

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 1974.

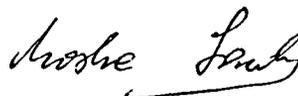
The Report is based on material prepared by the Research Department of the Bank. Most of the statistical data in Parts One and Two were supplied by the Central Bureau of Statistics.

The uneven pattern of developments over the year and in various sectors of the economy made it difficult to assess the basic trends in 1974 on the strength of the preliminary data available at the time of preparing the Report. This would have required the elimination of the effects of the Yom Kippur War and the increased call-up of manpower for reserve duty, by comparing the first nine months of 1973 with the last nine months of 1974. But the quality of the statistical data and seasonal variation during the year precluded such a comparison in most cases.

The steep rise in import prices, widening of the import-export gap, contraction of foreign exchange reserves, and growth of the external debt necessitated a much fuller discussion of the country's balance of payments situation. We have therefore devoted three separate chapters to this topic: Chapter IV, "The Current Account"; Chapter V, "Capital Imports and the Foreign Debt"; and Chapter VI, "Israel and the World Economy". The principal trends are summarized in Chapter III. Another chapter added this year is "The Institutional Structure of the Capital Market", which analyzes the flow of long- and medium-term investment credit and the mobilization of funds for this purpose from households and business. The second part of the chapter deals with the various components of the system of intermediaries: financial institutions, social insurance funds, insurance companies, and mutual funds, which in the past were discussed in several separate chapters. Another innovation is the summarization of all the monetary and capital market developments in an introductory chapter.

As usual, a statistical appendix to the Report will be published shortly. It will present a more detailed breakdown of some of the tabulated material appearing in the Report, describe how the most important data were computed, and explain the analytical methods employed.

Yours faithfully,

A handwritten signature in cursive script, reading "Moshe Sanbar". The signature is written in dark ink and is positioned above the printed name.

MOSHE SANBAR
Governor
Bank of Israel

Jerusalem, 20 Sivan, 5735
May 30, 1975