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January 14, 2021

Statement by Mr. Pösö and Ms. Skrivere on Israel
(Preliminary)
Executive Board Meeting
January 19, 2021

We thank staff for the comprehensive report and Mr. De Lannoy and Mr. Tsur for their insightful Buff statement. We broadly share staff's assessment and offer the following remarks on the outlook and risks, crisis policy response, and the structural reform agenda for emphasis.

While the economy is projected to rebound, the outlook remains uncertain, and some risks have already materialized. We note from the Buff statement that the authorities see staff's views on the growth outlook as too pessimistic. *We would appreciate staff's views on the reasons behind the differing views on the outlook.* We note that the downside risk of political uncertainty has materialized, as the Parliament was dissolved after a failure to reach an agreement on the budget in December 2020. While we are somewhat reassured by staff's assessment that the general course of economic policies is unlikely to change, the political uncertainty in the lead up to the elections in spring means that the progress on more fundamental reforms will likely be slow. At the same time, we positively note the impressive pace of the vaccination campaign, with 20 percent of the population having already received the vaccine. *We would be interested to hear about the reasons behind the successful vaccination campaign.*

The Israeli authorities have implemented appropriate monetary and fiscal policies in response to the unprecedented impacts of the crisis. We commend the authorities for their swift, appropriately bold, and effective monetary policy response, and we agree with staff that monetary accommodation and liquidity support should be maintained. Israel's financial system appears to be in a strong position to weather the crisis. Nevertheless, potential risks should be closely monitored as support measures are eventually withdrawn which could lead to an increase in insolvencies. As public debt had been gradually reduced in the period ahead of the crisis, it created some room to provide fiscal support. Nevertheless, we share staff's advice that fiscal support should become more targeted, and fiscal consolidation will be needed once immediate crisis pressures abate to put the public debt on a downward path. We found the stylized chart on the impact of different fiscal stimulus measures on growth and inequality particularly interesting. Additionally, Text Table 1 on fiscal actions, and Text Table 2 on monetary and financial actions lay out a helpful roadmap to guide the authorities' actions through the three stages of lockdown, reopening, and recovery. This clearly illustrates the value added that staff can provide with country-specific policy advice, and we welcome that bilateral surveillance is gradually resuming and the membership can benefit from Fund's advice.

As the immediate crisis pressures abate, the authorities should reinvigorate their structural reform efforts to raise productivity and tackle inequality and poverty. We agree with staff that labor market policies should be a priority, with special attention paid to more vulnerable groups, including women, Arab workers, and the low-skilled and low-educated. We welcome that the authorities intend to use new databases to deploy active labor market policies and promote reskilling and upskilling, as noted in the Buff statement. We agree with staff on the need to improve the outcomes of the education system. The authorities should also explore avenues to broaden the public's access to and the use of the internet and increase the digitalization of government services. As public investment is likely to be boosted with a strong positive impact on growth, further strengthening of the government procurement system is warranted.