

BANK OF ISRAEL

The Government and
Finance Committee of the Knesset
Jerusalem

In accordance with section 59 of the Bank of Israel Law, 5714–1954, I respectfully submit herewith the Annual Report of the Bank of Israel for 1986.

The Report is based on material prepared and analyzed by the Research Department of the Bank. Most of the nonmonetary data were supplied by the Central Bureau of Statistics. The CBS revised the national accounts estimates for 1980–86 to comply with the definitions and classifications recommended by the United Nations Statistical Office. The principal change was the shifting of some of the nonprofit institutions from the private to the public sector.

Economic developments in 1986 were largely a product of the comprehensive stabilization program introduced the previous July. Its foremost achievement was the drastic reduction of inflation already in the second half of that year. The economy showed signs of picking up in 1986, but the sustainability of the recovery cannot be taken for granted because of unresolved structural problems and an excessive increase in labor costs.

To ensure that the upturn in economic activity will lead to long-term growth, it is necessary to keep a balanced budget, make wage determination more flexible, increase labor mobility, reform the tax and transfer system, and persevere with the money and capital market reform.

Sincerely yours,



Michael Bruno
Governor
Bank of Israel

Jerusalem, 3 Nisan, 5747
May 31, 1987