



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 2007 and outlook for the first quarter of 2008

Overview of the results

In the fourth quarter of 2007, overall credit growth, both corporate and household loans, expanded from the previous quarter, which was in line with increasing loan demand during the quarter. Key supporting factors were the gradual improvement of domestic confidence as well as a more accommodating interest rate trend in the preceding periods. However, most financial institutions were still somewhat tightened their credit approval policies in order to cushion against higher economic and business risks. As a result, credit conditions and terms were therefore tightened accordingly.

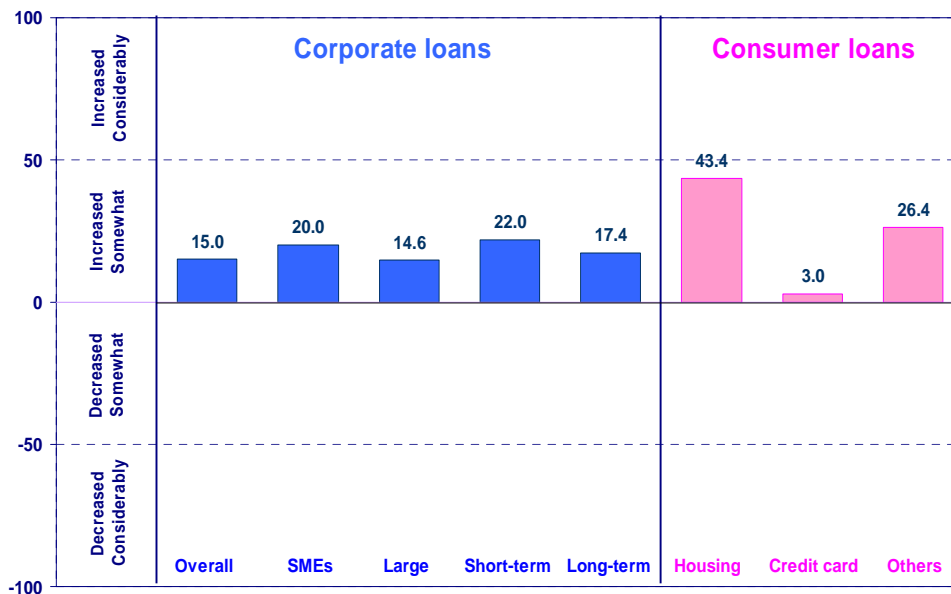
As for the first quarter of 2008, demand for loans from both corporate and household sectors were still expected to continuously increase from the fourth quarter. Meanwhile, most financial institutions also tended to further tighten their credit policies.

Loan Approval Rate

In the fourth quarter of 2007, loan approval rate of financial institutions expanded marginally from the previous quarter, both the corporate and household sector, in tandem with rising loan demand as well as more competitions from other banks.

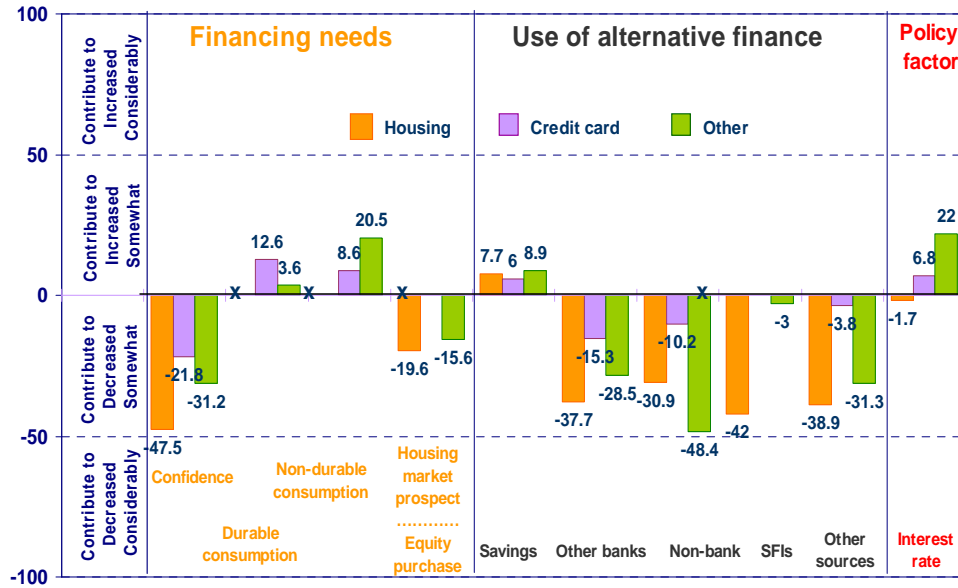
During this quarter, overall approval rate of loans to the corporate sector increased marginally compared with the previous quarter (Diffusion Index (DI) = 15), especially loans granted to small and medium-sized enterprises (SMEs) and short-term loans (DI=20.0 and 22.0, respectively). At the same time, loan approval rate to the household sector also increased, particularly housing loans (DI=43.4), in line with increasing demands in these loan categories.

Chart 1: Loan approval rate



As for the household sector, demand for housing loans increased from the previous quarter (DI=36.1), notwithstanding the negative prospect about the real estate market. Whereas, demand for credit card and other personal loans slowed down due to marginal recovery of consumer confidence as well as ongoing concerns about economic conditions and domestic political stability. Based on the use of loans, the demand for new loans were mainly for household consumption, both durable and non-durable consumption. Moreover, the survey also indicated that a more accommodative monetary policy also led to the rising of demands for credit cards and other personal loans during the quarter (DI=22.0 and 6.8, respectively).

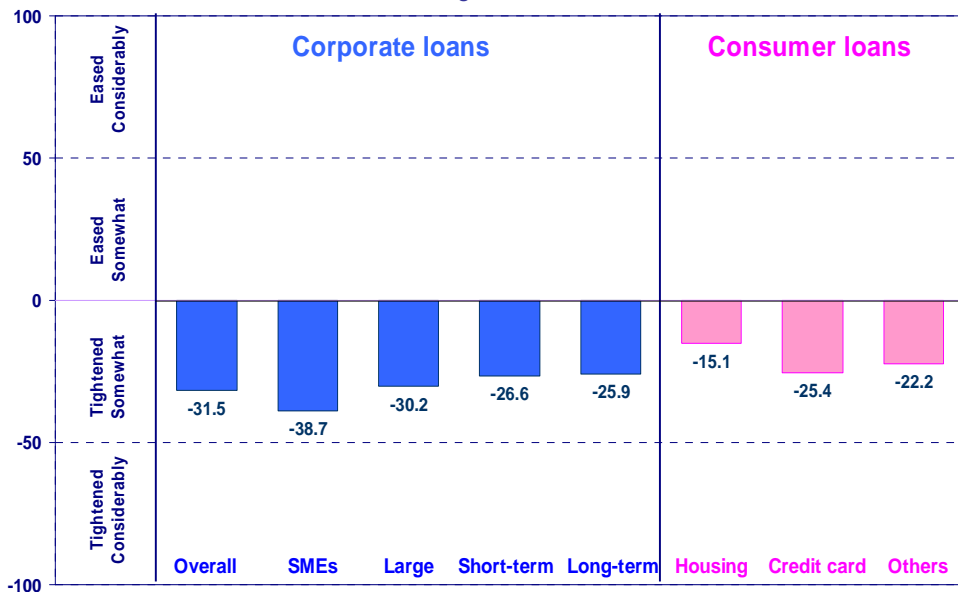
Chart 4: Factors contributing to changes in demand for loans of household sector



Credit policy

With regard to the credit policy, in this quarter, financial institutions tightened credit standards as well as conditions and terms of credits applied to both the corporate and household sector, reflecting a more tightened credit approval policy.

Chart 5: Changes in credit standards



In this quarter, the respondent financial institutions reported a net tightening of credit standards for overall loans to enterprises (DI=31.5), which reflected a worsening risk perception regarding general economic conditions and industry or firm-specific outlook (DI=-59.8 and -38.4, respectively). In addition, financial institutions also had somewhat distress in capital, due partly to the compliance of IAS-39 and the ongoing Basel II implementation process. Financial institutions thus adjusted their lending conditions and terms to become more tightened by raising margins for risky borrowers (DI=-54.2) as well as increasing non-interest charges and tightening other loan covenants.

Chart 6: Factors affecting credit standards applied to the approval of loans or credit lines to enterprises

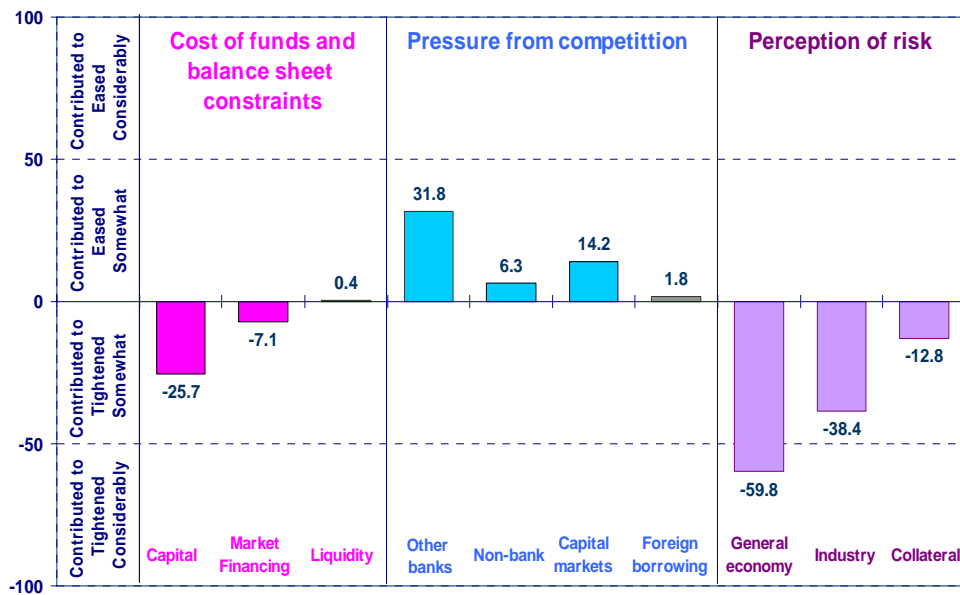
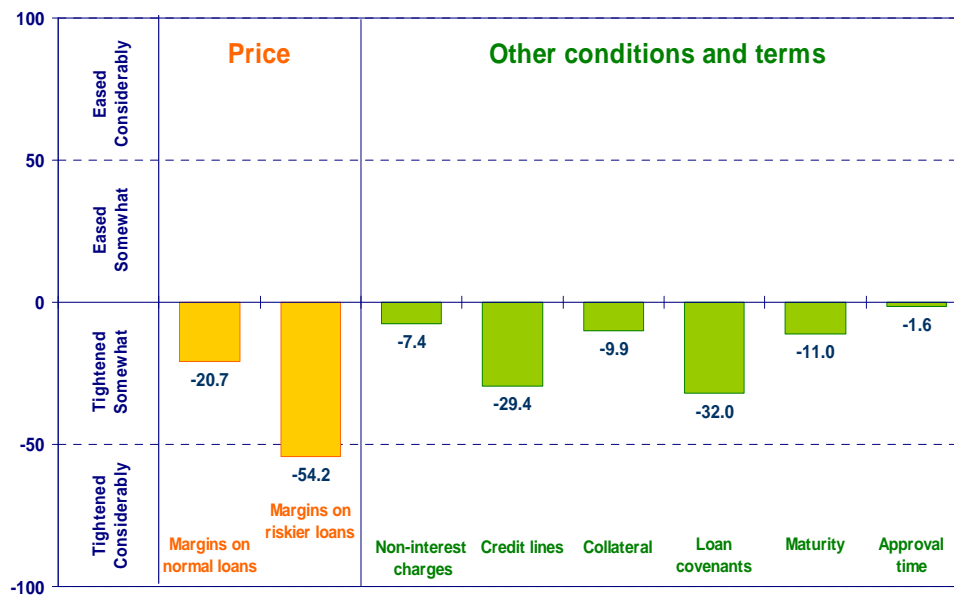


Chart 7: Conditions and terms for approving loans or credit lines to enterprises



With regard to loans to the household sector, respondent financial institutions also reported a net tightening of credit standards in all loan categories, particularly those applied to the approval of credit cards and other personal loans (DI=-25.4 and -22.2, respectively), which was due to the worsening risk perception of consumer creditworthiness (DI= -40.3 and -45.7, respectively). Furthermore, less favorable expectation about the general economic outlook and higher risks related to the collateral demanded (DI=-36.8 and -43.9, respectively), were among the main factors contributing towards a net tightening of credit standards to households. The financial institutions, therefore, tightened their conditions and terms of credit, especially those applied to credit card and other personal loans by charging more non-interest rate fees, shortening the grace period, requiring higher minimum payment, and widening margins on riskier loans, etc.

Chart 8: Factors affecting credit standards applied to the approval of loans to household

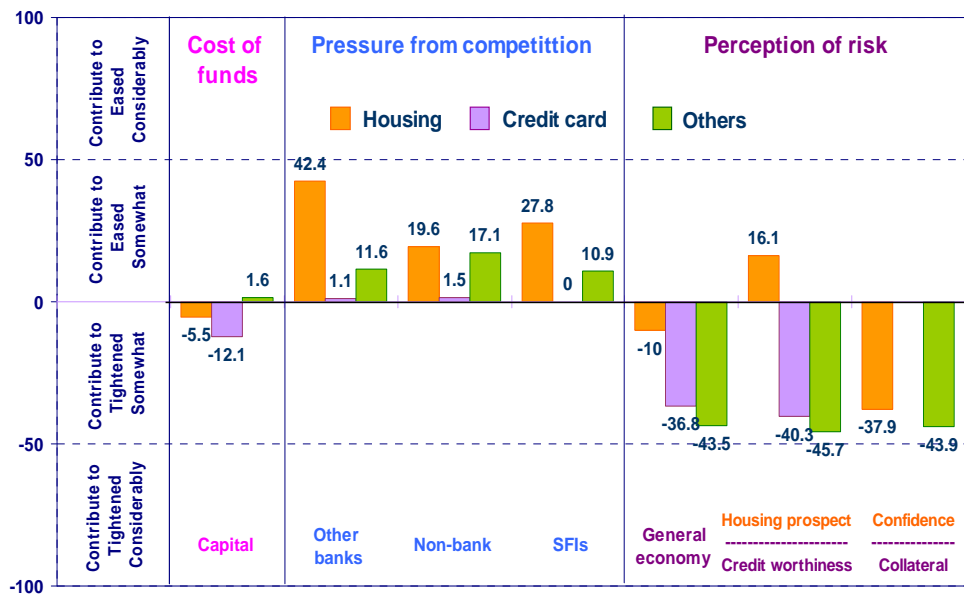
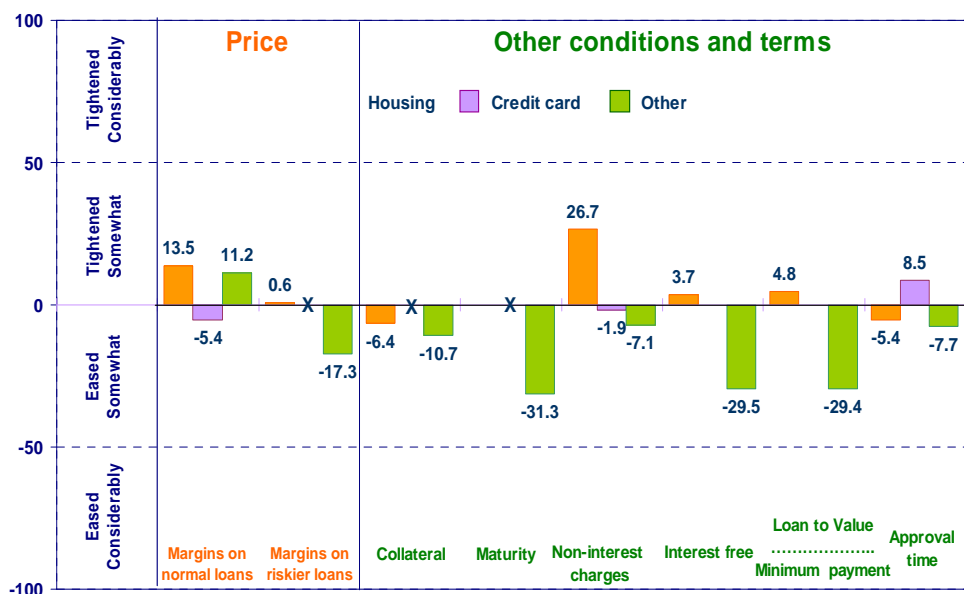
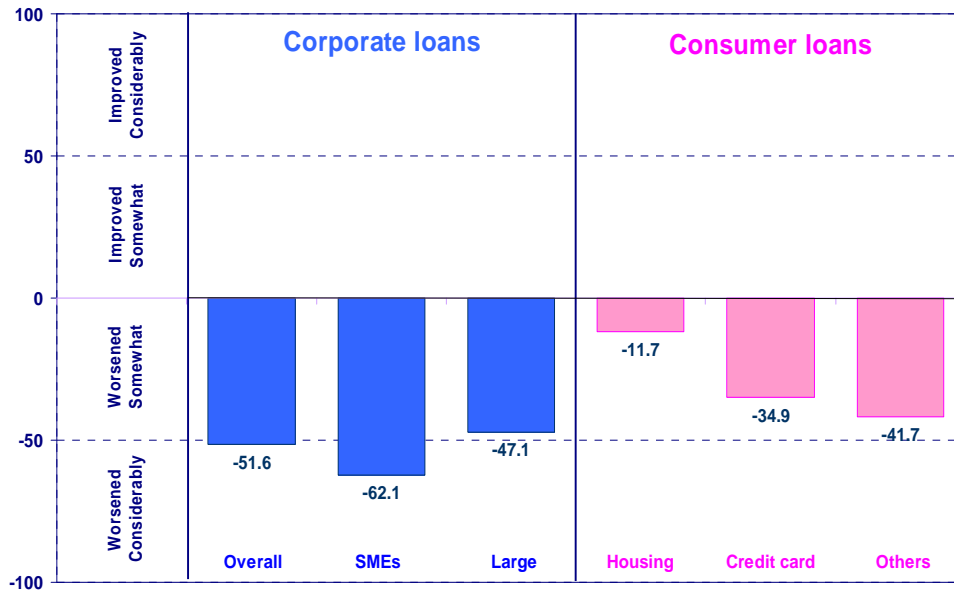


Chart 9: Conditions and terms for approving loans to household



With regard to loans to the household sector, respondent financial institutions expected a more tightening of credit standards for other personal loans than other loan categories (DI=-35.9) and voiced most concerns about the credit quality in this group (DI=-41.7).

Chart 12: Concerns about credit quality over the next 3 months



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