**Results of monetary policy management and banking operations in the first half of 2016**

Following the instructions of the Government in the Resolution No.01/NQ-CP dated January 7, 2016 on key measures in execution of the socio-economic development plan and state budgeting in 2016, Governor of the State Bank of Vietnam issued Directive No.01/CT-NHNN dated February 23, 2016 on the implementation of the monetary policy and safe and sound banking operations in 2016. Accordingly, in the year 2016, the SBV continues to manage the monetary policy in a proactive, flexible in combination with fiscal and other macroeconomic policies in order to control inflation below 5%, stabilize macro-economy, support economic growth at about 6.7%, while ensuring the liquidity of credit institutions and the economy, and stabilizing money market.

In order to continue to implement the objectives set by the Government in Resolution No 01/NQ-CP dated January 7, 2016, Resolution No.33/NQ-CP dated May 9, 2016 and Resolution 35/NQ-CP dated May 16, 2016, SBV Governor issued Directive No.04/CT-NHNN on May 27,2016 guiding the banking system to accelerate the implementation of solutions set by the SBV in Directive No.01/CT-NHNN and measures to resolve difficulties for enterprises and proactively control the inflation movement.

The SBV implemented monetary policy tools in flexible and consistent manner to regulate the money supply at a reasonable level for the aim of stabilizing interest rates toward reducing lending interest rates, supporting the stability of foreign exchange rate and the issuance of the government bonds, increasing the state forex reserve.

By July 29, 2016, the total liquidity increased by 9.45%, mobilizing funds rose by 9.94% (VND mobilizing funds increased by 12.28%; mobilizing funds in foreign currencies reduced by 6.25%); the liquidity of the entire banking system was ensured and excessive, interbank interest rates reduced as compared to end of 2015. On the basis of macroeconomic, money and inflation movements, the SBV maintained stable interest rates and utilized monetary policy tools to ensure the liquidity, creating conditions for credit institutions to stabilize interest rates.

From end of May 2016, the SBV instructed credit institutions to conduct several measures to balance funds in order to stabilize interest rates, to reduce operational costs and improve business effectiveness for the aim of reducing lending rates; the SBV issued Circular No.06/2016/TT-NHNN to revise regulations on prudent ratios in operations of credit institutions and foreign bank branches. Specifically, SBV revised the ratio of using short term capital for lending mid and long term loans with an appropriate reducing schedule that contributed to ease the tenseness of interest rates. Together with the conduction of synchronous measures, the interest rates were maintained stable, from April 2016, the state commercial banks and several joint stock commercial banks reduced interest rates of short term loans by 0.5 percentage point; setting up the interest rate of mid and long term loans at the maximum level of 10%.p.a for loans provided to production and business; concurrently, proactively conducted several lending programs with preferential interest rates.

The daily reference exchange rate was regulated in a flexible manner on the basis of closely watching the demand – supply relation of the international and domestic financial markets and monetary policy objectives. The synchronous solutions were conducted by the SBV to support for the exchange rates whenever the needs be. Hence forex market movement was positive right from the beginning of the year.

The interbank exchange rate of USD/VND in the interbank markets reduced and was relatively stable and fluctuated around the buying rate set by the SBV (VND/USD 22,300).

The liquidity of money market was maintained good, legitimate demand of the customers on foreign currencies was met sufficiently. The psychology of foreign exchange hoarding remarkably reduced; credit institutions bought foreign currencies from the economy, and SBV was able to mobilize foreign exchange to increase the state exchange reserve.

Additionally, SBV conducted synchronous measures of credit management to control credit growth to contribute to supporting economic growth while ensuring credit quality and strictly managing lending activities on risky sectors. Accordingly, the SBV set the orientations to increase credit by 18-20% for the whole 2016, promptly made announcement to every credit institutions and closely watch the movement of lending operations of commercial banks. In the context of numerous difficulties of the economy in the first six months together with serious incidence of drought, salt intrusion from June 1st, the SBV allowed credit institutions to made their decisions of lending in foreign currencies to meet the domestic demand of short term loans of production and business of export enterprises by December 31, 2016; concurrently the SBV instructed credit institutions to continue to collaborate with local authorities to accelerate program of connecting banks and enterprises, creating favorable conditions for enterprises to access bank loans.

In order to ensure credit quality of the system of credit institutions, the SBV issued Circular to revise regulation on capital-to-risk weighted assets ratio applicable to real estate loans to be applied from January 1, 2017 with the exception of the application to end user clients; SBV revised and supplemented the methodology of identifying and reduced the ratio of short – term capital to be used for lending medium and long term loans applied to credit institutions and branches of foreign banks with appropriate roadmap for the aim of managing liquidity risk and ensuring safe and sound operations of banks. Credit growth was recorded with higher level than that of the same period of the last year. By July 29, 2016, the outstanding credit to the economy increased by 8.54% as compared to end of 2015, the credit structure positively supported to the production and economic growth. The lending policies for fields and industries were conducted effectively by using the SBV resources to contribute to develop the economy and ensure social protection.

SBV continued to take consistent and synchronous measures to manage forex market and effectively eliminated the dollarization and improved the state exchange reserve and the international balance.

The gold market management was conducted effectively in accordance with Degree No.24/2012/ND-CP; gold price was stable and closely followed by international gold price; gold supply and demand in the market were relatively balanced, the goldization continued to be eliminated, the utilization of gold as payment tool was prevented significantly.

For NPL resolution, by end of June 2016, NPL ratio of whole banking system was 2.58% lower than that ratio of 2.78% recorded in May 2016. According to statistics from credit institutions and VAMC, total amount of NPL resolution in the first six months of 2016 reached VND 59.71 trillion, decreased by 14.55% as compared to the same period of the last year, of which the amount of NPLs sold to VAMC was VND 8.88 trillion; the amount of debt repayment of the customers was VND 30.98 trillion, and using risk provision for resolving NPLs was VND 7.24 trillion.

**The orientation of monetary policy management and banking operations in the coming time**

Based on the directions of the National Assembly and the Government, and the key tasks in Directive No.01/CT-NHNN dated January 27, 2016 and the Directive No.04/CT-NHNN dated May 27, 2016, the SBV will continue to manage monetary policy in a proactive and flexible manner in close association with the fiscal policy to control inflation, stabilize macro-economy, support economic growth at a reasonable level; decisively take measures to contribute to removing difficulties and promoting business and production. The whole banking sector shall have to focus on the effective implementation of the following key tasks:

- Closely follow up the macroeconomic, monetary and banking development to regulate consistent and synchronous tools of monetary policy mainly via open market operations and refinancing tool with the proper quantity and interest rates to support for credit institution liquidity and control the inflation. Continue to instruct credit institutions to balance resources to stabilize interest rates, reduce operational costs and improve business effectiveness toward reducing lending rates.

- To manage credit growth of the whole system of credit institutions to ensure safe and effective lending with focus on production sector, especially for the agricultural and rural sector, exporters, supporting industries, small and medium enterprises, high-tech enterprises, start up business; to strictly control lending to potential risky sectors, and continue creating preferable conditions for enterprises to access the bank loans.

- To take synchronous measures to manage forex market effectively in line with macroeconomic and monetary movement, and anti dollarization objectives of the Government; Continue to announce the central daily reference exchange rate in line with monetary policy objectives and conduct effective solutions of stabilizing exchange rate and forex market.

- Closely collaborate with fiscal policy and closely watch the market movement and liquidity of credit institutions, the plan of issuance, disbursement of government bonds to regulate monetary policy in proactive and timely manner.

The State Bank of Vietnam

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