



Ministry of Finance



The Israel Export &  
International Cooperation Institute

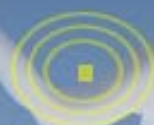


Ministry of Foreign Affairs



Ministry of Industry,  
Trade & Labor  
Invest in Israel

# Israel's Economic Overview 2005



# Israel's Economy – Main Characteristics

- Export Oriented Growth
- Rapid Development of Technology & High-Tech Industries
- Entrepreneurial Culture
- Supportive Environment for Business
- Investment & R&D Incentives



# Contents:

- Facts & Figures
- Foreign Trade
- Industry
- Doing Business in Israel
- Benefits & Investments



# Facts & Figures



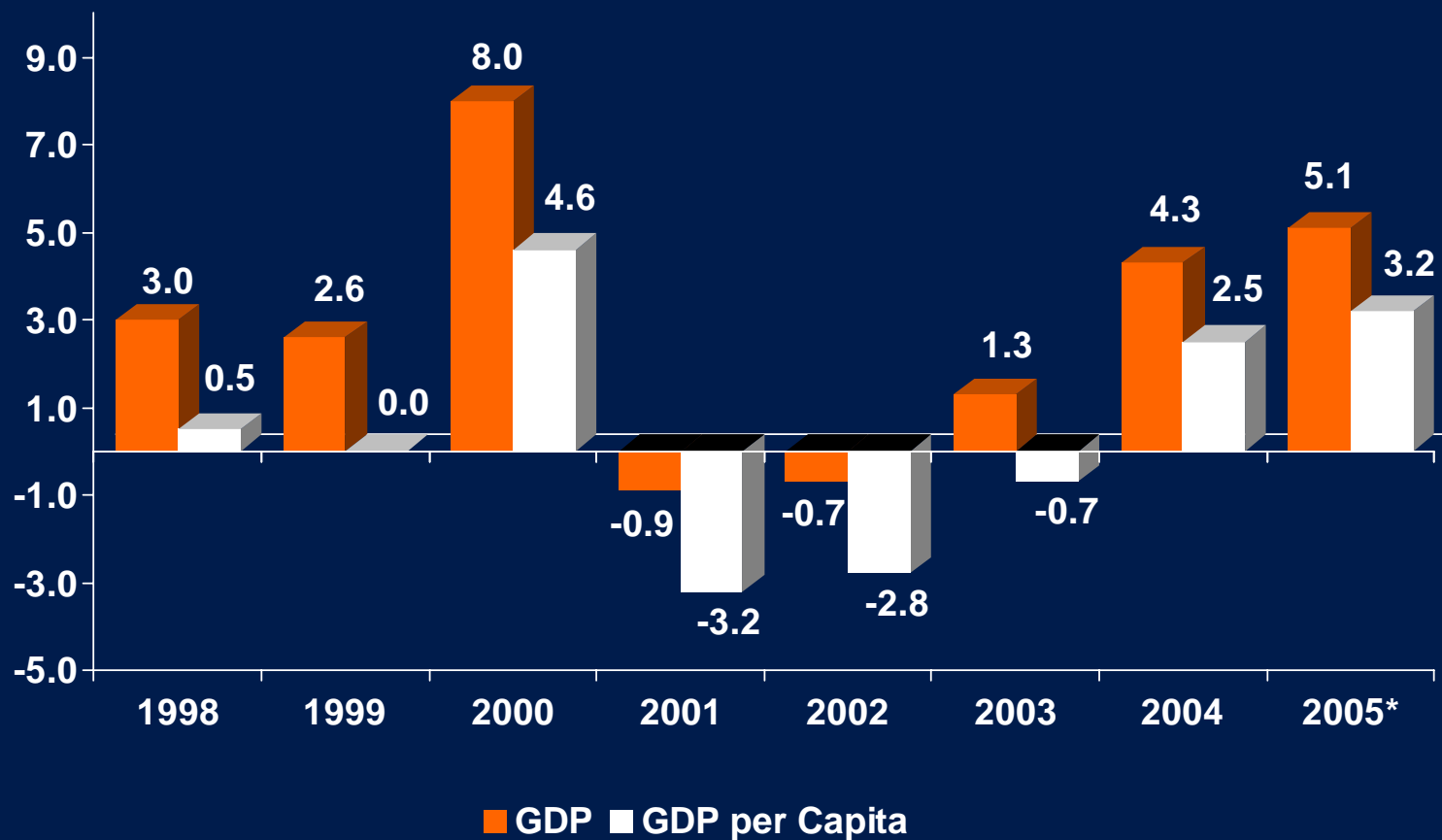
# Main Economic Indicators

Criteria	2001	2002	2003	2004
<b>GDP (current prices in B\$)</b>	113.6	104.2	110.4	117.6
<b>GDP Real Growth rate (%)</b>	-0.9%	-0.7%	1.3%	4.3%
<b>GDP per Capita (current prices, 000' \$)</b>	17.6	15.9	16.5	17.3
<b>GDP per Capita Growth rate (%)</b>	-3.2%	-2.7%	-0.5%	2.5%
<b>Exports of Goods &amp; Services (B\$)</b>	35.0	37.0	38.4	50.5
<b>Imports of Goods &amp; Services (B\$)</b>	42.7	45.6	44.3	57.7
<b>Unemployment Rate (%)</b>	9.3%	10.3%	10.7%	10.4%
<b>Inflation Rate (CPI, end of year)</b>	1.4%	6.5%	-1.9%	1.2%
<b>Current Account (% of GDP)</b>	-1.7%	-1.5%	0.5%	0.4%

# Main Economic Indicators and Forecast

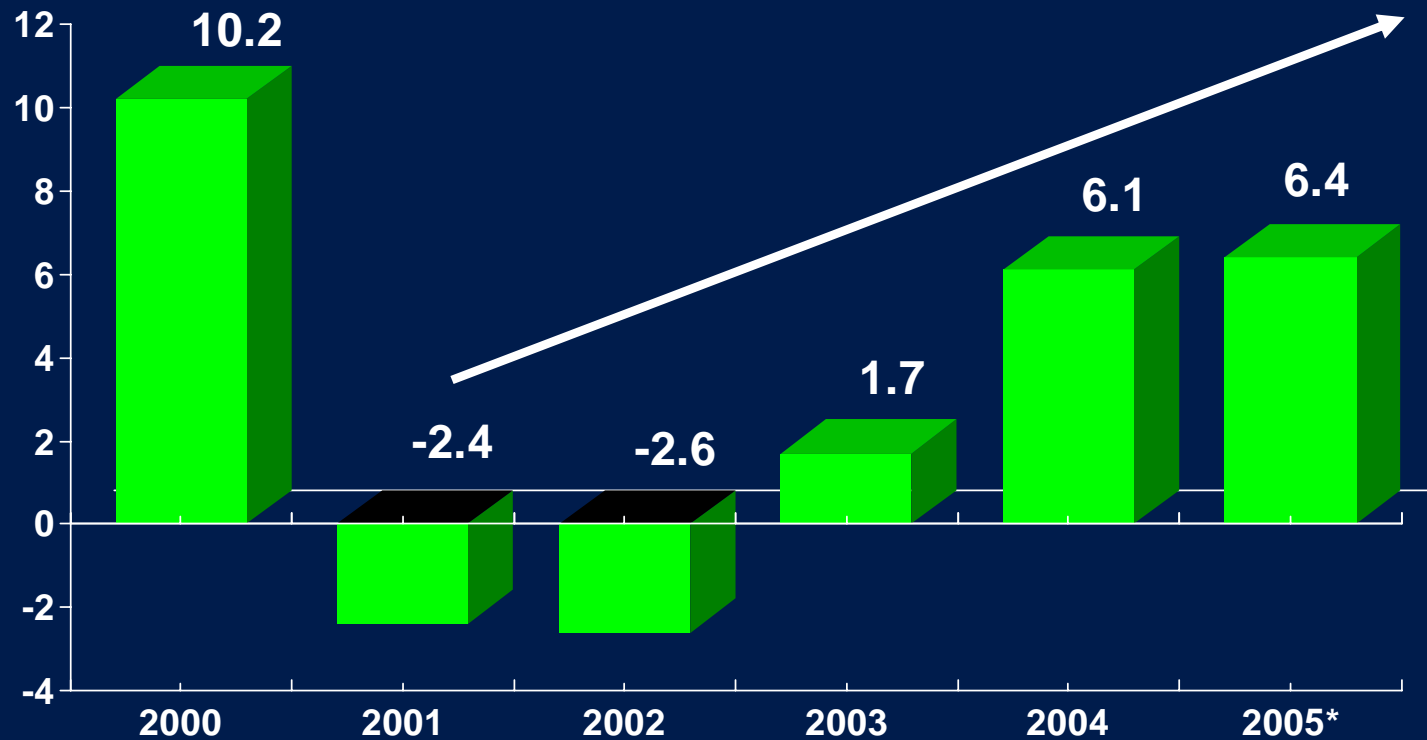
Criteria	2002	2003	2004	2005F
<b>GDP (current prices in B\$)</b>	104.2	110.4	117.6	123.2
<b>GDP Real Growth Rate (%)</b>	-0.7%	1.3%	4.3%	5.1%
<b>GDP per Capita (current prices, 000' \$)</b>	15.9	16.5	17.3	17.9
<b>GDP per Capita Growth Rate (%)</b>	-2.7%	-0.5%	2.5%	3.2%
<b>Exports of Goods &amp; Services (B\$)</b>	37.0	38.4	50.5	53.8
<b>Imports of Goods &amp; Services (B\$)</b>	45.6	44.3	57.7	60.2
<b>Unemployment Rate (%)</b>	10.3%	10.7%	10.4%	9.1%
<b>Inflation Rate (CPI, end of year)</b>	6.5%	-1.9%	1.2%	2.8%

# GDP and GDP per Capita (Annual % Change, in Constant Prices)



Source: Central Bureau of Statistics \*Estimation

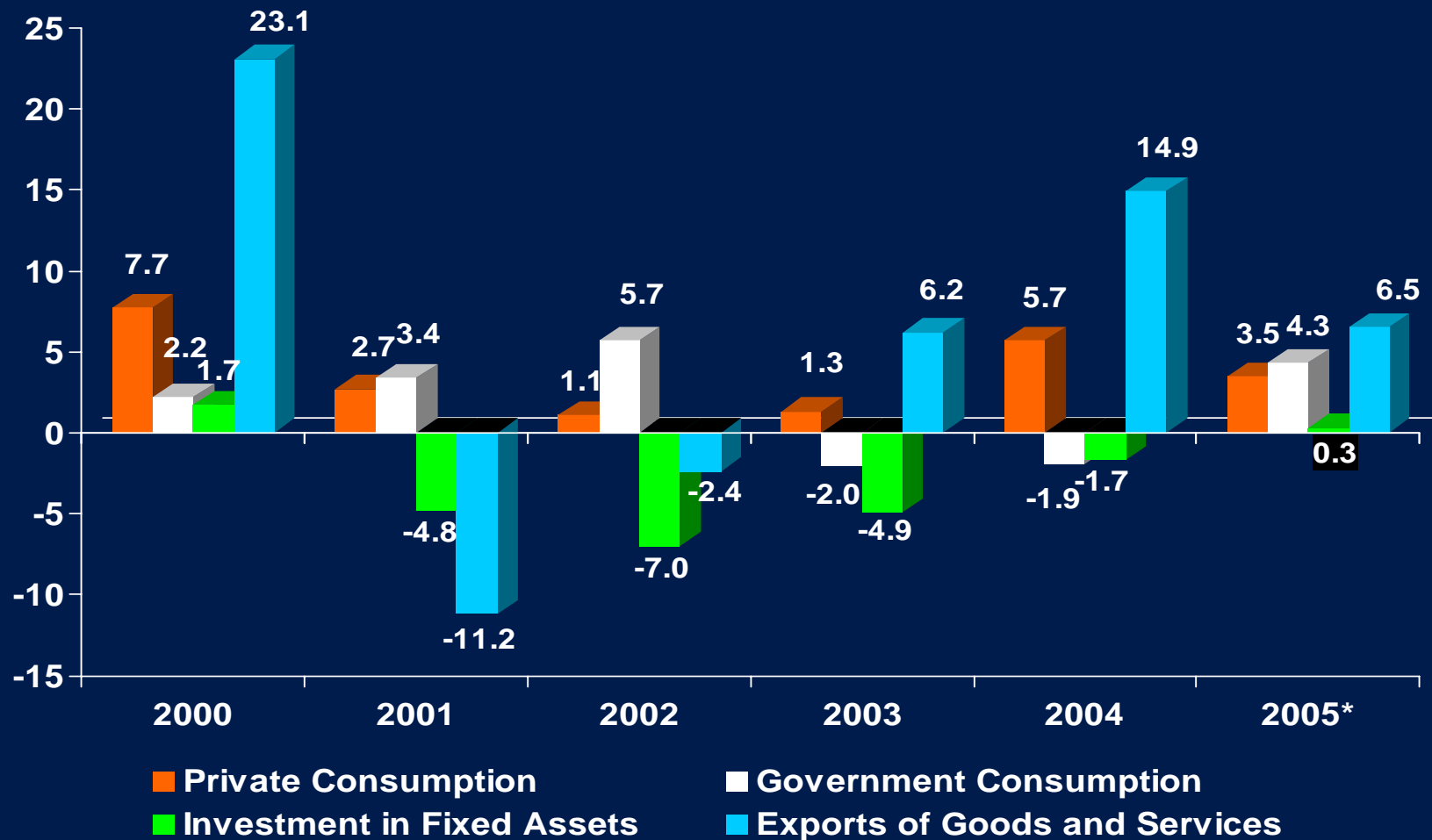
# Business Sector GDP Growth (Annual % Change)



Source: Central Bureau of Statistics, Bank of Israel \*Estimation

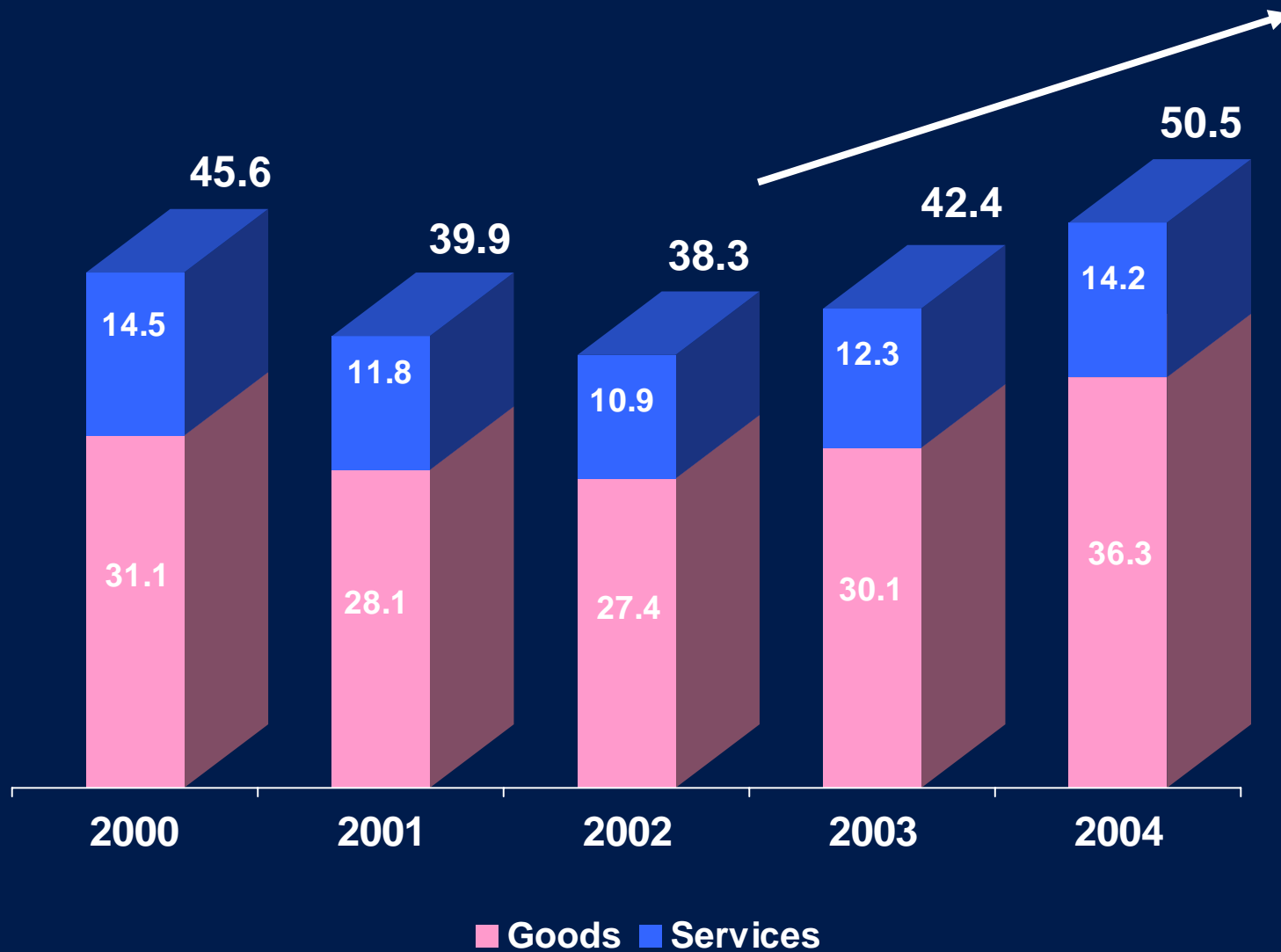
# Major GDP Components

(Annual % Change, in Constant Prices)

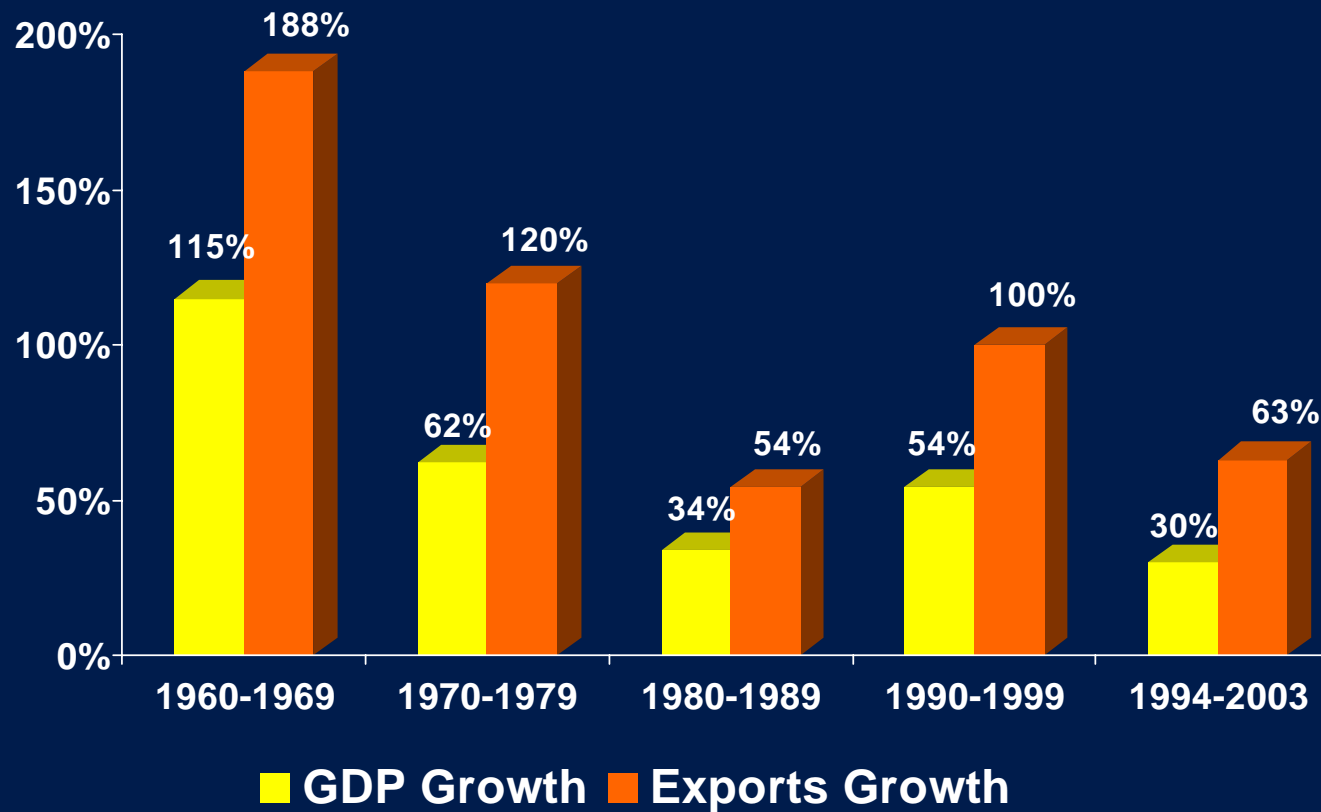


Source: Central Bureau of Statistics, Bank of Israel | \*Estimation

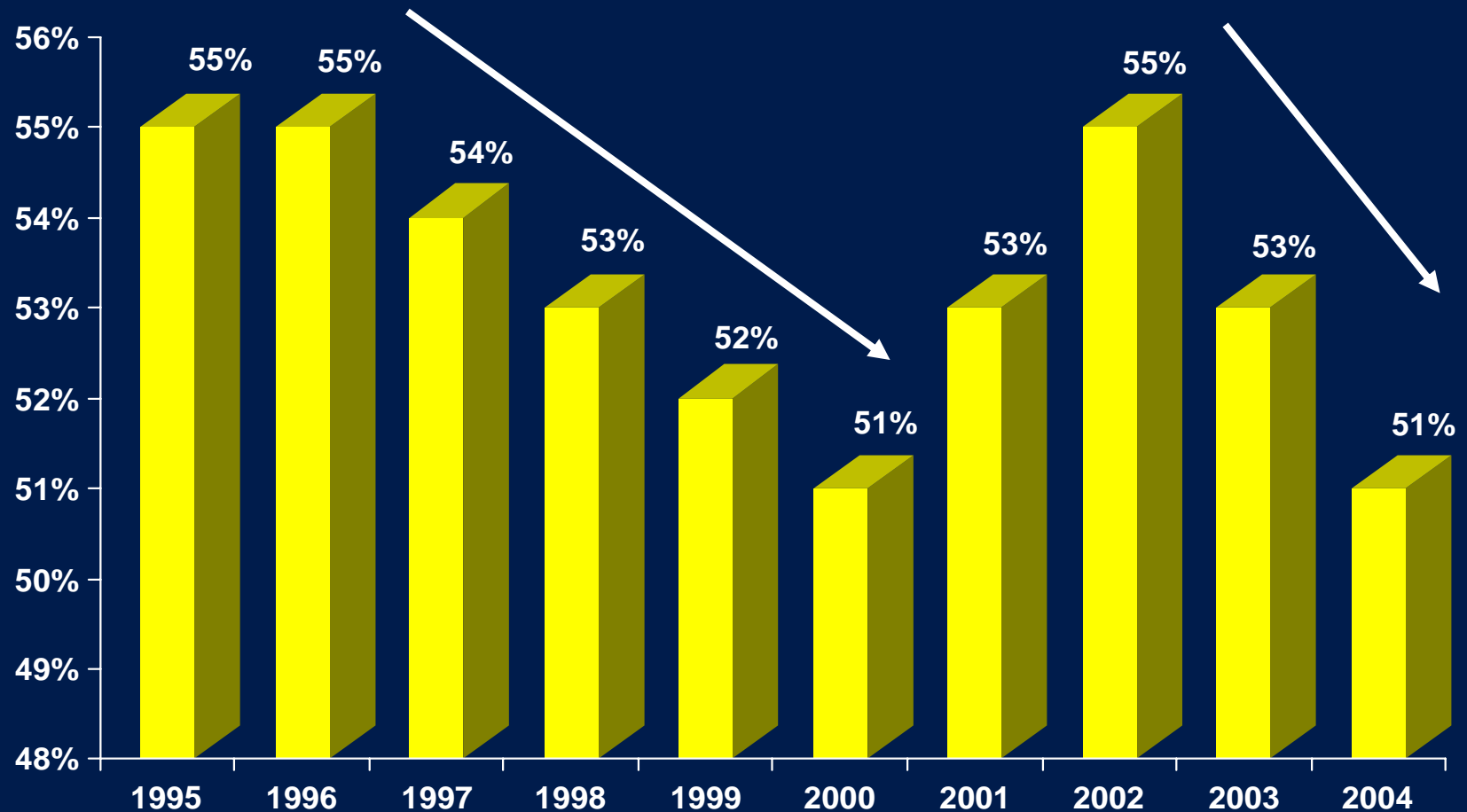
# Exports of Goods and Services (B\$)



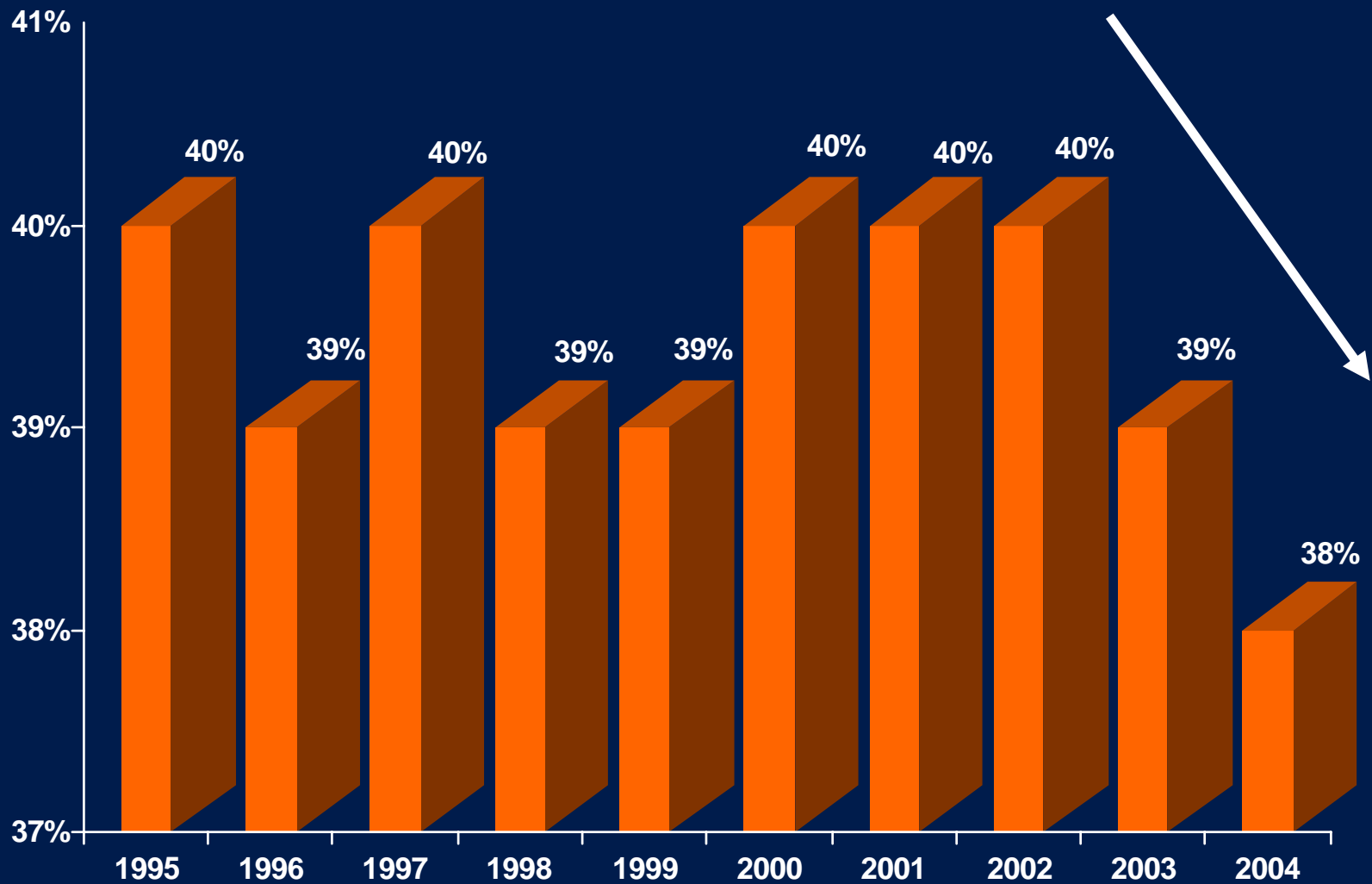
# GDP Growth and Exports Growth (Cumulative Rate of Growth by Period)



# General Government Expenditure (% of GDP)

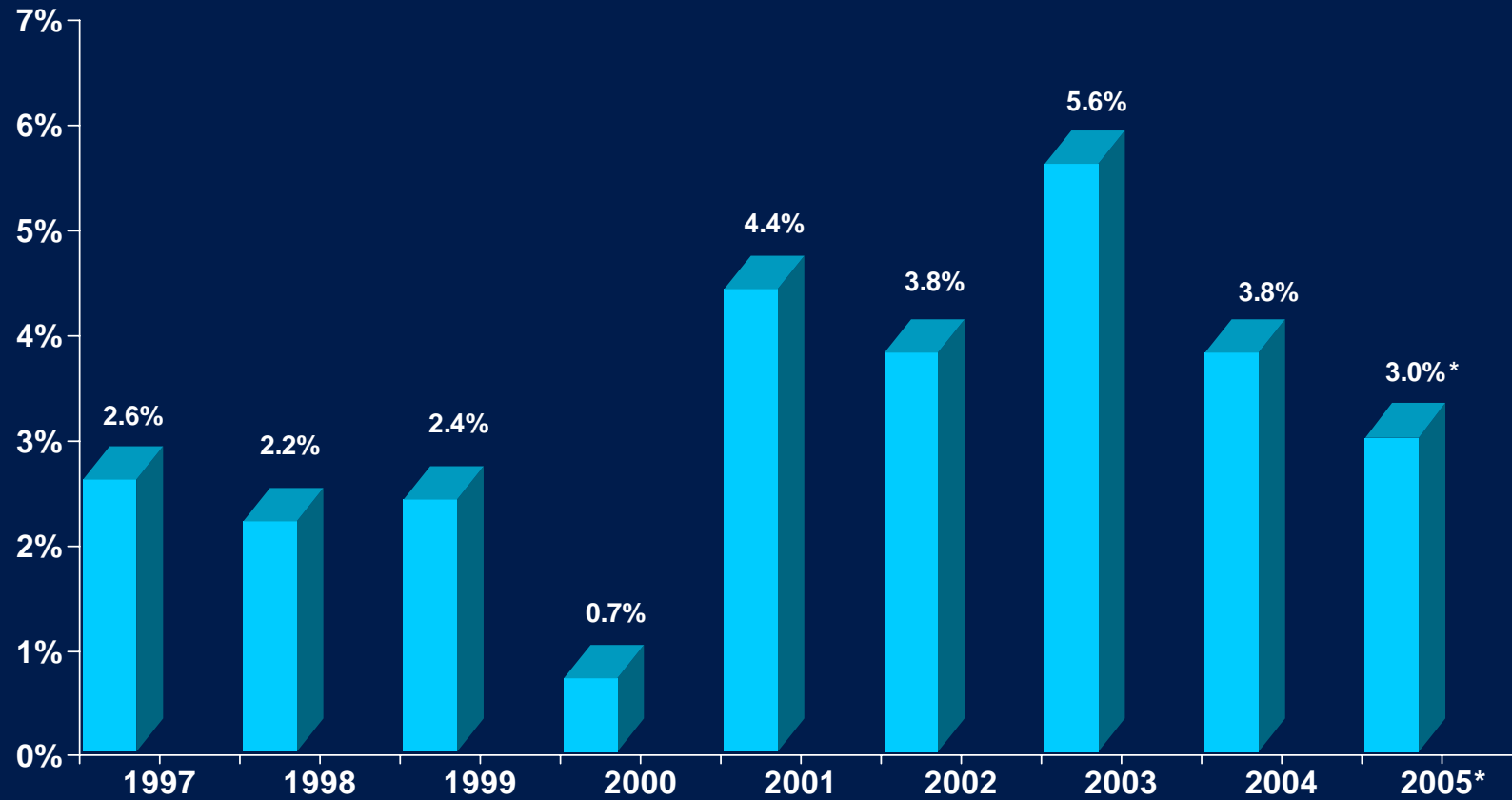


# Gross Tax Burden (% of GDP)



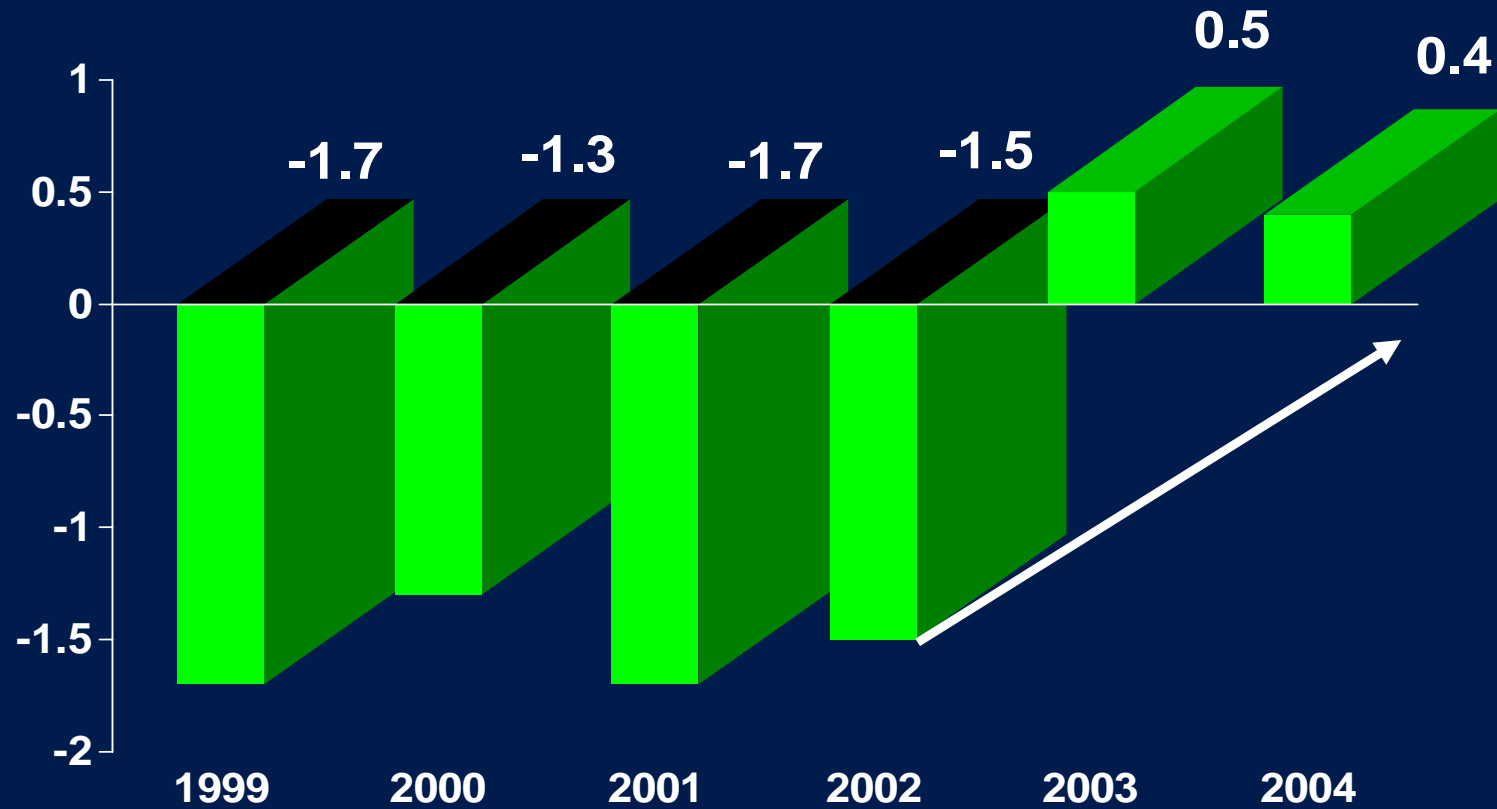
Source: Ministry of Finance, 2005

# Budget Deficit (% of GDP)

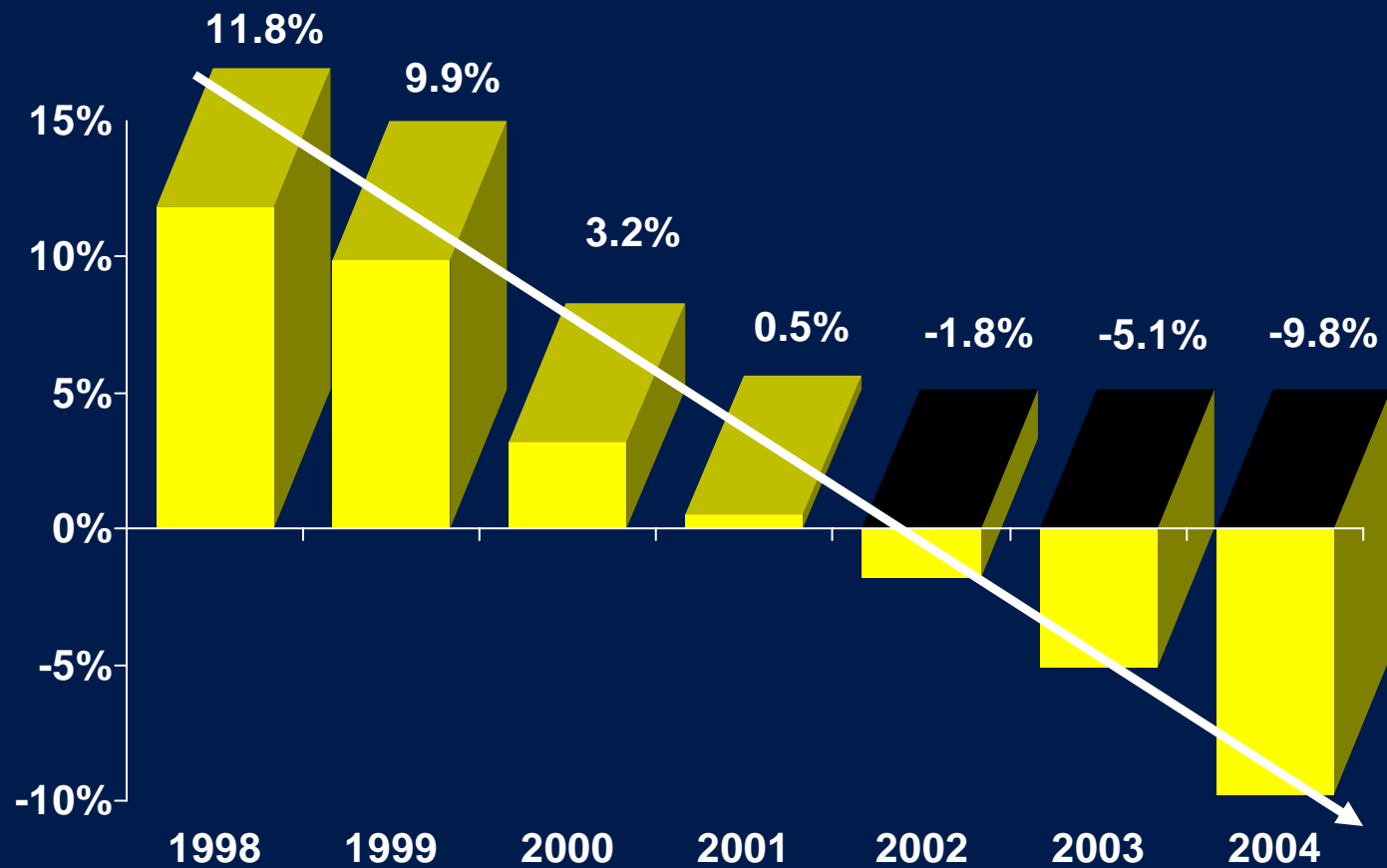


Source: Ministry of Finance, 2005 \*Forecast, Including the Disengagement Program Expenses

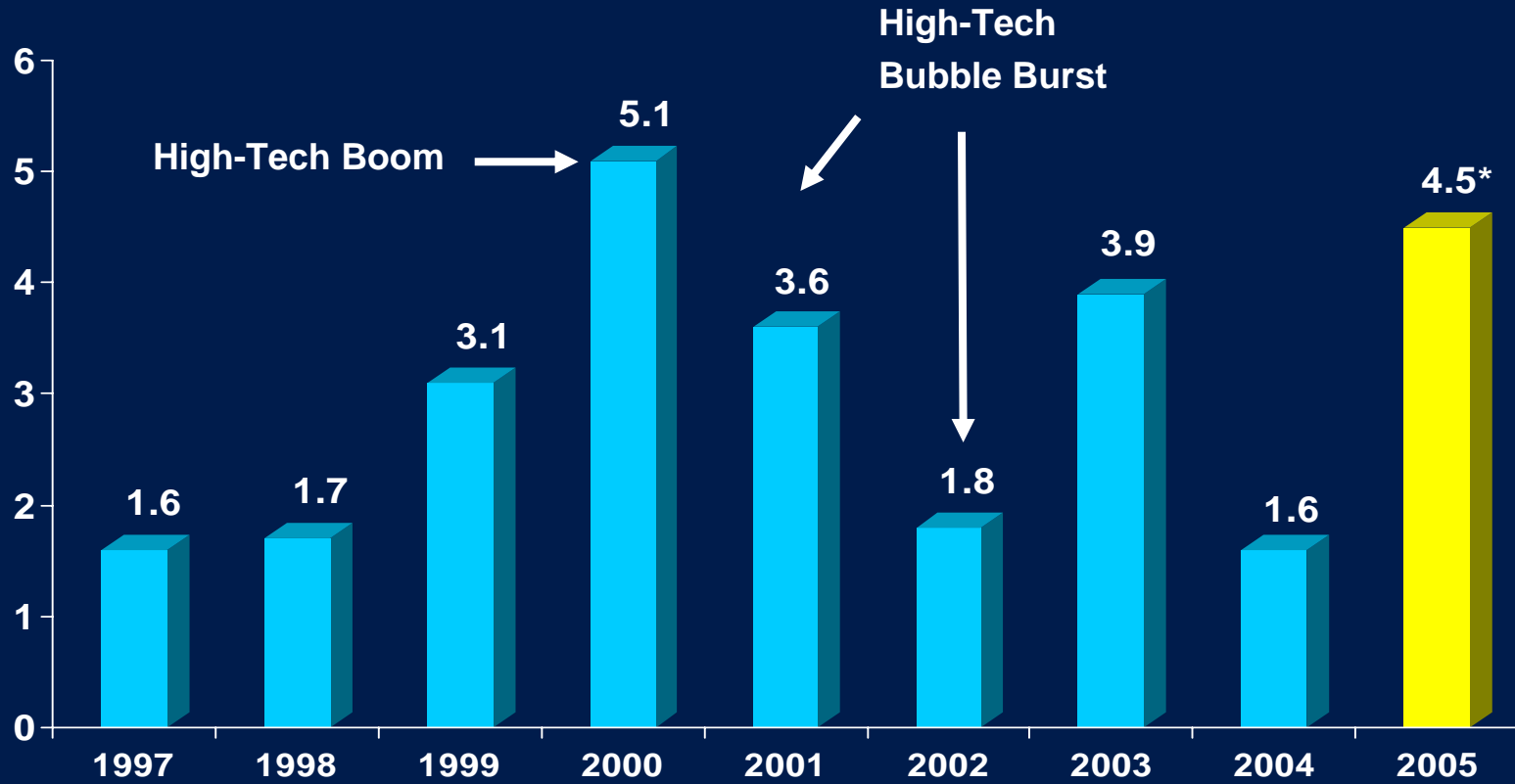
# Current Account (% of GDP)



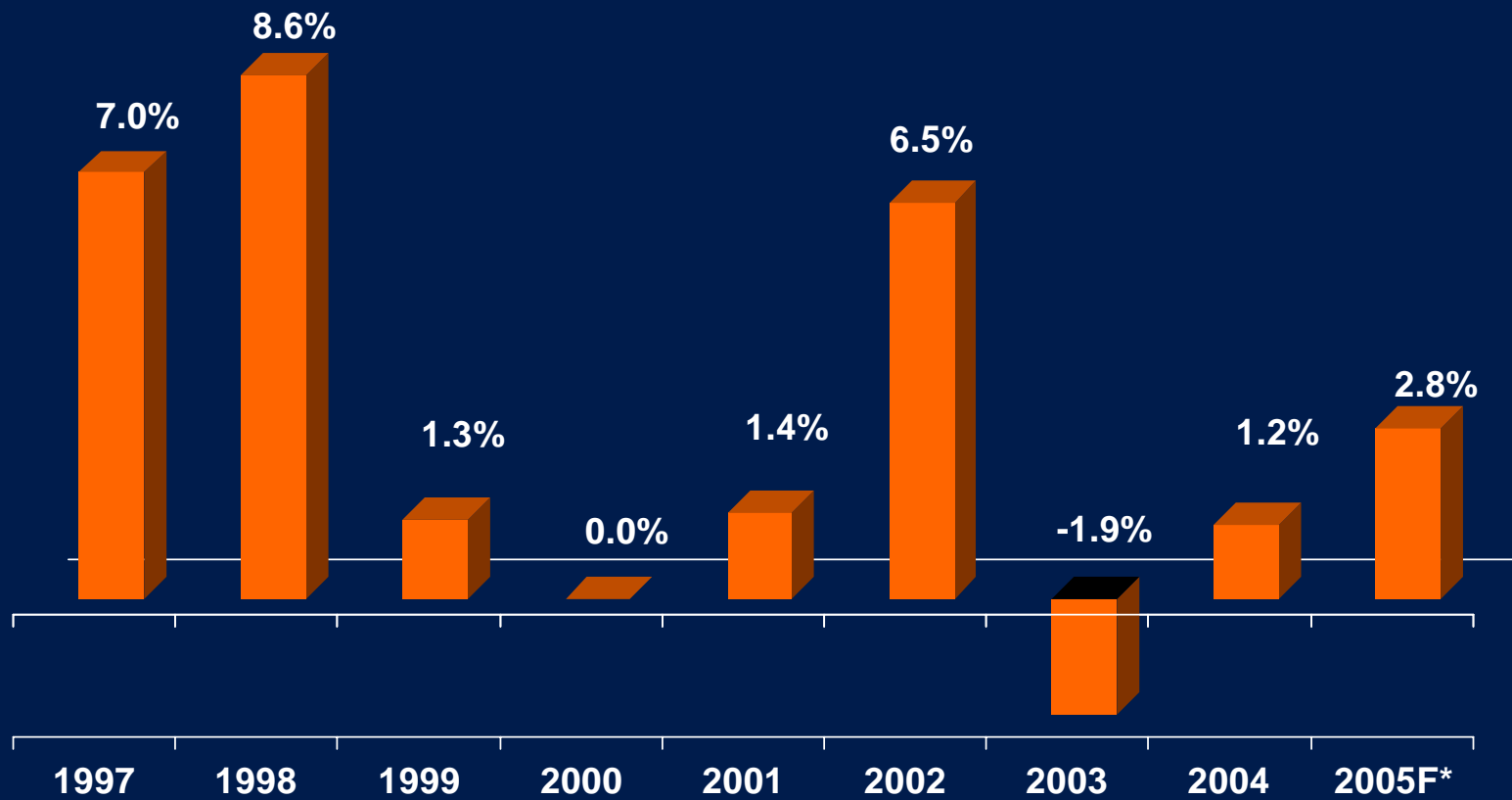
# Net Foreign Debt (% of GDP)



# Foreign Direct Investment (B\$)



# Inflation Rate (% Change in CPI, end of year)



# Unemployment Rate by Quarters\*

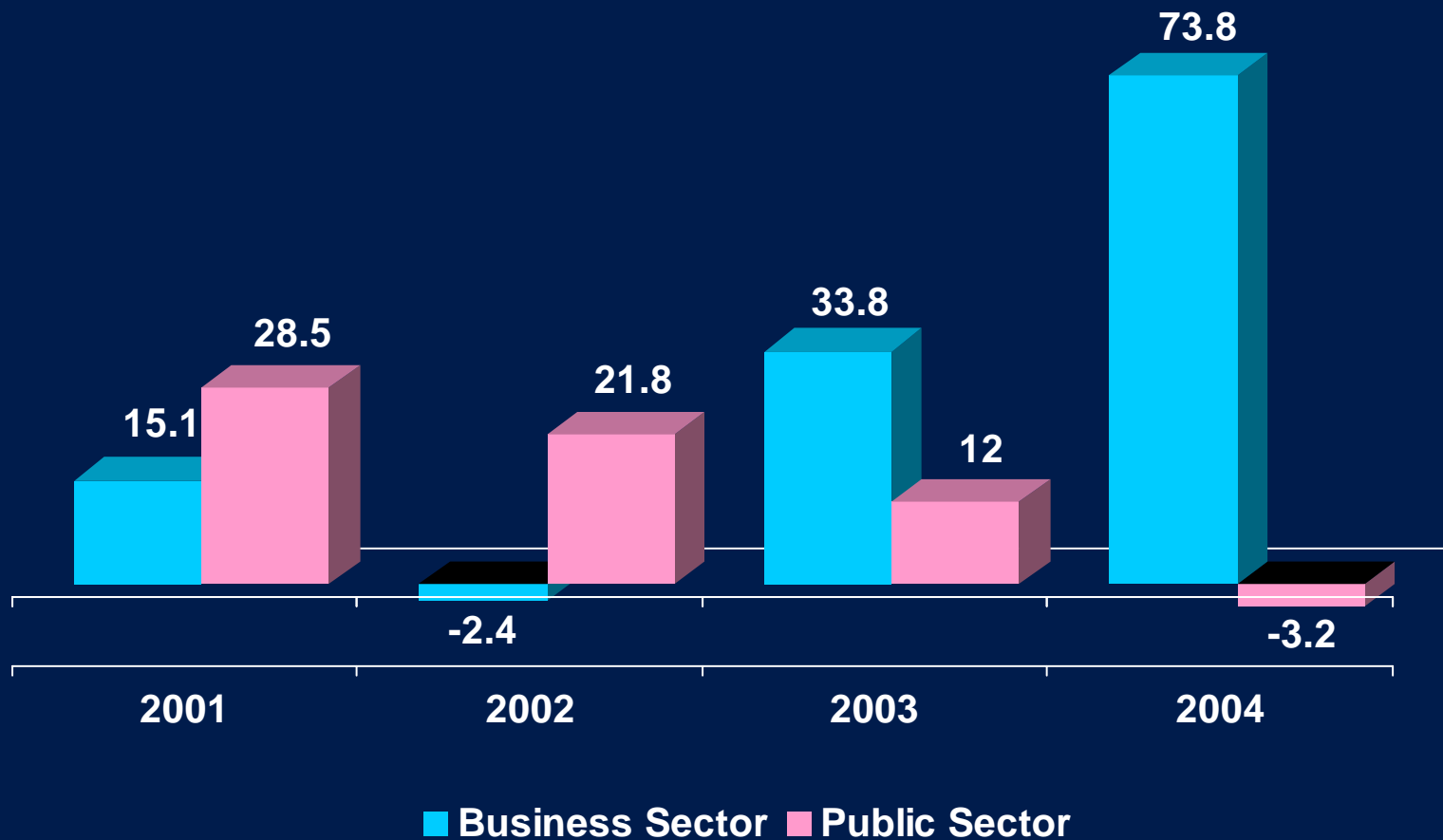
(% of Total Labor Force)



Source: Central Bureau of Statistics, Bank of Israel \*Seasonally Adjusted Data

# New Employed Persons in 2004

(Change in Israeli Employed Persons, in Thousands)

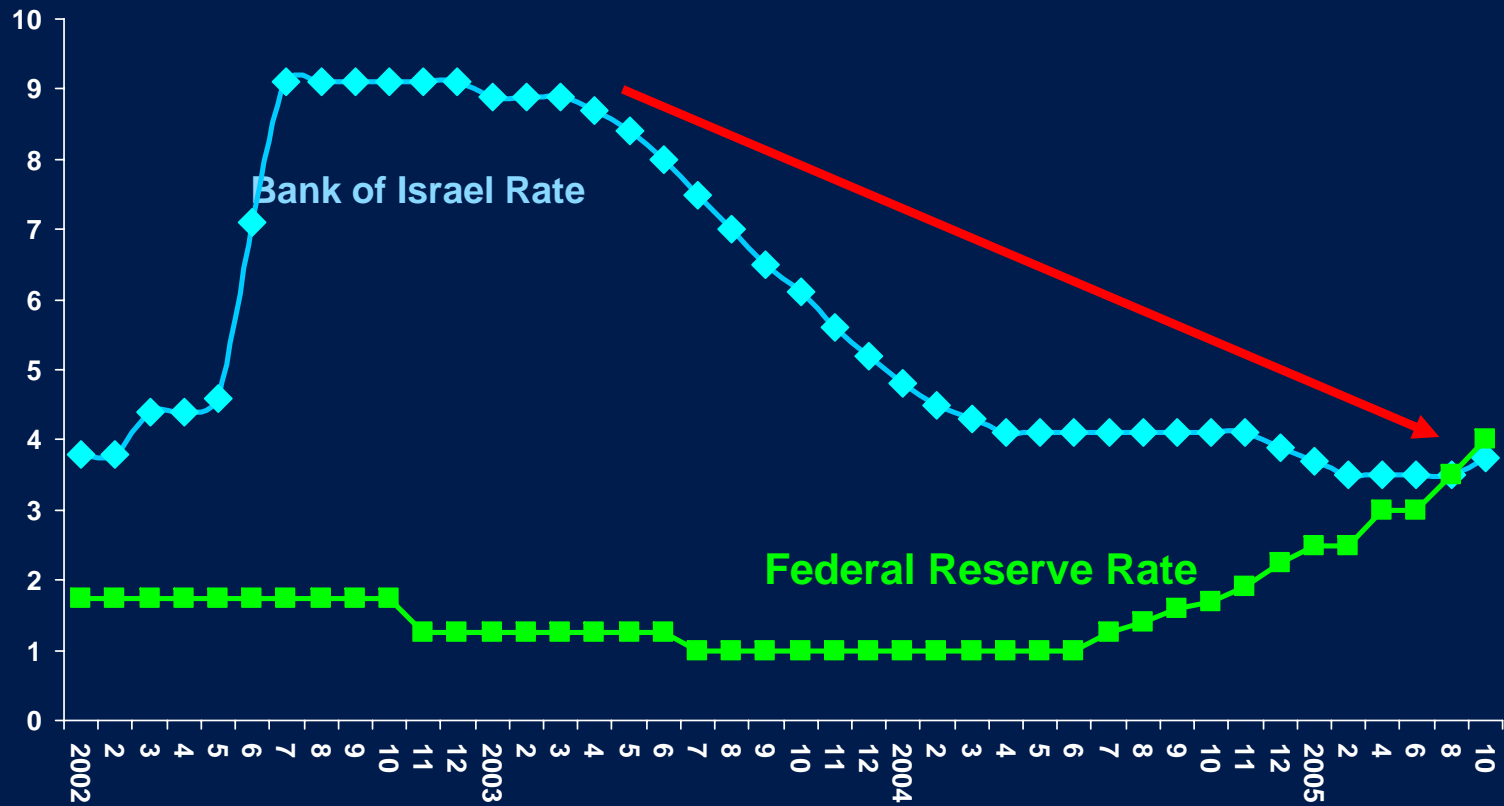


# Estimated Growth of Main GDP Components 2005

Criteria	Central Bureau of Statistics*
Real GDP Growth	5.1%
Business GDP Growth	6.4%
Exports Growth	6.5%
Private Consumption Growth	3.5%
Government Consumption Growth	4.3%
Investment in Fixed Assets Growth	0.3%

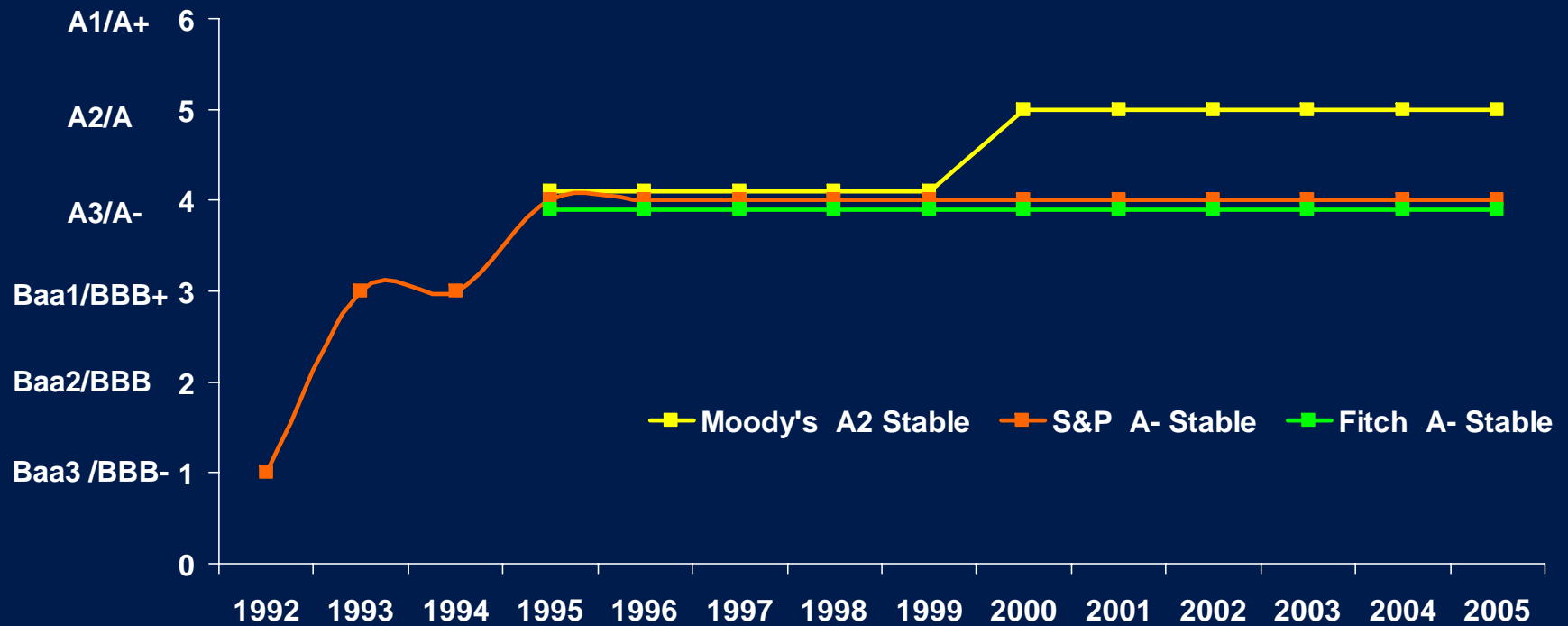
\*Published: September 2005

# Central Bank Interest Rates-Israel vs. USA (%)



Source: Bank of Israel, Federal Reserve

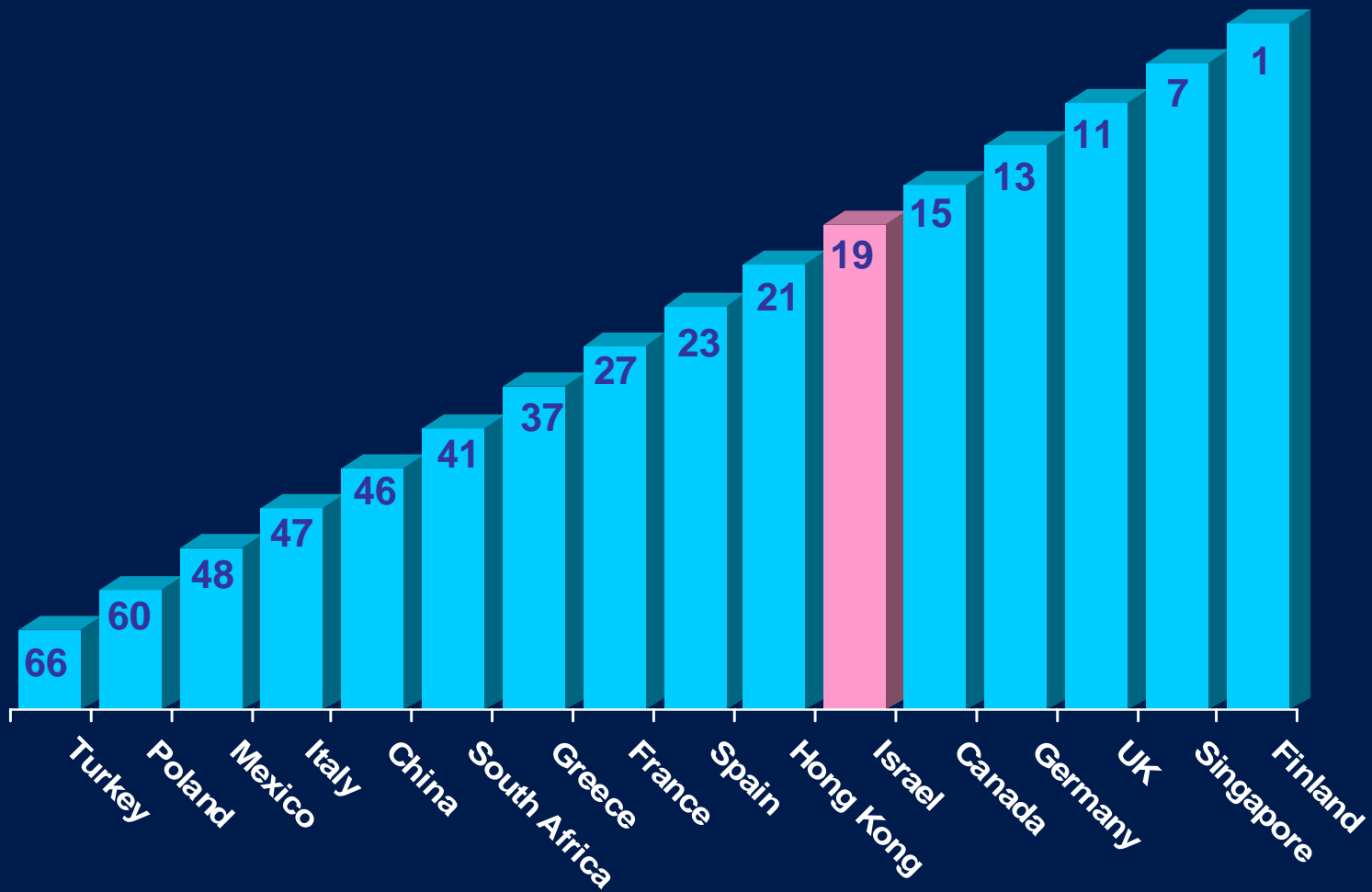
# Israel's Credit Rating 1992-2005



Source: Credit Rating Agencies

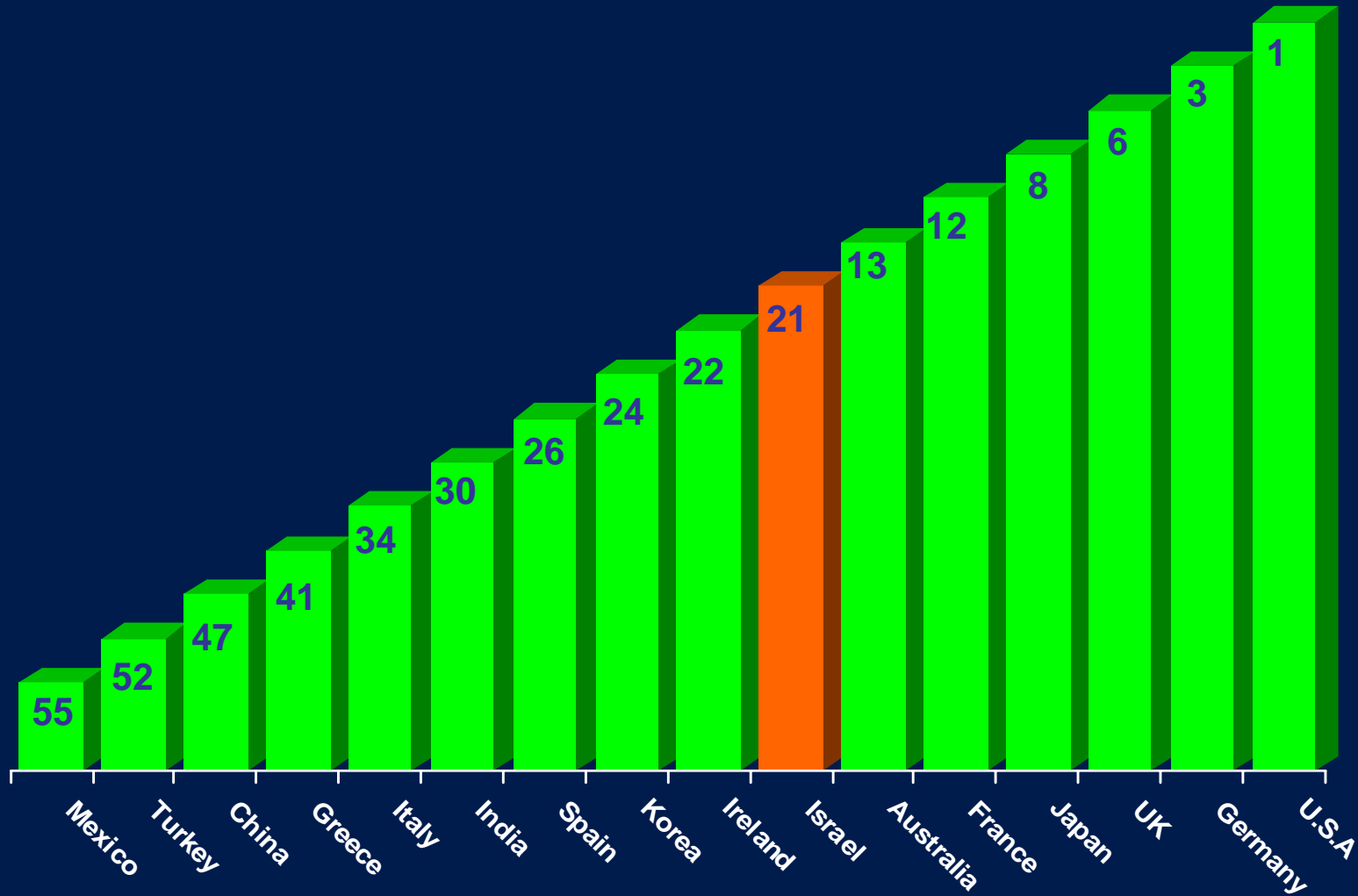
# Growth Competitiveness Index, 2004

Israel Ranks 19 Out of 104 Countries (2003 Rank was 20)



# Business Competitiveness Index, 2004

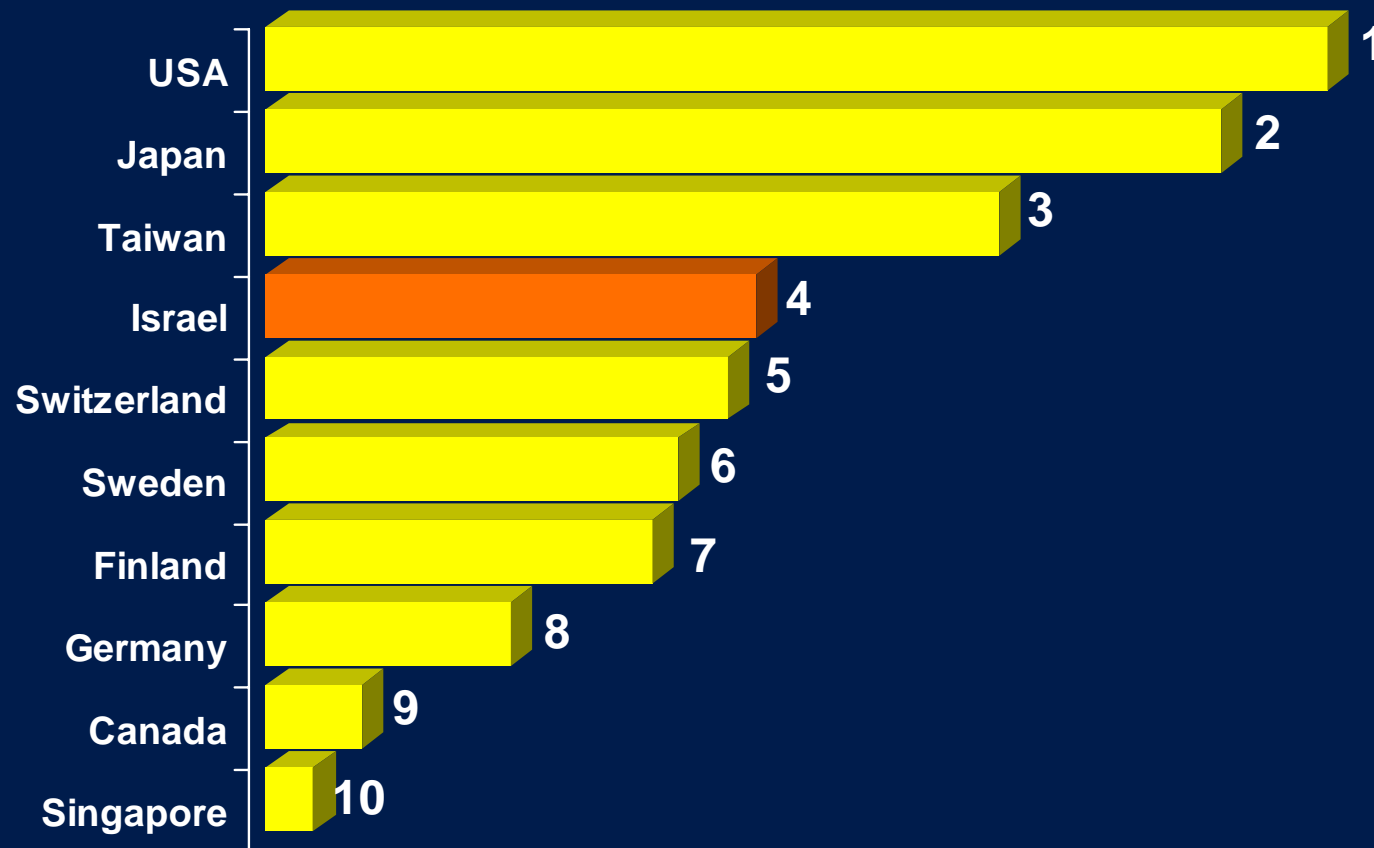
Israel Ranks 21 Out of 103 Countries (2003 Rank was 20)



Source: World Economic Forum, GCI 2004

# Core Technology-Innovating Economies, 2003

## Israel Ranks 4 Out of 103 Countries



# Foreign Trade



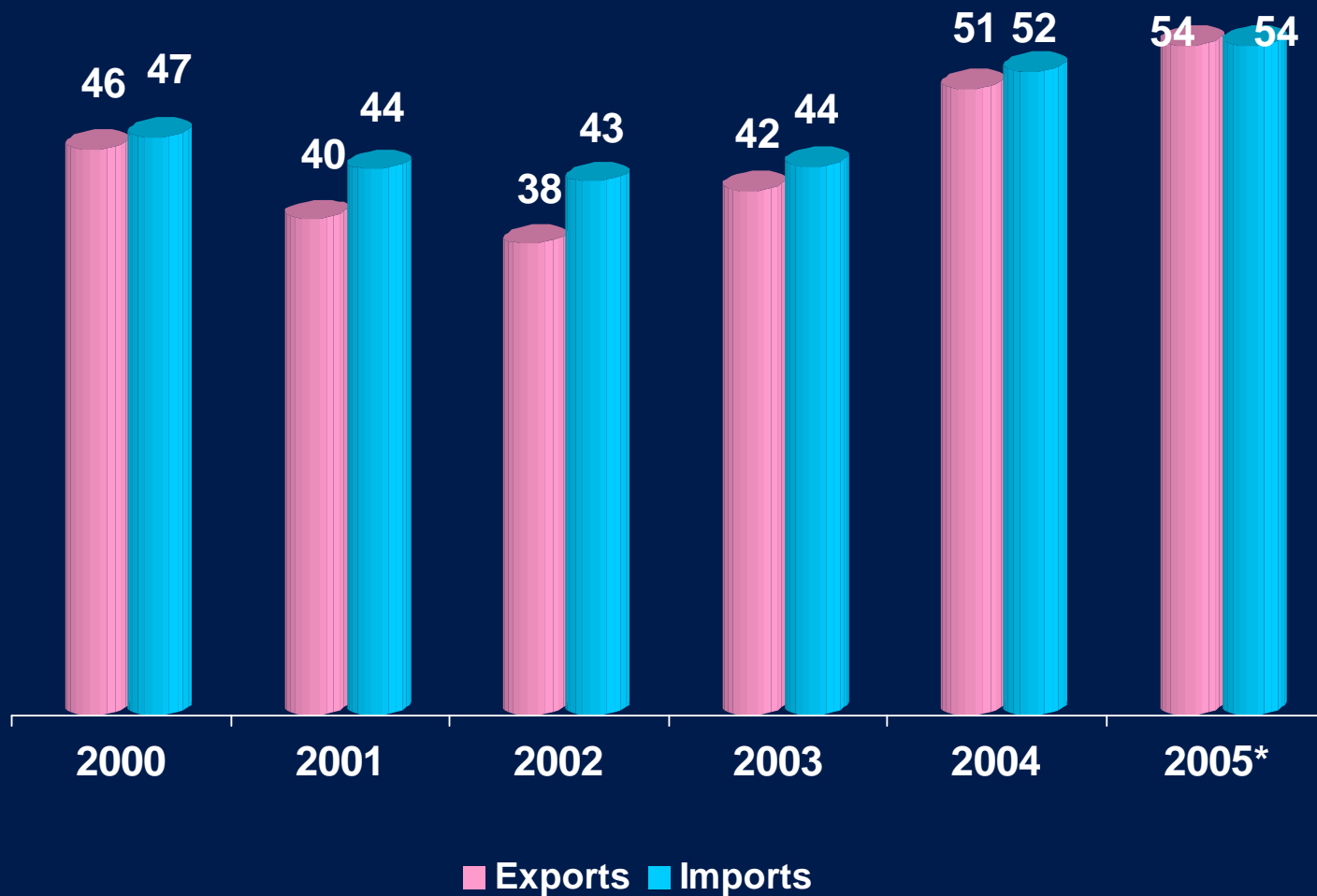
# EXPORTS: The Engine of Israeli Growth

In 2004,

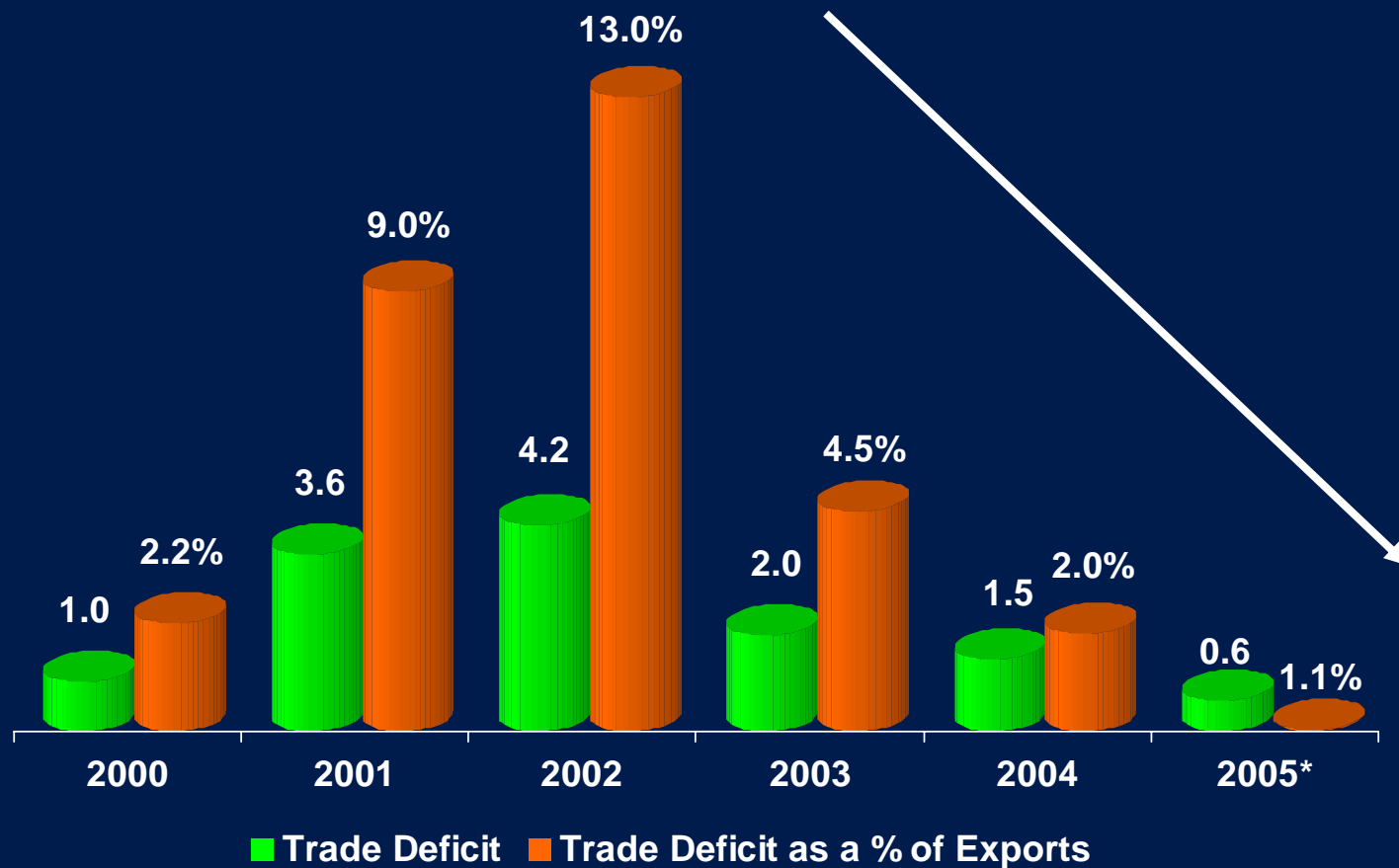
the **Export Sector's** share  
in the total GDP growth  
was about **60%**,  
making it the main contributor  
of GDP growth.



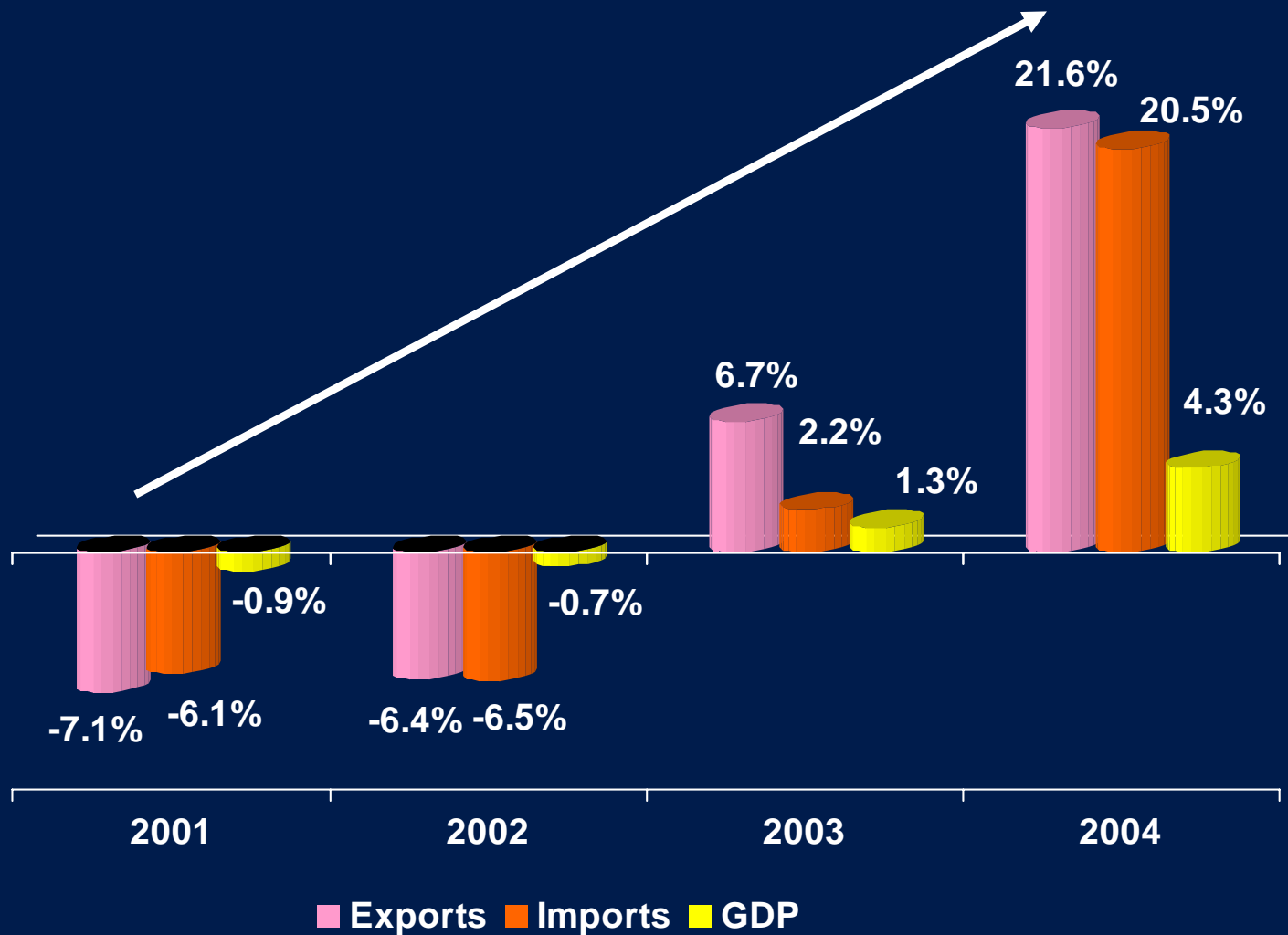
# Trade of Goods and Services (B\$)



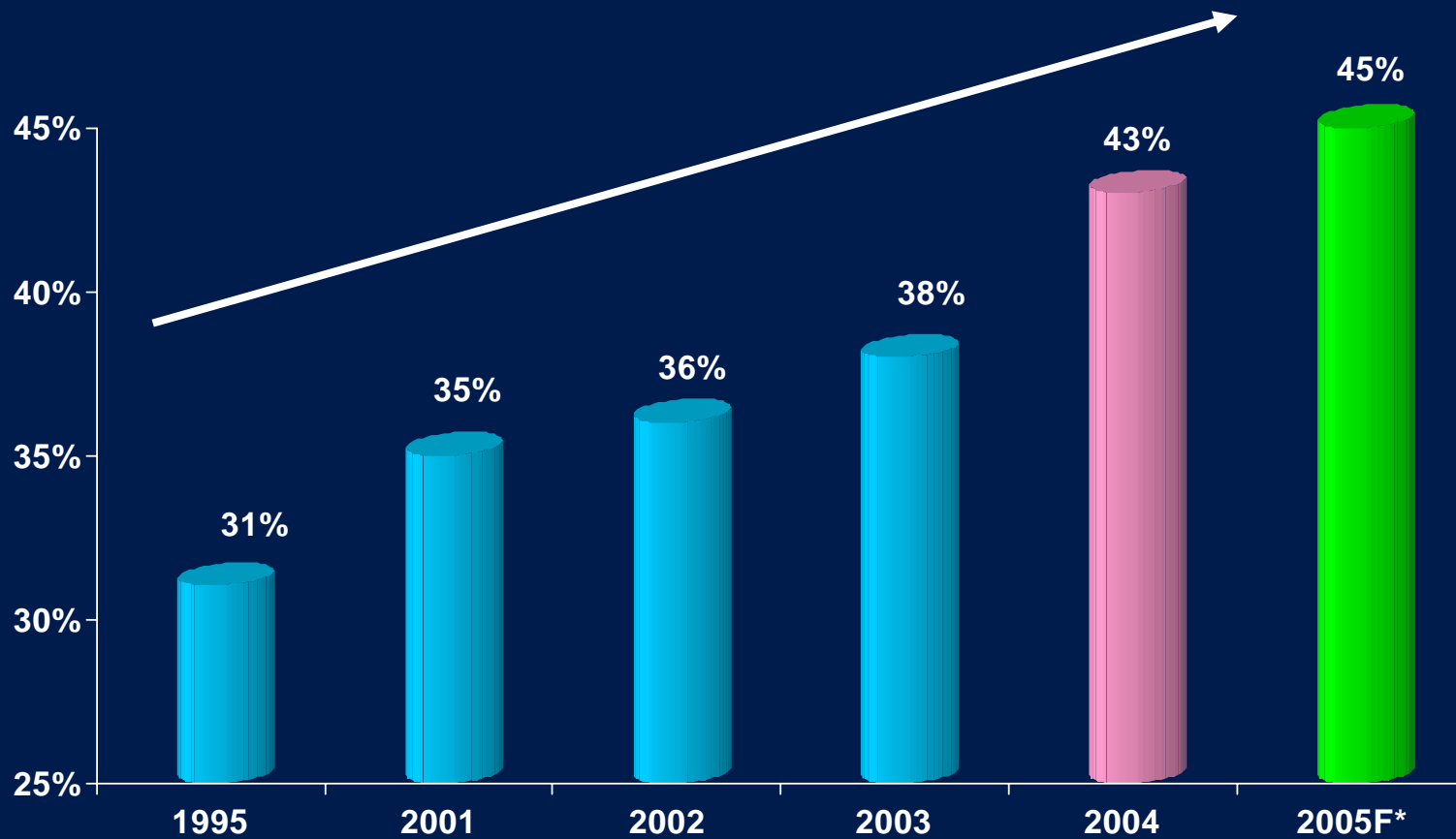
# Trade Deficit (B\$ and % of Exports)



# Annual Trade\* Growth



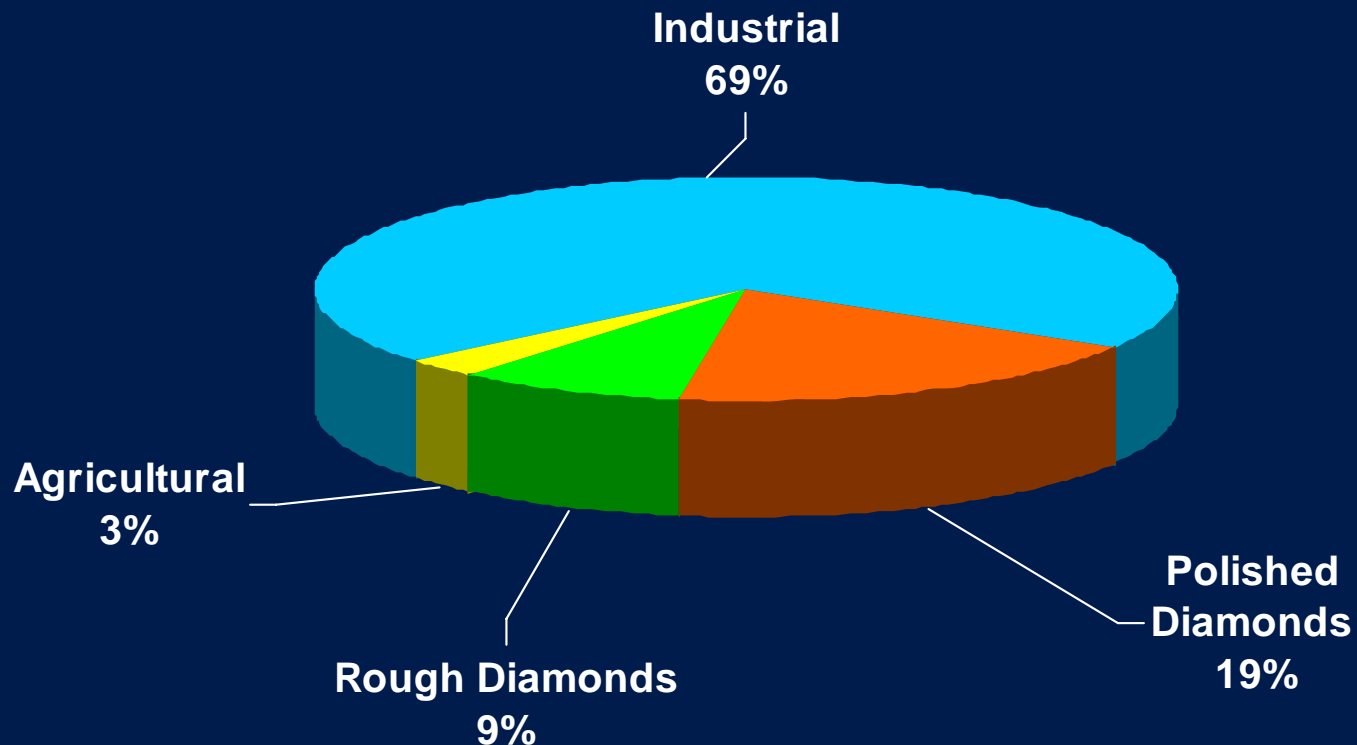
# Exports as a % of GDP



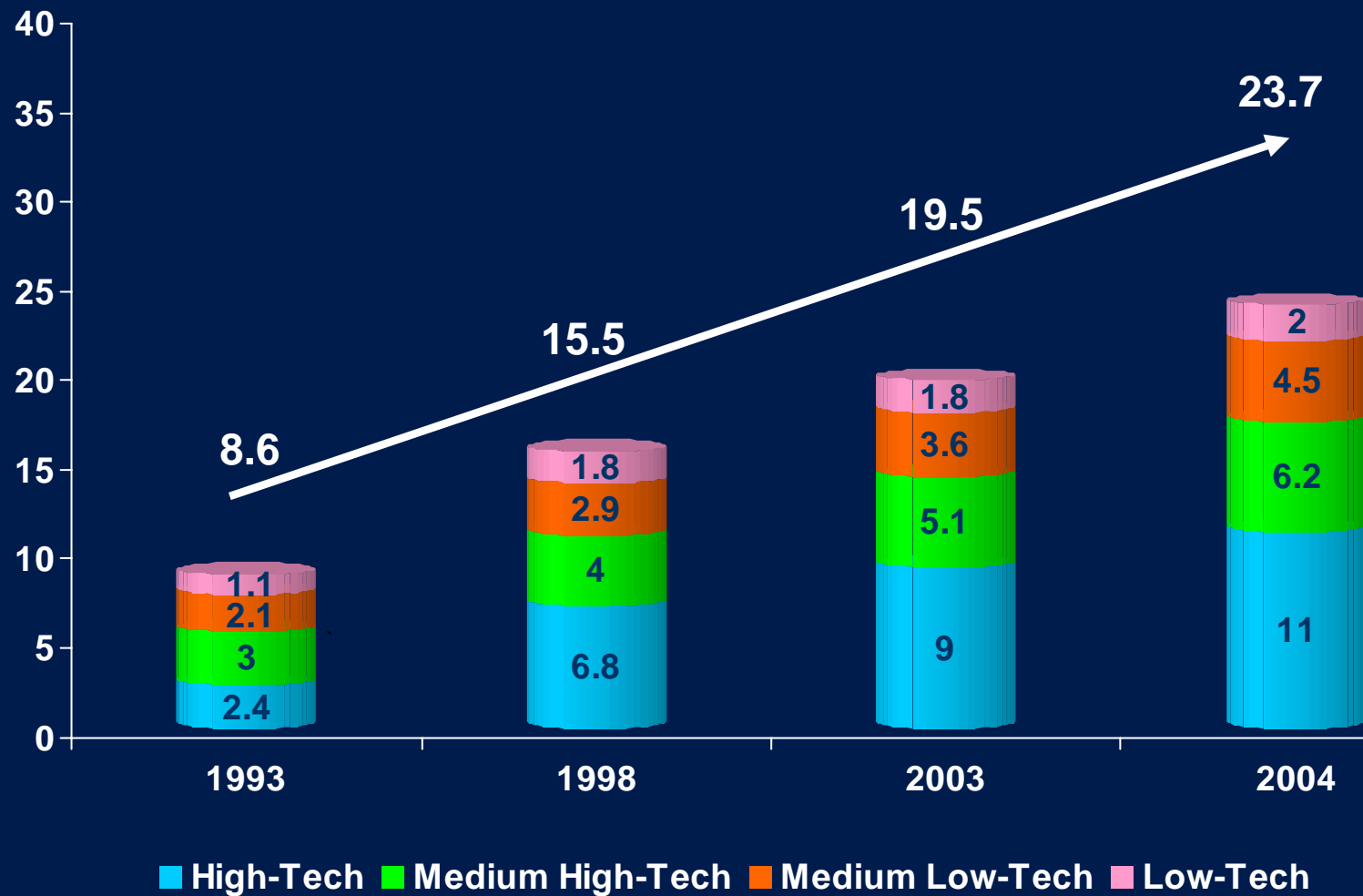
Source: Central Bureau of Statistics, Bank of Israel, Israel Export & International Cooperation Institute, Ministry of Finance \*Forecast

# Exports of Goods by Commodity Group, 2004 (% of Total Exports of Goods)

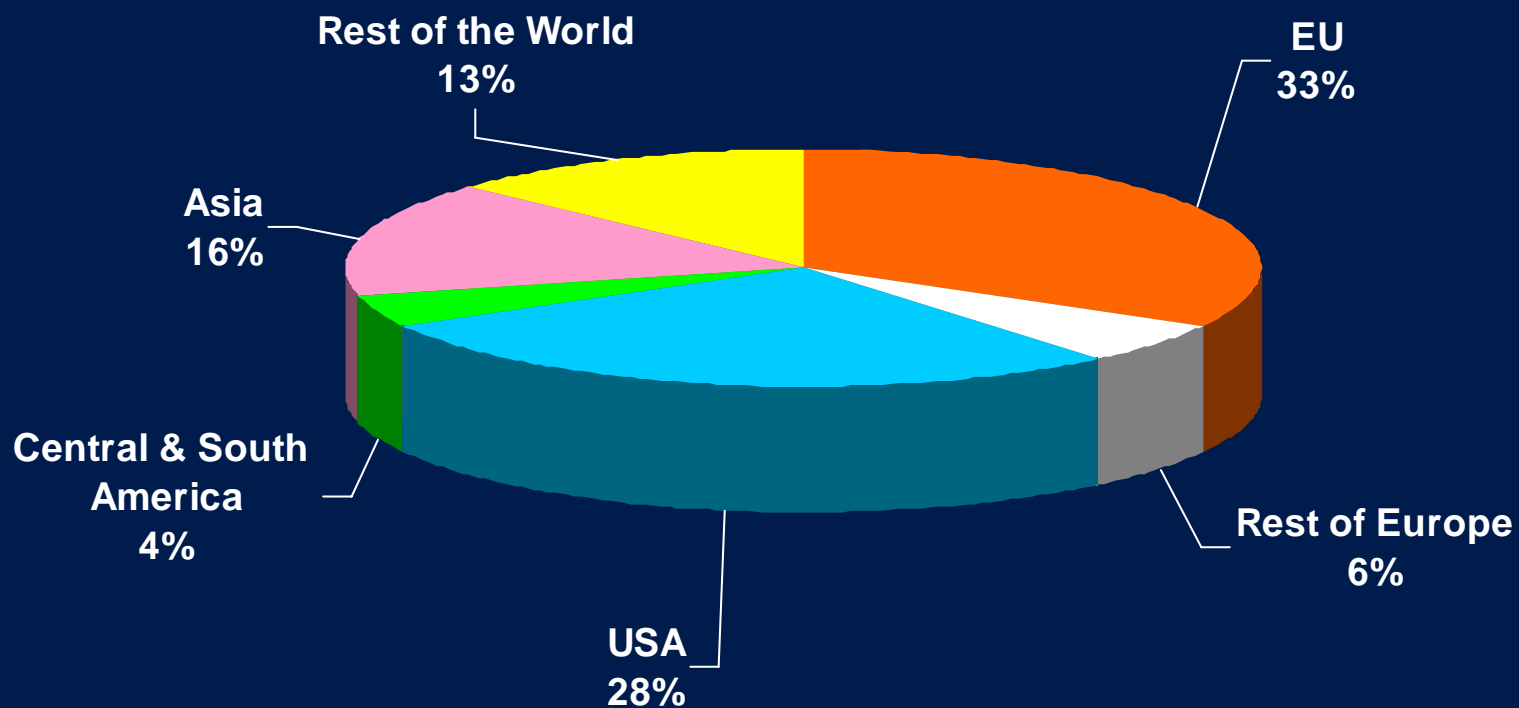
The High-Tech Sector Accounts for 33% of Total Exports of Goods



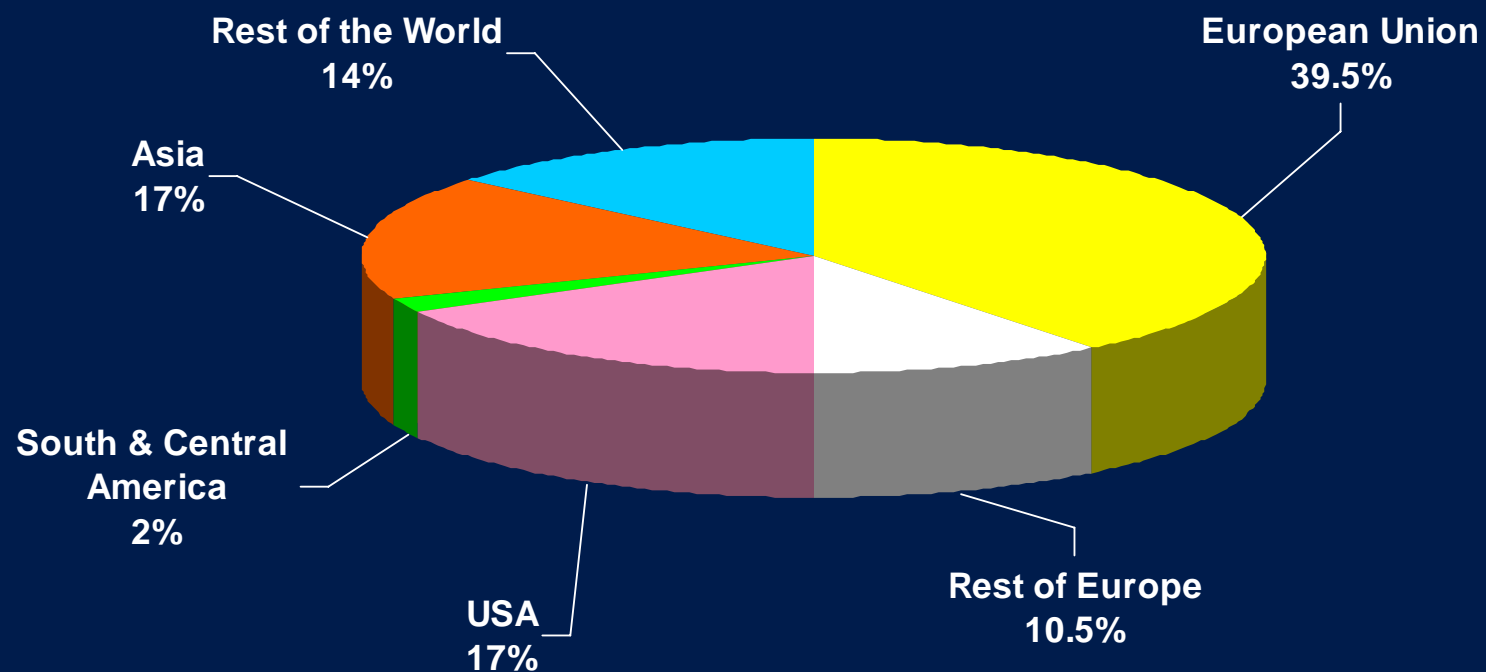
# The Growth of Industrial Exports (B\$)



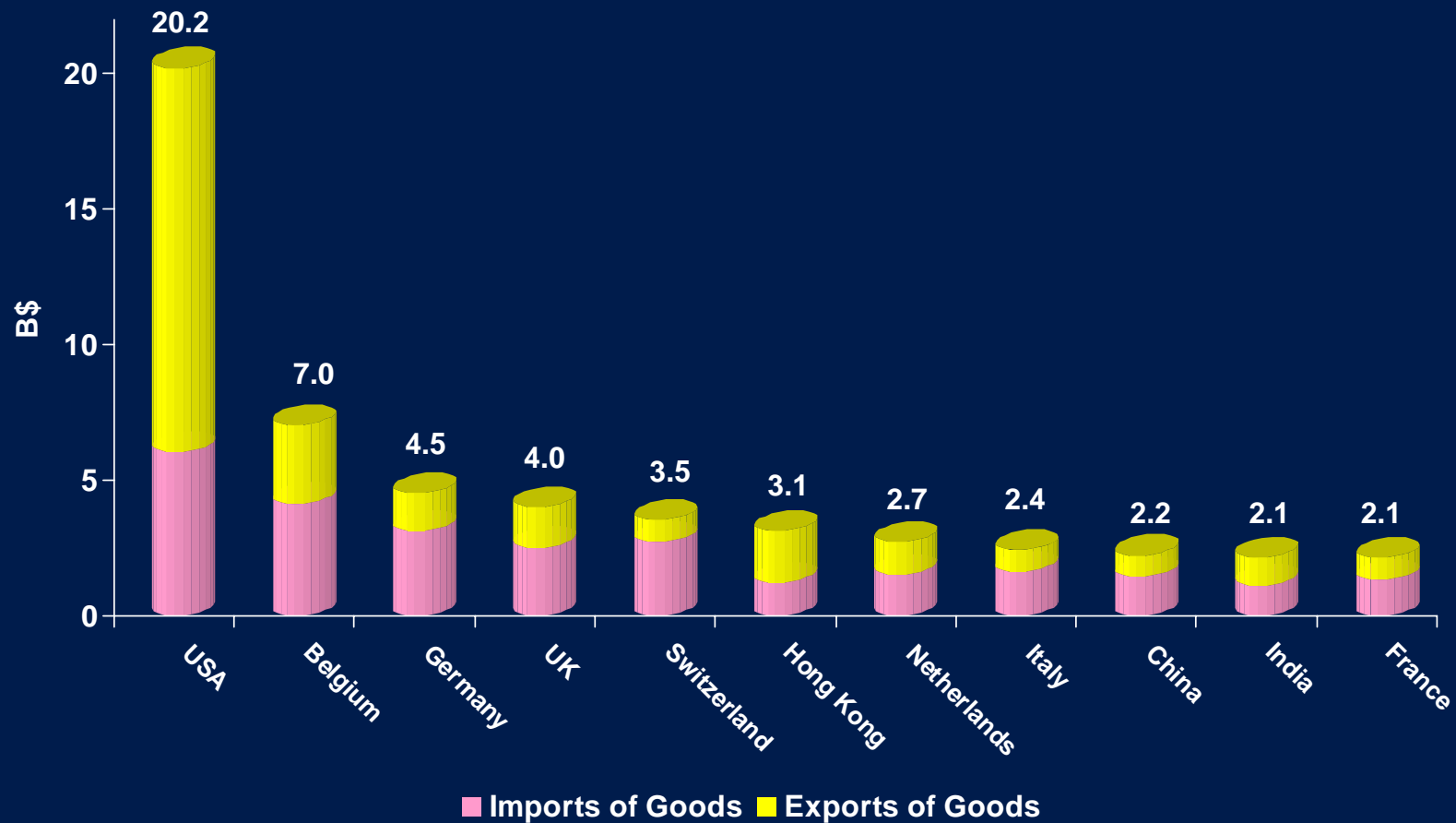
# Exports of Goods by Region 2004 (exc. Diamonds)



# Imports of Goods by Region 2004 (exc. Diamonds)

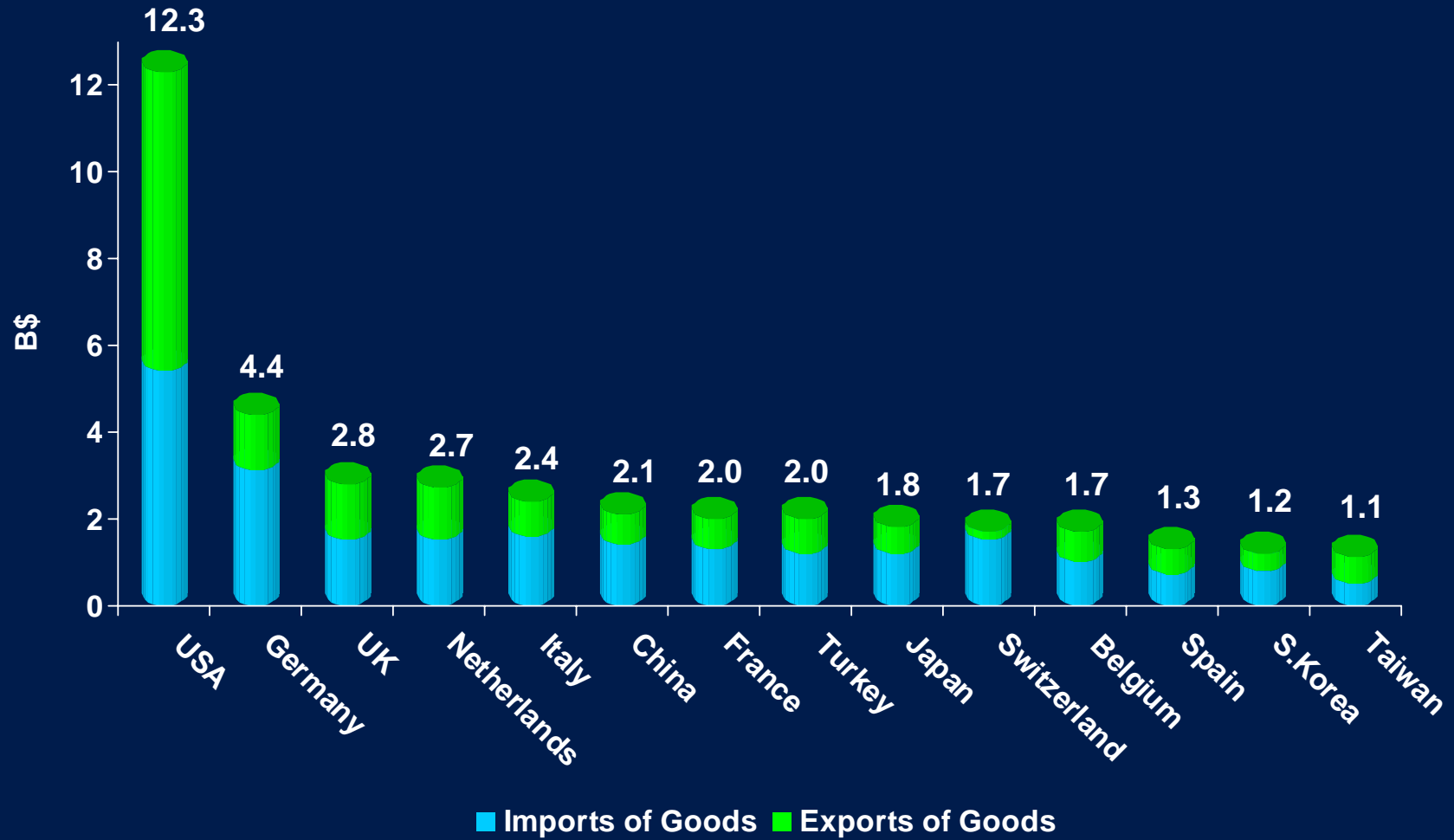


# Israel's Main Trading Partners, 2004 (inc. Diamonds)



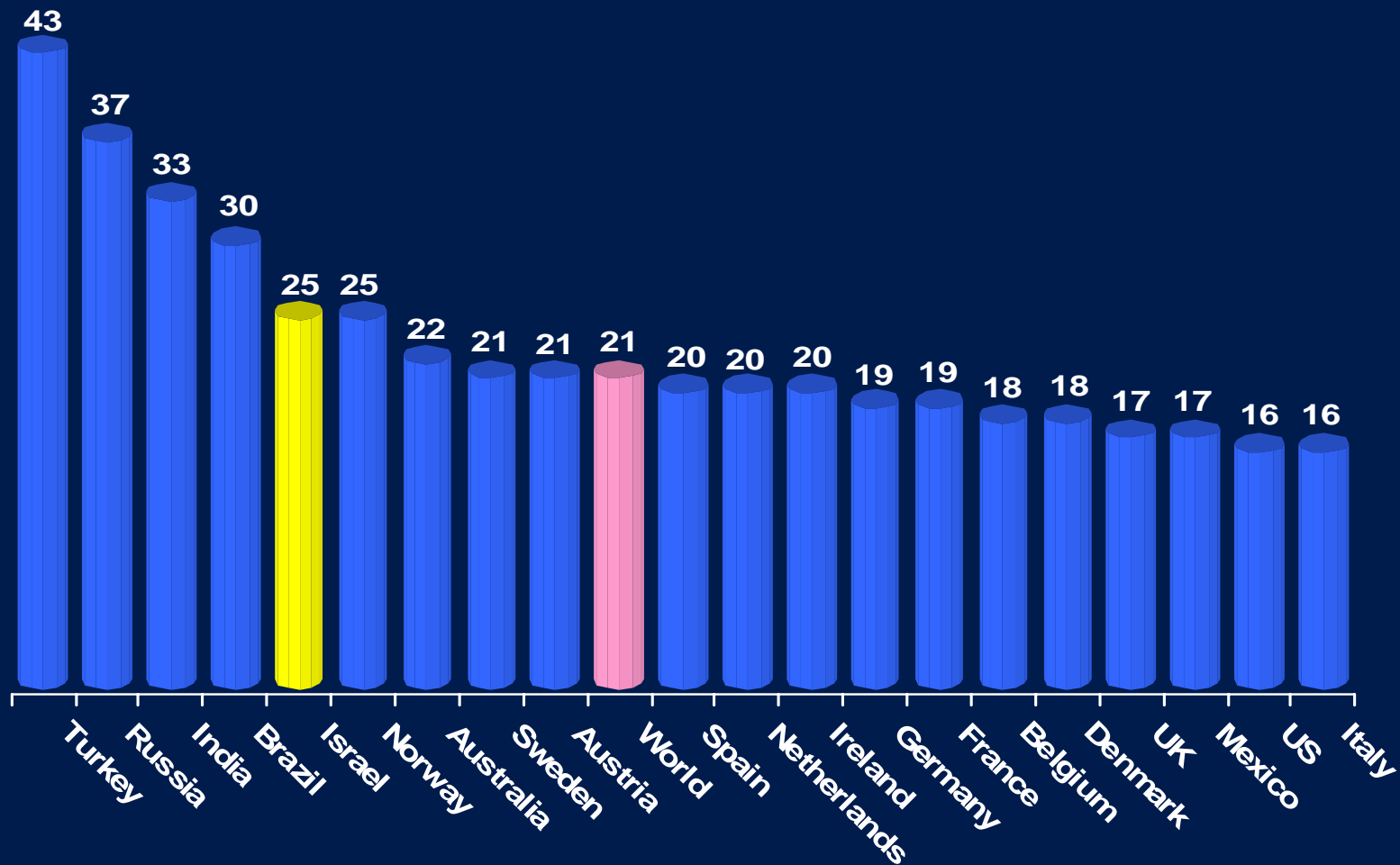
Source: Central Bureau of Statistics, Bank of Israel

# Israel's Main Trading Partners, 2004 (exc. Diamonds)



Source: Central Bureau of Statistics, Bank of Israel

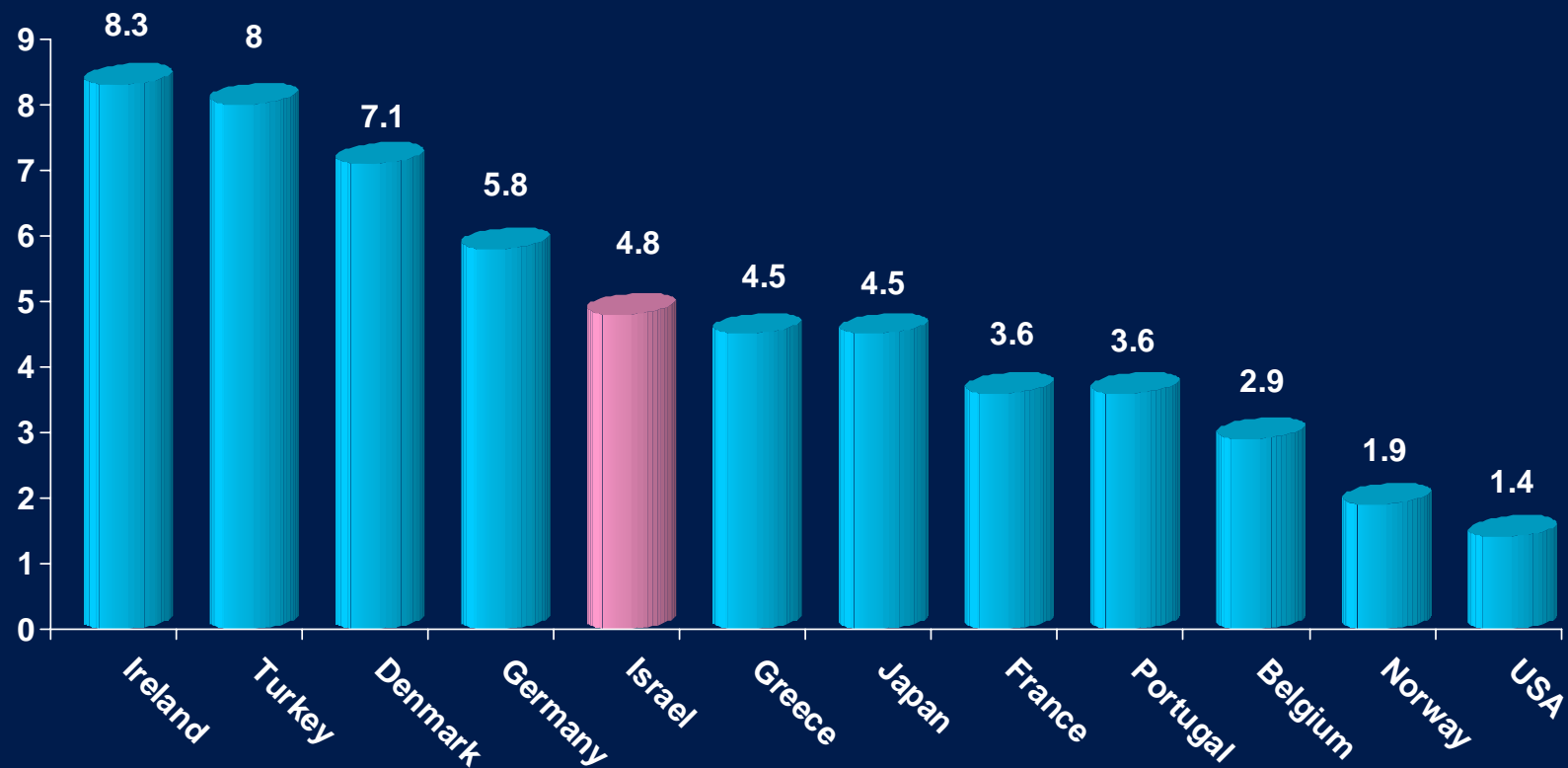
# Growth Rate of Commodity Exports by Selected Countries, 2003-2004 (% of Change)



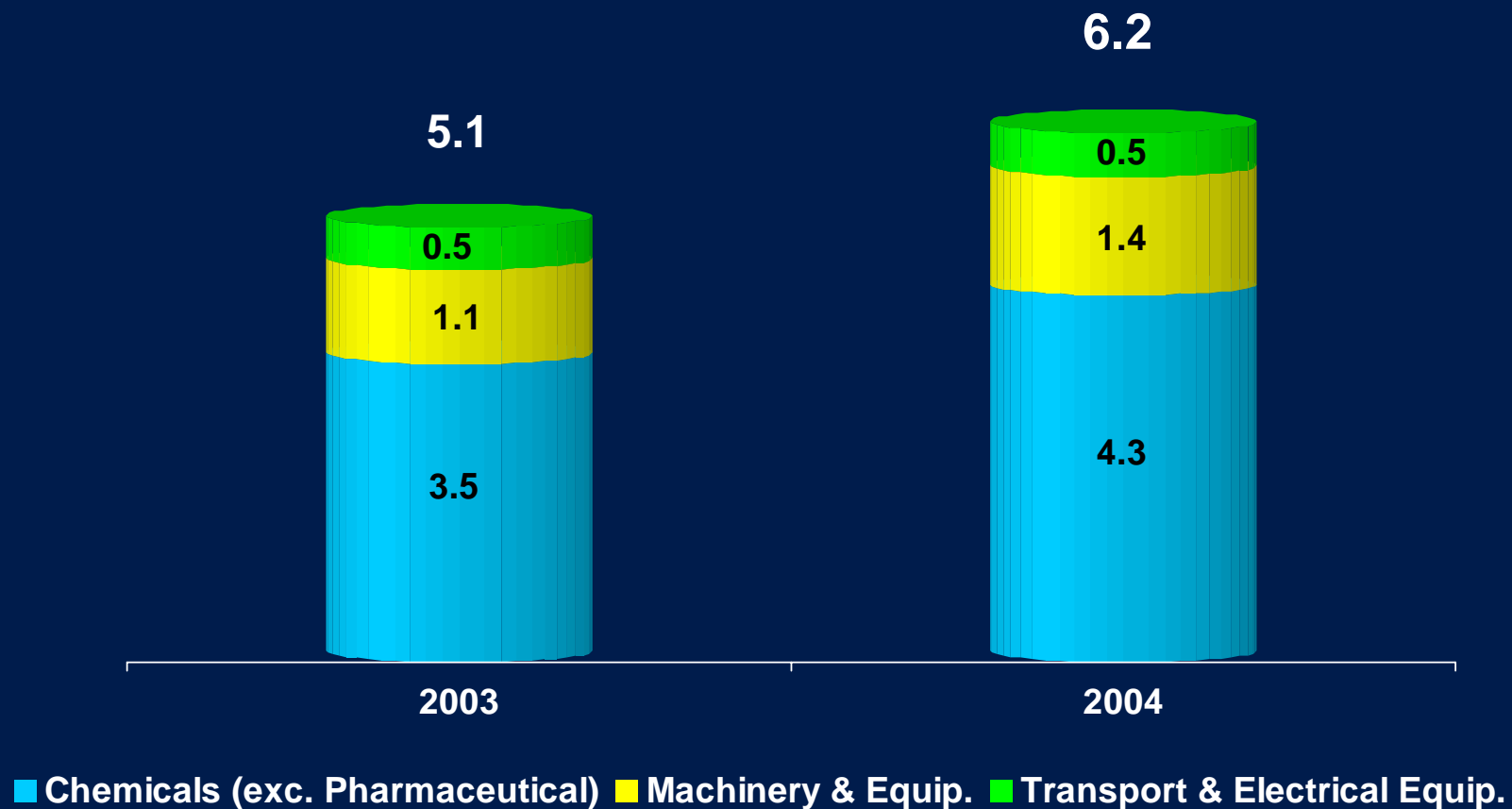
Source: Global Trade Information Service (GTIS)

# Real Growth in Exports of Goods and Services - International Comparison

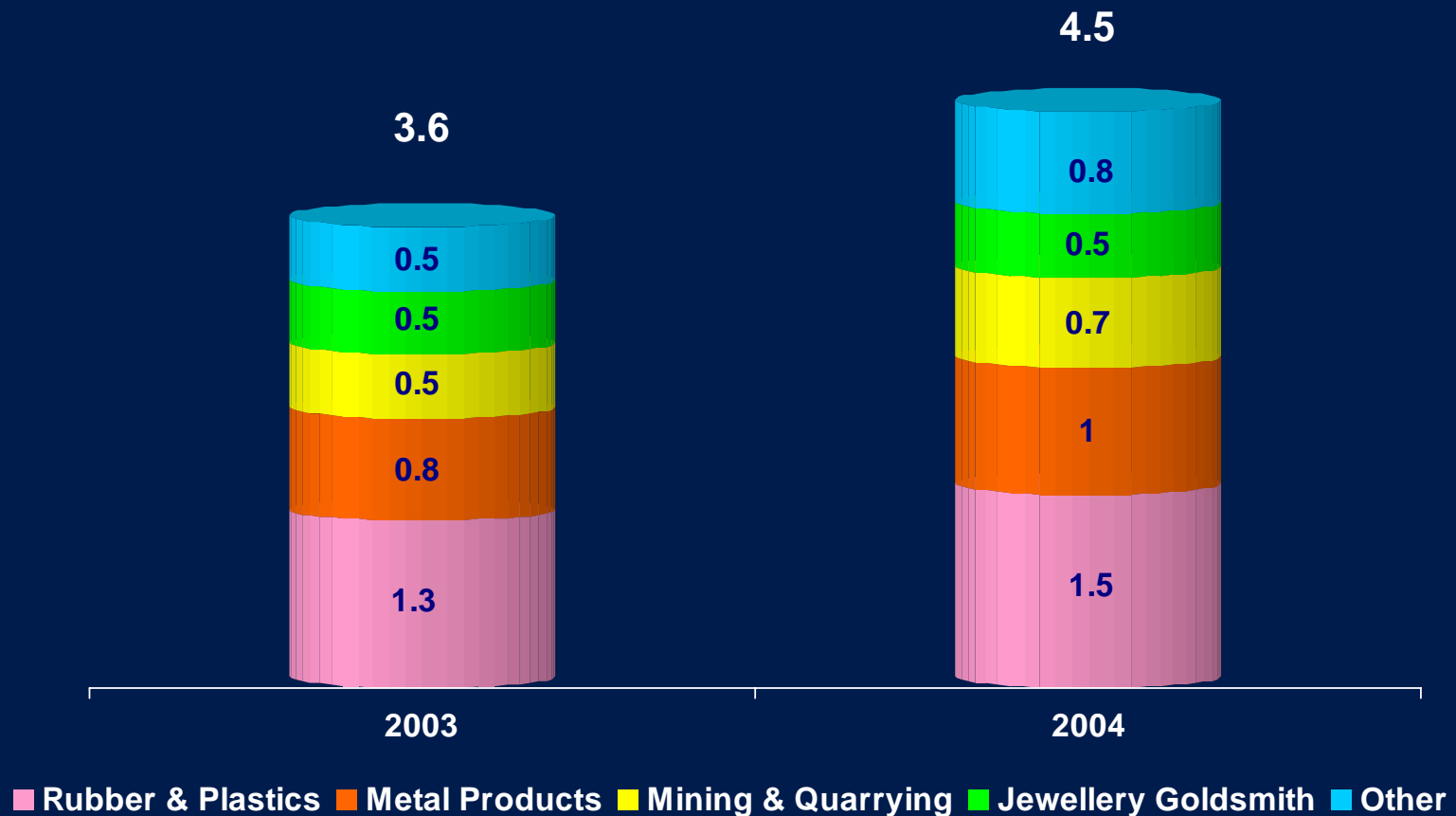
(Annual Average for 1999-2003)



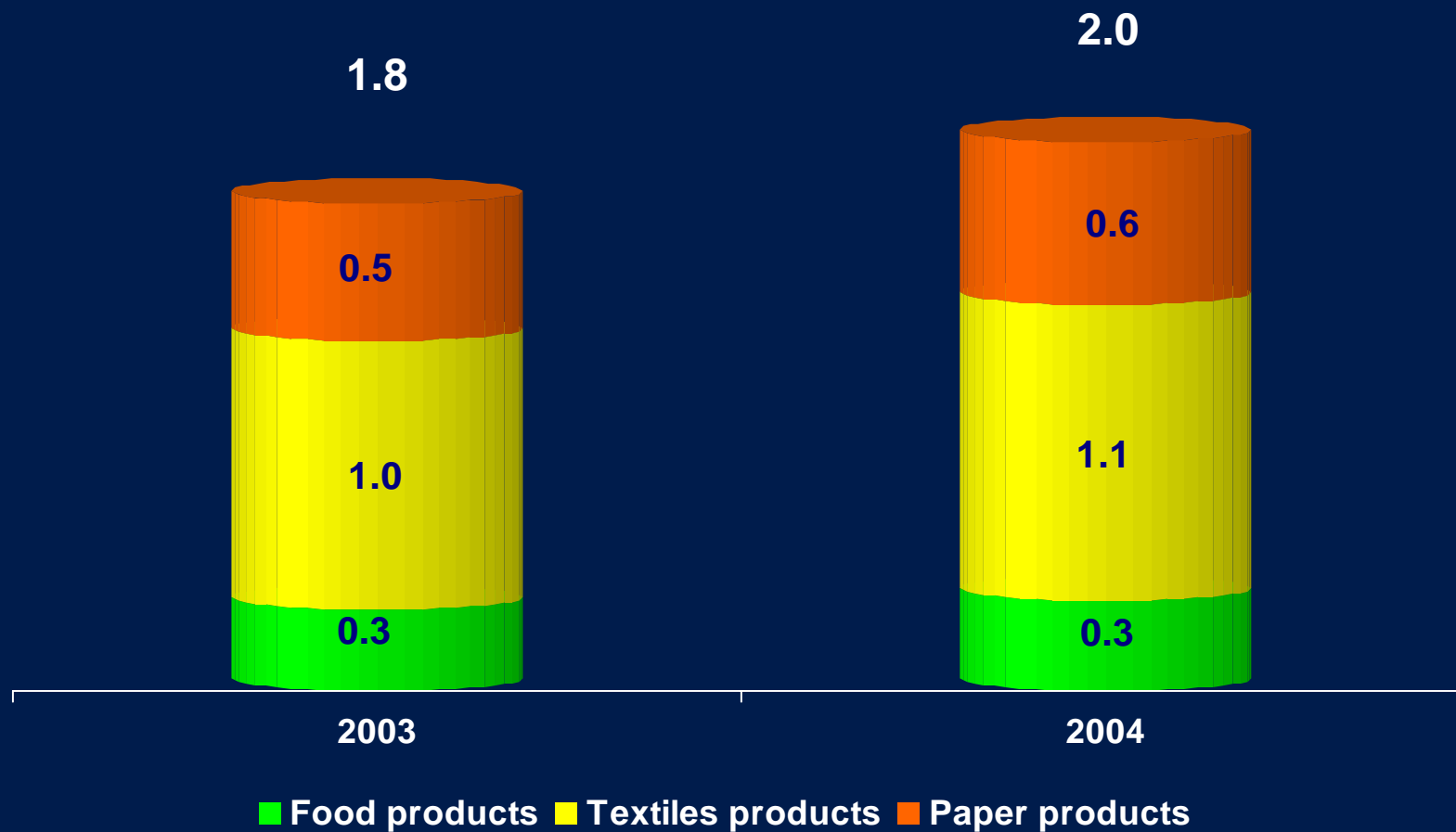
# Medium High-Tech Export Development (B\$)



# Medium Low-Tech Export Development (B\$)



# Low-Tech Export Development (B\$)



Industry

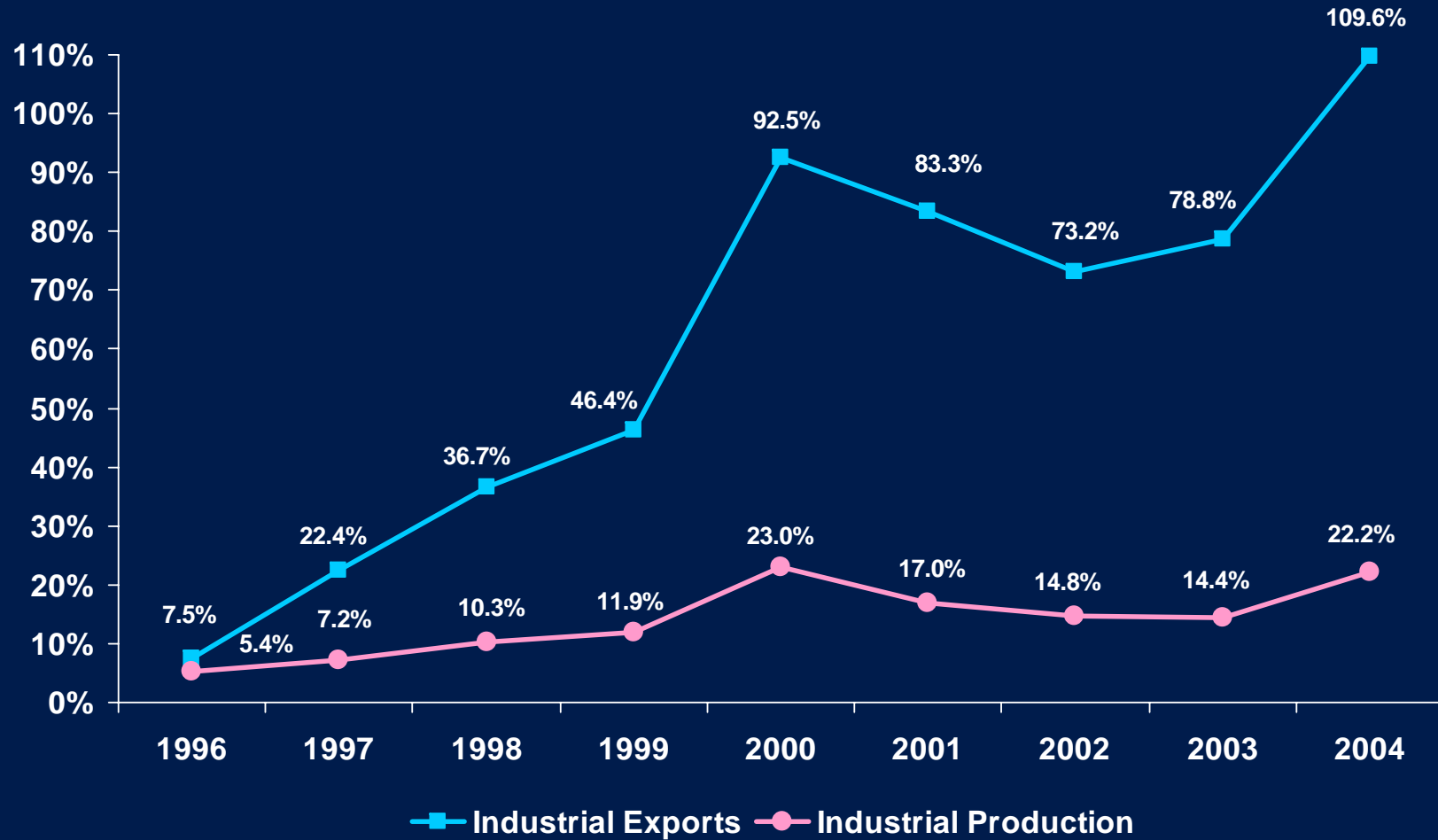


# Selected Indicators in Industry, 2001-2004

(Real Annual Change, Yearly Average)



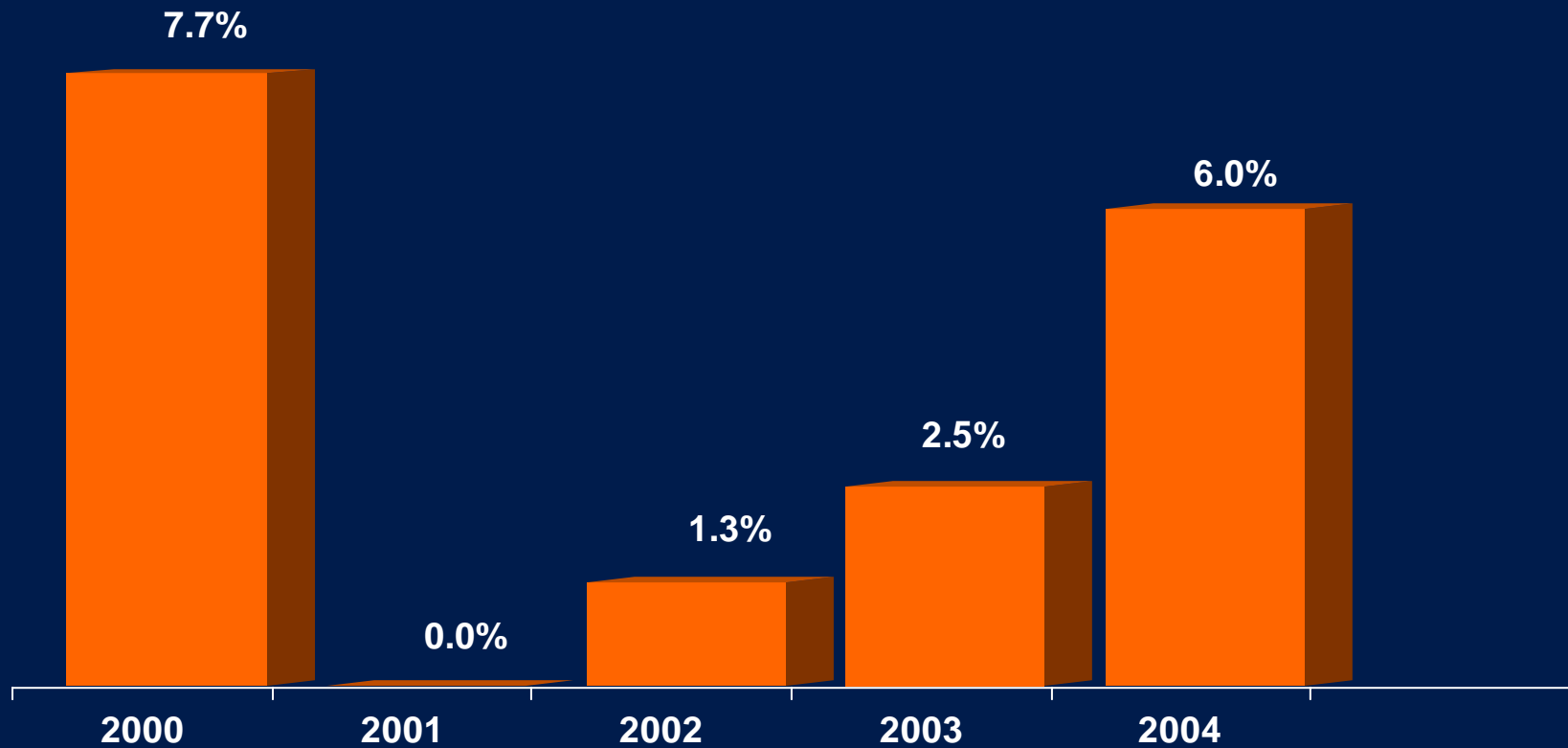
# Industrial Production and Exports (Real Cumulative Rates of Change)



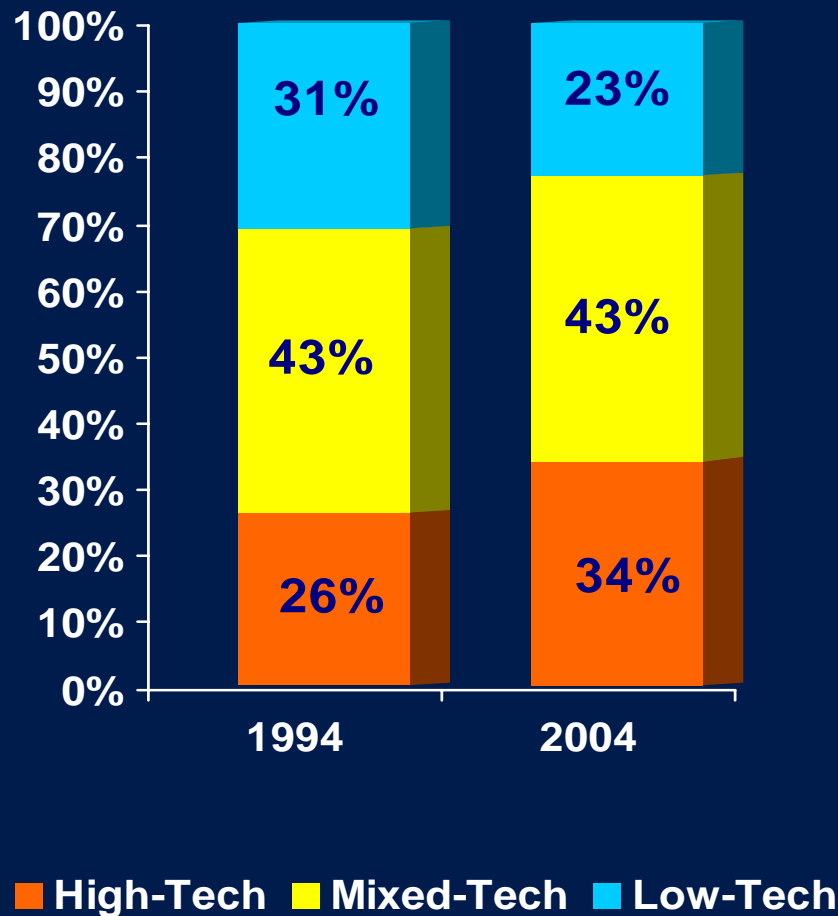
Source: Central Bureau of Statistics, Bank of Israel

# Labor Productivity in Industry, 2000-2004

(Real Annual Change)

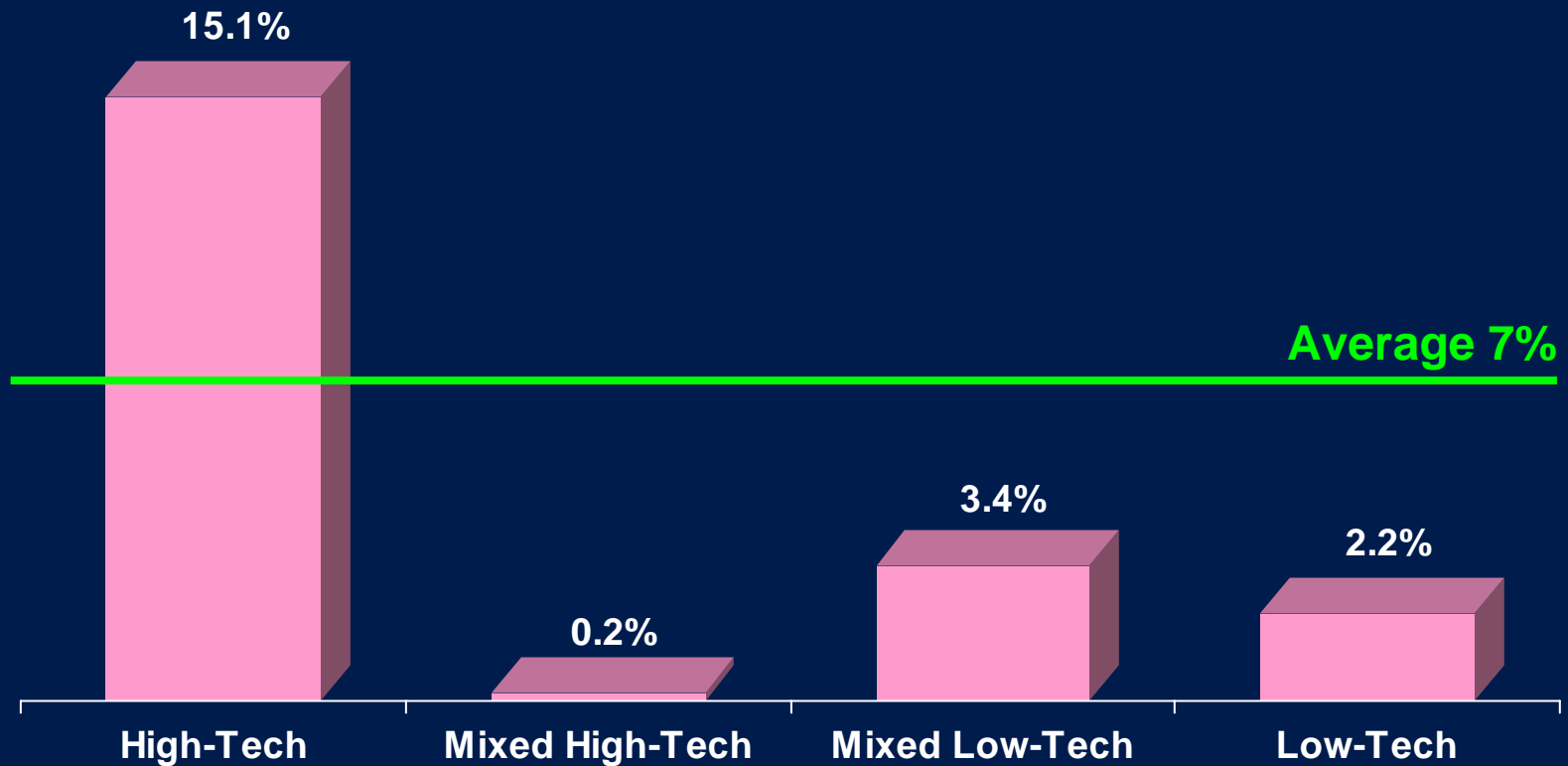


# A High-Tech Oriented Industry - The Israeli Industry is Undergoing Long Term Structural Changes (Industrial Output Distribution 1994, 2004)

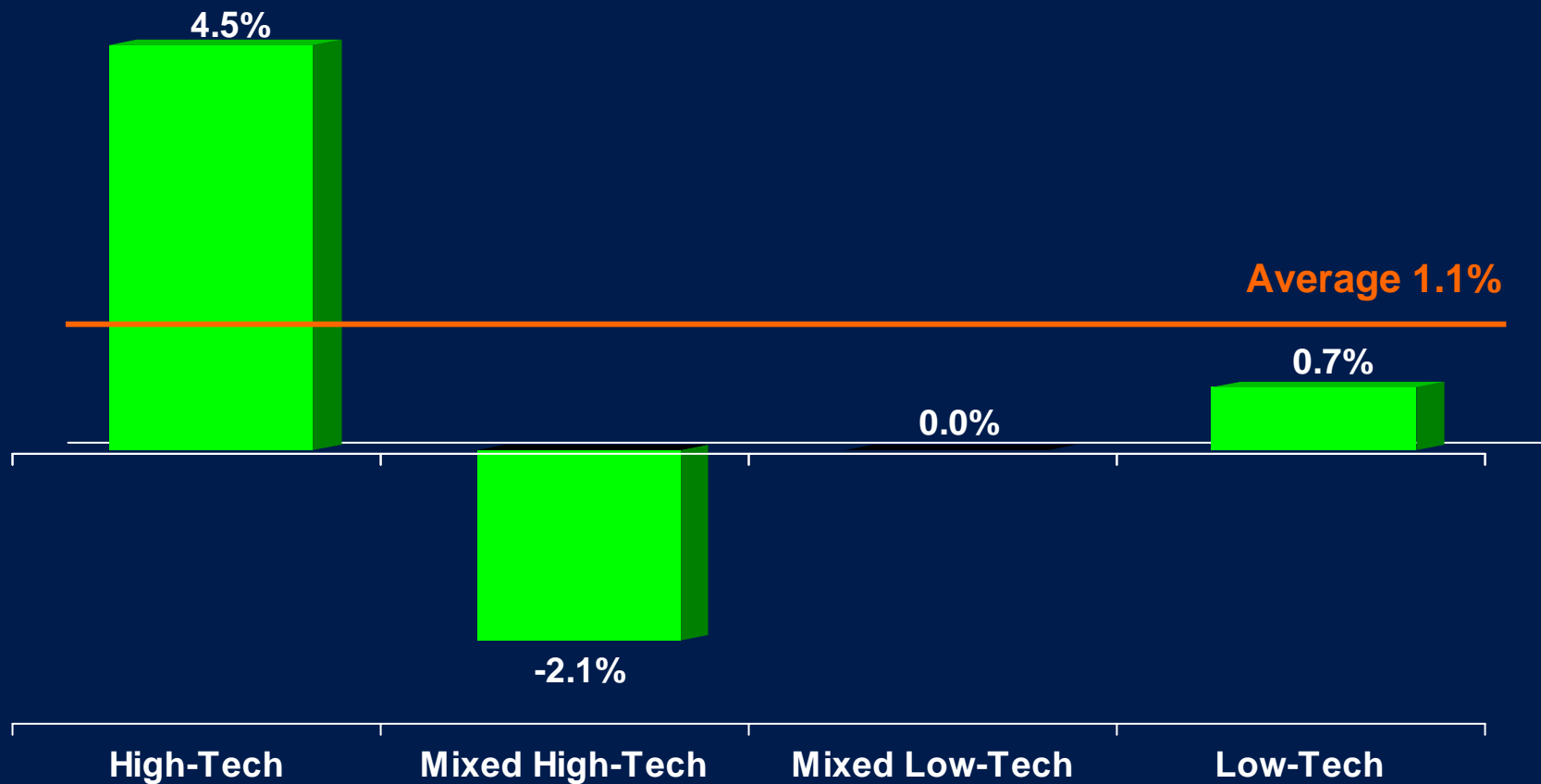


Source: Central Bureau of Statistics, Manufacturers' Association of Israel

# The High-Tech Sectors led Industrial Growth in 2004 (Real Annual Change)

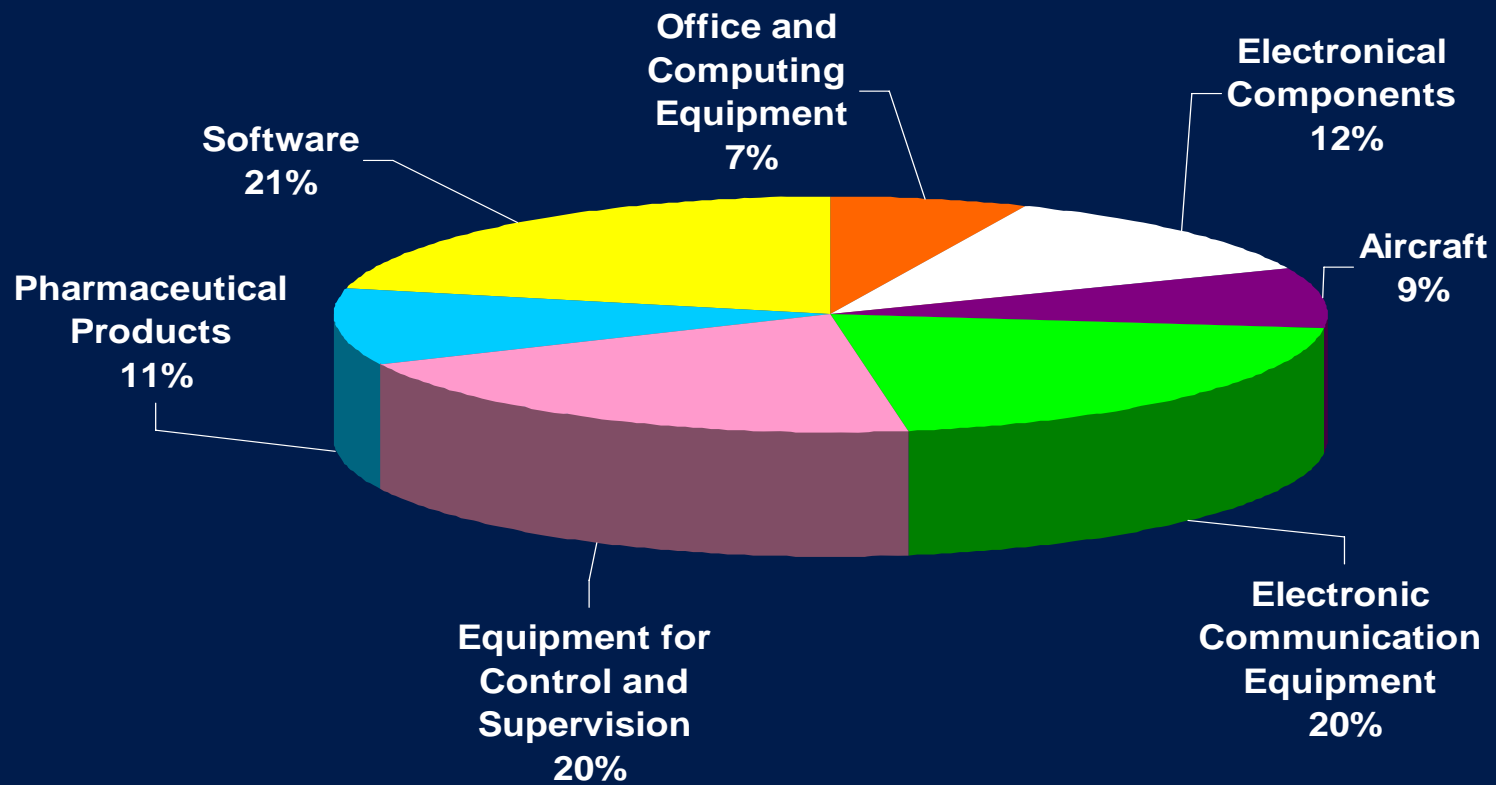


# The High-Tech Sectors Recruited the Largest Number of Persons in Industry in 2004 (Real Annual Change)

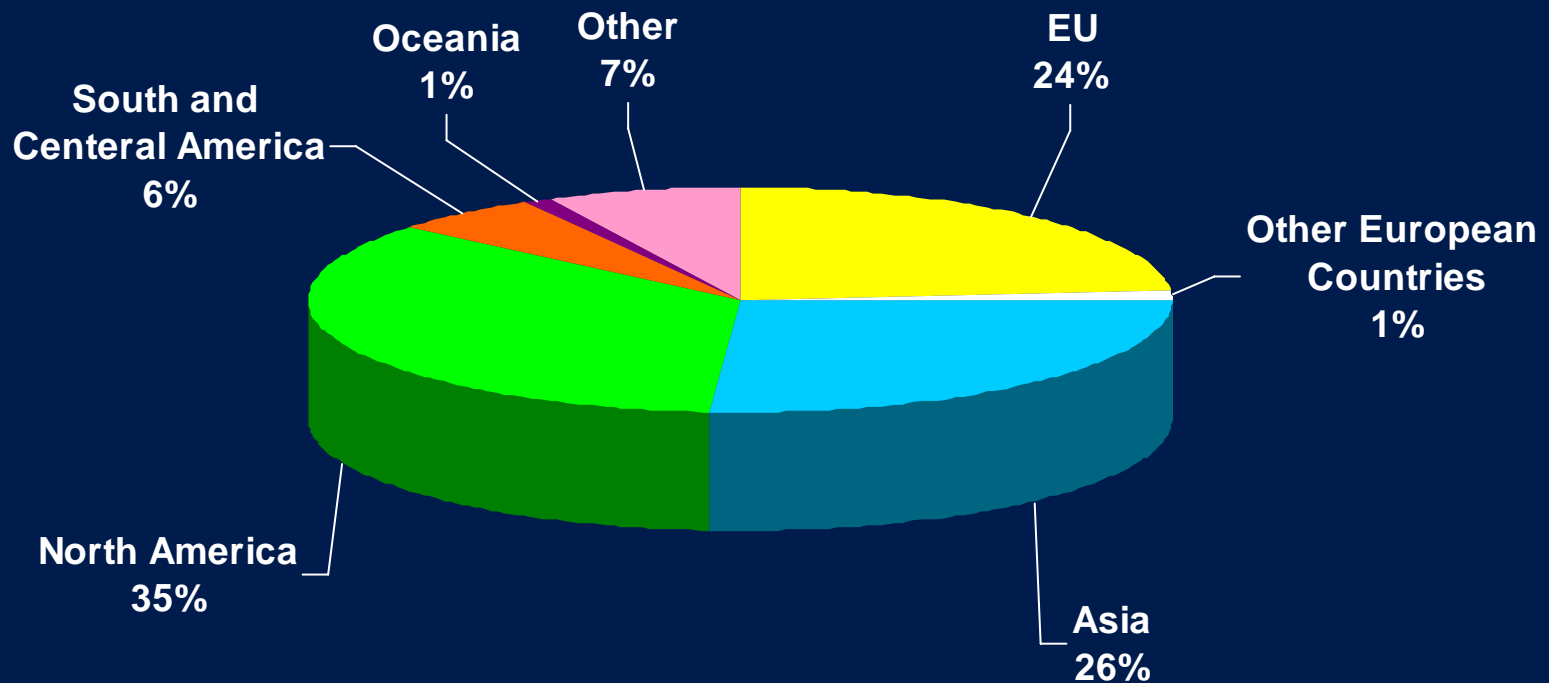


# Israel's Major High-Tech Exports 2004

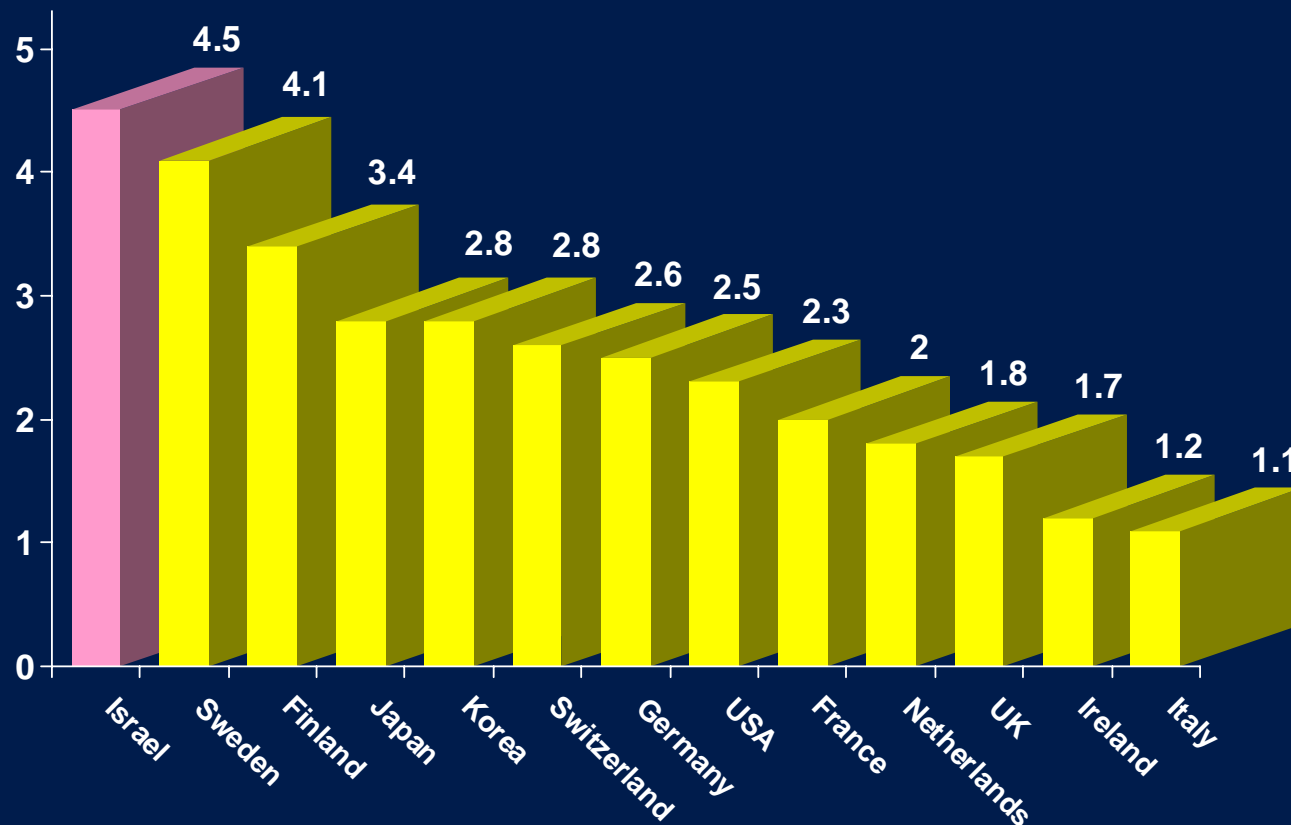
Total High-Tech Export (Including Software): 14 B\$



# Israeli High-Tech Exports by Geographic Breakdown 2004

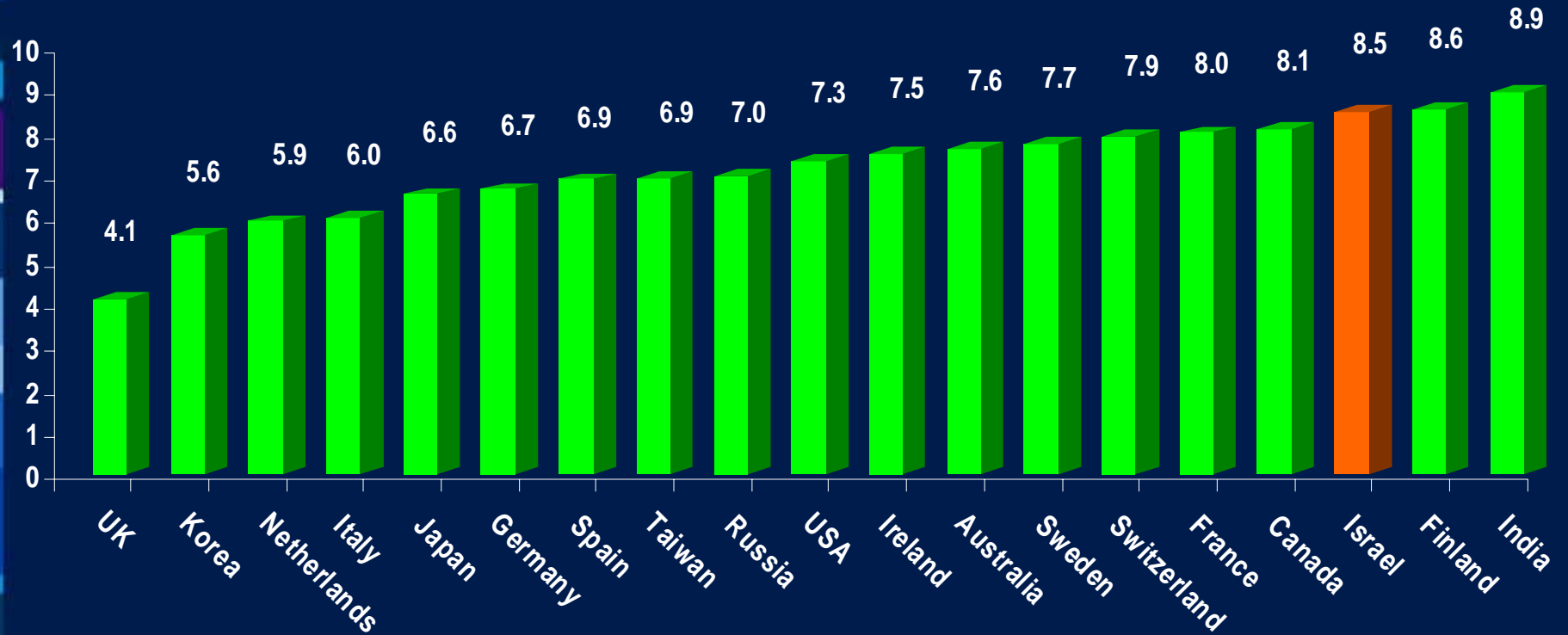


# Expenditure on Civilian R&D in Israel & in Selected OECD Countries (% of GDP, 2002)



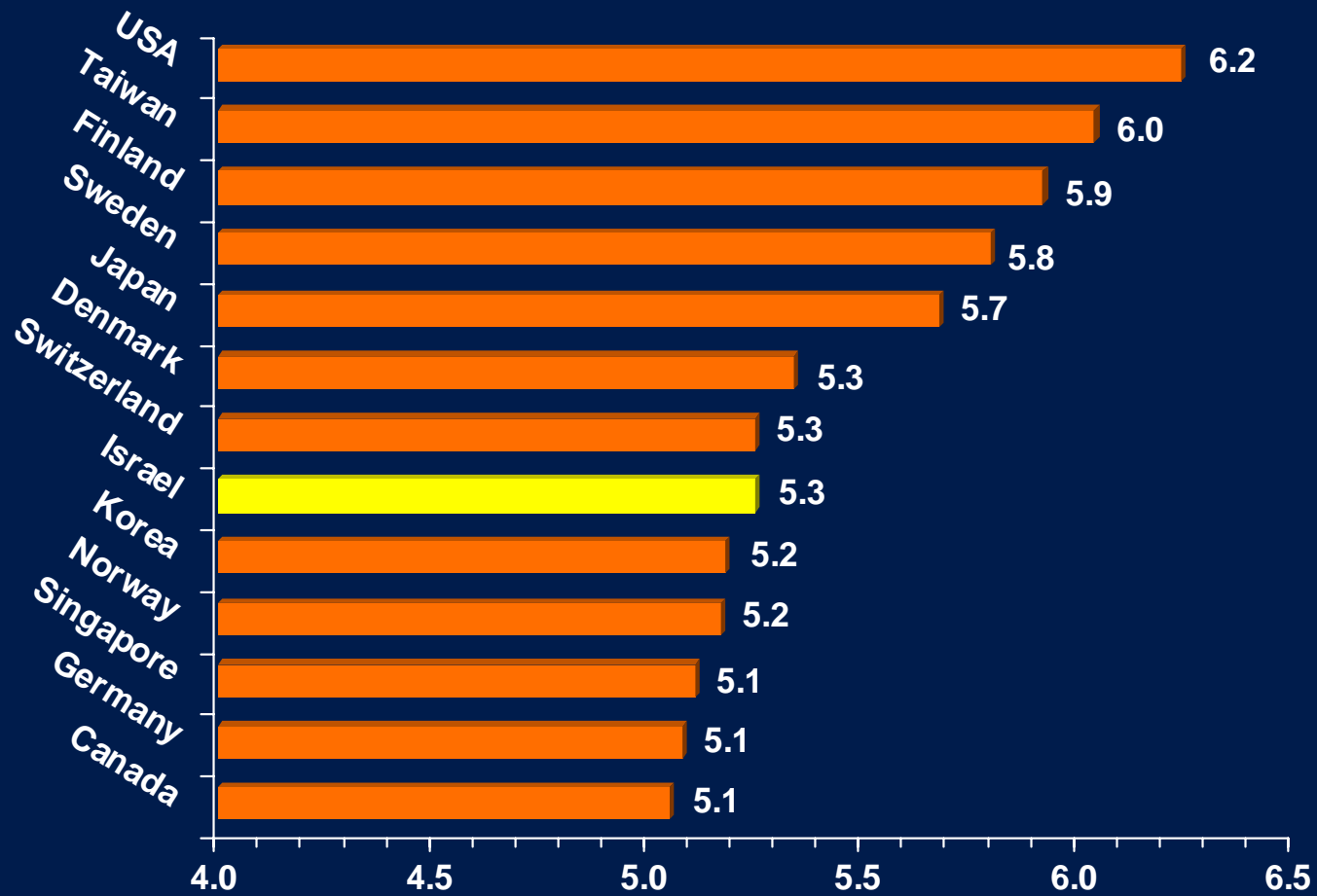
Source: Central Bureau of Statistics, Bank of Israel

# Qualified Engineers Index

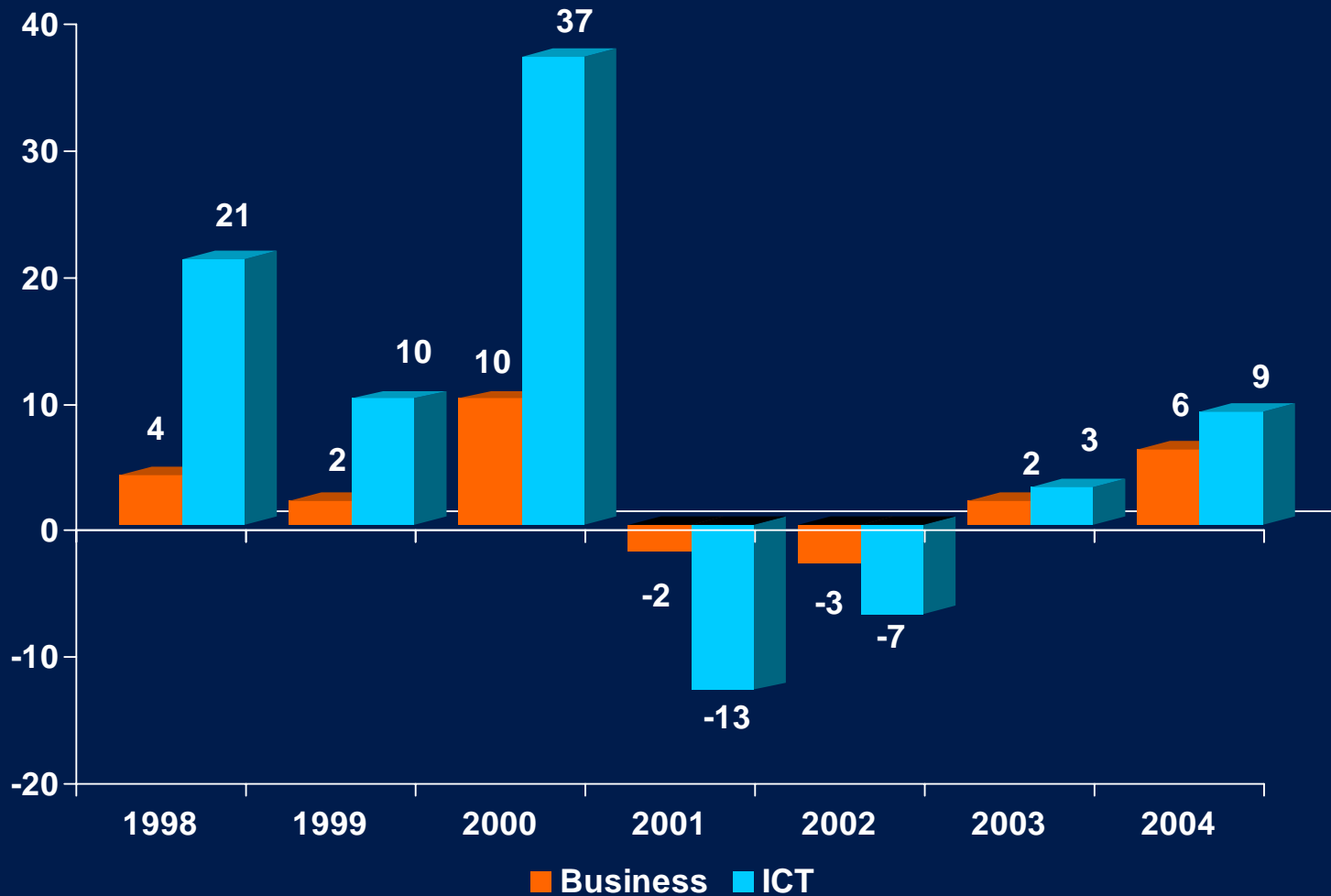


# Technology Index, 2004

Israel Ranks 8 Out of 104 Countries



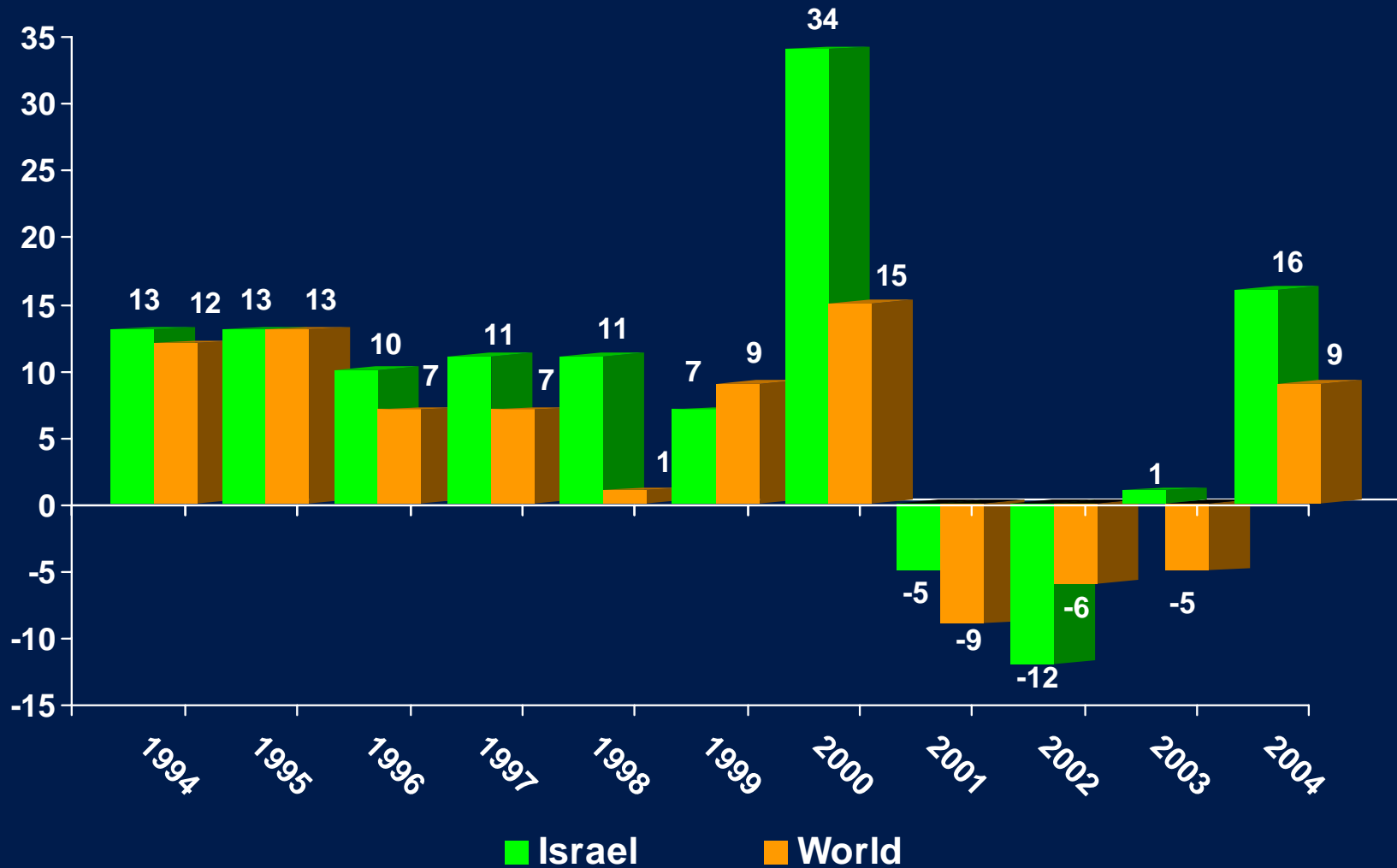
# Israel's ICT\* and Business Sectors Product 2004 (Annual Growth Rate %)



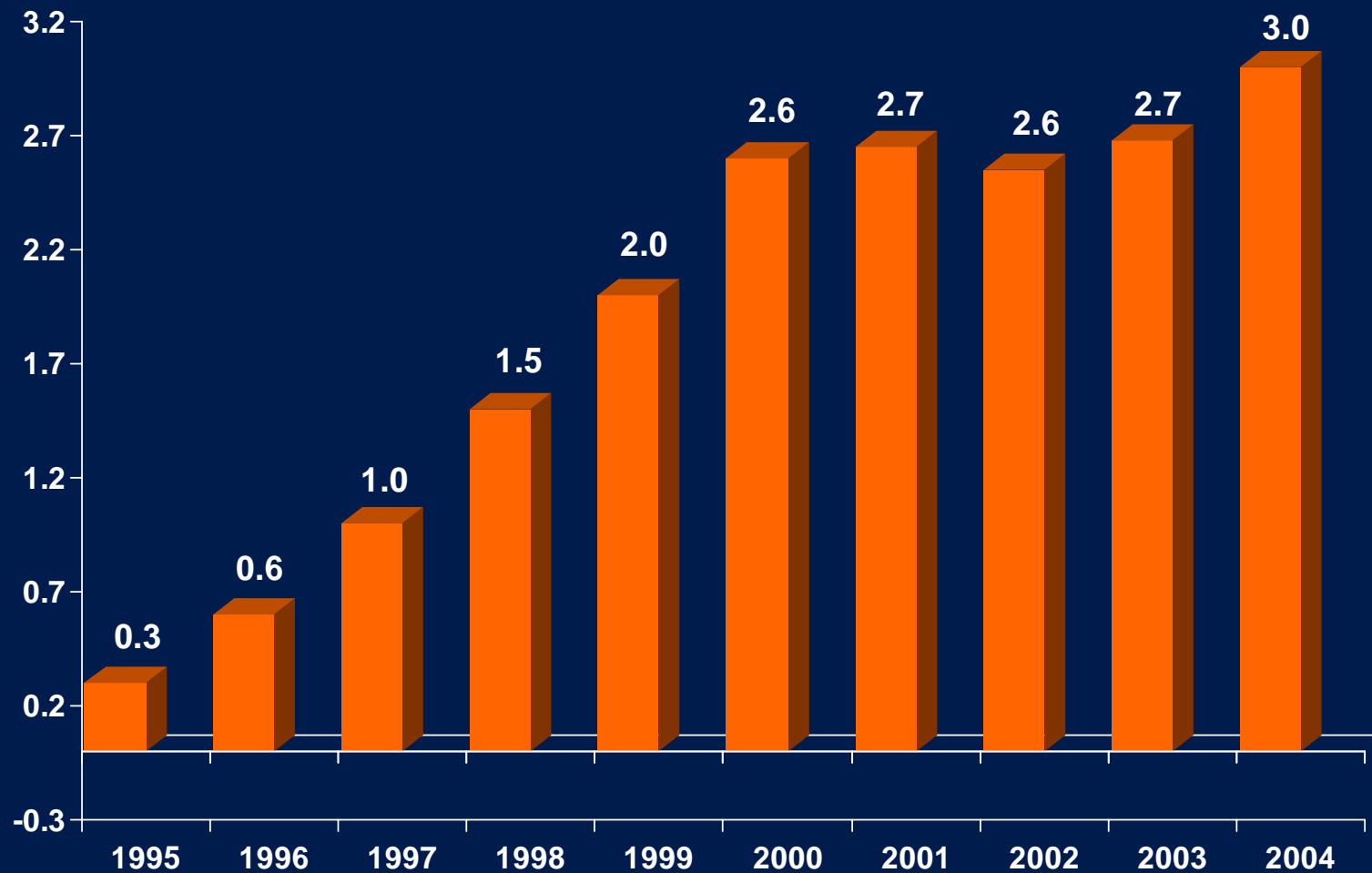
Source: Central Bureau of Statistics, Bank of Israel \*ICT: Information & Communication Technologies

# Software and Electronic Industries

(Israel & the World Growth Rates 1994-2004)



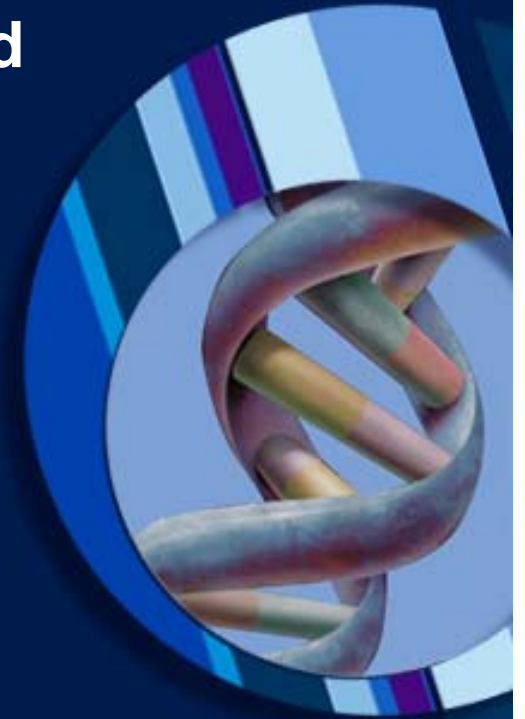
# Israel's Software Exports (B\$)



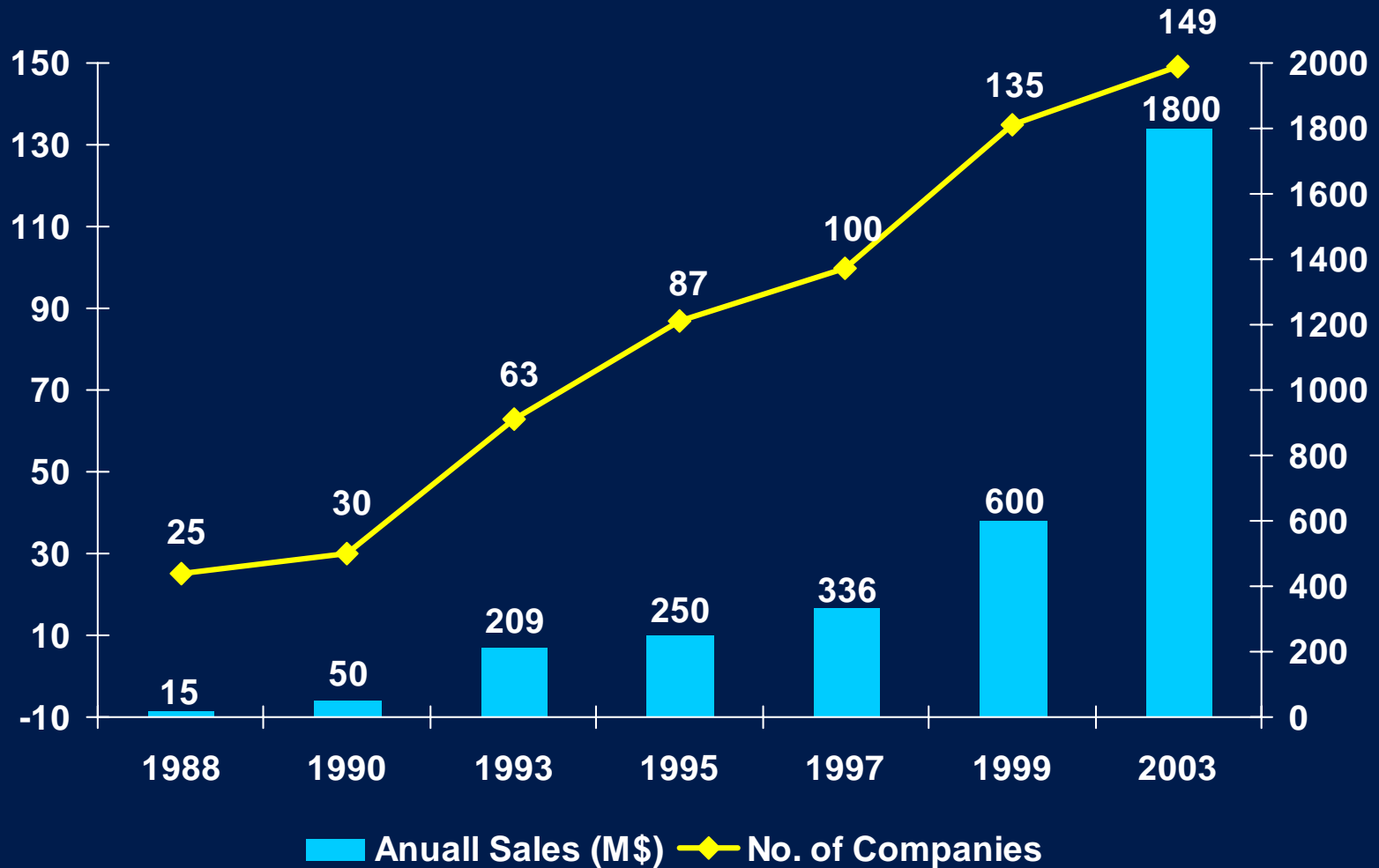
Source: Israel Association of Electronics and Information Industries

# Israel: A Major Player in the Global Biotechnology Industry

- Sales from the Biotech sector generated 1.8 -2.3 US B\$ in 2004.  
Israel's share in global Biotechnology sales is about 2.5%.
- There are 23 Technological Incubators in Israel, more than 20% of them are Involved in Biotechnology projects.



# Biotechnology



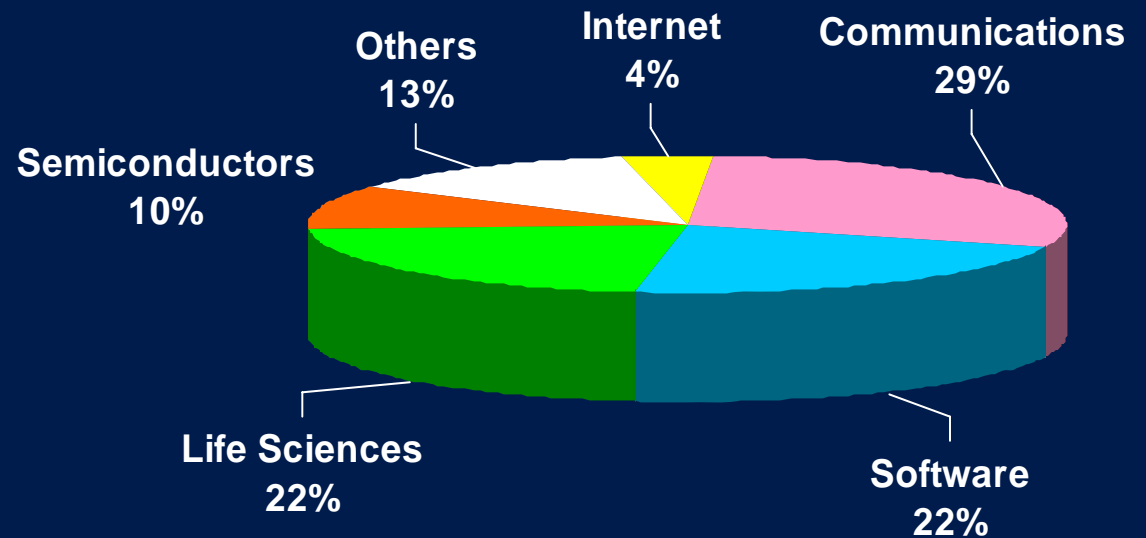
# Start-Ups – The Emerging Economic Force

“ Israel Enjoys  
the Highest Concentration  
of High-Tech Companies  
Outside of the Silicon Valley ”

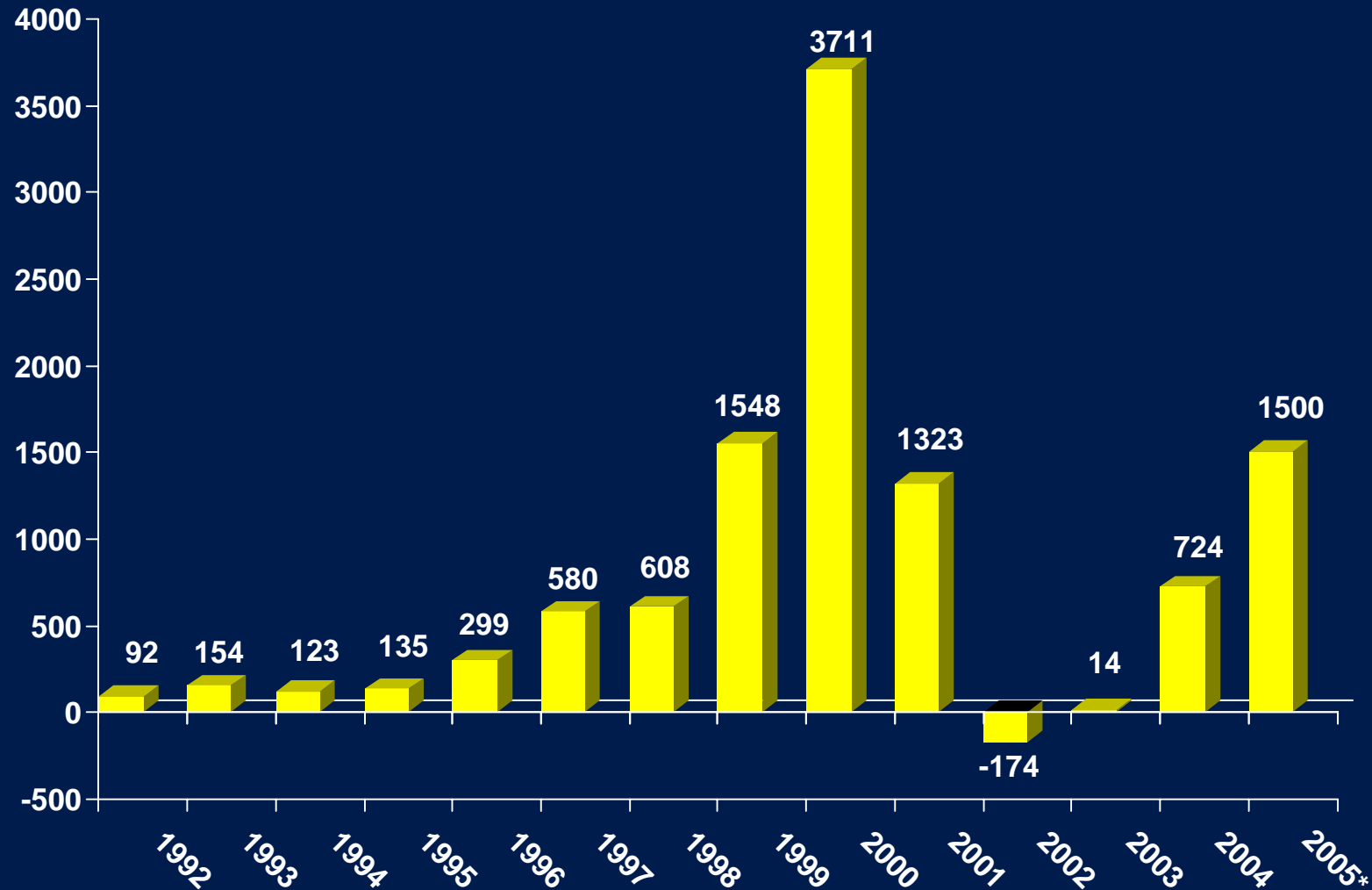
Robert Greifeld President & CEO NASDAQ 2004

# Investments in High-Tech Companies 2004

Year	Total in \$ B
1999	1.1
2000	3.2
2001	2.0
2002	1.1
2003	1.0
2004	1.5

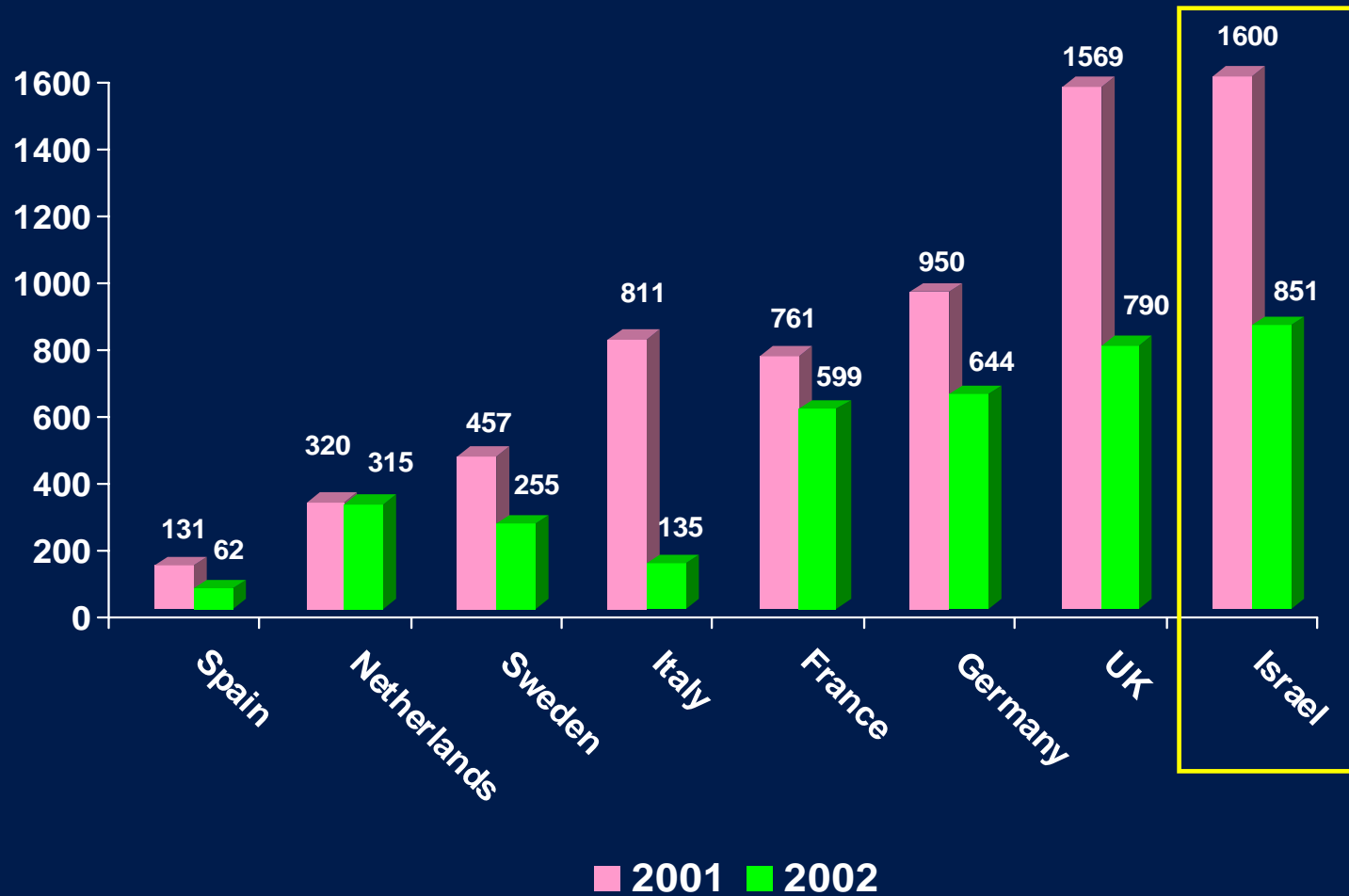


# Capital Raised by Israeli VC Funds (M\$)



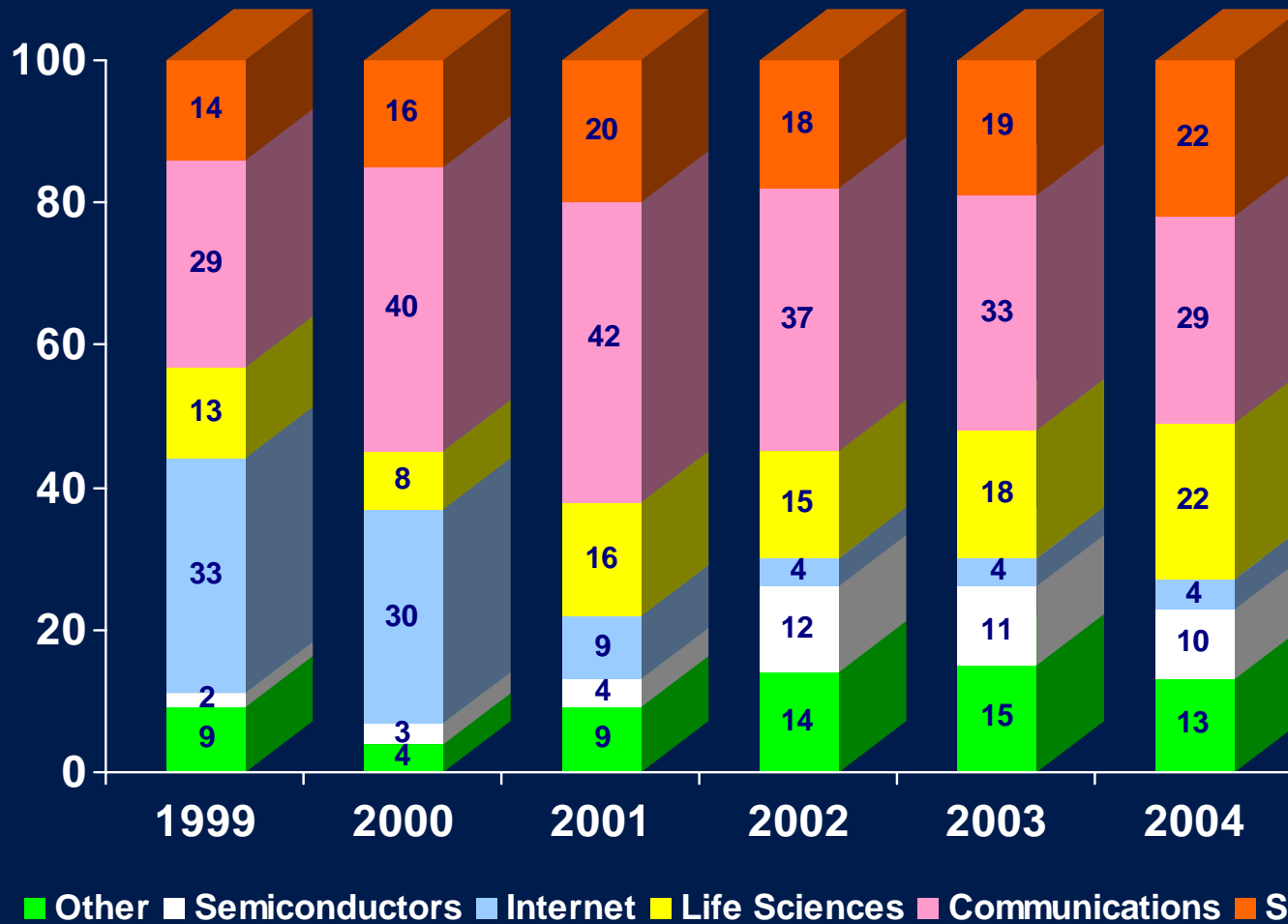
Source: IVC - Israel Venture Capital \*Forecast

# VC Investments in Israel & Europe (M\$)

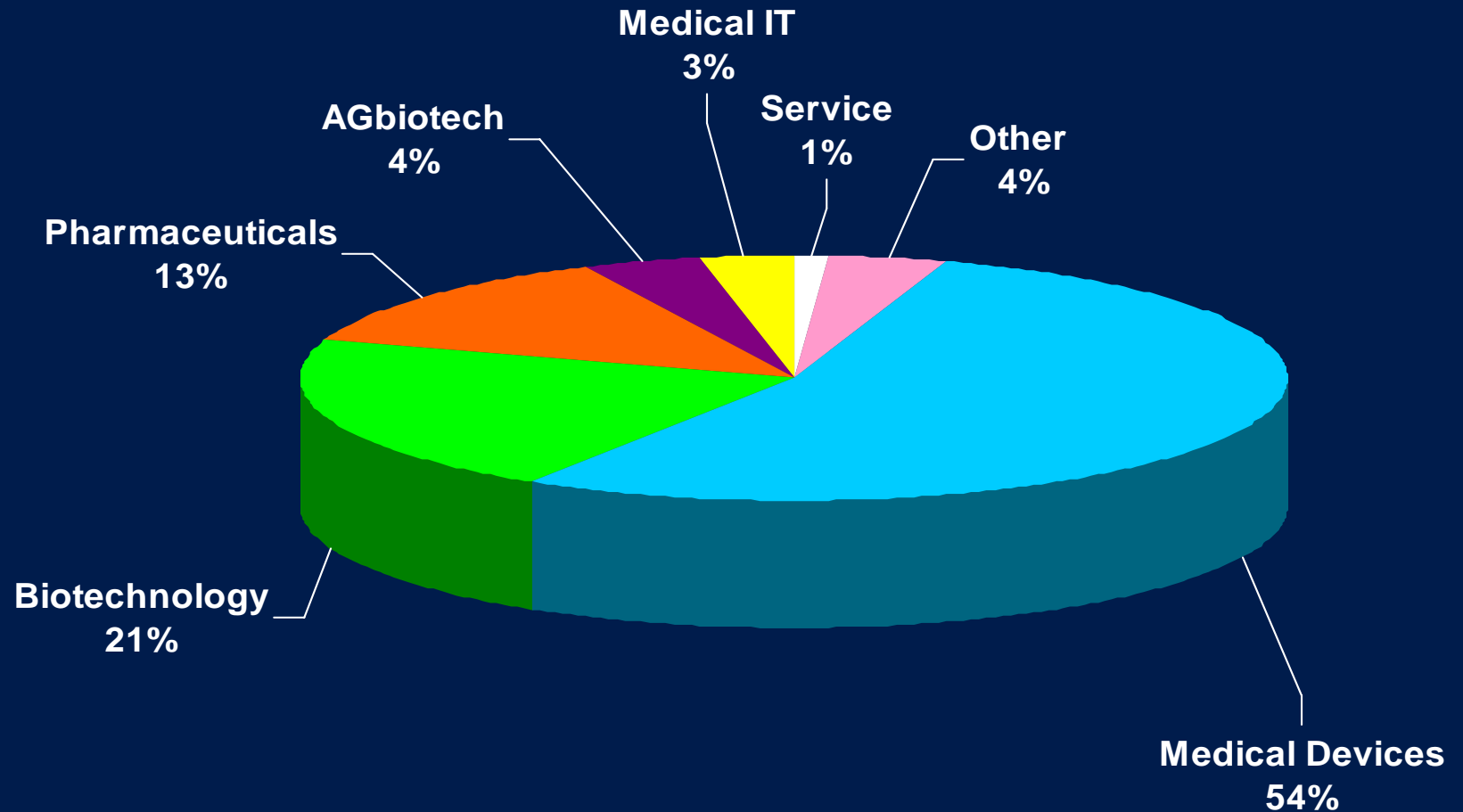


# High - Tech

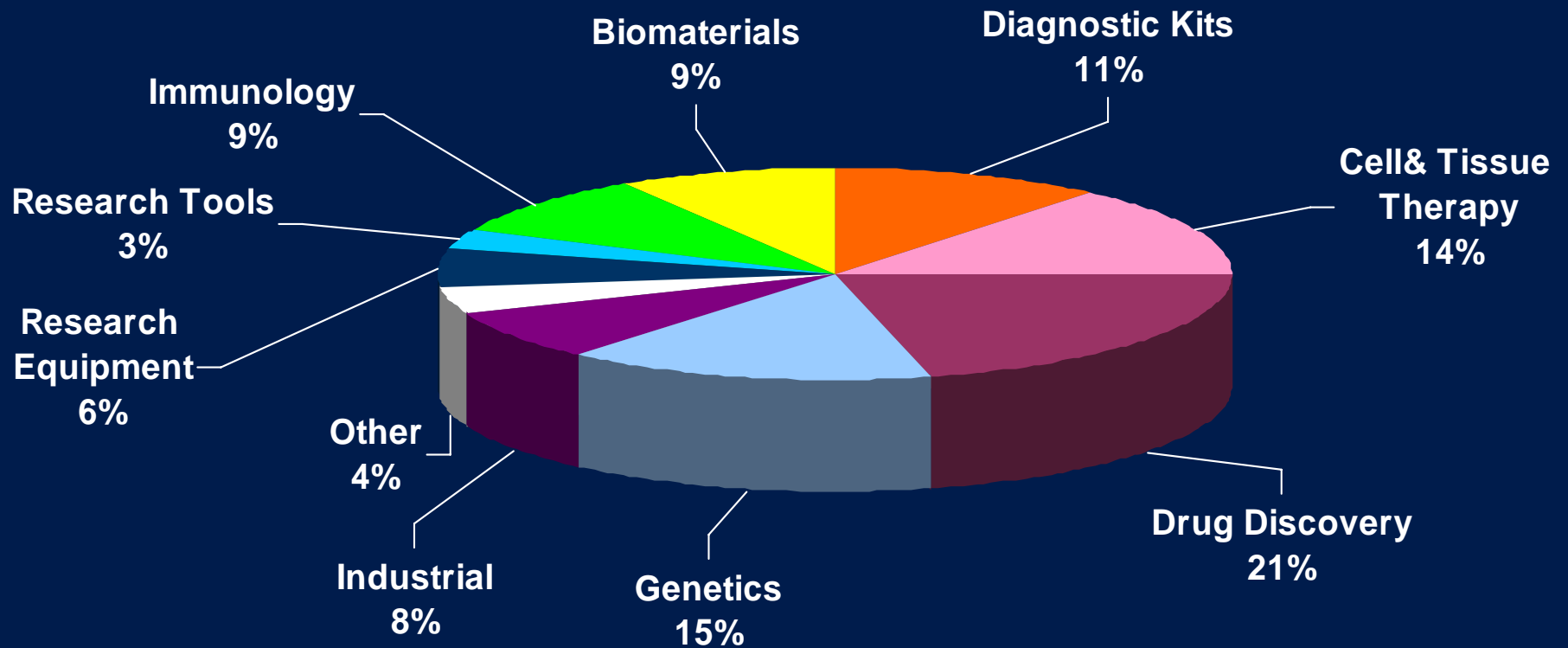
## Capital Raised by Israeli High-Tech Companies by Sectors (%)



# Israel's Life Sciences Industry – Sectors 2004



# Israel's Biotech Companies – Subsectors 2004



# Doing Business In Israel

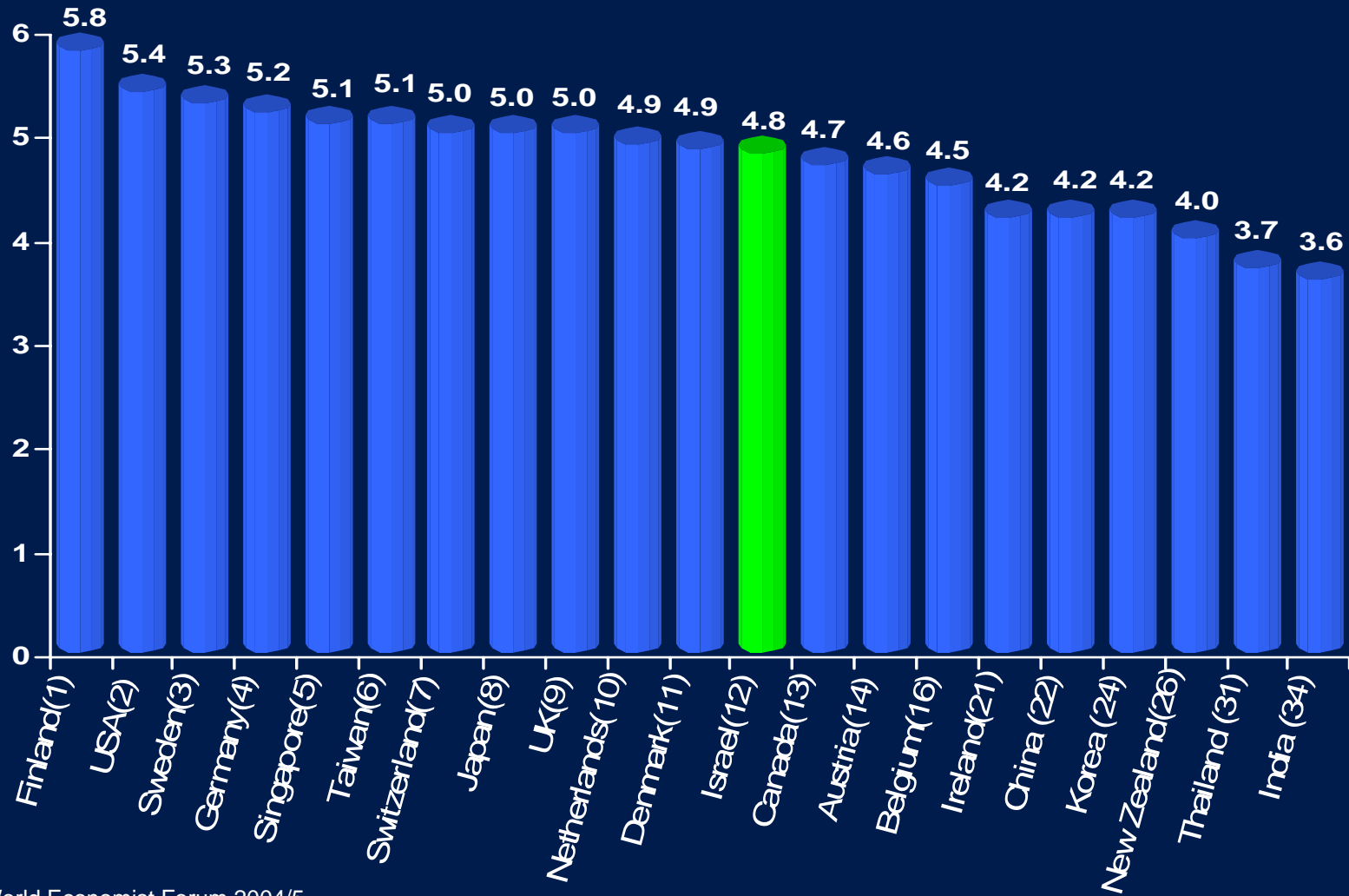


# Foreign Investment in Israel

- **At the crossroads of three continents – Europe, Africa and Asia – Israel enjoys an excellent reputation as a technologically advanced economy, which has made it a prime destination for investment by multinational corporations**



# Cooperation Between the Academy and Industry (1= minimal or nonexistent , 7= intensive and ongoing)



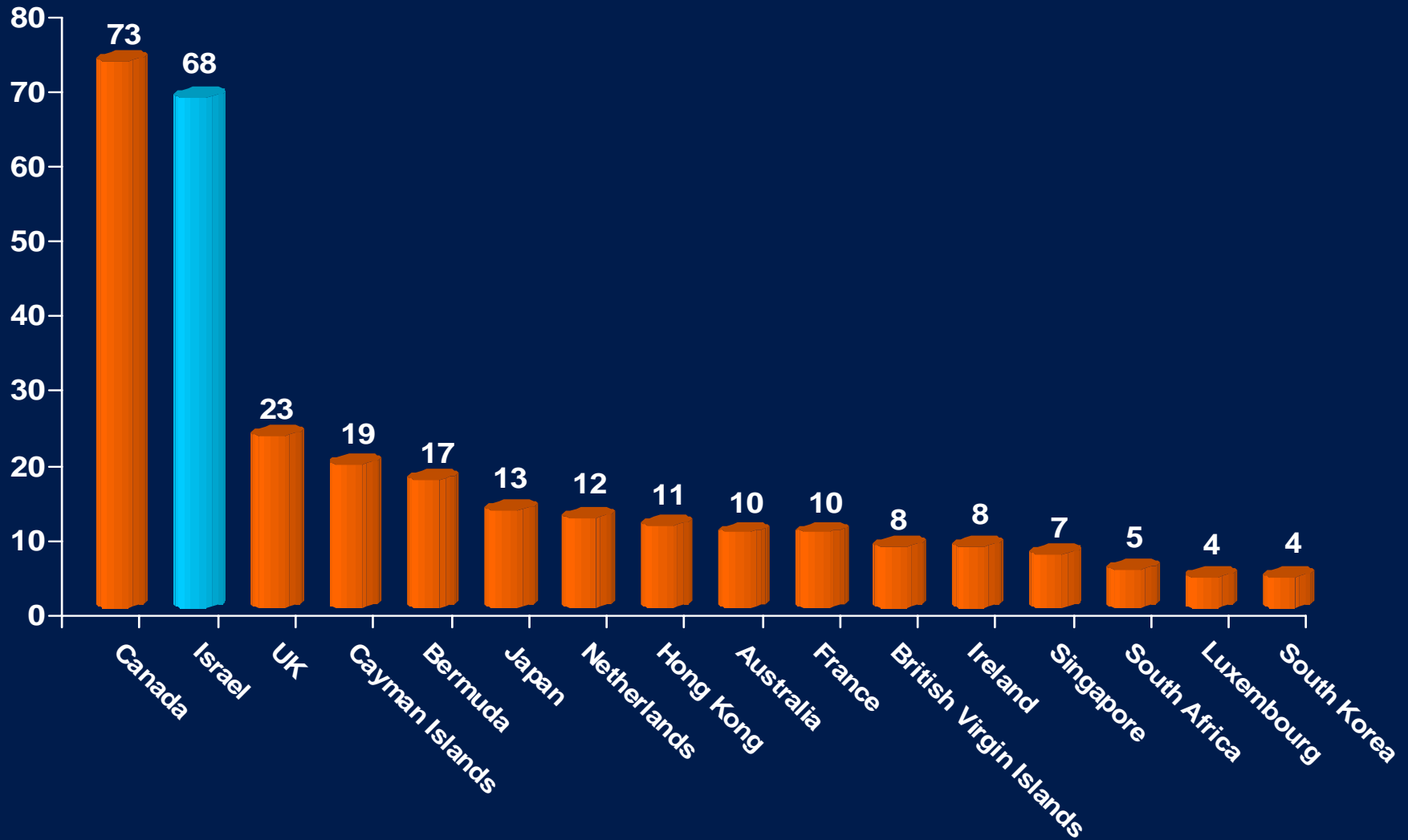
Source: World Economist Forum 2004/5

# Over 20 Israeli Companies are Traded on the London Stock Exchange

- Israel is ranked 2nd after Canada in the number of foreign companies traded on the American Technology Stock Exchange.
- Israel is second in the world in the number of companies of a foreign nation traded on Wall Street.



# Number of Companies Traded on NASDAQ – Selected Countries



Compiled from NASDAQ data

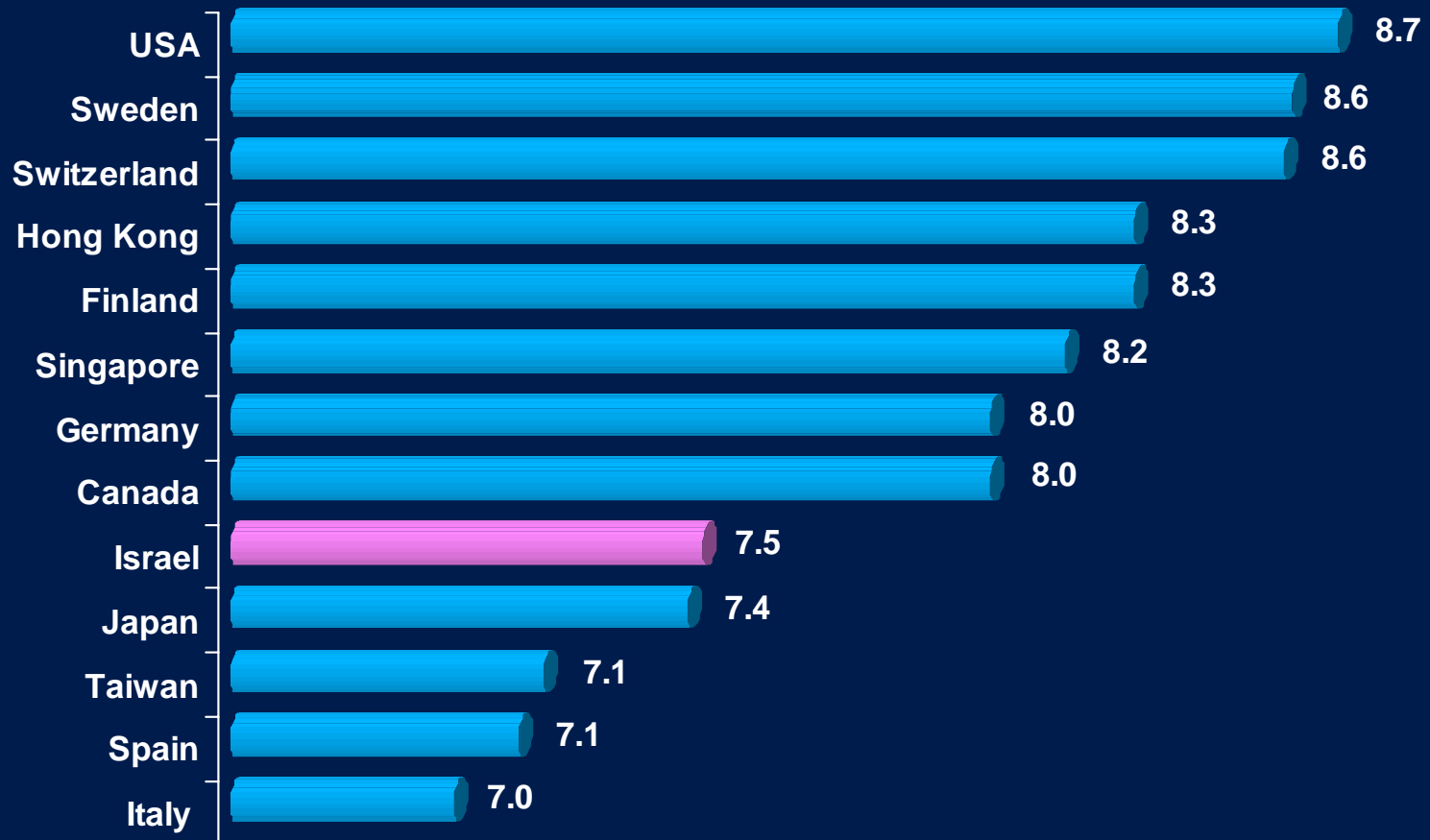
# Recent M&A

Israeli Company	Technology	Acquirer	Sum	Time
Terayon Communication Systems Inc.	Communications	Aris	\$345M	09/2005
Scitex Vision Ltd.	Printing	HP	\$230M	08/2005
Sheer Networks Ltd	Communications	Cisco	\$122M	07/2005
Siliquent Technologies Inc.	Communications	Broadcom	\$84M	07/2005
Medimop Medical Projects Ltd.	Life Sciences	West Pharmaceutica I Services Inc.	\$42M	07/2005
Medcon Telemedicine Technology Ltd.	Life Sciences	McKesson Corp. Life Sciences	\$105M	06/2005
Shopping.com	Internet	eBay	\$620M	06/2005

## Recent M&A (cont.)

Israeli Company	Technology	Acquirer	Sum	Time
Impulse Dynamics	Healthcare	Johnson & Johnson	80M\$	05/2005
Siliquent	Semiconductors Fabless	Broadcom	~85M\$	05/2005
Tecnomatix	Software	UGS Corp	228M\$	04/2005
Kagoor	Voiceover Internet	Juniper Networks	68M\$	03/2005
Savient	Biopharmaceutical	Ferring Holding SA	80M\$	03/2005
OREX Radiography	Medical Equipment	Kodak	51M\$	03/2005
Native Networks	Communication	Alcatel	~50M\$	03/2005
Oplus Technologies	Processors for Digital Display Devices	Intel	100M\$	03/2005
Modem-Art	Semiconductors Fabless	Agere Systems	150M\$	02/2005

# E-Readiness Score, 2004



# Foreign Companies Invested in Israel

(Examples)

## US

- Microsoft
- Pratt & Whitney
- AOL Time Warner
- Intel
- IBM
- Boeing Enterprises
- Cisco Systems
- GE
- Lucent
- 3Com
- Hewlett Packard
- Merrill Lynch
- Motorola
- Sun Microsystems

## Europe

- Siemens
- DaimlerChrysler
- Volvo
- Cable & Wireless
- Baan
- Volkswagen
- Deutsche Telecom
- L'Oreal
- British Telecom
- Danone
- Ares Sereno
- Unilever

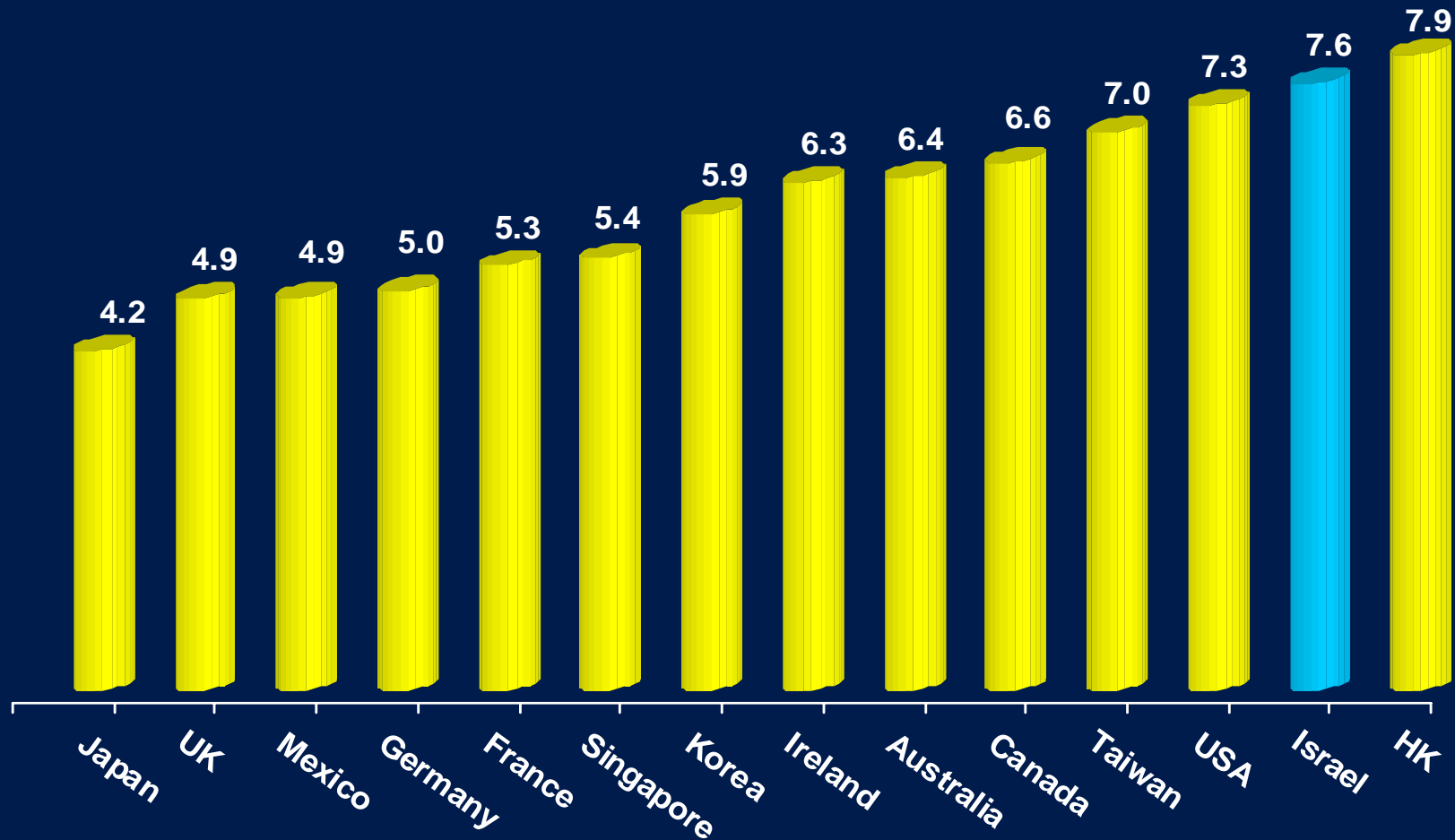
## Asia

- Samsung Electronics
- Daewoo
- Nomura
- Hutchison Telecomm.
- LG Group
- Sony
- Toyo Ink
- Hyundai
- Acer Computers
- Sumitomo Trading
- Fuji
- Honda

# IMD World Report 2004 (Examples)

Country Rank	1st	2nd	3rd	4th
Total Expenditure on R&D as Percentage of GDP	ISRAEL	SWEDEN	FINLAND	ILE-DE FRANCE
Number of Mobile Telephone Subscribers per 1000 Inhabitants	ISRAEL	LUXEMBURG	HONG KONG	ITALY
Total Public Expenditure on Education as Percentage of GDP	DENMARK	ISRAEL	CANADA	MALAYSIA
University Education Meets the Needs Economy	FINLAND	ISRAEL	SINGAPORE	SWITZERLAND
Consumer Price Inflation – Average Annual Rate	HONG KONG	ISRAEL	TAIWAN	JAPAN

# Entrepreneurship Index



# Technology Leadership

“Thanks to quality education,  
Israel is one of the most  
advanced countries in the world.  
... Israel is advancing in high-tech  
even more than  
other developed countries”

Bill Gates, CEO Microsoft, World Economic Forum, Davos, January 2000



## Technology Leadership (cont.)

“ Israel’s market is relatively large and sophisticated, it boasts the world’s greatest per capita number of engineers, scientists and doctors. The Israeli economy is simply a reflection of the country’s greatest natural resource - which is the brainpower and ingenuity of its citizens ”

Mike Zafirovski ,COO, Motorola 2003



# Benefits and Investments



# Main Economic Structural Reforms Launched and Planned by the Government

- Public sector reduction
- Deep reform of the tax system- in process
- Government expenditures reduction
- Privatization policy: energy, transport and communication sector

## Next Stage:

- Further steps to reduce the public sector
- Structural reform of the capital market
- Structural reform of the education system
- Further steps in the privatization policy



## Government R&D Incentives

- **The Law for the Encouragement of Industrial R&D supports R&D projects of Israeli Companies by offering conditional grants from 20%-50% of the approved R&D proposal**
- **Israel is a participant in the Sixth Framework Program for R&D of the European Union, the only non-European Associated State, fully participating in the program.**



## Government R&D Incentives (cont.)

- **The Global Enterprise R&D Cooperation Framework encourages cooperation in industrial R&D between Israel and multi-national companies (MNCs).**



# Benefits for Foreign Investors

- To qualify for these programs the company must be internationally competitive
- The Law for the Encouragement of Capital Investments offers investors both investment grants and tax benefits



## Benefits for Foreign Investors (cont.)

- Grants program- Investment Grants of 24% of the approved program in Priority Area A and 10% in Priority Area B + corporate tax benefits for foreign investors at a rate of 10%.
- Automatic Tax Benefits Programs – offering foreign investors a complete **tax exemption** when investing in Priority area A for a 10 year period or alternatively a 10% corporate tax rate when not located in a Priority area.

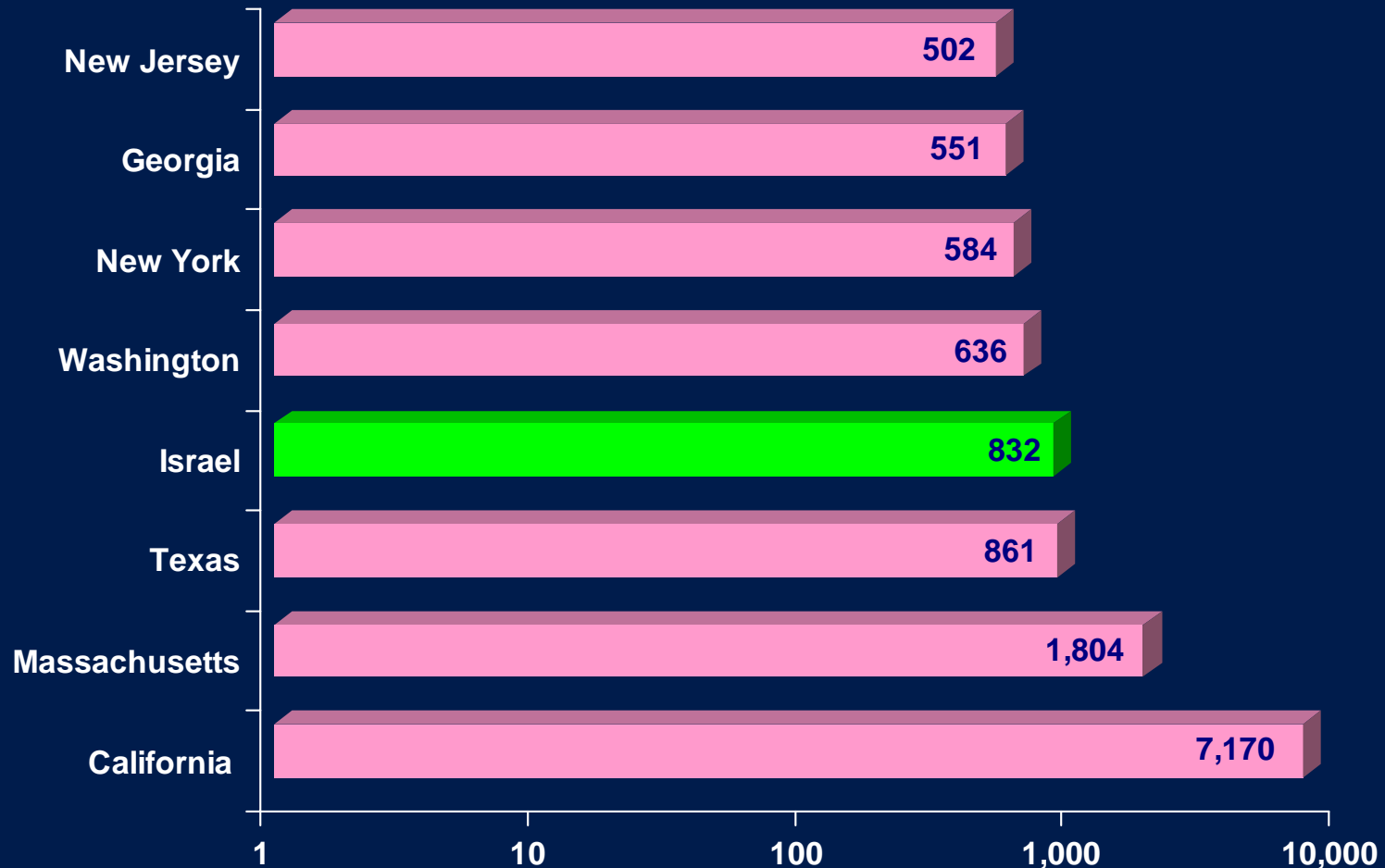


# Benefits for Foreign Investors – Investment Grants (%)

(Grants as a percentage of investments in fixed assets included in the Approved Enterprise Plan)

	Priority Area “A”	Priority Area “B”
Industrial Projects (Up to 140 Million NIS)	24%	10%
Industrial Projects (Above 140 Million NIS)	20%	10%
Investment in Hotels	24%	10%
Other Tourist Enterprises	15%	---

# Investment in Technologies (M\$)



According to foreign investors, the Silicone Valley, Boston, Texas and Israel are the main centers to search for new high technology investments Q1-Q3 2004

# Israel's Free Trade Agreements



USA (1985)



EFTA (1992)



Turkey (1997)



Jordan (1995): Bilateral Trade Agreement



Mexico (1999)



Canada (1997)



European Union – Association Agreement 2000



Romania (2000)



Bulgaria (2002)

# Avoidance of Double Taxation Agreements



Belarus



Belgium



Brazil



Bulgaria



Canada



China



Czech republic



Denmark



Finland



France



Germany



Greece



Hungary



India



Jamaica



Japan



Luxembourg



Mexico



Norway



Philippines



Poland



Romania



Russia



Singapore



Slovakia



South Africa



South Korea



Spain



Sweden



Thailand



The Netherlands



Turkey



USA

# Cooperation in Industrial R&D Agreements



# Protection of Investment Agreements



**Albania**



**Argentina**



**Armenia**



**Belarus**



**Bulgaria**



**Croatia**



**Cyprus**



**Czech Republic**



**El-Salvador**



**Estonia**



**Georgia**



**Germany**



**Hungary**



**India**



**Kazakhstan**



**Korea**

# Protection of Investment Agreements



Latvia



Lithuania



Moldova



Poland



Romania



Slovakia



Slovenia



Thailand



Turkey



Turkmenistan



Ukraine



Uruguay



Uzbekistan

QIZ Agreement



Egypt



Jordan

# International Organization\* Membership:

BIS | BSEC (observer) | CE (observer)  
CERN (observer) | EBRD | FAO | IADB | IAEA  
IBRD | ICAO | ICC | ICCt (signatory) | ICFTU  
IDA | IFAD | IFC | IFRC (observer) | ILO | IMF  
IMO | Interpol | IOC | IOM | ISO | ITU | OAS (observer)  
OPCW (signatory) | OSCE (partner) | PCA | UN  
UNCTAD | UNECE | UNEP | UNESCO | UNHCR  
UNIDO | UPU | WB | WCO | WFP | WHO | WIPO | WMO  
WToO | WTrO | WTO



# Business Contacts – Links

[Business Contacts With Israeli Exporters](#)

[List of Israeli Trading Companies](#)

[Israeli Government Portal](#)

[Technology Directory](#)



*Ministry of Finance*



*The Israel Export & International Cooperation Institute*



*Ministry of Foreign Affairs*



*Ministry of Industry,  
Trade & Labor  
InMEX in Israel*

# For Further Information Please Contact:

The Israel Export & International Cooperation Institute

**Efrat Cohen**

Economist

**Tel: +972-3-5142820/961**

**Fax: +972-3-5142852**

**E-mail: [efrat@export.gov.il](mailto:efrat@export.gov.il)**

**[www.export.gov.il](http://www.export.gov.il)**

**Adrian Filut**

Economist

**Tel: +972-3-5142994**

**Fax: +972-3-5142852**

**E-mail: [filut@export.gov.il](mailto:filut@export.gov.il)**

**[www.export.gov.il](http://www.export.gov.il)**

