

## B. PRIVATE SECTOR DEBT

Outstanding private sector debt<sup>1</sup> continued to increase in 2015, at a similar rate to its increase in the previous year (3.2 percent). The increase was mainly the result of a quantitative increase in debt<sup>2</sup>, while the price effect (the Consumer Price Index and the exchange rate) was negligible.

Outstanding business sector debt increased by about 1 percent in 2015, similar to its rate from the previous year. Since 2008, the annual rate of increase in business sector debt has been lower than the annual GDP growth rate, which is reflected in a decline in the business sector debt to GDP ratio. In contrast to the previous two years, there was an increase in bank debt in 2015, by about 3 percent, after the business sector quantitatively increased its loans from banks during the year, in contrast to a quantitative decline in bank loans in the previous three years. In contrast, the growth rate of nonbank debt declined during the year.

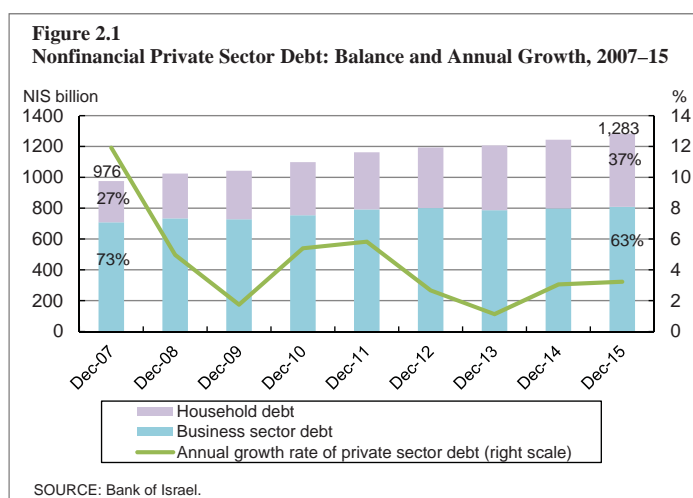
In 2015, the growth of the balance of household debt continued, at a similar rate to the previous year (6.7 percent). The growth rate in 2015 in nonhousing debt (7.5 percent) was higher than the growth rate of housing debt (6.3 percent). Most nonhousing household debt is to banks, but a more rapid growth rate occurred in debt to institutional investors (35 percent) and to credit card companies (18 percent), further to the trend of the previous year.

### 1. PRIVATE SECTOR DEBT

The increase in private sector debt continued in 2015, at a rate similar to that of the previous year.

Outstanding private sector debt increased by about NIS 40 billion (3.2 percent) to about NIS 1.3 trillion.

In the past five years, outstanding business sector debt has remained virtually unchanged, at about NIS 800 billion, and as of the end of 2015, it accounts for about 63 percent of private sector debt. Household debt as a share of total private sector debt has increased steadily since 2007, with the increase totaling about 10 percentage points.



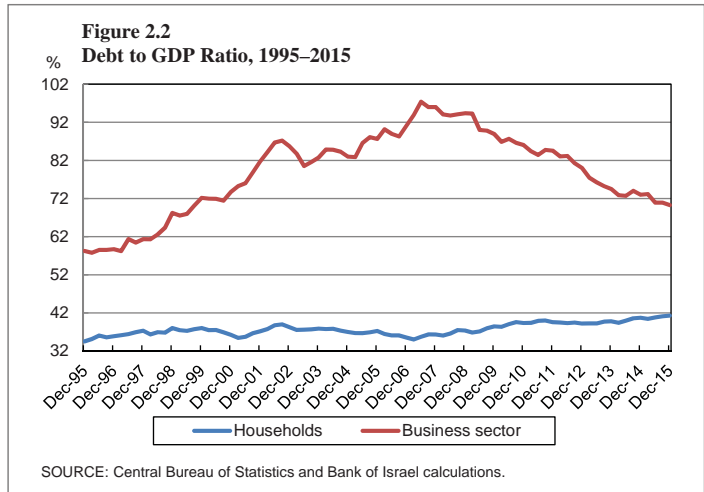
<sup>1</sup> The private sector includes the business sector (excluding banks and insurance companies) and households. This chapter focuses on private sector debt to the main lenders (banks, institutional investors and nonresidents), and does not include debt to other lenders (such as private credit companies) due to a lack of data. The assessment is that the volume of activity of the other lenders is smaller than the volume of activity of the main lenders.

<sup>2</sup> See Main Terms at the end of the chapter.

The downward trend in the business sector debt to GDP ratio continued in 2015, while the household debt to GDP ratio continued to increase slightly.

The business sector debt to GDP ratio continued to decline in 2015, by about 3 percentage points, to 70 percent at the end of the year. This was a result of a larger increase in GDP (5 percent in current prices) than in debt (1 percent). Since the second quarter of 2007, the decline in the debt to GDP ratio has totaled about 27 percentage points.

The household debt to GDP ratio increased slightly in 2015, further to the increase in recent years, and reached about 41 percent. This is a result of the higher increase in household debt (7 percent) than in GDP.



## 2. BUSINESS SECTOR DEBT

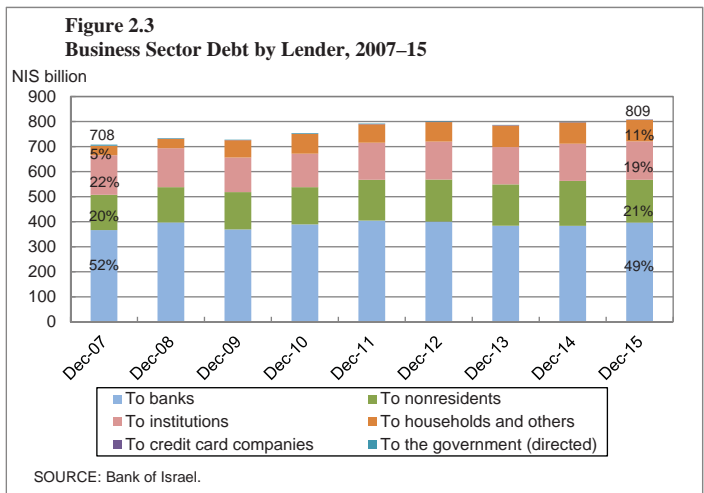
### General

There was a slight increase in business sector debt in 2015.

Business sector debt totaled about NIS 809 billion in 2015 (an increase of about NIS 10 billion, 1 percent).

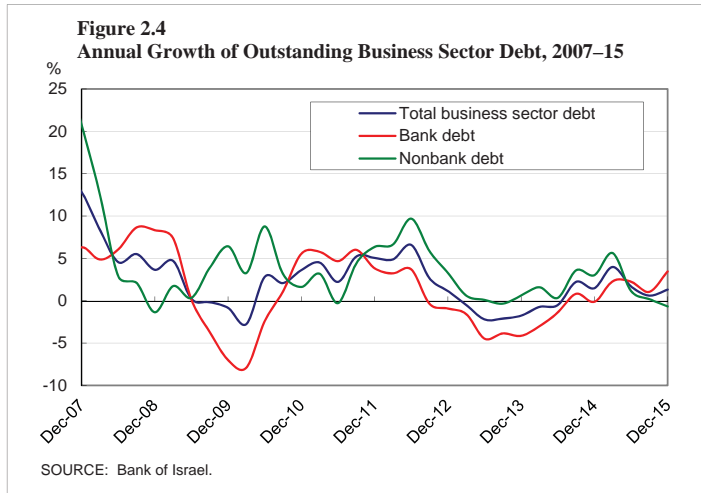
Outstanding debt to nonresidents stands at about NIS 171 billion, institutional investors are owed about NIS 154 billion, and households are owed about NIS 86 billion.

About 49 percent of outstanding debt (about NIS 397 billion) is to banks, a proportion that has been declining in recent years, and which has declined by a cumulative 3 percentage points since the end of 2007.



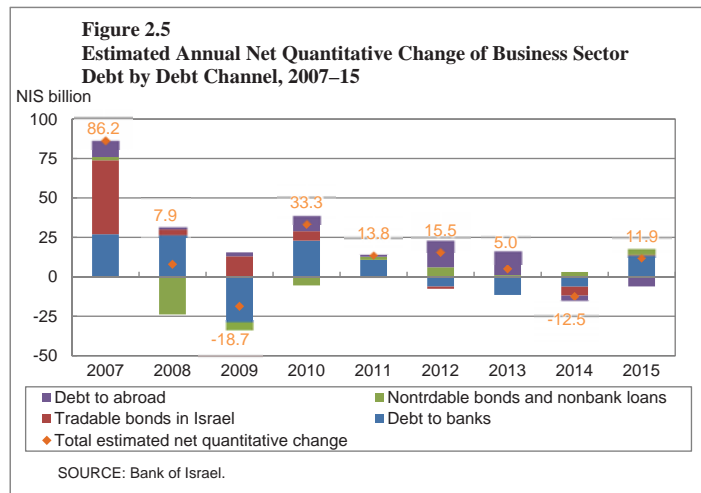
**Business sector debt increased in 2015 at a similar rate to the previous year.**

Outstanding business sector debt to the banks increased by about 3 percent in 2015, following near-zero or negative change in previous years. In contrast, outstanding debt to nonbank lenders declined in 2015 as a whole (by 1 percent), in contrast to the upward trend that had characterized it in recent years. Starting in the second quarter of the year, the growth rate of nonbank debt has been lower than the growth rate of bank debt, contrasting the trend since 2011.



**The increase in outstanding debt in 2015 was a result of quantitative growth, following quantitative decline in 2014.**

The quantitative growth in the banking channel was particularly prominent, at about NIS 14 billion, following three years of quantitative decline. There was also quantitative growth of debt in nontradable bonds and in nonbank loans, further to the trend since 2011, mainly a result of growth in loans from institutional investors.

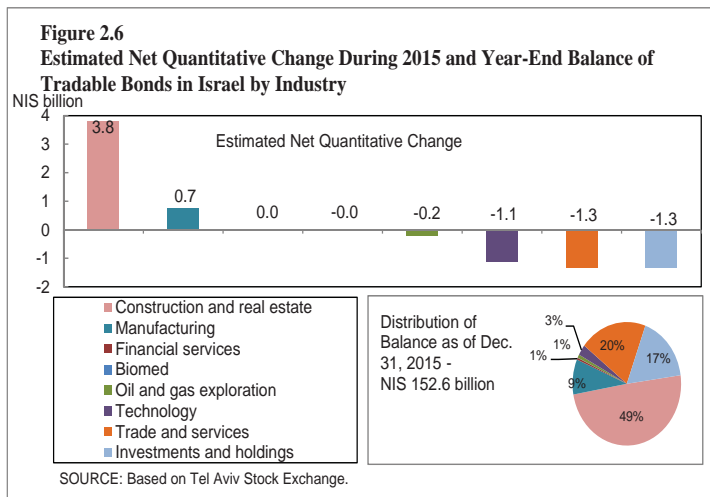


Fundraising channels—instruments and lenders

There was quantitative growth in tradable bonds in Israel in 2015, following quantitative decline since 2011.

Companies in the real estate and construction industry and in the manufacturing industry quantitatively increased their debt through tradable bonds in Israel totaling about NIS 4.6 billion, while there were quantitative declines in the other industries totaling about NIS 4 billion.

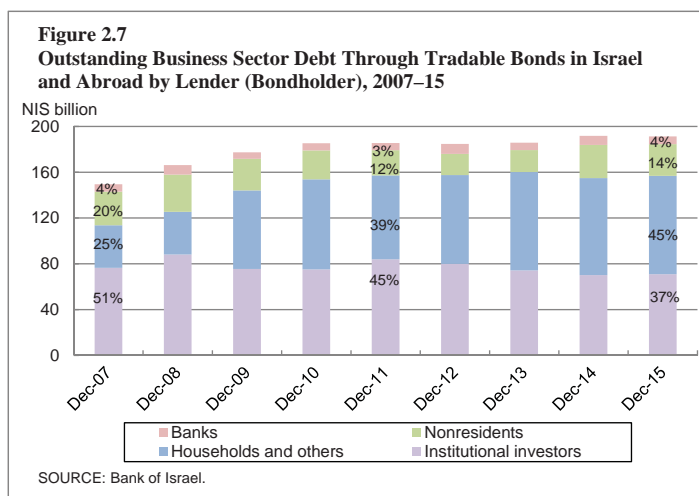
Outstanding business sector debt through tradable bonds in Israel totaled about NIS 153 billion in 2015, similar to the previous year. About half of the debt is by companies in the real estate and construction industry. The second-largest industry in terms of debt is commerce and services, which constitutes about 20 percent of total outstanding tradable bonds.



Since 2011 there has been an expansion of holdings of tradable bonds in Israel and abroad held by households and others, in parallel with a decline in holdings by institutional investors.

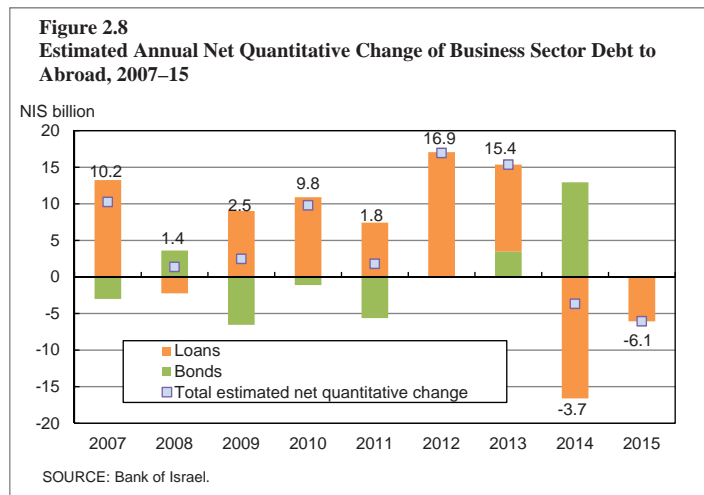
Outstanding bonds in Israel and abroad totaled about NIS 191 billion in 2015, with the main holders being households and others, which hold about NIS 86 billion of these bonds, and institutional investors, which hold about NIS 71 billion.

Households and others account for about 45 percent of holdings of tradable bonds as of the end of 2015, with this share increasing in cumulative terms by about 5 percentage points since 2011.



There was a quantitative decline in debt to nonresidents abroad during 2015, further to 2014.

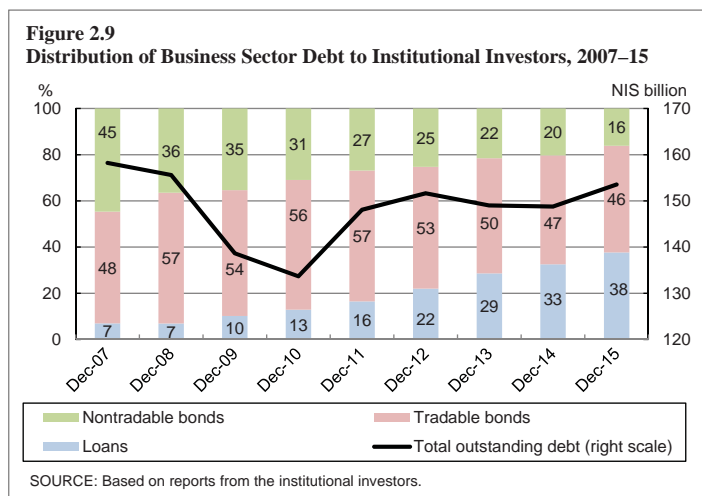
The quantitative decline in debt totaled about NIS 6.1 billion in 2015, in the loans instrument, while the change in bonds was near-zero. Moreover, the business sector did not issue bonds abroad at all in 2015, after large offerings during the previous year.



The increase in loans from institutional investors to the business sector continued.

In recent years, there has been an increase in the balance of loans taken by the business sector from institutional investors, with the proportion of such loans as a share of total business sector debt to these institutions increasing to about 38 percent, against a decline in the proportion of tradable and nontradable bonds.

During 2015, the business sector’s outstanding debt to institutional investors increased by about NIS 5 billion (3 percent) to about NIS 154 billion.

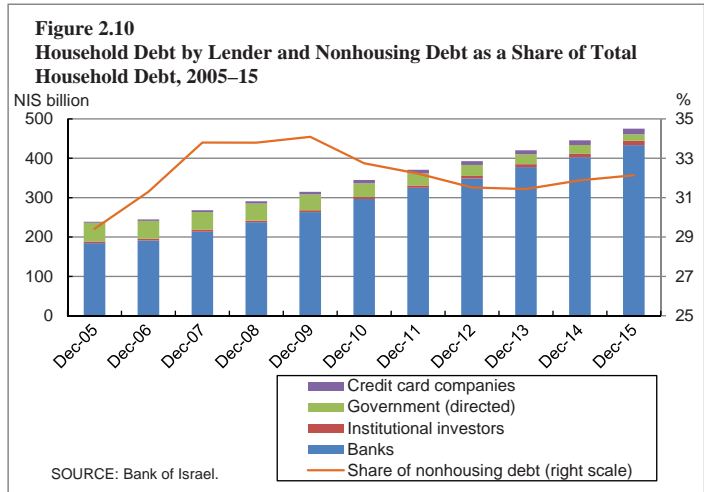


### 3. HOUSEHOLD DEBT

During 2015, the upward trend of household debt during the past decade continued.

Outstanding household debt totaled about NIS 475 billion, most of which (about 91 percent) was to banks. The rest is owed to the government, credit card companies, and institutional investors.

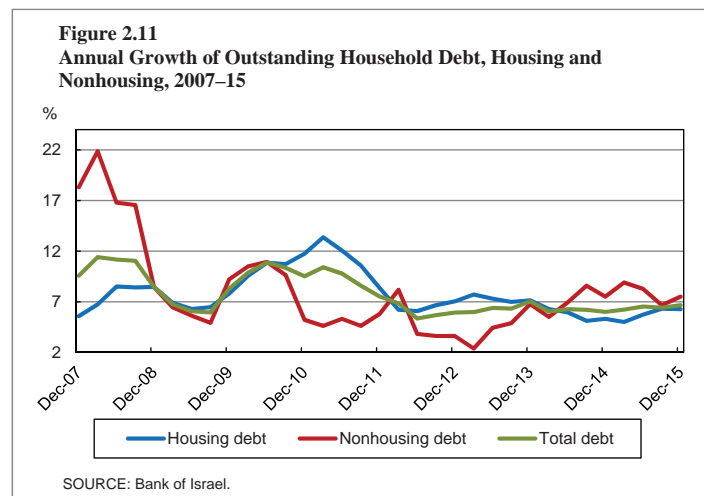
Nonhousing debt as a share of total household debt remained stable in the past two years, at about 32 percent, despite the continued upward trend in its balance in 2015.



The growth rate of total household debt is similar to previous years. Further to 2014, and in contrast to previous years, the growth rate of nonhousing debt is higher than the growth rate of housing debt.

Outstanding housing debt increased in 2015 by a slightly higher rate (6.3 percent) than in the previous year, reaching about NIS 322 billion.

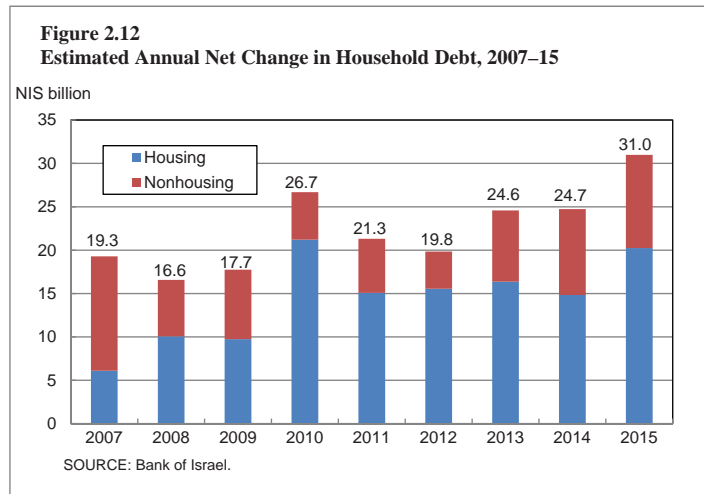
Outstanding nonhousing debt increased by about 7.5 percent in 2015, totaling about NIS 153 billion. The annual growth rate of the latter balance increased during the previous two



The increase in outstanding household debt in recent years is mainly the result of a quantitative increase in both housing and nonhousing debt.

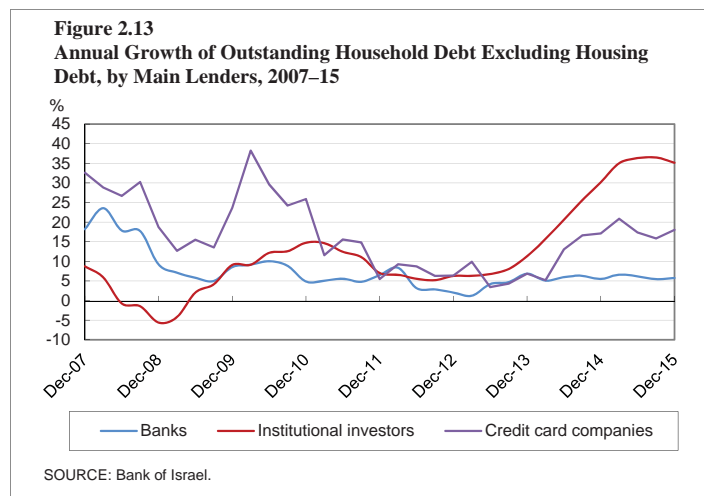
The quantitative increase during the year totaled about NIS 31 billion.

The quantitative increase in housing debt totaled about NIS 20 billion, higher than in recent years, while the quantitative increase in nonhousing debt totaled about NIS 11 billion, slightly more than in the previous year.



Further to recent years, there was a high growth rate of households' nonhousing debt to nonbank entities, although outstanding debt to these entities remains low.

In 2015, there was marked growth of households' nonhousing debt to institutional investors (35 percent) and to credit card companies (18 percent), with a lower growth rate of debt to banks (6 percent). Outstanding debt to institutional investors totaled about NIS 8 billion, with outstanding debt to credit card companies totaling about NIS 14.1 billion, and outstanding debt to banks totaling about NIS 126 billion—further to the trends of the past two years.



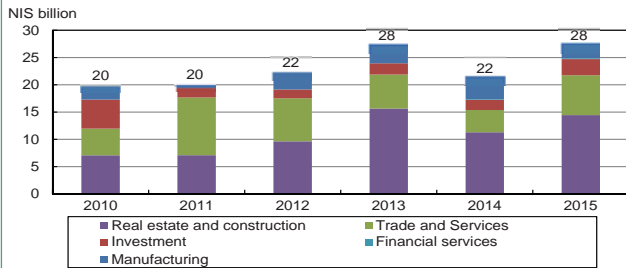
ZOOM IN



**GROSS ISSUANCE OF DEBT THROUGH TRADABLE BOND OFFERINGS BY THE BUSINESS SECTOR (EXCLUDING BANKS AND INSURANCE COMPANIES)<sup>1</sup>**

About half of gross business sector issuance in 2015 was by the Real Estate and Construction Industry, after it was prominent in the previous two years as well.

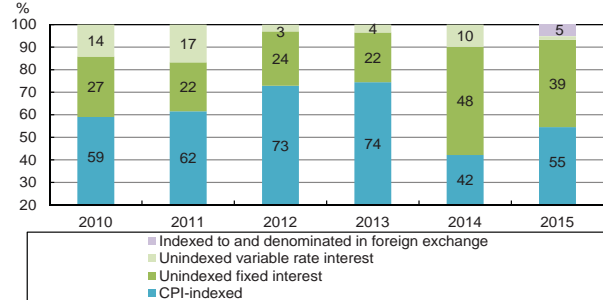
**Figure 2.14**  
Tradable Bond Issurances by Industry\*, 2010–15



\* The manufacturing industry includes oil and gas and technology.

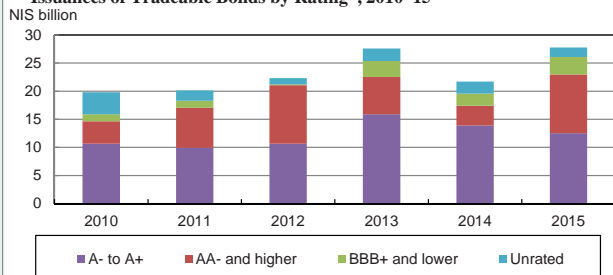
In 2015 there was a significant increase in debt raised through the CPI-indexed channel, following a decline in 2014, similar to the years 2010–13, when the proportion of debt raised in this channel was very high.

**Figure 2.15**  
Tradable Bond Issuance by Type of Indexation, 2010–15



In 2015 there was an increase in the issuance of bonds rated AA- and higher, mainly due to issuances by companies in the real estate and construction industry, which were prominent during the year.

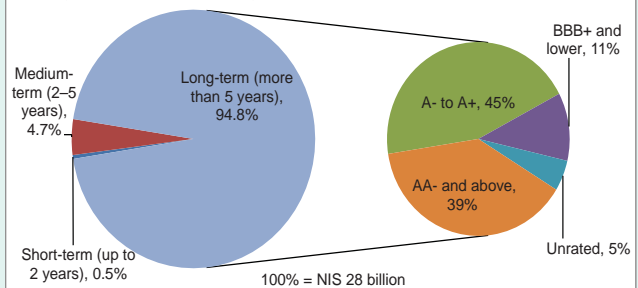
**Figure 2.16**  
Issuances of Tradeable Bonds by Rating\*, 2010–15



\* The figures are by domestic rating. Companies with no domestic rating are included in the "unrated" group. Ratings data of the two ratings agencies were consolidated into an integrated scale.

About 95 percent of offerings in 2015 were of bonds with a term to maturity of more than 5 years, with 84 percent of those offerings rated A- or higher.

**Figure 2.17**  
Issuance of Tradable Bonds by Term to Maturity, and Distribution of Long-Term Bonds by Rating, 2015



<sup>1</sup> Including tradable bond offerings by Israeli companies in Israel only, on the Tel Aviv Stock Exchange. Excluding structured, convertible and foreign bonds.

SOURCE: Based on the Tel Aviv Stock Exchange.



<b>Main indicators of business sector and household debt</b>						
	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>
<b>Business sector debt</b>						
Outstanding debt (NIS billion, end of period)	754	792	801	787	798	809
Estimated net quantitative change (NIS billion, yearly cumulative)	33	14	15	5	-13	12
Percentage of nonbank debt (end of period)	48	49	50	51	52	51
Percentage of tradable debt (end of period)	21	21	20	21	19	19
Business sector debt to business sector product ratio (end of period)	86	85	80	75	73	70
<b>Household debt</b>						
Total household debt (NIS billion, end of period)	345	371	393	420	445	475
Estimated net quantitative change (NIS billion, yearly cumulative)	27	21	20	25	25	31
Percentage of housing debt (end of period)	67	68	68	69	68	68
Total new mortgages taken out (NIS billion, yearly cumulative)	47	45	47	52	52	65
Household debt to GDP ratio (end of period)	39	40	39	40	41	41

SOURCE: Bank of Israel.

## MAIN TERMS<sup>3</sup>

**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<sup>4</sup> and outstanding loans are presented before deduction of loan loss provisions (such as doubtful or problematic debt provisions in the banks' balance sheets) in the lenders' books. **Estimated net quantitative change, quantitative increase/decrease of debt**, is the change in outstanding debt showing economic activity in the credit market. 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. Since there are no 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. Since the estimated net quantitative change is derived from balances, it includes other effects on the balance beyond net debt raised, such as interest accumulations/payments. In this chapter, we do not relate separately to net debt raised.

<sup>3</sup> For more details on the definitions, terms and explanations, see "The Credit Data System in Israel" in the second part of this publication.

<sup>4</sup> The principal balance remaining to be paid, plus accumulated interest that is not yet paid, and indexing and exchange rate differentials (in accordance with the terms of the bond).

---