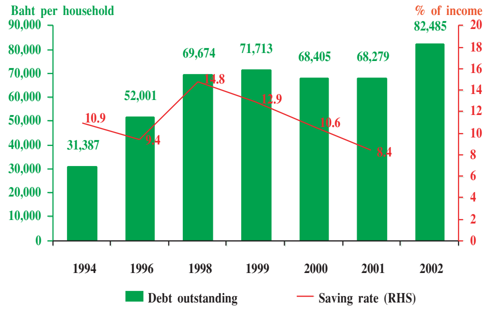
Household Debt

The Socio-Economic Survey (SES) conducted by the National Statistical Office (NSO) showed a relatively stable household debt, with the average debt outstanding of 69,500 baht per household during 1998 - 2001. Since the 1997 financial crisis had disrupted employment condition and engendered unpredictable income stream, households were constrained in debt accumulation and compelled to fund their consumption more from dissavings as reflected by the decline in household saving rate (Chart 1).

Nonetheless, household debt averaged 82,485 baht per household increasing by 20 per cent in 2002 from the previous year, Household debt to annual household disposable income ratio stood at 51.1 per cent, up from 48.6 per cent in 2001.

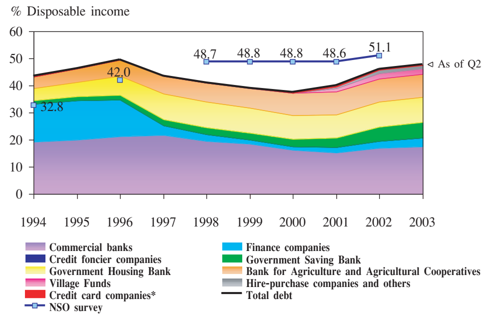
Chart 1 Household debt and Saving Rate



Source: NSO and NESDB

Household debt from the SES is consistent with formal sector debt compiled by the Bank of Thailand (BOT) from secondary sources, i.e., (1) personal consumption loan outstanding of financial institutions[1/] (2) loan outstanding of credit cards and hire-purchases of private non-financial institutions, and (3) loan outstanding of Village Funds. The data indicated that household debt in the formal sector significantly increased in 2002 and continued to rise in 2003. Debt to disposable income ratio increased from 39.9 per cent in 2001 to 46.1 per cent in 2002 and to 47.8 per cent at the end of 2003 Q2. The ratio suggested an uptrend toward year-end if the pattern of debt accumulation is similar to that of the first half (Chart 2).

Chart 2 Household debt to disposable income ratio



Source: NSO and BOT *Non-bank companies

Household debt data from SES and the BOT indicate the increasing proportion of formal sector debt relative to informal sector debt as households have more access to loans in formal sector. In 2002 the informal sector debt averaged approximately 5.0 per cent of disposable income. Moreover, formal sector debt accumulation in non-mortgage had accelerated recently.

Factors supporting the increase in household debt

1. Economic Recovery. The economic recovery since end-2000 has reduced unemployment rate, expanded national income and lifted consumer confidence accordingly. These factors played a significant role to increase household consumption and household debt. Moreover, the easing monetary policy stance encouraged consumer purchase of durable goods. In particular, when confidence in employment and income rose, households shifted their consumption toward durable goods after having delayed for 3-4 years in which consumer confidence was fragile. Moreover, the downward trend in interest rates in the last 4 years hitting a historic low

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[1/] Including loans to private non-profit organizations.

has significantly reduced the interest burden of households. Therefore, households are able to accumulate more debts without shouldering higher monthly debt repayment.

2. Role Changing of Financial Institutions. After the 1997 financial crisis, the corporate sectors experienced poor operating results. Financial institutions, thus, shunned lending to corporate sectors and concentrated more on personal lending. Concurrently, private non-financial institutions such as G.E. Capital Plc. and AEON Thana Sinsap (Thailand) Plc. have an increasing role in personal lending. Moreover, the advent of technology and intense competition among financial institutions and credit card companies induced a more widely use of credit cards.

3. Government Policies. The Government has also encouraged household consumption via tax policies, Village Funds, and credits channelled through state-owned financial institutions with the emphasis on low-income earners. Even though new loans created was relatively small compared to total loan in the system, it provided opportunity for grass-root level households to access to funds and thus substitution for informal sector borrowing. These loans from the Government were not entirely engulfed on consumption, part of which was distributed to production or economic activities among village members.

Household debt servicing

Supporting factors mentioned above have significantly pushed up the household debt level during 2002-2003. From SES data, household debt classified by occupations showed that high income earners, such as professionals, tend to accumulate more debt than low income earners (Chart 3.1), partly because they can access to funds more easily and are more reliable in debt servicing as a result of the economic recovery.

Chart 3.1 Household debt classified by occupations

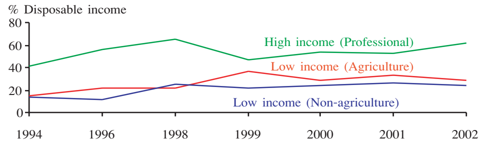
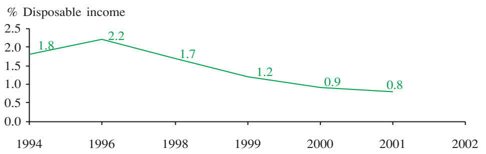


Chart 3.2 Interest burden



Source: NSO and NESDB

Even though household debt had increased, it should be noted that debt servicing was still favourable. Interest burden to disposable income ratio did not increase in line with the debt outstanding but instead tended to decline (Chart 3.2), as a result of significant interest rates decline. Moreover, the debt burden of the Thai households, albeit increasing in the last 1 -2 years, was relatively low compared to regional countries (Table 1).

Table 1: Household debt of some regional countries in 2002

(Per cent)	Thailand	Malaysia	Korea
Household Debt Outstanding to GDP	27.2	66.3	73.6
Household Debt to Disposable Income	51.0	73.5	83.1

Source: Bank of Thailand, calculated from data from NSO, NESDB, Bank of Korea, and CEIC.

The MPC assessed that the current increasing trend in household debt was partly attributable to accommodative interest rates and economic conditions, which ensure lenders and borrowers of sound debt servicing. The high household debt level, however, might pose a risk to the economy unless households assess their debt servicing capability prudently. Therefore, even though household debt is not a major concern at present, the debt expansion should be closely monitored.