15. INTERNATIONAL ACCOUNTS

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SUMMARY OF THE BALANCE OF PAYMENTS
(Table 15.1)
The balance of payments is compiled according to the definitions established by the International Monetary Fund (IMF) (Balance of Payments Manual, 6th Ed. International Monetary Fund, Washington D.C., USA, 2009). According to those definitions, the balance of payments is a statement that summarizes economic transactions between residents of Israel and non-residents during a specific time period. Since the 1999 Statistical Abstract, the balance of payments is shown in a new format. This format, adopted by international statistics agencies and by most countries, allows for convenient international comparisons of balance of payment flows. Additionally, the definitions and classifications in the new format of the balance of payments have been adapted to those customary in the National Accounts, thereby obtaining consistency between the international flows and transactions and those in the National Accounts.
Since 1967, data include estimates of economic transactions between residents of Israel and non-Israeli residents of Judea, Samaria and the INTERNATIONAL ACCOUNTS (1) השבונות ב-לא compañía
The Balance of Payments consists of three main sections:

a. **Current account**: An account which shows flows of goods, services, primary income, and secondary income between residents and non-residents;

b. **Capital account**: An account which shows (1) capital transfers receivable and payable between residents and nonresidents; and (2) the acquisition and disposal of non-produced nonfinancial assets between residents and nonresidents;

c. **Financial account**: An account which records transactions that involve financial assets and liabilities and that take place between residents and nonresidents.

Updates in the current account have been made since 1995. In the financial account, assets and the IIP, updates have been made since. As of 1995, there has been a change in the income account due to deposits and loans (receipts and payments), as well as a change in the other business services account (imports/exports) due to the transfer of Financial Intermediation Services Indirectly Measured (FISIM) from the primary income account to the services account. This was done in accordance with the new international requirements specified in the sixth edition of the international Balance of Payments Manual (BPM6). In the financial account and the IIP, changes have been made in the method of estimating commercial credit (as of 2016).

**Note**: In the balance of payments data there are updates for data from previous years as well as for current data. Therefore, there are no markings of R (revised data) or an * (provisional data), even when there have been changes in the data.

### EXTERNAL ASSETS

(Table 15.2)

External assets include the foreign assets of the various institutional sectors of Israeli residents, including the assets of financial institutions in Israel, the Bank of Israel, and the Accountant General. External assets are listed according to two main components:

1. **External assets in debt instruments**: Existing debt instruments typically arise out of contractual relationships under which an institutional unit (the debtor) has an unconditional liability to another institutional unit (the creditor) to repay principal with or without interest, or to pay interest without principal. These instruments include loans, currency, deposits, debt securities, and...
trade credit.
Within this item, the balance of foreign currency reserves in the Israeli economy, which are held by the Bank of Israel, is presented separately.

2. **Investments of Israelis abroad**: This component includes direct investments and investments in securities by Israeli residents abroad as of 1995.

Estimates of external assets also include changes in prices of the assets held and in exchange rates of various currencies in relation to the dollar. These changes are not recorded in the balance of payments.

**EXTERNAL LIABILITIES**
*(Table 15.3)*

External liabilities: Unconditional financial assets owned by non-residents and held by Israeli residents. These liabilities include external debt and financial investments of non-residents in the Israeli economy through shares and other securities excluding debt instruments. The table presents Israel's liabilities to foreigners, by main components as of 1994.

External liabilities are presented in the table whether the repayment is in foreign or Israeli currency, according to the following two components:

1. **Gross external debt**: The outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to non-residents by residents of Israel.

2. **Foreign investments in Israel**: This component includes direct investments in Israel, and investments by foreigners in Israeli securities, as of 1995.

Net external debt of the Israeli economy is defined as the gross external debt less external assets in debt instruments.

Estimates of the external liabilities of the economy also include changes in the price of assets held by foreigners in Israel and fluctuations in the exchange rate of various currencies in relation to the US dollar. These changes are not recorded in the balance of payments.

**CURRENT ACCOUNT**
*(Table 15.4)*

The current account shows flows of goods, services, primary income, and secondary income between residents and non-residents.

This account includes three main secondary accounts:
1. **Goods and services account**: The account shows transactions between Israeli and foreign residents in items that are outcomes of production activities.

1.1. Goods account: Shows transactions related to transfer of ownership of goods between Israeli and foreign residents. In the goods account, values are recorded on an FOB basis (Free On Board), i.e., without expenditure on transport and insurance. These services are listed in the respective service items, as needed.

1.2 Services account: Shows the transactions relating to provision of services between Israeli and foreign residents.

2. **Primary income account (formerly: income account)**: An account which shows primary income flows between Israeli and non-resident institutional units. Primary income represents the return that accrues to institutional units for their contribution to the production process or for the provision of financial assets and renting natural resources to other institutional units.

This income includes the following two components:

2.1. Compensation of employees is defined as the total expenditure for wages and salaries and supplementary expenditures for wages and salaries (for a detailed definition, see the paragraph “Definitions of Wages, Compensation and Labour Cost” in Chapter 14 – National Accounts). This includes expenditures for wages and salaries paid to residents of Israel for work as employees abroad, or to foreign residents for work as employees in Israel.

2.2. Investment income: The return for providing financial assets. This component comprises dividends and withdrawals from income of quasi-corporations, reinvested earnings, and interest.

3. **Secondary income account (formerly: Current transfers account)**: An account which shows current transfers between residents and non-residents.

**FINANCIAL ACCOUNT**

(Table 15.5)

Financial account: An account which records transactions that involve financial assets and liabilities and that take place between residents and non-residents. The components of the financial account are classified by types of investments (direct investment, portfolio investments, etc.), financial instruments (equities, bonds, etc.), and institutional sector.
(banks, private sector, government, etc.). In certain circumstances they are classified by the investment length.

This account includes five secondary accounts:

1. **Direct investment**: A category of cross-border investment associated with a resident in one economy having control or a significant degree of influence on the management of an enterprise that is resident in another economy. The criterion that distinguishes between direct investment and portfolio investment is the share of equity held by investors. The rule defined by international institutions is that ownership of one-tenth or more of equity makes the investment a direct one. Ownership of less than one-tenth of equity is considered a portfolio investment.

2. **Portfolio investment**: Cross-border transactions between Israeli residents and foreign residents, involving debt instruments or stocks, other than those included in direct investment or reserve assets. This category reflects activity in the Israeli stock exchange or in a foreign stock exchange. It includes bonds issued abroad by the Government of Israel, in addition to investments at less than one-tenth of equity, as mentioned.

3. **Financial derivative instruments**: A financial instrument that is linked to another specific financial instrument or indicator or commodity and through which specific financial risks (such as interest rate risk, foreign exchange risk, equity and commodity price risks, credit risk, etc.) can be traded in their own right in financial markets. The value of these instruments is recorded at net value and as a separate category, in accordance with international guidelines.

4. **Other investment**: This subgroup includes remaining types of capital flow such as loans from various sources, deposits, commercial credit, and advance payments on account of transactions.

5. **Reserve assets**: External assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate, and for other related purposes (such as maintaining confidence in the currency and the economy, and serving as a basis for foreign borrowing). Includes changes in foreign currency reserves held by the Central Bank abroad (not revalued).

**INTERNATIONAL INVESTMENT POSITION (IIP)**

(Table 15.6)

The external assets and liabilities of the economy are presented in Table 15.6 in a detailed breakdown according to international guidelines. The
assets and liabilities are listed according to types of investments, financial instruments, and institutional sectors. The types of investments detailed in this table are identical to those defined in Item 1 in the financial account (Table 15.5): direct investments, portfolio investments, financial derivative instruments, other investments and Israel’s foreign reserve assets. Table 15.6 presents the balance of Israel’s foreign investments and those of non-residents in Israel, as opposed to Table 15.5, which presents the annual transactions in these investments. In addition, the following items are presented in the table: the gross external debt, external assets in debt instruments, net external debt, and net international investment position. The last item is defined as total external liabilities less total external assets.

SOURCES
Data included in the balance of payments are based on various sources, including:
- Reports from business corporations, financial institutions, and other units in the economy.
- Foreign trade statistics and reports from customs.
- Reports of the VAT authorities on revenue and VAT exempt revenue.
- Designated surveys, in the current account and the financial account.
- Concentrated data from the banking system, through the Bank of Israel (the Statistics and Information Section and the Superintendent of Banks).
- Data from various government ministries.

More detailed explanations and information on sources, methods and definitions have been published in the Special Series publications and in the Current Briefings in Statistics Series (see “Selected Publications” below).

DIRECT INVESTMENTS ABROAD AND IN ISRAEL
(Tables 15.7–15.8)
In recent years, there has been an increase in international trade relations, as well as in acquisition of control over companies in foreign countries and the establishment of direct investment relations. Acquisition of stocks (the purchase of more than 10% of share capital) entitles investors to become involved in essential decisions made in the company, gives them substantial influence over the company’s strategic management. This is part of the general process of globalisation in the world economy, which includes an increase in the establishment of multinational enterprises (acquisition of more than 50% of share capital).
This activity is manifested in cooperation among financial markets in the world and in mobility of finances among international markets, as well as in increased international trade in goods and services, and in substantial improvements in communications media and means of transportation. This activity is also manifested in an increase in the scope of collaborative transactions, international strategic partnerships, and outsourcing, and splitting of production so that various stages of production are performed in different countries. As of 2009, estimates of this activity have been conducted and the data have been published in accordance with the guidelines of international organizations (IMF, OECD), as delineated in the Benchmark Definition of Foreign Direct Investment, 4th Edition (BMD4).

**OUT investment company:** A company or individual registered in Israel that holds at least 10% of the share capital of a foreign company.

**IN investment companies:** A company registered in Israel in which a foreign resident (either company or individual) holds more than 10% of its share capital.

The tables present data on direct investments (see definition above) of Israeli residents abroad and on the positions of the direct investments of foreign residents in Israel, by country.

**ACTIVITY OF MULTINATIONAL ENTERPRISES IN ISRAEL**

(Tables 15.9–15.14)

As of 2002, estimates of this activity have been conducted, and globalisation indicators have been published in accordance with the guidelines of the OECD which appear in the Handbook on Economic Globalisation Indicators, 2004.

Tables 15.9 and 15.10 present data on international trade in goods and services among multinational Israeli enterprises.

Tables 15.11–15.12 present data on sales of goods and services by subsidiaries abroad of multinational Israeli enterprises, by countries and economic industries.

Tables 15.13–15.14 present data on domestic output by multinational Israeli enterprises.

**Multinational Israeli Parent Company (“OUT” company):** A company registered in Israel, which holds one or more subsidiaries abroad (holding over 50% of the share capital of the subsidiary abroad).

**Multinational Israeli Subsidiary (“IN” company):** A company registered in Israel, held by a Foreign Parent Company abroad or by another foreign resident (holding over 50% of the share capital of the subsidiary in Israel).

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**Parent Group:** The group of all companies, which are in a continuous chain of ownership at a rate exceeding 50% with the reporting Parent Company.

Other Associated Companies: Companies registered abroad which are held by a Parent Company at a rate ranging from 10% to 50% of the share capital.

**SELECTED PUBLICATIONS**

**SPECIAL PUBLICATIONS**
959  Israel's Balance of Payments 1952–1992
JUBILEE PUBLICATIONS (on the occasion of Israel’s 50th year)
Balance of Payments (No. 5 in the series)