

Article 360

REUTERS

UPDATE 1-Israel says sticking with 4 pct 2002 GDP forecast.By **Albert Robinson**

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TEL AVIV, Oct 18 (Reuters) - The Director-General of Israel's Finance Ministry said on Thursday the government was sticking with a four percent gross domestic product growth forecast for next year despite the global economic slowdown.

Ehud Marani told Reuters the rate could be achieved and that the budget could in any event absorb fluctuations in economic indicators.

He was speaking after a senior ministry official, who requested anonymity, said the ministry was "playing games" with such a high prediction.

The official said it was damaging its credibility by continuing with the forecast when it was clear the global slowdown would have a considerable impact on Israel's export dependent economy.

The official said he expected growth of 1.0 to 2.5 percent GDP in 2002, in line with private forecasters and below the IMF's estimate of 2.8 percent.

"The Finance Ministry is playing games; if it wants to be taken seriously by important foreign bodies it should be more realistic," the official told Reuters.

"Israel's problem is globalisation, since we are one of the most open economies in the world in terms of being dependent on exports," he added. "The slowdown has an immediate and deep effect."

Exports, particularly in the technology sector, have been the main driver of Israel's growth in recent years. The economy grew 6.2 percent in 2000.

But Marani told Reuters: "The 4.0 percent figure was our best estimate when we published it in July. We used it in preparing the budget for next year and do not feel we can update it every month.

"We don't play with the budget and do not increase or decrease the figures every month and are not prepared to jeopardise financial stability by doing so."

Marani said the ministry had been responsible in drawing up the budget and producing forecasts despite the ongoing Israeli-Palestinian violence which had increased defence costs and caused economic uncertainty.

ECONOMY IN RECESSION

The anonymous ministry source said economic growth this year will likely be no more than 0.5 percent compared with the Finance Ministry's 1.0 percent target. Growth below 2.5 percent a year is considered recessionary given Israel's high annual population growth.

The official said the government's budget deficit target of 2.4 percent of GDP in 2002 was only possible if its 4.0 percent economic growth forecast came true.

"Since that (growth forecast) is not possible the budget deficit will obviously be higher," the official said, noting the deficit will likely reach 2.75 percent compared with the official target of 1.75 percent.