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

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משרד האוצר – האגף הבינלאומי

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2002 Annual Meetings of the Boards of governors of the International Monetary Fund
and the World Bank

“Israel: Weathering the Storm through Consolidation”

Remarks by H.E. Silvan Shalom, Deputy Prime Minister and Minister of Finance,
Israel

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 gentleman: I would like to thank you for the opportunity to address this meeting of the World Bank/IMF's Boards of Governors.

International organizations, such as the World Bank and the IMF perform a vital function in today's complex economy. By promoting prosperity, stability, and sustainable development, these institutions play a pivotal role in shaping the economic developments that impact on all nations.

This year's gathering is shadowed by the terrorist events of the previous year and the vast economic uncertainty facing us. Stock market movements have led to capital losses, echoed by weak performance in the real economy. We see perhaps the beginning of recovery in key industries, but at the same time, global circumstances can inhibit a quick return to growth and prosperity.

Israel is not immune to these developments. We, like our counterparts around the globe, feel the crunch. Israel has taken its place on the cutting edge of key hi-tech industries and is now feeling the sting of market developments. In addition, we have had to confront the economic burden stemming from the war on terrorism... a war every Israeli faces on a daily basis. We are determined to prevail in this battle which is being waged by the entire world.

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Despite these developments, we are fully confident that our economy will emerge strong. Strategic policies adopted throughout the 1990s have secured structural changes in the Israeli economy. We have internalized international standards of transparency, responsibility, and open access to international investment. As a result, we are now more competitive and more flexible than we ever were in the past. Over the years, we have adopted international standards and norms with a view towards membership in the O.E.C.D.. As a result, our economy has demonstrated that it is robust and fully capable of adapting to dynamic conditions:

- We have successfully weathered the multiple global financial crises of the late 1990s;
- We have successfully contained inflation, despite severe price fluctuations in world energy and currency markets.
- We continue to attract Foreign Direct Investment, despite volatility in world markets and ever-shifting regional dynamics.
- We have been thrust to the forefront in the war on terrorism. Yet, we have been able to bear the cost of protracted conflict... without inducing shocks or abandoning responsible fiscal and monetary policies.

These accomplishments are not accidental, but rather the result of systematic government reforms and policies. Responsible and consistent fiscal and monetary management has been a necessary and important element of the government's efforts. Continuation of these policies reinforce macroeconomic stability, promote the expansion of business sector, and set the stage for enhanced growth performance. Liberalization of trade and foreign currency regimes has also played an important role. This has been recently recognized by the OECD Council's approval to Israel's adherence to its Declaration on International Investment and Multinational Enterprises. Legislation to enhance local capital markets and break down monopolies has improved the competitive structure of Israel's private sector. The government is committed to developing the private sector, opening domestic markets to competition, enhancing capital markets in Israel and promoting their integration into international financial systems. Over the past year we revamped the tax system in a manner that

promises to reduce inequities and distortions and improve market efficiency by rendering investments tax-neutral.

Recently, the Israeli government advanced a program of economic reforms designed to maintain macroeconomic stability and hasten the resumption of growth. Policies that accent the importance of employment and improving the efficiency of both the private and public sectors are being implemented to address both current economic challenges and enhance growth in the long run.

Israel's long-term prospects are good. The strengths that led to rapid growth and increased foreign investment in the past will also propel us forward in the future. Fundamental economic indicators are positive. However, they reveal only part of Israel's economic strength. One must look beyond the dry statistics to grasp the full potential of our economy. The "fundamentals behind the fundamentals" are perhaps less tangible, but not less meaningful to our economic future.

The global economy is here to stay and we maintain a large stake in this economy. Despite recent developments, the revolutions sparked by the communications and IT industries are irreversible. Israeli companies have carved themselves an important position in global hi-tech markets, particularly in upstream activities such as research and product innovation. We will continue to participate vigorously in these global markets and are well poised to play a leading role in key growth industries.

Advances in basic research in life sciences have opened up vast opportunities in these areas. Entire new industries can be created, some integrating bio and agro-technology with other technology disciplines. Israel has one of the largest pools per capita of scientists in the world. Moreover, we have developed a unique capacity for cross-germination, developing products that blend technologies drawn from various fields. With this scientific talent, Israel is well-poised to take an active part in innovative industries as they emerge, including biotechnology, medical devices and security-related industries. The wealth of Israel's human capital, however, extends beyond the expertise of our scientists. Over the past decade we have developed a highly entrepreneurial culture that values risk-taking as well as excellence and innovation.

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These factors, when combined with the economic indicators, contribute immeasurably to Israel's strength and potential for sustained economic growth. While we continue a close watch on monetary management, fiscal restraint and structural reform, we are actively cultivating the fundamentals that transcend administrative and legislative policy, i.e. investment in human resources and an unrelenting commitment to innovation and entrepreneurship.

In the time remaining, I would like to emphasize Israel's active support of international initiatives like the World Bank's IDA programs and the HIPC program for debt reduction. We see these as vital tools for building the future of the global village. Our commitment to these programs is in addition to on-going bilateral aid programs and emergency relief assistance given by Israel in various locations throughout the world.

As we look around the globe, we cannot help but feel a growing sense of mutual responsibility for the future. The World Bank and IMF have assumed leadership in turning this vague sense of responsibility into a plan of positive action. The importance of their activities is even more enhanced during times, like now, in which economic uncertainty clouds the future. We fully endorse these initiatives and look forward to making our humble contribution to this cause.

Thank You.