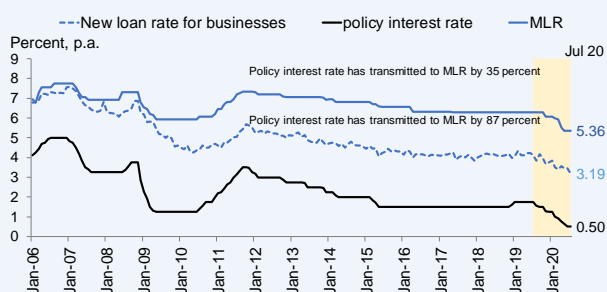


New Loan Rate: the real costs of borrowing for businesses

The Bank of Thailand (BOT) has been monitoring the transmission of the policy rate cut, as well as financial measures implemented by the public sector on costs of borrowing in various markets, particularly credit market, which is major external sources of funds for the Thai businesses. However, monitoring costs of borrowing by looking at the reference loan rates announced by commercial banks, including minimum loan rate (MLR), may not reflect the real costs of borrowing faced by businesses when they request for new loans. This is as costs of borrowing vary with risk of businesses, loan duration, or loan type.

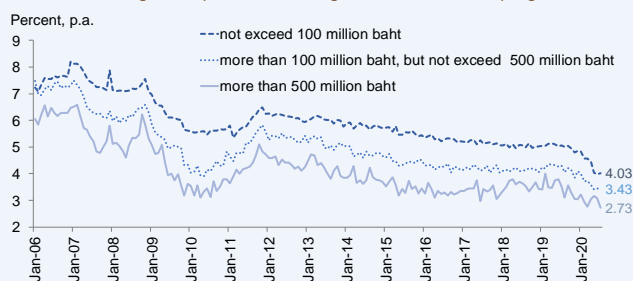
The BOT therefore developed data on new loan rates (NLR) for businesses, by calculating the actual loan rates charged by commercial banks weighted by contract size requested by businesses for new loans. The data suggest that **first, the actual costs of borrowing for businesses were, on average, lower than reference loan rates announced by commercial banks. Second, change in the policy rate highly transmitted to NLR for businesses by 87 percent compared with 35 percent transmission to MLR (Chart 1). Third, actual costs of new borrowing for businesses continued to decline across all contract sizes. This was consistent with the policy rate cuts from 1.75 percent since mid-2019 to 0.50 percent since May 20, 2020, the historically lowest level, and the announcement to cut the contribution to Financial Institutions Development Fund (FIDF) from 0.46 to 0.23 percent of the deposit base for two years until end of 2021. Fourth, NLR for businesses with contract size less than 100 million baht clearly declined following the implementation of government soft loan program, reflecting the effectiveness of government credit relief measures in reducing costs of new borrowing for businesses. (Chart 2)**

Chart 1 The new loan rates continued to gradually decline.



Note: transmission of monetary policy can be captured through β in the equation $commercial\ bank\ rate_t = \alpha + \beta RP_t + \varepsilon_t$ by using data from 2004 to present
Source: Bank of Thailand

Chart 2 NLR for businesses with contract size less than 100 million baht clearly declined following the implementation of government soft loan program.



Source: Bank of Thailand

In conclusion, NLR for businesses reflected the actual costs of new borrowing, which is thus a good indicator to monitor financial conditions. The BOT has published data on NLR for businesses by contract amount^{13/} to provide businesses with additional information to support decision-making when applying for new loans in addition to considering reference loan rates currently published by commercial banks.

^{13/} [As published in table FM_RT_001_S2 Interest Rates in Financial Markets \(2005 – Present\)](#)