

C. Economic activity vis-à-vis abroad

Balance of Israel's assets abroad increased markedly in 2020, by an amount that exceeds the multi-year upward trend. The increase was mainly due to a sharp increase in the economy's foreign exchange reserves, due to the monetary measures implemented in view of the COVID-19 crisis, the Bank of Israel's intervention in the foreign exchange market, and government transfers. Significant net investments by Israelis in foreign financial assets also contributed to the increase in the balance of asset .

The balance of Israel's liabilities toward abroad also increased in 2020, although by less than the increase in the balance of assets. Most of the increase in the balance of liabilities was concentrated in investments by nonresidents in Israeli government bonds (which also contributed to the increase in Israel's gross external debt toward abroad), and in nonresidents' direct investments in Israeli companies. The increase in the balance of assets, which is greater than the increase in the balance of liabilities, led to an increase in Israel's surplus of assets over liabilities vis-à-vis abroad, and in the economy's negative net external debt.

These developments led to a significant increase in the ratio of gross external debt to GDP, combining an increase in gross external debt and a decline in GDP in view of the crisis.

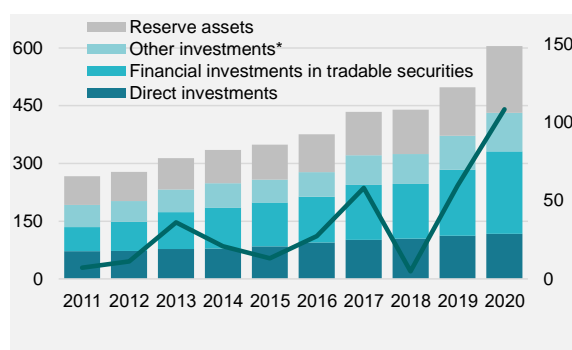
1. Israelis' assets abroad — investment abroad by Israelis'

The of Israel's assets abroad continued to increase in 2020, further to the long-term trend. The increase encompassed all investment channels¹, mainly reserve assets.

The balance of Israel's assets abroad increased by about \$108 billion (22 percent), to about \$606 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 the balance of reserve assets, which was directly impacted by the Bank of Israel's measures in view of the COVID-19 crisis².

The balance of reserve assets increased by \$47 billion (38 percent). The balance of financial investments in tradable securities increased by \$43 billion (25 percent). There was a combined increase of \$18 billion (17 percent) in direct investments and other investments.

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 data

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

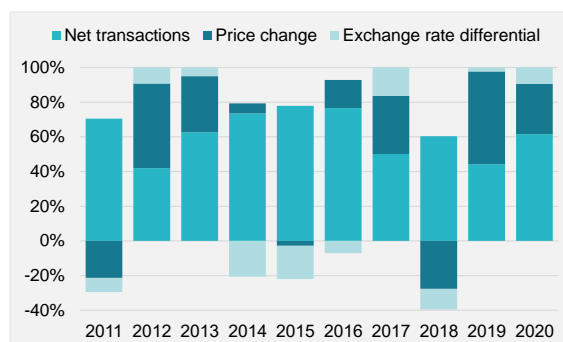
² For more details, see the press release: <https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/14-12-2020.aspx>

In contrast with 2019, the main factors in the increase in the balance of Israelis' assets abroad in 2020 were net transactions and not the asset price effects that were characterized this year by significant volatility.

Most of the change in the balance of Israelis' assets abroad is explained by net transactions that totaled about \$68 billion (about 63 percent of the total change in the balance). The effect of asset prices added \$32 billion (30 percent) to the balance, while exchange rate differentials accounted for about \$10 billion.

* The factors in the change of balance that are presented in the figure do not include other adjustments.

Figure 3.2: Factors in the Change of the Balance of Assets Abroad
\$ billion



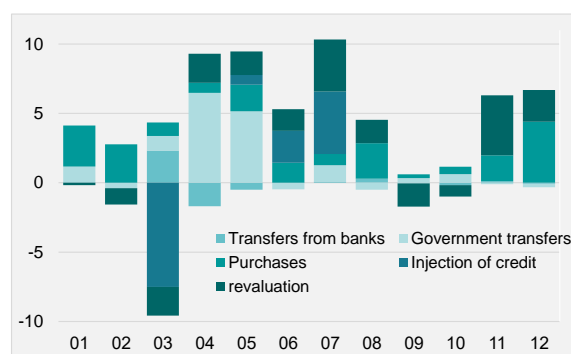
SOURCE: Bank of Israel data

The sharp increase in the balance of reserve assets is explained by the Bank of Israel's foreign exchange purchases and government transfers in respect of debt raised abroad.

Since the beginning of the crisis, the Bank of Israel has adopted various measures in order to assist the economy. The balance of reserve assets increased by about 38 percent in 2020, to about \$173 billion at the end of the year. Most of the increase was due to foreign exchange purchases (\$21 billion), and government transfers in respect of debt raised abroad (\$14 billion).

It should be noted that price increases and exchange rate differentials increased the value of the balance by about \$10 billion more.

Figure 3.3: Monthly Changes in Reserve Assets, 2020
\$ billion



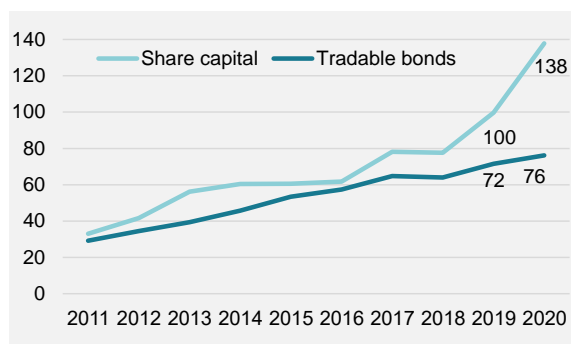
SOURCE: Bank of Israel data

Israelis' financial investments abroad also contributed to the increase in the balance of assets.

The balance of all financial investments abroad by Israelis increased by \$43 billion (25 percent) in 2020, to \$214 billion at the end of the December.

The balance of equity holdings increased by \$38 billion (38 percent), and the balance of bond holdings increased by only \$4 billion (6 percent) in 2020, further to the long-term upward trend in holdings of both these instruments.

Figure 3.4: Balance of Israelis' Financial Investments Abroad, by Instrument
\$ billion

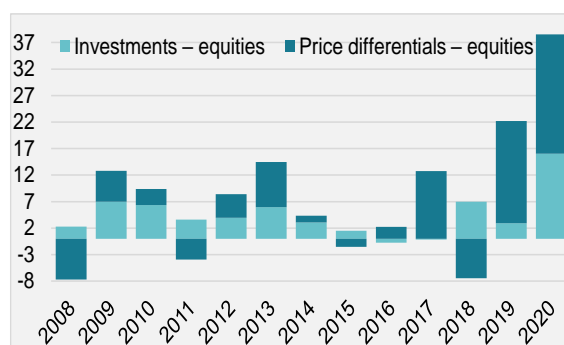


SOURCE: Bank of Israel data

The balance of financial holdings of tradable shares increased as a result of price increases and net investments by Israelis in foreign equities.

Israelis invested a total of about \$16 billion net in tradable foreign equities during the whole of 2020. Price increases over the course of the year increased the value of the balance of financial assets by about an additional \$22 billion, despite the COVID-19 crisis and price declines at the beginning of the crisis.

Figure 3.5: The factors in the Change in the Balance of Israelis' Financial Investments in Tradable Foreign Equities
\$ billion



SOURCE: Bank of Israel data

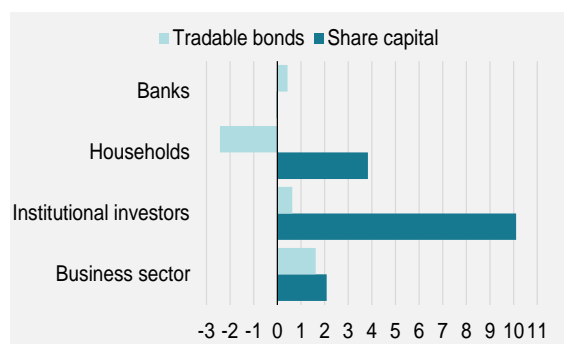
The most prominent sector in investments in equities abroad was the institutional investors.

Institutional investors invested about \$10 billion in equities and a further \$0.6 billion in bonds, constituting 66 percent of total investments in tradable securities.

The business sector also invested in these securities—about \$2 billion in equities, and a further roughly \$2 billion in bonds.

Among households, there was a change in the mix of investments. There were purchases of about \$4 billion in capital instruments, against realization of about \$42 billion in bonds.

Figure 3.6 : Net Financial Investments abroad by Israelis, by Instrument and Sector, 2020
\$ billion

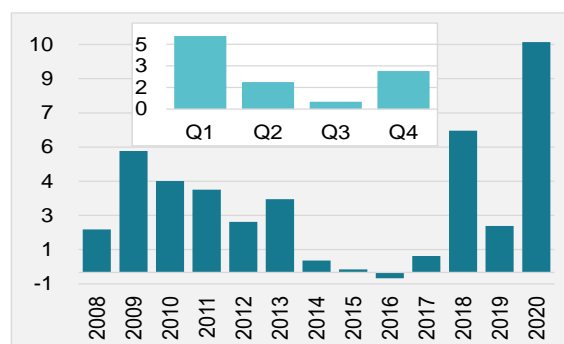


SOURCE: Bank of Israel data

Most of the institutional investors' investments were made by provident funds.

During 2020, the institutional investors invested in equities. The massive investments were made in the first quarter, during which net investments totaled \$5 billion. The volume of investments declined later in the year to about \$2 billion in the second quarter, and to about \$0.5 billion in the third quarter, before increasing again at the end of the year to about \$3 billion.

Figure 3.7: Institutional Investors' Financial Investments in Share Capital
\$ billion



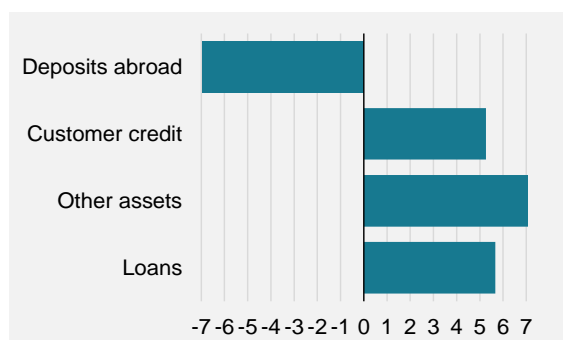
SOURCE: Bank of Israel data

The balance of assets also increased due to increases in the balance of other investments³ and in Israelis' direct investments abroad.

The balance of other investments increased by about \$13 billion (15 percent) in 2020, mainly as a result of a increases in other assets (investment funds) totaling about \$8 billion, financial loans totaling about \$6 billion, and customer credit totaling about \$5 billion. In contrast, the balance of Israelis' deposits abroad declined by about \$7 billion as a result of net withdrawals.

Furthermore, the balance of direct investments abroad increased by about \$5 billion (4 percent) in 2020, of which about \$3 billion were accumulated profits on the investment balances that were not distributed to investors.

Figure 3.8: Change in the Balance of Israelis' Other Investments Abroad by Instrument, 2020
\$ billion



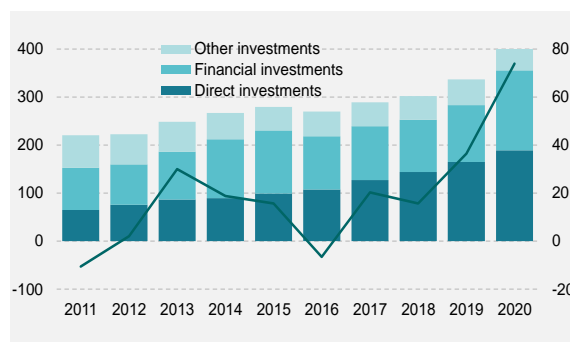
SOURCE: Bank of Israel data

2. Israel's liabilities to abroad – nonresidents' investments in Israel

There was an increase in the balance of Israelis' liabilities abroad in 2020, mainly due to an increase in nonresidents' investments in Israeli government bonds and direct investments.

The balance of Israelis' liabilities to abroad increase by \$74 billion (22 percent) in 2020, to \$411 billion. The increase was due to an increase of about \$48 billion (41 percent) in the balance of investments in securities (mainly government bonds) and an increase of about \$24 billion (14 percent) in direct investments. In other investments, there were realizations of about \$4 billion in financial loans, but the balance increased by about \$1 billion (2 percent) partly as a result of nonresidents' deposits in Israel totaling about \$3 billion, and an increase in suppliers' credit totaling about \$2 billion.

Figure 3.9: Balance of Israelis' Liabilities to Abroad, by Type of Investment, 2020
\$ Billion



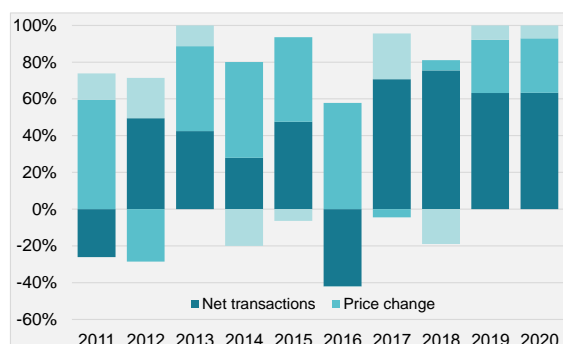
SOURCE: Bank of Israel data

³ Excluding derivative instruments.

Similar to assets, the main factor in the increase in the balance of liabilities was the net flow of investments, and not the effects of price changes or exchange rate differentials.

Net transactions in nonresidents' holdings in Israel totaled \$44 billion, accounting for 63 percent of the total change in the balance. In addition, price increases totaling \$21 billion increased the balance and accounted for about 30 percent of the change. Similar to asset prices, liability prices were very volatile in view of the crisis.

Figure 3.10: The Factors in the Change in the Balance of Israelis' Liabilities to Abroad
Percent



* The factors in the change of balance that are presented in the figure do not include other adjustments.

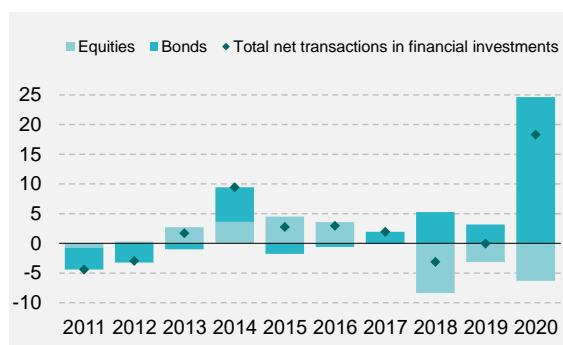
SOURCE: Bank of Israel data

Nonresidents' financial investments were concentrated in tradable bonds, while there were net realizations in equities.

Nonresidents invested about \$25 billion in Israeli bonds traded in Israel and abroad, accounting for 51 percent of the change in the balance of nonresidents' total financial investments in Israel.

In contrast, nonresidents realized investments in equities totaling \$6 billion. The realizations were mostly due to the transition from financial holdings to direct holdings in one company in the semiconductor industry.

Figure 3.11: Net Transactions in Nonresidents' Financial Investments in Israel by Instrument
\$ Billion



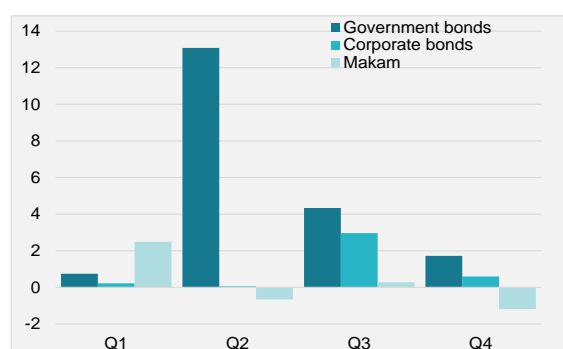
SOURCE: Bank of Israel data

Most of nonresidents' investments were in bonds issued by the Israeli government.

The trend of purchasing Israeli bonds traded in Israel and abroad continued throughout the year, partly in view of the Bank of Israel's government bond purchasing program, Israel's accession to the FTSE World Government Bond⁴ Index (WGBI), and the widening of the shekel/dollar interest rate gap in dollar loan transactions at the beginning of the crisis.

Nonresident's investment a total of about \$20 billion in Israeli government bonds, of which about \$13 billion was in the second quarter of the year. Nonresidents also increased their investments in corporate bonds by a total of about \$4 billion, while about \$1 billion was invested in makam.

Figure 3.12: Nonresidents' Quarterly Investments in Tradable Israeli Bonds by Bond Type, 2020
\$ Billion



SOURCE: Bank of Israel data

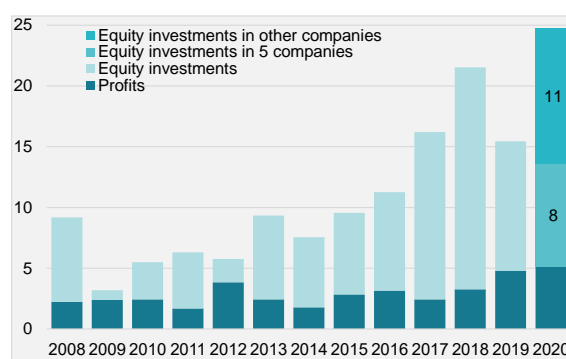
⁴ <https://www.boi.org.il/en/NewsAndPublications/PressReleases/Pages/14-12-2020.aspx>

Alongside financial investments in bonds, nonresidents continued to invest directly in Israeli companies during the crisis. The new investments were concentrated in a small number of companies.

Despite the COVID-19 crisis, nonresidents increased the volume of their direct investments in Israel. The net inflow of share capital in 2020 totaled about \$24 billion, of which a total of about \$8 billion was in a small number of companies. A transaction in the semiconductor industry totaling about \$6 billion was prominent.

The accumulated profits that were not distributed to investors added a further roughly \$5 billion to the change in the balance.

Figure 3.13: Nonresidents' Net Direct Investments in Israeli Companies
\$ Billion

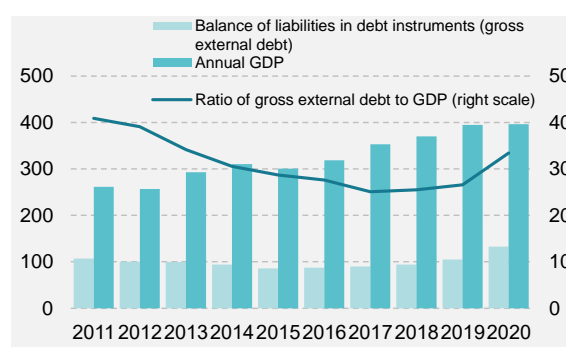


Gross external debt

The ratio of gross external debt⁵ to GDP increased sharply during the year, further to the slight increase in the previous year. The sharp increase in 2020 was mainly due to the decline in GDP in shekel terms.

The ratio of gross external debt to GDP increased by about 7 percentage points, to about 33 percent at the end of the year. The balance of gross external debt increased by about \$28 billion (26 percent) in 2020. In contrast, GDP contracted in shekel terms under the impact of the COVID-19 crisis, while combined with the appreciation of the shekel, GDP increased in dollar terms by about 2 percent.

Figure 3.14: Gross External Debt and Its Ratio to GDP
billion \$

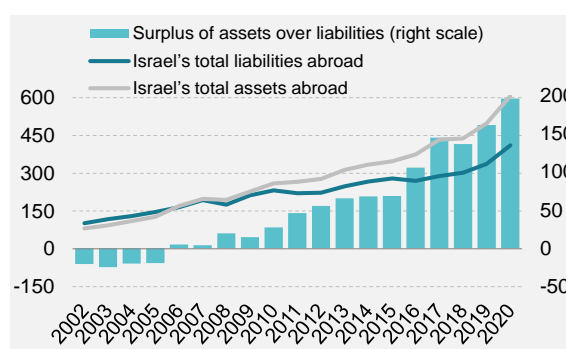


3. Surplus assets over liabilities

Israel's surplus of assets over liabilities vis-à-vis abroad increased in 2020, further to the increase of the previous year.

Israel's surplus of assets over liabilities vis-à-vis abroad increased by about \$34 billion (21 percent), to about \$196 billion at the end of the year. This was due to an increase in the value of Israel's assets (\$108 billion; about 22 percent), that was greater than the increase in the balance of its liabilities (\$74 billion, about 22 percent).

Figure 3.15: Israel's Surplus Assets (+) Over Liabilities Vis-à-vis Abroad
\$ Billion



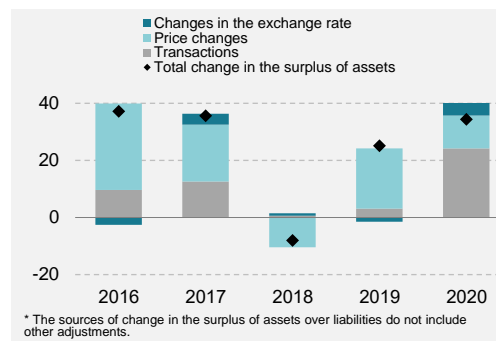
⁵ The balance of liabilities in debt instruments only. For further details of the definitions, explanations, and calculations of external debt, see Data Sources and Main Terms at the end of this section.

The marked growth in Israel's reserve assets, which was significantly greater than the flow of investments on the liabilities side vis-à-vis abroad, contributed to the increase in the surplus of assets over liabilities.

In contrast with previous years, the sources of change in the surplus of assets in 2020 were mainly net transactions in debt instruments. The net effect of these transactions totaled about \$24 billion in 2020, significantly higher than the average effect of transactions in the four previous years, which was about \$6 billion.

The effect of asset price changes on the increase in the surplus of assets in 2020 totaled about \$12 billion, less than it was in 2019.

Figure 3.16 Sources of the Change in the Surplus of Assets Over Its Liabilities*
\$ billion



SOURCE: Bank of Israel data

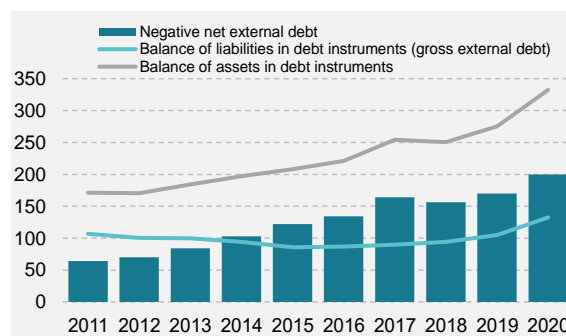
Net external debt

Israel's surplus of assets over liabilities in debt instruments (negative net external debt⁶) increased markedly in 2020, beyond the long-term growth trend.

The balance of assets in debt instruments increased by \$57 billion (about 21 percent) in 2020. Israel's gross external debt to abroad increased as well, by a smaller amount (about \$28 billion; 26 percent). Israel's surplus of assets over liabilities vis-à-vis abroad in debt instruments only (negative net external debt) increased by about \$30 billion (18 percent), to about \$200 billion at the end of December.

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

\$ billion, + indicates the economy is a net lender to abroad



SOURCE: Bank of Israel data

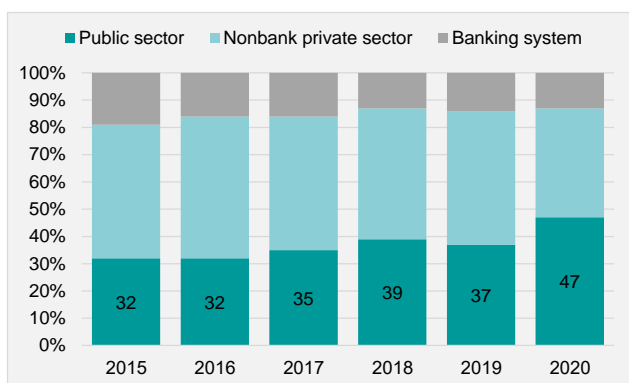
⁶ Israel has a surplus of assets over liabilities. As such, there is a negative net external debt. For an explanation, see Data Sources and Main Terms at the end of this section.

ZOOM-IN

► GROSS EXTERNAL DEBT – ISRAEL’S LIABILITIES TO ABROAD IN DEBT INSTRUMENTS

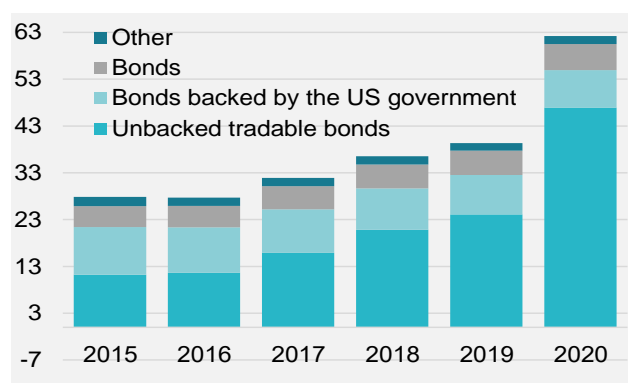
For the first time in years, in view of the COVID-19 crisis, most of Israel’s gross external debt in 2020 (47 percent) is public sector debt.

Figure 3.18: Composition of Gross External Debt by Sectors, 2015–2020, percent



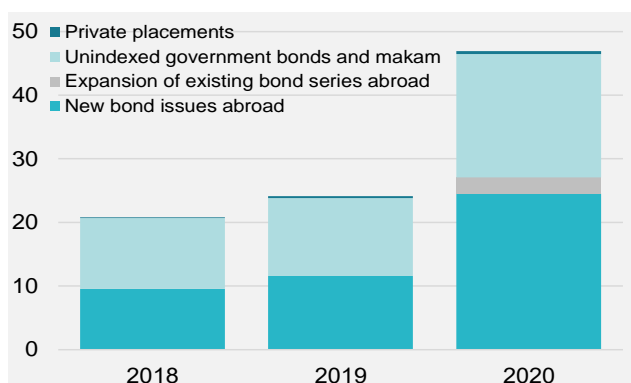
The gross external debt of the public sector increased by about \$23 billion, in view of the COVID-19 crisis, compared with average annual growth of about \$3 billion in previous years.

Figure 3.19: Gross external debt of the public sector, 2015–2020, \$ billions



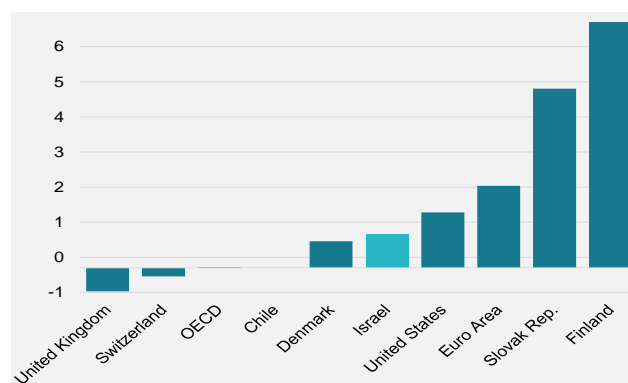
Nonresidents’ main investment vehicle was government bonds in foreign exchange, with purchases of about \$16 billion, about 7 percent of all investments.

Figure 3.20: Composition of the balance of nonresidents’ investments in debt instruments of the public sector, \$ billion



By global comparison, Israel increased its public tradable external debt toward abroad in the first half of 2020 by slightly more than the OECD average.

Figure 3.21: Change in Public Tradable External Debt to Abroad in the First Half of 2020, Percent of GDP



Source: bank of Israel data, IMF Balance of Payment Data

Main indicators of activity vis-à-vis Aboard



\$ billion		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
	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 received from direct reports⁷ 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 institutional investors, the Bank of Israel Accounting Division, the Israel Securities Authority, the Ministry of Finance, and domestic banks. The Information and Statistics Department processes the data obtained from the various sources.

Direct investment⁸

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.

⁷ 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).

⁸ 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), 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). 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)

Withdrawal rights allocated by the IMF in international currency that is calculated according to the average of the currencies of IMF member countries, for the purpose of covering liabilities and balance of payments deficits.

■ **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.