

C. Economic activity vis-à-vis abroad

The upward trend in the balance of Israel's assets vis-à-vis abroad continued in 2019, as a result of price increases in tradable securities, mainly shares, and positive net transactions in all investment channels. The balance of Israel's liabilities toward abroad also increased in 2019, at a higher rate than the previous year. The increase was concentrated in the balance of nonresidents' direct investments in Israel, as a result of positive net transactions, mainly investments in Israeli share capital. In contrast with the marked effect of securities price changes on the increase in the balance of assets, it had less of an effect on the balance of liabilities. The increases in Israeli securities indices in 2019 were partly offset by price declines in specific assets that have considerable weight in nonresidents' investment portfolios.

The increase in the balance of assets over the increase in the balance of liabilities led to an increase in Israel's surplus of assets over liabilities vis-à-vis abroad, countering the decline in the surplus during the previous year. The increase in net external debt continued in 2019, further to the long-term upward trend.

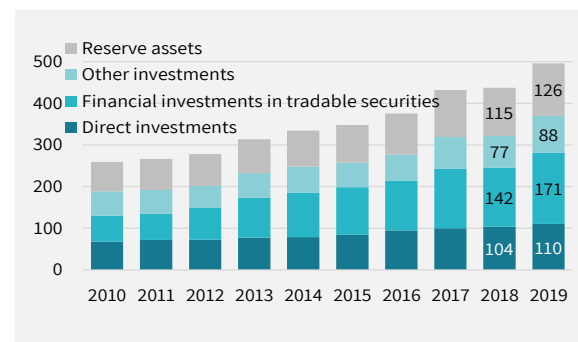
1. Israelis' assets abroad – investment abroad by Israelis'

The increase in the balance of Israelis' assets abroad continued in 2019, further to the long-term trend. The increase encompassed all investment channels.¹

The balance of Israelis' assets abroad increased by about \$58.7 billion (13.4 percent), to \$495.7 billion.

Most of the increase was due to increases in the balance of financial investments in tradable securities (\$29.4 billion, 20.8 percent) and in the balance of other investments² (\$11.6 billion, 15.2 percent).

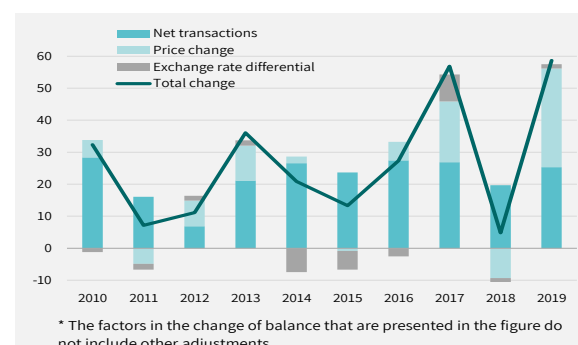
Figure 3.1: The Balance of Israelis' Assets Abroad
\$ billion



The main factor in the increase of the balance of assets vis-à-vis abroad in 2019 was the change in prices of foreign securities held by Israelis.

Increases in the prices of tradable securities raised the balance of assets abroad in 2019 by about \$30.8 billion, in contrast with 2018 when there were price declines totaling about \$9.3 billion. Furthermore, positive net transactions increased the balance of assets by about \$25.4 billion in 2019, slightly more than the average of positive net transactions in the past six years (\$24.2 billion).

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



¹ For an explanation and details of the various investment channels, see Data Sources and Main Terms at the end of the section.

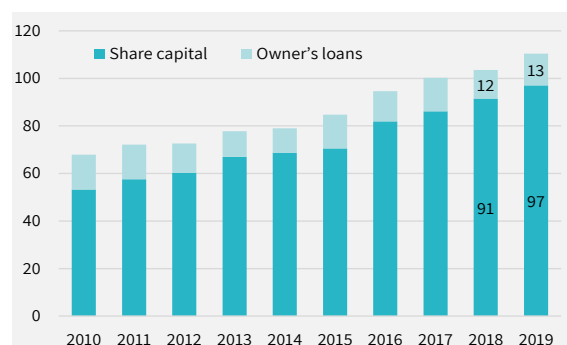
² The balance of other investments includes the balance of derivative instruments.

Direct investments

The increase in the balance of direct investments abroad continued in 2019, mainly through direct investments in share capital.

The balance of direct investments abroad increased by \$6.9 billion (6.6 percent) in 2019, further to the upward trend of recent years. About 80 percent of the increase was in the balance of Israelis' direct investments in foreign share capital.

Figure 3.3: Balance of Direct Investments Abroad, by Instrument
\$ billion



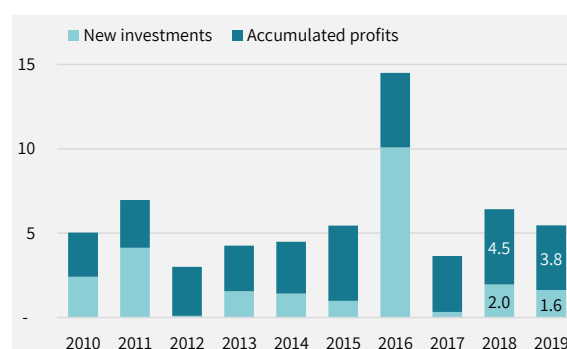
The increase in the balance of direct investments in foreign share capital was a result of net investments², most of which was accumulated profits (that were not yet distributed to investors).

Direct investments in foreign share capital totaled \$5.5 billion in 2019, and were mostly made by the business sector.

Net investments were mainly derived from accumulated profits (profits that were not yet distributed to investors; \$3.8 billion).

The volume of new investments totaled only about \$1.6 billion in 2019, lower than the average in the past decade (\$2.3 billion).

Figure 3.4: Net Direct Investments in Foreign Share Capital
\$ billion



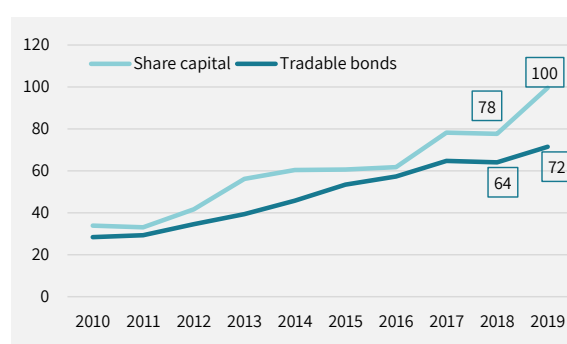
Financial investments

The balance of Israelis' financial investments abroad increased in 2019. The increase was concentrated in the balance of share holdings.

The balance of Israelis' financial investments abroad increased by \$29.4 billion (20.8 percent) in 2019, to \$171.1 billion, contrary to a decline in the previous year.

The balance of shareholdings increased by \$21.9 billion (28.2 percent) in 2019, and the balance of bond holdings increased by \$7.5 billion (11.7 percent), further to the long-term upward trend in holdings of these two instrument.

Figure 3.5: Balance of Israelis' Financial Holdings Abroad, by Instrument
\$ billion



³ Investments minus realizations.

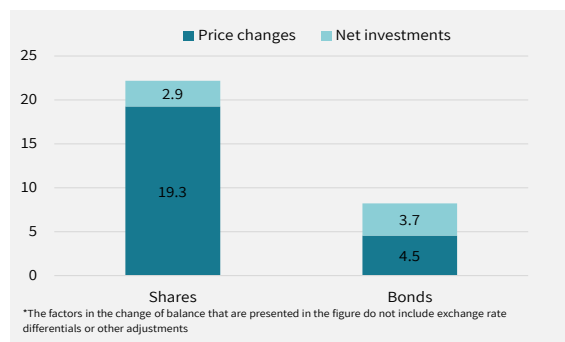
Most of the increase in the balance of financial investments in foreign shares was due to price increases, while the increase in the balance of bond holdings was due to similar increases of net investments and prices.

The increases in the prices of foreign shares held by Israelis, which took place mainly in the first and fourth quarters of the year, increased the balance by \$19.3 billion (88 percent of the increase in the balance of holdings of foreign shares), and net investments in foreign shares increased the balance by just \$2.9 billion.

At the same time, net investments (\$3.7 billion) and price increases (\$4.5 billion) increased the balance of bond holdings by similar amounts.

Figure 3.6 : the in the Change in the Balance of Israelis' Financial Investments, by Instrument, 2019

\$ billion



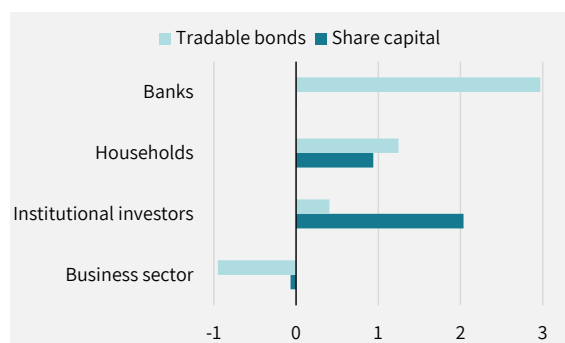
Net investments in foreign bonds were mostly made by the banks, while net investments in foreign shares were mostly made by institutional investors.

The banks invested about \$3 billion in foreign bonds in 2019, in contrast with net realizations of about \$1.6 billion in the previous year.

The institutional investors made net investments of about \$2 billion in foreign shares, mainly in the third quarter of 2019, further to net investments of about \$6.2 billion in the previous year.

Figure 3.7: Net Financial Investments Abroad by Israelis, by Instrument and Sector, 2019

\$ billion

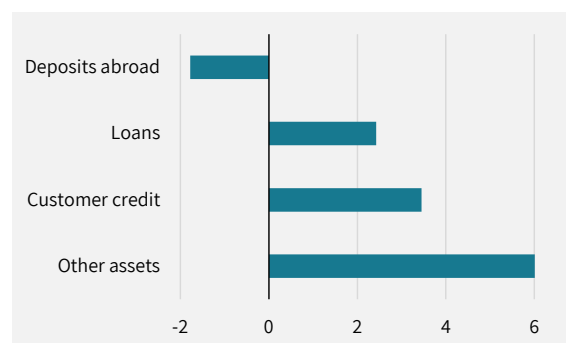


Other investments

The balance of Israelis' other investments abroad increased in 2019, as a result of increases in the components of other assets, commercial credit, and loans, which were partly offset by net withdrawals from deposits abroad.

The balance of other investments increased by about \$10.1 billion (13 percent) in 2019, mainly as a result of the increase in the balance of investment funds of institutional investors totaling \$4.8 billion (the "other assets" component). Furthermore, there was an increase of about \$3.5 billion in the balance of customer credit, in view of the increase in exports. In contrast, the balance of Israeli's deposits abroad declined during the year due to net withdrawals.

Figure 3.8: Change in the Balance of Israelis' Other Investments Abroad, by Instrument, 2019
\$ billion



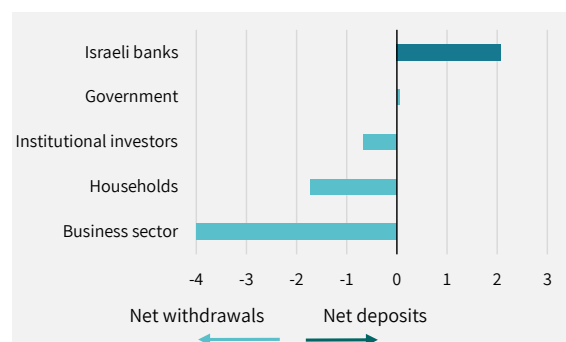
Net withdrawals from deposits abroad were made mainly by the business sector and households.

The business sector made net withdrawals of about \$4 billion from deposits abroad in 2019, further to net withdrawals of about \$3 billion in the previous year.

Households made net withdrawals of about \$1.7 billion from their deposits abroad, further to net withdrawals of about \$1.2 billion in the previous year.

In contrast, the banks made net deposits totaling about \$2.1 billion, in contrast with net withdrawals of about \$2 billion in the previous year.

Figure 3.9: Net Deposits/Withdrawals from Deposits Abroad, by Sector, 2019
\$ billion

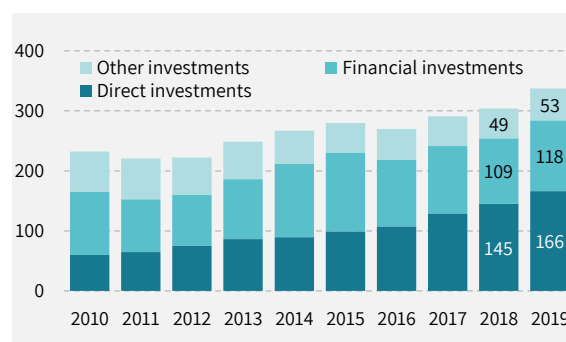


2. Israel's liabilities to abroad – nonresidents' investments in Israel

The balance of Israel's liabilities to abroad increased in 2019, mainly in the balance of nonresidents' direct investments in Israel.

The balance of Israel's liabilities to abroad increase by about \$33.7 billion (11.1 percent) in 2019, to a total of about \$337.3 billion. This was due to increases of about \$20.9 billion (14.4 percent) in the balance of direct investments, about \$9.2 billion (8.4 percent) in the balance of financial investments, and about \$3.6 billion (7.2 percent) in the balance of other investments.

Figure 3.10: The Balance of Israel's Liabilities to Abroad, by Type of Investment
\$ Billion



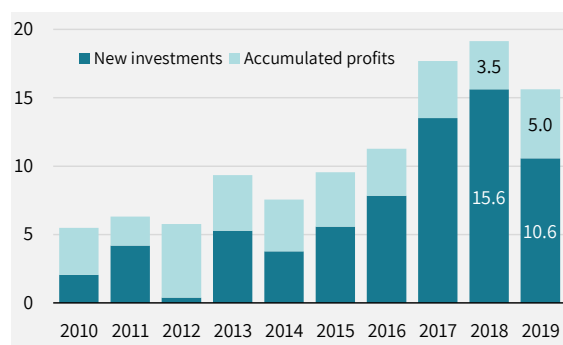
Direct investments

The increase in the balance of direct investments was mostly due to net direct investments by nonresidents in Israeli share capital, most of which was new investments³ spread over many transactions.

Net direct investments in share capital totaled about \$15.6 billion in 2019—a significant volume, but slightly lower than in the previous two years.

About 70 percent of the net investments in share capital were new investments that were spread out over many transactions, while the rest of the investments were due to accumulated profits (profits not yet distributed to investors). This is similar to the composition of investments in recent years.

Figure 3.11: Net Direct Investments by Nonresidents in Israeli Share Capital
\$ Billion

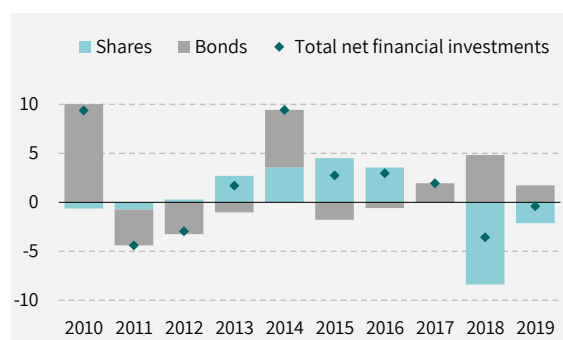


Financial investments

There were net realizations of nonresidents' financial investments in Israel in 2019, as a result of net realizations of shares that more than offset the net investments in bonds.

Nonresidents realized a total of about \$26.1 billion in Israeli shares, net, in 2019, further to net realizations of Israeli shares in the previous year, although at a lower volume. These realizations more than offset the net investments in Israeli bonds totaling about \$1.7 billion. The investments in bonds were mainly in government bonds, as a result of an issuance abroad in 2019.

Figure 3.12: Nonresidents' Net Financial Investments in Israel, by Instrument
\$ Billion

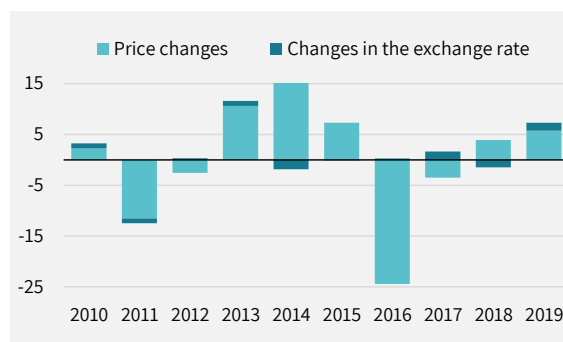


Despite the net realizations, the balance of financial investments increases slightly, as a result of the effect of price increases on the balance of share holdings, and due to changes in the exchange rate.

The balance of financial investments increased by about \$9.2 billion in 2019, mainly as a result of the increases in Israeli share prices in the first and fourth quarters of the year. These increases raised the balance of share holdings by about \$5.7 billion.

The effect of the shekel's appreciation, which increased the dollar value of Israeli shares traded on the Tel Aviv Stock Exchange, also contributed to the increase in the balance of share holdings.

Figure 3.13: The Effect of Price and Exchange Rate Changes on the Balance of Nonresidents' Holdings of Israeli Shares
\$ Billion



³ For further analysis of new investments, see "Zoom in" at the end of this section.

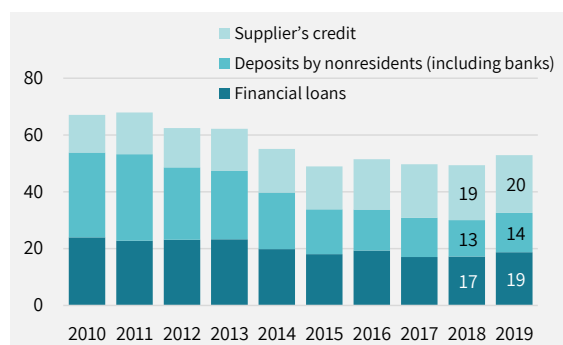
Other investments

The balance of nonresidents' other investments in Israel increased in 2019, in contrast with the downward trend of the past decade, mainly as a result of the increase in the balance of financial loans from nonresidents to Israelis.

The balance of nonresidents' other investments in Israel increased by about \$3.6 billion (7.2 percent), mainly as a result of the provision of a high volume of financial loans.

Furthermore, the balance of nonresidents' deposits in Israel increased by about \$1 billion (7.4 percent) in 2019, as a result of net deposits, in contrast with the long-term downward trend.

Figure 3.14: The Balance of Nonresidents' Other Investments in Israel, by Instrument
\$ Billion

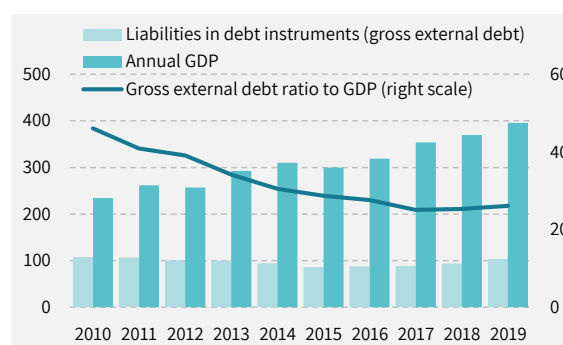


Gross external debt

The ratio of gross external debt⁴ to GDP increased in 2019, further to the increase in the previous year.

The balance of gross external debt increased by about \$9.6 billion (10.63 percent) in 2019, mainly due to the increase in the balance of nonresidents' investments in Israeli bonds. GDP in dollar terms increased by about \$25.5 billion (6.9 percent). As a result, the ratio of external debt to GDP increased by about 0.8 percentage points, to about 26.1 percent at the end of the year.

Figure 3.15: Gross External Debt and the External Debt to GDP Ratio
billion (columns) and percent (line) \$

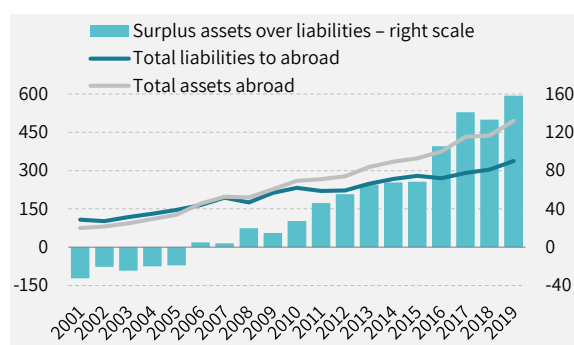


3. Surplus assets over liabilities

Israel's surplus assets over liabilities vis-à-vis abroad increased in 2019, in contrast with the decline in the previous year.

Israel's surplus assets over liabilities vis-à-vis abroad increased by about \$25 billion (18.7 percent) in 2019, to about \$158.4 billion at the end of the year. This was a result of the increase in the value of Israel's assets (\$58.7 billion; 13.4 percent) that was greater than the increase in liabilities (\$33.7 billion; 11.1 percent).

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



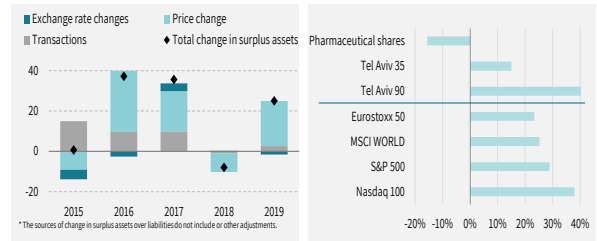
⁴ The balance of liabilities in debt instruments only. For further details of the definitions, explanations, and calculations of external debt, see "Measuring Israel's External Debt To Abroad" in Part Two of the Statistical Bulletin for 2017.

The contrast in the developments of the stock indices in Israel and those abroad contributed to the increase in surplus assets over liabilities.

As opposed to the marked impact of the change in securities prices on the increase in the balance of assets (\$30.8 billion), there was less of an effect on the balance of liabilities (\$8.5 billion). The increases in Israeli stock indices in 2019 were partly offset by declines in the prices of specific assets with a greater weight in nonresidents' investment portfolio. As a result, the net effect of the price changes increased the surplus of assets over liabilities by about \$22.4 billion. The net effect of the transactions totaled about \$2.6 billion in 2019, lower than the average effect in the previous 4 years, which is about \$8.4 billion.

Figure 3.17: The Sources of Change in the Surplus of Assets Over Liabilities* and Stock Indices in Israel and Abroad

\$ billion (right chart) and annual rate of change (left chart)



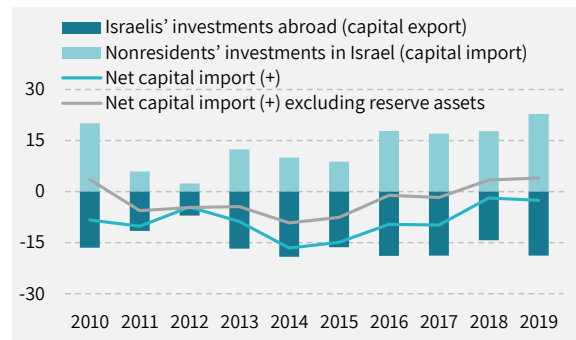
In summing up capital transactions too and from the economy, there was a low volume of net capital export in 2019, similar to the previous year.

Israelis' investments abroad (including reserve assets) totaled \$25.4 billion in 2019. Nonresidents' investments in Israel totaled \$22.8 billion in the same period. As a result, net capital transactions in 2019 showed a net capital export of about \$2.6 billion.

Net capital transactions (excluding reserve assets) to and from the economy resulted in a net capital import of about \$4 billion, slightly higher than the net capital import excluding reserve assets in the previous year.

Figure 3.18: Nonresidents' Investments in Israel and Israelis' Investments Abroad

\$ Billion



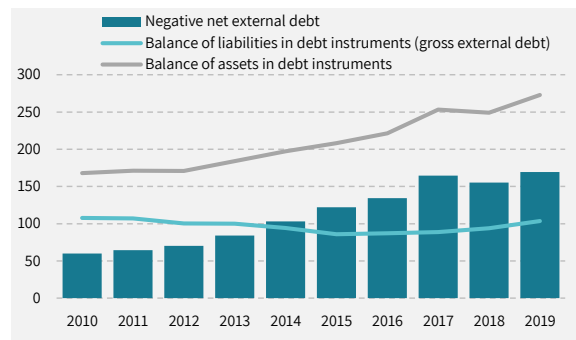
Net external debt

The surplus of assets over liabilities in debt instruments⁵ (negative net debt) increased in 2019, further to the long-term trend of growth

The balance of assets in debt instruments increased by \$23.7 billion (9.5 percent) in 2019, mainly due to investments and price increases in foreign bonds. Israel's gross external debt increased as well, by a smaller amount (\$9.6 billion; 10.2 percent), mainly due to receipt of loans from nonresidents. As a result, the surplus of assets over liabilities in debt instruments alone (negative net external debt) increased by about \$14 billion (9 percent), to about \$169.3 billion at the end of the year.

Figure 3.19: Surplus of Assets Over Liabilities in Debt Instruments Alone (Negative Net External Debt)

\$ billion; + indicates the economy is a net lender to abroad

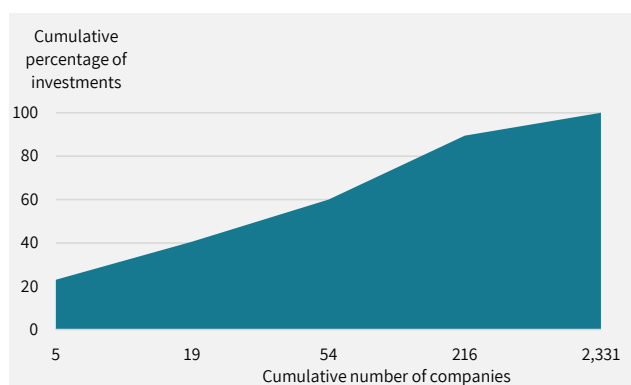


⁵ For an explanation, see Data Sources and Main Terms at the end of the section.

▶ NONRESIDENTS' DIRECT INVESTMENTS⁶ IN THE SHARE CAPITAL OF ISRAELI COMPANIES

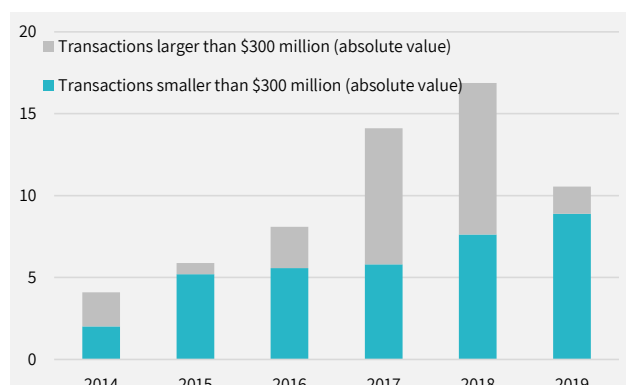
About 40 percent of nonresidents' direct investments in 2019 were in just 19 Israeli companies.

Figure 3.20: Concentration of Nonresidents' Direct Investments in Israeli Share Capital, 2019, percent



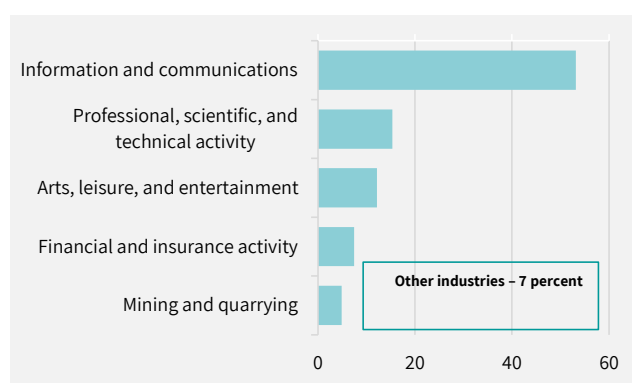
Large transactions account for 16 percent of total direct investment in 2019, in contrast with previous years, in which large transactions accounted for over 50 percent of total investments.

Figure 3.21: Nonresidents' Direct Investments in Israeli Share Capital, by Amount of Transaction, \$ billions



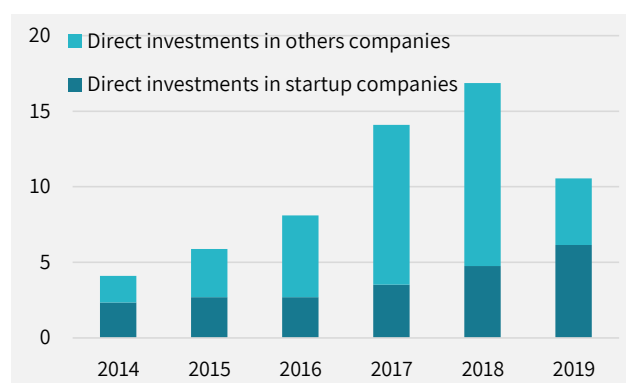
About 50 percent of nonresidents' direct investments in Israel in 2019 were concentrated in the information and communications industry.

Figure 3.22: Industry Distribution of Nonresidents' Direct Investments in Israeli Share Capital, 2019, percent



Most direct investments by nonresidents in 2019 were in Israeli startup companies in the high-tech industry, in contrast with the four previous years.

Figure 3.23: Nonresidents Direct Investments in Israeli Share Capital, by Type of Company⁷, \$ billions



Source: bank of Israel

⁶ New investments only, excluding accumulated profits (which have not yet been distributed to shareholders).

⁷ The classification of Israeli companies into high-tech startup companies is based on the classification by the IVC Company.

Main indicators of activity vis-à-vis abroad

\$ billion		Balance to the end of 2018	Transactions	Price changes	Exchange rate differentials and other adjustments	Balance to the end of 2019
Israel's Assets		437,025	25,352	30,845	2,464	495,689
of which:	*Debt instruments	249,142	11,916	9,972	1,727	272,760
Direct investments abroad		103,506	8,566	55	-1,742	110,384
	Share capital and land	91,497	7,272	55	-1,742	97,081
	Owners' loans	12,009	1,294	0	0	13,303
Financial investments		141,704	6,589	23,810	-996	171,112
of which:	Share capital	77,649	2,913	19,254	-246	99,573
	Bonds	64,055	3,676	4,556	-750	71,539
Other investments abroad		77,898	4,818	2,966	2,332	88,013
of which:	Deposits by Israelis (including banks)	12,380	-4,288	331	2,184	10,607
	Loans	21,212	1,231	1,072	124	23,639
	Customer credit	24,206	3,402	0	50	27,658
	Other assets	20,099	4,473	1,563	-25	26,109
Reserve assets		115,279	6,601	4,014	120	126,014
Derivative instruments		-1,362	-1,222	0	2,750	166
Israel's Liabilities		303,635	22,785	8,493	2,383	337,295
of which:	Debt instruments	93,797	8,715	10	907	103,427
Direct investments		145,345	18,224	2,739	-82	166,229
of which:	Share capital and land	136,682	16,194	2,739	-799	154,818
	Owners' loans	8,663	2,031	0	717	11,411
Financial investments		108,951	-389	5,744	3,853	118,157
of which:	Share capital	73,156	-2,124	5,744	2,275	79,050
	Bonds	35,795	1,735	0	1,578	39,107
Other investments		49,339	4,949	10	-1,388	52,909
of which:	Deposits by nonresidents and foreign banks	12,872	675	0	275	13,822
	Loans	17,170	3,071	10	-1,518	18,732
	Suppliers' credit	19,297	1,203	0	-145	20,355
Net Liabilities**		-133,390	-2,567	-22,352	-80	-158,394
of which:	Net debt instruments	-155,345	-3,201	-9,962	-820	-169,333

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

** Net liabilities: Liabilities minus assets.



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 received from direct reports⁸ 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 institutional investors, the Bank of Israel Accounting Division, the Israel Securities Authority, the Ministry of Finance, and domestic banks. The Information and Statistics Department processes the data obtained from the various sources.

Direct investment⁹

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).

Financial investment

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.

⁸ For more information on forms for reporting to the Bank of Israel, see <https://www.boi.org.il/he/DataAndStatistics/Pages/ReportingForms.aspx> (in Hebrew).

⁹ 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.

■ Other investments

Investments abroad by Israelis or investments in Israel by nonresidents in other instruments: deposits, financial loans (that are not owners' loans or bonds), customer/supplier credit. Other investments abroad by Israelis also include investments in other assets (financial derivatives, mutual funds, index 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).

■ Special Drawing Rights (SDRs)

Withdrawal rights allocated by the IMF in international currency that is calculated according to the average of the currencies of IMF member countries, for the purpose of covering liabilities and balance of payments deficits.

■ **Capital instruments** Direct and financial investments in shares.

■ **Debt instruments** Owners' loans, bonds, direct credit, deposits, financial loans, and reserve assets.