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**Bank of Israel displeased with monetary panel plan.**
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TEL AVIV, July 5 (Reuters) - The Bank of Israel is "not very happy" about government plans to appoint a monetary council to set interest rates, which would end Governor David Klein's position as sole policy maker, a central bank source said.

The Bank of Israel is concerned the decision to establish a council would lead to cuts in interest rates beyond the gradual cuts of about 0.2-0.3 percentage point Klein has made since becoming governor in January 2000.

"The central bank is far from happy with the decision to establish a panel," the Bank of Israel source said.

"The fear is that panel members will have their own political agendas or come under pressure to push for larger cuts beyond the cautious cuts made by Klein," the source added.

Prime Minister Ariel Sharon, Finance Minister Silvan Shalom, Foreign Minister Shimon Peres and senior Finance Ministry officials decided on Wednesday to set up the advisory panel in what would be the biggest reform in the central bank's history.

They called for a five-member monetary panel with veto power over the appointment of governors, a formal guarantee of the Bank of Israel's independence, that its policies be accountable and transparent and that achieving price stability be its top priority.

The government and industry leaders have been vocal in expressing displeasure at Klein's gradual reduction in the bank's key lending rate at a time when the economy has slowed sharply and the interest rate environment is tame.

The central bank has lowered the lending rate 18 times since late 1999 to 6.5 percent from 11.5 percent.

An outside panel would appoint three of the five members of the council "in the way judges are chosen," Finance Ministry spokesman Eli Yosef said. The other two members of the council would be Klein and his deputy.

Klein has said in the past that he was not opposed to an advisory council as long as it was in line with the Levine Commission recommendations made in 1998.

The government would likely call for growth and unemployment targets to be taken into consideration as well as price stability, Yosef said, thus increasing the possibility of a clash with arch-monetarist Klein.

Klein ignored calls for steeper interest rate cuts to help the economy emerge from recession by Shalom, former Finance Minister Avraham Shochat and business leaders, saying cautious cuts were the most prudent policy.

Economic growth is expected to total 1-2 percent in 2001 after a six percent spurt in 2000, while inflation is forecast to come in at less than two percent.