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Press Release

Prime Minister and Minister of Finance Present Highlights of Containment and Breakthrough Plan

Finance Minister Yuval Steinitz: "In 2011-2012 We Will Be Able to Resume the Growth Rates of Recent Years"

Prime Minister **Binyamin Netanyahu**, Finance Minister **Dr. Yuval Steinitz**, and senior Finance Ministry officials held a press conference today to present the highlights of the Containment and Breakthrough economic plan.

The Minister of Finance stressed that "these are only the highlights of the economic plan. In the coming weeks we will hold comprehensive talks both within the government and with worker organizations and employers; we will all be required to demonstrate economic leadership, and all sides must contribute to the plan's success. The plan includes five main elements, which we have identified as focal points for the Israeli economy and intend to use to leverage its advancement." The Minister added, "Due to the sharp decline in state revenues, the budget deficit is expected to be in the tens of billions of shekels – a deficit that will cause a substantial increase in our national debt. To maintain the credibility gained by the Israeli economy in recent years, we must continue to preserve fiscal discipline and create priorities in government spending and in budgetary investments in the various areas. These cutbacks will be performed in coordination and cooperation with the government ministers."

In conclusion, the Minister of Finance said, "We are in a time of emergency, a difficult time. But we will take the right actions to curb the slowdown, so that by 2010 initial signs of growth will be evident. I am confident that these measures will have an impact in the long term as well, and that by 2011-2012 we will be able to return to the growth rates to which we had become accustomed in recent years."

Objective of the Containment and Breakthrough plan:

To curb the severe effects of the economic crisis and lead the Israeli economy back to a growth trajectory.

Highlights:

A. Expanding credit and encouraging exports

One of the consequences of the crisis has been the loss of financing sources and a shortage of credit available to companies in the Israeli economy. In order to ease the credit crunch and maintain business activity, several measures are proposed:

Guarantees for banks

The terms of the existing guarantees for banks, worth NIS 6 billion, will change immediately and will be simplified in order to help banks raise capital, thereby increasing the availability of credit. In addition, the volume of guarantees will be expanded in the future, with an **additional NIS 6 billion** added.

Non-bank credit

Non-bank credit funds to be established jointly with institutional and foreign investors, specializing in extending credit to companies that have not found a credit solution within the existing tools, including technology companies. The planned volume of the activity of the funds, which will operate based on guarantees, is approximately **NIS 2 billion**.

Aid for export industries

Creation of mechanisms allowing the preservation or increase of Israel's global export market share through various means. For example, the state guarantee for Ashra (The Israel Export Insurance Corp.) will be increased by USD 250 million to a total of USD 1.25 billion. In addition, the state will provide assistance in insuring political risk in short-term transactions through Ashra with commercial insurers; and the state will provide a short-term secondary insurance facility for existing credit insurance companies through a one-year state guarantee in the amount of USD 1 billion. In addition, state guarantees for banks in the amount of NIS 1 billion are planned, for execution guarantees and advance payment guarantees in export transactions.

Expansion of credit for medium-sized enterprises

The size of the credit funds for medium-sized enterprises will be doubled, to a total of **NIS 2.6 billion**. The fund's range of target companies will grow to encompass businesses with turnovers of NIS 15-400 million, from the current range of NIS 22-100 million. The maximum amount of loans will be NIS 16 million, instead of NIS 8 million.

B. Promoting employment and curbing unemployment

Non-Israeli workers

Estimates indicate that there are some 400,000 non-Israeli, foreign workers in Israel today, of which **300,000** are illegal, while **230,000** Israelis are unemployed. A comprehensive plan will be presented for the reduction of the number of foreign workers, and means of dealing with employers of illegal workers and with the many workers working in Israel illegally will be formulated.

Encouragement of employment in general, and women's employment in particular

Incentives to be designed for workers to join the workforce, in particular in disadvantaged population groups. The incentives will include:

- National deployment of the negative income tax mechanism for low-wage workers.
- Expansion of the Employment Lights plan, which has proved to be efficient.
- Addition of professional training programs at a value of about NIS 1 billion.
- Encouragement of transfer of manpower-intensive enterprises to peripheral regions, with expansion of personnel.
- Encouragement of employment of mothers through expansion of the supply of subsidized day-care facilities and increased government support for the financing of day-care facilities and afternoon childcare centers (NIS 200 million to be added in the next three years).

Aid fund for distressed enterprises

An aid fund for distressed enterprises to be established, in collaboration with employers and employees. The fund will support enterprises in financial distress, according to criteria to be formulated. The volume of the fund will be approximately NIS 1 billion.

C. Structural reforms in key sectors of the economy

Several essential sectors are at the foundation of a healthy economy. As part of the economic plan, a number of areas were identified which we intend to address; these are the industries which must be developed and efficient in order to meet international standards.

Israel Land Administration

Acceleration of real-estate activity as a tool for increasing growth – 93% of land in Israel is currently concentrated under state ownership. A mechanism will be proposed for the transfer of land to private ownership, especially in urban areas, and the release of land reserves for the construction of additional housing and commercial buildings. Concurrently, a structural change will be implemented at the ILA to improve and streamline land planning and development processes and reduce bureaucratic procedures.

The electricity market

Israel's electricity market has an inefficient monopolistic structure, causing excess costs of hundreds of millions of shekels and low power reserves incongruent with the economy's needs. Accordingly, we will work to promote private power production, promote a company to manage an independent system, and promote a new power-production company.

Israel port system

The port system is a key economic junction. Israel is a small country with 99% of its foreign trade conducted by sea. Accordingly, it is important to improve the efficiency of the ports in order to improve the quality of service offered to users, shorten stays of ships so that

Israeli ports can meet international standards, and maximize Israel's relative advantage and strategic location on the international trade route. The government will act to implement the outline agreed upon in 2005 as part of the port reform.

Urban security

As part of the government's commitment to providing security for its citizens, a plan will be presented for the formation of urban police units aimed at improving residents' personal security, maintaining order in cities, and eliminating "protection" and other forms of crime. Implementation of this plan will lead to stronger cooperation between local police and municipalities, and create a safe environment for thriving economic activity.

D. Taxes

Income tax

A detailed taxation plan will be presented, including a descending trajectory of tax rates for individuals and corporations, from this year to 2016. Tax rates for individuals will gradually decrease to 39%, while the corporation tax rate will fall to 18%. The tax plan will primarily aid the middle classes, increase public welfare, and support economic activity.

Correction of tax distortions

Cancellation of exemptions that create financial tax distortions. The cancellation of the exemptions will expand the tax base, while allowing the reduction of tax rates. The reduction of exemptions will strengthen the collection enforcement system.

Improving the tax collection system

A series of measures will be implemented to strengthen and expand the collection of direct and indirect taxes.

E. Infrastructures and human capital

Israel is on course to become a developed economy relying on well-grounded industries. Investment in human capital and physical infrastructures will yield social and economic rewards in the long term.

Infrastructure projects

Accelerated execution of several projects is planned, with bureaucratic procedures shortened, including an additional international airport, rapid public transportation lines to connect peripheral regions to central Israel, water projects, and tourism infrastructures.

High-tech industries

High-tech industries are the growth driver of the Israeli economy. To maintain Israel's relative global advantage in this area, a two-layered plan will be presented to support technological industries. The government will increase support for Chief Scientist budgets and for research projects. At the same time, a financial facility of hundreds of millions of

NIS will be offered to encourage investment by large financial entities in technological industries.

Returning scientists

The economic crisis can be used as an opportunity to gain the "best and brightest" as immigrants or returning residents of Israel. Scientists, researchers, businesspeople, and financial professionals will be offered benefits and other incentives to join Israeli companies and research institutes, contributing added value to economic activity in Israel.