

## CHAPTER IV

### IMPORTS OF GOODS AND SERVICES

#### 1. MAIN DEVELOPMENTS

Two factors, with opposing impacts, influenced the volume of imports in 1978: the resurgence of domestic demand had an expansionary effect, while the relatively steep increase in import prices in the wake of the big devaluation which accompanied the exchange rate reform in October 1977 and the devaluations during 1978 tended to contract imports. The stimulative influence of domestic demand was dominant, as is borne out by the accelerated growth of civilian imports – 10 percent as against 2 percent the previous year.<sup>1</sup> Furthermore, this was double the rate for total final uses (5 percent), whereas in 1977 final uses rose slightly faster than imports. The accelerated growth of imports relative to final demands was due to the building of inventories,<sup>2</sup> and to the rise in the share of direct imports. The first factor is typical of the recovery phase in which the economy now finds itself, with the renewed growth of demand in 1978 and the expectation of its further acceleration both spurring stockbuilding. The second factor, the relative increase in direct imports, is also connected with economic recovery, for it is through an intensification of imports that the initial acceleration of growth is achieved. This is particularly so in the case of capital formation: expenditures on new plant (which are import-intensive), rose rapidly, reflecting expansion investment, whereas construction, by its very nature, recovers more slowly. Evidently the growth in machinery imports resulted also from increased orders in the previous year, when the first signs of recovery began to appear. Purchases of durable goods contributed most to the upswing in private consumption. A relative expansion of such purchases is typical of the stage at which consumption is adjusting to a renewed rise in private incomes. The relative increase in the level of protection of domestic production, an automatic outcome of the exchange rate

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<sup>1</sup> Excluding diamonds. The fluctuations in these imports over the past two years, motivated principally by speculation, cloud the picture. When diamond imports are included, the growth rate becomes 6 percent, similar to that for 1977. Diamond imports will be considered separately below.

<sup>2</sup> The difference between actual import of inputs and imports required for final uses is an indication of the scope of the change. This difference, which grew significantly this year in comparison with the previous two years, during which it was steady, attests to a renewed stockpiling of raw materials.

TABLE IV-1

**IMPORTS OF COMMODITIES AND SERVICES ACCORDING TO FOREIGN  
TRADE, BALANCE OF PAYMENTS, AND NATIONAL ACCOUNTS  
DEFINITIONS, 1975-78**

	1975	1976	1977	1978
<b>Commodity imports (\$ million)</b>				
Net imports (foreign trade definition)	4,108.7	4,076.6	4,760.7	5,658.2
Imports from administered areas	123.1	143.3	154.3	165.2
Defense imports (c.i.f.)	1,846.3	1,560.5	1,099.0	1,623.5
Balance of payments adjustments	-102.9	-95.6	-107.0	-116.8
Total balance of payments definition	5,975.2	5,684.3	5,907.0	7,330.1
Adjustment of imports from c.i.f. to f.o.b.	-323.5	-303.7	-348.5	-422.5
Of which: Civilian imports	(-323.5)	(-298.7)	(-333.2)	(-411.1)
Defense imports	(-)	(-5.0)	(-15.3)	(-11.4)
Total balance of payments definition (f.o.b.)	5,651.7	5,381.1	5,558.5	6,907.6
<b>Imports of services (\$ million)</b>				
Imports of services (c.i.f.)	1,852.6	2,065.9	2,331.6	2,764.0
Imports from administered areas	209.7	192.1	192.8	188.3
Adjustment of imports from c.i.f. to f.o.b.	127.9	125.5	141.5	178.8
Of which: Civilian imports	(127.9)	(120.5)	(126.2)	(167.4)
Defense imports	(-)	(5.0)	(15.3)	(11.4)
Total balance of payments definition (f.o.b.)	2,190.2	2,383.5	2,665.9	3,131.1
Interest payments, public sector	267.2	275.0	332.6	396.8
Total imports of services, national accounts definition	1,795.1	1,983.0	2,191.8	2,555.5
Imports, national accounts definition <sup>a</sup> (IL million)				
Commodities and services, at current prices	56,876	73,597	101,513	194,438
Commodities and services, at 1975 prices	56,876	55,383	54,076	59,529

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

SOURCE: Central Bureau of Statistics.

reform, apparently caused some import substitution, especially in consumer durables, and so overall the direct import component of private consumption did not grow.

In addition to the rise in the share of direct imports, during a phase of renewed growth the share of indirect imports may also grow as a result of the stronger demand for the output of branches manufacturing machinery, equipment, and durables, since the derived import of these branches is higher than that of others. This development, had it occurred, would have helped explain the relative acceleration of input imports. However, when comparing derived imports in 1978 with those in 1977, their increase turns out to be smaller than required by incremental uses of domestic output. In other words, there was a decline in the share of indirect imports. The indirect import component rose only in investment, while in private consumption it decreased, due to the change in the branch composition of consumption of domestically produced goods and services. Especially noticeable was the relatively small increase in imports derived from the expansion of exports, which implies a (6 percent) drop in the import component of exports.

The accelerated growth of inventories and the rise in the direct import component, the factors responsible for the rapid expansion of imports, should have been restrained by the relatively steep increase in prices. In October 1977, as part of the foreign currency reform, the exchange rate rose to IL 15.30 per dollar, 29 percent more than the previous rate of IL 11.90 (including the defense levy). Since then, as a result of the floating of the IL, it continued to weaken and at the end of 1978 stood at IL 19 to the dollar. The result was that during 1978 import prices rose 10 percent faster than GNP prices.<sup>3</sup> By contrast, during the previous two years, import prices incremented only 2 percent more than GNP prices (Table IV-2). Overall, the relative increase in import prices did not depress the ratio of imports to the product (in constant prices); on the contrary, as already mentioned, their share in aggregate demand even rose. It is possible, though, that the change in the sectoral composition of demand for domestic output, which resulted, as explained above, in a drop in the indirect import component of uses, was influenced to a certain extent by the relatively sharp increase in import prices.

The recovery of aggregate demand, and in particular domestic demand, was therefore the dominant factor in the development of imports. The rise in their weight in both the product and domestic demand (despite the relative increase in import prices) is apparently characteristic of the cyclical behavior of the economy and reflects the emergence from a recession.

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<sup>3</sup> This is the rate of the relative price increase of imports excluding diamonds. Because of the sharp rise in rough diamond prices, the price increase of all imports relative to the product was even higher – about 15 percent. It should be noted that in the course of 1978 the development of relative prices was reversed, with import prices rising at a slower rate than product prices.

TABLE IV-2

**CHANGE IN PRICES OF IMPORTS, GNP, AND USES,<sup>a</sup> AND IMPORTS IN  
RELATION TO GNP AND USES, 1973-1978**

	Percent increase in price			Percent increase in import prices in relation to price of:		Imports as a per- cent (1975 prices) of:	
	GNP	Total uses	Total imports	GNP	Total uses	GNP	Uses
1973	21.0	21.5	21.4	0.3	-0.1	56.9	36.4
1974	34.9	37.5	42.6	5.7	3.7	60.5	37.8
1975	37.4	38.9	42.6	3.8	2.7	57.9	36.7
1976	27.0	28.8	32.1	4.0	2.6	58.4	36.9
1977	43.0	42.2	40.8	-1.5	-1.0	60.9	37.9
1978	52.9	61.7	75.4	14.7	8.5	61.8	38.3
	Excluding diamonds <sup>b</sup>						
1976		28.5	32.5	4.3	3.1	53.3	34.9
1977		40.7	39.4	-2.5	-0.9	54.3	35.0
1978		58.6	68.7	10.3	6.4	57.5	36.6

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

<sup>b</sup> Imports and final uses according to the previous definition, less diamond imports and exports, respectively.

SOURCE: National accounts.

## 2. IMPORTS OF GOODS

### A. INPUTS<sup>4</sup>

Imports of production inputs were up 11 percent, after rising 6 percent in 1977 and declining (in real terms) in 1975 and 1976. Imports required for domestic production (i.e., allowing for the growth of output and the changes in sectoral composition) rose

<sup>4</sup> Production inputs, excluding diamonds. When imports of raw materials by the defense establishment and fuel consumption by Israeli ships and aircraft are added to imports of actual inputs, in order to adjust them to the definition of imports in the input-output table, a slightly lower growth rate than that shown in Table IV-4 is obtained.

TABLE IV-3

## SOURCES OF COMMODITY IMPORT GROWTH, 1978

(\$ million, at 1974 prices)

	Private consumption	Investments (excluding ships and aircraft)	Public consumption	Export (excluding diamonds)	Inventories	Total uses	Contribution to change (%)
<b>Actual imports of inputs in 1977</b>	<b>852</b>	<b>319</b>	<b>307</b>	<b>1,297</b>	<b>147</b>	<b>2,922</b>	
Change in input imports required for total uses of domestic output	45	17	16	69	8	155	4.2
Change in input imports required by change in composition of final uses of domestic output	16	-8	-19	13		2	-
Change in input imports due to change in sectoral composition of final uses of domestic output	-5	9	-2	-77		-75	-2.0
<b>Total derived input imports in 1978</b>	<b>908</b>	<b>337</b>	<b>302</b>	<b>1,302</b>	<b>155</b>	<b>3,004</b>	
Change in import due to change in inventories <sup>a</sup>					170	170	4.6
<b>Direct imports in 1977</b>	<b>336</b>	<b>430</b>				<b>766</b>	
Change in direct imports due to change in final uses	27	22				49	1.3
Change due to change in weight of direct imports in each final use	0	51				51	1.4
Change in imports 1977 to 1978	83	91	-5	5	178	352	9.5
<b>Total actual imports in 1978<sup>b</sup></b>	<b>1,271</b>	<b>840</b>	<b>302</b>	<b>1,302</b>	<b>325</b>	<b>4,040</b>	

<sup>a</sup> The change in inventory is calculated as the difference between actual input imports (\$ 3,174 million) and derived input imports.

<sup>b</sup> Actual imports include defense establishment inputs which are part of direct defense imports, and consumption of ship and aircraft fuel, which is included in imports of services.

TABLE

IMPORTS<sup>a</sup> BY ECONOMIC

	1974	1975	1976	1977	1978
<b>CONSUMER GOODS</b>					
Food	144.8	159.8	142.8	158.3	167.5
Other current consumption	64.5	57.1	61.4	72.0	93.7
Durables	149.1	106.4	115.1	111.3	158.9
Of which: Transport equipment	60.6	37.1	47.0	54.3	85.8
Total	358.4	323.3	319.3	341.6	420.1
<b>PRODUCTION INPUTS</b>					
For current production	1,808.4	1,740.0	1,558.2	1,734.6	2,132.4
Spare parts	299.9	341.8	276.2	369.9	460.7
Total (excluding fuel and diamonds)	2,108.3	2,081.8	1,834.4	2,104.5	2,593.1
Fuel	596.4	637.9	684.8	737.7	774.9
Total, incl. fuel	2,704.7	2,719.7	2,519.2	2,842.2	3,368.0
Rough diamonds (net)	407.0	411.8	616.0	937.3	1,052.9
Total current inputs	3,111.7	3,131.5	3,135.2	3,779.5	4,420.9
<b>CAPITAL GOODS</b>					
Plant and equipment	426.9	543.0	493.3	466.4	633.8
Land transport equipment	126.8	66.9	73.1	71.8	110.6
Total capital goods (excluding ships and aircraft)	553.7	609.9	566.4	538.2	744.4
Ships and aircraft	150.5	42.7	53.3	94.7	74.5
Total capital goods	704.2	652.6	619.7	632.9	818.9
Goods n.e.s.	5.0	7.8	11.9	16.8	17.4
Total gross imports	4,179.3	4,115.2	4,086.1	4,770.8	5,677.3
Total imports, excl. ships, aircraft & diamonds	3,621.8	3,660.7	3,416.8	3,738.7	4,549.9
Imports returned, excl. diamonds	2.8	6.5	9.5	10.1	19.1
Total net imports	4,108.7	4,108.7	4,076.6	4,760.7	5,658.2

<sup>a</sup> C.i.f. valuation.

SOURCE: Central Bureau of Statistics.

## IV-4

## DESTINATION, 1974-1978

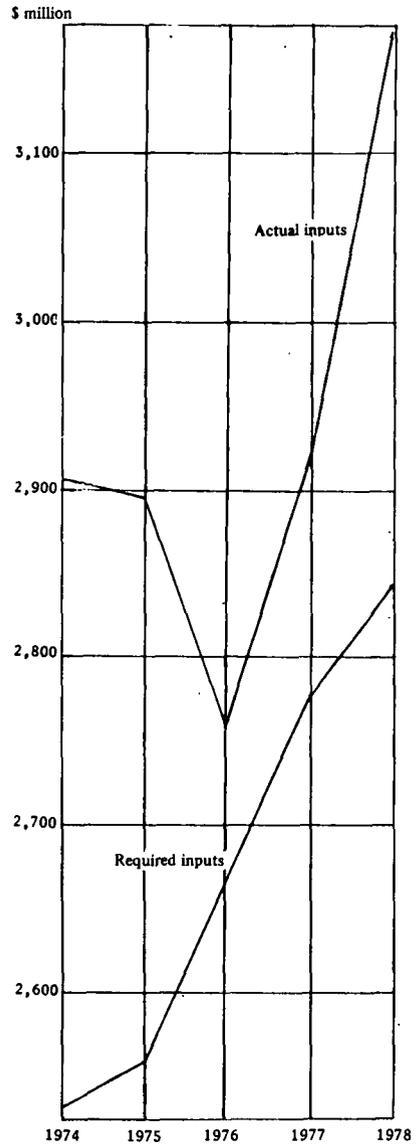
Percent annual increase									
Price					Quantity				
1974	1975	1976	1977	1978	1974	1975	1976	1977	1978
41.3	12.2	-30.1	2.3	7.4	-13.6	-1.6	27.8	8.4	7.4
13.9	8.8	1.4	8.9	16.6	-1.2	-18.6	6.0	7.7	16.6
8.6	14.0	2.0	9.6	19.7	24.2	-37.4	6.1	-11.8	19.7
(8.6)	(14.0)	(2.0)	(9.6)	(19.7)	(39.5)	(-46.3)	(24.2)	(5.4)	(19.7)
20.8	12.1	-14.6	5.8	13.7	3.6	-19.5	15.6	1.1	13.7
30.3	4.5	-4.3	5.9	8.13	24.0	-8.0	-6.4	9.0	8.13
30.3	4.5	-4.3	5.9	8.13	2.2	9.1	-15.6	4.3	8.13
30.3	4.5	-4.3	5.9	8.13	20.3	-5.5	-7.9	8.3	8.13
278.6	-4.1	3.7	8.1	-0.5	-25.3	11.5	3.5	-0.3	-0.5
52.3	2.3	-2.2	6.5	5.9	14.2	-1.7	-5.3	5.9	5.9
15.6	2.7	1.1	15.7	63.3	-22.5	-1.5	48.0	31.5	63.3
47.8	2.3	-1.5	8.8	17.4	4.8	-1.6	1.6	10.8	17.4
9.2	11.7	-0.3	11.1	18.3	11.6	13.9	-8.9	-14.9	18.3
4.9	18.8	4.3	11.0	20.6	13.0	-55.6	4.8	-11.5	20.6
8.3	12.3	0.1	11.0	18.7	11.8	-1.9	-7.2	-14.5	18.7
8.3	12.3	0.1	11.1	18.7	-1.7	-17.5	-5.1	-8.1	18.7
37.0	4.5	-2.4	8.8	17.3	2.4	-5.8	1.7	7.3	17.3
40.4	4.7	-3.0	7.1	8.6	12.2	-3.5	-3.8	2.2	8.6

by 3 percent. This is lower than the growth of total demand for domestic output, a fact which can be explained by the change in the sectoral composition of demand, in particular that for export (Table IV-3).

The difference between actual input imports and derived imports is an indication of the development of inventories in the economy. The size of this difference doubled in real terms compared to 1977.

Inventory fluctuations are influenced by the adjustment process and speculative considerations. The two apparently worked in the same direction during 1978. The growth in output, which resulted from the rebounding of domestic demand and the expectation of an accelerated expansion of production, prompted manufacturers to build up their inventories of inputs. If there was in fact a fall in real interest during 1978,<sup>5</sup> this also lowered the cost of inventory financing: that is to say, it made stockpiling more worthwhile. In addition to this, it is possible that inventories grew as a result of an expected increase in world raw material prices; indeed, prices of imported production inputs again began to turn up at the end of 1976. The price rise continued virtually unabated, and grew stronger during the first and third quarters of 1978. It should be noted that as a result of the exchange rate reform devaluation expectations have ceased to be a motive for speculative stockpiling, though the "creeping devaluation" initiated in 1976 had already weakened the impact of this factor.

FIGURE IV-1  
ACTUAL AND REQUIRED INPUTS  
(1974 prices)



<sup>5</sup> See the discussion of this subject in Chapter XVII, "Money Supply, Credit, and the Banking Institutions."

TABLE IV-5  
**QUARTERLY COMMODITY IMPORTS, 1974-1978**  
 (Quantitative indexes,<sup>a</sup> 1974 = 100)

	Net imports, excluding ships, aircraft, and diamonds	Imports of durable consumer goods	Imports of inputs, excluding diamonds and oil	Imports of capital goods, excluding ships and aircraft
<b>Annual data</b>				
1974	100.0	100.0	100.0	100.0
1975	96.8	62.2	94.3	97.9
1976	93.3	66.1	86.9	90.7
1977	95.2	58.8	94.2	77.4
1978	106.6	69.9	106.3	90.7
<b>Quarterly data</b>				
1974 I	95.7	101.7	87.4	105.8
II	99.7	111.6	98.7	101.7
III	101.0	103.3	105.8	96.9
IV	103.5	83.3	108.1	95.6
1975 I	97.3	49.8	96.2	92.6
II	94.9	48.5	93.5	96.0
III	96.6	66.9	92.5	99.0
IV	98.5	83.3	95.2	104.0
1976 I	96.3	83.3	89.1	101.8
II	98.6	78.7	90.0	106.2
III	85.8	51.4	82.2	78.8
IV	92.2	51.1	86.2	75.9
1977 I	91.3	53.5	90.6	71.6
II	92.9	62.1	88.5	79.0
III	100.8	61.8	100.4	82.8
IV	95.7	57.6	97.4	76.5
1978 I	102.2	61.3	100.7	82.7
II	104.4	61.6	105.8	82.9
III	112.5	77.1	113.8	98.2
IV	107.3	79.8	104.8	99.2

<sup>a</sup> Based on seasonally adjusted data; the adjustment was made on the original series at constant prices.  
 SOURCE: Central Bureau of Statistics and Bank of Israel computations.

Destocking reached its trough in 1976, when a whole string of factors were at work: import prices in dollars fell, expectations of drastic changes in the exchange rate disappeared with the introduction of "creeping devaluation", and there was a significant rise in the cost of nondirected credit. Added to these factors was a severe slackening of output growth, since a sluggish level of activity requires the holding of smaller inventories.

The gap between actual and required imports differed from branch to branch: it widened in the group including textiles, paper, printing and publishing, and plastic products, as well as in the branches manufacturing construction inputs. It should be noted that cement imports, which had declined steadily since 1975, began to expand again (quantitatively they nearly doubled), while the negative differential between actual and required imports contracted.

### B. CAPITAL GOODS

Following real declines during the two previous years, imports of equipment and machinery increased by about 15 percent. This sharp rise reflects the turnaround which occurred in nondwelling investment. The much larger import of capital goods this year was accompanied by an unprecedented price increase (in the domestic market) of about 80 percent, the combined result of the exchange rate reform, and an increase (of about 18 percent) in the world prices of capital goods. In contrast to the much dearer cost this year of imported plant and machinery, the prices of domestically manufactured capital goods rose by "only" about 60 percent. Conceivably this stimulated demand for locally produced items (purchases of which in fact rose at a higher rate than imported plant and machinery). Possibilities for import substitution in this area are, however, limited, because of the small scope of domestic production. Electronic equipment is an exception to this rule: here domestic production is well developed, although investment in telecommunications, the main customer of local manufacturers, continued to decline in 1978.

### C. CONSUMER GOODS

Direct imports of goods for private consumption rose at the same rate as consumption. In the components of this import category there were, however, differences compared to the components of consumption. In imports of food products there was an absolute decline (of about 2 percent), against a rise of about 5 percent in their consumption. Purchases of durable goods also rose at a slightly faster rate than imports; in household equipment purchases far outpaced the increase in imports. From the point of view of supply this is to be explained by the relative increase in the level of protection for import substitutes as a consequence of the reform in the exchange rate regime.<sup>6</sup>

<sup>6</sup> See the article by Y. Baruh, "Changes in the Levels of Protection for Import Substitutes and Export Goods as a Result of the New Economic Policy," *Bank of Israel Economic Review* 48-49, (forthcoming).

TABLE IV-6

ACTUAL INPUT IMPORTS AND IMPORTS DERIVED FROM USES<sup>a</sup> OF DOMESTIC OUTPUT, 1974-1978  
(\$ million, at current prices)

	Exports	Exports, excluding diamonds	Exports to administered areas	Total	Domestic uses			Total uses	Total uses, excluding diamonds	Actual imports, <sup>b</sup> excluding diamonds	Actual imports, <sup>b</sup> less derived imports (excluding diamonds)
					Private consumption	Public consumption	Investments				
1974	1,378	883	86	1,564	781	368	415	3,028	2,533	2,906	373
1975	1,379	878	103	1,655	874	352	429	3,137	2,636	2,969	333
1976	1,654	1,041	103	1,533	849	321	363	3,290	2,677	2,755	78
1977	1,989	1,252	125	1,613	933	334	346	3,727	2,990	3,092	102
1978	2,256	1,203	135	1,860	1,069	381	410	4,251	3,198	3,590	392
Percent increase (1974 prices)											
1975	0.2	1.0	12.4	0.4	2.1	-4.9	2.0	0.6	1.1	-2.4	
1976	19.1	18.1	5.9	-3.6	3.9	-8.3	-13.7	7.0	4.3	-3.5	
1977	9.6	12.2	13.1	-2.4	2.9	-4.4	-12.6	3.9	3.9	2.6	
1978	-5.2	0.6	-1.4	4.8	6.6	-1.6	5.6	-0.8	2.7	9.5	

<sup>a</sup> Derived input imports, using the 1972/73 input-output tables. In previous issues of the Annual Report, this import was calculated according to the 1968/69 input-output tables, hence the difference in the results published here.

<sup>b</sup> Includes defense establishment input imports and Israeli ship and aircraft fuel consumption; hence the difference between these figures and those in Table IV-4.

TABLE IV-7

## DIAMOND IMPORTS AND EXPORTS, 1974-1978

	Thousands of carats			\$ thousand, at 1972 prices		
	Imports (rough)	Exports (polished)	Ratio of imports to exports	Net imports	Net exports	Imports as a percent of exports
1974	5,568	2,467	2.26	278.8	413.4	67.4
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
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

## D. ROUGH DIAMONDS

Despite the real drop this year in imports of uncut diamonds (about 35 percent), total imports were still high relative to total exports of polished stones. This continued the upward trend evident since 1976, in the import export ratio in carats,<sup>7</sup> implying that imports during these years were greater than required for exports, i.e. stockpiling took place during this period.

<sup>7</sup> The unusual ratio of input to output is between 2.3 and 2.4; in 1976 it rose to 2.6, in 1977 to 3.3, and in 1978 to 2.7. The import/export ratio in carats may also be altered as a result of changes in the composition of polished diamonds. In recent years there has in fact been such a change: there was a rise in the share of medium-sized diamonds, the processing of which involves a smaller ratio of raw to polished carats, a fact which further emphasizes the deviation of the branch from the general trend.

TABLE IV-8

**DERIVED INDIRECT IMPORTS AND DIRECT COMMODITY IMPORTS<sup>a</sup> BY FINAL USES, 1974-1978**  
(\$ million, 1974 prices)

	1974	1975	1976	1977	1978	Weight in imports				
						1974	1975	1976	1977	1978
Private consumption	1,139	1,085	1,162	1,188	1,271	29.8	29.1	32.4	32.2	31.5
Direct imports	(358)	(288)	(334)	(336)	(363)	(9.4)	(7.7)	(9.4)	(9.1)	(9.0)
Indirect imports	(781)	(797)	(828)	(852)	(908)	(20.4)	(21.4)	(23.0)	(23.1)	(22.5)
Investment, excl. ships and aircraft	969	967	870	749	840	25.4	26.0	24.2	20.3	20.8
Direct imports	(554)	(543)	(504)	(430)	(503)	(14.5)	(14.6)	(14.0)	(11.7)	(12.5)
Indirect imports	(415)	(424)	(366)	(319)	(337)	(10.9)	(11.4)	(10.2)	(8.6)	(8.3)
Public consumption	368	350	321	307	302	9.6	9.4	8.9	8.3	7.5
<b>Total domestic destinations</b>	<b>2,476</b>	<b>2,402</b>	<b>2,353</b>	<b>2,244</b>	<b>2,413</b>	<b>64.8</b>	<b>68.5</b>	<b>65.5</b>	<b>60.8</b>	<b>59.8</b>
Exports, excl. diamonds, (incl. administered areas)	968	988	1,155	1,297	1,302	25.4	26.5	32.1	35.2	32.2
<b>Total imports, excl. diamonds, ships and aircraft</b>	<b>3,444</b>	<b>3,390</b>	<b>3,508</b>	<b>3,541</b>	<b>3,715</b>					
Actual imports less derived imports of inputs	374	337	88	147	325	9.8	9.0	2.4	4.0	8.0
<b>Total actual imports<sup>b</sup></b>	<b>3,818</b>	<b>3,727</b>	<b>3,596</b>	<b>3,688</b>	<b>4,040</b>	<b>190</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

<sup>a</sup> Commodity imports in this table include imports for the various final uses and indirect imports calculated according to input-output tables. Hence there is a discrepancy between total imports as shown here and actual total imports, representing the difference between actual imports of inputs (excluding diamonds) and the required imports of inputs (excluding diamonds). The difference in the distribution of indirect imports by uses during the years 1974-77, as shown in this table and that in previous Annual Reports is due to the use here of the 1972/73 input-output tables.

<sup>b</sup> The sum of the imports for the various destinations at 1974 prices and including defense establishment inputs included in direct defense imports and Israeli ship and aircraft fuel consumption included in service imports.

Quarterly data for 1978 indicate a continued stockbuilding in the first quarter of the year (a ratio of 3.5 between imported and exported carats), despite the increase in rough diamond prices during these months. In the next two quarters imports declined relative to exports, while in the fourth quarter, perhaps due to exaggerated expectations of Christmas orders, the import/export carat ratio again rose. It is therefore possible that the continued stockpiling in 1978 stemmed in part from the fact that actual exports were lower than expected, in contrast to the voluntary buildup of stocks during the previous two years. It should be recalled that the prices of polished diamonds rose significantly, mainly in 1977, while prices of uncut stones lagged behind and began to move up only at the end of 1977. The expectation of a rise in rough diamond prices was one of the principal factors which motivated the diamond industry to accumulate inventories to such a great extent in 1977.<sup>8</sup> With the increase in such prices at the end of 1977 the speculative motive for stockpiling was weakened. A similar picture emerges for the net import and export of diamonds in constant prices.<sup>9</sup>

It is worth noting that the stockpiling of diamonds during the last two years, which mainly involved uncut stones, was made possible by the availability of direct financing from the Diamond Fund. The interest rate on credit from this fund (6 percent) was lower than the interbank Eurodollar interest rate (for both 3 and 6 months). At the beginning of November the Diamond Fund raised the interest rate to 7 percent, and at the beginning of December to 8 percent, but even then it was still lower than the interbank Eurodollar rate.

In 1978 there was an increase in the rate of returned uncut diamonds. Whereas in previous years it came to 7–8 percent of gross imports in dollar terms and about 9 percent in terms of carats, in 1978 the level went up to 16 and 18 percent respectively. It is not inconceivable that such a large volume of returned imports (\$ 193 million as against \$ 74 million in 1977) really represents the “export” of rough stones. As already mentioned, credit for purchasing stock has a high subsidy element, so there was a motivation for utilizing such finance to bring stocks in excess of requirements. It is also possible that local diamond industrialists held stocks for dealers abroad with whom they are connected.

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<sup>8</sup> This was the situation if we ignore the possibility of the fictitious recording of such imports before the exchange rate reform in October, 1977, since the export exchange rate was higher than the free market rate, and the possibility of selling dollars at this rate was determined by the volume of imports.

<sup>9</sup> Price indexes for diamond imports and exports should reflect the change in the composition of types of stone; hence it would have been desirable to examine the quantitative development, which is obtained by discounting import and export values in these indexes. The statistical reliability of the diamond indexes is, however, deficient, and the quantitative changes derived from them should be regarded with reservation.

### 3. IMPORTS OF SERVICES

Imports of services<sup>10</sup> were at \$ 2,764 million, up 19 percent,<sup>11</sup> following a rise of 13 percent in 1977. Service prices<sup>12</sup> rose at a similar rate to that of 1977 (about 9 percent), so that there was an acceleration in the real growth of service imports. It should be noted that the full weight of the devaluation under the reform in exchange rate policy was felt in most items of such imports. But most of these items represent transactions conducted in foreign currency, so that they are not sensitive to devaluations. For this reason the increase in the IL prices of imported services did not, on balance, have any impact on their total volume. An exception to this is "foreign travel" (expenditures by Israelis abroad), where the increased cost in IL did have an effect.<sup>13</sup>

It should be remembered that among the steps taken in October 1977, travel tax was eliminated and the foreign currency allowance was cancelled. In view of the rise in disposable personal income, these measures encouraged Israelis to travel abroad. The number who did so in 1978 was about 36 percent larger than in 1977. This represents a significant acceleration compared to previous years: the average yearly growth in 1973–1977 was about 9 percent.

An additional item showing a striking increase is capital services, which were up \$ 213 million. The major component is interest expenditure, which came to about \$ 760 million in 1978, compared to \$ 620 million in 1977. There was a significant rise in such payments during the last two years, which should be viewed against the growth in the external debt burden of the economy (\$ 1.4 billion in 1977 and an additional \$ 1.5 billion in 1978).

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<sup>10</sup> Imports of services are calculated on the basis of a c.i.f. recording of commodity imports; they exclude service imports of the defense establishment and from the administered areas.

<sup>11</sup> The rates of change presented in the discussion of imports of services relate to growth in value, unless otherwise specified.

<sup>12</sup> The price indexes of the various items of imported services are rough estimates only, as are the quantitative indexes based upon them.

<sup>13</sup> Expenditures on this item were re-estimated this year by the Central Bureau of Statistics. The new estimates, based on the results of a survey on the distribution of travellers abroad according to the countries visited and on data on the average expenditures of tourists in these countries, are higher than the previous estimates, which were based on the size of the official foreign currency allowance for Israelis travelling abroad.

TABLE IV-9

## IMPORT OF SERVICES, 1974-1978

(\$ million)

	1974	1975	1976	1977	1978	Percent annual increase			
						1975	1976	1977	1978
Transportation, c.i.f.	373.0	460.0	555.3	656.7	713.8	23.3	20.7	18.3	8.7
Passenger	(31.9)	(30.5)	(51.2)	(56.6)	(47.5)	-4.4	67.9	10.5	-16.1
(+ Other, f.o.b.	(459.1)	(546.2)	(619.1)	(730.1)	(830.8)	19.0	13.3	17.9	13.8
(-) Import cargo shipping by foreign firms	(118.0)	(116.7)	(115.0)	(130.0)	(164.5)	1.1	-1.5	13.0	26.5
Travel	151.4	172.8	179.8	239.8	343.0	14.1	4.1	33.4	43.0
Insurance, c.i.f.	260.5	247.6	246.2	278.3	311.9	-5.0	-0.6	13.0	12.1
(-) Import cargo insurance by foreign firms	(9.8)	(11.3)	(10.5)	(11.5)	(14.3)	15.3	-7.1	9.5	24.3
Capital services	585.4	718.2	742.6	786.5	999.3	22.7	3.4	5.9	27.1
Government n.e.s.	102	102.0	126.0	114.0	150.0	0.0	23.5	-9.5	31.6
Other services	141.7	152.0	216.0	256.3	246.0	7.3	42.1	18.7	-4.0
Total c.i.f.	1,614.0	1,852.6	2,065.9	2,331.6	2,764.0	14.8	11.5	12.9	18.5

SOURCE: Central Bureau of Statistics.

There was an increase of about 32 percent over the previous year in expenditures of Israeli representations abroad (government, n.e.s.). Prices abroad rose by an average of 8 percent, so that in real terms too there was a large growth in this item — about 22 percent.

Imports of services from the administered areas amounted to about \$ 180 million — the same level as in 1977. Most of this represents income of workers from the areas. The volume of such income remained steady despite a growth of about 2 percent in the number of workers from the areas in 1978.