

The Government and  
the Finance Committee of the Knesset,  
Jerusalem

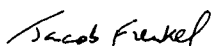
It is with pleasure that I submit the Annual Report of the Bank of Israel for 1992, in accordance with section 59 of the Bank of Israel Law, 5714–1954.

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. This year for the first time, the Report includes a review of services of the private sector, for which no reliable data were available in the past.

The rapid rise in economic activity which characterized 1990 and 1991 continued in 1992, and the inflation rate declined substantially, although unemployment remained high, and in fact rose. Following two years in which economic growth and employment were based on the expansion of residential construction, in 1992 exports played the leading role. Improved external conditions helped to increase economic activity, contributing to the greater profitability of the last few years, and the higher level of capital stock. The increased activity did not undermine fiscal stability or the balance of payments, and the public debt/GDP and external debt /GDP ratios actually continued to decline.

In the light of these developments, economic policy must place even more emphasis on the expansion of the basis of employment so as to ensure that the economy gets on track for sustainable economic growth. There are three basic requisites for this. First, the structure of the budget must be changed, so that more resources are invested in the infrastructure, and business-sector taxes are reduced. Second, the economic reforms intended to reduce government control and ownership, increase competition in the various markets, and improve the flexibility of the labor market must continue and intensify. Third, an atmosphere of budgetary, monetary, and balance-of-payments stability must be created, providing incentives for local and foreign investors. Adherence to this path will ensure improved economic performance, increased investment and employment, and the continued absorption of immigrants, as part of a balanced long-term process of growth.

Yours sincerely



Jacob A. Frenkel  
Governor, Bank of Israel

Jerusalem, 11 Sivan, 5753  
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