

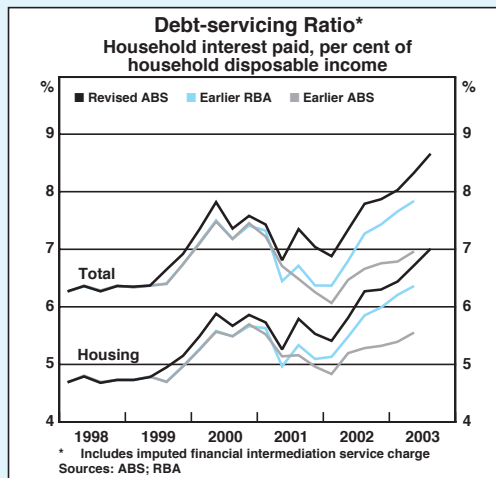
## Box B: Measuring Household Debt-servicing Costs – An Update

The primary measure of the household sector's debt-servicing burden is the ratio of aggregate interest payments to disposable income.<sup>1</sup>

In calculating this ratio over the past year, the RBA has been making two adjustments to the aggregate interest payments series published by the ABS. As discussed in Box C in the May 2003 *Statement*, the first adjustment has been to add back to the published series the imputed financial intermediation service charge deducted by the ABS. The second has been to adjust interest payments upwards from the December quarter 2000 onwards to correct for the fact that movements in the average interest rate implied by the published series appeared inconsistent with movements in market rates. Over 2002/03, this second adjustment increased the total debt-servicing ratio by around  $\frac{3}{4}$  of a percentage point, shifting the profile of the ratio from being relatively flat, to one that was trending upwards.

The ABS has recently reviewed the interest paid series and published substantial revisions in the September quarter 2003 national accounts (Graph B1). These revisions reflect the incorporation of new data from financial institutions. The new estimates confirm the upward trend in the debt-servicing ratio over recent years evident in the earlier RBA estimates, with movements in the implied average interest rate now consistent with those in market rates. As a result, the RBA will no longer make the second adjustment to the ABS's figures. It will however continue to make the adjustment for the imputed financial intermediation service charge, given that the

Graph B1



published data still exclude that part of interest payments attributed to this charge. The financial intermediation service charge currently increases the ratio by around 1.4 percentage points, of which around half is attributable to housing-related debt.

The revised data including the financial intermediation service charge suggest a slightly higher debt-servicing ratio over recent years than that indicated by the RBA's earlier estimates, with the revised ratio averaging  $\frac{1}{4}$ – $\frac{1}{2}$  of a percentage point higher over recent quarters. The implied average interest rate on housing debt in the September quarter 2003 was around  $6\frac{1}{2}$  per cent, around the same level as the banks' standard variable lending rate at the time. The overall implied interest rate on household debt is slightly higher, at around 7 per cent, reflecting relatively higher interest rates on households' consumer debt. ▽

1. For a further discussion of the household debt-servicing ratio see 'Do Australian Households Borrow Too Much?', RBA *Bulletin*, April 2003.