



STATE OF ISRAEL
MINISTRY OF FINANCE

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DEPARTMENT

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**Highlights of Economic Review Presented by Finance Minister and MOF
Director-General at Government Meeting**

Minister of Finance Dr. Yuval Steinitz: "A significant part of the improvement trend stems from Israeli sources"

Minister of Finance **Dr. Yuval Steinitz** and Finance Ministry Director-General **Yoram Ariav** presented an economic review to the members of the government today on the subject, "**The Israeli Economy – Is this Really a Turning Point?**" following the positive performance figures published in recent weeks. This marks the beginning of a new tradition, in which the Minister of Finance and senior MOF officials will present an economic review to the government each quarter.

Minister of Finance **Dr. Yuval Steinitz** said at the government meeting: "In the last two months we have seen growth in exports, an increase in tax collection, rising consumer confidence, and a positive composite index for the first time in more than a year. The beginnings of growth are apparent. A significant part of the improvement trend stems from Israeli sources, as demonstrated by the fact that although exports and foreign investments have not yet returned to the previous levels, we are already seeing signs of growth. Two types of domestic effects may be identified: real and psychological. On the real level, public expenditures have been expanded since the second quarter, along with aid to the credit market. On the psychological level – which is no less important – the formulation of the economic plan, the approval of a two-year budget, and the package deal have contributed to a sense of stability and reduced uncertainty. These actions have also earned the support of the international rating agencies". Steinitz added: "However, caution is essential. Just six months ago we were in a highly severe economic crisis. While unemployment figures in Israel are lower than in most Western countries, until we see a significant decrease in the unemployment rate we cannot rest on our laurels. **We must continue to carry out the economic plan and maintain budgetary discipline in order to truly renew growth.**"

The review by the Minister and the Director-General covered the key economic parameters in light of recent weeks developments, including the upswing in the Israeli capital market and globally, the positive growth in the second quarter in Israel relative to the rest of the world (an annualized rate of 1%, according to CBS estimates), the higher collection of direct taxes and especially indirect taxes in July, the increase in the Bank of Israel's composite index, the improvement in the industrial production index and in trade and service sector revenues, the improvement in the purchasing managers' index, and more.



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Despite the encouraging data and the trend towards stabilization in the Israeli economy, the Minister and the Director-General emphasized to the members of the government that some degree of uncertainty remains. Firstly, CBS data on growth in the second quarter are still in the form of an initial estimate; even if these figures prove to be accurate, they indicate **negative growth per capita**. Furthermore, the budget deficit in state expenditures for 2009 will be very high, with the debt-to-GDP ratio trending up to about 80% by the end of 2009. In addition, increases in interest rates and taxes may be expected globally in order to overcome the immense deficits formed over the course of this year as a result of the crisis.

The Finance Minister said that it is important to remember that the labor market reacts more slowly to the positive signs in the economy, although Employment Service data indicate some stabilization in this area as well over the last month. The review also presented the status of dollar against shekel (10.5% depreciation over the last four months), and explained that the dollar had also weakened against major currencies globally, including the euro (7.3%), the British pound (10.5%), the Brazilian real (15.4%), and the Japanese yen (2.2%).

The contribution of the five-section economic plan and of the approval of the two-year budget to the improvement of Israel's economic performance was also noted in the meeting. The Ministry of Finance is skilled at operating "automatic stabilizers"; consequently, the approved budget contains a "bearable" deficit level along with a downward deficit trajectory. Coordination with the Bank of Israel in coping with the crisis and the united front presented with the 'Histadrut' and the manufacturers also supported the stabilization of Israel's economy.

In the capital market arena, the government has taken steps to ease the credit crunch (guarantees for exporters, guarantees for banks, leverage funds, and credit funds for small and medium-sized businesses), while avoiding sweeping measures. Government actions have also included billions of shekels injected into infrastructures, research and development and job creation, further aiding economic stabilization and the improvement in macro-economic data. The government's actions have garnered international recognition, most notably the ratification of Israel's A rating by the world's largest credit-rating agency, S&P.