



Received: 03-12-2023
Accepted: 13-01-2024

International Journal of Advanced Multidisciplinary Research and Studies

ISSN: 2583-049X

Developing the Interbank Market in Vietnam

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Abstract

The interbank market is where capital trading activities take place between credit institutions such as commercial banks, non-bank financial institutions and the central bank, to ensure liquidity, Compulsory reserves and short-term currency trading. In fact, the operation of the interbank market has a great influence on the operation of the national and even global financial system. Interest rates and transaction volume on the interbank market are the basis for determining interest rates and the amount of credit capital that commercial banks provide to the economy, so it will affect the total amount of investment capital. , affecting the income, stability and growth of the entire economy.

Therefore, the interbank market operating effectively is the top goal in state management of the interbank market. That is to increase short-term capital circulation among market participants to ensure low liquidity costs, minimize participants' risks and the market becomes an effective channel for transmitting regulatory signals. Central bank's monetary policy to the economy. The article focuses on basic contents: theory of the interbank market, the role of the interbank market, the current state of interbank market development in Vietnam in the period 2019-2023 and from there, introduces come up with solutions to develop the interbank market in Vietnam in the coming time.

Keywords: Interbank Market, Interbank Interest Rate, Overnight Interest Rate

1. Introduction

The interbank market is a basic component of the financial-banking market, the market is where short-term capital transactions take place between credit institutions and financial institutions. Along with the development of the commercial banking system in Vietnam and the integration of the banking industry into the world financial and monetary market, the interbank market in Vietnam has formed and is increasingly developing. Strong according to international standards and practices. During its formation and development, like all other entities, the interbank market in Vietnam also arose related issues regarding functions, roles, operating mechanisms, and methods. Operational methods, products, participating entities, etc. These issues need to be specifically understood and researched to grasp the current situation in order to have solutions for the market to operate more and more perfectly. Meet the development needs of the monetary market and modern banking system. This research article aims to achieve the following main goals:

Firstly, contributing to understanding and researching to clarify the theoretical basis of the Interbank Market; includes the concept of the market, characteristics and roles of the interbank market.

Second, analyze the current situation and related issues of the interbank market in Vietnam in the past and in the current period, focusing on in-depth research on the current situation of the market from 2019 to 2019. 2023.

Third, based on theoretical research and analysis of the current situation of the Interbank Market, we propose solutions to improve the operational efficiency of the Interbank Market in Vietnam in the current period. Now and in the near future.

2. Research overview

Interbank market concept

The interbank market is a wholesale money market, trading short-term capital between credit institutions.

The interbank market is a global network used by financial institutions to trade currencies with each other. Banks use the interbank market to manage exchange rate and interest rate risks.

Therefore, if considered horizontally, the interbank market represents market relations between credit institutions, especially commercial banks.

If considered vertically, the interbank market represents the market relationship between the Central Bank and credit institutions through the Central Bank's money supply regulation activities.

Characteristics of the interbank market

The most important and main subject in the interbank market is the system of commercial banks. Through the interbank market, credit institutions can mobilize capital and use short-term capital effectively to ensure the solvency and reserve requirements of commercial banks in particular and other banks. Credit institutions in general.

The value of transactions on the interbank market is often very large. In Vietnam, a transaction on the interbank market is often worth one billion VND or more.

Through short-term capital transactions in the interbank market, interbank interest rates are formed and are considered the standard interest rate, often used by credit institutions as a basis when calculating lending interest rates. Applies to customers and is the basis for conducting transactions related to interest rates.

Interbank transactions are often established on the basis of agreements in many forms such as through electronic transaction networks (in Vietnam, it can be the electronic network of the State Bank or of service providing organizations). Services licensed by competent authorities, such as Vietcombank Money network), by phone (with recording) or other forms.

Payment for transactions is often required to go through the Central Bank's control system (in Vietnam, interbank transactions in Vietnamese Dong must be done through the interbank electronic payment system). Banks), from which the Central Bank has the basis to set the average interbank interest rate as a reference for the whole market.

In Vietnam: The State Bank of Vietnam announces the average interest rate in the interbank market for interbank transactions in Vietnam Dong (Vnibor), the announced average interbank interest rate includes interest Average interbank interest rates overnight, weekly, and monthly.

At the same time, the average interbank exchange rate between USD/VND is also announced daily on the official website of the State Bank www.sbv.gov.vn

The role of the interbank market

For central banks

The central bank is like the driver on the boat that turns financial institutions. Accordingly, in this market or specifically the interbank currency market, the central bank:

- Is the subject of building the average transaction interest rate on the interbank market?
- Closely inspect and monitor market activities through the introduction of laws and regulations.
- All general principles and rules in the interbank currency market are decided by the central bank.
- The interbank local currency market is a place to provide information about the available capital status of the system of credit institutions.
- Receive and convey the impact of monetary policy on the economy by relying on interest rates formed in the market to come up with solutions to stabilize the market.
- Helps the central bank set interest rates with commercial banks through interest rates established in the interbank money market.

For commercial banks

- Maintain regular cash reserves for the entire banking system to promptly pay transactions.
- As a transaction intermediary, the interbank market positively impacts the available capital management requirements of the commercial banking system.
- Enabling the capital resources of the entire banking system to be regulated and allocated effectively.

3. Current status of interbank market development in Vietnam

About liquidity

In 2020, due to the reduction in deposit interest rate ceilings, capital mobilization in market 1 gradually slowed down. However, capital in market 2 (interbank transactions) is still abundant thanks to continuous net injections from the State Bank, many commercial banks take advantage of the opportunity to use cheap capital. Market interest rates 2 are falling sharply towards the end of the year, besides the developments of the covid pandemic are becoming more and more complicated.

The level of market liquidity began to decrease from the end of 2021, along with high seasonal demand for capital in the period leading up to the Lunar New Year 2022, pulling market interest rates back up. The completion of vaccine shots across the country has helped the economy gradually reopen, leading to increased demand for capital. In addition, world political developments became tense, and on February 24, 2022, Russia launched a special military campaign against Ukraine.

Commercial banks, mainly banks with large capital surpluses, have become more cautious in investing in the interbank market, especially for banks with payment links and joint ventures with Russia. In the context of sanctions being continuously introduced. In order to support economic recovery, the State Bank has reduced market 1 lending interest rates, leading to increased credit demand.

At the beginning of the fourth quarter of 2022, a lot of bad information appeared related to a large bank in the system, leading to a liquidity crisis not only for the bank's individual but also for the system's liquidity. Banks simultaneously moved to narrow the scope of transaction partners and assessed unusual credit ratings for small and medium-sized partners. Many banks only accept transactions with 4 major commercial banks at this time. The interbank market has reduced liquidity although some banks still have large capital surpluses. Along with that, the media crisis led to people's loss of trust in the banking system, and market 1 deposits were massively withdrawn. Faced with that situation, the State Bank reassured depositors and announced that it is always ready to support liquidity for the system. Commercial banks also simultaneously increased market mobilization interest rates to attract customer deposits.

On the interbank market, the State Bank said that transaction turnover in the week from September 25 to 29, 2023 in VND reached approximately VND 1,291,758 billion, an average of VND 258,352 billion/day, an increase of VND 35,403 billion. /day compared to last week; Transaction turnover in USD converted into VND during the week reached about 335,992 billion VND, an average of 67,198 billion VND/day, an increase of 7,612 billion VND/day compared to the previous week.

By term, VND transactions mainly focus on overnight terms (85% of total VND transaction turnover) and 1-week terms (7% of total VND transaction turnover). For USD transactions, the terms with the largest turnover are overnight and 1-week terms with proportions of 77% and 17%, respectively.

Transaction turnover on the interbank market in the period 2019-2023 is recorded by the State Bank as increasing, the increase in December compared to the same period last year is 90.36%, 36.26% respectively. , 57.45% and 47.59% show that the role of the interbank market is becoming clearer and clearer in helping the banking system exchange and regulate capital from surplus to shortage, increasing the efficiency of capital use. Of banks and ensure the liquidity of the system.

However, the interbank market still has some limitations in terms of liquidity. Specifically, the market is very sensitive to information, leading to liquidity hoarding when the market is short of capital. This mentality can greatly affect the whole system, which stems from the trust of banks with each other. Besides, Vietnam does not have an officially published ranking system responsible for it by a reputable organization. Currently, commercial banks are evaluating each other's credit ratings using internal standards developed by each individual bank, including financial and non-financial criteria.

About interbank interest rates

Table 1: Interbank market interest rates applicable from December 26, 2023

Duration	Average interbank interest rate (%)	Sales (billion VND)
Overnight	1.02	282.826
1 week	2.14	34.265
2 week	1.95	14.946
1 month	1.98	4.997
3 month	3.08	5.662
6 month	5.41	1.993
9 month	5.84	17

Source: SBV

In 2019, interbank interest rates remained stable and tended to decrease towards the end of the year. Along with that, in market 1, the State Bank implemented the policy of striving to reduce lending interest rates (Specifically Decision No. 2415/QD-NHNN dated November 18, 2019; Decision No. 2416/QD-NHNN November 18, 2019) has opened a period of cheap capital usage in both markets.

In 2020, interest rates increased sharply around the Lunar New Year but quickly returned to stability in February 2020. To cope with the impact of the covid pandemic on capital flows in the economy, the State Bank has decided to adjust interest rates effective from May 13 with a decrease of 0.3-0.5% /year at different interest rates. With abundant liquidity and policies to support interest rates of the State Bank, interest rates in the second half of 2020 have been brought to a record low with the lowest level recorded at 0.1% for the past term. Night.

In 2021, after the seasonal increase during Tet, it begins to stabilize and tends to increase slightly until the end of April and early May, when it begins to increase sharply. In the second half of 2021, overnight interest rates hover around an average of 0.75% with abundant liquidity.

Interbank market interest rates from the beginning of 2022

have shown signs of increasing again and increased sharply from the end of July 2022. To support the local currency, the State Bank at the end of June for the first time restarted the channel to attract money by T-bills after two years of freezing. Through this channel, a large amount of money was withdrawn from the system, leading to a decrease in market liquidity and gradually increasing interbank interest rates. After receiving liquidity support from the State Bank many times, interest rates still show no signs of cooling down. Because the level of trust between commercial banks is not high and is surrounded by false rumors, the market is fragmented and congested.

During the third quarter of 2023, the market faces a situation of money stagnant in banks, credit is difficult to clear, and one of the manifestations of this situation is that interest rates in the interbank market have decreased in terms of equal to "super low".

However, market movements in the period from October onwards show that the situation of money congestion has been partly relieved. In particular, one of the messages that can be observed is the increase in interest rates in the interbank currency market at certain times at the end of October 2023.

Specifically, the overnight lending interest rate on the interbank money market has risen to 2.74% on some days. This interest rate is still much lower than the 5% interest rate ceiling as prescribed in Decision No. 1123/QD-NHNN dated June 16, 2023 (on refinancing interest rates, rediscount interest rates, and interest rates). Overnight lending rates in interbank electronic payments and loans to compensate for capital shortages in clearing payments), but are much higher than the super low period in September 2023. At that time, the overnight lending interest rate was only 0.17%.

The average interbank interest rate 2019-2023 not only reflects the system's liquidity situation but also partly reflects the situation of the economy. Interest rates dropped sharply, especially in 2020 and 2021, which was the time when the economy was most severely affected by the epidemic, many businesses had to temporarily suspend or reduce the scale of operations, causing disbursement to be limited. Than. Liquidity is abundant but businesses have little access. The state bank supports the economy with many measures, including reducing operating interest rates, which also causes the general level of interbank interest rates to drop to a record depth. The rebound in interest rates in 2022, in addition to the influence of the world economy and inflation, also shows that Vietnam's economy is recovering after the epidemic. In 2023, system liquidity has signaled excess since the end of the second quarter when credit growth was at the lowest level in many years. Difficulty in lending means banks do not have much pressure to mobilize capital in the interbank market. This is said to be the main reason pulling interest rates in both markets to record lows for most of the third and fourth quarters. By November 30, 2023, credit to the economy was only an increase of 9.15% compared to the end of 2022, lower than the same period in previous years.

4. Solutions to develop the interbank market in Vietnam

In order for the monetary tools applied by the State Bank to operate effectively, in the coming time we should pay attention to the following issues:

Build a timely and accurate information system

From the limitations affecting the development of the interbank market stemming from information asymmetry, to create better development conditions for the entire system, the State Bank needs to build an information channel. Respond quickly and promptly to the system, and at the same time, filter and prevent false rumors that damage the system. On the other hand, information needs to be transparent, including negative news to create trust in the market, thereby making it easier for credit institutions to make decisions on how to use their capital. It's effective.

Building a public credit institution credit rating system

In addition to building an accurate and timely information channel, having an organization or a group of experts from commercial banks assigned by the State Bank to rank the credit institutions according to a specific unified measure is also extremely necessary. To promote the creation of a reputable organization to serve the Vietnamese banking system, support is needed from departments and inspection and supervision agencies of the state bank and commercial banks to issue recommendations. Appropriate methods, written instructions, and specific instructions on participating in the organization. At the same time, technological support from the information technology department is also needed. Building a reputable general ranking not only helps commercial banks and credit institutions build effective directions for using capital and interbank loans, but also creates motivation for commercial banks to try their best. More complete to improve its publicly available ratings.

Build a centralized trading system

From limitations in monitoring exchange rates and interbank interest rates to the difficulty of credit institutions finding partners to satisfy their capital needs, making the market inefficient, it shows that the State Bank needs to build a system the system is more focused, more timely, and easier to manage to serve market needs.

5. Conclusion

Vietnam's interbank market has made significant progress in terms of transaction turnover, playing an important role in Vietnam's currency market. Recently, the market has had many continuous major changes, causing a significant impact. To the financial market in general, especially interbank interest rate fluctuations pushed to a record high in 2022. However, the market is in a quiet period due to economic instability. However, the interbank market is increasingly consolidated thanks to the control of the State Bank through monetary policy. Along with that, the process of perfecting the legal corridor for interbank lending activities is gradually improving, creating a good environment for Vietnam's interbank market to thrive.

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