C. Economic activity vis-À-vis abroad

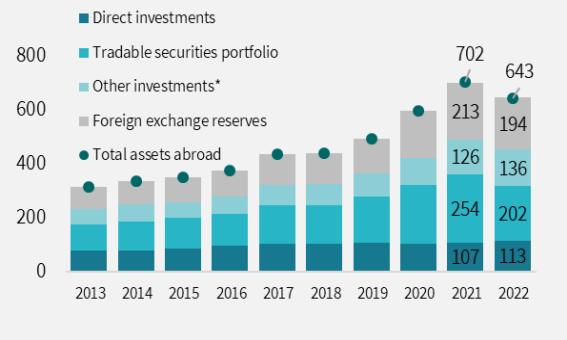
Developments in the balance of Israel's assets and liabilities vis-à-vis abroad in 2022 were mainly influenced by the significant decline in securities prices both in Israel and abroad.
The balance of Israel's assets abroad (Israelis' investments abroad) declined by about 8 percent in 2022, due to a combination of price declines and the effect of the strengthening US dollar.
In addition, the balance of Israel's liabilities to abroad (nonresidents' investments in Israel) declined by about 13 percent, due to declines in the prices of Israeli equities held by nonresidents. In contrast, nonresidents made direct investments in Israel and investments in the tradable securities portfolio.
The decline in the value of Israel's assets abroad was smaller than the decline in the value of its liabilities toward abroad, which increased the surplus of assets over liabilities. In parallel, there was a decline in the ratio of gross external debt to GDP.

1. ISRAELIS' ASSETS ABROAD—ISRAELIS' INVESTMENTS ABROAD

The balance of Israel's assets abroad declined in 2022, in contrast to the long-term upward trend. The decline was mainly in the balance of the financial investments (in the tradable securities portfolio) and in the balance of reserve assets.

The balance of Israel's assets abroad declined by about US$59 billion (8 percent), to about $643 billion at the end of the year. The decline was mainly due to a decline of about $52 billion (20 percent) in the balance of financial investments, and a decline of about $19 billion (9 percent) in the balance of reserve assets.

Figure 3.1: Israel's Assets Abroad, 2013–2022
$ billion

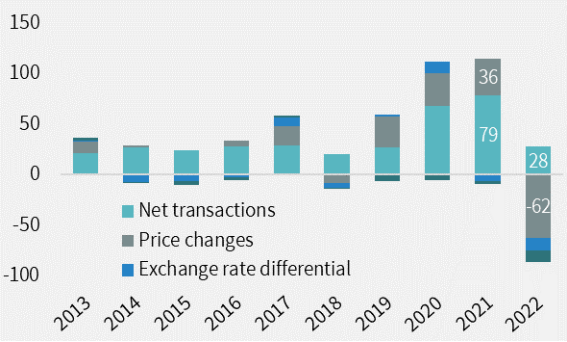


* Other investments includes derivative instruments.
SOURCE: Bank of Israel calculations

The main factor in the decline in the balance of assets was price declines in the global capital markets.

During 2022, there were declines in the prices of foreign securities held by Israelis, which contributed to a decline of about US$ 62 billion (10 percent) in the balance of assets.
In addition, due to the strengthening of the US dollar around the world, there was a decline of about $13 billion (2 percent) in the balance of assets.
These were accompanied by net investments totaling about $28 billion (4 percent), which partly offset the decline in the balance of assets.

Figure 3.2: Factors in the Change of the Balance of Assets Abroad
$ billion

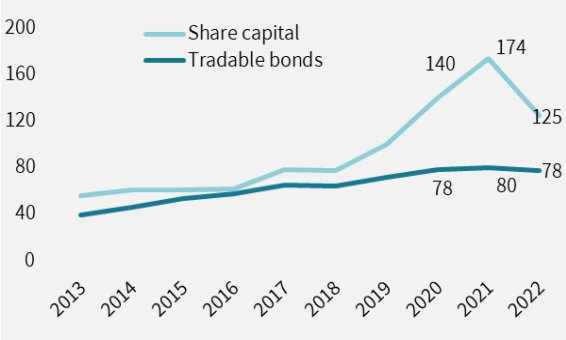


SOURCE:Bank of Israel data

Most of the price declines were in Israelis' tradable securities portfolio abroad.

The balance of investments in Israelis' tradable securities portfolio abroad declined by about $52 billion (20 percent) in 2022, to about $202 billion.
The balance of holdings of equities declined by about $49 billion (28 percent) during the year, in view of price declines in the equity markets. In addition, Israelis made net realizations of foreign equities totaling about $6 billion (3 percent).
In parallel, the holdings of bonds declined by about $3 billion (3 percent), reflecting a decline in the prices of foreign tradable debt instruments held by Israelis.

Figure 3.3: Balance of Investments in Israelis' Tradable Securities Portfolio Abroad, by Instrument
$ billion

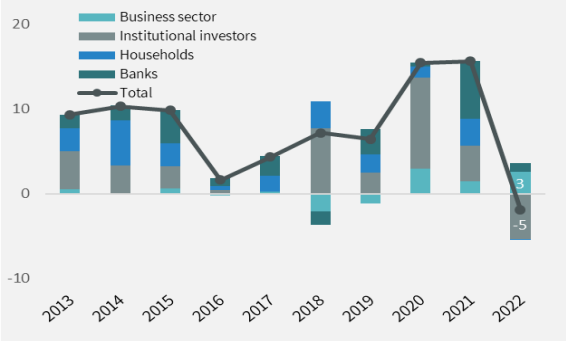


SOURCE: Bank of Israel

In 2022, Israelis made net realizations of tradable securities abroad, mainly equities that were realized by institutional investors.

Israelis made net realizations of foreign equities during the year, most of which were by institutional investors.
In parallel, there were bond purchases totaling about $4 billion, with most of the bond investments made by the business sector.

Figure 3.4: Net Investments in Israelis' Tradable Securities Portfolio Abroad, by Segment
$ billion

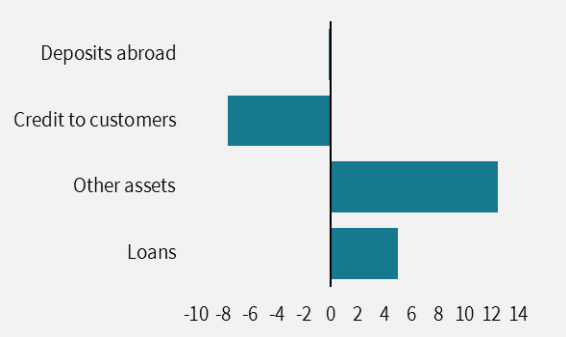


SOURCE:Bank of Israel

The decline in the balance of assets was partly offset by an increase in the balance of other investments[1] abroad by Israelis.

The balance of other investments increased by about$10 billion (8 percent) in 2022. Most of the increase was in the "other assets" component, which increased by about $12 billion (24 percent) in view of purchases of nontradable investment funds totaling about $8 billion by institutional investors.
There was also an increase of about $5 billion (19 percent) in the "loans to abroad" component.
At the same time, there was a decline of about $8 billion (20 percent) in customer credit, most of which took place in the second half of the year.

Figure 3.5: Change in the Balance of Israelis' Other Investments Abroad, by Instrument
$ billion



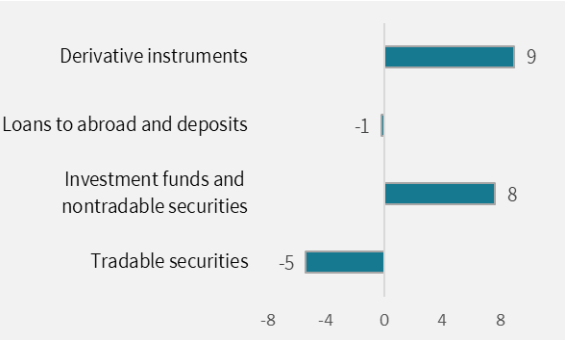
SOURCE: Bank of Israel

[1] Excluding derivative instruments.

The institutional investors made net investments in foreign financial assets in 2022, mostly in nontradable investment funds and in derivative instruments.

Despite the net realizations totaling about $5 billion in foreign tradable securities, the institutional investors made net investments of about $11 billion in foreign financial assets.
Most of the investments were in foreign derivative instruments ($9 billion), of which about $3 billion were payments in respect of losses due to price declines in the base assets.
In addition, the institutional investors made net investments of about $8 billion in nontradable foreign investment funds.

Figure 3.6: Institutional Investors' Activity vis-à-vis Abroad, 2022
$ billion

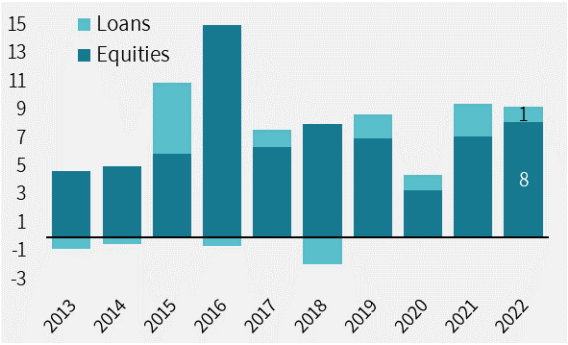


SOURCE: Bank of Israel and Ministry of Finance.

The balance of Israelis' direct investments increased in 2022, mostly due to accumulated profits.

Israelis' direct investments in capital totaled about $8 billion in 2022. Most of the investments in capital were due to accumulated profits totaling about $7 billion.
In addition, Israelis provided owners' loans totaling about $1 billion during the year.

Figure 3.7: Israelis' Direct Investments Abroad, by Investment Type
$ billion



SOURCE:Bank of Israel

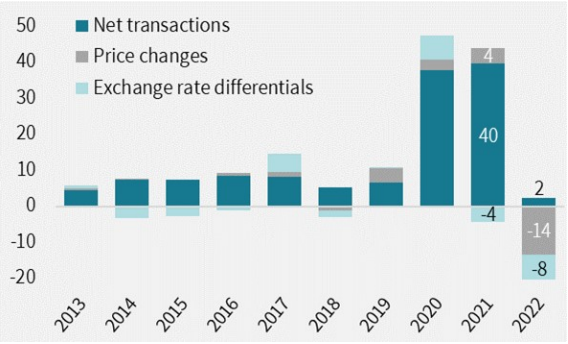
Israel's foreign exchange reserve balances declined by about $19 billion in 2022, to about $194 billion in December.

The declines in global securities prices contributed about $14 billion (6 percent) to the decline in the reserves balance.

The strengthening of the dollar globally also contributed about $8 billion (4 percent) to the decline in the reserves.

It should be noted that, in contrast with previous years, the Bank of Israel did not purchase foreign exchange in 2022.

Figure 3.8: The Factors of Change in the Reserve Balances
$ billion



SOURCE: Bank of Israel.

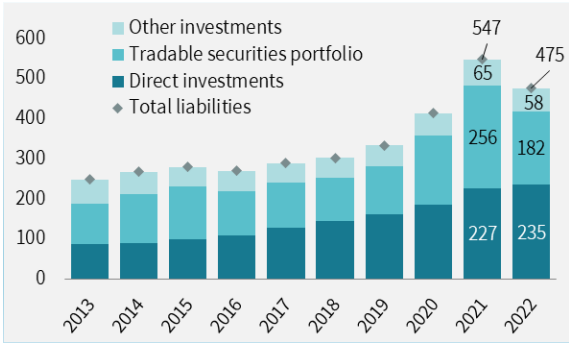
2. ISRAELIS' LIABILITIES ABROAD—NONRESIDENTS' INVESTMENTS IN ISRAEL

Israel's liabilities to abroad declined in 2022, mainly in the nonresidents' tradable securities portfolio.

The balance of Israel's liabilities to abroad declined by about $72 billion (31 percent) in 2022, to about $475 billion. The decline in liabilities was mainly due to a decline of about $74 billion (29 percent) in the balance of financial investments, and a decline of about $7 billion (11 percent) in "other" investments. In contrast, the balance of direct investments increased by about $9 billion (4 percent).

Figure 3.9: Balance of Israel's Liabilities to Abroad, by Investment Type

Billion $



SOURCE: Bank of Israel data

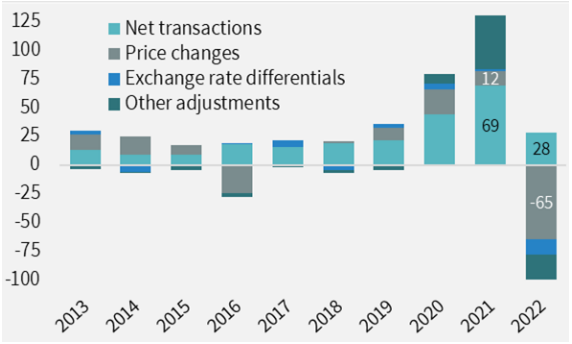
The decline in liabilities was due to a decline in the prices of Israeli equities held by nonresidents.

The prices of Israeli equities held by nonresidents declined in 2022, contributing about $65 billion (12 percent) to the decline in liabilities.

In addition, exchange rate differentials contributed about $14 billion (3 percent) to the decline in liabilities. There were also net transactions totaling about $28 billion (5 percent), which partly offset the decline in the balance of liabilities.

Figure 3.10: The Factors of Change in Israel's Liabilities Abroad

$ billion



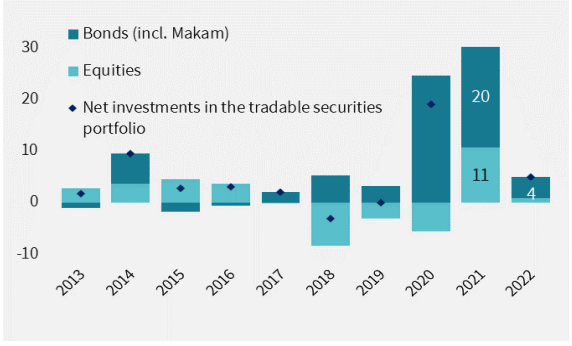
SOURCE: Bank of Israel data

The pace of nonresidents' investment in Israeli securities slowed in 2022.

Nonresidents invested about $4 billion in tradable Israeli bonds in 2022. Most of the investments were in *Makam* (about $6 billion), which were partly offset by about $2 billion in net realizations of tradable government bonds abroad. In addition, nonresidents investment about $1 billion in tradable equities

Figure 3.11: Nonresidents' Net Investments in the Tradable Securities Portfolio in Israel, by Instrument

$ billion



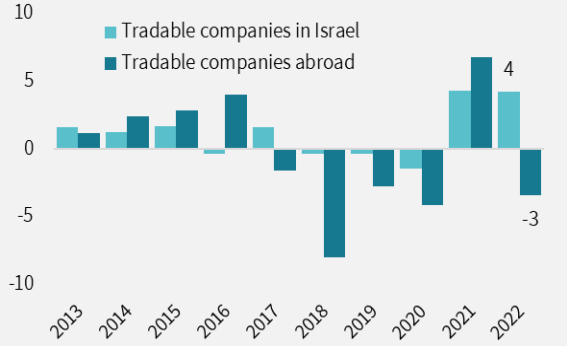
SOURCE: Bank of Israel.

Most of the nonresidents' investments in tradable Israeli equities were in tradable companies in Israel.

Nonresidents' investments in the tradable equities totaled about $4 billion in 2022, and were concentrated in the equities of Israeli companies traded in Israel. This is in contrast to 2021, when most of the investments were as part of SPAC IPOs of Israeli companies abroad[2].

Figure 3.12: Nonresidents' Investments in Share Capital, by Tradability Location

$ billion



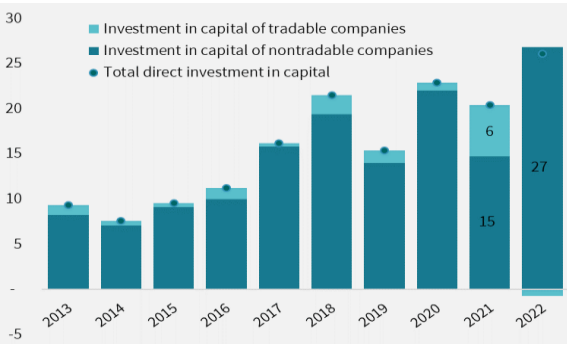
SOURCE: Bank of Israel

Alongside the financial investments, nonresidents continued to invest significant amounts in direct investments in Israeli companies, which were mainly concentrated in nontradable companies.

Nonresidents made net direct investments in Israel in 2022. Net transactions in share capital totaled about $26 billion in 2022, most of which was in nontradable Israeli companies in the second half of the year.

Figure 3.13: Nonresidents' Direct Investments in Israeli Companies' Capital, by Tradability Type

$ billion



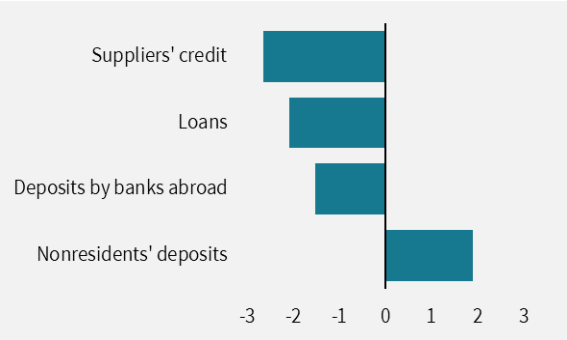
SOURCE: Bank of Israel

There were net realizations of "other" investments in 2022, mainly a reduction in suppliers' credit.

Nonresidents made net realizations of "other" investments, totaling about $4 billion, mainly a result of a decline of about $3 billion in suppliers' credit and the repayment of about $2 billion in loans issued to Israelis.

Figure 3.14: Nonresidents' Other Investments in Israel, by Instrument, 2022

$ billion



SOURCE: Bank of Israel

[2] For more information, see the section on Economic Activity Vis-à-vis Abroad in the *Statistical Bulletin* for 2021

Gross external debt

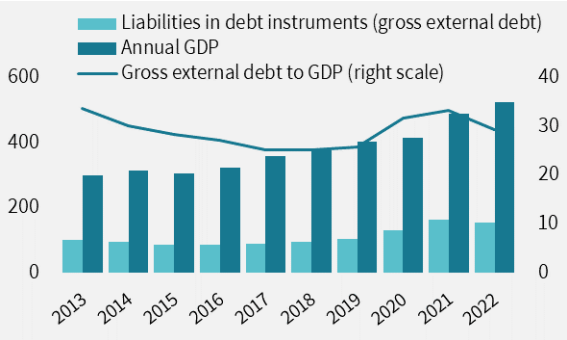
The ratio of gross external debt[33] to GDP declined in 2022, due to a decline in gross external debt.

The ratio of gross external debt to GDP declined by about 4 percentage points, to about 29.2 percent at the end of the year. The balance of gross external debt declined by about $9 billion (6 percent) in 2022, mainly due to the effect of the stronger dollar on the value of tradable debt instruments held by nonresidents.

At the same time, GDP increased by 7 percent in dollar terms.

Figure 3.15: Gross External Debt and Ratio of External Debt to GDP

$ billion



SOURCE: Bank of Israel

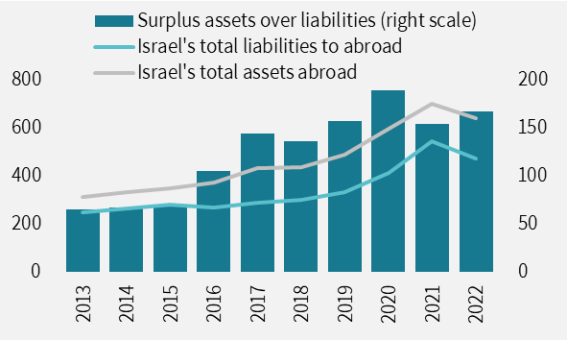
3. The surplus of assets over liabilities

The surplus of assets over liabilities vis-à-vis abroad increased in 2022.

The decline in the value of Israel's asset portfolio ($59 billion) was smaller than the decline in the value of its liabilities ($72 billion), which contributed about $13 billion (8 percent) to the increase in the surplus of assets over liabilities vis-à-vis abroad. The surplus was about $168 billion at the end of December.

Figure 3.16: Israel's Surplus Assets (+) Over Liabilities vis-à-vis Abroad

$ billion



SOURCE: Bank of Israel.

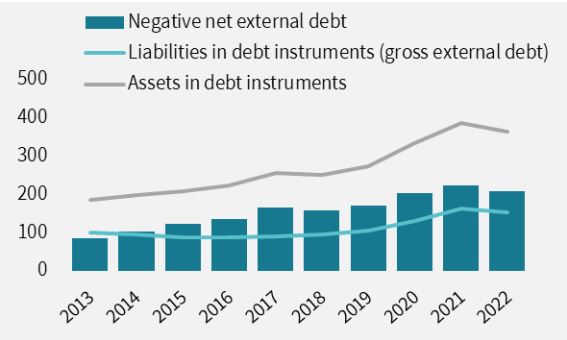
NET external debt

The surplus of assets over liabilities in debt instruments (negative net external debt[4] declined in 2022.

The balance of assets in debt instruments declined by about $23 billion (about 6 percent) in 2022, while Israel's gross external debt to abroad declined by a lower amount (about $9 billion, 6 percent). Therefore, Israel's surplus of assets over liabilities vis-à-vis abroad in debt instruments alone (negative net external debt) declined by about $14 billion (6 percent), to about $208 billion at the end of December.

17: Surplus Assets Over Liabilities in Debt Instruments Along (Negative Net External Debt)

$ billion



SOURCE: Bank of Israel.

[3] The balance of liabilities in debt instruments alone. For more details on the definitions, explanations, and calculations of external debt, see "Data Sources and Main Terms" at the end of this section.

[4] Israel has a surplus of assets over liabilities, which means negative net external debt. For an explanation, see "Data Sources and Main Terms" at the end of this section.

ZOOM-IN

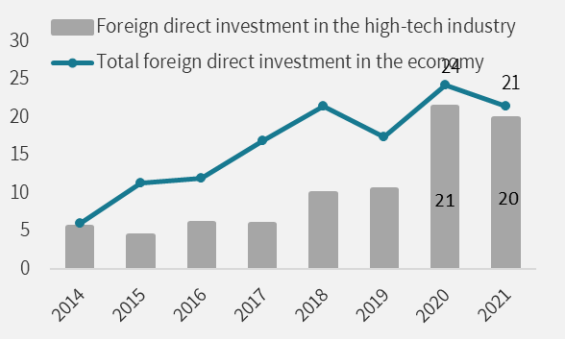
GOODS AND SERVICES EXPORTS OF THE HIGH-TECH INDUSTRY[5]

In recent years, there has been marked growth in the activity of the high-tech industry vis-à-vis abroad. This growth is reflected in the financial account of the balance of payments, through an increase in nonresidents' total direct investments in Israeli companies in this industry (Figure 3.18). It is also reflected in the current account of the balance of payments through a continued increase in the export of goods and services of these companies (Figure 3.19).

Over the years, the high-tech industry's share of total goods and services exports has grown. That share was more significant in services exports (Figure 3.21) than in goods exports (Figure 3.20).

In 2021, nonresidents' direct investments in the high-tech industry totaled about $20 billion, significantly higher than in previous years. These investments were spread over a large number of companies.

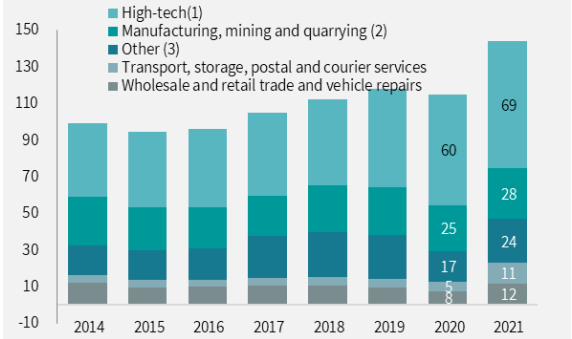
Figure 3.18: Foreign Direct Investments in the High-Tech Industry,$ billion



SOURCE: Based on Central Bureau of Staistics.

In 2021, the high-tech industry accounted for about 48 percent of the economy's total goods and services exports.

Figure 3.19: Goods and Services Exports, by Exporter's Industry,$billion



(1)Includes economic industries 21, 26, 303, 61-62, 631, 7201, and 7210.

(2)Excludes the pharmaceuticals industry, but includes homeopathic medicines (21), manufacturing of aircraft, space vehicles, and peripheral equipment (303), and manufacture of computers, electronic and optical instruments.(26)

(3)Includes: agriculture, forestry and fishing, electricity and water supply, sewerage and waste disposal services, wholesale and retail trade and motor vehicle repairs, hospitality services, financial and insurance services, real estate, production and distribution of films, television, and music programs and broadcasts, and professional, scientific, and technical services (excluding R&D). SOURCE: Central Bureau of Statistics.

[5] The high-tech industry according to the Central Bureau of Statistics definition includes the following economic industries: Goods: Manufacture of conventional pharmaceuticals and homeopathic pharmaceuticals (21), manufacture of computers and optical and electronic instrumentation (26), manufacture of aircraft, spacecraft, and similar (303). Services: Communication services (61), computer programming, consulting, and accompanying and other services (62), data processing and hosting (file storage on hosting computers) and accompanying services (631), and scientific research and development.(7210–¬7201)

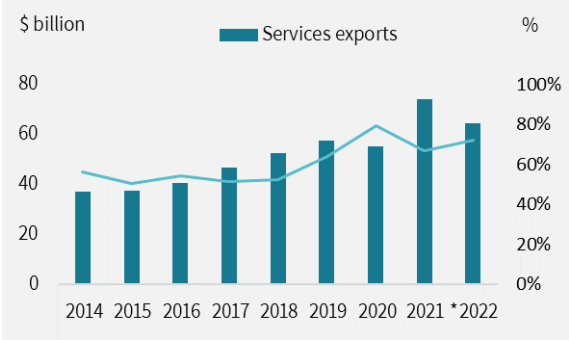
In 2022, the high-tech industry accounted for about 39 percent of the economy's total goods exports, an increase of about 8 percentage points since 2014 (31 percent).

Figure 3.20: The High-Tech Industry's Share of Total Goods Exports, , $ billion

SOURCE: Based on Central Bureau of Statistics

In 2022, the high-tech industry accounted for about 72 percent of the economy's total services exports, an increase of about 16 percentage points since 2014 (56 percent).

Figure 3.21: The High-Tech Industry's Share of Total Services Exports, $ billion



*Annual estimate based on Central Bureau of Statistics foreign trade data from January through October 2022.
SOURCE: Based on Central Bureau of Statistics.

Israel's Assets and Liabilities vis-à-vis Abroad

$ million		Balance to the end of 2021	Transactions	Price changes	Exchange rate differentials and other adjustments	Balance to the end of 2022
Israel's Assets		**701,951**	**23,193**	**-76,010**	**-31,618**	**617,515**
of which:	Debt instruments*	384,228	4,967	-24,151	-16,699	348,347
Direct investments abroad		**106,731**	**7,448**	**-324**	**-1,697**	**112,157**
of which:	Share capital and land	90,385	6,871	-324	-1,688	95,243
	Owners' loans	16,346	577	0	-9	16,914
Financial investments		**254,252**	**-2,506**	**-57,186**	**-1,013**	**193,547**
of which:	Share capital	173,925	-2,973	-49,993	-683	120,276
	Bonds	80,327	466	-7,193	-330	73,271
Other investments abroad		**126,261**	**9,289**	**2,326**	**-5,252**	**132,625**
of which:	Deposits by Israelis (including banks)	10,101	2,009	31	-2,460	9,681
	Loans	26,805	7,349	-41	-1,022	33,092
	Customer credit	37,656	-7,320	0	-942	29,394
	Other assets	51,699	7,251	2,335	-828	60,458
Reserve assets		**212,992**	**1,886**	**-16,949**	**-11,935**	**185,994**
Derivative instruments		**1,714**	**7,076**	**-3,877**	**-11,721**	**-6,808**
Israel's Liabilities		**547,088**	**24,180**	**-62,502**	**-36,873**	**471,897**
of which:	Debt instruments	**162,003**	**2,571**	**0**	**-10,150**	**154,426**
Direct investments		226,590	17,909	-13,288	-4,573	226,460
of which:	Share capital and land	215,621	17,131	-13,288	-4,573	214,713
	Owners' loans	10,969	778	0	0	11,747
Financial investments		**255,719**	**8,993**	**-49,214**	**-23,723**	**185,777**
of which:	Share capital	169,464	4,478	-49,214	-21,971	102,758
	Bonds	86,255	4,515	0	-7,752	83,019
Other investments		**64,780**	**-2,721**	**0**	**-2,398**	**59,660**
of which:	Depsits by nonresidents and foreign banks	20,054	1,113	0	-1,255	19,912
	Loans	18,098	-894	0	-159	17,045
	Suppliers' credit	26,628	-2,940	0	-985	22,703
Net Liabilities**		**-154,863**	**987**	**13,508**	**-5,255**	**-145,619**
of which:	Net debt instruments	-222,225	-2,396	24,151	6,549	-193,921

*Debt instruments: Owners' loans, bonds, deposits, loans, commercial credit, and reserve assets.

**Net liabilities: Liabilities minus assets. SOURCE: Bank of Israel calculations. SOURCE: Bank of Israel

DATA SOURCES AND MAIN TERMS

The Bank of Israel Information and Statistics Department manages a database of economic activity vis-à-vis abroad. The Department gathers data and information from various sources. Most of the data are obtained from direct reports[6] by companies and individuals to the Bank of Israel pursuant to the Bank of Israel Order (see "Information on the Development of the Foreign Exchange Market in Israel", 5770–2010). Those required to report are any Israeli resident with a balance of direct investments in foreign companies totaling $20 million or more, and any Israeli company in which foreign parties at interest hold $40 million or more in direct investment. In addition, companies and individuals with financial assets abroad totaling $20 million or more also report. Additional data used to measure economic activity vis-à-vis abroad are obtained from reports by the Bank of Israel Accounting Division, the Israel Securities Authority, the Ministry of Finance, the institutional investors, and domestic banks. The Information and Statistics Department processes the data obtained from the various sources.

Direct investment[7]

Direct investment includes investments in capital and owners' loans. Direct investment in capital is investment by nonresidents in Israeli companies or investment by Israelis in foreign companies, when it involves holdings of more than 10 percent of the company's paid up capital (tradable and nontradable). Direct investment in capital includes stock purchases, accumulated profits (undistributed profits), and investment in real estate.

Accumulated profits (minus declared dividends) are profits accumulated from direct investments in capital (the direct investor's share of accumulated profits in the company, as per the percentage of his investments in the company's capital), that have not yet been distributed to shareholders and remain with the company. Accumulated profits are considered as if they have been withdrawn by the investors and reinvested in the company, and are therefore included in direct investments in capital. Accumulated profits are calculated only on direct investments in capital instruments and investment funds (and not on financial investments).

Owners' loans are credit issued to the company by a party at interest in the company.

Financial investment (tradable securities portfolio)

Transactions between Israelis and nonresidents, involving debt instruments (including government bonds) or company stock where holdings are of less than 10 percent of the company's capital, excluding investment that is included in reserve assets and that is negotiable. This category reflects activity in the Israeli stock market or foreign stock markets.

Direct and financial investments are part of capital flows between Israel and the rest of the world, which are recorded in the financial account of Israel's balance of payments. The distinction between direct investment and financial investment reflects the difference in the investor's motive and purpose. Direct investment generally reflects globalization of real economic activity, meaning the geographic diversification of development, production, and marketing of goods and services and the establishment of multinational corporations. In contrast, financial investment generally reflects globalization of financial activity—management of the securities portfolio with geographic diversification, in an attempt to improve the yield to risk ratio of the portfolio as a whole.

The flows of direct and financial investment by foreign residents in the Israeli economy create a liability of the economy toward abroad, while the flows of direct and financial investments abroad by Israelis create Israeli assets vis-à-vis abroad.

Other investments

[6] For more information on forms for reporting to the Bank of Israel, see http://www.boi.org.il/he/DataAndStatistics/Pages/ReportingForms.aspx (in Hebrew).

[7] For further details on definitions, explanations and calculations, see Bank of Israel, "Measuring direct investment as a part of the International Investment Position", Statistical Bulletin 2016, Part 2.

Investments abroad by Israelis or investments in Israel by nonresidents in other instruments: deposits, financial loans (that are not owners' loans or bonds), and commercial credit. Other investments abroad by Israelis also include investments in other assets (financial investments in nontradable equities [below 10 percent of the invested company's share capital], mutual funds, and so forth).

Reserve assets

Foreign exchange balances of the central bank, the State's gold reserves, reserves at international organizations such as the International Monetary Fund, and Special Drawing Rights (SDRs). Sources of foreign exchange could be foreign exchange purchases, foreign exchange swaps, government transfers (government deposits in foreign exchange at the Bank of Israel), or transfers by commercial banks (banks' deposits in foreign exchange at the Bank of Israel).

Special Drawing Rights (SDRs)

SDRs are defined as legal tender issued by the International Monetary Fund (IMF). Their value is weighted by the relative value of a basket of the major currencies, which includes the US dollar, the euro, the Japanese yen, and the British pound sterling.

SDRs are defined as reserve assets, and are allocated to countries that are members of the IMF as an addition to their official reserve assets. In addition, the IMF has granted a number of international organizations permission to hold SDRs. SDRs are allocated relative to the coverage weight of each member country.

SDR holdings grant absolute rights to the holder to obtain foreign exchange balances or any other reserve asset from IMF member countries. The actual holding of SDRs by an IMF member country is defined as an asset of that country, and the allocation of SDR from the IMF to a member country is defined as a liability of that country toward abroad.

The objective of allocating SDR to member countries is to provide complementary liquidity to the global financial system, particularly at times of global crisis, through additional foreign exchange reserves for IMF member countries, and to reduce their dependence on more expensive domestic and/or external debt.

Other adjustments

Changes in balances that are not due to net transactions, price changes, or exchange rate differentials. These include revaluations of nontradable companies, changes of residence, tradability changes, and unexplained statistical differences.

Special Purpose Acquisition Company – SPAC

—These companies are established with the aim of raising money through an initial public offering (IPO). The money is intended for the purchase or merger of undefined companies that will be identified following the IPO.[8] SPACs are shell companies without any business activity, which hold an IPO based on the investors' trust that their owners will find target companies to merge into them.[9] In parallel, companies with business activity use SPACs to become public companies without having to go through an IPO, which the SPACs do for them, thereby saving the high costs associated with an IPO.

The SPAC method is as follows: An SPAC finances the underwriting and registration expenses of the IPO of a stock exchange shell, and has two years to use the capital it raises in order to purchase business activity for that shell. The issued shares are usually priced at $10 per share, and include an option to purchase additional shares at $11.5, with the aim of incentivizing IPO investors to wait, and not to withdraw their investments until the SPC finds business activity to purchase or merge. If no business activity is purchased or merged within two years from the IPO, shareholders can realize their initial investments, usually at a rate of 85% of their total investment after deduction of operating expenses.

Capital instruments Direct and financial investments in equities, including drawing rights

Debt instruments Contractual liabilities for payment of principal or interest in the future, including: owners' loans, financial loans and credit, bonds, deposits, commercial credit, and reserve assets.

[8] R. Layne, B. Lenahan, Vinson & Elkins LLP, "Special Purpose Acquisition Companies: An Introduction", *Harvard Law School Forum on Corporate Governance*, July 2018: https://corpgov.law.harvard.edu/2018/07/06/special-purpose-acquisition-companies-an-introduction.

[9] A. Alshich, "So What Essentially is an SPAC, and Why is it Not Leaving the Headlines?", Yelin Lapidot Investment Firm, February 2021: https://www.yl-invest.co.il/?CategoryID=673&ArticleID=838 (in Hebrew).

- **Gross external debt** The economy's total liabilities to abroad in debt instruments in foreign exchange and Israeli currency.

- **Net external debt** The surplus of liabilities over assets in debt instruments only. Net external debt is calculated as gross external debt minus Israelis' assets abroad in debt instruments.

- **Ratio of gross external debt to GDP** Calculated as external debt divided by GDP in dollar terms. GDP in dollar terms is calculated by dividing GDP in shekel terms by the average exchange rate during the period.