

PROSPECTUS

March 8, 1999
(Supplemented June 1, 2001)

STATE OF ISRAEL
\$13,600,000
CHAI ISSUE DOLLAR SAVINGS BONDS

We will receive \$12,784,000 of the proceeds from the sale of the bonds, after paying the underwriters' commission which will not exceed \$816,000 and before expenses estimated at \$40,000.

Terms of Bonds	
<ul style="list-style-type: none">• Maturity Five years from the issue date	<ul style="list-style-type: none">• Purchase Price You may purchase each bond for \$136.
<ul style="list-style-type: none">• Interest Interest will not be paid on the bond until maturity. At maturity, you will receive \$180 for each bond.	<ul style="list-style-type: none">• Issue date First day of the month following the month in which the fiscal agent accepts the subscription.
<ul style="list-style-type: none">• Limitations You may not transfer or assign the bonds.	<ul style="list-style-type: none">• No Certificate The bonds are being issued in book-entry form which means a certificate will not be issued to evidence the bond.

This offering may have a special appeal to persons with an interest in the State of Israel rather than the general public. We have issues of bonds outstanding which may, on any given day, provide a greater yield to maturity than the bonds being offered by this Prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the bonds or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

TABLE OF CONTENTS

Description of Bonds	3
Where You Can Find More Information	4
Incorporation of Documents by Reference	5
Use of Proceeds	6
Summary of Underwriting	6
Legality of Issue	6
Debt Record	7
Jurisdiction; Consent to Service and Enforceability	7

DESCRIPTION OF THE BONDS

We are offering \$13,600,000 aggregate principal amount of Chai Issue Dollar Savings Bonds. We have entered into an agreement with The Bank of New York, which will act as fiscal agent with respect to these bonds. The bonds are direct, unconditional and general obligations of the State of Israel. We pledge our full faith and credit for the due and punctual payment of principal and accrued interest, as well as for the due and timely performance of all of our obligations with respect to the bonds. The terms of the bonds are as follows:

Price. You may purchase each bond for \$136.

Issue date and Maturity. We will date each bond the first day of the month following the month in which the subscription for the bond is accepted by the fiscal agent. The bonds will become due and payable five (5) years from the issue date.

Interest. You will not receive interest on the bonds until maturity, at which point you will receive \$180 (the aggregate amount of principal and interest) per bond. Bonds do not accrue interest after maturity.

Bond Certificate. We are issuing the bonds in book entry form. Therefore, bond certificates will not be issued. Instead, the fiscal agent will mail to the purchaser and owner of each bond a confirmation that the owner has been listed in the bond register as the registered owner of the bond along with other pertinent information. We will forward all notices relating to the bonds to the registered owner(s). Upon maturity of the bonds or a redemption of the bonds, the fiscal agent will automatically pay the principal amount of each bond to the registered owner by mailing a check to the last address of the registered owner as listed in the bond register.

Early Redemption. We will not redeem any bonds prior five (5) years from the issue date, except that, upon the death of the bond owner, we will purchase any bond from the estate of the bond owner, upon the surrender and submission to us of all necessary legal documents. The legal representative of the bond owner is the only individual who may surrender a bond for purchase. We will repurchase a bond prior to maturity for a purchase price of \$136 plus an accrued amount of interest, based upon an assumed interest factor of 5.8% per annum on the discounted purchase price, accrued to the last day of the month preceding the month in which the repurchase is made. The repurchase price will be paid in United States currency.

Purchase Limitation. Each bond may only be registered in the name of an individual.

Non-Transferability. You may not transfer or assign the bonds.

Tax Matters. Since the bonds will be issued at less than their face amount, and therefore will have original issue discount, the bond owner will be required to include in his gross income for federal income tax purposes, for each year of ownership, a portion of the OID with respect to that bond, even though no interest payments have been received. The aggregate amount of OID on each bond will be \$44 (the excess of the value of the bond at maturity over the purchase price paid by the purchaser). We will deliver annual information statements to the bond owner

and the Internal Revenue Service stating the amount of OID attributable for that year. Bond owners who fail to comply with certain taxpayer identification requirements, may be subject to backup withholding tax in the year the bonds are redeemed with respect to the gross redemption proceeds. Bond owners should consult with a tax advisor concerning OID rules, qualification for exemption from backup withholding, and the procedure for obtaining such an exemption.

Fiscal Agent. The name and principal office of the fiscal agent is The Bank of New York, 101 Barclay Street, New York, New York 10286 (Attention: Corporate Trust Administration).

The foregoing description of the material terms of the bonds is qualified by reference to the full terms of the bonds, the form of which has been filed as an exhibit with the Securities and Exchange Commission (the "Commission").

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, amendments to annual reports and other information with the Commission. These reports and amendments include certain financial, statistical and other information about the State of Israel, and may be accompanied by exhibits. You may read and copy any document we have filed with the Commission at the Commission's public reference facilities at: Judiciary Plaza, 450 Fifth Street, NW, Washington, D.C. 20549; Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and Seven World Trade Center, Suite 1300, New York, New York 10048. You may also obtain copies of such reports from the public reference room in Washington by paying a prescribed fee. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms.

INCORPORATION OF DOCUMENTS BY REFERENCE

The Commission allows us to "incorporate by reference" the information which we file with it, which means that we can omit such information from this Prospectus and provide it to you by referring you to those documents. Information that is incorporated by reference is an important part of this Prospectus. We incorporate by reference the documents listed below:

- Our Annual Report on Form 18-K for the most recent fiscal year; and
- All amendments to our Form 18-K for the most recent fiscal year filed prior to the date of this Prospectus.

We also incorporate by reference all future annual reports and amendments to annual reports, and any other information which we file with the Commission pursuant to Sections 13(a) and 13(c) of the Securities Exchange Act of 1934, as amended, until we sell all of the bonds. Each time we file a document with the Commission that is incorporated by reference, the information in that document automatically updates the information contained in previously filed documents.

You may request a free copy of the annual reports, amendments to the annual reports and other information mentioned above by writing or calling the Development Corporation for Israel at the following address: Development Corporation for Israel, 575 Lexington Avenue, New York, New York 10022-6195, Attention: National Campaign Department, Telephone: (212) 644-2663.

You should rely only on the information incorporated by reference or contained in this Prospectus or any Prospectus supplement. We have not authorized anyone to provide you with different or additional information. We are not making an offer of these bonds in any state where the offer is not permitted by law. You should not assume that the information in this Prospectus or any Prospectus supplement is accurate as of any date other than the date on the front of those documents.

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement to this Prospectus, we will use the net proceeds from the sale of the bonds for general State purposes.

SUMMARY OF UNDERWRITING AGREEMENT

We have entered into an Underwriting Agreement with Development Corporation for Israel, dated as of February 23, 1999. The principal terms of the Underwriting Agreement with DCI are as follows:

- DCI is the sole and exclusive underwriter of the bonds in the United States and has agreed to use its best efforts to sell the bonds.
- DCI will receive a fee to be determined from time to time by us and DCI. The amount of the fee will not be in excess of 6% of the purchase price of the bonds sold.
- DCI pays all fees and expenses to brokers or dealer who assist in the sale of the bonds.
- DCI will use its best efforts to sell as many of the bonds as it can; however, there is no assurance that all bonds will be sold.
- We pay all charges, expenses and fees in connection with the issuance of the bonds, the registration of the bonds under the applicable securities laws, 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 and all allocable payments to be made to employees' pension funds of DCI.

LEGALITY OF THE ISSUE

The Legal Advisor to the Ministry of Finance of the State of Israel, Jerusalem, Israel will provide, on our behalf, an opinion as to the validity of the bonds. Baer Marks & Upham LLP, New York, New York, has passed upon the validity and legality of the bonds on behalf of DCI. Baer Marks & Upham LLP will rely on the opinion of the Legal Advisor of the Ministry of Finance of the State of Israel on all questions relating to the laws of Israel.

DEBT RECORD

We have never defaulted on the payment of principal or interest on any of its internal or external indebtedness.

JURISDICTION; CONSENT TO SERVICE AND ENFORCEABILITY

We are a foreign sovereign government and your ability to sue us may be limited. Consequently, it may be difficult for investors to realize upon judgments of courts in the United States against us. We 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. We have 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 action arising out of or based upon the bonds which may be instituted in any state or federal court in the City of New York by the holder of any bonds. The appointment is irrevocable until all amounts in respect of the principal, premium, if any, and interest, if any, due or to become due on or in respect of the bonds have been paid by us, except that, if for any reason, the authorized agent ceases to be able to act as such authorized agent or no longer has an address in New York, we will appoint another person in New York as its authorized agent.

The Chief Fiscal Officer — Western Hemisphere is not the agent for service for actions under the United States federal securities laws or state securities laws and our waiver of immunity does not extend to such actions. Because we have not waived our sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it will not be possible to obtain a United States judgment against us based on such laws unless a court were to determine that we are not entitled under the Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. Under the laws of the State of Israel, assets of Israel are immune from any form of execution.