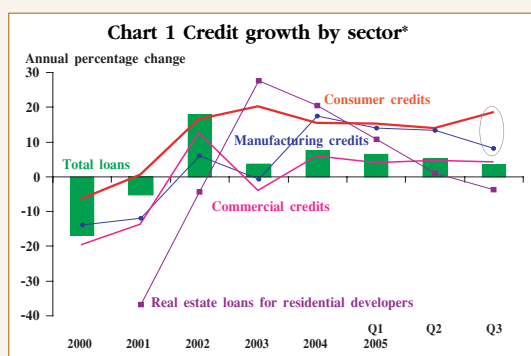
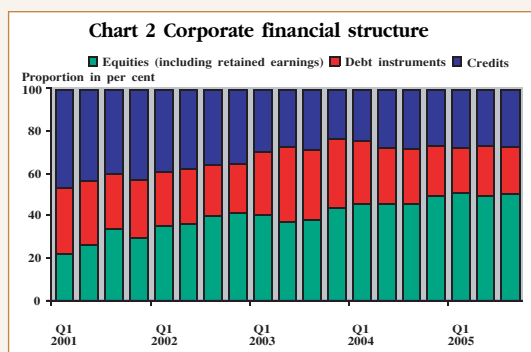


Economic stability surveillance from commercial banks' sectoral credits

In formulating monetary policy, the MPC aims to achieve price stability conducive to sustainable economic growth. Such an endeavour requires the MPC to also monitor factors contributing to financial imbalances in different economic sectors. In this regard, credit growth serves as an indicator of possible resource misallocation that may result in imbalanced growth in some economic sectors. If overheating in certain economic sector is identified, implementation of prudential measures may sometimes be necessary. An example is the case when the BOT issued housing loan measures in December 2003, setting rules and regulations that would make financial institutions more cautious in extending loans (See Box in the January 2004 edition of the *Report*). The measure induced a slowdown of loan growth to real estate developers, thereby restoring a balance within the real estate sector.



Remark: *For consistency in the analysis of year-on-year growth of loans, Tisco Bank was excluded as the bank was only recently upgraded to commercial bank from Tisco Finance Company in 2005 Q3.
Source: Bank of Thailand



Source: The Stock Exchange of Thailand, calculations by the Bank of Thailand using data from 385 firms

collaterals. Personal consumption loans could be further classified as credit card loans and personal loans. Growth of credit card loans continued to slow down, reflecting the effect of credit card measures (implemented in November 2002 and March 2004) that tightened requirements on credit card applicants, amount of credit line, and the minimum debt repayment. In contrast, personal loan growth accelerated, in part reflecting a greater focus of lenders on personal loans, including hire-purchase agreements offered by small commercial banks. Recognising that excessive personal loan growth may lead to resource misallocation, the BOT earlier issued personal loan measures in July 2005 to regulate personal loans without collaterals.

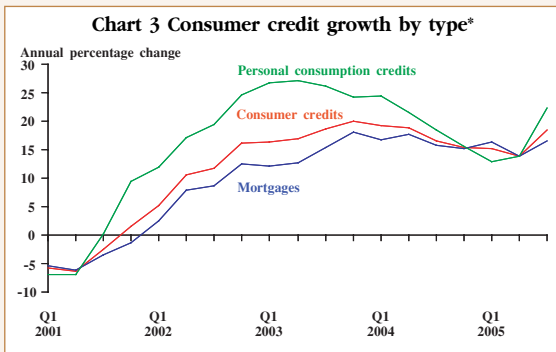
In 2005 Q3, the growth figures of manufacturing and consumer credits showed a divergence. The MPC, thus, deemed it necessary that a comparative study of the developments of these 2 types of credits be conducted as such divergence may reflect future imbalances in the economy.

Manufacturing credits

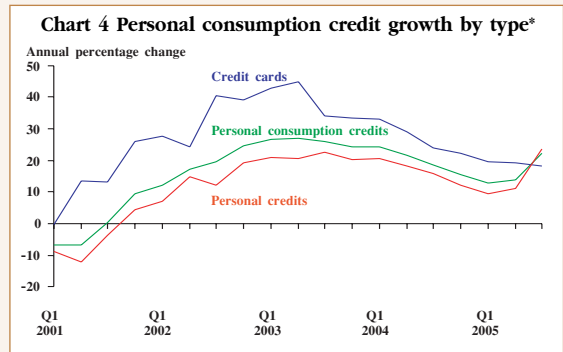
The slowdown of manufacturing credits partly reflected the moderated pace of economic growth following the hikes in interest rates. However, such a slowdown did not imply a reduction in potential investment as firms could resort to other sources of financing, e.g. retained earnings and financial instruments other than banks' credits. Therefore, the slowdown in the growth rate of manufacturing credits could reflect the restructuring of firms' financing methods as evidenced by the figures from the SET listed firms which suggested a greater role of equity in corporate financial structure.

Consumer credits

The acceleration in consumer loan growth in 2005 Q3 owed partly to the growth of mortgages which were backed by collaterals as well as regulated by the housing loan measures. The other source of consumer loan growth was personal consumption loans, some of which were without



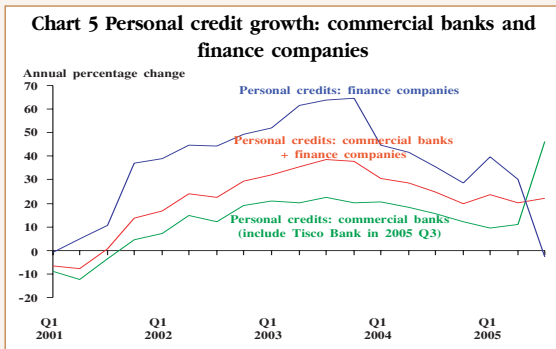
Remark: *For consistency in the analysis of year-on-year growth of loans, Tisco Bank was excluded as the bank was only recently upgraded to commercial bank from Tisco Finance Company in 2005 Q3.
Source: Bank of Thailand



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Source: Bank of Thailand

Up to now, commercial banks have not played a dominant role in providing personal loans when compared to finance companies, credit foncier companies, or non-banks. The recently introduced Financial Sector Master Plan, however, aims to facilitate, where possible, the upgrade of finance companies and credit fonciers to commercial bank status, and requires financial institutions to have ‘one presence’. With the implementation of the Financial Sector Master Plan, the role of personal loans in the banking system is likely to increase, especially personal loans in the form of hire-purchases which were previously issued mainly by finance companies, credit fanciers, and non-banks. The upgrade of Tisco Finance Company to Tisco Bank

resulted in the banking system’s larger ratio of personal loans to total loans. Excluding Tisco Bank, banks’ personal loans expanded nevertheless due to growth of personal loans extended by small commercial banks that took over this business from their former finance companies.



Source: Bank of Thailand

Meanwhile, the growth rate of personal loans extended by both commercial banks and finance companies rose only slightly, having leveled off for some time, and thus did not give any signal of impending imbalances. On the part of personal loans extended by non-banks, the MPC deemed critical that these loans be monitored closely.

Currently, difficulties remain in compiling and monitoring these data. With personal loan measures covering non-banks as well, officials would be able to obtain a more complete data set that should help to facilitate close surveillance on this issue.

In conclusion, the comparative study of sectoral loan growth suggests no signs of imbalances in any specific sector of the economy. Changes in the rates of loan growth owed mainly to structural adjustments, whether from the change in corporate financing structure or the change in financial institutions’ business strategy in the case of consumer loans. Nonetheless, the growth of personal loans that has not seemed to slow down so far remains an issue that the MPC will continue to monitor closely.

* The 3-month deposit rate is used in this analysis because it is the retail rate with maturity closest to that of the policy rate.