**Sector Note**

# Banks

## Comments on Circular 06/2023 amending Circular 39/2016

- SBV issued Circular 06/2023 on June 28, 2023, amending articles about lending activities regulations of credit institutions and foreign bank branches.
- We believe that Circular 06/2023 will complete the legal framework for credit institutions' lending, guiding capital flows to effective and healthy projects.
- Circular 06/2023 issuance is necessary as lending rates are falling rapidly, yet it would slow down credit growth in the short term.

### Lending rate of commercial banks dropped sharply on policy rates adjustments

In line with 4 times policy rates cuts in the last 4 months, commercial banks have also launched aggressive policies to cut lending rates to support their customers. According to our statistics, several commercial banks have reduced lending rates by 0.5-1% pts for all existing and new loans; or 1% pts and more for working capital loans, consumer loans with collaterals, or new loans for manufacturing and business activities. However, the significant drop in lending rates was potentially risky should low-cost capital can flow to nonconforming projects/purposes, creating a credit bubble risk for the economy. Faced with that situation, Circular 06/2023 was issued with 3 main contents (i) supplementing the purposes of loans which are prohibited from lending, (ii) urging commercial banks to extend supervision with loans for securities and real estate trading and (iii) creating a legal framework for loans to be approved via electronic channels.

### Additional regulations for rejected loan demands

Circular 06/23 adds a number of regulations for prohibited lending purposes, notably: (i) to refinance, (ii) to send money to deposit accounts, (iii) to pay for the capital contribution, stake transferred of unlisted enterprises, (iv) to make capital contributions or investment cooperation contracts for investment projects which do not satisfy conditions for commercial operation. The addition of these regulations will help accurately reflect credit quality, limiting some situations such as providing financial proof services for customers to study abroad, or capital contribution guarantees. Commercial banks usually monitor the interest payment and disbursed purposes, yet control the business situation or repayment source of the borrowers (in the case of capital contribution loans). Therefore, lending capital contribution loans will lead to potential risks to the effectiveness of these loans and a potential rising bad debts in the future. With tighter lending regulations, we believe that the system credit growth would slow down in the short term, but ensure safety for the economy in the long term. As of June 15, 2023, the credit growth was only 3.36% ytd – the lowest level in the past 10 years. For 2023, we expect the system credit growth to reach 10% - lower than the SBV's target of 14-15%.

### Increase supervision on loans for securities and real estate trading

Besides adding prohibited lending conditions, SBV also requires commercial banks to extend control of lending activities for the purpose of refinancing, securities investment and real estate trading. By strengthening regulations on loan disbursement, Circular 06 would help direct credit flows to substantial projects/purposes that bring high value for the economy.

### Building a legal framework for lending via electronic channels

Recognising the increasing demand for loans approved via e-channels, SBV has built a legal framework for this activity (risk assessment process, record keeping, regulation on a maximum loan balance of a customer at a credit institution must not exceed VND100m). We believe that these are positive signals for the development of consumer lending activities in Vietnam as by the end of 2022, the consumer loans balance of consumer finance companies have reached about VND220tr (+82% yoy, accounting for 8.5% of the total consumer loan balance of the whole system).

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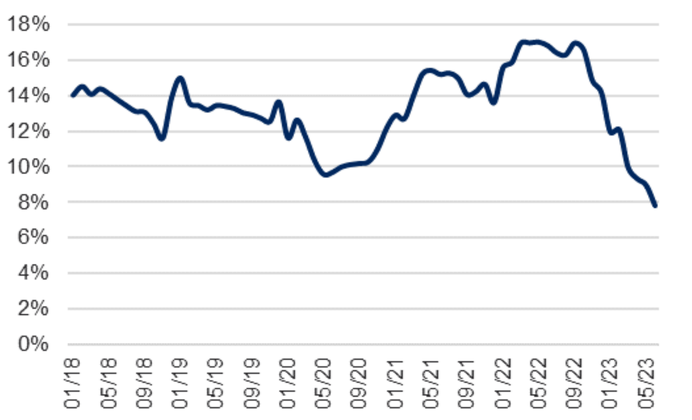
**Figure 1: Major changes in Circular 06/2023**

| | Circular 39/2016 | Circular 06/2023 (amended for Circular 39) | Impact assessment |
|---|---|---|---|
| Supplementing loan usage plan for home mortgage loans | Only apply when the loan is for business purposes (exclude living purpose) | Also apply for loans with the purposes of mortgages, houses constructions and renovating, land rights transfer. | The new regulations establish a stricter procedure on loan profiles, and repayment plans for home mortgage loans compared to the old Circular. This will help reduce the risks for banks if there are turmoils in the real estate market; however, it would also negatively affect the credit growth of mortgage loans |
| Prohibited lending purposes | n/a | To send money to deposit accounts | Limiting some situations such as providing financial proof services for customers to study abroad, capital contribution guarantees or capital funding to establish a business, thereby helping to improve credit quality |
| | n/a | To finance the capital contribution, or buy stake transferred of LLCs or partnerships; To make capital contribution under capital contribution agreements, investment cooperation contracts to implement investment projects which do not satisfy conditions for commercial operation at the time of the lending decision | Commercial banks usually monitor the initial payment and disbursed purposes, yet control the business situation or repayment source of the borrowers (in the case of capital contribution loans). Therefore, limiting lending to capital contribution loans will eliminate the risk of these loans, as well as reduce the potential risk of rising bad debt in the future. Besides, the Circular encourages corporates to go listing on the stock market with full information disclosure indirectly. |
| | n/a | To make offsetting payments, except when the customers have paid by themselves for business loans | Limiting refinancing lending activities, especially with retail loans. |
| Increase supervision on high risk loans | n/a | Adding a number of specific purposes, including: securities investment, real estates trading, investment projects in the form of public-private partnerships, lending via electronic channels | With the tightening of lending regulations, we believe that Circular 06 will help direct the credit capital flows to substantial projects/purposes, which would generate high value for the economy, and improve credit quality. However, along with that, the Circular would also slow down the system credit growth in the short term |

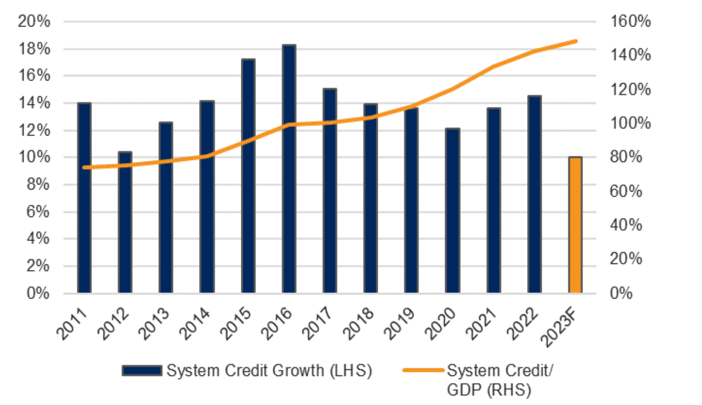
Source: VNDIRECT RESEARCH

**Figure 2: Credit growth as of June 15 is at its lowest level in recent years**




Source: SBV, VNDIRECT RESEARCH

**Figure 3: We expect credit growth of the whole industry to reach 10% yoy by the end of 2023**




Source: SBV, VNDIRECT RESEARCH

## DISCLAIMER



### RECOMMENDATION FRAMEWORK

| **Stock Ratings** | Definition: |
|---|---|
| Add | The stock's total return is expected to reach 15% or higher over the next 12 months. |
| Hold | The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below negative 10% over the next 12 months. |

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

| **Sector Ratings** | Definition: |
|---|---|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

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