GOVERNMENT OF ISRAEL MINISTRY OF FINANCE
OFFICE OF THE ACCOUNTANT GENERAL

Investor Newsletter

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- Israel manages COVID-19
- Credit agencies affirm Israel's AA-/A1/A+ ratings
- Israel raises more than $12 billion from the global debt capital markets since March

COVID-19

The spread of COVID-19 has critically impacted the global economy. Israel entered the crisis in strong financial shape, acted quickly to mitigate its effects, and is currently in the process of reopening its economy.

In March, the World Health Organization (WHO) formally declared COVID-19 a pandemic. To curtail the spread of the virus, many countries, including Israel, have taken important steps such as business closures, travel restrictions, and implementing social distancing policies.

On January 27, 2020, Israel's Minister of Health declared the new virus a serious danger to public health. In February, Israel imposed a mandatory quarantine for returning travelers from areas particularly affected by COVID-19, such as China, Italy, and other East Asian and European countries. On February 26, the first COVID-19 patient was confirmed in Israel. A mandatory quarantine period for all returning travelers from abroad was instituted on March 9, 2020.

Throughout March, restrictions were placed on citizens and work activities. On March 22, access to public spaces was reduced, private sector activity was restricted to 30 percent of regular capacity, and the public sector shifted to an emergency format, reducing the workforce to essential employees (approximately 15 percent of public sector positions).

On March 25, Israeli citizens were restricted to a distance of 100 meters from their homes, except for those involved in essential services. On March 30, private sector capacity was further restricted to 15 percent.

These measures, taken to protect the health of Israelis, adversely affected the economy. For example, entire sectors – such as tourism – were frozen, unemployment rates rose upward of 25 percent, total credit card purchases declined dramatically, and stock indices fell steadily at first and later experienced significant volatility.

To mitigate the economic downside of health restrictions, the government instituted economic aid policies for individuals and businesses. On March 30, a NIS 80 billion (~$23.5 billion) economic plan was published. The plan has four goals: to inject capital into ministries for a direct health and civilian response, to increase the social safety net, to support business continuity, and to accelerate the economy.

Following the Passover holiday in April, and a decline in the number of new COVID-19 cases, the state began a gradual removal of restrictions and a reopening of businesses. On April 19, an expansion of workplace capacity was approved, subject to compliance with government guidance regarding social distancing and other health safeguards. On April 26, retail stores, hairdressers and beauty salons, and take-out services for restaurants were reopened. On May 7, malls, markets, gyms and studios, tourism and parks, and libraries reopened. Schools concluded the academic year, the public sector is no longer on emergency footing, and the private sector continues to reopen.

As of June 29, the number of confirmed cases in Israel was 23,989, of which 17,114 people have recovered. Of the 6,556 active patients, 99 percent were in mild condition and 1 percent was in serious or critical condition. Sadly, as of the aforementioned date, 319 Israelis had passed away from COVID-19.[1]

The State of Israel entered the current crisis in relatively good financial condition. The unemployment rate was low (3.4 percent in 2019) and the labor force participation rate was high (~80 percent in 2019).

1 https://www.worldometers.info/coronavirus/country/israel/

At the end of 2019, government debt-to-GDP was just under 60 percent. Although this level was in the middle of the range compared to peer countries, it remained below the OECD average. According to the IMF's analysis, Israel was less exposed than most OECD countries to the totality of consequences caused by the COVID-19 crisis – in part because of its strength in the high-tech sector.

In 2019, the Israeli economy grew at 3.5 percent, slightly higher than in 2018, and above the potential growth rate of the economy, estimated to be approximately 3 percent. Year-over-year growth during the fourth quarter of 2019 was 4.6 percent. Growth in that quarter was boosted by an increase in vehicle imports, and on the expectation of a higher sales tax on hybrid and electric vehicles. Given these factors, it was anticipated that growth rates for the first quarter of 2020 would be lower, even before the outbreak of the pandemic.

During the lockdown period, there were significant practical challenges to measuring GDP. Because of this, the Central Bureau of Statistics (CBS) postponed the publication of growth data for the first quarter. In light of the crisis and a high degree of uncertainty, ordinary assumptions have been adjusted and the effects on the economy were measured utilizing an updated methodology.

According to preliminary estimates by the CBS, in the first quarter of 2020, Israeli GDP contracted by 6.8 percent year-over-year. This is Israel's largest quarterly contraction in decades.

In the first quarter of 2020, private consumption fell 20.2 percent year-over-year. This unprecedented number resulted from the restrictions on economic activity, collapse of tourism and leisure sectors that began even before restrictions were formally imposed, as well as the decline in consumer sentiment. Sentiment fell as a consequence of the drop in employment and decline in the capital markets. Fixed asset investments decreased 20.7 percent, year-over-year on a seasonally adjusted annual rate. However, gross domestic investment was up 16.5 percent year-over-year, indicating production of inventories ready to be sold as demand recovers. Without the increase in inventory investment, it is estimated GDP growth would have contracted to 10.5 percent, annualized, in the first quarter of 2020.

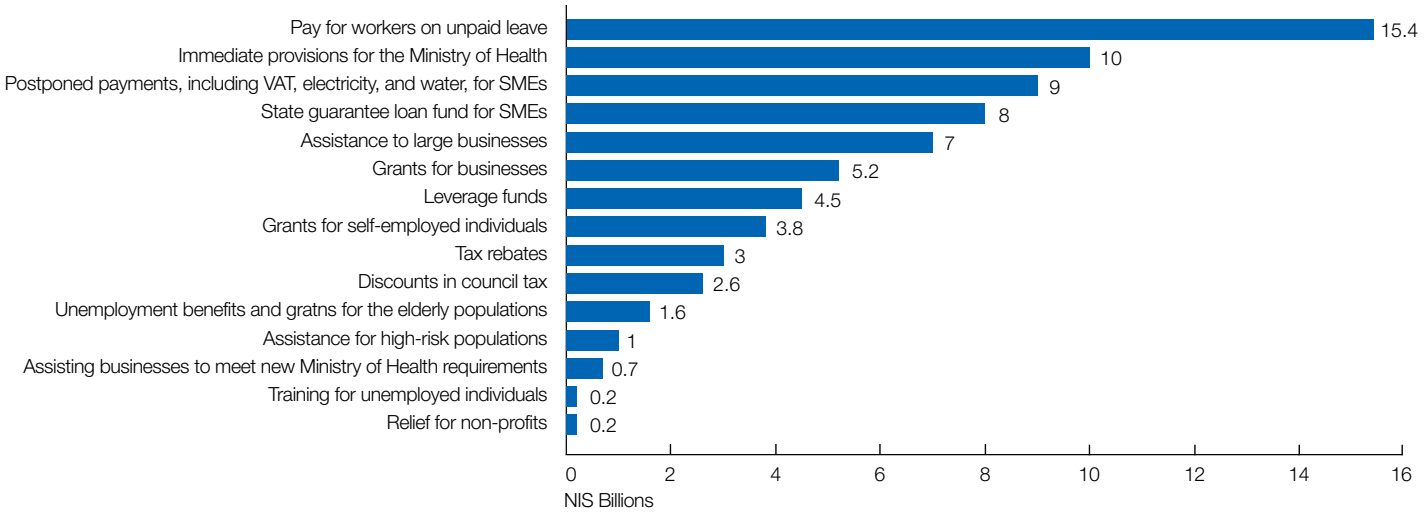
Exports of goods and services fell by 2.7 percent on a seasonally adjusted annual rate. While exports of services dropped by 11.2 percent, exports of goods increased by 17.2 percent primarily because of strong industrial exports. The decline in service exports is in line with the collapse in tourism (-64.6 percent, annualized) and the slowdown in start-up acquisitions, which fell almost 50 percent in absolute terms compared to the fourth quarter in 2019.

It is expected that most of the negative economic impacts of the crisis will be reflected in data from the second quarter of 2020. As of July 2020, the Government reinstituted some of the restrictions previously removed to stem the tide of a second wave of infections

As noted above, CBS's estimates for the first quarter are more complex due to higher uncertainty and new methodological techniques. Given this, and with the accrual of new data, there may be significant changes or updates in future releases.

Economic Package

(Selected distribution categories, NIS billions)

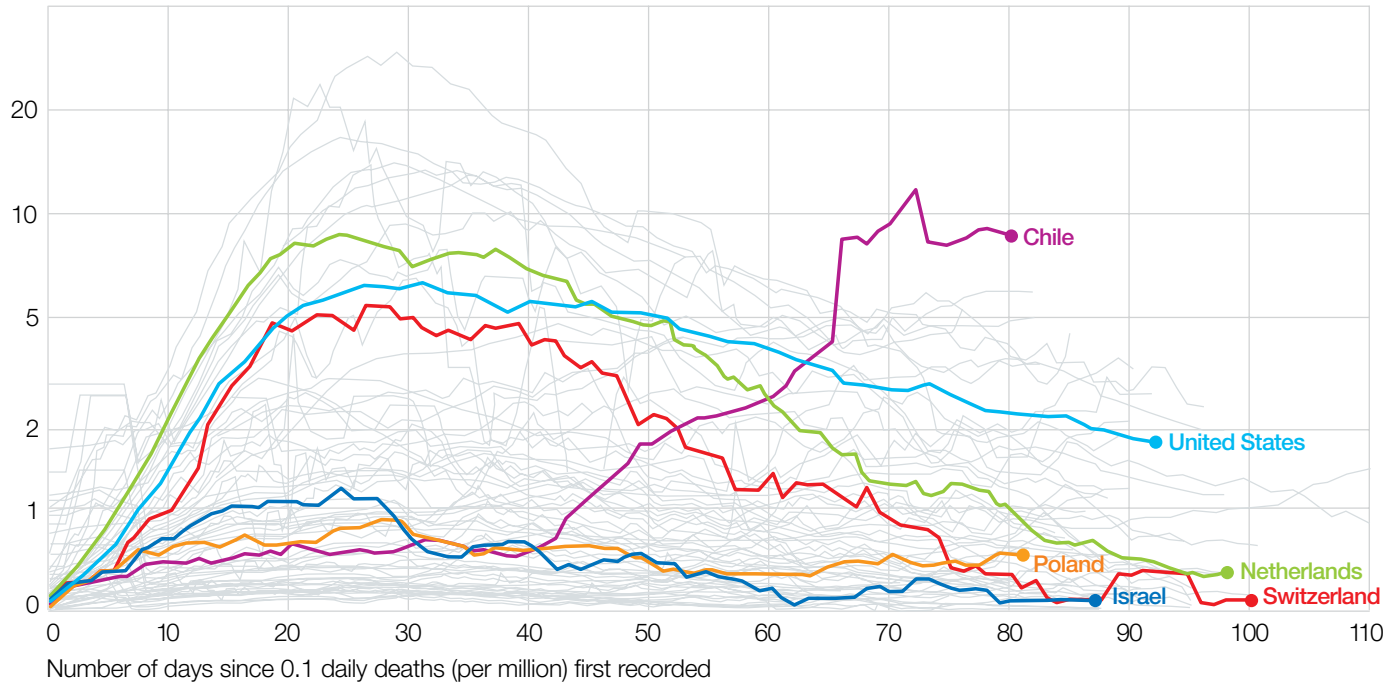


Source: Ministry of Finance

COVID-19 Around the World

New deaths attributed to Covid-19 in United States, Israel, Netherlands, Poland, Chile, and Switzerland

Seven-day rolling average of new deaths (per million) by number of days since 0.1 average deaths (per million) first recorded



Source: FT analysis of data from the European Centre for Disease Prevention and Control and the COVID Tracking Project. Data updated June 22, 2020

Credit Rating Affirmations

On May 15, 2020, S&P Global Ratings affirmed Israel's AA- rating and Stable outlook. The agency expects a widening of the general government deficit and a rise in net general government debt as a percentage of GDP. It also noted Israel's strong macroeconomic fundamentals and high monetary flexibility, which should allow Israel to absorb the shock caused by the pandemic. Additionally, it stated Israel's strong high-tech sector should aid in the economic recovery. Israel's credit affirmation comes at a time when S&P reports that of the two-thirds of sovereign countries it had reviewed, it downgraded over one-fifth of ratings and revised 15 percent of sovereign outlooks to negative from stable.[2]

On April 24, Moody's Investor Services affirmed Israel's A1 rating and changed its outlook to Stable from Positive. The affirmation was made based on Israel's strong medium-term growth potential, robust external accounts and stable institutions. Moody's expects Israel's credit profile to withstand the impact of the severe, but temporary crisis following the outbreak of the COVID-19. These strengths balance a combination of long-term demographic challenges and ongoing geopolitical risks. In affirming the A1 rating, Moody's highlighted that Israel's economy has proved resilient to a variety of domestic and external shocks, it is supported by a competitive and innovative technology sector, and is increasing production of natural gas.

On April 23, Fitch Ratings affirmed Israel's A+ rating and Stable outlook. According to Fitch, Israel's credit rating balances strong external accounts, a diversified economy with high added value and institutional resilience. However, it noted Israel's government debt-to-GDP ratio is high relative to peer countries and ongoing political and security risks weigh on the rating. At the same time, the agency noted the State of Israel enjoys high financing flexibility. It added that Israel has a deep, liquid domestic market supported by the Bank of Israel's $50 billion bond purchase program, healthy access to international capital markets, an active plan to sell Diaspora bonds to Jews abroad, and the U.S. government's guarantee program in the event of market shocks. Other factors in the credit affirmation include the

2 https://www.spglobal.com/ratings/en/research/articles/200511-an-overview-of-sovereign-rating-actions-related-to-COVID-19-11484790

fact that Israel's current account has been in surplus every year since 2003 and weakness in the balance of trade is somewhat mitigated against the high growth in service exports. Foreign exchange reserves reached $126 billion in March 2020. Fitch argues that Israel's status as a net lender in 2019 had fallen slightly to 44 percent of GDP, but remains at a significantly higher level than the median level of the "A" and even "AA" countries.

Accountant General Rony Hizkiyahu stated, *"Affirmation of the rating in an era of unprecedented global crisis reflects the agency's confidence in the Israeli economy and the ability to overcome the consequences of the Coronavirus crisis."*

Agency	Rating	Outlook
S&P	AA-	Stable
Moody's	A1	
Fitch	A+	

Source: Credit Rating Agencies

Global Issuances

In January, Israel successfully completed a $3 billion, dual-tranche, bond issuance. This was the largest issuance Israel had completed up until that point. The investor order book totaled more than $20 billion from institutional investors from more than 40 countries.

Once it was clear the economic impact from COVID-19 as well as Israel's NIS 80 billion stimulus package, to address the economic fallout, would widen the deficit, the Government Debt Management Unit returned to the global debt capital markets. In March, Israel executed its first ever triple-tranche issuance, raising a record $5 billion. In addition to $2 billion 10- and 30-year tranches, yielding 2.75 and 3.875 percent, respectively, the State also issued its longest-ever maturity with a debut $1 billion 100-year tranche, yielding 4.5 percent. Investor demand for the issuance was higher than $25 billion, with more than 400 investors from 40 countries participating in the offering.

Accountant General Rony Hizkiyahu said, *"The 100-year issue is a testament to the country's financial strength and its solidification in international markets. The offering will be an important pillar in financing government activity in the near future."*

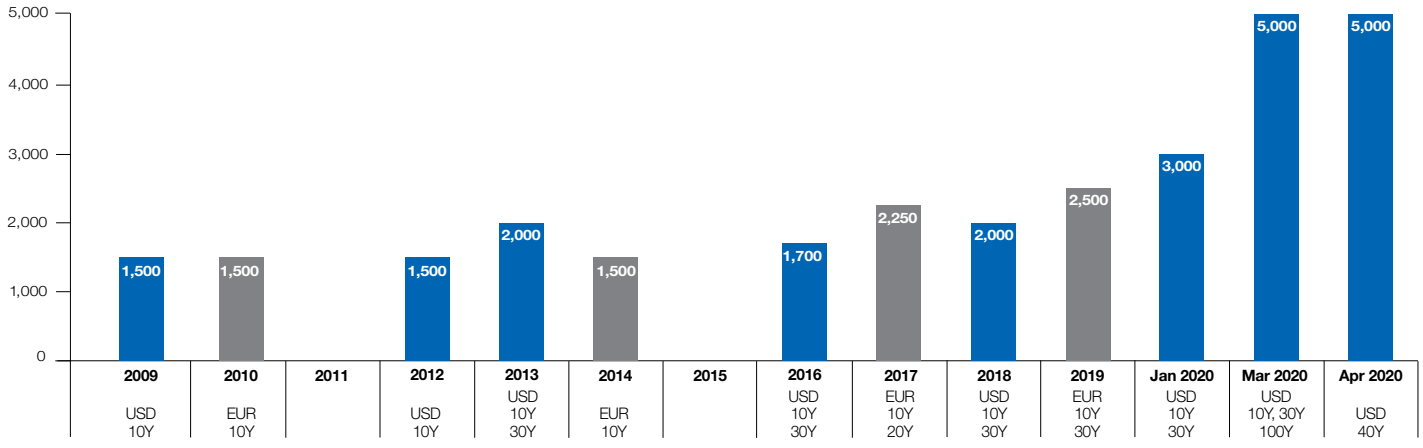
Deputy Accountant General Gil Cohen added, *"The ability to conduct a successful sale during high volatility in the markets reflects Israel's economic strength and its relationship with investors around the world."*

In April, the State of Israel raised another $5 billion and, for the first time, ventured to the Asian markets. The bond, a Formosa 40-year 3.8 percent issuance, was dual-listed on the Taiwan Stock Exchange and London Stock Exchange. While drawing more than 300 high-quality institutional investors from over 30 countries, the offering was aimed primarily at Asian markets, which accounted for the majority of the nearly $11 billion order book demand.

In addition to the large USD-denominated public issuances, the State tapped existing bond issuances, raising an additional €1.65 billion via private placement deals.

Israel's Global Issuances

(Millions, USD in blue; EUR in grey)



Source: Ministry of Finance

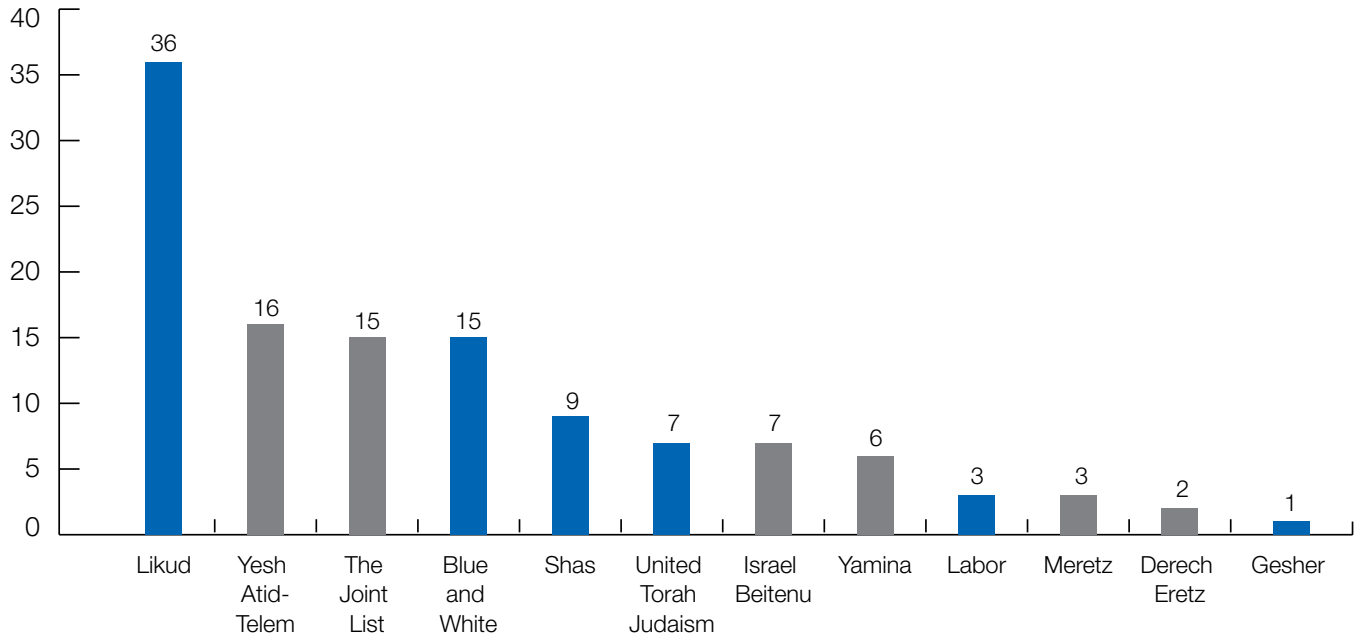
Election

On March 2, 2020, Israel held nationwide parliamentary elections. The results from the election revealed a close race between the Likud Party, chaired by current Prime Minister Benjamin Netanyahu, and the Blue & White Party, chaired by former Chief of the General Staff of the Military Benny Gantz. Following the election, intentions for a national unity government between Likud and Blue & White were announced. On April 20, 2020, Netanyahu and Gantz jointly announced they had reached a formal agreement. Netanyahu will serve as Prime Minster for 18 months (until November 17, 2021) with Gantz serving as Alternate Prime Minister. After this period, the roles will switch. On May 17, 2020, the new government was sworn in. The most pressing item on the new government's agenda is to create a formal budget.

The newly appointed Minister of Finance is Israel Katz. He has served as a minister in ten Knessets. Prior to his appointment as Minister of Finance, he was Israel's Minister of Foreign Affairs, Minister of Transportation (for more than a decade), and Minister of Intelligence. From 2003-2006, he served as Israel's Minister of Agriculture.

Election Results

(Current government coalition in blue; opposition parties in grey)



Yesh Atid-Telem and Derech Eretz were part of an alliance with the Blue and White party. On the day of the publication of the results, March 10, 2020, this alliance had 33 seats. On March 29, 2020, the alliance was dissolved. Meretz and Gesher were part of an alliance with the Labor party. On the day of the publication of the results, March 10, 2020, this alliance had seven seats. However, on March 23, 2020 and April 6, 2020, Gesher and Meretz, respectively, left this alliance.

Source: Government of Israel

Other News

Israeli Medical Tech Companies Pivot, Explore Solutions to Covid-19 Pandemic

Many Israeli companies are actively working on both a vaccine and preventive solutions to the COVID-19 global pandemic. Their expertise ranges from remote monitoring, diagnostics and decision support, protection and prevention, and addressing social and mental health aspects of the virus.

Remote monitoring is a particular area of strength within Israel's digital health ecosystem. The largest group of COVID-19-relevant Israeli companies are providing solutions for the remote monitoring of patients, either those quarantined with confirmed cases or other high-risk populations, such as the elderly. The solutions enable remote monitoring of key vitals, including heart and lung function, and can perform temperature readings.

Other Israeli companies are applying chemical engineering and artificial intelligence expertise to develop physical protection such as masks and anti-viral coating for testing booths. Many research institutes and firms are working on a vaccine using proteins found in human plasma and other known viruses.

— *Forbes*

https://www.forbes.com/sites/startupnationcentral/2020/03/30/israeli-medtech-start-ups-fight-covid19-coronavirus/#52521767ab7c

U.S.- Israeli Fintech Company Raises $102 Million

Pagaya, a U.S.- Israeli fintech firm that uses artificial intelligence (AI) to manage institutional money, raised $102 million in a recent funding round. The company manages more than $1.6 billion of assets for banks, insurance companies, pension funds, asset managers, and sovereign wealth funds using AI.

— *Reuters*

https://www.reuters.com/article/us-tech-pagaya-fundraising/u-s-israeli-fintech-firm-pagaya-raises-102-million-in-funds-idUSKBN23O1AF

Investment in Israeli Financial Tech Firms Doubled in 2019 to a Record $1 Billion

Investments in Israeli financial technology firms rose 107 percent in 2019 to a record $1.8 billion, according to a report by Start-Up Nation Central. Six of the capital rounds raised by Israeli fintech companies in 2019 exceeded $100 million, compared with only one in 2018. These included Lemonade, which raised $300 million, and Next Insurance, which raised $250 million.

Israel ranks fifth in the world for fintech investments after China, the United States, the United Kingdom, and India. It accounts for 5.1 percent of global investments in this field.

— *Reuters*

https://www.reuters.com/article/israel-tech-fundraising-idUSL8N2DT36W

World Economic Forum Selects Six Israeli Companies To Join 2020 Technology Pioneers List

Six Israeli companies have been named to the World Economic Forum's (WEF) 2020 Technology Pioneers list. The list includes 100 selected companies, all of which focus on artificial intelligence, carbon capture, or the construction of smart cities and greener living. Their innovations will help to protect the climate, fight the challenges of COVID-19 and ensure a better future for society.

The six Israeli companies selected by the WEF are 3D Signals (software that uses sensors to track industrial equipment), Aleph Farms (slaughter-free steaks that improve environmental food chain systems), Morphisec (cybersecurity to protect against ransomware and "zero-day" exploits), Optibus (high-tech mobility platform improving mass transportation), Prospera (agriculture technology to optimize farm production), and Seebo (cloud-based software that adds physical machinery into the Internet of Things).

— *C TECH*

lhttps://www.calcalistech.com/ctech/articles/0,7340,L-3834815,00.html

Other News

Microsoft Acquires CyberX, Israeli Cybersecurity Start-Up for $165 Million

Microsoft announced that it is acquiring CyberX, an Israeli cybersecurity start-up that focuses on detecting, stopping, and predicting security breaches on the Internet of Things (IoT) networks. The deal is worth a reported $165 million.

"By joining forces with Microsoft, we will rapidly scale our business and technology to securely enable digital transformation for many more organizations," noted Nir Giller, co-founder GM International and CTO of CyberX. "Together, CyberX and Microsoft provide an unbeatable solution for gaining visibility and a holistic understanding of risk for all IoT and OT (operational technology) in your enterprise."

Microsoft has been a prolific investor and acquirer in Israel, and recent cybersecurity-specific M&A have included purchasing Aorato, Adallom, Secure Island and Hexadite.

— *Globes*

https://en.globes.co.il/en/article-microsoft-confirms-acquisition-of-israeli-iot-security-co-cyberx-1001333249

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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