



MEASURES TO IMPROVE LIQUIDITY MANAGEMENT IN VIETNAM'S COMMERCIAL BANKS

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Liquidity and liquidity risk management are vital for safe operations of any commercial banks. Many of them are now facing liquidity strains and forced to seek alternative financial support due to intense competition for deposits. Unbalanced liquidity is the first sign of financial instability. The development of financial markets has entailed a corresponding rise in chances and risks of liquidity management. This presents the importance of estimating liquidity demand by means of enduring and low-cost approaches in order to sponsor banking operations in the increasingly competitive climate.

Keywords: liquidity, risk, management, assets, liabilities.

1. Facts of liquidity in Vietnam's commercial banks

Liquidity is the possibility of accessing assets or capital available for paying with reasonable costs on capital's demand.

High-liquidity capital is capital which takes low mobilization costs and quick mobilization time.

High-liquidity assets are ones with low costs of converting into cash and quick ability to do so.

Liquidity risks: risks occur when a bank fails to make payments or to convert its assets into cash or is unable to get loans.

One of the most important tasks of every com-

mercial bank is to maintain sufficient liquidity. That is, it must satisfy one of the requirements: (1) having disposable capital at hand, (2) having easy access to loans with low costs and in time, and (3) being able to quickly convert assets into cash to support business.

The U.S. banking crisis of 2008 has proved that liquidity deficit usually signals a bank's severe financial problems. In fact, the bank will gradually lose its current depositors due to a growing urge to withdraw money and fail to attract more accounts due to customers' reservations. Some are resigned to supplying loans when the lending rates are lower than the borrowing ones, therefore reducing their profits.

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A bank has various choices of appropriate approaches to liquidity management. With data collected from annual reports and financial statements, this paper is to evaluate liquidity of Vietnam's commercial banks by liquidity indicators below:

- Charter capital;
- Cash position = (cash + deposits at banking institutions)/total assets
- Securities liquidity ratio = (stocks + marketable stocks)/total assets
- Ratio of cash plus deposits at banking institutions to customer deposits

a. Charter capital:

Charter capital is the original capital a bank acquires at the beginning of its operation and is recorded in articles of incorporation of the bank. The capital is contributed or pledged to contribute in a specific time-limit by the owners. Here are the significances of charter capital:

- Functioning as a pledge of payment responsibility made by a bank to depositors and lending partners;
- Showing a bank's capability of mobilizing capital and investing it in banking operations.

The Decree 141/NĐ-CP dated Nov. 22, 2006 specifies a legal capital of VND3,000 billion for a state-owned commercial bank up to 2008 and 2010, and VND1,000 billion by 2008 and VND3,000 billion by 2010 for a joint-stock commercial bank.

The plan to increase the legal capital as directed by the Degree remained a real headache to many banks in 2010. Meanwhile, the stock market in Vietnam saw a substantial decline as of late 2007, making the plan more challenging. As compared with foreign banks in the region, Vietnam's commercial banks were set up with modest charter capital (the charter capital of a medium-sized bank in the region is US\$1 billion, or VND19,000 billion).

Table 1: Charter capital of Vietnamese commercial banks in December 2010 (VND billion)

Banks	Charter capital	Short forms
Vietnam Bank for Agriculture and Rural Development	20,708	Agribank
Vietnam Bank for Industry and Trade	15,172	VietinBank
Bank for Foreign Trade of Vietnam	13,223	Vietcombank
Vietnam Export-Import Bank	10,560	Eximbank, EIB
Asia Commercial Bank	7,814	Asia Commercial Bank, ACB
Bank for Investment and Development of Vietnam	14,374	BIDV
Sacombank	6,700	Sacombank
Vietnam Technological and Commercial Joint-stock Bank	6,932	Techcombank
Military Commercial Joint-Stock Bank	5,300	Military Bank, MB,
Southeast Asia Commercial Joint Stock Bank	5,068	SeABank
Saigon Commercial Bank	3,635	SCB
LienViet Joint Stock Commercial Bank	3,650	LienVietBank
An Binh Bank	3,483	ABBank
Dong A Bank	3,400	DongA Bank, DAB
Vietnam Tin Nghia Bank	3,399	Vietnam Tin Nghia Bank
Mekong Housing Bank	3,000	MHB
Maritime Bank	3,000	Maritime Bank, MSB
Hanoi Building Commercial Joint Stock Bank	3,000	Habubank, HBB
Southern Bank	3,049	Southern Bank, PNB

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Vietnam International Bank	3,000	VIBBank, VIB
North Asia Commercial Joint Stock Bank	3,000	NASBank, NASB
Vietnam Prosperity Joint-stock Commercial Bank	2,456	VPBank
Ocean Bank	3,500	Ocean Bank
Global Petro Commercial Joint Stock Bank	3,000	GP.Bank
Orient Commercial Joint Stock Bank	2,465	Oricombank, OCB
Western Rural Commercial Joint Stock Bank	2,000	Western Rural Commercial Joint Stock Bank
Saigon-Hanoi Commercial Joint Stock Bank	3,497.5	SHBank, SHB
Ho Chi Minh City Housing Development Commercial Joint Stock Bank	2,000	HDBank
Viet A Bank	2,087	VietABank, VAB
Saigon Bank for Industry and Trade	3,635	Saigonbank
Bao Viet Bank	1,500	BaoVietBank, BVB
Great Trust Joint Stock Commercial Bank	3,000	TrustBank
Nam A Bank	2,000	Nam A Bank
Tien Phong Bank	2,000	TienPhongBank
Dai A Commercial Joint Stock Bank	1,000	DaiABank
First Joint Stock Commercial Bank	2,000	FICOMBANK
GiaDinh Commercial Joint Stock Bank	2,000	GiadinhBank
Kien Long Commercial Joint - Stock Bank	2,000	KienLongBank
Nam Viet Bank	1,820	NaViBank
Vietnam Thuong Tin Commercial Joint Stock Bank	1,000	VietBank
Petrolimex Group Commercial Joint Stock Bank	1,000	Petrolimex Group Bank, PG Bank
Mekong Development Commercial Joint Stock Bank	3,000	Mekong Bank, MDB

Source: www.sbv.gov.vn

According to the statistics, Vietnamese commercial banks are operating at a very small scale, beyond comparison with foreign banks in the region. In the state-owned commercial banks group, Agribank holds the highest charter capital, VND20,708 billion, leaving MHB at the bottom with a charter capital of VND3,000 billion. As for joint-stock commercial banks, the highest charter capital is found in Eximbank with VND10,560 billion and the lowest with VND1,000 billion. Meanwhile, joint-stock commercial banks were expected to increase their capital to at least VND3,000 billion by the end of 2010. (The deadline was extended to the end of 2011 as many of them failed to achieve that goal in late 2010.)

b. Cash position:

A high cash position guarantees bank's immediate satisfaction of liquidity.

Table 2: Cash position in Vietnamese commercial bank in the 2008-2010 period (As %)

Bank	2008	2009	2010
ABBank	2.05	19.53	32.55
Agribank	2.51	5.39	
Asia Commercial Bank, ACB	8.07	11.73	25.88
BaoVietBank, BVB			42.86
BIDV	1.94	2.31	
Dai A Bank	8.35	10.06	25.78
DongA Bank, DAB	8.35	13.83	7.58
Eximbank, EIB	7.35	15.79	20.8
GiadinhBank	36.09	41.54	
GP.Bank			20.68
Habubank, HBB	1.98	0.97	30.11
HDBank	14.68	21.71	31.47
KienLongBank	23.22	13.2	
LienVietBank			22.78
Maritime Bank, MSB	1.01	48.44	
MHB	2.86		
Military Bank, MB,	4.45	37.03	
MyXuyenBank, MXB			2.08
Nam A Bank	33.33	15.79	33.44
NaViBank	41.98	39.78	29.41
Ocean Bank	0.26	20.47	26.66
Oricombank, OCB	25.14	3.27	10.8
PG Bank	23.81	33.72	20.68
Sacombank	7.28	15.54	22.74
Saigonbank	1.97	13.46	4.3

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SCB	13.29	2.76	9.31
SHBank, SHB	1.39	0.71	23.65
Southern Bank, PNB	6.88	13.37	
Techcombank	24.78	28.79	30.11
TienPhongBank			11.65
TrustBank	10.29	12.76	
VIBBank, VIB	1.38	22.78	
VietABank, VAB	30.49	24.3	16.77
VietBank	5.39	11.05	
Vietcombank	2.77	5.92	19.95
VietinBank	3.96		10.13
Vietnam Tin Nghia Bank			10.02
Western Bank	11.88	32.93	58.95

Source: Annual reports of SBV Branch in HCMC

The statistics show that there were 20 banks with cash position below 10% in 2008, or even below 5% such as Agribank, BIDV, MHB, Vietinbank, An Binh, Habubank, MB, MSB, Ocean, Saigonbank, SHB, VIBank, and Vietcombank. These banks are very likely to get loans at high interest rates from the money market if they are to meet high and sudden demand for liquidity. In fact, between late 2008 and late 2010, some banks had been racing to raise deposit rates and lift overnight rates up to a record of 40% per year in the inter-bank money market in late 2009.

The ultimate goal of a bank is merely to avoid a liquidity decline which results from tough measures taken by the SBV, such as increasing required reserve ratio and issuing compulsory treasury bills, to help retrieve a large volume of cash from circulation. Commercial banks often overlooked the importance of liquidity and even reduced borrowing rates because they thought that they were enjoying a capital surplus. However, when the tight-money policy was implemented, their weaknesses in liquidity became more noticeable.

c. Securities liquidity ratio = (stocks + marketable stocks)/total assets:

The ratio reflects the proportion of liquid stocks which meet the demand for liquidity to the total assets of a bank. The higher the value of the ratio is, the better liquidity is.

Table 3: Securities liquidity ratio of Vietnamese commercial banks in 2008 - 2010

Bank	2008	2009	2010
ABBank	6.68		0.47
Agribank	8.75	9.63	
Asia Commercial Bank, ACB	2.53	1.03	0.49
BaoVietBank, BVB			13.05
BIDV	12.85	12.95	
Dai A Bank	1.59	10.99	3.67
DongA Bank, DAB	3.18	1.22	1.73
Eximbank, EIB	16.88	2.63	0.51
GiadinhBank	5.47	3.54	
GP.Bank			9.33
Habubank, HBB	9.44	14.27	11.6
HDBank	9.44	14.27	6.75
KienLongBank	0	0	
LienVietBank			33.33
Maritime Bank, MSB	12.35	12.04	
MHB	27.26		
Military Bank, MB,	2.24	19.86	
MyXuyenBank, MXB			0.76
Nam A Bank	3.76	2.6	1.55
NaViBank	0	0.2	0.26
Ocean Bank	17.22	27.41	18.14
Oricombank, OCB	2.52	1.15	0.87
Petrolimex Group Bank, PG Bank	17.71	19.02	9.33
Sacombank	17.66	12.67	9.96
Saigonbank	0.1	0	
SCB	3.64	10.84	16.01
SHBank, SHB	0.07	10.08	12.2
Southern Bank, PNB	6.66	6.05	
Techcombank	17.3	17.69	11.6
TienPhongBank			46.3
TrustBank	0.59	0.12	
VIBBank, VIB	17	14.03	
VietABank, VAB	1.3	2.96	0.98
Vietcombank	19.22	14.32	8.23
VietinBank	19.91		14.01

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Vietnam Tin Nghia Bank	3.18	1.03	0.28
VPBank	9.98	9.96	
Western Bank			17.75

The table indicates that most of the banks hold a small proportion of liquid stocks. The year 2010 saw a decrease in the proportion caused by a dramatic fall in the stock market in 2009.

d. Ratio of cash plus deposits at banking institutions to bank deposits:

Table 4: Ratio of cash plus deposits to bank deposits of Vietnamese commercial banks in 2008 - 2010

Bank	2008	2009	2010
ABBank	5.2	36.6	57.55
Agribank	3.57	7.19	
Asia Commercial Bank, ACB	12.47	19.24	49.99
BaoVietBank, BVB			88.67
BIDV	2.92	3.48	
Dai A Bank	9.13	17.5	38.28
DongA Bank, DAB	15.94	20.86	11.52
Eximbank, EIB	10.82	24.66	35.12
GiadinhBank	176.15	224.39	
GP.Bank			31.25
Habubank, HBB	5.49	2.07	44.7
HDBank	57.32	47.85	63.64
KienLongBank	53.68	23.48	
LienVietBank			47.77
Maritime Bank, MSB	22.4	112	
MHB	7.91		
Military Bank, MB,	7.42	60.46	
MyXuyenBank, MXB			7.74
Nam A Bank	62.34	27.25	81.27
NaViBank	67.71	72.03	57.08
Ocean Bank	1.46	44.98	38.53
Oricombank, OCB	51.19	4.86	17.02
Petrolimex Group Bank, PG Bank	84.95	94.84	31.25
Sacombank	10.63	23.06	39.09
Saigonbank	3.11	21.05	6.02
SCB	21.61	4.63	16.84

SHBank, SHB	6.13	1.07	44.23
Southern Bank, PNB	12.34	30.69	
Techcombank	40.04	42.8	44.7
TienPhongBank			29.54
TrustBank	37.78	18.93	
VIBBank, VIB	3.06	33.08	
VietABank, VAB	63.06	33.08	24.53
Vietcombank	3.86	8.26	30.14
VietinBank	5.83		16.63
Vietnam Tin Nghia Bank	101.11	16.09	24.05
VPBank	7.66	14.43	
Western Bank	26.88	101.99	180.03

This ratio is formulated similarly to cash position ratio. In general, it was improved in 2010. This is probably because in late 2009, banks raised capital as planned but did not inject it into their business. The capital then was deposited with other banking institutions, which increased the ratio considerably in 2010.

2. Causes

a. Unfavorable developments in some microeconomic indicators:

What most affects liquidity risk management in Vietnam's commercial banks is high inflation rate which went beyond forecasts (recorded at 11.75% in 2010 and expected to rise to 13.3% in 2011). Some influences of high inflation on liquidity risk management are as follows:

First, the SBV implemented the tight-money policy by means of reserve requirements, rediscounts, and credit limits, etc. which badly influenced the liquidity risk management by commercial banks. This could also result from incompetence of banks in managing liquidity.

Second, money-market rates and bank borrowing rates kept exceeding forecasts by policymakers and administrators of commercial banks. In principle, climbing rates can help curb inflation, but can also cause a big rise in costs of liquidity management.

Third, due to high inflation, more and more people tend to withdraw their money or choose not to deposit it with commercial banks and convert

it into gold and foreign exchange instead. Thus, it leads to a greater demand for liquidity among banks.

Fourth, high inflation has entailed soaring rises in prices in general and building materials in particular. That is, more money is spent, for example, on building and repairing houses, and carrying out projects. While old deposits are withdrawn and new deposits are falling, the demand for bank loans is greater. This therefore increases liquidity risks.

Fifth, liquidity of a commercial bank is closely connected with that of the economy. Several businesses have difficulties getting loans from commercial banks and have to consider doing so because of high interest rates. Some other enterprises withdraw their deposits from commercial banks and “lend” them to their partners or parent companies lend money to their affiliates.

Sixth, some policies that aimed at restraining the inflation have brought many fields and markets to doldrums with the result that many bank customers became temporarily insolvent and the cash flow to banks was not as regular as expected, which led to poorer liquidity.

b. Poorly-developed money market:

The bidding markets for the Treasury bills and the SBV bills, and the open market, etc. for a long time have only seen the participation of state-owned commercial banks, large-scale joint-stock commercial banks and branches of foreign banks with most medium- and small-scale ones being bystanders. This is caused by many objective and subjective factors in which joint-stock commercial banks are mostly responsible.

The inter-bank market has not progressed properly and routinely meaning that commercial banks are directly related to each other mainly on the basis of agreement. In the circular 21/2010/TT-NHNN dated Oct. 8, 2010, the SBV requires commercial banks to make daily reports on their transactions through the inter-bank market.

c. Structure of bank assets and demand for liquidity of commercial banks:

First, it is about unavailability of supply for

liquidity. As for state-owned commercial banks and some joint-stock commercial banks with good administration, they often make considerable investments in valuable papers which allow them to join the open market or other channels offered by the SBV to the money market in order to secure liquidity timely. Yet, such instruments do not exist in assets of some joint-stock commercial banks. Many of them even do not have any deposits in prestigious banking institutions, and only a few do.

Second, structure of outstanding loans included in portfolio of many commercial banks involves high risks, especially big loans to investors in such changeable sectors as realty and finance markets. This is the most challenging issue on liquidity to many commercial banks for the time being and in time to come.

Third, huge volumes of short-term borrowings from the inter-bank market are used for expanding outstanding loans in the portfolio. This ratio in joint-stock commercial banks is nearly twice as much as mobilized capital of the market I; therefore, these banks usually encounter the biggest difficulties when commercial banks face a danger of liquidity crisis.

Fourth, it is regarding imbalances between medium- and long-term outstanding loans and maturity of deposits and loan capital. Proportions of short-term deposits transferred into medium- and long-term loans in some commercial banks are still acceptable by the SBV rules. However, if exerting the most use of it, these banks will be the first to get into trouble when liquidity problems occur.

d. Unsound structure of liabilities:

As for commercial banks, deposits in current accounts opened by such organization as State Treasury, insurance agencies, and post and telecommunication corporations, etc account for a big share in bank deposit. When the demand for cash skyrockets in various occasions, such as Tét Festival and the year's end, many commercial banks may face liquidity risk, fail to meet short-term obligations, and have to get loans of high interest rates. Other factors responsible for liquidity

risks include big share of capital borrowed from inter-bank market and big shares of short-term or call deposits in the bank deposit (at about 60-70%).

3. Measures to enhance liquidity management in Vietnamese commercial banks

a. Concerning the SBV:

- As the lender of last resort, the SBV should give timely loans to commercial banks and impose suitable sanctions, and even (if necessary) disclose banks which frequently lack liquidity due to ill business administration. This can badly affect those banks in mobilizing capital (for the present), but it is the most powerful measure to make them aware of the importance of liquidity risk management and set examples to other banks.

- SBV should provide commercial banks with liquidity through monetary instruments in the context of the tight-money policy to curb inflation. Large-scale commercial banks which hold standardized valuable papers can secure liquidity through open market operations. As for smaller banks that do not hold enough valuable papers or are not competitive enough in the open market, they can be refinanced by the SBV. This aid is only temporary and commercial banks should adjust capital resources and use them properly for minimum liquidity risks.

- The selling of foreign exchange by state-owned groups to banks should be done immediately, for this prevents the practice of holding foreign exchange and increases the supply on the forex market and helps commercial banks remove false credit and improve their liquidity.

- Criteria for improving liquidity by which commercial banks are forced to abide should be in place. Merger between banks that fail to increase their legal capital as planned could be encouraged.

- Recent shortage of liquidity among commercial banks was partly attributed to retarded notice from inspectors. Hence, the SBV had better tighten up controls over operations of banking institutions, inspect and evaluate performance of each commercial bank and the whole banking system more regularly in order to have opportune solutions.

b. Concerning commercial banks:

- Developing a strategy for liquid risk management by planning and predicting changes in the flows of deposits and loans as well as profits. The risk management department should assess the influences of risks and profits.

- Improving the business performance is a basic measure for banks to prevent risks and deal with liquidity problems. Human resource and technology play a very important role in a bank's operation. Therefore, a special care should be given to the analyzing and forecasting of changes in markets, and the assessing of possible risks to take timely actions.

- Promoting links and cooperation between commercial banks to guarantee secure payments and create fair competition. By doing so, banks can get mutual support to cope with liquidity problems and avoid unfair competition.

- Making a suitable restructuring of assets and liabilities is a good measure to keep risks at the lowest possible level. This task involves changes in the structure of deposits and loans, short-term and medium-term outstanding loans, and of short-term deposits turned into long- and medium-term loans.

- Banks can issue valuable papers and adjust the volume of loans supplied to sensitive and risky areas such as securities, real estate and consumption. Banks must maintain a reserve ratio (including cash, deposits at the Central Bank and other liquid assets) and guarantee the reserve required by the Central Bank in order to deal with outward money flows. A combination of primary and secondary reserves can help banks proactively handle liquidity risks and gain profits.

- Controlling interest rate risks and gaps in interest rates: This could be done by perfecting provisions regarding deposits and loans (especially those with medium and long terms) based on market rate of interest; and taking measures to prevent customers from withdrawing their deposits prematurely due to growing market interest rates or more attractive rates offered by competing banks.

- Limiting liquidity risks by developing a de-

derivative market: The REPO market is an effective way of creating high liquidity for debit stocks and structure of assets in order to quickly aid banks with liquidity. Forward and Future contracts are good tools for preserving trading interest rates with a view to reducing risks in case of market upheavals. Especially, SWAP plays an important part in restructuring assets-liabilities on the balance sheet, thereby diminishing interest rate risks and maturity risks.

4. Conclusion

At present, the enhancement of liquidity risk management should be considered a matter of ultimate concern to reduce the danger of bankruptcy. It is a difficult problem to not only an individual bank but also the whole banking system including the SBV and other commercial banks.

Liquidity risk management is not merely about money flows or structure of assets and liabilities on the balance sheets, but the very administration of a commercial bank. Therefore, it is necessary for banks to understand the importance of liquidity risk management, proactively make frame policies on it, and estimate and control the possibility of liquidity risks. They should also be able to make accurate predictions about money inflows and outflows, especially those related with off-balance-

sheet commitments and debt-service obligations, to prepare courses of action for unexpected occurrences.

Last, banks should gain insight into the relations between liquidity risks and risks of other kinds concerning credit, exchange rates, etc. in order to take the right path for their business policies ■

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