

C. Economic activity vis-à-vis abroad

The balance of Israel's assets abroad (Israelis' investments abroad) increased in 2021, further to the multiyear upward trend. The increase this year was mainly due to significant growth in Israelis' financial investments in tradable securities, and growth in Israel's foreign exchange reserve assets due to the Bank of Israel's interventions in the foreign exchange market.

Israel's outstanding liabilities to abroad (nonresidents' investments in Israel) increased markedly in 2021. Most of the increase was concentrated in nonresidents' financial investments in tradable securities—investments in Israeli equities and in Israeli government bonds—and in direct investments in Israeli companies.

The increase in outstanding liabilities was greater than the increase in the balance of assets, which led to a decline in Israel's surplus of assets over liabilities vis-à-vis abroad. At the same time, the balance of Israel's negative net external debt increased, due to an increase in the balance of assets in debt instruments alone, which was greater than the increase in the balance of liabilities in debt instruments alone.

These developments were also reflected in an increase in the ratio of gross external debt to GDP.

1. ISRAELIS' ASSETS ABROAD—ISRAELIS' INVESTMENTS ABROAD

The balance of Israel's assets abroad continued to increase in 2021, further to the long-term trend. The increase encompassed all investment channels¹, mainly the balance of financial investments in tradable securities and the balance of reserve assets.

The balance of Israel's assets abroad increased by about \$115 billion (19 percent), to about \$716 billion at the end of the year. The increase in the balance of assets encompassed all investment channels, but the major portion of it was in financial investments in tradable securities, totaling about \$41 billion (19 percent), and in the balance of reserve assets, totaling about \$40 billion (23 percent). The balance of other investments increased by \$28 billion (28 percent), and the balance of direct investments increased by \$7 billion (7 percent).

Most of the increase in the asset portfolio abroad was in the balance of Israelis' financial investments in tradable securities abroad.

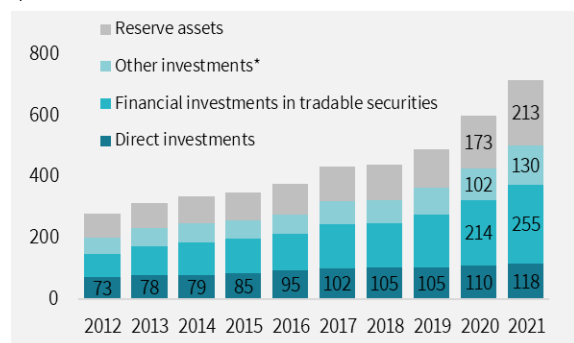
The balance of Israelis' financial investments in tradable securities abroad increased by \$41 billion (19 percent) in 2021, to \$255 billion at the end of the year.

The balance of equity holdings increased by \$36 billion (26 percent) during the year, with most of the increase due to price increases in equity markets abroad.

In addition, there was an increase of about \$5 billion (6 percent) in the balance of bond holdings.

Figure 3.1: The Balance of Israelis' Assets Abroad

\$ billion

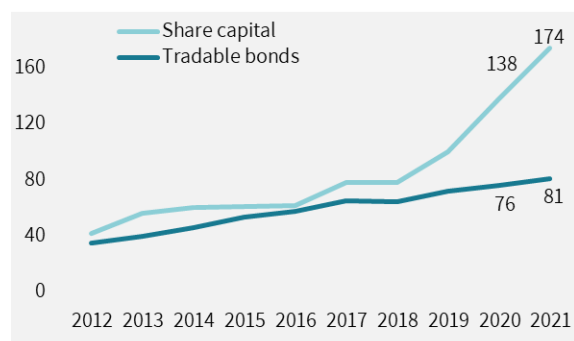


*The balance of other investments includes the balance of derivative instruments.

SOURCE: Bank of Israel calculations

Figure 3.2: Balance of Israelis' Financial Investments in Tradable Securities Abroad, by Instrument

billion\$



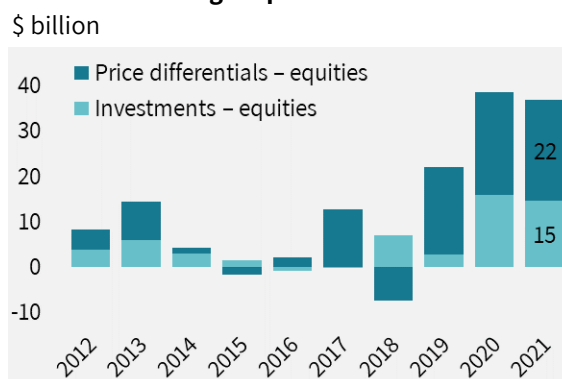
SOURCE: Bank of Israel data

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

Israelis' net investments and increases in the prices of foreign equities led to an increase in the balance of investments in equities.

Israelis invested a total of about \$15 billion, net, in tradable foreign equities in 2021. Price increases during the year led to an additional increase of about \$22 billion in the value of financial assets.

Figure 3.3: The factors in the Change in the Balance of Israelis' Financial Investments in Tradable Foreign Equities



SOURCE: Bank of Israel data

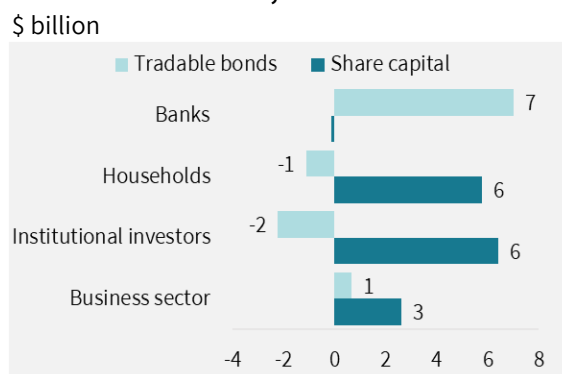
Institutional investors and households were prominent in their investments in foreign equities.

Similar to the previous year, the institutional investors were prominent in financial investments in tradable securities. Most of their investments were concentrated in tradable equities abroad, totaling about \$6 billion.

Households also invested about \$6 billion in tradable shares abroad, spread out over the year.

In parallel, Israeli banks purchased about \$7 billion in foreign bonds, mostly in December.

Figure 3.4: Net financial investments by Israelis in tradable securities abroad, by instrument and sector, 2021



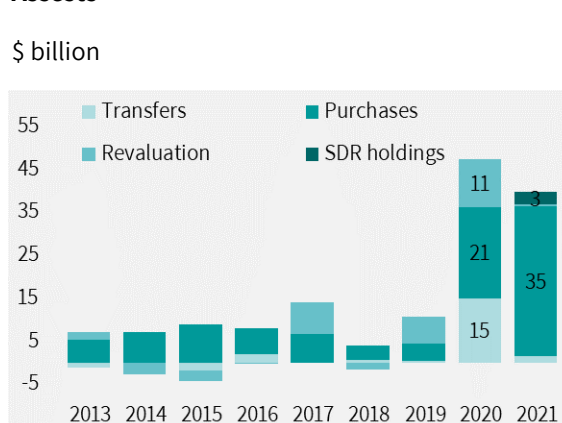
SOURCE: Bank of Israel data

The increase in the balance of reserve assets also contributed to the increase in the balance of assets. This increase is due to the Bank of Israel's foreign exchange purchases, and by the allocation of SDR² by the International Monetary Fund.

Israel's foreign exchange reserve assets totaled about \$213 billion at the end of December.

The increase in the balance of reserve assets in 2021 was mainly due to foreign exchange purchases totaling about \$35 billion, further to the foreign exchange purchasing program announced by the Bank of Israel at the beginning of the year. In addition, the International Monetary Fund allocated SDR totaling \$2.6 billion to Israel³, as part of its allocation to all member countries.

Figure 3.5: Changes in Reserve Assets



SOURCE: Bank of Israel data

² For an explanation, see "Data Sources and Main Terms" at the end of this section. The International Monetary Fund's press release on the allocation of SDR can be found at <https://blogs.imf.org/2021/08/26/a-shot-in-the-arm-how-special-drawing-rights-can-help-struggling-countries>

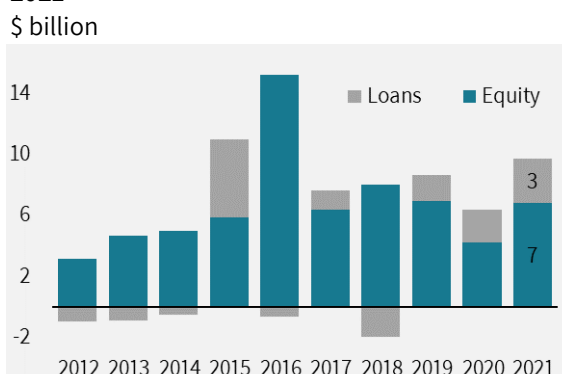
³ With the increase in Israel's balance at the IMF, which is reflected in the balance of assets vis-à-vis abroad, there is an additional long-term liability to the IMF, in the amount of the allocation, on the Bank of Israel's balance sheet. This is reflected in an increase in Israel's liabilities to abroad.

The balance of assets also increased due to increases in the balance of Israelis' other investments⁴ abroad.

The balance of other investments increased by about \$28 billion (28 percent) in 2021. The increase included all investment channels, mainly the other assets component⁵, which increased by about \$17 billion—mainly due to institutional investors' investments in nontradable investment funds.

In addition, there was an increase in the balance of loans and in the balance of Israelis' deposits abroad, totaling about \$4 billion, and an increase in the balance of customer credit totaling about \$3 billion.

Figure 3.6: Change in the Balance of Israelis' Other Investments Abroad, by Instrument, 2021



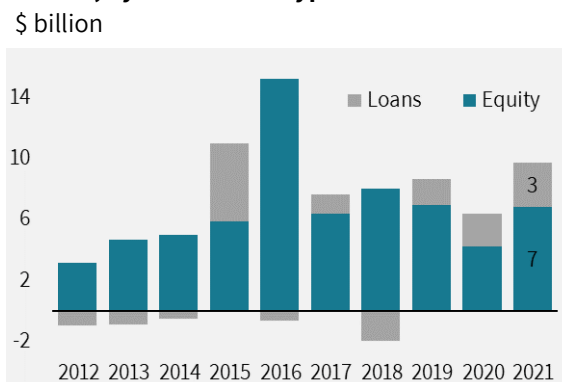
SOURCE: Bank of Israel data

The balance of Israelis' direct investments increased in 2021, mainly due to growth in accumulated profits.

Israelis' direct investments in capital totaled about \$7 billion in 2021. Most of these investments were due to accumulated profits that were not distributed to investors, totaling about \$5 billion.

In addition, Israelis issued owners' loans totaling about \$3 billion in 2021.

Figure 3.7: Israelis' Direct Investments Abroad, by Investment Type



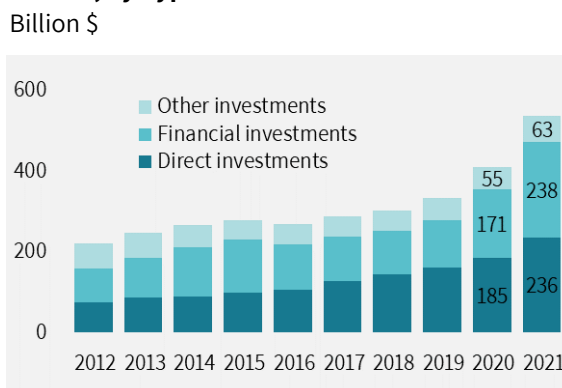
SOURCE: Bank of Israel data

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

The increase in the balance of Israelis' liabilities abroad continued in 2021, mainly due to an increase in nonresidents' investments in Israeli government bonds and direct investments.

The balance of Israelis' liabilities to abroad increased by \$126 billion (31 percent) in 2021, to \$537 billion. The increase was mainly due to an increase of about \$68 billion (40 percent) in the balance of investments in tradable securities, and an increase of about \$50 billion (27 percent) in direct investments. In other investments, the balance increased by about \$8 billion (15 percent).

Figure 3.8: Balance of Israelis' Liabilities to Abroad, by Type of Investment



SOURCE: Bank of Israel data

⁴ Excluding derivatives.

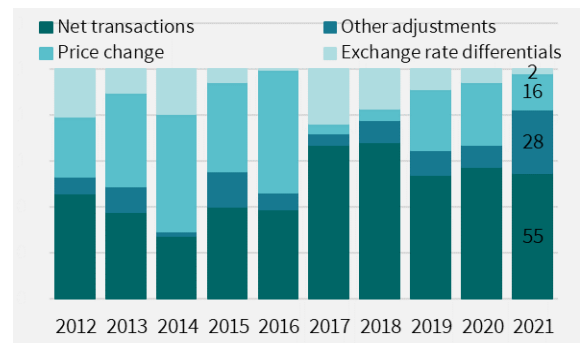
⁵ "Other assets" includes financial assets that are not deposits, commercial credit, loans, or any other financial asset included in the other investment channels (direct investments, financial investments in tradable securities, reserve assets, and derivatives). Among other things, "other assets" includes investments in mutual funds, nontradable investment funds, and financial investments in nontradable equities (below 10 percent of the invested company's share capital).

The main factor in the increase in liabilities was the net flow of investments.

Net transactions in nonresidents' holdings in Israel totaled \$69 billion, accounting for 55 percent of the total change in the balance. In addition, price increases contributed about \$20 billion (16 percent) more to the increase in the balance.

Other adjustments⁶ were unusual in size this year, and combined to account for about \$35 billion in changes. These were mostly in the second quarter due to the revaluation of companies that issued equity through SPACs⁷ abroad.

Figure 3.9: The Factors in the Change in the Balance of Israelis' Liabilities to Abroad
Percent



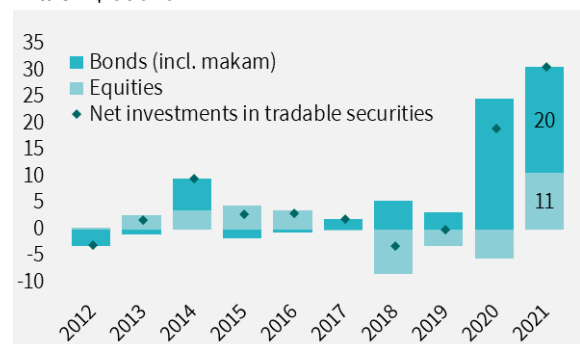
SOURCE: Bank of Israel data

Nonresidents made large-scale financial investments in both tradable bonds and equities.

Nonresidents invested about \$20 billion in tradable Israeli bonds in 2021. Most of the investments were in makam, totaling about \$11 billion, and in short-term unindexed nominal government bonds issued in Israel, totaling about \$9 billion.

In addition, nonresidents invested a total of about \$11 billion in tradable equities.

Figure 3.10: Net Transactions in Nonresidents' Financial Investments in Israel by Instrument
Billion \$ SOURCE



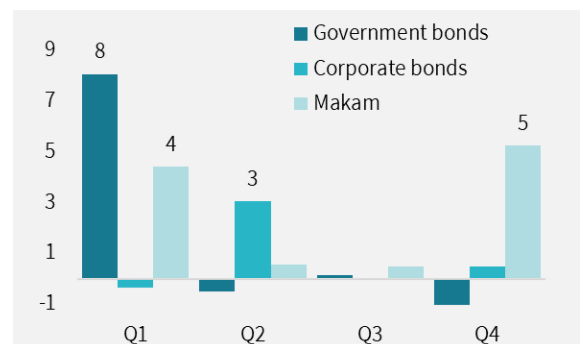
Bank of Israel data

Most of nonresidents' investments in makam were made in the fourth quarter, and most of their investments in Israeli bonds were made in the first half of the year.

In the first quarter of the year, nonresidents invested about \$8 billion in Israeli government bonds, an about \$4 billion in makam.

In addition, they invested about \$5 billion in makam in the four

Figure 3.11: Nonresidents' Quarterly Investments in Tradable Israeli Bonds by Bond Type, 2021
Billion \$



SOURCE: Bank of Israel data

⁶ For an explanation, see "Data Sources and Main Terms" at the end of this section.

⁷ For an explanation, see "Data Sources and Main Terms" at the end of this section.

Nonresidents made large-scale net investments in tradable Israeli equities in 2021, contrary to the trend of realizations in the previous three years.

Nonresidents' financial investments in tradable securities in Israel totaled about \$11 billion in 2021, and were concentrated in shares of Israeli companies traded abroad. This followed large SPAC⁸ issuances of Israeli companies on stock exchanges in the US, mainly in the second and fourth quarters of the year.

Figure 3.12: Nonresidents' Financial Investments in Israeli Share Capital, by Place of Trade
\$ billion



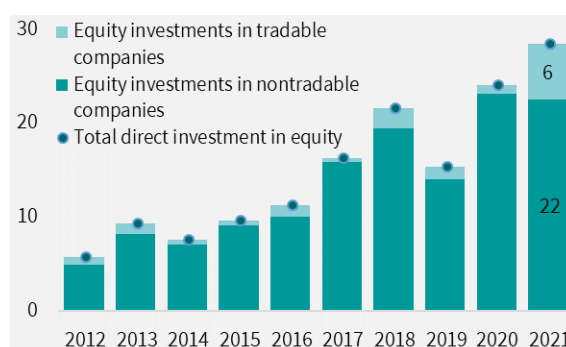
SOURCE: Bank of Israel calculations

Alongside financial investments in bonds, nonresidents continued to invest significant amounts directly in Israeli companies. The new investments were mainly concentrated in nontradable companies in the information and communications industry.⁹

Nonresidents continued to increase the volume of their direct investments in Israel in 2021. The net inflow of share capital in 2021 totaled about \$28 billion, of which a total of about \$13 billion was invested in companies in the information and communications industry.

Net investments in tradable companies totaled 21 percent of total direct investments in 2021, significantly higher than in previous years.

Figure 3.13: Nonresidents' Net Direct Investments in Israeli Companies, by Type of Tradability
\$ billion



SOURCE: Bank of Israel

⁸ For an explanation, see "Data Sources and Main Terms" at the end of this section.

⁹ An industry breakdown of direct investments in nontradable companies appears in "Zoom In" in the section on activity vis-à-vis abroad in the *Statistical Bulletin* for 2019.

Most of the direct investment in tradable equities by nonresidents in 2021 was concentrated in Israeli companies traded abroad.

Due to large SPAC issuances by Israeli companies on American stock exchanges, nonresidents made about \$6 billion in direct investments in companies traded abroad.

A \$4 billion investment in a company in the information and communications industry was particularly prominent.

Figure 3.14: Nonresidents' Direct Investments in the Share Capital of Tradable Israeli Companies, by Place of Trade

\$ billion



SOURCE: Bank of Israel calculations

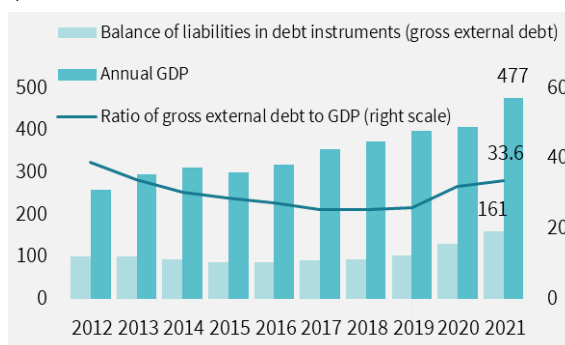
Gross external debt

The ratio of gross external debt¹⁰ to GDP increased during the year, further to the increases of the previous two years. The increase was mainly due to the sharp increase in gross external debt.

The ratio of gross external debt to GDP increased by about 1.6 percentage points, to about 33.6 percent at the end of the year. The balance of gross external debt increased by about \$30 billion (23 percent), mainly due to nonresidents' investments in government bonds and makam. In contrast, there was a more moderate increase of about 11 percent in GDP in current shekel terms, while combined with the appreciation of the shekel, GDP increased in dollar terms by about 17 percent.

Figure 3.15: Gross External Debt and Its Ratio to GDP

\$ billion



SOURCE: Bank of Israel calculations

¹⁰ The balance of liabilities in debt instruments only. For further details of the definitions, explanations, and calculations of external debt, see "Data Sources and Main Terms" at the end of this section.

3. Surplus assets over liabilities

Israel's surplus of assets over liabilities vis-à-vis abroad declined in 2021, in contrast to the increase of the previous two years.

Israel's surplus of assets over liabilities vis-à-vis abroad declined by about \$12 billion (6 percent), to about \$178 billion at the end of the year. This was due to an increase in the value of Israel's assets (\$115 billion; about 19 percent), that was smaller than the increase in the balance of its liabilities (\$126 billion, about 31 percent).

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



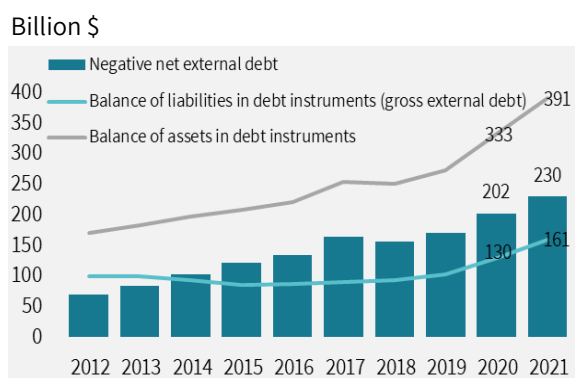
SOURCE: Bank of Israel calculations

Net external debt

Israel's surplus of assets over liabilities in debt instruments (negative net external debt¹¹) increased in 2021, further to the upward trend of recent years.

The balance of assets in debt instruments increased by \$58 billion (about 17 percent) in 2021. Israel's gross external debt to abroad increased as well, by a smaller amount (about \$30 billion; 23 percent). Israel's surplus of assets over liabilities vis-à-vis abroad in debt instruments only (negative net external debt) increased by about \$28 billion (14 percent), to about \$230 billion at the end of December.

Figure 3.17: Surplus Assets Over Liabilities in Debt Instruments Only (Negative Net External Debt)



SOURCE: Bank of Israel calculations

¹¹ Israel has a surplus of assets over liabilities. As such, there is a negative net external debt. For an explanation, see "Data Sources and Main Terms" at the end of this section.

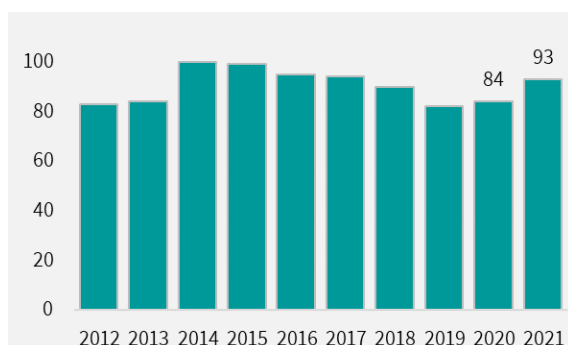
ZOOM-IN

Nonresidents' investments in tradable Israeli equities abroad¹²

The balance of nonresidents' direct investments and financial investments in Israeli equities traded abroad increased significantly in 2021, despite the negligible increase in the number of Israeli companies traded abroad. In 2021, these investments were concentrated in companies in the information and communications industry.

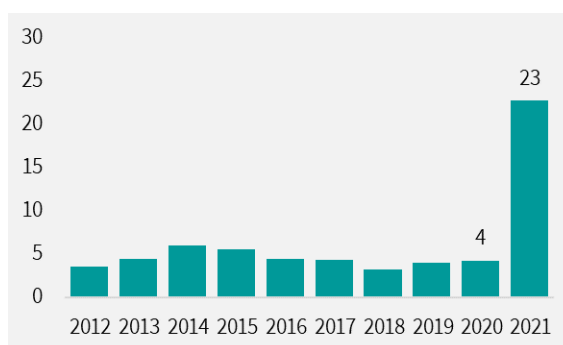
The number of Israeli companies trading abroad increased from 84 in 2020 to 93 in 2021.

Figure 3.18: Number of Israeli Companies Trading Abroad Value at \$5 million or more



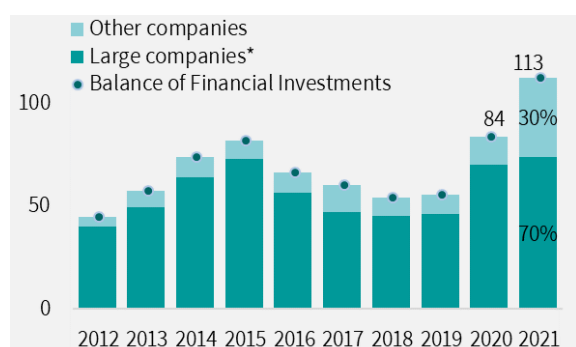
The balance of nonresidents' direct investments in Israeli shares traded abroad was about \$23 billion at the end of 2021, a significant increase from the previous year's balance.

Figure 3.19: Balance of Nonresidents' Direct Investments in Israeli Equities Traded Abroad, \$billion



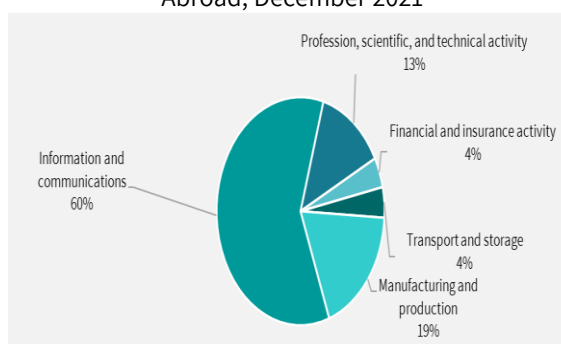
The balance of nonresidents' financial investments in Israeli equities traded abroad increased significantly this year, reaching about \$113 billion.

Figure 3.20: Balance of Nonresidents' Financial Investments in Israeli Equities Traded Abroad, \$ billion



The industry distribution of nonresidents' financial investments in Israeli equities traded abroad shows that a large portion of investments are made in companies from the information and communications industry.

Figure 3.21: Industry Distribution* of Nonresidents' Financial Investments in Israeli Equities Traded Abroad, December 2021



Source: bank of Israel calculations

¹² Israeli companies traded on foreign stock exchanges and/or dual listed companies that began trading abroad.

Main indicators of activity vis-à-vis Aboard

\$ million		Balance to the end of 2019	Transactions	Price changes	Exchange rate differentials and other adjustments	Balance to the end of 2020
Israel's Assets		497,969	68,396	32,321	7,563	606,250
of which:	Debt instruments*	275,124	41,993	7,013	8,505	332,578
Direct investments abroad		112,256	5,860	151	-1,175	117,095
of which:	Share capital and land	96,870	4,279	151	-1,175	100,129
	Owners' loans	15,386	1,580	0	0	16,966
Financial investments		171,245	16,279	26,088	368	213,985
of which:	Share capital	99,678	16,013	22,522	-397	137,819
	Bonds	71,567	267	3,566	764	76,166
Other investments abroad		88,287	7,217	3,216	1,715	100,438
of which:	Deposits by Israelis (including banks)	11,180	-7,255	-235	552	4,242
	Loans	23,615	4,549	816	306	29,286
	Customer credit	27,362	5,016	0	243	32,621
	Other assets	26,131	4,907	2,635	614	34,289
Reserve assets		126,014	37,776	2,866	6,640	173,297
Derivative instruments		166	1,264	0	16	1,435
Israel's Liabilities		336,739	44,236	20,740	8,915	410,637
of which:	Debt instruments	104,988	25,930	0	1,567	132,489
Direct investments		164,838	24,758	-54	-589	188,952
of which:	Share capital and land	152,679	24,616	-54	-588	176,651
	Owners' loans	12,159	142	0	-1	12,301
Financial investments		118,312	18,306	20,794	9,366	166,782
of which:	Share capital	79,072	-6,311	20,794	7,937	101,497
	Bonds	39,240	24,617	0	1,429	65,285
Other investments		53,590	1,172	0	139	54,902
of which:	Deposits by nonresidents and foreign banks	13,846	2,328	0	542	16,716
	Loans	19,274	-2,908	0	-849	15,519
	Suppliers' credit	20,470	1,752	0	446	22,668
Net Liabilities**		-161,230	-24,160	-11,581	1,352	195,614
of which:	Net debt instruments	-170,136	-16,003	-7,013	-6,938	-200,089

*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 obtained from direct reports¹³ 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 Bank of Israel Accounting Division, the Israel Securities Authority, the Ministry of Finance, the institutional investors, and domestic banks. The Information and Statistics Department processes the data obtained from the various sources.

Direct investment¹⁴

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).

Owners’ loans are credit issued to the company by a party at interest in the company.

Financial investment (tradable securities portfolio)

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.

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.

¹³ 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).

¹⁴ 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), and commercial credit. Other investments abroad by Israelis also include investments in other assets (financial investments in nontradable equities [below 10 percent of the invested company's share capital], 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). Sources of foreign exchange could be foreign exchange purchases, foreign exchange swaps, government transfers (government deposits in foreign exchange at the Bank of Israel), or transfers by commercial banks (banks' deposits in foreign exchange at the Bank of Israel).

Special Drawing Rights (SDRs)

SDRs are defined as legal tender issued by the International Monetary Fund (IMF). Their value is weighted by the relative value of a basket of the major currencies, which includes the US dollar, the euro, the Japanese yen, and the British pound sterling .

SDRs are defined as reserve assets, and are allocated to countries that are members of the IMF as an addition to their official reserve assets. In addition, the IMF has granted a number of international organizations permission to hold SDRs. SDRs are allocated relative to the coverage weight of each member country.

SDR holdings grant absolute rights to the holder to obtain foreign exchange balances or any other reserve asset from IMF member countries. The actual holding of SDRs by an IMF member country is defined as an asset of that country, and the allocation of SDR from the IMF to a member country is defined as a liability of that country toward abroad.

The objective of allocating SDR to member countries is to provide complementary liquidity to the global financial system, particularly at times of global crisis, through additional foreign exchange reserves for IMF member countries, and to reduce their dependence on more expensive domestic and/or external debt.

Other adjustments

Changes in balances that are not due to net transactions, price changes, or exchange rate differentials. These include revaluations of nontradable companies, changes of residence, tradability changes, and unexplained statistical differences.

Special Purpose Acquisition Company – SPAC

These companies are established with the aim of raising money through an initial public offering (IPO). The money is intended for the purchase or merger of undefined companies that will be identified following the IPO.¹⁵ SPACs are shell companies without any business activity, which hold an IPO based on the investors' trust that their owners will find target companies to merge into them.¹⁶ In parallel, companies with business activity use SPACs to become public companies without having to go through an IPO, which the SPACs do for them, thereby saving the high costs associated with an IPO.

¹⁵ R. Layne, B. Lenahan, Vinson & Elkins LLP, "Special Purpose Acquisition Companies: An Introduction", *Harvard Law School Forum on Corporate Governance*, July 2018: <https://corpgov.law.harvard.edu/2018/07/06/special-purpose-acquisition-companies-an-introduction>

¹⁶ A. Alshich, "So What Essentially is an SPAC, and Why is it Not Leaving the Headlines?", Yelin Lapidot Investment Firm, February 2021: <https://www.yl-invest.co.il/?CategoryID=673&ArticleID=838> (in Hebrew).

The SPAC method is as follows: An SPAC finances the underwriting and registration expenses of the IPO of a stock exchange shell, and has two years to use the capital it raises in order to purchase business activity for that shell. The issued shares are usually priced at \$10 per share, and include an option to purchase additional shares at \$11.5, with the aim of incentivizing IPO investors to wait, and not to withdraw their investments until the SPC finds business activity to purchase or merge. If no business activity is purchased or merged within two years from the IPO, shareholders can realize their initial investments, usually at a rate of 85% of their total investment after deduction of operating expenses.

- **Capital instruments** Direct and financial investments in shares, including drawing rights (DR).

- **Debt instruments** Contractual liabilities for payment of principal or interest in the future, including: owners' loans, financial loans and credit, bonds, deposits, commercial credit, and reserve assets.

- **Gross external debt** The economy's total liabilities to abroad in debt instruments in foreign exchange and Israeli currency.

- **Net external debt** The surplus of liabilities over assets in debt instruments only. Net external debt is calculated as gross external debt minus Israelis' assets abroad in debt instruments.

- **Ratio of gross external debt to GDP** Calculated as external debt divided by GDP in dollar terms. GDP in dollar terms is calculated by dividing GDP in shekel terms by the average exchange rate during the period.