



**EU Twinning Project  
IS12/ENP-APFI/o8**

**Support to the Israeli Central Bureau of Statistics  
in the development of National Accounts, Education Statistics,  
Survey Methodology, ICBS Website and  
Coordination of Israel National Statistical System**

**Component A  
National Accounts**

**Activity A.7  
Balance of Payments  
follow-up on activity A.6**

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## List of Abbreviations

BC	Beneficiary Country (Israel)
BD	Benchmark Definition of FDI (OECD)
BoI	Bank of Israel
BPM	Balance of Payments Manual (IMF)
CBS	Central Bureau of Statistics (Israel)
FDI	Foreign Direct Investment
IIP	International Investment Position
ITRS	International Transactions Reporting System
MS	Member State
NIS	New Israeli Shekel
SPE	Special Purpose Entity
USD	United States Dollar

## **1. Summary**

There is a clear focus in both Bank of Israel and the ICBS on the part of the IIP and BoP data on FDI which is not covered through direct reporting, but rather indirectly through the commercial banks reporting on transactions, i.e. the ITRS. The challenge is to decide on the future data collection method, i.e. the threshold and sampling issues. As one necessary step in such an analysis, some overview tables regarding both the directly and indirectly reported data will be filled in by Bank of Israel and ICBS.

The methodology regarding investment income from FDI is well understood. The challenges are instead focused around the relatively low coverage and the resulting grossing-up, especially of the investment income related to inward FDI. Some recommendations regarding the practical exchange of data between Bank of Israel and the ICBS were provided which would make the estimation of FDI dividends more accurate. The enterprises' quarterly reporting on estimated profits makes a model for predicting the investment income from FDI superfluous in the Israeli case.

Regarding FDI in real estate, data sources on the inward FDI were investigated and analysed, and a simple and very preliminary model for how to use the available data was designed, and there are indications that the inward FDI in real estate is significant in size. As for the outward FDI in real estate, this is thought to be considerably smaller in size, but (data) sources which can give indications of the actual size of this should be identified by ICBS.

According to the agreed time plan the work on the Twinning project's final outcome with respect to the Balance of Payments component, i.e. a detailed development plan, should begin before the study visit to Denmark – the study visit is tentatively planned to take place in April 2014.

## **2. General comments**

The MS Expert mission A.7 was the second activity within the sub-component on Balance of Payments of the EU/Israel Twinning project on statistics. The mission was a follow-up to the A.6 mission to CBS conducted in July 2013. The last activity within the sub-component will be the study visit to Denmark (A.8, probably April 2014).

The mission was implemented according to the agreed set of Terms of Reference and Agenda which are included in this report as Annex A7.1 and A7.2, respectively.

The MS Experts would like to thank the staff of both the Central Bureau of Statistics and the Bank of Israel for their hospitality, fruitful discussions and all the information provided during the mission.

The views and observations stated in this report are those of the consultants and do not necessarily correspond to the views of EU, Danmarks Nationalbank or Statistics Denmark.

### 3. Assessment and results

Monday was devoted to topics related to the direct reporting on FDI to the Bank of Israel and the indirect reporting through the ITRS, i.e. the two systems providing the largest part of the data to the Israeli FDI (IIP and BoP) statistics. Mr Boaz Fleischmann from the Ministry of Finance was present on the Monday, and shared his experiences as a user of the Israeli statistics on FDI, positions data. Mr Fleischmann's observations led to discussions regarding SPEs and holding companies which often are only a first stop before the investments are channelled further on to other countries. This explains why some countries are strongly overrepresented, while the threshold could explain that certain smaller countries do not appear in the Israeli FDI statistics, because smaller investments are only covered through the ITRS – and therefore a considerable part of the data is unallocated with respect to geography

On Tuesday focus was primarily on investment income from FDI based on presentations of the Israeli and Danish systems. The Danish model, based on enterprises' yearly reporting on profits, was presented with emphasis on the forecasting part of the model which was developed in 2010. The model is basically an error-correction model which uses the consumer expectations index to capture the cyclical effect. The model is estimated for three industries (outward) and three country groupings (inward), and has performed well since its introduction – i.e. the yearly revisions of the investment income of the current account has, especially in gross terms, been reduced considerably. In Israel, enterprises are asked to report about their estimated profits on a quarterly basis, and the quality of this reporting is so high that revisions, based on reporting of actual yearly profits, are rather small.

The discussions on Monday and Tuesday made it clear that there has to be more direct reporting and lesser use of the ITRS. The discussions made it clear that in order to find an optimal balance between the two sources, analysis of the available data should be undertaken.

Wednesday was devoted to FDI in real estate. A presentation of the current status of the Israeli BoP and IIP statistics was given along with a presentation of the similar situation in Denmark. Two new and possibly valuable sources to the Israeli statistics were introduced, including some preliminary analysis of both sources: tax information regarding inward transactions and the housing and dwelling register information regarding stocks.

On Thursday, additional meetings were arranged with CBS's BoP unit in order to clarify the potential role of the so-called FDI survey, before the debriefing meeting was used to agree on the conclusions and recommendations.

## 4. Conclusions and recommendations

### 4.1 Conclusions

The MS Experts' conclusions on the FDI part of the Israeli BoP/IIP statistics are these:

- In the short term, only minor changes to the reporting forms to Bank of Israel are possible.
- The timely share of the quarterly IIP reporting from the enterprises is relatively small - only around one third of the 600 enterprises report before the deadline, so the IIP is based on reporting from 200 enterprises and projections from around 400 enterprises. This occasionally gives rather big revisions in the following quarters.
- Starting from second half of 2014, the current "form 6" will be changed so that the enterprises will report stocks and transactions, simultaneously (in line with recommendations from the previous mission report).
- Only in the long run, probably more than five years, the whole reporting system in Bank of Israel on FDI (and BoP and IIP reporting from enterprises, in general) will be changed in order to optimize the automation and level of quality of the directly reported data.
- Even within the existing framework, more direct reporting on FDI is required – too big a part of the statistics relies on the ITRS, thus leading to uncertainty about especially the positions and leaving a relatively large share of the data unallocated with respect to geography and industry code.
- As a proxy for the enterprises covered by the ITRS in the FDI position statistics, the cumulated transactions from the last five years is used.
- To be able to decide on the threshold, more analytic information should be made available.
- The ITRS will remain an important source for updating the population for the BoP/IIP statistics.
- The method applied for the aggregated profits (investment income) relies on quarterly data reported directly, and no modelling seems necessary. However, up to 60 per cent of grossing-up is added (inward FDI) which again leads back to the question of the balance between directly and indirectly (ITRS) reported data.
- Some additional data checking of the directly reported investment income data, reported to Bank of Israel, is undertaken by CBS using supplementary information.
- The dividend part of the directly reported investment income is currently estimated from the ITRS, and a split of the total dividends on FDI and portfolio shares is applied.
- Interest paid on inter-company loans are estimated at a "market" interest rate (EuroDollar) plus 1.5 per cent.
- The FDI statistics regarding real estate probably can benefit from the two new sources, on inward transactions and on inward FDI stocks.
- Jerusalem and Tel Aviv account for approximately 75 per cent of the total volume, on the transactions side.
- Regarding outward FDI on real estate, possible data sources should be identified (and analysed) as currently only ITRS information is known as a source.

## 4.2 Recommendations

The MS Experts' recommendations regarding the above conclusions are presented below.

### ***4.2.1 FDI positions and threshold for direct reporting***

The overview tables shown in Annex A7.4 would provide a good overview and a basis for starting the considerations regarding the future thresholds. The tables should be filled in for the FDI positions data, i.e. the directly reported part plus the cumulated ITRS data, this way equalling the officially published FDI position figures. In addition, the data on FDI stock reported to the experimental FDI survey (which in effect should be a subset of the before-mentioned cumulated ITRS data) should be analysed in a similar fashion.

It should be considered to ask the enterprises to report about all their FDI relations if the enterprise has been chosen to report.

The method of cumulating ITRS data as a means of covering the non-reporting enterprises should be reconsidered. The filled-in tables suggested in Annex A7.4 will give an indication of the distribution on size groups after which it can better be decided to what extent sampling of the small and medium sized enterprises (FDI relations) should be covered.

Ideally, and for practical reasons, only one survey would cover the whole population. The method could be either stratified sampling or a cut-off method. In the case of stratified sampling, the whole population would be divided into suitable strata and representative samples drawn within each strata. This way, the non-reporting enterprises would be covered through real grossing-up of the data. In the case of the cut-off method, only the bigger enterprises would be reporting, and the totals for the non-reporting enterprises would rather be estimated on basis of other available information – possibly using ITRS information, but a better source would normally be the information from private data suppliers, for example Bureau van Dijk or Dun & Bradstreet.

If the reporting on FDI will be split between the Bank of Israel and CBS, the latter handling the small and medium sized enterprises in yearly or bi-yearly surveys, the reporting forms should be designed so as to contain exactly the same questions. Obviously, the two populations should be selected carefully as not to have any systematic double- or under-reporting.

It is recommended not to have a grossing-up element larger than approximately 10 per cent. The distribution of the grossing-up part of the data on countries and industries may be done using the information on the directly reported data. This is the case in Denmark. It is, however, a matter of judgement whether it may be better to leave this part of the statistics un-allocated with respect to geography and industry.

Regarding the late responses for the quarterly IIP it is the MS Experts' recommendation that measures should be taken in order to have at least half of all enterprises' reporting when calculating the IIP, and among them the clear majority of the most important enterprises' data. In Denmark, the experience is that direct contact with the management of the enterprises in question with the purpose of offering help in order for the enterprise to be able to report in time, has been successful.

The information on Ultimate Beneficiary Owner (Ultimate Control Owner) should be made compulsory to answer as this is crucial for the implementation of the directional principle in the published statistics.

The formulation of the questions on the reporting forms should be considered to be more in line with the accounting terminology well-known to the reporters, rather than the statistical terminology.

Regarding the ITRS, better instructions for the commercial banks (“the tellers”) could be developed in order to improve the quality of the reported data. Generally, a reduction of the number of transaction codes could improve the quality of the ITRS data.

#### **4.2.2 FDI investment income**

An important improvement to the current process will be to separate the directly reported dividend data regarding FDI, and that the Bank of Israel sends this data to the CBS for their grossing up – as is already the case of aggregated profits.

The grossing-up element of the FDI income seems very large, especially on the inward side. Following the analysis suggested above, i.e. the tables of Annex A7.4, the size of the grossing-up may be better evaluated. The choice of a new threshold (and surveying method) should also take the effect on the investment income into account.

In the current system, it is rather arbitrary that the current interest paid on inter-company loans is set at the “market” rate plus 1.5 per cent. In a future system, it could be considered to ask the enterprises to report directly about the interest.

As for the practical handling of data, it should be considered how to reduce CBS’s role in the validation, at enterprise level, of the FDI income data. Possibly, the methodologies applied by CBS for their current additional validation procedures could be transferred to Bank of Israel for overall more efficient production of the BoP statistics.

#### **4.2.3 Real estate**

The new data sources, i.e. the data on inward transactions in real estate from the tax authorities, and the stock data on real estate from the building and dwelling register, should be analysed carefully. Annex A7.5 describes a first, very simple example of this analysis. This method should be developed further, especially regarding the necessary assumptions.

In particular, the information in both data sources on the residence of the buyer/holder should be examined. At the outset of the analysis, it is assumed that residents report their Israeli ID no. to both registers, while the passport information as the alternative option is used only by non-residents. For the cases where the buyer/holder has both options, the incentives for the buyer/holder to use either piece of information should be clarified.

The model for the inward FDI should be applied to the whole country, so it should be analysed how the Jerusalem and Tel Aviv can be extrapolated to cover the whole country.

Other assumptions, for example on the best price index, should be analysed.

After the initial analysis has taken place, external experts should be involved to help review the preliminary results. This could be colleagues from the Tax Authorities, the bigger municipalities or the Ministry of Housing.

Regarding the outward FDI in real estate, reliable data sources must be identified. Currently, neither inward nor outward positions are published or reported to the international organisations, but a possible publishing of inward FDI must, for reasons of symmetry, be supplemented by outward FDI positions regarding real estate.

Among the possible data sources regarding outward FDI in real estate are the ITRS, but additional information might be available if real estate brokers, specialised in Israelis acquiring real estate



abroad, were interviewed. In the longer run, it could be considered to include a question in the Household Budget Survey on “*does your household own real estate abroad?*”

Following the development of a methodology for both the inward and the outward FDI in real estate (positions and transactions), it should be investigated how to estimate the income element related to the investments.

## **5. Road map and time plan**

The coherent analysis of the transaction and stock data of the inward FDI in real estate should start. Before January 2014, coherent data on 2011, 2012 and 2013 should be established, and a list of the most urgent issues to be examined together with the data suppliers (the tax authorities and the municipalities) should be established. Likewise, the possibilities to cover also the outward FDI in real estate should be examined before January 2014.

This work as well as the work with the overview tables regarding the design of the FDI survey will continue during the first 6 months of 2014.

The drafting of the Twinning project’s detailed planning document, cf. the mandatory result of the component, should start well before the study visit to Denmark – at the moment of writing not planned, yet.

The study visit will among its topics probably include the Danish reporting system with particular focus on the automated procedures and related IT solutions.

## Annex A7.1. Terms of Reference

### **Mandatory result of the sub-component**

Detailed work plan for the development of financial accounts in the Balance of Payments.

### **Benchmark**

Work plan for development of FDI in financial accounts, IIP and Primary Income Accounts, prepared by 6<sup>th</sup> project quarter.

### **Subject / purpose of activity**

Improvement of statistics on revenues from direct investments:

- Assessment of the present situation
  - Comparisons with the BPM6 and the BMD4 manuals
  - Identification of the main problems
  - Review of possible improvements
  - Analysis of these improvements and their implementation.
- The following issues will be addressed
  - Profits
  - Dividends
  - Interest on owner's loans
  - Real estate revenues.
  - Real estate investments

### **Expected output of activity**

Report with recommendations on how to obtain improvements in the realm of revenues from direct investments with a better accordance to the BPM6 and the BMD4 manuals.

Follow-up on the planning related to the A.6 activity.

## Annex A7.2 Programme, 28-31 October 2013

Date	Place	Time	Event
Mon 28/10	Bank of Israel	09:00	Introduction and discussion of conclusions from A.6
		09:30	Ministry of Finance: FDI information and its impact on Israeli international financial policy and negotiations
		10:00	Bank of Israel: Update on planning of BOP/IIP surveys in BoI – FDI focus: a) Short term vs. long term plans for reporting forms improvement b) Overview of IIP improvements already in process
		11:00	Coffee break
		11:30	Bank of Israel: presentation of current methodological challenges a) What is the right threshold: general one-fits-all threshold vs. multiple thresholds vs. no thresholds? b) Non-reporting entities – estimation of FDI flows and positions
		12:30	Lunch
		13:30	Bank of Israel: maintenance of population a) Broadening of the reporting population b) The role of the ITRS (settlement system)
		14:30	Coffee break
		14:45	Discussion: updating of plans a) Twinning work plan b) After Twinning work plan
Tue 29/10	Bank of Israel	09:00	Summary from Monday and introduction to investment income part
		09:15	CBS: Investment Income according to BPM6
		09:30	CBS: Presentation on data sources and current methodology for estimating/computing the FDI related investment income
		10:30	Coffee break
		11:00	MS: The Danish methodology concerning FDI related investment income – particular focus on new (BPM6) requirements
		12:00	Lunch
		13:00	Discussion: drafting a work plan for improving the Israeli methodology on investment income
		15:00	Coffee break
Wed 30/10	CBS	15:15	MS: Introduction to real estate – overview of different scenarios
		09:00	Summary from Tuesday and introduction to real estate part
		09:15	CBS: Presentation of current situation regarding real estate investments
		09:30	MS: Presentation of Danish methodology on real estate investments
		10:00	Discussion
		10:30	Coffee break
		11:00	CBS Presentation of possible new data sources – Tax register information (flows) and Building and dwelling register information (stocks)
		12:15	Lunch
		13:30	Discussion: A new methodology for the Israeli FDI (BOP/IIP) system concerning real estate investments
		15:00	Coffee break
Thu 31/10	CBS	15:15	Continuation of discussion on real estate investments
		09:00	Discussion of general recommendations
		10:00	Ad-hoc meetings
		12:15	Lunch
		13:30	Drafting of mission report and preparation for debriefing
		15:00	Debriefing: Recommendations and implications for BC work programme

## **Annex A7.3 Persons met**

Olivia Blum, CBS Twinning Project Leader

Batia Attali, CBS RTA Counterpart

Oz Shimoni, CBS, Head of Macroeconomic Statistics Department

Miri Ben-Tulila, CBS, Head of Balance of Payments Division

Amos Degani, CBS, Balance of Payments Division

Ziv Gorodisky, CBS, Balance of Payments Division

Yossi Grisi, CBS, Balance of Payments Division

Gennady Ackerman, CBS, Balance of Payments Division

George Kon, CBS, Construction and local Authorities, Economic Infrastructures Department

Shulamit Maximof, CBS, Infrastructure Economics,

Doron Sayag, CBS, The Government Statistician's Dept.

Michal Sabah, CBS, Dwellings and Buildings Register.

Adi Barna, CBS, Demography and Census Department

Larisa Fleishman, CBS, Chief Scientist's Department

Liran Kalif, Bank of Israel, Information and Statistics Department

Hanadi Azam, Bank of Israel, Information and Statistics Department

Berta Agmon, Bank of Israel, Information and Statistics Department

Boaz Fleischmann, Ministry of Finance, International Affairs Department

Jolanta Szczerbinska, Eurostat, Unit A6

## Annex A7.4 Overview tables of current reporting to BoI and CBS

The following tables do not include real information, but are only examples illustrating what kind of overview tables on FDI stocks that would be needed in order to continue the discussion regarding the threshold(s) for the direct reporting of FDI positions (stocks).

INWARD FDI, IIP (stock data)			OUTWARD FDI, IIP (stock data)		
	no. of companies	total value		no. of companies	total value
<b>Total (ITRS + directly reported)</b>	<b>3.720</b>	<b>66.590</b>	<b>Total (ITRS + directly reported)</b>	<b>2.089</b>	<b>70.744</b>
<b>Directly reported to Bank of Israel; inward FDI equity 2011</b>			<b>Directly reported to Bank of Israel; outward FDI equity 2011</b>		
Million USD	no. of companies	total value	Million USD	no. of companies	total value
<b>Total</b>	<b>600</b>	<b>59.895</b>	<b>Total</b>	<b>600</b>	<b>67.554</b>
below 40 mill. USD	3	75	below 20 mill. USD	3	42
40-100 mill. USD	487	29.220	20-100 mill. USD	432	19.440
100-500 mill. USD	102	20.400	100-500 mill. USD	150	30.000
500-1,000 mill. USD	6	4.200	500-1,000 mill. USD	13	9.100
above 1,000 mill. USD	2	6.000	above 1,000 mill. USD	2	9.000
<b>5 years cumulated ITRS data. Inward FDI equity. 2007-2011</b>			<b>Cumulated ITRS data. Outward FDI equity. 2007-2011</b>		
Million USD	no. of companies	total value	Million USD	no. of companies	total value
<b>Total</b>	<b>3.120</b>	<b>6.695</b>	<b>Total</b>	<b>1.489</b>	<b>3.190</b>
up to 1 million USD per company	2.150	860	up to 1 million USD per company	544	218
1-5 million USD per company	592	1.480	1-5 million USD per company	826	2.065
5-10 million USD per company	248	1.860	5-10 million USD per company	117	878
10-20 million USD per company	95	1.425	10-20 million USD per company	2	30
20-40 million USD per company	34	1.020	above 20 million USD per company	0	0
above 40 million USD per company	1	50			
<b>FDI experimental survey; 400 enterprises' reporting of inward FDI</b>			<b>FDI experimental survey; 400 enterprises' reporting of outward FDI</b>		
USD	no. of companies	total value	USD	no. of companies	total value
<b>Total</b>	<b>400</b>	<b>143.300.000</b>	<b>Total</b>	<b>400</b>	<b>120.375.000</b>
0	180	0	0	230	0
up to 100,000 USD per company	24	1.800.000	up to 100,000 USD per company	5	375.000
100-500,000 USD per company	85	25.500.000	100-500,000 USD per company	50	15.000.000
500-1,000,000 USD per company	70	52.500.000	500-1,000,000 USD per company	90	67.500.000
1-2,000,000 USD per company	40	60.000.000	1-2,000,000 USD per company	25	37.500.000
2-5,000,000 USD per company	1	3.500.000	2-5,000,000 USD per company	0	0
above 5,000,000 USD per company	0	0	above 5,000,000 USD per company	0	0

## Annex A7.5 Preliminary estimation of inward FDI in Israel in real estate

During the activity, two data sources were presented and discussed, and some very preliminary estimates on the FDI inward positions and transactions regarding real estate were produced.

*From CBS's Building and Dwelling Register based on reporting from the municipalities (positions) the following was observed regarding Jerusalem and Tel Aviv, together:*

Mid 2011: 10,921 apartments/houses were owned by non-residents  
Mid 2012: 11,449 apartments/houses were owned by non-residents

*From the Tax Authorities register on transactions the number of transactions in the 3½ year period from 2010-2013 (June) for Jerusalem and Tel Aviv were:*

Tel Aviv: 1,345 transactions where the buyer was non-resident  
Jerusalem: 2,322 transactions where the buyer was non-resident

*From the Tax Authorities register on transactions, the average prices for Jerusalem and Tel Aviv were observed at:*

Tel Aviv: 2,200,000 NIS  
Jerusalem: 2,112,000 NIS

The following assumptions were made:

1. In both sources, the buyer's use of passport-information as ID has been used to identify non-residents.
2. The mid 2011 and mid 2012 position data have been used as proxy for beginning of each of the two years, respectively.
3. The average price of a dwelling (apartment/house) was chosen as 600,000 USD as of mid 2011.
4. The average price increase for dwellings was chosen as 2 per cent.
5. The transactions are distributed equally on each of the years in the 3½ year period.
6. The transactions in Jerusalem and Tel Aviv involving non-resident buyers constitute 75 per cent as compared to the whole country, and this ratio was also applied to the position data from the Building and Dwelling Register.
7. The exchange rate was fixed at 3.6 NIS/USD.

Based on this, the following coherent position and transaction data was produced:

Stock end 2011	Transactions	Revaluation	Other changes	Stock end 2012
6,553	624	227	-397	7,007

The interpretation would be that when comparing the two positions (end 2011; end 2012), the development in the total values would be explained by the three components:

1. the transactions, as described in the Tax Register information;
2. the revaluation, i.e. the change in value when inflating the opening position (end 2011) with the observed (here: chosen) change in the price index for apartments
3. other changes, i.e. the residual which is interpreted as the value of real estate belonging to non-residents that have become residents during the year 2012.

## Annex A7.6 Methodological note on FDI investment income methodology

Joint paper by Bank of Israel and the Israeli Central Bureau of Statistics, 20 October 2013

### Content

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<b>2</b>	<b>Revenues for out-coming investment</b>
2.1	Capital Investments
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2.3	Rent for real estate
<b>3</b>	<b>Expenses for incoming investments</b>
3.1	Capital Investments
3.1.1	Dividends
3.1.2	Aggregated profits
3.2	Interest on owners' loans
3.3	Rent for real estate

### 1. Introduction

#### 1.1 General

This document was prepared within the EU-Israel Twinning project, implemented by Statistics Denmark, the Israeli CBS, and the Bank of Israel.

The document deals with revenues from direct investments, and its purpose is to serve as background for the 2<sup>nd</sup> MS Expert Mission devoted to the topic of FDI under the Twinning (Activity A.7). The activity takes place in the end of October 2013.

Another purpose of the document is to describe in detail the current situation and the associated problems, as well as, possible directions of development of the FDI revenue statistics.

This document, like all work on the subject, was prepared jointly by the Bank of Israel and the Israeli CBS.

The English translation was prepared by the Twinning team to be used during the A7 activity's discussions.

#### 1.2 Structure of the document

Revenues from direct investment (FDI), is, in parallel to the direct investment itself, divided into a number of components as follows:

- Dividends and aggregated profits – on capital investments
- Interest – on owners' loans
- Rent for real estate.

The discussion below is based on the direction (incoming/out-going) of the direct investment and the components of the investment.

## **2. Revenues for out-going investment**

### **2.1 Capital Investments**

#### **2.1.1 Dividends**

##### **a. Current estimate**

The estimate is based on ITRS data – **series 445** of Receipts and Payments System. This data, which includes all incoming dividends, is divided between dividends on FDI and dividends on securities portfolio investment. The division is performed according to the ratio between the positions of these two sections (according to average position for the period).

##### **b. Issues**

The ITRS data is not reliable. An arbitrary division between the dividends on direct investments and dividends on securities portfolio.

##### **c. Potential directions for improvements**

There are alternative sources of information that could be processed:

- (a) Direct reporting to the Bank of Israel (Form 5, Form 2, and Form 11);
- (b) CBS surveys (Multi-national companies' activity Survey, Stakeholders Survey).

Such processing would require combining different sources of data for the required calculation of the FDI estimate.

However, since in this case the subject is about specific data of both high importance and relatively high volatility, it is possible to increase the training and ongoing guidance, and the supervision over registration of this series.

#### **2.1.2 Aggregated profits**

(The data is also included in FDI itself).

##### **a. Current estimate**

Current estimate is based on direct reporting to the Bank of Israel (Form 5 [yearly], and Form 11 [quarterly, old form])

Grossing-up to cover missing population – no grossing-up is done (the threshold is FDI position of 20 million \$ and the estimation is that the coverage is high).

##### **b. Issues**

There is no treatment of data of the total profit resulting from direct investment in capital – data that is important by its own right.

Note: It is possible, however, to look at the combination of the increase in aggregate profits and the dividends as an approximation of the total profit. Nevertheless, one has to remember that this figure includes raising of new capital.

Reporting in the annual reporting form (Form 5) arrives late by an average of more than one year from the end of the period in question (t+1y). This means that sometimes an update of the data constitutes a large and significant change, compared to the figures estimated at the first stage.

##### **c. Potential directions for improvements**

- (a) Modeling of profitability and examination of feasibility of using them.
- (b) Checking what is done in other countries.
- (c) A general view at the issue of profits (aggregated profits, dividends, equity capital raising).
- (d) Parallel and same-time processing of profits data together with the FDI data.



## **2.2 Interest on owners's loans**

### **a. Current estimate**

The current estimate is based on two components:

1. Positions of the owners's loans (average positions between the beginning of the quarter and its end, according to IIP).
2. Estimate the interest rate on owners' loans – according to euro-dollar interest rates – for six months + 1.5%.

### **b. Issues**

Reliance on a model that, from time to time, has to be examined.

### **c. Potential directions for improvements**

There are alternative sources of information that could be processed:

- (a) direct reporting to the Bank of Israel (Form 5 [yearly], Form 2 [quarterly]);
- (b) CBS surveys (Multi-national companies' activity Survey, Stakeholders Survey).

Such processing would require combining different sources of data for the required calculation of the FDI estimate.

## **2.3 Rent for real estate**

There is no estimate of revenues from direct investments in real estate (accordingly, since there is no estimate of the investment positions in this section).

## **3. Revenues from incoming investments**

### **3.1 Capital Investments**

#### **3.1.1 Dividends**

##### **a. Current estimate**

The estimate is based on ITRS data – **series 372** of Receipts and Payments System.

This data, which includes all out-going dividends, is divided between dividends on FDI and dividends on securities portfolio investment. The division is performed according to the ratio between the positions of these two sections (according to average position for the period).

##### **b. Issues**

The ITRS data is unreliable. An arbitrary division between the dividends on direct investments and dividends on securities portfolio.

##### **c. Potential directions for improvements**

There are alternative sources of information that could be processed:

- (a) reporting by the Stock Exchange (listed entities);
- (b) direct reporting to the Bank of Israel (Form 4, Form 3, and Form 11);
- (c) CBS surveys (Multi-national companies' activity Survey, Stakeholders Survey).

Such processing would require combining different sources of data, in like to integration required in calculation of the FDI estimate.

However, since in this case the subject is about specific data of both high importance and relatively high volatility, it is possible to increase the training and the supervision over registration of this series.

#### **3.1.2 Aggregated profits**

(The data is also included in FDI itself).

### **a. Current estimate**

Current estimate is based on direct reporting to the Bank of Israel (Form 4 [yearly], and Form 11 [old form])

Grossing-up to cover missing population – a certain grossing-up is done (the threshold is FDI position of 40 million \$ and the estimation is that there is a lack of coverage).

### **b. Issues**

There is no treatment of data of the total profit resulting from the direct investment in capital – data that is important in its own right.

Note: It is possible, however, to look at the combination of the increase in aggregate profits and the dividends as approximation of the total profit. Nevertheless, one has to remember that this figure includes raising of new capital.

Reporting in the annual reporting form (Form 4) arrives late by an average of more than one year from the end of the period in question (t+1y). This means that sometimes an update of the data constitutes a large and significant change, compared to the figures estimated at the first stage.

The estimate of the cover of the population should be checked from time to time.

### **c. Potential directions for improvements**

- (a) Modeling of profitability and examination of feasibility of using them.
- (b) Checking what is done in other countries.
- (c) A general view at the issue of profits (aggregated profits, dividends, equity capital raising).
- (d) Parallel and same-time processing of profits data together with the FDI data.

## **3.2. Interest on owners' loans**

### **3.2.1 Interest on owners' loans**

#### **a. Current estimate**

The current estimate is based on two components:

1. Positions of the owners' loans (average positions between the beginning of the quarter and its end – according to IIP).
2. Estimate the interest rate on owners' loans - according to euro-dollar interest rates – for six months + 1.5%.

#### **b. Issues**

Reliance on a model that, from time to time, has to be examined.

#### **c. Potential directions for improvements**

There are alternative sources of information that could be processed:

- (a) direct reporting to the Bank of Israel (Form 4 [yearly], Form 3 [quarterly]);
- (b) CBS surveys (Multi-national companies' activity Survey, Stakeholders Survey).

Such processing would require combining different sources of data, in like to integration required in calculation of the FDI estimate.

## **3.3 Rent for real estate**

There is no estimate of revenues from direct investments in real estate (accordingly, since there is no estimate of the investment positions in this section).



## Annex A7.7 FDI Survey Questionnaire: 2010-2011

State of Israel

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CBS number

Company ID

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### FDI Survey: 2010-11

The Central Bureau of Statistics (CBS), an autonomous unit within the Prime Ministry, conducts a statistical estimate in the field of FDI indicators, in order to estimate, according to international guidelines, the characteristics of this type of investments in Israel.

In order to complete the aforementioned statistics, CBS requires the data that you/your organization hold in the following areas: character of investments involving foreign residents, principal data from the Profit/Loss report, equity, investments in held companies, and data on these companies.

The description of the required data is provided in accordance with the questionnaire and its instructions.

We emphasize that you are requested to give the data according to paragraphs 11 and 13 in the Statistics Ordinance (New Version), 5732 - 1972, by which the Central Bureau of Statistics operates.

**The Statistics Ordinance requires that the recipient of the questionnaire respond to it and that the CBS keeps all the data collected by it confidential.** The Ordinance prohibits the publication of data that enable the identification of an enterprise or any data about the enterprise.

We ask that you fill in the information specified in the questionnaire and return it to us promptly, in the attached envelope (which does not require postage), or deliver it to us according to the information that appears on the back of the questionnaire.

Thank you in advance for your cooperation.

With regards,

Signed by the Government Statistician

## Section A – General Information of the Company

**Name of Company:** \_\_\_\_\_

**Number of Company:** \_\_\_\_\_ **Number of deduction file at National Insurance Institution:** \_\_\_\_\_

**Address of Company:** \_\_\_\_\_

Town/locality      Zipcode      Street      Telephone no'      No'

If your company has an office at a different location, please write:

**Address of Office:** \_\_\_\_\_

Town/locality      Zipcode      Street      Telephone no'      No'

- 1.1 Describe the company's activity (List the main activities in which your company was engaged in 2010-2011, i.e. the manufacture of electronic components and circuits, provision of consultation services in accounting, software development).

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## Section B – Definitions, clarifications and instructions for completing the form

### 2.1 Instructions and clarifications for completing the questionnaire

#### 2.1.1 The survey questionnaire relates to those (four) groups of companies:

- **Companies held by stakeholders that are foreign residents** – companies that between 10% and 50% of their shares' equity is held by an individual or a company abroad.
- **Companies that are a stakeholder in foreign companies** - companies that hold between 10% to 50% of the shares' equity of companies abroad.
- **Controlled companies** -companies with more than 50% of their shares' equity held by an individual or a company abroad.
- **Controlling companies** – Israeli companies that hold over 50% of share equity of foreign companies abroad.

2.1.2 Please report data from the company's financial statements for 2010 and 2011 that relate to the company's solo data and to its consolidated data (do not relate to the cash flow statement in this survey).

2.1.3 **Type of currency and way of reporting** – In the appropriate places, indicate the type of currency in which the data are reported and the way of reporting: in whole numbers, in thousands or millions.

2.1.4 In case no data are available on a certain subject, please indicate NA (not available)

**Please attach the following financial statements to the survey questionnaire: balance sheet, profit and loss statement, note no.1 (general data about the company) and the list of companies in the group from the solo statements and consolidated statements for the years 2010 and 2011.**

## **2.2 Definitions: Related Companies**

**2.2.1 A company that controls foreign companies** – A company that owns more than 50% of the share capital of at least one company abroad.

**2.2.2 A company controlled by a foreign resident** – An Israeli company in which over 50% of its share capital or the share capital of its Israeli parent company is controlled by a foreign resident (either a company or a private person).

**2.2.3 Companies that are a stakeholder in foreign companies** - companies that hold between 10% to 50% of the shares' equity of companies abroad.

**2.2.4 Companies held by stakeholders that are foreign residents** – companies that between 10% and 50% of their shares' equity is held by an individual or a company abroad.

**2.2.5 The Parent Company Group** – The parent company with the addition of all the companies in Israel and overseas, which it controls over 50% (including, 3<sup>rd</sup> level – "grandchildren" – controlled companies; also known as, "2<sup>nd</sup> Tier Foreign Subsidiaries").

**2.2.6 Foreign Subsidiaries** – Companies registered overseas, in which 50% of their share capital is held by Israeli companies.

**2.2.7 Ultimate Control Parent** – Ultimate Control Parent of a company is the company or person heading the chain of companies linked by control (holding more than 50% of the shares), without being controlled by another company or person.

**2.2.8 Special Purpose Enterprise SPE** – A foreign subsidiary where the main activities and purposes are: holding companies in other countries, financing the parent company or other companies in the group, making financial investments for the parent company and for the other companies in the group.

**2.2.9 Direct Investments** - Investment of more than 10% in shares' equity of another company that is performed directly, and NOT with mediation of other companies.

## **2.3 Definitions: Financial Statements**

**2.3.1 Principal data from the financial statements** – data that are expressed in the company's financial statements (solo or consolidated).

**2.3.2 The sale of goods and services** – The sum of all the company's sales in the reported period, not including VAT, discounts, refunds, income from other financial operations, capital gains and subsidies.

**2.3.3 Income from another financial operation** – Income that originates from the rental of buildings and equipment, balance cancellation etc.

**2.3.4 Investments in fixed assets** – Investments in assets that are designed to serve the company for a period of over a year. Include the cost of transfer, installation and asset production for personal use.

**2.3.5 Other Income/(Expenditure)** - One-time income/(expenses) that are not operational or that are in respect to previous years.

**2.3.6 Profit/(Loss) of capital** – Profit/(Loss) of capital that originates from the realization of securities or other property.

**2.3.7 Salary and wages** – Compensation for work in the reported period, including additional expenses paid for by the employer.

**2.3.8 Joining with Israeli subsidiaries** – data on the reporting company, with the addition of the data of its Israeli subsidiary-companies (*excluding data of foreign subsidiaries*)

**2.3.9 Relative unification** – joint control of companies, in which each controlling company unifies the data on the controlled company in its financial statements, relative to the relative control ratio.

### **Section C – The nature of the relations between your company and foreign companies and the types of international trade**

In this section of the questionnaire, please specify:

- whether your company controlled foreign subsidiaries holding over 50% of their share capital, or whether your company held between 10% to 50% of the share capital in foreign companies.
- Whether your company was controlled by foreign companies or persons who held over 50% of its, or whether foreign stakeholders held between 10% to 50% of its share capital.

3.1 Shareholding companies (please mark ✓ in the appropriate places):

			Yes			No
			The Entire Reporting Period (2010-2011)	From a date within the	To a date within the period	
3.1.1	1111	Was your company a shareholder in foreign companies in 2010-2011 (possession of between 10% - 50% of their shares equity, <u>including companies with relative unification</u> )?				
3.1.2	2111	Did your company have foreign shareholders in 2010-2011 (possession of 10% - 50% of your company's shares equity, <u>including companies with relative unification</u> )?				

3.2 Controlling companies (please mark ✓ in the appropriate places):

			Yes			No
			The Entire Reporting Period (2010-2011)	From a date within the period	To a date within the period	
3.2.1	1121	Did your company have control of foreign companies in 2010-2011 (possession of over 50% of their share capital)				
3.2.2	1122	Was your company controlled by a foreign company or person in 2010-2011 (possession of over 50% of your share capital)				

**If you answered "NO" to all of the points above (3.1.1 to 3.2.2), please finish the questionnaire by filling out the details on the reporting persons on the last page of the questionnaire.**

**If you answered "YES" to at least one of the points above (3.1.1 to 3.2.2), please keep on with the questionnaire.**

3.3 Type of activities of your company (please mark ✓ in the appropriate places):

3.3.1	1131	Is your company a financing company?	
3.3.2	1132	Is your company a holding company ?	
3.3.3	1133	Is your company an investment company ?	

### **Section D – Israeli Subsidiaries**

This section of the questionnaire relates to Israeli subsidiaries, during the years 2010-2011, for which your company held over 50% of their shares equity. (Disregard companies in which your company is a shareholder with between 10% to 50% of their share equity)

4.1 Did your company have Israeli subsidiaries in 2010-2011?

1211	Yes <input type="checkbox"/> No <input type="checkbox"/> (go to section E)
------	--

4.2 Please specify their names, company tax codes, percentage ownership and time of foundation or purchase by your company:

No.	For office use	Company name	Company tax code	Ownership percentage	Time of purchase or foundation (month & year)
1	1221				
2	1221				
3	1221				
4	1221				
5	1221				
6	1221				
7	1221				
8	1221				
9	1221				
10	1221				
11	1221				
12	1221				
13	1221				

## **Section E – Financial Data**

In this section, please relate to the company's financial data, from the company's solo reports and its consolidated statements.

Please, indicate the way data are reported:			
In NIS	<input type="checkbox"/> US \$	<input type="checkbox"/> In euros	Others <input type="checkbox"/>
In whole numbers	In thousands	In million <input type="checkbox"/>	



## 5.1 Assets and Equity

			2011		2010	
			Solo	Consolidated	Solo	Consolidated
5.1.1	1311	Total assets(a) – opening positions				
5.1.2	1312	Total assets(a) – closing positions				
5.1.3	1313	Equity – opening positions				
5.1.4	1314	Equity – opening positions				

## 5.5 Data on profit and loss:

			Indicate in each row whether income/ expenditure or profit/loss	2011		2010	
				Solo	Consolidated	Solo	Consolidated
5.2.1	1321	Number of employees in the company (a)					
5.2.2	1321	Total salaries and wages					
5.2.3	1323	Depreciation					
5.2.4	1324	Income/expenditure from royalties					
5.2.5	1325	Income/expenditure from current operations					
5.2.6	1326	Income/expenditure from financing					
5.2.7	1327	Capital gains/losses					
5.2.8	1328	Other income/expenditure (b)					
5.2.9	1329	Profit/loss before tax					
5.2.10	1330	Tax on income					
5.2.11	1331	Profit/loss after tax					
5.2.12	1332	Profit/loss from held companies					

(a) Number of employees in the company in Dec. 2010 and in 2011 in both Solo and in Consolidated.

(b) All one-time/irregular income and expenditure not included above

Please, indicate the way data are reported:

In NIS    In ☐ US \$    In ☐ euros    Others ☐

---

In whole numbers    In thousands    In millions ☐

## **Section F Data on the principal activities of the held companies/subsidiaries abroad (FDI - direct holding only)**

In this section, relate to the principal activity data of the foreign companies in which 10% or more (up to 100%) of their shares' equity is held by your company through FDI only (companies that your company is their stakeholder or their controlling company).

**6.1 General information on companies held abroad** - Shareholder/Subsidiary companies  
– List the following information regarding companies that your company holds abroad (as of the end of 2011):

		Name of the held company /subsidiary abroad (a)	Country of residence/registration of the company (b)	Subsidiary's Industry Code (c)	Is the held company a financing company? (Yes/No)	Is the held company a holding company? (Yes/No)	Is the unification?? Consolidation?? relative? (Yes/No)
6.1.1	1411						
6.1.2	1411						
6.1.3	1411						
6.1.4	1411						

Comments for completing the table: (a) In order to add subsidiaries, please photocopy this form. (b) Specify Name of the country of registration of the company. (c) Mark the subsidiary's industry code according to the classification table on page 20.

**6.2 Financial data** on the held companies/subsidiaries abroad (FDI - direct holding only)

		Name of the held company /subsidiary abroad (a)	Reporting year	Company's revenues abroad (Solo for each company)	Share of your company in the shares' equity of the held company – as of the end of the year. (b)
6.2.1	1421		2010		
			2011		
6.2.2	1421		2010		
			2011		
6.2.3	1421		2010		
			2011		
6.2.4	1421		2010		
			2011		

Comments for completing the table: (a) In order to add subsidiaries, please photocopy this form. (b) Share of your company in the shares' equity of the held company, which is derived from the rate of their shares holding. For example, if your company holds 10% of the shares' equity of a foreign company abroad, whose total equity is NIS 1 Mil., then the Share of your company in equity is NIS 100,000.

**6.3 Positions of investments of capital and positions of owners' loans given** to companies abroad, which your company is a shareholder of. (Holding between 10% - 50% of their shares' equity)

			End of December 2011	End of December 2010	End of December 2009
6.3.1	1511	Positions of investments of capital in companies abroad in which your company is a shareholder .			
6.3.2	1512	Positions of owners' loans provided to companies abroad in which your company is a shareholder –NET (a)			

Comments for completing the table: (a) this **NET** data has to be completed after deducting loans received FROM these companies (if such loans existed/ were received).

**6.4 Positions of investments of capital and positions of owners' loans given** to controlled companies abroad. (Holding over 50% of their shares' equity)

			End of December 2011	End of December 2010	End of December 2009
6.4.1	1513	Positions of investments of capital in controlled companies abroad .			
6.4.2	1514	Positions of owners' loans provided to controlled companies abroad –NET (a)			

Comments for completing the table: (a) this **NET** data has to be completed after deducting loans received FROM these companies (if such loans existed/ were received).

**Section G – Parent company, ultimate control parent, owners' loans and characteristics of Your company**

In this section, please relate to the foreign companies or individuals who hold shares' equity of your company at rate of 10% or more (up to 100%).

**7.1 General information on foreign shareholders of Your company** - who hold shares' equity of your company at rate of between 10% and 100%..

		Foreign shareholder's name. (Individual or company)	Foreign shareholder's Country of registration	End-of-year percentage rate of holding (%)	
				December 2010	December 2011
7.1.1	1611				
7.1.2	1611				
7.1.3	1611				
7.1.4	1611				

Comments for completing the table: (a) In order to add subsidiaries, please photocopy this form.

**7.2 Owners' loans provided by Your company's foreign shareholders OR by companies belonging to the same Parent Company Group to Your company** - indicate in the table below the total of loans {NET (a)} given to Your company by companies abroad that hold between 10% and 100% of the shares' equity of Your company or by companies belonging to the same parent company group (even if they don't hold shares in your company).

		Name of the country. (a)	2011 Positions	2010 Positions	2009 Positions
7.2.1	1621				
7.2.2	1621				
7.2.3	1621				
7.2.4	1621				
7.2.5	1621				
7.2.6	1621				
7.2.7	1621				

Comments for completing the table: (a) this **NET** data has to be completed after deducting loans provided TO these companies by Your company (if such loans existed/ were received).

## **Classification of Industries**

<b>Co</b>	<b>Name of Industry</b>	<b>Cod</b>	<b>Name of industry</b>
<b>A</b>	Agriculture	<b>D</b>	Construction
<b>B1</b>	Mining and Quarrying	<b>E1</b>	Wholesale trade
<b>B2</b>	Manufacture of food, beverages and tobacco products	<b>E2</b>	Retail trade
<b>B3</b>	Manufacture of textiles, wearing apparel and footwear	<b>F</b>	Accommodation services and restaurants
<b>B4</b>	Manufacture of wood and wood products, paper and paper products, publishing and printing )excl. furniture	<b>G1</b>	Transportation services
<b>B5</b>	Manufacture of chemicals and chemical products and refined petroleum	<b>G2</b>	Communication services
<b>B6</b>	Manufacture of plastic and rubber products	<b>H 1</b>	Banking, Insurance and other financial services
<b>B7</b>	Manufacture of non-metallic mineral products	<b>H 2</b>	Holding companies
<b>B8</b>	Manufacture of metal products, machinery and equipment	<b>I 1</b>	Computer and related services
<b>B9</b>	Manufacture of electric motors and electric distribution apparatus	<b>I 2</b>	Research and Development
<b>B1</b>	Manufacture of electronic components	<b>I 3</b>	Various business activities
<b>B1</b>	Manufacture of electronic communication equipment	<b>K</b>	Education
<b>B1</b>	Manufacture of industrial equipment for control and supervision, medical and scientific equipment	<b>L</b>	Health services, welfare and social work
<b>B1</b>	Manufacture of transport equipment	<b>T</b>	Other services
<b>B1</b>	Manufacture of diamonds		
<b>B1</b>	Other manufacture		

The list is derived from the Israeli Standard Classification of all Economic Activities 1993, Central Bureau of Statistics, (second edition, Jerusalem 2003)

**Comments to the questionnaire:** \_\_\_\_\_

**Response period:** Time invested in filling the questionnaire: \_\_ \_\_\_\_ hours , \_\_\_\_ \_\_ minutes

**Date of filling in the questionnaire:** \_\_\_\_\_

## Annex A7.8 Non-residents' real estate in Israel in the Buildings and Dwellings Register

CBS began the project on the Building and Dwelling Register in 2008. The main objectives and uses of the register are:

- a) Sampling frame for household surveys;
- b) To provide buildings and dwellings statistics;
- c) Creating the infrastructure for future register-based censuses;
- d) Linking with other registers such as the Population Register, the business register, personal income tax register, real-estate purchase tax file, etc.

The Dwellings and Buildings Register is based on Municipal taxation lists. Municipal taxation lists were found to supply the most reliable and near-complete data source. CBS collects data from 200 urban municipalities and 54 Regional Councils. Each municipality organizes the tax list according to its needs. Standardization and harmonization is needed in order to be able to publish statistical data from the register. Example: we standardized the variable *property use* in order to distinguish between residential use and other uses for the property, such as business and offices. The data is also being geo-coded, linking the dwellings to a building and a statistical area. Central Population ID in the Dwellings and Buildings Register is linked to the CPR, and therefore we can estimate the household size and relations between the owner and the person(s) who reside there.

As for ownership of apartments by non-residents, at this point we know only little about the potential of Dwellings and Buildings Register to shed light on this issue. As mentioned before, the tax lists are differential. Currently we can recognize only three municipalities: Jerusalem, Tel-Aviv and Bat Yam which distinguish between residents and non-residents in their tax list. In addition to that, currently we don't have any other source to compare our results to. Sometimes, the decision to register under Israeli or foreign passport may be influenced by personal or economic interests. Table 1 presents the results of the analysis of Jerusalem and Tel-Aviv. **Both** of the localities do not represent an average locality in the register.

**Table 1: Size and amount of dwellings. Ownership by non-residents and total population Jerusalem and Tel Aviv.**

			2011	2012	2013
Jerusalem	Non-residents	Num.	7,056	7,448 (+5.56%)	7,808 (+4.83%)
		Avg. Size (sqm)	95.63	96.49	96.96
	All dwellings	Num.	197,293	200,527 (+1.64%)	204,046 (+1.75%)
		Avg. Size (sqm)	78.34	78.96	79.41
Tel-Aviv	Non-residents	Num.	3,865	4,001 (+3.52%)	4,570 (+14.22%)
		Avg. Size (sqm)	91.68	88.56	87.70
	All dwellings	Num.	190,439	191,585 (+0.60%)	193,078 (+0.78%)
		Avg. Size (sqm)	78.41	77.83	78.05

Source: Dwellings and Buildings Register, 2011-2013, Central Bureau of Statistics, Israel