COMPETITION BETWEEN BANKS IN VIETNAM

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In August 1999, the Phương Nam Bank acquired the Đại Nam Bank and the Đồng Tháp Bank, after being merged into the Phương Nam Bank, became the Đồng Tháp branch of the Phương Nam Bank.

In An Giang, the Viễn Đông Bank, after suffering loss for years and getting permission from the SBV, has finished winding up its business. Similarly, the Mai Phương Bank in Bình Dương has returned its licence to the SBV and shut down. The Mekong Bank in HCMC, with assent from the SBV, is completing procedures for affiliating with the Quốc Tế Bank - Hà Nội.

The PM has recently ordered a state-run commercial bank in HCMC to take care of mortgage held by a joint stock commercial bank that is to be affiliated with that state-run bank. Necessary meetings have been held and procedures completed to wind up other joint stock commercial banks.

Generally, the system of joint stock commercial banks and joint stock finance companies (referred hereafter to as private banking institutions, or PBIs) in Vietnam has developed well since the early 1990s and reached its peak of 54 ones, most of them operate in HCMC. It's estimated that, after the shake out, the number of PBIs would be reduced to some 40 - 45 ones.

Despite this trend, the Korea Exchange Bank, one of the leading Korean banks, officially came into operation on Aug.24, 1999 in Hà Nội. The Chase Manhattan Bank, another American giant specializing in supplying wholesale banking services, has planned to open a branch in HCMC. Thus, the amount of branches of foreign banks will increase to 27 along with four joint venture banks (not to mention joint venture and foreign-owned finance companies) operating in HCMC and Hà Nội, in the meantime, the system of state-run commercial banks made no increase.

These are some data about changes in the amount of banks, and how about their operation and market share?

Up to June 1999, the total deposit in PBIs, and in the banking system as a whole, increased by 9% in comparison with the end of 1998 while deposit in joint venture banks and branches of foreign banks rose by 4% only. In HCMC-based banks, the increase in the first half of 1999 was 7% (8.1% in state-run commercial banks, 8.5% in PBIs and 4.9% in branches of foreign banks but -5.3% in joint venture banks). Changes in the total deposit in HCMC banks during the Asian financial crisis are as follows:

Table 1: Changes in the total deposit in HCMC banks in 1998-1999 (VND bil.)

Groups of banks	Dec.31.97	June 30.98	Dec.31.98	June 30.99	(4) as compared with		
	(1)	(2)	(3)	(4)	(1)	(2)	(3)
State commercial banks	14,479	15,269	17,902	19,345	33.6%	26.7%	8.0%
PBIs	8,673	9,081	10,429	11,317	30.5%	24.6%	8.5%
Joint venture banks	2,092	1,794	1,805	1,710	-18.3%	-4.7%	-5.3%
Branches of foreign banks	5,735	5,066	5,269	5,525	-3.7%	9.1%	4.9%
Total	30,979	31,210	35,405	37,897	22.3%	21.4%	7.0%

Affected by the Asian financial crisis, economic recession in Vietnam and great bankruptcies, deposits to joint venture and foreign banks tended to decrease while deposits to local banks kept on increasing. At the end of 1997, joint venture banks represented over 6.6% of the total bank deposit and branches of foreign banks 18.5%, and those figures reduced to 4.5% and 14.6% respectively at the end of June 1999 in spite of the fact that those banks have advantage in attracting deposit in foreign exchange and were allowed in 1998 to handle deposits in the VND. The following table gives us a closer look at the situation. (See table 2 next page).

While most privately-run banks met with difficulties in finding borrowers, state-run commercial banks could increase their supply of loans remarkably. There are many reasons for this situation: state-run banks have good networks of branches across the country and most of state-run companies are their loyal customers, and moreover, many state-run banks had to settle deferred payment LCs opened by companies and thus making forced loan increase.

Both PBIs and foreign-invested banks saw their outstanding loan decrease. This decrease in joint venture banks in the last two years was VND332 billion. However, these foreign-invested banks still control a 30% market share. In this trend, the market shares held by PBIs and foreign- invested banks will keep on falling and a lot of efforts should be made in order to improve their sales.

Regarding loan quality, branches of foreign banks succeeded in keeping it high in spite of the economic recession in Vietnam. Bad debt in HCMC branches of foreign banks equaled only 1.08% of total outstanding loan, much lower than that of the whole banking system. Many branches have their bad debt unchanged in the last two years while this percentage in many PBIs rose to a two-digit level.

As for business performance, the total profit made by banks in HCMC up to May 31,1999 reached VND86.8 million. Of all PBIs in HCMC, only 13 ones made some profit (some VND73.7 million) the rest broke even or suffered losses. Joint venture banks made a total profit of VND24.56 billion. Of branches of foreign banks, 11 ones made a total profit of VND124.77 billion while other four lost VND12.98 billion. Taking the foreign-invested banks as a whole, the total profit up to the end of June 1999 was VND136 billion. Certain branches of foreign banks have made good profit since the second year of their operation in Vietnam.

Main customers of foreign-invested banks are joint venture and foreign investment projects. In recent years, however, the flow of foreign investment slowed down with the result that the operation of foreign-invested banks didn't come up to expectations.

In recent years, many bankruptcies and defaults have caused the banks' bad debt to skyrocket. Many foreign and local companies met with difficulties in distributing their products and were in danger of insolvency. That is why most foreign-invested banks tended to reduce their supplies of loans, and as a result, their market share dwindled.

Of 25 branches of foreign banks in Vietnam, those who are from North America and Europe are almost immune to the Asian financial crisis while their Asian rivals are affected seriously, and their operation in Vietnam, therefore, was narrowed to a certain extent.

To cope with this situation these foreign-invested banks have made adjustments to their business strategies. They started looking for new borrowers among important Vietnamese corporations in key industries (cement, oil, power and energy, post and communications, construction, shipbuilding, etc.) and tried to offer wholesale banking services.

Many foreign-invested banks also paid full attention to introduction of new retail banking services (credit card, traveler check, payment card, ATM, immigrant remittance, personal current account, discounting documentary LCs opened by important exporters of oil, rice, coal, coffee, footwear and garments, etc.) in order to improve their sales.

Due to these efforts, foreign-invested banks could maintain sound financial situation in order to prepare themselves for new economic developments in Vietnam. In carrying out their business strategies, they tried their best to expand investment and take part in major development projects for one thing, and for another, offer a wider range of services to important corporations. By doing so, they could secure firm footholds in Vietnam's banking business.

In financing exports and imports, the Vietcombank has once been the leading bank that supplies some 70% of payment for Vietnam's exports and imports but this percentage reduces to some 29% now, while the foreign -invested banks accounted for some 30% of these payments although none of them could hold more than 6%. These banks could easily control the supply of payments for imports because most foreign sellers are their customers while local banks control payments for exports because they usually cooperate with companies producing or purchasing goods for export. Moreover, the payments for export are usually small and handling expenses on these payments are rather high. That is why most foreign-invested banks are reluctant to offer this service.

In competing against local banks, foreign -invested banks usually find themselves at a disadvantage: high overheads, lack of knowledge of local languages; customs and laws, etc. To deal with this problem, as said above, they concentrated on main customers (major corporations), offered big loans and investments, supplied wholesale banking services to local banks and cooperated with local banks to finance important projects. In many branches of foreign banks, top managers are expatriates of Vietnamese origin, or preferential treatment is offered to Vietnamese experts who master international banking business and local laws. Many top managers of these branches at present are former directors or high-ranking officials of the SBV or Vietnam's Ministry of Finance.

With four joint venture banks and 25 branches of foreign banks, the foreign-invested banks could hold a 30% market share, and in the near future it's possible for them to take control over the banking business in Vietnam by making the best use of their advantages of financial strength, modern technology and good public image. Besides these banks, there are some 50 representative offices of foreign banks that have been carrying out market researches and looking for investment opportunities in Vietnam. This means that the number of branches of foreign banks in Vietnam will increase soon.

The presence and operation of foreign banks in Vietnam could help attract foreign investment, encourage fair competition and introduce new banking services and facilities, but it also means that local banks will meet with a lot of difficulties in the future. That is why a strategy to keep a close watch on their development and help local banks improve their competitiveness becomes a matter of great urgency■

Table 2: Deposit to the banking system in 1997-1999 (VND bil.)

Groups of banks	Dec.31.1997		Dec.31.1998	June 30.1999		(3) as compared with	
	Deposit (1)	%	Deposit (2)	Deposit (3)	%	(1)	(2)
State commercial banks	10,630	37.86	13,379	18,257	46.8	71.7%	7.9%
PBIs	8,049	28.66	8,547	9,532	24.4	18.4%	3.4%
Joint venture banks	1,549	5.52	1,180	1,217	3.1	-21.4%	3.1%
Branches of foreign banks	7,849	27.96	9,491	10,005	25.7	27.5%	4.0%
Total	28,080	100.0	32,598	39,011	100.0	38.9%	5.4%