

BOT Credit Conditions Survey Pointed to Challenging Near-Term Outlook

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Dr. Charles Bean, Deputy Governor for Monetary Policy, Bank of England, on occasion of 50th anniversary of the Industrial Trends Survey, July 2008, made a remark that controlling the economy is similar to driving along a widening road, looking only in the rear-view mirror. Since the more accurate and timely a picture of our economy we have, the more effective would be monetary policy decisions, it is important that the central bank has a view of the near-term outlook of the credit conditions.

According to the cyclically-induced “credit crunch” theory, a low rate of expansion of credit volume is not only a symptom of weak economic growth but can also be one of its causes. In fact, reducing the supply of credit by the financial institutions would amplify the downturn or, at least, make a speedy recovery more difficult. Today, it is especially important to monitor how shocks arising from the global credit crunch have affected the credit conditions of financial institutions for enterprises and households.

Similar to the surveys already conducted by the US Federal Reserve (since 1967), the Bank of Japan (since 2000), the European Central Bank (since 2003) and the Bank of England (since 2007), the Bank of Thailand now conducts a quarterly comprehensive credit condition survey. The first survey was launched in January 2008 and published in 2008-Q1 to assess trends in the demand for, and the supply of credit, including terms and conditions. It covers both household and corporate lending markets and provides more information on the financial institutions’ lending business than available statistics in terms of the distinguishing features between the demand-side determinants and supply-side determinants of changes in lending business and the relationship between these underlying changes and the economic cycle. Nevertheless, users should be mindful that these information sets are qualitative and subjective data limitations, which can not do more than give a general indication of changes.

According to BOT’s survey of credit conditions of 2008-Q3 and outlook for 2008-Q4, respondent financial institutions continued to tighten their credit standards for loans or credit lines to enterprises as well as loans to households. These results reflected caution in banks’ business operations amid increased risk involved both in general economic conditions that may be affected

by global financial crisis and an industry-specific outlook which made respondent financial institutions concerned about their credit quality especially those for Small and Medium Enterprises (SMEs).

The survey results also showed the rise in demand for corporate loans, mainly for the purposes of mergers and acquisitions (M&A) and/or corporate restructuring and refinancing. Meanwhile demand for consumer loans, except for housing loans which remained almost unchanged, declined from the previous quarter due to the decreased in consumer confidence. As for the near-term outlook, respondent financial institutions expected a further tightening of their credit standards for household and corporate loans in 2008-Q4 due to on-going concerns about their credit quality.

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