

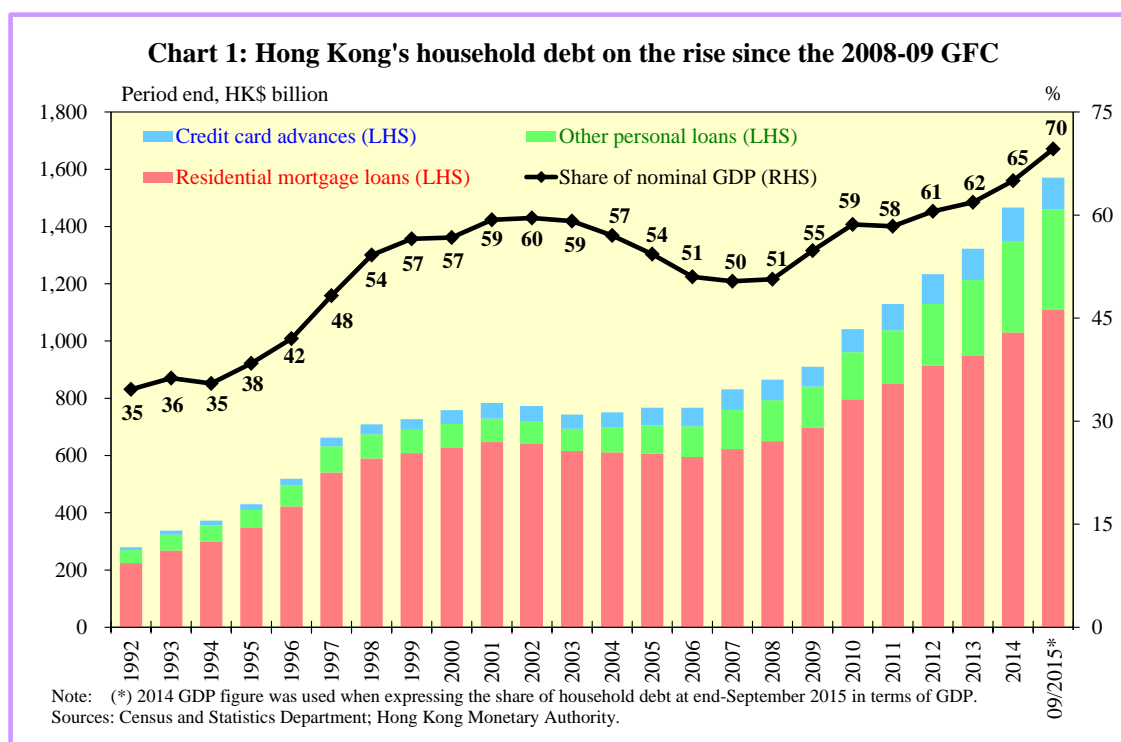
# An overview of the household debt situation in Hong Kong<sup>(1)</sup>

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Household borrowing in Hong Kong has grown considerably since the 2008-09 Global Financial Crisis (GFC), subsequent to a period of household deleveraging after the Asian Financial Crisis in 1997-98 (*Chart 1*). This development is, however, not unique to Hong Kong. The successive large-scale quantitative easing programmes rolled out by major central banks after the GFC have driven interest rates to record lows. The nearly-zero borrowing cost amid the abundant global liquidity seemed to have led to visible rises in household indebtedness across the Asian region. This note attempts to examine the household debt situation in Hong Kong.

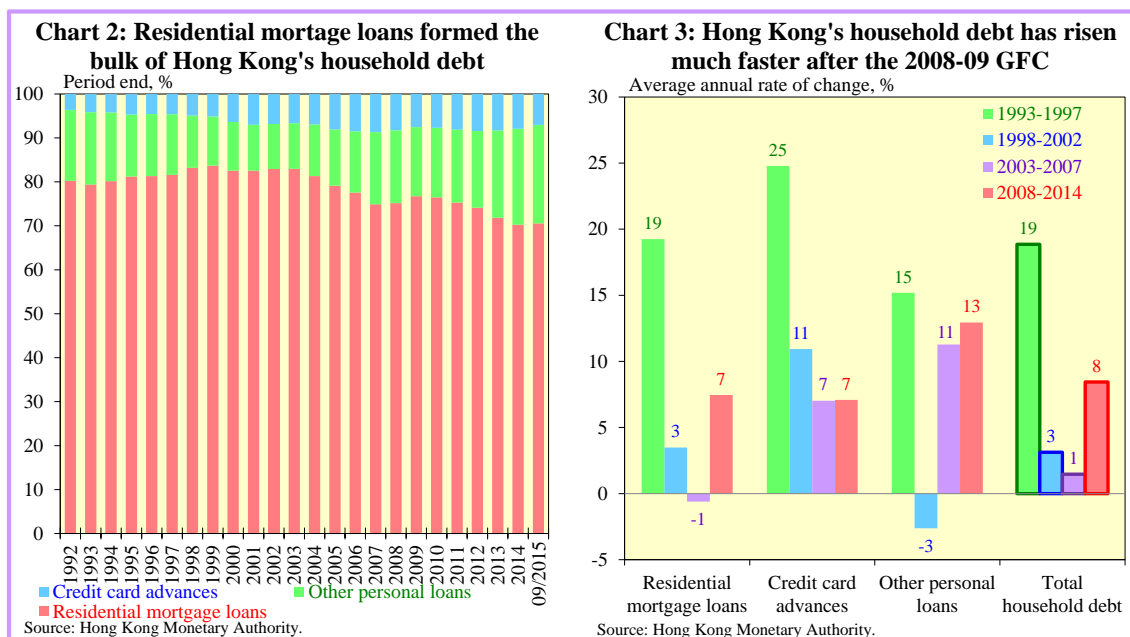
2. Assessing households' indebtedness is important due to its potential implications on Hong Kong's macro-economy, especially when the US is about to embark on an interest rate upcycle. Given Hong Kong's linked exchange rate with the US dollar, US interest rate hikes would eventually translate into higher interest rates and hence borrowing costs in Hong Kong. This may thus have an effect on consumption, depending on the household debt situation.



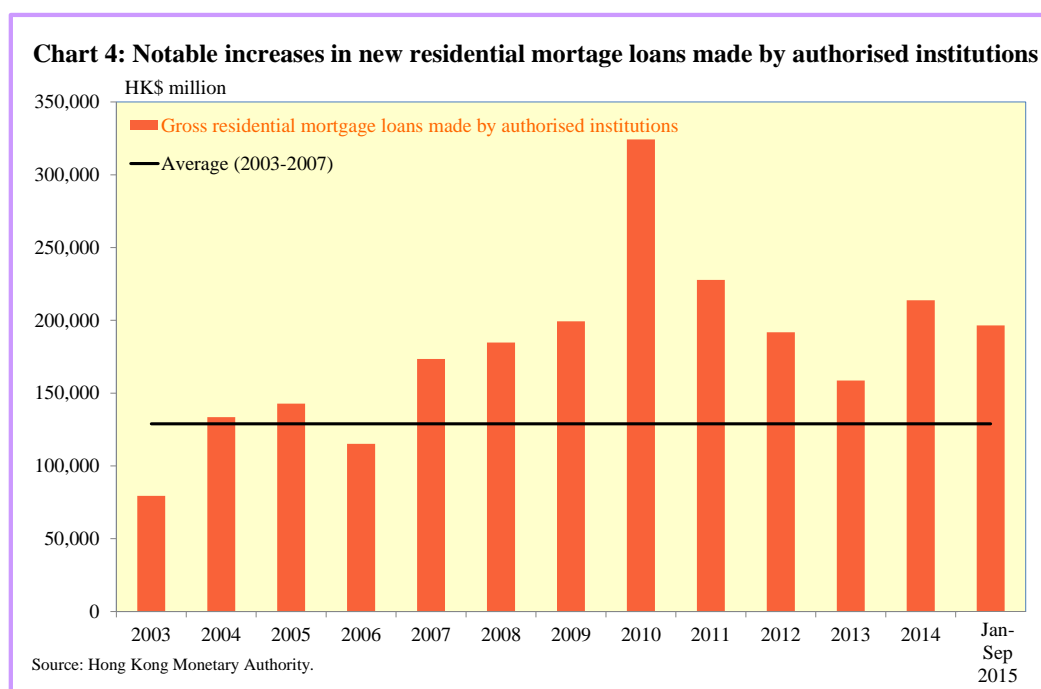
3. By end-September 2015, Hong Kong's total household debt amounted to HK\$1,571 billion (or US\$203 billion), equivalent to almost 70% of Hong Kong's GDP in 2014. Residential mortgage loans formed the bulk of total household debt, at around 71%, while the rest were other personal loans and credit card advances, at 22% and 7% respectively (*Chart 2*).

(1) In this note, household debt figures of Hong Kong and other debt-related statistics (such as debt-servicing ratio and loan-to-value ratio) are from the Hong Kong Monetary Authority (HKMA). GDP and unemployment rate figures of Hong Kong are from the Census and Statistics Department, HKSAR Government. For household debt figures of other economies, they are mostly from the Bank for International Settlements, unless otherwise specified.

4. Total household debt at end-September 2015 was up by 11% over a year earlier, faster than the average 8% per annum growth in 2008-2014 and at a much more accelerated pace than the average 1% per annum growth in 2003-2007 when the household sector underwent a period of deleveraging (*Chart 3*).

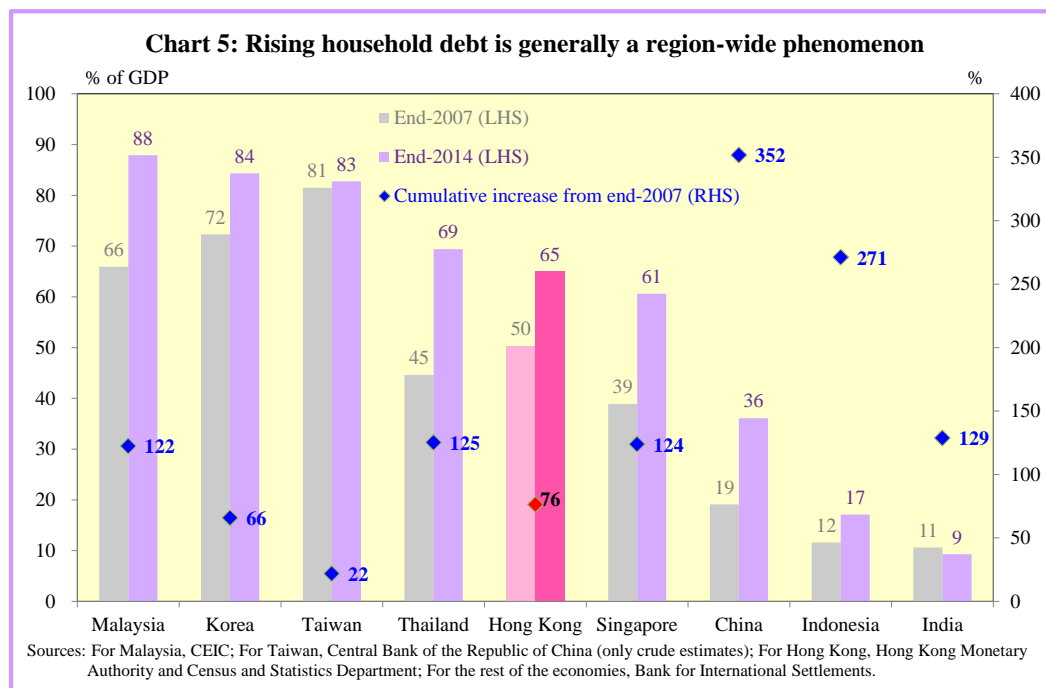


5. Given the significant share of residential mortgage loans in Hong Kong's household debt, the increase in household debt since the GFC reflected, at least in part, the rise in housing prices between 2007 and 2014, which led to a visible increase in the amount of new residential mortgage loans (*Chart 4*)<sup>(2)</sup>. Higher house prices could also induce a withdrawal of equity by households from the housing stock to release funds for other purposes, conceivably explaining in part the notable increase in lending by banks via other personal loans during this period.



(2) In the third quarter of 2015, there were around 411 000 owner-occupied households in Hong Kong with mortgages or loans. This comprised 33% of all owner-occupied households or 17% of all households in Hong Kong. Such number of households marked a cumulative decline of 22% from the fourth quarter of 2007.

6. Nonetheless, in comparison to selected major Asian economies, Hong Kong's household debt level in terms of GDP was not particularly high (70%)<sup>(3)</sup>, versus Malaysia (88% at end-2014), Korea (84%), Taiwan (83%). The corresponding cumulative 7-year growth since the GFC was also not particularly distinct for Hong Kong (76%), when compared to Indonesia (271%), India (129%), Thailand (125%), Singapore (124%) and Malaysia (122%) (*Chart 5*).



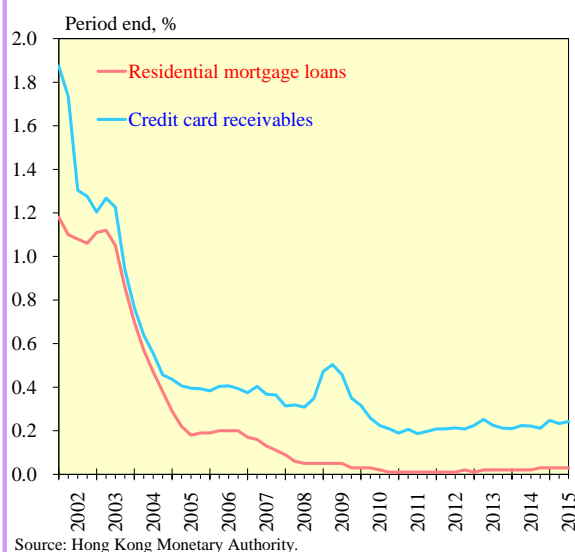
7. The HKSAR Government is mindful of the risks associated with household indebtedness to the banking sector and the wider economy. Seven rounds of macro-prudential measures on property mortgage lending were implemented by the Hong Kong Monetary Authority (HKMA) since October 2009. A guideline on personal lending was also issued by the HKMA to authorised institutions to strengthen banks' risk management and resilience.

8. These measures were effective so far. The average loan-to-value ratio of new mortgages was 51% in the third quarter of 2015, lower than the average of 64% in January to October 2009 before these measures were introduced. The debt-servicing ratio for new mortgages trended down successively to around 35% from over 40% before stricter limits were imposed on the debt-servicing ratio of mortgage applicants. The delinquency ratios for residential mortgage loans and credit card receivables stayed low at 0.03% and 0.24% respectively at end-September 2015 (*Chart 6*). The favourable job and income conditions of Hong Kong over the past few years or so should also help maintain the sustainability of household debt<sup>(4)</sup> (*Chart 7*).

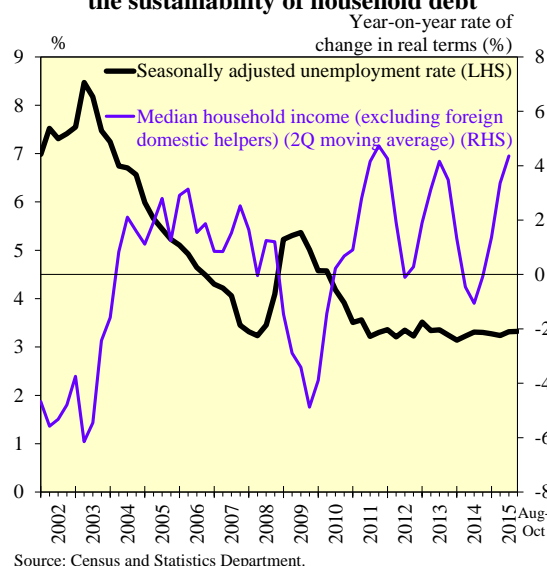
(3) Figure at end-September 2015, estimated using GDP in 2014.

(4) Hong Kong's labour market remained in a state of full employment, with the seasonally adjusted unemployment rate staying at a low level of 3.3% in August-October 2015. Labour incomes also sustained further growth. In the third quarter of 2015, the median monthly household income (excluding foreign domestic helpers) grew by 4% year-on-year in real terms.

**Chart 6: Delinquency ratios for residential mortgage loans and credit card receivables stayed low**



**Chart 7: Favourable job and income conditions crucial to maintaining the sustainability of household debt**



9. While significant efforts were put in mitigating systemic risks in the banking sector and Hong Kong's financial system is sound and resilient, the Government would still need to remain vigilant about the highly uncertain external environment which could weigh on Hong Kong's domestic economic performance and hence adversely affect the debt-servicing ability of the households. Also, with the US interest rate lift-off approaching and an expected widening of the divergence in monetary policy stances by major central banks, the local property market may face some downward pressures amid higher mortgage rates. This, coupled with an uncertain economic outlook, would in turn add further strains on households' financial positions. The Government would therefore need to monitor the situation closely.

#### **Disclaimer:**

Views expressed in this article are those of the authors, and do not necessarily reflect the official position of the HKSAR Government.