



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE

INTERNATIONAL AFFAIRS
DEPARTMENT

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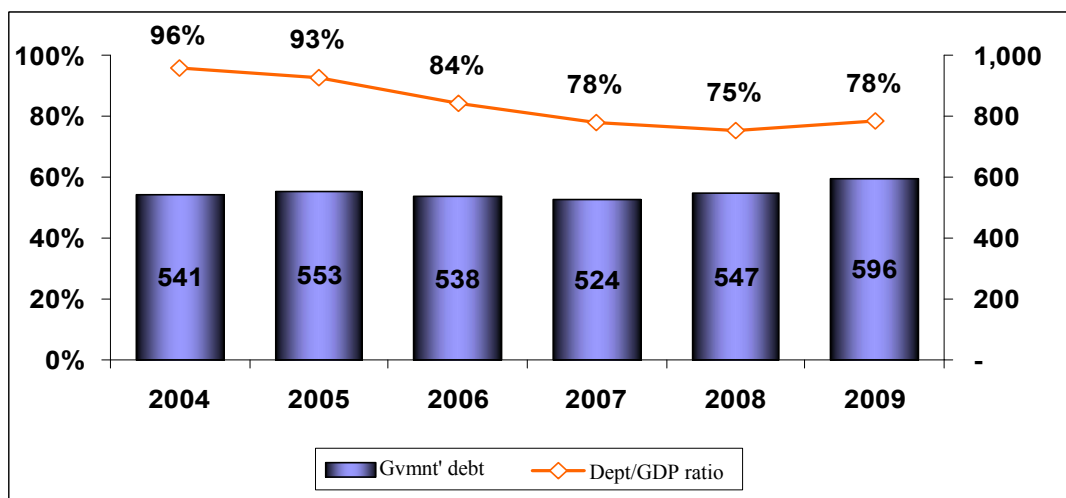
Press Release

Accountant General Publishes Debt Management 2009 Report

- **2009 shows a mild increase in the governmental debt-to-GDP ratio up to a level of 78%;**
- **Governmental debt rate of interest expenditures decreased to 5.0%. In spite of the vast increase of the debt (9% growth from 2008), interest expenditures increased only by 2% regarding the same period, as a result of the Accountant General's policy of increasing merchantable debt and exposing the short term governmental debt rate of interest; and**
- **The Accountant General's collaboration with the Bank of Israel regarding matters of government bonds and zero-coupon bonds.**

The Debt Management Unit in the Accountant General's Office in the Ministry of Finance published its 2009 annual report.

The report concludes that 2009 shows a mild increase in the governmental debt-to-GDP ratio. At the end of 2009, debt-to-GDP ratio stood at 78%, a 3% increase compared to the end of 2008. The OECD average for the end of 2009 was 90%, with economies such as Ireland and Spain experiencing a 15%-20% increase in their debt-to-GDP ratio.





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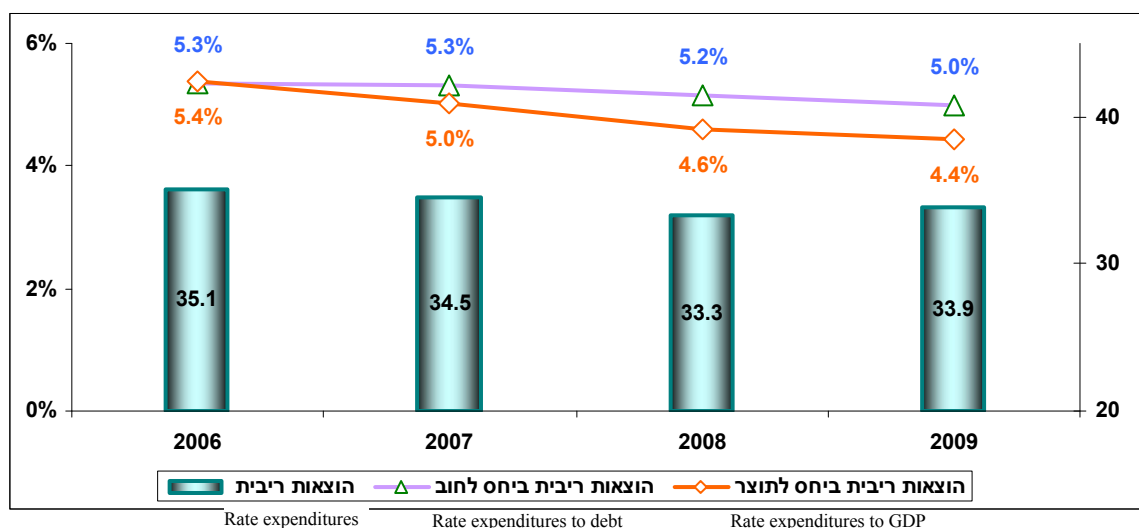
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The report also shows that despite the increase in governmental debt, to an unprecedented sum of 596 ₪ billion in 2009 compared to 547 ₪ billion in 2008, the growth of budget interest expenditures was relatively low. Interest expenditures in the budget for 2009 totaled 33.9 ₪ billion compared to 33.3 ₪ billion in 2008. The percentage rate of interest expenditures relatively to debt for 2009 was 5.0%, compared to 5.2% in 2008. This drop occurred despite the fact that the actual budget interest expenditures rose, which reflects the drop in governmental debt funding costs.

The downturn in the rate of interest expenditures to debt derives mainly from the Accountant General's consistent policy, which increased the part of the merchantable local debt at the expense of the non-merchantable local debt (which is characterized by higher interest rates). The merchantable debt factor stood at 69%, a 2% increase compared to 2008, while the non-merchantable debt factor decreased to 31% at the end of 2009.

In addition, the low interest rate and the fact that the policy of exposing the unit to market risks allocated some of the governmental debt to a factor in a changeable interest rate and some to a factor in short-term bonds, contributed to the decrease in funding costs. Funding costs for short debt and for changeable interest debt were low in 2009 due to a low-interest-rate-environment.

The decrease in funding costs has a great importance since it allows the government to allocate budgets to growth-supporting factors. Also, the funding costs to GDP ratio decreased from 4.6% in 2008 to 4.4% in 2009, despite the low growth rates (compared to pre-crisis rates).





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The report points out that in 2009 the cooperation between the Debt Management Unit and the Bank of Israel was strengthened and the amount of consultations on related topics was increased.

In most economies throughout the world, the government acts in the issuing market while the central bank runs the monetary policy in this market only through open market operations in the secondary market. In Israel, on the other hand, the Bank of Israel issues short term bonds, and is dominantly present in the short part of the return curve.

In 2009, due to the global economic crisis, the Bank of Israel executed a secondary market government bonds acquisition program in relatively vast amounts (18 ₪ billion). The program was executed in conjunction with the Debt Management Unit in the Ministry of Finance.

In addition, at the beginning of 2010 the Accountant General, **Shuki Oren**, signed a memo with the Bank of Israel regarding issues for a period of one year. The memo integrates the Bank of Israel's independence in running monetary policy and the Ministry of Finance's need to issue short-term bonds to improve the government's cash-flow management.