B. NONFINANCIAL PRIVATE SECTOR DEBT[1]

The balance of nonfinancial private sector[1] debt continued to increase in 2023, but by a lower rate than in previous years (about 4 percent). The slowdown in the growth rate of this balance, which characterized both borrower sectors, began in the third quarter of the year, and intensified in the final quarter of the year due to the Swords of Iron War.

In 2023, the balance of nonfinancial business sector debt[2] increased by about NIS 64 billion (5 percent), mainly due to net debt raised by major businesses in the form of bank loans, which were concentrated in the first half of the year. The increase in the debt balance in all business sectors was halted in the final quarter of the year, against the backdrop of the Swords of Iron War.

The balance of household debt increased by the moderate rate of about 2 percent this year (about NIS 18 billion), resulting from a combination of a slower growth rate of the balance of housing debt and a decline in the nonhousing debt balance. The slowed growth rate of the housing debt originated in a slowdown in new mortgage volume, which continued throughout the year against a backdrop of the increase in the central bank interest rate, and this trend was intensified after the outbreak of the war. The decline in the balance of nonhousing debt was concentrated mainly in debt to the institutional investors, primarily provident funds and advanced education funds. To reduce the economic impact of the war on the two borrower sectors, the government of Israel and the Bank of Israel took different steps to encourage lending and grant concessions on the terms of existing credit.[3]

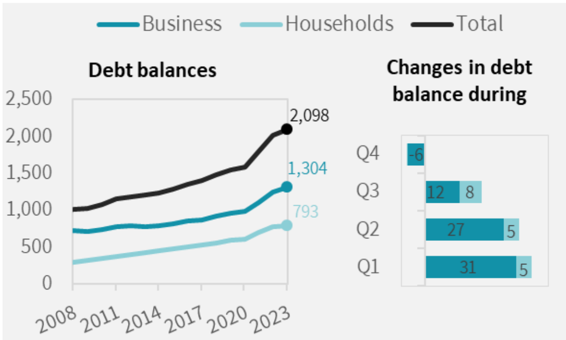
1. Nonfinancial private sector debt (business and household)

In 2023, the balance of the nonfinancial private sector debt recorded a moderate increase, both in the business sector debt and in the household sector debt. Against the backdrop of the outbreak of the war, this balance declined moderately in the fourth quarter of the year.

The balance of the nonfinancial private sector increased by about NIS 82 billion (4 percent) in 2023, and reached about NIS 2.1 trillion at the end of the year, an amount that was low relative to the accelerated rise in the balance of this debt recorded in 2021–22. The major part of the increase (about NIS 69 billion) occurred in the first half of the year. The increase in the debt balance stemmed mainly from net debt raised and new loans assumed by the two borrower sectors. The increase in the CPI and the depreciation of the shekel against the US dollar also contributed to the increase in the balance of this debt

Figure 2.1 Debt balance of the nonfinancial private sector

NIS billion



SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

[1] This section focuses on the debt of the nonfinancial private sector to major lenders (including banks, institutional investors, and nonresidents), and does not include debt to other lenders (e.g., private credit companies). See the explanation in Data Sources and Main Terms at the end of this section. Data on the debt to banks are based on monthly balance-sheet data and not on data from the annual financial statements, since the statements for 2023 have not yet all been published. For more information on the analysis of these segments, see Chapter 4 of the *Bank of Israel Annual Report for 2023*, which is scheduled to be published in late March 2024.

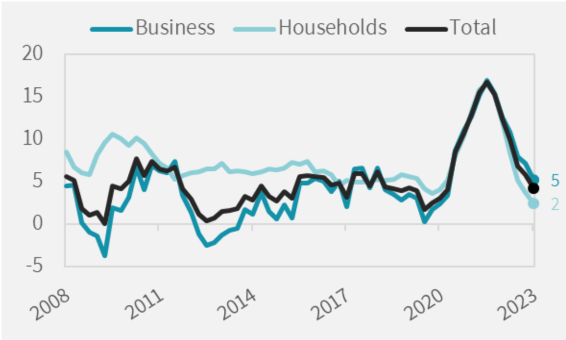
[2] The term "the business sector" means the nonfinancial business sector (excluding the banks, the credit card companies, and the institutional investors).

[3] For additional information see Chapters C, D, and H in the Bank of Israel Report for 2023, which is scheduled to be published in March 2024, and Box 1 in the Financial Stability Report for the First Half of 2023.

Annual growth rates in the balance of the debt of the two borrower sectors moderated in 2023, and were similar to the average growth rates of the past decade.

The annual growth rate of business sector and household debt, which peaked at about 17 percent in the first half of 2022, slowed in 2023 and growth rates reached 5 percent and 2 percent, respectively, at the end of 2023.

Figure 2.2: Annual Rates of Change in Outstanding Nonfinancial Business Sector Debt
percent



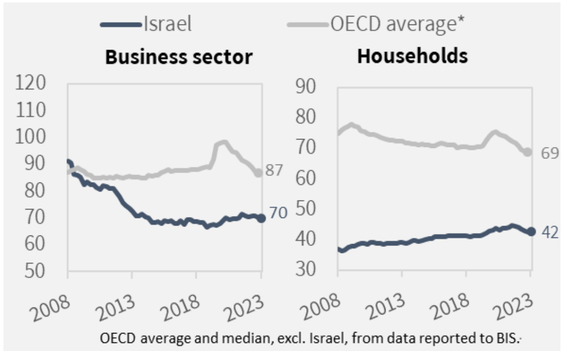
SOURCE: Based on reports to the Bank of Israel and the Israel Securities Authority.

The business debt to GDP ratio and the household debt to GDP ratio remained low, compared to OECD countries.

In 2023, the business sector debt to GDP ratio and the household debt to GDP ratio dropped by about 1 percentage point each, and reached about 70 percent and about 42 percent, respectively, at the end of the year.

These ratios also declined in OECD countries to about 87 percent and about 69 percent, respectively.[4]

Figure 2.3: Nonfinancial Private Sector Debt
percent of GDP



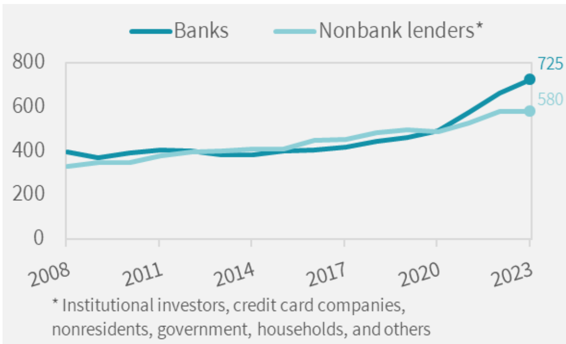
SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

2. Nonfinancial business sector debt

The balance of business sector debt increased in 2023, and was concentrated in debt to the banks.

In 2023, the balance of business sector debt increased by about NIS 64 billion, to about NIS 1.3 trillion: The main increase originated from debt to the banks, which constituted about 56 percent of the balance of the business sector debt.

Figure 2.4 Debt balance of the nonfinancial private sector, by lender
NIS billion



SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

[4] Figures for Israel are as of December 2023. Figures for the OECD are as of September 2023.

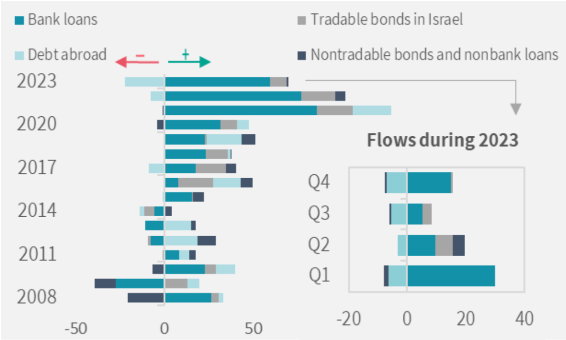
The net debt raised by the business sector was concentrated in bank loans, primarily in the first half of the year.

In 2023, the net debt raised by the business sector totaled about NIS 48 billion, most of which was raised in the first half of the year. The amount is small relative to the accelerated fund raising of new debt in 2021–22.

This year, the composition of the debt raised was similar to previous years: The majority of debt raised, about NIS 60 billion, was concentrated in bank loans; about NIS 9 billion was raised through tradable bonds in Israel. In contrast, debt abroad recorded net repayments of about NIS 22 billion, most of this amount stemmed from the repayment of loans granted by foreign residents.

Figure 2.5 Estimate of net debt issued (flows) of the total debt of the nonfinancial private sector

NIS billion



SOURCE: Based on Tel Aviv Stock Exchange, Central Bureau of Statistics, BIS, reports to the Bank of Israel.

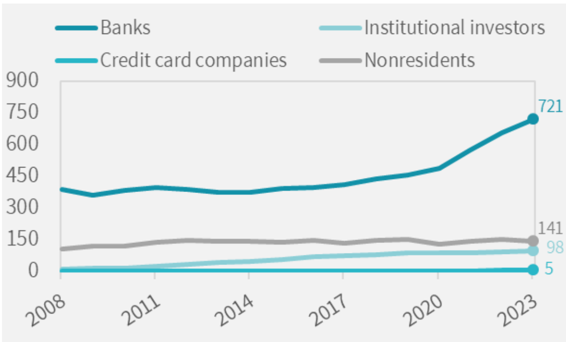
. **Bank loans accounted for about 75 percent of the balance of the business sector debt raised through loans.**

The debt balance that originated in loans assumed by the business sector was about NIS 966 billion at the end of the year: Similarly to the previous year, the increase in this debt balance was concentrated in bank loans whose balance was about NIS 721 billion in 2023, reflecting an increase of about 9 percent.

The balance of loans granted by nonresidents dropped by about 8 percent this year, to about NIS 141 billion. The balances of loans from other lenders — the institutional investors and the credit card companies — did not record any significant changes this year.

Figure 2.6: Balance of loans to the nonfinancial private sector, by main lenders

NIS billion



SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

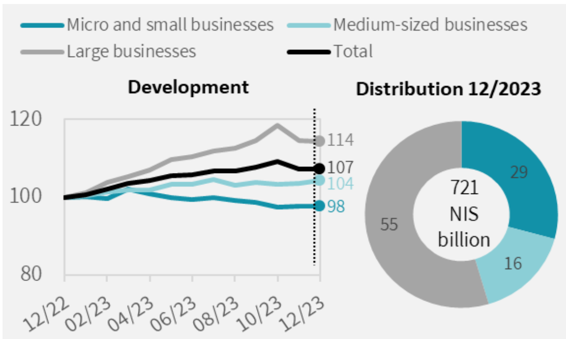
In the fourth quarter of 2023, against the backdrop of the Swords of Iron War, the balance of bank loans increased in all business sectors.

This year, the development of the balance of bank loans varied by business size: While the balance of large businesses' debt to banks increased by about 14 percent, small and micro businesses recorded a decline of about 2 percent in the balance of their debt to banks.

Against a backdrop of the Swords of Iron War, the Bank of Israel identified a decrease in the credit balance of small and very small businesses. In response, the Monetary Committee decided to take focused action to offer discounted monetary loans.

Figure 2.7: Loans granted by banks, by business size

Distribution (percent), development (index)



SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

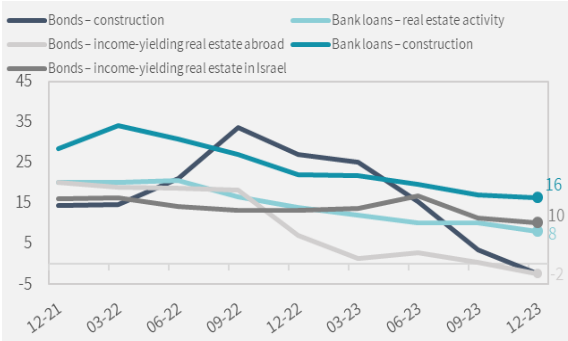
This year, the debt balance of firms in the construction and real estate industries grew more slowly

About one-third of the business sector debt is attributed to firms in the construction and real estate industries.[5,6]

In the past three years, bank loans taken by firms in the construction industry recorded rapid growth. This year, the debt balance increased at a slower pace yet the growth rate remained high, reaching about 16 percent at the end of the year.

The growth rate of the debt balance of firms in the real estate sector, both the balance of bank loans and the balances of tradable bonds, slowed and reached about 8 percent in each debt source at the end of the year.

Figure 2.8: Annual rates of change in debt of the construction and real estate industries via bank loans and tradable bonds in Israel[7]
Percent

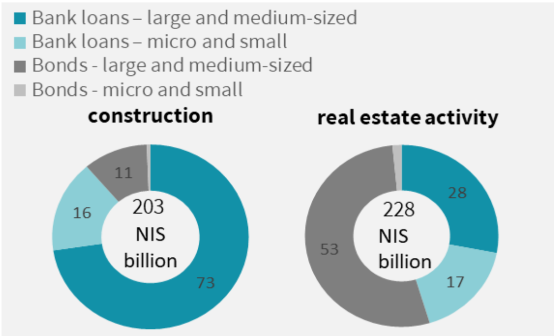


SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

About 90 percent of the debt of firms in the construction sector originated from bank loans; About 55 percent of the debt of firms in the real estate sector originated from tradable bonds in Israel.

In the construction and real estate industries, sources of financing varied by firm size: Small and micro firms relied on bank loans while large firms, and especially firms in the real estate industry, also raised debt through tradable bonds.

Figure 2.9: Business Sector Debt by Industry and Real Estate and Construction Debt by Main Instrument[8]
Percent



SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

[5] For a breakdown of the balance of debt of the nonfinancial business sector by sector, see the work in the second part of the publication 2019 Statistical View.

[6] The main component that was classified in the total debt of the nonfinancial sector is "direct loans from the institutional investors to the business sector," which accounted for about 7 percent of the debt and therefore the estimation of the debt of several sectors is incomplete.

[7] The analysis of debt in the traded bond channel in Israel was based on the stock exchange's industry classification, while the debt in the bank loan channel was based on the CBS's industry classification. There may be methodological differences between the two types of classifications. For details and explanations of the industry definitions presented, see 'Data Sources and Key Terms' at the end of this chapter.

[8] The analysis of debt in the traded bond channel in Israel was based on the stock exchange's industry classification, while the debt in the bank loan channel was based on the CBS's industry classification. There may be methodological differences between the two types of classifications. Business size was calculated similarly to the definitions of the Banking Supervision Department based on activity turnover. Micro and small businesses – activity turnover of up to 50 million NIS, medium and large businesses – activity turnover of over 200 million NIS.

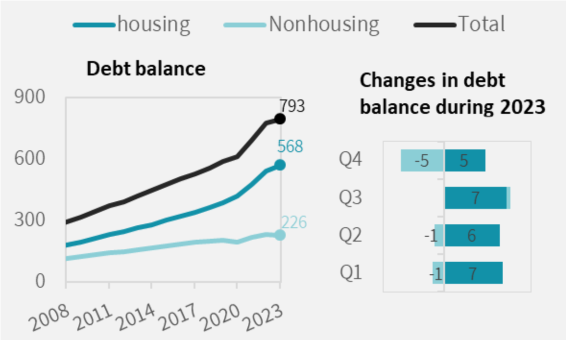
3. Household debt

Against a backdrop of rising interest rates, the increase in the balance of household housing debt slowed this year, and for the first time since 2020, the nonhousing debt balance declined, and this decline intensified in the fourth quarter of the year.

In 2023, the total (housing and nonhousing debt) household debt balance increased by a moderate rate of about 2 percent (about NIS 18 billion) to about NIS 793 billion. The increase of about 5 percent in the balance of housing debt was offset by a decline of about 3 percent in the balance of nonhousing debt; The major share of this decline occurred in the final quarter of the year, against a backdrop of the outbreak of the war.

As a result, the share of the housing debt balance in the total household debt balance increased by about 2 percentage points, to about 72 percent.

Figure 2.10: Households' debt balance, housing and nonhousing
NIS billion



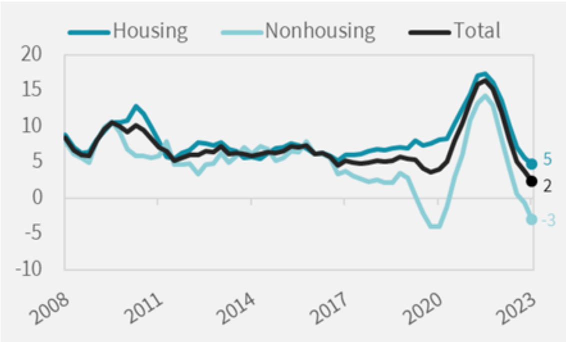
SOURCE: Based on reports to the Bank of Israel.

In 2023, the growth rate of the housing debt balance continued to slow, and the balance of nonhousing debt recorded a negative growth rate this year.

The growth rate of the housing debt continued to be positive and reached about 5 percent at the end of the year, but remained below the record rates recorded in 2021–22, and represented a return to the growth rates recorded in the years preceding that period.

The nonhousing debt recorded a negative growth rate of about 3 percent, for the first time since 2020

Figure 2.11: Annual Rates of Change in Outstanding Household Debt
Percent



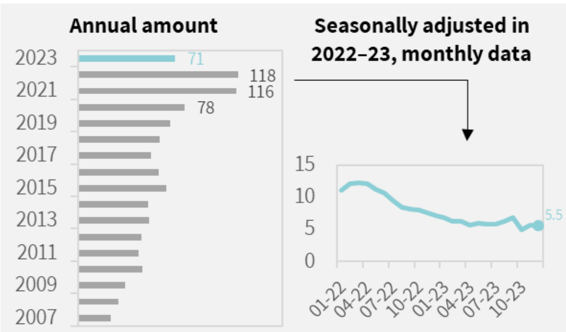
SOURCE: Based on reports to the Bank of Israel

The moderation in the growth of housing and nonhousing debt was the result of a slowdown in households' uptake of new bank mortgages. This slowdown become more pronounced after the outbreak of the war.

New bank mortgages volume declined this year compared to the preceding two years, and totaled about NIS 71 billion, a level similar to years prior to 2021.

The slowdown in new mortgage volume began in the second half of 2022, against a backdrop of an increase in the Bank of Israel interest rate, and an additional slowdown occurred in October 2023, against a backdrop of the outbreak of the Swords of Iron War.

Figure 2.12: New loans provided by banks to households for purchasing residential homes
NIS billion



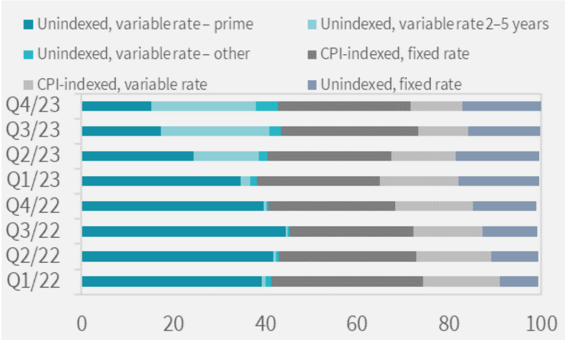
SOURCE: Based on reports to the Bank of Israel.

Against the backdrop of the increase in the Bank of Israel interest rate, the share of new mortgages linked to the prime interest rate began to decline significantly

The percentage of new unindexed mortgages at a variable rate linked to the prime rate declined in 2023 by about 25 percentage points to about 15 percent, due to the rising interest rates in this track. Concurrently, the percentage of new mortgages in the unindexed variable interest track for 2–5 years increased to about 23 percent

Figure 2.13: New loans for purchasing a residential home provided by the banks to households, by indexation and interest type

percent



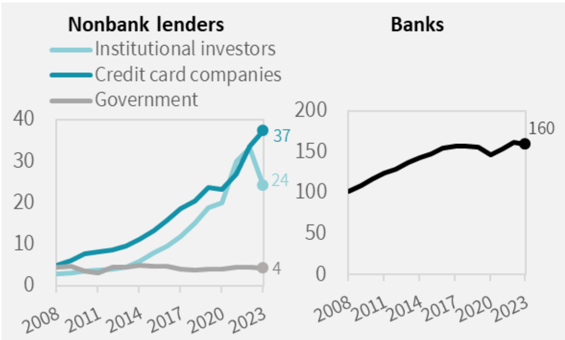
SOURCE: Based on banking system reports to the Banking Supervision Department.

This year, the nonhousing debt balance to institutional investors and banks declined and debt to the credit card companies increased

Households' nonhousing debt declined in this year by about NIS 7 billion (-3 percent) to about NIS 226 billion. The decline in this balance stemmed from loans granted by institutional investors, which declined by about NIS 9 billion, totaling about NIS 24 billion. The balance of bank debt also declined this year by about 1 percent, to about NIS 160 billion at the end of the year. At the same time, the balance of loans from the credit card companies increased by about 11 percent, reaching about NIS 37 billion At the end of the year, bank debt accounted for about 71 percent of the total nonhousing debt.

Figure 2.14: Nonhousing debt balance of households, by lender

NIS billion



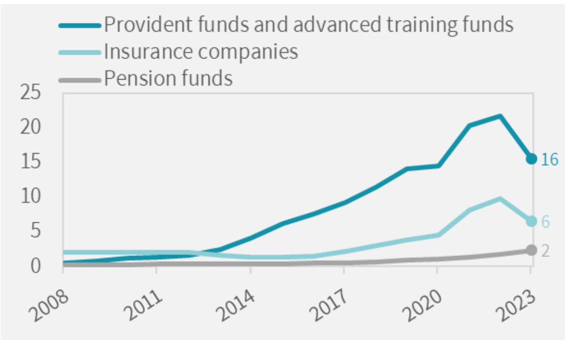
SOURCE: Based on banking system reports to the Banking Supervision Department.

The decline in nonhousing loans granted by the institutional investors was concentrated in loans from provident funds and advanced education funds

Against a backdrop of the rising Bank of Israel interest rate, a decline was recorded in the balance of households' nonhousing loans from institutional investors, which were mainly concentrated in loans from provident funds and advanced education funds (about NIS 6 billion), and the balance of these loans at the end of the year was about NIS 16 billion. Loans from insurance companies also declined, by about NIS 3 billion, reaching about NIS 6 billion. In contrast, the balance of loans from pension funds increased slightly and reached about NIS 2 billion at the end of the year.

Figure 2.15 Nonhousing debt balance of households to institutional investors

NIS billion



SOURCE: Based on reports to the Bank of Israel.

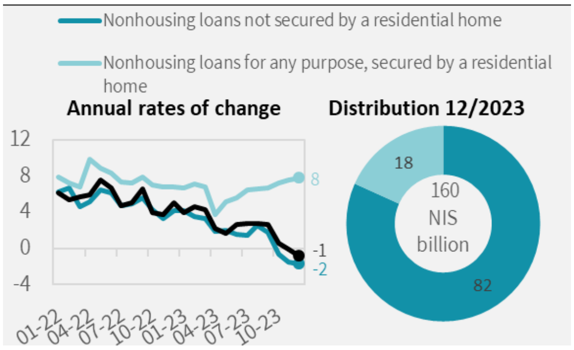
A breakdown of the nonhousing debt to banks indicates that in 2023 debt to banks was characterized by an increase in the amount of general-purpose loans secured by the customer's residential home, and by a decline in the amount of other nonhousing loans.

The nonhousing debt balance of households to banks totaled about NIS 160 billion at the end of the year. This amount consists of general-purpose loans secured by a residential home and other loans, which account for about 18 percent and 82 percent of the total nonhousing debt to banks, respectively.

In 2023, the balance of general-purpose loans secured by a residential home increased by the rapid rate of about 8 percent, while other loans, which comprise the primary component of the debt, declined by about 2 percent.

Figure 2.16: Nonhousing debt balance of households to banks

Distribution (percent), rate of change (percent)



SOURCE: Based on reports to the Bank of Israel.

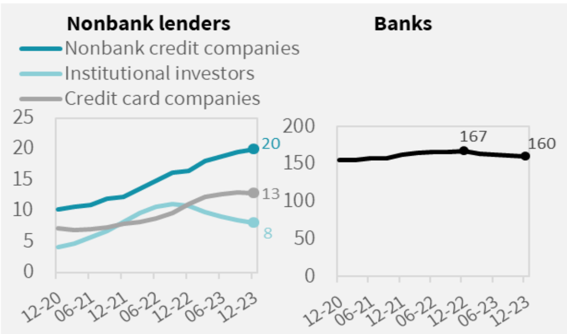
ZOOM-IN

ZOOM-IN: CONSUMER LOANS IN THE RETAIL SEGMENT (households and authorized dealers)[9]

Consumer loans are a major component of nonhousing loans in the household sector, and are granted by several entities: banks (which are the primary lenders), credit card companies, institutional investors, and nonbank credit companies. The developments in and features of consumer loans stem from borrowers' risk profiles and various features of the loans. For example, a low average interest rate on loans granted by the institutional investors reflects the existence of collateral and borrowers' low risk level, in contrast to loans granted by the credit card companies and nonbank credit companies. In view of the rise in the Bank of Israel interest rate and in financing expenses, developments in the balances of loans from various lenders show variance: Some borrowers reduced their loans from the institutional investors and the banks, while other increased their loans from nonbank companies and credit card companies[10].

This year there was a decline in the balance of consumer loans provided from the banks and institutional investors, while in contrast there was an increase in the balance of loans from nonbank credit companies and credit card companies.

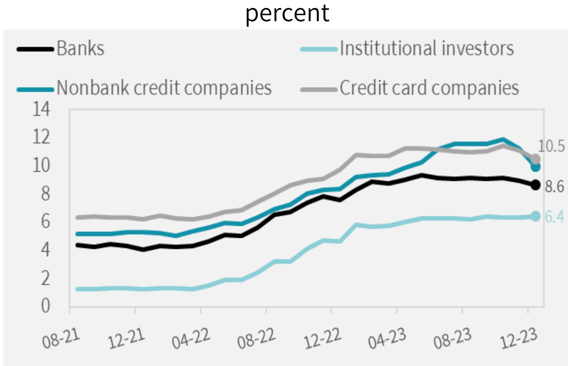
Figure 2.17 Consumer loans balance, by type of lender; NIS billion



SOURCE: Based on reports to the Bank of Israel.

Loans from the institutional investors secured by guarantees provided at a lower interest rate, compared to loans from credit card companies and nonbank credit companies[11]

Figure 2.18: The average interest rate on new loans that are unindexed, variable rate, by lender type, percent



SOURCE: Based on reports to the Bank of Israel

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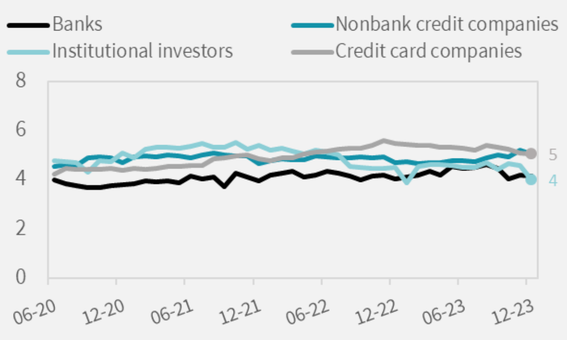
9 The retail segment comprises private individuals and authorized dealers. We stress that in contrast to the banks and the credit card companies, which are obligated to report to Database, nonbank credit companies and the institutional investors report to the Database only if they meet the reporting requirement defined in the law, or in the case of the mutuality principle. Therefore, the data in the figures in this section refer only to entities that report to the Database, and represent only part of the consumer loans granted in the economy by the institutional investors and nonbank companies. The data on consumer loans from the credit card companies presented in this section are an underestimation because a considerable share of these loans are classified as customers' credit facilities and therefore are not reported under "consumer loans," according to the information managed by each information source. For additional information on the Statistical Credit Database of households, see the work in the second part of the publication Statistical Bulleting 2020.

10 For additional information on the analysis of these loans, see Box D-2 in Chapter D of the Bank of Israel Report for 2023, which is scheduled to be published in March 2024.

11 Most consumer loans from banks and credit card companies are at variable interest rates, compared to institutional bodies and non-bank credit companies, where the proportion of consumer loans at variable interest rates was about 58% and 10%, respectively, during 2023.

The average loan term for new loans is similar among the various lenders, and in 2023 was about 4–5 years.

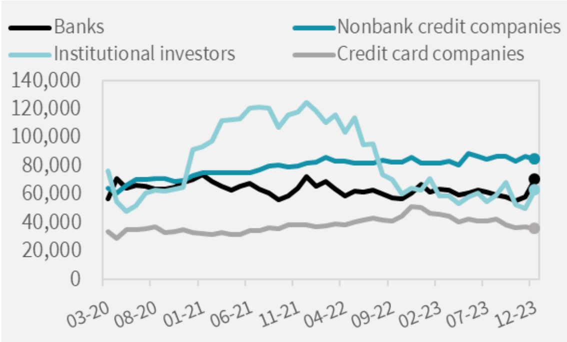
Figure 2.19: Average loan term for new loans, by lender type; years



SOURCE: Based on reports to the Bank of Israel

The variance in the average loan amount granted by the various lenders is impacted by the various features of the loans.

Figure 2.20: The average loan amount granted, by lender type; NIS



SOURCE: Based on reports to the Bank of Israel

Main indicators of nonfinancial private sector debt

	2017	2018	2019	2020	2021	2022	2023
Nonfinancial business sector debt							
Total business sector debt (NIS billion, end of period)	867	924	956	978	1102	1240	1304
Estimated net quantitative change (NIS billion, yearly cumulative)	32	37	51	44	127	95	48
Percentage of nonbank debt (end of period)	52	52	52	50	48	47	44
Percentage of tradable debt (end of period)	25	25	24	25	25	25	25
Percentage of unindexed debt (end of period)	49	49	50	52	53	54	54
Percentage of CPI-indexed debt (end of period)	28	27	26	26	25	25	27
Percentage of debt denominated in or indexed to foreign exchange (end of period)	24	25	24	22	22	21	20
Business sector debt to GDP ratio (percent, end of period)	67	69	67	69	70	70	70
household debt							
Total household debt (NIS billion, end of period)	529	557	588	611	692	775	793
Estimated net quantitative change - net credit taken out (NIS billion, yearly cumulative)	26	25	31	25	76	71	10
Total new mortgages taken out (NIS billion, yearly cumulative)	53	60	68	78	116	118	71
Percentage of housing debt (end of period)	64	65	66	68	69	70	72
Percentage of unindexed debt (end of period)	66	66	66	66	67	68	68
Percentage of CPI-indexed debt (end of period)	33	33	34	33	33	32	32
Percentage of debt denominated in or indexed to foreign exchange (end of period)	1	1	1	0	0.3	0.4	0.3
Household debt to GDP ratio (percent, end of period)	41	41	41.3	43.1	43.8	44.0	42.5

SOURCE: Bank of Israel data

DATA SOURCES AND MAIN TERMS

The Bank of Israel Information and Statistics Department manages a database of activity in the credit market.[12] The Department gathers data and information from reports and other sources, processes them into an overall consistent dataset, and calculates the economy's credit aggregates by various segmentations. The data sources are banking system reports to the Banking Supervision Department; quarterly financial statements by the credit card companies; institutional investors' reports to the Ministry of Finance and the Bank of Israel; the Tel Aviv Stock Exchange; direct reports from large Israeli corporations to the Bank of Israel regarding their activity vis-à-vis nonresidents; reports by the banks and other financial intermediaries to the Bank of Israel regarding nonresidents' holdings of Israeli financial assets; and the Ministry of Finance.

The nonfinancial private sector

Is comprised of the business sector (Israeli commercial firms that are not banks, credit card companies, or institutional investors) and households. This section focuses on the nonfinancial private sector's debt to the main lenders (banks, institutional investors, and nonresidents), and does not include debt to other lenders (such as private credit companies). The assessment is that the volume of other lenders' activity is small relative to that of the main lenders, and they are not currently included in the aggregates as a lending sector due to a lack of data. Loans taken out by these companies, and the bonds they issue, which serve to provide credit and for other needs, are included in total nonfinancial business sector debt. Gathering such data is expected to increase after data collection by the Capital Market, Insurance and Savings Authority, which is responsible for granting licenses to credit providers under the Supervision of Financial Services (Regulated Financial Services) Law, 5776–2016.

Outstanding debt

Shows the stock of credit (positions, stocks) from the point of view of the borrower segments at a given point in time. The value of the debt does not depend on the market value of the bond or the value of the loans in the lenders' books. Therefore, outstanding bonds are presented at adjusted par value and outstanding loans are presented before deduction of loan loss provisions in the lenders' books (such as doubtful or problematic debt provisions in the banks' balance sheets).

Estimated net quantitative change, quantitative increase/decrease of debt
Net debt raised / net debt repaid

Is the change in outstanding debt, which shows economic activity in the credit market. The change in outstanding debt is influenced by economic flows that are comprised of various financing transactions (new credit raised, such as taking a loan or issuing bonds, minus repaid credit, such as repaid loans or repayment of bonds). The transactions include payment and accumulation of interest, price changes (such as a change in the Consumer Price Index for CPI-indexed debt), and other factors .

Due to a lack of direct data on each of these components, an "estimated net quantitative change" (net debt raised / net debt repaid) is calculated from data on outstanding debt. The estimated

[12] For more details on the definitions, terms and explanations, see "The Credit Data System in Israel" in the second part of the *Statistical Bulletin* for 2015.

quantitative change during a given period is calculated as the difference between outstanding debt at the end of the period and the outstanding debt at its beginning, minus relevant price changes.

Housing loans from the banks

as reported to the banks by customers, are defined as loans that fulfill one of the following conditions (provided that they were not issued for business purposes): the loan is intended for the purchase, leasing, construction, expansion, or renovation of a residential dwelling; for the purchase of a plot for the construction of a residential dwelling or for the purchase of rights to a residential dwelling in return for key money; or to finance the early repayment of a loan described in the first two conditions, in whole or in part

Nonhousing loans from the banks

As reported to the banks by customers, are defined as loans from the banks to private individuals (including overdrafts) and to private Israeli nonprofit organizations, the purpose of which is not housing. These also include loans with a dwelling as collateral that are not for residential purposes (all-purpose loans).

Households' negative current account balance (overdraft)

Is included in outstanding nonhousing debt to the banks. The negative balance is defined as the actual utilization of a credit facility allocated in current accounts of private customers. If an exception is approved beyond the credit facility in the current account, this exception will also be included in the negative account balance section.

Real estate and construction industries based on the classification of economic industries of the Central Bureau of Statistics

. The Central Bureau of Statistics classifies the firms engaged in economic activity according to SNA and UN recommendations. The uniform classification defines a variety of economic activities according to principles determined for similar economic activities although application of the classification principles depends on the information available to the classifier.

According to the definitions of the Central Bureau of Statistics, the *real estate activities industry* includes firms engaged in activities by brokers and agents in the field of selling and buying real estate, real estate rentals, and other real estate services such as appraisals and acting as a third party in real estate transactions. The construction industry includes firms engaged in general and specialized construction activities used to construct buildings and civil engineer works; The construction of buildings and new buildings, the construction of additions to existing buildings, renovation and repair of existing buildings, construction of prefabricated buildings in construction sites and construction of temporary buildings.

For full details of the types of classification, details of the industries and how they are classified and the classification principles, see The 2011 Uniform Classification of Economic Industries at the website of the Central Bureau of Statistics.

The income-generating real estate industry and the construction industry according to the industry classification of the Tel Aviv Stock Exchange

Another sectoral classification is produced by the Tel Aviv Stock Exchange, in which the listed companies are attributed to one of the sectors that appear in the TASE's table of sectors. Each firm's classification is determined at its IPO and may change upon a material change in the firm's business.

According to the TASE's definitions: The income-generating real estate industry includes firms operating in commercial, industrial, office, logistics, residential, hotel, and protected housing income-generating properties as well as real estate investment trusts (REITs). The *subsector of income-generating real estate abroad* includes firms in which 60% or more of the revenues and also 60% or more of their income-generating real estate properties are income-generating properties abroad; The *subsector of income-generating real estate in Israel* includes firms engaged in income-generating properties that do not meet the conditions of the subsector of income-generating real estate abroad; The *construction industry* includes firms that are engaged in construction development, building contracting, urban renewal, and infrastructure works.

For complete details of the sectors, subsectors, principles of classification of multi-sectoral firms, and detailed information on the dates that sectorial classifications are revised, see The Sector Classification Procedure for Listed Companies, available on the TASE website.