

# **Is there a "deep market" for corporate bonds in Israel?**

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## Summary

This article examines the question of whether a "deep market" for negotiable corporate bonds exists in Israel, as defined in the international accounting standard (IAS-19) dealing with discounting long term post-retirement obligations. The analysis is carried out in the context of two aspects of the term "deep market": the macro-economic aspect which examines the financial system's ability to provide liquidity (lines of credit) for the non-financial sector, and the micro-economic aspect which examines the size of liquidity premium in the Israeli corporate bond market.

The macro-economic examination was carried out on the basis of World Bank data, which indicates that Israel clearly belongs to the group of countries in which a "deep market" was determined. The micro-economic analysis was carried out on the basis of daily trading data (averaged monthly) for corporate bonds, from the beginning of 2004 to the beginning of 2014, categorized by CPI linkage and rating. The result of the examination indicates that the liquidity premium for CPI linked corporate bonds rated AA- and above is similar to the premium measured for investment grade corporate bonds in the US. This segment is therefore considered to satisfy the conditions for being characterized as a "deep market".

This paper is derived from preliminary work and a report submitted to the Accounting Standards Board, concerning the existence of a deep market. It is also based on work done by the Economic Research Department of the Israel Securities Authority, which expanded and validated the findings.