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January 14, 2021

Statement by Ms. Shortino, Mr. Farber, and Mr. Westphal on Israel
(Preliminary)
Executive Board Meeting
January 19, 2021

We thank staff for this report and Mr. De Lannoy and Mr. Tsur for the informative buff statement. Israel entered the COVID-19 crisis on solid footing, and we commend the authorities for their strong monetary and fiscal responses. We found staff's inclusion of the authorities' progress on previous Article IV recommendations particularly useful. We also commend Israel for leading the world in vaccinating its population on a per capita basis, which will hopefully facilitate a rapid economic recovery.

As with most countries, the authorities should maintain a robust **fiscal** response until the recovery takes hold. We echo staff's recommendation that during the recovery period the authorities should focus on promoting job growth, strengthening the social safety net, and investing in infrastructure. Staff notes that poverty rates are higher for Israeli-Arab and Haredi groups and that Arab workers have likely suffered relatively more job losses. *Can staff provide more detail regarding policies to address this issue?* We also agree that the authorities should prioritize passing a comprehensive 2021 budget as soon as possible to reduce uncertainty. We appreciate the staff's detailed analysis in Annex III on when to withdraw fiscal support.

On **monetary** policy, we agree with staff that the central bank responded well to the COVID-19 shock by reducing the policy rate, providing additional liquidity support to financial markets, purchasing corporate bonds, and deferring repayments for retail loans. Taken together, these steps helped to mitigate rapid market movements and restore confidence. We are concerned, however, about the central bank's pace of reserve accumulation, which seems designed to limit the shekel's appreciation. We note staff's assessment that the shekel is now deemed stronger than reflected by fundamentals. We echo staff's recommendation that the central bank avoid using FX intervention to manage inflation, and to use intervention only to address disorderly market conditions.

We agree that the current crisis is an opportunity to address longstanding **slow productivity growth** and **rising inequality** by further investing in human capital. Israel should also take advantage of reduced borrowing costs to invest in its infrastructure to ease economic bottlenecks, particularly in transportation and digital infrastructure. Increasing Israel's investment rate and strengthening the safety net will also help to reduce Israel's current account surplus, which is a significant driver behind the appreciation of the shekel and the below-target inflation rate.

Israel's **financial sector** has proven remarkably resilient, particularly from a capital perspective. We echo staff's encouragement to develop contingency plans in case asset quality deteriorates materially, as seems likely to happen in many countries globally. Staff note that business insolvencies are also likely to surge, which will make it important to develop effective insolvency procedures, minimize barriers to corporate restructuring, and spur productivity-enhancing capital reallocation.