HOUSEHOLD INDEBTEDNESS SURVEY REPORT

2021/22

EXECUTIVE SUMMARY

This survey measured the level of household indebtedness in Botswana, using data collected from commercial banks, statutory banks, micro-lenders and hire purchase stores; as well as data on arrears on rent and water bills from Botswana Housing Corporation (BHC) and Water Utilities Corporation (WUC). The data was collected by means of an online questionnaire, which supplemented the regular statutory returns of commercial and statutory banks for the month of December 2021[1] and June 2022.

The findings of this annual survey help determine the extent of vulnerability of the financial system to household sector credit exposure and contributes to the determination and implementation of financial sector policies, in general, for effective functioning of the financial system and beneficial use of credit. Furthermore, the survey results serve as a public awareness information that makes it easier for the public to comprehend credit markets and guide households towards more effective financial management.

This survey is being carried out at a time when the world economy continues to suffer from multiple shocks stemming from the COVID-19 pandemic, lockdowns in China, subdued consumer spending amid heightened inflation, as well as the Russia-Ukraine war and its associated negative spill-overs. The war has resulted in significantly elevated commodity prices, hence strong inflationary pressures which and, in turn increase in policy interest rates, contributing to tighter financing conditions (higher cost of funds and related reduced accessibility), and slowdown in global economic activity in 2022. The increasing prices continue to impact negatively on households living standards globally. Hence, there are calls worldwide for targeted fiscal support to cushion the impact of economic slowdown on the most vulnerable.

As at December 31, 2021, total household debt amounted to P58.5 billion, comprising bank loans (88.5 percent)[2], micro-lender loans (11 percent) and hire purchase credit (0.5 percent). As a percent of Gross Domestic Product (GDP), total household debt was 29.9 percent in the same period, slightly below 31.7 percent in 2020. Combined with arrears, household debt was P59.2 billion, translating into 30.3 percent of GDP. As with the previous surveys, the current survey indicates that men incur more debt than women and that the population group aged 30 to 49 years old has proportionately more debt than other age segments of the population. Furthermore, households earning between P3 001 and P19 999 per month actively participate in credit markets compared to those outside this income range.

Generally, banks (commercial banks and statutory banks), microlenders and hire purchase stores view the outlook for demand for credit as moderate in 2022. The survey indicates that the rising cost of living and the lingering effects of COVID-19 on households' loan affordability informed the outlook for demand of credit. As such, most banks indicated that they were reluctant to supply credit in 2021.

[1] The Household Indebtedness Survey is published annually by the Bank of Botswana based on the previous year's financial information and expectation about credit developments. Data collected does not include informal credit arrangements such as metshelo and family loan arrangements. In addition, the survey does not collect information on household assets and income flows.

[2] Bank loans (including statutory banks) to households increased from P51.8 billion in December 2021 to P52.3 billion in June 2022.

1. INTRODUCTION

1.1 This survey measures the level of household indebtedness in Botswana, using data collected from commercial banks, statutory banks, micro-lenders and hire purchase stores; as well as data on arrears collected from Water Utilities Corporation and Botswana Housing Corporation. The survey examined the demographic profile of borrowers; purpose of household credit; cost of credit; quality of the loan book; as well as lending policies/strategies and risk mitigation measures. The results are expected to inform policy formulation, macroprudential policy action, as well as institutional frameworks and regulations to facilitate disciplined and beneficial access to credit and mitigate the risks associated with any form of unsupported high levels of debt from multiple sources by the households and/or retail sector. Overall, in the context of the broader objectives of financial inclusion and economic development, policy makers need to carefully balance the benefits and risks of household debt over various time horizons and economic cycles.

1.2 A general expansion in debt by households is supportive of economic growth and development, mainly through consumption spending and acquisition of high-value assets, such as property (land and housing) and other income-generating assets (for example, capital goods and private equity investing). However, there can be an increase in financial risks when increasingly higher rates of household credit growth are either unsupported by a commensurate increase in personal incomes or fail to generate sufficient wealth. Risks are especially elevated when financing conditions become unfavourable such as when interest rates or financing costs increase or when declining economic activity results in reduced employment and income earning opportunities; thus, adversely affecting the borrowers' ability to continue to meet the repayment obligations, sustainably.

1.3 This year's survey is undertaken in the context of tightening financial conditions amid price pressures resulting from the consequences of the Russia-Ukraine war and China's COVID-19 zero-tolerance that has disrupted supply chains. Central banks have thus increased policy rates at a faster pace to keep up with inflationary pressures, in turn, increasing the cost of living and eroding household real incomes with potentially adverse consequences on debt serviceability. Persistent inflation along with increased global uncertainty could also weaken economic growth prospects; putting pressure on businesses and employment as a consequence. Overall, reduced real incomes could hinder access to and affordability of credit as well as shape the credit profile of households.

1.4 The remainder of the Survey report is organised into three sections. Section 2 describes the methodology used in conducting the Survey. Section 3 discusses the findings of the Survey, while Section 4 concludes the report.

2. DATA DESCRIPTION AND METHODOLOGY

2.1 The survey covered the features of household debt, including debt-to-income ratios, debt service capacity and alternative sources of funding in 2021/22. For purposes of this survey, household debt refers to a loan or credit acquired, or debt incurred for, among others, the purchase of assets such as owner-occupied residential property, commercial real estate, equipment, vehicles, and consumables. Households also incur debt for miscellaneous other uses. Interest rates, installment payments, expectations regarding future income, and wealth are all factors that affect households' decisions to borrow. The debt service ratio is a key parameter for assessing the capacity of households to meet their debt obligations in a sustainable manner.

2.2 The analysis makes use of information gathered from eight commercial and three statutory banks, seventeen micro-lenders and three large hire-purchase stores. To achieve the objective of the Survey, primary data was collected using an online questionnaire. The Survey questions covered aspects on the outlook for the demand for credit; demographic characteristics of households; credit application processes; characteristics of the credit/loan book; and credit risk strategies relating to household debt. The analysis was augmented with secondary data from statutory returns of commercial and statutory banks submitted to the Bank of Botswana (the Bank), as well as information from housing and water utilities corporations.

3. FINDINGS

(a) Demography of Households

3.1 As at the end of 2021, there were 545 316 household borrowers, comprising 312 927 (57.4 percent) males and 232 389 (42.6 percent) females, at banks, micro-lenders and hire purchase stores. According to Morsy (2020), credit bias towards males primarily reflects females' own evaluation of low creditworthiness because of relatively low financial literacy (particularly among low-income groups)[3] and high-risk aversion. Indeed, a large percentage of banks have indicated that they did not have lending products designed to enhance financial inclusion for women; however, one bank highlighted that it has such a strategy, while one bank is at an advanced stage of developing such as strategy.

3.2 In 2021, banks financed 59.7 percent of household borrowers, followed by microlenders (34.5 percent) and hire purchase stores (5.8 percent). The survey indicates that household borrowers aged 30 to 49 years actively participated in the credit market, at 65.5 percent (70.6 percent in 2020), followed by those aged 50 years and above (24.6 percent) and those less than 30 years (9.8 percent). In value terms, 56.1 percent (of the loans) went to males compared to 43.9 percent for females. This represents a slight decline from 2020 for males (56.3 percent) and a slight improvement for females (43.7 percent).

3.3 The summary of findings presented in Table 3.1 shows that most of the household borrowers were Government employees, including parastatals (53.4 percent), followed by private sector employees (44.7 percent). Those that are self-employed accounted for 1.2 percent while the unemployed individuals accounted for 0.7 percent of total household borrowers. Relating to credit provision based on monthly income

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[3] Organisation for Economic Co-operation and Development (2013) also notes that women appear to be better than men at short-term money management behaviour; and that close monitoring of every day financial expenses is a first step towards building long-term financial security and averting unsustainable levels of debt.

levels, most borrowers earned monthly income ranging from P3 000 to P19 999[4] (53.3 percent), followed by those who earned P20 000 and above (34.1 percent), while those earning less than P3 000 per month constituted 12.6 percent of borrowers.

Table 3.1: Demographic Information of Household Borrowers

	2017	2018	2019	2020	2021
Gender		Percent			
Males	56	57.2	54.6	63.5	57.4
Females	43	42.8	45.4	36.5	42.6
Unclassified	1				
Age		Percent			
< 30	12	11.6	20.5	13.6	9.8
30 - 50	68	59.9	60.7	70.6	65.5
50+	20	19.1	18.7	15.8	24.6
Unclassified		9.4			
Employment Status		Percent			
Government Employed	94	60.4	54.8	59.8	53.4
Privately Employed	1	25.2	43.2	36.9	44.7
Self Employed	2	0.7	0.7	2.7	1.2
Unemployed	3	2.7	1.3	0.6	0.7
Unclassified		11			
Income		Percent			
<P3000	19	27.6	33.2	33.5	12.6
P3001 - P19 999	71	59.1	56.8	53.4	53.3
P20 000+	8	13.3	10.1	13.1	34.1
Unclassified	2				

Source: Banks, Microlenders and Hire Purchase Stores

Note: Household Indebtedness Survey for 2017 covers banks; 2018 covers banks, microlenders and hire purchase stores; and 2019 covers banks, microlenders, hire purchase stores and SACCOS; and 2020 uses estimated numbers for SACCOS.

3.4 The Government is the largest single employer in Botswana, and that explains the dominance of Government employees in total household credit allocation. Employment in Government for low to mid-level employees is predominantly on permanent and pensionable basis, making Government jobs more secure or reliable for purposes of loan provision. Furthermore, domestic credit continues to be channelled to, notionally, the most productive age group (30 - 50 years) in line with the dictates of consumption smoothing concept of the life cycle income hypothesis; thus, being supportive of welfare enhancement, economic growth and development.

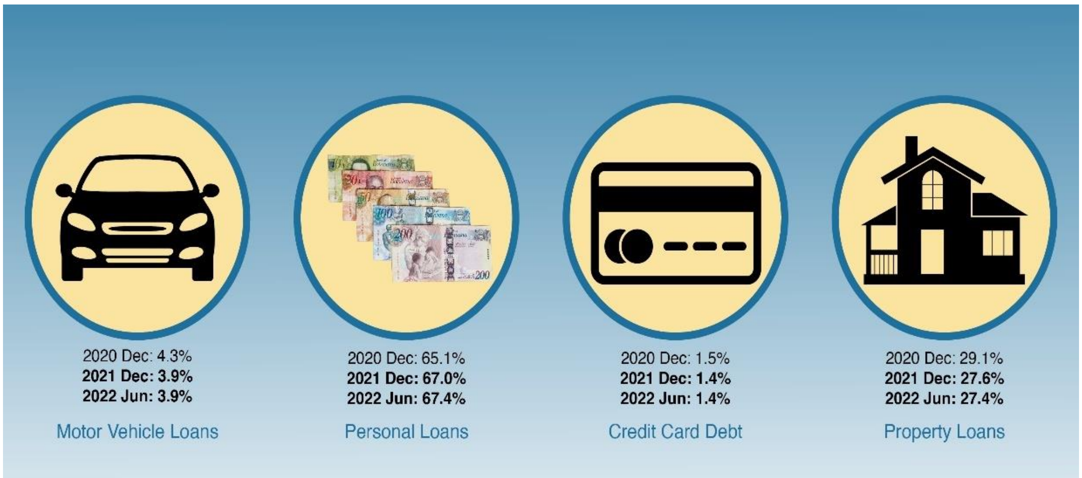
(b) Types of Credit by Banks, Microlenders and Hire Purchase Stores

3.5 As shown in Chart 3.1, most of the lending to households by banks continues to be in the form of unsecured personal loans, which accounted for 67.4 percent of the total bank credit in June 2022 compared to 67 percent in December 2021. The second largest debt category was residential loans at 27.4 percent in June 2022, which is a slight decline from 27.6 percent in December 2021, followed by motor vehicle loans at 3.9 percent (June 2022) and credit cards at 1.4 percent (June 2022). In addition, the results of the survey indicate that in December 2021, 80.7 percent of households

[4] Monthly average cash earnings for all employees in the formal sector was P6 299 (P6 219 for citizens and P9 275 for non-citizens) in December 2021.

had a single credit commitment, 7.9 percent had two, 9.9 percent had three and 1.5 percent had four or more credit commitments. Given the expansion of credit products in recent years, it has been found that the threshold of four credit commitments as a common indicator of over-indebtedness may no longer be meaningful. Similarly, the number of credit commitments might not reliably detect situations of over-indebtedness since many outstanding small debts do not necessarily imply a condition of difficulty. Nonetheless, for the most part, the indicator (that is, the number of credit commitments) can be a measure of the process of becoming over-indebted. Consequently, the results of the survey (based on this indicator) show that the banks' household customers were not at risk of over-indebtedness.

Chart 3.1: Share of Household Borrowing by Type



Source: Banks

3.6 The survey shows that, on average, hire-purchases are mostly used for the acquisition of furniture (62.1 percent), followed by home appliances (22.4 percent), and electronic equipment and devices (15.2 percent). Loans from micro-lenders are mostly for personal use on education, renovation of property, acquisition or expansion of business and debt consolidation.

(c) Arrears

3.7 As at the end of December 2021, total arrears[5] by households to Botswana Housing Corporation and Water Utilities Corporation amounted to P769.1 million, a 2.8 percent increase from arrears of P748.4 million in the preceding period (Table 3.2). The percentage of households with arrears was relatively high in 2021, at 75.1 percent, a decline from 79.3 percent in the previous year. During the period under review, a large amount of rental arrears accrued for the medium cost houses, followed by low and high-cost houses, respectively.

[5] Three months after the reference period.

Table 3.2: Number of Households with Arrears

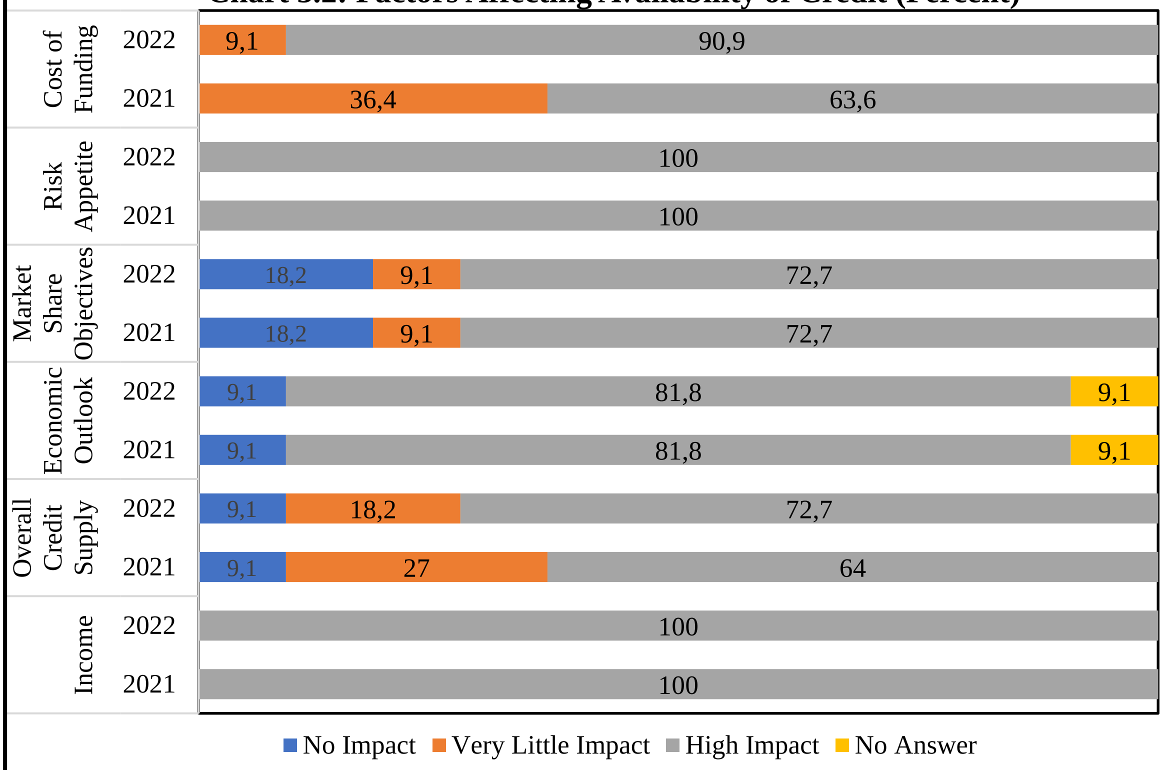
Year	Number of Households (WUC AND BHC)	Number of Households with Arrears	Percentage of Households with Arrears	Value of Arrears P million
2017	421982	349892	82.9	309.7
2018	433772	336823	77.6	385.9
2019	446416	347707	77.9	542.3
2020	478860	379856	79.3	748.4
2021	495122	371945	75.1	769.1

Source: Botswana Housing Corporation
Water Utilities Corporation

(d) Factors Affecting Availability of Credit

3.8 Most banks were of the view that income, economic outlook and risk appetite had a high impact on the availability of credit during 2021 and expect the same factors, together with cost of funding to have a similar impact in 2022 (Chart 3.2). Notwithstanding, 9 banks had a dominant unfavourable view of credit supply conditions (or unwillingness to supply credit) in 2021 compared to 8 banks for 2022. Credit markets continue to be constrained by the economic uncertainties due to the lingering effects of the COVID-19 pandemic and geopolitical tensions. Banks were operating significantly above the prudential capital adequacy ratio of 12.5 percent, over the review period, an indication that banks were hoarding capital for prudential considerations, perhaps.

Chart 3.2: Factors Affecting Availability of Credit (Percent)



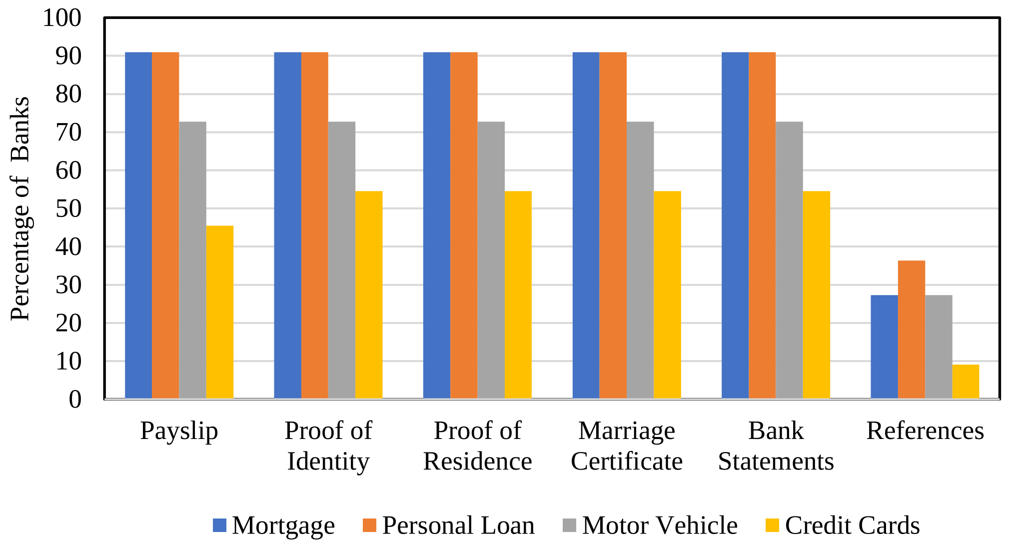
Source: Banks

(e) Credit Application Process

(i) Documents Required During Application for Credit

3.9 The loan review function of banks ensures that the documentation required for a loan application has sufficient information necessary to ascertain the financial condition of the borrower or counterparty, as well as sufficient information to track the decisions made and life of the credit. Credit files of potential borrowers contain, for example, current financial statements, financial analyses and internal rating documentation, internal memoranda, reference letters, and appraisals; and the requirements are normally standard across the banking industry. Chart 3.3 shows some documents required by banks per the type of credit facility applied for. While mortgages are considered 'good' debt and relatively cheaper than other types of consumer debt, the survey indicates that screening for mortgage applications tends to be stricter than other types of loan products because of the inherently long-term nature of the facility and large loan amount involved.

Chart 3.3: Documents Required During Application of Credit



Source: Banks

NB: All banks require customer identification for all the credit facilities that they provide. The residual percentages are for those banks that do not grant the credit facilities.

3.10 Other documents required by banks include letters confirming employment; consent by spouse; copy of title deed, sale agreement, work and residence permits, valuation report, architectural plan, structural report and offer letter for home loans; valid driver's licence and quotation for new vehicles; and motor vehicle registration book, road worthiness certificate and sales offer indicating price for boarded (used) vehicles.

3.11 During 2021, a total of 15 248 loan applications, valued at P3.5 billion and representing approximately 14.5 percent (23 percent in 2020) of total loan applications were rejected by banks (Table 3.3). The survey indicates that rejections were mainly due to observed bad management of personal bank accounts; failure to meet minimum employment period and thresholds such as the debt-to-income ratio (reflecting over-indebtedness); failure to agree on the rate of interest by the bank and the customer; and rejection of property presented as collateral due to poor structural soundness (in the case of mortgage loans).

Table 3.3: Total Loan Applications and Rejections

	Loan Applications		Loans Rejected		Percentage (Rejected/Total Applications	
	Number	Amount P million	Number	Amount P million	Number	Amount
Mortgage	4 232	3 256	288	243.8	6.8	7.5
Assets/Vehicle Insurance	3 589	1 140	143	82.3	4	7.2
Personal Loan	82 688	19 707.5	12 838	3 107.3	15.5	15.7
Credit Cards	11 725	263.8	1 419	37.5	12.1	14.2
Other	3 140	163.1	560	10.1	17.8	6.2
Total	105 374	24 530.3	15 248	3 481	14.5	14.2

Source: Banks

3.12 Most of the banks (6 banks) viewed the approval rate of loan applications as moderate in 2021, while 3 banks viewed the rate as high and 2 banks viewed it as low. For the year 2022, 7 banks expect the approval rate to be moderate, 3 banks expect it to be high, while only 1 bank expect it to be low.

(ii) Assessment of Credit

3.13 Credit providers use the debt-to-income (DTI) ratio to evaluate the credit worthiness of applicants and the debt-service ratio (DSR) to assess the borrowers' debt service capacity during the life cycle of the credit facility. The DTI ratio compares the periodic instalment to periodic earnings, while the DSR is the share of a borrower's income allocated to loan repayments over a given period, say one year (total loan repayments/total income). A low (high) DTI ratio indicates good credit worthiness (indicates over indebtedness); while a low (high) DSR indicates an increased capacity to timely service the credit (indicates some financial constraint).

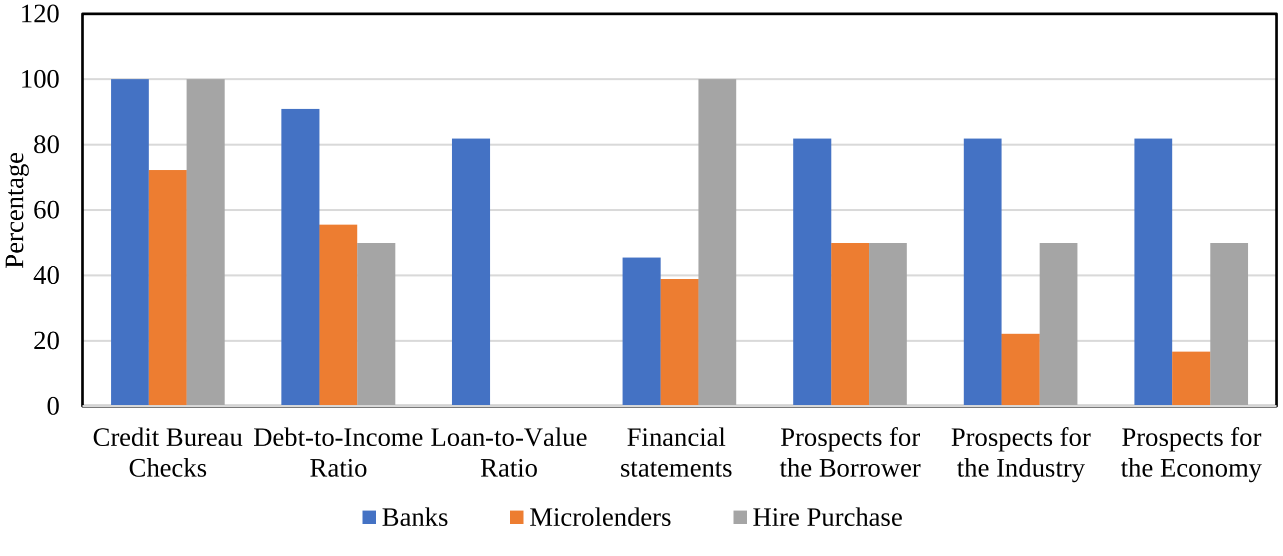
3.14 For 2021, the DTI ratio ranged between 40 percent and 70 percent for banks (average of 57 percent), 30 percent and 67 percent for microlenders (average of 44.5 percent); and 30 percent to 35 percent (average of 32.5 percent) for hire purchase stores. The DTI ratio varies across different products for some banks. Some banks use a fixed net take home rule while others use a DSR on net income after tax and income. Angel and Heitzmann (2015) suggest that the DTI ratio should be 40 percent or below. Thus, households that find themselves with higher DTI ratios would have a relatively higher financial burden than those at the lower end of the spectrum. On the other hand, DSR for banks ranged between 50 percent and 70 percent.

3.15 In 2021, the Loan-to-Value (LTV) for banks ranged between 10 percent and 105 percent, compared to the range of 45 percent and 105 percent in 2020. The decline in the lower end of the LTV to 10 percent is indicative of a reduction in credit risk appetite in some banks during the period under review, compared to the previous year. On the other hand, the higher LTV ratios expose banks to financial losses in situations where the proceeds from the sale of repossessed property (foreclosures) are not adequate to expunge the amount of loan balance outstanding from the books of the lender; particularly in instances of subdued economic activity or stressed market conditions. The average percentage exposure at risk that is not expected to be recovered in an event of default, as measured by the Loss-Given-Default (LGD) or recovery risk, varies considerably across banks, ranging from nil to 98.5 percent. That notwithstanding, mortgage insurance can be used as a risk mitigation tool in relation to high LTV for mortgages. Additionally, in terms of the capital adequacy requirements for banks in Botswana (that is, Basel II rules), the LTV ratio that is in excess of 90 percent is assigned a higher risk weight than the standard 35 percent risk weight for owner-occupied residential mortgage loans.

3.16 On average, 81.8 percent of banks use credit rating models to assess the credit worthiness of customers. Majority of these banks' models include information relating to current and past loans; records and bankruptcy measures. Extra information embedded in the models include unpaid medical and utility bills, income, banking relationship, dishonoured cheques, unpaid scheduled payments, unauthorised excesses, age, repaying capacity and property value.

3.17 In addition to indicators embedded in the banks' credit rating models, credit providers give due consideration to prospects for the economy, industry and the borrower, as well as financial statements when assessing a potential borrower (Chart 3.4). Furthermore, banks use information from credit bureaux to identify high risk borrowers. Credit bureaux are critical in helping lenders make faster and more accurate credit decisions (International Finance Corporation, 2006), and this is the reason why most of credit providers subject potential borrowers to credit bureau checks for credit history profile to identify any adverse credit reference, which if any, would, typically, disqualify a borrower from being granted a loan.

Chart 3.4: Type of Assesment



Source: Banks, Microlenders and Hire Purchase Stores

(e) Characteristics of the Loan Book

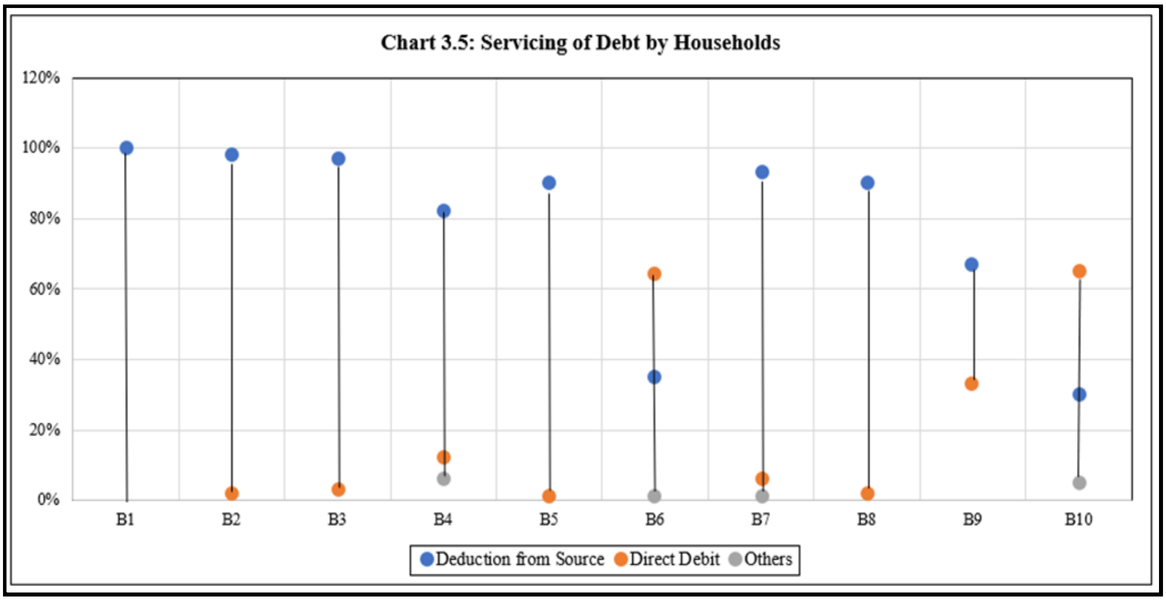
(i) Quality of the Loan Book

3.18 Banks indicated that the loan default rate was adequately managed during 2021. On average, 63.6 percent of banks experienced a moderate default rate and 27.3 percent experienced a low default rate. The default rate reported by banks in 2021 ranged between 0.75 percent and 7.3 percent, with an average of 2.7 percent. For 2022, overall, the default rate, is expected to be moderate; 45.5 percent of banks expect a moderate default rate while 27.3 percent expect the default rate to be high and the remaining 27.3 percent expect it be low. Banks, which indicated that the default rate is likely to be high in 2022, attributed the anticipated adverse development to the expected increase in the cost of living. Meanwhile, banks that anticipate a low default rate based their conclusion on aggressive approach towards mortgage lending and the fact that most customers are Government employees with deduction at source arrangement.

3.19 A large percentage of microlenders indicated that there was an improvement in the default rate during the period under review compared to the prior years. Of the two hire purchase stores that responded, one indicated that the default rate was a concern in 2021, while the other experienced an improvement.

(ii) Servicing of Debt by Households

3.20 The results of the survey indicate that approximately 75.3 percent of total household loan portfolio of banks are serviced through scheme loan arrangements, where banks offer preferential loan pricing to employees of a certain institution in exchange for a direct deduction through the institution's payroll. As regards the entire household portfolio, the percentage of households who serviced their debt directly from their payroll, in relation to individual banks, ranged from 30 percent to 100 percent, while those with a direct debit from personal bank accounts ranged from nil to 65 percent (Chart 3.6). Some borrowers service their loans over-the counter and through bank transfers. As for hire-purchase stores, most of households service their debt through in-store payments (an average of 94.9 percent) and some microlenders deduct monthly repayments directly from the employer.

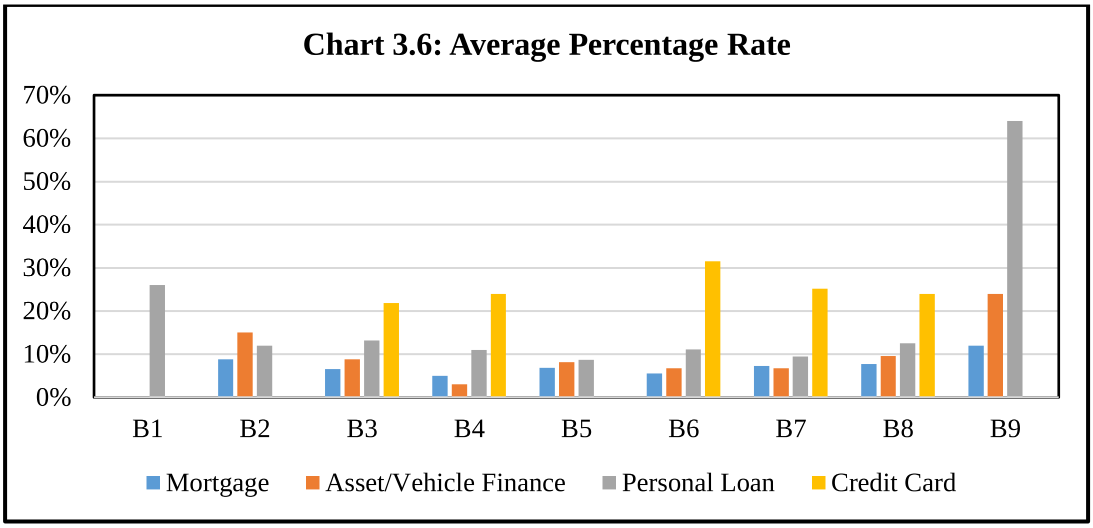


Source: Banks

Note: B1 to B10 represents banks.

(iii) Cost of Credit to Households

3.21 An analysis of the annual percentage rate (APR) for different credit facilities granted by the banking sector indicates that credit card loans are the most expensive as reflected by their relatively high APR, as shown in Chart 3.6, followed by personal loans, motor vehicles and lastly mortgages. APR for credit cards hovered around 25 percent on average, personal loans around 19 percent, motor vehicle loans around 12 percent and mortgages around 8 percent. Notwithstanding, 63.6 percent of banks observed a mid-range spread on personal loans, indicating that most banks realised normal profits from their pricing of the mentioned credit facility. However, 36.4 percent realised a narrow spread during the period under review. In 2022, most banks (72.7 percent) expect a mid-range spread, whereas 27.3 percent expect a narrow spread.



Source: Banks

3.22 Banks also imposed different types of charges, such as administration/arrangement/processing fees, documentation fees, insurance fees, collection fees, facility fees and valuation fees. Some banks had early repayment penalty and credit reference or clearance fees. These fees were either proportionate to the loan amount (ad valorem) or fixed.

3.23 Interest rates charged on hire purchase did not change during the period under review; they ranged between 24 percent and 35 percent per annum over the period under review. Hire purchase stores also charge late payment fees, application and insurance fees. Approximately, 75 percent of micro-lenders who responded to the survey indicate that they charge an application fee/ administration fee. Similarly, interest rates charged by some microlenders remain unchanged; they are as low as 7.5 percent per annum, and some as high as 50 percent per annum.

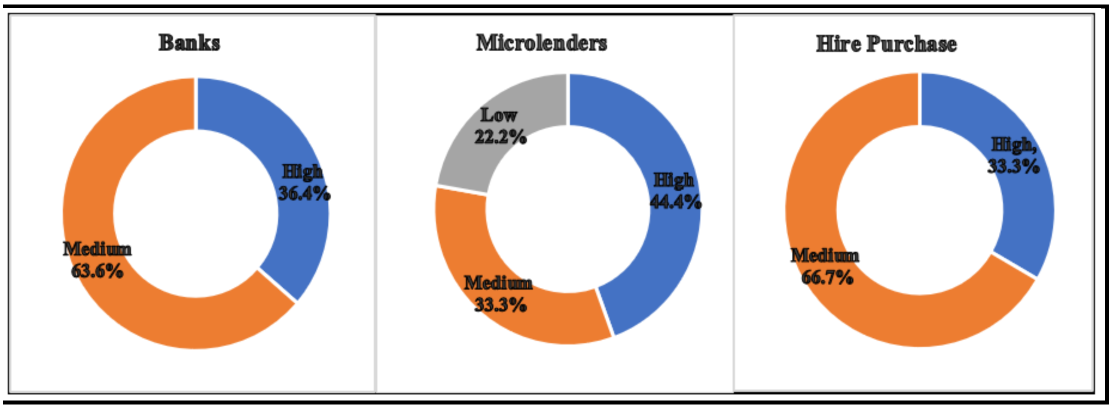
(f) Bank's Lending Strategies Focus

3.24 Lending strategies adopted by banks during 2021 were mainly geared towards: growing the loan book and retaining existing customers; enhancing access to lending products through digitalisation and its related low tariffs; lending through scheme arrangements; and targeting low-income earning customers through campaigns; and prudent lending through strict evaluation of potential borrowers.

(g) Demand for Credit - 2022 Outlook

3.25 Overall, hire purchase stores (66.7 percent), banks (63.6 percent) and microlenders (33.3 percent) generally viewed the outlook for demand for credit as moderate in 2022 (Chart 3.7). Banks identified several factors that informed their 2022 moderate outlook, and these include: increase in bank lending rates and interest rates on deposits; financial constraints due to COVID-19 pandemic, retrenchments and increase in costs that could undermine the ability of some customers to meet the required debt service ratio; relatively stagnant public sector wages, potential pressure on affordability of credit due to challenges posed by COVID 19 and the geo-political tensions that are likely to disrupt economic growth; higher inflation; and increased commodity prices. On the other hand, microlenders indicated that their moderate credit outlook is informed by their current sales trajectory; higher number of clientele in 2022 than in 2021; and lessons from the past that suggest that upward salary adjustments have an incremental effect on the demand for credit, which will however be dampened by high inflation. Meanwhile, unfavourable outlook for the global economy and absence of significant increase in applications for hire purchase were highlighted by hire purchase stores as factors that informed their moderate credit outlook.

Chart 3.7: Demand for Credit in 2022



Source: Banks, Hire Purchase Stores and Microlenders

4. CONCLUSION

4.1 Generally, the results of the survey, which are based on data sourced from banks, microlenders and hire purchase stores, suggest minimal risks to financial stability posed by the level of household indebtedness in 2021/22. Default rates were not a major concern during the period under review and evidence from the survey suggests that most borrowers are employed and have a regular source of income, with a large percentage being employed in the public sector. Most importantly, the largest credit providers (banks) deduct monthly loan repayments at source, that is from the payroll, thus reducing the probability of default by borrowers. To that extent, credit extension remains positive for economic activity and welfare enhancement. However, the functioning of credit markets continues to be negatively affected by economic uncertainties due to the lingering effects of COVID-19 related factors. Overall, credit providers generally viewed the outlook for demand for credit as moderate in 2022 mainly because of the lingering effects of COVID-19.

4.2 Banks dominate in providing credit to households, with most loans in the form of unsecured personal loans. Compared to the previous year, the DTI ratios were relatively unchanged in 2021 while the minimum LTV was 10 percent (a decrease from 40 percent reported in the previous survey); and the DSR for banks ranged between 40 percent to 70 percent. Overall, there is scope to prudently increase credit relative to the size of the economy (GDP) under the appropriate credit and risk management frameworks.

4.3 The survey finds that most borrowers are males; banks provide the largest proportion of total household loans, followed by microlenders; and the middle-aged (aged between 30 to 49 years) borrowers dominate the credit market. The results further show that Government and parastatal employees dominate household credit.

4.4 In terms of borrowing by income distribution, borrowers with incomes ranging between P3 000 and P20 000 make up the largest proportion of household debt. As regards the use of credit, 67.4 percent of household loans are for personal use and 27.4 percent go towards financing residential property. Furthermore, most of the surveyed households have a single credit commitment.

4.5 An evaluation of credit providers' credit risk assessment shows that most of the credit providers consider income, economic outlook and their risk appetite as factors that affect overall credit supply. The credit providers actively assess eligibility for credit on an ongoing basis and for each application. They require identification documents and proof of income, and they further apply metrics such as the debt-to-income ratio, loan-to-value ratios to assess credit risk of households. Overall, credit providers believe that credit supply and demand will improve over the 12 months and majority of credit providers consider potential default rate over the same period to be mostly moderate to low.

Appendix: Common Indicators of Over-Indebtedness

CATEGORY	INDICATOR
Cost of servicing debt	Households spending more than 30% (or 50%) of their gross monthly income on total borrowing repayments (secured and unsecured)
	Households spending more than 25% of their gross monthly income on unsecured repayments
	Households whose spending on total borrowing repayments takes them below the poverty line
Arrears	Households more than 2 months in arrears on a credit commitment or household bill
Number of loans	Households with 4 or more credit commitments
Subjective perception of burden	Households declaring that their borrowing repayments are a "heavy burden"

Source: Giovanni D'Alessio and Stefano Iezzi (2013), "Household Over-Indebtedness: Definition and Measurement with Italian Data" Bank for International Settlements.

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