

The Government and the  
Finance Committee of the Knesset,  
Jerusalem

It is with pleasure that I submit the Annual Report of the Bank of Israel for 1995, in accordance with section 59 of the Bank of Israel Law, 5714–1954.

The Report, which has been prepared by the Research Department of the Bank of Israel, includes material and analyses based on data from the Central Bureau of Statistics and monetary data of the Bank of Israel.


In 1995 the rapid economic growth which has prevailed in the last few years continued. Capital stock continued to expand rapidly, and the decline in the unemployment rate persisted. The inflation target set by the government and the Bank of Israel was attained, after deviating from it in 1994. The annual inflation rate fell to 8.1 percent in 1995, the lowest level for several years. Nonetheless, it is still significantly higher than the accepted rate in the industrialized west.

Alongside these positive developments, the public sector deficit rose and the government deficit (as a percent of GNP) exceeded the limit defined by law, after maintaining for several years the path set for its reduction. The rise in the deficit in 1995 gives cause for concern, and prompt action must be taken to reduce it.

The balance-of-payments deficit continued to expand, in the context of the deteriorating terms of trade for Israel and continued increase in private and public sector demand.

The required improvement in the balance of payments and consolidation of the growth process, while maintaining economic stability, requires fiscal restraint which will moderate the rate of expansion of domestic demand. Together with such measures, monetary policy will continue to operate in order to attain the inflation target.

Yours sincerely



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31 March, 1996