



STATE OF ISRAEL
MINISTRY OF FINANCE
INTERNATIONAL AFFAIRS DEPARTMENT

July 2008

Economic Highlights

2nd QUARTER 2008

Dear Friend,
Once again we are distributing our "Economic Highlights".
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Moody's Ratings has raised The government foreign ratings and local currency bond ratings to 'A1' from 'A2'

→ For Israel's complete rating list see next page

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Latest News

Moody's Ratings: Israel's long-term credit rose to 'A1', from 'A2'

Moody's Investors Service upgraded Israel's key ratings, indicating that the country has proved resilient in the face of repeated economic and political shocks.

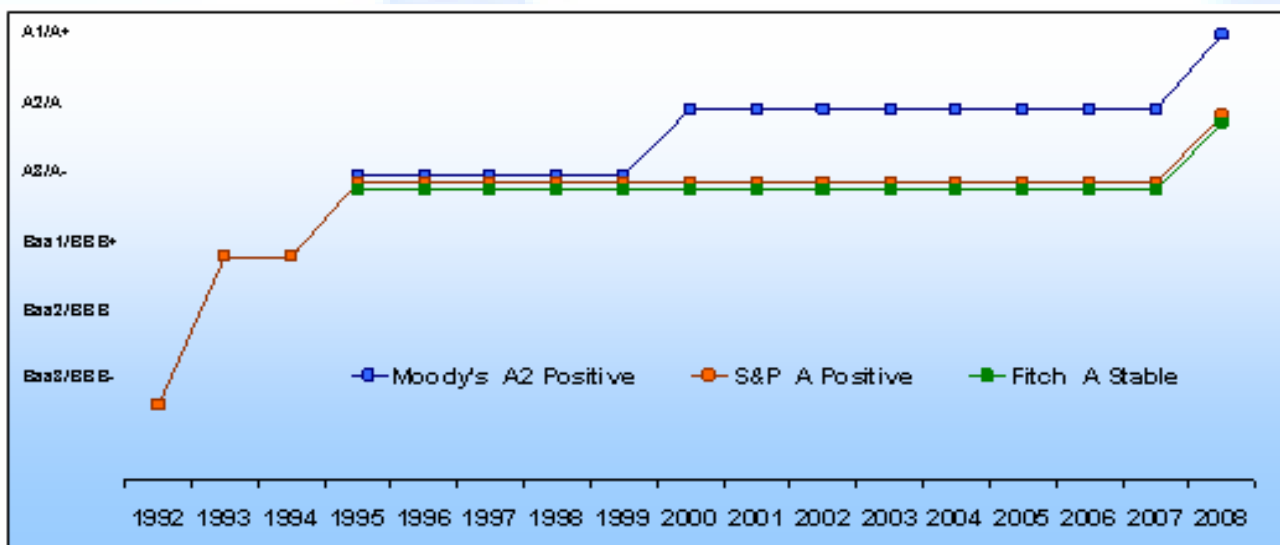
It also cited the country's "firmly established fiscal discipline and its ongoing financial and political support from the United States and the Jewish diaspora."

The government foreign and local currency bond ratings have been upgraded to 'A1' from 'A2', as has the foreign currency ceiling for bank deposits. (Source: Accountant General, Forbes)

Israel's Credit Rating – Complete List

Source:
[Accountant General](#)

Ratings Firm	Term	Domestic Bonds		Overseas Bonds	
		Rating	Outlook	Rating	Outlook
Fitch Ratings	Long	A+	Stable	A	Stable
	Short	–		F1	
Standard & Poor's	Long	AA–	Positive	A	Positive
	Short	A–1+		A–1	
Moody's	Long	A1	Stable	A1	Stable
	Short	–		P1	



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Latest News

Almost 300,000 Visitor Arrivals In May 2008

This May, a record number of 297,000 visitors entered Israel. Shaul Zemach, Director General of the Ministry of Tourism stated: "The growth in tourism has an important influence on the economic growth and on the participation rate in the labor force". (Sources: CBS, Ministry of Tourism)

The Unemployment Rate – The Lowest It has Been In 13 Years

50,000 new employees joined the labor market during the 1st quarter of 2008, bringing the unemployment rate to 6.3% and increasing the participation rate in the labor force to 56.6%. (Source: CBS)

Starting July 1, the minimum wage has been increased

The minimum wage has been increased to 3,850 NIS per month, instead of 3,710 NIS. The new minimum wage per hour is 20.70 NIS. (Source: Ministry of Trade and Labor)

June's Consumer Price Index: 0.1%

After a 1.5% increase in April, and 0.6% on May, June's CPI showed a low 0.1% increase. Since the beginning of 2008, CPI grew by 2.3%. (Source: CBS)

Monetary News

Bank of Israel Raised Its Interest Rate to 3.75% in July, Up From 3.25% in April and 3.5% in June

The BOI is performing these steps in order to keep the inflation within the target set: 1% – 3%. Other reasons include the ongoing recession in the US, Europe and Japan, and the strengthening of the Shekel vs. other currencies. (Source: BOI)

The Bank of Israel Increased the Average Daily Rate of Foreign Currency Purchases to 100 Million Dollars

The BOI explained that the decision to increase the pace of purchases was taken after examining the program in light of current market conditions, and the cumulative and rapid change in the exchange rate of the shekel.

Ongoing Infrastructure development

Beginning construction of the Tel-Aviv subway. (\$2.5 billion, completion estimate: 2014).

Construction of the Light Rail in Jerusalem. (\$750 million, completion estimate: 2010).

Five-year plan for intercity highways. (\$4 billion, Time frame: 2006-2010)

Natural gas – laying the Ashkelon-Dead Sea pipeline.

Investments in desalination's infrastructure – The Hadera site totals 100 million cubic meters, Ashkelon site 105 million and Palmahim site 30 million, totaling 235 million cubic meters. There is a planned expansion of an additional 300 million cubic meters. (All of the above – per year)

Israel Railways – further implementation of a multi-year plan. (\$6.5 billion)
Completion estimate: 2010.

Carmel Tunnel – Connecting the Haifa shoreline with its center. (\$250 million, completion estimate: 2010).

ECONOMIC FIGURES

Final data for the second half of 2007 and the first quarter of 2008

Data is calculated in an annual rate

	2nd half 2007	1st quarter 2008
GDP growth:	5.9%	5.4%
Business GDP growth:	7.3%	6.1%
Investments in fixed assets growth:	20.1%	9.6%
Export growth:	11.2%	12.6%

Demand and Output

Data from previous editions is constantly being updated.

All projections are done by the Economics and Research Department at the Ministry of Finance

Data is for 2007 unless stated otherwise

GDP growth:

Growth in 2007: **5.3%**
 2006: **5.2%**; 2005: **5.3%**
Growth expected for 2008: **4.2%**
GDP per capita growth: **3.5%**

Private Consumption Growth:

Growth in 2007: **6.6%**
 2006: **4.5%**; 2005: **3.9%**
Growth expected for 2008: **4.6%**

Business GDP growth:

Growth in 2007: **6.1%**
 2006: **6.5%**; 2005: **6.5%**
Growth expected for 2008: **4.9%**

Public Consumption Growth:

Growth in 2007: **2.6%**
 2006: **2.3%**; 2005: **3.0%**
Growth expected for 2008: **2.0%**

GDP per Capita, based on PPP, 2007: \$25,756, which is 77% of
 OECD members' average GDP per capita.

Foreign Trade

Goods and Services

Import growth:

Growth in 2007: **12.3%**
 2006: **3.3%**; 2005: **3.3%**
Growth expected for 2008: 7.1%

Export growth:

Growth in 2007: **8.4%**
 2006: **5.9%**; 2005: **4.3%**
Growth expected for 2008: 6.4%

Balances

Current account surplus:

2007: **3.2%**
 2006: **6.0%**; 2005: **3.3%**

Gross Debt: (% of GDP)

(General government gross financial liabilities)
 2007: **80.8%**; 2006: **86.7%**;
 2005: **97%**; 2004: **100.7%**

Budget deficit

(Central Government):
 2007: **0.02%** (100 million NIS)
 (Planned deficit was **2.9%**)
 2006: **1.0%**; 2005: **1.9%**;
 2004: **3.6%**

Investments

Total Gross Local Investment:

2007: **13.8%**
 2006: **5.3%**; 2005: **11.1%**
 2004: **3.1%**
Growth expected for 2008: 7.1%

Investment in Fixed Assets:

2007: **14.2%**
 2006: **10.1%** ; 2005: **2.3%**
Growth expected for 2008: 7.3%

Israeli Investments abroad: (\$B)

2007: **17.1**; 2006: **34.0**; 2005: **17.6**;
 2004: 13.1

Foreign investments: (\$B)

2007: **13.6**;
 2006: **25.8** (including TEVA-Ivax deal)

Foreign direct investments: (\$B)

2007: **10.3**; 2006: **14.7**;

Challenges

- **Maintain the budget framework.** Implementing a sound, responsible fiscal policy, **narrowing socio-economic gaps and reducing poverty.**
- **Maintaining monetary stability** – Israel has an inflation-targeted monetary regime. The target is 1-3%.
2007 CPI change: **3.4%**. (2006: **-0.1%**)
- **Continuation of the reduction of the public debt to GDP ratio:**
2007: **80.8%**; 2006: **87.7%**; 2008 Projection: **77.3**
OECD 2007 projection (all countries): **76.8%**;
- **Reducing the rate of unemployment** is still a challenge even though it is in a downward trend. Average rate in 2007: 7.3%;
Unemployment rate in the 3rd quarter was: **7.3%**; 4th quarter: **6.7%**.
→ Total employment grew by **102,000** in 2007.
(2006: **8.4%**; 2005: **9.0%**; 2004: **10.4%**; OECD, 2007: **5.4%**).
- **Increasing participation rate in labor force – The biggest challenge:**
Participation rate in 2007: **56.3%**. It is expected to rise in 2008.
(2006: **55.6%**; 2005: **55.2%**) (OECD, 2007: **70.0%**).

Ongoing reforms

- **Continue reducing corporate tax** – from **29%** in 2007 to **25%** by 2010.
(Plan is: 2008 – **27%**; 2009 – **26%**)
 - Introducing **negative income tax (EITC)**. **Pension benefits for all**.
→ *See Economic Highlights from January 2008 for details.*
 - **Reducing tax burden** on low and medium income levels
(Increasing the disposable income which in turn may increase private consumption). → *See Economic Highlights from January 2008 for details.*
 - **Privatization processes, combined with structural changes*** :
 - Splitting and sale of Oil Refineries – **US \$2.3 billion** (2006-7)
 - Sale of the controlling core of Bezeq – **US \$919 million** (2005)
 - Privatization of ZIM – **US \$112.5 million** (2004)
 - Privatization of Pi–Gilloth (terminals only) – **US \$197 million** (2007)

* The Government's share – approximately 50%.
- Total income from privatization of government, mixed companies & banks between 2000 and 2007: **US \$6.5 billion**

Sources: Ministry of Finance – Department of Economics and Research and the Accountant General, Central Bureau of Statistics, Bank of Israel, Tel Aviv Stock Exchange, Government Companies Authority, OECD, OECD Israel, Standard and Poor's, Moody's and Fitch Ratings.

We welcome your feedback!

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