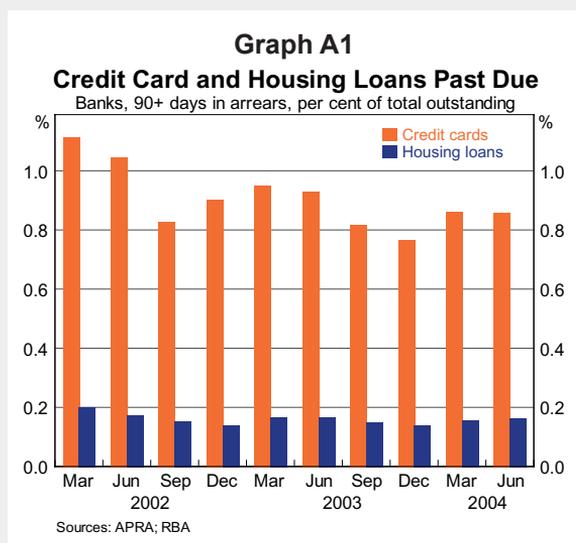


Box A: Credit Card Indicators

Outstanding debt on credit cards accounts for about 3 per cent of the total debt owed by the household sector. Given this relatively small share, the current level of credit card debt is not a prime concern for the stability of the financial system. However, understanding developments in the credit card market is important, as around 70 per cent of households hold at least one card, and changes in patterns of credit card use may provide early signs of financial stress in the household sector.¹ Indeed, financial institutions often use data on credit card arrears, cash advances and repayments to assess the credit risk of individual borrowers.

Consistent aggregate data on *credit card loans past due* are only available from 2002. According to these data, collected by APRA, around 0.85 per cent of total credit card loans by value are to borrowers who have not met their minimum repayment for 90 days or more



(Graph A1). This ratio has fallen slightly over the past couple of years, although not surprisingly, it is considerably higher than the arrears rate for housing loans. While international comparisons are difficult, the quality of credit card portfolios in Australia appears high relative to that in a number of other countries.

Another potentially useful indicator of household financial stress is the rate of growth in *credit card cash advances*. Given that such advances are relatively expensive, it might be expected that this way of

obtaining cash is used more frequently when households are in financial difficulties and other avenues of obtaining cash have been exhausted. Even though the economy grew strongly and financial conditions for many households improved over the second half of the 1990s, growth in aggregate cash advances averaged 16 per cent per annum (Graph A2). In part, this reflected strong growth in the number of cards on issue, although the average amount drawn per card also increased steadily. Since then, however, the growth rate of aggregate cash advances has slowed, and the average amount drawn per account has stabilised.

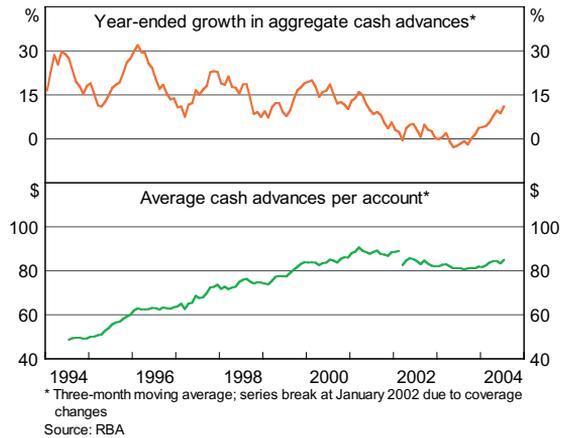
Credit card repayment activity might also convey information on financial pressures in the household sector. According to data collected by the Reserve Bank, the ratio of monthly

¹ *Credit card data and trends in credit card usage are discussed in Reserve Bank of Australia (2003), 'The Changing Australian Retail Payments Landscape', Reserve Bank of Australia Bulletin, July, pp 1-9.*

repayments to outstanding balances increased steadily over the second half of the 1990s, although this ratio has levelled off over the past few years (Graph A3). The increase in the 1990s is partly explained by the growth of credit cards as a payment instrument, although the generally favourable financial conditions facing the household sector may have also played a role. Another measure of repayment activity is provided by the proportion of cardholders that usually pay off at least one credit card each month. According to survey data collected by Roy Morgan Research Australia, this proportion also trended higher over the 1990s, before levelling off in recent years.

Overall, while structural change in the credit card market over the past decade complicates analysis of the various indicators, the available data are consistent with low levels of financial stress in the Australian household sector.

Graph A2
Credit Card Cash Advances



Graph A3
Credit Card Repayment Activity

