



ZEROING IN ON A NEW LANDSCAPE FOR CREDIT INSTITUTIONS IN VIETNAM



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1. CURRENT STATUS OF THE CI SYSTEM

❖ Achievements of the current CI system

- Development of the system: at present, there are 130 CIs & 9665 branches and transaction offices in the whole country
- The total assets of the entire system is 22 times as large as those in the year 2000 at 4,496,507 billion dong; the banking sector has grown at an average rate of 30% during the period of 2000 – 2010.
- The owners equity of CIs has increased 36 times compared to the year 2000, amounting to 378,630 billion dong.
- System management, corporate governance and risk management of CIs have been improved considerably.

1. CURRENT STATUS OF THE CI SYSTEM

❖ Constraints

- The economy is dependent on the banking sector: The banking sector remains the main capital channel for the economy
 - The ratio of bank deposits/GDP of CIs remains high (106%)
 - The ratio of outstanding loans/GDP is 109.94% while capitalized stock market/GDP is only 34.89%
- Fierce competition:
 - Too many CIs concentrate in big cities, especially Hanoi and Ho Chi Minh City
 - The fund raising market share of the State owned commercial bank category has decreased considerably, accounting for 43.86% of the market share of the entire system
 - The credit market share has changed with a decrease in the shares of State owned commercial banks and finance and finance leasing companies and an expansion of the share of joint stock commercial banks
- Related group risks, cross-risks and connected risks between the real estate market, the stock market and banks imply many system risks.
- Bad debts of the entire system amount to 3.11%, accounting for 19.6% of the equity of the entire industry; group 4 and group 5 debts account for 10.37% of the equity of CIs.

1. CURRENT STATUS OF THE CI SYSTEM

A number of data for the entire industry

CIs (30/06/2011) <i>Unit: Billion dong</i>	Figures reported by CIs on 30 Jun 2011			
	Equity	Total assets	CAR	Bad debt ratio
Entire industry	378,630	4,493,556	11.67%	3.11%
State owned commercial banks	107,820	1,727,810	8.68%	3.58%
<i>% of the entire industry</i>	28.48%	38.45%		
Joint stock commercial banks	174,616	2,074,314	13.50%	2.12%
<i>% of the entire industry</i>	46.12%	46.16%		
Joint venture banks	12,199	51,702	33.55%	3.53%
100% foreign owned banks	17,716	120,630	21.70%	0.86%
Foreign owned bank branches	47,135	342,731		1.36%
Finance companies	21,316	156,619	15.98%	2.03%
Finance leasing companies	-2,174	19,242	-10.92%	45.38%

Source: compiled by the National Financial Supervisory Commission

2. A NUMBER OF MAIN CAUSES

❖ Macro causes

- Unforeseeable changes in macro-economy: unstable world economy, decreased domestic growth, high inflation, tightened monetary policy, high bad debt ratio, difficult liquidity, etc.
- The development orientation of the banking system is improper and not commensurate with the real situation: too hot development compared to internal capacity;
- The supervisory system for CIs and the financial market has not been able to match the scope and speed of development of CIs;

2. A NUMBER OF MAIN CAUSES

❖ **Micro causes**

- Corporate governance is not transparent: complex ownership structure, ownership higher than the ratio provided by law, group connection between banks and enterprises, etc.
- Risk management shows many weaknesses: ineffective internal supervisory system leading to increasing moral risks and operative risks in the CI system;
- Capacity of management staff does not meet the market demand due to the too fast formation and growth of CIs.

3. ZEROING IN ON A NEW LANDSCAPE FOR CREDIT INSTITUTIONS IN VIETNAM

- ❖ **Zeroing in on a new landscape for credit institutions in the new era**
 - Gradual formation of a CI system which is diversified in scale (large, medium, small), diversified in ownership (State owned economy, private economy, mixed economy, foreign invested economy), diversified in the types of services to be provided, target customers and operational space, as well as fields of business permitted to be involved in
 - Creating a CI system operating soundly, effectively, gradually matching international benchmarks and practices, which is highly competitive, focuses on core activities and has diversified revenues with an increasingly high ratio of revenue from service charges
 - Formation of 3 to 5 large scale commercial banks which are multi-functional, safe and effective in their operations; the remaining commercial banks shall operate on a smaller scale;
 - Sustainable development of the capital market, including the bond market;
 - A developed, modern supervisory system for the financial market, especially for bank supervision, which operates on an independent, prudent and strict basis with a sufficient legal framework and commensurate resources.

4. A NUMBER OF BASIC SOLUTIONS

- ❖ **A number of solutions to be implemented in the coming period**
 - To support CIs in finalizing bad debts and cleaning the balance sheet as the basis for sustainable and long term restoration of liquidity
 - To re-develop the strategy for the banking system development to meet the market demand for development and at the same time to meet the management requirement of the State on the following principles:
 - Diversification of structure and types of CIs
 - Licensing operation appropriately by the type of banking service as well as by the geographical scope of operation of CIs
 - Quantification of CIs, especially commercial banks and the CI network as appropriate to each stage of market development
 - Attachment of CI restructuring to the strengthening and development of the banking supervisory system and financial supervision as well as supervision of CI operation security in accordance with regional and international standards

4. A NUMBER OF BASIC SOLUTIONS

- ❖ **A number of solutions to be implemented in the coming period (cont.)**
 - Development of a national financial safety network, strengthening the inspection and supervisory systems, especially the macro supervisory system on the basis of a completed legal framework and increased quantity and quality of supervisory officials
 - Institutional strengthening, development of a safety benchmark system, especially safety relating to cross-risks between the sectors of banking, stock, insurance and real estate.
 - Issuance of a policy system to increase the transparency of CIs, application of standards of public companies to CIs, and promotion of the listing of joint stock commercial banks' shares in the stock market
 - Issuance of standards for international financial reports for uniform application to CIs and affiliate companies, subsidiary companies and companies investing in CIs.
 - Development and implementation of plans for capital market development, improvement of share quality and development of primary and secondary bond markets.
 - Paying attention to the development of new financial products as demanded by the market and economic development on the condition of safety and transparency assurance.



Thank you!

