
The role of monetary policy in the economics crisis – the case of Vietnam

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Structure

- Literature reviews
- Impacts of global economics crisis on Vietnam economy
- Monetary policy management in Vietnam
- Interest support lending policy
- Conclusions and recommendations

Literature reviews

- Adam and Murillo (2007) showed that negative responses of loan growth to monetary contractions are much stronger during recession than in booms
- Vahamaa (2004) showed that the market expectations obtained from bond-yields are systematically asymmetric around monetary policy announcement

Literature reviews

- Indranil Bhattacharyya, Rudra Sensarma (2008) suggested that when there is a reduction in cash reserve ratio, the consequent decline in the market rate is lower in absolute term than the impact of an increase in cash reserve ratio.
- Adam B.Ashcraft, Murillo Campello (2007) argued that the balance sheet channel view presumes that monetary policy affect loan demand. Lower interest rate will encourage firm from borrowing.
- Tran Bac Ha (2009) investigated the expansionary monetary policy in Vietnam and concludes that growth of total outstanding loans of interest lending support policy was the same with the growth of the total credit

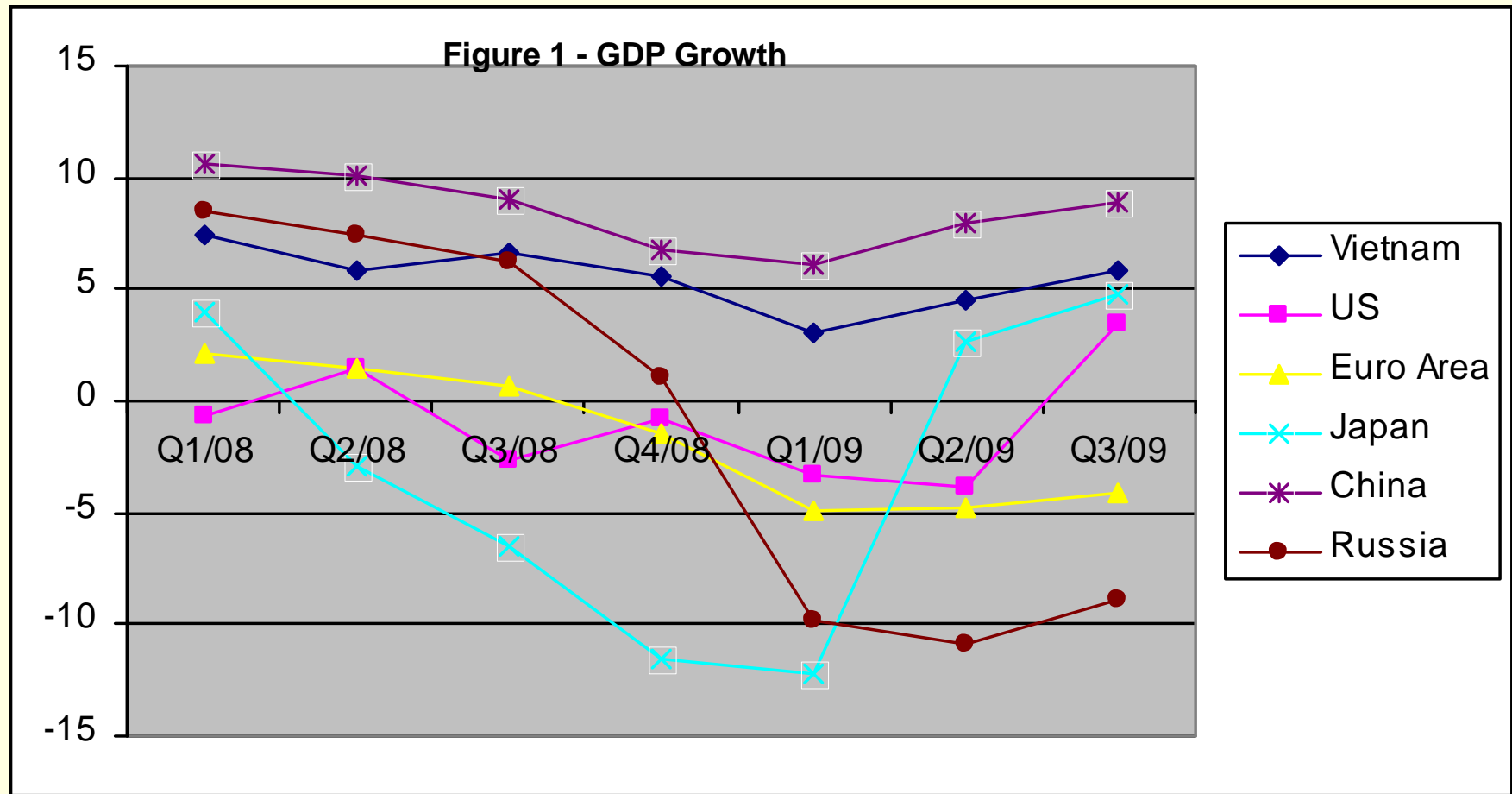
Impacts of global economics crisis on Vietnam economy

Table 1. Global economic indicator, 2007-2009

	2007	2008	2009
GDP growth			
Global	3,7	1,7	-2,9
High income countries	2,6	0,4	-4,2
Middle and low income countries	8,1	5,9	1,2
Export			
Global	7,6	3,4	-,21
High income countries	6,4	2,9	-3,7
Middle and low income countries	10,9	7,2	2,1
Nominal interest rates	5,2	3,2	1,5

Source: WB reports in the Country Group Meeting in Vietnam

Impacts of global economics crisis on Vietnam economy



Source: World bank, 2009

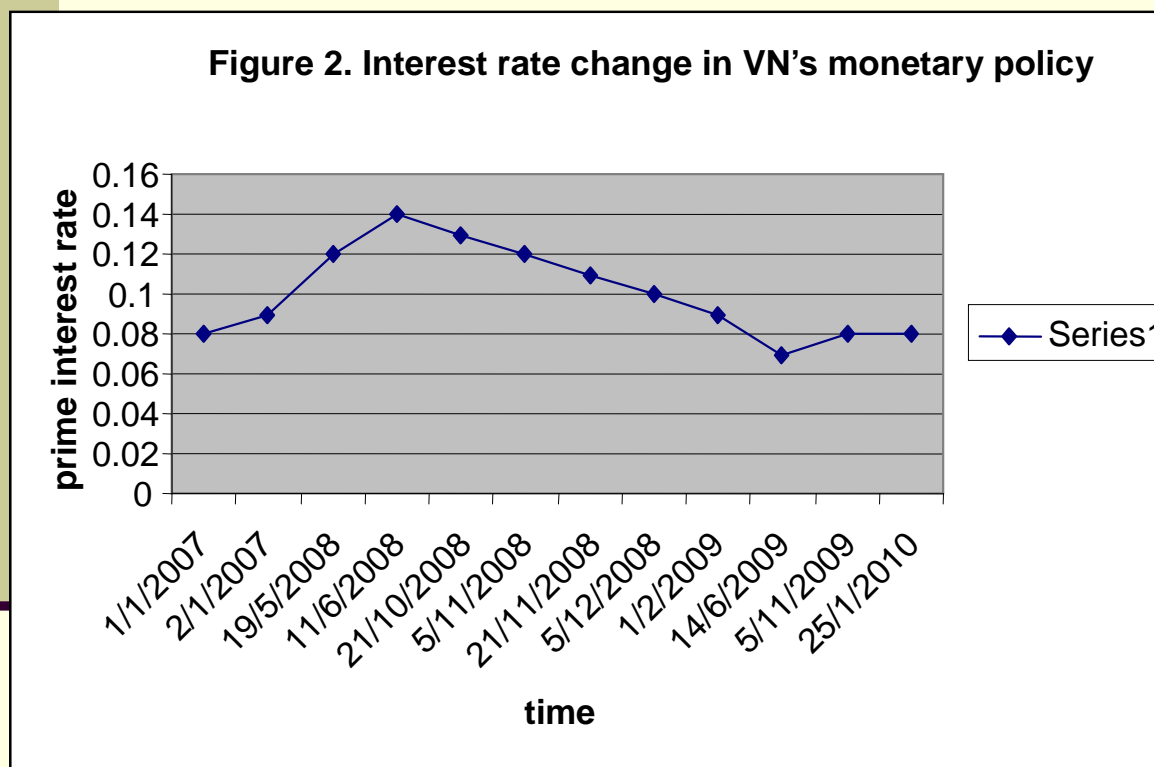
Impacts of global economics crisis on Vietnam economy

Table 2. The Vietnam's stimulus package in 2009

No	Item	Value (VND billion)
1	Interest rate support of 4%	17,000
2	Deferred collection of advance floats in 2009	3,400
3	Fund advances	37,200
4	Carry-over of investment from 2008 to 2009	30,200
5	Additional Government bond issuance	20,000
6	Tax reduction and exemption policies	28,000
7	Other stimulus items	7,200
8	Credit guarantee for small and medium enterprises	17,000
	Total	160,000 (USD 9 billion)

Source: Saigon Economic Times, 31/12/2009

Monetary policy management in Vietnam



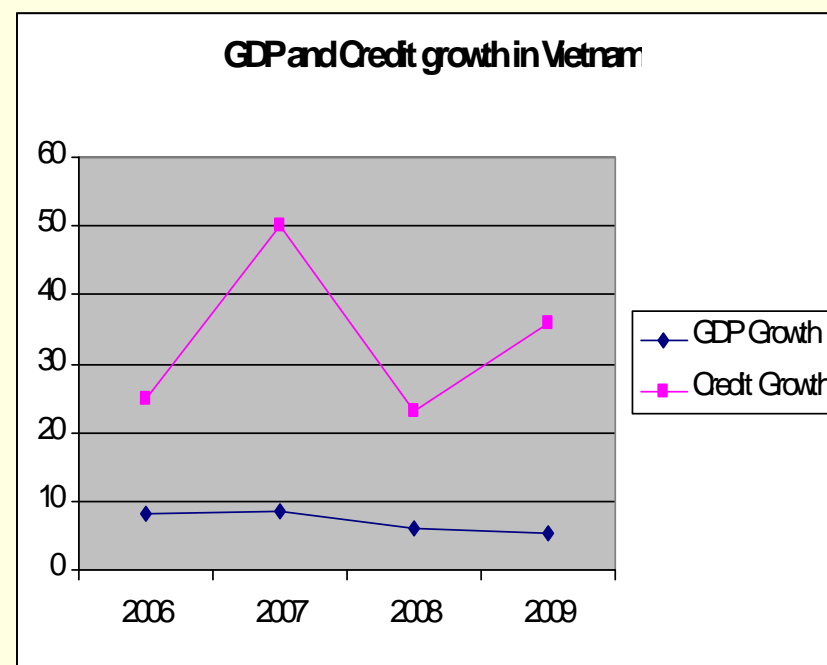
Source: SBV, 2010

- Period 1 - Tightening monetary policy: 2007-6/2008, highest point is 14%
- Period 2 - Expansionary monetary policy: 10/2008-the end of 2009
- Period 3 - Strongly expansionary monetary policy: 1/2009-1/2010: lowest point is 7%
- From 1/2010 – now: remain 8%

Monetary policy management in Vietnam

- Average GDP growth is nearly 8% in 10 years
- The highest credit growth is 50.2% in 2007 lead to high inflation
- Lower GDP growth in 2008, lower credit growth to control high inflation
- Expansionary monetary policy in 2009 made high credit growth 36%, but GDP growth only 5.5%

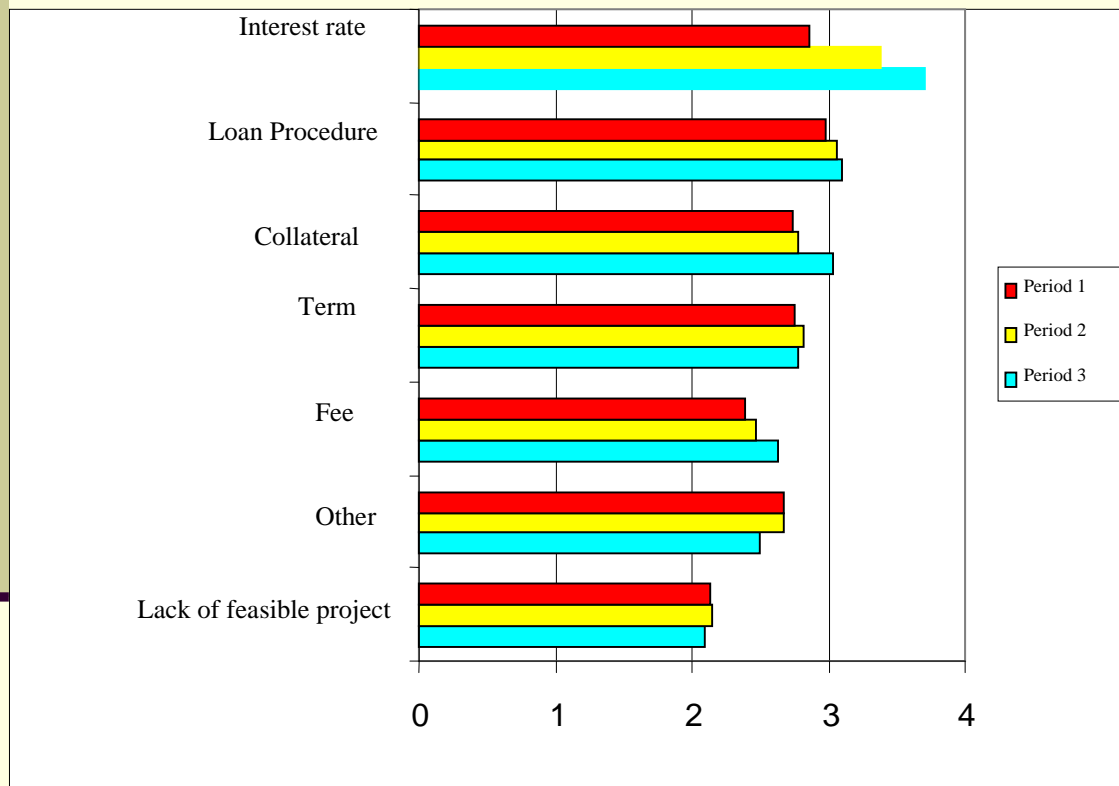
Figure 3. GDP and Credit Growth in Vietnam



Source : SBV and GSO

Impact of monetary policy on firm's credit access

Figure 4. Firm's credit access



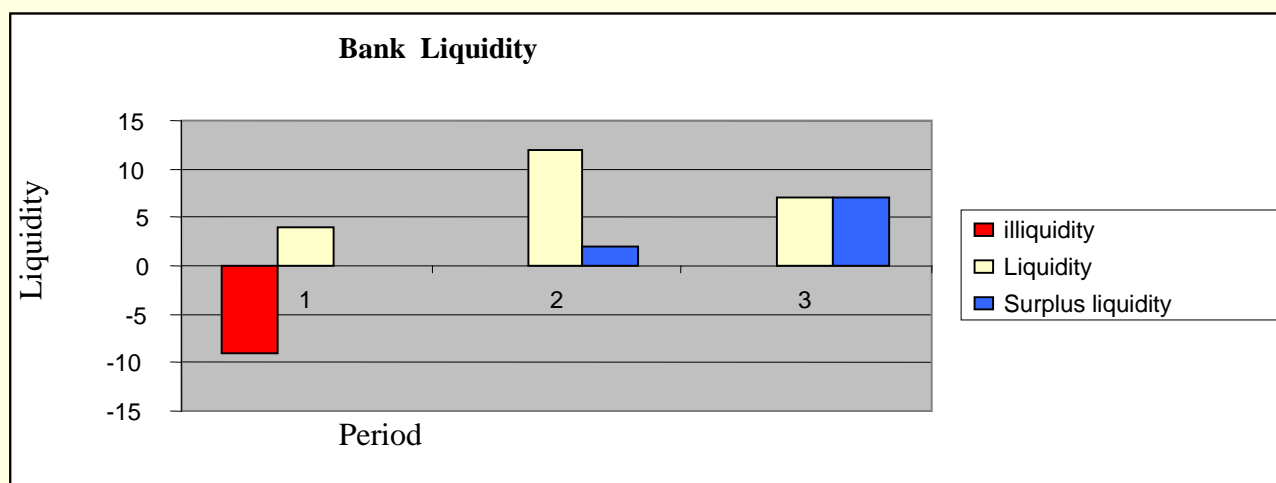
The most difficulty in loan accessing:

- Period 1 - Loan procedure
- Period 2 – Interest rate
- Period 3 - Interest rate

Source: VDF survey, 2009

Impact of monetary policy on bank's liquidity

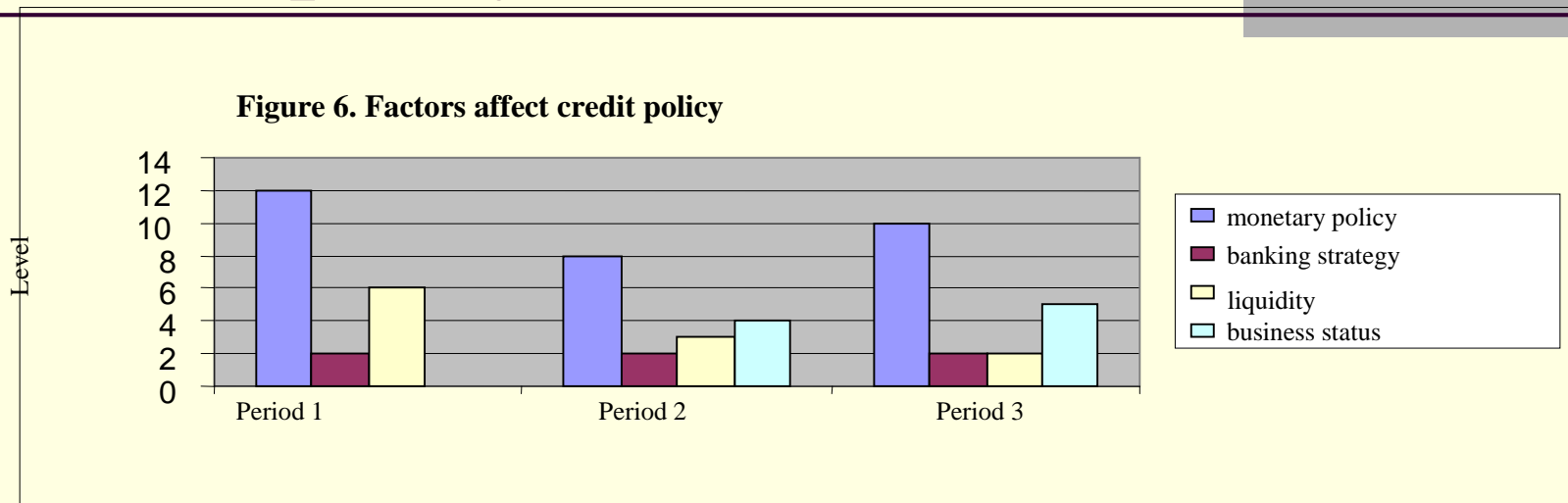
Figure 5. Bank's Liquidity



Source: VDF survey, 2009

- Period 1: many banks in shortage of liquidity
- Period 2: most of banks are in sufficient liquidity, some in surplus
- Period 3: number of liquidity and surplus are the same, no illiquidity

Impact of monetary policy on bank's credit policy



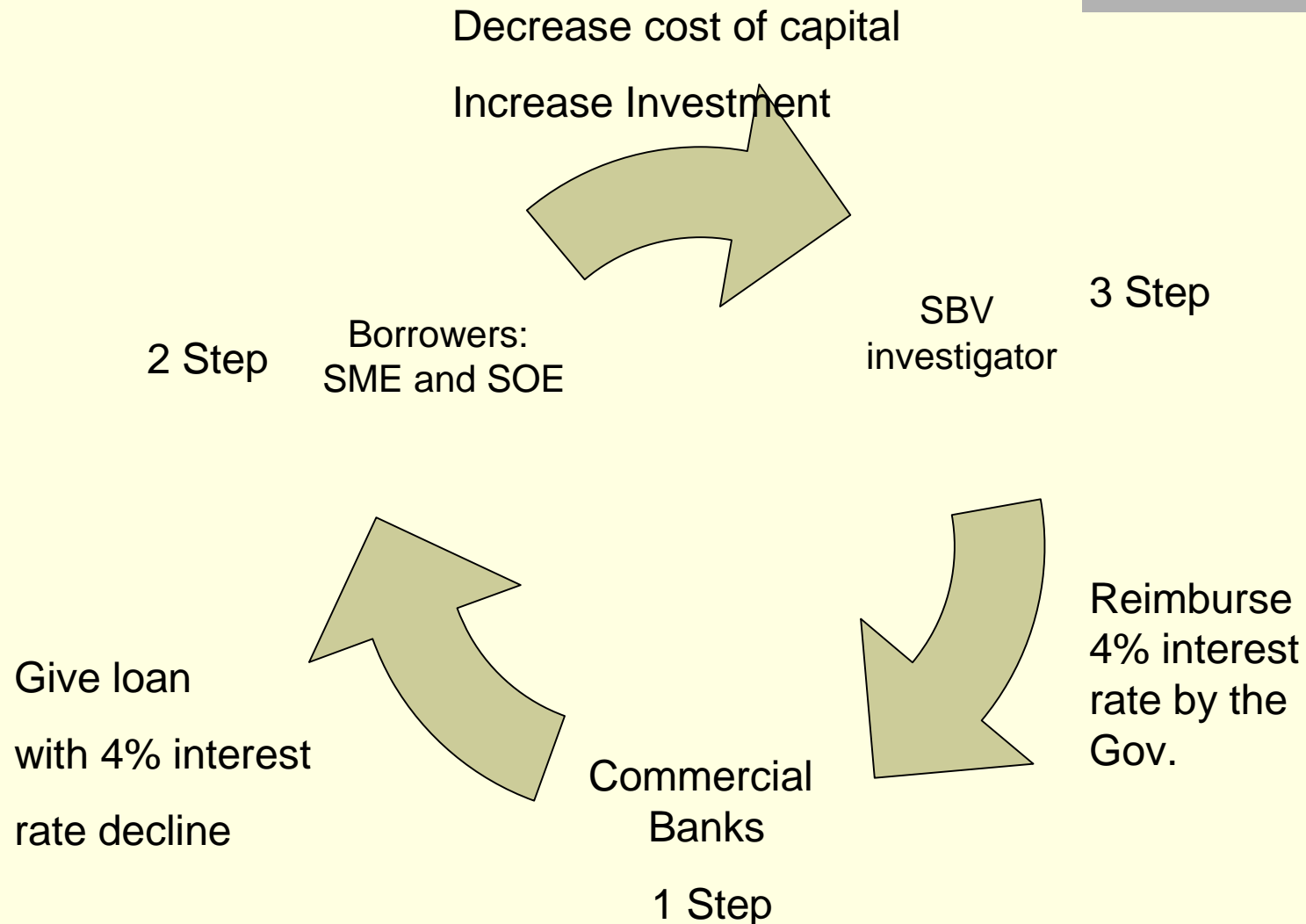
Source: VDF survey, 2009

- In three periods, the monetary policy is the most important factor of credit policy, then the liquidity
- Business status of borrower is unimportant in granting loan in period 1
- Banking strategy seems less affect to the credit policy in different period

Interest support lending policy - Mechanism

- cutting-off 4% interest rate applied for short-term and medium and long term loans from banks for certain sectors
- borrowers to be benefited directly by decreased cost of capital
- VN government reimburse for bank this interest cutting-off from State budget, total up to 17,000 billion VND (approximated 1 billion USD)
- State Bank of Vietnam investigate and inspection this policy besides other relating authority agencies

Interest support lending policy - Mechanism



Interest support lending policy - Results

- Reducing the borrowing rates applied to enterprises (4-6%)
- Increasing loan outstanding with the average credit growth of 30%
- Contributing to change in investment in some sectors: agriculture, construction
- The quarterly GDP growth in 2009 reached 3.1%, 4.5%, 5.8% and 7.1% respectively

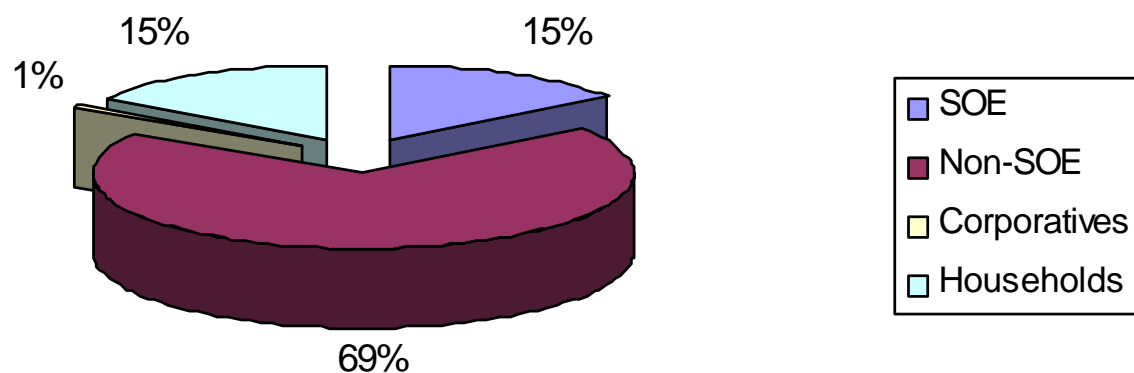
Interest support lending policy - Results

**Table 3. The composition of interest support loan outstanding by economic sector
as of September 2009**

Indicator	Loan outstanding (VND billion)	Percentage (%)
Total loans by economic sectors	402,084	
Agro-forestry	35,363	8.8%
Fishery	12,752	3.2%
Processing industry	136,709	34.0%
Power, water and gas production & supplies	9,742	2.4%
Construction	43,683	10.9%
Mining	6,234	1.6%
Trading	121,539	30.2%
Restaurants and hotels	1,190	0.3%
Transportation and warehousing	16,025	4.0%
Science and technology	496	0.1%
Other economic sectors	18,351	4.6%
Total	402,084	100.0%

Interest support lending policy - Results

Figure 7. Interest Support Lending - by sector



Interest support lending policy – Limitations

■ **For bankers and other institutional lenders**

- The loan appraisal and checking procedures were too complicated
- Banks were subject to strict but somehow overlapping supervision by the related authorities
- It was difficult to differentiate and distinguish the sectors or industries to be supported
- It was impossible to check whether the loans were disbursed for the right usage or businesses being supported
- -> asymmetric risk

Interest support lending policy – Limitations

- **For bankers and other institutional lenders**
 - It is hard to ensure credit quality -> high credit risk
 - High credit growth rate is possibly attributed to the interest rate support policy, not customer demand
 - Cash flows from credit to saving accounts to make profit from interest gap

Interest support lending policy – Limitations

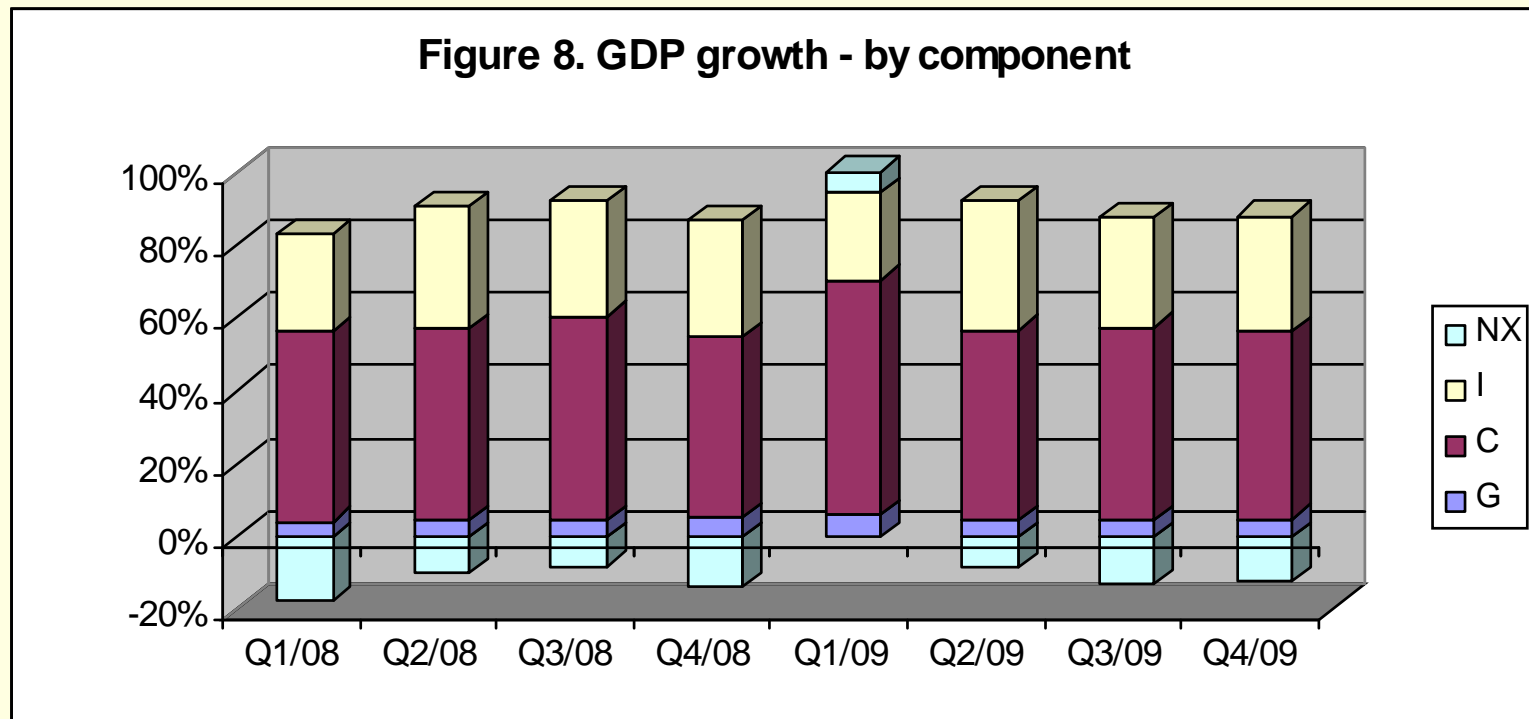
■ For borrowers

- Targeted beneficiaries of the support were mainly financially sound enterprises, who were not too badly affected by the economic slowdown
- Those who are really in difficulties during the economic slowdown period were not eligible for the supports because of lack of qualification for lending requirements
- The period of support is too short to find long-term investment projects

Interest support lending policy – Limitations


- For regulators and supervisors
 - High pressure for lending regulation and supervision
 - Overlapping in supervision and monitoring is significant (all commercial banks must be supervised)

Interest support lending policy – Impacts on economic growth



Conclusions and recommendations

- The mechanism of direct supports such as tax cutting will be more effective than indirect supports through the commercial bank system
- Combination with other support forms to be developed such as market access, trade promotion, etc.
- Combination of the regulation mechanism and monetary policies to prevent resurging inflation
- It is important to be aware of the bubble in asset markets and the market speculation and manipulation



Thanks for your attention!