



ธนาคารแห่งประเทศไทย
BANK OF THAILAND

Sustainable Solutions to Thailand's Household Debt Problems



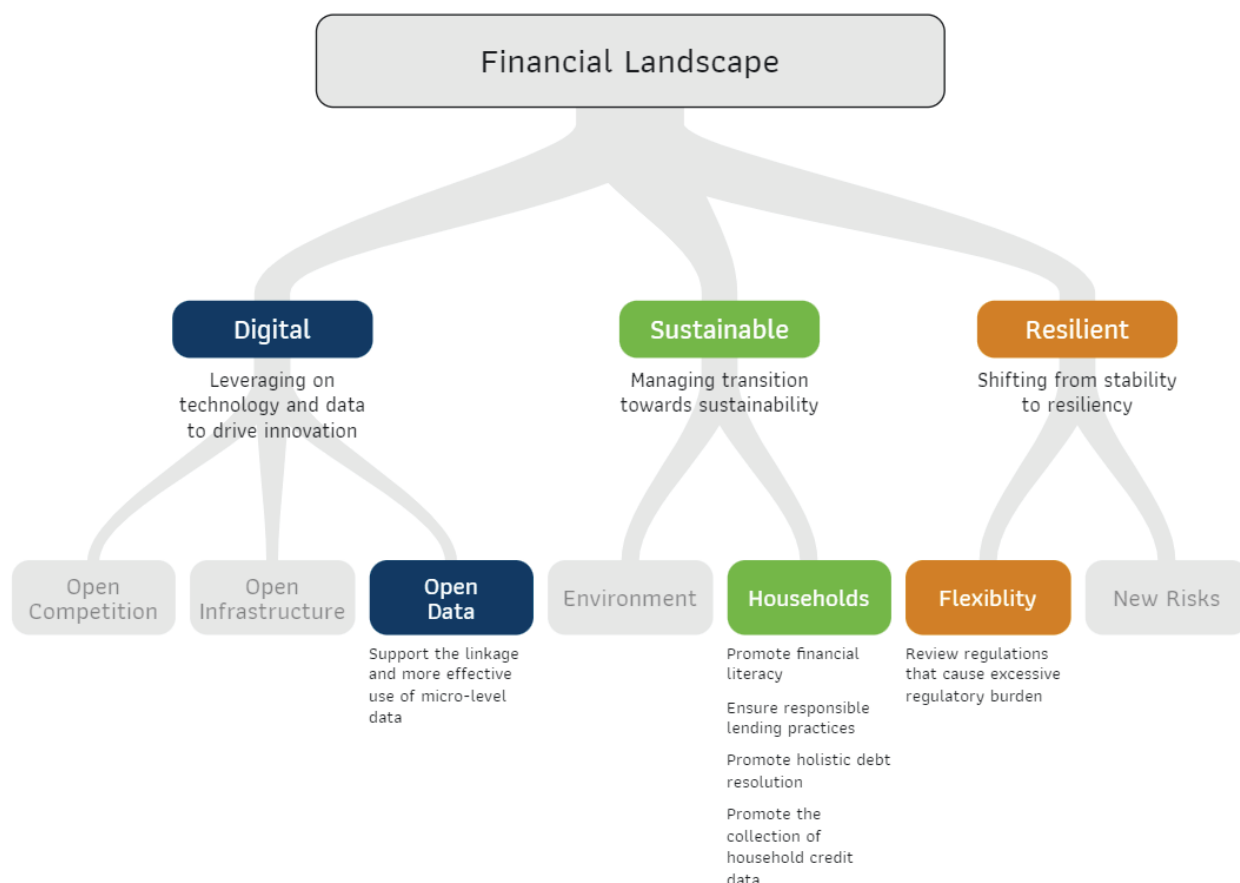
BOT Directional Paper on Financial Landscape
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Introduction

The Bank of Thailand (BOT) has issued the Directional Paper on “Sustainable Solutions to Thailand’s Household Debt Problems” as part of policy implementation under the New Thai Financial Landscape. **As the household sector is regarded as one of key entities engaged in the financial sector, if households are free of over-indebtedness and able to manage their debt in a sustainable manner, these in turn will enhance economic and financial stability in the long run. The financial sector, as a result, is strengthened and ready to support the transition towards digital and environmental sustainability. To achieve this goal, it is vital to foster collaboration among all stakeholders, including public and private sectors, creditors, and debtors, according to their own roles.**



This Directional Paper sets guidelines for all stakeholders to assist the country in alleviating household debt problems. Firstly, the paper provides rationales for dealing with the problems, starting with the overview and eight stylized facts about debt behavior in Thailand being highlighted, followed by the impact of the prevailing household debt problems if they are disregarded, and four main types of debt that require immediate attention and remedial actions. Next, the paper describes the BOT’s desired outcomes, outlines principles underpinning the BOT’s approach to unravel debt problems in a sustainable manner, and determines what must be done accordingly. Finally, the paper portrays what success looks like, i.e., benefits each stakeholder will obtain, with concerted efforts from all the stakeholders.



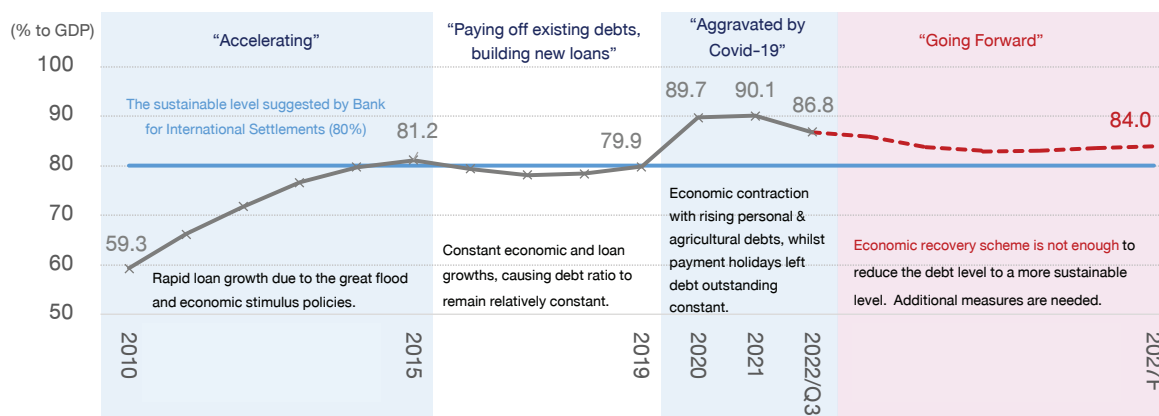
Rationales for Dealing with Thailand's Household Debt Problems

Thai household debt has been accumulated overtime. The economy witnesses a large jump of household debt-to-GDP ratio over 10 years, from 60% in 2010 to 90% in 2020. Such acceleration is derived from a decline in GDP in 2020 as a result of COVID-19 crisis, and an increase in debt levels owing to the great flood and economic stimulus package in 2011-2012. In addition, the measures on loan payment holiday during the COVID-19

pandemic led to lower repayment of existing debt, while additional borrowing was needed to absorb income shocks. **Though the household debt ratio recently declined to 87% as of the third quarter of 2022, the amount of household debt stood as high as 14.9 trillion Baht and likely to continue to rise. This underlines the urgent need for long-term and sustainable solutions** (figure 1).

Figure 1 Recent development of Thai household debt and future paths if they are left unsolved

Thailand's household debt level has continued to increase, with a large jump during the COVID-19 pandemic mainly due to income shocks. If left unsolved, the debt-to-GDP ratio will continue to exceed 80%, a critical level that could adversely affect GDP in a longer run.



Source : BOT (The forecast for the period from the end of 2022 onwards is estimated by the tendency of new debt accumulation, which is impacted by economic conditions, inflation rates, interest rates, and non-performing loan ratio, deducted by the tendency of principal payment, which depends on interest rates and loan tenors.)

8 stylized facts about debt behavior in Thailand

Household debt problems in Thailand are different from those of other countries in several aspects.

Credit cards and personal loans, which are consumer loans and thus not income-generating, play bigger roles in Thailand, accounting for almost one-third of the total household debt, while the majority of household debt in other countries are attributable to housing loans. Moreover, when classified by occupation, household debt is relatively higher for certain groups than the others.

Examples of those with higher debt burden are farmers and self-employed who have volatile income, and government officials including policemen and soldiers who have stable but low income, all of which are unlikely to have adequate financial cushion like emergency savings. Also, some debtors rely on informal loans, data of which are usually unavailable. Based on the BOT's studies, the following are key stylized facts about debt behavior in Thailand

1 Borrowing from an early age

Over 58% of first jobbers (aged 25 – 29) have debts, more than 25% of which are non-performing loans (NPLs). Most of debts are credit card loans, personal loans, and car/motorcycle hire-purchase, some of which are not income-generating and often lead to more NPLs. Moreover, more people under the age of 25, including students, are becoming in debt.¹

- *Having several credit card debts while being a first jobber.*
- *Reaching credit cards' limit within the first year of working from shopping, dining and traveling.*
- *Choosing to pay only minimum monthly payment which led to accumulated interest, and eventually becoming NPLs.*



"After graduation, I started my first job with a monthly salary of 16,000 Baht. Having been working for only 1 year, a commercial bank's officer came to my workplace to offer me a credit card. At the time, I took it without thinking thoroughly. My first credit card had a credit limit of 30,000 Baht. I used up all the credit on car detailing accessories, but it was not enough. So, I applied for 2 more credit cards. With the total credit limit across all 3 cards of over 100,000 Baht, I used the credit cards thoughtlessly on more car detailing accessories and traveling expenses such as plane tickets and hotel rooms. In just less than a year, I maxed out all my credit cards.

At the beginning, I could sometimes pay in full. Later, my ability to pay deteriorated and ended up paying only minimum amount about 10,000 Baht per month. The total loan balances barely decreased as the accrued interest were high. I had little money left after paying out the credit card bills each month. So, I often borrowed money from family and friends to pay other bills. Later, I stopped paying. It was very stressful. I even avoided picking up the phone calls as they may have been ones from debt collectors. With no other options, I finally decided to let all of my debts become NPLs."

Khun Sompong (pseudonym), corporate employee
interviewed on 16 January 2023

¹ Data as of August 2022 from the National Credit Bureau (NCB), and the Number of Population from Registration from Department of Provincial Administration, Ministry of Interior, data as of 2021.

2 Overborrowing

Nearly 30% of credit card and personal loan debtors hold more than 4 cards or accounts and have credit limit as high as 10-25 times the monthly income,² higher than regulatory requirement set out in some other countries at 5-12 times.³ As a result, debtors spend over half of their monthly income on debt service,⁴ more than 50% of which is for credit card and personal loans. Credit card and personal loans are therefore at the center of Thailand's debt trap problem, with high interest rates as they are unsecured loans, and short payment periods which hence result in high monthly debt service burden and default risk. As shown by the number of loan accounts classified as NPLs, more than 60% of which are credit card and personal loans.⁵

- *Having borrowed money since early years of working to support family and for personal expenses.*
- *As the time passes, debt outstanding balances are mounting, and monthly debt burden increases accordingly.*
- *As a consequence, the leftover income, after debt payments for a certain type of loans (such as savings co-op loan which are entitled to collect directly from the gross salary) have been made as shown on salary slips, is not sufficient for daily expenses.*



"I started borrowing from a savings co-operative immediately after I became eligible for loan application (after 6 months of working). At first, I borrowed because I needed to help out my family. After some time, I began to take out a loan for myself such as for the down payment of my car and other personal expenses, using refinancing as a trick to increase the credit limit. The amount of loan payment deducted from my salary each month was getting larger as more loans were being taken out. At the time, my monthly salary was 30,000 Baht. After the monthly loan payment was deducted, only about 3,000 Baht were left which were not enough for daily expenses. I also borrowed from other lenders (credit card, money pool, and car hire-purchase). I reckon the total debt bills excluding the co-op one each month may have reached 10,000 Baht or so. Finally, I failed to pay for my car, so it was seized.

I have put a lot of effort into resolving my debt problems, I sell snacks as I am determined to pay off all non-co-op debts. I have also tried 3 times, all failed, to negotiate with the savings co-op for lower monthly payments. My debt restructuring proposals were rejected because I had stable income and have not yet been retired. The lenders did not take into account my debt burdens from other sources, they said that it was my responsibility since it was me who took out the loans. The lenders were probably right. My debt problem seemed like a never-ending story. Some of my loan contracts were of over 200 payment periods. Even now, I still have no idea how I will ever be able to earn enough money to settle those loans and become debt-free."

Khun Ying (pseudonym), teacher
interviewed on 14 November 2022

3 Uninformed or misinformed borrowing

80% of borrower complaints on the loan offering process are related to incomplete or inaccurate information provided by financial institutions,⁶ making it difficult for debtors to clearly understand loan contract terms and conditions, especially on the interest rates and fees charged for both regular and late payments. Moreover, some borrowers receive only one-sided information that may mislead them into unnecessary debt accumulation. An example is a financing promotional program that offers a small amount of monthly repayment with no explicit description that it will result in a payment plan with very long duration.

² Data as of April 2022 from the National Credit Bureau (NCB), and the BOT database and calculations.

³ In Norway, the debt-to-income ratio for consumer loans is capped at 5 times the income. In Singapore, the borrowing limit on unsecured debt is set at 12 times the monthly income.

⁴ Data as of Q3/2022 and the BOT calculations.

⁵ Data as of August 2022 from the National Credit Bureau (NCB).

⁶ Complaints data regarding sales process provided by financial service providers from Financial Consumer Protection and Financial Literacy Department, BOT.

4 Necessary Borrowing

Over 62% of the Thai households do not have adequate emergency savings⁷ and over half could not afford debt repayments if their income were to fall by 20%⁸, leaving them in dire need of a loan from either formal or informal credit channels. Most of these borrowers were unable to repay their debt. Such circumstances are found in many groups of occupations that normally have volatile income, such as farmers, self-employed individuals, vendors, independent contractors, service workers, and factory workers.

- *Borrowing money to invest in farming but unexpected bad weather caused huge losses.*
- *Getting into deeper debt from guarantee obligation for group loans.*
- *Eventually, the only farmland owned was seized and sold to pay the debt owed.*



"I have been a rice farmer for all my life. Too often, my income is not enough to pay for seeds, fertilizers, labors, and household expenses. I also do not have much savings. So, I applied for a public bank's group loan guarantee program. Each group member was offered a 20,000 Baht loan. I used the loan to invest in an organic vegetable farm. Unfortunately, the heavy rainfalls that year damaged all the produces. Some group members did not pay off the loan and left the group, causing the remaining members to bear additional debt burden of 40,000 Baht each. Moreover, the lender could find and seize our properties that were pledged to other lenders. My house and farmland that were pledged for home restoration loan have also been seized.

The other group members and I have been sued for almost 10 years, until now the case is still ongoing. I do not have much knowledge on legal matter, so the only thing I can do is waiting for suggestions from the group leader. I wish that the case would be settled soon so I could get the title deeds back from the Legal Execution Department. The enforcement officer once told me that the farmland might be put up for auction by the end of this year if I did not pay off my debt. So, I would have no choice but to beg my son for money."

Khun Sompong (pseudonym), corporate employee
interviewed on 16 January 2023

5 Long-term debts

More than 25% of people over the age of 60 are still in debt, averaging 415,000 Baht per person, most of which are agricultural loans accumulated through long-term ongoing debt moratoriums after being in debt moratoriums for a long period; and credit card and personal loans through **monthly minimum debt repayment** that significantly lengthen the time taken to fully repay the loan⁹ (**almost 40%**¹⁰). For example, a personal loan with 3% minimum monthly payment will take almost 7 years to pay off his/her debt.

6 Non-performing debts

Almost half of the 10 million NPL accounts, or more specifically 4.5 million loan accounts turned into NPLs due to the COVID-19 pandemic. (3.1 million debtors with a total outstanding amount of 0.4 trillion Baht),¹¹ 70% of which held by Specialized Financial Institutions (SFIs), 20% by non-banks, and 10% by commercial banks. Most of these are personal loans and agricultural loans.

⁷ Thailand's Financial Literacy Survey Results (2020).

⁸ Thailand's Financial Access Survey of Thai Households (2020)

⁹ Data as of August 2022 from the National Credit Bureau (NCB) and population data as of 2021 from the Bureau of Registration Administration under the Department of Provincial Administration of the Ministry of Interior.

¹⁰ Survey data as of April 2022 on repayment rates (as a percentage of outstanding debt) from business owners with outstanding balances which accounts for 82% of the total accounts.

¹¹ Data as of August 2022 from the National Credit Bureau (NCB).

7 Never-ending debts

Nearly 20% of the NPL accounts are eventually filed a lawsuit. One-third of the lawsuits with property foreclosed and auctioned still ended with loans to be repaid and more assets to be foreclosed.¹² This partly reflects lack of adequate debt management facilities for debtors, having no access to debt mediation prior to and during court proceedings, or after judgment. Unlike business entities, retail debtors are still unable to enter into voluntary rehabilitation and/or bankruptcy process (though a bankrupt will entail limited access to new loans, he or she is getting a fresh start with manageable debt solution).

8 Informal debt

42% of a random sample of over 4,600 households from all regions across the country have informal debt, averaging 54,300 Baht per person¹³ caused by (1) lack of access to formal credits due to volatile income or unavailability of income data to potential creditors which cause reluctance to lend or lending with high interest rates; (2) self-exclusion from formal loans, as informal loans are more convenient, take less time, and do not require collaterals, in spite of high interest rates; and (3) having used up / applied for all formal credit line to the point that need to seek more loans from informal credit channels to pay formal loans.

- *Having borrowed from banks, family, and friends to finance gambling for many years.*
- *Debt piling up. Not having adequate money to pay for food and repay debts. Hence, started seeking loans from informal channels.*



My wife and I started gambling after someone I know did so. We sold a 45-gram gold necklace to spend money on gambling. After a while, we borrowed money from friends; some for 20,000 Baht, some for 30,000 Baht, totaling almost 300,000 Baht. Later, we began to take on a bank loan through our factory's HR department, 100,000 Baht each for my wife and myself, all of which gone within 2 days of gambling. At the time, we did not think much about it because we were severely addicted to gambling. We kept on borrowing from one to pay for the other and get stuck with that cycle.

With increasingly overwhelming debt burden, we did not have enough money to even buy foods and had to buy eggs on credit, whilst some friends started asking us to repay all the money we borrowed as they also struggled financially. At that point, we were so desperate that we decided to borrow from informal channels even if the interest rates were as high as 10% per month. At present, we have already quit gambling and are determined to repay all debt. We only live on the money left over from paying debt. Yet, for a factory worker like us, I reckon it would take forever, maybe until we get old, to pay back all the debts."

Khun Somchai (pseudonym), tanning factory worker
interviewed on 11 November 2022

¹²Data as of August 2022 from the National Credit Bureau (NCB) and data calculated by BOT staff from the Legal Execution Department's article published in February 2022 on Thai household debt situation following enforcement of judgments (available only in Thai version).

¹³Survey data on household income from the Legal Aid Center for Debtors and Victims of Injustice as mentioned in PIER's article on Thailand's informal debt published in June 2022.

What might be the impact of household debt problem if they are left unsolved?

Despite continuous economic recovery, without further actions, household debt is likely to remain around 84% of GDP (Figure 1) or reach a higher level if the economy were to decline sharply or enter into a recession. This means that the country's debt-to-GDP ratio will continue to exceed the watchful level of 80% suggested by the Bank for International Settlement (BIS), which could negatively affect GDP in the long term.¹⁴

High household indebtedness will impede long-run economic growth as most income will be used for debt repayments rather than paying for goods and services. Moreover, **debt problems could also pose risk to the**

country's financial stability. If many debtors are in debt distress at the same time, creditors' balance sheets will be affected by the buildup of NPLs, which **may lead to a crisis and other problems** such as debtors' mental illness, social anxiety, and criminal activity that threatens the lives and properties of people in society. As Thailand is entering an aging society, such debt problems will exacerbate due to rising healthcare costs in contrast to deteriorating household income as the number of earners declines. **Therefore, solving household debt problems is a major challenge facing Thailand and requires immediate and concerted efforts from all stakeholders.**

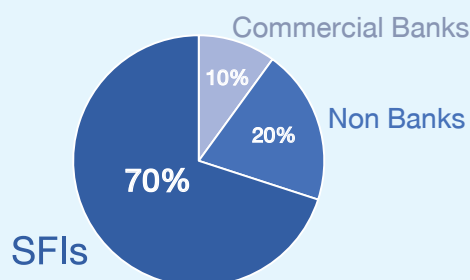
Debts that Require Immediate Attention and Remedial Actions

Not all debts are worrying. Examples are income-generating debts or debts of which debtors have ability to pay. Nevertheless, based on the 8 stylized facts about debt behavior in Thailand mentioned earlier, there are debts that require immediate attention or remedial actions as follows:

1. **Current NPLs:** Especially those new NPLs as a consequence of the COVID-19 pandemic (Figure 2), whether they are sold or still with original creditors, before or during court proceedings, or before or during foreclosure of property. Most of these NPLs are personal loans and agricultural loans.

Figure 2 NPLs as a Consequence of the COVID-19 Pandemic (NCB Status Code 21) by Creditor Type

70% of NPLs as a consequence of the COVID-19 pandemic are with SFIs



Credit data with NCB account status code 21 indicates debts with days past due over 90 days, with conditions that data of such amount as of December 2019 and 12 months earlier must be no past due or past due but less than 30 days. The new account status code 21 has been set in order to separate NPLs during unusual circumstances from normal NPLs.

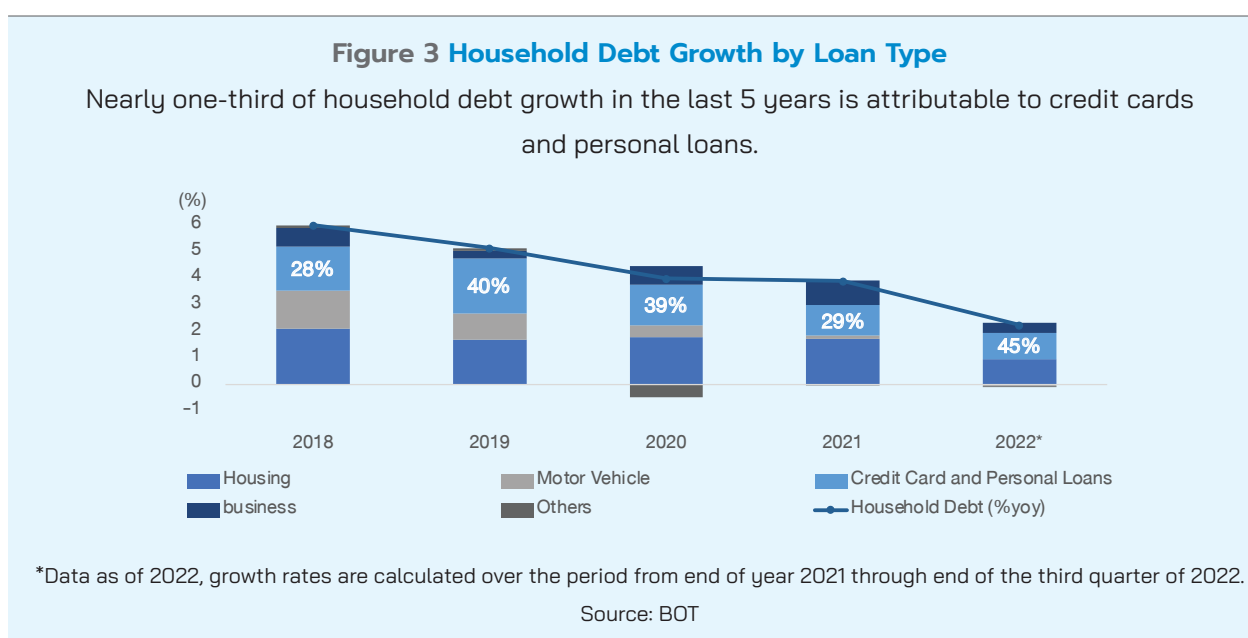
Source: Consumer credit data as of August 2022 from the National Credit Bureau (NCB)'s database calculated by BOT staff.

¹⁴ The study "The real effects of Household debt in short and long-run" (2017) by the Bank for International Settlements (BIS) examines the critical level of household debt-to-GDP ratio based on the data during 1990-2015 from 54 countries. The study suggests that a household debt level higher than 80% of GDP is more likely to decelerate long-term GDP growth, despite benefits from using debt as a mean to increase short-term spending and boost the economy.

2. Persistent debts (i.e., debts that are unlikely to be fully repaid but have not yet become NPLs):

Examples are those in the cycle of using new loans to pay off existing loans, paying cash card debts only at minimum monthly payment amount, acquiring new additional loans with savings co-operatives each year to match credit line with salary increases until retirement, and using principal-only debt moratoriums every year for agricultural loans.

3. New debts that have grown rapidly and are at risk of becoming NPLs or persistent debts in the future: These include agricultural debts mostly at SFIs and by the older group of Gen X (aged 50-60) and Baby Boomers (> aged 60), whose income is on the decline; and credit card and personal loans extended by non-banks, commercial banks and SFIs (Figure 3) which normally require high monthly debt repayment, and has shown high growth among Gen Z (< aged 25) and Baby Boomers. Almost 30% of credit card and personal loan debtors have more than 4 loan accounts per person, and the total credit limit is approximately 10-25 times the monthly income. Therefore, if those debtors get into repayment difficulties, their situation may deteriorate quickly and acutely, and thus will be hard to solve.



4. Other debts that are not included in the household debt statistics, but currently are or could become problems in the future: Examples are loans from the Student Loan Fund and loans from other co-operatives, totaling approximately 0.7 trillion Baht or 4.3% of GDP¹⁵. The excluded debts are also informal loans commonly used among workers in the services and commercial sectors, as well as freelancers, who typically lack financial data and collateral needed to acquire loans through formal credit channels. The growing number of informal loan channels is also concerning (e.g., posters on electricity poles, illegal loan apps, lenders on social media platforms, and loan services through online gambling platforms).

¹⁵ The BOT plans to release data on household debt, inclusive of loans from the Student Loan Fund and other co-operatives, in early 2023.

The BOT's Desired Outcomes

The BOT aims to reduce household debt to a more sustainable level (household debt to GDP lower than 80%) to ensure it does not adversely affect long-term economic growth and financial stability, and to help reduce proportion of non-productive loans. At the same time, **households' well-being and balance sheets also improved**. Distressed debtors should be able to work their way out of a debt spiral while individuals with ability to repay a loan should have access to credit at an appropriate cost. More specifically, **the desired outcomes from solving problems from the 4 types of debt that require immediate attention and remedial actions are as follows:**

1 Current NPLs

- **Debtors in default receive appropriate assistance.** With debt restructuring, debtors are able to make monthly repayments, turning non-performing loans into performing loans. This also helps prevent financial scarring such as having their property foreclosed or being sued in court.
- **Once faced with debt payment difficulties, there are sufficient debt management supports available, both in terms of quality and quantity.** Debt counselling and debt mediation services are available with easy access and provide professional guidance.
- **Debtors with no means to repay their debts have options to enter into debt rehabilitation or bankruptcy.** Such programs are suitable for each debtor's financial circumstance.

2 Persistent debts

- **Debtors with persistent debts are aware of their situation and solutions.** Debtors who cannot afford full repayment on their loans, but have repaid only the interest for the past years (most of them tend to make only minimum monthly payment) will be constantly reminded or nudged into changing their payment behavior. However, if the debt problems seem to persist, there will be an intervention point where both creditors and debtors must work together to find the solutions that result in eventual debt payoff without jeopardizing financial discipline.

3 New debts that have grown rapidly and are at risk of becoming NPLs or persistent debts in the future

- **New loans are of good credit quality.** Debtors acquire new loans only when they have ability to pay and sufficient residual income. They also utilize the loan for its intended purpose and understand the consequences of debt default.
- **Debtors with better repayment history are offered better loan terms and conditions.** This incentive is to encourage good credit culture, resulting in lower interest rates or borrowing costs over the long run.
- **People can properly manage their own finance (responsible borrowing).** They should, for instance, have adequate emergency savings, know what good payment behavior is and take action accordingly, and are aware of what to do when struggling with debt repayment.

4 Other debts that are not included in the household debt statistics, but currently are or could become problems in the future

- **Household debt monitoring has sufficient coverage.** There shall be a monitoring system that can be effectively used to sort out debtor's problems in a timely manner.
- **People have access to formal credits with costs that are appropriate to their risk profile.** Financial institutions have adequate data on their prospective borrowers. Examples are income, other debt obligations, credit history, and records on spending behavior on goods / services / utilities. These data will be taken into account for loan approval and price setting that match on borrowers' creditworthiness.

Sustainable Solutions to Thailand's Household Debt Problems

There are three key principles underpinning the BOT's approach to address household debt problems in a sustainable manner as follows:

1 Comprehensiveness

The solutions must respond well to the characteristics and root causes of debt problems on each phase of the debt journey, namely before applying for a loan / signing a loan contract, while being a debtor, and having debt problems to prevent a never-ending debt cycle.

2 Fairness and appropriateness

The solutions must be fair and reasonable to both creditors and debtors, and implemented at the most appropriate timing to prevent unintended consequences or negative impacts over the longer term. To do so, the actions being taken must:

- **Directly address the root cause of the problem.** With limited funds and resources, tackling debt problem requires **dealing with its root causes and the solution must be one that is applicable to each debtor's circumstance.** Implementing broad-based or one-size-fit-all measures for a prolonged period will not be effective as financial institutions could not use their resources to help some debtors who are in more serious problems. For example, extending new loans to help alleviate income loss during the pandemic may help increase liquidity in the short run, but it could also lead to inability to repay debt over the long run. Such debt could become persistent debt or eventually NPL and makes it more difficult for the borrower to access credit through formal credit channels in the future.
- **Not increase debt burden on the borrower.** Prolonged debt moratoriums, for instance, are regarded as just postponing debt problem that need solving to sometime in the future because the principal remains unchanged while interest is still being accrued, ultimately resulting in higher debt burden. In addition, it could also foster bad financial discipline among debtors, such as taking on more debt during the moratorium period or avoiding making repayments as they get used to not paying debt even after the moratorium ends. At the same time, creditors might lack the liquidity needed to extend new loans or provide supports to those in serious debt distress.
- **Not reduce the borrower's access to credit.** An example of action that leads to such an undesirable consequence is wiping off debtors' credit history. It would result in the loan officers lacking needed information to process loan applications. The loan officers are likely to reject more loan applications; or if they are approved, the interest rates could be significantly higher.
- **Obtain genuine willingness from both creditors and debtors.** Creditors must be willing to cooperate and offer feasible solutions for each of their borrowers. Debtors themselves must also take concrete actions by strictly abiding by new loan agreements and managing their finances more carefully.

3 Stakeholders' involvement

Stakeholders must efficiently play their roles in order to tackle all types of debt, which include **debts under the BOT supervision** that make up 80% of debt in the formal system (i.e., debts owed to commercial banks, SFIs, and non-banks), **other debts** such as loans from co-operatives, loans from the Student Loan Fund and the Village Fund, and **informal debt**. This requires collaborative efforts from various regulators overseeing different types of debt, other government agencies, private sector creditors, and most importantly debtors themselves in order to deal with debt problems in a comprehensive and sustainable manner. It is also important that those actions are complemented by measures to address income problems, social welfare, and infrastructure for the agricultural sector including agricultural irrigation and crop insurance.

What must be done

The remedial actions shall focus first on debtors with **current NPLs** to help lessen their debt burdens to where they can afford monthly repayments. Examples of actions are easing monthly debt burden to match income losses, developing debt management facilities to carry out debt counselling and debt mediation functions, and providing solutions for debtors who have exhausted all means to repay their debts to have options to enter into debt rehabilitation process and recover quickly. **Without such actions**, it could result in deeper financial scarring and severe debt problems, making it increasingly more difficult for debtors to recover.

Goals	What must be done
1. Debtors in default receive appropriate assistance such as debt restructuring to ensure they can afford the newly agreed monthly repayments, improving their loan status to performing loans, and minimizing financial scarring.	- For the majority of new NPLs arising during the COVID-19 pandemic which are mostly owed to SFIs (around 70%), the BOT and the Ministry of Finance will continue to ensure full implementation of long-term debt restructuring measures (extended to the end of 2023), especially for loans with public service accounts (PSA) under a liquidity scheme for retail borrowers with liquidity shortage during the pandemic. The PSA program must also allow sufficient length of time for debt restructuring implementation. In addition, although the SFIs' balance sheets are not affected by the scheme as it is subsidized by the government, the financial scarring would occur without the remedy. - For the remaining NPLs occurred during the COVID-19 pandemic with non-banks (20%) and commercial banks (10%): the BOT will continue to ensure full implementation of long-term debt restructuring measures (extended to the end of 2023). In this regard, main creditors shall provide appropriate assistance to debtors affected from the pandemic in accordance with their income recovery paths.
2. Once faced with debt repayment difficulties, there are sufficient debt management support facilities available, both in terms of quality and quantity, the BOT will collaborate with other government agencies and the private sector to develop training courses and debt management support facilities to reach all debtors.	The BOT will require creditors to offer debt consultation services in order to devise solutions that suit each debtor's circumstance. The consultation services must also be readily accessible through normal service channels such as call centers and bank branches. This requirement is expected to come into effect by the end of 2023. The BOT will promote debt management support operated by third parties to carry out debt counselling service, potentially through the public sector, NGOs, and the private sector or debtors' employers; and also debt mediator's service. The BOT is currently developing pilot training courses for mediators and conciliators under the process of judgement and will conduct course evaluations on a regular basis. The BOT will also expand the program to various organizations within both public and private sectors in order to broaden the support to reach remote areas and the low-income citizens

Goals	What must be done
3. Debtors with no means to repay their debts have options to enter into debt rehabilitation or bankruptcy. The BOT will work together with relevant government agencies to amend the laws on rehabilitation and bankruptcy for retail debtors.	The BOT will work with government agencies to support the enactment of laws that allow retail debtors with no means to repay their debts to voluntarily enter into debt rehabilitation and/or bankruptcy process. Debtors will be able to initiate negotiations on debt management plans with creditors, including a plan to keep their properties for ongoing income generating purpose instead of waiting for creditors to request involuntary bankruptcy of debtors or request seizure and sales of property belonging to the debtors. However, debtors shall be refrained from taking advantage of the process (Moral Hazard). Example: Rehabilitation and Bankruptcy Laws The laws allow retail debtors to file a bankruptcy petition to a court or to enter rehabilitation process. (USA 1841-1938, UK 1861-1999, Japan 1922-1999, South Korea 1962-2005) Effective individual rehabilitation laws should address at least all conditions as follows: 1. Helping honest debtors with feasibility to resolve debt problems under a rehabilitation plan, which will help prevent them from becoming bankrupt. 2. Protecting creditors' rights appropriately and helping them receive debt payment not less than those under bankruptcy process. 3. Having in place a mechanism to prevent debtors from engaging in misconduct or inappropriate behavior such as using rehabilitation process as an excuse to delay debt repayments or court proceedings. 4. Not causing unintended consequences (thereby increasing systemic risks) 5. Having third parties to help develop a practical and sustainable repayment plan. The third parties may also act as a debt mediator.

The next group whose problems need solving is debtors with **persistent debts** through accelerating debt paying off. **Without such actions**, they might not be able to escape from the debt trap, and their quality of life would worsen because of insufficient residual income and increased opportunity for their debts to become NPLs, hindering new loan approvals for income-generating purposes in the future.

Goals	What must be done
4. Debtors with persistent debts are aware of their situation and solutions through nudge messages and working together with the creditors.	The BOT will implement measures to assist this group of debtors within Q3/2023. Priorities will be given to the personal loan cardholders who are vulnerable, senior, and facing with serious financial problems. For example, if debtors have continued to pay interest rather than the principal for a long period of time and have no tendency to pay off all the debts, creditors must offer suitable debt restructuring programs that accelerate debt paying off and help release debtors from persistent debt traps.

Once debtors' existing debt problems are alleviated, new preventive measures must be implemented to ensure that their **new loans must be of good credit quality**. This will save debtors from being over-indebted and repeatedly falling into debt traps. **Without such actions**, new loans could imperil debtors because of overborrowing and misuse of loan proceeds. For debtors whose debts have not yet been paid off, their problems could become more severe with debt piling up, leaving debtors unable to escape from the debt traps.

Goals	What must be done
5. New loans are of good credit quality. The BOT will implement new regulations including the notification on responsible lending and requirements for approved loan amount to be in line with debtors' repayment capacities. This is to ensure that debtors still have sufficient residual income, borrow only when necessary and utilize the loan for its intended purpose, and understand the consequences of paying debt punctually at the agreed amount, and debt default.	The BOT will issue new regulations for responsible lending (RL) as follows: Regulations to ensure responsible lending at all stages of indebtedness (expected announcement: Q3/2023) by requiring the following from creditors: Loan advertisements must not encourage excessive borrowing or discourage a healthy credit culture, such as "instant loan", "no collateral needed", "no credit bureau checking", and "borrow millions with a daily repayment of only hundreds" without clear explanation about how the interest and principal are computed or deducted from each payment. Important information shall be made clear and available in full to debtors throughout all stages of debt journey to promote good debt management behavior which will benefit the debtors, especially the following: Before applying for a loan / signing a loan contract: information on the interest rates and fees, charges, payment periods, payment options available and suitable for each debtor's circumstance, and the consequences of payment behavior. An example is that debtors who always pay in full and punctually (classified as performing loans) will have a higher chance of receiving new loans with lower interest rates, and being approved when applying for refinancing.

Goals	What must be done
	• While being a debtor: the consequences of making only minimum payments (e.g. if the debtor has a cash card loan with 3% minimum monthly payment, it will take approximately 7 years to pay off and the total amount of interest paid can be as high as 70% of the principal); and guidelines on income and debt management (e.g. when the debtor receives a lump sum such as bonus, he or she should allocate part of it for emergency savings and/or making extra debt payment to lower interest expense and help him/her pay off debt faster). • Having debt problems: advantage of being proactive, and proper ways to deal with the problems (e.g. going to the court in order to meet with the creditor's attorney in person to negotiate a feasible debt restructuring plan). 1.3 Loans being offered are suitable for the borrower's intended use. If the borrower intends to apply for a loan to run business, the creditor should not offer a personal loan product. 1.4 Terms and conditions of the loan agreement are fair. Examples are requiring collaterals / insurances only as necessary, returning the collaterals to the debtor without delay once loan is paid off; and promoting financial discipline on debt repayments / early debt paying off. 1.5 When the debtor is in debt distress, the creditor must offer debt restructuring terms that are in line with the debtor's repayment capacity at least once, especially before filing a lawsuit or selling off the debt. Examples: Responsible lending regulations in other countries • Advertisement must be clear, fair, not misleading and hold social responsibilities such as not encouraging over-indebtedness. (UK 2015, New Zealand 2015) • Disclosures of sales documentation and loan contracts must comply with disclosure standards to help make it easier for debtors to compare. (New Zealand 2003, Malaysia 2013) • The debtor's ability to repay and suitability must be thoroughly considered in the loan approval process. Creditors must provide all the information that debtors would need to make an informed decision, such as additional debt burden from new loans, consequences of late payment, and information about debt counselling. (Australia 2010, Malaysia 2012, UK 2014, New Zealand 2015)

Goals	What must be done
	2. Regulations to ensure that the approved loan amount is in line with the debtor's repayment capacity and residual income (as part of macroprudential policy package to contain systemic risks) such as: 2.1 Debt level shall be controlled. That is, the monthly payment must not be too high compared with debtor's income (Debt Service Ratio: DSR ratio). This will help debtors still have sufficient residual income. Also, the total principal amount should not be so large that debtors are unlikely to pay off their debts. 2.2 Saving before borrowing must be promoted. Loan-to-Value ratio (LTV ratios) shall be set for loans to buy assets. The appropriate timing of implementing measures to address systemic risks mentioned above must be carefully considered to ensure that they do not negatively impact economic recovery.
6. Debtors with better repayment history or lower credit risk are offered better loan terms and conditions. The BOT will implement new regulations to incentivize risk-based pricing and ensure wider coverage of credit reporting to promote refinancing of good quality loans.	The BOT will incentivize creditors to adopt risk-based pricing (RBP) for retail borrowers, i.e., charging interest rates based on each borrower's credit risk. A consultation paper on RBP is set to be released in June 2023. The principle of RBP is that low-risk borrowers should be charged a lower interest rate or receive better loan terms and conditions. Creditors may also consider payment behavior as an additional factor in the RBP model. At present, however, the rates of interest that most retail creditors charge on their borrowers are close to the interest rate ceiling without adjustment to lower the rate for ones with good credit history and payment behavior. (The RBP regulation will accommodate low-risk borrowers to be offered lower interest rates. It will also increase the high-risk borrowers' access to formal loans as creditors will be allowed to charge this group of borrowers at the interest rate exceeding the current limit. See more details in 9.) Example: Risk-based pricing regulations in other countries • Notify the client of the reasons / factors behind the higher interest rate charged, and how to make improvement to obtain a better rate. (risk-based pricing notice) [USA 2011] • Offer a lower interest rate for debtors who have paid credit card debt consistently i.e., from the 18% ceiling to 17% for those who promptly settle their due amount for equal to or greater than 10 months within a 12-month period, and to 15% for those who promptly settle their due amount for 12 consecutive months. [Malaysia 2019]

Goals	What must be done
	The BOT will promote greater visibility of good debt behavior to encourage other creditors to offer lower interest rates for refinancing. All creditors should report credit data so that other creditors could observe good credit history of debtors (balance, number of creditors and debtor's behavior). The BOT will also support amendments to relevant laws to promote the uses of credit data for credit approval such as credit scoring calculation.
7. People can properly manage their own finance / debts (responsible borrowing). The BOT will develop curriculum/ activities and cooperate with other agencies to disseminate financial literacy to the wider public.	The BOT will develop school/university curriculum and activities to encourage better financial disciplines and financial skills, including standard debt management techniques that match the needs of each targeted group as follows: Students: The BOT will develop a curriculum with suitable contents for each of the education levels, including primary, secondary, diploma, and higher education levels. For example, the curriculum for students in the higher education level will include contents on financial products, investments, interest computation, and financial crimes and fraud. The BOT will recommend universities to set the curriculum as mandatory. For high school students, the BOT, in cooperation with Thammasat Secondary School, has already developed a pilot curriculum that will be brought to other high schools participating in the pilot project in Q2/2023. For middle school students, the BOT, in cooperation with Panyapiwat Institute of Management Demonstration School, is developing a pilot curriculum that will be used in a pilot teaching program in 2023 before expanding to other schools. Working adults: The BOT will develop a curriculum on fundamentals of financial literacy and a manual for nudge activities suitable for working adults with a focus on 3 stages of debt journey, i.e., before applying for a loan / signing a loan contract, while being a debtor, and having debt problems. The curriculum / manual will be added to "Fin Dee Happy Life", the current BOT's project on financial literacy for working adults. Meanwhile, the role of "responsible employers" in promoting financial literacy and debt management knowledge among their employees will also be broadly introduced. Apart from these plans, BOT publishes online learning tools /activities regularly on BOT website. In 2023, the BOT also plans to cooperate with other strategic partners, including Ministry of Interior and Ministry of Public Health, to promote financial literacy in the wider public especially those with low income in various areas, in addition to a cooperation with the Stock Exchange of Thailand (SET) and Sukhumvit Asset Management (SAM) to develop an online curriculum on debt management, published on SET website.

Goals	What must be done
	The curriculum focuses on responsible borrowing to promote a clear understanding of the following: • Before applying for a loan / signing a loan contract: borrow only when necessary Prospective borrowers should assess their cash flow (i.e. their incomes and expenses), loan purposes, and repayment capacities. Also, they should clearly understand terms and conditions of loan agreements, benefit of being able to repay debt as agreed and the consequences of debt default. • While being a debtor: use the loan for its intended purpose, and have discipline on debt repayments if the debtor has some income left after all expenses are deducted, he or she should set aside part of the income for extra debt repayments to lower interest burden in the long term and help him / her pay off debt earlier • Having debt problems: Contact creditors immediately to negotiate debt restructuring. In addition, debtors should fully comply with terms and conditions stated in the debt restructuring contract. If the situation worsens until the debtor cannot afford restructured debt payments, he or she should contact the creditor as soon as possible to renegotiate

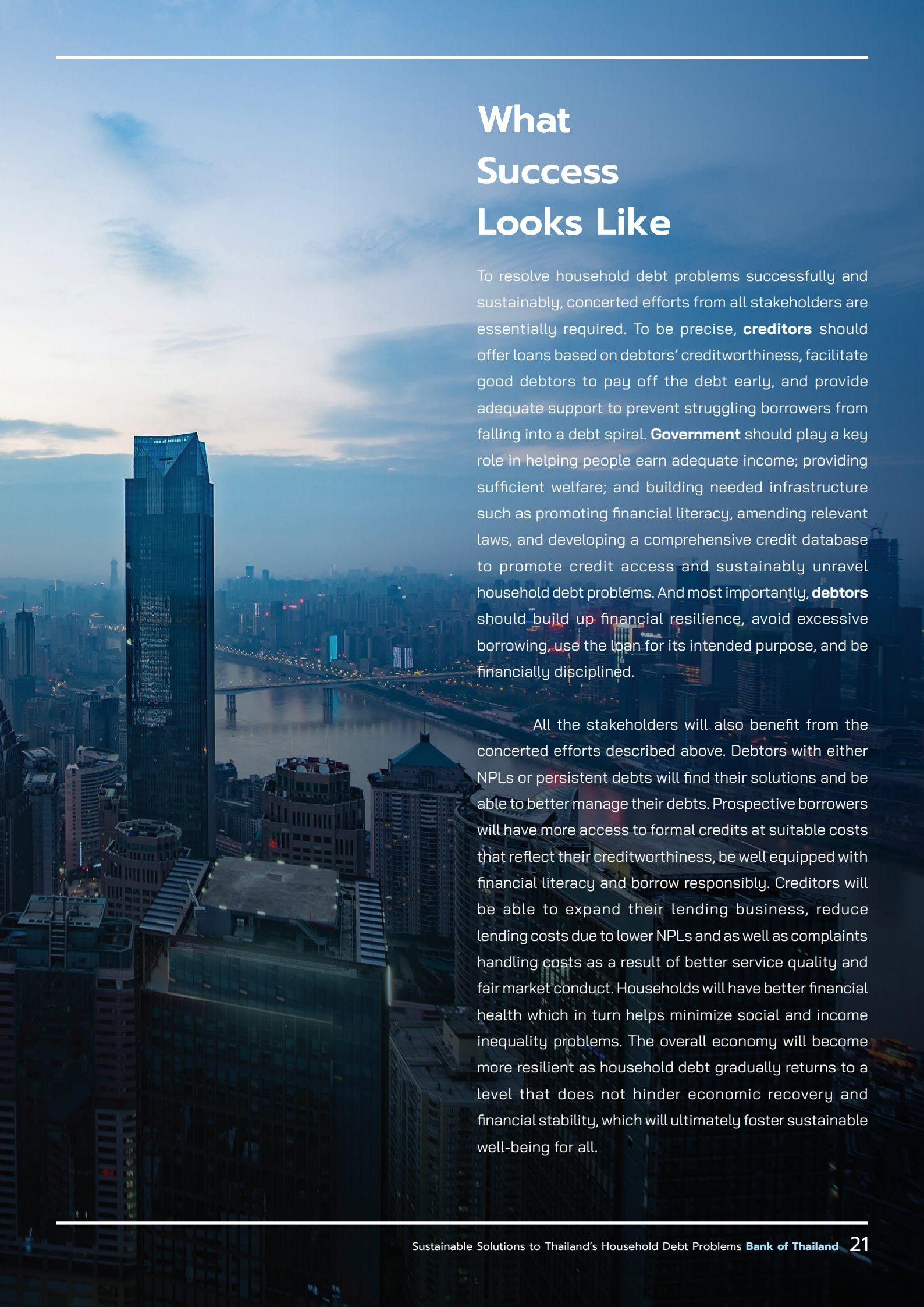
Finally, individuals must have more opportunities to access credit through formal credit channels, especially those with volatile income. The interest rates offered must be based on the borrower's credit risk profile, which requires comprehensive data on debt and income to ensure creditors have adequate information for risk-based pricing and credit risk analysis. **Without such data**, the creditor would not be able to appropriately assess the borrower's credit risk and become more reluctant to provide new loans unless charging high interest rates, making it more difficult for individuals to access to credit at a suitable cost.

Goals	What must be done
8. Household debt monitoring has sufficient coverage. The BOT will collaborate with other agencies to develop comprehensive database on income and spending patterns for creditors to use in assessing credit risk and to increase their willingness to extend loans.	The BOT will work with the relevant agencies to promote the use of alternative data in credit assessment and monitoring, especially income / spending data such as incoming and outgoing transfers in deposit accounts and utility payment history (e.g. water and electricity bills). The initial phase would be to encourage creditors with a large number of debtors to become a member of the National Credit Bureau (NCB) and to engage the government to amend the relevant laws to promote wider usage of those data. Such efforts are in line with the BOT's policy to promote "open data," of which guidelines will be published in the first half of 2023.

Goals	What must be done
	Examples: Infrastructure of credit data in other countries • Wide-coverage time-series data (6-7 years) such as rents, and utility bills. Alternative data is also utilized in credit scoring models. [UK, USA] • Competitive credit data markets. There are 3-4 main credit bureaus. In addition, there are companies, specializing in developing credit scoring but not collecting credit data on their own. [USA, UK, Australia, and India] • Requirement for all creditors to report credit data. [Chinese Taipei, South Korea, Malaysia, China, and Vietnam] • Having in place an open data infrastructure to facilitate wider usage of credit data and promote credit access opportunities such as a project called SGFindex with consolidating data from users of financial services, insurances, and the public sector. [Singapore]
9. People can access credit in the formal sector with costs that are appropriate to their risk profile. The BOT will implement new regulations to incentivize risk-based pricing whereby high-risk borrowers will be able to borrow, albeit at higher costs, without being pushed to informal channels.	The BOT will revise regulations on interest rate caps while embracing a risk-based pricing scheme to encourage creditors to charge interest rates according to borrowers' credit risk. Under risk-based pricing scheme, high-risk borrowers will be charged a higher interest rate, which may exceed the current limit, compared to low-risk borrowers. However, the high-risk borrowers will have better opportunities to access credit from formal credit channels without being forced to borrow from informal lenders, and hence less likely to be charged and treated unfairly. More details will be provided in a consultation paper to be released in June 2023. The policy setting must strike a balance between improving credit access through formal credit channel, keeping household debt at manageable levels, and encouraging responsible lending.

For other debts which are not under the BOT's supervision, the BOT's role has been to propose measures to the government with regard to restructuring debts under co-operatives, the Student Loan Fund, and other debts which are not regulated by the BOT including informal debt. The BOT's recommendations are tabled through various committees under the Government such as the committee tasked with finding effective resolution to household debt. Recent efforts have focused on tackling debt of public-school teachers such as appropriate deduction for debt repayments from their monthly paychecks to ensure they still have sufficient residual income, and on encouraging employers to engage in debt restructuring negotiations with multiple creditors. The BOT also plays a supporting role in amending the Student Loan Fund Act to facilitate debtors' and guarantors' participation in debt restructuring negotiations. The BOT will support other regulatory agencies to adopt guidelines suggested in this directional paper where appropriate.

It should also be noted that sustainable solutions to household debt problems must be complemented by measures to reduce poverty/increase income. Supplementary measures to help households earn more stable income are, for example, **measures to improve working skills, and social safety net measures that provide assistance for low-income households and households facing emergencies** (e.g. being unable to work due to an accident, illness of a family member, having difficulties paying their children's school fees). **To ensure effective implementation of these measures, they must be tailored to the needs of each target group.**



What Success Looks Like

To resolve household debt problems successfully and sustainably, concerted efforts from all stakeholders are essentially required. To be precise, **creditors** should offer loans based on debtors' creditworthiness, facilitate good debtors to pay off the debt early, and provide adequate support to prevent struggling borrowers from falling into a debt spiral. **Government** should play a key role in helping people earn adequate income; providing sufficient welfare; and building needed infrastructure such as promoting financial literacy, amending relevant laws, and developing a comprehensive credit database to promote credit access and sustainably unravel household debt problems. And most importantly, **debtors** should build up financial resilience, avoid excessive borrowing, use the loan for its intended purpose, and be financially disciplined.

All the stakeholders will also benefit from the concerted efforts described above. Debtors with either NPLs or persistent debts will find their solutions and be able to better manage their debts. Prospective borrowers will have more access to formal credits at suitable costs that reflect their creditworthiness, be well equipped with financial literacy and borrow responsibly. Creditors will be able to expand their lending business, reduce lending costs due to lower NPLs and as well as complaints handling costs as a result of better service quality and fair market conduct. Households will have better financial health which in turn helps minimize social and income inequality problems. The overall economy will become more resilient as household debt gradually returns to a level that does not hinder economic recovery and financial stability, which will ultimately foster sustainable well-being for all.