

PERSONAL DEBT: A TIME BOMB, READY TO EXPLODE

Personal bankruptcies in the United States rose by about 30 percent in calendar 2005, compared with 2004, statistics, produced by The Federal Reserve Board, have shown.

More than 2 million Americans filed for bankruptcy in 2005, that figure, being a record for any year.

In contrast, in the Hongkong Special Administrative Region (HKSAR) of the People's Republic of China (PRC), the number of Bankruptcy Orders recorded was 9,810 cases in calendar 2005, which was a decline of nearly 28 percent, compared with the figures for calendar 2004.

The value of the total liabilities of those 9,810 Bankruptcy Orders was about \$HK8.46 billion, a decline of about 25 percent, compared with the value of the total liabilities of the 13,593 Bankruptcy Orders, recorded in the 2004-Year.

In the final quarter of 2005, the number of personal bankruptcy cases rose in the US by about 80 percent, compared with the like period in 2004.

It is evident that many Americans are overspending and are unable to meet their financial commitments as they fall due.

In the HKSAR, in contrast, it is clear that, by and large, residents of the territory are more careful with their finances and tend not to spend their money to the degree that Americans seem to overspend.

As the statistics of the US Federal Reserve indicate, there is an increasing share of disposable income that is devoted by US households for the repayment of financial obligations.

Today, the level of disposable income that US households are devoting to the reduction of family debt is about 18 percent.

This, in terms of eurozone, is high where the average household devotes about 12 percent of disposable income to the retirement of debt.

What appears to be happening, in the US, the eurozone and in the HKSAR, is that the ease with which one may obtain a credit card induces many people and families to overspend.

This is especially so in the case of lower-income families where there is a greater use of credit cards for the purchase of day-to-day expenses.

What seems to be only too apparent is that if there is a decided downturn, generally, in the economies of the US, the eurozone and, even, the HKSAR, personal bankruptcy incidences will escalate to record levels – because the amount of personal debt, today, is already at record highs in these regions of the world.

It would appear that this could well be a time-bomb, ready to explode.

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