1. This decision is taken by the Executive Directors in concluding the 1970 consultation with Israel, pursuant to Article XIV of the Articles of Agreement.

2. Real output rose more than 8 per cent and real domestic expenditure by 12 per cent in 1970; however, the pace of the expansion, which began in 1968, slowed in the course of the year. Real private consumption rose by 5 per cent, compared with an increase of 12 per cent in 1969. Prices increased more rapidly in 1970 than in previous years but a large part of the increase reflected higher indirect tax rates. The deficit on goods and services of the balance of payments increased by about US$400 million, reflecting a higher level of private imports and a very large increase in defense expenditures abroad. Receipts of transfers and capital also increased substantially, and the gold and foreign exchange holdings of the Bank of Israel increased by US$36 million, of which US$15 million represented an allocation of SDRs, as against a loss of US$250 million in 1969. Official reserve holdings of US$449 million at the end of 1970 were equal to about two months' imports of goods and services.

3. During 1969 and 1970, a large number of measures were taken in both the fiscal and monetary fields to reduce demand pressures. These policies played an important role in dampening the economy at a time when public expenditure was increasing strongly. In addition, the increase in wage rates that was agreed in early 1970 took a form that reduced the impact on private consumption. The authorities believe that it continues to be necessary to restrain the growth of internal demand, and for 1971 it is intended that the increase in the money supply will be less than the increase in nominal output and that the Government's recourse to the Bank of Israel for the budget will be limited to IL 650 million, the same as in the current fiscal year. The authorities anticipate that the increase in real expenditure will be lower and the increase in prices during the year will be substantially less than in 1970. While welcoming the measures already taken, the Fund believes that, in light of continuing pressures on the balance of payments and prices, it is essential to continue a restraining monetary and fiscal policy during 1971.

4. The maintenance of liberal trade and payments policies is a key factor for further sound growth of the Israel economy. But although the long-term policy of tariff reduction was continued and tariff rates were accordingly reduced at the beginning of 1970 and 1971, the trade and payments system became less liberal in 1970 in a number of other respects. In particular, a system of prior import deposits and an import surcharge were introduced, the tax on foreign travel was increased, and the allocation of exchange for foreign travel was reduced substantially. At the end of 1970, it was decided to abolish the system of import deposits gradually. Subsequently, deposits were reduced, as of January 1971, from 50 to 40 per cent of the value of imports, with a further reduction to be considered by the end of 1971. A strengthening of the balance of payments position, which is an important objective of the Government, will materially help in reversing this trend. The Fund welcomes the termination of one further bilateral payments agreement with a Fund member and notes that Israel intends to terminate the two remaining agreements as soon as practicable.