

Executive Summary

The Income-Expenditure Gap and Household Debt in Israel

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How do Israeli households sink into debt? Given the difficulty of assessing actual debt due to data limitations, the gap between Israeli household income and expenditure can be analyzed alongside characteristics such as socioeconomic status, age, marital status, and type of housing expenditure. The data show that the type of housing expenditure is the most significant factor in determining the gap between income and expenditure among those who are unmarried, and socioeconomic status is the most significant factor among married couples. In addition, there has been a rapid increase in the total liabilities of households in recent years, but the liability burden has not yet returned to the peak it reached in 2000. Moreover, an international comparison of liabilities shows that the situation in Israel is relatively good.

A negative gap

A negative current gap — when expenditure is greater than income — is liable to increase a household's risk of economic difficulties. In Israel, the share of households with a negative gap in the Jewish population stands at about one-third of all households in which the economic head of household is aged 25-60, 35 percent of households among married couples, and 39 percent among unmarried persons (as of 2015).

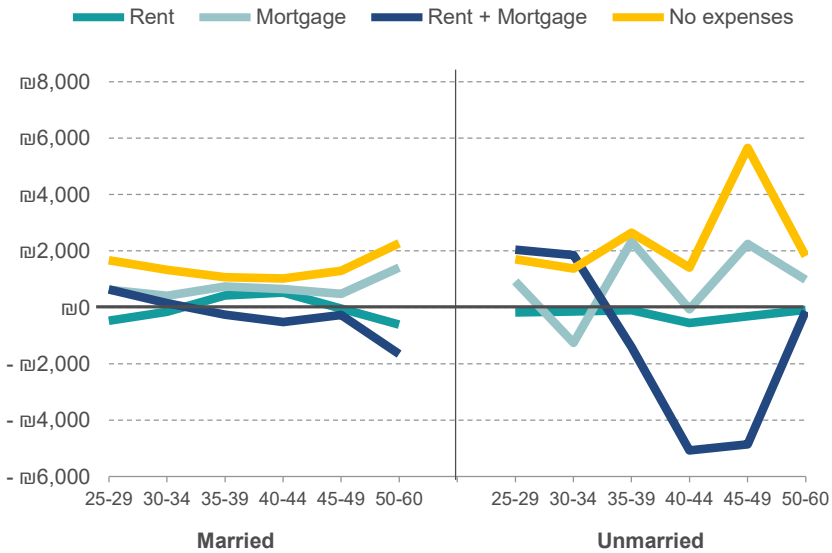
Housing expenditures

One of the most significant household expenditures is the type of housing expenditure (no expense, rent, or mortgage). When households are classified according to the type of their expenditure on housing (rent, mortgage

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payments, rent and mortgage payments, or no housing expense), households that pay rent and mortgage payments have a higher negative gap relative to the negative gap of those who pay only rent, only mortgages, or neither.

Figure 1. The current monthly gap per person, 2015
By housing expenditure category and age of head of household



Source: Kyrill Shraberman, Taub Center | Data: CBS, *Household Expenditure Survey*

Married and unmarried households

Among unmarried persons, the combined expenditure on mortgages and rent is the most influential factor in determining the size of the negative gap. This type of housing expenditure is correlated with an increase in the per capita negative gap by 156 percent, relative to households without housing expenditures (when other characteristics are held constant).

In contrast, among households of married couples, socioeconomic class (according to disposable income quintiles) is the most influential factor in determining the size of the negative gap. Having a lower socioeconomic standing (belonging to the bottom income quintile) is correlated with an increase of the negative gap by 23 percent, relative to households with a high socioeconomic status (belonging to the top quintile).

In terms of the effect that consumption categories have on the size of the negative gap, expenditures on “personal expenses” – which include clothing and footwear, laundry services, haircuts, and cosmetics – are correlated with an increase of the negative current gap at the highest rate, both among those who are married (7.2 percent) and those who are unmarried (4.6 percent).

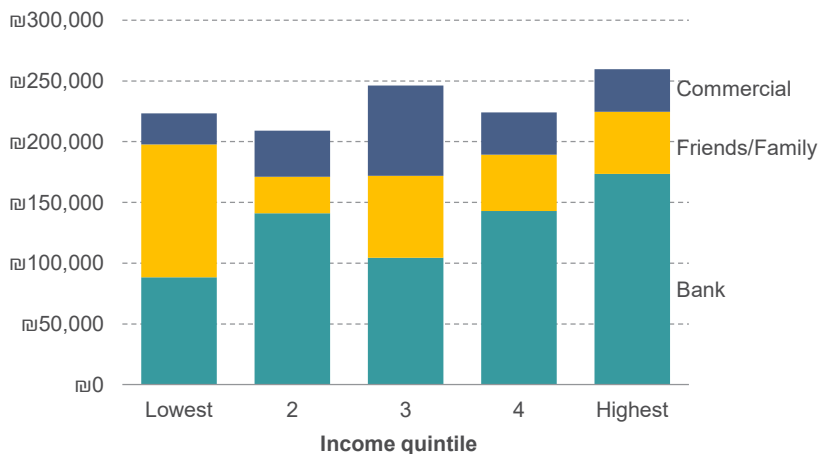
Household indebtedness

To whom are liable households in Israel indebted? The study analyzes data on the debt of households who turned to the nonprofit organization Paamonim in order to receive assistance in managing their household finances. These households were classified by the entity to which they owe money: (1) banks (2) commercial and governmental bodies, and (3) family and friends. Almost all households in the Paamonim database (93 percent) owe money to banks, 46 to 51 percent owe money to friends and family, and between 21 percent and 37 percent owe money to commercial entities.

An analysis by the age of the head of household finds that total average debt (to all three types of entities, without mortgages) increases with age. The average debt in the 25-29 age group was NIS 150,000, compared to NIS 315,000 in the 50-60 age group.

Comparing total debt by socioeconomic status (income quintiles) shows that there is no significant gap between the quintiles in the amount of debt owed, but there are differences in the distribution of the entities to which households are indebted. While the top income quintile owed the highest amount to banks (approximately NIS 174,000), the bottom quintile owed the highest amount to family and friends (approximately NIS 110,000). These findings suggest that, due to the low income of households in the lowest quintile, banks do not grant them high credit ratings, but they manage to raise funds from friends and family.

Figure 2. Average debt for those with debt
By socioeconomic status (per capita income quintile)



Source: Kyrill, Shraberman, Taub Center | Data: Paamonim

An international comparison

An analysis of households' net leverage (the ratio of total liabilities taken by households minus households' financial assets to GDP) in Israel, shows that between 2000 and 2007 there was a decrease in households' leverage and, since 2007, households' leverage has increased, but has not yet returned to its level as of 2000. An international comparison shows that the leverage of households in Israel is very low compared to other developed countries: in 2017, the share of liability stood at 41 percent of GDP in Israel, compared with an average of 66 percent of GDP in other OECD countries.