Not right time to raise reserve requirement: Central Bank

Mr Somphao Phaysith (*right*) meets the IMF delegation.

Times Reporters

The Bank of the Lao PDR is likely to maintain an unchanged reserve requirement for the time being despite the International Monetary Fund (IMF) having expressed concern over the rapid credit growth in Laos.

"We consider increasing the reserve requirement would be a kind of punishment to the commercial banks," the central bank Governor, Mr Somphao Phaysith, said yesterday when he met with a visiting IMF delegation in Vientiane.

The IMF delegation is in Laos this week as part of its annual visit to each IMF member country in accordance with Article 4, which requires consultation between the IMF and the Lao central bank, Ministry of Finance officials and other sectors concerned.

The IMF earlier made the policy recommendation to the Bank of the Lao PDR to consider raising the reserve requirement to curb credit growth after learning that the total value of credit granted by commercial banks was still high.

The central bank has demanded that commercial banks reserve five percent of kip and 10 percent of foreign currencies.

It expressed concern that increasing credit growth would result in increasing import values of consumer goods, the lessening of foreign reserves, destabilisation of the kip and its exchange rates, and have a negative impact on economic development.

Mr Somphao said the bank acknowledged the policy recommendation of the IMF and would carefully monitor the financial market before making a decision as to whether to increase the reserve requirement in the future.

Monetary Policy Department Deputy Director General, Mr Phetsathaphone Keovongvichith, said the value of the credit issued by commercial banks to businesses had declined in recent years from 80 percent in 2009 to about 40 percent at present.

"Despite declining credit growth, the IMF still considered the credit value very high and wanted the government to increase the reserve requirement to help curb growth," he said after accompanying the central bank governor to the meeting with IMF delegates.

He said the management of the Bank of the Lao PDR considered that increasing the reserve requirement would have a negative impact on commercial banks because they would not be able to issue more loans to businesses and generate income from loan interest.

He also said that if commercial banks restricted credit to the business sector, it would make it difficult for the government to mobilise funds to boost economic growth, and it would be challenging to achieve the growth target of at least eight percent per year.

Mr Phetsathaphone said the central bank would continue to sell bonds to commercial banks as part of efforts to curb credit growth, adding that the bank expected that credit growth would remain at about 27 percent in the next fiscal year.