GOVERNMENT OF ISRAEL MINISTRY OF FINANCE
OFFICE OF THE ACCOUNTANT GENERAL

Investor Newsletter

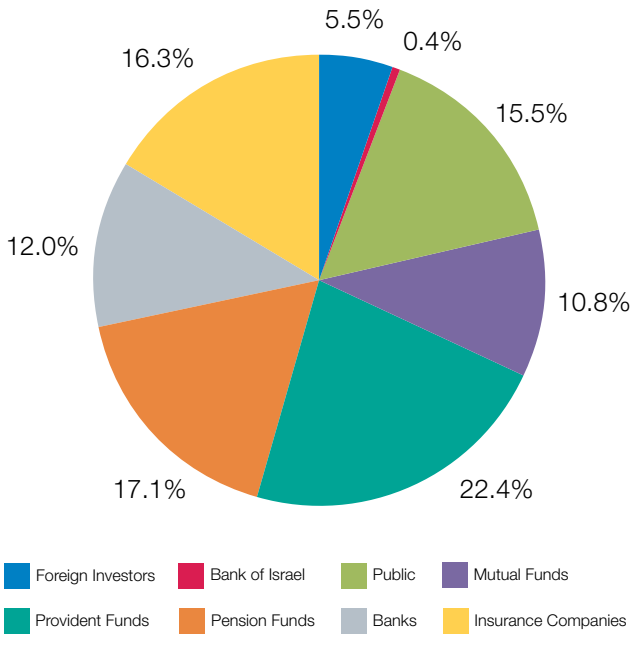
Editors:
Jason Reinin
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- Israel's Domestic Bonds to Enter the World Government Bond Index (WGBI)
- JP Morgan Becomes Primary Dealer
- GDP Growth 4.1 Percent (Annualized) in Third Quarter 2019

WGBI

In September 2019, FTSE Russell announced that Israel's local currency, fixed-rate government bonds, will be included in the widely-tracked World Government Bond Index (WGBI). These bonds will officially become part of the index in April 2020 and will comprise roughly 0.29 percent of the multi-trillion dollar index. Entrance into a major index such as the WGBI is expected to lead to inflows of capital and increased participation in Israeli markets by foreign investors, both active and passive. Currently, foreign investors hold approximately 5.5 percent of Israel's domestic government bonds.

Israel's Domestic Bond Market
(as of November 11, 2019)



Source: Ministry of Finance

JP Morgan Becomes Primary Dealer

In December 2019, JP Morgan became Israel's newest Primary Dealer. JP Morgan joins Bank of America Merrill Lynch, Barclays, BNP Paribas, Citibank, Deutsche Bank, and Goldman Sachs as one of Israel's global Primary Dealers. Israel's local Primary Dealers are Bank Leumi, Bank Hapoalim, Israel Discount Bank, Mizrahi Bank, First International Bank of Israel, and Union Bank.

Primary Dealers are financial institutions that assist governments with market-making, bond underwriting, secondary market trading, and providing liquidity to capital markets.

The Accountant General, Rony Hizkiyahu, noted that *"The bank joining as a primary dealer in government bonds is expected to strengthen this market and contribute more liquidity for bonds. Today's announcement attests to the strength of the economy, its strong credit rating and investment opportunities*."

Gilad Pais, Managing Director and Head of Israel Markets Coverage, J.P. Morgan, said: *"Offering our clients access to government bonds in Israel is an important next step for our franchise. Becoming a Primary Dealer will enhance our Israeli offering and capital markets leadership. J.P. Morgan has long history in Israel and we're excited to further our commitment to Israel and its economy."*

Election Update

On November 21, 2019, Benny Gantz, of the Blue & White political party, informed Israel's President Reuven Rivlin that he was unable to form a governing coalition. This followed an unsuccessful bid to form a government by Prime Minister Benjamin Netanyahu of the Likud political party.

Currently, there is a 21-day period in which any member of Knesset can form a government if they are able to submit signatures from at least 60 other members of Knesset. Should a governing coalition not materialize after this period, a third round of national elections will be scheduled for February-March 2020.

At the same time, the government continues to operate on a passed-budget through the remainder of 2019. Beginning in January 2020 and until a new budget is passed, the government will utilize a one-twelfth rule. This means each month, the government will be allocated one-twelfth of the previous year's (2019) original approved budget.

Macro

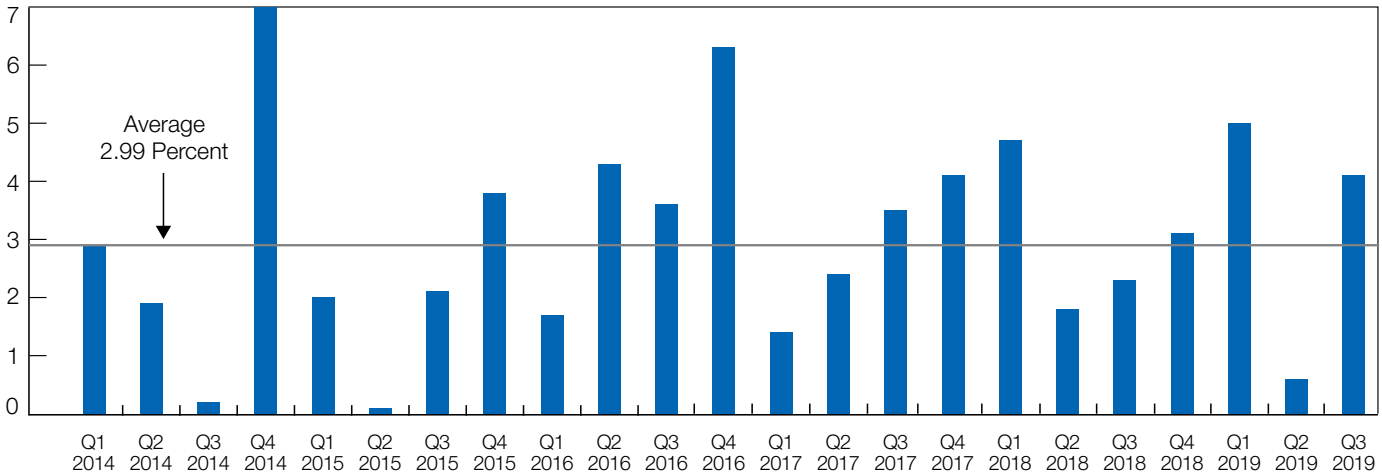
Israel's GDP grew 4.1 percent on an annualized basis in the third quarter of 2019. This follows 0.8 percent growth in the second quarter. On a per capita basis, GDP rose 2.1 percent in the third quarter after contracting 0.9 percent in the second quarter. Growth in the third quarter can mostly be attributed to a 2.8 percent increase in private consumption (0.8 percent increase in private consumption per capita), especially a surge in vehicle purchases, and government expenditure. In the third quarter, Israeli imports of goods and services rose 1.9 percent, following a 2.5 percent rise in the second quarter. Israel's exports of goods and services, conversely, fell 8.4 percent in the third quarter after an increase of 2.9 percent in the second quarter. The Ministry of Finance and Bank of Israel project GDP to grow 3.2 percent in 2019.

The unemployment rate in Israel dropped from 3.7 percent to 3.4 percent in October, its lowest level since 1978. During the same period, the percentage of unemployed men in Israel dropped by 0.2 percent to 3.1 percent, and among women the rate also fell 0.2 percent to 3.7 percent. The unemployment rate among those aged 25-64 (roughly 80 percent of the labor force) dipped to 2.9 percent in October from 3.2 percent in September. The labor participation rate declined from 63.5 percent to 62.8 percent.

In reviewing the employment numbers, Finance Minister Moshe Kahlon highlighted that, "Low unemployment indicates a strong economy and, more importantly, a strong society."

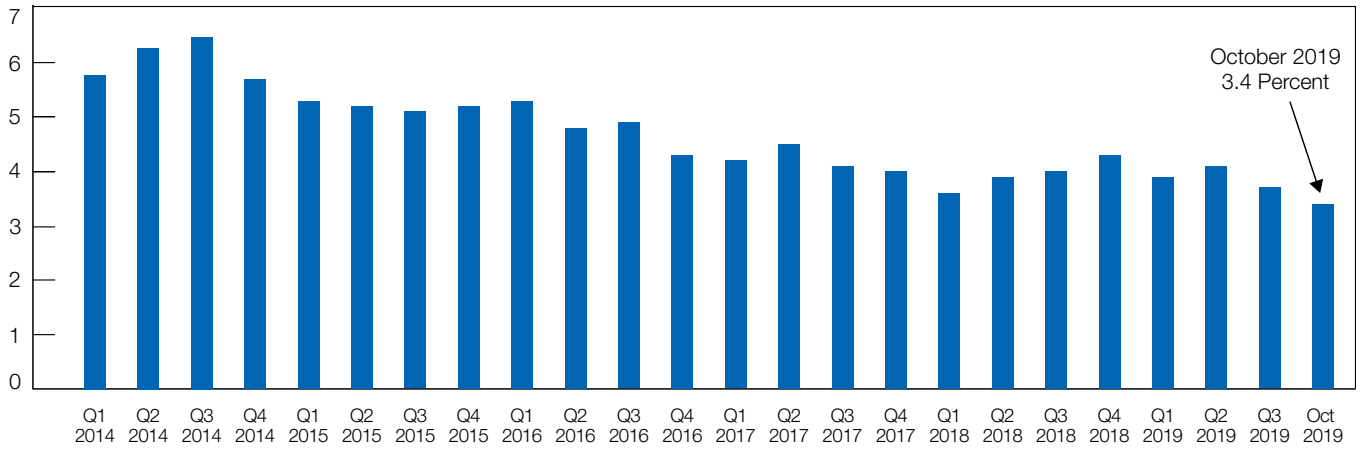
Israel's trailing 12-month budget deficit stands at 3.7 percent of GDP, 0.8 percent above the government's target. The government has remained committed to planned expenditures; however revenues came in softer than expected. Estimates for revenues were made in late 2017 when Israel's most recent (two-year) budget was created. In 2018, Israel hit its 2.9 percent deficit target. Israel, technically, has the ability to cut expenditure to meet the target, although the areas most apt to be cut are what the Ministry of Finance views as growth drivers such as infrastructure projects. Given the government's goals of prioritizing strong growth, while adhering to planned budget expenditures (and given softer-than-expected revenues) leads the Ministry of Finance to estimate an overshoot of the budget target for 2019.

GDP Quarterly Growth Rate (Annualized)



Source: Central Bureau of Statistics

Unemployment Rate



Source: Central Bureau of Statistics

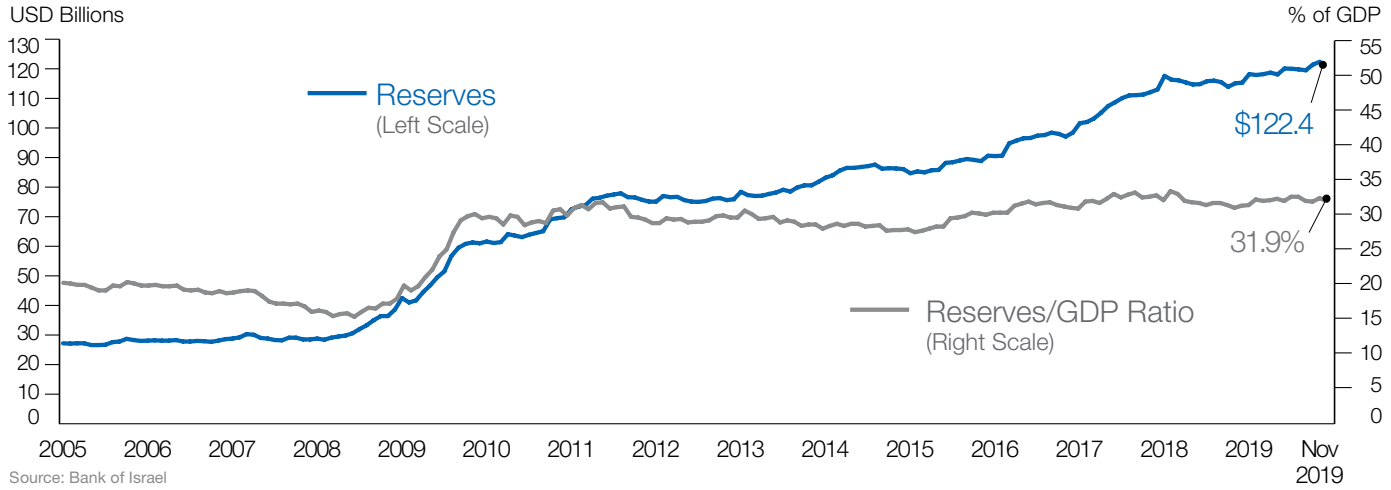
Monetary Policy

In November 2019, the Bank of Israel kept its base interest rate at 0.25 percent. The rate has remained at this level since November 2018. The Bank of Israel, stated in its press release following the decision: *"… in view of the inflation environment in Israel, the monetary policies of major central banks, the slowing in the global economy, and the continued appreciation of the shekel, it will be necessary to leave the interest rate at its current level for a prolonged period or to reduce it in order to support a process at the end of which inflation will stabilize around the midpoint of the target range, and so that the economy will continue to grow strongly. Furthermore, the Committee is taking additional steps as necessary to make monetary policy more accommodative. The Bank of Israel continues to monitor developments in inflation, the real economy, fiscal policy, the financial markets, and the global economy, and will act to attain the monetary policy targets in accordance with such developments."*

In November, the Bank of Israel purchased $1.23 billion, lifting total FX reserves to $122.38 billion. This follows a $314 million rise in total FX reserves at the end of October.

More on the Bank of Israel's interest rate decision can be found here.[1]

FX Reserves



Source: Bank of Israel

1 https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/5-12-19.aspx

Other News

Israel Jumps to 35th Place in World Bank's Ease of Doing Business Report

Israel jumped 14 places to be ranked 35th among 190 countries in the 2020 World Bank's Ease of Doing Business report.

The annual report, which also saw Israel rise from 54th to 49th place worldwide last year, evaluates regulations enhancing or constraining domestic business activity for small- and medium-size enterprises over a 12-month period. Focusing on the largest business cities of each economy, the report evaluated ease of business in Tel Aviv.

Israel's significant rise in the rankings, the report stated, was due to regulatory improvements in starting a business, getting credit, paying taxes and cross-border trading.

— Jerusalem Post

https://www.jpost.com/Israel-News/Israel-rises-to-35th-place-in-World-Banks-Ease-of-Doing-Business-report-605661

https://www.doingbusiness.org/en/data/exploreeconomies/israel

Israel's Investment in Food Technology Rises to $100 Million

While many flock to Israel for falafel and shakshuka, it is less known for its food technology. Yet the country — home to more than 350 agriculture and food technology companies —"punches above its weight." In 2018, annual investment in Israel's food tech sector rose to $100 million, according to a recent report by Start-Up Nation Central. This makes it a strong player within a booming market. BIS Research predicts the global food tech market to be worth more than $250 billion by 2022.

"So much is happening in such a small place," said Tamar Weiss, development manager for the agri-food tech sector of Start-Up Nation Central. Weiss can be attributed to Israel's goal to tackle the environmental and ethical challenges around agriculture. "People are aware of it in their own personal life and this has really pushed the sector forward," she added.

— CNN

https://www.cnn.com/2019/11/04/business/israel-food-technology/index.html

Deloitte: Retailers Worldwide Invested $6.2 Billion in Israeli Technology in 2018

In recent years, Israeli startups have become prominent developers of technologies for the retail sector. A new report by the consultancy and accounting firm Deloitte finds there are now 450 Israeli startups in this sector, which have raised an aggregate $1.5 billion capital in the past four years. The report reveals that the global retail industry invested $6.2 billion in installing Israeli technology in 2018.

The report shows that Israel has become an important focus of retail technologies in three main areas in recent years: marketing and sales technology, designed to find new customers and retain existing ones using smart search engines and big data analysis; checkout technologies, including information security and cashier-less supermarkets; and automation and streamlining technologies for managing warehouses, deliveries, and inventory.

— Globes

https://en.globes.co.il/en/article-israeli-tech-keeps-the-retail-giants-in-the-game-1001307683

High-Tech Firms in Israel Raise $2.24 Billion in Third Quarter of 2019

Boosted by a series of high-value deals, Israeli high-tech companies raised $2.24 billion in the third quarter of 2019, the highest quarterly sum since 2013.

According to a report by IVC Research Center and the international law firm ZAG-S&W, high-tech companies secured 142 deals in the last quarter– also the highest number since 2013 – including 13 large deals exceeding $50 million each, which accounted for 57 percent of the total capital raised.

Firms have raised a total of approximately $6 billion since the beginning of the year. In 2018, high-tech companies raised a total of $6.35 billion, the report stated.

The six largest deals secured in the third quarter, each exceeding $100 million, totaled $841 million. These included $200 million raised by cybersecurity technology company Cybereason, $176 million raised by fintech company Fundbox, and $135 million raised by Jerusalem-based app developer Lightricks.

— Jerusalem Post

https://www.jpost.com/Jpost-Tech/Israeli-hi-tech-firms-secure-224-billion-in-third-quarter-of-2019-606289

Other News

Israel Announces Plans to Increase Gas Exports to Egypt

Israel is significantly increasing the amount of natural gas it plans to export to Egypt under a landmark deal, according to several Israeli energy companies.

Partners in Israel's Leviathan and Tamar offshore gas fields agreed last year to sell $15 billion worth of gas to a customer in Egypt in what Israeli officials called the most significant deal to emerge since the neighbors made peace in 1979.

The amended agreement shows a 34 percent surge in exports to approximately 85 billion cubic meters (bcm). A source in the Israel's energy industry estimated the value of gas was now $19.5 billion, $14 billion coming from Leviathan and $5.5 billion from Tamar.

Texas-based Noble Energy, Israel's Delek Drilling and Ration Oil own Leviathan. Noble, Delek Drilling, Isramco and Tamar Petroleum are leading partners in the Tamar field.

The customer in Egypt is a private firm, Dolphinus Holdings, which according to the original agreement plans to supply large industrial and commercial consumers in Egypt.

"This transaction will open the door for further investments in the regional energy market, providing cheaper and cleaner energy to the citizens of the region," said Delek Drilling CEO Yossi Abu.

— *Haaretz*

https://www.haaretz.com/israel-news/israel-to-increase-gas-exports-to-egypt-companies-say-1.7925666

Arizona Governor Announces Opening of Trade and Investment Office in Tel Aviv

Governor Doug Ducey recently announced the opening of Arizona's first trade and investment office in Israel. The new office, a part of the Arizona Commerce Authority, is located in Tel Aviv and creates a platform for businesses in both countries to increase international trade and foreign direct investment opportunities.

In 2015, Governor Ducey became the first Arizona governor to lead a trade mission in Israel. During the visit, he attended the Water Technology and Environmental Control symposium, highlighting the similar water management challenges and efforts to build thriving economies in arid desert landscapes. Both Arizona and Israel continue to work together to advance forward-thinking water policy and freshwater science innovation.

In 2018, imports and exports between Arizona and Israel totaled more than $460 million, which is greater than twice the volume since 2010. Currently, 20 Israeli-owned companies are operating in Arizona in aerospace and defense, business and financial services and technology and innovation.

— *Signals*

https://www.signalsaz.com/articles/governor-ducey-announces-opening-of-arizona-israel-trade-and-investment-office-in-tel-aviv/

Expo 2020 in Dubai to Showcase Israel Pavilion

Israel's participation in the upcoming Expo 2020 in Dubai will offer an unprecedented opportunity to build closer ties with the United Arab Emirates and other Gulf states, according to Elazar Cohen, Israel's new commissioner to Expo 2020.

The Israeli pavilion at the world's largest exhibition will present technological innovations, but also showcase the country itself.

"There is curiosity, mixed with concern, about this thing called Israel, and we want to alleviate that concern," said Cohen. "We want to project that Israel is an open country, that Israel is a democratic country, that Israel is a country that respects all its citizens, that everyone finds their place in it."

— *Jewish News Syndicate*

https://www.jns.org/israeli-looks-to-build-ties-with-the-arab-world-at-expo-2020-in-dubai/

Relevant Links

Israel Government Portal
https://www.gov.il/en

Israel's Ministry of Finance
http://mof.gov.il/en/pages/default.aspx

Israel's Government Debt Management Unit (GDMU)
http://mof.gov.il/en/PolicyAndBudget/GovernmentDebt/Pages/default.aspx

Israel's Annual Debt Report
https://mof.gov.il/en/PolicyAndBudget/GovernmentDebt/GovernmentDebtIndices/Pages/AnnualDebtReport.aspx

Bank of Israel
http://www.boi.org.il/en/Pages/Default.aspx

Central Bureau of Statistics
http://www.cbs.gov.il/reader/cw_usr_view_Folder?ID=141

Tel Aviv Stock Exchange
https://www.tase.co.il/Eng/Pages/Homepage.aspx

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