

## CONTENTS

|   |     |
|---|-----|
| Letter to the Government and the Finance Committee of the Knesset .....       | iii |
| <b>Chapter 1</b> <i>The Economy: Developments and Policies</i> .....          | 1   |
| <b>Chapter 2</b> <i>Output, Domestic Demand, and the Principal Industries</i> |     |
| 1. Main Developments .....  | 12  |
| 2. Investment and Capital Stock .....   | 25  |
| 3. Principal Industries .....   | 28  |
| 4. Infrastructure .....   | 45  |
| 5. Energy .....   | 51  |
| Appendix Tables .....   | 55  |
| <b>Chapter 3</b> <i>Prices</i>  |     |
| 1. Main Developments .....  | 63  |
| Appendix Tables .....   | 76  |
| <b>Chapter 4</b> <i>Employment and Wages</i>                                  |     |
| 1. Main Developments .....  | 78  |
| 2. Employment and Labor Input .....   | 82  |
| 3. Unemployment .....   | 84  |
| 4. Wages .....  | 86  |
| 5. Immigration .....  | 90  |
| Appendix Tables .....   | 95  |
| <b>Chapter 5</b> <i>The Public Sector</i>                                     |     |
| 1. Main Developments .....  | 96  |
| 2. Fiscal Policy .....  | 100 |
| 3. Defense .....  | 104 |
| 4. Taxes and Transfers .....  | 105 |
| Appendix: Immigration and the Budget .....                                    | 110 |
| Appendix Tables .....   | 112 |
| <b>Chapter 6</b> <i>The Balance of Payments</i>                               |     |
| 1. Main Developments .....  | 118 |
| 2. The Current Account .....  | 121 |
| 3. The Capital Account and External Debt .....                                | 139 |
| Appendix Tables .....   | 151 |

|   |   |     |
|---|---|-----|
| <b>Chapter 7</b>  | <b><i>Money and Capital Markets</i></b> |     |
| 1. Main Developments .....                              |   | 163 |
| 2. Monetary Developments .....                          |   | 172 |
| 3. The Tools of Monetary Policy .....                   |   | 179 |
| 4. Credit .....   |   | 180 |
| 5. The Capital Market .....                             |   | 182 |
| Appendix Tables .....                                   |   | 187 |
| Appendix B: Activities of the Monetary Department ..... |   | 212 |

## TABLES

|                  |  |    |
|------------------|--|----|
| <b>Chapter 1</b> | <b><i>The Economy: Developments and Policies</i></b>                           |    |
| 1.1              | Main Economic Indicators, 1986-90 .....  | 1  |
| 1.2              | GDP and Aggregate Domestic Demand, 1987-90 .....                               | 2  |
| 1.3              | Prices, 1987-90 .....  | 4  |
| 1.4              | The Labor Market, 1986-90 .....  | 5  |
| 1.5              | Some Determinants of Business-Sector Profitability, 1981-90 .....              | 6  |
| 1.6              | Balance of Payments, 1986-90 .....   | 7  |
| 1.7              | The Rate of Saving, Investment, and the Current Account, 1981-90 .....         | 8  |
| 1.8              | Monetary Indicators, 1987-90 .....   | 10 |
| 1.9              | General Government Deficit, 1980-90 .....                                      | 11 |
| <b>Chapter 2</b> | <b><i>Output, Domestic Demand, and the Principal Industries</i></b>            |    |
| 2.1              | Resources and Use of Resources, 1981-90 .....                                  | 13 |
| 2.2              | Selected Business-Sector Indicators, 1982-90 .....                             | 15 |
| 2.3              | Product and Productivity of the Business Sector,<br>by Industry, 1980-90 ..... | 16 |
| 2.4              | Product and Productivity of the Business Sector, 1961-90 .....                 | 17 |
| 2.5              | Effect of Immigration on Incremental Demand and Output, 1990 ....              | 19 |
| 2.6              | The Rate of Saving, Investment, and the Current<br>Account, 1981-90 .....      | 22 |
| 2.7              | Gross Domestic Investment by Type of Capital Good, 1981-90 ....                | 26 |
| 2.8              | Indicators of Agricultural Production, 1979-90 .....                           | 29 |

|      |   |    |
|------|---|----|
| 2.9  | Indicators of Industrial Production, 1980–90 .....  | 32 |
| 2.10 | Indicators of Industrial Profitability, 1983–90 .....                                       | 33 |
| 2.11 | Industrial Production, Exports, and Investment, 1989–90 .....                               | 34 |
| 2.12 | Indicators of Construction Activity, 1972–90 .....  | 37 |
| 2.13 | Housing Construction by Initiating Sector, 1970–90 .....                                    | 40 |
| 2.14 | Output of Transport and Communications, 1987–90 .....                                       | 43 |
| 2.15 | Infrastructure Stock and Investment, 1970–91 .....  | 46 |
| 2.16 | Indicators of Infrastructure Utilization, 1976–90 .....                                     | 47 |
| 2.17 | Electricity Generating and Transmission Capacity,<br>Selected Years, 1970–90 .....          | 49 |
| 2.18 | Indicators of Road Traffic Density, Selected Years, 1980–90 .....                           | 50 |
| 2.19 | Telecommunications: Selected Indicators of Infrastructure,<br>Selected Years, 1970–90 ..... | 52 |
| 2.20 | Consumption and Prices of Energy, Selected Years, 1970–90 .....                             | 53 |
| 2.A1 | Resources and Use of Resources (Annual Data), 1982–90 .....                                 | 55 |
| 2.A2 | Gross National Product and National Income, 1987–90 .....                                   | 56 |
| 2.A3 | Gross Income from All Sources and Gross Saving, 1987–90 .....                               | 57 |
| 2.A4 | Private Disposable Income and the Saving Rate, 1987–90 .....                                | 58 |
| 2.A5 | Rate of Change of Private Disposable Income, 1987–90 .....                                  | 59 |
| 2.A6 | Private Consumption, 1981–90 .....  | 60 |
| 2.A7 | Fixed Nondwelling Investment by Initiating Sector, 1981–90 .....                            | 61 |
| 2.A8 | Tourism to Israel, 1987–90 .....  | 62 |

### **Chapter 3**    *Prices*

|      |   |    |
|------|---|----|
| 3.1  | Selected Price Indexes, 1970–91:I .....                           | 64 |
| 3.2  | Prices of Tradables and Nontradables, 1986–90 .....               | 66 |
| 3.3  | Price Developments: Related Indicators, 1987–90 .....             | 69 |
| 3.4  | Price Change of Controlled Goods in the CPI, 1986–90 .....        | 70 |
| 3.5  | Principal Components of Dwelling Services in the CPI, 1986–90 ... | 72 |
| 3.A1 | Selected Consumer Prices, 1986–90:I .....                         | 76 |

### **Chapter 4**    *Employment and Wages*

|     |   |    |
|-----|---|----|
| 4.1 | Israeli Labor Force, Selected Data, 1979–90 .....                         | 79 |
| 4.2 | Business-Sector Employment and Labor Input,<br>by Industry, 1985–90 ..... | 80 |
| 4.3 | Principal Labor Market Indicators, 1981–90 .....                          | 82 |
| 4.4 | Sources of Growth of Population, 1982–90 .....                            | 83 |
| 4.5 | Incremental Employment, by Sector, 1970–90 .....                          | 85 |
| 4.6 | Industrial Composition of Employment, 1980–90 .....                       | 86 |
| 4.7 | Real Wages per Employee Post, 1985–90 .....                               | 88 |
| 4.8 | Gross Hourly Wage, 1984–90 .....  | 89 |
| 4.9 | Age Structure of Israelis and Russian Immigrants .....                    | 90 |

|  |  |     |
|--|--|-----|
| 4.10   | Occupational Distribution and Education Indicators of Immigrants and Israelis .....  | 91  |
| 4.11   | Immigrant Work-Seekers and Work-Seekers not Referred .....                           | 93  |
| 4.12   | Real Wages, by Industry, 1985-90 .....   | 94  |
| 4.A1   | Employment and Labor Input, by Sector, 1986-90 .....                                 | 95  |
| <b>Chapter 5    <i>The Public Sector</i></b>       |  |     |
| 5.1  | General Government: Receipts, Expenditure, and Deficit, 1980-90..                    | 97  |
| 5.2  | Principal Components of General Government Income and Expenditure, 1980-90 .....     | 98  |
| 5.3  | General Government Expenditure by Type of Intervention, 1980-90                      | 101 |
| 5.4  | Direct Demand of General Government, 1986-90 .....                                   | 103 |
| 5.5  | Indicators of Defense Expenditure, 1980-90 .....                                     | 104 |
| 5.6  | Direct Taxes, Compulsory Loans, and Transfer Payments, 1985-90 .....                 | 106 |
| 5.7  | Taxes, Subsidies, and Transfers, 1980-90 .....                                       | 108 |
| 5.A1   | Government Outlays on Immigration, 1990 and 1991 .....                               | 110 |
| 5.B1   | Indicators of Civilian Public Services, 1980-90 .....                                | 112 |
| 5.B2   | Direct General Government Demand, 1986-90 .....                                      | 113 |
| 5.B3   | Indirect Taxes and Subsidies on Domestic Production, 1984-90 ....                    | 114 |
| 5.B4   | Taxes and Subsidies on Imports, 1984-90 .....  | 115 |
| 5.B5   | Wages, Taxes, and Disposable Wages per Employee Post, 1985-90                        | 116 |
| 5.B6   | Alternative Estimates of the Domestic Deficit at Full Employment, 1988-90 .....      | 117 |
| <b>Chapter 6    <i>The Balance of Payments</i></b> |  |     |
| 6.1  | Selected Balance-of-Payments Indicators, 1977-90 .....                               | 119 |
| 6.2  | The Balance of Payments, 1985-90 .....   | 121 |
| 6.3  | Goods and Services Account, 1987-90 .....  | 122 |
| 6.4  | Decomposition of the Change in the Volume of Exports, 1976-90 ..                     | 125 |
| 6.5  | Merchandise Exports (f.o.b.), 1987-90 .....  | 126 |
| 6.6  | Industrial Exports (Excluding Diamonds) and Related Indicators, 1983-90 .....        | 128 |
| 6.7  | Relative Wholesale Prices, Israel and Trading Partners, 1983-91:I ..                 | 130 |
| 6.8  | Merchandise Imports (c.i.f.) by Economic Destination, 1987-90 ...                    | 136 |
| 6.9  | Import Taxation, Selected Years, 1980-90 .....                                       | 137 |
| 6.10   | The Exchange Rate, 1985-90 .....   | 140 |
| 6.11   | Capital Imports and the Gap Between Domestic and World Interest Rates, 1989-90 ..... | 142 |
| 6.12   | Balance of Payments, by Sector, 1988-90 .....  | 145 |
| 6.13   | Assets and Liabilities in Foreign Currency, 1986-90 .....                            | 146 |
| 6.14   | Interest on New Loans, 1986-90 .....   | 148 |

|       |  |     |
|-------|--|-----|
| 6.15  | The External Debt Burden, 1986–90 .....                                      | 149 |
| 6.A1  | The Balance of Payments, 1985–90 .....                                       | 151 |
| 6.A2  | Industrial Exports (f.o.b.) by Industry, 1987–90 .....                       | 152 |
| 6.A3  | Industrial Exports, 1988–90 .....  | 153 |
| 6.A4  | Merchandise Trade by Origin and Destination, 1985–90 .....                   | 153 |
| 6.A5  | Services Account, 1987–90 .....  | 154 |
| 6.A6  | Current Balance of Payments with Judea–Samaria<br>and Gaza, 1987–90 .....    | 155 |
| 6.A7  | World Exchange Rates, 1988–90 .....  | 156 |
| 6.A8  | Unilateral Transfers, 1986–90 .....  | 157 |
| 6.A9  | U.S. Government Aid, 1986–90 .....   | 157 |
| 6.A10 | Long and Medium Term Loans, 1985–90 .....                                    | 158 |
| 6.A11 | Foreign Investment in Israel and Israeli Investment<br>Abroad, 1985–90 ..... | 159 |
| 6.A12 | Balance of Payments of the Private Sector, 1989–90 .....                     | 160 |
| 6.A13 | Reserves Held by Central Monetary Institutions, 1981–90 .....                | 161 |
| 6.A14 | The Structure of the Net Foreign Debt, 1986–90 .....                         | 162 |
| 6.A15 | Balance of Foreign-Exchange Options, 1991 .....                              | 162 |

## **Chapter 7**    *Money and Capital Markets*

|      |   |     |
|------|---|-----|
| 7.1  | Selected Interest Rates, 1988–90 .....  | 164 |
| 7.2  | The Principal Monetary Aggregates, 1988–90 .....  | 165 |
| 7.3  | Monetary Assets, 1988–90 .....  | 166 |
| 7.4  | Sources of Change in Unindexed Local-Currency Assets, 1987–90..   | 169 |
| 7.5  | Monetary Policy: Supply and Demand of Banks for<br>Liquid Assets, 1989–90 .....                               | 173 |
| 7.6  | Domestic Budget Deficit (Consolidated Balance Sheet of Central<br>Government and Central Bank), 1986–90 ..... | 175 |
| 7.7  | Potential and Actual Revenue from Money Creation, 1985–90 .....   | 177 |
| 7.8  | Real Cost of Short-Term Credit, 1987–90 .....   | 181 |
| 7.9  | Principal Stock Market Indicators, 1988–90 .....  | 183 |
| 7.10 | Principal Bond Market Indicators, 1988–90 .....   | 185 |
| 7.A1 | The Money Base, 1987–90 .....   | 187 |
| 7.A2 | Unindexed Local Currency, 1987–90 .....   | 188 |
| 7.A3 | Growth of M3, 1988–90 .....   | 189 |
| 7.A4 | Indexed Deposits of the Public and Its Securities<br>Holdings, 1987–90 .....                                  | 190 |
| 7.A5 | Bank Credit to the Public, 1987–90 .....  | 191 |
| 7.A6 | Effective Monthly Interest Rates, 1986–March 1991 .....   | 192 |
| 7.A7 | Commercial Bank Credit to the Nonfinancial<br>Private Sector, 1989–90 .....                                   | 194 |

|       |   |     |
|-------|---|-----|
| 7.A8  | Local-Currency Credit to the Government, 1987-90 .....  | 195 |
| 7.A9  | Medium and Long Term Credit to the Public by Specialized<br>Banking Institutions, 1987-90 .....   | 196 |
| 7.A10 | Estimated Wealth of Private Nonfinancial Sector, 1983-90 .....                                    | 197 |
| 7.A11 | Financial Asset Holdings of the Public, 1989-90 .....   | 198 |
| 7.A12 | Change in Financial Asset Holdings of the Public, 1989-90 .....                                   | 199 |
| 7.A13 | Estimated Wealth of the Private Nonfinancial Sector, 1987-90 .....                                | 200 |
| 7.A14 | Net Financial Wealth of the Public (Foreign Currency), 1982-90 ...                                | 202 |
| 7.A15 | Securities Held by the Public, 1988-90 .....  | 203 |
| 7.A16 | Security Issues and Capital Formation Estimate, 1987-90 .....                                     | 204 |
| 7.A17 | Real Overall Rate of Return on Listed Shares, 1987-90 .....                                       | 205 |
| 7.A18 | Real Overall Rate of Return of Listed Securities, 1989-90 .....                                   | 206 |
| 7.A19 | Real Net Yield to Maturity of CPI-Indexed Bonds, 1989-90 .....                                    | 207 |
| 7.A20 | Market Value of Listed Shares and Convertible Securities, 1990 ....                               | 208 |
| 7.A21 | Mean and Standard Deviation of Selected<br>Rates of Return, 1988-90 .....                         | 209 |
| 7.A22 | Mutual Fund Operations, 1988-90 .....   | 210 |
| 7.A23 | Composition of Social Insurance Fund Portfolio, 1987-90 .....                                     | 211 |
| 7.A24 | Social Insurance Funds: Required and Actual Investment in<br>Government Securities, 1983-90 ..... | 211 |
| 7.B1  | Reserve Requirements on Local-Currency Deposits .....   | 213 |
| 7.B2  | Discount-Window Lending: Quotas, by Interest Bracket,<br>December 1989-April 1991 .....           | 214 |
| 7.B3  | Discount-Window Lending: Utilization, December 1989-<br>April 1991 .....                          | 215 |
| 7.B4  | Discount-Window Lending: Cost, December 1989-April 1991 .....                                     | 216 |
| 7.B5  | Open-Market Operations (Treasury Bills), 1986-90 .....  | 217 |
| 7.B6  | Yield to Maturity of Treasury Bills, by Months<br>to Maturity, 1986-90 .....                      | 217 |

## FIGURES

|                  |   |    |
|------------------|---|----|
| <b>Chapter 2</b> | <b><i>Output, Domestic Demand, and the Principal Industries</i></b> |    |
| 2.1              | Domestic Use of Resources, GDP, and the Import Surplus, 1980-90     | 14 |
| 2.2              | Rate of Saving, Investment, and the Current Account, 1976-90 ....   | 23 |
| 2.3              | Gross National Saving Rate by Sector, 1960-90 .....                 | 24 |
| 2.4              | Housing Starts and the Number of Immigrants, 1960-90 .....          | 38 |
| 2.5              | Housing Starts and the Relative Price of Housing, 1960-90 .....     | 39 |
| 2.6              | Housing per Capita, 1980-90 .....                                   | 41 |
| 2.7              | Tourist Arrivals, 1981-90:I .....                                   | 45 |
| 2.8              | Pressure on the Infrastructure, 1976-90 .....                       | 47 |

|                  |   |     |
|------------------|---|-----|
| <b>Chapter 3</b> | <b><i>Prices</i></b>  |     |
| 3.1              | Rate of Change of Selected Prices, 1986–91:I .....                                      | 65  |
| 3.2              | Relative Price Indexes, 1986–90 .....   | 68  |
| 3.3              | Production Costs, 1986–90 .....   | 74  |
| <b>Chapter 4</b> | <b><i>Employment and Wages</i></b>  |     |
| 4.1              | Labor Force Employment and Unemployment, 1985–90 .....                                  | 81  |
| 4.2              | Real Wages and Employed Persons in the<br>Business Sector, 1984–90 .....                | 87  |
| 4.3              | Migration, 1965–90 .....  | 92  |
| <b>Chapter 5</b> | <b><i>The Public Sector</i></b>   |     |
| 5.1              | Average Direct Tax Rates on Wages and<br>Nonwage Income, 1980–90 .....                  | 105 |
| 5.2              | The Composition of Taxes, by Type of Tax, 1980–90 .....                                 | 109 |
| <b>Chapter 6</b> | <b><i>The Balance of Payments</i></b>   |     |
| 6.1              | Domestic Use of Resources and the Adjusted Current Account,<br>1980–90 .....            | 123 |
| 6.2              | Indicators of Profitability of Industrial Exports, 1981–90 .....                        | 132 |
| 6.3              | Merchandise Exports and the DM/\$ Exchange Rate, 1976–90 .....                          | 133 |
| 6.4              | Merchandise Imports, 1981–90 .....  | 134 |
| 6.5              | The Sheqel Exchange Rate vis-à-vis the Currency Basket<br>and the Dollar, 1985–90 ..... | 141 |
| 6.6              | Capital Movements, 1985–91:I .....  | 143 |
| 6.7              | Ratio of External Debt to Exports and GNP, 1965–90 .....                                | 147 |
| <b>Chapter 7</b> | <b><i>Money and Capital Markets</i></b>   |     |
| 7.1              | Nominal Interest Rate and Inflation, 1987–90 .....                                      | 167 |
| 7.2              | Monetary Aggregates, 1987–90 .....  | 168 |
| 7.3              | Short-Term Bank Credit, 1987–90 .....   | 170 |
| 7.4              | Internal Debt, Government Deficit, and Net Borrowing, 1980–90 ..                        | 171 |
| 7.5              | Bank Credit and Credit from Specialized Institutions, 1987–90 .....                     | 182 |
| 7.6              | Index of Total Real Yield on Financial Assets, 1979–90 .....                            | 184 |