

# Some Measures For Further Capital Mobilization In Long An-Based Commercial Banks

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## I. FACTS OF CAPITAL MOBILIZATION AND CREDIT INVESTMENT OF COMMERCIAL BANKS IN LONG AN PROVINCE

In Long An, there are five branches of state-owned commercial banks, one branch of joint stock commercial bank for rural development and 20 people's credit funds. Making the best use of their advantages, these banks have created a fiercely competitive environment, especially

Table 1: Growth rate of total capital and outstanding loans

Year	1999 over 1998	2000 over 1998	2001 over 1998	2002 over 1998	2003 over 1998
Indicator	up (+)	up (+)	up (+)	up (+)	up (+)
	down (-)	down (-)	down (-)	down (-)	down (-)
Total capital	+14.5%	+38%	+86%	+182%	+278%
Mobilized capital	+1.7%	+38%	+82.7%	+159%	+263%
Total outstanding loans	+15.2%	+52%	+100%	+206%	+316%

Table 2: The structure of mobilized capital

Year	Mobilized capital (VND bil.)	Structure (%)	
		Deposits of entities (%)	Deposits of individuals (%)
1991	33	18.2	81.8
1998	621	19.4	80.6
1999	623	28.6	71.4
2000	858	30.5	69.5
2001	1,135	40.3	59.7
2002	1,609	41	59
2003	2,254	45	55

Table 3: The ratio of mobilized capital

Year	1998	1999	2000	2001	2002	2003	Average
Indicator							
Mobilized capital over total capital	55.2%	48.3%	55.2%	54.2%	50.6%	53%	52.7%
Allocated capital from the central bank and loans over total capital	44%	50.6%	43.6%	44.7%	48.4%	47%	47.3%

Table 4: Annual growth rate

Year	1999 over 1998	2000 over 1999	2001 over 2000	2002 over 2001	2003 over 2000
Indicator					
Mobilized capital	+1.7%	+37.7%	+32.3%	+41.7%	+40%
Total outstanding loans	+15.2%	+32%	+32%	+53%	+36%

in interest rate and customer attracting policies.

From 1998 until now, especially in the development plan from 2000 to 2003, commercial banks in Long An Province have raised firm sources of capital, showed a rather high growth, and given financial supports

to local businesses. However, when the province's economy grows well, the banks' increase rate of outstanding loans is always higher than that of their capital. Their traditional forms of attracting depositors like saving accounts, accounts of various economic sectors, term bonds (one

month, three months, six months, twelve months) should be renewed and complemented with new forms

The above analysis indicates the Long An-based commercial banks' growth rate of mobilized capital was rather high over six years from 1998 to 2003, for example, from VND621 billion in 1998 to 858 billion in 2000 (up 38%), 1,135 billion in 2001 (up 82.7%), 1,609 billion in 2002 (up 159%) and 2,254 billion in 2003 (up 263%). Even in 1999 the country faced a danger of deflation (inflation staying at only 0.1%), the central bank lowered interest rates five times but the mobilized capital still increased 1.7% over 1998 and 18.8 times as compared to 1991. Therefore, the annual growth rate was 30-40% on average. This shows great potentialities of capital in the public, increasingly higher performance of businesses and larger saving of the people.

However, when the economy is growing at high pace, the increase in local banks' outstanding loans tends to rise higher than the capital source. The capital source raised from 1998 to 2003 met only 48%-55% of banks' working capital. In the meantime, the province required huge funds for its socio-economic projects. This event was proved by growth rate of outstanding loans in four years from 52% in 2000, to 100% in 2001, 206% in 2002 and 316% in 2003 as compared to 1998. Regarding annual growth rate of outstanding loans, it is over 30% on average, especially it was 53% in 2002 and 36% in 2003. As a result, the local capital sources cannot meet the province's requirements, and it must be supplemented



with the central bank's financial sources. On the other hand, the province demands huge funds in the medium and long term to implement its socio-economic development targets from 2003 to 2010, especially in projects to accelerate industrialization and modernization of agriculture and rural areas.

The medium-and long-term financial source had accounted for 13% of total mobilized funds until December 31, 2002, and 15% by December 31, 2003. This shows the bank's performance of mobilizing medium and long-term capital sources remains poor.

As for structure of mobilized capital, the Table 2 indicates the ratio and absolute amount of the individual deposits are always higher than those of socio-economic entities. This shows the people's financial potentialities are abundant and advantages which need be tapped. Nevertheless, in recent years, the ratio of capital sources mobilized from entities tends to increase higher and firmly. This event reveals businesses' performance has recorded promising achievements and thus generated financial sources for banks' activities.

## **II. SOME MEASURES TO BOOST CAPITAL MOBILIZATION IN LONG AN'S COMMERCIAL BANKS**

### **1. General measures**

1.1 The central bank implements the Government's monetary policy in the direction of enhancing its capability, role, and efficiency in a flexible manner and in accordance with market changes; coordinating closely with other policies; and creating favorable conditions for developing monetary markets including the interbank money market, stock market, bill and bond bidding markets...with a view to attaining the objectives of money stabilization, inflation control, higher competitiveness of Vietnamese banks in the course of integration. In particular, the central bank is required to boost the process of renovating, perfecting and promoting the management of indirect instruments including open market operations, capital refinancing, and compulsory reserve with the aim to balance the capital demand and supply in the money market and orientate the market interest rates.

1.2 The central bank should study and propose the Government to build and complete the legislation on money and banking activities for integrated operations of credit institutions. Policies and mechanisms

must be increasingly liberal to satisfy development requirements of the banking system and compatible with international common practice and standard. Especially it should issue uniform policies on commercial banks' capital mobilization, application of technological advances, and professional operations; and accomplish the legal frame for valuable papers including commercial bills, deposit certificates, and various kinds of bills and bonds of commercial banks with a view to expanding and diversifying commodities on the open and stock markets.

1.3 The central bank should closely inspect the implementation of the project on restructuring the state-owned banking system and the settlement of overdue debts and curbing new arrears. It is also required to allocate additional charter capital to commercial banks following the roadmap approved by the Government as well as take a lot of measures to enhance financial strength and competitiveness of commercial banks. In addition, the State Bank shall direct the realization of the program on strengthening and refining joint stock commercial banks and people's credit funds; create conditions for them to raise their charter capital; and determinedly disband or merge ailing banks.

In the other hand, the central bank should also review and amend some regulations on equity capital in accordance with international common practice and realities of Vietnam's banking system at present. This will improve the image of Vietnamese commercial banks in the eyes of the world financial community in the globalization such as development investment fund, financial reservation fund, retained profits...because these funds are derived from after-tax profits.

The restructuring of banking activities, especially debts, must be carried out at the same time with the renovation and application of modern methods of risk management and corporate reformation.

1.4 The central bank shall speed up modernization of banking activities and payment method, especially utilization of the network for interbank electronic payment across the country. The modern banking facilities will thereof be expanded to satisfy economic needs.

However, the initial investment in technological innovation and banking service development is extremely huge while commercial

banks' financial capacity remains modest. Therefore, they can cooperate to establish an integrated data processing system, members can share facilities from the common hardware, software and human resource in top preferred fields as well as ATM payment.

1.5 The central bank shall instruct credit institutions to carry out uniform measures to mobilize capital and give loans effectively; expand networks and forms of capital mobilization and increase medium and long-term sources. It has to control the credit growth rate in line with increase in capital mobilization, and balance investment capital sources, especially balance the terms of capital source and utilization of commercial banks.

### **2. Some detailed measures at commercial banks**

2.1 To intensify utilities for customers in payment by applying non-cash payment forms (cheque, ATM, Visacard, Creditcard, Mastercard...); develop individual accounts; expand payment services and networks of capital mobilization; and provide computer-based services in accordance with the trends of e-commerce and knowledge economy.

2.2 To devise flexible mechanisms of interest rate and attractive forms of capital mobilization, especially promote medium and long-term sources by higher liquidity of capital raising instruments (deposit certificates, bills and bonds) and assurance of deposit value with gold and foreign currency.

2.3 To continue modernizing payment operations to meet various needs of clients with high exactness, safety, processing speed and risk prevention; apply the model of on-line payment in each banking system and connect commercial banks with the national payment center.

2.4 To encourage commercial banks to act as agents for insurance firms so that these firms in turn open accounts at the bank, especially accounts for selling life insurance contracts.

2.5 To strengthen the diffusion of banks' capital mobilization on mass media; and announce interest rates publicly, forms of sale promotion and preferences for depositors, especially the protection of Vietnam Deposit Insurance when the bank is bankrupt.

2.6 To plan the development of human resource; improve the staff's qualifications, independence and self-responsibility in their tasks. ■