



STATE OF ISRAEL  
 MINISTRY OF FINANCE  
 INTERNATIONAL AFFAIRS DEPARTMENT

April 2010

# Economic Highlights

## 1<sup>st</sup> QUARTER 2010

Your comments would be greatly appreciated at: [financeisrael@mof.gov.il](mailto:financeisrael@mof.gov.il)

More publications are available on our website: [www.financeisrael.mof.gov.il](http://www.financeisrael.mof.gov.il)

### Table of Contents

<b>Headlines</b> .....	<b>1</b>
<b>Latest News</b> .....	<b>2</b>
<b>Monetary News and Capital Market</b> .....	<b>4</b>
<b>From The Press</b> .....	<b>6</b>
<b>Environmental Economy News</b> .....	<b>7</b>
<b>Economic Figures</b> .....	<b>8</b>
<b>Contact Information</b> .....	<b>9</b>

### Headlines



**OECD: 2010 is Target Year for Israel's Accession**

Page 2



**2009: Israel Saw Growth, Despite Global Recession**

Page 2



**Proposal for 2011-2012 Budget approved, New Fiscal Rule**

Page 3



**TASE: New Record, New Bio-Med Index**

Page 4



**New 'Bank of Israel' Law, Fischer for Second Term**

Page 4



**Agreement Signed for a New Desalination Plant & New Solar Fields**

Page 7

## Latest News



### View the Latest IMF Article IV for Israel

The IMF has published the new [Israel Article IV 2009](#). In addition; you may also view the IMF Article IV - 2009 [Executive Board Public Information Notice on Israel](#).

### Israeli Government Portal's New Service Answers Online on Twitter

The new service, called govCS, enables anybody to ask any bureaucratic question and receive an answer (or a reference) within 24 hours.

For govCS [Click Here](#)



## OECD: 2010 is the Target Year for Completing Israel's Accession Process

During his official visit to Israel in January 2010, OECD Secretary-General Angel Gurría launched the following documents:

[OECD Economic Survey of Israel](#)



[Review of Israel's Labour Market and Social Policies](#)



ORGANISATION  
FOR ECONOMIC  
CO-OPERATION  
AND DEVELOPMENT



Following a meeting at the Prime Minister's office with the social economic cabinet, Gurría said that "2010 is the target year for completing Israel's accession process to the OECD. We are keeping the target, although there are still issues that we must solve but it is important to point out that all these issues can be solved".

(Source: OECD, Ministry of Foreign Affairs, Prime Minister's Office, Globes)



## 2009 Concluding Data: Israel Saw Growth, Despite the Global Recession

Concluding 2009 data reveals that despite the global recession, Israel's economy continued to grow, against all odds, beating even the most optimistic forecasts:

2009 GDP growth: **0.7%**  
Q4 2009 GDP growth: **4.9%**  
GDP per Capita: **102,969 NIS** (Crossed the 100,000 NIS bar for the first time in Israel's history).

**Israel's 2009 positive growth stands in contrast to some other developed economies in the world, which tackled serious financial challenges.**

Recovery is felt in the labor market as well, as unemployment dropped. Recovery is also felt in tax revenues, with an end to the growth in budget deficit (the deficit that had characterized the end of 2008 and most of 2009). January 2010 tax revenues were 20% more than the previous January. The fastest recovery is documented in Q4, as it showed a significant increase in business activity, following the modest rise in Q3.

For leading economic figures, see [Economic Figures](#) in this newsletter.

For an extensive presentation on the Israeli economy, see [Economic Highlights Presentation Q1 2010](#).

(Source: Ministry of Finance, Bank of Israel, CBS, Globes, Israel Hayom)

## Proposal for 2011-2012 Budget approved, New Fiscal Rule



Due to the success of the 2009-2010 budget, the first biannual budget ever to be executed in Israel, the government has approved the proposal made by Minister of Finance, **Dr. Yuval Steinitz**, to accept a biannual budget for the years 2011-2012. With this decision, the new budget will expand by 2.6% (rather than 1.7%) for each and every year (2011, 2012).

For 2009-2010 Budget in English - click [here](#)

In addition, the government unanimously approved the proposal to formulate a new fiscal rule, one that will determine the annual growth in government expenditure.

Both of the government's decisions will allow the government long-term planning and assist in reaching stability and growth for the Israeli economy. The new fiscal rule will also allow for combining improvement of services and infrastructures with pre-determined fiscal discipline, reducing national debt, allow a more equal allocation of the products of growth.

Israel's biennial budget and the new fiscal rule received many compliments from international organizations, such as the OECD and the IMF. **Peter Doyle**, IMF Mission Chief for Israel, wrote **Minister Steinitz**: "we welcome the decision of the government to adopt a new fiscal rule which ties spending growth to public debt. A firm commitment by the government to this rule will help to anchor market expectations and confidence. Furthermore, we see the government's decision to adopt two-year budgets as integral to the success of the new fiscal rule."

(Source: Ministry of Finance, TheMarker)

## VAT Cut by 0.5% to 16.0%

2010 opened with the decision of the Minister of Finance, **Dr. Yuval Steinitz**, to cut VAT by half a percent, reducing it to 16.0%.

This rate cut boosts economic growth by increasing allowances in 2010, increasing the purchasing power of the weak strata and reducing inequality.

Additionally, this cut, combined with concurrent interest rate adjustments, will alleviate inflationary pressures.

The decision to accelerate the implementation of the half-percent VAT tax relief from 2011 to 2010 was influenced by the upturn in growth and government revenue since the approval of the bi-annual budget and the economic program. As a result of this improvement, the macroeconomic fallout of the global recession for the Israeli economy has been milder than expected.



(Source: Ministry of Finance)

## All-Time-Record for February's Incoming Tourism

222,000 tourists visited Israel during February 2010, a 46% increase from February 2009, a 12% growth from February 2008 and a 4% growth from February 2000. February 2010 figures are an all-time-record for Israel's incoming tourists in February.

The new February all-time-record follows October 2009's all time record, reported in the [previous Economic Highlights](#).

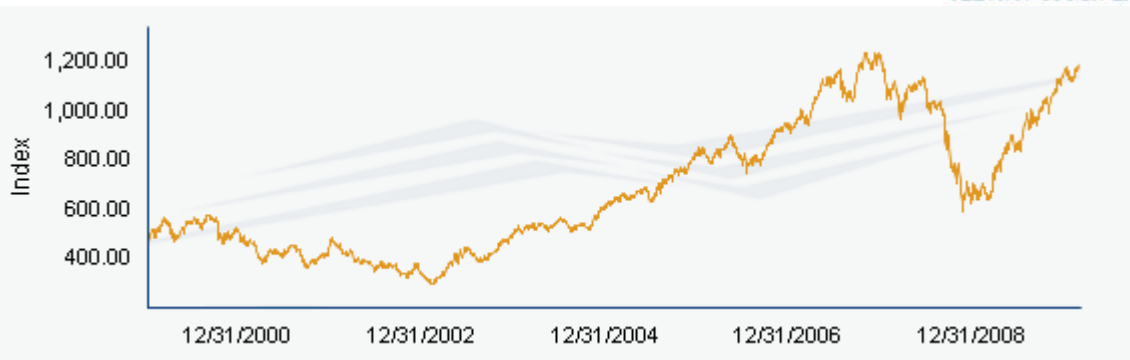
(Source: Ministry of tourism)

# Monetary News and Capital Market

## **New Record in Tel Aviv's Stock Exchange and a New 'Bio-Med' Index**

### **New Record**

TA25 Index has recorded its highest annual rise ever for 2009, with a 74% increase. TA25 Index, established in 1992, is TASE's (Tel Aviv Stock Exchange) flagship index. TA-25 tracks the prices of the shares of the 25 companies with the highest market capitalization on the exchange.



### **New Bio-Med Index**

TASE launched a new index for the bio-medical sector. The new index is comprised of 26 shares of companies who perform R&D in life sciences, bio-tech, medicine and medical equipment at a total capital value of NIS 10 billion. The new Bio-Med Index registered a rise of 2.7% on launch.

**For more information regarding TASE (Tel Aviv Stock Exchange), [Click Here](#)  
For TASE Newsletter (TLVInsider), [Click Here](#)**

(Source: TASE, Calcalist, Globes, TheMarker)

## **New 'Bank of Israel' Law, Fischer for Second Term**

A new 'Bank of Israel' law has been passed unanimously in a form of a compromise between the bank and the government. The new law's main updates are:

- Adding an obligation to support efforts to diminish inequalities in Israel
- Adding an obligation to support employment and growth
- Establishment of a monetary committee that will define monetary and interest policy
- Establishment of a managing council that will be responsible for the bank's budget and salary

Beside these, the new law strengthens the bank's independence. Also, among these remains the traditional role of the Bank of Israel of supporting governmental economic policy, maintaining inflation in its targeted spread and keep financial stability.

As expected, the passing of the new law leads the way for Stanley Fischer to remain for a second term as the Bank of Israel governor. Fischer received many international compliments for his management of the Bank of Israel, having a crucial role in Israel's success in handling the global economic crisis, and being the first to raise interest from all developed economies.



Stanley Fischer  
Bank of Israel Governor

(Source: Ynet)

## State of Israel Sells 5% of Discount Bank Equity to Deutsche Bank

The State of Israel sold a 5% stake of Israel Discount Bank to the Deutsche Investment Bank, which won a closed tender. Deutsche Bank pledged to buy a 5% stake in Israel Discount Bank and received an option to purchase up to 3.33% more shares at a 0.5% discount to their bid price.

(Source: Ministry of Finance)



## Successful 1.5€B Raise in Bond Issuing, S&P Re-Affirms Israel's A rating

Accountant General, Shuki Oren, completed a successful issuance of 1.5€B for 10 years, at a 4.68% yield, with Israel's biggest sovereign bonds issue ever to be done. The high demand, at a total sum of 13€B, expresses the high credit given to the Israeli economy.

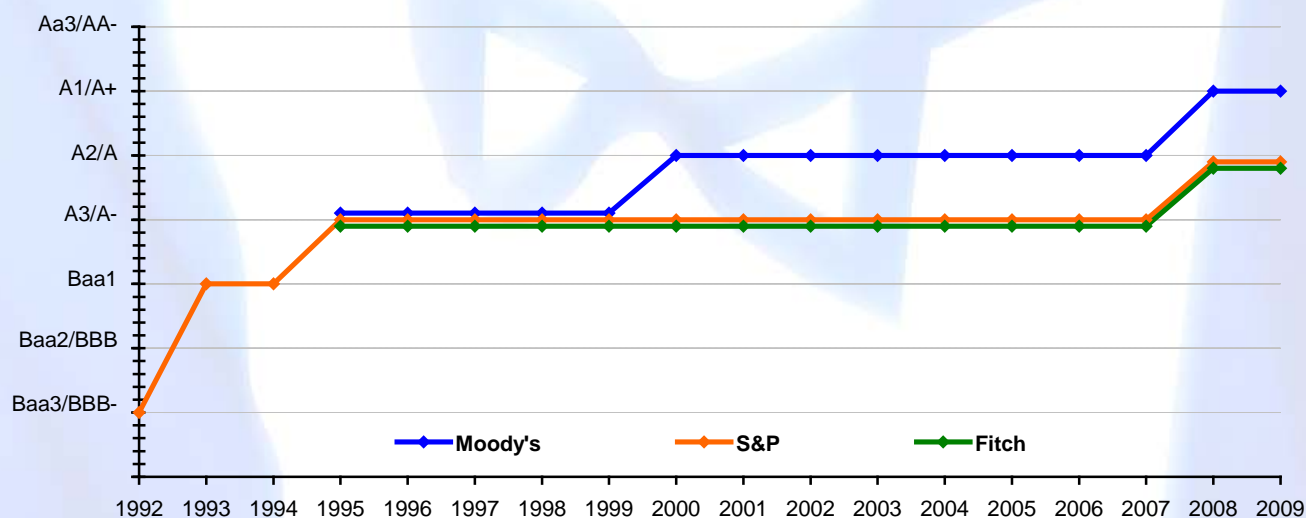
S&P assigned an A rating to the newly issued bonds, re-affirming Israel's rating at A, with a 'Stable' outlook.

(Source: Ministry of Finance – Debt Management, Reuters)

### Israel's Credit Rating

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

Moody's / S&P & Fitch



(Source: Ministry of Finance – Debt Management Unit, Accountant General)

## From The Press

### Red Herring: 4 Israeli Start-Ups within 100 Global Winners

Four Israeli start-ups won this year's "Red Herring" Global 100 Awards:



Over the years, many Israeli start-ups have won the "Red Herring" Europe 100 Awards. In 2009, three start-ups also made the "Red Herring" North America 100 Awards: [Correlix Inc.](#), [Promisec Inc.](#), and [OpTier Inc.](#), all of which are headquartered in New York as well as having R&D centers in Israel.

For the Full Red Herring Global Awards Winners [Click Here](#).

(Source: Red Herring, Globes)



### Warren Buffett for a 3<sup>rd</sup> Acquisition of an Israeli Firm

TTI, owned by Berkshire Hathaway, bought Israeli start-up [Net-Aye Technologies Ltd](#) for a sum of 10\$ million.

For the legendary investor **Mr. Warren Buffett**, Chairman and CEO of Berkshire Hathaway, Net-Aye will be his 3<sup>rd</sup> Israeli acquisition.

In 2006, Mr. Buffett bought The Israeli Company **Iscar**. The Iscar acquisition was Mr. Buffett's first investment outside of the U.S.

Right after the Iscar acquisition, Mr. Buffet also bought more than a half of **Yan Agro Logic Ltd**.



Net-Aye Technologies Ltd, together with Tel-Ad Ltd And Bar-Tec Ltd form one of the major distributors of electro-mechanics components in the Israeli market.

Net-Aye Technologies is also an exclusive representative of many international companies.

(Source: Net-Aye, TheMarker, Globes)

### President of Israel Shimon Peres on the Israeli Economy

Israeli President, Mr. Shimon Peres, talks about the sources of Israel's success, the role of technology and the future of business in Israel.



For the Video, [Click Here](#)

(Source: Fox Business)

### Minister of Finance Dr. Yuval Steinitz on Israel's First U.S Bonds

Minister of Finance, Dr. Yuval Steinitz, talks about Israel's first U.S bonds, the Israeli economy during the crisis and more.



For the Video, [Click Here](#)

(Source: Fox Business)

### Minister of Finance Dr. Yuval Steinitz Interviews for Newsweek

Minister of Finance, Dr. Yuval Steinitz, explains the hidden truth behind inequality statistics, Israel during the global crisis and more.



For the Interview, [Click Here](#)

(Source: Newsweek)

# Environmental Economy News

## **Agreement Signed for 150 Million Cubic Meters a Year Desalination Project – Likely to be the Largest of its Kind in the World**

The Soreq desalination plant will be constructed under the Build-Operate-Transfer (BOT) process. SDL, comprised of IDE and Hutchinson Water, was announced as the winner in the tender. SDL undertakes to plan, build and operate the desalination plant for an overall period of 26.5 years, after which the plant will be transferred to State ownership.

SDL also undertook to build the plant within a maximum period of 34 months from the financial closure date, and that after 30 months the plant will be supplying half of its overall output.

The Desalination Plant in Soreq will join the ones at Eilat, Ashkelon, Palmachim, Hadera, Ramat HaNegev and other smaller ones.

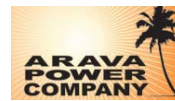


According to the Water Authorities Multi-Year-Plan, by 2013 Israel will produce about 44% of its water from desalination.

That will allow for the rehabilitation natural water sources and keep the Sea of Galilee full and balanced.

(Source: Ministry of Finance, Israel Water Authorities)

## **Israeli 'Arava' to Build Solar Fields in 15 Kibbutzim and Moshavim**



**SIEMENS**

Arava Power Company (APC) announced that it has signed agreements with 15 kibbutzim and moshavim around the country, and mostly in the Negev Desert in the south of Israel, to produce 100 MW of solar photovoltaic (PV) electricity.

Siemens recently bought 40% of Arava, in the largest-ever foreign investment in a solar development company in Israel.



Arava's plans are implementing Prime Minister Netanyahu's vision to cease use of fossil fuels within a decade, and help Israel develop alternative energies for itself and the world.

(Source: Arava, iplanetenergynews.com, Jerusalem Post)

## **Eilat – Eilat Conference for Renewable Energies 2010:**



View list of the Israeli

companies presented at the conference [Here](#).

Watch the conference video clip [Here](#).

## **Better Place Opens First Electric Vehicle Demonstration Center in Israel**

better place



Better Place Center is located just outside Tel Aviv, constructed inside a refurbished oil tank, symbolizing the transition to electric transportation.

The tour also gives visitors the opportunity to drive an electric vehicle on a specially-designed test track.

(Source: Better Place Israel)

## **Tenders for Energy efficiency and Inter-Ministerial Committee for Greenhouse Gases Reduction**

Tenders were issued for increasing energy efficiency (electricity saving) in 7 government ministries.

In addition, a new inter-ministerial committee, headed by the Ministry of Finance Director General Haim Shani, will form a strategy to reduce greenhouse gases emissions by 20% until 2020, according to the government's target.

(Source: Ministry of Finance)

# Economic Figures

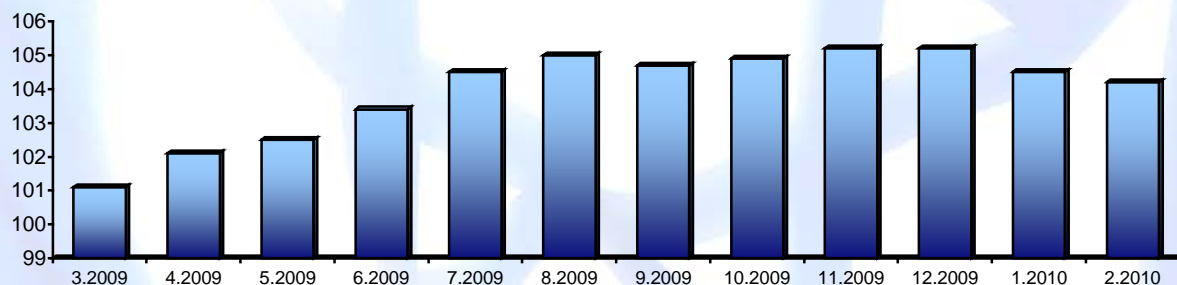
## Concluding Economic Data for 2009

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

	<u>2008</u>	<u>2009</u>	<u>Q3 2009</u>	<u>Q4 2009</u>
<b>GDP Growth</b>	4.0%	0.7%	3.6%	4.9%
<b>Business GDP Growth</b>	4.4%	0.0%	3.1%	5.2%
<b>Private Consumption Growth</b>	3.6%	1.6%	5.9%	5.5%
<b>Public Consumption Growth</b>	1.9%	1.5%	2.6%	4.4%
<b>GDP Per Capita, Based On PPP For 2008: 27,143\$</b>				

## Consumer Price Index

Mar 2009	Apr 2009	May 2009	Jun 2009	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009	Dec 2009	Jan 2010	Feb 2010
101.1	102.1	102.5	103.4	104.5	105.0	104.7	104.9	105.2	105.2	104.5	104.2



## Foreign Trade Goods and Services

	<u>2008</u>	<u>2009</u>	<u>Q3 2009</u>	<u>Q4 2009</u>
<b>Import Growth</b>	2.0%	-14.0%	14.8%	13.6%
<b>Export Growth</b>	3.0%	-11.8%	15.4%	42.1%

(Source: Ministry of Finance – Department of Economics and Research, CBS)

## Balances

	<u>2009</u>	<u>Q3 2009</u>	<u>Q4 2009</u>
<b>Current account Surplus</b>	3.7%	2.4%	5.3%
<b>Budget Deficit</b> Central government	5.1%		
<b>Gross Debt (% of GDP)</b> General government gross financial liabilities	79.6%		

## Investments

	<u>2009</u>	<u>Q2 2009</u>	<u>Q3 2009</u>	<u>Q4 2009</u>
<b>Gross Domestic Capital Formation</b>	-8.7%	-30.1%	-5.4%	-34.0%
<b>Gross Investments in Fixed Assets</b>	-6.6%	1.7%	8.0%	-7.2%
<b>Gross Israeli Investments Abroad (Billion\$)</b>	3.6\$B	-0.9\$B	-0.7\$B	4.5\$B
<b>Gross Foreign Investments in Israel (Billion\$)</b>	9.3\$B	1.2\$B	5.5\$B	2.1\$B
<b>Gross Foreign Direct Investments (Billion\$)</b>	3.8\$B	0.7\$B	1.4\$B	0.5\$B

(Source: Ministry of Finance – Department of Economics and Research)

## We Welcome Your Feedback

**Contact Us:** [financeisrael@mof.gov.il](mailto:financeisrael@mof.gov.il)

Assaf Luxembourg  
Overseas Economic Information  
International Affairs Department  
Ministry of Finance  
Jerusalem  
Israel

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

### Visit our website

Find macro-economic data, information regarding international agreements, links to various economic websites and more.



**STATE OF ISRAEL**  
MINISTRY OF FINANCE  
INTERNATIONAL AFFAIRS DEPARTMENT