

## B. PRIVATE SECTOR DEBT

The outstanding debt of the nonfinancial private sector continued to increase in 2016, at a higher rate than that of the previous year (4.9 percent compared with 4 percent). This increase was mainly due to a quantitative increase in the debt of both the business sector and households<sup>1</sup>.

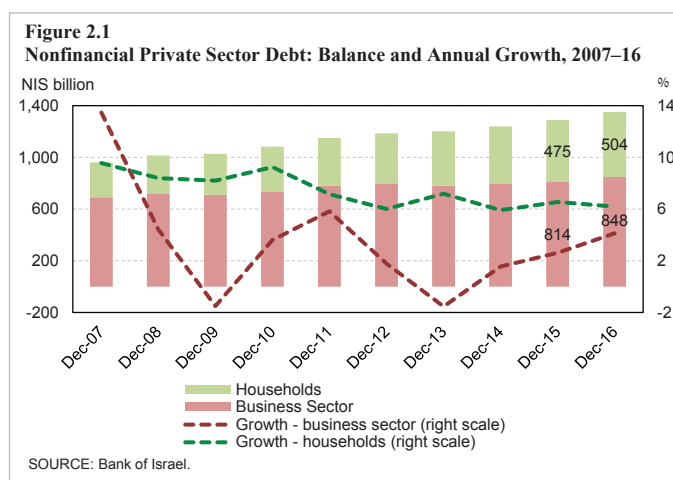
Outstanding business sector debt increased by about 4.1 percent in 2016—a higher rate of increase than in previous years. Most of the growth was concentrated this year in debt to nonbank entities through the tradable bonds channel. The growth rate of debt to banks slowed relative to previous years. In 2016, the increase in outstanding household debt continued, but its rate of growth was slightly lower than in 2015 (6.2 percent compared with 6.5 percent). Similar to the previous two years, the growth rate of nonhousing debt was higher than that of housing debt. Most housing debt was to banks, but there was greater growth of housing debt to institutional investors, due to the number of syndication transactions and sales of mortgage portfolios from banks to institutional investors during the year.

### 1. NONFINANCIAL PRIVATE SECTOR DEBT

The increase in nonfinancial private sector debt continued in 2016, with continued expansion of both business sector debt and household debt.

The outstanding debt of the nonfinancial private sector increased by about NIS 63 billion (4.9 percent), to about NIS 1.4 trillion. Outstanding business sector debt increased by about 4.1 percent in 2016, a faster rate of increase than in the previous two years, to about NIS 848 billion at the end of the year.

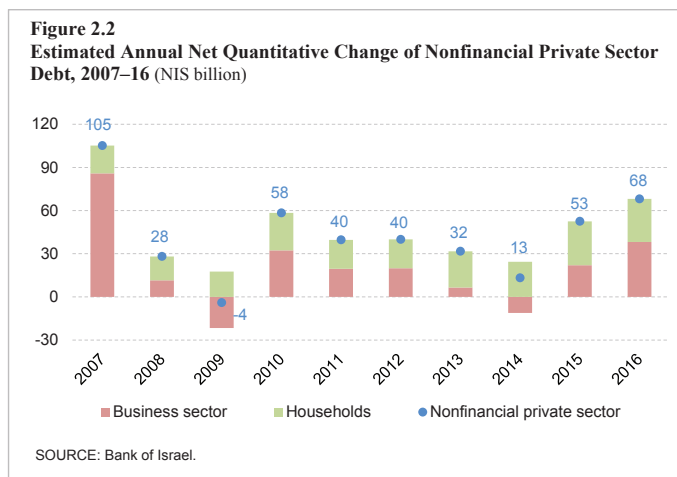
Outstanding household debt grew by about 6.2 percent, similar to the trend in recent years, to about NIS 504 billion, which is about 37 percent of the total nonfinancial private sector debt.



<sup>1</sup> 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.

The increase in the outstanding debt of the nonfinancial private sector is mainly a result of a continued net quantitative increase<sup>2</sup> in the two component sectors—the household sector and the business sector.

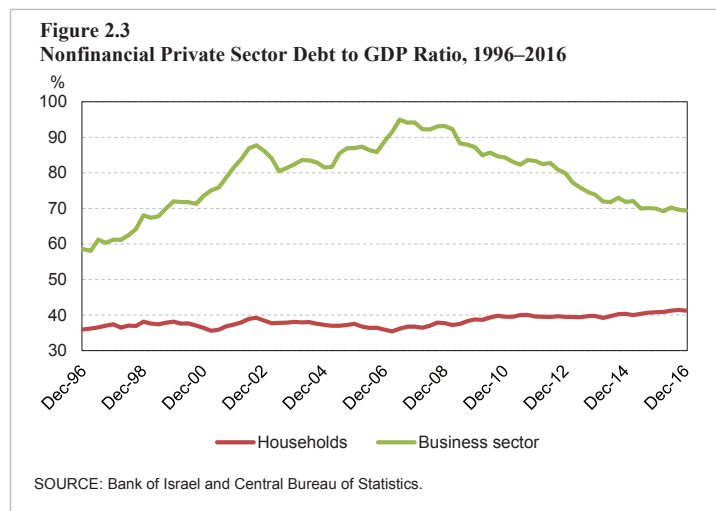
The net quantitative increase of business sector debt totaled about NIS 38 billion in 2016—higher than that of households (NIS 30 billion) for the first time since 2012.



The household debt to GDP ratio and the business sector debt to GDP ratio remained virtually unchanged.

The household debt to GDP ratio was about 41 percent at the end of 2016, lower than the average among OECD countries. The increase in the household debt to GDP ratio since the end of 2006 came to about 5 percentage points.

The business sector debt to GDP ratio remained virtually unchanged in 2016, at 69 percent.



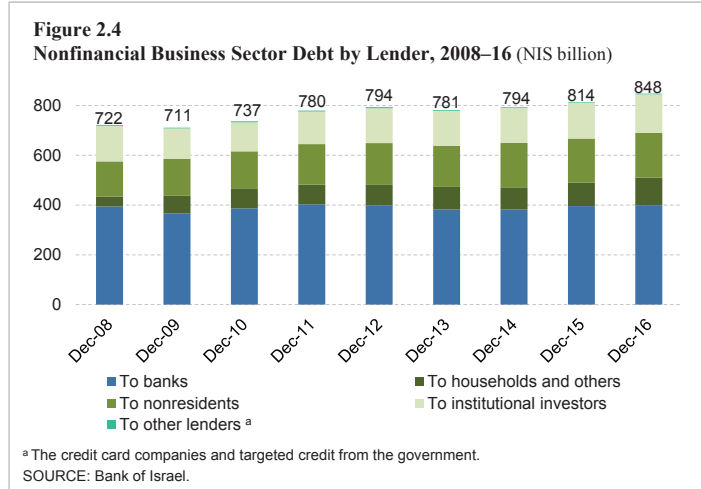
<sup>2</sup> See the Main Terms at the end of the section.

2. NONFINANCIAL BUSINESS SECTOR DEBT

The increase in business sector debt continued in 2016, further to the trend of the previous three years.

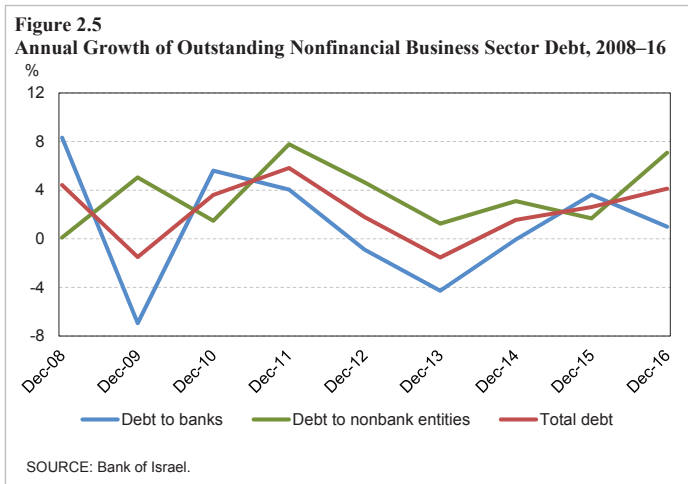
The balance of business sector debt increased by about NIS 34 billion, with most of the increase (about NIS 30 billion) in debt to nonbank entities.

About 47 percent of the debt (about NIS 400 billion) is owed to banks, and debt to banks as a share of total debt has been declining in recent years.



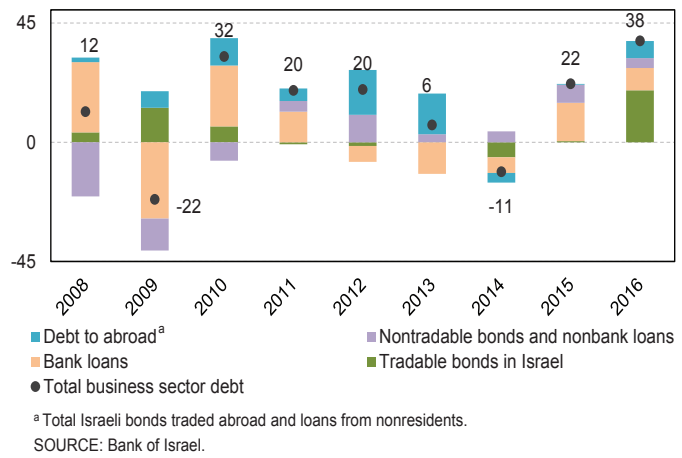
The growth rate of debt to nonbank entities is higher than that of debt to banks, in contrast with the previous year.

The growth rate of debt to banks remained positive, but declined in 2016 (a decline of about 2.6 percentage points compared with the end of 2015).



The increase in outstanding debt in 2016 was a result of a net quantitative increase, mainly of tradable bonds in Israel, in contrast with previous years. The increase in bank and nonbank loans continued, as did debt to abroad through loans from nonresidents, after there was no increase in this channel in the previous year.

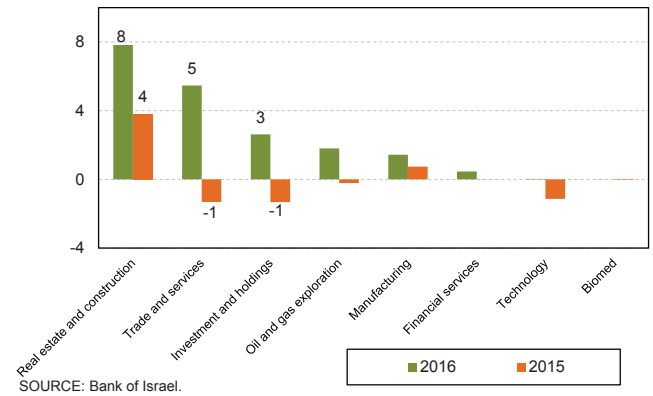
**Figure 2.6**  
Estimated Annual Net Quantitative Change of Nonfinancial Business Sector Debt, 2008–16 (NIS billion)



**There was a net quantitative increase in most industries in tradable bonds in Israel. As in 2015, the increase in the real estate and construction industry was prominent.**

The background to this increase (about NIS 19.6 billion) was the high amount of issuances on the Tel Aviv Stock Exchange in 2016.<sup>3</sup> Companies in the trade and services industry, the investment and holdings industry and the oil and gas exploration industry also increased their debt through tradable bonds in Israel, in contrast with the previous year.

**Figure 2.7**  
Estimated Yearly Net Quantitative Change in Tradable Bonds in Israel by Industry, 2015 and 2016 (NIS billion)



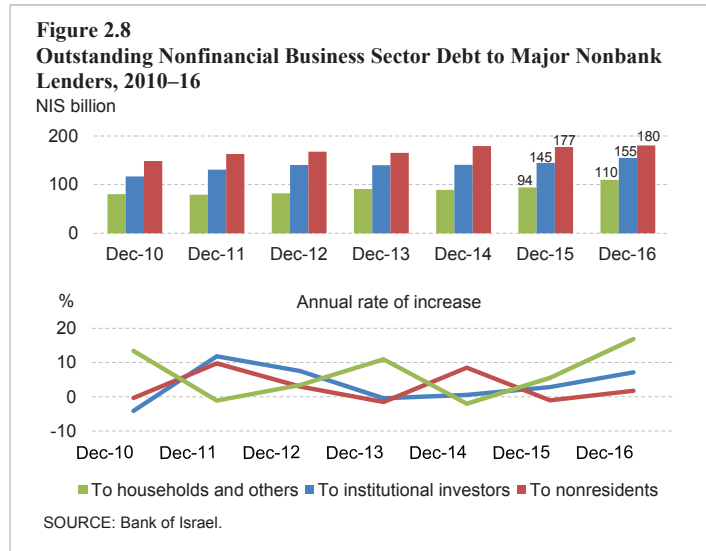
Due to this development, outstanding business sector debt through tradable bonds in Israel increased in 2016, to about NIS 172 billion.

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

In 2016, there was a prominent increase in outstanding business sector debt to households and others.

Holdings by households and others of tradable bonds increased by about NIS 16 billion (17 percent) this year, a significant growth rate compared with previous years. This increase constitutes most of the growth in the balance of tradable business sector bonds.

The growth rate of outstanding debt to institutional investors continued to increase, and the balance of such debt was about NIS 155 billion at the end of the year.

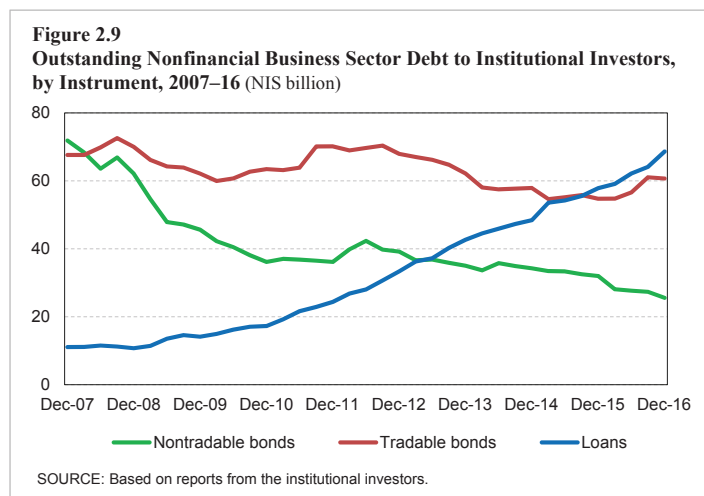


The increase in outstanding loans from institutional investors to the business sector continued, at a rate similar to that of the previous year.

Institutional investors' outstanding direct loans to the business sector reached NIS 69 billion at the end of the year. Since 2008, this balance has increased by about NIS 58 billion.

Institutional investors' holdings of tradable bonds also increased this year, to about NIS 61 billion.

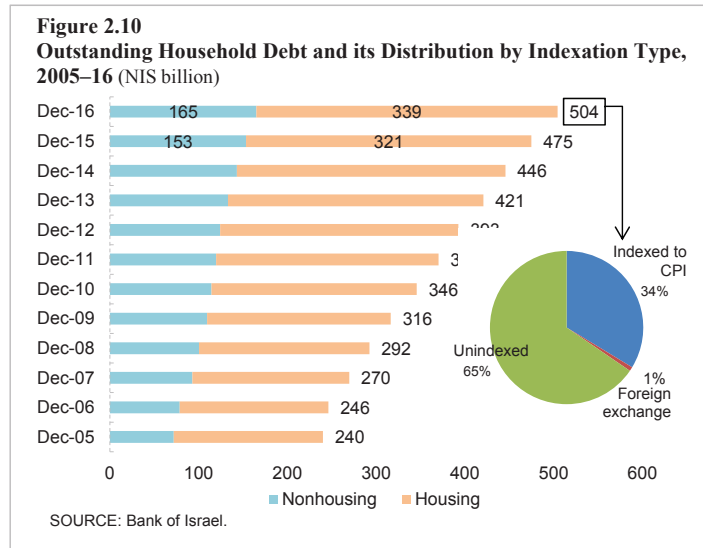
The downward trend in institutional investors' holdings of nontradable bonds continued.



### 3. HOUSEHOLD DEBT

During 2016, the upward trend in outstanding household debt, both housing and nonhousing, continued.

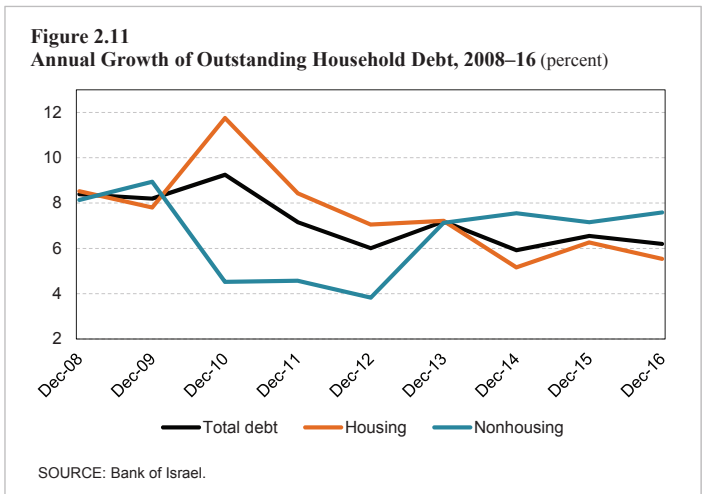
During the year, outstanding household debt increased by about NIS 29 billion (6.2 percent), to about NIS 504 billion. Outstanding housing debt increased by about NIS 18 billion, and outstanding nonhousing debt increased by about NIS 12 billion. Most household debt is nonindexed.



The growth rate of nonhousing debt remained higher than that of housing debt in 2016.

Outstanding nonhousing debt increased by about 7.6 percent in 2016, to about NIS 165 billion.

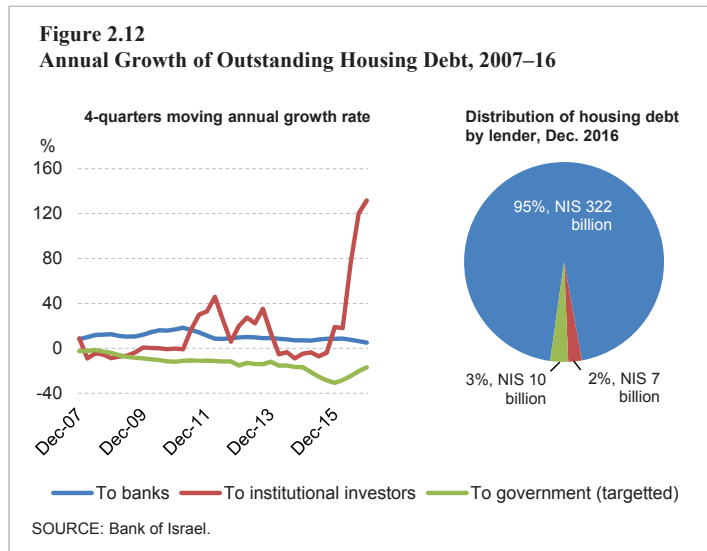
Outstanding housing debt totaled about NIS 339 billion in 2016, and its growth rate was lower than in 2015 (5.5 percent compared with 6.3 percent), continuing the decline in this growth rate since 2010.



Households' housing debt to institutional entities increased, but its total remains low.

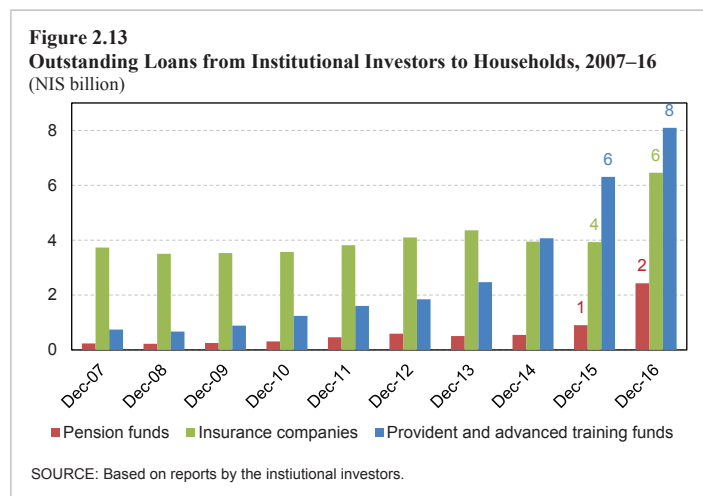
Due to the number of syndication transactions and the sale of banks' mortgages portfolios to institutional investors during the year, there was a marked increase in households' housing debt to institutional entities in 2016.

Most housing debt (95 percent) is owed to the banks. The growth rate of this debt slowed slightly during the year, but remains positive.



The increase in loans to households encompassed all types of institutional investors.

Total housing and nonhousing loans to households from the institutional investors continued to increase in 2016, to about NIS 17 billion. The increase was mainly concentrated in the insurance companies (about NIS 2.5 billion) and the provident and advanced training funds (about NIS 1.8 billion).



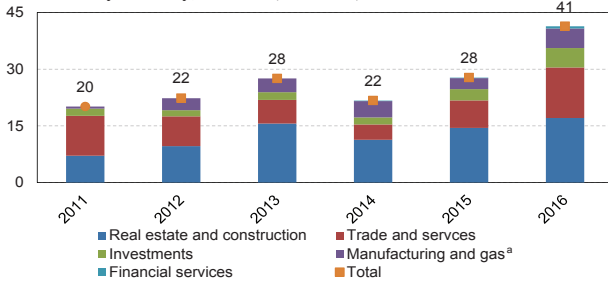
ZOOM IN



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

Companies in the real estate and construction industry continue to stand out with high issuance volumes. Companies in the trade and services industry increased their issuance volume in 2016.

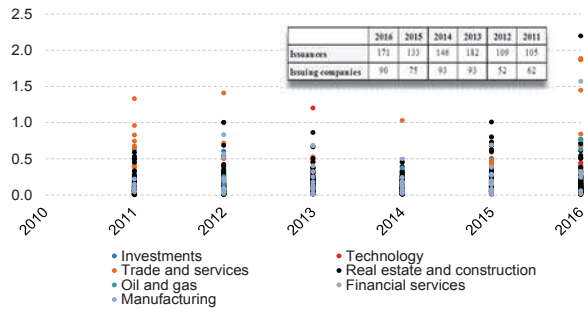
**Figure 2.14**  
Issuances by Industry, 2011–16 (NIS billion)



<sup>a</sup> Including gas, oil and technology.

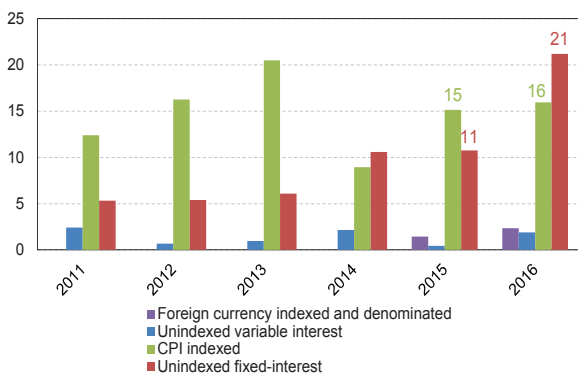
There were a number of prominent issuances of significant volume in 2016, mainly in the trade and services industry.

**Figure 2.15**  
Diversification of Issuances by Size of Issuance and Industry, 2011–16 (NIS billion)



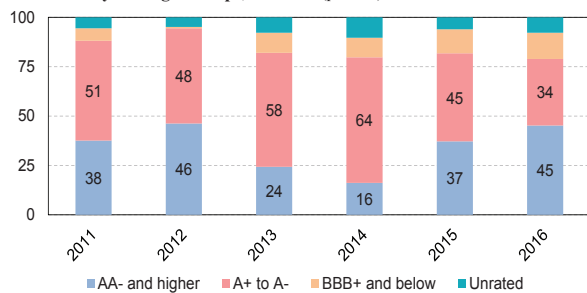
There was significant growth in issuances through the unindexed fixed-interest channel.

**Figure 2.16**  
Issuances by Indexation Type, 2011–16 (NIS billion)



In 2016, there was an increase in the proportion and volume of issues rated AA- or higher.

**Figure 2.17**  
Issuances by Ratings Group<sup>a</sup>, 2011–16 (percent)



<sup>a</sup> The data are according to domestic ratings. Companies with no domestic rating are included in the "unrated" group. Ratings data of the two ratings companies are unified into an integrated scale.

<sup>1</sup> Including tradable bond offerings by Israeli companies in Israel only, on the Tel Aviv Stock Exchange. Excluding structured, convertible, foreign and nontradable 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>2016</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 GDP 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>1</sup>

**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.

**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 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; the loan is intended 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; the loan is issued with a residential dwelling as collateral; the loan is intended to finance the early repayment of a loan as stated in the first two conditions, in whole or in part.

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<sup>1</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.