

C. ECONOMIC ACTIVITY VIS-À-VIS ABROAD

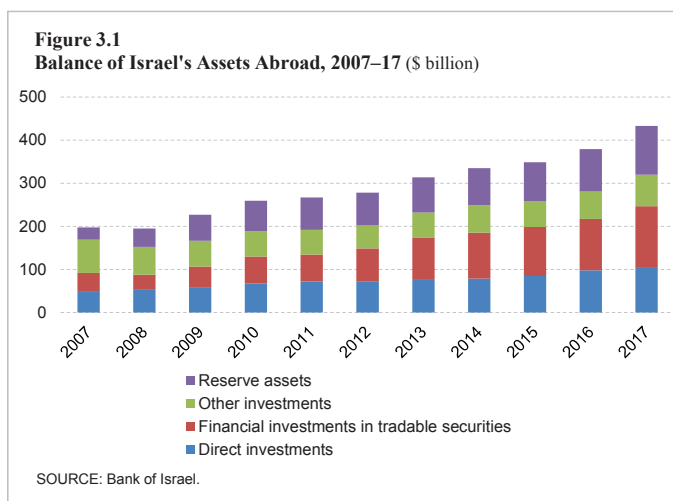
The upward trend in the balance of Israel's assets vis-à-vis abroad continued in 2017, mainly as a result of increases in the balance of Israelis' financial investments abroad and in the balance of Israel's reserve assets. The increase in the prices of foreign securities had a noticeable impact on the increase in the balance of assets abroad. The net flow of financial investments abroad increased this year, but remained lower than it was between 2007 and 2016. Most financial investments abroad were made by the banking sector and households. Israel's liabilities to abroad also increased this year, in contrast with the decline of the previous year. Nonresidents' net direct and financial investments in the Israeli economy continued, but they were partly offset by a sharp decline in the prices of Israeli shares held by nonresidents and by net repayments of loans issued by nonresidents.

The increase in Israel's assets in excess of the increase in outstanding liabilities led to a significant growth in the surplus of Israel's assets over liabilities vis-à-vis abroad, and to an increase in the surplus of assets in debt instruments (negative external debt).

1. ISRAELIS' ASSETS ABROAD—INVESTMENTS ABROAD BY ISRAELIS

The increase in the balance of Israelis' assets abroad continued in 2017, mainly as a result of the increase in the balance of financial investments abroad by Israelis.

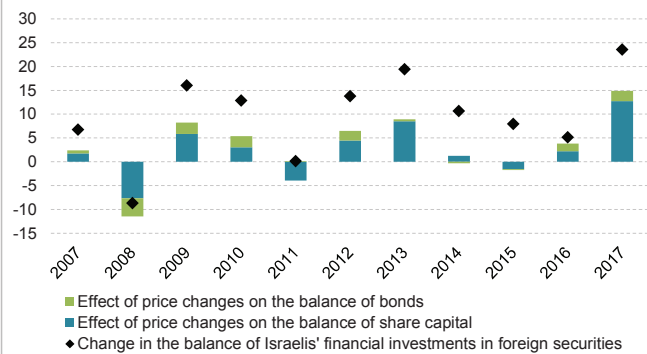
The increase in Israelis' assets abroad, totaling about \$54 billion (14.2 percent), was a result of increases in all investment channels. An increase of about \$24 billion (6.2 percent) in the balance of financial investments, and of about \$15 billion (3.8 percent) in the balance of reserve assets were particularly prominent.



The balance of financial investments abroad by Israelis increased, mainly as a result of price increases in capital markets abroad.

The increase in securities prices increased the balance of financial investments abroad by Israelis by about \$15 billion. Most of the growth was a result of increases in the prices of foreign shares.

Figure 3.2
Effect of Price Changes on the Balance of Israelis' Financial Investments in Foreign Share Capital and Bonds, 2007–17 (\$ billion)



SOURCE: Bank of Israel.

The flow of financial investments abroad by Israelis increased, but its volume remains lower than it was between 2007 and 2016.

Net financial investments in 2017 totaled about \$4.7 billion, lower than the average volume between 2007 and 2016, which was about \$6.3 billion. The increase in investments this year was concentrated in foreign bonds, while Israelis' activity in shares was balanced.

Figure 3.3
Israelis' Net Financial Investments in Foreign Stocks and Bonds, 2007–17 (\$ billion)

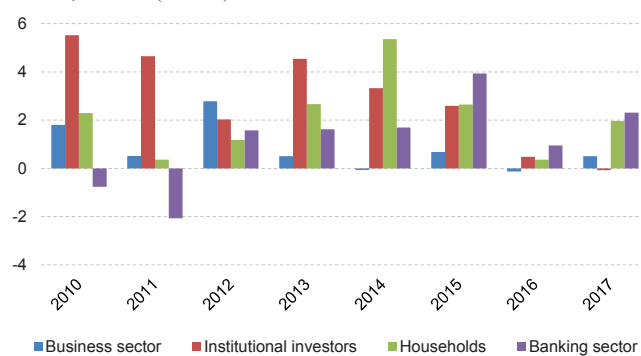


SOURCE: Bank of Israel.

Most of Israelis' financial investments abroad in 2017 were made by the banking sector and households. Net investments of the other sectors were negligible, similar to their activity in 2016.

Financial investments abroad by the banking sector (nostro) and by households totaled about \$4.3 billion in 2017 (about 91 percent of total financial investments abroad by all sectors), mostly in foreign bonds.

Figure 3.4
Distribution of the flow of Israelis' Net Financial Investments Abroad by Sector, 2010–17 (\$ billion)

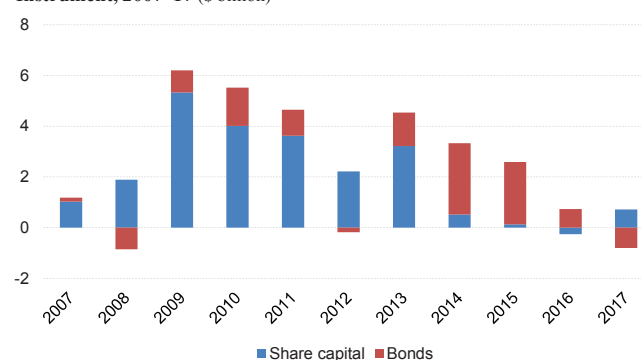


SOURCE: Bank of Israel.

The negligible flow of net financial investments by the institutional investors reflected an offsetting between investment in foreign shares and realizations of foreign bonds of a similar amount.

For the first time in four years, the institutional investors made net investments in foreign shares, totaling about \$700 million. These investments were offset by net realizations of foreign bonds of a similar amount.

Figure 3.5
Net Flow of Institutional Investors' Financial Investments Abroad by Instrument, 2007–17 (\$ billion)

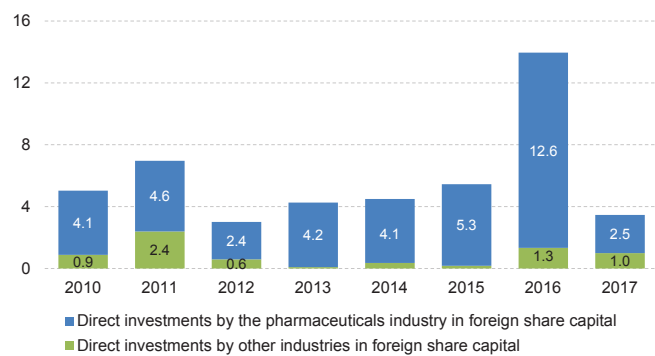


SOURCE: Bank of Israel.

The flow of direct investments abroad by Israelis continued in 2017, and there was a significant decline in net direct investments by companies in the pharmaceuticals industry.

Net direct investments in share capital totaled about \$3.5 billion in 2017, mostly accumulated profits¹ of companies in the pharmaceuticals industry. The volume of investments by the pharmaceuticals industry is significantly lower than the average between 2010 and 2016 (\$5.3 billion).

Figure 3.6
Distribution of the flow of Israelis' Net Direct Investments in Foreign Share Capital by Industry, 2010–17 (\$ billion)

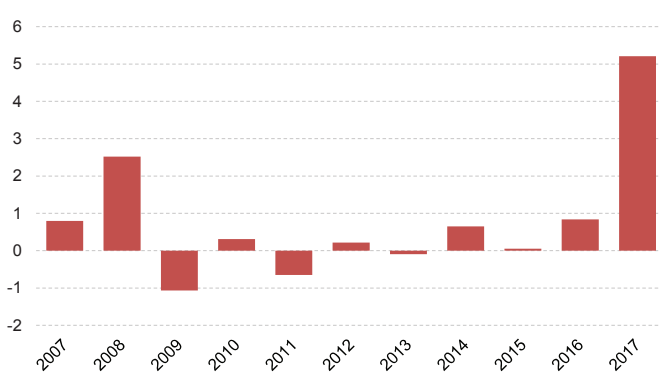


SOURCE: Bank of Israel.

The balance of other investments abroad by Israelis increased in 2017, mainly due to an increase in the volume of financial loans issued by Israelis to nonresidents. About half of the loans this year were issued by a group of companies in the computer production and programming industry.

The financial loans issued by Israelis to nonresidents in 2017 totaled about \$5.2 billion (89 percent of the increase in the balance of other assets), significantly higher than in the past 8 years.

Figure 3.7
Financial Loans Issued by Israelis to Nonresidents, 2007–17 (\$ billion)



SOURCE: Bank of Israel.

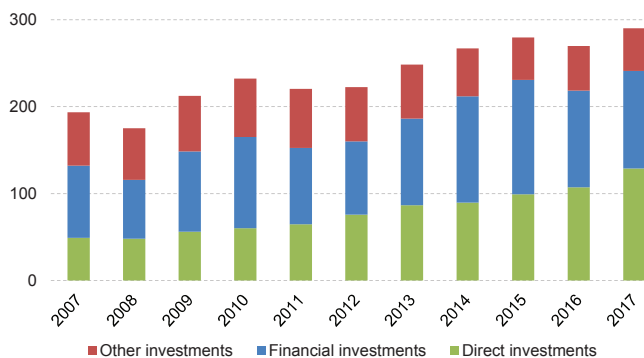
¹ See the Main Terms at the end of the section.

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

In 2017, the balance of Israelis' liabilities to abroad increased, mainly due to direct investments in Israel by nonresidents.

The increase in the balance of Israelis' liabilities to abroad, which totaled about \$20.4 billion (7.6 percent), was mainly a result of an increase of about \$21.5 billion (8 percent) in the balance of direct investments, which was partly offset by a decline of about \$2.2 billion (0.8 percent) in the balance of other investments.

Figure 3.8
The Balance of Israelis' Liabilities to Abroad, 2007–17 (\$ billion)

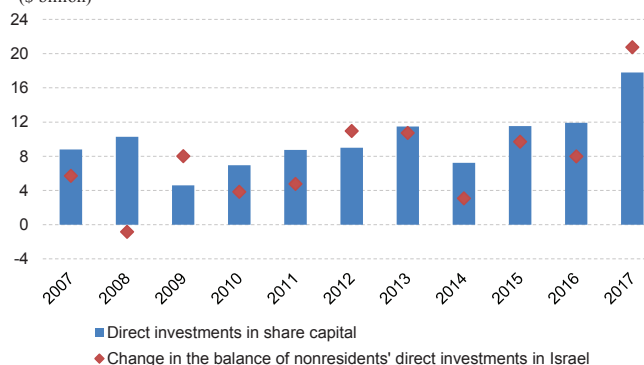


SOURCE: Bank of Israel.

The increase in the balance of direct investments was mainly the result of the net flow of nonresidents' investments.

Net direct investments totaled about \$19 billion in 2017, about one-third of which was a direct investment in one company in the computer production and programming industry. The volume of direct investments this year was significantly higher than the average between 2007 and 2016 (\$9.1 billion).

Figure 3.9
Direct Investments by Nonresidents in Israeli Share Capital, 2007–17 (\$ billion)



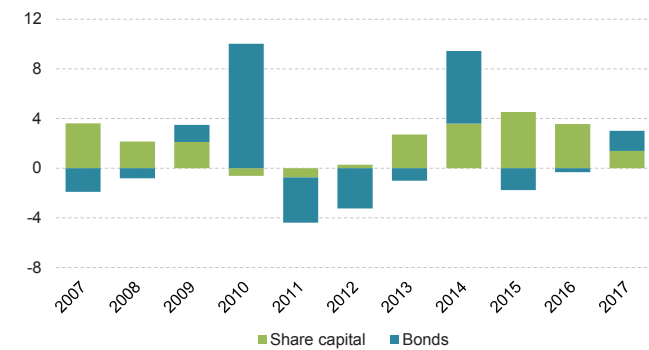
SOURCE: Bank of Israel.

The net flow of financial investments in Israeli bonds and shares by nonresidents also continued.

Net investments in bonds totaled about \$1.6 billion (1.5 percent of the balance of financial investments) in 2017, mostly in government bonds, in contrast to net realizations of Israeli bonds in the previous two years.

Net investments in shares totaled about \$1.4 billion (1.2 percent), slightly lower than the average between 2007 and 2016 (\$2 billion).

Figure 3.10
Net Financial Investments in the Israeli Economy by Nonresidents, 2007–17 (\$ billion)

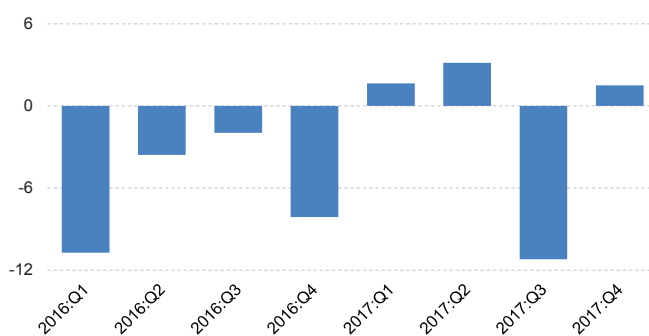


SOURCE: Bank of Israel.

Net investments in Israeli shares by nonresidents were offset due to the decline in Israeli share prices.

The balance of financial investments in Israeli shares by nonresidents declined by about \$1.8 billion (1.7 percent of the balance of nonresidents' financial investments in Israel) in 2017, as a result of the sharp decline in share prices of Israeli companies in the third quarter of the year. The decline in prices was concentrated in the shares of companies in the pharmaceuticals industry, which accounts for a high proportion of the investment portfolio of nonresidents.

Figure 3.11
The Effect of Price Changes on the Balance of Nonresidents' Financial Investments in Israeli Share Capital, 2016:Q1–2017:Q4 (\$ billion)

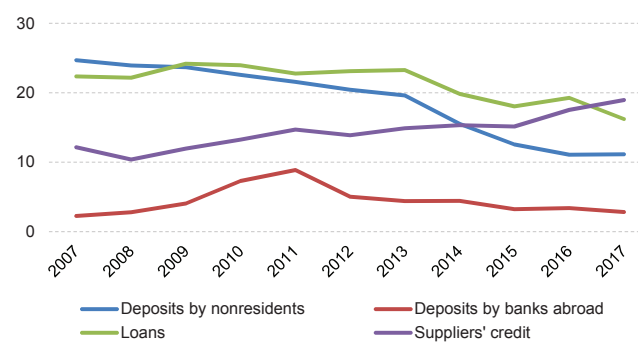


SOURCE: Based on Bloomberg.

The balance of nonresidents' other investments in Israel declined in 2017. The decline was concentrated in the balance of loans issued to Israelis by nonresidents.

In 2017, Israelis repaid loans issued by nonresidents, totaling about \$3.2 billion (6.2 percent of the balance of nonresidents' other investments in Israel), mostly the repayment of a loan by one company in the computer production and programming industry. In contrast, the balance of suppliers' credit issued by nonresidents to Israelis increased by about \$1.4 billion (2.7 percent), as imports increased in 2017.

Figure 3.12
The Balance of Nonresidents' Other Investments in the Israeli Economy by Instrument, 2007–17 (\$ billion)

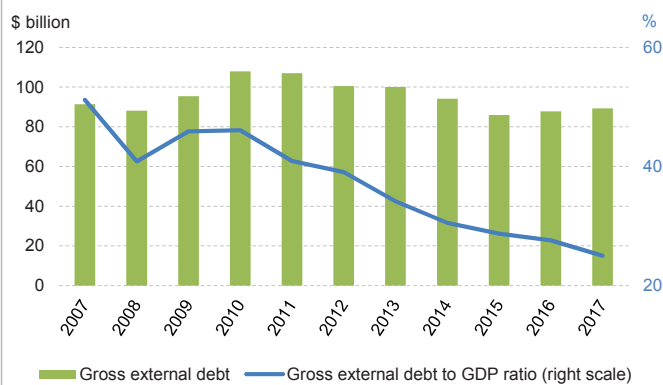


SOURCE: Based on company reports.

The gross external debt to GDP ratio continued to decline in 2017, as a result of the increase in Israel's liabilities in debt instruments along (gross external debt²[1]) that was less than the increase in GDP in dollar terms.

The rate of growth of Israel's gross external debt totaled about 1.7 percent in 2017. In parallel, GDP grew by about 13.1 percent in dollar terms, mainly due to the appreciation of the shekel. As a result, the external debt to GDP ratio declined by 3 percentage points, to about 25 percent at the end of the year.

Figure 3.13
Gross External Debt and External Debt to GDP Ratio, 2007–17



SOURCE: Based on Central Bureau of Statistics.

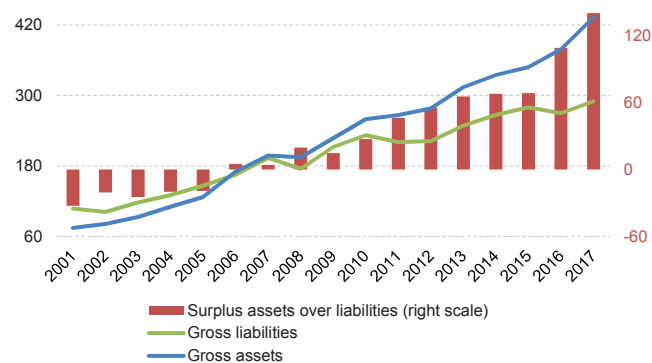
² For further details on definitions, explanations and calculations regarding external debt, see “Measuring the Country’s External Debt” in Part Two of this publication.

3. SURPLUS ASSETS OVER LIABILITIES

In 2017, the upward trend in the surplus of assets over liabilities vis-à-vis abroad continued.

Israel's surplus assets over liabilities increased by about \$33.4 billion (30.6 percent), to \$142 billion (39.6 percent of GDP), through a marked increase in the value of Israel's gross assets and a more moderate increase in the value of Israel's gross liabilities.

Figure 3.14
Israel's Surplus Assets (+) Over Liabilities vis-a-vis Abroad, 2001–17
(\$ billion)

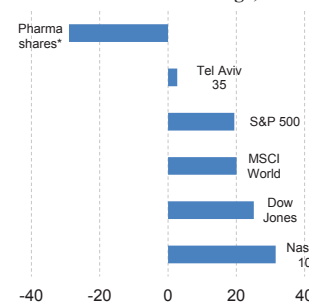


SOURCE: Bank of Israel.

Similar to the previous year, the contrary developments of the domestic and foreign share price indices were a contributing factor to the growth of surplus assets over liabilities.

Share price increases abroad increased the balance of assets held abroad by Israelis, while share price declines in Israel lowered the balance of Israelis' liabilities to abroad. As a result, the net effect of price changes increased the surplus assets over liabilities by about \$21 billion. As in the previous year, the effect of the net flow of investments (including reserve assets) on the surplus of assets over liabilities was relatively small, amounting to a net export of capital totaling about \$5.7 billion.

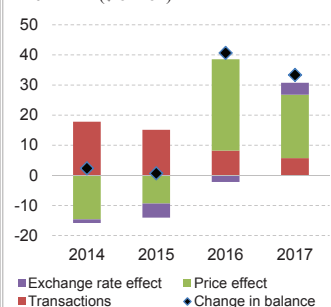
Figure 3.15a
Israeli and Global Stock Indices:
Cumulative Rate of Change, 2017



* An index calculated by the Bank of Israel that is used to estimate changes in the prices of pharmaceutical company shares traded in Israel.

SOURCE: Based on Bloomberg data.

Figure 3.15b
Sources of Change in Israel's
Surplus of Assets over Liabilities*,
2014–17 (\$ billion)



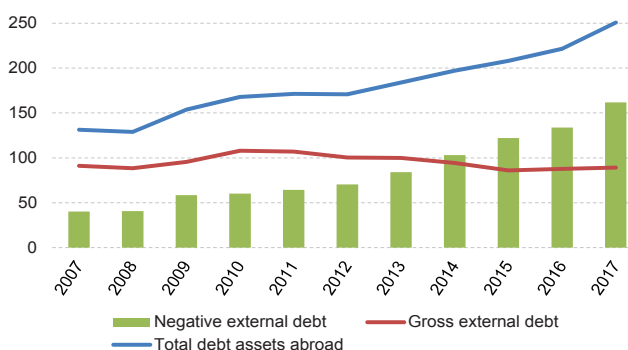
* The sources of change do not include other adjustments.

SOURCE: Bank of Israel.

Israel's surplus of assets in debt instruments only (negative net external debt) also increased in 2017, as a result of a marked increase in the balance of debt instrument assets and a slight increase in Israel's gross debt to abroad.

Israel's surplus assets over liabilities vis-à-vis abroad in debt instruments only (negative net external debt), increased by about \$28 billion (20.9 percent), to \$162 billion at the end of the year.

Figure 3.16
Negative External Debt^a, 2007–17 (\$ billion)



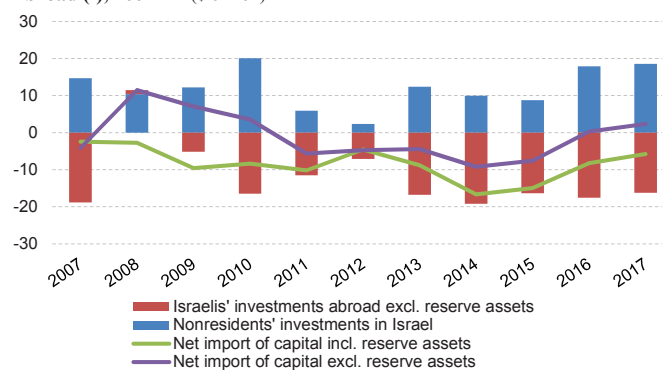
^a Surplus assets over liabilities in debt instruments only. Positive values = debts owed to Israel from abroad.
SOURCE: Bank of Israel.

Summing the capital movements into and out of the Israeli economy, there was a net import of capital (excluding reserve assets) into the economy in 2017, in contrast with the net export of capital between 2011 and 2015.

Most of the increase in the net import of capital (excluding reserve assets) was due to direct investments in the Israeli economy by nonresidents.

Capital movements into the economy including reserve assets resulted in a net import of capital totaling about \$5.7 billion.

Figure 3.17
Nonresidents' Investments in Israel (+) and Israelis' Investments Abroad (-), 2007–17 (\$ billion)



SOURCE: Bank of Israel.

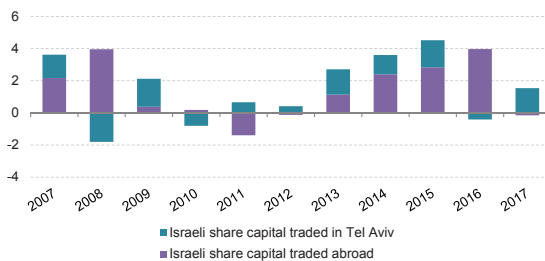
ZOOM-IN



FINANCIAL INVESTMENTS IN THE ISRAELI ECONOMY BY NONRESIDENTS

The flow of nonresidents' financial investments in Israeli share capital was concentrated this year in share capital traded in Tel Aviv, unlike in the previous three years.

Figure 3.18
Distribution of Nonresidents' Financial Investments in Israeli Share Capital by Place of Trading 2007–17 (\$ billion)



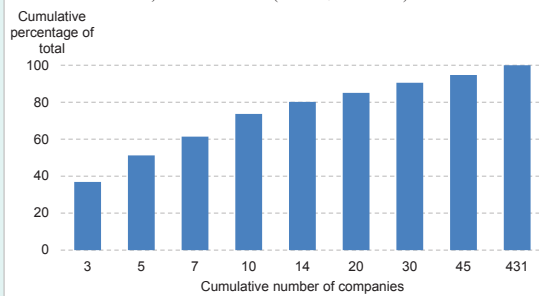
The flow of nonresidents' financial investments in Israeli government bonds traded abroad was higher in 2017 than in previous years.

Figure 3.19
Distribution of Nonresidents' Financial Investments in Israeli Government Bonds by Place of Trading 2007–17 (\$ billion)



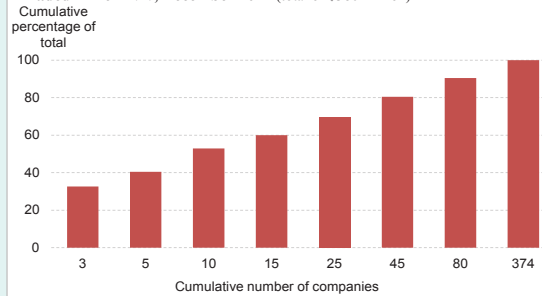
About 50 percent of nonresidents' financial investments in Israeli shares traded in Tel Aviv is invested in just 5 Israeli companies.

Figure 3.20
Concentration of Nonresidents' Financial Investments in Share Capital Traded in Tel Aviv, December 2017 (total of \$19.1 billion)



About 50 percent of nonresidents' financial investments in Israeli corporate bonds traded in Tel Aviv is invested in just 10 Israeli companies.

Figure 3.21
Concentration of Nonresidents' Financial Investments in Corporate Bonds Traded in Tel Aviv, December 2017 (total of \$380 million)



SOURCE: Bank of Israel.

Main indicators of activity vis-à-vis abroad						
\$ billion		Balance to the end of 2016	Transactions	Price changes	Exchange rate differentials and other adjustments	Balance to the end of 2017
Israel's Assets		378.7	24.3	18.9	10.5	432.5
of which:	Debt instruments*	221.5	18.7	4.3	6.4	250.9
Direct investments abroad		98.1	6.3	0.4	-1.0	103.8
of which:	Share capital and land	85.1	4.6	0.4	-1.0	89.0
	Owners' loans	13.0	1.7	0.0	0.0	14.7
Financial investments		119.2	4.7	14.9	4.0	142.8
of which:	Share capital	61.8	0.1	12.7	3.5	78.2
	Bonds	57.4	4.6	2.2	0.5	64.6
Other investments abroad		63.5	6.6	2.2	1.2	73.5
of which:	Deposits by Israelis (including banks)	19.7	-4.1	0.3	0.3	16.2
	Loans	11.3	5.2	0.3	0.3	17.1
	Customer credit	21.6	3.3	0.0	0.4	25.3
	Other assets	10.9	2.2	1.5	0.2	14.8
Reserve assets		98.4	8.1	1.5	5.0	113.0
Derivative instruments		-0.6	-1.4	0.0	1.4	-0.5
Israel's Liabilities		269.8	18.6	-2.1	4.0	290.2
of which:	Debt instruments	87.7	-1.0	0.0	2.5	89.2
Direct investments		107.3	19.0	2.8	-0.2	128.8
of which:	Share capital and land	99.1	18.2	2.8	-0.2	119.9
	Owners' loans	8.2	0.7	0.0	0.0	8.9
Financial investments		111.2	3.0	-4.9	2.9	112.2
of which:	Share capital	82.9	1.4	-4.9	1.7	81.1
	Bonds	28.2	1.6	0.0	1.3	31.1
Other investments		51.3	-3.4	0.0	1.2	49.1
of which:	Deposits by nonresidents and foreign banks	14.5	-1.2	0.0	0.7	14.0
	Loans	19.3	-3.2	0.0	0.1	16.2
	Suppliers' credit	17.5	1.0	0.0	0.4	18.9
Net Liabilities**		-109.0	-5.7	-21.1	-6.6	-142.3
of which:	Net debt instruments	-133.7	-19.7	-4.3	-3.9	-161.7

* 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 reports¹ 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). The companies that are required to report are any Israeli company with a balance of direct investments in foreign companies totaling \$20 million or more, and any Israeli company in which foreign direct investors hold \$40 million or more. 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, and reports from the Israel Securities Authority, the Ministry of Finance, and domestic banks.

Direct investment²—Investment by nonresidents in Israeli companies or investment by Israelis in foreign companies is defined as a direct investment when it involves holdings of more than 10 percent of the company’s capital (tradable and nontradable). Direct investment includes stock purchases, accumulated profits (undistributed profits), owners’ loans, and investment in real estate.

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. 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.

¹ 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).

² 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.

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—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—withdrawal rights allocated by the IMF for the purpose of covering liabilities and balance of payments deficits).