Viet-Nam Info Series No.17

VIET-NAM BULLETIN

A WEEKLY PUBLICATION OF THE EMBASSY OF VIET-NAM
2251 "R" Street, N.W., Washington, D.C. 20008 (Telephone: 234-4860)
BANKING IN VIET-NAM (11-69)

FINANCING DEVELOPMENT

BANKING IN VIETNAM

A conservative, profit-conscious banking industry is beginning to re-evaluate its role in South Vietnam's economic life. Prodded by the example of government-controlled institutions, the private banking community is moving toward greater risks in financing commercial, industrial and agricultural enterprises. The custom inherited from the colonial past of extending mainly short-term, profitable and safe loans still persists. But Vietnamese financiers now are going in for soul-searching and public debate on a new concept — developing the nation's material and human resources even if it means greater credit risks and lower profits per loan. While such commercial banking trends are not yet strongly evidenced, economists consider them inevitable as the nation begins to turn its attention to postwar planning. Private bankers, goaded ever more frequently in the public press by economists and government planners, are beginning to realize that unless they acquire untraditional aggressiveness, they may lose out on future profits. They are beginning to understand that unless they open their doors to the man in the street and the man in the rice paddies, the future belongs to government credit institutions and village moneylenders.

There is great potential for expansion of the fledgling financial community even though South Vietnam's money and capital markets are very limited. With nearly 125,000 million piasters (US$1,060 million) in circulation, including up to 40, 000 million piastres added in the last year, two out of every three piasters in the nation's money supply are liquid — either hoarded in the form of cash, or circulating freely where they do no good to investment programs. Nor is investment made easy in Vietnam. There is no stock market. Most shares are closely held, limited in amount, and sold or exchanged on a direct personal basis. There are no issues of private bonds. Although a large volume of government bonds have been issued, they are mostly held by the central bank and the commercial bank, while public holdings are negligible. There is no open market in either commercial bills or short-term government securities. Inter-bank loans have been prohibited since July 1967.

Financial Institutions

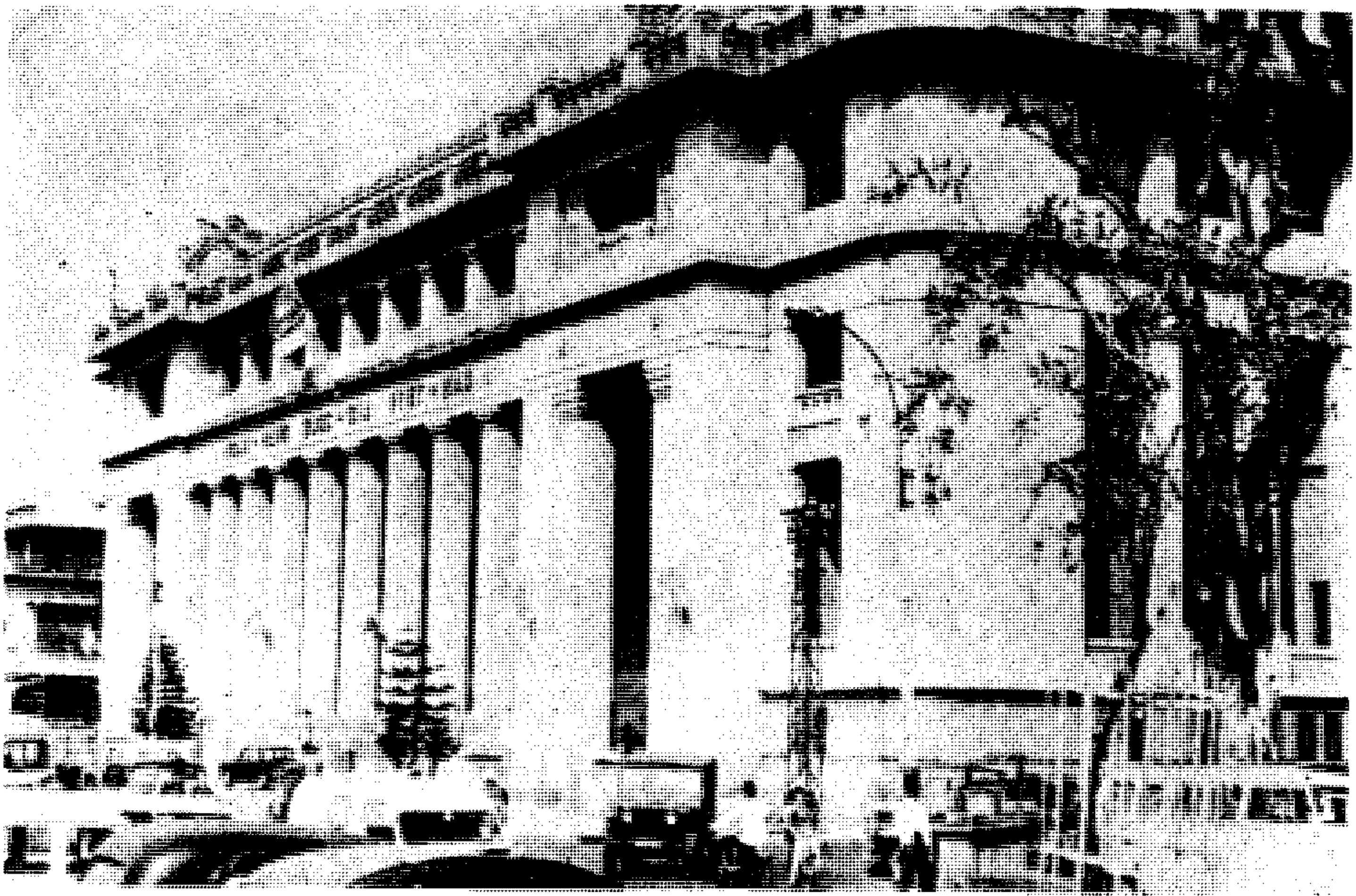
Working in this restricted environment are at least 16 different types of financial institutions, including:

* The central bank (the National Bank of Vietnam, established in 1955 after independence was won from the French) and two other government banks, the Commercial Credit Bank of Vietnam, also founded in 1955, and the Agricultural Development Bank (1967);

* Six Vietnamese and 14 foreign commercial banks, all private;

* Such government-sponsored institutions as the Saigon Savings Bank, started in 1887, the Civil Pension Fund (1952), the National Company for the Development of Industrial Estates, known as SONA-

Reprinted from Viet-Nam Magazine, *Vol II No.2 (1969), a publication of The Viet-Nam Council on Foreign Relations. The cut date of the article being around March 1969, some figures and references should be read "as of March 1969."*



The National Bank of Vietnam, established in 1955 after independence was won from the French.

DEZI (1954), the Industrial Development Center (1957), the Postal Demand Deposit System (1962), the Industrial Development Refinancing Fund (1967) and the Vietnam Development Bank (1967). (None of these are classed among the nation's 23 banks, for to be listed as a bank an institution must have deposit-creating powers, i.e. it must be able to increase deposits when it has excess reserves by expanding loans and/or investments. The Agricultural Development Bank theoretically has this deposit-creating power, but for various reasons has not yet exercised it.)

* Rural credit cooperatives, including agricultural co-ops and farmers' associations;

* Urban credit cooperatives;

* Insurance companies;

* Mutual savings and credit societies;

* Pawnshops and moneylenders, and both types are doing a substantial business in urban as well as rural areas.

The major institutions providing credit are the central bank, the Agricultural Development Bank, the Industrial Development Center, the Vietnam Development Bank and, of course, the commercial banks. Most other institutions (aside from the ubiquitous moneylenders) are relatively small in their volume of operations.

Commercial Banks

Besides the progressive, government-owned Commercial Credit Bank of Vietnam (Viet-Nam Thuong-Tin), there are 20 other commercial banks, and these are privately owned. Six are controlled by Vietnamese. The 14 foreign commercial banks include three British (one based in London and two in Hong Kong), three French, three Nationalist Chinese, two American, one Thai, one Japanese and one South Korean. Eight are relatively new; four Vietnamese and four foreign banks opened their doors after a 1964 decree of the Saigon government that gave greater encouragement to banking operations. Another Vietnamese commercial bank, Dong Phuong, was chartered in October 1968 and will start operating in mid-1969.

Vietnam's commercial banks are governed by legislation passed October 24, 1964 (Decree Law No. 18). This legislation replaced a statute (Ordinance No. 48 of December 31, 1954) passed at the time of Vietnamese independence. Among the main changes in the 1964 decree was to require a minimum ratio

Banking role is being re-evaluated

of paid-in capital, reserve funds and relative earnings to deposits. This minimum proportion was subsequently established at six per cent.

Internal organization of the banks varies, but most banks have at least five departments: accounting, foreign operations, loans and investments, administration, and cash and deposits. Relatively few banks have a trust department. The number of each bank's employees varies from about 120 to 350.

Commercial banking is profitable in Vietnam. Loans outstanding in any month currently average about 25,000 million piasters for all commercial banks, with an eight-to-five ratio usually maintained between deposits and loans. A large part of the commercial banks' deposits are derived from their rediscounting of import bills at the central bank. About 40 per cent of the bank's deposit liabilities — roughly 16,000 million piasters — usually stem from this source.

The bulk of the banks' credits have gone first to commerce and second to industry, with agriculture a poor third. Partially filling the gap in the latter field are government institutions. The 1967 transformation of the NACO (National Agricultural Credit Organization) into the ADB (Agricultural Development Bank) has boosted farm loans and is expected to raise this category appreciably in coming years, and the ADB's example may spur commercial banks to seek more agricultural loan profits. Most of the banks' commercial credits in recent years have been for imports, and a large part of the industrial credits have been for working capital rather than equipment or construction.

Future Demands

The future will call for a great increase in commercial, industrial and agricultural financing if the Republic of Vietnam is to become viable. Even with continuance of substantial foreign economic aid, the Vietnamese will have to mobilize their savings if credit is to be expanded sufficiently, and in this the banks will have to play an important role.

Mobilization of savings will not be easy. Today Vietnam has only a limited number of outlets for savings and the various types of savings instruments are relatively few. The oldest outlet for time and savings deposits is the government-controlled, 82-year-old Saigon Savings Bank. Savers also can place their funds in credit unions, and some of these recently have gained popularity. Savers have not yet found the rural co-ops attractive, primarily because of a lack of return on their savings. On an informal basis, many Vietnamese have saved through the mutual savings and credit societies, but there is a considerably higher degree of risk involved in these institutions. To stimulate savings, some banks, such as the Commercial Credit Bank of Vietnam, offer lottery deposits. Savers have found this feature quite popular, for it provides an opportunity to win a large lump sum if the saver's number is drawn. The bulk of organized savings (which would exclude a large amount of money buried in earthenware jars behind the bamboo hedges) is in the commercial banks.

Deposit rates of interest paid by commercial banks are four per cent for six months on business deposits and three per cent for three and six months on deposits of individuals and associations. These rates compare with two per cent paid annually by the Saigon Savings Bank, four per cent for six months given by the ADB, up to eight per cent per year by rural co-ops, and an estimated 48 to 120 per cent annually by the mutual savings and credit societies.

Loan rates vary just as widely, from three per cent per year charged by the Industrial Development Refinancing Fund to as much as 120 per cent by mutual savings and credit societies. The ADB charges six to 12 per cent per year, the central bank from four to 12 per cent, the Vietnam Development Bank from six to 7.5 per cent, the Industrial Development Center from seven to 7.5 per cent, rural co-ops about 10 per cent, pawnshops 36 per cent (three per cent a month), and private moneylenders from 24 to 36 per cent for prime borrowers and much higher for loans with greater risk. The commercial banks' loan rates range from seven to 11 per cent, including commission.

Most commercial bank loans are short-term. Very few loans have an original maturity of more than one year, and longer-term credits are generally short-term credits that have been renewed. As in many other countries of Southeast Asia, the main objective of the commercial banks has been to extend profitable and relatively safe commercial credits. But the Commercial Credit Bank of Vietnam has extended medium-term industrial credits as well. Now following this lead in granting medium-term credits are such government institutions as the ADB, the Industrial Development Center and the Vietnam Development Bank.

Banks Increase

There have been substantial changes in the structure of commercial banking since the early 1950's, with both the number and the importance of Vietnamese-financed banks increasing significantly. Most of the new Vietnamese banks were started with small capital — little more than the government-required minimum of 100 million piasters — but all now are profitable. The number of foreign banks also has increased, providing greater competition for the French banks which prior to World War II domi-

The Saigon Savings Bank.

The French Bank.

The Bank of Communications.

nated the banking field. With this expansion a trend is developing for the establishment of more branches in the provinces. Vietnamese banks now have 24 branches, including the Commercial Credit Bank of Vietnam's nine branches. Foreign banks have 12 branches.

Former Finance Minister Tran Qui Than, who will be general manager of the new **Dong Phuong** bank when it opens its doors in mid-year, stresses the importance of the central bank's current campaign to encourage banks to establish financial branches. Because of lack of security stemming from war conditions, he says, «the liquidity preference of the people in the provinces is high, but they would feel safer if they had branch banks in which to deposit their money.» His new bank will fear no competition, he says, «as there are still too few commercial banks to serve the needs of South Vietnam's large population» estimated at 17,400,000 people.

Dr. Than, 44, who holds a Ph. D. in finance and business administration from Cornell University, says the central bank is reviewing a number of applications from Vietnamese groups who want to start new commercial banks. «There is room for them,» says Than. «To be successful in banking, experience is more important than capital, although my bank will operate on a very substantial capital investment.»

Economists' Views

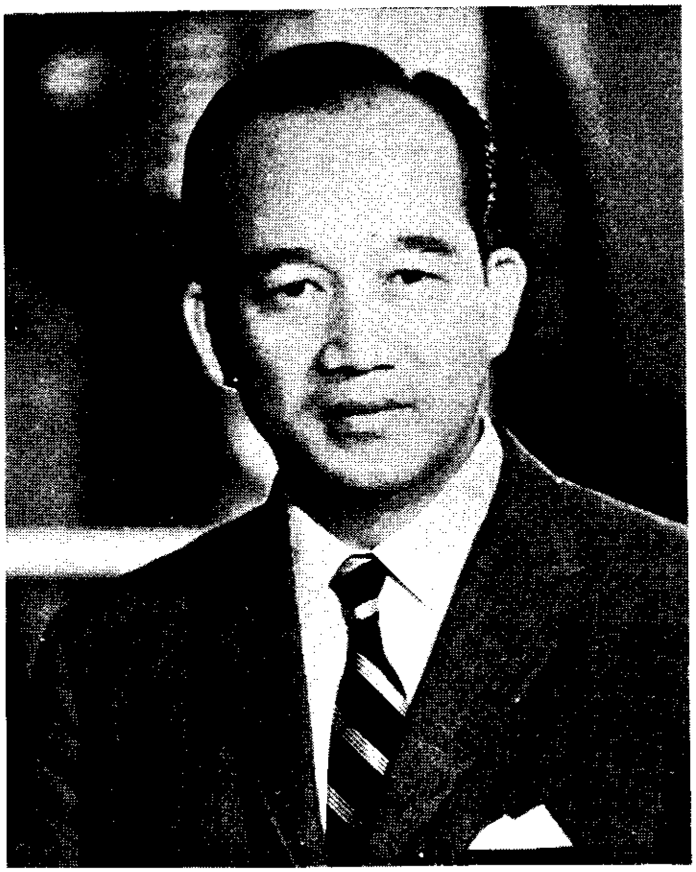
A spokesman for the central bank who prefers to remain anonymous joined with the Minister of Economics, Au Ngoc Ho, and with former Prime Minister and former Economics Minister Nguyen Xuan Oanh in emphasizing to the Vietnam Feature Service that commercial banks must expand their goals in the future. The three economists agreed that commercial banks must become more aggressive, think more of extending credit to rice farmers and small agricultural industrialists, and take a larger role in mobilizing provincial savings. But Professor Oanh, now president of the National Institute of Economic Development, put his finger on the main barriers to achieving these goals.

«The economic and investment future for commercial banks, both foreign and Vietnamese,» he said, depends basically on the political and military stability in the country. The history and achievements of private commercial banks, taking into account the political and military instability of the past, have been very good. But their field of credit is too limited to work for complete economic independence. Many of the banks are acting like provincial moneylenders. Their interest rates are fixed by the government at eight to 10 per cent (plus commission) and the banks are in a position to extend credit on a selective basis. This drives many people to the 'shark' moneylenders and forces them to pay between 30 and 50 per cent interest, depending on the security risk. Something must be done to make loans more easily available to the little man. And they must be loans for a greater length of time — well above the present standard of three to six months.»

Professor Oanh, former economics lecturer at Harvard, Wesleyan and Trinity College, former adviser to the International Monetary Fund and former central bank governor, complained that private commercial banks are not looking far enough ahead. They are not anticipating investment ventures and taking risks; instead they are waiting for a final peace settlement before planning aggressive development programs.

«Commercial banks at the moment,» he said, «are not playing the kind of role they should. They are not taking the risks they can afford to take. More medium-term loans are needed, the field of investment needs to be strengthened, consumer loans are too limited. We must scrap the present interest ceiling rate and develop facilities for consumer loans. It is the consumer who will play a vital role in working for Vietnam's economic independence and stability. It is the man who will advance industry who is more important than the man who imports. Yet at the moment it is the man who imports who has the lion's share of all credit extended.»

Commercial banks must begin immediately, says Oanh, to develop an aggressive policy of investment in agriculture and industry. «It is logical, at least from the financial point of view, to develop what is best for business, develop the fields in which the greatest profits lie,» he said. «In Vietnam, predominantly an agricultural country, investing in and advancing credit to agriculture and associated industries is one of the easiest ways to make a profit and



Professor Nguyen Xuan Oanh believes the private banking industry must become more aggressive, take more risks, and actively support industrial and agricultural development. Oanh was formely economics lecturer at U.S: universities, Prime Minister, Minister of Economics, central bank governor and International Monetary Fund adviser.

help the country. Never mind the war, never mind waiting for peace. We must develop now.»

War Risks

Economics Minister Ho, a graduate in mining engineering from the Montana School of Mines, says the government is planning to underwrite war damage up to 80 per cent of capital investment to encourage investors and the commercial banks to extend credit in rural areas. This measure would extend to other investors some of the benefits now accruing to U.S. firms operating in Vietnam, for the U.S. government already has a generous war risks underwriting program in effect for them.

The Vietnamese government, says Minister Ho, can pass laws, encourage foreign investment, spur commercial banks to support agriculture and industry, and instill in the people the desire to achieve economic independence. But it cannot, by fiat, make the people work. «I believe,» says Ho, that my people will work for their country and for themselves. But to do this they need money to start, and that means they need the support of the commercial banks, not just the government's institutions. They need long-term, low-interest loans, and these I believe they will get.»

He points out that the economic situation in South Vietnam today is nowhere near as alarming as many had predicted it would be as a result of the communists' Tet offensive of February 1968, when industrial and agricultural projects were initially set back. The government's Operation Recovery has succeeded beyond expectations, most industries have attained their pre-Tet levels of production, and agricultural production is on the increase.

The central bank's spokesman agreed with this assessment, stressing that the South Vietnamese economic picture is sound despite the protracted years of war, the loss of exports, and the sums spent on defense and pacification. «Considering the situation here is a war situation — and this affects all sectors of the economy — if you compare our economic record and the record of the commercial banks with that of other countries, ours proves to be relatively good,» he says. Like Oanh and Ho, he believes in the ability of the Vietnamese people to work for their own economic independence if given credit when needed, he agrees that the commercial banks could do more, and he has faith that they will do more to help reach the goal of economic viability.

«Banking in Vietnam is not yet extensive,» he points out, «and this is reflected in the bankers' business methods. They are wary, and most credit is extended to importers who use bills of lading or land deeds as collateral.» But the central bank executive anticipates that this sense of caution will gradually evaporate as the government begins more actively to encourage wider credit extension.

Government influence on the commercial banking industry remains at the moment far from strong, however. As Professor Oanh points out, government actions to control inflation have not been fully effective because of this lack of influence on the private banking community.

«The two general anti-inflationary methods practiced by the government — reserve control and raising or lowering of the discount rate — have both been ineffective,» he says, «because commercial banks have always had such a high liquidity rate. They therefore have always had the leeway to wriggle away from such measures. Raising or lowering the discount rate would be an effective method only if the commercial banks were indebted to the government, which they are not.»

The road to economic viability in Vietnam will be a long, hard one, says Minister Ho, but he notes that Taiwan, Malaysia and South Korea made successful recoveries from similarly poor circumstances. South Vietnam, with more natural resources than any of these nations, should be able to the same, he says, adding:

«All we need to build a strong economic base is security.»

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2251 "R" Street, Washington D.C. 20008
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