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BOT announces new measures to sustainably address
household debt problems

Mr. Ronadol Numnonda (Deputy Governor for Financial Institutions Stability) announces new measures aimed at sustainably addressing Thailand's household debt problems. In February 2023, the Bank of Thailand (BOT) published the Directional Paper on "Sustainable Solutions to Thailand's Structural Debt Overhang Problems", which provided an in-depth look into Thailand household debt data and communicated the BOT's thinking on how debt problems must be tackled in a manner that is comprehensive, fair and appropriate to both creditors and debtors, a process of which require time and stakeholders' involvement. Most of the measures that the BOT implemented since 2020 were targeted at debtors affected by the COVID-19, but as the pandemic subsided the BOT's focus have shifted towards longer-term debt solving programs to better suit the needs and debt affordability of the debtors.

The economic recovery in recent periods has improved overall debtors' income; however, the improvement remains slow for certain groups. Against this backdrop, **the BOT has decided to implement new household debt measures that are more targeted and offer a more sustainable solution to debt overhang problems. These measures would offer new solutions for debtors throughout their debt journey (e.g. before applying for a loan/whilst signing a loan contract, being a debtor, having debt problems, and being filed a lawsuit or having debts sold off)** namely by (1) providing debt solutions for NPLs; (2) offering options for debtors with persistent debts to fully repay their loans; (3) ensuring new debts are of good credit quality and will not undergo debt distress in the future; and (4) increasing opportunities for borrowers with informal debt to obtain credit from formal channels. **The first set of measures being expedited is responsible lending, which also includes solutions for debtors with persistent debts** as follow:

(1) Creditors must lend in a responsible and fair manner for debtors throughout their debt journey:





- Before applying for a loan/whilst signing a loan contract: creditors must provide advertisement and offer products with information that is complete, correct, and clear, and do not encourage excessive borrowing or discourage a healthy credit culture.
- Being a debtor: creditors must promote disclosure of terms and conditions, as well as any precautions that debtors should be aware of. This would nudge debtors to repay their loans and serve as a tool to foster good financial discipline such as automating debt repayments above the minimum to lessen interest burden.
- Having debt problems: creditors must provide solutions to assist debtors in a manner that best suit their debt affordability.
- Being filed a lawsuit or having debts sold off: creditors must notify debtors of their rights and any important information, and conduct debt mediation with the debtors. The debt buyers must also set the appropriate terms and conditions.

(2) **Creditors must assist debtors with persistent debts (interest payment higher than principal payment over the past 5 years)** whereby they must assist debtors with revolving personal loans that has low income and persistent debt to be able to fully repay their loans within 5 years at an interest rate not exceeding 15% per year, whilst still having sufficient disposable income to meet their living needs. In addition, the revolving credit line of debtors who opt into debt restructuring program must be closed, to ensure that they will not accumulate more debt. Their credit history should also be updated to reflect their participation in the debt restructuring program.

The measures aimed at promoting responsible lending will become effective on January 1, 2024. Meanwhile, measures aimed at addressing persistent debt will become effective on April 1, 2024 to ensure that creditors have sufficient time to adjust their operations and gradually apply them based on debtors' income levels, which tends to vary across different creditor groups.

Moreover, the BOT is currently exploring additional ways to address household debt problems by allowing creditors to **adopt risk-based pricing (RBP) for retail borrowers through the regulatory sandbox and applying debt service ratio (DSR) limits for loan origination**. RBP is a mechanism that would provide more opportunity for borrowers with risks above the current ceiling to be able to obtain credit through formal channels. Meanwhile, low-risk borrowers or borrowers with good credit history will have more





opportunity to borrow at interest rates lower than the current ceiling, which would foster good credit culture. Nevertheless, the BOT would not cancel or adjust the current interest rate ceiling that generally applies to all.

In the second quarter of 2024, the BOT will permit qualifying creditors¹ to test lending out unsecured personal loan and/or Nano Finance for a period of 1-2 years. **Those creditors must propose their risk assessment methodology and interest rate dispersion across different debtor group for the BOT's consideration as part of their application into the test. Once the test is complete, the creditors who satisfy criteria set by the BOT would then be allowed to lend at interest rates within the new interest rate ceiling.** Unsuccessful participants must revert to adopting the old interest rate ceiling. The BOT will carry out these procedures very thoroughly to ensure that such mechanisms would be truly beneficial to the debtors.

DSR limits are a part of the BOT's macroprudential policy tool aimed at controlling new borrowings and preventing over-indebtedness so that debtors still have sufficient disposable income to meet their living needs. During the initial phase, the DSR limits will apply to uncollateralized consumer loans (e.g., credit card and personal loans under supervision) which are where most household debt problems lie. However, creditors could consider lending over the DSR limits if they could demonstrate that the debtor has the capacity to repay their debts so as to reduce the risk that some debtors must instead turn to informal lending channels. Preliminarily, the BOT plans for this measure to take effect in 2025 although this would ultimately depend on the situation and economic contexts at the time. Regardless, the decision to implement said measure will be communicated ahead of time so that people and financial providers have enough time to adjust accordingly.

Besides those measures, **effectively and sustainably addressing household debt problems will require cooperation from all relevant stakeholders in order to reach debt not under the BOT's supervision.** This includes (1) enhancing financial literacy and financial discipline; (2) responsible lending by all creditors; (3) having available mechanisms to offer

¹ Qualification criteria: (1) the applicant pass the responsible lending assessment; (2) the applicant must be a member of the National Credit Bureau; (3) the applicant has a risk assessment methodology that can disaggregate different types of risk of a borrower; and (4) the applicant has a business plan, target borrowers, and dispersion of interest rates across different borrower groups.





debt advice and to mediate debt; and (4) laying the necessary foundations namely by developing credit database and alternative data source for risk assessment and debt monitoring purposes, as well as creating new income whilst addressing debt problems.

Mr. Ronadol Numnonda (Deputy Governor for Financial Institutions Stability, BOT) stressed “The new household debt measures to be implemented by the BOT mark an important turning point for the better behavior of both creditors and debtors. The aim is to address existing debt problems, control new borrowings, and reduce household debt in Thailand to a more sustainable level. The process will take time to bear fruit and will require cooperation from all parties as well as thorough consideration of all the possible impacts.”

Bank of Thailand

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