GRAY/21/170

January 14, 2021

Statement by Mr. Mozhin, Mr. Palei, and Mr. Potapov on Israel
(Preliminary)
Executive Board Meeting
January 19, 2021

1. We thank staff for their comprehensive report and Mr. De Lannoy and Mr. Tsur for their helpful Buff statement. After a decade of robust growth, the COVID-19 pandemic has severely impacted the Israeli economy. Similar to the developments in many other economies, output is expected to have contracted by around 4 percent in 2020, with rising fiscal deficit, unemployment, and poverty. Political fragmentation creates additional risks to the outlook. On the positive side, Israel is leading the world in terms of the speed of vaccinations, with more than 20 percent of the population already vaccinated in less than a month since the beginning of the implementation of the national plan. According to the Bank of Israel (BOI), economic growth can reach 6.3 percent in 2021 under the scenario of fast vaccination. The buffers accumulated over the recent years and the large high-tech sector helped the authorities contain the social and economic damage from the shocks. With uncertainty over the virus still high and global demand weak, macroeconomic policy should remain supportive and adapt to changing circumstances. Structural reforms should aim to mitigate long-term scarring and address long-standing challenges in the economy.

2. Fiscal policy expansion has been appropriate to soften the impact of the pandemic. The stimulus packages of about 10 percent of GDP in 2020 were rightly focused on supporting the health sector, unemployed and furloughed workers, households, and businesses. The sharp increases in the fiscal deficit and public debt were appropriate under the circumstances. We agree with staff that adoption of the 2021 budget will reduce economic uncertainty and provide additional support for social protection, active labor market policies, and public investment projects.

3. As a result of the pandemic response, public debt and gross financing needs have increased sharply, as in many other economies. According to staff, fiscal consolidation of about 2–2.5 percent of GDP will be needed to place debt on a solid downward path. We

agree with staff that reviewing tax benefits and improving public procurement procedures would be the preferable priority areas. *Could staff elaborate on possible additional fiscal adjustment measures that can be implemented, once the recovery is firmly entrenched?*

4. Monetary policy accommodation remains broadly appropriate given deflationary pressures and a negative output gap. The BOI has effectively deployed its tools to soften the effects of the pandemic on the Israeli economy through policy rate cuts and low interest rate loans to banks. Moreover, the level of international reserves at above 40 percent of GDP is high, exceeding the IMF benchmark reserve adequacy metrics and providing additional cushion to address possible additional negative shocks and geopolitical risks. We take positive note that substantial capital and liquidity buffers in the banking system, supported by regulatory and liquidity measures, should enable banks to mitigate the ongoing macroeconomic shock.

5. As the recovery progresses, it will be important to shift policy support to more targeted measures that foster necessary business adjustments and facilitate post-pandemic reallocation of resources. Structural reforms will be crucial for mitigating the risks of permanent damage to the economy from the pandemic. While the ICT sector has demonstrated resilience and has expanded strongly in recent years, overall labor productivity is low. We support staff's recommendations to consider enhancing active labor market policies, accelerating infrastructure investment, improving the education system, and advancing digitalization. Further efforts are also needed to strengthen governance, including the AML/CFT framework and public investment management.

With these remarks, we wish the Israeli authorities success.