

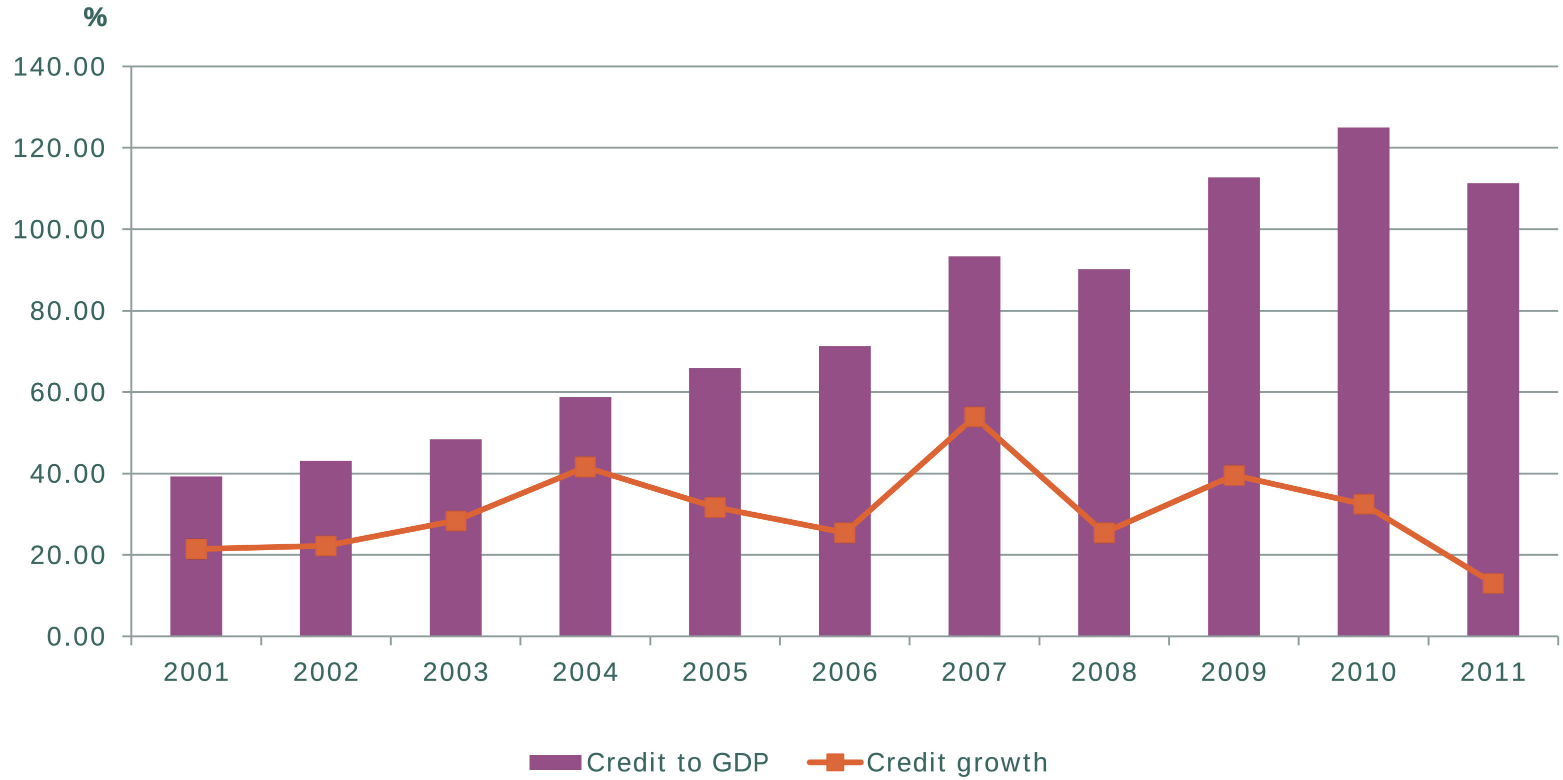

# Implementing Macroprudential Policy: The case of Vietnam

*Do Quoc Tho Nguyen*
*State Bank of Vietnam*

# Contents

# Bank-dominant financial market…

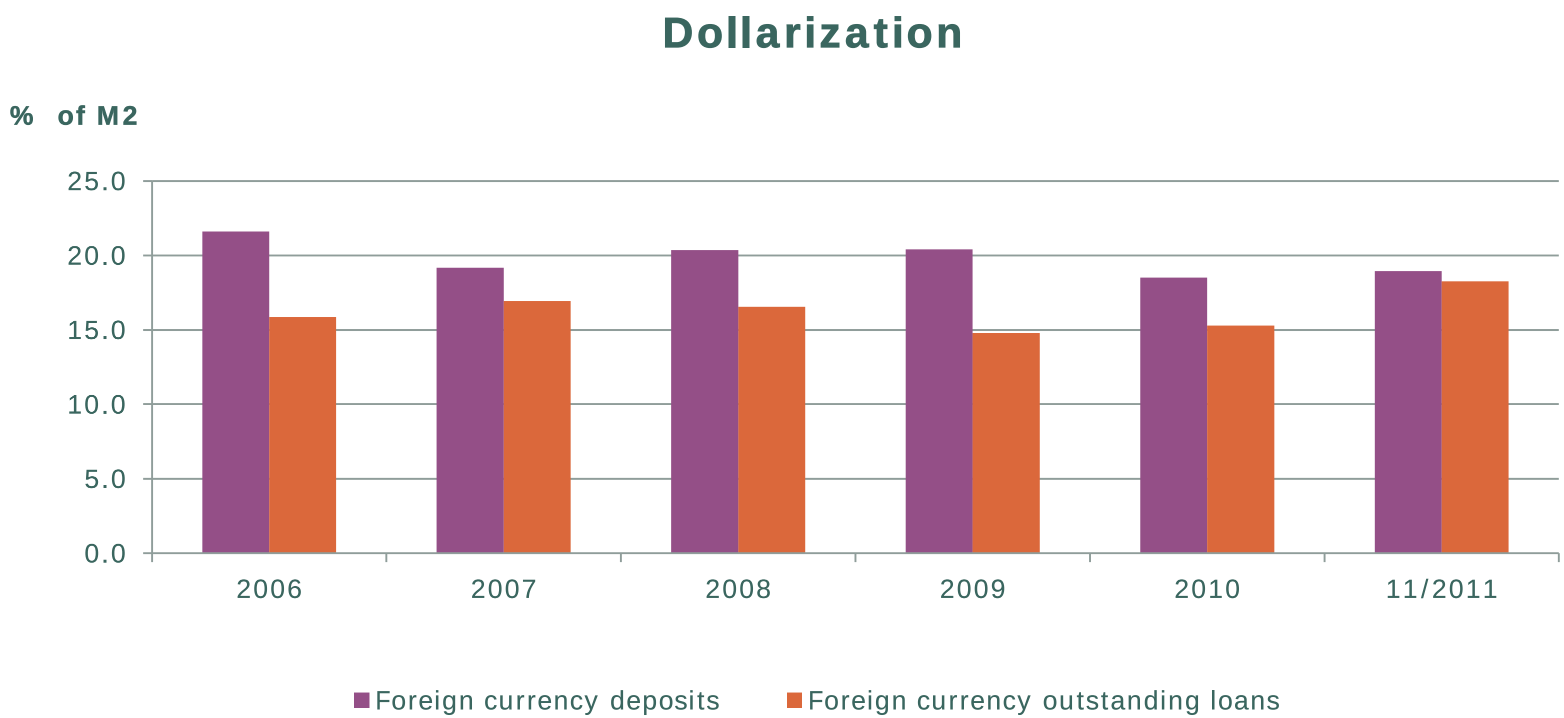
- Over 100% credit/GDP
- High credit growth
- High leverage ratio and risk-taking behavior
- High level of duration/maturity mismatch




*Source: SBV*

# … and moderate dollarization

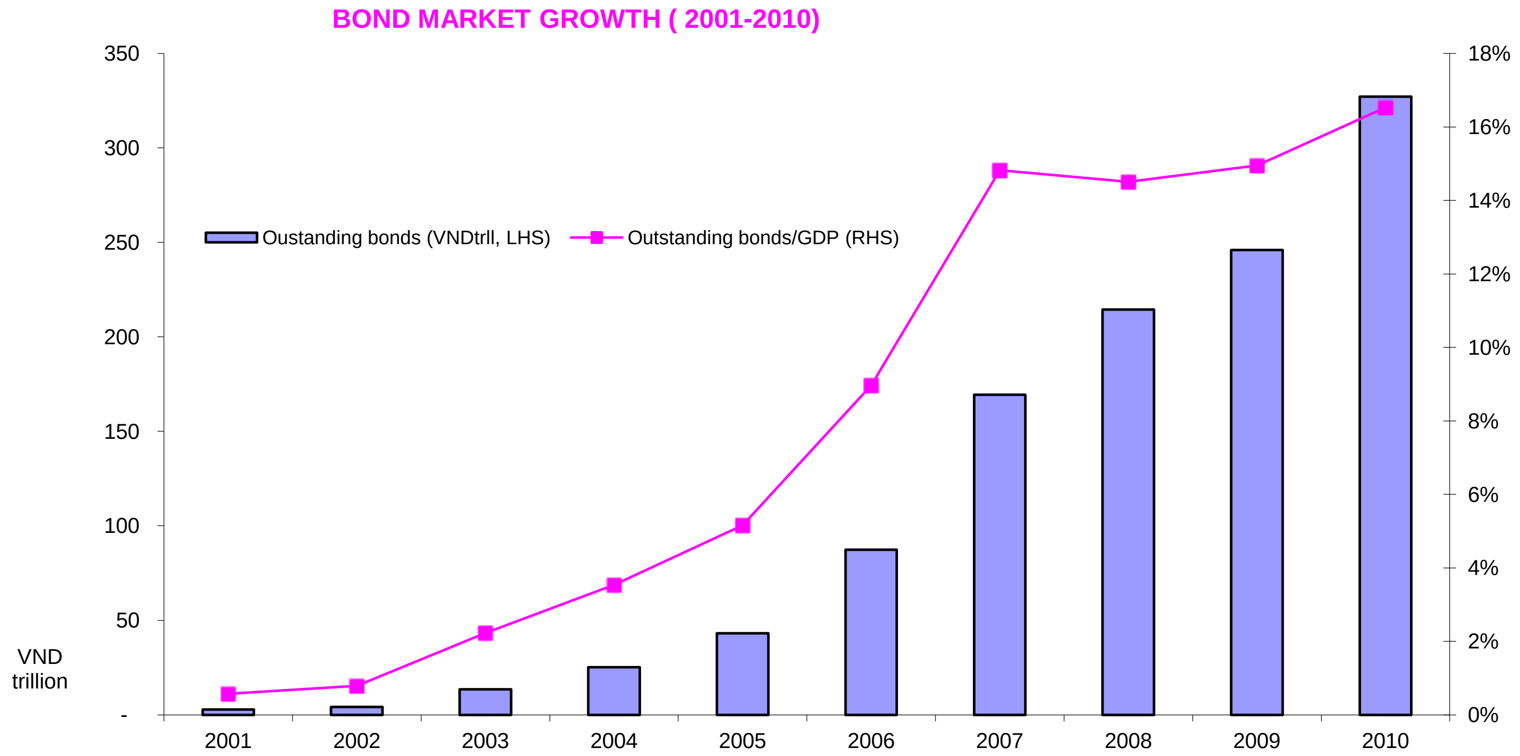
- Declining dollarization…
- …but are still at moderate levels in both asset and liability sides
- => currency mismatch




*Source: SBV*

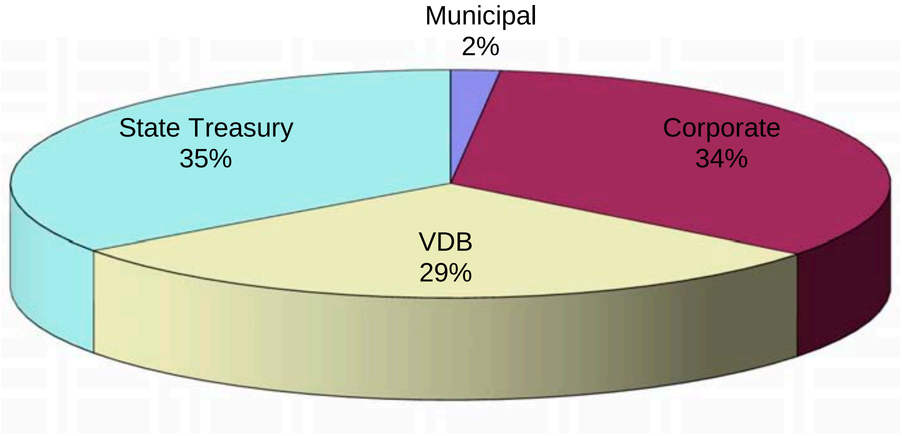
# Growing bond market

- Investors are mainly banks in the absence of other institutional investors like mutual funds and pension funds
- A thin secondary market



# Growing bond market

**BOND MARKET BREAKDOWN (as end of 2010)**



# … but still small

- Bond outstanding of Vietnam was around 15% of GDP, much lower than other Asian countries

**Figure 2-4 Country-by-country bond market size (as a percentage of GDP)**

| | Dec. 1997 | | | | Jun. 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Bond Outstanding | | | | Bond Outstanding | | | |
| | | Gov't bond | Financial Institutions bond | Corp bond | | Gov't bond | Financial Institutions bond | Corp bond |
| China | 9% | 5% | 4% | – | 60% | 33% | 17% | 9% |
| Hong Kong | 23% | 7% | 14% | 2% | 56% | 41% | 9% | 6% |
| Taiwan | 35% | 11% | 8% | 16% | 63% | 38% | 9% | 16% |
| Korea | 28% | 6% | 10% | 13% | 131% | 56% | 34% | 41% |
| Singapore | 25% | 14% | 8% | 3% | 71% | 56% | 13% | 1% |
| Indonesia | 2% | 0% | 1% | 1% | 20% | 19% | 1% | 1% |
| Malaysia | 54% | 19% | 22% | 12% | 99% | 51% | 21% | 28% |
| The Philippines | 20% | 20% | – | 0% | 37% | 35% | – | 2% |
| Thailand | 7% | 1% | 0% | 6% | 76% | 54% | 1% | 20% |
| India | 18% | 18% | 0% | 0% | 53% | 45% | 6% | 2% |
| Emerging Asia Total | 19% | 8% | 6% | 5% | 64% | 38% | 15% | 11% |
| | | | | | | | | |
| Japan | 97% | 54% | 33% | 11% | 247% | 209% | 22% | 16% |
| The United States | 139% | 53% | 63% | 22% | 176% | 72% | 83% | 20% |
| England | 52% | 34% | 15% | 2% | 71% | 56% | 14% | 1% |

*Source:* Kawai, M. *et al*, 2011. *Asian Bond Markets: Development and Regional Financial Cooperation*. Study Group Report. Published by The 21st Century Public Policy Institute.

# A thin stock market…

- …with predominant individual investors


*Source: Vietnam State Securities Committee*

# Potential systemic risks…

- Potential systemic risks Vietnam is currently facing can be categorized as follows:

| Risk Category | Sources |
|---|---|
| Foreign currency exposure risks | Dollarization, currency mismatch |
| Credit risk | Dollarization, high credit growth, interest rate volatility |
| Excessive leverage risk | Bank-dominant financial sys., high credit growth |
| Liquidity risk | Maturity mismatch, Lack of confidence |
| Asset price risk | Real-estate loans, stocks related loans |

# …and macroprudential policy taken

| Measures | Target | Status |
|---|---|---|
| Limit open FX position | Address currency mismatch | On-going |
| Interest rate caps on foreign currency denominated deposit | Address currency mismatch | On-going |
| Limit foreign currency loans | Address currency mismatch, slow down system-wide credit growth | On-going |
| Limit credit growth in line with FIs' soundness | Slow down system-wide credit growth; avoid excessive leverage ratio; strengthen the resilience of financial system | On-going |
| Interest rate caps on VND denominated deposit | Mitigate high risk-taking mentality, reduce the interest rate volatility | On-going |
| Limit credit-to-fund mobilization | Slow down system-wide credit growth; avoid excessive leverage ratio; mitigate liquidity distress | Effective from May 2010 to August 2011 |
| Limit credit to high vulnerable sectors (mainly property credit, consumption credit, stock-related credit) | Slow down credit growth; asset bubble | On-going |
| Limit stock-related-loan outstanding to FIs' own capital | Reduce risk associated with stocks market bubble | On-going |

# … combine with other policies to ensure financial stability

| Measures | Target | Status |
|---|---|---|
| Monetary policy | | |
| Reserve requirement | Curb credit growth | On-going |
| Repo transactions | Liquidity management | On-going |
| Refinancing facilities | Liquidity management | On-going |
| Intervene on FX market | Stabilize exchange rate; limit currency mismatch | On-going |
| Capital control | Limit currency mismatch | On-going |
| Microprudential policy | Strengthen the soundness of individual FIs | On-going |
| Re(structural) policies (M&A, Bridge Bank, Open Bank Assistance, etc) | Strengthen the soundness of the system | On-going |

# Outcomes…

**Macroprudential policy has shown some effectiveness in 2011 and early 2012**

- Credit expansion slowing down, mostly contributed by FX loans decreasing
- Excessive leverage ratio of businesses decreased
- Asset prices deflating significantly
- The currency mismatch almost removed
- Excessively high interest rates cooling down
- Stable FX market and inflation decelerating brought confidence back and prevented run

# … and challenges

- Moral hazard when FIs tried to exceed interest rate ceilings
  - For example, in order to exceed credit growth ceiling, banks increasingly involved in trusted contracts with enterprises or purchased more corporate bonds.
- Burden for data monitoring and supervision
- Limit credit on property sector was in need in a long-run perspective, but the slowing down of this sector, in return, poses more credit risk to banks in the short run.
- Debate on Pareto optimum given it’s unclear that the caps/limits are at equilibrium or not.


Hudson
Bay
QUEBEC
Montreal
MAINE
Boston
NOVA SCOTIA
COLORADO
MINN.

# Thank you!