

UNIVERSITI TEKNOLOGI MARA

**DETERMINANTS OF
HOUSEHOLD DEBT:
COUNTRY AND HOUSEHOLD
LEVEL**

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PhD

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AUTHOR'S DECLARATION

I declare that the work in this thesis was carried out in accordance with the regulations of Universiti Teknologi MARA. It is original and is the results of my own work, unless otherwise indicated or acknowledged as referenced work. This thesis has not been submitted to any other academic institution or non-academic institution for any degree or qualification.

I, hereby, acknowledge that I have been supplied with the Academic Rules and Regulations for Post Graduate, Universiti Teknologi MARA, regulating the conduct of my study and research.


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ABSTRACT

The unwarranted household debt is one of the major factors that initiated the global financial crisis which led to severe worldwide financial instability. Deleveraging process which has been taking place since the crisis has been slow and there is no quick fix to the household debt issue. Household debt affected not only the advanced economies, but ASEAN countries as well. For the past few years, Malaysia has emerged as the country with the highest household debt to Gross Domestic Product (GDP) in the ASEAN region. Apart from the troubling ratios, financial and social problems usually accompany households with large debt burden. Some of these financial problems include cash flow problems, loan defaults, foreclosures and even bankruptcies. Meanwhile, social implications such as psychological distress, depression, anxiety, anger, and even suicidal contemplation can be the result of too much household debt. The present study examines the determinants of household debt at country and household level. The main study at country level applies panel data analysis and compares results between ten advanced economies and five ASEAN countries from 2001 to 2013. Pooled Ordinary Least Square (Pooled OLS), Fixed Effect and Random Effect estimators have been applied in the regression to examine the effects of macroeconomic factors, and financial crisis period as well as household characteristics on household debt. Findings confirm that macroeconomic factors including inflation, house prices, and household consumption encourage household debt in advanced economies while in ASEAN countries, economic growth boosts household debt. Post financial crisis period has significant negative effect on household debt of developed nations which affirmed the deleveraging process in most advanced economies as opposed to ASEAN countries. Household characteristics such as working age population and urban population growth also encourage household debt in advanced economies while in ASEAN countries, the increase in internet users is causing more households to be in debt. Robustness test were carried out and findings confirm that house prices and personal healthcare costs are positive significant determinants of household debt in advanced economies. While in ASEAN countries, interest rate and retiring age population are negatively significant. Meanwhile, a complementary study at household level is also carried out to study the household behaviour towards debt in this challenging environment. This study examines the predictors of intention to incur household debt among Malaysian households. Using multiple regression analysis on 386 fully completed questionnaires, this study reveals that attitude, perceived behavioural control, financial planning and adoption of financial innovation as significant predictors of intention to incur household debt. Consequently, to curb on excessive household debt which can cause much grievance to households and to the economy of a country if not contained, specific policy implications such as government intervention on the housing sector through numerous mechanisms, including policies, tax systems, loans, regulations and incentive programs to stabilize the house price and improve affordability for the people. More importantly, governments and related authorities should give financial education top priority in educating the society in the importance of financial well-being and empowering households to take responsibility for their own financial position.

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