

A. The public's financial asset portfolio

The balance of the asset portfolio held by the public increased in 2021 by about 14 percent, a higher rate than the average in recent years. This was mainly due to price increases in the equity markets in Israel and abroad, and growth in the cash and deposits component. The portfolio as a share of GDP also increased markedly this year (about 10 percentage points).

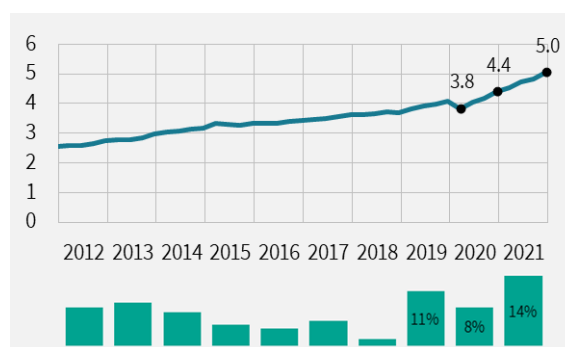
1. The total asset portfolio

The balance of the asset portfolio held by the public increased significantly in 2021, further to the trend that began in 2019.

The balance of the financial asset portfolio held by the public increased by about 14 percent (about NIS 638 billion) in 2021, to about NIS 5 trillion at the end of the year. The increase since the fourth quarter of 2020 totals about NIS 1.2 trillion.

The growth rate of the portfolio in 2021 was higher than the average of the past decade (an average of about 6 percent per year).

Figure 1.1: The Public's Financial Asset Portfolio, 2012–2021



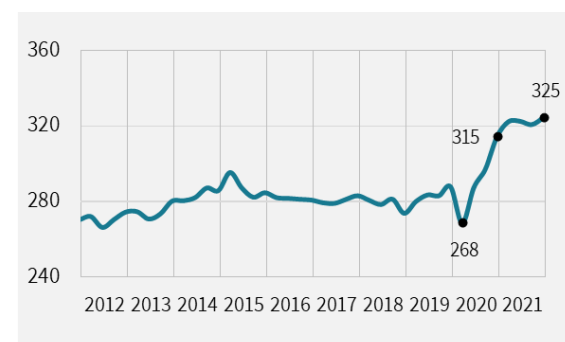
SOURCE: Bank of Israel data

The balance of the asset portfolio held by the public as a share of GDP reached an all-time high.

The asset portfolio as a share of GDP increased by about 10 percentage points, to about 325 percent at the end of the year. Most of the increase took place in the first quarter. The increase is attributed partly to a greater increase in the portfolio's balance (about 14 percent) than in GDP (about 11 percent in current prices).

The increase is significantly greater than the average between 2012 and 2019 (about 2.2 percentage points).

Figure 1.2: Balance of the Asset Portfolio Percent of GDP



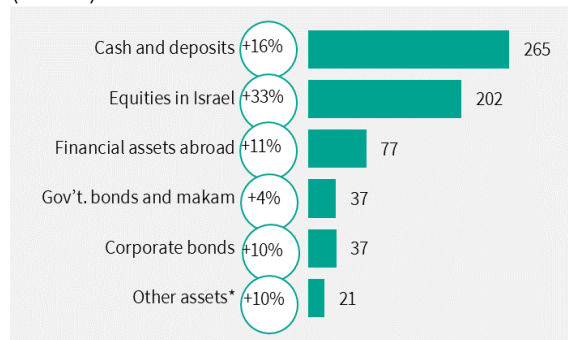
SOURCE: Bank of Israel data

The increase in the balance of the portfolio was typical of all components in the portfolio, with the equities and cash and deposits components particularly prominent.

The balance of cash and deposits increased by about NIS 265 billion (16 percent) during 2021. The balance of equities in Israel increased significantly, by about NIS 202 billion (33 percent). The balance of financial assets abroad also increased, by about 11 percent, in view of price increases in equity markets in Israel and abroad.

Figure 1.3: Balance of Assets in the Portfolio, 2020

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



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

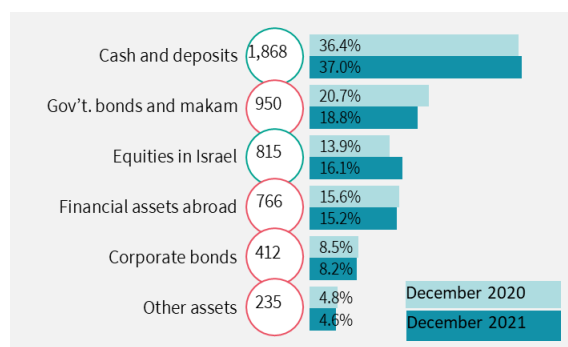
SOURCE: Bank of Israel data

There was a marked change in the composition of assets in the portfolio—a significant increase in the weight of equities in Israel and a decline in the weight of government bonds and makam.

The weight of equity holdings in Israel increased by about 2 percentage points, to about 16 percent of the entire portfolio at the end of the year. The weight of holdings of cash and deposits increased by about 0.6 percentage points, to about 37 percent.

In contrast, the weight of holdings of government bonds and makam declined by about 2 percentage points to about 19 percent of the portfolio. Most of the decline was due to a decline in holdings of tradable government bonds and makam.

Figure 1.4: Distribution of Assets in the Portfolio in 2020 and in 2021 (columns) and asset balances in NIS billion in 2021 (circles)



SOURCE: Bank of Israel data

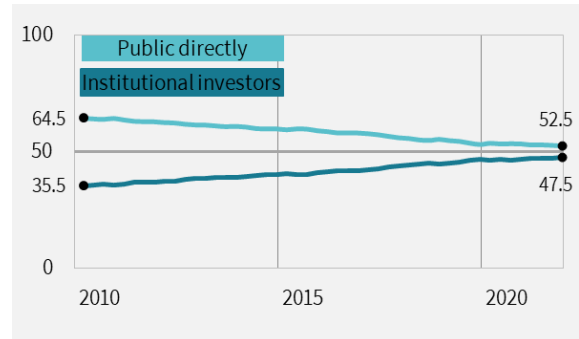
2. Management of assets The portfolio

The share of the portfolio managed by institutional investors continued to increase this year, further to the long-term trend.

The weight of the portfolio managed by the institutional investors increased by about 1 percentage point to about 47.5 percent of the total portfolio in 2021. There was an increase in the level of balances, both in the portfolio managed by the institutional investors (NIS 342 billion; 16.6 percent), and in the portfolio held directly by the public (NIS 296 billion; 12.6 percent).

Figure 1.5: Distribution of Holdings in the Portfolio by Type of Manager

Percentage of the total portfolio



SOURCE: Bank of Israel data

In the distribution of holdings by type of manager, the weight of the mutual funds increased, while there was a decline in the share of the portfolio held directly by the public excluding the mutual funds.

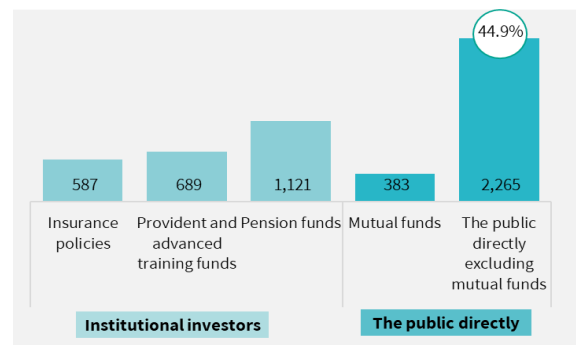
There was some change in the portion of the portfolio held directly by the public. The portion of the portfolio managed by the mutual funds increased by about 0.4 percentage points relative to 2020. In contrast, the share of the portfolio held directly by the public excluding mutual funds declined by about 1.2 percentage points.

In the part of the portfolio managed by the institutional investors, all components increased. Provident funds and advanced training funds were particularly prominent (0.5 percentage points).

The portfolio managed by the institutional investors totaled about NIS 2.4 trillion, of which about 46.8 percent is managed by pension funds, about 28.7 percent is managed by provident and advanced training funds, and about 24.5 percent is managed in insurance policies.

Figure 1.6: Distribution of Holdings in the Portfolio by Type of Manager

Balances in NIS billion (columns) and as a percentage of the total (circles)



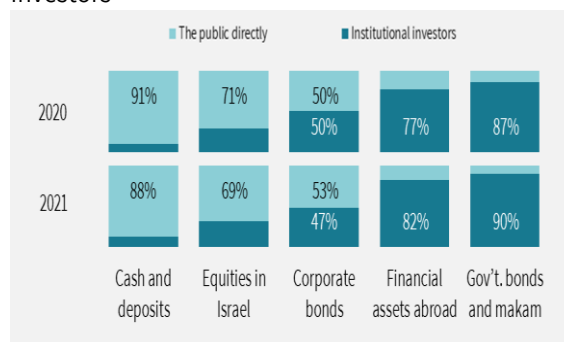
SOURCE: - Bank of Israel data

The institutional investors' share of the mix of assets in the portfolio increased in most components, but declined in the corporate bonds component.

Institutional investors' share of the public's holdings of financial assets abroad increased significantly (about 5 percentage points) in 2021. In addition, their share of the public's government bond and makam holdings also increased (about 3 percentage points). In contrast, institutional investors' share of the public's holdings of corporate bonds declined (about 3 percentage points).

Figure 1.7: Distribution of Holdings in the Portfolio by Asset

The public's direct holdings vs. institutional investors



SOURCE: Bank of Israel data

3. Financial assets abroad

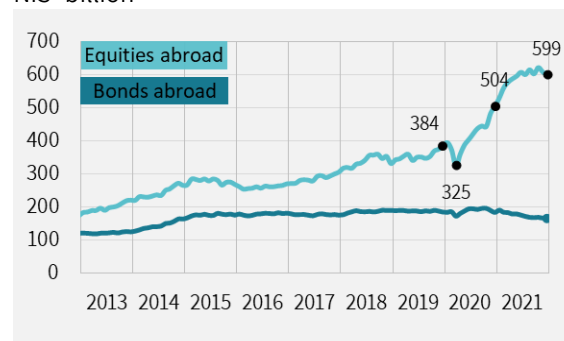
The balance of financial assets abroad increased during 2021 as a result of net new investments and price increases in equity markets abroad.

The balance of the public's investments in equities abroad increased by about NIS 95 billion (about 19 percent) to about NIS 599 billion at the end of the year. A significant portion of the increase was attributed to the institutional investors (see more in "Up Close"). The increase was due to net investments (transactions) of about NIS 46 billion and price increases in equity markets abroad.

The balance of the public's investments in bonds abroad declined by about NIS 19 billion to about NIS 166 billion at the end of the year.

Figure 1.8: Balance of Equities and Bonds Abroad, 2013–2021

NIS billion



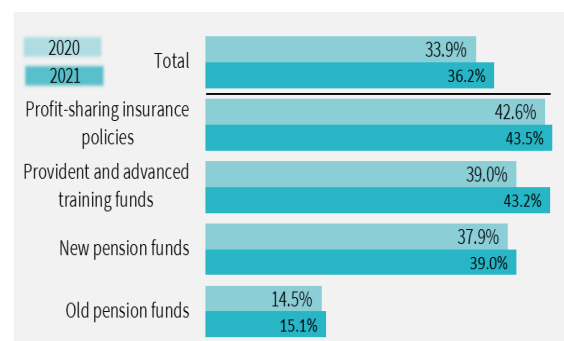
SOURCE: Bank of Israel data

In view of the increase in the balance of equities abroad held by the institutional investors, the rate of their total exposure to foreign assets continued to increase in 2021.

The rate of institutional investors' total exposure to foreign assets increased by about 2.3 percentage points to 36.2 percent. All of the institutional investors increased their exposure to foreign assets. The provident funds and the advanced training funds (whose exposures increased by about 4.2 percentage points) were prominent.

Figure 1.9: Institutional Investors' Exposure to Foreign Assets

as a share of total assets



SOURCE: Bank of Israel data

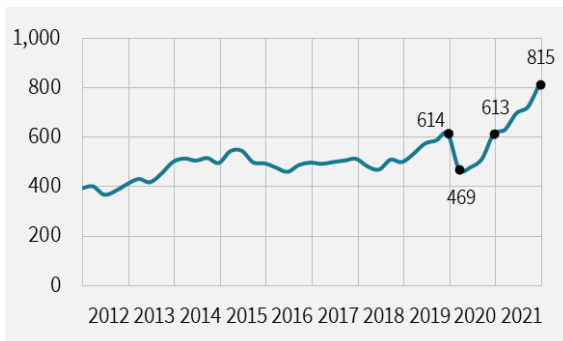
4. Equities in Israel

In view of the price increases in the equity markets, the balance of holdings in equities in Israel increased significantly during 2021.

The balance of the public's holdings of equities in Israel increased significantly, by about NIS 202 billion in 2021, reaching about NIS 815 billion. The increase continued throughout the year, and intensified in the second half of the year.

Figure 1.10: Balance of Holdings of Equities in Israel, 2012–2021

NIS billion



SOURCE: Bank of Israel data

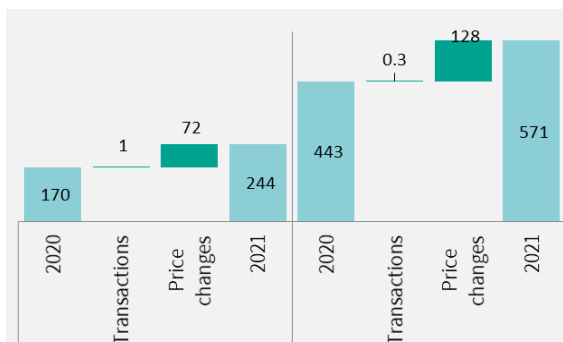
The balance of equity holdings increased mainly due to price increases.

The balance of tradable equities in Israel held directly by the public increased by about NIS 128 billion during the year. The increase was mainly due to returns of about 29 percent.

The balance of tradable equities in Israel held by the institutional investors increased by about NIS 73 billion. This increase was also mainly due to returns of about 42 percent.

Figure 1.11: Tradable Equities in Israel, The Public's Direct Holdings vs. Institutional Investors

Balances and transactions in NIS billion



SOURCE: Bank of Israel data

5. BONDS IN ISRAEL

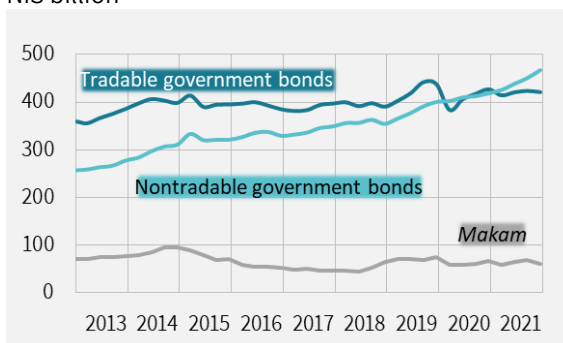
The balance of government bonds held by the public increased in 2021, with an emphasis on nontradable government bonds.

The balance of holdings of government bonds and makam increased by about NIS 37 billion, to about NIS 950 billion at the end of the year.

The balance of holdings of tradable government bonds declined by about NIS 6 billion (about 1.4 percent). In contrast, holdings of nontradable government bonds (earmarked bonds) continued to increase this year, further to the long-term upward trend of net new investment in the new pension funds.

Figure 1.12: Government Bonds and Makam, 2013–2021

NIS billion



SOURCE: Bank of Israel data

6. CASH AND DEPOSITS

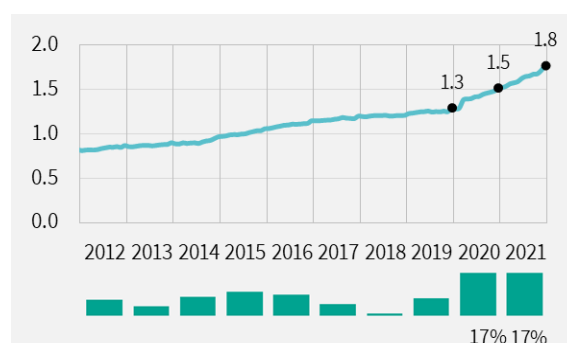
The balance of cash and deposits increased significantly in 2021, further to the marked increase in 2020.

The balance of the public's holdings of deposits increased by about NIS 257 billion (17 percent) during 2021, to about NIS 1.8 trillion at the end of the year. About 44 percent of the increase was in demand deposits, totaling about NIS 111 billion (32 percent) and in foreign exchange deposits, totaling NIS 113 billion (15 percent) .

The balance of cash increased by about 8 percent (about NIS 8 billion), to about NIS 105 billion at the end of the year.

Figure 1.13: Balance of Deposits, 2012–2021

Balance in NIS trillion (line) and annual rate of change (columns)



SOURCE: Bank of Israel data

7. MUTUAL FUNDS

The mutual funds recorded positive net investments in 2021, mostly in funds specializing in general bonds in Israel.

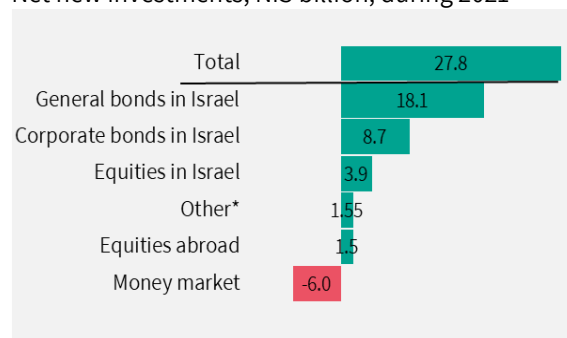
The mutual funds recorded positive net new investments totaling about NIS 28 billion in 2021, mostly in the first half of the year .

Actively managed funds recorded net new investments of about NIS 20.3 billion, and tracking funds recorded net new investments of about NIS 12 billion. In contrast, ETFs recorded net withdrawals of about NIS 4.5 billion.

Prominent among fund specializations, groups specializing in general and corporate bonds in Israel recorded combined net new investments of about NIS 27 billion. In contrast, money market funds recorded net withdrawals of about NIS 6 billion. The balance of cash increased by about 8 percent (about NIS 8 billion), to about NIS 105 billion at the end of the year.

Figure 1.14: Mutual Fund Specializations (incl. ETFs)

Net new investments, NIS billion, during 2021



SOURCE: Bank of Israel data

* Other – other investment groups that are not in the graph, including: groups specializing in government bonds in Israel, and bonds abroad.

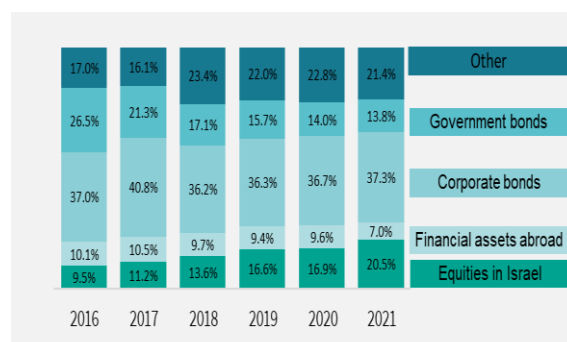
The mix of assets held by the mutual funds changed in keeping with the trend of recent years.

The equities in Israel component increased by about 3.6 percentage points in 2021, further to the upward trend of recent years.

In contrast, the financial assets abroad component declined by about 2.6 percentage points during the year, with most of the decline coming from holdings of bonds abroad (1.6 percentage points) .

Despite the net new investments in groups specializing in bonds, there was almost no change in their share of the total portfolio .

Figure 1.15: Distribution of Mutual Fund Assets As a share of total assets

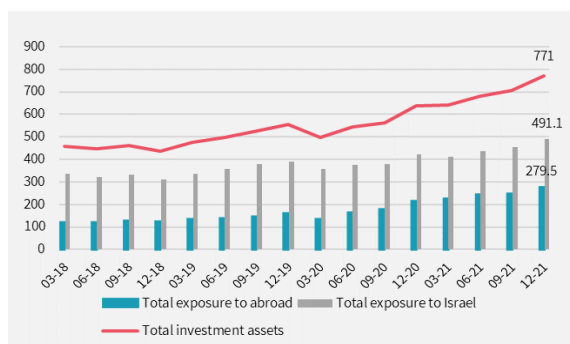


SOURCE: Bank of Israel data

▶ ZOOM-IN – INSTITUTIONAL INVESTORS’ INVESTMENTS ABROAD

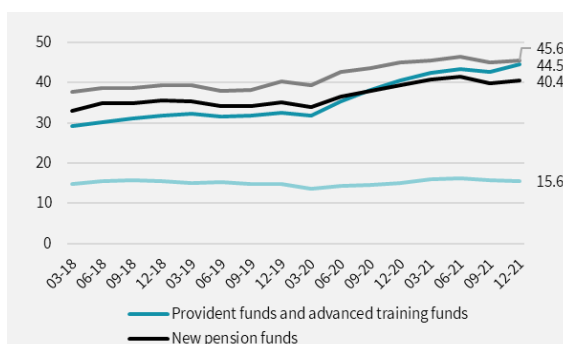
The balance of the portfolio abroad has doubled since 2012, with a particularly prominent increase since the second quarter of 2020.

Figure 1.16: The Balance of Institutional Investors’ Assets in Israel and Abroad, \$ billion



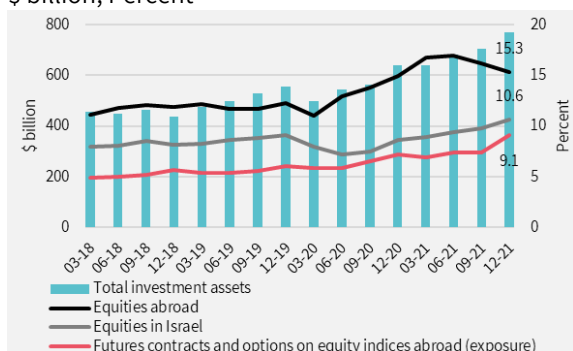
The increase in exposure to abroad was reflected in all institutional investors, except for the old pension funds for regulatory reasons.

Figure 1.17: Rate of Exposure to Abroad by Institutional Investor, percent



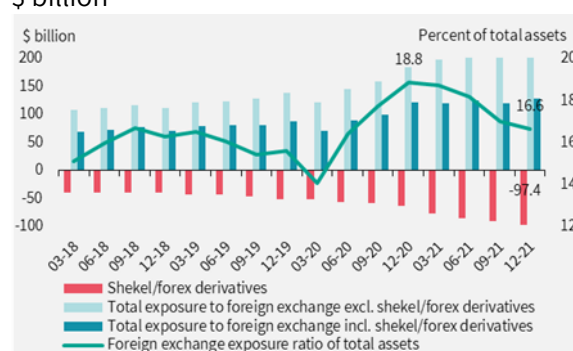
In view of the price increases, the increase in the share of equities abroad compared with those in Israel is prominent. About one-quarter of the balance of the institutional investors’ portfolio is invested in equities abroad.

Figure 1.18: The Share of Equities in Israel and Abroad, and Exposure to Equities Abroad \$ billion, Percent



Institutional investors have hedged most of the increase in the foreign currency investment balance this year and narrowed their exposure to foreign currency from 18.8% at the end of 2020 to about 16.6% at the end of 2021.

Figure 1.19: Exposure to Foreign Exchange Percent of total assets \$ billion



SOURCE: Bank of Israel data.

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



	2016	2017	2018	2019	2020	2021
Total asset portfolio held by the public						
Value of the public's asset portfolio (NIS trillion)	3.44	3.62	3.67	4.08	4.40	5.05
Asset portfolio as a percentage of GDP	281	283	274	288	315	325
Tradable assets	49.0	48.9	49.3	50.5	48.6	48.5
Risk assets ¹	41.8	42.6	42.8	44.0	42.7	44.0
Assets abroad ²	13.8	13.7	14.4	14.0	15.6	15.2
Foreign exchange assets ³	20.5	20.1	21.3	20.4	22.3	22.4
Unindexed assets ⁴	71.0	71.2	71.8	71.8	74.0	74.9
Liquid assets ⁵	29.1	29.0	29.2	28.4	32.4	33.3
Portfolio managed by the public directly and through mutual funds						
Rate of investment as a share of the asset portfolio	58.1	56.1	55.4	53.1	53.4	52.5
Tradable assets	46.3	46.2	46.9	48.5	44.8	46.1
Risk assets	36.4	37.1	35.3	36.6	32.9	34.1
Assets abroad	9.5	9.1	8.0	6.5	6.6	5.1
Foreign exchange assets	18.9	18.1	17.9	16.4	16.6	16.1
Unindexed assets	88.1	88.6	89.4	89.5	91.4	91.4
Liquid assets	44.6	45.3	46.8	46.2	53.3	54.4
Portfolio managed by institutional investors						
Rate of investment as a share of the asset portfolio⁶	41.9	43.9	44.6	46.9	46.6	41.9
Tradable assets	52.6	52.3	52.3	52.8	52.9	51.0
Risk assets	49.2	49.5	52.1	52.5	54.0	55.0
Assets abroad ⁷	19.8	19.6	22.2	22.5	26.0	26.4
Foreign exchange assets ⁸	22.8	22.8	25.5	24.8	28.7	29.3
Unindexed assets	47.4	49.0	49.9	51.8	54.0	56.7
Liquid assets	7.6	8.2	7.5	8.3	8.5	9.9

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

² Israelis' investments abroad.

³ Assets indexed to foreign exchange + equities abroad.

⁴ All assets minus those indexed to the CPI.

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

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

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

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

DATA SOURCES AND MAIN TERMS



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

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

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

The composition of the public's financial assets portfolio reflects the decisions of the public and of the institutional investors, 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 assets** —The monetary amount at risk in the case of a decline in the value of assets issued by nonresidents (mostly assets held abroad). Investment in foreign assets and in foreign economies creates exposure to crises that may erupt in those economies and to other changes that have a negative impact on the value of the securities.
- **Investments abroad**—The balance of assets invested outside of Israel. This definition includes holdings of securities issued abroad by Israeli companies, and does not include holdings of foreign assets in Israel.

Cash and current accounts—Cash is calculated as the total money (banknotes and coins) issued by the Bank of Israel and in circulation, minus cash in the hands of the banks. This item may also include cash in the hands of nonresidents, but the assumption is that this latter amount is low. Current accounts are demand deposits in shekels (excluding nonresidents' current accounts in shekels).
- **Deposits**—Funds of Israeli customers at banks, which generate yields and can be withdrawn at points in time depending on the type of plan. The deposits are categorized as follows: (1) Savings plans—plans that are structured for the customer's needs, by various ranges and indexations; (2) Self-renewing Overnight Deposit

(SRO)—a deposit that enables deposits and withdrawals every business day subject to the restriction that the principal amount shall not be less than the amount set by the bank; (3) Fixed-term deposit—allows for the withdrawal of the deposit after a preset period. Such a deposit generally has a yield of fixed-rate interest; (4) CPI-indexed deposit; (5) Foreign exchange-indexed deposit; (6) Foreign currency deposit—a foreign exchange deposit by Israelis in an Israeli bank. This can be managed as a current account or as a deposit.

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