

A. The public's financial asset portfolio

The value of the public's assets portfolio¹ increased by about 7.3 percent in 2023. Despite domestic shocks, 2023 featured an increase in all components of the assets portfolio, and in particular the financial assets abroad component, against a backdrop of rising prices in global capital markets, and in the Makam holdings component, against a backdrop of rising interest rates. The Israeli equities component fluctuated in view of domestic uncertainty: The decline in equity prices in Israel that coincided with the outbreak of the war was offset beginning .from November

Institutional investors increased their exposure to foreign assets. Mutual funds recorded positive net accumulations, led by large net accumulations in shekel-based money market funds, while funds specializing in bonds in Israeli bonds recorded negative net new accumulations.

1. Total assets portfolio

The balance of the public's financial assets portfolio renewed positive growth in 2023, continuing the portfolio's long-term trend.

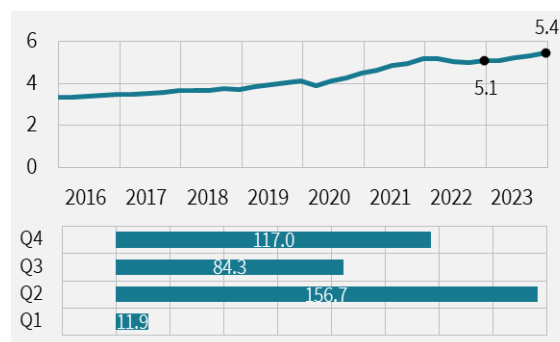
The balance of the public's financial assets portfolio increased in 2023 by about 7.3 percent (about NIS 370 billion) to about NIS 5.4 trillion at year-end. The largest increase was concentrated in Q2 (about NIS 156.7 billion)

In October, as capital market prices in Israel declined when the Swords of Iron War erupted, the value of the assets portfolio declined by about NIS 104 billion.

From November, when prices rose once again, to the end of the year, the decline in the value of the assets portfolio was eliminated in entirety. With this, the long-term upward trend in the balance of the assets portfolio was halted.

Figure 1.1: Balance of the Assets Portfolio

The balance in NIS trillion (line), and the changes in the asset portfolio balance during 2023 in NIS billion (bars)



SOURCE: Bank of Israel

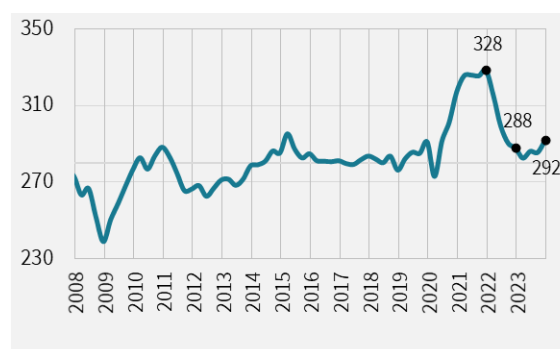
The ratio of the public's financial assets portfolio to GDP increased slightly this year.

The ratio of the public's asset portfolio to GDP recorded an increase of about 4 percentage points, to about 292 percent at the end of the year. This ratio remained at the average level that was characteristic of the decade prior to the COVID-19 crisis.

The increase in the ratio this year was due to the higher rate of growth of the asset portfolio (about 7.3 percent) compared to the growth rate of the GDP (about 5.9 percent in current prices).

Figure 1.2: Balance of the Asset Portfolio

As a percentage of GDP



SOURCE: Bank of Israel

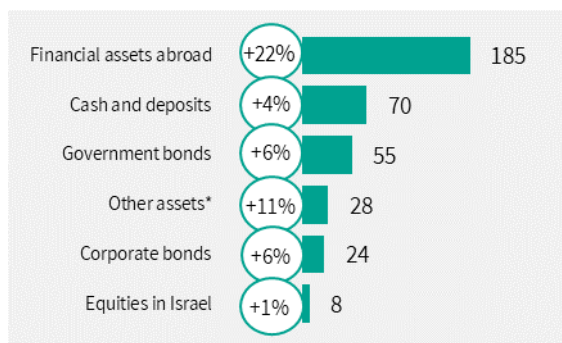
¹ For an explanation, see Data Sources and Main Terms at the end of this section.

The increase in the portfolio balance was common to all portfolio components, yet was especially marked in the balance of financial assets abroad.

In 2023, the balance of financial assets abroad increased (by about 22 percent) against the background of rising foreign capital market prices and a depreciation of the shekel against the US dollar. The balance of cash and deposits also increased (by about 4 percent).

Figure 1.3: Change in the Balance of the Assets Portfolio in 2023

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.

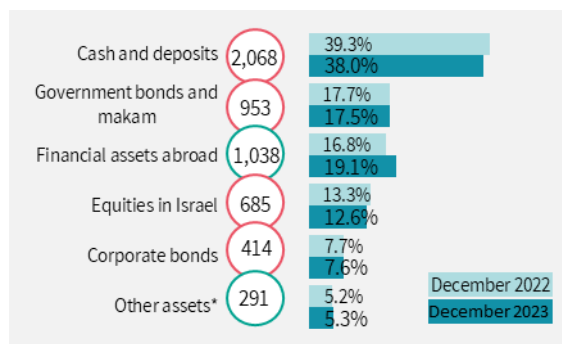
The share of the balance of financial assets abroad in the asset portfolio increased and reduced the share of most of the other components.

The share of financial assets abroad increased by about 2.3 percentage points, to about 19.1 percent of the total portfolio in November.

In contrast, the share of cash and deposits and the share of equities in Israel declined by about 1.3 and 0.7 percentage points, respectively.

Figure 1.4: Distribution of Assets in the Portfolio

percentage in 2022 and 2023 (rows), and NIS billion in 2023 (circles)



SOURCE: Bank of Israel data

2. Asset management in the portfolio

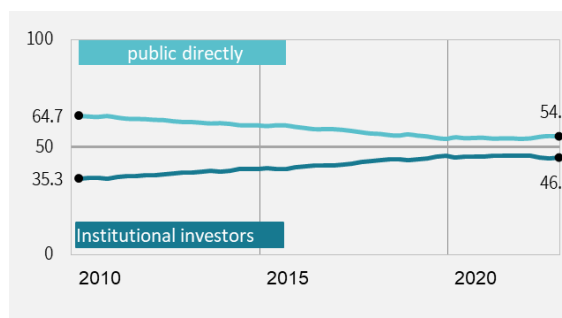
The share of the portfolio managed by the institutional investors increased this year, continuing the long-term trend.

The share of the portfolio managed by the institutional investors in 2023 increased by about 1 percentage point, to about 46 percent of the total portfolio.

Both the balance of the portfolio managed by institutional investors (about 219 billion; 9.6 percent) and the balance of the portfolio managed directly by the public (about NIS 151 billion; 5.4 percent) increased.

Figure 1.5: Distribution of Portfolio Holdings by Manager

as a share of the total portfolio



SOURCE: Bank of Israel.

In the breakdown of holdings by managing entity, an increase was recorded mainly in the share of mutual funds and pension funds and a decline was recorded in the share of assets managed directly by the public, excluding mutual funds.

The share of the portfolio managed directly by the public, excluding mutual funds, decreased by about 2.1 percentage points, to about 45.9 percent. In contrast, the share of mutual funds increased by about 1.1 percentage points, to about 8.1 percent.

In the share of the portfolio managed by the institutional investors, assets managed by all institutional investors increased.

The portfolio managed by the institutional investors totaled about NIS 2.5 trillion, of which about 47.8 percent was managed in pension funds, about 28.8 percent in provident funds and advanced education funds, and about 23.4 percent in insurance plans.

3. Financial assets abroad

In 2023, against a backdrop of rising prices in capital markets abroad, and a depreciation of the shekel against the US dollar, both the balance of equities abroad and the balance of bonds abroad increased.

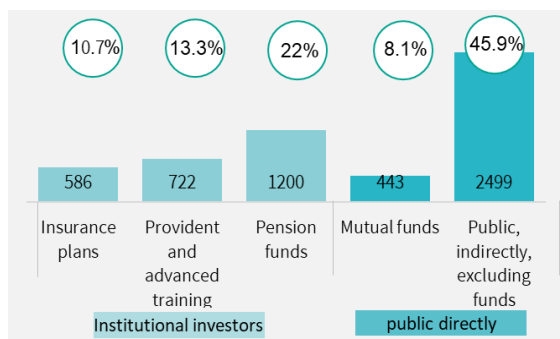
The balance of the public's investments in equities abroad increased by about NIS 93 billion (about 19.3 percent), of which an increase of about NIS 37.6 billion is attributed to holdings held by the institutional investors.

The increase in this balance stemmed mainly from the rising prices in the capital markets abroad and the depreciation of the shekel, and was partially offset by net realizations.

The balance of the public's investments in bonds abroad increased by about NIS 53 billion, of which an increase of about NIS 21 billion is attributed to the holdings managed by the institutional investors.

Figure 1.6: Distribution of Portfolio Holdings by Manager

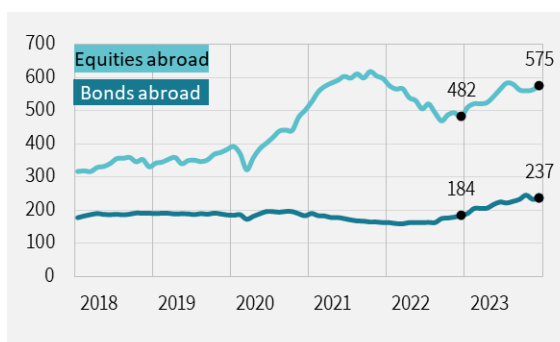
NIS billion (columns) and as a share of the total (circles)



SOURCE: Bank of Israel.

Figure 1.7: Balances of equities and bonds held abroad

NIS billion



SOURCE: Bank of Israel.

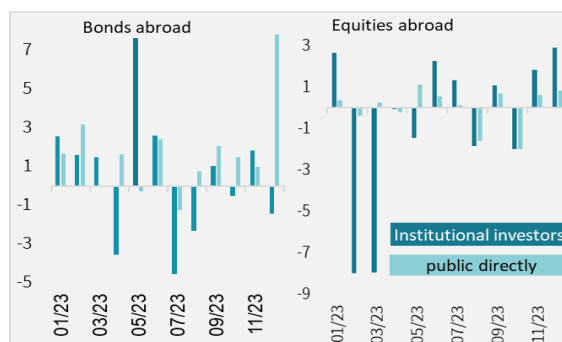
The public's investments in foreign bonds abroad were partially offset by net sales of foreign equities.

In 2023, the institutional investors sold about NIS 9 trillion in investments, net, despite the upward trend in equity markets abroad. Sales took place mainly in February and March.

This year, net investment in bonds abroad totaled about NIS 27 billion. Noticeable were an investment in bonds in May by the institutional investors (about NIS 7.6 billion) and an investment made directly by the public in December (about NIS 7.8 billion).

Figure 1.8: Net investments abroad

NIS billion



SOURCE: Bank of Israel.

In 2023, the institutional investors' exposure to foreign equities and equity index futures accounted for about 62.6 percent of the total exposure to foreign assets.

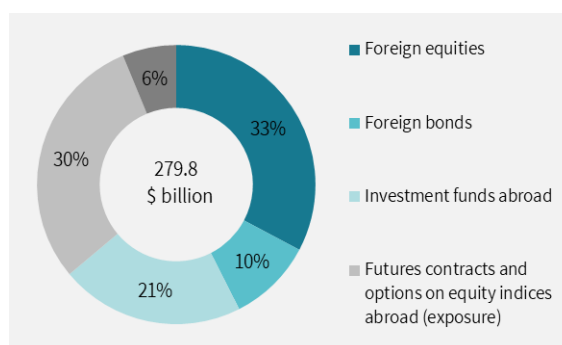
Against a backdrop of rising prices in equity indices abroad, the share of the exposure through equity index futures and options increased slightly by about 1.8 percentage points.

Concurrently, the share of the direct exposure to equities declined by about 3.8 percentage points.

Furthermore, the share of investment funds declined by about 0.9 percentage points following a rise of about 7.1 percent in 2022.

Figure 1.9: Distribution of the exposure to institutional investors' foreign assets

Percent of institutional investors' total foreign assets



SOURCE: Bank of Israel data.

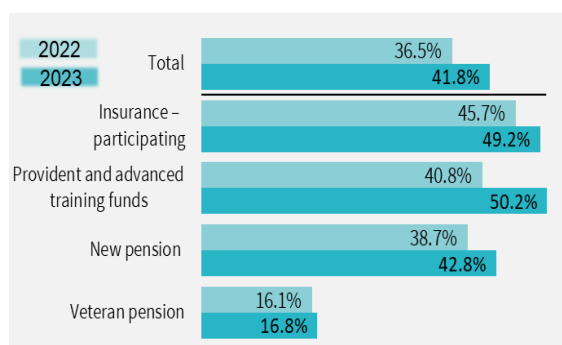
Against a backdrop of rising equity prices abroad, the institutional investors' exposure to foreign assets increased markedly.

The share of the institutional investors' total exposure to foreign assets increased significantly by about 5.3 percentage points to about 41.8 percent, as the balance of exposure to foreign assets increased at a higher rate (about 22.3 percent) than the increase in total investment assets (about 6.5 percent).

All the institutional investors increased their exposure to foreign assets, and especially provident funds and advanced education funds, whose exposure to foreign assets increased by about 9.4 percentage points.

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 holdings in tradable government bonds declined in 2023, continuing the decline in 2022.

Against a backdrop of rising interest rates, the balance of holdings in tradable government bonds declined by about NIS 24 billion (about 7.1 percent).

The decline in the balance of mutual fund holdings in tradable government bonds was prominent (about NIS 12.1 billion) and characterized most of the months of the year until September 2023.

The balance of the institutional investors' holdings in tradable government bonds declined by about NIS 8 billion by September, against a backdrop of declining prices. A further decline of about NIS 7.6 billion was recorded in October, against a backdrop of the Swords of Iron War. In November, when price levels rose once again, the decline was mostly offset. For the full year, the balance increased by about NIS 11 billion.

In 2023, the balance of holdings in *Makam* increased considerably.

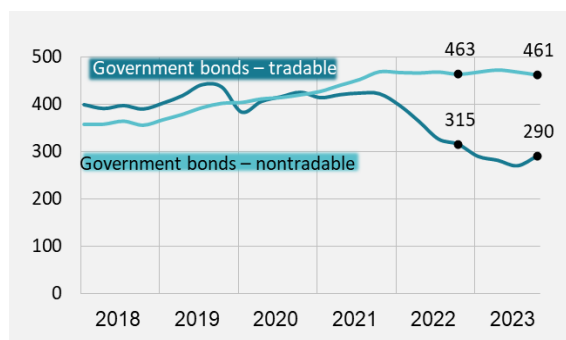
Against a backdrop of rising interest rates and an increase in *Makam* issues, the balance of the public's holdings in *Makam* increased this year by about NIS 81 billion, reaching about NIS 202 billion at the end of the year.

The increase in the balance of mutual funds' holdings in *Makam* was notable (about NIS 61 billion).

In addition, this year households increased their holdings by about NIS 7 billion, continuing the increase recorded in 2022. The balance of the institutional investors' holdings increased by about NIS 12 billion, mainly as a result of net acquisitions. For additional information, see Zoom-In below.

Figure 1.11: Balance of government bond holdings

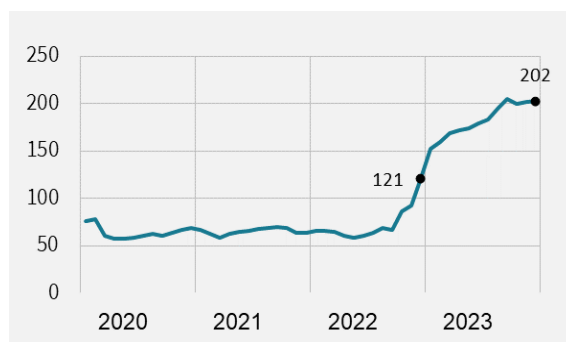
NIS billion



SOURCE: Bank of Israel

Figure 1.12: Balance of public's *Makam* holdings

NIS billion



SOURCE: Bank of Israel data

5. Equities in Israel

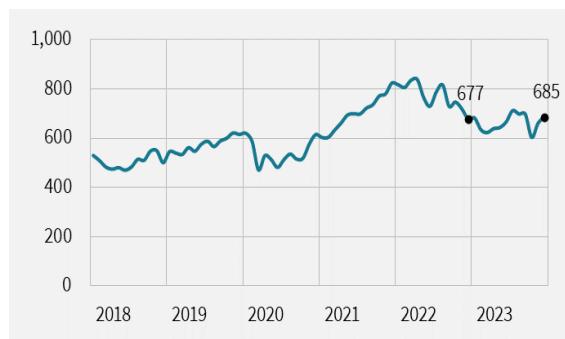
Against a backdrop of domestic uncertainty, the balance of the public's holdings in equities in Israel fluctuated notably in 2023.

The balance of the public's holdings of equities in Israel increased this year by about NIS 8 billion, and reached about NIS 685 billion.

In line with the performance of equity indices in Israel, the balance declined in the first quarter of the year, followed by a return to an upward trend that began in the second quarter and peaked in July (about NIS 711 billion).

Prices of equities in Israel declined when the Swords of Iron War commenced, and the balance of the holdings in equities in October declined by about NIS 94 billion. This decline was partially offset by the end of the year.

Figure 1.13: Balance of equity holdings in Israel
NIS billion



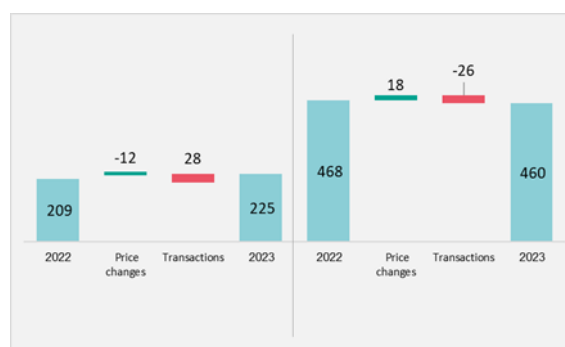
SOURCE: Bank of Israel data

The balances of the equity holdings by the institutional investors increased while the balance of the equities held directly by the public declined.

Against a backdrop of fluctuating prices, the balance of tradable equities in Israel held directly by the public declined by about NIS 8 billion during the year, despite net investments. The decline was mostly due to price declines of about 6 percent.

The balance of tradable equities in Israel held by the institutional investors increased by about NIS 16 billion. This increase was also due to rising prices. The institutional investors made net acquisitions of about NIS 3 billion in October, as prices in equity indices declined.

Figure 1.14: Balance of equity holdings in Israel
NIS billion



SOURCE: Bank of Israel.

6. Cash and deposits

In 2023, the public continued to increase the balance of its deposits and concurrently to reduce the current account component, especially against the continuing rise in shekel-based interest rates.

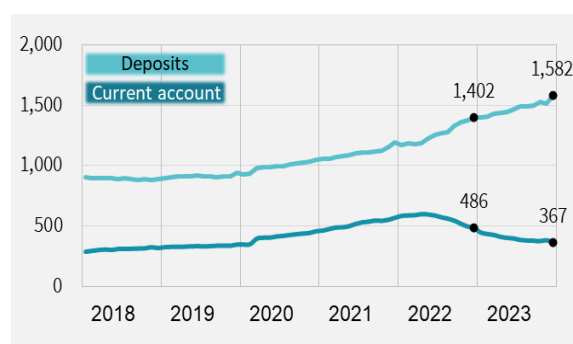
The balance of cash and deposits is the most significant component in the public's asset portfolio (about 38 percent). Most of this component is held directly by the public. Beginning in mid-2022, the public modified the composition of its deposits in response to interest hikes.

In 2023, the balance of the public's holdings in deposits and current accounts increased by about NIS 61 billion (3.2 percent). The year was characterized by an increase in the balance of holdings in deposits (about NIS 180 billion); approximately one-half of the increase was concentrated in the fourth quarter of the year. Concurrently, the balance of holdings in current accounts declined (about NIS 119 billion).

The balance of cash increased by about 8.7 percent (about NIS 10 billion), and reached about NIS 120 billion at the end of the year.

Figure 1.15: Balance of deposits

NIS billion



SOURCE: Bank of Israel

7. MUTUAL FUNDS

Against a backdrop of rising interest rates, new investments in money market funds and sales of bond funds were significant.

Mutual funds recorded positive net new investments of about NIS 56.2 billion in 2023, mostly beginning from the second quarter.

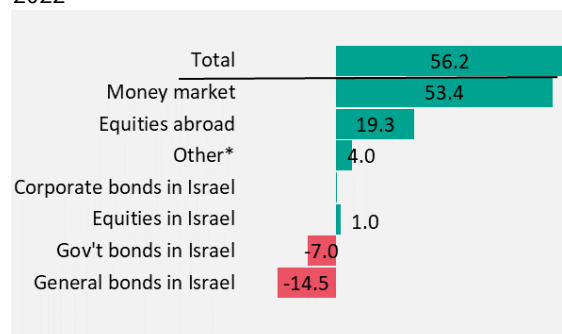
Net investments were mainly in money market funds, mainly shekel-based money market funds (about NIS 53.4 billion), against the background of interest rates in and outside Israel, and in funds that specialize in equities abroad.

In contrast, sales of about NIS 21.5 billion were recorded in funds specializing in bonds, mainly general bonds in Israel, against a backdrop of rising yields.

In the first two days of the war, net redemptions totaling about NIS 0.7 billion were recorded, mainly in general bond funds in Israel, after which the data show a return to the trend that characterized the beginning of the year.

Figure 1.16: Mutual Fund Specializations (incl. ETFs)

net new investments, NIS billion, during 2023



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.

An increase was recorded in the balance of mutual funds' assets, mainly shekel-based money market funds and funds specializing in equities abroad.

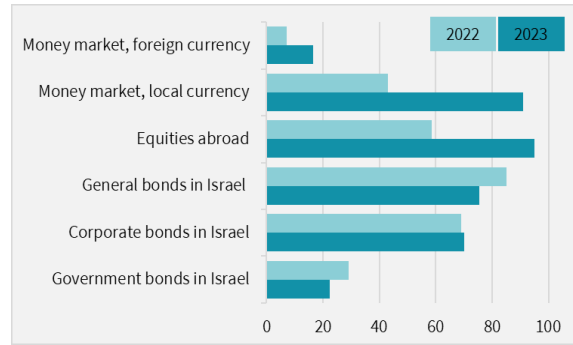
The balance of mutual fund assets rose this year by about NIS 88.4 billion and reached about NIS 456.2 billion.

Against a backdrop of net investments, there was a notable rise in the balance of shekel-based money market funds (about NIS 47.8 billion), which reached about NIS 91 billion.

The balance of funds specializing in equities abroad also recorded an increase (about NIS 36.6 billion) against a backdrop of rising prices of indices on equities abroad and net investments.

Figure 1.17: Mutual fund balances, by selected specialization groups

NIS billion



SOURCE: Bank of Israel.

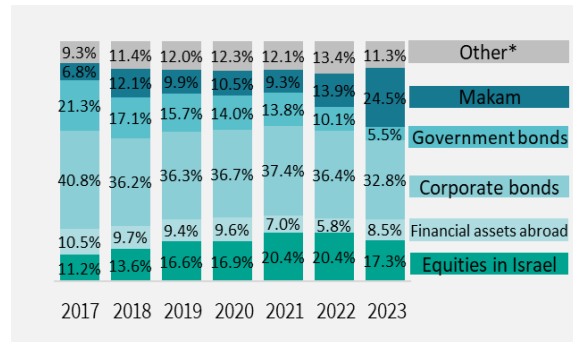
The mix of the composition of mutual fund assets changed.

The share of *Makam* increased significantly this year by about 10.6 percentage points, following the increase in 2022 and rising interest rates. The weight of financial assets abroad also increased, by about 2.7 percentage points, against a backdrop of rising prices in foreign markets.

In contrast, the weight of the government bonds component of the portfolio declined by about 4.6 percentage points, in line with the long-term trend. The weight of equities in Israel also declined, by about 3.1 percentage points, in response to the performance of indexes indices on equities in Israel compared to foreign markets.

Figure 1.18: Distribution of Mutual Fund Assets

percentage of total assets



SOURCE: Bank of Israel.

* Other - Indexed and non-indexed deposits and future financial assets.

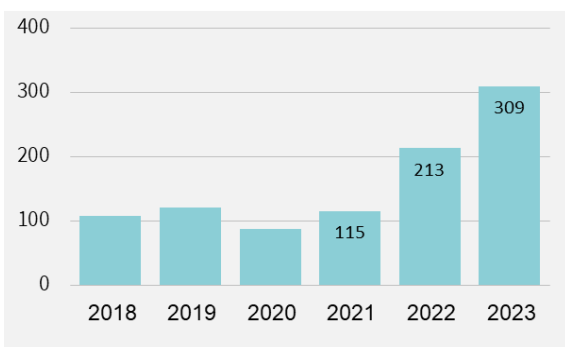


ZOOM-IN – Developments in the Makam market in the Tel Aviv Stock Exchange in 2023

The Bank of Israel increased Makam issues to meet the demand triggered by rising interest rates in the economy. A significant increase was recorded in mutual funds' *Makam* holdings, in groups investing in equities abroad for regulatory reasons², and in shekel-based money market funds as an alternative to deposits. An increase in *Makam* holdings by commercial banks was also recorded.

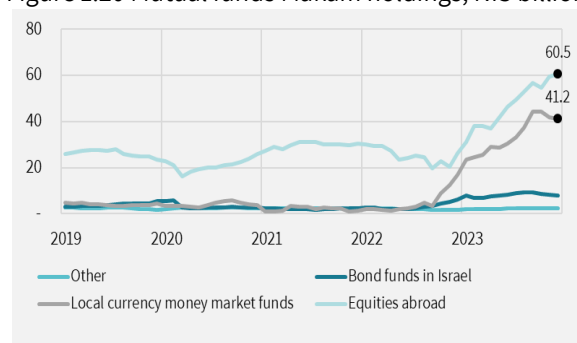
The Bank of Israel markedly increased Makam issuance volume in 2023 as well

Figure 1.19: Registered capital of tradable Makam on the Tel Aviv Stock Exchange (TASE), NIS billion



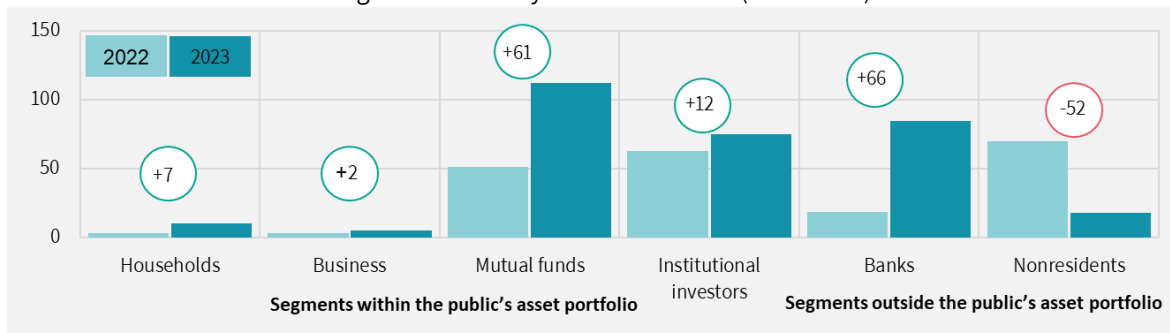
A marked increase in Makam holdings of investment groups in equities abroad and in local currency money market funds, against the background of high accruals in them

Figure 1.20 Mutual funds Makam holdings, NIS billion



The increase in the Makam balance in 2023 is mainly in balances of banks and mutual funds

Figure 1.21 Makam balances held by the various segments, in 2022 and 2023 (market value in NIS billion) and the change between the years in NIS billion (in bubbles)³



SOURCE: Bank of Israel.

² ETFs are typically held through various investment vehicles (such as contracts, and options) and not directly in the base asset. In the balance of money they are required to purchase a short-term tradable asset.

³ An estimate was made in some sectors to correct repo transactions reported by both parties.

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



	2018	2019	2020	2021	2022	2023
Total asset portfolio held by the public						
Value of the public's asset portfolio (NIS trillion)	3.72	4.15	4.50	5.19	5.08	5.45
Asset portfolio as a percentage of GDP	276	291	317	832	288	292
Tradable assets	48.6	49.7	47.6	47.2	42.3	43.8
Risk assets ⁴	42.1	43.2	41.9	43.1	39.3	40.3
Assets abroad ⁵	15.7	15.5	17.2	17.1	16.8	19.0
Foreign exchange assets ⁶	22.5	21.7	23.7	24.1	24.5	26.4
Unindexed assets ⁷	72.3	72.4	74.4	75.4	75.6	76.3
Liquid assets ⁸	28.8	28.0	31.8	32.4	35.3	34.0
Portfolio managed by the public directly and through mutual funds						
Rate of investment as a share of the asset portfolio	56.0	53.9	54.3	53.9	54.9	54.0
Tradable assets	45.8	47.1	43.1	43.9	38.7	41.2
Risk assets	34.2	35.3	31.8	32.8	26.5	27.8
Assets abroad	10.6	9.4	9.8	9.2	9.0	2.5
Foreign exchange assets	20.2	19.1	19.4	19.7	20.9	15.5
Unindexed assets	89.9	90.1	91.6	91.4	91.8	92.0
Liquid assets	45.6	44.9	51.4	51.6	53.8	58.2
Portfolio managed by institutional investors						
Rate of investment as a share of the asset portfolio^{6,9}	44.0	46.1	45.7	46.1	45.1	46.0
Tradable assets	52.3	52.8	52.9	51.0	46.6	48.4
Risk assets	52.1	52.5	54.0	55.0	54.9	57.8
Assets abroad ^{7,10}	22.2	22.5	26.0	26.4	26.4	28.8
Foreign exchange assets ^{8,11}	25.5	24.8	28.7	29.3	28.8	31.9
Unindexed assets	49.9	51.8	54.0	56.7	55.9	58.5
Liquid assets	7.5	8.3	8.5	9.9	12.7	12.5

⁴ Excluding government bonds, makam, deposits (in Israel and abroad), and cash.

⁵ Israelis' investments abroad.

⁶ Assets indexed to foreign exchange + equities abroad.

⁷ All assets minus those indexed to the CPI.

⁸ Cash, deposits up to one year in Israel, and makam.

⁹ 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.

¹⁰ 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.

¹¹ 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 assets¹²** —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,

¹² For further information on the definitions, terms and explanations, see "Measuring Institutional Investors' Exposure to Foreign Exchange and to Foreign Assets" in Chapter 2 of the *Statistical Bulletin for 2016*.

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.