

PROSPECTUS SUPPLEMENT

(to prospectus dated January 8, 2002)

February 25, 2002

STATE OF ISRAEL
\$20,400,000
SECOND CHAI ISSUE DOLLAR SAVINGS BONDS

We will receive \$19,176,000 of the proceeds from the sale of the bonds, after paying the underwriters' commission which will not exceed \$1,224,000 and before expenses estimated at \$37,500.

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 You may purchase each bond for \$136.
<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 the 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.

DESCRIPTION OF THE BONDS

We are offering \$20,400,000 aggregate principal amount of Second 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. You may purchase each bond for \$136.

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 as 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 upon the surrender and submission to us of all necessary legal documents. The legal representative of the bond owner is the bond owner or any other person who may surrender a bond for purchase. We will repurchase a bond prior to maturity for a purchase price of \$136 plus an accrued amount of interest, based upon an assumed interest factor of 5.8% per annum on the discounted purchase price, accrued to the last day of the month preceding the month in which the purchase is made. 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, the form of which has been filed with the Securities and Exchange Commission (the "Commission") as an exhibit to the registration statement of which this prospectus supplement is a part. Bonds offered and sold outside of the United States have not been and will not be registered under the Securities Act of 1933, as amended. Accordingly, subject to certain exceptions, such bonds may not be offered, sold or delivered within the United States to United States persons.

PROSPECTUS

January 8, 2002

STATE OF ISRAEL BONDS

The State of Israel may offer up to U.S. \$1,250,000,000 aggregate principal amount of its Bonds.

Israel will offer the Bonds from time to time as separate issues. Israel will provide a prospectus supplement describing the amounts, prices and terms of the Bonds it is offering.

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 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. Israel has not authorized anyone to provide you with different 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 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.

DEVELOPMENT CORPORATION FOR ISRAEL

575 LEXINGTON AVENUE, NEW YORK, NEW YORK 10022 — 6195

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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 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 inspect and copy these reports at the Public Reference Room of the Securities and Exchange Commission at 450 Fifth Street, N.W., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330 or on their website at www.sec.gov.

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 considered to be part of this prospectus, and later information filed with the Securities and Exchange Commission will update this information. Israel incorporates by reference its Annual Report on Form 18-K for the fiscal year ended December 31, 2000, 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.

You may request a copy of these filings, at no cost, 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
800 Second Avenue, 17th floor
Government of Israel
New York, NY 10017
Telephone: (212) 499-5710
Facsimile: (212) 499-5715

USE OF PROCEEDS

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

DESCRIPTION OF THE BONDS

Each issue of Bonds will be issued pursuant to a fiscal agency agreement between Israel and a fiscal agent, except if Israel acts as the fiscal agent with respect to any issue.

The following is 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 amount of the Bonds;
- the price of the Bonds;
- the minimum denomination of the Bonds;
- the stated maturity date on which Israel must repay the Bonds;
- the rate of the interest the Bonds will bear and, if variable, the method by which the interest rate will be calculated;
- the dates when any interest payment will be made;
- whether and in what circumstances Israel may redeem the Bonds before maturity;
- 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. The full faith and credit of Israel will be pledged for the due and punctual payment of all principal and interest, 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

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. The Bonds will be numbered and lettered in a manner that is satisfactory to Israel. Subscription for the Bonds will be made on approved forms 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 received by the fiscal agent and DCI. The fiscal agent will then mail the Bond to the owner. The Bond will state the name of owner, the subscription number and the issue date.

Bond Certificates. The Bonds will be issuable to any person or entity. The name of that person or entity or their nominee will be inscribed on the face of the 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 a Bond will be issued to 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 holder, except the payment of any stamp taxes 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 may 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. 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. A trustee or other legal representative will succeed to all rights of a non-individual Bond owner which has dissolved or terminated. An executor, administrator, or other legal representative of an owner who has died will succeed to the 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 Bond holders 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.

Israel or the fiscal agent may require the signature of all Bond holders in the cases 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 on the signature of the minor's legal guardian, or if there is no legal guardian, the parent or head of household of the minor, if 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 evidence satisfactory to it and the fiscal agent. If the Bond was about to mature, Israel may pay or 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 holder will bear all expenses in connection with delivery of a new Bond.

Early Redemption

Upon not more than sixty days (60) written notice and presentation of the Bond, a written instrument of transfer and other necessary legal documents, 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, provided that in the case of an IRA, Roth IRA, Keogh or H.R. 10 Plan, the Bond, or the Bond's face amount, is not transferred to another IRA, Roth IRA, Keogh or H.R. 10 Plan in a "roll-over" transaction as the term is defined in Section 402 of the Internal Revenue Code (the "Code") within the time limit prescribed for such "roll-overs".

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;
- 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 pension plan established by an employee under Code section 408 or any comparable legislation in effect at the time of termination. 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 Code. A "Keogh Plan" or an "H.R. 10 Plan" is a retirement plan established by a self-employed person that itself or is intended by its terms to satisfy the applicable requirements of the Code.

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 Code, as adjusted as of the repurchase date pursuant to the provisions of section 1272 of the Code.

If the Bonds are surrendered along with an order of Israel or DCI stating the (i) owner is deceased; (ii) was not a citizen of the United States; (iii) 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 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 Bonds are subject to redemption at any time at the option of Israel, in accordance with the terms set forth in the prospectus supplement. Israel will repurchase interest-bearing Bonds at a 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 Code, as adjusted as of the repurchase date pursuant to the provisions of section 1272 of the Code.

The Bonds are redeemable as a whole or in part. If the Bonds are redeemed in part, all Bonds of an issue bearing the same issue date must be redeemed, and cannot be selected by lot. If interest-bearing Bonds are to be redeemed, then partial redemption can only be made 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 holders 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 Bond holder 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.

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 business day prior to 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 exempt from income or similar tax under the Internal Revenue Code, or under the laws of the country in which the organization is located (transfers to such tax exempt organizations may be made only by donation, not sale);
- the owner's spouse, children, grandchildren, siblings, parents or grandparents; or
- upon the death of the owner, to the person or persons entitled thereto in accordance with the owner's testamentary disposition and/or the applicable laws of descent and distribution;
- any person within or without Israel who shall have been designated by Israel as a permissible transferee of the Bonds.

The Bond holder will not be charged for any expenses other than stamp taxes or other government expenses in regards to the transfer of Bonds to Israel, DCI or upon the death of the owner. The Bond holder will be responsible for all charges, expenses and taxes with regard to any other of the above transfers.

Israel may provide for the further transferability and assignability of the Bonds. To transfer or assign a Bond as described above, the Bond holder will surrender the Bond to the fiscal agent, together with a written instrument of transfer and any other documents required by Israel or the fiscal agent.

UNITED STATES TAXATION

The following discussion of the principal United States federal income tax consequences of the purchase, ownership and disposition of a Bond is based upon the advice of Arnold & Porter, special United States counsel to the State of Israel. It deals only with Bonds held as capital assets by their initial purchasers. This summary does not discuss all of the tax consequences that may be relevant to a particular holder in light of the holder's circumstances or to holders subject to special rules, such as:

- dealers in securities or currencies,
- banks, life insurance companies, and tax-exempt organizations,
- persons subject to the alternative minimum tax,
- persons that hold Bonds as part of a hedging transaction or a position in a straddle, conversion or other integrated transaction, and
- persons whose functional currency is not the United States dollar.

This summary does not address tax consequences under the laws of any state, locality or foreign jurisdiction. Furthermore, this discussion is based upon the provisions of the Internal Revenue Code of 1986, as amended ("Code") and regulations, rulings and judicial decisions thereunder as of the date of the prospectus. These authorities may be repealed, revoked or modified, possibly with retroactive effect, so as to result in federal income tax consequences different from those discussed below. **YOU SHOULD CONSULT YOUR OWN TAX ADVISORS CONCERNING THE FEDERAL INCOME TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP OR DISPOSITION OF BONDS IN LIGHT OF YOUR PARTICULAR SITUATION AS WELL AS ANY CONSEQUENCES ARISING UNDER THE LAWS OF ANY OTHER TAXING JURISDICTIONS.**

Certain of the Bonds may be subject to special redemption, repayment or interest rate reset features, as detailed in the applicable pricing supplement. Bonds containing such special features may be subject to special rules that differ from the general rules discussed below. Purchasers of Bonds with such special features should examine carefully the applicable pricing supplement and should consult their own tax advisors with respect to those Bonds, since the United States federal tax consequences with respect to those features will depend, in part, on the particular terms and features of the Bonds described in that pricing supplement.

- United States Holders.* As used herein, the term "United States Holder" means a holder of a Bond that is:
- an individual who, for United States federal income tax purposes, is treated as a citizen or resident of the United States,
 - a corporation, partnership or other entity created in or under the laws of the United States or any state thereof,
 - an estate the income of which is subject to United States federal income taxation regardless of its source, or
 - any trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (within the meaning of the Code) have the authority to control all substantial decisions of the trust.

Interest on a Bond that pays exclusively fixed (or, in certain cases, variable) interest at least annually (qualified stated interest") generally will be taxable to a United States Holder as ordinary interest income at the time that interest accrues or is received (in accordance with the United States Holder's method of accounting for United States federal tax purposes). Qualified stated interest on a Bond will be treated as foreign source income for United States federal income tax purposes, but, with certain exceptions, will be treated separately, together

with other items of "passive income" or "financial services income," for purposes of computing the foreign tax credit allowable under the United States federal income tax laws.

A Bond that does not pay interest, or pays some interest that is not qualified stated interest ("OID Bond"), generally will be treated for United States federal income tax purposes as issued with original issue discount ("OID"). A United States Holder must include in gross income amounts of OID on an OID Bond as ordinary interest income on an accrual basis under a "constant yield to maturity" method as described below (whether that United States Holder is a cash or accrual basis taxpayer). Generally, OID must be included in income in advance of the receipt of cash representing such income.

The total amount of OID on any OID Bond will equal the excess of the Bond's "stated redemption price at maturity" over its "issue price". The stated redemption price at maturity equals the sum of all payments due under the OID Bond, other than any payments of qualified stated interest. The issue price will generally equal the initial public offering price at which a substantial number of Bonds are issued in a given offering.

The amount of OID on an OID Bond that a United States Holder must include in income during a taxable year is the sum of the "daily portions" of OID for that Bond. The daily portions are determined by allocating to each day in an "accrual period" (generally the period between compounding dates) a pro rata portion of the OID attributable to that accrual period. The amount of OID attributable to an accrual period is the product of the "adjusted issue price" of the Bond at the beginning of the accrual period and its yield to maturity. The adjusted issue price of a Bond is generally equal to the sum of its issue price and all prior accruals of OID. Cash payments on an OID Bond are allocated first to any stated interest then due, then to previously accrued OID (in the order of accrual) to which cash payments have not yet been allocated, and then to principal.

A United States Holder generally may make an irrevocable election to include in its income its entire return on an OID Bond (including payments of qualified stated interest) under the constant yield method applicable to OID. For Bonds purchased at a premium the electing United States Holder will be required to amortize premium in the manner described below.

Any OID included in a United States Holder's income will constitute foreign source income, and generally will be "passive" or "financial services" income for United States foreign tax credit purposes.

If the issue price of a Bond is greater than its principal amount, the Bond will be treated as issued at a premium. A holder generally may elect to amortize this premium over the term of the Bond, in which case the amount of income otherwise reportable for United States federal tax purposes with respect to any interest payment date will be reduced by the amount of premium allocated to the period from the previous interest payment date to that interest payment date. The amount of premium allocated to any such period is calculated by taking the difference between (i) the stated interest payable on the interest payment date on which that period ends and (ii) the product of (a) the Bond's overall yield to maturity and (b) the holder's purchase price for the Bond (reduced by amounts of premium allocated to previous periods). The election applies to all debt instruments held by the holder at the beginning of the taxable year in which you make the election and all debt instruments subsequently purchased at a premium, unless the Internal Revenue Service ("IRS") consents to a change. If no election is made, the amount of the premium reduces the capital gain, or increases the capital loss, otherwise realized upon the sale, disposition or maturity of the Bond.

A United States Holder generally will recognize gain or loss on the sale or retirement of a Bond equal to the difference between the amount realized on the sale or retirement and the tax basis of the Bond. A United States Holder's tax basis in a Bond generally will be the purchase price of the Bond (plus any OID or unamortized premium), and less any early principal payments or amortized premium). Except to the extent attributable to accrued but unpaid interest or OID, gain or loss recognized on the sale or retirement of a Bond will be capital gain or loss. That gain or loss will be long-term capital gain or loss if the Security was held for more than one year. Under current law, net capital gains of individuals may be taxed at lower rates than items of ordinary income. Limitations apply to the ability of United States Holders to offset capital losses against ordinary income. Any gain or loss recognized by a United States Holder on the sale or retirement of a Bond generally will constitute income from or loss allocable to sources within the United States for United States federal income tax purposes.

Non-United States Holders. Under United States federal income tax law as currently in effect, and subject to the discussion of backup withholding below, a holder that is not a United States Holder (a "Non-United States Holder") will not be subject to United States federal income tax, including withholding tax, on payments of interest on the Bonds unless:

- the holder of the Bonds is an insurance company carrying on a United States insurance business to which the interest is attributable, within the meaning of the Code, or

- the holder of the Bonds has an office or other fixed place of business in the United States to which the interest is attributable and the interest either: (i) is derived in the active conduct of a banking, financing or similar business within the United States or (ii) is received by a corporation the principal business of which is in trading stocks or securities for its own account, and certain other conditions exist.

Subject to the discussion of backup withholding below, a Non-United States Holder will not be subject to United States federal income tax on any gain realized on the sale or retirement of a Bond, unless:

- the gain is effectively connected with the conduct by the holder of a trade or business within the United States, or
- in the case of a Non-United States Holder who is an individual, that holder is present in the United States for a total of 183 days or more during the taxable year in which that gain is realized and either: (i) the gain is attributable to an office or fixed place of business maintained in the United States by that holder or (ii) the holder has a tax home in the United States.

The Bonds will be deemed to be situated outside the United States for purposes of the United States federal state tax and thus will not be includible in the gross estate for purposes of that tax in the case of a nonresident alien individual as to the United States who was not a citizen of the United States at the time of the individual's death.

Backup Withholding and Information Reporting. In general, except when Israel acts as fiscal agent with respect to a particular issue, information reporting requirements will apply to payments within the United States to non-corporate United States Holders of interest on a Bond and, under certain circumstances, to the proceeds of the sale of a Bond. Except when Israel acts as fiscal agent with respect to a particular issue, backup withholding will apply to those payments if the United States Holder (i) fails to provide an accurate taxpayer identification number (on an IRS Form W-9 or substantially similar form), (ii) has failed to report all interest and dividends acquired to be shown on its federal income tax return, or (iii) fails to certify, when required, that the holder is not subject to backup withholding.

Non-United States Holders who provide the requisite certification (on an IRS Form W-8BEN or substantially similar form) are generally exempt from these withholding and reporting requirements, provided the holder does not have actual knowledge that the holder is a United States person. The proceeds of a disposition of security through a United States office of a broker generally will be subject to backup withholding and information reporting unless the Non-United States Holder certifies that it is a Non-United States Holder under penalties of perjury or otherwise establishes that it qualifies for an exemption. Information reporting (but not backup withholding) will apply to a Non-United States Holder who sells a Security through:

- a non-United States branch of a United States broker, or
- a non-United States office of a broker that is a controlled foreign corporation for United States purposes, that is a person 50% or more of whose income is effectively connected with a United States trade or business for a specified period, or that is a foreign partnership with certain connections with the United States,

either case unless the broker has in its records documentary evidence that the beneficial owner is not a United States person and certain other conditions are met or the beneficial owner otherwise establishes an exemption. Backup withholding may apply to any payment that such broker is required to report if such broker has actual knowledge that the payee is a United States person.

Any amounts withheld under the backup withholding rules from a payment to a holder will be allowed as a refund or a credit against the holder's United States federal income tax liability if the required information is properly furnished to the IRS.

PLAN OF DISTRIBUTION

Israel has entered into an Underwriting Agreement with Development Corporation for Israel. The principal terms of the Underwriting Agreement with DCI are as follows:

- DCI is the sole and exclusive underwriter of the Bonds in the United States and has agreed to use its best efforts to sell the Bonds.

- DCI will receive a fee to be determined from time to time by Israel and DCI. The amount of the fee will not be in excess of 6% of the purchase price of the Bonds sold.
- DCI will pay all fees and expenses to brokers or dealers who assist in the sale of the Bonds.
- DCI will use its best efforts to sell as many of the Bonds as it can; however, there is no assurance that all the Bonds will be sold.

Israel will pay all charges, expenses and fees in connection with the issuance of the Bonds, the registration of the Bonds under the applicable securities laws, the preparation, printing, publication and distribution of prospectuses, newspaper prospectuses, advertising, literature, collection of subscriptions, public presentations and official visits of State representatives, all taxes and stamps required in connection with the sale of the Bonds, and all allocable payments to be made to employees' pension funds of DCI.

OFFICIAL STATEMENTS

Information included herein and the Registration Statement which is identified as being derived from a publication of Israel or one of its agencies or instrumentalities or the Bank of Israel is included on the authority of such publication as a public official document of Israel or the Bank of Israel. All other information herein and in the Registration Statement is included as a public official statement made on the authority of the Director General of the Ministry of Finance of Israel, in his official capacity.

VALIDITY OF THE BONDS

The validity of the Bonds will be passed upon for Israel by Arnold & Porter, New York, New York and Washington, D.C., United States counsel to the State of Israel, and by the Legal Advisor to the Ministry of Finance of the State of Israel. As to all matters of Israeli law, Arnold & Porter may rely on the opinion of the Legal Advisor to the Ministry of Finance. All statements with respect to matters of Israeli law in this prospectus have been passed upon by the Legal Advisor to the Ministry of Finance and are made upon her authority.

DEBT RECORD

Israel has never defaulted on the payment of principal or interest on any of its internal or external indebtedness.

JURISDICTION; CONSENT TO SERVICE AND ENFORCEABILITY

The State of Israel is a foreign sovereign government. Consequently, it may be difficult to sue Israel or to collect upon a judgment against Israel. Israel will irrevocably agree not to assert any defense based on immunity, including foreign sovereign immunity, from jurisdiction to which it might otherwise be entitled in any action arising out of or based on the Bonds which may be instituted by the holder of any Bonds of any series in any federal court in the Southern District of New York, any state court in the City of New York or in any competent court in Israel. Israel has appointed the Chief Fiscal Officer-Western Hemisphere of the Ministry of Finance of the Government of Israel in New York, New York, as its authorized agent upon whom process may be served. This appointment is limited to any action arising out of or based on the Bonds which the holder of any Bonds may institute in any federal court in the Southern District of New York or any state court in the City of New York. The appointment will be irrevocable until Israel pays all amounts due or to become due on or in respect of all the Bonds issuable under the fiscal agency agreement. If for any reason the authorized agent ceases to be able to act as Israel's authorized agent or no longer has an address in New York, Israel will appoint another person in New York as its authorized agent. The Chief Fiscal Officer for the Western Hemisphere is not the agent for service for actions under the United States federal securities laws or state securities laws and Israel's waiver of immunity does not extend to such actions. Because Israel has not waived its sovereign immunity in connection with any action arising out of or based on United States federal or state securities laws, it will not be possible to obtain a United States judgment against Israel based on such laws unless a court were to determine that Israel is not entitled under the Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. Under the laws of Israel, assets of Israel are immune from any form of execution.

AUTHORIZED REPRESENTATIVE

The Authorized Representative of the State of Israel in the United States of America is the Consul and Chief Fiscal Officer for the Western Hemisphere, Ministry of Finance of the State of Israel, 800 Second Avenue, 17th Floor, New York, New York 10017.