

The Government and
the Finance Committee of the Knesset,
Jerusalem

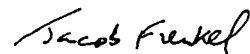
It is with pleasure that I submit the Annual Report of the Bank of Israel for 1991, in accordance with section 59 of the Bank of Israel Law, 5714–1954.

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 on monetary data of the Bank of Israel.

The overall picture given by the principal indicators is that 1991 was another year of expansion in activity and investment. Business-sector profitability and productivity improved appreciably, as did employment. The principal increase was in residential construction and allied industries, where the large-scale expansion is transient, while expansion was more moderate in other industries, and exports remained static. The substantial growth of the labor force, especially of new immigrants, outstripped the rise in employment, and unemployment rose. The pace of immigration slowed down considerably at the end of 1991 and the beginning of 1992. The economic developments of 1991 were affected by both government policy and external factors such as the Gulf War and the slackening of world trade.

This year's economic performance appears inadequate in view of the need to expand and to absorb immigration, and the economy does not yet appear to be on track for sustainable growth. Such growth should be based on utilizing the relative advantage of Israel's human capital and on realizing the potential offered by large export markets. The government's task is to improve conditions for the business sector, enabling it to realize its growth potential. This requires the consistent implementation of measures intended to set the economy on the right path, increase immigration, and slow down inflation. First and foremost, budget priorities must be reordered, with the significant expansion of infrastructure investment and reduction of business-sector taxes. At the same time, reforms must be speeded up in order to improve the functioning of the markets and reduce costs to manufacturers. Some of these steps require legislative action and procedural simplification, while others involve expenditure. Since there should be no deviation from the deficit path to which the government is committed, a significant reduction of other budgetary expenditures is required. This is possible only once budget priorities are reordered—something that is needed now more than ever.

Yours sincerely



Jacob A. Frenkel
Governor, Bank of Israel

Jerusalem, 25 Iyar, 5752
28 May, 1992