

IMPACTS OF MONETARY POLICY ON COMMERCIAL BANKS IN VIETNAM

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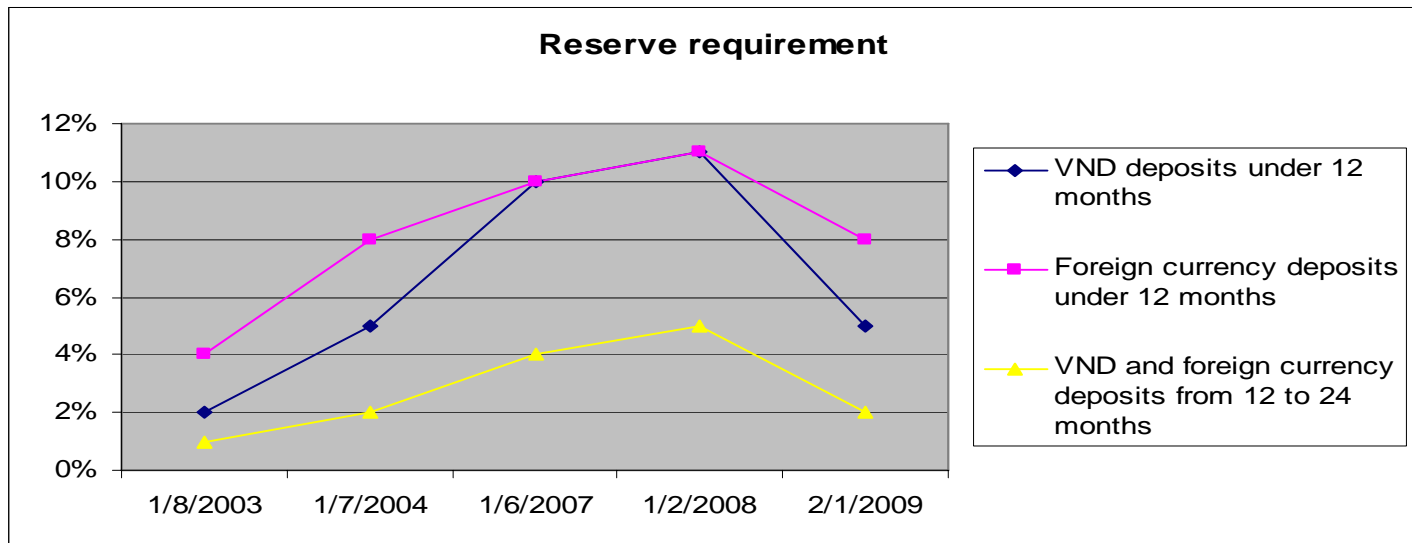
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Content

- Summary of monetary policy performance in 2008 and early 2009
- Key findings: impacts of tightening and loosening monetary policies on banking business in Vietnam
- Conclusions and Recommendations

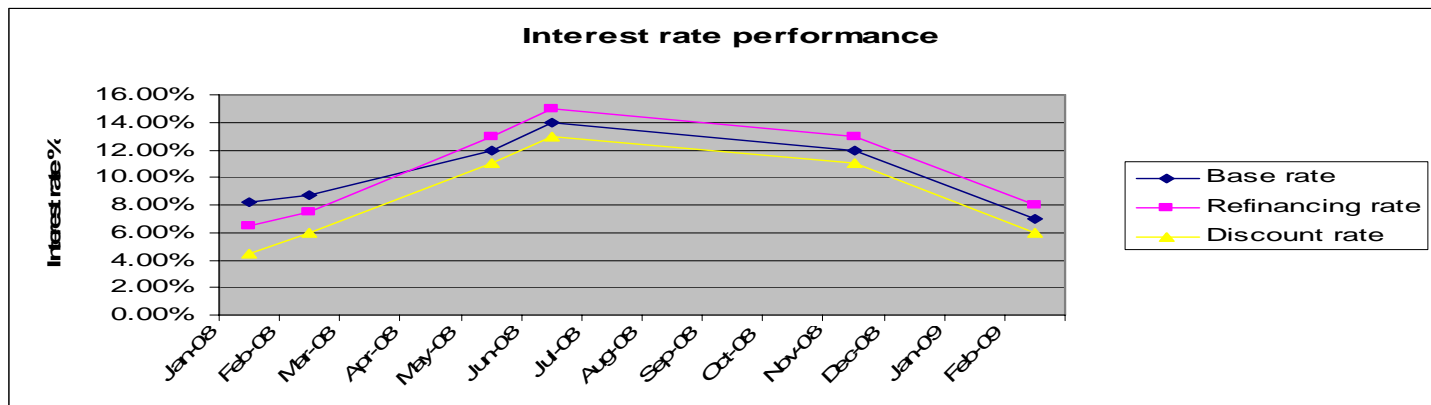
Performance of monetary policy in 2008 and early 2009 (1)

- The change of monetary policy has been too fast in a short period
- Required reserve rate increased in all terms, both in VND and USD (2/2008), and decreased sharply in loosening period (1/2009)



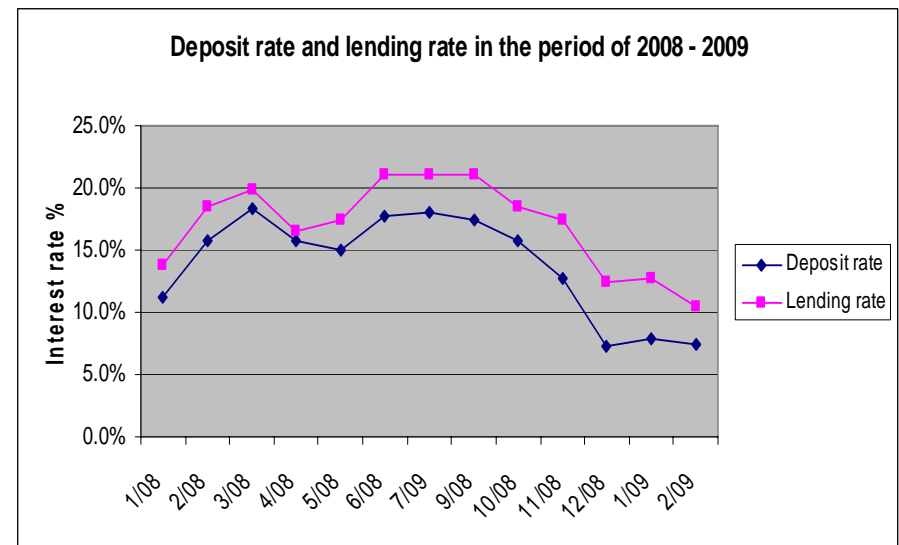
Performance of monetary policy in 2008 and early 2009 (2)

- Base rate, discount rate and refinancing rate increased sharply in tightening period (8%-14% from 1-6/2008) => limit credit growth
- In loosening period, required reserve rate decreased gradually, but not as strongly as in tightening period (14%-6.5% from 9/2008 – 2/2009)

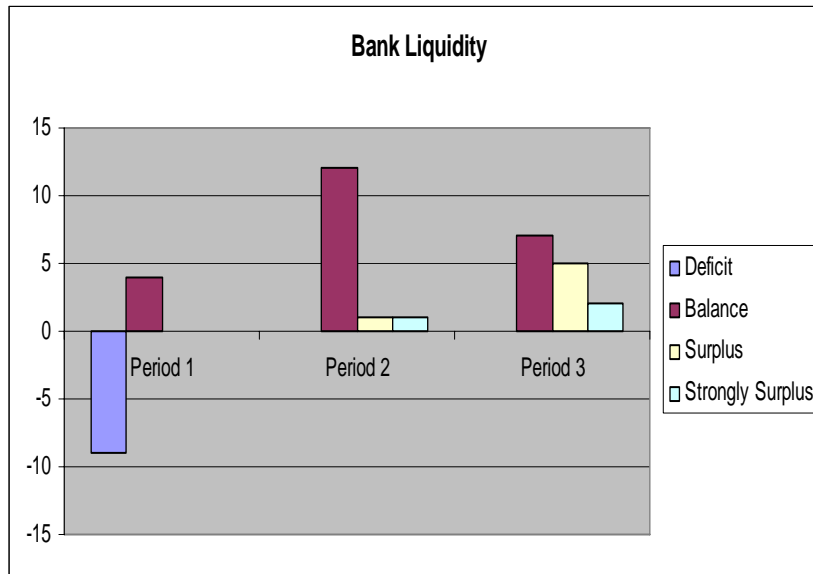


Impacts of monetary policy on mobilizing activity of CBs - Interest rate

- Tightening period:
 - Interest rate competition to meet liquidity requirement
 - ⇒ high cost of mobilizing
 - ⇒ increasing lending rate, put difficulties on enterprises
 - ⇒ potential interest rate risk
- Loosening period:
 - Interest rate decreases sharply
 - ⇒ Interest rate risk goes in fact

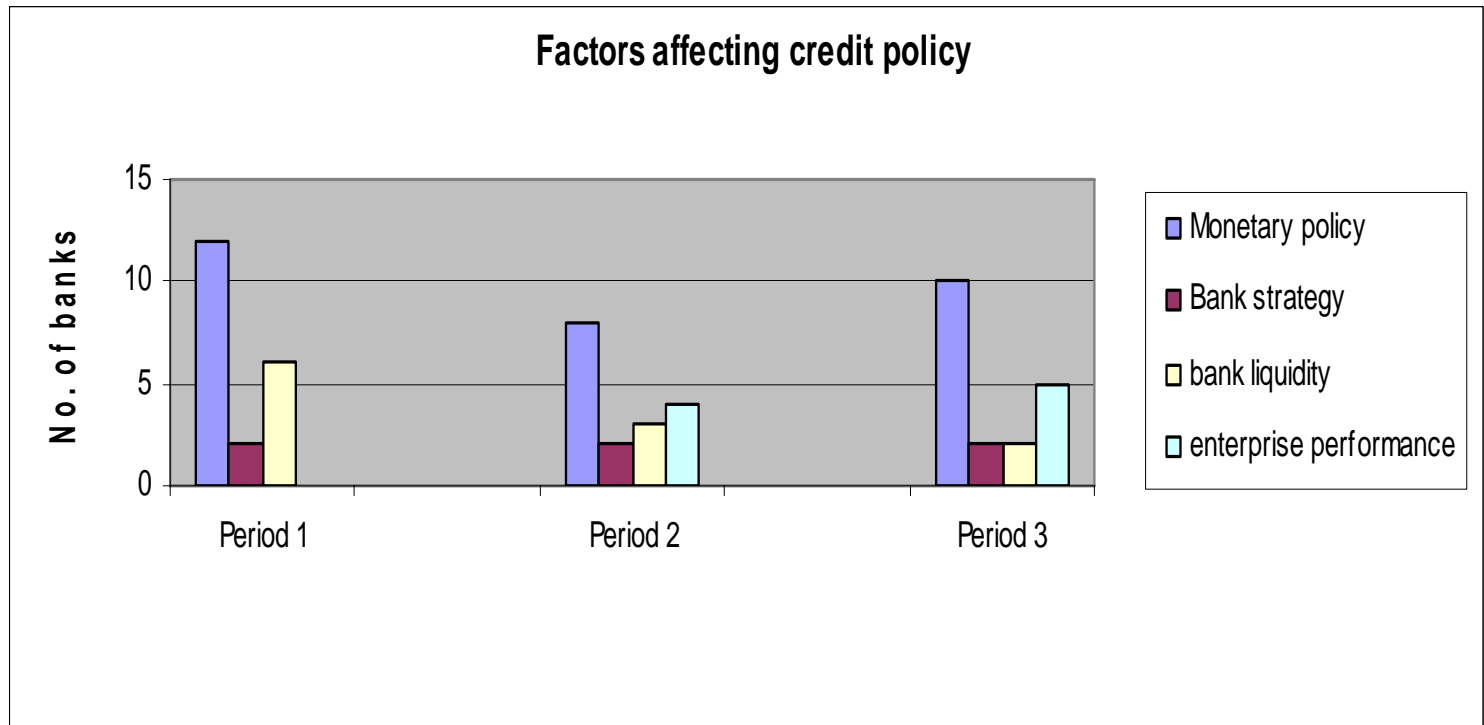


Impacts of monetary policy on mobilizing activity of CBs - Liquidity



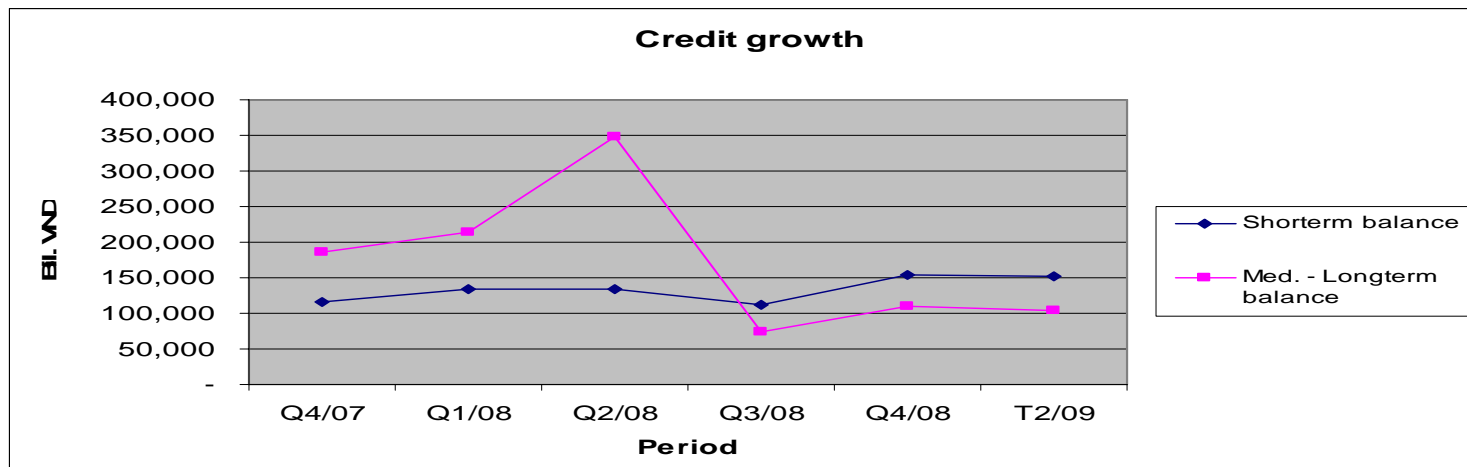
- Tightening period:
 - CBs' liquidity decreased sharply, especially small banks
 - Large banks could earn profit from lending in inter-bank market, small banks must accept high overnight interest rate (up to over 40% per year) to meet liquidity requirement
- Loosening period:
 - CBs' liquidity changed from deficit to surplus
 - Difficulty in lending out

Impacts of monetary policy on lending activity of CBs (1)



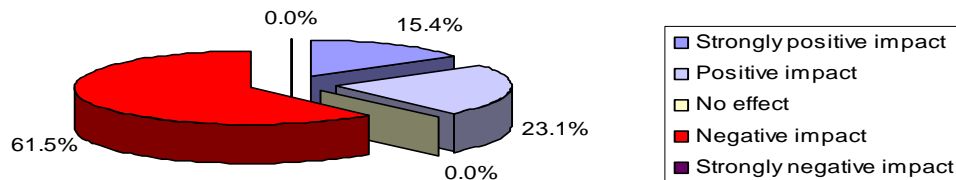
Impacts of monetary policy on credit activity of CBs (2)

- Tightening period: loan growth rate still increased (app.19% on average), but decreased compared to 2007
- Loosening period:
 - Loans decreased dramatically
 - Short term loan's growth lower than long term loan's
- **However, interest rate is not the only factor determining the credit demand**



Impacts of monetary policy on credit activity of CBs (3)

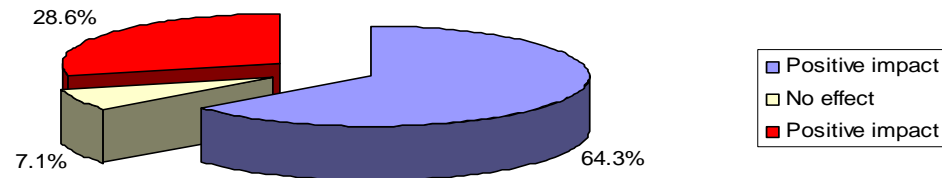
Impact of Tightening Monetary Policy on Lending



- Improving credit quality
 - Selecting good borrowers
- But,**
- Missing good projects due to capital shortage

- Helping to increase lending, **but increase:**
- Interest rate risk
- Liquidity risk (capital redundancy)

Impact of Lossening Monetary Policy on Lending



Impacts of monetary policy on credit activity of CBs (4)

- **Change in customer policy:**

- **Tightening:**

- Carefully choosing borrowers (borrowers having stable financial ability, feasible projects are preferred)
 - Concentrating on traditional customers
 - SOEs dominated in lending

- **Loosening:**

- Implementing the lending package with interest rate subsidy (focus on lending for trading business and short business cycle). Total disbursement in Ha noi: VND 7,531 bill. in the whole country: VND 144,000 bill. (March 2009)
 - SME dominated in lending

Impacts of monetary policy on credit activity of CBs (5)

- Disadvantages of lending package with interest support :
 - Selection of right borrowers
 - Lending mechanism of lending
 - Moral hazard
 - Informal credit
 - Debt revolving
- ⇒ Who have actually been the right borrowers?

Impacts of monetary policy on profits of CBs

- Profits of some CBs are still very high (growth rate is higher than that of 2007)
- Who have actually been risk takers?



Conclusions and recommendations (1)

Impacts of monetary policy on banking business

- Positive impacts: Improving credit quality
 - Negative impacts: Increasing risks relating to liquidity, interest rate and moral hazard
- ⇒ CBs should be proactive in all situations
- ⇒ Solutions by the Government should be considered both positive and negative impacts.

Conclusions and recommendations (2)

- Government supporting policies have little effects on all types of enterprises (interest rate subsidy, VAT cutting down)
- => Other solutions like promoting markets, enhancing competition capacity of enterprises, etc. should be considered
- => The benefits of related bodies should be balanced



Thank you for your attention

