



Vietnam's Economy in 2012: Restructuring of Finance and Banking System

Presentation for
The Economic Committee of the National Assembly
Da Nang, April 9, 2012

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Roadmap

- Mme Thanh: An Overview of Restructuring the Financial and Monetary System
- Nonperforming Debts at Commercial Banks: Solutions/ Impact Assessment



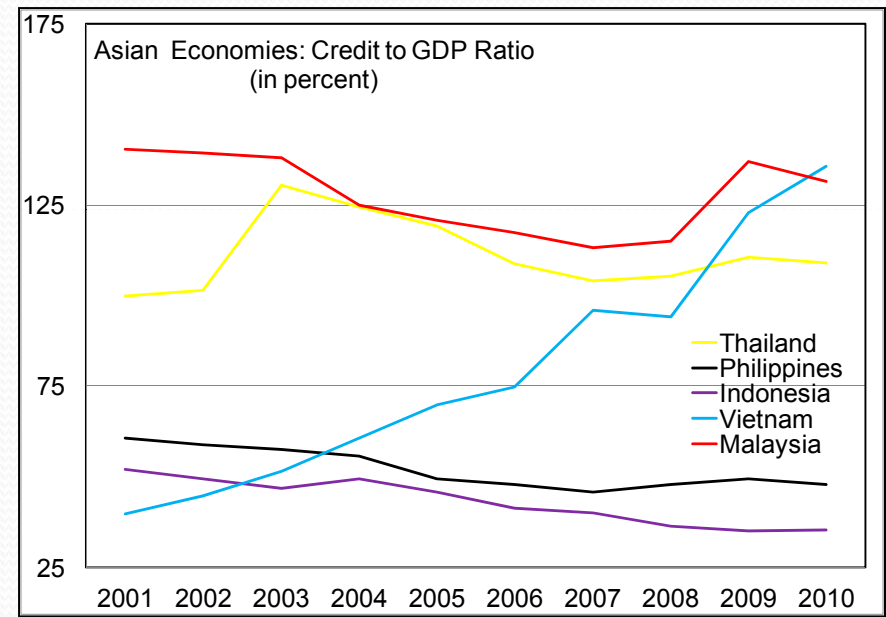
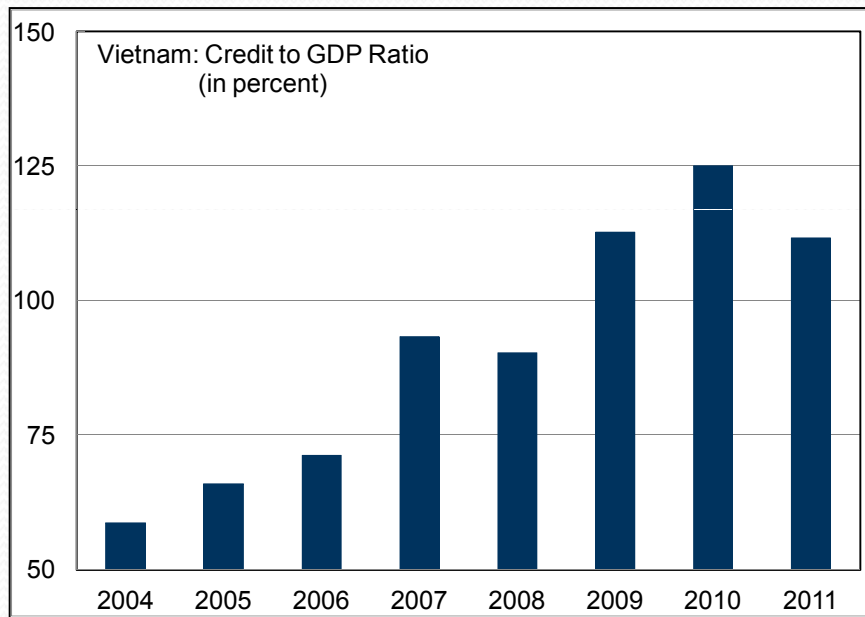
An Overview of Restructuring the Financial and Monetary System

- Overview of the Vietnamese financial system/The necessity of restructuring the financial and monetary system
- Issues in/content of banking system restructuring

Necessity—Short Run

- Why? Why Now?
- Stability, Vulnerability, and Crisis
 - Banking system weaknesses and stress
 - Rapid credit growth, NPLs, low capital adequacy
 - Macro-financial linkages
 - Macroeconomic stability \longleftrightarrow Financial sector stability
 - Monetary policy implementation and weak banks
 - Inflation, expectations, confidence in the dong
 - Dong, dollar, gold, and other assets

Credit Growth in Asian Banking Systems

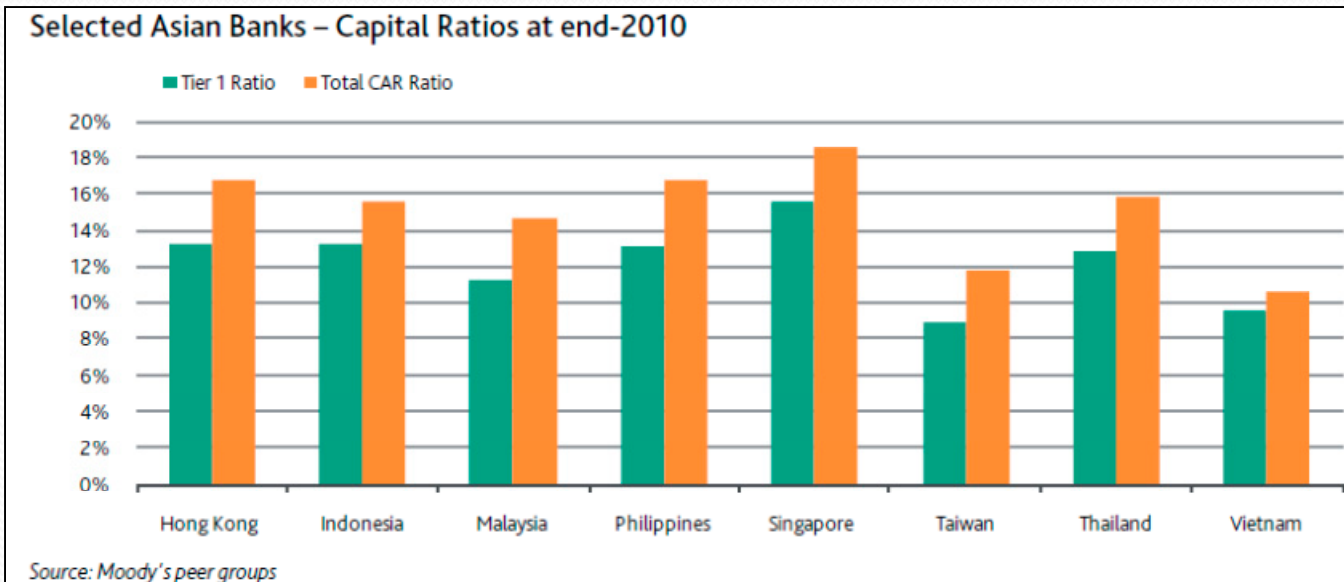
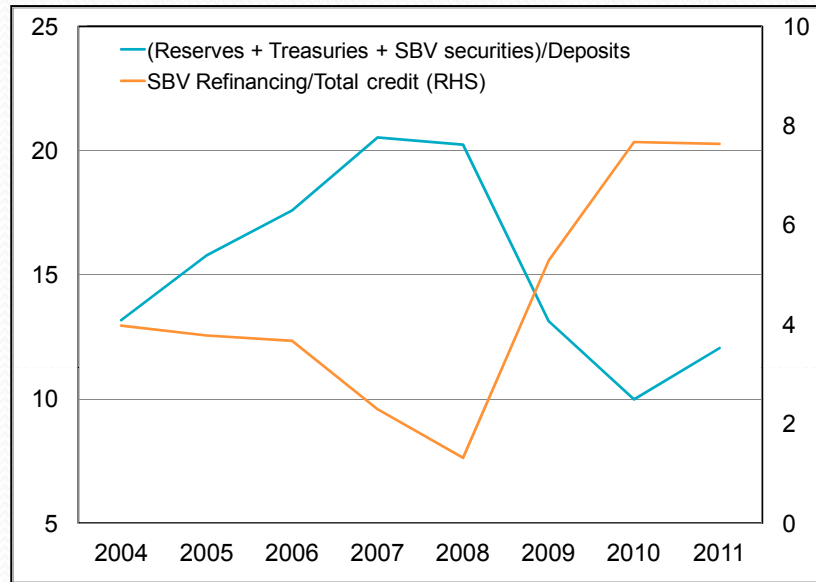




Stressed Financial Sector

- Liquidity problems in weak banks
- Capital adequacy/banks have limited buffers
- Banks' NPLs: low by VAS, but much higher by IAS/IFRS
 - Exposure to Vinashin/financially weak SOEs unknown
 - Risks from noncore/other businesses
 - Finance/leasing companies not well captured
 - No consolidated supervision; limited multi-agency coordination
- Lower growth expectations, SME concerns, declining RE prices
- Nonbank financial sector/policy banks stress (securities companies, finance/leasing companies/VDB and VBSP)

Liquidity Stress and Capital Adequacy





Banking system restructuring

- **Conservatorship/Temporary Administration/“Bridge Bank”:** appointment of manager for bank’s senior executive; goal to reform operations to improve financial health or prepare for sale/merger
- **Purchase and Assumption (P&A)/ “Good bank-bad bank”:** transfer of troubled bank’s operations to healthy bank; withdrawal/cancellation of license; termination of owners’ rights; assumption of deposits and good assets; **take-over of problem assets by the resolution authority.**
- **Nationalization:** government assumes temporary ownership
- **Liquidation/Closure:** license withdrawn, **assets sold to pay liabilities/depositors/creditors;** deposit insurance covers depositors up to limit; bank owners recover ownership interests only after all other bank creditors have been paid

Source: Goyal, S. (2012), Financial Sector Restructuring : Lessons from International Experience.



Necessity—Medium/Long Run: Why?

Growth and Financial Sector Soundness

- Cross-country experience
 - Positive relations between banking sector soundness and economic growth
- Vietnam
 - Asset price bubbles
 - Employment generation?

Necessity—Medium/Long Run: Why?

Vietnam's Growth Model—The past and future

- Factor accumulation driven: Low wage, easy capital, low value added

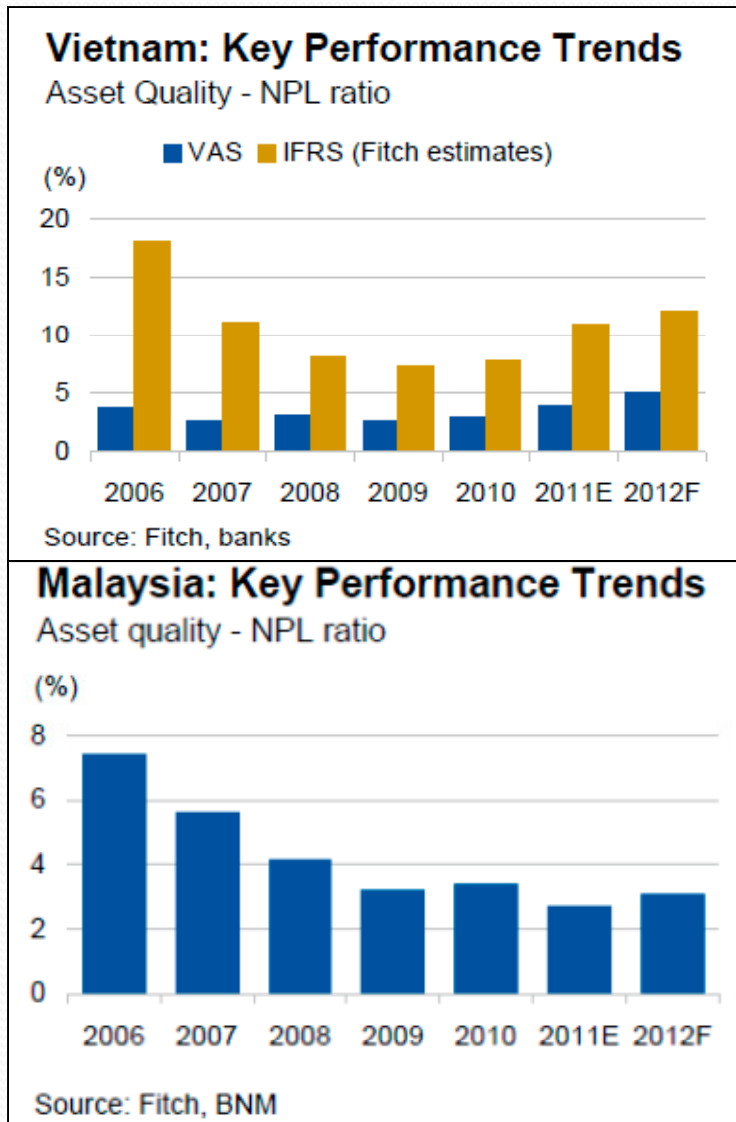


Factor productivity driven: High human capital, scarce capital, high value added

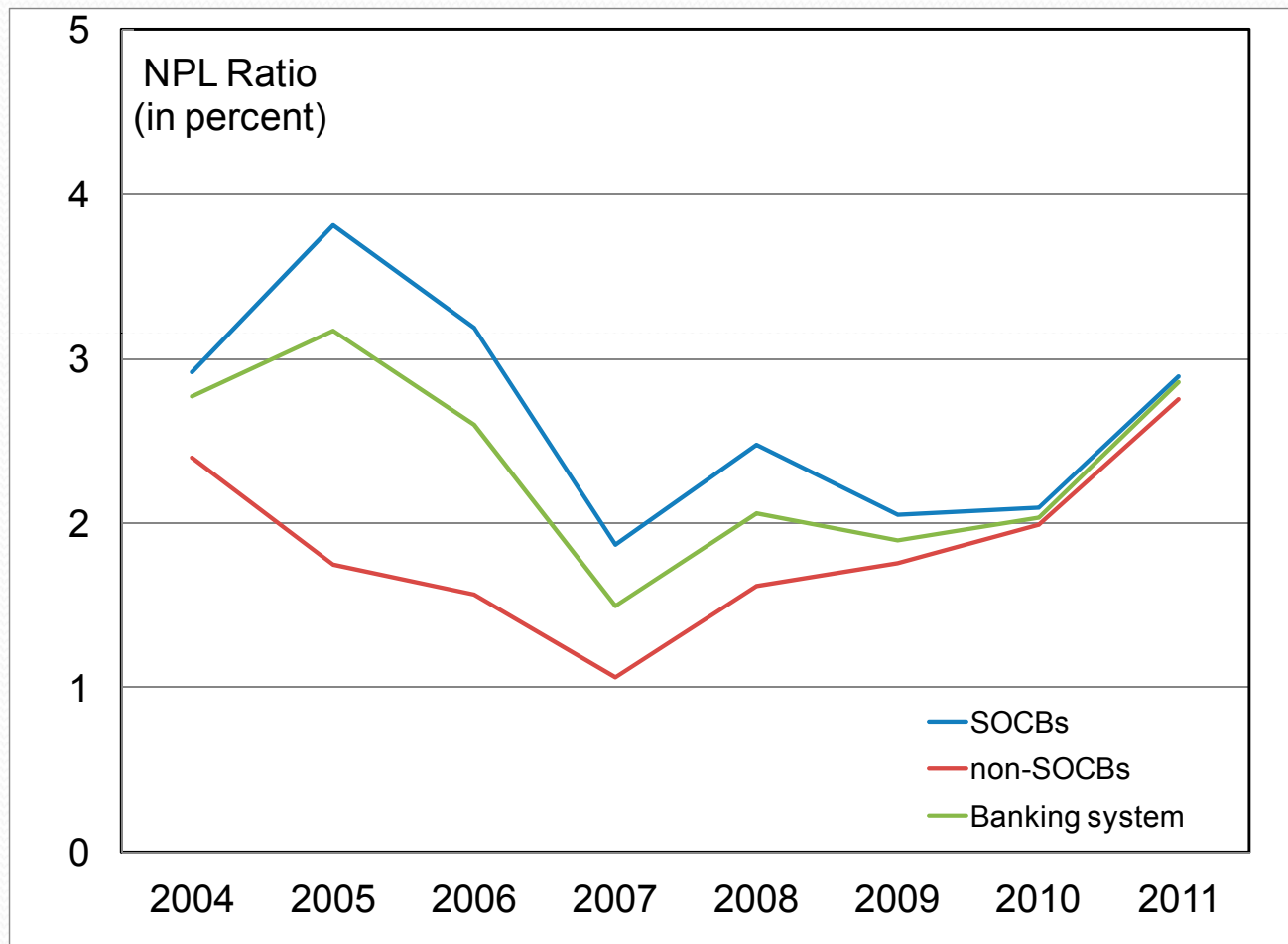


Nonperforming Debts at Commercial Banks: Solutions/Impact Assessment

NPLs: Size



NPLs: Composition





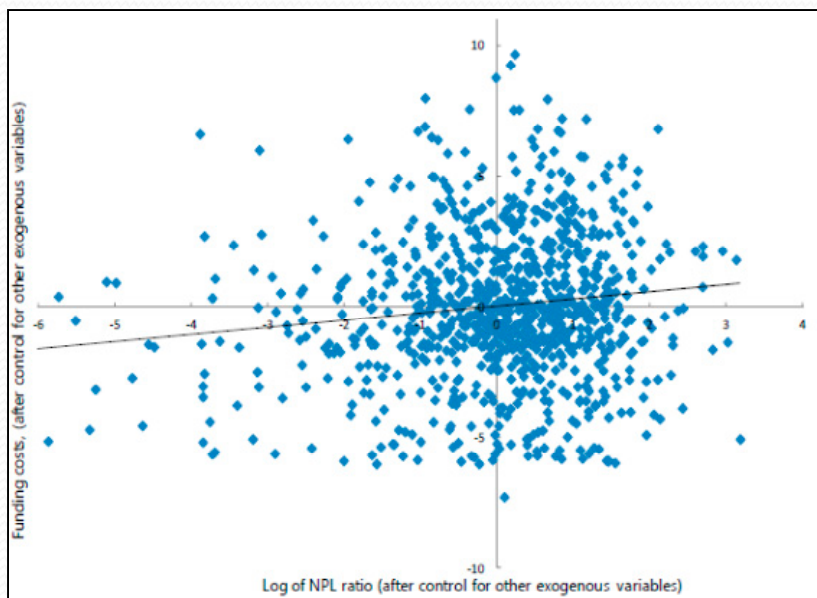
NPLs: Impact—Weak Credit Growth

Channels

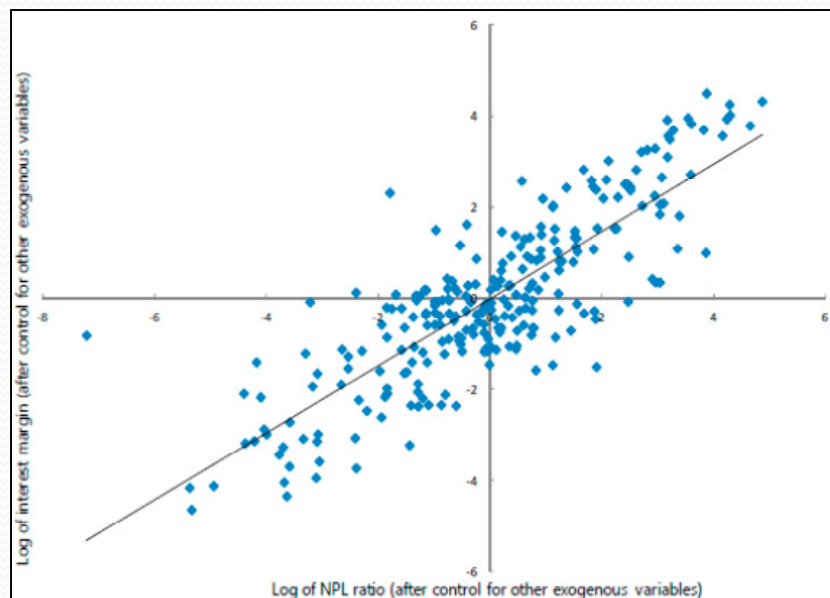
- Supply
 - Higher funding costs
 - Higher interest margins
 - Lower capitalization
- Demand
 - Overextended borrowers have lower credit demand

NPLs: Impact—Weak Credit Growth

NPLs and Funding Costs (in percent, 2010)



NPLs and Interest Margins (in percent, 2010)



Source: Working Group on NPLs in Central, Eastern and Southeastern Europe, March 2012.

A 5 percentage point increase in the NPL ratio reduces credit growth by 2 percentage points through credit supply effects.

Addressing NPLs

Asset Management Companies—Different Approaches

Decentralized		Banco Latino Den Norske Bank Foreningsbanken Swedbank Nordbanken, "Securum" Gota-Reativa
Centralized	Thailand "FRA" Indonesia IBRA "AMU" USA "RTC"	Thailand "AMC" Indonesia IBRA "AMU" Korea "Kamco" Malaysia "Danaharta" Finland "Arsenal"
	Rapid Disposition	Longer-term asset management

Source: Goyal, S. (2012), Financial Sector Restructuring : Lessons from International Experience.

Addressing NPLs: Asian AMCs

	KAMCO (Korea)	Danaharta (Malaysia)	IBRA (Indonesia)	TAMC (Thailand)
Objectives	Freeing banks from NPLs and supporting corporate restructuring while maximizing recoveries.	Freeing banks from NPLs and maximizing recoveries.	Assist banks in recapitalizing; aim at maximizing recoveries.	Supporting recovery of the corporate sector.
Structure – Policy Board	Professional Management Committee, with 5 out of 10 members from the private sector.	Professional and independent Board of Directors, with 6 out of 9 members from the private sector.	Professional Oversight Committee, with most of the 7 members from the private sector.	Non-professional Board of Directors, with 3 out of 11 members from the private sector.
Pays with	Interest-bearing KAMCO bonds guaranteed by the government.	Zero coupon Danaharta bonds guaranteed by the government.	Bank losses from selling NPLs at full discount were made up with issuance of interest bearing government bonds.	Interest-bearing TAMC bonds guaranteed by the Financial Institutions Development Fund (FIDF).
Funding	Contributions from FIs. Borrowing from Korea Development Bank. Issuance of government guaranteed bonds.	Government capital injection. Issuance of zero-coupon government guaranteed bonds.	Government capital injection. Operational cash-flow from asset recoveries.	FIDF capital injection. Issuance of FIDF-guaranteed bonds. Loan recoveries.
Asset disposition and management	Auction; public sale; equity partnership; and securitization.	Private auction; tenders; securitization; special administration (business restructuring).	Restructuring of larger loans; outsourcing of medium-sized loans; auctions of smaller loans; foreclosure.	Debt and business restructuring; foreclosure; outsourcing.
Special Powers	n.a.	Appointment of special administrator for business restructuring. Foreclosure on collateral.	Power to seize debtor assets.	TAMC-administered business restructuring largely bypassing court process. Foreclosure on collateral.

Source: Girogianni , L. (2001).



Addressing NPLs: Centralized Public AMCs

Advantages

- Vehicle for getting NPLs out of troubled banks, based on uniform valuation criteria
- Allows government to attach conditions to purchases NPLs in bank restructuring
- Centralizes scarce human resources (domestic and foreign)
- Centralizes ownership of collateral, providing more leverage over debtors and more effective management
- Can better force operational restructuring of troubled banks
- Can be given special legal powers to expedite loan recovery and bank restructuring

Source: He, Ingves and Seelig (2006)



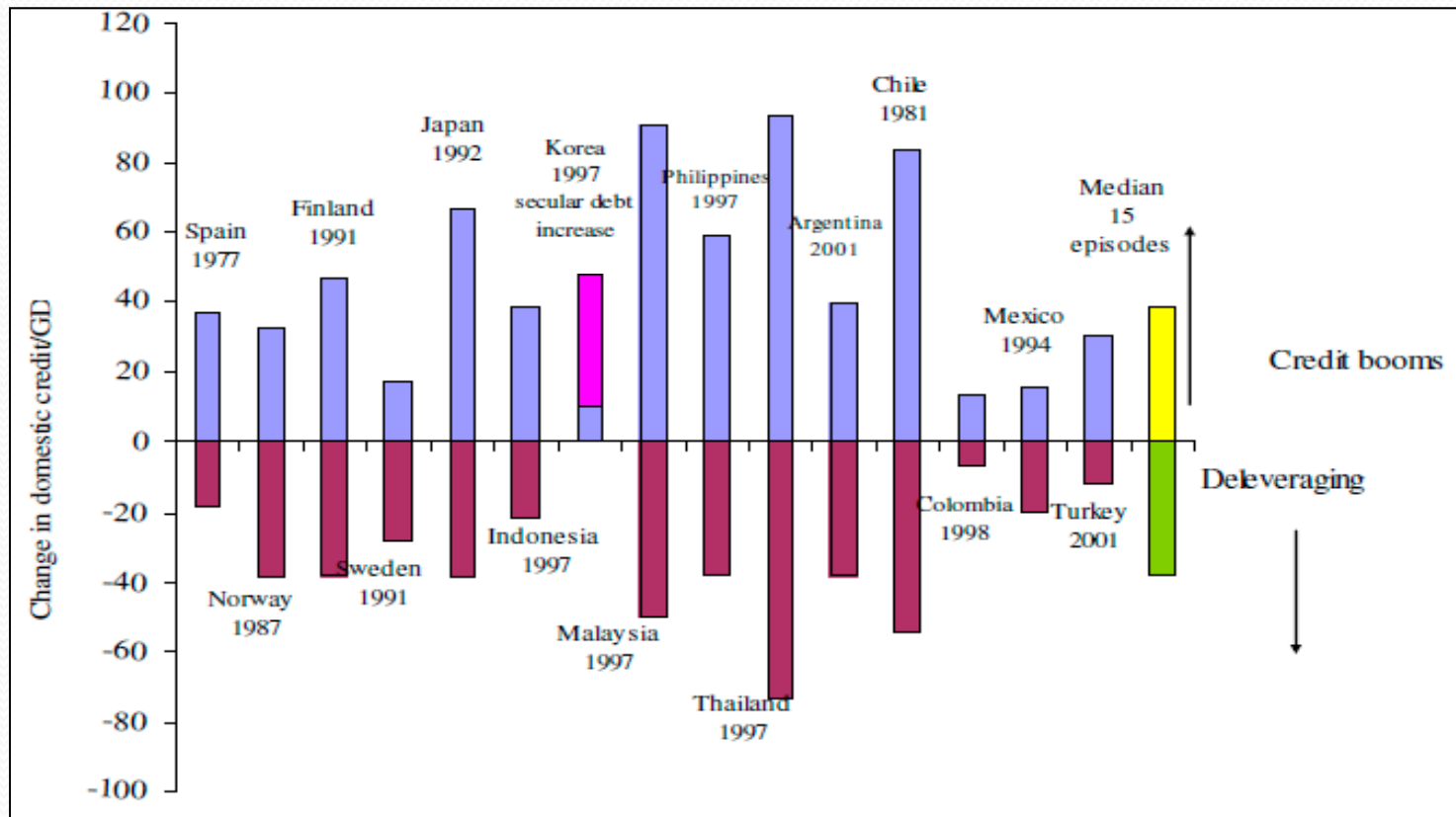
Addressing NPLs: Centralized Public AMCs

Disadvantages

- Management often weaker than private structures, lower efficiency/effectiveness
- Perverse incentives: if properly run, employees are working themselves out of a job; partially mitigated by realistic goals and compensation packages
- Often subject to political pressure
- Values of acquired assets erode faster when outside a banking structure
- NPLs and collateral often long-term ‘parked’, not liquidated
- If not actively managed, existence of public AMC could lead to a general deterioration of credit discipline in financial system
- Cost involved may be higher than a private arrangement
- If dealing with private banks, determining transfer prices is difficult

Source: He, Ingves and Seelig (2006)

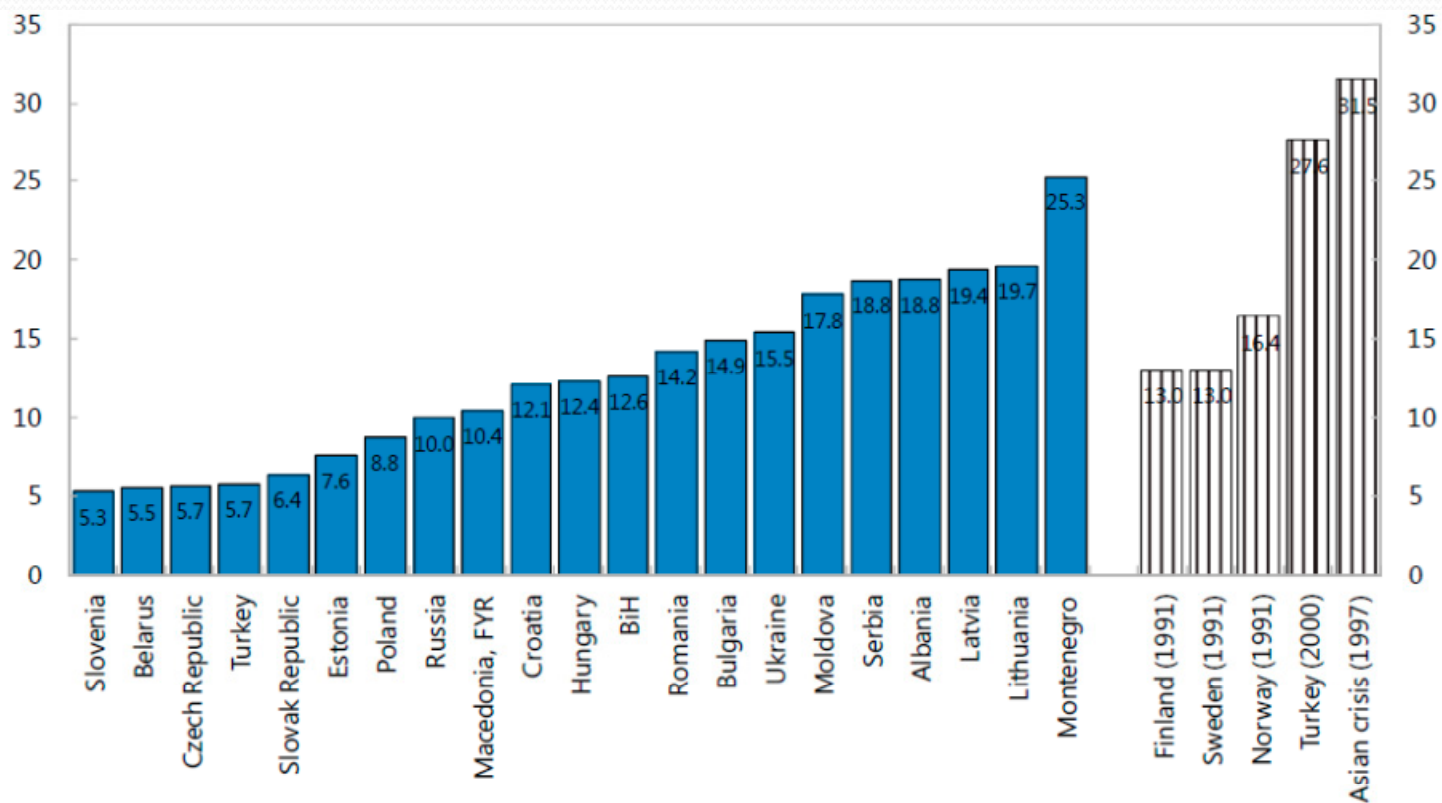
Deleveraging: Duration



Amplitude of Boom-Bust Credit Cycles (10 yrs before and after)

Source: Rogoff and Reinhart (2010).

Peak NPLs

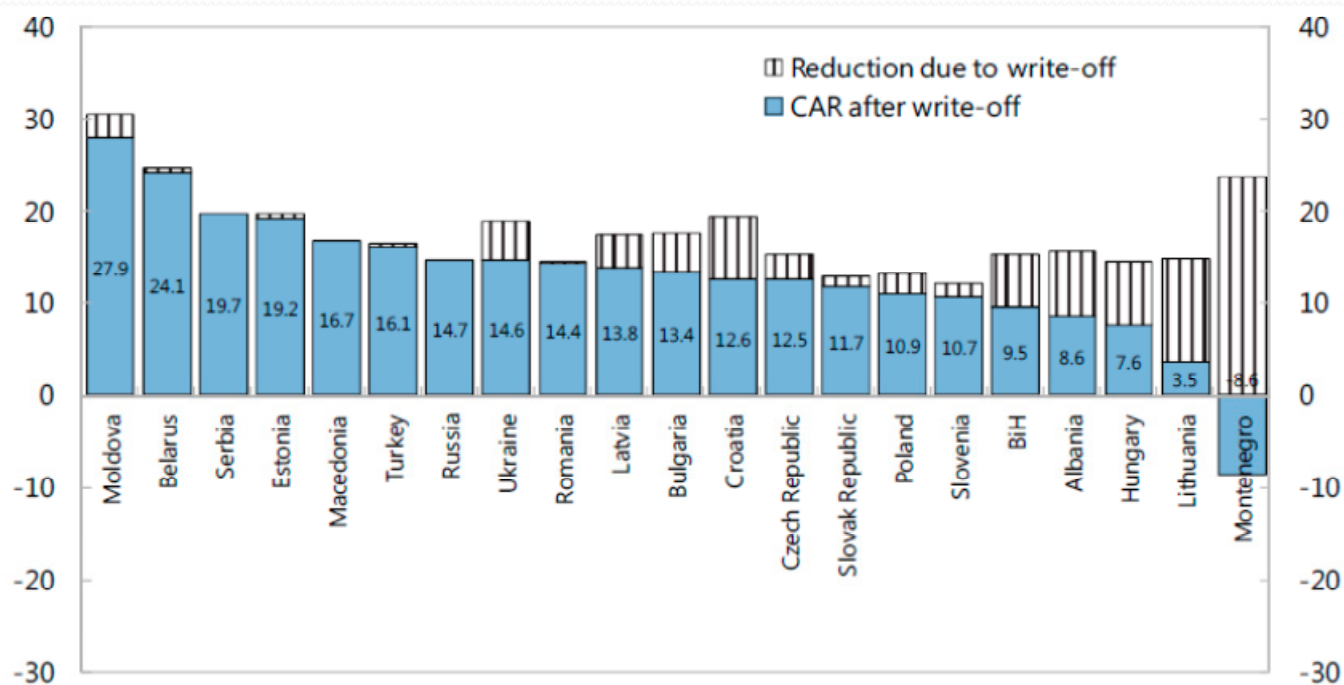


* For CESEE peak ratio during 2009-2011. Data are not fully comparable across countries due to differences in national classification practices.

Source: Working Group on NPLs in Central, Eastern and Southeastern Europe, March 2012.

Capital Adequacy

CESEE: CAR Under Complete Writeoff of Existing NPLs (in percent of RWA)

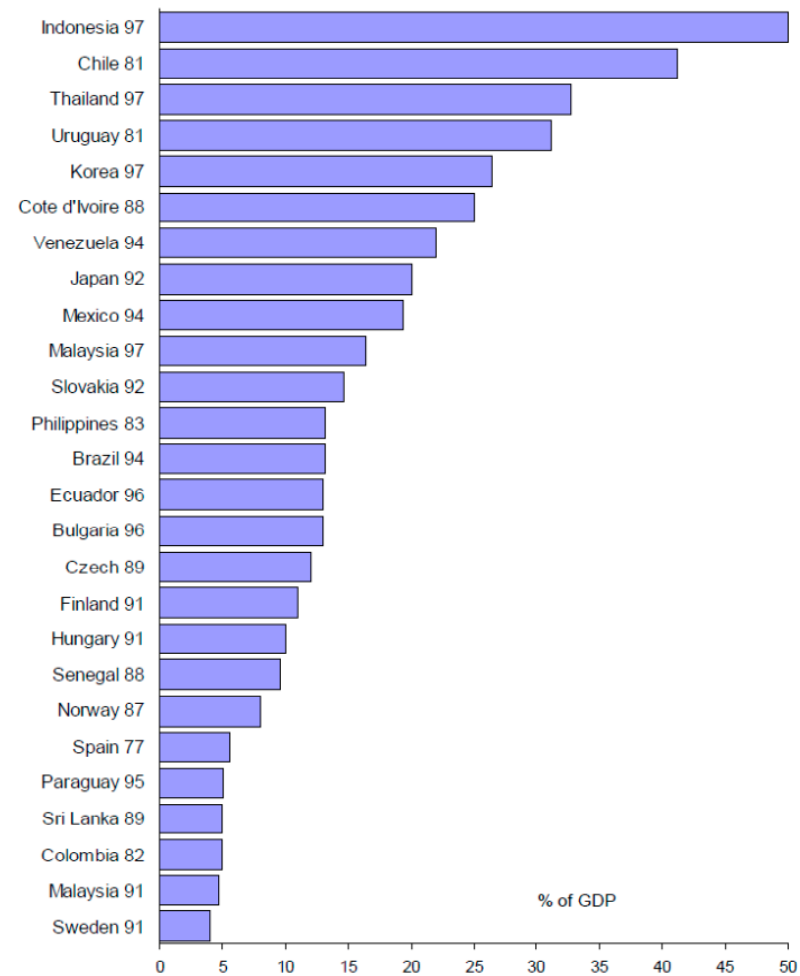


Sources: Country authorities; IMF country desks; and IMF Statistics Department for CAR, NPL ratio, provisioning ratio; Bankscope for RWA/loans; and IMF staff calculations.

* Based on data for end-2011 or latest available. Results not fully comparable across countries due to differences in national FSI data. Provisioning ratio capped at 100 percent for the purposes of this exercise.

Source: Working Group on NPLs in Central, Eastern and Southeastern Europe, March 2012.

The Fiscal Cost of Bank Restructuring



Source: Honahan and Klingebiel (2000).



Thank you