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MULTILATERAL INVESTMENT GUARANTEE AGENCY

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**INTERNATIONAL MONETARY FUND**

Press Release No. 38

September 24–25, 2005

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



# IMF-WB Annual Meetings Speech

Stanley Fischer  
Governor, Bank of Israel

Mr. Chairman, distinguished Governors, Mr. Rodrigo de Rato, Managing Director of the International Monetary Fund, Mr. Paul Wolfowitz, President of the World Bank Group, delegation members, colleagues and former colleagues, ladies and gentleman:

It is a special pleasure for me to be here today as Governor of the Bank of Israel and to address you as Governor for Israel.

I would like to make brief comments on three issues: first, the Israeli economy; second, the debt relief proposal; and third, the Fund's Medium Term Strategy paper. The limited time available will not allow me to cover other important topics, including the global economy and the impacts on it of the increases in the price of oil, as well as the potential roles of the Bank and the Fund in improving access to microfinance.

## 1. **The Israeli economy**

Following the deepest recession in the country's history, the Israeli economy has for the last eight quarters been growing at an average annual rate of more than 4 percent. Inflation is close to its target of 2 percent per annum. The balance of payments is in a small surplus, and foreign direct investment and financial inflows are likely to reach record levels this year. Controls on capital flows have been removed progressively over the last fifteen years, and the capital account is essentially totally liberalized. The exchange rate floats freely and the Bank of Israel has not intervened in the foreign exchange markets since 1997. Nonetheless – or is it “accordingly”? – the exchange rate of the shekel against the dollar and against the relevant basket of foreign currencies has displayed an impressive stability despite an at times difficult security situation.

For someone whose intensive involvement with the Israeli economy began during the hyperinflationary crises of the early 1980s, this situation represents an extraordinary

achievement. That is not to say that the situation is perfect: the government debt ratio remains too high and needs to be reduced; government spending exceeds half of GDP and needs to be further reduced; unemployment at around 9 percent, although declining, is also too high; and more needs to be done to improve the standard of living of the poorest members of the population.

The achievements of the Israeli economy are due in part to improved economic policies based on the understanding that the only way to sustainable growth, particularly for a small economy, is to pursue market-based policies and to embrace the possibilities that globalization offers. The pace of reforms has accelerated impressively over the last three years, and I believe that the reform process will continue and strengthen. At present we are near completion of a new and modern central bank law that will clearly define the independence of the Bank of Israel, while increasing its accountability and transparency. These policies and reforms are essential to growth. No less so is the dynamism and technical sophistication of the private sector, which continues its integration into the global economy as Israeli companies seek markets and production bases abroad.

The problems of the economy can only be solved with continuing growth and with continuing policy discipline, which contributes to the continuation of growth. They are also more likely to be solved in an environment in which the prospects for peace with our neighbors continue to improve.

## **2. The G8 Debt Relief Proposal**

I would like to make only two points regarding the G8 proposal to augment debt relief to the heavily indebted poor countries. First, it is very important that the proposal leads to an increase in net capital inflows to the countries receiving debt relief, and does not do so at the expense of other countries that need economic assistance. That is to say that donor countries need to increase their own provision of aid, and should not rely mainly on financing by the Bank and the Fund that will deplete these institutions' capacity – particularly that of the Bank – to provide assistance in the future.

Second, it remains true that in many countries aid needs to be used more effectively than it has been in the past. Problems of governance and of institution-building will continue

to need special and increased attention as the level of aid builds up. The donors too can make an important contribution by coordinating their aid through the international agencies. The typical situation in which a recipient country has to manage numerous aid projects in coordination with tens of different governments and agencies is both inefficient and also unnecessary.

### **3. The Fund's Medium-Term Strategy Paper**

The strategy report is focused and significant. Allow me to make five brief comments.

First, the report rightly emphasizes the role of surveillance. Surveillance matters because it helps member governments improve their policies as a result of the exchange of views and analysis with the staff and within the Board. But it matters no less because it informs a wider public, and in this regard I applaud the desire of the Fund to broaden its outreach in member countries. However, the current delivery schedule of Article IV reports is far too slow, an anachronism of the era before the email and the internet, and it means that those reports have little impact on the private sector. There is no good reason why Article IV reports should not appear within a month of the conclusion staff's visit to the country. It would also be desirable for the Fund to increase its use of interim reports.

Second, the strategy report discusses adding to the Fund's publications an annual report on the macroeconomics of globalization. Globalization is not a separate topic that deserves a separate report, but rather provides the context in which economies operate. Its impact needs to be analyzed and taken into account in the Fund's existing publications, the WEO and the Global Financial Stability Report. Adding a third report would not increase the overall quality of the Fund's surveillance; rather it would likely reduce the scope, depth and impact of the existing reports.

Third, despite the failure of the Contingent Credit Line facility, I would like to support the continuing effort to find a way to provide a precautionary line of defense for members with sound policies who are vulnerable to contagion effects from external financial disturbances.

Fourth, I continue to believe that orderly capital account liberalization should be a goal of the Fund's policies. To be sure, that does not mean instant liberalization, nor does it mean liberalization pursued in a perverse way, for instance by opening first to short term flows. But it does mean that in this area too, integration into the global economy can contribute to the efficient operation of the domestic economy. And in many countries, including mine, it has contributed to the efficiency and growth of the economy.

Fifth, I would like to support some reallocation of quotas, to recognize the changing role of countries in the global economy and in its management. As we all know, this is an area in which the easy solution is for the sum of the quotas to exceed 100 percent of the total. But I am confident that with persistence and creativity, progress can be made – not least under the guidance of a veteran of many EU negotiations.

Mr. Chairman, since taking up my new job I have frequently heard the Israeli saying: “Your success will be our success”. In the case of the Bretton Woods twins, we wish you success in the years ahead, for we know that “Your success will be the whole world’s success”.

Thank you Mr. Chairman.