



Ministry of Finance
Accountant General Division

Government Debt Management Unit

Annual Report 2008





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Section A

Preface



Section A – Preface

We are pleased to present the seventh annual report of the Government Debt Management Unit in the Accountant General Division, which refers to 2008.

One of the most severe financial crises in modern economic history broke out in 2008. The Israeli economy was in a strong position at the outbreak of the crisis at the end of 2007: Four successive years of growth in excess of 5%, a downward trend in the debt-to-GDP ratio, low unemployment, inflation under control, a current account surplus on the balance of payments and a strong and stable inflow of foreign investment. The positive trend in the Israeli economy continued in 2008 too, but, toward the end of the year, as the severity of the global financial crisis intensified, it was already clear that the upcoming challenges would be large, including in the field of government debt funding.

At the end of 2008, the state budget deficit had reached a level of 2.1% of GDP - 0.5% higher than originally planned. The explanation for the excess can be found both on the revenue side and on the expenditure side: A sharp decline in tax revenue – a decrease of NIS 6.5 billion, versus the original plan; more than 20% of this decline was recorded in December 2008. Government ministries brought expenditure forward to the end of 2008, due to the fact that at the beginning of 2009, the government budget had still not been approved.

The net amount of bonds raised in the local market and overseas, in terms of the principal alone, totaled NIS 13 billion. This followed two years in which the net amount raised was negative. Most of the net amount raised in 2008 was intended to finance large-scale redemptions in the first quarter of 2009. Despite the rise in the deficit at the end of the year, which was the first time in six years that this had occurred, and despite the positive net issuance, the debt-to-GDP ratio fell by a further 1% in 2008, reaching a level of 77%.

During 2008, the consumer price index rose by 3.8%, exceeding the upper limit of the Bank of Israel's target range. This was mainly "imported" inflation, resulting from the rise in global raw material prices in the first half of the year.

High volatility was recorded in the Bank of Israel's interest rate, with the level of interest being raised to 4.25% at the very beginning of the year, which was then reduced to 3.25% during the first quarter. Due to high inflation data, the interest rate was again raised to 4.25% in the third quarter. At the end of the year, as the financial crisis worsened and in parallel with the expansionary monetary policy being followed by central banks throughout the world, the direction was reversed and the interest rate was lowered to a level of 2.5%. Further reductions took place at the beginning of 2009.

During 2008, the shekel maintained its strength and appreciated 1.1% against the dollar and 6.4% against the euro. This was in parallel with the surplus (0.8% of GDP) on the balance of payments. Although this was lower than in previous years, demand for Israeli currency still remained high. It should be noted that the volatility in the exchange rate was high in 2008 and that the exchange rate of the shekel fell to a low point of NIS 3.2 per dollar before cresting at NIS 4.0 per dollar and then ending the year at NIS 3.8 per



dollar.

The boom in the capital market came to a standstill in 2008 and stock indices showed steep declines, mirroring events worldwide, mainly in the second half of the year. The TA-100 stock index fell by 51.1%, with stocks in the financial and real estate sectors leading the rush downward, as happened elsewhere in the world.

In the government bonds market, large price rises – in comparison to previous years – were recorded, but at the same time there was increased volatility. The government bonds index recorded an 8.6% rise, while the CPI-linked government bonds index and the fixed-coupon unlinked government bonds rose 8.4% and 11.7%, respectively. With the collapse of the U.S. investment bank “Lehman Brothers” in September, the capital market crisis worsened. The increased rate of redemptions by financial institutions led to widespread sales in the market for government bonds – the most liquid asset on the Israeli capital market. This phenomenon caused a steep rise in yields and, at the beginning of November, the ten-year unlinked yield reached a level of 6.6%, while the yield on linked bonds for the same period reached a level of 4.4%. Toward the end of the year, as the monetary interest rate was reduced and as the “flight to quality” phenomenon became more pronounced, the yields on these bonds fell to 5.0% and 3.0%, respectively. Yields continued to fall at the beginning of 2009.

The corporate bond market, which had expanded dramatically in 2007, found itself at the center of the financial crisis in 2008. Concern regarding companies’ redemption difficulties and the low level of liquidity in the secondary market led to steep price falls and to a rise in the yield differential between these bonds and government bonds.

The market reforms led by the Ministry of Finance in previous years continued in 2008 too, particularly in the taxes sector and in the pensions sector. The main aspect of the Ministry of Finance’s involvement in the capital market was expressed in the formulation of an accelerated plan dealing with the crisis in the credit market toward the end of the year. Broadening the plan and adjusting it to changes in the economic situation continued in 2009. The main points that were approved at the end of 2008 were: providing guarantees to the banking system for the purpose of funding secondary capital, establishing private investment funds together with the government (“Manof funds”) in order to increase the supply of non-bank credit and, especially, for the purpose of debt rollover within the framework of arrangements with bondholders, and establishing/expanding funds to provide credit to small companies, medium companies and to exporters. The plan had a positive impact on the capital market, as evidenced by the continuously rising trend in prices that began at the end of December 2008.

In the field of government debt, 2008 began as a year for consolidating the reforms achieved in the government bonds market in recent years and shifting the focus to the sphere of risk management. At the end of 2007 and during the first three quarters of 2008, a program was activated to hedge exchange rate risks of the government debt. Within the framework of this program hedging transactions totaling USD 2.7 billion were carried out. Toward the end of 2008, when the extent of the crisis and its effect on the government’s funding needs began to become clear, the focus was diverted from

management of the debt to the sphere of expanding and varying the sources of government financing. Nevertheless, in the long-term, the central issue in the sphere of government debt is the formulation of a policy to reduce the costs of its financing and management, from the viewpoint of risk management.

Achievements in the government debt sector in 2008:

- **A further decline in the government debt-to-GDP ratio** – this ratio is the most important index in measuring the debt burden of the state and in measuring its financial strength. Despite the state budget deficit being NIS 3.5 billion higher than planned, despite large-scale funding being necessary toward the end of 2008 in order to finance payments at the beginning of 2009, and despite the downturn in the rate of economic growth, the debt-to-GDP ratio declined from a level of 78% at the end of 2007 to a level of 77% at the end of 2008. This is a lower level than the average for OECD countries at the end of 2008, which stood at 80%.
- **An increase in the tradable debt and a reduction in the nontradable debt** – during 2008 the proportion of the tradable debt within the domestic debt continued to increase while the proportion of the nontradable debt continued to contract. At the end of 2008, the tradable debt component stood at 67%, versus 65% at the end of 2007, while the nontradable debt component had fallen to 33% at the end of 2008, versus 35% at the end of 2007.
- **Continued growth in the activity of the pension funds in the tradable market** – as a result of the continued implementation of the reform in pension funds and as a result of the “flight to quality” trend in response to the global financial crisis, the pension funds continued in 2008 to increase their holdings in tradable government bonds in relation to other players in the Israeli capital market. At the end of 2008, the pension funds held 12.8% of the total balance of tradable government bonds, versus 11.0% at the end of 2007 (at the end of 2004, this rate stood at only 5.0%).
- **Implementation of new tools in the management of the government’s cash flows** – in recent years, cash-flow management has focused on the sphere of managing the debt-rollover risk. In the preceding two years, series amounting to NIS 10 billion-NIS 20 billion began to fall due for redemption. These series were redeemed in 2008 too, without causing significant shocks and without causing supply surpluses. As part of the measures for improving the efficiency of managing the debt-rollover risk and in order to smooth the government’s financing needs, the Unit makes use of a number of financial tools:
 - **Switch auctions:** through the use of switch auctions, series that are approaching their redemption dates are exchanged for new, long-term benchmark series. In 2008, the switch auctions consolidated their position as a supplement to issuances and as a central financial instrument in the capital market. A total of more than NIS 11 billion was raised through 13 switch auctions in 2008, at an average of NIS 850 million per auction.
 - **Short-term bonds:** the short-term bonds act as interim financing for the purpose of managing the government’s cash flows. In 2008, short-term bonds



totaling NIS 2.7 billion were issued. For the first time, a series was issued for longer than four months (eight months).

- **Reverse auctions:** this is a new financial instrument which was activated for the first time in 2008. In this context, the auctions are used to carry out the early redemption of series that are approaching their redemption date. Using this tool, a total of NIS 2.8 billion was redeemed in 2008.

- **Continued multi-year trend of reducing the number and enlarging the volume of tradable bonds** – at the end of 2008, 39 bonds with an average volume of NIS 7.4 billion were traded; this compares to 46 bonds with an average volume of NIS 5.7 billion at the end of 2007.
- **Development of repo market** – a repo transaction is a transaction where, at its outset, securities are transferred from one of the parties to the transaction to the other party for a cash consideration, and, at the end, the securities are transferred for the original amount of the transaction plus interest. Repo transactions constitute a quick and efficient tool for achieving liquidity, and global experience has shown that they enhance the tradability of securities that serve as the underlying asset for the transaction. 2008 saw the completion of the joint work between the various regulators, the stock exchange and the banking system for the development of a market for repo transactions in government bonds. The market was opened for trading at the end of the first quarter of 2009.
- **Upgrading of the State of Israel's credit rating** – in February 2008, the credit rating agency, Fitch, upgraded Israel's credit rating to "A". In April 2008, the credit rating agency Moody's upgraded Israel's credit rating to "A1". In October 2008, S&P confirmed the "A" credit rating that it had given to Israel in November 2007.
- **Activation of program to hedge exchange rate risks of the government debt** –within this framework, swap transactions and forward transactions totaling USD 2.7 billion were carried out at the end of 2007 and during 2008. In addition, buybacks of foreign-currency debt totaling USD 350 million were performed.

Challenges in managing the government debt in 2009:

- **Efficient management of the government debt during a period of large government deficit and limiting the negative effects** – in 2008, the nominal debt increased to NIS 547 billion; this followed two consecutive years of reduction: from NIS 553 billion to NIS 538 billion in 2006 and to NIS 524 billion in 2007. Furthermore, 2008 was a year that saw positive net funding, this following two consecutive years of negative net funding. The volume of government bond redemptions in the coming years will be the highest ever recorded. Moreover, the financing activity of the budget deficit is expected to be expanded as a result of the financial crisis. Even though the growth in the government deficit is a global phenomenon shared with most of the world's economies, the challenge confronting the government debt of the State of Israel cannot minimize the negative implications, especially for the debt-to-GDP ratio.
- **Use of the State of Israel's ability to make sovereign issuances overseas as a**

supplementary financing source to the domestic market – in light of the financial crisis, for the second consecutive year, no issuances were made on international markets during 2008. Overseas issuances, not made under the umbrella of U.S. government guarantees that serve as a security cushion, will be of major importance in the coming years. This is due to the anticipated growth in financing needs and the need to lighten the burden of funding on the domestic market.

- **Market risk management of the government debt portfolio** – expanding the scope of government financing in the coming years will also require diversification of the various financing sources. Consequently, the exposure of the government debt to market risks is likely to increase. It is thus important to focus on the sphere of risk management.
- **Broadening the investor base on the domestic market** – 2008 was the second consecutive year that saw a contraction in the volume of the holdings of foreign investors in tradable government bonds, with this falling to a level of 1.6%. The current financial crisis has proved to a number of countries that deep involvement by foreign investors can adversely affect the stability of the domestic capital market, when they withdraw their investments simultaneously. This notwithstanding, the involvement of foreign investors on the domestic bonds market is too low by any measure, and it is important that it be raised.

This report covers all activity performed by the Debt Management Unit in 2008 and provides a detailed description of the debt position. Section B provides a general outline of the goals of the government debt management policy. Section C reviews activity in the primary market, including normal issuances activity and activity intended to support management of the government's cash flows. This section also contains a review of the State of Israel's credit rating. Section D details developments in the secondary market, turnovers, and yield curves on the Tel Aviv Stock Exchange ("TASE". Section E presents details of the existing debt position in various breakdowns.

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Senior Deputy Accountant General

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Head of Government Debt





Section B

Goals of the Government Debt Management Policy



Section B – Goals of the Government Debt Management Policy

The government risk management policy has two main objectives:

1. Reducing costs.
2. Reducing the risk level.

The implementation of these objectives is expressed through the volume of financing expenses in the state budget (the interest budget) and through the volume of liabilities on the national balance sheet (reducing the debt-to-GDP ratio).

Since the effectiveness of public policy is also often assessed according to the consistency of its results, the reduction of volatility is also of primary importance:

1. The interest budget is the second largest component in the state budget after the security budget, and the most important from the aspect of the prioritization of payments, since it is inconceivable that a sovereign state would fail to meet its financial obligations. The interest budget is exposed to changes in the consumer price index, to changes in exchange rates and to changes in the level of interest rates. Any slight change in the size of the interest budget will push aside other components of the state budget and therefore the volatility tolerance level of this variable is low.
2. The debt-to-GDP ratio requires that its downward movement be continued, and that the change trend not alter direction from one year to the next. Maintaining a downward trend in the debt-to-GDP ratio supports the holding of expectations with regard to the State of Israel's ability to meet its future financial obligations.

All the secondary goals of the government debt management policy are intended to serve the primary objectives described above. For example: secondary goals that deal with the tradability of the debt and increasing the liquidity of the tradable debt are intended to support the reduction of the government's financing costs; this is due to the fact that interest on tradable, liquid debt is lower than the interest on nontradable debt. A further example: secondary goals that deal with the reduction of the exposure of the state's liabilities portfolio to market risks are intended to reduce volatility in the interest budget and the debt-to-GDP ratio; this is due, for instance, to the fact that in years in which there are sharp changes in the rate of the shekel against foreign currencies, sharp changes will also occur in the rates of interest paid on bonds denominated in foreign currency and, consequently, in the interest budget. Furthermore, sharp changes will also occur in the balance of the principal of the bonds denominated in foreign currency and, consequently, in the debt-to-GDP ratio.

Nevertheless, it should be noted that the debt management policy sometimes also expresses other policy goals, which reflect the fact that the State of Israel, in addition to being the largest issuer on the Israeli capital market, also has a responsibility as a sovereign state. An example of this is the issuance of nontradable bonds to pension funds, which serve pension security goals for the benefit of the states citizens. A further example: making an



issuance at every point along the length of the yield curve in Israel and overseas, in order to create a benchmark for the business sector.

Among the secondary goals of the domestic government debt management policy, the following should be noted:

1. Enlarging the tradable component.
2. Increasing the liquidity of the tradable component, particularly by reducing the number of series that are issued and increasing the volume of each series.
3. Extending the duration of the debt portfolio.
4. Enlarging the fixed-coupon NIS component and reducing CPI-linked components, foreign-currency-linked components and floating interest components.
5. Funding by means of series at internationally accepted benchmark terms to maturity.
6. Expanding the yield curve and making issuances at terms to maturity that can also serve as a benchmark for the business sector.
7. Smoothing out the future redemptions curve.
8. Enhancing the sophistication of the government bonds market and developing derivative markets.
9. Enhancing transparency and increasing the level of certainty.

Among the secondary goals of the foreign currency denominated government debt management policy, the following should be noted:

1. Broadening the investor base and lightening the burden on the domestic market.
2. Exposing the Israeli economy to foreign investors.
3. Creating a benchmark for overseas issuances of Israeli companies.
4. Reducing the foreign-currency exposure which was created by the portfolio of liabilities from overseas funding.
5. Improving the credit rating of the State of Israel to the greatest extent possible and reducing the risk premium of the State of Israel overseas.

The secondary goals detailed above are reflected in the bonds issuance plan. In particular, the publication of the bonds issuance plan for the domestic tradable market is intended to define the level of transparency and to increase the level of certainty in relation to the government's future activity in the government bonds sector. The quarterly bonds issuance plan sets forth the total volume of funding in the coming quarter, while the monthly bonds issuance plan set out the funding mix for the coming month. The bonds issuance plan also reflects tactical considerations, which mainly result from the matching of the government's applications to the volume of its sources. The government's applications are the state budget deficit and redemptions of principal. The government's sources are domestic tradable funding, domestic nontradable funding (pension funds, insurance companies, and emissions), foreign-currency funding (sovereign issuances, State of Israel Bonds, guarantees) and income from the privatization of assets. Other tactical considerations that are taken into account are the mix of issuances which deal with the prices of the funding ratios between the various linked sectors and over the length of the yield curve, and which deal with the capital market's forecasted demand curve for government bonds.



Section C

Issuances on the Primary Market



Section C – Issuances on the Primary Market

Funding in the Tradable Domestic Market

In 2008, tradable domestic funding totaled NIS 65.8 billion, versus funding totaling NIS 37.4 billion in this segment in 2007. Tradable domestic funding through unlinked bonds totaled NIS 45.7 billion. Funding through fixed-coupon CPI-linked bonds totaled NIS 17.4 billion.

Table C-1

Principal funding and redemptions in the tradable bond market, 2008

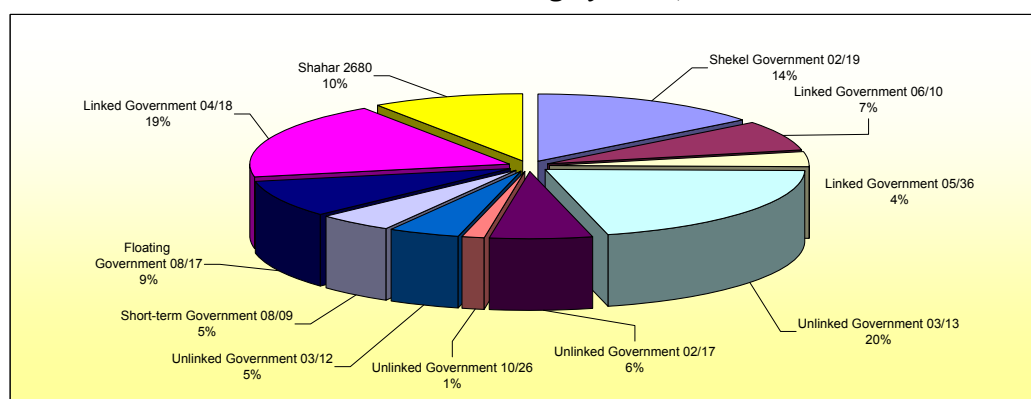
Linkage segment	Principal funding*		Principal redemptions		Interest payments		Net funding
	In NIS millions	In % of total	In NIS millions	In % of total	In NIS millions	In % of total	In NIS millions
Shahar	7,844	11.91	16,294	44.20	5,341	39.17	(13,791)
Government Bond	28,484	43.26	-	-	1,349	9.89	27,135
New Gilon	-	-	12,221	33.15	1,973	14.47	(14,194)
Floating Government Bond	9,394	14.27	-	-	263	1.93	9,131
Total unlinked	45,722	69.44	28,515	77.35	8,926	65.46	8,281
Galil**	-	-	6,154	16.70	4,061	29.79	(10,215)
Linked Government Bond**	17,403	26.43	-	-	635	4.66	16,768
Total CPI-linked**	17,403	26.43	6,154	16.70	4,696	34.45	6,553
Gilboa	-	-	-	-	12	0.09	(12)
Total foreign-currency-linked	-	-	-	-	12	0.09	(12)
Short-Term Government Bond	2,721	4.13	2,196	5.95	-	-	525
Total short-term government bonds	2,721	4.13	2,196	5.95	-	-	525
Total	65,846	100	36,865	100	13,634	100	15,347

* The amount of funding includes issuances with the framework of switch auctions and Green Shoe allocations.

** The amount of principal redemptions and interest payments in CPI-linked bonds includes the linkage component.

Diagram C-1

Distribution of funding by bond, 2008*



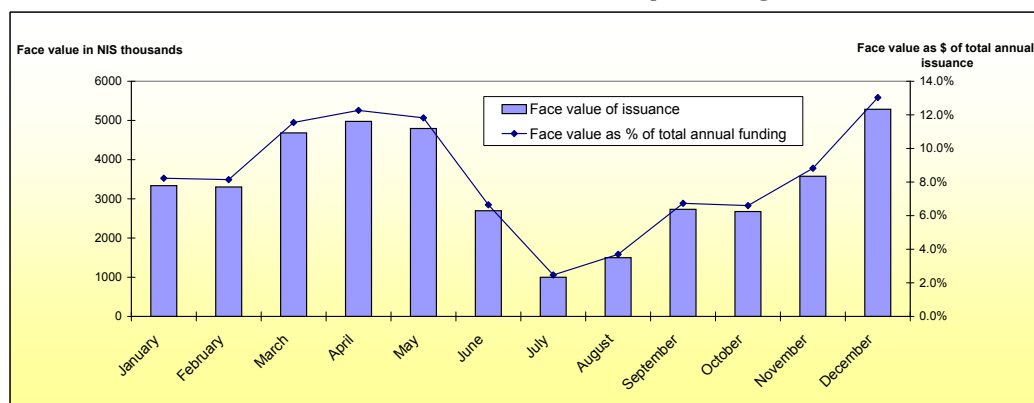
* Excluding Green Shoe allocations.

In 2008, continuing the policy followed in recent years, funding focused on a limited number of bonds. In particular, the number of issuances of benchmark bonds (linked and unlinked) at various terms to maturity was expanded. Within the framework of this policy in 2008, 14% of the total funding was carried out in the Unlinked Government Bond 02/19 (a ten-year unlinked benchmark bond that replaced the Unlinked Government Bond 02/17 as the benchmark bond for this term to maturity), 20% of the total funding was carried out in the Unlinked Government Bond 03/13 (a five-year unlinked benchmark bond), and 19% of the total funding was carried out in the Linked Government Bond 04/18 (a ten-year linked benchmark bond). In addition, during 2008, a new unlinked benchmark bond was issued for a term to maturity of three years (the Unlinked Government Bond 03/12). In addition, short-term unlinked bonds were issued for an eight-month period as an interim financing tool for short-term cash-flow management.

This policy is expected to continue in 2009, subject to macro-economic conditions and subject to the other variables that affect decision making with regard to the issuance mix.

Diagram C-2

Distribution of funding of annual tradable domestic debt, 2008*
(face value in NIS thousands, in percentages)

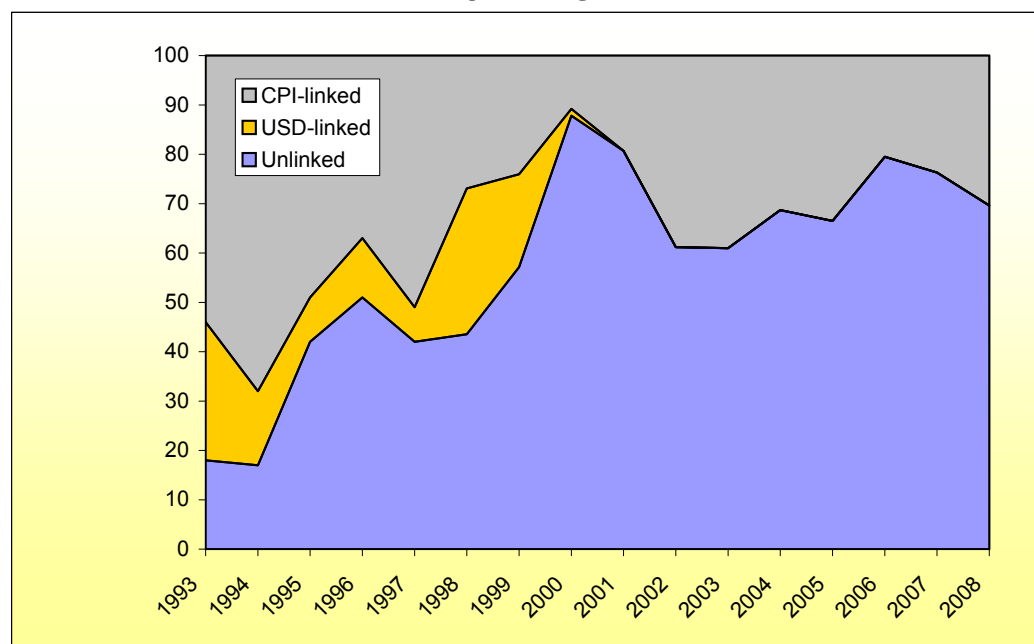


* Excluding Green Shoe allocations, without switch auctions.

The increase in the rate of issuances at the end of the second half of 2008 was carried out in preparation for the large redemptions in the first quarter of 2009.

Diagram C-3

Distribution of tradable domestic issuance by segment, 1993-2008*
(in percentages)



* Including Green Shoe allocations.

Fixed-coupon unlinked bonds comprised 70% of total tradable funding in 2008, versus 76% in 2007. Despite the slight decrease in issuances in the unlinked segment, the intention is to continue reducing the proportion of linked debt, with this being in order to reduce the uncertainty in the interest budget.

Table C-2

Distribution of funding on a monthly base by terms to maturity, 2008*
(NIS millions, face value)*

Years to maturity	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Total
1	-	-									1,162	1,199	2,361
3	575	500		1,083	1,611							2,324	6,093
5	1,102	1,150	1,616	1,075	555	285	577	620	844	848	1,178	870	10,720
10	1,660	1,653	2,052	2,818	2,627	2,161	2,453	3,144	3,877	2,098	3,764	1,492	29,799
20		-	515			250							765
30		-	500				250	291	309	250	305		1,905
Total	3,337	3,303	4,683	4,976	4,793	2,696	3,280	4,055	5,030	3,196	6,409	5,885	51,643

* Including Green Shoe allocations.

This table indicates that, in line with the Unit's policy of reducing the number of series issued, approximately 85% of total annual funding focused on benchmark bonds; the ten-year benchmark bonds (the Unlinked Government Bond 02/19, which replaced the Unlinked Government Bond 02/17, and the Linked Government Bond 04/18) drew 60% of total issuances.

Diagram C-4

Summary of data on tradable bonds issued, by auction, 2008
(selected bonds (including Green Shoe allocations

Legend: Qty. issued

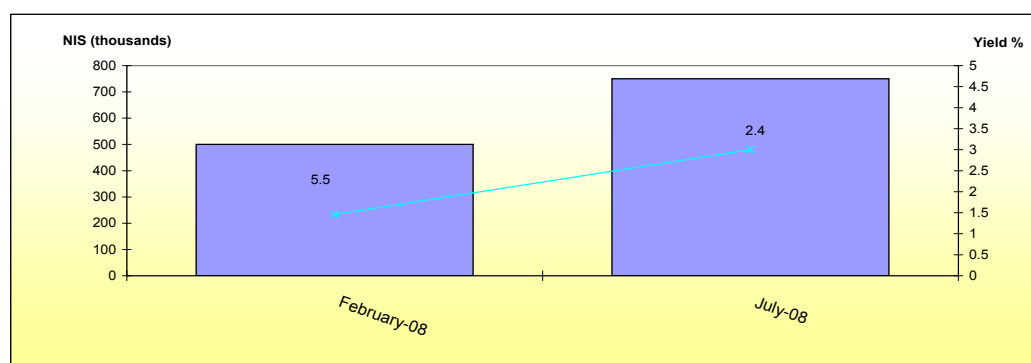
Average yield gross

Cover ratio in each auction

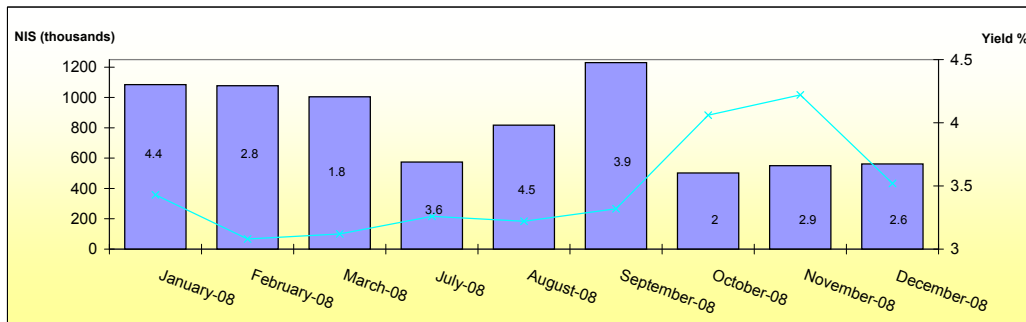


3.92

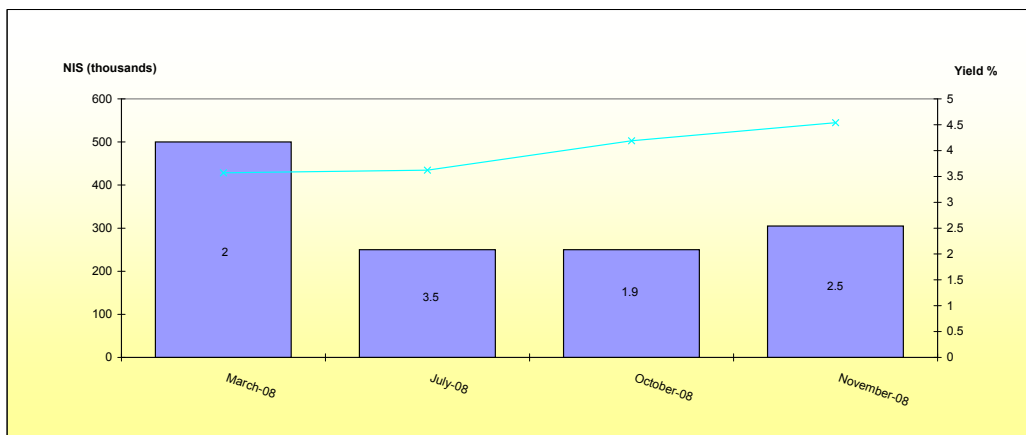
Linked Government Bond 06/10



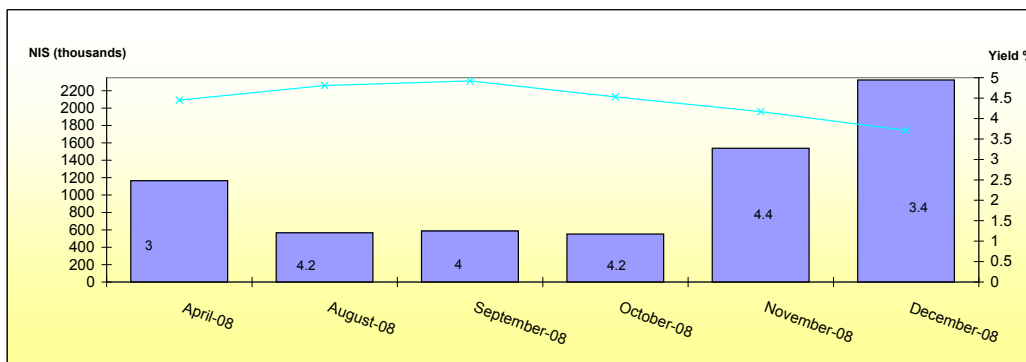
Linked Government Bond 04/18



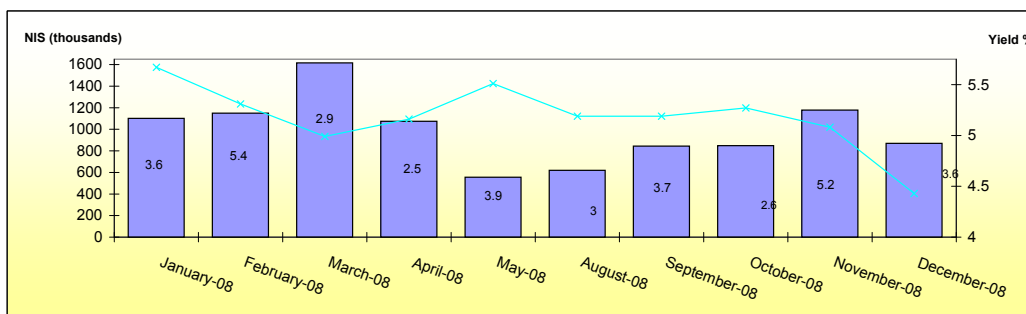
Linked Government Bond 05/36



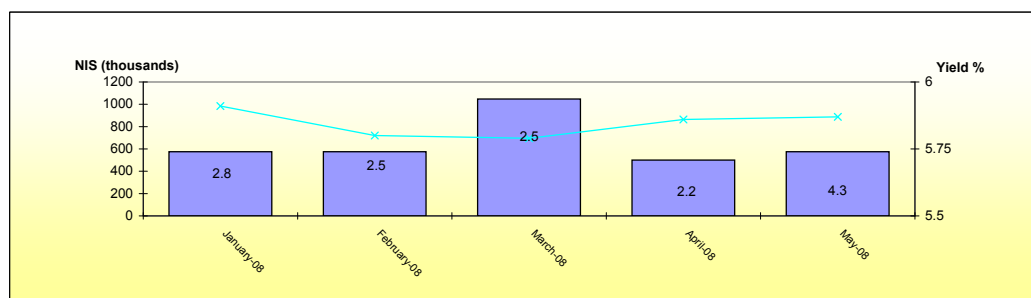
Shahar 2680



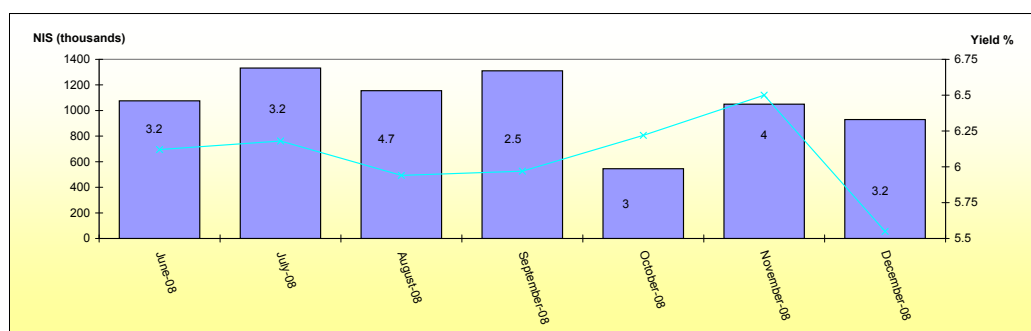
Unlinked Government Bond 03/13



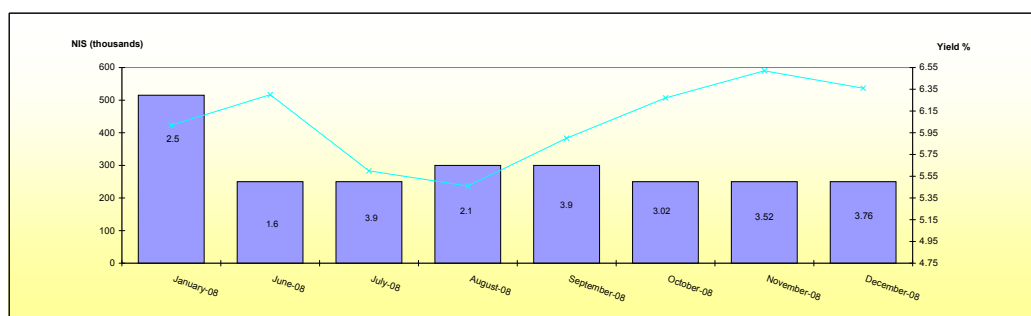
Unlinked Government Bond 02/17



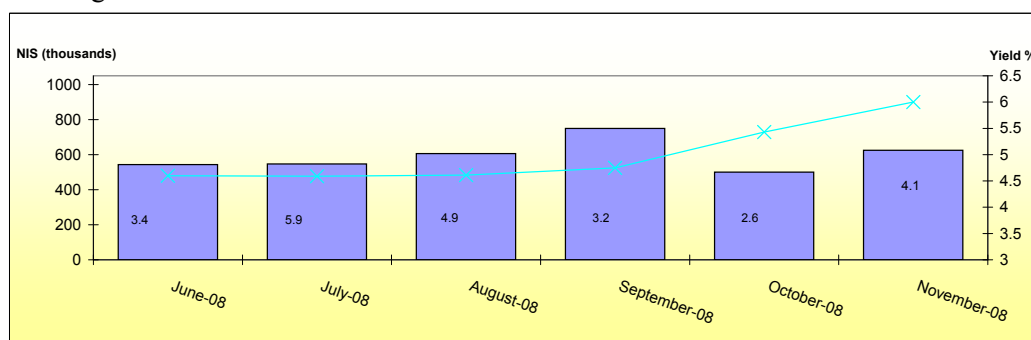
Unlinked Government Bond 02/19



Unlinked Government Bond 10/26



Floating Government Bond 08/17



The above graphs provide information regarding quantities issued, yields and cover ratios (the ratio between the demand and the average amount in the auction) of benchmark and other bonds for each one of the auctions that was carried out during the year.

The cover ratios are affected mainly by the quantity issued. Generally, the greater the quantity issued, the lower the cover ratio. This is mainly due to demand curve limits for government bonds. Other factors which affect cover ratios, which are not associated in any way with the quantity issued, are:

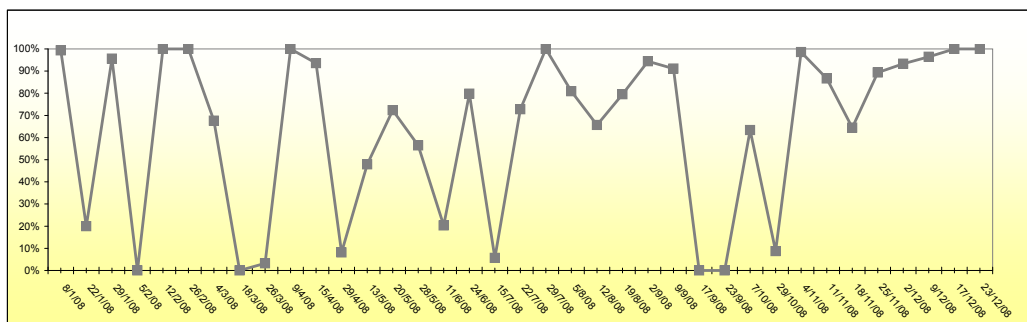
1. Prices and conditions in the domestic markets.
2. Conditions in world markets.
3. The number of primary dealers involved in each issuance.

Green Shoe Allocations

Surplus-allocation auctions are noncompetitive auctions in which Primary Dealers who have won a competitive auction may buy an additional amount of up to 25% of the quantity they have won, at the average price of the competitive auction.

Diagram C-5

Percent actual purchases in Green Shoe-allocation auctions, by auction, 2008
(in percentages)



The first ten months of the year saw higher volatility in the percent of purchases by primary dealers in surplus-allocation auctions. The likely explanation for this is linked to the process of consistent yield reduction that occurred at the end of 2008, in conjunction with the fall in the monetary interest rate. The main reason for purchase/non-purchase in surplus-allocation auctions is the price of the relevant bonds on the TASE at the time nearest the closing of the Green Shoeallocation: if the market price is higher than the average price established in the auction, there is a high probability that primary dealers will purchase the additional quantity in the Green Shoeallocation, and vice versa. Accordingly, the option was almost entirely utilized at the end of the year.

The annual average purchase in Green Shoeallocations was 63% in 2008, versus 49% in 2007.

Switch auctions

The Debt Management Unit first began operating the switch-auction mechanism in the second half of 2007. Using this mechanism, bonds that are about to mature are purchased, especially those with a low series volume and/or non-liquid bonds. In return, the Unit issues benchmark bonds to the market. The main objectives of the switch auctions are:

1. To more efficiently manage government cash flows, particularly with regard to

mitigating debt-rollover risk.

2. To increase the certainty and stability of the monthly funding plans.
3. To manage the mix of the current debt inventory in accordance with long-term policy.
4. To enhance the tradability and liquidity of government bonds.

As is the case for issuances, switch auctions are conducted using the Bloomberg auction platform - an available system that is familiar to participants.

The following table shows switch-auction data, divided into purchased and issued bonds. A total of NIS 11.3 billion (face value) was issued and a total of NIS 11.1 billion (face value) was purchased by the government.

Table C-3
Details of switch auctions, 2008

Date	Bond Purchased		Bond Issued										Total Issuances
	Name	Quantity	Unlinked Government Bond 5.5 02/17	Unlinked Government Bond 6.25 10/26	Linked Government Bond 2.5 06/10	Floating Government Bond 08/17	Shahar 2680	Short-term Government Bond 08/09	Unlinked Government Bond 02/19	Linked Government Bond 04/18	Unlinked Government Bond 03/13	Linked Government Bond 4.0 05/36	
08/01/2008	Shahar 02/08	1,535,702,713	370,000,000	40,000,000	0	1,175,890,000					60,000,000		1,645,890,000
08/01/2008	Galil 01/08	66,553,300				94,000,000							94,000,000
05/02/2008	Gilon 12/08	10,238,000		10,000,000									10,000,000
05/02/2008	Shahar 02/08	97,757,500	95,000,000	5,000,000									100,000,000
10/03/2008	Shahar 2671	1,134,962,000			550,000,000	580,000,000						25,000,000	1,155,000,000
01/04/2008	Short-term 04/08	16,987,900		2,000,000							15,000,000		17,000,000
01/04/2008	New Gilon 04/08	677,607,000		20,000,000		675,000,000							695,000,000
13/05/2008	New Gilon 12/08	694,588,200				706,000,000							706,000,000
02/06/2008	Shahar 2671	491,516,615	60,000,000	45,000,000		413,890,000							518,890,000
07/07/2008	New Gilon 12/08	934,745,000		75,000,000		691,600,000				170,000,000			936,600,000
22/07/2008	New Gilon 12/08	143,365,168					134,240,000						134,240,000
22/07/2008	Shahar 2671	387,015,406					376,978,000						376,978,000
26/08/2008	New Gilon 12/08	1,128,051,000				670,000,000			140,000,000		270,000,000		1,080,000,000
26/08/2008	Shahar 2671	699,619,600					30,000,000			288,000,000	385,000,000		703,000,000
09/09/2008	Shahar 2671	368,347,500		161,000,000			200,000,000						361,000,000
04/11/2008	Shahar 2671	734,550,000								215,000,000	550,000,000		765,000,000
11/11/2008	Shahar 2671	1,380,395,651					612,000,000		348,000,000		439,910,000		1,399,910,000
09/12/2008	Shahar 2671	446,656,647						152,500,000	189,951,000		115,440,000		457,891,000
09/12/2008	New Gilon 12/08	195,193,520						200,400,000					200,400,000
Total switch auctions		11,143,852,720	525,000,000	358,000,000	550,000,000	4,336,380,000	2,023,218,000	352,900,000	677,951,000	673,000,000	1,835,350,000	25,000,000	11,356,799,000

Reverse Auctions

With effect from October 2008, the Debt Management Unit began making use of reverse auctions in order to perform early redemption of tradable government bonds. Within the framework of these auctions, the Unit transfers a monetary payment against the bonds being redeemed. This is different to the mechanism in switch auctions, wherein the bonds that are being redeemed are exchanged for other bonds.

The main objective of the reverse auctions is the more efficient management of government cash flows by means of:

1. Saving interest expenses.
2. Mitigating debt rollover risk.

As is the case for issuances and switch auctions, reverse auctions are conducted using the Bloomberg auction platform. During 2008, two auctions took place in which a total of NIS 2.6 billion was redeemed.

Table C-4

Details of reverse auctions, 2008*

Auction Date	Bond Purchased	Years to Original Maturity	Quantity Purchased (Face Value)	Quantity Purchased (NIS)	Average Price	Cover Ratio	Average Yield Gross
27/10/08	Gilon 2315	5	353,000,000	354,000,000	100.47	8.1	3.45
27/10/08	Shahar 2671	7	590,000,000	624,000,000	105.82	5.7	3.34
28/10/08	Gilon 2315	5	25,000,000	25,000,000	100.47	1	3.45
28/10/08	Shahar 2671	7	54,000,000	57,000,000	105.82	1	3.34
2/12/08	Gilon 2301	10	173,000,000	175,000,000	100.89	3.8	2.64
2/12/08	Shahar 2671	7	1,230,000,000	1,308,000,000	106.37	2	2.34
3/12/08	Gilon 2301	10	43,000,000	44,000,000	100.89	1	2.64
3/12/08	Shahar 2671	7	25,000,000	27,000,000	106.38	1	2.34
Total	-	-	2,493,000,000	2,614,000,000	-	-	-

* Including Gren Shoe allocations.

Funding in the Nontradable Domestic Market

Nontradable domestic funding totaled NIS 4.2 billion in 2008. This funding includes the following instruments: bonds designated for pension funds (“Arad”), nontradable bonds for insurance companies (“Chetz”), and emissions managed by the Ministry of Finance and compulsory loans managed by the Bank of Israel.

In 2008, nontradable “Arad” bonds in the amount of NIS 0.75 billion were issued to pension funds. Due to the continuing implementation of the reform in pension funds, no nontradable “Miron” bonds were issued at all in 2008.

In the coming years, only new, relatively small funds with high growth rates will be able to purchase nontradable bonds. This is due to the continuation of the reform that sets a limit on such purchases, whereby the proportion of nontradable bonds in the fund’s asset portfolio is not to exceed 30%. Total net funding in 2008 in nontradable bonds for pension funds was negative, in the amount of NIS -7.1 billion.

The volume of issuances of CPI-linked “Chetz” bonds to insurance companies stayed at the same level as the previous year and amounted to NIS 3.1 billion (versus NIS 3.2 billion in 2007). The amount of net funding in nontradable bonds for insurance companies was NIS 392 million in 2008.

Funding through emissions managed by the Accountant General Division increased by 13% this year, to NIS 339 million. Total net funding in this segment was negative in the amount of NIS -312 million.

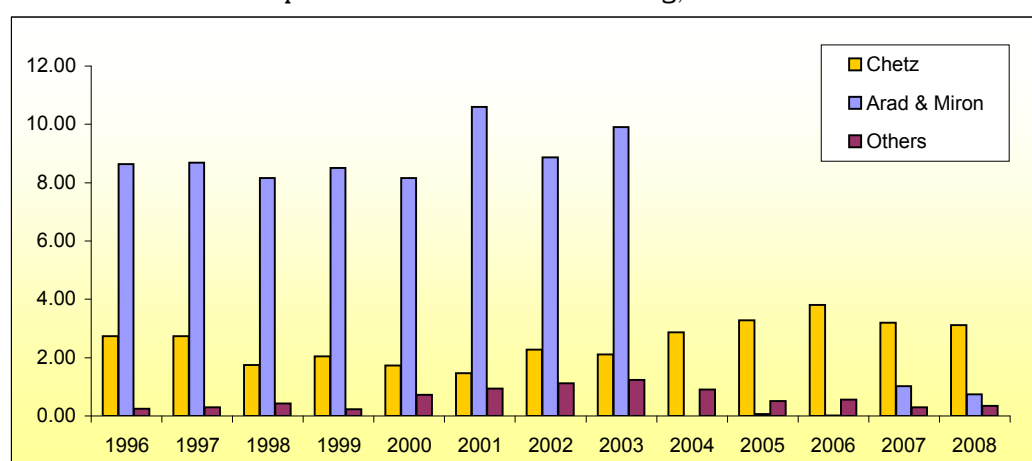
Table C-5

Funding and redemptions in nontradable debt, 2008

Funding segment	Principal funding		Principal redemptions		Net funding
	NIS millions	% of total	NIS millions	% of total	NIS millions
"Arad" & "Miron"	750	18	7887,	70	(7,137)
"Chetz"	3,122	74	2730,	24	392
Others	339	8	651	6	(312)
	4211,	100	11,268	100	(7,057)

Diagram C-6

Composition of nontradable funding, 1995-2008



Funding in Foreign Currency

Sovereign Public Issuances

The policy with regard to sovereign public issuances is that one issuance is to be made per year, with one year's issuance being made on the global (U.S.) market and the following year's issuance being made on the euro (European) market. The issuance of debt in foreign currency on the international markets is intended to serve several strategic goals:

- Creation of a benchmark for the business sector for the purpose of overseas funding.
- Creation and solidification of an additional funding source to finance the government deficit.
- Expansion of the State of Israel's investor base.
- Building and preserving the ability to supply the State of Israel's foreign-currency needs at minimal cost and independently (without relying on the American guarantee program).
- Despite the original plan that calls for issuances to be made on the euro market, no foreign-currency issuances were made in 2007-2008 for the following reasons:
- For the major part of the above period, the state budget posted an income surplus. This reduced the size of the deficit financing and consequently the overall funding needs.

- Volatility in a large number of indicators that pointed to a lack of stability in international markets:
 - High volatility in the international bond markets (the U.S. Treasury yield, the Bund yield and the SWAP interest), which constitute the interest base for issuances.
 - The lack of stability of spreads in the secondary market for State of Israel Bonds overseas and of the credit risk forecasts of the State of Israel (CDS).
 - Widening of the financial system's credit spreads in excess of the risk-free interest (swap spreads).
- Worsening in the markets' liquidity conditions.

Public Issuances Backed by U.S. Government Guarantees

In April 2003, the U.S. Congress approved a grant of guarantees to the Israeli government for the purpose of funding abroad, in the amount of USD 9 billion (face value), for three years. Bonds issued by the Israeli government and backed by U.S. government guarantees enjoy a credit rating similar to that of the U.S. government (AAA); in fact, the bonds are sold at a yield that is only slightly higher than the yield of U.S. government bonds.

In 2005, the program was extended until 2008, and in 2006 it was extended until 2011. The U.S. government provides a full guarantee for principal and interest payments of bonds issued by Israel under the auspices of the program.

Israel issued bonds with a face value of USD 4.1 billion through the program in 2003-2004. The Israeli government has not used the guarantee program since November 2004. At the end of 2008, the unutilized balance within the framework of the program amounted to USD 3.8 billion.

Purchases of Dollar Debt on the Secondary Market

During 2008, the Debt Management Unit carried out a buyback of part of the dollar debt. This was done for cash-flow management purposes, with the aim of reducing the exposure to possible changes in the rate of exchange, fully utilizing the annual interest and principal budget and of course reducing the debt-to-GDP ratio.

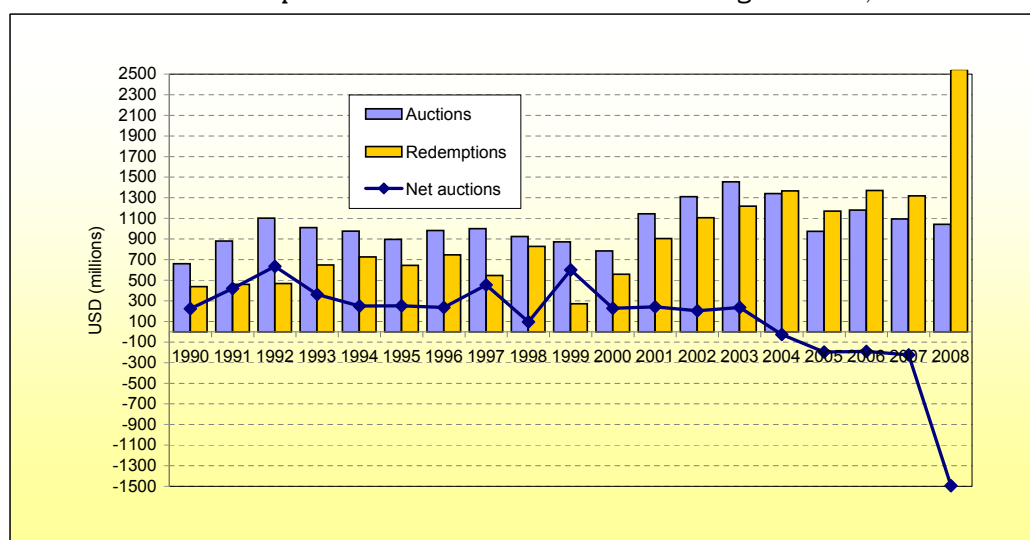
The total dollar debt that was purchased in 2008 amounted to USD 346.4 million, representing 585.7 million units at face value.

Summary of Funding through the Israel Bonds Organization

The Israel Bonds Organization raised USD 1,043 million in 2008. This amount was 4% higher than the annual funding target of USD 1 billion, and represents an increase of 5% in the Organization's sales volume compared to 2007. Total net funding through the Israel Bonds Organization in 2008 stood at a negative USD 1,504 million. This is the fifth consecutive year that the Organization has raised less than the amount of its redemptions, with this being in accordance with the policy to reduce foreign-currency debt.

Diagram C-7

Issuance and redemption volumes of the Israel Bonds Organization, 1990-2008

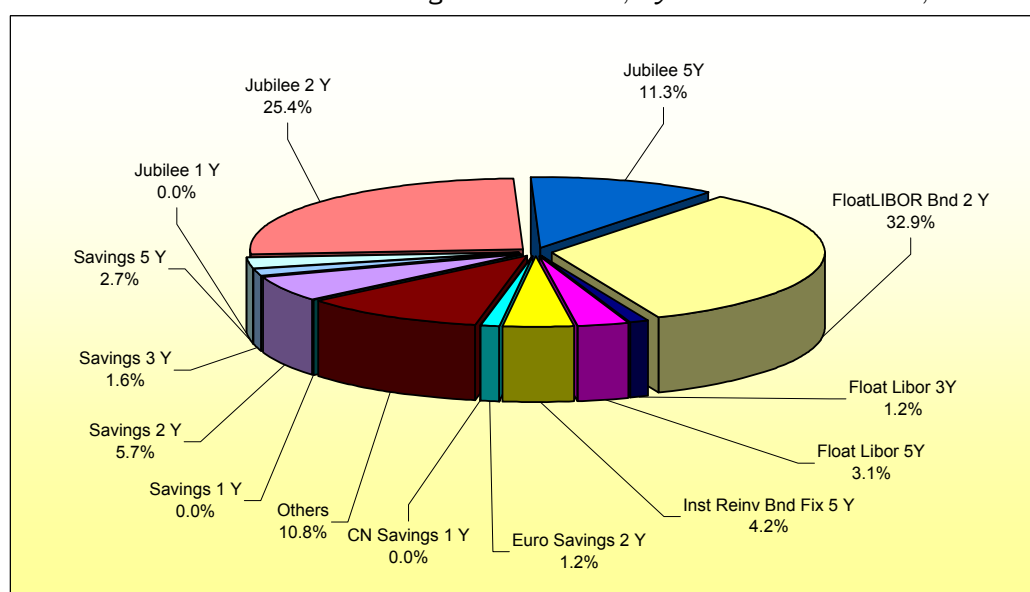


In 2008, 58% of the Organization's issuance was performed using fixed-coupon instruments, while the remaining 42% was at floating rates. It can be seen that the proportion of the issuance at floating rates has increased compared to 2007, when 82% of the Organization's issuance was performed using fixed-coupon instruments, while the remaining 18% was at floating rates

Funding instruments - As stated, the significant sales in 2008 were in the two-year, three-year and five-year "Jubilee" bonds, which comprised 43% of total sales (versus 63% in 2007). Sales of the "Saving" bond comprised 13% of total sales versus 18% in 2007.

Diagram C-8

Distribution of Israel Bonds Organization sales, by issuance instrument, 2008

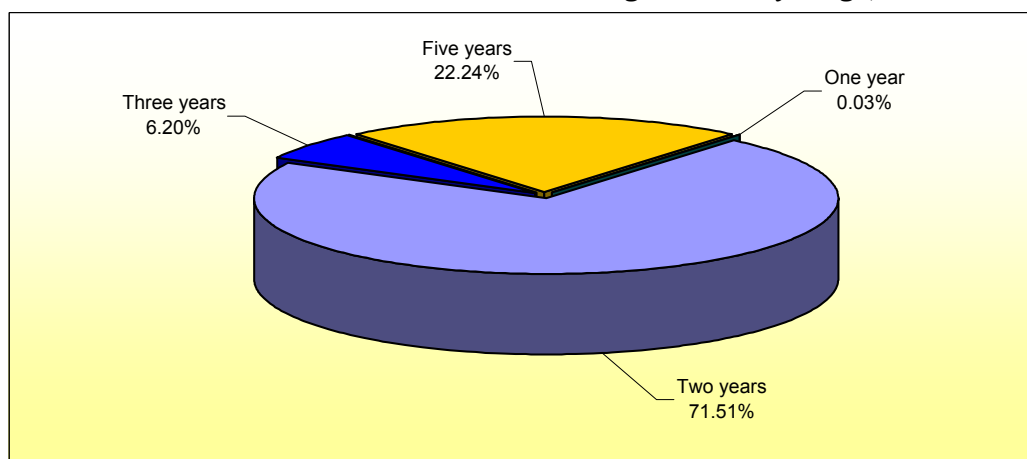


Currency distribution - The U.S. dollar still constitutes the principal funding currency of the Organization (92% of the total funding). Despite the relative weakness of the dollar in 2008, the proportion of sales in other currencies did not increase: funding in Canadian dollars comprised only 4.3% of sales for the year versus 5.8% in 2007. An increase was posted in sales in euros - 4.1% versus 1.6% in 2007.

Distribution of instruments by term to maturity - During 2008, the average term to maturity of bonds sold by the Israel Bonds Organization stayed at a low level of 2.7 years; this compares to 2.3 years in 2007 and 4.1 years in 2006 (versus 7.3 in 2005). In 2008, 78% of the funding was in bonds with terms to maturity of two and three years, while 22% of the funding was in bonds with terms to maturity of five years. This trend is in line with the policy to shorten the term to maturity of the debt raised by the Israel Bonds Organization

Diagram C-9

Distribution of sales of the Israel Bonds Organization by range, 2008



Development of spreads - The average interest spread in the Israeli government's funding through the Israel Bonds Organization in 2008 was 15 basis points (factoring in all instruments), slightly less than in 2007, when the average interest spread in the Israeli government's funding through the Israel Bonds Organization was 17 basis points over the U.S. government interest rate (factoring in all instruments). Factoring in overheads, the funding cost of the bonds in 2008 is estimated at 185 basis points over the U.S. government interest rate.

Geographical distribution - Sales in the United States continued to be dominant in 2008 (at 57%, the same as in 2007). Sales in Europe rose relative to 2007 (11%) and comprised 14%; 21% of bonds were sold in Latin America, similar to the previous year; 7.7% of sales were in Canada, versus 9% in the previous year. The Israel Bonds Organization sold just USD 7.6 million of bonds in Israel in 2008 (0.7% of total sales), in line with its policy to reduce the volume of sales in Israel.

Diagram C-10

Geographical distribution of sales of the Israel Bonds Organization, 2008

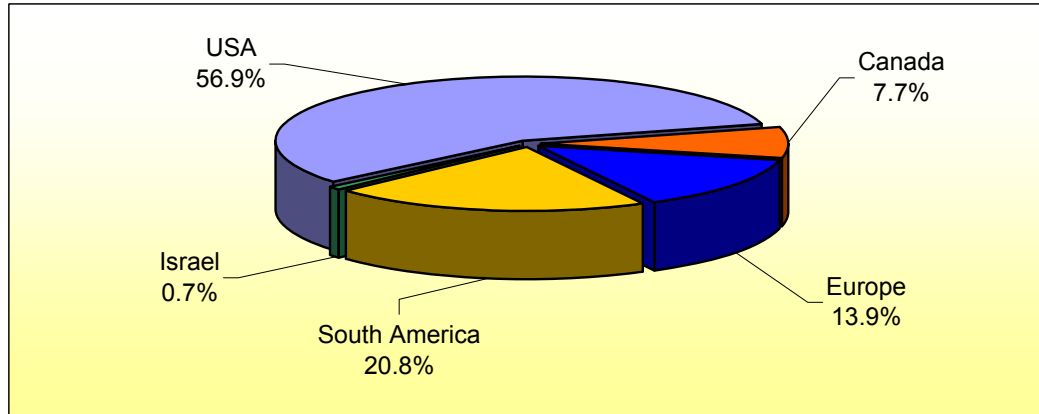
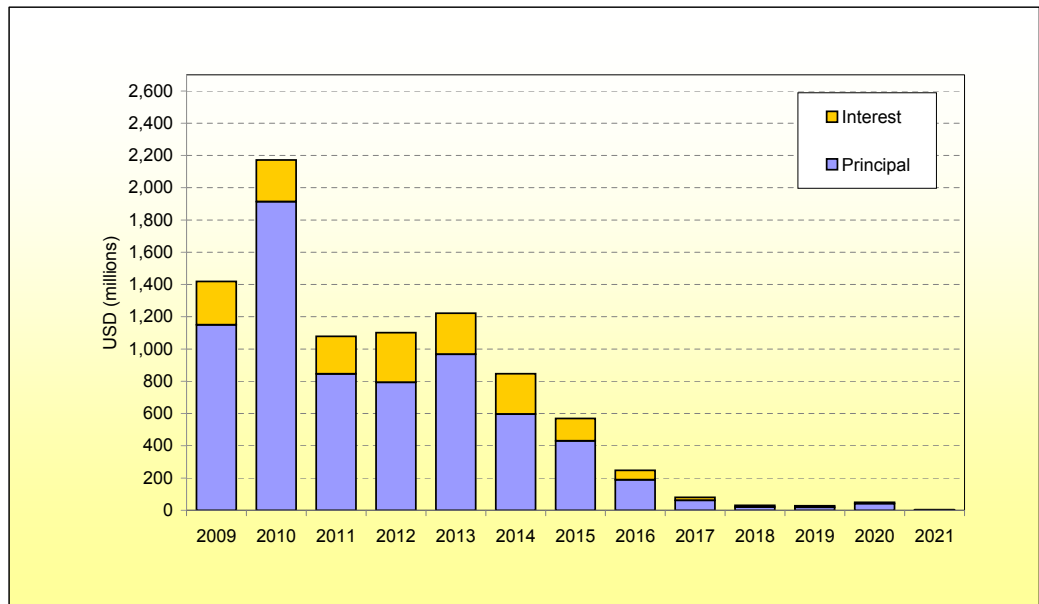


Diagram C-11

Israeli Bonds Organization Bonds: Redemptions of principal and interest payments (as of December 31, 2008)



The State of Israel's Credit Rating

General

The credit rating is an estimate of the level of risk inherent in an investment and of the issuer's ability to meet his liabilities.

In the process of determining a country's credit rating, rating agencies examine numerous parameters, according to several categories, including: political risk, fiscal stability, fiscal flexibility, monetary stability, and external stability. Each parameter is measured by comparison to countries with similar ratings – its "peer group." Israel's peer group mainly consists of medium-sized economies, most of which are peripheral European countries: Poland, Hungary, Greece, Cyprus, the Czech Republic, Estonia, Latvia, Lithuania, and Slovakia. Other countries in Israel's peer group are Chile, Hong Kong, South Africa,

Korea, and Malaysia.

In the past, governments' credit ratings also served as a "ceiling" for the credit rating of local companies; in other words, local entities in a particular country could not obtain a higher credit rating than their government. In recent years, some rating agencies have started to separately rate the "country ceiling," which denotes the highest potential credit rating attainable by local entities within the country. In many cases, particularly against the background of globalization processes, the country ceiling is higher than the government's credit rating, so that the government's rating does not represent a barrier to local entities. Nonetheless, the government's credit rating clearly has an influence on and is highly correlated with local credit ratings, and is of great importance for the economy as a whole.

The Credit Rating of the State of Israel in 2008

In 2008, the Israeli government's rating was upgraded by the rating agencies Moody's and Fitch to A1 and A, respectively, this following in the wake of S&P's upgrading of Israel's external credit rating to A in November 2007. The three rating agencies have given Israel a rating outlook of "Stable".

All three major international credit-rating agencies, Moody's, S&P, and Fitch, published positive reports on the Israeli economy in 2008, in which they praised the economic policy, the budgetary restraint led by the Ministry of Finance, and the fact that the Israeli government entered the global crisis in a relatively good starting condition. The rating agencies responded favorably to the robustness and maturity demonstrated by the Israeli economy in the face of the global economic crisis, and to its impressive growth in recent years. They were also impressed by the downward trend in the burden of government debt and the improvement in the balance of payments. Despite the significant improvement in public debt, the scope of the debt is still a weakness, as it remains high compared to other countries in its peer group.

The rating ceiling established for Israel by all the agencies is higher than the government's rating, reflecting the Israeli economy's high degree of openness to the world, the government's economic policy of non-intervention, and the private sector's resilience in the face of external shocks.

Highlights of the three agencies' announcements in 2008

Moody's Investors Service:

On April 17, 2008, Moody's announced the upgrading of Israel's credit rating. "This is in light of the Israeli economy's proven robustness time after time in confronting the political and economic challenges facing the state, alongside the fiscal discipline achieved in recent years and the economic and political support of the USA and the Jewish Diaspora." The foreign-currency credit rating has been raised from "A2" to "A1", the same as the domestic credit rating. The long-term foreign-currency rating ceiling has been confirmed at a level of "Aa1".

The main points highlighted by the analysts are:

- The fiscal reforms that were implemented are now generating a return that reflects the prosperity demonstrated by the Israeli economy, the improvement in its competitiveness and the rise in tax revenue despite tax cuts. These factors have brought the Israeli economy to a position where the stable surplus on its current account assists the economy in coping with the global situation.
- The Israeli economy, which is characterized by being highly open to the world, is not immune to global developments.
- Israel has proven its willingness and ability to pay its debts. The fiscal goals have been maintained despite repeated demands to increase security expenditure, which testifies to its commitment to reduce its relatively large government debt.
- The relatively large debt continues to represent the major limitation to further upgrading of the credit rating, as do matters relating to the security and geopolitical situation.
- Israel's competitive advantage in high-tech products, its relatively high standard of living and its sophisticated financial markets testify to the fact that Israel is no longer an emerging market. This issue is critical to the analysis, since developed markets are better able to cope with a high level of debt without there being a significant increase in the chances of redemption default.
- Despite all the aforesaid, the geopolitical climate and Israel's considerable security requirements leave the public purse with few resources to upgrade physical and human capital. Under a different scenario, it would be possible to place Israel in the group of developed economies.

Fitch Ratings:

On February 11, 2008, Fitch announced the upgrading of Israel's foreign-currency credit rating from "A-" to "A" and the upgrading of its domestic-currency credit rating from "A+" to "A+". The outlook for both ratings was revised to "Stable". The State of Israel's credit-rating ceiling was raised from "A+" to "AA-".

The main points of the agency's announcement are:

- The upgrading of the rating reflects the rapid fall in the debt-to-GDP ratio which, in 2007, reached an all-time low of slightly above 80%. Fitch anticipates a further reduction in the coming year, despite the expected global downturn.
- For a long time, the State of Israel's large public debt has cast a shadow over its credit rating. However the fiscal discipline implemented since the recession in 2001-2002, in conjunction with economic reforms, have reinvigorated the growth rate and have led to four consecutive years during which the debt-to-GDP ratio has fallen by 20%, to an all-time low of slightly above 80% in 2007.
- For the first time, Israel had a negligible government deficit in 2007. The debt-to-GDP ratio is still high, compared to other countries in the "A"-rated peer group. Despite its large debt, Israel no longer holds first place in its peer group, which includes Estonia with a debt-to-GDP ratio of 3% and Greece with a debt-to-GDP ratio of 94%.

- There is still a belief at Fitch that Israel's debt-to-GDP ratio needs to be lower in relation to countries in its peer group, primarily because of its sensitivity to security shocks. Nevertheless, the agency takes into consideration a number of moderating factors: approximately a quarter of the public debt is nontradable debt from issuances for pension funds that took place since the mid-nineties. As a result of successful reforms, the nonfinanced financial liabilities of the State of Israel rank at the bottom of the range of OECD countries, which Israel is shortly to join. In addition, approximately half of the State of Israel's debt is backed by U.S. government guarantees, and approximately one third of the external debt is held by the Jewish Diaspora, by way of bonds of the Israel Bonds Organization, and the Jewish Diaspora increases its demand for bonds in times of crisis.
- The successful implementation of reforms since 2003 has led to growth at the rate of 5.25% in GDP in each of the last four years.
- Further reduction of the debt, to a level approaching 50%, which is the average debt ratio in countries with a similar level of income per capita, and to a level of 30%, which is the median among countries in the "A"-rated peer group, remains an important factor toward any future upgrading of the rating.
- For some considerable time, numerous indices have supported the upgrading of Israel's credit rating. These indices include the level of income per capita, which is considerably above the median for "A"-rated countries and is also above that of some "AA"-rated countries. Other World Bank indices for governments also place Israel well within the group of "A"-rated countries. Israel's positive current account and the fact that it is a net lender to the world are two further parameters where Israel is above the median for "A"-rated countries and even above the median for "AA"-rated countries.
- A further constraint with regard to Israel's credit rating is the security situation and the potential that this has to derail the economy, as was demonstrated in 2001-2002. On the other hand, the security fence has reduced terror incidents and the economy has grown significantly, despite the Second Lebanon War and regular rocket attacks from the Gaza Strip. Nevertheless the security threat still exists. However, the political, economic and security support provided by the USA constitutes a moderating factor.

Standard and Poor's:

In November 2007, the agency upgraded Israel's credit ratings to A/A-1, Positive Outlook in foreign currency and AA-/A-1+ in local currency. Its announcement stated that:

- The credit-rating upgrade reflects the improved robustness of public financing and of the economy as a whole in the face of geopolitical risks, after four years of stability, during which the Israeli economy demonstrated better-than-expected achievements in the areas of fiscal discipline, the accrual of assets abroad, and steady economic growth.
- The ratings are supported by the thriving Israeli economy and the strong commitment of the political echelon to long-term fiscal discipline. However, the economy is



weighed down by the burden of public debt, which is higher than in peer-group countries, and by geopolitical risks.

- The Israeli economy continued to expand in 2007, with the GDP growth rate mainly supported by exports and by the increase in private consumption. The rapid recovery from the war in Lebanon in August 2006 demonstrates the Israeli economy's ability to withstand significant external shocks.
- Fiscal discipline was tightened in 2007; as a result, the estimated government deficit of 0.6% of GDP was far lower than the 2.9% target set in the budget.
- Broad government debt continued trending down, from 102% of GDP in 2003 to 82% of GDP at the end of 2007. It should be noted that this rate of debt is still more than double the median in the group of "A"-rated countries (34% of GDP), which impedes the budgetary flexibility that Israel needs more than its peer countries in order to bear costs arising from unexpected security-related developments.
- However, unlike other peer countries, Israel has more-flexible funding capabilities due to the guarantee program from the United States, a key ally of Israel.
- In this context, the agency noted that the main risk to Israel's credit rating continues to originate in the security situation, which may deteriorate if Iran continues to develop nuclear weapons. An additional risk is that any military confrontation may entangle Israel.

On October 30, 2008, the credit rating agency announced that it had changed the long-term foreign-currency credit-rating outlook of the State of Israel from "Positive" to "Stable". In addition, the agency confirmed the long-term and short-term foreign-currency credit ratings at "A" and "A-1", respectively. The long-term and short-term local-currency credit ratings were confirmed at "AA-" and "A-1+", respectively. The local-currency credit-rating outlook ("Stable") was confirmed. Israel's rating ceiling was also confirmed at a level of "AA".

According to S&P, the change in the outlook reflects the deterioration in the global economic environment, which is expected to affect Israel's export-orientated economy. It was also noted that this negative climate would make it difficult to achieve further reductions in the relatively high government debt burden (approximately 80%) for countries with a similar rating.

Within the context of the global economic downturn, and particularly the recession in the main destination countries for Israel's high-tech-orientated export products, S&P considers it possible that - in the coming years - there could be a fall in the exports that serve as Israel's main growth engine. Against this background, S&P expects that Israel's growth rate will fall, compared to the high growth achieved in recent years, and will amount to 2.5% or less in 2009.

The agency also noted that the elections scheduled to take place at the beginning of 2009 would likely delay the peace talks with the Palestinians, and would result in the government having to operate without an approved budget for at least one quarter. However, the agency noted that operating without a budget is an advantage in the sphere

of the budgetary deficit, which is expected to be at a level of approximately 1%. However, S&P noted that there are currently no destabilizing factors in the Israeli economy. The current account is expected to be balanced in 2009 and to remain so. Israel is thus not expected to encounter any particular difficulty in connection with its external financial stability. The agency also made positive mention of the market activities carried out by the Bank of Israel since the beginning of the year that are intended to increase foreign currency reserves to a level of USD 36 billion, thereby contributing to stability. It was also noted that, in contrast to its peer countries, Israel has reserves in the form of additional external funding sources, such as the U.S. guarantees program and the Israel Bonds Organization.

Table C-6

Israel's credit rating by the three rating agencies
(as of December 31, 2008)

Rating Agency	Term	Domestic Bonds	Outlook	Overseas Bonds	Latest change
		Rating		Rating	
Moody's	Long term	A1	Stable	A1	The rating outlook was upgraded in April 2008 to "Stable"
	Short term	-		P1	
Standard & Poor's	Long term	AA-	Stable	A	The rating outlook was downgraded in October 2008 from "Positive" to "Stable"
	Short term	A-1+		A-1	
Fitch	Long term	A+	Stable	A	The rating outlook was upgraded in February 2008 to "Stable"





Section D

Market Data



Section D – Market Data

The economic crisis that characterized 2008 did not ignore the government bonds market and was reflected in significant volatility in bond yields. Data from the bonds market indicate that trading turnovers remained stable and similar in volume to those recorded in 2007. Trade in government bonds is conducted in parallel in a number of trading arenas: the Tel Aviv Stock Exchange (“TASE”), MTS (an arena in which only the primary dealers in government bonds operate) and over-the-counter (“OTC”) trade.

Average Daily Turnover of Fixed-Coupon Unlinked Bonds

Large trading turnovers were recorded in the first and fourth quarters. In the first quarter the crisis affecting the markets had not yet begun to be felt and activity in the capital market was at a record level. In the fourth quarter, at the height of the crisis, there was a “flight to quality”: on the one hand, demand for government bonds increased, compared to corporate bonds and shares, while on the other hand the supply of government bonds also increased against the background of sales by institutional investors, as these assets have the highest degree of liquidity in the capital market.

Most of the trading in the unlinked segment took place on the TASE. The relationship between the various arenas is as follows:

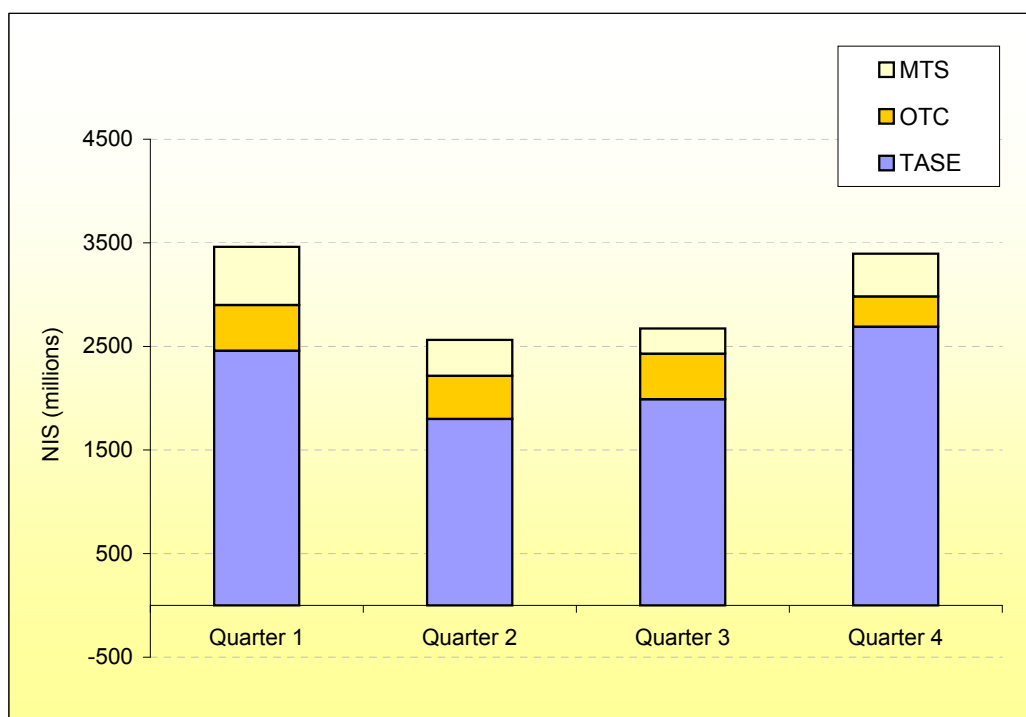
TASE – 74% of trading.

MTS – 13% of trading.

OTC – 13% of trading.

Diagram D-1

Average daily turnover of fixed-coupon unlinked bonds



Average Daily Turnover of Tradable Bonds

The majority of trading was transacted in the unlinked segment. Over the course of 2008, the relationship between the various segments was as follows:

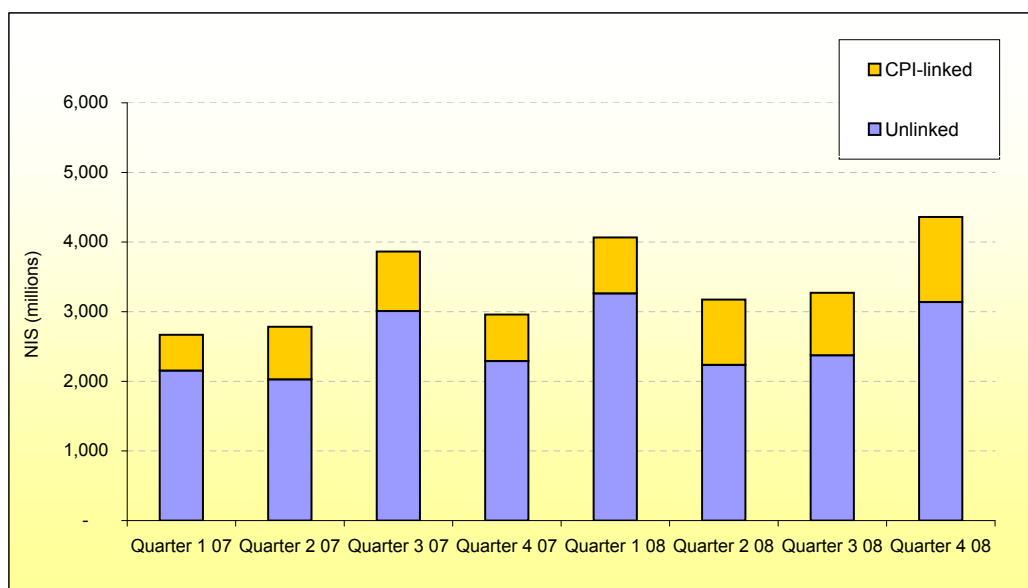
Unlinked segment – 73% of trading (2007 – 77%).

Linked segment – 27% of trading (2007 – 23%).

It would appear that the increase in turnovers of linked bonds is connected with the “flight to quality” phenomenon.

Diagram D-2

Average daily turnover of tradable bonds



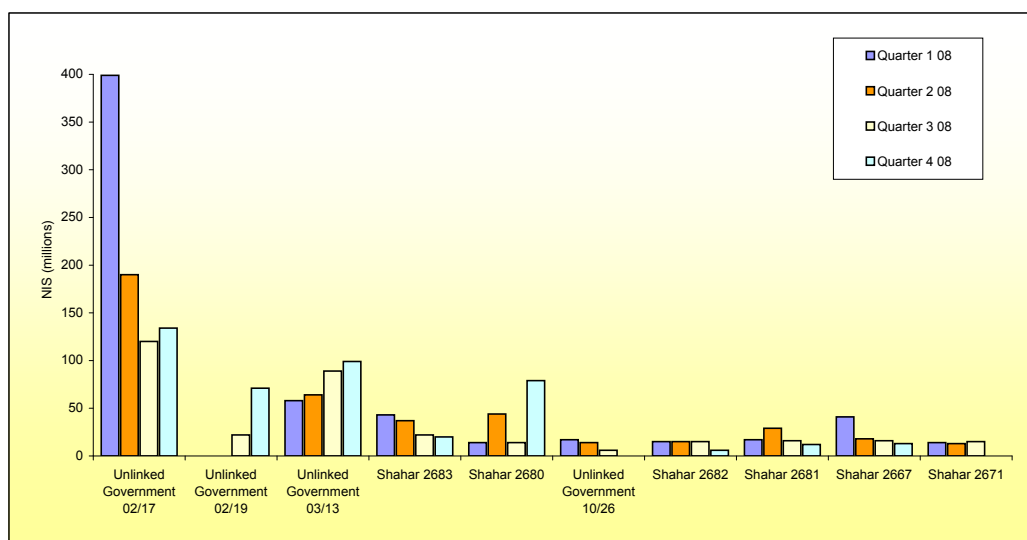
Average Daily Turnover on MTS Platform by Bond Type

The bonds with high trading volumes are those for which primary dealers are required to quote (for five hours net per day, with the size of the order and the spread, which they are required to quote, differing from bond to bond).

The bonds for which there was a quoting commitment during the whole of 2008 are: Unlinked Government Bond 02/17, Unlinked Government Bond 02/19 (first issued in June 2008), Unlinked Government Bond 03/13, Shahar 2683, and Shahar 2680. For the rest of the bonds, the quoting commitment only existed in the first part of the year. Also, as shown, the bond with the highest trading volume during the course of the year was Unlinked Government Bond 02/17, which served as the ten-year benchmark security.

Diagram D-3

Average daily turnover on MTS platform by bond type

**Share of Activity on MTS: Local versus Foreign Primary Dealers****Table D-1**

Share of activity on MTS: local versus foreign primary dealers

	2007	2008
Local primary dealers	62.12%	68.65%
Foreign primary dealers	37.88%	31.35%

As shown, the volume of activity of foreign primary dealers in relation to Israelis on the secondary market fell in 2008, apparently against the background of the liquidity crisis that has affected foreign financial institutions during the year. The analysis of activity on the secondary market is based on the weightings of several parameters: trading volume, quote order size, quote spreads and quote time.

Unlinked Yield-to-Maturity Curve in the Unlinked Segment

The year can be divided into several periods:

First period - January through July - The market was extremely stable, with ten-year unlinked bonds yields at a level of 5.8%-6%.

Second period - July through October - The crisis in the markets led to a rise in yields, with a top yield of 6.6% being posted.

Third period - October through the end of the year - There was a steep fall in yields, as a result of which there was a move into the fixed-income segment. This segment is the safest and also provides a high return in relation to short-term interest, the rates of which began to significantly decline.

Diagram D-4
Ten-year bonds yield

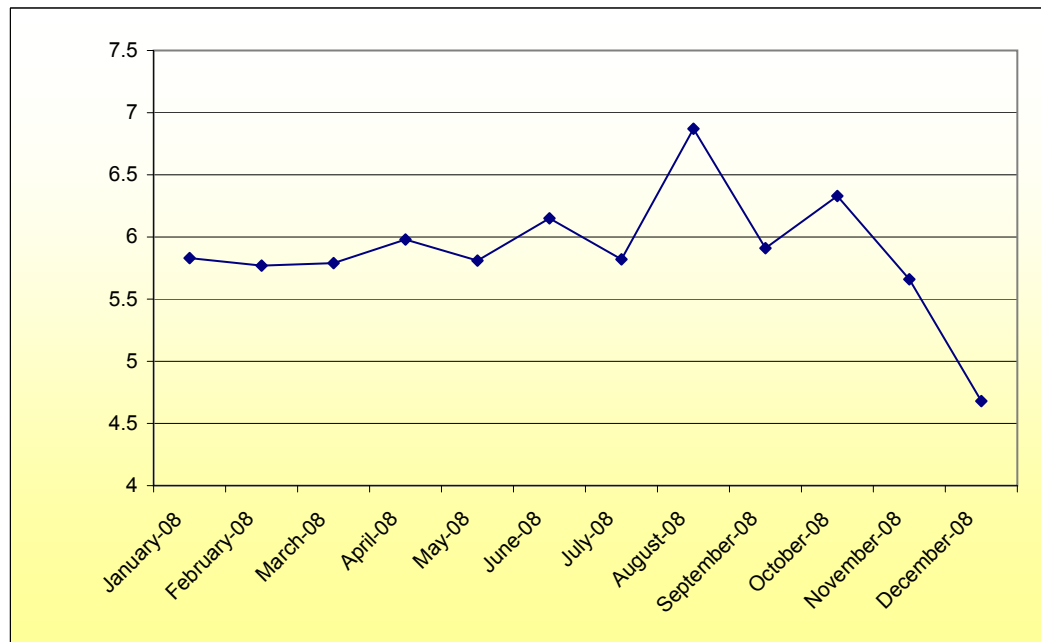


Diagram D-5
Unlinked yield-to-maturity curve

At the beginning of 2008, there was a rise in the steepness of the curve. At the end of the year the slope of the yield curve had reached record levels, both in terms of historical comparison and in relation to other markets overseas.

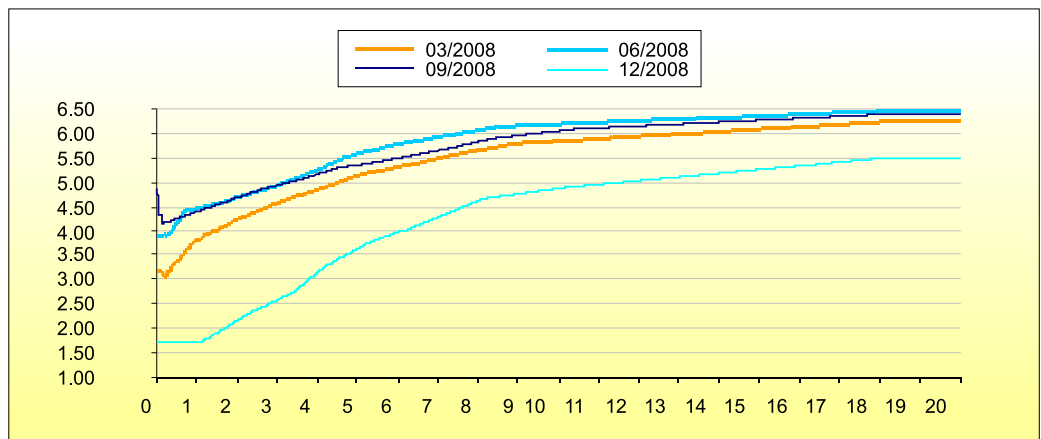
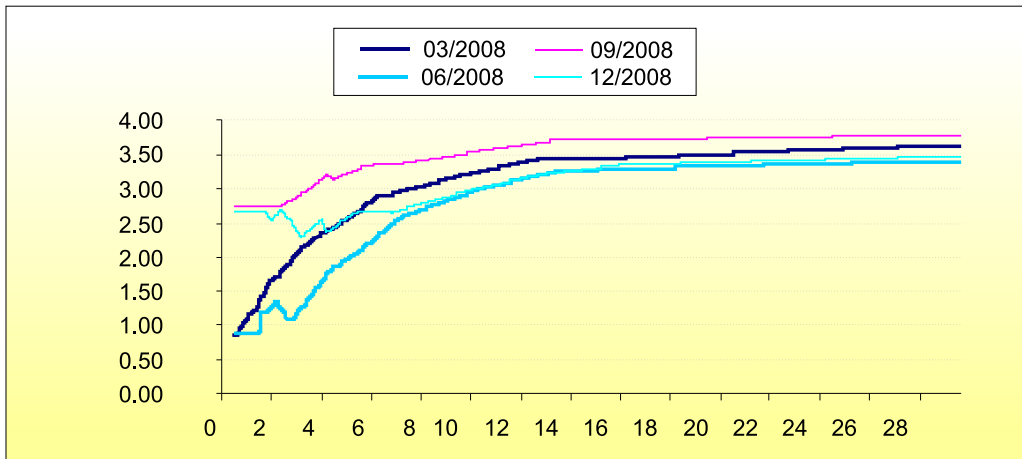


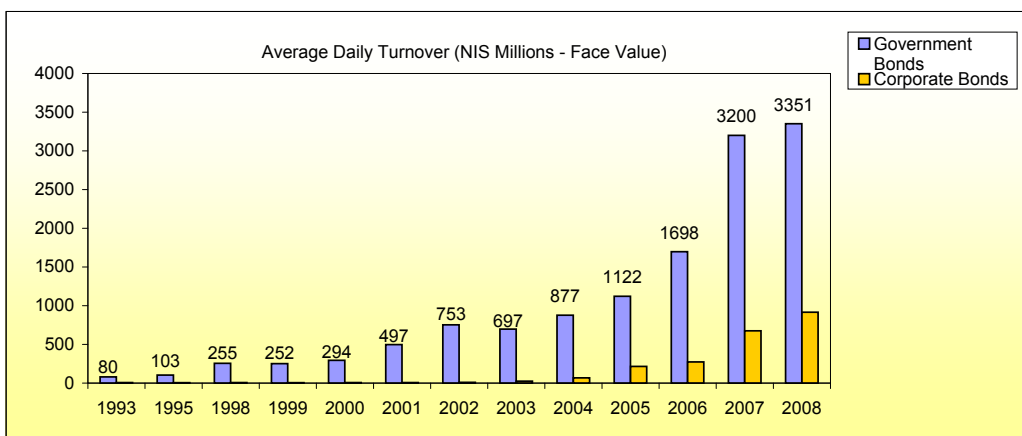
Diagram D-6
Linked yield-to-maturity curve



Average Daily Turnover in Historical Perspective

Turnovers have been rising steeply in recent years. It can be seen that the biggest jump in turnovers was recorded in 2006, with the implementation of the government bonds primary dealers reform. It can also be seen that, at the same time as the increase in turnovers was taking place in the government bonds market in recent years, trading turnovers were also increasing significantly in the corporate bonds market. Nevertheless, it should be noted that the rise in the level of activity in the corporate segment came to a standstill in 2008, as a result of the markets crash, and it may be assumed that it will take a considerable time for it to recover.

Diagram D-7
Average daily turnover, historical perspective



Average Volume of Bond Lending Facility

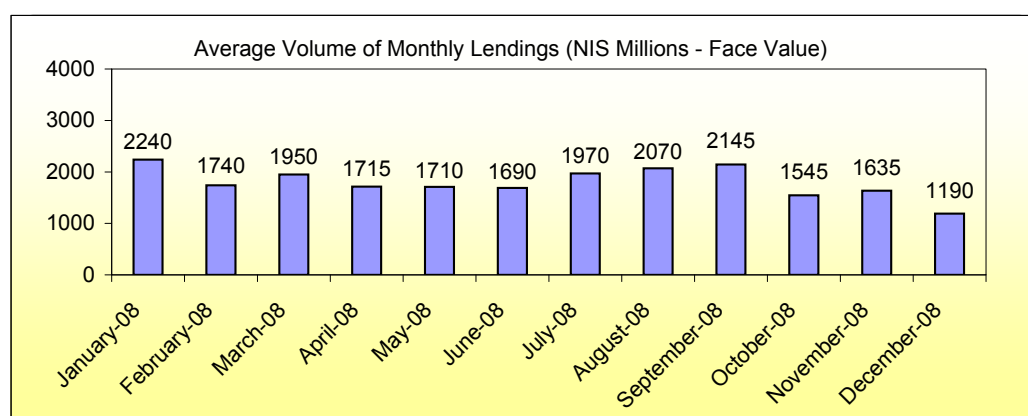
As part of the capital-market reform, the Ministry of Finance, in cooperation with the TASE Clearing House, established a bond lending facility allowing Primary Dealers to borrow government bonds of all types. A body wishing to borrow bonds, within the current limit of NIS 700 million per Primary Dealer, contacts the TASE Clearing House to borrow the bonds; in return, it transfer funds as collateral on which it receives interest. Operation of the bond lending facility began in September 2006.

As shown, the bond lending volumes trended up in the first half of 2007. This was due to the fact that as the reform in government-bond markets progressed, more primary dealers began using the bond lending facility.

The distribution of bond lending was approximately 83% in the unlinked segment and 17% in the linked segment.

Diagram D-8

Average volume of bond lending facility



Development of the CDS Spreads of the State of Israel

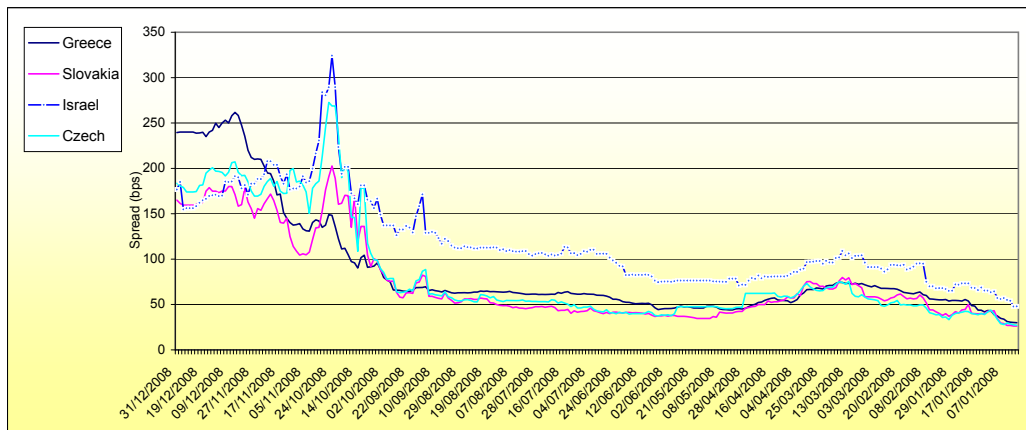
CDS (Credit Default Swap) transactions are agreements that enable two parties to transfer a third party's credit risk from one to the other. In practice, such transactions represent the sale of bankruptcy insurance. The CDS spreads are customarily referred to as an indication (partial) of the faith that purchasers invest in a third party's redemption ability, which serves as the underlying asset for the transaction.

The graph presented below illustrates the development of the CDS spreads of the State of Israel during 2008. The graph also presents the development of the CDS spreads of countries with a credit rating similar to that of the State of Israel. It can be seen that during 2008 CDS spreads of all the countries showed an upward trend, this being the result of the economic crisis and of increased concern that there could be countries or bodies that would be unable to repay their debts. From an historical aspect too, the CDS spreads in 2008 are high.

In the period between September and November, the global financial crisis worsened considerably (due to the bankruptcy of the investment bank "Lehman Brothers"); as expected, CDS spreads of Israel and its peer countries rose to record levels.

Diagram D-9

Development of the ten-year CDS spreads of Israel
and selected peer countries, 2008







Section E

Government Debt in 2008



Section E – Government Debt in 2008

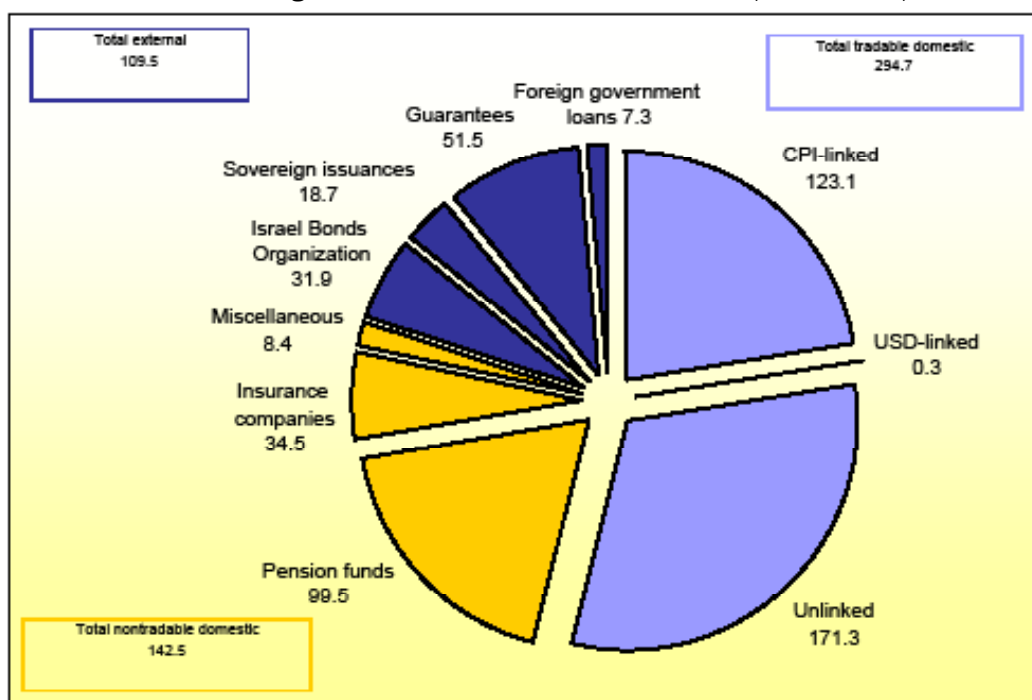
Total Debt and Debt-to-GDP Ratio

In contrast to previous years when there had been a downward trend in the nominal debt, total government debt increased by 4.3% in 2008, from NIS 524 billion at the end of 2007 to NIS 547 billion at the end of 2008.

Domestic debt increased from NIS 404 billion in 2007 to NIS 437 billion in 2008 (an 8% increase), while external debt decreased from NIS 120 billion in 2007 to NIS 109 billion at the end of 2008 (a 9% decrease).

Diagram E-1

Structure of government debt at the end of 2008 (NIS billions)



On the back of the downward trend in the debt-to-GDP ratio in recent years, a further slight reduction was recorded in this ratio in 2008 too. The debt-to-GDP ratio at the end of the year amounted to just 77%, versus 78% in 2007. This achievement is given added validity in light of the global economic crisis and its impact on global growth rates. The debt-to-GDP ratio is one of the most important variables in determining a country's financial stability and in determining the credit rating that is derived therefrom. The consistent decline in this ratio in recent years testifies to the robustness of the Israeli economy, and for the first time enables total debt as a percentage of GDP to be presented at a lower ratio than the average for OECD countries (as illustrated in Table E-1).

Diagram E-2

Debt-to-GDP ratio and government debt balance, 2003-2008 (NIS billions)

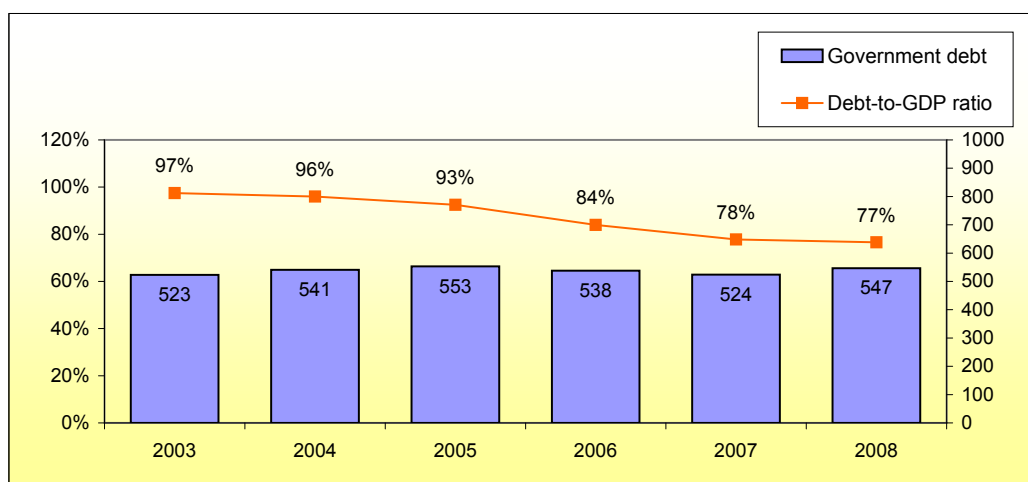


Table E-1

Broad government debt ⁽¹⁾ as a percentage of GDP in various countries, 2008

Country	Total debt as a percentage of GDP
Ireland	33
Korea	33
Czech Republic	36
Slovakia	38
Poland	53
United Kingdom	59
Germany	65
Portugal	71
France	72
United States	73
Israel ⁽²⁾	78
OECD countries, average	80
Belgium	92
Greece	101
Italy	113
Japan	173

(1) Broad government debt includes the debt of additional government agencies, such as local authorities.
Source: OECD Economic Outlook No. 84 (NOV-2008).

(2) Bank of Israel and Ministry of Finance.

Measures of the Length of Debt

Average term to maturity is the central measure for determining the length of debt. The average term of total government debt is 6.3 years at the end of 2008. The increase in the length of tradable domestic debt, from 5.9 to 6.1 years, mainly resulted from positive net funding (a surplus of funding over redemptions) and a focus on funding for long benchmark periods. By contrast, the length of nontradable domestic debt decreased, from 6.5 to 6.2 years, as a result of the small volume of issuances of nontradable bonds to pension funds; the length of external debt also decreased, from 7.8 to 7.2 years, due to the small number of issuances, all for short terms to maturity.

Another measure of debt length is duration ⁽²⁾. The duration of bonds is calculated based on the terms of all payments which the bond pays over its lifetime, weighted by the capitalized payment. As shown in Table E-2 below, there was no significant change in the total duration of government debt in 2008; however, opposite trends can be seen in domestic debt versus external debt, similar to those of the average term to maturity.

Table E-2

Average term to maturity and duration of government debt, 2003-2008 (in years)

	Average term to maturity						Duration		
	2003	2004	2005	2006	2007	2008	2006	2007	2008
Domestic debt	6.6	6.2	6.1	6.0	6.1	6.1	4.6	4.7	4.8
Of which: Tradable	5.5	5.3	5.4	5.5	5.9	6.1	3.9	4.3	4.5
Nontradable	8.2	7.7	7.3	6.8	6.5	6.2	5.7	5.4	5.3
External debt	8.0	8.6	8.4	8.0	7.8	7.2	6.1	5.9	5.7
Total government debt	6.9	6.8	6.7	6.5	6.5	6.3	5.0	5.0	5.0

Domestic Debt

The balance of domestic debt (tradable and nontradable) stood at NIS 437 billion at the end of 2008. Tradable debt grew by 2.1%, to NIS 298 billion, or 67% of total domestic debt, as part of the consistent increase in its share of total domestic debt in recent years. Nontradable debt decreased by 2.1% in 2008 and totaled NIS 143 billion at year end, comprising 33% of total domestic debt. The consistent increase in the proportion of tradable debt resulted, among other causes, from the significant decrease in the volume of issuances of nontradable bonds for pension funds. Pursuant to the terms of the reform of the pension market, it has been provided that pension funds are entitled to the issuance of nontradable bonds solely in the event that the rate of nontradable designated bonds out of the total assets of the pension funds has fallen below 30%. In light of the aforesaid and pursuant to market developments, 2008 saw the continuance of the downward trend in the issuance of new nontradable bonds.

⁽³⁾ The measure calculated by the Ministry of Finance is the modified duration.

Table E-3

Distribution of domestic debt into tradable and nontradable debt, 2002-2008 (%)

Type of debt	2002	2003	2004	2005	2006	2007	2008
Tradable debt	58	59	61	62	64	65	67
Nontradable debt	42	41	39	38	36	35	33

Tradable Domestic Debt

The proportion of CPI-linked debt out of total tradable domestic debt rose to 42% in 2008, from 41% in 2007. The increase in the linked segment resulted, inter alia, from an increase in the amount of issuance, as well as also reflecting the higher inflationary environment. The proportion of dollar-denominated debt remained negligible; bonds in the amount of just NIS 300 million remained in circulation at the end of 2008.

Table E-4

Distribution of tradable debt by linkage type, 1995-2008 (%)

Tradable debt	1995	2002	2003	2004	2005	2006	2007	2008
CPI-linked	81	50	47	45	42	42	41	42
USD-linked	10	7	3	0	0	0	0	0
Unlinked	9	43	51	55	58	58	59	58

Distribution of Tradable Government Bond Holdings

An examination of the long-term trends reveals that the increase in the proportion of pension funds' holdings of tradable government bonds has continued. Within the framework of the pension funds reform, the volume of issuances of nontradable bonds to these funds fell significantly. This reduction has redirected investment sources into tradable government bonds, thereby contributing to the increase in the funds' share of holdings, from 5% in 2004, to 12.8% in 2008. It should be noted that purchases of government bonds have not focused exclusively on CPI-linked bonds, but have included unlinked bonds as well.

In contrast to the trend of recent years of decreasing holdings of provident funds and insurance companies, the holdings of provident funds and insurance companies in 2008 amounted to 20.5% and 10.2% respectively, versus 18.4% and 8.9%, respectively, in the previous year.

The proportion of the public's holdings at the end of 2008 stood at 28.0% of the total inventory of the government's tradable bonds, versus 24.1% at the end of the previous year. It should be noted that this increase is consistent with the continued development of the positive trend of recent years.

The proportion of foreign investors' holdings amounted to just 1.6% in 2008, versus 3.8% in 2007. This decrease is not surprising in light of global economic developments, the effects of which have also impacted on the Israeli economy.

Another segment in which there was a significant reduction is that of the banks' holdings, whose share amounted to 14.6% at the end of 2008, versus 18.6% in 2007. The share of the Bank of Israel in the holding of tradable government bonds continued its decreasing trend reaching a level of 0.8% at the end of 2008, versus a holding rate of 1.1% in 2007.

Table E-5

Distribution of holders of tradable government bonds, 2004-2008 (NIS billions, %)

Year	Total registered capital (NIS billions)	Public	Mutual funds	Provident and study funds	Pension funds	Banks	Insurance companies ⁽¹⁾	Foreign investors	Bank of Israel
2004	252.9	192.	11.1	318.	5.0	17.9	12.5	0.6	1.9
2005	261.4	16.7	15.9	28.0	9.8	17.0	10.1	1.3	1.3
2006	2653.	194.	12.4	24.1	107.	18.1	95.	4.7	1.2
2007	269.4	24.1	14.2	18.4	11.0	186.	8.9	3.8	1.1
2008	312.9	28.0	11.5	20.5	12.8	14.6	10.2	1.6	0.8

(1) Includes holdings of life-insurance and general-insurance companies, and proprietary investments.

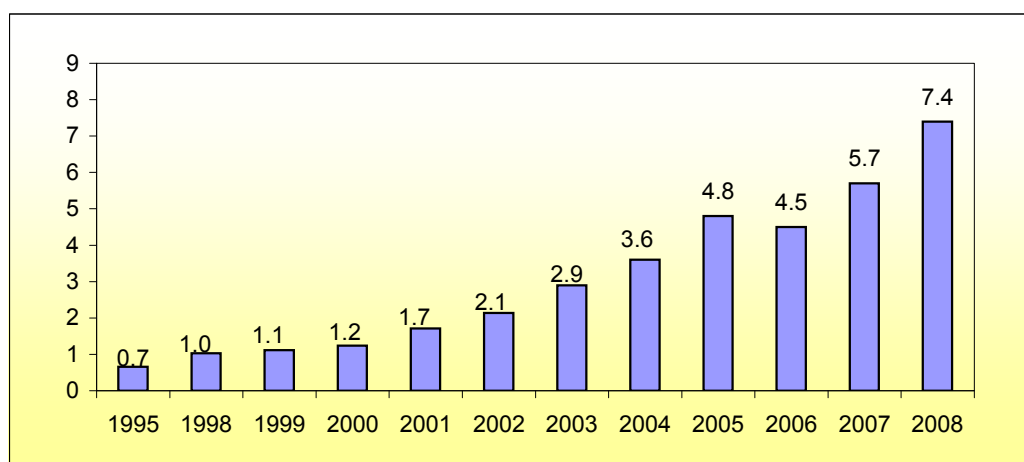
Source: Bank of Israel

Average Size of Series and the Number of Series

As part of the debt management policy to increase tradability and liquidity in the domestic bond market, the Ministry of Finance in recent years has reduced the number of government-bond series while increasing their volume. This policy continued in 2008, whereby the average series size rose to NIS 7.4 billion. The steep increase in the average series size is mainly due to the considerable redemptions of small series during 2008.

Diagram E-3

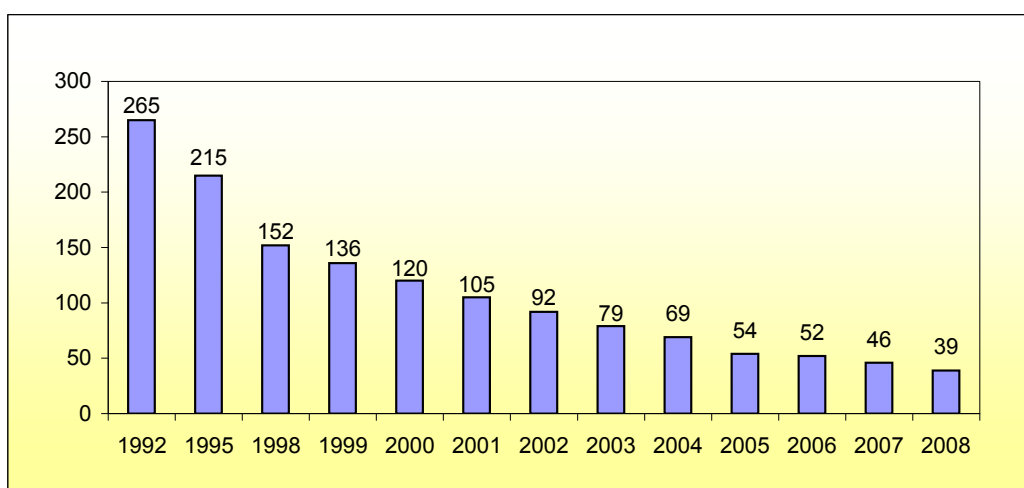
Average series size, 1995-2008



In 2008, the Debt Management Unit issued four new series on the tradable domestic market: A short-term government bond (maturing in 2009), an unlinked government bond (maturing in 2012), a linked government bond (maturing in 2018), and an unlinked government bond (maturing in 2019). Twelve bond series matured in 2008, including bonds of the “Gilon” type with a volume of NIS 7 billion. As a result of the above, the decrease in the number of traded series continued, falling to 39 at the end of 2008. The issuance of just a small number of new series will also continue in the coming years, in accordance with the policy to reduce the number of traded series.

Diagram E-4

Number of tradable government bond series, 1992-2008



Nontradable Domestic Debt

The trend of decreasing volumes of nontradable domestic debt continued in the past two years; this debt amounted NIS 142 billion at the end of 2008, versus NIS 144 billion at the end of 2007.

The inventory of debt in respect of nontradable bonds issued to pension funds (“Arad” and “Miron” bonds) stood at NIS 99 billion at the end of 2008, reflecting a 3% decrease from the balance of debt at the end of 2007. The downward trend in the volume of debt in respect of nontradable bonds for pension funds is expected to continue in the coming years, in light of the reform in pensions, in which the volume of new bond issuances to these funds was significantly reduced.

The inventory of debt in respect of nontradable bonds held by insurance companies (“Chetz” bonds) grew by 6% in 2008 and amounted to NIS 35 billion.

In accordance with the debt management policy, the balance of other nontradable debt, the balance of emissions managed by the Accountant General Division and compulsory loans managed by the Bank of Israel decreased during 2008, amounting to a total of NIS 8 billion.

Table E-6

Distribution of nontradable debt by type, 2002-2008

	2002	2003	2004	2005	2006	2007	2008
Total (in NIS billions)	161	161	156	153	145	144	142
Pension ("Arad" & "Miron")	116	119	115	112	105	102	99
Insurance ("Chetz")	30	30	30	31	31	33	35
Miscellaneous ⁽¹⁾	15	12	11	10	9	9	8

⁽¹⁾ Includes compulsory loans managed by the Bank of Israel, and deposits and emissions managed by the Ministry of Finance.

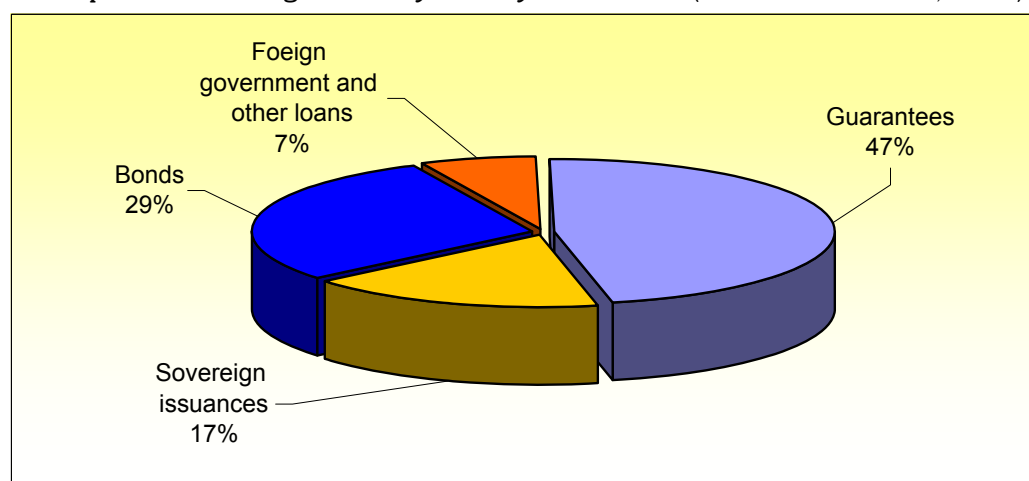
Foreign-Currency Debt

At the end of 2008, the government's foreign-currency debt stood at NIS 109.5 billion (approximately USD 28.8 billion), comprising 20% of total government debt. The State of Israel's debt in foreign currency is divided into the following types:

1. Bonds backed by U.S. government guarantees, with a balance of NIS 51.5 billion (approximately USD 13.5 billion) at the end of 2008.
2. Tradable bonds issued in world markets without guarantees ("sovereign issuances"), with a balance of NIS 18.7 billion (approximately USD 4.9 billion) at the end of 2008.
3. Bonds issued by the Israel Bonds Organization, with a balance of NIS 31.9 billion (approximately USD 8.3 billion) at the end of 2008.
4. Loans from foreign governments and miscellaneous loans, with a balance of NIS 7.3 billion (approximately USD 1.9 billion) at the end of 2008.

Diagram E-5

Composition of foreign-currency debt by debt source (as of December 31, 2008)



Sovereign Issuances

Between 1995-2008, eleven sovereign issuances were carried out in the United States, Europe, Japan, and the global market. The last sovereign issuance was performed in 2006 on the global (US) market, at a volume of USD 1 billion. Table E-7 lists the details of tradable sovereign issuances brought to overseas markets in recent years by the Accountant General Division. At the end of 2008, these bonds comprised 17% of the total foreign-currency debt.

Table E-7

Public sovereign issuances in global financial markets, 1995-2008⁽¹⁾

Spread over SWAP curve in relevant currency on issuance date (bp) ⁽³⁾	Spread from BM at issuance date (bp) ⁽³⁾	Benchmark interest (BM) ⁽²⁾ – government bonds	Interest to investors (percent) – coupon	Term to maturity (years)	Yield (percent)	Amount in millions in original currency	Market	Year
38	76 ⁽³⁾	USA	6.375	10	6.491	\$250	Yankee	1995 ⁽⁴⁾
25	50	USA	6.375	5	6.469	\$200	European	1996 ⁽⁴⁾
25	48	Japan	3.0	10	3.017	¥20,000	Samurai	1997 ⁽⁴⁾
162	225	USA	7.25	30	7.313	\$250	Yankee	1998
65	97	France	4.75	7	4.91	€400	European	1999 ⁽⁴⁾
40	144	USA	7.75	10	7.820	\$500	Global	2000
100	122	Germany	5.875	7	5.983	€400	European	2002
120	153	USA	4.625	10	4.731	\$750	Global	2003
75	115	USA	5.125	10	5.2	\$500	Global	2004
53	64	Germany	3.75	10	3.78	€750	European	2005
45	98	USA	5.5	10	5.58	\$1,000	Global	2006

(1) All issuances are of fixed-coupon bearing bonds.

(2) Benchmark – a bond used as the criterion for yield comparisons.

(3) Basis point (bp) – one hundredth of one percent.

(4) Matured.

Issuances Backed by U.S. Government Guarantees

Table E-8 shows the inventory of bonds issued with U.S. government guarantees within the second guarantee program. These bonds were issued during 2003-2004. As noted in Section C, the Israeli government did not issue new bonds of this type between 2005-2008. To date, bonds totaling USD 4.1 billion have been issued out of the USD 9 billion covered by the program. Bonds backed by U.S. government guarantees enjoy preferred terms (low interest rates), because they are assigned the credit rating of the U.S. government (AAA/Aaa), which is higher than the Israeli government's credit rating (A/A1). At the end of 2008, these bonds comprised 47% of the total foreign-currency debt.

Table E-8Issuances backed by U.S. government guarantees, 2003-2008⁽¹⁾

Issuance date	Amount in USD millions	Period (years)	Interest to investors (percent) – coupon	Underwriter	Yield (price)	Spread from 30-year US government bond on issuance date (basis points)	Commission from face value to US AID for guarantee
September 2003	450\$	30	5.5	Barclays Capital	5.5790% (98.8557106)	38	8.27%
September 2003	\$1,150	20	5.5	Merrill Lynch	5.5299% (99.6409187)	33	7.00%
December 2003	750\$	20	5.5	Lehman Brothers	5.5199% (99.7608157)	36	4.96%
April 2004	\$1,000	20	5.5	Lehman Brothers	5.5331% (99.60259342)	31	5.10%
October 2004	750\$	20	5.125	Merrill Lynch	5.159% (99.57891005)	29	3.90%

(1) All issuances are of fixed-coupon bearing bonds.

Issuances through the Israel Bonds Organization

The nontradable part of the foreign currency denominated debt is mainly composed of nontradable bonds issued over the years to individuals, companies, and institutional entities through the Israel Bonds Organization (State of Israel Bonds). The debt arising from Israel Bonds Organization securities stood at a total of NIS 31.9 billion (USD 8.3 billion) at the end of 2008. The bonds issued by the Israel Bonds Organization are nontradable and therefore their sensitivity to shocks in the international capital markets is low. At the end of 2008, these bonds comprised 29% of the total foreign-currency debt.

Foreign Government and Other Loans

The remainder of nontradable debt in foreign currency stems from bonds issued to foreign governments, international institutions, foreign banks, and bilateral funds, with a total balance of NIS 7.3 billion (USD 1.9 billion) at the end of 2008. At the end of 2008, these bonds comprised 7% of the total foreign-currency debt.

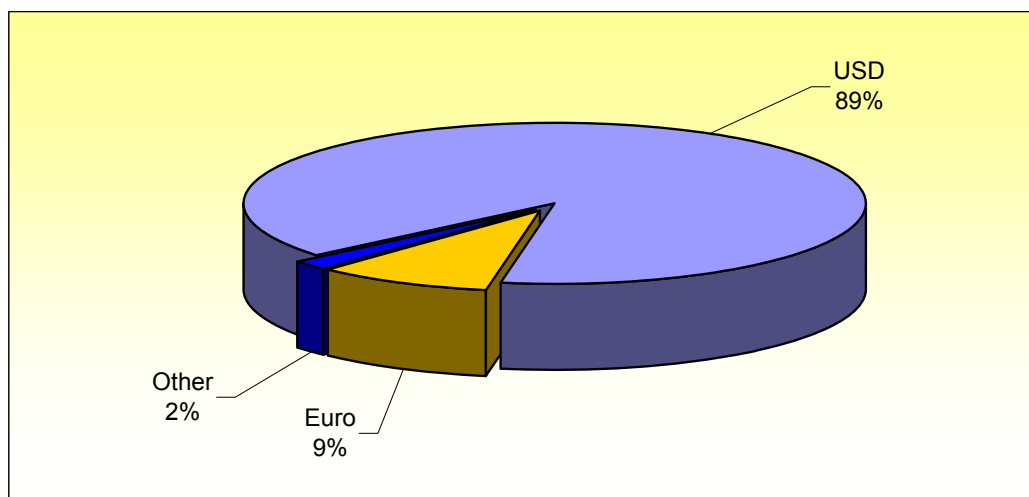
Activity in Derivatives

The current composition of the government's debt portfolio is characterized by a high proportion of liabilities in foreign currency, which constitute approximately 20% of the total government debt. In addition to this, the mix of the foreign-currency debt is characterized by the absolute dominance of dollar-denominated debt. At the end of 2008, 89% of the foreign-currency debt is dollar denominated, 9% is denominated in euros and the remaining 2% is in other currencies (see diagram E-6). In light of the above, the Debt Management Unit of the Accountant General Division leads a risk management policy

aimed at reducing and diversifying the exposure of the government debt to changes in foreign currency, with the emphasis focusing on activity in the dollar-denominated debt. The hedging of the exposure, as referred to above, is carried out primarily by means of forward transactions and swap transactions.

Diagram E-6

Composition of foreign-currency debt by currency (as of December 31, 2008)



Forward Transactions:

A forward transaction is a financial transaction enabling limitation of the exposure to volatility in exchange rates, within the framework of which the future rate for the transaction is determined in advance.

During 2008, the Debt Management Unit carried out for the first time eighteen forward transactions on the exchange rate of the U.S. dollar, for terms of up to a year, in a total amount of USD 1,025 million. The total amount of the forward transactions open as of December 31, 2008 amounts to USD 625 million.

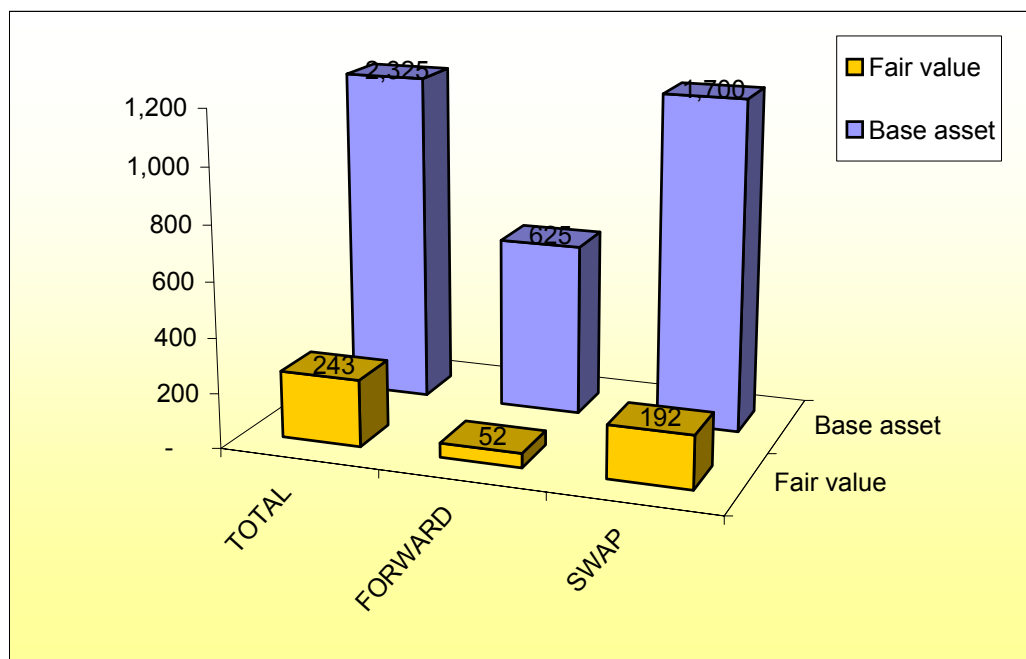
Swap Transactions

A swap transaction is a financial transaction in which monetary flows are exchanged for an agreed-upon period, all of which is based on a notional principal. Currency swaps allow the currency exposure base of the debt to be changed without impairing the achievement of the objective of issuing bonds abroad – creating an Israeli benchmark. Through the use of currency swap transactions, the government can exchange foreign-currency debt denominated in a particular currency for debt denominated in another currency, thereby diversifying the debt mix. By exchanging foreign-currency debt for NIS-denominated debt, it is possible to mitigate the exposure in its entirety.

During 2008, the Government Debt Management Unit carried out swap transactions to exchange dollar-denominated debt for euro-denominated debt, and also to exchange dollar-denominated debt for NIS-denominated debt. The total amount of the swap transactions open as of December 31, 2008 amounts to USD 1,700 million.

Diagram E-7

Balance of hedging transactions in USD millions (as of December 31, 2008)





Appendices



Appendices

Appendix A – Forecast of Principal Redemptions and Interest Payments

Diagram A-1

Principal redemptions and interest payments on tradable domestic debt, 2009-2036

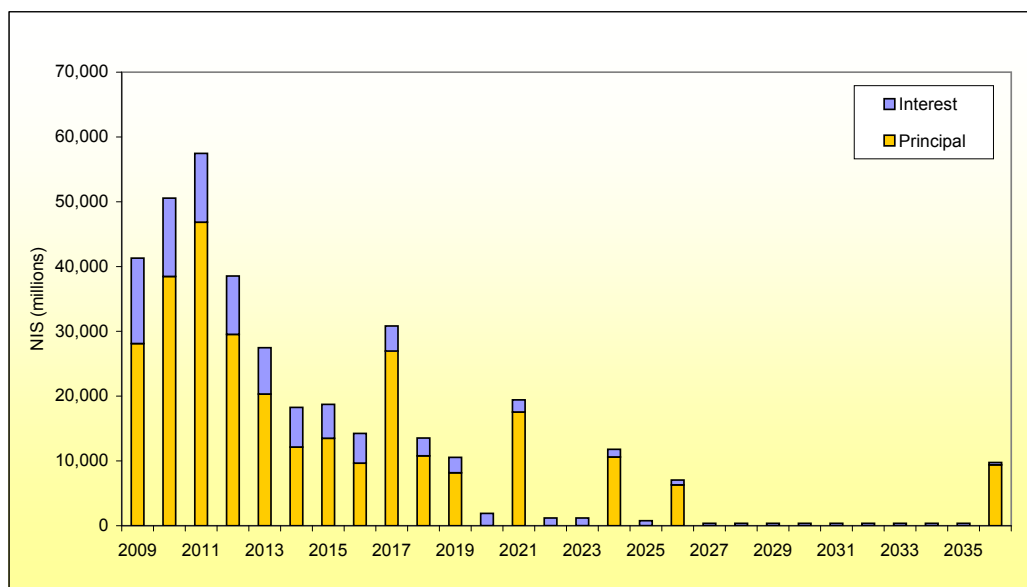


Diagram A-2

Principal redemptions and interest payments on the nontradable domestic debt, 2009-2033

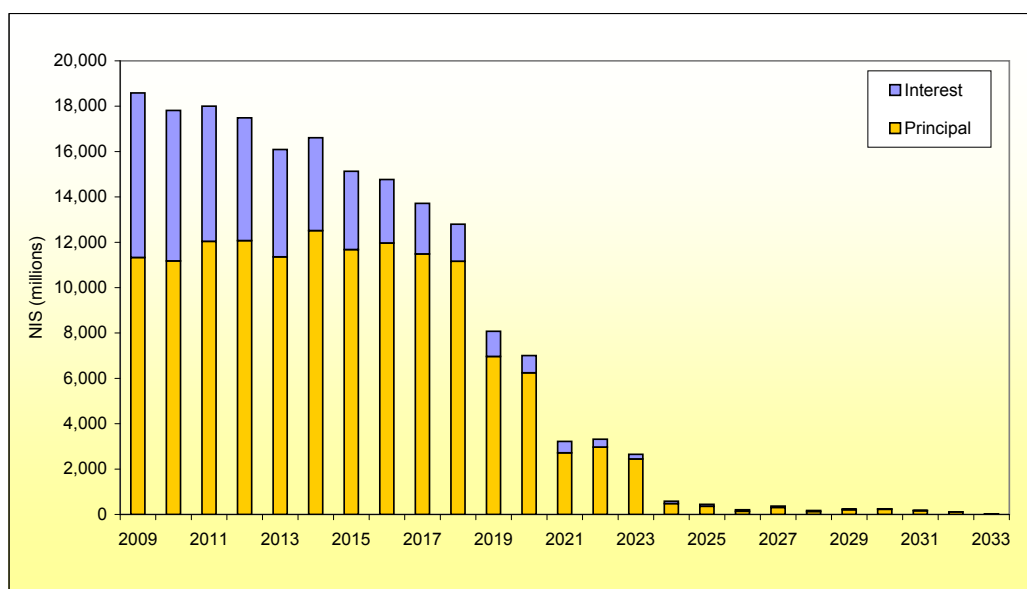
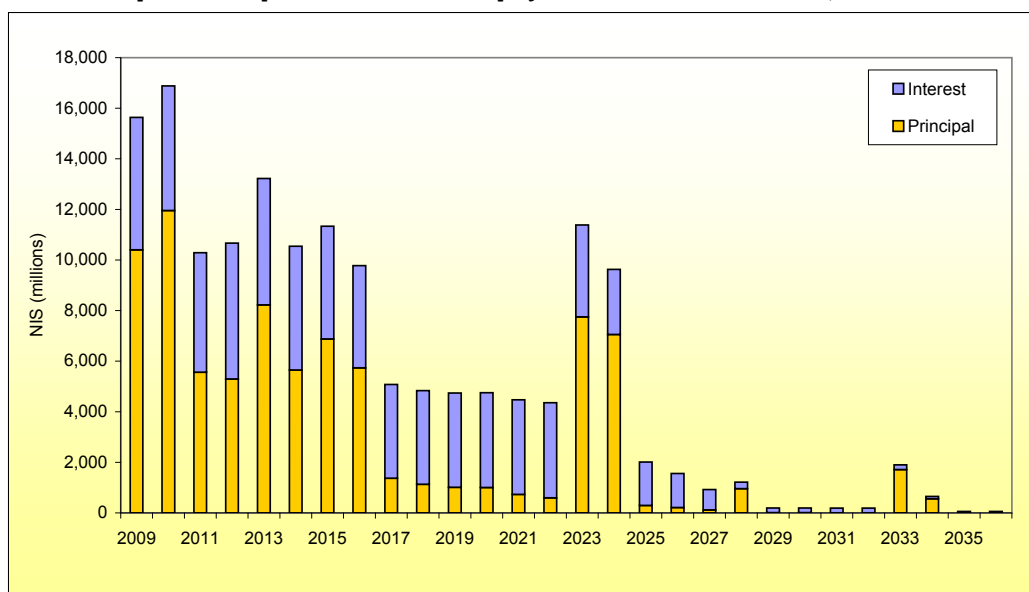


Diagram A-3

Principal redemptions and interest payments on external debt, 2009-2036



Appendix B – Features of Tradable Bonds in the Domestic Market

Bond	First issuance date	Interest	Interest payment
CPI-linked			
Galil*	Dec. 31, 1984	Fixed – based on average yields of fixed-coupon CPI-linked bonds, according to the term to maturity of the series or 1% (whichever is higher).	Annually.
Linked Government Bond	Jun. 26, 2006	Fixed – as determined by the Ministry of Finance.	Annually.
Dollar-linked			
Gilboa**	Oct. 24, 1988	Floating – based on six-month LIBOR interest rate.	Semi Annually.
Unlinked			
New Gilon	Apr. 28, 1999	Floating – based on Makam yields for a period of 3-12 months.	Once every three months.
Floating-Rate Government Bond	Jan. 8, 2008	Floating – based on Makam yields for a period of 12 months.	Once every three months.
Shahar*	Aug. 24, 1995	Fixed – as determined by the Ministry of Finance.	Annually.
Government Bond	Nov. 6, 2006	Fixed – as determined by the Ministry of Finance.	Annually.

* This bond is no longer issued.

** This bond is no longer issued. One very small series remains in circulation.

Appendix C – Features of Bonds Issued by the Israel Bonds Organization

Bond type	Interest formula	Interest payment	Redemption period (years)	Minimum purchase
Fixed Coupon				
Jubilee 1 Year	TB1y + spread	Every six months	1	USD 25,000 (and in multiples of USD 5,000)
Jubilee 2 Years ⁽¹⁾	TB2y + spread	Every six months	2	USD 25,000 (and in multiples of USD 5,000)
Jubilee 3 Years	TB3y + spread	Every six months	3	USD 25,000 (and in multiples of USD 5,000)
Jubilee 5 Years	TB5y + spread	Every six months	5	USD 25,000 (and in multiples of USD 5,000)
Jubilee 10 Years	TB10y + spread	Every six months	10	USD 25,000 (and in multiples of USD 5,000)
1-Year Savings Bond	Strip1y + spread	End of period	2	USD 2,500
2-Year Savings Bond ⁽¹⁾	Strip2y + spread	End of period	2	USD 2,500
3-Year Savings Bond	Strip3y + spread	End of period	3	USD 2,500
Mazel Tov 5-Year Bond	Strip5y + spread	End of period	5	USD 100 (and in multiples of USD 50)
10-Year Savings Bond	Strip10y + spread	End of period	10	USD 2,500
Mazel Tov 10-Year Bond	Strip10y + spread	End of period	10	USD 100 (and in multiples of USD 50)
Canadian Jubilee1 Year	Canadian TB1y + spread	Every six months	1	CAD 25,000 (and in multiples of CAD 5,000)
Canadian Jubilee2 Years ⁽¹⁾	Canadian TB2y + spread	Every six months	2	CAD 25,000 (and in multiples of CAD 5,000)
Canadian Jubilee3 Years	Canadian TB5y + spread	Every six months	5	CAD 25,000 (and in multiples of CAD 5,000)
Canadian Jubilee5 Years	Canadian TB5y + spread	Every six months	5	CAD 25,000 (and in multiples of CAD 5,000)
1-Year Canadian Savings Bond	Canadian Strip1y + spread	End of period	1	CAD 2,500
2-Year Canadian Savings Bond ⁽¹⁾	Canadian Strip2y + spread	End of period	2	CAD 2,500
10-Year Canadian Savings Bond	Canadian Strip10y + spread	End of period	10	CAD 2,500

Bond type	Interest formula	Interest payment	Redemption period (years)	Minimum purchase
5-Year Canadian Mazel Tov	Canadian Strip5y + spread	End of period	5	CAD 100
10-Year Canadian Mazel Tov	Canadian Strip10y + spread	End of period	10	CAD 100
2-Year Euro Savings Bond	German Strip + spread	End of period	2	EUR 5,000
10-Year Euro Savings Bond	German Strip + spread	End of period	10	EUR 5,000
Floating Rate				
3-Year Libor Floating Rate Bond	Libor + spread	Every six months	3	USD 5,000 (and in multiples of USD 2,500)
3-Year Libor Floating Rate Bond - Financing	Libor + spread	Every six months	3	USD 100,000 (and in multiples of USD 25,000)
4-Year Libor Floating Rate Bond	Libor + spread	Every six months	4	USD 100,000 (and in multiples of USD 25,000)
5-Year Libor Floating Rate Bond	Libor + spread	Every six months	5	USD 100,000 (and in multiples of USD 25,000)
10-Year Libor Floating Rate Bond	Libor + spread	Every six months	10	USD 5,000 (and in multiples of USD 2,500)
1 Year Euro Floating Rate Bond	Euribor + spread	Every six months	1	EUR 5,000
2 Year Euro Floating Rate Bond	Euribor + spread	Every six months	2	EUR 5,000
Institutional Bonds				
Jubilee 5 Years	TB5y + spread	Every six months	5	USD 500,000 (and in multiples of USD 100,000)
5-Year Libor Floating Rate Bond	Libor + spread	Every six months	5	USD 500,000 (and in multiples of USD 100,000)

⁽¹⁾ Sales of these bonds ceased in 2007.



Appendix D – Primary Dealers’ Rankings (at the end of 2008)

Primary market (issuances on the Bloomberg platform)

Ranking in the primary market is based on the volume of purchases in government bond auctions; the rankings are as follows:

1. Deutsche Bank
2. Bank Leumi
3. Goldman Sachs
4. Excellence Nessuah
5. First International Bank of Israel
6. Union Bank
7. Mizrahi Bank
8. Morgan Stanley
9. Poalim Sahar
10. Discount Bank
11. U-Bank
12. Clal Finance
13. Bank Hapoalim
14. UBS
15. Citibank

Secondary market (trading on the MTS platform)

Ranking in the secondary market is based on the weighting of several parameters: trading volume, quote order size, quote spreads and quote time on the MTS platform; the rankings are as follows:

1. U-Bank
2. Deutsche Bank
3. Bank Leumi
4. Discount Bank
5. Mizrahi Bank
6. Clal Finance
7. Goldman Sachs
8. Bank Hapoalim
9. UBS
10. First International Bank of Israel
11. Citibank
12. Excellence Nessuah
13. Union Bank
14. Poalim Sahar
15. Morgan Stanley

Appendix E – Personnel of the Government Debt Management Unit in the Accountant General Division (at the end of 2008)

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