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January 14, 2021

Statement by Mr. Zhang and Mr. Law on Israel
(Preliminary)
Executive Board Meeting
January 19, 2021

We thank staff for the informative reports and Mr. De Lannoy and Mr. Tsur for their helpful Buff statement. The Israeli economy entered the COVID-19 pandemic from a position of strength. Nonetheless, the economic impact of the COVID-19 pandemic is unprecedented, leading to a historic economic contraction in 2020. We broadly agree with staff's appraisal and would like to offer the following for emphasis.

We commend the swift vaccination campaign rolled out by the Israeli authorities. The vaccination pace in Israel is the highest in international perspective, with around 20 percent of the population already being vaccinated, and every Israeli is expected to be vaccinated by the end of March. This would provide a strong boost to consumer confidence and allow economic activity to resume. However, it is important to remember that the virus knows no borders. Israel cannot reach herd immunity if the Palestinians in the West Bank and Gaza are not vaccinated as well. In this vein, we call on the Israeli authorities to work with the Palestinian authorities in combating this pandemic under the spirit of, as well as their commitment in, the Oslo Accords.

Fiscal policy should remain supportive and gradually become more targeted, and there needs to be continuation of the policy under the new coalition government. We take note that given the potentially significant delays in the adoption of the 2021 budget, the parliament has approved the government spending to mitigate the fiscal contraction that would otherwise occur. We encourage the authorities to focus the fiscal policy on providing support for the health sector, bolstering social protection and active labor market policies, and undertaking job-creating public investment projects.

We find the accommodative monetary policy stance appropriate, given near-term deflation pressure and a persistent negative output gap. We take note that the Bank of Israel

(BOI) assesses that within several months, the inflation rate will return to positive and will gradually increase towards the lower bound of the target band of 1 percent. The BOI's response to the crisis has been fast and effective, helping to arrest market overreaction, restore confidence, and sustain credit flow. Liquidity support to financial markets and institutions should continue to be maintained. We also encourage the authorities to expedite its progress toward setting up a deposit insurance and to reduce moral hazard in the banking system.

We shared the authorities' views that this crisis should not be wasted to undertake macro-structural reforms. We commend the authorities' efforts in deploying active labor market policies to promote reskilling and upskilling during the recovery and to increase their digitalization capacity in delivering vital economic and social activities. We believe that these efforts will lay a solid foundation for a strong economic recovery in the next few years.

With these remarks, we wish the authorities every success in their policy endeavors.