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Lehman: Israel missed privatization boat

31.12.2001 | 14:44 Reuters

By *Albert Robinson*

The global economic slowdown will make it difficult for Israel to sell off many of its leading companies in 2002, dealing a blow to government chances of making up for lost revenues, analysts say. Income from sales in government-controlled firms this year fell far short of target with just 136 million shekels (\$31 million) raised compared with a target of NIS 3 billion.

"Israel has missed the boat where privatization is concerned now that global markets have weakened," said analyst Richard Gussow of Lehman Brothers. In total, the government has stakes in around 100 companies.

Privatization income could have played a significant role in replacing lost state revenues that have been reduced by a faltering Israeli economy hit by falls in global demand and security tensions that have slashed tourism income. Economic growth is predicted to be close to zero this year and 1.5-2.0% next year, which will lead to a shortfall in state revenues in 2002 of 10 billion shekels or more.

Analysts say Israel's privatization receipts will continue to be low. The target for 2002 is 1.5 billion shekels but analysts are sceptical it can be reached as the government has trouble selling its top companies -- domestic phone company Bezeq Israel Telecom and Bank Leumi, Israel's second largest bank -- due to the global slowdown.

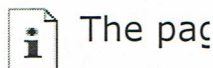
"Even with a high-quality asset like Bezeq everything that could go wrong has gone wrong. The global telecoms market has fallen sharply and telecom assets are available at low prices around the world," Gussow said.

The government published a tender for its 50.01% stake in Bezeq last month with bids to be received by February 13, 2002, in what would be Israel's largest ever privatization. Merrill Lynch, which is advising the government on the sell-off, said earlier this month four to five firms were interested in the Bezeq stake, which the government hopes to sell for more than \$1 billion.

In addition, there has been much discussion but no progress in pushing forward the privatization of national flag carrier El Al Israel Airlines. The El Al debate has become bogged down over the opposition of religious parties in ruling coalitions to the airline flying on the Jewish Sabbath and religious holidays and over who will foot the bill for the airline's extensive security operations.

Privatization head happy

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