INTERNATIONAL MONETARY FUND EXECUTIVE BOARD DECISION
TAKEN AT THE CONCLUSION OF THE FUND'S CONSULTATION
WITH ISRAEL ON 18 MAY 1966.

1. This decision is taken by the Executive Directors in concluding the 1965 consultation with Israel pursuant to Article XIV, Section 4 of the Articles of Agreement.

2. Real gross national product of Israel rose by 8 per cent in 1965, a slightly lower rate than in several preceding years primarily because the increase in the labor force was smaller than in 1964. Although a capital inflow and the conversion of foreign exchange receipts continued, the rate of growth of money supply slowed down as there was a shift into less liquid deposits denominated in foreign currency. The budget continues to be expansionary; its financing from domestic resources and the effectiveness of monetary policy are impaired by the interest rate law. Wages rose substantially more than productivity and the rise has adversely influenced exports.

3. The balance of payments on goods and services account remained in substantial deficit but by a smaller amount than in 1964. As a result of special factors, imports did not increase in 1965, while exports again expanded, rising by 15.5 per cent. The gold and net foreign exchange reserves of the Bank of Israel rose by $98 million, and amounted to $64.5 million at the end of 1965.

4. For 1966 the authorities are committed to a policy of economic restraint. The budget for 1966-67 is less expansionary than the previous one, and the monetary and credit policy is to remain restrictive. To achieve the Government's long-term goal of reducing the balance of payments deficit on goods and services account, an increasing share of resources will have to be devoted to exports. The Fund considers that it is important that this policy of restraint not be weakened and believes that the lack of an effective incomes policy seriously hampers the efforts to restrain domestic demand and to improve the competitiveness of exports.
5. Israel has further reduced its reliance on quantitative restrictions, and in order to improve the productivity of industry and to restrain price rises, the Government has decided to reduce customs duties in several steps. The Fund welcomes this decision and stresses the beneficial effects competition from abroad will have both on moderating the rise in prices and on the efficiency of domestic industry. The Fund regrets the lack of progress in terminating bilateral payments agreements, and expresses the hope that the Israel authorities will reconsider their continuous resort to these agreements.