1963 CONSULTATIONS ON BALANCE-OF-PAYMENTS RESTRICTIONS WITH ISRAEL

International Monetary Fund Executive Board Decision
Taken at the Conclusion of the Fund's Consultation with Israel on 17 July 1963

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. In 1962 gross national product continued to rise substantially, enabling the economy to absorb a considerable increase in immigration while maintaining full employment. There was some pressure on resources and shortage of skilled labor, and wages increased. After the immediate effect of the devaluation had been absorbed, price increases tended to level off. Since November 1962, the cost of living index has remained stable. Money supply increased sharply in 1962, partly in response to the devaluation, but also as a result of a sizeable increase in foreign exchange reserves and some expansion of bank credit. The government budget yielded a substantial surplus, which was used to reduce government debt to the central bank.

3. Earnings from exports of goods and services rose appreciably. Nevertheless, the balance of payments on goods and services account deteriorated slightly owing mainly to increased defense outlays. The inflow of capital rose further and there was again a substantial increase in foreign exchange reserves, which, at the end of April 1963, stood at $546 million, representing nearly one year's imports.

4. Although substantial progress has been made toward achieving the aims of the New Economic Policy instituted at the time of the exchange reform of February 9, 1962, the situation calls for caution. The recently established price stability faces the threat of continuing pressures. Despite an important agreement that there should be no increase in basic wage rates in 1963, there are indications that wage increases will exceed the increment in productivity, and that personal incomes will be augmented by substantial transfers from abroad.
contributing to pressure on available resources. The Fund believes that the continued success of the New Economic Policy depends on the strengthening of internal stability. It notes that the monetary authorities have further tightened restrictions on credit, but it believes that there is still considerable scope in the fiscal sphere for action to ease the pressure on resources. It urges Israel to take all appropriate measures to this end.

5. Israel has relaxed restrictions on imports and on invisible transactions. Discrimination on imports and bilateralism have again been reduced. The Fund welcomes these steps, but, in view of the strong reserve position, urges Israel to take further measures to reduce reliance on restriction and bilateralism.

6. In concluding the 1962 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Israel.