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Vietnam Takes Measures to Spur Bank Lending

By NGUYEN PHAM MUOI

HANOI -- Vietnam is taking steps to spur its banks to lend more money and help reboot its swooning, export-dependent economy as consumer-price inflation eases.

At the same time, a government-run bank will extend interest-free loans to companies in trouble and on the verge of cutting their staffs.

Vietnam's central bank cut the required reserve ratio on dong-denominated bank deposits to 3% from 5%, affecting maturities of 12 months or less. The ratio was cut to 1% for some banks.

Providing some leeway for the central bank's actions was news that Vietnam's consumer price index in February rose 14.78% from a year earlier -- less than January's increase of 17.48%. On a monthly basis, the inflation rate was up 1.17%, compared with January's 0.32% rise from December, the government's statistics office said.

The government is encouraging lending by offering a subsidy of four percentage points on loans from commercial banks, meaning borrowers are offered sharply lower rates.

According to state media, the central bank's reserve-ratio cuts, combined with other measures, are intended to spur businesses and the public to borrow as much as 600 trillion dong (\$34.32 billion) this year, equal to the current total of outstanding loans.

"The central bank's move is in line with the government's efforts to avert a recession and stabilize the economy at a time that many companies are keen to receive more loans to boost production and keep employment," a central bank official said. Reducing the reserve ratio will help release large amounts of dong funds into the economy, the official said.

"This decision will also help banks lower operational costs because banks will use their funds to lend at higher interest rates than what they could receive from the central bank," said Technological and Commercial Bank General Director Nguyen Duc Vinh.

Vietnam's government has to strike a balance between needing to rev up economic growth while also keeping a lid on inflation, said Kieu Huu Dung, chairman of Asia Commercial Bank's Securities unit.

Vietnamese banks can make loans bearing interest rates of 6% or 7%, compared with a 3.6% rate paid by the central

bank for the reserves it keeps for the commercial banks, Hanoi-based bankers said.

The government also said Tuesday that the state-run Bank for Investment and Development of Vietnam will offer interest-free loans to enterprises facing difficulties amid the financial crisis. Enterprises eligible for the loans include those that have to cut at least 30% of their work force, as well as those cutting 100 employees or more due to financial difficulties.

Companies owing employees their salaries can borrow an amount equal to the arrears, it said.

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