Central bank to curb non-performing loans

Times Reporters

The Bank of the Lao PDR has introduced measures to keep Non-Performing Loans (NPL) low amid concerns over rising credit growth.

"We will continue to monitor the growth of credit and ensure the quality of credit is kept in check," Deputy Director General of the Department of Monetary Policy, Mr Phetsathaphone Keovongvichith, told *Vientiane Times* yesterday.

"We will introduce measures to keep the NPL rate below 3 percent as targeted and in line with international banking practices."

He made the comment after the World Bank urged the Bank of the Lao PDR to tighten its monetary policy and curb credit growth. The World Bank is concerned that credit growth will have a negative impact on the management of the macro economy.

According to the World Bank's East Asia Pacific Economic Update released last month, credit growth has picked up from 33 percent year on year in June 2011 to 47 percent year on year in June 2012, driven by credit to the private sector and state-owned enterprises.

Buoyant growth in the construction, manufacturing and service sectors is driving private sector credit. Central Bank disbursements to local infrastructure projects have moderated compared to the peak in 2009 while continuing only on the basis of previous commitments.

Credit growth remains high and puts a pressure on falling reserves, which are reaching a critical low, raising concerns over the country's capacity to absorb any adverse external shock.

Mr Phetsathaphone said the Bank of the Lao PDR was aware that the amount of credit released by banks had been high, but said this had continually declined from 80 percent growth in 2008 to about 40 percent growth in 2011. He expected it would have declined further in 2012, to below 40 percent.

Despite rising credit growth in recent years, the share of credit to GDP was still low compared to other countries in the region.

The government holds that the value of credit must be about 32 percent of GDP to ensure the economic growth rate remains above 8 percent from 2011 to 2015.

Mr Phetsathaphone said the Bank of the Lao PDR will continue to monitor the macro economic situation carefully and will introduce sound monetary policy to ensure it remains stable.

He said one of the methods the bank will use to lower credit growth is to sell more bonds to commercial banks. Increasing the reserve requirement and policy interest rate would be the last options.

Earlier last year, the Bank of the Lao PDR informed the International Monetary Fund it was not the right time to increase the reserve requirement, saying this would have a negative impact on commercial banks because they would have to bear the cost.