

\$50,000,000

STATE OF ISRAEL CERTIFICATES
STATE OF ISRAEL

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.

	<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.

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

August 18, 1989

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:

Date	Net Foreign Exchange Reserves of Bank of Israel (in \$ millions)
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

Israel's balance of payments for the calendar years 1986-1988 were as set forth in the following table:

ISRAEL'S BALANCE OF PAYMENTS (1986-1988)
(in \$ millions)

Description	1986		1987		1988	
	Credit	Debit	Credit	Debit	Credit	Debit
A. Goods and Services Account						
1. Merchandise (Exports and Imports, F.O.B.)	7,674	9,615*	9,065*	12,896*	10,013	13,158
2. Services						
a. Insurance	-7	96*	-1*	118*	1	107
b. Transportation	1,024*	1,281	1,171*	1,530*	1,288	1,722
c. Travel	972	800	1,347	1,041*	1,343	1,130
d. Investment Income	850*	2,501*	862*	2,438*	968	2,637
e. Government Offices	22	93	28	107	35	111
f. Other Services	1,203	1,180	1,356*	1,505*	1,516	1,624
Total Goods and Services Account	11,738*	15,566*	13,828*	19,635*	15,164	20,489
Deficit on Goods and Services Account	—	3,828*	—	5,807*	—	5,325
B. Unilateral Transfers (Net)						
1. Restitutions	424	—	530	—	558	—
2. Personal Remittances	586*	—	765*	—	605	—
3. Institutional Remittances	598	—	604	—	627	—
4. Government	3,773*	—	2,940*	—	2,861	—
Total Unilateral Transfers	5,381*	—	4,839*	—	4,651	—
Total Goods and Services Account	17,119*	15,566*	18,667*	19,635*	19,815	20,489
Total Goods and Services Account (Net)	1,553*	—	—	968*	—	674
C. Net Capital Movements						
1. Private Long-Term (including Investments)	210*	37	513*	40*	-757	27
2. Private Short-Term Loans	57*	349*	278*	465*	-186	-94
3. Government Issues Abroad and Government Long-Term Obligations	348	—	46*	—	132	—
4. Government Short-Term Obligations	6	649*	-6	-738*	123	-466
5. Monetary Sectors	-38*	80*	-467*	-467*	-64	452
6. Foreign Exchange Assets and Liabilities	—	992	—	752	—	-1,170
Total Net Capital Movements	583*	2,107*	364*	52*	-752	-1,251
Net Errors and Omissions	—	29*	656*	—	175	—
GRAND TOTAL	17,702*	17,702*	19,687*	19,687*	19,238	19,238

*Revised

The following data are available concerning the United States' share of some major elements of Israel's global balance of payments:

- A. Goods and Services Account: Merchandise—For 1986 through 1988, the United States was the source of approximately 15-20% of Israel's non-defense imports and the destination of approximately 30-35% of Israel's exports. Travel—Of the tourists visiting Israel, approximately 20% were Americans in the years 1986-1988.
- B. Unilateral Transfers: Institutional Remittances—Approximately 65% thereof were of United States origin in 1985. Information for subsequent years is not available. Government—All of the Governmental Transfers for 1986 through 1988 represent United States Government grant assistance.

Agricultural Development. In the years since 1948, there has been extensive development of irrigation and reclamation of swamp lands, sand dunes and hilly areas, with the result that Israel now provides approximately 75% of its food needs. The total area under cultivation in agricultural year 1988 amounted to 4.2 million dunams (slightly more than one million acres), of which 60% was under irrigation.

Israel's organized sales of local agricultural produce in the agricultural years ended September 30, in each of the years 1984 through 1988, were as follows:

<u>Year Ended September 30,</u>	<u>Organized Sales of Local Agricultural Produce (in NIS. thousands)</u>
1984	319,609
1985	1,601,519
1986	2,645,015
1987	3,202,091
1988	3,330,411

Israel's organized sales of local agricultural produce in the agricultural years ended September 30 in each of the years 1984 through 1988, were accounted for by the products indicated below:

<u>Product</u>	<u>Year Ended September 30,</u>				
	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>
Citrus and Other Fruits	23.3%	30.0%	30.3%	39.0%	28.9%
Vegetable Crops	10.7	10.6	12.8	12.6	13.7
Field Crops (including grains, fodder and industrial crops)	14.0	11.1	8.5	8.7	8.1
Meat	21.3	19.6	19.2	15.6	17.8
Milk	14.2	13.9	14.5	12.6	16.0
Eggs	11.1	10.5	8.6	6.7	8.4
Other	5.4	4.3	6.0	5.9	7.1
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Israel's citrus exports and all agricultural exports, including citrus exports, for calendar years 1984-1988, were as follows:

<u>Year</u>	<u>Citrus Fruit Exports (in \$ millions)</u>	<u>All Agricultural Exports Including Citrus Fruit Exports (in \$ millions)</u>	<u>Number of Persons Engaged in Agriculture</u>
1984	116	523	72,100
1985	172	468	72,100
1986	174	560	70,000
1987	201*	609*	72,000
1988	177	573	66,800

*Revised

Industrial Development. Israel's Industrial Production Index (based on fixed prices) during calendar years 1984-1988 is indicated below:

<u>Year</u>	<u>Index</u>
1984	109.9
1985	107.9
1986	111.8
1987	117.2*
1988	113.5

*Revised

Industrial exports for the calendar years 1984-1988 were as follows:

<u>Year</u>	<u>Industrial Exports (in \$ millions)</u>
1984	5,045
1985	5,578
1986	6,337*
1987	7,547*
1988	8,815

*Revised

Polished diamonds accounted for approximately 29% of the State's total industrial exports in 1988, up from 23% in 1983.

Production of electricity in the calendar year 1988 totalled approximately 17,200 million kilowatt hours, of which approximately 5,520 million kilowatt hours were consumed by industry.

The average number of persons employed in industry during calendar years 1984-1988 were as follows:

<u>Year</u>	<u>Average Number of Persons Employed in Industry</u>
1984	311,700
1985	313,600
1986	322,400
1987	328,400
1988	321,500

The Purpose of the Issue and Use of Proceeds. The development program of the State is directed toward the ultimate achievement of a self-supporting economy. Thus, since the formation of the State, it has, to the maximum extent possible, channeled its funds into productive investment to increase the cultivated and the irrigated areas of farmland, to establish industrial plants, to develop the natural resources of the country, to build an adequate transportation and communication system, and to stimulate the construction of housing for the accommodation of new immigrants and the natural increase in population.

A major part of the funds required for the consolidation and expansion of the economy has emanated from four sources, primarily from the United States, namely, State of Israel bonds, inter-governmental grants and loans, private investments and philanthropic gifts. Sales of State of Israel securities, as of June 30, 1989, aggregated about \$9.4 billion, of which about \$110.0 million was paid for by the surrender of securities of prior issues.

In view of the enormous defense expenditures of the State of Israel, it is proposed that the proceeds of this issue will be devoted to investment in the economic sectors presented in the following table within the framework of the State's Development Budget. The allocations remain tentative and subject to change, depending upon the availability of funds, raw materials, machinery and other required items, the world political situation, world market conditions, and many other factors. No part of the funds received from this issue is specifically allocated to any particular project, and no part of the assets or receipts of any project is earmarked for payment of the Certificate obligations.

<u>Economic Sectors</u>	<u>Percentage Allocation</u>
Agriculture	3.6%
Aviation	0.5
Community Facilities (Schools, Hospitals and Public Buildings)	16.9
Electric Power	0.4
Housing	44.8
Industry and Crafts	7.4
Irrigation	3.1
Mining and Minerals	1.1
Port Development	0.1
Road Building and Maintenance	6.9
Tourism	0.9
Telecommunications	11.6
Other Items and General Reserve	2.7
	<u>100.0%</u>

Underwriter. Development Corporation for Israel (the "Financial Corporation"), 730 Broadway, New York, New York 10003, is the sole and exclusive underwriter of the Certificates. The Financial Corporation has agreed to use its best efforts to sell the Certificates, and is to receive a discount or commission at a rate to be determined from time to time by the State and the Financial Corporation, but not to exceed 6%. Commissions and concessions to any brokers or dealers assisting in the sale of the Certificates are borne by the Financial Corporation. Since this offering is on a best efforts basis, there is no assurance that all Certificates will be sold. As of June 30, 1989, \$28,797,930 of the Certificates had been sold. The State is to pay all charges, expenses and fees in connection with the issuance of the Certificates, the registration thereof under the Securities Act of 1933 and under state securities statutes and qualification in foreign countries, 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 Certificates, 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 its counsel, Baer Marks & Upham, New York, New York. On all questions relating to the laws of Israel, said firm has relied upon the opinion of the Legal Advisor to the Ministry of Finance of the State of Israel.

Authorized Agent. The authorized agent of the State of Israel in the United States is Yair Seroussi, Chief Fiscal Officer of the Ministry of Finance of the State of Israel for the Western Hemisphere, 350 Fifth Avenue, New York, New York 10118.

TABLE IA—STATE OF ISRAEL—INTERNAL PUBLIC DEBT

As of March 31, 1988

<u>Description</u>	<u>Rate of Interest</u>	<u>Date of Maturity</u>	<u>Amount Outstanding Revalued (in NIS. millions)</u>
Advances from Bank of Israel	5%-7.5%	After 1990	8,987
Voluntary Loans (index-linked)	minimum	1988-2005	20,937
Voluntary Loans (dollar-linked)	3.75%	1988-2005	872
Voluntary Loans (optional linkage*)		1988-2005	714
Compulsory Loans	minimum 3%	1988-1995	3,862
Loan from National Insurance Institute	5%	1988-2005	13,622
Issues of Private Banks with the Government		1988-2005	22,259
Savings Plans		1988-1992	6,985
Other		1988-2020	2,709
Total			80,947

*Linked to either index of prices or the dollar.

TABLE IB—STATE OF ISRAEL—FOREIGN EXCHANGE DEBT*

As of December 31, 1988

<u>Description</u>	<u>Amount Outstanding (in \$ millions)</u>	<u>Description</u>	<u>Amount Outstanding (in \$ millions)</u>
PUBLIC DEBTS		PRIVATE DEBTS	
A. Direct Government Credits from Abroad		A. Direct Credits from Abroad	
Foreign Governments and International Institutions	7,060	Credits from Foreign Banks	825
Credits from Foreign Banks	4,778	Credits from Foreign Branches and Subsidiaries of Israeli Banks Abroad	364
Credits from Subsidiaries of Israeli Banks	316	Supplier Credits	1,492
Others	5	Negotiable Bonds**	196
	12,159	Other Credits (from Foreign Banks)	955
	4,068	Credits from Abroad to Banks for Mortgages and Investments	580
B. State of Israel Bonds***	<u>16,227</u>		4,412
TOTAL—Public Debts		B. Net Obligations of Banking System	
		TOTAL—Private Debts	3,357
		TOTAL—Public Debts	7,769
		TOTAL—Public and Private Debts	<u>23,996</u>

*Of the foreign exchange debt, approximately 90.4% of government debt and 77.3% of private debt is payable in U.S. Dollars, approximately 8.3% of government debt and 12.9% of private debt is payable in Deutschmarks and approximately 1.3% of government debt and 9.8% of private debt is payable in other currencies.

**Guaranteed by United States Government

***Amount outstanding by type of State of Israel debt instrument is as follows:

<u>Description of State of Israel Bonds</u>	<u>Outstanding (in \$ thousands)</u>	<u>Maturity Dates</u>	<u>Rate of Interest</u>	<u>Description of State of Israel Bonds</u>	<u>Outstanding (in \$ thousands)</u>	<u>Maturity Dates</u>	<u>Rate of Interest</u>
Development Bonds	1,224,400#	1989-2005	4%	Notes	1,429,567	1996	Prime
Development Investment Bonds	125,803	2008	5½%	Certificates	23,161	1994	None
Variable Rate Bonds	905,407	2001	7½%	TOTAL	<u>1,452,728</u>		

#Includes appreciation accrued on Development Issue Savings Bonds of \$288,008 as of December 31, 1988.

TABLE II—GOVERNMENT OF ISRAEL—STATEMENT OF RECEIPTS

(in NIS. millions)

	Fiscal Year Ended March 31,		
	1986	1987	1988
Current Receipts			
Income Tax	5,985.4	9,246.9	10,580.0
Property, Inheritance Tax and Others	239.2	520.5	566.0
Customs, Excise & Sales Taxes	2,299.1	3,528.8	4,149.2
Value Added Tax	3,125.4	4,501.2	5,591.9
Revenue Stamps, License and Registration Fees	185.2	315.3	498.7
Collection of Interest	868.3	847.0	591.6
Miscellaneous Revenue	345.6	801.1	415.8
Taxes on Foreign Currency and Travel Abroad	205.8	219.5*	354.3
Transfer of Receipts from Development Budget	4,613.3	3,435.4*	4,635.6
TOTAL ORDINARY BUDGET	17,863.2	23,415.7	27,383.0
Receipts from Loans and Capital Accounts			
Proceeds from Internal Loans	7,600.5	7,097.0	8,055.3
Loan Repayments	81.9	155.9*	799.7
Proceeds from Foreign Loans and Grants (including State of Israel Bonds and U.S. Loans and Grants and U.S. Agricultural Surpluses)	6,843.7	8,846.1	6,383.0
Special Receipts and Sundry Items	22.8	32.5	27.9
Advances from Bank of Israel	-1,747.2	-251.3	—
Transfer of Receipts to Ordinary Budget	-4,619.3	-3,435.5	-4,639.6
Adjustments	931.9	-3,165.6	569.0
TOTAL DEVELOPMENT BUDGET	9,114.3	9,279.1	11,195.3
Receipts from Bank of Israel	5,865.4	2,282.8	4,487.3
GRAND TOTAL	32,842.9	34,977.6	43,065.6

*Revised

TABLE III—GOVERNMENT OF ISRAEL—STATEMENT OF EXPENDITURES

(in NIS. millions)

	Fiscal Year Ended March 31,		
	1986	1987	1988
Current Expenditures			
General Administration	1,139.8	1,806.5	2,043.1
Local Government	384.6	447.6	561.3
Defense	6,623.3	8,291.2	9,146.9
Social Services	2,896.0	5,182.3	6,727.8
Economic Services	80.0	287.0	58.4
Subsidies for Essential Commodities	794.8	602.2	890.1
Export Promotion	522.5	542.3	748.4
Interest Payments	4,807.7	5,604.2	6,311.3
Subsidies of Credits	614.5	652.4	895.7
Reserves	—	—	—
TOTAL ORDINARY BUDGET	17,863.2	23,415.7	27,383.0
Expenditures on Development and Capital Account			
Housing	318.1	351.5	448.1
Agriculture and Irrigation	159.5	319.1	219.1
Industry and Mining (including oil drilling)	557.5	570.0	609.5
Transportation and Communications	62.5	92.2	102.1
Funds and Sundry Items	201.6	287.0	336.7
Debt Repayment	7,815.1	7,659.3	9,479.8
Reserves	—	—	—
TOTAL DEVELOPMENT BUDGET	9,114.3	9,279.1	11,195.3
Repayment of Debt to Bank of Israel	5,865.4	2,282.8	4,487.3
GRAND TOTAL	32,842.9	34,977.6	43,065.6

TABLE IV—SUMMARY OF GOVERNMENT OF ISRAEL BUDGETS

Fiscal Years Ending March 31, 1986-1989

(in NIS. millions)

	Fiscal Year Ended March 31, 1986	Fiscal Year Ended March 31, 1987	Fiscal Year Ended March 31, 1988*	Budget Fiscal Year Ended March 31, 1989
1. Current Expenditures	17,863.2	23,415.7	27,383.0	31,161.2
2. Current Revenues	13,243.9	19,980.3	22,747.4	25,333.8
3. Current Deficit (1 - 2)	4,619.3	3,435.4	4,635.6	5,827.4
4. Capital Expenditures	1,619.8	1,715.5	1,715.5	1,754.9
5. Income on Capital A/C	104.7	188.4	823.6	936.3
6. Financing of Capital Expenditures (4 - 5)	1,194.5	1,431.4	891.9	818.6
7. Debt Repayments	7,815.1	7,659.3	9,479.8	17,534.0
8. Total Required Financing (3 + 6 + 7)	13,628.9	12,526.2	15,007.3	24,180.0
9. Domestic Borrowing	6,785.2	3,680.1	8,624.3	18,008.0
10. Foreign Loans and Grants	6,843.7	8,846.1	6,383.0	6,172.0
11. Total Financing (9 + 10)	13,628.9	12,526.2	15,007.3	24,180.0

*Revised

**TABLE V—STATE OF ISRAEL—ESTIMATED REPAYMENT SCHEDULE OF
PUBLIC FOREIGN CURRENCY DEBT**

(in \$ millions)

	Outstanding Amounts	Expected Principal Payments (\$ millions)					1994 and There- after
		As of December 31, 1988	1989	1990	1991	1992	
A. <u>Government Sector</u>	16,487	835	938	1,061	979	1,023	11,651
Government of U.S.	5,554	293	254	265	292	395	4,055
Other Foreign Governments and International Institutions	1,506	166	136	122	125	106	851
Negotiable Bonds	4,778	—	110	141	165	92	4,270
State of Israel Bonds	4,068	279	355	365	348	386	2,335
Foreign Banks	316	33	43	40	37	32	131
Subsidiaries of Israeli Banks Abroad	260	61	38	128	12	12	9
Others	5	3	2	—	—	—	—
B. <u>Private Non-Financial Sector</u>	3,021	907	470	567	313	221	543
Credit from Foreign Banks	700	143	161	153	101	68	74
Credit from Subsidiaries of Israeli Banks Abroad	194	129	20	38	3	3	1
Credit from Suppliers	469	182	96	62	53	34	42
Negotiable Bonds	196	—	—	—	—	21	175
Credit from Others	882	263	136	259	100	54	70
Credit from Abroad to Banks for Mortgages and Investments	580	190	57	55	56	41	181
C. <u>Banking System</u>	2,219	648	550	432	287	146	156
<u>Total</u>	21,727	2,390	1,958	2,060	1,579	1,390	12,350

