



1. Supply of subsidized loans

In early 2009 in the context of the global financial crisis and recession, the world economy experienced complicated changes and the Vietnamese economy met with a lot of difficulties, and its indicators showed deeply downward tendencies. With bold, appropriate and timely policies and joint efforts by the government, companies and the public, Vietnam could achieve main targets set by the NA: stopping the economic recession, preventing the inflation from rising higher again, maintaining the macroeconomic stability, gaining a reasonable growth rate, satisfying basic needs for social welfare and national defense, ensuring political stability and social order, and enhancing Vietnam's position and prestige in the international arena. These achievements mean an encouraging success by the whole political system to which the banking system has its contribution.

In 2009, the SBV implemented flexibly the monetary policy with the aim of stimulating the market demand, encouraging the production and export, ensuring the macroeconomic stability and preventing the inflation. The SBV studied and carried out timely and aggressively PM decisions on interest subsidies in the whole system. Tasks it

completed are as follows:

- Issuing guidelines on the supply of interest-subsidized loans as decided by the PM.
- Ordering banking institutions to carry out properly and quickly the PM decision and SBV regulations on the supply of such loans.
- Holding meetings on work ethics and ideology to prevent violations of regulations on subsidized loans among banking officials.
- Disseminating information and disclosing regulations on, and procedures for securing, subsidized loans.
- Carrying out regular inspections and supervising the implementation of the PM decisions to grasp the situation, cooperating with local authorities to handle arising obstacles and difficulties based on local conditions.
- Forming two special task forces to supervise and handle complaints in Hà Nội and HCMC.
- Establishing hotlines to receive and handle complaints from companies and possible wrongdoings.

Generally, the supply of subsidized loans was directed to right destinations and complied with PM decisions and SBV guidelines. Up to the end

of November 2009, the total subsidized loan amounted to VND445,823 billion comprising VND 415,886 billion from commercial banks and finance companies; 10,155 billion from Vietnam Bank for Development; and 19,782 billion from Bank for Social Policy. Of the loan supplied by commercial banks and finance companies, VND279,333 were from state-owned commercial banks and Central People's Fund; 107,841 from joint stock commercial banks; 20,035 billion from joint venture banks, foreign banks and their branches; and 8,676 billion from finance companies. Of the total subsidized loan, VND62,820 billion went to state-owned companies; 286,272 billion to non-public concerns and 66,794 billion to family businesses. The supply of loans of this kind produced positive effects on the economy. Along with a carefully-run cheap money policy, the supply of subsidized loans allowed companies and family businesses to secure low-interest loans (from 4% to 6% per year). This program made the credit growth get high in 11 months of 2009 and helped slowdown the economic recession.

By analyzing stimulus packages in foreign countries, implementation of the monetary in Vietnam in the past few years, and realization of the PM decisions to supply the subsidized loans in 2009, we saw that the interest-subsidy package is an optimal, low-cost and effective solution appropriate to domestic situation. This program also proved affects and ability to carry out policies by the banking system.

2. Flexible implementation of monetary and exchange policies to serve investment, consumption and export

To achieve such targets as stopping the recession, stabilizing the economy at macro level, stimulating the investment and spending, promoting

the export, preventing the inflation, and ensuring the safety of the whole system, the SBV implemented the monetary and exchange rate policies by applying a cheap money policy carefully, supporting the liquidity, and helping banking institutions increase their credit supply effectively.

- Regulatory rates of interest were cut and stabilized reasonably as from February 2009 in order to lower the lending rate, increase the bank deposit and satisfy the demand for credits. In this effort, the base rate in the VND was reduced from 8.5% to 7% a year, the refunding rate in the VND from 9.5% to 7% a year; and the rediscount rate from 7.5% to 5%. From December 2009, 1% was added to these rates to make them appropriate to new developments in the economy.

- The required reserve ratio for deposits in the VND with maturity shorter than 12 months was reduced from 5% to 3% as from March 2009. The ratio for deposit in the VND with maturity longer than 12 months was reduced from 2% to 1% as from January 2009. The interest rate on these required reserves was reduced from 8.5% to 1.2% a year while the interest rate on extra reserves in foreign exchange was reduced from 1% to 0.1% a year.

- As for the open market operation, the SBV was ready to buy valuable papers at reasonable maturity and interest rate to regulate disposable funds of banking institutions, increase the supply of capital, ensure the liquidity of banks and stabilize the interest rate on the inter-bank market.

- The SBV swapped foreign currencies with commercial banks to provide funds in the VND and reduce their imbalance between funds in the VND and foreign currencies, and at the same time, increase the SBV foreign exchange reserves.

- The band on either sides of the exchange rate to



the dollar was increased from +3% to +5% as from March 24, 2009 and the exchange rate offered on the inter-bank market was kept appropriate to signals from the market with a view to promoting the export and reducing the trade gap. On Nov. 26, 2009, changes on the foreign exchange market, relations between the exchange rate and interest rate, CPI and balance of payments forced the SBV to reduce the band to +3% and set the inter-bank exchange rate at VND17,961 to the dollar, an increase of 5.4% compared with the rate on Nov. 25, 2009.

3. Measures taken to control the credit growth to serve export, local production, social welfare and macroeconomic stability

- Reviewing term of repayment, reducing the interest rate stated in previous contracts to the current lending rate, and revoking fines on debtors who failed to repay on time because of global crisis and recession.

- Increasing the supply of credit according to targets set for the whole system, refusing to simplify terms of credit, and adjusting the structure of credit to supply more capital to local production and export and reduce the supply to non-production activities (investment in real estate and securities and personal spending).

- Regulating sources of capital to serve the program to buy rice for export and domestic consumption and other major projects as required by the PM.

In 2009, macroeconomic targets set by the NA were achieved reasonably: CPI increase of 5.07% for 11 months of 2009 compared with that in December 2008 was acceptable against the context of measures to cut the recession and stimulate the economic growth. The bank deposit increased rather well, by 24.85% up to November 31, 2009 compared with the corresponding period last year (this figure for 11 months of 2008 was 16.49%). Increases in the total liquidity and credit complied with the stimulus program set by the Government, ensured the supply of credit to the economy, helped stop the recession and supported the economic growth. Up to Nov. 30, 2009, the total liquidity rose by 24.34% (this figure in the 11 months of 2008 was 11.45%), the credit growth was 36.08% compared with late 2008 (18.47% for 11 months of 2008).

The global financial crisis and recession affected greatly the inflow of foreign exchange. Under direction of the PM and with measures introduced by ministries, however, the supply of foreign exchange and the liquidity of market were improved remarkably as from July 2009. Moreover, the inflow of foreign exchange also increased because of the foreign indirect investment. In addition, the SBV took various measures and formed many inspection groups, on its own or in cooperation with other ministries, to improve the business performance and ensure safety for the whole banking system against negative effects of the financial crisis.

In 2009, information service and dissemination of banking regulations and policies were carried out actively in order to direct the public opinion, especially in issues related to exchange rate and interest subsidies, thereby stabilizing the money and foreign exchange markets. Due to these efforts, local governments, companies, foreign investors and organizations and the public were better informed and ready to support policies and measures introduced by the Government and SBV to the banking sector. This was one of factors that helped stabilize the money market.

4. Directions for 2010

Based on targets for economic growth and inflation rate for 2010, the SBV will implement the monetary policy in the following directions.

a. Targets:

- Keeping increases in the total liquidity and credit growth at reasonable levels (about 25% compared with late 2009) appropriate to a planned growth rate of 6.5% and an inflation rate of 7% or lower.

- Maintaining the interest rate and exchange rate at levels appropriate to macroeconomic balances and targets of supporting the local production, controlling the trade gap, ensuring the safety for the banking system, perfecting the banking regulations and presenting to the NA (at its 7th session) Bill of State Bank of Vietnam and Bill of Banking Institutions.

b. Tasks and measures:

- Perfecting Bill of State Bank of Vietnam and Bill of Banking Institutions and presenting them to the NA and compiling guidelines to be promulgated after the Bills are passed.

- Reviewing and amending statutes of monetary and banking sector to make them appropriate to commitments to international integration and opening of the finance market, especially regulations on safety and control of foreign exchange.

- Employing instruments of monetary policy in a proactive, flexible and careful manner, especially the open market operations, to stabilize the money market, ensuring solvency of each banking institution and the whole system, controlling the increase in the total liquidity and credit supply, and making the average interest rate appropriate to macroeconomic fluctuations.

- Operating the exchange rate flexibly based on market signals and keeping it at a relatively stable level with a view to helping the macroeconomic stability and achieving main targets (promoting the export, limiting the trade gap and supporting the sustainable development).

- Perfecting the legal infrastructure for exchange control in order to enhance efficiency of the SBV regulatory role, developing instruments on the foreign exchange market to offer more opportunities to prevent risks.

- Directing banking institutions to restructure their assets and sources of capital in a safe and sustainable manner and supporting actively the restructuring of the economy; increasing investment in agricultural and rural development; developing the economic structure, promoting the export; increasing the supply of loans to the poor and disadvantaged groups, especially 63 districts and remote and depressed areas and districts of ethnic groups.

- Keeping a close watch on fluctuations in do-

mestic and foreign money- finance markets and producing timely predictions and solutions needed for regulating the banking system and handling arising problems; beefing up cooperation with ministries in regulating the fiscal and monetary policies, exchange control and other macroeconomic policies in order to enhance the efficiency of control over inflation and money supply, ensure the economic growth and macroeconomic stability.

- Cooperating closely with Ministries of Planning and Investment, of Finance, and of Industry and Trade to analyze and make timely predictions of balance of payments; reviewing and amending regulations on the control of the balance of payments; and keeping a close watch on and recording capital inflows and outflows in order to produce more exact predictions of changes in the balance of payments.

- Innovating and enhancing performance of banking inspection and supervision; applying new methods of inspecting possible risks; paying attention to distant supervision; and improving quality of the army of inspectors and supervisors.

- Beefing up the tasks of supplying and disseminating information and banking regulations to win the public support for policies and solutions for the banking system; and accelerating the administrative reform to create more favorable conditions for companies and individuals to get access to banking services, especially bank loans and payment service■

