

Performance of Banking Sector In HCMC

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HCMC-based commercial banks account for 25%- 30% of total deposit and loan by the banking system. Deposit in HCMC banks rose from VND24,145 billion to some 180,970 billion in 2005, and 50% of which was in state-owned commercial banks. Of this deposit, some 60% was in the domestic currency and 40% in foreign ones. From 50% to 55% of this deposit came from organizations, 40% - 45% from private persons and the rest from sale of negotiable instruments. These figure show that traditional ways of mobilizing idle money still play an important role. Because the market for negotiable instruments is still small, the issue of certificates of deposit hasn't become a sig-

b. The ratio of loan to deposit reflects the balance between mobilized capital and use of capital. This ratio allows us to know whether the bank capital is in surplus or deficit. Banks usually try to keep this ratio at somewhere between 70% and 80%.

The Table 1 shows that from 1999 to 2004, the system of HCMC banks had a capital surplus. In 1998 and 1999 in particular, they suffered some shortage of capital because of effects caused by the financial crisis and the demand stimulating policy. This situation might have reasons from both sides:

- Many applications for loans from companies lacked feasibility or companies (most of them were private and small concerns) failed to meet require-

Table 1: Developments of HCMC banking system

Indicator	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP	57,823	65,340	63,620	70,208	76,527	83,797	92,344	113,687	131,523
Deposit	24,145	29,310	33,131	40,863	56,203	65,716	85,996	114,572	150,337
Loan	22,633	28,112	38,598	43,445	52,193	56,189	74,243	109,650	136,624
Deposit/GDP	41.45%	44.85%	52.07%	58.16%	73.44%	78.42%	93.13%	102%	112%
Loan/ GDP	39.14%	43.02%	60.67%	61.88%	68.20%	67.05%	80.5%	89%	99%
Loan/Deposit	93.75%	95.9%	116.5%	106.39%	92.87%	85.50%	86.33%	86.62%	88.76%
Long and medium loan/ deposit				143.2%	153.01%	153.2%	169.9%	181.65%	180.56%

Source: SBV annual report

nificant source of capital and the public still prefer bank bonds. Long- and medium-term deposits accounted for some 20% of total deposit.

The total loan from HCMC-based commercial banks rose from VND22,700 billion in 1996 to some 175,760 billion by the end of 2005 making an eight-fold increase with a growth rate of 20%- 25% a year.

As a city included in the pilot scheme to reform the banking system after the Banking Ordinance 1990, the system of banks in HCMC have become more and more diverse. Besides state-owned commercial banks, many joint stock commercial banks, banking joint ventures and branches of foreign banks have engaged in this sector making HCMC the most important financial center in Vietnam. In the competition between different players, state-owned commercial banks still hold a dominant position.

a. The ratio of deposit to the GDP reflects ability to mobilize capital by HCMC banks while the ratio of loan to the GDP reflects their ability to supply credits to the economy. Those two ratios have increased over time and showed that the system of banks in HCMC had contributed a lot to the growth rate of over 10% obtained by HCMC economy in recent years.

ments posed by banks.

- Banks, because of their fear for risks, were not active in looking for clients. And as a result, their performance was poor and they failed to meet the demand for capital, especially the long- and medium- term credits although the total deposit rose over years. If we compare these results with ones achieved by regional countries, we could accept that the performance of banks in HCMC had experienced positive progress in recent years. As for the source of long- and medium-term loans, the system of banks in HCMC couldn't meet the market demand, which made the above-mentioned ration tend to increase in recent years.

c. The ratio of mobilized capital to the legal capital reflects the safety degree of HCMC-based banks. According to SBV reports, this ratio of HCMC banks, especially state-owned commercial banks, didn't reach the internationally- agreed standard.

These ratios show the lack of safety in mobilization of capital by commercial banks. The main cause of this situation is the shortage of equity capital. From 1996 on, the SBV has taken various measures to increase the legal capital of state-owned commercial banks, such as transferring VND2,400 billion from state-owned companies to state-owned banks in October 1998. The Ministry of Finance issued

special bonds to add VND4,900 billion in 2002; and 3,850 billion in 2003 to these banks but their legal capital was still lower than the required level. In HCMC, according to the SBV report in June 2006, the total legal capital of commercial banks was VND8,153 billion; 786 billion in state-owned banks and 7,385 billion in joint stock ones. Thus, their

common among state-owned banks while banking joint ventures and branches of foreign banks could keep that ratio under 2%. In addition, some 50% of the overdue debt was from state-owned companies, which made it difficult for banks to collect repayments. According to an SBV report, of VND8,453 billion worth of overdue debt settled in 2005, the central government had to pay VND2,371 billion.

Table 2: The mobilization of capital by HCMC banks in 1996-2004

Ratio	1999	2000	2001	2002	2003	2004
Long-term capital/ mobilized capital	19.9	17.7	20.2	19.9	19.4	19.5
Short-term capital/ mobilized capital	80.1	82.3	79.8	80.1	80.6	80.5

Source: Calculation from the SBV reports

capital adequacy ratio is lower than the standard one. This situation affects not only ability to mobilize idle money, technical facilities and their network, but also their competitiveness in the coming years.

The year 1996 marked the basic change in the policy on interest rate in Vietnam in which the rate on long-term loan was higher than the one on short-term loan. This policy encouraged banks to

experienced positive changes: this ratio rose from some 25% in 1996 to over 80% in 2004. This percentage was equal to those in regional countries.

When the ratio of bank deposit to the GDP rises, the financial depth is improved. This means that banking services become more and more popular among HCMC residents. If we estimate the financial depth in relation with the development of the

Table 3: Overdue debt in HCMC banks

Indicator	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Overdue debt (VND billion)	5,127	5,988	7,820	11,588	11,586	5,138	2,925	4,943	5,874	7,997
Overdue debt/ total loan (%)	22.6	23.07	30.28	31.89	22.20	9.14	3.9	4.8	4.3	4.55

Source: SBV reports

mobilize long-term deposits. In addition, the inflation was well under control, which made the public ready to send their money to banks. And as a result, from 1990 on, the long-term capital has accounted for 19% - 20% of the mobilized capital. From 2004 on, however, the inflation rate showed an upward tendency and the rate on long-term deposit started

finance market from 2000 on, we can see that this depth reached only 65%-68%, rather low in comparison with regional countries. This means that the market for negotiable instruments in Vietnam was still in its first stage of development and the habit of making payment in cash was still common. In the coming years, increasing the working capital of

Table 4: M² - GDP relation in 1996-2004

Indicator	1996	1997	1998	1999	2000	2001	2002	2003	2004
GDP (VND bn.)	272,036	313,623	361,623	399,942	441,646	484,943	504,884	541,437	560,407
% of GDP	9.34%	8.15%	5.8%	4.8%	6.7%	6.84%	7.04%	7.27%	7.7%
M ² (VND bn.)	64,659	81,559	102,438	160,420	222,983	275,830	334,306	416,879	503,090
% of M ²	32.7%	26.1%	25.6%	56.6%	39%	23.7%	21.2%	24.7%	20.68%
M ² /GDP	25.0%	26.0%	28.3%	40.1%	50.48%	56.93%	66.21%	77%	89.77%

to rise. If no new measure is taken, commercial banks will meet with difficulties in mobilizing long- and medium-term capital.

HCMC banks have to deal with overdue debts, especially after 1998 when many banking institutions faced crises caused by bankruptcies of Ep-co, Minh Phụng and Tamexco.

The Table 3 shows that loan quality of HCMC banks wasn't high because the ratio of overdue debt to total loan exceeded the internationally agreed level (3%). It's worth noting that this situation was

banks and beefing up the finance market are good measures to improve the financial depth.

In short, the performance of banking system in HCMC has made some progress in the years 1996-2005. However, the fact that the bank credit only accounts for some 5% of the growth rate shows that the HCMC banking system failed to play well its role in the biggest economic center of the country. And as a result, it will certainly meet with a lot of difficulties when integrating into the world market. ■