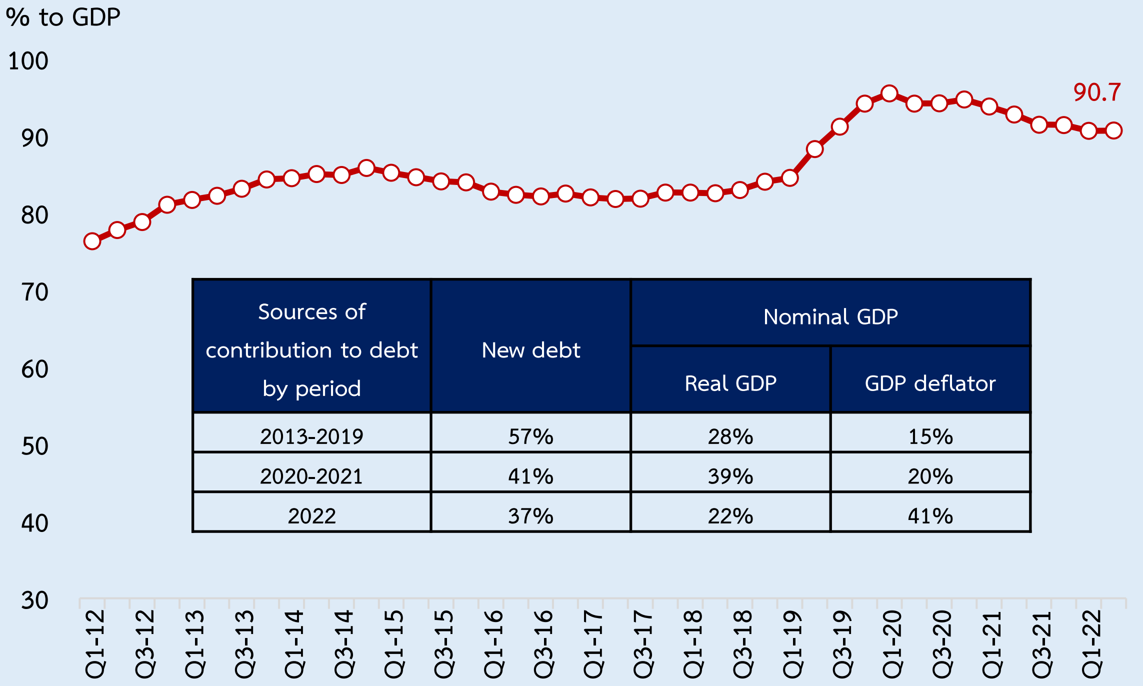
Box 4: Thailand's household debt situation and financial vulnerabilities

Household debt is a longstanding problem in Thailand and pose a key vulnerability to the Thai economy. Latest indicators have shown that whilst household debt in Thailand has declined somewhat in tandem with the ongoing economic recovery, households continue to incur unproductive loans, which do not generate future income or wealth, at a high level to fund current consumption. In addition, credit quality of some borrowers, especially those affected by the COVID-19 pandemic, has not improved significantly. The aforementioned problems negatively impact Thailand's financial stability and pose as an important policy challenge for safeguarding financial stability.

The increase in household debt has led to the accumulation of financial vulnerabilities in Thailand for quite some time. Over the past 10 years, household debt in Thailand has constantly been on the rise due to several key factors **(Chart 1)** namely (1) the first-car scheme which led to a sharp increase in auto loans during 2011-2012; (2) the historic flood in 2011 that resulted in higher loan demand for post-flood reparations; and (3) increased competition between banks in lending retail loans coupled with prolonged low interest rates for over 10 years. Furthermore, Thailand's outstanding household debt was exacerbated by the COVID-19 pandemic in 2020 which led to the decline in economic activities and a sharp increase in debt-to-GDP ratio, peaking at 95.5% as of end-Q1/2021 before gradually declining to 90.7% as of end-Q2/2023. The recent decline in debt-to-GDP was due to the recovery in economic activities as well as rising consumer prices (increase in GDP deflator).

Chart 1: household debt to GDP[1/] and sources of contribution[2/]



Sources of contribution to debt by period	New debt	Nominal GDP	
		Real GDP	GDP deflator
2013-2019	57%	28%	15%
2020-2021	41%	39%	20%
2022	37%	22%	41%

Note: [1/]The coverage of household debt to GDP ratio has expanded to include the student loan fund and other household debts. The new dataset coverage starts from 2012.
[2/]Economic growth (increase in real GDP) or higher inflation (increase in GDP deflator) will result in the decline of household debt to GDP (negative contribution).

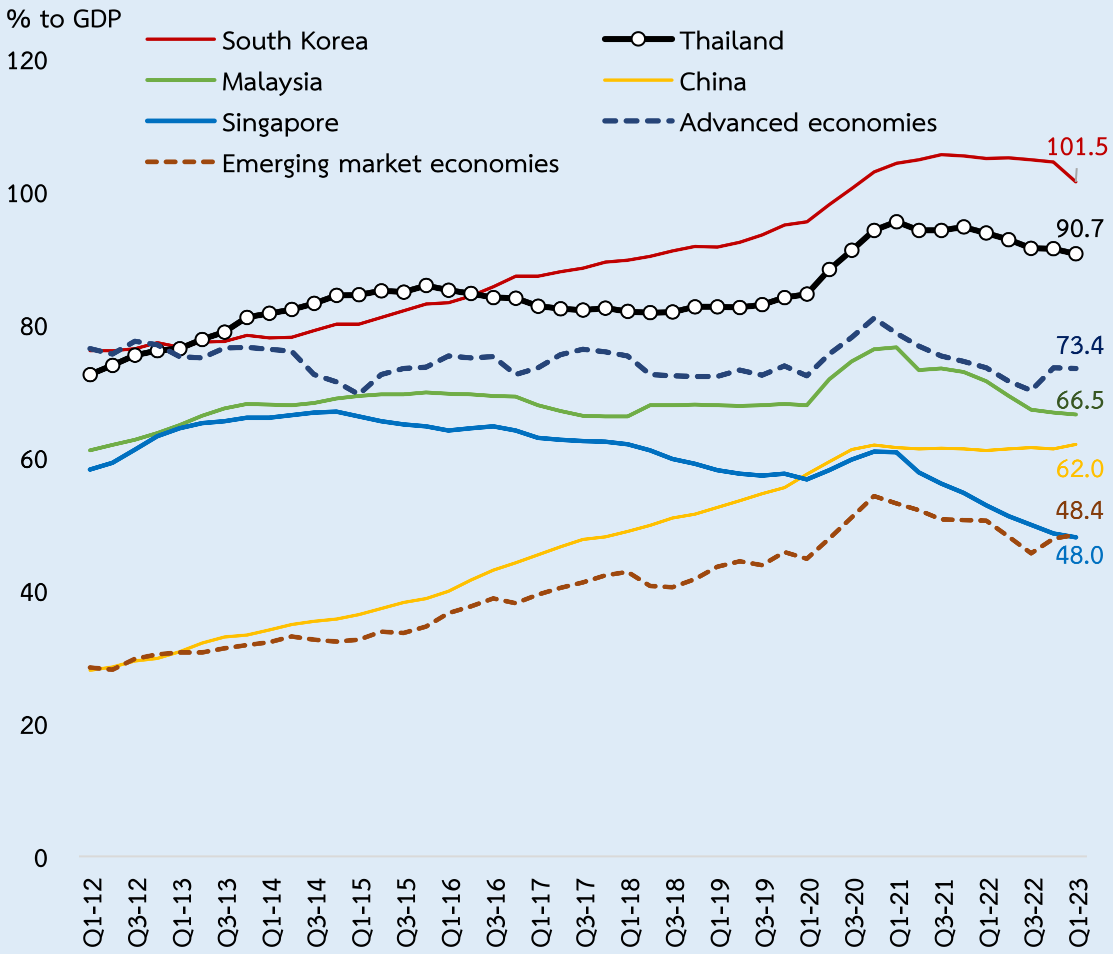
Source: BOT and NESDB

Box 4: Thailand's household debt situation and financial vulnerabilities

Despite having declined somewhat, the current household debt situation in Thailand still remains a concern. Thailand's household debt to GDP ratio is still relatively higher than in many other countries within the region, with the exception of South Korea which faced a spike in demand for mortgage loans and investment loans as a result of low borrowing costs **(Chart 2)**.

Thailand's high household debt is a vulnerability to both macroeconomic and financial stability, in addition to the financial inequality across households of different income levels. The Socio-Economic Survey (SES) back in 2021 reveals that low-income households (bottom 20%) have debt service ratio (DSR) that were almost twice as high compared to other income groups. The vulnerable groups affected by the COVID-19 pandemic consist mostly of low income earners, in which their debt serviceability have not yet improved despite recent economic recovery. This is reflected in the high number of bank accounts, debtors, and outstanding amount of non-performing loans that exceed 90 days overdue since the COVID-19 pandemic **(Chart 3).** Among this group, 60% of borrowers owe their debt to specialized financial institutions (SFIs), 30% to non-banks, and 10% to commercial banks.

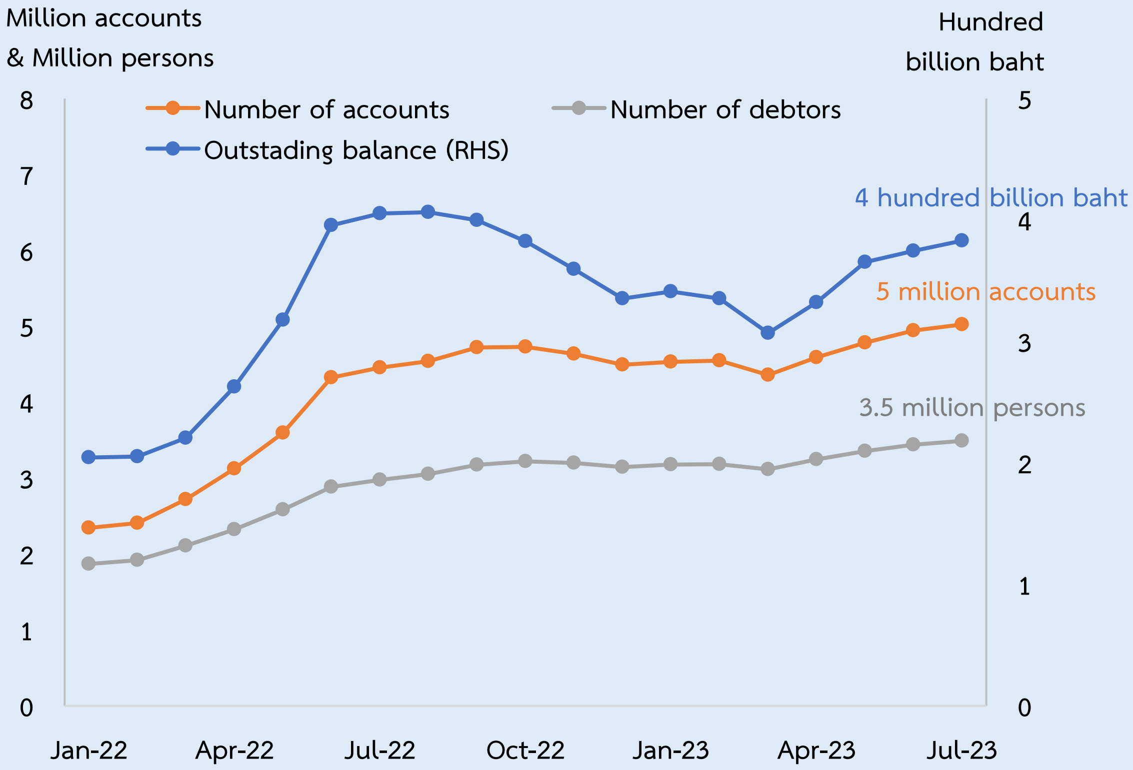
Chart 2: Household debt to GDP by countries



Source: BIS for other countries, BOT data for Thailand

Box 4: Thailand's household debt situation and financial vulnerabilities

Chart 3: Non-performing loans since the COVID-19 pandemic[1/]



Note: [1/]Data on overdue debt exceeding 90 days as a result of unnatural shocks (account status "21") began reporting back in January 2022, under the condition that the accounts of the debtors with their respective financial institutions 12 month prior to December 2019 are not overdue or do not exceed 30 days overdue.

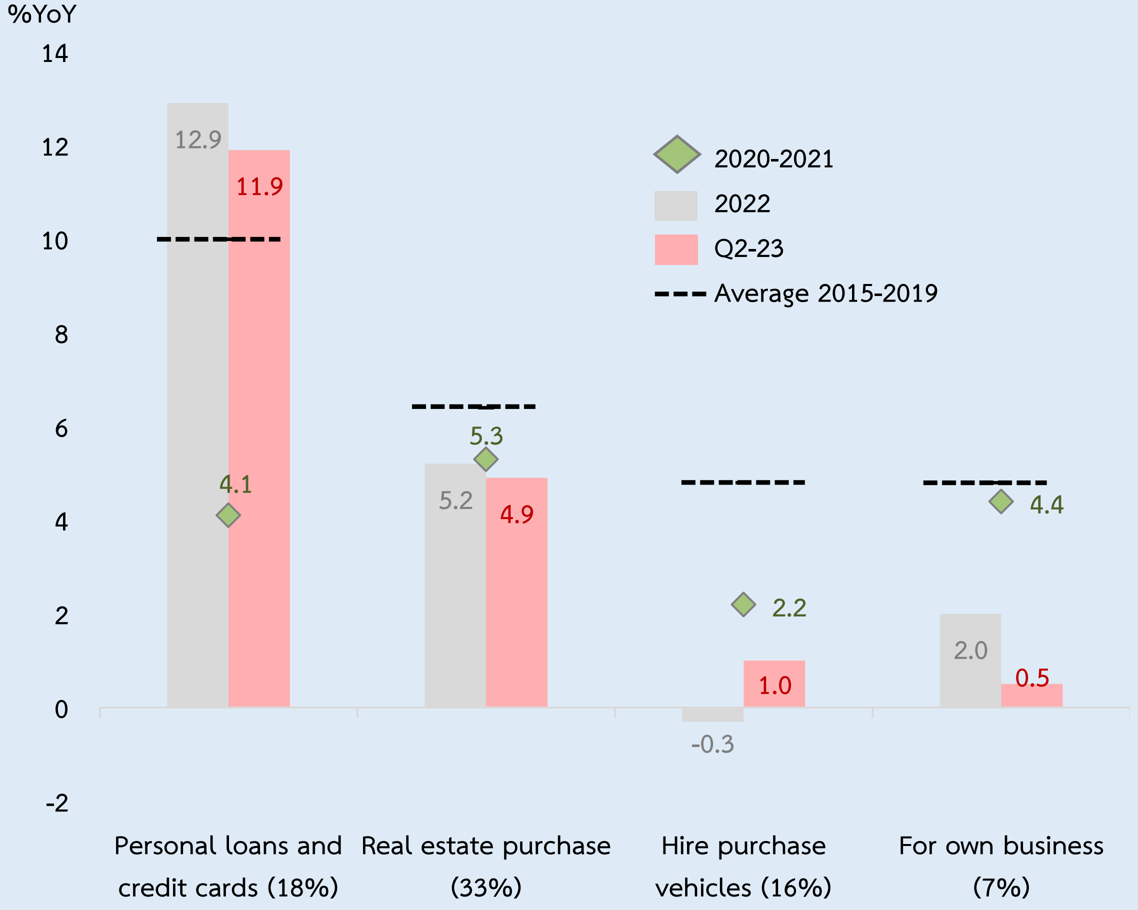
Source: National Credit Bureau (NCB)

Furthermore, persistently high household debt could impede long-term economic growth. A study by BIS (2017)[1] found that debt formulation by households would spur consumption and economic growth only for a short period, and that household debt to GDP ratio exceeding 80% would impede economic growth over the long term. For Thailand, the problem of household debt could become an even greater concern, as discovered when disaggregating household debt by loan purposes that personal loans under BOT supervision and credit card loans overall have been consistently increasing over the past 3-4 years, especially those extended by non-banks. Furthermore, those loans extended are primarily unproductive loans that do not generate future income or wealth and are short-term loans with high interest rates which ultimately subject the borrowers to high debt burden. As of current, those unproductive personal and credit card loans grew at 11.9% year-on-year. Taking into consideration different income groups, low-income groups at the bottom 20% of all earners have the highest share of credit card loans and personal loans at around 42% of total household debt by income groups. Thus, the current household debt situation further exacerbates the already high debt burden faced by the low-income groups which have the highest debt service ratio **(Chart 4 and 5).**

[1/] Further reading: The real effects of household debt in the short and long run (BIS Working Papers No. 607)

Box 4: Thailand's household debt situation and financial vulnerabilities

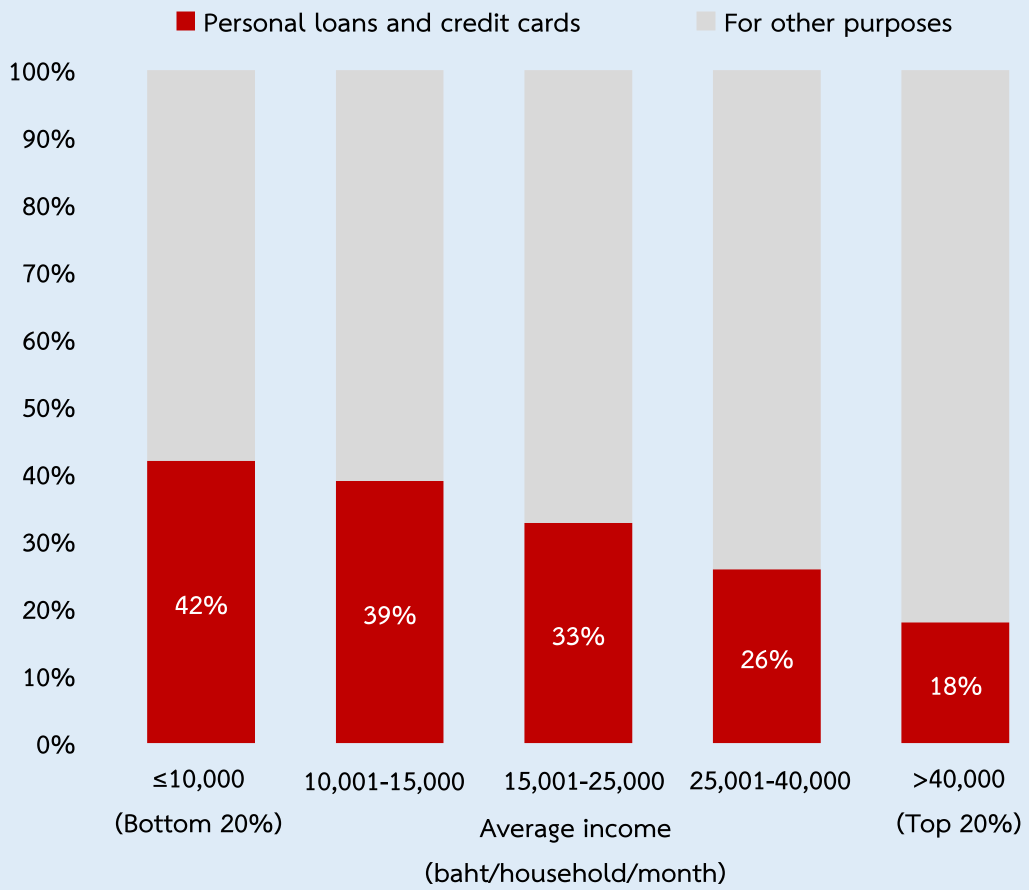
Chart 4: Household debt growth by purposes



Note: ( ) Proportions of respective household debt by purpose to outstanding household debt between 2020-2023Q2

Source: BOT household debt data

Chart 5: Proportions of personal loans and credit card loans by income groups (as of 2021)



Source: Socio-Economic Survey (SES) in 2021, calculated by BOT

Box 4: Thailand's household debt situation and financial vulnerabilities

If concerns regarding household debt are left unresolved, the conduct of policies to foster macroeconomic and financial stability will become more challenging. A study by the BOT (2023)[2/] found that rising household debt is one of the reasons for sharp upturns in the financial cycle which affects the intertemporal trade-off between short-term and longer-term monetary policy objectives. In particular, low for long policy interest rate would accelerate credit growth which would further accumulate financial fragilities. Furthermore, rising household debt would also impede future economic growth as well as increase the likelihood and severity of future economic crises. A study by the BOT (2018)[3/] found that the build-up of financial vulnerabilities from credit growth or higher asset prices during an upturn in the financial cycle, which corresponds to a 1% increase in the financial cycle index, would shift the growth-at-risk for 1-year ahead (risk scenario where GDP growth is at the 5th percentile of the distribution) downward further by 0.28%. Therefore, it is important to resolve Thailand's household debt problems so that it does not become an impediment to achieving monetary policy objectives of maintaining price stability, supporting sustainable economic growth, and preserving financial stability.

[2/] Further reading: When the world moves fast: adapting monetary policy to new challenges (PIER's aBRIDGEd article, 17 Jan 2023) (in Thai)

[3/] Further reading: How is Thailand's financial cycle is linked to the business cycle (PIER's aBRIDGEd article, 25 June 2018) (in Thai)

The BOT acknowledges the importance of sustainably addressing Thailand's household debt problems and recognizes that it should be addressed by utilizing targeted measures to achieve intended results. In the recent period, the BOT has launched measures to help alleviate household debt problems for vulnerable groups facing debt repayment difficulties such as encouraging banks to offer debt restructuring solutions that are best suited for the debtor's abilities to repay debt, lowering the interest rate ceiling for some loan types, and temporarily reducing the minimum repayment rate. The aim of these measures is to reduce debt burden and help those whose debt serviceability has not fully recovered from the COVID-19 pandemic. Measures implemented during the initial phase were blanket measures rolled out in response to a severe situation, while measures implemented in the later phases were more targeted. At the same time, government agencies also implemented various measures to assist retail borrowers such as the Bank for Agriculture and Agricultural Cooperatives (BAAC)'s debt moratorium for retail borrowers and increased loans used for occupational purposes, and the Government Savings Bank's debt moratorium on principal payments and offered interest repayment options to better align with the debtor's current situation.

ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Box 4: Thailand's household debt situation and financial vulnerabilities

After the Thai economy recovered from the COVID-19 pandemic, the BOT announced a series of measures to systematically address household debt and resolve structural problems pertaining to household debt in a sustainable manner[4/]. The initial implementation would involve upgrading bank lending standards by (1) apply responsible lending measures throughout a borrower's debt journey: from applying for a loan/whilst signing a loan contract, to being a debtor, having debt repayment problems, and to being filed a lawsuit or having their debts sold off. Moreover, the debtors would be provided relevant information in order to nudge their behaviors; and (2) assist the persistent debtors (starting with the revolving personal loans group) to repay their debts whilst having enough left for disposable income. The BOT is also considering additional measures namely risk-based pricing (RBP) and debt service ratio (DSR) limits. Beside aforementioned measures, effectively and sustainably addressing household debt problems will require cooperation from all relevant stakeholders including government agencies, financial institutions, and most importantly the households themselves. There are 3 key priorities: (1) promote more cautious debt formation; (2) support initiatives to address problematic debt; and (3) foster good financial discipline, all of which would help households maintain sustainable balance sheets and promote sound economic growth.

[4/] Further reading: BOT announces new measures to sustainably address household debt problems (BOT Press Release No. 31/2023, 21 July 2023)