

Box 1 Has the public sector kindled household debt accumulation?

The degree of indebtedness and debt accumulation by households have been a cause of concern. One immediate explanation is that the government encourages household debt accumulation, on the one hand by providing virtually all support for homebuyers and students in the form of loans, and on the other hand by providing loans with extremely back loaded terms of payment. Taking interest rebates into account, the burden of servicing an indexed-annuity housing loan may even grow with time. Furthermore, as a result of the increasing use of the backloaded annuity form of payments the accumulation of debt can be a highly protracted process. Although 25 years is the most common maturity in the housing loan system, this can be extended to up to 40 years and many people presumably borrow more than once, most often up to a maximum determined by their estimated debt service capacity. Assuming, for the sake of simplicity, that the typical debtor in the housing system borrows for 30 years and makes annuity repayments, and that the amount lent each year remains constant, the outstanding loan stock will reach 70% of its ultimate size after 15 years, which happens to be the time elapsed since the rapid growth of the housing loan system began. The stock of housing debt will therefore keep on growing significantly for a while if the incentive to borrow is not reduced. Housing loans and student loans, however, do not explain the increase in household debt outside these systems over the period of 1996-2000, when debt to the banking system, leasing companies and insurance companies rose from just under 80 b.kr. to more than 200 b.kr., in terms of year-end prices in 2001. An explosion of this magnitude can only be explained by a combination of abundant supply of funds and strong demand, which may have built up during the downswing of 1992-1995 when households postponed the replenishment of consumer durables and investment was depressed.