



STATE OF ISRAEL
MINISTRY OF FINANCE

SPOKESPERSON OFFICE


INTERNATIONAL AFFAIRS
DEPARTMENT

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2010-1487

Press Release

Total Government Debt has Decreased to NIS 593 Billion

The Government Debt Management unit has published its quarterly report for June 30, 2010. During the quarter, hedging transactions against exchange rate risks were carried out totaling USD 730 million

 [Click here for the attached report](#)

The Government Debt Management Unit has published its quarterly report for June 30, 2010. The report's data show that during the first half of 2010, government debt declined by 0.5%, from NIS 596 billion at the end of 2009 to NIS 593 billion mid-year. It should be noted that every reduction of NIS 1 billion in the debt portfolio saves the state an annual NIS 50 million in interest payments.

The decrease in the total government debt is a result of the slower rate of growth in the government deficit since the beginning of 2010. The volume of government debt issuance was lower than total redemptions, resulting in negative net funding of NIS 5 billion since the beginning of the year. The negative difference was financed from the large cash balances accumulated by the government as a "safety cushion" prior to the 2009 crisis. Nevertheless, the Accountant General is also preparing for possible scenarios of an increase in the growth rate of the government deficit in the second half of 2010.

The issuance environment in the domestic government bond market was highly favorable in the second quarter of 2010, with historically low issuance costs and relatively high volumes of demand. The ten-year nominal government bond yield stood as of June 30, 2010 at 4.51%, while the yield on ten-year CPI-linked bonds reached 11.8% as of that date. Overall demand in the second quarter of 2010 for tradable bonds in local auctions was 5.7 times higher than the supply which amounted to NIS 11.4 billion.

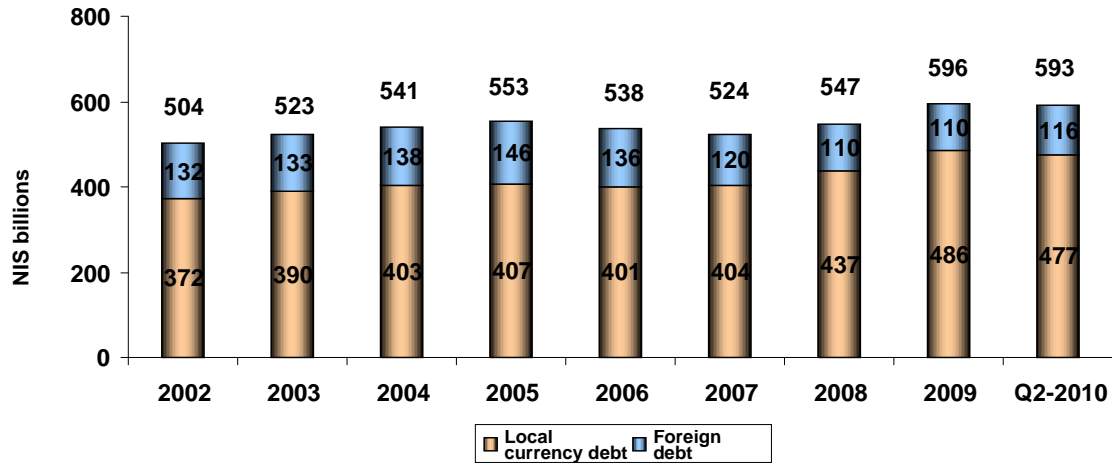


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The graph below shows the development in government debt:

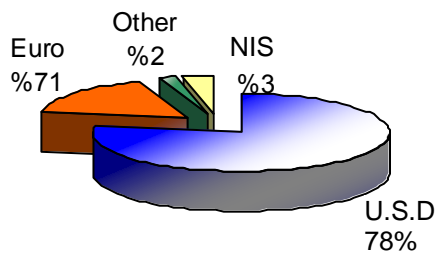


During the second quarter of the year, the Government Debt Management Unit resumed hedging transactions, for purposes of diversification and reducing foreign currency exposure. In all, hedging transactions were carried out worth USD 730 million. In this framework, future debt repayments for a total of USD 300 million were converted into euros at the start of the quarter. In additional transactions, USD 430 million in future debt repayments were converted into shekels, bringing down interest payments to below the cost of funding in the local market.

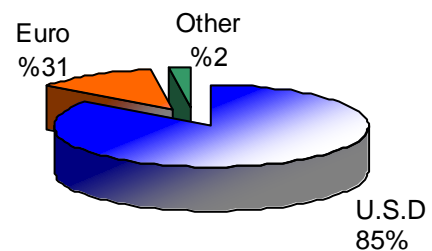
The government's foreign debt portfolio is characterized by high exposure to the US dollar. The hedging transactions reduce this exposure by 7%, from a level of 85% down to 78%.

Below is the breakdown of the government's foreign debt portfolio by currencies:

Breakdown of External Debt with Hedging Transactions



Breakdown of External Debt without Hedging Transactions



[Click here for the attached report](#)