



STATE OF ISRAEL
MINISTRY OF FINANCE
INTERNATIONAL AFFAIRS DEPARTMENT

April 2009

Economic Highlights

1st QUARTER 2009

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A Record 1.5 Billion Dollars Have Been Raised Through the Issue of 10-Year Bonds by the Accountant General

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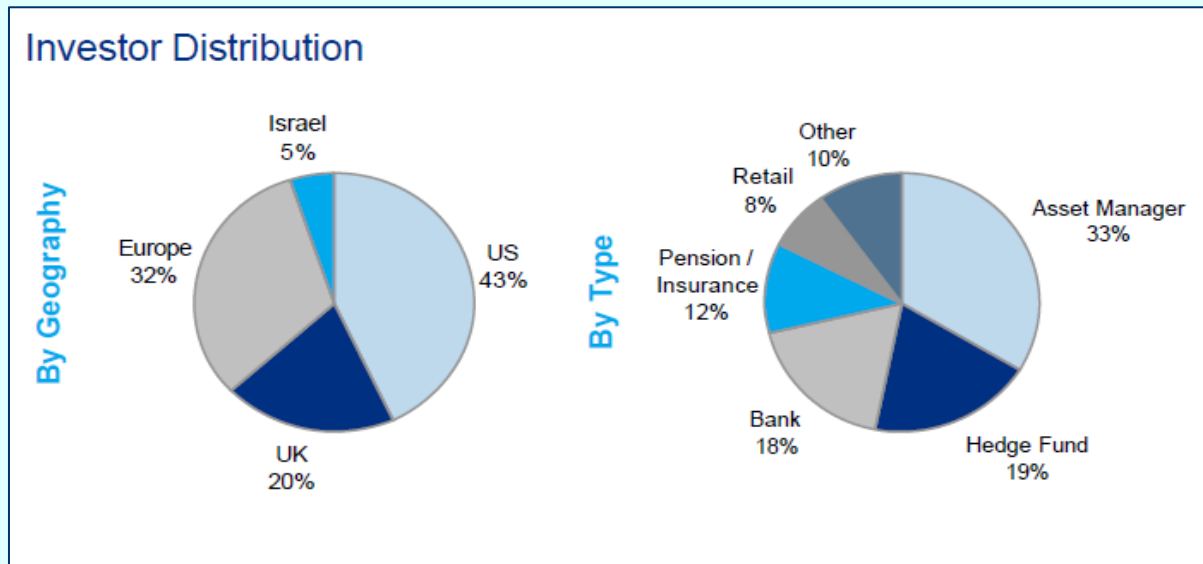


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Latest News

A Record 1.5 Billion Dollars Have Been Raised Through the Issue of 10-Year Bonds By The Accountant General

This March, Israel has launched a benchmark 10-year U.S. dollar-denominated global bond issue worth \$1.5 billion. The 10-year deal had price guidance of U.S. Treasuries plus 262.5 basis points (+2.625%), offered a yield of 5.19%. The issuing of the bonds was done after a two-day road show, held in the US and in Europe at the same time, managed by a senior team from the Ministry of Finance.



Demands for this issue summed to over 12 Billion Dollars, and were received by over 300 investors in 14 different countries. The initial goal of the issue was to raise \$0.5 billion; however, facing the high demands registered, it was expanded to \$1.5 billion. "It is a sign of the attractiveness of the Israeli Market, especially in times the global economy is in high turmoil and crisis," said Finance Minister Ronnie Bar-On.

This offering was formed using Israel's ability to raise debt capital backed by guarantees from the United States Government, giving it a "AAA" rating which is more attractive to the buyers and reduces issuing costs. On its own, Israel's investment grade credit rating is "A" from Standard & Poor's and Fitch and "A1" from Moody's Investors Service. (Sources: Ministry of Finance, Citi Group)

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The Ministry of Finance is Allocating Hundreds of NIS Millions Towards High Tech and Biotechnology

This February, the Former Minister of Finance, Ronnie Bar-On, announced on a program intended to help the high tech and biotechnology industries. The program, which was formed with the Ministry of Trade and Labor, the Chief Scientist and experts in high tech investments, is a part of the third phase in the **Acceleration Program**. In this phase, the ministry focuses on specific sectors in the economy that are considered to be growth generators, but have been suffering because of the global crisis.

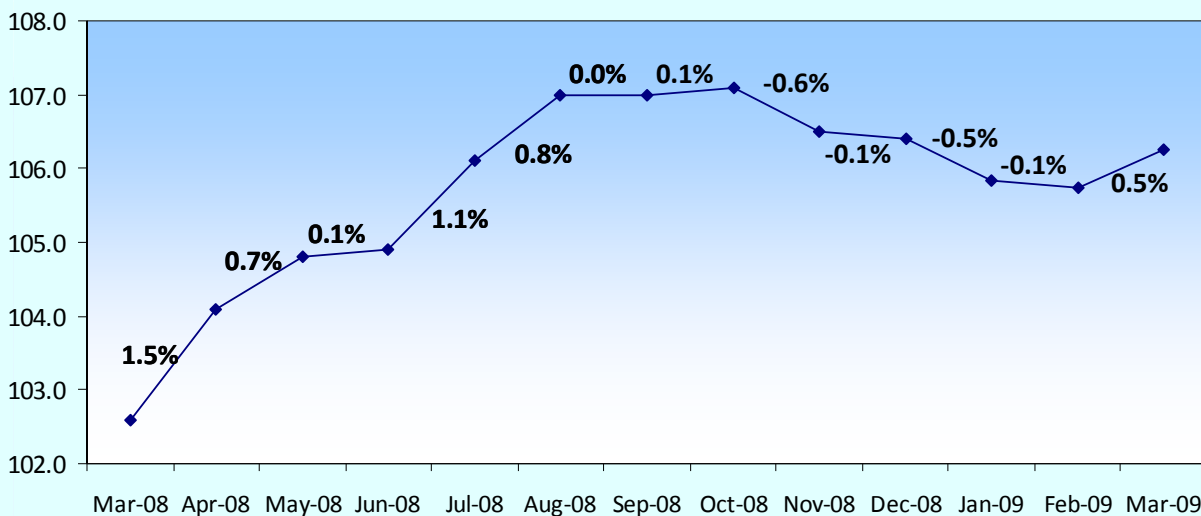
In addition to the NIS200 Million increase allocated to the chief scientist in the end of 2008, there will be an addition of NIS150 Million, given during the first quarter of 2009. This addition will be used towards R&D investments, and is meant to give an immediate relief to the funding difficulties encountered by companies that are doing quality R&D.

An additional NIS250 Million will be allocated by the government towards setting up a fund specializing in biotechnology investments. Further capital for the fund will be raised by the private sector. (Source: Ministry of Finance)

Consumer Price Index Increased by 0.5% on March

CPI increased by 0.5% on March, countering a 4 months downtrend. Substantial price increases were noted in fruits and vegetables (+3.6%), housing (+1.6%), transportation (+0.5%) and foods (+0.4%).

Consumer Price Index



(Source: CBS)

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Monetary News

The BOI Will Increase the Amount of Government Bonds to be Purchased and Continue to Purchase Foreign Currency

The Bank of Israel will increase the amount of government bonds purchased through open market operations to a daily average of NIS200 million. Furthermore, the Bank is extending the program to increase the level of foreign exchange reserves and will continue to purchase an average of US\$100 million per day.

Since 17/2/09, The Bank has been conducting open market operations in the secondary market with government debt of different types and maturities. The Bank announced that starting March 26 it will increase the amounts purchased to a daily average of NIS200 million of government bonds, and that its intentions are to purchase between NIS15-20 billion through this program. The aim of the program is to foster conditions that will support an easing of credit conditions in the economy. (Sources: Bank of Israel)

Bank of Israel Interest Rate at an All Time Low, at 0.5%

The Interest rate, peaking at 4.25% this September had been gradually decreased to its current level of 0.5%.

BOI explained that "The reduction of the interest rate for April by 0.25 percentage points will help strengthen the economy's ability to cope with the effects of the global economic crisis. This reduction will serve to encourage real economic activity, is consistent with the stability of the financial system, and will serve to moderate the downward pressure on prices that is likely to pull inflation below the target range of price stability".

Previous BOI interest rates: January 2009 – 1.75%, February – 1.0%, March 2009 – 0.75%.

(Source: Bank of Israel)

Israel joins OECD Anti-bribery Convention

On March 2009, Israel became the 38th signatory to the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. This Convention outlaws bribery of foreign public officials in international business transactions. Israel's accession to the Convention represents an important commitment to the international fight against corruption.



Left to right: Moshe Shilo, Director General of the Ministry of Justice, OECD Secretary-General Angel Gurría and HE Daniel Shek, Ambassador of Israel to France.

(Source: OECD)

From The Press

"The Economist": Israel a land of opportunity

A report in the printed edition of "The Economist" finds what to praise in Israel's high-tech industry, saying a high tolerance for risk, skills and camaraderie developed in the IDF, provide the makings of an "entrepreneurial firecracker".

Israel was listed among "lands of opportunity", along with Denmark and Singapore. The report notes that governments of all three countries enthusiastically endorse entrepreneurship.

The magazine lists innovations developed in Israel, including the Pentium chip by Intel, voicemail developed by Comverse Technology Inc., firewalls developed by Check Point Software Technologies Ltd., and the Pillcam developed by Given Imaging Ltd. (Sources: Economist, Globes)

Mizrahi, Manufacturers launch NIS 200m small business fund

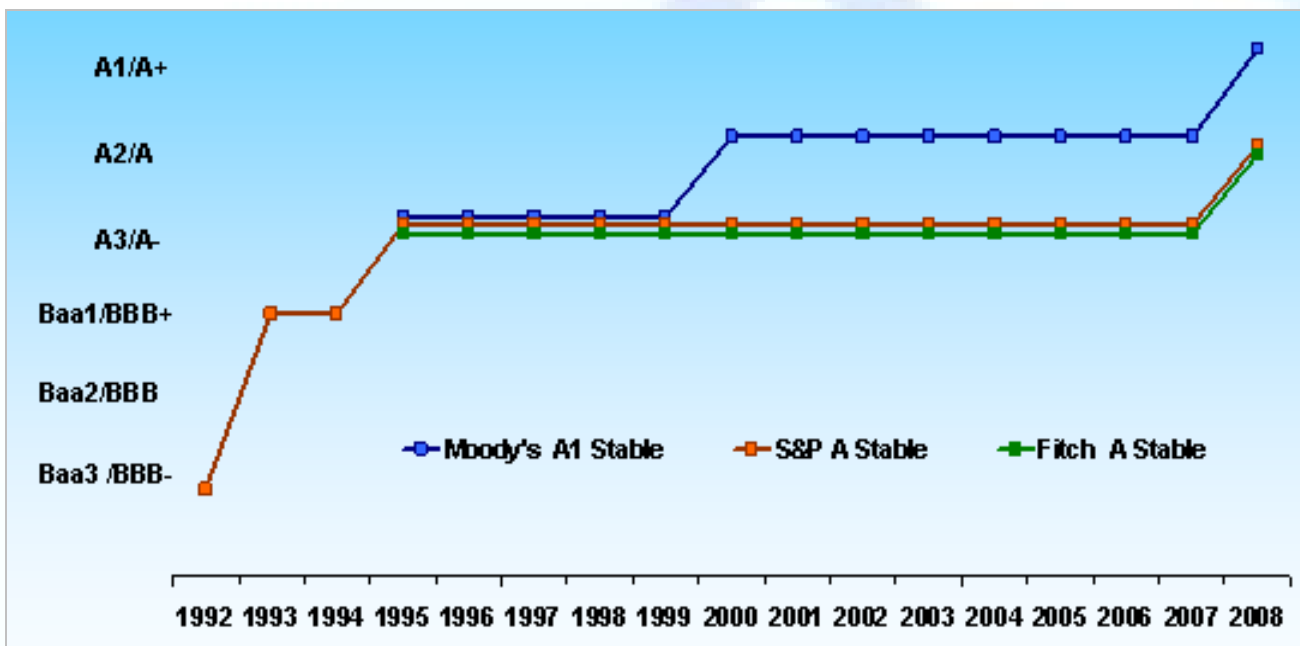
Mizrahi Tefahot Bank, the Manufacturers Association of Israel, and the Mutual Fund of Employers have launched a joint initiative to help mid-sized business that employ 20-100 people, to cope with the economic crisis. The parties signed an agreement to set up a loan fund of up to NIS 200 million for mid-sized companies that are members of the Manufacturers Association.

The new fund was established following the Manufacturers Association's Survey of Expectations in Industry for the first quarter of 2009: 69% of respondents, mostly small and mid-sized businesses, reported difficulty in maintaining their current credit frameworks, 70% of respondents said that it was difficult to obtain new credit, 34% of respondents said that they urgently needed new credit amounting to one month's turnover, 24% of respondents said that they needed credit amounting to two months' turnover, and 15% said that they needed even more credit. (Source: Globes)

Israel's Credit Rating – Complete List

Source:
[Accountant General](#)

Ratings Firm	Term	Domestic Bonds		Overseas Bonds	
		Rating	Outlook	Rating	Outlook
Fitch Ratings	Long	A+	Stable	A	Stable
	Short	–		F1	
Standard & Poor's	Long	AA–	Stable	A	Stable
	Short	A–1+		A–1	
Moody's	Long	A1	Stable	A1	Stable
	Short	–		P1	



ECONOMIC FIGURES

Final data for 2008

Data is calculated in an annual rate
Year-on-Year rate of change

	<u>2007</u>	<u>2008</u>	<u>Q4 2008</u>
GDP growth:	5.4%	4.0%	-0.5%
Business GDP growth:	6.2%	4.4%	-1.6%
Investments in fixed assets growth:	15.3%	5.1%	2.4%
Export growth:	8.6%	3.0%	-44.8%

Demand and Output

Data from previous editions is constantly being updated.

GDP growth:

Growth in 2008: **4.0%**
GDP per capita growth: **2.1%**
2007: **3.5%**; 2006: **3.3%**

Private Consumption Growth:

Growth in 2008: **3.9%**
2007: **6.9%**; 2006: **4.0%**

Business GDP growth:

Growth in 2008: **4.4%**
2007: **6.2%**; 2006: **6.4%**

Public Consumption Growth*:

Growth in 2008: **2.8%**
2007: **2.9%**; 2006: **2.7%**

GDP per Capita, based on PPP, 2008: \$27,355

* Includes all government expenditures

Foreign Trade

Goods and Services

Import growth:

Growth in 2008: **2.2%**
2007: **11.7%**; 2006: **3.6%**

Export growth:

Growth in 2008: **3.0%**
2007: **8.6%**; 2006: **6.1%**

Balances

Current account surplus:

2008: **0.8%**; 2007: **2.6%**;
2006: **5.0%**; 2005: **3.2%**

Gross Debt: (% of GDP)

(General government gross financial liabilities)

2008: **78.3%***
2007: **79.8%**; 2006: **85.5%**;
2005: **94.3%**; 2004: **98.2%**

* estimate

Budget deficit

(Central Government):

2008: **2.1%**
2007: **0.0%** (100 million NIS)
(Planned deficit was **2.9%**)
2006: **1.0%**; 2005: **1.8%**;
2004: **3.6%**

Investments

Gross Domestic Capital Formation:

2008: **3.8%**
2007: **11.3%**
2006: **6.5%**; 2005: **12.3%**

Investment in Fixed Assets:

2008: **5.1%**
2007: **15.3%**
2006: **9.9%** ; 2005: **3.0%**

Israeli Investments abroad: (\$B)

2008: **-0.6**; 2007: **18.7**;
2006: **33.4**; 2005: **16.1**;

Foreign investments in Israel: (\$B)

2008: **8.4**; 2007: **14.8**;
2006: **25.6** (including TEVA-Ivax deal)

Foreign direct investments: (\$B)

2008: **10.5**; 2007: **10.0**;
2006: **14.8**;

Sources: Ministry of Finance – Department of Economics and Research and the Accountant General, Central Bureau of Statistics, Bank of Israel, Tel Aviv Stock Exchange, Government Companies Authority, OECD, OECD Israel, Standard and Poor's, Moody's and Fitch Ratings.

We welcome your feedback!

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