



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 2008
and outlook for the second quarter of 2008***

Overview of the results

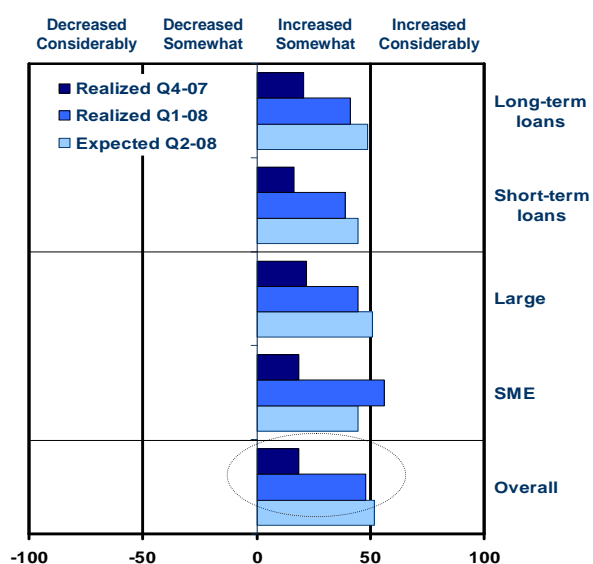
In the 2008 Q1, overall demand for both corporate and consumer loans expanded from the previous quarter, reflecting that corporate investment and households' consumption were recovering gradually. Meanwhile, loan approval rate for both corporate and consumer loans increased from the previous quarter even though credit standards were tightened slightly.

As for 2008 Q2, respondent financial institutions anticipated that overall demand for corporate and consumer loans will have a tendency to rise continuously. At the same time, respondent financial institutions will continue to further tighten their credit standards due to concerns regarding the credit quality especially loans granted to small-to-medium enterprises as well as housing loans.

Corporate loans

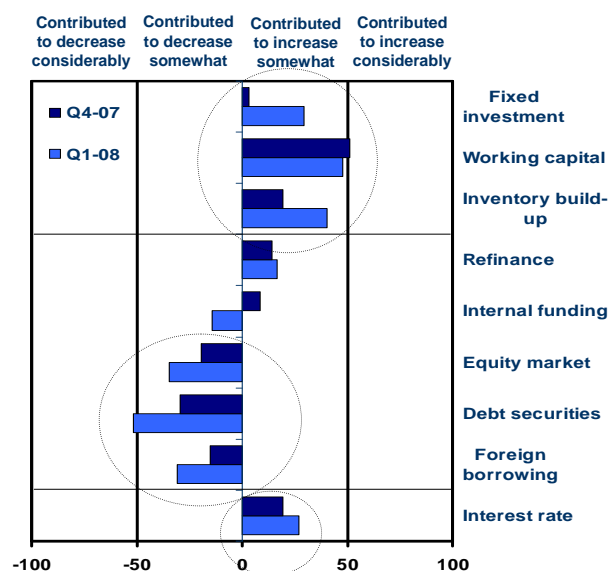
Based on the results from the 2008 Q1 credit conditions survey, respondent financial institutions viewed that **overall demand for corporate loans expanded from the previous quarter** (Figure 1). This was resulted from the **increasing demand for investment in fixed assets, working capital accruals and inventory accumulation** compared to the previous quarter. Interest rate, remained at the low level, was a key supporting factor in the expansion of overall demand for corporate loans as in the previous quarter. Nevertheless, it was noted that capital market, bond market as well as foreign capital markets play increasing roles as alternative sources of fund for businesses (Figure 2).

Figure 1 Demand for corporate loans



Source: BOT's Senior Loan Officer Survey

Figure 2 Factor affecting corporate loan demand



Source: BOT's Senior Loan Officer Survey

* The Bank of Thailand conducts a quarterly credit conditions survey attaining senior loan officers' opinion on bank lending practices. In the April 2008 survey, the Bank of Thailand has received feedbacks from a total of 24 Thai commercial banks, branches of foreign banks and Special Financial Institutions (SFIs), covering more than 85 per cent of total credits in the banking system. However, Indexes presented in this survey report may not coincide with those presented in the first report because there were minor modifications to the survey questions as well as to the weight applied for index calculation.

Figure 3 Approval rate for corporate loans

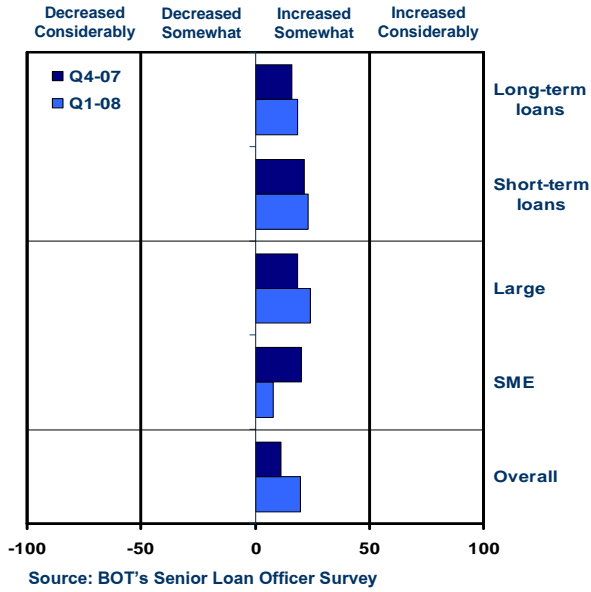
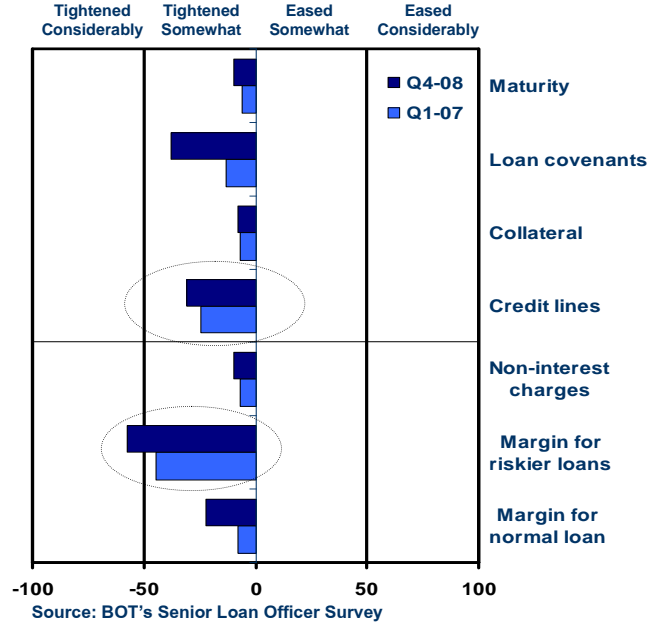


Figure 4 Conditions and terms (Corporate loan approval)



Overall corporate loan approval rate in the 2008 Q1 slightly accelerated from the previous quarter except for the approval rate for small-to-medium enterprises (SMEs) (Figure 3). This was partially due to increased concerns by respondent financial institutions regarding the quality of corporate loans especially those granted to small-to-medium enterprises (Figure 7). In addition, respondent financial institutions reported that as overall economic and business conditions have not improved significantly, they slightly tightened their credit standards compared to the 2007 Q4 both in terms of credit lines and loan margins in response to borrowers' risk profiles (Figure 4, 5 and 6).

Figure 5 Credit standards (Corporate loans)

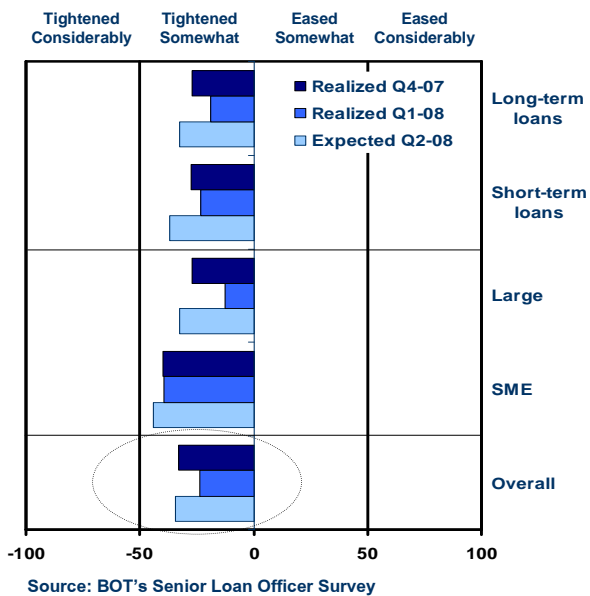
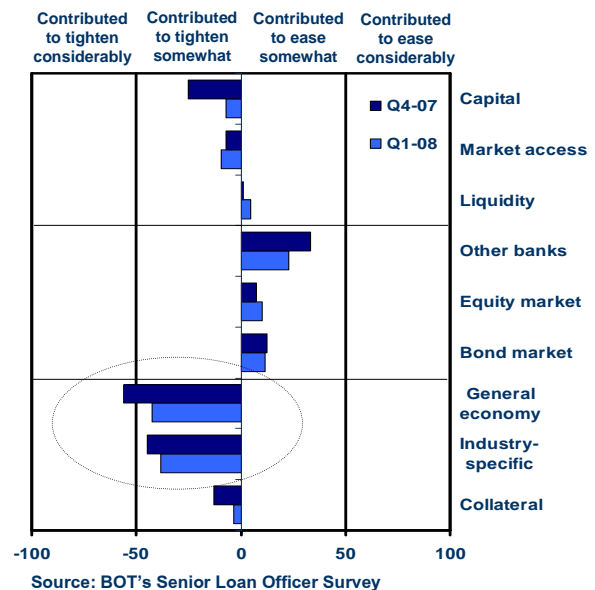
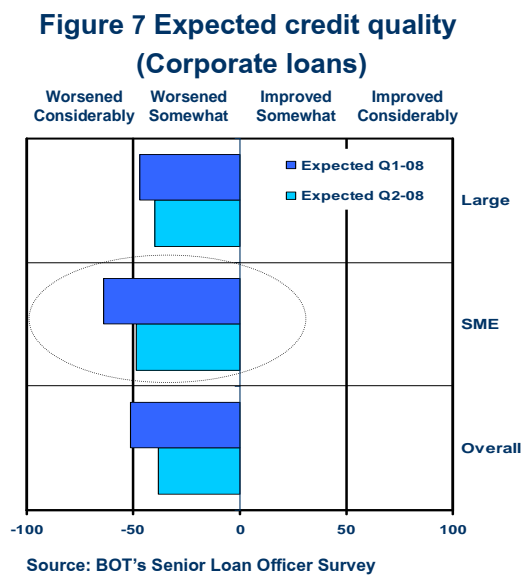


Figure 6 Factor affecting credit standards (Corporate loans)



Over the three months to June 2008, **overall demand for corporate loans was expected to expand continuously from 2008 Q1** even though demand for loans for small-to-medium enterprises (SMEs) was anticipated to slow down slightly (Figure 1). Respondent financial institutions revealed **increased concerns towards the quality of credit granted to small-to-medium enterprises (SMEs)** especially in transportation and exporting industries as well as small real estate enterprises (Figure 7). As a result, credit standards for these industries were expected to be somewhat tightened.



Consumer loans

Demand for housing loans in the 2008 Q1 was reported to increase marginally but slowed down from the quarter before (Figure 8). This was partially caused by the slowdown in real estate transactions as consumers postponed their decision making till the government revokes the measures to cut property transfer fees and mortgage registration fees. Approval rate for housing loans still expanded from the previous quarter while their credit standards was slightly tightened owing to concerns about the quality of housing loans (Figure 12).

Demand for credit cards loans expanded significantly from the previous quarter (Figure 8) due to the increase in consumers' confidence resulting from improving economic conditions and a clearer political direction (Figure 9). Although borrowers' creditworthiness improved slightly and the costs for funding was favorable for relaxing credit standards (Figure 11), credit card loan approval rate slowed down from the previous quarter in line with the tightened credit standards for credit card loans compared to the previous quarter (Figure 10).

Figure 8 Demand for consumer loans

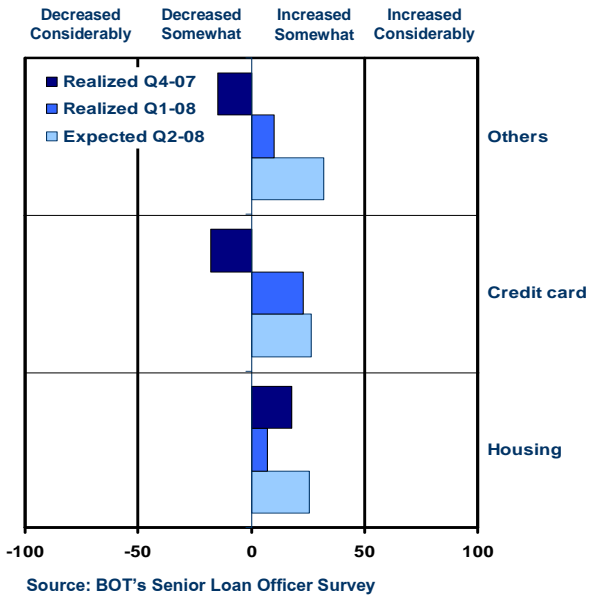
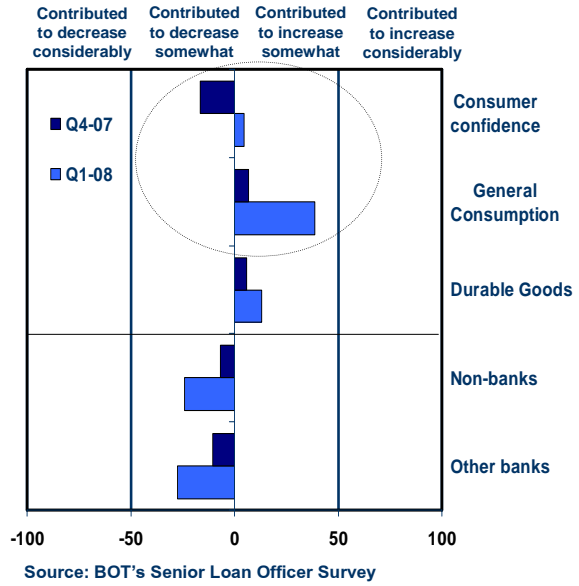


Figure 9 Factor affecting loan demand (Credit card)



Demand for other household loans expanded from the previous quarter at the same time loan approval rate for this category of loans increased slightly from the previous quarter in line with the credit standards which were relaxed slightly.

Figure 10 Credit standards (Consumer loans)

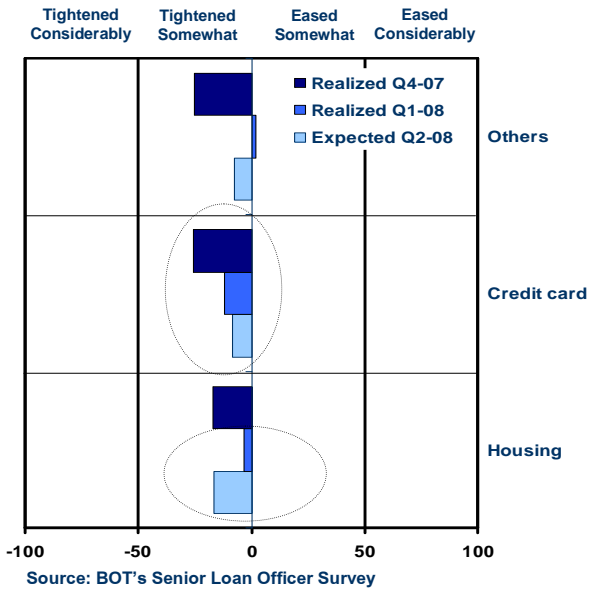
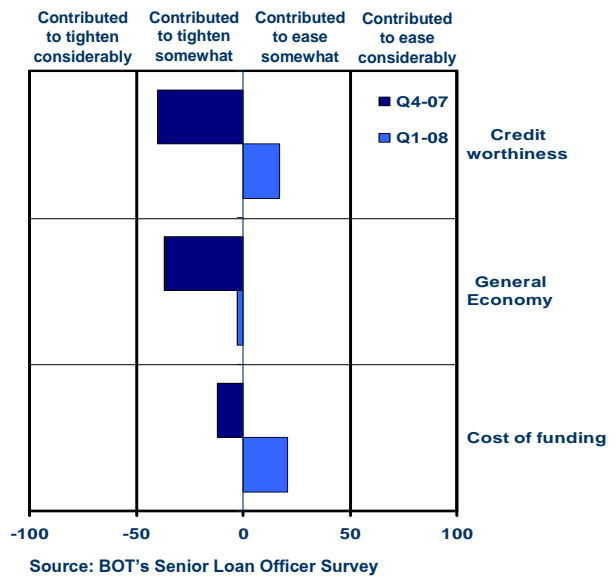
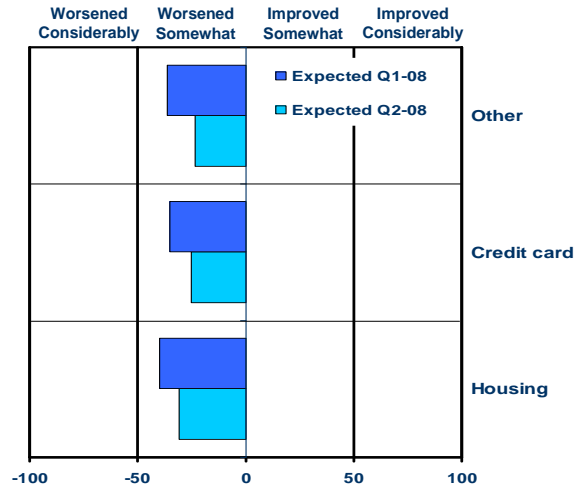


Figure 11 Factor affecting credit standards (Credit card loans)



For the 2008 Q2, respondent financial institutions anticipated that demand for consumer loans will continue to expand from the previous quarter (Figure 8). Nevertheless, respondent financial institutions may further tighten their credit standards especially those for housing loans (Figure 10) due to increased concerns about the credit quality compared to other types of consumer loans (Figure 12).

**Figure 12 Expected credit quality
(Consumer loans)**



Source: BOT's Senior Loan Officer Survey

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