



Report on

Credit Conditions of Financial Institutions

Monetary Policy Group

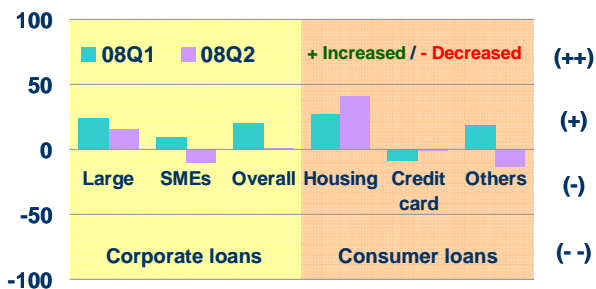
Bank of Thailand

Report on Credit Conditions of Financial Institutions in the Second Quarter of 2008 and Outlook for the Third Quarter of 2008*

1. Overview of the Results

In 2008 Q2, the overall approval rate for corporate loans had been stable from the previous quarter. Loan approval rate for large corporate had slightly increased while that for small-to-medium enterprises (SMEs) had decreased. The approval rate for consumer loans had expanded from a surge in housing loans demand.

Figure 1 Approval rate for corporate and consumer loans



Source: BOT's Survey on Credit Conditions, June 2008.

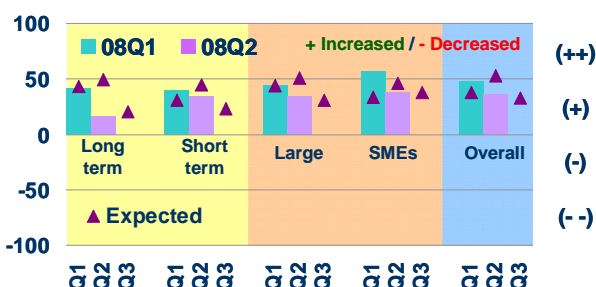
Meanwhile, credit card loan and other loan approval rates had remained stable and decreased respectively (Figure 1). Moreover, respondent financial institutions reported that **factors affecting credit expansion were demand factors, as in the previous quarter**. Supply factors, or credit standards, on the other hand, had been tightened from the last quarter due to concerns about the general economic conditions, changing industry-specific risks, and credit quality.

As for 2008 Q3, respondent financial institutions anticipated that overall demand for corporate and consumer loans would slightly increase from Q2, with an exception of demand for housing loans which had a tendency to remain stable (Figure 2 and 6). At the same time, it was expected that respondent financial institutions would continue to further tighten their credit standards due to on-going concerns on credit quality.

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

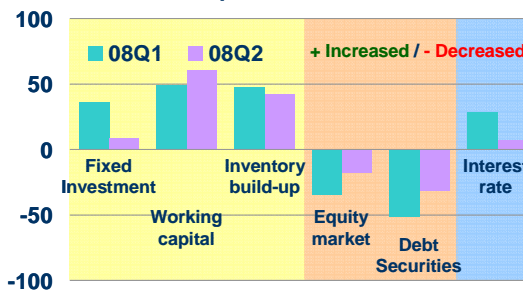
Demand for corporate loans in 2008 Q2 had slightly increased from the previous quarter, by lower than had been expected in 2008 Q1 Survey. The expansion of demand for long-term corporate loans had slightly increased in line with a minimal increase in demand for investment in fixed asset. This was partly due to political instability and a marginal increase in consumers' demand. The demand for corporate loans concentrated on financial needs in the forms of working capital accruals and inventory accumulation in response to rising input prices, especially in raw materials and fuel. The survey suggested that corporate loan demand was not affected by

Figure 2 Demand for corporate loans



Source: BOT's Survey on Credit Conditions, June 2008.

Figure 3 Factor affecting corporate loan demand

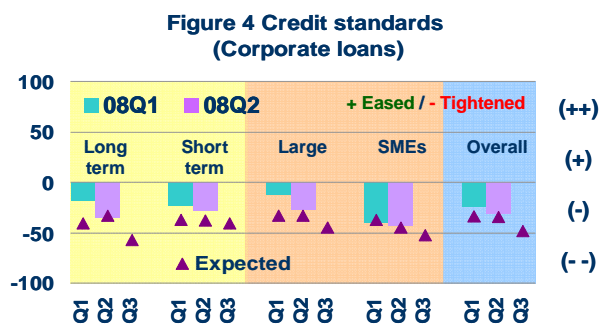


Source: BOT's Survey on Credit Conditions, June 2008.

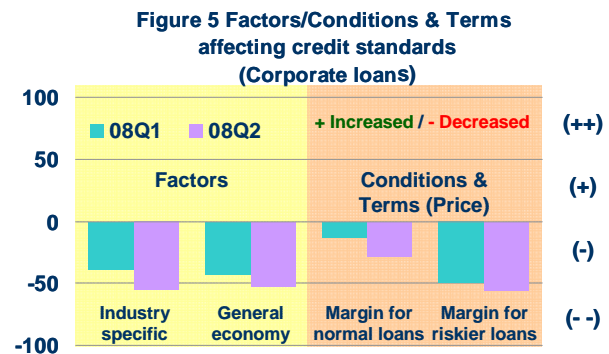
* The Bank of Thailand conducts a quarterly credit conditions survey attaining senior loan officers' opinion on bank lending practices. In the July 2008 survey, the Bank of Thailand has received feedbacks from a total of 25 Thai commercial banks, branches of foreign banks and Special Financial Institutions (SFIs), covering more than 90 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.

the financial costs in term of interest rate. Moreover, in 2008 Q2, other alternative sources of fund for businesses, for instance, an issuance of equity securities in the Stock Exchange of Thailand or an issuance of debt securities domestically and internationally contributed somewhat to lower demand for corporate loan compared to the previous quarter (Figure 2 and 3).

Regarding the credit policy for corporate loans in 2008 Q2, respondent financial institutions had tightened their credit standards compared to the previous quarter, in line with their expectations in 2008 Q1 survey (Figure 4). This tightness was driven by concerns about the uncertainties of general economic conditions, industry-specific outlook, and credit quality, especially those granted to SMEs. This was reflected in a continued tightening of their credit standards in particular through wider margin for riskier loans (Figure 5)



Source: BOT's Survey on Credit Conditions, June 2008.



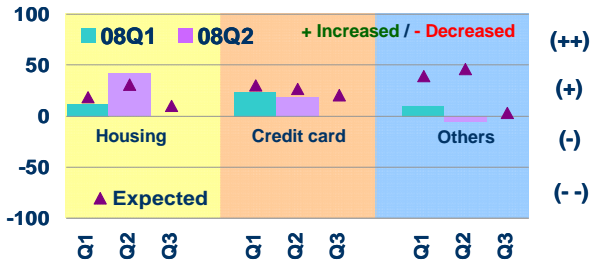
Source: BOT's Survey on Credit Conditions, June 2008.

As for the credit condition outlook for corporate loans in 2008 Q3, respondent financial institutions anticipated that demand for corporate loans would slightly increase from the previous quarter. This was associated with the level of investment that had marginally recovered not up to the level anticipated since the first quarter (Figure 2). Meanwhile, financial institutions expressed increasing concerns towards corporate credit quality, especially for credit granted to SMEs. Specifically, transportation and small real estate businesses were likely to be adversely affected by higher costs of production due to rising costs of raw materials and oil. At the same time, export businesses were vulnerable to the slowdown of the majority of our trade partners' economies. Looking ahead, credit standards were expected to be further tightened.

3. Consumer Loans (Loans to households)

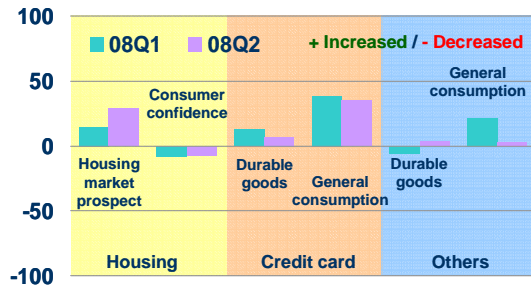
Demand for consumer loans had largely expanded following a greater-than-expected demand expansion for housing loans. This was partly because home buyers had delayed their real estate transactions from the previous quarter to this quarter in order to receive benefits from the government's reduction of property transfer and mortgage registration fees. Meanwhile, **demand for credit card loans** slightly increased from the previous quarter owing to a sluggish increase in demand for durable goods and general consumptions, resulting from the rising cost of living coupled with a low consumer confidence. On the other hand, **demand for other consumer loans** had decreased, differing from what was expected in the last quarter due to lower demand for leasing (Figure 6 and 7).

Figure 6 Demand for consumer loans



Source: BOT's Survey on Credit Conditions, June 2008.

Figure 7 Factors affecting loan demand (Consumer loans)

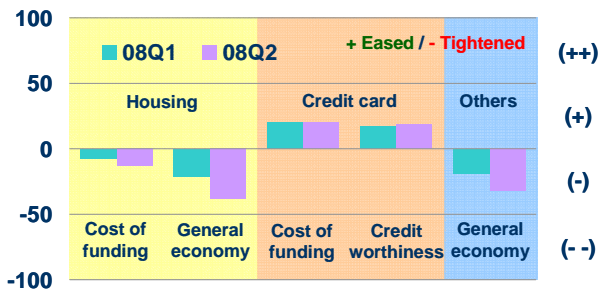


Source: BOT's Survey on Credit Conditions, June 2008.

With regard to tightness of credit standard for consumer loans, respondent financial institutions had increasingly tightened their credit standards for all credit types. The main reasons were concerns over the general economic condition and the rising cost of funding. Nevertheless, cost of funding and perception of risk as assessed from credit worthiness of debtors had allowed credit standards for credit card loans to ease more than the last quarter (Figure 8).

Looking ahead, respondent financial institutions anticipated that demand for housing loans and other

Figure 8 Factor affecting credit standards



Source: BOT's Survey on Credit Conditions, June 2008.

consumer loans in 2008 Q3 would remain unchanged from the previous quarter due to the rising cost of living and the subsided effect of the government's real estate stimulus package. At the same time, demand for credit card loans were expected to slightly increase from the second quarter (Figure 6). Respondent financial institutions expected to tighten their credit standards for all categories of consumer loans following remaining concerns on credit quality.