



STATE OF ISRAEL
MINISTRY OF FINANCE
INTERNATIONAL AFFAIRS DEPARTMENT

March 2011

Economic Highlights

1st QUARTER 2011



Website: www.financeisrael.mof.gov.il



Follow us on [Twitter](#)



Email: financeisrael@mof.gov.il









Like us on [Facebook](#)

Table of Contents

| | |
|---|----------|
| Headlines | 1 |
| Latest News | 2 |
| Monetary News and Capital Market | 3 |
| From The Press | 5 |
| Environmental Economy News | 5 |
| Economic Figures | 7 |
| Contact Information | 8 |

Headlines

| | | |
|---|---|--------|
|  | The Israeli Economy Grew 5.4% in the Second Half of 2010 | Page 2 |
|  | The Sheshinski Committee Submitted its Final Conclusions | Page 2 |
|  | IMF Published its Article IV on the Israeli Economy for 2010 | Page 3 |
|  | Israel Sold 5% of Bank Leumi's Shares to UBS Investment Bank | Page 4 |
|  | Recognition of Israeli Regulations on Prospectuses in Europe | Page 5 |
|  | Clean-Tech Developments in Israel | Page 6 |

Latest News



Recent Developments and Outlook of the Israeli Economy

Presentation by the Economics and Research Department.

 [View Presentation](#)

Developments in the Israeli Economy: Annex to the 2011-2012 State Budget Review by the Office of the Director General and the Economics and Research Department

 [Read Review](#)



The Israeli Economy Grew 5.4% in the Second Half of 2010

Israel's GDP rose 5.4% in 2010's second half according to an annual calculation

Minister of Finance, **Dr. Yuval Steinitz**, noted that these figures project on the success of Israel's original and responsible economic policy, including the Containment and Breakthrough program and Israel's biennial budget for the years 2009-2010. This policy, alongside the Bank of Israel policy, agreements with the

Histadrut in the public sector and Israel's private sector led Israel to its current remarkable achievements in comparison to other OECD members. Minister Steinitz also added that with Israel's biennial budget for the years 2011-2012, fiscal compliance and cooperation between several factors in the economy, Israel could sustain such a growth rate and have it felt throughout all layers of society.

(Source: Ministry of Finance, Central Bureau of Statistics, Ynet)



The Sheshinski Committee Submitted its Final Conclusions

Final Conclusions by the Committee to Examine the Policy on Oil and Gas Resources in Israel, Headed by Prof. Eytan Sheshinski released on January 3, 2011.

The Committee has decided to leave the rate of royalties the same at 12.5%, while implementing alternative fiscal tools for the purpose of increasing the state's share. The initial rate of levy will be 20% and rise gradually to 50% according to the amount of excess profits, which is 10% lower than originally proposed (20% raised to 60%). Furthermore, the share of the net profit for the state and public will increase from one third to 52%-62%.

The outcome of these fiscal changes will ensure that the cash flow of the projects during the debt repayment period will not be impaired which will safeguard the ability to finance the ventures. By reducing the maximum tax rate the state's share in the profits is reduced, which keeps it on par with the accepted rate of taxes in most countries in which these operations are conducted.

On January 23, the Cabinet approved the final conclusions by the Committee, and on February 20, the ministerial legislative committee approved a bill by Minister of Finance, **Dr. Yuval Steinitz**, to implement the Sheshinski Committee recommendations. On February 28, the final conclusions by the Committee were passed their first Knesset reading With broad-based support among both coalition and opposition members.

- ❖ [Read More](#)
- ❖ [See the full Committee reports](#)

(Source: Ministry of Finance, Globes, Jerusalem Post)



The Negev Desert - From Backwater to High-Tech Haven

Read about former and future developments in the south of Israel, in the fields of High-Tech, Clean-Tech and R&D. ❖ [Read More](#) (Source: Ministry of Foreign Affairs)

Ministry of Finance & Ministry of Industry, Trade & Labor Launch Dedicated Plan to Strengthen Commercial Ties with India & China



State of Israel to invest NIS 100 million in aid to Israeli companies operating in the markets of India and China.



The joint Ministry of Finance and Ministry of Industry, Trade and Labor committee for increasing exports to East Asia, headed by the Director General of the Ministry of Finance, **Mr. Haim Shani**, has formulated a dedicated plan for strengthening trade ties with China and India and allocating a government budget for the purpose.

❖ [Read More](#)

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

Israel to Establish a Governmental CIO

The Cabinet has approved the proposal by the Minister of Finance, **Dr. Yuval Steinitz**, initiated together with the Minister of Improvement of Government Services, **Michael Eitan**, to establish a government computing unit to streamline its work, improve cooperation with public entities and improve the level of service provided to citizens.

❖ [Read More](#)

(Source: Ministry of Finance)

IMF Article IV on the Israeli Economy for 2010



The IMF published its Article IV on the Israeli Economy for 2010 on January 24, 2011.

The staff report for the 2010 Article IV consultation was prepared by a staff team of the International Monetary Fund (IMF), following discussions with officials in Israel on economic developments and policies.

The 2010 Article IV discussions were held in Jerusalem and Tel Aviv during November 17–29. The mission met with Minister of Finance, **Dr. Yuval Steinitz**, Governor of the Bank of Israel, **Prof. Stanley Fischer**, representatives of the Prime Minister's Office, and other senior officials, academics, and private sector representatives. The IMF submitted the Concluding Statement of the Mission to Israel November 29, 2010.

❖ [Read More about IMF Initial 2010 Statement on Israel](#)

According to the Staff Report, released on January 24, 2011, Israel passed through the global recession swiftly: following a moderate slowdown in 2009, Israel's economy has rebounded decisively, as the recovery was led by consumption and exports.

Credit from domestic and foreign sources to households has been buoyant, and employment was held up well alongside domestic demand. The shekel appreciated, house prices soared, and policies were tightened promptly, once growth was again entrenched.

The report concludes that Israel was well prepared for the global recession, and responded decisively to it. As a result, growth remained positive. The current challenge for the Israeli economy, according to the report, is to sustain growth and low inflation while boosting medium-term prospects—in the context of continued global uncertainty, NIS appreciation, and a housing market that is overheating.

❖ [Read More](#)

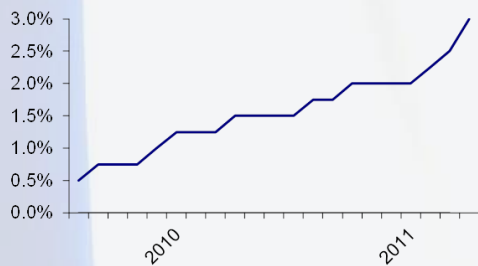


[IMF Article IV for Israel - 2010](#)

❖ [Israel and the IMF](#)

(Source: IMF, Ministry of Finance)

Monetary News and Capital Market



The Bank of Israel Increased the Interest Rate up to 3%

During the 1st quarter of 2010, the Bank of Israel interest rate was gradually raised from 2% to 3%.

In August 2009, the Bank of Israel was the first in the western world to raise interest since the outburst of the economic crisis. Since then, the interest rate was gradually raised to its current level.

(Source: Bank of Israel)


Israel Sold 5% of Bank Leumi's Shares to UBS Investment Bank

On January 19, the Accountant General's Department closed the sale of a package of 5% of Bank Leumi's shares to UBS Investment Bank.

Following approval from the Knesset's Finance Committee, nine investment banks were approached and offers were received from six of them. UBS offered a total of NIS 1,297,535,526. The last transaction executed by the state in Leumi's shares was in January 2006, when 10% of Leumi's shares were sold to the Gabriel Cerberus Group.



This sale process was the fourth such process executed by the state since the beginning of 2010; the three other sale processes were for the sale of 25% of the shares of Discount Bank. Following the present transaction, the state of Israel will be left with 6.5% of Leumi's shares, of which 1% will be sold to Leumi's employees.

 [Read More](#)

❖ [Final Steps in Discount Bank Privatization](#)

❖ [Bank Leumi](#)

❖ [UBS](#)

(Source: Ministry of Finance)

Barclays to establish R&D center in Israel to support their global operations

Under the Israeli Government's Competitive Advantage Program, Barclays Capital is to establish a research and development center in Israel to support the investment bank's global operations.

The [Barclays Capital](#) investment bank announced plans to open a technology research and development center in Israel, to be called the Israel Development and Engineering Center (IDEC). The center, which is to open in Tel Aviv, will supply development and engineering services meant to support Barclays' international financial activity. Barclay's plans on hiring 200 Israeli employees trained in technology and finance.



The decision to establish the center was made by the Barclays Group's management following the unveiling of the government's Competitive Advantage program to promote high-tech industries in Israel, which was formulated by the Ministry of Finance and the Ministry of Industry, Trade and Labor.

❖ [Read More](#)

(Source: Ministry of Finance, Barclay's)

From The Press

Recognition of Israeli Regulations on Prospectuses in Europe



Un-precedent: For the first time, ESMA will recognize prospectus approved by the regulators of a non EU country – Israel.

The [Israel Securities Authority](#) (ISA) and The [European Securities and Market Commission](#) (ESMA) have reached agreement for ESMA recognition of Israeli regulations on prospectuses of companies.

From now on, Israeli issuers may list their prospectus for shares on any EU regulated market, on the basis of a prospectus drawn up in accordance with Israeli regulation, with the addition of a 'wrap' which contains a number of supplementary disclosures.

The agreement gives Israeli companies exposure to a wider set of investors. It will also ease the process by which Israeli issuers may list on one EU regulated market and then apply that listing to other markets across the EU. EU retail investors will also benefit from a wider offer of securities.

(Source: Globes, Israel Securities Authority, ESMA)

Israeli "Silicon Wadi" becoming the New Silicon Valley

Mr. George Gilder, a famous tech oracle, announced that he is [taking a \\$1 million equity stake in Israeli company ASOCS](#). In another of his more famous investments, he identified [EZChip](#) – another Israeli enterprise – as a ripe opportunity in what he calls “the fiber speed paradigm.” Gilder noted he believes that “the leading edge of the U.S economy is in Israel”, and that “Israel is moving to the forefront in developing new technologies that are based on fundamental advances....So, Israel is a substitute for a somewhat temporarily declining Silicon Valley”.



Ms. Ester Levanon, CEO of the [Tel Aviv Stock Exchange](#) cited the lack of natural resources as a driving factor behind Israeli's start-up mentality. She also outlines the scope of the Israeli tech sector showing that 140 out of 600 companies listed on the TASE are tech companies with 51 of them being biomedical companies. She hopes to put Israel at the forefront of the region in terms of creating a hub for tech companies.



(Source: Forbes, Gilder Technology Report, Tel Aviv Stock Exchange)

Cooperating on Matters of Space



In order to increase cooperation Israel signed a Cooperation Agreement with the [European Space Agency](#) on January 30, 2011.

The agreement was signed between the Director General of the ESA and the Director General of the Israel Space Agency (ISA), **Dr. Zvi Kaplan**.

The agreement will allow for more intense cooperation on ESA projects. Discussions started in 2007 and will now allow for collaboration on areas of shared interest.

(Source: ESA, ISA, Ministry of Science and Technology)

Annual Review of Israeli High-Tech

The Israeli [High Tech Industry Association](#) (HTIA) and the Ministry of Foreign Affairs are to



collaborate on a new annual review on the Israeli High-Tech, in order to encourage foreign investment and ties with Israeli companies around the world.

"Israel's high-tech industry is perhaps more relevant than ever as the world moves into the next generation of computing" say **Dan Yachin**, IDC researcher and **Oren Raviv**, a tech analyst.

(Source: Globes)

Environmental Economy News

Clean-Tech Developments in Israel



"The world looks for two things in Israel: R&D and technology, as the global interest in Israel's energy R&D and technology is out of proportion to Israel's size ", says **Dr. Eli Oppor**, former Chief Scientist in the Ministry of Industry, Trade and Labor, during the [Eilat-Eilat Renewable Energy Conference](#), held in February. Clean-Tech technologies are at various stages of development in more than 26 incubators. Joining them is the Renewable Energy Technology Center, to be constructed in the Arava region.

In the coming years, though, Israel's R&D efforts will mainly focus on oil substitutes. Last February, the government decided on a national effort to develop technologies that reduce the world's use of oil in transport. The goal is for Israel to become a world knowledge center for oil alternatives. This will be achieved as, by 2016, more than 100 start-up companies and research projects are due to set up, with the involvement of 20 Israeli global companies. Also, about 100 research and academic groups in the field are to be formed.

"If Israel helps to solve the world's dependence on oil, it will turn out to have been a very important decision" Said **Dr. Eli Oppor** at the conference

(Source: Ministry of Industry, Trade and Labor, Eilat Eilat Renewable Energy Conference, Jerusalem Post)

Israel's Largest Desalination Plant Underway

The new facility, slated to be the world's largest reverse osmosis desalination plant is due to be completed in 2013.



The new desalination plant will be built by **SDL**, and will produce 150 million cubic meters of water each year.

SDL is 51% owned by [IDE Technologies](#) and 49% by [Hutchison Water](#), a unit of Hong Kong group [Hutchison Whampoa](#). Israeli conglomerate [Delek Group](#) owns 50% of IDE, with the other half owned by fertilizer maker [Israel Chemicals](#).

The group said that the plant will produce water at a cost of around NIS 2.01 (56 cents) per cubic meter. The current largest reverse osmosis desalination plant is in the Israeli town of Hadera, producing 127 million cubic meters per year.

(Source: Ynet, GreenProphet)

Israel Sets Standard for Electric Car Charging

The [Standards Institution of Israel](#) has set the standard for charging electric cars by cables.

The standard will apply to all companies involved in the electric car industry, including vehicle importers, suppliers of recharging infrastructures, electricity providers, government ministries, and the general public.

Standards Institution Director General, **Mr. Dan Goldstein**, said that "the Israel Standard combines creative elements, and has therefore drawn the attention of other national standards institutions."



[Better Place](#) is currently building its nationwide recharging network for electric cars, which are due to hit the roads in late 2011, with commercial quantities of cars due to operate in 2012.

(Source: Globes, Better Place)

Economic Figures

Economic Data

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

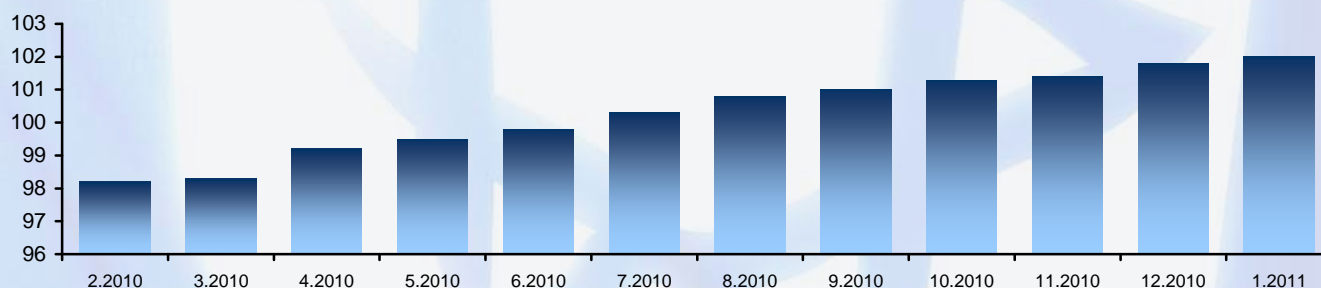
See more extended economic data in our [Economic Highlights PowerPoint Presentation](#)

| | <u>2009</u> | <u>2010</u> | <u>Q3 2010</u> | <u>Q4 2010</u> |
|--|-------------|-------------|----------------|----------------|
| GDP Growth | 0.8% | 4.6% | 4.6% | 7.7% |
| Business GDP Growth | 0.1% | 5.4% | 3.9% | 9.1% |
| Private Consumption Growth | 1.4% | 1.4% | 0.7% | 8.0% |
| Public Consumption Growth | 2.2% | 2.2% | 9.7% | 6.6% |
| GDP Per Capita, Based On PPP For 2009: 29,404\$ (estimated) | | | | |

Consumer Price Index

In 2008 prices

| Feb 2010 | Mar 2010 | Apr 2010 | May 2010 | Jun 2010 | Jul 2010 | Aug 2010 | Sep 2010 | Oct 2010 | Nov 2010 | Dec 2010 | Jan 2011 |
|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|----------|
| 98.2 | 98.3 | 99.2 | 99.5 | 99.8 | 100.3 | 100.8 | 101.0 | 101.3 | 101.4 | 101.8 | 102.0 |



Foreign Trade

Goods and Services

| | <u>2009</u> | <u>2010</u> | <u>Q3 2010</u> | <u>Q4 2010</u> |
|----------------------|-------------|-------------|----------------|----------------|
| Import Growth | -14.1% | 12.5% | -0.4% | 12.7% |
| Export Growth | -12.5% | 13.8% | 2.4% | 10.4% |

(Source: Ministry of Finance, Central Bureau of Statistics, IMF)

Balances

| | <u>2010</u> | <u>Q3 2010</u> | <u>Q4 2010</u> |
|--|-------------|----------------|----------------|
| Current account Surplus As % of GDP | 3.1% | 3.1% | 2.4% |
| Budget Deficit Central government | 3.7% | | |
| Gross Debt (% of GDP) General government gross financial liabilities | 75.0% | | |

Investments

| | <u>2010</u> | <u>Q2 2010</u> | <u>Q3 2010</u> | <u>Q4 2010</u> |
|--|-------------|----------------|----------------|----------------|
| Gross Domestic Capital Formation | 1.9% | -18.1% | -0.3% | 9.7% |
| Gross Investments in Fixed Assets | 12.4% | 22.8% | 20.2% | 15.7% |
| Gross Israeli Investments Abroad (Billion\$) | 27.0\$B | 7.2\$B | 3.9\$B | 9.7\$B |
| Gross Foreign Investments in Israel (Billion\$) | 17.9\$B | 2.0\$B | 3.7\$B | 7.2\$B |
| Gross Foreign Direct Investments (Billion\$) | 5.2\$B | -0.2\$B | 1.7\$B | 2.4\$B |

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

(Source: Ministry of Finance)

We Welcome Your Feedback



Follow us on [Twitter](#)



Like us on [Facebook](#)



Subscribe to our [RSS Feeds](#)



Subscribe to our [Newsletters](#)



Write us an [Email](#)



Visit our [Website](#)



Roni Hershkovitz

Director
Overseas Economic Information
International Affairs Department
Ministry of Finance
Jerusalem
Israel

Assaf Luxembourg

Overseas Economic Information
International Affairs Department
Ministry of Finance
Jerusalem
Israel

Lauren Abecassis-Kandravy

Overseas Economic Information
International Affairs Department
Ministry of Finance
Jerusalem
Israel