.

The item travel abroad includes foreign currency allowances to Israelis travelling abroad. In 1977 they reached about \$180 million, compared with an average level of about \$150 million in the three previous years. The growth in this item was due to an increase in the number of Israelis going abroad in 1977, as well as to the cancellation of foreign currency allowances following the reform at the end of October 1977.

In the insurance item considerable amounts were recorded, on both the credit and the debit side; however the net balance is small. There is a close relationship between credit and debit: premium payments against payment of claims and commissions.

Interest payments of the economy reached about \$740 million in 1977, after two years of stability: \$718 and \$723 million in 1975 and 1976 respectively. About \$272 million of the interest payments this year were paid by the public sector, compared with \$260 million in each of the past two years. The slow rate of growth of interest payments took place despite the enlargement of the debt burden of the economy, which grew from \$9.4 billion in 1976 to 10.7 billion in 1977. The average interest rate on long-term debts did not undergo any significant change. The explanation for the relatively insignificant rise in interest payments of the economy lies in the lower average interest rate on the total debt, due to the rise in the weight of long-term debts, whose interest rate is lower, and the drop in importance of short- and medium-term debts. Interest payments can be seen as sums which could have been used to finance imports, and so if they are discounted by the rises in import prices, it appears that interest payments of the economy rose by about 50 percent in real terms between 1972 and 1977. The increase was concentrated in the years 1972 to 1975, while between 1975 and 1977 these payments declined by about 3 percent.

Expenditures of Israeli delegations abroad totalled about \$240 million, which is a drop of about 10 percent from 1976. On the average prices rose by 10 percent abroad, so in real terms, there was a decrease of about 17 percent in this item.

Expenditures for various services totalled about \$240 million, which is an increase of about 11 percent over 1976. This item is very general, including exporters' commissions to their foreign agents, payments for contracted work, advertising, film rentals, royalties, and patent fees. Growth in this item was mainly due to payments to agents abroad and advertising, while payments for contracted work, film rentals, and transfer of personal income from foreign sources all fell.

The import of services from the administered areas totalled about \$194 million, which is similar to the 1976 level. The principal component of this item is the income of workers from the areas, and this reached about \$180 million, which was also similar to last year.