The IMF, however, questioned a steep 2.0 percentage point cut in the key interest rate by the central bank on December 23 as a "sudden departure from a gradualist approach". The cut sparked a 10 percent depreciation of the shekel against the dollar - leading to a jump in January consumer prices and the subsequent rate increase on Monday.

Shlomo Maoz, a macroeconomic analyst with Nessuah-Zannex Securities, said the IMF's criticism "confirmed the central bank made a mistake in its sharp rate cut.

"The Bank of Israel corrected its mistake a bit with the rate rise but a heavy price was paid in market uncertainty and fluctuations since December," Maoz said.

Predicting a budget deficit of 4-4.5 percent this year, Maoz said the government needed to make more budget cuts but said three billion shekels was the most that could be expected.

The IMF report urged the government to present an up-to-date and transparent picture of this year's likely budget outcome as soon as possible and measures necessary to contain a possible deficit overrun.

That would send a signal to the markets that the government's determination had not been shaken and restore the market's confidence in the authorities' will and ability to stick to medium-term objectives.

Some analysts said part of the shekel's slide was due to the market's lack of confidence in the government's ability to manage the economy.

The IMF said the December rate cut had confused the market, prompting an excessive weakening of the shekel.

However, it said the critical question was not the short-run impact of this on prices but to what extent it would lead to a more persistent CPI increase over the medium term.

($1 = 4.64 shekels).

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