



STATE OF ISRAEL  
 MINISTRY OF FINANCE  
 INTERNATIONAL AFFAIRS DEPARTMENT

January 2011

# Economic Highlights

## 4<sup>th</sup> QUARTER 2010



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### Headlines



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## Latest News

### The Israeli Economy—Summary of 2010

Click here for the article

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### OECD Accession Seminar Held in Israel

In light of Israel's acceptance to the OECD, a two day seminar was held on how to maximize the benefits of Israel's membership.

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### IMF Initial 2010 Statement on Israel

Concluding Statement of the Mission to Israel, prior to the submission of the 2010 Annual Report on was submitted in November.

❖ [Read More](#)



### Main Provisions of the 2011-2012 State Budget



(Source: Ministry of Finance)

Main priorities of the 2011-2012 budget are education, health and social welfare. In addition, it sets out to promote high-tech industries, increase growth potential, reduce bureaucracy, increase integration of Haredim and Arabs into the workforce, and more.

Government expenditure is expected to increase by 2.6% in 2011 and 2012 alike, compared to the base budget for the previous year. This implies a real growth by NIS 8.7 billion in 2011 and NIS 7 billion in 2012. The minister of finance assures that the budget will achieve this while keeping to the target deficit of 3% (NIS 26 billion) for 2011, and 2% (NIS 18.3 billion) for 2012.

Israel's biennial budget received many compliments from the [IMF](#), [OECD](#) and more.

❖ [Read More](#)

 [Major Provisions of the 2011-2012 Budget in English](#)

 [Objectives of Economic Policy 2011-2012](#)

### New Wage Agreement with the 'Histadrut' Labor Federation

**Public Sector Employees to Receive a 6.25% Pay Rise over 3.5 Years. Further, "industrial peace" will be maintained for six additional months, until the end date of the biennial budget in December 2012.**

Minister of Finance, **Dr. Yuval Steinitz**, and Chairman of the Histadrut labor federation, **Mr. Ofer Eini**, reached a new agreement regarding public-sector wages on November 2<sup>nd</sup>. Under the agreement, public-sector employees will receive a total pay increase of 6.25% over a period of 3.5 years, from January 2009 to the end of June 2012, or 1.78% each year.

Due to the importance accorded by the state and the Histadrut to increasing workers' pension savings, payments into pension plans will increase by two percentage points, from 17.5% to 19.5%. Employee pension payments will increase by 0.5% in January 2011, while employer contributions will grow by 0.5%; in January 2013, employee payments and employer contributions will grow by 0.5% again.

Minister of Finance: "We have reached an agreement that is good both for the Israeli economy and for the public-sector employees."

❖ [Read More](#)

(Source: Ministry of Finance)



## Summary of Draft Conclusions by the Sheshinski Committee

Due to latest estimations of natural gas findings offshore Israel, the Minister of Finance appointed a committee to examine the fiscal policy for the oil and gas resources in Israel, Headed by **Prof. Eytan Sheshinski**, On April 12, 2010.



The Committee published a draft of its main recommendations for the purpose of receiving comments from the public in November.

### Main Points of the Committee's Conclusions:

1. Maintaining the existing rate of royalties and some of the tax benefits.
2. Canceling the depletion deduction.
3. Oil and gas profits levy – the initial rate of the levy will be 20% and it will rise gradually to 60% according to the amount of the excess profits.
4. The proposed formula is of the R factor type:  $R \text{ factor} = \frac{\text{Net cumulative revenues}}{\text{Exploration and development expenses}}$
5. Financing development of the gas deposits – during the first years of production from the deposits under development, the Committee will recommend fiscal solutions to resolve the problem.
6. Application – The proposed changes will apply as of the date of the decision, to all oil and gas deposits, since this involves taxation of future profits.

### Significance:

- The share of the state and the public in the net profit after repayment of the investments from the sale of the gas and oil will increase from one third to about two thirds of the relatively profitable deposits.
- The increase in the state's share in the revenues will come mainly in later years in the life of the deposit. Therefore, the impairment of the debt repayment capabilities and the ability to establish the reserve is minor.
- The impairment of the entrepreneurs' incentives to operate in the industry is minimal, and will not result in non-development of existing and new deposits.
- The proposed system is gradual and suitable for a broad spectrum of global situations, and is geared respond dynamically to changes in price, or in the scope of the gas that is marketed, or to changing investment needs.



### See More:

❖ [Read More](#)

 [Full Summary of Draft Conclusions by the Sheshinski Committee](#)

 [Presentation Attached to the Summary of Draft Conclusions](#)

 [Full Sheshinski Committee report \(Hebrew\)](#)

 [Minister of Finance's address at the press conference before submission of the draft conclusions](#)

 ["The Land of Milk and Honey... And Natural Gas" from Q3 Economic Highlights](#)

(Source: Ministry of Finance)



Pastor Jomber Araujo Vladislav,  
the 3,000,001 tourist for 2010 in  
Israel

(Source: Ministry of Tourism, Ynet)

## 2010: A Record Year for Israel in tourism

More than 3 million tourists visited Israel so far this year, a new all-time-record. In October alone 404,000 tourists visited Israel, a 23% rise from last October of last year and a 34% rise from October 2008. Most incoming tourism in 2009 originated from (by order): U.S. (21% of all incoming tourism), Russia (15%), France (10%), U.K. (7%) and Germany (5%).

# Monetary News and Capital Market

## Tel Aviv Stock Exchange at an All-Time-Record

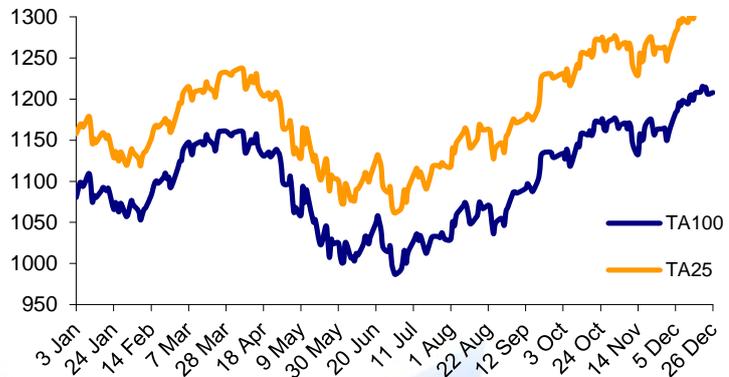
**On Tuesday, December 21st, the Tel Aviv Stock Exchange reached an all-time-record.**

The TA-25 index reached a new record at the value of 1,314.4 points.

The TA-100 reached a new record at the value of 1198.91 points.

Graph: Daily closing index value in 2010, updated to December 26<sup>th</sup>.

(Source: Tel Aviv Stock Exchange)



## Final Steps in Israeli Discount Bank Privatization

### An historic day for the Israeli economy

The State of Israel sold its remaining holdings (11.69%) in shares of Israel [Discount Bank](#). The final tranche was sold to the [Citigroup investment bank](#) for NIS 832 million on October 25th, reflecting a price per share of NIS 7.255, which was slightly above the share's closing price. With this transaction, the State of Israel completed the privatization process of the bank.



In July 2010, the State of Israel sold 8.33% of the shares of Discount Bank to the investment bank [UBS](#) for NIS 552,688,172. In the beginning of 2010, the State of Israel also sold a 5% stake of Israel Discount Bank to [Deutsche Bank](#), which won a closed tender.

Minister of Finance, **Dr. Yuval Steinitz**, commented on the privatization process completion on October 25<sup>th</sup>: "This is an historic event. 27 years after the bank share crisis which led the government to nationalize the majority of Israel's banks, the government today is selling its remaining shares in Israel Discount Bank, thereby completing the privatization of an additional bank. At the beginning of the year I announced that the Ministry of Finance intended to sell the remaining government shares in the banks, and today we have completed a major part of this process. An additional task now remains – the sale of [Bank Leumi](#) shares."

### See More:

- ✦ [Read More](#)
- ✦ [The State of Israel Sells Its Remaining Stake in Israel Discount Bank to Citigroup for NIS 832 Million](#)
- ✦ [A 5% stake of Discount Bank equity sold to Deutsche Bank in January](#)
- ✦ [An 8.33% stake of Discount Bank equity sold to UBS in July](#)
- ✦ [Discount Bank](#)
- ✦ [Citigroup Investment Bank](#)
- ✦ [Deutsche Bank](#)
- ✦ [UBS](#)

(Source: Ministry of Finance)

## From The Press

### Warren Buffett seeks new Investments in Israel

#### Watch:

❖ [Full interview](#)



In an interview screened at the Ministry of Industry, Trade and Labor Social Economic Conference, **Warren Buffett**, chairman of Berkshire Hathaway and the third richest man in the world, expressed his aspiration to make further investments in Israel.

Buffett, who in 2006 invested \$4 billion in Israeli [Iscar Metalworking Cos.](#), expressed his belief in Israel's sustainable advantage in the business market on a global scale. He continued to address the extraordinary energy and brain power found in Israel, acknowledging the young age of the state and how it has raised itself from nothing. He went on and expressed his interest in acquiring further companies in the state.

(Source: Ministry of Industry, Trade and Labor, Ministry of Foreign Affairs, Globes, TheMarker, Forbes)

### Citigroup congratulates Israel on its growing economy

**Vikram Pandit**, CEO of [Citigroup](#), expressed his confidence in the Israeli economy while on a visit to Israel. During a press conference he congratulated President of Israel **Shimon Peres**, Prime Minister **Benjamin Netanyahu** and Minister of Finance **Dr. Yuval Steinitz** on the way they have tackled the financial crisis and kept growth high and the deficit and unemployment low. He went on to describe Israel as entrepreneurial, original, productive and with huge growth opportunities.

Citigroup, which has been active in Israel for ten years, are keen to be part of the growth they can see in the Israeli market. **Vikram Pandit** expressed interest in the oil and gas drillings as well as the future market of payments via mobile phones. More immediate matters are to strengthen Citi's local branch in the corporate banking sector and expand overall operations.

(Source: Globes, Citi)



### Israelis are Europe's second most frequent credit card user

Israel ranks second in credit card use in Europe with an annual use of 4,925 € compared to the average of 2,432 €, according to data from [Leumi Card Ltd](#). The transaction of the Israeli consumer is smaller than the European average, something they make up for by making more than double the average amount of transactions. The Israeli way of using a credit card for every day small purchases is the way [Visa Europe](#) sees the future.



With new technology that will allow us to use our mobile phones to make purchases Visa Europe hopes to reduce the use of cash even further. Israeli credit card purchases amount to 13% of private consumption, almost as much as cash which makes up 14%, according to the Israel Central Bureau of Statistics.

(Source: Globes, Visa Europe)

### Israel ranked 15th in Human Development Index

Up 12 places from 2009, Israel ranked 15<sup>th</sup> on the human development report issued by the UN Development Programme. The report evaluates countries on the basis of income, education and health and is set out as a complement to purely economic indicators.



❖ [2010 Human Development Index](#)

(Source: UN, UNPD, Ynet)

### US-Israel Business Initiative

The United States Chamber of Commerce has instigated the US-Israel Business Initiative to further the commercial ties between the countries on a long term basis. The Americans hope that increased trade with Israel will create high quality jobs in the US as it recognizes Israel as a global powerhouse and source of entrepreneurship.



(Source: Globes, US Chamber of Commerce)

# Environmental Economy News

## CNN Reports on Israeli Water-Recycling Technology



MME takes a look at a company that is using nuclear technology to turn a profit to combat scarce water supplies.

❖ [Watch](#)

(Source: CNN)

## Government Purchases NIS 250 Million worth of Renewable Energy

For the first time in Israeli history the government signed a power purchase agreement for renewable energy. The deal was made with Ketura Sun, a joint venture of the Arava Solar Power Company and Kibbutz Ketura.



The joint venture runs a medium sized solar photovoltaic field that is expected to start producing in May 2011.

With the first deal signed, others are likely to follow. A representative of the Israel Electric Corporation (IEC) confirms that there are around 250 similar projects waiting.

(Source: Arava Power, Jerusalem Post)

## Cost of Carmel Fire

The fire that ravaged the Carmel area in the first days of December has been estimated to have cost NIS 100-120 million in addition to the tragic loss of lives and the damage caused to the forest.



In order to speed up the rehabilitation activities, the cabinet decided to reduce the bureaucratic process by exempting these activities from tenders. The government has been focused on acting efficiently and quickly in order to restore the affected families to their homes and lives as soon as possible.

On the first day of the fire, the Ministry of Finance donated NIS 2500 to every person whose home had been destroyed. An immediate investment of NIS 25 million was made to repair the damaged sewage infrastructure in the area as well as an advance payment of NIS 3 million to the Osafiya municipality for immediate damage control.

In addition to this four families have been recognized as bereaved families under the 1950 Families of Fallen Soldiers Law and will receive compensation as their respective family member acted in order to save lives.

(Source: Ministry of Finance, Prime Minister's Office, Haaretz)

## NIS 2.2 Billion to Reduction of Greenhouse Gases

The cabinet has approved a ten year investment of NIS 2.2 Billion to be spent on greenhouse gas emission reduction.

While reducing pollution the aim is to improve the economy through monetary savings from reduced use of electricity and fuels, improved public health and quality of life, increased energy independence and by incorporating Israel into the global efforts to overcome climate change.

Minister of Finance **Dr. Yuval Steinitz** commented that "The program links promotion of environmental interests and the economic opportunities open to the Israeli economy, thereby supporting sustainable growth".

The money is to be allocated for green construction, education and information projects, promotion of new Israeli technologies and reduction of domestic electricity and industrial emissions.

(Source: Prime Minister's Office, Ministry of Finance, Science Daily, AFP)



# Economic Figures

## Economic Data

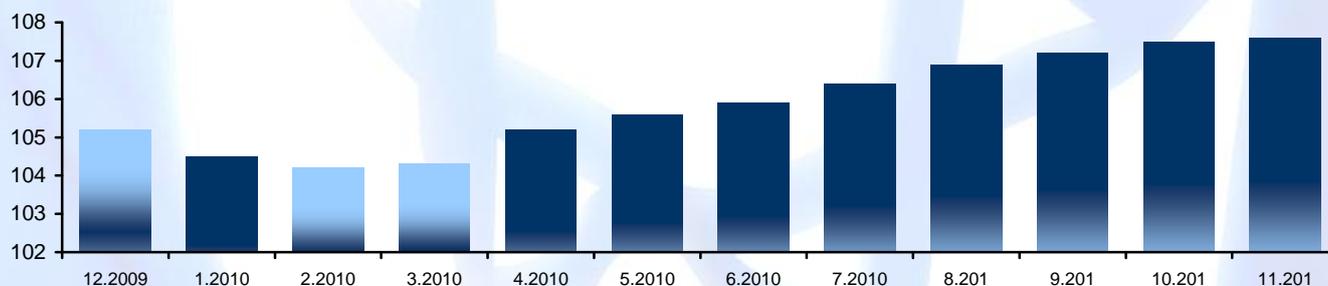
Data is calculated at an annual Year-on-Year rate of change  
Data from previous editions is constantly being updated

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

	<u>2008</u>	<u>2009</u>	<u>Q2 2010</u>	<u>Q3 2010</u>
<b>GDP Growth</b>	4.2%	0.8%	4.5%	3.8%
<b>Business GDP Growth</b>	4.7%	0.1%	5.1%	3.9%
<b>Private Consumption Growth</b>	3.0%	1.4%	6.7%	1.3%
<b>Public Consumption Growth</b>	2.1%	2.2%	1.1%	10.2%
<b>GDP Per Capita, Based On PPP For 2009:</b> 28,581\$				

## Consumer Price Index

Dec 2009	Jan 2010	Feb 2010	Mar 2010	Apr 2010	May 2010	Jun 2010	Jul 2010	Aug 2010	Sep 2010	Oct 2010	Nov 2010
105.2	104.5	104.2	104.3	105.2	105.6	105.9	106.4	106.9	107.2	107.5	107.6



## Foreign Trade Goods and Services

	<u>2008</u>	<u>2009</u>	<u>Q2 2010</u>	<u>Q3 2010</u>
<b>Import Growth</b>	2.4%	-14.1%	5.9%	-4.6%
<b>Export Growth</b>	5.9%	-12.5%	13.9%	-9.6%

(Source: Ministry of Finance – Department of Economics and Research, Central Bureau of Statistics, IMF)

## Balances

	<u>2009</u>	<u>Q2 2010</u>	<u>Q3 2010</u>
<b>Current account Surplus</b> As % of GDP	3.9%	4.3%	4.2%
<b>Budget Deficit</b> Central government	5.2%	[Hatched Area]	
<b>Gross Debt (% of GDP)</b> General government gross financial liabilities	77.6%		

## Investments

	<u>2009</u>	<u>Q1 2010</u>	<u>Q2 2010</u>	<u>Q3 2010</u>
<b>Gross Domestic Capital Formation</b>	-8.9%	81.0%	-22.4%	11.5%
<b>Gross Investments in Fixed Assets</b>	-5.8%	19.9%	16.2%	9.7%
<b>Gross Israeli Investments Abroad (Billion\$)</b>	20.8\$B	6.3\$B	7.6\$B	3.4\$B
<b>Gross Foreign Investments in Israel (Billion\$)</b>	10.0\$B	3.9\$B	1.7\$B	2.2\$B
<b>Gross Foreign Direct Investments (Billion\$)</b>	3.9\$B	0.3\$B	-0.5\$B	0.6\$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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