CONTENTS

Letter to the Gov	ernment and the Finance Committee of the Knesset	iii
CHAPTER I	THE ECONOMY: DEVELOPMENTS AND POLICIES 1. Developments under the Package Deals 2. The Economic Stabilization Program 3. Main Developments under the Stabilization Program Appendix: The Economic Stabilization Program (July 1985) .	1 4 7 14
CHAPTER II	PRODUCT AND DOMESTIC DEMAND 1. Main Developments 2. Business Sector Product 3. Disposable Income 4. Private Consumption and Saving	19 19 28 30 30
CHAPTER III	PRICES 1. Main Developments 2. The First Half of 1985 3. The Stabilization Program of July 1985 4. Specific Price Changes Appendix: The Provisions of the Package Deals	36 36 38 42 47 50
CHAPTER IV	EMPLOYMENT AND WAGES	51
CHAPTER V	THE PUBLIC SECTOR	60
CHAPTER VI	THE PRINCIPAL ECONOMIC SECTORS 1. Main Developments 2. Agriculture 3. Industry 4. Construction 5. Transport and Communications 6. Tourism 7. Energy	70 70 74 76 78 81 84 84
CHAPTER VII	THE BALANCE OF PAYMENTS	89 89 99 108 111
CHAPTER VIII	MONEY AND CAPITAL MARKETS	120 120 128 132

CHAPTER IX	ACTIVITIES OF THE BANK OF ISRAEL	142
	1. Summary of the Balance Sheet at the End of 1985	142
	2. Monetary Policy Measures in 1985	142
	3. Funding the Government Budget	151
	4. Directed Bank of Israel Credit	152
	5. Foreign Exchange Control	152
	6. Supervision of Banking Corporations	155
	7. Economic Research and Publications	155
APPENDIX TA	BLES	159
	TABLES	
CHAPTER I	THE ECONOMY: DEVELOPMENTS AND POLICIES	
I-1	Main Economic Indicators, 1981-85	2
I-2	Main Economic Indicators Before and After Introduction of the Economic Stabilization Plan	8
CHAPTER II	PRODUCT AND DOMESTIC DEMAND	
II-1	Resources and Use of Resources, 1984-85	20
11-2	Product and Productivity of the Business Sector, 1961-85	24
II-3	Business Sector GDP at Factor Cost, by Final Use, 1975-85	25
II-4	Disposable Income, 1982–85	31
11–5	Saving Ratios, 1982-85	32
11-6	Private Consumption. 1982-85	34
I I- 7	Gross Domestic Investment by Type of Capital Good, 1981-85	35
II-A1	National Income, 1982–85	161
II-A2	Fixed Nondwelling Investment by Initiating Sector, 1981-85	162
CHAPTER III	PRICES	
111–1	Selected Price Indexes, 1982–861	37
CHAPTER IV	EMPLOYMENT AND WAGES	
IV-1	Population, Employment, and Wage per Employee Post, 1979-85	52
IV-2	Business Sector Labor Costs, 1976–85	54
IV-3	Sectoral Composition of Employment, 1970–85	55
IV-A1	Sources of Population Growth, 1977-85	163
IV-A2	Sources of Growth of Labor Force and Employment, 1970-85	164
IV-A3	The Israeli Labor Force, Selected Indicators, 1970-85	166
IV-A4	Employment and Labor Input, by Sector, 1980-85	167
IV-A5	Average Real Wage per Employee Post, by Industry, 1979-85	168
CHAPTER V	THE PUBLIC SECTOR	
V-1	Public Sector Demand, Absorption, and Deficit, 1975-85	62
V-2	Principal Components of Public Sector Demand and Absorption, 1975-85	65
V-3	Central Government Budget, 1980/81-1986/87	68
V-A I	Direct Public Sector Demand, 1980-85	169
V-A2	Indicators of Civilian Public Services, 1965-85	170
V-A3	Indicators of Israel's Defense Outlays, 1964-85	171
V-A4	Taxes, Subsidies, and Transfers, 1966-85	172

CHAPTER VI	THE PRINCIPAL ECONOMIC SECTORS	
VI-1	Business Sector Indicators, 1960-85	73
VI-2	Indicators of Growth in Agriculture, 1973-85	75
VI-3	Indicators of Growth in Industry, 1967-85	77
VI-4	Indicators of Construction, 1967-85	79
VI-5	Output of Transport and Communications, 1982-85	83
VI-6	Tourism to Israel, 1982-85	85
VI-7	Mineral Fuel Imports - Selected Indicators, 1980-84	87
VI-8	Selected Relative Fuel Prices: Refinery Gate, Israel Relative to Spot Price, Italy, 1981-85	87
VI-A1		173
VI-A2		174
VI-A3	· · · · · · · · · · · · · · · · · · ·	175
VI-A3	Mortgages and Credit Subsidy for Young Couples, Maximum and Mini-	175
V 1-73-7		175
VI-A5		176
		176
VI-A6		
VI-A7	The state of the s	177
VI-A8		178
VI-A9		178
VI-A10		179
VI-A11	Domestic Energy Consumption Ratios by Sector, Selected Years, 1972-85	180
CHAPTER VII	THE BALANCE OF PAYMENTS	
VII-1	Balance-of-Payments Indicators, 1980-85	94
VII-2	The Balance of Payments, 1981-85	98
VII-3		100
VII-4		105
V11-5		110
VII-6		113
VII-7		115
VII-8		117
VII-A1	=	181
VII-A2		182
VII-A3	Derived Demand for Imported Intermediates and Actual Imports of	
		182
VII-A4		183
VII-A5		184
VII-A6		185
VII-A7		186
VII-A8		187
VII-A9		188
VII-A10		189
VII-A11		190
VII-A11		191
VII-A13	· · · · · · · · · · · · · · · · · · ·	192
CHAPTER VIII	MONEY AND CAPITAL MARKETS	
VIII-1	Monetary Indicators, 1980-85	122
VIII-2	Incremental Domestic Liquidity Generated by Domestic Injections,	124
VIII-3		131
1 141 3	change in Financial resease of the Fuelle, 1700 00	

VIII–4	External Injection and Balance of Payments Leakage, 1979-85	135	
VIII-5	Monetary Policy Indicators, 1982-85	137	
VIII-6	Financing the Domestic Deficit - Public Sector and Bank of Israel,		
	1980-85	138	
VIII-A1	Monetary Indicators, 1980-85	193	
VIII-A2	Revenue from Money Creation, 1981-85	193	
VIII-A3	Velocity of Demand Deposits and Money, 1960-85	194	
VIII-A4	Sources and Destination of Nominal Liquidity Generated by External		
	Injections, 1980-85	195	
VIII-A5	Change in Financial Assets of the Public, 1981-85	196	
VIII-A6	External Injection and Balance of Payments Leakage, 1980-85	197	
VIII-A7	Money Supply and Unindexed Local-Currency Deposits of the Public, 1982-85	198	
VIII-A8	The Money Base, 1982-85	199	
VIII-A9	Indexed Deposits of the Public and Its Securities Holdings, 1982-85.	200	
VIII-A)	Source and Composition of Change in Liquid-Asset Base, 1985	201	
VIII-A11	Financial Assets of the Public, 1984–85	201	
		202	
VIII-A12	The Change in Financial Assets of the Public, 1983-85	203	
VIII-A13	Net Purchase of Financial Assets by the Private Nonfinancial Sector,	204	
3.7777 A 4 4	1982-85	204	
VIII-A14	Mean and Standard Deviation of Selected Rates of Return, 1983-85	205	
VIII-A15	Estimated Conversion out of Restitution Deposits, 1983–85	206	
VIII-A16	Estimated Wealth of Private Nonfinancial Sector, 1982-85	207	
VIII-A17	Net Financial Wealth in Foreign Currency, 1981-85	208	
VIII-A18	Medium and Long Term Credit to the Public, 1981-85	209	
VIII-A19	Credit to the Public from the Banking System, 1982-85	210	
VIII-A20	Commercial Bank Credit to the Public, 1984-85	211	
VIII-A21	Average Quarterly Nominal Interest Rates, 1984-85	212	
VIII-A22	Real Cost of Credit Before and After Tax, 1983-85	213	
VIII-A23	Local-Currency Credit to the Government, 1982-85	214	
VIII-A24	Local-Currency Liquidity of Banking Institutions, 1981-85	215	
VIII-A25	The Public Sector Deficit, 1980-85	215	
VIII-BI	Market Value of Securities Held by the Public, 1983-85	216	
VIII-B2	Securities Issued and Net Borrowing, 1981-85	217	
VIII-B3	Main Bond Market Indicators, 1983-85	218	
VIII-B4	Real Net Yield to Maturity of CPI-Indexed Bonds, 1984-85	219	
VIII-B5	Main Stock Market Indicators, 1983-85	220	
VIII-B6	Market Value of Listed Shares and Convertible Securities, 1982-85	221	
VIII-B7	Overall Rate of Return on Listed Shares (Ordinary and Preferred),		
	1982-85	222	
VIII-B8	Real Overall Rate of Return on Selected Financial Assets, 1982-85	223	
VIII-B9	Mutual Fund Operations, 1982-85	224	
VIII-B10	Mutual Fund Portfolio	225	
VIII-B11	Flow of Savings in Social Insurance Funds, 1983-85	226	
VIII-B12	Balance Sheet of Social Insurance Funds, 1983-85	227	
VIII-B13	Social Insurance Funds, 1983-85	227	
CHAPTER IX	ACTIVITIES OF THE BANK OF ISRAEL		
IX-1	Changes in Monetary Policy Instruments, 1984-851	148	
FIGURES			
FIGURES			
II-1 II-2	Resources and Uses, Civilian Import Surplus, and GDP, 1983-85 National Saving Rate, 1960-85	22 27	

II-3	Business Sector Product per Manhour, 1960-85	29
II–4	Private Saving Rate, 1960-85	33
III-1		39
IV-1	Real Wages per Man-Hour and Real Labor Cost, Business Sector,	56
IV-2	Real Wages per Man-Hour, Business Sector, 1975-85	57
IV-3	Labor Force Participation and Employment Rates Adjusted for Effect of	
	Changes in Age, Education, and Sex Composition of the Population, and the Unemployment Rate, 1979-85	59
V-1	,,,,,	63
V-1 V-2		
. –	· · · · · · · · · · · · · · · · · · ·	66
VI-1		72
VI-2	,	80
VII-I	Current and Basic (Corrected) Balance of Payments, 1975-85	91
VII-2	Ratio of Domestic Resource-Use to GDP and Relative Prices of Imports and Exports, 1975-85	92
VII-3	The Deficit on Current Account (at Official Exchange Rate), Consump-	
	tion, and Investment as Percent of GNP, 1972-85	02
VII-4	Relative Prices of Industrial Goods—World/Israel, 1981-85	06
V11-5		14
VII-6	,	18
VIII-I	Effective Monthly Interest on Overdrafts and Expected Rate of Inflation,	23
VIII-2		26
VIII-3	,,,,	34