

This metadata describes the compilation practices, sources and methodology in use in 2003. Please refer to the contact person below for details of any changes that may have been introduced by the country since that time.

## **Israel:**

### **Direct Investment Compilation Practices, Data Sources and Methodology**

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#### **Direct Investment in Israel**

- **Balance of Payments (“Transactions Data”)**
- **International Investment Position (“Position Data”)**

#### **Direct Investment Abroad**

- **Balance of Payments (“Transactions Data”)**
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## DIRECT INVESTMENT IN ISRAEL

### BALANCE OF PAYMENTS (“INWARD TRANSACTIONS”) DATA

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable monthly data are compiled by the Bank of Israel (BI) within the balance of payments framework on (a) two of the three components of direct investment income: (i) income on equity (dividends and distributed branch profits), and (ii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. (Prior to 2003, data on (i) income on equity (dividends and distributed branch profits), and (ii) income on debt (interest) were not compiled.) Separately identifiable quarterly data are compiled by the BI within the balance of payments framework on reinvested earnings. The monthly data are disseminated with a timeliness of 3 weeks after the end of the reference period and the quarterly data are disseminated with a timeliness of 2 months after the end of the reference period on the BI website [http://www.bankisrael.gov.il/deptdata/pik\\_mth/pikmth\\_e.htm](http://www.bankisrael.gov.il/deptdata/pik_mth/pikmth_e.htm). The data (quarterly rather than monthly) are also reported to the IMF for publication and annual data are reported to the OECD.

##### Revision Practices

The data are preliminary when first released. The monthly data are revised monthly to take account of corrections made to the source data and the revised data are disseminated together with the data for the latest month. The monthly data are considered to be final 4-5 months after their first release. The quarterly data on reinvested earnings for the previous quarter are revised once and released together with the preliminary data for the latest quarter, at which time they are considered to be final, that is, 3 months after their first release.

The revised status of the data is not clearly identified in the disseminated data and the general public are not informed of the reasons for the revisions. To date there have been no instances of major changes in methodology or data collection systems necessitating revisions of the historical data.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected on an individual transactions basis and an aggregate basis—the data for most components are collected on an individual transactions basis, but data collected on an aggregate basis (company accounts) are used as a source for the data on reinvested earnings. The reporting requirements are compulsory.

##### Data Sources

The data for all components except reinvested earnings are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions. Information from (i) a Direct Reporting System (DRS), which covers cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, and (ii) the Israel Security Authority, is used as secondary data sources. The data on reinvested earnings are compiled primarily from the company accounts of resident enterprises. Information from the DRS is used as a secondary data source.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment transactions data. The register is maintained by the BI and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, and (ii) a debt register. The same business register is used to compile the inward direct investment transactions and position data, but a different register is used for the outward direct investment transactions and position data.

### **Geographic Classification**

Not applicable. Data showing breakdowns by country for the direct investment income and direct investment financial flows data are not compiled.

### **Industrial Classification**

Monthly data showing breakdowns by industrial activity for the direct investment financial flows are compiled by the BI. The data are not disseminated, but are available on request with a timeliness of 3 weeks after the end of the reference period. The data show a breakdown for 85 industrial activities. The classification used is broadly consistent with the nine major divisions of the United Nations International Standards Industrial Classification of All Economic Activities (ISIC). Data showing breakdowns by industrial activity for the direct investment income are not compiled.

The data on direct investment financial flows are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment financial flows into Israel during 2002 (in descending order) were: (i) electronic components, (ii) computer services (software), (iii) research and development services, (iv) telecommunications, and (v) electronic equipment.

In addition, monthly data compiled by the BI for the direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone are available on request with a timeliness of 3 weeks after the end of the reference period. Data showing a breakdown by both industrial activity and region/economic zone for the direct investment income are not compiled. Data showing a breakdown by both industrial activity and main partner country are not compiled.

There are differences in the data coverage, sources, etc. between the inward transactions data showing industrial activity breakdowns made available on request and the aggregate inward data on direct investment financial flows reported to the IMF for publication, in that the data showing industrial activity breakdowns cover only traded enterprises and nontraded enterprises that are included in the Direct Reporting System.

## **B. Methodology**

### **Definition of Direct Investment Enterprises in Israel**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Israel is 10 percent ownership by a nonresident investor. However, all nontraded enterprises are treated as direct investment enterprises regardless of the percentage ownership by the nonresident investor. In accordance with the international standards, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included. Contrary to the international standards, enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management, as evidenced by (i) representation on the Board of Directors, or (ii) participation in policy making, are also included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises. Unincorporated enterprises are treated differently from incorporated enterprises in that all unincorporated enterprises are excluded from the direct investment data.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The "Fully Consolidated System" (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises. However, contrary to the FCS, the direct investment financial flows data do not include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other.

Enterprises in Israel are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

### **Measurement of Direct Investment Earnings**

Contrary to the international standards, the "Current Operating Performance Concept" (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, realized and unrealized exchange rate gains and losses, and write-offs are not included. Contrary to the COPC, (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses are included, (iii) interest receivable/payable is not included, and (iv) debt repayments receivable/payable are not excluded.

### **Treatment of Income on Equity (Dividends and Distributed Branch Profits)**

The data on dividends and distributed branch profits cover incorporated enterprises, but not unincorporated enterprises. Contrary to the international standards, (i) the data on dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, (ii) the data on dividends and distributed branch profits for incorporated enterprises are recorded on the date they are paid, rather than on the date they are declared payable. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

### **Treatment of Reinvested Earnings and Undistributed Branch Profits**

The data on reinvested earnings and undistributed branch profits cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) the data on reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including transactions of SPEs primarily engaged in financial intermediation for a group of related enterprises.

### **Treatment of Income on Debt (Interest)**

The data on income on debt (interest) cover incorporated enterprises, but not unincorporated enterprises. The data include interest on (i) long-term loans, and (ii) short-term loans. The data do not include interest on (i) bonds and money market instruments, (i) trade credits, and (iii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data are recorded on an accrual basis, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including most transactions of SPEs primarily engaged in financial intermediation for a group of related enterprises. Contrary to the international standards, the data do not include interest on short-term

financial transactions, such as cash management transfers, between nonfinancial direct investment enterprises and affiliated SPEs primarily engaged in financial intermediation for a group of related enterprises.

### **Treatment of Equity Capital**

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

### **Treatment of Other Capital**

The other capital transactions data cover: (i) long-term loans, and (ii) short-term loans. The data do not include (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including most transactions of SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include short-term financial transactions, such as cash management transfers, between nonfinancial direct investment enterprises and affiliated SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries.

The treatment of instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Direct Investment in Israel: Equity Capital: Increase in Liabilities to Direct Investors” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Direct Investment in Israel: Other Capital: Increase in Liabilities to Direct Investors” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Direct Investment in Israel: Equity Capital: Increase in Liabilities to Direct Investors” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the guarantor and recorded under “Direct Investment in Israel: Other Capital: Increase in Liabilities to Direct Investors” at the time the periodic payments are made.

### **Treatment of Reverse Investment**

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” and loan transactions are recorded as “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises”. However, such instances rarely occur.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as “Portfolio Investment: Increase in Assets: Equity

Securities”, rather than as “Direct Investment in Israel: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “ Direct Investment in Israel: Other Capital: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Israel: Other Capital: Increase in Claims on Direct Investors”.

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Israel by nonresidents of (i) construction enterprises, or (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources.

#### **Treatment of Offshore Enterprises**

Not applicable. There are no offshore enterprises established in Israel by nonresidents at present.

#### **Treatment of Special Purpose Entities (SPEs)**

Not applicable. There are no SPEs established in Israel by nonresidents at present.

#### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings in Israel by nonresident enterprises and nonresident individuals. Land and buildings purchased in Israel by nonresident enterprises and nonresident individuals on long-term leases are not included.

#### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the direct investment data do not include expenditure related to natural resources exploration in Israel by nonresidents, and (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, as this information is not available from the present data sources. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established in Israel by nonresidents for natural resource exploration, no transactions are shown in the balance of payments statistics.

#### **Exchange Rate Conversion**

All transactions, with the exception of reinvested earnings, are converted to the unit of account at the exchange rate prevailing on the day of the transaction. The data on reinvested earnings are converted at the exchange rate prevailing at the end of the period.

## DIRECT INVESTMENT IN ISRAEL

### INTERNATIONAL INVESTMENT POSITION LIABILITIES (“INWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data are compiled by the Bank of Israel (BI) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the BI website [http://www.bankisrael.gov.il/deptdata/pik\\_mth/pikmth\\_e.htm](http://www.bankisrael.gov.il/deptdata/pik_mth/pikmth_e.htm). The quarterly data are also reported to the IMF for publication and annual data are reported to the OECD.

##### Revision Practices

The data are preliminary when first released. The quarterly data are revised once to take account of updated source data and are disseminated together with the preliminary data for the latest quarter, at which time they are considered to be final, that is, 3 months after their first release.

The revised status of the data is not clearly identified in the disseminated data and the general public are informed of the reasons for the revisions. To date there have been no instances of major changes in methodology or data collection systems necessitating revisions of the historical data.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data for most components are collected on an individual transactions basis, but data collected on an aggregate basis (company accounts) are used as a source for the data on reinvested earnings. The reporting requirements are compulsory.

##### Data Sources

The data for all components except reinvested earnings are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions. Information from (i) a Direct Reporting System (DRS), which covers cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, (ii) the Israel Security Authority, and (iii) the Bank's Supervisor, is used as secondary data sources. The data on reinvested earnings are compiled primarily from the company accounts of resident enterprises. Information from the DRS is used as a secondary data source. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. Adjustments are made for price changes, exchange rate changes, and other nontransaction changes.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the inward direct investment position data. The register is maintained by the BI and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, and (ii) a debt register. The same business register is used to compile the inward direct investment transactions and position data, but a different register is used for the outward direct investment transactions and position data.

### **Geographic Classification**

Quarterly data showing breakdowns by country for the inward direct investment position data are compiled by BI with a timeliness of 3 months after the end of the reference period. The data are not disseminated, but are available on request. The data cover 20 countries and bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an "immediate country" basis. The five countries with the largest amount of direct investment into Israel as at the end of 2002 (ranked in descending order) were: the United States, Canada, Italy, the United Kingdom, and Switzerland.

In addition to the data showing country breakdowns, quarterly data are compiled by BI showing breakdowns of the inward direct investment position for various regions/economic zones as specified by users. These data are not disseminated but are available on request with a timeliness of 3 months after the end of the reference period.

There are differences in the data coverage, sources, etc. between the inward position data showing geographic breakdowns made available on request and the aggregate inward position data reported to the IMF for publication, in that the data showing geographic breakdowns have only partial coverage of nontraded enterprises.

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity are compiled by the BI for the inward direct investment position data. The data are not disseminated, but are available on request with a timeliness of 3 months after the end of the reference period. The data show a breakdown for 85 industrial activities. The classification used is broadly consistent with the nine major divisions of the United Nations International Standards Industrial Classification of All Economic Activities (ISIC).

The data are classified on the basis of the industrial activity of the resident direct investment enterprises. The five industrial activities with the largest amount of direct investment in Israel as at the end of 2003 (in descending order) were: (i) manufacturing, (ii) finance and insurance, (iii) banking, (iv) buildings and real estate, and holding companies.

Quarterly data are compiled by the BI for the inward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are not disseminated, but are available on request with a timeliness of 3 months after the end of the reference period. The five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are made available were: the United States, Canada, Italy, the United Kingdom, and Switzerland.

In addition, quarterly data compiled by the BI for the inward direct investment position data showing a breakdown by both industrial activity and region/economic zone are available on request with a timeliness of 3 months after the end of the reference period.

There are differences in the data coverage, sources, etc. between the inward position data showing industrial activity breakdowns made available on request and the aggregate inward position data reported to the IMF for publication, in that the data showing industrial activity breakdowns cover only traded enterprises and nontraded enterprises that are included in the Direct Reporting System.



## **B. Methodology**

### **Definition of Direct Investment Enterprises in Israel**

In accordance with the international standards, the basic criterion for defining direct investment enterprises in Israel is 10 percent ownership by a nonresident investor. However, all nontraded enterprises are treated as direct investment enterprises regardless of the percentage ownership by the nonresident investor. In accordance with the international standards, enterprises in which the nonresident direct investor owns 10 percent or more but does not have an effective voice in management are included. Contrary to the international standards, enterprises in which the nonresident investor owns less than 10 percent but has an effective voice in management, as evidenced by (i) representation on the Board of Directors, or (ii) participation in policy making, are also included. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual nonresident investor or group of related nonresident investors, rather than being calculated by combining the holdings of all nonresident investors in a specific enterprise or from a specific country. No value threshold is used to identify resident direct investment enterprises. Unincorporated enterprises are treated differently from incorporated enterprises in that all unincorporated enterprises are excluded from the direct investment data.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The "Fully Consolidated System" (FCS) recommended in the international standards is partially applied. In accordance with the FCS, the data include the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises. However, contrary to the FCS, all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other. (The data on other capital cover only positions between directly owned enterprises.)

Enterprises in Israel are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

### **Treatment of Equity Capital and Reinvested Earnings**

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

The reinvested earnings data cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iv) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment in Israel.)

### **Treatment of Other Capital**

The other capital position data cover: (i) long-term loans, and (ii) short-term loans. The data do not include (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and

other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including most positions of SPEs primarily engaged in financial intermediation for a group of related enterprises, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks, and (iii) the data include non-participating preference shares. However, the coverage of non-participating shares is only partial because these positions are unable to be identified from present data sources in all instances. Contrary to the international standards, (i) the data do not include short-term financial positions, such as those arising from cash management transfers, between nonfinancial direct investment enterprises and affiliated SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries.

The treatment of instances when a loan/debt guarantee provided by a direct investor or related direct investment enterprise is invoked following default by a direct investment enterprise varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Liabilities: Direct Investment in Israel: Equity Capital: Liabilities to Direct Investors” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Liabilities: Direct Investment in Israel: Other Capital: Liabilities to Direct Investors” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Liabilities: Direct Investment in Israel: Equity Capital: Liabilities to Direct Investors” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the guarantor and recorded under “Liabilities: Direct Investment in Israel: Other Capital: Liabilities to Direct Investors” at the time the periodic payments are made.

#### **Treatment of Reverse Investment**

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as “Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises” and loan positions are recorded as “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises”. However, such instances rarely occur.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as “Assets: Portfolio Investment: Equity Securities”, rather than as “Liabilities: Direct Investment in Israel: Equity Capital: Claims on Direct Investors”, and loan positions are recorded as “Liabilities: Direct Investment in Israel: Other Capital: Liabilities to Direct Investors”, rather than as “Liabilities: Direct Investment in Israel: Other Capital: Claims on Direct Investors”.

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation in Israel by nonresidents of (i) construction enterprises, or (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources.

#### **Treatment of Offshore Enterprises**

Not applicable. There are no offshore enterprises established in Israel by nonresidents at present.

#### **Treatment of Special Purpose Entities (SPEs)**

Not applicable. There are no SPEs established in Israel by nonresidents at present.

### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include ownership of land and buildings in Israel by nonresident enterprises and nonresident individuals. Land and buildings owned in Israel by nonresident enterprises and nonresident individuals on long-term leases are not included.

### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the direct investment data do not include expenditure related to natural resources exploration in Israel by nonresidents, (ii) expenditure on bonus payments made by nonresidents to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established in Israel by nonresidents for natural resource exploration, no adjustment to reflect that shutdown is made to the liabilities data on direct investment equity capital in the international investment position statistics, as this information is not available from the present data sources.

### **Valuation of Assets and Liabilities**

The data on equity capital for listed enterprises are recorded at market values. The data on equity capital for unlisted enterprises are recorded at book values, which are the values recorded in the balance sheets of the individual reporting enterprises.

The data on other capital are recorded primarily at book values, which are the historical costs, adjusted by the consumer price index.

The book values used are those shown in the accounting records of the resident direct investment enterprises, rather than the nonresident direct investors.

### **Exchange Rate Conversion**

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.

## DIRECT INVESTMENT ABROAD

### BALANCE OF PAYMENTS (“OUTWARD TRANSACTIONS”) DATA

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable monthly data are compiled by the Bank of Israel (BI) within the balance of payments framework on (a) two of the three components of direct investment income: (i) income on equity (dividends and distributed branch profits), and (ii) income on debt (interest), and (b) the components of direct investment financial flows: (i) equity capital, and (ii) other capital. (Prior to 2003 data on (i) income on equity (dividends and distributed branch profits), and (ii) income on debt (interest), were not compiled.) Separately identifiable annual (calendar year) data are compiled by the BI within the balance of payments framework on reinvested earnings. The monthly data on (i) equity capital, and (ii) other capital, are disseminated with a timeliness of 3 weeks after the end of the reference period and the annual data are disseminated with a timeliness of 6 months after the end of the reference period on the BI website [http://www.bankisrael.gov.il/deptdata/pik\\_mth/pikmth\\_e.htm](http://www.bankisrael.gov.il/deptdata/pik_mth/pikmth_e.htm). The monthly data on (i) income on equity (dividends and distributed branch profits), and (ii) income on debt (interest) are not disseminated in the national publications. The data (quarterly rather than monthly) for all components, including the data on dividends and distributed branch profits, and income on debt (interest) are also reported to the IMF for publication and annual data are reported to the OECD.

##### Revision Practices

The data for all components except reinvested earnings are preliminary when first released. The monthly data are revised to take account of corrections made in the source data and the revised data are released monthly together with the preliminary data for the latest month. The monthly data are considered to be final 4 months after their first release. The annual data on reinvested earnings are final when first released.

The revised status of the data is not clearly identified in the disseminated data and the general public are not informed of the reasons for the revisions. To date there have been no instances of major changes in methodology or data collection systems necessitating revisions of the historical data.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data for most components are collected on an individual transactions basis, but data collected on an aggregate basis (company accounts) are used as a source for the data on reinvested earnings. The reporting requirements are compulsory.

##### Data Sources

The data for all components except reinvested earnings are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions. A Direct Reporting System (DRS), which also covers cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, is used as a secondary data source. The data on reinvested earnings are compiled from information from the DRS and from the published company accounts of nonresident direct investment enterprises.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment transactions data. The register is maintained by the BI and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, (ii) a debt register, and (iii) a private register of start-up companies. The same business register is used to compile the outward direct investment transactions and position data, but a different register is used for the inward direct investment transactions and position data.

### **Geographic Classification**

Monthly data showing breakdowns by country for the direct investment income data and the direct investment financial flows data are compiled by BI. The data are not disseminated, but are available quarterly on request with a timeliness of 60 days after the end of the reference quarter. The data cover all member countries of the IMF, of which 30 countries have substantial investment from residents of Israel. Bilateral data are not used in the compilation of the data.

The debtor/creditor principle is used as the basis for the geographic allocation of the data. The five countries with the largest amount of direct investment income from investment abroad by residents of Israel during 2002 (ranked in descending order) were: the Netherlands, Gibraltar, Germany, Jersey/Guernsey, and Switzerland. The five countries with the largest amount of direct investment financial flows from Israel during 2002 (ranked in descending order) were: the Netherlands, the United States, Spain, Singapore, and Hungary.

In addition to the data showing country breakdowns, monthly data are compiled by BI showing breakdowns of both the direct investment income and the direct investment financial flows for various regions/economic zones as specified by users. These data are not disseminated but are available quarterly on request with a timeliness of 60 days after the end of the reference period.

There are no differences in the data coverage, sources, etc. between the outward transactions data showing geographic breakdowns made available on request and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication.

### **Industrial Classification**

Monthly data showing breakdowns by industrial activity for direct investment income and direct investment financial flows are compiled by the BI. The data are not disseminated, but are available on request with a timeliness of 3 weeks after the end of the reference period. The data show a breakdown for 85 industrial activities. The classification used is broadly consistent with the nine major divisions of the United Nations International Standards Industrial Classification of All Economic Activities (ISIC).

Both the data on direct investment income and direct investment financial flows are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct investment income from investment abroad by residents of Israel during 2002 (in descending order) were: (i) chemicals and pharmaceuticals, (ii) construction, (iii) civil engineering, (iv) retail trade, and (v) diamonds. The five industrial activities with the largest amount of direct investment financial flows from Israel during 2002 (in descending order) were: (i) electronics, (ii) telecommunications, (iii) chemical products, (iv) trade, and (v) buildings and hotels.

Monthly data are compiled by the BI for the direct investment income data and direct investment financial flows data showing a breakdown by both industrial activity and main partner country. These data are not disseminated, but are available on request with a timeliness of 3 weeks after the end of the reference period. For the direct investment income data, the five highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are made available were: the Netherlands, Gibraltar, Germany, Jersey/Guernsey, and Switzerland. For the direct investment financial flows data, the five highest ranking partner countries during 2002 (ranked in descending order) for which breakdowns by industrial activity are made available were: the Netherlands, the United States, Spain, Singapore, and Hungary.

In addition, monthly data compiled by the BI for the direct investment income data and direct investment financial flows data showing a breakdown by both industrial activity and region/economic zone are available on request with a timeliness of 3 weeks after the end of the reference period.

There are differences in the data coverage, sources, etc. between the outward transactions data showing industrial activity breakdowns made available on request and the aggregate outward data on direct investment income and direct investment financial flows reported to the IMF for publication, in that a value threshold is used for the data showing industrial activity breakdowns.

## **B. Methodology**

### **Definition of Direct Investors**

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. Contrary to the international standards, all resident investors in nontraded enterprises abroad (which comprise a significant proportion of direct investment abroad) are treated as direct investors, regardless of the percentage ownership in the nonresident enterprises. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors. Unincorporated enterprises are treated differently from incorporated enterprises in that all unincorporated enterprises are excluded from the direct investment data.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, (i) the direct investment earnings data include the relevant share of all indirectly-owned direct investment enterprises, and (ii) the direct investment financial flows data include all equity and other capital transactions made directly between resident enterprises of a related group as defined in the FCS and nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other.

Enterprises in Israel are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

### **Measurement of Direct Investment Earnings**

Contrary to the international standards, the “Current Operating Performance Concept” (COPC) is not fully used to calculate direct investment earnings. In accordance with the COPC, (i) realized and unrealized exchange rate gains and losses, and write-offs, are not included, and (ii) interest receivable/payable is included. Contrary to the COPC (i) deductions are not made for depreciation of capital, and for provisions for host-country income and corporation taxes, (ii) realized and unrealized capital gains and losses are included, and (iii), debt repayments receivable/payable are not excluded.

### **Treatment of Income on Equity (Dividends and Distributed Branch Profits)**

The data on dividends and distributed branch profits cover incorporated enterprises, but not unincorporated enterprises. Contrary to the international standards, (i) the data on dividends and distributed branch profits are recorded net, rather than gross, of any withholding taxes, (ii) the data on dividends and distributed branch profits for incorporated enterprises are recorded on the date they are paid, rather than on the date they are declared payable. In accordance with the international standards, (i) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of

affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

#### **Treatment of Reinvested Earnings and Undistributed Branch Profits**

The data on reinvested earnings and undistributed branch profits cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) the data on the reinvested earnings and undistributed branch profits are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) the data include reinvested earnings and undistributed branch profits between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iv) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks.

#### **Treatment of Income on debt (Interest)**

The data on income on debt (interest) cover incorporated enterprises, but not unincorporated enterprises. The data include interest on (i) long-term loans, and (ii) short-term loans. The data do not include interest on (i) bonds and money market instruments, (i) trade credits, and (iii) financial leases. In accordance with the international standards, the data do not include (i) interest on financial derivatives, and (ii) interest on deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities between affiliated banks and affiliated financial intermediaries. In accordance with the international standards, (i) the data are recorded on an accrual basis, (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks, and (iii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including most transactions of SPEs primarily engaged in financial intermediation for a group of related enterprises. Contrary to the international standards, the data do not include interest on short-term financial transactions, such as cash management transfers, between nonfinancial direct investment enterprises and affiliated SPEs primarily engaged in financial intermediation for a group of related enterprises.

#### **Treatment of Equity Capital**

The equity capital transactions data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity transactions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

#### **Treatment of Other Capital**

The other capital transactions data cover: (i) long-term loans, and (ii) short-term loans. The data do not include (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv) transactions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference shares, (ii) the data include transactions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including most transactions of SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include short-term financial transactions, such as cash management transfers, between nonfinancial direct investment enterprises and affiliated SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) the data do not include transactions associated with permanent debt between affiliated banks and between affiliated financial intermediaries.

The treatment of instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the guarantor and recorded under “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises” at the time the periodic payments are made.

#### **Treatment of Reverse Investment**

Transactions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity transactions are recorded as “Direct Investment Abroad: Equity Capital: Increase in Claims on Affiliated Enterprises” and loan transactions are recorded as “Direct Investment Abroad: Other Capital: Increase in Claims on Affiliated Enterprises”. However, such instances rarely occur.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity transactions are recorded as “Portfolio Investment: Increase in Assets: Equity Securities”, rather than as “Direct Investment in Israel: Equity Capital: Increase in Claims on Direct Investors”, and loan transactions are recorded as “Direct Investment in Israel: Other Capital: Decrease in Liabilities to Direct Investors”, rather than as “Direct Investment in Israel: Other Capital: Increase in Claims on Direct Investors”.

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Israel of (i) construction enterprises, or (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources.

#### **Treatment of Offshore Enterprises**

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Israel are included in the direct investment data.

#### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, activities of SPEs established abroad by residents of Israel are included in the direct investment data, with no exceptions. Contrary to the international standards, in the case of SPEs established abroad by residents of Israel that have the primary purpose of financial intermediation, transactions with affiliated banks and affiliated financial intermediaries are not excluded from the data, except those involving equity capital, as these transactions cannot be identified from the present data sources. Contrary to the international standards, transactions involving permanent debt are also excluded.

#### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include purchases and sales of land and buildings abroad by enterprises and individuals resident in Israel. However, the coverage of the data on purchases and sales by resident individuals is considered to be incomplete as the transactions can be misclassified by the reporting individuals. Land and buildings purchased abroad by enterprises and individuals resident in Israel on long-term leases are not included.



#### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the direct investment data do not include expenditure related to natural resources exploration abroad by residents of Israel, and (ii) expenditure on bonus payments made by residents of Israel to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, as this information is not available from the present data sources. In accordance with the international standards, in instances of the shutdown of a direct investment enterprise established abroad by residents of Israel for natural resource exploration, no transactions are shown in the balance of payments statistics.

#### **Exchange Rate Conversion**

All transactions, with the exception of reinvested earnings, are converted to the unit of account at the exchange rate prevailing on the day of the transaction. The data on reinvested earnings are converted at the exchange rate prevailing at the end of the period.

## DIRECT INVESTMENT ABROAD

### INTERNATIONAL INVESTMENT POSITION ASSETS (“OUTWARD POSITION DATA”)

#### A. Compilation Practices and Data Sources

##### Data Availability

Separately identifiable quarterly data (the most timely) are compiled by the Bank of Israel (BI) within the international investment position (IIP) framework on (a) equity capital and reinvested earnings, and (b) other capital, and are disseminated with a timeliness of 3 months after the end of the reference period on the BI website [http://www.bankisrael.gov.il/deptdata/pik\\_mth/pikmth\\_e.htm](http://www.bankisrael.gov.il/deptdata/pik_mth/pikmth_e.htm).

More comprehensive separately identifiable annual (calendar year) data are compiled by the Bank of Israel (BI) within the international investment position (IIP) framework on reinvested earnings and are disseminated with a timeliness of 6 months after the end of the reference period on the BI website [http://www.bankisrael.gov.il/deptdata/pik\\_mth/pikmth\\_e.htm](http://www.bankisrael.gov.il/deptdata/pik_mth/pikmth_e.htm).

The quarterly data are also reported to the IMF for publication and annual data are reported to the OECD.

##### Revision Practices

The quarterly data are preliminary when first released. The quarterly data for the current year are revised six months after the end of that year to take account of the more comprehensive annual data on reinvested earnings and are disseminated together with the preliminary data for the latest quarter. At this time the quarterly data are considered to be final, that is, up to 12 months after their first release. The annual data are considered to be final when first released.

The revised status of the data is not clearly identified in the disseminated data and the general public are not informed of the reasons for the revisions. To date there have been no instances of major changes in methodology or data collection systems necessitating revisions of the historical data.

There are no differences in the revision practices between the data disseminated in the national publications and those reported to the IMF and OECD for publication.

##### Data Coverage

No major sectors of the economy or elements within those economic sectors are excluded from the data.

There are no differences in the sectoral coverage between the data disseminated in the national publications and those reported to the IMF and the OECD for publication.

##### Data Collection Method

The data are collected using a mixture of an individual transactions basis and an aggregate basis—the data for most components are collected on an individual transactions basis, but data collected on an aggregate basis (company accounts) are used as a source for the data on reinvested earnings. The reporting requirements are compulsory.

##### Data Sources

The data for all components except reinvested earnings are compiled primarily from an international transactions reporting system (ITRS), which covers cash transactions made through the domestic banking system, but not cash transactions made through the foreign bank accounts of enterprises, or noncash transactions. Information from (i) a Direct Reporting System (DRS), which covers cash transactions made through the foreign bank accounts of enterprises, and noncash transactions, and (ii) the Bank’s Supervisor, is used as secondary data sources. The quarterly data on reinvested earnings are estimates based on the latest available annual data, divided into four equal parts. The annual data on reinvested earnings are compiled primarily from the company

accounts of nonresident direct investment enterprises. Information from the DRS is used as a secondary data source. The perpetual inventory method (a method for deriving position data from transactions data) is used for the data obtained from the ITRS. Adjustments are made for price changes, exchange rate changes, and other nontransaction changes.

There are no differences in the data sources between the data disseminated in the national publications and those reported to the IMF for publication.

A business register of enterprises involved in direct investment is used to compile the outward direct investment position data. The register is maintained by the BI and is updated on an ongoing basis using information from (i) the ITRS's list of transactors, and (ii) a debt register. The same business register is used to compile the outward direct investment transactions and position data, but a different register is used for the inward direct investment transactions and position data.

### **Geographic Classification**

Quarterly data showing breakdowns by country for the outward direct investment position data are compiled by BI with a timeliness of 3 months after the end of the reference period. The data are not disseminated, but are available on request. The data cover all member countries of the IMF, of which 30 countries have substantial investment from residents of Israel. Bilateral data are not used in the compilation of the data.

In accordance with the international standards, the data are compiled on an "immediate country" basis. The five countries with the largest amount of direct investment from Israel as at the end of 2002 (ranked in descending order) were: the Netherlands, the United States, Canada, Gibraltar, and the United Kingdom.

In addition to the data showing country breakdowns, quarterly data are compiled by BI showing breakdowns of the outward direct investment position for various regions/economic zones as specified by users. These data are not disseminated but are available on request with a timeliness of 3 months after the end of the reference period.

There are differences in the data coverage, sources, etc. between the outward position data showing geographic breakdowns made available on request and the aggregate outward position data reported to the IMF for publication, in that a value threshold of USD 5 million is used for the data showing geographic breakdowns.

### **Industrial Classification**

Quarterly data showing breakdowns by industrial activity are compiled by the BI for the outward direct investment position data. The data are not disseminated, but are available on request with a timeliness of 3 months after the end of the reference period. The data show a breakdown for 85 industrial activities. The classification used is broadly consistent with the nine major divisions of the United Nations International Standards Industrial Classification of All Economic Activities (ISIC).

The data are classified on the basis of the industrial activity of the resident direct investors. The five industrial activities with the largest amount of direct investment from Israel as at the end of 2003 (in descending order) were: (i) electronics, (ii) chemical products, (iii) buildings and real estate, (iv) trade and services, and (v) holding companies.

Quarterly data are compiled by the BI for the outward direct investment position data showing a breakdown by both industrial activity and main partner country. These data are not disseminated, but are available on request with a timeliness of 3 months after the end of the reference period. The five highest ranking partner countries during 2003 (ranked in descending order) for which breakdowns by industrial activity are made available were: the Netherlands, the United States, Canada, Gibraltar, and the United Kingdom.

In addition, quarterly data compiled by the BI for the outward direct investment position data showing a breakdown by both industrial activity and region/economic zone are available on request with a timeliness of 3 months after the end of the reference period.

There are differences in the data coverage, sources, etc. between the outward position data showing industrial activity breakdowns made available on request and the aggregate outward position data reported to the IMF for publication, in that a value threshold of USD 5 million is used for the data showing industrial activity breakdowns.

## **B. Methodology**

### **Definition of Direct Investors**

In accordance with the international standards, the basic criterion for defining resident direct investors is 10 percent ownership by a resident investor of an enterprise abroad, regardless of whether the investor has an effective voice in management—that is, enterprises abroad in which the resident direct investor owns 10 percent or more but does not have an effective voice in management are included, while enterprises abroad in which the resident investor owns less than 10 percent but has an effective voice in management are not included. Contrary to the international standards, all resident investors in nontraded enterprises abroad (which comprise a significant proportion of direct investment abroad) are treated as direct investors, regardless of the percentage ownership in the nonresident enterprises. In accordance with the international standards, the 10 percent ownership is based on the ownership of each individual resident investor or group of related resident investors, rather than being calculated by combining the holdings of all resident investors in a specific enterprise abroad or in a specific country abroad. No value threshold is used to identify resident direct investors. Unincorporated enterprises are treated differently from incorporated enterprises in that all unincorporated enterprises are excluded from the direct investment data.

### **Treatment of Indirectly Owned Direct Investment Enterprises**

The “Fully Consolidated System” (FCS) recommended in the international standards is fully applied. Specifically, the data include (i) the relevant share of the reinvested earnings of indirectly-owned direct investment enterprises, and (ii) all equity capital and other capital positions held directly by resident enterprises of a related group as defined in the FCS with nonresident enterprises of the same group, without consideration of the percentage of equity directly held by these direct investors or enterprises in each other, and including those enterprises that share a common direct investor but have no ownership in each other.

Enterprises in Israel are required by law to produce consolidated accounts covering their subsidiaries and associate companies, both foreign and domestic, but are not required by law to identify all transactions with the parent company.

### **Treatment of Equity Capital and Reinvested Earnings**

The equity capital position data cover (i) listed voting stocks (shares), (ii) unlisted voting stocks (shares), (iii) participating preference [preferred] shares, (iv) other non-voting stocks (shares), and (v) noncash acquisitions of equity, such as through the provision of capital equipment. In accordance with the international standards, (i) the data include equity positions between affiliated banks and between affiliated financial intermediaries, (ii) the data include equity positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks.

The data on reinvested earnings cover incorporated enterprises, but not unincorporated enterprises. In accordance with the international standards, (i) the reinvested earnings are recorded in the period in which they are earned, (ii) when a direct investment enterprise makes a net loss, that net loss is recorded as negative reinvested earnings, (iii) the data include reinvested earnings between nonfinancial direct investment enterprises and affiliated financial intermediaries, including SPEs primarily engaged in financial intermediation for a group of related enterprises, and (iv) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and other affiliated financial intermediaries and affiliated banks. (See also the section on the *Measurement of Direct Investment Earnings* in the metadata on the Balance of Payments [transactions] data on Direct Investment Abroad.)

### **Treatment of Other Capital**

The other capital position data cover: (i) long-term loans, and (ii) short-term loans. The data do not include (i) bonds and money market instruments, (ii) trade credits, and (iii) financial leases. In accordance with the international standards, the data exclude (i) financial derivatives, (ii) loan/debt guarantees provided by direct investors or related direct investment enterprises, (iii) changes in insurance company technical reserves, and (iv)

positions between affiliated banks and between affiliated financial intermediaries involving deposits, loans, and other claims and liabilities related to usual banking and financial intermediation activities. In accordance with the international standards, (i) the data include non-participating preference shares, (i) the data include positions between nonfinancial direct investment enterprises and affiliated financial intermediaries, including most positions of SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) there are no differences between the treatment of affiliated financial auxiliaries (such as security dealers) and the treatment of other affiliated financial intermediaries and affiliated banks. Contrary to the international standards, (i) the data do not include short-term financial positions, such as those arising from cash management transfers, between nonfinancial direct investment enterprises and affiliated SPEs primarily engaged in financial intermediation for a group of related enterprises, and (ii) the data do not include positions associated with permanent debt between affiliated banks and between affiliated financial intermediaries.

The treatment of instances when a loan/debt guarantee provided by a direct investor is invoked following default by a direct investment enterprise varies depending on the treatment in the accounting records of the individual enterprises—either (i) the entire amount of the loan outstanding is treated as an equity capital injection by the guarantor and recorded under “Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (ii) the entire amount of the loan outstanding is treated as lending by the guarantor and recorded under “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises” at the time the guarantee is invoked, or (iii) the periodic payments of principal and interest made by the guarantor are treated as equity capital injections by the guarantor and recorded under “Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises” at the time the periodic payments are made, or (iv) the periodic payments of principal and interest made by the guarantor are treated as lending by the guarantor and recorded under “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises” at the time the periodic payments are made.

#### **Treatment of Reverse Investment**

Positions involving reverse investment are not treated in accordance with the international standards in all instances.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns at least 10 percent of its nonresident direct investor, and has therefore established a direct investment relationship in its own right, in accordance with the international standards, equity positions are recorded as “Assets: Direct Investment Abroad: Equity Capital: Claims on Affiliated Enterprises” and loan positions are recorded as “Assets: Direct Investment Abroad: Other Capital: Claims on Affiliated Enterprises”. However, such instances rarely occur.

Assuming that the direct investment enterprise is a resident of Israel and the direct investor is a nonresident, when the direct investment enterprise owns less than 10 percent of its nonresident direct investor, contrary to the international standards, equity positions are recorded as “Assets: Portfolio Investment: Equity Securities”, rather than as “Liabilities: Direct Investment in Israel: Equity Capital: Claims on Direct Investors”, and loan positions are recorded as “Liabilities: Direct Investment in Israel: Other Capital: Liabilities to Direct Investors”, rather than as “Liabilities: Direct Investment in Israel: Other Capital: Claims on Direct Investors”.

#### **Treatment of Quasi-corporations**

Contrary to the international standards, the direct investment data do not include the activities of quasi-corporations involving the operation abroad by residents of Israel of (i) construction enterprises, or (ii) mobile equipment, such as ships, aircraft, and drilling rigs, as these activities cannot be identified from the present data sources.

#### **Treatment of Offshore Enterprises**

In accordance with the international standards, activities of offshore enterprises established abroad by residents of Israel are included in the direct investment data.

#### **Treatment of Special Purpose Entities (SPEs)**

In accordance with the international standards, activities of SPEs established abroad by residents of Israel are included in the direct investment data, with no exceptions. Contrary to the international standards, in the case of

SPEs established abroad by residents of Israel that have the primary purpose of financial intermediation, positions with affiliated banks and affiliated financial intermediaries are not excluded from the data, except those involving equity capital, as these positions cannot be identified from the present data sources. Contrary to the international standards, positions involving permanent debt are also excluded.

#### **Treatment of Land and Buildings**

In accordance with the international standards, the equity capital data include ownership of land and buildings abroad by enterprises and individuals resident in Israel. However, the coverage of the data on ownership by resident individuals is considered to be incomplete as the positions can be misclassified by the reporting individuals. Land and buildings owned abroad by enterprises and individuals resident in Israel on long-term leases are not included.

#### **Treatment of Natural Resources Exploration**

Contrary to the international standards, (i) the direct investment data do not include expenditure related to natural resources exploration abroad by residents of Israel, (ii) expenditure on bonus payments made by residents of Israel to the host country for the right to undertake exploration for natural resources is not included in the equity capital data when there is a clear intention to establish a direct investment enterprise, and (iii) in instances of the shutdown of a direct investment enterprise established abroad by residents of Israel for natural resource exploration, no adjustment to reflect that shutdown is made to the assets data on direct investment equity capital in the international investment position statistics, as this information is not available from the present data sources.

#### **Valuation of Assets and Liabilities**

The data on equity capital for listed enterprises are recorded at market values. The data on equity capital for unlisted enterprises are recorded at book values, which are the values shown in the balance sheets of the individual reporting enterprises.

The data on other capital are recorded primarily at book values, which are the historical costs, adjusted by the consumer price index.

The book values used are those shown in the accounting records of the nonresident direct investment enterprises, rather than the resident direct investors.

#### **Exchange Rate Conversion**

All positions are converted to the unit of account at the exchange rate prevailing on the date to which the position data relate.