

## 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 1985.

The Report is based on material prepared and analyzed by the Research Department of the Bank. Most of the nonmonetary statistical data were supplied by the Central Bureau of Statistics.

The economic stabilization program introduced in July 1985 succeeded in greatly slowing inflation and consolidating the 1984 improvement in the import surplus through the freezing of prices and the nominal variables and the slashing of the government budget deficit. The budget discipline, together with the severe monetary restraint, provided the necessary support from the real economy for the success of this overall plan.

Preserving these achievements in the future depends on wage restraint and adherence to the budget framework in the coming fiscal year. The breaching of the framework in these two areas is liable to erase the gains made so far.

The process of healing the economy is only in the initial stage. Inflation has not been completely eliminated and the domestic and external debt are very large; tax rates and the weight of public consumption are too high.

To effect a structural change—i.e. to increase the weight of the business sector—while safeguarding the stabilization program's achievements, taxes must be lowered, especially those on labor, the capital market must be opened to the business sector, and public consumption reduced further.

Sincerely yours,



Dr. Moshe Y. Mandelbaum  
Governor  
Bank of Israel

Jerusalem, 20 Iyar, 5746  
May 29, 1986