C. ECONOMIC ACTIVITY VIS-À-VIS ABROAD

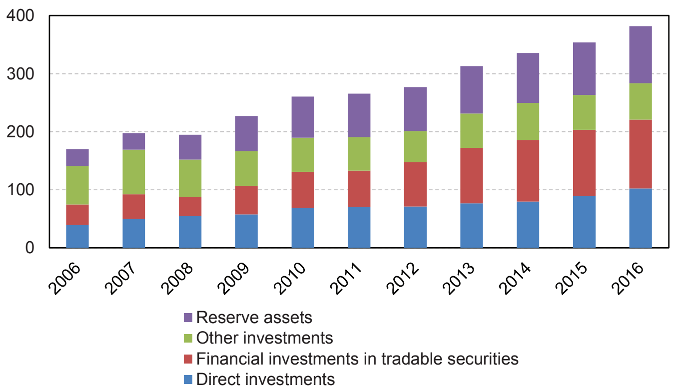
The upward trend in the balance of Israel's assets vis-à-vis abroad continued in 2016, mainly as a result of a significant volume of direct investments abroad by Israelis, the continued increase in foreign exchange reserves, and the price increases on global equity markets.
In contrast with previous years, net financial investments by the private sector in foreign stocks and bonds was particularly low this year. The decline in the volume of investments abroad encompassed all parts of the non-bank private sector.
Israel's liabilities to abroad declined in 2016, in contrast with the increase of the previous year. Net direct and financial investments by nonresidents in Israel continued, but they were more than offset by a sharp decline in the prices of Israeli shares held by nonresidents.
These developments accelerated the upward trend in Israel's surplus assets over liabilities vis-à-vis abroad, and the 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 2016, mainly as a result of the increase in direct investments abroad by Israelis.

The increase in Israelis' assets abroad, totaling about \$28 billion (8 percent), was a result of an increase of about \$13 billion in direct investments, an increase of about \$8 billion in the foreign exchange reserves, and an increase of about \$5 billion in financial investments.

Figure 3.1
Balance of Israeli Assets Abroad, 2006–16 (\$ billion)



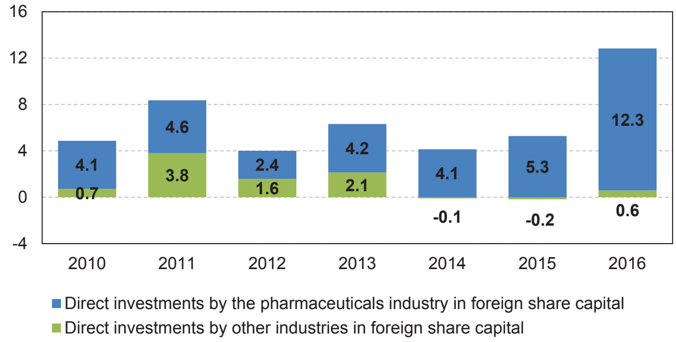
SOURCE: Bank of Israel.

The increase in direct investments abroad by Israelis was a result of the net flow of direct investment, mostly by companies in the pharmaceuticals industry, similar to the increase in previous years.

Most of the flow of net direct investment this year (about $8 billion) was an investment by one company in the pharmaceuticals industry, which completed the purchase of a foreign company.

The flows of net direct investment by the other industries totaled about $0.6 billion this year, in contrast with net realizations in the previous two years.

Figure 3.2
Israelis' Net Direct Investments in Foreign Share Capital by Industry, 2006–16 ($ billion)

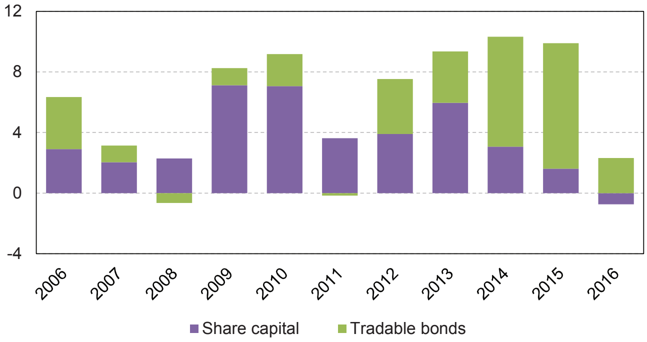


SOURCE: Bank of Israel.

In 2016, there was a sharp decline in the volume of net financial investments by Israelis in foreign stocks and bonds.

The flow of financial investments totaled just $1.6 billion in 2016. There were net investments totaling about $2.3 billion in foreign bonds, mainly by the banking sector, and net realizations totaling about $0.7 billion in foreign shares. This total is significantly lower than the average annual total of net investment flows since 2009, which is about $8 billion.

Figure 3.3
Israelis' Net Financial Investments in Foreign Stocks and Bonds, 2006–16
($ billion)

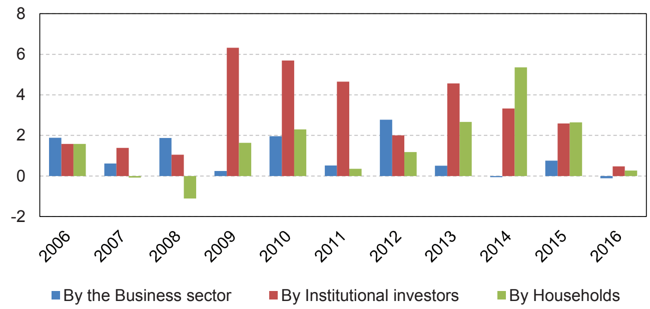


SOURCE: Bank of Israel.

The decline in the flow of financial investments abroad by Israelis encompassed all parts of the non-banking private sector.

This decline was particularly prominent among institutional investors and households, further to the decline in financial investments by these sectors in 2015.

Figure 3.4
Distribution of the flow of Israelis' Net Financial Investments Abroad by Sector[a], 2006–16 ($ billion)

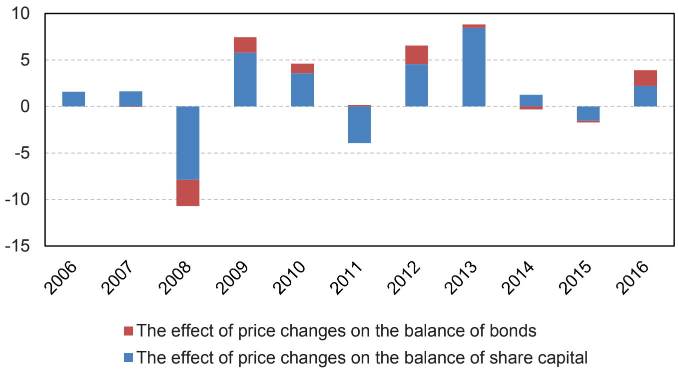


[a] The banking and public sectors are not shown. Therefore, the flow of financial investments in the Figure does not equal the total flow of financial investments abroad by Israelis.
SOURCE: Bank of Israel.

The balance of financial investments abroad by Israelis increased, mainly as a result of increases in the prices of securities held abroad by Israelis.

The increase in securities prices, mainly in the third quarter of the year, increased the balance of financial investments abroad by Israelis by about $3.9 billion.

Figure 3.5
The Effect of Price Changes on the Balance of Israelis' Financial Investments in Foreign Share Capital and Bonds, 2006–16 ($ billion)

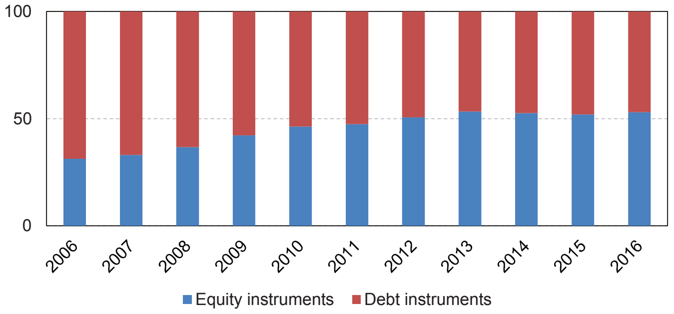


SOURCE: Bank of Israel.

In the past three years, the decline in the proportion of debt instruments as a share of Israelis' assets abroad was halted, and the proportion stood at 47 percent at the end of 2016.

Debt instruments as a share of Israelis' asset portfolio abroad (excluding reserve assets) declined from 86 percent in 2001 ($44 billion out of a portfolio valued at $51 billion) to 47 percent in 2013 ($108 billion out of a portfolio valued at $231 billion). This development reflects a continued change in the mix of the asset portfolio, which mainly consists of a transition to investment in more risky assets. In the past three years, the proportion of debt instruments in the asset portfolio has remained stable.

Figure 3.6
Equity[a] and Debt Instrument[b] Balances as a Share of the Balance of Israelis' Assets Abroad[c], 2006–16 (percent)

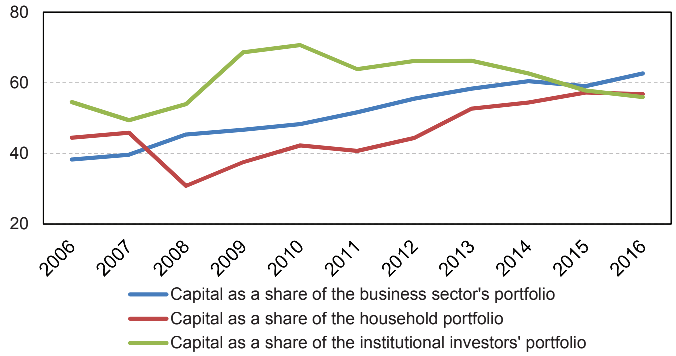


[a] Direct and financial investment in shares.
[b] Owners' loans, bonds, direct credit, deposits and financial loans.
[c] Israelis' total assets abroad, excluding reserves and derivative instruments.
SOURCE: Bank of Israel.

The proportion of equity assets abroad in the asset portfolio of the various sectors converged over the years to about 60 percent.

The institutional investors continued to reduce the proportion of equity assets in their asset portfolio this year, while the business sector continued to increase it.

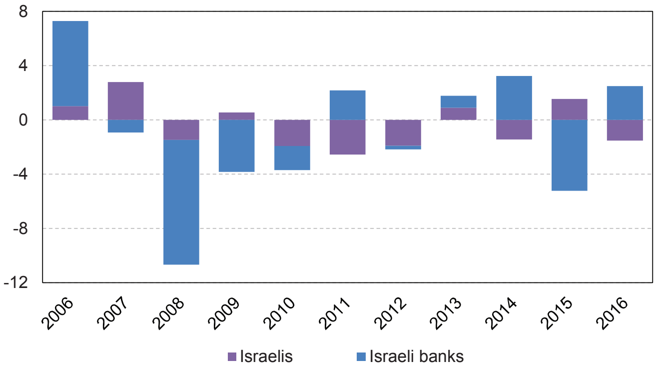
Figure 3.7
Capital Instruments[a] as a Share of the Asset Portfolios Abroad of the Various Sectors, 2006–16 (percent)



[a] Direct and financial investment in shares.
SOURCE: Bank of Israel.

The balance of other investments abroad by Israelis increased in 2016, mainly due to net deposits abroad by Israeli banks. Net deposits abroad by Israeli banks were concentrated in the fourth quarter of the year, and totaling about $2.5 billion in 2016. These deposits were partly offset by net foreign exchange withdrawals from Israelis' deposits abroad totaling about $1.5 billion. Most of the withdrawals were made by households (about $1.4 billion), further to cumulative net withdrawals of about $5 billion by households since 2010.

Figure 3.8
Net Deposits (+) Abroad by Israelis, 2006–16 ($ billion)

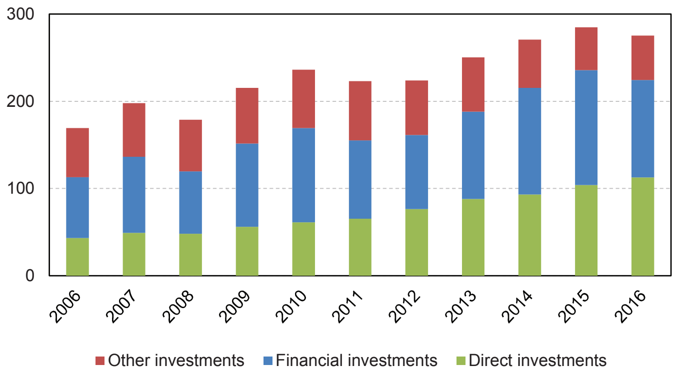


SOURCE: Based on reports by the banks.

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

In 2016, the balance of Israelis' liabilities abroad declined, mainly in the balance of financial investments in Israel by nonresidents. The decline in the balance of Israelis' liabilities to abroad, which totaled about $10 billion (3.4 percent), was mainly a result of a decline of about $20 billion (7 percent of liabilities to abroad) in the balance of financial assets, which was partly offset by an increase in the balance of direct investments totaling about $8 billion (3 percent) and an increase in the balance of other investments totaling about $2 billion (0.6 percent).

Figure 3.9
The Balance of Israelis' Liabilities to Abroad, 2006–16 ($ billion)

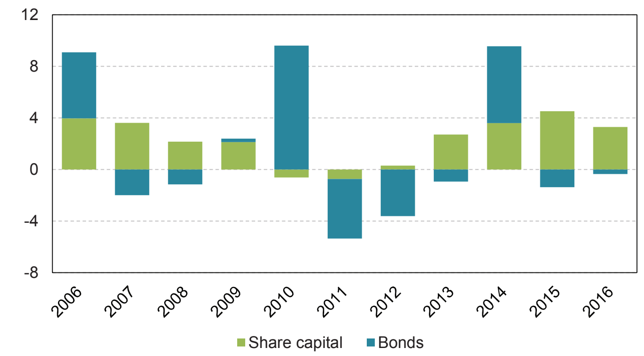


SOURCE: Bank of Israel.

The flow of net financial investments in Israel by nonresidents continued, at a slightly lower volume than in 2015.

Most of the flow of financial investments in Israel by nonresidents was in share capital (about $3.3 billion), which was partly offset by net realizations of Israeli corporate bonds (about $0.4 billion), further to net realizations in 2015.

Figure 3.10
Net Financial Investments in the Israeli Economy by Nonresidents, 2006–16
($ billion)

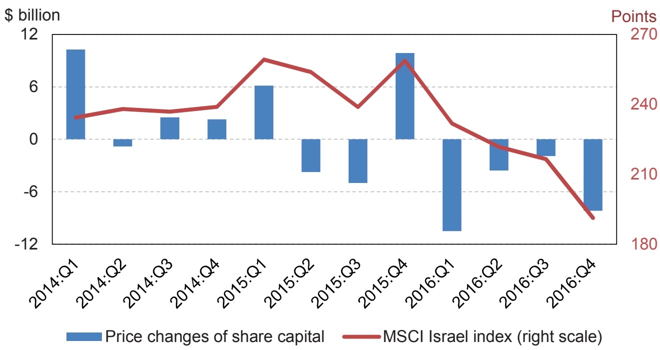


SOURCE: Bank of Israel.

The balance of nonresidents' financial assets in Israel declined, a result of the sharp decline in the prices of securities held by nonresidents.

The sharp declines in share prices of Israeli companies in 2016, which were concentrated mainly in the first and fourth quarters of the year, lowered the balance of nonresidents' financial investments in these shares by about $24 billion (18.3 percent). Price declines in 2016 were mainly in the shares of companies in the pharmaceuticals industry, which accounts for a high proportion of nonresidents' investment portfolio.

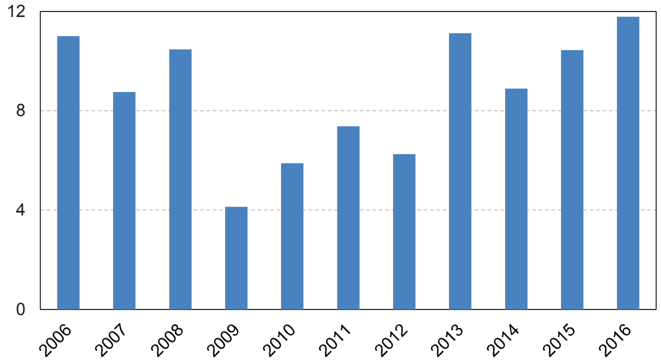
Figure 3.11
The Effect of Price Changes on the Balance of Nonresidents' Financial Investments in Israeli Share Capital, 2014:Q1–2016:Q4



SOURCE: Based on Bloomberg.

The increase in the balance of direct investments was mainly the result of net direct investment by nonresidents in the share capital of Israeli companies. This flow was characterized by a diversification of investments among various industries, and totaled about $12 billion—higher than the yearly average of direct investments in share capital between 2013 and 2015 ($10 billion).

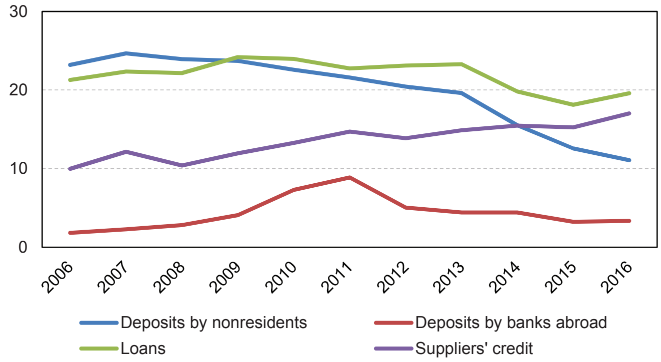
Figure 3.12
Direct Investments by Nonresidents in Israeli Share Capital, 2006–16
($ billion)



SOURCE: Bank of Israel.

The balance of nonresidents' other investments in Israel increased in 2016, mainly due to an increase in loans to Israelis and in suppliers' credit. Net loans by nonresidents to Israelis, and an increase in the flow of suppliers' credit issued by nonresidents to Israelis, against the background of increased imports in 2016, were partly offset by continued net withdrawals by nonresidents from deposits in Israeli banks (nonresident deposits).

Figure 3.13
The Balance of Nonresidents' Other Investments in the Israeli Economy by Instrument, 2006–16 ($ billion)



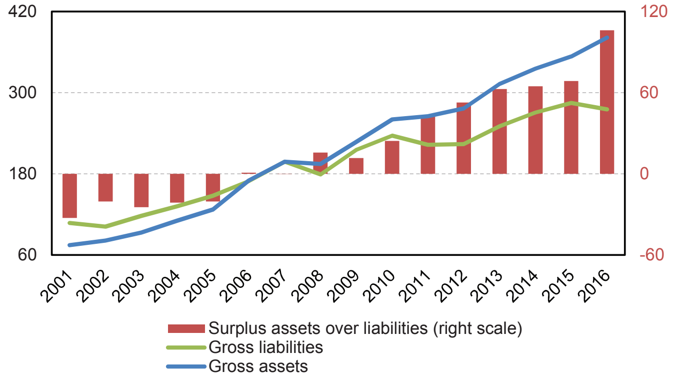
SOURCE: Based on company reports.

3. SURPLUS ASSETS OVER LIABILITIES

In 2016, the upward trend in the surplus of assets over liabilities vis-à-vis abroad increased.

Israel's surplus assets over liabilities increased by about $38 billion (55 percent), to $106 billion (33 percent of GDP), through a combination of a marked increase in the value of Israel's gross assets and a decline in the value of Israel's gross liabilities.

Figure 3.14
Israel's Surplus Assets (+) Over Liabilities vis-a-vis Abroad, 2001–16
($ billion)

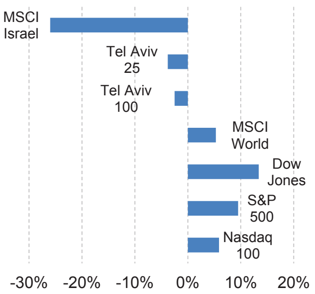


SOURCE: Bank of Israel.

A contributing factor to the acceleration of the surplus assets over liabilities was the contrary developments of the domestic and foreign share price indices.

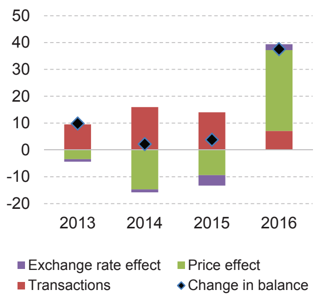
Share price increases abroad increased the balance of assets held abroad by Israelis, while share price declines in Israel lowered the balance of Israelis' liabilities to abroad. As a result, the net effect of prices changes increased the surplus assets over liabilities by about $31 billion. The effect of the net flow of investments (including reserve assets) on the surplus of assets over liabilities was smaller this year than in previous years, amounting to a net export of capital totaling about $7 billion.

Figure 3.15a
Israeli and Global Stock Indices: Cumulative Rate of Change, 2016



SOURCE: Based on Bloomberg data.

Figure 3.15b
Sources of Change in Israel's Surplus of Assets over Liabilities[a], 2013–16 ($ billion)



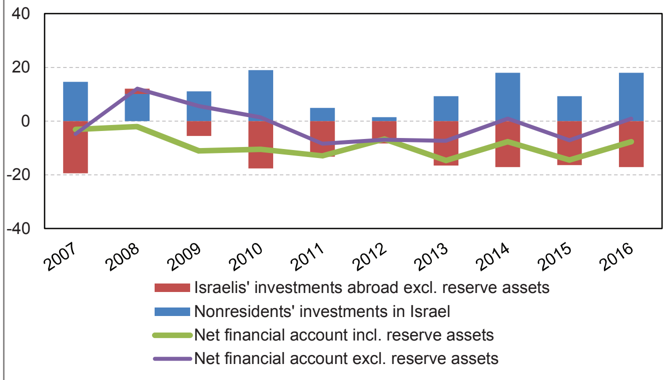
[a] The sources of change do not include other adjustments.

SOURCE: Bank of Israel.

In 2016, the net capital flows to and from Israel (excluding reserve assets) were balanced, in contrast with the net export of capital the previous year.

Most of the contribution to the import of capital was made by direct and financial investments in Israel by nonresidents. Most of the contribution to the export of capital was from direct investments abroad by Israelis.

Figure 3.16
Nonresidents' Investments in Israel (+) and Israelis' Investments Abroad (-), 2007–16 ($ billion)

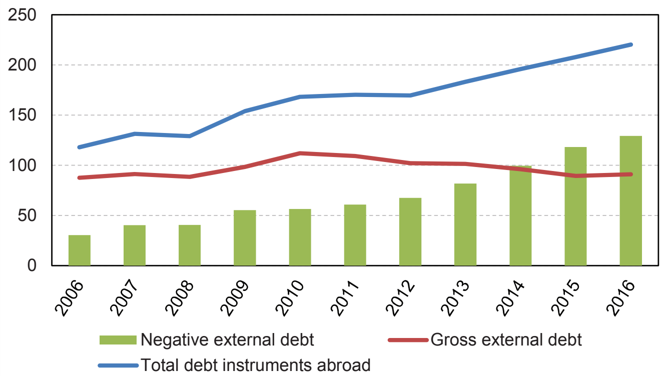


SOURCE: Bank of Israel.

Israel's surplus of assets in debt instruments only (negative net external debt) also increased in 2016, 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 $11 billion (9 percent), to $129 billion at the end of the year.

Figure 3.17
Negative External Debt[a], 2006–16 ($ billion)



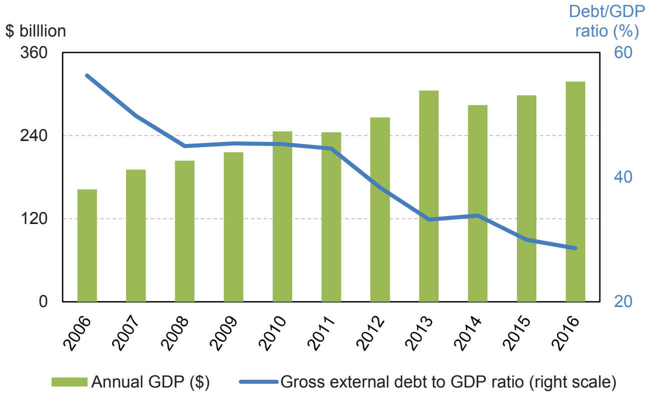
[a] Surplus assets over liabilities in debt instruments only. Positive values = debts owed to Israel from abroad.

SOURCE: Bank of Israel.

Despite the increase in Israel’s gross external debt to abroad, the downward trend in the external debt to GDP ratio continue.

The decline in the gross external debt to GDP ratio from 30 percent at the end of 2015 to 28.6 percent at the end of 2016 was a result of the continued growth of nominal GDP (6.5 percent) together with the lower growth of gross external debt to abroad (1.8 percent).

Figure 3.18
Gross Domestic Product and Gross Debt to GDP Ratio, 2006–16



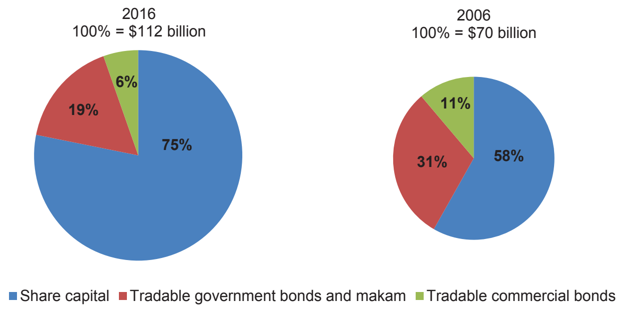
SOURCE: Based on Central Bureau of Statistics.

ZOOM IN

FINANCIAL INVESTMENTS

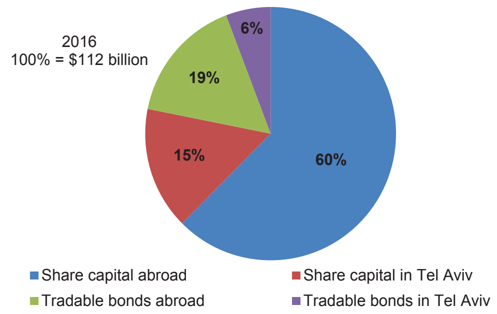
Nonresidents' financial investments in Israel increased significantly in the past decade, a result of increased investments in share capital only.

Figure 3.19
Distribution by Investment Instrument, 2006 and 2016



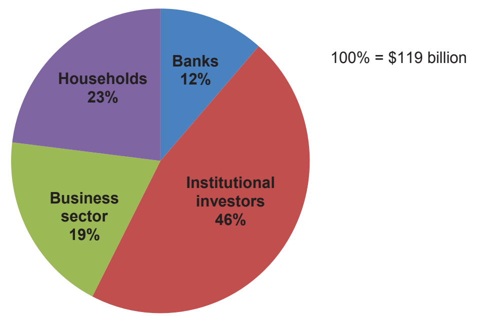
About 60 percent of nonresidents' financial investments in Israel are concentrated in Israeli share capital traded abroad.

Figure 3.20
Distribution by Investment Instrument and Trading Location, December 2016



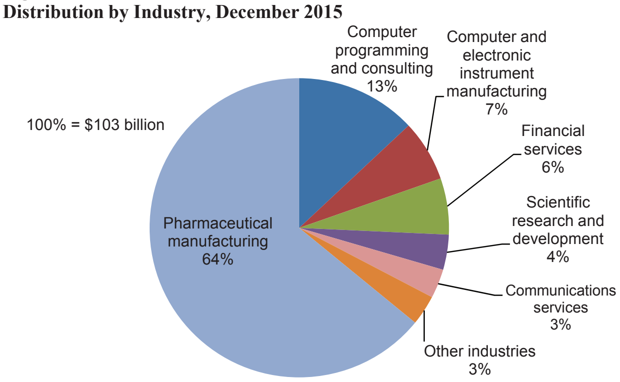
About 46 percent of Israelis' financial investments abroad are held by institutional investors.

Figure 3.21
Distribution by Investing Sector, December 2016



About 64 percent of nonresidents' financial investments in Israeli shares are concentrated in the parmaceutical manufacturing industry.

Figure 3.22
Distribution by Industry, December 2015



SOURCE: Bank of Israel.

Main indicators of activity vis-à-vis abroad

		2012	2013	2014	2015	2016
Indicators (percent)						
Financial robustness of the economy	Gross external debt to GDP	38.3	33.2	33.9	30.0	28.6
Liquidity vis-à-vis abroad	Short-term debt assets to total short-term debt*	276.0	302.0	342.2	387.5	425.2
	Foreign exchange reserves to short-term debt assets	63.0	62.4	62.6	65.2	66.5
Risks to the value of Israeli's assets abroad	Risk assets** as a share of total assets	60.5	63.0	64.0	63.7	64.0
	Stocks as a share of total assets	36.8	39.4	39.2	38.8	39.7
Openness of the economy vis-à-vis abroad	Assets + liabilities (vis-à-vis abroad) as a share of GDP	188.0	184.6	213.3	214.0	206.5
	Imports + exports (goods and services) as a share of GDP	72.1	64.5	62.6	58.4	57.7
Real contribution of abroad to the economy (liabilities)	Flow of direct investment as a share of gross capital inflow	5.8	0.9	0.7	1.2	0.7
	Flow of direct investment as a share of GDP	3.2	4.1	2.4	3.9	3.9
Main raw figures ($ billion)						
Balances	Balance of assets abroad	276.5	312.9	335.3	353.4	381.4
	of which: Reserves	75.9	81.8	86.1	90.6	98.4
	Balance of liabilities to abroad	223.7	250.3	270.6	284.9	275.3
	Surplus assets over liabilities	52.8	62.6	64.7	68.5	106.1
	Net external debt	-67.5	-81.8	-99.5	-118.3	-129.2
Transactions	Israelis' investments abroad	7.9	22.9	25.7	23.5	25.1
	of which: Direct investments	3.3	5.5	3.7	9.9	12.5
	Financial investments	7.5	9.3	10.3	9.9	1.6
	Nonresidents' investments in Israel	1.5	13.4	9.7	9.4	18.0
	of which: Direct investments	8.5	12.4	6.7	11.5	12.3
	Financial investments	-3.3	1.8	9.6	3.1	2.9
Basic account	Net current account surplus	1.6	9.8	11.9	13.7	12.4
	Net foreign direct investment	5.2	6.9	3.1	1.6	-0.2
	Basic account surplus	6.8	16.8	15.0	15.4	12.2

* Short-term debt: Term to repayment of up to one year from the date of issue.
** Risk assets: Stocks (direct and financial investment) and corporate bonds.

SOURCE: Bank of Israel.

MAIN TERMS

Direct investment—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, 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 motive and purpose of the investor. 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—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).