

Explanations of Table 2: Main Indicators of the Stability of the Financial System in Israel (percent)

	Description	Type of Data	Numerator/Series	Denominator
a. Resilience of the Financial System				
Banking System				
Five Largest Banking Groups on a Consolidated Basis				
Risk-weighted capital ratio	Main indicator of capital adequacy in the banks. According to the regulations of the Supervisor of the Banks, the banks in Israel must maintain a ratio of at least 9%.	End of period	Capital base for the calculation of the minimum capital ratio, according to Proper Conduct of Banking Business Regulation No 311.	The total risk-weighted elements of balance-sheet assets and off-balance-sheet items, in accordance with Proper Conduct of Banking Business Regulation No 311..
Balance-sheet credit/GDP	Indicates whether the volume of credit is in line with to the level of economic activity, as part of the evaluation of credit risk.	End of period	The balance of balance-sheet credit to residents of Israel (borrowing activity in Israel), including private bonds.	GDP during the four previous quarters.
Ratio of problem loans to total credit	An indicator for the evaluation of the quality of credit.	End of period	Total balance of problematic debts due to on-and off-balance sheet credit to public, according to Proper Conduct of Banking Business Regulation No 314, including the balance of the specific loan-loss provision.	Total balance of on-and off-balance sheet credit risk to public, including the balance of the specific loan-loss provision.
Insurance Companies				
Including all the insurance companies operating in Israel				
Capital/assets ratio	A basic indicator for capital adequacy in the insurance industry.	End of period	Total equity capital of the insurance companies.	Total assets of the insurance companies in nostro, in general insurance and in life insurance (including profit-sharing life-insurance programs, in which the risk falls on the members rather than the insurance company).
High risk assets in total assets	Indicator of the degree of risk in the asset portfolios of insurance companies.	End of period	Risk assets include: credit to the private sector (loans and bonds to the business sector and households), foreign bonds and mutual funds and shares in Israel and abroad.	Total assets of the insurance companies in nostro, in general insurance and in life insurance (including profit-sharing life-insurance programs, in which the risk falls on the members rather than the insurance company).
Provident Funds				
All types of provident funds (unless otherwise stated): provident funds, advanced study funds and the rest of the funds.				
Share of liquid accounts in total liabilities	Indicator for the evaluation of liquidity risk in provident and advanced study funds - share of funds that can be withdrawn immediately.	End of period	Total funds that can be withdrawn immediately from the provident and advanced study funds.	Total assets (=total liabilities or funds of the fund holders) of provident and advanced study funds
Ratio of liquid assets to liquid liabilities	Indicator for the evaluation of liquidity risk in provident and advanced study funds - rate of coverage of funds that can be withdrawn immediately within the total of assets that can be realized quickly.	End of period	The liquid assets of the provident and advanced study funds including: cash and demand deposits, Treasury bills and tradable assets abroad.	Total funds that have reached maturity (can be withdrawn immediately) in provident and advanced study funds.
Share of indexed government bonds in total holdings	Indicator of the significance of the provident funds in the market for indexed government bonds, as part of the evaluation of the risk of contagion from provident funds to the financial markets.	End of period	Total tradable indexed government bonds held by the provident funds	Total tradable indexed government bonds.
High risk assets in total assets	Indicator of the degree of risk in the asset portfolio of provident funds (funds of members).	End of period	Risk assets include: credit to the private sector (loans and bonds to the business sector and households), foreign bonds and mutual funds and shares in Israel and abroad.	Total assets of the provident funds (=total savings of the members).
Liquidity of the Markets				
Change in total daily turnover in the markets (during the period)	A measure of the extent of activity in the financial markets indicating the depth and efficiency of the markets.	Relative to previous year	Average daily volume of trade during the year in the following markets: Treasury Bills, bonds, shares and foreign exchange	
Bid-ask spread in NIS/Forex market	A lower spread indicates higher liquidity in the foreign exchange market.	Average during the period	The spread between the sell and buy price of the US dollar, according to broker quotations; daily mode.	

Description		Type of Data	Numerator/Series	Denominator
b. Value of Financial Assets				
Risk Measures				
Probability of exceptional depreciation	An indicator for the evaluation of the depreciation risk in the foreign exchange market.	Average during the period	Daily data on the probability of a depreciation of 3% or more in the shekel/dollar exchange rate during the coming month. Derived from the prices of shekel/dollar options traded on the Tel Aviv Securities Exchange.	
Standard deviation of changes in:				
Exchange rate (implied)	An indicator for the evaluation of the risk implied in the foreign exchange market.	Average during the period	Daily data on the standard deviation implied in the prices of shekel/dollar options traded on the Tel Aviv Securities Exchange for an average period of a month	
General share-price index	An indicator for the evaluation of the risk implied in the share market.	Average during the period	Monthly standard deviation of the daily rate of change in the General Share Index.	
Unindexed bonds	An indicator for the evaluation of the risk implied in the government bond market.	Average during the period	Monthly standard deviation of the daily rate of change in the index of non-indexed Government of Israel bonds.	
Prices and yields				
Depreciation of NIS against the dollar	An indicator for the evaluation of the developments in foreign currency market.	End of period relative to beginning of period.	Rate of change in the representative shekel/dollar exchange rate during the period.	
Change in the general share-price index	An indicator for the evaluation of the developments in stock market.	End of period relative to beginning of period.	Rate of change in the General Share Index during the period.	
Yield to redemption of Shahar 5-year bonds	An indicator for the evaluation of the developments in government bond market.	Average during the period	Daily data on the yield to maturity of non-indexed Shahar Government of Israel bonds that mature in five years; in annual terms.	
c. Characteristics of Financial Activity				
Ratio of total credit to total product in business sector	An indicator of whether the volume of credit is in line with the level of economic activity.	End of period	Total balance-sheet credit (in the form of tradable and non-tradable bonds and loans, including designated) from all sources (the banking system, institutional investors, foreign residents and households) to the business sector (see Table 3).	The product of the business sector during the previous four quarters.
Change in nonbank credit to the business sector	An indicator of the rate of change in non-bank credit to the business sector.	End of period relative to beginning of period.	Total balance-sheet credit (in the form of tradable and non-tradable bonds and loans, including designated) from non-bank sources (institutional investors, foreign residents and households) to the business sector (see Table 3).	
Share of deposits in banks and savings in bank-managed provident funds in total private-sector assets.	An indicator of banks' dominance in the private sector's portfolio of assets.	End of period	The deposits of the private sector (business sector and households) in Israeli banks and its savings in provident funds controlled by Israeli banks	Total financial assets of the private sector (the business sector and households), including: cash, bank deposits, savings and accumulated credits in insurance companies, provident funds and pension funds, holdings of Treasury Bills and tradable government bonds and deposits, bonds and shares abroad (issued by foreign residents) .

	Description	Type of Data	Numerator/Series	Denominator
d. The Local Environment				
Resilience of the business sector Only Listed Companies				
Financial leverage	The proportion of corporations' financing from outer sources. A higher rate indicates greater credit risk to lenders (financial institutions).	End of period	Total debt (liabilities apart from capital) - short- and long-run - of listed companies.	Total balance sheet (liabilities and capital) of the listed companies.
Return on equity	An indicator of corporations' profitability.	Average during the period	Total net profit during the previous four quarters.	Average equity capital at the beginning of each of the previous four quarters.
Debt burden	An indicator of the corporations' ability to repay debt.	Average during the period	Net interest expenses during the previous four quarters plus debt that matures within one year and one-tenth of the total credit for a term of over one year (on the assumption that the average period to maturity of long term credit is ten years).	Total operating profit: Profit before financial expenses during the previous four quarters.
Resilience of households				
Ratio of credit to disposable income	An indicator of households' debt burden.	End of period	Total balance-sheet credit to private individuals from all sources: banking system including designated credit, institutional investors and foreign residents.	Annual disposable income (from national accounts data).
Financial resilience of the economy (end-of-year)				
Israel's risk premium (the CDS spread)	An indicator for the evaluation of Israel's credit risk as perceived by foreign investors.	End of period	Israel's 5-year CDS spread, weekly quotes = yield spread between Government of Israel bonds traded abroad and the curve for swap trades.	
External debt/GDP ratio	An indicator of the economy's foreign debt.	End of period	The economy's net external debt calculated as the difference between the economy's gross external debt and the economy's total assets abroad (debt instruments); quarterly data, in foreign currency (US dollars).	Quarterly GDP, divided by the shekel/dollar exchange rate at the end of each quarter, during the previous four quarters.
Government debt/GDP ratio	An indicator of the government debt burden as perceived by foreign investors; used for assessing of Israel's credit rating.	End of period	The total government debt calculated as the sum of the balance of internal government debt (in shekels) and the external government debt (in dollars, multiplied by the exchange rate during the period) quarterly data.	GDP during the previous four quarters.

Sources of data:	
Data on the banking system	The Supervisor of the Banks at the Bank of Israel
Data on institutional investors.	Branch for the Capital Market, Insurance and Savings at the Ministry of Finance
Data on the business sector (listed companies)	Database of listed companies at the Bank of Israel
Data on financial markets	Mainly the Monetary Department of the Bank of Israel
Data on activity in the foreign exchange market	The Department for Foreign Exchange Activity and the Foreign Currency Department in the Bank of Israel

For further information please contact Maya Azimov in the Financial Stability Area at the Bank of Israel - email mayaazi@boi.gov.il