



Report on

Credit Conditions of Financial Institutions

Monetary Policy Group

Bank of Thailand

Report on Credit Conditions of Financial Institutions in the First Quarter of 2009 and Outlook for the Second Quarter of 2009*

Overview of the Results*

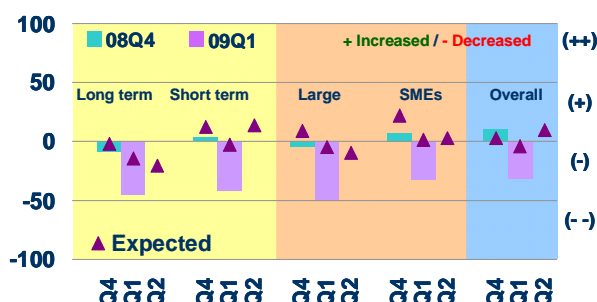
In 2009 Q1, respondent financial institutions continued to tighten their credit standards for both corporate and consumer loans, reflecting higher risk perception on their business operations resulted from significantly deteriorated economic conditions, an industry-specific outlook particularly in exporting businesses that encountered a drop in total book order and a declined quality of collaterals. Demand for corporate loans slightly dropped from the previous quarter. Likewise, demand for consumer loans declined as compared to previous quarter, mainly due to the consumer confidence and private consumption that remained at a low level.

As for 2009 Q2, respondent financial institutions anticipated that overall credit standards would continue to be further tightened due to ongoing concerns about the quality of credit for both corporate and consumer loans. Moreover, it was expected that the demand for corporate loans would slightly increase while the demand for consumer loans was perceived to remain almost unchanged as a result of low demand for consumption during economic downturn.

1. Corporate Loans (Loans or Credit Lines to Enterprises)

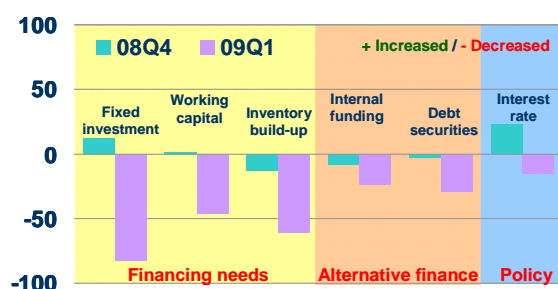
In 2009 Q1, overall demand for corporate loans decreased from the previous quarter, lower than their expectations in the 2008 Q4. The main factors causing a reduction in loan demand for both large enterprises and SMEs were fixed investment, working capital, and inventory build-up. Under the tightened credit standard conditions, large corporate attempted to raise their capital by relying on alternative financing sources such as internal funding and debt securities.

Figure 1 Demand for corporate loans



Source: BOT's Survey on Credit Conditions, April 2009.

Figure 2 Factors affecting large corporate loan demand

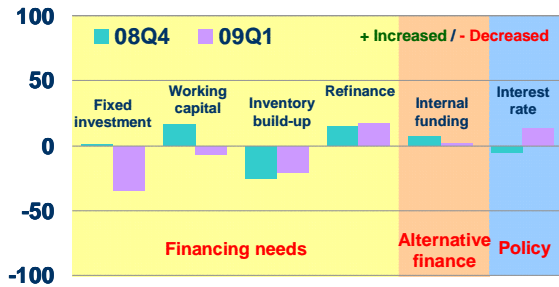


Source: BOT's Survey on Credit Conditions, April 2009.

* The Bank of Thailand conducts a quarterly credit conditions survey attaining senior loan officers' opinion on bank lending practices. In the January 2009 survey, the Bank of Thailand has received feedbacks from a total of 21 Thai commercial banks, branches of foreign banks and Specialised Financial Institutions (SFIs), covering more than 86 per cent of total credits in the banking system. However, indexes presented in this survey report may not coincide with those presented in the previous reports because there were minor modifications to the survey questions as well as to the weight applied for index calculation.

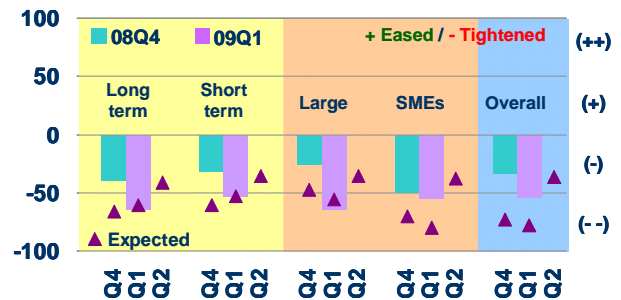
In 2009 Q1, respondent financial institutions had tightened their credit standards for loans or credit lines to enterprises compared to the previous quarter, although less tightened than their expectations in the 2008 Q4. This reflected a higher risk perception concerning their banking operations resulted from an impact of deteriorated economic conditions, industry-specific outlook, particularly in the exporting businesses that encountered a considerable drop in their total book order and quality of collaterals.

Figure 3 Factors affecting SMEs loan demand



Source: BOT's Survey on Credit Conditions, April 2009.

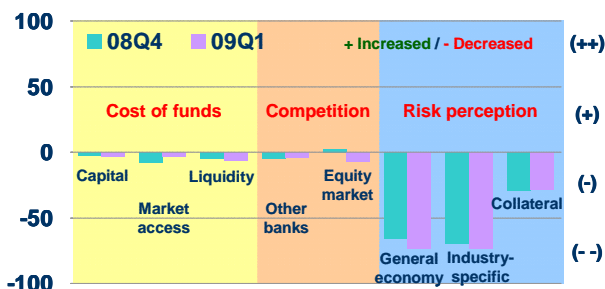
Figure 4 Credit standards (Corporate loans)



Source: BOT's Survey on Credit Conditions, April 2009.

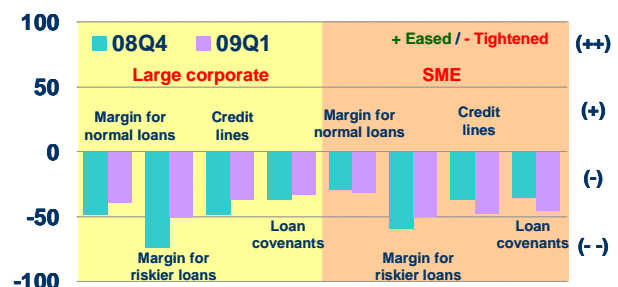
Respondent financial institutions' conditions and terms policy for loans to both large corporates and SMEs had been tightened, reflecting from a wider margin of both regular and riskier loans, as a result loan pricing became higher. Furthermore, other conditions and terms such as credit lines and loan covenants continued to be tightened in this quarter. It was also noted that the respondent financial institutions had tightened the quality of collaterals, especially in SMEs lending, revealing higher concerns regarding the quality of SMEs over large corporate loans.

Figure 5 Factors affecting credit standards (Corporate loans)



Source: BOT's Survey on Credit Conditions, April 2009.

Figure 6 Conditions and Terms (Corporate loans)



Source: BOT's Survey on Credit Conditions, April 2009.

Looking ahead, respondent financial institutions anticipated a slightly increase in overall demand corporate loans due to a slow recovery of demand for investment during the economic downturn. Meanwhile, credit standards was perceived to be tightened for all corporate loan types as a result of ongoing concerns in credit quality, causing them to doubt the ability to repay the corporate loans. About 75.0 per cent of respondent financial institutions anticipated that their liquidity would be at an appropriate level in 2009 Q2.

Rank	Business Category	Percentage
1.	Hotels and Restaurants	83.1%
2.	Electronics and Electrical appliances	75.0%
3.	Vehicles	70.8%
4.	Real estate and Construction	64.9%
5.	Furniture	52.4%
6.	Iron and Steel	47.9%
7.	Textiles	42.2%
8.	Transportation	17.6%
9.	Leather	12.4%

In addition, respondent financial institutions reported that the top three types of businesses they reckoned to be facing problems that may adversely affect their businesses' risk perception were hotels and restaurants, electronics and electrical appliances, and vehicles respectively (Table 1). Meanwhile, they viewed that the issuance of government bonds for economic stimulation would have effects on financial institutions' liquidity (81.3%), interest rate (81.3%), demand for loan to be used for private investment

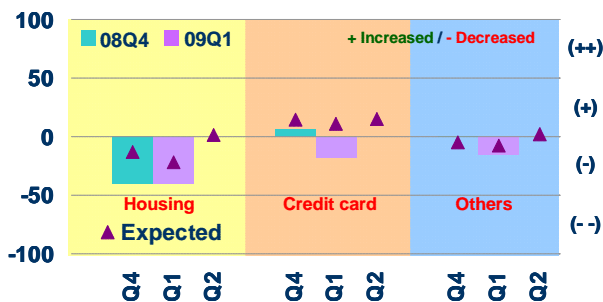
(75.0%) and demand for loan to be used for private consumption respectively (73.3%) (Table 2).

	Financial institutions' liquidity	Interest rate	Demand for loan to be used for private consumption	Demand for loan to be used for private investment
Affect considerably	12.5%	18.8 %	6.7%	12.5%
Affect somewhat	68.8%	62.5%	66.7%	62.5%
Not affected	18.8%	18.8 %	26.7%	25.0%

2. Consumer Loans (Loans to households)

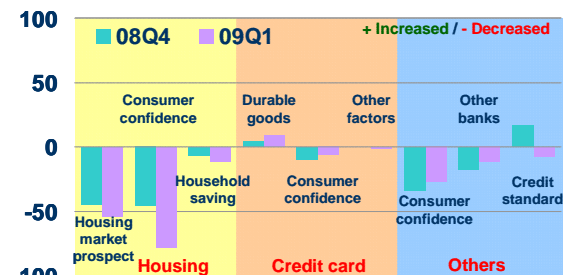
Demand for overall consumer loans in 2009 Q1 declined from the previous quarter, lower than their expectations in the 2008 Q4, following low overall consumer confidence and private consumption. Notably, the reduction in demand for credit card was mainly caused by competitive pressure from alternative financing sources such as banks, non-banks, and the increasingly tightened credit standards. Meanwhile, demand for housing loans declined due to low consumer confidence and uncertainties in housing market prospects, particularly some delays in consumer decisions to have a clearer outlook for housing market prospects. In addition, consumers turned to alternative financing sources such as household savings.

Figure 7 Demand for consumer loans



Source: BOT's Survey on Credit Conditions, April 2009.

Figure 8 Factors affecting loan demand (Consumer loans)



Source: BOT's Survey on Credit Conditions, April 2009.

In 2009 Q1, credit standards for overall consumer loans was increasingly tightened relative to the previous quarter, in line with their expectations of 2008 Q4 survey. This was mainly due to the risk perceptions both from concerns over economic conditions and deteriorated credit worthiness. This caused respondent financial institutions to worry about pay-back ability for consumer loans,

especially housing loans whose market prospects were expected to slow down in consistent with the global economic downturn. Nevertheless, even though loan approval rate for overall consumer loans declined from previous quarter, loan approval rate for housing loans increased slightly, corresponding to information obtained from Economic/Business Information Exchange Program which reported an existing demand for accommodations.

Figure 9 Credit standards (Consumer loans)

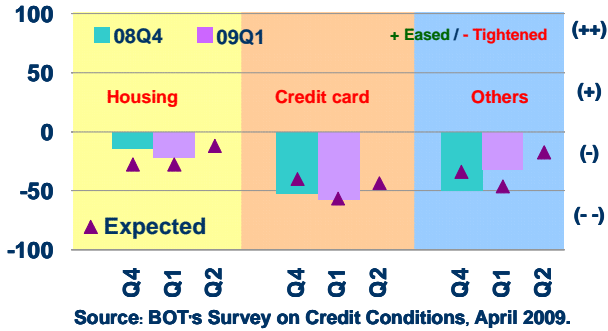
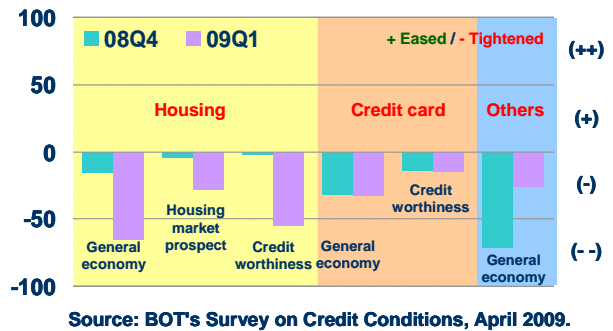


Figure 10 Factors affecting credit standards (Consumer loans)



Looking ahead, respondent financial institutions anticipated that overall demand of consumer loans would marginally increase in 2009 Q2, following a slight pick-up in economic conditions and evident government stimulus packages. Credit standards for all consumer loans were expected to be tightened slightly as a result of concerns over the problem of non-performing loans.

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