

**BANK OF ISRAEL**

Office of the Spokesperson and Economic Information

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Press release

**Box from Israel’s Banking System 2023 Survey, soon to be published: Analysis of deposit performance in the household sector**

* In the course of 2023, the Bank of Israel raised its interest rate to 4.75 percent as the banking system amassed historically large liquidity surpluses.
* Against the background of the interest-rate increase, deposit performance rose in all activity segments, particularly the household sector. Furthermore, out of total deposits of private customers, the share of private customers’ interest-bearing deposits[[1]](#footnote-1) surpassed the share of such funds held in current accounts, reaching nearly 60 percent in February 2024.
* In 2023, the average pass-through rate in the household sector was 68 percent.[[2]](#footnote-2) The business activity sectors exhibited higher pass-through and deposit-interest rates (83 percent and 93 percent on average for the small- and large-business sectors, respectively).
* In 2023, on average, about one-third of household deposit performance was for a term of up to one month to maturity. From the last quarter of 2023 onward, such deposits accounted for nearly half of performance; the pass-through rate for deposits to longer maturities was 20 percentage points higher and verged on that of the business sector. In the course of the year, however, the pass-through rate on deposits for terms longer than one year declined to below that on medium-term deposits (between one month and one year), in accordance with the development of interest rate expectations.
* The banking system offers its customers deposits at variable rates and fixed rates in view of the market’s expectations of the interest rate environment. Since the end of 2023, the distribution of deposit performance between variable and fixed interest rates stabilized at similar levels, as did the pass-through rate on each of these tracks. This trend reflects the increase in uncertainty about the interest rate environment, possibly in view of the war.
* Although the cumulative pass-through rate of the Bank of Israel interest rate to the household deposit interest rate declined, it remains higher than the corresponding rates in the United States and Europe and fell slightly short of those in the UK and Australia.

1. General remarks

The central bank interest rate is the main instrument through which monetary policy is applied. Accordingly, it is the benchmark from which interest rates on credit to the public and the rates paid to the public for its deposits are derived.[[3]](#footnote-3) The central bank interest rate has a direct effect on the preferences of the economy and its individual participants as to whether to consume or to save. When the interest rate is low, economic entities are more motivated to consume than to save, and the opposite occurs when the rate is high. In the decade preceding the COVID-19 crisis, the Bank of Israel interest rate, like that of major central banks abroad, was at a historical low.[[4]](#footnote-4) From April 2022 onward, given the upturn in inflation in Israel and abroad and to keep inflation within the target[[5]](#footnote-5), the Bank of Israel, much like central banks abroad, began to raise its interest rate, bringing it to 4.75 percent in May 2023.[[6]](#footnote-6) This steep increase triggered a parallel upturn in the interest rate on credit to the public and allowed banks to pay a higher rate on the public’s deposits.

A bank is a financial institution that intermediates between depositors’ money and borrowers’ money as its main line of business. To do its job, it needs to have a system in place through which it can continue to lend to its customers while remaining able to meet its obligations to its customers. The system is administered by the banks’ assets and liabilities management divisions, the function of which involves ongoing adjustment of the mix of bank assets against liabilities (or managing the spread between them) in terms of both their liquidity and their suitability to unexpected changes in interest, exchange, and inflation rates. The banks’ assets-and-liabilities management divisions manage this activity by pricing deposits and pricing credit. Notably, in Israel the public’s deposits are the banking system’s main source of funding.

In its decisions on how to manage these sources, the banking system keeps several considerations in mind, foremost a bank’s liquidity risk. A bank’s level of liquidity reflects its ability to fund an increase in its assets while repaying its obligations in a timely manner without amassing anomalous losses. The global financial crisis in 2008 enhanced awareness of the importance of managing liquidity risk and has attracted much attention around the world (particularly in a high interest rate environment, in view of bank failures abroad in early 2023; for elaboration, see Box 5.2 in this Survey). To manage their liquidity risks, banks must, *inter alia,* maintain an LCR[[7]](#footnote-7) of more than 100 percent in order to bolster the adequacy of their liquidity in the short term. (For elaboration, see Section 5.3 in this Survey.) The more a bank has liabilities that are considered less stable, the more its LCR erodes. In reference to the nature of a bank’s deposits, we should note that long-term deposits are considered more stable than short-term ones and that, generally speaking, retail and small-business deposits are considered more stable than wholesale and larger deposits. From 2008 onward, Israel’s banking system and its counterparts abroad have been running large liquidity surpluses due to the global financial crisis and the implementation of the Basel Committee’s recommendations on LCR maintenance. This trend gained additional strength pursuant to the fiscal and quantitative easing that governments and central banks around the world adopted in their attempts to cope with the COVID-19 crisis. This loosening led to an increase in the public’s deposits, causing banks’ demand for sources (deposits in particular) to decline and weakening the pass-through of the central-bank rate to the deposit rate.

The banking system offers its customers deposits to various maturities from daily to very long (more than two years) and prices them differently. The banks have a structural surplus of assets over liabilities, in which their assets (loans, in large part) mature to longer terms than do their liabilities (deposits, in large part). Accordingly, banks can rely on longer-term deposits as stable sources for lending. Notwithstanding this, however, it is important to note that the banks’ pricing of deposits does not track deposit maturity linearly; it depends on each individual bank’s business model and assets-and-liabilities management (as described below).

Apart from a deposit being a source for lending, customers with greater bargaining power can apparently secure more attractive terms for their deposits than can others. Customers’ bargaining power vis-à-vis their bank may be reflected in their total “basket” of activity with the bank (for example, activity in credit or securities), the size of their deposit, their ability to shop among banks for the best deposit rate, and their familiarity with alternative savings vehicles in the market (buying Makams or investing in a money market fund). Business customers generally have a broad basket of activity including deposits of various sizes, and as a sector composed of relatively sophisticated customers they are better able than others to shop around. This is demonstrated in differences in the pass-through rate among different activity sectors in unindexed domestic currency since the rate increase in April 2022. In most cases, the larger customers’ deposit activity is, the more they benefit from a more complete transmission of the Bank of Israel interest rate onto the deposit rate (i.e., a higher pass-through rate—Figure 1).

Figure 1 also shows that the pass-through rate of household deposits rose steadily from April 2022 on and leveled off in the last quarter of 2022. The slower increase in deposit interest rates than in the central bank interest rate at the beginning of the cycle of rate increases (a phenomenon not unique to Israel) is explained, among other things, by the return of the spread between the deposit rate and the central-bank rate to the levels that prevailed before the era of near-zero interest rates and the banks’ large liquidity surpluses.[[8]](#footnote-8)

**Figure 1. Pass-through of Bank of Israel rate to deposit rate by activity sectors in unindexed domestic currency, April 2022–March 2024, percent**

Source: Based on reports to the Banking Supervision Department.

Another consideration that a bank bears in mind in managing its assets and liabilities is interest rate risk—the risk created by possible future changes in interest rates that would affect the bank’s earnings and, as a consequence, its capital.[[9]](#footnote-9) Generally speaking, banks price deposits at variable or fixed rates in accordance with their expectations of the interest environment. Consequently, when they price the deposits that they offer their customers, they examine their assets and liabilities, their expected liquidity needs, and their forecasts/expectations of relevant market indicators.

In view of the increases in the Bank of Israel interest rate since April 2022, and as a consequence, of the deposit interest rate, customers have a stronger incentive than before to lock up funds in deposits to various maturities. Deposit performance in the course of 2023 surpassed that in recent years and the upturn already began in the course of the second half of 2022 (Figure 2). Performance[[10]](#footnote-10) in the five years from 2016 to 2021, the period preceding the rate increases, was around NIS 1.7 trillion on annual average with little variance. Performance in 2023 was NIS 3.2 trillion (including self-renewing deposits), up 24 percent in total performance from 2022, in which performance was NIS 2.6 trillion (up 36 percent relative to 2021). A similar trend was manifested in the household sector. Between 2016 and 2021, total annual deposit performance ranged around NIS 370 billion on annual average with almost no change from year to year, whereas in 2022 and 2023 performance rose steeply (to NIS 488 billion and NIS 595 billion, for annual rates of change of 36 percent and 22 percent, respectively—Figure 2).

**Figure 2. Total annual deposit performance by activity sector, all indexation segments, 2016–2023, NIS billion**

Households, private banking, and business sector, total (excluding institutional investors)

**Source:** reports to and processing by the Banking Supervision Department

A large majority of the public’s deposits are made by households.[[11]](#footnote-11) In monetary terms, however, household deposits are secondary to those of other activity segments such as the business sector and institutional investors. In terms of number of deposits, the share of households is the highest at some 8.6 million deposits in 2023,[[12]](#footnote-12) 79 percent of all deposits from the public that were made during the year. In money terms, however, total performance of households’ deposits accounts for only 16 percent of total performance of the public. Thus, most deposits are made by the public but are smaller on average than those made by the other (business) segments.

In view of the increase in the deposit interest rate, the share of interest-bearing deposits[[13]](#footnote-13) in total private deposits increased (Figure 3). Between March and September 2023, this indicator advanced steadily, from 52.6 percent to 58.6 percent, as the public redirected some of its current-account balances to interest-bearing deposits. From September 2023 to February 2024, interest-bearing deposits increased mildly, to 59.1 percent, the growth rate evidently slowing due to the effects of the war. They include an upturn in total deposits of the public due to fiscal easing (an increase in government spending due to the war), possibly abetted by an increase in uncertainty and the public’s preference for keeping liquid funds on hand during an extreme event of this kind.

**Figure 3. Share of private customers’ interest-bearing deposits in unindexed domestic currency**

March 2023–February 2024, percent

Source: Based on financial statements to the public and reports to the Banking Supervision Department.

Notably, the increase in the Bank of Israel rate in April 2022 touched off a lively public discourse about the rate that should be paid on households’ deposits. Concurrently, the Supervisor of Banks, mindful of the changes in the interest rate environment, sent a letter to the banking system that expressed, among other things, the expectation that the banks would adjust their products and services to the changing environment and would treat their customers fairly. The Supervisor also urged the public to compare the prices of the various deposit products and compare deposits with parallel alternatives in the market. To facilitate this comparison, the Bank of Israel began to publish comparative information at the individual bank level about households’ deposits to various terms. (For elaboration, see Box 6.4 in this Survey.) Also, the Governor and the Supervisor of Banks met with the banks’ executives in the second quarter of 2023 and apprised them of what they expected them to do in regard to paying interest on current-account balances, fair pricing of household deposit products, and measures to alleviate households’ debt burden.

2. Analysis of household pass-through, comparison of activity sectors, deposit maturities, the interest rate mechanism, and comparison of Israel with other countries

Apart from their size, households’ deposits are differentiated from those of business customers in terms of maturity. On average in 2023, at least half of business-sector deposit performance occurred to terms of up to one month (the larger the activity turnover of the business in question, the shorter the term of the deposit), whereas about two-thirds of household-sector deposit performance was to more than one month to maturity. (On average in 2023, most household deposits were made for longer terms, unlike performance in the other activity segments.)

In a comparison of rates of the interest rate pass-through to deposits of 1–3 months among the various activity segments (Figure 4), the sector that had the largest change in pass-through in maturity was found to be the household sector. Pass-through rates gathered strength in deposits of 1–3 months to maturity (from 51 percent to 63 percent). In the other activity sectors, the rate of pass-through was relatively high and not significantly different in short-term deposits to maturity of up to one month. Much household deposit performance in the past two years has been for terms of up to 1 year.

**Figure 4. Average pass-through of Bank of Israel rate to deposits, by activity sector and term to maturity, unindexed domestic currency, total banking system, 2023, percent**

Source: Based on reports to the Banking Supervision Department.

In 2023, on monthly average, about half of performance occurred in deposits to up to three months maturity and 36 percent occurred in deposits to up to one month. This distribution recurred in similar rates in the first quarter of 2024. Households’ reluctance to lock up their money for longer terms may trace to the habit that they had developed over the many years in which the interest environment was essentially zero and most of their money was liquid and kept in demand deposits (current accounts, daily deposits, or deposits to up to one week), in which the interest rate was not high enough to compensate them for the loss of liquidity. Developments in the capital market and in technology that enabled them to make payments and carry out transactions easily and rapidly even directly from their current accounts (in comparison, for example, with payment by credit card) made it necessary to keep a larger share of liquid funds on hand. As for the war, despite the high interest rate, it can be seen that households preferred to keep their money in deposits to shorter terms (Figure 5) and that the pace of increase in the share of private customers’ interest-bearing deposits in total deposits slowed (Figure 3).

**Figure 5. Distribution of household deposit performance by term to maturity, January 2023-March 2024, percent**

Source: Based on reports to the Banking Supervision Department.

As a rule, customers who are interested in depositing for a longer term will expect their bank to pay a higher interest rate for their loss of liquidity (in accordance with the market’s expectations and the term to maturity of the deposit). Thus, in addition to the change in households’ taste, the interest rate they were offered to compensate for foregoing liquidity and locking up their money in a time deposit was not high enough for them. In the course of 2023, the pass-through rate for deposits with more than one month to maturity was indeed higher. From the beginning of 2023 to March 2024, the pass-through rate for deposits to every term declined, particularly to terms exceeding 1 year (Figure 6). However, both customers’ and banks’ expectations of the interest environment are important. Thus, it can be seen, for example, that consistent with expectations of the path of the Bank of Israel rate,[[14]](#footnote-14) the pass-through to the interest rate on deposits for more than one year to maturity is lower than that on deposits for terms of one month to one year. Accordingly, performance of deposits to terms of more than one year declined considerably from August 2023 onward. In March 2024, the share of deposits to terms of more than one year in total performance of deposits slumped and stands at 8 percent at the present writing (Figure 5).

**Figure 6. Pass-through of Bank of Israel rate to household deposit rate, by terms to maturity, January 2023–March 2024**

**Source:** reports to and processing by the Banking Supervision Department

In respect of their interest-rate mechanism, the deposits offered to the public are divided into fixed and variable rates. Fixed-rate deposits are those in which the rate paid to the customer is known in advance and consistent throughout the deposit term. Variable-rate deposits are those in which the rate varies during the term to maturity. The rate on these deposits is composed of a benchmark rate (usually the prime rate) and a spread (a rate subtracted from the benchmark rate). The spread remains constant throughout the term of the deposit, whereas the benchmark rate (which is external and objective from the bank’s standpoint) varies in accordance with the mechanism of change of the deposit. As for performance, the types of deposit interest rates are divided almost equally in accordance with the market’s interest expectations; the differences among the banks that offer these or similar products are contingent on the banks’ business model and funding needs.

At the beginning of 2023, the pass-through rate was much higher in fixed-interest-rate deposits than in variable-rate deposits. The spread between them apparently traces to expectations of continued rate increases by the Bank of Israel and narrowed in the course of the year in reflection of the end of the Bank of Israel’s rate-hiking process. Convergence toward a similar rate of pass-through between variable-rate and fixed-rate deposits took place toward the end of 2023 due to the uncertainty that arose in the wake of the Swords of Iron War; it persisted in the first few months of 2024 (Figure 7).

**Figure 7. Pass-through of Bank of Israel rate to household-deposit rate by type of interest rate, unindexed domestic-currency sector, January 2023–March 2024, percent**

Source: Based on reports to the Banking Supervision Department.

Since the Bank of Israel began its series of rate increases in April 2022 and given the full rollover of the increases to the lending rate, a public discourse emerged that found the pass-through to deposit interest rates too slow and too small. Note that despite the less than complete pass-through of the central bank interest rate to the household-deposit rate (in comparison with other activity sectors and in view of the relatively long term to maturity and the expected interest-rate path), this is a relatively widespread phenomenon around the world. This was found in a comparison of advanced economies[[15]](#footnote-15) that have banking systems typified by large liquidity surpluses. Israel’s rate of pass-through, however, is high by the standards of the world’s advanced economies.

In the course of 2023, most central banks in developed countries either stopped or slowed the pace of rate increases and left the pass-through rate to household deposits relatively constant (Figure 8). The pass-through of the interest rate was weaker in some advanced economies—for example, in Europe[[16]](#footnote-16) (25 percent as of January 2024) and the US[[17]](#footnote-17) (where the pass-through rate ranged from 0 to 34 percent). In contrast, Israel’s pass-through rate was lower in the past year than that of the UK[[18]](#footnote-18) and Australia[[19]](#footnote-19) (78 percent and 81 percent, respectively, as of January 2024).

**Figure 8. Comparison of central bank interest-rate pass-through to the household deposit rate (fixed-rate deposits), January 2023–January 2024, percent**

**Sources:**

US: Federal Reserve Economic Data; interest: IOBR (Interest on Reserve Balances)

ECB: European Central Bank—Statistical Data Warehouse. Deposit Facility Rate

UK: BOE data, BOE Base Rate

Australia: RBA, RBA Official Cash Rate.

1. “Private customers” are the household and private-banking segment. [↑](#footnote-ref-1)
2. The pass-through rate is, in effect, the rate at which the banks pass on the change in the Bank of Israel rate to the deposit interest rate. The pass-through rate reflects the elasticity of retail and wholesale deposit interest to the Bank of Israel rate. In this box, we calculated the pass-through rate as the cumulative change in the deposit rate in a given month as against the deposit rate in March 2022 (the month preceding the onset of rate increases), divided by the cumulative change in the Bank of Israel rate during that time. [↑](#footnote-ref-2)
3. Commercial banks deposit their liquidity surpluses with the central bank and are credited at the central-bank rate, which is supposed to serve as a benchmark for pricing credit and deposit products. [↑](#footnote-ref-3)
4. At that time, the Bank of Israel rate fell to a low of 0.1 percent (March 2015), the European Central Bank rate was negative for nine years (between June 2013 and July 2022), and the Federal Reserve rate was around 0 percent (between December 2008 and December 2016). [↑](#footnote-ref-4)
5. The Bank of Israel’s inflation target is 1–3 percent. [↑](#footnote-ref-5)
6. The Bank of Israel held its rate at this level until January 2024, when the Monetary Committee decided to lower it by 0.25 percent, to 4.5 percent. [↑](#footnote-ref-6)
7. Liquidity coverage ratio. [↑](#footnote-ref-7)
8. For elaboration, see Box 4.2 in the Bank of Israel *Annual Report* for 2022, “The Pass-Through from Monetary Policy to Interest on Deposits in Israel.” [↑](#footnote-ref-8)
9. The main forms of interest rate risk to which banking corporations are exposed include repricing risk, yield-curve risk, basis risk (also known as spread risk), and options risk. [↑](#footnote-ref-9)
10. Total deposit performance in all activity sectors excludes institutional investors and includes self-renewing deposits. [↑](#footnote-ref-10)
11. Households’ deposits in unindexed domestic currency only because this accounts for more than 90 percent of household deposit performance. [↑](#footnote-ref-11)
12. Including self-renewing deposits. [↑](#footnote-ref-12)
13. This rate is calculated out of total current-account balances that do not bear interest, interest-bearing demand-account balances and demand and short-term deposits, and interest-bearing time deposits. Current-account balances, demand deposits, and short-term deposits that do not bear interest were categorized as non-interest-bearing balances because their characteristics make them closer to non-interest-bearing current-account balances. [↑](#footnote-ref-13)
14. According to the April 2024 macroeconomic forecast of the Bank of Israel Research Department, the Bank of Israel rate will rest at 3.75 percent in the first quarter of 2025, lower than where it is today. [↑](#footnote-ref-14)
15. Household deposits in different countries may differ in their characteristics. We compared interest rates abroad in terms of unindexed fixed-rate interest for households, resembling the characteristics of deposits abroad. [↑](#footnote-ref-15)
16. The rate calculated in this comparison weights the performance of household’s deposits to long terms to maturity (deposits with an agreed maturity—liquid deposits of up to one year to maturity and redeemable-at-notice deposits to more than one year), in contrast to the comparison presented in the past, which included only interest on long-term deposits (deposits to agreed terms to maturity), which is higher. The share of deposits of this kind, however, has ranged from 1 percent to 6 percent in the past two years. [↑](#footnote-ref-16)
17. Three main deposit products are offered in the US: interest-bearing current-account balances, savings accounts that allow withdrawal under certain limitations during the deposit term, and CDs (certificates of deposit), which are not liquid until maturity. Each of these products has a different pass-through rate: interest-bearing current-account balances zero, savings accounts 8 percent; and one-year CDs 34 percent (the highest among all CDs). [↑](#footnote-ref-17)
18. Household time deposits that offer no option of early withdrawal, including deposits with mortgage-lending financial institutions that do not rely on current-account products and, therefore, have liquidity needs that are slightly different from those of most banks in Israel. [↑](#footnote-ref-18)
19. Retail time deposits up to AUD 10,000 at the five largest banks in Australia. [↑](#footnote-ref-19)