

A. The public's financial asset portfolio

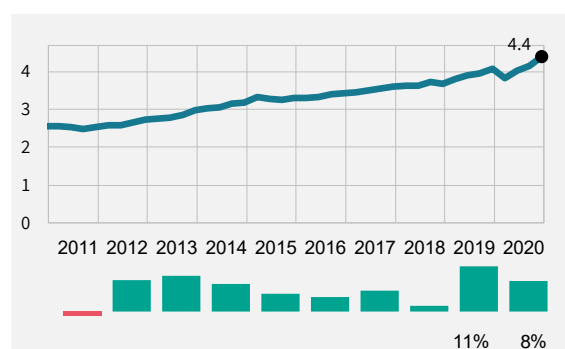
The balance of the asset portfolio held by the public¹ increased in 2020 by a higher rate than the average in recent years, despite the marked volatility in asset prices during the COVID-19 crisis. Alongside this, the mix of assets in the portfolio changed slightly. The weight of the deposits component increased, alongside a significant increase in the weight of financial assets abroad, while the weight of equities and bonds in Israel declined slightly. The increase in financial assets abroad was due to both net new investments and price increases of equities abroad. The upward trend in the share of the portfolio managed by institutional investors was halted in 2020.

The total asset portfolio

The balance of the asset portfolio held by the public increased significantly in 2020, despite the marked volatility in asset prices during the COVID-19 crisis.

The balance of the financial asset portfolio held by the public increased by about 8 percent (about NIS 320 billion) in 2020, to about NIS 4.4 trillion at the end of the year. The growth rate of the portfolio in 2020 was higher than the average in recent years (an average of about 5 percent in the past decade). In the first quarter of the year, there was a decline in the value of the portfolio, due to the sharp price declines at the beginning of the COVID-19 crisis, while later in the year, as the equity markets recovered, the value of the portfolio resumed its increase and surpassed its precrisis level.

Figure 1.1: The Public's Financial Asset Portfolio, 2010–2020
NIS trillion (top) and rate of change

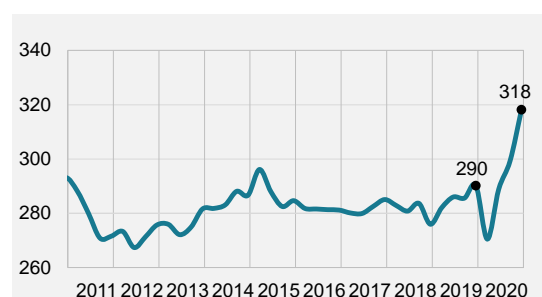


SOURCE: Bank of Israel data

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

The asset portfolio as a share of GDP increased significantly, by about 28 percentage points, to about 318 percent at the end of the year – a record high attributed partly to the contraction of GDP.

Figure 1.2: Balance of the Asset Portfolio, 2010–2020
percent of GDP



SOURCE: Bank of Israel data

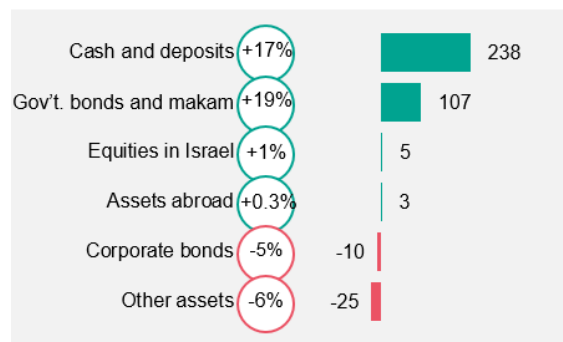
¹ For an explanation, see Data Sources and Main Terms at the end of the chapter.

The volatility in the financial markets due to the COVID-19 crisis had a prominent impact on the asset balances in the portfolio.

The balance of cash and deposits increased significantly during 2020, by about NIS 238 billion (17 percent). The balance of financial assets abroad increased in the second half of the year by about 19 percent, in view of the price increases in markets abroad. The balance of equities in Israel increased by about NIS 5 billion (1 percent). In contrast, the balance of corporate bonds declined by about 6 percent, and the balance of other assets declined by about NIS 10 billion (5 percent).

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

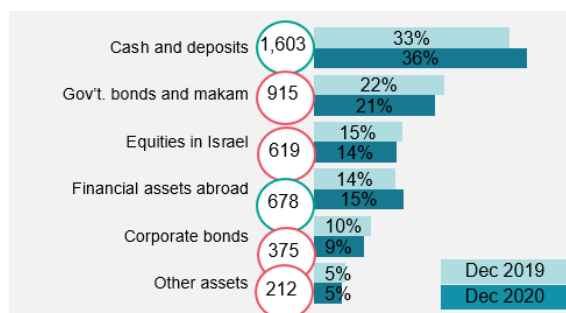
There was a marked change in the composition of assets in the portfolio—a significant increase in the weight of deposits, and an increase in the weight of financial assets abroad.

The weight of cash and deposits in the portfolio increased by about 3 percentage points, to about 36 percent of the entire portfolio at the end of the year.

The weight of holdings of financial assets abroad increased by one percentage point, to about 15 percent of the portfolio. The weight of holdings of government bonds and makam, equities in Israel, and corporate bonds declined by one percentage point each.

Figure 1.4: Distribution of Assets in the Portfolio in 2019 and in 2020 (columns) and asset balances

percentage of the portfolio



SOURCE: Bank of Israel data

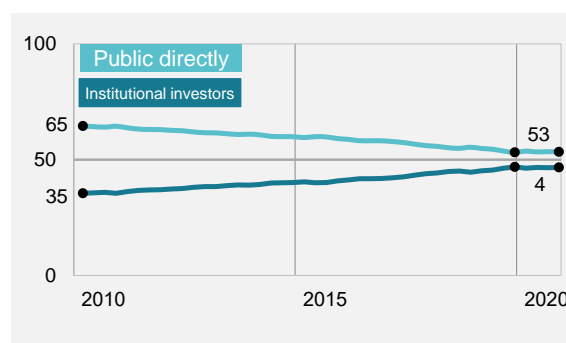
2. Management of assets The portfolio

The upward trend in the share of the portfolio managed by institutional investors that had characterized the past decade was halted in 2020.

The weight of the portfolio managed by the institutional investors remained at about 47 percent of the total portfolio in 2020. Thus, the long-term upward trend was halted this year. There was an increase in the level of balances, both in the portfolio held directly by the public (NIS 179 billion; 8.3 percent) and in the portfolio managed by the institutional investors (NIS 141 billion; 7.4 percent).

Figure 1.5: Distribution of Holdings by Manager

Percentage of the total portfolio



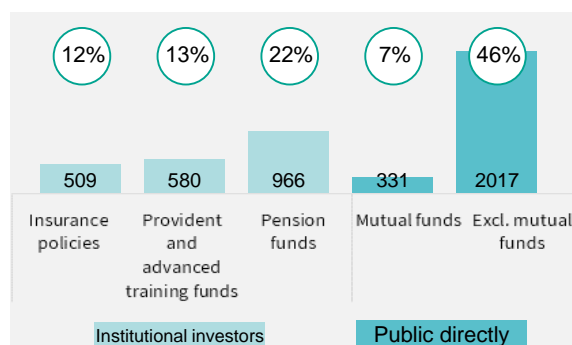
SOURCE: Bank of Israel data

In the distribution of holdings by manager, the weight of the mutual funds declined in favor of the portion 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 declined by about 2 percentage points relative to 2019, in view of the withdrawals from mutual funds that took place in the first quarter of the year. The distribution of holdings among the institutional investors remained unchanged.

Figure 1.6: Distribution of Holdings in the Portfolio by Manager

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



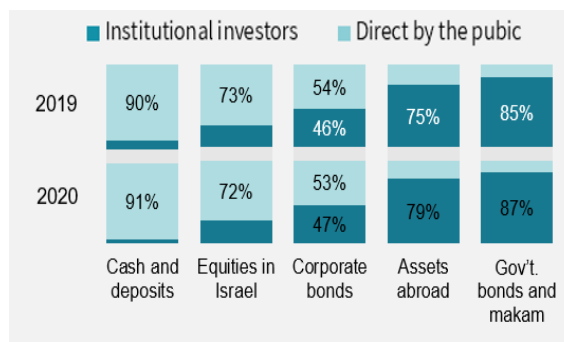
SOURCE: - Bank of Israel data

The public's direct share of the mix of assets in the portfolio declined in most components, but increased in the deposits component.

Institutional investors' share of the public's holdings of financial assets abroad increased significantly in 2020. In addition, their share of corporate bond holdings also increased slightly. In contrast, institutional investors' share of the public's holdings of equities in Israel declined.

Figure 1.7: Distribution of holdings in the portfolio by asset

The public's direct holdings vs. institutional investors



SOURCE: Bank of Israel data

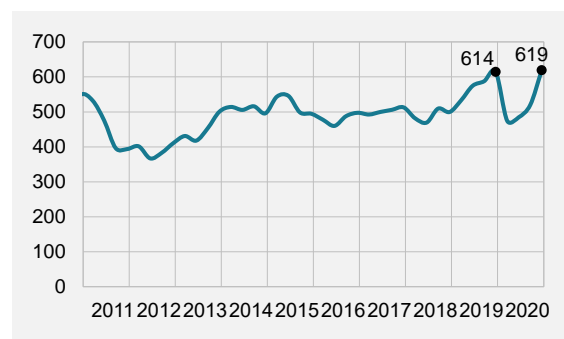
Equities in Israel

The balance of holdings in equities in Israel increased, despite the volatility that characterized the equity market during 2020.

The balance of the public's holdings of equities in Israel increased by about NIS 5 billion in 2020, reaching about NIS 619 billion. In the first quarter of the year there was a significant decline resulting from sharp price declines in February and March. In contrast, there was a significant recovery on the Tel Aviv Stock Exchange in the fourth quarter, which led to an increase in the total balance of equities in the portfolio for the year as a whole.

Figure 1.8 Balance of Holdings of Equities in Israel

NIS billion



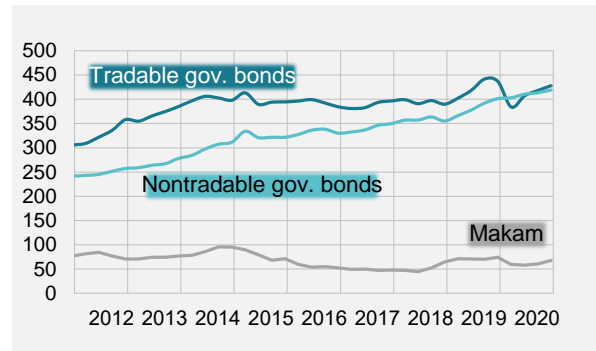
SOURCE: Bank of Israel data

4. Bonds

The balance of government bonds held by the public did not change significantly during the year, despite the large volume of issuances carried out by the government.

The balance of holdings of tradable government bonds declined by about NIS 8.5 billion (2 percent), despite the large volume of issuances carried out by the government. For more information, see “Zoom In” at the end of this chapter. Nontradable government bonds (earmarked bonds) continued to increase this year, mainly during the second half of the year, further to the long-term upward trend of net new investment in the new pension funds.

Figure 1.9: Government Bonds and Makam, 2012–2020
NIS billion



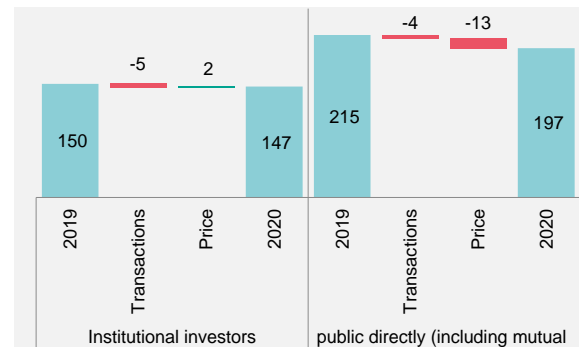
SOURCE: Bank of Israel data

The public directly made net realizations of tradable corporate bonds, while institutional investors made net purchases.

The balance of tradable corporate bonds in Israel held directly by the public declined by about NIS 17 billion during the year, of which about NIS 4 billion was due to net realizations, mainly through mutual funds, in addition to price declines of about 6 percent (an estimated NIS 13 billion). In contrast, the institutional investors realized bonds totaling about NIS 5 billion, with an estimated price increase of about 1 percent.

Figure 1.10: Tradable Corporate Bonds in Israel

NIS billion



SOURCE: Bank of Israel data

5. Financial assets abroad

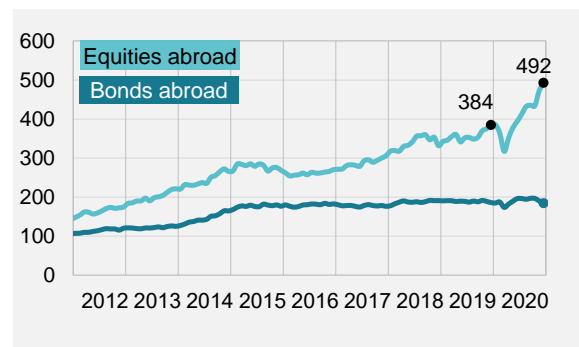
The balance of financial assets abroad increased during 2020 as a result of equity purchases abroad by institutional investors.

The balance of the public’s investments in equities abroad increased by about NIS 108 billion (28 percent) to about NIS 492 billion at the end of the year. In addition to price increases on equity markets abroad, the increase was due to net investments (transactions) of about NIS 54 billion. This increase was partly offset by the appreciation of the shekel (by about 7 percent), which lowered the shekel value of the portfolio.

The balance of the public’s investments in bonds abroad declined by about NIS 2 billion to about NIS 184 billion at the end of the year.

Figure 11.1: Balance of equities and bonds abroad, 2012–2020

NIS billion

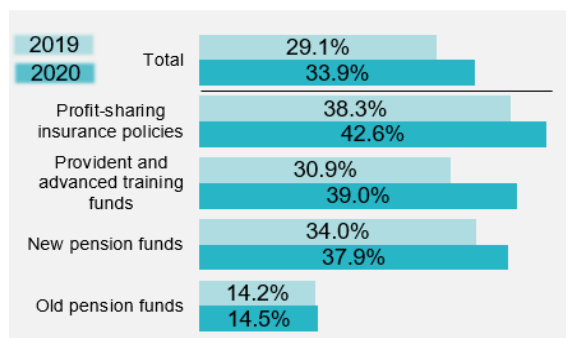


SOURCE: Bank of Israel data

The rate of institutional investors' total exposure to foreign assets increased significantly in 2020.

The rate of institutional investors' total exposure to foreign assets increased by about 5 percentage points to 33.9 percent. Most of the institutional investors significantly increased their exposure to foreign assets: the provident funds and the pension funds (by about 8.1 percentage points); profit-sharing insurance policies (by about 4.3 percentage points); and the new pension funds (by about 3.9 percentage points). In contrast, the old pension funds increased their exposure to foreign assets only slightly (by about 0.3 percentage points).

Figure 1.12: Institutional Investors' Exposure to Foreign Assets
as a share of total assets



SOURCE: Bank of Israel data

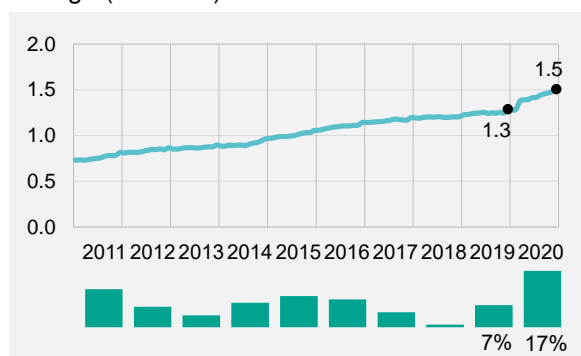
6. Cash and deposits

The balance of cash and deposits increased significantly in 2020.

The balance of the public's holdings of deposits increased by about NIS 238 billion (17 percent) during 2020, to about NIS 1.6 trillion at the end of the year. Most of the increase was in demand deposits, totaling about NIS 111 billion (32 percent) and in foreign exchange deposits, totaling NIS 34 billion (15 percent). About one-third of those foreign exchange deposits were deposited by institutional investors.

The balance of cash increased significantly, by about 23 percent (about NIS 18 billion), compared with an average increase of about 5 percent in the past five years, to about NIS 97 billion at the end of the year.

Figure 1.13: Balance of Deposits
Balance in NIS trillion (line) and annual rate of change (columns)



SOURCE: Bank of Israel data

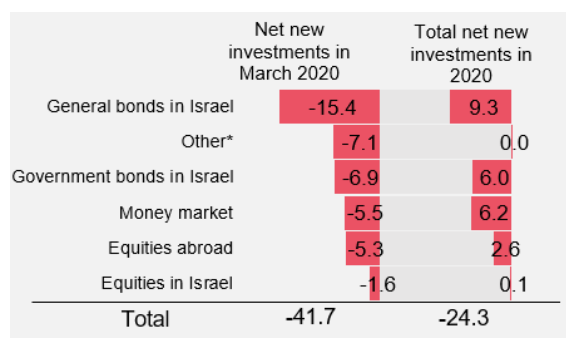
7. Mutual funds

The mutual funds recorded negative net investments in 2020, mostly concentrated at the very beginning of the crisis in March.

The mutual funds recorded negative net new investments totaling about NIS 24 billion in 2020, mostly at the beginning of the COVID-19 crisis in March. Later in the year there were positive net new investments, but at a lower total of about NIS 20 billion combined. The withdrawals from funds specializing in general bonds in Israel, totaling about NIS 15.4 billion in March and about NIS 9.3 billion over the course of the year, were prominent. Significant withdrawals encompassed all types of mutual funds—traditional, tracking, and ETFs.

Figure 1.14: Mutual Fund Specializations (incl. ETFs)

Net new investments, NIS billion, during 2020



SOURCE: Bank of Israel data

* Other - other investment groups that are not in the graph, including: groups specializing in nominal, foreign exchange, and corporate bonds in Israel, and bonds abroad.

The mix of assets held by the mutual funds did not change significantly during the year.

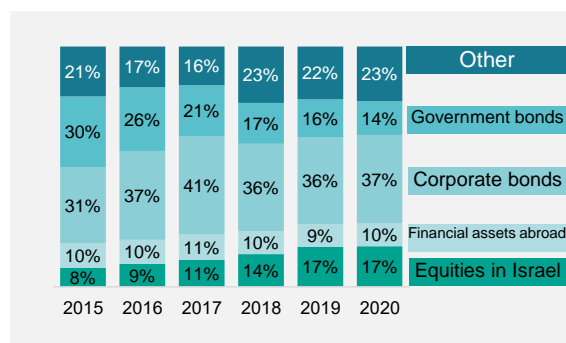
Despite the high level of withdrawals, the trends in the financial markets in 2020 had a moderate impact on the composition of assets held by the mutual funds compared with the relatively significant changes in previous years.

The most prominent change occurred in the government bonds component, which declined by about 2 percentage points in 2020, further to the significant downward trend of about 14 percentage points between 2015 and 2019.

The upward trend of the equities in Israel component since 2015 was halted in 2020, and remained unchanged compared with 2019. The financial assets abroad and corporate bonds components increased by one percentage point compared with 2019.

Figure 1.15: Distribution of Mutual Fund Assets

As a share of total assets



SOURCE: Bank of Israel data

ZOOM IN

Zoom in – DEVELOPMENTS IN THE TRADABLE GOVERNMENT BOND MARKET ON THE TEL AVIV STOCK EXCHANGE IN 2020

The government significantly increased the volume of bond issuances in 2020

Institutional investors sold government bonds at the beginning of the crisis in view of the need to increase collateral for foreign exchange assets abroad

Figure 1.16: Market Value of Tradable Government Bonds on the Tel Aviv Stock Exchange, NIS billion

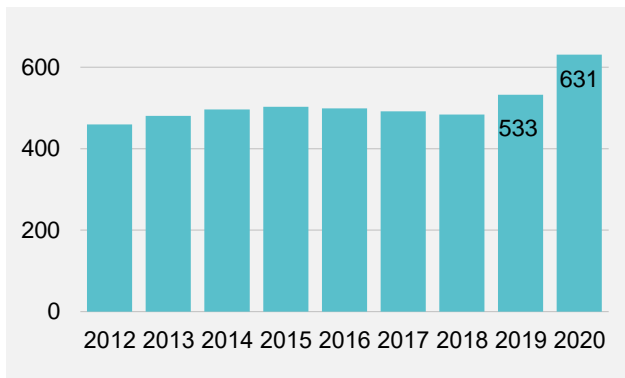
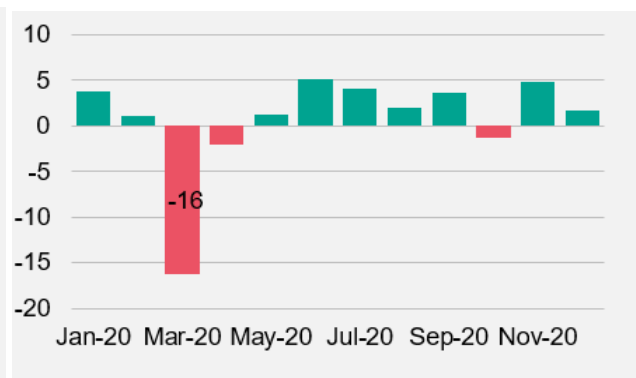
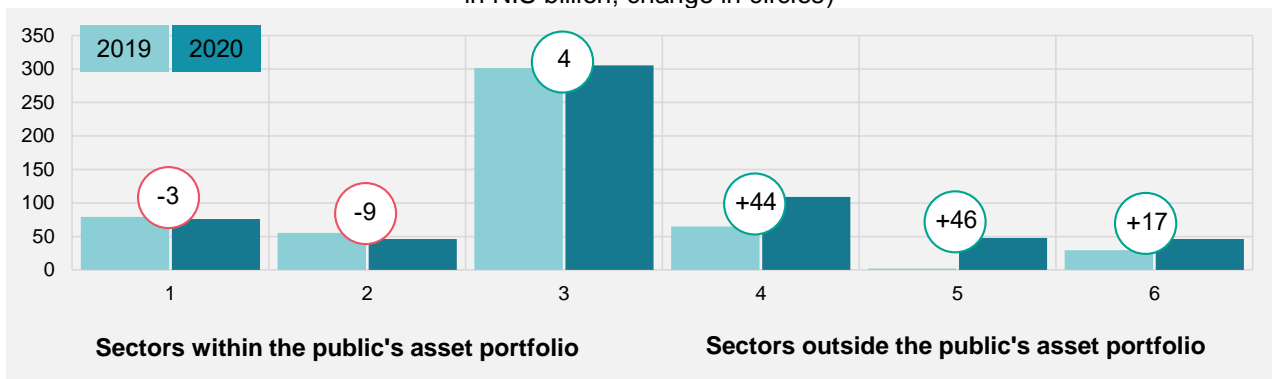


Figure 1.17: Transactions by Institutional Investors (excl. insurance policies) in Tradable Government Bonds During 2020, NIS billion



Most of the increase in the balance of tradable government bonds in 2020 was purchased by sectors defined as outside the public's asset portfolio—banks, the Bank of Israel, and nonresidents

Figure 1.18: Tradable Government Bond Balances Held by Various Sectors, 2019 and 2020 (market value in NIS billion; change in circles)



SOURCE: Bank of Israel data.

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

	2015	2016	2017	2018	2019	2020
Total asset portfolio held by the public						
Value of the public's asset portfolio (NIS trillion)	3.32	3.44	3.62	3.67	4.08	4.40
Asset portfolio as a percentage of GDP	285.0	281.0	284.7	276.0	285.6	318
Tradable assets	50.5	49.0	48.9	49.4	50.5	48.6
Risk assets ¹	41.7	41.7	42.5	42.8	43.9	42.6
Assets abroad ²	14.2	13.8	13.7	14.3	14.0	15.4
Foreign exchange assets ³	20.7	20.5	20.2	21.3	20.4	22.0
Unindexed assets ⁴	70.6	71.0	71.3	71.8	71.9	74.0
Liquid assets ⁵	28.4	29.1	29.0	29.2	28.5	32.4
Portfolio managed by the public directly and through mutual funds						
Rate of investment as a share of the asset portfolio	59.1	58.1	56.1	55.4	53.1	53.3
Tradable assets	49.0	46.4	46.2	47.0	48.5	48.8
Risk assets	37.6	36.4	37.0	35.2	36.4	32.7
Assets abroad	10.2	9.5	9.1	8.0	6.4	6.1
Foreign exchange assets	19.3	18.9	18.2	17.9	16.5	16.1
Unindexed assets	82.7	84.3	87.2	89.2	92.8	98.4
Liquid assets	42.3	44.5	45.3	46.8	46.3	53.4
The portfolio managed by institutional investors						
Rate of investment as a share of the asset portfolio	40.9	41.9	43.9	44.6	46.9	46.7
Tradable assets	52.6	52.6	52.3	52.3	52.8	52.9
Risk assets	47.6	49.2	49.5	52.1	52.5	54.0
Assets abroad ⁶	20.0	19.8	19.6	22.2	22.5	26.0
Foreign exchange assets ⁷	22.7	22.8	22.8	25.5	24.8	28.7
Unindexed assets	53.0	52.6	51.0	50.1	48.2	46.0
Liquid assets	8.4	7.6	8.2	7.5	8.3	8.5

¹ Israelis' investments abroad.

² Assets indexed to foreign exchange + equities abroad.

³ All assets minus those indexed to the CPI.

⁴ Cash, deposits up to one year in Israel, and makam.

⁵ 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.

⁶ 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.

⁷ 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.

I 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.

I The asset portfolio managed by institutional investors on behalf of the public

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

I Exposure to foreign assets¹

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.

¹ 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.

I 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.

I 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)

I 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.

I 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.