

On the invitation of the Chamber of Commerce Swiss-Israel and Bank Hapoalim (Switzerland) Ltd, a lecture was held by Professor Leonardo Leiderman, Chief Economic Advisor of Bank Hapoalim and Professor of Economics at Tel-Aviv University, on the subject of "Israel's Economy in a Changing Middle East."

Professor Leonardo Leiderman discussed in detail the financial and economic outlook for Israel at the present changing times in the Middle East. According to Leiderman, in spite of the increased geopolitical uncertainties, there is a positive momentum and positive sentiment about Israel that is likely to continue. The economy is benefitting from a major improvement in its economic fundamentals--GDP growth is running at about 5% per year, inflation is low and stable, and monetary and fiscal policies are sound.

As a result of the above, Israel has seen in recent years an increase in foreign capital inflows, a reduction in country risk, and very good performance in the stock and bond markets. No doubt, some of the positive trends are related to those of emerging markets, where the sentiment has been and continues to be one of bullishness. But there have also been country-specific factors of great importance such as (i) a more tranquil internal security situation, and (ii) a pickup in activity in world high tech sectors.

These improved fundamentals have allowed Israeli markets to deal in a stable and mature way with two major non-economic surprise factors in January of this year: first, the sickness of Prime Minister Sharon and second, the majority vote obtained by Hamas in elections for a Palestinian parliament. Leiderman also stressed in this context that there does seem to be a general phenomenon of less sensitivity of financial markets to uncertainties due to geopolitical factors or natural disasters.

Looking ahead, Professor Leiderman emphasized that the evolution of the economy will strongly depend on global conditions and those affecting especially emerging markets. Clearly, investors will be following closely geo political developments, and in particular how Hamas intends to lead its approach towards Israel and other western countries. Leiderman's hypothesis is that Hamas will adopt a pragmatic approach that will leave open doors for further external aid as well as future negotiations with Israel.

Furthermore, Iran's approach to nuclear arms is a risk that is likely to stay as long as no agreement is reached between them and the UN Security Council. In spite of the new uncertainties in the Middle East, Leiderman concluded that as long as the internal security situation in Israel does not deteriorate and as long as global growth and liquidity move along the same positive trajectory as in recent times, Israel is likely to proceed with the favourable momentum.

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