

STATE OF ISRAEL
\$250,000,000
SEVENTH DEVELOPMENT ISSUE

The following types of Bonds are now being offered in the aggregate principal amount of \$250,000,000:

(a) Interest-Bearing Bonds, denominated Seventh Development Issue — Fifteen Year 4% Dollar Current Income Bonds (the “Current Income Bonds”). A Current Income Bond will become due 15 years from its Issue Date, and will bear interest from its Issue Date at the rate of 4% per annum, payable annually on May 1 of each year and upon maturity. The Issue Date of a Current Income Bond will be the first day of the month in which the subscription for such Bond is completed and accepted by the Fiscal Agent. Current Income Bonds will be offered at par in denominations of \$500 and integral multiples of \$500.

(b) Dollar Savings Bonds, denominated Seventh Development Issue — Fifteen Year Dollar Registered Savings Bonds (the “Registered Savings Bonds” and, together with the Current Income Bonds, the “Registered Bonds”). Each Registered Savings Bond shall be in the form of an appreciation Bond and shall bear an Issue Date as of the first day of the month in which the subscription for such Registered Savings Bond is accepted by the Fiscal Agent. Each Registered Savings Bond shall become due 15 years from its Issue Date and shall have a Maturity Value equal to 180% of its Issue Amount. The “Issue Amount” for any Registered Savings Bond shall be the denomination in which any such Registered Savings Bond is issued. Registered Savings Bonds may be offered in denominations of \$500 and integral multiples of \$500.

Registered Bonds in the denominations of \$750 and \$1,250 will be offered only to holders of such Coupon Bonds of the Sixth Development Issue in the principal amounts of \$500 and \$1,000, respectively, as are from time to time authorized by the State to be accepted for reinvestment prior to maturity.

This offering may have a special appeal to persons having an interest in the State of Israel rather than the general public. The State of Israel has other issues of Bonds outstanding which are marketable by their terms and which may, on any given day, provide greater yield to maturity than the Bonds being offered hereby.

The Bonds were non-transferable and non-assignable until June 1, 2001, except in special instances. See “Limited Transferability.”

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION NOR HAS THE COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

| | Price to Public(1) | Underwriting Commissions(2) | Proceeds to Government(2) |
|--------------------------|--------------------|-----------------------------|---------------------------|
| Per Unit | 100% | 7% | 93% |
| Aggregate Total(3) | \$250,000,000 | \$17,500,000 | \$232,500,000 |

- (1) Bonds may be purchased either with U.S. Dollars or by delivery of those State of Israel Bonds designated from time to time by the Minister of Finance of the State of Israel.
- (2) The Bonds are being offered on a best efforts basis, and the proceeds will depend upon the total number of Bonds sold, the cost and expenses of the offering and the final determination as to the underwriting commission, set at a maximum of 7%. See “Summary of Underwriting Agreement.”
- (3) The aggregate total of Bonds is subject to reduction to the extent of sales of other bonds that are included within the Seventh Development Issue but that are not being offered by this Prospectus. See “Description of the Bonds.”

THE OFFERING

Description of the Bonds. The State of Israel (the "State" or "Israel") is offering Seventh Development Issue — Fifteen Year 4% Dollar Current Income Bonds (the "Current Income Bonds") and Seventh Development Issue — Fifteen Year Dollar Registered Savings Bonds (the "Registered Savings Bonds" and, together with the Current Income Bonds, the "Registered Bonds") pursuant to the terms and conditions of an agreement between the State and The Bank of New York (the "Fiscal Agent") (the "Fiscal Agency Agreement").

Each Current Income Bond will bear interest from its Issue Date at the rate of 4% per annum, payable annually on May 1 of each year to the registered owner thereof as of the fifteenth day prior thereto, and upon maturity. A Current Income Bond will become due fifteen years from its Issue Date. The Issue Date of a Current Income Bond will be the first day of the month in which the subscription for such Bond is completed and accepted. The principal and interest of all Current Income Bonds are payable in United States currency at the principal office of the Fiscal Agent and such other agencies as may be designated by the State, provided, however, that at the option of the State such amounts will be payable directly by check to the owners of the Current Income Bonds.

Each Registered Savings Bond shall be in the form of an appreciation Bond and shall bear an Issue Date as of the first day of the month in which the subscription for such Registered Savings Bond is accepted. Each Registered Savings Bond shall become due 15 years from its Issue Date and shall have a Maturity Value equal to 180% of its Issue Amount.

In addition to the Registered Bonds, the State may offer, pursuant to the Fiscal Agency Agreement, Seventh Development Issue Fifteen Year Dollar International Savings Bonds (the "International Savings Bonds" and, together with the Registered Bonds, the "Bonds"), provided that the International Savings Bonds may not be offered to any "United States Person" as that term is defined in the Internal Revenue Code. The aggregate principal amount of Registered Bonds and International Savings Bonds (collectively, the "Seventh Development Issue Bonds") that may be offered by the State pursuant to the Fiscal Agency Agreement is \$250,000,000.

Effective as of June 28, 2002, the Seventh Development Issue Bonds, which include the Current Income Bonds, the Registered Savings Bonds, and the International Savings Bonds will be issued in book entry form. Therefore, certificates for the Seventh Development Issue Bonds will not be issued unless specifically requested by the purchaser at the time of purchase. 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). You may transfer a Bond, if permitted, by notifying the Fiscal Agent in writing of the transfer along with appropriate transfer documents and any fee and expenses, paid by the transferor, required by the fiscal agent. The transferor must also pay the State for any of its expenses in connection with the transfer. The fiscal agent will then record the transfer in the Bond register. We will only repurchase Bonds upon presentation of appropriate transfer documents (and the Bond certificate if one was issued) to the fiscal agent. 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. Bond

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certificate holders must present the physical certificate to the Fiscal Agent to receive payment. You are responsible for the cost of replacing a Bond certificate if it is lost, stolen or destroyed after you receive it.

Limited Transferability. Since June 1, 2001 each Bond shall be fully transferable. However, in no event may the International Savings Bonds be transferred to any United States Person. Prior to June 1, 2001, the Bonds were non-transferable and non-assignable, except under certain limited circumstances in accordance with the terms and conditions of the Fiscal Agency Agreement.

Repurchase and Redemption. Upon the giving of 120 days' notice and presentation of the Bond and accompanying transfer documents, the State will repurchase any Bond, in United States currency, at a corporate trust office of the Fiscal Agent, upon the death of any person who was the original owner of the Bond, or, in the event there is more than one original owner of the Bond, upon the death of the last surviving original registered owner. If the original owner of a Bond is a corporation or other non-individual entity, the State will repurchase the Bond, upon the same terms and conditions, upon the death of an individual designated in writing at the time of subscription as the individual upon whose death the State shall be required to repurchase such Bond. The State may suspend or terminate its obligation to purchase upon death if, in the opinion of the State, a material number of holders of Bonds shall have died as a result of war, epidemic, catastrophe of nature or other disaster. Upon surrender of the Bond and accompanying transfer documents, the State will repurchase any Bond, in currency of the State at the then prevailing rate of exchange, at the office of the Bank of Israel within the State or at such other place within the State as the State may designate, for the purpose of applying the purchase price; (a) to the payment of bona fide tourist expenses, provided that such Bond is presented by the holder thereof and such holder may not present, for such purpose, Bonds of this issue and bonds of any other issue exceeding \$2,500, or such other limit as may be imposed by the Minister of Finance, in any one-month period, and further provided that such Bond bears an Issue Date not more recent than 12 months prior to the date of repurchase by the State; (b) to contributions to any fund, institution or charity which are deductible for income tax purposes in the State and which may from time to time be designated for such purpose by the Minister of Finance of the State, upon such terms and conditions (including the payment of a process or transfer fee) as the Minister of Finance may from time to time prescribe, provided that the State receives not less than 120 days' written notice of the demand for such repurchase, and further provided that such Bond bears an Issue Date not more recent than 36 months prior to the date of repurchase by the State; (c) to investments in such projects or enterprises as may be approved from time to time by the State, provided that such Bond bears an Issue Date not more recent than 60 months prior to the date of repurchase by the State; and (d) to any other purpose as the State may from time to time designate. Notwithstanding the foregoing, the State may limit, restrict or prohibit the surrender of any Bond or utilization of its purchase price by citizens of the State or by persons residing in or ordinarily residents of the State. The repurchase price of any Current Income Bond shall be the principal amount thereof (which shall include the face amount of the Bond, together with interest thereon to the last day of the month preceding the month in which the repurchase is made). The repurchase price of any Registered Savings Bond shall be the then appreciated principal amount of such Bond. The amount received upon repurchase in excess of the amount paid to the State for a Registered Savings Bond may be less than the appreciation previously recognized for United States federal tax purposes. See "Tax Matters."

The Bonds are subject to redemption at any time or from time to time at the option of the State in accordance with their terms and the terms of the Fiscal Agency Agreement at a price equal to the principal amount thereof. No general redemption has ever been made on a prior issue.

Tax Matters. Interest on the Current Income Bonds is taxable at ordinary income rates in the year in which the taxpayer receives or is entitled to receive such interest (in accordance with the holder's method of accounting for tax purposes).

Since the Registered Savings Bond will be issued with original issue discount ("OID"), each holder of such Bond will be required to include in his gross income for federal income tax purposes for each year that he owns the Registered Savings Bond a portion of the OID with respect to that Bond, even though he has not received any cash payments on the Bond. The aggregate amount of OID on each such Bond will be the excess of the payment due on the maturity date over the issue price. The State will cause annual information statements to be provided to holders and the Internal Revenue Service stating the amount of OID attributable to such Bonds for that year.

Gain or loss on the sale of the Bonds, when transfers are permitted, is generally taxable at capital gain rates to the same extent as on the sale of any other security.

Generally, interest earned on the Bonds and gain on the sale of the Bonds by an entity which is tax exempt under Internal Revenue Code Section 501 (a) will not be subject to Federal income tax. Applicable withholding and reporting will be made with respect to the Bonds.

Fiscal Agent. Effective June 1, 2001, 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 Division).

The foregoing description of the terms of the Bonds is qualified by reference to the full terms of such Bonds and to the Fiscal Agency Agreement, the forms of which have been filed as exhibits with the Securities and Exchange Commission (the "Commission").

AVAILABLE INFORMATION

The State of Israel, although not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), has filed an Annual Report on Form 18-K with the Commission on a voluntary basis. Such Annual Report includes certain financial, statistical and other information concerning the State. The State may also include exhibits to its Annual Report on Form 18-K and file amendments on Form 18-K/A thereto, for the purpose of filing with the Commission information that has not been included in the registration statement to which this Prospectus and any related Prospectus Supplement relate, which information would thereby be incorporated by reference into such registration statement. 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.

INCORPORATION OF DOCUMENTS BY REFERENCE

The Annual Report on Form 18-K of the State of Israel for the fiscal year ended December 31, 2001 and all amendments on Form 18-K/A thereto filed on or prior to the date hereof, are incorporated by reference in this Prospectus as of their respective dates.

All reports and amendments thereto filed with the Commission by the State pursuant to Sections 13(a) and 13(c) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the securities offered hereby shall be deemed to be incorporated by reference into this Prospectus and to be part hereof from the date of filing such documents. Any statement contained in a document, all or a portion of which is incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statements. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus.

Any person receiving a copy of this Prospectus may obtain, without charge, upon written or oral request, a copy of any of the documents incorporated by reference herein. Written requests for such documents should be directed to Development Corporation For Israel, 575 Lexington Avenue, New York, New York 10022-6195, Attention: National Campaign Department. Telephone requests may be directed to Development Corporation for Israel, National Campaign Department at (212) 644-2663.

This prospectus is also available in electronic format on the Internet web site maintained by the Development Corporation for Israel (DCI) at www.israelbonds.com. Effective as of September 1, 2002, Customer Information Forms and Investment Forms will also be available to print from the DCI website. Customer Information Forms and Investment Forms must be printed, completed and returned to DCI, and may not be submitted electronically. Other than this prospectus in electronic format, any information on the web site relating to this offering is not part of this prospectus and has not been approved or endorsed by Israel or DCI and should not be relied upon by investors.

USE OF PROCEEDS

Unless otherwise indicated in a Prospectus Supplement to this Prospectus, the net proceeds to the State from the sale of Bonds will be used for general State purposes. No part of the net proceeds received from these Bonds issue is specifically allocated to any particular project, and no part of the assets or receipts of any projects is earmarked for payment of the Bonds obligations.

SUMMARY OF UNDERWRITING AGREEMENT

Development Corporation for Israel (the "Financial Corporation"), 575 Lexington Avenue, New York, New York 10022-6195, is the sole and exclusive underwriter of the Bonds in the United States under an underwriting agreement dated as of June 3, 1996, pursuant to which it agrees to use its best efforts to sell the Bonds, and is to receive a commission at a rate to be determined from time to time by the State and the Financial Corporation, but not to exceed 7%. Commissions and concessions to

any brokers or dealers assisting in the sale of the Bonds are borne by Financial Corporation. Since this offering is on a best efforts basis, there is no assurance that all Bonds will be sold. The State is to pay all charges, expenses and fees in connection with the issuance of the Bonds, the registration thereof under the Securities Act of 1933 and under state securities statutes, 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, all sums payable to the Fiscal Agent and all allocable payments to be made to employees' pension funds of the Financial Corporation.

LEGALITY OF THE ISSUE

The legality of the issue has been passed upon, on behalf of the State, by the Legal Advisor to the Ministry of Finance of the State of Israel, Jerusalem, Israel, and, on behalf of the Financial Corporation, by Baer Marks & Upham LLP, New York, New York. On all questions relating to the laws of Israel, said firm has relied upon the opinion of the Legal Advisor of the Ministry of Finance of the State of Israel.

DEBT RECORD

The State of 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 for investors to realize upon judgments of courts in the United States against Israel. Israel irrevocably agrees not to assert any defense based on immunity, including foreign sovereign immunity, from jurisdictions 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 in any state or federal 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 State of Israel, 800 Second Avenue, New York, New York 10017, as its authorized agent upon whom process may be served in any action arising out of or based upon the Bonds which may be instituted in any state or federal court in the City of New York by the holder of any Bonds. Such appointment shall be irrevocable until all amounts in respect of the principal, premium, if any, and interest, if any, due or to become due on or in respect of the Bonds have been paid by Israel, except that if, for any reason, the authorized agent ceases to be able to act as such 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-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.