



STATE OF ISRAEL  
MINISTRY OF FINANCE  
INTERNATIONAL AFFAIRS DEPARTMENT

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**Dear Friend,**

**We Have renewed our distribution of "Economic Highlights", and we welcome your feedback, at [urige@mof.gov.il](mailto:urige@mof.gov.il) .**

**Seperately, we are sending you a Powerpoint presentation.**

## **Economic Highlights**

### **Economy is strong and competitive**

**The Israeli economy is performing very well, considering the uncertainties relating to security.**

**Better than expected recovery from the conflict in the north.**

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## Demand and Output

- GDP growth in 2007: is expected to reach **5.0%** (Ministry of Finance); **4.8%** (IMF); **5.1 %** (Bank of Israel); **4.9%** (HSBC).  
(GDP growth in 2006: **5.1%**; 2005: **5.2%**).  
(OECD growth for 2006: **3.17%**)  
Growth includes most of the components of GDP.  
GDP growth of the business sector in 2007 is expected to reach **5.6%**.
- Private consumption growth: in 2007 is leading and expected to reach **4.9%** (Ministry of Finance). (OECD: **2.5%**)
- Public consumption growth: in 2007 expected to reach **2.9%** (Ministry of Finance). (OECD: **2.0%**)
- Import growth: 2006: **3.1%** (2005: **3.4%**).
- Export growth: 2006: **4.9%** (2005: **5.1%**).
- Productivity up: output per working hour up by **16.3%** in 2002–2006, while workers remuneration up by **10.5%** only.
- Foreign investments: **\$24.4** billion in 2006 (including TEVA-Ivax deal). **\$3** billion in January-March 2007.  
(2005: **\$9.9** billion; 2004: **\$9.1** billion)
- Foreign *direct* investments: **\$14.2** billion in 2006.  
(2005: **\$4.8** billion; 2004: **\$2.1** billion).
- Israeli investments abroad – growing trend: **\$30** billion in 2006. (2005: **\$18** billion; 2004: **\$13** billion).

## Balances

- Current account surplus: **4.9%** in 2006.  
( 2005: **3.3%**; 2004: **2.3%** )
- Budget deficit (Central Government): 2007 estimate: **1.5%**; 2006: **0.9%**; both lower than anticipated. ( 2005: **1.9%**; 2004: **3.7%** ). (OCED: **2.0%** [financial balances]).

## Data and Achievements

- An all high record in high-tech exits: with a sum of **\$10.7** bill.
- Bank Of Israel interest: **3.75%** - lowest since October 2005.  
(US Federal Funds rate: **5.25%**)
- Inflation in 2006: [**- 0.1%**]. ( Euro Area: **2.2%** )
- S&P latest upgrading of Israel's credit rating to "positive", joining a similar action on behalf of Moody's and Fitch in 2006.  
Current long term foreign currency ratings are at:  
S&P: **A-**. Moody's: **A2**. Fitch: **A-**.
- Israel ranked 15th worldwide in competitiveness (2006).  
(2005 rank: 23). (World Economic Forum)
- IMF commended Israel on its economy's strong performance and the notable improvements in macroeconomic policies.
- IMF welcomed the increased transparency resulting from the publication of minutes of monetary policy discussions.
- World Bank will sell up to \$1 billion of its bonds in Israel (in Shekels) starting in 2007. (Its bonds are sold in 30 countries only).

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## Challenges

- Maintain the budget framework. Implementing sound and responsible fiscal policy.
- Narrowing socio-economic gaps and poverty reduction.
- Reducing the high public **87.7%** debt to GDP ratio in 2006. (OECD: **54%** (GDP weighted average [pop. 1M-50M ], 2005))
- Reducing unemployment: **8.4%** in 2006. (OECD: **6.0%**).
- Increasing participation rate in labor force: **55.6%** in 2006. (OECD: **70.0%**).

## Continue reforms

- Continue reducing corporate tax - from 31% in 2006 to 25% in 2010.
- Introducing negative income tax (EITC).
- Pension benefits for all.
- Reducing tax burden on low and medium income levels (Increase disposable income).
- Higher tax on company car benefits.
- Continue privatization process: recent privatization of the Haifa oil refinery (estimate \$1 billion).

## Infrastructure development

- Five-year plan for intercity highways.  
(\$4 billion, Duration: 2006-2010)
- Investments in desalination's infrastructure.
- Israel Railways – further implementation of a multi-year plan. (\$6.5 billion, completion estimate: 2010).
- Construction of the Light train in Jerusalem.  
(\$750 million, completion estimate: 2010).
- Beginning construction of the Tel-Aviv subway.  
(\$2.5 billion, completion estimate: 2014).
- Natural gas – laying the Ashkelon-Dead Sea pipeline.
- Carmel Tunnel – Connecting the Haifa shoreline with its center. (\$250 million, completion estimate: 2010).

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**We welcome your feedback!**

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