

Supplement to Prospectus Dated September 1, 2001

Dated: July 1, 2005

**STATE OF ISRAEL
CANADIAN DOLLAR 2ND ECONOMIC DEVELOPMENT ISSUE BONDS
DUE FIVE YEARS FROM ISSUE DATE (FIXED RATE)
\$150,000,000**

The interest rate per annum of each State of Israel Canadian Dollar 2nd Economic Development Issue Bonds due five years from issue date, to be sold during the **Sales Period** commencing **July 1, 2005** and terminating **July 31, 2005** is **3.40%**.

To ensure purchase of a Bond at such interest rate, the purchase price and all supporting documentation must be received in a form acceptable by Canada-Israel Securities Limited by **July 25, 2005**.

- "Sales Period": The term "Sales Period" shall mean a period commencing on the first day of a month and ending on the last day of that month.
- Issue Date: The Issue Date of each bond is the first day of the month immediately following month in which the Fiscal Agent accepts the subscription for the bond.

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OFFERING MEMORANDUM

\$150,000,000

**CANADIAN DOLLAR SECOND ECONOMIC DEVELOPMENT ISSUE BONDS
DUE FIVE YEARS FROM ISSUE DATE (FIXED-RATE)
STATE OF ISRAEL**

The following Bonds are now being offered in the aggregate principal amount of \$150,000,000:

Book-Entry, Interest-Bearing Dollar Bonds with a maturity date of five years (the "Bonds"). Interest shall be payable semi-annually at a fixed per annum interest rate which shall be determined each calendar month in each year (a "Sales Period") by the State. Five banking days prior to the commencement of each Sales Period, the State will advise Canada-Israel Securities, Limited or any successor agent for the distribution of the Bonds (the "Financial Corporation") of the interest rate for Bonds to be sold during such period and such interest rate will be set forth on a sticker affixed to the cover page of this Offering Memorandum. To ensure purchase of a Bond at the interest rate fixed for any given Sales Period, a purchaser must deliver to the Financial Corporation the full purchase price for the Bonds and all required subscription documents, in acceptable form on or prior to the day set forth on a sticker affixed to the cover page of this Offering Memorandum.

The Bonds will become due five years from their Issue Date. Since the Bonds are being issued in book-entry form, registered owners will not be issued a certificate to evidence the Bond unless specifically requested at the time of purchase.

Interest on a Bond accrues from the Issue Date, which will be the first day of the month following the month in which the subscription is received and accepted by the Fiscal Agent, except that if such subscription is received and accepted before the fifteenth day of the month, the first payment of interest on such Bond accrues from the fifteenth day of the month in which such subscription is received and accepted. While a Bond is outstanding, interest will be payable semi-annually on June 1 and December 1 and upon maturity. The Bonds will be offered at par upon original subscription in a minimum denomination of \$25,000, and additional units of \$5,000, or integral multiples of \$5,000. However, the Bonds may be issued in denominations of less than \$25,000 only to subscribers who have purchased Bonds in the amount of at least \$25,000 in a single purchase during the 12-month period immediately preceding subscription; provided that the Bonds in denominations of less than \$25,000 are registered in the same name as those Bonds which satisfy the minimum purchase requirement.

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 an issue of Bonds outstanding which are marketable by their terms and which may, on any given day, provide a greater yield to maturity than the Bonds being offered hereby.

**THE BONDS ARE NON-TRANSFERABLE AND NON-ASSIGNABLE,
EXCEPT IN CERTAIN SPECIAL INSTANCES. SEE "LIMITED TRANSFERABILITY."**

**NO SECURITIES COMMISSION OR SIMILAR AUTHORITY IN CANADA HAS IN ANY WAY PASSED UPON
THE MERITS OF THE SECURITIES OFFERED HEREUNDER AND ANY REPRESENTATION TO THE
CONTRARY IS AN OFFENSE. THESE SECURITIES ARE ISSUABLE ONLY WITHIN CANADA.**

The Bonds are being offered on a best-efforts basis, and the amount of proceeds from the offering will depend upon the principal amount of Bonds sold. No commission will be paid in connection with the offering of the Bonds. See "Summary of Sales Agency Agreement".

CANADA ISRAEL SECURITIES LTD.

970 Lawrence Avenue West, Suite 502, Toronto, Ontario, M6A 3B6

September 1, 2001

THE OFFERING

Description of the Bonds. The State of Israel (the "State" or "Israel") is offering Canadian Dollar Second Economic Development Issue Bonds Due Five Years From Issue Date in the aggregate amount of \$150,000,000 (the "Bonds"), pursuant to the terms and conditions of an agreement between the State and Computershare Trust Company of Canada (the "Fiscal Agent") as same may be amended from time to time (the "Fiscal Agency Agreement").

The Bonds are the direct, unconditional, general obligations of the State which pledges its full faith and credit for the due and punctual payment of interest on and principal of the Bonds and for the due and timely performance of all obligations of the State with respect thereto.

The principal of a Bond is payable on its due date in Canadian currency at the office of the Fiscal Agent in Montréal, Québec, or such other agencies as may be designated by the State. Interest with respect to the first interest payment shall accrue (i) from the Issue Date of such Bond for all Bonds for which subscriptions had been received and accepted by the Fiscal Agent during the period commencing on the fifteenth day of the month preceding such Issue Date and terminating on the last day of the month preceding such Issue Date, or (ii) from the fifteenth day of the month preceding the Issue Date for subscriptions received and accepted by the Fiscal Agent from the first day of the month through the fourteenth day of the month preceding the Issue Date.

Interest will be payable semi-annually on each June 1 and December 1, while the Bond is outstanding, and upon maturity. With respect to Bonds on which interest accrues from the fifteenth day of the month prior to any Interest Payment Date, the first interest payment shall be payable on the first Interest Payment Date subsequent to the Issue Date. Interest shall be payable semi-annually at a fixed per annum interest rate which shall be determined each calendar month in each year (a "Sales Period") by the State. Five banking days prior to the commencement of each Sales Period, the State will advise Canada-Israel Securities, Limited or any successor agent for the sale of the Bonds (the "Financial Corporation") of the interest rate for Bonds to be sold during such period, and such interest rate will be set forth on a sticker affixed to the cover page of this Offering Memorandum. To ensure purchase of a Bond at the interest rate fixed for any given Sales Period, a purchaser must deliver to the Financial Corporation the full purchase price for the Bonds and all required subscription documents, in acceptable form on or prior to the day set forth on such sticker.

The Bonds are being issued in book-entry form. Registered owners of the Bonds will not be issued a certificate evidencing the Bond, unless specifically requested at the time of purchase. The State has appointed the Fiscal Agent as securities depository for the Bonds. The Fiscal Agent will mail to the purchaser and registered owner of book-entry Bonds a confirmation that the registered owner has been listed in the Bond register (the "Register") as the registered owner of such Bond along with other pertinent information. All notices relating to the Bonds will be forwarded to the registered owner of the Bond as recorded in the Register. Any transfer of the Bonds may be effected by notifying the Fiscal Agent in writing of such transfer along with appropriate transfer documents and any fee, paid by the transferor, required by the Fiscal Agent. The Fiscal Agent will then record such transfer in the Register. All repurchases of the Bonds will only be made upon presentation of appropriate transfer documents to the Fiscal Agent. Upon maturity of the Bonds or a redemption of the Bonds, the Fiscal Agent will automatically pay the principal amount of each Bond to the registered owner of each Bond by mailing a check to the last address of such registered owner as listed in the Register. When a Bond certificate has been issued, it will be necessary to present the Bond certificate in order to effect a transfer, repurchase, or redemption at maturity. The cost of replacing a Bond certificate which is lost, stolen, or destroyed after receipt shall be borne by the registered owner.

Limited Transferability. The Bonds are non-transferable and non-assignable except that, subject to the terms and conditions of the Fiscal Agency Agreement, the Bonds shall be transferable to the State; Registered Retirement Savings Plans in respect of which the owner of the Bond or the owner's spouse is the annuitant; any religious, charitable, literary, scientific or educational organization exempt from income or similar tax under the Income Tax Act (Canada), provided that such transfer to such organization is made pursuant to the gifting of such Bonds to such organization; 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. In accordance with the terms and conditions of the Fiscal Agency Agreement, the State may, however, by order provide for the further transferability and assignability of the Bonds.

In addition to the foregoing instances in which the Bonds may be transferred or assigned, Bonds may be transferred or assigned at any time by a Pension Plan or an Employee Benefit Plan (as defined below under "Repurchase

and Redemption”), to a Pension Plan or an Employee Benefit Plan, provided that the aggregate denomination of the Bonds which are subject to any such transfer is not less than \$500,000. For these purposes, the term "Pension Plan" refers to a pension plan which is governed by or registered under one of the following statutes:

Pension Benefits Standards Act, 1985 (Canada)
Pension Benefits Standards Act (British Columbia)
The Pension Benefits Act (Manitoba)
The Pension Benefits Act (New Brunswick)
Pension Benefits Act (Newfoundland)
Pension Benefits Act (Nova Scotia)
Pension Benefits Act (Ontario)
Pension Benefits Act (Prince Edward Island)
Employment Pension Plans Act (Alberta)
Supplemental Pension Plans Act (Quebec)

Due to the limited transferability of the Bonds and the limited circumstances under which the State will repurchase the Bonds (see "Repurchase and Redemption." below), Bondholders may not be able to readily liquidate their investment prior to the due dates of the Bonds, or prior to four years after the Issue Date of the Bonds, in the case of an Employee Benefit Plan or Registered Retirement Savings Plan.

At any time after three years from the Issue Date of a Bond, the original registered owner of the Bond shall be entitled to assign the Bond by way of collateral security, subject to the satisfaction by the Bond owner of the informational requirements established in accordance with the Fiscal Agency Agreement and provided that the Bonds are qualified for distribution under the securities laws applicable to the assignee.

Any transfer of Bonds in accordance with the foregoing provisions shall be effected only upon payment by the Bond owner of all expenses of the State and the charges and expenses of the Fiscal Agent in connection therewith, and any stamp taxes or other governmental charges incident thereto.

Repurchase and Redemption. The State will purchase Bonds at the option of the Bondholder prior to maturity only under the following circumstances (all upon (i) 60 days' written notice and (ii) presentation of the necessary transfer documents): (a) upon the death of any natural person who was the original registered owner of the Bond, or, if there is more than one original registered owner of the Bond, upon the death of the last surviving registered owner; provided that the obligation of the State to purchase upon death shall cease and terminate and shall not apply when the Bond is owned by a transferee or assignee; (b) from a Registered Retirement Savings Plan, upon the death of the annuitant of such plan; provided that the State may suspend or terminate such obligations to purchase Bonds on death as set forth in clauses (a) and (b) of this paragraph if, in the opinion of the State, a material number of these persons shall have died as a result of war, epidemic, catastrophe of nature or other disaster; (c) from an Employee Benefit Plan or a Registered Retirement Savings Plan, which is the original registered owner of the Bond, four years from the Issue Date; (d) or from an Employee Benefit Plan which is a permitted transferee or from a Registered Retirement Savings Plan which is a transferee, after four years from the date of transfer; (e) upon the termination of an Employee Benefit Plan; and (f) upon the termination of a Registered Retirement Savings Plan, from the annuitant thereof. For purposes of this offering, "Employee Benefit Plan" shall mean 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, and any treasury, strike or other fund established or maintained by an employee organization.

The repurchase price for any repurchased Bond will be the principal amount, together with interest accrued to the last day of the month preceding the month in which the repurchase is made, payable in Canadian currency.

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 of the Bonds plus accrued interest. 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.

Tax Matters. Interest on the Bonds is taxable at ordinary income rates in the year in which the taxpayer receives such interest or the year in which such interest is receivable by the taxpayer (depending upon the method regularly

followed by the taxpayer). Certain taxpayers may be required to include in income interest on the Bonds on an accrual basis. Gain or loss on the sale of the Bonds, when transfers are permitted, is normally taxable at capital gains 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 Bonds by an entity which is exempt from the payment of tax on such interest and gain pursuant to the applicable provisions of the Income Tax Act (Canada) will not be subject to federal income tax in Canada. Applicable reporting and withholding, where appropriate, will be made with respect to the Bonds.

Fiscal Agent. The name and principal office of the Fiscal Agent is Computershare Trust Company of Canada, 1800 McGill College Avenue, Montréal, Québec, H3A 3K9 (attention: Stock Transfer Office). Its telephone number is (514) 982-7644.

The foregoing description of the material 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 may be obtained from the Fiscal Agent upon request.

Unless stated otherwise, all references in this Offering Memorandum to “dollars” or “\$” are references to Canadian dollars.

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 Securities and Exchange Commission (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. Such Annual Report, including such exhibits and amendments thereto, can be inspected and copied at the public reference facilities maintained by the Commission 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. Copies of such reports may be obtained at prescribed rates from the Public Reference Section of the Commission at its Washington address.

INCORPORATION OF DOCUMENTS BY REFERENCE

The Description of the State dated as of June 13, 2001 which appears as Exhibit D to the State's Annual Report on Form 18-K for the fiscal year ended December 31, 2000 and all amendments on Form 18-K/A thereto filed on or prior to the date hereof, are incorporated by reference in this Offering Memorandum as of their respective dates.

Any person receiving a copy of this Offering Memorandum 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 Canada-Israel Securities, Limited, 970 Lawrence Avenue West, Suite 502, Toronto, Ontario, M6A 3B6.

USE OF PROCEEDS

Unless otherwise indicated in an Offering Memorandum Supplement to this Offering Memorandum, the proceeds to the State from the sale of Bonds will be used for general State purposes. No part of the proceeds received from this Bond 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 SALES AGENCY AGREEMENT

Canada - Israel Securities, Limited, 970 Lawrence Avenue West, Suite 502, Toronto, Ontario, M6A 3B6 is the sole and exclusive agent for the sale of the Bonds under a sales agency agreement, dated as of September 1, 2001, pursuant to which it agrees to use its best efforts to sell the Bonds. No commission will be paid to Canada -- Israel Securities, Limited in connection with the offering of the Bonds. 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, including, without limitation, commissions and concessions to any brokers or dealers assisting in the sale of

the Bonds and all sums payable to the Fiscal Agent.

DEBT RECORD

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