



STATE OF ISRAEL
MINISTRY OF FINANCE
INTERNATIONAL AFFAIRS DEPARTMENT

July 3, 2007

Economic Highlights

Dear Friend,

Welcome back to "Economic Highlights."
Your comments would be greatly appreciated at
urige@mof.gov.il .

Latest News:

OECD invites Israel to open discussions for membership of the organization

- Tel-Aviv and London stock exchanges sign MOU to facilitate orderly trading in shares admitted to both markets.
- Bank of Israel lowers its interest rate to 3.5%
- Budget deficit estimation at 1.5%, while the planned deficit is 2.9%.
- Unemployment drops to a 10 year low.

Source if not mentioned otherwise:

Central Bureau of Statistics and the Department of Research at the Ministry of Finance.

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Demand and Output

- Annual GDP growth in the 1st quarter of 2007 was 6.3%.
Expected GDP growth in 2007 is **5.0%** (Ministry of Finance);
4.8% (IMF); **5.1 %** (Bank of Israel); **4.9%** (HSBC).
(GDP growth in 2006: **5.1%**; 2005: **5.2%**).
(OECD growth for 2006: **3.17%**)
Growth includes most of the components of GDP.
- Annual business GDP growth in the 1st quarter of 2007 ended at 6.5%.
Expected growth in 2007 is **5.7%**.
(Business GDP accounts for 73% of total GDP)
Private consumption growth: in 2007 is leading and expected to reach **5.1%**.
Annual private consumption growth in the 1st quarter of 2007 was 11.8%. (OECD, 2007: **2.5%**)
- Annual public consumption in the first quarter of 2007 - down by 4.0%.
Total public consumption growth in 2007 is expected to reach **2.9%**. (OECD: **2.0%**)
- Import growth in the 1st quarter of 2007 was negative: -2.3%.
Commodity imports growth, though, was **9%**.
Expected import growth in 2007 is **5.3%**.
(2006: **3.1%**; 2005: **3.4%**).
- Annual export growth in the 1st quarter of 2007 was 11.1%.
Commodity exports growth for that period was **12%**.
Expected export growth in 2007 is **5.9%**. (**6.4%** excluding diamonds). (2006: **4.9%**; 2005: **5.1%**).

- Productivity up: output per working hour rose by **16.3%** in 2002–2006, while workers remuneration increased by **10.5%** only.
- Foreign investments: **\$24.4** billion in 2006 (including TEVA-Ivax deal). **\$3** billion in January-March 2007.
(2005: **\$9.9** billion; 2004: **\$9.1** billion)
- Foreign *direct* investments in 2007 are expected to grow by **8.0%**, reaching \$15.3 billion.
Foreign direct investments in 2006: **\$14.2** billion.
(2005: **\$4.8** billion; 2004: **\$2.1** billion).
- Israeli investments abroad – growing trend: **\$30** billion in 2006. (2005: **\$18** billion; 2004: **\$13** billion)

Balances

- Current account surplus: **4.9%** in 2006.
(2005: **3.3%**; 2004: **2.3%**)
- Budget deficit (Central Government): 2007 estimate: **1.5%**
(planned: **2.9%**)
2006: **0.9%**; also lower than anticipated.
(2005: **1.9%**; 2004: **3.7%**). (OCED: **2.0%** [financial balances]).
- Industrial deficit in the 1st quarter of 2007 was **\$1.6 billion**,
- down by **6%**. (Israel Export Institution)

Data and Achievements

- **Israeli industrial production growth in 2006 was the highest in the world: 37.1%.**
Followed in descending order by Colombia (**17.4%**) and China (**14.9%**). (USA: **3.8%**; EU average: **3.6%**).
(Economist)
- Business service revenues up by **9.2%** in 2006. (Chamber of Commerce).
- An all time high was recorded in high-tech exits in 2006 totaling **\$10.7** billion.
- Foreign stock investments in January attained an all-time peek: **\$460** million. (TESA)
- Bank Of Israel interest: **3.5%** - lowest since October 2005.
(US Federal Funds rate: **5.25%**)
- Expected inflation in 2007: **1.0%**.
(Economist: **0.9%**, third lowest in the world)
Inflation in 2006: [**- 0.1%**]. (Euro Area: **2.2%**)
- S&P latest upgrading of Israel's credit rating to "positive," joining a similar action on behalf of Moody's and Fitch in 2006.
Current long term foreign currency ratings are at:
S&P: **A-**. Moody's: **A2**. Fitch: **A-**.
FTSE: Possible rating promotion for Israel from "Developed" to "Advanced Emerging."
- Israel ranked 15th worldwide in competitiveness (2006).
(2005 rank: 23). (World Economic Forum)
- IMF commended Israel on its economy's strong performance

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and the notable improvements in macroeconomic policies.

- IMF welcomed the increased transparency resulting from the publication of minutes of monetary policy discussions.
- World Bank will sell up to \$1 billion of its bonds in Israel (in Shekels) starting in 2007. (Its bonds are sold in only 30 countries worldwide).
- IMD has ranked Israel 1st (out of 55 ranked) in R&D expenditure, both public and private.
- The Wall Street Journal defines Israel as the "best initiative economy in the world", giving an example of Moshav Bnei Tzion.

What used to be a small settlement near Tel-Aviv is now a community housing multi-millionaires, and the moshav's old chicken-coop now houses an industrial design firm and a company that makes steering-wheel sensors to alert dozing drivers.

Challenges

- Maintain the budget framework. Implementing sound and responsible fiscal policy.
- Narrowing socio-economic gaps and reducing poverty.
- Reducing the high public **87.7%** debt to GDP ratio in 2006.
Expected debt to GDP ratio in 2007: **84%**.
(OECD: **54%** (GDP weighted average [pop. 1M-50M], 2005))
- Reducing the rate of unemployment: Still a challenge even though it is in a downtrend.
Expected average unemployment rate in 2007: **7.5%**.
Unemployment rate in the 1st quarter of 2007: **7.7%**.
(The lowest rate in 10 years).
(2006: **8.4%**; 2005: **9.0%**; 2004: **10.4%**) (OECD: **6.0%**).
- Increasing participation rate in labor force:
Expected rate in 2007: **56.2%**. (2006: **55.6%**; 2005: **55.2%**)
(OECD: **70.0%**).

Continue reforms

- Continue reducing corporate tax - from 31% in 2006 to 25% by 2010.
- Introducing negative income tax (EITC).
- Pension benefits for all.
- Reducing tax burden on low and medium income levels
(Increase disposable income).
- Higher tax on company car benefits.
- Continue privatization process: recent privatization of the Haifa oil refinery (estimated at \$1 billion).

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Infrastructure development

- Five-year plan for intercity highways.
(\$4 billion, Time frame: 2006-2010)
- Investments in desalination's infrastructure.
- Israel Railways – further implementation of a multi-year plan. (\$6.5 billion) Date of completion (estimate): 2010.
- Construction of the Light rail in Jerusalem.
(\$750 million, completion estimate: 2010).
- Beginning construction of the Tel-Aviv subway.
(\$2.5 billion, completion estimate: 2014).
- Natural gas – laying the Ashkelon-Dead Sea pipeline.
- Carmel Tunnel – Connecting the Haifa shoreline with its center. (\$250 million, completion estimate: 2010).

We welcome your feedback!

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