

Findings from the Senior Loan Officer Survey in 2007 Q4 and trend for 2008 Q1

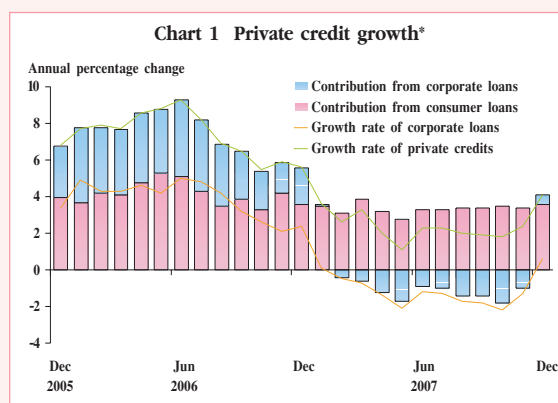
Apart from quantitative analysis, qualitative analysis is another tool that could be used to monitor and evaluate credit conditions. In 2008 Q1, the Bank of Thailand launched the Senior Loan Officer Survey^{1/} to gather views from senior management at financial institutions regarding credit conditions, the demand and supply for credit and trends in credit extension. The survey was conducted in collaboration with Thai commercial banks, branches of foreign commercial banks and 25 specialized financial institutions, which covered 90 percent of all credits in the system.

Survey findings on credit extension in 2007 Q4^{2/}

In 2007 Q4, credit extension accelerated year-on-year at a higher rate than in previous quarters. This was particularly apparent for credits extended to the corporate sector, which recorded positive growth for the first time following a continued contraction since the beginning of 2007. The survey revealed that the factors that contributed to growth were mainly demand related, while factors on the supply side, namely the credit policy of financial institutions, witnessed a tightening as financial institutions assessed that risks in the economy remained high.

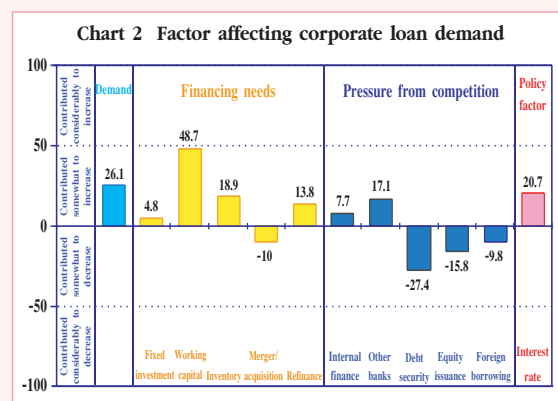
The increase in the demand for credits came from both the corporate and household sectors, in line with the recovery in domestic demand. Most of the demand for credits from the corporate sector was for use as working capital and in inventory accumulation, especially in businesses related to rice, rubber, steel and other metals, as a result of the significant increase in world agricultural and commodity prices in recent periods. Meanwhile, the demand for credits for the purpose of investment or capacity expansion increased modestly, although most of this increase came from large investment projects in certain industries such as energy. Nevertheless, the overall picture showed a gradual improvement in investment.

Furthermore, financial institutions viewed that the current level of interest rates had some effect on the rising demand for credit, reflecting the effectiveness of accommodative monetary policy in stimulating the economy. Meanwhile, alternative



Note: *Domestic private credits excluding credits extended to financial institutions, government and international organization

Source: Bank of Thailand



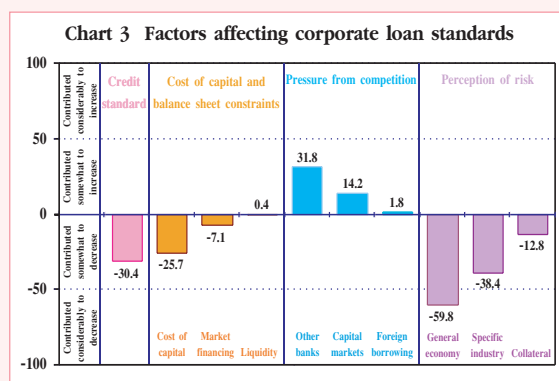
Source: Senior Loan Officer Survey of January 2008

^{1/} Details of the survey and a complete report can be found at http://www.bot.or.th/bothomepage/databank/Econcond/creditcondition/survey_outlook.asp

^{2/} Including opinions of financial institutions' executives obtained through the Bank of Thailand Business Liaison Program.

sources of funds, such as capitalization through the equity market or borrowing from abroad had some negative impact on large corporations' demand for credits from financial institutions. This reflected financial disintermediation or a declining role of financial institutions as intermediaries for the corporate sector. Households' demand for credits, on the other hand, increased in line with their need to finance prevailing consumption of durable and nondurable goods, while household savings were limited. However, consumers remained cautious in their spending, given fragile confidence in the economy, leading to a reduction in consumption-related debt creation.

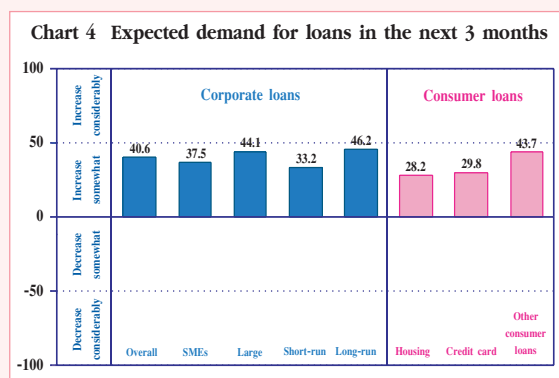
Credit policies on corporate and household loans of financial institutions became more vigilant. Despite intense competition between financial institutions, risks to the economy that remained high at the macro-level as well as higher credit risks of retail clients caused financial institutions to tighten their credit standards. Financial institutions made adjustments by increasing the margins for potentially high-risk clients, increasing fees and tightening of other covenants.



Source: Senior Loan Officer Survey of January 2008

The outlook for credit extension in 2008 Q1

The survey pointed towards a rising trend in the corporate and household sectors' demand for credit in 2008 Q1, in line with actual data for January and February that displayed accelerated growth in the overall level of credits. However, financial institutions still emphasized the importance of strict policies for credit extension. Financial institutions were particularly concerned over the credit quality of borrowers who were exporters of labour-intensive products, as they could be affected by fluctuations in the global economy and financial markets.



Source: Senior Loan Officer Survey of January 2008

The MPC viewed that the above qualitative analysis obtained from the survey findings - together with quantitative analysis - helped improve understanding of the transmission mechanism of monetary policy, particularly through the credit channel. Therefore, going forward, the Bank of Thailand would aim to utilize the Senior Loan Officer Survey in obtaining views from senior management of financial institutions on credit conditions and outlook on a quarterly basis.