



Report on

# Credit Conditions of Financial Institutions

Monetary Policy Group

Bank of Thailand

# Report on Credit Conditions of Financial Institutions in the Fourth Quarter of 2008 and Outlook for the First Quarter of 2009

## Overview of the Results\*

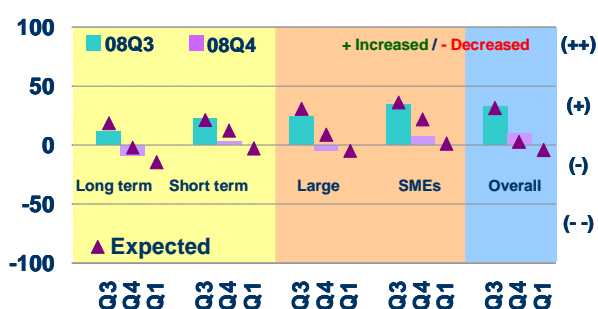
In 2008 Q4, respondent financial institutions continued to tighten their credit standards for both corporate and consumer loans, reflecting higher concerns on their business operations amid increased risk resulted from significantly deteriorated general economic conditions, an industry-specific outlook in particular in exporting businesses that encountered a considerable drop in their total book order in the last quarter of 2008 and quality of collaterals. Demand for corporate loans increased slightly from the previous quarter while demand for housing loans declined mainly arising from the consumer confidence that remained at a low level as well as some delays in consumer decision making to have a clearer outlook for housing market prospects after government's real estate stimulus packages.

As for 2009 Q1, respondent financial institutions anticipated that overall credit standards would continue to be further tightened due to on-going concerns about their credit quality, especially for Small and Medium Enterprises (SMEs). It was expected that the demand for corporate loans would remain almost unchanged. The demand for housing and other consumer loans would decline; on the other hand the demand for credit card loans would increase slightly.

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

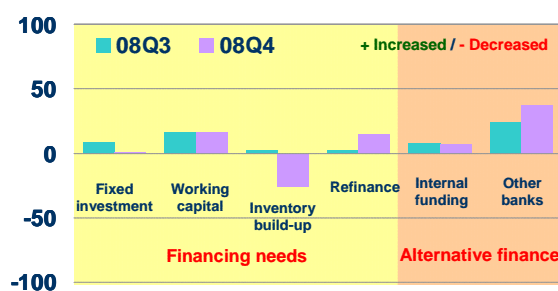
In 2008 Q4, overall demand for corporate loans increased minimally from the previous quarter, higher than their expectations in the 2008 Q3 survey, following the increase in demand for SMEs loans to be used as working capital and for refinancing. The main factor causing the SMEs loans demand to expand was competitions from other banks. Meanwhile, the demand for large corporate loans dropped slightly due mainly to the fall in production aiming to reduce stocks. In view of the fact that the tightened credit standards of respondent financial institutions, some businesses relied on alternative financing sources such as internal funding, loans from other banks or financial institutes, equity market as well as debt securities. Nevertheless, interest rate was still a contributing factor in the demand for large corporate loans.

**Figure 1 Demand for corporate loans**



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

**Figure 2 Factors affecting SMEs loan demand**

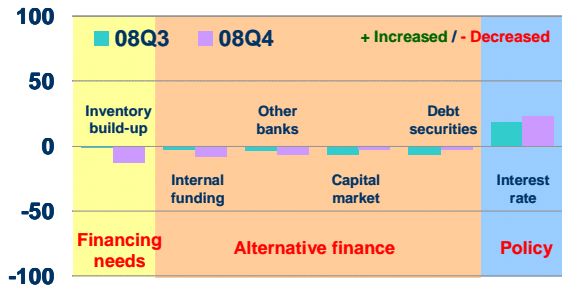


Source: BOT's Survey on Credit Conditions, January 2009.

\* 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 23 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.

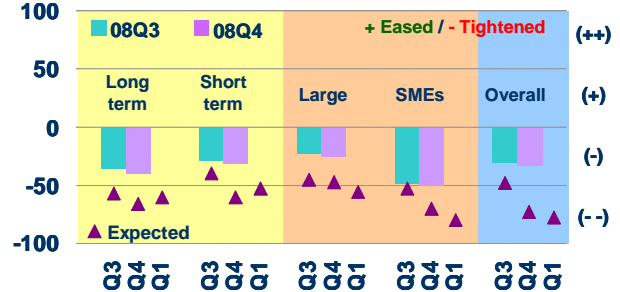
According to additional questions in the 2008 Q4 survey, it was found that 60.9 per cent of respondent financial institutions had adjusted their interest rates downward for the overall corporate loans, in response to the reduction of policy rate by 1.0 per cent on 3 December 2008. It was noted that 56.5 per cent of respondent financial institutions had decreased interest rate for the SMEs loans.

**Figure 3 Factors affecting large corporate loan demand**



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

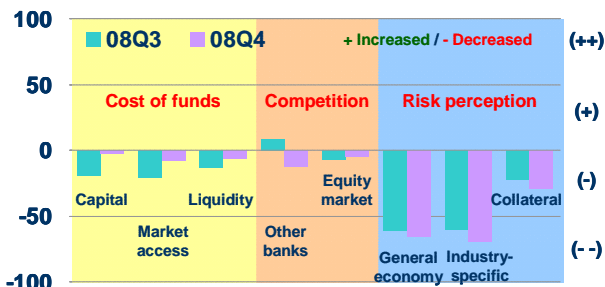
**Figure 4 Credit standards (Corporate loans)**



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

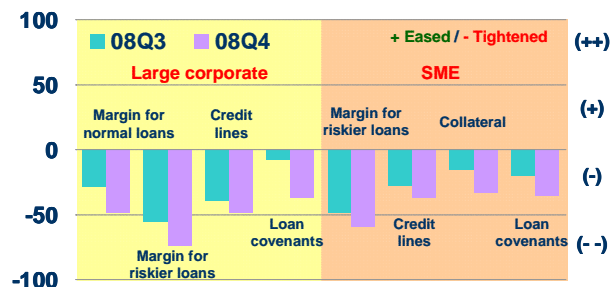
In 2008 Q4, respondent financial institutions had tightened their credit standards for loans or credit lines to enterprises, compared to the previous quarter, although less tightened than their expectations in the 2008 Q3 survey. This still reflected higher risk perceptions regarding clearly deteriorated general economic conditions, the industry-specific outlook, in particular in the exporting businesses that encountered a considerable drop in their total book order in the last quarter of 2008 and quality of collaterals.

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



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

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



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

Respondent financial institutions had tightened their conditions and terms policy for loans or credit lines to both large corporates and SMEs, reflecting from wider margin for both normal and riskier loans. Other conditions and terms included tightened credit lines and loan covenants. It was noted that the respondent financial institutions had especially tightened their terms of loan maturity in SMEs lending, revealing concerns regarding the quality of SMEs loans. This resulted in a decrease in approval rate for corporate loans, compared to the previous quarter.

Looking ahead, respondent financial institutions showed concerns on their quality of credit and thus expected credit standards to be further tightened (Figure 4). About 84.2 per cent of respondent financial institutions anticipated higher delinquency rate, especially for SMEs (Table 1). In addition, respondent financial institutions reported that the top three assistances which their SMEs customers would need from authorities were credit guarantee, soft loans and lowering interest rate respectively (Table 2). As for demand for overall corporate loans, it would decrease slightly in 2009 Q1,

following the significantly deteriorated general economic conditions in 2008 Q4. This reflected noticeable effects of the global financial crisis on the domestic real sectors.

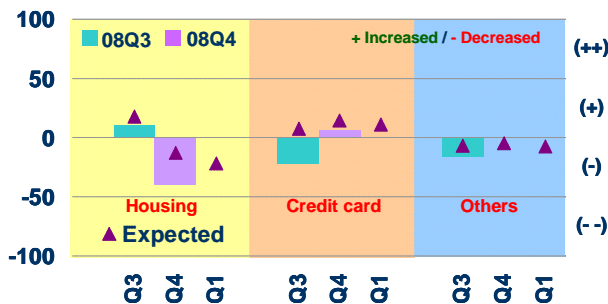
|                        | Overall | SMEs   | Large enterprises |
|------------------------|---------|--------|-------------------|
| Increased considerably | 5.3%    | 15.8 % | 0%                |
| Increased somewhat     | 78.9%   | 68.4%  | 42.9%             |
| Remained unchanged     | 15.8%   | 15.8 % | 57.1%             |
| Decreased somewhat     | 0%      | 0%     | 0%                |
| Decreased considerably | 0%      | 0%     | 0%                |

|                               | Q1/2009 |
|-------------------------------|---------|
| 1. Provide credit guarantee   | 66.6%   |
| 2. Offer soft loans           | 66.2%   |
| 3. Lower the interest rate    | 60.9%   |
| 4. Locate new markets         | 46.0%   |
| 5. Offer tax privileges       | 13.1%   |
| 6. Initiate business clusters | 10.4%   |

## 2. Consumer Loans (Loans to households)

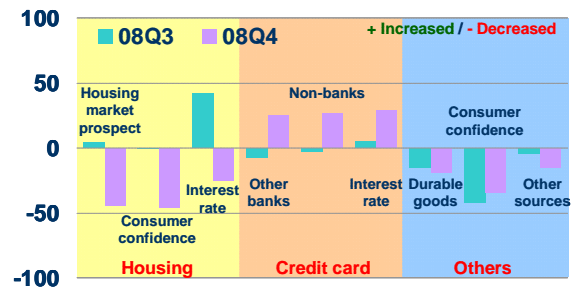
Demand for credit card loans in 2008 Q4 increased somewhat from the previous quarter, but still lower than their expectations in the 2008 Q3 survey. The main factors causing the expansion in demand were interest rate aspect and competitions from other banks as well as non-banks. Meanwhile, demand for housing loans declined more than their expectations in the 2008 Q3 survey mainly arising from consumer confidence that remained at low level and uncertainties in housing market prospects, in particularly some delays in consumer decisions to have a clearer outlook for housing market prospects after government's real estate stimulus packages. In addition, it was noted that the interest rate had not been a major factor in decision making in house buying.

Figure 7 Demand for consumer loans



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

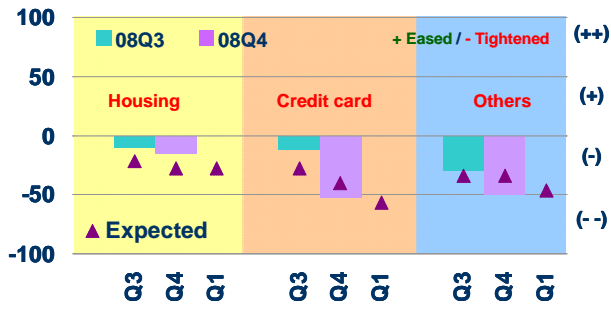
Figure 8 Factors affecting loan demand (Consumer loans)



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

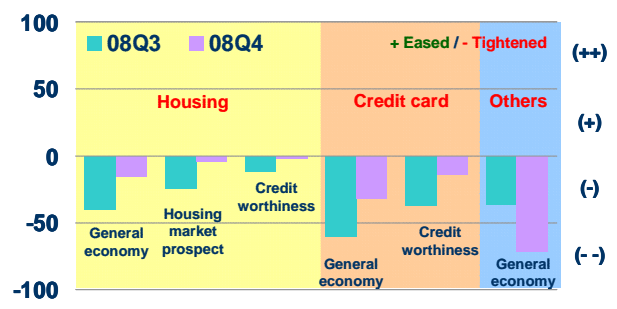
In 2008 Q4, respondent financial institutions had increasingly tightened their credit standards for credit card loans as well as other consumer loans, in line with their expectations in the 2008 Q3 survey. This was mainly caused by risk perceptions both from uncertainties in general economic conditions and deteriorated credit worthiness of debtors. As for housing loans, respondent financial institutions also tightened their credit standards, but lower than their expectations. Even though respondent financial institutions were also worried about risk perceptions of housing loans as other loans, they became slightly more confidence after government announced stimulus packages for the real estate sector. In general, the approval rate for all types of consumer loans decreased marginally from the previous quarter except for housing loans.

**Figure 9 Credit standards (Consumer loans)**



Source: BOT's Survey on Credit Conditions, January 2009

**Figure 10 Factors affecting credit standards (Consumer loans)**



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

Looking ahead, respondent financial institutions expected to continue to tighten their credit standards for all types of consumer loans. At the same time, it was noted that expected demand for housing loans and other consumer loans would fall for two quarters consecutively since 2008 Q4 (Figure 7), reflecting a weak domestic consumption. Nevertheless, demand for credit card loans expected to increase minimally.

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