HOUSE OF COMMONS LIBRARY

**BRIEFING PAPER**

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# Household debt: statistics and impact on economy

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**Inside:**

# Contents

# Summary

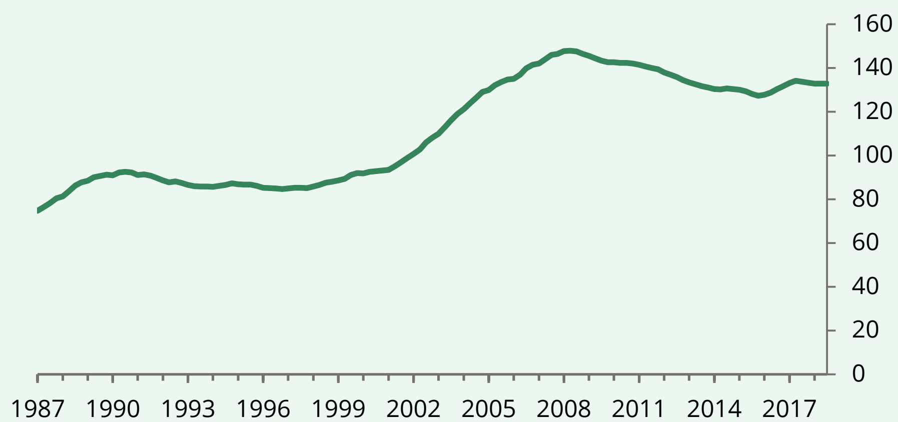
Household debt is money borrowed by individuals, usually from banks or financial institutions. This includes mortgages, personal loans, student loans and credit card balances.

## Latest statistics and forecasts

Total household debt in the UK rose sharply from the late 1990s up until the financial crisis began in 2008. Debt as a proportion of household income rose from 85% in 1997 to 148% at its peak in early 2008 (the total amount of household debt went up from £500 billion to £1,450 billion over this time).

During the recession of 2008/09, banks were much more reluctant to lend money and consumers were less inclined to take on credit, with some focusing on paying off existing loans during difficult economic conditions. As a result, the household debt-to-income ratio fell to 127% by late 2015. Starting in early 2016, growth in household debt levels accelerated, leading to the debt-to-income ratio to increase from 127% in Q4 2015 to 133% in Q4 2017. It has since stabilised and stood at 133% in Q3 2018.

**Household debt, % of disposable income**




Sources: ONS, series CVZI, up to end Sept 2018

In October 2018, the Office for Budget Responsibility (OBR) forecast the household-debt-to-income ratio to rise slowly over the next few years.

The cost of servicing debt is lower now than it was prior to the recession, with interest rates near historic lows. This makes the debt burden more affordable for households.

Official statistics of household debt are not available for constituencies or local areas.

## Guide to understanding household debt statistics

The downsides to household debt are well known and include over-indebted households cutting back on their spending on other things, thus reducing economic activity. In addition, there could be problems in the banking system when loan defaults rise. Research from the UK and internationally has shown that large increases in household debt prior to recessions make those recessions worse and inhibits the following recovery.

Household debt, however, does provide benefits to an economy and individuals. It allows people to buy things, like a house, that they would not be able to pay for in one go, raising their standard of living. In other words, it allows people to smooth their consumption over time, including during periods when their incomes temporarily fall. This can provide stability to the economy.

# 1. Guide to understanding household debt statistics

This section provides an overview of what to look out for in household debt statistics and how to interpret them.

## 1.1 What is household debt?

This is money borrowed by individuals in the form of loans that are to be repaid later. Individuals are collectively referred to as the household sector in economic data.

Loans are usually provided by banks or other financial institutions. A prominent example is a mortgage. Other forms of household debt include personal loans, car loans, student loans, the balance on credit cards, and overdrafts on bank accounts.

The total sum of all the various types of outstanding loans in the economy – mortgages, unpaid balances on credit cards and so on – is what economists refer to when they use the term household debt.[1] In other words, this is the total of all borrowing accumulated over the years by households that has not yet been paid off.

## 1.2 Types of household debt

Household debt can broadly be grouped into two categories: secured and unsecured.

**Secured debt** is a loan secured on an asset which serves as collateral. This means that if the person borrowing the money can't repay it, the creditor will then be able to take possession of the asset. The most obvious example of secured lending is mortgages. In the UK, mortgages account for a large majority of overall household debt.[2]

**Unsecured debt** is lending provided to individuals that is not secured on an asset. Credit card lending is the most prominent example. Personal loans, student loans and loans from payday lenders also come under this category.

## 1.3 Why household debt can be beneficial

Debt can be beneficial to an individual and the economy as a whole. Individuals can borrow money to buy a house and to purchase durable goods such as a car or kitchen appliances, thereby improving their standard of living.

In other words, debt allows people who do not have the money to hand – to buy a car, a house or to enrol on a course etc – to borrow it today

[1] Sometimes debt is also referred to as liabilities.
[2] Bank of England, [Money and Credit – lending to individuals statistics]

knowing that they will have sufficient income to pay off that loan in instalments in the future.[3]

Debt allows individuals to smooth their consumption of goods and services over their lifetime. The "permanent income" or "life-cycle" model states that consumption depends on the expected lifetime income of an individual.[4] For example, younger people will borrow money in the expectation that they will receive higher earnings in the future when they will be able to pay back the borrowed money.

As well as benefiting individuals or families, household debt can provide stability to the whole economy by smoothing out spending during periods of temporary falls in income.[5] Having a high level of debt among households and private businesses is often seen as a sign of financial development, and more advanced economies do generally have higher private debt levels than developing economies.[6]

A spurt of increased lending to individuals will also boost economic growth in the short term, as individuals will have more money to spend on goods and services, potentially leading to increased business revenues, profits and hiring.

## 1.4 Why household debt can cause problems

High levels of household debt can also create problems for individuals and the economy more widely. A sudden change in circumstances, such as losing a job, will make it more difficult for an individual to keep up with repayments on their outstanding debts, which they will still be required to make despite the loss of income. In order to continue to make these repayments the individual may cut back on their spending. Other factors such as rising debt repayments due to higher interest rates may also lead to reductions in spending.

Magnified to the whole economy, an economic downturn or recession can cause many individuals to face this problem and lead to reductions in consumer spending. In turn, companies faced with reduced revenues, or perhaps the prospect of going out of business entirely, will then cut back on their costs including labour costs either by lowering pay or reducing their workforce. There is some evidence that rising debt levels before a recession can make it worse by making the business cycle more volatile (see section 4 of the briefing for more).[7]

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3 Bunn, P. and Rostom, M., "Household debt and spending", Bank of England Quarterly Bulletin Q3 2014

4 For a review of this model which Modigliani and Brumberg are usually credited with formalising in the 1950s, see Browning, M., and Crossley, T. (2001), "The lifecycle model of consumption and saving", Institute for Fiscal Studies WP01/15

5 Röhn, O. et al. (2015), "Economic resilience: A new set of vulnerability indicators for OECD countries", OECD Economics Department Working Papers, No. 1249, OECD Publishing, Paris, page 12

6 IMF, "Dealing with household debt", Chapter 3, World Economic Outlook, April 2012 and Bank for International Settlements, Total Credit to the non-financial sector, March 2016

7 Bunn, P. and Rostom, M., "Household debt and spending", Bank of England Quarterly Bulletin Q3 2014, p308

Another way in which high household debt can negatively impact on the economy is via the financial sector. This can be a result of more relaxed lending standards, as banks compete for new customers, leading to riskier lending and more defaults when the good times end and individuals default on their loans. If enough of the financial sector is exposed to these bad loans – either directly or via having lent money to institutions that do – a banking crisis could ensue, with an associated credit crunch hurting the economy.[8] The US sub-prime mortgage market in in the run-up to the 2008-2009 Great Recession is an obvious example of this scenario.

## 1.5 Measuring household debt affordability

So far the focus has been on the overall amount of household debt. Another important thing to consider is the monthly cost of paying off this debt – how much it costs to service the debt. This will be determined by the size of the original loan, the interest rate on the loan and the length of time in which the individual has to repay it.

Lower interest rates reduce the cost of repaying loans. So even if the amount of household debt is rising, it is possible that if interest rates fall people might actually be spending *less* per month paying off their debt.[9] The reverse is also true, household debt might be falling but higher interest rates could mean people are paying more each month in servicing their debt.

As well as the amount to repay, a critical factor in determining the affordability of repayments on a loan is income. The same monthly repayment could account for a large proportion of someone's income, but only a tiny amount for someone on a higher income.

For this reason, economists often use measures of debt servicing costs and the overall level of debt, in terms of their proportion of income. If debts are rising by 5% a year but incomes are also rising by 5% a year, the ratio of debt to income is unchanged.

An additional factor to consider when looking at household debt in the economy is how it is distributed across individuals (although data on this is fairly limited). For instance, if the total amount of mortgage debt in the economy is unchanged, but the number of people with a mortgage has fallen, the average amount of mortgage debt per household has risen. Specific groups of people may have a particularly burdensome amount of debt, say first-time homebuyers, meaning they would be more exposed to higher interest rates or a fall in their incomes.[10]

8 Röhn, O. et al. (2015), "Economic resilience: A new set of vulnerability indicators for OECD countries", OECD Economics Department Working Papers, No. 1249, OECD Publishing, Paris; and André, C. (2016), "Household debt in OECD countries: Stylised facts and policy issues", *OECD Economics Department Working Papers*, No. 1277, OECD Publishing, Paris

9 This is not automatic and will depend on the magnitude of the fall in interest rates and rise in household debt. If rates fall by a little but the total amount of debt rises a lot, people will be paying more each month to service their debt.

10 Neal Hudson, Savills Residential Research, "Household debt: concentrated risk", via Pieria.co.uk, 1 Feb 2016

# 2. Statistics and latest trends

## 2.1 Data availability

The main source of the level of household debt in the UK is from the national accounts published by the Office for National Statistics (ONS).[11] Using household disposable income data also from the ONS,[12] a household debt-to-income ratio is calculated.[13] These figures are updated every quarter and are available from 1987.

There are also separate monthly household debt data from the Bank of England. This is based on information from financial institutions provides breakdowns of total outstanding debt to individuals.[14] These figures are split into mortgage debt, credit card debt and other consumer debt, but excludes student loans.[15] Data are available from 1993.

All household debt figures are in cash terms. There is no adjustment for inflation.

## 2.2 Availability of local data

The main sources of data mentioned above are only available for the UK. There are no official figures for constituencies or local authorities.

As an alternative, statistics on individual insolvencies produced by the Insolvency Service are available for constituencies.[16] The Money Advice Service also commissioned some estimates of the number of people that are over-indebted for each local authority and constituency.[17] These estimates are derived from a model that looks for characteristics of people that are more likely to be over-indebted. More, including a summary of the statistics, is available in section 3.3 below.

StepChange, a charity that helps people with debt problems, publishes some figures at regional and local level (postcode area, e.g. Manchester (M), or East London (E), and postcode district, e.g. M60 __ _) of average unsecured debt based only on people who have contacted them for advice.[18] As these figures are only based on those individuals who have contacted StepChange, they are not necessarily representative of the whole population.

Regional data based on the ONS wealth and assets survey provides some statistics on household debt, with latest figures for the period 2014-2016.[19]

The Financial Conduct Authority's *Understanding the financial lives of UK adults* – a survey of nearly 13,000 individuals carried out in early

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11 Series code NIWK. Published in the UK economics accounts
12 Series code RPHA. Published in the UK economics accounts
13 Series code CVZI. Published in the UK quarterly sector accounts
14 Bank of England, Money and Credit statistical release
15 Bank of England, Explanatory Notes - Total lending to individuals
16 The Insolvency Service, Insolvency Statistics
17 Money Advice Service, *Over indebtedness in the UK 2017*, September 2017
18 StepChange, Debt statistics and Debt View local data atlas
19 ONS, Wealth in Great Britain Wave 5: 2014 to 2016, February 2018

2017 – provides a wide-range of data on household debt, including breakdowns by country and region of the UK.[20]

UK Finance, the industry body representing the banking and finance industry, provides data by postcode sector, e.g. M60 1_ _.[21] However, this only provides figures on the total amount of outstanding mortgage debt for the participating financial institutions which make up about 73% of total UK mortgage lending. Although this provides information on the changing level of debt, the data on their own provide little context on the scale of mortgage debt in each area due to the lack of additional information, such as household incomes, that allows one to gauge affordability. In addition, over a quarter of mortgage lending isn't covered by this data, and how the unaccounted for lending is distributed across local areas is unknown (coverage in some areas may be higher or lower than 73%).

A similar set of data for personal lending (and bank lending to small and medium sized businesses) by postcode sector is also available from UK Finance.[22] These data include lending from institutions which account for around 60% of unsecured personal loans.

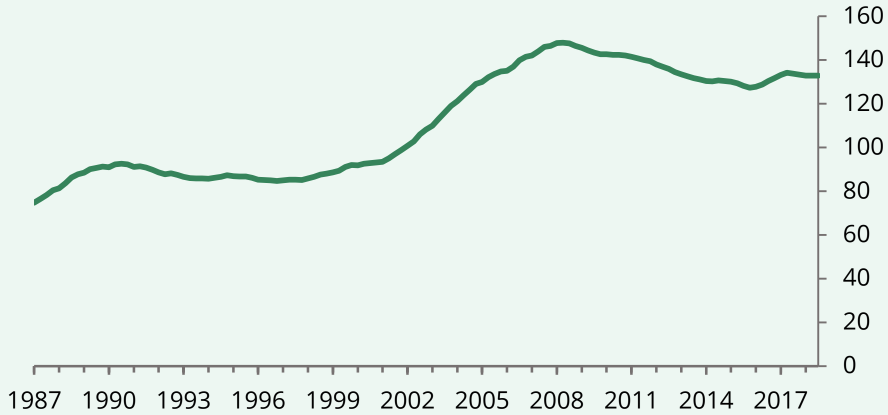
## 2.3 Historic trends including 2008-2009 recession

UK household debt as a proportion of UK households' disposable income, that is income after tax, rose in the lead up to the early 1990s recession from 1987 (the earliest data available) to mid-1990.[23] That recession was preceded by an overheating economy and housing market.

For many years after the early 1990s recession the household debt-to-income ratio gradually fell, to below 85% by 1996. Beginning in 1997, however, the ratio began to rise, slowly at first, but from around 2001 it increased more quickly (represented by a steeper line in the chart below). There was annual growth of over 10% in household debt between 2001 and early 2005, and again for a period in 2006 and 2007. The level of household debt more than doubled from £635 billion in early 2000 to £1,455 billion in late 2008.

20 FCA, *The financial lives of consumers across the UK*, June 2018
21 UK Finance, Lending by postcode sector
22 UK Finance, Postcode lending
23 ONS series CVZI (household debt) and total financial liabilities of loans to the household sector (series NIWK) and rolling 4-quarter total of disposable household income (series RPHA)

**Household debt, % of disposable income**




Sources: ONS, series CVZI, up to end Sept 2018

The global financial crisis and severe recession in 2008/09 led to banks being much more reluctant to offer loans. In addition, households were less inclined to take on additional debt, instead concentrating on paying off existing commitments – deleveraging, in the jargon.

The result was a decline in the household debt-to-income ratio from 148% at its peak in early 2008 to 127% in late 2015. The absolute level of household debt remained broadly steady at around £1,500 billion from 2008 until 2013, with household disposable income (in cash terms) rising.[24]

**Box 1: 2018 changes to measure of household debt used**

The total UK household debt figure used in this briefing paper is sourced from the national economic accounts published by the Office for National Statistics (ONS). Since 2018, a new data source has been used in this briefing. Previously data were based on total debt in the household sector and the much smaller non-profit sector (mostly charities and universities) combined, as this was the best available source. (The briefing did previously use the shorthand of household debt even though it did include debt of the non-profit sector.)

In late 2017, the ONS began published data separately for households and the non-profit sector. As a result, the decision was taken to use the total debt figure for the household sector only (this comprises individuals rather than companies or the public sector). This new series provides a more accurate measure of debt among households only and is used by the ONS themselves in providing information on household debt. The result is that the total debt level of households, and the debt-to-income ratio, is lower than in versions of this briefing published prior to 2018.

## 2.4 Latest statistics

The absolute level of household debt in the economy began to increase noticeably again in 2014, with annual rates of growth accelerating from 1% at the end of 2013 to 5% in early 2017. Household disposable incomes grew at a slightly higher rate for most of this period, meaning

24 This is an aggregate measure referring to total disposable income of all households in the UK

that the all-important debt-to-income ratio continued to ease lower (it was 127% in late 2015).

More recently, annual growth in household debt levels was in the range of 4-5% for much of 2016 and 2017. With household disposable income growing by less than that during this time, the debt-to-income ratio rose from 127% in Q4 2015 to 134% in Q2 2017. It has since steadied, with debt growth easing – the ratio stood at 133% in Q3 2018. Total household debt was £1,785 billion in Q3 2018.

**UK household debt, 2000-2018**

Figures are for end of each year or quarter updated 21 Dec 2018

| | Total (£ bn) | annual % change in debt | Total as % of household disposable income | %-point change in debt-to-income ratio |
|---|---|---|---|---|
| 2000 | 675 | 8.4% | 93.1 | 1.2 |
| 2001 | 747 | 10.6% | 98.9 | 5.8 |
| 2002 | 844 | 13.0% | 108.2 | 9.3 |
| 2003 | 955 | 13.2% | 119.0 | 10.8 |
| 2004 | 1,079 | 12.9% | 129.1 | 10.1 |
| 2005 | 1,174 | 8.8% | 134.7 | 5.6 |
| 2006 | 1,292 | 10.1% | 141.5 | 6.9 |
| 2007 | 1,405 | 8.8% | 146.5 | 5.0 |
| 2008 | 1,455 | 3.5% | 146.4 | -0.1 |
| 2009 | 1,452 | -0.2% | 142.7 | -3.8 |
| 2010 | 1,458 | 0.4% | 142.1 | -0.6 |
| 2011 | 1,462 | 0.3% | 139.4 | -2.7 |
| 2012 | 1,483 | 1.4% | 134.5 | -4.9 |
| 2013 | 1,502 | 1.3% | 131.1 | -3.4 |
| 2014 | 1,541 | 2.6% | 130.4 | -0.7 |
| 2015 | 1,594 | 3.4% | 127.3 | -3.1 |
| 2016 | 1,671 | 4.8% | 131.7 | 4.4 |
| 2017 | 1,735 | 3.9% | 133.3 | 1.6 |
| Q3 2018 | 1,785 | 3.7% | 133.0 | -0.7 |

Sources: ONS, national accounts series NIWK, RPHA and CVZI

Note: A rolling four-quarter total for household disposable income is used

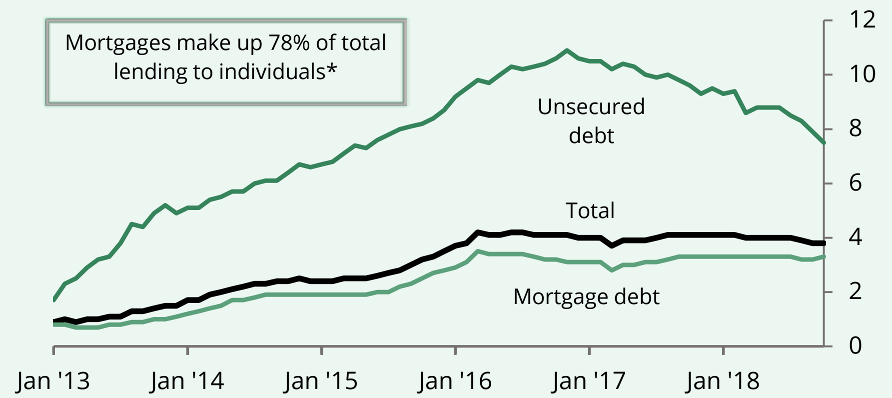
%-point change in debt-to-income ratio is compared to period one year before

Turning to separate figures from the Bank of England, their measure of total outstanding debt to individuals rose by an annual rate of 3.8% in October 2018 – around the same growth rate it has been since early 2016.[25] This was comprised of a 3.3% rise in mortgage debt (the large majority of total debt) and a 7.5% rise in unsecured debt, continuing a downward trend since the decade-high peak of 10.9% recorded in

[25] Bank of England, Money and Credit statistical release, 29 November 2018

November 2016. Growth in total debt is low compared with pre-recession rates that were regularly showing double-digit growth.

**Change in outstanding levels of debt to individuals**
Monthly data, % change on year before



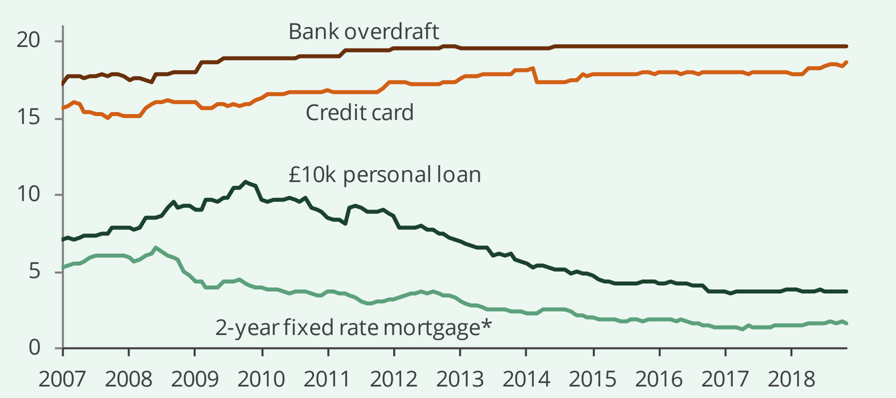

Sources: Bank of England, Money and Credit: October 2018 *ONS data

### Box 2: Borrowing costs have fallen sharply since the financial crisis

The cost of borrowing for individuals has fallen sharply over the past decade. For instance, the interest rate on a personal loan of £10,000 fell from around 10% in 2010 to under 4% in 2017 (where they remain in later 2018).[26] Mortgage rates have also tumbled, with the interest rate on a typical two-year fixed rate mortgage with a loan-to-value ratio of 75%, falling from 4% in 2010 to a low of 1.4% in early 2017 (they have since risen a little to around 1.7% in late 2018).

However, as shown in the chart below, interest rates on overdrafts and credit card balances have been increasing gradually and remain much higher than the cost of new borrowing. For example, the average interest rate on credit cards rose from 16% in 2010 to over 18% in 2018, while the rate on bank overdrafts rose slightly from 19% in 2010 to closer to 20% in the last few years.

**Interest rates on selected personal debt products since 2007**
%




Source: Bank of England, Bankstats tables, G1.3 (monthly data to Nov. 2018); *75% loan-to-value

26 Data in this section is to end October 2018 from Bank of England, Bankstats [G1.3 Average quoted household interest rates] [accessed 17 Dec 2018]

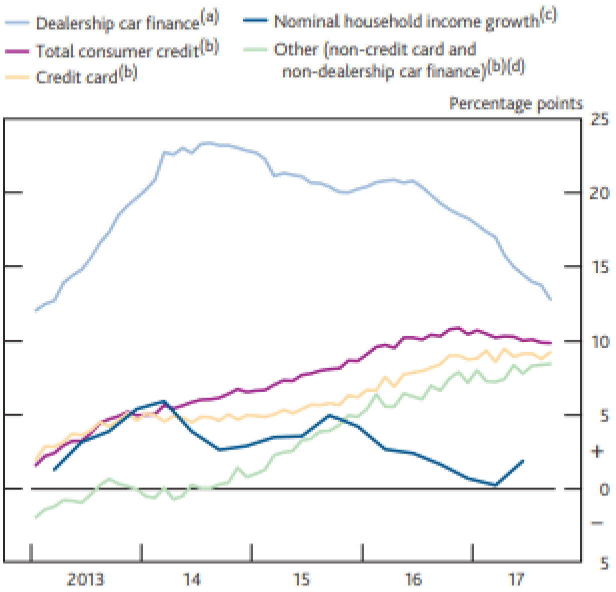
## Causes of recent non-mortgage debt growth

Looking a little bit more closely at the causes of strong growth rates of non-mortgage debt, the Bank of England in 2016 noted that growth in car finance – for example, via the increased prevalence of people leasing their cars via PCPs or Personal Contract Purchase plans[27] – has been "particularly strong in the past three years" but that in recent months there has been an increased contribution to credit growth from "other forms of unsecured lending, such as personal loans". [28]

More recently, the exceptional growth in car finance has eased, contributing to the slowing in overall non-mortgage debt growth (also known as consumer credit). The chart below, reproduced from the Bank of England's November 2017 *Financial Stability Report* shows the annual rates of change of different types of consumer credit alongside household income growth.[29]

**Chart A.15** Consumer credit growth remains high, but has slowed slightly in recent months

Annual growth rates of consumer credit products and household income




Sources: Bank of England, ONS and Bank calculations.

(a) Identified dealership car finance lending by UK monetary financial institutions (MFIs) and other lenders.
(b) Sterling net lending by UK MFIs and other lenders to UK individuals (excluding student loans). Non seasonally adjusted.
(c) Quarterly nominal disposable household income. Seasonally adjusted.
(d) Other is estimated as total consumer credit lending minus dealership car finance and credit card lending.

The Bank of England's November 2018 *Inflation Report* observed that the slowdown in consumer credit growth was "largely accounted for by slower growth in car financing" and that this "appears to partly reflect the completion of a structural change in the way car purchases are financed".[30] The Bank also noted that there is some evidence that there

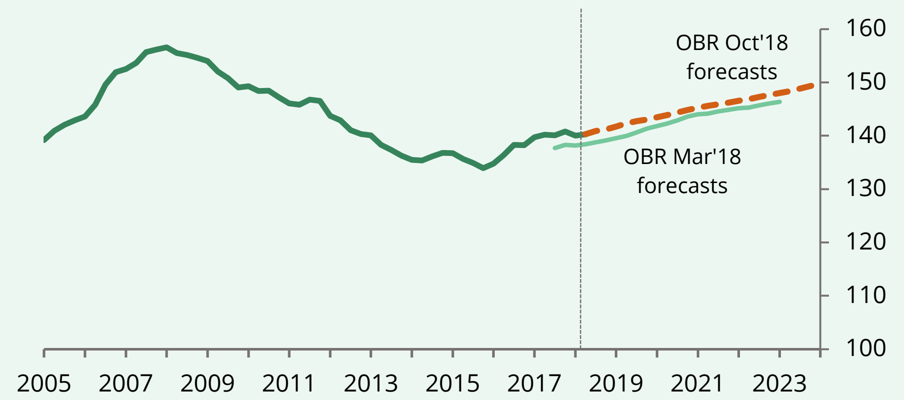
27 See Bank of England staff blog, Bank Underground, "Car finance – is the industry speeding?", 5 Aug 2016 for some analysis on the topic
28 Bank of England, *Financial Stability Report: November 2016*, 30 Nov 2016, pp16-17
29 Bank of England, *Financial Stability Report: November 2017*, Nov 2017, p17
30 Bank of England, *Inflation Report – November 2018*, p14

has been a modest reduction in the availability of credit since 2017, as reported by its regular survey of credit conditions.[31]

## 2.5 OBR forecasts

The Office for Budget Responsibility, the independent watchdog of UK public finances, published forecasts in October 2018 that forecast the household debt-to-income ratio to gradually increase in coming years, peaking at 150% at the end of its forecast period in early 2024.[32] This is a little higher than the previous OBR forecast made in March 2018, partly a result of data revisions from the ONS for historical data.

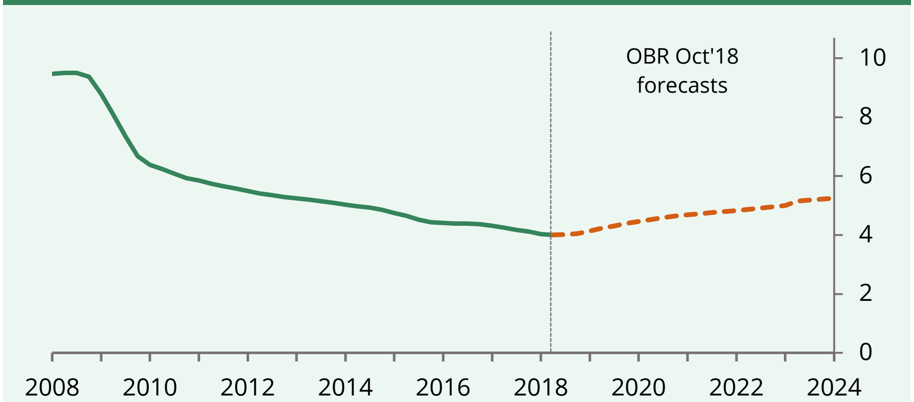
**UK household debt as % of income**
Quarterly data and OBR forecasts up to Q1 2024




Source: OBR, Economic and fiscal outlook Oct'18, chart 3.23

Despite this projected rise in debt, the cost for households of servicing this debt is likely to remain low relative to household income, and much lower than in the pre-recession period. This is because interest rates are much lower now (the Bank of England base rate is 0.75% as of December 2018) than they were then and are expected to remain at low levels for the foreseeable future.[33]

**Household debt servicing costs**
Debt repayments as % of household income (quarterly figures)




Source: OBR, Economic and fiscal outlook Oct'18, supp econ data tab 1.23

31 Bank of England, [Credit Conditions Survey - 2018 Q3](), 11 October 2018
32 OBR, [Economic and fiscal outlook](), October 2018, chart 3.23 and pp70-1
33 OBR, [Economic and fiscal outlook](), October 2018, supplementary economy table 1.23

## 2.6 Bank of England policy

### August 2016 interest rate cut

In August 2016, the Bank of England's Monetary Policy Committee (MPC) downgraded its forecasts for the UK economy in the wake of the vote to leave the EU. As a result, it cut interest rates from 0.5% to 0.25% and introducing other measures to stimulate the economy, including extending its quantitative easing programme (creating money to buy government and company debt). The MPC's intention was for the rate cut to lead to lower borrowing costs and higher levels of spending and investment for households and business.[34]

### Interest rates increased in November 2017 and August 2018

The Bank of England's Monetary Policy Committee (MPC) raised interest rates for the first time in over a decade at its November 2017 meeting.[35] The base rate was raised by 0.25 percentage points to 0.50%, reversing the August 2016 rate cut following the vote to leave the EU. In August 2018, the MPC raised interest rates again to 0.75%.[36]

The interest rate set by the Bank of England is a crucial factor in determining borrowing costs, although it is up to individual banks and financial companies to set the interest rates they offer consumers. If rate rises are passed on, it will make it more expensive to borrow money and increase the cost of servicing debt for those on variable interest rates. This is most prevalent in the mortgage market, where approximately 43% are on variable rates (including trackers) and will see their monthly payments increase. For a household still owing £100,000 on their mortgage, an increase in their interest rate from 3.0% to 3.25% will see their monthly repayment go up by £13 per month (assuming there is 20 years left on the mortgage).[37]

The Monetary Policy Committee has stated that further increases in interest rates are likely over the next few years, although any rate rises "are likely to be at a gradual pace and to a limited extent."[38]

### Financial Policy Committee

In its November 2018 *Financial Stability Report*, the Bank of England's Financial Policy Committee (FPC) noted that household debt relative to incomes "remains lower than its 2008 peak but high by historical standards."[39] It noted that consumer credit growth "has slowed recently, consistent with some tightening in credit conditions."

Some policy decisions the FPC has taken in recent years include:

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34 Bank of England, Monetary Policy Committee decision 4 August 2016
35 Bank of England press release, "Bank Rate increased to 0.50%", 2 November 2017
36 Bank of England, "Monetary Policy Committee voted unanimously to raise Bank Rate to 0.75%", 2 August 2018
37 For more on the rate rise and the impact on households, see Library blog post Why have interest rates been raised? And what's the impact?, 2 November 2017
38 Bank of England, "Monetary Policy Committee voted unanimously to raise Bank Rate to 0.75%", 2 August 2018
39 Bank of England, *Financial Stability Report: November 2018*, 28 November 2018

- Restrictions on high loan-to-income mortgages introduced and stricter affordability tests introduced in 2014,[40] so that in the words of the Bank of England Mark Carney in November 2016:

  > … we don't end up as an economy with a large proportion of households with very high debt to income ratios.[41]

- In June 2017, the Financial Policy Committee noted that "there are pockets of risk" with regards to financial stability including in consumer credit which had "increased rapidly". As a result, the FPC increased the amount of money lenders need to raise as a buffer for risks attached to rising consumer debt.[42] In November 2017, the FPC raised the level of this buffer – the countercyclical capital buffer – again, effective in November 2018.[43]

In addition, in 2017 there were reviews conducted by the Prudential Regulation Authority (PRA) into the credit quality of new lending,[44] and by the Financial Conduct Authority (FCA) on assessments of creditworthiness in the consumer credit market.[45]

## 2.7 International comparisons

The table and chart below provides OECD data on international comparisons of household debt as a percentage of household disposable income.[46] It shows the UK above some countries like the US, France and Germany, but well below other countries like Australia, the Netherlands and Denmark. Please note that these figures include debt of the non-profit sector (more formally, the non-profit institutions serving households or NPISH), which the UK-sourced data elsewhere in this note typically excludes.

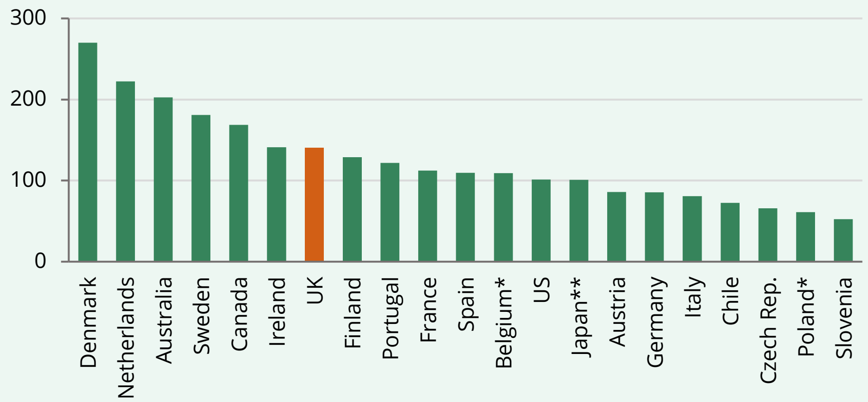
40 These are (i) No more than 15% of total borrowing of mortgage lenders can be to loan-to-income ratios of 4.5 or higher; (ii) Lenders should test how affordable mortgages would be to borrowers if interest rates were 3%-points higher than at the time. For more details see p.20 of the Nov'16 Financial Stability Report
41 Bank of England, Financial Stability Report Q&A, 30 November 2016
42 Bank of England, Financial Stability Report - June 2017, 27 June 2017
43 Bank of England, Record of the Financial Policy Committee Meetings held on 22 and 27 November 2017, 27 November 2017
44 PRA, PRA statement on consumer credit, 4 July 2017 and PRA, Follow-up to PRA Statement on consumer credit, 17 January 2018
45 FCA, PS18/19: Assessing creditworthiness in consumer credit, 31 July 2017
46 OECDstat, Household Dashboard: cross country comparisons, these figures may differ slightly from ONS data for the UK

**Household debt, OECD countries**
% of disposable income, where data available

| | Q2 2018 |
|---|---|
| Denmark | 270.1 |
| Netherlands | 222.4 |
| Australia | 202.7 |
| Sweden | 180.9 |
| Canada | 168.5 |
| Ireland | 141.2 |
| **UK** | **140.1** |
| Finland | 128.5 |
| Portugal | 121.8 |
| France | 112.1 |
| Spain | 109.7 |
| Belgium* | 109.1 |
| US | 101.2 |
| Japan** | 100.8 |
| Austria | 85.9 |
| Germany | 85.2 |
| Italy | 80.8 |
| Chile | 72.3 |
| Czech Rep. | 65.7 |
| Poland* | 60.9 |
| Slovenia | 52.2 |

*Data for Belgium and Poland is from Q1 2018
**Data for Japan is from Q1 2016
Source: OECDstat, Household Dashboard: cross country comparisons

**Household debt, % of disposable income, OECD countries Q2 2018***




*Data for Belgium & Poland is Q1'18; Japan is Q1'16; Source:OECDstat

# 3. Analysis of who holds debt and how much they owe

This section looks beyond the aggregate UK household debt statistics and provides some analysis of who holds debt and how much is owed.

## 3.1 How many people hold debt products?

There are many forms of personal debt, ranging from mortgages to overdrafts on bank accounts, credit cards to student loans. Unsurprisingly, mortgages are the largest in terms of terms of amount owed. Around one-third of households have a mortgage.

In terms of debt excluding mortgages (commonly referred to as consumer credit) around half (51%) of UK adults have used some form of it in the past 12 months.[47] This figure excludes those – 29% of the adult population – who use credit products, chiefly credit cards, but pay them off in full every month (referred to as "transactors").[48]

The table below shows the proportion of UK adults, broken down by age group, who currently hold and have held in the past 12 months various types of consumer credit products. Overall, those aged 25-44 are most likely to hold consumer credit, with 71% of 25-34 year olds doing so, compared with only 20% of those aged 65 and over.

**UK adults who have consumer credit products**

Excludes mortgages and those who pay off balances, e.g. credit cards, in full every month ("transactors")

| | Number of people (millions) | % of UK adults | % of age group holding product | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | 18-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65+ |
| Any credit/loan (excl. transactors) | 26.3 | 51% | 64% | 71% | 67% | 57% | 43% | 20% |
| Overdraft (i.e. overdrawn) | 12.9 | 25% | 29% | 36% | 38% | 30% | 19% | 7% |
| Credit card (excl. transactors) | 9.6 | 19% | 9% | 27% | 30% | 25% | 16% | 6% |
| Personal loan | 6.3 | 12% | 5% | 17% | 19% | 17% | 12% | 5% |
| Retail finance (excl. transactors) | 5.9 | 12% | 9% | 14% | 18% | 14% | 11% | 5% |
| Student Loans Company loan | 5.8 | 11% | 36% | 30% | 10% | 3% | 1% | 0% |
| Motor finance | 5.1 | 10% | 7% | 13% | 12% | 12% | 10% | 5% |
| Loan from friends or family | 3.6 | 7% | 12% | 13% | 11% | 6% | 3% | 1% |
| High-cost loan | 3.1 | 6% | 6% | 9% | 9% | 6% | 5% | 2% |
| **Mortgages** | | | | | | | | |
| Residential mortgage | 15.7 | 31% | 6% | 36% | 56% | 54% | 25% | 6% |
| Buy-to-let mortgage | 1.5 | 3% | 0% | 2% | 5% | 5% | 4% | 1% |

Notes: Includes those who have held debt products at any time in the past 12 months
Retail finance' includes store cards, catalogue credit and other credit from retailers; 'High-cost loans' include payday loans, short-term instalment loans, pawnbroking and hire purchase (excluding cars)
Source: FCA (2017), *Understanding the financial lives of UK adults* , Appendix 1

47 FCA, *Understanding the financial lives of UK adults*, October 2017, Appendix 1 p175
48 FCA, *Understanding the financial lives of UK adults*, October 2017, p107

Looking at specific products, while only 9% of those aged 18-24 have a balance on a credit card, 30% of the 35-44 age group do. Seven percent of all adults say they have borrowed from friends and family, while 6% (3 million people) have taken out a high-cost loan (which includes payday loans).

**Box 2: A note on sources of household debt statistics**

Data collated by the Bank of England and Office for National Statistics from financial institutions are the preferred sources of data for overall household debt statistics in the whole economy (see earlier sections of this briefing). However, these do not provide breakdowns for different groups of people, nor do they give much detail on those who are struggling to keep up with debt payments. For these figures, we must rely on surveys of individuals. As a result, the estimates of how much debt people have, whether they can afford certain payments and so on is self-reported by survey respondents. We are thus reliant on the accuracy of these responses and people's interpretation of the questions that are posed to them. The accuracy of the survey results will also be dependent on the sample of people surveyed and whether the final weighted estimates are representative of the population and those who are in debt.

The statistics in this section mostly come from the Financial Conduct Authority's *Understanding the financial lives of UK adults* – a survey of nearly 13,000 individuals carried out in early 2017.[49] Other surveys such as the Office for National Statistics' *Wealth and assets survey* also provide some estimates of debt among households and their ability to repay debt.[50]

## 3.2 How much debt do people have?

On average, UK adults have outstanding non-mortgage debt of £4,960 including student loans (£3,320 without).[51] However, if one only looks at people with debt, the average debt held is £12,500 per person including student loans and £9,600 without.[52]

The table below provides these figures by age group. Average debt levels excluding student loans peaks in middle age, with an average debt of £11,500 per person among 45-54 year olds.

**Average personal debt outstanding by age group**
£ per person, excludes mortgages and those without any personal debt

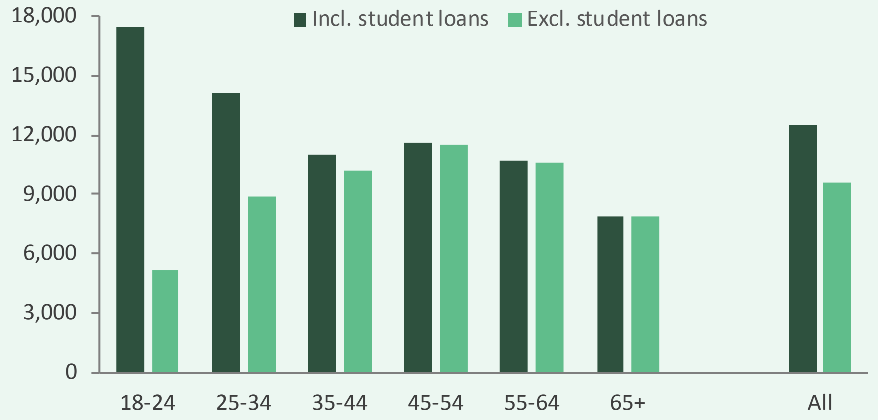
| | All | 18-24 | 25-34 | 35-44 | 45-54 | 55-64 | 65+ |
|---|---|---|---|---|---|---|---|
| Including student loans | 12,500 | 17,400 | 14,100 | 11,000 | 11,600 | 10,700 | 7,900 |
| Excluding student loans | 9,600 | 5,200 | 8,900 | 10,200 | 11,500 | 10,600 | 7,900 |

Note: Figures are mean averages
Source: FCA (2017), *Understanding the financial lives of UK adults*, main table 373 & 376

Student loans make a big difference to the figures among the younger age groups. Average debt among 18-24 year olds with debts rises from £5,200 excluding student loans, to £17,400 when they are included.

49 FCA, Understanding the financial lives of UK adults, October 2017
50 ONS, Wealth in Great Britain – Wave 5:2014 to 2016, 1 February 2018
51 FCA, Understanding the financial lives of UK adults, October 2017, pp114-5
52 FCA, Understanding the financial lives of UK adults, October 2017, weighted main data tables 373 and 376

**Average personal debt outstanding by age group**
£ per person, excludes mortgages and those without any personal debt




Source: FCA (2017), *Understanding the financial lives of UK adults*, main tables 373 & 376

## 3.3 Debt held by region

The Financial Conduct Authority (FCA) provided estimates of average debt figures by region and country of the UK, from their early 2017 survey of consumers. This FCA survey provides data separately for mortgage debt and for personal debt (credit cards, overdrafts, personal loans and so forth) – these estimates are provided in the table below.[53]

Averages are based on people holding each type of debt. For example, the figure for the average mortgage debt in the UK (£126,000) only includes those who have a mortgage. The same applies for the personal debt data. As the terms attached to student loans are unlike those of other loans, the table has included two sets of figures for personal debt: one including student loans and one excluding them.

A word of warning: you can't add the mortgage debt average to the personal debt average, as both averages included different groups of people: (1) those with a mortgage and (2) those with personal debt.

The survey shows that mortgage debt is highest in London and the South East reflecting higher house prices, while it is lowest in the North East and Yorkshire and the Humber.

Of those people who hold personal debt (excluding student loans), the highest average can be found in London and the South East, while the lowest averages are in the North East, East of England and Yorkshire and the Humber.

[53] FCA, The financial lives of consumers across the UK, June 2018

**Average (mean) mortgage and personal debt outstanding by UK region and country, 2017**

£ per person, excludes those without mortgage or personal debt, respectively

| | Mortgage debt | Personal debt including student loans | Personal debt excluding student loans |
|---|---|---|---|
| North East | 82,000 | 10,800 | 7,700 |
| North West | 104,000 | 12,900 | 9,300 |
| Yorkshire & The Humber | 83,000 | 11,100 | 8,200 |
| East Midlands | 95,000 | 11,900 | 9,300 |
| West Midlands | 99,000 | 10,700 | 8,800 |
| East of England | 136,000 | 11,500 | 8,100 |
| London | 202,000 | 15,100 | 12,300 |
| South East | 159,000 | 14,000 | 11,100 |
| South West | 126,000 | 14,200 | 10,000 |
| Wales | 104,000 | 13,500 | 9,700 |
| Scotland | 100,000 | 9,700 | 8,500 |
| Northern Ireland | 117,000 | 12,500 | 10,700 |
| **UK** | **126,000** | **12,500** | **9,600** |

Notes: Figures rounded to nearest £1,000 for mortgages and to nearest £100 for personal debt. Personal debt includes credit cards, overdrafts, personal loans, motor finance, loans from friends/family and some other products

Source: FCA, *The financial lives of consumers across the UK*, June 2018 and Library calculations

## 3.4 Statistics on over-indebtedness

One measure of over-indebtedness devised by the Money Advice Service is people who either:

- find keeping up with bills and credit commitments a heavy burden; and/or
- have missed payments to domestic bills or debt repayments in any three of the past six months.[54]

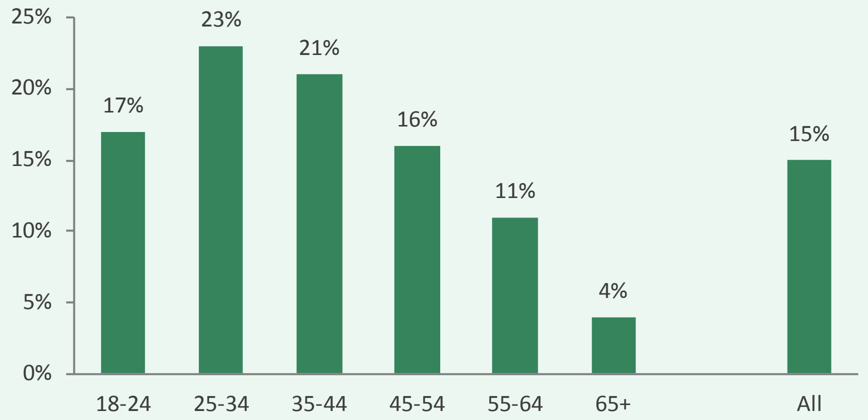
By this measure, it is estimated that 16% of the UK adult population (8.3 million people) were over-indebted in 2017. By country, over-indebtedness was 16% for England, Scotland and Northern Ireland, while for Wales it was 18%.[55]

54 Money Advice Service, *Over indebtedness in the UK 2017*, September 2017

55 Characteristics of people more likely to meet this definition were found from a survey and then applied to a model built by data company CACI to estimate the number of over-indebted people by area and in the UK as a whole. 2017 estimates for local authorities are available from the Money Advice Service report *Over indebtedness in the UK 2017 - statistics*. An interactive map which includes data for parliamentary constituencies is also available from MAS. See also FCA, *Understanding the financial lives of UK adults*, October 2017, pp139-40, which came to a similar conclusion

Older age groups are less likely to be over-indebted: 4% of those aged 65 and over, compared to 17% of 18 to 24 year olds, peaking at 23% of 25-34 year olds.[56]

**Proportion who are over-indebted by age group**
Haven't paid bills in 3 or more of past 6 months or find paying a heavy burden

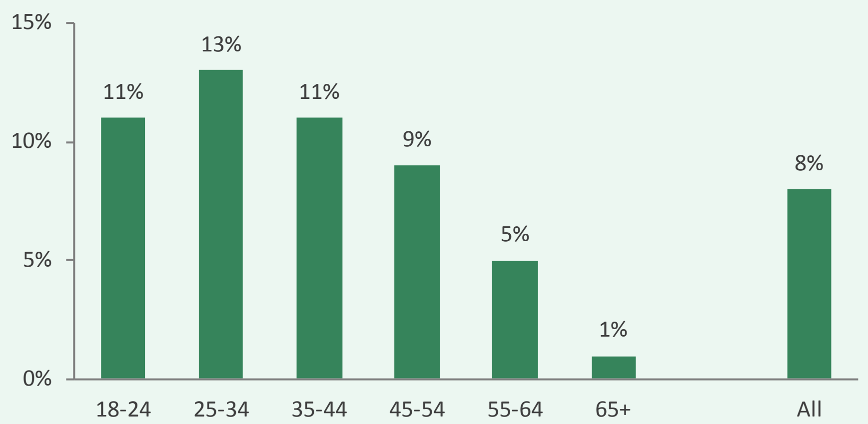



Source: FCA (2017), *Understanding the financial lives of UK adults*, main table 119

Of those who are already having difficulty making payments, an October 2017 survey by the FCA found that 8% of the UK adult population (4.1 million people) had not paid bills or debt repayments in at least three of the previous six months. The figure is higher for those unemployed (24%), compared to those in work (8%).[57]

Older people are less likely to miss payments: 1% of those aged 65 and over, compared to 11% of 18-24 year olds and peaking at 13% of 25-34 year olds.[58]

**Proportion who have missed bill payments by age group**
Have not paid bills in 3 or more of past 6 months




Source: FCA (2017), *Understanding the financial lives of UK adults*, main table 82

56 Ibid, pp140-42
57 Ibid, weighted data table 82
58 FCA, *Understanding the financial lives of UK adults*, October 2017, pp140-42

# 4. Effect of household debt on economic growth

[Written in May 2016]

As explained in sections 1.3-1.4, household debt can be beneficial to the economy and living standards but can also lead to problems if debt levels becomes too onerous for households to repay.

This section provides a summary of research into the impact of household debt on economic growth and stability in the UK and internationally, with a particular focus on the lead up to and aftermath of the financial crisis and recession of 2008-2009.

## 4.1 UK

A paper by the Bank of England found evidence that households with higher levels of debt reduced their spending on goods and services, as a proportion of income, by more than the average household during and after the 2008-2009 financial crisis.[59]

The result was to increase the depth of the recession and slow the recovery. An estimated 2%-points of the 5% fall in total consumer spending after 2007 was associated with cuts in spending by households with higher debt levels.

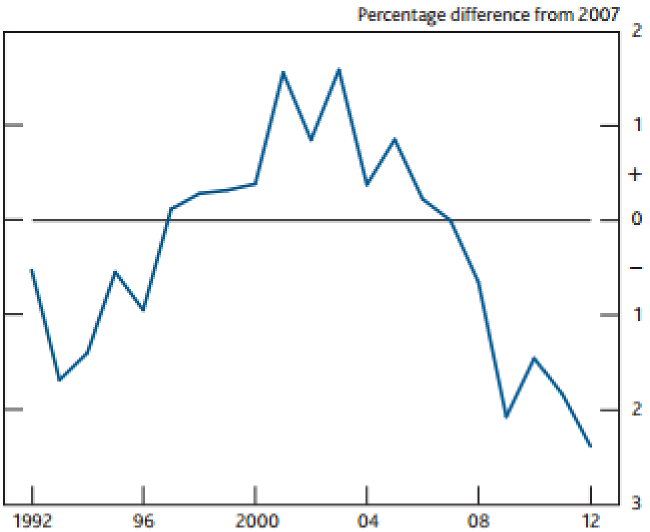
The same research found that the accumulation of household debt from 1996 to 2003 contributed to economic growth, with indebted households adding roughly 0.35%-points a year to overall consumer spending growth of about 4.5% per year over this period. Put another way, a total of 2.5% was added to the level of consumer spending from 1996 to 2003.

Much of this increase was in household durable goods (such as cars, furniture, appliances and electronics) and non-essential items (such as recreational spending). The larger-than-average fall in expenditure by highly-indebted households after the crisis was in these same categories of spending.

The chart below, reproduced from the Bank of England paper, summarises the impact of debt on the aggregate level of consumer spending, or private consumption, compared to the level seen in 2007 (just before the crisis took hold). Debt-fuelled consumption added to private consumption, and thus GDP growth, in the decade prior to 2007, but reduced consumption during and after the crisis.

59 Bunn, P. and Rostom, M., "Household debt and spending", Bank of England Quarterly Bulletin Q3 2014

**Chart 8 Estimated impact of debt on the level of total private consumption, relative to 2007**(a)




Sources: DCLG, LCF Survey, ONS and Bank calculations.

(a) The impact on non-housing consumption is constructed by taking predicted spending for each household from the model described in footnote (2) on page 309, and then subtracting what the model predicts they would have spent if debt had had the same estimated influence on spending patterns in each year as it did in 2007, keeping all other characteristics unchanged. Differences are then summed across households. To get to a total impact on aggregate private consumption there is assumed to be no effect on housing consumption or the consumption of non-profit institutions serving households.

Based on a 2013 survey of households cited in the same paper, those with higher mortgage debt-to-income ratios were more likely to cut spending due to concerns about credit availability and debt. Specifically, as reasons for reducing their expenditure they cited the reduced availability of credit (to renew or increase their debt) and also concerns about their ability to make future debt repayments (rather than them actually having difficulty in making repayments).

## 4.2 International

The international evidence generally finds that large increases in household debt prior to recessions tends to lead to deeper and longer downturns. This is due to households with high debt levels cutting back on their spending by more than other households during and after a recession.

A 2012 OECD Working Paper found that high debt levels impaired the ability of households to smooth their spending.[60] It also suggested that when household debt levels rise above trend the likelihood of a recession increases.[61] The economic expansions before these recessions are typically longer and larger.

Research by the IMF in 2012 also found that recessions preceded by large increases in household debt are more severe and protracted.[62] It

60 And for companies to smooth their investments.

61 Sutherland,D. and P. Hoeller (2012), "Debt and Macroeconomic Stability: An Overview of the Literature and Some Empirics", *OECD Economics Department Working Papers*, No. 1006, OECD Publishing, Paris

62 IMF, "Dealing with household debt", Chapter 3, World Economic Outlook, April 2012

also discovered that the fall in consumer spending seen following large increases in household debt also occurred in economies that did not experience a banking crisis around the time of a housing bust.

A paper by Jorda, Schularick and Taylor (2013) looked at private and public sector debt in 150 recessions and recoveries since 1870. It found that once a country enters into recession, if it carries the legacy of a large private credit boom[63] the post-recession economic recovery is typically slower. [64]

[63] Private refers to households and corporations
[64] Jorda, O., Schularick, M., and Taylor, A. (2013), "Sovereigns versus Banks: Credit, Crises, and Consequences", Federal Reserve Bank of San Francisco Working Paper 2013-37

# 5. Further information

## Library information

- "Household Debt: Key Economic Indicators", latest household debt data

## Data sources and forecasts

- ONS, UK Economic Accounts (quarterly)
- Bank of England, Money and Credit release (monthly)
- ONS, Wealth in Great Britain – Wave 5: 2014 to 2016
- FCA, Understanding the financial lives of UK adults
- OECDstat, Household Dashboard: cross country comparisons
- Bank for International Settlements, Total Credit to the non-financial sector
- OBR, Economic and fiscal outlook
- Bank of England, Financial Policy Committee

## UK research

- Resolution Foundation, An unhealthy interest? Debt distress and the consequences of raising rates, Feb 2018
- IFS, Problem debt and low-income households, Jan 2018
- Bank of England staff blog (Bank Underground), Who's driving consumer credit growth, Jan 2018
- OECD, Economic survey of the UK 2017, Nov 2017
- Bunn, P. and Rostom, M., "Household debt and spending", Bank of England Quarterly Bulletin Q3 2014

## International research

- IMF, "Household Debt and Financial Stability", Chapter 2, Global Financial Stability Report, October 2017
- IMF, "Dealing with household debt", Chapter 3, World Economic Outlook, April 2012

- Sutherland,D. and P. Hoeller (2012), "Debt and Macroeconomic Stability: An Overview of the Literature and Some Empirics", *OECD Economics Department Working Papers*, No. 1006, OECD Publishing, Paris

- Jorda, O., Schularick, M., and Taylor, A. (2013), "Sovereigns versus Banks: Credit, Crises, and Consequences", Federal Reserve Bank of San Francisco Working Paper 2013-37

- Cecchetti, S., Mohanty, M., and Zampolli, F. (2011), "The real effects of debt", Bank for International Settlements Working Papers No 352

- Röhn, O. et al. (2015), "Economic resilience: A new set of vulnerability indicators for OECD countries", OECD Economics Department Working Papers, No. 1249, OECD Publishing, Paris

- André, C. (2016), "Household debt in OECD countries: Stylised facts and policy issues", *OECD Economics Department Working Papers*, No. 1277, OECD Publishing, Paris

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