

Household debt not yet a threat

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Though 75% of GDP frightens some, but main factors no longer in play

Thailand's household debt, which hit 75 per cent of gross domestic product in the first quarter, is not high enough to trigger an economic crisis, said a Finance Ministry official.

In the United States and Europe, household debt before the recent economic crisis exceeded 100 per cent of GDP, said Ekniti Nitithanprapas, deputy director-general of the Fiscal Policy Office.

He added, however, that the high debt-to-GDP ratio in the West was accumulated over 10 years. In Thailand's case, much of the debt was built up in just the past two years because of temporary factors - the flood crisis and the first-car-buyer scheme.

"In the US, a low-interest-rate policy was deployed to boost spending, which later led to the crisis. Thailand also used stimulus measures, but they were short-term. These measures were fully deployed, and that's why our new measures are geared towards boosting investment," he said.

The National Statistical Office conducts a survey of household debt every two years. The current level of 75 per cent of GDP compares with just 25.6 per cent two years ago.

The high household debt has sparked worries. Some financial institutions, according to a recent survey by the Bank of Thailand, plan to tighten lending for fear of defaults as some consumers are bearing a high burden of debt compared with their income.

Last year, commercial banks' consumer lending rose by 21.5 per cent, compared with 5.8-per-cent expansion in the previous year. In 2012, 4.08 million households needed loans to restore their flood-damaged residences and buy new electrical appliances. Meanwhile, stimulus measures boosted loan demand,

particularly for [first-car](#) purchases.

However, the tightening on new loans is believed to be causing a slowdown in domestic consumption, at a time when the export sector is suffering from weak global demand.

"Our estimate is that consumer lending will return to normal, as the temporary factors [driving household debt] no longer exist. Consumer loans grew by only 4.6 per cent year on year in the first quarter and slowed to 1.8 per cent in the second quarter," Ekniti said.

He insisted that the household debt, though higher than in the past, had not made a large dent in domestic demand, as reflected by the continued increase in value-added-tax revenue. But even if the central bank's forecasts turn out to be wrong, financial institutions' high capital adequacy ratios could cushion them from the impacts.

He also noted that such loans as those for share purchases or to individuals with their own businesses were now counted as consumer loans. If business-related loans were excluded, the rate of household debt would fall to 64 per cent of GDP.

As most of the 1.25 million vehicles reserved under the first-car-buyer scheme have been delivered to buyers, the automotive market has returned to normal. In July, vehicle sales fell below 100,000 units for the first time in months. According to data compiled by Toyota Motor Thailand (TMT), sales stood at 98,251 units, a 25.4-per-cent decrease from the same month last year.

"After the end of the [first-car](#) scheme, the automotive market has tended to resume its normal level. However, promotions will help boost sales," said Vudhigorn Suriyachantanont, senior vice president at TMT.

As households acquired new debt from car purchases, some believe that they limited their capacity to finance consumption this year.

Piyawat Titasattavorakul, chairman of the Board of Trade's retail and wholesale committee, said retail business grew by only 7-8 per cent in the first half of the

year because of lower purchasing power. Farmers also witnessed a drop in crop prices.

The Thai Chamber of Commerce yesterday lowered its 2013 GDP growth projection from 5-6 per cent to 3.4-4 per cent. Secretary-general Kalin Sarasin attributed that to the prolonged slowdown in global demand, which substantially hurt Thailand's exports. Exacerbating the situation is the weakening domestic demand.