The Banking-Financial Sector in Vietnam and Its Prospects

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The banking-financial sector in the past few years has gained moderate growth rates and its share in the GDP is still small. International agreements require that the sector will be totally open to foreign competition by 2018, which means that it should be well developed then to survive. This paper will try to provide an overview of the sector in recent years and its prospects for development in the coming years.

I. THE BANKING-FINANCIAL SECTOR IN THE ECONOMIC DEVELOPMENT

At present, the service sector accounts for some 39% of the GDP. This share, however, tended to fall, from 38.6% in 2001 to 38.1% in 2005. The growth rate of this sector is also lower than the economic growth rate: 5.7% compared with 7% in the years 1996-2000; and 7% compared with 7.5% in the years 2001-2005.

It's worth noting that the share of the banking-financial sector is always lower than 2% of the GDP while this figure is 6-9% in Indonesia; 11-12% in Malaysia; 4-5% in the Philippines and 6-8% in Thailand.

Realities show that the growth rate of the service sector is always lower than the national growth rate; and the share of the banking-financial sector is also accordingly low because of small investment in the service sector in the years 2001-05 that fell from 38.8% in 2001 to 37.8% in 2005. The investment in the banking-financial sector is always low, around 1% of the gross investment. This fact has affected the development of the banking sector and its contribution to the GDP in recent years. In spite of its small share in the GDP, the sector has remarkable contribution to the economic development when it supplies huge sums of capital to the economy that equals some 50% of the gross investment.

II. DEVELOPMENT OF BANKING AND FINANCIAL SERVICES

1. Banking services

Up to now, the banking system in Vietnam comprises six state-owned commercial banks; 37 joint stock commercial banks; 31 branches of foreign banks; six joint venture banks; six finance companies; 10 financial leasing companies; 926 credit societies and 46 representative offices of foreign banks.

After recent restructuring processes, local banks have been able to improve their business performance to a certain extent. Most commercial banks, local and foreign-invested ones alike, have made good profits. Their profitability rate rose from 17% to 70%. However, the average profit made by state-owned banks is rather low in comparison with their regional counterparts. The ROA of the whole system is 0.65%, lower than the internationally agreed level of 1%. Of state-owned commercial banks, only the Bank for Foreign Trade reached this level.

All commercial banks have applied modern technologies to their operations and managerial mechanism – some 80% of their operations are done through computers and the Internet – and all operating processes are standardized according to conditions of individual bank; thereby improving their performance.

a. Mobilization of capital: The total deposit in the years 2001-05 rose by 24% a

Table 1: Share of the banking- financial sector in the GDP

	2001	2002	2003	2004	2005
Contribution from the service sector to the GDP	38.63	38.49	38.00	38.16	38.07
- Trading	14.08	14.11	13.58	13.67	13.58
- Banking - financial	1.82	1.82	1.77	1.79	1.8
- Others	22.73	22.54	22.64	22.68	22.69

Source: General Statistics Bureau

Table 2: Part of the gross investment in the banking- financial sector

	2001	2002	2003	2004	2005
Investment in the banking sector as % of the gross investment	38.8	36.9	37.9	37.8	37.8
- Trading	12.9	12.1	11.6	11.7	11.7
- Banking- financial	1.2	0.6	0.8	0.8	0.8
- Others	24.7	24.3	25.5	25.3	25.3

Table 3: Bank deposit and loan of the banking system to the GDP

	2002	2003	2004	2005
Deposit to the GDP	54.8%	59.4%	62.3%	68.9%
Loan to the GDP	53.3%	59.9%	64.5%	67.9%

Source: author's calculation

year on average. State-owned commercial banks accounted for some 70% of the total deposit; joint stock commercial banks some 20% and foreign-invested banks 10% against 20% in the previous period.

b. Credit supply: The growth of credit supply by the system tended to decrease in recent years, from 28% in 2003 to 19% in 2005; this was chiefly because a fall in

Table 4: Share of sectors in credit supply

Sector	2003	2004	2005	1st half of 2006
Public	40.7%	43.0%	43.0%	41%
Non-public	45.5%	47.3%	46.2%	47%
Foreign	13.8%	13.7%	10.8%	12%

the credit supply by state-owned commercial banks, from 21.3% in 2003 to 13.6% in 2005. On the other hand, the growth of joint stock commercial banks was rather high: 41.78% in 2004 and 47.16% in 2005. The low growth rate of the credit supply was because the market for credit had expanded when companies started mobilizing capital by issuing bonds and shares while the supply of credit to state-owned companies slowed down during the equitization and re-arrangement of the public sector. Moreover, the SBV also wanted to limit the supply of credit to control the inflation.

State-owned commercial banks still control the customer base (66.8%), and loan in the domestic currency (80.3%) and in the dollar (52.5%) as well. Joint stock commercial banks control 32.1% of the customer base and 14.5% of the loan in the VND. Foreign-invested banks control a very small share in the customer base (0.4%) but account for a large share in the loan in the dollar: 16.7% of the total loan is supplied by joint venture banks and 19.7% by branches of foreign banks.

c. Payment through banks: The e-payment service is increasingly common because of its accuracy, safety, and quickness. At present, some 80 banking institutions all over the country have taken part in the inter-bank electronic payments system.

Use of cards has become common. In 2002, some 42,000 cards were issued and this figure rose to 2.7 million in December 2005. Number of card issuers increased from 13 in 2004 to 20 in 2005. The volume of payment made by cards is still small, it accounted for only 0.87% of total payment in 2005.

d. Immigrant remittances: In HCMC, the trade in foreign exchange grew fast: purchase by banks rose by 46.56% in 2005 and sales by 50.43%. The volume of immigrant remittances in 2005 reached US$2,200 million rising by 16.34%. Exchange of currencies rose by 137.3% in 2005. Private money transfer grew fast because of increasing expenses on foreign education, health care and tours.

e. E-banking services: Up till now, many banking institutions have offered e-banking services, such as ATM, Internet- banking, home- banking, and mobile-banking. Users of e-banking services can get information about the monetary market (interest rate, exchange rate, gold price, stock prices, etc.) pay bills (telephone fee, water and power supply, taxi fare, etc.). However, most users of these services are banking institutions and major organizations.

Generally, banking services offered by local banks are of poor quality, not diverse and customer-oriented enough. Individual savings account for 94% of the capital mobilized and the main operation of banks is to supply credits, which accounts for 80% of bank's income. The bank's ability to mobilize the capital is limited because the products offered are not attractive enough and market researches were not carried out properly. This situation prevents banks from promoting the non-cash payment service.

2. Insurance service

At present, there are 16 companies supplying non-life insurance services; eight suppliers of life insurance; seven insurance broking houses; and one reinsurer. In 2005, six new insurers (two non-life insurers; three life insurers and one insurance broking house) got business licenses and they include some of the biggest international players, such as AIG, Prevoir, ACE Life and New York Life. This means that Vietnam has become a destination for international insurers because decision to open the insurance market is only a matter of time.

Insurance regulations don't allow an insurer to supply both life and non-life insurance services, which divide

Table 5: Vietnamese insurance market

Kinds	1993	1996	1999	2002	2003	2004	2005
Life insurance			3	4	4	5	8
Non-life insurance	1	6	10	13	14	14	16
Reinsurance		1	1	1	1	1	1
Insurance broking	1	1	1	2	5	6	7
Total	2	8	15	20	24	26	31

Source: Ministry of Finance

the market into two segments and there is no competition or alternative between them. Of non-life insurance, the motor insurance service has the biggest sale (28.3%) and it is followed by property-casualty insurance (20.05%), health and human accident insurance (15.27%), and other fire and marine insurance services.

In the non-life insurance market, local companies hold large shares. Four local insurers – Bafo Việt, Bafo Minh, Petrolimex Insurance (PJICO) and PVI hold a total share of 86%. The life insurance market, with the presence of foreign-invested companies, has developed fast. Within only six years, from 1999 to 2005, many joint ventures and foreign insurance companies have come into Vietnam and they quickly acquire their shares. Of five suppliers of life insurance, three foreign ones – Prudential, Manulife and AIA – control 64.4% of the total sales, and the lion share (46.2%) is held by Prudential.

The insurance market in Vietnam is still small in comparison with regional countries and it accounts for only 2% or 3% of the GDP. Many local companies lack competent employees and modern managerial skills. Unfair competition has existed for years due to operations of specialized insurers. Most of the customers live in big cities. Many needs for specific insurance services are not satisfied.

3. Investment advisory services

From April 2002 to June 2006, 13 foreign mutual funds with a total capital of US$1 billion were established. They have invested successfully in both listed and unlisted securities. Their net asset values have increased considerably with the VN Index (65% in the first five months of 2006; the highest growth rate in Asia).

Investment services are very simple because the stock market is still in its first stage of development.

In the HCMC Securities Trading Center by the end of 2005, there were 28 listed securities with a total capitalization of VND4,379 billion equaling 0.6% of the 2004 GDP besides VND29,000 billion worth of government bonds and 300 billion worth of mutual fund certificates. Up to June 30, 2005, there have been 1,071 trading sessions held in this center with VND33,679 billion worth of stock traded (89% for bonds and 11% for shares and certificates.)

In 2006, shares from some joint stock banks and bonds from the Bank for Foreign Trade made their appearance. Fluctuations in the VN Index didn't reflect rises or falls in the economy but they came from short-term speculation. This index rose to some 600 points by April, fell to some 400 points in June and rose to 430 points in the third quarter. One of causes of fall in stock prices is the increases in volume of commodities in July. At present, the capitalization of the stock market equals some 8% of the GDP, which reflects the small scale of the market.

Table 6: Developments of the stock market (VND billion)

	2001	2002	2003	2004	2005
Transaction value	1,033	1,087	2,998	19,887	26,878
Transaction value to the GDP	0.3%	0.35%	0.9%	5.5%	6.8%

III. SOME PREDICTIONS OF THE DEVELOPMENT OF THE SECTOR UP TO 2020

The per capita GDP in Vietnam reached US$724 in 2006 and is expected to reach US$824 in 2007 and top the US$1,000 mark by 2010. By PPP standards, the per capita GDP was US$3,620 in 2006 and US$5,000 by 2010. With an annual growth rate of 8.5% or 9.0% gained by the service sector, the banking-financial sector will account for 3% of the GDP; the insurance sector 4% or 5% and the capitalization of the stock market 11-12%.

In the years 2010-2020, the per capita GDP is expected to reach some US$2,000, or over US$10,000 by PPP standards. But this figure is still small in comparison with leading countries in Southeast Asia although the gap will have been contracted to a certain extent. Up to 2020, the banking- financial sector will gain a growth rate of 12-14% a year and account for some 10% of the GDP; the insurance market 12-14% and the stock market 22-25%; and this sector will provide 70% of the capital for investment.■