

occasional paper
on
economic statistics

**CONSUMER CREDIT OF
SINGAPORE HOUSEHOLDS:
RECENT TRENDS & DEVELOPMENTS**

Singapore Department of Statistics
July 2004

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CONSUMER CREDIT OF SINGAPORE HOUSEHOLDS: RECENT TRENDS AND DEVELOPMENTS

INTRODUCTION

Consumer credit growth has moderated in the last two years in line with lower economic growth and the outbreak of SARS. Despite this, credit card rollover balance has expanded rapidly, outpacing other types of consumer credit. Banks' aggressive marketing campaigns, partnerships with retailers and incentives such as interest-free instalment plans and waiver of annual subscription fees have contributed to the increasing popularity of credit cards.

By examining recent trends and developments in consumer credit, this paper shows that the increase in credit card rollover balance reflects an increasing preference of consumers for credit cards as a preferred mode of payment over the more traditional types of instalment credit such as retail store charge cards and instalment plans for the purchase of consumer durable goods.

DEFINITION OF CONSUMER CREDIT

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

RECENT TRENDS IN CONSUMER CREDIT

Overview

As at June 2003, the total amount of consumer credit outstanding in Singapore was \$32.6 billion comprising \$17.1 billion of instalment credit, \$3.4 billion of non-instalment credit and \$12.1 billion of other consumption loans. The growth of consumer credit moderated significantly from 12 per cent during the 12 months ending June 2001 to a relatively stable growth of 1.7 per cent and 1.8 per cent in 2002 and 2003 respectively. The share of consumer credit (excluding motor vehicle loans) has also remained stable at 59 per cent over the last 3 years (Table 1).

TABLE 1 CONSUMER CREDIT IN SINGAPORE, 2000 - 2003

	2000	2001	2002	2003 ^p
	<i>Amount Outstanding as at end-June (\$ Billion)</i>			
<i>Total</i>	27.99	31.43	31.97	32.55
<i>Total*</i>	16.18	18.45	18.75	19.09
<i>Instalment Credit</i>	14.80	16.40	16.75	17.09
<i>Instalment Credit*</i>	2.99	3.42	3.53	3.63
<i>Non-Instalment Credit</i>	2.33	2.70	3.16	3.35
<i>Other Consumption Loans</i> [#]	10.85	12.33	12.05	12.11
	<i>Year-on-Year Growth (%)</i>			
<i>Total</i>	11.4	12.3	1.7	1.8
<i>Total*</i>	8.6	14.0	1.7	1.8
<i>Instalment Credit</i>	14.3	10.8	2.1	2.0
<i>Instalment Credit*</i>	9.8	14.3	3.4	2.7
<i>Non-Instalment Credit</i>	16.7	15.6	17.4	5.8
<i>Other Consumption Loans</i> [#]	6.7	13.6	-2.2	0.5
	<i>% Share of Total Consumer Credit</i>			
<i>Total</i>	100.0	100.0	100.0	100.0
<i>Total*</i>	57.8	58.7	58.7	58.7
<i>Instalment Credit</i>	52.9	52.2	52.4	52.5
<i>Instalment Credit*</i>	10.7	10.9	11.1	11.2
<i>Non-Instalment Credit</i>	8.3	8.6	9.9	10.3
<i>Other Consumption Loans</i> [#]	38.8	39.2	37.7	37.2

* Excludes motor vehicle loans.

[#] Refers to personal loans (instalment credit or non-instalment credit) whose purpose could not be identified.

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

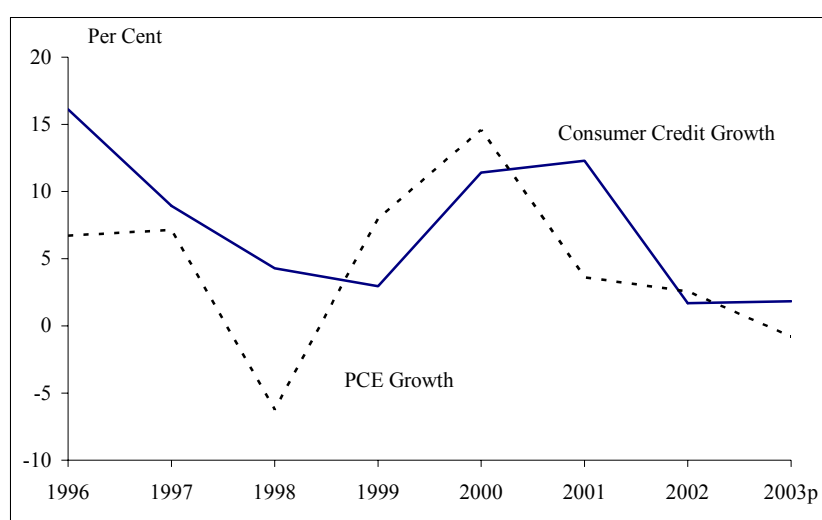
Figures may not add up due to rounding.

Over the 2000-2003 period, the growth of non-instalment credit has consistently surpassed instalment credit growth. Despite this, instalment credit remained the most important type of credit, accounting for 53 per cent of total consumer credit in 2003 (Table 1).

Significant Decline in Growth in Consumer Credit

The significant decline in the growth of consumer credit over the past 2 years was in line with weak domestic demand as reflected by a fall in the growth of private consumption expenditure (PCE). Chart 1 shows the correlation between consumer credit growth and PCE growth. The outbreak of severe acute respiratory syndrome (SARS) in Singapore has depressed consumer spending in 2003.

CHART 1 GROWTH IN CONSUMER CREDIT AND PRIVATE CONSUMPTION EXPENDITURE (PCE)



COMPONENTS OF CONSUMER CREDIT

Instalment Credit forms the Bulk

Instalment credit, which constitutes the bulk 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 large number of years) to match with current income. Given the large outlays for these big-ticket items, it is normal for consumers to borrow to finance their purchases.

With high car prices in Singapore, it is not surprising that motor vehicle loans accounted for 79 per cent of instalment credit (Table 2). However, growth in motor vehicles loans slowed substantially from 16 per cent in 2000 to 1.9 per cent in 2003 due to lower COE premiums (and consequently car prices).

TABLE 2 INSTALMENT CREDIT, 2000 – 2003

	2000	2001	2002	2003 ^p
	<i>Amount Outstanding as at end-June (\$ Billion)</i>			
<i>Instalment Credit</i>	14.80	16.40	16.75	17.09
<i>Instalment Credit*</i>	2.99	3.42	3.53	3.63
<i>Motor Vehicles</i>	11.81	12.98	13.21	13.46
<i>Consumer Durables</i>	0.26	0.32	0.31	0.28
<i>Other Instalment Credit¹</i>	2.73	3.10	3.23	3.35
	<i>Year-on-Year Growth (%)</i>			
<i>Instalment Credit</i>	14.3	10.8	2.1	2.0
<i>Instalment Credit*</i>	9.8	14.3	3.4	2.7
<i>Motor Vehicles</i>	15.5	9.9	1.8	1.9
<i>Consumer Durables</i>	6.7	20.9	-3.4	-7.5
<i>Other Instalment Credit¹</i>	10.1	13.7	4.1	3.7
	<i>% Share of Instalment Credit</i>			
<i>Instalment Credit</i>	100.0	100.0	100.0	100.0
<i>Instalment Credit*</i>	20.2	20.8	21.1	21.2
<i>Motor Vehicles</i>	79.8	79.2	78.9	78.8
<i>Consumer Durables</i>	1.8	1.9	1.8	1.7
<i>Other Instalment Credit¹</i>	18.4	18.9	19.3	19.6

* Excludes motor vehicle loans.

¹ Includes loans from thrift & loan/multi-purpose societies to members, loans from insurance companies to policy holders, public & private staff loans, other loans granted by non-bank credit agencies.

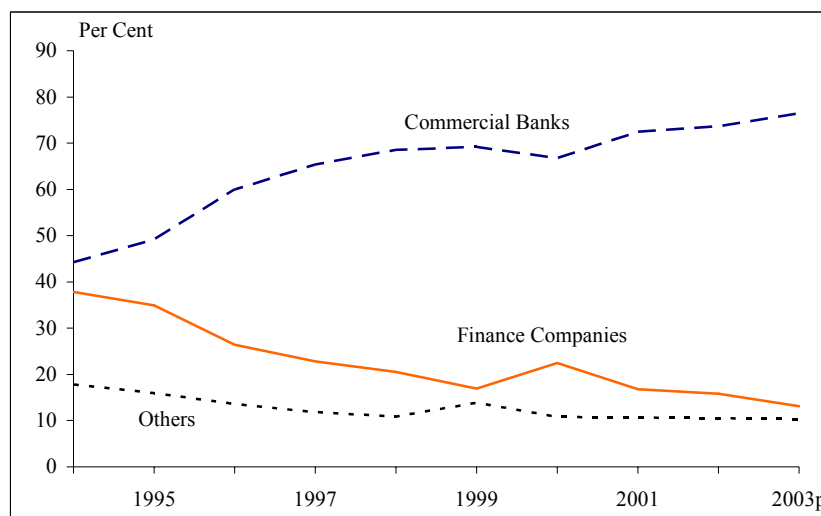
Growth rates and percentage shares are calculated based on the amount outstanding in million dollars.

Figures may not add up due to rounding.

Commercial Banks Constitute Largest Share of Motor Vehicle Loans

Commercial banks have increased their dominance as the main suppliers of motor vehicle loans over the years. Their market share has risen sharply from 45 per cent in 1994 to 77 per cent of total motor vehicle loans in 2003. Finance companies and others such as retailers and non-bank credit agencies accounted for 13 per cent and 10 per cent in 2003 respectively (Chart 2).

CHART 2 SHARE OF MOTOR VEHICLE LOANS
(As at end June)



Steady Growth in Non-Instalment Credit

Non-instalment credit accounted for 10 per cent or \$3.4 billion of total consumer credit in Singapore in 2003 (Table 3). Non-instalment credit allows for the financing of current expenditures from future income. Growth in non-instalment credit has been relatively stable from 2000 to 2002 before slowing down significantly in 2003. This could be attributed to more cautious consumer spending habits with the onset of the global economic slowdown.

TABLE 3 NON-INSTALMENT CREDIT, 2000 – 2003

	2000	2001	2002	2003p
<i>Amount Outstanding as at end-June (\$ Billion)</i>				
<i>Non-Instalment Credit</i>	2.33	2.70	3.16	3.35
<i>Credit/Charge Cards</i>	1.54	1.85	2.28	2.46
<i>Pawnshops</i>	0.79	0.84	0.88	0.89
<i>Year-on-Year Growth (%)</i>				
<i>Non-Instalment Credit</i>	16.7	15.6	17.4	5.8
<i>Credit/Charge Cards</i>	22.4	20.2	23.2	7.7
<i>Pawnshops</i>	7.1	6.5	4.6	0.9
<i>% Share of Non-Instalment Credit</i>				
<i>Non-Instalment Credit</i>	100.0	100.0	100.0	100.0
<i>Credit/Charge Cards</i>	66.0	68.7	72.1	73.4
<i>Pawnshops</i>	34.0	31.3	27.9	26.6

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

Steady Increase in Credit/Charge Card Debt & Expenditure

Widespread marketing campaigns by credit card companies and the rapid emergence of e-commerce on the Internet has contributed to the increased use of credit cards as a convenient form of payment. Various marketing campaigns by credit card issuers such as interest-free instalments on purchases and attractive reward schemes have also resulted in a growing number of consumers paying for their purchases using credit cards. These “bank-type” credit cards are to some extent, a substitute for the instalment-purchase plans formerly offered by retail stores.

TABLE 4 CREDIT/CHARGE CARD RATIOS

	Per Cent			
	2000	2001	2002	2003
<i>Credit Card Expenditure/PCE</i>	16.2	16.4	17.3	18.2
<i>Credit Card Expenditure/GDP</i>	6.6	7.2	7.6	7.8
<i>Credit Card Debt Written Off/GDP</i>	0.05	0.06	0.09	0.12

As a result, the ratios of credit card expenditures to PCE and GDP have been on a steady increase since 2000. The extensive use of credit cards in recent years has also led to a steady increase in the ratio of credit card debt being written off to GDP since (Table 4). The ratios of credit card debt to GDP in Singapore remain comparable to those of the other developed economies (Table 5).

TABLE 5 CREDIT CARD DEBT IN SELECTED COUNTRIES

	1999	2002
	<i>As Per Cent of GDP</i>	
<i>Singapore</i>	0.9	1.4
<i>USA</i>	2.0	2.2
<i>UK</i>	0.6	0.7
<i>Canada</i>	1.5	Na

Higher Charge-off Rates for Credit/Charge Cards

The surge in credit card usage has also inevitably resulted in an increase in the charge-off rate for credit card accounts at banks (Table 6). On the other hand, the charge-off rates for retailers/non-bank credit agencies have improved significantly mainly due to a significant improvement in the charge-off rate for motor vehicles.

The charge-off rate for charge card accounts at retailers has deteriorated by six-fold compared with 2000 (Table 6). This, however, should not be any cause for alarm as such charge card debt accounted for only about 1 per cent of total credit/charge card debt.

TABLE 6 CHARGE-OFF RATES¹ OF BANKS & RETAILERS/
NON-BANK CREDIT AGENCIES, 2000 – 2002
(During the year ending June)

	Per Cent	
	2000	2002
Credit Card Accounts ²	5.02	5.53
Retailers & Non-Bank Credit Agencies	0.77	0.50
<i>Instalment Credit</i>	0.75	0.41
Motor Vehicles	0.55	0.23
Audio-visual equipment	1.83	2.17
Electrical Appliances	1.80	1.83
Furniture & Lighting	1.86	2.29
Computer & Accessories	2.22	0.91
Others	0.70	0.22
<i>Non-instalment Credit</i>		
Charge card accounts at retailers	1.71	10.24

¹ Charge-off rates for the year ending Jun is defined as the bad debts written off during the period divided by the average rollover balance for the period.

² Refer to credit and charge card accounts at banks and non-bank issuers (e.g. American Express and Diners Club)

Singapore's credit card charge-off rate deteriorated significantly from 5.5 per cent in 2002 to 7.2 per cent in 2003, possibly due to the economic slowdown and rising unemployment (Table 7).

TABLE 7 CREDIT CARD CHARGE-OFF RATES¹
(As at end-June)

	<i>Per Cent</i>
2000	5.0
2001	4.8
2002	5.5
2003	7.2

¹ Refers to credit and charge card accounts at banks and non-bank issuers (e.g. American Express and Diners Club)

COMPARISON WITH SELECTED COUNTRIES

Singapore's share of consumer credit to GDP comparable to other developed countries

The share of consumer credit to GDP in Singapore remains comparable to that of other developed countries like the USA, UK and Canada (Table 8). Consumer credit in Singapore has been largely boosted by motor vehicle loans due to high car prices. Excluding motor vehicle loans, consumer credit in Singapore is relatively modest.

TABLE 8 CONSUMER CREDIT IN SELECTED COUNTRIES

	<i>1999</i>	<i>2002</i>
	<i>As Per Cent of GDP</i>	
<i>Singapore</i>	18.0	20.2
<i>Singapore*</i>	10.7	11.9
<i>USA</i>	16.7	18.4
<i>UK</i>	12.9	15.1
<i>Canada</i>	17.1	18.7

* Excludes motor vehicle loans.

CONCLUSION

Growth in overall consumer credit has slowed down considerably since 2001 due to the impact of the global economic recession and the outbreak of SARS in 2003.

The increased use of credit cards in the past few years reflects a substitution of retail instalment credit. With aggressive marketing by credit card issuers coupled with interest-free payments, consumers have increasingly turned to credit cards as a preferred mode of payment in recent years, thereby substituting retail instalment credit such as hire-purchase or instalment-purchase plans traditionally offered by retail stores.

SINGAPORE DEPARTMENT OF STATISTICS
July 2004

Annex

CONSUMER CREDIT IN SINGAPORE 2000 – 2003

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<i>Total</i>	27.99	31.43	31.97	32.55
<i>Total*</i>	16.18	18.45	18.75	19.09
<i>Instalment Credit</i>	14.80	16.40	16.75	17.09
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<i>Motor Vehicles</i>	11.81	12.98	13.21	13.46
<i>Consumer Durables</i>	0.26	0.32	0.31	0.28
<i>Other Instalment Credit¹</i>	2.73	3.10	3.23	3.35
<i>Non-Instalment Credit</i>	2.33	2.70	3.16	3.35
<i>Credit/Charge Cards</i>	1.54	1.85	2.28	2.46
<i>Pawnshops</i>	0.79	0.84	0.88	0.89
<i>Other Consumption Loans²</i>	10.85	12.33	12.05	12.11
	<i>Year-on-Year Growth (%)</i>			
<i>Total</i>	11.4	12.3	1.7	1.8
<i>Total*</i>	8.6	14.0	1.7	1.8
<i>Instalment Credit</i>	14.3	10.8	2.1	2.0
<i>Instalment Credit*</i>	9.8	14.3	3.4	2.7
<i>Motor Vehicles</i>	15.5	9.9	1.8	1.9
<i>Consumer Durables</i>	6.7	20.9	-3.4	-7.5
<i>Other Instalment Credit¹</i>	10.1	13.7	4.1	3.7
<i>Non-Instalment Credit</i>	16.7	15.6	17.4	5.8
<i>Credit/Charge Cards</i>	22.4	20.2	23.2	7.7
<i>Pawnshops</i>	7.1	6.5	4.6	0.9
<i>Other Consumption Loans²</i>	6.7	13.6	-2.2	0.5
	<i>% Share of Total Consumer Credit</i>			
<i>Total</i>	100.0	100.0	100.0	100.0
<i>Total*</i>	57.8	58.7	58.7	58.7
<i>Instalment Credit</i>	52.9	52.2	52.4	52.5
<i>Instalment Credit*</i>	10.7	10.9	11.1	11.2
<i>Motor Vehicles</i>	42.2	41.3	41.3	41.3
<i>Consumer Durables</i>	0.8	1.1	1.0	0.9
<i>Other Instalment Credit¹</i>	9.7	9.9	10.1	10.3
<i>Non-Instalment Credit</i>	8.3	8.6	9.9	10.3
<i>Credit/Charge Cards</i>	5.5	5.9	7.1	7.5
<i>Pawnshops</i>	2.8	2.7	2.8	2.7
<i>Other Consumption Loans²</i>	38.8	39.2	37.7	37.2

* Excludes motor vehicle loans.

¹ Includes loans from thrift & loan/multi-purpose societies to members, loans from insurance companies to policy holders, public & private staff loans, other loans granted by non-bank credit agencies & home equity finance for consumption purposes.

² Refers to personal loans (instalment credit or non-instalment credit) whose purpose could not be identified.

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