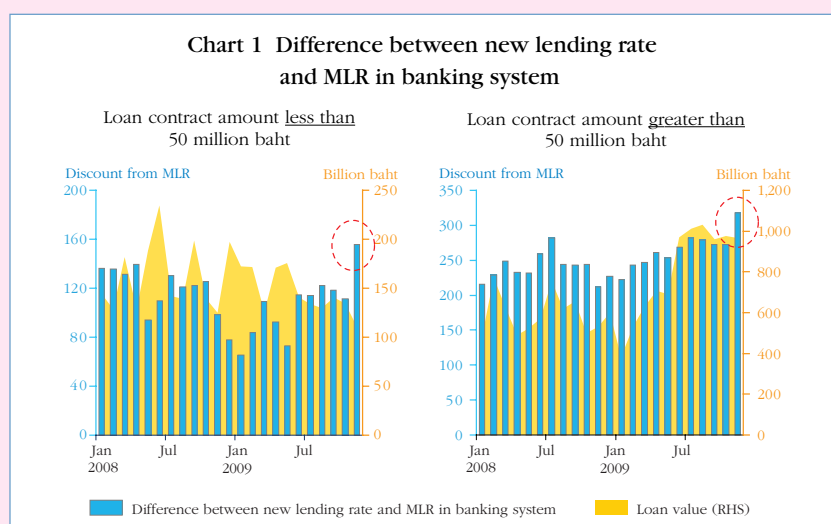


## *The role of banks in sustaining the economic recovery*

The rapid eruption of the global financial crisis in the last quarter of 2008 has extensively affected both the global and Thai economies, leading to the deterioration in demand for exports as well as business and consumer confidence. As a result, there had been a drastic decline in credit outstanding of financial institutions since the start of 2008, induced by (1) heightened risk aversion of financial institutions and consequently a drop in loan supply, and (2) weakened demand for loans during the economic slowdown. Nevertheless, the November data suggest that there have been positive developments in the credit market, signaling tentative signs that the banks' deleveraging process may have come to an end:

1. The private credits provided by commercial banks expanded from the previous month in a wide range of sectors, including the business loans that had been falling since the beginning of the year. Household credits also continued to grow, with outstanding household credits in all categories already reaching their pre-crisis levels.



Source: Bank of Thailand

2. Despite leaving the reference loan rates unchanged since mid-2009, some commercial banks had recently been lending at a discount (as shown in chart 1), implying a higher degree of price competition in the loan market.

3. According to the latest survey taken in 2009 Q4, most senior loan officers were of the view that the demand for both business and household loans would continue to grow into the first quarter of 2010. They also expected the credit standards to be eased significantly.

4. Liquidity in the commercial bank system remains ample and sufficient to accommodate the expansion of demand for credits looking ahead.

Another encouraging development in the credit market has been the sign of competition among commercial banks to attract deposits. As most commercial banks did not anticipate an imminent increase in the policy interest rate, they opted against adjusting the deposit rates and instead focused on non-price competition strategies, such as offering special saving products. The small and medium-sized banks were looking to mobilize funds in order to accommodate greater credit expansion expected in the periods ahead, while larger banks engaged in competition mainly to maintain the existing deposit base. SFIs have also launched campaigns to mobilize funds to meet greater credit extension expected as a result of the government policy. Nonetheless, the overall degree of competition in the deposit market remains moderate.

The aforementioned developments point towards an increase in the private demand for loans, and a more accommodative outlook in credit supply. With credit standards continuing to ease and banks charging effective lending rates with greater discount, the noticeable expansion of credit growth in November should have sufficient momentum to continue expanding going forward. Therefore, it is likely that the commercial banks' deleveraging process has come to an end, and the banking system should serve as an important engine for a self-sustaining economic recovery the period ahead.