

Featured statistic

Household overdrafts

Household overdrafts have been under discussion in the media recently. The following summary attempts to shed light on their development and includes calculations of stocks such as interest expense and average overdraft per capita of population.

Household overdrafts have been under discussion in the media in recent months. They amounted to 72 b.kr. at the end of January 2007, according to the deposit money banks' (DMBs') reports to the Central Bank of Iceland. As shown in Chart 1, they remained virtually unchanged in 2006 after a considerable increase in 2004-2005 based on current prices. The growth is much smaller measured in terms of constant February 2007 prices.

It is also interesting to note that there was only a small reduction in household overdrafts when the banks entered the housing mortgage market in autumn 2004. At that time, claims were made that many households had converted their overdrafts to long-term loans – with maturities up to 40 years – with equity withdrawal by taking large mortgages. Nonetheless, overdrafts fell by only 6 b.kr. (10%) from August 2004 to the end of that year, and began to increase again immediately in January 2005.

Overdrafts are generally the most expensive credit option that DMBs offer to households. The highest overdraft rate at most DMBs is currently 23.95%, although some client groups such as students and prime customers enjoy easier terms. Households' interest expense on these loans can be calculated using the above stock figures and interest rate.

One qualification needs to be made for such calculations, however. The end-of-month overdraft stock figure includes debt on credit cards issued by the DMBs themselves (i.e. not by credit card companies). Total credit card turnover over the fiscal month December-January was just under 25 b.kr., for example. After excluding corporate credit card turnover, interest-bearing instalments and debts on cards issued by the DMBs themselves, the non-interest-bearing credit card debt of households included in their overdrafts amounted to almost 17 b.kr.

The non-interest-bearing figure should therefore be subtracted from the overdraft stock before interest is calculated. Accordingly, interest expense on overdrafts in January 2007 would amount to 1,097 m.kr., instead of the figure of 1,437 m.kr. derived from the total overdraft stock – a difference of 340 m.kr. In both cases, the maximum overdraft rate of 23.95% is used.

Dividing the overdraft stock by the population aged 18 and older (228,203 at the end of 2006, according to Statistics Iceland) produces an average overdraft figure of 240 thousand kr. per adult at the end of January 2007. Interest on that stock would be almost 5 thousand kr. in January, or 60 thousand kr. per year. Since these are average figures, the interest burden of some households is obviously much higher.

Chart 1
Household overdrafts
December 2003 - January 2007
Position at end of year



Source: Central Bank of Iceland.

