

The Government and
the Finance Committee of the Knesset,
Jerusalem

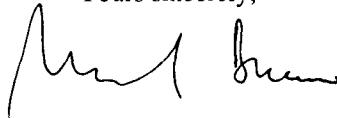
It is with pleasure that I submit the Annual Report of the Bank of Israel for 1989, in accordance with section 59 of the Bank of Israel Law, 5714-1954.

The Report is based on material and analyses prepared by the Bank of Israel's Research Department. With the exception of the monetary data, the statistics come from the Central Bureau of Statistics.

The economic recession continued in 1989 and unemployment rose. Nonetheless, there were signs of reorganization in the business sector, unit wages fell and exports increased. Despite all this, business sector profitability is still not satisfactory. Within this context, the economy is confronted with a national challenge of the utmost importance—the absorption of large numbers of immigrants. These newcomers increase market demand, thereby contributing to enhanced economic activity in the short term. The absorption of the immigrants does however place a burden on the balance of payments and the external debt. In the longer term, immigration embodies great economic advantages which will help to set the economy on a course of sustained growth.

In view of unemployment and the absorption of immigrants, a substantial reordering of priorities in the national budget is required. Resources will have to be diverted for this purpose and investments made in infrastructure, while other areas of governmental activity will have to be restricted. In addition, steps must urgently be taken to improve the functioning of the business sector and the viability of investing and taking on additional employees. These steps should include reducing taxes on employment, increasing wage flexibility, improving labor mobility, and enhancing the process of encouraging investments. A coordinated government policy within the framework of a comprehensive plan should accelerate the absorption of both unemployed and immigrants within the business sector, as well as boosting economic growth.

Yours sincerely,



Michael Bruno
Governor, Bank of Israel

Jerusalem, 7 Iyar 5747
31 May, 1990