

**\$50,000,000**

**STATE OF ISRAEL CERTIFICATES**  
**STATE OF ISRAEL**

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*The following type of Certificate is now being offered in the aggregate principal amount of \$50,000,000:*

**Registered, non-interest bearing, State of Israel Certificates offered in the principal amount of \$250. Certificates will be dated as of the first day of the month in which a subscription is accepted by the State of Israel (the "Issue Date"). Certificates may be redeemed in Israel in Israeli currency for bona fide tourist expenses at any time 12 months after the Issue Date for \$260 from the first anniversary of the Issue Date through the day immediately preceding the second anniversary of the Issue Date, \$275 from the second anniversary of the Issue Date through the day immediately preceding the third anniversary of the Issue Date, \$295 from the third anniversary of the Issue Date through the day immediately preceding the fourth anniversary of the Issue Date, \$320 from the fourth anniversary of the Issue Date through the day immediately preceding the fifth anniversary of the Issue Date and \$360 from and after the fifth anniversary of the Issue Date. Commencing 60 months after the Issue Date, Certificates may be redeemed in the United States for the principal amount thereof.**

**This offering may have a special appeal to persons with an interest in Israel rather than the general public.**

**THE CERTIFICATES ARE NON-TRANSFERABLE AND NON-ASSIGNABLE,  
EXCEPT IN CERTAIN SPECIAL INSTANCES.**

**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.**

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	<u>Price to Public</u>	<u>Underwriting Discounts or Commissions*</u>	<u>Proceeds to Government</u>
Per Unit . . . . .	100%	6%*	94%*
Aggregate Total . . . . .	\$50,000,000	\$3,000,000*	\$47,000,000*

\*The Certificates are being offered on a best efforts basis, and the proceeds will depend upon the total number of Certificates sold, the cost of flotation, estimated at \$100,000, and the final determination as to the underwriting discount set at a maximum of 6%. See "Summary of Underwriting Agreement." As of June 30, 1989, \$28,797,930 of the Certificates had been sold.

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**DEVELOPMENT CORPORATION FOR ISRAEL**  
**730 BROADWAY, NEW YORK, NEW YORK 10003**

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August 18, 1989

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**Description of the Certificates.** The State of Israel (the "State" or "Israel") is offering non-interest bearing State of Israel Certificates in the principal amount of \$250 (the "Certificates").

Commencing 60 months after the Issue Date, a Certificate may be redeemed in the United States for the principal amount thereof, payable in currency of the United States, upon deposit or presentation of the payment voucher attached to the Certificate. Commencing 60 months after the Issue Date and upon surrender of the Certificate together with the attached maturity voucher and payment of the amount of \$200 in currency of the United States, the State will issue to the holder thereof a \$500 principal amount State of Israel Bond of the Seventh Development Issue or any comparable issue then being offered to the public generally by the State.

Prior to a date 60 months from the Issue Date, the State will not redeem Certificates in the United States, except that the State will purchase for the principal amount thereof any Certificate from the estate of the original holder thereof in currency of the United States, upon its surrender and submission of appropriate legal documents, at any time within two years after the death of the original owner. The right to surrender a Certificate for such purchase can be exercised only by the legal representatives of the original owner of such Certificate and not by any transferee. The State may suspend or terminate its obligation to purchase upon death if, in the opinion of the State, a material number of the holders of Certificates shall have died as a result of war, epidemic, catastrophe of nature or other disaster.

The State agrees to redeem in Israel any Certificate surrendered in Israel, in legal tender 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 an amount equivalent to \$260 from the first anniversary of the Issue Date through the day immediately preceding the second anniversary of the Issue Date, \$275 from the second anniversary of the Issue Date through the day immediately preceding the third anniversary of the Issue Date, \$295 from the third anniversary of the Issue Date through the day immediately preceding the fourth anniversary of the Issue Date, \$320 from the fourth anniversary of the Issue Date through the day immediately preceding the fifth anniversary of the Issue Date and \$360 from and after the fifth anniversary of the Issue Date, to apply the purchase price to the payment of bona fide tourist expenses, provided that such Certificates are presented by the holder thereof and such holder may not present, for such purpose, Certificates and State of Israel Bonds exceeding \$2,500, or such other limit as may be imposed by the Ministry of Finance, in any calendar month.

The State also agrees to redeem in Israel, for any purpose, any Certificate surrendered in Israel by any charitable or educational organization, contributions to which are deductible for income or similar tax purposes under the Internal Revenue Code of the United States (or are accorded similar treatment under the laws of the country in which the transferee is located), in legal tender 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 an amount equivalent to \$250 from the third anniversary of the Issue Date through the day immediately preceding the fifth anniversary of the Issue Date and \$360 from and after the fifth anniversary of the Issue Date.

Certificates will be issued to individuals only and are non-transferable and non-assignable, except to the State; the Development Corporation for Israel; and, upon execution of an assignment form, to a charitable or educational organization as set forth above; or to members of the immediate family of any person holding Certificates, which is defined as the holder's spouse, child, grandchild, parent and grandparent, or to such other person as may be designated by the State, under such circumstances as may be designated by the State.

Notwithstanding the foregoing, the State may limit, restrict or prohibit the surrender of any Certificate or the utilization of its purchase price by citizens of the State or by persons residing in or ordinarily residents of the State.

**Government.** The State of Israel is governed by a cabinet headed by a Prime Minister, which cabinet is subject to a vote of confidence by its Parliament, called the Knesset, and which is responsible to the Knesset. The President is the head of state and is elected by the Knesset. The members of the Knesset are elected in free multi-party elections. The present government is a coalition government supported by a majority of the Knesset, although at times in the past the State of Israel has been governed by a caretaker government. Under the Israeli system of government, if the Knesset votes no confidence in the cabinet, the cabinet is required to resign and either a new cabinet is formed or a new election held.

Internal security and political stability have prevailed since the establishment of the State in 1948, and public services have been continuously functioning and are being extended.

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development, and the International Finance Corporation. Israel is also a signatory to the General Agreement on Tariffs and Trade, which provides for reciprocal lowering of trade barriers among its members.

Israel became associated with the European Economic Community by an agreement concluded in 1975 which confers certain advantages with respect to Israeli exports to most of the European countries and obliges Israel to lower its tariffs with respect to imports from those countries over a number of years.

In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area ("FTA"), which is intended ultimately to eliminate all tariff and certain non-tariff barriers on most trade between the two countries.

Since the establishment of the State of Israel, the hostility between Israel and her neighbors has resulted in a number of armed conflicts. On March 26, 1979, a peace treaty was signed between Egypt and Israel. Under the terms of the treaty, Israel withdrew from the Sinai Peninsula in two phases, the second of which was completed in April, 1982. Relations with Egypt have been established in industry, economics, trade and other fields.

On June 6, 1982, Israeli Defense forces commenced military operations in Lebanon. In 1985, Israel completed the withdrawal of its forces there.

**Geographic Location.** Israel lies on the western edge of Asia bordering on the Mediterranean Sea. It is bounded on the north by Lebanon and Syria, on the east by Jordan, and on the south by Egypt. Israel does not have an abundance of raw materials, including oil, and therefore is dependent to a large degree on the import of such raw materials.

**Economic Factors.** Israel's defense expenditure is very high and absorbs approximately 34% of the State budget (excluding debt service). As a result, the share of the State's resources available for economic development and other national purposes is limited.

At December 31, 1988, Israel's outstanding foreign debt was estimated at \$24.4 billion, compared with Israel's gross domestic product for 1988 of about \$41.9 billion (at the average rate of exchange during 1988).

**Balance of Payments Deficit.** The defense burden, together with the absorption of immigrants, development of the economy, and provision of a minimum standard of living, particularly for the members of the lower income segments of the community, and the maintenance of a minimum level of net foreign reserves, have resulted in an extremely high balance of payments deficit. In order to finance this deficit, Israel must ensure an adequate inflow of capital imports.

The main sources of the country's capital imports are U.S. aid (military and economic), personal remittances, sale of bonds (primarily in the United States) and loans from other governments, international institutions and the free market. World Jewry has traditionally been a substantial capital import contributor. See the Balance of Payments tabulation on page 7.

**Inflation.** The high rates of inflation, which were experienced over some years, fell drastically after the implementation on July 1, 1985 of a comprehensive economic policy designed to stabilize the economy. The



main goals of the policy were to drastically slow down inflation, strengthen positive trends in the State's balance of payments, distribute the burden of the policy throughout society and regain the confidence of the public in the economy. During the calendar years 1986, 1987 and 1988 the Consumer Price Index increased by 15-20% annually, compared to 445% and 185% in calendar years 1984 and 1985, respectively. As part of a new austerity plan announced in January 1989, which was designed to further reduce the rate of inflation, an agreement to limit cost of living increases through April 1990 has been achieved.

**Investment.** Since the establishment of the State in 1948, the Government has promoted and developed industrial and agricultural pursuits through a variety of methods including: (i) direct grants-in-aid, (ii) direct ownership interest in agricultural and industrial enterprises, (iii) tax abatements and (iv) tax incentives.

As a result of an amendment to the Law for the Encouragement of Capital Investments, since 1967, the Government has made grants available to the owners of approved enterprises.

**Taxation.** The people and business enterprises in Israel are among the highest-taxed individuals and enterprises in the free world. Business enterprises pay a company profit tax and income tax.

**Foreign Exchange.** Until July 1985 the Israeli Sheqel depreciated at a rate consistent with inflation. On September 2, 1985, the Israeli Parliament approved a new Sheqel, valued at 1,000 times the then existing Sheqel. In connection with a comprehensive economic policy implemented in July 1985, the rate of exchange for the "old" Israeli Sheqel was fixed at a rate of \$1.00 = 1,500 IS. The rate of exchange for the new Sheqel was \$0.67 = 1 IS. Since January 1986, only the new Sheqel has circulated. Since August 1, 1986, the new Sheqel has been linked to a "basket" of five currencies in which the U.S. Dollar has a weight of about 60%. In January 1987 the new Sheqel was devalued by 10% and in January 1989 by 13.5%. The average rate of exchange of the new Sheqel in 1988 was \$0.625.

From October 1977 until June 1983, the State's foreign exchange regulations had been liberal, with virtually no controls on foreign investments and few restrictions on the possession of foreign currency by Israelis. Following a sharp decline in the State's foreign exchange reserves in the latter part of 1983, new restrictions were imposed by the Bank of Israel on January 17, 1984. Due to the continued deterioration of foreign currency reserves, additional restrictions were imposed by the Bank of Israel on July 25, 1984, October 3, 1984 and July 1, 1985.

The amount of net foreign exchange reserves held in the Bank of Israel as at December 31, in each of the years 1984 through 1988, converted into Dollars by using representative exchange rates as of December 31, in each of the calendar years 1984 through 1988, were as follows:

<b>Date</b>	<b>Net Foreign Exchange Reserves of Bank of Israel (in \$ millions)</b>
December 31, 1984	2,601
December 31, 1985	3,190
December 31, 1986	4,153
December 31, 1987	5,329
December 31, 1988	3,470*

\*Speculative movements in expectation of a Sheqel devaluation strongly reduced reserves by December 31, 1988. On March 31, 1989, net foreign reserves were up to \$5,246 million.

**Government Finance.** The Certificates are unsecured obligations of the State of Israel. However, since its formation, Israel has never defaulted on the payment either of principal or of interest on any of its indebtedness.

A statement of the internal public debt as of March 31, 1988, and a statement of the foreign exchange debt as at December 31, 1988, appear in Tables IA and IB, respectively, on page 11.

A statement of receipts and a statement of expenditures for the fiscal years ended March 31, 1986, 1987, and 1988, appear in Tables II and III, respectively, on page 12.

**National Income and Investments.** The following tables indicate, for the calendar years 1984-1988, the national income, in current prices, and the gross domestic product and gross investment of Israel, each in

current prices for the respective years and in constant 1980 prices.

**NATIONAL INCOME\***  
(in Current Prices)

**GROSS DOMESTIC PRODUCT AND INVESTMENT\***  
(in NIS. millions)

Year	Total (in NIS. millions)	Per Capita (NIS.)	Gross Domestic Product		Gross Investment	
			in Current Prices	in 1980 Prices	in Current Prices	in 1980 Prices
1984	5,773	1,788	7,598	123.1	1,656	28.0
1985	20,276	4,789	28,076	127.9	5,264	25.0
1986	30,625	7,124	43,855	132.5	8,679	27.6
1987	39,182	8,968	55,640	139.5	10,971	28.5
1988	48,230	10,864	66,958	141.7	12,254	27.9

\*Figures for 1984-1987 are revised

All other statistical data contained in this prospectus with respect to the State, if not stated otherwise, is presented in current prices.

Net Domestic Product (percentage distribution) at factor cost for the years 1983-1987 is as follows (information is not yet available for fiscal year ended March 31, 1988):

	Fiscal Year Ended March 31,				
	1983	1984	1985	1986	1987
Agriculture	3.7%	4.1%	5.0%	4.9%	5.0%
Industry	21.3	22.5	22.3	21.4	21.4
Construction, Electricity & Water	9.0	7.8	6.3	6.6	7.7
Commerce	12.0	12.0	14.0	13.0	13.0
Transport & Communication	6.4	6.2	7.5	7.4	7.9
Finance & Business Services	13.0	12.7	15.0	13.0	14.7
Public Services	23.4	24.1	22.6	22.9	23.3
Other Services	11.1	10.6	7.3	10.8	7.0
Total	100.0%	100.0%	100.0%	100.0%	100.0%

**Population, Employment and Immigration.** The population of Israel and the number of gainfully employed persons and immigrants as of December 31, in each of the years 1984 through 1988, are indicated below:

Date	Total Population	Gainfully Employed Persons (Annual Average)	New Immigrants**
December 31, 1984	4,119,700*	1,359,000	20,000
December 31, 1985	4,266,200	1,349,200*	10,600
December 31, 1986	4,331,000	1,367,900*	9,500
December 31, 1987	4,406,500*	1,403,700*	13,000
December 31, 1988	4,472,000	1,453,100	13,000

\*Revised

\*\*These figures represent approximations

The average percentage distribution of gainfully employed persons among the various branches of the economy for the calendar years 1984-1988 was as follows:

Economic Sector	1984	1985	1986	1987	1988
Industry	23.1%	23.0%	23.7%	23.5%	22.3%
Agriculture	5.3	5.4	5.2	5.2	4.6
Services (public, business and personal)	45.6	46.4	46.2	45.0	46.1
Construction and Public Works	5.9	5.4	4.5	4.8	5.1
Transportation and Communications	6.6	6.4	6.4	6.6	6.6
Electricity and Water	0.9	0.9	0.9	1.0	1.0
Commerce, Restaurants and Hotels	12.6	12.5	13.1	13.9	14.3
	100.0%	100.0%	100.0%	100.0%	100.0%

The average number and percentage of unemployed persons in Israel during the calendar years 1984-1988 were as follows:

<u>Year</u>	<u>Average Number of Unemployed Persons</u>	<u>Total Civilian Labor Force</u>	<u>Percentage of Average Number of Unemployed Persons in Total Civilian Labor Force</u>
1984	85,100*	1,444,100*	5.9%
1985	96,800*	1,446,000	6.7%
1986	104,000	1,471,900*	7.1%
1987	90,400*	1,494,100*	6.1%
1988	99,900	1,553,000	6.4%

\*Revised

**Foreign Trade.** As with many young countries facing immigration and development tasks, Israel has an adverse trade balance. However, the Government is attempting to reduce gradually the import surplus by encouraging replacement of imports with domestic production and by increasing exports.

The value of Israel's foreign trade in goods and services for calendar years 1984-1988 was as follows:

<u>Year</u>	<u>Civilian Imports (in \$ millions)*</u>	<u>Exports (in \$ millions)*</u>	<u>Civilian Deficit (in \$ millions)*</u>	<u>Defense Imports (in \$ millions)*</u>
1984	14,128	10,823	3,305	1,462
1985	13,310	11,223	2,087	1,828
1986	14,797	12,095	2,702	1,202
1987	17,586	14,233	3,353	2,471
1988	18,942	15,666	3,276	1,914

\*Figures for 1984-1987 are revised

The principal categories of imports of goods other than defense for the calendar years 1984-1988 were as set forth below. Imports of services are shown as "Debits" on the Balance of Payments tabulation on page 7.

#### ISRAEL'S IMPORTS OF GOODS (1984-1988)\*\* (CIF Values in \$ millions)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Consumer Goods	\$ 657	\$ 621	\$1,029*	\$1,337*	\$1,549
Durable	256	232	454	627*	734
Other	401	389	575*	710*	815
Raw Materials	6,005	6,162	6,846*	8,217*	8,928
Rough Diamonds	880	1,168	1,598	1,901	2,420
Fuel	1,593	1,510	924	1,148*	1,062
Other	3,532	3,483	4,324*	5,168*	5,446
Investment Goods	1,572	1,414	1,604	2,148*	\$ 2,071
Ships & Aircraft	159	1	6	123*	99
Other	1,413	1,413	1,598	2,025	1,972

\*Revised

\*\*Excludes imports from administered areas

