

**\$400,000,000**  
**SEVENTH ECONOMIC DEVELOPMENT ISSUE DOLLAR BONDS**  
 DUE May 31, 2007 (FIXED-RATE)  
**STATE OF ISRAEL**

*The following Bonds are now being offered in the aggregate principal amount of \$400,000,000:*

**Book-Entry, Interest-Bearing Dollar Bonds with a maturity date of May 31, 2007 (the "Bonds").** Interest shall be payable semi-annually at a fixed per annum interest rate which shall be determined for periods commencing May 1, June 15, August 1, September 15, November 1, December 15, February 1 and March 15 in each year (a "Sales Period") by the State. Ten days prior to the commencement of each Sales Period, the State will advise the Development Corporation for Israel or any successor underwriter of the Bonds (the "Financial Corporation") of the interest rate for Bonds to be sold during such period and such interest rate will be set forth on a sticker affixed to the cover page of this Prospectus. To ensure purchase of a Bond at the interest rate fixed for any given Sales Period, a purchaser must deliver to the Financial Corporation the full purchase price for the Bonds and all required subscription documents, in acceptable form on or prior to the day set forth on a sticker affixed to the cover page of this Prospectus.

Since the Bonds are being issued in Book-Entry form, *registered owners will not be issued a certificate to evidence the Bond unless specifically requested at the time of purchase.*

Interest on a Bond accrues from the Issue Date, which will be the first day of the month following the month in which the subscription is received and accepted by the Fiscal Agent, except that if such subscription is received and accepted before the fifteenth day of the month, the first payment of interest on such Bond accrues from the fifteenth day of the month in which such subscription is received and accepted. While a Bond is outstanding, interest will be payable semi-annually on June 1 and December 1 and upon maturity. The Bonds will be offered at par upon original subscription in a minimum denomination of \$25,000, and additional units of \$5,000, or integral multiples of \$5,000. However, the Bonds may be issued in denominations of less than \$25,000 only to subscribers who have purchased Bonds in the amount of at least \$25,000 in a single purchase during the 12-month period immediately preceding subscription; provided that the Bonds in denominations of less than \$25,000 are registered in the same name as those Bonds which satisfy the minimum purchase requirement.

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 a greater yield to maturity than the Bonds being offered hereby.

**THE BONDS ARE NON-TRANSFERABLE AND NON-ASSIGNABLE,  
 EXCEPT IN CERTAIN 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.**

	Price to Public	Underwriting Commission*	Proceeds to Government*
Per Unit .....	100%	6%*	94%*
Aggregate Total .....	\$400,000,000	\$24,000,000	\$376,000,000

\*The Bonds are being offered on a best-efforts basis, and the proceeds will depend upon the total number of Bonds sold, the cost of flotation, and the final determination of the underwriting commission set at a maximum of 6%. See "Summary of Underwriting Agreement."

**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 Economic Development Issue Dollar Bonds Due May 31, 2007 in the aggregate amount of \$400,000,000 (the "Bonds"), pursuant to the terms and conditions of an agreement between the State and The First National Bank of Chicago (the "Fiscal Agent") (the "Fiscal Agency Agreement").

The Bonds are the direct, unconditional, general obligations of the State which pledges its full faith and credit for the due and punctual payment of interest on and principal of the Bonds and for the due and timely performance of all obligations of the State with respect thereto.

The principal of a Bond is payable May 31, 2007 in United States currency at the agency of the State in Chicago, Illinois, or such other agencies as may be designated by the State. Interest with respect to the first interest payment shall accrue (i) from the Issue Date of such Bond for all Bonds for which subscriptions had been received and accepted by the Fiscal Agent during the period commencing on the fifteenth day of the month preceding such Issue Date and terminating on the last day of the month preceding such Issue Date, or (ii) from the fifteenth day of the month preceding the Issue Date for subscriptions received and accepted by the Fiscal Agent from the first day of the month through the fourteenth day of the month preceding the Issue Date.

Interest will be payable semi-annually on each June 1 and December 1, while the Bond is outstanding, and upon maturity. With respect to Bonds on which interest accrues from the fifteenth day of the month prior to any Interest Payment Date, the first interest payment shall be payable on the first Interest Payment Date subsequent to the Issue Date. Interest shall be payable semi-annually at a fixed per annum interest rate which shall be determined for periods commencing May 1, June 15, August 1, September 15, November 1, December 15, February 1 and March 15 in each year (a "Sales Period") by the State. Ten days prior to the commencement of each Sales Period, the State will advise the Development Corporation for Israel or any successor underwriter of the Bonds ("Financial Corporation") of the interest rate for Bonds to be sold during such period, and such interest rate will be set forth on a sticker affixed to the cover page of this Prospectus. To ensure purchase of a Bond at the interest rate fixed for any given Sales Period, a purchaser must deliver to the Financial Corporation the full purchase price for the Bonds and all required subscription documents, in acceptable form on or prior to the day set forth on such sticker.

The Bonds are being issued in book entry form. Registered owners of the Bonds will not be issued a certificate evidencing the Bond, unless specifically requested at the time of purchase. The State has appointed the Fiscal Agent as securities depository for the Bonds. The Fiscal Agent will mail to the purchaser and registered owner of book entry Bonds a confirmation that the registered owner has been listed in the Bond register (the "Register") as the registered owner of such Bond along with other pertinent information. All notices relating to the Bonds will be forwarded to the registered owner of the Bond as recorded in the Register. Any transfer of the Bonds may be effected by notifying the Fiscal Agent in writing of such transfer along with appropriate transfer documents and any fee, paid by the transferor, required by the Fiscal Agent. The Fiscal Agent will then record such transfer in the Register. All repurchases of the Bonds will only be made 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 of each Bond by mailing a check to the last address of such registered owner as listed in the Register. When a Bond certificate has been issued,

it will be necessary to present the Bond certificate in order to effect a transfer, repurchase, or redemption at maturity. The cost of replacing a Bond certificate which is lost, stolen, or destroyed after receipt shall be borne by the registered owner.

#### **Limited Transferability.**

The Bonds are non-transferable and non-assignable 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 (the "Financial Corporation"); any religious, charitable, literary, scientific or educational organization exempt from income or similar tax under the Internal Revenue Code of the United States of America (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, the State 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 the State will repurchase the Bonds (see "Repurchase and Redemption," below), Bondholders may not be able to readily liquidate their investment prior to four years after the Issue Date of the Bonds, in the case of Employee Benefit Plan Bondholders, or five years after the Issue Date in other cases.

#### **Repurchase and Redemption.**

The State will purchase Bonds at the option of the Bondholder prior to maturity only under the following circumstances (all upon (i) 120 days' written notice and (ii) presentation of the necessary transfer documents): (a) upon the death of any natural person who was 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; provided that the obligation of the State to purchase upon death shall cease and terminate and shall not apply when the Bond is owned by a transferee or assignee; (b) upon the death of any natural person owning the Bond through an IRA, Keogh Plan, or H.R. 10 Plan, provided that the State may suspend or terminate such obligations to purchase Bonds on death as set forth in clauses (a) and (b) of this paragraph if, in the opinion of the State, a material number of these persons shall have 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, four years from the Issue Date, or from an Employee Benefit Plan which is a permissible transferee, four 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 face amount thereof, 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 such term is defined in Code Section 402; and (e) from the original registered owner, other than an Employee Benefit Plan, five years from the Issue Date, or from a transferee, other than an Employee Benefit Plan, five 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, or any comparable legislation then in effect at the time of determination, and any Individual Retirement Account, Keogh or H.R. 10 Plan, or any treasury, strike or other fund established or maintained by an employee organization, or, subject to approval by the Financial Corporation, any comparable plan or fund, foreign or domestic. 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.

The repurchase price for any repurchased Bond will be the principal amount, together with interest accrued to the last day of the month preceding the month in which the repurchase is made, payable in United States currency.

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 of the Bonds plus accrued interest. No general redemption has ever been made on a prior issue. No sinking fund is required to be established under the terms of the Fiscal Agency Agreement.

#### **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 such 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, is 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. Applicable reporting and withholding, where appropriate, will be made with respect to the Bonds.

#### **Fiscal Agent.**

The name and principal office of the Fiscal Agent is The First National Bank of Chicago, One North State Street, Ninth Floor, Chicago, Illinois 60602. Its telephone number is 312-407-4660.

The foregoing description of the material terms of the Bonds set forth herein 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, 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. 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 most recent fiscal year 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 13(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 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.

## 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 Bond 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 May 1, 1997, 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 6%. 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 judgments 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 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. Such appointment shall be 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 Israel, 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, Israel 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 Israel's waiver of immunity does not extend to such actions. Because Israel has not waived its 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 Israel based on such laws unless a court were to determine that Israel is not entitled under the Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. Under the laws of Israel, assets of Israel are immune from any form of execution.

**\$400,000,000**  
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 DUE May 31, 2007 (FIXED-RATE)  
**STATE OF ISRAEL**

*The following Bonds are now being offered in the aggregate principal amount of \$400,000,000:*

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*Since the Bonds are being issued in Book-Entry form, registered owners will not be issued a certificate to evidence the Bond unless specifically requested at the time of purchase.*

**Interest on a Bond accrues from the Issue Date, which will be the first day of the month following the month in which the subscription is received and accepted by the Fiscal Agent, except that if such subscription is received and accepted before the fifteenth day of the month, the first payment of interest on such Bond accrues from the fifteenth day of the month in which such subscription is received and accepted. While a Bond is outstanding, interest will be payable semi-annually on June 1 and December 1 and upon maturity. The Bonds will be offered at par upon original subscription in a minimum denomination of \$25,000, and additional units of \$5,000, or integral multiples of \$5,000. However, the Bonds may be issued in denominations of less than \$25,000 only to subscribers who have purchased Bonds in the amount of at least \$25,000 in a single purchase during the 12-month period immediately preceding subscription; provided that the Bonds in denominations of less than \$25,000 are registered in the same name as those Bonds which satisfy the minimum purchase requirement.**

**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 a greater yield to maturity than the Bonds being offered hereby.**

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 EXCEPT IN CERTAIN 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.**

	Price to Public	Underwriting Commission*	Proceeds to Government*
Per Unit .....	100%	6%*	94%*
Aggregate Total .....	\$400,000,000	\$24,000,000	\$376,000,000

\*The Bonds are being offered on a best-efforts basis, and the proceeds will depend upon the total number of Bonds sold, the cost of flotation, and the final determination of the underwriting commission set at a maximum of 6%. See "Summary of Underwriting Agreement."

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

## THE OFFERING

### Description of the Bonds.

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The Bonds are the direct, unconditional, general obligations of the State which pledges its full faith and credit for the due and punctual payment of interest on and principal of the Bonds and for the due and timely performance of all obligations of the State with respect thereto.

The principal of a Bond is payable May 31, 2007 in United States currency at the agency of the State in Chicago, Illinois, or such other agencies as may be designated by the State. Interest with respect to the first interest payment shall accrue (i) from the Issue Date of such Bond for all Bonds for which subscriptions had been received and accepted by the Fiscal Agent during the period commencing on the fifteenth day of the month preceding such Issue Date and terminating on the last day of the month preceding such Issue Date, or (ii) from the fifteenth day of the month preceding the Issue Date for subscriptions received and accepted by the Fiscal Agent from the first day of the month through the fourteenth day of the month preceding the Issue Date.

Interest will be payable semi-annually on each June 1 and December 1, while the Bond is outstanding, and upon maturity. With respect to Bonds on which interest accrues from the fifteenth day of the month prior to any Interest Payment Date, the first interest payment shall be payable on the first Interest Payment Date subsequent to the Issue Date. Interest shall be payable semi-annually at a fixed per annum interest rate which shall be determined for periods commencing May 1, June 15, August 1, September 15, November 1, December 15, February 1 and March 15 in each year (a "Sales Period") by the State. Ten days prior to the commencement of each Sales Period, the State will advise the Development Corporation for Israel or any successor underwriter of the Bonds ("Financial Corporation") of the interest rate for Bonds to be sold during such period, and such interest rate will be set forth on a sticker affixed to the cover page of this Prospectus. To ensure purchase of a Bond at the interest rate fixed for any given Sales Period, a purchaser must deliver to the Financial Corporation the full purchase price for the Bonds and all required subscription documents, in acceptable form on or prior to the day set forth on such sticker.

The Bonds are being issued in book entry form. Registered owners of the Bonds will not be issued a certificate evidencing the Bond, unless specifically requested at the time of purchase. The State has appointed the Fiscal Agent as securities depository for the Bonds. The Fiscal Agent will mail to the purchaser and registered owner of book entry Bonds a confirmation that the registered owner has been listed in the Bond register (the "Register") as the registered owner of such Bond along with other pertinent information. All notices relating to the Bonds will be forwarded to the registered owner of the Bond as recorded in the Register. Any transfer of the Bonds may be effected by notifying the Fiscal Agent in writing of such transfer along with appropriate transfer documents and any fee, paid by the transferor, required by the Fiscal Agent. The Fiscal Agent will then record such transfer in the Register. All repurchases of the Bonds will only be made 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 of each Bond by mailing a check to the last address of such registered owner as listed in the Register. When a Bond certificate has been issued,



it will be necessary to present the Bond certificate in order to effect a transfer, repurchase, or redemption at maturity. The cost of replacing a Bond certificate which is lost, stolen, or destroyed after receipt shall be borne by the registered owner.

**Limited Transferability.**

The Bonds are non-transferable and non-assignable 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 (the "Financial Corporation"); any religious, charitable, literary, scientific or educational organization exempt from income or similar tax under the Internal Revenue Code of the United States of America (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, the State 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 the State will repurchase the Bonds (see "Repurchase and Redemption," below), Bondholders may not be able to readily liquidate their investment prior to four years after the Issue Date of the Bonds, in the case of Employee Benefit Plan Bondholders, or five years after the Issue Date in other cases.

**Repurchase and Redemption.**

The State will purchase Bonds at the option of the Bondholder prior to maturity only under the following circumstances (all upon (i) 120 days' written notice and (ii) presentation of the necessary transfer documents): (a) upon the death of any natural person who was 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; provided that the obligation of the State to purchase upon death shall cease and terminate and shall not apply when the Bond is owned by a transferee or assignee; (b) upon the death of any natural person owning the Bond through an IRA, Keogh Plan, or H.R. 10 Plan, provided that the State may suspend or terminate such obligations to purchase Bonds on death as set forth in clauses (a) and (b) of this paragraph if, in the opinion of the State, a material number of these persons shall have 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, four years from the Issue Date, or from an Employee Benefit Plan which is a permissible transferee, four 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 face amount thereof, 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 such term is defined in Code Section 402; and (e) from the original registered owner, other than an Employee Benefit Plan, five years from the Issue Date, or from a transferee, other than an Employee Benefit Plan, five 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, or any comparable legislation then in effect at the time of determination, and any Individual Retirement Account, Keogh or H.R. 10 Plan, or any treasury, strike or other fund established or maintained by an employee organization, or, subject to approval by the Financial Corporation, any comparable plan or fund, foreign or domestic. 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.

The repurchase price for any repurchased Bond will be the principal amount, together with interest accrued to the last day of the month preceding the month in which the repurchase is made, payable in United States currency.

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 of the Bonds plus accrued interest. No general redemption has ever been made on a prior issue. No sinking fund is required to be established under the terms of the Fiscal Agency Agreement.

#### **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 such 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, is 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. Applicable reporting and withholding, where appropriate, will be made with respect to the Bonds.

#### **Fiscal Agent.**

The name and principal office of the Fiscal Agent is The First National Bank of Chicago, One North State Street, Ninth Floor, Chicago, Illinois 60602. Its telephone number is 312-407-4660.

The foregoing description of the material terms of the Bonds set forth herein 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**

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## **INCORPORATION OF DOCUMENTS BY REFERENCE**

The Annual Report on Form 18-K of the State of Israel for the most recent fiscal year 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 13(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 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.

## **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 Bond 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 May 1, 1997, 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 6%. 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 judgments 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 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. Such appointment shall be 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 Israel, 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, Israel 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 Israel's waiver of immunity does not extend to such actions. Because Israel has not waived its 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 Israel based on such laws unless a court were to determine that Israel is not entitled under the Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. Under the laws of Israel, assets of Israel are immune from any form of execution.