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SM/83/68
Supplement 1

CONTAINS CONFIDENTIAL
INFORMATION

May 27, 1983

To: Members of the Executive Board
From: The Secretary
Subject: Israel - Staff Report for the 1983 Article IV Consultation

The attached supplement to the staff report for the 1983 Article IV consultation with Israel has been prepared on the basis of additional information received.

Att: (1)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

ISRAEL

Staff Report for the 1983 Article IV Consultation
Supplementary Information

Prepared by the European Department

Approved by L. A. Whittome

May 27, 1983

Since the staff report (SM/83/68, 5/3/83) was issued, additional information has been received relating to new measures taken by the Israeli authorities. The measures are:

(1) Effective April 1, 1983, a travel tax on Israeli citizens traveling abroad, collected per person per journey on departure. The rate of tax on April 1 was IS 2,100 (about US\$50); the amount is to be adjusted for movements in the consumer price index.

(2) A levy on the purchase of foreign exchange by the public equivalent to 1 per cent of the value of all transactions, effective from April 6, 1983.

(3) A reduction of the temporary import levy from 3 per cent to 2 per cent as of April 6, 1983.

(4) A reduction in national insurance payments by employers, excluding services, from 15.6 per cent to 14 per cent at a date to be announced shortly.

(5) Changes to the exchange rate insurance scheme. Exporters are to be charged differential premia for insurance cover for exports to North America, Europe, and the rest of the world; previously, there were two regional categories, namely, North America and the rest of the world (including Europe). The premia payable for exports to Europe and the rest of the world have been reduced, effective from April onward, below what was previously planned.

The Israeli authorities explained that the travel tax and foreign exchange purchase levy were imposed for fiscal and monetary reasons. The reduction in the temporary import levy was introduced with a view to its gradual elimination. The reduction in national insurance payments is intended to reduce labor costs and thereby increase competitiveness of the economy. They added that the adjustment in the premia under the exchange rate insurance scheme reflected recent changes in world inflation rates.

The staff welcomes the reduction in the import levy and endorses the authorities' aim to work for its elimination. The effective surcharge on imports, however, remains broadly unaltered due to the 1 per cent levy on purchases of foreign exchange. The staff also welcomes the reduction in the national insurance rates which should help both to increase the demand for labor and to increase the competitiveness of the economy. In addition, Israeli exporters should be assisted by the reductions in premia under the exchange rate insurance scheme. None of the measures taken, in the view of the staff, involve any exchange restriction subject to Article VIII, Sections 2 and 3.

The staff report stressed the flexibility with which the Israeli authorities intend to respond to trends and developments in their external accounts. The staff welcomes the improvement in external competitiveness that has resulted from the recent measures, but notes that these measures have thus far left exchange rate policy unaltered.