

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 1987.

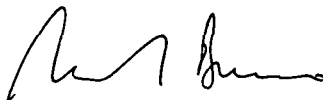
The Report is based on material prepared and analyzed by the Research Department of the Bank. Most of the nonmonetary data were supplied by the Central Bureau of Statistics.

Economic developments in 1987 were marked by substantial growth of the business sector product and a considerable rise in productivity. These developments represent a further stage in the country's economic recovery, and may be attributed in a large measure to greater economic certainty, following the success of the July 1985 stabilization program.

Nevertheless, problems still remain: the inflation rate in Israel is still considerably higher than that prevailing in the Western countries, wage rises exceed productivity growth, and the private saving rate has declined substantially.

In order to achieve a further curtailment of inflation together with sustained expansion of business sector activity, it is necessary to maintain fiscal balance and to reduce the share of government activity in the economy. This process should be accompanied by proceeding with the reforms of the money and capital markets and the tax system, and by greater flexibility in wage arrangements and higher labor mobility.

Sincerely yours,

A handwritten signature in black ink, appearing to read 'Michael Bruno', written in a cursive style.

Michael Bruno
Governor
Bank of Israel

Jerusalem, 15 Sivan, 5748
May 31, 1988