

COUNTRY PROFILE: STATE OF ISRAEL**DATED: JUNE 2007****CREDIT GUARANTEE:**

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2A	No Restrictions

Recent Political Highlights

- ❑ Moshe Katsav (61) stepped down as Israel's president after agreeing to plead guilty to sexual harassment to avoid more charges that he raped female staffers. Under the plea agreement, Katsav, will avoid jail time, raising an outcry among women's rights activists who saw the case as an important test of Israel's commitment to stamp out sexual harassment. The presidency in Israel is largely a ceremonial position as political power rests with the prime minister. The Katsav case was among a series of scandals that have eroded Israelis' confidence in their leaders. Corruption allegations also have swirled around top officials, including Prime Minister Ehud Olmert.
- ❑ Deputy prime minister and elder statesman Shimon Peres of the ruling Kadima Party was elected by parliament to the presidency. He won the support of 86 of the Knesset's (parliament's) 120 members in a second round of voting in which he stood alone after his two rivals withdrew from the race after he seized a commanding lead in the first round. Ehud Barak, a former prime minister of Israel, has returned to the political scene as the new leader of the Labour Party.
- ❑ Tony Blair has been assigned a new role as envoy to the Middle East. His duty will be shoring up Palestinian institutions and not trying to bring peace between Israelis and Palestinians because Condoleezza Rice is handling that job herself. Israel has agreed to transfer hundreds of millions of dollars of Palestinian tax revenues to the Palestinian President, Mahmoud Abbas, in an effort to support his new emergency government after the Muslim militants of Hamas seized control of Gaza in mid-June.

Recent Economic Highlights

- ❑ Israel has a diversified economy with substantial government ownership and a rapidly developing high-tech sector. It also receives direct economic aid from the US which was estimated at \$120m in 2007 or 0.07% of Israel's GDP. With a sparse 7m population, no natural resources and all borders surrounded by enemies, Israel's economy has enjoyed continued resilience and growth helped by a robust high-tech sector, strong capital inflows, steady exports and higher consumer spending.
- ❑ In May 2007, Israel was admitted to the Organisation for Economic Co-operation and Development (OECD), which consists of 30 leading economies in the world. This will improve its credit rating, yielding a substantial reduction of risk premiums for the financing of the coming multi-billion infrastructure prospects and accelerate the flow of overseas investments.
- ❑ Israel's economy grew 5.1% in 2006 and the Bank of Israel forecasts it to grow 5% in 2007 while the IMF projects a 4.8% growth. GDP in Q1'07 increased at an annualised rate of 6.3%, based on growth in private consumption, business sector activity and investments.
- ❑ FDI in Israel totalled \$13.2bn in 2006, including the acquisition of 80% of Iscar by Berkshire Hathaway, compared with \$5.6bn in 2005. Foreigners invested \$617m of FDI into Israel in May, pushing FDI up to \$3.2bn for the first five months of 2007. Foreign currency reserves fell by \$1.37bn in May to \$28.4bn from the previous month. The fall was mainly attributed to government's transfers to finance activities abroad and from private sector transfers abroad. The current account surplus declined to \$1.7bn in Q1'07 from \$1.8bn in Q4'06
- ❑ Israel's unemployment rates continued to fall significantly in 2006 with unemployment averaging 8.4% down from 9% in 2005. Unemployment stayed at a 10-year low of 7.9% for a fifth straight month in April 2007 and analysts expect the rate to decline to 7% by year-end aided by continued rapid economic growth.
- ❑ The World Economic Forum ranked Israel as having one of the world's most competitive economies in its 2006/7 Global Competitiveness Report. Israel ranked 15th overall in the world, up from 23rd last year. In technology it leapt 20 places to No.3 while it ranked 1st for availability of scientists and engineers.

Latest Trade Developments

- ❑ Main exports: machinery and equipment, software, polished diamonds, agricultural products, chemicals, rubber, textiles and apparel. Israel is one of the biggest arms producers, importers and exporters in the world; annual military arms sales were about \$4.4bn in 2006, with 75% sold overseas, making it the fourth largest arms dealer in the world, overtaking Britain.
- ❑ Main imports: raw materials, military equipment, rough diamonds, fuels, grain and consumer goods.
- ❑ Major trading partners: US, Belgium, Hong Kong, Germany, UK and Switzerland.
- ❑ Israel ranks as the 21st largest export market for the US, with almost \$30bn in bilateral trade in 2006. Israel is the US' second largest trading partner in the Middle East, surpassed only by Saudi Arabia. The EU is the source of 37% of all Israeli imports followed by Asia with 19%. The EU received 33% of all Israeli exports, followed by the US with 31% and Asia with 15%.
- ❑ Israel is the biggest Middle East destination for South African exports. In 2006, SA exported R4.5bn worth of goods to Israel and imported goods worth R2.2bn. Israel imports mainly diamonds and gold from SA.

Sindiso Valerie Mpoju-Economic Researcher