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### Credit Growth of Commercial Banks in Vietnam

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#### Abstract

Bank credit is always an important capital channel for the Vietnamese economy. Reasonable and quality credit growth will create a stable and safe source of income for the bank. Therefore, the goal of the article is to study the credit growth ability of commercial banks in Vietnam. The

research was conducted by studying a number of Vietnamese commercial banks in the most recent period. Based on the research results, some solutions are suggested to improve the credit growth ability of Vietnamese commercial banks in the coming time.

**Keywords:** Credit Growth, Commercial Banks, Businesses

#### 1. Introduction

Credit growth is understood as the increase in credits provided by the banking system to organizations, businesses and individuals in the economy. The increase in credit by banks is important and is very necessary to meet the increasing demand for capital of organizations, businesses and individuals in the development process of the entire society. Association.. Control credit growth appropriately to contribute to controlling inflation, supporting economic growth, directing credit capital to production and business sectors, especially priority sectors and driving forces growth according to the Government's policy; Strictly control credit for potentially risky areas. Implement with the highest efforts the tasks of the banking industry in the Socio-Economic Recovery and Development Program and national target programs. Credit growth is needed to support economic growth. Therefore, the author conducted research on the credit growth process of Vietnamese commercial banks in the recent period, thereby proposing some solutions to improve the efficiency of this activity in the coming time.

#### 2. Theoretical basis for credit growth

Credit growth means pushing large amounts of money into circulation. Credit growth is also known as the growth rate of credit balance. Accordingly, credit growth is the percentage (%) or the number of changes in credit balance at a certain time compared to the previous time.

The growth rate of credit balance of credit institutions includes:

- (i) Credit growth rate in Vietnam Dong: Short-term, medium-term and long-term.
- (ii) Credit growth rate in foreign currency: Short-term, medium-term and long-term.

The growth rate of credit balance is equal to the credit debt growth index minus one or one hundred.

The formula to calculate credit growth compared to the base period is as follows:

$$\text{Credit growth rate} = \left[ \frac{\text{Credit grant value at time } t_i}{\text{Credit grant value at time } t_0} - 1 \right] * 100\%$$

#### 3. Research methods

The article uses qualitative research methods including two basic methods: Data collection, synthesis and analysis and evaluation. Based on the synthesis of data related to the credit growth ability of commercial banks in Vietnam, the article offers some solutions to improve the efficiency of this activity in the coming time.

#### 4. Current status of credit growth of commercial banks in Vietnam

Recently, commercial banks in Vietnam have had slow credit growth. According to the State Bank, credit growth in early 2024 is quite low compared to recent years. Specifically, in January 2024, credit decreased by 0.6% compared to the end of 2023,

with 5/9 groups of credit institutions recording a decrease in credit. Retail credit in the first month of 2024 continued to decline, with a decrease of up to 11,000 billion VND. In addition, credit in the real estate sector also decreased due to the quiet real estate market. There are few newly licensed projects in 2023, leading to a lack of resources and many projects having legal problems. Although interest rates have tended to decrease in recent times, lending interest rates decreased much slower than expected, causing banks to fall into a state of excess capital.

The joint venture banking group recorded the sharpest credit decrease, at 3.41%; Banks with 100% state capital decreased by 2.2%; State-owned joint stock commercial banks decreased by 0.88%; The equity trading group decreased by 0.51%; Foreign banking group decreased by 0.32%.

The cause of the above situation is due to:

**First, objective reasons:**

(i) Causes from State management agencies

Credit management by state management agencies is sometimes still passive. The promulgation of a number of credit mechanisms and policies is still a bit rigid, not really close to the situation and practical requirements (such as some conditions and terms in Circular 06, which have since been amended and supplemented). supplemented by Circular 10).

In the process of implementing a number of programs and credit policies under the direction of the Government and the Prime Minister such as the VND 120,000 billion program, legal regulations related to social housing projects (land fund, submission of order, buying and selling procedures, valuation...) there are still many problems;

In addition, the number of apartment renovation and reconstruction projects is very small; Only 23 People's Committees of provinces and cities have announced and sent lists of social housing projects, worker housing, construction projects, and apartment renovation projects to the State Bank and the Ministry of Construction for consideration. Commercial banks can access and appraise projects; and some conditions for home buyers are no longer suitable.

(ii) Causes from the market side

The difficult global economic, investment and trade context negatively affects the situation of investment, production and business, and domestic import and export, reducing the economy's ability to absorb capital and demand for credit. Use by people and businesses decreased accordingly. The growth drivers of production, consumption, and export... face many difficulties and export orders are slow. Newly registered businesses only increased slightly, but temporarily suspended businesses increased by 25% over the same period.

In addition, difficulties from the real estate market affect the ability of real estate groups to absorb credit when real estate credit accounts for about 21% of total credit... Currently, The real estate market is quiet. Projects licensed in both 2023 and the first month of 2024 decreased. Besides, there are legal difficulties that slow down the progress of new projects.

In addition, some customer groups have needs but do not meet loan conditions, especially small and medium-sized enterprises while implementing solutions to increase access to credit through the Credit Guarantee Fund. For small and medium enterprises, the Small and Medium Enterprise Development Fund... has not been effective; Borrowers have

a poor financial situation and do not meet loan conditions (especially small and medium-sized enterprises); Using loan capital for the wrong purpose, inefficient investment and business leading to failure to repay the loan; The customer's risk level is assessed higher when it is difficult to prove effectiveness. Specifically: The financial capacity of the enterprise declines. Many petroleum and electricity businesses face legal action. Restructured debts are due in 2024 and 2025, so the pressure to repay debt is huge, and bad debts of credit institutions are at risk of increasing. Enterprises have weak financial capacity, so it will be difficult to consider granting credit.

**Second, subjective reasons:**

The ability of commercial banks to mobilize medium and long-term capital is still low compared to the needs of the economy; Bad debt tends to increase, limiting the ability to grant credit; The handling of bad debts is still difficult and there are problems related to the handling of collateral and assets held in custody, most of which are houses and land, and the application of simplified procedures at the request of the Court under Decree No. Resolution 42/2017/QH14 faces difficulties and has not been implemented.

The restructuring of credit institutions, especially weak credit institutions, is still slow and not drastic, causing interest rate competition to continue (because these weak credit institutions have to push up interest rates). interest rates increased to mobilize people's deposits...), making the process of reducing interest rates more difficult...Although lending interest rates have decreased significantly in recent times, lending interest rates are at Some commercial banks are still at quite high levels. Some banks lack the courage to grant credit and are still cautious, fearing increased bad debt. The implementation of the collateral mechanism is still inflexible, mainly relying on collateral. Besides, there is a lack of connection between customers and banks to directly discuss and find solutions to overcome capital difficulties.

In addition, loan documents and procedures are still complicated; Although interest rates have decreased, they are still high compared to businesses' ability to pay.

**5. Solutions to improve credit growth ability of Vietnamese commercial banks**

To achieve the credit growth target, requires efforts from commercial banks as well as supportive policies from State management agencies.

**5.1 Solutions from state management agencies**

*First*, the State Bank needs to continue to improve legal regulations in credit granting activities to facilitate the operations of commercial banks to always meet the capital needs of the economy and improve their ability to operate. Access to bank credit, support customers facing difficulties in credit activities.

Specifically, the State Bank needs to proactively and promptly review and complete regulations related to credit granting activities; Continue to implement the policy of restructuring debt repayment terms, maintaining the same debt group to support customers in difficulty; Work with State banks to review lending procedures and processes, direct State Banks to continue simplifying processes and procedures, cutting fees and charges to create favorable conditions. More beneficial for businesses and people to access bank credit capital.

In addition, the State Bank needs to assign credit limits right from the beginning of the year to all credit institutions to strive to achieve targets. If any bank or credit institution achieves its targets and still has the ability to provide additional capital to the economy, ensuring system quality and safety, and ensuring macroeconomic conditions that allow the Bank to The Vietnamese State will continue to assign additional credit limits.

*Second*, the State Bank needs to direct commercial banks to direct credit to production, business, priority areas and growth drivers (investment, consumption, export) according to the policy. Government policy; Strictly control credit in potentially risky areas. In particular, the banking industry continues to create favorable conditions for businesses and people to access bank credit capital, remove and promote the expansion of consumer credit along with reviewing, consolidating and improving The role of non-bank credit institutions (such as financial companies, financial leasing companies, people's credit funds, microfinance institutions...) to both stimulate credit demand and increase the ability to Providing safe and healthy official capital, contributing to limiting "black credit".

*Third*, direct commercial banks to reduce costs to reduce lending interest rates, cut fees to support businesses and people in accessing credit capital more conveniently; At the same time, ensure the safety of the system of credit institutions.

*Fourth*, it is necessary to promulgate policies to support "unlocking" capital sources such as: Allocating and notifying all credit institutions throughout the system; promulgates a Circular on debt repayment term restructuring...

## 5.2 Solutions from commercial banks

*First*, it is necessary to simplify loan processes and procedures, publicize fees, interest rates... to create more favorable conditions for businesses and people to access bank credit;

*Second*, accelerate the progress of building and organizing the implementation of restructuring plans associated with bad debt handling in the 2021-2025 period according to the guidance of the State Bank; Drastically, synchronously and effectively deploy preventive measures and minimize the arising of new bad debts.

*Third*, it is necessary to closely follow the situation, fields, industries and be more flexible in lending conditions (especially collateral...) and need to evaluate cash flow prospects more and more closely; There are general standards and criteria, priorities, and limitations that are correct, successful, and appropriate.

*Fourth*, continue to direct credit capital to production and business sectors, priority sectors and growth drivers of the economy according to the Government's policies; continue to strictly control credit in potentially risky areas; ensure safe and effective credit operations.

*Fifth*, stop lending focusing on a number of businesses and projects in the ecosystem, or in the backyard of the corporation, which easily compromises the safety and soundness of the bank. It is strictly forbidden to expand credit room and reserve low interest rates for members of the bank's board of directors.

## 6. Conclusion

In the context of many difficulties in the domestic economy, improving the credit growth capacity of Vietnamese commercial banks helps people and businesses overcome financial difficulties and restore production and business. is very important. Therefore, commercial banks need to implement comprehensive and thorough solutions combined with supportive policies from State management agencies so that access to credit capital for people and businesses will be improved. improvement, will no longer be an obstacle but will become an important driving force to help economic growth recover, aiming to successfully implement the country's socio-economic development goals.

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