Securitization - From a Problem to a Remedy:

Toward a Public Securitization Market in Israel

Dov Solomon and Ido Baum

The COVID-19 pandemic created a global financial crisis with lasting implications. A major characteristic of this crisis is the credit crunch that affected many businesses, stemming from the closures and limitations on movement as well as changes in consumer trends and tastes. Small and medium-sized enterprises (SMEs), the backbone of the global economy, suffered the strongest blow. SMEs, which typically have weaker access to diversified sources of credit than larger businesses, were hit more severely during the pandemic, and consequently, the inequality in the market for commercial credit has increased.

Securitization is a sophisticated financial tool that allows to expand and diversify the sources of credit for businesses. The regulatory and public debate concerning the establishment of a securitization market in Israel has been going on for more than two decades and suffered a temporary chilling effect caused by turmoils in global financial markets. The main reason for the stagnation of the initiative to establish a securitization market in Israel was the need to draw lessons from accumulated global experience. Securitization became negatively associated and even synonymous with the 2008 financial crisis, known as “the Subprime Crisis”. Although lessons from the crisis have been learned and implemented by regulators around the world, the establishment of an Israeli securitization market is lagging and current proposals are overcautious.

This article adds to the discussion by assessing the coverage of securitization in the Israeli financial press. The article analyzes the sentiment of the financial press from 2008 to 2020 and finds a sea change in the public sentiment, from a negative to a positive approach to securitization. To the extent that policymakers refrained from promoting securitization because they were deterred by a potential public backlash, the findings allay this concern. Given this empirical finding and the benefits of securitization, this article examines the main current proposal to regulate a securitization market in Israel. The analysis of this proposal suggests that it should be broadened, to enrich and diversify the sources of credit available to SMEs facing the financial implications of the COVID-19 pandemic.