

BOARDS OF GOVERNORS ● 2000 ANNUAL MEETINGS ● PRAGUE, CZECH REPUBLIC

INTERNATIONAL MONETARY FUND

WORLD BANK GROUP

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL CENTRE FOR SETTLEMENT OF INVESTMENT DISPUTES
MULTILATERAL INVESTMENT GUARANTEE AGENCY

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Press Release No. 9

September 26–28, 2000

Statement by the Hon. **DAVID KLEIN**,
Governor of the Bank for **ISRAEL**,
at the Joint Annual Discussion

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Mr. Chairman, distinguished Governors ,
Mr. Horst Kohler, Managing Director of the International Monetary Fund,
Mr. James Wolfensohn, President of the World Bank Group,
delegation members, ladies and gentlemen,

Ten years ago the government of Israel decided on a strategic change in its economic policy. The change was designed to prepare the economy for a new era of deeper integration with the world economy, and was composed of two major elements:

First, commitment to inflation targeting and declining fiscal deficits and, as a result, declining government debt to GDP ratio.

With regard to the first two we are on the threshold of attaining the EU criteria. Last month the government decided:

- To attain price stability, defined as annual inflation in the range of 1%-3%, by the year 2003;

- And to reach a general government deficit ratio of 3% at the same time.

In the current year, 2000, we are already in the neighborhood of these two goals. Our medium - term aim is, thus, to learn to live within these goals.

In terms of the government debt ratio we are still behind. We had a ratio of 140% at the beginning of the '90s; we start the new millenium with a ratio of 100%. A linear extrapolation implies that it is going to take us another decade until we reach the 60% mark. Nevertheless, it is not impossible that we will make it quicker.

The second element of the strategic change was liberalization on two fronts:

- Extensive deregulation of the domestic financial markets and liberalization of the capital account;

- And lifting, on a large and wide scale, barriers to trade - custom duties and non-tariff barriers.

In this sense too we are almost at the end of the road. At the same time, we were able to absorb a large wave of immigrants, that brought the average annual change in our labour force to 3.9% in the last decade, to an economy that keeps restructuring itself.

This policy, shared by all Israeli governments, was cemented by a series of international agreements, bilateral and multilateral, with the US government, the IMF, the European Union, and the WTO. By adding its signature to the latest financial services round, under the auspices of the WTO, Israel reconfirmed its policy to grant equal treatment to whoever wishes to compete in the domestic market.

Since Israel became a member of the IBRD and the IMF in 1954, the nature of our participation in the Bretton Woods organizations has undergone a significant change, from a country that receives support to being a member, although on a small scale, of the donor community. Until the second half of the 1970's, Israel benefited from World Bank loans for infrastructure projects. In 1975, based on its economic achievements, Israel "graduated" from being eligible for World Bank assistance. More than two decades later, the country's further economic achievements allowed it to raise its status to becoming a donor country in the World Bank group. Starting in the late 1990's, Israel announced its commitment to joining the efforts of the International Development Association (IDA11 and IDA12) in providing concessional resources to low income countries to help them in their efforts to reduce poverty and achieve sustainable growth. Since 1996 Israel established also Consultant Trust Funds, one at the IBRD and the other at the IFC. In addition, Israel recently announced its participation as a Donor Country to HIPC, by willing to write off a portion of these countries' debt to Israel.

Furthermore, Israel willingly shares its economic experience and accumulated knowledge with other policy makers and actively participates in providing technical assistance to other countries. In recent years, the Bank of Israel has become involved in the international effort to assist the transition process of economies which formerly were centrally planned. Staff members of the Bank of Israel took part in technical assistance missions of the IMF to the countries of the former Soviet Union and Eastern Europe. More recently, Israel agreed to provide technical assistance also to IMF-WB missions that assess financial stability.

The growth of the economy of Israel, at an annual rate of 4% - 5% is now built around advanced industries and advanced technology. This is the driving power behind the surge in foreign direct investment in Israel, the leading force in our exports, the active factor in the restructuring of our traditional industries, the pushing element in designing our educational programs at all levels.

As far as we can see - this is the way forward in a globalized world.