

## C. ECONOMIC ACTIVITY VIS-À-VIS ABROAD

The flow of Israelis' investments abroad continued in 2015. Financial investments by households and institutional investors continued, and there was a marked increase in direct investments by Israelis abroad. These investment flows were partly offset by realizations in other investments. Positive investment flows during the year led to an increase in Israelis' assets abroad.

There was also an increase in the balance of investments by nonresidents in Israel during 2015. The trend of financial and direct investments in Israel continued, with those investments partly offset by nonresidents' realizations of other assets in Israel.

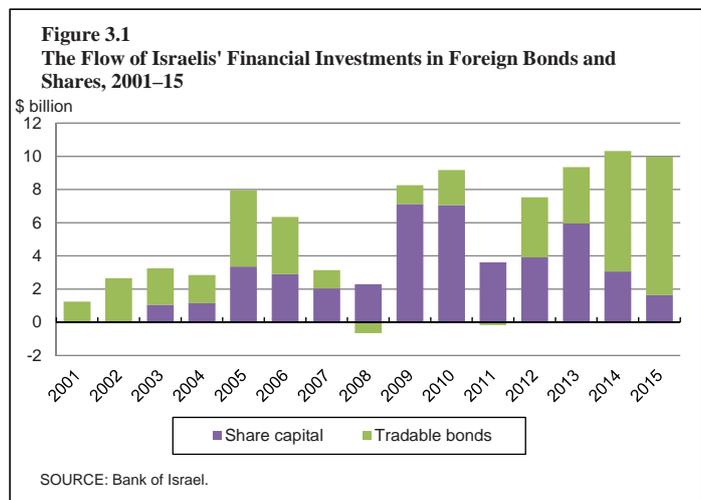
The strong fluctuations in securities prices in Israel and around the world in the second half of the year decreased the balance of investments by Israelis abroad, while increasing the balance of investments by nonresidents in Israel.

In 2015, there was a marked return to the downward trend in the external debt to GDP ratio as a result of increased output, with a decline in the balance of external gross debt to abroad.

### 1. ISRAELIS' ASSETS ABROAD—INVESTMENTS ABROAD BY ISRAELIS

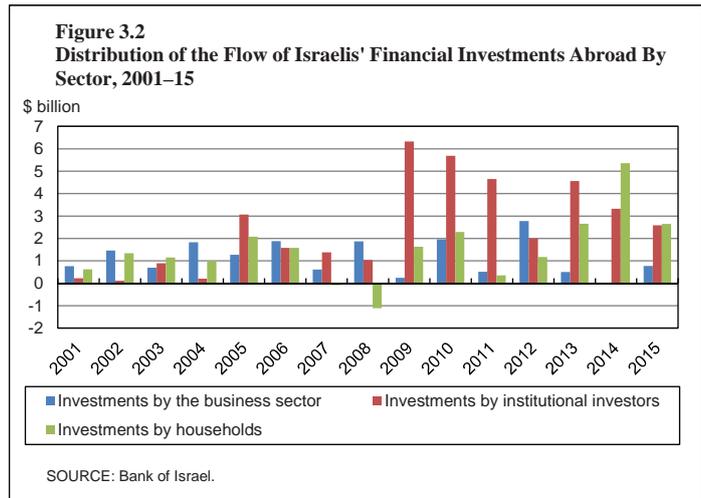
In 2015, the high level of financial investment abroad by Israelis was maintained.

In the past four years, there has been a marked upward trend in the flow of financial investments in foreign bonds (an average of \$5.7 billion), in parallel to continued more moderate financial investments in share capital (an average of \$3.6 billion).



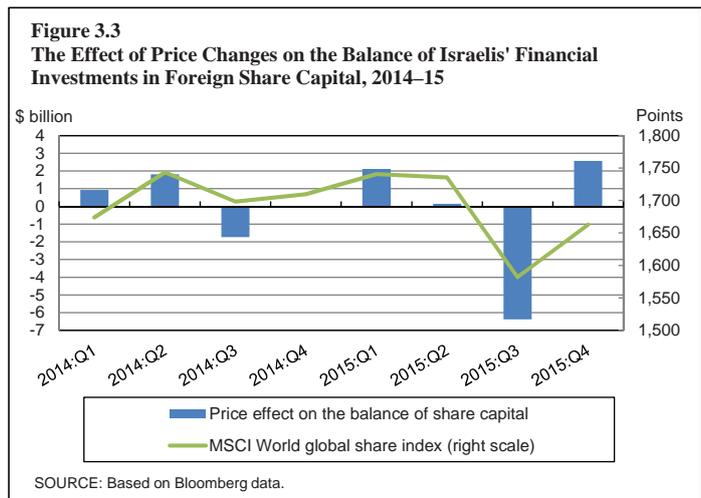
In 2015, financial investments were mainly by institutional investors and households, further to the trend of the past three years.

The flow of investments by institutional investors and households continued in 2015, but more moderately than in the previous two years. Most investments by institutional investors were in foreign bonds, while most of the investments by households were in share capital. Furthermore, there were investments by the business sector in 2015, mainly in foreign bonds, in contrast to realizations in the previous year.



In the second half of 2015, price changes had a strong effect on the balance of Israelis' financial investments in foreign share capital, in both directions.

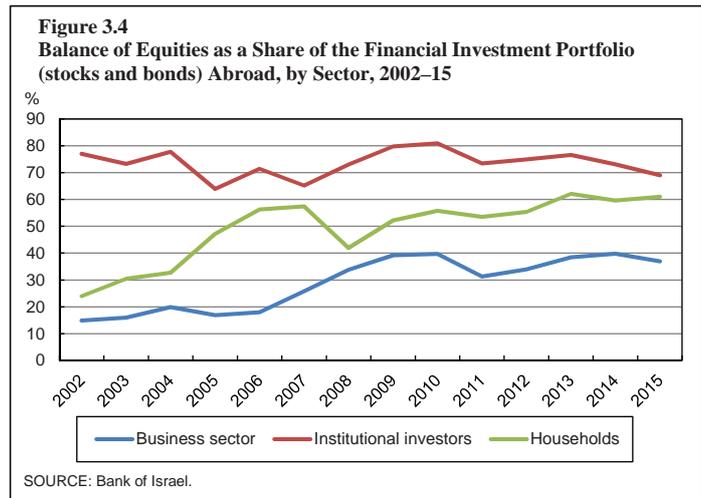
In the third quarter, share prices declined globally, apparently due to the slowdown in China and the decline in energy prices. This decline lowered the balance of investments in share capital by about \$6.3 billion (9.6 percent). The recovery in the global stock markets during the fourth quarter offset some of this effect. There was a price effect, which increased the balance by about \$2.6 billion (4.3 percent). Together with the price effect on the balance in the first half of the year, the change in share prices lowered the balance of financial investments over the course of the year by about \$1.5 billion.



In 2015, the upward trend in shares as a portion of households' investment portfolio, which began in 2002, continued. In contrast, this trend was halted in the business sector's investment portfolio.

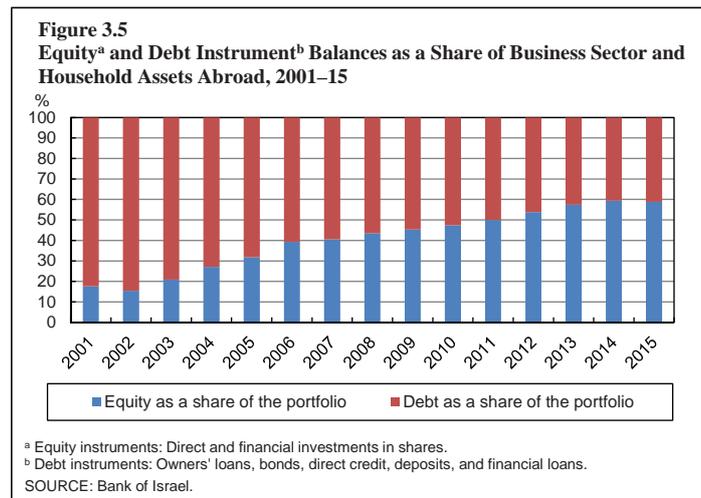
At the end of 2015, shares accounted for about 61 percent of the total securities portfolio of households (individuals and mutual funds)—a cumulative increase of 37 percentage points since 2002. Shares accounted for about 37 percent of the total securities portfolio of the business sector—a cumulative increase of 22 percentage points since 2002.

The increase in shares as a proportion of the total securities portfolio of households and of the business sector is mainly the result of a cumulative flow of investment in shares, which explains about 80 percent of the increase in the balance since 2002.



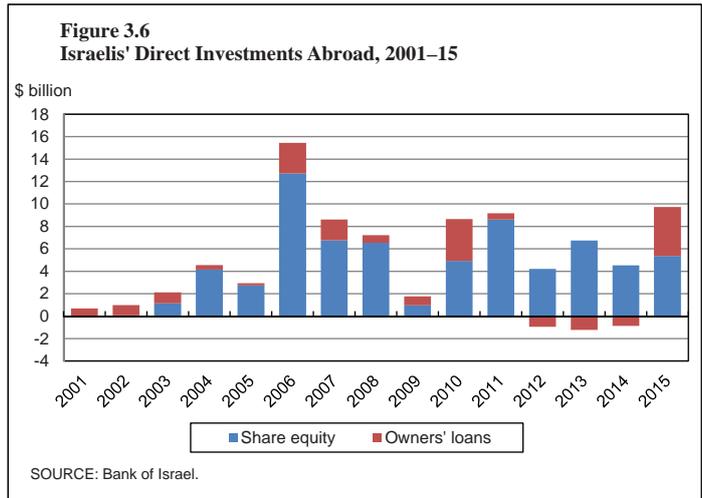
The upward trend in the balance of financial investments in shares by households and the business sector was also reflected in an increase in capital assets as a share of the total assets of these sectors.

The change in the mix of the asset portfolio held abroad by the business sector and households indicates a continued increase in the proportion of investment in shares (financial and direct), which reached about 60 percent in 2015.



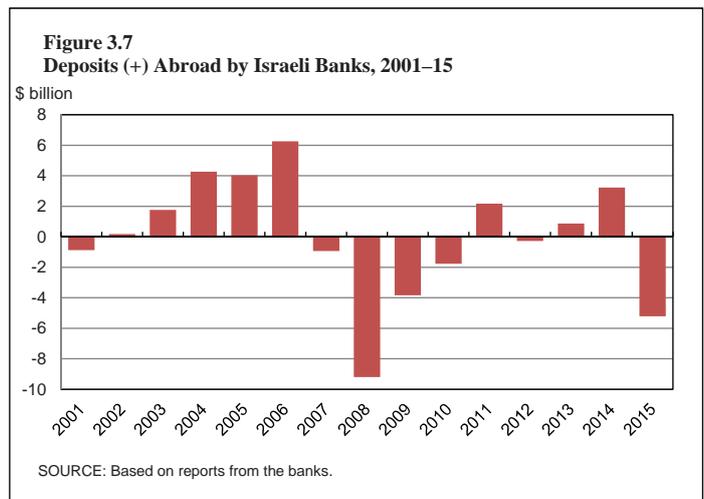
In 2015, there was an increase in the flow of direct investments abroad by Israelis, which was mainly the result of owners' loans.

Owners' loans totaling about \$4.3 billion were granted by Israelis to foreign subsidiaries (mainly one large company) in 2015, in contrast with repayments in the previous three years. In parallel, direct investments in share capital abroad by Israelis continued, totaling \$5.3 billion in 2015—slightly lower than the average over the previous 5 years (\$5.8 billion).



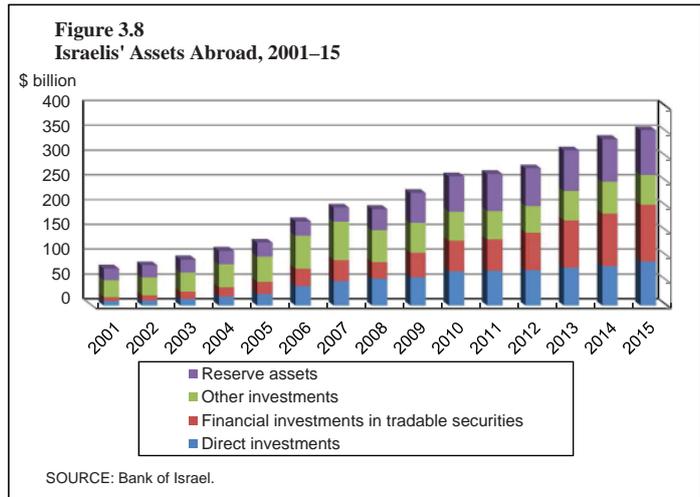
In 2015, there were withdrawals from Israeli banks' deposits abroad.

Withdrawals from deposits abroad by Israeli banks totaled about \$5.2 billion in 2015 (35 percent of the balance of deposits), in contrast to net deposits in the previous two years. This amount is lower than the withdrawals in 2008. In parallel, there were deposits by Israeli banks at the Bank of Israel.



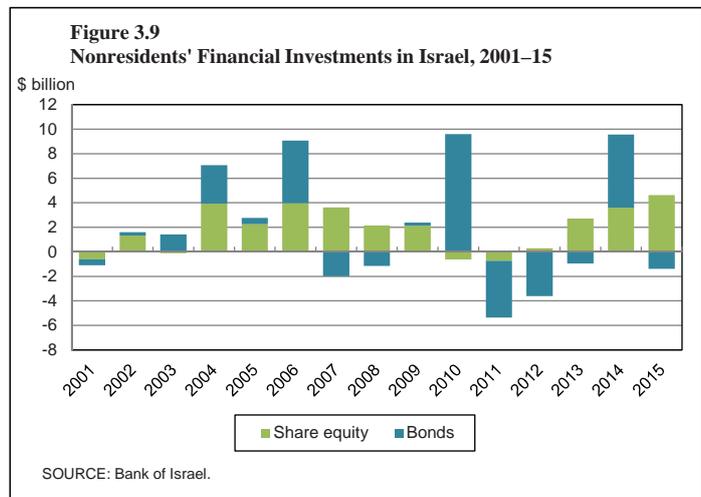
Continued financial and direct investment abroad by Israelis during the year was reflected in an increase in the balance of Israelis' assets vis-à-vis abroad during the year.

The net flow of direct investment abroad in 2015, combined with financial investments, and offset by the realizations of other investments abroad, contributed about \$16.6 billion to the increase in the balance of Israelis' assets abroad. During 2015, the effect of asset price changes on the value of investments was low, and the effect of changes in the exchange rate lowered the value of the investments. As a result of this and of the additional foreign exchange reserves during the year, the gross balance of Israelis' assets abroad increased by about \$18 billion (5.3 percent) in 2015, to about \$353 billion at the end of the year.



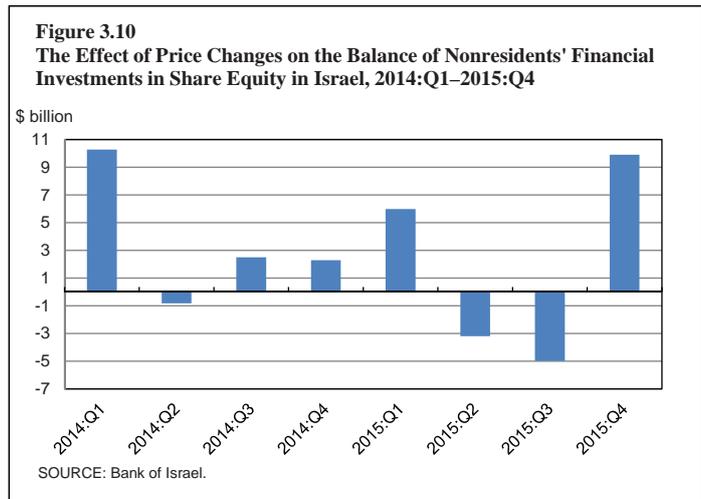
## 2. ISRAELIS' LIABILITIES ABROAD—NONRESIDENTS' INVESTMENTS IN ISRAEL

In 2015, there were net realizations by nonresidents of investments in Israeli bonds, in contrast to net investments in 2014, but the upward trend of financial investments in Israeli shares continued. Nonresidents realized about \$1.4 billion in Israeli bonds in 2015, compared with net investments in bonds in 2014. This was apparently due to the small changes in the interest rate gap between Israel and the US. In contrast, the increase in the flow of nonresidents' financial investments in the share capital of Israeli companies continued, mainly in shares traded abroad.



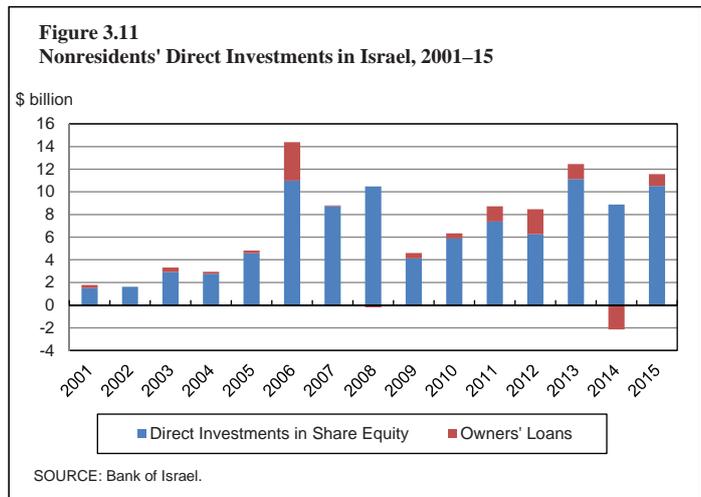
There was a strong price effect on the balance of financial investments in share capital by nonresidents in 2015.

The sharp increases in the prices of a small number of Israeli shares held by nonresidents—which constitute a large percentage of the portfolio—in the first and fourth quarters of 2015 were partly offset by declines in the prices of Israeli shares in the second and third quarters. The total price effect on the balance of nonresidents’ financial investments in Israeli share capital in 2015 increased the balance of investments by about \$7.4 billion (8 percent).



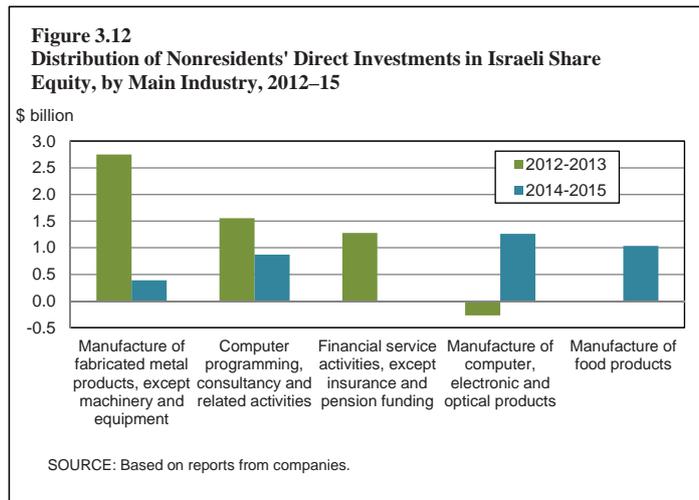
The flow of direct investments by nonresidents increased in 2015, mostly in share capital.

In 2015, there was a marked increase in the flow of direct investments in share capital in Israel, further to the high average level of the flow of investments in share capital in the past decade, which was \$6.7 billion.



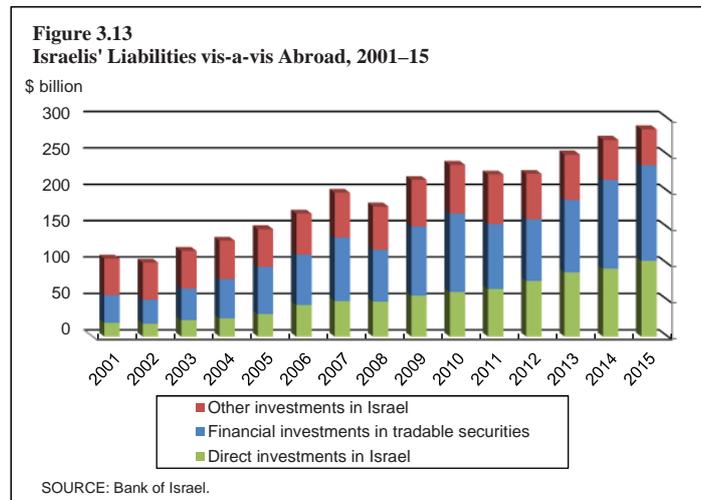
In the past two years, there has been a marked change in the principle industries, in which nonresidents made direct investments, transitioning from investments in the shares of metal product manufacturing companies and in financial services companies to investments in the computer manufacturing and food product industries.

In 2012 and 2013, nonresidents' direct investment in Israeli share capital focused on the following industries: metal product manufacturing (30 percent of the flow of investments); computer software (17 percent); and financial services (14 percent). In 2014 and 2015, nonresidents' direct investment in Israeli share capital focused on the software and computer manufacturing industries (25 percent), and the food products industry (12 percent).



The flow of nonresidents' direct and financial investments in Israel in 2015 led to an increase in the balance of Israelis' liabilities to abroad.

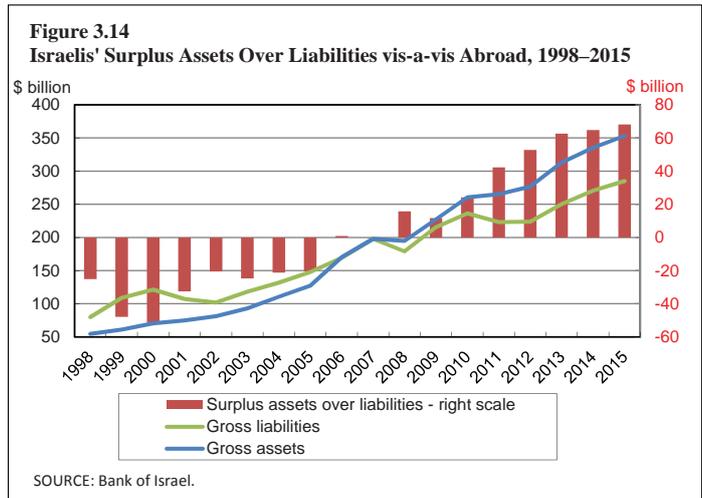
The flow of direct investments in Israel, combined with financial investments, and partly offset by withdrawals from other investments, mainly deposits, contributed about \$9.5 billion to the increase in the balance of Israelis' liabilities abroad. As a result, and due to the increase in the prices of Israeli shares held by nonresidents in the financial portfolio—together with the increase in the value of direct investments—there was a \$14.5 billion (5.3 percent) increase in the balance of Israelis' liabilities to abroad. The balance of Israelis' liabilities abroad was \$285 billion at the end of the year.



### 3. SURPLUS ASSETS OVER LIABILITIES

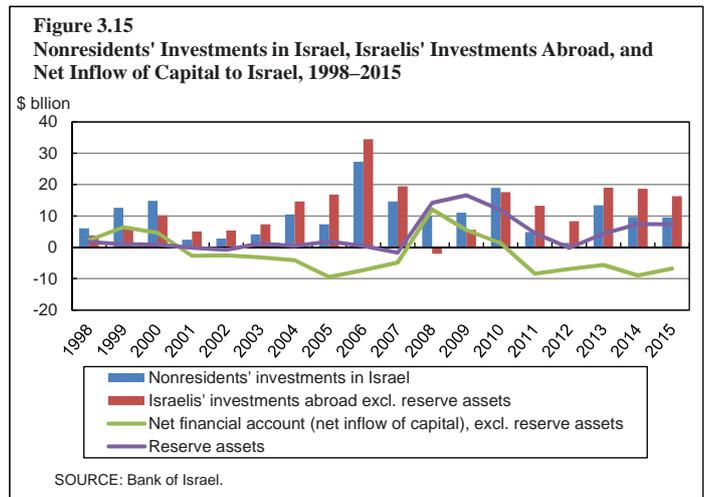
In 2015, the upward trend in the surplus of Israelis' assets over liabilities vis-à-vis abroad continued.

The increase in the value of the gross balance of assets (about \$18 billion, 5.3 percent) was partly offset by the increase in the value of the gross balance of liabilities (about \$14.5 billion, 5.3 percent). As a result, the surplus of Israelis' assets over liabilities vis-à-vis abroad increased by \$3.4 billion (5.2 percent) in 2015, to about \$68 billion (about 23 percent of GDP). In addition, the increase in the surplus of Israelis' assets over liabilities vis-à-vis abroad in debt instruments only (negative net external debt) continued, with the surplus reaching \$118 billion at the end of 2015.



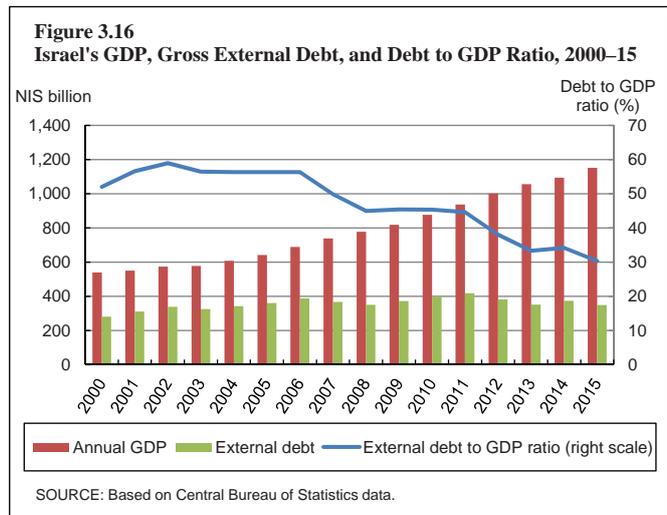
There was a decline in the net export of capital (excluding reserve assets) in 2015.

The decline in the net flow of nonresidents' investments in Israel continued in 2015. In parallel, the decline in the net flow of Israelis' assets abroad also declined, for the second year in a row. The decline in the flow of nonresidents' investments in Israel—in parallel with the sharper decline in the flow of Israelis' investments abroad, including the decline in the growth of reserves—led to a decline in the volume of net capital exports from Israel to abroad.



There was a return in 2015 to the downward trend in the external debt to GDP ratio, which was 30 percent at the end of the year.

The decline in the debt to GDP ratio is a result of the continued increased in nominal GDP, which was not accompanied by a similar increase in the balance of gross external debt. In 2015, nominal GDP increased by 5.2 percent, while gross external debt declined by 6.8 percent. As a result, the debt to GDP ratio declined by about 4 percentage points.



ZOOM IN



ISRAELI CORPORATE BOND OFFERINGS ABROAD<sup>1</sup>

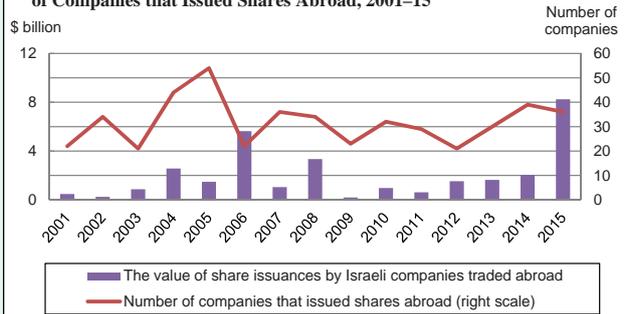
In 2015, the trend of concentration of the value of Israeli shares traded abroad in a small number of companies (out of about 100 Israeli companies traded abroad) continued

**Figure 3.17**  
Value of Israeli Shares Traded Abroad, and Number of Companies Traded Abroad That Constitute About 80 Percent of the Value of Israeli Shares Traded Abroad, 2001–15



The number of Israeli companies issuing shares abroad has been stable in the past 10 years. In 2015, there was a significant increase in the value of share issuances\* by Israeli companies abroad, mainly due to an issuance by one large company.

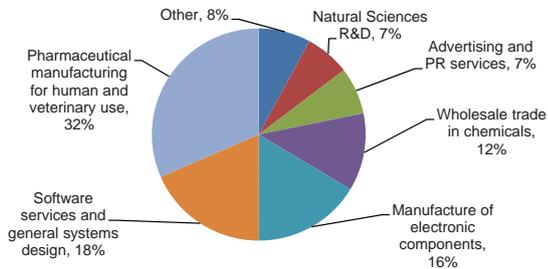
**Figure 3.18**  
The Value of Israeli Share Issuances Traded Abroad, and the Number of Companies that Issued Shares Abroad, 2001–15



\* IPOs and secondary offerings by Israeli companies traded abroad.

The value of IPOs\* by Israeli companies abroad in 2014–15 totaled about \$3 billion and was concentrated in the pharmaceutical manufacturing (32 percent) and software services (18 percent) industries.

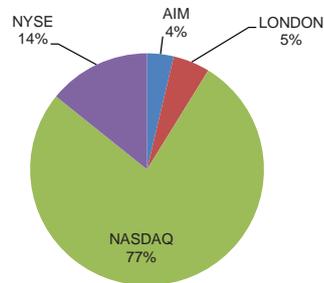
**Figure 3.19**  
Distribution of the Value of Israeli IPOs Abroad, by Industry, 2014–15



\* IPO: Initial offering by a company on the stock exchange.

The value of IPOs\* by Israeli companies abroad in 2014–15 totaled about \$3 billion and was concentrated in US stock exchanges.

**Figure 3.20**  
Distribution of the Value of Israeli IPOs Abroad, by Stock Exchange, 2014–15



\* IPO: Initial offering by a company on the stock exchange.

<sup>1</sup> Reporting nonfinancial companies only, which constitute about 67 percent of the balance.  
SOURCE: Based on company reports.

<b>Main indicators of activity vis-à-vis abroad</b>						
		<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Indicators (percent)</b>						
Financial robustness of the economy	Gross external debt to GDP	44.6	38.0	33.3	34.2	30.3
Liquidity vis-à-vis abroad	Short-term debt assets to total short-term debt*	240.4	276.0	302.0	342.2	380.6
	Foreign exchange reserves to short-term debt assets	60.7	63.0	62.4	62.6	65.3
Risks to the value of Israeli's assets abroad	Risk assets** as a share of total assets	57.2	60.5	63.0	64.0	63.7
	Stocks as a share of total assets	34.1	36.8	39.4	39.2	38.8
Openness of the economy vis-à-vis abroad	Assets + liabilities (vis-à-vis abroad) as a share of GDP	199.2	186.6	185.2	215.5	216.5
	Imports + exports (goods and services) as a share of GDP	71.5	72.4	64.6	62.9	59.5
Real contribution of abroad to the economy (liabilities)	Flow of direct investment as a share of gross capital inflow	1.8	5.8	0.9	0.7	1.2
	Flow of direct investment as a share of GDP	3.6	3.2	4.1	2.4	3.9
<b>Main raw figures (\$ billion)</b>						
Balances	Balance of assets abroad	265.3	276.5	312.9	335.3	353.3
	<i>of which: Reserves</i>	74.9	75.9	81.8	86.1	90.6
	Balance of liabilities to abroad	223.0	223.7	250.3	270.6	285.1
	Surplus assets over liabilities	42.2	52.8	62.6	64.7	68.2
	Net external debt	-60.8	-67.5	-81.8	-99.5	-118.1
Transactions	Israelis' investments abroad	17.8	7.9	22.9	25.7	23.6
	<i>of which: Direct investments</i>	9.2	3.3	5.5	3.7	9.7
	Financial investments	3.4	7.5	9.3	10.3	10.0
	Nonresidents' investments in Israel	4.9	1.5	13.4	9.7	9.5
	<i>of which: Direct investments</i>	8.7	8.5	12.4	6.7	11.6
	Financial investments	-5.4	-3.3	1.8	9.6	3.2
Basic account	Net current account surplus	6.8	4.3	8.5	11.2	13.8
	Net foreign direct investment	-0.4	5.2	6.9	3.1	7.0
	Basic account surplus	6.4	9.5	15.4	14.3	20.8

\* 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 on 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 distribution 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.