



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 1988.

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. The present Report also includes a more extensive survey of the long-term development of industry.

The recession which began towards the end of the previous year deepened in 1988. Industry, agriculture and tourism were particularly hard hit.

The slowdown in economic activity is to a considerable extent due to the erosion of the business sector's profitability in the last three years. This decline in profitability primarily reflects the substantial rise in real wages per unit of output during this period. At the same time, many firms are making efforts to become more efficient. These efforts hold out the chance of future recovery, but in the short run they involve dismissals of employees and cuts in output. From the beginning of 1988, the effects of the uprising in the territories further aggravated the slowdown in economic activity.

At the beginning of 1989, several measures were introduced to improve the business sector's profitability, and thus facilitate the resumption of economic growth. However, a return to sustained growth requires strict observance of budgetary balance, speedy implementation of the reforms of the tax system and the capital market, and continued lowering of interest rates.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Michael Bruno".

Michael Bruno
Governor,
Bank of Israel

Jerusalem, 26 Iyar 5749
May 31, 1989