



STATE OF ISRAEL  
 MINISTRY OF FINANCE  
 INTERNATIONAL AFFAIRS DEPARTMENT

September 2010

# Economic Highlights







## 3<sup>rd</sup> QUARTER 2010

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### Headlines

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# Latest News

## **The Cabinet Approved Israel's Membership in the OECD**

The government approved the proposal by the Minister of Finance, **Dr. Yuval Steinitz**, and the Minister of Foreign Affairs, **Mr. Avigdor Lieberman**, regarding the State of Israel's membership in the OECD. This decision includes approval of the membership agreement for joining the organization, which was signed in Paris on June 29, 2010, and contains Israel's commitments to the OECD and its consent to the codes, rules and decisions, undertaken by the organization since its establishment.

This concludes Israel's process of joining the OECD.

**See more:** [Official press release - The Cabinet Approved Today Israel's Membership in the OECD](#)

(Source: Ministry of Finance)

## **Six-Year Plan for the Higher Education System**

**The plan includes a budget increase of NIS 7.5 billion for the higher education system, an emphasis on excellence in research and in the quality of education, integration of 2,000 new faculty members in universities and colleges, establishment of 30 research excellence centers, significant increase in the budgets for competitive research, and more.**

The plan, which was formulated with the support of the Minister of Education and Chairman of the Council for Higher Education, **Mr. Gideon Saar**, the Minister of Finance, **Dr. Yuval Steinitz**, and the Finance Ministry Budget Director, **Dr. Udi Nissan**, includes structural changes and the allocation of resources for upgrading Israel's higher education infrastructure, and will enable long-term planning in the higher education system.

The plan calls for the absorption of significant numbers of new, high quality researchers as well as a significant improvement in the quality of instruction and in the services received by students, by upgrading teaching facilities, developing the learning environment, increasing the number of lecturers and teaching assistants and other steps.

The plan comes after two years in which, unlike in the past, the higher education system operated without a multi annual plan, which hindered the formulation and implementation of long term plans and the efficient allocation of resources to the system.

Under the multi-annual plan, a cumulative NIS 7.5 billion will be added to the higher education budget, with NIS 620 million to be added already in the coming academic year and more than NIS 2 billion to be added at the end of the process, i.e. in the sixth year (2016).

(Source: Ministry of Finance, Council for Higher Education)

**See more:**

[Official Press Release](#)  
[Council for Higher Education](#)



### **Key principles of the plan:**

1. Change in the Planning and Budget Committee's (PBC) budgeting model for the higher education system.
2. Hiring of new academic staff.
3. Significant increase in the budgets allocated by the PBC to competitive research through the Israel National Science Foundation and international foundations of which Israel is a member.
4. Establishment of 30 research excellence centers.
5. Maintaining the accessibility of higher education to the entire population, with emphasis on expanding accessibility to special population sectors, such as the minorities and the ultra-Orthodox community.
6. Investment of NIS 300 million throughout the period in upgrading and enhancing academic instruction and research facilities, including the renovation, construction and supply of classrooms, libraries, teaching aids, computerized systems, research equipment and laboratories.
7. Continued strengthening of the assessment of instruction and research quality, inter alia by increasing the independence of the assessment system, increasing the transparency of the results and applying corrective measures.

## EUREKA Israeli Chairmanship

The State of Israel will chair EUREKA for the next 12 months, since July 2010 until June 2011.

Israel is due to host 6 EUREKA official meetings over the next 12 months in **Tel Aviv, Eilat, Haifa, Nazereth and Jerusalem**. See [list of official meetings of the Israeli Eureka chairmanship](#)

The Israeli chairmanship, led by [MATIMOP](#) and the [Office of the Chief Scientist](#) in the **Ministry of Industry, Trade and Labor**, will focus on intensifying interest and value in the EUREKA platform. Leveraging Israeli best practices in innovation management and financing instruments, a special focus will be dedicated to developing new models and sources of funding for EUREKA industrial participants, in particular small and medium enterprises and start-up companies.

### About EUREKA:

[EUREKA](#), the pan-European R&D funding and coordination organization, aims to coordinate efforts of governments, research institutes and commercial companies concerning innovation. The Eureka Chair rotates yearly among it's member countries, with a mandate running from July to June the following year.

Founded in 1985 to challenge the increasing migration of R&D and industrial innovation to Asian and North-American countries, Eureka now unites 40 member countries.

Together, they promote international, market-oriented research and innovation through the support they offer to small and medium-sized enterprises, large industry, universities and research institutes. Through EUREKA, these organizations are introducing new products, processes and services to market, helping make Europe economically strong and socially sound.

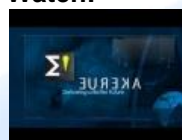
Israel joined Eureka in 2000.



### See more:

[EUREKA Israel](#)  
[EUREKA](#)  
[I Am EUREKA](#)  
[MATIMOP](#)  
[Office of the Chief Scientist](#)

### Watch:



[Israel to assume Eureka chairmanship for 2011](#)

### Priorities of the Israeli Chairmanship:

- Improve innovation support services to industrial members, start-up firms, R&D companies and key stakeholders by developing partnerships and alliances.
- Incorporate new financing models and motivate investors to invest in predominant EUREKA projects.
- Work in tandem with EUREKA strategic instruments primarily the EUREKA Clusters to contend with grand challenges in fields such as climate change, security, energy, and environment.
- Develop a continuation scheme for Eurostars through enhanced collaboration with network members, the European Commission and the ESE.
- Expand global cooperation strategy, implementing international cooperation with new countries and networks.



(Source: Ministry of Industry Trade and Labor, EUREKA)

## Developments in Natural Gas and Oil Explorations

### The Land of "Milk and Honey"... and Natural Gas

Following the developments in the last few months, Israel is on the verge of absorbing impressive amounts of local extracted natural gas into its energy market. The updated map of Israel's offshore gas potential include 3 major fields: **Mari-B field** located offshore the towns of Ashdod and Ashkelon, **Dalit** and **Tamar** fields located offshore the city of Haifa and the town of Hadera, and the **Leviathan** field, south-east of Tamar.

The Mari-B field is operated by **Yam Tethys**, a consortium comprised of [Noble Energy Inc.](#) (NYSE: NBL) and [Delek Group Ltd.](#) (TASE: DLEKG), since 2004. The Tamar field is operated by Noble Energy, which was given in August an approval by the state to develop and deploy gas from Tamar via Yam Tethys' infrastructures on Mari-B. The third big field is Leviathan, which received major optimistic assessments for its huge potential this late May, enough to probably transform Israel into a natural gas exporter.

**Noble Energy** owns 36% of Tamar, Delek Group subsidiaries Avner Oil and Gas LP (TASE: AVNR.L) and Delek Drilling LP (TASE: DEDR.L) each own 15.625%, Isramco Ltd. (Nasdaq: ISRL; TASE: ISRA.L) owns 28.7%, and Dor Alon Energy in Israel (1988) Ltd. (TASE:DRAL) unit Dor Alon Energy Exploration Ltd. owns 4%. Noble Energy and Delek Group jointly own Yam Tethys, and both companies are partners in the Leviathan structure, together with Ratio Oil Exploration (1992) LP (TASE:RATI.L).

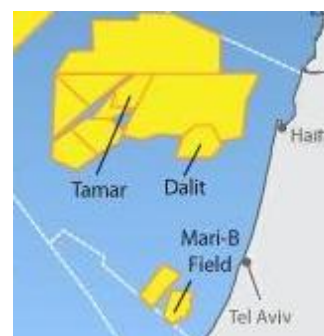
### Regulation and the Shishinsky Committee

Due to these encouraging findings and calls from the public to reassess the tax regulation on profits from these natural resources, the ministry of finance assembled a committee to examine this issue, headed by **Prof. Eitan Shishinsky**. The committee is due to hand in its conclusions this October.

### Oil Explorations

In addition to latest developments in the natural gas market, there are also signs for oil in Israel. **Givot Olam** is a public partnership devoted to oil search in Israel. Positive signs for oil were found in Givot's search areas, near the towns of Rosh Haayin and Kfar Saba in Central Israel.

See more: [USGC report](#)



NobleEnergy map of Israeli offshore gas fields.



Tamar 1 raft, offshore Israel



Givot Olam site

(Source: Ministry of National Infrastructure, Ynet News, Bizportal, NobleEnergy, Yahoo Finance, Globes)

## Record tourism to Israel in first half of 2010



**Tourism rose 39% compared with the first half of 2009 and 10% compared with the previous record in 2008.**

A record 1.6 million tourists visited Israel in the first half of 2010, a 39% increase compared with the first half of 2009 and a 10% increase compared with the previous record, first half of 2008.

Minister of Tourism, **Stas Misezhnikov**, said: "The increase in incoming tourism during the first half of this year should not be taken for granted. It is the result of massive investment in marketing activities around the world with significant budgets, especially against the background of the public diplomacy challenges that Israel faces."

(Source: Ministry of Tourism, Globes)

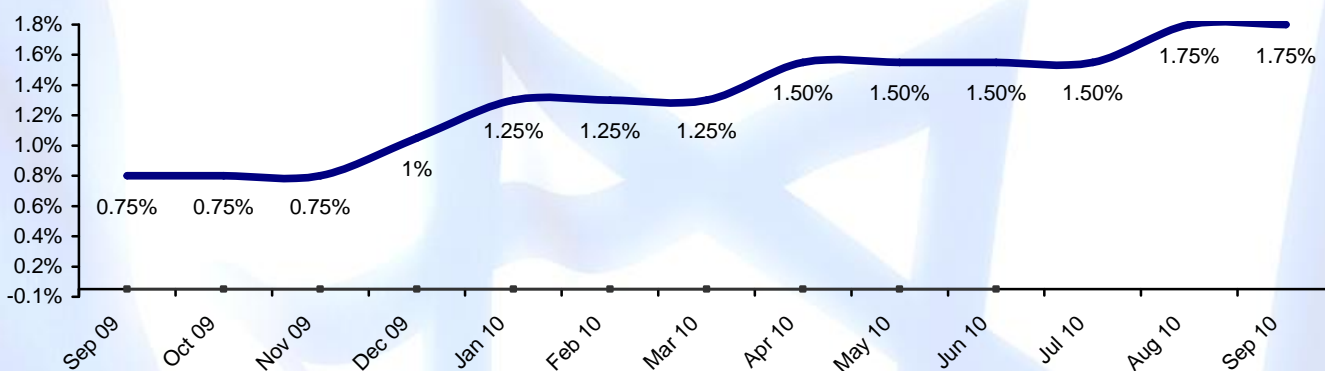
## Monetary News and Capital Market

### Citibank: Bank of Israel most credible central bank

"We think the [Bank of Israel](#) has emerged from the crisis as one of the most credible central banks Central and Eastern Europe, the Middle East, and Africa", said [Citibank](#) analyst **David Lubin** this July. Lubin also predicts that Israel's interest rate will reach 2.25% by the end of 2010, after two more rate hikes.



The Bank of Israel was first in the western world to raise interest rate over a year ago, in the midst of the economic crisis, thus signaling that Israeli recovery was already underway. Israel received at that time many compliments for its monetary policy from **Dr. Nouriel Roubini**, **Merrill Lynch**, **The Wall Street Journal**, and many others. Over the last year, the Bank of Israel interest rate was gradually raised from 0.75% in September 2009 to 1.75% in September 2010.



See more extended economic data in our [Economic Highlights PowerPoint Presentation](#)

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

### Israel sold 8.33% of Discount Bank to UBS

In July, the State of Israel sold 8.33% of the shares of Discount Bank to the investment bank UBS, which won a competitive proceeding, for a consideration of NIS 552,688,172. Four foreign investment banks entered bids in the tender.

In the transaction, executed by Finance Ministry Accountant General **Shouky Oren** according to the instructions of Finance Minister Dr. **Yuval Steinitz**, UBS purchased 8.33% of the shares of Discount Bank at an average price of NIS 6.789 per share, or a total of NIS 552,688,172. As part of the deal, the government agreed to sell no additional shares of the bank for ninety days.



See more:  
[Ministry of Finance Press Release](#)  
[Discount Bank](#)  
[UBS](#)

Both foreign and Israeli investors participated in the sale. This is the first time that a buyer bank (UBS) in a block-trade sale of bank shares has succeeded in generating sufficient demand in order to exercise this option.

Following the completion of the transaction, the State of Israel holds 11.67% of the shares of Discount Bank. The state also holds approximately 10% of the shares of Bank Leumi.

(Source: Ministry of Finance)

## From The Press

### World Economic Forum Global Competitiveness Report 2010-2011: Israel Ranked 24<sup>th</sup>

Israel climbed 3 ranks from 27<sup>th</sup> to 24<sup>th</sup>.

See more on the WEF 2010-2011 report in our [Economic Highlights PowerPoint Presentation](#)



(Source: World Economic Forum, Globes)

### Israeli Academia in 2010 Shanghai Ratings

The 2010 Academic Ranking of World Universities (ARWU) was released on August 15:

[The Hebrew University of Jerusalem](#) is ranked 72<sup>nd</sup> in the general top 100 and 5<sup>th</sup> in Asia!

Within the sub-ranks:

- [The Hebrew University of Jerusalem](#) is ranked 46<sup>th</sup> in **Social Sciences**.
- [The Weizmann Institute of Science](#) is ranked 46<sup>th</sup> in **Natural Sciences**.
- [Tel Aviv University](#) is ranked 26<sup>th</sup> in the world for studying **Mathematics**.
- [The Weizmann Institute of Science](#) is ranked 12<sup>th</sup> in the world for studying **Computer Science**.
- [The Technion](#) is ranked 14<sup>th</sup> in the world for studying **Computer Science**.

The [Academic Ranking of World Universities](#) was founded and compiled by the Shanghai Jiaotong University. Since 2009, the rankings have been published by the Shanghai Ranking Consultancy. In addition, "The Scientist" magazine ranked [The Weizmann Institute of Science](#) 2<sup>nd</sup> best place to work in academia, with [The Hebrew University of Jerusalem](#) as 5<sup>th</sup> best place to work in.

(Source: arwu.org, The Scientist Magazine, Hebrew University of Jerusalem, Tel Aviv University, Weizmann Institute of Science, Technion)



### Israeli Start-Up 'Soluto' won the Prestigious TechCrunch Disrupt Competition



(Source: TechCrunch, Soluto, Israel21c)

Tel Aviv based Start-Up [Soluto](#) won the prestigious [TechCrunch](#) competition with its lead product - software download that checks your PC's boot problems and offers suggestions for how to make things go more smoothly. As the winner, Soluto's team, led by CEO **Tomer Dvir**, received a \$50,000 prize - along with invaluable publicity including write-ups in newspapers and websites around the world, and the 'buzz' that invariably accrues around significantly increased use. Soluto was founded in 2007, and has raised about \$8 million in financing. Investors include [Proxima Investments](#), [Giza Venture Capital](#), and US-based [Bessemer Investments](#), among others.

### Newsweek: Israel ranked 22 out of 100 in 'The World's Best Countries'



A [newsweek](#) study of health, education, economy and politics ranked the globe's "true national champions". Israel was ranked 22<sup>nd</sup>, between Italy and Spain.

[Explore the World's Top 100 Countries](#)

(Source: Newsweek)

### Forbes & Gallup survey finds: Israel is 8<sup>th</sup> happiest place in the world to live in



[Forbes](#) published a Gallup survey in July, ranking the world's happiest countries. Israel was ranked 8<sup>th</sup>, with Switzerland, Austria and Canada.

[See Forbes' world's happiest countries](#)

(Source: Forbes)

# Environmental Economy News

## Utilities Authority approves first 8 mid-sized solar facilities

The Public Utilities Authority approved the first eight licenses for mid-sized solar energy facilities. The facilities of 50 kilowatts to 5 megawatts each will be placed on roofs of malls in Beit Shemesh, Beer Tuvia, Tiberias, Karmiel, Kanot Junction, and elsewhere



Licenses for mid-sized facilities became possible following a settlement guaranteeing the facilities owners a tariff of NIS 1.49 per kilowatt/hour.

(Source: Public Utilities Authority, Globes)

## BIRD Invests \$4.2 Million in Cooperative Clean Energy Projects

Israel-U.S. Binational Industrial Research and Development Foundation ([BIRD](#)) will invest \$4.2 million in 5 clean energy cooperative projects.



BIRD works to encourage cooperation between Israeli and U.S. technology companies and provides assistance in locating strategic partners from both countries for developing joint products. During its 33 years, BIRD has invested in more than 800 projects which have yielded direct and indirect revenues of about \$8 billion.

(Source: BIRD, AICC)

## Tender for the Construction of a Photovoltaic Power in Ashalim

The Inter-Ministerial Tender Committee for the Construction of Solar Power Stations at Ashalim published the documents in the public tender for the construction of a **photovoltaic power station** with a capacity of 30 MW.

The tender is on a **build-operate-transfer (BOT)** basis, with the winner required to finance, build, operate and maintain the power station during a concession period totaling 27 years, at the end of which it will transfer the power station to the state.

This is the second stage in the tender process, following an initial prequalification stage in which ten bidding groups were short-listed.



According to the timetable set by the committee, the deadline for submitting bids in the tender is **March 1, 2011**.

This power station is in addition to two thermo-solar power stations which are to be set up in the area, each with a capacity of 80-110 MW. The entire project is planned to provide 2% of Israel's total electricity production and constitutes a major milestone in meeting the government target of **generating 10% of electric power from renewable energy sources by 2020**.

(Source: Ministry of Finance)

## Towards Electric Vehicles Marketing in Israel

This August, initial [Renault Fluence ZE](#) prototypes arrived in Israel for field tests, prior to marketing, which is planned for next year. The cars are also due to participate in a system-wide test, covering the cars' ignition and battery replacement systems (there are currently two robotic battery replacement systems in the country), the remote management network, and other elements of the [Better Place](#) service model.

Also, [Zohar Solar Energy](#), together with [Coulomb Technologies](#)' Charging stations and [Colmobil Group](#) are in the midst of getting into the EV potential market in Israel, thus competing with Better Place.



COLMOBIL GROUP



Minister of Finance, **Dr. Yuval Steinitz**, during his visit to the Better Place Center in Pi Gilot, outside Tel Aviv, driving an EV.

(Source: Ministry of Finance, Globes, Calcalist, Zohar Solar Energy, Coulomb Technologies, Colmobile Group)

# Economic Figures

## Economic Data for Q1 2010

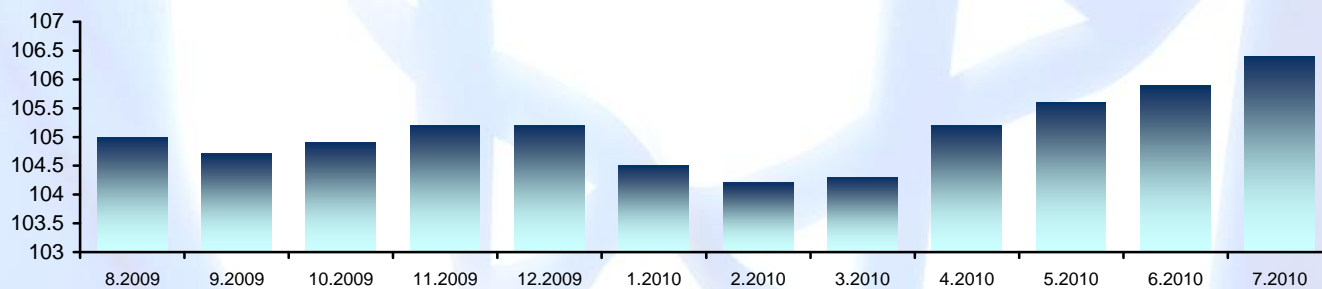
Data is calculated at an annual Year-on-Year rate of change  
Data from previous editions is constantly being updated

See more extended economic data in our [Economic Highlights PowerPoint Presentation](#)

	<u>2008</u>	<u>2009</u>	<u>Q1 2010</u>	<u>Q2 2010</u>
<b>GDP Growth</b>	4.2%	0.8%	3.6%	4.7%
<b>Business GDP Growth</b>	4.5%	-0.2%	4.6%	6.0%
<b>Private Consumption Growth</b>	3.0%	1.4%	2.8%	8.7%
<b>Public Consumption Growth</b>	2.1%	2.2%	1.8%	1.4%
<b>GDP Per Capita, Based On PPP For 2008:</b> 28,393\$				

## Consumer Price Index

Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010
105.0	104.7	104.9	105.2	105.2	104.5	104.2	104.3	105.2	105.6	105.9	106.4



## Foreign Trade Goods and Services

	<u>2008</u>	<u>2009</u>	<u>Q1 2010</u>	<u>Q2 2010</u>
<b>Import Growth</b>	2.4%	-14.1%	21.8%	8.3%
<b>Export Growth</b>	5.2%	-12.1%	5.5%	15.8%

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



## Balances

	<u>2009</u>	<u>Q4 2009</u>	<u>Q1 2010</u>
<b>Current account Surplus</b>	3.8%	5.5%	3.1%
<b>Budget Deficit</b> Central government	5.2%		
<b>Gross Debt (% of GDP)</b> General government gross financial liabilities	77.9%		

## Investments

	<u>2009</u>	<u>Q4 2009</u>	<u>Q1 2010</u>	<u>Q2 2010</u>
<b>Gross Domestic Capital Formation</b>	-8.9%	-35.5%	78.4%	-16.6%
<b>Gross Investments in Fixed Assets</b>	-6.0%	-9.0%	12.0%	10.9%
<b>Gross Israeli Investments Abroad (Billion\$)</b>	4.3\$B	5.3\$B	2.8\$B	3.3\$B
<b>Gross Foreign Investments in Israel (Billion\$)</b>	9.9\$B	2.9\$B	3.6\$B	0.7\$B
<b>Gross Foreign Direct Investments (Billion\$)</b>	3.9\$B	0.6\$B	0.3\$B	0.1\$B

See more extended economic data in our [Economic Highlights PowerPoint Presentation](#)

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

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