1. The Government of Israel has consulted the Fund under Article XIV, Section 4, of the Fund Agreement concerning the further retention of its transitional arrangements.

2. During the period 1958 to 1960, the real gross national product continued to increase. Immigration slowed down and the economy approached conditions of full employment. Wage increases did not exceed the rise in productivity, and price increases were moderate. The rates of increase in the volume of credit and money supply were lower in 1958 and 1959 than in earlier years, but in 1960 they showed a renewed increase. In 1961, the increase in the real gross national product was again substantial. Full employment prevailed and there was some pressure on resources, reflected in some shortages of skilled labor in construction and certain industries. Both prices and wages increased considerably. As a result of accelerated credit expansion and a large inflow of foreign exchange, originating mainly from restitution payments, the money supply rose rapidly in the first half of 1961, but the increase came to a halt in the second half of the year.

3. Exports have risen substantially in recent years, but in 1960 and 1961, the increase in imports was larger than the increase in exports. At the same time, the inflow of capital increased, and despite some deterioration in the balance of payments on goods and services account, there was a substantial increase in foreign exchange reserves. Israel's policy remains to reduce the current account balance of payments deficit through a combination of expanded exports, particularly of industrial products, intensified import substitution by the utilization of domestic resources, and restraints on consumption.

4. The Fund welcomes the reform of the exchange rate structure. This measure should strengthen the balance of payments and facilitate the desired growth of the economy. The Fund appreciates the recognition by the Israeli authorities that appropriate fiscal and credit policies are needed to achieve the full benefits of the exchange reform, and urges the vigorous pursuit of policies designed to strengthen confidence in the national currency.

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5. During the past two years Israel has further relaxed restrictions on imports and on invisible transactions. Discrimination on imports and bilateralism have been reduced but remain substantial. The Fund urges Israel to reduce its reliance on discrimination and bilateralism.

6. In concluding the 1961 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Israel.