

# Reform and Improvements in Competitiveness of Banking Institutions One Year after the WTO Accession

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Analyses of cash flows in the banking system in 2007 show that the system gained the highest growth rate ever seen. The growth rate higher than the planned target reflects active and encouraging changes when the economy might keep on developing at present and in years to come. This situation also demonstrates good results of the effort to reform and improve the competitiveness of banking institutions in one year after Vietnam's accession to the WTO.

Up to the end of November 2007, total outstanding loan and investment from the banking system rose by 34%, and maybe 37% or 38% by the year's end, compared with 2006 and surpassing the planned target of 17% - 21%. Fields that employed large volumes of credit in 2007 were infrastructure projects, real estate - especially new housing and residential areas, export, service and sea farming, etc. followed by purchase of stocks, gold and consumer goods.

Deposits in banks from the public, however, gained a higher growth rate. According to the Vietnam Banks



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Association, total deposit in banking institutions up to Dec. 31, 2007 rose by some 36.5% (some others estimated it at 37% or 37.5%), 3.5 times higher than the GDP growth rate. This is the highest growth rate in the past 20 years of the reform in the banking system. The growth rate reveals potential for large deposits from the public and prestige of the banking system to the society, and proves that the public are more and more accustomed to the banking services.

In HCMC, the biggest and most active economic center of the country, the total de-

posit up to the end of 2007 reached VND442,530 billion increasing by 55% over 2006. This is also a record growth rate. Of this figure, deposit in the domestic currency was VND327,792 billion and the one in foreign exchange equaled VND114,738 billion or 26.0%. Classified according to groups of customers and forms of deposit, savings account accounted for VND169,298 billion; current account 245,965 billion; and issue of negotiable instruments 27,267 billion. These data demonstrate great potentials for deposits from the public in HCMC.

In Hà Nội, where house head offices of four state-owned commercial banks, eight joint stock commercial banks and many other banks, the total deposit and outstanding loan also rose at the same rate. Up to the end of 2007, the total deposit increased by 36.12% over 2006. Numerical data gathered at the end of October 2006 show that the total deposit reached VND326,624 billion increasing by 34.54% over 2006. It's estimated that the total deposit in Hà Nội-based banking institutions would amount to 350,000 or 355,000 billion by the year's end increasing by

42% or 44% over 2006. By the end of 2007, many commercial banks gained a growth rate of over 70% to 100% for their deposit. This is a spectacular rate in the eyes of bank managers and shareholders.

Regarding groups of customers by the end of October 2007, deposit from individuals reached VND140,310 billion increasing by 31.01% and deposit from organizations was VND186,314 billion increasing by 37.33% compared with the end of 2006. Deposit from organizations rose remarkably because after their IPO, many companies sent their proceeds to banks when their projects were not ready. Some others, after selling shares to strategic shareholders or issuing additional shares, had no plan for the additional capital, also deposited their extra capital with banks to earn some interests. Deposits also came from real estate companies that received payments for new flats, and land using fees, etc. Mutual funds, capital of small investors and brokers in the stock exchange, and capital in store for establishment of joint stock banks, finance companies or brokerage firms were sent to banks before these concerns can come into operation. Bank deposit also includes funds to be used for issuing bonds.

Regarding currencies, deposits in the do-

mestic currency were worth VND236,180 billion increasing by 39.05% and deposit in foreign exchange equaled VND90,444 billion increasing by 24.05% over 2006. Reasons for the deposit in foreign exchange bigger than the deposit in the domestic currency in Hà Nội and HCNC are the same.

Higher growth rate of the bank deposit shows that the economy is operating well and business performance is improved remarkably. Personal and corporate incomes are rising and part of them becomes deposits with banks, along with immigrant remittances.

The demand for investment in HCMC also showed unexpected increases. Up to the end of December 2007, total outstanding loan from HCMC-based banking institutions reached VND346,918 billion increasing by 51% over 2006. Classifying the outstanding loans according to their currencies shows that loans in the domestic currency amounted to VND241,190 billion while the loan in foreign exchange equaled VND105,728 billion. Regarding maturity of loans, the short-term loans were worth VND212,487 billion while long- and medium-term loans worth VND134,431 billion. Particularly, the high demand for loans in foreign exchange shows

that many organizations want to modernize their production lines or import raw materials. In addition, stable exchange rates and low interest rates on loans in foreign currencies (equaling 50% or 60% of the rate on loans in the domestic currency) encourage companies to borrow foreign exchange and customers to make deposits in the domestic currency.

In Hà Nội, the outstanding loan also rose at high speed. Up to Dec. 31, 2007, the outstanding loan from banking institutions rose by 38.5% over 2006. Numerical data up to the end of October 2007 showed that the outstanding loan amounted to VND163,838 billion increasing by 37.44% over 2006. This is the highest growth rate never seen before and it surpassed all predictions made by banks. In certain joint stock commercial banks, the growth rate reached 55% and even 65%.

Regarding maturity of loans, the short-term loans amounted to VND100,089 billion increasing 33.50%, and long- and medium-term loans worth VND63,749 billion increasing by 44.10%. The fact that long- and medium-term loan grew higher than the short-term one means high increases in the demand for capital used for modernization of production lines and construction of new fac-

tory buildings. In addition, many projects to build industrial parks, export processing zones, new towns and residential areas or apartment houses, hotels, office buildings, supermarkets and trading centers; and import of vehicles, machines, and raw materials, etc. also helped increase the demand for capital.

Outstanding loan in the domestic currency reached VND100,092 billion, increasing by 38.8% compared with the growth rate of 34.72% gained by the loan in foreign exchange. The difference came from the same causes found in HCMC.

Similarly, in provinces or cities where industrialization took place at high speeds, deposits, loans, and payments through banks also increased unexpectedly. Up to the end of September 2007, the total outstanding loan supplied by the whole banking system rose by 35% compared with the end of 2006 and this figure was estimated at 38% by the end of October 2007. In joint stock commercial banks, the outstanding loan rose by 103% compared with the same period in 2006 and 65% compared with January 2007, allowing these banks to increase their a market share from 19.7% at the end of 2006 to 24.7% in October 2007. Some joint stock commercial banks even saw their assets, deposit and loan double

within the first 10 months of 2007.

Sacombank, a joint stock commercial bank, earned a pre-tax profit of VND1,204 billion by the end of October 2007 making an increase of 169% compared with the same period in 2006 and completing 100.3% of its target set for the year. Its total assets were worth VND53,681 billion increasing by 135%; its deposit reached VND44,737 billion increasing by 132%; and total outstanding loan amounted to VND27,015 billion increasing by 119%.

Joint Stock Commercial Bank Saigon-Hà Nội (SHB) up to Oct. 20, 2007 had total assets of some VND8,000 billion; pre-tax profit 101,848 billion; deposit over 7,000 billion; and outstanding loan some 2,700 billion. All of these indicators gained growth rates between 150% and 200% compared with the same period in the previous year.

Techcombank, up to the end of November 2007, earned a pre-tax profit of VND610 billion equaling the target set by the meeting of shareholders; its sales was VND1,789 billion; total assets 33,000 billion rising by 90% over the same period in 2006 and by 70% compared with January 2007; deposit 29,000 billion; and outstanding loan 18,000 billion.

This situation came from the following effects:



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(1) The public and organizations get more and more accustomed to banking services and their trustworthiness. They tend to increase savings and send them to banks for safety, some interest and other benefits from banks. They can open current accounts, buy credit cards, or open savings accounts of various maturities. This is a progressive trend that allows reduction in payment in cash. Payment through banks, or electronic payment, becomes increasingly common, because one of criteria for assessing prospects of an economy is the rate in which the public accept and get access to banking services. At the same time, many individuals and organizations use bank loans for production or business, and con-

sumer's goods and other personal needs.

(2) In principle and realities, investment from banks in this period produces growth in the next period, in at least six months. So we can believe that in 2008 and years to come, the Vietnamese economy will develop at high speed due to not only investment from banks, but also high speed of the cash flow through different markets.

(3) The Vietnamese banking system is undergoing a reform and becomes more competitive after Vietnam's accession to the WTO. Banks have tried their best to bring their services within reach of the public and companies. They try to adopt modern banking facilities and technologies, enhance their working capital and financial

strength, and improve their managerial skills and human resource. Cooperation between local banks and with foreign financial institutions and companies in an effort to develop powerful groups becomes more and more productive.

Of course, many tasks relating to the monetary policy, banking regulations, and management of the SBV over commercial banks, should be carried out to beef up the banking system, but above-mentioned changes also show improvements in competitiveness and business performance of local banks in the year after Vietnam's accession to the WTO. ■

#### Reference

- Reports of Vietnam Banks Association
- Websites of some commercial banks.