

CREDIT SURPLUS IN COMMERCIAL BANKS PROBLEMS NEED TO BE STUDIED

by Prof. Dr. LÊ VĂN TƯ & LÊ TÙNG VÂN

The system of commercial banks has succeeded considerably in contributing to the economic development in Vietnam. However it is facing a paradox: credit surplus. It's difficult to measure effects of this situation on, firstly, the banking system and then, on the economy as a whole.

As the society develops, financial instruments and banking operations become expanded and diversified, and trade in money becomes increasingly difficult, because the bank meets with difficulties coming from not only itself, but also from customers, therefore to find out causes of credit surplus, we should examine not only the banking system, but also the economy in which it operates.

In fact, facing a phenomenon which is almost known in Vietnam only, I have made comparison and put unanswered questions of situation, views and policies on banking operation, of tendency and solutions to problems of interest rate and inflation, and of business performance of commercial banks. Although I haven't carried out careful studies, I want to list here information and my opinions about this phenomenon.

1. Does the credit line ruled by the State Bank cause credit surplus in commercial banks?

Credit limit is only a food for thought, not really the cause of credit



surplus, because up to now, four major commercial banks haven't lent up to the limit. At the press conference held by the State Bank on May 20, 1996, the State Bank leadership informed that most commercial banks, except for the Bank for Industry and Commerce, hadn't lent up to the limit. Total credit supplied by banks to the economy in the first four

months made an increase of VND8,000 billion and with good information service today, adjustment or exchange of credit limit between banks could be made without difficulty. Thus, the credit limit could affect to a limit extent. Then what causes credit surplus?

2. Is credit surplus caused by an increase of VND 1,800 billion in bank reserves when state-run commercial banks are forced to get back this amount of money used for buying Treasury bills and they couldn't find borrowers for this surplus? In fact, by the end of 1995 the credit surplus in commercial banks amounted to some VND3,000 billion. In December 1995 when the Treasury bought Treasury bills from banks before due, state-run commercial banks had already met with credit surplus: their deposits at the State Bank had amounted to some thousand billion VNDs since December 1995 until now. The Treasury has paid banks mainly in US dollar which they could easily sell to companies badly in need of it, that is why deposits in VND of commercial banks at the State Bank is always on the increase.

3. How does the relation between price and forces of supply and demand

affect the credit surplus?

From 1992 to 1994, because the capital market hasn't come into being, dead money from the public flowed into savings accounts. The bank rate paid to them in 1995 was 20.4% a year while the price index in 1995 was 12.7%, so the real interest rate was 7.7% which could make depositors content. The rate of interest

fixed definitely by the State Bank has forced commercial banks to use bank deposit to buy Treasury bills which brought them in 21% a year or put money in vault. However, if we take reserves they must keep into consideration, we will see that commercial banks earn no considerable profit from the difference of 0.6% a year (21% minus 20.4%). The price of Treasury bills forced banks to raise bank rates. In 1996, the State Bank only fixed the rate-ceiling, commercial banks could enjoy some freedom to attract dead money and the supply and demand relation led to the formation of price of money.

The following table shows changes in interest rate in recent years:

Years	Nominal rate	Real rate
1992	35.10%	17.6%
1993	26.92%	21.7%
1994	20.40%	6.4%
1995	20.40%	7.7%

In the first five months of 1996, commercial banks lowered the borrowing rate, but depositors were content because of a low inflation rate, therefore money kept on flowing into banks and led to temporary short-term capital surplus. Banks kept on receiving from 40 to 45 billion VND from the public everyday. Up to April 1996, four state-run commercial banks could loan only 70 or 80 percent of bank deposits. The average borrowing rate is 1.25% and the maximum lending rate is 1.75%, but in the first four months, they could charge a rate of 1.5% only and many of them have suffered losses because they could loan only a small percentage of its capital. Particularly, the system of Banks for Industry and Commerce received some VND14 billion a day in the first months of 1996, their credit surplus amounted to VND1,600 1,800 billion, these banks had to spend from 20 to 22 billion a month on overhead cost while this amount of money deposited in the State Bank could earn from VND2 to 2.2 billion a month. This interest can only cover postal charges for transferring deposits from branches.

4. Didn't banks want to make loans? Didn't companies want to borrow? Or was the lending rate high?

We need a lot of studies and analyses to answer these questions, however, I want to present here my opinions:

Firstly, the amount of credit which can be lent to companies at present is much larger than total capital and other assets of companies.

Some companies even held an amount of cash in hand to such an extent that they had to put in banks to earn interest. The rest, from all economic sectors, owed banks sums of money which were larger than their capital plus value of their assets, therefore if banks invest more money in these companies, the investment will involve a high degree of risk.

At present conditions, most companies couldn't meet requirements to secure loans banks. The following data, up to Dec.31,1995, shows us this situation:

Kinds of companies	Number	%	Average capital (VND mil.)
Private business	18,101	54	165
Limited companies	7,313	22	790
Joint stock companies	164	0.05	3,826
State-run companies	6,326	19	5,889
Representative offices	1,104	3	2,600
Companies formed by public organizations	350	1	
Total	33,398	100	2,656

Thus, the average capital of a company is small (around VND2 billion). The average capital of a private business, the most numerous kind of company, is even smaller, VND165 million. So they can't borrow much money from banks, because Vietnam banking regulations require that the ratio of loan capital to share capital of a company must be one to one. That is why banks can't loan much money to companies (including family businesses and one-man companies). As for family business, banks can only loan VND1 million to each of them (farming households have borrowed some VND10,000 billion from banks, representing about 15% of credit supplied). In short, the economy as a whole, or companies to be precise, can't use up all credit surplus in banks.

Secondly, in the past few months when there was no remarkable fluctuation in price, the lending rate of 1.75% is rather high and it's difficult to employ some thousand billion VNDs at a profit. A director of a private business said that: "At present, it's difficult to pay such an rate of interest and make a profit by doing business legally without a source of low-price capital". A director of a commercial bank said that a lot of commercial banks agreed to buy Treasury bills and suffered some losses from them, and then, they mortgaged these bills to foreign banks for an amount of foreign currency which could be changed into VND and loaned at a profit. As for banks, they can earn a profit of 0.3% a month by

trading in money, but they meet with a high degree of risk (bad debts represent four to five percent), so they become more reluctant to make loans to companies. Is it time to revise the interest rate?

Thirdly, many companies imported goods under deferred-payment agreements (payment is delayed for two months to two years after delivery), that is, these companies have secured a source of capital from foreign parties. Up to now, this source of capital has provided these companies with some US\$1 billion (around VND11,000 billion or 20% of banks'

credit balance). Moreover, because payments are deferred, many companies could hold large sums of VND and deposit them in banks for interest. Some companies have had L/C opened by banks but they failed to make payment when due with the result that banks had to bear responsibility for this. The Government had better pay attention to these deferred payment agreements.

Fourthly, The Treasury stopped to sell Treasury bills to commercial banks while the State Bank had to keep on supplying credit to the Treasury. This situation means that government bodies have become obstacles to the formation and development of both primary and secondary markets. This problem should be solved as soon as possible.

Fifthly: There are many defects in the legal infrastructure. The law hasn't provided for many situations (making mortgage, putting mortgaged assets on sale, etc.). There are high degrees of risk in all businesses. All of them make it difficult for banks to do their business.

Now we can draw a conclusion from above-mentioned analyses: causes of credit surplus come from the economy, from the banking system and companies as well. This situation requires appropriate macroeconomic policies and microeconomic measures. It's not easy to find out the answer to this difficult and complex problem, but we can hope for the best and for the time being the banking system must take microeconomic measures to survive these hard days.