



STATE OF ISRAEL
MINISTRY OF FINANCE
INTERNATIONAL AFFAIRS DEPARTMENT

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Economic Highlights

4th QUARTER 2009

Dear Friends,

Once again we are distributing our Economic Highlights.

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Table of Contents

Headlines	1
Latest News	2
Monetary News and Capital Market	3
From The Press	5
Environmental Economy News	6
Economic Figures	7
Contact Information	8

Headlines

- **IMF: "Israel Appeared to Acquire Safe Haven Status"**.....(Page2)
- **Incoming Tourism for All-Time Record in October**.....(Page2)
- **Israel Receives Compliments for its Monetary Policy**.....(Page3)
- **Merrill Lynch Calls to Invest in Israel**.....(Page3)
- **Israel Ranked Strongest Real Estate Market**.....(Page5)
- **California and Israel to Cooperate on Renewable Energy**.....(Page6)

Latest News

New Book, 'Start-up Nation': Israel Leads in Innovation Watch Dan Senor, co-author, on CNBC [here](#).



Tender for the Formation of Israeli Life Sciences Funds For more information, [click here](#).



IMF Annual Visit to Israel – Concluding Statement: "Israel Appeared to Acquire Safe Haven Status"

Israel's economic policies are praised in the IMF concluding statement of the 2009 Article IV Mission with Israel. The document opens with a statement that Israel has had a "good" economic crisis. The document also praises Israel's response to the crisis, saying that the aggressive monetary expansion, which included non-conventional methods and allowed automatic financial stabilizers to be active in 2009 with the adoption of a two-year budget for 2009-2010, were all put into effect at the right time and at the required level.

To view the IMF concluding statement of the 2009 Article IV Mission with Israel, [click here](#).

(Source: Ministry of Finance, Globes)



Incoming Tourism for All-Time Record in October

330,000 Tourists visited Israel during October 2009, a 9% increase over October of the previous year. From the beginning of 2009 until October, 2.3 million tourists visited the country, matching the total amount of visitors for 2007. October's 9% growth is composed of a 6% growth in the number of tourist who stayed at least one night in Israel, and a 20% growth in daily visits. Moreover, 23,500 tourists visited Israel in October as part of a cruise, doubling the figure for October 2008. Overall, 2009 is showing only a 12% decline in tourists from 2008, a minor figure in light of the global economic crisis and *Operation Cast Lead* in the beginning of 2009.

(Source: Ministry of Tourism, CMS)



Monetary News and Capital Market

Israel Receives Compliments for its Monetary Policy

After the Bank of Israel raised the interest rate for September 2009 by 0.25 percentage points to 0.75 percent (being the first in the world to do so) and Q3 figures showed a 1% growth, Israel receives compliments for its policy.

The Wall Street Journal posted an article praising the Bank of Israel and PM Binyamin Netanyahu's policy. The Journal mentioned Barclay's analysts recently calling Israel "the strongest recovery story" in Europe, the Middle East and Africa, and quoted Minister of Finance Dr, Yuval Steinitz: "We expect to come out of the crisis with an advantage over the rest of the Western world."



Stanley Fischer
Bank of Israel Governor

Merrill Lynch noted that Israel is less vulnerable to economic crisis than the U.S. and Europe. According to a report on the financial and economic vulnerability of 44 nations, the Israeli economy is less susceptible to risk than many more developed countries. Merrill Lynch praised the Bank of Israel's exit strategy and monetary expansion. In addition, Merrill Lynch has advised investors to focus on Israel in view of Dubai's crisis.

World-renowned Dr. Nouriel Roubini, the New York University economist who forecast the global financial crisis, told Bloomberg that the Israeli economy is fundamentally sound, praising the actions of central bank Governor Stanley Fischer.

Bank of Israel interest rate has been raised twice again since then – to 1% for December 2009 and to 1.25% for January 2010.

(Source: Bank of Israel, Wall Street Journal, Bloomberg, The Marker, Calcalist)

Merrill Lynch Calls to Invest in Israel

Bank of America Merrill Lynch said investors should focus on Israel, in particular on certain Israel-based banks and telecom companies as a defensive market, in light of the "Dubai Crisis".

According to analysts Haim Israel and Micha Goldberg, and economist Mai Doan in their report entitled "Play Defense!" Investors "should overweight Israel, at least until the dust settles in Dubai,"

The worst is probably over for Israel's economy, the analysts said, pointing to the country's gross-domestic-product growth in the second and third quarters, and the recovery of a composite index of economic activity in the country, close to its pre-crisis level.

"[For] better or for worse (we would argue for better now), Israel has never had the political opportunity to invest in Dubai," the analysts wrote. "As a result, despite its geographical proximity, neither Israel nor Israeli companies have any material direct or indirect exposure."

(Source: MarketWatch)

Fitch Reaffirms Israel's Rating

After S&P reaffirmed Israel's A rating and Moody's reaffirmed Israel's A1 rating, Fitch ratings reaffirmed their A rating for Israel, maintaining Israel on a "stable" outlook.

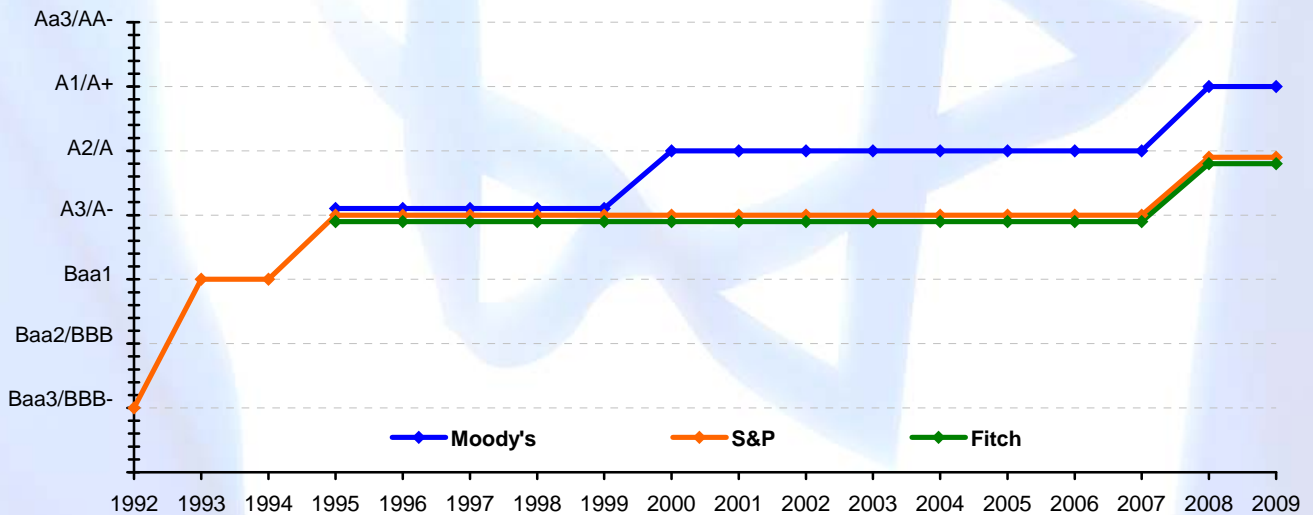
Israel's rating reaffirmation in the midst of a global financial crisis where many countries are being downgraded shows the strength and stability of the Israeli economy.

(Source: Ministry of Finance – Debt Management Unit, Accountant General)

Israel's Credit Rating

Rating Firm	Term	Domestic Bonds	Forecast	Overseas Bonds
		Rating		Rating
Moody's	Long	A1	Stable	A1
	Short	-		P1
Standard & Poor's	Long	AA-	Stable	A
	Short	A-1+		A-1
Fitch	Long	A+	Stable	A
	Short	-		F1

Moody's / S&P & Fitch



(Source: Ministry of Finance – Debt Management Unit, Accountant General)

From The Press

Israel Ranked Strongest Real Estate Market

In Q2 2009 Israel was indicated as the World's fastest rising real estate market. This Q4, The Knight Frank Global House Price Index shows Israel's real estate market as the world strongest over the year ended September 30th. Israel was the only market in the world to record double digit growth over the period, rising 13.7%.

(Source: Ministry of Construction and Housing, Globes, Knight Frank)



'Soldiers of Fortune': Newsweek Reports the IDF as an 'Entrepreneurship Incubator'



This past November Newsweek published an article on Israel's entrepreneurship environment and its connection to the Israeli army service's, praising the IDF for instilling leadership qualities, multidisciplinary skills and responsibility for young Israelis, as well as nurturing a tight-knit network with global reach during active and reserve service.

For the full article, [click here](#).

(Source: Newsweek)

Israel and the EU Signed a New Agricultural Agreement

On Wednesday, November 4, 2009, a new agricultural agreement was signed in Brussels between Israel and the European Union.

Access to the markets of both sides has been greatly improved under the new agreement. In the processed agricultural products sector, over 95% of the products will be exempt from all taxes or levies. Considerable liberalization was undertaken in regards to all areas of fresh produce and approximately 80% will be exempt from all customs restrictions.

Approximately one billion USD of Israeli agricultural and processed food products are exported to the EU each year. Europe is Israel's most important trading partner in the agricultural field, with more than 25% of Israel's agricultural products and more than 75% of its total fresh agricultural products exported to Europe. The Ministry of Agriculture predicts that the new agreement will serve to expand agricultural exports, an important development given that more than 60% of exports to Europe come from the Arava and Negev regions.

Israel uses the world's leading technologies in the intensive production of fruits, vegetables and flowers. Most of Israel's agricultural activities are conducted in periphery and desert areas. Both Israel and the EU view the existence of active and modern rural areas as essential as they are used to preserve open spaces and prevent rapid urbanization processes.

(Source: Ministry of Foreign Affairs)



Environmental Economy News

Israel Cabinet Promotes Development of the Beersheba River Park

Israel has approved a plan to establish and develop the Beersheba River Park, which will span 5.2 sq. km, to serve residents of Israel's southern region.

The objectives of the park include: landscape rehabilitation of the river and its vicinity, preservation of the environs of the river as an open space accessible to the public and all the improvement of quality of life and the environment, while developing tourism in the Negev and southern region of Israel.

The park will upgrade the quality of life and the environment of the residents of Israel's southern region, and will constitute an attractive tourism source, allowing for economic growth while cultivating historic and cultural values."

It is estimated that some 300 million shekels (some \$80 million) will be invested in the park by the government and by donors from abroad over the next seven years, with half this sum to be allocated by the government.

(Source: Ministry of Environmental Protection, br7park.org.il)



WATEC 2009 – Israel's Premier Water Convention

WATEC 2009 Exhibition, organized by the Israeli Government and IsraelTrade Fairs and Conventions Center, focused on the water energy nexus, as well as other topics such as water efficiency, desalination, efficient irrigation, water purification and alternative energy solutions.



WATEC presented a unique opportunity to discover the latest innovations from start-up businesses, established companies, and researchers that can help drive private and public initiatives and accelerate results.

(Source: gov.il Portal, Ministry of Finance)



California and Israel to Cooperate on Renewable Energy

During his Visit to Israel, Governor of California Arnold Schwarzenegger met with Minister of Industry, Trade and Labor Benjamin Ben-Eliezer to sign a renewable energy R&D cooperation agreement.

The cooperation agreement will promote Israel-California strategic R&D in renewable energy and environmental technologies by establishing joint ventures between Israeli renewable energy companies and municipal authorities in California. The agreement will also boost mutual investment, and foster research collaboration.

(Source: Globes, CICC)



Economic Figures

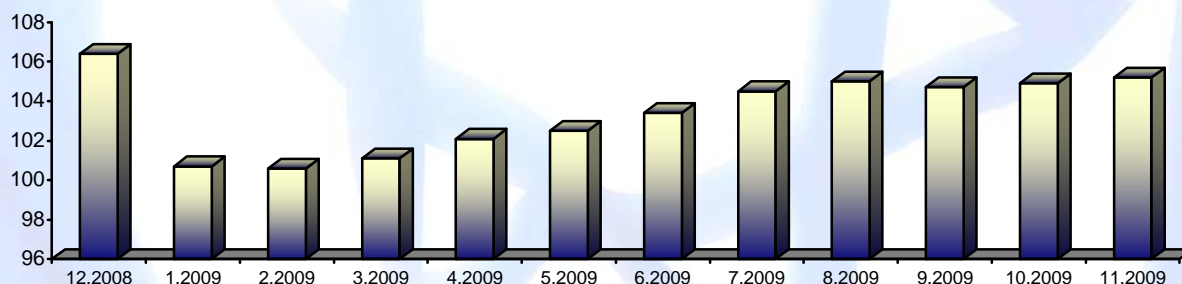
Economic Data for Q3 2009

Data is calculated at an annual Year-on-Year rate of change.
Data from previous editions is constantly being updated.

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>	<u>Q3 2009</u>
GDP Growth	4.0%	-3.2%	1.0%	2.2%
Business GDP Growth	4.4%	-4.9%	1.1%	1.6%
Private Consumption Growth	3.6%	-3.5%	8.1%	8.9%
Public Consumption Growth	2.8%	-4.5%	12.6%	1.2%
<u>GDP Per Capita, Based On PPP For 2008: 27,143\$</u>				

Consumer Price Index

Dec 2008	Jan 2009	Feb 2009	Mar 2009	Apr 2009	May 2009	Jun 2009	Jul 2009	Aug 2009	Sep 2009	Oct 2009	Nov 2009
106.4	100.7	100.6	101.1	102.1	102.5	103.4	104.5	105.0	104.7	104.9	105.2



Foreign Trade Goods and Services

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>	<u>Q3 2009</u>
Import Growth	2.0%	-40.0%	4.8%	61.9%
Export Growth	3.0%	-28.6%	14.6%	21.8%

(Source: Ministry of Finance – Department of Economics and Research, CBS)

Balances

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>
Current account Surplus	1.0%	-5.0%	-4.4%
Budget Deficit Central government	2.2%		
Gross Debt (% of GDP) General government gross financial liabilities	77.1%		

Investments

	<u>2008</u>	<u>Q1 2009</u>	<u>Q2 2009</u>	<u>Q3 2009</u>
Gross Domestic Capital Formation	1.1%	-19.4%	-48.7%	50.6%
Investments in Fixed Assets	5.1%	-15.8%	2.7%	23.2%
Israeli Investments Abroad (Billion\$)	-0.4\$	1.2\$	-1.3\$	-0.7\$
Foreign Investments in Israel (Billion\$)	7.8\$	0.5\$	0.7\$	5.0\$
Foreign Direct Investments (Billion\$)	9.6\$	1.3\$	0.7\$	1.4\$

(Source: Ministry of Finance – Department of Economics and Research)

We Welcome Your Feedback

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