Thailand's Household Debt

Thailand's high household debt per nominal GDP continues raising an awareness in overall economy from both domestic and regional countries since the past decade. Household debt ratio started to jump up from 45.6% of GDP in 2007 to 70.6% of GDP in 2011 after the government provided large amount of loans to help renovating homes after the biggest flood in 2011**[Figure1]**. According to the populist policies such as tax rebates for first-time buyers of cars and houses, household debt increased further with a rapid rate during 2012 and 2013 to 77.5% and 82.3% of GDP respectively **[Figure 1]**. Furthermore, the government aimed to push consumption volume after Thailand experienced with weakening growth and super low inflation in which caused from world economic recession and lower global oil price. Under government's stimulation programs, the policy injected money into the economy by providing low interest rate loans via the village funds, giving liquidity for small businesses and supporting farmers. As consumption was stimulated via leverage, low cost of borrowing drives an economic expansion by allowing people to access money easier. Furthermore, commercial banks are willing to provide more loans. Thus, consumer borrowing had continued rising in which caused household debts remain over 80% of GDP since 2013 **[Figure 1]**. During 2005 to 2014, Thailand's household debt has more than tripled due to lower cost of borrowing. However, an increasing frequency of obtaining loan, while borrowers lack of financial knowledge, good attitude towards personal financial management, and unbalance of an assessment to financial source and protection mechanism, led consumers to use a lot of debt for personal expenses without a forecast to face up with a sharp economic downturn. Once the economy slowed, personal loans and credit cards are two first choices that help the cash flow situation as they are cheap sources of funding. Statistics in the previous year (2016) demonstrates that Thailand is in the top global rank as having high level of household debt ratio at 71.2% **[Figure2]**. However, Thailand is in the second rank in the ASEAN after the first rank country like Malaysia that holding 89% household debt to its national income.

Remaining high household debt per GDP implied risk of having economic instability in overall financial system. Even if borrowers have ability to pay back debts of auto and housing loans, but these amounts of debts contained relatively low amount in which obtain little percentage of the total debt. Thus, it is not enough to lower overall household debt that is why Thailand's household debt to GDP remains high along the period. Another reason why household debts constrain economic activities can be demonstrate by a limitation on BOT action to cut further interest rates even if Thailand currently face up with poor economic growth. The amount of debts rises over the threshold level since people continue using debt for their daily consumption while the income level tends to decline **[Figure3]**. Thus, indebtedness is a sign of risk in households' abilities to pay back debt which are demonstrated by an increase in non-performing loans. In addition, household debt also poses a risk to private consumption growth and banks' asset quality that highlights a potential growth problem because the commercial banks gradually tighten their credit policy. If all economic parties ignore to pay attention to it, household debt might cause economy worse in long-run and incur the crisis. As the households face up with a constraint in income and old debt burden, but if they cannot change their consumption pattern or slow down to incur more debt. The loan shark problems arise and make economy worse more and more. Thus, the household debt should be in an appropriate level that supports economic activities by encouraging both consumption and economic expansion.

A sharply increase in consumers' indebtedness in Thailand can be explained by the marginal propensity to consume (MPC), measurement of the proportion of consumption on an extra income. As Thailand is low income level countries, an increase in minimum wage encourages households to spend more on what they don't have **[Figure4]**. Also, a permanent increase in wage provide households a greater confident on spending **[Figure5.1-5.2]**. Along with government policy of low interest rate and tax cut that allows people access more source of funds, consumer confidence is higher which reflects in high MPC. Marginal propensity to consume can be greater than one according to the fact that people have a chance to finance extra spending by borrowing. Moreover, MPC determines the size of multiplier effect of an increasing in real GDP from money injection. The higher MPC is, the larger multiplier effect in which spending and aggregate demand increase – economy improves. However, as households consume more, the saving drops **[Figure6]**. It is another supportive evidence why Thai people are indebtedness once the economy slowed down. Thus, higher income caused high MPC and associated with higher household debt **for the case of Thailand** after facing economic downturn. However, it is not necessary that a rapid increase in consumer indebtedness was caused by a high marginal propensity to consume. For example, Singapore also has high level of household indebtedness to GDP at 61.1% **[Figure2]**. However, Singapore is a developed country that has high income level, thus an additional income would cause a less impact to an increase in consumption than developing country. Comparing to a large increase in consumption in Thailand's household that people normally spend more when they have higher budget which cause high MPC. Thus, the case of Singapore leads to a conclusion that the high level of indebtedness has no correlation with high MPC according to relatively low change in consumption pattern.

At the end of 2015, 49.1% of total households (21 Millions) holds average debt of 156,770 baht per each **[Figure7]**. 75% of debt is used for living purposes such as daily consumption, rent, or education, while the left proportion is used for business purpose such as investment **[Source: NSO]**. From **NSO**, even if household revenues exceed the expenses, but the debt to revenue ratio is still high; for example, consumers have debt 5.8 times higher than their revenues in 2015. In this year, average revenue is 26,915 baht while average expense per household is 21,157 baht. A significant implication is that Thailand people faced up with a difficulty to pay back debt which is one of main reason why household debt level is still in high level. Over the past two years, even if household credit growth is moving on the downward trend as demonstrated by lower percentage of household holding debt from 53.8% in 2013 to 49.1% in 2015 **[Figure7]**, however; the government's macroeconomic stability perspective such as the nano-financing scheme, that provide loan to ability-to-pay-back-loan household and prevent them from loan shark, the village funds along with a rising in commodity prices and an increasing global oil prices demonstrate a sign of economic recovery in GDP growth. Currently household debt drops to 81.3% in 2/2559 from 81.5% from the previous quarter due to the growth constraint from lower consumer confidence about future purchasing power and abilities to payback old debts. Furthermore, the commercial banks tighten towards approvals on new debt or financial products that causes personal loans slows down. However, debt amount remains high due to property stimulation programs. After consumers' lower purchasing power and households' low liquidity to transform asset to pay out debt led higher NPLs to total loan ratio, banks are cautious in financing loans by tightening lending rules to avoid bad loan. It implies that banks focus more on mortgages and more households lack of ability to get financing from banks. The solution to solving this problem is that everyone in the economy should have more responsibilities for using financial products. Households that have lots of debt should manage risk well to prevent a further in household leverage. Government comes to support household debt restructuring as a short-term solution to increase people's ability to repay their loans, while in the long-term government should promote a money-saving campaign or develop Debt Service Ratio (DSR) program that discourage people from taking out superfluous loans as it sets the floor to the household not to borrow over the setting level of current debt holding per income ratio in which prevent an inability to pay back loans and decrease risk for banks to non-performance loans.

Figure1: Percentage of household debt to nominal GDP

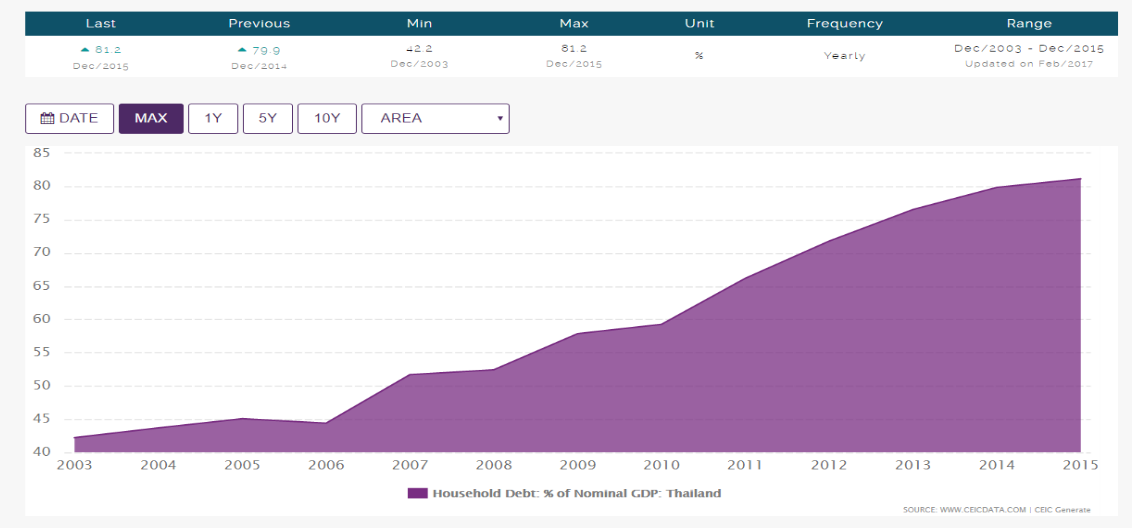


Figure2: Ranking of a Country's Household Debt to GDP [Source: Trading Economists – Jun, 2016]

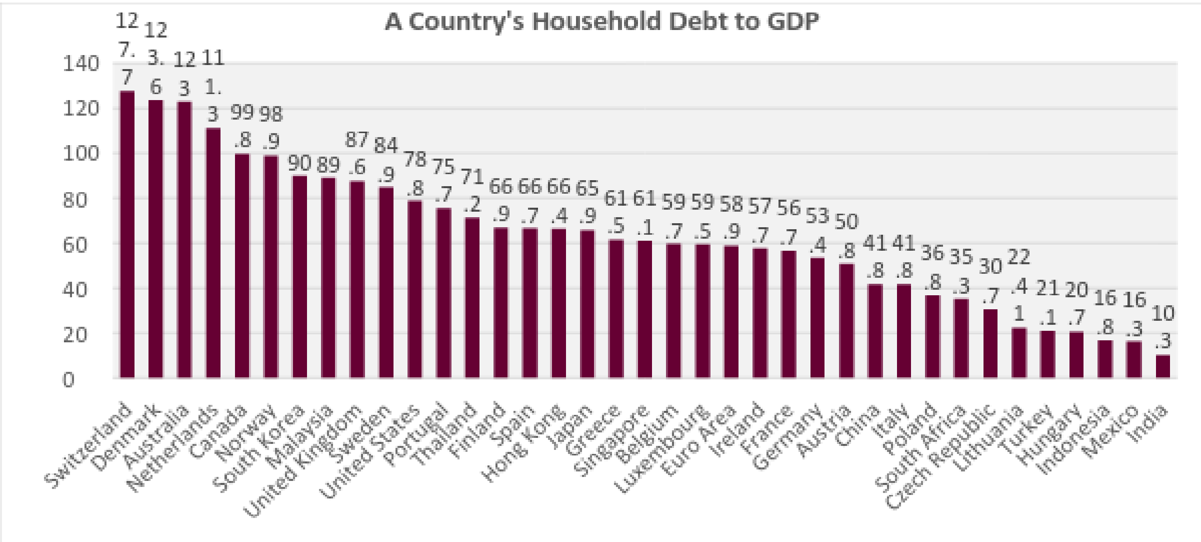


Figure3: Household Disposable Income comparing with Household Debt

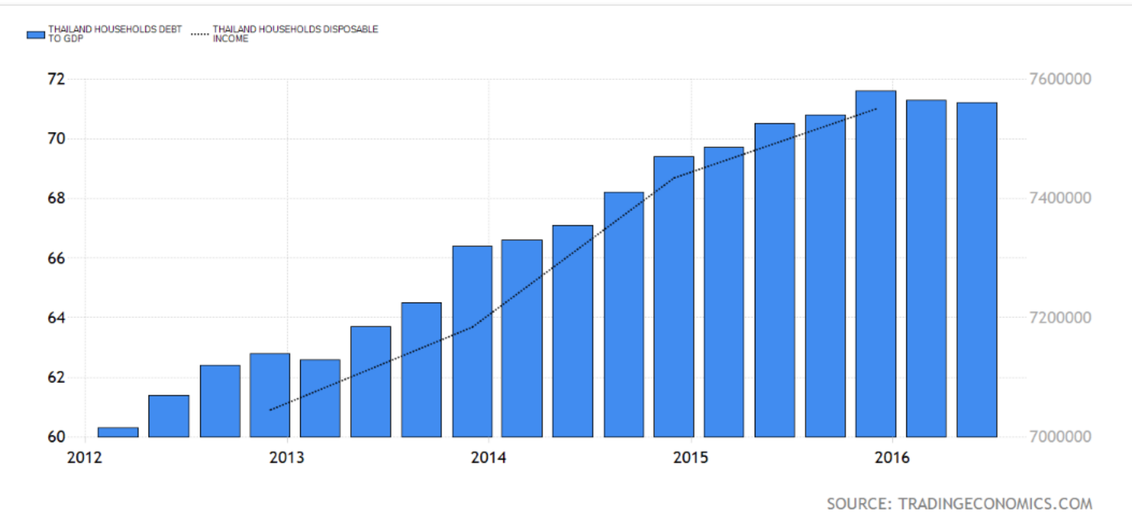


Figure4: Consumer spending per capita comparing with Household Debt

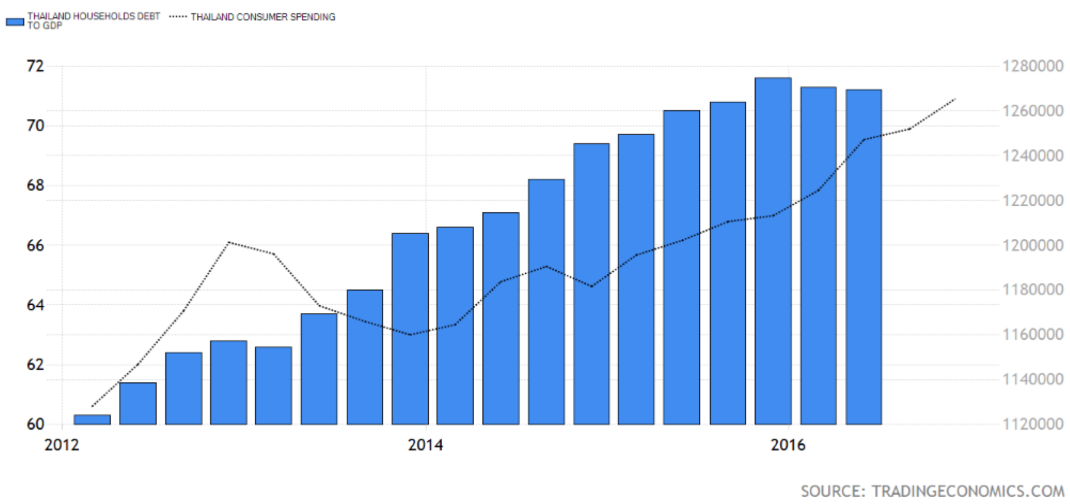


Figure5.1: Consumer Confidence Index

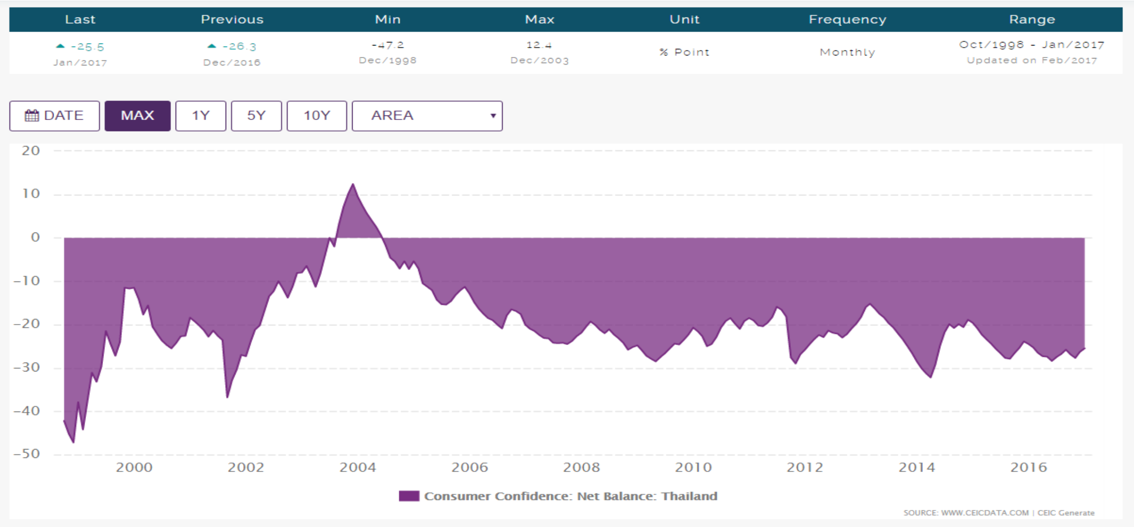


Figure5.2: Consumer Confidence comparing with Household Debt

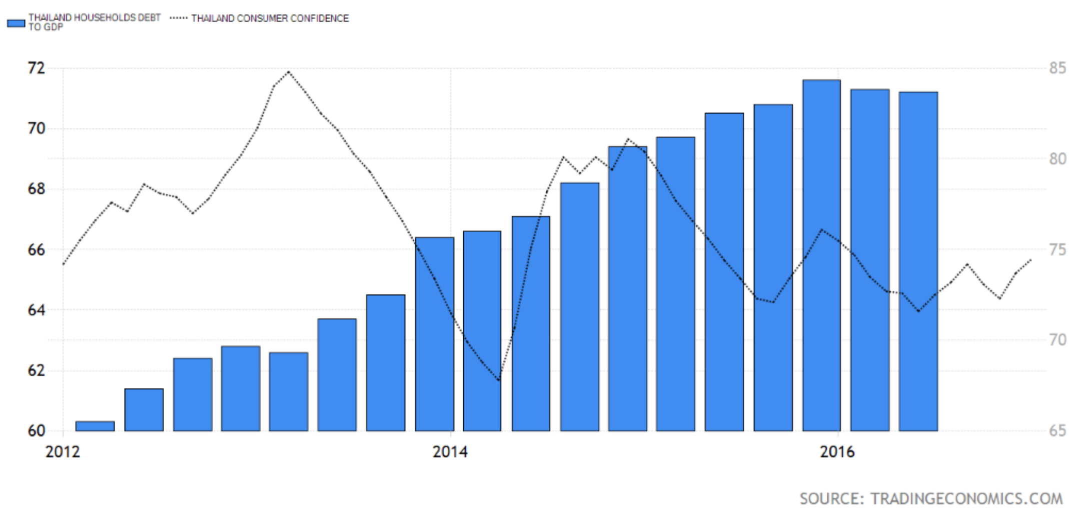


Figure6: Household Saving Ratio comparing with Household Debt

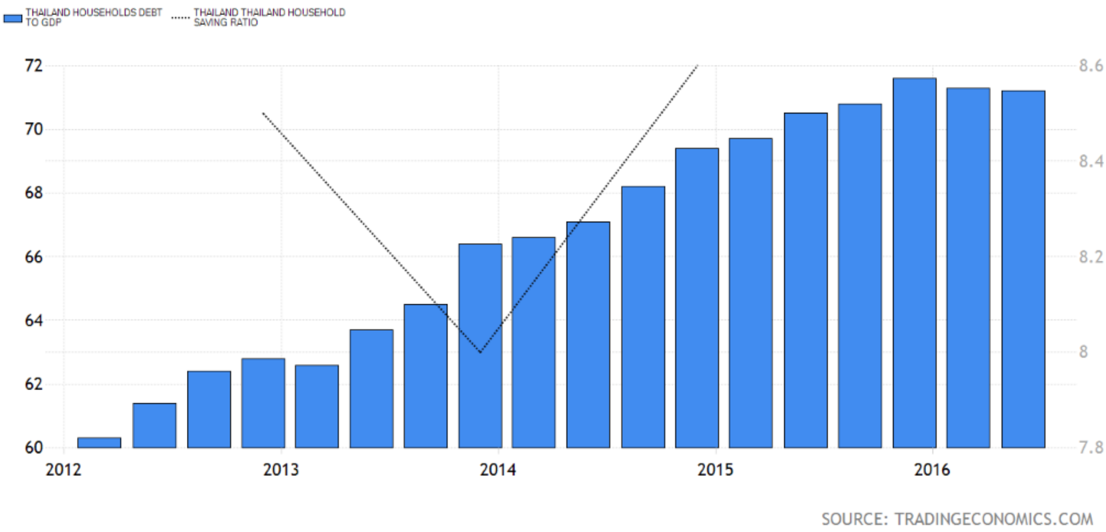
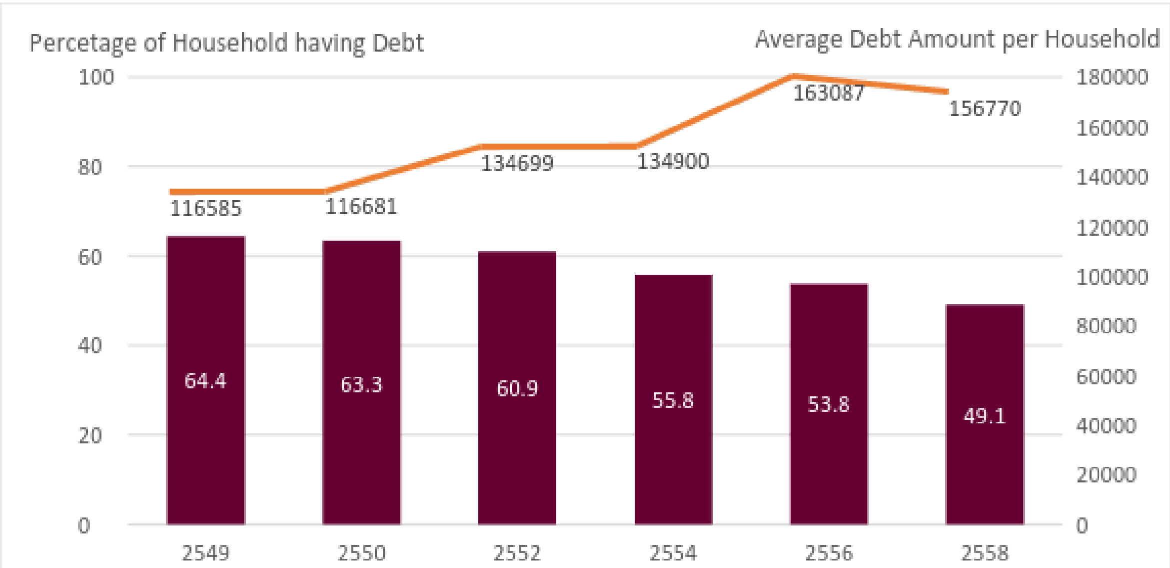


Figure7: Proportion of Household holding Debt and Average Debt per Household



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