Thu, Jul 8, 2021

Notice to readers

Dear readers:

The economic report contained in this report was produced by SCB Economic Intelligence Center (SCB EIC) and SCB Securities (SCBS) has been granted permission by Siam Commercial Bank to distribute this report to its clients. In doing so, SCBS has reviewed the report and agrees with the contents of this report.

SCBS is distributing this economic research report on its own behalf for general information only.

SCB Securities Company Limited

NOTE

SCB Economic Intelligence Center

Thailand's household debt surged to a historic high in Q1/2021. Looking ahead, EIC expects the Thai economy to face a 'Debt Overhang' problem, which could slow recovery in household spending.

8 July 2021

Key summary

- **Thailand's household debt swelled to a record high at 90.5% of GDP in Q1/2021, the highest among developing countries.**
- **An increase in household debt to GDP ratio was attributed to growing household debt and stagnant economic rebound, particularly the household incomes, which are suffering from the COVID-19 crisis.**
- **High-frequency data reflected that the household's demand for loans remained high due to the need to cover living expenses and declining liquidity during the pandemic. Some households might hinge on informal lending and become exposed to a higher risk of debt default going forward.**
- **EIC views that Thailand will likely suffer a so-called 'Debt Overhang' problem where the household debt burden grew so large that it hampers future spending and economic recovery.**

As of Q1/2021, Thailand's household debt rose 4.6%YOY to THB 14.1 trillion. The figure accelerated from the previous quarter and marked the highest increase in 5 quarters. The piling debt was attributed to a pickup in loan growth from 2 primary lenders: commercial banks and specialized financial institutions (SFI)[1] — both reported the growth rates of loans to households at 4.9% and 5.5%, respectively (Table 1). In particular, loan growth among the SFIs was at its five-year high, whereas household lending issued by savings cooperatives or credit card-leasing-personal loan companies saw a slowdown. Likewise, loans to households from pawnshops continued to fall off from 2020.

Table 1: Thailand's household debt in Q1/2021 surged from the previous quarter.

	Share Q1/2021	Average growth rate 2015-19 (%YOY)	Growth rate End of 2020 (%YOY)	Growth rate at the end of the quarter (%YOY)				
				Q1/20	Q2/20	Q3/20	Q4/20	Q1/21
Loans to Household (classified by lenders)	*100.0%*	3.9%	4.1%	4.1%	3.9%	4.0%	4.1%	4.6%
Commercial Banks	*42.9%*	4.1%	3.8%	3.9%	3.3%	3.7%	3.8%	**4.9%**
Depository Specialized Financial Institutions	*28.3%*	3.2%	5.2%	2.6%	3.9%	4.4%	5.2%	**5.5%**
Saving Cooperatives	*15.0%*	3.5%	2.3%	2.6%	2.5%	2.5%	2.3%	**2.2%**
Credit Card, Leasing and Personal Loan Companies	*10.4%*	4.2%	5.5%	11.0%	8.0%	6.7%	5.5%	**5.2%**
Pawnshops	*0.5%*	4.0%	-8.4%	-1.0%	-7.2%	-8.2%	-8.4%	**-2.3%**
Other Financial Institutions	*2.9%*	8.6%	4.1%	7.3%	7.9%	4.9%	4.1%	**5.0%**

Source: EIC analysis based on data from Bank of Thailand

The above data showed that **Thailand's household debt continued to expand even during the COVID-19 pandemic.** Here are the 3 key reasons:

- ***First:*** Following the COVID-19 outbreaks, the Bank of Thailand (BOT) and other financial institutions have offered financial relief programs — both debt moratorium and debt restructuring — to support their retail borrowers. The measures helped alleviate debt service burden in the short term and also restrain the rise of non-performing loans countrywide. Nonetheless, debt payment deferrals might partly slow the overall household debt deleveraging.

- ***Second:*** The COVID-19 crisis took toll on business and household incomes, fueling a liquidity crisis among different groups of people. Households are seeking for loans to make up their liquidity loss, as evident in growing personal loans issued by commercial banks since 2020. Despite the commercial banks becoming more cautious in lending amidst the economic slowdown, personal loans still recorded a 5.9%YOY growth in Q1/2021, up from 4.8%YOY in the previous quarter.

  Furthermore, Google Trends data indicated a notable increase in the search volume of terms related to Speedy Loan and Speedy Cash, in Thai terms, (Figure 1). The search activity of these

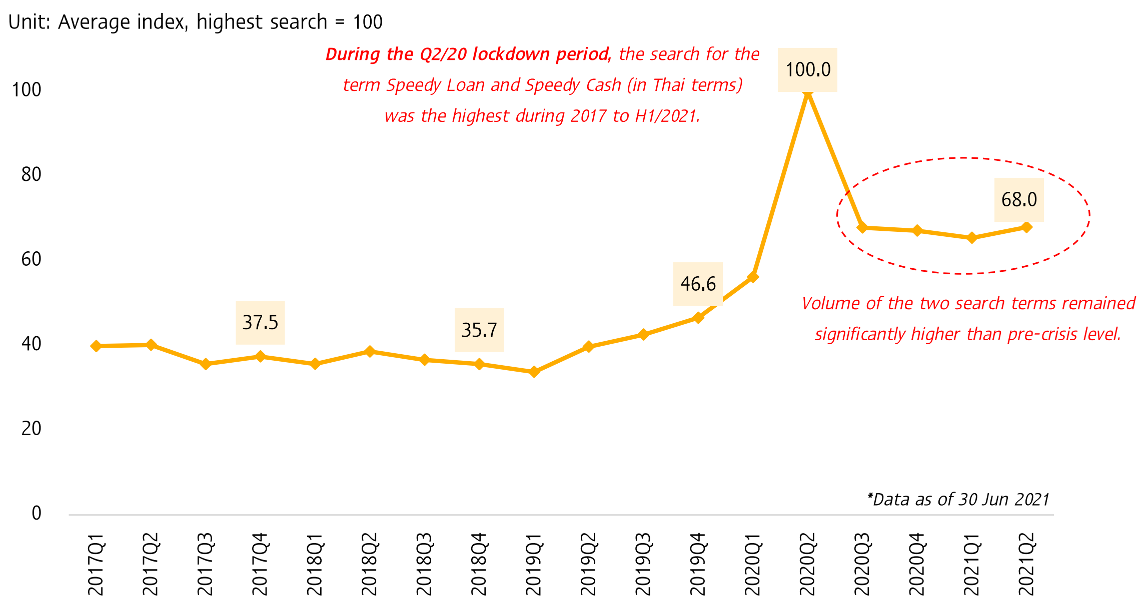
[1] In this context, SFIs consist of (1) Government Savings Bank, (2) Government Housing Bank, (3) Bank of Agriculture and Agricultural Cooperatives, (4) Export-Import Bank of Thailand, (5) Small and Medium Enterprise Development Bank, and (6) Islamic Bank of Thailand

terms — whose results appear with lending options from commercial banks and other informal lenders — rose as high as 79.0%YOY in 2020. The search query reached its record high in Q2/2020, when the Thai government announced its first lockdown, and remained high compared to the past. In Q1/2021, online searches for loan-related terms continued to increase by 16.4%YOY.

Loan demand tended to pick up fast compared to the commercial bank's loan growth, but formal lenders have become more cautious and tightened their credit standards. Given such conditions, some households in need of loans could not afford lending from established financial institutions. Instead, they might bank on the informal credit market — who often charge exorbitant interest from borrowers — and likely get caught in the vicious circle of debt trap.

Figure 1: Google search for Speedy Loan and Speedy Cash (in Thai terms, “เงินกู้” and “เงินด่วน”) among Thai people increased notably during the COVID-19 outbreaks.

Search volume for “เงินกู้” and “เงินด่วน” on Google (Google Trends)

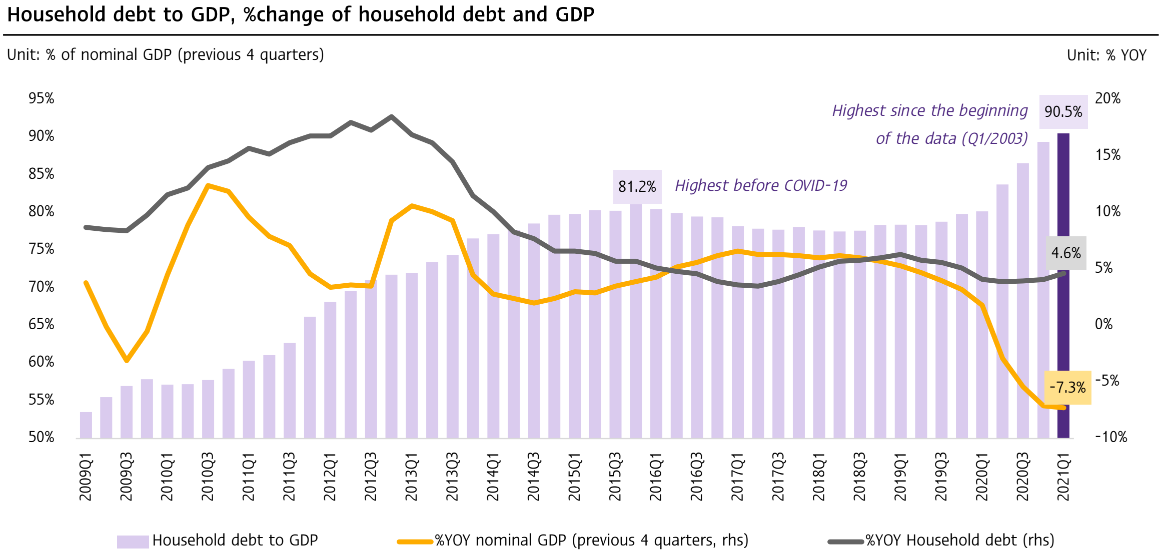


Source: EIC analysis based on data from Google Trends

- *Third:* Households with spending power continued their property purchases, as real estate developers launched promotional campaigns and sales to reduce excess supply in the housing market. The central bank also eased the LTV (loan-to-value) regulations to shore up the economy. As a result, household debt for real estate purchases has been rising during the crisis. As of the end of 2020, mortgage issued by commercial banks recorded a 5.9%YOY growth before picking up to 6.8%YOY in Q1/2021.

Thailand's household debt marked its record high at 90.5% of GDP, as the debt continues to grow on the back of slow economic recovery. Household debt edged higher at 4.6%YOY while GDP[2] plummeted by -7.3%YOY within the same period (Figure 2), thus bringing Thailand's household deb to GDP ratio to an all-time high since the record began in 2003.

Figure 2: Thailand's household debt to GDP ratio rose to 90.5%, as debt levels accelerated but GDP fell into contraction.

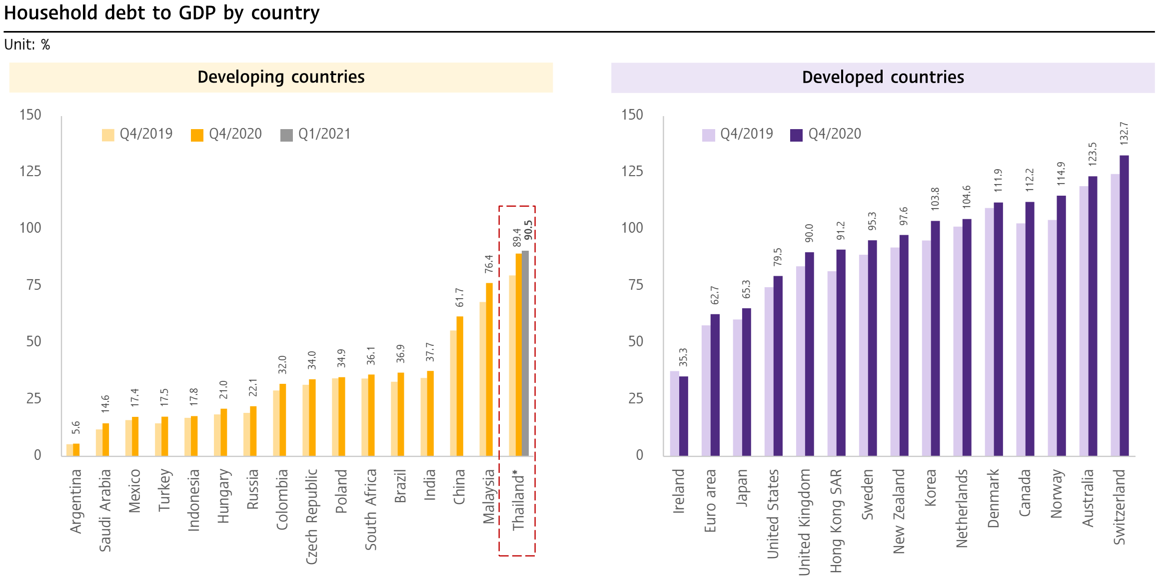


Source: EIC analysis based on data from Bank of Thailand and Office of the National Economic and Social Development Council (NESDC)

Thailand's household debt to GDP ratio ranked the highest among developing countries. Based on the Bank of International Settlement (BIS) data, Thailand had the highest ratio of household debt to GDP compared to other developing countries, both before and during the COVID-19 pandemic, and the figure kept ballooning fast. The ratio at the end of 2020 was up from 2019 by approximately 12.0%, making the 7th largest increase among 43 countries. This swelling debt ratio was attributed to a larger drop in GDP and a slow recovery, thus keeping Thailand's household debt to GDP ratio figured at the highest level among developing counterparts. Besides, Thailand's household debt to GDP ratio was tantamount to many developed countries that earn higher and are wealthier (Figure 3). The chart below reveals a structural problem of the Thai households sector that heavily relied on loans to finance their living.

[2] Calculated from a total GDP at current prices (nominal GDP) in Q1/2021 and 3 previous quarters

Figure 3: Thailand's household debt to GDP ratio was the highest among developing nations even before the COVID-19 outbreaks.



Note: *Thailand's household debt to GDP ratio was from the Bank of Thailand, while the rest were from BIS

Source: EIC analysis based on data from Bank of Thailand and BIS

EIC views that Thailand's household debt to GDP ratio will likely remain high throughout the rest of 2021. The figure is expected to hover around 88-90% at the end of 2021, slowing from the first quarter as GDP gradually improves. **Nonetheless, there remain risks that the household debt ratio could make another new high this year**, in case the long-haul outbreaks are getting worse and result in GDP falling harder than expected (we forecast the Real GDP growth at 1.9%YOY in 2021 for the base-case scenario), while debt could continue to pile up without losing pace.

Thai households are at risk of facing the 'Debt Overhang' as the household debt to GDP ratio continues to hover high. The debt overhang refers to a condition when debt burden is so large that it deters future spending and new borrowing. Such condition could pressure household consumption and investment, such as investment in assets or education. Furthermore, the debt overhang could exacerbate the risk of NPLs (non-performing loans) accumulation — a threat to financial system stability. A BIS[3] study found that the household debt to GDP ratio of over 80% would significantly hamper economic growth ahead. For Thailand, the ratio has been above such level since Q1/2020. Therefore, the Thai household balance sheet is in need of repair, and debt deleveraging is of paramount importance for those indebted households to reduce expenditure, cut down new borrowing, and increase their income, thus bringing down the debt to income ratio.

EIC views that the actual household debt situation might be even worse than what the household debt to GDP ratio has suggested. The ratio of household debt to *household income* (compiled by the National Statistical Office) appeared to be higher than the ratio of household debt to

[3] Lombardi M., and Mohanty M., and Shim I. (2017). "The real effects of household debt in the short and long run", BIS Working Papers No 607.

GDP, since household income growth has been slower than GDP on average. The trend should continue in the same direction during the pandemic as the number of people losing their jobs or income was historically high due to the severe impacts of the COVID-19 crisis on the household sector. In Q1/2021, earnings of employee plunged by -8.8%YOY while nominal GDP shrank only -2.1%YOY. Moreover, despite a rosy export outlook that could provide thrust to the Thai economy this year, most export-oriented sectors — particularly industrial product manufacturing — do not employ as many workers as the service sector. Export earnings have also been concentrated in a few large enterprises. In this fragile household economy, the government should provide supports to households, both in terms of economic reliefs and capacity building — through reskilling and upskilling — to improve their earning potentials.

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