

Israel in recent years has been praised for maintaining tight fiscal policies but the Bank of Israel has expressed disappointment with the Finance Ministry's move to loosen policy.

The official said Israeli inflation this year "would not be a problem" since the economy was moving slowly with few inflationary pressures.

As such, he called on the Bank of Israel to cut the key lending rate further given the tame inflation environment.

"Inflation will be easily within the official 2.5 percent to 3.5 percent rate," the official said. "The central bank should take advantage of that to cut the key rate and give the economy a boost."

The Bank of Israel has left the key lending rate unchanged for the past three months at 6.3 percent, citing economic uncertainty. Since late 1999, the central bank has lowered the rate 19 times by more than five percentage points.

The official also said the government should take advantage of the escalation of Palestinian-Israeli tensions in the wake of the assassination of a cabinet minister on Wednesday by Palestinian militants to push the budget through without the usual coalition infighting.

Following months of political infighting - and prime ministerial elections - the 2001 budget was passed in March of this year, a day before general elections would have to have been called, by law, for the failure to pass the budget.

"The government should call on its many coalition partners to pull together for the national good and not take the budget apart for narrow sectorial interests," the official said.

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