

Short-Term Household Investments in Solid Vehicles

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ABSTRACT

- Households increased their investments in money funds and Makam in view of the rising interest level. These vehicles, however, account for only 14 percent of total solid NIS savings and investments, which include NIS time deposits and current accounts in addition to NIS money funds and Makam. Most solid investments remained in bank deposits, which also grew during the period examined.
- In response to the increases in the Bank of Israel rate, households diverted funds from current accounts to interest-earning time deposits but retained a sizable portion of their savings in current accounts, most of which do not pay interest.
- The concentration of the Israeli economy is manifested in the holding of most income and wealth by a small share of the population. This is also reflected in the concentration of investments in money funds; thus, as of December 2024, only 366,000 household accounts had holdings in NIS money funds, as against some four million household accounts that held deposits and/or maintained positive current balances.
- Most households (96 percent) hold money funds via their bank accounts. Also, when they make their investments via their bank, they invest larger sums.

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Background and purpose of the study

Many households in Israel wish to place their savings in solid investment vehicles in order to benefit from an interest environment that provides a handsome low-risk, high-liquidity yield.

Since April 2022, the Bank of Israel rate has been rising swiftly, from near-zero (0.2 percent) to 4.5 percent today. This has made investment in solid NIS vehicles more attractive and has induced households to invest more and more in them.

Investments in Makam and in NIS money mutual funds are alternatives to bank savings. In this study, we examined, on the basis of data on household holdings of securities¹ and deposits,² whether households have indeed been investing more in these vehicles.

Three main solid NIS investment vehicles³ are available to households:

- **Bank deposits:** the most common investment product offered directly by bank staff, provides liquidity commensurate with deposit term and carries little risk. The yield, however, is usually lower than that on money funds and Makam. Deposits are taxed at 15 percent of nominal yield.⁴

- **NIS money funds:** solid mutual funds that offer daily liquidity and a yield that, while not assured, usually approximates the Bank of Israel rate.⁵ These funds invest in solid short-duration (up to ninety days) assets such as Makam, large bank deposits that usually pay relatively high interest, and blue-chip corporate bonds and securities. Their tax rate, 25 percent on real gains, is advantageous relative to the rate of taxation on bank deposits, particularly in a relatively high interest environment.

To invest in money funds, one must have a securities account and financial literacy. Money funds are exempt from bank fees for custodianship, buying, and selling. The fund charges a management fee that is considered low in comparison with that of ordinary mutual funds.

- **Makam:** a tradable security issued by the Bank of Israel to up to one-year maturity. It is discounted at point of issue, such that its par value is paid at the end of the term. Makam is considered a risk-free product in the short term, with a foreknown yield if held to maturity.

Makam can be bought and sold⁶ on every trading day at the Tel Aviv Stock Exchange and investment in it requires a securities account and strong financial literacy. It is taxed at 15 percent of the nominal yield, much like bank deposits.

Importantly, there is a major difference in households' access to the three investment instruments offered by banks:

Bank personnel may offer and recommend deposits to customers directly, whereas investing in money funds and Makam may be recommended by an investment advisor at the bank whom only some customers may approach.

This study is the first survey in Israel of developments in solid investment products among households in Israel in the aftermath of the increases in the Bank of Israel rate. Part 1 compares developments in the various investment products: NIS deposits, NIS money funds, and Makam. Part 2 examines the concentration of

¹ For further information on the securities holdings data, see the study in Part 2 of the Statistical Bulletin for 2023, https://www.boi.org.il/publications/regularpublications/statistic_bulletin/bulletin2023

² The data on deposits are harvested from banks' reports to the Banking Supervision Department.

³ For further on solid savings and investment instruments, visit the comparison feature at the Bank of Israel website: <https://www.boi.org.il/information/bank-/payments/savingsandinvestmentproducts>

⁴ Persons aged 60 and above may qualify for a reduced tax rate on capital gains and on interest from deposits and savings plans in accordance with their income level.

⁵ The yield is potential and not assured, like that of Makam and deposits.

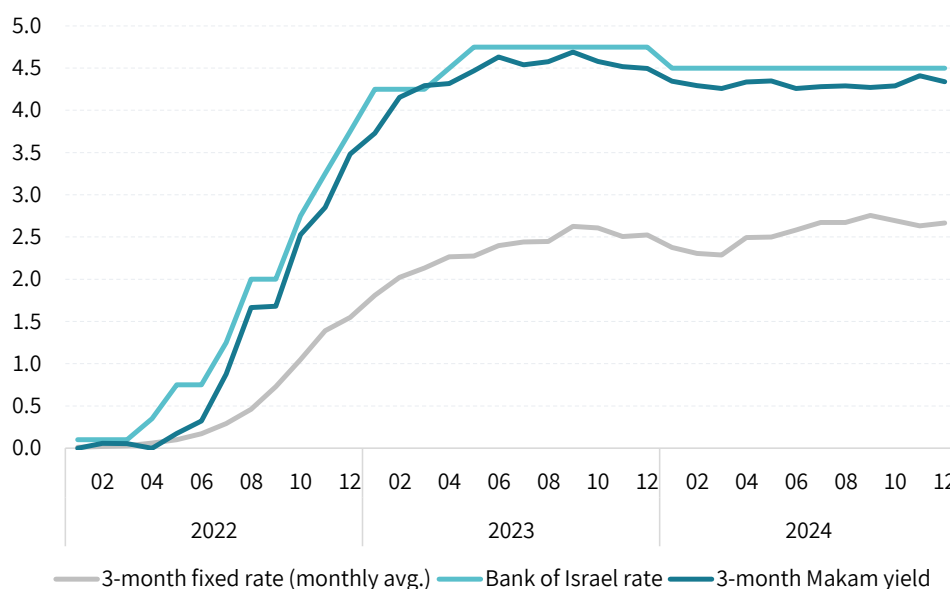
⁶ Makam holdings are subject to buy and sell fees that are, however, lower than those charged for investing in other securities.

households' investment in NIS money funds and Makam. In Part 3, the distribution of households' holdings by type of financial intermediary by which the investment is made—a bank or an investment house—is examined. In Part 4, we investigate the connection between households' investment in NIS money funds and the socioeconomic status of the locality where the household's bank branch is located. Part 5 focuses on developments in the proportion of funds that are kept in current accounts, most of which do not pay interest, in total household deposits in view of the increase in the Bank of Israel rate.

1. NIS deposits or NIS money funds and Makam?

From April 2022 to June 2023, the Bank of Israel raised its rate from near-zero to 4.75 percent. In January 2024, it lowered the rate to 4.5 percent and kept it there in all of 2024, making solid NIS investments more attractive. The increases in deposit interest, however, mirrored the upturns in the Bank of Israel rate only in part (Figure 1),⁷ especially in liquid deposits to short maturities. The question, then, is whether households turned to alternatives to bank deposits.

Figure 1: Central-bank rate compared with deposit interest and Makam yield⁸
Pct.



The data show that households invested more in deposits than in money funds and Makam directly⁹. Bank deposits and current accounts remained the main component of households' solid investments—86 percent of households' NIS 728 billion in total solid investment at the end of 2024 (Figure 2).

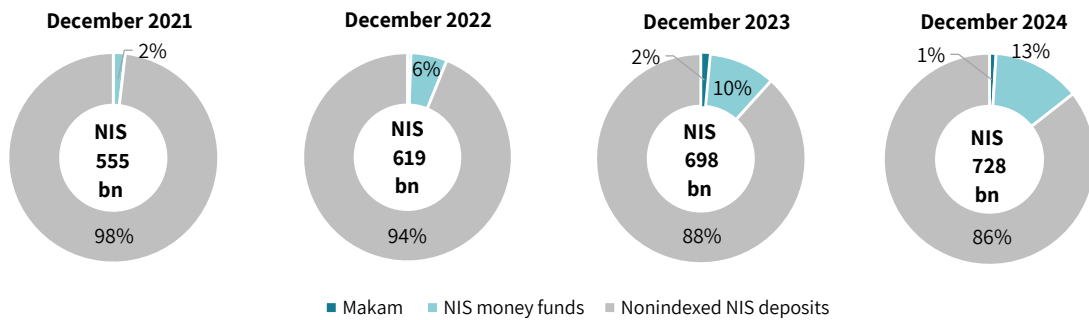
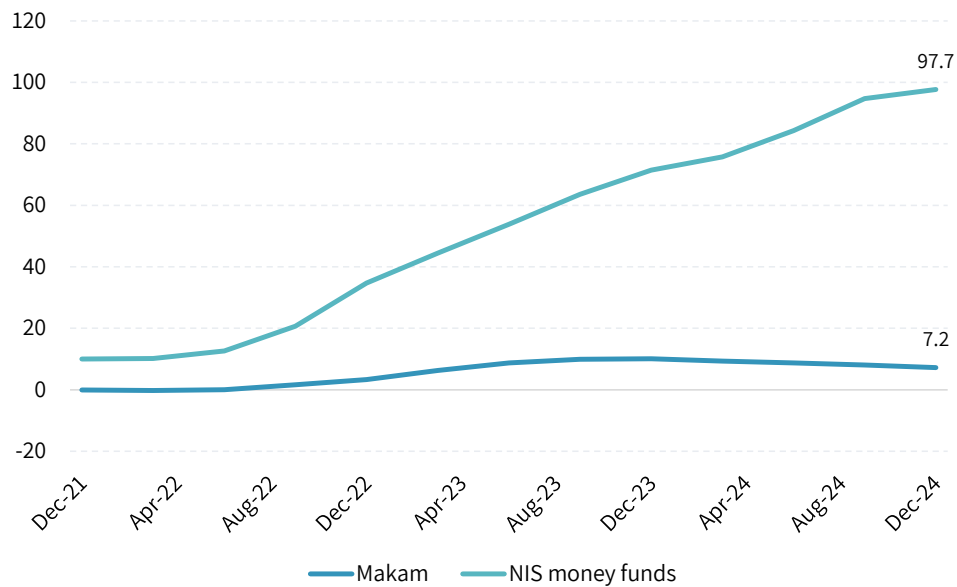
Money funds that deliver a yield similar to the Bank of Israel rate (4.5 percent at the present writing) raised tens of billions of NIS in the past year. The share of their assets that is held by households increased considerably, to NIS 98 billion, but this is only 13 percent of total household solid investment. Households' investments in Makam

⁷ For an article on the transmission of an increase in the Bank of Israel rate to household deposit interest, see Ben Z. Schreiber and Nimrod Segev, "Sector-Specific Monetary Policy Transmission to Deposit and Loan Rates," *Israel's Banking System, 2023*—box with an analysis of the performance of deposits in the household sector: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4717972

⁸ Deposit interest is expressed in annual terms and the Makam yield is shown as the annual yield to maturity. Notably, the figure does not include the yield on money mutual funds, which is ex post and not assured.

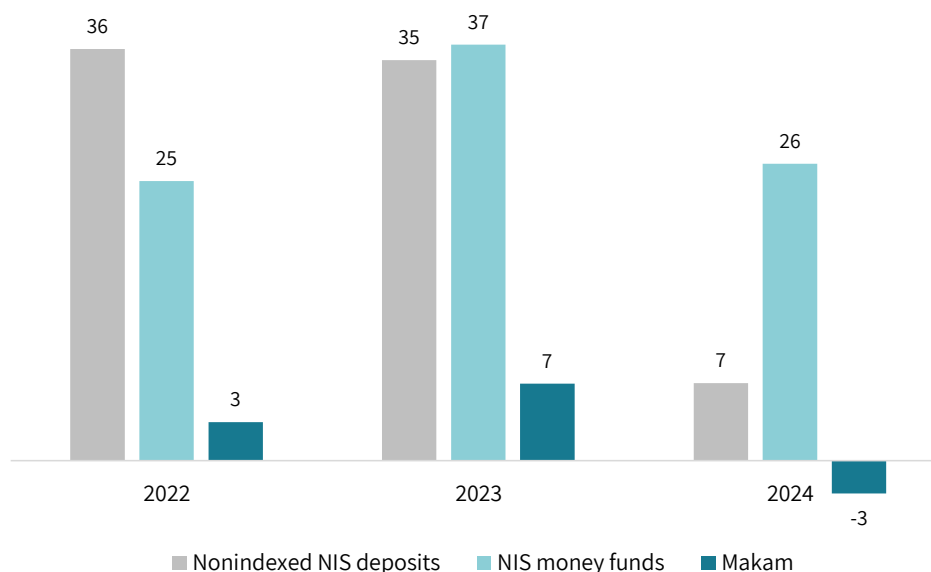
⁹ Makam account for most holdings in NIS money funds; therefore, households' holdings in NIS money funds are indirect holdings of Makam.

Figure 2: Distribution of households by solid NIS investment vehicles

Figure 3: Households' holdings of Makam and NIS money funds
Balances, NIS billion

Despite the paltry share of the money funds in total solid investments, the change in balances shows that households have been more inclined to invest in money funds in recent years than before. Thus, in 2024, they continued to invest in NIS money funds at the pace of previous years, at NIS 26 billion, whereas the growth rate of their deposits fell considerably, to only NIS 7 billion (Figure 4).

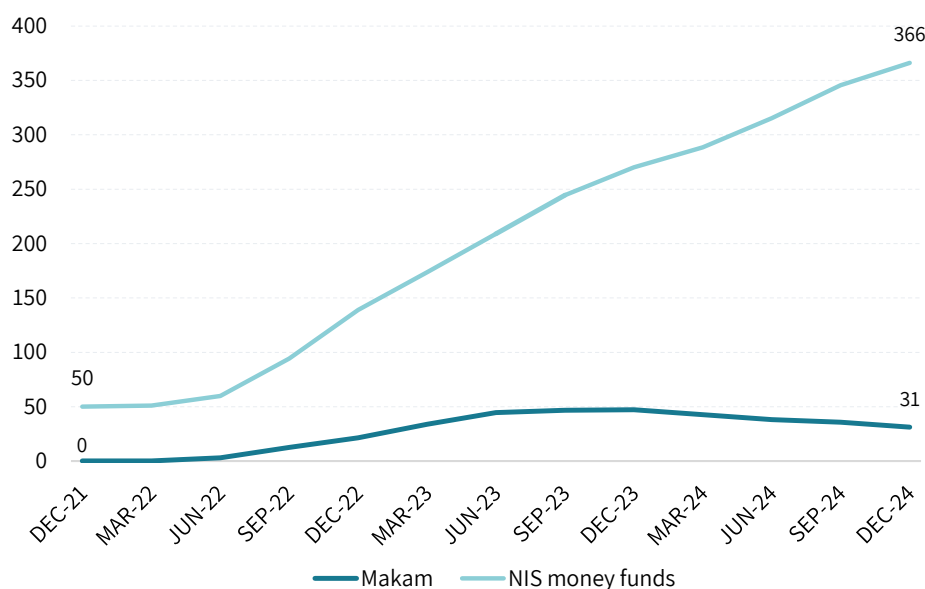
Figure 4: Annual change in households' balances in solid NIS vehicles
NIS billion



The number of household accounts that have holdings in NIS money funds or Makam in their securities accounts increased but still fell far short of the four million current accounts that had positive balances and bank deposits. At the end of 2024, NIS money funds were held in 366,000 accounts and Makam were held in 31,000 accounts (Figure 5).

To invest in money funds and Makam, one must open a securities account with the bank, a requirement that limits access to these investment vehicles. In addition, households need financial awareness or investment counseling to be aware of the possibility of investing in these products

Figure 5: Number of household trading accounts, by types of securities
Thousands



The Securities Authority is spearheading the introduction of “Time Funds,” new money funds that have characteristics similar to those of deposits such as assured yield and fixed maturities, and is seeking to expand the mechanism of distribution to households such that players who do not hold investment-consultant or

marketer licenses may also participate. The purpose of this initiative is to make the funds accessible to the public irrespective of the size of households' investment or the extent of their bargaining ability.¹⁰ Time funds may become a competitive and more accessible alternative to bank deposits, broadening the range of solid investment options for households.

To enhance banking-system customers' exposure to existing and new money funds and to Makam, and to improve comparability and competition with the banking system, a directive of the Banking Supervision Department, in conjunction with the Securities Authority, has been put together: Proper Conduct of Banking Business Directive 447,¹¹ the purpose of which is to make information about money funds and Makam accessible to bank customers.

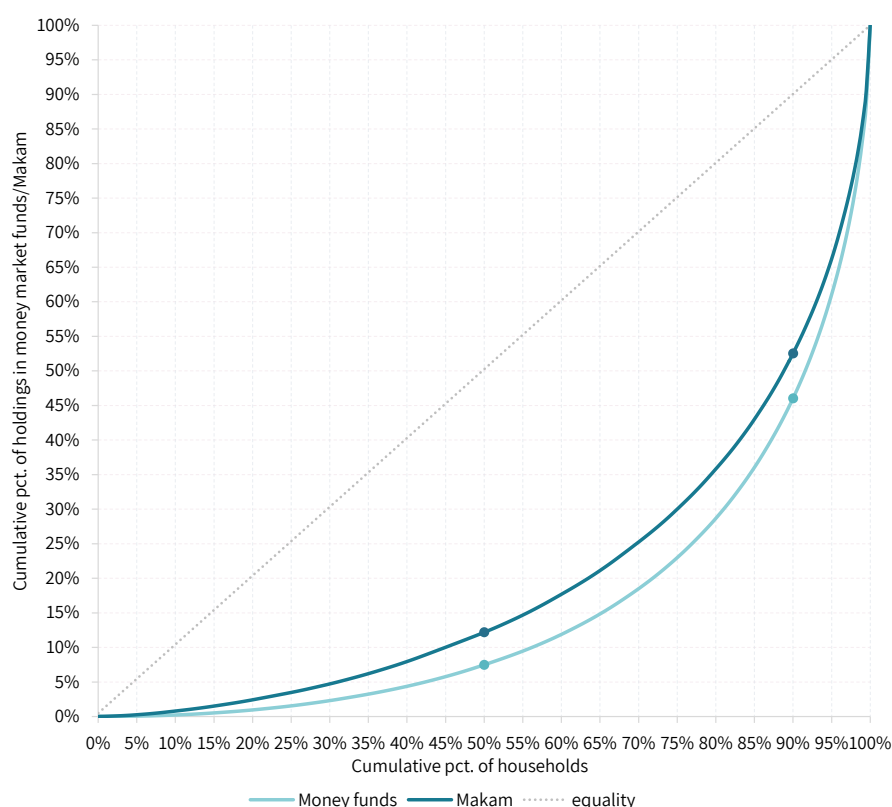
These steps, taken together, will help households to manage their money optimally and, in turn, will enhance the public's awareness of additional investment vehicles that will give them a return on their money.

2. Concentration of households' holdings in NIS money funds and Makam

The economic concentration of households in Israel, in which a small part of the population holds much of the national income and wealth, is also manifested in holdings in NIS money funds. High-income households tend to invest large sums in these funds and account for a large portion of their total value.

The data show that the 10 percent of households that made the largest investments hold 54 percent of the total value of the NIS money funds, whereas the 50 percent of households that have very small holdings in these funds account for only 7 percent of the total value (Figure 6). In the U.S., concentration of holdings in money funds is even higher (Figure 7).¹²

Figure 6: Lorenz curve: Cumulative distribution of households' holdings in money funds and Makam, December 2024

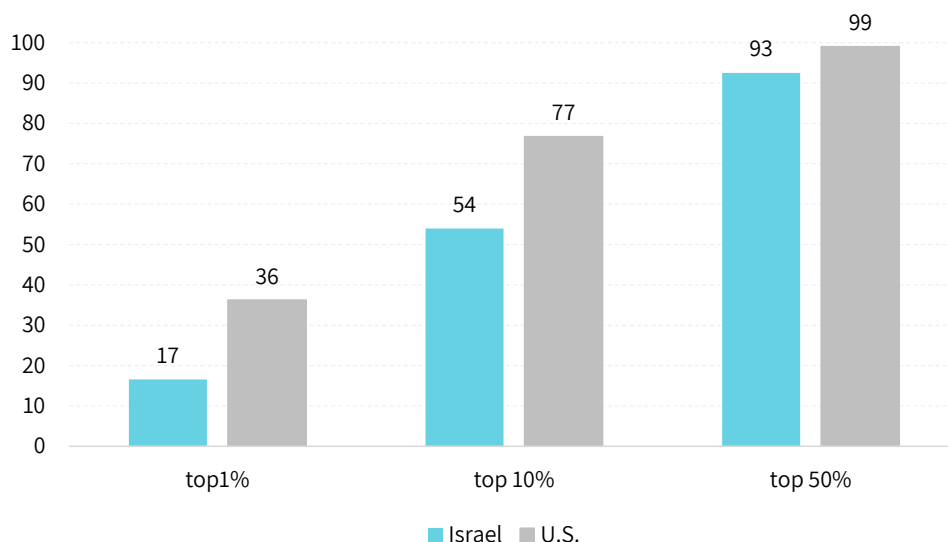


¹⁰ <https://www.new.isa.gov.il/nav-index/supervised-legislation/mutual-funds-bids>

¹¹ <https://www.boi.org.il/publications/pressreleases/30-12-24>

¹² Board of Governors of the Federal Reserve System (US), Money Market Fund Shares by Wealth Percentiles, retrieved from FRED, Federal Reserve Bank of St. Louis.

Figure 7: Concentration of household holdings in money funds, Israel vs. U.S.
Israel: December 2024; U.S.: September 2024, pct.

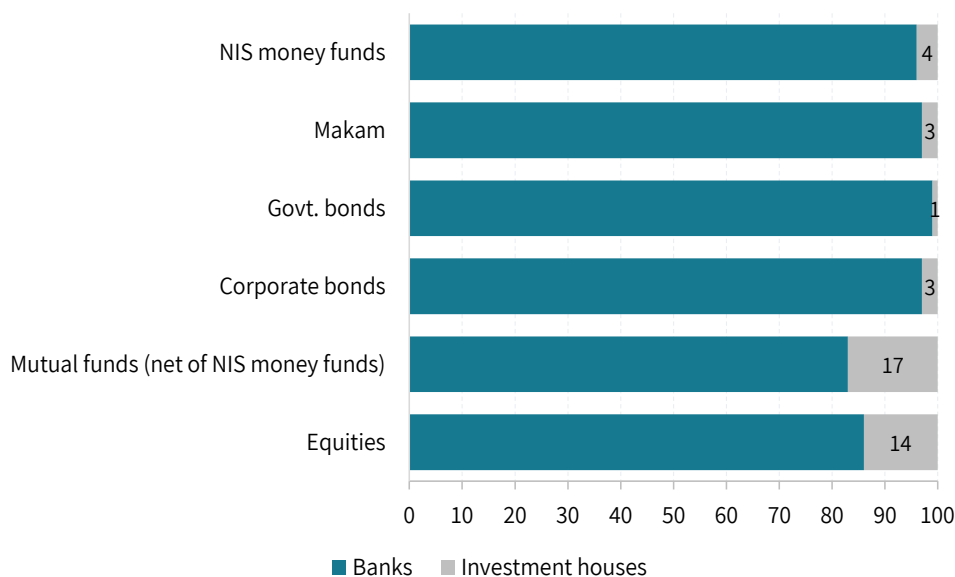


3. Types of financial intermediaries via which the investments are made

Most households keep their securities accounts with banks; only a small percent do this at investment houses. Thus, 96 percent of households' investment in money funds are made via bank accounts against only 4 percent by means of investment houses. In a vetting of households' investment portfolios, it was found that the share of accounts kept with investment houses is higher than for money funds in riskier assets but remains lower than the share of accounts kept with banks (Figure 8).

Customers usually prefer to work with banks because they perceive them as more convenient, reliable, and stable and because they have direct access to their current accounts, even though it is costlier to keep a securities account with a bank than with an investment house.

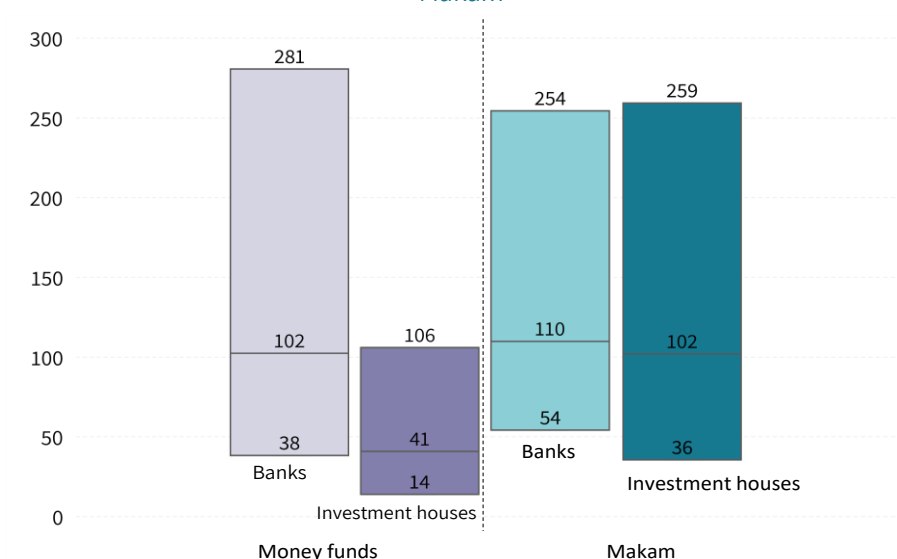
Figure 8: Distribution of number of households' accounts kept with banks/investment houses
December 2024, pct.



The data on the sums that households invest in money funds indicate that investments made via banks are larger than those made through investment houses (Figure 9): the median investment in money funds from household accounts kept with banks is NIS 102,000 as against only NIS 41,000 through investment houses. The 75th percentile of investment in money funds is NIS 281,000 from accounts kept with banks as against NIS 106,000 from accounts managed by investment houses.

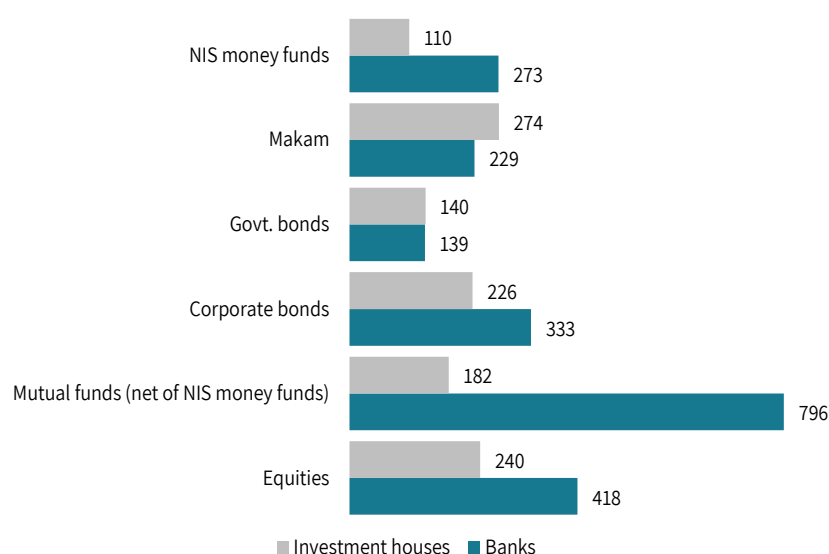
In Makam, which are held by only 31,000 household accounts, there is no major difference in investment size between banks and investment houses and the distribution of the sums resembles that of money funds managed by banks.

Figure 9: 25th percentile, median, and 75th percentile of value of household holdings in money funds and Makam



In most investment vehicles, the sums are larger in accounts managed by banks (Figure 10). Households that have large investment portfolios stay with their banks and avail themselves of their banks' consulting mechanisms,¹³ whereas households with small portfolios and high financial literacy lean toward investment houses in order to manage their securities portfolio at lower cost.

Figure 10: Average value of household account in different investment vehicles
NIS thousand, December 2024

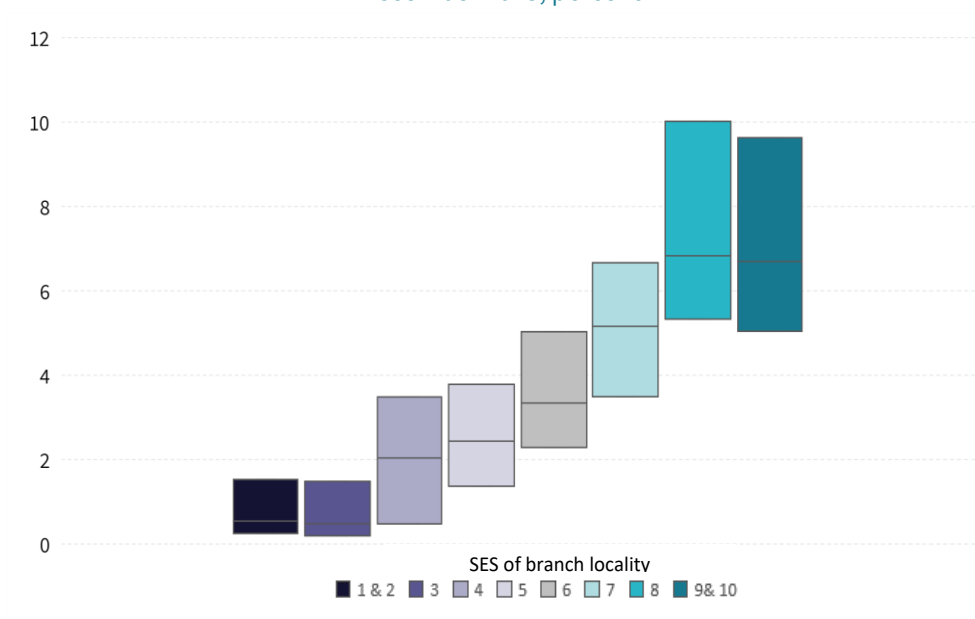


¹³ Most banks set a minimum size of securities portfolio to qualify for consulting services,

4. Household investments in money funds and Makam by socioeconomic status of locality of bank branch

To shed further light on investors in money funds, we examined the share of households that hold NIS money funds by the socioeconomic status (SES) of the locality of their bank branch.¹⁴ In our examination, we found that the share of households that have NIS mutual funds rises commensurate with the SES of the locality of their bank branch. Thus, in localities that rank 8 or higher on the SES scale, 10 percent of investment is made in NIS money funds (75th percentile). In contrast, in places that rank 5 and below, the share of investment is but a few percent (Figure 11).¹⁵

Figure 11: Share of households holding NIS money funds in bank branches, by SES of branch locality
December 2023, percent



Funds managed at branches that rank 8 or higher account for half of the total money value of the money funds and only around one-third of total household deposits.

Households that manage their accounts in branches in high-SES localities are more inclined to invest in money funds and deposits than are households that keep their accounts at branches that rank lower (Figure 12).

¹⁴ The SES of the location of the bank branch is scored from 1 (low) to 10 (high) on the scale established by the Central Bureau of Statistics. The figures presented are net of Jerusalem due to acute variance within the city.

¹⁵ The distribution of branches among localities accordance with SES accords with a Banking Supervision Department publication on detailed reports from the banks parsed by branches. The branches are distributed across seventy-four localities, each ranked in accordance with its SES score.

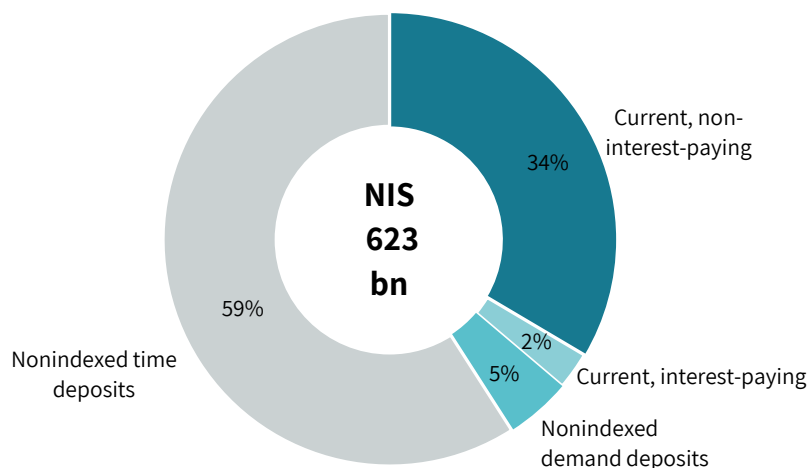
Figure 12: Distribution of balance of household deposits and NIS money funds at banks by SES of locality of bank branch, December 2023, pct.



5. Households' current-account balances and NIS deposits

At the end of 2024, households held NIS 623 billion in NIS deposits, including current accounts¹⁶—59 percent in time deposits, 5 percent in demand deposits, and 36 percent in current accounts, most of which do not pay interest (Figure 13).

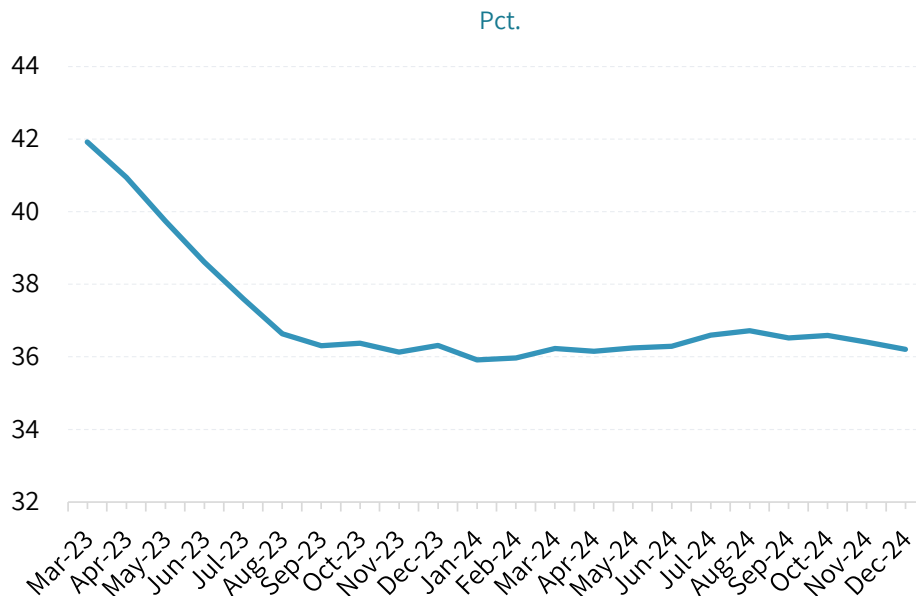
Figure 13: Distribution of household deposits, December 2024



¹⁶ For further information on the terms that different banks offer on current accounts and deposits, see the comparison feature at the Bank of Israel site: <https://www.boi.org.il/information/interestrates/compare>

With the rising Bank of Israel rate in the background, households diverted funds from their current accounts to interest-earning deposits, causing the share of current balances to decline from 42 percent to 36 percent between March and September 2023. From the fourth quarter of 2023 to the end of 2024, the share of current accounts in the total was basically unchanged and remained high,¹⁷ estimated on average at NIS 30,000–NIS 45,000 per household that maintained a positive balance (Figure 14).

Figure 14: Share of current accounts in household deposits



Conclusion

The increase in the Bank of Israel rate contributed to a shift of household funds from current accounts to interest-paying deposits. However, households still keep much of their savings in current accounts, most of which do not pay interest.

Although investments in money funds and Makam have increased, they account for only 14 percent of households' total solid investments, leaving most of the money in bank deposits.

Households that turn to money funds and Makam tend to keep their accounts in branches in high-SES localities and also appear to have stronger financial literacy. Most households manage their investments via bank accounts; those that turn to investment houses tend to have smaller investment portfolios.

¹⁷ Including interest-bearing current accounts, which typically pay low interest.