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# THE IMPACT OF THE COVID-19 PANDEMIC ON LEGAL POLICIES ON INVESTMENT AND BUSINESS ACTIVITIES OF COMMERCIAL BANKS IN VIETNAM

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***Abstract*** *- The COVID-19 pandemic has hit all corners of the world, causing many negative impacts on the economies of many countries, including Vietnam. Faced with these influences, the Government of Vietnam has adopted many policies and laws to regulate the banking system, especially investment and business activities of commercial banks. The article is based on the use of secondary documents from the State Bank of Vietnam, commercial banks, domestic and foreign studies on legal policies on investment business activities of commercial banks and recommendations on improving legal policies on business investment activities of commercial banks as a basis and conditions for businesses and people to resume production and business.:*

***Keywords:*** *impact, COVID-19 pandemic, legal policy, commercial bank, business investment, Vietnam;*

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## INTRODUCTION

One approach to researching policy investments for banks would be to collect data from executive institutions and describe their policies and activities. Many factors affect the investment and business management policies of commercial banks. Investment and business policies must necessarily be part of the overall operating policy and should contribute to the overall objectives of banking activities. For these reasons, it is difficult to separate the business investment policy from the general operating policy of a banking institution. The factors which affects general operating policies of banks, and therefore investment policies, could be quite numerous. There would be those factors outside the institution which would influence bank policies. For example, exogenous factors such as legislation, competition, economic environment and expectations for the further would all affect general operating policy. In addition, numerous factors within the firm would affect operating policies. Such endogenous factors as experience of management personnel in banks operation, custom, and traditional with the firm, and ultimate aims and objectives to the managers would have a direct bearing on general policy and subsequently on investment policy[1].

The results of the study on macroeconomic factors indicate that external variables significantly affect commercial banks' performance and these findings remain unaltered with the sequential inclusion of all control variables such as GDP, inflation, interest rates.... This work has immense importance to the bankers, planners and policymakers in shaping appropriate policy decisions for the commercial banks[2].

The impact of the COVID-19 pandemic made the banking industry in countries in the region face many difficulties, profits fell, and bad debts increased. According to Nikkei Asia, the net profit of 16 major commercial banks in Indonesia, Malaysia, Philippines, Singapore and Thailand in 2020 was only 19.4 billion USD, down 34% compared to 2019 and the lowest profit in the past decade (2011-2020). The total amount of bad debt at these banks has increased to 39.6 billion USD, up 17% compared to 2019, of which Philippine banks have the fastest growth rate of bad debt due to thousands of businesses and companies closing due to the prolonged blockade. The Philippines is still the country that is rated as having the lowest economic resilience when it has an economic growth rate of -9.6% in 2020. In Thailand, when the tourism and export industries were stagnant and undeveloped, businesses were unable to pay their debts, leading to an increase in the bad debt ratio of banks, especially the four largest banks in Thailand. has a bad debt ratio from 3.68% to 3.93% as of December 2020[3].

The situation is similar in Indonesia when the economic growth in 2020 is -2.1%. The bad debt ratio of the four big banks increased by 33% compared to 2019. Particularly in Singapore, the bad debt situation of the big banks is somewhat better when most of the lenders are large corporations. debt repayment and expenses are better than small businesses, so the bad debt ratio only increased slightly compared to 2019, remaining at 1.5-1.6%. In the case of Malaysia, although the economic growth rate in 2020 decreased by 5.6%, the bad debt ratio of the three largest banks in Malaysia decreased by only 1.5% compared to 2019[4].

In Vietnam, the State Bank's statistics[5] show that credit as of March 16, 2020 increased by 0.43% compared to December 31, 2019, lower than the increase of 1.52% in the same period last year; According to the State Bank of Vietnam, the total outstanding loans affected by the Covid-19 epidemic according to preliminary statistics from credit institutions are estimated at about 900 trillion VND. However, as of June 30, 2022, credit increased by 9.35% compared to the end of the previous year (up 16.69% over the same period in 2021) - consistent with the recovery of the economy, in which: investment balance in corporate bonds increased by 3.21% compared to the end of 2021 and accounted for 2.49% of total credit outstanding (in the same period of 2021, it decreased by 4.67%, accounting for 2.27%). Statistics show that credit growth in the first 6 months of 2022 is also the highest increase in 6 months in the past 10 years[6] . To achieve that result, the State Bank of Vietnam has adopted policies to adjust in line with the actual situation that the SBV has synchronously implemented solutions and policies to strictly control credit flowing into the sectors. potential risks in the past time, through the regular review and completion of legal documents on the prudential ratio in the operation of credit institutions (including a roadmap to gradually reduce the maximum short-term capital is used for medium and long-

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[1] *Wasson, H. C. (1966). Some Investment Policies for Commercial Banks. Financial Analysts Journal, 22(3), 83–91. http://www.jstor.org/stable/4469992*

[2] *Peltzman, S. (1970). Capital Investment in Commercial Banking and Its Relationship to Portfolio Regulation. Journal of Political Economy, 78(1), 1–26. http://www.jstor.org/stable/1829616*

[3] NikkeiAsia (2021). Southeast Asia's bad debt swells because of COVID-19, *https://tuoitre.vn/nikkei-asia-no-xau-dong-nam-a-phinh-to-en-covid-19-20210303174147564.htm, accessed 20/11/2022.*

[4] *NikkeiAsia (2021). Southeast Asia's bad debt swells because of COVID-19, https://tuoitre.vn/nikkei-asia-no-xau-dong-nam-a-phinh-to-en-covid-19-20210303174147564.htm, accessed 20/11/2022.*

[5] *State Bank of Vietnam (2020), Report No. 74 / BC-NHNN, Report on assessing the impact of the Covid-19 epidemic on the economy, currency and monetary and banking credit solutions.*

[6] *Lan Nguyen, (2022), Credit has the highest growth rate in the past 10 years, https://thitruongtaichinhtiente.vn/tin-dung-co-muc-tang-cao-nhat-trong-10-nam-tro-lai-day-41693 .html, accessed 18/11/2022.*

term loans), debt restructuring, interest rate adjustment, strengthening inspection and examination of credit granting activities of commercial banks.

## 1. Theoretical basis

### 1.1. Concepts and principles of investment business activities of commercial banks

A commercial bank is a financial intermediary, operating under the business model. Trading in currency, credit and financial - banking services, according to market principles, operating for profit. A commercial bank is a financial intermediary organization, operating under the business model for profit, conducting currency business, credit and financial service activities according to market principles. This is a "special" field because it is directly related to all industries, related to all aspects of socio-economic life, the field of money and banking is a "sensitive" field, requiring a prudence and ingenuity in banking operations to avoid damage to society. This field of operation of commercial banks contributes to providing a huge amount of credit capital for the economy and society...

The characteristics of banking business in general and capital investment activities of banks in particular are highly risky and have a knock-on effect on the country's financial economy. Therefore, the investment activities of the bank need to have orientation and intervention from the state through the management tool that is legal policy. The state's adjustment of banks in the process of capital investment activities both ensures the safety of the bank itself and ensures the safety of the banking system and the economy.

When there are factors affecting banking activities, the State Bank through legal instruments is given to intervene in the investment market of banks with instruments such as interest rates, exchange rates, mandatory estimates, or discount instruments, re-discounting. Commercial banks themselves with the influence of legal policies significantly affect the activities and investment trends of banks. With the Covid_19 Pandemic, it has greatly affected the financial and real estate markets. In particular, one of the common methods of commercial banks in Vietnam is mainly credit granting activities in the form of borrowing and mainly secured by assets. Therefore, the freezing of the real estate market during the pandemic has significantly affected the banking system nationwide as well as globally, affecting the liquidity as well as the recovery of business capital and the flow of investment capital of commercial banks. That requires commercial banks as well as regulatory entities in the banking system to have investment strategies suitable to market changes and one of the urgent requirements is the investment trend of commercial banks and legal policies to adjust and adapt.

Banking activities are closely related to all changes of organizations and individuals in society. Especially when Vietnam's financial market was still in its infancy, the capital channel from the stock and bond markets was still weak, which led to banks being the main source of capital for the economy (accounting for more than 60 % of total capital).

Thus, the commercial bank is a type of intermediary financial institution doing business in the field of money and banking services. This is the most important intermediary financial institution in the market economy, contributing to the creation and supply of capital for the economy, facilitating and promoting socio-economic development.

Capital investment activities of commercial banks are based on equity capital at the rate prescribed by the State Bank through the minimum capital adequacy ratio. The State Bank shall specify each type of capital and limit investment in each field. The foundation for formulating the legal regulations of countries on safe investment limits of commercial banks is according to Basel standards.

In October 2011, the Financial Stability Board (FSB) announced the creation of five work streams to strengthen the oversight and regulation of shadow banking.1 This included a work stream on banks' interactions with shadow banking entities. To take this work forward, the Basel Committee on Banking Supervision agreed to review the risk-based capital requirements for banks' exposures to funds. The original scope of the Committee's review covered the regulatory capital treatment of banks' exposures to funds acting as shadow banking entities. The Committee decided to expand its review to cover the capital requirements that apply to banks' investments in the equity of all types of funds. This is intended to ensure an appropriately risk sensitive and consistently applied regulatory capital standard[7].

At present, there is no explicit treatment under the Standardized Approach for banks' equity investments in funds. Instead, these exposures would be classified as claims on "other assets", which receive a 100% risk weight[8]. National supervisors may decide to apply a risk weight of 150% or higher reflecting the risks associated with some other assets (e.g. venture capital or private equity exposures[9]

Under the IRB approach, banks may risk weight their investments using either the treatment applicable to the majority of a fund's underlying holdings or the "look-through approach", where the fund's underlying components are considered as separate and distinct investments[10]. Alternatively, banks may consider the investment mandate of the fund and apply the relevant risk weight assuming that the fund has invested, to the maximum extent allowed, in the asset class attracting the highest capital requirement, and then, for the other asset classes, in descending order of risk weight applied[11].

**1.2. Impact of COVID-19 on investment business activities of commercial banks**

The COVID-19 pandemic has triggered unprecedented repercussions for the global economy. Together with the containment measures, it has disrupted supply-side chains and depressed aggregate demand. Firms in the retail, leisure, hospitality, and travel sectors have been severely impacted, and those in other sectors (e.g. automotive, Monetary and Capital Markets and electronics) remain vulnerable to supply-chain disruptions. Smaller enterprises are at greater risk. Households face falling income and rising unemployment. The loss of income, fear of contagion, falling confidence, and rising precautionary savings will lead to a broad-based reduction in private investment and consumption, causing a demand-deficient economic contraction. The pandemic could have long-lasting effects, including a permanent potential output loss owing to impaired human capital (from mortality and sustained unemployment) and reduced productivity (from widespread bankruptcies). Containment efforts have reduced the severity of the health crisis while causing a dramatic decline in economic activity. Measures, such as 'lockdowns', closures of non-essential businesses, travel restrictions, and social distancing, need to be implemented timely and forcefully to slow the spread of the COVID-19 and enable healthcare systems to lower the death toll. However, these measures would reduce the production and consumption of goods and services, with substantial macroeconomic costs and make it challenging to stimulate economic activities with conventional policy tools[12]. People argued that containment measures can help achieve a socially optimal outcome as infected people do not fully internalize the effect of their economic decisions on the spread of the virus.3 It is important that country authorities reflect the actual and potential impact of containment efforts in the macrofinancial baseline analysis and risk assessment[13].

The impact of COVID-19 on banking activities has been clearly revealed, because commercial banks with the function of providing money sources for businesses in the economy and trading money, the COVID-19 epidemic has led many businesses to many businesses closed their doors to the brink of bankruptcy, thus affecting their capital mobilization business and day-to-day services, along with the growth of credit balances, a decrease in profit margins due to Enterprises have difficulties in loan-repayment relationship and bad debts are increasing. Each aspect affected by the Covid-19 epidemic

[7] *Bank for International Settlements, 2013, Capital requirements for banks' equity investments in funds, http://www.bis.org/publ/bcbs266.htm, pg4.*

[8] *Basel Committee on Banking Supervision's, 2006, Basel II: International Convergence of Capital Measurement and Capital Standards: a Revised Framework, Comprehensive Version (BCBS), June 2006 Revision, paragraph 81.*

[9] *Basel Committee on Banking Supervision's, Ibid, paragraph 80.*

[10] *Basel Committee on Banking Supervision's, Ibid, Paragraph 360.*

[11] *Bank for International Settlements, 2013, Capital requirements for banks' equity investments in funds, http://www.bis.org/publ/bcbs266.htm, pg 5.*

[12] *Eichenbaum, Martin S., Sergio Rebelo, and Mathias Trabandt, 2020, "The Macroeconomics of Epidemics," NBER Working Paper No. 26882, National Bureau of Economic Research, Cambridge, MA*

[13] *Caballero, Ricardo J. and Simsek, Alp, A Model of Endogenous Risk Intolerance and LSAPs: Asset Prices and Aggregate Demand in a 'COVID-19' Shock (March 21, 2021). Available at SSRN: https://ssrn.com/abstract=3576979 or http://dx.doi.org/10.2139/ssrn.3576979*

presents opportunities and challenges[14]. From the practical analysis of the effects, from there, clearly identify the opportunities and propose solutions to overcome the challenges caused by the Covid-19 epidemic to banking activities[15].

Credit growth is the lowest in the last 6 years. Credit demand decreased due to lower household credit demand. As of mid-March 2020, the entire system of credit institutions has restructured the repayment term for customers with a total outstanding balance of VND 21,753 billion, and at the same time exempted or reduced interest for about 8000 customers with an amount over 350 billion VND. Banks are also considering loan interest exemption or reduction for 34,350 customers with outstanding loans of VND 185,000 billion; at the same time, continue to complete new documents, provide new loans to about 5,493 customers with an expected loan turnover of about VND 24,000 billion. In addition, under the influence of the Covid-19 epidemic, the most affected areas include: (i) medical expenses in epidemic prevention and control; ii) tourism, travel, hotel; iii) transportation; iv) commercial; (v) investment; (vi) chain manufacturing industries; and (vi) financial services. Along with that, this epidemic may cause global GDP to decrease by 0.3 - 0.5% in 2020, making Vietnam's exports continue to decrease by 20% and imports by 16%, so it is difficult to achieve the target credit growth.

With outstanding consumer loans, total consumer loans on outstanding loans of Vietnam is 11.4%, about 0.93 million billion VND. According to a report by in focus Mekong [16], Covid-19 will reduce household spending by an average of 15% in areas such as education, housing, dining, entertainment, etc. When the total spending of people declines, demand for consumer loans will also decrease accordingly. So, before the decline in household spending is recorded at a significant level of 15%, the goal is to reach the milestone of VND 1 million billion in consumer loans in 2020, and then move on to the further goal of increasing the proportion of loans. Consumption on outstanding loans to 40-50% of total outstanding loans to reach the proportion of developed countries is impossible.

- The bank's profit is an inevitable consequence when the proportion of credit revenue still accounts for the majority of the total revenue of the bank. On March 12, 2020, the State Bank of Vietnam issued Circular 01/2020/TT-NHNN guiding credit institutions to restructure the repayment term, exempt and reduce interest rates, and maintain the same group of loans to support customers. products affected by the Covid-19 pandemic. Along with that, a series of basic interest rates managed by the State Bank have been reduced from March 17, 2020. Therefore, the reduced amount due to the application of these incentives will reduce the profits of banks. Such supportive policies and risk-sharing with customers will certainly significantly reduce income from credit. In addition, the income source of banks is not only affected by the decline in credit activities, but also the fee income is also negatively affected when all transactions in the economy slow down.

- Regarding bad debts, according to the State Bank, the total outstanding loans affected by the COVID-19 epidemic according to preliminary statistics from credit institutions are estimated at about 900 trillion VND. The outbreak of the Covid-19 pandemic made goods, production, business and consumption stagnate. Thus, with the economy falling into a state of stagnation and supply chains being disrupted, the ability to repay corporate loans to banks is limited. The number of businesses suspending business and waiting for dissolution skyrocketed in 2020, leading to customers' inability to pay debts on time, increasing the rate of overdue debts and bad debts. Many industries such as agriculture, forestry and fishery, enterprises with import and export activities, accommodation services, catering, food, beverages, transportation, textiles, footwear, electronics, refrigeration, oil Gas, tourism, education, and businesses with export markets and main sources of raw materials imported from China... are all

*[14] Government (2020), Directive 11 / CT-TTg, of the Prime Minister on urgent tasks and solutions to remove difficulties for production and business, ensure social security in response to Covid- 19.*
*[15] Government (2020), Directive 11 / CT-TTg, of the Prime Minister on urgent tasks and solutions to remove difficulties for production and business, ensure social security in response to Covid- 19.*
*[16] Ella Zoe Doan (2020), Concern due to Covid-19 among businesses in Vietnam 2020, https://www.statista.com/statistics/1102846/vietnam-business-concerns-after-covid-19-outbreak/, accessed 20/11/2022*

groups heavily affected by the epidemic. Businesses in these fields account for a large number of customers of banks, so the risk of increasing bad debt is inevitable.

- Regarding the investment and capital contribution activities of the bank, it was also stalled due to the inefficient operation of enterprises, the decline of the stock market, affecting the ability to do business in investing in stocks and bonds. bonds of commercial banks as well as capital contribution to business. By April 2022, credit for securities investment and trading accounted for about 0.5% of the total outstanding loans of the economy, mainly short-term loans (accounting for 98%); mainly focus on outstanding loans to invest in Government bonds. As for the total investment balance of corporate bonds of credit institutions is 320.4 trillion dong, accounting for a small proportion compared to the total credit outstanding balance (2.86%)[17].

In addition, the COVID-19 epidemic is an opportunity for banks to test the effectiveness of established policies on risk management, including operational risk. The epidemic is an opportunity to help the Board of Directors rethink policies to deal with all kinds of risks, proactively adjust or rebuild possible scenarios, thereby forming operational plans for the pandemic. deal with crises or unexpected events more effectively.

### 1.3 Regulatory policies of the State Bank for investment business activities of commercial banks in Vietnam under the impact of the COVID – 19 pandemic

Profitability has been a persistent challenge for banks in several advanced economies since the global financial crisis. While monetary policy accommodation has helped sustain economic growth during this period and has provided some support for bank profits, very low interest rates have compressed banks' net interest margins (the difference between interest earned on assets and interest paid on liabilities). Looking beyond the immediate challenges faced by banks as a result of the COVID-19 outbreak, a persistent period of low interest rates is likely to put further pressure on bank profitability over the medium term. A simulation exercise conducted for a group of nine advanced economies indicates that a large fraction of their banking sectors, by assets, may fail to generate profits above their cost of equity in 2025. Once immediate challenges recede, banks could take steps to mitigate pressures on profits, including by increasing fee income or cutting costs, but it may be challenging to fully mitigate profitability pressures. Over the medium term, banks may seek to recoup lost profits by taking excessive risks. If so, vulnerabilities could build in the banking system, sowing the seeds of future problems. Authorities can implement a number of policies to help mitigate vulnerabilities arising from excessive risk taking and ensure an adequate flow of credit to the economy, including the removal of structural impediments to bank consolidation, the incorporation of a low-interest-rate-environment scenario on banks' risk assessments and supervision, and the use of macro prudential policies to tame banks' incentives for excessive risk taking[18].

Commercial banks are considered to be the connecting arm of the state bank with the economy through investment business providing capital and means of payment to the economy. Therefore, the state bank influences the economy through policy and legal tools to intervene in the operation of commercial banks, manage and control the activities of commercial banks.

The tools that the SBV uses to intervene in commercial banks are credit limit tools, investment limits, interest rate instruments and along with that, risk inspection, supervision and control tools. The main activity of a modern commercial bank is lending, according to the financial statements of commercial banks as well as in legal policies, lending is the main and core activity of the bank. commercial banks. However, in terms of being a business in nature, a commercial bank is considered a type of business that

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[17] *Ngo Hai, 2022, Credit for real estate, corporate bonds and securities is strictly controlled, https://thitruongtaichinhtiente.vn/tin-dung-doi-voi-bat-dong-san-trai-phieu-doanh-nghiep-chung-khoan-duoc-kiem-soat-chat-che-40961.html, accessed 18/11/2022.*

[18] *Global financial stability report,4/2020, Global Financial Stability Report: Markets in the Time of COVID-19, https://www.imf.org/en/Publications/GFSR/Issues/2020/04/14/global-financial-stability-report-april-2020*

can maximize business activities to bring the highest profit. In the current Vietnamese legal policy, control investment activities of commercial banks. According to the provisions of Article 129 of the Law on Credit Institutions, commercial banks may only contribute capital to buy shares in investment projects not exceeding 11% and the total capital contribution in investment projects must not exceed 40% of the bank's own capital. In recent years, credit activities of commercial banks have been greatly affected because businesses that are regular customers of banks are no longer capital customers due to limited and closed business activities. the business. From that fact, it is necessary to loosen the investment rate of banks and improve the role of risk forecasting for sustainable survival of commercial banks. Effective investment risk and control will bring positive and proactive business performance to commercial banks.

Specifically, about credit solutions for borrowers: CV No. 541/ SBV dated 04/02/2020 that is a balance of sufficient capital sources to meet the capital needs for business enterprises; Review the statistics of damaged loan balances to promptly apply measures to support and remove difficulties for customers such as structuring debt repayment time, considering interest exemption and reduction; CV No. 1117/ SBV dated 24/02/2020 is a more specific regulation on measures to restructure the debt repayment term, exempt and reduce loan interest, temporarily keep the same debt group for borrowers, with the following conditions:

+ Debts affected by the COVID-19 epidemic and have outstanding principal and / or interest until the repayment term between 23/01/2020 and up to 3/31/2020;

+ Implement on the basis of the customer's request and the credit institution's assessment of the level of damage, impact, financial ability and repayment ability of the customer after being restructured debt repayment term;

+ Credit institutions specify on: criteria for determining debts affected by the COVID-19 epidemic; contents of inspection, control and supervision of debts that are restructured debt repayment period, loan interest exemption and reduction, keeping the same debt group for uniform implementation throughout the system.

Circular 01/2020/TTNHNN dated 13/03/2020 on Restructuring debt repayment period; Circular 03/2021/TTNHNN dated 02/04/2021 on Amending and supplementing a number of articles of Circular No. 01/2020, including the following contents: The SBV has added conditions to allow credit institutions and foreign bank branches to restructure the remaining debts due and - Regulations on risk provision: The specific amount of provision to be deducted is the amount of difference between the specific provision that must be deducted for the entire outstanding balance of the customer if not restructured and the amount of deduction on the structured balance of the customer affected by the COVID-19 epidemic.

This deduction rate will have to reach at least 30% of the specific reserve amount to be supplemented, by December 31, 2021 at the latest and increase to at least 60% and 100% by the end of 2022 and 2023, respectively; Circular No. 14/2021/TTNHNN dated 07/09/2021 that the SBV has added conditions to allow credit institutions and foreign bank branches to restructure the remaining debts due. Specifically, the SBV allows credit institutions to restructure the debt repayment term with debts arising from debt repayment obligations in the period from 23/01/2020 to 30/06/2022.- Credit institutions, branches of foreign banks decide on the exemption, reduction of interest and fees according to internal regulations for the debt balance of debts arising before 01/08/2021 from credit granting activities (except for purchase activities, investment in corporate bonds) whose obligations to repay principal and/or interest are due between 23/01/2020 and 30/06/2022.

Besides, there are a number of policies related to payment fees such as Circular 04/2020/TTNHNN dated 31/03/2020, Circular 19/2020/TTNHNN dated 30/12/2020, Circular 13/2021/TTNHNN dated 23/08/2021; Policies related to operating interest rates and interest ceilings on deposits and short-term loans through Decisions No. 418, 419 and 420/QDNHNN dated March 16, 2020, Decision No. 918, 919 and 920/QDNHNN dated May 12, 2020, Decision No. 1728, 1729 and 1730/QDNHNN dated September 30, 2020; Policies related to refinancing instruments such as Circular No. 05/2020/ TT-NHNN (effective on May 7, 2020), Decision No. 925/QDNHNN dated May 13, 2020; Policies related to the safety ratio Circular 08/2020/TTNHNN dated 14/08/2020 with regulations on extending the 1-year schedule of applying the ratio of short-term capital to medium-long-term loans. The postponement of the roadmap to apply the maximum ratio of short-term capital used for medium-long-term loans by 01 year creates conditions for credit institutions to adjust the structure of mobilized capital, maintain stable medium-long-term outstanding loans and implement interest rate reduction policies to help customers reduce difficulties due to the impact of the COVID-19 epidemic. On the other hand, to divert in sustainable banking activities requires commercial banks to diversify their portfolios, before the relaxation of investment limits by the State Bank: to diversify the portfolios of commercial banks through the promotion of the development of some financial markets, financial instruments in the market such as derivatives market, trading instruments in the market ... In the long run, adjust the investment limit ratio on the basis of recommendations on safe limits in Basel I, II, III

## 2. Research data and methods

### 2.1 Data

- Secondary data is collected from the report summarizing business investment activities of commercial banks, the report on summarizing banking activities of state banks from 2019 to 2022.

- Secondary data through articles, magazines, publications related to policies and laws on investment business activities of commercial banks.

### 2.2. Research Methods

Methods of statistics, description, data collection from reports summarizing business investment activities of commercial banks, articles and publications on analysis, commenting on legal policies to analyze Evaluation of investment business situation, policies and laws on investment business for commercial banks in Vietnam.

## 3. Research results

The State Bank has been proactive and flexible in policy management.

Operating monetary policy, according to data from the State Bank of Vietnam, as of October 7, 2021, the total means of payment in the economy increased by 5.65% compared to the end of 2020 and increased by 11.56% over the same period in 2020. Since the appearance of the COVID-19 epidemic until now, in the implementation of monetary policy, the State Bank has adjusted down 3 times the operating interest rates, a total decrease of 1, 5-2.0%/year. The adjustment of those operating interest rates has reduced the ceiling interest rate of local currency (Vietnam Dong) deposits by 0.6-1.0%/year for terms of less than 6 months, down by 0.3% - 0 .6% ceiling interest rates for deposits up to 12 months; reducing the ceiling interest rate for short-term local currency loans for priority sectors with a total reduction of 1.5%/year, by the end of October 2021 it is fluctuating at 4.5%/year[19.]

In the first months of 2021, the State Bank of Vietnam will keep the operating interest rates unchanged, creating favorable conditions for credit institutions to access capital from the State Bank at low cost. In addition, implementing Resolution No. 63/NQ-CP dated June 29, 2021 of the Government, under the direction and management of the State Bank, there are a total of 16 Vietnamese commercial banks through the Vietnam Banks Association. agreed to reduce lending interest rates for customers experiencing difficulties, applied from July 15, 2021 to the end of 2021, with the total interest reduction for customers nationwide is VND 20,613 billion.

- Regarding interest rate policy management: The State Bank of Vietnam continues to keep the operating interest rates unchanged despite the pressure from the trend of monetary easing and

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*[19] General Statistics Office, Report on socio-economic situation in the second quarter and first 6 months of 2021, https://www.gso.gov.vn/du-lieu-va-so-lieu-thong-ke/2021 /06/bao-cao-tinh-hinh-king-texa-hoi-quy-ii-va-6-thang-dau-nam-2021/, accessed 25/11/2022.*

increasing interest rates globally, in order to create favorable conditions for credit institutions to access capital. from the State Bank at a low cost, thereby reducing the lending interest rate to support customers to restore production and business.

Restructuring the repayment term, exempting and reducing interest and fees, maintaining the same debt group at credit institutions in accordance with Circular 01/2020/TT-NHNN dated March 13, 2020 and the amended and supplemented circulars; policy of reducing loan interest rates for customers; loan program to pay wages to stop working and pay wages to restore production; solutions for payment service fee exemption and reduction... Facing the general difficulties of the economy, in 2020, the State Bank has lowered the operating interest rate 3 times and issued Circular No. 01/2020/TT-NHNN, dated March 13, 2020 stipulates that credit institutions and foreign bank branches will restructure debt repayment terms, exempt or reduce interest and fees, and maintain debt groups in order to support customers affected by the pandemic. The Covid-19 pandemic serves as a legal basis for credit institutions to restructure debt repayment terms, exempt and reduce interest and fees, and maintain debt groups in order to support customers affected by the Covid-19 epidemic. Accordingly, commercial banks have agreed three times to lower lending rates from 1.5% to 2% per year to support customers affected by the Covid-19 pandemic. Directive No. 02/CT-NHNN, dated March 31, 2020 on urgent solutions of the banking industry to strengthen prevention, control and overcome difficulties caused by the impact of the Covid-19 epidemic. According to the results of exploitation in the centralized reporting system of the State Bank, by the end of April 2022, accumulated value of structured debt since the issuance of Circular 01/2020/TT-NHNN is more than VND 695 trillion for over 1.1 million customers. The Government issued Decree No. 31/2022/ND-CP dated May 20, 2022 on interest rate support from the state budget for loans of enterprises, cooperatives and business households; at the same time, issued Circular 03/2022/TT-NHNN guiding commercial banks to support interest rates according to the Government's Decree.

Regarding the results of debt restructuring for customers affected by the COVID-19 pandemic according to Circular No. 01/2020/TT-NHNN of the SBV, by the end of September 2021, credit institutions have restructured the deadline. paying debt to 278,000 customers with outstanding balance of 238,000 billion VND, accumulated debt value has been restructured debt repayment term, keeping the same group of debts for customers from January 23, 2020 about 531,000 billion VND.

- Regarding the exchange rate, the State Bank continued to operate the exchange rate proactively and flexibly in accordance with the situation of domestic and foreign markets, macro balances, currency and monetary policy objectives; thereby, contributing to the recovery of economic growth and stabilizing inflation.

- Regarding the administration of the policy of minimizing bad debts, through the restructuring of the credit institutions system in association with bad debt settlement continued to be actively implemented. The scale of the system of credit institutions continued to increase; Financial capacity, quality of governance and administration have been gradually consolidated and improved, approaching international practices. According to the State Bank of Vietnam, from 2012 to the end of June 2021, the whole system of credit institutions has handled over VND 530,000 billion of bad debts. In which, accumulated from August 15, 2017 to April 30, 2021, the whole system of credit institutions has handled nearly VND 350,000 billion of bad debts determined according to Resolution No. 42/2017/QH14 of the National Assembly. Meanwhile, if according to the reports of credit institutions, the total bad debt determined according to Resolution No. 42/2017/QH14 of the entire system of credit institutions in Vietnam as of June 30, 2021 is VND 425,500 billion, down 3. 4% compared to the end of 2020. From June 30, 2020 to June 30, 2021 alone, the whole system of credit institutions has handled VND 55.0 trillion of bad debts determined according to Resolution No. 42/2017/QH14. Credit institutions have been very decisive in dealing with bad debts, flexibly and diversified in different forms of bad debt handling;

However, due to the objective factors of the COVID-19 epidemic, the potential bad debt ratio has increased significantly in the past 2 years[20].

## 4. Recommendations

With the unpredictable developments of the epidemic situation, banks need to consider plans to maintain business operations and respond to the difficulties they have and will face, and at the same time turn risks into threats by taking advantage of these risks. The opportunities that the difficulties caused by the Covid-19 pandemic include:

Firstly, the State Bank synchronously and flexibly operates monetary policy tools, closely coordinating with fiscal policy and other macro policies to control inflation and stabilize the money market. and foreign exchange, ensuring the safety of the system of credit institutions, contributing to maintaining macroeconomic stability.

Second, issue circulars allowing credit institutions to restructure debt repayment terms, exempt and reduce interest rates, and maintain debt groups (Circular 01/2020/TT-NHNN, as amended and supplemented by Circular No. 03/2020/TT-NHNN and Circular 14/2021/TT-NHNN, applicable to debts that incur the obligation to pay principal/interest before June 30, 2022), creating conditions for customers to meet temporary difficulties are extended, due debts are postponed, debt groups are not changed and loans can be accessed to restore production and business;

Thirdly, promulgate Circulars on refinancing to the Bank for Social Policies, interest rate 0%/year, no collateral to pay the salary for termination of work and salary to restore production according to the Resolution. 42/NQ-CP, Resolution 68/NQ-CP of the Government, Decision Decision 23/2021/QD-TTg of the Prime Minister.

Fourth, banks need to develop risk management, including operational risk; to accelerate the process of bank digital transformation. Accelerate the completion of the big data system and quickly put into use digital banking products and e-banking transactions, especially with the group of retail banks serving individual customers and small and medium enterprises. to reduce direct transactions with this group of customers.

Fifth, the reduction in credit growth is a good opportunity for banks to adjust their loan portfolio towards a new, safer and more sustainable risk appetite. Even this is an opportunity for banks to adjust their asset portfolio, reduce the proportion of credit, and increase other assets, although this is not easy because credit is always considered as a The most basic asset of the banking business but it also brings the most losses if credit risk occurs. Therefore, reducing the proportion of credit, reducing interest income from credit, increasing the proportion of service activities, thereby, increasing revenue from non-credit activities are always the goals of many banks.

Sixth, in order to minimize bad debts, banks need to persistently comply with the instructions of the State Bank in rescheduling the repayment period, exempting and reducing loan interest for customers borrowing capital at the bank. This will cause banks to sacrifice their set profit targets, but together with businesses and individuals who are facing difficulties because of Covid-19 will help them recover their operations soon, thereby, not only customers that both the bank and the economy will recover sustainably.

## CONCLUSIONS

The COVID -19 pandemic impacted business investment activities in various fields, especially banking activities. In order to ensure the safety of the banking system in particular and the economy in general,

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the State Bank has implemented legal policies affecting the entire banking system such as adjusting interest rates, exchange rates, restructuring debts, controlling and managing risks... In the coming time, with the development of the digital banking system, which requires the regulation of the State Bank to investment ratios and investment portfolios, commercial banks themselves also need to have mechanisms to control risks and adjust portfolios to adapt to changes and ensure safe development. and the sustainability of the banking system and the economy, this issue we will have these studies in the next articles.

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