

## B. Nonfinancial Private Sector debt<sup>1</sup>

Outstanding debt of the nonfinancial business sector increased by a moderate rate of just 2.5 percent in 2020, compared with increases of about 4 percent in the previous year and of about 7 percent in 2018. There was a decline in the growth rate of business sector debt to nonbank lenders in view of the COVID-19 crisis, while in contrast there was an increase in the growth rate of such debt to the banks. The moderate increase in total outstanding business sector debt was due to net debt raised<sup>2</sup> that was lower than in the previous year, which was offset by the effect of the appreciation of the shekel against the US dollar, which lowered the value of debt denominated in or indexed to foreign exchange. The ratio of business sector debt to GDP increased in 2020, in contrast to its decline in the previous year.

The ratio of household debt to GDP also increased this year, after remaining stable in the previous three years. In view of the COVID-19 crisis, there was a prominent increase in households' outstanding housing debt, mainly to banks. In contrast, the balance of nonhousing debt declined for the first time this year, similar to European countries, thereby continuing the slowdown in the annual growth rate of this debt that began in 2016 and intensified in the first quarter of 2020.

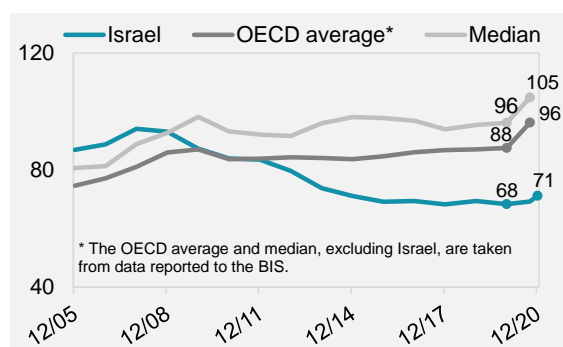
### 1. Nonfinancial Private Sector (business and household) debt as share of GDP

**The ratio of business sector debt to GDP increased in 2020, after remaining stable in recent years, but by less than the OECD average.**

ratio of business sector debt to GDP increased by about 3 percentage points in 2020, to about 71 percent at the end of the year, as a result of the moderate increase in the debt (2.5 percent) and the decline in GDP (1.6 percent in current prices).

The ratio of business sector debt to GDP in Israel remains low by international comparison<sup>3</sup>, and the gap between it and the OECD average widened during the year, in view of the COVID-19 crisis, as the business sector debt in the OECD countries increased by a higher rate (about 10 percent), while there was a greater contraction of GDP in the OECD countries (3 percent)<sup>4</sup>.

**Figure 2.1: Business sector debt as a percentage of GDP**



SOURCE: Based on reports to the Bank of Israel, Tel Aviv Stock Exchange, Central Bureau of Statistics, and BIS

<sup>1</sup> This section deals with the debt of the nonfinancial private sector to main lenders (banks, institutional investors, and nonresidents), and does not include debt to other lenders (such as private credit companies). For further details, see the explanation in Data Sources and Main Terms at the end of the section. Data on the debt to banks are based on monthly balance-sheet data and not on data from the annual financial statements, since the statements for 2020 have not all yet been published.

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

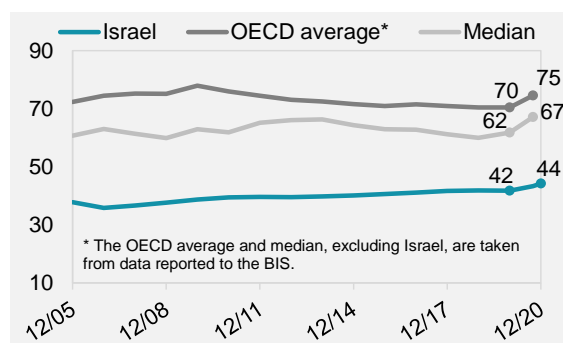
<sup>3</sup> For more information, see "Zoom In" at the end of this section.

<sup>4</sup> Data on Israel are as of December 2020. Data on the OECD countries are as of September 2020, and the rates of change in those countries are presented in annual terms.

**The ratio of household debt to GDP also increased in 2020, after remaining stable in the previous three years.**

The ratio of household debt to GDP in Israel increased by about 2 percentage points in 2020, to about 44 percent at the end of the year. This was a result of an increase in debt (4 percent), in parallel with a decline in GDP. The ratio of household debt to GDP in Israel also remains low compared to other countries. The average ratio of household debt to GDP in the OECD countries increased this year, as a result of the increase in household debt (4 percent) in parallel with a decline in GDP.

**Figure 2.2: Household Debt**  
as a percentage of GDP



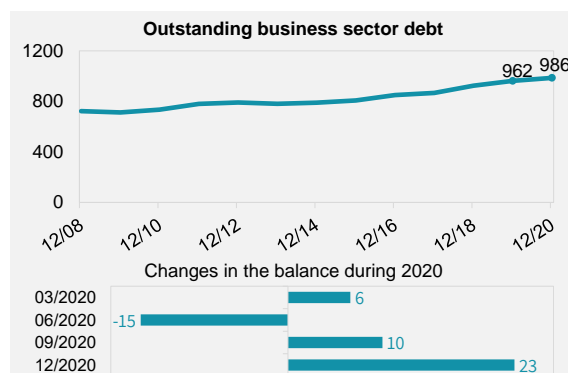
SOURCE: Based on reports to the Bank of Israel, Tel Aviv Stock Exchange, Central Bureau of Statistics, and BIS.

## 2. Nonfinancial business sector debt

**The increase in outstanding business sector debt continued in 2020, but at a lower volume than that of previous years.**

During the first quarter of the year, with the outbreak of the COVID-19 pandemic in Israel, there was an increase of about NIS 6 billion in outstanding business sector debt. This balance declined significantly (by about NIS 15 billion, or about 2 percent) during the second quarter, and then increased again in the final two quarters of the year. Over the course of the year, the balance of outstanding business sector debt increased by a moderate rate of about 2.5 percent (about NIS 24 billion), compared with increases of about 4 percent in 2019 and about 7 percent in 2018. At the end of 2020, business sector debt totaled about NIS 986 billion.

**Figure 2.3: Outstanding Business Sector Debt**  
NIS billion

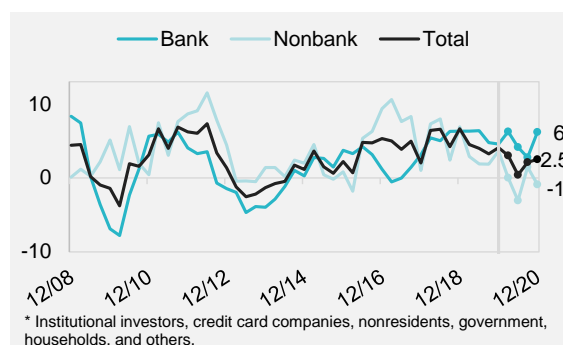


SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

**The growth rate of business sector debt to nonbank lenders declined during the year, compared with an increase in debt to banks.**

The growth rate of debt to nonbank lenders continued to decline, similar to the previous two years. In 2020, the rate of change was about -1 percent. The decline in debt to nonresidents was prominent this year. However, there was an increase in the rate of change of debt to banks, to about 6 percent, mainly in the fourth quarter of the year.

**Figure 2.4: Annual Rates of Change of Outstanding Business Sector Debt by Lender**  
NIS billion

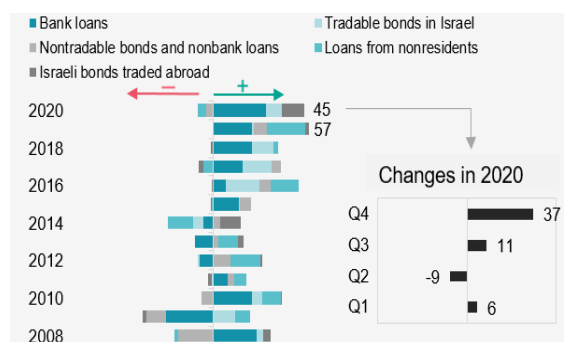


SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel

The increase in debt to the banks was mainly concentrated in loans, while in debt to nonbank lenders, there was a marked decline mainly in loans from nonresidents.

Net business sector debt raised in 2020 totaled about NIS 45 billion – about 84 percent of which was raised in the fourth quarter of the year. This was further to positive net debt raised in the past five years, but was of a lower volume than in the previous year. There was net debt raised in bank loans (about NIS 31 billion), tradable bonds in Israel (about NIS 9 billion), and tradable bonds abroad (about NIS 13 billion). In 2020, loans from nonresidents were repaid (about NIS 5 billion) as were loans from institutional investors (about NIS 0.4 billion), following growth in these loans in the previous year. There were also repayments in the nontradable bonds channel (about NIS 3 billion).

**Figure 2.5: Estimated Changes in Business Sector Debt**  
NIS billion

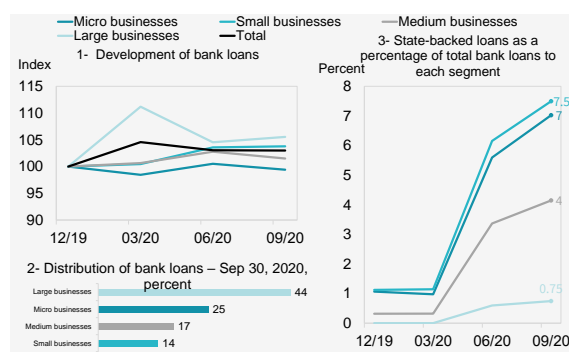


SOURCE: Based on Tel Aviv Stock Exchange and reports to the Bank of Israel.

In view of the COVID-19 crisis and the measures taken in the economy, there was an increase in state-backed loans and such loans to small and micro businesses increased markedly as a share of total debt to those segments<sup>5</sup>.

The balance of business sector loans taken from banks increased significantly in the first quarter of 2020 (by about NIS 19 billion; 4 percent), and was concentrated in the large businesses segment, which constitutes about 44 percent of total bank loans (Figures 1 and 2). Despite the fact that there was a decline in bank loans during the second and third quarters of the year, the weight of state-backed loans to small and micro businesses increased during the period to about 7 percent of total bank loans to each segment (Figure 3).

**Figure 2.6 : Bank Loans by Business Size**



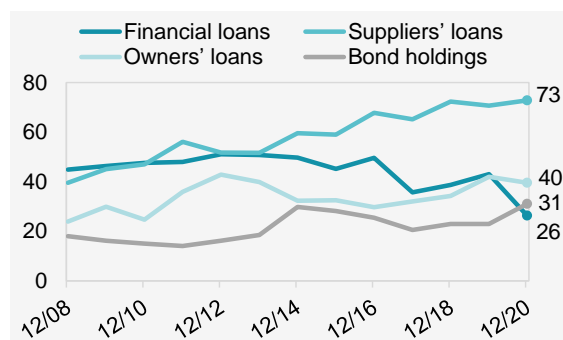
SOURCE: Based on banking system reports to the Banking Supervision Department.

<sup>5</sup> Based on the banking system's reports to the Banking Supervision Department, the "Supervisory Activity Segments" report, Directive 856. (The data are until September 2020.) The report includes debt balances of the local authorities as well as housing loans by authorized businesses, which are not included in the business sector debt reviewed in this section.

**The balance of loans from nonresidents declined in 2020, in view of the repayments that were recorded and the shekel's appreciation against the US dollar.**

The balance of business sector debt to nonresidents declined by about NIS 9 billion, to about NIS 170 billion. The balance of debt through loans, mainly financial loans, declined significantly, by about NIS 17 billion (11 percent), to about NIS 139 billion, while nonresidents' holdings of bonds, mainly those traded abroad, increased by about NIS 8 billion (36 percent), to about NIS 31 billion.

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

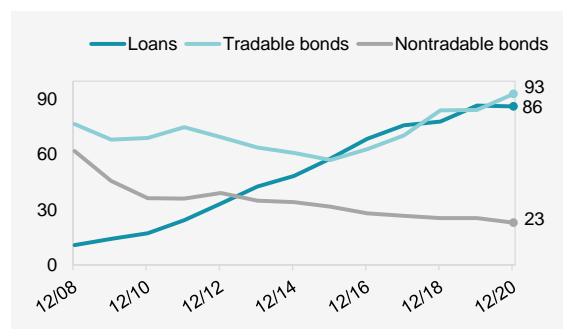


SOURCE: Based on banking system reports to the Banking Supervision Department.

**Direct loans from institutional investors to the business sector remained stable in 2020, in contrast with the upward trend in previous years.**

The balance of loans that the business sector took from institutional investors remained virtually unchanged, at about NIS 86 billion. In contrast, institutional investors' holdings of tradable bonds increased by about NIS 9 billion (10 percent) to about NIS 93 billion.

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

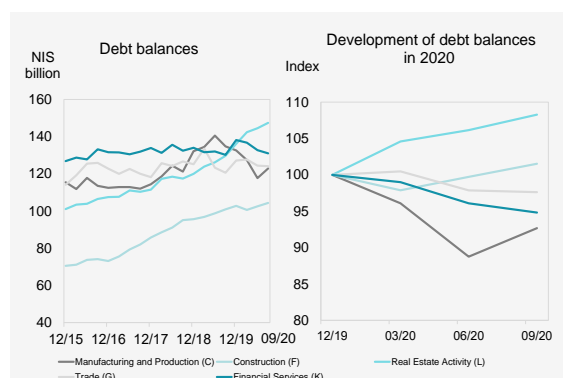


SOURCE: Based on Tel Aviv Stock Exchange, Central Bureau of Statistics, and reports to the Bank of Israel.

**The balance of construction and real estate companies' debt increased over time.**

About 65 percent of total business sector debt is concentrated in five industries: real estate activity, financial services, trade, manufacturing and production, and construction. The balance of debt of companies in the financial services industry was high in recent years, but during the first three quarters of 2020, it declined by an average of about 2 percent each quarter. The balance of debt of companies in the real estate activities industry continued to increase this year, at an average rate of about 3 percent each quarter<sup>6,7</sup>.

**Figure 2.9: Debt of the Five Largest Industries**  
Balances (NIS billion), and development (index)



SOURCE: Based on Tel Aviv Stock Exchange, Central

<sup>6</sup> For a breakdown of the balance of nonfinancial business sector debt by industry, see the article in the second part of the Statistical Abstract for 2019.

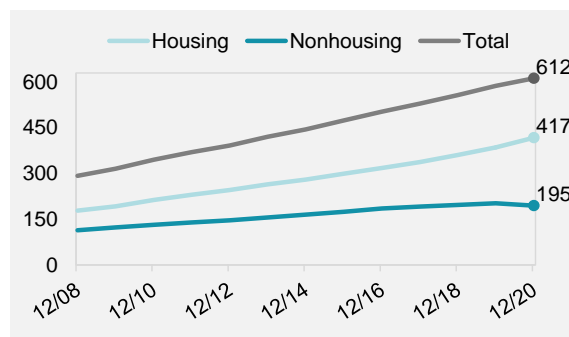
<sup>7</sup> The main component that is not classified is direct loans from institutional investors to the business sector, which accounts for about 8 percent of total debt. Therefore, the debt of some industries is an underestimate.

### 3. Household debt

**The increase in households' housing debt was prominent in 2020, while the balance of nonhousing debt declined this year for the first time**

The balance of household debt increased by about NIS 24 billion (4 percent) in 2020, to about NIS 612 billion. The balance of housing debt increased by about NIS 32 billion—a higher volume than in previous years—while the balance of nonhousing debt declined by about NIS 7 billion, its first decline in years. As a result, housing debt as a share of household debt increased by about 3 percentage points to about 68 percent.

**Figure 2.10: Balance of Households' Housing and Nonhousing Debt**  
NIS billion



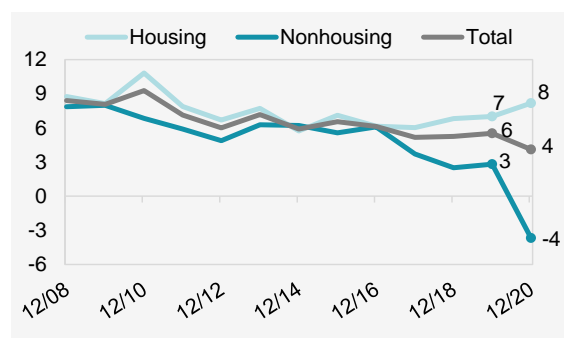
SOURCE: Based on reports to the Bank of Israel.

**The growth rate of housing debt also continued to increase, further to previous years, while there was a decline in the annual rate of change of nonhousing debt.**

The growth rate of housing debt remains high, similar to previous years, finishing 2020 at about 8 percent.

The rate of change of nonhousing debt declined in view of the decline in private consumption, similar to European countries<sup>8</sup>, with the rate of change being negative for the first time this year, at about -4 percent.

**Figure 2.11: Annual Rates of Change of Outstanding Household Debt, Housing and Nonhousing**  
percent

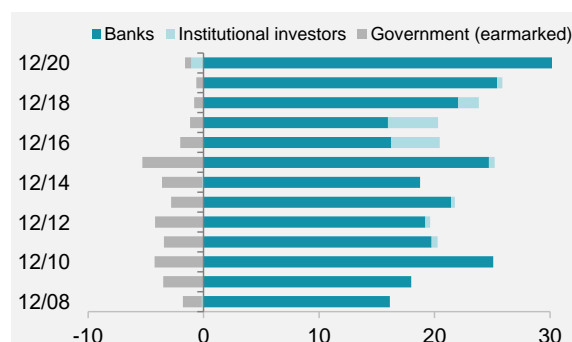


SOURCE: Based on reports to the Bank of Israel.

**The increase in the balance of housing debt was concentrated in debt to banks, which continue to be the main lender to households.**

The balance of households' housing debt totaled about NIS 417 billion at the end of the years. The balance of debt to the banks increased by about NIS 33 billion (9 percent) to about NIS 397 billion, while the balance of housing debt to institutional investors declined for the first time in 2020, by about NIS 1 billion (8 percent) to about NIS 13 billion.

**Figure 2.12: Changes in the balance of households' housing debt, by lender**  
NIS billion



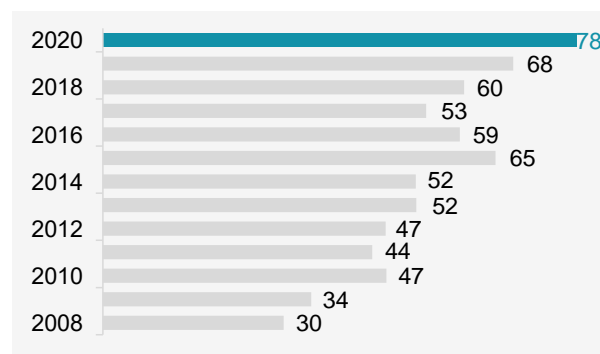
SOURCE: Based on reports to the Bank of Israel.

<sup>8</sup> For more information, see "Zoom In" at the end of this section.

**The increase in housing loans from the banks was mainly due to the increase in the volume of new mortgages taken out by households.**

The volume of new mortgages that households took from the banks in 2020 totaled about NIS 78 billion, higher than the volumes issued in previous years (an average of about NIS 51 billion per year).<sup>9</sup>

**Figure 2.13: New Home Purchase Loans (Mortgages) Provided by the Banks to Households**  
NIS billion

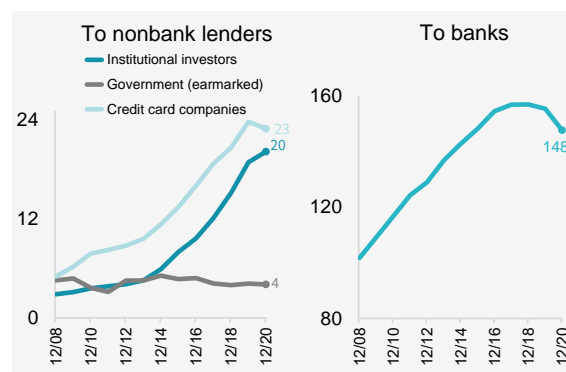


SOURCE: Based on Banking system reports to the Banking Supervision Department.

**The decline in nonhousing debt was typical of most lenders, and was concentrated mostly in debt to the banks.**

The balance of households' nonhousing debt declined for the first time this year, by about NIS 7 billion, to about NIS 195 billion. Most of the decline was in the balance of debt to the banks (-5 percent), which totaled about NIS 148 billion. The banks remain the main lender to households, accounting for about 76 percent of total nonhousing debt. The balance of debt to the credit card companies also declined, for the first time this year, by about NIS 1 billion (4 percent), to about NIS 23 billion. In contrast, the balance of nonhousing debt to institutional investors increased by about NIS 1 billion (7 percent) to about NIS 20 billion at the end of 2020.

**Figure 2.14: Balance of households' nonhousing debt by lender**  
NIS billion



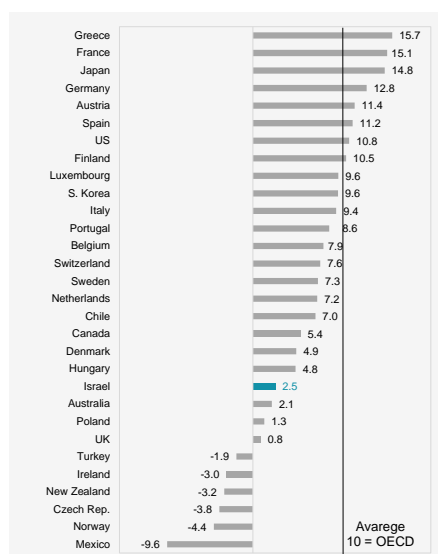
SOURCE: Based on reports to the Bank of Israel

<sup>9</sup> For more information, see "Zoom In" at the end of this section;

## INTERNATIONAL COMPARISON IN VIEW OF THE COVID-19 CRISIS

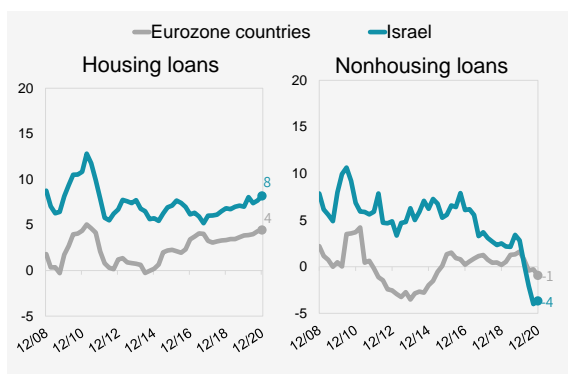
The rate of change of business sector debt in Israel is moderate compared with other OECD countries

Figure 2.15: Rates of Change in Outstanding Business Sector Debt in OECD Countries in the Past Year



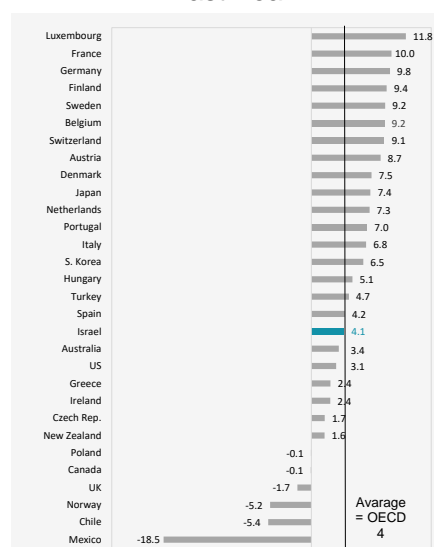
The growth rates of housing debt and nonhousing debt in Israel over the years are higher than those of the eurozone countries. During the COVID-19 crisis, the trend has been the same – a decline in the growth rate of nonhousing debt compared with a continued increase in the growth rate of housing debt

Figure 2.17: Annual Rates of Change of Households' Housing and Nonhousing Debt, Israel and European Countries



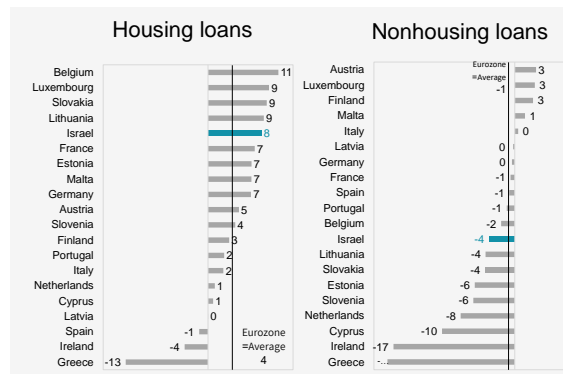
The rate of change of household debt in Israel is similar to the OECD average

Figure 2.16: Annual Rates of Change in Outstanding Household Debt in the OECD in the Past Year



Nonhousing debt declined in Israel in 2020, similar to eurozone countries. The rate of change of housing debt in Israel is higher than the rates of change in eurozone countries

Figure 2.18 : Annual Rate of Change in Households' Housing and Nonhousing Debt in 2020, Israel and European Countries



SOURCE: Data on Israel – Bank of Israel data; Data on other countries - data on Eurozone countries from the ECB website



## Main indicators of nonfinancial private sector debt



	2014	2015	2016	2017	2018	2019	2020
<b>Nonfinancial business sector debt</b>							
Total business sector debt (NIS billion, end of period)	790	807	850	867	924	962	986
Estimated net quantitative change (NIS billion, yearly cumulative)	-10	21	50	32	37	57	45
Percentage of nonbank debt (end of period)	51	51	53	52	52	52	50
Percentage of tradable debt (end of period)	24	23	24	25	25	24	25
Percentage of unindexed debt (end of period)	42	44	46	49	49	50	51
Percentage of CPI-indexed debt (end of period)	30	29	28	28	27	26	26
Percentage of debt denominated in or indexed to foreign exchange (end of period)	28	26	26	24	25	24	23
Business sector debt to GDP ratio (percent, end of period)	71	69	69	68	69	68	71
<b>Household debt</b>							
Total business sector debt (NIS billion, end of period)	445	474	503	529	557	588	612
Estimated net quantitative change (NIS billion, yearly cumulative)	24	31	30	26	25	31	26
Percentage of nonbank debt (end of period)	52	65	59	53	60	68	78
Percentage of tradable debt (end of period)	63	63	63	64	65	66	68
Percentage of unindexed debt (end of period)	58	63	65	66	66	66	66
Percentage of CPI-indexed debt (end of period)	40	36	34	33	33	34	33
Percentage of debt denominated in or indexed to foreign exchange (end of period)	1	1	1	1	1	1	0.5
Household debt to GDP ratio (percent, end of period)	40	41	41	42	42	42	44

**SOURCE:** Bank of Israel data.



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



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

## I The nonfinancial private sector

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

## I Outstanding debt

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

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

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

<sup>10</sup> For more details on the definitions, terms and explanations, see "The Credit Data System in Israel" in the second part of the Statistical [Bulletin for 2015](#).

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

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

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

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

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

Households' negative current account balance (overdraft) is included in outstanding nonhousing debt to the banks. The negative balance is defined as the actual utilization of a credit facility allocated in current accounts of private customers. If an exception is approved beyond the credit facility in the current account, this exception will also be included in the negative account balance section.