

A. The public's financial asset portfolio

The value of the portfolio of assets held by the public¹ declined by about 3.5 percent in 2022, for the first time since 2011, mainly due to price declines in the domestic and global capital markets. The ratio of the assets portfolio to GDP declined markedly this year (by about 43 percentage points). The year 2022 featured declines in most components of the assets portfolio. In contrast, the cash and deposits component was particularly positive, as it continued to increase during the year. There were large declines in equities in Israel and in financial assets abroad, which were mainly derived from price declines combined with net realizations of equities abroad. The mutual funds recorded positive net new investments, particularly money market funds with large net new investments, while funds specializing in bonds in Israel had negative net new investments.

1. Total assets portfolio

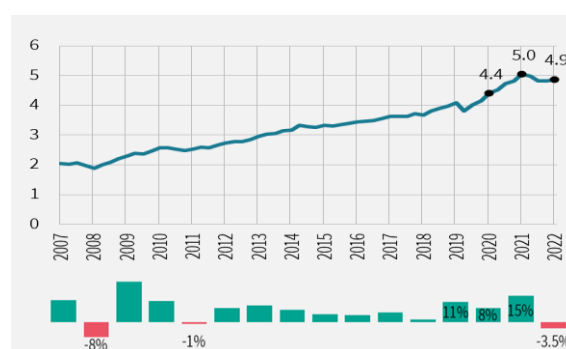
The balance of the public's financial assets portfolio declined in 2022, for the first time since 2011.

In view of price declines in the capital markets in Israel and abroad, the balance of the public's financial assets portfolio declined by about 3.5 percent (about NIS 176 billion) in 2022, to about NIS 4.9 trillion.

Most of the decline (about NIS 163 billion) was concentrated in the second quarter of the year.

With this, the long-term upward trend in the balance of the assets portfolio was halted.

Figure 1.1: Balance of the Assets Portfolio
NIS trillion (line) and annual rate of change (columns)



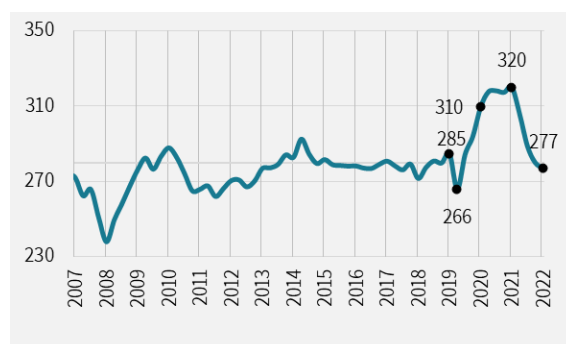
SOURCE: Bank of Israel data

The ratio of the public's assets portfolio to GDP declined significantly compared to last year.

The ratio of the public's asset portfolio to GDP declined by about 43 percentage points, most of which was in the first half of the year, to about 277 percent at the end of the year. This ratio returned to its average level of the decade prior to the COVID-19 crisis.

The decline this year was due to a combination of a decline in the balance of the assets portfolio (about 3.5 percent) and an increase in GDP (about 11.5 percent in current prices).

Figure 1.2: Balance of the Asset Portfolio
As a percentage of GDP



SOURCE: Bank of Israel data

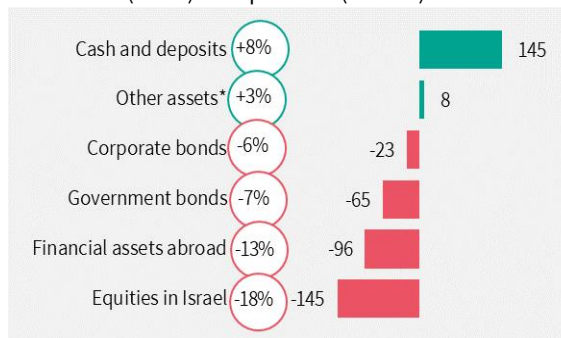
For an explanation, see Data Sources and Main Terms at the end of this section.¹

The decline in the portfolio balance was typical of most components, other than the cash and deposits and other assets components.

In view of the price declines in the capital markets, there were declines in the balance of equities in Israel (about 18 percent), the balance of financial assets abroad (about 13 percent), and the balance of government bonds and *Makam* (about 7 percent). In contrast, the balance of cash and deposits increased by about NIS 145 billion (8 percent) this year.

Figure 1.3: Change in the Balance of the Assets Portfolio in 2022

NIS billion (rows) and percent (circles)



*Other assets – assets managed by institutional investors, including nontradable equities, loans, mortgage portfolios, land rights, and derivatives.
SOURCE: Bank of Israel.

There was a marked change in the composition of assets in the portfolio: a significant increase in the weight of cash and deposits, and a decline in the weight of the other components, except for other assets.

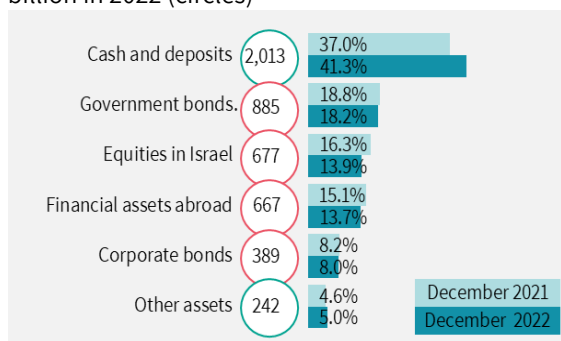
The weight of cash and deposits increased by about 4.3 percentage points, to about 41.3 percent of the total portfolio at the end of the year, a record high for the past two decades, during which the weight of this component ranged between 30 and 37.5 percent.

In contrast, the weight of equities in Israel declined by about 2.4 percentage points, to about 13.9 percent of the portfolio.

The weight of financial assets abroad declined by about 1.4 percent points, and the weight of government bonds and *Makam* declined by about 0.6 percentage points

Figure 1.4: Distribution of Assets in the Portfolio

percentage in 2021 and 2022 (rows), and NIS billion in 2022 (circles)



SOURCE: Bank of Israel data

2. Asset management in the portfolio

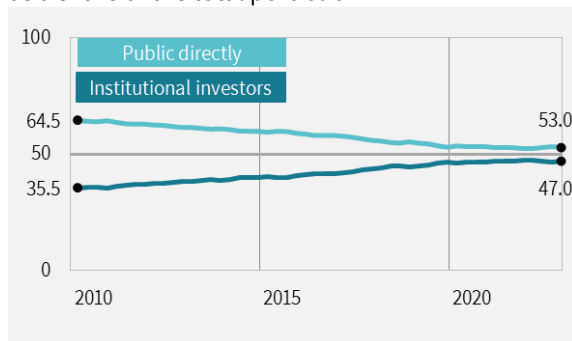
The share of the portfolio managed directly by the public increased this year, in contrast with the long-term trend.

The weight of the portfolio managed directly by the public in 2022 increased by about 0.5 percentage points, to about 53 percent of the total portfolio.

The level of the balances declined, both in the portfolio managed by the institutional investors (NIS 107 billion – 4.5 percent) and in the portfolio managed directly by the public (NIS 69 billion – 2.6 percent).

Figure 1.5: Distribution of Portfolio Holdings by Manager

as a share of the total portfolio



SOURCE: Bank of Israel.

In the distribution of holdings by manager-type, the weight of the public's direct holdings excluding mutual funds increased, while the share of all institutional investor types declined.

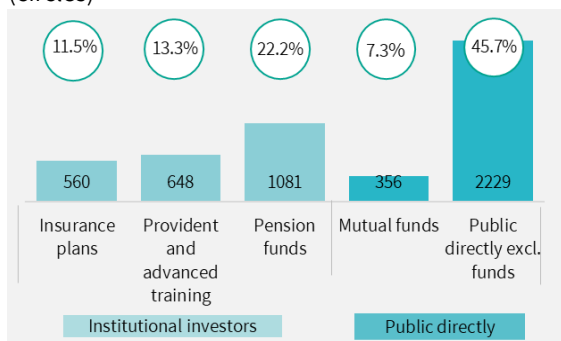
The share of the portfolio managed directly by the public, excluding mutual funds, increased by 0.8 percentage points relative to 2021. In contrast, the share of mutual funds declined by about 0.3 percentage points

The share of the portfolio managed directly by the public, excluding mutual funds, increased by 0.8 percentage points relative to 2021. In contrast, the share of mutual funds declined by about 0.3 percentage points

The total portfolio managed by institutional investors was about NIS 2.29 trillion, of which about 47.2 percent was managed by the pension funds, about 28.3 percent by the provident and advanced training funds, and about 24.5 percent by insurance programs.

Figure 1.6: Distribution of Portfolio Holdings by Manager

NIS billion (columns) and as a share of the total (circles)



SOURCE: Bank of Israel.

There was a marked increase in the institutional investors' share of financial asset holdings abroad.

The weight of institutional investors' holdings of financial assets abroad as a share of the public's total holdings of those assets increased significant in 2022 (by about 7 percentage points).

In addition, the weight of their holdings of tradable equities in Israel as a share of the public's total holdings of such assets increased (by about 2 percentage points).

Figure 1.7: Distribution of Portfolio Holdings by Asset

public's direct holdings vs. institutional investors



SOURCE: Bank of Israel data.

3. Financial assets abroad

In view of the declines in equity markets abroad during 2022, the balance of equities abroad declined significantly.

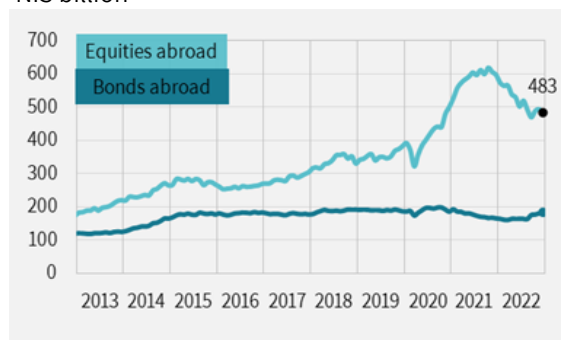
The balance of the public's investments in equities abroad declined by about NIS 114 billion (about 19 percent), to about NIS 483 billion at the end of the year.

The decline was mainly due to price declines in the equity markets abroad, in addition to net realizations of about NIS 18.5 billion, which were partly offset by the depreciation of the shekel.

In contrast, the balance of the public's investments in bonds abroad increased by about NIS 18 billion, to about NIS 183 billion at the end of the year.

Figure 1.8: Balance of Equities and Bonds Abroad

NIS billion



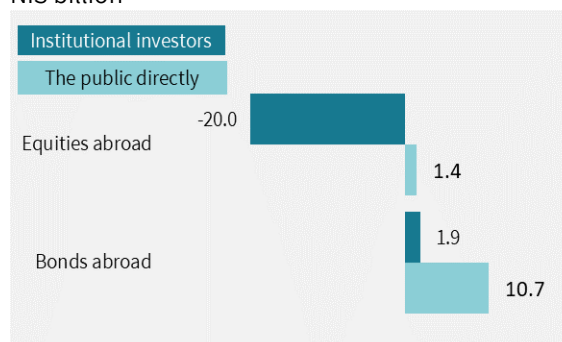
SOURCE: Bank of Israel

The public's direct holdings and the institutional investors diverged in the manner of their investments in equities abroad.

During 2022, the institutional investors made about NIS 20 billion of net realizations of investments, which contributed to the decline in the balance of equity holdings abroad. This was in contrast with the net purchases made this year by the public directly.

Most of the investments in bonds abroad this year were made by the public directly, totaling about NIS 10.7 billion net.

Figure 1.9: Net Investments Abroad
NIS billion



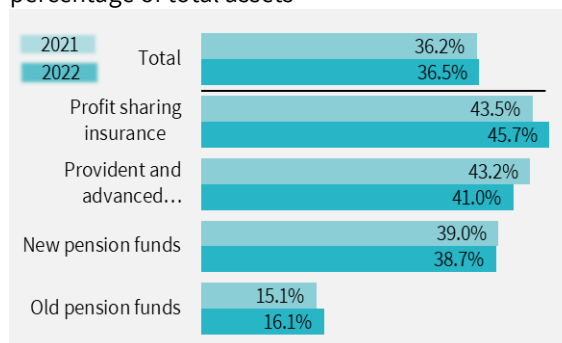
SOURCE: Bank of Israel data

Despite the decline in the balance of equities abroad held by the institutional investors, the balance of exposure to foreign assets increased.

The rate of the institutional investors' total exposure to foreign assets increased by about 0.3 percentage points to about 36.5 percent, as a result of a decline in exposure to foreign assets that was less than the decline in the rate of total investment assets.

The institutional investors that increased their exposure to foreign assets were profit-sharing insurance policies and old pension funds. In contrast, the provident and advanced training

Figure 1.10: Institutional Investors' Exposure to Foreign Assets
percentage of total assets



SOURCE: Bank of Israel.

4. Bonds and *Makam* in Israel

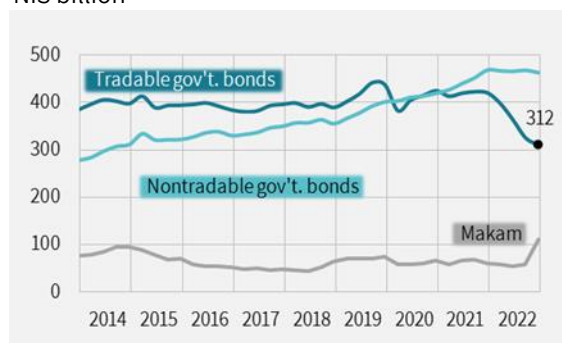
The balance of government bond holdings declined during 2022, especially tradable government bonds.

In view of the interest rate increases, the balance of holdings of tradable government bonds declined by about NIS 109 billion (about 25.9 percent) due to price declines in the capital markets and net repayments.

The decline in the balance of institutional investors' holdings of tradable government bonds was prominent (NIS 72 billion), mainly in the holdings by provident and advanced training funds (NIS 40.4 billion).

The balance of *Makam* holdings increased by about 80 percent this year, to about NIS 111 billion, mainly in view of the increase in *Makam* issuances in the fourth quarter of the year. Most *Makam* were held by institutional investors (about 54 percent). Households, which barely held any *Makam* in 2021, increased their holdings to about NIS 3.3 billion in December 2022.

Figure 1.11: Gov't Bonds and *Makam*
NIS billion



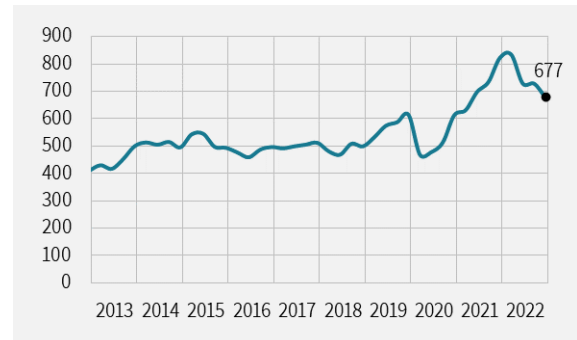
SOURCE: Bank of Israel

5. Equities in Israel

In view of the declines in the equity indices in Israel, the balance of holdings of equities in Israel declined during 2022.

The balance of the public's holdings of equities in Israel declined by about NIS 145 billion, to about NIS 677 billion. Most of the decline was due to price declines, and was concentrated mainly in the second quarter of the year.

Figure 1.12: Balance of Equity Holdings in Israel
NIS billion



SOURCE: Bank of Israel data

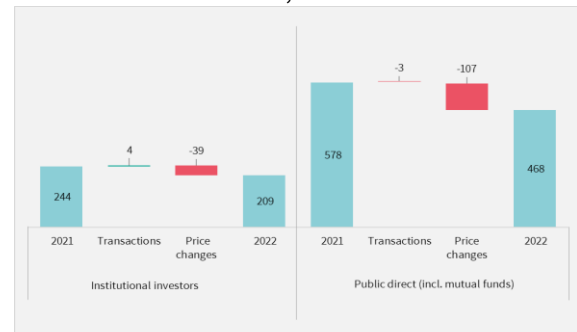
The balances of the equity holdings by the public directly and by institutional investors declined as a result of price declines.

The balance of tradable equities in Israel held directly by the public declined by about NIS 110 billion during the year. The decline was mostly due to price declines of about 1 percent.

The balance of tradable equities in Israel held by institutional investors declined by about NIS 35 billion. This decline was also due to price declines of about 16 percent, which were slightly offset by net investments

Figure 1.13: Tradable Equities in Israel, The Public's Direct Holdings (incl. mutual funds) vs. Institutional Investors

balances and transactions, NIS billion



SOURCE: Bank of Israel.

6. Cash and deposits

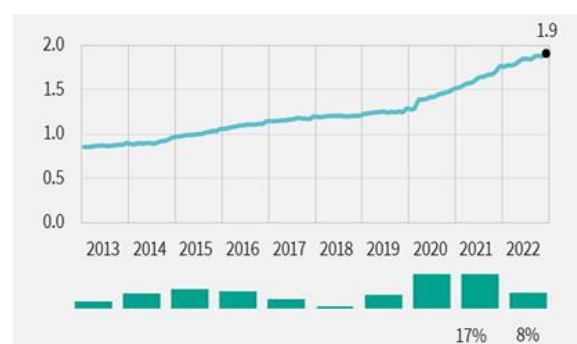
The balance of cash and deposits increased in 2022, but the pace of the increase moderated relative to the previous two years.

The balance of cash and deposits is the most significant component in the public's asset portfolio (about 41.3 percent). Most of it is held directly by the public, which increased its holdings by about 6.4 percentage points to about 68.7 percent of its total portfolio.

The balance of the public's holdings of deposits increased by about NIS 139 billion (8 percent) during the year, to about NIS 1.9 trillion. Most of the increase was concentrated in the second quarter (about NIS 73 billion). The rate of change in deposits returned to the average level from before the COVID-19 period.

The balance of cash increased by about 5.5 percent (about NIS 6 billion), to about NIS 110 billion at the end of the year.

Figure 1.14: Balance of deposits
NIS trillion (line) and annual rate of change (columns)



SOURCE: Bank of Israel

7. MUTUAL FUNDS

In view of the increase in interest rates, there was significant new investment in money market funds and realizations in bond funds.

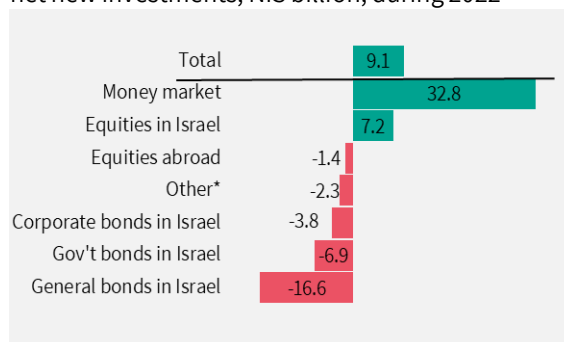
The mutual funds recorded positive net new investment in 2022, totaling about NIS 9.1 billion, mostly in the second half of the year.

Despite the price declines in the equity indices in Israel, there was positive net new investment in groups specializing in equities in Israel.

In view of the interest rate increases, there were realizations totaling about NIS 27.2 billion in funds specializing in bonds in Israel. Funds specializing in general bonds in Israel were prominent, with realizations totaling about NIS 16.6 billion

Figure 1.15: Mutual Fund Specializations (incl. ETFs)

net new investments, NIS billion, during 2022



SOURCE: Bank of Israel data

* Other - Other groups of investments that are not on the graph: groups specializing in bonds abroad, nonresidents, and flexible funds.

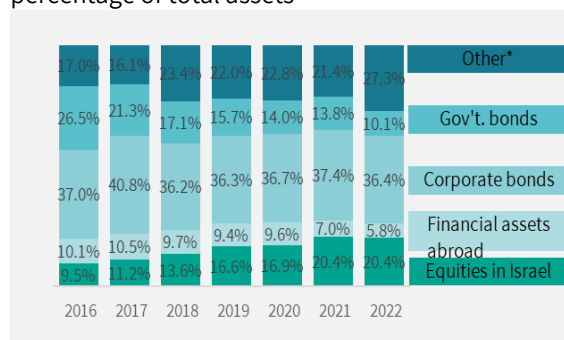
The mix of the composition of mutual fund assets changed.

The weight of the government bonds component declined by about 3.7 percentage points this year, further to the long-term trend and in view of the increase in interest rates. In addition, the weight of the financial assets abroad component declined by about 1.2 percentage points, in view of declines in foreign markets.

In contrast, there was an increase of about 5.9 percentage points in the "other" component. Most of the change was due to an increase in the *Makam* component (about 4.6 percentage points) to 13.9 percent of the total portfolio, and in the unindexed deposits component (about 3.4 percentage points) to about 9.2 percent of the total portfolio, in view of net new investments in money market funds.

Figure 1.16: Distribution of Mutual Fund Assets

percentage of total assets



* Other - Indexed and unindexed deposits, Makam, and future financial assets.

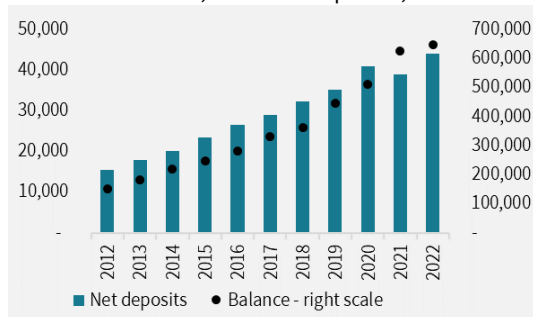
SOURCE: Bank of Israel.

► ZOOM-IN – The reform in earmarked bonds in the pension funds¹

As part of the reform that began in October 2022, earmarked bonds will no longer be issued to the new or old pension funds. Those funds will invest the money accumulated in them on an on-going basis, and money invested in the earmarked bonds when they are redeemed will be invested in accordance with the composition of assets in the fund's main track. This change will gradually lead to investment in a variety of assets and, given the currently existing composition, the investments abroad component will increase greatly, followed by the equities in Israel component

The balance of assets in the pension funds increased fourfold since 2012. Net new investments also continued to increase.

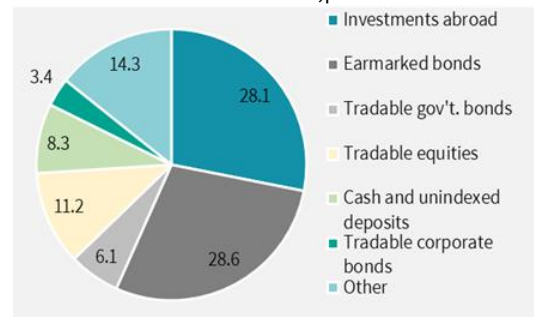
Figure 1.17: Comprehensive Pension Funds' End-of-Year Balance of Assets, and Net Deposits, NIS million



SOURCE: Bank of Israel.

The weight of earmarked bonds in the new comprehensive pension funds was about 29 percent of the total portfolio (about NIS 185 billion)

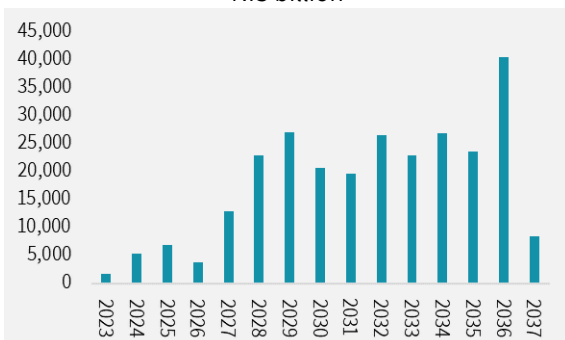
Figure 1.18: Composition of Pension Fund Assets, December 2022, percent



SOURCE: Bank of Israel

Redemptions of earmarked bonds in the new and old pension funds are expected to end in 2037.

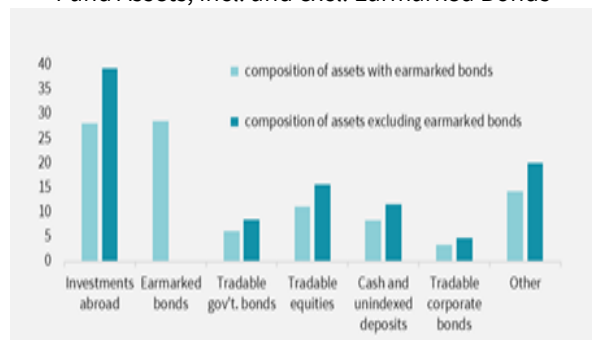
Figure 1.19: Forecast Corporate Bond Redemptions NIS billion



SOURCE: Bank of Israel.

According to an estimate, the volume of investments abroad as a share of the portfolio is expected to increase by about 11 percentage points, considering the existing structure of the portfolio and excluding earmarked bonds².

Figure 1.20: Composition of Comprehensive New Pension Fund Assets, incl. and excl. Earmarked Bonds



SOURCE: Bank of Israel

¹ For information on the expected impact of earmarked bonds insurance on the pension funds, see Box 4.4 in the Bank of Israel Annual Report.

² The composition of assets with earmarked bonds is based on the currently existing composition of assets. The composition excluding earmarked bonds is based on the existing weights in the current composition of the portfolio, minus earmarked bonds as a share of the assets, excluding new investments.

Main indicators in the public's asset portfolio (percent)



	2017	2018	2019	2020	2021	2022
Total asset portfolio held by the public						
Value of the public's asset portfolio (NIS trillion)	3.62	3.67	4.08	4.40	5.05	4.87
Asset portfolio as a percentage of GDP	281	272	285	309	320	277
Tradable assets	48.9	49.3	50.5	48.6	48.5	43.7
Risk assets ¹	42.6	42.8	44.0	42.7	44.1	40.5
Assets abroad ²	13.7	14.4	14.0	15.6	15.1	13.7
Foreign exchange assets ³	20.1	21.3	20.4	22.2	22.3	21.7
Unindexed assets ⁴	71.2	71.8	71.8	74.0	75.0	75.0
Liquid assets ⁵	29.0	29.2	28.4	32.4	33.2	36.9
Portfolio managed by the public directly and through mutual funds						
Rate of investment as a share of the asset portfolio	56.1	55.4	53.3	53.1	52.5	53.0
Tradable assets	46.2	46.9	44.8	48.5	46.2	41.2
Risk assets	37.1	35.3	32.9	36.6	34.2	27.8
Assets abroad	9.1	8.0	6.5	6.5	4.9	2.5
Foreign exchange assets	18.1	17.9	16.5	16.4	16.0	15.5
Unindexed assets	88.6	89.4	91.4	89.5	91.5	92.0
Liquid assets	45.3	46.8	53.4	46.2	54.3	58.2
Portfolio managed by institutional investors						
Rate of investment as a share of the asset portfolio⁶	43.9	44.6	46.9	46.7	47.5	47.0
Tradable assets	52.3	52.3	52.8	52.9	51.0	46.6
Risk assets	49.5	52.1	52.5	54.0	55.0	54.9
Assets abroad ⁷	19.6	22.2	22.5	26.0	26.4	26.4
Foreign exchange assets ⁸	22.8	25.5	24.8	28.7	29.3	28.8
Unindexed assets	49.0	49.9	51.8	54.0	56.7	55.9
Liquid assets	8.2	7.5	8.3	8.5	9.9	12.7

¹ Excluding government bonds, makam, deposits (in Israel and abroad), and cash.

² Israelis' investments abroad.

³ Assets indexed to foreign exchange + equities abroad.

⁴ All assets minus those indexed to the CPI.

⁵ Cash, deposits up to one year in Israel, and makam.

⁶ The rate of institutional investors' investments as a share of the total asset portfolio - excluding investments in ETFs, structured bonds, certificates of deposit, and mutual funds.

⁷ Investments in deposits and Israeli securities abroad, excluding investments in ETFs traded in Israel on foreign indices. This definition is different than the definitions of exposure to foreign exchange and exposure to foreign assets.

⁸ Assets denominated in foreign exchange and assets indexed to foreign exchange, excluding shekel/forex derivatives.

DATA SOURCES AND MAIN TERMS



The Bank of Israel Information and Statistics Department manages a database of balances in the public's financial asset portfolio. This system records and processes data and information from various sources, through which the balance of the public's financial assets portfolio is calculated according to various breakdowns. The sources of data in the system are: the Tel Aviv Stock Exchange; banking system reports to the Banking Supervision Department; institutional investors' reports to the Ministry of Finance and to the Bank of Israel; direct reports from large Israeli corporations to the Bank of Israel on their activity vis-à-vis nonresidents; reports by banks and other financial intermediaries to the Bank of Israel regarding nonresidents' holdings of Israeli financial assets; and the Ministry of Finance.

The public's financial asset portfolio includes the assets of households and of the business sector (financial and nonfinancial firms). The portfolio does not include the government's assets or those of the Bank of Israel, nonresidents, or the banks. Management of the asset portfolio can be divided into two types, which differ in how they are managed.

- **The asset portfolio directly managed directly by the public** — The stock of financial assets, including cash and deposits, tradable and nontradable securities, and index products, held by the public directly or through portfolio managers or mutual funds.
- **The asset portfolio managed by institutional investors on behalf of the public** — The public's long-term savings managed by the institutional investors. These institutions include the provident funds and severance funds, advanced training funds, old and new pension funds, and life insurance policies managed by the insurance companies (excluding the insurance companies' nostro portfolio, which they manage on their own behalf). The public's savings in these channels are invested in tradable and nontradable securities and in other instruments, according to the investment guidelines of each entity.

The composition of the public's financial assets portfolio reflects the decisions of the public and of the institutional investors, which are mainly derived from considerations of yield, risk and liquidity, based on their expectations of future developments in the capital and money markets. The division of the asset portfolio into two—assets managed directly by the public and assets managed by the institutional investors on behalf of the public—reflects a number of structural differences, including: (1) Control—The public has full and ongoing control over the size of investment and the composition of assets held directly by it, compared with only partial and infrequent influence on the composition of assets held by the institutional investors, which is expressed only in the selection of the investment track; (2) Term—In general, the public directly holds assets for a short-to-medium term, while the institutional investors hold assets for a longer term, which affects the liquidity and risk profiles of the assets; (3) Expertise—The institutional investors specialize in the management of financial assets and in regularly monitoring and analyzing a broad range of information on the assets, the issuing entities, and the relevant environment in Israel and abroad. In contrast, only some of the portfolio held directly by the public is managed by experts; (4) The institutional investors have the advantage of scale

- **Exposure to foreign assets** —The monetary amount at risk in the case of a decline in the value of assets issued by nonresidents (mostly assets held abroad). Investment in foreign assets and in foreign economies creates exposure to crises that may erupt in those economies and to other changes that have a negative impact on the value of the securities.
- **Investments abroad**—The balance of assets invested outside of Israel. This definition includes holdings of securities issued abroad by Israeli companies, and does not include holdings of foreign assets in Israel.
Cash and current accounts—Cash is calculated as the total money (banknotes and coins) issued by the Bank of Israel and in circulation, minus cash in the hands of the banks. This item may also include cash in the hands of nonresidents, but the assumption is that this latter amount is low. Current accounts are demand deposits in shekels (excluding nonresidents' current accounts in shekels).

- **Deposits**—Funds of Israeli customers at banks, which generate yields and can be withdrawn at points in time depending on the type of plan. The deposits are categorized as follows: (1) Savings plans—plans that are structured for the customer’s needs, by various ranges and indexations; (2) Self-renewing Overnight Deposit (SRO)—a deposit that enables deposits and withdrawals every business day subject to the restriction that the principal amount shall not be less than the amount set by the bank; (3) Fixed-term deposit—allows for the withdrawal of the deposit after a preset period. Such a deposit generally has a yield of fixed-rate interest; (4) CPI-indexed deposit; (5) Foreign exchange-indexed deposit; (6) Foreign currency deposit—a foreign exchange deposit by Israelis in an Israeli bank. This can be managed as a current account or as a deposit.

- **Mutual funds** —A financial instrument, the objective of which is to jointly invest in securities and generate joint profits from such holdings and transactions. Each fund is comprised of units, each of which grants an equal right to the fund's assets and profits. Units can be bought and sold through the fund manager, and for certain types of fund, through continuous trading on the stock exchange. The Israeli Securities Authority has set out a list of relevant classifications, from which a fund manager selects the most appropriate classification for each fund under his management, considering the fund's investment policy. The classification titles characterize the type of fund and the nature of investment in it, and help the investor understand its investment channels. The classification titles are divided into three levels—overall, main, and secondary titles. The overall title reflects the investment channels or methods of managing the investments in the fund, for instance equities, bonds, or money market. The main title reflects the specialization of the fund, such as an equity fund in Israel or a government bond fund. The secondary title reflects the specific investment channel upon which the fund focuses, for instance, Tel Aviv 35 Index.