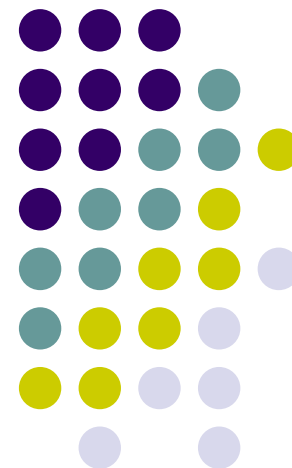


THE IMPACTS OF MONETARY POLICY AND ECONOMIC RECESSION ON CREDIT ACCESSIBILITY AND BUSINESS ACTIVITIES OF VIETNAMESE ENTERPRISES

Nguyen Ngoc Son, PhD
Le Quoc Hoi, PhD

National Economics University
Vietnam Development Forum



Hanoi, 20 March 2009

Outline of the presentation



- Description of the enterprise and bank surveys
- The impacts of monetary policy and economic recession on credit accessibility of the surveyed enterprises
- The impacts of monetary policy and economic recession on business activities of the surveyed enterprises
- Some policy assessments and conclusions

Context



- 2008 is the fluctuation year of Vietnam's economy
 - In the first six months of the year, inflation was raising to 18.44% compared to 31st December, 2007
 - By the end of the year, Vietnam is facing economic recession
- From fighting inflation to demand stimulus.
- From tightening monetary policy to loosening monetary policy.

Description of the surveys



- Time: From December 2008 to February 2009.
- Methodology: Questionnaire and depth interviews
- Size of the survey:
 - 196 enterprises in Hanoi, Haiphong, Binhduong and Ho Chi Minh city in four main fields: manufacturing, trading, construction and service.
 - 20 commercial banks in Hanoi, Haiphong and Ho Chi Minh city

Purpose of the surveys



- Evaluate the impacts of monetary policy and economic recession on credit accessibility and business activities of the surveyed enterprises and commercial banks over three periods:
 - Period 1: The tightening monetary period, from late 2007 to September 2008.
 - Period 2: The somewhat loosening monetary period, from September 2008 to December 2008.
 - Period 3: The considerably loosening monetary period and demand stimulus, from December 2008 to present

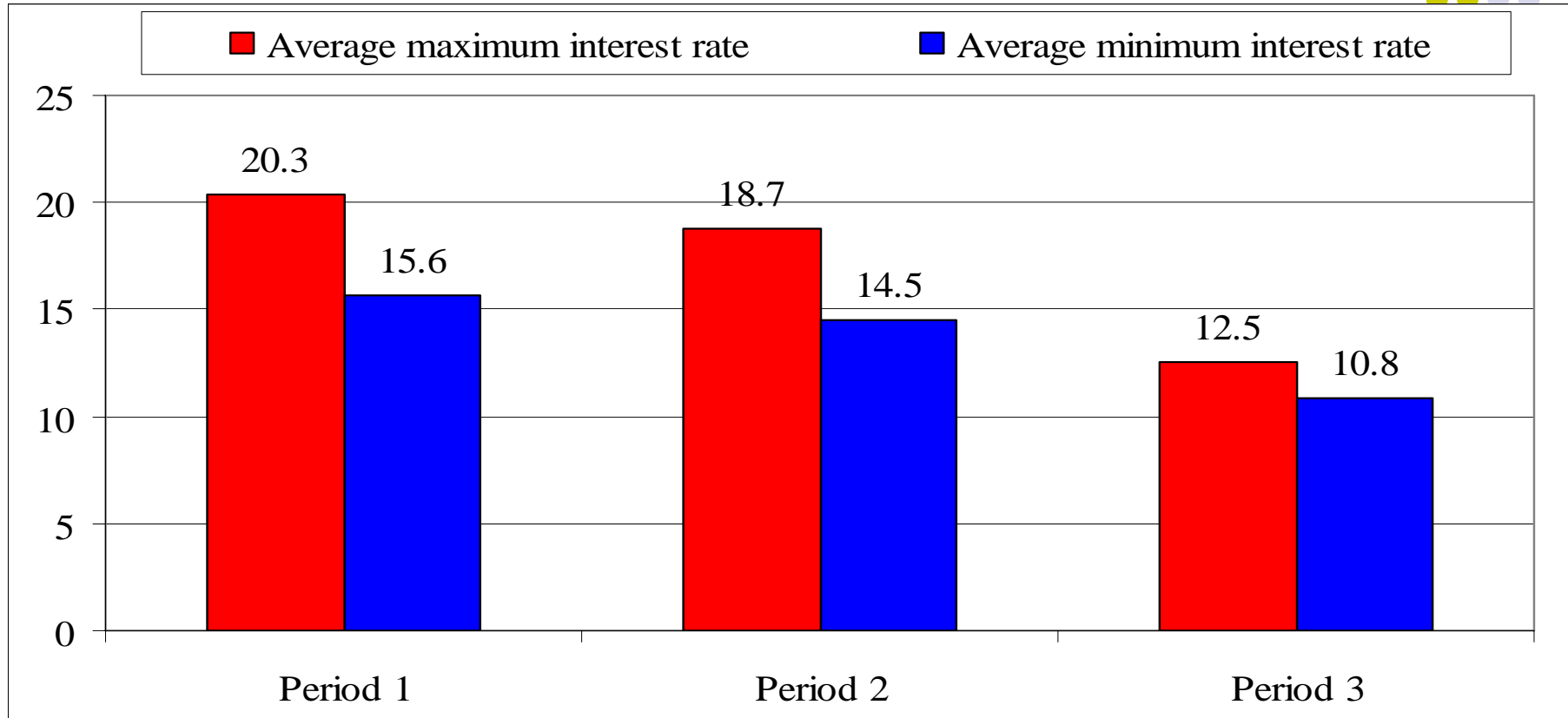
Accessibility to credit



Level of credit accessibility	Period 1 (%)	Period 2 (%)	Period 3 (%)
Very easy	5.2	1.0	1.6
Easy	9.4	7.3	26.0
Neutral	22.4	51.6	51.6
Difficult	43.8	34.4	18.2
Very difficult	19.3	5.7	2.6

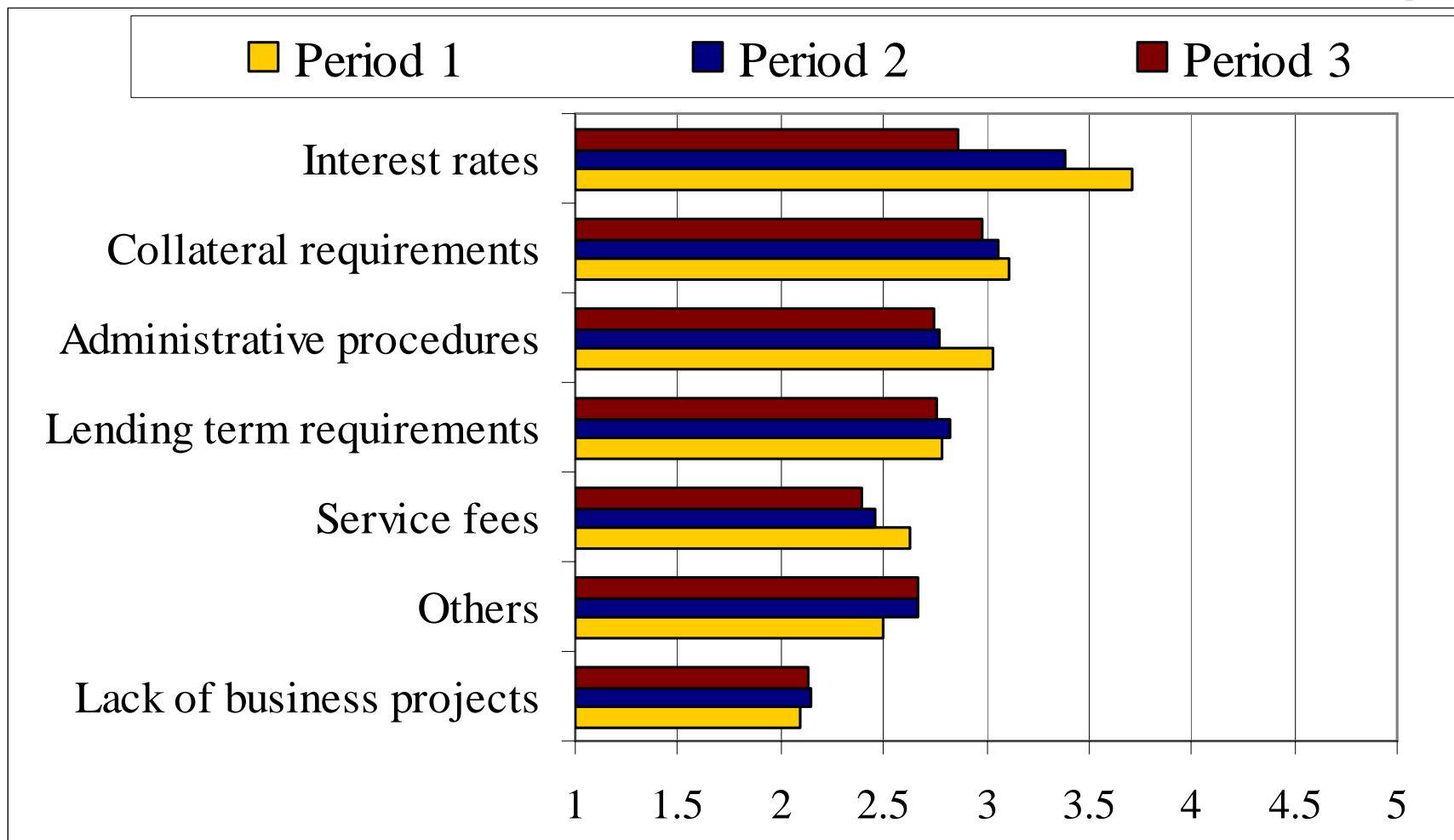
63.1% of total enterprises in period 1, 40.1% in period 2 and 20.8% in period 3 were difficult and very difficult in accessing credit.

Interest rate



- In period 1: 10.3% of total enterprises had to borrow at the interest rate of more than 21%.
- In period 3: There still were enterprises which had to borrow at the interest rate of 21%.

Difficulties affecting credit access

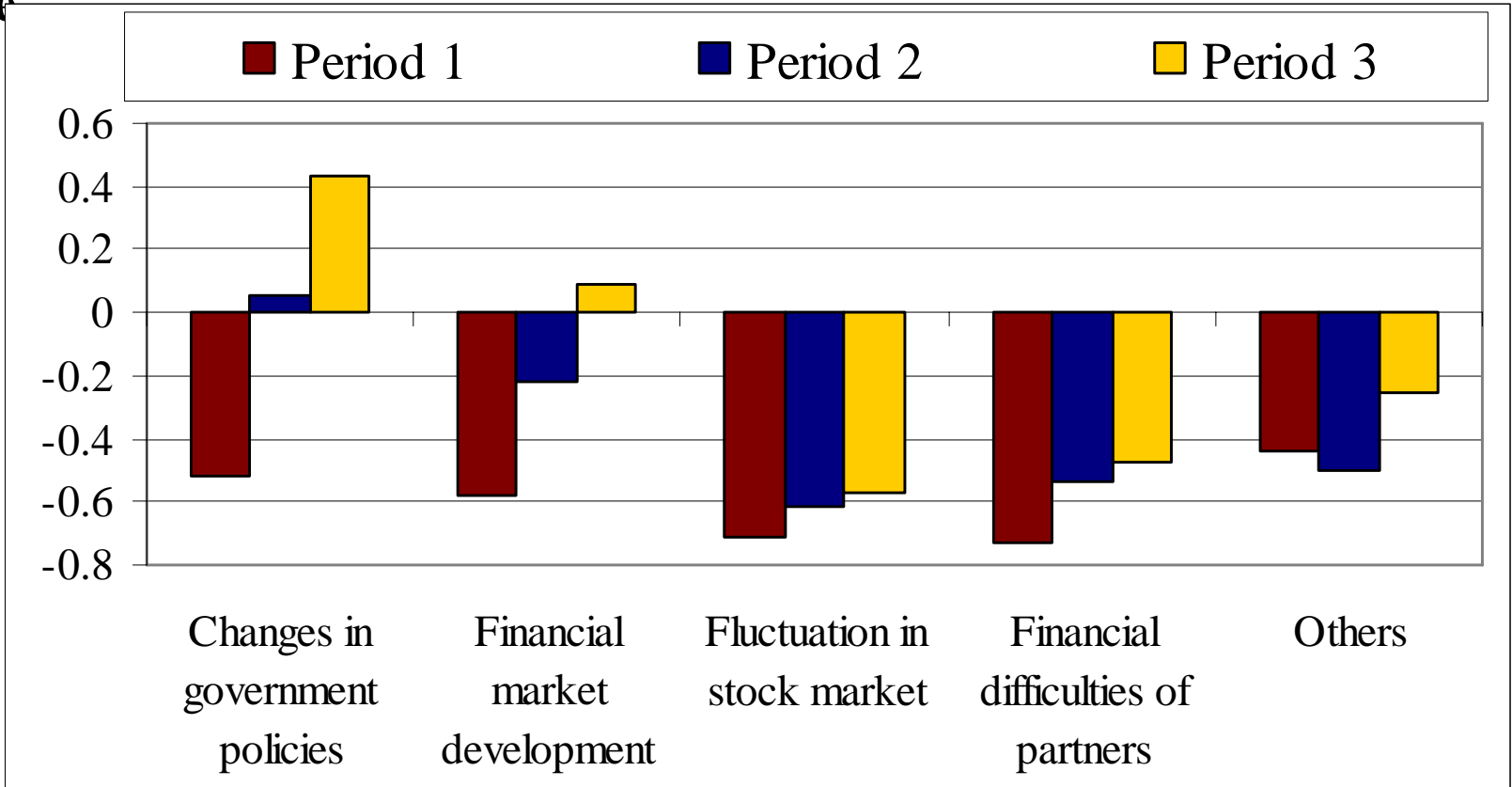


Easy → Difficult

Factors affecting credit accessibility



Positive

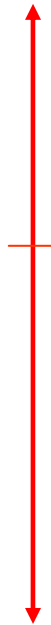


Negative

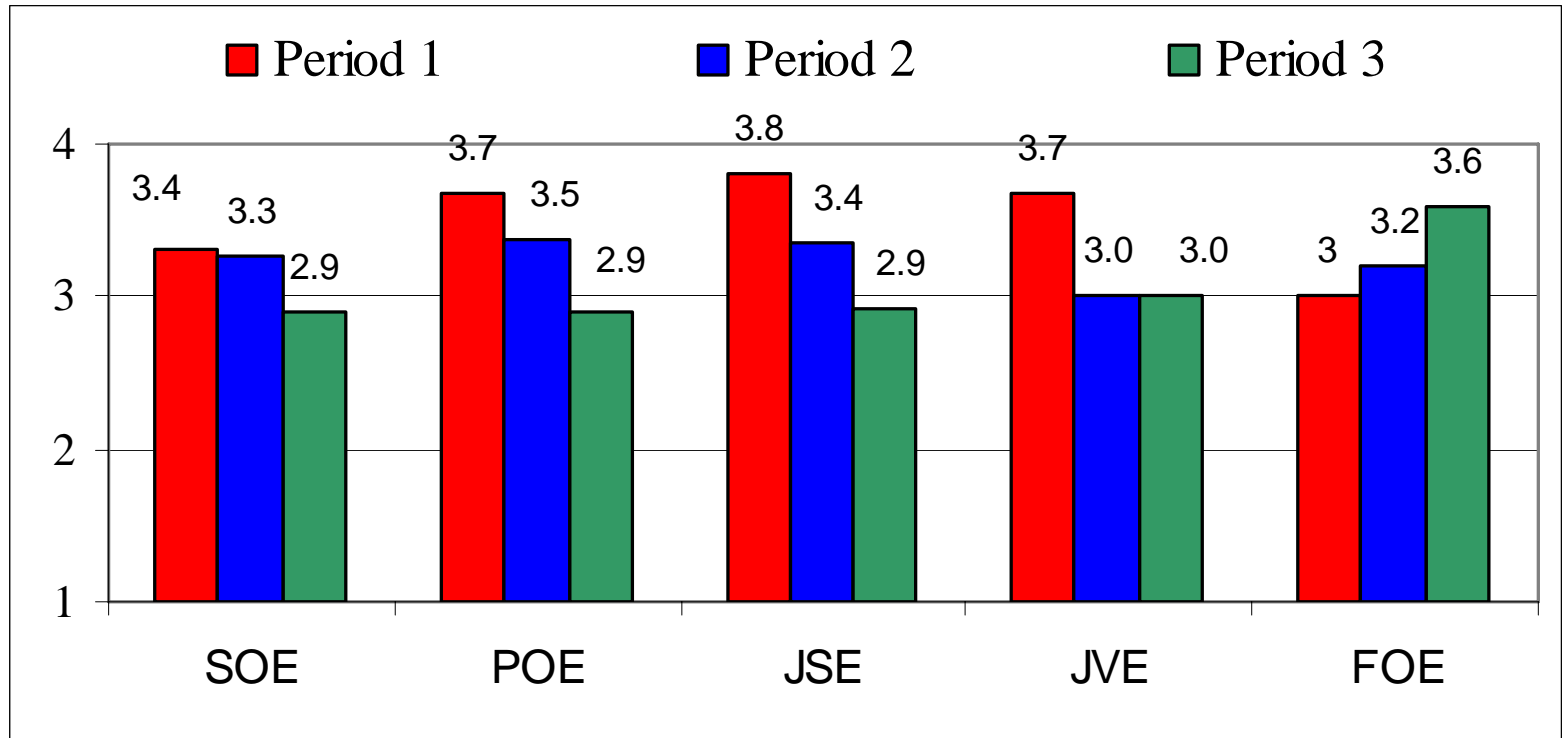
Credit accessibility of enterprises, by type of enterprise



Difficult



Easy



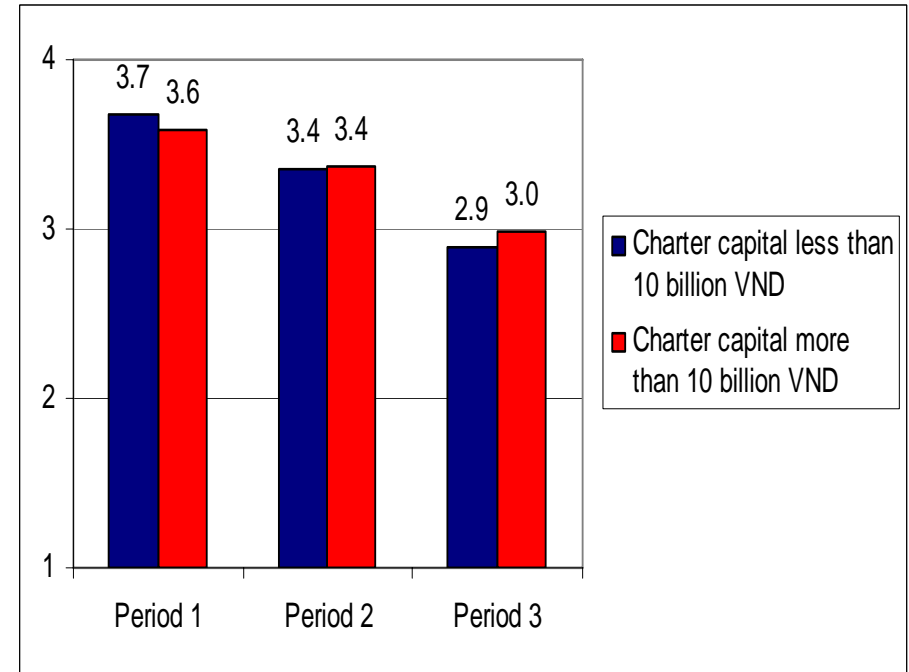
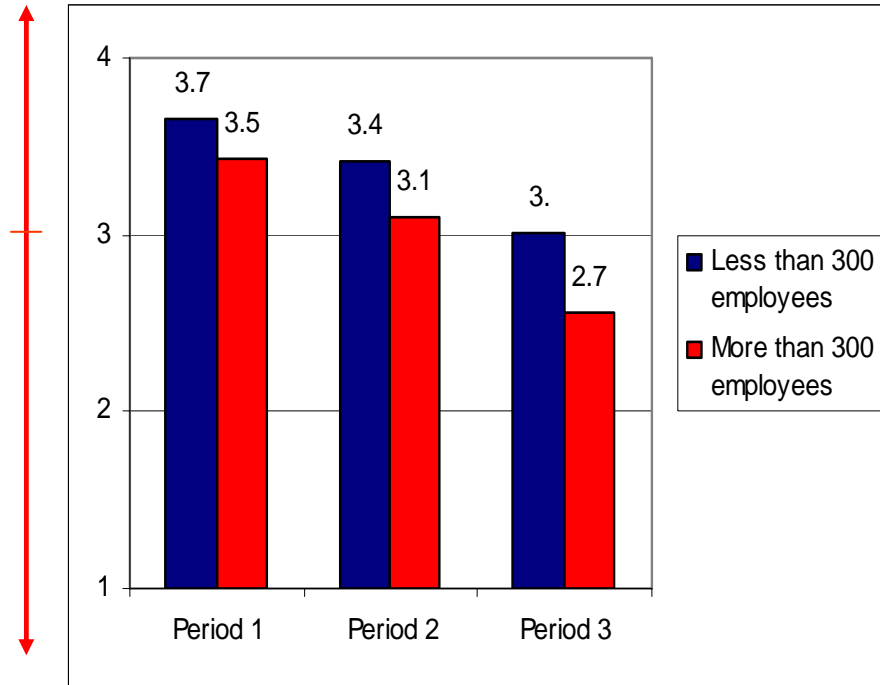
The level of difficulty is gradually increasing from 1 to 5

1 - Very Easy; 2 - Easy; 3 - Neutral; 4 - Difficult; 5 - Very difficult

Credit accessibility of enterprises, by size of enterprise



Difficult



Easy

SMEs were more difficult in accessing credit than big enterprises!

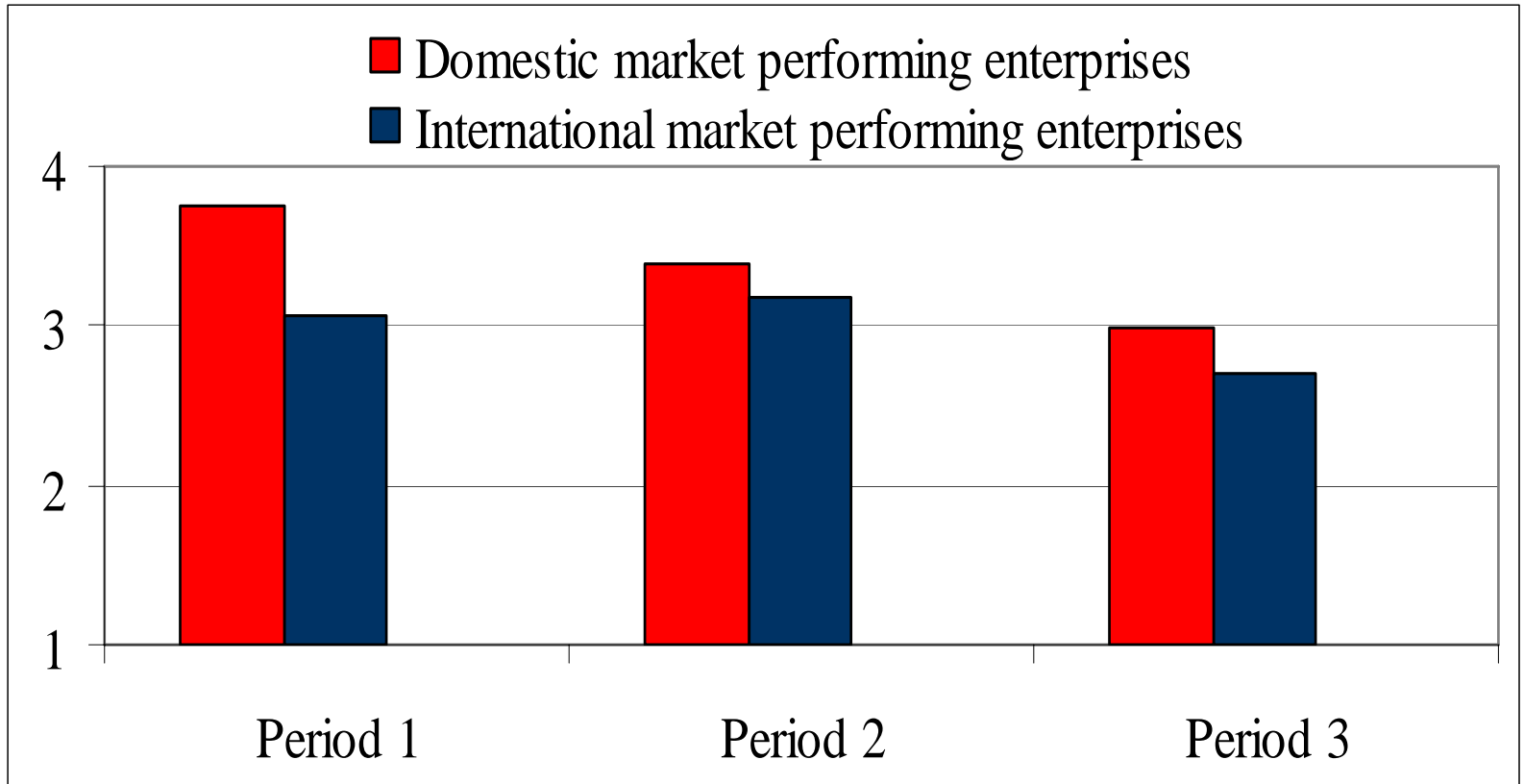
Credit accessibility of enterprises, by market



Difficult



Easy

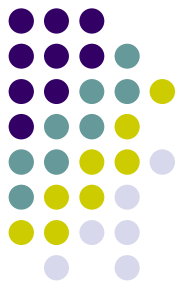


General assessments on credit accessibility



- SMEs were more difficult to access credit than big enterprises
- SOEs were easier to access credit than other types of enterprises.
- Domestic market performing enterprises were more difficult to borrow from the banks than international market performing enterprises.
- Lending interest rates in period 1 were very high with average of 20.3%. 10.2% of enterprises had to borrow at the interest rate of more than 21%.
- Comparing with commercial banks, enterprises faced more disadvantages when there were changes in policy.

Impacts of factors on business activities of domestic market performing enterprises



	Period 1	Period 2	Period 3
Changes in government policies	-	+	++
Prices of input materials	- - -	- -	+
Administrative procedures	-	-	-
Fluctuation in domestic market	-	- -	-
Partners' difficulties	-	-	-
Pressure from competitors	-	-	-

- Negative impact

+ Positive impact

Impacts of factors on business activities of export-import enterprises

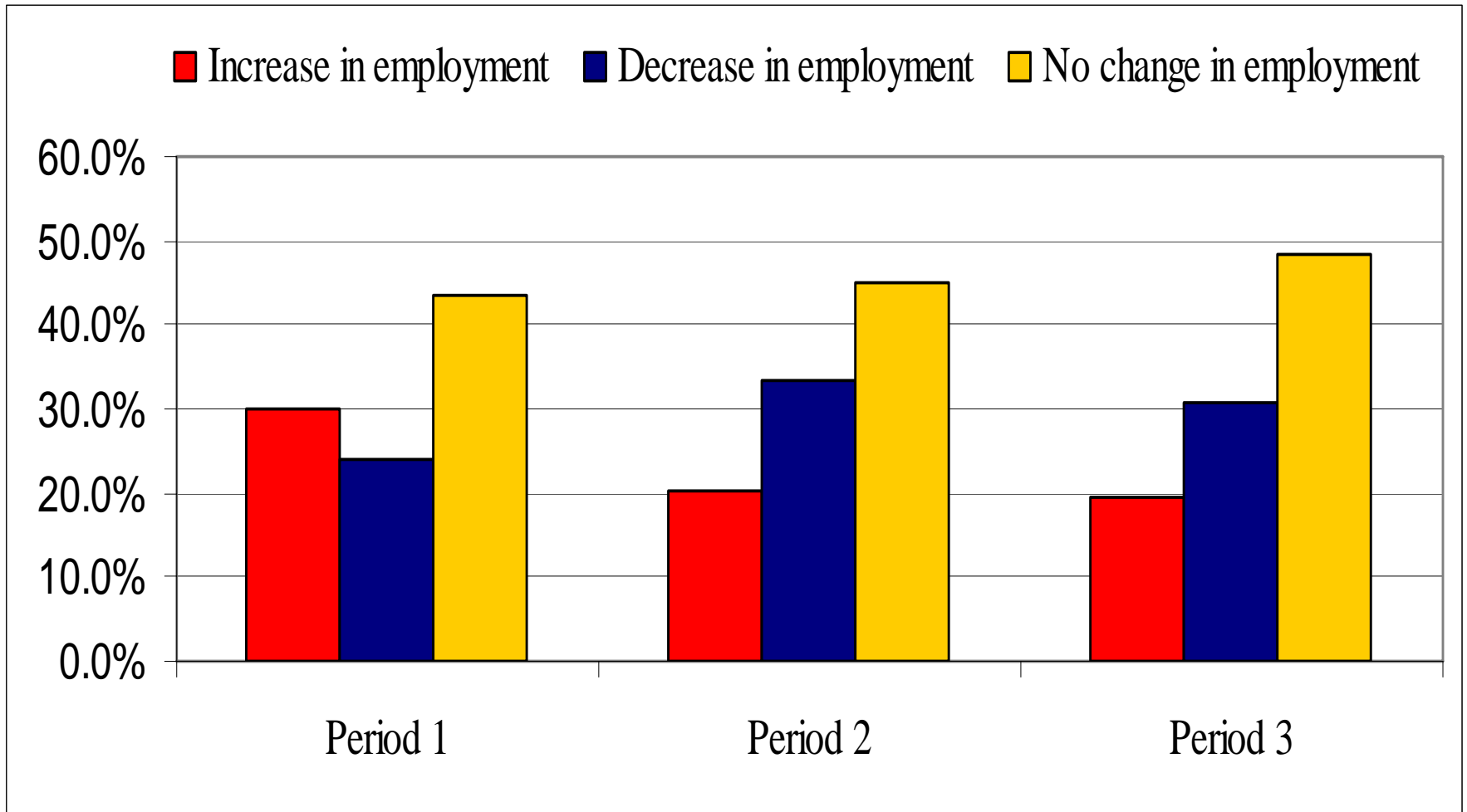


	Period 1	Period 2	Period 3
Tax policy	-	-	-
Prices of input materials	-	-	-
Lending policy of banks	-	-	+
Exchange rate	-	--	-
Fluctuation in international market	-	--	---
Pressure from competitors	-	-	-

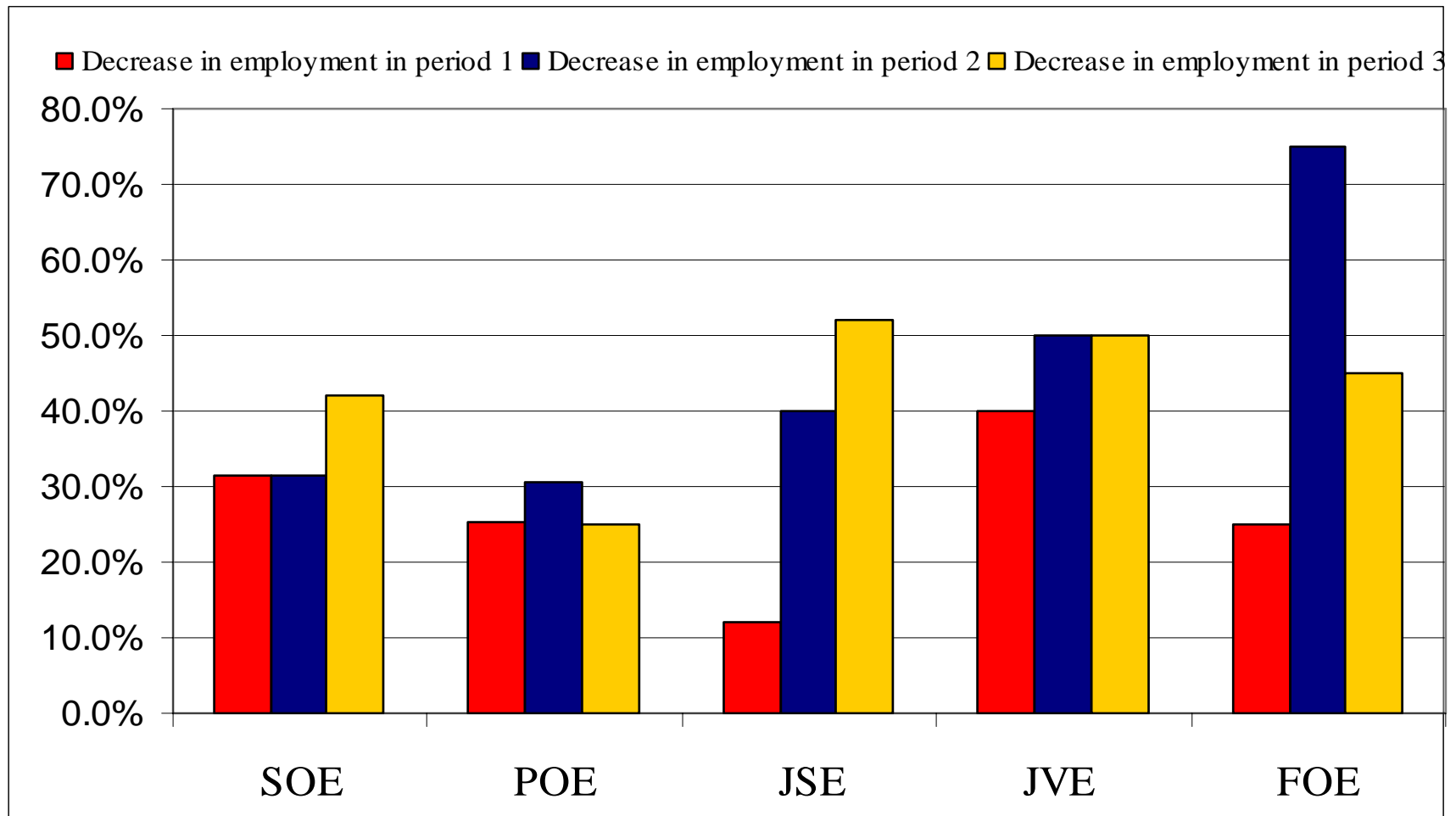
- Negative impact

+ Positive impact

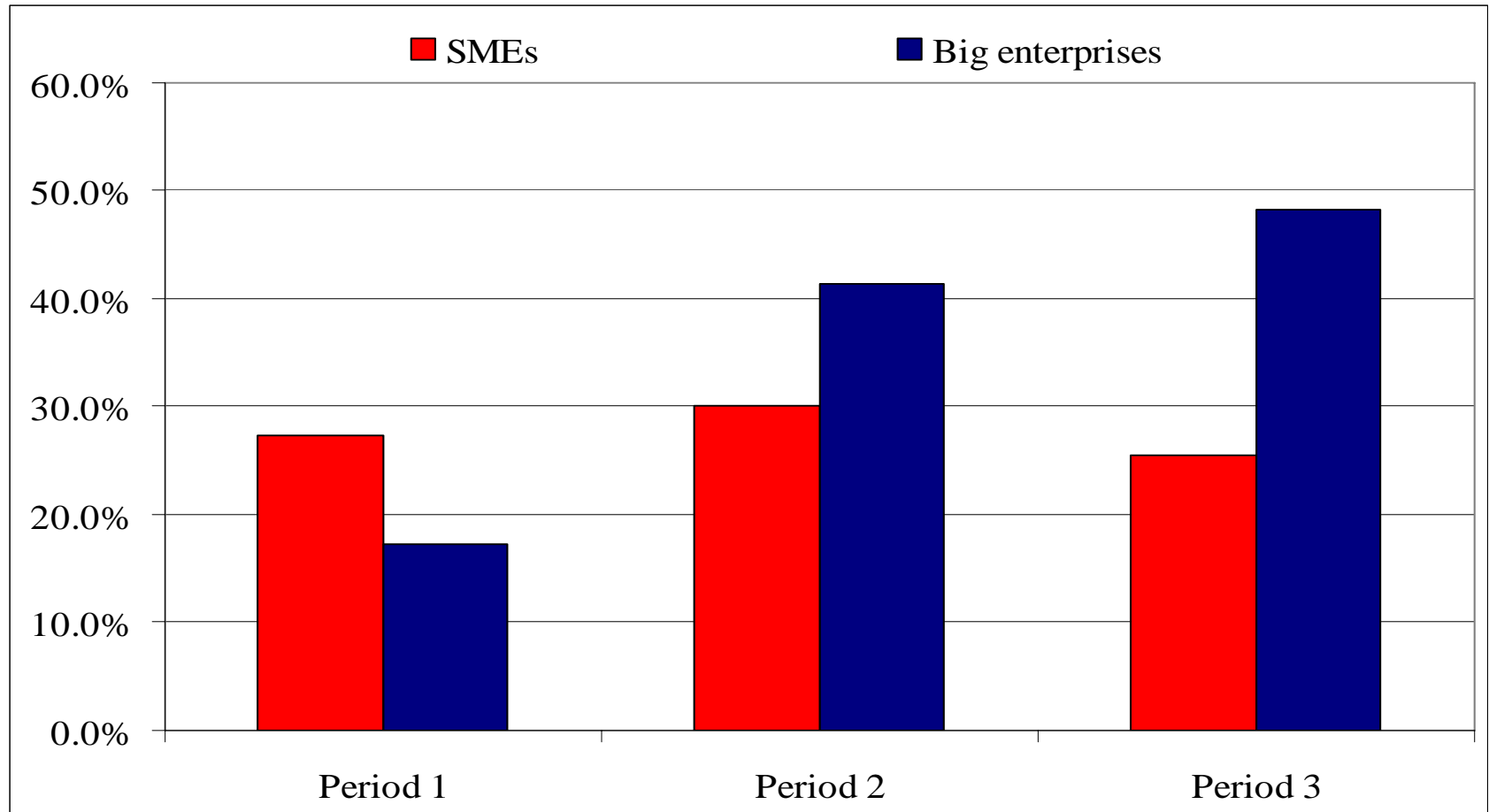
Changes in employment



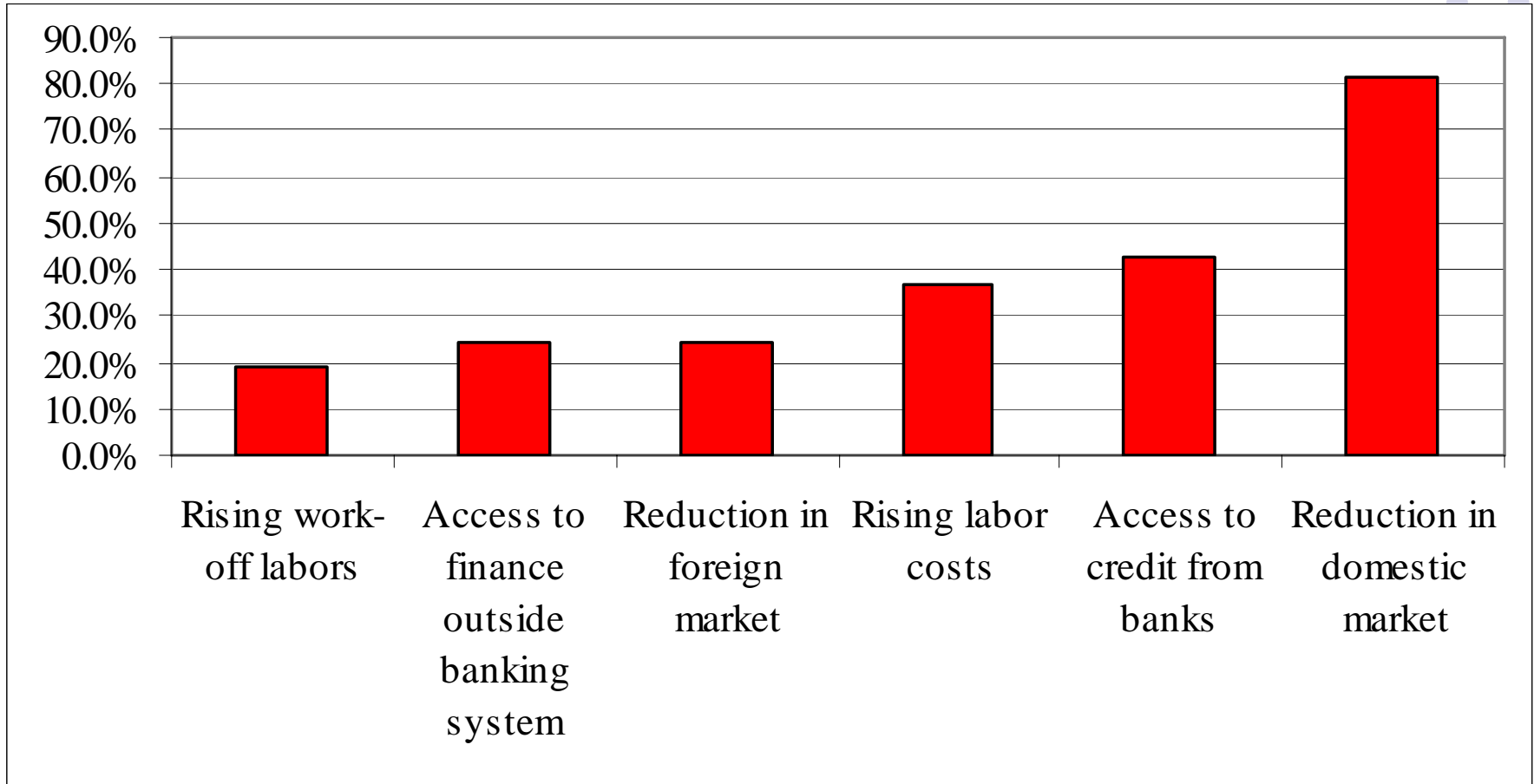
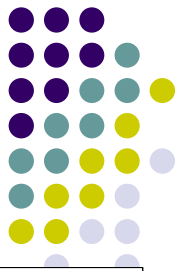
Reduction in employment, by type of enterprise



Reduction in employment, by size of enterprise



Coming difficulties



81% - reduction in domestic market

42.9%- credit access from banks

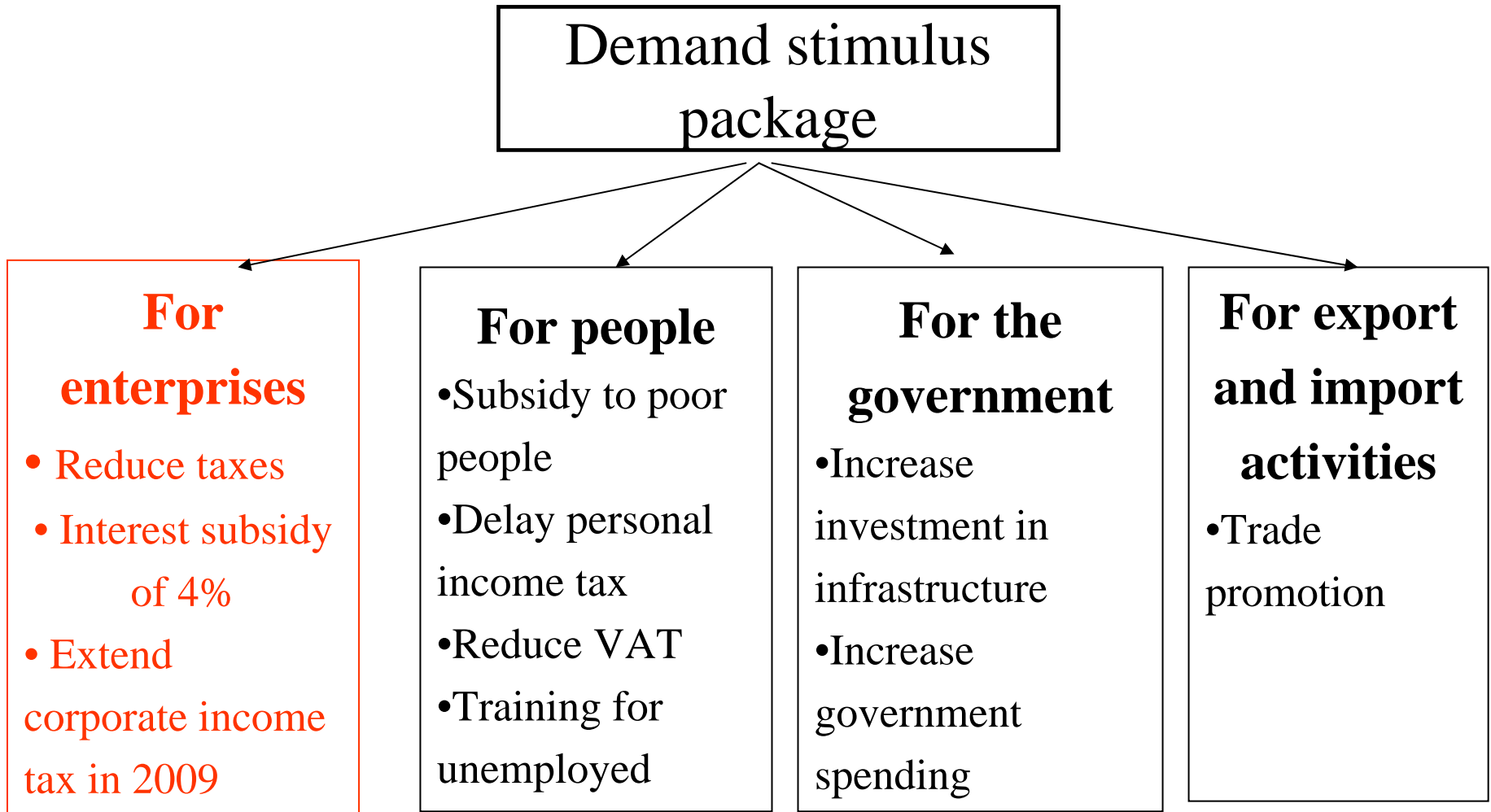
20% - reduction in foreign market

Demand stimulus policy



- By the end of 2008, the Government introduced demand stimulus package
- Government's targets of demand stimulus
 - Prevent economic recession
 - Prevent production stagnation
 - Encourage consumption and investment
 - Create jobs and reduce unemployment
 - Assist SMEs

Demand stimulus policies



Effectiveness?



-
- Weak capital absorptive capacity due to administrative procedures and difficulties of collateral requirements
 - The need for debt swap from enterprises
 - As interest subsidy package is only applied to loans with VND, enterprises will deal with risks of foreign exchange
 - Export enterprises are not willing to borrow due to its reduction in international market
 - It is difficult to solve unemployment because enterprises with sacked labors are mainly processing enterprises and foreign investment enterprises.



**Thank you for your attention and
look forward to your comments!**