

STATE OF ISRAEL
\$20,000,160
THIRD CHAI ISSUE DOLLAR SAVINGS BONDS

Terms of Bonds	
<ul style="list-style-type: none">• Maturity Five (5) years from the issue date.	<ul style="list-style-type: none">• Purchase Price The purchase price of the bonds will be set forth on a sticker affixed to the cover page of this prospectus.
<ul style="list-style-type: none">• Interest Interest will not be paid on the bond until maturity. At maturity, you will receive \$180 for each bond. The bond will not earn or accrue interest after maturity.	<ul style="list-style-type: none">• Issue Date First day of the month following the month in which the fiscal agent accepts the subscription.
<ul style="list-style-type: none">• Limitations You may not assign or transfer the bonds. The bond may only be registered in the name of an individual.	<ul style="list-style-type: none">• No Certificate We are issuing the bonds in book-entry form which means certificates will not be issued to evidence bonds.

This offering may have a special appeal to persons with an interest in the State of Israel rather than the general public. We have issues of bonds outstanding which may, on any given day, provide a greater yield to maturity than the bonds being offered by this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the bonds or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

DEVELOPMENT CORPORATION FOR ISRAEL
575 LEXINGTON AVENUE, NEW YORK, NEW YORK 10022-6195

DESCRIPTION OF THE BONDS

We are offering \$20,000,160 aggregate maturity amount of Third Chai Issue Dollar Savings Bonds. The bonds are direct, unconditional and general obligations of the State of Israel. We pledge our full faith and credit for the due and punctual payment of principal and accrued interest, as well as for the due and timely performance of all of our obligations with respect to the bonds. The terms of the bonds are as follows:

Price. We will advise Development Corporation for Israel of the purchase price and effective yield to maturity of the bonds two (2) business days before January 1 and July 1 for each subscription period. Development Corporation for Israel will then set forth the purchase price and effective yield to maturity for a given subscription period on a sticker affixed to the cover page of this prospectus. To insure you purchase your bonds at the purchase price and effective yield to maturity of a given subscription period, the full purchase price and all required subscription documents must be received, examined and accepted in a form acceptable to the fiscal agent and Development Corporation for Israel before the date set forth on the sticker.

Issue Date and Maturity. We will date each bond as of the first day of the month following the month in which the subscription for the bond is accepted by the fiscal agent. The bonds will become due and payable five (5) years from the issue date.

Interest. You will not receive interest on the bonds until maturity, at which point you will receive \$180 (the aggregate amount of principal and interest) per bond. Bonds do not earn or accrue interest after maturity.

Bond Certificate. We are issuing the bonds in book entry form. Therefore, bond certificates will not be issued. Instead, the fiscal agent will mail to the purchaser and owner of each bond a confirmation that the owner has been listed in the bond register as the registered owner of the bond along with other pertinent information. We will forward all notices relating to the bonds to the registered owner(s). Upon maturity of a book entry bond or a redemption of a book entry bond, the fiscal agent will automatically pay the principal amount of the book entry bond to the registered owner by mailing a check to the last address of the registered owner as listed in the bond register.

Early Redemption. We will not redeem any bonds prior to five (5) years from the issue date, except that, upon the death of the bond owner, we will purchase any bond from the estate of the bond owner no later than sixty (60) days after delivery of written demand to the fiscal agent, accompanied by a written instrument of transfer in a form approved by the State and the surrender and submission to us of all necessary legal documents. The legal representative of the bond owner is the only individual who may surrender a bond for purchase. Repurchase of bonds prior to maturity will be for the purchase price of the bonds plus an accrued amount of interest, which will be an assumed interest factor of the per annum effective yield to maturity, based on the discounted purchase price, accrued to the last day of the month preceding the month in which any such repurchase is made. Payment shall be made at the principal corporate trust office of the fiscal agent in New York, New York. The repurchase will be paid in United States currency.

Purchase Limitation. Each bond may only be registered in the name of an individual.

Non-transferability. You may not transfer or assign the bonds.

Fiscal Agent. The name and principal office of the fiscal agent is The Bank of New York, 101 Barclay Street, New York, New York, 10286, Attention: Corporate Trust Administration, Telephone: (212) 495-1784.

The foregoing description of the material terms of the bonds is qualified by reference to the full terms of the bonds. Bonds offered and sold outside of the United States may be offered and sold in reliance on Regulation S or another applicable exemption from the registration requirements of the Securities Act of 1933, as amended. Such bonds have not been and will not be registered under the Securities Act. Accordingly, subject to certain exceptions, such bonds may not be offered, sold or delivered within the United States to United States persons.

State of Israel

Bonds

The State of Israel, which may be referred to in this prospectus as "Israel" or "the State," may offer up to U.S.\$2,115,405,000 aggregate principal or maturity amount of its bonds.

Israel may offer the bonds from time to time as separate issues. Israel will provide a prospectus supplement describing the amounts, prices and terms of each issue of bonds it is offering. You should read this prospectus and any prospectus supplement carefully before you invest.

Israel will sell the bonds through the Development Corporation for Israel (DCI).

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

You should rely only on the information contained in or incorporated by reference in this prospectus or the applicable prospectus supplement. Israel has not authorized anyone to provide you with different or additional information. Israel is not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of this prospectus or that information incorporated by reference in this prospectus is accurate as of any date other than the date of such information.

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WHERE YOU CAN FIND MORE INFORMATION ABOUT THE STATE OF ISRAEL

Israel is not subject to the informational requirements of the Securities Exchange Act of 1934. Israel files annual reports with the Securities and Exchange Commission (SEC) on a voluntary basis. These reports include certain financial, statistical and other information concerning Israel. Israel may also include exhibits to its annual reports and file amendments to its annual reports. You may read and copy any document Israel files with the SEC at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain copies of the same documents from the public reference room in Washington, D.C. by paying a fee. You may obtain information on the operation of the public reference room by calling the Securities and Exchange Commission at 1-800-SEC-0330.

The Securities and Exchange Commission allows Israel to "incorporate by reference" into this prospectus the information Israel files with it, which means that important information can be disclosed to you by referring to those documents. The information incorporated by reference is an important part of this prospectus. Israel incorporates by reference its Annual Report on Form 18-K for the fiscal year ended December 31, 2001, and any future annual reports and amendments to annual reports, including in both cases exhibits, filed with the Securities and Exchange Commission until this offering is completed. Each time Israel files a document with the SEC that is incorporated by reference, the information in that document automatically updates the information contained in previously filed documents. You may download a free copy of these filings from the Internet site maintained by the Development Corporation for Israel at www.israelbonds.com, or request a free copy of these filings by writing to or telephoning Israel's Consul and Chief Fiscal Officer for the Western Hemisphere at the following address and number:

Ministry of Finance
State of Israel
800 Second Avenue
New York, New York 10017
Telephone: (212) 499-5710
Facsimile: (212) 499-5715

The SEC maintains an Internet site that contains reports and other information regarding issuers that file electronically with the SEC at www.sec.gov. The Registration Statement of which this prospectus forms a part, as well as all exhibits and documents incorporated by reference therein, are available at the SEC Internet site.

USE OF PROCEEDS

Unless otherwise specified in the applicable prospectus supplement, Israel will use the net proceeds from the sale of the bonds offered hereby for general purposes of the State.

DESCRIPTION OF THE BONDS

Israel will issue the bonds from time to time as separate issues. Each issue of bonds will be issued pursuant to a fiscal agency agreement between Israel and a fiscal agent, unless Israel acts as the fiscal agent with respect to any issue. If the terms or conditions described in the prospectus supplement for a particular issue of bonds differs from the terms and conditions described in this prospectus, you should rely on the terms and conditions described in the prospectus supplement.

The following is a summary of certain terms of the bonds. Israel will describe the particular terms of any bonds in the prospectus supplement relating to those bonds.

Those terms may include:

- the name of the issue of the bonds;
- the aggregate principal or maturity amount of the bonds;
- the price of the bonds;
- the minimum denomination of the bonds;
- the issue date of the bonds;
- the stated maturity date on which Israel agrees to repay the bonds;
- the rate of interest the bonds will bear, if any, and if variable, the method by which the interest rate will be calculated;
- the dates when any interest payments are scheduled to be made;
- the date or dates from which interest will accrue;
- whether and in what circumstances Israel may redeem the bonds before maturity;
- whether physical certificates will be issued for the bonds or whether the bonds will be book-entry only;
- the currency in which Israel may pay the bonds and any interest; and
- any other terms of the bonds.

Status of the Bonds

The bonds will be the direct, general and unconditional obligations of Israel. Israel will pledge its full faith and credit for the due and punctual payment of all principal, interest and maturity amounts, as well as for the due and timely performance of all of Israel's obligations with respect to the bonds.

Ranking of Bonds

The bonds of each series will rank equally with each other, without any preference among themselves. The payment obligations of Israel under the bonds will at all times rank at least equally with other payment obligations of Israel relating to unsecured, unsubordinated external indebtedness. For purposes of this paragraph, "external indebtedness" means any indebtedness for money borrowed which is payable by its terms

or at the option of its holder in any currency other than the currency of Israel, and "indebtedness" means all obligations of Israel in respect of money borrowed and guarantees given by Israel in respect of money borrowed by others.

The Bonds

Issuance. The bonds will be issued only in registered form without coupons, and upon original subscription, in such minimum denominations as may be set forth in the applicable prospectus supplement. Subscription for the bonds will be made on approved forms appropriately completed and executed and accompanied by the subscription price. The subscription price may be paid in United States dollars or, if Israel so orders, in the currency of the country from which the subscription originated. A subscription is deemed accepted as of the date when the forms and purchase price are actually received in form acceptable to the fiscal agent and DCI. The bond will state the name of the owner, the subscription number and the issue date. Except for bonds issued in book-entry form, the fiscal agent will then mail the bond to the owner.

Bond Certificates. The bonds will be issuable to any person or entity. The name of that person or entity or his, her or its nominee will be inscribed on the face of the bonds. The bonds will be numbered and lettered in a manner that is satisfactory to Israel. The bonds will be executed on behalf of the State by its Prime Minister and its Minister of Finance and countersigned by an authorized officer of the fiscal agent, and may contain legends or recitals not inconsistent with the fiscal agency agreement as may be approved by the fiscal agent or as required by any securities exchange on which the bonds may be listed. Pending the preparation of definitive bonds, Israel may execute and issue temporary bonds or a nontransferable receipt in lieu of definitive bonds. The temporary bonds will be in substantially the same form as the definitive bonds, and may be exchanged for an equal amount of definitive bonds when the definitive bonds are prepared and ready for delivery upon the surrender of the temporary bonds at the office of the fiscal agent. A receipt issued in lieu of the bonds will indicate that the bond will be issued to the person named in the receipt in the specified denominations when the bond is available. Any exchange of temporary bonds for definitive bonds will be at no expense to the bond owner, except the payment of any stamp tax or other governmental charges. The bonds may be issued in book-entry form, which means bond certificates will not be issued to evidence the bonds. In the case of bonds issued in book-entry form, the prospectus supplement may provide that certificates will be issued if specifically requested at the time of purchase.

Payment of Interest. Some bonds are interest-bearing. For interest-bearing bonds, interest will be computed on the basis of a 360-day year consisting of twelve 30-day months. If the date of any payment, whether for interest, principal, maturity or redemption, is a Saturday, Sunday or other day on which the fiscal agent is authorized or required by law to be closed, payment will be made on the next business day, and no interest will accrue for the intervening period. Israel and the fiscal agent will treat the person or entity whose name is inscribed on the face of the bond as the absolute owner of the bond for all purposes, including receiving payment for the bond and interest payments, and neither Israel nor the fiscal agent will be affected by any notice to the contrary. Payments will be paid by check mailed to the bond owner at the address listed in the bond register. In the case of bonds issued in the name of more than one holder, payment may be made in the names of all such holders. A trustee or other legal representative will succeed to all rights of a non-individual bond owner that has dissolved or terminated. An executor, administrator or other legal representative of a bond owner who has died will succeed to all the rights of a deceased bond owner. If any interest is not punctually paid, Israel will notify the fiscal agent of the amount of defaulted interest proposed to be paid on each bond and the date of such payment. The fiscal agent will then notify the bond owners of the proposed payment, and pay bond owners the defaulted interest.

Exchange and Split-up; Surrender of Bonds. There will be no exchange or split-ups of bonds issued in minimum denominations, unless otherwise ordered by Israel. All other exchanges or split-ups will be subject to reasonable regulations of the fiscal agent and Israel. The fiscal agent will cancel all bonds surrendered for transfer or exchange. The bond owner will pay all expenses, charges or taxes in connection with any exchange or split-up.

Co-owners of Bonds; Bonds Held by Minors. Israel or the fiscal agent may require the signature of all bondholders in the case of the surrender of bonds issued in the names of more than one holder. Upon the surrender of a bond issued in the name of a minor, or a minor together with another person, Israel or the fiscal agent may act with respect to the minor upon the signature of the minor's legal guardian, or if there is no legal guardian, upon the signature of the parent or head of household of the minor, provided that the parent or head of household executes any other documents required by Israel or the fiscal agent.

Lost, Stolen or Mutilated Bonds. If a bond is mutilated, lost, stolen or destroyed, then Israel may issue a new bond upon the production of such mutilated bond or upon evidence satisfactory to it and the fiscal agent. If the bond was about to mature, Israel may pay for it without issuing a new bond. The newly issued bond will constitute the original contractual obligation of Israel, regardless of whether any person or entity tries to enforce the old bond. The bond owner will bear all expenses in connection with delivery of a new bond, except with respect to a bond mutilated, destroyed, stolen or lost prior to its delivery to the bond owner, for which Israel and the fiscal agent have received satisfactory evidence.

Early Redemption

Upon not more than sixty (60) days written notice and surrender of the bond, a written instrument of transfer and other necessary legal documents required by the State or the fiscal agent, the fiscal agent will repurchase bonds at the option of the owner(s) prior to maturity only under the following circumstances:

(a) upon the death of the registered owner of the bond or, if there is more than one registered owner of the bond, upon the death of the last surviving registered owner. However, Israel is not required to purchase upon death if the bond is owned by a transferee or assignee;

(b) upon the death of any person owning the bond through an IRA, Roth IRA, Keogh Plan, or H.R. 10 Plan. However, Israel is not required to purchase bonds on death as set forth in clause (a) above and this clause (b) if, in Israel's opinion, a material number of these persons died as a result of war, epidemic, catastrophe of nature or other disaster;

(c) upon the termination of an Employee Benefit Plan which owned the bond, unless in the case of an IRA, Roth IRA, Keogh or H.R. 10 Plan, the bond is transferred to another IRA, Roth IRA, Keogh or H.R. 10 Plan in a "rollover" transaction as the term is defined in Section 402 of the Internal Revenue Code within the time limit prescribed for such "rollovers".

For purposes of this offering, "Employee Benefit Plan" means:

- any employee benefit plan as defined in Section 3 of the Employee Retirement Income Security Act of 1974, as amended, or any comparable legislation in effect at the time of determination; or
- any Individual Retirement Account, Roth Individual Retirement Account, Keogh or H.R. 10 Plan, and any Registered Retirement Savings Plan, or any treasury, strike or other fund established or maintained by an employee organization.

An "Individual Retirement Account" or "IRA" is an individual retirement, tax-deferred plan established by an employee under Section 408 of the Internal Revenue Code or any comparable legislation in effect at the time of determination. A "Roth IRA" is an individual retirement account in which earnings accumulate tax-free and from which qualified distributions are tax-free that meets the definition of "Roth IRA" in Section 408A(b) of the Internal Revenue Code. A "Keogh Plan" or an "H.R. 10 Plan" is a retirement plan established by a self-employed person that satisfies or is intended by its terms to satisfy the applicable requirements of the Internal Revenue Code. A "Registered Retirement Savings Plan" or "RRSP" is a retirement savings plan registered under the Income Tax Act (Canada), in respect of which the owner of the bond or the owner's spouse is the annuitant.

If the bonds are surrendered along with an order of Israel or DCI stating that (i) the bond owner is deceased; (ii) the bond owner was not a citizen of the United States; (iii) the bond owner resided outside of the United States at the time of his or her death; and (iv) the bonds were physically located outside the United States at the time of his or her death (along with an affidavit to that effect), and the order instructs the

fiscal agent to pay the repurchase price to the executor, administrator, legal representative or the heirs or next of kin of the deceased owner, the fiscal agent will pay the repurchase price as so ordered. The bond owner will not be charged for any expenses other than stamp taxes or other government expenses in regards to any of the above repurchases.

The bonds are subject to redemption at any time at the option of Israel, in accordance with the terms set forth in the prospectus supplement. The bonds are redeemable as a whole or in part. If the bonds are redeemed in part, selection of the bonds will be at Israel's discretion; however, the bonds will be redeemed in one or more groups, where each group of bonds will consist of all bonds of the same issue bearing the same issue date. If interest-bearing bonds are to be redeemed, then partial redemption can be made only on an interest payment date. No bonds of any issue can be redeemed at the option of Israel unless the bonds of such issue having a prior issue date are or have been called for redemption. A notice of redemption will be mailed to all bond owners by the fiscal agent between thirty (30) and sixty (60) days prior to the redemption date. The notice will set forth:

- the redemption date;
- whether all bonds or a group of bonds are to be redeemed;
- the redemption price;
- that on the redemption date no owner of bonds called for redemption is entitled to more than the redemption price, and that the redemption price is due and payable on the redemption date; and
- the place where the bonds are to be redeemed.

Whether the bonds are repurchased at the option of the bond owner or redeemed at the option of the State, Israel will repurchase interest-bearing bonds for a purchase price equal to the principal amount of the bond together with interim interest accrued and unpaid to the repurchase date. Israel will repurchase non-interest-bearing bonds for a purchase price equal to the price at which the bond is deemed issued pursuant to Section 1273 of the Internal Revenue Code, as adjusted as of the repurchase date pursuant to the provisions of Section 1272 of the Internal Revenue Code.

If the redemption price is not paid on the surrender of any bond, then interest-bearing bonds will continue to be payable at the rate prescribed for such bonds, and non-interest-bearing bonds will continue to be payable at their maturity amount on their maturity date. Israel will not be required to issue or register the transfer or exchange of any bond during the period beginning with the fifteenth (15th) business day prior to the date of the mailing of a notice of redemption through the end of the date of the mailing. Israel will also not be required to register the transfer or exchange of any bond selected for redemption in whole or in part, except for the unredeemed portion of the bonds being redeemed in part. No general redemption has ever been made on a prior issue. No sinking fund is required to be established under the terms of the fiscal agency agreement or the bonds.

Limited Transferability

You may not transfer or assign the bonds except that, subject to the terms and conditions of the fiscal agency agreement or the bonds, the bonds shall be transferable to:

- the State of Israel;
- the Development Corporation for Israel;
- any religious, charitable, literary, scientific or educational organization contributions to which are deductible for income or similar tax purposes under the Internal Revenue Code, or under the laws of the country in which the organization is located, provided that transfers to such tax exempt organizations may be made only by donation, without compensation to you;
- the owner's spouse, children, grandchildren, siblings, parents or grandparents;

