

New circular targets safer growth for banks: SBV

 HA NOI (Biz Hub) — State Bank of Viet Nam Deputy Governor Nguyen Thi Hong has affirmed the need for Circular 36, saying the regulations would help the Vietnamese banking sector develop more safely.

Hong was responding to this week's recommendations from the Viet Nam Business Forum's (VBF) banking working group.

Last November, the SBV issued Circular No 36/2014/TT-NHNN, regulating prudential ratios for the operations of credit institutions and foreign bank branches.

Under the circular, a commercial bank can hold shares in a maximum of two other credit institutions, and its stake at each institution should not exceed five per cent of the total equity of that institution.

The SBV will allow higher shareholding ratios in specific cases where it designates banks to either prop up the financial situation or support the restructuring process of fragile organisations.

The circular takes effect on February 1, 2015. Banks are given about 15 months to completely adjust their holdings and ensure that stakeholder limits are met.

However, the VBF's banking working group suggested that the SBV extend the circular's date of effectivity, saying the deadline was too pressing for banks to prepare for their liquidity.

Implementation of the circular as scheduled can shock the market, as banks have to reduce their bond issuance in such a short time to meet the new regulations, the group noted.

It added that an extension could also help the country develop the bond market and avoid the experience of 2008 to 2009, when bond interest rates accelerated from seven per cent to 21 to 25 per cent.

Hong said the circular aimed to meet the Vietnamese Government's target of restructuring the banking sector and help credit institutions govern risks in accordance with international rules.

It also aims to help secure banking operations by restricting cross-ownership situations, earlier singled out as responsible for the fragility of the domestic banking system in the last few years.

As for the group's other recommendations, Hong said the SBV would review them and make suitable adjustments to further create a healthy business environment and ensure the banking system's safety.

She added that the SBV would continue discussions with the working group regarding their recommendations on some regulations such as financial companies' consumer lending and the draft circular on money laundering that the SBV would be issuing soon.

The SBV has agreed with the group's recommendations on developing the capital market and granting capital to small and medium enterprises, Hong pointed out. — VNS

