



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

August 3, 2010
2010-1550

Press Release

Budget Performance and State Revenues from Taxes for July 2010

Based on initial estimates of the Managerial Information Unit in the Accountant General's Office, the government in July had a NIS 0.9 billion deficit in its budget activity and a NIS 0.4 billion deficit in financing activity, including net credit granted.

In domestic activities the government had a NIS 0.2 billion deficit, while in external activities it had a deficit of NIS 0.7 billion.

From the beginning of the year until July, budget activities accumulated a NIS 10.9 billion deficit, out of NIS 42.9 billion in the original budget planning for the year, and compared to NIS 18.4 billion in the same period last year.

The accumulated 12-month deficit (from August 2009 to July 2010) rose to NIS 32.5 billion, compared to NIS 31.3 billion in the previous month (adjusted figures).

Expenditures in July totaled NIS 20.8 billion. Net of credit granted, government ministry expenditures for July totaled NIS 18.9 billion, 14.0% higher than the average for February-June, due to an increase in transfer payments of the social ministries (financing of convalescence pay in indirect wage payments), payment of clothing allowance for government employees and higher expenditures of the economic ministries, in particular the Ministry of Transport and Road Safety and the Ministry of Industry, Trade and Labor. Interest payments and principal repayment to the National Insurance Institute totaled NIS 1.9 billion.

Since the beginning of the year, government ministry expenditures have totaled NIS 113.9 billion, a 4.2% increase over the same period last year. The original annual budget for 2010 included a planned increase of 3.1% in ministry expenditures compared to the budget for 2009. Expenditures of the economic ministries (mainly the Ministry of Transport and Road Safety) are trending downward compared to the previous year. The performance rate of ministry expenditures from the original budget until July is 54.4%, 0.8% higher than the average performance rate for expenditures until July in the past five years.

Tax revenues totaled NIS 19.0 billion, compared to NIS 18.1 billion in July of last year (which was an exceptional month in terms of tax collection). Since the beginning of the year, tax revenues have totaled NIS 114.5 billion, constituting 62.5% of the original budget planning, and compared to NIS 102.7 billion for the same period last year.

In July the government had positive net capital funding activity totaling NIS 0.8 billion, as well as receipts of NIS 0.6 billion from the privatization of Israel Discount Bank. The government's bank balances grew by NIS 1.0 billion as a result of budget activities (deficit and its financing).

Below is a summary of the data.



STATE OF ISRAEL
MINISTRY OF FINANCE

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DEPARTMENT

Deficit and Its Financing – New – Budget Performance Estimate for July 31, 2010
(in NIS millions)

	Annual Budget Law	Cumulative Performance	Difference	Performance (%)	Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
Surplus (+) / deficit (-) excl. credit	-42,924	-10,908	32,016	25.41%	3,721	-3,061	-4,093	-1,392	-235	-4,996	-854
Domestic excl. net credit granted	-38,047	-8,992	29,055	23.63%	3,974	-2,802	-3,755	-1,322	58	-4,949	-195
External excl. net credit granted	-4,877	-1,917	2,960	39.31%	-252	-258	-338	-70	-293	-47	-659
Surplus+)/ deficit -	-38,797	-7,848	30,949	20.23%	4,269	-2,836	-3,734	-749	172	-4,564	-405
Domestic	-33,977	-5,958	28,019	17.54%	4,521	-2,578	-3,397	-678	439	-4,518	254
External	-4,820	-1,890	2,930	39.21%	-252	-258	-337	-70	-267	-47	-659
Revenues	217,241	133,951	-83,290	61.66%	18,652	16,241	22,755	19,199	20,204	16,466	20,434
Domestic revenues	205,859	127,086	-78,773	61.73%	18,214	15,247	21,508	18,099	18,957	15,184	19,879
Of which: debt collection-principal	5,174	3,469	-1,705	67.05%	604	306	456	709	435	484	476
External revenues	11,382	6,864	-4,518	60.31%	438	995	1,247	1,100	1,247	1,282	555
Of which: debt collection-principal	57	27	-30	47.37%			1		26		
Expenditures	256,037	141,799	-114,238	55.38%	14,383	19,077	26,489	19,948	20,032	21,031	20,838
Domestic expenditures	239,836	133,045	-106,791	55.47%	13,693	17,825	24,905	18,777	18,518	19,702	19,625
Of which: credit granted	1,104	436	-668	39.49%	57	81	98	65	54	53	27
External expenditures	16,201	8,754	-7,447	54.03%	691	1,253	1,584	1,170	1,514	1,329	1,214
Total financing	38,802	7,773	-31,029	20.03%	-4,347	2,902	3,730	745	-142	4,499	386
External loans (net)	3,602	1,342	-2,260	37.26%	-343	-639	4,949	-277	-726	-829	-792
External loans received	17,007	10,372	-6,635	60.99%	428	401	8,117	290	639	510	-13
External principal repayment	13,405	9,031	-4,374	67.37%	772	1,040	3,168	567	1,366	1,339	778
Domestic loans (net)	34,701	-4,383	-39,084		-2,272	4,154	-1,858	-2,021	2,324	-6,270	1,561
Domestic loans received	90,541	38,257	-52,284	42.25%	5,446	5,840	4,216	6,725	4,973	5,236	5,821
Domestic principal repayment	55,840	42,640	-13,200	76.36%	7,719	1,686	6,074	8,746	2,649	11,506	4,260
Net capital revenues	500	2,845	2,345	569.00%	436	330	919	-36	297	323	576
Privatization-domestic	500	2,845	2,345	569.00%	436	330	919	-36	297	323	576
Privatization-foreign currency											
Capital expenses											
Change in bank balances		7,968	7,968		-2,168	-943	-280	3,079	-2,037	11,275	-959



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

Deficit Excluding New Net Credit Granted – Budget Performance Estimate for
July 31, 2010
(in NIS millions)

	Annual Budget Law	Amended Budget	Cumulative Performance	Difference	Performance (%)							
						Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
Surplus(+)/ deficit(-) excl., net credit granted	-42,924		-10,908	32,016	25.41%	3,721	-3,061	-4,093	-1,392	-235	-4,996	-854
Domestic excl. net credit granted	-38,047		-8,992	29,055	23.63%	3,974	-2,802	-3,755	-1,322	58	-4,949	-195
External excl. net credit granted	-4,877		-1,917	2,960	39.31%	-252	-258	-338	-70	-293	-47	-659
Revenues excl. principal collection	212,009		130,454	-81,555	61.53%	18,048	15,935	22,298	18,490	19,743	15,982	19,958
Total taxes excl. VAT on defense imports	183,100		114,490	-68,610	62.53%	17,215	14,620	16,779	15,157	17,710	13,993	19,016
Income and property taxes	85,100		55,346	-29,754	65.04%	7,978	7,594	7,795	7,663	8,621	6,771	8,925
Customs and VAT excl. VAT on defense imports	93,300		56,030	-37,270	60.05%	8,815	6,606	8,571	7,047	8,639	6,756	9,596
Fees	4,700		3,113	-1,587	66.23%	422	420	413	447	449	466	495
VAT on defense imports	1,335		445	-890	33.33%		60	22	98	78	140	47
Debt collection- interest	2,300		1,767	-533	76.83%	300	234	247	239	268	241	239
Loan from the National Insurance Inst.	12,409		6,500	-5,909	52.38%			4,000	1,800	400	300	
Grants	9,900		6,117	-3,783	61.79%	437	891	1,151	1,008	956	1,151	522
All other revenues	2,966		1,136	-1,830	38.30%	96	131	99	188	331	157	133
Expenditures excl. credit granted	254,934	267,317	141,363	-113,571	55.45%	14,327	18,996	26,391	19,882	19,978	20,978	20,811
Ministries excl. credit granted	209,394	223,763	113,902	-95,492	54.40%	12,322	16,089	16,870	15,410	16,366	17,980	18,866
Administrative excl. sundry excl. credit granted	33,621	38,416	17,740	-15,881	52.76%	2,151	1,973	2,713	2,250	2,607	3,190	2,856
Social excl. credit granted	96,986	102,248	53,242	-48,744	54.90%	5,643	7,915	7,734	6,935	7,692	8,214	9,108
Economic excl. credit granted	16,571	21,160	7,189	-9,382	43.38%	361	723	1,177	951	1,216	1,198	1,563
Defense excl. credit granted	50,876	57,193	34,167	-16,709	67.16%	4,087	4,975	5,193	5,231	4,608	5,227	4,847
Sundry excl. credit granted	6,299	4,542	1,564	-4,735	24.83%	80	502	52	44	242	151	492
General reserve	5,041	204		-5,041								
Interest, principal to National Insurance and credit subsidies	45,540	43,554	27,461	-18,079	60.30%	2,005	2,908	9,521	4,472	3,612	2,998	1,946



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

Summary of Local Expenditures/Revenues – New – Budget Performance Estimate
(in NIS millions)

	January- July 2007	January- July 2008	January- July 2009	January- July 2010
Deficit(-)/Surplus(+)	11,676	7,628	-12,396	-5,958
Summary of revenues	128,194	130,069	115,803	127,086
Total taxes excl. VAT on defense imports	114,055	112,884	102,689	114,490
Income and property taxes	64,864	59,587	50,168	55,346
Customs and VAT excl. VAT on defense imports	46,296	50,527	49,724	56,030
Fees	2,895	2,769	2,798	3,113
Debt collection-principal	3,033	4,347	3,564	3,469
Debt collection-interest	1,543	1,321	1,370	1,680
Loan from the National Insurance Inst.	7,400	8,600	6,600	6,500
All other revenues	2,163	2,916	1,580	948
Summary of expenditures	116,518	122,440	128,199	133,045
Ministries	94,232	99,828	104,281	108,246
Administrative	16,107	15,146	18,099	18,587
Social	45,967	49,514	50,321	53,340
Economic	6,585	6,815	7,333	6,663
Defense Ministry	25,572	28,353	28,529	29,655
Interest, principal to National Insurance Inst. and credit subsidies	22,286	22,613	23,918	24,799
General reserve				



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

Summary of Foreign Expenditures/Revenues – New – Budget Performance Estimate
(in NIS millions)

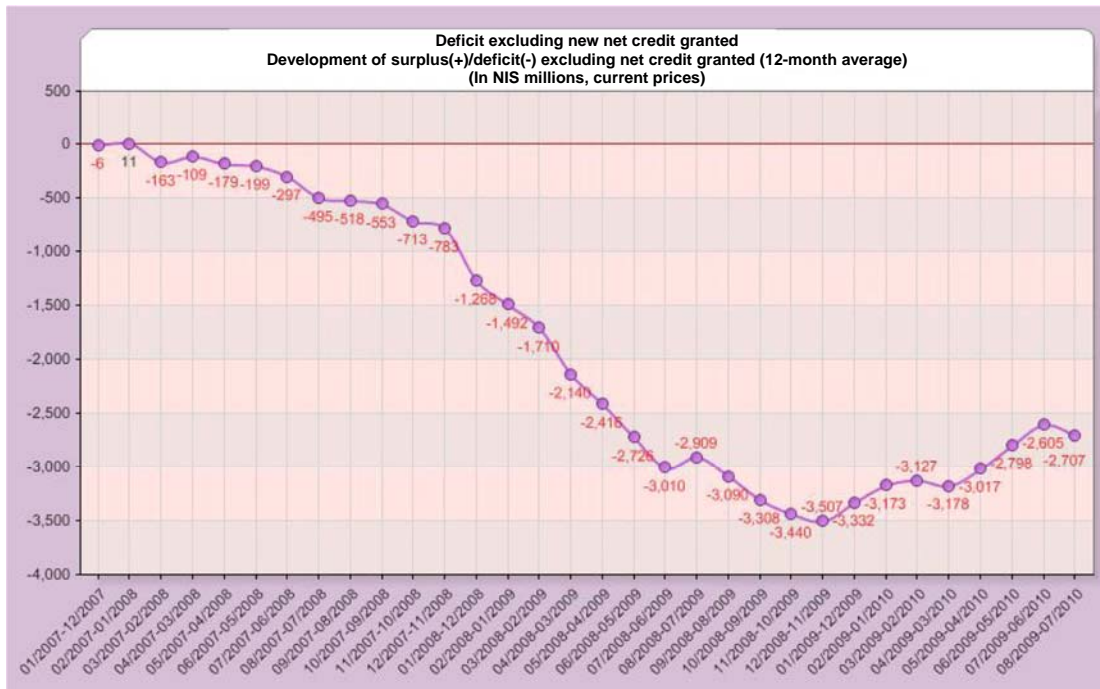
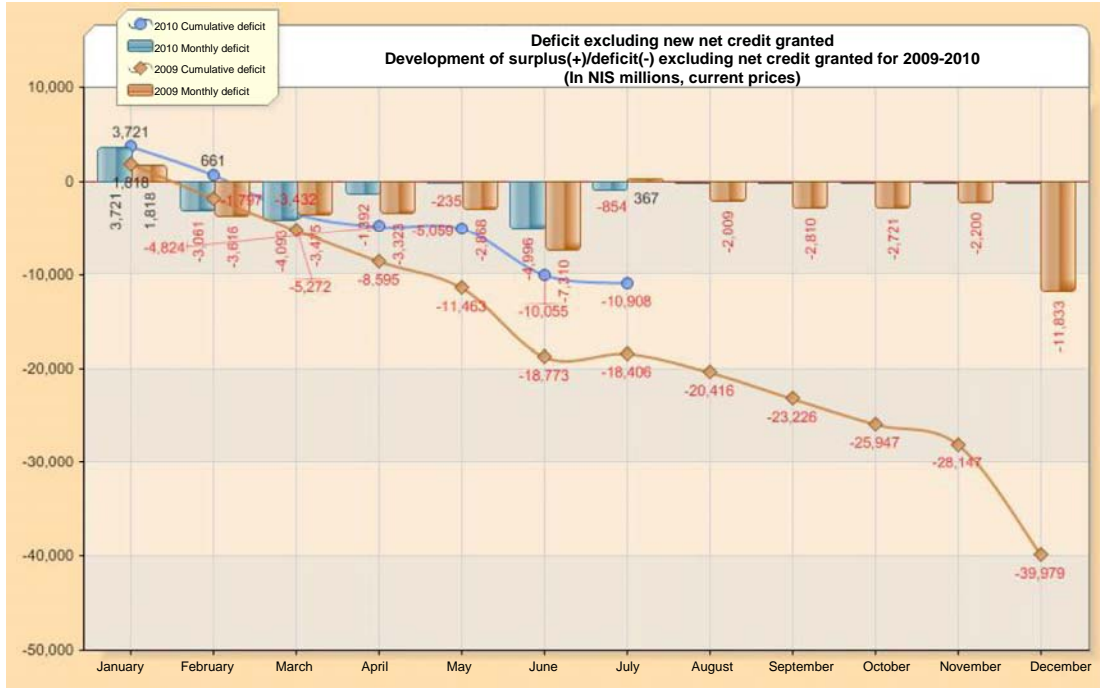
	January- July 2007	January- July 2008	January- July 2009	January- July 2010
Deficit(-)/Surplus(+)	-2,567	-2,287	-2,731	-1,890
Summary of revenues	7,275	6,707	5,399	6,864
Total taxes excl. VAT on defense imports				
Income and property taxes				
Fees				
VAT on defense imports	570	380	607	445
Debt collection-principal	111	41	56	27
Debt collection-interest	117	86	61	88
Grants	6,481	6,107	4,448	6,117
All other revenues	-4	92	227	188
Summary of expenditures	9,842	8,994	8,129	8,754
Ministries	6,538	6,207	5,348	6,092
Administrative	711	664	640	837
Social	15	23	9	155
Economic	28	480	435	589
Defense Ministry	5,785	5,040	4,265	4,512
Interest and commission payments	3,304	2,787	2,781	2,662



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT





STATE OF ISRAEL
MINISTRY OF FINANCE

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DEPARTMENT

In July 2010, state revenues from taxes and fees totaled NIS 19.0 billion

1. Total state revenues from taxes and fees

- In July 2010, revenues from taxes and fees totaled NIS 19.0 billion.
- **In uniform tax rates**, that is, net of legislative changes and adjustments, tax revenues increased by a real rate of 1.2% over the same period last year.

2. Israel Tax Authority revenues

- Israel Tax Authority revenues in July 2010 totaled NIS 18.5 billion, compared to NIS 17.6 billion in July 2009. Net of legislative amendments and adjustments, revenues increased at a real rate of 1.2% over the same period last year. A 14.7% increase was recorded in revenues from direct taxes, while revenues from indirect taxes declined by 8.9%, although this comparison does not reflect the true picture, since July 2009 was an exceptional month in the collection of indirect taxes – especially import taxes. Viewed from a broad perspective, indirect tax revenues in July 2010 were relatively high, exceeding early forecasts.
- The high revenues from direct taxes derive from three main sources: higher wage deductions following an improvement in the job market and a reduction in unemployment, an increase in corporate profits, and a rise in the collection of land taxes (mostly on a onetime basis). In indirect taxes, imports of consumer products and cars were relatively high, with a resulting effect on the collection of import taxes.
- The ITA revenue figures conform to the national economic development indicators as published by the Central Bureau of Statistics for the recent months (April-June 2010), which point to slower expansion in economic activity. Exports of goods declined by 11%, imports of raw materials grew by 6.9%, industrial production rose by 9.7%, takings in the trade and service sectors rose by 4.4%, and takings in the retail trade sector increased by 0.5%. The number of domestic overnight hotel stays fell by an annualized 2.5% following an increase of 1.0% in the previous three months, while the number of tourist overnight stays in hotels increased by 7%.
- **During January-July 2010, surplus tax (including fees) was collected in an amount of NIS 5.8 billion beyond the target set in the budget for 2010.** The increase in revenues is mainly due to stronger growth than estimated in the budget base.
- A trend analysis indicates an uptrend in direct taxes, although this trend should be regarded with caution, in view of its instability in recent years (2007-2009), with relatively frequent trend reversals. Indirect tax collection leveled off, with a tendency toward slight rises, following a period of a moderate upward trend starting from the second quarter of 2009.
- Israel Tax Authority revenues in January-July 2010 totaled NIS 110.9 billion compared to NIS 101.3 billion in the same period last year. Net of legislative amendments and adjustments, revenues rose by a real rate of 6.3%.



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

Direct Tax Revenues

- In July 2010, revenues from direct taxes totaled NIS 8.9 billion compared to NIS 7.4 billion in July 2009. Net of legislative amendments and adjustments, direct tax revenues increased by a real rate of 14.7%.
- **Deductions** – Collection via deductions in July 2010 totaled NIS 6.0 billion, a real increase of 8.6% compared to July 2009. The increase in collection occurred on the background of a drop in the unemployment rate to 6.5%. An analysis of the collection by sector shows an increase in the majority of sectors, most notably in the industrial sectors, at a rate of 23.5% (the industrial sectors account for 15.8% of collection via deductions). In contrast, the public services sector (accounting for 17.7% of collection via deductions) recorded a decrease of 5%, while the education sector (with a weight of 4.3%) was stable.
- **Capital market** – Collections from the capital market totaled NIS 205 million, down 3.3% from July 2009. These figures reflect the negative trends in the capital market, with the recent wave of declines reducing collection in the capital market. In the distribution between interest and securities, we see a decrease of 10.7% in interest collection and stability in collection on securities.
- **Income tax** – Income tax collection totaled NIS 3.6 billion in July 2010, a 9.6% increase over July 2009. Corporate tax collection registered an increase of 14.2%, whereas in tax collection from self-employed individuals there was a slight decrease of 1.2%. Preliminary data broken down by sector show that collection rose in most sectors. In the hospitality services sector there was a sharp increase of 72%, but this sector accounts for only 2.6% of income tax collection. The industrial sectors (accounting for 16% of income tax collection) recorded an increase of 35%, in contrast to the construction sector (5.5% of income tax collection), which registered a drop of 2.4%. The transport and communication sectors registered a 20% increase, while collection in the banking sectors rose by 3.7%. The real estate and business service sectors remained stable in real terms compared to July 2009.
- **Land taxes** – Revenues from land taxes totaled NIS 811 million, a real increase of 74% over July 2009. Purchase tax collection rose by 31% and appreciation tax collection by 138%. The increase both in purchase tax and in appreciation tax is attributable to the Tel Aviv region, with an 81% increase in purchase tax in this region and a 600% surge in appreciation tax (due to two land transactions at an exceptional value).
- **Refunds** – Refunds in July 2010 totaled NIS 1,406 million, 2% less than refunds in July 2009.

Indirect Tax Revenues

- **Indirect tax revenues** in July 2010 totaled NIS 9.6 billion, compared to NIS 10.2 billion in July 2009. Net of legislative amendments and adjustments, revenues decreased by a real rate of 8.9%. It should be noted that revenues in July of last year were exceptionally high, due to increased car imports ahead of the effective date of the "green taxation" reform. Therefore, although revenues may seem to have declined compared to the parallel month, in fact the level of revenues in July 2010 was higher than projected.



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

- **Value-added tax** – Revenues from value-added tax in July 2010 totaled NIS 6.5 billion, a real decrease of 4.9% compared to July 2009, attributable to a sharp rise in refunds at a rate of 30.6% over the same month. In import VAT there was a moderate increase of 2%, stemming from an 11% growth in the value of imports. Revenues from VAT on domestic production rose at a rate of 0.8% due to growth in real activity in the local market and in transactions.

Refunds rose by a sharp 30.6%. It is noted that the year 2009 was characterized throughout by a relatively low level of VAT refunds, with a gradual increase beginning already in the second quarter of the year. The scope of refunds in July 2010 reflects a continuation of this upward trend – a positive indicator heralding increased investments in the economy.

An analysis of the collection by sector shows stronger collection in the real estate and business service sectors compared to the same month in 2009 (an increase of 15%), as also in the community services sector (+30%). In contrast, collection in the industrial, electricity and water supply and construction sectors declined – due in part to higher refunds in these sectors.

3. Revenues from Government Ministry Fees

During January-July 2010, revenues from fees totaled NIS 3.1 billion, a real increase of 8% over the same period in 2009.



**STATE OF ISRAEL
MINISTRY OF FINANCE**

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INTERNATIONAL AFFAIRS
DEPARTMENT

Provisional Data on State Revenues from Taxes in July 2010

	July		January-July		Real Rates of Change*	
	2009	2010	2009	2010	July	January-July
Total taxes under budget definitions	18,101	19,016	102,690	114,489	2.9	8.2
Direct taxes under budget definition	7,411	8,925	50,168	55,347	18.0	7.1
Direct taxes under Israel Tax Authority definitions	7,660	8,959	51,262	56,383	14.6	6.8
Income tax, net	7,021	7,989	47,588	50,787	11.5	3.6
Income tax, gross	8,390	9,341	55,002	58,352	9.1	3.0
Income tax refunds	1,369	1,351	7,414	7,565	-3.3	-0.9
Capital market deductions, net	201	198	1,262	1,807	-3.6	39.0
Total land taxes	438	772	2,411	3,789	72.9	52.6
Adjustment to budget definition (a)	-249	-34	-1,094	-1,036		
Indirect taxes under budget definitions	10,218	9,596	49,725	56,030	-8.0	9.4
Indirect taxes under Israel Tax Authority definitions	10,244	9,547	49,997	56,289	-8.7	9.3
Net VAT, excl. VAT on defense imports	6,710	6,504	33,192	37,853	-5.0	10.7
Import VAT	2,844	2,950	16,283	19,278	1.6	14.9
Domestic VAT	5,494	5,648	28,683	32,640	0.7	10.5
VAT refunds	1,628	2,094	11,774	14,065	26.0	16.0
Total import taxes excl. VAT	2,189	1,568	9,325	9,507	-29.8	-1.0
Customs	223	264	1,365	1,617	16.0	15.0
Import purchase tax	1,966	1,304	7,960	7,890	-35.0	-3.8
Total domestic taxes excl. VAT	1,345	1,475	7,480	8,929	7.5	15.9
Domestic purchase tax	22	27	130	161	20.3	20.2
Fuel tax	1,254	1,379	6,906	8,306	7.8	16.8
Tobacco tax (b)	68	69	435	451	-0.6	0.7
Stamp tax	1	-	9	11		
Adjustment to budget definitions (a)	-26	49	-272	-259		
Fees and other mandatory payments	472	495	2,797	3,112	2.8	8.0

*Real rates of change compared to the same period last year, assuming an 0.7% increase in the July 2010 CPI over the June 2010 CPI.

**These revenues do not include revenue from VAT on defense imports.

(a) Timing differences, and in direct taxes, provision for compensation funds.

(b) Purchase tax on local manufactured cigarettes.