

## B. Nonfinancial Private Sector debt

The outstanding debt of the nonfinancial private sector<sup>1</sup> continued to increase in 2019, by about 4.4 percent—lower than in the previous year (6.4 percent). This increase was mainly due to net raising of debt<sup>2</sup> in both borrowing sectors—the business sector and the household sector. The increase in debt was partly offset by the shekel's appreciation against the dollar, which lowered the shekel value of debt denominated in or indexed to foreign currency.

The business sector's outstanding debt increased by about 3.7 percent in 2019, a lower rate than in the previous year (7.1 percent). Most of the growth in outstanding debt was concentrated in debt taken on through loans—both bank and nonbank. The business sector debt to GDP ratio declined in 2019.

The rate of change in outstanding household debt increased in 2019, with most of the increase taking place in housing debt. The rate of change in no housing debt also increased in 2019, mainly in debt to nonbank lenders, running counter to the downward trend in the growth rate of this debt in the past two years.

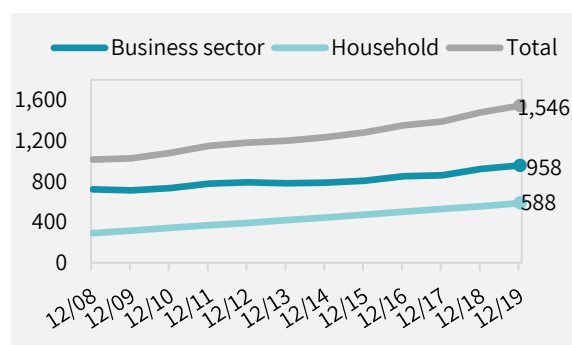
### 1. Nonfinancial Private Sector (business and household) debt

#### The increase in outstanding debt of the nonfinancial private sector, both the household sector and the business sector, continued in 2019.

Outstanding debt of the nonfinancial private sector increased by about NIS 66 billion (4.4 percent) in 2019, to about NIS 1.5 trillion. This was due to increases of about NIS 35 billion (3.7 percent) in outstanding business sector debt, and of about NIS 31 billion (5.6 percent) in outstanding household debt. The source of the increase in outstanding debt was net raising of debt in both borrowing sectors, which was partly offset by the effect of the shekel's appreciation of about 7.8 percent against the dollar, which lowered the shekel value of debt denominated in or indexed to the dollar.

Figure 2.1: Outstanding Debt of the Nonfinancial Private Sector

NIS billions



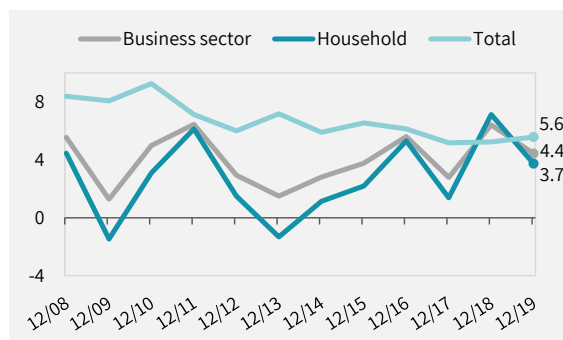
<sup>1</sup> This section deals with the debt of the nonfinancial business sector to the main lenders (banks, institutional investors and nonresidents), and does not include debt to other lenders (such as private credit companies). For further details, see the explanation in Data Sources and Main Terms at the end of the 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 2019 have not yet been published.

<sup>2</sup> See Data Sources and Main Terms at the end of this section.

**The rate of change in outstanding household debt was higher than that of business sector debt in 2019, contrary to the previous year, but in line with the trend of earlier years.**

The rate of change in household debt increased in 2019, contrary to the downward trend of recent years. In contrast, the rate of change of business sector debt declined to 3.7 percent from 7.1 percent in the previous year, due to the effect of the shekel's appreciation against the dollar, which lowered the shekel value of debt denominated in or indexed to the dollar (about 24 percent of business sector debt).

**Figure 2.2: Annual Rate of Change in Outstanding Nonfinancial Private Sector Debt**  
percent



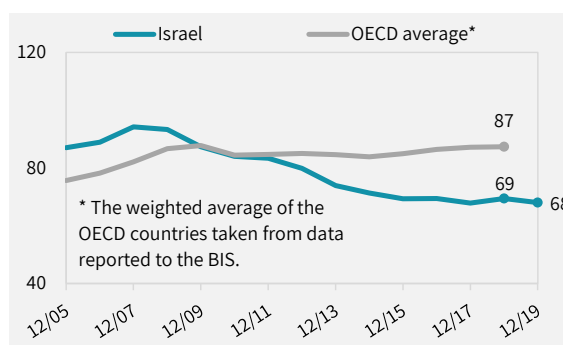
## 2. Nonfinancial business sector debt<sup>3,4</sup>

**The decline in the rate of change of outstanding business sector debt was reflected in a decline in the ratio of this debt to GDP.**

The business sector debt to GDP ratio declined by about 1.4 percent in 2019, to about 68 percent at the end of the year, because the increase in GDP (5.9 percent in current prices) was larger than that of the debt (3.7 percent).

The business sector debt to GDP ratio in Israel has been low by international comparison in recent years<sup>5</sup>.

**Figure 2.3: Business Sector Debt**  
percent of GDP



<sup>3</sup> Any place where the term “Business sector” appears, the reference is to the nonfinancial business sector (excluding the banks, credit card companies, and institutional investors).

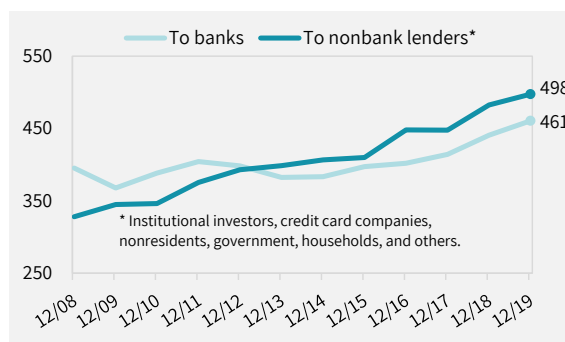
<sup>4</sup> For a breakdown of the outstanding debt of the nonfinancial business sector by principal industry, see the paper in Part Two of this publication.

<sup>5</sup> For more information, see “Zoom In” at the end of this section; the first part of the Statistical Bulletin for 2018; and Chapter 4 of the Bank of Israel Annual Report for 2018.

**The balance of business sector debt to the banks increased in 2019 by a higher rate than that of debt to nonbank lenders.**

The total balance of business sector debt increased by about NIS 35 billion in 2019 to about NIS 958 billion. The balance of debt to nonbank lenders increased by about NIS 15 billion (3.1 percent) to about NIS 498 billion, and remained higher than the balance of debt to the banks, even though the latter increased at a higher rate (4.5 percent, about NIS 20 billion), to about NIS 461 billion at the end of the year.

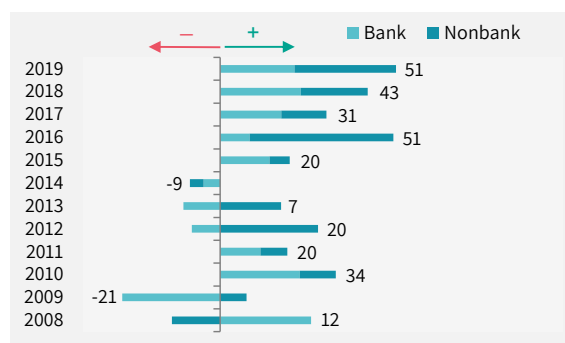
**Figure 2.4: Outstanding Business Sector Debt by Lender**  
NIS billion



**The increase in the balance of business sector debt, was due to net debt raised through bank and nonbank debt mainly through loans.**

Net debt raised by the business sector totaled about NIS 51 billion, further to positive raising of debt in the previous four years, and greater than in 2018. There was net debt raised in nonbank debt (about NIS 29.7 billion) and in bank debt, most of which was issued through loans (about NIS 21.7 billion).

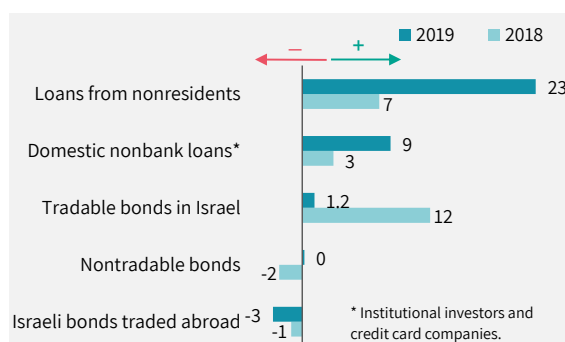
**Figure 2.5: Estimated Total Debt Raised by the Business Sector**  
NIS billion



**Net debt raised from nonbank sources came mainly through an increase in loans from nonresidents and direct loans from institutional investors.**

Net new loans from nonresidents totaled about NIS 23 billion, compared with NIS 7 billion last year. Domestic nonbank loans totaled about NIS 9 billion, higher than the volume last year, and mostly from institutional investors. Net debt raised through tradable bonds totaled only about NIS 1.2 billion, significantly lower than in the previous year. This change was due to lower bond issues in most industries, even though companies in the construction and real estate industry continued to raise debt through bonds.

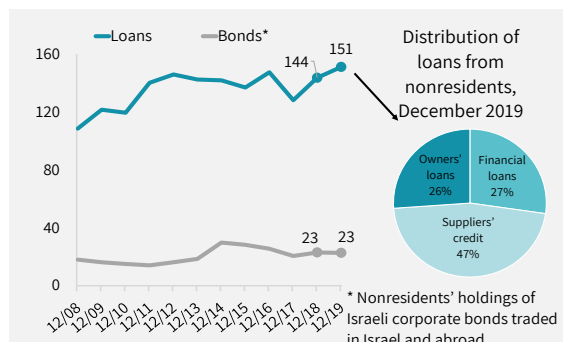
**Figure 2.6 : Estimated Business Sector Nonbank Debt, 2018 and 2019**  
NIS billion



**In view of the positive raising of debt through loans from nonresidents, this balance increased in 2019 despite the shekel's appreciation against the dollar.**

The balance of business sector debt to nonresidents increased by only about NIS 7 billion (4.3 percent) to about NIS 174 billion, in view of the shekel's appreciation against the dollar, which lowered the shekel value of debt denominated in or indexed to foreign exchange. 87 percent of the outstanding debt to nonresidents is in the form of loans totaling about NIS 151 billion. These loans mainly reflect current operations—suppliers' credit and owners' loans. Nonresidents' holdings of bonds remained almost unchanged, totaling about NIS 23 billion.

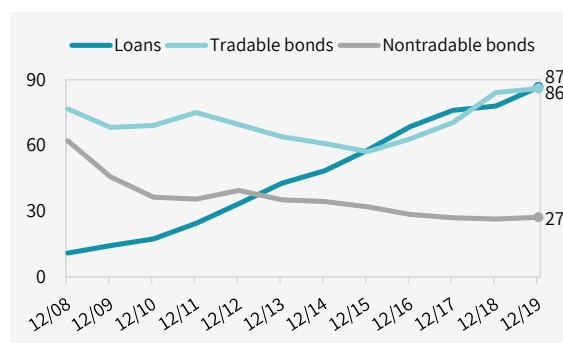
**Figure 2.7: Outstanding Business Sector Debt to Nonresidents, by Instrument**  
NIS billion



**The balance of direct loans from institutional investors to the business sector continued to increase in 2019, at a higher rate than in the previous year.**

The balance of loans taken out by the business sector from the institutional investors increased by about NIS 9 billion, to about NIS 87 billion at the end of the year—a change of about 11.2 percent compared with a change of about 2.6 percent in the previous year. Institutional investors' holdings of tradable bonds increased by about NIS 2 billion in 2019 to about NIS 86 billion.

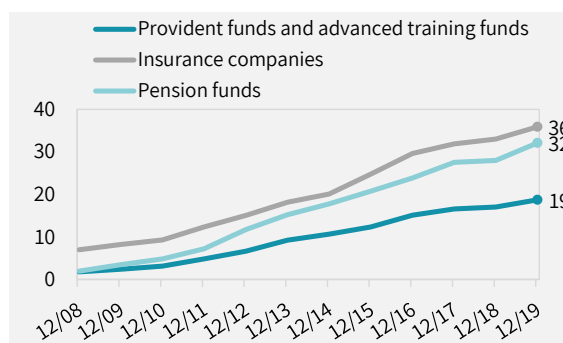
**Figure 2.8: outstanding Business Sector Debt to Institutional Investors, by Instrument**  
NIS billion



**Among institutional investors, the main lender remained the insurance companies, although there was a greater increase in outstanding loans from the pension funds.**

The balance of loans taken out by the business sector from the pension funds increased by about NIS 4.1 billion (14.7 percent) to about NIS 32 billion. Loans from the insurance companies totaled about NIS 36 billion (an increase of about NIS 2.9 billion, 8.8 percent). The balance of loans from provident funds and advanced training funds also increased, by about NIS 1.7 billion (9.9 percent) to about NIS 19 billion.

**Figure 2.9: Outstanding Direct Loans from the Institutional Investors to the Business Sector, by Type of Institution.**  
NIS billion

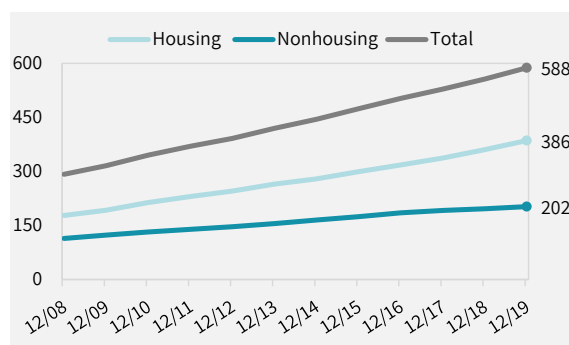


### 3. Household debt

**The increase in the balance of household debt continued, for both housing and nonhousing debt, with the increase in housing debt being more prominent.**

The balance of household debt increased by about NIS 31 billion (5.6 percent) in 2019, to about NIS 588 billion. There were increases in the balances of both housing debt (about NIS 25 billion) and nonhousing debt (about NIS 6 billion).

**Figure 2.10: Outstanding Household Debt, Housing and Nonhousing**  
NIS billion

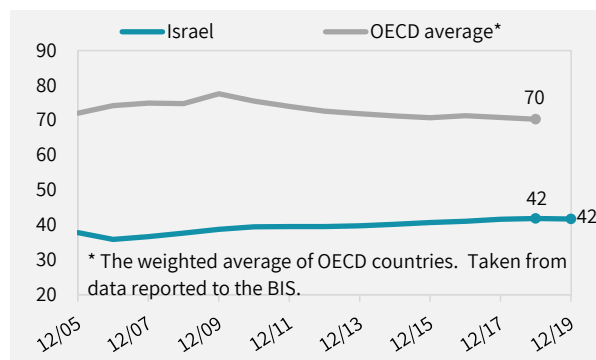


**Notwithstanding the increase in the balance of household debt, the ratio of household debt to GDP remained stable.**

The ratio of housing debt to GDP remained almost unchanged in 2019, at about 42 percent.

The ratio of housing debt to GDP in Israel is low by international comparison.<sup>6</sup>

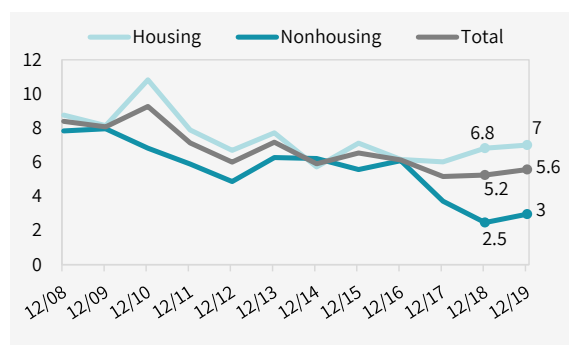
**Figure 2.11: Household Debt**  
percent of GDP



**The rate of change of nonhousing debt increased in 2019, contrary to the downward trend of the previous two years, but remained lower than the rate of change of housing debt.**

The rate of change of nonhousing debt increased by about 0.5 percentage points, to about 3 percent. The growth rate of housing debt remains more rapid than that of nonhousing debt, similar to previous years, and it rose by about 0.2 percentage point to about 7 percent at the end of the year.

**Figure 2.12: Annual Rates of Change in Outstanding Household Debt, Housing and Nonhousing**  
Percent

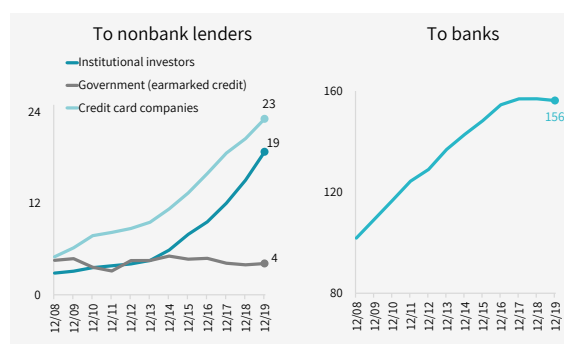


<sup>6</sup> For more information, see “Zoom In” at the end of the “Nonfinancial private sector debt” section in Part One of the Statistical Bulletin for 2018, and Chapter 4 of the Bank of Israel Annual Report for 2018.

**Most of the increase in nonhousing debt was concentrated in debt to nonbank lenders, while debt to banks remained stable.**

The balance of households' nonhousing debt increased by about NIS 6 billion (3 percent) to about NIS 202 billion. Most of the growth was due to an increase in the balance of debt to institutional investors (about NIS 3.7 billion) and credit card companies (about NIS 2.6 billion), although the debt balances to these entities are relatively small. The balance of nonhousing debt to the banks was about NIS 156 billion at the end of the year, accounting for about 77 percent of nonhousing debt—a proportion that has been declining in recent years. About 6 percent of outstanding debt to the banks is in the form of negative bank balances (overdraft).<sup>7, 8</sup>

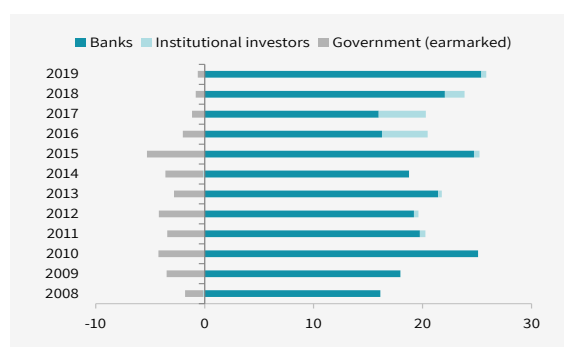
**Figure 2.13: Households' Outstanding Nonhousing Debt, by Lender**  
NIS billion



**Similar to previous years, most of the increase in outstanding housing debt was in debt to the banks.**

The balance of households' housing debt totaled about NIS 386 billion at the end of the year. The balance of debt to the banks increased by about NIS 25 billion (7.5 percent) to about NIS 364 billion. The balance of debt to institutional investors increased by a lower rate than the previous year (3.4 percent compared with 15.3 percent), to about NIS 14 billion at the end of the year.

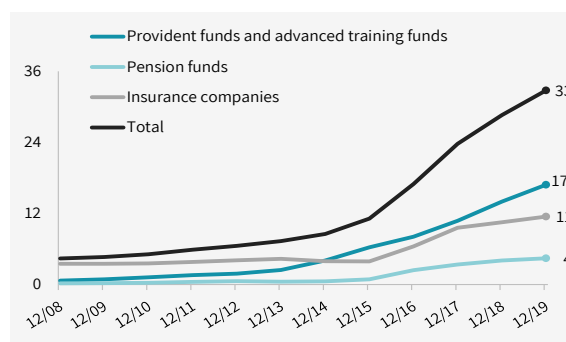
**Figure 2.14: Changes in Households' Outstanding Housing Debt, by Lender**  
NIS billion



**The increase in loans to households encompassed all types of institutional investors.**

The balance of loans taken out by households from the institutional investors, for both housing and nonhousing purposes, continued to increase in 2019, to about NIS 33 billion. The increase was mainly concentrated in loans from the provident funds and advanced training funds (about NIS 3 billion), which reached a total of about NIS 17 billion at the end of the year. There were also increases in loans from the insurance companies (about NIS 11 billion) and the pension funds (about NIS 4 billion).

**Figure 2.15: Outstanding Household Debt to Institutional Investors, by Type of Institution**  
Nis billions



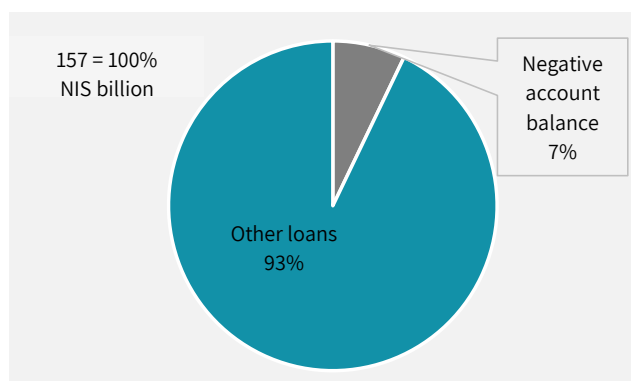
<sup>7</sup> See Data Sources and Main Terms at the end of this section.

<sup>8</sup> For more information, see “Zoom In” at the end of this section;

## ► HOUSEHOLDS' NEGATIVE CURRENT ACCOUNT BALANCE (OVERDRAFT)

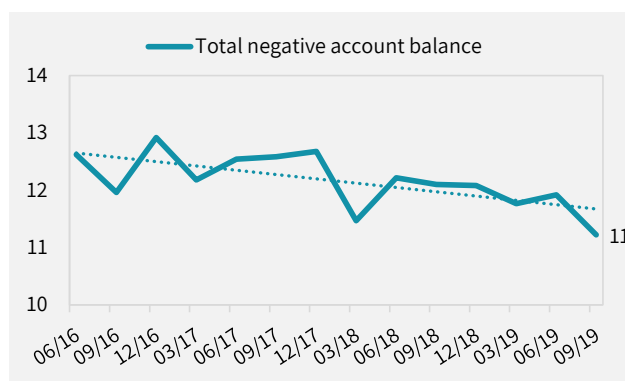
**Households' negative account balance accounted for about 7 percent of nonhousing debt to the banks in the third quarter**

Figure 2.16: Negative Account Balance as a Share of Households' Nonhousing Debt to the Banks, Sept. 2019



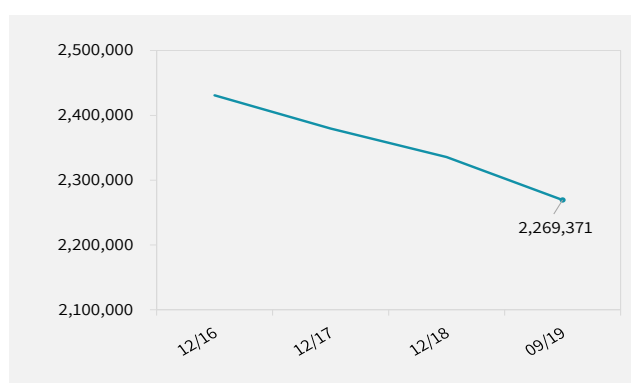
**Households' negative account balance declined to about NIS 11 billion in 2019, further to the downward trend in the reviewed years**

Figure 2.17: Households' Negative Account Balance



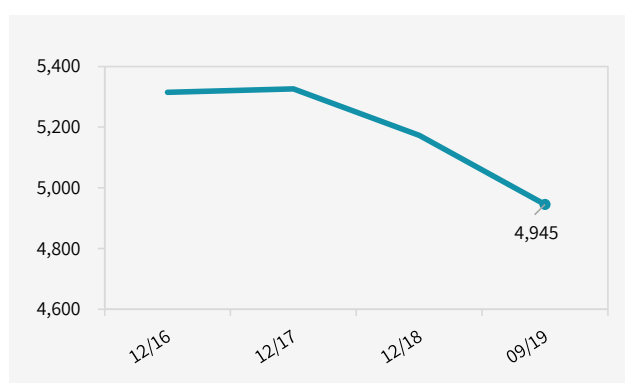
**The number of accounts with a negative balance declined in 2019, further to the decline in recent years**

Figure 2.18: Number of Accounts<sup>9</sup> With Negative Balances



**The average negative account balance has declined in recent years**

Figure 2.19: Average Negative Account Balance per Household Account



A variety of factors may explain the development of the decline in households' negative account balances. These include increased credit options for households, which have improved their ability to borrow in an orderly fashion with interest rates that are lower than the rates on account overdrafts; increased household income, which is reflected in a decline in unemployment levels and in an increase in the average wage; households' financial literacy; and more.

**SOURCE:** Bank of Israel data.

<sup>9</sup> Account as defined in the reporting format: a bank that can attribute all of the borrower's accounts shall report at the borrower level and not at the account level.



## Main indicators of nonfinancial private sector debt

	2013	2014	2015	2016	2017	2018	2019
<b>Nonfinancial business sector debt</b>							
Total business sector debt (NIS billion, end of period)	781	790	807	850	862	924	958
Estimated net quantitative change (NIS billion, yearly cumulative)	7	-9	20	50	31	43	51
Percentage of nonbank debt (end of period)	51	51	51	53	52	52	52
Percentage of tradable debt (end of period)	23	24	23	24	25	25	24
Percentage of unindexed debt (end of period)	40	42	44	46	49	49	50
Percentage of CPI-indexed debt (end of period)	33	30	29	28	28	27	27
Percentage of debt denominated in or indexed to foreign exchange (end of period)	27	28	26	26	23	24	24
Business sector debt to GDP ratio (percent, end of period)	74	71	69	69	68	69	68
<b>Household debt</b>							
Total business sector debt (NIS billion, end of period)	420	445	474	503	529	557	588
Estimated net quantitative change (NIS billion, yearly cumulative)	25	24	30	30	25	25	31
Percentage of nonbank debt (end of period)	63	63	63	63	64	65	66
Percentage of tradable debt (end of period)	55	58	63	65	66	66	66
Percentage of unindexed debt (end of period)	44	40	36	34	33	33	33
Percentage of CPI-indexed debt (end of period)	1	1	1	1	1	1	1
Percentage of debt denominated in or indexed to foreign exchange (end of period)	40	40	41	41	42	42	42

**SOURCE:** Bank of Israel data.





## DATA SOURCES AND MAIN TERMS<sup>10</sup>

The Bank of Israel Information and Statistics Department manages a database of activity in the credit market. 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 reports from the banking system to the Banking Supervision Department; quarterly financial statements by the credit card companies; reports from institutional investors 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.

### I The nonfinancial private sector

The nonfinancial private sector is comprised of the business sector (Israeli commercial firms that are not banks or insurance companies) 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 due to a lack of data. 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 Law (Regulated Financial Services), 5776–2016, is completed, and after the credit data register is established and activated by the Bank of Israel in accordance with the Credit Data Law, 5776–2016.

### I Outstanding debt

Outstanding debt shows the stock of credit (positions, stocks) from the point of view of the borrower 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).

### I Estimated net quantitative change, quantitative increase/decrease of debt

Estimated net quantitative change, quantitative increase/decrease of debt, is the change in outstanding debt, which shows economic activity in the credit market. The change in outstanding debt is influenced by net debt issuance (new credit raised, such as taking a loan or issuing bonds, minus repaid credit, such as repaid loans or repayment of bonds), by payment and accumulation of interest, by price changes (such as a change in the Consumer Price Index for CPI-indexed debt), and by other factors. Due to a lack of direct data on each of these components, an "estimated net quantitative change" is calculated from data on outstanding debt. The estimated 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.

<sup>10</sup> 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](#).

## **I Housing loans from the banks**

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.

## **I Nonhousing loans from the banks**

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 non-profit 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).

## **I Households' negative current account balance (overdraft)**

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.