Vietnam's Financial Sector

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Road Map

- Financial system
  - Financial institutions
  - Financial instruments
  - Financial markets
  - Financial infrastructure

- Macroeconomic development
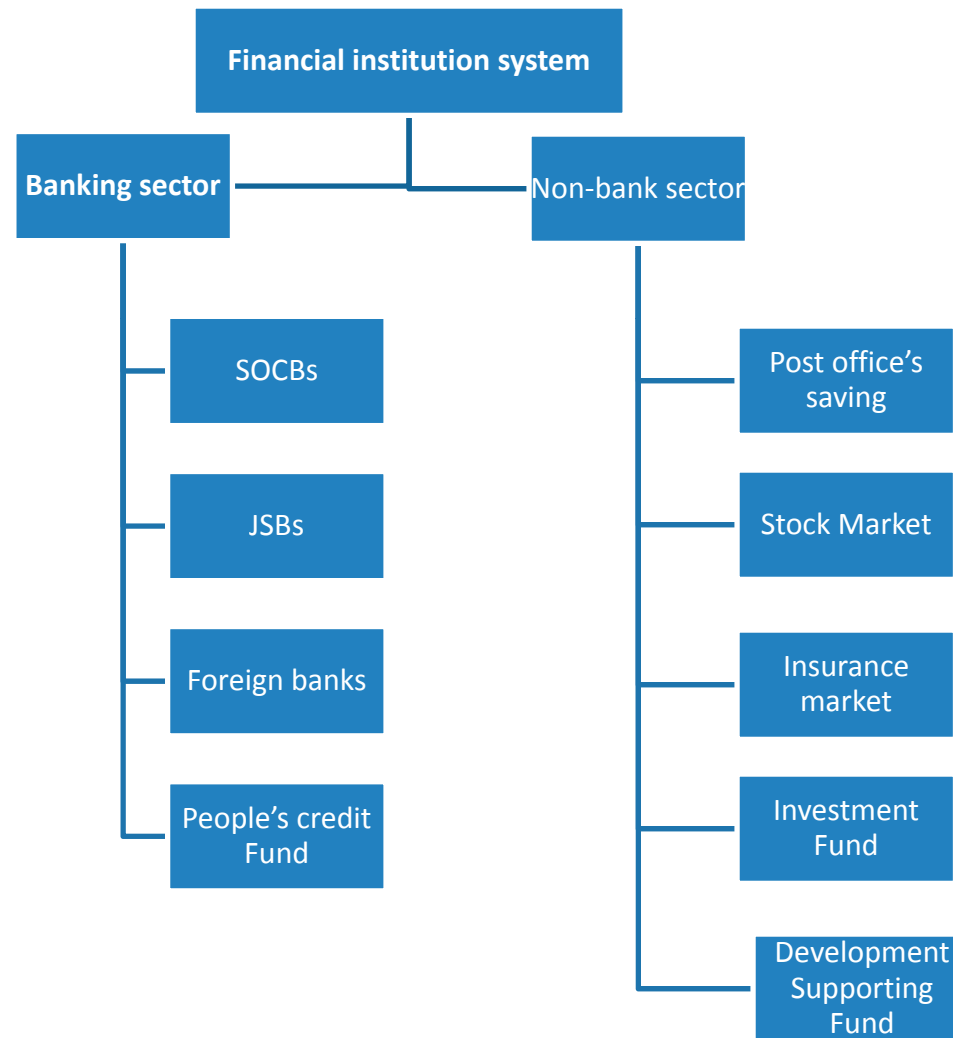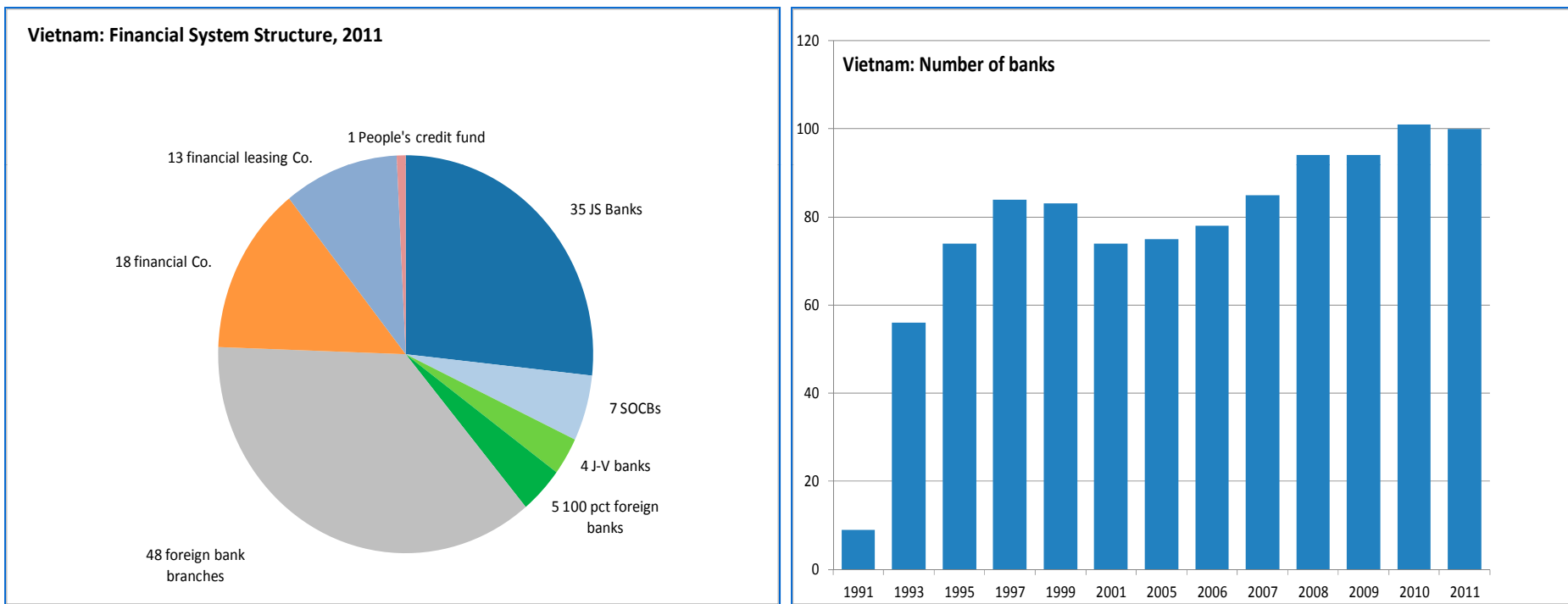
- Where to? What to expect?
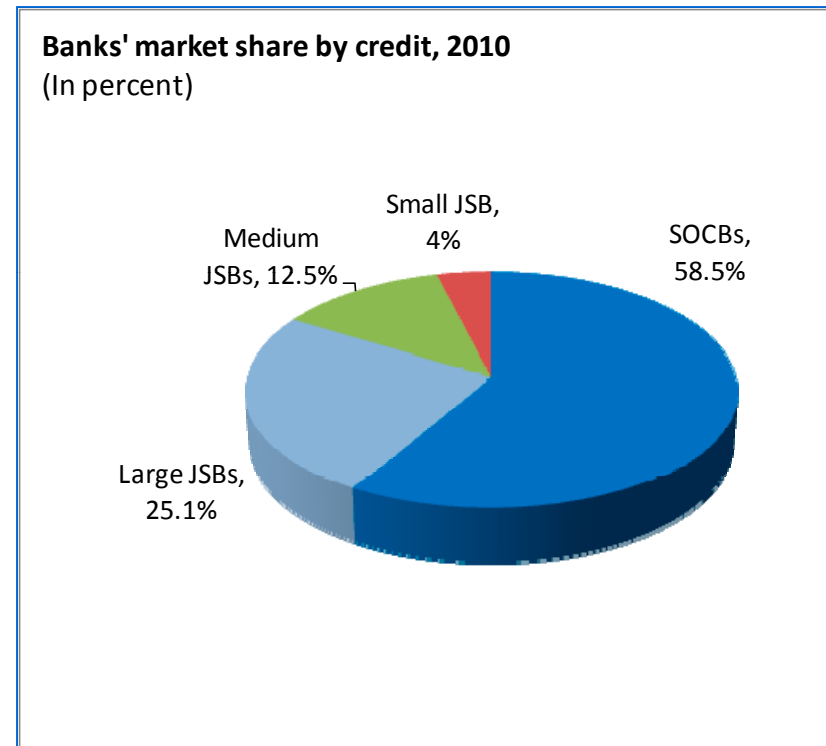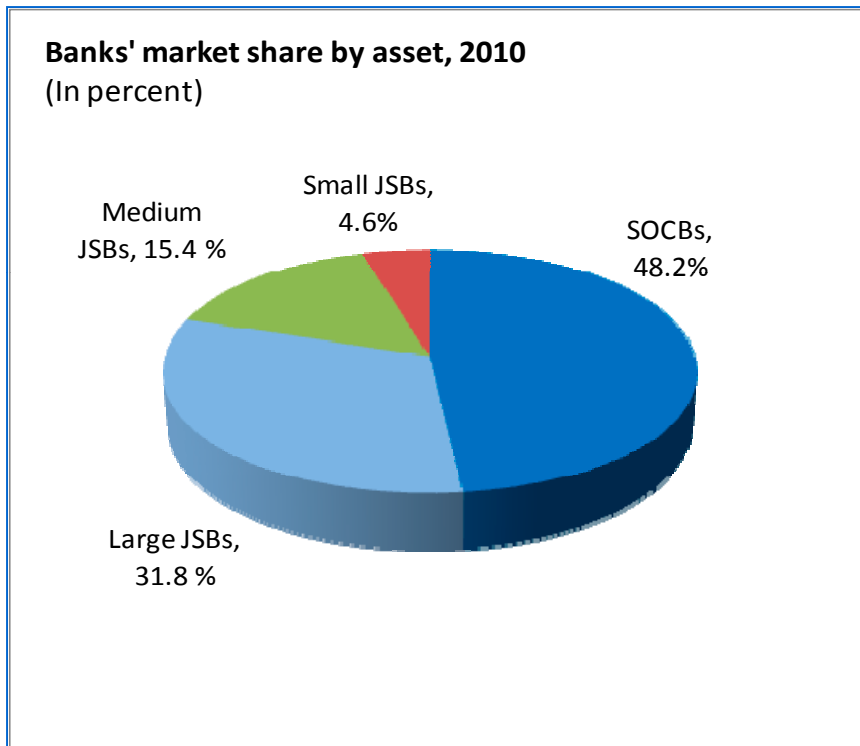
Vietnam's Financial System

Financial institutions

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                    Financial institution system

    Banking sector                    Non-bank sector

         SOCBs                          Post office's
                                           saving

         JSBs                           Stock Market

      Foreign banks                     Insurance
                                          market

     People's credit                    Investment
         Fund                             Fund

                                       Development
                                        Supporting
                                           Fund
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Crowded financial system structure...

Vietnam: Financial System Structure, 2011

- 1 People's credit fund
- 13 financial leasing Co.
- 35 JS Banks
- 18 financial Co.
- 7 SOCBs
- 4 J-V banks
- 5 100 pct foreign banks
- 48 foreign bank branches

Vietnam: Number of banks

Year	Number of banks
1991	9
1993	56
1995	74
1997	84
1999	83
2001	74
2005	75
2006	78
2007	85
2008	94
2009	94
2010	101
2011	100

Source: SBV

...dominated by 5 large SOCBs

Banks' market share by asset, 2010
(In percent)

Small JSBs, 4.6%
Medium JSBs, 15.4 %
SOCBs, 48.2%
Large JSBs, 31.8 %

Banks' market share by credit, 2010
(In percent)

Small JSB, 4%
Medium JSBs, 12.5%
SOCBs, 58.5%
Large JSBs, 25.1%

Note: Large-sized JSBs: assets over VND 60 trillion; Medium-sized bank: assets over VND 50 trillion; Small-sized bank: assets over VND 20 trillions
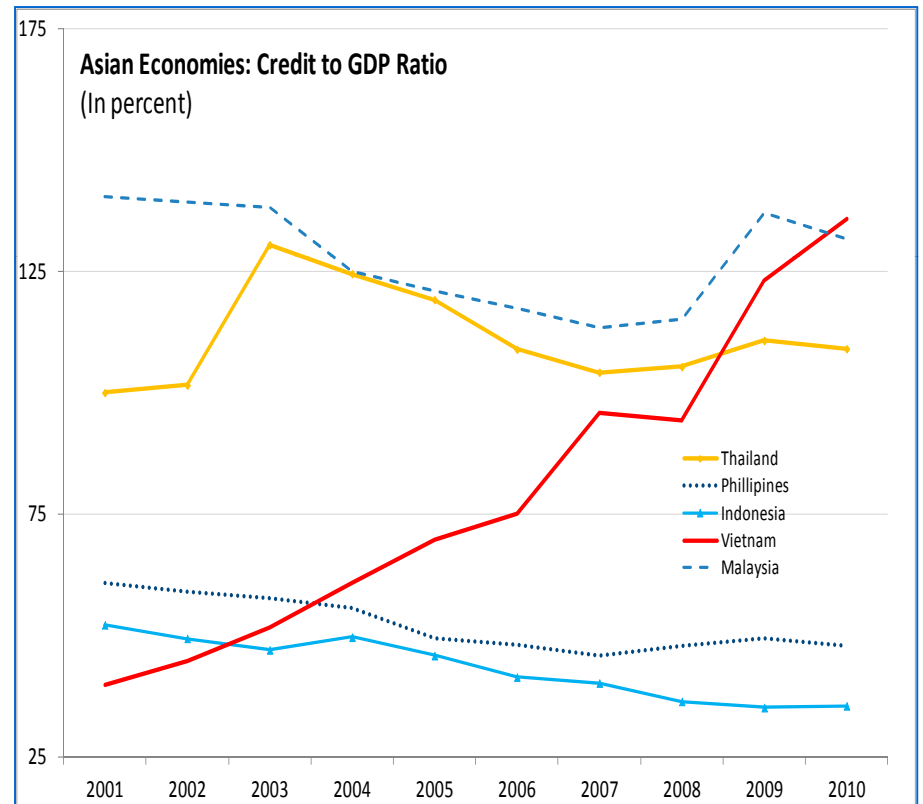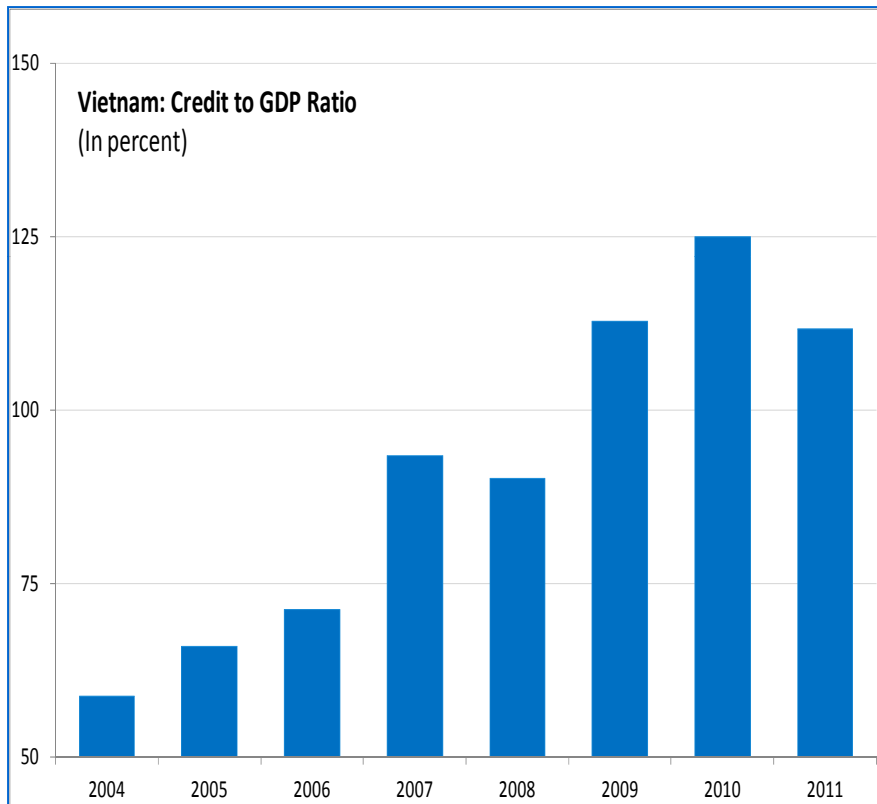Sources: SBV and Fund staff calculation

Macroeconomic Development

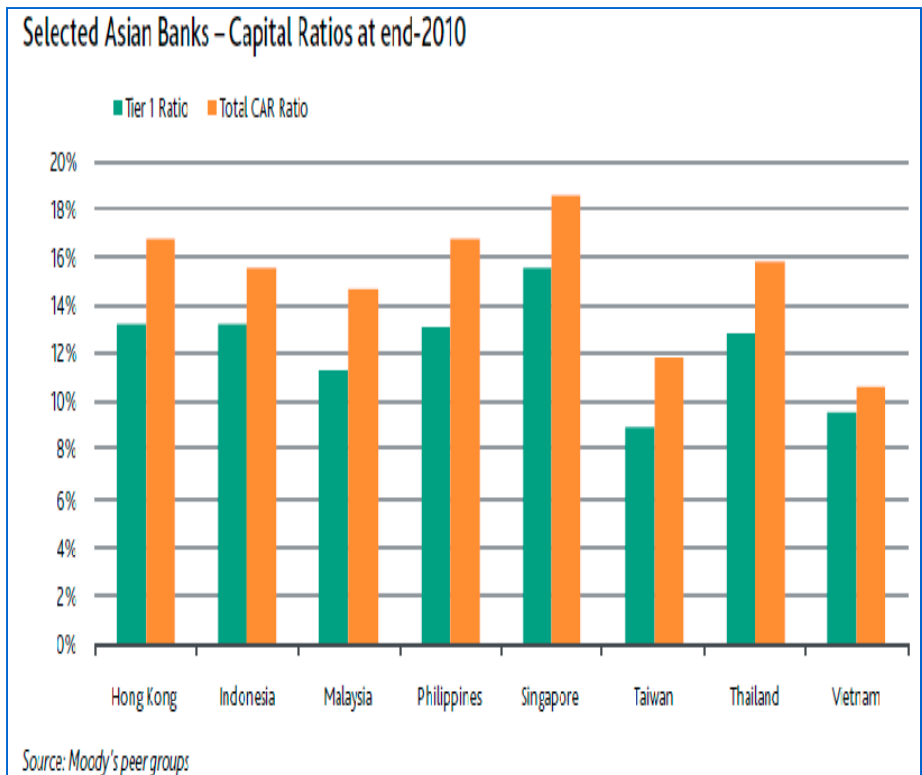# Initial Conditions: The Credit Binge …

Vietnam: Credit to GDP Ratio
(In percent)

Asian Economies: Credit to GDP Ratio
(In percent)

Thailand
Phillipines
Indonesia
Vietnam
Malaysia

Sources: SBV, and Fund staff calculation

... and the hangover

- Liquidity problems in weak banks

- Solvency
  - ➤ Low capital adequacy/banks have limited buffers
  - ➤ Banks' NPLs
    - ✓ Low by VAS, but much higher by IAS/IFRS
    - ✓ Exposure to Vinashin/financially weak SOEs unknown

- Unsustainable business models
  - ➤ Growth expectations
  - ➤ RE prices
  - ➤ Noncore/other businesses
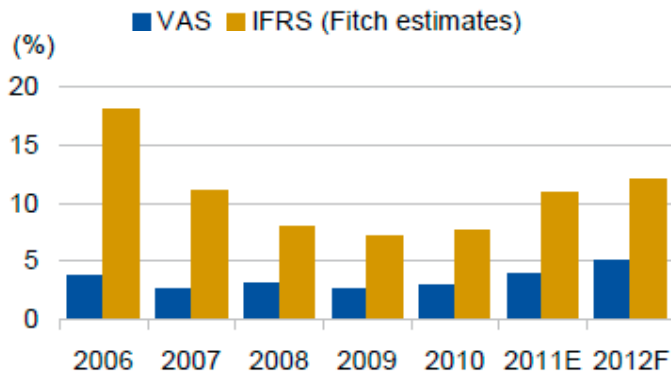
Initial conditions: Liquidity Stress and Capital Adequacy
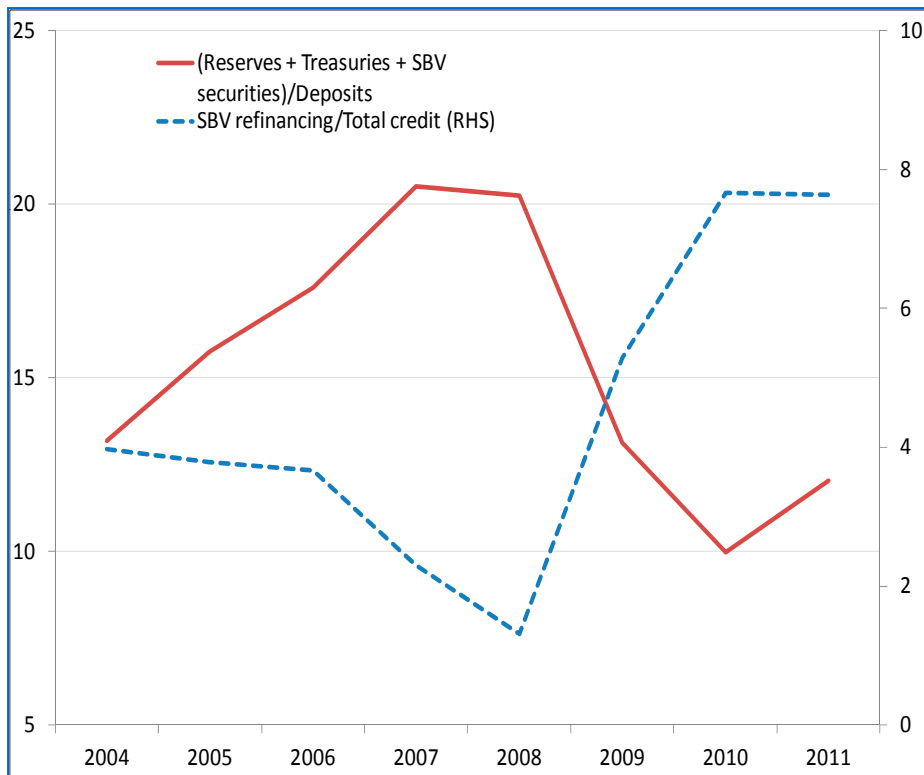
Sources: SBV, and Fund staff calculation

Initial conditions: NPLs—size/credibility
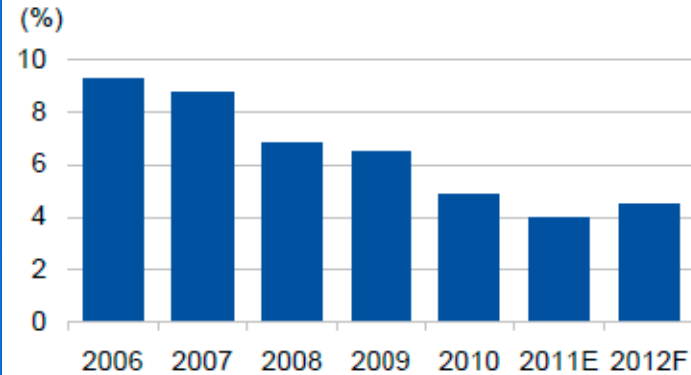

Vietnam: Key Performance Trends
Asset Quality - NPL ratio
Legend: VAS, IFRS (Fitch estimates)
Source: Fitch, banks
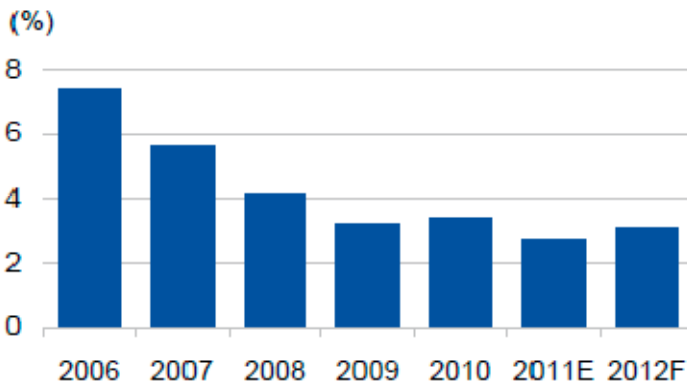
Thailand: Key Performance Trends
Asset quality - NPL ratio
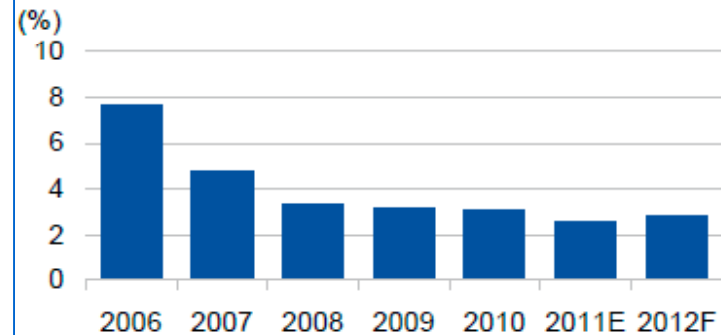Source: Fitch, banks

Malaysia: Key Performance Trends
Asset quality - NPL ratio
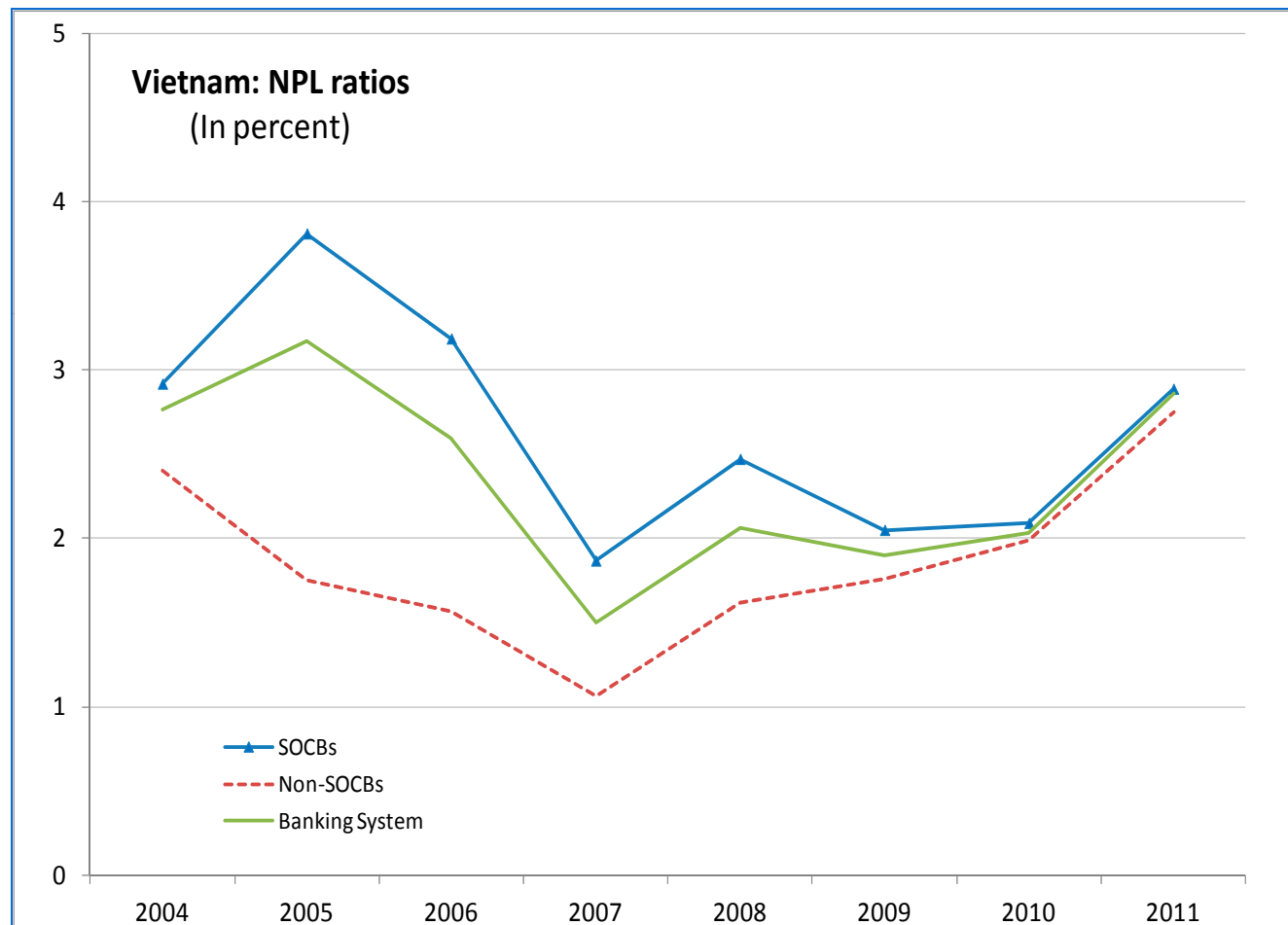Source: Fitch, BNM

Indonesia: Key Performance Trends
Asset quality - NPL ratio
Source: Fitch, 9 major banks

Initial conditions: NPLs—composition

Vietnam: NPL ratios
(In percent)

Legend: SOCBs, Non-SOCBs, Banking System

Sources: SBV, and Fund staff calculation

Where to? What to expect?

Where to- Objectives and Goals

Immediate/Short-term
- Maintain stability of banking system → Ensure solvency, liquidity and uninterrupted financial intermediation
- Address problems in a timely manner → Prevent contagion or systemic concerns
- Restore confidence in banking system → Prevent deposit runs

Longer-term/Structural
- New governance framework
  - ➢ must preserve/create incentives for: (i) new private capital; and (ii) bank discipline in lending
  - ➢ allocate first losses to shareholders
- Improve operational efficiency/consolidation
  - ➢ only viable/sustainable banks should remain
- Build competition and resilience
- Strengthen overall infrastructure of financial system
- Improve access to financial services

Sources: S. Goyal 2012 (WB) and L. Taylor 2012 (SCB).

What to expect—deleveraging/duration
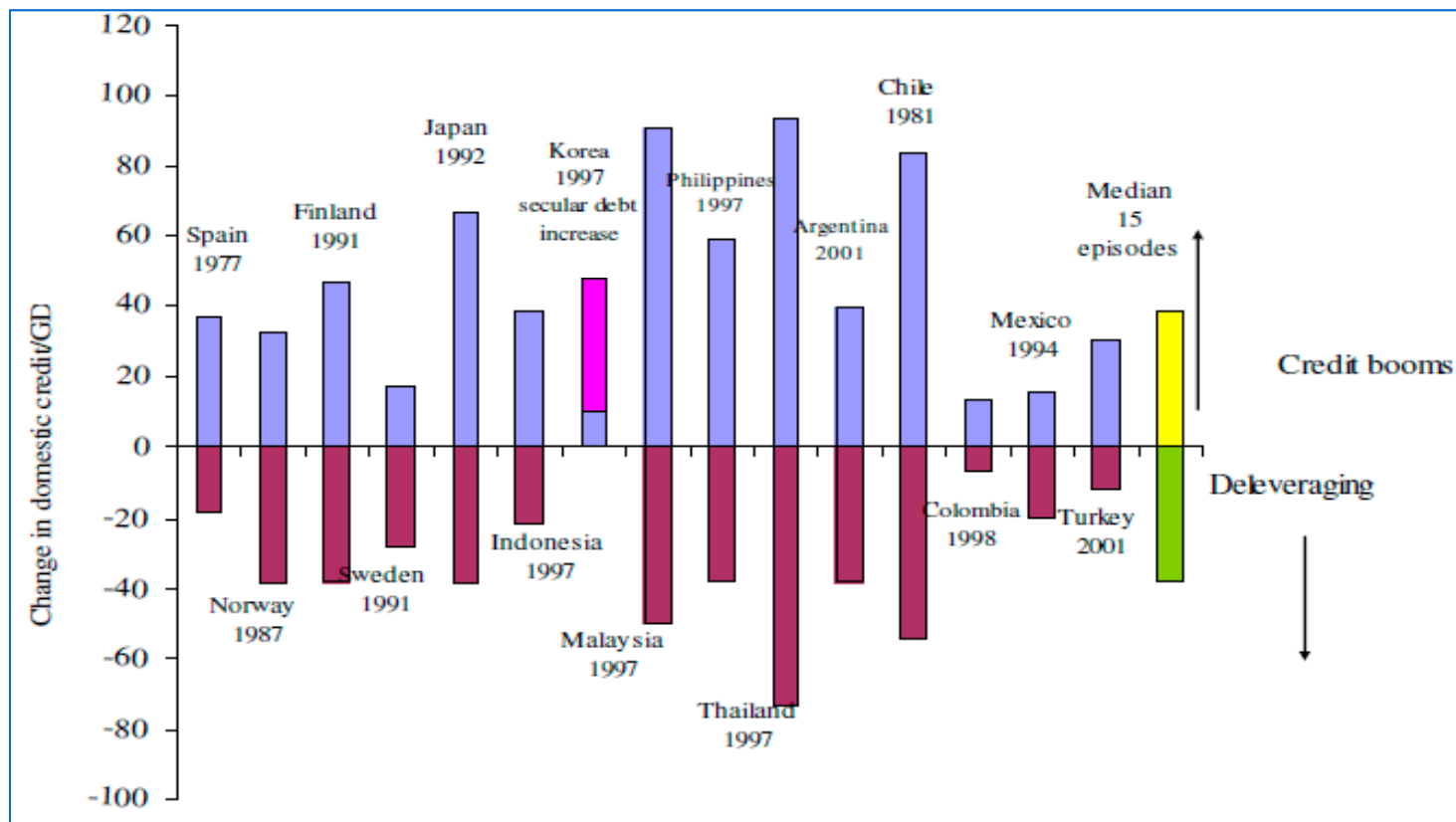
Amplitude of Boom-Bust Credit Cycles (10 yrs before and after)

Sources: Rogoff and Reinhardt (2010).
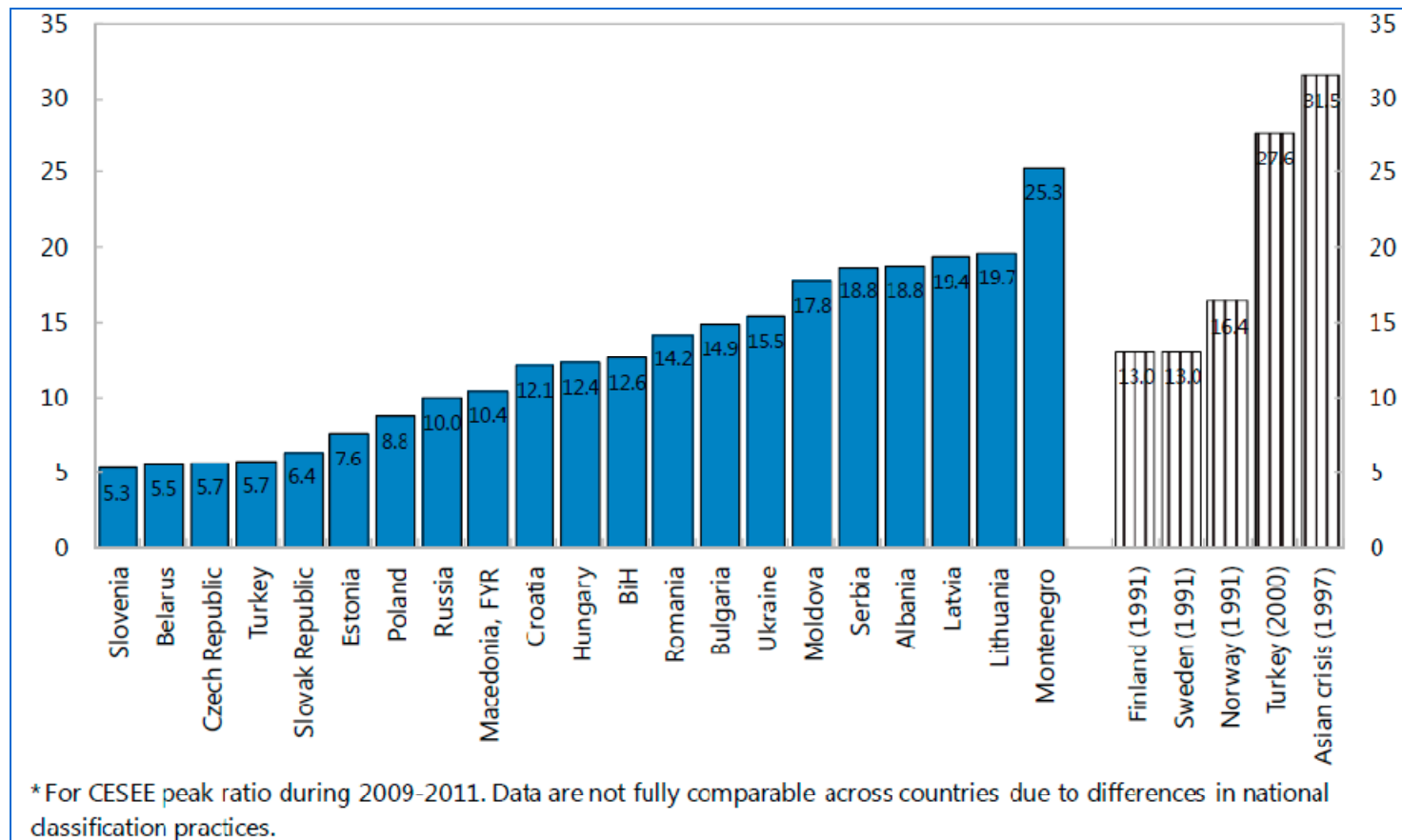
What to expect—Weak credit growth

Channels

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

What to expect—Peak NPLs

*For CESEE peak ratio during 2009-2011. Data are not fully comparable across countries due to differences in national classification practices.
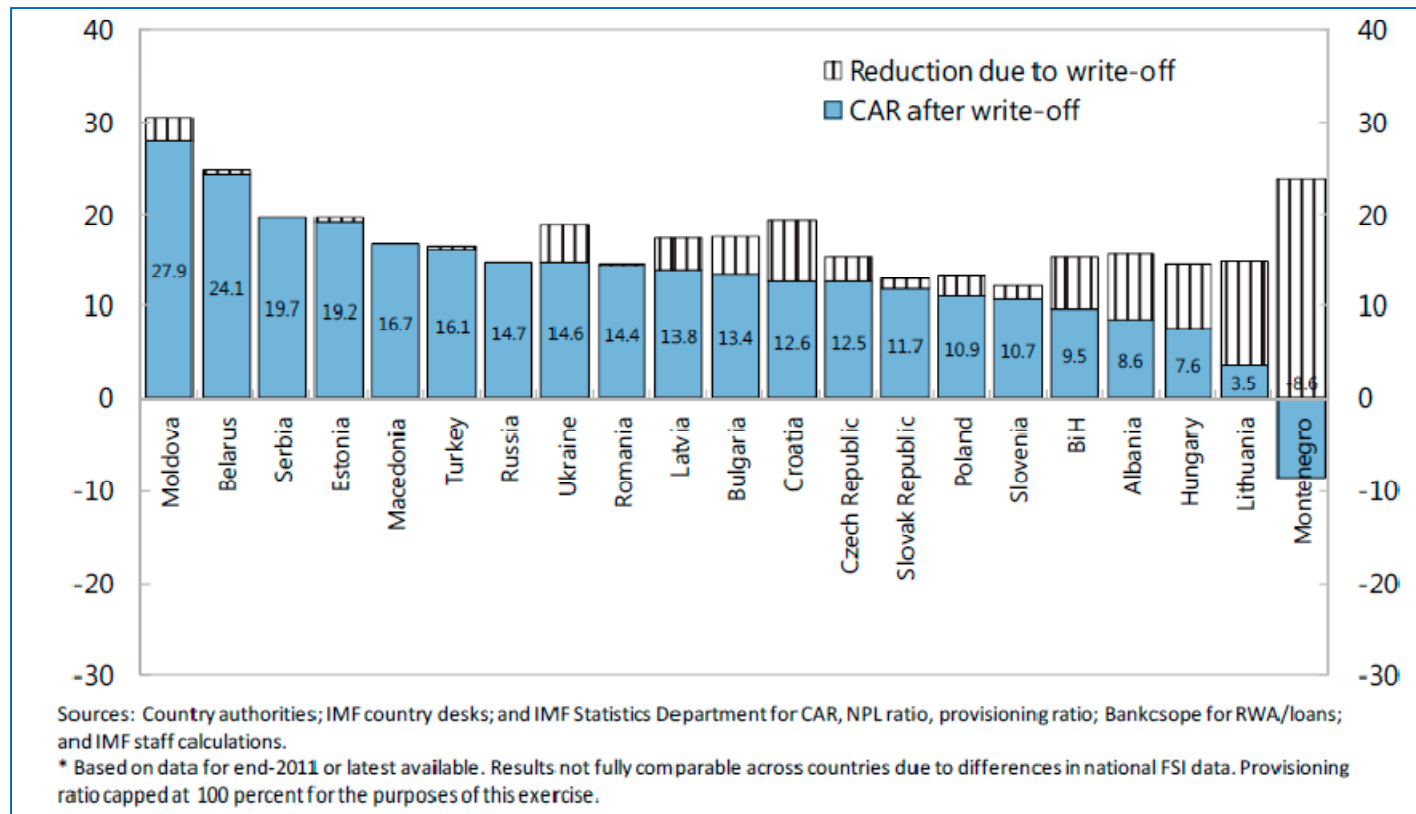
Sources: Working Group on NPLs in Central, Eastern and Southeastern Europe, March 2012.

What to expect—Lower capital adequacy

CESEE: CAR Under Complete Write-off of Existing NPLs (in percent of RWA)

Sources: Country authorities; IMF country desks; and IMF Statistics Department for CAR, NPL ratio, provisioning ratio; Bankcsope 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.

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

What to expect—Fiscal Cost of Bank Restructuring
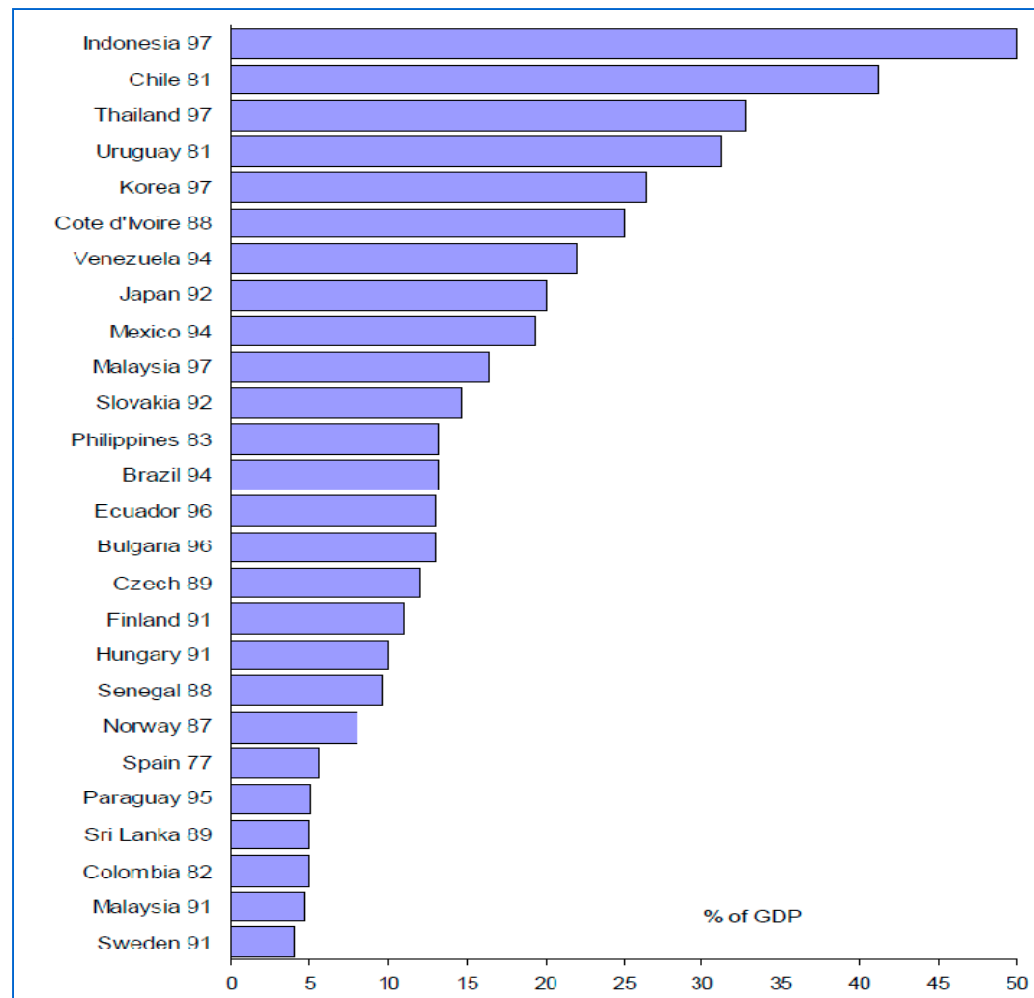
Source: Honahan and Klingebiel (2000).