



The Government Has Decided To Remove 3000 Shekels from the Pocket of Every Israeli Resident

Opposition to the bond issue in the amount of 200,000,000 shekels over the next 18 months is growing. Knesset member Shai Hermesh from Kadima: "the enormous deficit that the government has decided upon requires taking out loans in the amount of hundreds of billions. We are not dealing with money for investments and economic growth, but for wasteful expenses"

Liran Denesch

The Knesset Finance Committee discussed today (Monday, June 8) the government's plan to issue bonds in the unprecedented amount of 200,000,000,000 shekels over the next 18 months.

The initiator of the discussion was Knesset member Shai Hermesh from Kadima who said at the start of the discussion: "The huge deficit that the government has decided upon, requires taking out loans on an order of magnitude of hundreds of billions. We are not dealing with money for investments and economic growth, but for wasteful expenses. This is tantamount to the government deciding to put its hand into the pocket of every resident in Israel and remove 30,000 shekels from there.

He added: if this country is going to mortgage our children, our grandchildren and our great-grandchildren to huge debts it would be proper that it should weigh its course of action and learn from previous mistakes. My impression is that the policy of the Netanyahu government can be summed up in one sentence: "the fathers ate unripe fruit and the teeth of their children will go bad".

At the close of the discussion the chairman of the committee, Moshe Gafni stated, that the committee would continue monitoring the raising of billions and the cost of the interest.

The Largest Bond Issue since 2002-2003

According to the research data of the **Jerusalem Institute for Market Studies** that was presented at the discussion and was performed at the request of Knesset member Shai Hermesh, out of 200,000,000,000 shekels, 80,000,000,000 shekels represent new debt. We are dealing with the largest surplus borrowing since the years of the 2002-2003 economic crisis. According to Hermesh, the last time that Israel raised such amounts this nearly concluded with a financial crisis.

The import of raising capital is that upon each resident of the state an additional debt of about 28,500 shekels is imposed as a result of the intended bond issue. The repercussions of the bond issue are many and widespread.

Inter alia the issue is expected to result in a rise of returns: the bond issue can influence market performance, and cause fluctuations in bond yields. There is apprehension that pressure on the bond market will mount and rises in market interest will be the result.

An additional problem is the difficulty in raising money characterized by high interests: the international money markets have entered into a state of paralysis due to the crisis, and anybody raising money must pay relatively high interest rates;

Another problem is the adverse impact on corporate bonds: a massive increase in the amount of bond issues abroad will find expression in smaller demands and declines in the price of corporate bonds. A further problem is long-term interest: 30% of the recruitment will take place in international money markets, and this could stimulate a rise in the long term interest rates in Israel and find expression in a decline in investments in the private sector in Israel and a pursuant decline in job creation.



Tomorrow: The Treasury Will Be Asked to Reconsider the Amount of Capital that It Is Raising

This will occur, during the discussion in the Knesset Finance Committee. The Finance Ministry is planning to raise capital in the unprecedented amount of 200,000,000,000 shekels, by selling bonds, in order to cover the deficit in the budget. About 80,000,000,000 shekels is the assumption of fresh debt the greatest amount since the crisis at the start of the decade.

Zvi Lavi

The members of the Knesset Finance Committee are expected to demand tomorrow (Monday) from the finance Ministry to reconsider the unprecedented amounts of the planned capital recruitment to cover the budget deficit, in the amount of 200,000,000,000 shekels. This is in light of the possibility that the annual deficit will be lower than predictions. The capital will be raised by a bond issue in the next 18 months, amidst apprehension that this will adversely impact the corporate and government bond market and engender difficulties in raising credit due to the rise on yields.

The demand is expected to surface in an urgent discussion by the committee that was set at the request of Knesset members Shai Hermesh and Zeev Bielski (Kadima), the former chairman of the Jewish Agency. "The higher rate of return can cause difficulties in raising capital and compel the state to pay high interest rates, on top of the relatively high interest that is already being collected in the capital markets due to the standstill caused by the financial crisis", argues Hermesh.

"A Double Recruitment of Capital Represents a Double Danger"

Hermesh relies on the data of research conducted at his request by the [Jerusalem Institute for Market Studies](#). From the research it emerges that out of 200,000,000,000 shekels about 80,000,000,000 shekels represents assuming fresh debt the largest amount since the 2002-2003 crisis. He notes that the earlier recruitment almost concluded with a financial crisis despite the fact that it comprised 40,000,000,000 shekels. "This time we are dealing with a

amount that is double, which perhaps involves a double risk", argues Hermesh, who was in the recent past the Treasurer of the Jewish Agency.

He warns that there will be severe repercussions on the issues of Israeli bonds in the amount planned, that will influence market performance and they will exert a positive influence. A particularly negative influence that he foresees is the rise in the return on long-term interest rates. "Since only a third of the amount of the capital will be raised in foreign markets, there will be a rise in interest in Israel that can lead to a decline in investments in the Israeli private sector and pursuantly a decline in job creation ", says Hermesh.

Additionally he foresees damage to the corporate bond market that is already in a recovery stage from the crisis. "A massive increase in the amount of bond issues abroad can find expression in an appreciable reduction of demand a decline in the prices of this financial instrument."