## Data Sheet

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| **USAID Mission:** | Israel |
| **Program Title:** | Israel Cash Transfer |
| **Pillar:** | Economic Growth, Agriculture and Trade |
| **Strategic Objective:** | 271-001 |
| **Status:** | Continuing |
| **Planned FY 2006 Obligation:** | $237,600,000 ESF |
| **Prior Year Unobligated:** | $0 |
| **Proposed FY 2007 Obligation:** | $120,000,000 ESF |
| **Year of Initial Obligation:** | 1999 |
| **Estimated Year of Final Obligation:** | 2007 |

**Summary:** The Israel Cash Transfer proceeds may be used by the Government of Israel (GOI) for purposes determined necessary for balance of payments support. The overall goal of U.S. economic assistance to the GOI is to enhance Israel's economic and political stability, which furthers U.S. foreign policy objectives of peace and reform in the Middle East.

**Inputs, Outputs, Activities:**
**FY 2006 Program:**
Improve Economic Policy and the Business Environment ($237,600,000 ESF). The USAID program's objective is to reduce Israel's balance-of-payment pressures as Israel continues to experience difficult challenges to economic growth. For its part, the GOI has continued to implement a series of ambitious structural reforms required for financial stability and sustainable growth. Though the U.S. cash transfer is not conditioned on economic policy reform, the United States continues to encourage Israeli efforts to reduce government spending and deficits, improve tax and public wage structures, increase privatization, reform labor markets, and continue to liberalize its trade regime. Over the last year, Israel has met its target expenditure and deficit rates and improved export competitiveness. Expanding business investment and governmental infrastructure investment, as well as current export growth will help Israel reach its gross domestic product (GDP) growth rate potential. Promoting market-oriented reform in Israel contributes to its economic growth; supports Israel's economic and political stability; permits a gradual phasing-out of U.S. economic assistance; enhances Israel's ability to repay its debt to the United States; and opens new opportunities for U.S. investment and export sales. U.S. assistance also helps to relieve the economic burden Israel has incurred due to its regional isolation and the instability in the Middle East by enhancing the GOI's economic relationships in both the regional and global economies.

Israel's economy responded favorably in the previous decade to the restructuring imposed after the fiscal crises and hyperinflation of the mid-1980s. Since 1990, the economy has become increasingly sophisticated and technologically advanced. In FY 1999, Congress began a reduction of the economic assistance earmark in recognition of this progress. The United States will continue to reduce ESF to Israel by $120 million per year, eliminating it completely by FY 2008.

Israel's economic boom in the 1990s was based on a thriving high-tech sector, sharply increased investment by venture capital firms, the opening of new markets to Israeli exports, and a record level of tourism. With the downturn in the global economy, problems in the high-tech sector and a worsening security situation in Israel, the period of 2000-2003 saw increasing unemployment and declining tax revenues. In addition to the obvious effect on tourism, the violence had a negative impact on foreign investment and overall economic confidence. In 2003, after nearly three years of economic recession (GDP contracted by 0.5% in 2001 and 0.9% in 2002), the economy grew by 1.2%. In 2004, GDP increased by approximately 4.4% and is expected to meet or exceed this rate in 2005. However, Israel's economic recovery will remain sensitive to the global economic picture and the domestic security situation.

The United States Government (USG) strongly supports the GOI's economic reform measures and underscores its support at the annual U.S.-Israel Joint Economic Development Group (JEDG). These high-level policy discussions also help to reinforce the GOI's commitment to the reform process. Beyond maintaining a stable macroeconomic environment, the JEDG provides a forum to encourage the GOI to reform its financial sector, reduce labor market rigidities, proceed with further trade liberalization, and accelerate the privatization program. The provision of $9 billion in loan guarantees over fiscal years 2003 - 2007, with an available rollover provision in 2008, was authorized in the Emergency Wartime Supplemental Appropriations Act of 2003 and the Foreign Operations Appropriations Act of 2004. The guarantees, which are predicated on the continued implementation of the GOI's reform program and declining government deficits, will further contribute to this goal.

**FY 2007 Program:**
Improve Economic Policy and the Business Environment ($120,000,000 ESF). The FY 2007 Appropriation Bill is expected to provide $120 million in economic support funds as a cash transfer to the GOI. It will be used to repay debt owed to the USG, including refinanced Foreign Military Sales debt, and the purchase of U.S. goods and services.

**Performance and Results:** FY 2006 funds were provided as a cash transfer and will be used by Israel primarily for repayment of debt to the United States, including re-financed Foreign Military Sales debt, and purchases of goods and services from the United States. The U.S. Department of State will continue to encourage Israeli reform to reduce government spending and deficits, to improve tax and public wage structures, to increase privatization, to reform labor markets, and to continue to liberalize its trade regime.

## US Financing in Thousands of Dollars

**Israel**

| 271-001 Israel Cash Transfer | **ESF** |
|---|---|
| **Through September 30, 2004** | |
| Obligations | 5,860,476 |
| Expenditures | 5,860,476 |
| Unliquidated | 0 |
| **Fiscal Year 2005** | |
| Obligations | 357,120 |
| Expenditures | 0 |
| **Through September 30, 2005** | |
| Obligations | 6,217,596 |
| Expenditures | 5,860,476 |
| Unliquidated | 357,120 |
| **Prior Year Unobligated Funds** | |
| Obligations | 0 |
| **Planned Fiscal Year 2006 NOA** | |
| Obligations | 237,600 |
| **Total Planned Fiscal Year 2006** | |
| Obligations | 237,600 |
| **Proposed Fiscal Year 2007 NOA** | |
| Obligations | 120,000 |
| Future Obligations | 0 |
| Est. Total Cost | 6,575,196 |