



STATE OF ISRAEL
MINISTRY OF FINANCE
INTERNATIONAL AFFAIRS DEPARTMENT

October 2009

Economic Highlights

3rd QUARTER 2009

Dear Friends,

Once again we are distributing our Economic Highlights.

Your comments would be greatly appreciated at: financeisrael@mof.gov.il

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Headlines

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Latest News

Back into Growth: Positive Indices in Israel for Q3 2009

After two quarters with negative growth, CBS first indices for Q3 2009 show expansion in Israeli economic activity:

- GDP increased by 1%
- Business GDP increased by 0.7%

Past indices for Q1 and Q2 have been updated with higher figures, with Q2 showing high growth in export and private and public consumption.

Also, public assets increased by 8.4% in the first half of 2009, totaling NIS 2.1 trillion. This recovery sets public properties similar to its level in August 2008, before the economic crisis. Most of the increase was reflected in Israeli stocks.

In addition, the Composite State-of-the-Economy index rose by 1.2 percent in July. This follows the increase in June, which was the first after declines in the index every month since June 2008.

The rise in the index this month resulted from rises in all its components, and in particular, from steep increases in manufacturing production and trade and services revenue. The Consumer Confidence Index rose by 9.2 points in August to 96.8 points, setting it above levels of 2007 and suggesting that the householders have concluded that the crisis has passed.

For more indices, see our Economic Figures chapter on page 8.

(Source: Ministry of Finance, CBS, Bank of Israel, Calcalist, Globes)

New Developments in Governmental Biotechnology Support Fund

The Chief Scientist's desk in the Ministry of Industry, Trade & Labor announced the establishment of the fund in the beginning of 2008, as part of the acceleration program.

New decisions conclude that the biotechnology fund will invest 75% in Biopharmacy and 25% in medical equipment.

The investment will total between 200 to 350 NIS million. These amounts show a potential growth of up to 100 NIS million from the previous government commitment.

This sum is planned to be leveraged by the private sector, so that the total investment will add up to between 0.5 to 1 NIS billion.



(Source: Ministry of Industry, Trade & Labor, Calcalist)

Minister of finance meets OECD delegation, U.S Chairman of the Federal Reserve and World Bank President

Minister of Finance Yuval Steinitz met in early September with an OECD delegation and presented the government economic plan. Steinitz noted that "the process of Israel's accession to the OECD reflects the improvement in the Israeli economy, the progress it made, and the trust given to the Israeli market".

During September Minister of Finance Yuval Steinitz also met with U.S Chairman of the Federal Reserve Ben Bernanke, World Bank President Robert Zoelick and others. Steinitz also participated in the IMF annual meeting in Istanbul, where the Israeli economy has earned the praise of numerous economists.

(Source: Ministry of Finance)

Israel Signs New Conventions for the Avoidance of Double Taxation with Estonia (formally) and Georgia (initially)

Israel recently signed a new tax treaty with Estonia. A new tax treaty between Israel and Georgia has also been initialed.

The tax treaty with Estonia is extremely important, as both Israel and Estonia are slated to join the OECD in 2010. Moreover, it is an additional step towards completing the process of tax agreement formulation with the European Union, as Estonia was one of the last remaining EU countries that had not yet signed a tax treaty with Israel.

The main significance of the treaty with Georgia is to improve the competitive standing of Israeli companies operating in Georgia in areas such as real estate and infrastructures.

Ofir Levy, CPA, Adv., Head of the International Taxation Department at the State Revenue Administration, commented that this is another step in the implementation of the Ministry of Finance's plan to remove taxation barriers harmful to international trade, encourage mutual investments, and facilitate the business activities of Israeli companies overseas.

Israeli representatives and the representatives of Estonia and Georgia agreed to advance the procedures for ratification of the treaties in their respective countries, so that the treaties may take effect by early 2010.

To view the full press release, [click here](#).

(Source: Ministry of Finance)

Carmel Tunnels Project to End Sooner than Scheduled

Carmelton informed Minister of Transportation Israel Katz that the underground road going beneath Mt. Carmel will open 6 months sooner than expected, probably in summer 2010.

Crossing the City of Haifa via the tunnel will last only 6 minutes, with a cost of NIS 5 in each direction. The tunnels are expected to enable 70,000 cars to cross Mt. Carmel without entering the city of Haifa on a daily basis.

Costs for the entire project are estimated NIS 1.2 billion.

The Carmel Tunnels is Israel's first B.O.T project.



(Source: Carmelton, Calcalist)

Monetary News and Capital Market

First in the World: Bank of Israel Increased the Interest Rate for September 2009

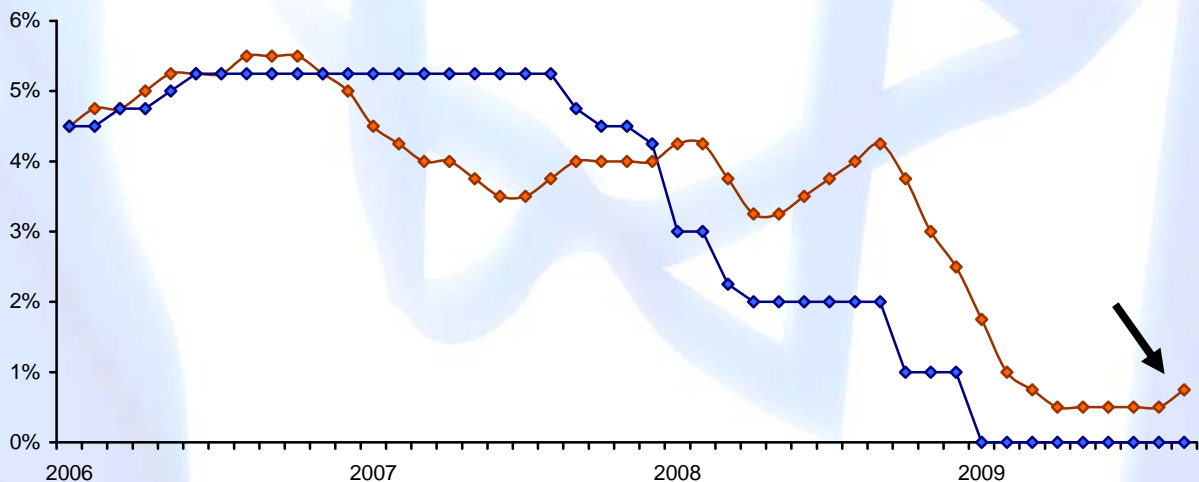
The Bank of Israel announced that the interest rate for September 2009 will increase by 0.25 percentage points to 0.75 percent.

The decision to increase the interest rate for September by a quarter of a percentage point to 0.75 percent will help return inflation to the target range and will strengthen the economy's ability to establish a firm base for the recovery in economic activity, while supporting financial stability.

The main considerations behind the decisions are:

- In the last few months, inflation measured over the previous twelve months was above the target range of price stability.
- The most recent data on real activity in Israel strengthen the assessment that there has been a turnaround, although there is great uncertainty regarding the expected rate of growth.
- Interest rates of the leading central banks around the world are expected to remain unchanged till the end of the year, and possibly even until the middle of 2010. However, unlike in Israel, inflation in those countries is expected to remain low both this year and the next.

A comparative look shows that in the U.S and Britain an interest rate increase will probably not occur any time soon. Predictions for increases in the U.S are only for March 2010 at the earliest, while in the U.K interest rates will probably remain close to 0% until 2011.



(Source: Bank of Israel, Bizportal)

Moody's Reaffirms Israel's Rating

Moody's reaffirmed Israel's A1 rating after their annual trip to Israel this past June.

In addition, Standard & Poor's also re-affirmed their A rating for Israel following their visit this past July. Fitch also made their annual visit this past July and should release their rating update soon.

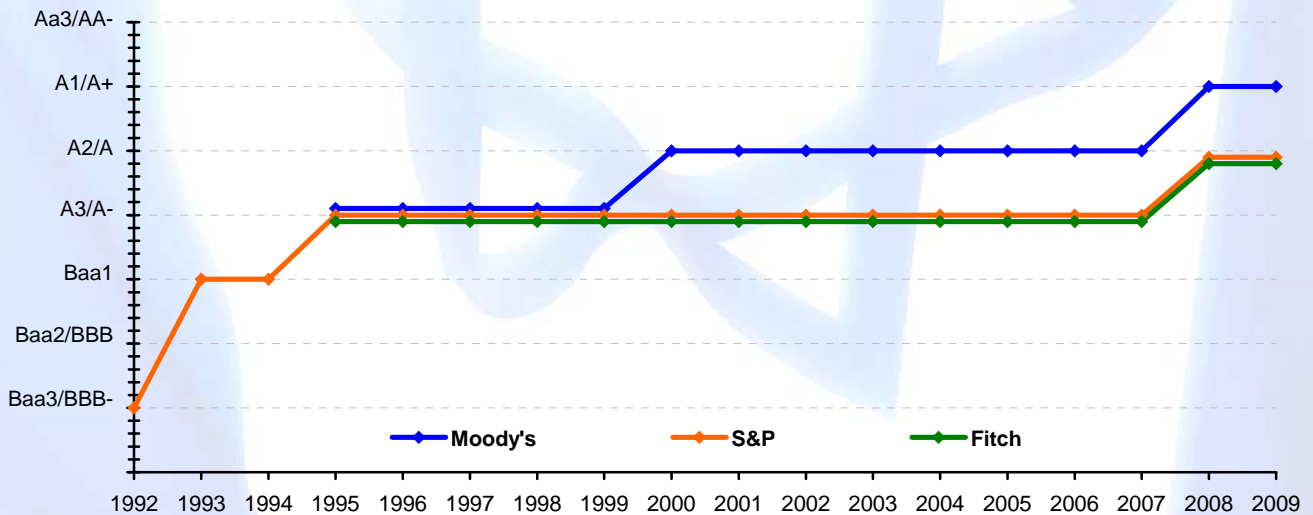
Israel's rating reaffirmation in the midst of a global financial crisis where many countries are being downgraded shows the strength and stability of the Israeli economy.

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

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

Moody's / S&P & Fitch



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

From The Press

Mekorot signs cooperation deals with Brazilian Companies

Mekorot National Water Company subsidiary Mekorot Development and Initiations Ltd. has signed cooperation agreements with two Brazilian water companies - Companhia de Saneamento Basico of Sao Paulo State (Sabesp) (NYSE: SBS; Bovespa: SBSP3) and Companhia de Saneamento Ambiental do Distrito Federal (Caespb).

Mekorot will work with Sabesp and Caesb on treating contaminated water sources, desalination, water quality, hydrology, drilling, sewage treatment and wastewater reclamation, reduction of water depreciation, and the use of advanced water technologies.

(Source: Globes)

Rafael agrees huge deal with Indian Army

Rafael Armament Development Authority has agreed to a huge deal with the Indian Army to supply advanced anti-aircraft systems. The deal, worth \$1 billion, was reportedly approved by the Indian cabinet. Rafael will supply the Indian army with its Spyder low-level quick-reaction surface-to-air missile system capable of engaging aircraft, helicopters, unmanned air vehicles, drones and precision-guided munitions.

(Source: Globes)

Bigger Natural Gas Fields off of Israeli Shores

Noble Energy Inc. (NYSE: NBL) has notified its partners, including Delek Group Ltd. (TASE: DLEKG) and Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L), that the gross mean resources in the Tamar natural gas field offshore from Haifa are 16% larger than the previous estimate, and amount to 207 billion cubic meters.

More so, according to a report prepared by Wood Mackenzie Research and Consulting, the Tamar gas field offshore from Haifa is worth \$8 billion. This is nearly double the \$4.5 billion estimate of local analysts. Wood Mackenzie Research and Consulting is a leading expert on global energy, metals and mining. The international analysts calculations are based on the price of \$5.6 per million cubic feet agreed in the recent contract signed between the Yam Thetys field and Israel Electric Corporation (IEC) (TASE: ELEC.B22).

Delek Group Ltd. controlling shareholder Yitzhak Tshuva believes that among the additional gas exploration licenses held by Delek Energy Systems Ltd. (TASE:DEOL) are even larger gas fields than in the proven reserves already found at the Tamar and Dalit prospects.

Tshuva said, "If we have already found gas in four locations in this region with an almost 100% success rate, it is reasonable to assume that we have drilled for just a small part of what is there."



(Source: Wood Mackenzie Research and Consulting, Noble Energy, Globes)

Environmental Economy News

5 Israeli Companies between the Guardian's Cleantech Group LLC Top 100 for 2009

The companies are: Aqwise Ltd, IQwind Ltd, Solel Solar Systems Ltd, Better Place and BrightSource Energy. Last year only 3 Israeli companies were among the list.

BrightSourceEnergy

IQWIND
RENEWABLE QUANTUM WIND

Aqwise
Clear and Simple

SOLEL

better place



(Source: Calcalist)

Israeli Paz Oil Company to Build Two Solar Plants in the Negev

Paz Oil Company Ltd. (TASE:PAZ-OIL) will build two solar power plants on an area of 200-300 square kms, a land property of Kibbutz Sede Boker, in a cost of 200 NIS million.

Kibbutz Sede Boker is located in the Negev Desert, southern Israel, near Eshelim, where several power plants are projected to be built via state tenders, where PAZ itself is a contestant.

Paz will design, construct and operate the facilities in Sede Boker for 20 years.



(Source: TheMarker)

Mei Golan's Wind turbine project gathers steam

The Public Utilities Authority (Electricity) granted an electricity generating license to Mei Golan Wind Energy Development (1988) Ltd., which is planning to build a 200-megawatt wind turbine farm on the Golan Heights at an investment of \$300 million. AES Corporation (NYSE: AES) of the US is due to become a strategic partner in Mei Golan's project, which will cover 140 square kilometers in the northern Golan. The five-year-license was issued after Mei Golan and AES met the Public Utilities Authority's conditions, including shareholders' equity and a feasibility study with Israel Electric Corporation (IEC) (TASE: ELEC.B22).

The development of wind power has gained strength in Israel in recent months, after the Public Utilities Authority set a tariff of NIS 1.60 per kilowatt/hour for the sale of electricity to the national grid. The price is less than the NIS 1.97 per kilowatt/hour for the sale of electricity generated by solar power to the national grid.

Association of Renewable Energies Companies chairman Eitan Parness said, "Israel has wind potential in other areas besides the Golan Heights. We expect a number of projects on a scale of tens of megawatts, as well as smaller turbines that will be deployed soon."



(Source: Globes)

Economic Figures

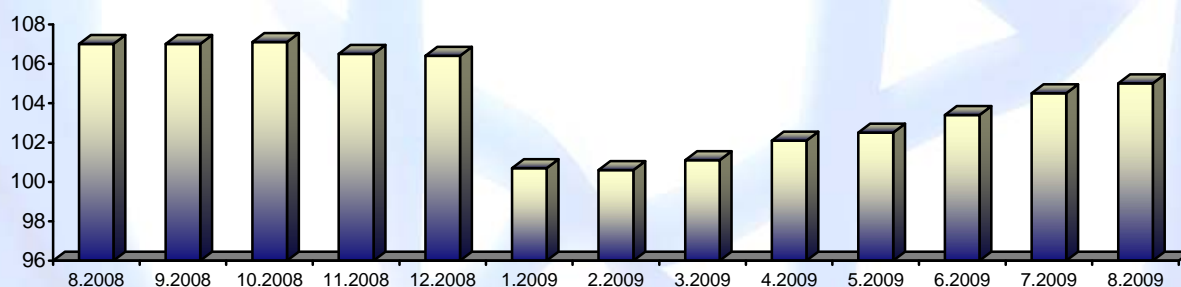
Economic Data for Q3 2009

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

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>
GDP Growth	4.0%	-3.2%	1%
Business GDP Growth	4.4%	-4.8%	0.7%
Private Consumption Growth	3.6%	-3.9%	4.4%
Public Consumption Growth	2.8%	-5.6%	20.2%
<u>GDP Per Capita, Based On PPP For 2008: 27,143\$</u>			

Consumer Price Index

Aug 2008	Sep 2008	Oct 2008	Nov 2008	Dec 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009	Jun 2009	Jul 2009	Aug 2009
107.0	107.0	107.1	106.5	106.4	100.7	100.6	101.1	102.1	102.5	103.4	104.5	105.0



Foreign Trade Goods and Services

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>
Import Growth	2.0%	-41.6%	-6.3%
Export Growth	3.0%	-27.2%	5.8%

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

Balances

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>
Current account Surplus	1.0%	-5.0%	-4.4%
Budget Deficit Central government	2.1%		
Gross Debt (% of GDP) General government gross financial liabilities	75.4%		

Investments

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>
Gross Domestic Capital Formation	1.1%	-17.2%	-51.4%
Investments in Fixed Assets	5.1%	-11%	-10.3%
Israeli Investments Abroad (Billion\$)	-0.4\$	1.3\$	0.1\$
Foreign Investments in Israel (Billion\$)	7.8\$	0.9\$	-0.3\$
Foreign Direct Investments (Billion\$)	9.6\$	1.8\$	-0.3\$

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

We Welcome Your Feedback

Edited By:

Assaf Luxembourg
International Affairs Department
Ministry of Finance
Jerusalem
Israel
assafl@mof.gov.il

Contact:

Roni Hershkovitz
Acting Director
Overseas Economic Information
International Affairs Department
Ministry of Finance
Jerusalem
Israel
ronihe@mof.gov.il

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