

Article 278

REUTERS **UPDATE 2-IMF says Israel may miss budget gap goal.**By **Albert Robinson**

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TEL AVIV, Feb 26 (Reuters) - The International Monetary Fund on Tuesday cast doubt on Israel's ability to meet its 2002 budget deficit target, although a senior Finance Ministry official vowed the government would take all steps to do so.

Global economic slump, aggravated by the Palestinian uprising, has hit the Israeli economy hard, sending unemployment to a nine-year high, cutting government revenues and scaring off tourists.

Although Israel's government has set a deficit target of 3.0 percent of gross domestic product (GDP), the IMF noted private analysts' forecasts that it could reach double that due to the revenue shortfall caused by recession.

The budget "continues to deviate from the government's medium-term objective of reducing expenditures and debt as a share of GDP," the IMF said in an interim report following a visit to Israel.

"In spite of the six billion shekel (\$1.3 billion) cut, it is questionable whether the government can achieve its deficit target of three percent of GDP this year."

Israel's budget deficit was 4.6 percent of GDP in 2001, well above its 1.75 percent target while the initial target for 2002 was 1.5 percent.

The IMF predicts economic growth in 2002 at slightly above one percent compared with the Finance Ministry's two percent growth forecast and a 0.5 percent fall in GDP last year.

Financial markets in Israel were closed due to a Jewish holiday, but a senior Finance Ministry official rejected the IMF's assessments of Israel's fiscal policies.

The official, who requested anonymity, said Finance Minister Silvan Shalom would take "all necessary steps to ensure the target was met" with budget cuts of five billion shekels (\$1.1 billion) possible later in the year.

"We will not miss the target," the official said. "If there is a slippage (beyond the 3.0 percent target) you can correct it with tax rises or cuts. We will recommend a five billion shekel cut. From that point on it is a political problem."

The government earlier this month passed the 2002 budget more than a month late due to fighting among coalition partners over six billion shekels of cuts to its original 254.8 billion shekel spending plans.

The IMF also criticised the government for making a number of compromises to lawmakers on private members' bills.

The official said Shalom was also disappointed the IMF report emphasised price stability at the expense of growth and reducing unemployment. The IMF praised the Bank of Israel's 0.6 percentage point rate increase on Monday as a signal to financial markets of the central bank's commitment to medium-term price stability.

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