

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

EBS/84/162

CONFIDENTIAL

August 3, 1984

To: Members of the Executive Board
From: The Acting Secretary
Subject: Israel - Exchange System

There is attached for the information of the Executive Directors a paper on certain modifications to the exchange system of Israel.

Att: (1)

INTERNATIONAL MONETARY FUND

ISRAEL

Exchange System

Prepared by the European Department and
the Exchange and Trade Relations Department

(In consultation with the Legal Department)

Approved by P. de Fontenay and Subimal Mookerjee

August 2, 1984

In the attached communication dated July 26, 1984 the Israeli authorities have informed the Fund of certain modifications to Israel's exchange system which came into effect on July 25 and July 27, 1984. The changes pertain principally to exchange control regulations governing import payments, travel, and certain transfers abroad by residents. According to the attached communication and other information made available to the staff, the measures may be summarized as follows:

1. The previous allowance of up to the equivalent of US\$2,000 per person per year applicable to transfers abroad by residents for support payments and gifts was suspended. Such transfers in foreign or domestic currency, as well as the conversion into foreign currency of cash gifts received in Israel by foreigners, will not be permitted.
2. The export of domestic bank notes by residents travelling abroad--previously not subject to any restrictions--was limited to the equivalent of US\$50 per person per trip. The basic foreign currency allowance for residents travelling abroad continues to be US\$2,000 per person per trip. Payments in excess of these allowances will only be permitted for the purchase of tourist-related services in shekels in Israel.
3. Provision of foreign exchange for payment for imports will be permitted only against certain documents (bills of lading and letters of credit), or for repayment of suppliers' credits.
4. Imports of investment goods and motor vehicles will be permitted only against foreign credit covering at least 75 percent of the f.o.b. value of the imported item, and provided that the average maturity of such credit is not less than 30 months.
5. The provision of foreign exchange for voluntary prepayment of foreign obligations by residents was suspended.

6. The applicability of the 15 percent value added tax was extended to imported services previously exempted, in particular to purchases of foreign exchange for foreign travel, though not to travel fares. The tax on the purchase of foreign exchange will be collected by the commercial banks at the time that the purchase is made.

The Israeli authorities have stated that the measures described in paragraphs 3 to 5 above will be in force until November 1, 1984, and that the measure in paragraph 6 will be in force until October 26, 1984.

The measures described above in paragraphs 1, 2, 4, and 6 involve exchange restrictions subject to Fund approval under Article VIII, Section 2 of the Articles of Agreement. In addition, the measure described in paragraph 6 gives rise to a multiple currency practice subject to approval under Article VIII, Section 3. The process of forming a new government in Israel following the July 23 elections is not yet completed, and comprehensive policies aimed at addressing the current imbalances in the Israeli economy have still to be put in place. In these circumstances, no action by the Executive Board is proposed at this time.

ATTACHMENT

TO: INTERFUND WASHINGTON D.C.

JULY 26, 1984

ATTENTION: DR. J.J. POLAK

I WOULD LIKE TO BRING TO YOUR ATTENTION CERTAIN AMENDMENTS TO THE EXCHANGE CONTROL REGULATION (THE GENERAL PERMIT) WHICH BECAME EFFECTIVE ON JULY 25, 1984.

1. THE ALLOWANCE FOR ISRAELI RESIDENTS TO TRANSFER FOREIGN CURRENCY ABROAD OF UP TO U.S. DOLLARS 2,000 A YEAR AS SUPPORT PAYMENTS AND GIFTS HAS BEEN SUSPENDED.
2. THE AMOUNT OF SHEKELS ISRAELIS TRAVELLING ABROAD MAY TAKE WITH THEM--IN ADDITION TO THE FOREIGN CURRENCY ALLOWANCE--HAS BEEN LIMITED TO AN EQUIVALENT OF U.S. DOLLARS 50.
3. PAYMENTS FOR IMPORTS WILL BE ALLOWED ONLY AGAINST DOCUMENTS OR FOR THE REPAYMENT OF SUPPLIERS' CREDITS.
4. IMPORTS OF INVESTMENT GOODS AND MOTOR VEHICLES WILL BE PERMITTED ONLY AGAINST CREDIT OF AT LEAST 75 PERCENT OF THE FOB VALUE OF THESE IMPORTS AND PROVIDED THAT THIS CREDIT HAS BEEN EXTENDED FOR AN AVERAGE PERIOD NOT SHORTER THAN 30 MONTHS.
5. REPAYMENT OF FOREIGN LOANS RECEIVED BY ISRAELI RESIDENTS WILL BE ALLOWED ONLY ON THE DATE SPECIFIED BY THE CONDITIONS OF THE LOANS, AND NOT EARLIER.

AMENDMENTS (3) - (5) ARE TEMPORARY, IN FORCE UNTIL NOVEMBER 1, 1984.

PURCHASES OF VARIOUS KINDS OF IMPORTED SERVICES, INCLUDING THE FOREIGN TRAVEL ALLOWANCE (BUT NOT TRAVEL FARES) WILL BE SUBJECT TO VAT (SERVICES) OF 15 PERCENT. THIS MEASURE COMES INTO FORCE AS OF MIDNIGHT JULY 26, FOR A PERIOD OF THREE MONTHS.

IN ORDER TO ENSURE AN ORDERLY INTRODUCTION OF THESE MEASURES, FOREIGN EXCHANGE TRANSACTIONS--OTHER THAN EXTERNAL OBLIGATIONS--WERE SUSPENDED ON JULY 24 AND RENEWED ON JULY 25, 1984.

WITH BEST REGARDS
DR. MOSHE Y. MANDELBAUM
GOVERNOR,
BANK OF ISRAEL