

B. NONFINANCIAL PRIVATE SECTOR DEBT

The outstanding debt of the nonfinancial private sector¹ continued to increase in 2018, by about 6 percent—significantly higher than in the previous year (2.9 percent). This increase was mainly due to a quantitative increase in the debt of both the business sector and households, and partly due to the shekel’s depreciation against the dollar, which increased the shekel value of the debt denominated in and indexed to foreign currency.

The business sector debt to GDP ratio increased this year, while the household debt to GDP ratio remained virtually unchanged.

The business sector’s outstanding debt increased at a higher rate than in the previous year (6.8 percent compared with 1.5 percent). The growth rates of both debt to banks and debt to nonbank entities increased this year.

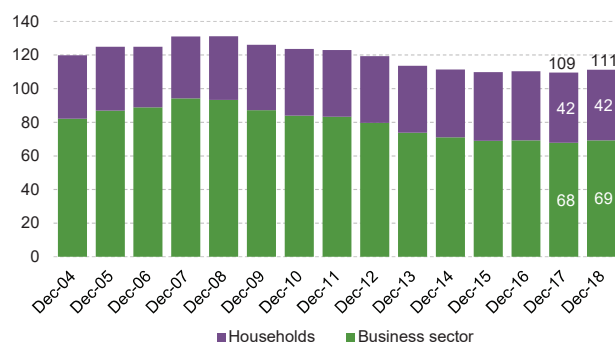
The increase in outstanding household debt continued this year, but at a lower rate than the previous year (4.9 percent compared with 5.2 percent), continuing the slowdown in growth that began in 2015. The decline in the growth rate of nonhousing debt was prominent, a result of the decline in debt to banks and moderation of the growth of debt to nonbank entities.

1. NONFINANCIAL PRIVATE SECTOR (BUSINESS AND HOUSEHOLD) DEBT

The private sector debt to GDP ratio increased in 2018, most of which took place in the business sector debt to GDP ratio.

The business sector debt to GDP ratio increased in 2018 by about 1.5 percentage points, to about 69 percent at the end of the year. The household debt to GDP ratio remained virtually unchanged at about 42 percent. Both of these ratios are low by international comparison.²

Figure 2.1
Outstanding Nonfinancial Private Sector Debt, 2004–18 (percent of GDP)



SOURCE: Bank of Israel and Central Bureau of Statistics.

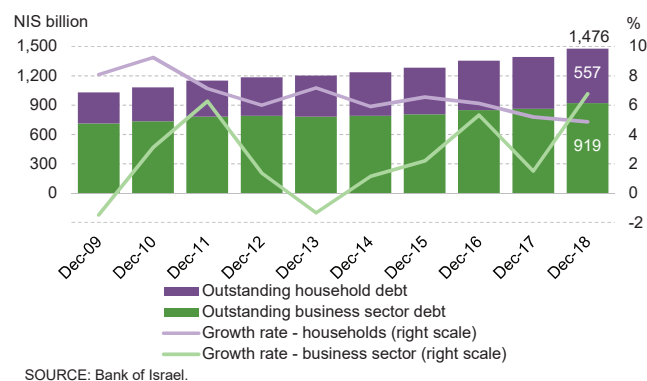
¹This section deals with the debt of the nonfinancial business sector to the main lenders (banks, institutional investors and nonresidents), and does not include debt to other lenders (such as private credit companies). For further details, see the explanation in Main Terms at the end of the section. Data on the debt to banks are based on monthly balance-sheet data and not on data from the annual financial statements, since the statements for 2018 have not yet been published.

² For more information, see “Zoom In” at the end of this section.

The increase in the outstanding private sector debt, both business sector debt and household debt, continued.

Outstanding private sector debt increased by about NIS 84 billion (6 percent), to about NIS 1.5 trillion. Outstanding business sector debt increased by a higher rate than in the previous year (6.8 percent compared with 1.5 percent), and at a higher rate than household debt. The increase in household debt continued, but at a lower rate than in the previous year (4.9 percent compared with 5.2 percent), continuing the slowdown that began in 2015.

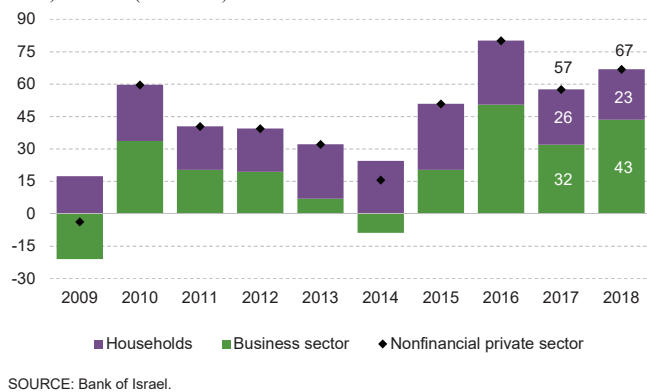
Figure 2.2
Annual Growth Rate of Outstanding Nonfinancial Private Sector Debt, 2009–18



The increase in outstanding private sector debt was mainly due to a net quantitative increase³ in both borrower sectors.

The net quantitative increase of business sector debt totaled about NIS 43 billion—higher than that of households (NIS 23 billion). The net quantitative increase of business sector debt was higher this year than in the previous year, while that of households was lower than in the previous year.

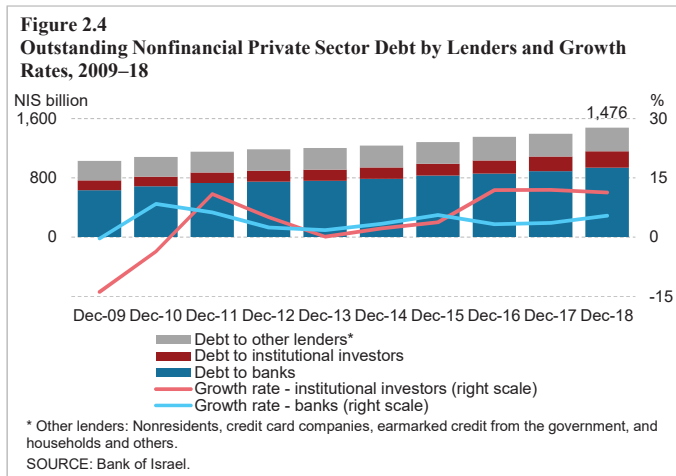
Figure 2.3
Estimated Annual Net Quantitative Change in Nonfinancial Private Sector Debt, 2009–18 (NIS billion)



³ See the Main Terms at the end of the section.

The growth rate of private sector debt to institutional investors remained higher than that of its debt to the banks. However, outstanding debt to the institutional investors is low.

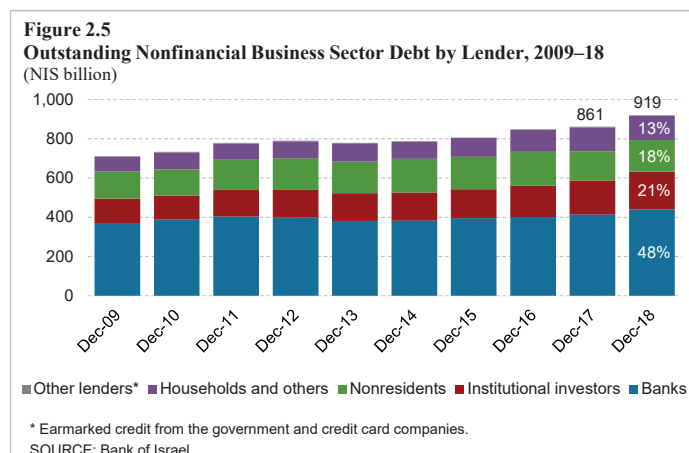
Outstanding private sector debt to the banks and to institutional investors continued to increase this year, to about NIS 1.2 trillion. About 63 percent of total private sector debt is to the banks, and about 15 percent is to institutional investors.



2. NONFINANCIAL BUSINESS SECTOR⁴ DEBT

The upward trend in business sector debt continued in 2018 to all lenders, mainly in debt to the banks and institutional investors.

The balance of business sector debt increased by about NIS 58 billion, to about NIS 919 billion. Half of the increase was in debt to banks, which accounts for about 48 percent of total business sector debt. The increase in business sector debt to the institutional investors continued (about NIS 18 billion), to about NIS 192 billion. Debt to nonresidents increase by about 9 percent (about NIS 13 billion), to about NIS 162 billion.

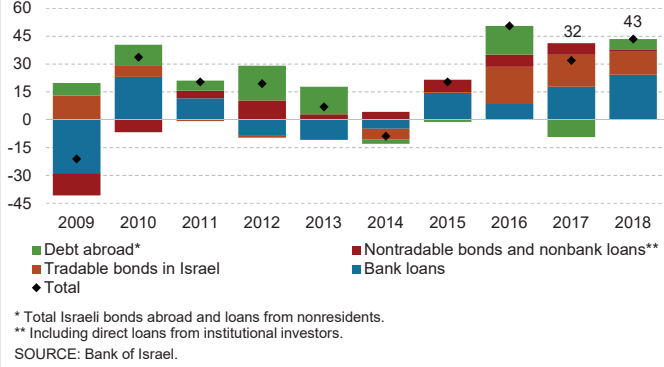


⁴ Any place where the term “business sector” appears, it refers to the nonfinancial business sector (excluding banks and insurance companies).

The increase in outstanding business sector debt was mainly a result of a net quantitative increase in bank loans and in tradable bonds in Israel.

The net quantitative increase of total debt came to about NIS 43 billion, of which about NIS 24 billion was in bank loans—continuing the quantitative growth in this channel from previous years. There was also net quantitative growth in nonbank debt, both in tradable bonds in Israel and in loans from nonresidents.

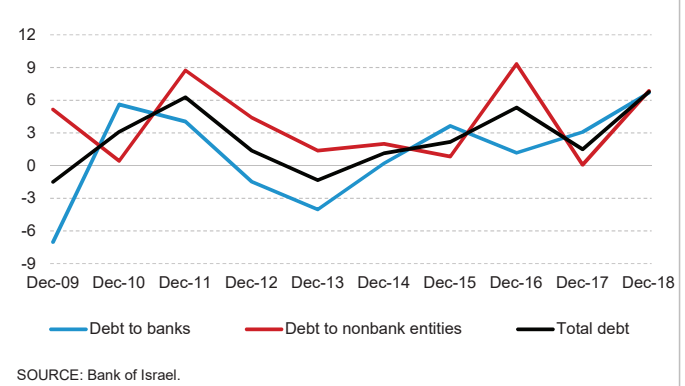
Figure 2.6
Estimated Net Yearly Quantitative Change in Nonfinancial Business Sector Debt, 2009–18 (NIS billion)



The growth rates of both debt to the banks and debt to nonbank entities increased this year.

Debt to nonbank entities increased by a significant rate of about 6.8 percent, following a near-zero growth rate in the previous year. The growth rate of debt to banks also increased, to about 6.7 percent compared with about 3.1 percent in the previous year.

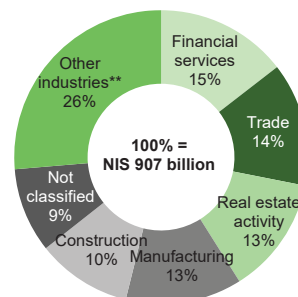
Figure 2.7
Annual Growth Rate of Nonfinancial Business Sector Debt, 2009–18 (percent)



About one-quarter of business sector debt is concentrated in the real estate activities and construction industries.

Most of the debt of companies in these industries was provided through bank loans. The debt of the financial services industry accounts for about 15 percent of total business sector debt, while the debt of the trade industry accounts for about 14 percent. The debt of the manufacturing industry accounts for about 13 percent.

Figure 2.8
Distribution of Nonfinancial Business Sector Debt by Industry*, Sept. 2018

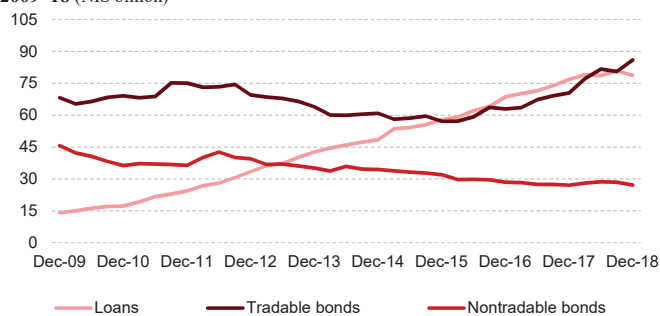


* According to Central Bureau of 2011 Statistics industry classification.
 ** Other industries: Combination of industries where each industry's share of total business sector debt is less than 5 percent.
 SOURCE: Bank of Israel, Central Bureau of Statistics.

The increase in business sector debt to the institutional investors continued, mainly through tradable bonds.

Outstanding business sector debt to the institutional investors increased by about 10 percent (about NIS 18 billion), to about NIS 192 billion. Debt through tradable bonds increased by about NIS 15 billion to about NIS 86 billion. The balance of direct loans increased by about NIS 2 billion to about NIS 79 billion. Outstanding debt through nontradable bonds remained virtually unchanged at about NIS 27 billion.

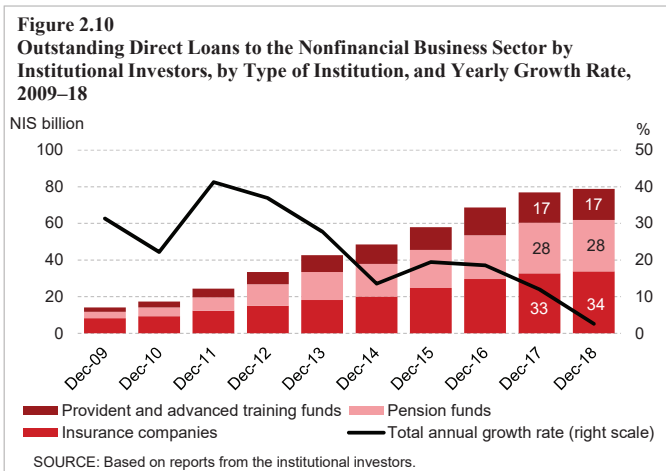
Figure 2.9
Nonfinancial Business Sector Debt to Institutional Investors, by Instrument, 2009–18 (NIS billion)



SOURCE: Based on reports from the institutional investors.

The moderation in the growth rate of outstanding direct loans taken by the business sector from institutional investors continued.

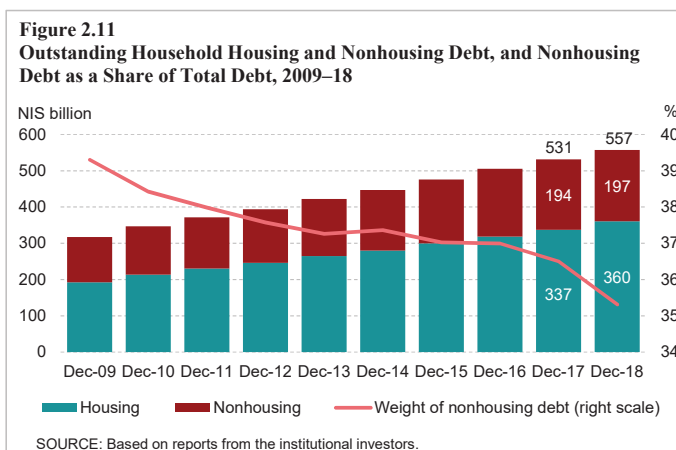
Outstanding business sector loans from all institutional investors combined increased by only about 2.6 percent, compared with a growth rate of about 12 percent in the previous year. In the division by type of institutional investor, the insurance companies remained prominent at about 43 percent of total loans.



3. HOUSEHOLD DEBT

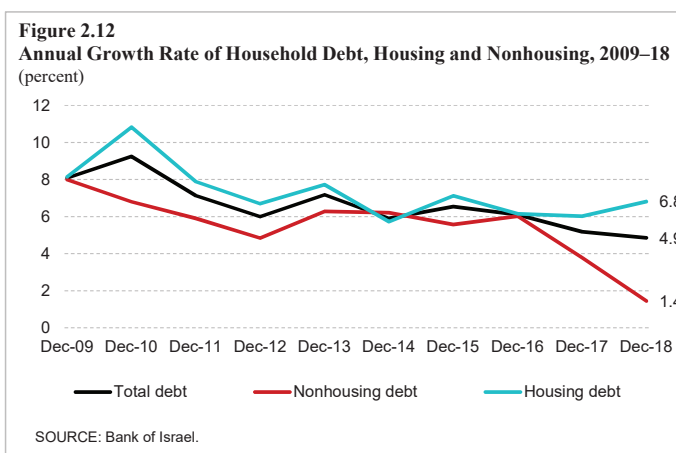
The increase in outstanding household debt, both housing and nonhousing, continued in 2018.

During the year, outstanding household debt increased by about NIS 26 billion (4.9 percent), to about NIS 557 billion. Housing debt increased by about NIS 23 billion, to about NIS 360 billion. Nonhousing debt increased by only about NIS 3 billion, and its share of total debt continued to decline (by about 1.2 percentage points) to about 35 percent.



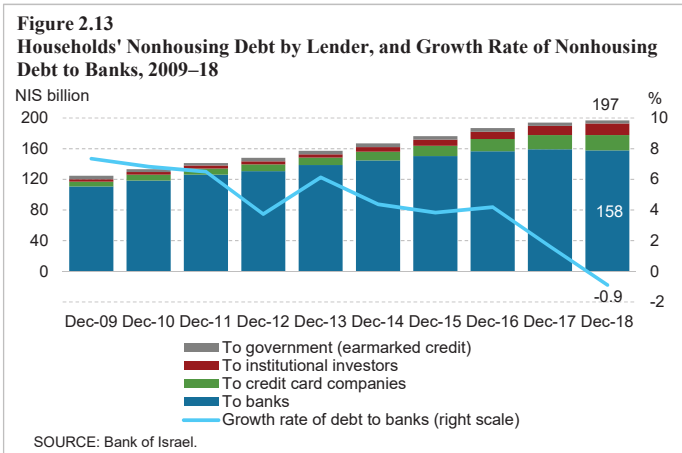
The decline in the growth rate of nonhousing debt, which began at the end of 2016, continued.

The growth rate of nonhousing debt declined by about 4.6 percentage points, to about 1.4 percent. The growth rate of housing debt increased by about 0.8 percentage points, to about 6.8 percent.



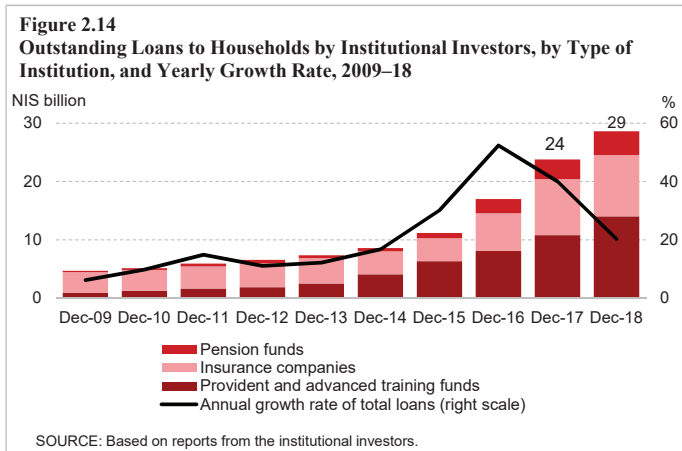
Households' nonhousing debt to the banks declined this year.

The decline in nonhousing debt to the banks came to about NIS 1 billion, continuing the downward trend in its growth rate that began at the end of 2016. Even so, the banks remain the main lenders to households. Outstanding nonhousing debt to the banks totaled about NIS 158 billion at the end of the year, accounting for about 80 percent of total nonhousing debt. In contrast, outstanding nonhousing debt to other lenders increased by about NIS 4 billion, mostly (about NIS 3 billion) to institutional investors.



The increase in the balance of institutional investors' loans to households continued, although at a lower rate than in recent years.

Total household debt to institutional investors increase by about 20 percent in 2018, a lower increase than in recent years. Outstanding debt to these lenders increased by about NIS 5 billion to about NIS 29 billion—about 5 percent of total household debt. The increase was mainly concentrated in loans from the provident and advanced training funds.



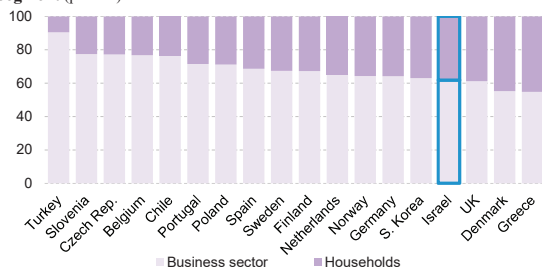
ZOOM-IN



OUTSTANDING NONFINANCIAL PRIVATE SECTOR DEBT—INTERNATIONAL COMPARISON¹

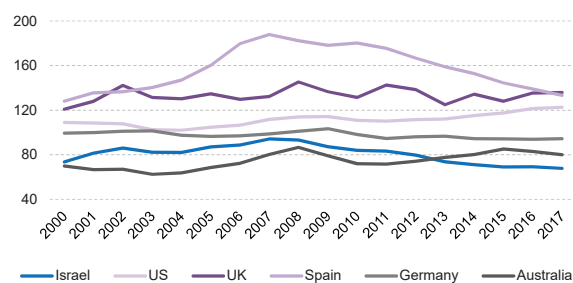
The nonfinancial business sector's share of total nonfinancial private sector debt ranges between 60 and 80 percent in most of the selected countries. In Israel it is 62 percent.

Figure 2.15
Distribution of Outstanding Nonfinancial Private Sector Debt by Borrower Segment (percent)



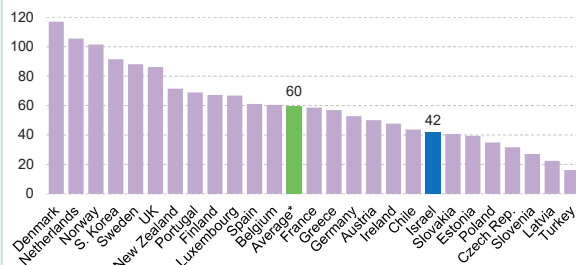
Nonfinancial business sector debt as a share of GDP in Israel is low compared to other countries over the years.

Figure 2.16
Nonfinancial Business Sector Debt as a Share of GDP, 2000–17 (percent)



Household debt as a share of GDP in Israel is lower than the average of selected countries.

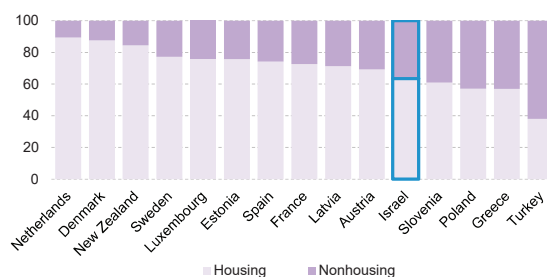
Figure 2.17
Household Debt as a Share of GDP, 2017 (percent)



* Simple average of the countries presented in the figure.

Housing debt as a share of total household debt in Israel is low by international comparison, at about 64 percent.

Figure 2.18
Distribution of Outstanding Housing and Nonhousing Household Debt, 2017 (percent)



¹ The countries were selected according to data availability.

The business sector in the Israeli data in these figures includes the financial services industry.

SOURCE: Israeli data—Bank of Israel estimates and calculations; Data on other countries—Based on OECD data.

NONFINANCIAL PRIVATE SECTOR DEBT

Main indicators of private sector debt							
	2012	2013	2014	2015	2016	2017	2018
Nonfinancial business sector debt							
Outstanding debt (NIS billion, end of period)	790	779	788	806	848	861	919
Estimated net quantitative change (NIS billion, yearly cumulative)	19	7	-9	20	50	32	43
Percentage of nonbank debt (end of period)	50	51	52	51	53	52	52
Percentage of tradable debt (end of period)	23	23	24	23	24	25	25
Business sector debt to GDP ratio (end of period)	80	74	71	69	69	68	69
Household debt							
Total household debt (NIS billion, end of period)	394	422	447	476	505	531	557
Estimated net quantitative change, net credit taken out (NIS billion, yearly cumulative)	20	25	24	31	30	26	23
Percentage of housing debt (end of period)	62	63	63	63	63	64	65
Total new mortgages taken out (NIS billion, yearly cumulative)	47	52	52	65	59	53	60
Household debt to GDP ratio (end of period)	40	40	40	41	41	42	42

SOURCE: Bank of Israel.

DATA SOURCES AND MAIN TERMS¹

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

The nonfinancial private sector is comprised of the business sector (Israeli commercial firms that are not banks or insurance companies) and households. This section focuses on the nonfinancial private sector's debt to the main lenders (banks, institutional investors and nonresidents), and does not include debt to other lenders (such as private credit companies). The assessment is that the volume of other lenders' activity is small relative to that of the main lenders, and they are not currently included in the aggregates due to a lack of data. Gathering such data is expected to increase after data collection by the Capital Market, Insurance and Savings Authority, which is responsible for granting licenses to credit providers under the Supervision of Financial Services Law (Regulated Financial Services), 5776–2016, is completed, and after the credit data register is established and activated by the Bank of Israel in accordance with the Credit Data Law, 5776–2016.

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

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

¹ For more details on the definitions, terms and explanations, see "The Credit Data System in Israel" in the second part of the Statistical Bulletin for 2015.

quantitative change” 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.

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

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