GOVERNMENT OF ISRAEL MINISTRY OF FINANCE
OFFICE OF THE ACCOUNTANT GENERAL

Investor Newsletter

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- S&P upgrades Israel to AA-
- Moody's raises Israel's outlook to Positive
- Israel executes 3yr €250 million private placement at historic low coupon of 0.05 percent

Credit Ratings

In August, global credit rating agency, Standard & Poor's (S&P), raised Israel's credit rating to new heights at AA-. S&P noted Israel's prosperous and diverse economy, strong external balance sheet, and flexible monetary framework. At AA-, Israel ranks just two notches below countries such as Finland, Austria, Hong Kong, and the United States and just one notch below countries such as Belgium, France, and the United Kingdom. The upgrade comes roughly one year after S&P raised Israel's outlook to Positive from Stable. S&P's previous upgrade, to A+, occurred in September 2011.

Israel's Minister of Finance, Moshe Kahlon, stated, *"In the last three years the Israeli economy has soared to the best macro data in its history. The confidence in us expressed by the strongest economic bodies in the world allows us to continue to grow the economy and, using the fruits of the growth, to maintain a policy of narrowing social gaps and strengthening the middle class and the weaker sectors of society."*

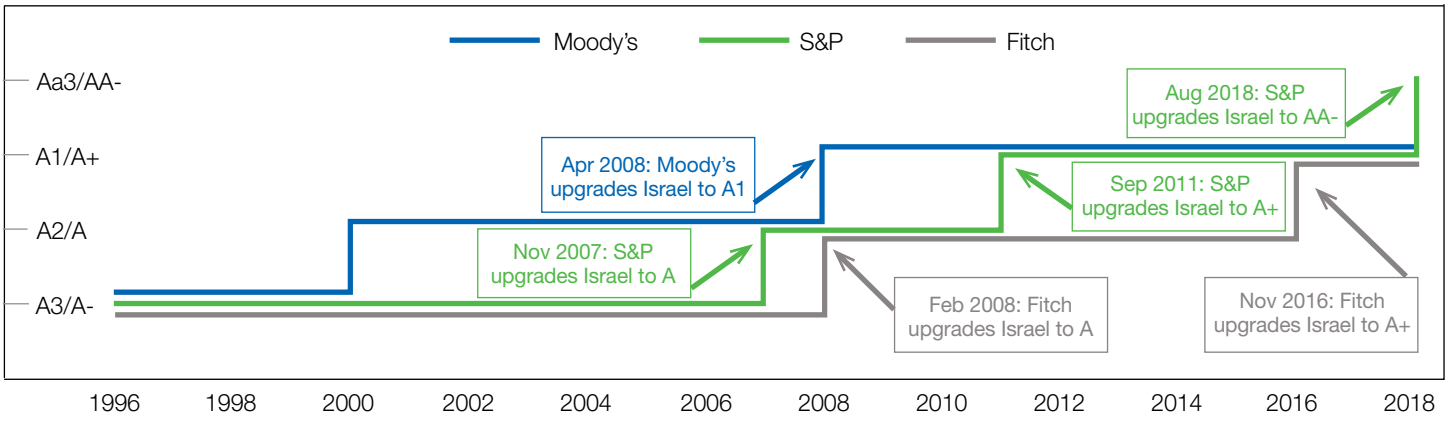
Earlier this year, credit rating agency Moody's Investors Service raised Israel's outlook to Positive from Stable. While currently rating Israel A1, Moody's outlook increase was based on Israel's strong fiscal positon as well as its increasing resiliency that buffers the economy from shocks. Moody's previously upgraded Israel, to A1, in April 2008.

Israel's Accountant General, Rony Hizkiyahu, stated, *"A second rating outlook upgrade within a year by different rating agencies reflects our strong fiscal performance and highlights the importance of maintaining a policy that encourages growth while reducing the debt burden."*

Israel has *never* been downgraded by a credit rating agency.

Israel's Current Ratings			
Agency	**Rating**	**Outlook**	**Last Upgrade**
S&P	AA-	Stable	August 2018
Moody's	A1	Positive	April 2008
Fitch	A+	Stable	November 2016

Credit Ratings
Credit rating refers to long-term foreign currency debt only



Source: Credit Rating Agencies

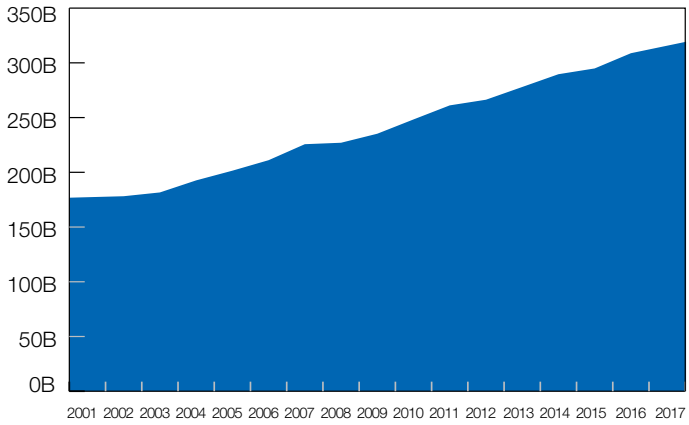
Source: Credit Rating Agencies.

Private Placement

In July 2018, Israel's Ministry of Finance executed a private placement bond offering to a strategic investor for €250 million ($289 million). The placement matures in three years and the coupon is a historic low for Israel at 0.05 percent. This cost of funding is roughly 0.25 percent lower than the corresponding outstanding bonds along the yield curve. While private placements are neither a major funding source nor executed on a regular basis, they are a useful funding tool to expand the investor base or to take advantage of exceptional financing terms.

Following the placement, Israel's Accountant General stated, *"Near-zero interest rate on offering shows the growing demand from large investors around the world for Israeli debt."*

Real GDP, Seasonally Adjusted, USD Billions



Source: Central Bureau of Statistics, Bloomberg

Macro Economy

Israel began the year with exceptional growth in the first quarter of 5.1 percent before slowing to 1.8 percent growth in the second quarter. Israel's Ministry of Finance Chief Economist noted that much of the slowing can be attributed to a technical adjustment in the measuring mechanism. The Chief Economist estimates that, net of the technical adjustment, second quarter growth will actually remain closer to a normative 3-3.5 percent. Israel's Ministry of Finance also expects a growth rate of 3.5 percent for 2018. The Bank of Israel's forecast of the economy's growth rate for 2018 is 3.7 percent. Since 2008, Israel's GDP growth has averaged 3.5 percent per year, compared with similarly rated countries that grew, on average, 2.9 percent over the same period. Israel's real (inflation-adjusted) GDP, seasonally adjusted, has grown each of the past 17 years.

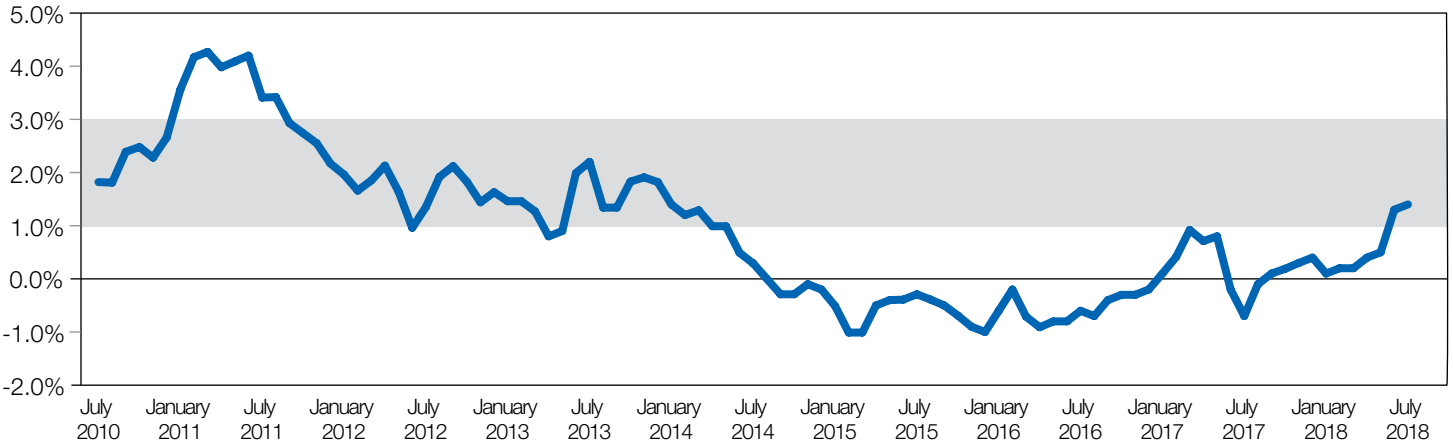
Israel's labor market remains robust. The unemployment rate stands at 4.2 percent, with wages rising each year since 2009. The participation rate is such that four out of five people aged 25-64, who wish to work, are employed.

Israel's external accounts are in solid shape as well. As a net lender to the world, Israel's net international investment position (external assets minus external liabilities) has been rising consistently and now is the equivalent to 40 percent of GDP. The median for a similarly rated country is roughly 28 percent of GDP.

(continued)

Inflation Rate, Monthly

(Gray area represents 1-3 percent target range)



Source: Bank of Israel, Central Bureau of Statistics

Macro Economy (continued)

In 1950, Israel imported $300 million worth of goods from the U.S. and exported just $35 million. Today, Israel exports roughly $17.1 billion in goods to the U.S., approximately $9 billion more than it imports from the U.S.

Consumer confidence in Israel has also been on the rise. The results are based on surveys conducted among a random sample of household consumers. Higher figures indicate greater optimism consumers feel about their own financial situation and the economy as a whole. The most recent print for this index, measured by the Central Bureau of Statistics, is 130 (with 100 indexed at the base-year level of March 2011-February 2012). A strong currency, increasing wages, and a long period of low inflation, has fueled buying power and increased optimism. All this has driven private consumption, currently the leading component of Israel's GDP. This is especially helpful as Israel's exports have yet to fully rebound since the global financial crisis.

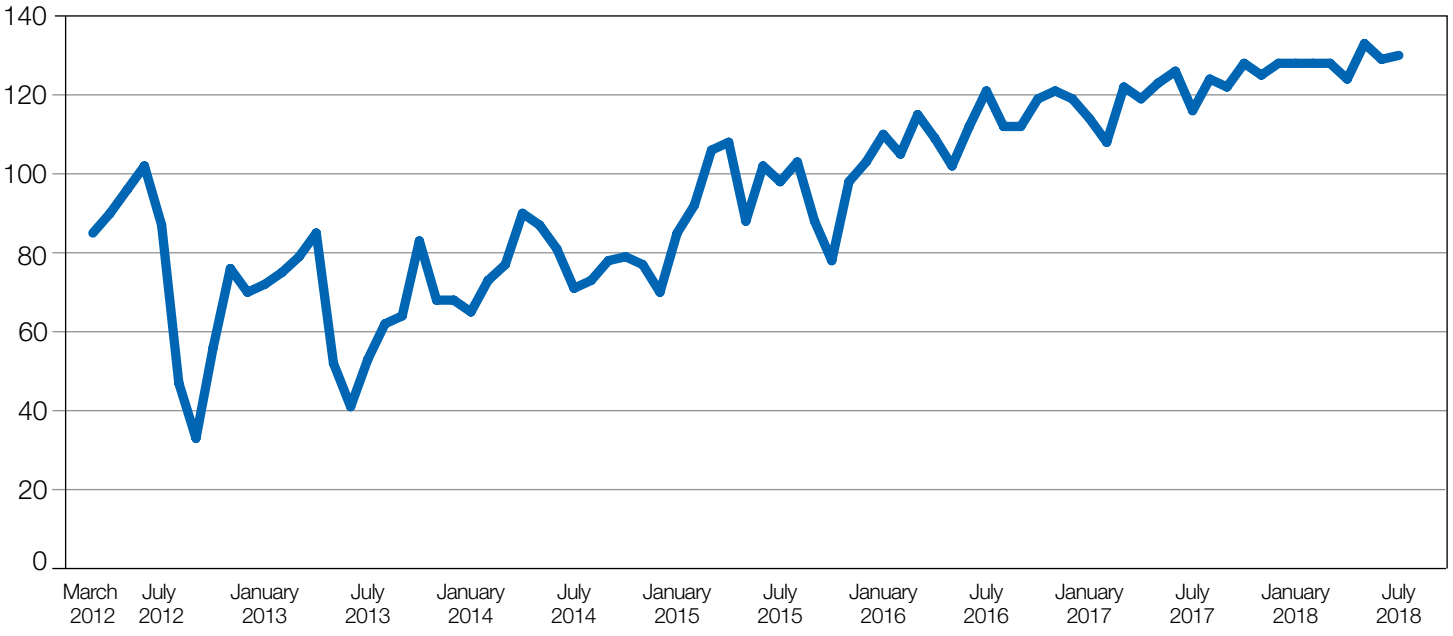
Private Sector

In the first half of this year, Israeli high-tech firms raised $3.2 billion, an all-time record. With the exception of the second quarter of 2016, Israel's top five quarters for high-tech capital-raising have been the most recent five quarters. Venture capital accounted for 55 percent of all deals completed in the first half of this year. Approximately 85 percent of venture capital money comes from investors abroad. Israel leads the world in R&D investment as a percentage of GDP and is ranked third on this year's World Economic Forum's Global Competitiveness Index for innovation. Only the U.S. and Switzerland are ranked higher.

In September 2018, the Government completed the sale of its remaining shares of Bank Leumi to Citigroup, the winning bidder, for NIS 23.38 per share (roughly NIS 1.9 billion in total). The 81 million shares sold represented 5.37 percent of the bank. Leumi's stock price rose 11 percent in the first nine months of 2018. Of the five banks that were nationalized in the early 1980s, the Government privatized four of them by 2010. By 2011, the Government had privatized all but five percent of Bank Leumi. September's transaction ends the Government's ownership of the Israeli banks. Proceeds from the deal will be used to finance the 2018 budget deficit and lower the debt burden. Ministry of Finance Accountant General Roni Hizkiyahu stated, "The era of state holdings in the banks' shares is over."

Consumer Confidence, Monthly

100 = March 2011 - February 2012



Source: Central Bureau of Statistics

Tourism

A record number of tourists visited Israel during the first half of the year. Between January and June, 2.2 million tourists arrived in Israel. This is the first time the 2 million mark was surpassed during the first half of the year. This represents a 19 percent increase over the same period last year and a 26 percent increase over the same period in 2016. Tourism contributes about 1.6 percent to Israel's GDP. Just for perspective, the annual average number of tourist arrivals in the 1950s was 47,000.

Monetary

The Bank of Israel released their Monetary Policy Report for the first half of 2018. That report can be found here*.

In August, the Bank of Israel left its benchmark interest rate unchanged at 0.1 percent. That rate has remained static since March 2015. Inflation picked up from the beginning of the year, rising from 0.4 percent at the end of 2017 to 1.4 percent, year-over-year, in July. The Bank of Israel aims to keep inflation within a target range of 1-3 percent. The average inflation rate in Israel between 2012 and 2017 was 0.5 percent. The most recent inflation figure (1.4 percent) returns inflation to the desired range. Foreign reserves at the end of August stood at $116 billion, an increase of $223 million from the previous month and an increase of $2.9 billion from the start of the year.

* http://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/12-8-18.aspx

Other News

Tel Aviv is Seen as Leading Startup Capital

Tel Aviv has the highest number of startups per capita in the world and the highest investment, as a percentage of GDP, in research and development (R&D), according to the 2018 Global Startup Ecosystem Report. The reports states that Tel Aviv is also one of the top-performing cities for global connections and global market reach, and has been highlighted in *Compass* and *Fortune* magazine as one of the best places in the world to start a business. Tel Aviv is also home to hundreds of venture capital funds, acceleration programs and co-working spaces, spread across the city's 20 square miles.

— *The Guardian*

https://www.theguardian.com/business-to-business/2018/aug/02/sun-sand-sea-and-unicorns-why-tel-aviv-is-the-worlds-new-startup-capital

PepsiCo Purchases SodaStream for $3.2 Billion

PepsiCo Inc. announced the purchase of Israeli carbonated water dispenser company, SodaStream International Ltd., for $3.2 billion, sending the American company synonymous with sugary sodas into the homes of more health-conscious consumers. SodaStream sells at-home carbonation machines used with compatible carbon dioxide capsules and optional flavored syrups.

Coca-Cola Co. ventured into the segment in 2014 when it bought a stake in Green Mountain Coffee Roasters, though the soft-drink-making system they developed was discontinued in 2016 due to weak demand.

"Daniel Birnbaum and his leadership team at SodaStream have built an extraordinary company that is offering consumers the ability to make great-tasting beverages while reducing the amount of waste generated," noted PepsiCo CEO Indra Nooyi.

— *Bloomberg*

https://www.bloomberg.com/view/articles/2018-08-22/pepsico-s-sodastream-purchase-is-sweet-news-for-israelis

Other News

Bank Leumi, Azrieli Group to Sell Credit Card Company to Warburg Pincus

In a bid to increase competition, regulators in Israel have instructed the country's top two banks to sell their credit card platforms. Israel's Bank Leumi and the Azrieli Group have agreed to sell their credit card business, Leumi Card, to U.S. private equity firm Warburg Pincus for $685 million.

Israel's Harel Insurance Investments and Financial Services said it was lending Warburg Pincus $235 million for the purchase. The Bank of Israel will begin an examination of the business plan before the deal moves forward, a process it estimates would take about four months.

— *Reuters*

https://www.reuters.com/article/us-bank-leumi-m-a-warburg-pincs/bank-leumi-agrees-to-sell-credit-card-unit-to-warburg-pincus-idUSKBN1KI0LN

Three Healthcare Multinationals Expand R&D Activity in Israel

Global lifescience companies, Medtronic, GE Healthcare and Change Healthcare, will expand their Israeli R&D centers over the next six years with the help of a $30 million grant from the Israel Innovation Authority and Ministry of Economy and Industry.

"Expanding these R&D centers will help position Israel as a leading player in the field of biomedicine, while creating high-quality jobs in the fields of engineering and manufacturing," said Eli Cohen, Israel's Minister of Economy and Industry.

Aharon Aharon, CEO of the Israel Innovation Authority, said the expanded R&D centers "will bring unique knowledge and experience to the local workforce and serve as the basis for the continued growth of Israel's innovation ecosystem."

— *Israel21c*

https://www.israel21c.org/3-healthcare-multinationals-to-expand-israeli-rd-activity/

Israel is Dominant Player in Cybersecurity Ecosystem

YL Ventures, an Israeli seed-focused fund, recently released its first CyberMap, which lists 166 startups, 16 of which raised more than $50 million.

According to the fund, Israeli cybersecurity had a very impressive 2017, with exits bringing in a total of $1.3 billion. Deals included Symantec buying Fireglass and Skycure; Hexadite being acquired by Microsoft; and LightCyber selling to Palo Alto Networks. In addition, Forescout executed an $800 million IPO.

— *Venturebeat*

https://venturebeat.com/2018/06/19/israel-now-boasts-166-cybersecurity-startups-including-16-that-raised-more-than-50-million/

Corporate Bond Sales Rise Via TASE

Corporate bond sales through the Tel Aviv Stock Exchange (TASE), the largest exchange for electronic trading of private bonds, after Shangai, rose sharply in the first half of 2018.

Ten new companies raised money through Israeli bond sales between January and June, for a total of $1.8 billion, more than double the $690 million for the first half of 2017.

"We see no sign of cooling," said Hani Shitrit Bach, executive vice president and head of listings at TASE. "What's interesting is that while there were only real estate companies listing; now we see business development companies broadening the market into other sectors."

The Israeli corporate bond market is predominantly exchange-traded — unlike its counterparts in the U.S. and Europe — with almost 90 percent of corporate bond transactions handled through the TASE. Debt offerings from foreign companies allow investors on the TASE to diversify their portfolios, Shitrit Bach said, while trading via an exchange offers investors greater liquidity than over-the-counter trading.

The Tel Aviv Stock Exchange Bond 60 index has advanced 1.2 percent so far this year and is trading near a record high, while a Bloomberg index tracking investment-grade U.S. dollar global corporate bonds has dropped 3.1 percent.

— *Bloomberg*

https://www.bloomberg.com/news/articles/2018-08-16/israel-bond-boom-gathers-pace-as-appeal-spreads-from-real-estate

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
http://mof.gov.il/en/PolicyAndBudget/GovernmentDebt/Pages/default.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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