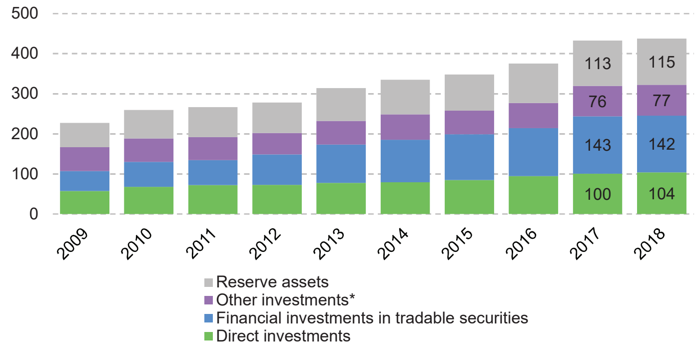
C. ECONOMIC ACTIVITY VIS-À-VIS ABROAD

Israel's surplus of assets over liabilities vis-à-vis abroad declined in 2018, for the first time in 8 years. The economy's negative external debt also declined this year, after continually increasing in recent years—due to an increase in outstanding liabilities in debt instruments and a decline in assets in debt instrument.
Israel's balance of liabilities to abroad increased during the year, continuing the increase from the previous year. The increase was due to the flow of nonresidents' direct investments in the economy, mainly in shares.
Israel's balance of assets abroad increased more moderately this year than last, and was concentrated in the balance of Israelis' direct investments abroad as a result of the net flow of investments. Israelis' financial investments abroad, which were concentrated in shares, were more than offset by price declines in those investments.

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 direct investments abroad by Israelis.

Figure 3.1
Balance of Israel's Assets Abroad, 2009–18 ($ billion)



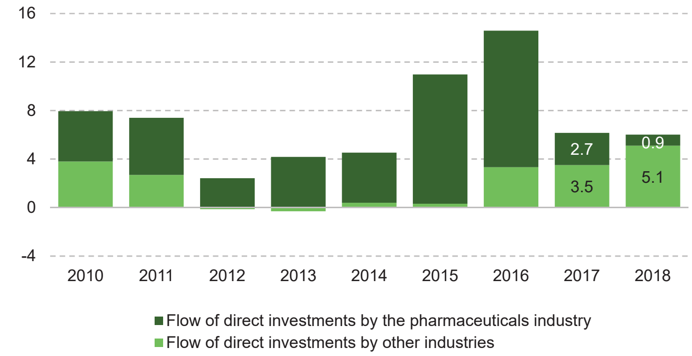
* The balance of other investments includes the balance of derivative instruments.
SOURCE: Bank of Israel.

The balance of Israelis' assets abroad increased by about $5.3 billion (1.2 percent), to $438 billion, a result of increases of about $3.3 billion (3.3 percent) in the balance of direct investments, about $2.3 billion (2 percent) in the balance of reserve assets, and about $0.9 billion (1.2 percent) in the balance of other investments. In contrast, the balance of financial investments declined by about $1.2 billion (0.9 percent).

The flow of Israelis' direct investments abroad continued in 2018, and the decline in direct investments by companies in the pharmaceuticals industry continued.

Net direct investment abroad by Israelis totaled $6 billion, mostly in shares. Direct investments by the pharmaceuticals industry totaled only about $0.9 billion during the year, significantly less than the average of the previous eight years ($5.5 billion).

Figure 3.2
Flow of Israelis' Net Direct Investments Abroad, 2010–18 ($ billion)

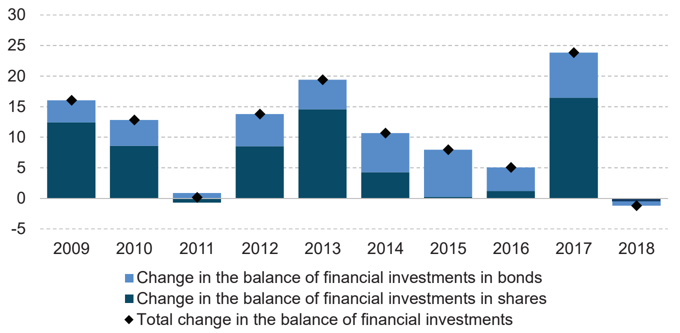


SOURCE: Bank of Israel.

The balance of financial investments abroad by Israelis declined slightly in 2018.

The balance of financial investments abroad by Israelis in bonds and shares declined by about $1.2 billion, in contrast with an increase of about $7.4 billion in the balance of investments in bonds and about $16.4 billion in the balance of investments in shares in the previous year.

Figure 3.3
Change in the Balance of Israelis' Financial Investments Abroad by Instrument, 2009–18 ($ billion)

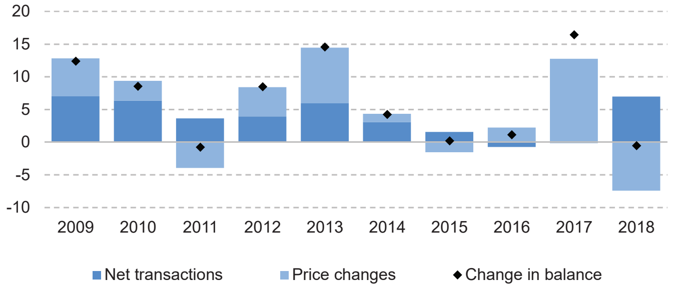


SOURCE: Bank of Israel.

The relative stability in the balance of financial investments in foreign shares by Israelis reflected an offsetting of a high flow of investment by significant price declines.

Net financial investments in foreign shares totaled about $7 billion in 2018—the largest flow of investments in the past decade. These investments were more than offset by sharp declines in the prices of foreign shares held by Israelis, which lowered the balance of investments by about $7.4 billion.

Figure 3.4
The Effect[a] of Net Transactions and Price Changes on the Balance of Israelis' Financial Investments in Shares Abroad, 2009–18 ($ billion)

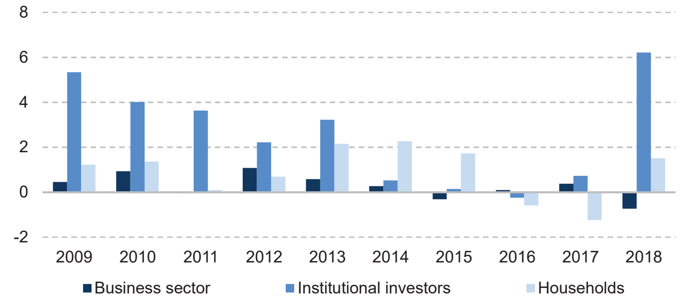


[a] The causes of change in the balance presented in the figure do not include exchagne rate differentials and other adjustments.
SOURCE: Bank of Israel.

The main investors in foreign share capital were the institutional investors.

Institutional investors' financial investments in foreign share capital totaled about $6.2 billion in 2018–the largest volume of net investment in recent years. The volume of net financial investment by households totaled about $1.5 billion during the year, after net realizations in the previous two years.

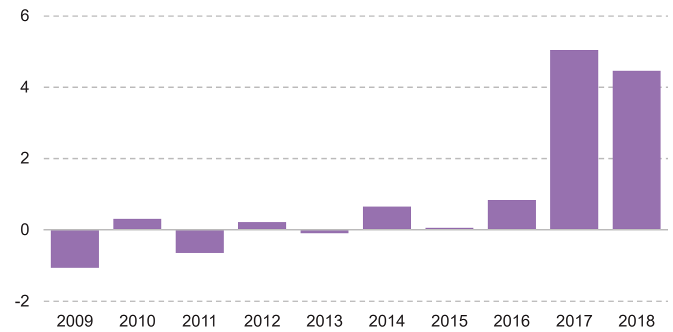
Figure 3.5
Net Flow of Israelis' Financial Investments[a] in Foreign Share Capital by Sector, 2009–18 ($ billion)



[a] Excluding the banking sector, whose investments in foreign equities are near zero throughout the displayed period.
SOURCE: Bank of Israel.

The balance of other investments abroad by Israelis increased in 2018, mainly due to the flow of financial loans[1], most of which were issued by a group of companies in the computer production and programming industry, similar to the previous year.
The financial loans issued by Israelis to nonresidents in 2018 totaled about \$4.5 billion—higher than the average of the previous 8 years (\$0.8 billion).

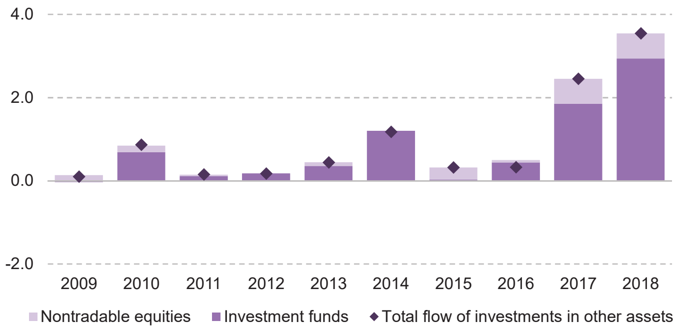
Figure 3.6
Financial Loans Issued by Israelis to Nonresidents, 2009–18 (\$ billion)



SOURCE: Bank of Israel.

The increase in the balance of other investments was also due to the flow of Israelis' investments in other assets abroad, which was concentrated in investment funds, similar to the previous two years.
The flow of investments in other assets totaled about \$3.5 billion in 2018, significantly higher than in previous years. Most of the investments were in investment funds abroad, and were made by institutional investors.

Figure 3.7
The Flow of Israelis' Investments in Other Assets Abroad, 2009–18
(\$ billion)



SOURCE: Bank of Israel.

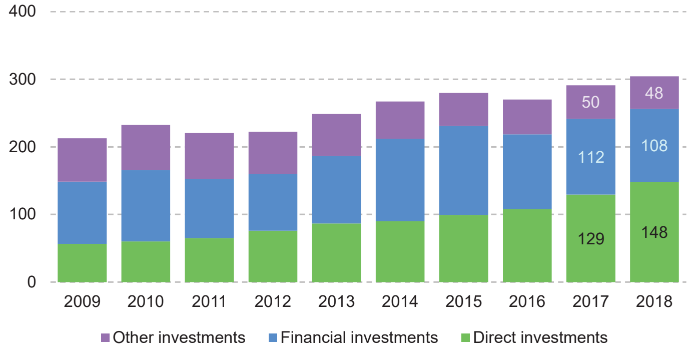
1 See the list of main terms at the end of this Section.

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

In 2018, the balance of Israelis' liabilities to abroad increased, due to an increase in the balance of direct investments in Israel by nonresidents.

The balance of Israelis' liabilities to abroad increased by about $13.3 billion (4.6 percent), to $304 billion, due to an increase of about $18.9 billion (14.6 percent) in the balance of direct investments. In contrast, the balance of financial investments declined by about $4.2 billion (3.7 percent), and the balance of other investments declined by about $1.4 billion (2.8 percent).

Figure 3.8
Israel's Outstanding Liabilities to Abroad, 2009–18 ($ billion)

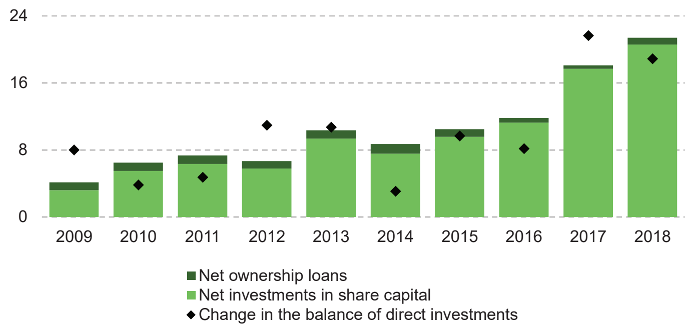


SOURCE: Bank of Israel.

The increase in the balance of direct investments was mainly the result of the net flow of direct investments in share capital.

Net direct investments totaled about $21.8 billion in 2018, continuing the upward trend of recent years. The flow of investments was concentrated in share capital, and about half was invested in the capital of three large Israeli companies.

Figure 3.9
The Effect of Net Transactions on the Balance of Nonresidents' Direct Investments in Israel, 2009–18 ($ billion)

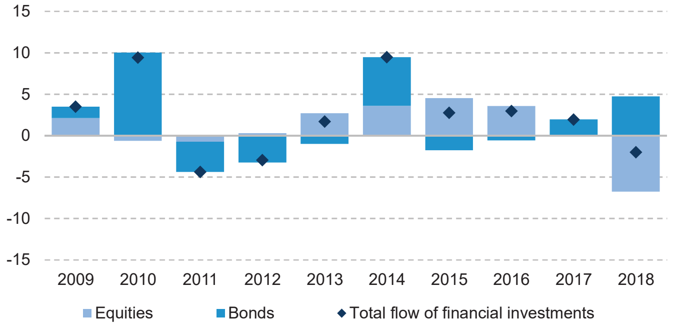


SOURCE: Bank of Israel.

The decline in the balance of financial investments was due to net realizations of Israeli shares, which were mostly offset by net investments in bonds.

Net realizations of shares by nonresidents during the year totaled about $6.8 billion, in contrast with net investments in Israeli shares in the previous five years averaging $2.9 billion. These realizations were partly offset by net investments in Israeli bonds totaling about $4.7 billion, mainly in government bonds, as a result of an issuance abroad totaling $2 billion in January 2018.

Figure 3.10
The Flow of Nonresidents' Financial Investments in Israel by Instrument, 2009–18 ($ billion)

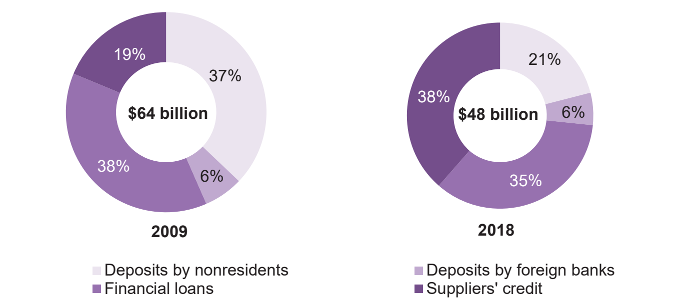


SOURCE: Bank of Israel.

The balance of nonresidents' other investments in Israel declined in 2018, further to the declines of the past decade.

Most of the decline during this period has been concentrated in nonresidents' foreign currency deposits in Israel, the balance of which was about $24 billion in 2009, and just $10 billion in 2018.

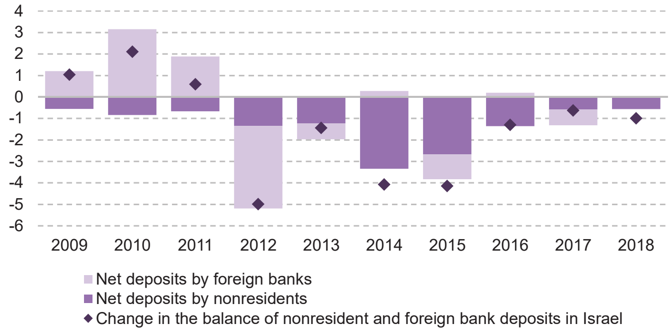
Figure 3.11
Composition of the Balance of Nonresidents' Other Investments in Israel, 2009 and 2018



SOURCE: Bank of Israel.

The balance of deposits by nonresidents and foreign banks in Israel declined in 2018 as a result of net withdrawals, further to the previous six years.
Net withdrawals totaled about $0.6 billion in 2018, and were concentrated in nonresidents deposits (excluding banks). This was further to the trend of net withdrawals by nonresidents in the past decade.

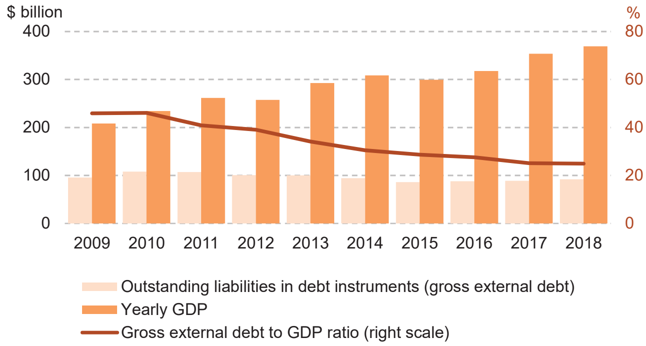
Figure 3.12
The Flow of Net Deposits by Nonresidents and Foreign Banks in Israel, 2009–18 ($ billion)



SOURCE: Based on reports from the banks.

The gross external debt[2] to GDP ratio did not change significantly in 2018.
The rate of growth of Israel's gross external debt totaled about 3.9 percent in 2017. In parallel, GDP grew by about 4.5 percent in dollar terms. As a result, the external debt to GDP ratio declined by 0.1 percentage points, remaining at about 25 percent at the end of the year.

Figure 3.13
Gross External Debt and External Debt to GDP Ratio, 2009–18



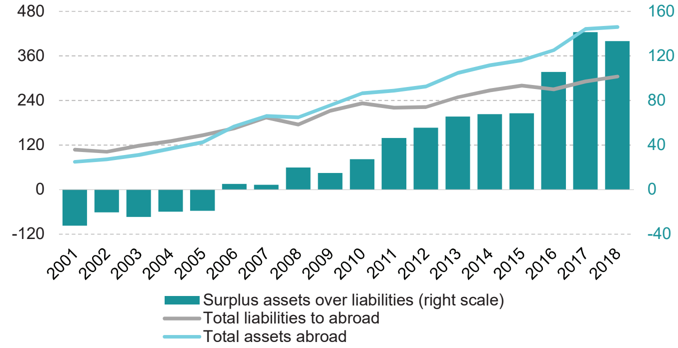
SOURCE: Based on Central Bureau of Statistics data.

2 For further details on definitions, explanations and calculations regarding external debt, see "Measuring the Country's External Debt" in Part Two of the Statistical Bulletin for 2017.

3. SURPLUS ASSETS OVER LIABILITIES

In 2018, Israel's surplus of assets over liabilities vis-à-vis abroad declined, after significant increases in the previous two years.
Israel's surplus of assets over liabilities vis-à-vis abroad declined by about $8 billion (5.7 percent), to $133 billion (36.1 percent of GDP), because the increase in the value of gross liabilities ($13 billion, 4.6 percent) was higher than the increase in the balance of gross assets ($5 billion, 1.2 percent).

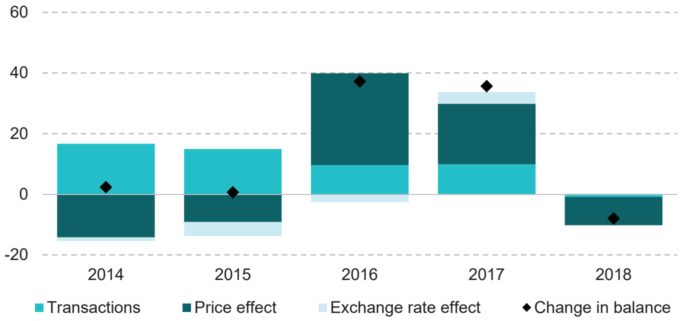
Figure 3.14
Israel's Surplus Assets (+) over Liabilities vis-a-vis Abroad, 2001–18
($ billion)



SOURCE: Bank of Israel.

The decline in the surplus of assets over liabilities was mainly due to decline sin the prices of foreign shares held by Israelis. Net transactions had a negligible effect.
The net effect of price changes lowered the surplus of assets over liabilities by about $9.3 billion. The net effect of transactions lowered the surplus of assets by just $0.9 billion. This is contrary to the previous four years, when the net effect of transactions increased the surplus of assets over liabilities by an average of about $12.8 billion.

Figure 3.15
Sources of Change in Israel's Surplus of Assets over Liabilities[a], 2014–18
($ billion)

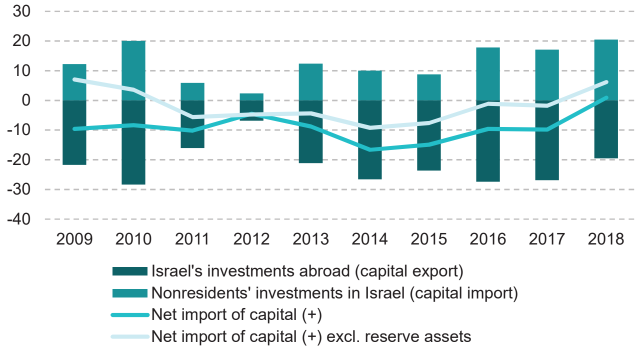


[a] The sources of change do not include other adjustments.
SOURCE: Bank of Israel.

The negligible volume of net transactions reflected an offsetting between nonresidents' investments in Israel ($20.5 billion) and investments abroad by Israelis ($19.6 billion).

Net capital transactions (excluding reserve assets) to and from Israel resulted in a net import of capital totaling $6 billion in 2018. This is contrary to previous years, when there was a net export of capital.

Figure 3.16
Nonresidents' Investments in Israel and Israelis' Investments Abroad, 2009–18 ($ billion)

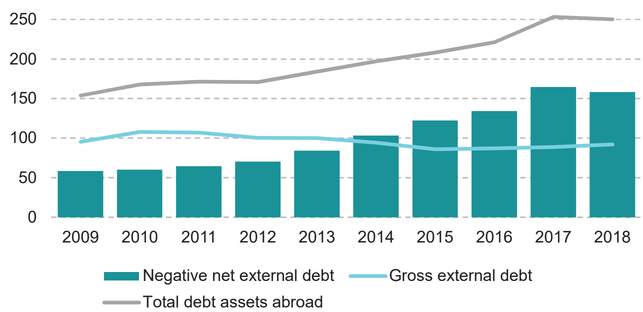


SOURCE: Bank of Israel.

The surplus of assets over liabilities in debt instruments also declined in 2018, contrary to the continued increase in recent years.

In 2018, the balance of assets in debt instruments declined (by $3 billion, 1.2 percent), mainly due to withdrawals from deposits abroad. In parallel, Israel's gross external debt to abroad increased (by $3.4 billion, 3.9 percent), mainly due to the net flow of investments in Israeli bonds. As a result, the surplus of assets over liabilities vis-à-vis abroad in debt instruments alone (negative net external debt) declined by about $6.4 billion (3.9 percent), to $158 billion at the end of the year.

Figure 3.17
Negative External Debt[a], 2009–18 ($ billion)



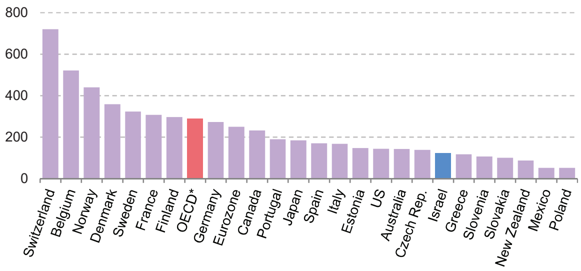
[a] Surplus assets over liabilities in debt instruments only. Positive values = debts owed to Israel from abroad.
SOURCE: Bank of Israel.

ZOOM-IN

INTERNATIONAL COMPARISONS

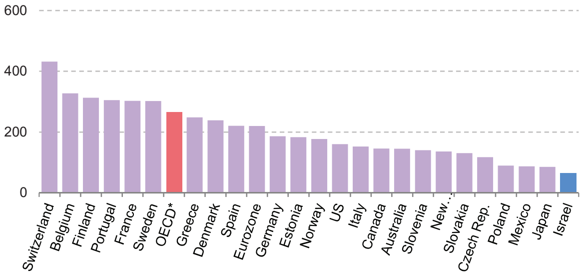
The assets to GDP ratio in Israel was 123 percent in 2017, lower than the OECD average of 291 percent.

Figure 3.18
International Comparison of Assets to GDP Ratios, 2017 (percent)



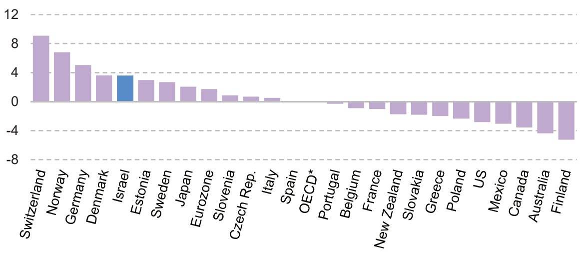
The liabilities to GDP ratio in Israel was 85 percent in 2017, lower than the OECD average of 302 percent.

Figure 3.19
International Comparison of Liabilities to GDP Ratios, 2017 (percent)



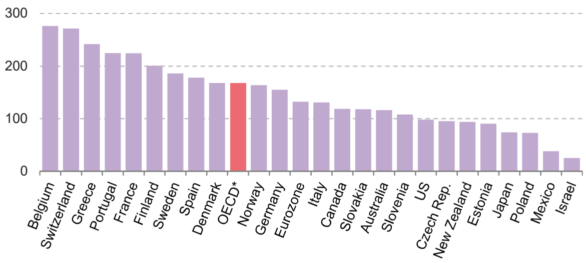
The net import of capital relative to GDP in Israel averaged about 4 percent between 2010 and 2017, higher than the average ratio in the OECD, which was about zero.

Figure 3.20
International Comparison of the Net Import/Export of Capital Relative to GDP, 2010–17 Average (percent)



The gross external debt to GDP ratio in Israel is lower than in other OECD countries, at 25 percent in 2017.

Figure 3.21
International Comparison of the Gross External Debt to GDP Ratio, 2017 (percent)



* The OECD average was calculated as a simple average, and does not include data for Luxembourg, which is a statistical outlier.
SOURCE: Bank of Israel.

Main indicators of activity vis-à-vis abroad						
$ billion		Balance to the end of 2017	Transactions	Price changes	Exchange rate differentials and other adjustmens	Balance to the end of 2018
Israel's Assets		**432.2**	**19.5**	**-9.3**	**-5.0**	**437.5**
of which:	Debt instruments*	253.3	1.6	-2.4	-2.2	250.3
Direct investments abroad		**100.3**	**6.0**	**-0.8**	**-1.9**	**103.6**
of which:	Share capital and land	86.1	7.3	-0.8	-1.9	90.8
	Owners' loans	14.1	-1.3	0.0	0.0	12.8
Financial investments		**143.0**	**7.2**	**-8.4**	**-0.1**	**141.8**
of which:	Share capital	78.2	7.0	-7.4	-0.1	77.7
	Bonds	64.8	0.2	-0.9	0.0	64.1
Other investments abroad		**76.4**	**1.0**	**1.2**	**-0.5**	**78.2**
of which:	Deposits by Israelis (including banks)	18.8	-5.4	-0.1	0.2	13.5
	Loans	17.0	4.5	0.0	-0.2	21.2
	Customer credit	25.6	-1.6	0.0	-0.5	23.5
	Other assets	15.1	3.5	1.4	0.0	20.0
Reserve assets		**113.0**	**5.3**	**-1.3**	**-1.7**	**115.3**
Derivative instruments		-0.5	0.1	0.0	-0.9	-1.4
Israel's Liabilities		**291.0**	**20.5**	**0.1**	**-7.2**	**304.3**
of which:	Debt instruments	88.6	6.2	0.0	-2.8	92.1
Direct investments		**129.1**	**21.8**	**-2.7**	**-0.1**	**148.0**
of which:	Share capital and land	121.3	20.6	-2.7	-0.1	139.4
	Owners' loans	7.8	0.8	0.0	0.0	8.6
Financial investments		**112.2**	**-2.0**	**2.8**	**-5.0**	**108.0**
of which:	Share capital	81.1	-6.8	2.8	-4.3	72.8
	Bonds	31.1	4.7	0.0	-0.7	35.2
Other investments		49.7	0.7	0.0	-2.1	48.3
of which:	Depsits by nonresidents and foreign banks	13.9	-0.6	0.0	-0.4	12.9
	Loans	17.0	0.5	0.0	-0.7	16.8
	Suppliers' credit	18.8	0.8	0.0	-0.9	18.6
Net Liabilities**		**-141.2**	**0.9**	**9.3**	**-2.2**	**-133.2**
of which:	Net debt instruments	-164.6	4.6	2.4	-0.6	-158.2

* 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 reports[1] 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 investment[1]—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.
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

[1] 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.

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)

Special Drawing Rights (SDRs)—Withdrawal rights allocated by the IMF in international currency, which is calculated according to the average of the currencies of IMF member countries, for the purpose of covering liabilities and balance of payments deficits.

Changes in the composition of the asset portfolio vis-à-vis abroad—As part of the analysis of developments in Israel's asset portfolio abroad, it is common to examine the composition of the portfolio (the rate of investment in capital assets vs. debt assets) and changes in it. Debt assets are considered more secure, since the debt must be repaid even during a crisis. In contrast, capital assets lose some of their value during a crisis, and the economy loses capital it has invested abroad as a result.

Capital assets—Direct and financial investments in shares.

Debt assets—Owners' loans, bonds, direct credit, deposits, and financial loans.