



STATE OF ISRAEL  
MINISTRY OF FINANCE  
INTERNATIONAL AFFAIRS DEPARTMENT

November 2008

# Economic Highlights

## 3<sup>rd</sup> QUARTER 2008

Dear Friend,  
Once again we are distributing our "Economic Highlights".  
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**Israel's economy remains strong, facing the world financial crisis.**  
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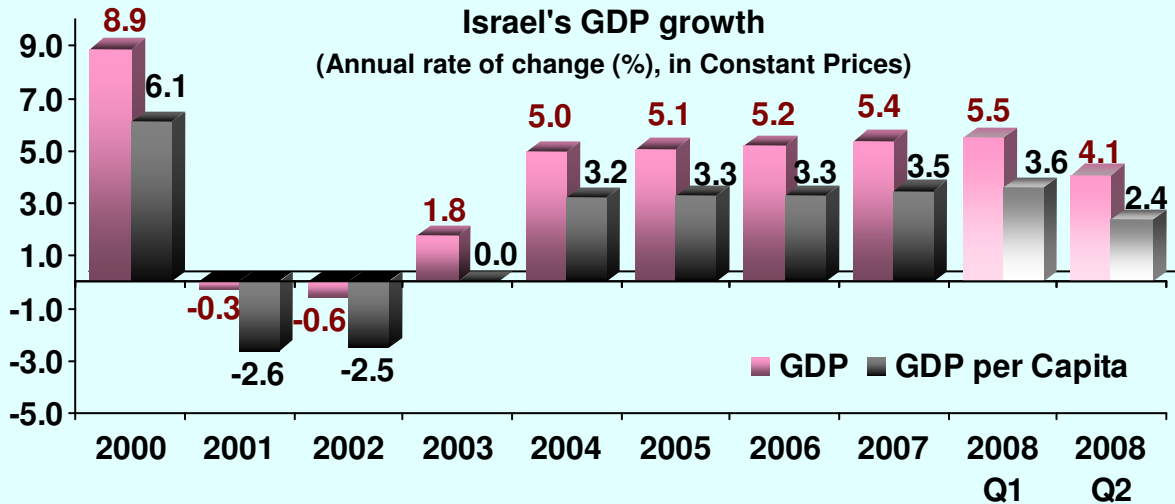


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## Latest News

### Israel in Light of the World Financial Crisis

In the past few years Israel's economy has benefited from high growth rates which were evident in the labor market, in the increase of the quality of life, and in the strengthening of the Israeli Shekel. This trend has remained the same so far in 2008, yet a slower pace.

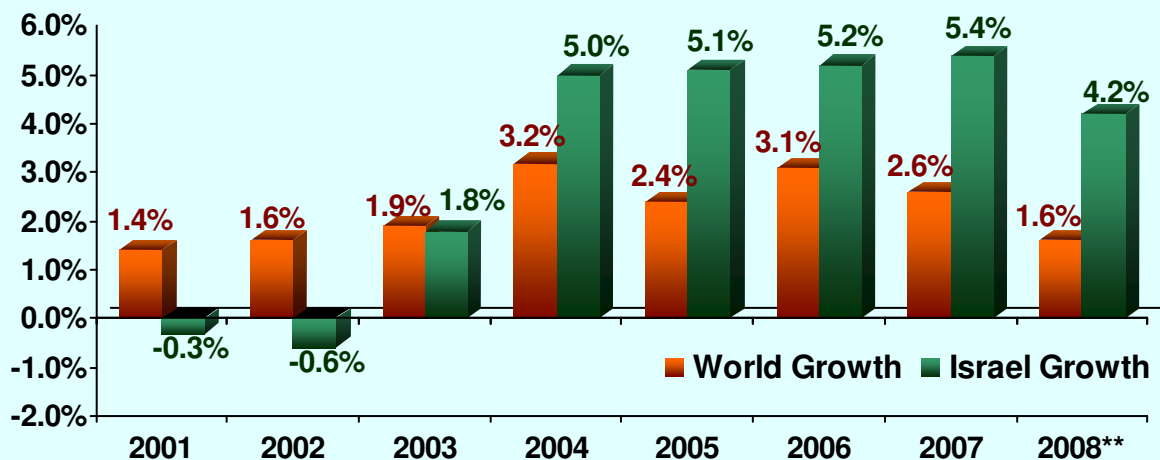


Israel is facing the global crisis well prepared after five years of high growth rates, low unemployment rates and responsible fiscal policy.

However, being a small and open market, Israel is expected to be affected by the global developments. This could result in a decrease in the growth rate of export, consumption, investments and possible trouble in raising credit.

### GDP Growth - Israel Compared to Advanced Economies\*

(Annual rate of change (%), in constant prices)



\* Weighted average: US - 44%, Euro area - 37%, Japan - 4%, UK - 8%, Asian Newly Industrialized countries - 7%

\*\* Forecast (Source: Ministry of Finance, based on the IMF consensus forecast).

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### **OECD Delegations visiting Israel**

Three OECD Delegations, dealing with agriculture, public governance and macro-economics came for a session of professional meetings this September.

Two other OECD missions came to review Israel's Capital Market Policy and the Investment Policy during October 2008.

The main purpose of these missions was to find out more about Israel's implementation of the OECD Council Acts in the field of Capital Market and to learn more on Israel's position regarding the OECD Codes of Liberalization of Capital Movements and Invisible Current Operations.

The Banking and Capital Markets mission met last week with the Director General of the Ministry of Finance, the Supervisor of Banks, the Commissioner of the Capital Markets, and Insurance and Savings representatives of ISA and TASE.

The Investment Mission will meet this week with representatives of various government ministries and authorities who participated in answering their questionnaire. (Source: Ministry of Finance)

### **New public program for development of water technologies**

The economic and social cabinet, under Minister of Finance Ronnie Bar On, decided this June on implementing a program for development of water technologies in Israel between 2009 and 2011 in order to turn Israel into a world leader in advanced water solutions.

Bar On: "The Israeli economy has gained substantial experience in dealing with water deficit. This experience gives Israel an edge and sets the grounds for placing Israel as a world leader in R&D in the water technologies industry".

(Source: Ministry of Finance)

## **The Consumer Price Index Remained Unchanged in September 2008, Compared to the Previous Month**

This after an increase of 1.1% in July, and 0.7% in August. Considerable price increases were noted in the prices of fresh vegetables, housing and health alongside considerable price decreases on fresh fruits, clothing, entertainment and transportation.

Since the beginning of the year, the consumer price index grew by 5.5%.

(Sources: Ministry of Finance, Central Bureau Statistics)

## **The Negative Income Tax Law Is Being Implemented**

The first step in implementing the negative income tax law was taken this September. The law entitles workers with low wages to receive an addition to their net wage.

The law is currently implemented only in the Wisconsin Program areas, and by 2010 will be extended throughout the country.

(Source: Ministry of Finance)

## **An Additional 350 Million NIS will be added to Old-Age Allowances**

This addition is a part of a total of 1 billion shekels addition that has been agreed upon by the government for enlargement of old-age allowances paid by social security. The offer was made by the Minister of Finance as part of the government policy to reduce the social-economic gaps and support the weaker sectors and specifically the elderly sector in Israel. (Source: Ministry of Finance)

## **Bank of Israel lowered Its Interest Rate by 0.5% to 3.75% in the Middle of October**

After consistent moderate increases of interest rate in the past few months, the Bank of Israel (BOI) decided to lower the interest rate by half a point. BOI explained that "inflationary pressures in Israel are expected to ease significantly due to the continued fall in world commodity prices and the expected slowdown in economic growth". BOI also stated that "the current reduction in the interest rate would also act to strengthen the economy in light of a growing possibility for a slowdown in Israel's rate of economic growth". (Source: Bank of Israel)

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## The Government Approved the National Budget for 2009 and a New Plan for Promoting the Periphery

In the end of August 2008, the Israeli government approved the new national budget for 2009. Within the budget, the government approved the Ministry of Finance's plan of promoting Israel's Periphery. The Minister of Finance, Ronnie Bar On: "The great news of the 2009 budget is setting the Periphery on top of the national agenda. The government will strive to promote these areas and decreasing the inequality between the periphery and the center".

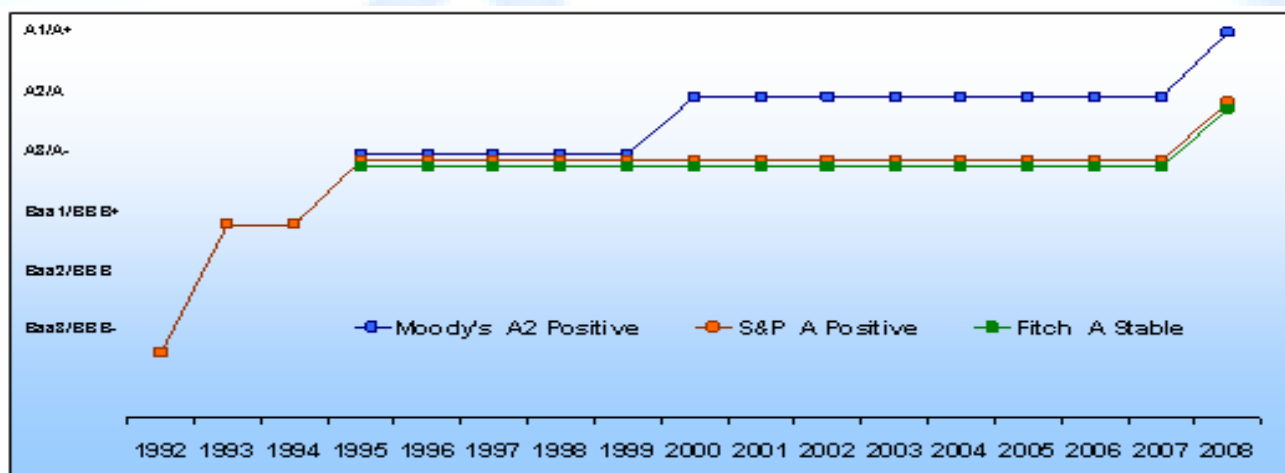
At the end of October, despite political uncertainty, the Minister handed the budget to the Knesset according to the law's requirement that the budget will be submitted at least 60 days before the end of the financial year. (Source:

Ministry of finance)

### Israel's Credit Rating – Complete List

Source:  
[Accountant General](#)

Ratings Firm	Term	Domestic Bonds		Overseas Bonds	
		Rating	Outlook	Rating	Outlook
Fitch Ratings	Long	A+	Stable	A	Stable
	Short	–		F1	
Standard & Poor's	Long	AA–	Stable	A	Stable
	Short	A–1+		A–1	
Moody's	Long	A1	Stable	A1	Stable
	Short	–		P1	



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## **ECONOMIC FIGURES**

### Final data for the first and second quarters of 2008

Data is calculated in an annual rate

	<u>1<sup>st</sup> quarter 2008</u>	<u>2<sup>nd</sup> quarter 2008</u>
GDP growth:	5.5%	4.1%
Business GDP growth:	6.8%	4.8%
Investments in fixed assets growth:	7.6%	3.7%
Export growth:	13.1%	-2.4%

### Demand and Output

Data from previous editions is constantly being updated.

All projections are done by the Economics and Research Department at the Ministry of Finance

Data is for 2007 unless stated otherwise

#### GDP growth:

Growth in 2007: **5.4%**  
 GDP per capita growth: **3.5%**  
 2006: **5.2%**; 2005: **5.1%**  
Growth expected for 2008: **4.2%**

#### Business GDP growth:

Growth in 2007: **6.2%**  
 2006: **6.4%**; 2005: **6.1%**  
Growth expected for 2008: **4.8%**

#### Private Consumption Growth:

Growth in 2007: **6.9%**  
 2006: **4.0%**; 2005: **3.7%**  
Growth expected for 2008: **4.3%**

#### Public Consumption Growth:

Growth in 2007: **2.9%**  
 2006: **2.7%**; 2005: **1.9%**  
Growth expected for 2008: **2.3%**

**GDP per Capita, based on PPP, 2007: \$25,756**, which is 77% of  
 OECD members' average GDP per capita.

## Foreign Trade

### Goods and Services

#### Import growth:

Growth in 2007: **11.7%**  
 2006: **3.6%**; 2005: **3.3%**  
Growth expected for 2008: **4.0%**

#### Export growth:

Growth in 2007: **8.5%**  
 2006: **6.1%**; 2005: **4.2%**  
Growth expected for 2008: **4.9%**

## Balances

#### Current account surplus:

2007: **2.8%**  
 2006: **5.6%**; 2005: **3.0%**

#### Gross Debt: (% of GDP)

(General government gross financial liabilities)  
 2007: **79.8%**; 2006: **85.5%**;  
 2005: **94.3%**; 2004: **98.2%**

#### Budget deficit

(Central Government):

2007: **0.0%** (100 million NIS)  
 (Planned deficit was **2.9%**)  
 2006: **1.0%**; 2005: **1.8%**;  
 2004: **3.6%**

## Investments

#### Total Gross Local Investment:

2007: **11.3%**  
 2006: **6.5%**; 2005: **12.3%**  
 2004: **2.4%**  
Growth expected for 2008: **5.2%**

#### Investment in Fixed Assets:

2007: **15.3%**  
 2006: **9.9%** ; 2005: **3.0%**  
Growth expected for 2008: **5.5%**

#### Israeli Investments abroad: (\$B)

2007: **18.5**; 2006: **33.9**; 2005: **15.8**;  
 2004: **13.6**

#### Foreign investments: (\$B)

2007: **14.4**;  
 2006: **25.6** (including TEVA-Ivax deal)

#### Foreign direct investments: (\$B)

2007: **9.7**; 2006: **14.3**;

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**Sources:** Ministry of Finance – Department of Economics and Research and the Accountant General, Central Bureau of Statistics, Bank of Israel, Tel Aviv Stock Exchange, Government Companies Authority, OECD, OECD Israel, Standard and Poor's, Moody's and Fitch Ratings.

## **We welcome your feedback!**

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