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November 12, 1992

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

The Secretary has received the following memorandum dated November 11, 1992 from Mr. Posthumus:

I have received today the enclosed telex with details of the new exchange arrangements which came into effect on November 8. Please give this communication the usual distribution.

1. Please be advised that on November 8, 1992, the base rate of exchange of the sheqel against the basket of currencies was raised by 3 percent while the daily adjustment of the base rate ("the slope") was reduced from 9 percent to 8 percent in annual terms (from 0.0236 percent to 0.0211 percent in daily terms). This reduction in the slope of the base rate constitutes a more ambitious objective for reducing the inflation rate.

2. The changes were made within the existing system of the diagonal band which was introduced on December 17, 1991, and which has proven its effectiveness and has contributed to economic stability and business profitability in Israel since its introduction.

3. The representative rate of exchange will continue moving around the base rate within the bands of +/-5 percent.

4. It is to be stressed that the above changes do not constitute an immediate devaluation of the sheqel.

5. The 3 percent increase in the base rate is connected with an expected gradual reduction of 3 percent in the net compensation granted to exporters via the exchange rate insurance scheme, aimed at narrowing the disparity between effective rates of exchange for different uses. These changes are consistent with the Israeli strategy of moving toward Article VIII status.

Other Distribution:  
Department Heads

