

BANK OF ISRAEL

The Government and
Finance Committee of the Knesset
Jerusalem

In accordance with sections 59 and 60 of the Bank of Israel Law, 5714-1954, I respectfully submit herewith the Annual Report of the Bank of Israel for the year 1976.

The Report is based on material prepared by the Research Department of the Bank. Most of the statistical data in Parts One and Two were supplied by the Central Bureau of Statistics.

Since 1973 economic developments have been dominated by sharp fluctuations in the level of activity. This, together with the provisional nature of some of the data, calls for considerable caution in both the significance to be attached to the year-to-year changes and identification of the basic trends.

The foremost feature of 1976 was the strengthening of Israel's balance of payments position, after it had eroded badly in 1973-1975. The factors in this turn for the better – some of which were of a transient nature, while some signified longer-term changes – are analyzed in detail in various chapters of the Report. But it should be emphasized that the improvement in the balance of payments was primarily the outcome of a concerted policy of harnessing domestic demands and promoting exports and import substitution, which was instituted in 1974. The impressive headway made by exports kept the economy from sliding into a deep slump and averted widespread unemployment, thus paving the way for renewed economic growth with a diminished dependence upon external financing.

The change in the balance of payments situation in 1976 was partly achieved through policy measures which caused inflation to sharpen. This in itself impaired the effectiveness of the mini-devaluations designed to increase the profitability of exports. In the short run a determined attempt must be made to slow inflation without relaxing the efforts to restrain domestic demands and encourage exports.

The size of the Report has been reduced this year in order to give the reader a more concise picture of the principal developments in the economy. Details not included in the Report but which would be of interest to researchers and experts will be presented from time to time in special studies published in the Bank of Israel's *Economic Review*.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'a. Gafni', with a long horizontal stroke extending to the right.

Arnon Gafni
Governor
Bank of Israel

Jerusalem, 14 Sivan, 5737
May 31, 1977