Household debt in Great Britain

Andrew Hood
When is debt a ‘problem’?

Lots of attention on total size of unsecured household debt

- Now more than £200 billion on the Bank of England’s measure

Might be important for financial stability...

... but poor guide to extent to which debt is a problem for households

- More than 60% of unsecured debt held by households with above-average incomes
- More than half of households with unsecured debt have enough financial assets to pay them off
When is debt a ‘problem’ for households?

Use of consumer debt can raise household living standards...

• E.g. buying car on hire-purchase could allow an individual to take a higher-paid job
• E.g. maintaining spending during temporary fall in income

...or have a significant negative impact

• E.g. household takes out debt to cover regular spending and then finds that repayments are taking up large share of income

Important to try to distinguish when debt is a ‘problem’

• Using information on the wider economic circumstances of households
Data

We use the Wealth and Assets Survey (WAS)

- 4 waves of data (2006-08 to 2012-14) on the same households
- Over 20,000 households in each wave

Extensive information on debt holdings and repayments for a representative sample of households in Great Britain

- Size of debt repayments and how long they will be made for
- Captures all different types of unsecured household debt
Unsecured household debt in Great Britain

- **Formal Loans**: 43%
- **Credit Cards**: 24%
- **Hire Purchase**: 21%
- **Overdraft**: 5%
- **Arrears**: 2%
- **Mail Order**: 1%
- **Store Cards**: 1%
- **Informal Loans**: 3%

Source: Figure 2.2 of report
How is debt distributed across households?

Just over half of households have no unsecured debt. 70% of unsecured debt is held by 10% of households. 20% of unsecured debt is held by 10% of households.

Source: Figure 2.1 of report
% of individuals in households with some debt, by age

Source: Figure 2.3 of report
% of individuals in households with some debt, by income

Source: Figure 2.4 of report
% of individuals in households in debt and net debt, by income

Source: Figure 2.6 of report
Persistence of debt by age
How many waves out of the last 4 were individuals in debt?

Source: Figure 2.7 of report
Persistence of ‘net debt’ by income
How many waves out of the last 4 were individuals in net debt?

Source: Figure 2.8 of report
Summary

Unsecured household debt in GB significant
• 50% of households have some debt, 10% have more than £10,000

Crucial to try to distinguish when debt might be a problem
• E.g. low-income households less likely to hold some debt
• But much more likely to have more in debts than in financial assets

Unsecured debt persistent over time
• More than half of those with debts in latest data had debts on all four occasions they were interviewed (spanning a period of six years)