

PROSPECTUS

June 1, 2001

STATE OF ISRAEL
\$300,000,000
FOURTH LIBOR FLOATING RATE ISSUE DOLLAR BONDS

We will receive \$282,000,000 of the proceeds from the sale of the bonds, after paying the underwriters' commission which will not exceed \$18,000,000 and before expenses estimated at \$113,000.

Terms of Bonds	
<ul style="list-style-type: none">• Maturity Ten (10) years from the issue date.	<ul style="list-style-type: none">• Minimum Subscription \$5,000 (you may buy subsequent bonds in minimum denominations of \$2,500). IRAs (including Roth IRAs) may purchase the bonds in subscriptions of \$2,000 or \$2,500 and may buy subsequent bonds in minimum denominations of \$2,500.
<ul style="list-style-type: none">• Interest Applicable six-month London Inter-Bank Offer Rate plus a fixed number of basis points set forth on a sticker affixed to the cover page of this prospectus and specified on the book-entry statement or bond certificate. Paid every June 1st and December 1st.	<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 except in certain special instances. We will only repurchase bonds prior to maturity under limited circumstances, and only if we receive sixty (60) days' written notice of a repurchase request.	<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 unless specifically requested at the time of purchase.

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

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DESCRIPTION OF THE BONDS

We are offering \$300,000,000 aggregate principal amount of ten (10) year interest-bearing dollar bonds. We have entered into an agreement with the Bank of New York, which will act as fiscal agent with respect to these bonds. We may offer these bonds to any person or entity except banks. 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 buy each bond for a minimum denomination of \$5,000. An Individual Retirement Account, also known as an IRA (including Roth IRAs), may purchase a bond in a subscription of \$2,000 or \$2,500 and subsequent bonds in minimum denominations of \$2,500. If you have purchased at least one bond for a minimum of \$5,000 (or \$2,000 or \$2,500 in the case of an IRA) during the twelve month period immediately preceding the additional purchase, you may purchase additional bonds in minimum denominations of \$2,500. Additional bonds must be registered in the same name as the bonds satisfying the minimum purchase requirement.

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 ten (10) years from the issue date.

Interest Payment. We will pay interest semi-annually on June 1 and December 1 and upon maturity. If either of June 1 or December 1 is not a business day, we will pay interest that has accrued through either of June 1 or December 1, as the case may be, on the next succeeding business day, but interest that accrues from either of June 1 or December 1, as the case may be, to the date on which the interest is paid will be paid on the next interest payment date. Bonds do not earn or accrue interest after maturity.

Interest Rate. The interest rate is equal to the applicable six month London Inter-Bank Offer Rate (LIBOR) plus a fixed number of basis points set forth on a sticker affixed to the cover page of this prospectus and specified on the book-entry statement or bond certificate.

The LIBOR rate is, with respect to the immediately following interest period, the rate (expressed as an annual percentage) for deposits in U.S. dollars for a six month period that appears on Telerate, page 3750 (or the successor page thereto) as of 11:00 a.m. London time, on the applicable interest determination date (see "Interest Determination Dates" below), rounded upwards to the next one-sixteenth ($1/16$) of one percent. If the quoted interest rate is not equivalent to one-sixteenth ($1/16$) of one percent. The initial rate will be determined for each period as of the bank day which is two business days prior to the first business day of the month in which we accept your subscription and subsequently will be determined as of the bank day which is two business days prior to the first business day of the month of the commencement of that period.

If the LIBOR rate does not appear on Telerate, page 3750 as of 11:00 a.m. London time on the interest determination date, the LIBOR rate shall be the arithmetic mean of the offered rates (expressed as an annual percentage) for deposits in U.S. dollars for a six month period that appears on the Reuters Screen LIBO Page as of 11:00 a.m., London time, on the given interest determination date, rounded upwards to the next one-sixteenth ($1/16$) of one percent, if the quoted interest rate is not equivalent to one-sixteenth ($1/16$) of one percent.

Interest Determination Dates. The interest determination dates are as follows:

- *The Initial Interest Period.* If your subscription is received and accepted before the 15th day of the month, the first payment of interest accrues from the 15th day of the month in which we accept such subscription at the applicable rate for your issue date; if your subscription is received and accepted on or after the 15th,

the first payment of interest accrues from your issue date at the applicable rate for your issue date, until the March 1, June 1, September 1, or December 1 immediately following the issue date.

- *The Final Interest Period:* This period commences on, and includes, the March 1, June 1, September 1 or December 1 immediately prior to the maturity date and ends on, but excludes, the maturity date.
- *The Remaining Interest Periods:* Each remaining period is a three month period commencing on March 1, June 1, September 1 or December 1 of each year.

We will calculate interest for each of the above periods as a percentage of the annual percentage rate based on a three hundred sixty (360) day year consisting of twelve (12) months of thirty (30) days per month.

Bond Certificate. We are issuing the bonds in book entry form. Therefore, bond certificates 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, paid by the transferor, required by the fiscal agent. 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 certificate holders must present the physical certificate to the fiscal agent to receive payment.

Early Redemption. Upon sixty (60) days written notice and presentation of the bond and other necessary legal documents, we 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, we are 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, we are not required to purchase bonds on death as set forth in clause (a) above and this clause (b) if, in our opinion, a material number of these persons died as a result of war, epidemic, catastrophe of nature or other disaster;
- (c) from an Employee Benefit Plan, which is the original registered owner of the bond, after three (3) years from the issue date, or from an Employee Benefit Plan which is a permissible transferee, after three (3) years from the date of transfer;
- (d) upon the termination of an Employee Benefit Plan, 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 "rollover" transaction as the term is defined in Section 402 of the Internal Revenue Code (the "Code") within the time limit prescribed for such "rollovers"; and
- (e) from the original registered owner, other than an Employee Benefit Plan, seven (7) years from the issue date, or from a registered owner who is a transferee, other than an Employee Benefit Plan, seven (7) years from the date of transfer.

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;
- any employee benefit plan, employee trust, retirement compensation arrangement, or registered pension plan, all as defined in the Income Tax Act (Canada), or the regulations thereunder or any comparable legislation then in effect at the time of determination;
- any IRA, Roth IRA, 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. 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 of the Code. A "Keogh Plan" or an "H.R. 10 Plan" is a retirement plan established by a self-employed person. A "Registered Retirement Savings Plan" or "RRSP" is a retirement savings plan registered

the Income Tax Act (Canada) in respect of which the owner of the bond or the owner's spouse is the ant.

- a tax-exempt organization,
- a person holding a bond as part of a hedging, conversion or constructive sale transaction or straddle, or
- a person whose "functional currency" is not the U.S. dollar.

ny. The bonds are subject to redemption at any time at the option of the State, in accordance with the terms of cal Agency Agreement, at a price equal to the principal amount plus accrued and unpaid interest to the tion date. No general redemption has ever been made on a prior issue. No sinking fund is required to be shed under the terms of the Fiscal Agency Agreement.

Unlimited Transferability. You may not transfer or assign the bonds except that, subject to the terms and ons of the Fiscal Agency Agreement, the bonds shall be transferable to:

the State;
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.

e may, however, provide for the further transferability and assignability of the bonds. Due to the limited ability of the bonds and the limited circumstances under which we will repurchase the bonds (see "Early rison," above), bondholders may not be able to readily liquidate their investment prior to three years after e date of the bonds, in the case of Employee Benefit Plan bondholders, or seven years after the issue date r cases.

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

eforegoing description of the material terms of the bonds is qualified by reference to the full terms of the e form of which has been filed as an exhibit with the United States Securities and Exchange ssion.

U.S. FEDERAL INCOME TAX CONSIDERATIONS

is is a general summary of the material U.S. federal income tax considerations to you of the ownership position of a bond. The discussion is based upon the Internal Revenue Code of 1986, as amended (which r to below as the "Code"), its legislative history, existing and proposed regulations, case law and rative rulings, all as currently in effect, any of those authorities may be repealed, revoked, or modified at e, possibly with retroactive effect, so as to result in consequences materially different from those discussed There can be no assurance that the Internal Revenue Service will not successfully challenge one or more ax consequences described below. The discussion that follows applies to you only if you are a "U.S. ; you are a U.S. holder if you are a beneficial owner of a bond, you hold it as a capital asset, and you are: 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 political subdivision thereof, an estate the income of which is subject to U.S. federal income taxation regardless of its source, or a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) it has a valid election in effect under applicable regulations to be treated as a U.S. person.

is discussion does not purport to deal with all aspects of U.S. federal income taxation that may be relevant ticular holder in light of the holder's circumstances (for example, persons subject to the alternative m tax provisions of the Code). Also, this discussion does not deal with special rules that may apply to you e a member of a particular class of holders subject to special rules, including

a dealer in securities or currencies,
a trader in securities that elects to use a mark-to-market method of accounting for your securities holdings,
a bank,
a life insurance company,

- a tax-exempt organization,
- a person holding a bond as part of a hedging, conversion or constructive sale transaction or straddle, or
- a person whose "functional currency" is not the U.S. dollar.

The discussion that follows also does not discuss any aspect of state, local or foreign law, nor any aspect of U.S. federal estate and gift tax law.

EACH HOLDER OR PROSPECTIVE HOLDER OF A BOND IS STRONGLY URGED TO CONSULT ITS OWN TAX ADVISOR WITH RESPECT TO ITS PARTICULAR TAX SITUATION INCLUDING THE TAX EFFECTS OF ANY STATE, LOCAL, FOREIGN, OR OTHER TAX LAWS AND POSSIBLE CHANGES IN THE TAX LAWS.

Interest. Because the interest on the bonds varies with LIBOR (which is treated as a "qualified floating rate" under the Code) plus a fixed number of basis points, we expect that the interest rate on the bonds will constitute a "qualified floating rate" under the Code. In that event, the bonds should constitute "variable rate debt instruments" within the meaning of the Code. On that basis, we expect that the bonds will be issued with no or a *de minimis* amount of original issue discount.

On the basis of that expectation, and except as discussed below, you will be required to report as ordinary interest income the stated interest on your bonds as you receive or accrue that interest in accordance with your usual method of tax accounting. That interest income will be foreign-source, and will generally be treated as "passive income" or, for certain taxpayers, "financial services income", and treated separately from other types of income for foreign tax credit purposes. If you purchase a bond for more or less than its principal amount, you will generally be subject, respectively, to the premium amortization or market discount rules of the Code, discussed below.

If the bonds were not to constitute variable rate debt instruments, they will be treated as issued with original issue discount. Any such original issue discount would have to be included in your income as ordinary interest income as it accrues on the basis of a constant yield to maturity. Generally, original issue discount must be included in income in advance of the receipt of cash representing such income.

Market Discount. You will be considered to have acquired a bond at a "market discount" to the extent the remaining principal amount of the bond exceeds your tax basis in the bond, unless the excess does not exceed a prescribed *de minimis* amount. If the excess exceeds the *de minimis* amount, you will be subject to the market discount rules of the Code with regard to the bond. Under those rules, if you sell or otherwise dispose of a bond that has market discount, any gain from the sale or disposition must be treated as ordinary income to the extent that the gain represents market discount accrued during the period you held the bond, reduced by the amount of accrued market discount previously included in income. In the case of a partial principal payment of the bond, the payment must be included in ordinary income to the extent it does not exceed the market discount accrued during the period you held the bond, reduced by the amount of accrued market discount previously included in income.

Generally, market discount accrues under a straight line method, or, at the election of the taxpayer, under a constant interest rate method. Alternatively, you may elect to include market discount in gross income currently.

Premium Amortization. You will generally be considered to have acquired a bond at a premium if your tax basis in the bond exceeds the remaining principal amount of the bond. You may amortize the premium as an offset to interest income, with corresponding reductions in your tax basis in the bond. Generally, any amortization is on a constant yield basis.

Disposition. If you sell or otherwise dispose of a bond (other than by gift or inheritance), you will recognize gain or loss equal to the difference between the amount realized on the sale, other than amounts attributable to, and taxable as, accrued interest, and your adjusted tax basis in the bond. Your adjusted tax basis in a bond will equal your cost for the bond, decreased by any amortized premium and any payments other than interest made on the bond, and increased by any market discount previously included in income. Any gain or loss will generally be a capital gain or loss, other than amounts representing accrued interest or market discount, and will be long-term capital gain or loss if the bond was held for more than one year. For individuals, the maximum long-term capital gains tax rate is currently lower than the maximum ordinary income tax rate. Any capital losses realized may be deducted by a corporation only to the extent of capital gains, and by an individual only to the extent of capital gains plus \$3,000 of other U.S. income.

Information Reporting and Backup Withholding. In general, information reporting requirements will apply to certain payments made in respect of the Bonds other than to certain exempt recipients (such as corporations), and a 31 percent backup withholding may apply to such amounts if you are a non-corporate U.S. holder and you:

- fail to provide an accurate taxpayer identification number,
- are notified by the Internal Revenue Service that you have failed to report all interest or dividends required to be shown on your federal income tax returns, or
- in certain circumstances, fail to comply with applicable certification requirements.

Persons that are not U.S. persons may be required to establish their exemption from information reporting and backup withholding by certifying their status on Internal Revenue Service Form W-8BEN (or successor form).

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your income tax liability by filing a refund claim with the Internal Revenue Service. The amount of any backup withholding from a payment to you will be allowed as a credit against your U.S. federal income tax liability.

WHERE YOU CAN FIND MORE INFORMATION

We file annual reports, amendments to annual reports and other information with the Commission. These reports and amendments include certain financial, statistical and other information about the State of Israel, and may be accompanied by exhibits. You may read and copy any document we have filed with the Commission at the Commission's public reference facilities at: Judiciary Plaza, 450 Fifth Street, NW, Washington, D.C. 20549; Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511; and Seven World Trade Center, Suite 1300, New York, New York 10048. You may also obtain copies of such reports from the public reference room in Washington by paying a prescribed fee. Please call the Commission at 1-800-SEC-0330 for further information on the public reference rooms.

INCORPORATION OF DOCUMENTS BY REFERENCE

We are permitted to "incorporate by reference" the information that we file with the Commission, which means that we can omit such information from this prospectus and provide it to you by referring you to those documents. Information that is incorporated by reference is an important part of this prospectus. We incorporate by reference the documents listed below:

- Our most recent Annual Report on Form 18-K; and
- All amendments to our most recent Form 18-K filed prior to the date of this prospectus.

We also incorporate by reference all future annual reports and amendments to annual reports, and any other information that we file with the Commission pursuant to Sections 13(a) and 13(c) of the Securities Exchange Act of 1934, as amended, until we sell all of the bonds. Each time we file a document with the Commission that is incorporated by reference, the information in that document automatically updates the information contained in previously filed documents.

You may request a free copy of the annual reports, amendments to the annual reports and other information mentioned above by writing or calling Development Corporation for Israel at the following address: Development Corporation for Israel, 575 Lexington Avenue, New York, New York 10022-6195, Attention: National Campaign Department, Telephone: (212) 644-2663.

You should only rely on the information incorporated by reference or contained in this prospectus or any prospectus supplement. We have not authorized anyone to provide you with different or additional information. We are not making an offer of these bonds in any state where the offer is not permitted by law. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

USE OF PROCEEDS

Unless otherwise indicated in a supplement to this prospectus, we will use the net proceeds from the sale of the bonds for general State purposes.

SUMMARY OF UNDERWRITING AGREEMENT

We have 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 us and DCI. The amount of the fee will not be in excess of 6% of the purchase price of the bonds sold.
- DCI pays 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 bonds will be sold.
- We 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.

LEGALITY OF THE ISSUE

The Legal Advisor to the Ministry of Finance of the State of Israel, Jerusalem, Israel has provided, on our behalf, an opinion as to the validity of the bonds. Arnold & Porter, New York, New York, has passed upon the validity and legality of the bonds. Arnold & Porter has relied on the opinion of the Legal Advisor of the Ministry of Finance of the State of Israel on all questions relating to the laws of Israel.

DEBT RECORD

We have never defaulted on the payment of principal or interest on any of our internal or external indebtedness.

JURISDICTION; CONSENT TO SERVICE AND ENFORCEABILITY

We are a foreign sovereign government and your ability to sue us may be limited. Consequently, it may be difficult for investors to realize upon judgments of courts in the United States against us. We will irrevocably agree not to assert any defense based on immunity, including foreign sovereign immunity, from jurisdictions to which we might otherwise be entitled in any action arising out of or based on the bonds that 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. We have appointed the Chief Fiscal Officer of the Western Hemisphere for the Ministry of Finance of the State of Israel, 800 Second Avenue, New York, New York 10017, as our 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. The appointment is 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 us, 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, we will appoint another person in New York as our 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 our waiver of immunity does not extend to such actions. Because we have not waived our 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 us based on such laws unless a court were to determine that we are not entitled under the Foreign Sovereign Immunities Act of 1976 to sovereign immunity with respect to such actions. Under the laws of the State of Israel, assets of Israel are immune from any form of execution.