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**Consumer Credit in Singapore:
Trends and Analysis**

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CONSUMER CREDIT IN SINGAPORE: TRENDS AND ANALYSIS

INTRODUCTION

The recent deterioration in credit card debt quality has raised concerns over excessive credit card borrowing. Credit cards charge-off rate – the percentage of credit loans outstanding that banks have written off – rose 1.7 percentage points to 4.8 per cent in 1998. This suggests that some households are facing financial strains. Although credit card debt has grown rapidly, it represents only a modest fraction of total consumer credit (i.e. debt incurred to finance consumption expenditure).

This paper analyses the trends in consumer credit and the impact on households. It then compares the level of consumer credit in Singapore with that in selected developed countries.

DEFINITION OF CONSUMER CREDIT

Consumer credit is defined as credit extended to individuals to finance or to refinance debts incurred for the purchase of consumer goods and services. Loans secured by real estate including home equity finance¹ and those secured for non-consumption purposes are excluded.

TRENDS IN CONSUMER CREDIT

Overview

Consumer credit grew at a moderate pace in recent years (Table 1). Growth in consumer credit slowed considerably in 1996 and 1997, following several years of strong credit growth. The slowdown could be attributed to the successful measures introduced by Monetary Authority of Singapore (MAS) to tighten credit limits on car and personal loans in Feb 95, and on credit cards in Feb 96.

¹ Refers to personal loans secured (for non-consumption purposes) using home equity as collateral.

Growth in consumer credit slowed further with the onset of the Asian financial crisis in mid-1997. The growth of \$0.1 billion (or 0.8 per cent) between Jul 97 and Jun 98 was substantially lower than the \$1.0 billion (or 6.6 per cent) increase recorded in the previous 12-month period. Excluding motor vehicle loans, consumer credit growth was substantially higher although it has grown at a slower rate of 8.5 per cent, compared to the 11.3 per cent in the previous 12-month period.

TABLE 1 CONSUMER CREDIT IN SINGAPORE, 1995-1998

	1995	1996	1997	1998
	Amount Outstanding as at end-June (\$ Billion)			
Total	13.11	14.57	15.54	15.66
Total (excluding motor vehicle loans)	4.28	5.20	5.79	6.29
Instalment Credit	11.06	11.88	12.55	12.41
Instalment Credit (excluding motor vehicle loans)	2.23	2.51	2.81	3.03
Non-instalment Credit	2.05	2.69	2.99	3.26
	Year-on-Year Growth (%)			
Total	23.5	11.2	6.6	0.8
Total (excluding motor vehicle loans)	23.8	21.5	11.3	8.5
Instalment Credit	22.0	7.4	5.7	-1.2
Instalment Credit (excluding motor vehicle loans)	16.9	12.3	11.9	7.8
Non-instalment Credit	32.5	31.7	10.8	9.2
	% Share of Total Consumer Credit			
Total	100.0	100.0	100.0	100.0
Total (excluding motor vehicle loans)	32.7	35.7	37.3	40.1
Instalment Credit	84.4	81.5	80.8	79.2
Instalment Credit (excluding motor vehicle loans)	17.0	17.2	18.1	19.3
Non-instalment Credit	15.6	18.5	19.2	20.8

Growth rates are calculated based on the amount outstanding in million dollars.
 Figures may not add up due to rounding.

As at June 1998, the total amount of consumer credit outstanding in Singapore was \$15.7 billion comprising \$12.4 billion of instalment credit² and \$3.3 billion of non-instalment credit³. Excluding loans for the purchase of

² Instalment credit includes hire purchase loans on motor vehicles extended by financial institutions (adjusted for personal use), retailers and non-bank specialised agencies, personal loans for the purchase of motor vehicles, retailers' credit and personal loans for the purchase of consumer durables and other loans.

³ Non-instalment credit includes rolled over balances on credit cards issued by financial institutions and charge cards issued by retailers, loans provided by pawnshops and other non-instalment credit.

motor vehicles, the amount of consumer credit outstanding was \$6.3 billion (Table 1).

Instalment Credit

In 1998, instalment credit contracted 1.2 per cent compared to an expansion of 5.7 per cent in 1997. Excluding motor vehicles loans, instalment credit rose 7.8 per cent. Credit for the purchase of other consumer durables, and other instalment credit grew 11.7 per cent and 7.0 per cent respectively.

TABLE 2 INSTALMENT CREDIT, 1995-1998

	1995	1996	1997	1998
	Amount Outstanding as at end-June (\$ Billion)			
Instalment Credit	11.06	11.88	12.55	12.41
Instalment Credit (excluding motor vehicle loans)	2.23	2.51	2.81	3.03
Motor vehicles	8.83	9.37	9.74	9.38
Other consumer durables	0.43	0.42	0.47	0.52
Other instalment credit ^a	1.80	2.09	2.34	2.51
	Year-on-Year Growth (%)			
Instalment Credit	22.0	7.4	5.7	-1.2
Instalment Credit (excluding motor vehicle loans)	16.9	12.3	11.9	7.8
Motor vehicles	23.3	6.1	4.0	-3.7
Other consumer durables	6.2	-3.9	11.6	11.7
Other instalment credit ^a	19.8	16.2	12.0	7.0
	% Share of Total Consumer Credit			
Instalment Credit	84.4	81.5	80.8	79.2
Instalment Credit (excluding motor vehicle loans)	17.0	17.2	18.1	19.3
Motor vehicles	67.3	64.3	62.7	59.9
Other consumer durables	3.0	2.9	3.0	3.3
Other instalment credit ^a	13.7	14.4	15.1	16.0

^a Includes loans from thrift and loan/multi-purpose societies to members, loans from insurance companies to policy holders, public and private sectors' staff loans, other loans granted by non-bank credit agencies, and home equity finance for consumption purposes.

Growth rates are calculated based on the amount outstanding in million dollars.

Figures may not add up due to rounding.

Instalment credit, which comprises about fourth-fifths of consumer credit, can be viewed as a financial instrument to break down large expenditures on durable goods (which will be yielding services to consumers for a number of years) to match with current income. Given the large outlays

for these big-ticket items such as motor vehicles, it is normal for consumers to borrow, or incur debt, to finance their purchase.

Table 2 shows that the share of instalment credit has been trending down over the last few years, due mainly to declining growth of motor vehicle loans. With the high car prices in Singapore, it is not surprising that motor vehicle loans comprise about three-fourths of instalment credit. Motor vehicle loans declined by 3.7 per cent in 1998 due to lower COE quota premiums (and consequently car prices). Growth in motor vehicle loans has, in fact, been trending down since 1996 (Table 2).

TABLE 3 CREDIT FOR THE PURCHASE OF OTHER CONSUMER DURABLES
(As at end-June)

	Outstanding Credit (\$ Million)		% Change	Distribution (%)	
	1997	1998		1997	1998
Total	465.0	519.6	11.7	100.0	100.0
Banks	139.3	135.8	-2.5	30.0	26.1
Retailers & non-bank (specialised) credit agencies	325.7	383.8	17.8	70.0	73.9
Audio-visual equipment	81.4	94.4	15.9	17.5	18.2
Electrical appliances	47.8	60.3	26.3	10.3	11.6
Furniture & lighting	25.8	31.7	23.1	5.5	6.1
Computer	41.8	57.6	37.8	9.0	11.1
Others	128.9	139.8	8.4	27.7	26.9

The share of credit for the purchase of other consumer durables remained relatively small although it has increased from 3.0 per cent to 3.3 per cent. This type of credit was the third fastest-growing type of consumer credit in 1998. It rose 11.7 per cent to \$520 million in 1998 (Table 3). Data from the recently completed 1998 Survey of Consumer Credit revealed that retailers and non-bank specialised credit agencies were the major suppliers of credit for the purchase of other consumer durables. Table 3 also shows that consumers are not shunning these credit suppliers for the purchase of consumer durables although they charged substantially higher interest rates.

Non-instalment Credit

Non-instalment credit, which accounts for the remaining one-fifth or \$3.3 billion of consumer credit outstanding, finances current expenditures out of future income. Non-instalment credit comprises debt incurred through credit card accounts at banks and charge card accounts at retailers, loans provided by pawnshops and other non-instalment credit.

TABLE 4 NON-INSTALMENT CREDIT, 1995-1998

	1995	1996	1997	1998
Amount Outstanding as at end-June (\$ Billion)				
Non-instalment Credit	2.05	2.69	2.99	3.26
Credit/charge cards	0.78	0.91	0.95	1.13
Pawnshops	0.41	0.47	0.54	0.68
Other non-instalment credit ^a	0.85	1.31	1.49	1.45
Year-on-Year Growth (%)				
Non-instalment Credit	32.5	31.7	10.8	9.2
Credit/charge cards	11.8	16.8	4.6	18.6
Pawnshops	9.7	14.2	15.6	24.5
Other non-instalment credit ^a	81.6	53.8	13.4	-2.5
% Share of Total Consumer Credit				
Non-instalment Credit	15.6	18.5	19.2	20.8
Credit/charge cards	6.0	6.3	6.1	7.2
Pawnshops	3.1	3.2	3.5	4.3
Other non-instalment credit ^a	6.5	9.0	9.6	9.2

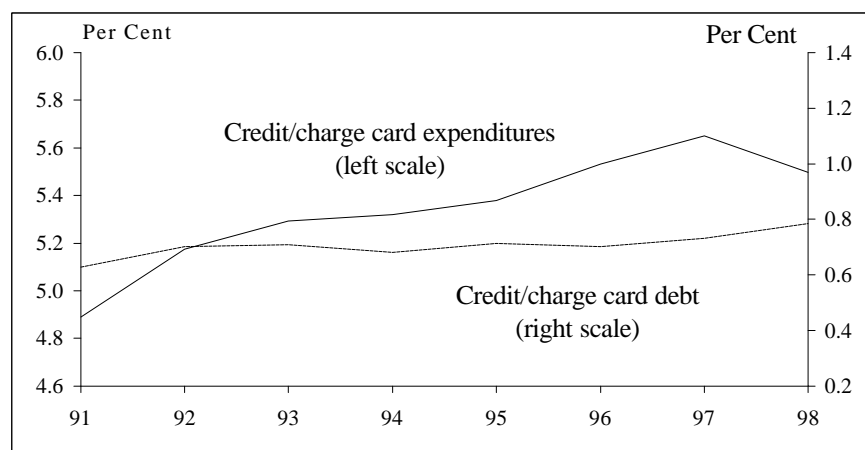
^a Mainly overdraft facilities & loans provided by banks for consumption purposes. Growth rates are calculated based on the amount outstanding in million dollars. Figures may not add up due to rounding.

Loans provided by pawnshops recorded the highest increase, growing by 24.5 per cent to \$0.7 billion. The second fastest-growing type of consumer credit in 1998 was credit/charge card debt (the amount card users leave unpaid on their bills that is rolled over to the next month). Credit card borrowing rose sharply by 18.6 per cent to \$1.1 billion. Although credit/charge card debt and loans provided by pawnshops have grown more rapidly than other kinds of borrowing, they account for relatively modest shares of consumer credit, at 7.2 per cent and 4.3 per cent respectively.

Credit/Charge Card Debt Ratio

Credit card debt as a ratio of GNP has remained relatively stable at between 0.6 per cent and 0.8 per cent (Chart 1). Credit card borrowing has therefore not increased at a disproportionate pace. However, the use of credit cards has grown rapidly over the years. Credit card expenditures as a ratio of GNP has increased from 4.9 per cent in 1991 to 5.7 per cent in 1997 before falling to 5.5 per cent in 1998. Credit card expenditures as a ratio of personal consumption expenditure (PCE) has grown from 11.0 per cent in 1991 to 14.3 per cent in 1998. This was higher than the corresponding ratio of 9.1 per cent for Taiwan⁴ in 1998.

CHART 1 CREDIT CARD EXPENDITURES AND DEBT AS RATIO OF GNP
(During the year)



These observations suggest a greater use of credit and in-house charge cards as a convenient form of cashless payment rather than a form of debt. With the growth of credit card expenditure trending downwards, competition in the credit card industry will likely intensify as card issuers seek to maintain their market shares⁵. The increased convenience of credit and in-house charge cards has been reinforced in recent years by a variety of incentives; e.g., frequent flier miles and up-front discounts on purchases made with credit cards.

⁴ “Bad debt ratio on credit cards to hit new high” The Free China Journal 19 Mar 1999.

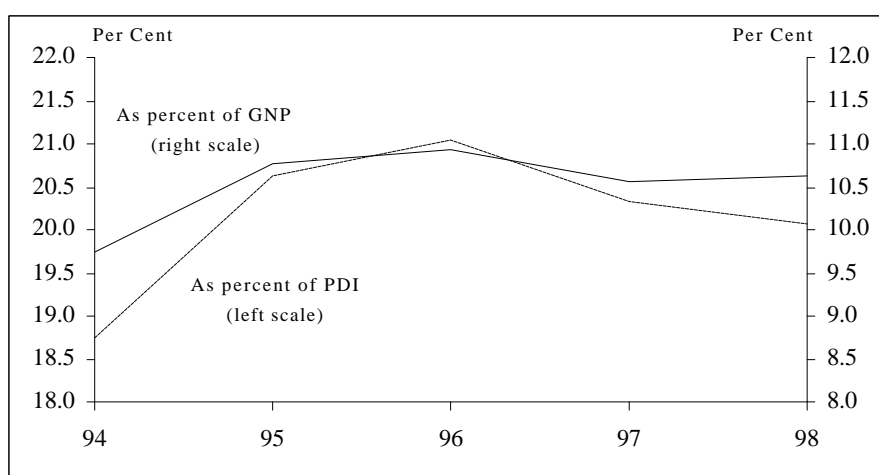
⁵ “Getting more to use their cards” Business Times 12 Mar 1999.

IMPACT ON HOUSEHOLDS

Consumer Credit Burden

Consumer credit as a ratio of personal disposable income (PDI) and of GNP have been used as measures of consumer credit burden. Both these measures have been declining in recent years.

CHART 2 CONSUMER CREDIT AS RATIO OF GNP AND PDI



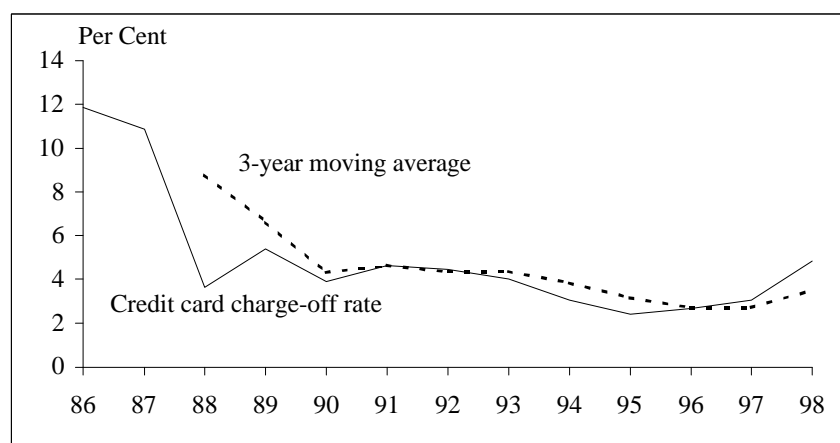
Consumer credit as a ratio of PDI declined from 21.0 per cent in 1996 to 20.3 per cent in 1997 in response to various credit tightening measures. The ratio declined further to 20.1 per cent in 1998 in line with the economic slowdown (Chart 2). Consumer credit as a ratio of GNP has followed a broadly similar trend. It declined from a peak of 10.9 per cent in 1996 to 10.6 per cent in 1997 and 1998.

Charge-off Rate

Despite the generally healthy consumer debt burden ratios, some households do face difficulties in meeting their debt obligations. The charge-off rate for credit card accounts at banks (the percentage of outstanding credit card debt written off) has increased substantially from 3.1 per cent in 1997 to 4.8 per cent in 1998. However, although this rate is slightly higher than the

1991 level of 4.6 per cent, it remains below the level of more than 10 per cent reached during the 1985 recession (Chart 3).

CHART 3 CHARGE-OFF RATE OF CREDIT CARD ACCOUNTS AT BANKS⁶
(During the year)



The coverage of the Survey of Consumer Credit was expanded in 1998 to collect information on the amount of bad debts written off for the various types of consumer credit. These additional information are summarised in Table 5, which shows the charge-off rates for various types of consumer credit provided by retailers and non-bank (specialised) credit agencies.

Despite the financial crisis, the overall charge-off rate for consumer credit provided by retailers and non-bank (specialised) credit agencies fell from 0.7 per cent in 1997 to 0.5 per cent in 1998 (Table 5). The improvement reflected the lower charge-off rate for motor vehicle loans, which accounted for the bulk of the credit provided. The lower charge-off rate could be attributed to the tightening in 1996 of sub-prime car loans (i.e. loans which do not meet MAS's guidelines of 30 per cent cash down-payment and maximum repayment period of 7 years).

The charge-off rate on charge card accounts at retailers has also improved, declining from 8.8 per cent in 1997 to 5.9 per cent in 1998. This rate remains substantially higher than that on credit card accounts with banks.

⁶ Prior to May 1989, credit card debt did not include balances that were less than 30 days overdue.

This is not surprising since credit card account holders with banks are required to meet MAS's income guidelines (minimum annual income of \$30,000). Retailers generally impose a much lower minimum income requirement of \$15,000.

TABLE 5 CHARGE-OFF RATES OF CREDIT PROVIDED BY RETAILERS AND NON-BANK (SPECIALISED) CREDIT AGENCIES

	Per Cent	
	Charge-off Rates	
	1997	1998
Overall	0.69	0.47
Instalment Credit	0.47	0.32
Motor vehicles	0.53	0.30
Audio-visual equipment	0.50	0.58
Electrical appliances	0.48	0.59
Furniture, furnishing and lighting	0.78	0.82
Computer and accessories	0.24	0.30
Others	0.03	0.14
Non-instalment Credit		
Charge card accounts at retailers	8.81	5.92

The charge-off rates for point-of-sale credit for the purchase of other durable goods increased slightly, but remains generally low. Charge-off rates for instalment credit are lower (than non-instalment credit) because they are collateral-based; i.e. the consumer durables could be re-possessed. The highest charge-off rate was recorded for the purchase of furniture and lighting accessories (0.82 per cent). This was followed by credit for electrical appliances (0.59 per cent) and audio-visual equipment (0.58 per cent). The charge-off rate on credit provided for the purchase of computers is, at 0.30 per cent, the lowest among the various types of retailers' credit.

COMPARISON WITH SELECTED COUNTRIES

Singapore's consumer credit at 10.6 per cent of GNP is approaching the level in Germany (11.1 per cent) and is much lower than the level in the United States (15.3 per cent) and Canada (16.6 per cent). The level of instalment credit in Singapore is higher than that in Japan mainly because of the very high level of motor vehicle loans in Singapore (Table 6).

TABLE 6 CONSUMER CREDIT IN SELECTED COUNTRIES⁷

	Singapore 1998	USA 1998	Canada 1997	Germany 1997	Japan 1996
As Per Cent of GNP					
Total	10.6	15.3	16.6	11.1	na
Instalment Credit	8.4	8.7	na	5.6	3.7
Motor vehicle loans	6.3	5.2	na	na	0.3
Consumer durables and other loans	2.1	3.5	na	na	3.4
Non-instalment Credit	2.2	6.6	na	5.5	na
Memo:					
Unidentified personal loans	2.0	-	-	-	-
Total (including unidentified loans)	12.6	-	-	-	-

Figures may not add up due to rounding.

In addition to identified consumer credit, Singapore households incurred an estimated \$3.0 billion worth of personal loans where the purpose to which these loans were applied could not be identified. Even if the full amount of these personal loans were added to consumer credit, the level of consumer credit in Singapore remains substantially lower than in the other developed countries like the United States and Canada.

⁷ The source of data for the US, Canada, Germany and Japan is the Bureau of Economic Analysis/ Federal Reserve Board, Statistics Canada, Deutsche Bundesbank and Japan Statistics Bureau.

CONCLUSION

Recent trends show that consumer credit burden has remained relatively healthy in Singapore. However, the recent increase in the charge-off rate of credit card debt suggests that a larger number of households might be having difficulties meeting their debt obligations.

Even with the increase in credit card and pawnshop credit, consumer credit growth has not increased in Singapore. The marginal increase in 1998 was mainly because of the drop in instalment credit for the purchase of motor vehicles in response to tightening credit measures introduced in 1995 and 1996. Excluding motor vehicle loans, credit growth for the purchase of other durable goods and services remained strong at 8.5 per cent, albeit weaker than the previous 12-month period.

The level of consumer credit in Singapore (as measured by the ratio of consumer credit to GNP) is approaching the level in Germany but remains substantially lower than that in the other developed countries like the United States and Canada.

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