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

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Statement by the Hon. **ABRAHAM HIRCHSON**,  
Governor of the Fund for **ISRAEL**,  
at the Joint Annual Discussion



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Governor of the Fund for Israel,  
at the Joint Annual Discussion**

It is an honor and a great pleasure for me to participate in the 2006 Annual Meeting of the International Monetary Fund and the World Bank, here in Singapore.

I would like to share with you a few points concerning the remarkable progress that Israel's economy has made over the last few years.

After three years of recession, Israel's economy has experienced three consecutive years of rapid growth and improvement in almost all economic indicators.

- From a negative growth rate of one point two percent in 2002, we boomed to an impressive five point two percent in 2005.
- Our budget is nearly balanced.
- We have a surplus in our current account.
- our debt to GDP ratio is shrinking
- employment is growing
- inflation is undercontrol
- and foreign investments are at a record high.

This remarkable turnaround did not come from itself.

It was possible only due to responsible fiscal management and the implementation of a large number of reforms.

In the last three years alone, the State of Israel has privatized its last two government owned banks, its communications network, its air travel industry, and many other government owned companies.

It wasn't easy – but it had to be done.

I am sorry to say that Two months ago some things changed .

As you all know, Hizbullah committed an unprovoked act of aggression against our country.

Hizbullah crossed our border, kidnapped two of our soldiers, killed others and began firing thousands of missiles into our northern cities and towns

No doubt, this war made a significant impact on Israel's economy.

- Physical damage was caused
- Business activity slowed down
- and incoming tourism almost stopped.

All in all, these effects and others cost the State of Israel nearly 15 billion shekel.

Ladies and Gentlemen

I'm happy to say that our economy was prepared to absorb this shock. We responded quickly and responsibly.

We used excess tax revenues to structure a new budget for 2006, within our fiscal limits. Our response was effective. Both the Israeli stock market and the shekel-dollar market, essentially maintained their pre-war values.

I truly believe that we have the power to fully overcome this crisis.

We are obligated to continue on leading a responsible fiscal policy which includes structural reforms.

Despite the situation we will maintain positive financial growth. I believe we can emerge from this war even stronger.

But we are not alone. Sound fiscal policy is not enough and should be reinforced by sound monetary policy as well.

Israel is fortunate to have one of the finest central bank governors in the world – Professor Stanley Fischer - whom most of you know well.

With Professor Fischer behind the wheel, the citizens and investors of Israel can be assured maximum inflation control and capital market stability.

But the real key to Israel's future is our people. We have more scientists, engineers, high-tech start ups and R&D spending per capita than any country in the world.

Our engineers have proven, time and time again, that almost anything is possible.

They are the true reason Israel was, and will continue to be so attracting to foreign investments.

I intend to do everything I can to encourage investors to invest in the State of Israel.

To strengthen our contribution, Israel has decided to increase its direct bilateral foreign aid to poor undeveloped countries by assisting them in achieving the millennium development goals.

Our aid will focus on education, health, and agricultural projects.

Ladies and Gentlemen

In conclusion I would like to emphasize again Israel's commitment to execute a responsible fiscal policy and to maintain growth in the years to come.

We intend to implement a clear and consistent economic policy that will continue to uphold Israel's place at the forefront of the global economy.