



STATE OF ISRAEL  
MINISTRY OF FINANCE  
INTERNATIONAL AFFAIRS DEPARTMENT

February 2009

# Economic Highlights

## 4<sup>th</sup> QUARTER 2008

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Once again we are distributing our "Economic Highlights".  
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### Israel Initiated an Economic Acceleration Program, in Light of the Global Recession

→ For the full story see [page 3](#)

▶ Latest News.....	2
▶ Fiscal News.....	3
▶ Monetary news.....	4
▶ Economic Figures.....	7

[For up-to-date economic figures – see Pages 7 - 8](#)

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## Latest News

### **Operation "Cast Lead" and the World Economic Crisis – Impacts on the Israeli Economy**

The economic indicators of the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2008, presented here on [page 7](#), show that the global crisis has started affecting the Israeli market. Initiatives such as [the acceleration program](#), [the pension safety net](#) and [the monetary program to increase liquidity](#) are all aimed to offer new jobs, protecting private savings and promote continuous growth in Israel.

The impact of operation "**Cast Lead**" on Israel's economy has been limited as most businesses in Israel's southwest, near the Gaza strip, continued to operate. Israel's financial and industrial center, located out of the rocket range, continued to operate in full scale. The ports and other trade facilities continued to operate as usual, ensuring the flow of goods in and out of the country were running smoothly.

This Issue of "Economic Highlights" offers you a review of the 3<sup>rd</sup> and 4<sup>th</sup> quarter of 2008. A review of Israel's economy in 2008 and the full economic impacts of "Cast lead" will be presented in our next issue.

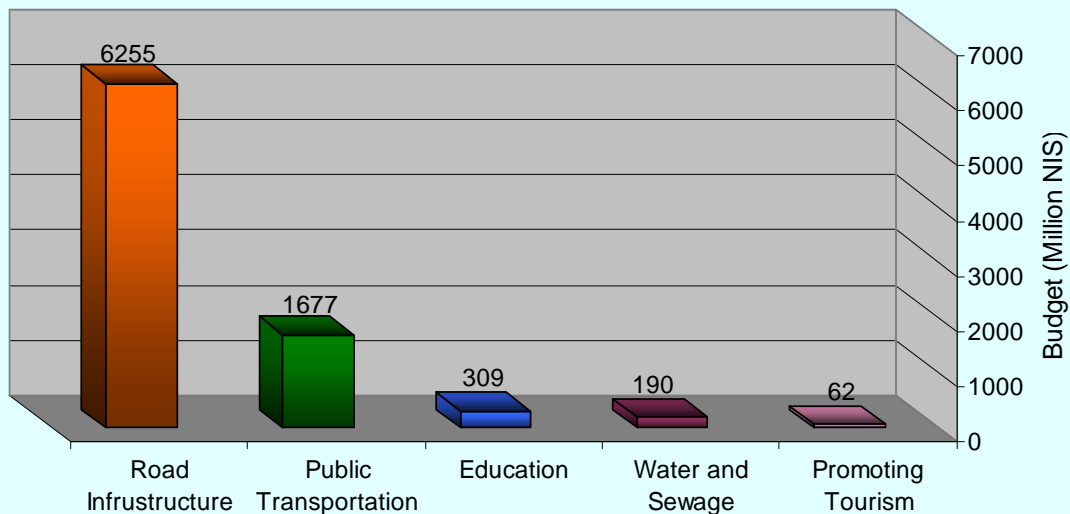
### **Creation of a Pension Safety Net for Savers Close to Retirement Age**

The Knesset Finance Committee approved the pension safety net, which is designated to compensate some market losses by pension funds for savers near retirement age. The two conditions for enjoying the net's benefits are: recipients must be 57 or over and possess pension savings (provident funds, pension funds and life insurance) that do not exceed NIS 1.5 million. The total worth of savings, protected by the safety net, is estimated at about NIS 100 billion, as of November 2008. (Sources: Ministry of Finance)

## Israel Initiated an Economic Acceleration Program, in Light of the Global Recession

The Acceleration program is a package of economic measures designed to accelerate activity in the economy in light of the global recession. The program allocates funds towards infrastructure, research and development, the credit sector and the labor market, designed to promote continuing growth in the economy.

### The Acceleration Program - Promoting Infrastructure



The program also addresses the market failure created in the **credit sector**, using existing funds and creating new credit funds. The new and existing funds will be operated with an emphasis on small and medium-size businesses, as it is understood that their resources for dealing with the credit crunch are more limited. All the said activities are expected to increase the supply of credit for these businesses by some NIS 2.5 billion.

In order to strengthen the **labor market** on an immediate basis, the government will encourage the creation of new workplaces, employment training, professional retraining and increased demand for Israeli workers.

Among the measures taken in the area of **investment in research and development** a new research and development center will be established in the periphery. The center is expected to employ more than 200 employees at high salary levels, and to encourage quality research and development work in the periphery. (Source: Ministry of Finance)

## Monetary News

### The Bank of Israel will Continue Purchasing Foreign Currency

The Bank of Israel has been implementing a program to increase the level of the foreign exchange reserves since 24 March 2008.

Since then the Bank has purchased about \$10 billion, and currently the reserves stand at about \$37 billion. The Bank advises that it has updated its assessment of the appropriate level of the reserves to between \$40 billion and \$44 billion, and is therefore extending the program, and will continue to purchase about \$100 million per business day.

The Bank will continue to review this program from time to time, taking into account changing market conditions.

(Sources: Bank of Israel)

### A Monetary Program to Increase the Liquidity of the Financial System and Support Growth

The Bank of Israel announced the following steps to increase the liquidity of the financial system:

From January 2009 the BOI will reduce the absorption of surplus liquidity that it carries out via the issue of makam (short-term bills issued by the Bank).

In addition to the one-day and one-week monetary loans and deposits currently offered through auctions to the banking system, the BOI will offer longer term loans and deposits. Moreover, the interest spread between the credit window and the deposit window for commercial banks will be reduced from  $\pm 1$  percentage points around the BOI interest rate to  $\pm 0.5$  percentage points. (Sources: Bank of Israel)

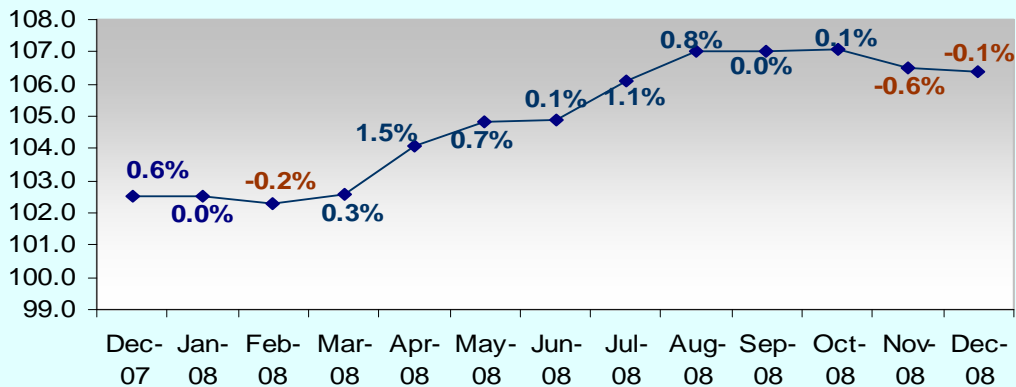
### Bank of Israel Interest Rate at an All Time Low, at 1.0%

The Interest rate, peaking at 4.25% this September had been gradually decreased to its current level of 1.0%. BOI explained that "the reduction of the interest rate for February by 0.75 percentage point will help strengthen the economy's ability to cope with the implications of the global economic crisis and support real activity. It is consistent with the return of inflation to the target range of 1–3 percent within the next few months". (Source: Bank of Israel)

## Consumer Price Index on a Downtrend

CPI decreased by 0.1% on December. This after a 0.6% decrease on November, and 0.1% increase in October. In 2008, CPI grew by 3.8%, this after a 3.4% increase in 2007. (Source: CBS)

Consumer Price Index - 2008



## Foreign Exchange Rates at the End of 2008

In 2008, the NIS appreciated compared to most of the foreign currencies traded in Israel. The Shekel appreciated by 12.6% compared to the US Dollar, following a 7.8% appreciation in 2007. The Shekel also appreciated by 6.6% compared to the Euro, and by 19.6% compared to the British Pound. (Source: CBS)

### A new Avoidance of Double Taxation Agreement Between Israel and Denmark

Frida Israeli, acting director of the state revenue department, stated that "This Treaty is a first step in amending old treaties with OECD countries, designated to create a better working ground for trade of commodities, services and mutual investments". (Source: Ministry of Finance)

### Record Number of Tourism to Israel in 2008: More Than 3 Million Visitor Arrivals

This is a 32% increase compared to 2007, which registered the previous record of 2.6 million visitors. United States' visitors posed 20% of total entries (617,000), Russia – 12%, France – 9%, Uk – 6%, Germany – 5%. (Source: CBS)

## IMF Releases a Positive Review of the Israeli Economy

After holding its annual visit to Israel this December, the International Monetary Fund published its [concluding remarks](#).

Peter Doyle, The head of the IMF delegation, stated that in comparison with other leading economies, Israel is well prepared to face the economic crisis and supported the policy measures taken so far by the Minister of finance and the Governor. Minister of Finance, Ronnie Bar-On: "Israel's economy has entered this crisis standing on solid grounds: high growth rates, low unemployment rate, current account surplus and a solid banking system. However, being part of the global economy, Israel's exposure to the world crisis is inevitable".

(Sources: BOI, Ministry of Finance)

## The Credit Rating Agencies Moody's and S&P Reconfirmed Israel's Credit Ratings

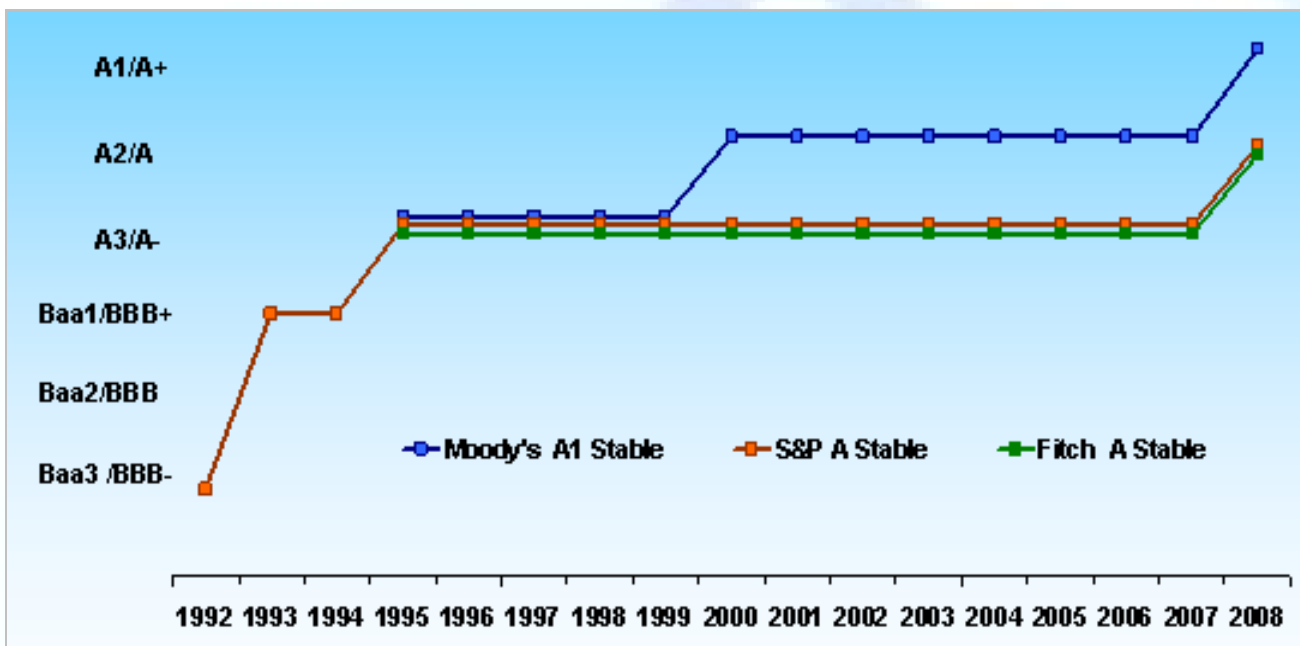
Regarding operation "Cast Lead", S&P commented that "We do not expect the conflict with Hamas in Gaza to have significantly damaged the sovereign's creditworthiness". In general, S&P stated that "The rating affirmation reflects the government's commitment to continued fiscal discipline and the resilience of the Israeli economy after five years of strong GDP growth at over 5%, notwithstanding a tense political and fiscal environment."

Moody's statement shared the same outlook as S&P's, stating that: "Israel's economy has weathered extremely difficult periods in the past, at times when government debt was more burdensome and the balance of payments more fragile... The government's ample access to credit is a crucial underpinning for the country's high ratings given its susceptibility to shocks". (Sources: BOI, 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	



## ECONOMIC FIGURES

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

Data is calculated in an annual rate

	<u>2<sup>nd</sup> quarter 2008</u>	<u>3<sup>rd</sup> quarter 2008</u>
GDP growth:	<b>3.6%</b>	<b>1.9%</b>
Business GDP growth:	<b>4.2%</b>	<b>1.5%</b>
Investments in fixed assets growth:	<b>1.6%</b>	<b>-9.8%</b>
Export growth:	<b>-3.8%</b>	<b>6.6%</b>

### 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%**  
Estimated growth for 2008: 4.1%

#### Private Consumption Growth:

Growth in 2007: **6.9%**  
 2006: **4.0%**; 2005: **3.7%**  
Estimated growth for 2008: 3.9%

#### Business GDP growth:

Growth in 2007: **6.2%**  
 2006: **6.4%**; 2005: **6.1%**  
Estimated growth for 2008: 4.6%

#### Public Consumption Growth:

Growth in 2007: **2.9%**  
 2006: **2.7%**; 2005: **1.9%**  
Estimated growth for 2008: 2.9%

GDP per Capita, based on PPP, 2007: \$27,957

## Foreign Trade

### Goods and Services

#### Import growth:

Growth in 2007: **11.7%**  
 2006: **3.6%**; 2005: **3.3%**  
Estimated growth for 2008: **2.8%**

#### Export growth:

Growth in 2007: **8.6%**  
 2006: **6.1%**; 2005: **4.2%**  
Estimated growth for 2008: **3.6%**

## Balances

#### Current account surplus:

2008: **1%**; 2007: **2.8%**;  
 2006: **5.6%**; 2005: **3.0%**

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

(General government gross financial liabilities)

2008: **78.9%**  
 2007: **79.8%**; 2006: **85.5%**;  
 2005: **94.3%**; 2004: **98.2%**

#### Budget deficit

(Central Government):

2008: **2.1%**  
 2007: **0.0%** (100 million NIS)  
 (Planned deficit was **2.9%**)  
 2006: **1.0%**; 2005: **1.8%**;  
 2004: **3.6%**

## Investments

#### Gross Domestic Capital Formation:

2007: **11.3%**  
 2006: **6.5%**; 2005: **12.3%**  
 2004: **2.4%**  
Estimated growth for 2008: **4.2%**

#### Investment in Fixed Assets:

2007: **15.3%**  
 2006: **9.9%** ; 2005: **3.0%**  
Estimated growth for 2008: **5.5%**

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

2008 (Q1–Q3): **3.2** ; 2007: **18.5**;  
 2006: **33.8**; 2005: **15.9**;

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

2008 (Q1–Q3): **8.6**  
 2007: **14.4**;  
 2006: **25.6** (including TEVA-Ivax deal)

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

2008 (Q1–Q3): **8.3**, 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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