P R E S S   R E L E A S E

London, 21 October 2013

Emerging Asia:
Coface warns of growing risks linked to household debt

Coface's latest Panorama report concludes that the growth potential in Asia remains high, driven by the middle class

Asian economies have weathered the double blow of the global crisis of 2008-2009 and that of the sovereign debt of the Eurozone, due notably to dynamic household consumption. For example, since 1995 consumption per capita has almost tripled in China and has more than doubled in India, illustrating the catch-up underway in the least developed countries. This catch-up, mostly incomplete for now, will continue in the long term and will be conveyed by the expansion of the middle class in Asia. As a consequence of sustained GDP growth and public policies to support consumption, household income is rising. The ageing population and rapid urbanisation are also contributing to this development.

Three key areas will continue to fully benefit from the increased consumption of the middle class in the coming years:

- automotive, due to the growth in demand in Asia;
- high-end consumer goods, buoyed by the Chinese preference for luxury brands;
- tourism due to the large numbers of Chinese travelling to other countries in the region.

Malaysia, South Korea, Singapore and Thailand: household debt similar to that of the United States at the time of the subprime crisis

If the boom in consumption in emerging Asia reflects the economic development of the region, it is also linked to easier access to bank credit. Hence, excessive household debt in some countries could adversely affect economic activity in the medium term. Four countries are most at risk. In 2012, the ratio of household debt to disposable income reached 194% in Malaysia, 166% in South Korea, 134% in Singapore and 112% in Thailand, whereas it was of the order of 130% in the United States in 2008, that is to say at the start of the subprime crisis. The result has been a household debt service higher than in the United States in 2008 and in Spain in 2012 (where it is largely responsible for the deep recession).

It is South Korea that dominates the Top 4: the structure of its debt is an additional risk factor because the proportion of variable-rate mortgages has reached 55%, compared to only 10% in the United States in 2009.

Moreover, this excessive debt caused by too dynamic credit may make Asian countries more vulnerable in the medium term with volatile external financing and therefore capital outflows. It also may result in sudden depreciations in the exchange rate, such as those observed during the summer of 2013.

"*The parallels with the situation of US households at the time of the 2008 crisis don't necessarily mean that a crisis of similar magnitude is imminent in emerging Asia. But moderation in household consumption will be needed over the coming years. To address the risk that over-indebtedness of households poses to the economy and the banking sector, local authorities must take preventive measures, such as tighter monetary policies and stricter prudential rules,*" says Julien Marcilly, Head of Country Risk.

Coface also presents in this Panorama report the latest adjustments to their country risk assessments (which measure the risk of payment defaults in a given country) and an update on the country studies currently under the spotlight, such as India, Brazil, Kenya and Germany.

To see the latest Panorama report, click here.

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The company's credit insurance offer integrates credit assessment, collection services and cover for unpaid debts. Multinational businesses can protect their worldwide subsidiaries through Coface's international network.

The company also provides access to domestic and international business information and a collection network at home and overseas. Coface is also a recognised operator in the London political risk market.

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