

Consumer Lending - Vietnam

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CONSUMER LENDING IN VIETNAM

EXECUTIVE SUMMARY

Strong Growth Continues in All Sectors

All consumer lending categories recorded double digit growth in Vietnam in 2010. This could be attributed to several reasons, including the more open mindset of Vietnamese consumers towards borrowing money, rising demand for credit, and lower interest rates. However, there were still many other factors hindering growth, such as the complicated administrative procedures required for obtaining credit in Vietnam and the underdeveloped consumer credit rating system which operates in the country. Continuous support from the Government, as well as collaboration between financial institutions and the Government are expected to occur during the forecast period as consumer lending develops and growth is pushed further.

Underdeveloped Credit Rating System Hinders Growth

The consumer credit rating system in Vietnam remained very much underdeveloped in 2010. This led to many banks remaining hesitant to promote consumer lending products due to the risk they are forced to bear. However, the situation is expected to improve during the forecast period as the Government, banks and other financial institutions collaborate to develop a better and more reliable credit rating system. Once this system is fully developed and operational, consumer credit will post even stronger growth as banks will more willing to push consumer lending products.

Many People Still Prefer To Borrow From Friends and Family

Many Vietnamese consumers preferred to borrow money from friends and family in 2010. This was due to several reasons, such as the fact that loans obtained from these sources tend to be interest free, and not having to face the long and complicated procedures which are required by the majority of banks in order to obtain credit. This preference for credit from friends and family presented a threat to the consumer lending on the whole during 2010. In order to counter this threat, Vietnamese banks were forced to lower their interest rates and try to make their application procedures faster and simpler.

Interest Rates Remain High

The lending interest rate remained high in Vietnam during 2010, despite the concerted efforts of the Government and banks to reduce lending interest rates. The high interest rate could be connected to the high rate of inflation in Vietnam, which was 10% in 2010. High interest rates continued to deter many Vietnamese consumers from borrowing as the cost of credit was simply too high for many to be able to afford.

Growth Is Expected To Remain Strong Over the Forecast Period

Almost all consumer lending subcategories are expected to see double digit forecast growth over the forecast period, which can be mainly attributed to the constantly rising demand for credit in the country. Industry players believe that there is huge untapped potential for consumer lending in Vietnam. Besides banks, new financial institutions are expected to enter Vietnam during the early stages of the forecast period as new players make efforts to grow by exploiting the huge potential that exists within consumer lending in Vietnam.

KEY TRENDS AND DEVELOPMENTS

More Open Mindset Helps To Push Growth

The Vietnamese were more receptive to the borrowing of money in general, and from banks in particular, in 2009/10. During the early 2000s, the Vietnamese were much less open to obtaining credit and would only borrow if it was considered absolutely necessary. However, as the Vietnamese economy developed so did the quality of life, and many Vietnamese people started to have more pragmatic demands such as bigger and more

luxurious homes, better motorcycles and cars, and other trappings of prosperity. This led to a rising need for funds. Besides banks and other financial institutions, relatives and friends represented a popular source of lending.

Current Impact

This trend directly impacted consumer lending as it created the demand for the entire consumer lending industry. Except for 2008, when the global economic crisis affected consumer confidence, leading to a huge dip in consumer lending, double digit growth was recorded in consumer lending during each year of the review period. Although the majority of Vietnamese people still very much preferred to borrow money from their friends and relatives in 2009/10, the developing acceptance of consumer credit definitely helped fuel demand for consumer lending in Vietnam throughout the entire review period, and more so in 2009/10.

Outlook

The acceptance of consumer credit in Vietnam is expected to continue increasing rapidly over the forecast period, in combination with the increasing urban and young populations in the country. The young urban dwelling consumer segment in Vietnam is usually characterised as being more Westernised, adaptable, and materialistic as well as being in possession of better education and higher disposable income. Thus, young urban Vietnamese will help to fuel growth in consumer credit over the forecast period as they are always in need of more money to improve their standards of living.

Future Impact

As attitudes to consumer lending are expected to continue improving in Vietnam during the forecast period, banks and other lenders will definitely benefit as more consumers will be prepared to take loans from banks and other lenders. Moreover, as Vietnamese consumers, especially those living in the country's urban areas, are becoming more and more independent, they will be more likely to borrow money from banks and other financial institutions rather than their friends and relatives, which will further push growth for consumer lending on the whole.

Rising Demand for Housing Pushes Growth in Mortgages

Vietnam witnessed continuously rising demand for mortgage loans during the review period. As more Vietnamese people become more independent and have higher disposable incomes, especially those in big cities such as Ha Noi, Ho Chi Minh City and Da Nang, stronger preferences than ever before are developing for Vietnamese consumers to own their own homes. This is evident in the high number of urban households in Vietnam, which increased much faster year-on-year during the review period than the total population. The booming property markets in Vietnam's major cities during the review period also reflect the rising demand for new houses in urban areas of Vietnam.

Current Impact

Gross mortgage lending was the largest of all consumer lending categories in Vietnam during 2010, both in terms of value sales and growth, and most of this success can be attributed to the increasing demand for consumer credit among Vietnam's young and upwardly mobile urban consumers. Financing for a home represents the biggest investment for the majority of people, and bank lending is essential as friends, relatives and savings are not usually sufficient to be able to meet the cost of a home. Mortgage lending outstanding balance also recorded very strong growth in 2010 as mortgages tend to be long term loans of 10 to 20 years.

Outlook

Demand for consumer lending continues to mount in Vietnam, although it is still at a nascent stage and is expected to continue growing strongly during the forecast period. Some experts foresee that the property market in major urban areas such as Da Nang, Ha Noi and Ho Chi Minh City will continue to boom over the forecast period, which will definitely help fuel demand for consumer lending, which will also be pushed by the new young urban generation over the forecast period. These younger and more ambitious Vietnamese are usually characterised as being dynamic, independent and having higher than average disposable incomes.

Future Impact

Mortgages/housing lending is expected to see strong growth over the forecast period, which can largely be attributed to the increased demand for consumer credit among Vietnam's young urban population. Unlike other consumer lending, which many Vietnamese consumers avoid by borrowing from friends or relatives instead, or relying on their own savings, mortgages/housing lending is more essential for those intent on owning their own homes. And as increasing numbers of Vietnamese prefer to own their own homes rather than living with their parents, mortgages/housing lending will benefit directly.

Complicated Credit Procedures Deter Would-be Borrowers

The application procedures for consumer lending in Vietnam remained very complicated in 2010. Borrowers were typically required to supply proof of income, proof of address within close proximity of the branch in question and proof of the goods to be purchased or the purpose for which the money is to be used among many other documents. Moreover, the processing time for loans tended to be somewhat extended, often stretching to some weeks.

Current Impact

These long and complicated application procedures deterred many would-be borrowers in Vietnam from taking out consumer credit. Instead, Vietnamese consumers preferred to borrow from friends and relatives, which was obviously a much simpler and less involved process. Although consumer lending recorded reasonably strong growth in 2010, many industry players commented that it would have been able to grow at an even faster rate if the procedures required to obtain credit were simpler and faster as consumer demand for consumer credit is rising strongly. However, as the consumer credit rating system in the country remained very much underdeveloped, Vietnamese banks had no choice but to require myriad supporting documents from borrowers to enable them to make better decisions with regards to the credit worthiness of their potential borrowers and reduce their risk of bad debts.

Outlook

The long and complicated loan application procedures in Vietnam could be eliminated through the employment of a better and more reliable consumer credit rating system. However, as the consumer lending system is still very much underdeveloped, and the Government and financial institutions still have little experience in these matters, the convoluted loan application procedures are not expected to improve at any stage during the forecast period. Thus, Vietnamese consumers will have to put up with this problem for a few more years at least.

Future Impact

The rigmarole which those applying for credit in Vietnam are forced to go through will definitely affect all consumer lending categories during the forecast period. However, as demand grows strongly, many industry players are expected to offset the effects of the complicated application procedures and help to maintain growth for consumer lending in general. Having said this, however, making improvements to the consumer credit rating system and streamlining the loan application process remain among the major goals of the Vietnamese Government and financial institutions in their combined efforts to maintain healthy growth for consumer lending in the longer term.

Interest Rates Still High Despite Government Efforts

Inflation remained high in Vietnam during 2009/10. The rate of inflation was annualised to 7% in 2009 and is expected to rise to 11% in 2010. The lending interest rate was also high during 2009/10 as a direct result of the high rate of inflation. At times, the lending interest rate reached 20%. Although the State Bank of Vietnam made several efforts to control the rate of inflation as well as calling for banks to reduce their lending rates, lending rates remained high at 15% during the second quarter of 2010.

Current Impact

High lending interest rates directly impacted on the high cost of home ownership in Vietnam. Thus, the high interest rates deterred many consumers from taking out loans, especially at a time when interest free borrowing

from friends and family remained extremely popular. As a consequence, informal loans from friends and family remained more attractive to Vietnamese consumers, many of whom are very independent and would prefer not to have to rely on relatives.

Outlook

In line with the continuous efforts of the Government, the lending interest rate is expected to fall during the forecast period. The interest rate fell from 15% in second quarter of 2010 to 13% in third quarter of 2010, and the declining trend will continue into 2011 and is expected to prevail in Vietnam throughout the forecast period.

However, interest rates are also affected by the rate of inflation. Vietnam suffered from a rather high inflation rate during the review period, and it is hard to predict whether the Government will be able to control the inflation rate during the forecast period. Unless the Government can reduce the inflation rate, banks and other lenders will have no breathing space within which to reduce their lending interest rates any further.

Future Impact

As interest rates are declining gradually in Vietnam, increasing numbers of consumers are expected to be more willing to take out loans from banks and other financial institutions during the forecast period. However, the Government and key financial institutions need to act quickly in order to reduce both the rate of inflation and interest rates further in order to capitalise on the potential of consumer lending in Vietnam.

Lower interest rates would also allow more room for competition in terms of which lenders can offer the most attractive interest rates over the forecast period. As a reduction in interest rates of as little as 0.5% could equate to very big savings for borrowers, banks which would be able to reduce their interest rates, even by such a small amount, would also be able to attract more customers to take up their loans.

Local Players Dominate Consumer Lending But Foreign Players Provide More Services

Consumer lending in Vietnam was dominated by local players during the review period, of which the majority were banks. There was only one major foreign player present, which was SG Viet Finance Co Ltd, a fully owned subsidiary of the French Société Générale group. Local players tended to offer a wide range of products in comparison with foreign players, but foreign players provided better and faster consumer lending services. Moreover, foreign players tended to focus on smaller loans such as financing for the purchase of motorcycles and consumer electronic goods, while domestic players offered various different loans ranging from general personal loans to mortgages.

Current Impact

The domination of local players showed that consumer lending remained very much underdeveloped during the review period. Moreover, the fact that foreign players concentrated predominantly on low value loans highlighted the risk involved in consumer lending in Vietnam as a result of the weak consumer credit rating system. Therefore, local players maintained a clear advantage as they enjoyed the support of the Government, meaning that they could afford to take the risk of high value loans such as mortgages/housing loans. On the other hand, foreign players, with their superior experience, were able to provide much better services. For instant, SG Viet Finance Co Ltd partnered with many retailers to offer consumers loans which were able to be approved at the point-of-sale. This kind of efficiency poses a distinct long term threat to local players.

Outlook

For foreign players to increase in presence in consumer lending in Vietnam, they will need to employ better and more reliable credit rating systems so that they are able to calculate the risk involved in individual loan applications and be more confident about offering loans, particularly higher value loans. However, the credit rating system in Vietnam is not expected to be fully developed at any point during the forecast period. Thus, there is still little chance for foreign players to grow further, without being forced to bear higher risks in terms of the possibility of default and bad credit. Domestic players will, therefore, continue to enjoy their collective domination for the forecast period at least.

Future Impact

The currently low numbers of foreign players present in consumer lending in Vietnam pose only a limited threat to the dominance of local players. The fact that foreign players will continue to have little room to grow during the forecast period also means less worry for local lenders. However, looking to the longer term, foreign lending companies do represent something of a threat as they tend to have greater amounts of capital at their disposal and more experience than local players. An apposite example is that fact that, although foreign players only participated in certain low value consumer lending categories in 2009, they provided much better services. Thus, domestic players will have to learn from the foreign players and constantly improve their products and services in order to compete in the long run.

MARKET DATA

Table 1 Consumer Lending By Category: Outstanding Balance: Value 2005-2010

VND tn	2005	2006	2007	2008	2009	2010
Consumer Credit	36.4	59.2	103.4	92.8	121.3	154.5
Mortgages/Housing	10.8	21.8	46.3	52.0	74.1	107.5
Consumer Lending	47.2	81.0	149.7	144.8	195.4	262.0

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 2 Consumer Lending By Category: Outstanding Balance: % Value Growth 2005-2010

% current value growth	2005-10 CAGR	2005/10 TOTAL
Consumer Credit	33.5	324.7
Mortgages/Housing	58.3	894.9
Consumer Lending	40.9	455.2

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 3 Consumer Lending By Category: Gross Lending: Value 2005-2010

VND tn	2005	2006	2007	2008	2009	2010
Consumer Credit	10.5	16.8	28.4	26.4	32.9	41.2
Mortgages/Housing	4.8	11.3	25.5	11.5	22.4	34.0
Consumer Lending	15.4	28.1	53.9	37.9	55.3	75.2

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 4 Consumer Lending By Category: Gross Lending: % Value Growth 2005-2010

% current value growth	2005-10 CAGR	2005/10 TOTAL
Consumer Credit	31.4	291.0
Mortgages/Housing	47.8	605.2
Consumer Lending	37.4	389.7

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 5 Consumer Lending: Non-performing Loans 2005-2010

Outstanding balance, % breakdown	2005	2006	2007	2008	2009	2010
Non-Performing	1.3	1.2	1.1	0.9	1.1	1.1

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 6 Mortgages/Housing: Non-performing Loans 2005-2010

Outstanding balance, % breakdown	2005	2006	2007	2008	2009	2010
Non-Performing	1.5	1.4	1.3	1.2	1.4	1.3

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 7 Consumer Credit: Non-performing Loans 2005-2010

Outstanding balance, % breakdown	2005	2006	2007	2008	2009	2010
Non-Performing	1.2	1.1	1.0	0.8	0.9	0.9

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 8 Forecast Consumer Lending By Category: Outstanding Balance: Value 2010-2015

VND tn	2010	2011	2012	2013	2014	2015
Consumer Credit	154.5	180.0	208.2	237.4	267.5	297.5
Mortgages/Housing	107.5	140.8	174.5	209.5	247.2	281.8
Consumer Lending	262.0	320.7	382.8	446.8	514.6	579.3

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 9 Forecast Consumer Lending By Category: Outstanding Balance: % Value Growth 2010-2015

% constant value growth	2010/15 TOTAL
Consumer Credit	92.5
Mortgages/Housing	162.2
Consumer Lending	121.1

Source: Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources

Table 10 Forecast Consumer Lending By Category: Gross Lending: Value 2010-2015

VND tn	2010	2011	2012	2013	2014	2015
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Consumer Credit	41.2	47.5	54.8	62.9	71.6	81.2
Mortgages/Housing	34.0	45.9	57.8	70.6	84.0	96.6
Consumer Lending	75.2	93.4	112.6	133.4	155.6	177.7

Source: *Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources*

Table 11 Forecast Consumer Lending By Category: Gross Lending: % Value Growth 2010-2015

% constant value growth

2010/15 TOTAL

Consumer Credit	97.1
Mortgages/Housing	184.0
Consumer Lending	136.4

Source: *Euromonitor International from official statistics, trade associations, trade press, company research, trade interviews, trade sources*

DEFINITIONS

This report analyses the market for consumer lending in Vietnam. For the purposes of the study, the market has been defined as follows:

Mortgages/housing

A loan used to finance the purchase of domestic real estate whereby the property functions as collateral.

Consumer Credit

Non-mortgage consumer debt extended to individuals for personal or household use including installment loans and credit cards. Examples of consumer credit include auto lending, card lending, durables lending, education lending, home lending and other personal lines of credit including overdrafts.

Auto Lending

A secured loan used to purchase four-wheeled vehicles (automobile) and two-wheeled vehicles (e.g., motorcycles).

Card Lending

Revolving credit card payment transactions (both credit card and store card) along with loans against financial cards.

Home Lending

Includes the following loan types: home equity loan, home equity line of credit and home improvement loans. A home equity loan refers to a loan secured by the equity in a borrower's home. This type of debt instrument allows the homeowner to access the equity in their home. These loans are distributed as an upfront lump sum and are paid off by the borrower in installments. A home equity line of credit is a revolving line of credit allowing the borrower to access a credit line no more than the amount of equity in the home. Borrowing may be done over a period of time and repeatedly similar to a credit card. A home improvement loan refers to a consumer loan taken out for such things as home repairs, remodeling projects, or room additions instead of tapping into the equity of a home.

Durables Lending

A loan used for manufactured products (e.g., household appliances) able to withstand wear and tear over a long period of time without being exhausted. Automobiles and two-wheel vehicles are excluded from this product category.

Education Lending

An advance of funds intended for a student to finance secondary, university, post-graduate (Masters, Ph.D.), vocational, part-time and continuing education.

Other Personal Lending

Includes loans generally intended for debt consolidation, vacations, living expenses or medical bills. Overdrafts on accounts are also included in this category.

Non-performing

A loan 90 days delinquent where full payment can no longer be expected.

Gross Lending

Total value of loans advanced by institutions in a given year.

Outstanding Balance

Collective amount owed by borrowers at the end of a given year.

Sources used during research include the following:

Summary 1	Research Sources
Official Sources	State Bank of Vietnam
Trade Associations	Vietnam Bank Card Association
Trade Press	Intellasia Finance Vietnam
	Thanh Nien
	Vietnam Panorama Banking & Finance News
Company Sources	ANZ Bank (Vietnam) Ltd
	Asia Commercial JSB
	Bank for Investment & Development of Vietnam (BIDV)
	Citibank NA Vietnam
	Dai A JSB
	East Asia Commercial JSB
	General Statistics Office of Vietnam
	HSBC Bank (Vietnam) Ltd
	Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank)
	MasterCard International Inc
	OnePay JSC
	Sai Gon Thuong Tin Commercial JSB
	Smartlink Card Services JSC
	Vietnam Bank for Agriculture & Rural Development

(Agribank)
Vietnam Export Import Commercial JSB (Eximbank)
Vietnam Joint Stock Commercial Bank for Industry & Trade (Vietinbank)
Vietnam Joint Stock Commercial Bank for Private Enterprises (VPBank)
Vietnam National Financial Switching JSC
Visa Inc

Source: *Euromonitor International*