

The Government and
the Finance Committee of the Knesset,
Jerusalem

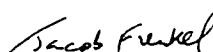
It is with pleasure that I submit the Annual Report of the Bank of Israel for 1993, in accordance with section 59 of the Bank of Israel Law, 5714-1954.

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.

The positive economic trends evident since the start of the recent influx of immigrants persisted in 1993, too. Although the growth rates of GDP and productivity slowed, due to the reduction of government-initiated construction, there was a rapid increase in exports, nonresidential investment, and employment. The unemployment rate declined, after rising steadily in the last few years. The inflation rate remained within the range to which it had fallen in 1992, and the budget deficit/GDP ratio continued its downward trend. The import surplus rose, and the balance of payments on current account showed a deficit. In view of the improvement in Israel's international economic standing, and the utilization of the money borrowed in the framework of the US guarantees, there was no difficulty in financing the deficit.

In the context of the developments of 1993 and future national objectives, economic policy should continue to give priority to creating an atmosphere of stability and certainty. Fiscal policy must be based on reducing taxes and maintaining a high level of investment in the infrastructure while continuing to reduce the size of the budget deficit and of the government debt (both as a ratio of GDP). Monetary policy must continue to fight inflation, aspiring to bring it down within the next few years to the level of Israel's trading partners. Finally, in order to attain the goal of sustainable growth, policies designed to lead to macroeconomic stability must go hand in hand with continued economic reform.

Yours sincerely



Jacob A. Frenkel
Governor, Bank of Israel

Jerusalem, 15 Sivan, 5754
25 May, 1994