

# SOLUTIONS TO FASTER RECTIFICATION OF COMMERCIAL BANKS

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**T**he requirements for rectification and consolidation of commercial banks are extremely urgent to implement Vietnam's commitments to international financial and monetary institutions, integrate Vietnam banking activities into the regional and the world community and spur economic development fast and firmly.

In respect of state-run commercial banks: Just from March 2001, the State Bank of Vietnam (SBV) has submitted the Government the scheme of consolidating and restructuring state commercial banks. It aims at purifying organizations of these banks by restructuring debts; taking measures to prevent new bad debts from arising; increasing the chartered capital of state commercial banks; clearly separating the commercial banks' function of doing business from giving loans in accordance with government policies through the establishment of policy banks; and making favorable conditions for state commercial banks to trade following market principles. Each bank restructures its organization, modernizes banking technologies and improves managerial competence and staff qualifications in line with its performance and international integration.

By the end of July 2001, state commercial banks had completed designing its consolidation and restructuring scheme following the above spirit and initially started implementation. The Vietnam Bank for Agriculture and Rural Development formerly had 38 sections and 47 departments under the Director General. That apparatus is cumbersome and ineffective. It has been reduced to 21 sections with minimized employment from June 1, 2001. However, its chartered capital has not been increased, remained too low in line with the requirements, and thus curtailed investments in large proj-

ects. Such state commercial banks as the Industrial and Commercial Bank, the Bank for Foreign Trade, and the Bank for Investment and Development are rearranging their organizations and employees.

Regarding joint stock commercial banks: Although the rectification and consolidation of joint stock commercial banks faces complicated issues, it is still instructed and carried out in line with the scheme approved by the Government. The loss-making banks have been disbanded or merged into another bank. In the first months of 2001, the SBV has revoked operation licenses of the Banks of Mekong and Đông Phương and instructed some banks to be incorporated into others. The inspectors of SBV and its provincial and city branches have closely supervised hot places and prevent uncontrolled bankruptcy of such banks as Nam Đô, Châu Á-Thái Bình Dương, Việt Hoa, Vũng Tàu, Quảng Ninh, etc. Also in this period, the central bank has approved to increase the chartered capital of 12 joint stock commercial banks. Remaining banks are consolidating, overcoming deficiencies and raising chartered capital following regulations in the Government Decree 82/1998/NĐ-CP. In the process of consolidation and rectification, the SBV gives no licenses to establish new joint stock commercial banks.

The activities of joint stock commercial banks, on the whole, have made progress in the first months of 2001. Its safety is higher and remains under tight control. There is no turmoil as in previous years.

Nevertheless, some troubles have emerged in the process of implementation. For example, in case of the Gia Định Joint Stock Commercial Bank, the court judged its equity capital and outstanding loans were falsified. However, the SBV cannot so far guide the final accounting. The bank inspectors thus considered it

incurred high bad debts, so this bank has not been completely settled.

The latest statistics reveal there are totally 2,915 mortgaged assets worth above VND1,000 billion of the banks whose debt arrears must be settled. However, only 127 assets worth VND342 billion are now liquidated. The settlement is very slow although the banks are very determined because most of these assets are attached to land. As stipulated, the asset liquidation must be implemented with the local government's opinions and at the auction center with cumbersome procedures. As a result, this center is overworking. It takes 120 days on average to sell an asset at the center.

In the legal case of Epco-Minh Phụng, the court adjudged 360 assets worth VND2,142 billion of the two companies were transferred to the HCMC-based banks, but these banks can so far receive only 110 assets with the total value accounting for 56%. The major cause is the law enforcement agencies' slow performance. Most of assets do not have enough legal conditions for sale. There is wide difference between the acreage determined by the court with the real one with respect to those assets involved in land or the land acreage is smaller due to encroachment.

The HCMC has more joint stock commercial banks to be settled than other provinces. Its target is to complete the settlement of ailing joint stock banks, but the execution is too slow and the target is thus unattainable. It is mainly attributed to lack of financial sources. Furthermore, most of mortgaged high-value assets are related to criminal cases and not settled, so the bank cannot yet recover their debts.

Regarding the settlement of debt arrears of commercial banks: After studying and reviewing total debt arrears of commercial banks, in March 2001, the SBV suggested the Government to establish the Government Steering Board for financial restructuring of commercial banks with the Deputy Prime Minister as the Head to replace the formation of the debt trading company as planned before. At the same time, the SBV has set up a special department to help the Steering Board in examining commercial banks' schemes and decisions of financial restructuring, guide, urge and inspect relevant ministries, government agencies, and provincial People's Committees in the process of implementation.

The SBV is urgently perfecting the detailed scheme on settling debt arrears of commercial banks to submit it to the Steering Board. Accordingly, it has made clear analysis on causes of debt arrears. It also introduced principles of settlement. The bank must be responsible for settling those debt arrears caused by them, recover as many as possible customers' overdue debts and make up losses by its risk-hedging source. Those banks facing large debt arrears are allowed to form the debt trading company. The Government will consider to give assistance in case of debts due to objective causes or settle loans given following the Government's assignment. The commercial banks must assume responsibilities for its debt settlement and recovery. The Government's assistance is mainly to remove obstacles of policy and legislation. Its financial assistance must be based on concrete progress in each bank's restructuring roadmap.

The SBV, Ministry of Justice, Police, Court, and Supreme People's Court of Investigation recently issued Circular 03 guiding the settlement of assets concerning debt arrears, criminal cases and the assistance for the program on banking system consolidation. However, most of banks say they do not have actual rights to settle assets. They must petition district and provincial People's Committees for approval of sale. The assets must be sold at the auction center. Banks do not enjoy preferential status when selling mortgaged assets because the Circular 03 rules that they are paid eventually after other payments. If the proceeds are not enough to pay to the first items, then the banks return empty-handed.

When borrowing, the companies mortgaged those assets with approval of competent agencies. At present, they cannot pay debts, but the bank must request permit from these agencies to sell assets. If they intentionally shirk an answer or give no permit, the bank cannot do it. The assets settled by Hà Nội-based banks are worth VND730 billion, but the banks can now recover only VND5 billion.

We propose the SBV should promptly withdraw licenses of un-maintainable banks and has a special fund for debt settlement. As to recoverable banks, it is required to take 5 measures: the SBV offers low-interest loans and increases the bank's credit limit, the bank maintains shareholders and shares, is

given conditions to offer syndicate loans with another bank and allowed to issue stocks with interest payment within 50 years.

The financial resource must be a main solution. The SBV has recently given hundreds of billion đồng to pay to depositors of the Châu Á-Thái Bình Dương Bank and help the Exim Bank. The next solution is to expand activities of some joint stock commercial banks under special control, especially credit activities. The Vietnam government has signed with the WB and IMF on a fund of US\$600 million for banking and corporate restructuring. This fund should be soon

disbursed to increase the chartered capital and settle bad debts of commercial banks.

Vietnam is facing a paradox that the borrowers do not want to pay bank debts but there is no legal measure to compel them to pay, the lending bank must have more legal obligations than the borrower. The Prime Minister has recently set up a board with special rights to remove obstacles in the process of implementing the Circular 03 and solve complicate problems in settlement of mortgaged assets. The board, in our opinion, should be soon brought into effective operation. ■

