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KEY WORD : CREDIT RATIONING /SPEED ADJUSTMENT OF INTEREST RATE

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This thesis is aimed at finding out whether there really are credit rationing in commercial banks. The explanation of credit rationing is based on theories of Donald P. Tucker, using assumption of imperfect competition among commercial banks, which resulted in imperfect adjustment of the rates of interest on loans. As factors which have influence on demand for and supply of credit change all the time, borrowers'demand at times exceeds the amount of funds set aside by banks for granting of loans at a prime rate. Commercial banks would not satisfy all applications for loans ; and they would use credit rationing, in order to prevent a decrease of return on lending, banks would prefer to ration out loan applicants. As a result, some borrowers would get smaller loans than they need, whereas some other applicants might not be granted any credit.

A disequilibrium model of credit demand and supply has been used to find out which period demand for credit would exceed supply of credit and whether or not this would be indicative of commercial banks' resort to credit rationing in the allocation of credits. The thesis reveals that the value of the rate of speed adjustment of interest rate to clear the market on commercial banks' loans was only 62.0 per cent per quarter. This shows that the rates of interest on loans could not clear excess demand for credit within one quarter. This led to temporary rationing of credits. However, a study of period from 1981 to 1990 indicates that excess supply of credit was greater than excess demand for credit and credit rationing was not stringent, with the result that commercial banks did not exercise much care in granting credits. Besides, at times credit rationing was adopted because of economic recovery, thereby leading to adjustment of interest rates in order to cut down credit rationing. However, at some other times there were official adjustment of interest rates for other reasons, such as for the solving of inflation problem and the balance of payment problem ; this would be followed by credit rationing.

The credit rationing by commercial banks is explainable in term of behavior. Credit rationing practice should not be unlawfullied used and should be prevented from being excessive. However, for the efficiency of allocation of resources, commercial banks should eliminate both excess demand for credit and excess supply of credit by allowing the market to adjust itself via interest rate and return as quickly as possible to a state of equilibrium. This is the more proper course that would enable the mechanism of interest rates to efficiently determine the allocation of credit. The Bank of Thailand ought to develop the commercial banking system to allow greater competition and to permit commercial banks to expand financial service especially in respect of instruments for mobilization of savings, such as certificates of deposits. This would encourage more savings and investments. The Bank should also develop the money market so that there would eventually be interest rates to serve as a bench mark for allocative efficiency of credits.