



Report on

Credit Conditions of Financial Institutions

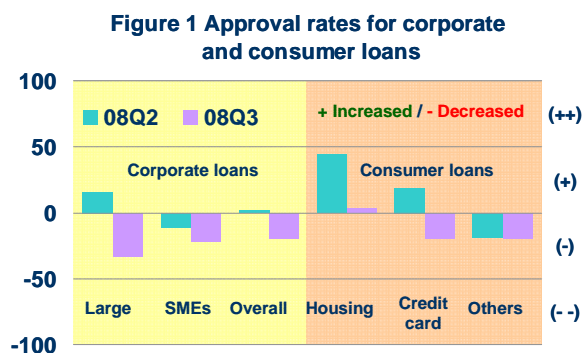
Monetary Policy Group

Bank of Thailand

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

1. Overview of the Results

In 2008 Q3, respondent financial institutions continued to tighten their credit standards for both corporate and consumer loans, reflecting caution in their business operations amid increased risk involved both in general economic conditions that may be affected by global financial crisis and an industry-specific outlook which made



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

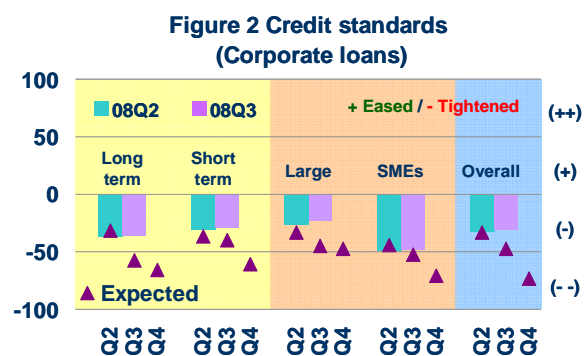
respondent financial institutions concerned about credit quality. Besides those, respondent financial institutions reported that other factors affecting their credit standards included the costs of maintaining their capital positions, liquidity positions and the pressure from competition in raising funds from new depositors. This resulted in a decrease in approval rates for all categories of corporate and consumer loans, except for housing loans. Meanwhile, the rise in demand for corporate loans was most clustered at for the

purposes of mergers and acquisitions (M&A) and/or corporate restructuring and refinancing while demand for consumer loans, except for housing loans which remained almost unchanged, declined from the previous quarter. This was mainly due to the decrease in consumer confidence. Nonetheless, the interest rate remained a supporting factor for consumer loans demand.

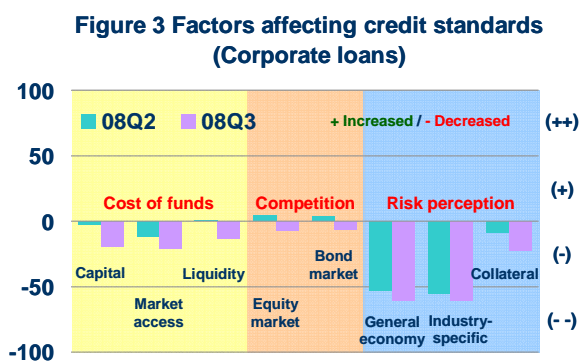
As for 2008 Q4, respondent financial institutions anticipated that overall credit standards would continue to be further tightened due to on-going concerns about their credit quality. At the same time, it was expected that the demand for corporate loans would remain almost unchanged while the demand for housing loans would decline and the demand for credit card would marginally increase.

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

In 2008 Q3, respondent financial institutions had tightened their credit standards for loans or credit lines to enterprises compared to the previous quarter, in line with their expectations in the 2008 Q2 survey. This tightness was mainly driven by increased risk perception arising from general economic conditions, industry-specific



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

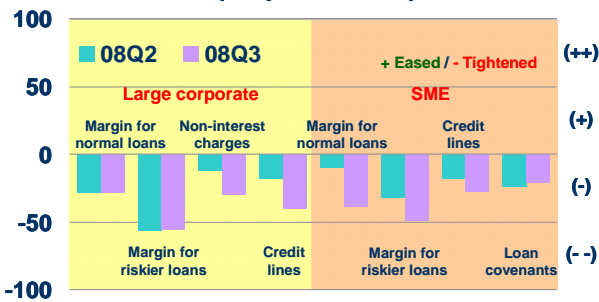


Source: BOT's Survey on Credit Conditions, October 2008.

* The Bank of Thailand conducts a quarterly credit conditions survey attaining senior loan officers' opinion on bank lending practices. In the October 2008 survey, the Bank of Thailand has received feedbacks from a total of 23 Thai commercial banks, branches of foreign banks and Special Financial Institutions (SFIs), covering more than 87 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.

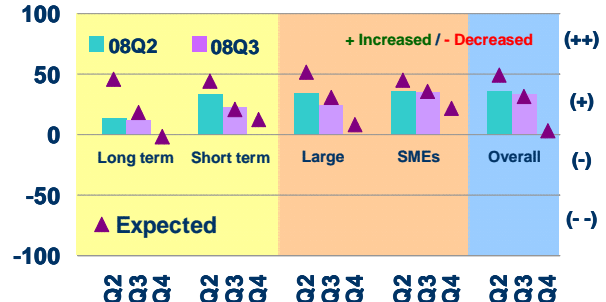
outlook and quality of collateral. Moreover, respondent financial institutions reported that other factors contributing to a further tightening in their credit standards included an increase in costs of funds in maintaining their capital positions, their liquidity positions as well as the pressure from competition in raising funds from new depositors. It was noted that this tightness was mainly due to concerns regarding credit quality, especially loans to Small and Medium Enterprises (SMEs). This was reflected in wider margin for both normal and riskier loans. Besides, tightening in credit lines and loan covenants also contributed to a decrease in overall approval of corporate loans as compared to the previous quarter.

Figure 4 Conditions and Terms (Corporate loans)



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

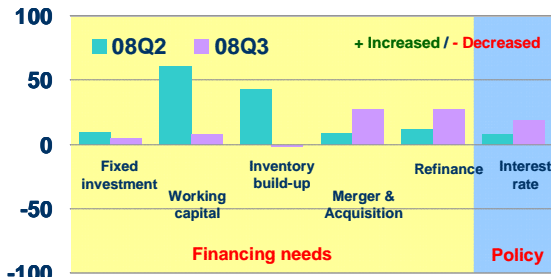
Figure 5 Demand for corporate loans



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

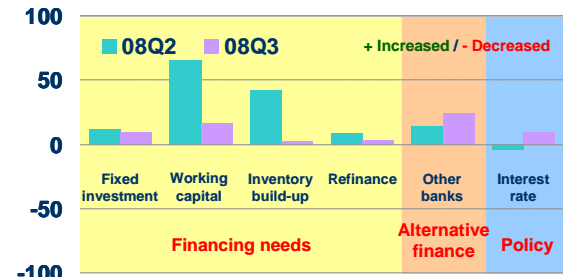
Demand for corporate loans in 2008 Q3 had slightly increased from the previous quarter, in line with their expectations in the 2008 Q2 survey. The main factors affecting the demand expansion of large corporate loans were the purposes of mergers and acquisition (M&A) and/or corporate restructuring as well as refinancing. Similarly, demand for loans to be used for working capital and fixed investment marginally increased. Respondent financial institutions viewed that interest rate remained at a sufficient level to support the expansion of large corporate loans demand while competition among financial institutions played an important role in affecting the demand for SMEs loans.

Figure 6 Factors affecting large corporate loan demand



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

Figure 7 Factors affecting SMEs loan demand



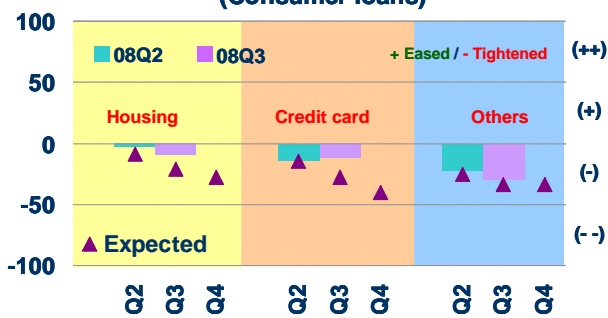
Source: BOT's Survey on Credit Conditions, October 2008.

Looking ahead, respondent financial institutions anticipated that the demand for corporate loans in 2008 Q4 would remain at about the same level as the previous quarter. This was a result of the global financial crisis that began to noticeably threaten domestic economy growth, together with the unimproved political situation from the previous quarter. Respondent financial institutions showed worries about credit quality as well as the debtors' abilities to repay loans, especially those granted to SMEs which were more vulnerable to many types of shocks. As a result, credit standards were therefore expected to be further tightened.

3. Consumer Loans (Loans to households)

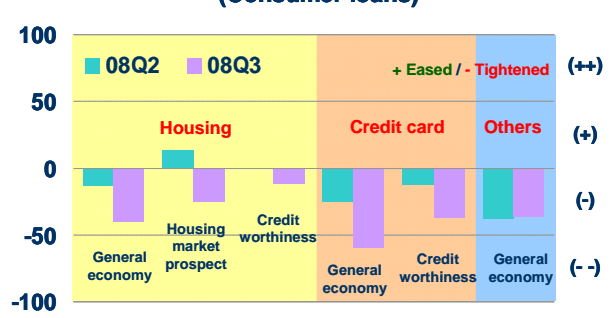
In 2008 Q3, respondent financial institutions had increasingly tightened their credit standards for all types of consumer loans, in line with their expectations in the 2008 Q2 survey. This was affected by uncertainties in general economic conditions, associated with significantly deteriorated credit worthiness of debtors. This caused respondent financial institutions to be worried about the debtors' abilities to repay consumer loans, especially for credit card loans. As for housing loans, apart from the reasons mentioned above, respondent financial institutions were also concerned about the decelerated housing market prospects resulted from overall economic slowdown. Nevertheless, increasing competition in granting housing loans by respondent financial institutions was observed as reflected in easing somewhat of Loan to value ratio (LTV) in this quarter. In general, the approval rate for housing loans marginally increased, on the other hand, credit card loans and other loans approval rate decreased from the previous quarter.

Figure 8 Credit standards (Consumer loans)



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

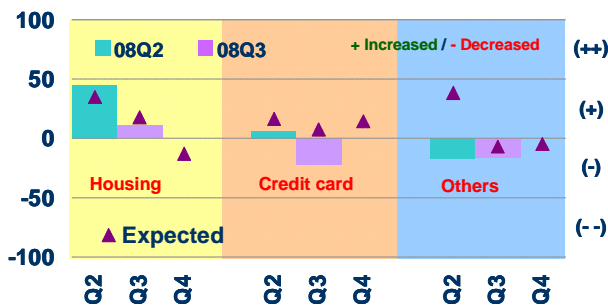
Figure 9 Factors affecting credit standards (Consumer loans)



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

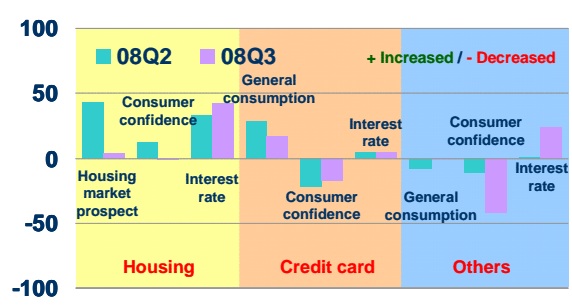
Demand for consumer loans in 2008 Q3, apart from housing loans, declined from the previous quarter. In particular, demand for credit card loans decreased more than expected in the 2008 Q2 survey, following the fall in consumer confidence. Nevertheless, overall private consumption and the interest rate were still in favor of credit card loans' expansion. It should be noted that the interest rate largely contributed to the continual increase in demand for housing loans.

Figure 10 Demand for consumer loans



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

Figure 11 Factors affecting loan demand (Consumer loans)



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

Looking ahead, respondent financial institutions anticipated that demand for housing loans in 2008 Q4 would fall while demand for credit card loans would increase slightly from the previous quarter due to the deteriorated consumer confidence. At the same time, respondent financial institutions expected to tighten their credit standards for all types of consumer loans following on-going concerns on non-performing loans.