

Credit Conditions Survey

The Bank of Thailand (BOT) has introduced the *Senior Loan Officer Survey* in order to survey opinions and views of top managements of representative financial institutions, who take responsibilities in the area of credits. Similar to the practices of central banks in other countries, this survey will be conducted on a quarterly basis in order to enhance its understanding of credit markets. This will be beneficial to the Bank's analysis of credit developments and trends as well as the assessment of the efficiency of monetary policy transmission mechanism. The survey comprises 3 main parts: **1) Credit policy**, which involves questions about credit standards and factors affecting the credit standards applied to the approval of loans as well as credit conditions and terms, **2) Demand for loans**, which involves questions about demand conditions as well as factors contributing to changes in demand, and **3) Credit conditions outlook**, which involves forward-looking questions about expected credit standard and demand as well as concerns about credit quality over the next 3 months. In addition, the BOT may occasionally add *ad hoc questions* to the survey.

The credit conditions survey was introduced in January 2008. The sample group participated in the survey comprises of 25 financial institutions, which includes Thai commercial banks, representative foreign banks, and Special Financial Institutions (SFIs). This covers approximately more than 90 per cent of total credits extended in the system.

Calculation Methodology and Interpretation:

The questionnaire is qualitative in nature, with given choices ranging from the minimum value of 1 to the maximum value of 5, in order to reflect the degree of expansion and/or easing of credit approval policy while dividing questions into 2 main parts, that is, corporate and household loans.

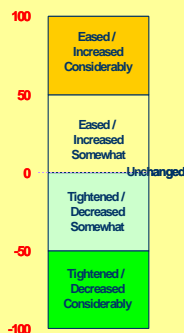
In interpreting the value, Diffusion Index (DI) will be calculated, which involves 2 steps as follow:

1. Each particular question will have 5 given choices, ranging from 1 to 5. The Bank will then calculate the percentage share of answers in each corresponding choice, weighted by lender's market shares in each of those markets accordingly.

$$Ratio_j = \frac{\sum_i w_{ij}}{\sum_i w_i}$$

Where, w_{ij} is the proportion of credits extended in each category (i.e., corporate loans) of respondent financial institution i ($i = 1$ to n), who choose the given answer j ($j = 1$ to 5)

2. Given the above proportion, net percentage between "increase" and "decrease" will then be calculated, by assigning weights to each answers in correspondent with the degree of choice chosen (from minimum to maximum), where, $w_1 = -1$, $w_2 = -0.5$, $w_3 = 0$, $w_4 = 0.5$, $w_5 = 1$



$$Diffusion\ Index\ (DI) = \sum_j w_j * Ratio_j$$

Thus, DI will range between -100 to 100, whereby

Positive value means credit expansion or easing of credit policy

Negative value means credit contraction or tightening of credit policy

Zero value means broadly unchanged credit growth or credit policy (relative to the previous quarter)