

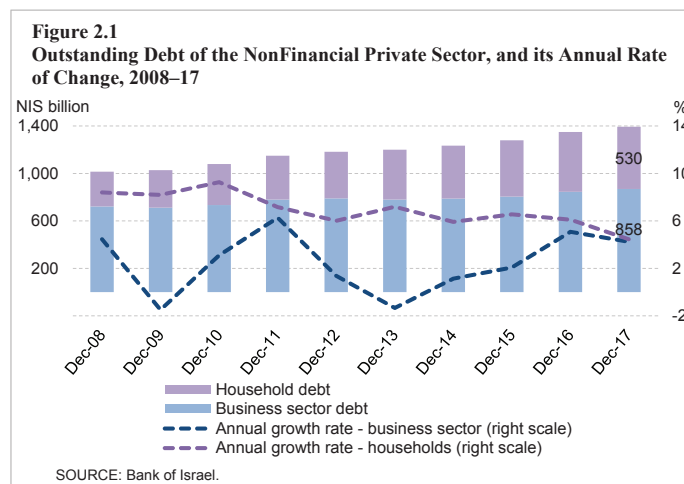
B. PRIVATE SECTOR DEBT

The outstanding debt of the nonfinancial private sector¹ continued to increase in 2017, but at a lower rate than that of the previous year (2.9 percent compared with 5.5 percent). This increase was mainly due to a quantitative increase in the debt of both the business sector and households, which was partly offset by the shekel's appreciation against the dollar, which lowered the shekel value of the debt denominated in and indexed to foreign currency. The decline in the growth rate of household debt, both housing and nonhousing, continued. The decline in the growth rate of nonhousing debt, particularly to banks, was prominent. Most of the increase in outstanding business sector debt was in domestic nonbank debt, combining an increase in debt to households through their holdings of tradable bonds and debt to institutional investors through direct loans. The increase in business sector debt to banks continued, but its rate of increase was slower than that of its domestic nonbank debt.

1. NONFINANCIAL PRIVATE SECTOR (BUSINESS AND HOUSEHOLD) DEBT

The increase in nonfinancial private sector debt continued in 2017, at a slower pace than in the previous year.

The outstanding debt of the nonfinancial private sector increased by about NIS 39 billion (2.9 percent) in 2017 to NIS 1.4 trillion. Outstanding business sector debt increased by about 1.5 percent (about NIS 13 billion), significantly less than the previous year. Outstanding household debt grew by about NIS 26 billion (5.1 percent), and constituted about 38 percent of the total nonfinancial private sector debt at the end of the year.

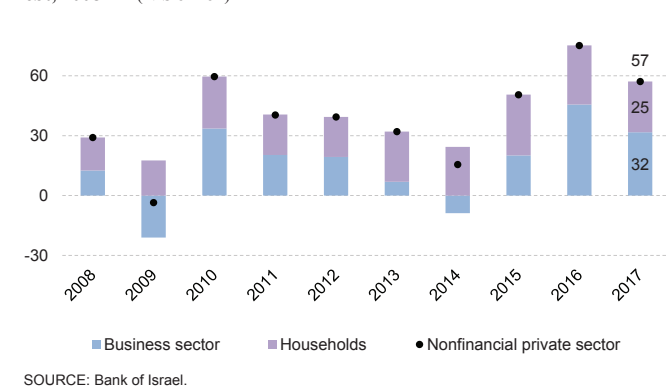


¹ This section deals with the debt of the nonfinancial business sector to the main lenders (banks, institutional investors and nonresidents), and does not include debt to other lenders (such as private credit companies). For further details, see the explanation in Main Terms at the end of the section. 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 2017 have not yet been published.

The increase in the outstanding debt was mainly a result of a net quantitative increase² in the two component sectors, but at a lower volume than in the previous year.

The total net quantitative increase was about NIS 57 billion: about NIS 32 billion in business sector debt and about NIS 25 billion in household debt. This quantitative increase was partly offset by the shekel's appreciation against the dollar, which lowered the shekel value of the debt denominated in and indexed to foreign currency.

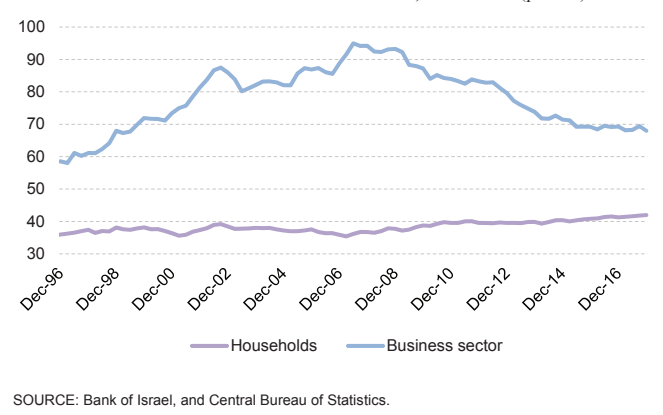
Figure 2.2
Estimated Annual Net Quantitative Change in Nonfinancial Private Sector Debt, 2008–17 (NIS billion)



The business sector debt to GDP ratio declined in 2017, while the household debt to GDP ratio increased slightly.

The business sector debt to GDP ratio declined by about 1.3 percentage points in 2017, to about 68 percent at the end of the year, because the increase in GDP (3.4 percent in current prices) was larger than the increase in the debt (1.5 percent). The household debt to GDP ratio continued to increase—by about 0.7 percentage points, to about 42 percent at the end of 2017.

Figure 2.3
Nonfinancial Private Sector Debt to GDP Ratio, 1996–2017 (percent)



² See the Main Terms at the end of the section.

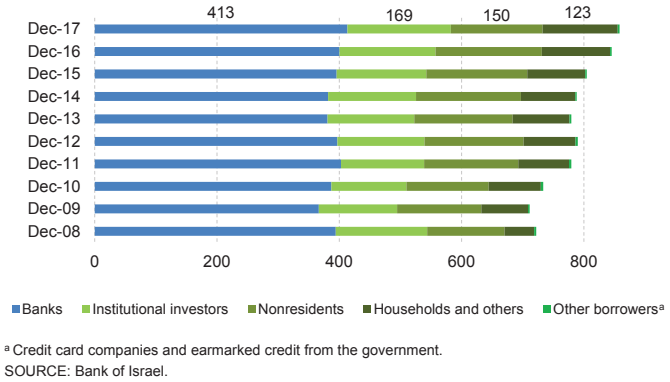
2. NONFINANCIAL BUSINESS SECTOR DEBT

The upward trend in business sector debt continued in 2017, mainly in domestic nonbank debt.

The balance of business sector debt to domestic nonbank entities increased by about NIS 23 billion (9 percent), in conjunction with a decline of a similar volume (14 percent) in debt to nonresidents. The increase in business sector debt to banks continued (3 percent, NIS 13 billion), and it totaled about 48 percent of total business sector debt.

About 41 percent of total business sector debt is owed by companies in the financial services, trade and production industries³.

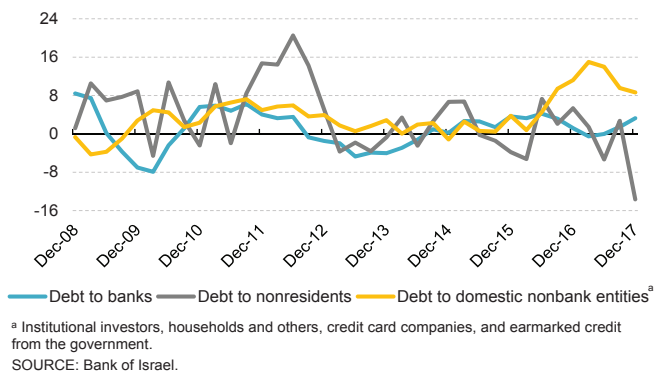
Figure 2.4
Outstanding Nonfinancial Business Sector Debt, by Lender, 2008–17
(NIS billion)



Further to the previous two years, the annual growth rate of debt to domestic nonbank entities is higher than that of debt to banks.

However, starting in the second half of 2017, the growth rate of debt to the banks has increased. In the fourth quarter of the year, there was a sharp drop in the growth rate of debt to nonresidents, following the repayment of a loan by a large company.

Figure 2.5
Annual Growth Rate of Outstanding Nonfinancial Business Sector Debt, by Lender, 2008–17 (moving 4-quarters, percent)

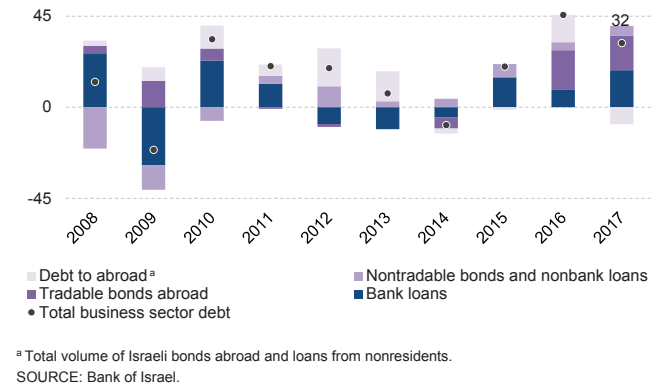


³ For more information on the industry distribution of outstanding nonfinancial business sector debt, see “Zoom In” at the end of this section.

The increase in outstanding debt in 2017 was mainly a result of a net quantitative increase in bank loans and in tradable bonds in Israel.

The quantitative increase of total debt came to about NIS 32 billion, lower than the previous year (NIS 46 billion), of which about NIS 22 billion was in domestic nonbank debt, which was impacted by tradable bond issues in Israel and direct loans from institutional investors.

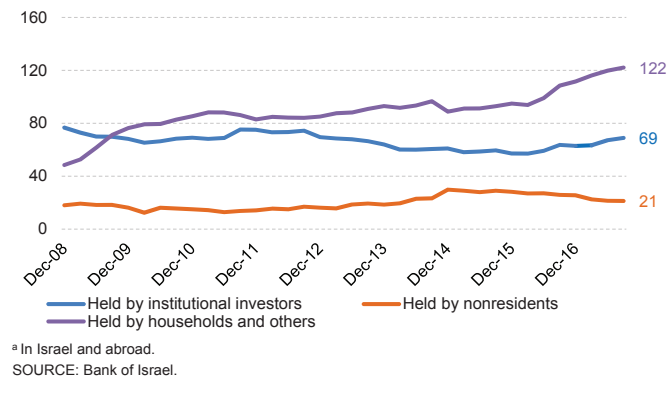
Figure 2.6
Estimated Annual Net Quantitative Change in Nonfinancial Business Sector Debt, 2008–17 (NIS billion)



Further to previous years, households increased their holdings of tradable business sector bonds.

The balance of tradable business sector bonds increased by about NIS 11 billion, to about NIS 216 billion, mainly reflecting the expansion of households’ holdings of these bonds. The outstanding holdings of business sector bonds by institutional investors increased by about NIS 7 billion, while the balance of holdings by nonresidents declined by about NIS 5 billion.

Figure 2.7
Outstanding Nonfinancial Business Sector Debt in Tradable Bonds^a to Nonbank Lenders, 2008–17 (NIS billion)

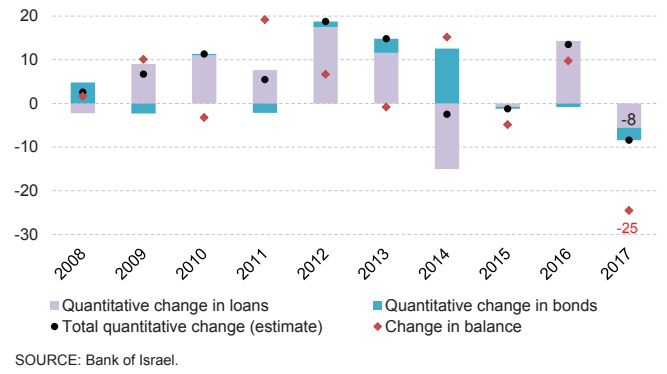


³ For more information see “Zoom In” at the end of this section.

Outstanding business sector debt to nonresidents declined as a result of a net quantitative reduction in this channel, and the effect of the shekel’s appreciation.

The net quantitative reduction of debt to abroad totaled about NIS 8 billion in 2017, and was comprised of a decline of about NIS 6 billion in loans—mainly due to the repayment of a loan by a large company—and a decline of about NIS 3 billion in bonds. The shekel’s appreciation against the dollar also contributed to the decline in outstanding debt to abroad. These effects led to a decline of about NIS 25 billion in this balance in 2017.

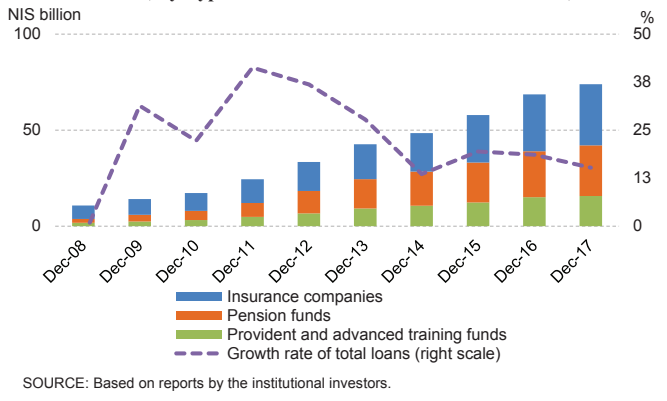
Figure 2.8
Estimated Annual Net Quantitative Change in Nonfinancial Business Sector Debt to Abroad, 2008–17 (NIS billion)



The yearly growth rate of institutional investors’ outstanding direct loans to the business sector moderated.

Outstanding business sector loans from all institutional investors increased by about NIS 8 billion, to about NIS 77—a growth rate of 12 percent, compared with 19 percent in the previous year. Divided by type of institutional investor, insurance companies account for a high proportion—about 43 percent of total loans.

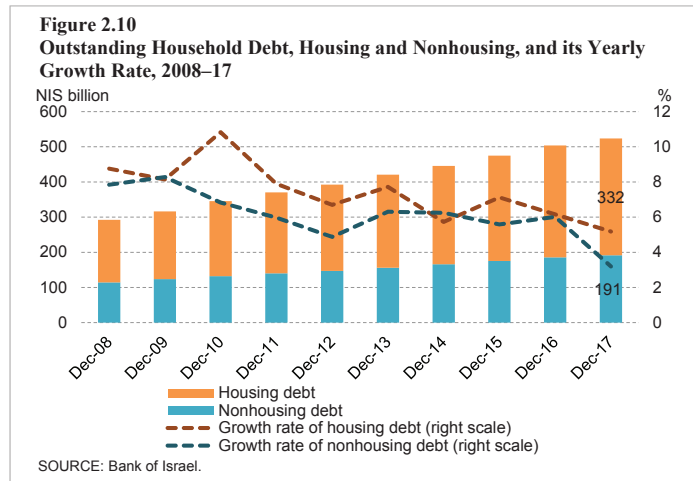
Figure 2.9
Outstanding Direct Loans from Institutional Investors to the Nonfinancial Business Sector, by Type of Institution and Annual Growth Rate, 2008–17



3. HOUSEHOLD DEBT

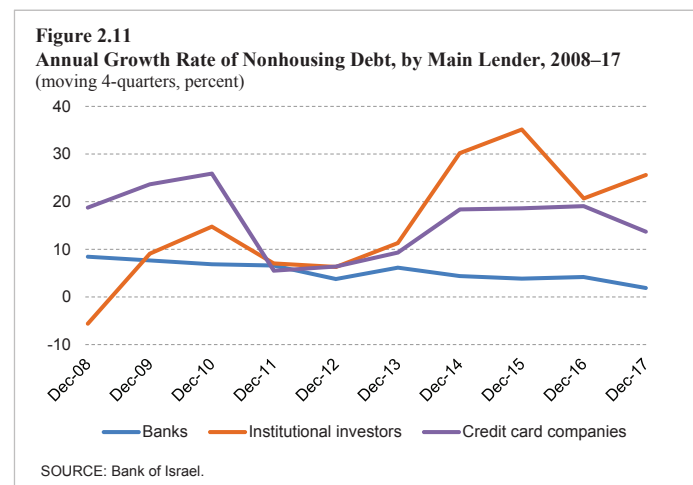
During 2017, the decline in the growth rate of outstanding household debt, both housing and nonhousing, continued.

During the year, outstanding household debt increased by about NIS 26 billion (5.1 percent compared with an average of 6.4 percent between 2012 and 2016), to about NIS 530 billion. The decline in the growth rate of nonhousing debt was prominent—about 3.9 percent compared with an average of 5.8 percent between 2012 and 2016.



The decline in the growth rate of nonhousing debt was mainly a result of a decline in the rate of this debt to banks.

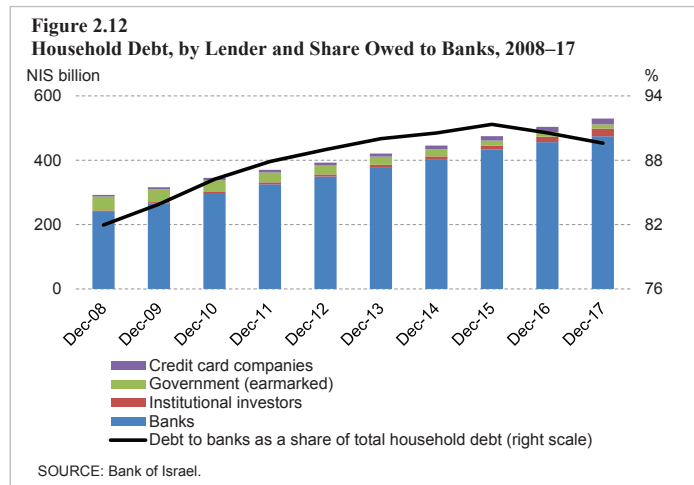
The growth rate of nonhousing debt to institutional investors (26 percent) increased in 2017. In contrast, the growth of nonhousing debt to credit card companies slowed. Nonhousing debt to these entities accounted for about 16 percent of total nonhousing debt at year-end.



The banks are the main lenders to households, but in the past two years their share of total debt has been declining.

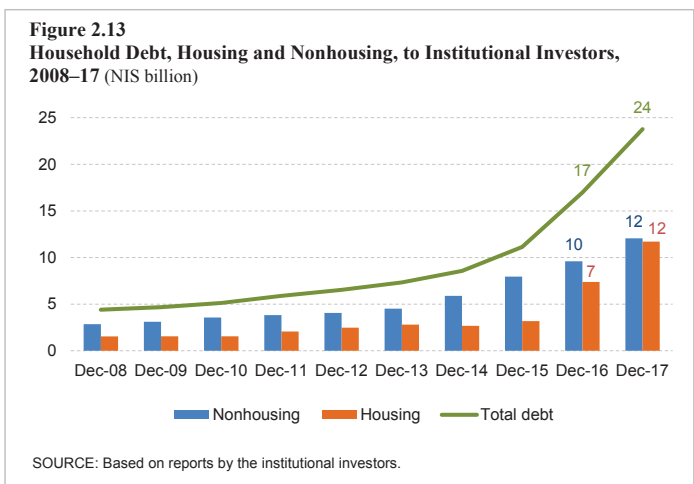
Outstanding household debt to the banks increased by about NIS 18 billion, to about NIS 475 billion—about 90 percent of total household debt.

Outstanding household debt to nonbank entities also increased, by about NIS 8 billion, to about NIS 55 billion.



Institutional investors’ loans to households continued to increase.

Total household debt to institutional investors continued to increase in 2017, to about NIS 24 billion—about 4 percent of total household debt. The increase encompassed both housing and nonhousing debt.



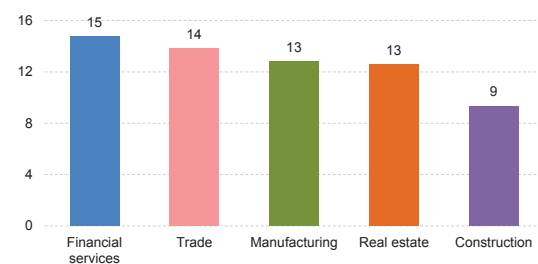
ZOOM-IN



BREAKDOWN OF OUTSTANDING NONFINANCIAL BUSINESS SECTOR DEBT BY INDUSTRY¹

About 63 percent of total business sector debt is concentrated in five industries.

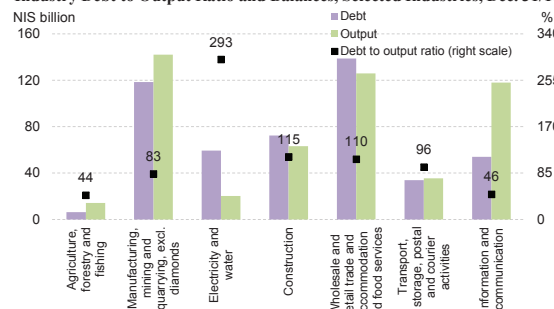
Figure 2.14
Distribution of Nonfinancial Business Sector Debt by the Five Large Industries, Sept. 30/17* (percent of total business sector debt)



* About 9 percent of business sector debt data are unclassified (see note 1 below), so the weight of some of the industries is higher.

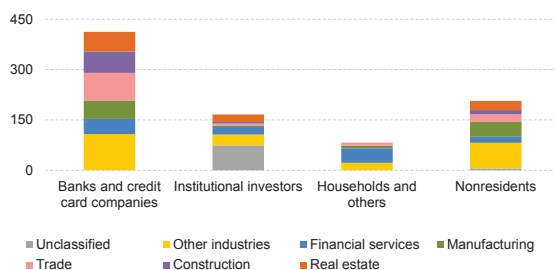
The debt to output ratio of the electricity and water industry is the highest, while that industry's outstanding debt and output are relatively low.

Figure 2.15
Industry Debt to Output Ratio and Balances, Selected Industries, Dec. 31/16



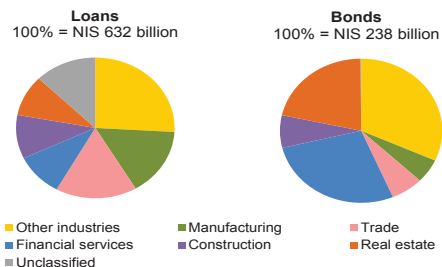
About half of total business sector debt to the banks and credit card companies is owed by companies in the trade, construction and real estate industries.

Figure 2.16
Distribution of Nonfinancial Business Sector Debt by Main Lenders and Industries, Sept. 30/17 (NIS billion)



In the bonds channel, companies from the financial services and real estate industries are prominent, while the loans channel shows more even industry dispersal.

Figure 2.17
Distribution of Nonfinancial Business Sector Debt by Instrument and Industry, Sept. 30/17



¹ According to the Central Bureau of Statistics 2011 industry classification.

The financial services industry includes holding companies.

“Unclassified” refers to debt data that is not classified. The main component that is not classified is direct loans from institutional investors to the business sector (about NIS 74 billion in September 2017), because the information on the industry composition is lacking.

“Other industries” is a combination of industries that account for less than 7 percent of total business sector debt.

SOURCE: Central Bureau of Statistics and estimates made by the Bank of Israel.

NONFINANCIAL PRIVATE SECTOR DEBT

Main indicators of private sector debt						
	2012	2013	2014	2015	2016	2017
Nonfinancial business sector debt						
Outstanding debt (NIS billion, end of period)	790	779	788	805	845	858
Estimated net quantitative change (NIS billion, yearly cumulative)	19	7	-9	20	46	32
Percentage of nonbank debt (end of period)	50	51	52	51	53	52
Percentage of tradable debt (end of period)	23	23	24	23	24	25
Business sector debt to GDP ratio (end of period)	80	74	71	69	69	68
Household debt						
Total household debt (NIS billion, end of period)	393	421	446	475	504	530
Estimated net quantitative change, net credit taken out (NIS billion, yearly cumulative)	20	25	24	30	30	25
Percentage of housing debt (end of period)	63	63	63	63	63	64
Total new mortgages taken out (NIS billion, yearly cumulative)	47	52	52	65	59	53
Household debt to GDP ratio (end of period)	40	40	40	41	41	42

SOURCE: Bank of Israel.

DATA SOURCES AND MAIN TERMS¹

The Bank of Israel Information and Statistics Department manages a database of a activity in the credit market. The Department gathers data and information from reports and other sources, processes them into an overall consistent dataset, and calculated the economy's credit aggregates by various segmentations. The sources of data are reports from the banking system to the Banking Supervision Department; quarterly reports 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 debt of the nonfinancial private sector 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 the credit data register is established and activated.

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 (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, 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 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

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.

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 as stated 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).