

Nation of Debt: How does NZ compare?

Tuesday Jun 7, 2016 NZ Herald

Economist argues how much debt we have is not as important as whether those who have it can pay.



New Zealand is ranked seventh out of 42 economies for household indebtedness. Photo / Brett Phibbs

New Zealand's household debt level is one of the highest in the developed world compared to the size of our economy, but one economist says it's not the amount we should be worried about, rather, who is carrying that debt and whether they will be able to pay for it in the future.

As a percentage of GDP, New Zealand's household debt level was 91.3 per cent in the three months to September 30, 2015 - ranking us seventh highest out of 42 economies in data collected by the Bank for International Settlements.

Paul Bloxham, HSBC chief economist for Australia and New Zealand, says distribution and serviceability is more important than debt size: "Is the household debt held by households that will be able to service it?"

Bloxham, who published a paper in April questioning Australia's high household debt levels, found that, despite Australia having one of the highest debt levels, most of it is held by its highest earners. He pointed to household income research from 2010 that found around 72 per cent of Australian household debt was held by the top 40 per cent of income earners and less than 4 per cent of the debt was attributed to the lowest 20 per cent of earners.

Bloxham cites the US sub-prime crisis, saying the lending to people who could not afford to service the debt was the problem rather than debt levels - the no income, no job and no asset loans (NINJA loans).

Bloxham said the question was then around whether banks and financial institutions had been lending to households that could continue to service the debt, especially in Auckland where house price growth has been rampant.

Banks insist they are stress-testing borrowers at higher interest rates than current levels to ensure borrowers will still be able to pay their mortgages when rates rise.

Bloxham said New Zealand's central bank had also tightened lending.

"The Reserve Bank has been turning up the prudential dial and forcing maximum LVRs [loan to value ratios] to fall. New borrowers have had to put down a fair bit of equity."

In his report on Australia, Bloxham concluded that the risks to households appeared to be manageable given low interest rates, solid jobs growth and a favourable distribution of debt and tightened lending standards, but more data was needed about New Zealand to form a picture.

Bloxham says there are a number of reasons why New Zealand and Australia rank so highly up the international ranks for household debt.

Partly it was because housing made up a larger share of household wealth than other countries because house prices were higher.

It was also down to the high number of individuals who own investment properties.

In other countries, like the US, investment properties tended to be owned by corporates, so the debt did not show up on household balance sheets.

"Here households own it directly."

Top 10

- Switzerland 124 per cent
- Australia 123.1 per cent
- Denmark 122.9 per cent
- Netherlands 111.4 per cent
- Canada 96 per cent
- Norway 93 per cent
- New Zealand 91.3 per cent
- Korea 87.2 per cent
- United Kingdom 86.4 per cent
- Sweden 84.2 per cent

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