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Activities of Credit Institutions in Vietnam Today

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Abstract

Currently in the market economy, financial and monetary factors play an extremely important role, so the operation and activities of credit institutions will contribute to promoting the strong development of the economy. The country's finances in particular as well as the country's socio-economic development in general. Furthermore, credit institutions are intermediary financial institutions, operating as businesses providing special services, accepting deposits for lending and providing payment services, so credit institutions are known as the most important capital circulation center for the economy. Vietnam's economy in recent years has always achieved high growth rates compared to the region. With the current level of growth, the need for capital for the economy is extremely large. In current conditions, where foreign investment is still limited,

the policy of relying on domestic capital is being thoroughly implemented. However, channels to mobilize capital from the economy's internal resources are still narrow. Vietnam's stock market has not yet become an effective capital supply channel for the economy. Reality shows that the majority of Vietnamese businesses do not have great financial capacity and operate mainly on loans from credit institutions. The article focuses on analyzing and clearly evaluating the current situation of capital mobilization and lending activities of credit institutions affecting Vietnam's economic growth and thereby providing solutions for the Government and State Bank of Vietnam. Countries and credit institutions to improve the operational efficiency of credit institutions in the coming time.

Keywords: Credit Institutions, Commercial Banks, Capital Mobilization, Lending, Economy

1. Introduction

Implement Resolution No. 01/2020/NQ-CP in 2020 and Resolution No. 01/2021/NQ-CP in 2021, as well as other Resolutions of the Government on related solutions, consistent with developments domestic and international macroeconomics, the State Bank of Vietnam has proactively and flexibly managed monetary policy, and at the same time credit institutions have also promoted capital mobilization, expanded safe lending, Debt restructuring promptly and in accordance with regulations for customers facing difficulties due to the pandemic. Managing monetary policy and operations of credit institutions makes an important contribution to curbing inflation, supporting GDP growth and solving a number of other social security policies.

According to data from the General Statistics Office, as of December 2022, total means of payment increased by 8.93% compared to the end of 2021; Capital mobilization of credit institutions increased by 8.44%; Outstanding credit growth of credit institutions to the economy reached 13%. Thus, credit capital increased 1.5 times faster than the growth rate of mobilized capital of credit institutions and much higher than the growth rate of total means of payment (General Statistics Office, 2019-2022). Since the outbreak until now, in implementing monetary policy, the State Bank has adjusted operating interest rates, a total reduction of 1.5-2.0%/year. Based on the adjustment of those operating interest rates, there has been an impact of reducing 0.6-1.0%/year the ceiling interest rate on local currency deposits of customers at commercial banks for terms of less than 6 months, reducing 0.3%-0.6%/year ceiling interest rate on deposits up to 12 months; Reduce the ceiling of local currency short-term loan interest rates for priority areas, such as: rural agriculture, export, high-tech application in agriculture, supporting industries, with a total reduction of 1.5%/year, by the end of December 2022, it is fluctuating at 4.5%/year (State Bank, 2018-2022) ^[3].

Also in operating monetary policy tools, in recent times the State Bank of Vietnam has proactively supported liquidity for credit institutions, creating conditions for credit institutions to access capital from the Bank. State-owned goods at lower costs, without having to increase capital mobilization interest rates on the market. In addition, implementing Resolution No. 63/NQ-

CP dated June 29, 2021 of the Government, under the direction and management of the State Bank, a total of 16 Vietnamese commercial banks approved investment. The Banking Association has agreed to reduce lending interest rates for customers facing difficulties with a total interest reduction for customers nationwide of VND 20,613 billion. This is a very important profit number, demonstrating the sacrifice of part of the benefits of commercial banks to create conditions for businesses and households to reduce costs, ease difficulties, maintain and recover. Production and business (Banking Association, 2022). Thus, credit institutions have a great influence on economic growth. This article studies the impact of credit institutions on the main activities of capital mobilization and credit, and also studies the impact of mobilization interest rates and credit interest rates on the economy.

2. Theoretical Basis of Credit Institutions

2.1 Concept of Credit Institution

A credit institution is understood as an economic organization that deals in currency and banking services with the content of accepting deposits, granting credit, and providing payment services.

In terms of economics, the main, professional business object of a credit institution is currency and that is the sign that distinguishes a credit institution from other types of businesses in the national economy.

Legally, the organization and operations of credit institutions fall within the scope of application of the Law on Credit Institutions and are subject to the state management of the State Bank.

A credit institution is an enterprise that carries out one, some or all banking activities. Credit institutions include banks, non-bank credit institutions, microfinance institutions and people's credit funds.

2.2 Characteristics of Credit Institutions

Business objects of credit institutions: credit institutions operate mainly related to monetary objects.

In today's developed economic times, the business objects of credit institutions are not only monetary but also many other types.

Specific business activities of credit institutions: credit institutions have specific and main business activities which are capital mobilization and use of available capital or mobilized capital.

+ Mobilizing capital by credit institutions means: receiving deposits and borrowing capital from state banks. Capital mobilization can be considered one of the earliest operations that appear in the operations of commercial banks.

+ Using a credit institution's capital means a credit institution granting credit to provide payment services to users of that credit institution's capital.

Credit institutions operate on the principle of borrowing to lend, so there is a dialectical relationship between capital mobilization activities and capital use activities.

To have loan capital, credit institutions must carry out mobilization work. If the amount of capital mobilized is large, credit institutions can increase capital use activities, then credit institutions can expand loans and investments.

In cases where a credit institution has fully applied measures such as changing interest rates and expanding services, it is still unable to increase the amount of capital mobilized, leading to the need to implement selective credit policies,

does not fully meet customer needs.

Risk: risk of losing capital or causing risk to the entire credit system. Risk in credit activities is understood as unexpected misfortunes, unfortunate events, unexpected obstacles that cause direct damage to the operations of credit institutions.

Credit institution management: the managing entity is the State Bank of Vietnam.

The State Bank of Vietnam is the central bank of the Socialist Republic of Vietnam and is a government agency performing the function of state management of currency and banking activities, and is the issuing bank. Money, banks of credit institutions, banks providing monetary services for the Government.

2.3 Classification of Credit Institutions

Credit institutions include banks, non-bank credit institutions, microfinance institutions and people's credit funds.

- Bank: is a type of credit institution that can carry out all activities and banking business operations according to the provisions of this Law.
- Credit institutions that are banks are not limited in the scope of performing business operations like non-bank credit institutions.
- In addition to banking business activities, credit institutions that are banks are also allowed to carry out a number of other business activities such as preserving rare assets, financial consulting, etc.
- According to the nature and operational objectives, types of banks include commercial banks, policy banks, and cooperative banks.
- Non-bank credit institutions are types of credit institutions that are allowed to carry out one or several banking activities according to regulations as regular business content, except for activities of receiving deposits from individuals and providing services. Provide payment services through customer accounts.
- Non-bank credit institutions include financial companies, financial leasing companies and other non-bank credit institutions.
- Microfinance institutions are a type of credit institution that mainly conducts a number of banking activities to meet the needs of individuals, low-income households and micro-enterprises.
- People's Credit Fund is a credit institution voluntarily established by legal entities, individuals and households in the form of cooperatives to carry out a number of banking activities according to regulations with the main goal of Support each other to develop production, business and life.

The People's Credit Fund is a type of collective economic organization, operating on the principle of self-recovering costs to carry out a number of banking activities under license, mainly within the scope of its members.

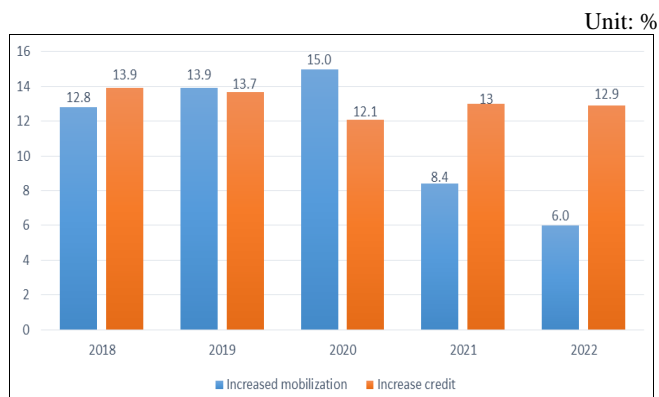
The fund operates usually under the sponsorship of the state bank, deposit and loan interest rates are often flexible, in fact members contribute capital to do currency trading.

Classification of credit institutions is meaningful to help credit institutions know which group they are in, which legal documents they apply to comply with the law and help the state based on that to apply measures. Measures to ensure safety for each type, grounds to limit activities in accordance with the nature, functions and operations.

3. Current Status of Credit Institutions' Operations in Vietnam in the Period 2018-2022

3.1 Capital Mobilization Activities of Credit Institutions

Activities of credit institutions include mobilizing capital, lending capital, and providing services. Some key performance indicators of credit institutions in the recent 5-year period:



Source: State Bank of Vietnam (2018-2022) [3]

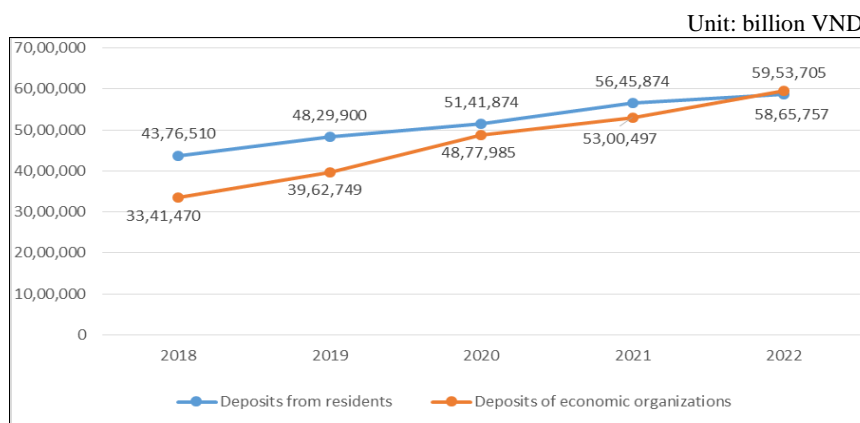
Fig 1: Capital mobilization and lending activities of credit institutions in the period 2018-2022

In the two years 2021 and 2022, the State Bank of Vietnam continues to implement credit solutions to control credit scale in accordance with oriented targets while improving

credit quality and controlling inflation, creating Favorable conditions for businesses and households in accessing credit capital.

According to data from the State Bank, by the end of December 2022, residential deposits (excluding organizations and businesses) at credit institutions reached nearly VND 84,600 billion, an increase of 8.3% compared to the previous year. by the end of 2021. The reason why people increase bank deposits is the high deposit interest rates at many banks. Accordingly, the bank's deposit interest rate is commonly from 9% to 10%/year with a term of over 12 months. Of which, some banks mobilized up to 11.5%/year. Previously, credit institutions reached nearly 5,277 million billion VND, down more than 23,400 billion VND compared to the end of October 2021. Overall, in the first 11 months of the year, people's deposits only increased by nearly 135,100 billion VND compared to the end of 2020, equivalent to a modest increase of only 2.63%. This is the lowest increase in the last 15 years (State Bank, 2018-2022) [3].

Meanwhile, deposits of economic organizations also increased by 0.73%, equivalent to 42,341 billion VND in December 2022, bringing the total deposits of economic organizations to 5.8 million billion VND. In October 2022, this group's deposits decreased by VND 15,811 billion. According to the latest data from the State Bank, total customer deposits at credit institutions reached more than 13.8 million billion VND in 11 months of 2022.



Source: State Bank of Vietnam (2018-2022) [3]

Fig 2: Deposit balance of credit institutions in the period 2018-2022

Looking at the chart shows that deposit balances at both economic organizations and individuals tend to increase over the years. Capital mobilization growth was recorded at 9.24%, more positive than the previous year. In more detail, deposits from economic organizations and businesses achieved a growth rate of up to 15.7% over the same period, equivalent to more than 5.9 million billion VND by the end of 2022. At the same time, the growth rate Growth in capital mobilization from population groups increased rapidly, reaching more than 5.8 million million billion VND.

Thus, 2022 marks the first year that the bank deposit balance of corporate customers is greater than that of individual customers. Previously, in the period from 2017-2018, bank deposit balances of residents were from several hundred trillion to more than 1 million billion VND higher than those of corporate customers. However, this difference has decreased continuously in the past 3 years. Looking at the above developments, many experts believe that there are 2

main reasons.

1. Although interest rates on deposits at commercial banks still remain positive, the general level is much lower than before, especially in the past 2 years. At the same time, other investment channels such as real estate recovery, strong stock growth, attractive corporate bonds... also share part of the cash flow that was originally flowing to the banking system. Therefore, resident deposits increase more and more slowly. In 2021 alone, people's deposit balances at banks will only increase by more than 158,600 billion VND, less than half of the increase in 2020. Similarly, in 2020, the growth in people's deposit balances will increase. The population also decreased by nearly half compared to the period 2018-2019.
2. Deposits of economic organizations increased faster because, in the past two years, the epidemic has complicated developments, causing production and

business activities to stagnate, many projects could not be implemented, leading to investment activities slow down.

Currently, production and business activities have shown bright signs of returning, but have not yet been able to fully recover and potential difficulties are still great. This makes many businesses still cautious in investing in expanding production and business, and money is still forced to be temporarily deposited in banks.

The above developments will soon improve and return to a normal trajectory when Vietnam's economy fully recovers. Besides, savings is still a safe investment channel with good profitability because the deposit interest rate is still quite positive compared to inflation.

Competition for Customer Demand Deposits among Commercial Banks

Current Account Savings Account or CASA (CASA: Current Account Savings Account). This is a type of bank savings deposit that customers actively deposit and withdraw cash many times and enjoy non-term interest rates calculated daily. CASA deposit service helps depositors control the amount of money most accurately and conveniently perform payment transactions at any time according to their investment, business and payment needs. However, for commercial banks, this is a very cheap source of capital, meaning it only pays non-term interest rates of less than 1%/year compared to interest rates for terms of 1 month or more of 4-7%/year. Therefore, commercial banks compete strongly to attract CASA, the decisive solution is free transaction fees for customers.

The wave of free transactions continues to attract many commercial banks to participate in the context of competition to attract demand deposits is still vibrant, attracting CASA is one of the solutions to reduce input costs, thereby contributing to lowering lending interest rates. Techcombank continues to strengthen its leading position in the industry in terms of demand deposit ratio (CASA) and return on total assets (ROA), reaching 50.5% and 3.7%, respectively. The capital adequacy ratio (CAR) according to Basel II is strong, reaching 15%. Specifically, total operating income in 2022 increased by 35.4% over the same period last year, to VND 37.1 trillion, thanks to strong growth from both interest income and income from service activities. Interest income reached 26.7 trillion VND, an increase of 42.4% over the same period last year, driven by net interest margin (NIM calculated over the most recent 12 months) reaching 5.6% (compared to 4, 9% of 2021). NHTM (2021-2022)

Techcombank's demand deposit balance by the end of 2022 reached 159 trillion VND, an increase of 24% compared to 2021. Of which, the demand deposit balance of individual customers reached 100 trillion VND, an increase of 31%; of corporate customers reached 59 billion VND, an increase of 14% (Techcombank, 2021 - 2022).

The average CASA level of Vietcombank, BIDV, VietinBank, MB, VPBank, ACB, Sacombank, HDBank, TPBank, VIB, Eximbank, SHB at the end of the third quarter of 2022 is 21.5%. Meanwhile, this ratio at Techcombank at the end of the third quarter was 49% and continued to improve to 50.5% by the end of the fourth quarter of 2022 (Commercial Bank, 2021-2022)^[2].

For high-income customers, Techcombank has a great advantage in the market. High-income customers not only

have trading needs but also asset management needs. Techcombank not only offers payment services but also offers a service ecosystem for customers who want to invest in real estate, invest in bonds, use credit cards, etc. The more customers transact the more favorable the price will be. Techcombank applies free money transfer transactions to buy and sell foreign currencies and discounted online transactions for SMEs. The balance of demand deposits and customer deposits at Techcombank at the end of 2022 reached VND 158,900 billion, an increase of 24% compared to 2021. In particular, the demand deposit balance of individual customers reached 100,000 billion VND, an increase of 31%; of corporate customers reached VND 58,900 billion, an increase of 14%. The CASA ratio as of December 31, 2021 reached 50.5%, significantly improved compared to 46% in 2020 and is a record high in the Vietnamese commercial banking system (Techcombank, 2021-2022).

Meanwhile at MB, total customer deposits at the end of 2022 reached VND 384,692 billion, an increase of 23.7% compared to the end of 2021; of which, customer demand deposits reached 171,396 billion VND, an increase of nearly 50% compared to the previous year. MB is one of the commercial banks with the strongest demand deposit growth rate. In addition, margin deposits reached VND 11,728 billion, an increase of 66% compared to the end of 2021. Specialized capital deposits of customers at MB reached VND 4,388 billion. It is estimated that MB's CASA ratio at the end of 2022 is at 49%, a sharp increase compared to 41% at the end of 2021. This is also the highest level of CASA that MB has achieved so far and is close to catching up with Techcombank (MB, 2021 - 2022).

Vietcombank is still the commercial bank with the most demand deposits in the system. By the end of 2022, payment deposits at Vietcombank reached VND 367,149 billion, an increase of 19.6% compared to the end of 2021. Specialized capital deposits and deposits also had impressive growth, up 16% and 52% respectively. 31,642 billion VND and 6,309 billion VND. Vietcombank's CASA ratio is estimated to increase from 32.8% to 35.7% (Vietcombank, 2021-2022).

The driving force for CASA growth at commercial banks generally comes from individual customers, as digital banking and mobile banking products increasingly bring more convenience to users. Individual customers tend to deposit a lot of money in payment accounts to use for transfers, shopping payments, stock investments, real estate investments, car purchases.

At MB, by the end of 2021, there will be about 2 million new users of digital banking services. By 2022, this number will continue to increase sharply when MBBank App has about 6.3 million new users, cumulatively reaching 9.5 million users, an increase of 3.2 times compared to 2021. Up to now, the transaction Transactions on digital banking technology channels at MB account for about 92% of total customer transactions, ranking among the leading banks in Asia in this field. Rarely is there any bank that converts digitally as quickly and as quickly as MB. In 2022, MB generates the largest number of customer transactions in the 247 interbank money transfer system in Vietnam.

The competition for CASA will still be very fierce in the coming time, especially when banks aggressively waive service fees and continuously update new technologies to bring a better experience on banking applications row. From 2022, large banks such as Vietcombank, BIDV, Vietinbank

have officially waived all fees on digital banking applications such as account maintenance fees, internal and external money transfer fees. CASA level of 50.5. The % that Techcombank just achieved is not the peak and the bank is aiming for 55% in the coming years. Techcombank's orientation is that to increase growth, CASA must ensure it is the main transaction bank for customers. For example, for high-income customers, the bank will not only offer payment services but also have a service ecosystem for customers wishing to invest in real estate, bonds, etc. Currently, Techcombank has a great advantage in the market in this segment. In addition, Techcombank will also invest heavily in technology, and will soon launch a new App for individual and business customers, improving user experience and safe transactions.

3.2 Credit Activities of Credit Institutions

As of the end of 2022, credit institutions have restructured the debt repayment period, maintaining the same debt group with the accumulated debt value since the outbreak of about 607,000 billion VND, currently there are about 775,000 customers affected by debt was restructured, with outstanding debt of over 296,000 billion VND. At the same time, exempt, reduce, and lower interest rates for over 1.96 million customers affected by the epidemic with outstanding debt of more than 3.87 million billion VND (State Bank, 2019-2022).

In addition, implementing policies to remove difficulties for the national airline Vietnam Airlines, the state bank has refinanced commercial banks so that they can lend to Vietnam Airlines. Credit institutions have signed a credit financing contract with Vietnam Airlines and disbursed a total amount of VND 4,000 billion.

Regarding removing difficulties in purchasing and consuming rice, after more than 1 month since the direction of the State Bank in Official Dispatch 5747/NHNN-TD, outstanding loans of commercial banks for The field of rice purchasing and consumption in the Mekong Delta region has increased by nearly 5,000 billion VND, credit limit increased by 1,500 billion VND (Banking Association, 2019-2022).

In recent times, along with promoting capital mobilization, credit institutions have also focused on removing difficulties, increasing response to credit capital needs, expanding lending to the fields of production, business, services in the economy. Credit capital from credit institutions continues to be prioritized for areas that play an important role in economic growth, create jobs for a large number of workers, and have stable export turnover. These are the fields of agriculture - rural areas, supporting industries, export production, small and medium enterprises, and high technology application in agriculture.

4. Recommend Solutions

Firstly, the state bank's monetary policy management needs to continue to closely follow and contribute to the successful implementation of the goals of the National Assembly and the Government on the 2022 socio-economic development plan, as well as goals and plans for 2023, especially ensuring the directional goals of credit outstanding growth, directing capital flows to priority areas, limiting capital to risky areas, reducing or maintaining stability. Determine lending interest rates in the economy.

Second, the State Bank continues to research measures to

flexibly adjust monetary policy tools and measures to control bad debt in the context of the impact of the pandemic, inflation and financial market developments. International the State Bank needs to consider more flexibly the required reserve ratio and credit limits for credit institutions to support economic growth.

Third, the State Bank continues to closely monitor the macroeconomic situation, the monetary market, crude oil prices, and raw materials on the international market to continue implementing solutions to remove difficulties, Create favorable conditions for bank credit loans for businesses and people.

Fourth, the State Bank directs and supervises credit institutions to continue reducing costs to further reduce loan interest rates to support production and business; Credit institutions make commitments to reduce lending interest rates for the economy. Credit institutions on restructuring debt repayment terms, exemption, reduction, interest, fees, and maintaining the same debt group for customers affected by the epidemic.

Fifth, credit institutions need to be extremely cautious about credit quality management, considering the nature of customer debts with bad debt data shown in publicly announced annual financial reports. Credit institutions need to aggressively set up provisions for credit risks close to the nature of restructured debts; At the same time, seriously implement Circular 03/2021 on substantive debt restructuring for customers affected by the epidemic.

Sixth, the Government directs relevant ministries and branches to continue to have solutions to support small and medium-sized enterprises and individual business households to restore production and business, contributing to limiting bad debt. The Government issued a loan program to support workers who lost their jobs through the credit channel of Vietnam Bank for Social Policies.

5. Conclusion

In recent years, although the bond market and stock market have developed strongly, businesses have had two more channels to promote capital mobilization for medium and long-term investments. However, up to now, the main investment capital of businesses is still capital from credit institutions. Credit institutions compete strongly in the deposit market, promoting capital mobilization to invest in credit capital for the economy. However, the Government, the State Bank, relevant ministries, and credit institutions also need to have more appropriate policies and measures to ensure effective credit capital investment. Higher for the economy in the coming time.

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