

STATE OF ISRAEL
\$150,000,000
LIBOR FLOATING RATE ISSUE DOLLAR BONDS
(MAXIMUM ANNUAL INTEREST RATE 8.00%)

We will receive \$141,000,000 of the proceeds from the sale of the bonds, after paying the underwriters' commission which will not exceed \$9,000,000 and before expenses estimated at \$82,000.

Terms of Bonds	
<ul style="list-style-type: none"> • <u>Maturity</u> Ten years from the issue date. 	<ul style="list-style-type: none"> • <u>Minimum Subscription</u> \$5,000 (you may buy subsequent bonds in minimum denominations of \$2,500). IRAs may purchase the bonds in minimum denominations of \$2,000 or \$2,500.
<ul style="list-style-type: none"> • <u>Interest</u> Applicable six-month London Inter-Bank Offer Rate plus a fixed number of basis points set forth on a sticker affixed to the cover page of this prospectus and specified on the book-entry statement or bond certificate. Maximum annual interest rate is 8%. Paid every June 1st and December 1st. 	<ul style="list-style-type: none"> • <u>Issue date</u> First day of the month following the month in which the fiscal agent accepts the subscription.
<ul style="list-style-type: none"> • <u>Limitations</u> You may not assign or transfer the bonds except in certain special instances. We will only repurchase bonds prior to expiration under limited circumstances, and only if the fiscal agent receives sixty days' written notice of a repurchase request. 	<ul style="list-style-type: none"> • <u>No Certificate</u> We are issuing the bonds in book-entry form which means certificates will not be issued to evidence the bonds unless specifically requested at the time of purchase.

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.

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

TABLE OF CONTENTS

Description of Bonds	2
Where You Can Find More Information	5
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 \$150,000,000 aggregate principal and interest of ten (10) year interest-bearing dollar bonds (the "Bond" or "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 buy each bond for a minimum denomination of \$5,000. If you have purchased at least one bond for a minimum of \$5,000 during the twelve-month period immediately preceding the additional purchase, you may purchase additional bonds in minimum denominations of \$2,500. An Individual Retirement Account ("IRA") may purchase the bonds in minimum denominations of \$2,000 or \$2,500. Bonds do not earn or accrue interest after maturity.

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 ten (10) years from the issue date.

Interest Payment. We will pay interest semi-annually on June 1st and December 1st and upon maturity. If either of June 1st or December 1st is a bank holiday, we will pay interest as of the next succeeding bank day.

Interest Rate. The interest rate is equal to the applicable six month London Inter-Bank Offer Rate ("LIBOR Rate") plus a fixed number of basis points set forth on a sticker affixed to the cover page of this prospectus and specified on the book-entry statement or bond certificate (the "Rate"). However, the maximum interest rate is 8.00%.

The LIBOR Rate is, with respect to the immediately following interest period, the rate (expressed as an annual percentage) for deposits in U.S. dollars for a six month period that appears on Telerate, page 3750 (or the successor page thereto) as of 11:00 a.m. London time, on the applicable interest determination date (see "Interest Determination Dates" below), rounded upwards to the next one-sixteenth ($\frac{1}{16}$) of one percent, if the quoted interest rate is not equivalent to one-sixteenth ($\frac{1}{16}$) of one percent. The initial Rate will be determined for each period as of the bank day which is two business days prior to the first business day of the month in which we accept your subscription. Each subsequent Rate will be determined

as of the bank day which is two business days prior to the first business day of the month of the commencement of that period.

If the LIBOR Rate does not appear on Telerate, page 3750 as of 11:00 a.m. London time on the interest determination date, the LIBOR Rate shall be the arithmetic mean of the offered rates (expressed as an annual percentage) for deposits in U.S. dollars for a six month period that appears on the Reuters Screen LIBO Page as of 11:00 a.m., London time, on the given interest determination date, rounded upwards to the next one-sixteenth ($\frac{1}{16}$) of one percent, if the quoted interest rate is not equivalent to one-sixteenth ($\frac{1}{16}$) of one percent.

Interest Determination Dates. The interest determination dates are as follows:

- *The Initial Interest Period:* If your subscription is received and accepted before the 15th day of the month, the first payment of interest accrues from the 15th day of the month in which we accept such subscription at the applicable Rate for your issue date; if your subscription is received and accepted on or after the 15th, interest accrues from your issue date, and ends on either of March 1, June 1, September 1, or December 1 immediately following the issue date.
- *The Final Interest Period:* This period commences on, and includes, whichever of either March 1, June 1, September 1 or December 1 immediately prior to the maturity date and ends on, but excludes, the maturity date.
- *The Remaining Interest Periods:* Each remaining period will commence on and include March 1, June 1, September 1 or December 1 in each year.

Bond Certificate. We are issuing the bonds in book entry form. Therefore, bond certificates will not be issued unless specifically requested by the purchaser at the time of purchase. 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). You may transfer a bond, if permitted, by notifying the fiscal agent in writing of the transfer along with appropriate transfer documents and any fee, paid by the transferor, required by the fiscal agent. The fiscal agent will then record the transfer in the bond register. We will only repurchase bonds upon presentation of appropriate transfer documents to the fiscal agent. 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. Bond certificate holders must present the physical certificate to the fiscal agent to receive payment.

Early Redemption. Upon sixty days' written notice and presentation of the necessary transfer documents, we will repurchase bonds at the option of the owner(s) prior to maturity only under the following circumstances:

- (a) upon the death of the original registered owner of the bond or, if there is more than one original registered owner of the bond, upon the death of the last surviving registered owner. However, we are not required to purchase upon death if the bond is owned by a transferee or assignee;
- (b) upon the death of any person owning the bond through an IRA, Keogh Plan, or H.R. 10 Plan. However, we are not required to purchase bonds on death as set forth in clause (a) above and this clause (b) if, in our opinion, a material number of these persons died as a result of war, epidemic, catastrophe of nature or other disaster;

- (c) from an Employee Benefit Plan, which is the original registered owner of the bond, after three (3) years from the issue date, or from an Employee Benefit Plan which is a permissible transferee, after three (3) years from the date of transfer;
- (d) upon the termination of an Employee Benefit Plan, provided that in the case of an IRA, Keogh or H.R. 10 Plan, the bond, or the bond's face amount, is not, within sixty days from the distribution to the individual, transferred to another IRA, Keogh or H.R. 10 Plan in a "rollover" transaction as the term is defined in the Internal Revenue Code (the "Code") Section 402; and
- (e) from the original registered owner, other than an Employee Benefit Plan, seven (7) years from the issue date, or from a transferee, other than an Employee Benefit Plan, seven (7) years from the date of transfer.

For purposes of this offering, "Employee Benefit Plan" shall mean:

- any employee benefit plan as defined in Section 3 of the Employee Retirement Income Security Act of 1974, as amended;
- any employee benefit plan, employee trust, retirement compensation arrangement, or registered pension plan, all as defined in the Income Tax Act (Canada), or the regulations thereunder or any comparable legislation then in effect at the time of determination;
- any Individual Retirement Account, Keogh or H.R. 10 Plan, and any Registered Retirement Savings Plan, or any treasury, strike or other fund established or maintained by an employee organization.

An "Individual Retirement Account" or "IRA" is an individual retirement, tax-deferred pension plan established by an employee under Code Section 408. A "Keogh Plan" or an "H.R. 10 Plan" is a retirement plan established by a self-employed person. A "Registered Retirement Savings Plan" or "RRSP" is a retirement savings plan registered under the Income Tax Act (Canada) in respect of which the owner of the bond or the owner's spouse is the annuitant.

We will repurchase bonds for a purchase price equal to the principal amount of the bond together with interim interest 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.

Limited Transferability. You may not transfer or assign the bonds except that, subject to the terms and conditions of the Fiscal Agency Agreement, the bonds shall be transferable to:

- the State;
- the Development Corporation for Israel ("DCI");
- any religious, charitable, literary, scientific or educational organization exempt from income or similar tax under the Code, or under the laws of the country in which the organization is located (transfers to such tax exempt organizations may be made only by donation, not sale);
- 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, we may, however, by order, provide for the further transferability and assignability of the bonds. Due to the limited transferability of the bonds and the limited circumstances under which we will repurchase the bonds (see "Early Redemption," above), bondholders may not be able to readily liquidate their investment prior to three years after the issue date of the bonds, in the case of Employee Benefit Plan bondholders, or seven years after the issue date in other cases.

Tax Matters. Interest on the bonds is taxable at ordinary income rates in the year in which the taxpayer receives or is entitled to receive interest (in accordance with the holder's method of accounting for tax purposes). Gain or loss on the sale of the bonds, when transfers are permitted, are normally taxable at capital gains 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 bonds by an entity which is tax-exempt under Code Section 501(a), will not be subject to Federal income tax. We will make applicable withholding and reporting with respect to the bonds.

Fiscal Agent. The name and principal office of the Fiscal Agent is The Chase Manhattan Bank, 450 West 33rd Street, New York, New York 10001-2697 (Attention: Corporate Trust Administration). Its telephone number is (212) 946-3039.

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

We are permitted to "incorporate by reference" the information that we file with the Commission, 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 that 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 DCI at the following address: Development Corporation for Israel, 575 Lexington Avenue, New York, New York 10022-6195, Attention: National Field Department, Telephone: (212) 644-2663.

You should only rely 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 DCI, dated as of June 11, 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 dealers 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 that 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.