Thailand's household debt to GDP ratio stood high at 89.3% in Q3/2021. Eyes on Omicron impacts and surging informal credits—the two key risks ahead to household debt outlook.

18 January 2022

Key summary

- **The Bank of Thailand announced that Thai household debt rose 4.2%YOY to THB 14.3 trillion in Q3/2021. The growth was slower than Q2, but the household debt to GDP ratio remained high at 89.3%.**
- **In Q3/2021, commercial banks' lending to households saw a decelerating growth in all primary sources. Yet, personal loan growth kept swelling high on the back of household liquidity demand to offset income loss due to COVID-19 impact.**
- **Informal debt will likely become an alarming risk ahead, as more households, particularly the fragile low-income group, seek loans to cover living expenses but are often barred by lacking access to the formal credit market.**
- **Thailand's household debt to GDP ratio might surge again in H1/2022, given mounting risks from Omicron outbreaks which will take a toll on household income and trigger an increase in loan demand to compensate for liquidity loss. As a result, household deleveraging would face hindrances while financial condition will recover at a slower pace. This way, outlook for consumption expenditure and credit quality worsen.**

- **Government support will still play a vital role in providing solace for the vulnerable Thai household sector. These policy supports could come in the form of debt restructuring, income reliefs, employment supports, labor upskilling and reskilling to enhance earning potentials, and liquidity injection to ward off risks from informal debt dilemmas.**

Thailand's household debt rose 4.2%YOY to THB 14.3 trillion in Q3/2021. The figure showed a deceleration in growth from the previous quarter in line with an economic slowdown from severe virus outbreaks and lockdown measures. The slower growth was also broad-based among major lenders: namely commercial banks, specialized financial institutions (SFIs)[1], saving cooperatives, and credit card-leasing-personal loan companies—all contributed 96.4% of household lending in total (Table 1).

Table 1: On a quarterly basis, Thailand's household indebtedness grew at a slower pace in Q3/2021

	Share Q3/2021	CAGR (%) 2015-19	Change compared to the same period last year (%YOY)							
			2020	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21
Household debt (by type of lenders)	*100.0%*	3.9%	4.1%	4.1%	3.8%	3.9%	4.1%	4.7%	5.1%	4.2%
Commercial Banks	*42.9%*	4.1%	3.8%	3.9%	3.3%	3.7%	3.8%	4.9%	6.0%	**4.5%**
Depository Specialized Financial Institutions	*28.1%*	3.2%	5.2%	2.6%	3.9%	4.4%	5.2%	5.5%	4.3%	**3.6%**
Saving Cooperatives	*14.9%*	3.5%	2.3%	2.6%	2.5%	2.5%	2.3%	2.2%	2.4%	**2.3%**
Credit Card, Leasing and Personal Loan Companies	*10.5%*	4.2%	5.2%	11.1%	7.5%	6.3%	5.2%	5.6%	7.7%	**6.2%**
Pawnshops	*0.5%*	4.0%	-8.4%	-1.0%	-7.2%	-8.2%	-8.4%	-2.2%	0.4%	**1.0%**
Other Financial Institutions	*3.0%*	8.6%	4.1%	7.3%	7.9%	4.9%	4.1%	5.5%	5.9%	**8.3%**

Source: EIC analysis based on data from Bank of Thailand

On a closer look into **the source of commercial banks' loan growth, we found that outstanding consumption loans in all major products were losing ground.** In Q3/2021, outstanding consumption loans at commercial banks recorded a slower growth at 4.2%YOY compared to 5.7%YOY in the previous quarter. The slowdown was evident in mortgage, auto loans, personal loans, and credit card loans (Table 2). Notably, auto and credit card loans faltered in line with somber spending during the lockdown. Nonetheless, personal loans continued to rise at a high rate, albeit more slowly. **In Q3/2021, commercial banks' outstanding personal loans marked an 8.2% increase, significantly higher than other loan products.** The higher growth thus racked up the share of personal loans to 22.7% of total consumption lending issued by commercial banks, slightly up from 22.5% in the previous quarter. As a result, **personal**

[1] In this context, SFIs consist of (1) Government Savings Bank, (2) Government Housing Bank, (3) Bank of Agriculture and Agricultural Cooperatives, (4) Export-Import Bank of Thailand, (5) Small and Medium Enterprise Development Bank, and (6) Islamic Bank of Thailand

lending outstripped auto loans for the first time since the credit record started in 2013 and now ranks the second-largest loan chunks after the mortgage.

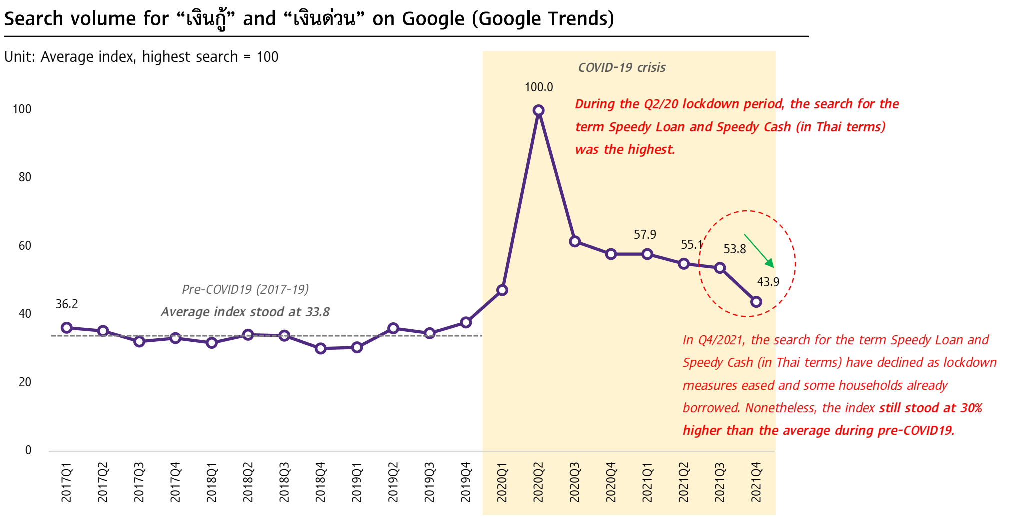
Table 2: Commercial banks' consumption loan growth has softened. Yet, personal lending continued to soar high.

	Share Q3/2021	CAGR (%) 2015-19	Change compared to the same period last year (%YOY)							
			2020	Q1/20	Q2/20	Q3/20	Q4/20	Q1/21	Q2/21	Q3/21
Consumption loans in commercial banks	*100.0%*	**7.0%**	**4.4%**	**5.6%**	**4.8%**	**4.8%**	**4.4%**	**5.3%**	**5.7%**	**4.2%**
Mortgage	*50.3%*	7.0%	5.9%	3.4%	4.4%	5.4%	5.9%	6.8%	6.8%	**5.7%**
Personal loans	*22.7%*	8.1%	4.8%	10.9%	7.8%	5.6%	4.8%	5.9%	8.4%	**8.2%**
Auto loans	*22.4%*	6.1%	2.4%	6.1%	4.1%	3.5%	2.4%	1.2%	1.0%	**-1.6%**
Credit card loans	*4.6%*	6.6%	-2.1%	2.0%	-0.7%	1.0%	-2.1%	6.6%	5.0%	**-0.8%**

Source: EIC analysis based on data from Bank of Thailand

The swelling growth in personal loans at commercial banks and lending from credit card-leasing-personal loan companies reflect **a trend among households who seek loans to compensate for liquidity loss as income dwindles. This ongoing trend has been the main force behind a piling household debt recently** and over the past year. Google Trends data also pointed in the same direction. Google search volume of words related to "Speedy Loan" and "Speedy Cash," in Thai terms, have declined, yet the figure is still 30% above its pre-pandemic reading (Figure 1); Noteworthy here is that search results of these terms can be both formal and informal loan options. Google Trends data indicated a high household demand for loans to cover living expenses amidst stagnant income recovery.

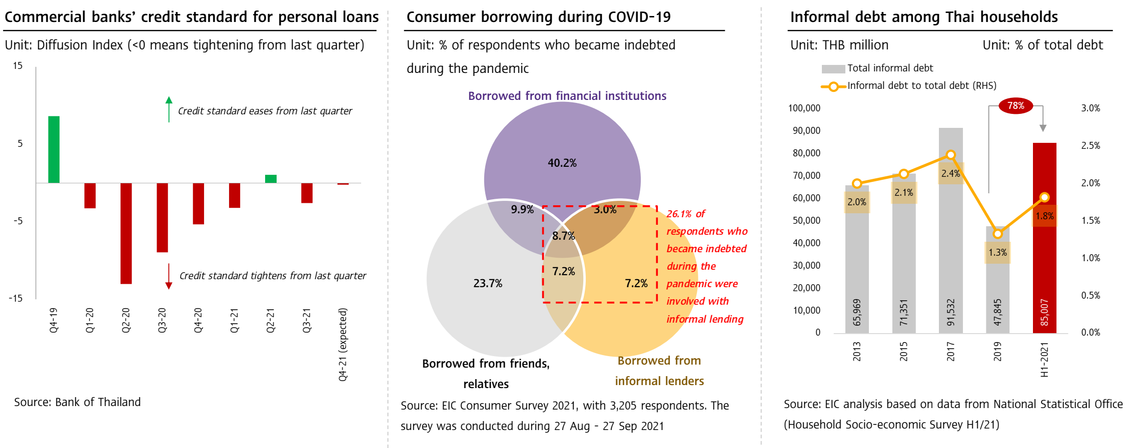
Figure 1: Google search for Speedy Loan and Speedy Cash (in Thai terms, "เงินกู้" and "เงินด่วน") among Thai people remained high, compared to its pre-pandemic level.



Note: Google Trends index for the terms speedy loan-speedy cash could be understated. Some searchers, who found their matching lenders and have already contacted for services, may skip the google search and access the lender's website directly.
Source: EIC analysis based on data from Google Trends (data updated as of 31 Dec 2021)

Nonetheless, most financial institutions have been heedful on personal lending, particularly to low-income households, as evident in stricter credit standards during the pandemic (Figure 2, left). Under such circumstances, high loan demand might not be entirely covered in formal lending options, so some households turned to bank on the informal credit market. Based on EIC Consumer Survey 2021, 26.1% of respondents who became indebted during the pandemic were involved with informal lending (Figure 2, middle). As this trend continues, **household debt from informal sources will likely escalate even after the pandemic subsides.** NSO's Household Socio-Economic Survey showed that total informal loans among Thai households reached THB 85 billion in H1/2021, marking a 78% increase from its pre-pandemic level at THB 48 billion in 2019. Thailand thus witnessed the return of informal debt despite a sign of deceleration in 2019 (Figure 2, right).

Figure 2: Some households in need of loans turned to bank on informal credit markets since major lenders have tightened their credit standards.



Source: EIC analysis based on data from Bank of Thailand, EIC survey, and National Statistical Office

A closer examination of informal household debt distribution—based on NSO data—suggested that the dilemma primarily stemmed from low-income cohorts. **Among indebted households, 9.2% of them incurred informal debt** and most of them banked entirely on informal lending sources (Table 3). Also, **the share of informally indebted households was higher among the low-income group than high-income earners.** This can be explained by the COVID-19 crisis that left low-income households further disadvantaged and credit standards which became increasingly stringent against low-income cohorts. Furthermore, as informal credit markets typically charge exorbitant interests, indebted households are more likely to be stranded with a growing debt burden. This circumstance calls for an urgent solution, or else these fragile households might get caught in a vicious circle of debt trap.

Table 3: 9.2% of indebted Thai households banked on informal lenders. The share of informal credit was notably higher among the low-income group.

Unit: % of indebted households in each group*

Thai indebted households By income (in quintile)	Household monthly income** (thousand THB/month)	Proportion of informal debt to total debt: 100% (all debts are from informal lenders)	50-99%	1-49%	0% (no debt from informal lenders)	Proportion of households with informal debts
All indebted households	*32.8*	*5.2%*	*0.9%*	*3.0%*	*90.8%*	9.2%
Quintile 1 (lowest income)	7.7	7.7%	1.1%	2.5%	88.7%	11.3%
Quintile 2	13.8	7.8%	1.3%	3.0%	87.9%	12.1%
Quintile 3	20.4	5.8%	1.2%	3.4%	89.6%	10.4%
Quintile 4	30.6	5.6%	1.0%	4.0%	89.5%	10.6%
Quintile 5 (highest income)	68.1	1.5%	0.4%	2.4%	95.7%	4.3%
- Top 5% households	119.2	0.7%	0.3%	2.5%	96.6%	3.5%

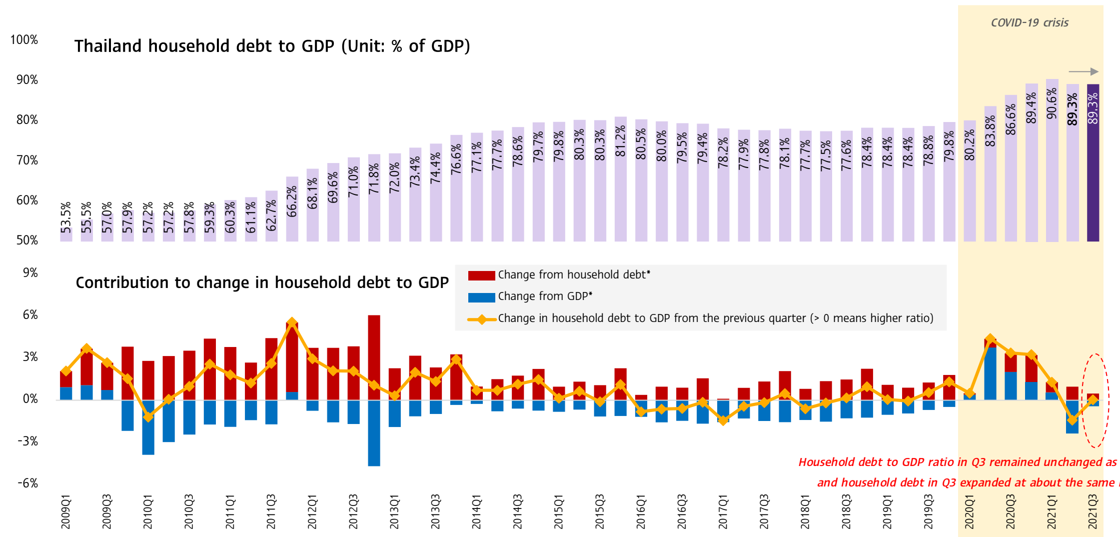
Note: *Based on H1/2021 data, indebted respondents accounted for 52.7% of total Thai households. **Calculation covered only indebted households.

Source: EIC analysis based on data from National Statistical Office

Household debt to GDP ratio held steady at 89.3% in Q3/2021, since both household debt and GDP regained similar growth momentum. During July-September 2021, household debt expanded by 0.5%QOQ, led by an increase in loans to cover liquidity loss. Similarly, GDP values for household debt ratio calculation[2] edged higher at a closer rate of 0.4%. Nonetheless, the household debt to GDP ratio equaling 89.3% in Q3 was considerably high compared to its pre-pandemic level (79.8% as of year-end 2019) (Figure 3) and other countries. According to the Bank of International Settlement (BIS) data, Thailand's household debt to GDP ratio has been ranked the highest among developing economies since 2011 until now.

[2] Calculated from a total GDP at current prices in 4 previous quarters (including Q3/2021)

Figure 3: Thailand household debt to GDP ratio held steady in Q3, as GDP and household debt somewhat grew at the same pace from Q2.



Note: *% change in value compared to the previous quarter

Source: EIC analysis based on data from Bank of Thailand and Office of the National Economic and Social Development Council (NESDC)

The high household debt burden will be another drawback to the Thai economic recovery. A high debt burden would undermine household spending power since the indebted household must face tighter budget constraints as debt repayment burden increases. Meanwhile, new borrowing would become increasingly difficult as most lenders—especially in the formal market—have tightened their credit standards against borrowers with high existing debt outstandings. This piling debt dilemma will be a fatal drawback to private consumption, a key driver for Thailand's economy, particularly when the tourism sector is still in limbo. Thus, an overall Thai economic recovery will likely remain weak.

Based on EIC's assessment, Thailand's debt to GDP ratio could rise again, given that Omicron outbreaks are adding strain to the overall economy and household liquidity. The year 2022 arrived with striking risks from the COVID-19 Omicron pandemic, which rapidly swept across Thailand in January. Despite preliminary data suggesting that Omicron is not as deadly as previous variants, the flare-up outbreaks have deterred sentiment in all sectors and pulled the brake on economic activities. Meanwhile, government measures to tackle and prevent virus spread would also exacerbate economic damages. At this rate, household income and liquidity are brought to the edge of debt cliff. Economic hardship would drive household loan demand to cover liquidity loss, thus fueling the upturn of the household debt ratio. **EIC views that household debt will likely bounce back and tally 89.5%-90.5% of GDP within H1/2022.** The debt level, however, is expected to gradually recede from H2/2022 onwards, as Omicron outbreaks start to subside and economic activities regain force, especially in the tourism sector.

Looking ahead, EIC views that Thailand households will enter a deleveraging phase but beneath a fragile condition. Hence, holistic policy supports are much-needed to keep household financial stability intact along this road to rebound. COVID-19 risks linger and drag on overall income, whereas households, particularly those in the low-income group, still lack access to funding despite high liquidity demand. Under such circumstance, government supports are necessary to help household balance sheet stay in shape. These government measures could come in the form of: (1) income reliefs particularly for vulnerable households, (2) employment supports, (3) worker reskill-upskilling to uplift earning potentials, (4) debt restructuring to help align debt installment with household income, which has been on decline and slow to pick up, and (5) liquidity injection for fragile households to ease their reliances on informal lending. Notably, a heavy reliance on informal loans could spiral into economic pain unless the government comes up with a clear-cut and on-target solution. In our view, these policy reliefs still play a crucial role, but the timespan must be long enough to help households regain ground, since Thailand's economic outlook remains bleak whilst households would warrant time to recover their income and undergo balance sheet repair.

By: Economic Intelligence Center (EIC)
Siam Commercial Bank PLC.
EIC Online: www.scbeic.com
Line: @scbeic