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ECONOMIC REVIEW | Household Debt

High Household Debt in Malaysia is Not a Systemic Risk

- *There have been many who opined that Malaysia – which possess one of the highest household debt in Asian economy – are more vulnerable compared to our regional peers. Indeed by the end of 2015, Malaysia's household debt stands at 89.1% of GDP, significantly higher than Indonesia which is around 16.8% and Singapore at 60.3%.*
- *There are two types of debts, one is debt for appreciating assets and another is debt for non-appreciating assets. From the financial system data, in the past 10 years, most of the increase in our household debt was actually due to debts of appreciating assets, rather than non-appreciating assets. The one that declined the most is passenger car loan, which previously contribute as high as 31% of our total household debt in 2005, and now stand at only 21% in 2015.*
- *Due to the debts being mostly for appreciating assets, the systemic risk coming from the high household debt is actually low. This is because there is minimal case (if any) of subprime mortgage in Malaysia, in which most borrowers possess a relatively strong holding power. On the other hand, another 6.5% of GDP were actually used for purchase of securities, in which most of it is for ASB loan which is guaranteed by the Government. As such, in the case of Malaysia, systemic risks coming from the high household debt is actually very small.*

High household debt does not necessarily become a risk to the economy. There have been many who opined that Malaysia – which possess one of the highest household debt in Asian economy – are more vulnerable compared to our regional peers. Indeed by the end of 2015, Malaysia's household debt stands at 89.1% of GDP, significantly higher than Indonesia which is around 16.8% and Singapore at 60.3%. However, we are taking a different view on this, simply because it is not the amount of debt that matters, but rather the type of debts.

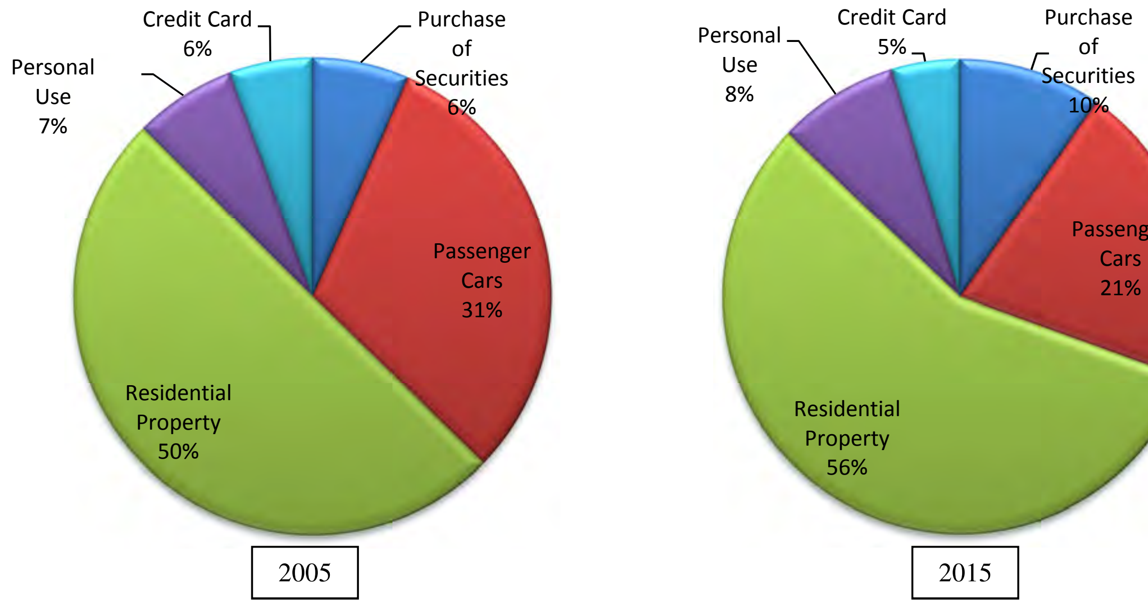
Table 1: Household Debt to GDP Country Comparison

Country	Household Debt (% GDP) 2014	Household Debt (% GDP) 2015
Malaysia	86.8	89.1
Singapore	60.6	60.3
Indonesia	17.1	16.8
Thailand	69.4	71.6
United States	77.9	79.2
Japan	65.9	65.9
China	36.1	39.5
Euro	61.2	59.3
India	9.3	10.1

Source: CEIC, MIDFR

It is not the amount of debt that matters, but it is the type of debt. There are two types of debts, one is debt for appreciating assets and another is debt for non-appreciating assets. In Malaysia, there are two main debts for appreciating assets i.e. mortgages and security purchase, which is mostly due to ASB loan / financing. The rest of the debts, including hire purchase, credit card and personal loan are categorised as debt for non-appreciating assets. From the financial system data, in the past 10 years, most of the increase in our household debt was actually due to debts of appreciating assets, rather than non-appreciating assets. The one that declined the most is passenger car loan, which previously contribute as high as 31% of our total household debt in 2005, and stand at 21% in 2015.

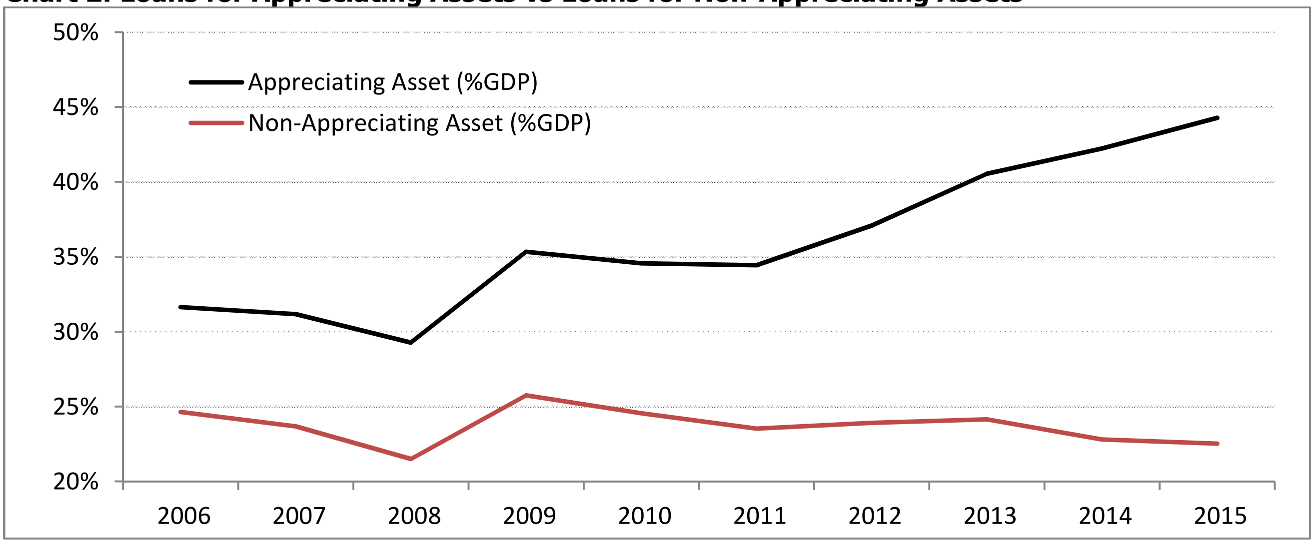
Chart 1: Household Debt Components (2005 vs 2015)



Source: BNM, CEIC, MIDFR

Improvement in financial literacy contributes to the trend. It can clearly be seen that since 2009, the level of Malaysian financial literacy has improved. Malaysians began to borrow more to buy appreciating assets i.e. property and security, while lesser for non-appreciating assets which include cars, personal loan and credit card. As such, looking at the numbers, there is really nothing worrying about Malaysia's household debt level. If anything, the numbers reflect the increasing awareness of Malaysians to accumulate wealth, which should be a positive indicator for future economic growth.

Chart 2: Loans for Appreciating Assets vs Loans for Non-Appreciating Assets



Source: BNM, CEIC, MIDFR

There is no issue of a subprime mortgage in Malaysia. Despite our method of classifying mortgages and purchase of securities as debts of appreciating assets, we do note the cause to Global Financial Crisis that hit the US in 2008 which stems from subprime mortgages. However, we believe Bank Negara Malaysia is well aware of such risk which explains BNM's prudent policies since 2010 to make sure that there are no subprime mortgage cases in Malaysia. Various cooling measures have been taken by BNM to stop speculation activity in the property market while making sure that first time home buyer will still be able to afford their first house.

As such, possibility of a systemic risk due to high household debt is low. Due to the debts being mostly for appreciating assets, the systemic risk coming from the high household debt is actually low. This is because there is minimal case (if any) of subprime mortgage in Malaysia, in which most borrowers possess a relatively strong holding power. On the other hand, another 6.5% of GDP were actually used for purchase of securities, in which most of it is for ASB loan which is guaranteed by the Government. As such, in the case of Malaysia, systemic risks coming from the high household debt is actually very small.

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