Credit Rationing in Thai Banking System

ABSTRACT

The interest rate is considered as the price of loan. The loan market is different from other markets due to the fact that the uniform pricing does not exist. The interest rate varies and depends on a number of variables, for example, risk, credit terms, time. In practice, customer's collateral, credibility and its relationship with the bank are also taken into consideration for loan approval. This also leads to the situation in which the bank usually grants the loan for wholesale or well-acquainted customer accounts rather than retail or new customer accounts and alleviates asymmetric information problems between the banks and the borrowers. Moreover, it is likely to occur when the consideration time for loan supply is limited. The granting of loan without considering the price mechanism; namely interest rates, is called "Credit Rationing".

The objective of this study is to examine whether credit rationing existed when the financial service sector has been liberalized as a result of Financial Sector Master Plan I (FSMP I) in 2004. This study also considers whether the level of credit rationing has changed during the period of dynamic economy. Monthly and quarterly data during the first quarter of 2000 to the third quarter of 2009 have been used in analysis. The Partial Adjustment Model was chosen for this study. This model allows the actual loan interest rate to adjust marginally until it reaches the equilibrium. The findings suggest that the bank has adjusted the loan rate for wholesale customers to be along with the rate for retail customers. In other words, the bank employs the price mechanism; namely interest rates, with wholesale accounts as much as retail accounts. However, the loan rates are still lagged. It can be implied that the role of credit rationing still exists but declined during the period of study. Next in this study, the level of credit rationing is estimated by the proxy measurement. Interestingly, the state of the economy, which was measured by Manufacturing Production Index, is found to have a negatively significant effect on the level of credit rationing. In addition, the application of FSMP I does not have any significant impact on the level of credit rationing.