



International Finance

Research project

Banking system in Vietnam

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Main discussion points

1. Overview of Vietnam economics
2. Banking system in Vietnam
3. Credit Reporting
4. Weakness, Threats and Recommendation



Vietnam economic integration

- Vietnam joined the WTO in January 2007.
- The Vietnamese government has shown the strong commitment to the global economic integration.
- Facing negative impact of the decline of the world economy together with the natural disasters and epidemic diseases in the country, but Vietnam has reached many encouraging achievements.



Economics achievement

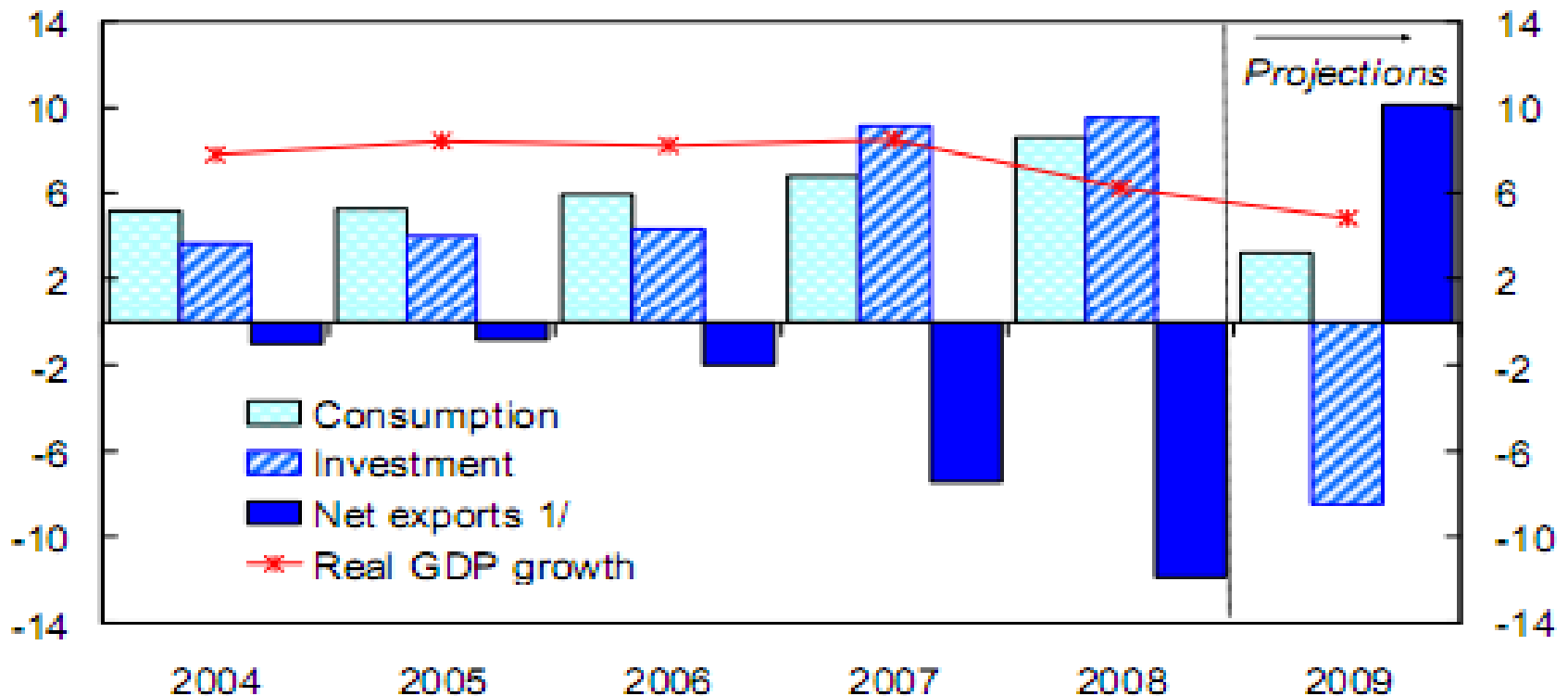
- A sustainable growth rate of approximately 8% for over 15 years shows great progress.
- GDP growth rate in 2007 (8.5%) was the highest figure during 11 recent years and ranked at the third position behind China & India in Asia. In 2008 the rate is 6.23%
- Export turnover: 2007 = 47.7 billion USD; 2008 = 62.9 bil
- FDI in 2007 was 20,3 billion USD and the estimation of FDI volume in 2008 is 60,271 USD billion. Jan-April 09: US\$6,35 billion (down 17% in compare to 08)
- Indirect investment from stock market was 5 billion USD;
- Budget deficit was 5% GDP in 2007
- Foreign currency reserves were 20 billion USD
- Above achievements are optimistic signal for Vietnam to be moved out from the list of poor countries in 2008 (actual GDP per capita is >1000 USD as of 15 Oct 2008).



Contribution to GDP growth

Vietnam: Contribution to GDP Growth by Expenditure, 2004–09

(In percent)



Sources: Vietnam, General Statistics Office; and IMF staff estimates.

1/ Includes contribution from statistical discrepancy.

Economics Indicators

(USD billions)	2004	2005	2006	2007	2008	2009 (f)
Economic growth (%)	7,8	8,4	8,2	8,5	6,2	5
Inflation (%)	7,7	8,3	7,5	8,3	24	12
Public sector balance (%GDP)	-3,3	-4,1	-2,9	-5,4	-4,8	-8
Exports	26,5	32,4	39,8	48,6	62	50
Imports	28,8	34,9	42,6	58,9	76,6	55
Trade balance	-2,3	-2,4	-2,8	-10,3	-14,6	-5
Current account balance	-0,9	-0,5	-0,2	-7	-11,5	-7,6
Current account balance (%GDP)	-2,00%	-1,00%	-0,30%	-9,80%	-13,60%	-8,10%
Foreign debt (%GDP)	39,6	36,3	33,2	30,7	27,4	23,6
Debt service (%Exports)	5,30%	5,20%	4,80%	4,70%	4,70%	6,00%
Foreign currency reserves (in months of imports)	2,2	2,5	3,2	4	2,9	4,4

Source: SBV & Professor MH Bouchet

Vietnam has emerged in recent years as one of the world's most attractive new investment destinations

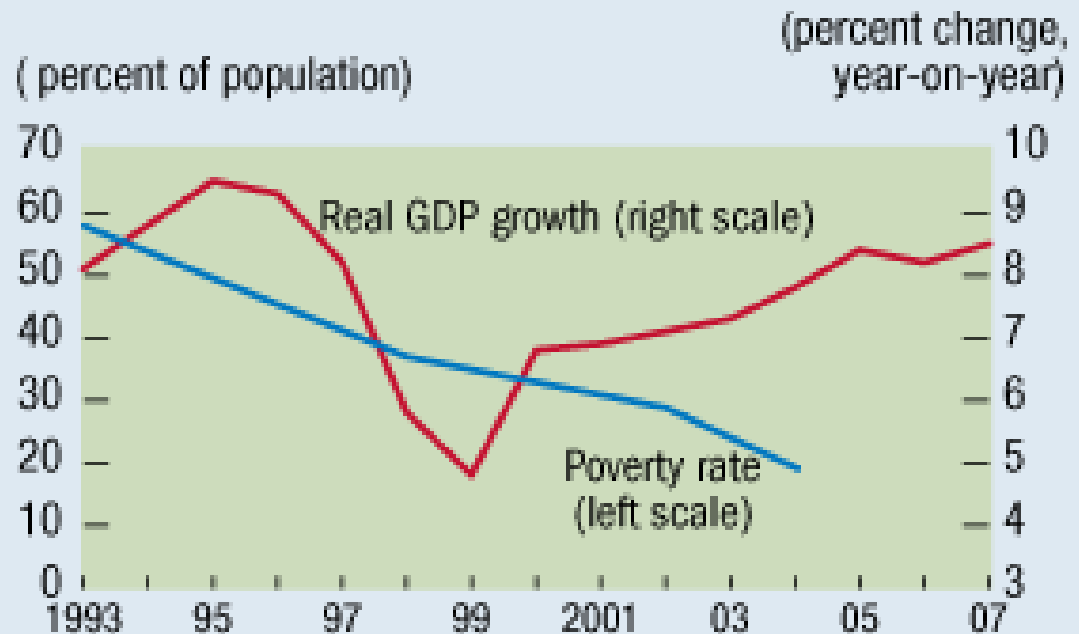
The country's 2007 accession to the World Trade Organization (WTO) and a surge of new foreign direct investment and portfolio inflows, highlight an impressive course of economic reform, particularly in trade and investment liberalization.

These reforms have led to strong economic performance an average 7.5 percent annual growth over the past decade, one of the fastest rates in Asia (see chart 1).

Chart 1

Improving living standards

Vietnam's poverty rate has fallen dramatically because of strong growth.



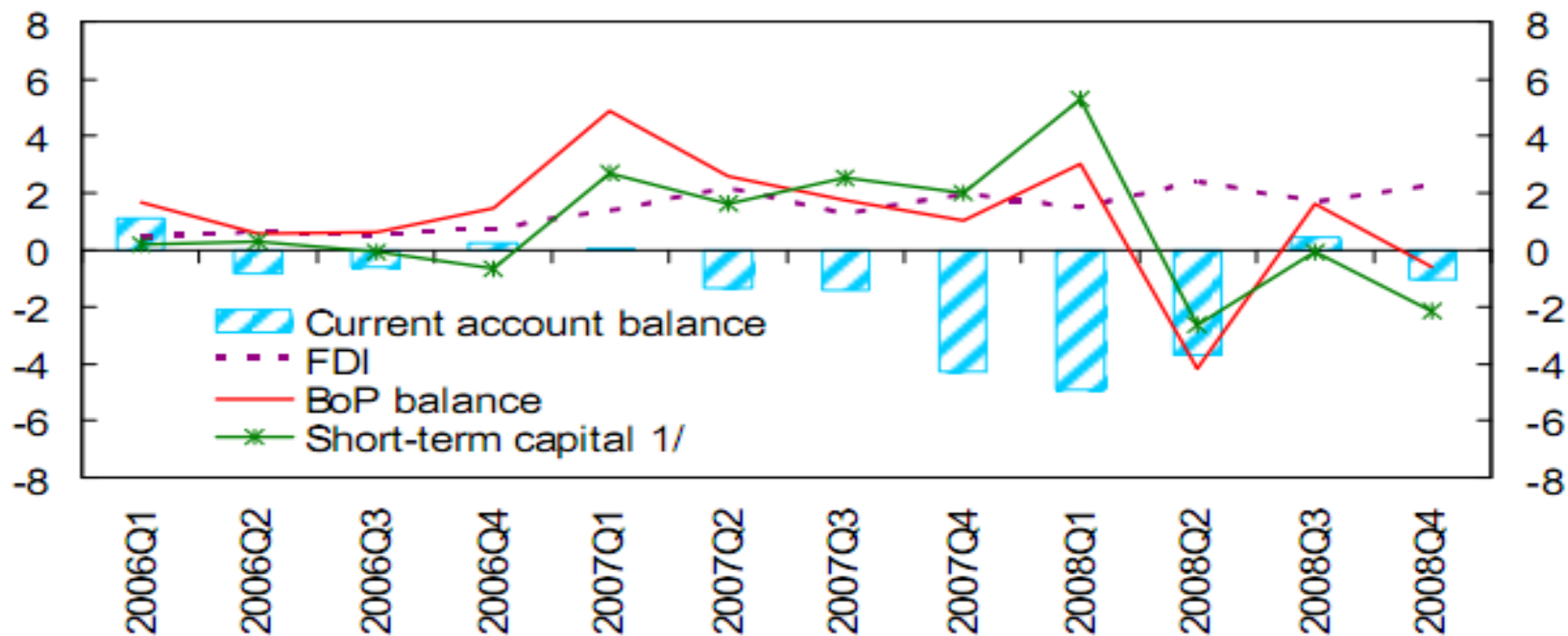
Sources: Vietnam, General Statistics Office; CEIC Data Company.



VN Current Account & Financing sources

Vietnam: Current Account and Financing Sources, 2006–08

(In billions of U.S. dollars)



Sources: IMF, *International Financial Statistics*; State Bank of Vietnam; and IMF staff estimates.

1/ Short-term capital inflows include portfolio investments.



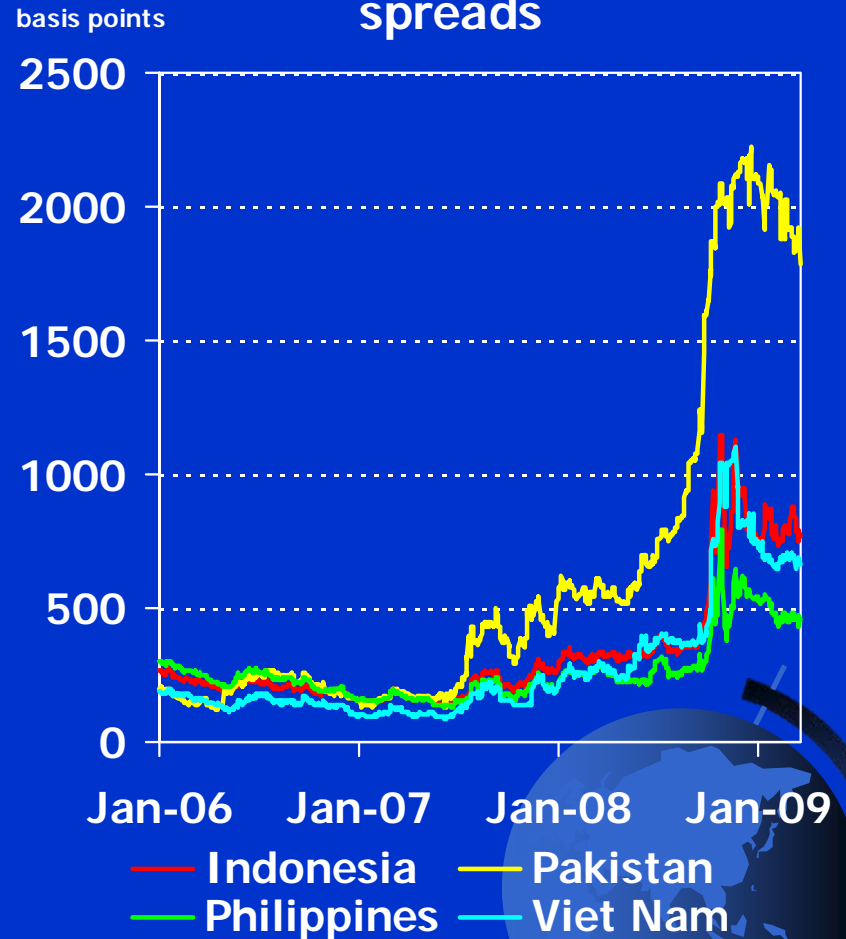


... but there are concerns

Equity prices



JPMorgan EMBI stripped
spreads



Source: ADB

Vietnam Banking System-Number of banks

- 06 state owned commercial banks: Vietcombank, Vietinbank, Agribank, BIDV, MHB,
- 37 joint stock commercial banks: Eximbank, ACB, Sacombank, VP, VIB,
- 37 foreign bank's branches
- 05 joint venture banks
- 17 finance companies: Vietnam PPF, Pru Finance, Mineral & Coal, SG, PTFC, Rubber, Textile, VN Ship Building, Handico, GE Money, Toyota VN finance, Song Da, Cement, EVN Finance, PVFC, Vinaconex-Viettel, Chemical.
- 13 financial leasing companies: ANZ-Vtrac, Agribank1, Agribank2, BIDV, KVLC, LC&IndCom, VCB leasing, Sacombank leasing, BIDV financial leasing, Chailease International Financial leasing, VILC, Vinashin, ACB.
- 926 People's credit funds (micro finances):
- 54 representative offices of foreign Banks.
- 04 Foreign banks: HSBC, SC, ANZ, Hong Leong (Malaysia)

UNITS	FUNCTIONS
Credit Department	Advise the SBV Governor on conducting state management of credit operations and managing monetary market in accordance with law.
Accounting and Finance Department	Advise the SBV Governor on conducting state management of accounting, investment on construction and exercising the owner's rights of the State's capital contribution at the enterprises in banking industry in accordance with the law; Assist the Governor in instructing and organizing the implementation of accounting, financial management and management of the SBV's properties.
Personnel Department	Advise the SBV Governor and the Party's Civil Affairs Committee on institutional organization, personnel, employees' salary and training of the SBV and the banking industry in accordance with law.
Legal Department	Advise the SBV Governor on conducting state legal management of the banking system; conduct the development of legal documents, appraise, review and systemize legal documents; advise the Governor on legal aspects in implementing the functions of the central bank; disseminate, train and examine the implementation of legal documents in the banking industry.
Emulation and Rewarding Department	Assist the SBV Governor in implementing state management functions on emulation and rewarding in accordance with law.
Banking Supervision	Conduct professional supervision and advise the SBV Governor on implementing the powers and responsibilities of supervision in the areas subject to the management of SBV in accordance with law.
SBV Office	Advise and assist the SBV Governor in coordinating activities in the line with working schedule and plan; advise the Governor on conducting management of press, archive, and emulation activities of the banking system and implement administrative work for operations of the SBV Headquarters.

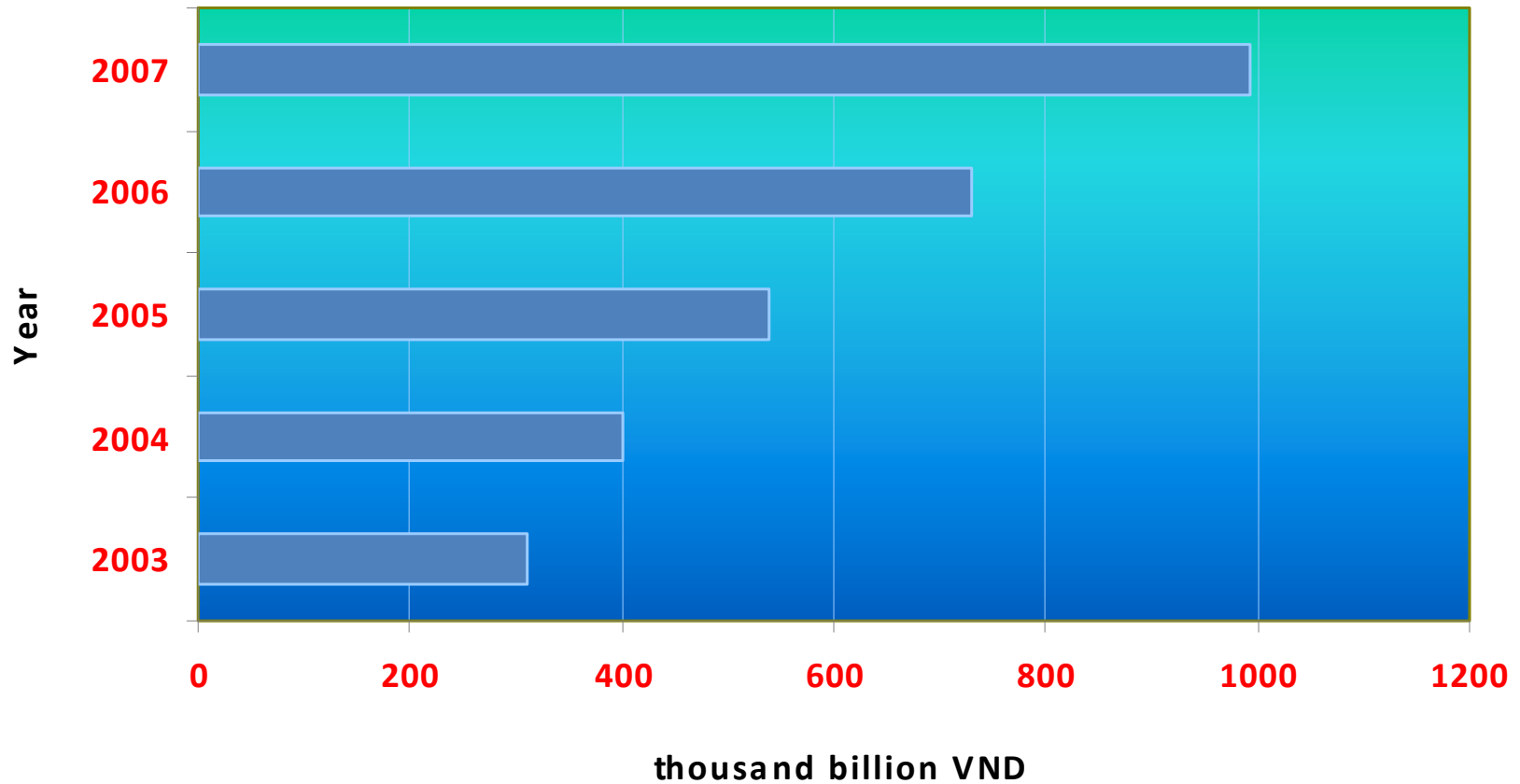
VN Banking – Legal status

- Vietnamese banks, branches of foreign banks, financial institutions as well as credit funds are operating under the Vietnamese law and are equally treated by the law.
- Commercial banks have the right to control over their own financial matters, bear responsibilities for their own business results.
- Deposits by the public are insured..
- % Foreign shareholding
 - ◆ Total < 30% of chartered capital for SOCBs
 - ◆ Total < 30% of chartered capital JSBs
 - ◆ Not more than 50% of chartered capital for JVBs
- Capital adequacy ratio (CAR)
 - ◆ 8% the same as international standard (Basel)
- Credit Risk Compliance (CAMEL, BASEL): Required according to the regulation No 457/2005/QD-NHNN dated 19/04/2005 on prudential ratios on operation of credit institution
- Treasury:
 - ◆ All are subject to the same regulation
 - ◆ Circular 03/2008/QD-NHNN dated 11/04/2008 on treasury services offered by credit institution.
 - ◆ Under this regulation, banks which are subject to some conditions and permitted by SBV could conduct treasury activities



VN Banking system - figures

Capital Mobilization



Source: SBV March 2008

Introduction of Financial Safety Net in 07

Financial Safety Net



Ministry of
Finance

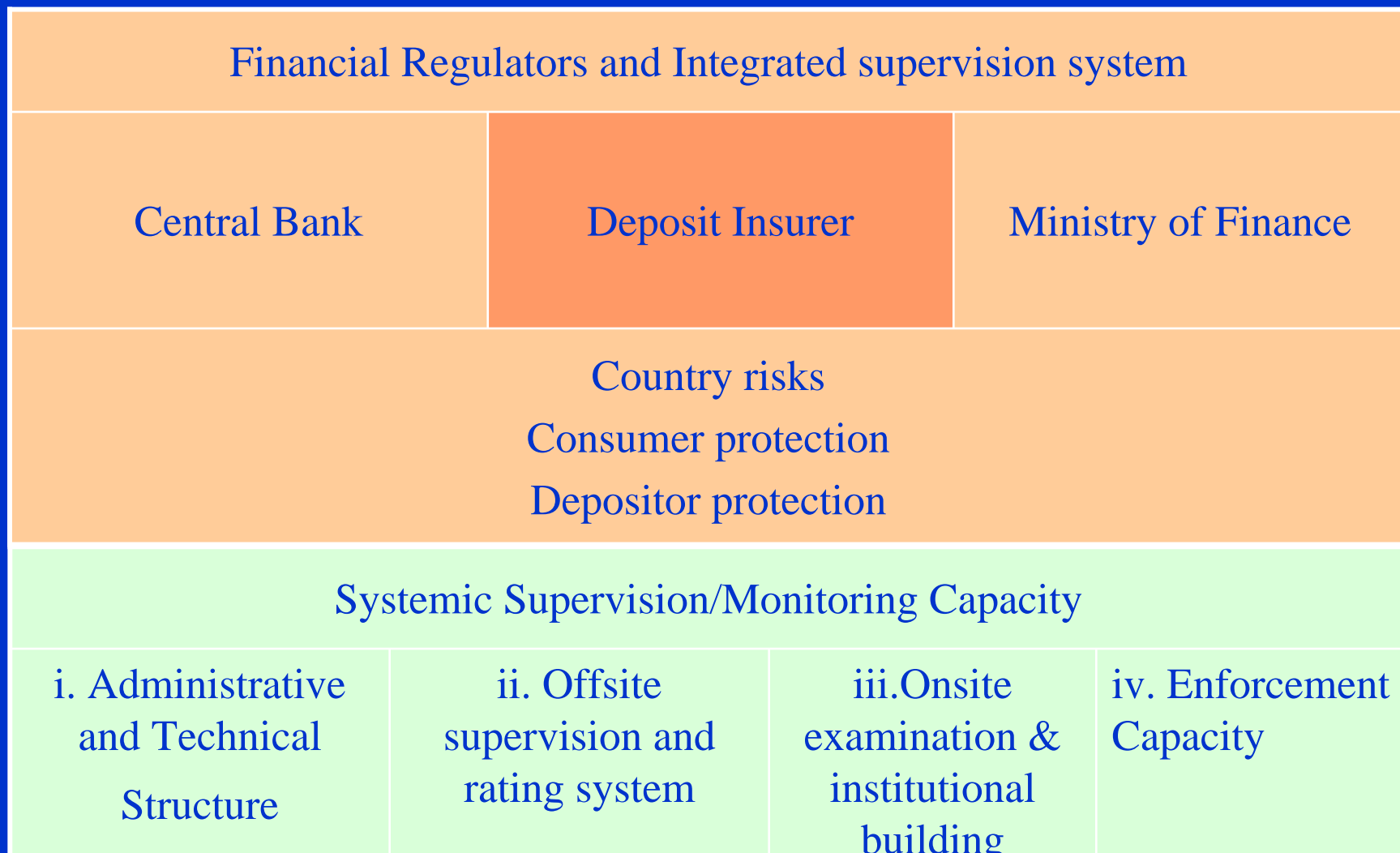
Deposit
Insurer

Central
Bank

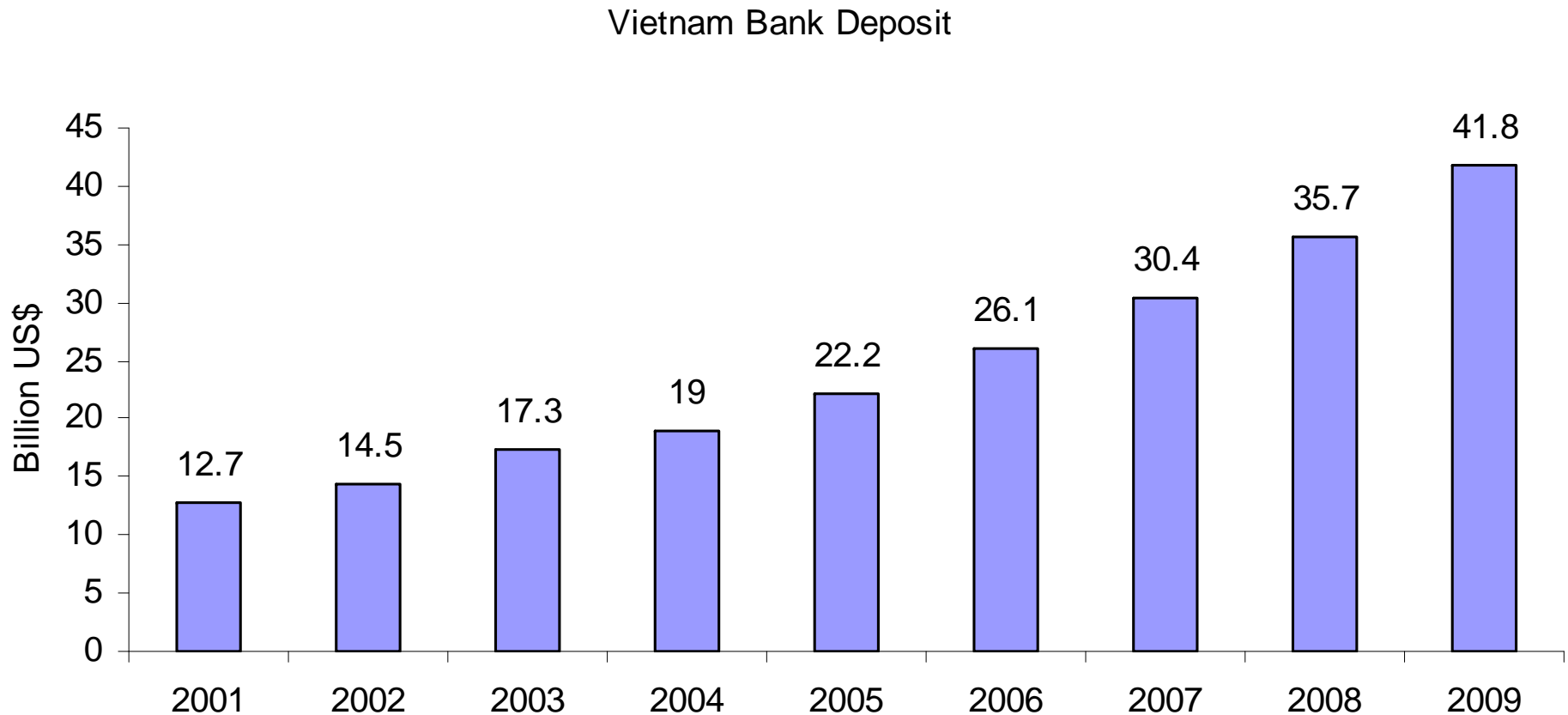
Other
supervisory
Agencies

Firm legal foundation, clear division of roles and responsibilities and effective coordination mechanism

Coordination between the participants of the Financial Safety Net



Deposits is increasing



The rule of SBV in driving economics

Monetary tightening leads to liquidity crunch

- The SBV increased the reserve requirement by 100bps to 11% and raised the discount, refinancing and base lending rates by 150bps, 100bps and 50bps, respectively, to 6%, 7.5%, and 8.75% → interbank overnight rates rose as high as 40% at the height of the liquidity crisis
- The SBV announced its decision to require banks to buy VND20.3bn worth of treasury bills by 17 March

By approving for establishing of 21 joint stock banks → help the SBV control credit growth and curb inflation, particularly without a proper regulatory system in place

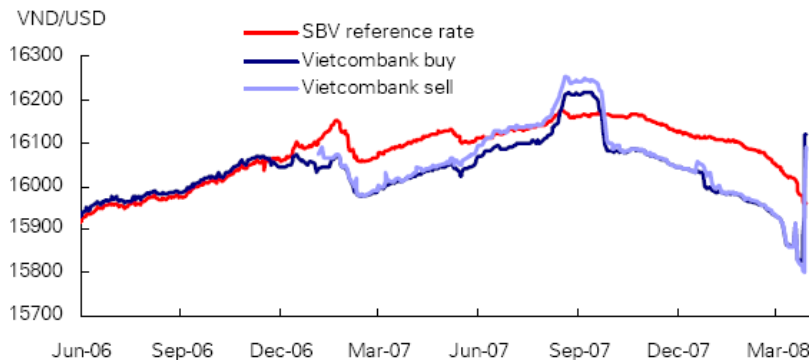
Controlling the inflation

- SBV widened the FX trading band to +/-1.0% from +/- 0.75% to fight inflation → widen the trading band to try to reduce the need for the SBV's intervention in the FX market, thereby easing the burden of sterilization.
- Higher interest rate: On May 18th 2008, SBV remove the deposit rate cap of 12% which allow commercial banks to lift deposit and lending rate up to 18% (150% of prime rate) → this help to reduce the gap between nominal interest rate and inflation rate, attract more deposit and ease the liquidity pressure.

Credit control: strict monitoring on credit quality, tighten loans for stock trading, property investment and consumer finance

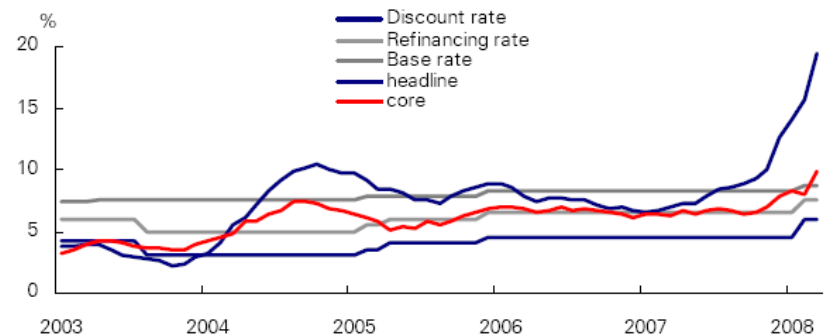
Exchange rate: maintain a downward crawl against the USD, slow down the depreciation pace

Figure 5: Rising divergence in VND reference rate and market rate



Source: CEIC, Deutsche Bank

Figure 4: Monetary tightening



Source: CEIC, Deutsche Bank

Credit Information Center (CIC) of the SBV – History of establishment

- After the collapse of many people's credit cooperatives in early 1990s, Credit Information Center (CIC) of the SBV was established as a part of the Credit Department of the State Bank of Vietnam (SBV) in 1992
- Became an independent unit of the SBV in 1999 under the Decision No. 162/1999/QD-NHNN9 dated May 8, 1999 of the SBV



Functions of CIC

Collect, analyze, forecast, process and provide the following information to other departments of the SBV, Credit Institutions, foreign and domestic organizations and individuals:

- Information on borrowers
- Information relating to monetary and banking operations



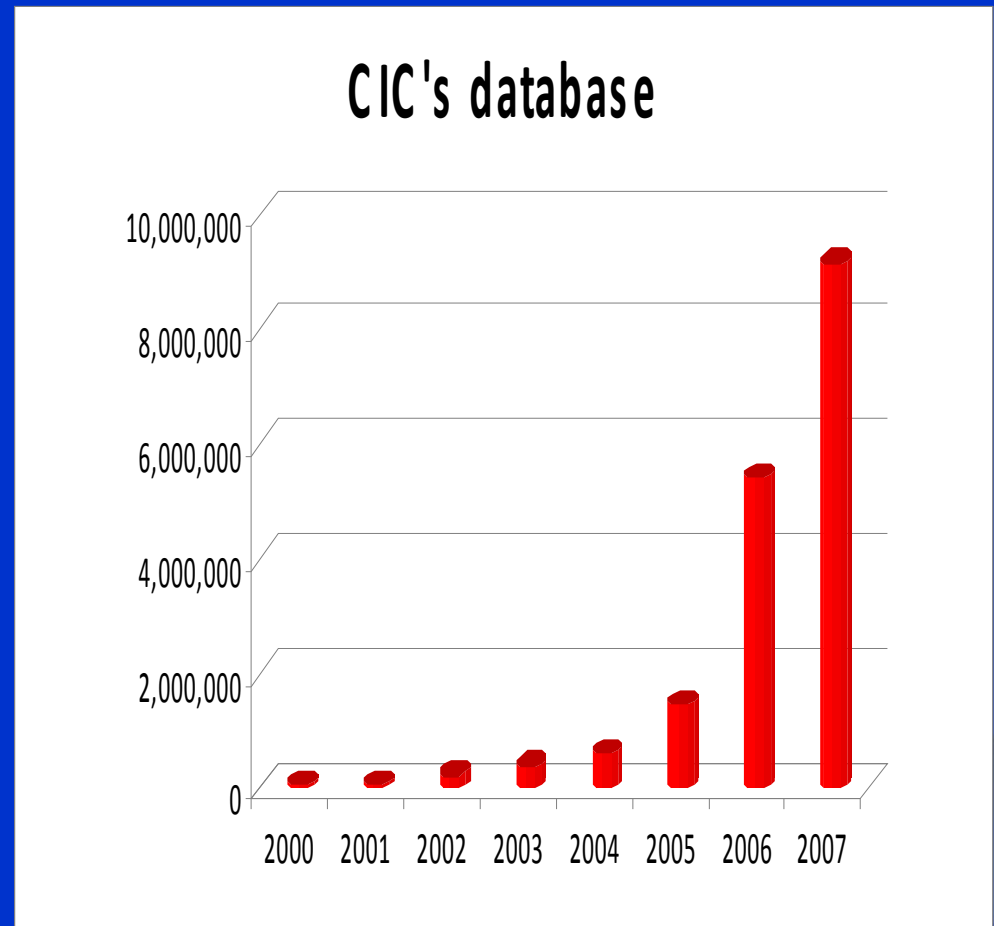
CIC's Operational Capacity

- CIC has 6 operational departments, with 15 years of operation, about 90 staffs hold graduate and post – graduate degree and have been trained in banking information activities.
- The system is modern, state of art: the database is expanding and diversifying, the operational processes are being improved.
- The reputation and product quality of CIC is appreciated and trusted by domestic and foreign credit institutions, other organizations and individuals.
- CIC is active in applying modern technology, can make its own decisions in terms of finance, staffing and sources of information.



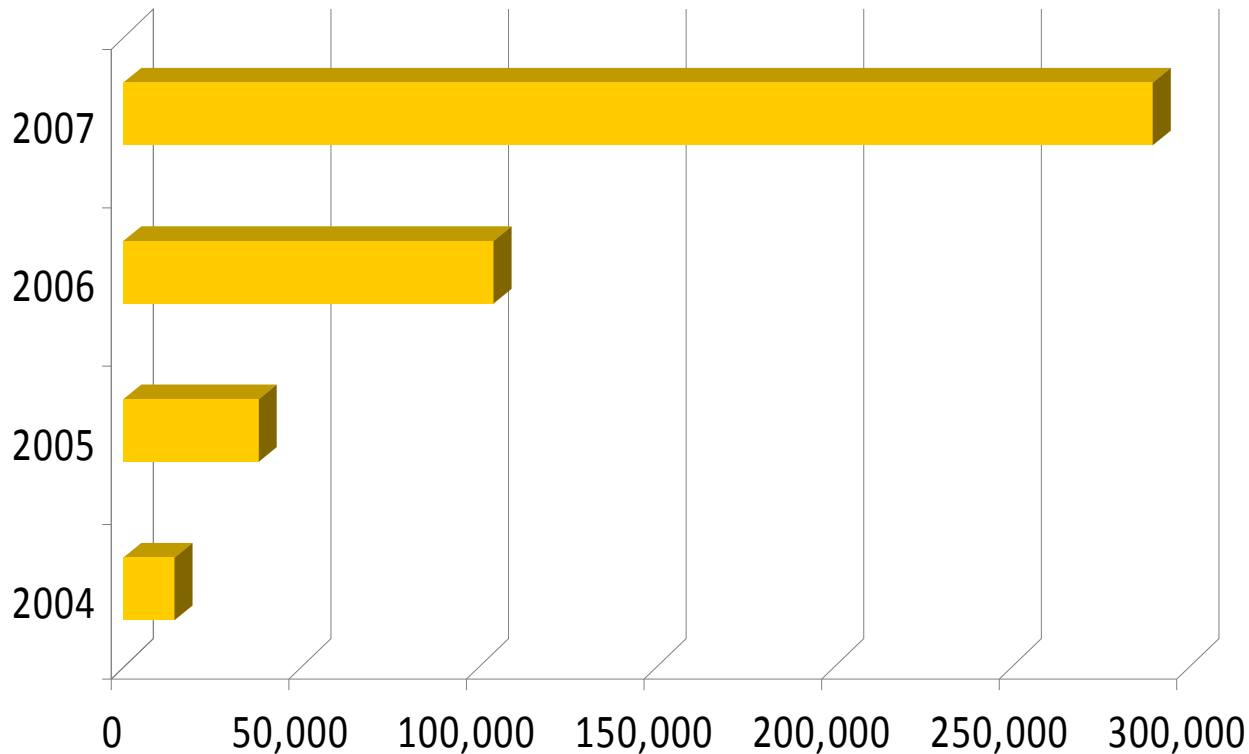
CIC's Database

Year	Borrowers (both businesses and individuals)
2000	52,083
2001	84,000
2002	220,458
2003	391,911
2004	608,894
2005	1,474,251
2006	5,443,663
2007	9,164,526



Growth of credit reports provided to Credit Institutions

Credit Reports



Exchange Information Activities

- Grant credit information system code to over 2,000 credit institutions/branches
- Provide user names and passwords to access CIC website to over 6,000 users of credit institutions
- Sign over 1,000 information provision contracts with credit institutions and other institutions.
- Exchange information with many international credit information organizations (Dun & Bradstreet, AOL,...)
- Cooperate with other domestic/foreign information and technology organizations.



CIC – Ranking level

- “*Getting credit*” indicator of Vietnam: 43/181 in Doing Business 2009, 48/171 in Doing Business 2008 and 83/175 in Doing Business 2007
- CIC’s products are highly appreciated by SBV & credit institutions



Private Credit Bureau (PCB) – The need to be set up

- Only 1 credit information center exists
- The number of credit provided to SMEs and individuals is rapidly increasing (20 million out of 85 million Vietnam population are holding loans)
- The number of credit card holders now is increasing
- The need to improve credit accessibilities of SMEs and individuals
- The need to control and minimize risks for banks' credit activities
- The need to join global integration process



Foundation to set up Private Credit Bureau in Vietnam

- *IFC's Recommendations to set up the first Private Credit Bureau in Vietnam*
- *SBV support*
- *This work is progressing*



IFC Technical Assistance to develop the first Private Credit Bureau in Vietnam

- Develop a legal framework on private credit bureau in Vietnam – To review existing legal regulations on the credit information then provide technical assistance to build a decree governing operation of the first private credit bureau in Vietnam
- Building partnership – Seek interest from potential international credit bureaus and commitment from the banking community



Increasing vulnerability

While Vietnam's recent economic performance has rightly drawn much praise, there are increasing signs that the economy is overheating, threatening sustained economic growth over the medium term.

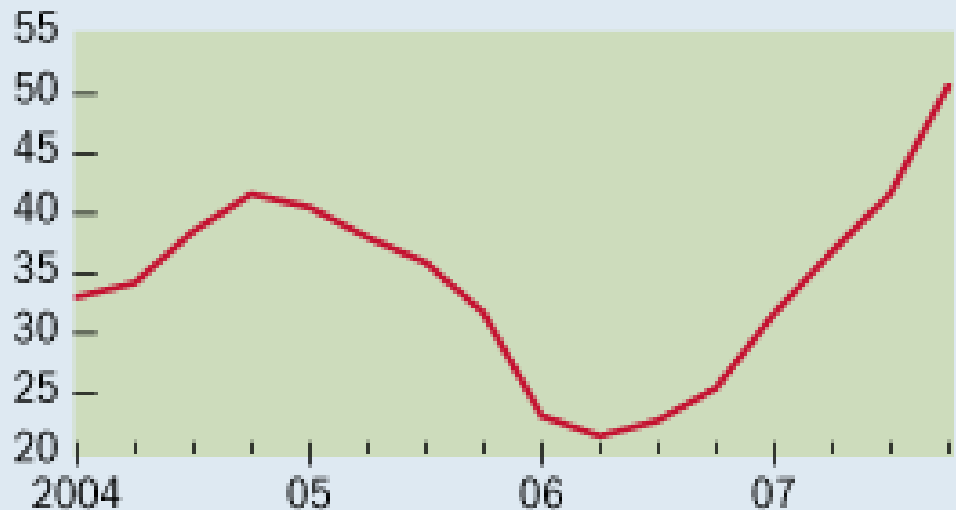
Increasing domestic and external imbalances are a major concern. Credit growth has risen to about 50 percent (see Chart 2), contributing to a rise in inflation, which exceeded 20 percent in January 2008.

Chart 2

Warming up

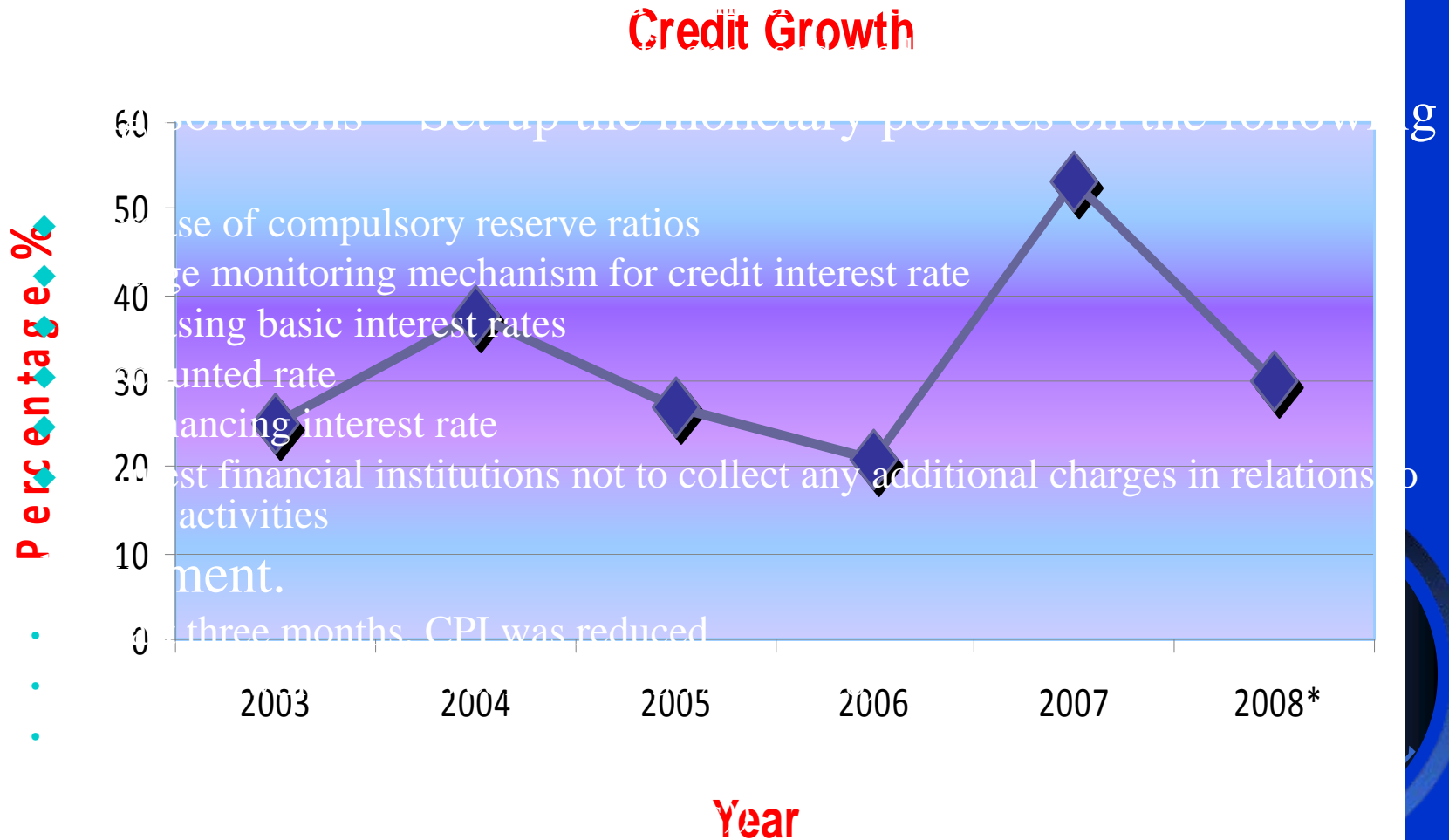
Vietnam's domestic credit outstanding has risen very sharply since 2006.

(percent change, year-on-year)



Sources: State Bank of Vietnam.

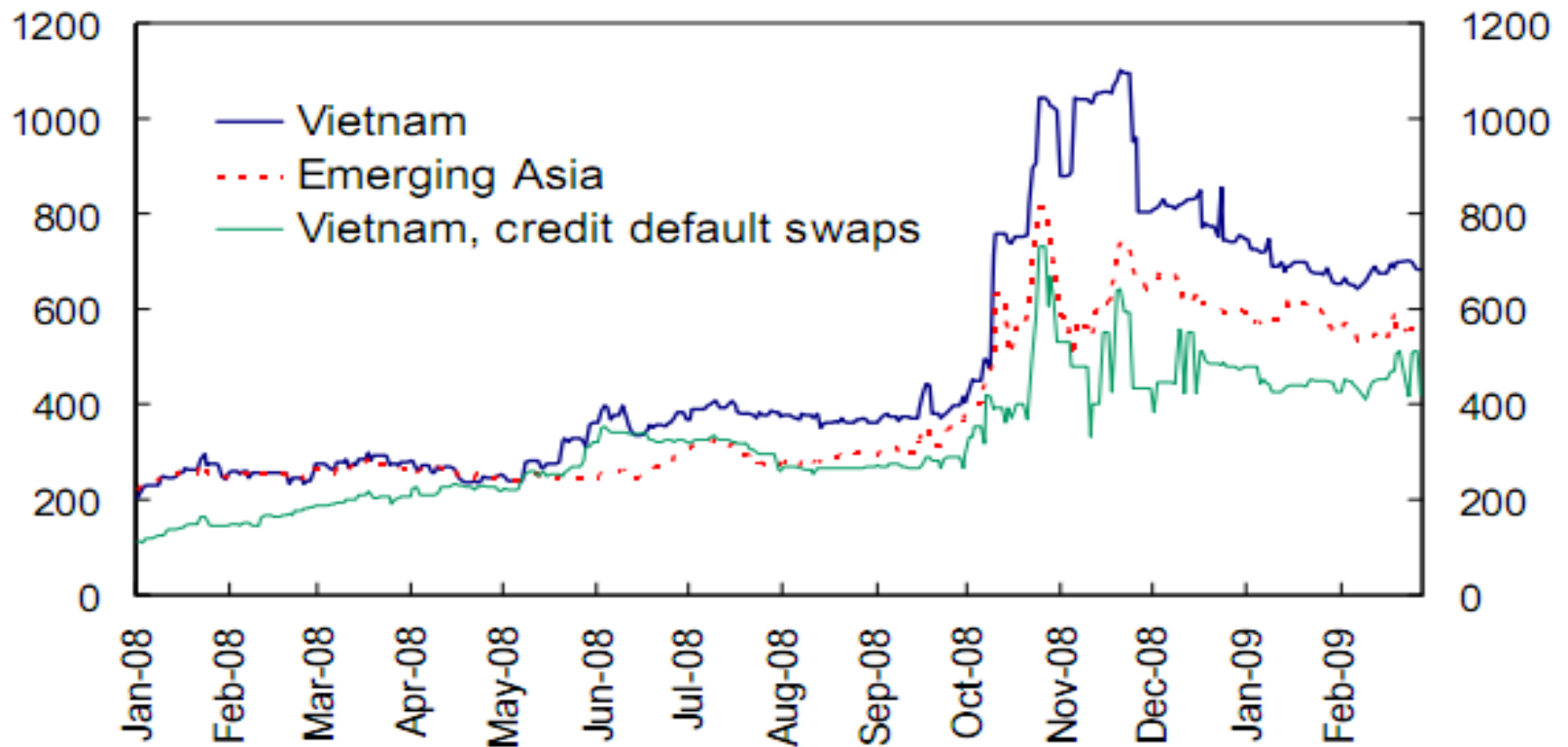
Vietnam Banking System – Difficulties, solving solutions and achievements



Vietnam Bond Spreads 08-09

Vietnam: Sovereign Bond Spreads, 2008–09

(In basis points)



Source: Bloomberg LP.

Threats for Vietnam banking

Financial risk

Current account deficit: Sharp widening of the trade deficit (external current account deficit is about 10 percent of GDP in 2007 and that its financing shifted toward capital flows other than foreign direct investment and aid flows) and right now the Deficit is around 9 % of

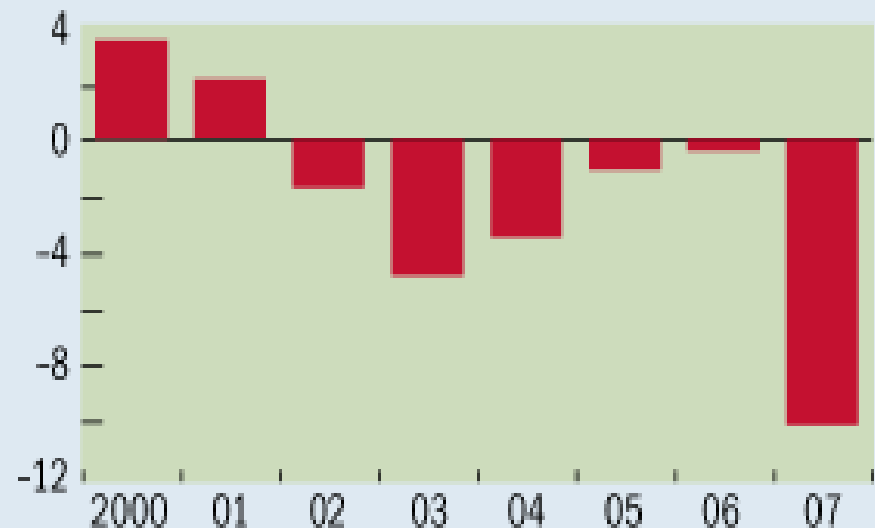
GDP

Chart 3

Widening gap

Vietnam's current account deficit widened to more than 10 percent of GDP last year.

(percent of GDP)



Sources: State Bank of Vietnam.

Vietnam Banking Sector - Threats

Threats from joining WTO

- 04 foreign owned Banks now.
- High credit risk, small scale in asset and equity, less competitiveness, weak management → Bankruptcy
- Challenging from maintaining market share and expand internationally
- Inadequate and inefficient law system
- Growing competitive pressure in domestic market for banking



Vietnam Banking Sector - Weakness

- Weakness of Banking system:

Poor performance for Vietnamese banks

- Low competitiveness
- Weak finance resources
- Small scale
- Low quality and efficiency
- Low professional management skills
- Low technology

Poor risk management

- Problem of bad loans
- Poor credit appraisal skill of staff and loan monitor system



Recommendations

- ☞ Completing legal framework for banking (include law on state bank and credit institution to be in line with the socio-economic development, strategy for banking system development, develop and effectively operate the money market)
- ☞ Strengthening the safe and efficient banking system in Vietnam
 - Financial restructuring: more chartered capital required for commercial banks
 - Banking supervision and inspection restructuring:
 - Expansion plan, technology modernization, competitiveness improving
 - Following international standards in risk management, asset and liability management, capital management, modern credit system and credit manual based on international standard (Basel II)



Thank you

