

## A. THE PUBLIC'S FINANCIAL ASSETS PORTFOLIO

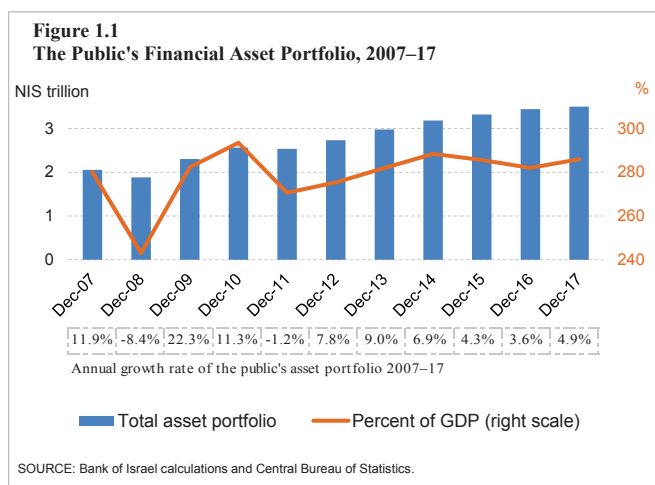
The public's financial asset portfolio<sup>1</sup> continued to increase in 2017, at a higher pace than in the previous two years. The current accounts and bonds components were the main contributors to the increase in the portfolio's balance. During the year, the downward trend in the portion of the portfolio managed directly by the public (including mutual funds)<sup>2</sup> continued, in conjunction with the increase in the portion of the portfolio managed by institutional investors. This followed the long-term trend. Net deposits in mutual funds resumed, leading to a change in the composition of assets held by the funds. While the growth of assets managed by each of the institutional investors has accelerated, the new pension funds were particularly prominent, with the highest rate of growth.

The institutional investors' rate of exposure to foreign assets was virtually unchanged in 2017, averaging 25.6 percent.

### 1. TOTAL ASSET PORTFOLIO

**In 2017, the increase in the asset portfolio continued, at a higher pace than in the previous two years. The asset portfolio to GDP ratio increased, following two years of decline.**

The public's financial asset portfolio increased by 5 percent, greater than the 4 percent average growth rate of the previous two years. The balance of the public's financial asset portfolio increased by NIS 168 billion in 2017, to NIS 3.61 trillion. The asset portfolio as a share of GDP increased by about 4 percentage points, because the increase in the financial asset portfolio was greater than the increase in GDP (3.4 percent in current prices).



<sup>1</sup> See Data Sources and Main Terms at the end of the chapter.

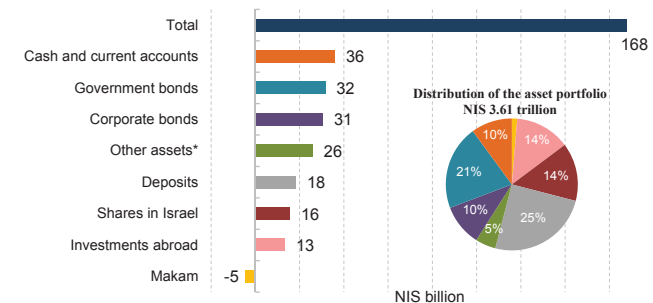
<sup>2</sup> In this chapter, any reference to “directly by the public” includes data on assets held through mutual funds and portfolio managers.

**Most of the increase in the asset portfolio was recorded in the cash, current accounts, and bond components.**

The cash and current accounts components increased by about NIS 36 billion (11.1 percent), mainly in the current accounts component. Investment in government bonds also increased, by about NIS 32 billion (4.4 percent), and investment in corporate bonds increased by about NIS 31 billion (9.1 percent)—comprising net investments and an increase in prices.

The increase in the shares component in Israel is a result of net investments combined with increases in share prices on the Tel Aviv Stock Exchange.

**Figure 1.2**  
Composition of the Change in the Asset Portfolio, 2017

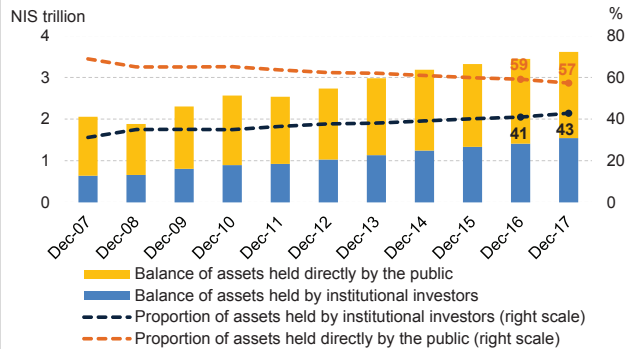


\* Other assets includes loans, mortgage portfolios, mutual fund participatory notes, land rights, futures assets, and other structured assets.  
SOURCE: Bank of Israel.

**In 2017, the downward trend in the portion of the portfolio managed directly by the public continued, in conjunction with an increase in the portion managed by institutional investors.**

The proportion of the portfolio managed directly by the public declined by about 1.8 percentage points in 2017, to about 57 percent, despite an increase of about NIS 33 billion (1.6 percent) in the balance, to about NIS 2.1 trillion. The balance of assets managed by institutional investors increased by about NIS 135 billion (9.6 percent) to about NIS 1.5 trillion. This trend has continued since 2008, when the compulsory pension arrangements for every employee began.

**Figure 1.3**  
Balance of the Asset Portfolio and Distribution by Managing Entity, 2007–17



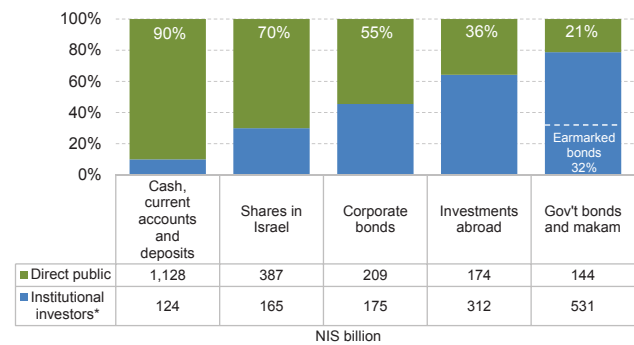
SOURCE: Bank of Israel.

The public's direct holdings are mainly in cash, current accounts, and shares in Israel, while holdings through institutional investors are mainly in government bonds, *makam*, and investments abroad.<sup>3</sup>

In corporate bonds, the public's direct holdings and their holdings through the institutional investors are similar.

The differences in the composition of holdings reflect structural differences<sup>4</sup>, such as access to international markets, the advantage of scale, and investment channel.

Figure 1.4  
Distribution of Holdings by Asset, December 2017

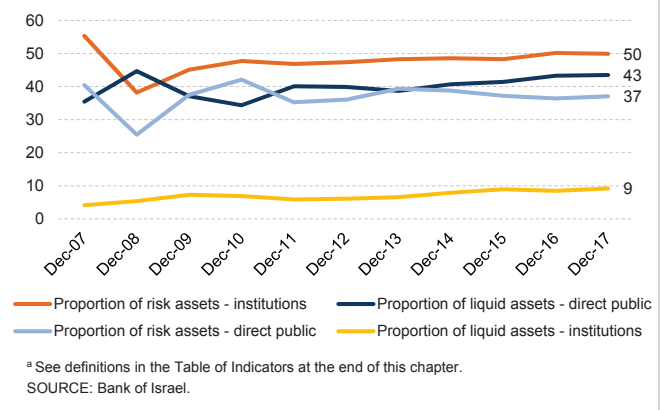


\* Excluding assistance to the old pension funds.  
SOURCE: Bank of Israel.

The rate of holdings of risk assets through institutional investors remained stable at about 50 percent of total managed assets.

The rate of the public's direct holdings of risk assets stabilized at about 37 percent.

Figure 1.5  
Proportion of Liquid and Risk Assets<sup>a</sup>, 2007–17 (percent)



<sup>3,4</sup> See Main Terms at the end of the chapter.

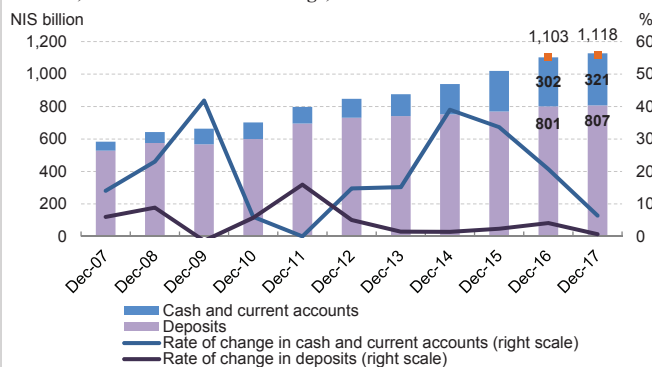
## 2. THE PORTFOLIO MANAGED DIRECTLY BY THE PUBLIC

**The slowdown in the growth of the cash and current accounts components held directly by the public continued 2017.**

This balance increased by NIS 19.3 billion (about 6.4 percent) in 2017.

The deposits component increased moderately, by 0.7 percent, similar to its rate in previous years. The balance of this component was about NIS 807 billion at the end of 2017.

**Figure 1.6**  
Balance of Cash, Current Accounts and Deposits Held Directly by the Public, and Annual Rate of Change, 2007–17



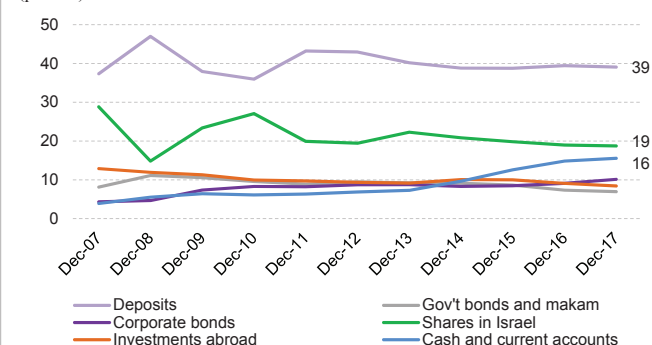
SOURCE: Bank of Israel.

**The marked slowdown in the growth rate of the cash and current accounts components was reflected in a moderation of the increase of their proportion of the public's asset portfolio in 2017.**

In addition, the proportion of investments abroad declined in 2017 as a result of the appreciation of the shekel, which lowered the shekel value of the asset portfolio abroad. The effect of the appreciation was partly offset by price increases abroad and net investments, so that the decline totaled 0.5 percentage points.

Against that, the proportion of investments in corporate bonds increased by 1 percentage point, combining net investments and price increases.

**Figure 1.7**  
Composition of the Asset Portfolio Held Directly by the Public, 2007–17 (percent)



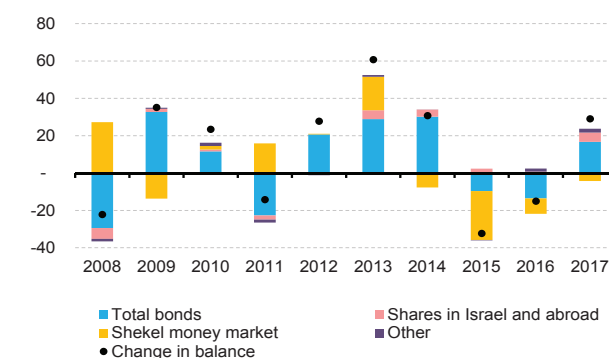
SOURCE: Bank of Israel.

### Net deposits in mutual funds resumed in 2017.

Net deposits during the year in funds specializing in bonds<sup>5</sup> totaled about NIS 16.7 billion. Net deposits of about NIS 22.4 billion in general and corporate bond funds were partly offset by net redemptions from most other bond specializations.

The volume of net redemptions in money market funds totaled about NIS 4.3 billion in 2017, further to the trend of redemptions in recent years, which led to a decline in the balance.

**Figure 1.8**  
Total Sources for Mutual Fund Activity<sup>a</sup>, by Specialization, 2008–17 (NIS billion)

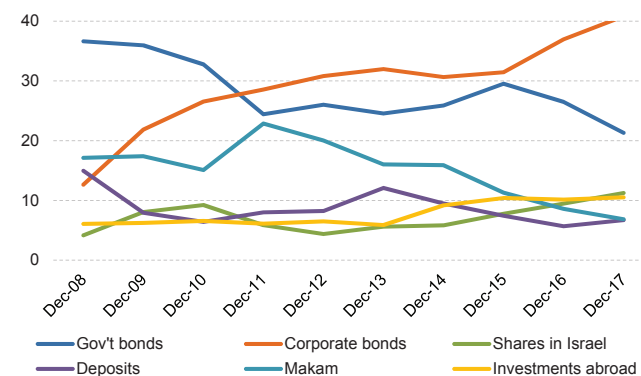


<sup>a</sup> Total sources for activity are the surplus of deposits over redemptions minus cash dividends. SOURCE: Bank of Israel.

### There was a change in the composition of assets held by the mutual funds.

Net deposits in funds specializing in general and corporate bonds, combined with price increases, contributed to an increase of 3.9 percentage points (NIS 20.2 billion, 25.4 percent) in the proportion of holdings of the corporate bond component. Against that, there was a 5.2 percentage point (NIS 4.9 billion, 8.6 percent) decline in the proportion of government bond holdings, mainly a result of net redemptions.

**Figure 1.9**  
Distribution of Mutual Fund Assets, 2008–17 (percent)



SOURCE: Bank of Israel.

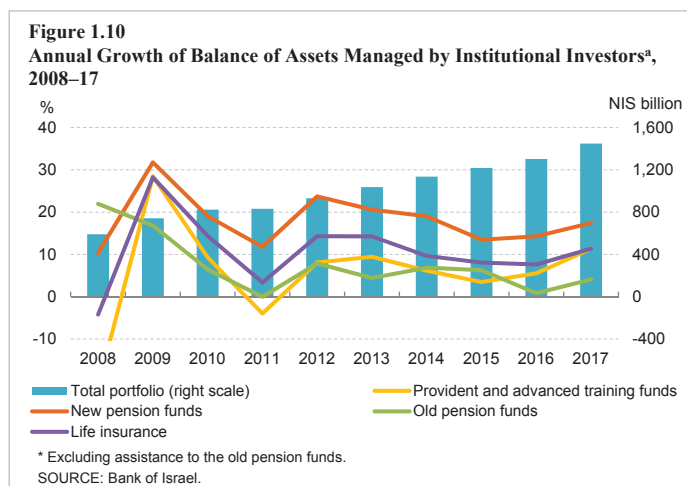
<sup>5</sup> See further details at the end of the chapter – “Zoom In”, regarding the mutual funds’ specialization in bonds.

### 3. THE PORTFOLIO MANAGED BY INSTITUTIONAL INVESTORS

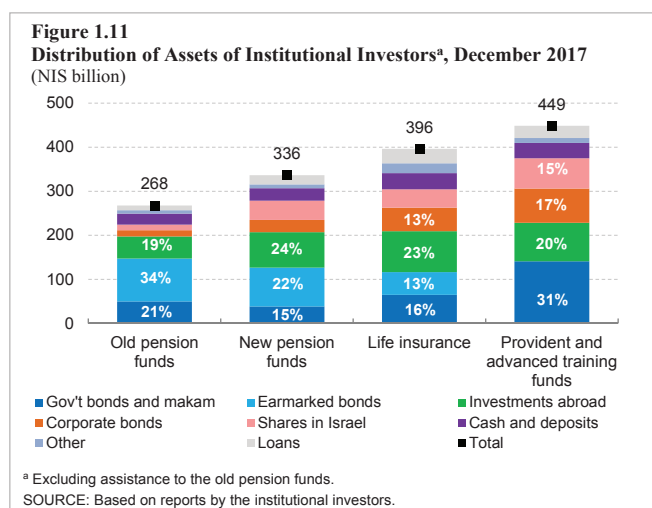
#### The growth of the balance of assets managed by all institutional investors accelerated.

The growth of the balance of assets managed by the provident funds and advanced training funds increased by about 5.8 percentage points, to 11.4 percent, as provident investment funds and the “Savings for Every Child” program opened. The balance of assets of the new pension funds also continued to increase rapidly (about NIS 50 billion, 17.4 percent), a trend that has continued since 2008, when the compulsory pension arrangements for every employee began.

The balance of assets in the old pension funds increased by only about NIS 10.5 billion (4.1 percent), due to price increases that were offset by net realizations.

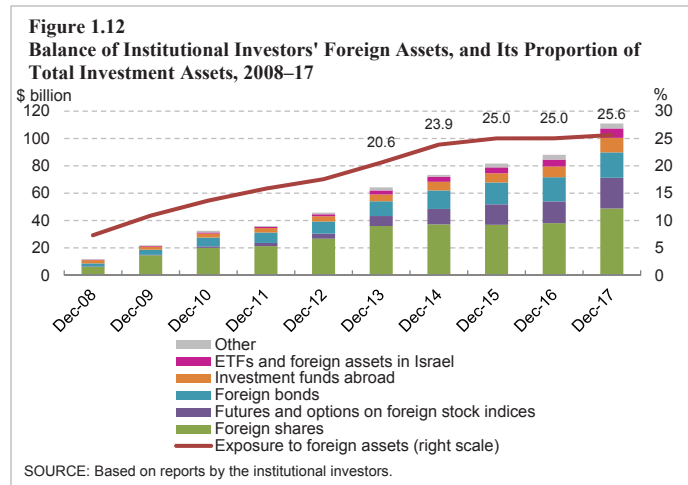


**Investments by the institutional investors are concentrated in government bonds and investments abroad. The provident and advanced training funds are also prominent investors in corporate bonds.** The various institutional investors have adopted investment policies with a similar mix of assets. The institutional investors hold an average of about 38 percent of their holdings in government bonds (including earmarked) and *makam*.



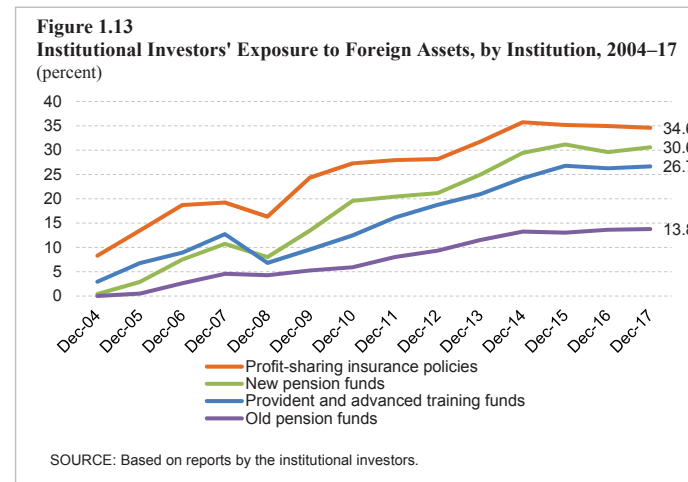
The rate of exposure of the institutional investors<sup>6</sup> to foreign assets<sup>7</sup> remained almost unchanged in 2017, at about 25 percent. Most of the exposure to foreign assets is through shares and equity instruments—contracts, options and tracking indices.

The rate of exposure to equity channels at the end of 2017 was more than 60 percent of total exposure to foreign assets, reflecting a continuation of their balance growth (\$17.3 billion, 32 percent). The balance of foreign bonds increased moderately (\$0.9 billion, 5.1 percent).



The stability in the rate of exposure to foreign assets was characteristic of all institutional investors.

Following accelerated growth in the rate of exposure to foreign assets between 2004 and 2015, this rate of exposure has remained virtually unchanged in all managing entities. The highest exposure rate was in the “profit sharing” insurance companies, at 36.4 percent in 2017, and the lowest rate was in the old pension funds—13.8 percent.



<sup>6</sup> The provident funds and advanced training funds, pension funds, and the insurance companies with profit-sharing insurance policies.

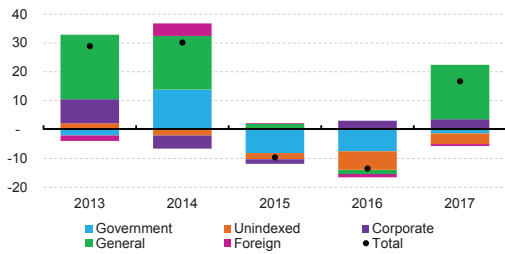
<sup>7</sup> For further details of the definitions, terms and explanations, see “Measuring Institutional Investors’ Exposure to Foreign Exchange and to Foreign Assets” in Chapter 2 of the Statistical Bulletin for 2016.



## INVESTMENTS IN BONDS THROUGH THE MUTUAL FUNDS

Most of the net deposits in 2017 were in the general bond funds.

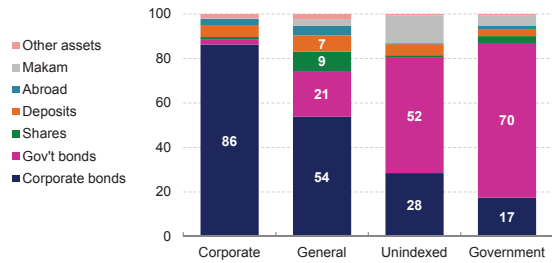
**Figure 1.14**  
Composition of the Sources for Activity<sup>a</sup> of the Mutual Funds Specializing in Bonds, 2013–17 (NIS billion)



<sup>a</sup> Total sources for activity are the surplus of deposits over redemptions minus cash dividends.

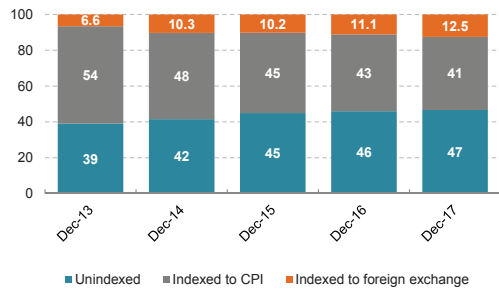
In the general bond specialization, about 68 percent of bond holdings are invested in corporate bonds.

**Figure 1.15**  
Distribution of Investment Assets by Selected Bond Specializations, December 2017 (percent)



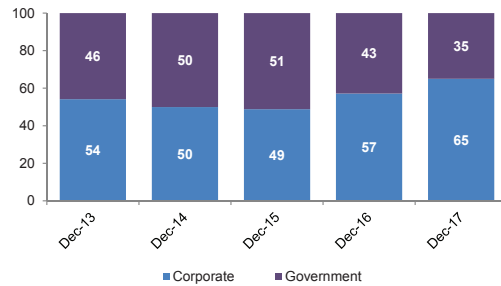
There was a marked decline in investment in CPI-Indexed bonds.

**Figure 1.16**  
Distribution of Investment in Bond Instruments in Mutual Funds by Indexation, 2013–17 (percent)



There was a marked increase in the proportion of mutual funds' holdings in corporate bonds.

**Figure 1.17**  
Distribution of Investment in Bond Instruments in Mutual Funds by Issuer (on the TASE), 2013–17 (percent)



SOURCE: Bank of Israel.



<b>Main indicators in the public's asset portfolio (percent)</b>		<b>2008</b>	<b>2010</b>	<b>2012</b>	<b>2014</b>	<b>2016</b>	<b>2017</b>
<b>The public's asset portfolio</b>							
Volume of the portfolio	Value of the public's asset portfolio (NIS billion)	<b>1.9</b>	<b>2.6</b>	<b>2.7</b>	<b>3.2</b>	<b>3.4</b>	<b>3.6</b>
	The asset portfolio as a percentage of GDP	243.1	293.5	275.3	288.4	282.0	285.9
Risks and liquidity	Tradable assets	42.3	54.2	50.8	52.7	49.0	49.0
	Risk assets <sup>a</sup>	30.4	44.3	40.2	41.8	41.8	42.6
	Assets abroad <sup>b</sup>	10.3	11.1	11.9	14.2	13.7	13.5
	Foreign exchange assets <sup>c</sup>	17.7	16.4	17.6	20.7	20.5	20.0
	Unindexed assets <sup>d</sup>	64.8	69.4	67.5	70.0	71.0	71.2
	Liquid assets <sup>e</sup>	31.0	24.8	27.2	27.9	29.1	29.1
<b>The portfolio managed directly by the public and through mutual funds</b>							
As a share of the total asset portfolio		<b>65.0</b>	<b>65.1</b>	<b>62.3</b>	<b>60.9</b>	<b>59.1</b>	<b>57.2</b>
Risks and liquidity	Tradable assets	42.3	55.2	49.6	52.1	47.0	47.4
	Risk assets <sup>a</sup>	25.5	42.1	36.0	38.8	36.3	47.3
	Assets abroad <sup>b</sup>	11.9	10.0	9.3	10.1	9.1	8.6
	Foreign exchange assets <sup>c</sup>	22.9	17.8	17.9	19.3	18.6	17.9
	Unindexed assets <sup>d</sup>	84.8	85.2	83.9	85.8	87.9	88.5
	Liquid assets <sup>e</sup>	44.7	34.4	39.9	40.7	43.3	43.7
<b>The portfolio managed by institutional investors<sup>h</sup></b>							
As a share of the total asset portfolio		<b>35.0</b>	<b>34.9</b>	<b>37.7</b>	<b>39.1</b>	<b>40.9</b>	<b>42.8</b>
Risks and liquidity	Tradable assets	42.5	53.1	53.4	54.3	52.6	52.3
	Risk assets <sup>a</sup>	38.2	47.7	47.3	48.5	50.1	49.9
	Assets abroad <sup>f</sup>	6.9	13.0	15.9	20.0	19.7	19.6
	Foreign exchange assets <sup>g</sup>	7.9	13.8	17.2	22.5	22.8	22.8
	Unindexed assets <sup>d</sup>	27.9	40.0	40.1	43.8	45.1	47.0
	Liquid assets <sup>e</sup>	5.4	6.9	6.1	7.9	8.5	9.2

<sup>a</sup> Total assets excluding government bonds, *makam*, deposits in Israel and abroad, and cash.

<sup>b</sup> Israelis' investments abroad.

<sup>c</sup> Assets indexed to foreign currency + shares abroad.

<sup>d</sup> All assets excluding CPI-indexed assets.

<sup>e</sup> Cash, deposits of up to one year in Israel, and *makam*.

<sup>f</sup> Investment in deposits and Israeli securities abroad, excluding investment in ETNs traded in Israel on foreign indices. This definition differs from the exposure to foreign exchange and the exposure to foreign securities definitions

<sup>g</sup> Holdings of assets denominated in foreign currency and assets indexed to foreign currency, excluding shekel/forex assets.

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

SOURCE: Bank of Israel.

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## 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 directly by the public and by 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) Range—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. 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**<sup>1</sup>—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, that generate yields and can be withdrawn. 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; (4) CPI-indexed deposit; (5) Foreign exchange-indexed deposit; (6) Foreign currency deposit—a deposit by Israelis in foreign exchange in Israeli banks.

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<sup>1</sup> For further details of the definitions, terms and explanations, see "Measuring Institutional Investors' Exposure to Foreign Exchange and to Foreign Assets" in Chapter 2 of the Statistical Bulletin for 2016.