

\$250,000,000
SEVENTH DEVELOPMENT ISSUE
STATE OF ISRAEL

The following types of Bonds are now being offered in the aggregate principal amount of \$250,000,000:

(a) Interest-Bearing Bonds, denominated Seventh Development Issue—Fifteen Year 4% Dollar Current Income Bonds (the "Current Income Bonds"). A Current Income Bond will become due 15 years from its Issue Date, and will bear interest from its Issue Date at the rate of 4% per annum, payable annually on May 1 of each year and upon maturity. The Issue Date of a Current Income Bond will be the first day of the month in which the subscription for such Bond is completed and accepted by the Fiscal Agent. Current Income Bonds will be offered at par in denominations of \$500 and integral multiples of \$500.

(b) Dollar Savings Bonds, denominated Seventh Development Issue—Fifteen Year Dollar Registered Savings Bonds (the "Registered Savings Bonds" and, together with the Current Income Bonds, the "Registered Bonds"). Each Registered Savings Bond shall be in the form of an appreciation Bond and shall bear an Issue Date as of the first day of the month in which the subscription for such Registered Savings Bond is accepted by the Fiscal Agent. Each Registered Savings Bond shall become due 15 years from its Issue Date and shall have a Maturity Value equal to 180% of its Issue Amount. The "Issue Amount" for any Registered Savings Bond shall be the denomination in which any such Registered Savings Bond is issued. Registered Savings Bonds may be offered in denominations of \$500 and integral multiples of \$500.

Registered Bonds in the denominations of \$750 and \$1,250 will be offered only to holders of such Coupon Bonds of the Sixth Development Issue in the principal amounts of \$500 and \$1,000, respectively, as are from time to time authorized by the State to be accepted for reinvestment prior to maturity.

This offering may have a special appeal to persons having an interest in the State of Israel rather than the general public. The State of Israel has an issue of Bonds outstanding which are marketable by their terms and which may, on any given day, provide greater yield to maturity than the Bonds being offered hereby.

The Bonds are non-transferable and non-assignable until June 1, 2001, except in special instances. See "Limited Transferability."

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

Per Unit	Price to Public (1)	100%	Underwriting Commissions (2)	7%	Proceeds to Government (2)	93%
Aggregate Total (3)	\$250,000,000		\$17,500,000		\$232,500,000	

(1) Bonds may be purchased either with U.S. Dollars or by delivery of those State of Israel Bonds designated from time to time by the Minister of Finance of the State of Israel.

(2) The Bonds are being offered on a best efforts basis, and the proceeds will depend upon the total number of Bonds sold, the cost and expenses of preparing, printing, mailing and the final determination as to the underwriting commission, set at a maximum of 7%. See "Summary of Underwriting Agreement."

(3) The aggregate total of Bonds is subject to reduction to the extent of sales of other bonds that are included within the Seventh Development Issue but that are not being offered by this Prospectus. See "Description of the Bonds."

DEVELOPMENT CORPORATION FOR ISRAEL
575 LEXINGTON AVENUE, NEW YORK, NEW YORK 10022-6195

THE OFFERING

Description of the Bonds. The State of Israel (the "State" or "Israel") is offering Seventh Development Issue—Fifteen Year 4% Dollar Current Income Bonds (the "Current Income Bonds") and Seventh Development Issue—Fifteen Year Dollar Registered Savings Bonds (the "Registered Savings Bonds" and, together with the Current Income Bonds, the "Registered Bonds") pursuant to the terms and conditions of an agreement between the State and The Chase Manhattan Bank, N.A. (the "Fiscal Agent") (the "Fiscal Agency Agreement").

Each Current Income Bond will bear interest from its Issue Date at the rate of 4% per annum, payable annually on May 1 of each year to the registered owner thereof as of the fifteenth day prior thereto, and upon maturity. A Current Income Bond will become due fifteen years from its Issue Date. The Issue Date of a Current Income Bond will be the first day of the month in which the subscription for such Bond is completed and accepted. The principal and interest of all Current Income Bonds are payable in United States currency at the principal office of the Fiscal Agent and such other agencies as may be designated by the State, provided, however, that at the option of the State such amounts will be payable directly by check to the owners of the Current Income Bonds.

Each Registered Savings Bond shall be in the form of an appreciation Bond and shall bear an Issue Date as of the first day of the month in which the subscription for such Registered Savings Bond is accepted. Each Registered Savings Bond shall become due 15 years from its Issue Date and shall have a Maturity Value equal to 180% of its Issue Amount.

In addition to the Registered Bonds, the State may offer, pursuant to the Fiscal Agency Agreement, Seventh Development Issue—Fifteen Year Dollar International Savings Bonds (the "International Savings Bonds", and, together with the Registered Bonds, the "Bonds"), provided that the International Savings Bonds may not be offered to any "United States Person" as that term is defined in the Internal Revenue Code. The aggregate principal amount of Registered Bonds and International Savings Bonds (collectively, the "Seventh Development Issue Bonds") that may be offered by the State pursuant to the Fiscal Agency Agreement is \$250,000,000.

Limited Transferability. Until June 1, 2001, the Bonds are non-transferable and non-assignable, except insofar as they are subject to the terms and conditions of the Fiscal Agency Agreement, the Registered Bonds shall be transferable to the State; the Development Corporation for Israel; any religious, charitable, literary, scientific or educational organization exempt from income or similar tax under the Internal Revenue Code, or under the laws of the country in which the organization is located; the owner's spouse, children, grandchildren, siblings, parents or grandparents; or upon the death of the owner, to the person or persons entitled thereto in accordance with the owner's testamentary disposition and/or the applicable laws of descent and distribution. In accordance with the terms and conditions of the Fiscal Agency Agreement, the State may, by Order or Direction of the State, provide for the further transferability and assignability of the Bonds. After June 1, 2001 each Bond shall be fully transferable. However, in no event may the International Savings Bonds be transferred to any United States person.

There has developed a limited market in the bonds of prior issues, which market developed during the period of non-transferability of such bonds and after they became transferable. During the quarter ended March 1, 1996, the Reconstruction and Development Issue Bonds, Sixth Development Issue and Seventh Development Issue Bonds which were more than two years old traded in the range between 90 to 94 bid and 95 to 98 asked, or such bonds which were less than two years old, the trading range was between 85 to 92 bid and 90 to 95 asked during such period.

Repurchase and Redemption. Upon the giving of 120 days' notice and presentation of the Bond and accompanying transfer documents, the State will repurchase any Bond, in United States currency, at a corporate trust office of the Fiscal Agent, upon the death of any person who was the original owner of the Bond, or, in the event there is more than one original owner of the Bond, upon the death of the last surviving original registered owner. If the original owner of a Bond is a corporation or other non-individual entity, the State will repurchase the Bond, upon the same terms and conditions, upon the death of an individual designated in writing at the time of subscription as the individual upon whose death the State shall be required to repurchase such Bond. The State may suspend or terminate its obligation to purchase upon death if, in the opinion of the State, a material number of holders of Bonds shall have died as a result of war, epidemic, catastrophe of nature or other disaster. Upon surrender of the Bond and accompanying transfer documents, the State will repurchase any Bond, in currency of the State at the then prevailing rate of exchange, at the office of the Bank of Israel within the State or at such other place within the State as the State may designate, for the purpose of applying the purchase price; (a) to the payment of bona fide tourist expenses, provided that such Bond is presented by the holder thereof and such holder may not present, for such purpose, Bonds of this issue and bonds of any other issue exceeding \$2,500, or such other limit as may be imposed by the Minister of Finance, in any one-month period, and further provided that such Bond bears an Issue Date not more recent than 12 months prior to the date of repurchase by the State; (b) to contributions to any fund, institution or charity which are deductible for income tax purposes in the State and which may from time to time be designated for such purpose by the Minister of Finance of the State, upon such terms and conditions (including the payment of a process or transfer fee) as the Minister of Finance may from time to time prescribe, provided that the State receives not less than 120 days' written notice of the demand for such repurchase, and further provided that such Bond bears an Issue Date not more recent than 36 months prior to the date of repurchase by the State; (c) to investments in such projects or enterprises as may be approved from time to time by the State, provided that such Bond bears an Issue Date not more recent than 60 months prior to the date of repurchase by the State; and (d) to any other purpose as the State may from time to time designate. Notwithstanding the foregoing, the State may limit, restrict or prohibit the surrender of any Bond or utilization of its purchase price by citizens of the State or by persons residing in or ordinarily residents of the State. The repurchase price of any Current Income Bond shall be the principal amount thereof (which shall include the face amount of the Bond, together with interest thereon to the last day of the month preceding the month in which the repurchase is made). The repurchase price of any Registered Savings Bond shall be the then appreciated principal amount of such Bond. The amount received upon repurchase in excess of the amount paid to the State for a Registered Savings Bond may be less than the appreciation previously recognized for United States federal tax purposes. See "Tax Matters."

The Bonds are subject to redemption at any time or from time to time at the option of the State in accordance with their terms and the terms of the Fiscal Agency Agreement at a price equal to the principal amount thereof. No general redemption has ever been made on a prior issue.

Tax Matters. Interest on the Current Income Bonds is taxable at ordinary income rates in the year in which the taxpayer receives or is entitled to receive such interest (in accordance with the holder's method of accounting for tax purposes).

Since the Registered Savings Bond will be issued with original issue discount ("OID"), each holder of such Bond will be required to include in his gross income for federal income tax purposes for each year that he owns the Registered Savings Bond a portion of the OID with respect to that Bond, even though he has not received any cash payments on the Bond. The aggregate amount of OID on each such Bond will be the excess of the payment due on the maturity date over the issue price. The State will cause annual information statements to be provided to holders and the Internal Revenue Service stating the amount of OID attributable to such Bonds for that year.

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement to this Prospectus, the net proceeds to the State from the sale of Bonds will be used for general State purposes. No part of the net proceeds received from this Bonds issue is specifically allocated to any particular project, and no part of the assets or receipts of any projects is earmarked for payment of the Bonds obligations.

SUMMARY OF UNDERWRITING AGREEMENT

Development Corporation for Israel (the "Financial Corporation"), 575 Lexington Avenue, New York, New York 10022-6195, is the sole and exclusive underwriter of the Bonds in the United States under an underwriting agreement, dated as of June 3, 1996, pursuant to which it agrees to use its best efforts to sell the Bonds, and is to receive a commission at a rate to be determined from time to time by the State and the Financial Corporation, but not to exceed 7%. Commissions and concessions to any brokers or dealers assisting in the sale of the Bonds are borne by Financial Corporation. Since this offering is on a best efforts basis, there is no assurance that all Bonds will be sold. The State is to pay all charges, expenses and fees in connection with the issuance of the Bonds, the registration thereof under the Securities Act of 1933 and under state securities statutes, the preparation, printing, publication and distribution of prospectuses, newspaper prospectuses, advertising, literature, collection of subscriptions, public presentations and official visits of State representatives, all taxes and stamps required in connection with the sale of the Bonds, all sums payable to the Fiscal Agent and all allocable payments to be made to employees' pension funds of the Financial Corporation.

LEGALITY OF THE ISSUE

The legality of the issue has been passed upon, on behalf of the State, by the Legal Advisor to the Ministry of Finance of the State of Israel, Jerusalem, Israel, and, on behalf of the Financial Corporation, by Baer Marks & Upham LLP, New York, New York. On all questions relating to the laws of Israel, said firm has relied upon the opinion of the Legal Advisor of the Ministry of Finance of the State of Israel.

DEBT RECORD

The State of Israel has never defaulted on the payment of principal or interest on any of its internal or external indebtedness.

JURISDICTION; CONSENT TO SERVICE AND ENFORCEABILITY

The State of Israel is a foreign sovereign government. Consequently, it may be difficult for investors to realize upon judgements of courts in the United States against Israel, Israel will irrevocably agree not to assert any defense based on immunity, including foreign sovereign immunity, from jurisdictions to which it might otherwise be entitled in any action arising out of or based on the Bonds which may be instituted by the holder of any Bonds in any state or federal court in the City of New York or in any competent court in Israel. Israel has appointed the Chief Fiscal Officer—Western Hemisphere of the Ministry of Finance of the State of Israel, 800 Second Avenue, New York, New York 10017, as its authorized agent upon whom process may be served in any

Gain or loss on the sale of the Bonds, when transfers are permitted, are generally taxable at capital gain rates to the same extent as on the sale of any other security.

Generally, interest earned on the Bonds and gain on the sale of the Bonds by an entity which is tax exempt under Internal Revenue Code Section 501(a) will not be subject to Federal income tax. Applicable withholding and reporting will be made with respect to the Bonds.

Fiscal Agent. The name and principal office of the Fiscal Agent is The Chase Manhattan Bank, N.A., Four Chase Metrotech Center, Brooklyn, New York 11245 (Attention: Corporate Trust Administration Division). Its telephone number is (718) 242-7284.

The foregoing description of the terms of the Bonds is qualified by reference to the full terms of such Bonds and to the Fiscal Agency Agreement, the forms of which have been filed as exhibits with the Securities and Exchange Commission (the "Commission").

AVAILABLE INFORMATION

The State of Israel, although not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), has filed an Annual Report on Form 18-K with the Commission on a voluntary basis. Such Annual Report includes certain financial, statistical and other information concerning the State. The State may also include exhibits to its Annual Report on Form 18-K and file amendments on Form 18-K/A thereto, for the purpose of filing with the Commission information that has not been included in the registration statement to which this Prospectus and any related Prospectus Supplement relate, which information would thereby be incorporated by reference into such registration statement. Such Annual Report, including such exhibits and amendments thereto, can be inspected and copied at the public reference facilities maintained by the Commission at: Judiciary Plaza, 450 Fifth Street, N.W., Washington, D.C. 20549; Northwestern Atrium Center, 300 West Madison Street, Suite 1400, Chicago, Illinois, 60661-2511; and Seven World Trade Center, Suite 1300, New York, New York, 10048. Copies of such reports may be obtained at prescribed rates from the Public Reference Section of the Commission at its Washington address.

INCORPORATION OF DOCUMENTS BY REFERENCE

The Annual Report on Form 18-K of the State of Israel for the fiscal year ended December 31, 1994 and all amendments on Form 18-K/A thereto filed on or prior to the date hereof, are incorporated by reference in this prospectus as of their respective dates.

All reports and amendments thereto filed with the Commission by the State pursuant to Sections 13(a) and 3(c) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the date of filing such documents. Any statement contained in a document, all or a portion of which is incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statements. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any person receiving a copy of this Prospectus may obtain, without charge, upon written or oral request, a copy of any of the documents incorporated by reference herein. Written requests for such documents should be directed to Development Corporation For Israel, 575 Lexington Avenue, New York, New York 10022-6195, Attention: National Field Department. Telephone requests may be directed to Development Corporation For Israel, National Field Department at (212) 644-2663.

r based upon the Bonds which may be instituted in any state or federal court in the City of
er of any Bonds. Such appointment shall be irrevocable until all amounts in respect of the
any, and interest, if any, due or to become due on or in respect of the Bonds have been
that, if for any reason, the authorized agent ceases to be able to act as such authorized
an address in New York. Israel will appoint another person in New York as its authorized
al Officer—Western Hemisphere is not the agent for service for actions under the United
s laws or state securities laws and Israel's waiver of immunity does not extend to such
l has not waived its sovereign immunity in connection with any action arising out of or
s federal or state securities laws, it will not be possible to obtain a United States judgment
n such laws unless a court were to determine that Israel is not entitled under the Foreign
Act of 1976 to sovereign immunity with respect to such actions. Under the laws of Israel,
nune from any form of execution.