GENERAL AGREEMENT ON
TARIFFS AND TRADE

Committee on Balance-of-Payments Restrictions

1964 CONSULTATIONS WITH
ISRAEL

International Monetary Fund Executive Board Decision
taken at the Conclusion of the Fund's Consultation
with Israel on 30 October 1964

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 1963 the real gross national product rose substantially. Continued large
inflow and conversion of foreign exchange receipts and, to a lesser extent, a
further expansion of bank credit, caused a sharp increase in the money supply. In
the fiscal year 1963-64 the ordinary budget showed a substantial surplus; revenue
was higher, reflecting increased economic activity, improved tax collection methods,
and the introduction of new and upward revision of existing taxes. However, capital
expenditures were also higher and the Government's net borrowing increased. Despite
continuing immigration, full employment prevailed and shortages of certain skilled
labor persisted. Wages rose considerably more than productivity. Prices remained
relatively stable but mainly owing to administrative action. The increase in incomes
and in consumption expenditures, both private and public, led to continuing pressure
on resources.

3. The balance of payments deficit on goods and services account amounted to
$404 million in 1963 against $456 million in 1962. The improvement was mainly
attributable to increased earnings from exports of goods and services which rose
sharply until mid-1963; subsequently the increase in commodity exports slowed down.
Net receipts on capital account, including transfer payments, were slightly smaller
than in 1962. The gold and net foreign exchange reserves of the Bank of Israel rose
by $95 million to $515 million at the end of 1963. The rising trend in imports,
evident in the second half of 1963, was accentuated in the first half of 1964, while
exports declined slightly. However, as a result of continued capital inflow, the
gold and foreign exchange reserves of the Bank of Israel continued to rise between
January and May 1964, but by less than in the corresponding period of 1963;
thereafter, they declined, partly reflecting seasonal factors.
4. In 1964 a substantial further rise in incomes, combined with capital inflow from abroad, has increased the pressure on available resources. The Fund believes that additional fiscal and monetary measures, together with a more effective incomes policy, are required to reduce demand and cost pressures and to prevent a continuing increase in the trade deficit.

5. Israel has further relaxed restrictions on imports. The Fund welcomes the intention to complete the process of formal liberalization of imports by the end of 1965 and urges Israel to reduce reliance on bilateral payments arrangements.

6. In concluding the 1964 consultations, the Fund has no other comments to make on the transitional arrangements maintained by Israel.