Development of Public External Debt in the Past Decade

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Abstract

This study examines the development, size, and composition of Israel's gross external public debt in the past decade—the years 2015–2025—in view of two main macroeconomic events: the COVID-19 crisis (2020–2021) and the war that began in October 2023. The analysis includes examination of the debt as parsed by debt instruments, currency composition, maturity, and the debt-to-GDP ratio, as well as comparison among periods, issuance sizes, and the connection to external investors' behavior .

The gross external debt increased sharply during the COVID-19 period, as increases in external investment in both domestic-currency and foreign-currency debt were coupled with lengthening of duration. In contrast, during the war period, there was net realization in domestic-currency component, while external debt in foreign currency began to increase again, along with relative stability in external holdings of global bonds. Despite the increase in the gross external debt, the Israeli economy remained a net lender for reasons that included the maintenance of abundant reserves.

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Introduction

In the past decade, two salient macroeconomic events created surges in public expenditure and made it necessary to find external sources of funding: the 2020–2021 COVID-19 crisis and the Swords of Iron War that broke out on October 7, 2023.

In this study, we present the composition and development of the **gross** external debt (hereinafter: **“the external debt”**) of the Government of Israel, the Bank of Israel[1], and the National Institutions (hereinafter: **“the public sector”**) in the course of 2015–2025[2], with emphasis on the war period, and we compare this period with the pandemic era. In line with the international definitions, the term “external debt” denotes the balance of nonresident debt holdings and not the total debt issued and not yet paid up.[3]

The study examines the size of the debt, its composition in terms of debt instruments and currencies, its maturities, and its value relative to GDP. These are important indicators of the level of liquidity available to the economy and the extent of the economy’s financial robustness vis-a-vis the rest of the world. The first section provides an overview by presenting an international comparison of the public debt-to-GDP ratio, surveying the development of the gross external public debt and its currency composition, and relating to the net external public debt (debt minus assets).

Section 2 examines the composition and development of the shekel-denominated gross external debt of the public sector. In this item, major differences appeared between the comparison times due to nonresident investors’ behavior.

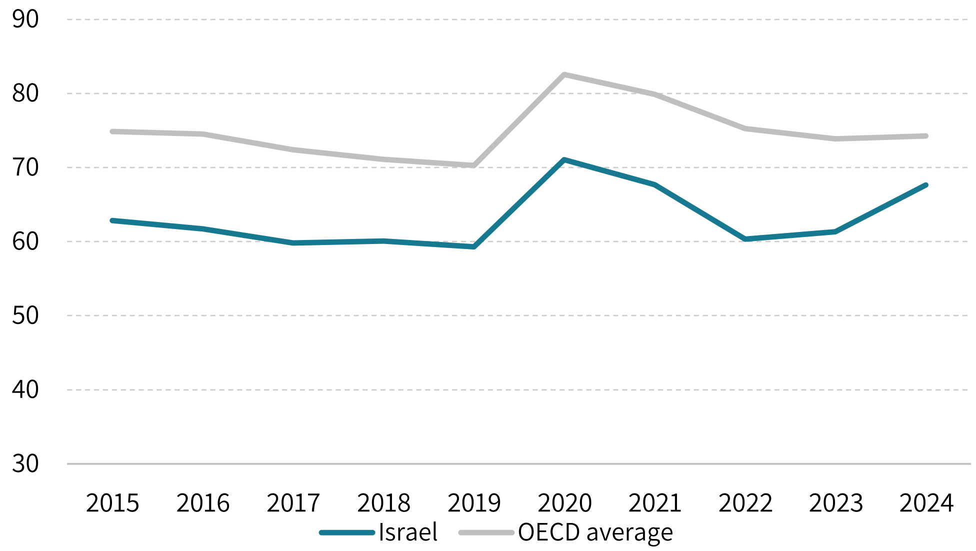
Section 3 examines the composition and development of the foreign-currency-denominated gross debt of the public sector. Here the size and composition of the debt widened significantly during the periods but nonresident investors behaved consistently.

1. The gross external public debt and its value relative to GDP

1.1 International comparison of total public debt relative to GDP

Figure 1: Public Debt / GDP Ratio

Annual average, percent



SOURCE: OECD and Bank of Israel

[1] In this study, the Bank of Israel is included in the public sector in accordance with the IMF’s BPM5 Manual. In BPM6, the central bank is extracted from the public sector.

[2] The data are current to the end of the second quarter of 2025.

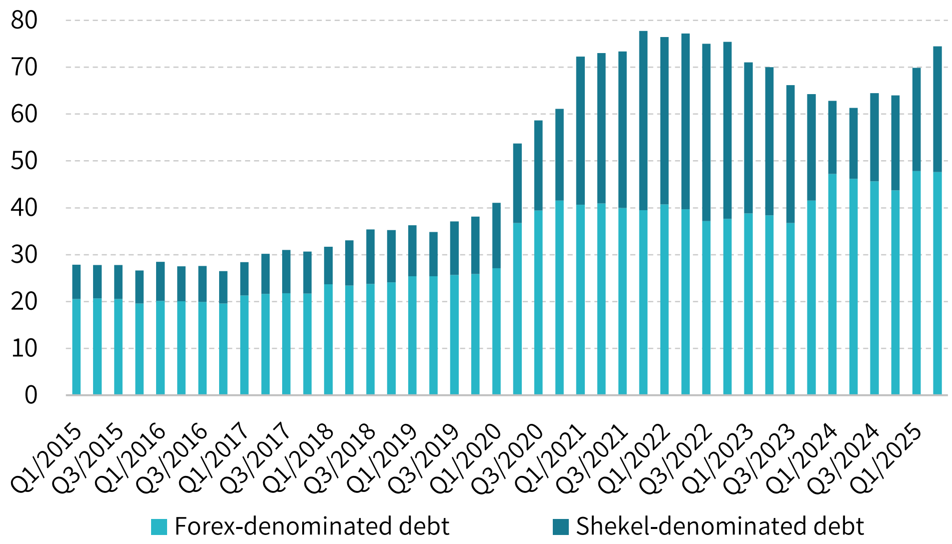
[3] For further information, see the study in statistical methodology, general information, and their application by the Bank of Israel: Zzahy Haham and Nili Yahalom, “Measuring the Country’s External Debt,” *Bank of Israel Statistical Bulletin* 2017, https://www.boi.org.il/boi_files/statistics/measuring_the_countrys_external_debt.pdf

The comparison shows that Israel's ratio of public debt to GDP was consistently lower than the OECD average. In 2020–2021, the COVID-19 period, both ratios surged. After the onset of the war in October 2023, the OECD average trended downward and leveled off but Israel's ratio increased, to 67.6 at the end of 2024 and verging on the OECD average as of this writing.

1.2 Development of the public sector's total gross external debt

Figure 2: Development of the External Public Debt

US$ billion



SOURCE: Ministry of Finance. And Bank of Israel

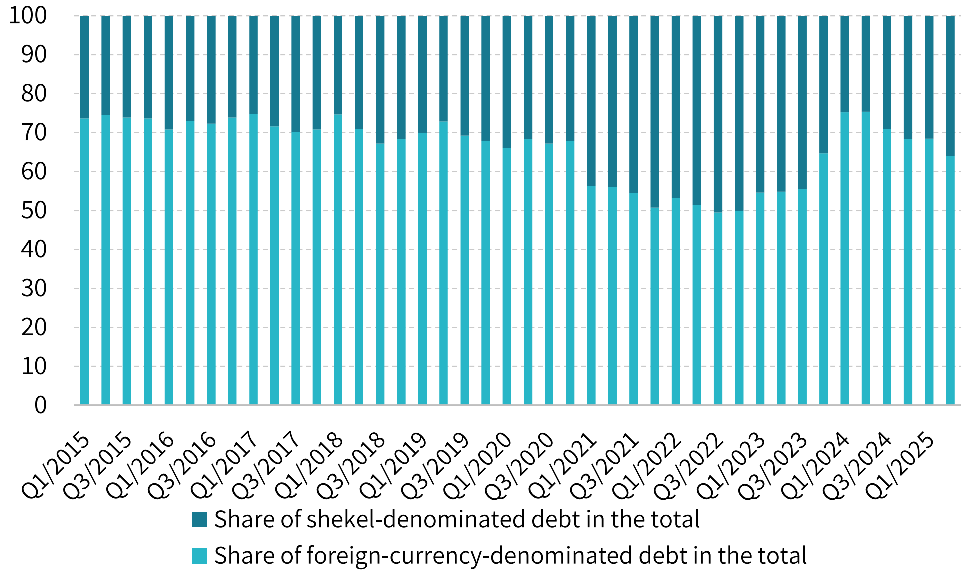
Before COVID-19, in 2018–2019, the debt rose moderately to US$ 35–37 billion. During the pandemic years, 2020–2021, the public sector's external debt doubled (to USD 77.8 billion at the end of 2021). In 2022–2023 preceding the war, the debt began to edge downward, settling at USD 66.2 billion at the end of Q3/2023. When the war began, the public sector's total external debt continued to fall—to US$ 64 billion at the end of 2023 and US$ 61 billion in Q2/2024—largely due to the realization of shekel-denominated debt investments and a sizable increase in debt issuances. In the second half of 2024, the trend turned around as nonresidents' investments resumed and brought the balance of gross external debt to US$ 74.5 billion, not far from its all-time high.

It should be clarified that the foregoing analysis relates to the gross external debt. Looking at the net external debt (debt minus assets), we find that Israel remained a lender economy (it had negative net external debt: a surplus of assets over liabilities in debt instruments) even during the war, Thus, at the end of the second quarter of 2025, it had a US$ 312 billion asset surplus in debt instruments. Much of this is attributable to the Bank of Israel's reserve assets, which stood at US$ 228 billion at the end of the second quarter of 2025(compared with only US$ 91 billion at the end of 2015). This balance reflects a coverage ratio of 2.9 times the gross external debt of the total economy at the end of the second quarter of 2025.

1.3 Distribution of the public sector's gross external debt, by currency

Figure 3: Development of the Composition of the External Public Debt, by Currency

Percent



SOURCE: Ministry of Finance and Bank of Israel

These developments also affected the currency composition of the gross external debt. In 2015–2019, foreign-currency-denominated debt as a share of total external public sector debt oscillated within the narrow range of 68–74 percent. During the COVID-19 years, 2020–2021, foreign-currency debt as a share of total external public sector debt fell to around 50 percent. In 2022–2023 before the war, it stayed at approximately that level and moved within the range of 50–55 percent.

From the beginning of the war onward, foreign-currency-denominated debt as a share of total external public sector debt increased considerably due to large nonresident realizations of shekel-denominated debt instruments. The increase crested in the first half of 2024 at 75 percent. As the war continued, nonresidents resumed their investments in shekel-denominated debt instruments, pushing the share down slightly, to 64 percent in Q2/2025.

2. The gross shekel-denominated external public sector debt

This section focuses on the shekel-denominated gross debt only, excluding foreign-currency debt. The debt instruments included in the shekel-denominated gross external debt are nonresident holdings of shekel-denominated government bonds and nonresident holdings of short-term Bank of Israel certificates (MAKAM).[4]

[4] For more about the debt instruments that are included in the external debt, see the Appendix.

2.1 Composition of gross external public sector debt in shekels by debt instrument

Figure 4: Development of the Shekel-Denominated Gross External Public Sector Debt, by Debt Instrument
US$ billion

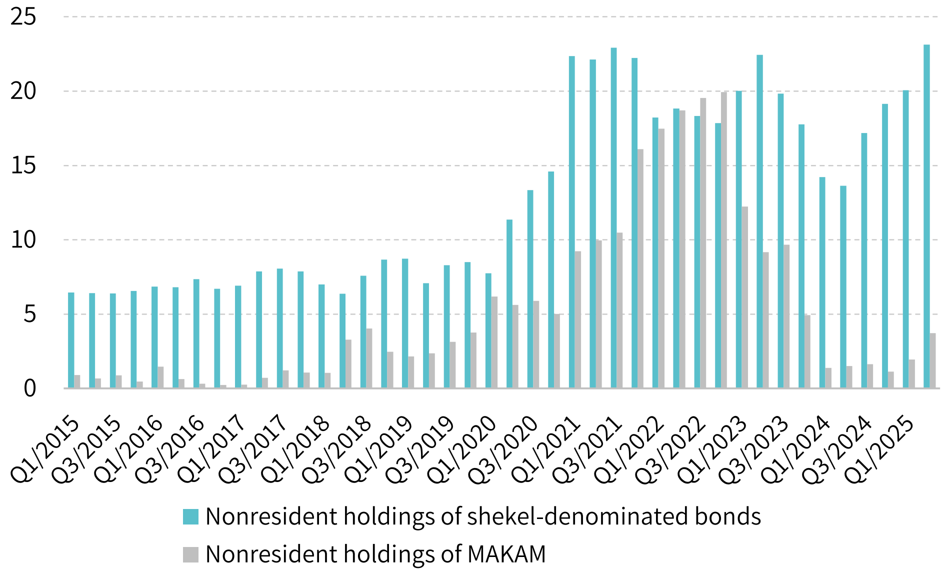
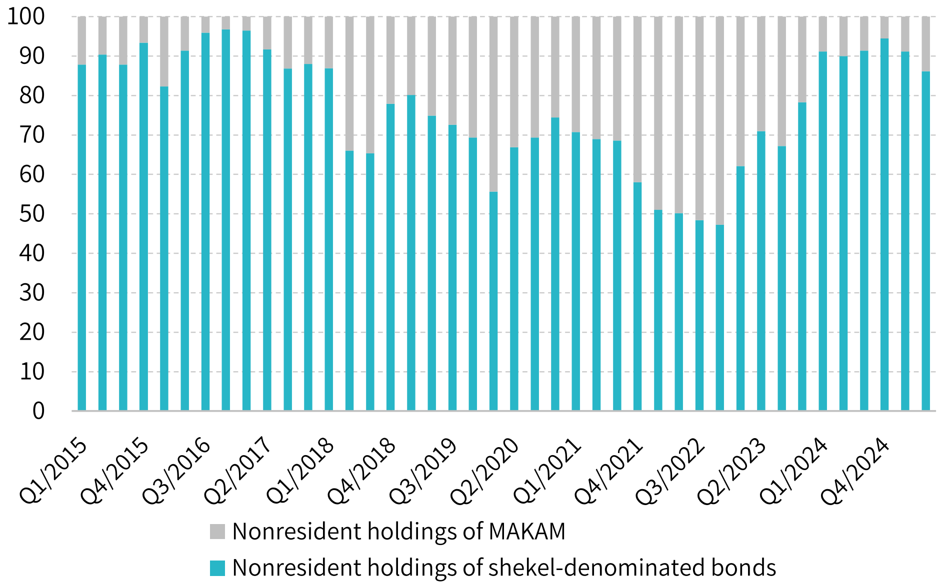


Figure 5: Composition of the Shekel-Denominated Gross External Public Sector Debt, by Debt Instrument
percent



SOURCE: Bank of Israel.

2.2 Nonresident holdings of MAKAM

The COVID-19 years were preceded by a conspicuous upward trend in the share of nonresident holdings of MAKAM, more significant than the increase in the balance of nonresident investment in government bonds. The share of MAKAM in the shekel-denominated external public sector debt grew from 12 percent at the beginning of 2015 to 31 percent at the end of 2019. The shekel-denominated gross external debt, however, remained small at this time, leaving the balance of nonresident holdings of MAKAM relatively minor (US$ 3.5 billion at the end of 2019).

In 2020–2022, nonresidents markedly increased their holdings of MAKAM (as they did to a milder extent in shekel-denominated government bonds), bringing the balance to US$ 20 billion at the end of 2022. The increase in nonresident holdings was much greater than the increase in MAKAM issuances in those years. Thus, nonresidents built up their investments and their share in MAKAM issuances and in the secondary market during the COVID-19 years.

In 2023, largely before the war but onward into the war period as well, nonresidents realized their MAKAM holdings in large sums, leaving the balance of their holdings at only US$ 1.1 billion and the share of MAKAM in total shekel-denominated nonresident holdings at a low of 6 percent at the end of 2024. The realization of nonresident holdings coincided with a sizable increase in the extent of Bank of Israel MAKAM issuances, particularly in 2025.[5] Trading movements and, foremost, MAKAM realizations were relatively sharp. This was partly due to changes in NIS/US$ interest spreads, which also affected the size of holdings of interest-rate derivatives.[6]

No major changes occurred in 2025. At the end of the second quarter of that year, net nonresident holdings of MAKAM totaled US$ 3.7 billion, close to the level of investment in MAKAM before the COVID-19 crisis.

2.3 Nonresident holdings of shekel-denominated government bonds

In 2015–2019, nonresident holdings of shekel-denominated government bonds increased, from US$ 6.5 billion to US$ 8.5 billion (a 30 percent increase).

From 2020 onward, these holdings increased much more considerably, to US$ 20 billion at the end of Q3/2023. The growth was much larger than the extent of MAKAM issuances in those years, meaning that during the the COVID-19 years, nonresidents built up their investments and their share in issuances of shekel-denominated bonds and in the secondary market.

At the beginning of the war, a trend of nonresident realizations of government bonds drove holdings down to US$ 13.6 billion in Q2/2024 (2024 was a record year for government issuances, at NIS 478 billion). Nonresident investment resumed in 2025, as holdings increased to US$ 23 billion in the second half of the year, higher than in the COVID-19 period. However, the increase in nonresidents' holdings of shekel-denominated bonds was smaller than the expansion of the pace of government issuances, meaning that nonresidents reduced their share in holdings of shekel-denominated government bonds during the war years.

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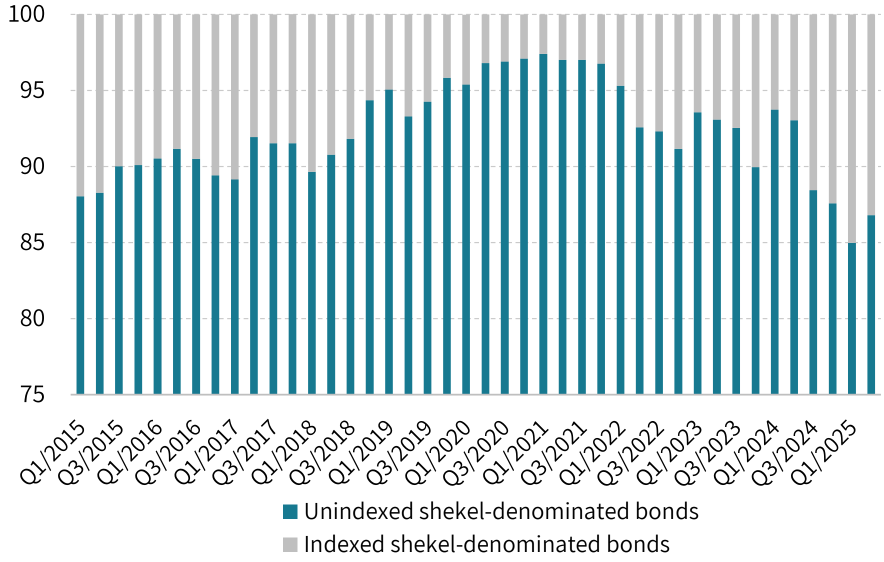
[5] The data are current to the end of the second quarter of 2025.

[6] For details, see "Spotlight 1—The Level of Foreign Investment in Shekel-Denominated Assets," *Bank of Israel Financial Stability Report for the First Half of 2024,* on the Bank of Israel website: https://www.boi.org.il/media/atwl5mcy/fsr2024fe1.pdf

Figure 6: Development of Composition of Nonresident Holdings of Shekel-Denominated Government Bonds, by Type of Indexation
Percent



SOURCE: Bank of Israel.

During the COVID-19 crisis, nonresident acquisitions centered on unindexed bonds, as they boosted their share of these instruments from 91 percent to 97 percent at the end of 2021. After the crisis, nonresidents slightly lowered the share of unindexed bonds to 93 percent on average, in tandem with an increase in inflation from the middle of 2022 onward. During the war, nonresidents continued to draw down their holdings of unindexed bonds to 89 percent on average, the lowest rate during the period measured, even though the share of government issuances that were unindexed fell to only 53–68 percent at that time

3. The gross foreign-currency external public sector debt

The focus in this section is on the public sector's gross external debt in foreign currency only, composed of global public issuances in foreign currency; issuances guaranteed by the United States Government, issuances of Israel Bonds, and loans from foreign governments, international institutions, and foreign financial service corporations .

3.1 Gross external public sector debt in foreign currency, by debt instruments

Figure 7: Development of the Gross Foreign-Currency Public Sector Debt, by Debt Instrument
US$ billion

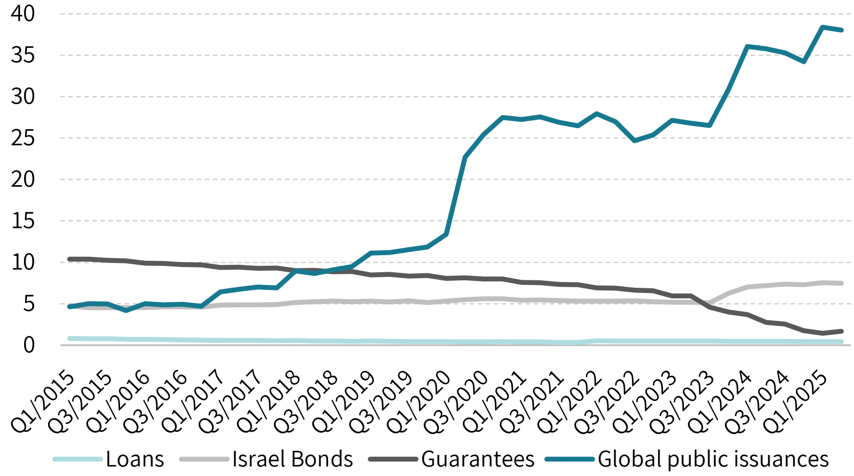
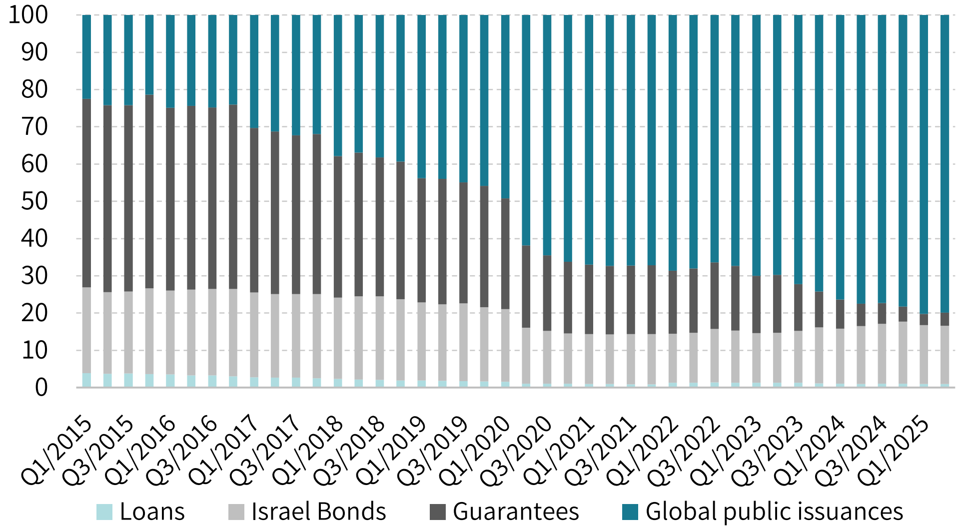


Figure 8: Development of the Composition of the Gross External Public Sector Debt, by Debt Instrument
percent



SOURCE: Ministry of Finance and Bank of Israel

3.2 Composition of the gross external public sector debt in foreign currency, by debt instrument

In the past decade, the gross external public sector debt in foreign currency has been composed largely of tradable debt: global public issuances (nonresident holdings of Israel Government debt issuances in foreign currency in international markets) and bonds guaranteed by the United States Government (75–80 percent of the foreign-currency debt).

Table 1: Key Developments in Debt Instruments, Main Periods

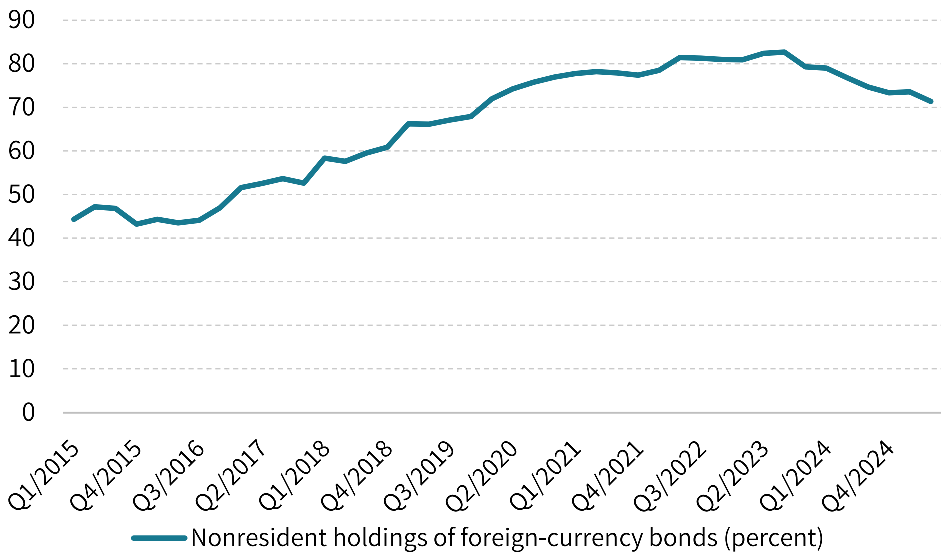
Financial instrument / period	2015-2017	2018-2019	2020–2021 (the COVID-19 years)	2022–mid-2023 (prewar)	End 2023–2025 (wartime)
Global bonds (public issues in forex)	Mild increase, not yet a dominant component	Increase, becoming the main component at the end of 2019	Surge: 62–67% of the external debt in forex; expansion of issuances and increase in nonresident holdings	High and stable level	Continued increase to a record 80% of the external debt in forex in Q2/2025; nonresidents participate in issuances (including private issuances) consistently.
Bonds guaranteed by US Government	The main component of the debt	Gradual decrease	Major decrease due to the buyback program and a decline in accrued interest—from US$ 8 billion to US$ 4.6 billion		Continued decline to only 4% of total external debt in forex due to additional realizations at the beginning of the war
Israel Bonds	Relatively stable (US$ 5.1–5.3 billion)				Slight increase to 16% of total external debt in forex in Q2/2025 due to countercyclical issuing
Loans from international institutions	Negligible in all periods, not used as a source of funding, used to repay existing debt only.				

3.3 Government debt-raising via global public issuances of foreign-currency-denominated bonds abroad[7]

Israel began making foreign-currency global public issuances in international markets in 1995. At first, total issuance was negligible at only US$ 250 million, but in the past decade this has been the Government of Israel's principal funding instrument abroad.

[7] This section relates to total debt issued and held by residents and nonresidents alike. It is based on the Ministry of Finance's annual debt report for 2024.

Figure 9 :Nonresidents's Share of the Balance of Foreign-Currency Bonds Issued Abroad
Percent



SOURCE: Ministry of Finance and Bank of Israel

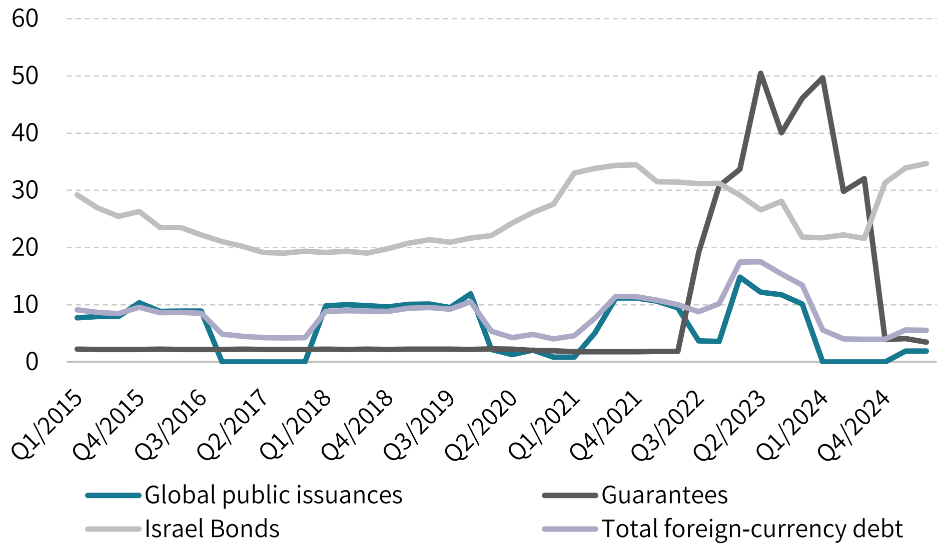
Table 2: Key Developments in Government Issuances Abroad and Investors' Behavior, Main Periods

	2015–2017	2018–2019	2020–2021 (the COVID-19 years)	2022–mid-2023 (prewar)	End 2023–2025 (wartime)
Trend in govt. debt raising via global public issuances	Total balance (residents and nonresidents) at end of 2014: US$ 11 billion	Issuing trend grows; total balance at end of 2019: US$ 17.5 billion	Sharp increase in foreign-currency issuances; appr. US$ 17 billion increase in balance relative to previous period; total balance at end of 2021: US$ 34 billion.	Stability; circulation of issued debt.	Very large global bond issuances in Q4/2023 and Q1/2024, with emphasis on global bonds; growth continues in Q1/2025.
	Global issuances as a key funding instrument; upward trend in size of issued series due to considerations of series issuance for comparison purposes and due to increase in funding needs				
Trend in nonresidents' behavior (their share of total balances of government bonds issued abroad)	Mild increase in holdings of global issues	Growing preference for this instrument	Holdings of global foreign-currency bonds grow; their share rises sharply to 78% at the end of 2021.	Stability; mild increase in holdings to 83% at end of Q3/2023.	Their share in issued debt holds steady due to private issuances and expansion of existing series; mild increase in their share of holdings, to 71% at end of Q2/2025.

3.4 Composition of the total gross public sector debt (residents and nonresidents) in foreign currency and its development, by maturity and duration

3.4.1 Ratio of total short-term gross debt to total foreign-currency debt[8]

Figure 10: Development of Ratio of Total Short-Term Gross Debt to Total Foreign-Currency Debt
Percent



SOURCE: Ministry of Finance and Bank of Israel

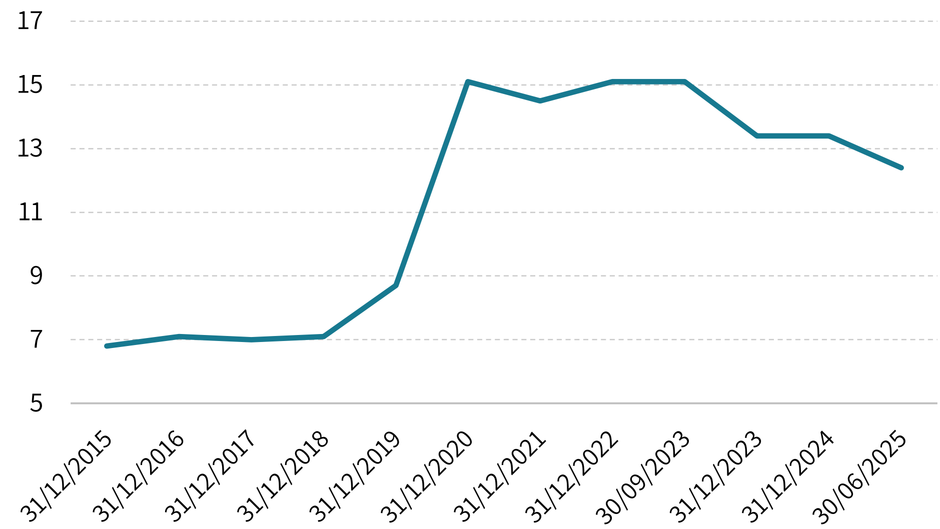
In most years, the development of total foreign-currency debt was in line with the development of .1.1
.the balance of bonds in global public issues in international markets

The spurt in the share of short-term debt between Q4/2023 and Q3/2024 is explained mainly by redemptions of bonds guaranteed by the United States Government as part of the buyback program. In the war period, duration increased because no debt was up for redemption.

[8] Short-term debt is debt meant to mature within a year. It includes debt issued to a term of 1 year or shorter and current maturities of long-term debt. The analysis is of the total debt issued to residents and nonresidents.

3.4.2 Duration of gross foreign-currency external public sector debt

Figure 11: Average duration of total issued foreign-currency public sector debt
years



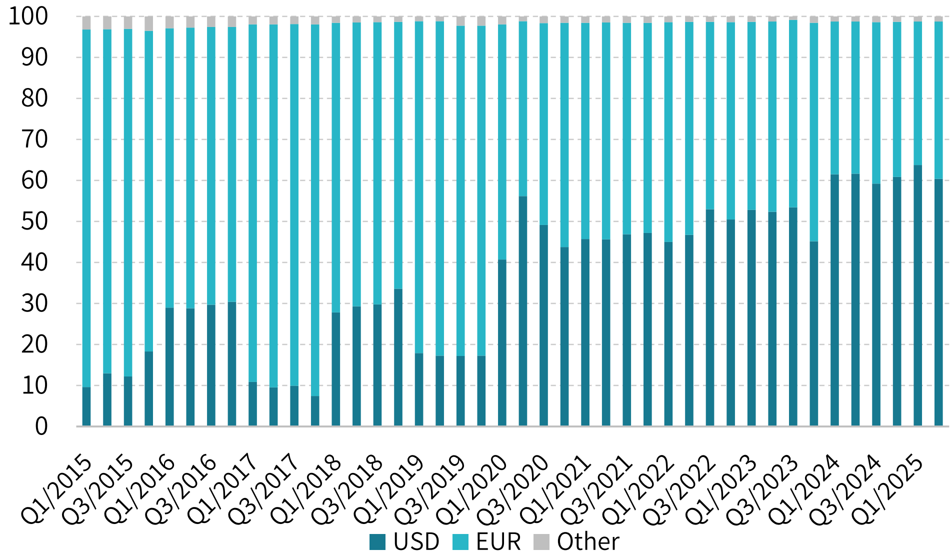
SOURCE: Ministry of Finance and

The duration of Israel's gross foreign-currency debt grew markedly during the COVID-19 years (14.8 years on average) and continued to increase thereafter (average of 15.1 years before the war) relative to duration in 2015–2019 (only 7.4 years), for reasons including the issue of especially long-term bonds.

During the war, existing series were expanded and there were private issues for relatively short durations. As a result, durations contracted slightly to 12.4 years, still much higher than during the pre-COVID period.

3.5 Composition of gross foreign-currency external public sector debt and its development by currency

Figure 12 :Composition of the Gross External Debt and Its Development by Currency—Global Public Issuances Component



SOURCE: Ministry of Finance and Bank of Israel

Analysis of the currency composition of the global public issuances component of the gross foreign-currency debt shows that from the start of the COVID-19 pandemic, changes occurred in the currency composition of the debt, with preference for a larger share of dollar-denominated bonds at the expense of those denominated in euros .

During the war years (Q4/2023 and onward), the trend of change in currency composition gathered strength, with nonresidents' share of global public issues held mainly in US dollars (60 percent at the end of Q2/2025). Throughout this time, issuances in British pounds sterling and Japanese yet ("Other") were negligible (cumulatively 1–2 percent of total nonresident holdings of global public issues in foreign currency).

4. Conclusion

Two salient macroeconomic events in the past decade—the COVID-19 crisis in 2020–2021 and the war that began on October 7, 2023—led to major increases in public expenditure and made it necessary to find external sources of funding .

During the COVID-19 period, the ratio of public debt to GDP and Israel's gross external debt escalated sharply as the government had to boost expenditure in order to cope with the health and economic crisis, unfurl a safety net for businesses and workers, and support growth. Although this caused the external public debt to mount, investors continued to believe in the economy's ability to bounce back. Nonresidents continued to invest in Israeli debt instruments in both shekels and foreign currency, and increased their holdings in private-sector bonds and MAKAM.

The war era that began at the end of 2023, however, brought other challenges into play. High defense and civilian expenditure caused the public debt to GDP ratio to continue rising until it approached the OECD average, even as the OECD countries' ratio trended downward or held steady.

At the beginning of the war, the gross domestic debt posted a temporary decline, but 2025 saw a change of trend, as the gross external debt resumed its upward path, to levels not far from their historical peak.

Nonresidents displayed hybrid behavior during this time. While they continued to hold global government bonds issued in foreign currency and participated in issues consistently, there were large-scale realizations in the shekel component at the beginning of the war. In 2025, external investors in the shekel market gradually returned, although to a more moderate extent. Issues of shekel-denominated government bonds remained relatively stable whereas MAKAM holdings stayed at pre-COVID levels.

The composition of the foreign-currency external debt also changed during the COVID19 period and the war years. The share of global foreign currency bonds increased and that of bonds guaranteed by the United States Government declined. This is a major change in composition relative to 2015. The pandemic and the war sped up the trend as global bonds became a key debt-raising instrument.

During the pandemic, there was a preference for bonds denominated in US dollars at the expense of euro instruments. The war strengthened the preference for dollar-denominated bonds. During the COVID-19 era, duration grew considerably due to medium- and long-term issuances. Duration contracted during the war but continued to exceed that of 2015–2019 by far.

Appendix: Characteristics of Debt Instruments in the Gross External Public Sector Debt

Israel's gross external debt is defined as its total liabilities (public, private, and banking sectors) to nonresidents in shekel- and foreign-currency-denominated debt instruments.

Below are the main characteristics of the debt instruments in the public sector's gross domestic debt.

- **Shekel-denominated gross external public sector debt**

Nonresident holdings of shekel-denominated public sector debt are a part of the gross external debt and relate to shekel-denominated government bonds and MAKAM.

The Government of Israel uses tradable domestic issuances as its main debt-raising mechanism. Government issuances (comprised of bonds issued on the Tel Aviv Stock Exchange) are made in three main ways: shekel, indexed, and floating-rate. Government issuances of domestic debt tend to follow the shekel path.

In addition to Israel Government bonds, the debt includes the Bank of Israel's MAKAM (zero-coupon short-term certificates). MAKAM, like the bonds, are traded on the Tel Aviv Stock Exchange. Their maturities, however, are different: to one year or less compared with relatively lengthy bond maturities of five years and more.

In 2010, MSCI (Morgan Stanley Capital International) revised Israel's classification to "developed market" in its index, effective June 2010. After this was done, international institutions began to purchase Israel debt instruments for investment portfolios in the index.

Since January 2003, there have been no restrictions on nonresidents' investment activity in Israel. In 2011 and again in 2017, the Bank of Israel, in pursuit of its monetary policy targets and its foreign currency policy, began to toughen its reporting requirements on currency conversion and currency derivatives transactions.

In accordance with the international definitions, the gross external debt in shekels should also include nonresident holdings in debt instruments of the "general government" (central government plus municipal authorities and National Institutions). This debt, however, is netted out in practice

- **Global public issuances in foreign currency**

Israel's gross external debt in this debt instrument is composed of nonresident holdings of Government of Israel public debt issuances in foreign currency in international markets.
The global public debt issuances were meant to serve three strategic goals: diversifying the sources of funding in ordinary times and enhancing funding ability in emergencies, broadening the investor base in government bonds, and exposing foreign investors to the Israeli economy.
Between 1995 and 2025, Israel carried out twenty-eight public issuances in international markets—in the United States, Europe, Taiwan, and Japan .
Israel also makes private issuances to strategic investors in accordance with investor demand. Private issuances also take as the form of tapping of existing bond series issued in international markets.
Israel's debt on account of global public issues in foreign currency is composed of US dollars, euros, British pounds sterling, and Japanese yen.

- **Issues backed by US government guarantee**

In April 2003, the United States Congress approved a three-year program of loan guarantees for the Government of Israel, under which the government could raise up to US$ 9 billion in debt. The United States fully guarantees payments of principal and interest on the bonds that Israel issues by means of this program. For this reason, the bonds enjoy a credit rating similar to that of the United States. The US government has extended the program several times, most recently in December 2022 through 2028.

As part of the guarantees program, Israel issued US$ 4.1 billion (par value) in bonds in 2003–2004. The Government of Israel has not used the guarantees program since November 2004.

Bonds guaranteed by the United States Government are in US dollars only. They are tradable, but it is assumed that the debt is fully held by nonresidents.

- **Raising debt by means of Israel Bonds**

Israel Bonds are a platform on which nontradable debt in foreign currency is raised from Diaspora Jews. Israel Bonds are issued in order to broaden the base of investors and diversify the Government of Israel's sources of funding.
The foreign-currency debt on account of these bonds is composed of US dollars, euros, British pounds sterling, and Canadian dollars.
Israel Bonds are nontradable. Therefore, all debt in this instrument is held by nonresidents.

- **Loans from foreign governments, international institutions, and foreign financial-service corporations**

An additional balance of nontradable debt in foreign-currency is composed of loans from foreign governments, international institutions, banks abroad, and binational funds .
These loans were taken in US dollars or euros, and were given in their entirety by nonresidents.