

Chapter 3

The Public's Financial Assets Portfolio

The value of the public's portfolio of financial assets rose by 10.7 percent in nominal terms during 2004 and reached a total of NIS 1,512.5 billion (Table 3.1) following an increase of 12.2 percent in 2003. The increase in the value of the portfolio in 2004 encompassed all assets, although the main contribution came from the share component (shares in Israel and abroad) whose value grew by 29.8 percent. The main factors that led to the rise in the value of shares in Israel during 2004 were the upsurge in real activity and the relatively calm security situation. As a result of the increase in the value of shares in Israel and abroad, the proportion of the share component of the asset portfolio was the highest since 2001, at a quarter of the value of the portfolio.

The value of the portfolio excluding shares rose by 5.6 percent in 2004 compared with an increase of 4.6 percent in 2003.

The size and the composition of the asset portfolio in 2004 was mainly affected by the following factors: the low inflation prevailing during the year and the expectations of price stability in the future, the continued implementation of the reforms in the capital market, and a restrictive fiscal policy that was reflected by a low level of government borrowing.

An examination of the asset portfolio excluding the share component shows that the multi-year trends in the indexation composition of the portfolio continued: a decrease in the proportion of CPI-indexed assets concurrent with an increase in the proportion of unindexed assets and foreign-currency assets.¹

1. MAIN DEVELOPMENTS

The value of the public's portfolio of financial assets rose by 10.7 percent in nominal terms during 2004 and totaled NIS 1,512.5 billion following a larger increase of 12.2 percent in 2003. The increase in the value of the portfolio in 2004 encompassed all

¹ The reference here and hereafter is to assets that are denominated or indexed to foreign currency.

Table 3.1
The Financial Asset Portfolio of the Public, 2000–2004

	Balance (NIS billion)				Composition (percent)				Change (percent)						
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Total assets	1,130.3	1,196.3	1,217.9	1,366.0	1,512.5	100.0	100.0	100.0	100.0	100.0	7.5	5.8	1.8	12.2	10.7
Shares in Israel	222.9	226.6	170.6	259.9	343.2	19.7	18.9	14.0	19.0	22.7	0.6	1.7	-24.7	52.4	32.0
Shares abroad	54.0	30.3	18.7	30.0	33.1	4.8	2.5	1.5	2.2	2.2	3.5	-43.9	-38.3	60.3	10.5
Total assets (excluding shares)	853.4	939.3	1,028.6	1,076.1	1,136.2	75.5	78.5	84.5	78.8	75.1	9.7	10.1	9.5	4.6	5.6
Assets by indexation						Composition (excl. shares) (percent)									
Unindexed assets	320.2	374.7	385.3	432.2	473.5	37.5	39.9	37.5	40.2	41.7	23.9	17.0	2.8	12.2	9.6
CPI-indexed assets	406.0	410.0	447.3	456.4	461.4	47.6	43.7	43.5	42.4	40.6	0.6	1.0	9.1	2.0	1.1
Assets in or indexed to foreign currency	127.2	154.6	196.0	187.4	201.3	14.9	16.5	19.1	17.4	17.7	10.2	21.5	26.8	-4.4	7.4
Assets by term to maturity^{a, b}						Composition (excl. shares) (percent)									
Short term	883.0	969.2	1,051.7	1,113.1	1,184.7	32.3	33.2	32.6	32.4	33.1	13.9	12.5	6.7	5.2	8.6
Medium term	285.5	321.3	342.8	360.6	391.6	46.9	46.4	46.5	46.4	45.9	11.0	8.5	8.8	5.7	5.3
Long term	413.9	449.3	488.7	516.8	543.9	20.8	20.5	20.9	21.2	21.0	6.1	8.2	10.9	7.0	5.7
Commercial banks						Composition (excl. shares) (percent)									
Unindexed local-currency deposits	422.6	443.9	461.5	462.9	466.6	49.5	47.3	44.9	43.0	41.1	3.0	5.0	4.0	0.3	0.8
CPI-indexed deposits	222.1	250.4	240.1	233.1	265.6	26.0	26.7	23.3	23.5	23.4	17.2	12.8	-4.1	5.4	4.9
Assets in or indexed to foreign currency	28.9	17.3	18.9	33.9	48.0	3.4	1.8	1.8	3.2	4.2	57.2	-40.1	9.2	79.0	41.6
CPI-indexed savings schemes	70.0	76.0	85.9	89.0	99.3	8.2	8.1	8.4	8.3	8.7	-24.7	8.6	13.1	3.6	11.6
Foreign-currency-indexed savings schemes	91.3	88.7	102.7	76.0	47.2	10.7	9.4	10.0	7.1	4.2	-9.3	-2.9	15.9	-26.0	-37.9
Unindexed savings schemes	7.8	7.4	6.9	5.3	3.4	0.9	0.8	0.7	0.5	0.3	17.7	-4.7	-6.2	-23.2	-36.2
Assets by institutional composition	2.5	4.1	6.9	5.5	3.1	0.3	0.4	0.7	0.5	0.3	31.8	61.9	69.3	-20.3	-43.4
Total institutions ^c	345.4	370.0	386.7	424.4	455.9	40.5	39.4	37.6	39.4	40.1	5.5	7.1	4.5	9.8	7.4
Provident funds	119.8	123.5	119.5	134.3	145.2	14.0	13.1	11.6	12.5	12.8	2.5	3.1	-3.2	12.4	8.1
Advanced study funds	42.0	47.8	46.9	54.4	61.4	4.9	5.1	4.6	5.1	5.4	11.5	13.8	-1.9	15.9	12.9
Established pension funds	105.4	109.4	119.7	120.6	124.5	12.4	11.6	11.6	11.2	11.0	3.7	3.8	9.4	0.8	3.2
New pension funds	7.5	10.7	14.4	18.9	23.1	0.9	1.1	1.4	1.8	2.0	41.3	42.5	35.0	31.6	21.9
Life insurance schemes: guaranteed yield	40.6	41.5	44.5	43.8	43.6	4.8	4.4	4.3	4.1	3.8	1.1	2.0	7.3	-1.4	-0.6
Life insurance schemes: profit sharing	30.1	37.1	41.7	52.3	58.1	3.5	3.9	4.1	4.9	5.1	16.5	23.3	12.5	25.6	11.0
The public directly	85.4	125.5	180.4	188.8	213.7	10.0	13.4	17.5	17.5	18.8	32.3	47.0	43.8	4.7	13.2

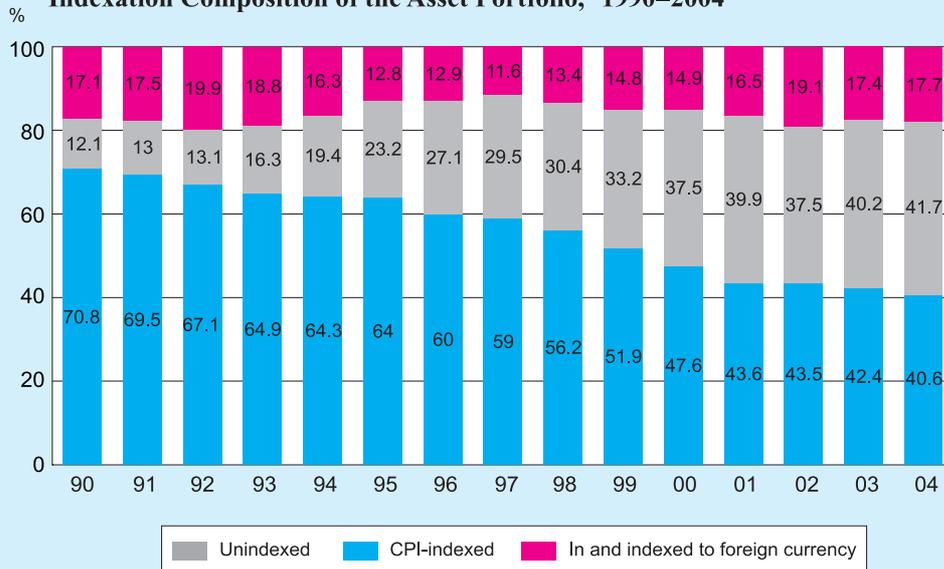
^a Excluding shares.

^b Deducted shares held by provident funds and life insurance schemes.

^c Engaged in contractual saving.

SOURCE: Based on banks' financial statements, and data from TASE and the Ministry of Finance.

Figure 3.1
Indexation Composition of the Asset Portfolio,^a 1990–2004



^a Excluding shares.

SOURCE: Bank of Israel.

assets, although the main contribution came from the share component (shares in Israel and abroad) whose value rose by 29.8 percent compared with an increase of 53 percent in 2003, mainly due to the upturn in share prices. Excluding the share component, the value of the asset portfolio rose by 5.6 percent in 2004 compared with 4.6 percent in 2003.

The main factors contributing to the rise in the value of shares in Israel were the upsurge in real activity and the assessment that this trend would continue.² Other contributory factors were the buoyant activity in foreign markets, the relatively calm security situation in 2004 and the chances of achieving a breakthrough in the peace process in the near future. Due to the rise in share prices in Israel and abroad, the proportion of shares in the asset portfolio reached its highest level since 2001, and amounted to approximately a quarter of the entire portfolio. Since the share component in the public's asset portfolio is notable for high volatility, the distribution of the portfolio by indexation, term to maturity and tradability will be examined below exclusive of the share component.

The main factors contributing to the development of the asset portfolio in 2004 were low inflation, the expectations of price stability in the future, which largely resulted from the credibility of monetary policy, the continuation of the reforms in the capital market and the foreign-currency market, and a controlled fiscal policy that was reflected by a low level of government borrowing.

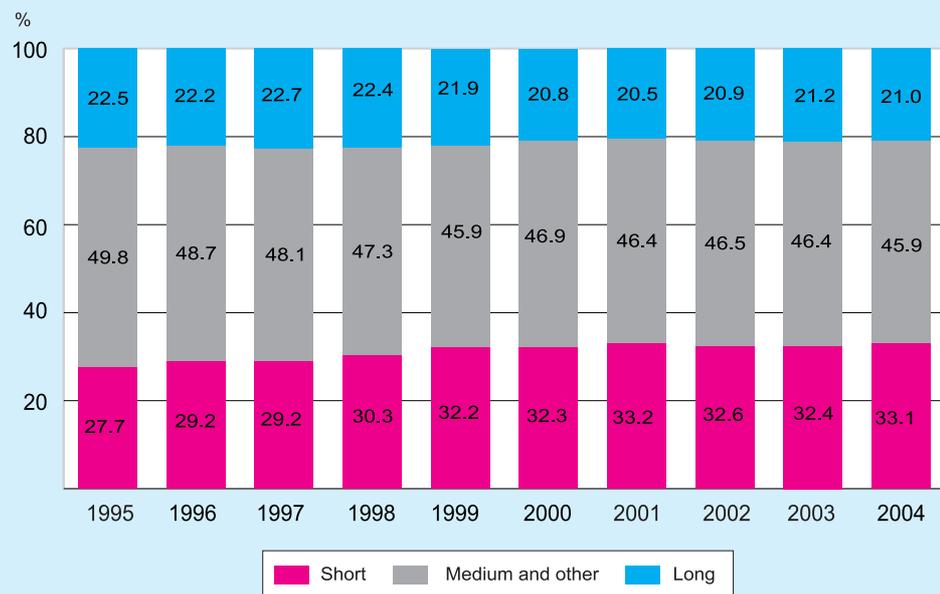
² The Companies and Businesses Survey for the last quarter of 2004 refers to this assessment.

An examination of the asset portfolio by indexation basis shows that the proportion of CPI-indexed assets fell in 2004 concurrent with an increase in the proportions of unindexed assets and foreign-currency assets. This development conformed to the trend that has characterized the indexation composition of the portfolio since the 1990s (Figure 3.1).³

The ability of monetary policy to lower the high inflation rates that prevailed during the 1990s and to maintain price stability over time, mainly during recent years, contributed to the increased credibility of monetary policy and was a highly important factor in determining the composition of the public's financial asset portfolio. As a result, the proportion of CPI-indexed assets in the portfolio has declined continually since the beginning of the 1990s and the proportion of unindexed assets has risen persistently, excepting a slight decrease in 2002 (Figure 3.1).

The moderate increase in the proportion of foreign-currency assets during 2004 marked a continuation of the trend that began at the end of the 1990s following the liberalization of the foreign-currency market. Were it not for the interest rate differential between Israel and abroad, which contracted continually in 2004 and is expected to decline in the future as well, and the implementation of a further stage in the tax reform at the beginning of 2005, the demand for foreign-currency assets would have been lower and their proportion in the portfolio would therefore have risen more moderately.

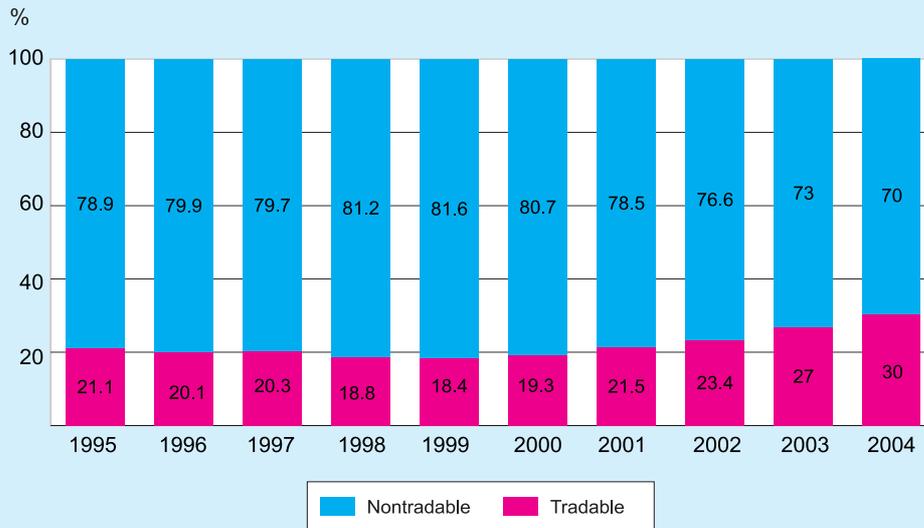
Figure 3.2
Distribution of the Asset Portfolio (Excluding Shares), by Term to Maturity, 1995–2004



SOURCE: Bank of Israel.

³ The increase in the proportion of foreign-currency assets began at the end of the 1990s.

Figure 3.3
Composition of the Asset Portfolio,^a by Tradability, 1995-2004



^a Excluding shares.
 SOURCE: Bank of Israel Monetary Department.

An examination of the asset portfolio by term-to-maturity in 2004 shows that the downtrend in the proportion of short-term assets and the upturn in the proportions of medium and long-term assets ceased. A long-term perspective shows a lack of uniformity during the last decade (Figure 3.2). Until 2001, the proportion of short-term assets rose at the expense of the proportions of medium and long-term assets, which fell. This trend reversed in 2002 and 2003, but resumed in 2004.

The proportion of tradable assets in the portfolio increased in 2004, continuing a trend that began in 2000 (Figure 3.3). This trend intensified during the last two years due to the tax reform that went into effect at the beginning of 2003, under which taxation was imposed on all forms of tradable and non-tradable forms of saving, and to the reform of the pension funds that began in mid-2003 and set in motion a gradual decline in the proportion of the funds' investment in non-tradable earmarked bonds and a rise in the proportion of tradable assets (government bonds and shares). The reform that the Bachar Committee recommended with respect to the activity of institutional investors, which is due to go into effect in the near future and lead to a growth in competition in the capital market, is also expected to help deepen the tradability of the asset portfolio.

The Bank of Israel's policy of reducing its interest rate, together with a fiscal policy that led to resolute action in reducing the budget deficit in 2004 and is expected to do so in the future as well, had the effect of reducing nominal and real yields on all terms (mainly in the second half of the year) compared with 2003. The fall in yields was reflected by a rise in the value of CPI-indexed and unindexed bonds and Treasury bills. A large 39 percent increase compared with 2003 was recorded in the balance of

Treasury bills held by the public in 2004, to a total of NIS 65 billion. The positive growth trend in the balance of Treasury bills during recent years resulted from two developments – an increase on the supply side due to the removal of the Treasury bill ceiling, and an increase on the demand side, due to the reforms in the capital market and the downturn in the Bank of Israel's interest rate. This development in Treasury bills contributed to an increase in the tradability and liquidity of the asset portfolio.

2. THE INDEXATION COMPOSITION OF THE ASSET PORTFOLIO

Although the proportion of unindexed assets (excluding shares) in the portfolio rose in 2004, the increase was more moderate than in 2003. The proportion of such assets amounted to 41.7 percent in 2004, compared with 37.5 percent in 2002 and 40.2 percent in 2003.

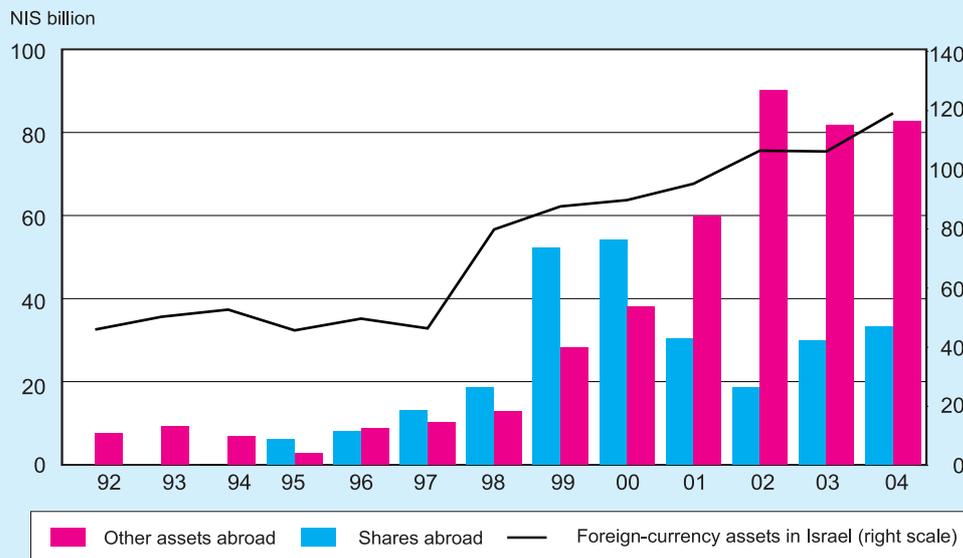
Table 3.2
Distribution of Assets, by Indexation (excluding shares), 2000–2004

	(current prices)									
	Balance (NIS billion)					Composition (percent)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Total ^a	853.4	939.3	1,028.6	1,076.1	1,136.2	100.0	100.0	100.0	100.0	100.0
Unindexed assets	320.2	374.7	385.3	432.2	473.5	37.5	39.9	37.5	40.2	41.7
Cash and liquid deposits	57.7	68.1	62.4	73.1	79.0	6.8	7.2	6.1	6.8	7.0
Term deposits	190.2	216.8	210.1	211.8	220.9	22.3	23.1	20.4	19.7	19.4
Treasury bills	26.2	27.0	40.5	47.1	65.3	3.1	2.9	3.9	4.4	5.7
Gilon and Shaha bonds	43.6	58.9	65.5	94.7	105.2	5.1	6.3	6.4	8.8	9.3
Savings schemes	2.5	4.1	6.9	5.5	3.1	0.3	0.4	0.7	0.5	0.3
CPI-indexed assets	406.0	410.0	447.3	456.4	461.4	47.6	43.7	43.5	42.4	40.6
Savings schemes	91.3	88.7	102.7	76.0	47.2	10.7	9.4	10.0	7.1	4.2
CPI-indexed deposits	55.4	55.2	58.4	70.5	82.5	6.5	5.9	5.7	6.6	7.3
Tradable bonds	76.5	87.8	89.7	105.0	123.8	9.0	9.3	8.7	9.8	10.9
Other assets	182.9	178.4	196.5	205.0	207.8	21.4	19.0	19.1	19.1	18.3
Assets in and indexed to										
foreign currency	127.2	154.6	196.0	187.4	201.3	14.9	16.5	19.1	17.4	17.7
Assets in Israel	89.2	94.7	105.9	105.6	118.5	10.5	10.1	10.3	9.8	10.4
Pamah (resident foreign-currency) restitutions deposits	15.3	16.9	20.7	21.6	23.0	1.8	1.8	2.0	2.0	2.0
Other Pamah (resident foreign-currency) deposits	52.6	56.5	62.8	64.6	73.3	6.2	6.0	6.1	6.0	6.5
Foreign-currency-indexed deposits	2.8	3.4	4.6	4.8	4.8	0.3	0.4	0.4	0.4	0.4
Tradable bonds	10.8	10.5	10.9	9.3	14.0	1.3	1.1	1.1	0.9	1.2
Savings schemes	7.8	7.4	6.9	5.3	3.4	0.9	0.8	0.7	0.5	0.3
Assets abroad	38.0	60.0	90.1	81.8	82.8	4.5	6.4	8.8	7.6	7.3
Deposits abroad	30.0	41.9	55.8	47.8	50.3	3.5	4.5	5.4	4.4	4.4
Securities abroad (excluding shares)	8.0	18.0	34.3	34.0	32.5	0.9	1.9	3.3	3.2	2.9

^a Excluding shares in Israel and abroad.

SOURCE: Based on banks' financial statements, and data from TASE and the Ministry of Finance.

Figure 3.4
Israel's Foreign-Currency Assets in Israel and Abroad, 1992–2004



SOURCE: Bank of Israel Monetary Department.

An examination of the unindexed components of the portfolio during 2004 reveals a mixed trend in the development of the different items (Table 3.2). While the proportion of Treasury bills, unindexed bonds, cash and liquid deposits increased, these increases were partly offset by a decrease in the proportion of saving plans and time deposits.

Concurrent with the rise in the proportion of unindexed assets, the downtrend in the proportion of CPI-indexed assets continued in 2004. As a result, the proportion of CPI-indexed assets in the portfolio amounted to 40.6 percent at the end of 2004 compared with 42.4 percent at the end of 2003.

The trend of redemptions from the CPI-indexed saving plans continued in 2004. This trend began in 2003 as a result of the tax reform. The value of this component fell by NIS 28.8 billion, following a similar decrease in 2003. Due to these decreases, the proportion of saving plans amounted to 4.2 percent in 2004 compared with 10 percent in 2002 and 7.1 percent in 2003. Concurrently, an NIS 12 billion increase in CPI-indexed deposits was recorded in 2004, indicating that the public moved part of their money from saving plans to tradable indexed and unindexed assets (bonds and Treasury bills).

The proportion of foreign-currency assets rose by 0.3 percentage points to 17.7 percent in 2004, after dropping by 1.7 percentage points in 2003. The value of the foreign-currency component in the portfolio rose by 7.4 percent in 2004, more than the 0.8 percent depreciation of the shekel against the currency basket and the 1.6 percent appreciation of the shekel against the dollar. The increase in the value of

the foreign-currency component thereby derived from a positive accrual that was mainly apparent in deposits abroad and foreign-currency deposits in Israel. The large decrease in trading in exchange rate derivatives and the favorable development of other indicators from the foreign-currency market in the course of the year⁴ show that the previously mentioned development of the foreign-currency component did not reflect an increase in exchange rate risk, and actually resulted from the process of portfolio adjustment. This adjustment to a range of asset types is enabling the public to diversify risk, a process that can also be attributed to the stage of the tax reform that is due to be implemented in 2005. In addition, the growth in demand for foreign-currency assets may have contributed to a contraction of the interest rate differential between Israel and abroad in the course of the year.

The liberalization of the foreign-currency market that began at the end of the 1990s expanded the range of foreign-currency asset types available to Israeli residents when investing in foreign currency and in assets abroad. This enabled the public to diversify the risk inherent in investment in local assets. As a result, the proportion of foreign-currency assets in the portfolio gradually rose, and in 2004 reached 17.7 percent compared with only 11.6 percent at the end of the 1990s. (The development of foreign-currency-denominated and indexed assets can be seen in Figure 3.4.) This development had the effect of increasing the asset portfolio value's sensitivity to exchange rate adjustments.

Another stage of the tax reform due to go into effect in 2005, under which the tax discrimination between foreign and local securities will be abolished, could favorably influence the size and proportion of the foreign-currency component in the portfolio. As a result of the reform, the public are expected to increase their investments in foreign securities (foreign bonds and shares), although the process of portfolio adjustment is expected to be gradual and dependent on the soundness of the markets in Israel.

The development of the composition of the asset portfolio in 2004 was not uniform in the course of the year. During the first half of the year, an increase was recorded in real and nominal yields concurrent with a rise in inflation and inflation expectations for all terms, which was mainly supported by the reduction in the Bank of Israel's interest rate and the rise in the exchange rate.⁵ Against the background of these developments, the proportions of unindexed assets and CPI-indexed assets fell, and the proportion of foreign-currency assets rose.

During the second half of the year, the inflation environment became more moderate and the level of uncertainty declined. Real and nominal yields fell concurrent with a drop in inflation expectations for all terms. In addition, the shekel appreciated against the dollar and the currency basket despite the contraction of the interest rate differentials between Israel and abroad. As a result of these developments, the trend in unindexed assets and foreign-currency-indexed assets changed direction compared with the first

⁴ See Chapter 4 for details.

⁵ See Chapter 2 for details of these developments.

half of the year, while the decrease in the proportion of CPI-indexed assets intensified. The credibility of fiscal policy, which increased with time due to the government's clear determination to attain its targets and promote reforms in the capital market, may also have contributed to the change in the trends in the development of assets.

The development of the local and overseas share component during 2004 was not uniform either. The value of this component during the year reflected a trend similar to that in the development of the stock indexes in Israel and abroad. The value of the local share component rose during the first half of the year, then fell until October. But since the upturn in the stock market resumed towards the end of the year, the value of the local (Israeli) share component increased. The development in shares abroad reflected a similar trend during the year, although the timing of the changes in trend differed slightly from that in Israel.

The development of the public's asset portfolio is of major importance in the management of monetary policy. However, it is difficult to discern changes in the public's preferences on the basis of the portfolio's development, for two main reasons: (1) A change in the value of the asset portfolio can derive from a change in the prices of the assets in the portfolio as well as from a (positive or negative) accrual, and the change in the portfolio cannot always be apportioned to both these factors; (2) The composition of the accrual in the asset portfolio can reflect risk diversification by investors as well as the public's response to a change in the risk of certain assets. For example, a positive accrual in assets abroad can reflect the diversification of risk by investors in Israel or, in different circumstances, could be indicative of a decline in the credibility of the local currency.

Nevertheless, monitoring of the pace of portfolio adjustment and the size of the changes in the portfolio, together with other indicators from the financial markets, can help in identifying changes in the public's expectations and preferences.

3. COMPOSITION OF THE ASSET PORTFOLIO BY TERM TO MATURITY

The proportion of short-term assets (excluding shares)⁶ in the portfolio rose during 2004, while the proportion of medium and long-term assets fell. This development had the effect of halting the downtrend in the proportion of short-term assets accompanied by an increase in the proportion of medium and short-term assets that began in 2002. The proportion of short-term assets in the portfolio amounted to 33.1 percent at the end of 2004. The proportions of medium and long-term assets amounted to 45.9 percent and 21 percent respectively (Table 3.3).

The increase in the proportion of short-term assets during 2004 largely derived from the rise in the proportion of Treasury bills, foreign-currency deposits and liquid

⁶ The asset portfolio by term-to-maturity was examined exclusive of the share component due to the high volatility typical of this component, and mainly because of the difficulty in classifying shares by term-to-maturity.

Table 3.3
Distribution of the Public's Asset Portfolio, by Term to Maturity (excluding shares),
2000–2004

	(current prices)									
	Balance (NIS billion)					Composition (percent)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Total ^a	883.0	969.2	1,051.7	1,113.1	1,184.7	100.0	100.0	100.0	100.0	100.0
Short-term assets	285.5	321.3	342.8	360.6	391.6	32.3	33.2	32.6	32.4	33.1
Liquid local-currency assets	49.6	56.8	53.1	62.8	69.2	5.6	5.9	5.1	5.6	5.8
Unindexed deposits	155.7	171.4	173.3	173.9	172.6	17.6	17.7	16.5	15.6	14.6
CPI-indexed deposits	0.1	0.0	0.0	0.2	0.5	0.0	0.0	0.0	0.0	0.0
Pamah (resident foreign-currency deposits)	58.3	66.0	74.1	76.0	85.2	6.6	6.8	7.0	6.8	7.2
Patzam (exchange-rate-indexed time deposits)	1.6	2.4	2.7	2.8	2.4	0.2	0.3	0.3	0.2	0.2
Treasury bills	20.1	24.6	39.6	45.0	61.6	2.3	2.5	3.8	4.0	5.2
Medium-term and other assets	413.9	449.3	488.7	516.8	543.9	46.9	46.4	46.5	46.4	45.9
Savings schemes	101.6	100.1	116.5	86.8	53.8	11.5	10.3	11.1	7.8	4.5
Unindexed deposits	29.1	36.8	29.3	32.6	41.6	3.3	3.8	2.8	2.9	3.5
CPI-indexed deposits	28.8	17.3	18.9	33.7	47.5	3.3	1.8	1.8	3.0	4.0
Foreign-currency-indexed deposits	0.5	0.3	0.2	0.5	0.9	0.1	0.0	0.0	0.0	0.1
Pamah (resident foreign-currency deposits)	9.5	7.3	9.0	9.8	10.8	1.1	0.8	0.9	0.9	0.9
Bonds	46.7	59.8	63.6	93.1	112.5	5.3	6.2	6.0	8.4	9.5
Investment abroad (excl.shares)	35.9	56.3	84.8	71.5	70.3	4.1	5.8	8.1	6.4	5.9
Provident funds	119.8	123.5	119.5	134.3	145.2	13.6	12.7	11.4	12.1	12.3
Advanced study funds	42.0	47.8	46.9	54.4	61.4	4.8	4.9	4.5	4.9	5.2
Long-term assets	183.6	198.6	220.2	235.7	249.2	20.8	20.5	20.9	21.2	21.0
Established pension funds	105.4	109.4	119.7	120.6	124.5	11.9	11.3	11.4	10.8	10.5
New pension funds	7.5	10.7	14.4	18.9	23.1	0.8	1.1	1.4	1.7	1.9
Life insurance plans										
Guaranteed-yield	40.6	41.5	44.5	43.8	43.6	4.6	4.3	4.2	3.9	3.7
Profit-sharing	30.1	37.1	41.7	52.3	58.1	3.4	3.8	4.0	4.7	4.9

^a Excluding shares in Israel and abroad.

SOURCE: Based on banks' financial statements, and data from TASE and the Ministry of Finance.

assets. These increases were partly offset by a decrease in the proportion of unindexed deposits. The rise in the proportion of Treasury bills in the portfolio resulted from a continued increase in the supply of Bank of Israel Treasury bills since the Treasury bill ceiling was lifted in 2002. Concurrently, the public's demand for Treasury bills appears to have grown due to the tradability advantage, which is more notable in a low interest rate environment, and also as result of the Bank of Israel's continued expansion of the Treasury bill market.

An examination of the portfolio of medium-term assets shows that the value of all items increased, except for the saving plan item, which contracted to a considerable extent. Large increases were recorded in CPI-indexed deposits and bonds, and their proportions in the portfolio rose at similar rates of approximately one percentage point.

As stated, the proportion of the long-term asset portfolio fell in 2004, by a slight 0.2 percentage points and in contrast to the upturn in 2003 and 2002. Assets of the new

pension funds were notable for a 22 percent increase in the course of the year, mainly due to a positive accrual. At the same time, the assets of the established pension funds rose by a more moderate 3 percent. The proportion of (new and established) pension funds among total long-term assets remained unchanged during recent years, at 60 percent.

4. DISTRIBUTION OF THE ASSET PORTFOLIO BY TRADABILITY

The value of the majority of tradable assets in the public's asset portfolio increased in 2004. The proportion of these assets in the portfolio rose by 3.0 percentage points to 30 percent, after rising by 3.6 percentage points in 2003 (Table 3.4). The increase in

Table 3.4
Tradability of Asset Portfolio (excluding shares), 2000–2004

	(current prices)									
	Balance (NIS billion)					Composition (percent)				
	2000	2001	2002	2003	2004	2000	2001	2002	2003	2004
Total ^a	853.4	939.3	1028.6	1076.1	1136.2	100.0	100.0	100.0	100.0	100.0
Tradable assets	165.1	202.2	240.9	290.1	340.7	19.3	21.5	23.4	27.0	30.0
Unindexed assets	69.8	85.9	106.0	141.8	170.5	8.2	9.1	10.3	13.2	15.0
Treasury bills	26.2	27.0	40.5	47.1	65.3	3.1	2.9	3.9	4.4	5.7
Gilon and Shahaar bonds	43.6	58.9	65.5	94.7	105.2	5.1	6.3	6.4	8.8	9.3
CPI-indexed assets	76.5	87.8	89.7	105.0	123.8	9.0	9.3	8.7	9.8	10.9
Tradable bonds	76.5	87.8	89.7	105.0	123.8	9.0	9.3	8.7	9.8	10.9
Assets in and indexed to foreign currency	18.7	28.5	45.2	43.3	46.5	2.2	3.0	4.4	4.0	4.1
Tradable bonds	10.8	10.5	10.9	9.3	14.0	1.3	1.1	1.1	0.9	1.2
Securities abroad (excl. shares)	8.0	18.0	34.3	34.0	32.5	0.9	1.9	3.3	3.2	2.9
Non-tradable assets	688.5	737.2	787.8	786.0	795.5	80.7	78.5	76.6	73.0	70.0
Unindexed assets	250.4	288.9	279.4	290.4	303.1	29.3	30.8	27.2	27.0	26.7
Cash and liquid deposits	57.7	68.1	62.4	73.1	79.0	6.8	7.2	6.1	6.8	7.0
Term deposits	190.2	216.8	210.1	211.8	220.9	22.3	23.1	20.4	19.7	19.4
Savings schemes	2.5	4.1	6.9	5.5	3.1	0.3	0.4	0.7	0.5	0.3
CPI-indexed assets	329.6	322.2	357.6	351.5	337.6	38.6	34.3	34.8	32.7	29.7
Savings schemes	91.3	88.7	102.7	76.0	47.2	10.7	9.4	10.0	7.1	4.2
CPI-indexed deposits	55.4	55.2	58.4	70.5	82.5	6.5	5.9	5.7	6.6	7.3
Other assets ^b	182.9	178.4	196.5	205.0	207.8	21.4	19.0	19.1	19.1	18.3
Assets in and indexed to foreign currency	108.4	126.1	150.8	144.1	154.8	12.7	13.4	14.7	13.4	13.6
Pamah (resident foreign-currency) restitutions deposits	15.3	16.9	20.7	21.6	23.0	1.8	1.8	2.0	2.0	2.0
Other Pamah (resident foreign-currency)	52.6	56.5	62.8	64.6	73.3	6.2	6.0	6.1	6.0	6.5
Foreign-currency-indexed deposits	2.8	3.4	4.6	4.8	4.8	0.3	0.4	0.4	0.4	0.4
Savings schemes	7.8	7.4	6.9	5.3	3.4	0.9	0.8	0.7	0.5	0.3
Deposits abroad	30.0	41.9	55.8	47.8	50.3	3.5	4.5	5.4	4.4	4.4

^a Excluding shares in Israel and abroad.

^b Assets held by provident and pension funds and life insurance schemes—mainly earmarked bonds.

SOURCE: Based on banks' financial statements, and data from TASE and the Ministry of Finance.

the proportion of Treasury bills and tradable bonds contributed most to the growth in the proportion of tradable assets during 2004.

One of the factors that contributed to the growth in the proportion of tradable bonds was the reform of the pension funds that began in mid-2003. Under the reform, the proportion of the new and established pension funds' assets that are invested in earmarked bonds is expected to decrease. This trend began in 2004 when the pension funds' investment in tradable assets, principally tradable government bonds, increased. An increase was also recorded in the funds' holding ratio of non-tradable corporate bonds.

The decline in the proportion of non-tradable assets from 73 percent in 2003 to 70 percent in 2004 mainly reflected the decrease in the proportion of CPI-indexed saving plans and in the proportion of other assets, principally earmarked bonds. Also contributing to the decline was the decrease in the proportion of non-tradable unindexed assets, mainly time deposits and saving plans.

The high tradability of the asset portfolio is helping to increase the efficiency of the capital market. A high level of efficiency and tradability in the capital market is reflected mainly by low volatility in the prices of financial assets, a high degree of flexibility in the allocation of sources and low costs.