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Household debt may increase, warn economists

Its sustainability may be difficult due to new financing schemes

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PETALING JAYA: The high level of household debt in the country is far from over and has room to creep up although the latest data by Bank Negara showed slower growth in household loans last year.

Economists and analysts told *StarBiz* that although the household debt-to-gross domestic product (GDP) ratio may see improvement for 2016 when the official figure is out next month, its sustainability for further improvement over the next few years could be tough.

They agreed that apart from external headwinds and the state of the economy, home buyers scheme like the 1Malaysia People's Housing Programme (PR1MA), higher loan limits for civil servants under Budget 2017 and higher inflation could raise household debt.

RAM Ratings co-head of financial institution ratings Wong Yin Ching said there may not be a sustained reduction in the household debt-to-GDP ratio in the coming years, given the new and more accessible end-financing schemes for homebuyers under PR1MA.

"Increased loan limits for civil servants to purchase homes, motorcycles and computers/smartphones were also introduced by the government in Budget 2017. Overall, we expect the household debt-to-GDP ratio to be sticky at around current levels," adds Wong.

"Malaysia's household debt levels have remained elevated for some time, given the country's young demographics – 25 to 39 years old,

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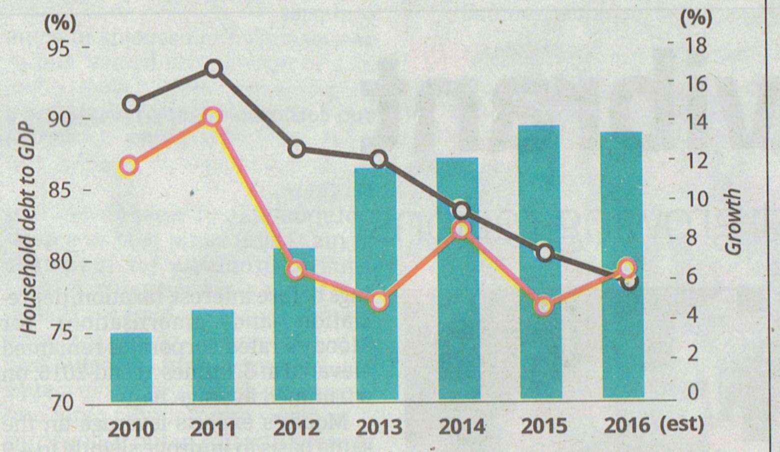
Household debt and nominal GDP growth



Tighter lending requirements and escalating cost of living would work in tandem to somewhat suppress consumers' discretionary spending, hence subduing demand for loans, she said.

"On the property front, while the majority of investors are still adopting a wait-and-see approach, there remains demand due to population growth as new buyers enter the property market.

"Consequently, demand will tend to go towards the affordable segment and sub-sale landed properties where prices are expected to hold," Thoo said.

CIMB Investment Bank senior banking analyst Winson Ng said he expected to see weaker residential faster than the overall population growth.

"After seven consecutive years of rising household debt to GDP, the ratio is estimated to have eased marginally from 89.1% as at end-2015 to around 88.5% as at end-2016. Weaker consumer sentiment and Bank Negara's macro prudential measures have moderated household debt growth," Wong noted.

Alliance Bank Malaysia Bhd chief economist Manokaran Mottain said the importance should be stressed on the sustainability of household debt. If consumers are unable to pay their debt, yet it increasingly grows every year, then this would be a point of concern, he said.

"There are several factors which could act as catalysts for growth in household debt and debt service ability. Stronger private consumption contributes to higher growth in credit. However, since consumer sentiments are still in bearish territory, it is unlikely for a rapid increase in private consumption.

"Higher inflation in 2017 could be a risk to debt service ability, as higher inflation adds to the cost of borrowing. Finally, if the denominator in the equation that is GDP growth comes below the pace of household loans expansion, then household debt to GDP ratio could be steady or even rise.

"We are of the view that the ratio would stay there for a while, before a meaningful decline is expected to occur," Manokaran said.

Source: Bank Negara, RAM Ratings

All in all, he said he expected household debt-to-GDP ratio to remain steady at around 89% for 2016.

Malaysian Rating Corp Bhd chief economist Nor Zahidi Alias told *StarBiz* that while household loan growth had slowed in recent months, the household debt-to-GDP ratio is expected to remain elevated over the near term, unless nominal GDP growth accelerates sharply, which is highly unlikely at this juncture.

"Under our base case scenario, with nominal GDP growth of around 5%-6%, household debt-to-GDP ratio will be in the range of 85%-90% of GDP in 2017 (2015: 89.1%).

"Barring any economic shock, we do not think that household debt-to-GDP ratio will rise significantly in the near term as banks will continue to maintain stringent credit assessment.

"With real GDP growth expected to be around 4% this year, we do not foresee any surprises in household debt statistics in the near term," Zahidi said.

Meanwhile, Moody's Investors Service viewed the slowdown in household loans, which has been a concern since 2015, as positive towards enhancing the asset quality of Malaysian banks and moderating household debt levels.

Towards this end, its vice-president and senior analyst Simon Chen said the continued deceleration of household loan growth would help stabilise the high household leverage situation in Malaysia, which is among the highest in Asia.

He expected household debt-to-GDP ratio for 2016 to moderate from the 89% level recorded at end-2015.

On the asset quality of banks, Wong said the asset-quality indicators for household loans have remained benign, with the gross impaired-loan ratio steady at 1.1% as at end-2016.

While weakening in household loan quality is anticipated (with troubled unsecured consumer loans already ticking upwards), she said the deterioration is not expected to be significant, given still-accommodative interest rates and contained unemployment conditions.

Banks have also generally maintained prudent underwriting standards for the household sector, she noted.

As for the growth of household loans this year, OCBC Bank (M) Bhd head of secured lending Thoo Mee Ling expected it to remain flattish this year, due mainly by the ongoing challenging economic and financial circumstances.

loans from those approved in the past two to three years.

As such, Ng said household loan growth would continue to decelerate from 5.3% in 2016 to around 5% in 2017.

"In addition, due to the lack of catalysts, weak consumer sentiment and higher cost of living, the growth for other household loans – auto loans, credit cards and personal loans – would also remain lacklustre in 2017, probably at mid-to-low single-digit rates.

"Assuming headline GDP growth maintains its pace, the household debt-to-GDP metric could stabilise or decline," he added.

Based on the latest statistics, loan growth was stable at 5.3% year-on-year (y-o-y) at end-December 2016, on par with the level at end-November 2016.

By segment, the expansion in business loans picked up from 4.6% y-o-y at end-November 2016 to 5% y-o-y at end-Dec 2016, but this was offset by the deceleration in the growth in household loans from 5.4% y-o-y at end-Nov 2016 to 5.3% y-o-y at end-December 2016.

Manokaran said he expected consumer sentiment to remain relatively soft as the cost of living remained elevated but there are chances of turning around in 2017.

Therefore, the base case outlook for household loans growth and consumption would maintain at 2016 level with cautious optimism for upside growth, he added.