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Joint Statement by Ms. Mahasandana, Mr. Chikada, Ms. Grant, Ms. Johnson, Mr. Dacharux, and Ms. Kikuchi on Israel
(Preliminary)
Executive Board Meeting
January 19, 2021

We thank staff for the well-written report as well as Mr. De Lannoy and Mr. Tsur for their informative buff statement. Israel entered the pandemic-induced crisis with relatively strong fundamentals, thanks to a decade of favorable economic growth, relatively low household debt, a strong external position, and a healthy banking sector with comfortable capital buffers. The ICT sector, which constitutes a significant part of the economy, has been able to withstand the pandemic impacts relatively well and thus dampen long-term scarring effects. We also welcome the recent positive development in regional relations which could lead to increasing intraregional economic activities. We broadly support the staff report and offer the following additional comments.

We commend the authorities for their timely responses that have cushioned the economy from the adverse impacts of the pandemic. BOI's government bond and corporate bond purchase programs, together with adjustments of macroprudential measures have alleviated the initial liquidity shock in March and restored financial market confidence. The fiscal stimulus package was also forceful, with support amounting to 10 percent of GDP and a high execution rate. Nonetheless, unemployment has risen and both headline and core inflation have fallen below zero, although inflation expectations have remained anchored within the target range. Israel's external position remains strong, with a rebound in high-tech exports and accelerated capital inflows. *With the third national lockdown and political uncertainty from the dissolution of parliament, we welcome staff's comments on Israel's inequality and social discontent, especially given the high unemployment rate and furlough rates among low-skilled workers.*

Fiscal policy settings should remain accommodative to manage the impacts from the pandemic. Looking ahead, like other countries, the challenge for Israel will be how to transition from broad to targeted support and when to unwind fiscal support to create fiscal room to invest in much-needed structural reforms and limit scarring on the economy. In this regard we found staff analysis, especially Table 1 which spells out different phases of the pandemic and the appropriate fiscal support, extremely helpful. We also note with interest the divergence of views between staff and the authorities on the outlook and debt baseline. Going forward, once the recovery is on a firm path, fiscal consolidation is encouraged to ensure medium-term public debt sustainability.

Structural reforms will be needed to boost inclusive and productive growth for the Israeli economy. We note with concern that Israel's overall labor productivity was significantly lower than other small open advanced economies pre-crisis and this will only be further constrained by the pandemic. We therefore agree with staff that the pandemic provides an opportunity for the authorities to tackle long-standing structural challenges. The ICT sector is a bright light for productivity, but the authorities must work on ways to distribute the benefits more broadly. *Staff comments are welcome on potential reforms that could be adopted.* The pandemic has also led to concerning setbacks in educational results. We encourage the authorities to progress significant educational reforms that reduce disparities and provide investment in STEM skills that will ensure students are well prepared for an increasingly digital economy.