

Thailand's credit binge: now for the hangover

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Huge Thai household debt leaves country vulnerable to monetary tightening by US Fed



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A worker cycles past beer crates at a Thai Beverage Plc Chang brewery in Kamphaeng Phet, north of Bangkok

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Thai saying cautions against “borrowing from grandmother to buy her sweets”. But so heavily have the country’s households borrowed that buying confectionary is the least of their worries. One of the biggest consumer credit binges in the emerging world is now showing signs of unravelling, with potentially severe consequences for Thailand’s retail sector.

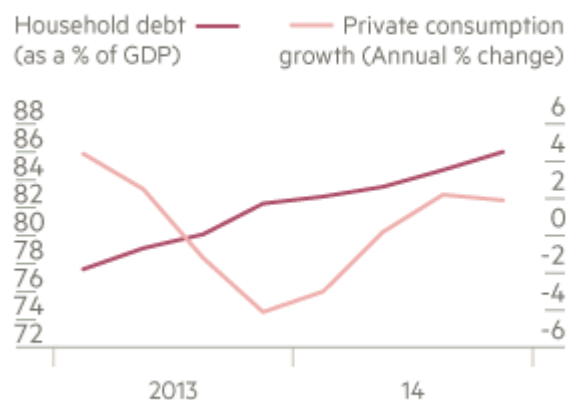
How severe will the hangover be for southeast Asia’s second largest economy? This depends in part on whether the economy can recover its mojo and grow its way to

deleveraging. Since 2006, Thai GDP has managed only about half the pace of the Indonesian, Malaysian and Philippine economies.

But even if a modest growth resurgence does transpire, Thailand appears headed for a painful mix of depressed consumer spending and rising consumer debt. According to Asean Confidential, an FT research service on southeast Asia, Thai household debt will approach or exceed 100 per cent of GDP by 2020 under likely macroeconomic scenarios – and this does not include large amounts of borrowing from illegal money lenders by the poorest Thais.

A recent trend may signal peril ahead. Household debt levels are still rising (to an estimated 86 per cent of GDP, up from 61 per cent in 2009), but private consumption growth has started to ease (see chart).

Thai debt rises but consumer spending grows



Source: Bank of Thailand, National Economic and Social Development Board

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This is significant because it suggests that families are having to deploy so much of their income to repay debts that they have less left over for retail indulgences. Indeed, in January and February personal spending fell on a month on month basis by 13 per cent and 8.5 per cent respectively, a bigger margin than seen at any time during the 2008/09 financial crisis or the 1997/98 Asian crisis, according Bank of Thailand statistics. Some see dire consequences.

Piyabutr Cholvijarn, president of the Kenan Institute Asia and director of the Thai Chamber of Commerce, warned in March that if the household debt issue was left unaddressed, a crisis worse than the 1997 meltdown could ensue.

However, stock market investors appear unperturbed for now, bidding up the Bangkok stock index by 4.2 per cent since the start of the year. A 25 basis point cut in the Bank of Thailand's policy interest rate to 1.75 per cent in March is seen as too minor to meaningfully alleviate household debt burdens.

Asean Confidential's surveys showed a slide in consumer confidence across the board during the first quarter in Thailand, with discretionary spending intentions and consumer borrowing plans both easing, along with a slump in people's confidence over the health of the broader economy. Meanwhile, headline inflation has turned negative, to -0.57 per cent in March, exacerbating debt service costs.

Other risks complicate the outlook. Net capital outflows, which pummelled the country for 20 consecutive quarters from the onset of the Asian financial crisis in mid-1997, are again becoming a more common feature, hitting a total of \$20.3bn in the second half of last year.

If the US Federal Reserve moves to guide interest rates higher in coming months, Thailand's debt frailties could exacerbate such outflows as investors grow wary of the more indebted emerging markets. That could raise the cost of borrowing for financial institutions, reinforcing an already growing reluctance to extend credit to people who want to buy houses, cars and other items by gorging themselves on more debt.