INTERNATIONAL MONETARY FUND

Household Deleveraging: International Practices

Thailand

Ying Xu

SIP/2025/055

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on January 27, 2025. This paper is also published separately as IMF Country Report No 25/46.

2025
MAY

SELECTED ISSUES PAPER

 SIP/2025/055

IMF Selected Issues Paper
Asia and Pacific Department

Household Deleveraging: International Practices: Thailand
Prepared by Ying Xu

Authorized for distribution by Corinne Deléchat
April 2025

ABSTRACT: Household sector over-indebtedness has been a critical issue in Thailand in recent years. This paper starts with a summary of the deleveraging measures implemented so far in Thailand, and then presents four country case studies (Brazil, Hungary, Korea, and Malaysia), with a focus on the measures introduced by the authorities to address high levels of unsecured loans as they are more relevant to Thailand's current risk profile. The case studies are followed by a brief overview of other relevant international experiences in facilitating debt rehabilitation, forgiveness, and bankruptcy. The study concludes by suggesting a comprehensive, multi-pronged approach to household deleveraging in Thailand.

RECOMMENDED CITATION: Xu, Y. (2025). Household Deleveraging: International Practices, IMF Selected Issues Paper, Asia and Pacific Department, SIP/2025/055. Washington, D.C.: InternationalMonetary Fund.

JEL Classification Numbers:	G21, G51, E58
Keywords:	Household debt, consumer credit, debt rehabilitation, debt relief
Author's E-Mail Address:	Yxu5@imf.org

SELECTED ISSUES PAPERS

Household Deleveraging: International Practices

Thailand

Prepared by Ying Xu[1]

[1] The author would like to thank Corinne Deléchat and Rupa Duttagupta for their valuable suggestions, as well as the information and data shared by Rui Xu, Bank of Thailand, and Thailand National Credit Bureau.

INTERNATIONAL MONETARY FUND

THAILAND

SELECTED ISSUES

January 27, 2025

Approved By
Rupa Duttagupta (APD)

Prepared by Ying Xu (APD).

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HOUSEHOLD DELEVERAGING: INTERNATIONAL PRACTICES[1]

A. Introduction

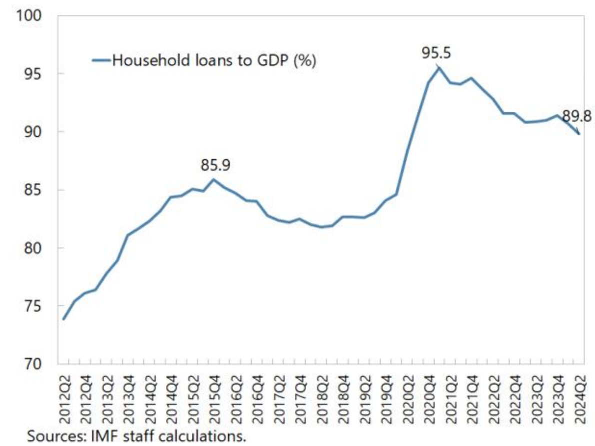
1. **Household sector over-indebtedness has been a critical issue in Thailand in recent years.** Household debt started to increase in the 2000s and reached its pre-pandemic peak in 2015 at 85.9 percent of GDP, then slightly eased to around 82 percent of GDP before the pandemic. However, driven by the sudden shock from the pandemic, the household debt-to-GDP ratio surged to 95.5 percent in 2021Q1 and remained elevated at around 90 percent afterward (Figure 1), making Thailand one of the countries with the highest household debt-to-GDP ratio compared with emerging markets peers (Figure 2). The household debt overhang poses large risks to financial stability, in addition to being a drag on investment, consumption, and growth (IMF 2022a, IMF 2019, IMF 2022b, IMF 2023).[2] In recent years, the Thai authorities have implemented a number of measures to support orderly household debt deleveraging. However, in the context of a weak post-pandemic recovery, household debt has remained elevated, declining only slowly from its pandemic peak. Existing studies show that, historically and on average, deleveraging episodes could last for 5 to 7 years (Bouis, 2013). A larger and faster unwinding of non-financial sector debt overhangs could be associated with sizeable medium-term output gains (Chen et al., 2015).

2. **After briefly presenting the deleveraging measures implemented so far in Thailand, this note presents four other country case studies (Brazil, Hungary, Korea, and Malaysia)**, in order to provide some useful and relevant international experiences for the Thai authorities to consider. In particular, the case studies focus more on unsecured loans such as credit cards and personal loans as these are more relevant to Thailand's current risk profile. Like Thailand, Brazil also experienced an increase in household debt following the pandemic, and the government proposed an innovative program to assist households in default. The Malaysia case provides examples of policy measures to deal with personal loans and credit card debt involving non-bank financial institutions (NBFIs) in the post-Global Financial Crisis (GFC) period. The Korean credit card crisis in the early 2000s is another relevant case for Thailand. The focus of the Hungary case study is slightly different as the crisis was mostly driven by household debt in foreign currency and large currency depreciation, but with useful takeaways. The case studies are followed by a brief overview of other relevant international experiences. The note concludes with some of the main lessons from the case studies and policy recommendations.

[1] Prepared by Ying Xu.

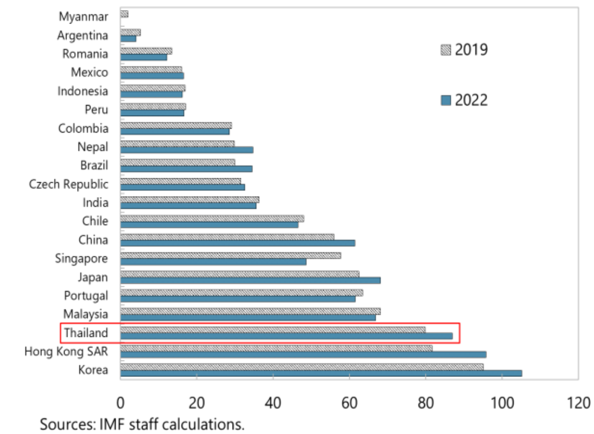
[2] The 2019 Article IV Staff Report for Thailand (Appendix VII) uses the Growth at Risk (GaR) framework to quantify the cost of Thailand’s private debt overhang on the expected distribution of GDP growth. It finds increases in household debt raise downside risks to growth over the medium term and poses a larger cost than corporate debt. The GaR analysis was updated in the 2023 Article IV Staff Report for Thailand (Annex III) and similar results were found. In the 2022 Selected Issues Paper (Chapter IV), staff reviewed the insolvency regime in Thailand, discussed key principles for household debt restructuring from the legal perspective, and offered brief cross-country experiences regarding private debt restructurings.

Figure 1. Thailand: Household Debt
(Percent of GDP)



Source: IMF staff calculations.

Figure 2. Thailand: Household Debt Comparison with Other Countries
(Percent of GDP)



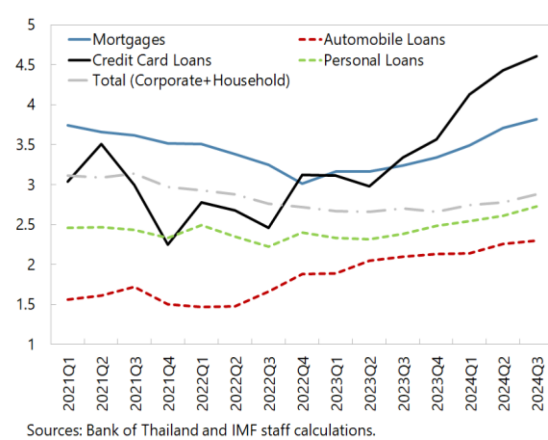
Source: IMF staff calculations.

B. Thailand[3]

Background

3. Household debt in Thailand has been historically high and further increased during the COVID-19 pandemic. Households usually borrow from an early age, tend to overborrow, do not fully understand the loan contract terms and conditions, and pay only a minimum monthly payment which leads to debt accumulation. Many households do not have adequate emergency savings for adverse income shocks. In addition, when their debt becomes non-performing, there is a lack of adequate debt management facilities. Therefore, when the COVID-19 pandemic hit, the household debt-to-GDP ratio further rose both as debt levels increased and GDP declined. The weak post-pandemic recovery kept household debt elevated and including a large share of unsecured loans (28 percent of total loans are credit card and personal loans). Following the full withdrawal of pandemic forbearance measures at end-2023, non-performing loan (NPL) ratios started to increase, reaching 3.28 percent by 2024Q3 from

Figure 3. Thailand: NPL Ratios by Portfolio
(In percent of Total Loans)



[3] This section is based on materials from the Bank of Thailand (BoT) and Nadeem et al. (2020).

(continued…)

2.62 percent in 2022Q3. The deterioration of household credit was broad-based. Credit card loans recorded the highest NPL ratio at 4.61 percent (Figure 3), and auto loans recorded the highest special mention loan [4] ratio at 15.69 percent in 2024 Q3. As of September 2024, 64 percent of loan accounts classified as NPLs were credit card and personal loans[5], and for the group of age 25-29, 26 percent of which has at least one account as NPL. Debtors spent over half of their monthly income on debt service[6] (BOT, 2023).

Policy Measures

4. The government responded to the rising household sector's debt risks since the pandemic period[7] with a number of measures:

- **Broad-based assistance to ease debt repayment burden during the pandemic.** Measures included reducing the minimum monthly repayment of credit card debt, increasing the credit limit on credit card and personal loans, extending of repayment period, conversion to term loans for credit card and personal loans, and a minimum debt relief. Many of these measures were phased out at end-2023.
- **Debt restructuring measures such as the Debt Clinic.** The Debt Clinic program is designed to offer restructuring solutions to debtors who have non-performing loans with one or multiple banks and NBFIs. The debtors are rescheduled with longer maturities at a lower interest rate. Loan collection is handled by an asset management company.
- **Responsible Lending guidelines and debt resolution measures implemented since January 2024.**.[8] Retail and SMEs debtors that start to face repayment difficulties are offered debt restructuring solutions based on their debt service ability. Creditors shall offer debt restructuring solution at least once to (1) debtors starting to face repayment difficulties but not yet overdue for more than 90 days; and once for (2) debtors who are overdue for more than 90 days. The NPL debtors cannot be sold-off until after 60 days, counting from the day the debt restructuring terms are offered. For more persistent debt problems, if the debt is a revolving personal loan under BOT's regulations and is not overdue for more than 90 days, and the debtor has paid more interest than principal over 5 years, the loan is eligible for the settling plan: switch to an installment loan and reduce interest to no more than 15 percent per year for a payoff within 5-7 years. In addition, the guidelines promote the provision of information to influence customer behavior and foster financial discipline, as well as responsible and fair customer service

[4] Special Mention Loan (SM): a loan in which the borrower is in default and has not paid the monthly principal and interest repayments for 30-90 days.

[5] Data source: National Credit Bureau

[6] As of 2022Q3

[7] In the 2022 Article IV Consultation Staff Report Annex I, Table 2 summarizes financial sector support measures to mitigate the impact of COVID-19, including some measures to alleviate households' debt burden.

[8] The guidelines apply to commercial banks and NBFIs, with related legislation for SFIs pending.

management by service providers. Creditors are required to assess customers' affordability by considering all debt burdens and residual income.

- **"Khun Soo, Rao Chuay" (You Fight, We Help) project.** The temporary measures were initiated in December 2024, covering commercial banks, specialized financial institutions, and non-bank institutions that are subsidiaries of commercial banks. The project includes two parts: (1) For debtors with home, car, and SME loans, they will have their installment reduced to 50, 70, and 90 percent of the current monthly installments during the first, second, and third year of entering the program. The interest rate incurred within these 3 years will be deferred and all the installments will be paid wholly to the principal. Moreover, if debtors successfully complete their 3-year payment, the interest over the period will be forgiven. To compensate for the banks' interest rate reduction because of this measure, banks are allowed to lower their fee contribution to the Financial Institution Development Fund to 0.23 percent of deposits, down from the current level of 0.46 percent. (2) For retail debtors with bad debts and low debt levels, i.e., debtors who have NPL with an outstanding balance less than or equal to 5,000 THB, will receive a lenient restructuring scheme where they only need to pay a portion of the balance then the NPL account will be closed and reported to credit bureau in order to designated that the debtors have successfully paid back the loan.
- **Enhancing financial literacy and education**. Financial sector regulators are working with the Ministry of Education and Ministry of Higher Education Science Research and Innovation to make financial education a compulsory subject at all levels of the national curriculum.

Program Outcomes and Key Takeaways

5. **The relaxation of macroprudential measures during and after the pandemic helped the most vulnerable households and prevented sudden outbreaks of household debt defaults, thus safeguarding financial system stability.** However, this also delayed the deleveraging process. With the lower economic and household income growth, the persistent household debt issue did not improve significantly with existing measures, and most of the debt remained on households' balance sheets, albeit with extended or slightly more favorable repayment terms. As a result, household credit growth slowed significantly in 2024 to 0.74 percent y/y in Q3 compared with an average of 3.5 percent y/y growth in 2023, as credit risks increased.

C. Brazil[9]

Background

6. **Brazil also experienced a surge in household debt during the COVID-19 pandemic.** The Debt Service-To-Income (DSTI) ratio peaked at 28 percent in March 2023 from 20 percent in August 2020, much higher than in other peer countries. Debt-to-income rose by 8 percent during the pandemic, as many households have very little wealth and rely heavily on credit, while the cost of credit is high and financial literacy is low. At the end of 2023, more than 40 percent of consumers had defaulted on some form of debt, such as credit cards, utility bills, or other credits. The

[9] This section is based on the 2024 IMF Brazil Article IV Consultation Staff Report, information from the Banco Central do Brasil (BCB), and the Desenrola program official site (Desenrola Brasil).

accumulation of debt was mainly due to high credit costs, low financial literacy, and lack of savings thus high reliance on credit during the pandemic.

Policy Measures

7. Among other measures to improve households' financial conditions, the government implemented its flagship *Desenrola Brasil* program from July 2023 to May 2024. The program was created by the government with the objective of assisting households in default in regaining access to credit through renegotiation of the non-performing credit. Key policy measures were the following:

- **Auction on debt renegotiation rate.** In the first stage of the program, creditors participated in an auction and those that offered the largest debt discounts became eligible for the program. The program also incentivized participation from private sector creditors: in addition to bank debts such as credit card debts, overdue bills from non-bank sectors such as utility bills and retail trade were also included in the program. As a result, more than 600 financial and non-financial sector creditors (such as water and sanitation companies, electricity distributors, and retailers) joined the auction, offering discounts averaging 83 percent, higher than the rates offered in private debt renegotiations. In some cases, the discounts could even reach 96 percent.
- **Targeting low-income households and guarantee from government.** In the second stage of the program, debtors were able to consolidate and settle their debts on the *Desenrola* platform either digitally or through post offices. Only debtors with a gross monthly income of a maximum of twice the minimum wage or who were registered with the federal government's Single Registry of Social Programs were eligible for debt renegotiation. The program covered debts that had been negated between 2019 and 2022, and whose value could not exceed R$20,000 (approximately US$3650). The sum of refinancing was allowed for up to R$5,000 (approximately US$910) per borrower, guaranteed by the government. In case of repeated default, the principal of renegotiated debt was covered by the Treasury and adjusted by the central bank policy rate. Borrowers could pay in cash or in installments, with no down payment and with up to 60 months to pay.
- **Financial literacy campaign.** Free financial education materials and courses were directly available on the Desenrola platform. Meanwhile, financial institutions were required by the BCB (Resolução Conjunta 8) to adopt financial education measures to prevent problems such as over-indebtedness.
- **Cap on credit card interest.**[10] As part of the program, in January 2024, the authorities imposed a limit on the total amount charged for interest and financial charges on revolving credit and installments as not exceeding 100 percent of the original debt (principal) to curb excessive interest rate costs for households. In addition, the BCB implemented measures (Resolução BCB 365) to improve transparency and make it easier for cardholders to understand the information on their credit card bills.

[10] https://liftchallenge.bcb.gov.br/en/pressdetail/2511/nota

Program Outcomes and Key Takeaways

8. The program helped over 15 million people renegotiate R$52 billion (about 0.5 percent of GDP) in overdue debt. The household DSTI ratio declined to 26.0 percent in June 2024 from 27.9 percent in June 2023. NPLs also declined from 4.18 percent in June 2023, to 3.65 percent in June 2024, with banks adopting more conservative standards in granting credit cards and non-payroll deducted credits. The household debt to GDP ratio, however, did not decline significantly following the program, and increased by another 1.6 percent in June 2024 (y/y). With the participation of private sector creditors, the program minimized fiscal costs/risks with a total budget envelope of R$8 billion (less than 0.1 percent of GDP). However, it's also worth noting that the number of people who renegotiated and paid off their debts was far below the size of the program's initial target population of more than thirty-two million potential debtors.[11]

D. Malaysia[12]

Background

9. The 2008 Global Financial Crisis led to a surge of household debt in Malaysia. The household debt-to-GDP ratio increased from 66 percent in 2008 to 89 percent in 2015, with the growth rate of household debt peaking at 13.7 percent in 2010. The number of personal bankruptcies and relapse rates among borrowers also increased from 2007. While a large fraction of household borrowing was collateralized, unsecured borrowings increased significantly with the growth of personal loans peaking at 25.2 percent of total loans in 2008. A large portion of personal financing was issued by NBFIs including credit cooperatives, development financial institutions (DFIs), and a construction company,[13] which accounted for about 60 percent of outstanding personal financing to households. The higher household debt level was also attributed to increases in credit card transactions. Outstanding credit card balances increased by 15.2 percent in 2010, and the balance written off for credit cards increased by 28.5 percent in 2011. Besides, the leverage position of the lower-income segment of borrowers (4.4-9.6 times the annual income) was considerably higher than those in other income groups (2.3-3.3 times the annual income), together with higher delinquencies in the lower-income group.

Policy Measures

10. The centra bank (Bank Negara Malaysia or BNM) implemented a comprehensive package of measures to curb excessive indebtedness, mostly between 2011 and 2014 (Nordin et al., 2018).

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[11] https://www.phenomenalworld.org/analysis/desenrola-brazil/

[12] This section is based on the annual Financial Stability and Payment Systems Reports published by Bank Negara Malaysia (BNM).

[13] Malaysia Building Society Berhad (MBSB)

(continued...)

- **Tiered pricing on credit card interest rate.**[14] On July 1st, 2008, the BNM implemented a three-tier pricing of credit card debt to encourage cardholders to make consistent and timely payments.
- **Stricter credit card requirements.** On April 1st, 2011, the BNM issued Credit Card Guidelines. In the Guidelines, the BNM increased the minimum income requirement (at least RM 24,000 per annum from RM 18,000 per annum previously) to apply for a new credit card. It also imposed a limit on the number of credit cards (no more than two issuers) and credit limits (not exceeding two times the individual's monthly income per issuer) extended to lower-income individuals to be commensurate with their ability to repay debt. Following the measure, the expansion in credit card revolving balances moderated sharply by 8.4 percent between April to December 2011, and the number of credit cards approved also declined.
- **Responsible lending practices.** Guidelines on Responsible Financing came into effect on January 1st, 2012. The Guidelines required financial service providers to focus on affordability assessments and their obligations to ensure that borrowers have the capacity to take on additional financing, based on more robust income verifications and prudent debt service ratios taking into account the circumstances of the borrowers. The BNM engaged with relevant oversight authorities to promote consistent implementation of responsible financing practices by other NBFIs that were not directly regulated by the BNM. Formal requirements on responsible financing practices for credit cooperatives were issued in December 2012. After the implementation of the Guidelines, most financial institutions adjusted their internal underwriting standards, strengthened documentation requirements for verifying income, and provided more prudent buffers in setting the debt service ratio for borrowers to meet essential and contingency expenditures.
- **Introduction of maximum loan tenure.** In July 2013, the BNM acted to limit the maximum tenure for personal financing to 10 years, residential property loans to 35 years, and car loans to 9 years. The policy aimed to ensure that households' debt repayment capacity assessments were not being undermined by extended financing tenures.
- **Tightening on personal loans.** Based on the Policy Document on Personal Financing implemented on July 5th, 2013, financial institutions were prohibited from offering pre-approved personal financing products without an application from the borrower, while the introduction of new personal financing products or variations of existing products must be approved by the BNM. Following these measures, the annual growth in outstanding NBFI lending to the household sector more than halved in 2013 together with a marked slowdown in the growth of personal financing.
- **Risk-Informed Pricing.** The Risk-Informed Pricing Standards was implemented in March 2014 for banks to strengthen pricing policies and practices, as there were signs that some banks underpriced risks in the face of intense competition, particularly in the motor vehicle financing

[14] https://www.bnm.gov.my/-/bank-negara-malaysia-introduces-tiered-pricing-structure-to-promote-good-financial-discipline-among-credit-card-users

segment. Lending rates on new financing for the purchase of vehicles and residential properties adjusted upwards by about 70 basis points (bps) and 20 bps respectively after the Standards.

- **Financial literacy enhancements.** The authorities made efforts to improve the financial capability of Malaysian financial consumers through various financial education initiatives such as *bankinginfo*, *insuranceinfo*, and the *Pengurusan Wang Ringgit Anda* (POWER!) Program. The POWER! Program, launched in January 2011, was initially targeted primarily at young and new borrowers to equip them with practical financial knowledge and skills on money and debt management as well as decision-making tools to make sound and responsible financial decisions. The Program was later further extended to consumers at different life stages and delivered at the workplace. In addition, from 2014, the financial education themes were integrated into the primary school curriculum. On credit card debt specifically, since 2011, credit card issuers were required to provide clear disclosures on the implications of making partial settlements on overall outstanding card balances due to the higher amount of interest incurred. Banks also actively promoted debit cards as an alternative for purposes of making payments.

Program Outcomes and Key Takeaways

11. The series of measures implemented by the government and central bank partially eased the risks associated with household over-indebtedness. In 2017, the household debt-to-GDP ratio declined to 84.3 percent from the 2015 peak of 89 percent, with household debt growth moderating to below 5 percent. At the same time, the growth of unsecured borrowings in the form of personal loans also declined sharply to 2.5 percent. In addition, this post-GFC deleveraging occurred without adversely affecting private consumption and economic growth. To ensure consistent standards across the key credit providers and to minimize regulatory arbitrage, the BNM worked closely with other supervisory agencies to ensure consistency in regulations by all credit providers, including both banks and NBFIs, which was especially important in this case, as a large portion of the unsecured household debt was initiated from outside of the banking system.

E. Korea[15]

Background

12. The Korean government provided tax incentives[16] to cushion the downturn after the Asian financial crisis, which led to a credit card boom in 1999-2002. Credit card debt peaked at 15 percent of GDP in 2002. Total household debt increased from 37 percent of GDP in early 1999 to 62.5 percent of GDP by the last quarter of 2002. Because of weak lending standards and limited credit reporting infrastructure, the credit card delinquency ratio reached its highest level at 11.9 percent in 2002. The number of people in default peaked at 3.75 million in 2003, one-tenth of

[15] This section is based on 2003-2007 IMF Korea Article IV Consultation Staff Reports, Selected Issues papers, and Kang and Ma (2007 and 2009). The case was also briefly mentioned in the 2022 Thailand Article IV Consultation Selected Issues paper.

[16] For merchants, tax benefits if they accepted credit cards; for cardholders, income tax deductions linked to their credit card purchases. Besides tax incentives, the authorities also abolished the administrative ceiling on monthly cash advances and the leverage limit (up to 20 times capital) for credit card issuers (Kang and Ma, 2009).

the adult population in Korea. Credit card companies (CCC), including some with limited consumer banking experience, dominated the market but were not allowed to take deposits. Therefore, they funded the credit expansion by tapping into the capital market and issuing bonds. When the credit card portfolio started to deteriorate in March 2003, the turmoil spread to the bond markets and caused a contagion in Korean financial markets.

Policy Measures

13. The authorities implemented a number of policy measures starting in 2002 in order to reduce the scale of crisis and provided personal debt workout programs.

- **Tightened prudential policies.** From 2002 to 2003, the authorities: (1) increased the required provisioning for household loans, and the increase also applied to insurance and finance companies including bank affiliated companies and specialized companies; (2) strengthened asset classification criteria by requiring that loans overdue by three months or longer be classified as substandard if they exceed 60 percent of collateral value; (3) required credit card issuers to cut the portion of cash advances to 50 percent or less; (4) tightened capital adequacy requirements for both banks and CCC; (5) tightened the criteria for prompt corrective actions for banks and CCC such that they could be banned from issuing new cards if their delinquency rates exceeded 15 percent for over one month.
- **Took over a troubled credit card company.** The authorities provided liquidity support to both the financial market in general and to CCCs in particular when the contagion started. In January 2004, the largest CCC, LG Card stood on the brink of bankruptcy. The government-owned Korea Development Bank (KDB) stepped in to rescue the company. The authorities coordinated a series of debt-equity swaps between LG Card and their creditors.
- **Several workout vehicles for resolving debts.** Depending on the size of the debts and whether the debts were to single or multiple creditors, different channels were provided for delinquent borrowers to resolve debts: (1) private workout of individual financial institutions, offering debt rescheduling with an extended repayment schedule of up to 5 years; (2) the "bad bank" to help overcome creditor coordination failures offering removal of creditors' blacklist and up to 8 years' interest-free repayment; (3) the Credit Counseling and Recovery Service by a consortium of financial companies running individual workout programs and providing debt forgiveness of up to one-third of total delinquent debt and up to 8 years' repayment; (4) Personal Debtor Rehabilitation Program (PDRP) offering debt rescheduling, debt exemption from the court, and repayment period of 3-8 years; (5) personal bankruptcy as a package comparable to PDRP with additional sanctions, but due to the strong social stigma attached to it in Korea, this was less widely used.
- **Additional administrative steps and borrower protection.** Requirements to verify the identity and incomes of all new customers, bans on aggressive marketing and unwarranted debt collection methods, promotion of the use of debit cards, encouragement of financial institutions to participate more actively in the individual credit rehabilitation program.

Program Outcomes and Key Takeaways

14. The package of measures was reasonably successful. On dealing with troubled CCCs, ex-post, the rescue of LG Card did not cause a fiscal burden, as the creditor banks eventually recorded an accounting profit when LG Card was acquired through a public takeover bid in the stock market in 2007. However, the involvement of KDB with public sector resources and implicit government guarantees posed an ex-ante increase in the government's contingent liabilities and thus was controversial due to the possible moral hazard implications. On debt restructuring, significant progress was made in restructuring household debt with provided channels. The credit card delinquency ratio dropped to 2.6 percent in 2006 from above 10 percent in 2002-2003. However, the household debt-to-GDP ratio remained elevated (67.5 percent in 2006), as those households that were affected by the credit card crisis repaired their balance sheets, while others increased their borrowing, in particular mortgages.

F. Hungary[17]

Background

15. Hungary experienced a significant lending boom starting in the year 2000, with a notable proportion of loans in foreign currencies due to lower interest rates on Swiss franc and euro -denominated loans. Foreign currency loans not only existed in mortgage loans but also in car purchase loans and personal loans segments. By 2008, over 60 percent of household debt in Hungary was denominated in Swiss francs, with the household debt-to-GDP ratio peaking at 39.4 percent in 2010. When the GFC hit in 2008, investors concerned about Eastern Europe's financial stability began to pull out of Hungary. The forint depreciated sharply by 27.5 percent against the euro and 32.3 percent against the Swiss franc between September 2008 and March 2009. This depreciation significantly impacted the ability of borrowers to repay their foreign currency loans. In 2014 Q4, the household loans NPL ratio peaked at 19.2 percent with non-mortgage loans' NPL ratio reaching 16 percent.

Policy Measures

16. The Hungarian authorities used a mix of monetary, fiscal, and macroprudential policies to safeguard financial stability. The state intervened intensively in the banking sector, posing additional profitability pressure to the sector.

- **High policy rate to address depreciation.** To prevent an excessive and possibly destabilizing currency depreciation, the Magyar Nemzeti Bank (MNB) kept the interest rate higher than it otherwise would have been and eased only in July 2009 after financial market strains had lessened markedly.

[17] This section is based on the 2009-2017 IMF Hungary Article IV Consultation Policy Notes and Review Staff Reports and Magyar Nemzeti Bank (MNB) Financial Stability Reports unless specified.

- **Exchange rate protection and early repayment schemes.** A few measures with preferential exchange rates were introduced in 2011 (EEAG, 2012), to shield borrowers from the sharp forint depreciation, but which involved losses for both banks and the government.
- **FX mortgage conversion.** First introduced in 2011, non-performing foreign currency mortgages could be converted into local currency with 25 percent of the loan canceled by mid-May 2012. Then in February 2015, conversion into forints with the fixing of the exchange rate applied to all foreign currency denominated mortgage loans.
- **Bank levy and financial transaction tax.** The authorities increased tax burdens on the banking sector to accelerate deleveraging (Kovács, 2013).
- **"Settlement" and "Fair Banking" Acts.** Parliament adopted two Acts in September and November 2014. The former stipulated that borrowers should be compensated for "unfair lending practices" such as unilateral interest rate increases and exchange rate spread on a retroactive basis. The compensation was in the form of a principal reduction of ongoing contracts, and a cash transfer to borrowers with expired contracts. The latter restricted unilateral interest rate and cost hikes by banks, regulated the information provided to borrowers, and allowed borrowers to terminate a loan contract under certain conditions.
- **"Debt cap" regulation.** On January 1st, 2015, the MNB introduced the debt cap rules with two pillars: the payment-to-income (PTI) ratio which reduced customers' debt accumulation by limiting the debt-servicing burden that can be undertaken by customers when they take out a new loan in a pre-specified proportion of their regular legal income, and the LTV ratio in the case of collateralized loans.

Program Outcomes and Key Takeaways

17. In 2015, household loans outstanding declined considerably, and the currency structure of loans shifted markedly due to the FX conversion into forints[18], thus removing a significant exchange rate and financial stability risk from households' balance sheets. The Hungarian case is very different from Thailand's current situation as it was driven by a large portion of foreign currency loans in household debt and a sharp depreciation following the GFC. There is, however, an important takeaway from this case: when implementing deleveraging policies, the authorities shall also consider burdens to the financial sector and the potential economic costs. In the case of Hungary, these policy measures including foreign currency loan conversion, early repayment and settlement, resetting of unfair interest rates, and extra bank levy, contributed significantly to the losses of the Hungarian banking sector in 2011-2015, and only banks without foreign currency lending reported profits. Cross-border deleveraging was the sharpest in the region and some banks had to request capital injections from their parent banks to remain above the minimum capital requirement. The deterioration of banks' capital positions and shrinking of profitability were followed by a tightening of lending conditions and a contraction in credit growth. The slow credit growth led to historically low investment rates and thus pushed already weak

[18] The share of foreign currency denominated lending to household declined from 52.8 percent at end-2014 to 3.0 percent in Oct 2015.

economic growth even lower. In addition, central banks shall think carefully about whether monetary policy is one of the most effective tools for private sector deleveraging or alternatively make more use of macro-prudential and micro-prudential policies.

G. Other International Practices to Facilitate Deleveraging

18. To complement the detailed case studies discussed in the previous sections, this section discusses other international practices to facilitate debt rehabilitation, forgiveness, and bankruptcy.

19. At about the same time as Korea, Hong Kong SAR in 2002 and Taiwan Province of China in 2006 also experienced credit card crises. In Hong Kong, the Individual Voluntary Arrangements (IVA) system, an informal but court-supervised mechanism as an alternative to bankruptcy, proved a helpful way to deal with consumer debt problems. The IVA was also adopted in the United Kingdom for individuals wishing to avoid bankruptcy. In Taiwan, a personal debt restructuring program was introduced that offered lower interest rates and longer repayment periods, covering 30 percent of total card balances (Kang and Ma, 2007).

20. In Ireland after the GFC, besides interest subsidy, the state helped the debtors by implementing the Personal Insolvency Act 2012 which introduced three new statutory solutions as alternatives to bankruptcy depending on the special features of the problems arising from the different debt types. (1) Debt Relief Notices: for people with virtually no assets and very little income, debts up to 20,000 euros could be completely written off and no payments are required if the debtor's financial situation does not improve. (2) Debt Settlement Arrangements: to deal with unsecured debt (credit cards, loans, and overdrafts), debtors shall repay a percentage of their overall debt that is affordable for up to five years, and the remaining debt will be written off. (3) Personal Insolvency Arrangements: the agreed settlement of secured debt up to 3 million euros and up to six years of repayment.

21. Debt relief and forgiveness were implemented at a much larger scale in some European emerging economies. For example, in 2015, **Croatia** offered a "fresh start" to 60,000 of its poorest citizens, as part of their bank, public utility, tax, and telecommunication debts were forgiven because of the debt cancellation program. Less aggressively, in **the Czech Republic**, the "Milostivé léto" ("Merciful Summer") implemented in recent years[19] is a debt relief initiative targeting people who failed to pay social security, health insurance contributions, tax, transportation, utility, and other debts to public entities. This allowed for the forgiveness of additional charges such as penalties, late fees, default interests, and costs associated with debt recovery, requiring the debtor to pay only the principal amount or a portion of the total debt. The Milostivé léto III helped 143 thousand self-employed persons and 32 thousand employers with social security debts between July

[19] Following the introduction of "Milostivé léto I" in 2021, the II, III, and IV were sequentially introduced in the summers of 2022, 2023, and 2024. The 2024 version was implemented between 1 July to 30 November 2024.

(continued...)

and September 2023. In 2021 and 2022, in total, the legislation helped more than 61 thousand people out of their debt trap[20].

22. In the United States, the 2009 Credit Card Accountability Responsibility and Disclosure Act is a federal statute that protects borrowers by enhancing disclosures to consumers, limiting overcharges and fees, and constraining credit card issuance to minors and students.

23. In addition, the U.S. Department of Education launched a temporary program called "Fresh Start" that ran until the end of September 2024 for student debt. The borrowers can get their loans out of default, remove the record of default from their credit report, and regain access to financial aid and government loans. Collections will continue to be paused giving borrowers time before return to repayment. Meanwhile, debtors have access to income-driven repayment (IDR) plans, in which the payment will be less than 10-20 percent of their discretionary income, as well as access to loan forgiveness programs, and short-term relief including forbearance and deferment. After the Fresh Start program ends, loan rehabilitation will be the option that allows borrowers to get out of default by consolidating defaulted federal student loans into a Direct Consolidation Loan, which also allows access to IDR plans.

24. Lastly, bankruptcy laws in the U.S. provide a simple legal mechanism for individuals overwhelmed with debt to discharge or reorganize their debts. The most relevant are the following: (1) Chapter 7[21]: one of the primary purposes of bankruptcy is to discharge certain debts to give an honest individual debtor a "fresh start." The debtor has no liability for discharged debts. (2) Chapter 13,[22] which enables individuals with a regular income to develop a plan to repay all or part of their debts. Under this chapter, debtors propose a repayment plan to make installments to creditors over three to five years. If the debtor's current monthly income is less than the applicable state median, the plan will be for three years unless the court approves a longer period "for cause." If the debtor's current monthly income is greater than the applicable state median, the plan generally must be for five years.

H. Conclusions and Policy Recommendations

25. The country experiences presented above (including Thailand's) illustrate that a comprehensive, multi-pronged approach to household deleveraging is necessary. Brazil, Malaysia and Thailand have all implemented a combination of ex-post measures to deal with the existing stock of debt together with ex-ante policies to prevent the buildup of new debt. Ex-post measures should be mindful of moral hazard and should seek to limit fiscal costs, e.g. by involving the private sector and/or using partial government guarantees. Ex-ante policies and in particular macroprudential policies are an essential component of a deleveraging strategy, accompanied by financial literacy campaigns and consumer protection regulations. The regulatory coverage should

[20] According to Czech Social Security Administration: https://www.cssz.cz/web/cz/ /tz mpsv milostive leto iii zatim pomohlo 143 tisicum osvc a 32 tisicum zamestnavatelum s dluhy na socialnim pojisteni

[21] https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-7-bankruptcy-basics

[22] https://www.uscourts.gov/services-forms/bankruptcy/bankruptcy-basics/chapter-13-bankruptcy-basics

be comprehensive and include NBFIs and state-owned banks. It is also important to carefully calibrate the intensity and pace of deleveraging, to avoid adverse impacts on private consumption and growth. Too aggressive deleveraging measures, such as some measures discussed in the Hungarian case, impaired the banking sector's profitability and capital position, which led to further credit contraction and impeded private consumption and investment. Stress tests and scenario analyses can be used to simulate potential policy effects on the banking sector and the broader economy.

Ex-Post Measures

26. The authorities should continue to strengthen personal debt workout programs for households with prolonged debt issues. In particular, they should further develop the personal debtor rehabilitation program, insolvency arrangements, and also a socially acceptable and relatively simple personal bankruptcy mechanism, as in Korea, Hong Kong SAR, Ireland, and the United States. In the meantime, debt restructurings should avoid rolling over unviable loans thus creating moral hazard.

27. The authorities shall take fiscal costs into consideration when adopting measures for deleveraging. Measures such as debt relief and forgiveness should be targeted at the most vulnerable households while minimizing the potential fiscal cost. Getting the private sector involved as Brazil did in the case study is one practice that connects the creditors and debtors to reach agreements with a relatively small government expense. A carefully chosen size of government guarantees could provide motivation for creditors to renegotiate with debtors with no concern about repeated default. In the meantime, when there is a potential spillover from household debt burden to a broader financial sector crisis, the cost of a government bailout and the following exit after the crisis shall be carefully calculated and cautiously implemented to avoid excessive fiscal burden and moral hazards.

Ex-Ante Measures

28. In Thailand's case, ongoing efforts to develop the prudential policy toolkit should continue, so that it can be deployed once credit growth recovers. Practices such as introducing a broad-based DSTI ratio, reinforcing LTV ratios, implementing risk-informed pricing, strengthening documentation requirements and verification for new credit, and enhancing the credit information systems were implemented by most countries in the case studies. In addition, the BOT has the authority to deploy the countercyclical buffer framework and should consider developing the systemic risk buffer framework to protect the banking sector from the build-up of system-wide risks.

29. Education, financial literacy enhancement, and better borrower protection are necessary tools to prevent over-indebtedness. The authorities could consider bans on aggressive marketing of credit cards, promotion of the use of debit cards, and cap on excessive interest rates, as mentioned in many countries' cases. Meanwhile, authorities should continue encouraging financial institutions to adopt financial education measures to prevent over-indebtedness, enhance disclosures to consumers, and participate more actively in individual credit rehabilitation programs.

Other ongoing financial literacy initiatives, such as providing free courses and materials to equip customers with practical financial knowledge and skills in money and debt management, and the partnership with education ministries to ensure that financial literacy is part of the school curriculum should also continue.

THAILAND

Table 1. Thailand: Summary of Four Case Studies

Country and Deleveraging Period	Risk Indicators: Peak	Risk Indicators: After Policy Measures	Policy Measures	Key Takeaways
Brazil 2023-2024	DSTI ratio: 28 percent in June 2023 NPL ratio: 4.18 percent in June 2023	DSTI ratio: 26 percent in June 2024 NPL ratio: 3.65 percent in June 2024	*Resolution measures:* *Desenrola Brasil* program: Auction on debt renegotiation rate; Targeted at low-income households and guarantee from government; *Preventative measures:* Financial literacy campaign; Cap on credit card interest	An innovative program assisting defaulted households to renegotiate debt and regain access to credit with private sector participation and limited fiscal costs.
Malaysia 2008-2017	household debt-to-GDP ratio: 89 percent in 2015; household debt growth rate: 13.7 percent in 2010; unsecured personal loans growth rate: 25.2 percent in 2008	household debt-to-GDP ratio: 84.3 percent in 2017; household debt growth rate: 5 percent in 2017; unsecured personal loans growth rate: 2.5 percent in 2017	*Preventative measures:* Tiered pricing on credit card interest rate; Stricter credit card requirements; Responsible lending practices; Introduction of maximum loan tenure; Tightening on personal financing; Risk-Informed Pricing; Financial literacy enhancement: POWER! Program.	A good example of how supervisory agencies need to ensure consistency in regulation to avoid regulatory arbitrage when a large portion of the debt is issued in NBFIs.
Korea 2002-2006	credit card delinquency ratio: 11.9 percent in 2002	credit card delinquency ratio: 2.6 percent in 2006	*Resolution measures:* Took over a troubled credit card company; Several workout vehicles for resolving debts; *Preventative measures:* Tightened prudential policies; Additional administrative steps and borrower protection.	Examples of policies undertaken to avoid spillovers to the broader financial system when there is a massive credit card default.
Hungary 2009-2015	household debt-to-GDP ratio: 39.4 percent in 2010	household debt-to-GDP ratio: 21.1 percent in 2015	*Resolution measures:* Exchange rate protection and early repayment schemes; FX mortgage conversion; “Settlement” and “Fair Banking” Acts; *Preventative measures:* High policy rate to defend depreciation; Bank levy and financial transaction tax; “Debt cap” regulation.	An example of how deleveraging measures taken by the authorities without thorough consideration could impair banking sector profitability and solvency, and lead to a further credit contract and economic slowdown.

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