

BANK OF ISRAEL

The Government and
Finance Committee of the Knesset
Jerusalem

In accordance with sections 59 and 60 of Bank of Israel Law, 5714-1954, I respectfully submit herewith the Annual Report of the Bank of Israel for 1980.

Economic policy for 1980 had two immediate objectives: the reduction of the import surplus and the cooling of inflation. Toward this end steps were taken to dampen domestic demands by limiting the growth of bank credit, freezing real public spending, and abolishing most of the subsidies on goods and services. Despite a sharp rise in oil prices, these measures succeeded in trimming the import surplus and checking the acceleration of inflation, thereby arresting the unfavorable developments that had marked the economy in the two preceding years. But this was achieved at the price of stagflation, i.e. a severe economic slump accompanied by rapid inflation.

After seven years of sharply rising prices and sluggish economic growth, it is imperative to drastically reduce the rate of inflation, and this can be achieved. We recommended the adoption by the government, Histadrut, and employers of an overall arrangement covering prices, wages, profits, and taxes (a "package deal").

The dampening of demands through contractionary fiscal and monetary policies, combined with cost restraint, would create the proper conditions for a strategy of economic growth based on the advantages possessed by the Israeli economy, and thereby permit its recovery.

Sincerely yours,



Arnon Gafny
Governor
Bank of Israel

Jerusalem, 27 Iyar, 5741
May 31, 1981