GOVERNMENT OF ISRAEL MINISTRY OF FINANCE
OFFICE OF THE ACCOUNTANT GENERAL

Investor Newsletter

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Macroeconomic

2021 was a strong bounce-back year for Israel's economy. Nearly all advanced economies experienced pandemic-induced contractions in 2020 and recoveries in 2021. However, Israel's experience is noteworthy in that it took less of a hit than many others and rebounded stronger than most. This successful navigation of the pandemic reflects the state's resilience in both the private and public sectors.

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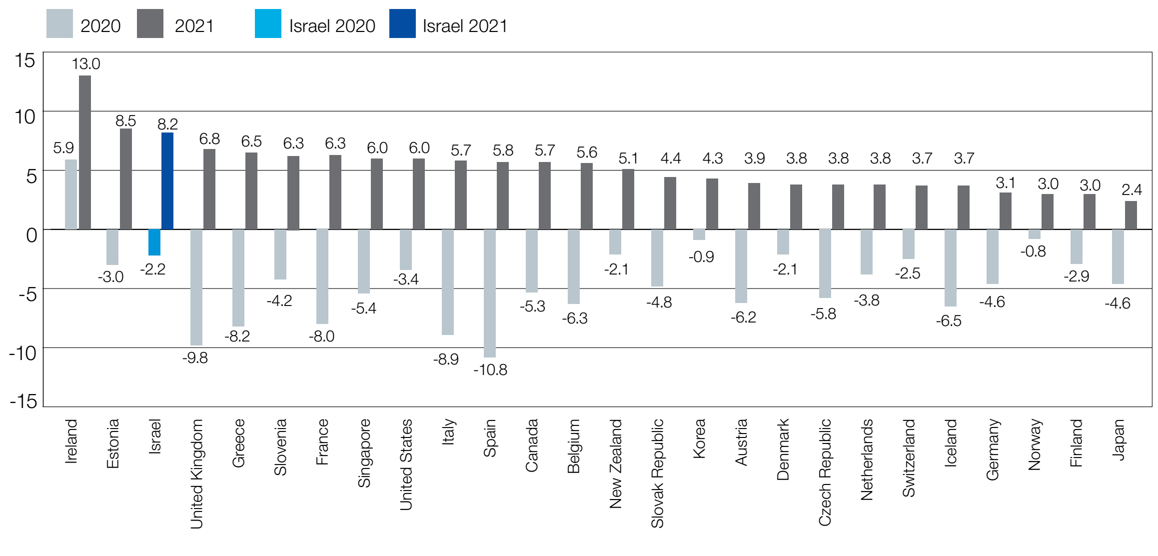
Annual GDP Growth, International Comparison, Selected Countries, 2020 and 2021



Source: Ministry of Finance; IMF Database

After contracting 2.2 percent in 2020, Israel's gross domestic product (GDP) grew 8.2 percent in 2021, driven by a robust high-tech sector. The year ended positively with 17.6 percent fourth quarter growth, relative to the same quarter in 2020, which was higher than most public forecasts.

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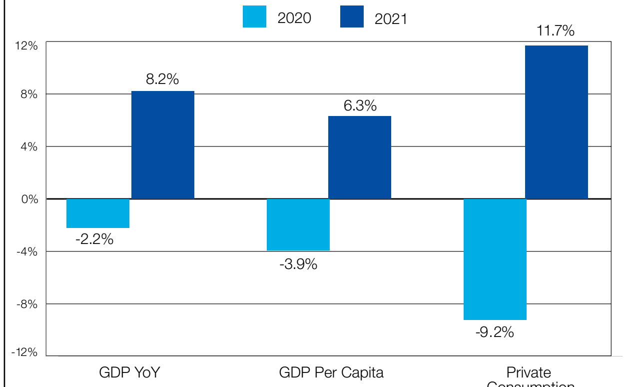
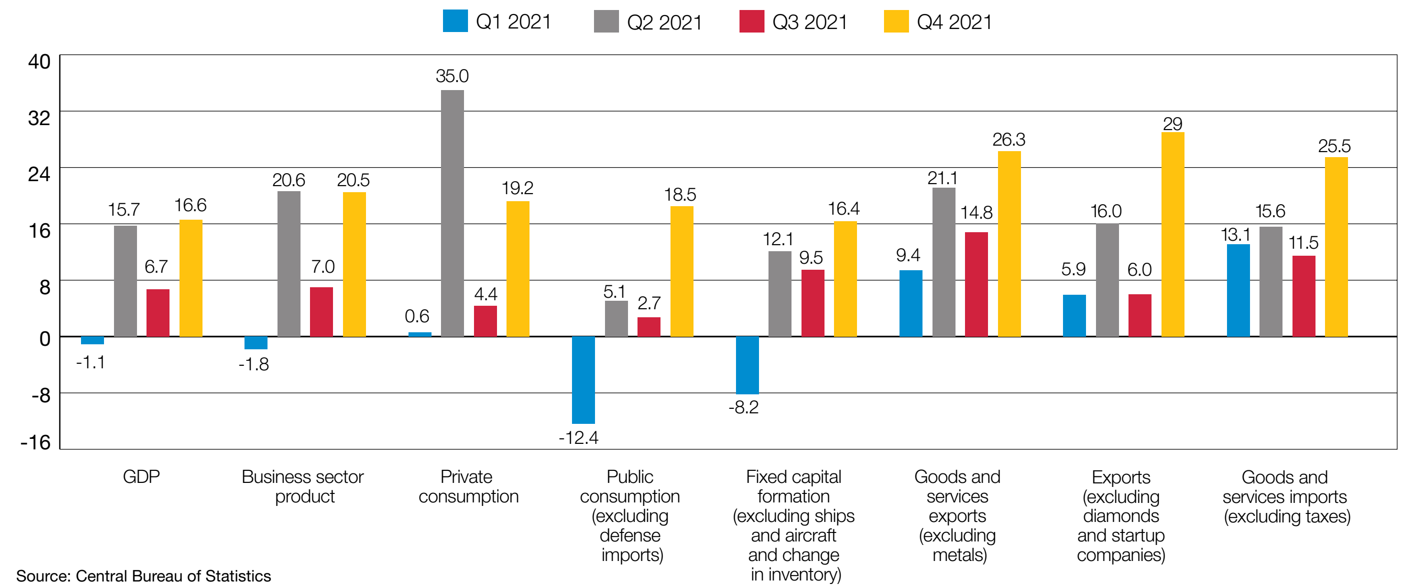
Israel's GDP Bounces Back



Source: Central Bureau of Statistics

Macroeconomic (continued)

Quarter-By-Quarter GDP Component Growth



Source: Central Bureau of Statistics

The economy was able to expand at such a strong clip, in part, because of its high-tech dynamism, vigorous service exports, low reliance on tourism – as well as the government's adroit policy adjustments. While restrictions on international tourism tightened, limitations on domestic business became less harsh as the year proceeded, allowing the economy to flourish. Businesses also learned how to better adapt to the pandemic, while furloughed workers remained solvent, supported by government programs. At the same time, the high-tech sector continued to be exceptionally attractive as more than USD 23 billion of investments in Israeli companies – a record – were made in 2021; this is more than double the previous record of USD 9.1 billion set in 2020. *(continued)*

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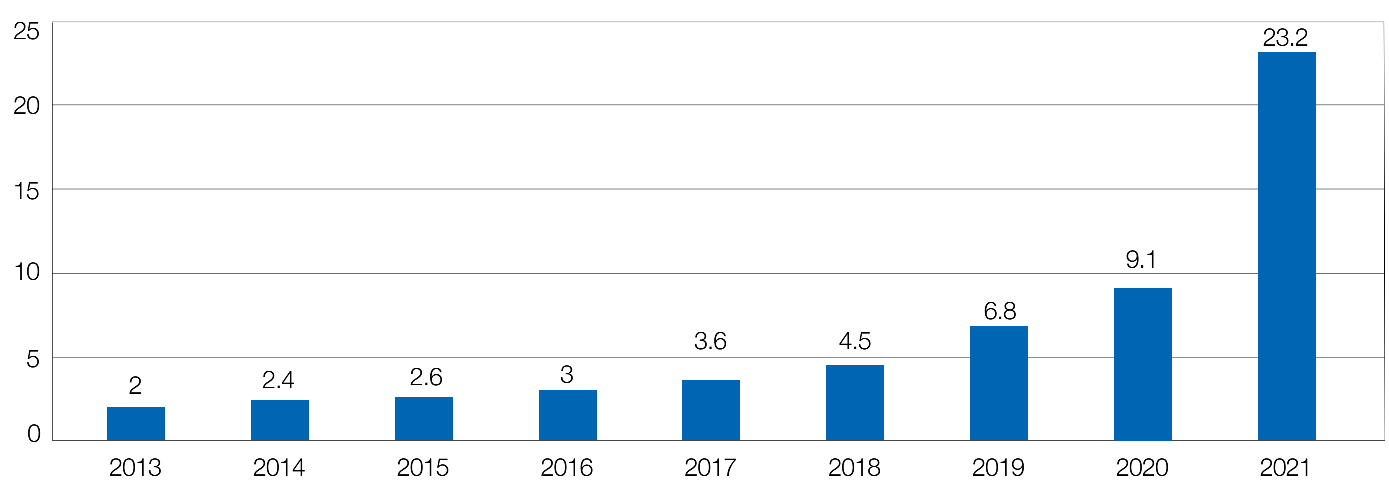
Venture Capital Investments in Israeli High-Tech Companies, USD Billions



Source: IVC

Macroeconomic (continued)

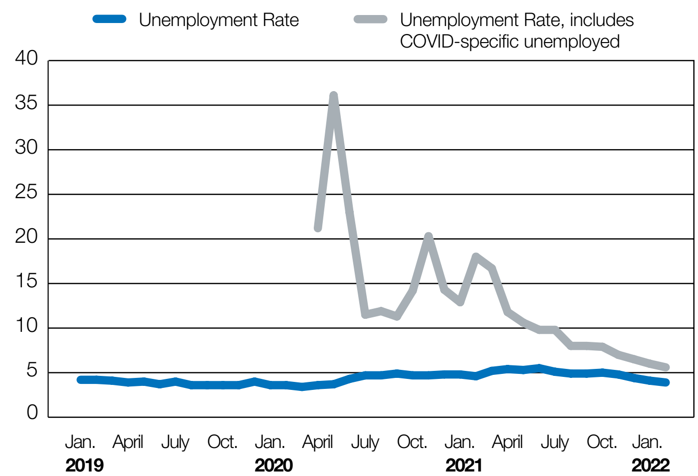
The labor market in Israel likewise improved in 2021. As of the end of January 2022, the state's unemployment rate fell to 3.7 percent, returning to the same level of March 2019. A broader measure of the unemployment rate that includes those temporarily absent from work, for reasons related to the pandemic, fell to 5.6 percent in January 2022, from 6 percent at the end of 2021 and a low of 36.1 percent in April 2020.

As the economy improved so did the government's fiscal situation. In 2021, Israel's budget deficit fell to 4.4 percent of GDP, below the deficit target of 6.8 percent. This was also a significant improvement from 11.4 percent of GDP in 2020. The key reason for the substantial drop was an enormous boost of tax revenues, up roughly 30 percent year-over-year from 2020. The large revenues, stemming from capital gains, income taxes, and value-added-taxes, coincided with reduced pandemic spending by the government. The budget deficit in 2019, prior to the pandemic, was 3.7 percent of GDP.

Deficit reduction has carried over into early 2022 as well. In February, Israel ended the month with an NIS 4 billion budget surplus, a stark contrast to February 2021's NIS 11 billion deficit. For the 12 months ending February 2022, Israel's fiscal deficit fell to 2.2 percent of GDP.

In addition to deficit figures, an improved economy also positively impacted Israel's overall debt-to-GDP ratio. The state has long remained diligent in its policy of reducing this ratio, lowering debt-to-GDP almost every year since 2003, reaching a low of 59.5 percent in 2019.

Unemployment Rate



Source: Central Bureau of Statistics

As with many countries during the pandemic, the ratio rose in 2020, to 71.7 percent of GDP. Despite this sudden uptick, Israel has already begun returning to its fiscally-prudent long-term trend of reducing debt-to-GDP. In 2021, the ratio once-again fell, to 69 percent of GDP.

Additionally, Israel's central government debt-to-GDP (which excludes municipalities) fell to 67.2 percent of GDP, from 70.2 percent in 2020.

Israel's credit ratings have remained steady at AA-/stable (S&P Global Ratings), A1/stable (Moody's Investor Services), and A+/stable (Fitch Ratings). The latter rating was affirmed by Fitch Ratings in February 2022.

Sovereign Eurobond Issuance

On January 11, 2022, the State of Israel successfully raised from the international markets EUR 1.5 billion via a 10-year bond, with a coupon of 0.625 percent and yield of 0.69 percent. At 30 basis points above the mid-swap benchmark, the issuance represents the state's lowest-ever cost-of-funding for an international public issuance. The transaction included demand from a diverse group of high-quality investors, reflecting confidence in Israel's credit and economy. The euro-denominated issuance was executed in accordance with the long-term objectives of the Government Debt Management Unit, which include maintaining a presence in the global markets and diversifying its investor base.

The issuance was led by the Ministry of Finance's Accountant General, Mr. Yali Rothenberg, Senior Deputy Accountant General, Mr. Gil Cohen, and members of the Government Debt Management Unit. Underwriters on the deal were Barclays, Citibank, Goldman Sachs international and JP Morgan.

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Regarding the issuance, the Accountant General remarked, *"Israel once again has demonstrated it can access the international markets at attractive rates. We will continue to act with fiscal responsibility, while also promoting growth engines, in order to preserve Israel's economy as one of the most advanced in the world."*

(continued)

Sovereign Eurobond Issuance (continued)

The Senior Deputy Accountant General added, *"The demand for this issuance, leading to historically-low borrowing costs and executed during a time of global uncertainty, signifies Israel's place among high-quality issuers. This successful issuance is an important part of our long-term debt management strategy."*

The bond, which was priced below its equivalent point on the domestic curve, marked Israel's return to the European debt capital markets after a three-year absence.

The state maintains a liquidity buffer following large sovereign issuances in 2020; and lower-than-expected fiscal deficits in both 2020 and 2021. These excess funds reduce the need to raise sizable additional capital abroad.

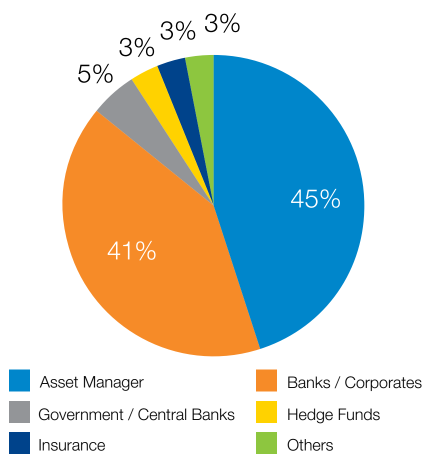
Designated Bond Reform

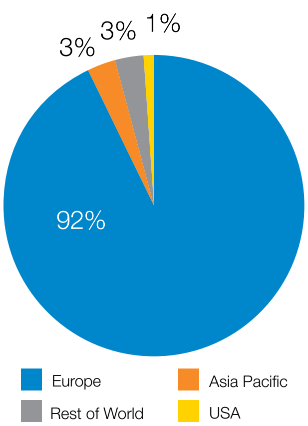
While global bonds, issued in foreign currency, remains an important funding tool for the Ministry of Finance, approximately 85 percent of the government's debt is held in local currency. Roughly 29 percent of the total debt stock is held in non-tradable, shekel-denominated "designated bonds." These bonds are issued to pension funds, who, by law, are required to hold 30 percent of their portfolios in these special instruments. Because of this holding requirement, the pro-cyclical nature of these bonds translates to an uncertain fundraising tool for the government.

Further, the bonds, which carry a 15-year maturity and 4.86 percent coupon, CPI-linked, also carry a high expense for the government. A new reform switches this pension-support mechanism to a guarantee-scheme, effectively ending the designated bonds program.

The final designated-bonds will be issued in September 2022. The designated bond reform will drastically reduce government interest payments and ensures that the Government Debt Management Unit will be able to control nearly 100 percent of debt issued. As tens of billions of shekels annually will no longer be raised via designated bonds, those funds will be free to be raised through cheaper instruments such as tradable domestic bonds and/or global sovereign bonds – like the successful January 2022 issuance.

January 2022 Eurobond Issuance





Source: Ministry of Finance

Monetary Policy

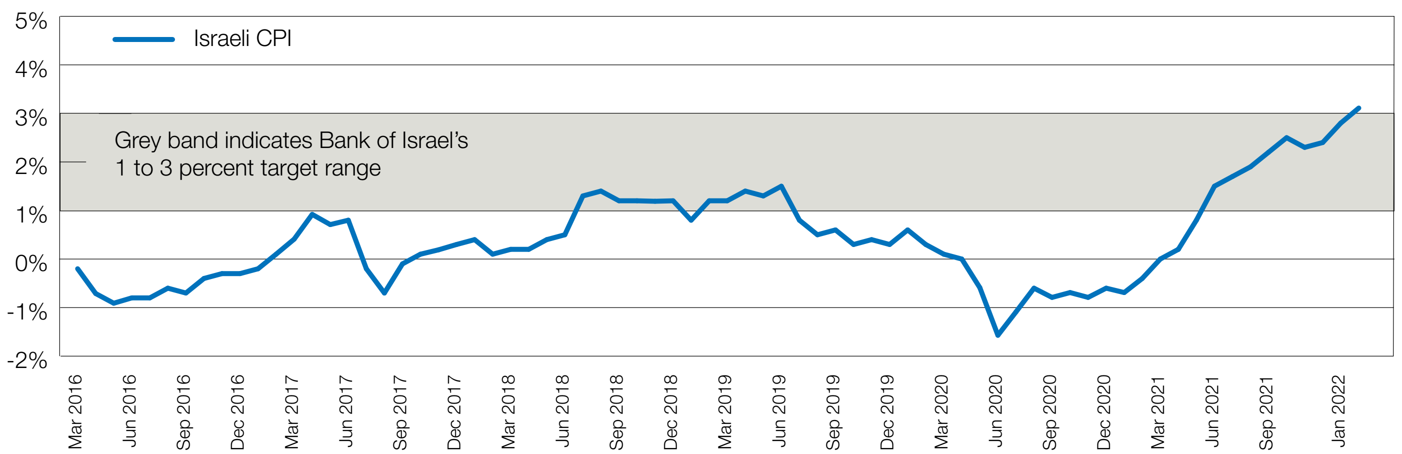
On February 21, 2022, the Bank of Israel decided to keep its key interest rate unchanged at 0.1 percent. In its press release, the Bank noted Israel's economic activity remains high, however the risks of COVID-19 and further morbidity cycles remain. The Bank states that for the first time since the start of the pandemic, the GDP level rose above the pre-pandemic trendline. Inflation in Israel, as measured by the domestic consumer price index (CPI), stands at 3.1 percent over the past 12 months, slightly above the central bank's target range of 1 to 3 percent.

(continued)

Monetary Policy (continued)

In its decision, the Bank noted:
The Israeli economy recorded high growth alongside the COVID-19 virus, and various indicators point to continued strong activity. The Committee's assessment therefore is that in the coming months, conditions will allow for the start of a gradual process of raising the interest rate in line with the path of inflation and the pace of growth and employment, in order to continue supporting the achievement of the monetary policy goals and to ensure the continued proper functioning of the financial markets.

Israeli CPI YoY, Percent



Source: Bank of Israel

Reducing Cost of Living

On February 9, 2022, Israel's Prime Minister, Finance Minister, and Economic Minister introduced an NIS 4.4 billion (~USD 1.4 billion) plan to reduce the cost of living in Israel. The plan was approved by the government on February 20, 2022.

Israel's Minister of Finance Avigdor Lieberman noted, *"These are complex, long-term processes. At the same time, we are not giving up on the issue, and continue to take responsibility, even today. We have formulated important steps that will encourage employment, increase income and reduce the cost of living – this time, using a revolutionary model in which we focus on citizens who work and pay taxes."*

The plan seeks to reduce Israel's high cost of living in several ways. These include tax advantages for young working families; increasing subsidies for after-school care for children in middle-class families; increasing work grants for low-wage workers; abolishing excise tax on coal; reducing food product customs duties, and eliminating customs duties on various consumer products, industrial products, and raw construction materials.

News in Brief

Shift4 Pays USD 575 Million for Israeli Fintech Company Finaro

Israeli fintech startup Finaro, a global payment provider enabling international commerce through simple payments solutions, has been acquired by leading integrated payments and commerce company, Shift4, for USD 575 million.

Finaro is considered one of the leading clearing technology providers in the ecommerce sector in Europe and operates as a licensed clearing gateway for Visa and Mastercard. In addition to clearing, Finareo provides other financial services such as managing cross-border risks, managing foreign currency, digital wallets and cryptocurrency, as well as business intelligence.

According to a company spokesman, Finaro will provide the global infrastructure and cutting edge technology needed to drive Shift4's international ambitions to deliver a unified commerce experience.

— CTECH

https://www.calcalistech.com/ctechnews/article/ry8tvrjeq\

Israel and Morocco Target USD 500 Million in Annual Trade

Israel and Morocco Ministers of Trade met in Morocco in February to sign a new trade and economic development agreement between the two countries, in the hope of expanding annual bilateral trade, currently at USD 131 million, to USD 500 million within five years.

According to the Israel Foreign Trade Administration, the agreement aims to facilitate trade in the aerospace, automotive, agri-food, textile and pharmaceutical industries.

— Globes

https://en.globes.co.il/en/article-israel-and-morocco-target-500m-annual-trade-1001403088

Israel to Export Natural Gas to Egypt Via Jordan

Israel's Ministry of National Infrastructures, Energy and Water Resources has approved the start of natural gas exports to Egypt via Jordan. This is a new export route, approved following growing demand for Israeli natural gas in Egypt. The new route will reportedly increase gas exports to Egypt by more than 50 percent.

The Ministry of National Infrastructures, Energy and Water Resources said that beyond the economic benefits, natural gas exports to the region enhance geopolitical relations between Israel and neighboring countries, strengthen energy security of the countries in the region, and lead to a cleaner economy in the Eastern Mediterranean.

— Globes

https://en.globes.co.il/en/article-israel-to-begin-exporting-gas-to-egypt-via-jordan-1001402590

Israel Innovation Authority Announces Winners of Tech Incubator Program

The Israel Innovation Authority announced the winners of five new technology incubators that will support early stage entrepreneurs. With a budget of USD 155 million, the technology incubators will be set up and operated by venture capitalists and local and international companies.

In a competitive process, in which 13 groups took part, the Authority selected five groups to operate the incubators within a year. The winning groups include global corporations such as Bristol Myers Squibb, Becton Dickinson, Kyocera, Corning, CBG group, Eren Industries, and more.

The goal of the new technology incubators is to promote investment in the early stages of technological projects by creating a support and assistance infrastructure that will enable turning innovative technological ideas, in their initial stages, into advanced startup companies that will be able to raise additional funding. Furthermore, they are intended to promote technological entrepreneurship and the commercialization and transfer of disruptive and innovative technologies from academia to industry in areas that are both complex and pose high risk.

— CTECH

https://www.calcalistech.com/ctechnews/article/ryzd4hfx9

News in Brief *(continued)*

Google Buys Israeli Cybersecurity Startup for USD 500 Million

Google is buying the Israeli cybersecurity startup Siemplify for a reported USD 500 million, as part of its commitment to President Biden to invest USD 10 billion in cybersecurity over the next five years. Siemplify employs 200 people in Israel, the U.S., and London. The company will join Google following the acquisition and, as part of the tech giant's cloud activity, Google will use Siemplify to form the basis for its cybersecurity operations in Israel. Siemplify's co-founders remain at the company.

Google's largest acquisition in Israel was the USD 1.1 billion deal for Waze in 2016. In 2019, Google Cloud bought Israeli companies Elastifile for USD 200 million and Aluma for USD 100 million.

— CTECH

https://www.calcalistech.com/ctech/articles/0,7340,L-3926412,00.html

LinkedIn Acquires Israeli Startup for a Reported USD 80-90 Million

LinkedIn, the social network that connects people in their professional fields, has announced that it has acquired Oribi, a Tel Aviv Startup that specializes in marketing attribution technology. The deal, which is reportedly valued in the range of USD 80 to 90 million, will enable LinkedIn to invest more heavily in its marketing and advertising services.

According to sources at LinkedIn, several members of the Oribi team, including founder and veteran entrepreneur, Iris Shoor, "are expected to join LinkedIn and work out of a new Tel Aviv office."

— Tech Crunch

https://techcrunch.com/2022/02/28/linkedin-acquires-israeli-web-analytics-startup-oribi-to-expand-its-marketing-technology/

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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