

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

### Overview of the Results\*

In 2009 Q2, respondent financial institutions continued to tighten their credit standards for both corporate and consumer loans, reflecting higher risk perception resulted mainly from deteriorated economic conditions, an industry-specific outlook, political instability and the spread of 2009 H1N1 influenza. Interestingly, conditions and terms policy for approving loans, in term of a narrower margin on average loans<sup>1</sup>, to both large corporate and SMEs, were eased somewhat for the first time since 2008 Q1. Demand for corporate loans declined marginally from the previous quarter while demand for housing loans and other consumer loans increased slightly, partly due to fiscal stimulus packages especially for the real estate sector. Meanwhile, demand for credit card loans decreased from the previous quarter as the consumer confidence still remained at a low level, due to concerns about their employment conditions and income. From both demand and supply side factors, approval rate for SMEs, housing and other consumer loans increased marginally while approval rate for large corporate and credit card loans decreased.

As for 2009 Q3, respondent financial institutions anticipated that overall credit standards would continue to be further tightened due to ongoing concerns about the quality of credit and customers' debt repayment ability amid uncertainty about economic recovery. It was expected that the demand for corporate loans would increase particularly from SMEs while the demand for consumer loans was expected to increase following the increase of housing and other consumer loans.

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

In 2009 Q2, overall demand for corporate loans decreased slightly from the previous quarter, lower than their expectations in the 2009 Q1. The demand for large corporate loans declined following a reduction in inventory build-up. It is notable that demand for loans for investing in fixed asset and working capital showed signs of stabilisation by staying at almost the same level as in the previous quarter, corresponded to the trend of the Private Investment Index (PII). This reflected that the state of economy should be approaching the bottom-out level. In addition, the decrease in demand for large corporate loans was partly due to the use of alternative financing sources such as issuances of debt securities and loans from other banks/financial institutions.

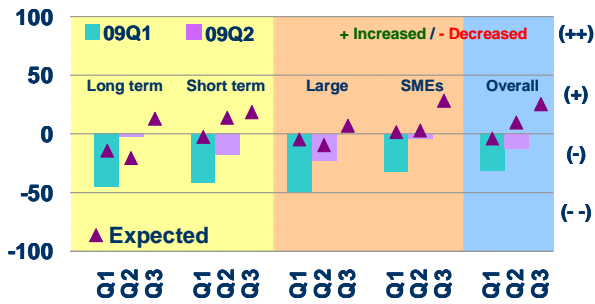
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\* Notes: 1) The Bank of Thailand conducts a quarterly credit conditions survey attaining senior loan officers' opinion on bank lending practices. In the July 2009 survey, the Bank of Thailand received feedbacks from a total of 21 banks, comprising of 12 Thai commercial banks, 5 branches of foreign banks and 4 Specialised Financial Institutions (SFIs), covering more than 83 per cent of total credits in the banking system.

2) Net percentage balances were calculated by weighting together the responses of those financial institutions who answered the questions by their market shares, whereby negative balances indicate credit contraction or tightening of credit policy, net percentage balances = 0 indicate unchanged credit growth or credit policy and positive balances indicate credit expansion or easing of credit policy.

<sup>1</sup> Average loans are those loans or credit lines granted to customers with normal classification.

**Figure 1 Demand for corporate loans**

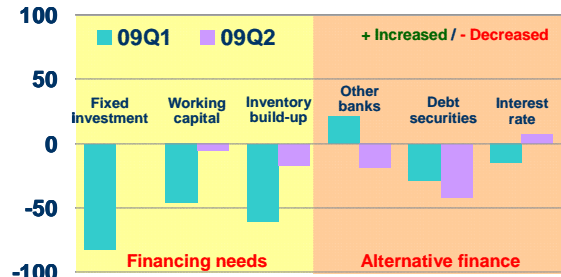


Source: BOT's Survey on Credit Conditions, July 2009.

Note: The blue and purple bars show the responses over the previous three months. The purple triangles show the expectations over the next three months. Expectations balances have been shown to be compared with the actual outcomes in the following quarter.

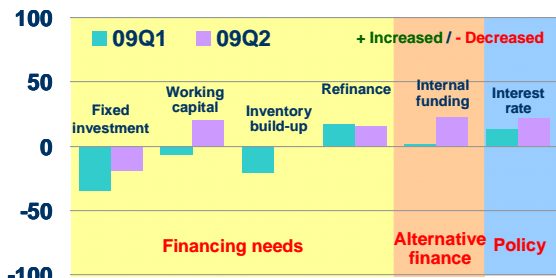
Demand for SMEs loans started to stabilise by staying at almost the same level as the previous quarter. SME businesses had relatively more difficulties to access loans and their financial status was more volatile compared to large corporate, thus they demanded more loans for working capital and refinancing as compared to the previous quarter. Notably, interest rate contributed somewhat to an increase in demand for corporate loans.

**Figure 2 Factors affecting large corporate loan demand**



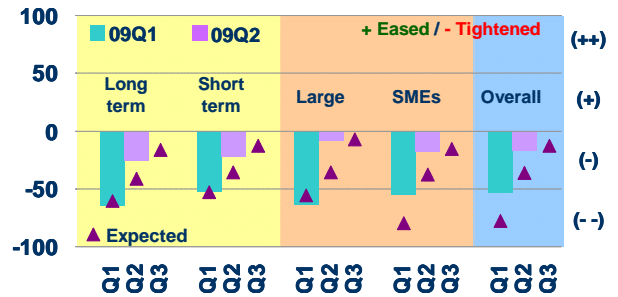
Source: BOT's Survey on Credit Conditions, July 2009.

**Figure 3 Factors affecting SMEs loan demand**



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

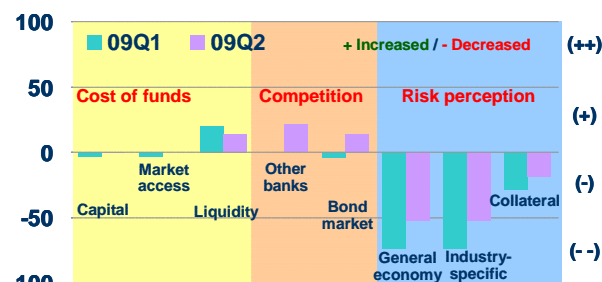
**Figure 4 Credit standards (Corporate loans)**



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

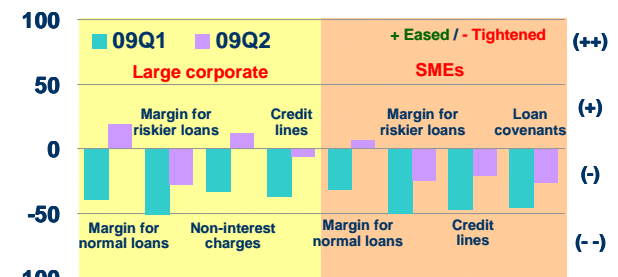
In 2009 Q2, respondent financial institutions continued to tighten their credit standards for corporate loans compared to the previous quarter, although less tightened than their expectations in the 2009 Q1. This indicated that the risk perception regarding their banking operations improved slightly due to signs of recovery in several industries, revealing from a pick-up in total order books; particularly in electronics industry. However, risk perception in banking operations was still an issue of high concern as a result of political instabilities as well as the spread of 2009 H1N1 influenza. Nevertheless, competitions from other banks and bond market as well as excess liquidity in the financial system contributed to the easing of credit conditions.

**Figure 5 Factors affecting credit standards (Corporate loans)**



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

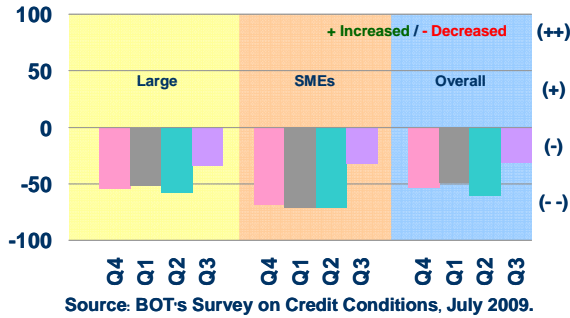
**Figure 6 Conditions and Terms (Corporate loans)**



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

Conditions and terms policy for approving loans to both large corporate and SMEs of respondent financial institutions had been eased for average loans, reflecting from a narrower margin of average loans for the first time since 2008 Q1 as well as lower non-interest rate charges for large corporate. Nevertheless, other conditions and terms such as credit lines, collateral and loan covenants continued to be tightened in this quarter, particularly for SMEs.

**Figure 7 Expected concerns on credit quality (Corporate loans)**



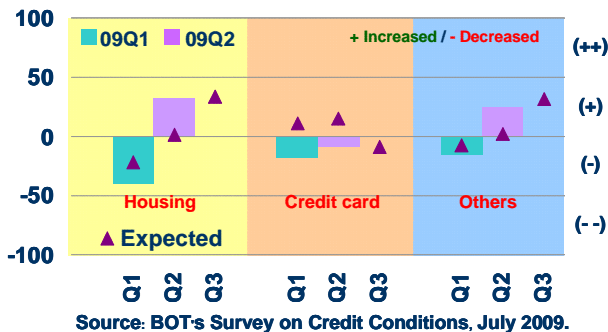
**In 2009 Q3, respondent financial institutions anticipated a slight increase in overall demand for corporate loans**, mostly due to an increase in demand for SMEs loans as a result of immediate effects of government's stimulus packages on economic recovery as well as policies to speed up loans to the market by specialised financial institutions. Meanwhile, credit standards was perceived to be somewhat tightened for all corporate loan types as a result of on-going concerns in credit quality. However,

pressure competitions from other financial institutions and bond market as well as high liquidity position of financial institutions would allow them to be able to ease the credit standard to some extent.

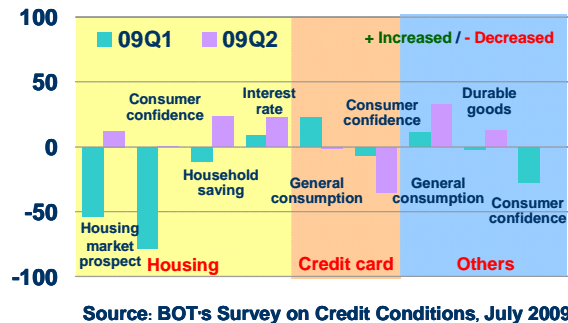
**2. Consumer Loans (Loans to households)**

**Demand for housing and other consumer loans in 2009 Q2 increased somewhat from the previous quarter.** Demand for housing loans increased, driven by government's stimulus packages for the real estate sector, especially townhouse purchases as well as a decrease in household savings. Interest rate was revealed to be a contributing factor for an increase in demand for houses. The increase in demand for other consumer loans was mainly caused by consumers spending on necessary goods. It was notable that consumers were still cautious in their spending due to their fragile confidence. Meanwhile, demand for credit card loans declined from the previous quarter due to consumers concerns about their employment condition and income.

**Figure 8 Demand for consumer loans**



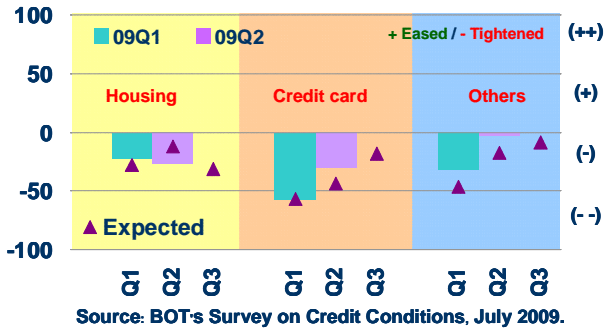
**Figure 9 Factors affecting loan demand (Consumer loans)**



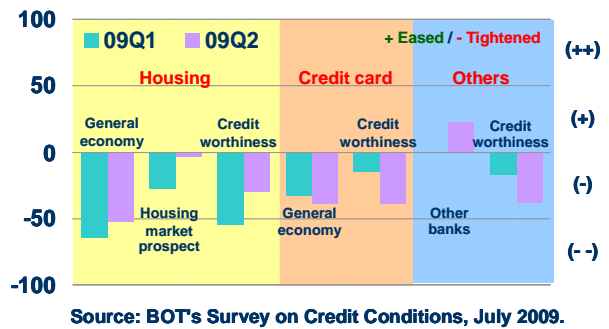
**In 2009 Q2, credit standards for housing loans continued to be tightened from the previous quarter**, more than expected in 2009 Q1 survey. Although demand for housing loans had increased, financial institutions tightened their credit standard due to on-going concerns regarding sustainability of economic recovery and borrowers' ability to service their loans. Likewise, credit

standards for credit card loans had also been tightened as a result of deteriorated creditability of borrowers, reflecting from increases in delinquency and cancellations of credit cards which had not paid back within 90 days. Nevertheless, credit standards for other consumer loans had been tightened only slightly as compared to the previous quarter, more eased than expected in 2009 Q1, owing to pressure competitions from other financial institutions, non-banks and specialised financial institutions.

**Figure 10 Credit standards (Consumer loans)**



**Figure 11 Factors affecting credit standards (Consumer loans)**



Looking ahead, respondent financial institutions anticipated that demand for housing and other consumer loans would somewhat increase in 2009 Q3, in line with the improved housing market prospect in the second half of the year. Moreover, interest rate still remained at the contributing level. However, demand for credit cards loans was expected to slightly drop as a result of worsened credit worthiness of borrowers. Credit standards for all consumer loans in 2009 Q3 were anticipated to be tightened continuously, especially for housing loans. This indicated that financial institutions operated cautiously amid uncertain global and domestic economic growth.

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