Chapter 4

Development of financing sources for the nonfinancial private sector

- The recovery trend in private sector financing, which began in 2024, accelerated in 2025. It was reflected in an increase in debt across most borrower segments, alongside an expansion of both bank credit and nonbank financing.
- Credit to the business sector expanded markedly—both through the banking system, across all business size groups, and through increased activity in the corporate bond market. This activity was reflected in high issuance volumes and a decline in yield spreads to historically low levels, in line with the global trend.
- The expansion of nonbank financing was supported by an increase in household savings directed to money market funds and mutual funds in place of bank deposits. These developments increased demand for debt instruments in the capital market and contributed to an expansion in the supply of credit to nonfinancial corporations, particularly in the construction and real estate industry.
- The share of bank credit in arrears remained stable and at a low level in 2025, both for households and in credit to the business sector.
- In 2025, new mortgage borrowing remained at a relatively high level, despite the decline in the number of transactions in the housing market. This was partly due to the large share of borrowing associated with past transactions, particularly within the framework of sales promotion campaigns offered by contractors in previous years.
- At the same time, mortgage refinancing remained at a high level, driven mainly by the realization of opportunities to optimize loan terms rather than by cash-flow distress.
- Long-term trends in the characteristics of new mortgages continued this year as well, including longer repayment periods, higher leverage, and a higher payment-to-income ratio. In addition, the average age and average income of new homebuyers increased.
- Nonhousing consumer credit continued to expand in 2025, alongside an increase in the share of nonbank entities in general and credit card companies in particular. The growing use of the Credit Data Register by nonbank entities points to its contribution to improving their underwriting capabilities, thereby supporting the upward trend in the volume of this credit within total nonhousing consumer credit.

Business credit from the banks increased markedly – by 18.3%

157
NIS billion

Total issuances in the **corporate bond market** – a record year

The new mortgage market remained stable, with an increase in the volume of refinancing

Nonhousing consumer credit recovered, led by the increase in credit from credit card companies

1. INTRODUCTION AND MAIN DEVELOPMENTS

a. Background

Following a sharp decline in credit activity in 2023 in view of the outbreak of the war, and a partial recovery in 2024, there was a marked increase in both credit to the business sector and credit to households in 2025. Credit growth was due to a combination of two main factors:

- Factors that contributed to improved credit conditions and a marked expansion of bank credit—including declines in the intensity of the fighting and in the risk premium, alongside high levels of equity and record issuance in the banking system's corporate bond market; and
- A significant expansion of nonbank financing to the business sector through the corporate bond market. This occurred against the background of a shift in household savings from deposits to money market funds and mutual funds—a shift that increased the supply of sources in the market.

This set of processes supported the expansion of aggregate economic activity, including the rapid increase in private consumption and investment in the construction industry, thereby assisting the economy's recovery despite the continuing uncertainty.

Private debt increased in 2025 at a rate higher than GDP.

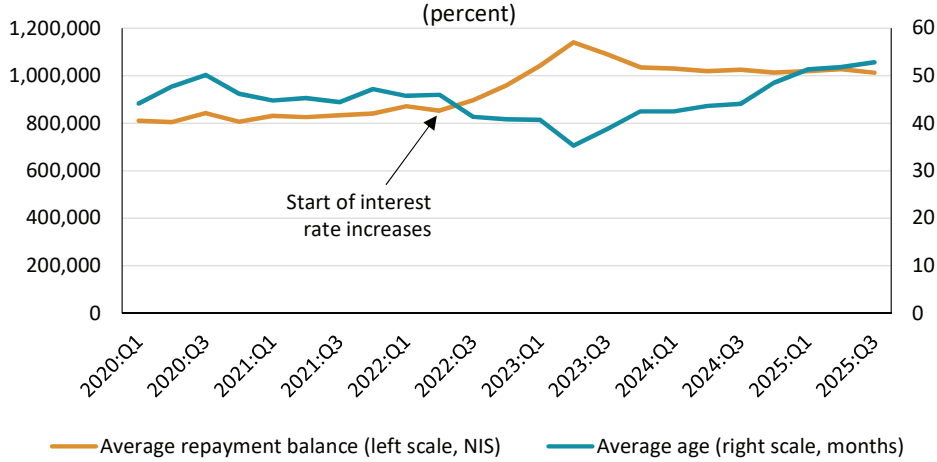
During 2025, nonfinancial private sector debt[1] increased by about 9.1 percent—a rate higher than GDP growth during the same period and higher than credit growth in 2024, though still lower than the growth rates recorded in the years preceding the outbreak of the war (Table 4.1). The increase in private debt was driven by a rise in business sector debt. This debt expanded by about 11 percent, mainly against the background of an expansion in bank credit (18.3 percent) and an increase in tradable

[1] Nonfinancial private sector debt includes the debt of households and the business sector, excluding banks, credit card companies, and institutional investors.

corporate bond issuance (8.6 percent). Credit originating abroad declined, largely due to the appreciation trend of the shekel over the course of the year.

Household debt increased by about 7 percent during the year, with similar rates of expansion in housing credit and nonhousing credit. The rapid growth in private sector debt led to an increase in the debt-to-GDP ratio overall, and in the business debt-to-GDP ratio in particular. This ratio rose from about 70 percent at the end of 2024 to about 73 percent at the end of 2025. Although these ratios remained low by international comparison, a long-term perspective points to a trend of Israel converging toward the OECD median, particularly in business credit, mainly due to a decline in these ratios worldwide that began at the end of 2021 (Figure 4.1).

Figure 1 | Average Age and Balance of Refinanced Mortgages, 2020:Q1–2025:Q3



Weighted average by mortgage size. Mortgage age is the time that has passed (in months) between when the mortgage was taken out and when it was refinanced.

SOURCE: Based on Credit Data Register and reports to the Banking Supervision Department.

Table 4.1 | Distribution of nonfinancial private sector debt, 2020–2025

	2021	2022	2023	2024	2025	2016–2020 average	2021	2022	2023	2024	2025
	End-of-period balance (NIS billion, current prices)					Rate of change during the period (percent)					
Nonfinancial private sector debt (1+2)	1,796	2,015	2,098	2,246	2,450	4.4	13.1	12.2	4.1	7.0	9.1
1. Business sector debt	1,104	1,240	1,305	1,400	1,548	3.9	13.0	12.3	5.3	7.3	10.5
Credit from banks	573	658	720	779	921	4.6	17.5	14.8	9.4	8.1	18.3
Domestic nonbank credit	348	383	401	430	448	5.8	7.3	9.9	4.8	7.2	4.2
of which : Tradable bonds in Israel	235	263	278	305	331	6.8	10.8	11.9	5.8	9.6	8.6
Credit from abroad	183	199	184	192	178	-0.5	10.9	8.7	-7.4	4.1	-7.0
2. Household debt	692	775	793	846	903	5.2	13.3	12.0	2.3	6.7	6.7
Housing credit	477	543	568	610	653	0.6	14.5	13.7	4.6	7.5	7.0
of which : Housing credit from the banks	459	521	546	587	628	6.9	15.5	13.5	4.8	7.5	7.1
Nonhousing credit	215	233	225	236	250	2.2	10.8	8.3	-3.3	4.7	6.1
of which : Nonhousing credit from the banks	153	161	161	169	178	-0.2	4.8	5.1	-0.2	5.0	5.6

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

b. Business Credit from the Banking System

(1) Trends in Bank Credit to the Business Sector

The banking system led the increase in credit to businesses.

The increase in business credit in 2025 was led by credit extended by the banking system. Table 4.2 presents the breakdown of the increase in business debt to banks by firm size and by main industries of activity. In contrast to 2023 and 2024, when most of the increase in business debt was due to the expansion of credit to large firms, in 2025 there was also a marked increase among medium-sized firms, alongside the continued recovery in credit to small and micro businesses. In 2025, bank credit to large and medium-sized firms grew by about 18 percent, while credit to small and micro businesses grew by about 10 percent.

Credit to medium and small businesses recovered after a period of just moderate growth.

The expansion in bank credit to the business sector in 2025 was led by the construction and real estate industry and by financial services, with growth of about 14 percent and 45 percent, respectively. In the construction industry, the increase in demand for credit reflected the expansion in activity, alongside the need to finance the stock of unsold dwellings and the lengthening of construction periods due to the fighting. These financing needs were exacerbated by the slowdown in demand for housing (for further discussion, see Chapter 8) and by the increased use of sales campaigns initiated by contractors. The sharp increase in credit to the financial services industry was supported by an expansion of credit to nonbank credit providers, alongside growth in other financial activities, such as credit extended to secure activity in derivative instruments for other financial entities. In addition, following two years of only moderate growth, credit to the trade and manufacturing industries recovered.

Table 4.2 | Increase in bank-issued business-sector debt, 2022–2025

divided by business size and industry, percent

	Share of outstanding debt (end of 2025)	Rate of change (percent)					
		2022	2023	2024	2025: first half	2025: second half	2025
Divided by business size							
Large	57.6	30.0	14.5	14.4	7.2	10.2	18.1
Medium	15.4	11.2	4.7	2.9	8.8	8.1	17.6
Small and micro	27.0	7.5	-2.6	8.1	2.6	7.3	10.1
Divided by industry							
Construction and real estate	38.3	18.8	12.4	8.8	7.6	6.2	14.2
Financial services	22.2	28.7	12.5	23.1	20.1	20.8	45.0
Trade	12.4	15.0	5.5	4.7	3.6	2.7	6.4
Manufacturing	11.7	12.9	3.0	3.7	7.9	6.2	14.7
Other Business	15.4	7.7	-0.3	2.6	4.1	4.2	8.5

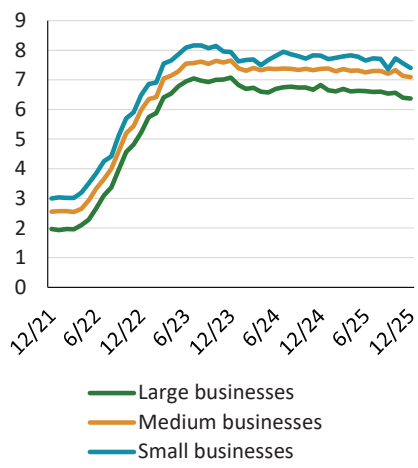
The manufacturing indusry includes: mining and quarrying, and water, electricity, and gas supply. Other business includes: agriculture, transport and storage, hotels, accommodation and food services, information and communications, and other business services.

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

During 2025, the interest rates on loans to small and micro businesses declined.

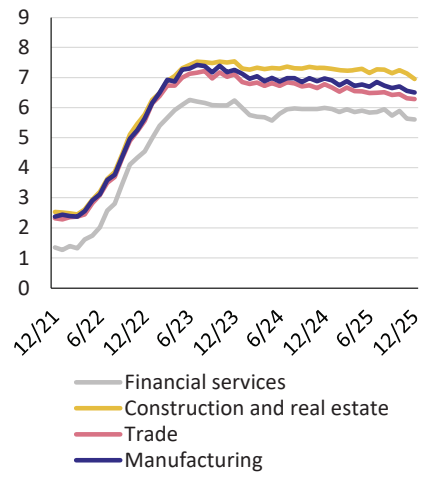
An examination of the average interest rate on new bank loans to the business sector indicates that throughout 2025 there was stability, and even a moderate decline in some industries. This decline was particularly pronounced among small and micro businesses, for which the average interest rate in the third quarter of 2025 was 0.27 percentage points lower than in the corresponding period of 2024 (Figure 4.2). By industry, the largest declines were recorded in trade and manufacturing, where the average interest rates in the third quarter of 2025 were lower by 0.31 and 0.19 percentage points, respectively, than in 2024 (Figure 4.3). The decline in interest rates continued in the fourth quarter of 2025 across all sectors and industries, in view of the reduction in the Bank of Israel interest rate.

Figure 4.2 | Average Interest Rate on New Bank Loans to Businesses, by Size, December 2021–December 2025
(percent)



SOURCE: Based on reports to the Banking Supervision Department.

Figure 4.3 | Average Interest Rate on New Bank Loans to Businesses, by Industry, Dec. 2021–Dec. 2025
(percent)



SOURCE: Based on reports to the Banking Supervision Department.

The Credit Officers Survey indicates greater flexibility in the terms of business credit.

The trend toward easier terms in bank business credit in 2025 is also reflected in the Credit Officers Survey.[2] According to survey respondents, in 2024 the main factors behind the tightening of credit conditions were the macroeconomic situation and difficulties in activity in certain industries, with a particularly high share of respondents reporting tightening for small and medium-sized businesses. In contrast, there was an easing in credit conditions in 2025, mainly due to increased competition in the credit market—from the capital market in the case of large firms, and from nonbank

[2] The Bank of Israel began conducting a Credit Officers Survey in order to obtain additional timely and qualitative information from banking corporations in Israel regarding the bank credit market in Israel. The survey has been conducted quarterly since the third quarter of 2024. For further discussion of the full survey findings, see: Main Findings from the Bank of Israel Credit Officers Survey for the Last Quarter of 2025.

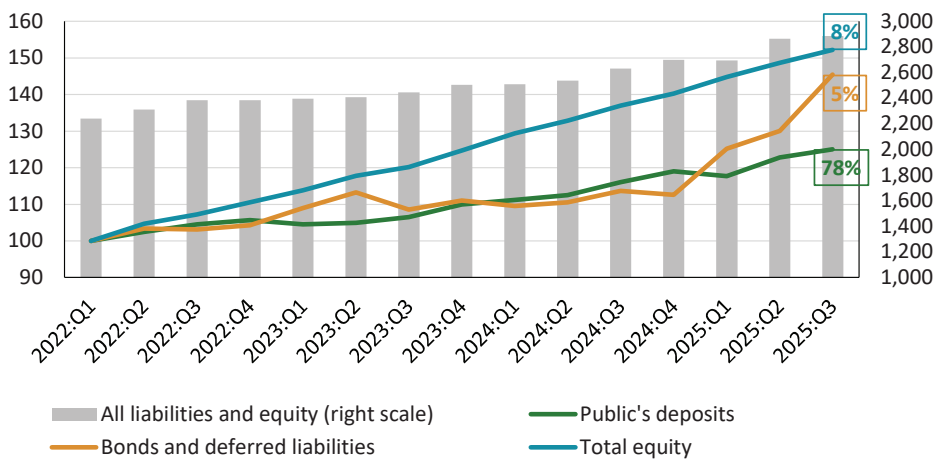
credit providers in the case of small and medium-sized businesses. In addition, the Central Bureau of Statistics' Business Tendency Survey indicated that during 2025 the share of businesses reporting severe constraints in bank credit remained stable at a low level.

(2) Funding Sources of the Banking System

The expansion of bank credit to the business sector in 2025, together with the moderate decline in interest rates and the findings of the Credit Officers Survey, indicate an easing in credit conditions and an expansion in supply. This trend was made possible by growth of about 9.6 percent in the banking system's funding sources. Public deposits, which account for about 78 percent of the banking system's total liabilities, increased by 7.6 percent, compared with growth of about 9 percent in the corresponding period a year earlier. Equity, which accounts for about 8 percent of funding sources, increased by about 11 percent in view of the banks' high profitability, although the pace of growth moderated relative to 2024, partly due to an increase in profit distributions during the year.

The funding source that was particularly notable in 2025 was bonds and notes, which increased sharply by about 28 percent between the third quarter of 2024 and the third quarter of 2025, compared with only 4.6 percent in the corresponding period a year earlier (Figure 4.4). The factors underlying this increase are examined in greater detail later in this chapter.

Figure 4.4 | The Banking System's Main Liability Items, 2022:Q1–2025:Q3
(index: 2022:Q1=100)



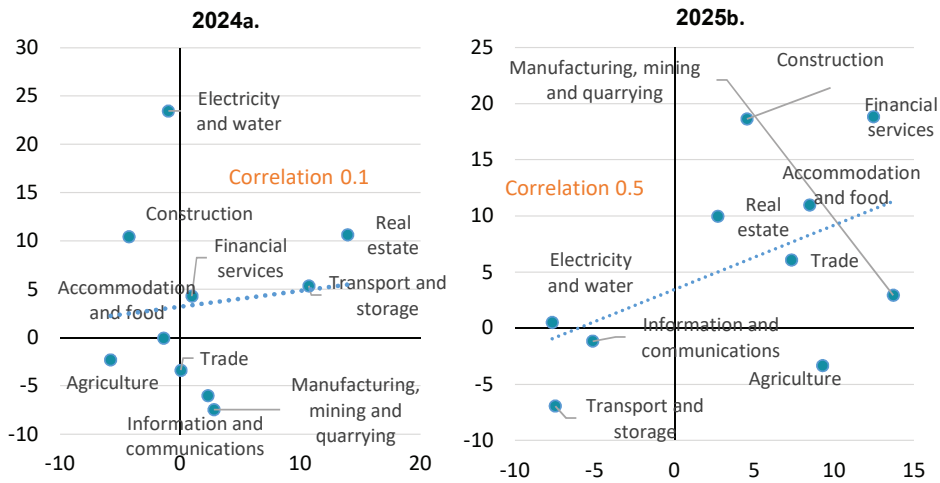
The percentages at the ends of each series represent the item's weight in total liabilities at the end point.
SOURCE: Based on reports to the Banking Supervision Department.

(3) Uses of Bank Business Credit

The correlation between the change in the revenue index and the rate of growth in business credit indicates financing of activities and not cash flow distress.

An examination of the correlation between the change in the revenue index and the rate of growth in industry-level credit indicates that credit was taken mainly to expand business activity, rather than as a result of cash flow impairment. Theoretically, the increase in credit may reflect firms' efforts to bridge cash flow difficulties that arose during the economic slowdown due to the war—for example, for debt refinancing, customer credit, inventory accumulation, and increased working capital needs. Conversely, part of the increase in credit may have been due to an expansion in business activity in view of the recovery in demand in the economy in 2025, which increased firms' financing needs—for example, for the purchase of equipment, renovation of facilities, expansion of production capacity, and intensified marketing activity. To examine the sources of demand for business credit, we analyzed the relationship between the change in the revenue index and the rate of growth in credit in each industry. A negative correlation between the revenue index and credit growth may indicate the use of credit to bridge a decline in activity and meet cash flow needs, whereas a positive correlation indicates the use of credit to expand activity.

Figure 4.5 | Correlation Between the Change in Revenue and the Change in Debt by Industry
(change in percent)



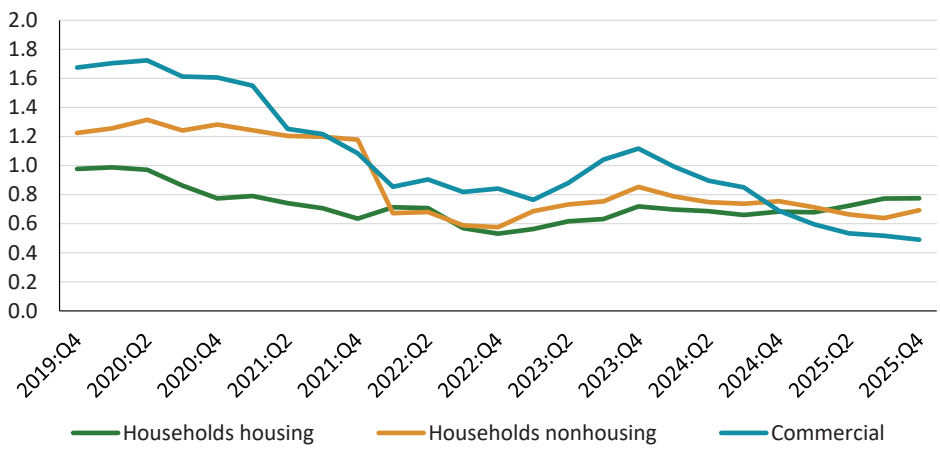
The correlation between the annual rate of change of total debt of each industry (y-axis) and the rate of change of the industry's revenue index (X-axis, fixed 2011 prices). The rate of change is calculated as the Q3 average of each year relative to the previous year.

SOURCE: Based on Central Bureau of Statistics and reports to the Banking Supervision Department.

Figure 4.5 shows that in 2025 there was a strong positive correlation between the change in revenue and credit growth—much higher than that recorded in 2024. This result reflects a simultaneous increase in both revenue and credit in most industries, and suggests that the increase in credit was closely linked to the recovery in business activity during the year. This finding is also consistent with the increase in investment recorded in 2025. (For further discussion, see Chapter 2.) It should be noted that between 2017 and 2025, the average correlation between the change in the revenue index and growth in industry-level credit stood at 0.17, making the correlation recorded in 2025 the highest in this period.

An examination of the share of bank credit that is either nonaccrual or more than 90 days in arrears, which constitutes a key estimate of nonperforming credit, indicates stability at a low level throughout 2025 (Figure 4.6). This share remained similar in both the household sector and the business sector, and does not indicate an increase in credit risk at the aggregate level. That is, during the reviewed period there was no deterioration in borrowers' repayment capacity—providing a further indication that the increase in total credit during the year was not due to cash flow distress.

Figure 4.6 | Rate of Bank Credit That is Not Accruing Interest or in Arrears of 90 Days or More, 2019:Q4–2025:Q4
(percent)



Credit that does not accrue interest and credit that accrues interest that is 90 or more days in arrears comprise an estimate of nonperforming loans (NPL)—a loan that is not properly repaid.

SOURCE: Based on reports to the Banking Supervision Department.

c. Nonbank Business Credit—Corporate Bonds

The expansion of credit was supported by an increase in nonbank financing through strong activity in the bond market.

Alongside the expansion of bank credit, 2025 was also characterized by heightened activity in corporate bond issuance.[3] The outstanding stock of tradable corporate bonds issued by the business sector increased by about 9 percent during 2025, reaching NIS 331 billion. Figure 4.7 presents the volume of corporate bond issuance by industry, alongside the average spread relative to government bonds. In terms of issuance volume, 2025 was a record year. In total, firms (excluding banks and insurance companies) issued debt totaling about NIS 91 billion—around 40 percent higher than total issuance in 2024. The construction and real estate industry led, with issuance totaling about NIS 45 billion, compared with about NIS 35 billion in 2024.

In 2025, corporate bond spreads continued the downward trend that began after their temporary increase following the outbreak of the war. This trend is not unique to Israel, and is consistent with the decline in spreads to historically low levels in global markets as well. The combination of increased issuance volumes and declining spreads points to an expansion in the supply of credit in the bond market.[4] The factors underlying this expansion are examined later in this chapter.

d. Housing Credit

In 2025, new mortgage borrowing remained relatively high, despite a decline in the volume of housing transactions.

In 2025, the volume of new mortgage borrowing remained stable, with a monthly average of about NIS 8.8 billion, and increased moderately toward the end of the year (Figure 4.8). This stability persisted despite the decline in the number of transactions in the housing market. The main explanation lies in the continued substantial contribution of new borrowing associated with purchase transactions signed in previous years. About 23 percent of monthly new borrowing in 2025 was due to earlier transactions. This figure is not in itself historically unusual. However, in previous instances, an increase in the share of new borrowing associated with earlier transactions generally occurred during periods of decline in total new borrowing. By contrast, in 2025 the share of new borrowing associated with earlier transactions was high and rising, even though the overall level of new borrowing remained relatively high (marked by arrows in Figure 4.8). This pattern is consistent with the increase in 2025 in the share of "nonlinear" payments in earlier transactions[5], which reached

A large part of new mortgage borrowing in 2025 was due to purchase transactions executed in previous years.

[3] The corporate bond market includes a variety of securities, including standard corporate bonds, convertible bonds, structured bonds, and commercial paper. Throughout this chapter, we refer to the corporate bond market as the aggregate of all types of debt securities traded in Israel, while distinguishing among the various types where separate analysis is required.

[4] In addition to the expansion of issuance by firms already active in the market, 32 new firms accounted for about 10 percent of total issuance in 2025—the highest number in the past decade. This figure points to improved market access for firms. For further discussion, see Box 4 in the Financial Stability Report for 2025.

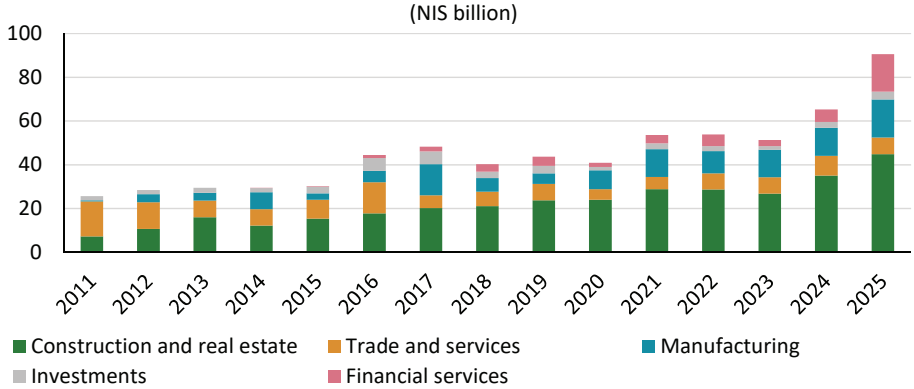
[5] When purchasing a home "on paper" from a contractor, a payment schedule is set under which the buyer makes payments over the construction period. Under a linear payment schedule, payments are spread continuously over the duration of the project. Under a nonlinear payment schedule, by contrast, the buyer pays the bulk of the price in a single installment. This may result from the buyer's initiative—for example, to avoid an increase in the apartment price due to indexation to the Construction Input Index or to a VAT increase—or, alternatively, the contractor may offer buyers the option of deferring a substantial portion of the payment until delivery of the apartment, as part of sales promotion campaigns.

about 18.5 percent of total new borrowing toward the end of the year. This trend may reflect the increase in new mortgages for purchases made as part of contractor sales promotion campaigns in 2023–24, which allowed buyers to defer a substantial portion of the home price until the delivery date.[6]

Figure 4.7 | The Business Sector Corporate Bond Market, by Industry

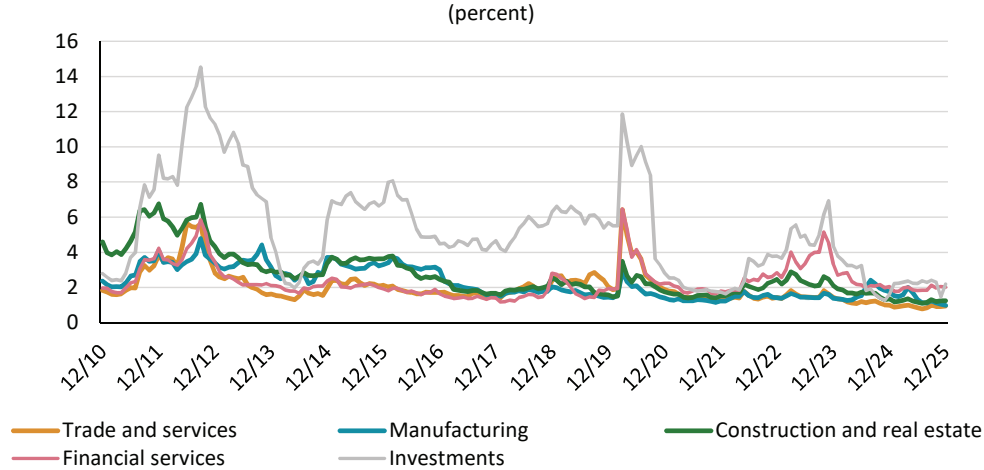
a. Volume of issuances (gross), 2011–2025

(NIS billion)



b. Average spread between corporate and government bonds, December 2010–December 2025

(percent)



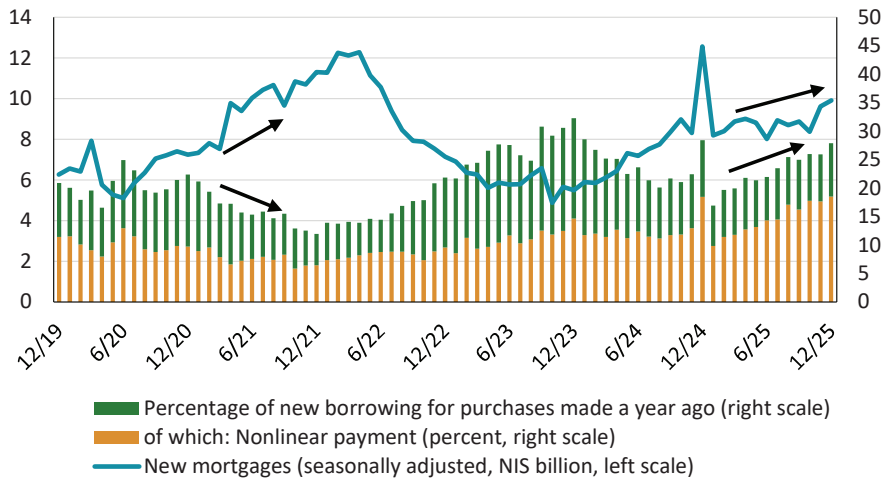
Excluding structured, convertible, and foreign bonds. The manufacturing industry includes gas and oil, technology, and biomed.

SOURCE: Based on reports by the Tel Aviv Stock Exchange.

[6] In 2024 and in the first half of 2025, there was a marked increase in sales campaigns that included the deferral of payments until the delivery date. In view of this trend, the Supervisor of Banks issued a temporary directive in April 2025 that effectively limited the share of transactions involving deferred payments in projects financed by the banks. For further discussion, see Box 5.2 in the Banking Supervision Department's Annual Survey of Israel's Banking System for 2024.

Alongside the increase in new borrowing, there was also a slight increase in the average mortgage size, which reached about NIS 1.03 million in 2025, compared with about NIS 993,000 in 2024. The increase in the average mortgage size was despite stability, and even declines, in housing prices during much of the year, and is partly explained by the continued increase in the share of mortgages taken at high loan-to-value ratios of more than 60 percent.

Figure 4.8 | New Residential Borrowing from the Banks, December 2019–December 2025



"Nonlinear payment": When at least 70% of the mortgage amount is taken out in one payment, at least one year after the property is purchased.

SOURCE: Based on reports to the Banking Supervision Department.

Households preferred unindexed variable rate mortgages over the prime rate track.

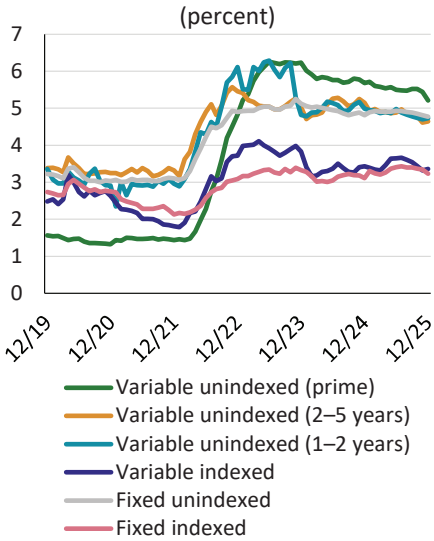
In 2025, mortgage interest rates declined moderately across all track types, mainly in the second half of the year (Figure 4.9). At the same time, the share of the unindexed variable-rate track—where the interest rate is reset every one to two years—continued to increase, at the expense of the prime-rate track and the indexed variable-rate track. This trend reflects households' preference for tracks offering greater stability than the prime-rate track, while preserving the possibility of benefiting from interest rate declines in the short term. In the second half of 2025, about 65 percent of new mortgages were concentrated in the unindexed variable-rate track and the unindexed fixed-rate track (Figure 4.10). The change in the composition of loan tracks may have implications for the effectiveness of monetary policy, since a shift toward mortgages with more stable interest rates reduces the immediate pass-through of interest rate changes to monthly repayments relative to the situation that prevailed on the eve of the monetary tightening that began in 2022.[7]

[7] For further discussion of the effect of changes in the Bank of Israel interest rate on consumption by mortgage holders during the monetary tightening in 2022 and 2023, see: Itamar Caspi, Nadav Eshel, and Nimrod Segev (2024), "The Mortgage Cash-Flow Channel: How Rising Interest Rates Impact Household Consumption," Discussion Paper Series 2024.13, Bank of Israel Research Department.

The high level of mortgage refinancing was mainly due to considerations of optimization of loan terms.

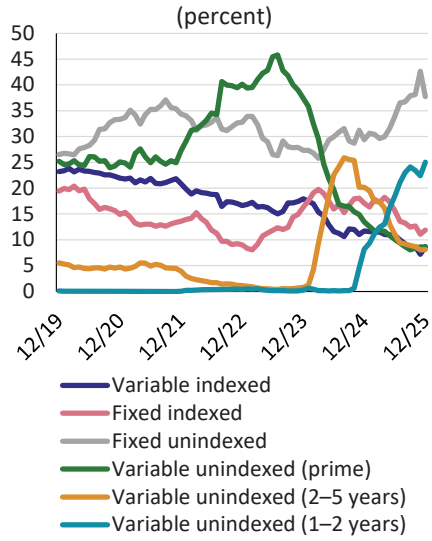
Alongside the stability in the volume of mortgage borrowing, 2025 was also characterized by a relatively high level of mortgage refinancing, both in the number of transactions and in their monetary volume. These averaged about NIS 3.6 billion per month (Figure 4.11). Box 4.1 provides an in-depth examination of the factors underlying the increase in refinancing volumes. The analysis indicates that most refinancing was undertaken for economic reasons related to optimizing loan terms, rather than as a result of borrowers' liquidity distress.

Figure 4.9 | Average Interest Rate on New Mortgages, by Interest and Indexation Type, December 2019–December 2025



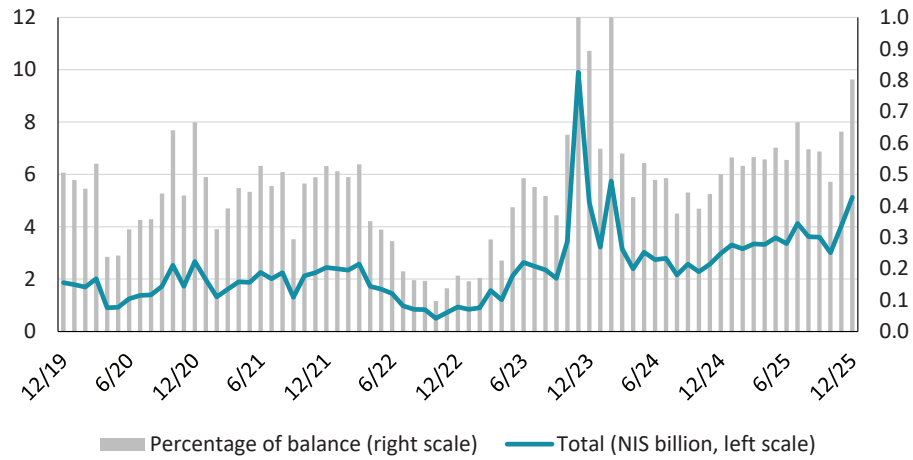
SOURCE: Based on reports to the Banking Supervision Department.

Figure 4.10 | Distribution of New Mortgages Borrowing, by Interest and Indexation Type, December 2019–December 2025



SOURCE: Based on Banking Supervision Department data.

Figure 4.11 | Refinancing of Residential Credit, Total Banking System, December 2019–December 2025



During the war, deferrals of more than 3 months are included in "refinanced credit". During the COVID-19 period the guidance to the banks was changed such that deferrals were not included in refinanced credit.

SOURCE: Based on reports to the Banking Supervision Department.

BOX 4.1: MORTGAGE REFINANCING IN HOUSING CREDIT — REASONS, TRENDS, AND BORROWER CHARACTERISTICS

- **This box examines recent trends in mortgage refinancing in Israel, distinguishing between refinancing driven by considerations of optimizing the loan mix in order to reduce costs and refinancing intended to ease cash flow pressures.**
- **The increase in refinancing during 2024–2025 was driven mainly by efforts to optimize mortgage terms (changes in loan composition and pricing).**
- **About 15 percent of refinancing transactions involved an extension of the mortgage term together with an increase in the projected total interest cost. This pattern points to a cash flow consideration aimed at reducing the monthly repayment burden, even at the cost of a higher overall loan cost.**

a. Background

In recent years, the volume of housing credit refinancing has increased (Figure 4.11 in the chapter). In total, about 69,000 mortgages were refinanced in 2025, amounting to approximately NIS 43.6 billion—equivalent to about 7 percent of the banking system's total outstanding mortgage portfolio, compared with an average of about 4.5 percent of the outstanding balance during 2019–2024. For the purposes of this analysis, mortgage refinancing is defined as an action in which the borrower replaces an existing mortgage, or part of it, with a new loan under different terms, including changes in loan tracks and repayment period, whether at the original bank or at another bank.

There may be various reasons for refinancing a mortgage. First, refinancing may be undertaken in order to improve the terms of the existing loan—for example, when the average market interest rate is lower than the rate paid on the current mortgage. In particular, refinancing variable-rate tracks close to the date of the benchmark-rate reset makes it possible to adjust the interest rate to current market conditions without incurring early payment fees. Second, refinancing may be undertaken in order to adjust the mortgage mix to changes in macroeconomic conditions—for example, reducing the weight of CPI-indexed tracks during a period of rising inflation. Alternatively, refinancing may reflect adjustments to changes in the borrower's financial situation—for example, when a lump sum becomes available that allows for partial repayment and a shortening of the repayment period, or when monthly income rises, enabling a higher monthly repayment and a shorter term. In addition, a customer seeking to take out an all-purpose loan secured by a residential property, or an additional mortgage loan—for example, for renovations—may use the opportunity to refinance and adjust the existing mortgage as well. Finally, in cases where there is difficulty in meeting the monthly repayment, refinancing that includes rescheduling payments and extending the repayment period may make it possible to reduce the monthly payment.

Thus, the increase in refinancing activity may reflect economic considerations aimed at improving loan terms and adjusting the mortgage mix to changes in market conditions and interest-rate expectations, while some refinancing may reflect an attempt to reduce the monthly repayment by extending the loan term, even at the cost of increasing the total cost of the loan.

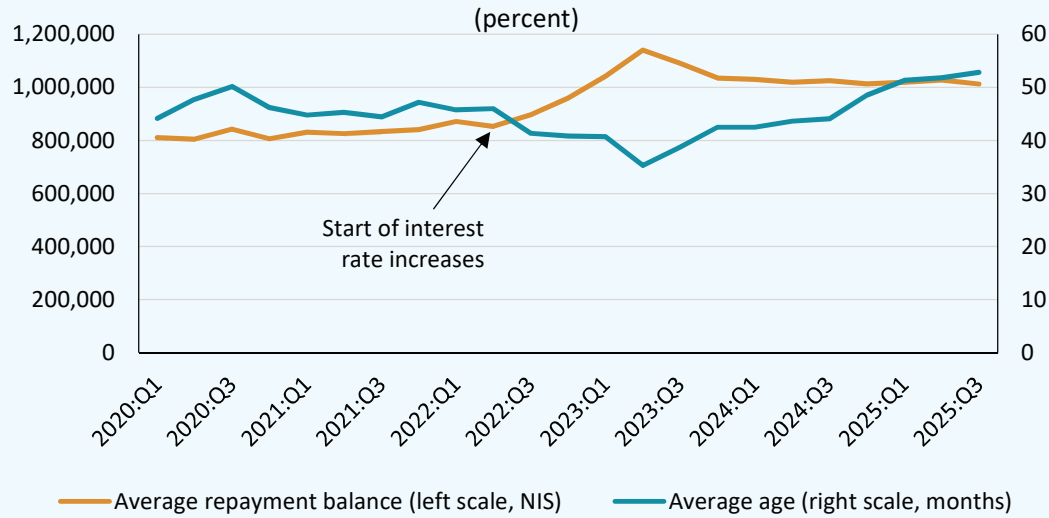
b. Identifying the Reasons for Refinancing and the Characteristics of Refinancing Transactions

To identify the reasons for mortgage refinancing, we used data from the Credit Data Register, which enables monthly tracking of mortgage tracks, including the opening and closing of tracks and changes in loan terms. Figure 1 presents the average age of the mortgage and the outstanding balance at the time of refinancing. It shows that mortgage refinancing takes place, on average, 40 to 50 months after the mortgage is taken out—consistent with refinancing close to the benchmark-rate reset date for variable-rate tracks updated every two to five years. In this context, it should be noted that in the second half of 2020 and in 2021—a peak period for new mortgage borrowing—about 20 percent of new mortgages were in variable-rate CPI-indexed tracks, mostly with benchmark-rate resets every five years. That is, some of these tracks were expected to reach their reset date during 2025 and toward 2026, a factor that may help explain the increase in the number of refinancing transactions during the year.

Figure 2 presents the change in the balances of refinanced mortgages in each quarter, broken down by track type. For this purpose, the total amount of loans repaid in each track was compared in each quarter with new loans extended as part of mortgage refinancing, and the net change in the balance of each track type was examined. The figure indicates that most of the increase in refinancing over the past two years was due to shifts out of the prime track and CPI-indexed tracks into variable-rate unindexed tracks. This trend is consistent with the changes also recorded in the composition of new mortgage loans, with a sharp decline in the share of the prime track and the variable-rate CPI-indexed track, alongside a sharp increase in the variable-rate unindexed track with benchmark-rate resets every one to two years (Figure 4.10 in the chapter). In addition, the increase in refinancing of variable-rate CPI-

indexed tracks during 2025 is consistent with the benchmark-rate reset dates of such tracks that were taken out during 2021.

Figure 1 | Average Age and Balance of Refinanced Mortgages, 2020:Q1–2025:Q3



Weighted average by mortgage size. Mortgage age is the time that has passed (in months) between when the mortgage was taken out and when it was refinanced.

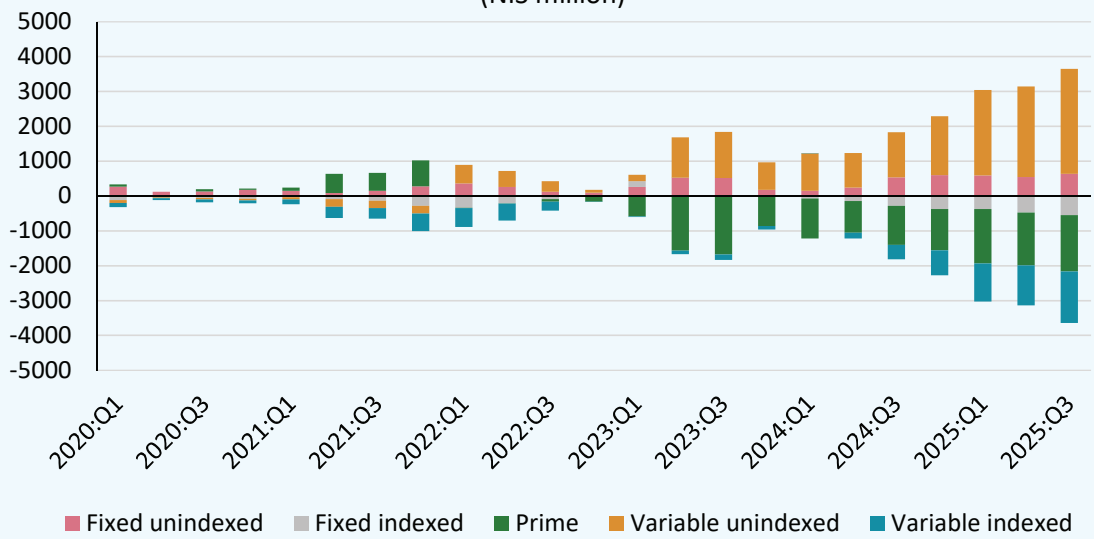
SOURCE: Based on Credit Data Register and reports to the Banking Supervision Department.

As noted, mortgage refinancing may be undertaken either for reasons of economic benefit, in order to adjust loan terms to changes in market conditions, or for cash flow reasons, with the aim of reducing the monthly repayment burden due to financial constraints. When the main reason for refinancing is a desire to reduce the monthly payment, the customer will generally seek to do so by spreading the loan over a longer period, even if this entails an increase in the cost of the mortgage. To identify such cases, we examined the share of refinanced mortgages that involved both an extension of the repayment period and an increase in the projected total interest rate on the loan[1]—that is, cases in which the cost of the mortgage rose following refinancing.

[1] Calculation of the mortgage's internal rate of return (IRR), based on all expected mortgage payments. For details of the calculation method, see: "Appendix 4 – Calculation of the Projected Total Interest Rate (the Effective Cost of Credit)," Proper Conduct of Banking Business Directive 451, Housing Loans, Banking Supervision Department.

Figure 2 | Net Change in the Mix of Refinanced Mortgages, 2020:Q1–2025:Q3

(NIS million)



The figure shows the net change in the balance of mortgages that were refinanced, by interest and indexation type.

SOURCE: Based on Credit Data Register and reports to the Banking Supervision Department.

Figure 3 presents the number of mortgage refinancing transactions identified each month in the Credit Data Register, alongside the share of refinancing transactions in which the mortgage term was extended and the projected total mortgage cost increased as a result of the refinancing. The figure shows that, apart from periods of rising interest rates, during which there was a general decline in the number of refinancing transactions, the share of refinancing transactions involving both a term extension and an increase in the projected total interest cost remained relatively stable over most of the period, at about 15 percent.

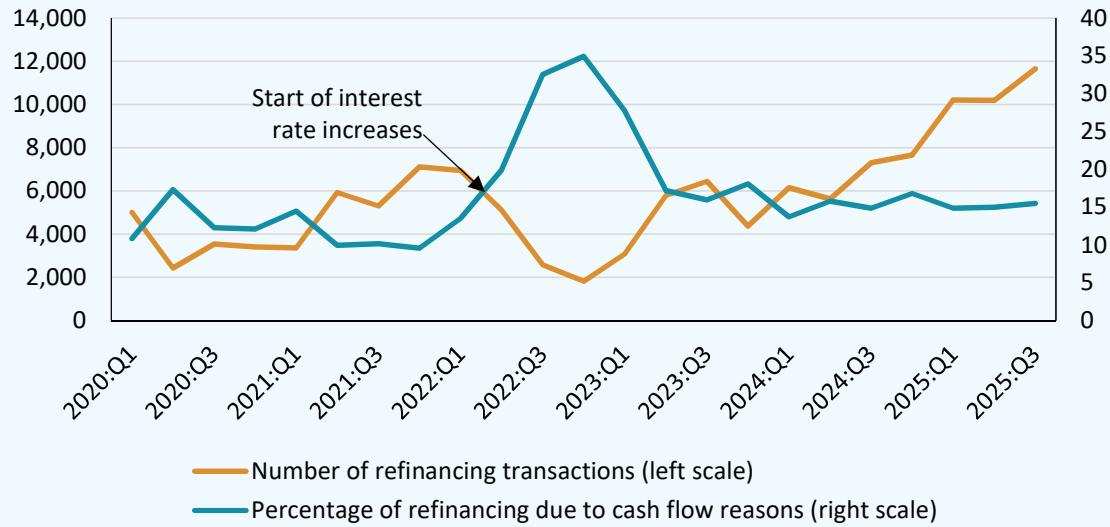
c. Differences in Customer Characteristics

Thus far, the analysis indicates that mortgage refinancing is undertaken in most cases for reasons of economic benefit rather than because of difficulty in meeting repayments. This section also examines the characteristics of customers who refinanced, relative to two comparison groups: mortgage holders who neither refinanced nor deferred payments, and customers who deferred mortgage payments for at least three months.[2] Figure 4 examines differences over time in the credit characteristics of the three groups. The figure clearly shows that mortgage holders who deferred payments tend to have a higher-

[2] Mortgage payment deferrals may at times be granted without bank discretion, as part of customer assistance frameworks during crisis periods, such as the COVID-19 period and the war period. However, payment deferrals may also be granted on an ongoing basis upon application to the bank, usually for personal reasons such as termination of employment, maternity leave, illness, or financial difficulty.

risk profile than the other two groups. This is reflected in higher rates of arrears[3], a higher incidence of overdrafts in current accounts, a larger volume of additional consumer credit beyond the mortgage, and greater use of loans drawn against credit card limits.[4]

Figure 3 | Number of Refinancing Transactions and Rate of Refinancing Due to Cash Flow Difficulties, 2020:Q1–2025:Q3



Refinancing for cash flow reasons when there is an increase in the total forecast cost and an extension of the mortgage period following the refinancing.

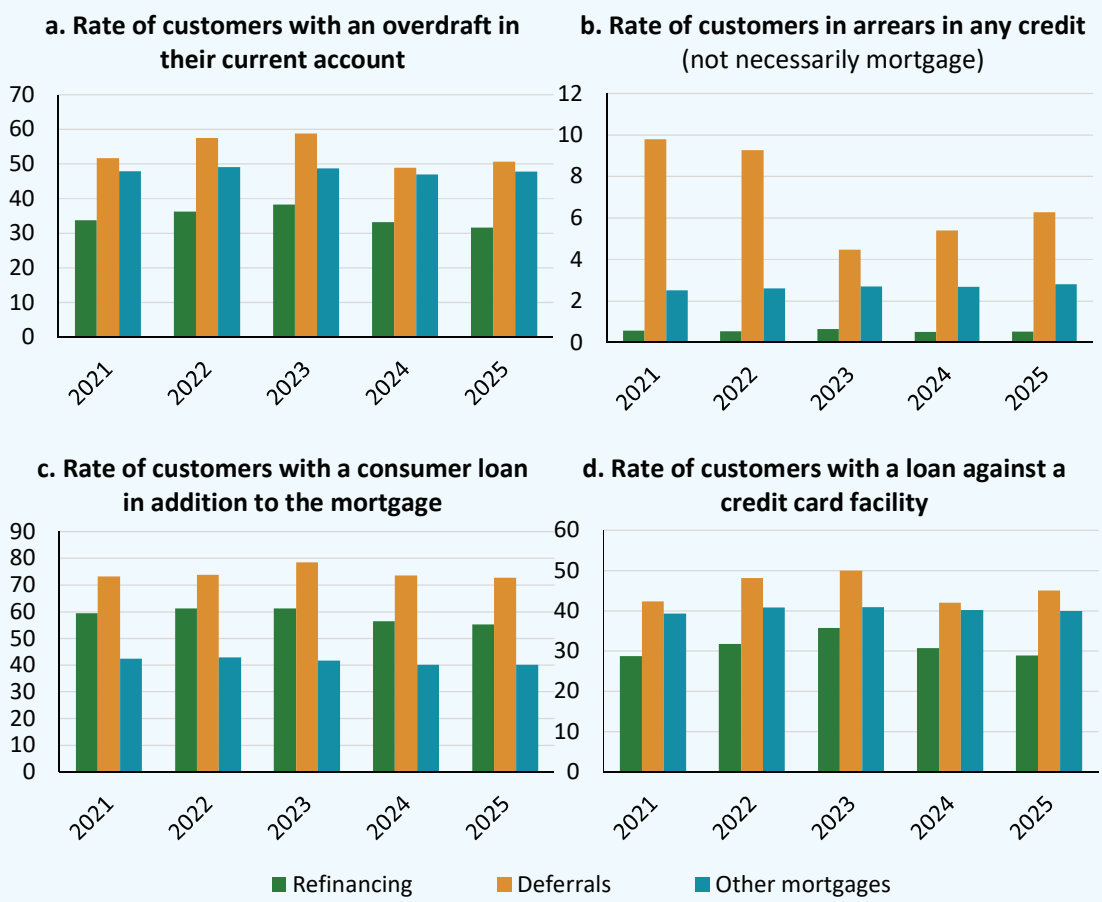
SOURCE: Based on Credit Data Register and reports to the Banking Supervision Department.

In summary, the increase in mortgage refinancing in recent years appears to have been driven mainly by considerations of economic benefit, related to the realization of options embedded in the original loan agreement, and in particular the updating of mortgage terms for variable-rate tracks in line with market conditions. Nevertheless, about 15 percent of refinancing transactions were motivated by a desire for cash flow relief. Taken together, the findings indicate that the increase in mortgage refinancing volumes does not point to a broad-based rise in financial distress requiring refinancing in order to meet repayment obligations.

[3] "Share of customers in arrears" is defined as a situation in which one or more of the customers liable on the mortgage has at least one credit transaction in the Credit Data Register (not necessarily the mortgage itself) that is more than 30 days past due.

[4] Loans against credit card limits include credit card installment loans bearing interest ("credit" loans) and revolving credit cards.

Figure 4 | Characteristics of Customers Who Refinanced and Other Mortgage Borrowers, 2021–2025
(percent)



SOURCE: Based on Credit Data Register and reports to the Banking Supervision Department.

e. Nonhousing Consumer Credit

In 2025, nonhousing consumer credit continued to recover, following a slowdown during the war.

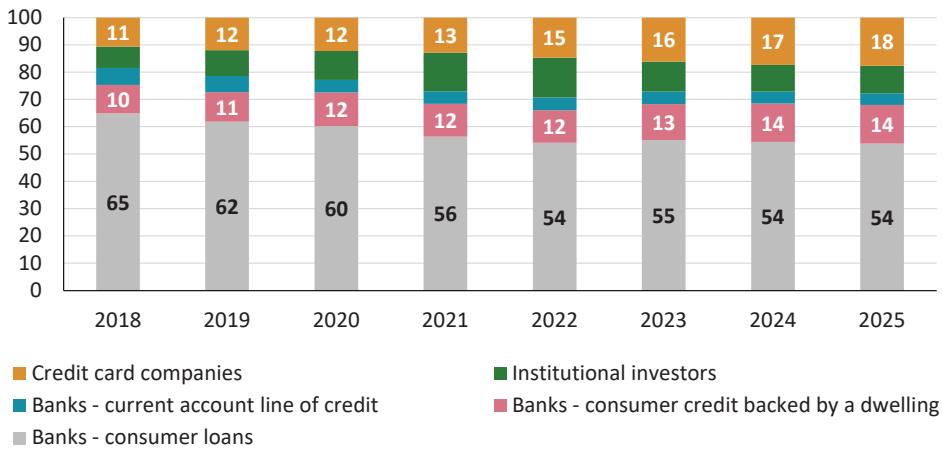
The year 2025 marked a continued recovery in nonhousing consumer credit, following the sharp slowdown recorded in 2023 in view of the outbreak of the war. As of December 2025, nonhousing consumer credit from all sources totaled about NIS 250 billion—an increase of about 6.1 percent since the beginning of the year, compared with growth of 4.7 percent in 2024, a contraction of 3.3 percent in the outstanding credit balance in 2023, and an average annual growth rate of 2.2 percent in the years 2016–20 (the pre-COVID period).

Unlike housing credit, which originates almost exclusively in the banking system, the consumer credit market is characterized by a broader range of funding sources. In addition to banks, households can obtain credit from credit card companies, from nonbank credit companies—mainly in the vehicle financing segment—and from institutional investors through loans to members. Within the banking system itself, there are also various channels of consumer credit, including overdraft facilities, fixed-term consumer loans, and general purpose loans secured by a lien on a residential dwelling.

Credit card companies increased their share of the consumer credit market in recent years.

In terms of growth rates in outstanding consumer credit, credit card companies led in 2025, with growth of about 8.1 percent, compared with growth of about 5.6 percent in consumer credit from banks. This trend supported the continued increase in credit card companies share of total consumer credit—from about 12 percent in 2019 to about 18 percent at the end of 2025 (Figure 4.12). Also notable was the

Figure 4.12 | Distribution of Households' Outstanding Consumer Debt, by Type of Lender, 2018–2025
(percent)



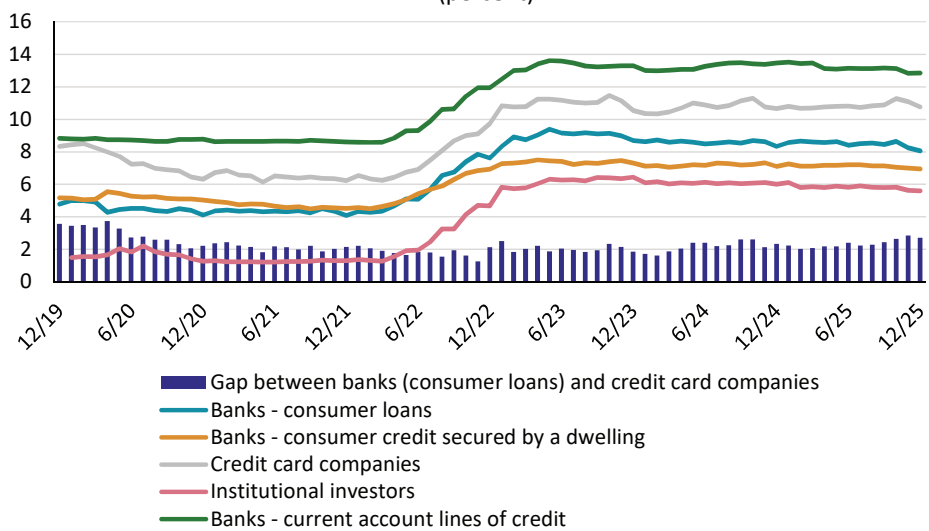
Year-end data except for 2025, for which the data are to the end of November.
SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

increase in the share of consumer credit from banks secured by a residential dwelling, partly in view of the easing of restrictions on the provision of such credit.[8]

Figure 4.13 presents the average interest rate on new consumer credit, broken down by source of credit. The figure indicates that in 2025 there was relative stability in consumer credit interest rates. A higher average interest rate on loans from credit card companies is evident throughout the period compared with loans from the banking system. This gap may reflect the higher funding costs of credit card companies, as well as differences in credit characteristics and in the risk profile of customers borrowing from credit card companies compared with banks.

Figure 4.13 | Average Interest Rate on New Consumer Credit, by Type of Lender and Type of Credit December 2020–December 2025

(percent)



Credit card companies, institutional investors, and consumer loans from the banks, are variable rate unindexed loans only. For bank loans secured by a dwelling, the rate is the nominal wighted rate assuming an inflation rate of 2 percent. Data for the institutional investors begin in January 2020.

SOURCE: Based on Central Credit Register and reports to the Banking Supervision Department.

However, the gap between interest rates narrowed gradually over time. At the beginning of 2020, the gap between credit card companies and banks was about 3.5 percentage points—a gap similar to that between bank loans and credit lines (overdraft). Since then, the two gaps have evolved differently. While the gap between overdraft interest rates and bank loan rates remained stable throughout the period (about 3.5 percentage points), the gap between credit card companies and banks

[8] In December 2023, against the background of the continuation of the war, the Banking Supervision Department raised the maximum loan-to-value ratio on loans secured by a residential dwelling not intended for the purchase of real estate rights from 50 percent to 70 percent, provided that the portion of the loan above a 50 percent loan-to-value ratio did not exceed NIS 200,000. These leniencies were extended several times and became permanent in February 2026.

narrowed, to an average of about 2.3 percentage points in 2025. This is an indication of the increasing competitiveness of these entities vis-à-vis the banks.

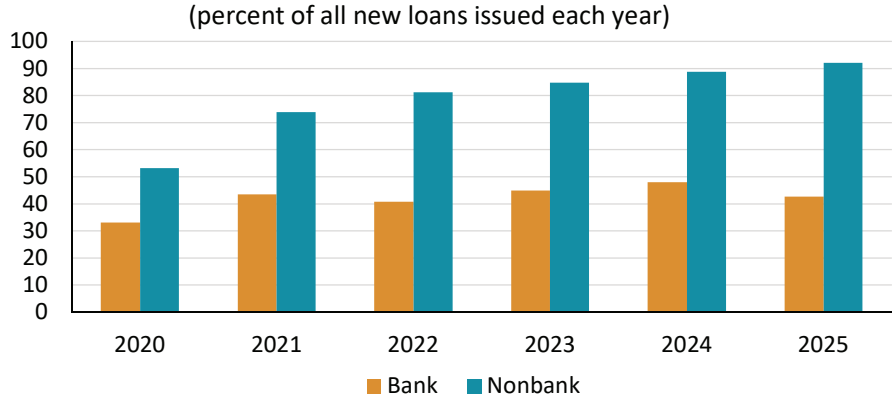
In recent years, interest rate spreads have narrowed alongside an increase in the share of consumer credit provided by credit card companies. These developments reflect a strengthening of the competitive pressure exerted by these companies on banks in the retail credit market. This strengthening of competition was supported by reforms implemented in recent years, including the establishment of the Credit Data Register in 2019. The Register was intended to reduce information asymmetries and expand households' access to credit. Information sharing enables credit providers to perform more accurate underwriting. With the customer's consent, they can rely on a credit report and credit score reflecting the customer's financial history. This allows them to offer more tailored credit terms and to manage risk more efficiently.

Nonbank lenders are using the Credit Data Registry at particularly high rates.

Figure 4.14 presents the share of consumer loans granted using a credit report from the Credit Data Register, broken down between banks and nonbank entities.[9] Among banks, use of the Register is relatively low and ranged between 30 and 40 percent throughout the period. This is not surprising in view of the extensive information already available to banks regarding their existing customers. By contrast, nonbank entities show high and sharply rising use—from 53 percent in 2020 to about 90 percent in 2025. This level of use indicates that the Register enabled nonbank

Figure 4.14 | Rate of Consumer Loans Issued After Obtaining a Credit Report, 2020–2025

(percent of all new loans issued each year)



Consumer loans only (with no collateral). Nonbank loans include credit card companies and nonbank entities reporting to the Central Credit Register (excluding institutional investors). Percentage of loans for which the credit supplier obtained a credit report from the Credit Data Register on at least one of the debtor customers in the transaction during the month in which the loan was issued or in the previous month.

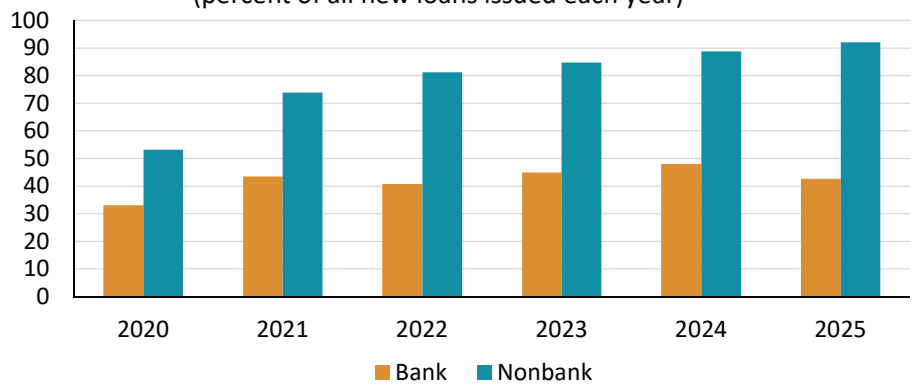
SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

[9] Credit card companies and regulated nonbank credit providers that report to the Register. Excludes institutional investors.

entities to expand the supply of credit and contributed to the increase in their share of the consumer credit market.

Figure 4.14 | Rate of Consumer Loans Issued After Obtaining a Credit Report, 2020–2025

(percent of all new loans issued each year)



Consumer loans only (with no collateral). Nonbank loans include credit card companies and nonbank entities reporting to the Central Credit Register (excluding institutional investors). Percentage of loans for which the credit supplier obtained a credit report from the Credit Data Register on at least one of the debtor customers in the transaction during the month in which the loan was issued or in the previous month.

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

2. DEVELOPMENTS IN NONBANK CREDIT TO THE BUSINESS SECTOR

a. General

The transfer of the public's savings to mutual funds and money market funds increased the demand for corporate debt.

As noted, 2025 was a record year for issuance in the corporate bond market, with total issuance amounting to NIS 156.9 billion (financial and nonfinancial).[10] This represents an increase of about 78 percent relative to total issuance in 2024 and about 100 percent relative to 2023. This expansion is particularly notable against the background of a fairly stable interest rate environment and continued security-related uncertainty throughout most of the year. One of the factors contributing to the heightened market activity in 2025 was the change in the composition of household savings, in particular the public's shift into money market funds and mutual funds. This shift generated demand in the corporate debt market and set in motion processes that improved nonfinancial firms' access to nonbank sources of financing.

[10] Includes standard corporate bonds and commercial paper (CP), and excludes structured bonds, convertible bonds, and foreign bonds.

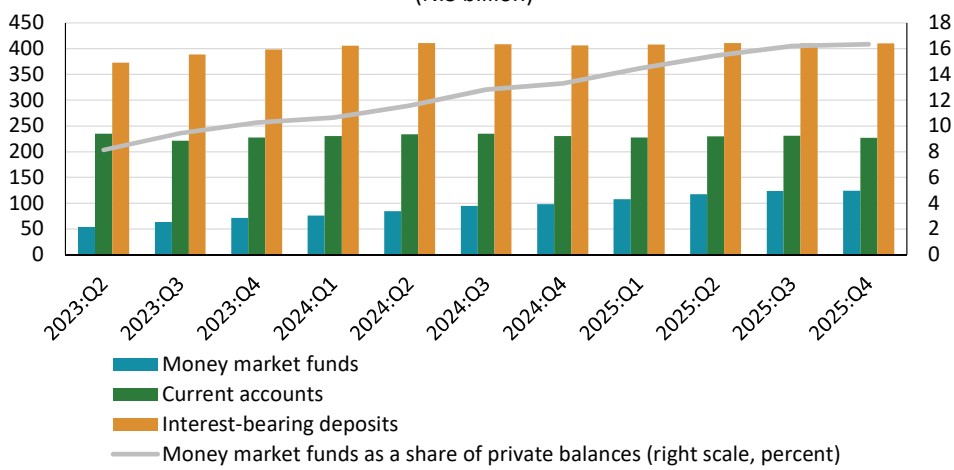
b. Accumulations in Mutual Funds (Money Market and Non-Money Market Funds)

Since 2022, money market fund assets jumped from NIS 12 billion to NIS 155 billion.

The gap between the Bank of Israel interest rate and the return on liquid deposits, which has widened since 2022 in view of the increase in interest rates, encouraged households to seek alternative savings instruments combining high liquidity with a higher return than bank deposits. As a result, there was a sharp increase in assets under management in money market funds and non-money market mutual funds.[11] In particular, total assets under management in all mutual funds (money market and non-money market) increased from around NIS 330 billion at the beginning of 2022 to more than NIS 668 billion by the end of 2025. Money market funds recorded the highest growth rate, rising from about NIS 12 billion at the beginning of 2022 to about NIS 155 billion by the end of 2025. Figure 4.15 presents household balances in current accounts, interest-bearing deposits in the banking system, and money market funds.[12] It shows that alongside the increase in total balances in recent years, there was also an increase in the share of money market funds relative to households' balances in current accounts and deposits. That is, in recent years money market funds have become a more significant component of the public's liquid assets.

Figure 4.15 | Households' Monetary Balance in Current Accounts, Interest-Bearing Deposits, and Money Market Funds, 2023:Q2–2025:Q4

(NIS billion)



End-of-quarter data. Households' holdings of money market funds (private customers) are from reports by the banks. Shekel money market funds only, current accounts and interest-bearing deposits in shekels and unindexed.

SOURCE: Based on reports to the Banking Supervision Department and the Bank of Israel.

[11] Money market funds are mutual funds considered a low-risk investment instrument. Their main objective is to achieve an annual return close to the Bank of Israel interest rate while maintaining minimal risk and high liquidity. To this end, money market funds invest in a limited number of low-risk assets, including bank deposits (jumbo deposits on preferential terms), short-term Bank of Israel bills (MAKAM), short-term government and corporate bonds with high ratings, and highly rated commercial paper.

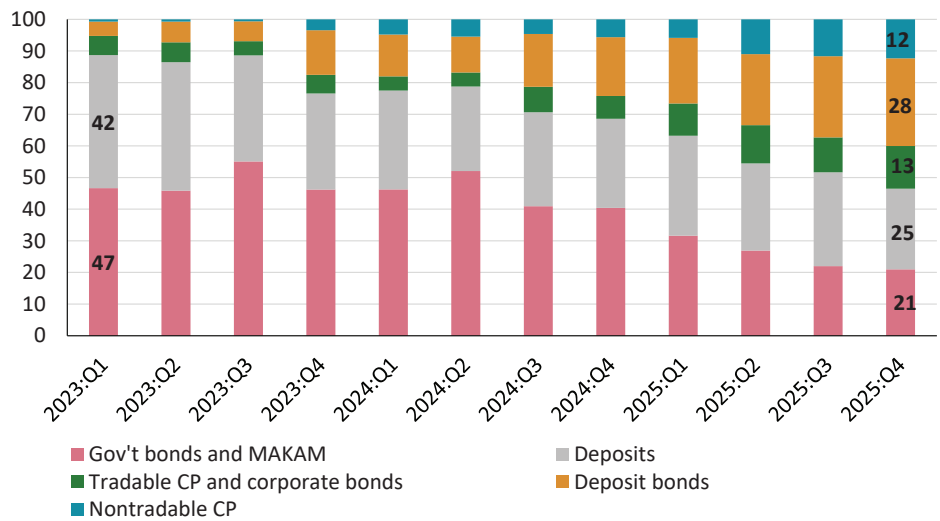
[12] Total funds managed in money market funds represent both households and business accounts. The estimate of household holdings in money market funds only (private customers) was derived from reports by the banking system.

c. Asset Composition of Money Market Funds

Money market funds' high demand for commercial paper led to the rapid expansion of issuances.

Alongside the increase in accumulations, the asset composition of money market funds also changed. Until 2023, holdings were based mainly on MAKAM and deposits, which accounted for about 90 percent of their assets. Beginning in mid-2023, the range of assets broadened, and in particular there was a persistent increase in the share of deposit bonds[13] and commercial paper (CP), both tradable and nontradable, which reached about 53 percent of fund assets at the end of the period, compared with about 11 percent at the beginning (Figure 4.16).[14] CP is a corporate short-term debt liability with a maturity of up to one year. Tradable CP is issued to the public and traded continuously until maturity, whereas nontradable CP is a private placement created as part of a contractual arrangement between the issuing corporation and investors, and is held until maturity or until a contractual exit event.[15]

Figure 4.16 | Composition of Assets in Shekel Money Market Funds, 2023:Q1–2025:Q4
(percent)



SOURCE: Based on reports to the Bank of Israel.

[13] A deposit bond is a structured bond issued against collateralization of a bank deposit. The issuer's profit derives from the spread between the interest the issuer receives on the bank deposit and the interest paid to bondholders.

[14] The funds also hold a limited amount of standard corporate bonds, but in low amounts—less than NIS 1 billion as of December 2025. In Figure 4.16, standard corporate bonds are included under tradable CP.

[15] Nontradable CP is generally issued for a period of one year (the CP term), usually with an option to extend for up to 5 years and with an option for early redemption upon notice of between 7 and 60 business days.

Banks account for a prominent share of tradable CP, constituting about 70 percent of the tradable CP held by the funds. In addition, the construction and real estate industry accounts for about 20 percent of the funds' holdings of tradable and nontradable CP. In the nontradable CP market, the financial services industry also has a notable weight, accounting for about 21 percent of holdings. This industry includes nonbank credit providers that extend business credit, partly to firms in the construction and real estate industry. As of the end of 2025, money market funds held about 73 percent of tradable commercial paper, and all mutual funds together—money market and non-money market—held more than 95 percent of these short-term debt instruments.[16]

d. Fund Activity in the Corporate Debt Market

The trends described above may have several implications for nonfinancial firms' access to nonbank credit and for their economic activity. First, the strong demand from money market funds for tradable investment instruments with short duration and high ratings, alongside corporations' demand to issue short-duration debt in a high interest rate environment[17], led to a marked expansion in commercial paper issuance. In 2025, issuance volume grew to about NIS 22 billion, compared with about NIS 10 billion in 2024 and about NIS 7 billion in 2023, following negligible levels beforehand (Figure 4.17). Although most of the increase was led by banks and financial companies, nonfinancial firms—mainly in the construction and real estate industry—also increased issuance through this channel. In particular, in 2024 and 2025, CP issuance by firms in the construction and real estate industry reached about 8 percent of total fundraising by firms in the industry, compared with less than 1 percent in preceding years.

In 2025, the banking system recorded a particularly sharp increase in CP issuance—from an average of about NIS 6 billion in 2023 and 2024 to more than NIS 17 billion in 2025. The banking system's strong demand for debt issuance in 2025 was due to several factors. The sharp increase in the bank credit portfolio, alongside only moderate growth in public deposits and equity—including against the background of increased profit distributions—raised banks' need for external funding and increased the share of debt issuance in their liability structure. This was compounded by the termination of the monetary loans program, which increased demand for debt issuance in the capital market.

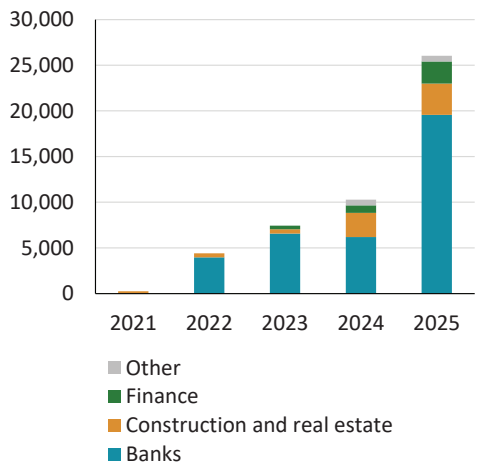
Part of the increase in the banking system's CP issuance in recent years may be explained by money market funds' demand for placements in the banking system, against the background of the restrictions applying to the volume of nontradable

[16] In addition, during the period the volume of money market funds' holdings of deposit bonds increased markedly.

[17] In a rising/high interest rate environment, firms will often seek to shorten the duration of their debt in order to reduce the increase in financing costs and allow greater flexibility in rolling over debt, partly due to expectations of future interest rate declines.

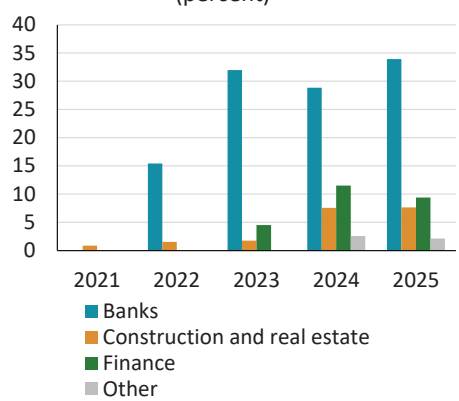
assets they are permitted to hold. This may have increased banks' incentive to expand issuance through this channel. However, this explanation does not appear sufficient in the context of the particularly sharp increase in 2025, when accumulations in money market funds were relatively low compared with 2023 and 2024. In practice, the sharp increase in the banking system's CP issuance in 2025 was accompanied by a marked increase in issuance of standard corporate bonds as well. As shown in Figure 4.18, despite the sharp increase in CP issuance, its share of the banking system's total bond issuance did not rise markedly in 2025. That is, 2025 appears to have been characterized by exceptionally strong demand by the banking system for debt fundraising in the capital market more generally.

Figure 4.17 | Volume of Tradable CP Issuances, by Industry, 2021–2025
(NIS million)



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

Figure 4.18 | Tradable CP Issuances as a Share of Total Corporate Bond Issuances, by Industry, 2021–2025
(percent)



Total corporate bond issuances excluding structured, convertible, and foreign bonds. FInance also includes financial services and insurance companies.

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

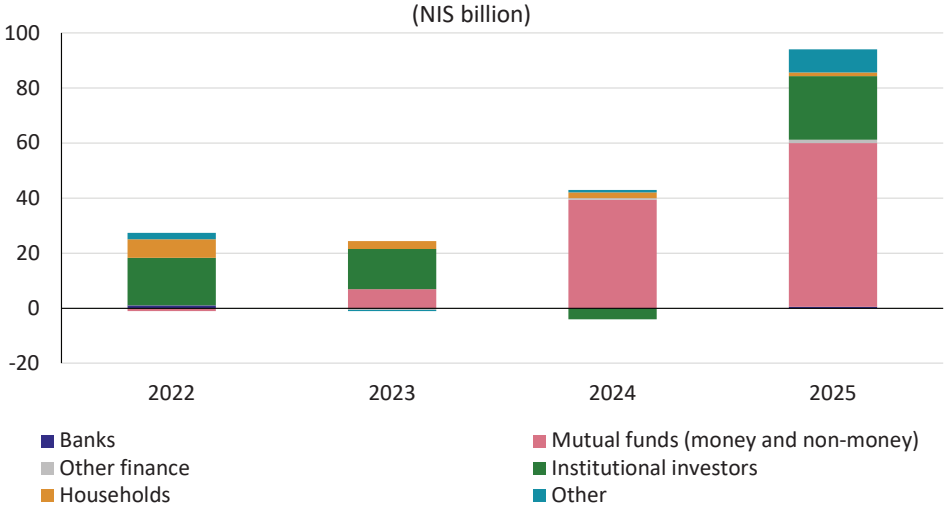
The domestic debt market managed to absorb high demand for bank debt issuances.

More broadly, the domestic debt market's ability to absorb the sharp increase in the banking system's demand, alongside the continued expansion of issuance in other industries—chief among them construction and real estate—was supported to a large extent by the injection of demand from money market funds and non-money-market mutual funds.

Figure 4.19 presents an estimate of net purchases in the corporate bond market—that is, the monthly change in outstanding balances resulting from actual purchases and sales, including purchases in the primary market (issuance) and in over-the-counter (OTC) transactions—broken down by the main segments active in the market. The figure shows the large weight of mutual funds (money market and non-money-market) in positive net purchases in 2024 and 2025. These findings therefore indicate that mutual funds were among the main factors behind the injection of demand into the corporate market from the end of 2023 in general, and in 2025 in particular.

Figure 4.19 | Estimated Net Purchases in the Corporate Debt Market, by Type of Bond Holder, 2022–2025

(NIS billion)



Cumulative annual data of estimated differences in outstanding holdings of corporate bonds during each month, minus the change in the balance due to changes in the price of the security.

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

e. Summary and Comparison with Global Developments

The expansion of nonbank financing improved access to business credit in general, and to benefit construction companies in particular.

In conclusion, the substantial accumulations in mutual funds in general, and in money market funds in particular, appear to have been among the key variables driving the injection of demand into the bond market in 2025. This trend contributed to an expansion in the supply of nonbank credit and improved financing access for nonfinancial firms. In particular, the findings in this section indicate that the expansion in the supply of financing in the bond market was among the main factors supporting the continued activity of firms in the construction and real estate industry despite the slowdown in demand in the housing market over the past year. It should be noted that the expansion of nonbank credit through the capital market may also affect patterns of bank credit. Firms' improved access to the capital market creates competition for the banking system and may support an expansion in the supply of bank credit or an improvement in its terms for these groups, particularly for large and highly rated firms.

Many of the trends described in this chapter were also observed in global markets. In many countries, corporate bond spreads declined in 2025[18], alongside a shift of household savings from traditional banking channels toward money market funds, in view of a high interest rate environment and relatively weak pass-through to deposit rates.[19] At the same time, it is important to emphasize that the institutional,

[18] For example, in September 2025, corporate bond spreads in the United States reached a 27-year low.

[19] See, for example, an IMF review from July 2025, which found that in 9 advanced economies, yield spreads between money market funds and bank deposits since 2023 were among the prominent factors behind the sharp increase in accumulations in these funds: https://www.imf.org/en/publications/wp/issues/2025/07/25/money-market-fun4.growth-during-hiking-cycles-a-global-analysis-568763

regulatory, and financial structure of debt markets and savings instruments differs across countries. As such, the mechanisms described in this chapter, which primarily reflect the conditions of the Israeli economy, cannot be fully generalized. Nevertheless, similar features—such as partial pass-through to deposit rates, sharp growth in money market fund assets, and households' search for yield—suggest that developments in Israel form part of a broader trend also taking place in global markets.

3. USE OF HOUSING CREDIT BY YOUNG HOUSEHOLDS

In the past decade-and-a-half, home prices in Israel increased more rapidly than household income.

Between 2010 and 2025, housing prices in Israel increased by more than 130 percent, while households' net monetary income rose by only about 65 percent.[20] This section examines how the increase in housing prices relative to income affected households' use of housing credit, with a focus on young households and first-time homebuyers, who are the group most exposed to rising housing prices and financing constraints.[21] Unlike homeowners, whose wealth is at least partly linked to housing prices, first-time homebuyers are more exposed to changes in housing prices relative to their income. At the same time, during the previous decade Israel, like other countries, implemented a series of macroprudential measures aimed at reducing systemic risks and strengthening the banking sector's ability to absorb shocks.[22]

Households wishing to purchase a dwelling can cope with rising housing prices partly by increasing the loan-to-value ratio, particularly during periods of low real interest rates, as prevailed during most of the previous decade. However, households without sufficient equity may be constrained in their ability to increase leverage and may therefore be pushed out of the housing market. Young households, whose income is lower on average than that of other households, and whose equity is generally smaller, are likely to be more constrained in their ability to increase leverage in order to purchase a dwelling. Consistent with this, there has been a decline in recent years in the share of young families living in owner-occupied housing.[23]

Previous studies found that tighter financing conditions and rising prices affect not only the ability to obtain credit, but also the structure of loans—partly through an

[20] Estimate of the growth in income from the Central Bureau of Statistics Household Expenditure and Income Survey.

[21] Credit to first-time homebuyers constitutes the main component of housing credit extended by banks (an average of about 60 percent of monthly new mortgage borrowing in recent years).

[22] In particular, in 2012 and 2013 a series of restrictions came into effect, including: a loan-to-value (LTV) limit, a payment-to-income (PTI) limit, a limit on the share of variable-rate mortgages, and a limit on the term to repayment (up to 30 years).

[23] The share of young families living in owner-occupied housing has declined over the past two decades, and is low relative to other OECD countries, even though the overall homeownership rate is not low by international comparison. For further discussion, see Chapter 7 of the *Bank of Israel Annual Report for 2024* and Adi Brender and Michel Strawczynski (2014). "Government Support for Young Families in Israel," Discussion Paper Series 2014.02, Bank of Israel Research Department.

increase in the payment-to-income ratio[24], an extension of the repayment period[25], and purchases in lower-demand areas.[26] This raises the question of whether such effects were also observed over the past decade, and whether they were more pronounced among young couples from among those who did take out a mortgage.

Young households take out mortgages with high leverage and for longer repayment periods.

Figure 4.20 presents the credit characteristics of mortgages for the purchase of a first dwelling among young households[27] compared with older households between 2015 and 2025. In general, young households take out mortgages with higher average leverage, a higher payment-to-income ratio, and a longer repayment period. In both groups, there is a clear upward trend over the period in the loan-to-value ratio and in the payment-to-income ratio. The repayment period increased between 2015 and 2023, with a change in trend in 2023. In addition, there was a notable increase in the share of new mortgages taken out with a payment-to-income ratio above 30 percent and a loan-to-value ratio above 60 percent. Although both groups recorded an upward trend, particularly from the end of 2019 onward, the increase appears sharper among young households. This finding indicates that a growing share of young households has had to combine long repayment periods with high leverage and high payment burdens in order to purchase a first dwelling. Moreover, there was a clear increase in loan amounts among both groups, consistent with the rise in housing prices and the increase in leverage.

The increase in housing prices may also be reflected in distributional terms, through a change in the income composition of the households that succeed in purchasing a dwelling.[28] Figure 4.20f also presents the share of households in each group whose net income falls within the top two quintiles of the income distribution in Israel. Naturally, young households are more heavily represented in the lower quintiles, since their income at the beginning of their economic life cycle is relatively low. Nevertheless, in both groups there was an increase in the share of mortgage borrowers belonging to the top two income quintiles[29], and this trend was particularly pronounced among young households—from 43 percent in 2015 to about 66 percent in 2025. This development points to two complementary processes. While affluent households, which in the past could purchase a dwelling while relying on relatively

[24] Golan Benita and Ziv Naor (2013). "Borrower Risk in the Mortgage Market: Historical Development and Assessment Under Several Scenarios," Periodic Papers 2013.8, Bank of Israel Research Department.

[25] Yoav Friedman and Sigal Ribon (2014). "Where Does the Money Come From? Home Purchases and Their Financing: An Analysis Using Household Expenditure Survey Data, 2004 to 2011," Periodic Papers 2014.05, Bank of Israel Research Department.

[26] Nitzan Tzur-Ilan (2017). "The Effect of Credit Constraints on Housing Choices: The Case of the Loan-to-Value Limit," Discussion Paper Series 2017.03, Bank of Israel Research Department.

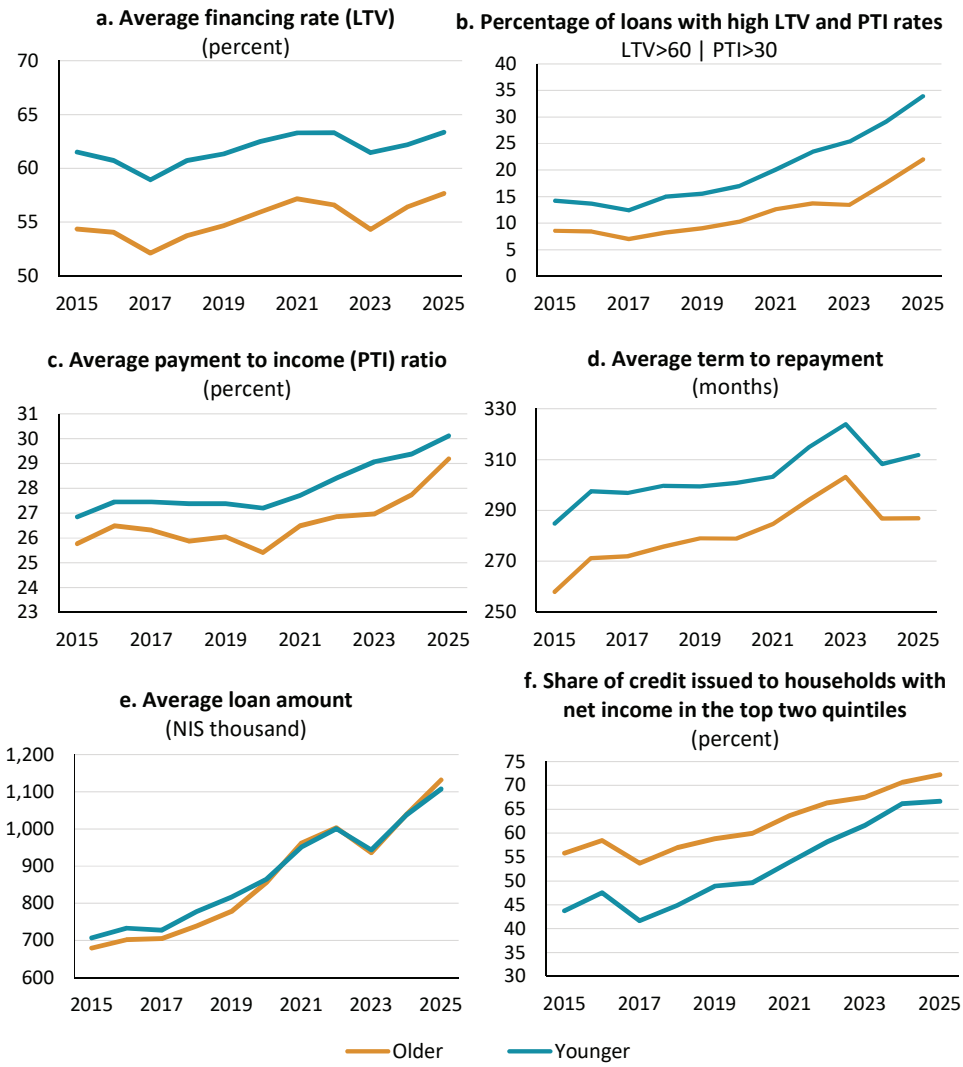
[27] Households in which both spouses are under age 40.

[28] Vicky Rubashevski Banit (2019). "Changes in the Proportion of First-Time Home Buyers Among Young Families According to Level of Income During the Years 2007–2017," Selected Research and Policy Analysis Notes, Bank of Israel.

[29] This finding is consistent with the general trend of an increase in the share of housing loans taken by households with relatively high income. See, for example, Box 5.2 in the Banking Supervision Department's Survey of Israel's Banking System for 2022.

low leverage, increased the amount of credit they took on, young households with lower income were pushed out of the housing market.

Figure 4.20 | Characteristics of New Mortgages for First-Time Home Purchases, Young People vs. Other Borrowers, 2015–2025
(annual data)



Younger households are those where both spouses are aged up to 39. Averages are weighted by loan size. The benchmarks for determining income decile are based on the Central Bureau of Statistics Household Income and Expenditure Surveys, where the benchmarks for 2023–2025 are set by concatenating the benchmarks according to the average annual growth rate between 2015 and 2022.

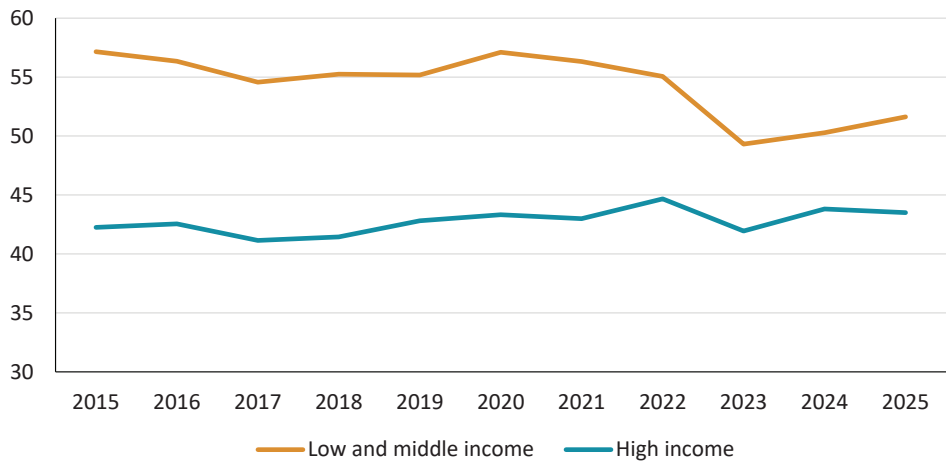
SOURCE: Based on reports Banking Supervision Department reports.

The sharper increase in the share of high-income young households among mortgage borrowers, relative to the rest of the population, may also reflect a relative increase in young households' income over the period. That is, it is possible that the number of young households belonging to the top two income quintiles increased, and hence their weight among mortgage borrowers rose relative to older households.

In recent years, young couples with low and mid-level incomes account for a lower share of mortgage borrowers.

To examine this possibility, Figure 4.21 presents the share of young households among all mortgage borrowers, broken down between high-income households (the top two quintiles) and low- and middle-income households (the bottom three quintiles). The figure shows that in recent years the share of young households with high incomes among all mortgage borrowers remained stable, while young households with low and middle income levels accounted for a declining share of mortgage borrowers. That is, the sharper increase in the share of credit extended to high-income young households does not appear to be a result of an increase in the weight of young households within the high-income group, but rather is due to a decline in the weight of young households within the groups of homebuyers with low and middle income. This phenomenon strengthens the hypothesis that over the period purchasing a home became more complex for low- and middle-income young families.

Figure 4.21 | Young Households as a Share of New Mortgage Borrowers for a First-Time Home Purchase, by Income Level, 2015–2025
(percent)



High income: Net household income in the two highest income deciles according to the Central Bureau of Statistics Income and Expenditure Survey. The benchmarks for income deciles for 2023–2025 are concatenated.

SOURCE: Based on Banking Supervision Department reports.

In conclusion, it appears that over the past decade, against the background of rising housing prices, several parallel processes took place. First, the share of young couples among mortgage borrowers for the purchase of a first dwelling declined. This finding is consistent with the downward trend in the share of young families living in owner-occupied housing. Second, leverage ratios, payment-to-income ratios, and loan maturities increased among all groups of first-time home mortgage borrowers, with higher levels among young couples than among older couples. Finally, there is evidence of a process in which purchasing a home has become more challenging for lower-income households, with a stronger effect on young couples.

BOX 4.2: AN INDEX OF COMPETITION IN ISRAEL'S BANKING SYSTEM IN COMPARISON WITH OECD COUNTRIES

- **The return on equity of Israeli banks has remained high since 2020 and has risen relative to the rest of the world. This increase was not accompanied by a rise in concentration, and it coincided with a temporary decline in competition indicators, which have since returned to the median level.**
- **Although the number of banks in Israel is low relative to other OECD countries, concentration and competition levels in the banking sector are broadly in line with international comparison and, for most of the period, were around the median of the comparison countries.**
- **The analysis indicates that stronger competition need not be accompanied by a decline in return on equity in the short term.**
- **In the long term, higher concentration and less competition are both positively associated with higher return on equity.**

a. Introduction

Historically, the return on equity of Israeli banks was close to the OECD median, but beginning in 2021 it rose sharply, bringing Israel to around the 75th percentile of the comparison countries, where the metric also rose sharply (Figure 1).

This box examines whether this trend reflects an increase in concentration indicators and a decline in competition in the banking sector.

Concentration indicators and competition indicators are not equivalent. Concentration describes the structure of the market (the number and size of participants), whereas competition reflects the actual intensity of competitive pressure.

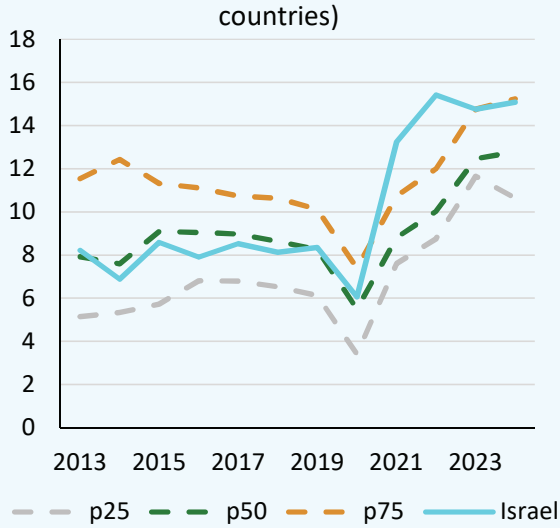
In order to examine the effect of these variables on bank profitability, we first estimated a panel regression, the findings of which indicate that in a more concentrated and less competitive market, return on equity is higher.[1] These findings are consistent across all regression specifications, including

[1] Concentration indices: HHI and CR3. Competition indices: Lerner and Boone. Further details on these indices appear below. The panel regressions were estimated separately for each index and for all indices jointly.

when controlling for macroeconomic variables (such as growth, the real interest rate, and population size). Among the indicators examined, the Lerner index exhibits the strongest and most statistically significant association. The analysis also found a positive relationship between concentration and the competition indicators.

Figure 1 | After Tax Return on Equity, 2013–2024

(percent in Israel and percentiles in sample countries)



The average of the sample countries is weighted by total assets. See Table 1.

SOURCE: Based on BankFocus data from Moody's.

b. Data

The international comparison is conducted using countries with advanced economies, according to the IMF and OECD definitions, excluding the G7 countries.[2] The data are based on the BankFocus database (Moody's) for the years 2013–2024 and include commercial banks, cooperative banks, and savings banks. The data were collected in accordance with the reporting format used by banks in Israel.

Table 1 presents the number of banks in each country in 2024, and shows that Israel has the lowest number of banks per million inhabitants.

To examine whether the low number of banks in Israel is reflected in high concentration, we used two concentration indices commonly employed in the literature: the CR3 index, which measures the market share of the three largest banks in each country (Figure 2), and the HHI index (Figure 3), which is calculated as the sum of the squared market shares of all banks in the sector and ranges from 0 (perfect competition) to 1 (absolute concentration).

These indicators show that concentration in Israel is similar to the OECD median, and has remained at that level throughout the past decade.

Hence, despite the relatively small number of banks, Israel is not exceptional in its level of concentration. Accordingly, this index does not explain the sharp increase in return on equity in recent years. It should be noted that international comparisons of the number of banks may reflect structural differences among banking systems, which mainly affect the interpretation of concentration indices.[3]

[2] Several papers argue that the Lerner index may be biased for banks with extensive off-balance-sheet or investment activity (Wheelock and Wilson, 2018; Shaffer and Spierdijk, 2020). We therefore excluded the G7 countries, where such activity is substantial.

[3] Concentration indices may be biased due to structural differences among banking systems, including the absence of public banks and branches of foreign banks (three countries in each case), and the prevalence of interconnected cooperative banks (six countries). By contrast, these differences do not materially affect the observed results for the Lerner index and return on equity among the banks in the sample.

Table 1 | Number of banks per country and per million residents, 2024

Country	Banks in the sample	Banks per million residents
Israel	6	0.6
Greece	9	0.9
S. Korea	47	0.9
Lithuania	3	1.0
Netherlands	18	1.0
Czech Rep.	14	1.3
Slovakia	8	1.5
Belgium	20	1.7
Spain	91	1.9
Australia	56	2.1
Ireland	11	2.0
New Zealand	21	3.9
Slovenia	7	3.3
Latvia	9	4.8
Estonia	7	5.1
Sweden	74	7.0
Denmark	43	7.2
Portugal	85	7.9
Iceland	6	15.6
Norway	93	16.7
Finland	102	18.6
Switzerland	282	31.2
Austria	362	39.4
Luxembourg	30	45.7

The sample includes commercial, cooperative, and savings banks at the consolidated reporting level (and nonconsolidated where there is no consolidated reporting). It does not include foreign banks with local branches, government-owned or public-owned banks, banks controlled by another domestic bank, holding companies, banks with fewer than 7 observations, or banks for which the most recent observation was before 2020, or observations with no data on total assets or deposits.

SOURCE: Based on BankFocus data from Moody's.

c. Competition index — The Lerner Index

Since concentration indices focus only on the structure of the system and may be subject to bias, an additional index is required in order to examine the actual level of competition.

For this purpose, the economic literature commonly uses the Lerner index.[4] This index estimates a bank's ability to set a price above marginal cost, and thus reflects the intensity of competitive pressure. The index is calculated for bank i at time t according to the following equation:

$$Lerner_{i,t} = (P_{i,t} - MC_{i,t})/P_{i,t}$$

To calculate the index, we estimate the two components of the equation as follows: the price (P) is estimated using the bank's average revenue (interest income and income from other activities divided by total assets). The marginal cost (MC) is estimated using a cost function based on the prices of the bank's various inputs, including interest paid on deposits, wage expenses, and other operating expenses. The resulting value of the index ranges from 0 to 1; the higher the value, the greater the bank's market power and its ability to charge a price substantially above its marginal cost of production. In addition, we validated the findings using the Boone indicator, which examines the extent to which operational efficiency is rewarded.[5]

d. Results and International Comparison[6]

The Lerner index of Israeli banks rose between 2013 and 2022 and then declined (Figure 4). The solid line in Figure 4 presents a weighted average based on each bank's share of total assets in the banking system. The international comparison indicates that these trends are not unique to Israel. A gradual increase in the index through 2022, followed by a reversal thereafter, is also observed in the comparison countries (Figure 4).

These findings strengthen the argument that regulatory changes, macroeconomic conditions, and global technological processes affect the Lerner index in a similar manner worldwide. With that, it appears that from 2018 to 2022 the Lerner index in Israel rose at a faster pace than in the comparison countries, in a manner that is partially consistent with the increase in return on equity beginning in

[4] For a broad review of the advantages of using this measure, see the Report of the Committee for Examining Competition in the Credit Market (the Strum Committee, 2021). In recent years, the literature has presented several attempts to improve the measure, but most of these refinements do not alter the main findings (Spierdijk and Zaouras, 2018; Igan et al., 2021; Wheelock and Wilson, 2018; Carbo et al., 2009; Shaffer and Spierdijk, 2020).

[5] Boone indicator values in Israel are low and remain below the 25th percentile of the comparison countries throughout the period. This finding points to a high level of competition in the market. The gap between the findings based on the Lerner index and those based on the Boone indicator is due to the fact that the two measures capture different aspects of competition. The Lerner index focuses on pricing relative to cost, whereas the Boone indicator examines the extent to which operational efficiency is rewarded. In the initial panel regression examining the relationship between competition and concentration measures and return on equity, no statistically significant relationship with the Boone indicator was found once macroeconomic controls (growth, real interest rate, population) were included.

[6] The results remain robust under alternative definitions, when using Fitch data, and in comparison with the World Bank's Lerner index measure.

2021.[7] By contrast, the decline in the Lerner index since 2023 (reflecting higher levels of competition) is not directly reflected in return on equity, which has remained high.

Conclusion

This analysis finds that the marked increase in the profitability of Israeli banks, to a high level relative to other advanced economies, was not accompanied by an increase in concentration. It was, however, associated with a temporary decline in the degree of competition as measured by the Lerner index. In recent years, the level of competition appears to have returned to its historical range, with Israel's position in the international distribution reverting to around the median, while return on equity has remained high.

Between 2014 and 2023, the efficiency of banks in Israel improved (see the Banking Supervision Department Surveys), partly reflecting the transition to digital operations and broader technological improvements—a process that may explain parallel increases in both return on equity and competition indicators.[8] Against the background of this improvement in efficiency, credit activity in Israel also expanded in the past decade, as reflected in an increase in the debt-to-GDP ratio, in contrast to the trend in many other countries (Figure 4.1). This expansion may also have contributed to higher return on equity through increased activity volume. Finally, return on equity is also affected by the level of leverage, which has risen since 2022 (according to the Banking Supervision Department Surveys). Higher leverage tends to raise the return on equity, but may mechanically lower the measured Lerner index.[9]

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[7] An examination of the components of the index indicates that both the price component (P) and the marginal cost component (MC) rose in Israel at a relatively rapid pace. However, beginning in 2023, both components show a stabilizing trend, with the stabilization in the price component (P) being more pronounced. This development leads to a decline in the Lerner index.

[8] In the Lerner index, an increase in efficiency and a reduction in expenses may, in the short term, be reflected in a decline in the level of competition even in a competitive market. Lower costs reduce MC and thereby raise the index.

[9] Because the Lerner index does not assign an explicit cost to equity, higher leverage mechanically raises MC for a given income-to-assets ratio, lowering the measured index.