

Study on the Current Situation of Deposit and Loan Spreads of Lao Commercial Bank and the Rational Countermeasures

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Abstract

Commercial Banks have always played an important role in the financing of social funds and the development of market economy. Lao commercial Banks guarantee the capital supply and demand of various industries in Laos. In the early stage of the bank interest rate reform in Laos, the "high interest rate" banking model played a stabilizing role in the economic development of Laos. However, with the deepening reform of the socialist market economy system in Laos, the high interest rate spread not only increases the operating cost of enterprises, but also go against the development and improvement of the Lao commercial Banks in the market environment. Moreover, it is not conducive to enhancing the market competitiveness of other overseas commercial Banks of the same level. Therefore, it is necessary to analyze this problem, and propose solutions and optimized countermeasures, so as to promote the smooth development of the economy of Laos.

Keywords

Deposit and loan spread; Rationalization proposal; Laos.

1. The historical development and characteristics of deposit and loan spreads in Lao commercial Banks

In accordance with the development level of the national economy and the needs of the country's macro-control, as a country with a socialist system, Laos has adjusted the deposit and loan rates for several times through the central bank. It can be divided into the following stages:

1.1 The period of socialist planned economy construction

In 1975, the Lao People's Republic was officially proclaimed, which marked the opening of a new chapter of people's democratic dictatorship in Laos. In this stage, the government set the bank interest rate uniformly, and the interest rate difference did not change much. And the interest rate spread was higher than that of other historical periods. This was mainly due to the shortage of means of production, soaring prices and the turmoil in the financial markets in the early days of the country's founding.

1.2 The period of adjustment of socialist planned economy

Due to the fact that the planned economy of the Lao government could not keep up with the economic construction speed of Laos, the economic chaos period was created instead. Therefore, the Lao people's government began to carry out economic adjustment strategies and market economy reform. The bank's business scope has been clarified, from the relatively simple deposit and loan business to the deposit and loan business credit and currency business. But in this period, due to the lack of market size, the overall deposit and loan spread level is still large.

1.3 The period of Market economy construction

In the 1990s, Laos officially launched the construction of market economy, and the first task was to carry out large-scale banking reform. The reform brought commodity prices under effective control

and established a basic order in the domestic financial market. Bank spreads are also starting to narrow.

1.4 Financial opening period

Since Laos has adopted an open policy to the outside world, its currency is bound to be influenced by international financial markets. So at this stage, the Lao government implemented the corresponding financial system to stabilize the kip exchange rate, but the exchange rate volatility was still high. In particular, the outbreak of the Asian financial crisis in 1997 led to a dilemma in the rationality of deposit and loan spreads.

1.5 Financial market development period

Since 2001, the financial market in Laos has entered a period of development. Commercial Banks can fluctuate the interest rates on deposits and loans within the limits of corporate demand and market currency. Although the 2% range is not very big, but compared with developed countries, the interest rate spread is still large, even dozens of times that of some countries. When the subprime crisis broke out in 2008, the government of Laos actively adjusted the deposit and loan rates of commercial Banks to bring them in line with the international standard, thus better coping with the crisis.

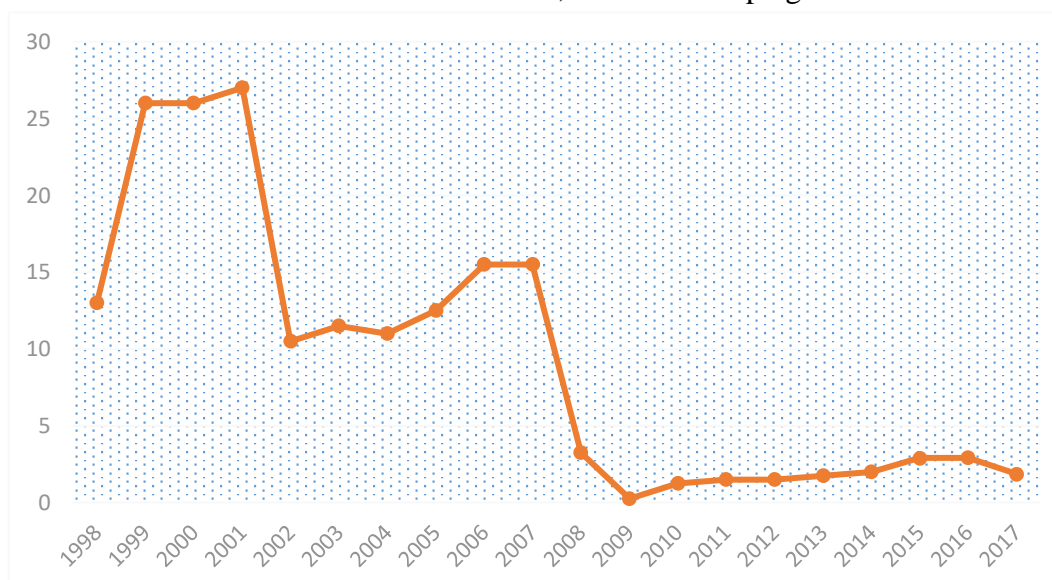


Chart1 Schematic diagram of deposit and loan spread of Lao commercial bank from 1998 to 2017

1.6 Characteristics of interest rate fluctuation in Lao commercial Banks

With the rapid development of economy and society in Laos, Commercial Banks are playing an increasingly important role. Through the adjustment of deposit and loan interest rates, the balance between supply and demand of commodities and funds for social development can be satisfied.

On the one hand, in terms of interest rate changes. The spread between deposit and lending rates in Laos was significantly higher than in China and other developed countries before 2008. That was because the Lao government had imposed higher interest rates on loans in an effort to boost economic growth and raise money. Between 1998 and 2001, interest rates were as high as 30%; From 2002 to 2007, the interest rate reached 20%.

On the other hand, the deposit and loan rates of Lao commercial Banks are set by the economic office of the state council. Thus, the interest rate differentials of Lao commercial Banks reflect the will of the Lao government. A mature commercial banking system relies on market mechanisms to adjust bank interest rate differentials. For example, in developed countries in Europe and the United States, interest rate liberalization has been fully implemented. With the deepening of the banking management system reform in Laos, the bank interest rate in Laos will be fully marketized in the future.

2. Restricting factors of Lao commercial bank set the bank deposit and loan interest rate spread reasonably

2.1 Lack of reasonable pricing system

Lao commercial Banks have had deposit and loan spreads set by the central bank for a long time, but there was no sound institutional guarantee when these terms were written. The loan interest rate is priced too low, so the bank cannot achieve its profit target and unable to bear the corresponding operating costs and social risk liability pricing. Pricing it too high raises the debt risk of both lenders and borrowers. In the developed world, markets act as "an invisible hand" in the mature financial system, "automatically" rationalizing the various roles of finance. However, there is no such market environment in Laos, so the pricing mechanism of deposit and loan spreads is unreasonable.

2.2 Limited financial separation system

In recent years, Laos has implemented a system of independent operation and management of the financial sector. Practice has proved that a separate management system can curb the bubble economy and strengthen financial regulation. However, in the market economy, if commercial Banks have a single business type and only rely on deposit and loan interest rates as the source of bank income, it will lead to excessive dependence on this business.

In the process of interest rate liberalization, market competition is crucial to determine the interest rate price. Moreover, carrying out more other businesses can enrich the business scope of Banks and disperse risks under the premise of marketization. However, under the current system, Lao commercial Banks have shown insufficient capacity to carry out other business and have no time for other business. This phenomenon is very unfavorable for Lao commercial Banks to participate in international competition.

2.3 Low level of bank internal management

Banks operate in the form of "making money with money" and do not participate in the direct production process of the society. Therefore, the banking industry has particularly high requirements on management. It can be said that the management level of the bank directly affects the operation cost of the bank. If the business scope is single, the profit of the bank is the interest rate difference between deposit and loan minus the operating cost. Once the operating cost drops, the profit of the bank will increase correspondingly. Therefore, the operation and management level of the bank is very important. On the other hand, the proportion of default loans in Lao commercial Banks is relatively high, which reflects the low internal management level of Lao Banks, resulting in relatively low marginal return rate of bank loans.

2.4 Narrow range of intermediate banking activities

The narrow scope of intermediary business is one of the problems of Lao commercial Banks. At present, the income from the bank's intermediary business accounts for a relatively small proportion of the income of Lao commercial Banks. The government of Laos encouraged commercial Banks to carry out other intermediary services, but the results were not satisfactory. The reason is that most commercial Banks in Laos do not have the experience to carry out these businesses and are afraid to let go of the profitable business and try the intermediate business. This short-sighted approach will not help the Lao commercial Banks go much further by not developing diversified lending businesses, or new businesses such as insurance, and sticking to traditional deposit and loan businesses. On the contrary, it will reduce the market competitiveness of Lao commercial Banks, and eventually lose competitiveness in the competition of international Banks.

2.5 Imperfect financial legal environment

In the course of operation, all state organizations must have certain laws to guarantee their operation. If the legal environment is bad, then the interest rate differentials for the country's Banks are bigger. Because if there is no national legislation to penalize credit default, the country's credit default will become very serious; If there is no sound mechanism for corporate bankruptcy, the bank's loan risk

will not be guaranteed. In this case, the bank will inevitably charge the borrower a higher interest rate to prevent the higher risk.

At present, there are still many imperfections in the relevant laws and regulations issued by the national legal institutions of Laos. In terms of loans, there is no default system to protect the interests of Banks, which increases the risk of bank lending. Moreover, the main legal guarantee system for the intermediary business of the bank has not been established, which makes the intermediary business of the bank unable to be effectively carried out. For example, in the online banking transaction system in Laos, only the bank's approval and access system is limited and no obligation on the bank, and there is no law to ensure electronic authentication and fund transfer. Therefore, there is a huge risk in Lao commercial Banks rashly developing intermediate business.

3. Measures to promote the rationalization of deposit and loan interest rates of commercial Banks in Laos

3.1 Improving the government mechanism for setting interest rates

For a long time, the Lao national bank has strictly controlled the deposit and loan interest rates, and the banking supervision department has intervened in the interest rate difference between the deposit and loan rates. By doing so, the local Banks can be protected from the macro level of the country, which is conducive to regulating the order of competition in the financial market. However, the disadvantage is that the pricing power of the Banks is limited, which is not conducive to the Banks' integration into the marketization competition. This is a huge blow to the Lao commercial Banks, which are expected to engage in full competition in the future.

The bank finance marketization, the capital cost, the management cost, the risk premium and the profit demand four aspects constitute the commercial bank's main influence link. We should transform the governance mode of commercial Banks into the form of corporate governance, improve the management efficiency, constantly improve the internal technical support of Banks, and deepen the banking business reform. In the process of reform, the cost, risk and profit of various businesses should be rationally planned to further improve the pricing ability of Banks and help them to integrate into the market under the market-oriented reform quickly.

3.2 Transforming the banking operating system

The management system often determines the way the industry develops and, to a certain extent, the direction of the industry's development. The operating system needs to be constantly adjusted according to the operating objectives, but cannot be static. From the perspective of commercial Banks, it should be an important direction for the reform of commercial Banks to appropriately change the management system and adapt the management system to the development direction of market economy.

Lao commercial Banks should carry out business upgrading and transformation, change the single mode of profit growth, find new profit growth points, improve the bank's innovation capacity and enhance the core competitiveness of Lao commercial Banks. Only in this way can we adapt to the changing trend of The Times. In order to adapt to the financial internationalization, Lao commercial bank needs to improve and update its own business. Therefore, on the basis of the traditional deposit and loan business, we should develop a new business system and make a reasonable transformation of the business system. Therefore, the business model of commercial Banks is gradually integrated and the business system is gradually standardized.

3.3 Improving the scientific management level of commercial Banks

Before the commercial bank of Laos integrates into the market reform, it needs the continuous scientific and standardized management to stand firm in the fierce market competition. The management of commercial Banks should constantly strengthen their own learning, learn from the advanced and scientific management methods of foreign countries, and constantly carry out internal incentives. Banks should introduce advanced management systems and focus on systematic

management instead of human management. By optimizing the internal management structure and enhancing the core competitiveness, the bank's innovation capacity will be strengthened further.

In addition, Lao commercial Banks need to establish a sense of competition at home and abroad. Due to the long-term lack of vitality in Lao society and economy and the fierce competition between domestic and foreign commercial Banks, Lao commercial Banks should make full use of modern new technologies and new methods to realize centralized data processing, business electronic office and intelligent decision-making in the future. By establishing a risk management and evaluation system, improving the decision-making system and improving their ability to resist risks, the Lao commercial Banks will narrow the gap between their management level and the profitability of foreign Banks.

3.4 Expanding bank intermediary business actively

At present, Lao commercial Banks still lack high-level services in information, technology, products and talents. Moreover, from the perspective of the intermediate business scope determined by the Lao commercial bank law, most of them are low-risk business except the guarantee commitment business and the financial products transaction business. In addition, Lao commercial Banks lack capabilities as cash management, project financing, syndicated loans, mergers and acquisitions, private banking, asset management, asset custody and platform integration.

In the future, Lao commercial Banks, hoping to maintain growth through traditional spread income, need to give up the illusion. Fund custody, asset management, agent sales and intermediary business of investment banking should be the future efforts of Lao commercial Banks. With the continuous improvement of Laos' economic development level and the upgrading of Lao people's personal consumption capacity and consumption structure, the business of commercial Banks will also welcome great opportunities. At this time, new businesses can be launched and carried out based on accurate positioning of customer needs, so as to continuously obtain customer resources and realize the expansion of the bank's intermediary business. When doing Large business segment, we should constantly adjust the business structure. For example, the proportion of commercial Banks in the income of securities, bonds and financial products has to be constantly expanded, and the scope of value-added services has to be expanded.

3.5 Establishing and improving financial policies and regulations

To achieve substantial improvement and long-term development, it is not enough to rely solely on the improvement of internal management, the innovation and perfection of financial products, or the continuous scientific development of the system. It also needs the strong support of the policies of the Lao government. But the government is unlikely to be perfect, and Laos will need to rely on market forces to bring about a radical banking revolution.

In accordance with the development requirements of the market economy system, Laos has introduced a series of laws and regulations related to Banks in recent years and implemented them as scheduled. However, due to the lack of awareness of law popularization among the Lao people and the absence of effective risk management mechanism in the financial market, bank lending risks still exist. Therefore, the new law must effectively protect the rights and interests of Lao deposit and loan customers as well as the basic interests of Lao commercial Banks. We should actively create a legal environment conducive to the development of the financial market, fill the legal gap in the financial field, improve the feedback mechanism of the financial market, and strengthen the institutionalization of financial management. By strengthening the feasibility of policies and regulations and making efforts to improve laws and regulations on financial markets, the constraint and authority of financial market management will be strengthened.

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