

**OFFICIAL MEETING MINUTES
OF THE
PALM BEACH COUNTY
INVESTMENT POLICY COMMITTEE**

OCTOBER 25, 2021

**MONDAY
2:08 P.M.**

**GOVERNMENTAL CENTER
WEST PALM BEACH, FL**

I. CALL TO ORDER

I.A. Roll Call

MEMBERS:

Commissioner Gregg K. Weiss, Chair
Stephen H. Freilich, Citizen-at-Large, Vice Chair
Sherry Brown, Director, Office of Financial Management and Budget (OFMB)
George Forman, Palm Beach County Sheriff's Office – Absent
Ned Nashban, Citizen-at-Large
Mark Parks, Citizen-at-Large – Absent

STAFF:

David Behar, Assistant County Attorney I
John Burford, Investment Analyst, Clerk of the Circuit Court & Comptroller's (Clerk) Office
Leslie Cohen, Legal Compliance Officer, Finance Services, Clerk's Office
Irwin Jacobowitz, Contract Development & Control Director, OFMB

ADMINISTRATIVE STAFF:

Yadzia Roa, Deputy Clerk, Clerk's Office

I.B. Opening Remarks – Commissioner Weiss

Commissioner Weiss said he looked forward to today discussion about Israeli bonds.

I.C. Approval of Minutes – Meeting of May 24, 2020

**MOTION to approve the May 24, 2020 meeting minutes. Motion by Sherry Brown ,
seconded by Ned Nashban, and carried 6-0.**

II. ECONOMIC OVERVIEW: Craig Dismuke, Vining Sparks – See attached presentation

John Burford briefly introduced the speakers to the item.

Craig Dismuke, Representative from Vining Sparks, presentation covered the following topics:

- COVID Situation;
- Policy Impact;
- High-frequency data;
- Consumer confidence;
- Inflation expectations;
- Economic environment;
- Nonfarm payrolls;
- Continuing jobless claims;
- Labor market imbalance;
- Stimulus buoys demand;
- Supply impaired;
- Auto sales imbalance;
- Consumer prices jump;
- Consumers recoil;
- Inflation dynamics;
- Consumer recoils;
- Inflation environment;
- Market inflation expectations;
- FOMC SEP projections;

- Inflation and rates;
- Economic projections;
- Economic outlook;
- Economic projections;

III. ISRAEL BOND RECOMMENDATION – See attached presentation.

Mark Ruben, Executive Director, Development Corporation for Israel, provided a presentation and listed the following:

- Since the 1980's the State of Florida retirement plan invested in Israel bonds.
- The State of Florida allowed investments to be made by the municipalities in Florida.
- Palm Beach County was the first in the state to invest in 2008.
- The County had invested up to date \$253 million.
- The gave a brief overview of the types of bonds.
- Israel debt to GDP ratio was up 74%.
- In mid-November 2021 Israel approved a new budget.
- The new budget was a new factor in how the bonds would be sold in 2022.

Mr. Burford said staff recommendation was to increase the allowed allocation of Israel bonds from 5% of the market value of the portfolio at the time of purchase to 10%. In addition, staff would like the ability to increase the bonds from five to 10-year bond at the appropriate time.

MOTION to approve the recommendation. Motion by Ned Nashan, seconded by Sherry Brown, and carried 5-0.

IV. OLD BUSINESS – None

V. NEW BUSINESS

Ms. Cohen said that:

- On the Monthly Dashboard:
 - o Under Balance Sheet, the size of the portfolio was \$2.4 billion and this represented the low point for the year and the number would grow in November.
 - o Under Cash and Fixed Income Summary, the yield was 80 basis points. Duration was .827 years.
 - o Base summary showed that total return from the prior fiscal year ending 9/30/2021 was over 1%.
 - o The Compliance Summary report was in compliance with the County's Investment Policy.

VI. ADJOURNMENT

At 3:12 p.m., the chair declared the meeting adjourned.

4Q 2021 Economic Outlook

FED PIVOTS AS STIMULUS, POLICY, AND IMBALANCES
PUSH ECONOMY TO BRINK OF INFLATION

Craig Dismuke
Chief Economist
cdismuke@viningsparks.com

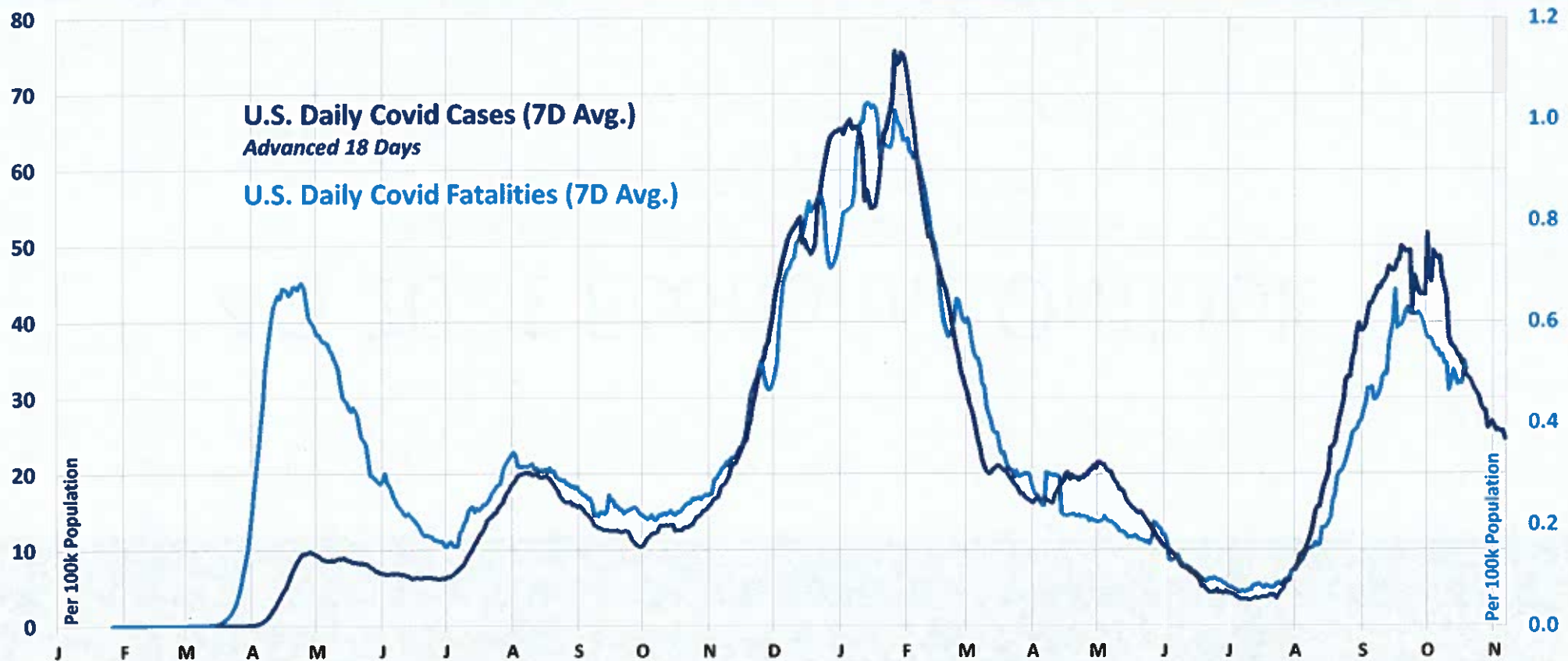
Dudley Carter
Economist
dcarter@viningsparks.com

Updated October 2021

COVID SITUATION

VINING  SPARKS

DELTA WAVE RENEWED CONCERNS ABOUT STABILITY OF ECONOMIC EXPANSION, BUT CASES TURNING LOWER

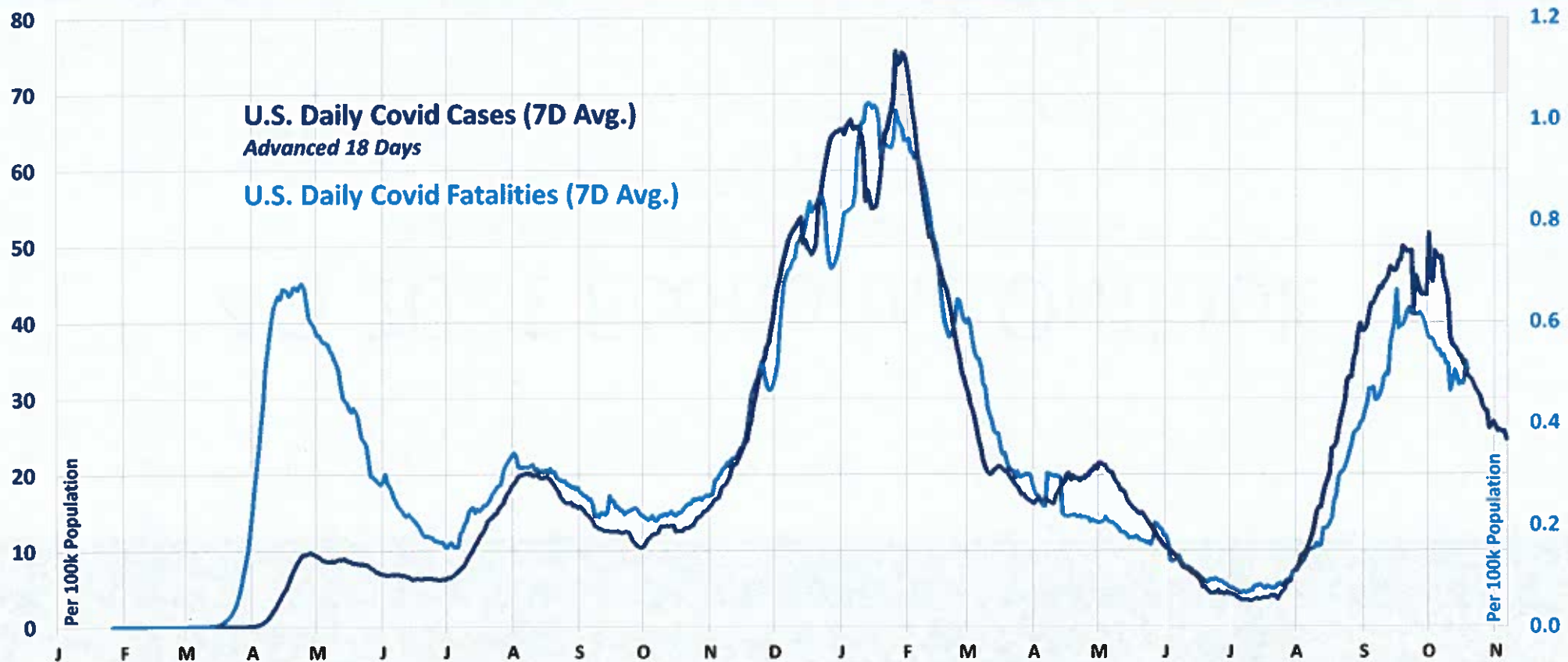


Sources: Bloomberg, Vining Sparks

COVID SITUATION

VINING  SPARKS

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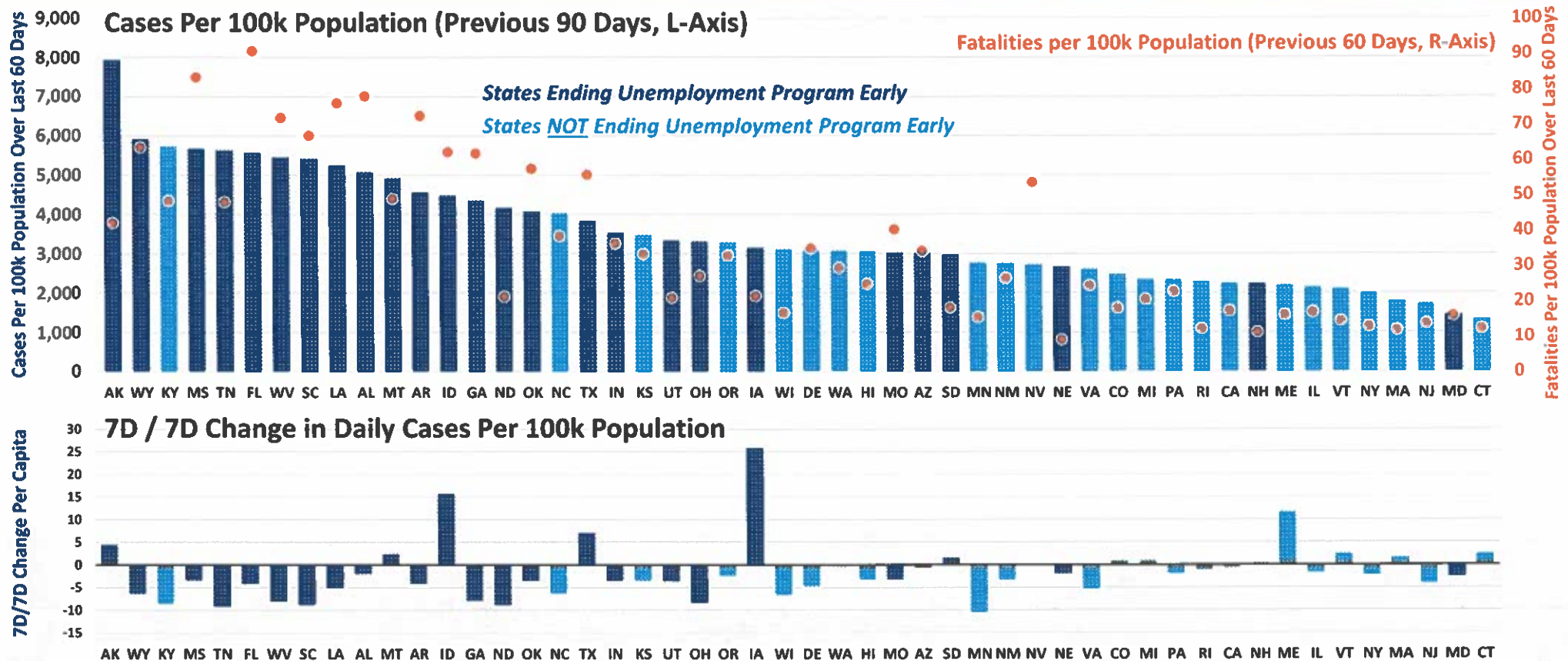


Sources: Bloomberg, Vining Sparks

POLICY IMPACT

VINING SPARKS

THUS FAR, STATES LESS LIKELY TO IMPLEMENT ECONOMICALLY LIMITING RESTRICTIONS HIT HARDEST

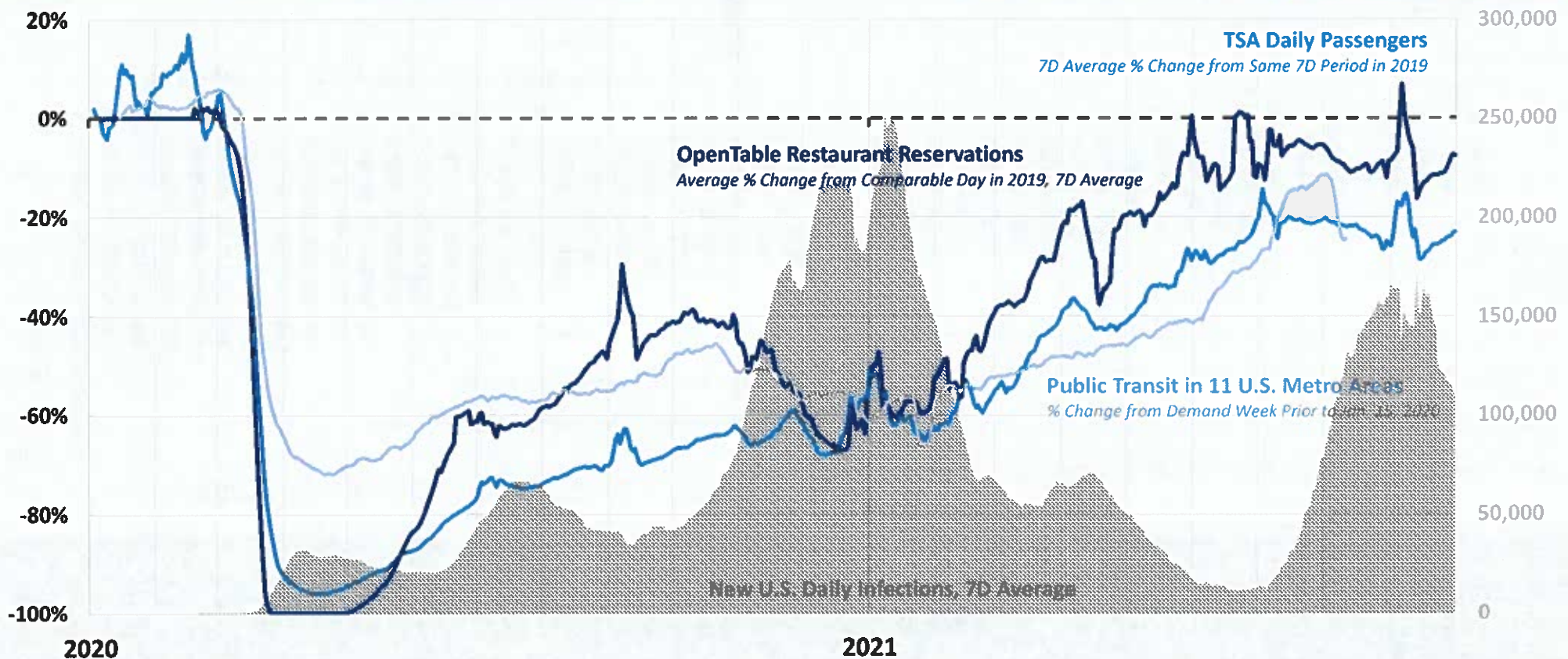


Sources: Johns Hopkins CSSE Data, Bloomberg, Vining Sparks

HIGH-FREQUENCY DATA

VINING  SPARKS

SOME HIGH-FREQUENCY ECONOMIC DATA BEGAN TO SHOW DELTA'S SPREAD IMPACTING ACTIVITY

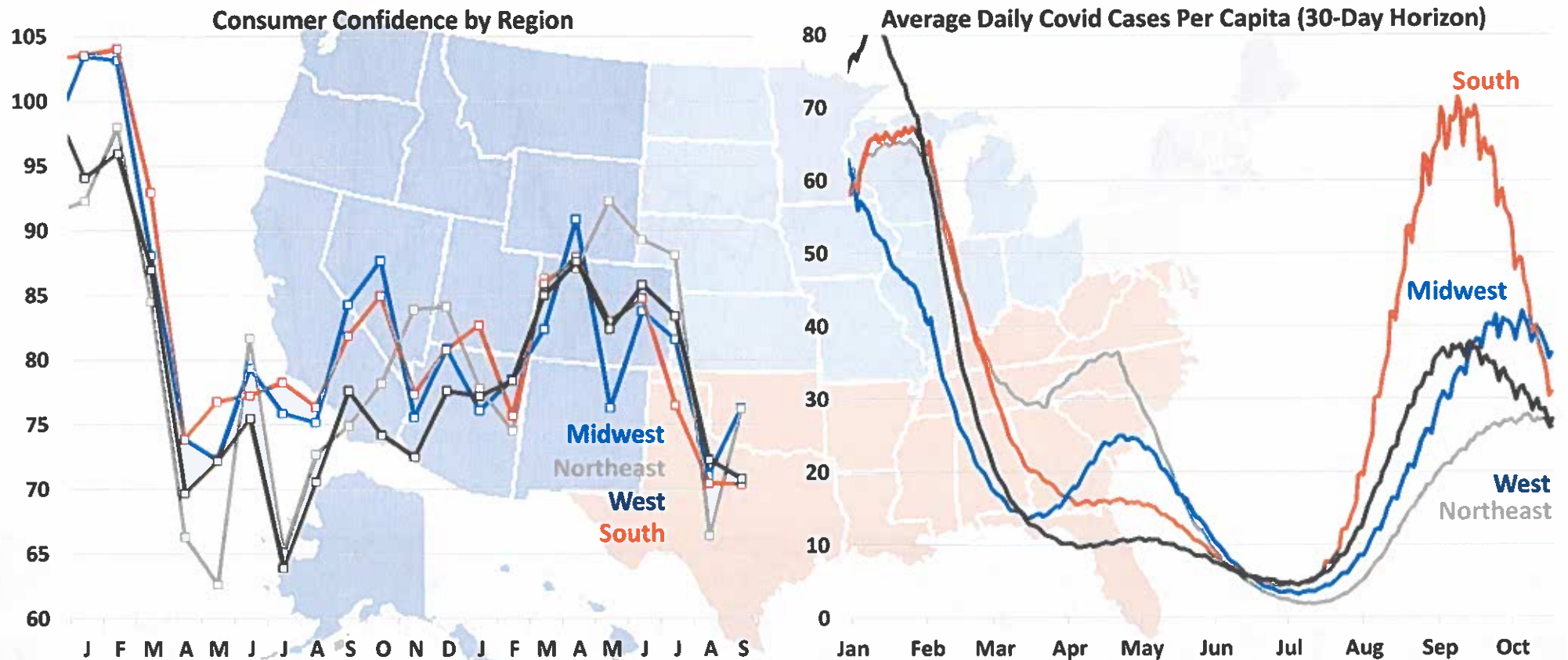


Sources: Moovit, OpenTable, TSA, Bloomberg, Vining Sparks

CONSUMER CONFIDENCE

VINING  SPARKS

CONFIDENCE PLUNGES IN SOUTH, FOLLOWED BY OTHER REGIONS, AS COVID CASES SPIKE AND ...

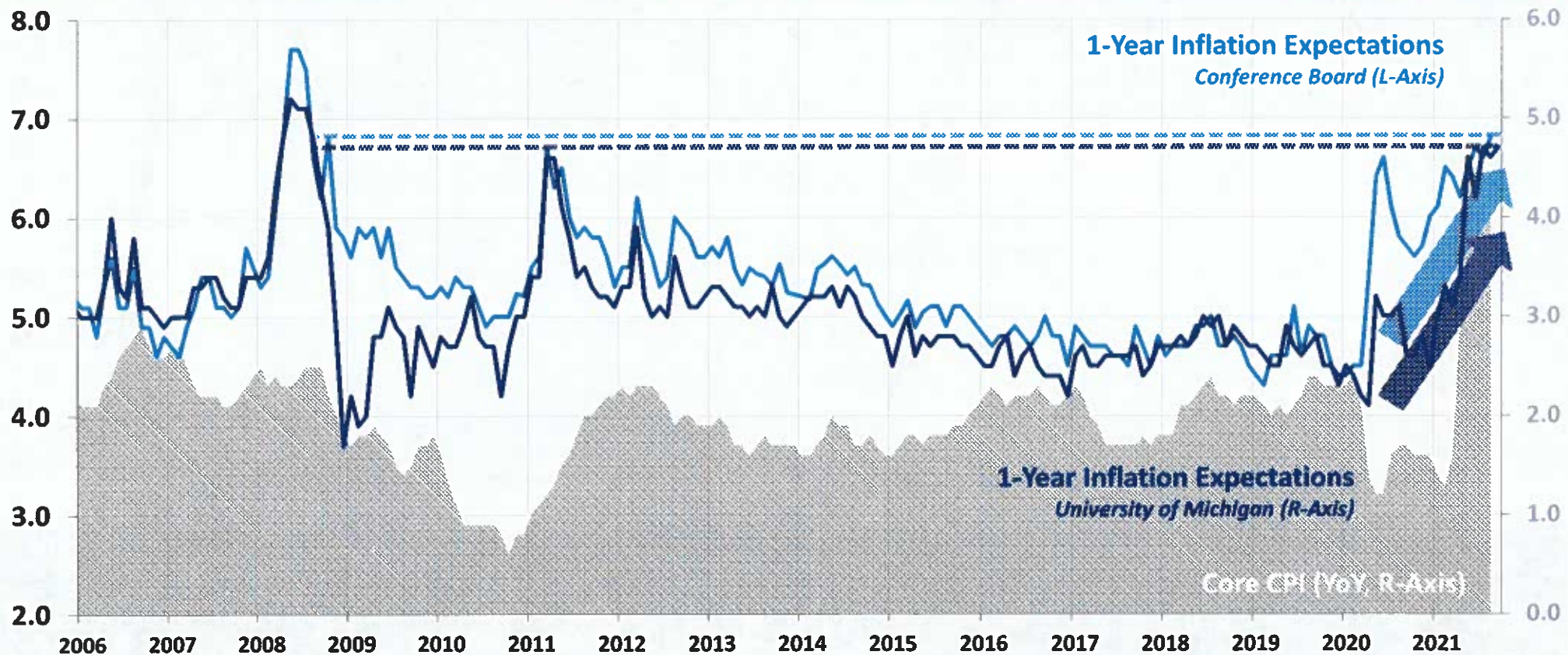


Sources: University of Michigan, Johns Hopkins CSSE Data, Bloomberg, Vining Sparks

INFLATION EXPECTATIONS

VINING  SPARKS

SHORT-TERM CONSUMER INFLATION EXPECTATIONS RISE TO HIGHEST LEVELS SINCE 2008

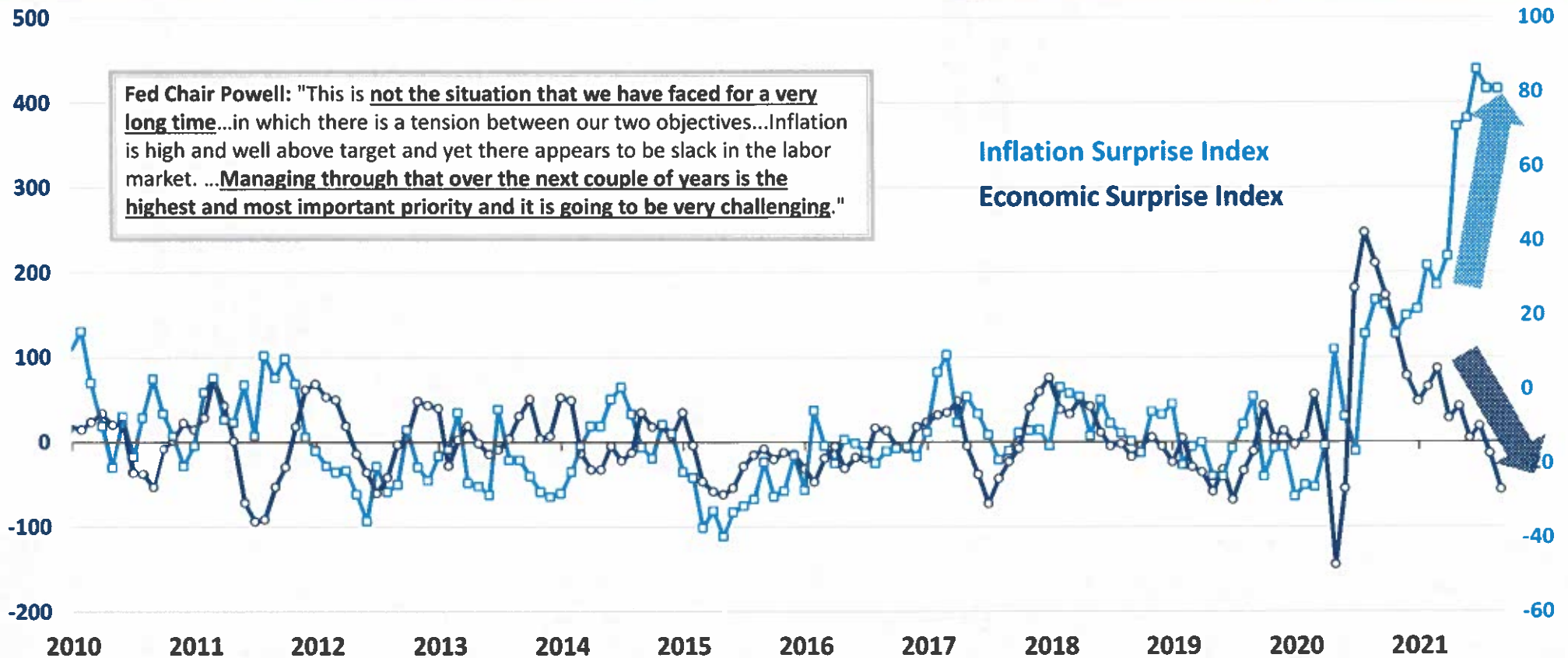


Sources: Conference Board, University of Michigan, BLS, Vining Sparks

ECONOMIC ENVIRONMENT

VINING  SPARKS

IMBALANCES IN ECONOMY HAVE RESULTED IN WEAKER-THAN-EXPECTED GROWTH AND HIGHER INFLATION

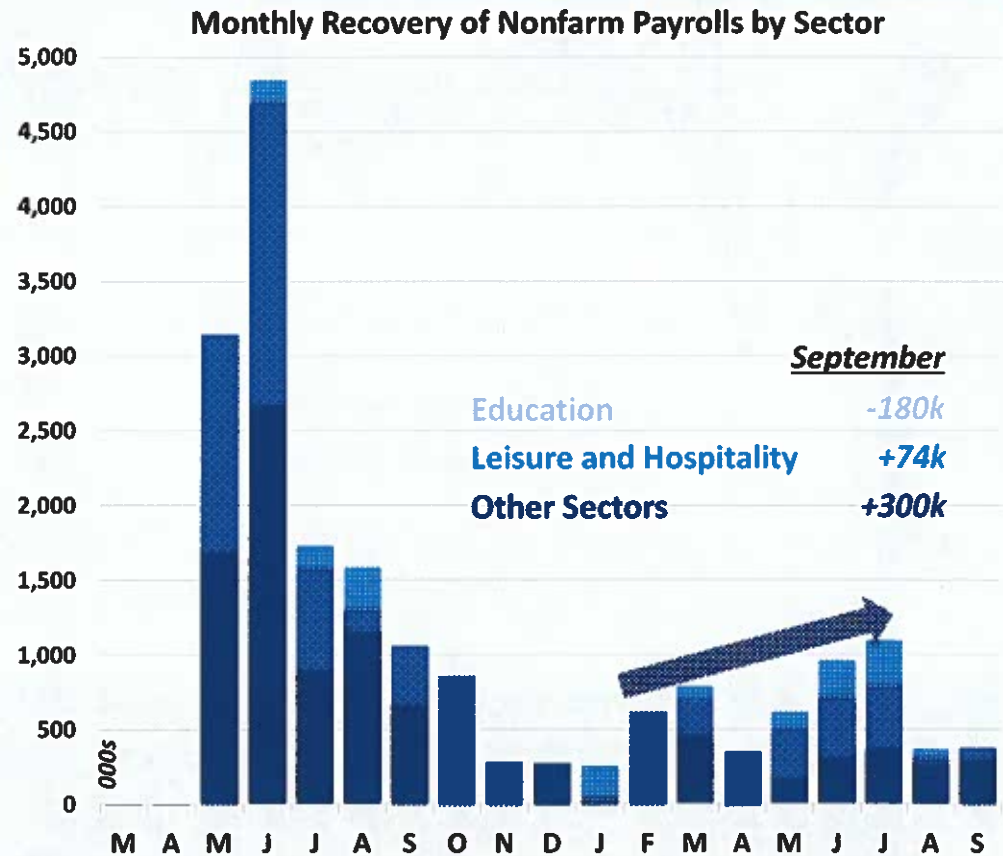
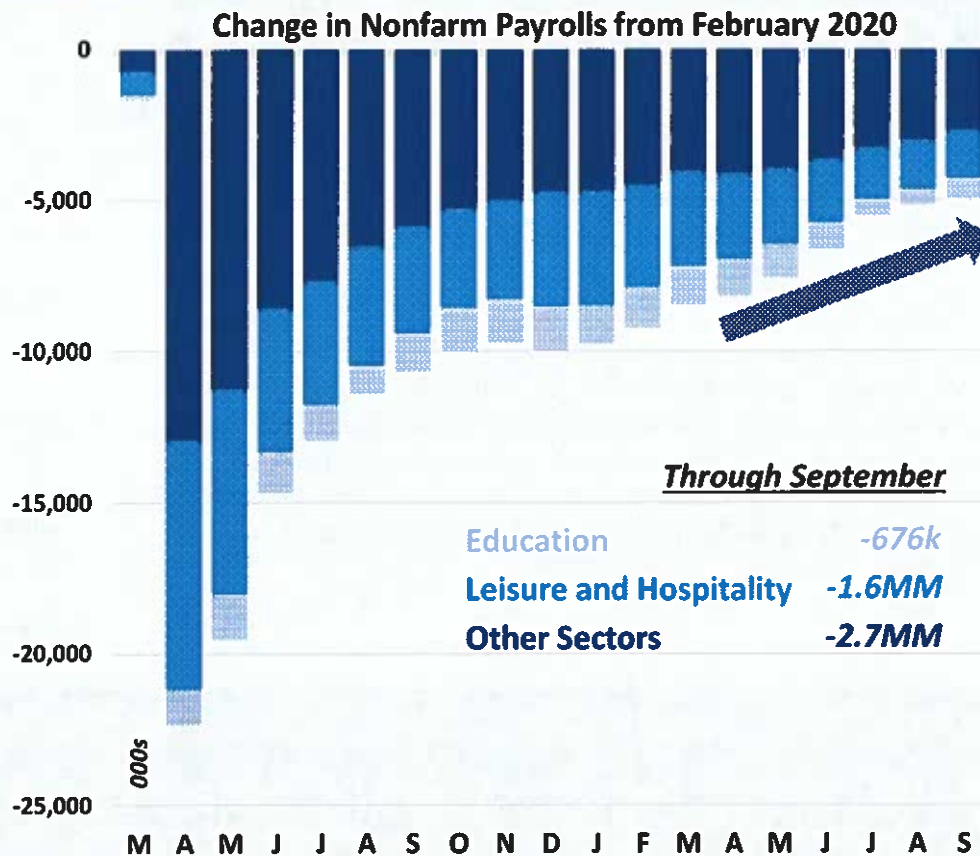


Sources: Citi, Vining Sparks

NONFARM PAYROLLS

LABOR RECOVERY REMAINS INCOMPLETE; LEISURE AND EDUCATION RECOVERED SLOWING

VINING  SPARKS

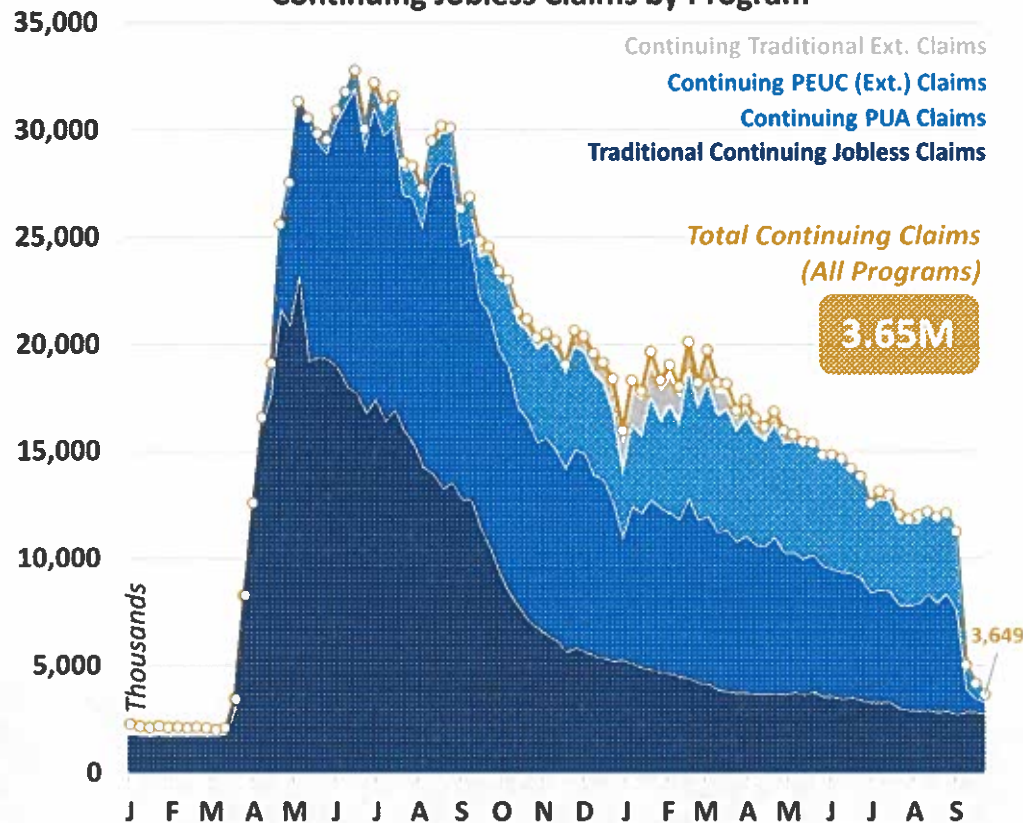


Sources: BLS, Vining Sparks

CONTINUING JOBLESS CLAIMS VINING SPARKS

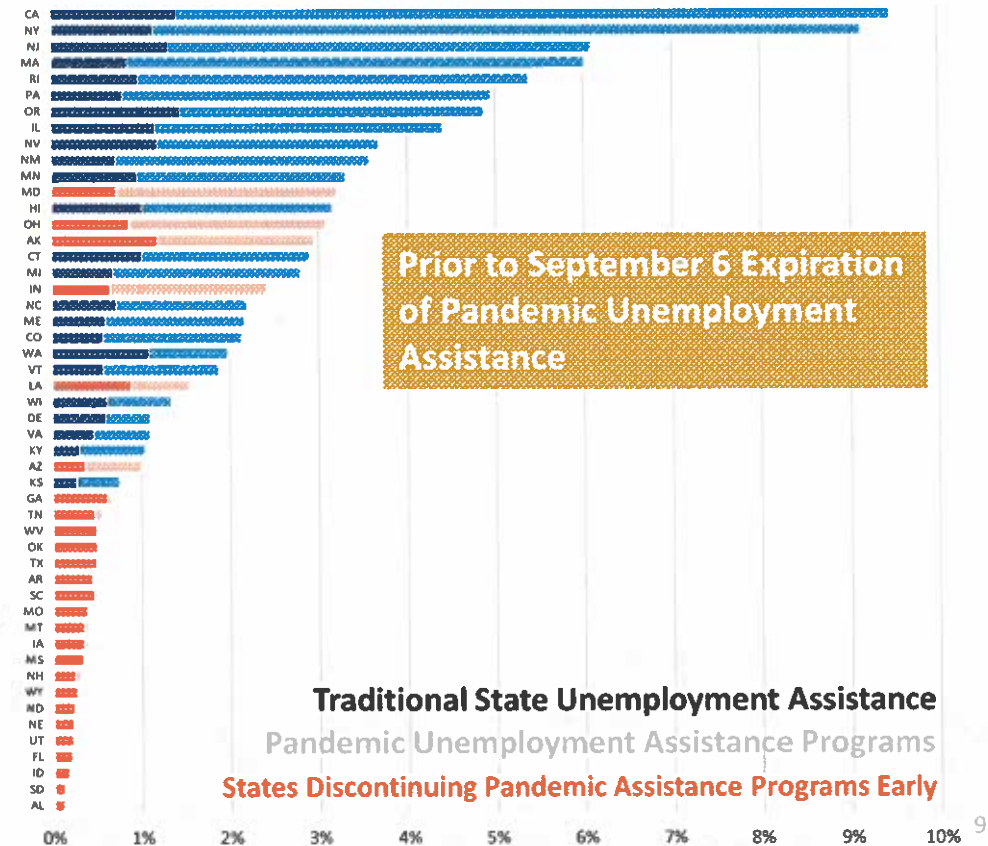
NO EVIDENCE OF RETURN TO LABOR MARKET YET; REGIONAL DISPARITY IN RATES OF RECOVERY

Continuing Jobless Claims by Program



Sources: DOL, BLS, Vining Sparks

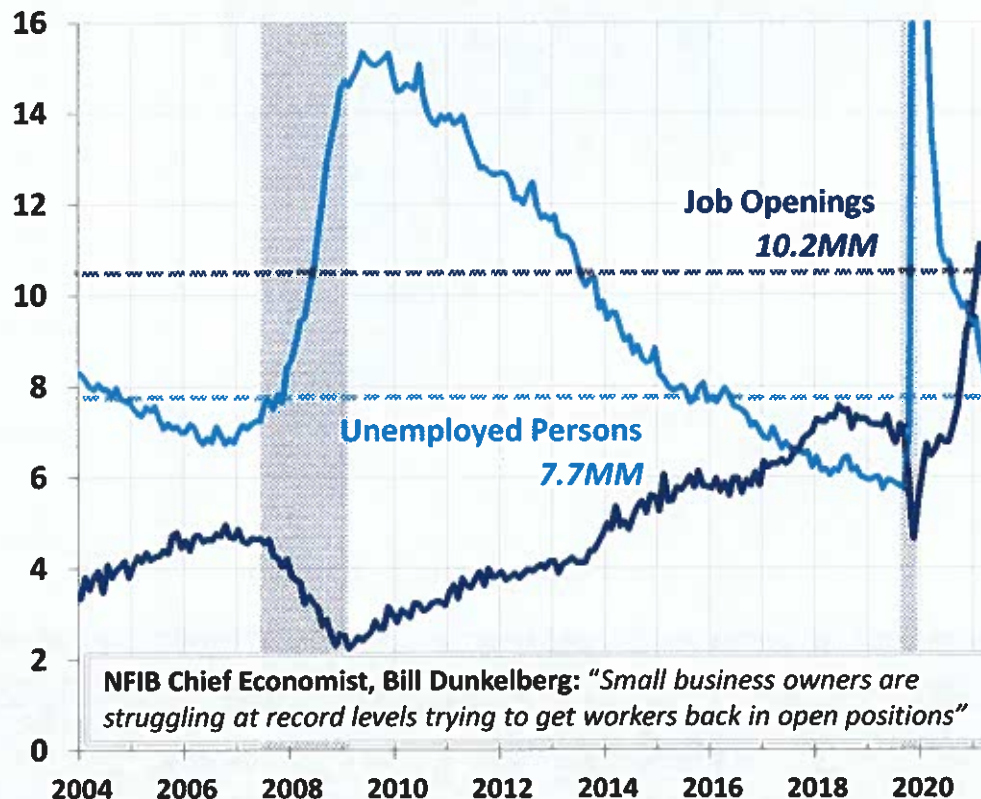
Continuing Jobless Claims - Percent of State Populations



LABOR MARKET IMBALANCE VINING SPARKS

NUMBER OF UNEMPLOYED FALLS TO 7.7 MILLION; JOB OPENINGS REMAIN ELEVATED AT 10.2 MILLION

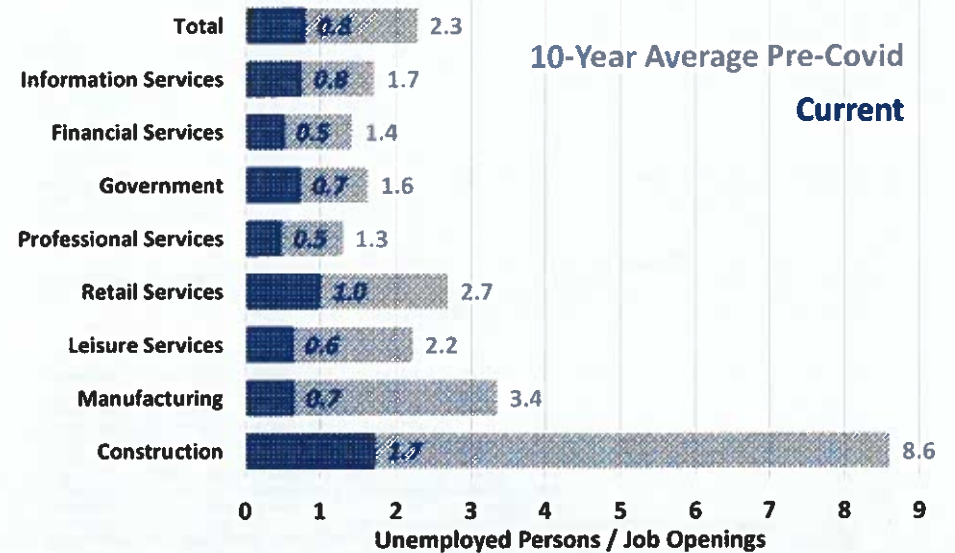
Unemployed Persons and Job Openings



NFIB Chief Economist, Bill Dunkelberg: "Small business owners are struggling at record levels trying to get workers back in open positions"

Sources: Bureau of Labor Statistics, Vining Sparks

Unemployed Person Per Job Opening by Sector



Fed's
Beige
Book

Increased unemployment benefits

Childcare challenges

Health concerns

Early retirements

Worker burnout

Children's school schedules

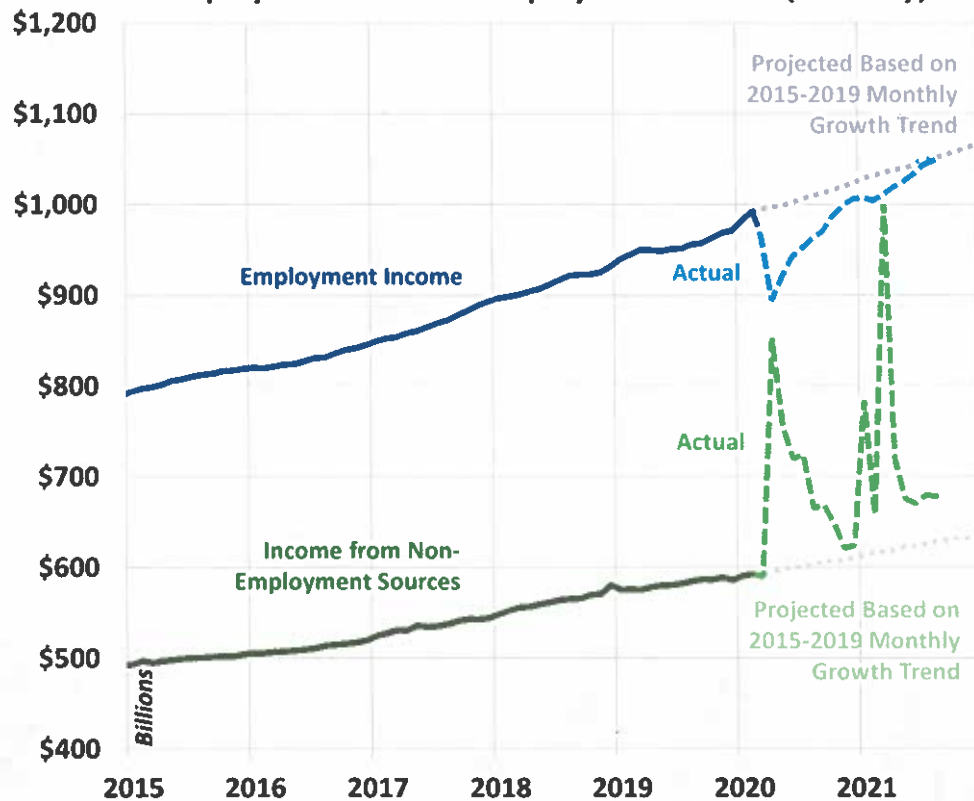
Increased interest in working from home

STIMULUS BUOYS DEMAND

VINING  SPARKS

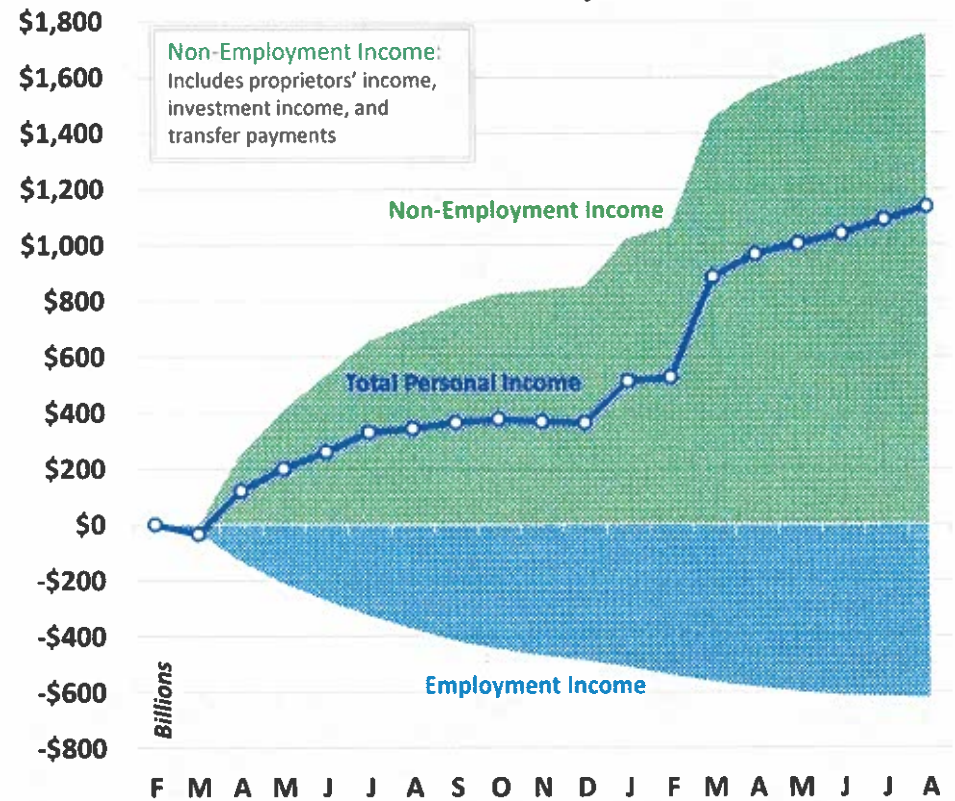
DESPITE LABOR MARKET IMBALANCE, INCOMES HAVE EXCEEDED TREND BOOSTING DEMAND

Employment and Non-Employment Income (Monthly)



Sources: Bureau of Economic Analysis, Vining Sparks

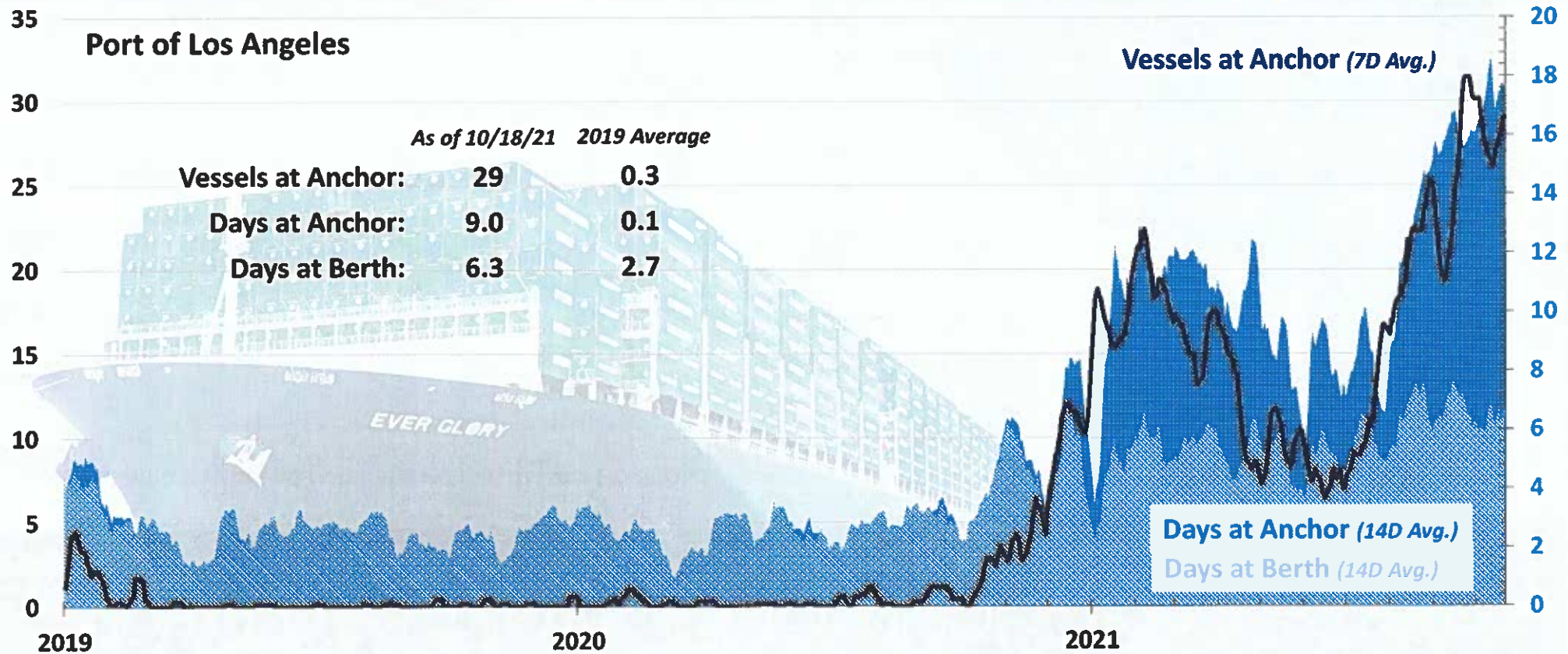
Cumulative Difference from Projected Since Feb. 2020



SUPPLY IMPAIRED

PORT CARGO DELAYS SHOW LITTLE EVIDENCE OF SUPPLY CHAIN DISRUPTION ABATING

VINING  SPARKS

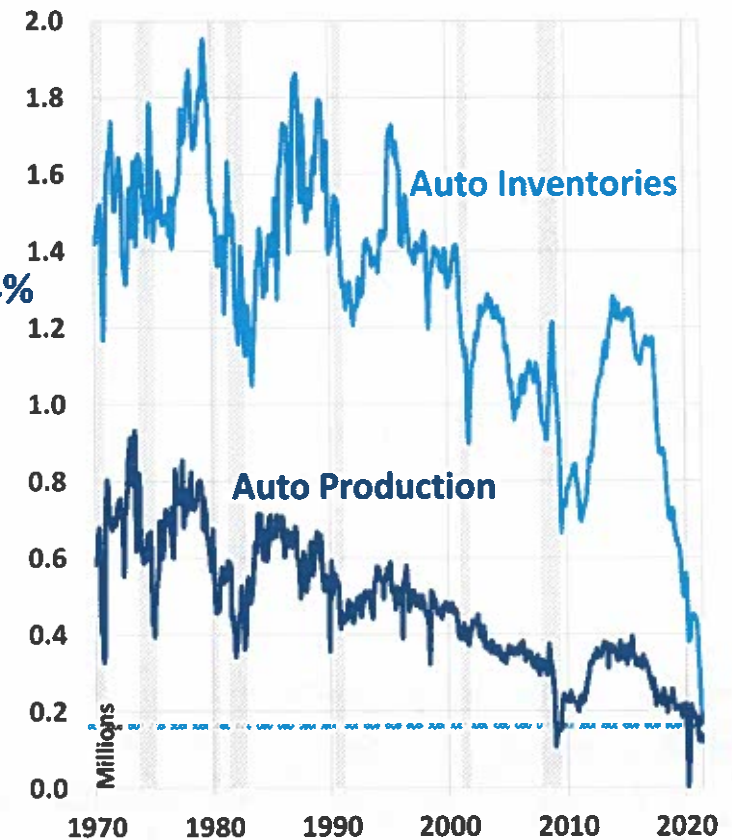
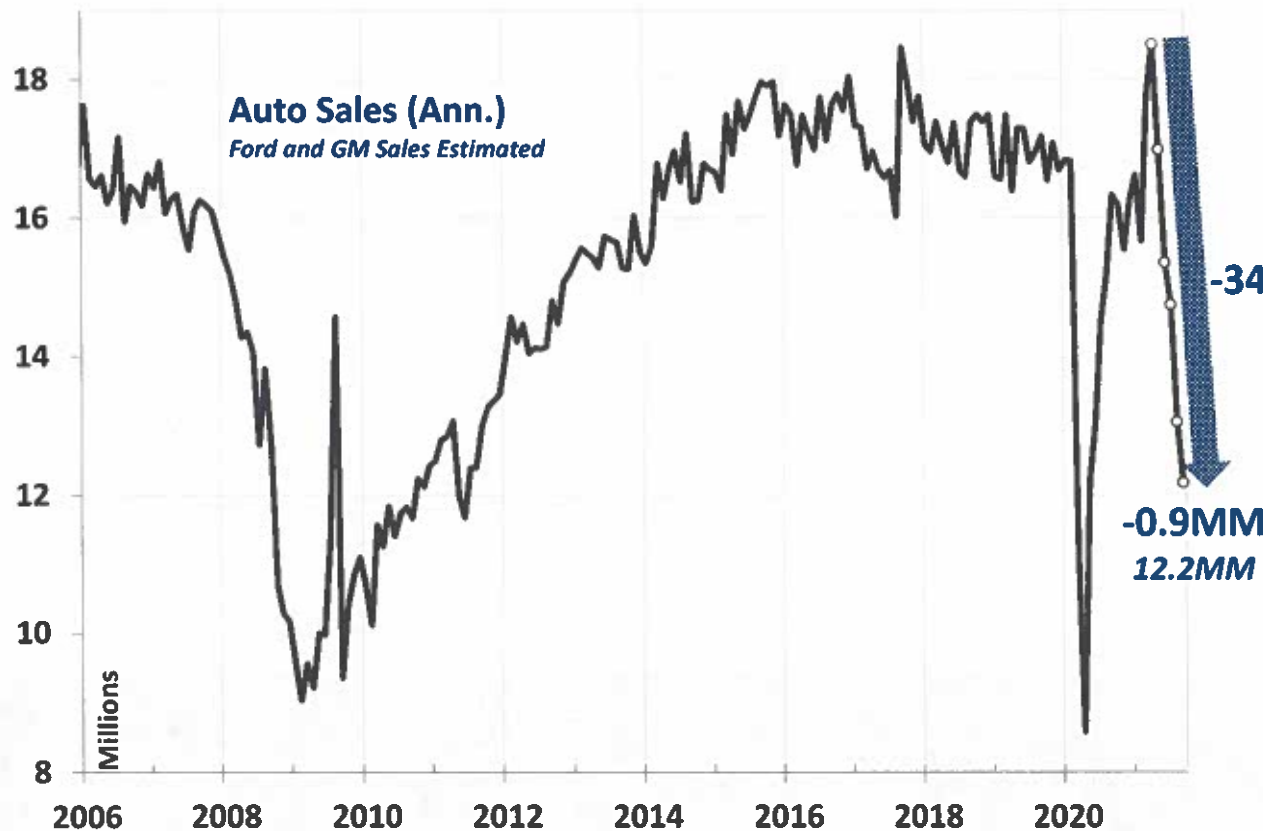


Sources: Port of Los Angeles, Vining Sparks

AUTO IMBALANCE

AUTO SALES PLUNGE AS PRODUCTION HALTED AND INVENTORIES SHRINK TO RECORD-LOW

VINING  SPARKS



Sources: Ward's, U.S. Census Bureau, Bloomberg, Vining Sparks

CONSUMER PRICES JUMP

VINING  SPARKS

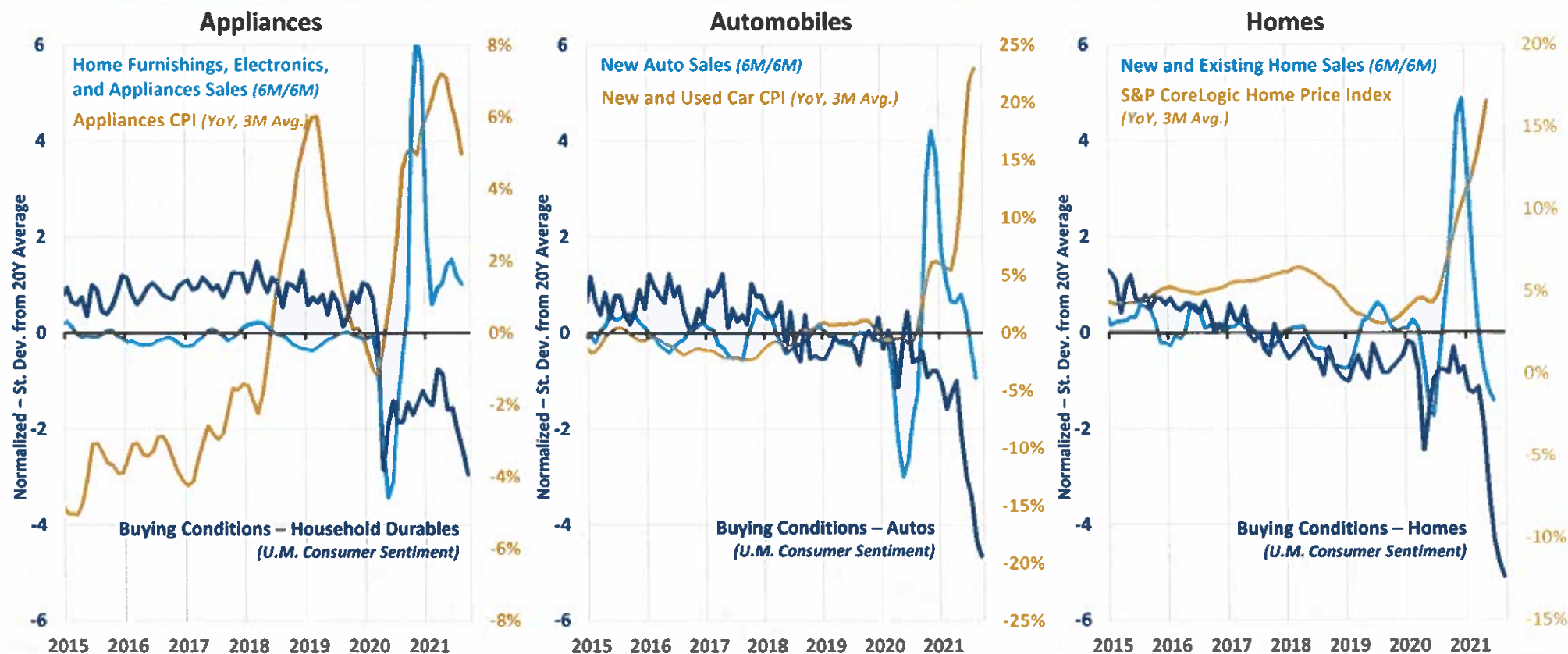
HEADLINE AND CORE INFLATION REMAIN HIGHER THAN EXPECTED, BUT INCH LOWER IN JULY AND AUGUST



Sources: BLS, Vining Sparks

CONSUMERS RECOIL

CONSUMERS INCREASINGLY ASSESS NOW AS A BAD TIME TO MAKE BIG PURCHASES AS PRICES RISE RAPIDLY

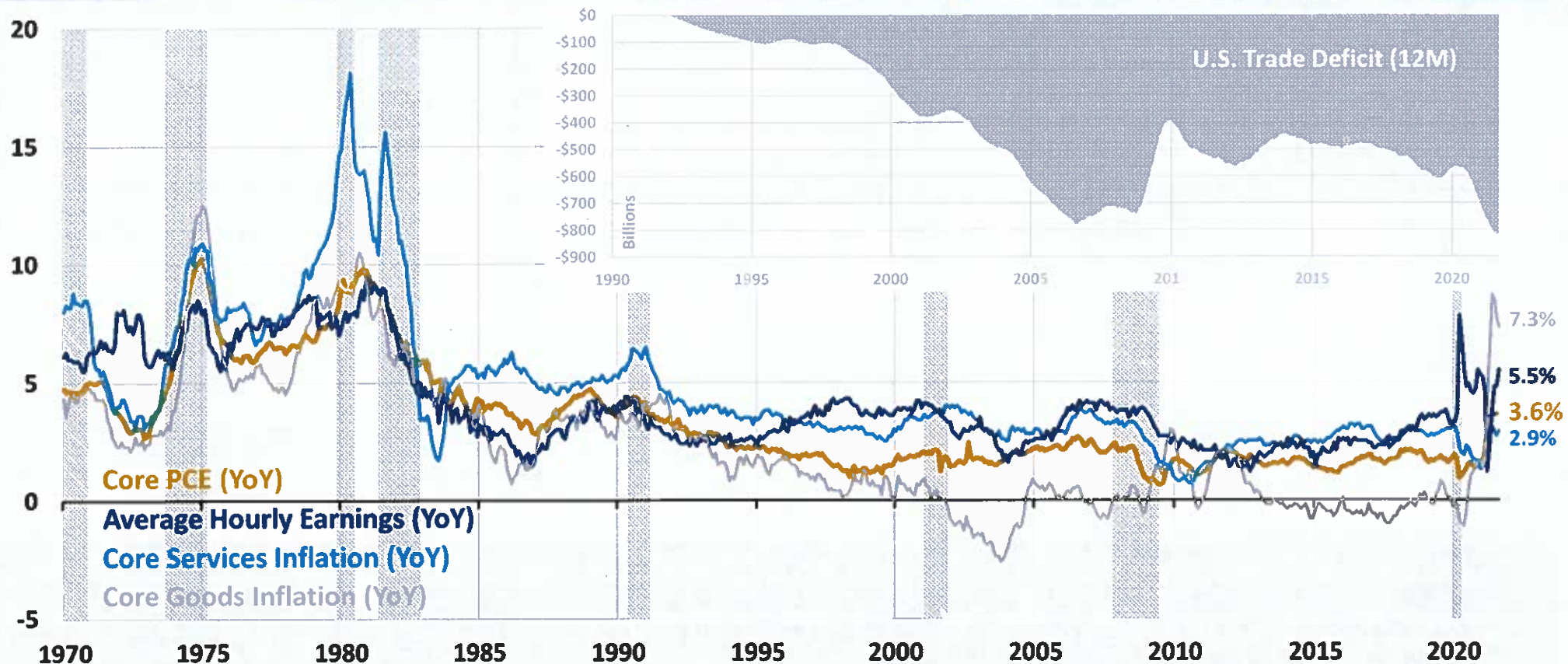


Sources: Census Bureau, BLS, WARDS, National Association of Realtors, University of Michigan, Conference Board, Bloomberg, Vining Sparks

INFLATION DYNAMICS

VINING  SPARKS

PHILLIPS CURVE FLATTENED BY GLOBALIZATION, DRAGGED DOWN BY INELASTICITY OF GOODS PRICES



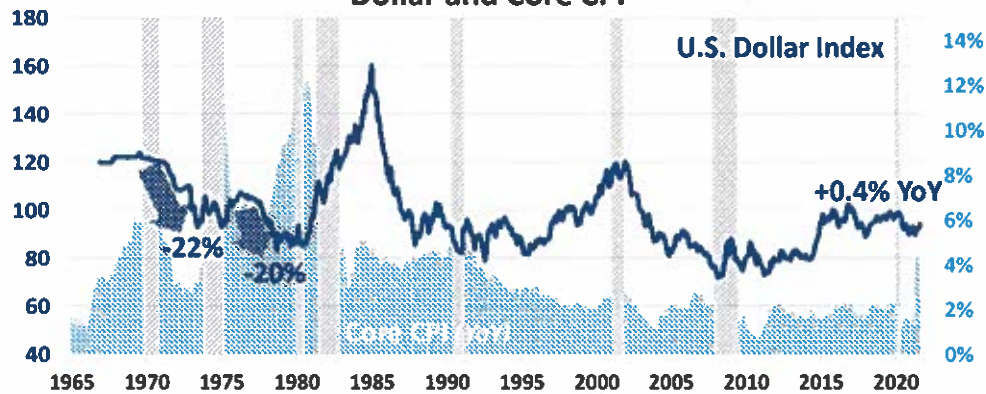
Sources: BEA, BLS, Census, Bureau, Vining Sparks

INFLATION ENVIRONMENT

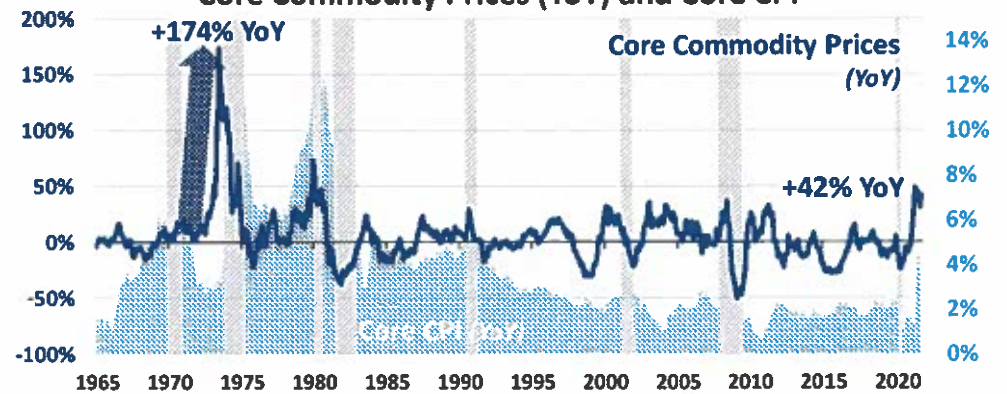
VINING  SPARKS

FUNDAMENTALLY DIFFERENT ENVIRONMENT TODAY: DOLLAR, CREDIT, DEMOGRAPHICS, AND DEBT

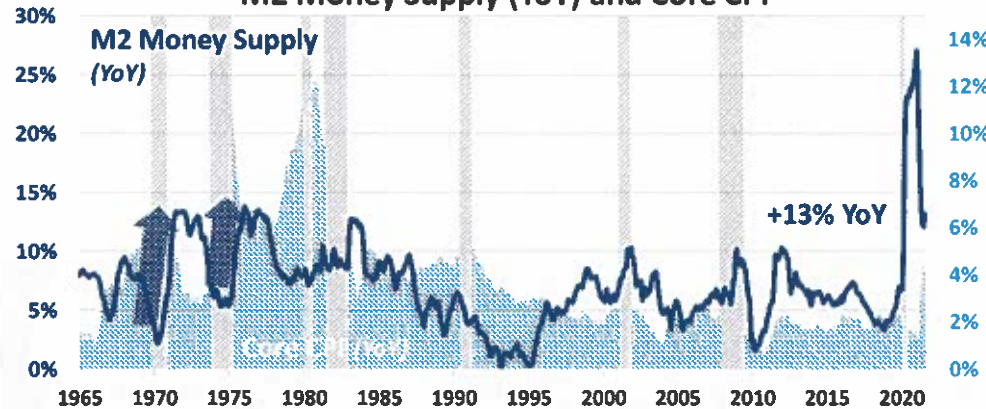
Dollar and Core CPI



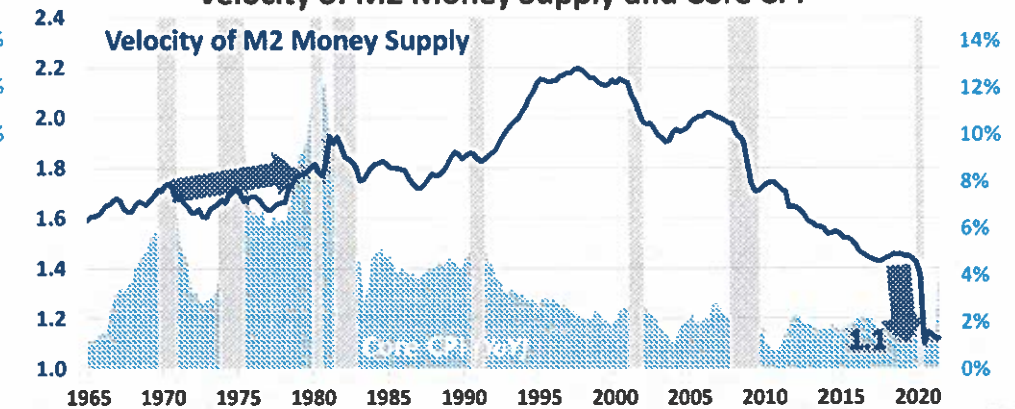
Core Commodity Prices (YoY) and Core CPI



M2 Money Supply (YoY) and Core CPI



Velocity of M2 Money Supply and Core CPI



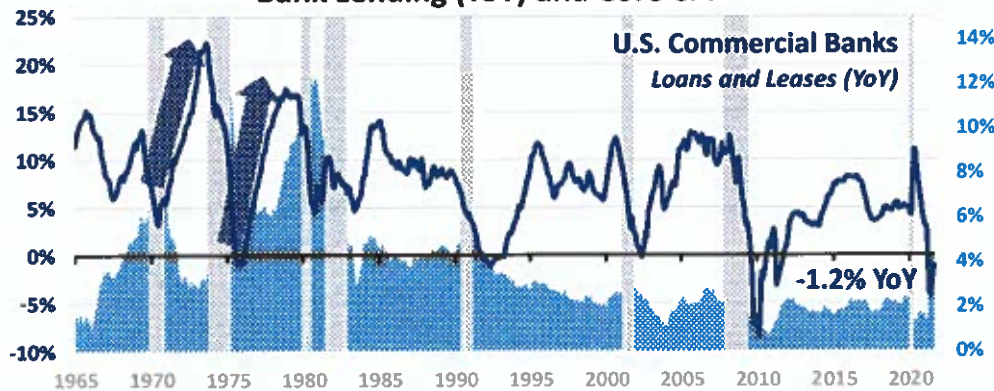
Sources: Federal Reserve, Bloomberg Commodity Index, BLS, NBER, Vining Sparks

INFLATION ENVIRONMENT

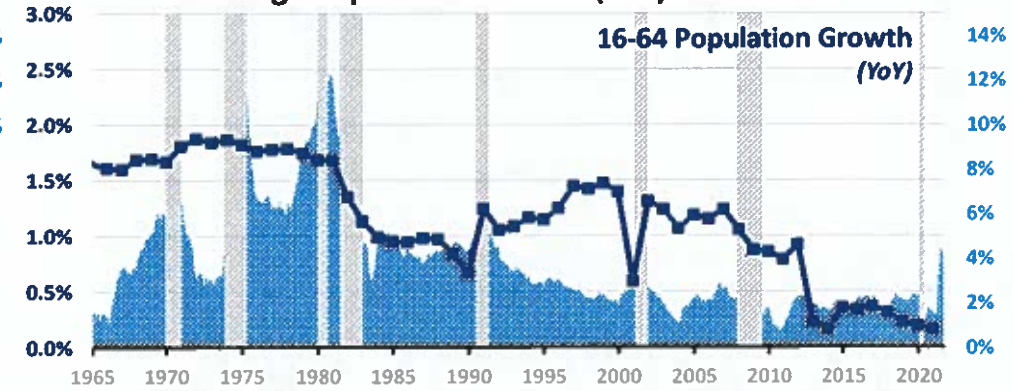
VINING SPARKS

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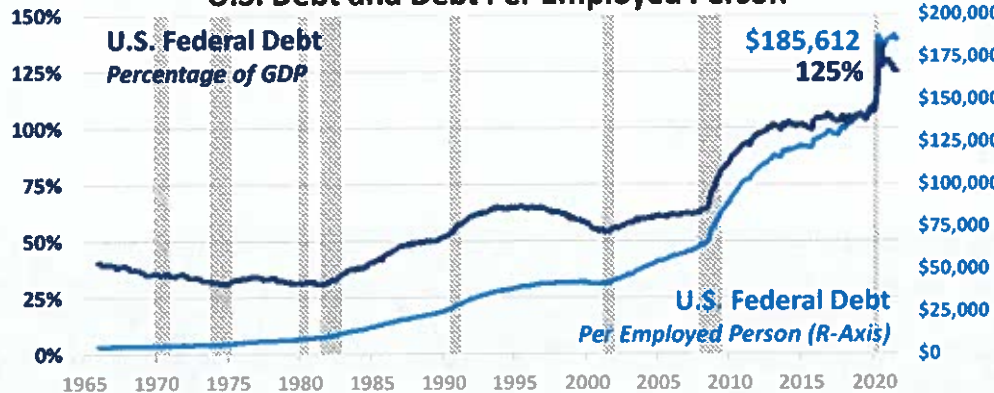
Bank Lending (YoY) and Core CPI



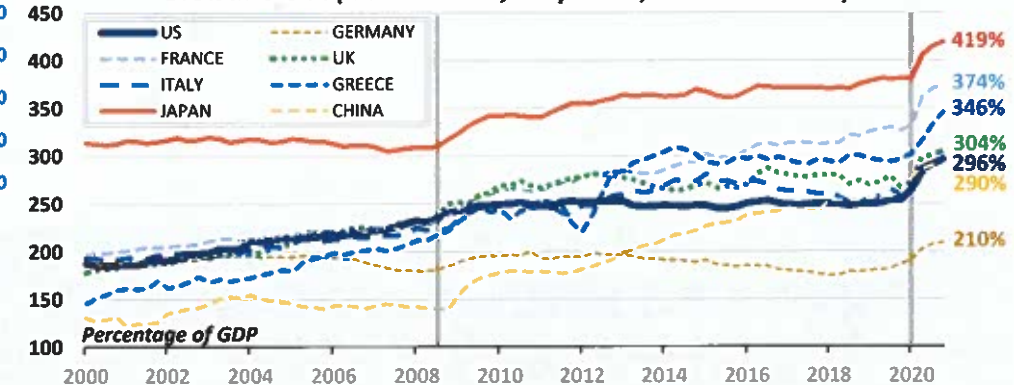
Labor-Age Population Growth (YoY) and Core CPI



U.S. Debt and Debt Per Employed Person



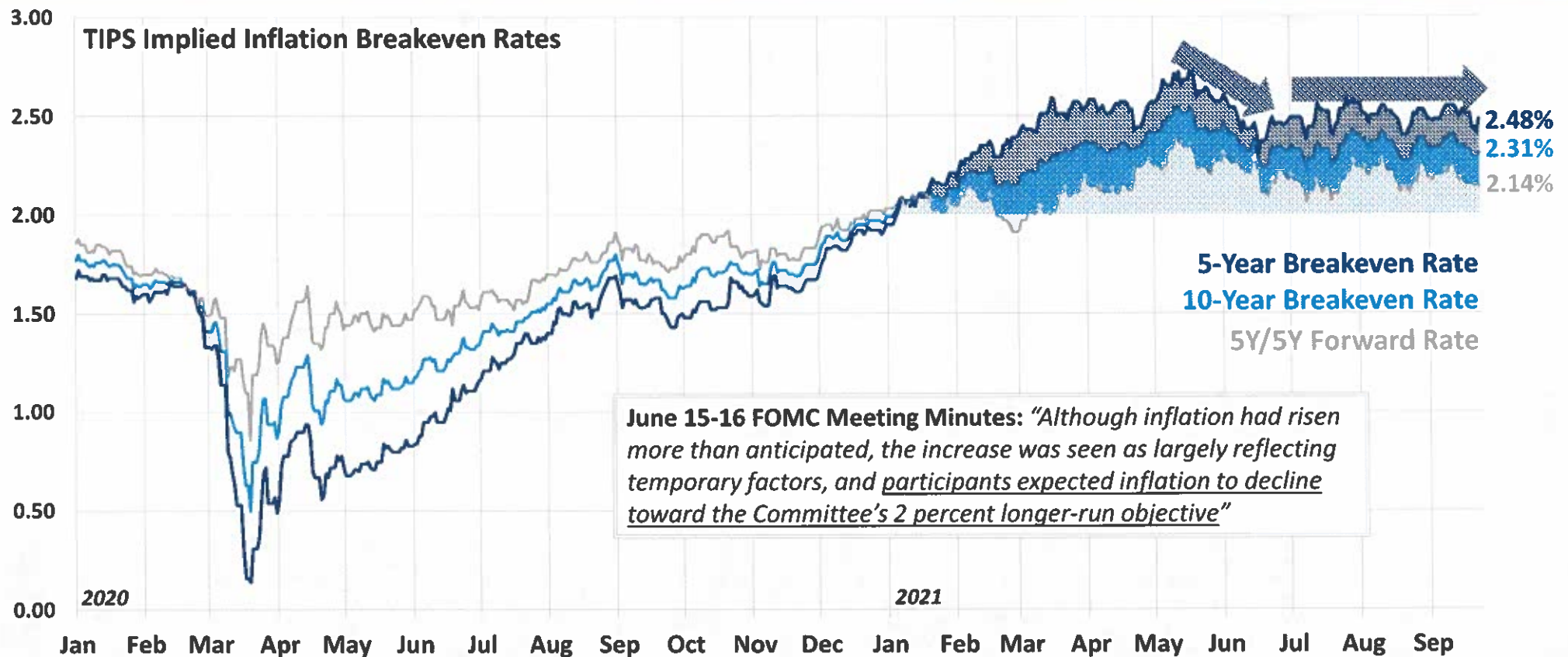
Global Debt (Government, Corporate, and Household)



Sources: Federal Reserve Call Report (H8), Bank for International Settlements, Census Bureau, OMB, Federal Reserve, BLS, NBER, Vining Sparks

MARKET INFLATION EXPECTATIONS VINING SPARKS

MARKET-BASED INDICATORS POINT TO MODERATED INFLATION EXPECTATIONS AFTER MAY PEAK



Sources: Bloomberg, Vining Sparks

FOMC SEP PROJECTIONS

VINING  SPARKS

SLOWER EXPANSION, FASTER INFLATION – TAPER “SOON” WITH RATE HIKES TO FOLLOW

	2021		2022		2023		2024		Longer Run	
YEAR-END RATE PROJECTIONS										
Average of Projections - ON Rate	0.13	0.13	0.25	0.29	0.69	0.89		1.64	2.48	2.46
Median of Projections - ON Rate	0.13	0.13	0.13	0.25	0.63	1.00		1.75	2.50	2.50
ECONOMIC PROJECTIONS										
GDP Central Tendency - High	6.8	5.8	2.8	3.4	2.0	2.2		2.0	1.8	1.8
GDP Central Tendency - Low	7.3	6.0	3.8	4.5	2.5	2.5		2.2	2.0	2.0
GDP - Median	7.0	5.9	3.3	3.8	2.4	2.5		2.0	1.8	1.8
Unemployment Rate	4.5	4.8	3.8	3.8	3.5	3.5		3.5	4.0	4.0
PCE Inflation	3.4	4.2	2.1	2.2	2.2	2.2		2.1	2.0	2.0
Core PCE Inflation	3.0	3.7	2.1	2.3	2.1	2.2		2.1	2.0	2.0
	June	September	June	September	June	September	June	September	June	September

Sources: FOMC Summary of Economic Projections, Vining Sparks

FOMC SEP PROJECTIONS

VINING  SPARKS

SLOWER EXPANSION, FASTER INFLATION – TAPER “SOON” WITH RATE HIKES TO FOLLOW

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Core PCE Inflation	3.0	3.7	2.1	2.3	2.1	2.2		2.1	2.0	2.0
	June	September	June	September	June	September	June	September	June	September

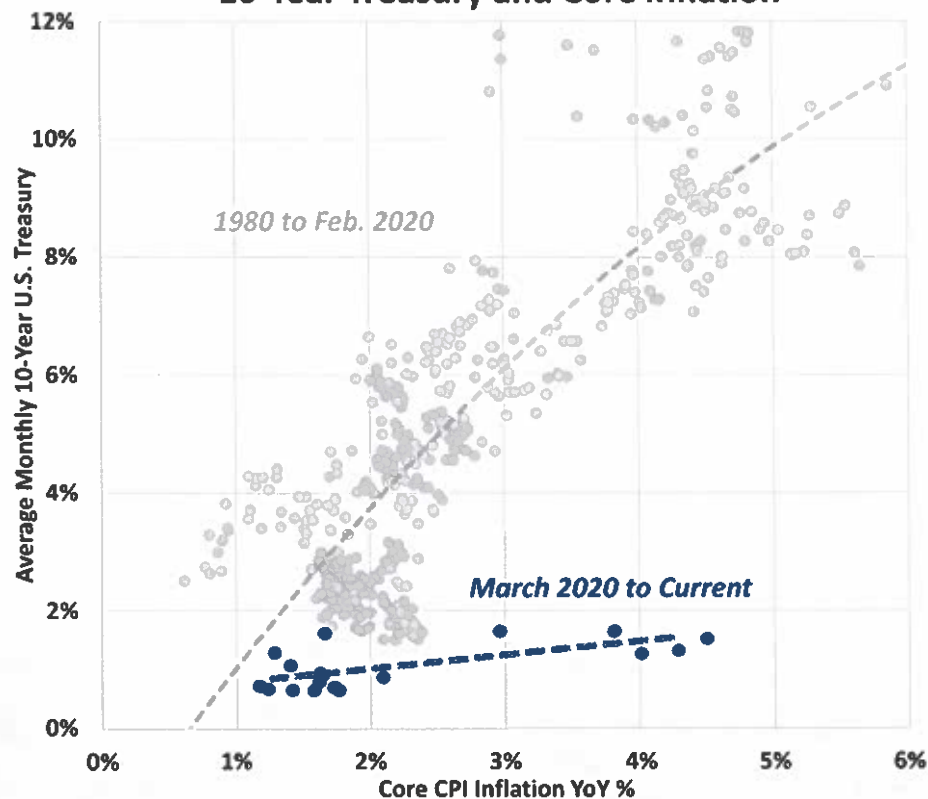
Sources: FOMC Summary of Economic Projections, Vining Sparks

INFLATION AND RATES

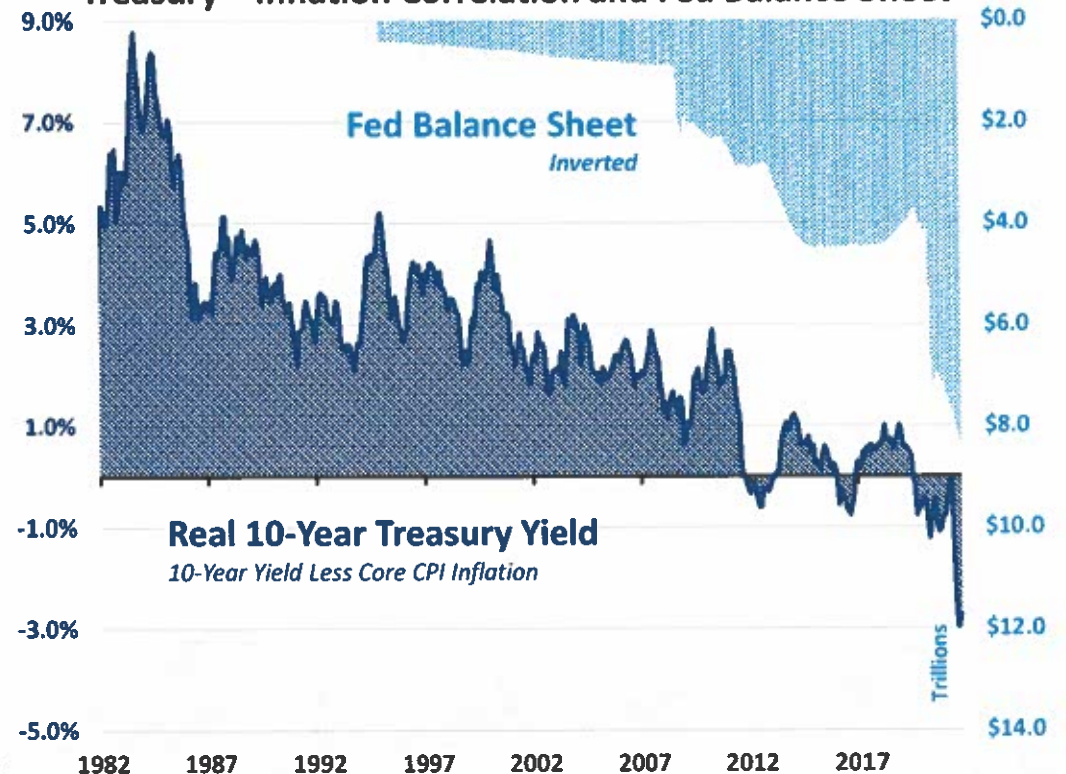
VINING  SPARKS

REAL TREASURY YIELDS HAVE BEEN INCREASINGLY COMPRESSED DURING QUANTITATIVE EASING ERA

10-Year Treasury and Core Inflation



Treasury – Inflation Correlation and Fed Balance Sheet



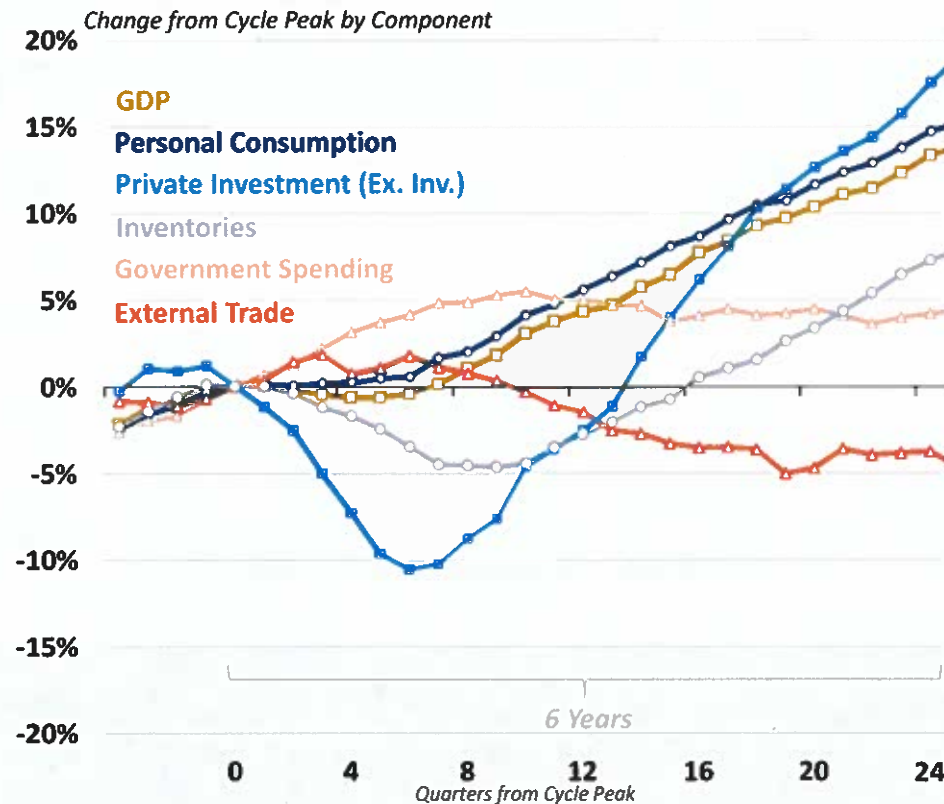
Sources: BLS, Federal Reserve, Bloomberg, Vining Sparks

ECONOMIC PROJECTIONS

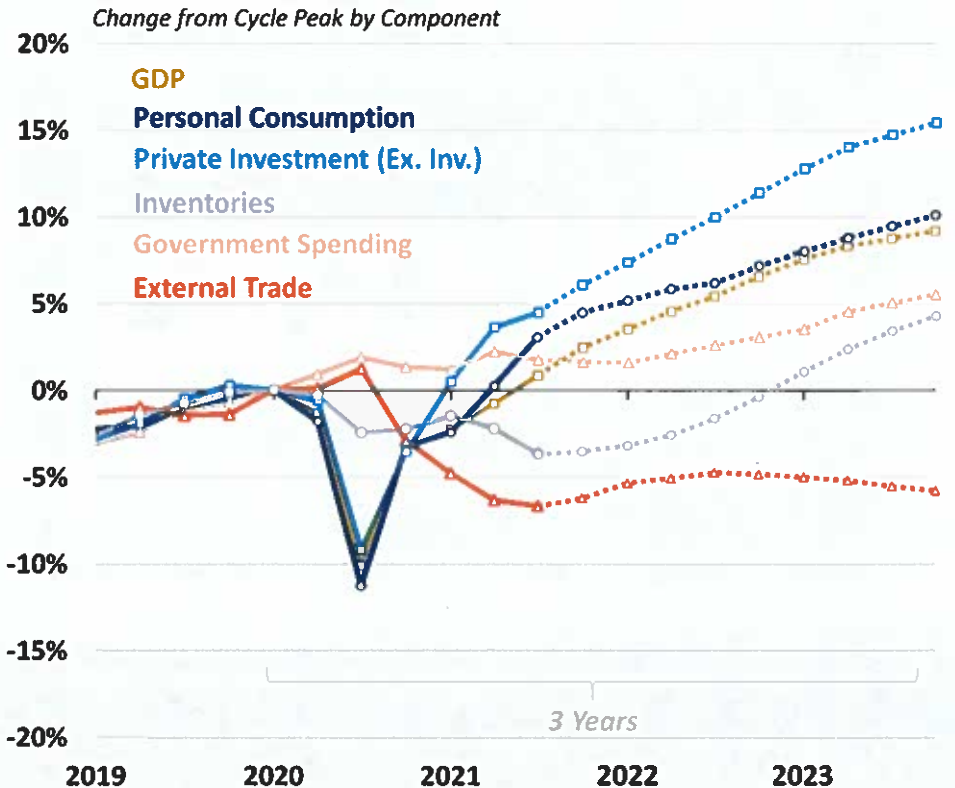
VINING  SPARKS

MASSIVE STIMULUS AND UNPRECEDENTED VIRUS-MITIGATION EFFORTS DRIVE RAPID ECONOMIC CYCLE

GDP During Average¹ Economic Cycle



GDP During Covid Pandemic



Sources: BEA, ¹Average of Change During '90, '01, '08 Recessions and Subsequent Recoveries, Vining Sparks

ECONOMIC OUTLOOK



IMBALANCES EVIDENT THROUGHOUT ECONOMY DRIVING INFLATION HIGHER, AT CRITICAL JUNCTURE

U.S. OVERVIEW

- \$10 trillion of fiscal and monetary policy support have pushed economy to brink of inflation
- Virus has slowed economic progress, but the response has been more muted than in 2020
- Supply chain disruptions proving longer-lasting and having significant negative effects
- Consumer continues to drive growth with pent-up savings and an improved health situation
- Resolution of imbalances in labor market and dysfunction in supply chain at critical point

CONSUMER

- Stimulus payments have sufficiently boosted national income to weather the pandemic storm
- Spending on services to help boost recovery as areas re-open; ongoing wave poses risk to timing
- Dysfunction persists in labor market with 5+ million payrolls still lost but 10+million job openings
- Savings rate remains elevated, expected to drop but unlikely to return to pre-virus levels quickly

MONETARY POLICY AND INTEREST RATES

- Tapering of asset purchases appears imminent; focus to be on taper timing, pace, and composition
- With inflation overshoot projected, Fed now eyeing rate hikes in 2022 or 2023
- Rate cycle expected to be more shallow than previous cycles given:
 - Significant amount of central bank intervention
 - Debt build-up domestically and globally

OTHER CONCERNS

- Growth of U.S. Debt
- Inflated Asset Valuations and Process of Removing Unprecedented Support
- Fiscal Stimulus Cliff
- Geopolitical Risk Rising

BUSINESS OUTLOOK AND PRIVATE INVESTMENT

- Business investment in equipment has been exceptionally strong
- Outlook for investment in structures less pessimistic than earlier in pandemic
- Travel, leisure, hospitality, restaurants, etc... still recovering, limited by labor shortage
- Inventory rebuild expected to be significantly accretive to economic growth in coming quarters

RESIDENTIAL INVESTMENT

- Outlook for residential investment now neutral given sharp rise in prices
- Record-low rates and inventories colliding with higher construction costs pushing prices higher
- Rising interest rates would further reduce affordability
- Average outstanding mortgage rate today: 3.49%; Average new mortgage rate: 2.88%
- New construction pipeline remains contained

INFLATION OUTLOOK

- Inflation has jumped on base effects, pandemic rebound, and broader gains
- Supply chain disruptions are significant and resulting in higher prices, uncertain outlook regarding duration of disruptions
- Labor market dynamics resulting in rising wages, expected to be temporary
- Efficiencies of global trade expected to re-exert downward pressure on goods prices once supply chain disruptions ease, but risks to overshoot increasing

ECONOMIC PROJECTIONS



Vining Sparks Projections

September 2021

	Q321	Q421	Q122	Q222	Q322	Q422	2021	2022
GDP (QoQ, SAAR)	5.0	4.9	5.0	3.3	2.6	2.4	5.9	3.7
Headline CPI (YoY)	4.8	4.6	4.0	3.0	2.6	2.5	4.5	2.8
Core PCE (YoY)	3.5	3.5	3.4	2.8	2.3	2.2	3.0	2.5
Unemployment Rate	5.2	4.9	4.8	4.5	4.2	4.1	5.4	4.4
Nonfarm Payrolls (Monthly)	600	400	350	300	250	160	530	270
	Q321	Q421	Q122	Q222	Q322	Q422	Q123	Q223
Fed Funds Target	0.13	0.13	0.13	0.13	0.13	0.38	0.38	0.63
2-Year Treasury Yield	0.28	0.35	0.42	0.52	0.72	0.80	0.90	1.00
10-Year Treasury Yield	1.50	1.80	2.00	1.95	1.90	1.85	1.80	1.75
30-Year Treasury Yield	2.07	2.44	2.67	2.58	2.45	2.37	2.27	2.18
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.50	3.50	3.75
30-Year Mortgage Rate	3.20	3.55	3.80	3.85	3.85	3.85	3.80	3.75

September BBG Survey of Economists

Survey Date:

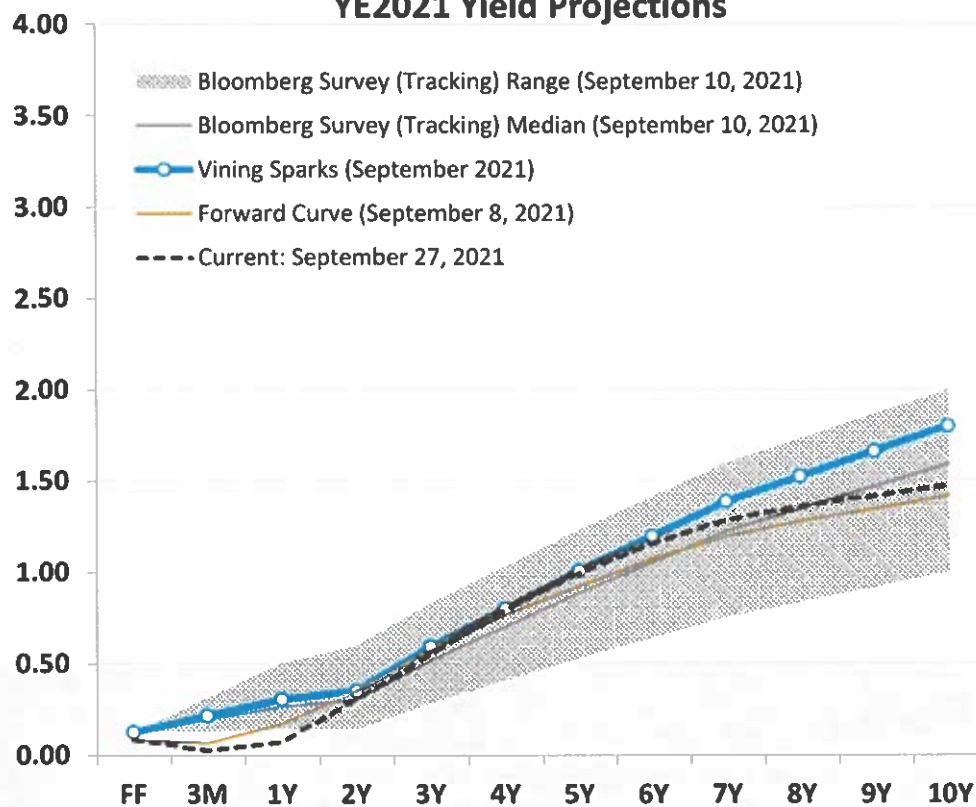
Sep-21

	Q321	Q421	Q122	Q222	Q322	Q422	2021	2022
GDP (QoQ, SAAR)¹	5.0	5.3	4.1	3.3	2.8	2.4	5.9	4.2
Headline CPI (YoY)¹	5.2	5.1	4.6	3.0	2.3	2.3	4.3	3.0
Core PCE (YoY)¹	3.5	3.7	3.5	2.5	2.1	2.1	3.1	2.6
Unemployment Rate¹	5.2	4.9	4.6	4.3	4.1	4.0	5.5	4.3
Nonfarm Payrolls (Monthly)¹	600	500	393	350	264	232	540	311
	Q321	Q421	Q122	Q222	Q322	Q422	Q123	Q223
Fed Funds Target²	0.13	0.13	0.13	0.13	0.18	0.23	0.33	0.43
2-Year Treasury Yield²	0.26	0.30	0.38	0.49	0.58	0.68	0.81	0.93
10-Year Treasury Yield²	1.45	1.59	1.69	1.82	1.89	1.99	2.06	2.12

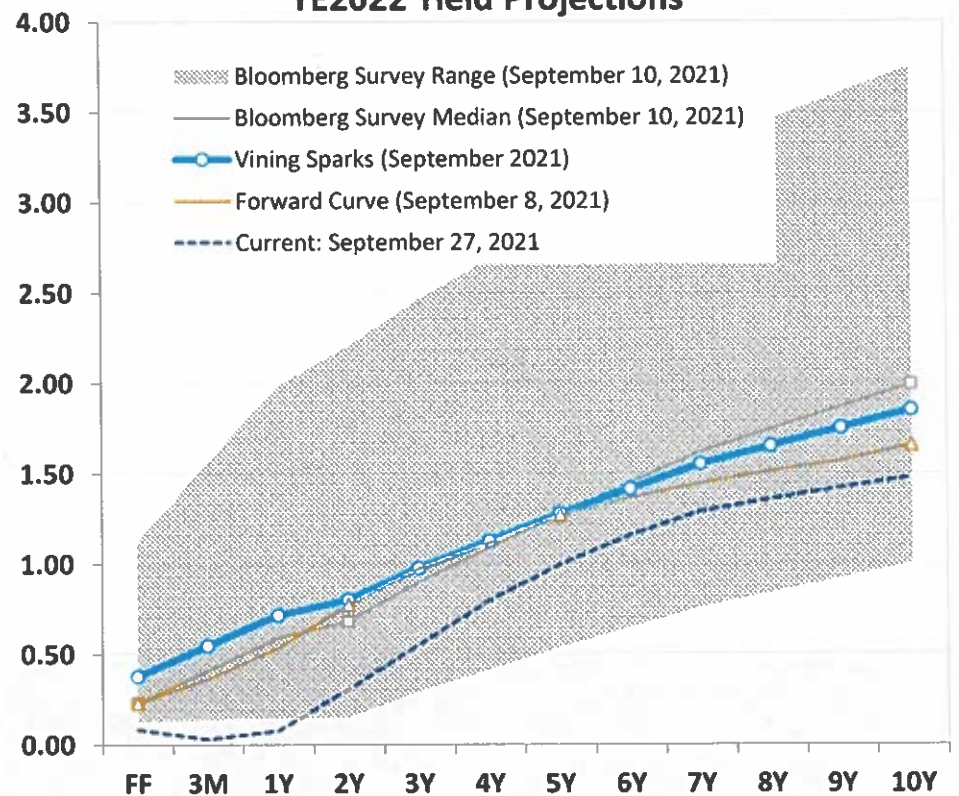
RATE PROJECTIONS



YE2021 Yield Projections



YE2022 Yield Projections



Sources: Bloomberg, Bloomberg Survey of Economists, Vining Sparks Projections

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ECONOMIC PROJECTIONS



Vining Sparks Projections

October 2021

	Q321	Q421	Q122	Q222	Q322	Q422	2021	2022
GDP (QoQ, SAAR)	4.0	4.9	5.0	3.3	2.6	2.4	5.7	3.7
Headline CPI (YoY)	5.4	4.8	4.5	4.0	3.1	2.9	4.4	3.5
Core PCE (YoY)	3.5	3.6	3.5	3.2	2.6	2.5	3.1	2.8
Unemployment Rate	4.8	4.6	4.4	4.1	4.0	3.9	5.4	4.4
Nonfarm Payrolls (Monthly)	550	400	350	300	250	160	530	270
	Q321	Q421	Q122	Q222	Q322	Q422	Q123	Q223
Fed Funds Target	0.13	0.13	0.13	0.13	0.13	0.38	0.38	0.63
2-Year Treasury Yield	0.28	0.45	0.52	0.62	0.72	0.80	0.90	1.00
10-Year Treasury Yield	1.49	1.80	2.00	1.95	1.90	1.85	1.80	1.75
30-Year Treasury Yield	2.10	2.45	2.70	2.60	2.50	2.40	2.30	2.20
Prime Rate	3.25	3.25	3.25	3.25	3.25	3.50	3.50	3.75
30-Year Mortgage Rate	3.24	3.55	3.80	3.85	3.85	3.85	3.80	3.75

October BBG Survey Survey of Economists

Survey Date:

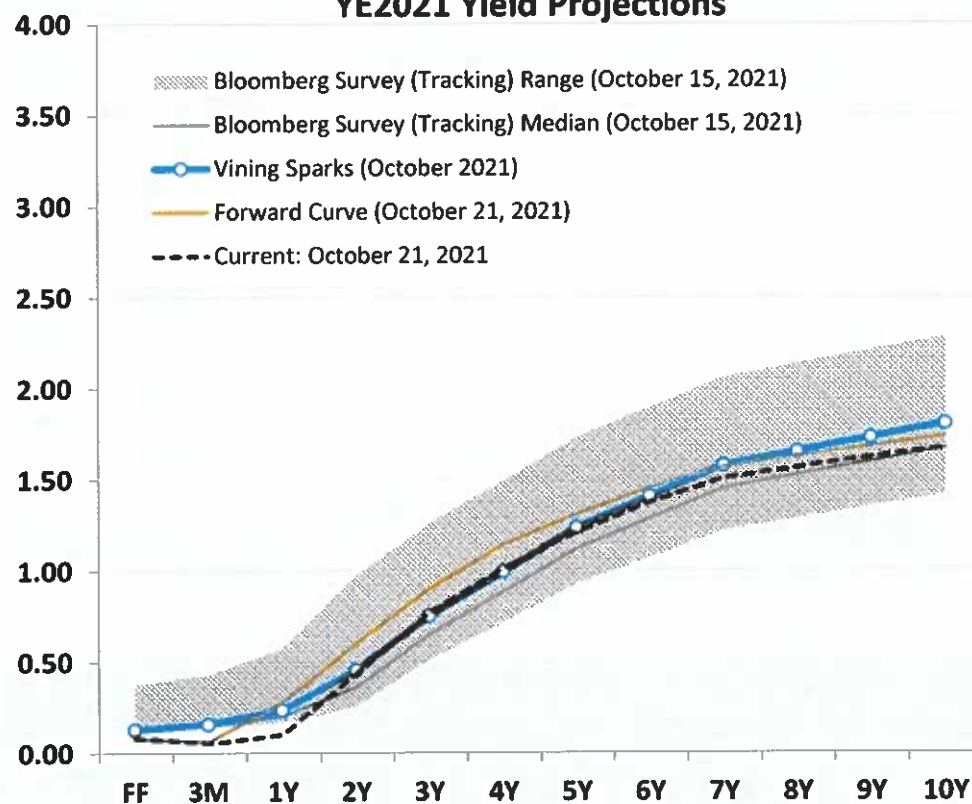
Oct-21

	Q321	Q421	Q122	Q222	Q322	Q422	2021	2022
GDP (QoQ, SAAR)¹	3.5	4.9	4.0	3.8	3.0	2.5	5.8	4.0
Headline CPI (YoY)¹	5.2	5.5	5.0	3.5	2.7	2.5	4.4	3.3
Core PCE (YoY)¹	3.6	4.0	3.8	2.9	2.5	2.3	3.2	2.8
Unemployment Rate¹	5.2	4.7	4.5	4.2	4.0	3.8	5.5	4.2
Nonfarm Payrolls (Monthly)¹	600	469	406	349	274	243	523	337
	Q321	Q421	Q122	Q222	Q322	Q422	Q123	Q223
Fed Funds Target²	0.13	0.13	0.13	0.13	0.18	0.28	0.43	0.58
2-Year Treasury Yield²	0.26	0.36	0.45	0.54	0.65	0.78	0.96	1.10
10-Year Treasury Yield²	1.45	1.67	1.78	1.88	1.97	2.04	2.18	2.26

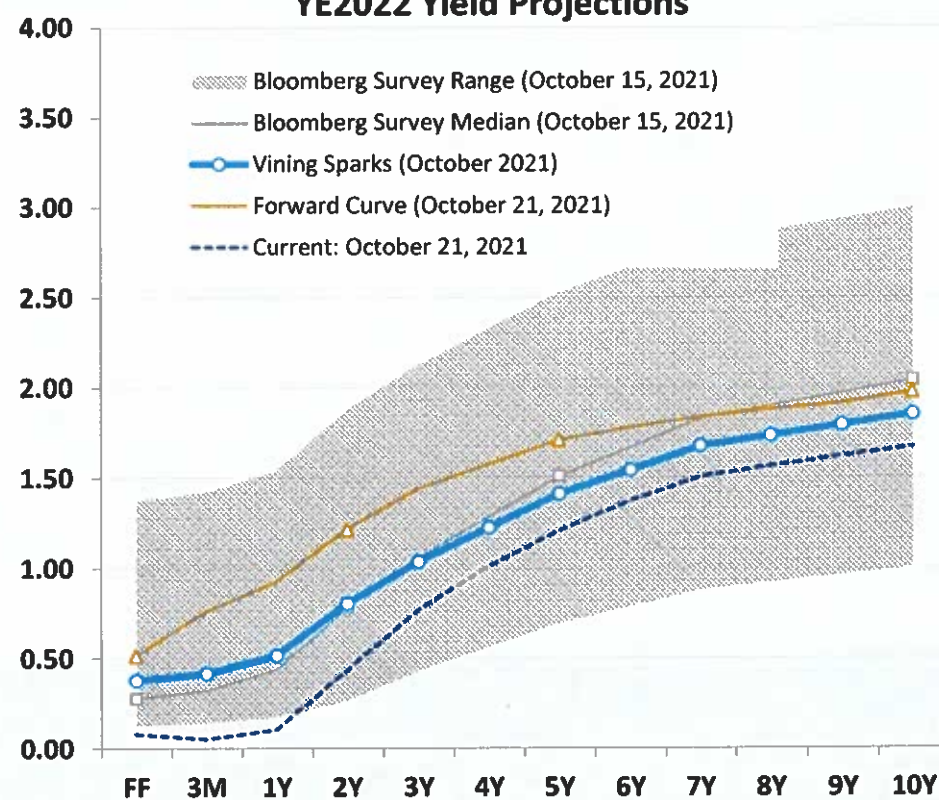
Sources: ¹ Bloomberg Survey of Economists, ² Economists' Real-Time Tracking Updates, Vining Sparks

RATE PROJECTIONS

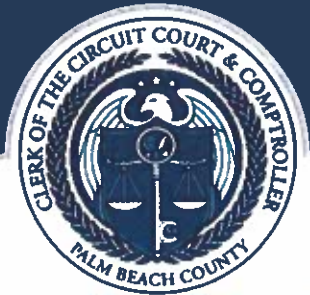
YE2021 Yield Projections



YE2022 Yield Projections



Sources: Bloomberg, Bloomberg Survey of Economists, Vining Sparks Projections



JOSEPH ABRUZZO
CLERK OF THE CIRCUIT COURT & COMPTROLLER
PALM BEACH COUNTY

Clerk of the Circuit Court & Comptroller

ISRAEL BONDS,

By Mark Ruben, Executive Director
Development Corporation of Israel

Investment Policy Committee Meeting
October 25, 2021



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ABOUT ISRAEL BONDS

Established in 1951, by David Ben-Gurion at a Madison Square Garden rally, the Israel Bonds enterprise ranks among Israel's most valued economic and strategic resources, with a record of proven success. Praised for its dependability, the Bonds organization has helped build every sector of Israel's economy.



Following its launch in New York, the Bonds organization - formally known as Development Corporation for Israel in the U.S. - began operations in Canada (Canada-Israel Securities, Ltd.) and then Europe and Latin America (Development Company for Israel [International] Ltd).

Although Israel bonds are not rated, the Bonds enterprise has been consistently cited by ratings agencies as a factor in their assessments of Israel's overall debt. In a June 2018 report, Moody's stated, "Israel's financing will also benefit from considerable foreign demand in its Israel Bonds program aimed at the Jewish diaspora, which has shown a willingness to support (Israel) in times of external shocks."

Warren Buffett, the world's most famous investor who proudly holds Israel bonds in his portfolio, called investing in Israel bonds:

"A deserved endorsement of a remarkable country."



Advocating investment and pride in Israel through the sale of Israel bonds is global in scope. Worldwide sales have surpassed \$42 billion since the first bonds were issued in 1951. In 2018, annual U.S. Israel bond sales exceeded \$1 billion for the sixth consecutive year.

Proceeds from the sale of Israel bonds have played a decisive role in Israel's rapid evolution into a groundbreaking, global leader in high-tech, greentech and biotech.



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Photo credits: iStock, David Radler

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LEGACY OF ACHIEVEMENT
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Over 95
state &
municipal
public employee
pension funds
& treasury funds
have invested
more than

**\$3.5
BILLION**
IN ISRAEL BONDS

Here's why...

ISRAEL BONDS

THE STATE OF TEXAS

State & Municipal Israel Bond Investors*

ALABAMA

State Treasurer of Alabama

ARIZONA

State Treasurer of Arizona

ARKANSAS

Arkansas State Treasurer

CALIFORNIA

California State Teachers Retirement System
Los Angeles County Employees Retirement Association

CONNECTICUT

City of Hartford
City of New Haven Employees Retirement Fund
City of New Haven Policemen's & Firemen's Pension Fund
State of Connecticut Short Term Investment Fund
State of Connecticut Mutual Fixed Income Fund

FLORIDA

Board of County Commissioners
City of Aventura
City of Aventura Police Officers Retirement Plan
City of Boca Raton
Miami-Dade County
Palm Beach County
South Broward Drainage District
City of Coral Springs Police Pension Board
City of Miami Beach Police & Firemen's Pension Fund
State of Florida/Division of Treasurer
City of Pembroke Pines Police & Fireman's Pension Fund
City of Sunrise Firefighter's Pension Plan
Florida State Board of Administration
Hollywood Municipal Officers & Firemen Retirement Fund
Hollywood Florida Police Pension Fund
Miami Beach Unclassified Emp. & Elected Officials Pension
The City of Miami Beach
The School Board of Miami-Dade County
Graceland Memorial Park

GEORGIA

Office of Treasury and Fiscal Services

ILLINOIS

Illinois State Board of Investments
Illinois State Treasurer
Peoria Firemen's Pension Fund
Peoria Police Pension Fund
Teachers Retirement System of Illinois
Niles Township
Skokie Firemen's Pension Fund

INDIANA

Marion County Sheriff's Pension Fund
Treasurer of the State of Indiana

LOUISIANA

Louisiana State Treasurer - Education Quality Trust Fund
Louisiana State Treasurer - Medicaid Trust Fund for the Elderly
Louisiana State Treasurer - Millennium Trust Fund

MARYLAND

Baltimore County Pension Fund
Baltimore County Police & Fire Pension
State Retirement Agency of Maryland

MASSACHUSETTS

City of Medford Employees Pension Fund
City of Somerville Employees Pension Fund
Massachusetts State Employees & Teachers Pension
Massachusetts Pension Reserves Investment Trust

MINNESOTA

Minnesota State Board of Investment
Minnesota State Employees Retirement Funds

MISSOURI

Employees Retirement System of St. Louis

NEW JERSEY

State of New Jersey Common Pension Fund Board

NEW MEXICO

New Mexico State Investment Council

NEW YORK

Fire Department Life Insurance Fund
New York State Common Retirement Fund
Teachers Retirement System

NORTH DAKOTA

State of North Dakota Veteran's Postwar Trust Fund

OHIO

Cuyahoga County Treasurer
Franklin County Treasurer
Lucas County Treasurer
Mahoning County Treasurer
Ohio State Teachers Retirement System
Treasurer State of Ohio
Stark County Treasurer
Summit County Fiscal Office

OKLAHOMA

Oklahoma State Treasurer

PENNSYLVANIA

Berks County Retirement Fund
City of Philadelphia Board of Pensions & Retirement
City of Pittsburgh, Comprehensive Municipal Fund
Commonwealth of PA Short Term Investment Fund
Commonwealth of PA State Treasury
PA Public School Employees Retirement System
Pennsylvania Federation of Teachers
Philadelphia Gas Works
Pension Trust City of Reading Officers & Employees
Retirement Board
Retirement Board of Allegheny County

RHODE ISLAND

City of Providence Employees Retirement System
Rhode Island Municipal Employees Retirement Funds
Rhode Island State Employees Retirement Funds

SOUTH CAROLINA

South Carolina State Treasury

TEXAS

City of Houston
Texas Comptroller of Public Accounts
Texas Veterans Land Board

WISCONSIN

Milwaukee County Pension System
State of Wisconsin Investment Board

*Period ended as of April 2016



Israel Bonds Are An Investment In A Nation that:

1

Built a resilient,
advanced economy

2

Never missed payment
of principal or interest
on Israel bonds since
they were first issued
in 1951



3

Sets a global
standard for science,
technology and
sustainability

4

Stands at the forefront
of environmental
solutions

5

Is positioned to
become not only
energy self-sufficient,
but an energy exporter



6

Maintains strong
economic
fundamentals in the
face of geopolitical
challenges



7

Is a land of ancient
heritage and forward-
thinking achievement



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PERPETUATING A 70-YEAR
LEGACY OF ACHIEVEMENT
israelbonds.com



Investment Options

Available terms and features for fixed rate issue bonds provide options value planning to achieve financial goals, including portfolio diversification, limiting risk from market fluctuations and retirement.

THREE STRONG REASONS to Invest in Israel Bonds

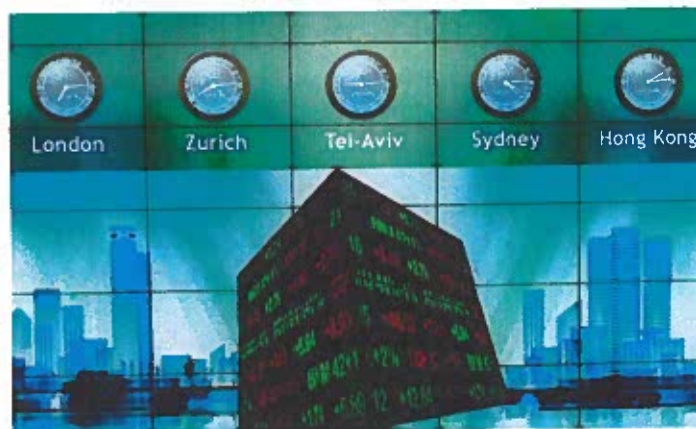
Investment Diversity

Israel bonds can be found in the portfolios of a wide range of investors. Stakeholders in Israel's economy include individuals, over 90 state and municipal public employee pension & treasury funds, unions, universities, foundations, corporations and financial institutions.



Investment Flexibility

- » Personal portfolios
- » Pension funds
- » IRAs
- » Endowment funds
- » Trust funds
- » Charitable & Individual gifts
- » Matching gift programs



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ISRAEL BONDS: ACHIEVING THE VISION OF ISRAEL'S FOUNDER

In September 1950, Prime Minister David Ben-Gurion convened a conference of American Jewish leaders to share his thoughts on providing Israel with crucially needed economic resources. The country was just 18 months removed from its nearly year-long War of Independence, which had cost the new nation one percent of its population and wreaked havoc on its fledgling economy.

Complicating matters was the overriding urgency of the situation. Israel had to immediately begin strengthening the foundations of statehood, and address the seemingly overwhelming challenge of absorbing hundreds of thousands of new immigrants.

Ben-Gurion's idea was to engage Diaspora Jewry in the building of the reborn Jewish homeland through the sale of Israel bonds. What became the Israel Bonds founding conference was later hailed by Shimon Peres as "a vital moment in Israel's history."

Eight months after the conference, Ben-Gurion journeyed to New York, where, before a capacity crowd jammed into Madison Square Garden, with thousands more lining the streets outside the famed venue, he announced the official launching of the Independence Issue of Israel bonds.

Following that landmark moment, the Bonds enterprise expanded coast-to-coast, then into Canada, Latin America and Europe. Now, nearly 70 years later, Israel Bonds is a global endeavor that to date has achieved over \$43 billion in worldwide sales. Moreover, each of the last six years has seen annual U.S. sales surpass \$1 billion, and, for 2019, the organization is on track to realize its seventh consecutive year of at least \$1 billion in domestic sales.

Renowned as a visionary, even Ben-Gurion could not have foreseen how Israel would put those proceeds to use to help make so much possible.



Prime Minister David Ben-Gurion welcomes Israel Bonds leadership to Jerusalem
(Photo: Israel Bonds)

"A DESERVED ENDORSEMENT OF A REMARKABLE COUNTRY"



The Bonds organization takes great pride in the role it has played in facilitating Israel's rapid evolution from an agrarian nation with a struggling economy into a globally recognized technology powerhouse with one of the world's most resilient, widely-admired economies.

Although Israel bonds are not rated, the Bonds organization is taken into account when agencies assign ratings to Israel. In a Fitch 25, 2019 report, for example, Fitch Ratings affirmed Israel's long-term foreign currency issuer default rating at A+, with an outlook of "stable," citing "an active Diaspora bond program" as a contributing factor.

During Israel's formative days, investing in Israel bonds was a means of showing support for a new nation with an uncertain future. Today, Israel bonds are an expression of pride in a Jewish state that, according to U.S. News & World Report, is the eighth most powerful country in the world. In its latest accomplishment, on July 24, 2019, Israel was ranked among the 10 most innovative nations in the world by the Global Innovation Index.

Small wonder then, that Warren Buffett, the world's most famous investor, who acquired a \$5 million Israel bond for his personal portfolio, declared investing in Israel bonds to be "a deserved endorsement of a remarkable country."

Warren Buffett addresses an Israel Bonds event in New York
(Photo: Shimon Peres)

(Continued on reverse side)

THE PRIME MINISTER'S
ISRAELI INNOVATION SUMMIT 2018
מפגש ראשי משרד ראש הממשלה
Innovation for a better world

ISRAELI INNOVATION FOR A BETTER WORLD



Israel continues to break barriers, and it is most impressive that a nation that, at one time, relied heavily on the iconic Jaffa orange, is now recognized as a world leader in almost every field of human endeavor, including science, agriculture, technology, sustainability and life-saving medical advances.

It is for this very reason that former Google CEO and chairman Eric Schmidt, speaking at the Prime Minister's Innovation Summit in October, offered this assessment: "There is no better concentration of talent than in Israel."

(Photo: James S. Geland)

A WIDE SPECTRUM OF INVESTORS

The concept of Israel bonds as a means of not only investing in Israel, but also establishing a personal connection with the Jewish state, is deeply appealing to a wide spectrum of individuals and institutions.

In addition to the Diaspora community, 25 states—together with municipalities and public employee pension funds—have invested over \$3.5 billion in Israel bonds. Over a dozen states have passed legislation enabling them to invest in Israel bonds, including states with relatively small Jewish communities, such as Oklahoma and Arkansas, which are nonetheless inspired by Israel's success story.

Starting at only \$36, Israel bonds are versatile securities that can be utilized in myriad ways, including diversification of investment portfolios and retirement plans; gifts for life events such as births, bar and bat mitzvahs, graduations and weddings; and donations to favorite causes, including charities, organizations and universities. Individuals have also bought Israel bonds in response to BDS activists demanding divestment from Israel.

Today, acquiring Israel bonds is easier than ever before. More than a quarter of a billion dollars has been purchased via the online sales site, launched in fall 2011. The Israel Bonds app, launched in January 2019, has also become an increasingly popular way to invest.



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AN ESSENTIAL CORNERSTONE



In 1970, at an economic conference sponsored by Israel Bonds, then-Prime Minister Golda Meir said, "If we want our country to develop; if we want our agriculture to develop; if we want to properly absorb new immigrants who are coming in; if we want to maintain our progress and education and

culture; if we want Israel to go on building at the same time as it is defending itself—we must have your help. And we hope that you will be with us."

Billions of dollars in Israel bond investments later, it is clear that Golda's call to action was met with an overwhelmingly affirmative response. The resultant strong, dynamic Jewish state is demonstrative proof of the wisdom of Ben-Gurion's decision to establish the Israel Bonds enterprise—an essential, ongoing cornerstone of Israel's success.

(Photo: Israel Bonds)

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BOND WITH A NATION
OF LIMITLESS POTENTIAL
israelbonds.com

Research Update:

Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

November 13, 2020

Overview

- We forecast Israel's economy to contract by 5.0% in 2020 because of the pandemic, before recovering by 4.5% next year.
- The pandemic will drive a notable deterioration in public finances with net general government debt stabilizing at 77% of GDP over the medium term, up almost 20 percentage points from 59% at the end of 2019.
- Nevertheless, we view Israel's debt structure as favorable, with the lion's share of debt denominated in local currency and held by residents. The country also benefits from a credible and effective monetary policy and a strong balance of payments.
- We are therefore affirming our 'AA-/A-1+' sovereign ratings on Israel.
- The outlook is stable.

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Rating Action

On Nov. 13, 2020, S&P Global Ratings affirmed its 'AA-/A-1+' long- and short-term foreign and local currency sovereign credit ratings on Israel. The outlook is stable.

Outlook

The stable outlook on Israel balances pandemic-related risks over the next 18-24 months against the country's resilient economy and strong balance of payments position. We project that Israel's net external asset position will remain about 45% of GDP through 2023, providing the economy with substantial buffers in the face of a fraught external environment.

We could take a negative rating action if the economic downturn proved deeper and longer than expected, leading to a more substantial deterioration of public finances than we currently forecast. Pressure on the ratings could also build if, beyond immediate pandemic-related effects, Israel lacked a medium-term fiscal consolidation plan and net general government debt kept rising--as opposed to our current forecast that it will stabilize at under 80% of GDP. This could

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

happen, for instance, if domestic political uncertainty and a fragmented government made it difficult to agree fiscal priorities.

A positive rating action could stem from fiscal outturns being materially stronger than our current projections or a major improvement in the Middle East's security environment.

Rationale

The rating affirmation primarily reflects Israel's credit strengths. These include its wealthy and resilient economy, its net external creditor position, and the benefits that accrue to the state from flexible monetary settings and a relatively deep pool of domestic savings. In our view, these characteristics should help cushion the deterioration in its fiscal performance amid the pandemic.

We forecast Israel's net general government debt to this year rise by almost 15 percentage points from under 59% of GDP at the end of 2019 to 73% at end-2020. We expect it will stabilize at close to 77% over the medium term. Although this represents a notable deterioration in the fiscal outlook compared with our pre-pandemic projections, Israel will still have some fiscal headroom. In addition to the credible and effective monetary policy that has supported the economy and kept borrowing costs low, we expect the country to retain a highly favorable general government debt structure. Close to 85% of government debt is denominated in the local currency, the Israeli new shekel, and is held domestically by local banks and institutional investors, such as pension funds.

Our ratings on Israel remain constrained by significant security and geopolitical risks.

Institutional and economic profile: Israel's first recession in decades will be followed by a partial recovery in 2021

- We expect Israel's economy to contract by 5.0% in 2020 before recovering by 4.5% in 2021.
- Domestic political uncertainty lingers and the country could go to elections for the fourth time in two years.
- The landmark Abraham Accords signed recently between Israel, Bahrain, and the UAE should underpin closer cooperation between the three, but broader regional geopolitical risks remain elevated.

Throughout 2020, Israel has felt the effects of the pandemic. Earlier this year, the authorities promptly introduced containment measures, some as early as January-February before a full lockdown from mid-March until the end of April. However, as the government gradually eased measures cases started to spike again during the summer before a second lockdown in September. This has also been gradually eased.

In parallel, the authorities have unveiled a number of support programs to shield the economy, which are broadly similar to those adopted by other countries, particularly in Western Europe. The overall measures announced to date are worth around 10% of GDP and include:

- Additional allocations for direct health and civilian response;
- Support for businesses via grants, a government loan guarantee program, cancellation of property taxes, refunds of advance tax payments, and postponement of VAT, utilities, and government permit payments;
- Support for salaried workers and self-employed small business owners.

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Although the government support measures should soften the impact of the pandemic on the domestic economy, we expect Israel will register a large output contraction in 2020.

High-frequency data--credit card spending, the industrial production index, and the index of retail trade revenue--indicate a quick economic rebound from the first lockdown. However, prospects dipped once more when restrictions were reintroduced in September. It is difficult to quantify the impact of the second lockdown, but we assume it will be similar to the first.

Our baseline forecast for 2020 is, for now, largely unchanged: we expect the economy will contract by 5% this year. Although we did not previously think Israel would go into a second lockdown, the effects on economic growth could be counterbalanced by a stronger apparent performance over the third quarter following the easing of the first round of restrictions. Nevertheless, for full-year 2020, we expect all key GDP components will shrink including private domestic consumption, exports, and investments. National accounts data for first-half 2020 show imports contracting much quicker than exports, which could reflect the depth of pandemic-related effects on domestic demand.

Our economic forecasts for Israel remain subject to high uncertainty and ultimately depend on how the virus plays out domestically, as well as on the performance of Israel's key trade partners. Following a contraction in 2020, we forecast that the economy will recover partially by 4.5% in 2021. This is lower than our May projection (6.5%) and does not represent a particularly steep recovery, especially if population growth (which has historically averaged 2% annually) is taken into account. Ongoing risks and uncertainties include potential further lockdowns if virus cases increase again, the economic performance of key trade partners, and the timeframe for a vaccine becoming widely available.

It is also still difficult to estimate any permanent damage to the economy from the pandemic. Positively, the technology sector retains a key role for the Israeli economy and has expanded strongly in recent years. It might be better placed than some sectors to withstand the pandemic given employees' comparatively higher ability to work from home if needed, and the likely increased demand for technological services outside Israel even if traditional export channels contract. Beyond the tech sector, however, the pandemic could drive some Israeli companies out of business permanently.

Domestic political uncertainty and volatility remains high. The country has gone through three inconclusive elections over the past 18 months. At the end of April, incumbent prime minister, Benjamin Netanyahu, and the leader of center-right Blue and White Party, Benny Gantz, signed an agreement to form a unity coalition government under which they would take turns (18 months each) in the prime ministerial role. The High Court of Justice cleared the way for Mr. Netanyahu to form the government despite ongoing criminal proceedings against him.

Despite the coalition formation, Israel has yet to adopt a state budget for 2020 after the previous August deadline was delayed, at the last minute, until the end of December. Fragmentation within the government also appears high with leaders reportedly holding talks with opposition parties, possibly positioning for yet another election in the coming months. Positively--and despite this continued brinkmanship and the lack of a conventional budget--the Knesset has been able to approve large fiscal stimulus measures to support the economy. Also, historically, the inherent political volatility has not meaningfully affected the economy; we saw this in the strong 3.5% growth rate in 2018-2019. We view this as a testament to the country's comparatively strong institutional settings.

One factor that differentiates Israel from other advanced economies is its exposure to persistent geopolitical and domestic security risks. On top of longstanding historical factors, more recently these stem from the continued divergence between the U.S. and other stakeholders (notably the EU) regarding the peace process with the Palestinian authorities. This is especially after the U.S.

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

moved its embassy to Jerusalem and recognized Israeli sovereignty over the Golan Heights. These developments have led to repeated outbreaks of violence throughout Gaza and the West Bank, and triggered a backlash from parts of the international community. In addition, escalating tensions between the U.S. and Iran could heighten the risk of open military conflict, involving Israel, Iran, and Iran-supported Hezbollah, as well as other militant groups operating in Lebanon and Syria. Past episodes of geopolitical turbulence have had an adverse effect on Israel's economic and fiscal performance.

Positively, we consider that the recently signed Abraham Accords between Israel, the UAE, and Bahrain should contribute to economic, trade, and security cooperation between the three.

Flexibility and performance profile: The fallout from the pandemic will push public debt up by almost 20 percentage points of GDP

- Automatic stabilizers and direct fiscal stimulus will widen the government deficit to 12% of GDP and push net general government debt to 73% in 2020.
- Strong capital market access and the Bank of Israel's (BOI) bond purchasing program will support government financing efforts.
- Monetary policy credibility remains high, despite expected price deflation in 2020.

The recession has exposed the government's weak underlying fiscal position, which has resulted from procyclical tax and expenditure measures over the past three years. Direct fiscal measures (which we estimate at about 5% of GDP, excluding state guarantees) and the impact of the economic downturn on both fiscal revenue and expenditure will widen the general government deficit to 12% of GDP in 2020 compared with the already elevated average of 4.4% in 2018-2019.

Such a substantial deterioration in the government fiscal balance will lead to an increase in net general government debt (gross debt net of liquid government assets) to an elevated 73% of GDP by end-2020. This will reverse the reduction of public debt to GDP, achieved over the past 10 years thanks to exceptionally favorable macroeconomic conditions, one-off fiscal revenue, and exchange-rate appreciation.

However, we think fiscal stability should broadly prevail in Israel because:

- Unlike many regional peers, it benefits from highly flexible monetary policy settings, which will allow the BOI to backstop a substantial portion of gross government borrowing requirements, keeping its market borrowing costs under control. The BOI's government bond purchasing program (introduced earlier this year and expanded in October) could backstop Israel's additional borrowing requirements without any sizable inflation or exchange rate risks.
- Israel benefits from strong access to capital markets, both domestically and internationally. This has supported the government's efforts to diversify its funding base and lengthen the average debt maturity. Although the government traditionally funds itself in the deep domestic capital markets, we also note recent international bond issuances with maturities extending from 30 to 100 years. It could tap foreign markets again in light of substantial investor demand. In the unlikely event of funding disruptions, the government could also still use the remaining portion of a longstanding U.S. debt guarantee program.
- The existing budget revenue and spending composition offers space to rationalize tax benefits, increase rates for some taxes, and improve tax compliance and administration. It also provides scope for spending efficiency gains over the medium term beyond the pandemic's impact.

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Although downside risks remain--especially if the recovery of nominal GDP growth is slower than we anticipate--our base case is that the government will initiate efforts to consolidate fiscal accounts starting from the second half of 2021. Under this scenario, headline general government deficits would go down to 4% in 2022-2023 with public debt stabilizing at close to 77% of GDP.

We consider Israel's balance of payments a key ratings strength. The country has been running a current account surplus for the past 17 years, primarily supported by the fast expansion of high-value-added ICT services exports (the total external services surplus has averaged 5% of GDP in the past few years). This has shifted Israel into a substantial net external asset position of about 40% of GDP, one of the highest among non-commodity-exporting sovereigns, and reduced its gross external financing needs. Despite the sharp drop in exports in 2020, we expect the external balance to remain in surplus as shrinking domestic demand will reduce imports. Recovering global demand for Israeli services, as well as the development of offshore natural gas fields with significant export capacity, should keep the current account surplus at its pre-pandemic level of around 3% of GDP over the medium term.

We also consider Israel's monetary policy flexibility a key credit strength. The BOI is a highly credible institution, with a long track record of operational independence and a full suite of market-based monetary instruments, benefiting from the deep local currency financial and capital markets. This year, the bank has deployed its arsenal of available tools to soften the effects of the pandemic on the Israeli economy through policy rate cuts, quantitative easing, low interest rate loans to banks, and others. Meanwhile, the bank has also amassed substantial foreign exchange reserves of close to US\$160 billion as of end-October (around 40% of GDP). We note that current foreign exchange reserve levels cover Israel's overall external debt 1.7x.

The Israeli banking system is well capitalized, profitable, and liquid. Banks' asset quality has been historically high--nonperforming loans stood at just 1.3% of total loans in 2019. The system is domestic-deposit funded and remains in a net external asset position. Although banks will inevitably suffer from weaker economic activity and the crisis-driven loan repayment moratorium, substantial capital and liquidity buffers, in tandem with regulatory and liquidity support, should enable them to mitigate the ongoing macroeconomic shock.

Key Statistics

Table 1

Israel Selected Indicators

MIL ILS	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Economic Indicators (%)										
Nominal GDP (bil. LC)	1,109	1,167	1,224	1,269	1,330	1,407	1,347	1,415	1,488	1,563
Nominal GDP (bil. \$)	310	300	319	353	370	395	389	416	441	470
GDP per capita (000s \$)	37.8	35.8	37.3	40.5	41.7	43.6	42.2	44.3	46.0	48.2
Real GDP growth	3.9	2.2	3.8	3.6	3.5	3.4	(5.0)	4.5	3.5	3.5
Real GDP per capita growth	2.0	0.2	1.8	1.6	1.5	1.5	(6.8)	2.6	1.6	1.6
Real investment growth	1.0	(1.0)	12.7	4.6	5.1	2.5	(6.0)	3.0	3.5	3.5
Investment/GDP	20.6	19.9	21.1	21.5	21.7	21.4	21.5	21.2	21.1	21.0

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Table 1

Israel Selected Indicators (cont.)

MIL ILS	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Savings/GDP	24.4	25.3	24.8	24.4	24.4	24.8	25.1	24.6	24.2	23.8
Exports/GDP	32.3	31.5	30.0	28.8	29.8	29.3	27.9	27.8	27.4	27.0
Real exports growth	0.8	(2.4)	0.8	3.5	6.4	4.0	(6.0)	3.5	3.0	3.0
Unemployment rate	5.9	5.3	4.8	4.3	4.0	3.8	4.7	6.0	5.0	4.5
External indicators (%)										
Current account balance/GDP	3.9	5.4	3.7	2.9	2.7	3.4	3.6	3.4	3.1	2.8
Current account balance/CARs	9.8	13.7	9.9	8.1	7.2	9.4	10.4	9.8	9.1	8.2
CARs/GDP	39.1	39.2	37.5	35.9	37.0	36.1	34.6	34.7	34.2	33.7
Trade balance/GDP	(2.3)	(1.1)	(2.5)	(3.0)	(4.7)	(4.0)	(3.2)	(3.6)	(3.7)	(3.8)
Net FDI/GDP	0.5	0.1	(0.8)	2.6	4.2	2.6	3.5	3.0	3.0	3.0
Net portfolio equity inflow/GDP	0.2	1.0	1.4	0.0	(4.2)	(1.5)	(2.0)	(2.5)	(2.5)	(2.5)
Gross external financing needs/CARs plus usable reserves	76.4	70.3	68.9	68.8	66.3	64.9	62.0	57.2	57.5	57.6
Narrow net external debt/CARs	(24.6)	(34.6)	(41.2)	(54.1)	(46.6)	(51.7)	(66.4)	(62.1)	(62.3)	(62.3)
Narrow net external debt/CAPs	(27.3)	(40.1)	(45.7)	(58.9)	(50.3)	(57.1)	(74.1)	(68.8)	(68.6)	(67.9)
Net external liabilities/CARs	(55.8)	(58.2)	(88.4)	(111.5)	(97.4)	(113.5)	(133.2)	(131.7)	(133.4)	(134.5)
Net external liabilities/CAPs	(61.8)	(67.4)	(98.0)	(121.4)	(105.1)	(125.3)	(148.7)	(146.1)	(146.7)	(146.5)
Short-term external debt by remaining maturity/CARs	37.7	35.6	31.1	30.4	28.3	26.9	30.4	27.8	27.5	26.4
Usable reserves/CAPs (months)	9.0	10.2	10.1	10.1	10.7	10.7	12.5	14.1	14.0	13.7
Usable reserves (mil. \$)	86,105	90,623	98,361	113,010	115,279	126,023	153,268	159,509	166,122	173,175
Fiscal indicators (general government; %)										
Balance/GDP	(2.5)	(1.4)	(1.9)	(2.1)	(4.3)	(4.5)	(12.0)	(7.5)	(4.2)	(4.0)
Change in net debt/GDP	2.3	0.7	1.1	0.5	3.1	3.0	11.9	7.5	4.0	3.8
Primary balance/GDP	1.2	2.0	1.3	1.0	(1.4)	(1.7)	(8.9)	(4.2)	(0.7)	(0.5)
Revenue/GDP	36.5	36.8	36.3	37.5	35.9	35.2	34.0	35.0	36.0	36.0
Expenditures/GDP	39.0	38.2	38.2	39.6	40.2	39.7	46.0	42.5	40.2	40.0
Interest/revenues	10.1	9.3	8.8	8.2	8.2	8.1	9.0	9.5	9.7	9.8

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Table 1

Israel Selected Indicators (cont.)

MIL ILS	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Debt/GDP	65.7	63.8	62.1	60.6	60.9	60.0	74.5	78.4	78.6	78.7
Debt/revenues	180.3	173.6	171.0	161.6	169.7	170.4	219.1	224.1	218.4	218.5
Net debt/GDP	64.2	61.8	60.0	58.4	58.8	58.6	73.0	77.0	77.3	77.4
Liquid assets/GDP	1.5	2.0	2.1	2.3	2.1	1.4	1.5	1.4	1.3	1.3
Monetary Indicators (%)										
CPI growth	0.5	(0.6)	(0.5)	0.2	0.8	0.8	(0.6)	0.5	1.5	1.5
GDP deflator growth	1.0	2.8	1.0	0.2	1.3	2.2	0.8	0.5	1.6	1.5
Exchange rate, year-end (LC/\$)	3.89	3.90	3.85	3.47	3.75	3.46	3.40	3.40	3.35	3.30
Banks' claims on resident non-gov't sector growth	3.5	5.9	3.9	4.0	6.2	4.8	2.0	3.5	5.0	5.0
Banks' claims on resident non-gov't sector/GDP	70.3	70.8	70.1	70.3	71.3	70.7	75.3	74.2	74.1	74.0
Foreign currency share of claims by banks on residents	6.2	5.4	4.9	4.3	4.2	3.7	N/A	N/A	N/A	N/A
Foreign currency share of residents' bank deposits	19.6	19.2	19.2	18.0	18.5	18.5	N/A	N/A	N/A	N/A
Real effective exchange rate growth	0.6	0.6	3.4	7.9	(0.9)	2.1	N/A	N/A	N/A	N/A

Sources: The Bank of Israel, Israel Central Bureau of Statistics, International Monetary Fund (Economic Indicators), Israel Central Bureau of Statistics, The Bank of Israel (External Indicators), Bank of Israel and Ministry of Finance of the Government of Israel (Fiscal Indicators), and the Bank of Israel, International Monetary Fund (Monetary Indicators).

Adjustments: None.

Definitions: Savings is defined as investment plus the current account surplus (deficit). Investment is defined as expenditure on capital goods, including plant, equipment, and housing, plus the change in inventories. Banks are other depository corporations other than the central bank, whose liabilities are included in the national definition of broad money. Gross external financing needs are defined as current account payments plus short-term external debt at the end of the prior year plus nonresident deposits at the end of the prior year plus long-term external debt maturing within the year. Narrow net external debt is defined as the stock of foreign and local currency public- and private-sector borrowings from nonresidents minus official reserves minus public-sector liquid claims on nonresidents minus financial-sector loans to, deposits with, or investments in nonresident entities. A negative number indicates net external lending. N/A--Not applicable. LC--Local currency. CARE--Current account receipts. FDI--Foreign direct investment. CAPs--Current account payments. The data and ratios above result from S&P Global Ratings' own calculations, drawing on national as well as international sources, reflecting S&P Global Ratings' independent view on the timeliness, coverage, accuracy, credibility, and usability of available information.

Ratings Score Snapshot

Table 2

Israel Ratings Score Snapshot

Key rating factors	Score	Explanation
Institutional assessment	4	Generally effective policymaking promoting sustainable public finance and balanced economic growth, but less cohesive civil society because of ethnic and religious tensions.

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Table 2

Israel Ratings Score Snapshot (cont.)

Key rating factors	Score	Explanation
		External security risks, including risks of war stemming from domestic conflicts (Palestine and Gaza) and from strained relations with some neighboring countries.
Economic assessment	1	Based on GDP per capita (\$) as per the Selected Indicators table above.
External assessment	1	Based on narrow net external debt and gross external financing needs as per the Selected Indicators table above.
Fiscal assessment: flexibility and performance	3	Based on the change in net general government debt (% of GDP) as per Selected Indicators table above, adjusted for the one-off impact of COVID-19 pandemic.
Fiscal assessment: debt burden	4	Based on net general government debt (% of GDP) and general government interest expenditures (% of general government revenues) as per Selected Indicators table above.
Monetary assessment	2	Managed-float exchange-rate regime. The central bank has a track record of operational independence and it uses market-based monetary instruments and has the ability to act as a lender of last resort. CPI as per Selected Indicators table above; the local currency financial and capital markets are deep.
Indicative rating	aa	As per Table 1 of "Sovereign Rating Methodology."
Notches of supplemental adjustments and flexibility	-1	Event risk related to potential cases of rapidly rising external political crises, such as a large-scale ground war with Iran and multiple scenarios of terrorism.
Final rating		
Foreign currency	AA-	
Notches of uplift	0	Default risks do not apply differently to foreign-and local-currency debt.
Local currency	AA-	

S&P Global Ratings' analysis of sovereign creditworthiness rests on its assessment and scoring of five key rating factors: (i) institutional assessment; (ii) economic assessment; (iii) external assessment; (iv) the coverage of fiscal flexibility and performance, and debt burden; and (v) monetary assessment. Each of the factors is assessed on a continuum spanning from 1 (strongest) to 5 (weakest). S&P Global Ratings' "Sovereign Rating Methodology," published on Dec. 18, 2017, details how we derive and combine the scores and then derive the sovereign foreign currency rating. In accordance with S&P Global Ratings' sovereign ratings methodology, a change in score does not in all cases lead to a change in the rating, nor is a change in the rating necessarily predicated on changes in one or more of the scores. In determining the final rating the committee can make use of the flexibility afforded by §15 and §§126-128 of the rating methodology.

Related Criteria

- Criteria | Governments | Sovereigns: Sovereign Rating Methodology, Dec. 18, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011
- General Criteria: Methodology: Criteria For Determining Transfer And Convertibility Assessments, May 18, 2009

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Related Research

- Sovereign Ratings List, Oct. 14, 2020
- Sovereign Ratings History, Oct. 14, 2020
- Sovereign Risk Indicators, Oct. 12, 2020. An interactive version is available at www.spglobal.com/sri
- Default, Transition, And Recovery: 2019 Annual Sovereign Default And Rating Transition Study, May 18, 2020

In accordance with our relevant policies and procedures, the Rating Committee was composed of analysts that are qualified to vote in the committee, with sufficient experience to convey the appropriate level of knowledge and understanding of the methodology applicable (see 'Related Criteria And Research'). At the onset of the committee, the chair confirmed that the information provided to the Rating Committee by the primary analyst had been distributed in a timely manner and was sufficient for Committee members to make an informed decision.

After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Israel

Sovereign Credit Rating	AA-/Stable/A-1+
Transfer & Convertibility Assessment	AA+
Senior Unsecured	AA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352 Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3805; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

Related Research

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After the primary analyst gave opening remarks and explained the recommendation, the Committee discussed key rating factors and critical issues in accordance with the relevant criteria. Qualitative and quantitative risk factors were considered and discussed, looking at track-record and forecasts.

The committee's assessment of the key rating factors is reflected in the Ratings Score Snapshot above.

The chair ensured every voting member was given the opportunity to articulate his/her opinion. The chair or designee reviewed the draft report to ensure consistency with the Committee decision. The views and the decision of the rating committee are summarized in the above rationale and outlook. The weighting of all rating factors is described in the methodology used in this rating action (see 'Related Criteria And Research').

Ratings List

Ratings Affirmed

Israel

Sovereign Credit Rating	AA-/Stable/A-1+
Transfer & Convertibility Assessment	AA+
Senior Unsecured	AA-

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://www.standardandpoors.com/en_US/web/guest/article/-/view/sourceId/504352. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column. Alternatively, call one of the following S&P Global Ratings numbers: Client Support Europe (44) 20-7176-7176; London Press Office (44) 20-7176-3805; Paris (33) 1-4420-6708; Frankfurt (49) 69-33-999-225; Stockholm (46) 8-440-5914; or Moscow 7 (495) 783-4009.

Research Update: Israel Ratings Affirmed At 'AA-/A-1+'; Outlook Stable

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