

FINANCIAL LEASING FROM COMMERCIAL BANKS

by MEcon. NGUYỄN THÀNH DANH

According to a recent SBV report, the total deposit with the banking system up to June 30, 2003 increased by 14.49% to VND321.280 billion and total loan by 15.03% to VND328,490 billion, which show that the credit growth rate was hot although the interest rates rose steadily in the past few months (lending rate by 0.02-0.06%, deposit rate by 0.02-0.04% a month). Such interest rates are rather higher than the profitability ratio in most industries, therefore the potential

become modern commercial banks when most of their customers are ordinary people.

In searching customers among companies and helping companies in need of capital get bank loans when they have nothing valuable to mortgage, the financial leasing becomes a good solution.

At present, there are various kinds of financial leasing companies in terms of ownership, that is, their owner could be a state-owned bank, local or foreign private persons, or

banking institution, and US\$5 million for one as a joint ventures with foreign partner or totally owned by a foreign entity." This requirement poses no problem for state-owned banks but joint stock banks will meet with the shortage of capital when they want to engage in this business to help small and medium companies that couldn't secure bank loans.

To solve this problem, the SBV could reduce the required level of legal capital or allow banks to supply long and medium loans to companies

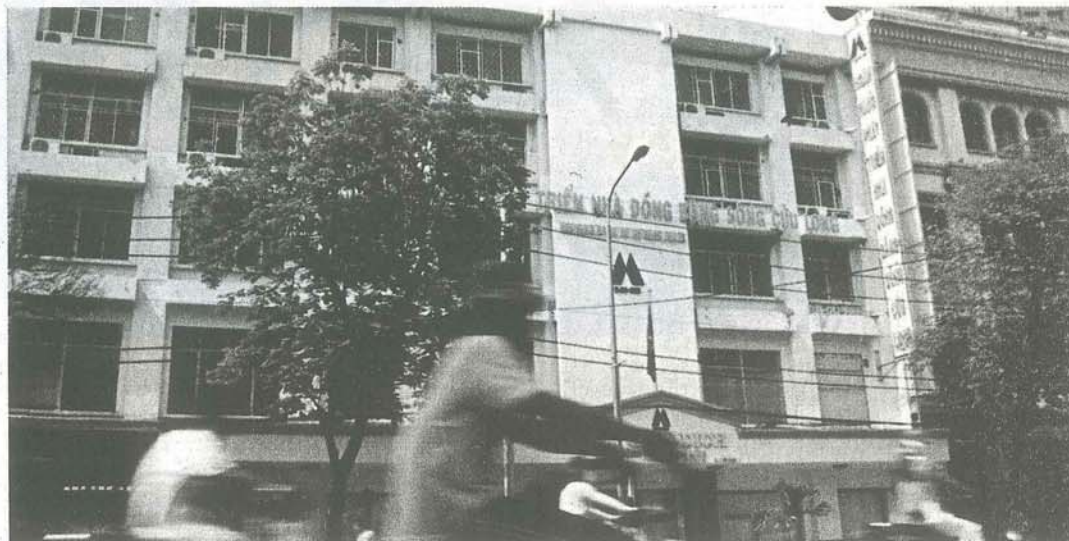


Photo by Hoàng Tuấn

credit risk is high.

State-owned banks are facing this risk because they supplied a lot of unsecured loans to state-owned companies making the total loan of this kind the best part of the total outstanding loan of the whole system. Decree 178/1999/NĐ-CP dated Dec. 29, 1999 allows banking institutions to supply unsecured loans to customers of their choice. Because of smaller capital compared with state-owned banks, most joint stock banks refuse to supply such loans. In addition, these banks meet difficulties in attracting companies because they lack networks of branches and close relations with companies. As a result, they hardly face the credit risk but in the long run, they have no chance to develop their business and

operate as a state-owned company. They include one finance company of Bank for Foreign Trade, one run by Bank for Investment and Development, two run by Bank for Agriculture and Rural Development, South Korean Kexim Finance Company, ANZ-VTRAC Finance Company (a joint venture between Australian ANZ Bank and American VTRAC Group), and VILC (a joint venture between Bank for Industry and Commerce and a foreign partner). Most of them are making profit because this service is useful and suitable to local conditions.

Circular 08/2001/TT-NHNN issued by the SBV on Sep. 6, 2001 stipulates "The legal capital must be VND50 billion for a joint stock finance company or ones run by a

under hire-purchase agreements without establishing their own finance companies. This measure will help banks, especially joint stock ones, to reach out to small and medium companies. With more and more companies become their customers, banks could diversify classes of loans, distribute risk menacing state-owned banks, and improve loan quality in joint stock banks through enhancing their ability to estimate business plans and analyzing company finance. If this measure is taken, the banking system, and joint stock banks in particular, will have a new instrument for developing their business, modernizing their services and contributing more to the development of small and medium companies. ■