

## D. THE CREDIT MARKET<sup>1</sup>

In 2014, there were net repayments of business sector<sup>2</sup> debt for the first time since 2009. However, outstanding debt increased by about 2.1 percent during the year, mainly due to the effect of the shekel's depreciation against the dollar on debt indexed and denominated in foreign currency.

The trend of previous years in the composition of debt by lenders<sup>3</sup>, by which the business sector's debt to banks is declining while debt to nonbank entities is increasing, continued. In particular, the increase in the volume of loans to the business sector from institutional investors continued.

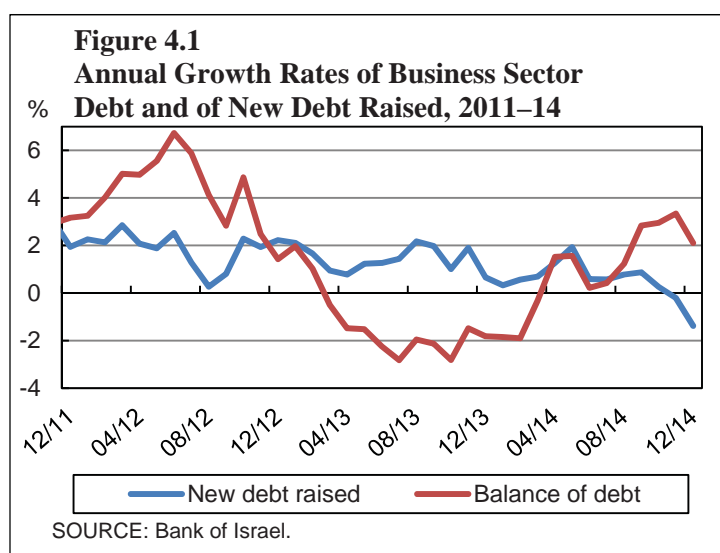
In 2014, the increase in outstanding household debt continued at a similar pace to that in 2013. Nonhousing debt increased at a greater pace than housing debt, in contrast to previous years. Nonhousing debt to institutional investors and to credit card companies continued to increase rapidly in 2014, but its overall balance remains low.

### 1. BUSINESS SECTOR DEBT

In 2014, there were net repayments of business sector debt, for the first time since 2009.

Net repayments in 2014 (negative net new debt raised) reached a pace of about 2 percent compared to the same period in the previous year, in contrast to net new debt raised of up to 2 percent per month in the previous two years.

Despite the repayments, total outstanding debt increased, to about NIS 815 billion at the end of the year, due to the effect of the shekel's depreciation against the dollar (about 12 percent) on the increase in debt indexed and denominated in foreign currency, which constitutes about 30 percent of debt.



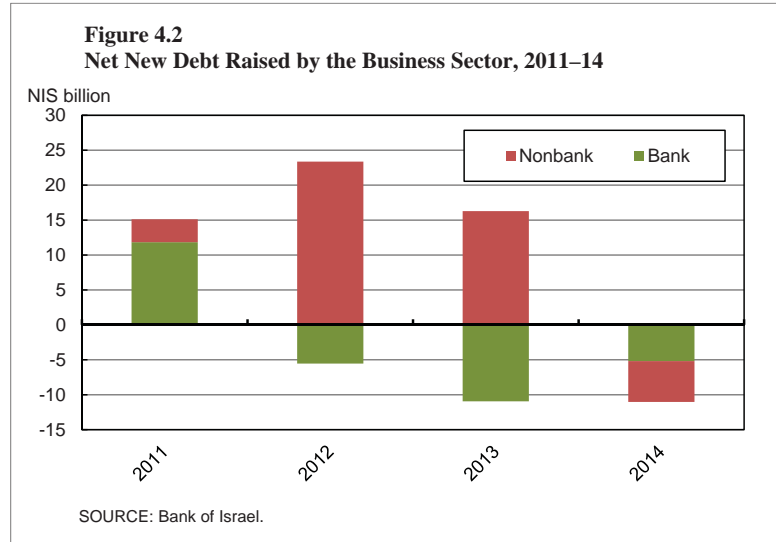
<sup>1</sup> The three main borrowing sectors in the economy are the nonfinancial business sector (excluding banks and insurance companies), households, and the government and local authorities (the public sector). This chapter concentrates on business sector and household debt.

<sup>2</sup> "Debt" relates to the borrowers' point of view, and its value is not dependent on market value or the value in the lenders' books. Outstanding bonds are presented in par value and adjusted ("accumulation" value) and outstanding debt to banks is presented before deducting doubtful debt allowances.

<sup>3</sup> The main sectors lending to corporations are the banks, institutional investors, nonresidents, and households (through the purchase of corporate bonds). The main sectors lending to households are the banks, institutional investors and credit card companies.

Net repayments of business sector debt were also recorded in nonbank debt in 2014, joining the net repayment of bank debt that began back in 2012.

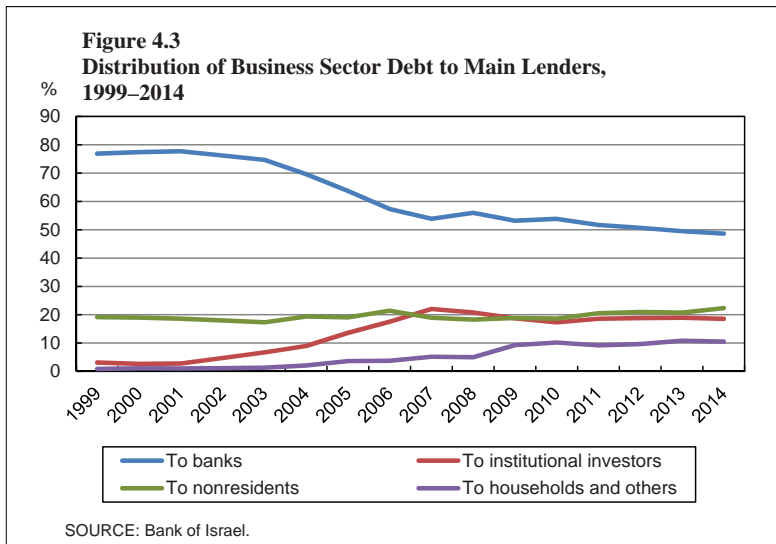
In 2012 and 2013, there was net new debt raised in the nonbank channel, totaling about NIS 40 billion, and net repayment of bank debt totaling about NIS 16 billion. In 2014, there were net repayments of about NIS 11 billion combined in the two channels.



The trend of recent years, by which the share of bank debt is declining in parallel with an increase in the share of debt to nonresidents, institutional investors and households, continued in 2014.

The decline of banks' share of total debt was rapid between 2003 and 2007 (a decline of 21 percentage points) and slower since then.

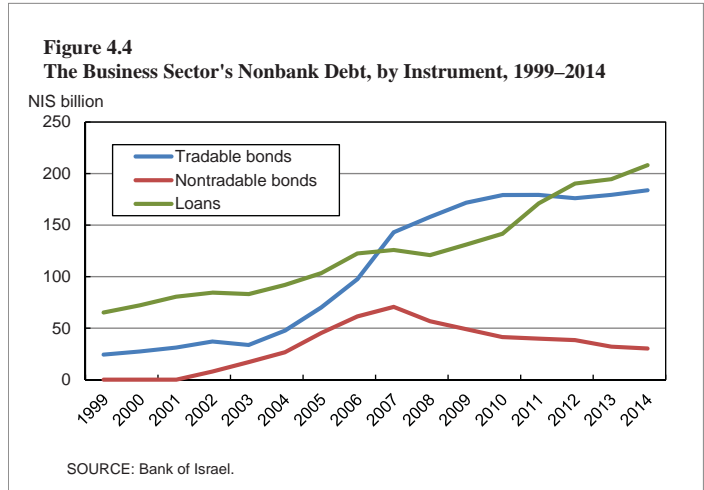
The proportion of debt to institutional lenders increased until 2007 and has remained virtually unchanged since then, at around 20 percent of total debt. Debt to households, which invest in business sector bonds, constitutes about 10 percent of total debt as of the end of 2014.



In nonbank debt, there has been an increase in the volume of loans and a decline in the volume of nontradable bonds in recent years.

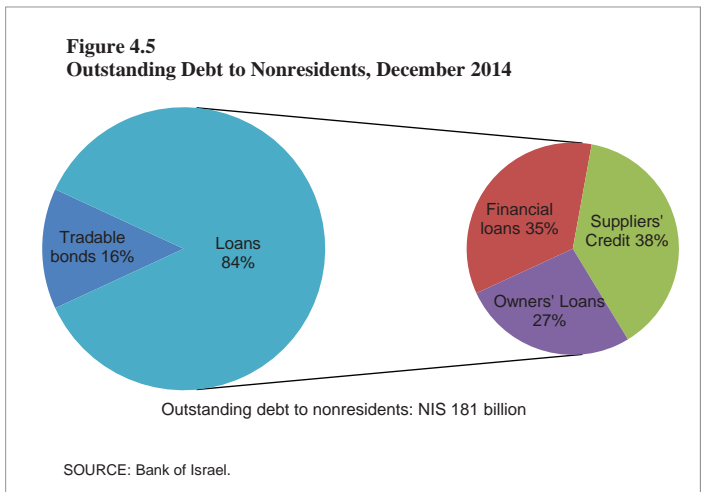
In 2014, loans constituted about 49 percent of total nonbank debt (about NIS 208 billion). Nontradable bonds accounted for about 7 percent.

The balance of tradable bonds remained virtually unchanged in recent years, totaling about NIS 184 billion (44 percent) in 2014.



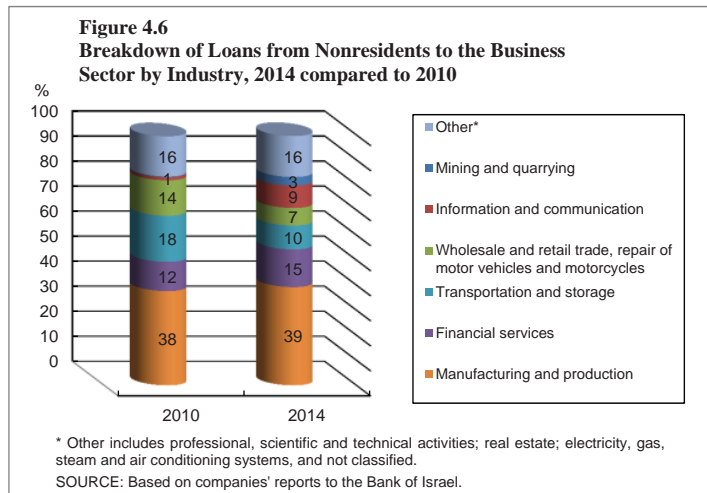
Business sector debt to nonresidents mainly reflects operational activity—credit to suppliers and owners' loans.

Outstanding business sector debt to nonresidents totaled about NIS 181 billion in December 2014, an increase of 10 percent compared to the previous year. Loans constitute about 84 percent of this debt, while tradable debt accounts for just 16 percent.



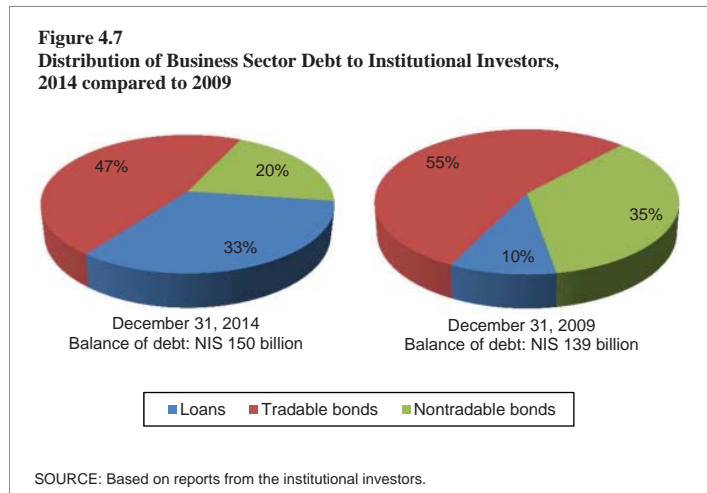
A significant portion of loans from nonresidents was provided to the manufacturing and production industry and to financial services.

In the past five years, an average of about 40 percent of loans was issued to companies in the manufacturing and production industry. The percentage of loans granted to companies in the financial services industry was around 14 percent on average. There was a significantly larger percentage of loans granted to the information and communications industry from nonresidents in recent years—about 9 percent in 2014, compared to about 1 percent in 2010.



In 2014, there was an increase in the granting of loans from institutional lenders to the business sector, and a decrease in the holdings of nontradable bonds.

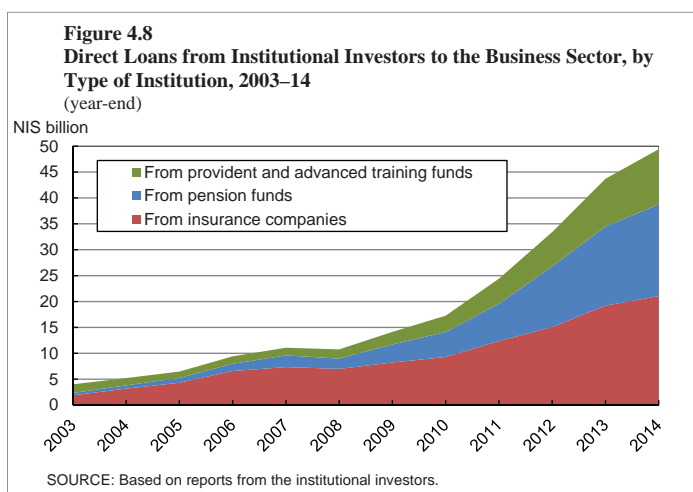
Outstanding debt to institutional lenders was about NIS 150 billion in December 2014, similar to the balance in the previous year. In recent years, there has been a prominent increase in the granting of loans directly to the business sector, in parallel with a decline in the rate of investments in corporate bonds, due to the Hodak Committee's limitations on institutional investments in corporate bonds.



Among the institutional lenders, the main lenders in the past decade have been insurance companies, although since 2009, there has been a marked increase in the growth of loans from pension, provident and advanced training funds.

In 2014, the increase in the granting of loans to the business sector from all types of institutional lenders continued (about 13 percent), with outstanding loans reaching a total of about NIS 49.4 billion.

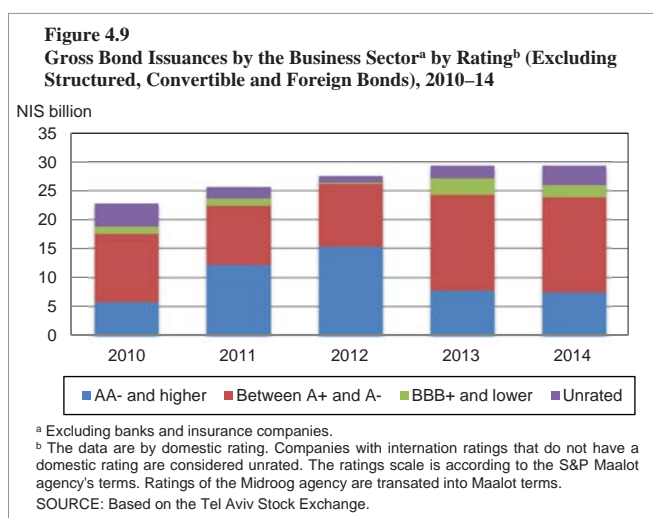
Loans taken out from the pension, provident and advanced training funds increased since 2009 at an average rate of about 40 percent, compared with an average rate of about 20 percent from insurance companies.



Alongside net repayments in the bond market, the business sector continues to issue debt through tradable and nontradable bonds, similar to the previous year.

In 2014, gross corporate bond issuances by the business sector totaled about NIS 30 billion, mostly through tradable bonds, similar to the amount in 2013.

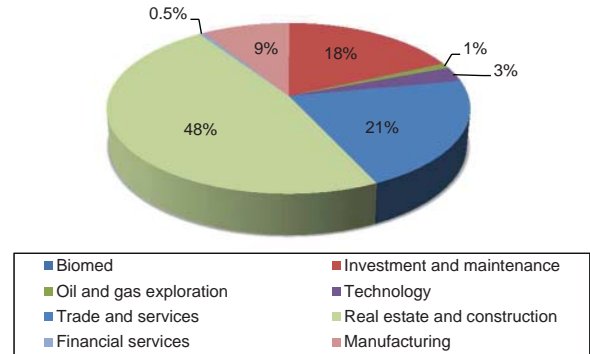
Bonds issued by real estate companies were prominent among bonds rated A- to A+, with about 30 percent of total issuances in 2014.



About half of the companies borrowing through tradable bonds in 2014 were from the real estate and construction industry.

Outstanding tradable bonds of the business sector in December 2014 totaled about NIS 153 billion, about 48 percent of which was from companies in the real estate and construction industry. The second-largest industry is the trade and services industry, which constitutes about 21 percent of outstanding tradable bonds. About 73 percent of outstanding tradable bonds are indexed to the CPI.

**Figure 4.10**  
Outstanding Tradable Bonds of the Business Sector, by Industry, December 2014



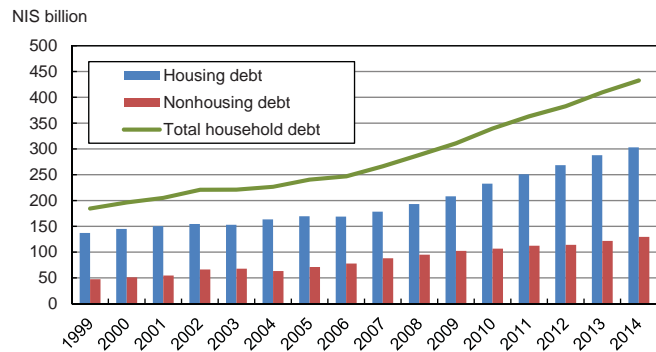
SOURCE: Bank of Israel.

## 2. HOUSEHOLD DEBT

The increase in household debt continued in 2014, in both housing and nonhousing debt.

During 2014, outstanding household debt increased by about NIS 23 billion, to about NIS 433 billion. This increase took place in both outstanding housing debt and in outstanding nonhousing debt. Housing debt has constituted about 70 percent of household debt since 2010.

**Figure 4.11**  
Household Debt, Housing and Nonhousing, 1999–2014

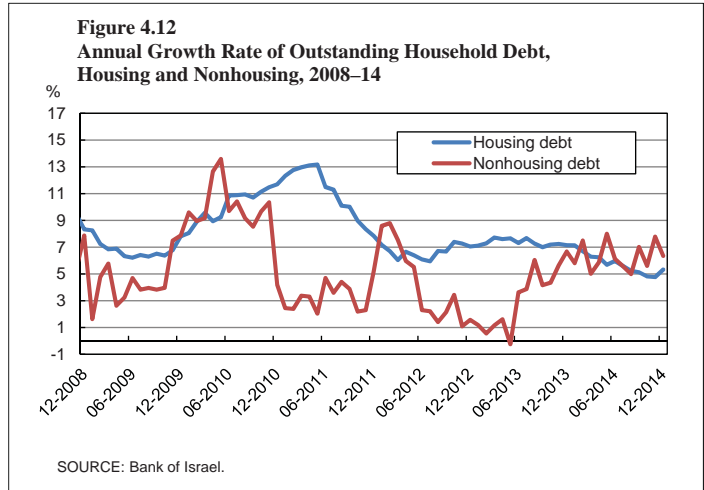


SOURCE: Bank of Israel.

In 2014, the increase in nonhousing debt was greater than the increase in housing debt, in contrast to the trend of previous years.

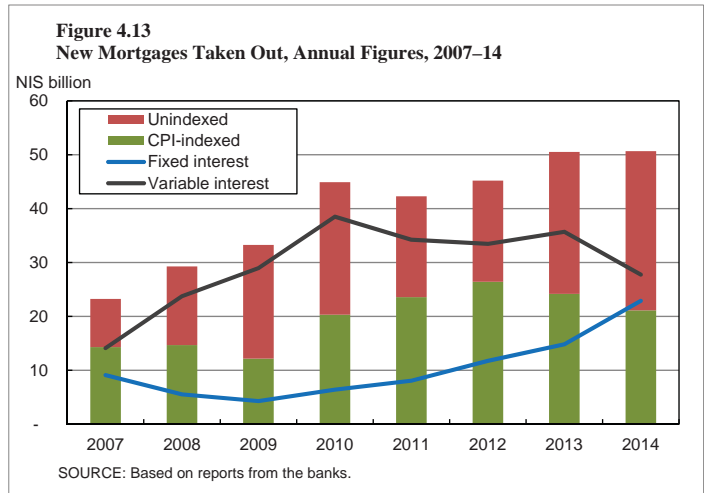
Outstanding housing debt increased in 2014 by about 5 percent, a slightly slower pace than in the three previous years, to about NIS 303 billion at the end of the year.

Outstanding nonhousing debt increased by about 6 percent since the beginning of 2014, to about NIS 129 billion at the end of the year.



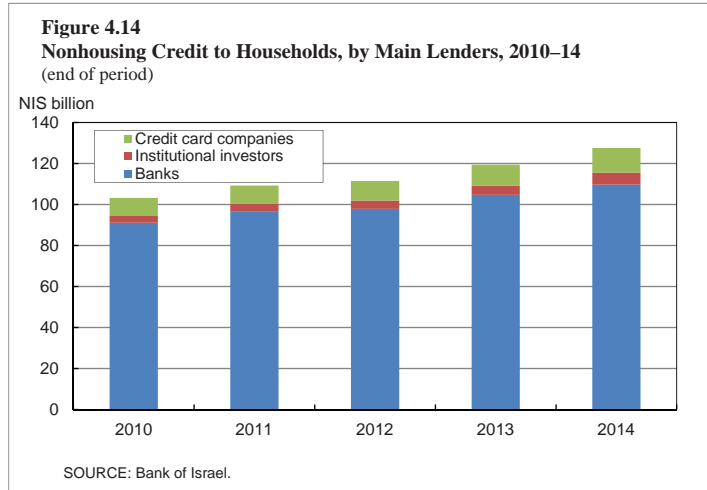
In 2014, the volume of new mortgages taken out from the banking system<sup>4</sup> was similar to that in 2013.

In 2014, the upward trend in the volume of new mortgages taken out was halted, following a continued increase between 2011 and 2013. The volume of new mortgages taken out from the banks totaled about NIS 52 billion. The portion of new mortgages at fixed interest increased, in parallel with a decline in the variable interest track, against the background of the limitations on the mix of loans put in place by the Supervisor of Banks.



<sup>4</sup> The volume of new mortgages taken out from nonbank entities is negligible.

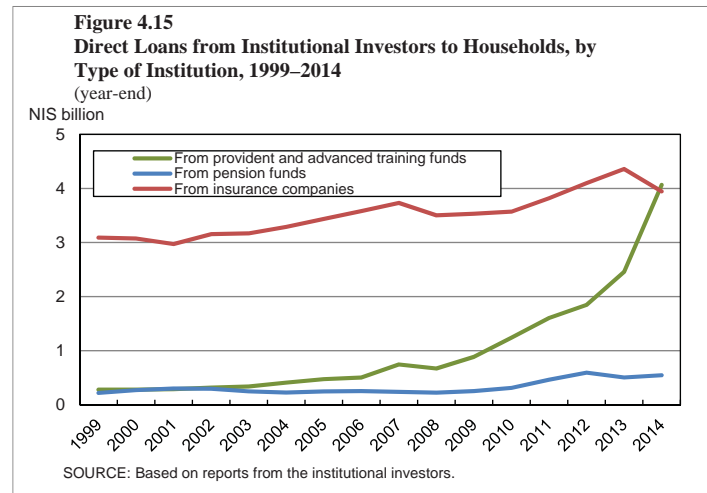
In 2014, nonhousing debt to all types of lenders continued to increase. There was an increase in the growth rate of nonhousing debt to institutional investors and to credit card companies. About 85 percent of household consumer debt is to the banks, with the remainder owed to credit card companies and institutional investors. In 2014, there was an increase in the growth rate of consumer debt to institutional investors and to insurance companies, but the total remains low.



In 2014, loans from provident and advanced training funds to households continued to increase, at a higher rate than in the past, but the total remains low.

Total household debt to institutional investors continued to increase in 2014, to about NIS 8.6 billion as of the end of the year.

Since 2008, the growth rate of loans from provident and advanced training funds has accelerated, and at the end of 2014, the total was about NIS 4 billion, similar to loans from insurance companies, where the volume declined in 2014 for the first time since 2008. Despite the increase in loans, the total remains low.





<b>Main indicators in the credit market (percent)</b>				
	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Business sector debt</b>				
Outstanding debt (NIS billion, end of period)	802	813	799	815
Net new debt raised (NIS billion, yearly cumulative)	15	18	5	-11
Percentage of nonbank debt (end of period)	48.6%	49.7%	50.8%	51.8%
Percentage of tradable debt (end of period)	20.4%	20.1%	20.4%	18.8%
Business sector debt to business sector product ratio (end of period)	116%	110%	102%	101%
Effective cost of outstanding unindexed bank credit (December) <sup>a</sup>	5.92	5.23	4.19	3.59
Interest on indexed bank credit issued during the month, fixed interest for 5–10 years (December)	4.00	3.31	2.63	2.51
Yield on CPI-indexed tradable 5-year corporate bonds at fixed interest (December average)	5.26	3.31	2.20	1.88
Spread between CPI-indexed corporate bonds (Tel Bond 60) and 5-year government bonds (percentage points, December average)	2.95	1.66	1.28	1.84
<b>Household debt</b>				
Total household debt (NIS billion, end of period)	363	383	410	433
Percentage of housing debt (end of period)	69%	70%	70%	70%
Total new mortgages taken out (NIS billion, yearly cumulative)	44.72	46.64	51.71	51.51
Household debt to GDP ratio (end of period)	39.3%	38.6%	39.0%	39.8%
Average interest on mortgages - variable rate unindexed (December)	3.78	3.18	2.27	1.51
Average interest on mortgages - fixed rate unindexed (December)	5.3	4.49	4.17	3.25

<sup>a</sup> Until 2013, the figures were calculated based on net balances and related only to the 7 largest banks. From 2013 onward, the figures are calculated based on gross balances (before credit loss allowances) and relate to all banking corporations.

SOURCE: Reports from the banks and Bank of Israel data.