



More banks will guarantee growth potential

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If you are planning to travel to Vietnam, please remember that you need to carry some cash due to the lack of broad-based banking infrastructure. In spite of recent improvements, credit cards are not accepted in most regions in Vietnam and ATMs are only available in downtown areas.

Given this, you might be surprised to learn that there are about 90 banks operating or seeking licences to open their doors in Vietnam vying to fill few services in what might seem to be a small market economy such as Vietnam's. In fact, the number of banks might increase sharply in near future as 46 applicants were waiting for approval at the end of 2007 (The State Bank of Vietnam).

It is actually understandable banking in Vietnam was not prepared for the rapidly increasing demand, given that only 10% of Vietnamese have bank accounts; however, the Vietnamese economy is growing fast – over 7% of GDP growth for the last five years in average with expectations of 6.5% GDP growth for 2009 in spite of the global economic crisis (World Bank). Especially, this high economic growth implies there is and will continue to be a high demand for loans by both individuals and corporations and that is attracting new banks to Vietnam. According to the Saigon Times, Vietnam should have more banks, particularly smaller banks that bring benefits to SMEs and local communities.

The increasing number of banks is actually inevitable since the WTO agreement obliges the Vietnamese government to license more foreign banks to create stiffer competition. For this reason, three foreign banks – HSBC, Standard Chartered and ANZ were licensed to open 100% foreign-owned banks in Vietnam this year (up until now and although the three banks have been operating in Vietnam for years, their operations were limited to branch offices) and on January 1, 2009, HSBC officially starts large-scale banking services in Vietnam.

Apart from the debate on whether an increasing number of banks is necessary and or whether those banks bring good value to their clients, apparently, the Vietnamese will need more banks in the near future to finance the growth of wealth. In fact, to bankers, the lack of a proper banking system in Vietnam is a huge opportunity to be exploited rather than a threat.