The Korean government has provided a variety of support measures since the global financial crisis in three areas: income enhancement, expansion of small loan financing service and credit recovery. The government is supporting the employment of the low-income group through what’s called a “successful job finding package” and helping the self-employed and of low income with financing and management consulting. Small loan financing, such as a “sunshine loan,” is constantly made available for the low-income group. People in default are assisted with a “national happiness fund” for their recovery. These government measures are assessed to have been effective in achieving quantitative results, such as enhancing the employment of the low-income bracket, increasing low-interest loans, and expanding debt rescheduling schemes. Other measures are also constantly promoted to improve qualitative outcomes for the low-income bracket.

Major Characteristics of Household Debts of Those in Korea’s Low-Income Bracket

1. The ability of low-income households in Korea to repay their debt appears to have improved marginally. The amount of repaid loans has steadily increased, and the average amount of debt per low-income bracket household decreased from USD 36,500 in 2013 to USD 31,630 in 2014. With the size of debt reduced, the ability to repay it improved, within limits. The disposable income to the repaid amount of the principal and interest ratio dropped by a small margin, from 65.7 percent in 2013 to 63.3 percent in 2014.

2. The average annual income of Korea’s low-income group appears to have risen. The average annual earned income increased from USD 5,596 in 2013 to USD 6,050 in 2014 due to the increasing number of full-time workers, which is a result of government measures, including the “successful job finding package.”

3. The number of households with overdue experience has substantially dropped, from 481,000 (38.5 percent) in 2013 to 391,000 (30.9 percent) in 2014. Another positive sign is that the ability to repay their debt has somewhat improved, which is believed to contribute to the successful introduction of a support measure called the “national happiness fund.”

4. The amount of loans provided to the low-income bracket by non-bank institutions has slightly dropped, from USD 10,706 in 2013 to USD 10,690 in 2014. However, the number of households with multiple debts (households with two or more loans from financial institutions, including non-bank institutions), whose debt-repayment ability is relatively low, increased from 270,000 households in 2012 to 396,000 in 2014, and its ratio to the total low-income bracket households is also rising.

5. The number of households paying average annual interest of 10 percent or higher rose from 207,000 in 2013 to 230,000 in 2014, and the financial health of these households is worsening as they tend to borrow money to repay existing debt, in contrast to the low-income bracket households paying no high interest.

6. Loans for subsistence taken out by the low-income bracket households are rising. Most low-income households feel burdened by the debt and 69 percent of low-income households are economical about their household expenses.

Policy Suggestions

Three main measures should be taken to address the issue of the household debts of the low-income bracket. First, the government should continue to help low-income households find good-quality jobs, to provide them with a foothold to get out of debt. Second, the government should spare no efforts in strengthening the competitive edge of low-income households by extending financial assistance and management consulting for the self-employed of low-income households. Third, the social safety net that provides assistance to households struggling to make a living should be strengthened with benefits for living expenses, medical care and school fees.

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