



STATE OF ISRAEL
MINISTRY OF FINANCE
INTERNATIONAL AFFAIRS DEPARTMENT

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August 2009

Economic Highlights

2nd QUARTER 2009

Dear Friends,

Once again we are distributing our Economic Highlights.

Due to late publishing and recent events this document also includes Q3 information.

You are welcome to review our new section: [Environmental Economy News](#).

Your comments would be greatly appreciated at:

financelisrael@mof.gov.il

Publications are available on our website:

www.financeisrael.mof.gov.il

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Headlines

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Latest News

2009-2010 State Budget Approved by Israeli Government on May 13 2009

The government approved the revolutionary economic plan. The plan's goal is to prevent the loss of tens of thousands of additional jobs and to create growth engines for the Israeli economy, to emerge from the global crisis in a much stronger position for sustainable growth. Minister of Finance Steinitz added, "I am pleased that we have achieved our goals and reached a 'package deal' with the Manufacturers' Association and the Histadrut." Elements of the deal include:

- Acceleration of reforms in Israel's ports, electricity market, and Israel Land Administration, with the support of the Histadrut and the employers.
- Expansion of labor legislation
- Encouragement of employment and job creation through an increase of the Chief Scientist's budget by NIS 900 million, renovation of educational institutions at NIS 400 million, and budgeting of the Investment Encouragement Law at NIS 900 million for two years.
- A reform for the prevention of issuance of false invoices, aimed at fighting against tax evasion at a volume of about NIS 6 billion annually.
- A freeze on the payment on half of the recreation pay paid to state employees for two years, freeing NIS 1.7 billion for the state.
- Establishment of an aid fund for enterprises in peripheral regions.
- Taxation measures for limited periods: a 1% VAT increase, from 15.5% to 16.5%, for eighteen months; an increase of tax ceilings for National Insurance payments for those earning NIS 38,415 to NIS 61,342; and an increase of tax rates on large, expensive, polluting vehicles, as part of "green" taxation.
- In addition, the budget includes a series of important structural reforms, such as:
 - Coping with the issue of illegal foreign workers, to create jobs for tens of thousands of Israelis.
 - A reform in television broadcasting, to reduce the cost of the service for consumers and improve content quality.
 - Implementation of regulation aimed at enhancing sports in Israel.
 - Expansion of the supply of housing by shortening bureaucratic procedures for the approval of "evacuation and construction" projects.
 - Increasing competition between health and maintenance organizations (Kupot Holim).
 - Encouragement of employment of women through expanded subsidies for day care centers.

(Source: Ministry of Finance)

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Knesset Finance Committee Approved NIS 5 Billion Government Guarantees to Exporters

The government will provide NIS 4 billion in guarantees to insure short-term export contracts of up to one year and NIS 1 billion in guarantees for carrying out export contracts. The Knesset Finance Committee approved a request made by Minister of Finance Yuval Steinitz to provide guarantees to finance export contracts and residential construction.

The guarantees will be provided through Ashra, Israel Export Insurance Corp. Ltd. and Clal Credit Insurance Ltd. According to the package the government will also provide an additional NIS 1 billion in guarantees for carrying out export contracts.

(Source: Ministry of Finance, IPC News)

Two New Leverage Funds at a Total Volume of NIS 2.5 Billion to be Established by Two Groups

In the procedure for the selection of managers for two new leverage funds, two groups won licenses to manage the funds, which have a total volume of NIS 2.5 billion.

The government will invest a total of approximately NIS 600 million in the two funds, distributed approximately equally between the funds. Investments by institutional entities in each fund are three times higher than the government's investment. The two new funds – together with the leverage fund headed by Gabi Pearl, Zuri Lavi, Emmanuel Wasserman, and Ran Grodetzki, established in March – will invest in companies with debt to the capital market whose principal operations are in Israel, thereby helping these companies successfully come through the global credit crisis, which is affecting the Israeli economy as well.

Finance Ministry Accountant General Shuky Oren commented, "The new leverage funds, along with the first leverage fund established in March, are an important additional tool with a volume of NIS 4.5 billion, creating critical mass for addressing the target companies".

(Source: Ministry of Finance)

Israel Indicated as the World's Fastest Rising Real Estate Market

June showed a sharp increase in apartments sold, most of them in the Tel-Aviv area.

(Source: Ministry of Finance – Department of Economics and Research, Globes)

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Ariav: Israel among First to Board Global Growth Train

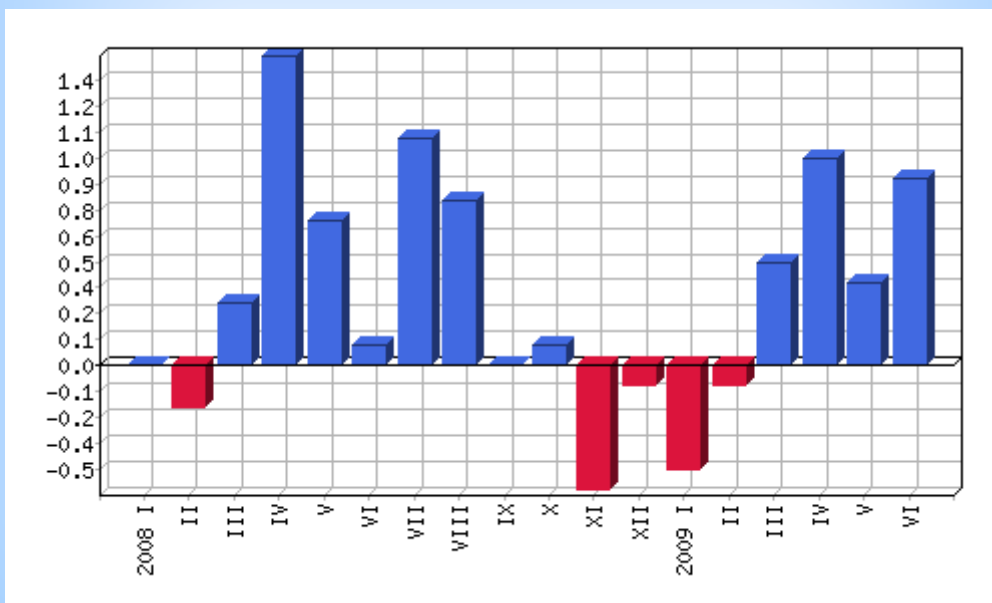
Higher tax revenues in July suggest that the economy is showing positive signs. Ministry of Finance Director General Yarom Ariav noted that the global growth train, even if it has just left the station, is starting to move and the Israeli economy has a good chance of being among the first to board.

(Source: Galei Zahal)

Consumer Price Index Increased by 0.9% on June

CPI increased by 0.9% in June, continuing a 4 month uptrend. Substantial price increases were noted in clothing (12.2%), transportation and communications (2.6%), real estate (0.7%) and health (0.65).

Consumer Price Index



(Source: CBS)

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Monetary News and Capital Market

Bank of Israel to Act in the Foreign Exchange Market in Case of Unusual Movements in the Exchange Rate

The Bank of Israel will act in the foreign exchange market in the event of unusual movements in the exchange rate which are inconsistent with underlying economic conditions, or when conditions in the foreign exchange market are disorderly. Following the adoption of this new operating policy in the foreign exchange market, the Bank of Israel announces that it will discontinue its program of daily purchases of 100 million dollars in the foreign exchange market which began in July 2008.

(Source: Bank of Israel)

Bank of Israel to Leave the Interest Rate Unchanged for August, and is Ending its Program of Purchasing Government Bonds

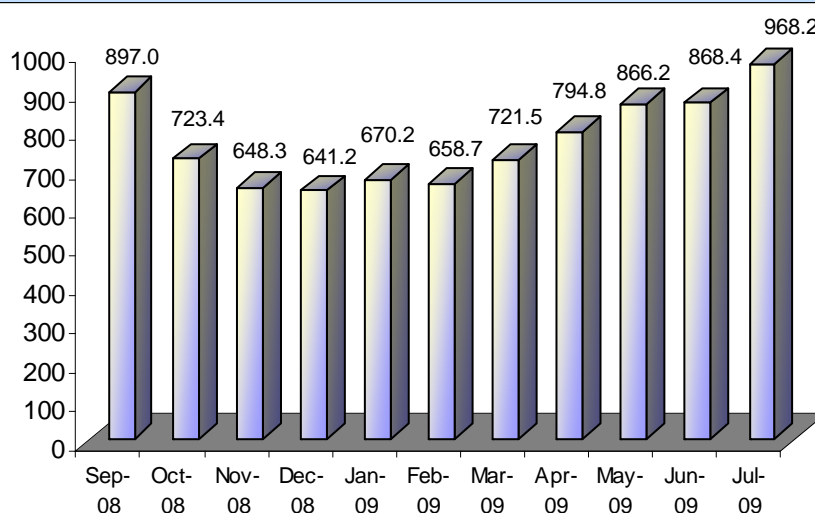
The Bank of Israel has announced that the interest rate for August 2009 will remain unchanged at 0.5 percent, and that it will end its program of buying government bonds.

The decision to leave the interest rate unchanged for August at its current low level, and to continue foreign currency purchases, together with the decision to stop purchasing government bonds, will help strengthen the economy's ability to cope with the effects of the global economic crisis.

(Source: Bank of Israel)

Tel Aviv-25 Index Hits 11-Month High

The TA-25 Index climbed to the highest it has been in 11 months, increasing 17.70 (1.9%) to 968.19.



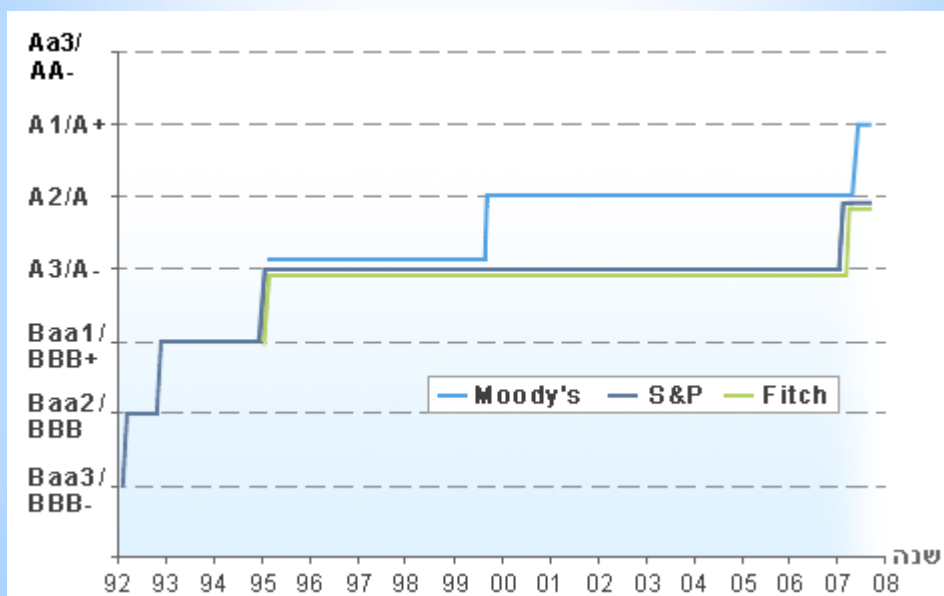
(Source: Tel Aviv Stock Exchange)



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Israel's Credit Rating

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



(Source: Ministry of Finance – Debt Management Unit, Accountant General)



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From The Press

Israel, Jordan and PA Re-commit to Red-Dead Canal

Studies of phased infrastructure implementation and a possible pilot program of mixing waters from the Red Sea. Jordan hosted a meeting near the Dead Sea of the technical steering committee for the "Red Sea-Dead Sea Water Conveyance Study Program" At the meeting, which was chaired by a representative of the World Bank and attended by representatives of Jordan, Israel and the Palestinian Authority, the members of the committee reiterated their joint commitment to the successful and timely completion of the Study Program, given the acute water shortage in the region and the continued decline in the level of the Dead Sea."

The Technical Steering Committee confirmed during the meeting that the ongoing Study Program would examine the options for phased implementation of potential infrastructure for the proposed Red Sea - Dead Sea Canal, as well as a possible pilot program for testing the mixing of water from the Red Sea and Dead Sea.

(Source: Globes)

Teva Beats Profit Estimates as Copaxone sales Hit Record

The pharmaceutical company said that it expects net profit to grow by at least 35% in 2010. Teva succeeded in growing its revenue despite a stronger dollar, which negatively impacted sales by \$256 million. Teva said its Barr acquisition, contributed to the higher revenue, particularly in the US, Russia, Poland, Germany, and Croatia.

(Source: Globes)

Demand for High-Tech Employees Jumps

Demand for high-tech employees was 4.5% higher in May than in April. At total, the demand for high-tech, biomedicine and cleantech was 120% higher in May than in April.

(Source: JobInfo)

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Environmental Economy News

New Southern Natural Gas Pipeline to Decrease Pollution in the Negev

The new Pipeline is longest in Israel – about 135 km, going from Qiryat Gat to Sodom. The new pipeline is meant to supply natural gas to the Dead-sea area by the end of 2009. According to GCA – Israel's Gas central Agency, this procedure will save the Israeli economy millions of NIS and will decrease pollution around the dead-sea, caused by older power plants.

(Source: Calcalist)

Chief Scientist Instructed To Give Cleantech Priority

Minister of Industry, Trade and Labor Benjamin Ben Eliezer has instructed the Chief Scientist Dr. Eli Opper and Investment Promotion Center director Hezi Zaieg to give priority to cleantech. The new priority for cleantech is not supposed to be on the expense of nanotechnology and biomedical supported projects.

(Source: Globes)

Accountant General Approved Funding Agreement for the Hadera Water Desalination Facility Expansion

By the end of 2010 the desalination facility in the town of Hadera, on the Mediterranean coast will produce 127 million cubic meters. The current expansion is part of the overall expansion program initiated by the government. In the end, all facilities in Hadera, Ashkelon and Palmachim will be expanded in a total of 57 million cubic meters per year. Most funding for the current Hadera expansion is led by EIB, and construction will be led by H2ID.

(Source: Ministry of Finance)

SunEdison Moves to Israel

U.S solar energy company SunEdison LLC has made its first venture in Israel, building solar energy projects and investing in the industry. SunEdison Israel Ltd. Recently secured financing in the capital market for solar projects. Sources estimate the initial financing at 15-20 million dollars.

(Source: Globes)

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Housing Giant Amidar Mulls Solar Panels on Roofs

Amidar Israel National Housing Company will install solar panels on the roofs of its properties. The company owns and manages 72,000 housing units of various types, including public housing, development authority properties, housing for new immigrants, and assisted living facilities, as well as its own offices in several cities. Taken together, this adds up to considerable potential for solar energy installations.

(Source: Globes)

Arison, Shapir Engineering and Granite Hacarmel to Contend in the Tender to Build Israel's Biggest Desalination Plant.

Shari Arison's building Housing & Construction company is joining hands with Shapir Engineering and Granite Hacarmel to bid in the tender to build Israel's biggest desalination plant. After protracted negotiations, the parties agreed that H&C would hold 40% of the shares in their consortium, Granite Hacarmel company Global Environmental Solutions would also hold 40% and Shapir would hold 20%. Shapir would, however, get a bigger stake in the establishment company. The plant is to be built at Soreq.

(Source: Haaretz)

Better Place has Completed Installing 800 Electric Charging Points

The world-wide electric car entrepreneurship, which chose Israel as its first prototype for an oil-free-private-transportation country, and enjoys support of the Israeli government, has completed installing 800 electric charging Points, mainly in parking lots and a few high-tech companies in the Tel-Aviv area and Haifa bay area.



(Source: Calcalist)

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Economic Figures

Final Data for 2008 and Q1 2009

Data is calculated at an annual rate Year-on-Year rate of change.
Data from previous editions is constantly being updated.

	<u>2007</u>	<u>2008</u>	<u>Q1 2009</u>
GDP Growth	5.4%	4.0%	-3.7%
Business GDP Growth	6.2%	4.4%	-5.2%
Private Consumption Growth	6.7%	3.9%	-3.5%
Public Consumption Growth	2.9%	2.8%	-6.9%
<u>GDP Per Capita, Based On PPP For 2008:</u> 27,143\$			

Foreign Trade Goods and Services

	<u>2007</u>	<u>2008</u>	<u>Q1 2009</u>
Import Growth	11.7%	2.0%	-40.4%
Export growth	8.5%	3.0%	-29.4%

(Source: Ministry of Finance – Department of Economics and Research)



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Balances

	<u>2007</u>	<u>2008</u>	<u>Q1 2009</u>
Current account Surplus	2.8%	1.1%	5.9%
Gross Debt (% of GDP) General government gross financial liabilities	79.8%	78.3%	None yet
Budget Deficit Central government	0.0% (100 Million NIS)	2.1%	None yet

Investments

	<u>2007</u>	<u>2008</u>	<u>Q1 2009</u>
Gross Domestic Capital Formation	12%	3.3%	-9.6%
Investments in Fixed Assets	15.5%	5.1%	-15.9%
Israeli Investments Abroad (Billion\$)	19.1\$	-0.4\$	1.5\$
Foreign Investments in Israel (Billion\$)	13.8\$	7.8\$	1.1\$
Foreign Direct Investments (Billion\$)	9.0\$	9.6\$	1.8\$

(Source: Ministry of Finance – Department of Economics and Research)

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We Welcome Your Feedback

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