

A. The public's financial asset portfolio

The increase in the balance of the asset portfolio held by the public and in its weight in relation to GDP, continued in 2019 at a higher rate than in previous years. The most significant increase was in the portfolio managed by the institutional investors, with continued growth of that portfolio as a share of the entire asset portfolio. 2019 featured increases in all components of the asset portfolio, mainly in view of the positive trends in the domestic and global markets. The balance of shares and bonds in Israel increased significantly relative to recent years. The balance of investments abroad also increased, but was partly offset by the appreciation of the shekel.

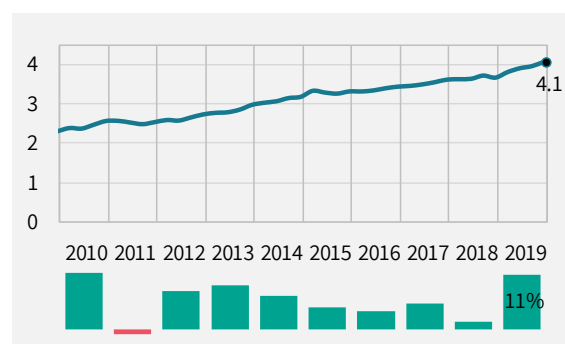
1. The total asset portfolio

The balance of the asset portfolio held by the public increased significantly in 2019 compared with recent years.

The balance of the financial asset portfolio held by the public increased by 11.1 percent (about NIS 406 billion) in 2019, to about NIS 4.08 trillion at the end of the year. The portfolio's growth rate in 2019 was significantly higher than in the five previous years. Most of the growth was in the first half of the year, following price declines at the end of 2018, but later in the year, the balance of the portfolio also increased at a relatively high pace.

Figure 1.1: The Public's Financial Asset Portfolio, 2010–19

NIS trillion (top) and rate of change

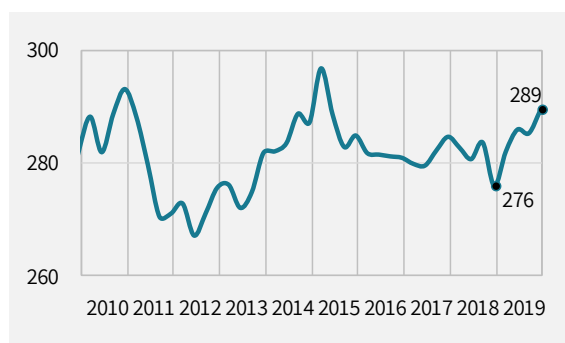


The balance of the asset portfolio held by the public relative to GDP increased relative to the end of the previous year.

The asset portfolio relative to GDP increased significantly by about 13.5 percentage points, to about 289 percent at the end of the year. This rate is higher than in recent years, and is above the average of the period since 2010 (about 280 percent).

Figure 1.2: Balance of the Asset Portfolio, 2010–19

percent of GDP



The increase in the portfolio balance was typical of all components in the portfolio, mainly equities and government bonds.

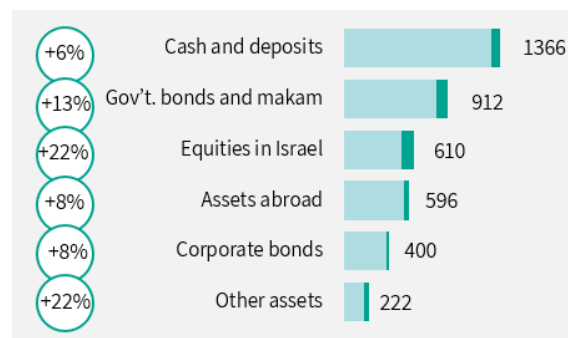
The balance of equities in Israel increased significantly, by about NIS 110 billion (about 22 percent) to about NIS 610 million at the end of the year. The balance of government bonds and makam increased by about NIS 102 billion (about 13 percent) to about NIS 912 billion at the end of the year.

The balances of financial assets abroad and corporate bonds increased by a more moderate rate of about 8 percent.

The balance of other assets (assets managed by the institutional investors and including nontradable shares, loans, mortgage portfolios, land rights, and derivatives), increased significantly by about NIS 39 billion (about 22 percent) in 2019.

Figure 1.3: Balance of Assets in the Portfolio, 2019

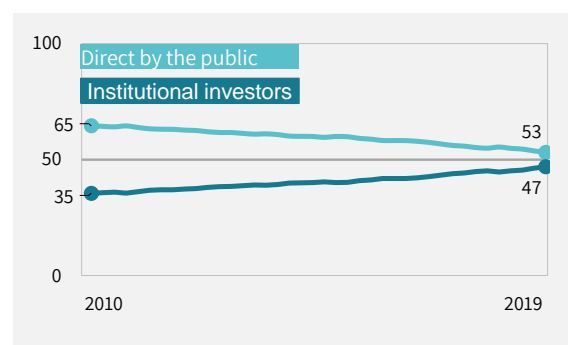
NIS billion (rows) and percent rate of change (circles)



The portion of the portfolio managed by the institutional investors continued its upward trend in 2019.

The weight of the portfolio managed by the institutional investors increased by about 2.3 percentage points to about 46.9 percent of the total portfolio, further to the long-term upward trend in new investment in these entities, which is partly due to the structural reform and strong fundamental data in the economy.

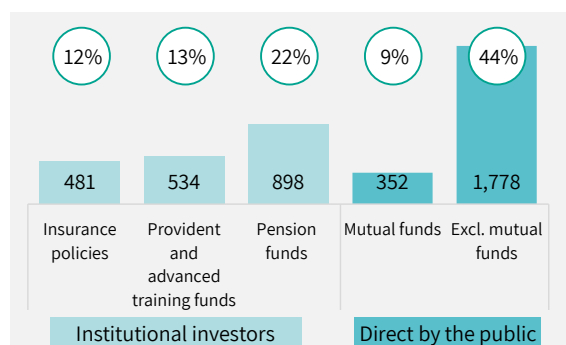
Figure 1.4: Distribution of Holdings by Manager
percentage of the portfolio



About half of the institutional investors' holdings are managed in pension funds.

The total portfolio managed by the institutional investors is about NIS 1.9 trillion, of which about 47 percent is managed in the pension funds, about 28 percent is managed in the provident funds and advanced training funds, and about 25 percent is managed in profit-sharing insurance policies.

Figure 1.5: Distribution of Holdings by Manager
NIS billion (rows) and percentage of total (circles)

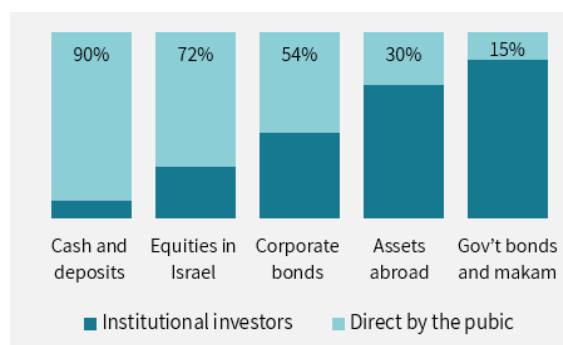


There is a marked difference in the mix of assets between the public's direct holdings and its holdings through the institutional investors.

The deposits and equities in Israel components are mainly held by directly by the public. Government bonds, makam, and investments abroad are mainly held by the institutional investors. About 44 percent of the government bonds and makam component are comprised of earmarked bonds and assistance money held solely by the institutional investors.

These differences in the composition of holdings partly reflect structural differences such as access to international markets, advantages of scale, and investment horizons.

Figure 1.6: Distribution of Holdings by Asset, December 2019

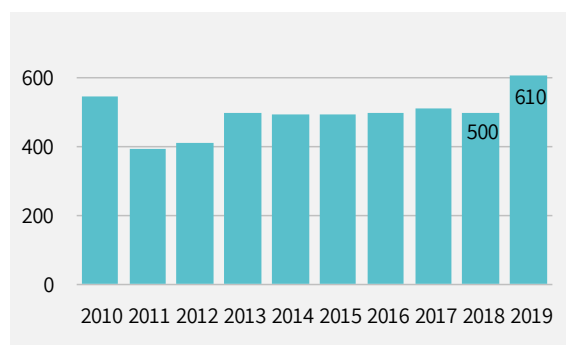


2. Equities in Israel

The balance of equities in Israel increased significantly during 2019 relative to the previous six years.

The balance of equities in Israel held by the public increased by about NIS 110 billion in 2019, to about NIS 610 billion, a significant increase relative to the previous six years, when the balance was about NIS 500 billion. Most of the increase in 2019 reflected prices increases in the leading equities indices in Israel (the Tel Aviv 125 increased by about 21 percent).

Figure 1.7: Balance of Equities in Israel
NIS billion

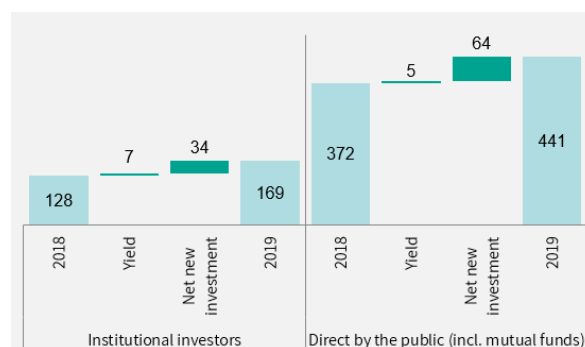


The balance of equity holdings held directly by the public and by the institutional investors increased in view of the significant price increases.

The balance of equities in Israel held directly by the public increased by about NIS 69 billion (about 18.5 percent), to about NIS 441 billion at the end of the year. The increase was due to a yield of about 17 percent—about NIS 64 billion—in parallel with net investment of about NIS 5 billion.

The balance of equities in Israel held by the institutional investors increased by about NIS 41 billion (32 percent) to about NIS 169 billion at the end of the year. Most of the increase was due to yield of about 26 percent on institutional holdings of equities in Israel.

Figure 1.8: Balance of Equities in Israel by Manager
NIS billion



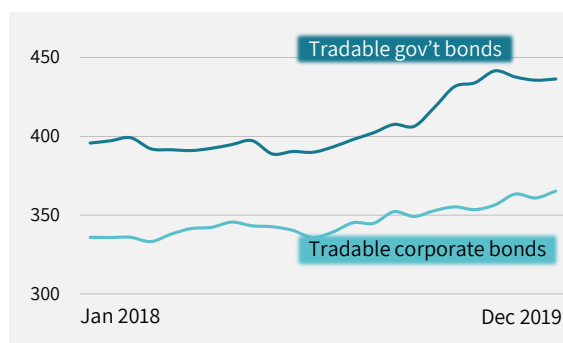
3. Bonds

The balance of tradable bonds increased during 2019, with an emphasis on government bonds, where the increase was significant.

The increase in government bonds was mainly due to the increase in the price of long-term bonds, partly in view of the change in the assessment of the path of interest rate increases. The public's direct holdings of these bonds increased by about 10 percent, and the institutional investors' holdings increased by about 14 percent.

The balance of tradable corporate bonds increased by about NIS 30 billion (about 8 percent) in 2019, mainly due to price increases. Mutual funds' holdings of these bonds increased significantly, by about NIS 16 billion.

Figure 1.9: Tradable Bonds in Israel, January 2018–December 2019
NIS billion



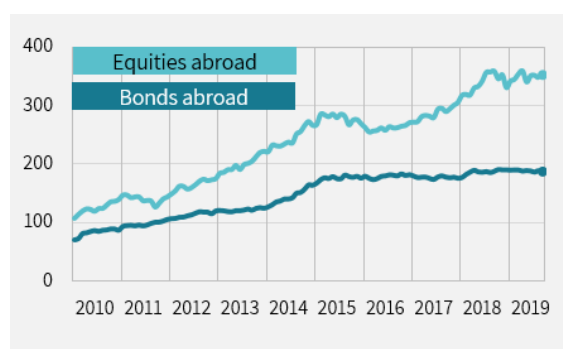
4. Financial assets abroad

The balance of assets held abroad by the public increased during 2019, mainly due to the price increases in equity markets abroad.

The balance of the public's investments in equities abroad increased by about NIS 52 billion (15.8 percent) to about NIS 383 billion at the end of the year. Most of the increase was due to price increases on equity markets abroad, as well as net new investments of about NIS 8 billion. This increase was partly offset by the appreciation of the shekel (by 7 percent), which lowered the shekel value of the portfolio.

The balance of the public's investments in bonds abroad declined by about NIS 5 billion, to about NIS 186 billion at the end of the year.

Figure 1.10: Balance of Equities and Bonds Abroad, January 2010–December 2019
NIS billion

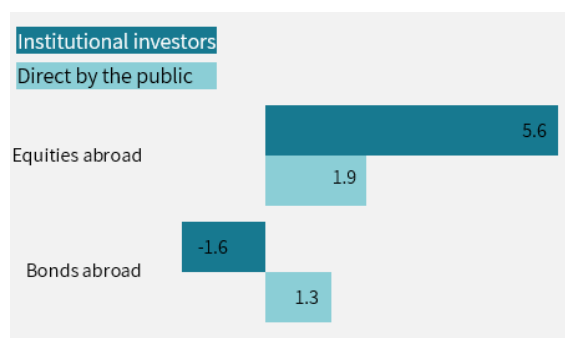


The direct public and the institutional investors differed in how they invested in foreign instruments.

Most of the investment in equities abroad in 2019 was made by institutional investors about NIS 5.6 billion (about 2.8 percent of the balance of institutional investments in foreign equities).

The direct public invested about NIS 1.3 billion net in bonds abroad, while the institutional investors realized about NIS 1.6 billion net in such investments.

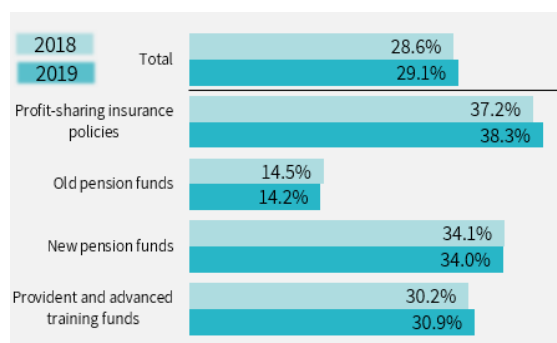
Figure 11.1: Investment Transactions Abroad 2019
NIS billion



Total exposure to foreign assets by institutional investors increased during 2019.

Total exposure to foreign assets by institutional investors increased by about 0.5 percentage points to 29.1 percent. The institutional investors that increased their exposure to foreign assets were profit-sharing insurance policies, provident funds, and advanced training funds. In contrast, the pension funds lowered their exposure to foreign assets.

Figure 1.12: Institutional Investors' Exposure to Foreign Assets
percent of total holdings



5. Cash and deposits

In 2019, the growth rate of the balance of cash and deposits increased, following a downward trend in recent years.

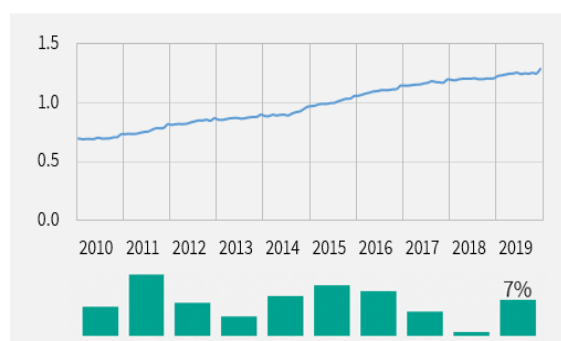
The balance of the public's holdings of deposits increased by about NIS 81 billion (7 percent) during the year, to about NIS 1.29 trillion at the year's end.

Most of the increased was in demand deposits, totaling about NIS 29 billion (9 percent). The increase in the volume of demand deposits is part of a continuing trend in view of the low interest rate.

The balance of cash increased by about NIS 1 billion (2 percent), to about NIS 79 billion at the end of the year.

Figure 1.13: Deposits

NIS trillion (rows) and percent rate of annual change (columns)

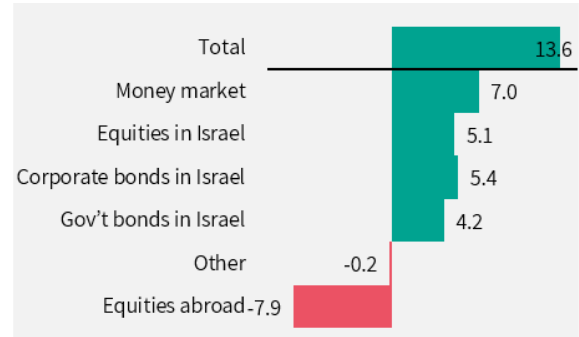


6. Mutual funds

The mutual funds recorded net new investment in 2019, mainly in the money market funds and the funds specializing in bonds and in equities in Israel.

The managed funds and the tracking funds recorded net new investment of about NIS 20 billion. In contrast, ETFs recorded net redemptions of about NIS 6.5 billion. The following is the distribution by specialization: Money market funds had net new investments of about NIS 7 billion; funds specializing in equities in Israel had net new investments of about NIS 5.1 billion; and funds specializing in equities abroad had net redemptions of about NIS 7.9 billion.

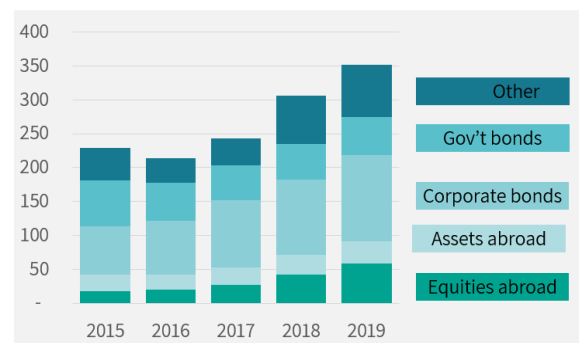
Figure 1.14: Net New Investment in Mutual Funds, Including ETFs, by Specialization, 2019
NIS billion



The composition of assets held by the mutual funds has changed in recent years.

The equities in Israel component of mutual fund holdings increased by about NIS 17 billion (40 percent) in 2019, further to the upward trend since 2016. Most of the increase was due to price increases on equity markets in Israel. The government bond component increased by about NIS 3 billion (6 percent) in 2019.

Figure 1.15: Mutual Fund Assets, Including ETFs
NIS billion

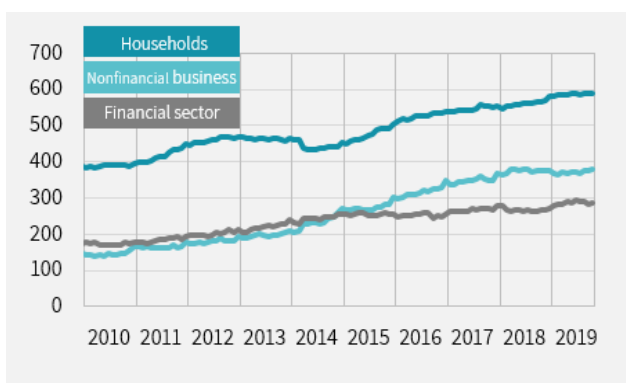


► Zoom in – Deposits by the public

Over the course of 2020, the Information and Statistics Department will begin working with a new system to calculate the public’s asset portfolio. The system will be upgraded gradually, and will make it possible to classify instruments by type of instrument, holding sector, issuing sector, indexation, currency, term, and more. The system is built according to the new international macroeconomic statistics standards, as published by the International Monetary Fund (IMF), the SNA, the MFSM, and others. With this system, it will be possible to create new cross-sections of assets, and comparisons with similar series in other countries. The following are graphs produced using deposits data that have already been incorporated into the system.

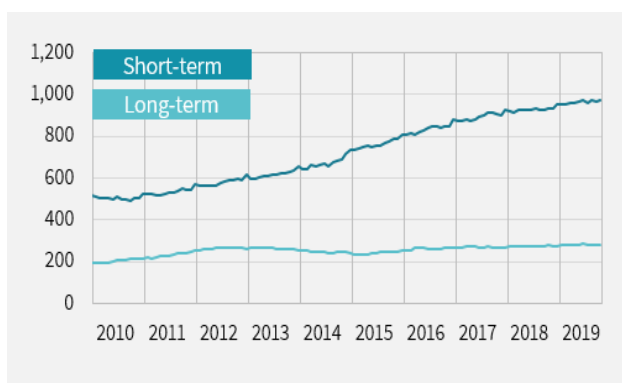
The balance of deposits by the nonfinancial business sector has increased markedly since 2014 compared with the financial sector

Figure 1.16: Deposits, by Depositor (NIS billion)



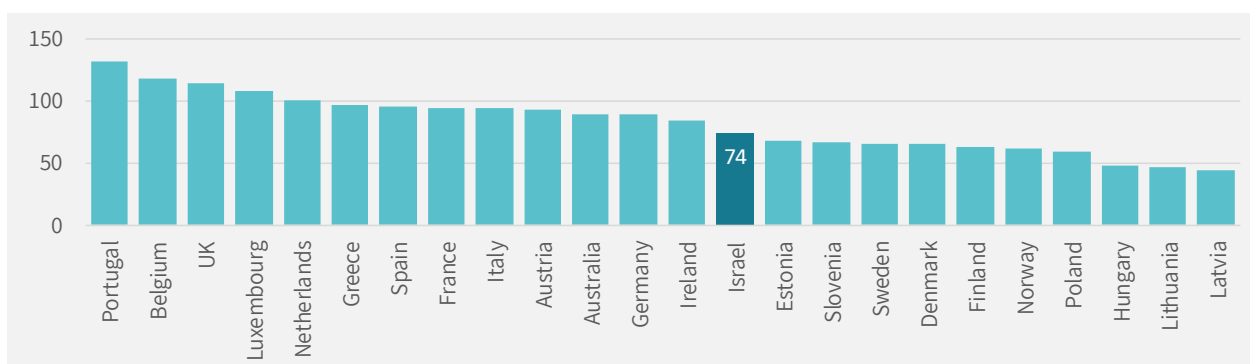
The vast majority of the increase in deposits in the past decade was in short-term deposits

Figure 1.17: Deposits, by Original Term (NIS billion)



Israel is close to the OECD average, with deposits equalling about 74 percent of GDP

Figure 1.18: Household and Nonfinancial Business Sector Deposits (percentage of GDP)



SOURCE: OECD. stat, 2017 data.

SOURCE: Based on Central Bureau of Statistics and Bloomberg.

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



		2014	2015	2016	2017	2018	2019
The public's asset portfolio							
Volume of the portfolio	Value of the public's asset portfolio (NIS trillion)	3.18	3.32	3.44	3.62	3.67	4.08
	The asset portfolio as a percentage of GDP	287.3	285.0	281.0	284.7	276.0	285.6
Risks and liquidity	Tradable assets	52.8	50.5	49.0	48.9	49.4	50.5
	Risk assets ¹	41.8	41.7	41.7	42.5	42.8	43.9
	Assets abroad ²	14.2	14.2	13.8	13.7	14.3	14.0
	Foreign exchange assets ³	20.7	20.7	20.5	20.2	21.3	20.4
	Unindexed assets ⁴	70.0	70.6	71.0	71.3	71.8	71.9
	Liquid assets ⁵	27.9	28.4	29.1	29.0	29.2	28.5
The portfolio managed directly by the public and through mutual funds							
As a share of the total asset portfolio		59.9	59.1	58.1	56.1	55.4	53.1
Risks and liquidity	Tradable assets	51.8	49.0	46.4	46.2	47.0	48.5
	Risk assets	37.9	37.6	36.4	37.0	35.2	36.4
	Assets abroad	10.3	10.2	9.5	9.1	8.0	6.4
	Foreign exchange assets	19.6	19.3	18.9	18.2	17.9	16.5
	Unindexed assets	80.7	82.7	84.3	87.2	89.2	92.8
	Liquid assets	41.8	42.3	44.5	45.3	46.8	46.3
The portfolio managed by institutional investors							
As a share of the total asset portfolio⁶		40.1	40.9	41.9	43.9	44.6	46.9
Risks and liquidity	Tradable assets	54.3	52.6	52.6	52.3	52.3	52.8
	Risk assets	47.7	47.6	49.2	49.5	52.1	52.5
	Assets abroad ⁷	20.1	20.0	19.8	19.6	22.2	22.5
	Foreign exchange assets ⁸	22.5	22.7	22.8	22.8	25.5	24.8
	Unindexed assets	54.0	53.0	52.6	51.0	50.1	48.2
	Liquid assets	7.3	8.4	7.6	8.2	7.5	8.3

¹ Total assets excluding government bonds, makam, deposits in Israel and abroad, and cash.

² Israelis' investments abroad.

³ Assets indexed to foreign currency + shares abroad.

⁴ All assets excluding CPI-indexed assets.

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

⁶ Investment in deposits and Israeli securities abroad, excluding investment in ETNs traded in Israel on foreign indices. This definition differs from the definitions of exposure to foreign exchange.

⁷ Holdings of assets denominated in foreign currency and assets indexed to foreign currency, excluding shekel/forex assets.

⁸ Investments by institutional investors as a share of the total asset portfolio. Excludes investments in ETNs, structured bonds, certificates of deposit, and mutual funds.

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, mainly according to 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; (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 assets⁹

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 Israeli banks. 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.

⁹ For further details of 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.