

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 1984.

Inflation accelerated to a serious degree this year, and despite the narrowing of the civilian import surplus, the balance of payments financing problem became more acute and the country's foreign reserves were run down to a disturbing extent. These negative developments make it imperative for the government to significantly reduce its budget deficit, whose swelling was one of the main reasons for the worsening economic situation this year. A sharp fall in tax revenue and a heavier subsidy bill were the factors most responsible for the growth of the government deficit. A plan for stabilizing the economy must include a comprehensive reform of the taxation system and the restoration of net tax revenue, together with a further reduction of government spending.

Sincerely yours,



Dr. Moshe Y. Mandelbaum
Governor
Bank of Israel

Jerusalem, 10 Sivan, 5745
May 30, 1985