



# PRESS RELEASE

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## Israel's Balance of Payments - 2006

### In 2006:

- The surplus in Israel's current account totaled \$6.8 billion, following a surplus of \$4.3 billion in 2005.
- A surplus of \$4.5 billion was recorded in the services account, compared with \$3.8 billion in 2005.
- A significant drop occurred in Israel's net foreign liabilities, which totaled \$13.3 billion at the end of the year, compared with \$30.9 billion at the end of 2005.

### Annual Overview – 2006

**The surplus in the current account** of the balance of payments for 2006 amounted to \$6.8 billion, similar to 2003, following a surplus of \$4.3 billion recorded in 2005, and \$2.9 billion in 2004.

The surplus in the current account is derived by adding up the data of transactions of Israeli residents abroad in the goods account, the services account, and the income account, as well as in the account of current transfers in current dollars. These are transmitted based on the balance of payments data summed up by the Central Bureau of Statistics.

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This press release also appears on the CBS website at: [www.cbs.gov.il/hodaot2005/8\\_05\\_56.htm](http://www.cbs.gov.il/hodaot2005/8_05_56.htm)

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## Current Account – Net Annual Transactions

Millions of Dollars

Year	Trading in Goods	Trading in Services	Income	Current Transfers	Current Account
2003	-3,105.5	2,117.2	-4,050.1	6,410.6	1,372.2
2004	-2,829.9	3,154.4	-3,675.5	6,277.1	2,926.1
2005	-3,767.7	3,793.0	-1,701.9	5,971.9	4,295.3
2006	-3,563.6	4,507.5	-1,497.0	7,393.8	6,840.7

The growth in the surplus of the current account in 2006 compared with the previous year, reflects an improvement in all parts of the account; especially in the goods and services account and the current transfers account. The data in the second half of the year were affected by the security incidents in the north of the country, during July and August.

Following is an additional breakdown of the data:

### Account of Goods and Services

**The goods and services account** amounted to a surplus of \$0.9 billion in 2006, after achieving a balance between exports and imports in the previous year.

**Exports of goods and services** totaled \$62.6 billion in 2006 and reached 44% of the GDP, compared with 44.4% in the previous year and 43% in 2004.

**Imports of goods and services** totaled \$61.7 billion in 2006 and reached 44% of the GDP, compared with 44.4% in 2005 and 42.7% in 2004.

**The deficit in the goods account in 2006** – the surplus of imports over exports - amounted to \$3.6 billion, compared with \$3.8 billion dollars in 2005. The reduction of the deficit in the goods account is due to the rise in exports – in current dollars – at a rate higher than the rise in imports, after an opposite development in the previous year.

**Exports of goods** rose in 2006 by 8.1% - in current dollars – compared with exports in 2005, and totaled \$43.3 billion; whereas **imports of goods** rose by 6.9% compared with 2005, and totaled \$46.9 billion dollars. These imports do not include expenses for transport of merchandise to Israel, but include defense imports amounting to \$2.5 billion dollars.

**In the services account**, a surplus of \$4.5 billion was recorded in 2006, compared with a surplus of \$3.8 billion in the previous year.

**Export of services** totaled \$19.3 billion, compared with \$17.5 billion in the previous year. Export of services includes net income from sale of products that were partially produced by sub-contractors abroad.

The rise in services exports in 2006 was mainly due to a rise in exports of business services – which include software and R&D services.

**Export of business services** totaled \$12.7 billion in the survey year, compared with \$10.9 billion in 2005.

**Export of software and R&D services** totaled \$5.8 billion in 2006, compared with \$4.8 billion in 2005. These services include the value of intangible assets transferred abroad upon purchase of start-up companies by foreign residents. In 2006 an increase in purchases of start-up companies was recorded, and the export of services from these sales constitutes one-third of the general rise of software and R&D services in the survey year.

**Exports of tourism services** - excluding expenditures of foreign workers in Israel – remained unchanged in 2006 compared with the previous year, and totaled \$1.9 billion. In the second half of 2006 the number of foreign tourists who visited Israel dropped, after consecutive rises since 2003, due to the incidents in the Northern Region. The prior increases continued during the first half of the year, but were offset by the drop in the second half.

**The distribution of exports between private and commercial tourism** also remained almost unchanged in 2006, compared with the previous year: export of tourism services for private consumption totaled \$1.6 billion. This export includes the value of purchases made in Israel by passengers who are foreign residents for purposes that are not commercial, such as recreation and touring.

Export of tourism services for commercial consumption totaled \$0.2 billion in 2006, and includes the value of purchases made in Israel by passengers who are foreign residents for purposes of commercial activities, not including the expenditures of foreign diplomats, who are posted to Israel for long periods of time.

**Export of transportation services** totaled \$3.7 billion in 2006, similar to the export in the previous year, after a growth of 15.2% in 2005 and 23.2% in 2004.

**Import of services** totaled \$14.8 billion in the survey year, and rose by 7.6% compared with the previous year. Most of the growth occurred in import of commercial services, which rose by 16.2% compared with 2005.

**Import of tourism services** totaled \$3.0 billion in 2006, continuing the import of \$2.9 billion in 2005.

**Import of transportation services** grew by 1.3% in the survey year, compared with growth of 8.4% in the previous year. Import of these services total \$4.8 billion in 2006.

### **Account of Income from Capital Formation and Labour Compensation**

**The income from capital formation and labour compensation account** amounted to a deficit of \$1.5 billion in 2006, compared with a deficit of \$1.7 billion in 2005, and \$3.7 billion in 2004.

**The income from capital formation account** reached a surplus of \$0.4 billion in 2006, following a surplus of \$0.2 billion in the previous year, and a deficit of \$1.7 billion in 2004 and 2003.

**The continuing improvement in the income account** in recent years is due to the growth in the economy's foreign financial assets at a higher rate than the growth in liabilities, due to the rise in interest rates throughout the world.

**The account of income from labour compensation** amounted to a deficit of \$1.9 billion in 2006, as in the previous year (this deficit is the difference between payment for the labour of foreign workers in Israel, and wages earned by Israeli residents working abroad for short periods of time).

### **Current Transfers Account**

**Net current transfers** to Israel amounted to \$7.4 billion in the survey year, compared with \$6.0 billion in the previous year. Most of the growth was due to transfers of the USA government, estimated by the actual use of the aid monies, a use that is not limited to imports alone. The total net transfers to the government amounted to \$4.4 billion in 2006, compared with \$3.2 billion in 2005. The net current transfers to the rest of the sectors in the survey year also grew, and amounted to \$3.0 billion, compared with \$2.8 billion in the previous year.

### **The Capital Account**

Net capital transfers to Israel totaled \$0.9 billion in 2006, compared with \$0.7 billion in 2005.

## **The Financial Account**

**The addition to direct investments in 2006** reached the highest annual level recorded to date. The addition to direct investments by foreign residents in Israel and the investments of Israeli residents abroad, also reached a substantial level and were affected by two big transactions: one in the first quarter of the year – in which an Israeli company acquired a foreign company; and one in the third quarter of the year – in which foreign residents acquired a large Israeli company.

**Direct investments in Israel by foreign residents** increased by \$14.1 billion in 2006, following an increase of \$4.8 billion in the previous year.

Direct investments are those in which the investor receives voting rights on the board of directors and the option of participating in the management of the company.

**Direct investments abroad by Israelis** increased by \$13.6 billion in 2006, compared with \$3.3 billion in the previous year.

In investments by foreign residents in negotiable Israeli securities, a rise of \$8.6 billion was recorded in the survey year, compared with a rise of \$4.6 billion in 2005. Of these investments, \$3.5 billion were invested in shares, and \$5.1 billion was invested in Israeli bonds. Purchases of bonds by foreign residents included greater acquisitions of government bonds offered on the Tel Aviv Stock Exchange – especially in the last quarter of the year – and bonds issued by Israeli companies. These last were affected by the financing of a large acquisition transaction by an Israeli company abroad, which occurred in the first quarter of the year.

**Investments in foreign securities by Israeli residents**, including shares and bonds, rose by a total of \$8.8 billion in 2006, following a rise of \$8.2 in the previous year, and \$2.4 billion in 2004. Of the total of these investments, \$5.1 billion were invested in shares issued by foreign residents, and \$3.7 billion in foreign bonds. The substantial growth in these investments in the survey year and last year is due to the changes introduced in the Israeli capital market, - among others, equalization of tax rates levied on investments in Israel and abroad.

Following the developments of last year, this year also organizational bodies invested substantial amounts abroad, due to the above-mentioned changes, and especially the easing of restrictions on investing abroad by these bodies.

In **other foreign investments by Israeli residents**, there was a rise of \$9.3 billion in 2006, compared with a rise of \$5.1 billion in 2005. The rise stems mainly from a rise in foreign deposits by banks and other economic sectors.

**Other investments in Israel by foreign residents** totaled \$1.8 billion, after an addition of \$0.5 billion in 2005. These investments mainly include deposits, loans, and commercial credit.

**Reserve assets** increased by \$0.4 billion in 2006, compared with an increase of \$1.9 billion in the previous year. The changes in reserve assets do not include reassessment of assets deriving from fluctuations in the foreign currency exchange rate or from the prices of the held property.

#### **Foreign Liabilities and Assets – Net External Debt**

At the end of 2006, **Israel's net foreign liabilities** – which include the total foreign assets and liabilities of the Israeli economy – amounted to \$13.3 billion. This amount is derived by subtracting **Israel's total foreign liabilities**, \$168.8 billion, from Israel's foreign assets, \$155.5 billion.

It should be noted that there was a sharp drop this year in Israeli's net foreign liabilities, \$13.3 billion as mentioned above, compared with \$30.9 at the end of 2005. This development occurred as a result of heightened net foreign investments. The rise in Israeli foreign assets during 2006 reached 29.8%, compared with a growth of only 12% in liabilities.

**Israel's net external debt** – which includes foreign assets and liabilities only in terms of debt instruments – totaled a surplus of \$31.7 billion, following a surplus of \$21.2 billion dollars at the end of 2005, and a steady growth rate since 2001.