



How to Accelerate the Equitization of State-Owned Commercial Banks

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I. Trend of international integration

1. Opportunities and challenges to Vietnamese commercial banks

When seeking for accession to the WTO, Vietnam has to commit itself to open the banking service. That is why this sector has to improve their competitiveness in order to avoid being a loser at home.

At present, commercial banks have many opportunities open to them, such as (1) in cooperating with other banks, both foreign and local ones, in a stable and fast growing economy, they can absorb experience, skills and managerial methods from leading international financial groups; (2) transparency of information and financial disclosure allow local banks to keep up with modern

managerial skills; and (3) they can enter foreign markets, etc. But they also face great challenges, such as:

(1) Competition from experienced and well-established banking institutions from abroad.

(2) Obstacles caused by passive management mechanisms and lack of ability to cope with fast-changing conditions in the market.

(3) Vietnamese laws are not in compliance with international practices and fail to enforce banking regulations and ensure safety for the banking system.

(4) Domestic market has just developed in recent years. Most banks have small capital, obsolete organization and technologies, and poorly-trained personnel.

It seems that local commercial

banks have a lot of things to do in order to beef up their financial strength before thinking of competing against foreign rivals when Vietnam has to ensure a level playing field for everybody by removing all protectionist measures.

2. Equitization: an inevitable step

In recent years, the equitization of many state-owned companies has produced positive effects on the economic growth. The banking system is no exception. A strategy has been introduced with a view to making the system healthier and enhancing its safety and efficiency as a financial intermediary in the economy. This strategy has been carried out with the aim of maintaining the development and stability of the system appropriate to the Vietnamese economy. Many policies have been realized to beef up the banking system, including restructuring commercial banks with help from the Government. From 2001 on, four leading state-owned commercial banks, Vietcombank, Incombank, Agribank and BIDV, have received some VND10,000 billion in order to reach international standards. According to the planned track from now to 2010, local commercial banks have to acquire some 117,000 billion in order to obtain a capital adequacy ratio (CAR) of 8%. They also need an additional US\$1.5 billion to deal with bad debts.

According to a rough estimate, the financial strength of commercial banks is not high enough (the biggest bank has only some US\$10 billion in total assets) and its managerial technologies are obsolete while they are to face such financial giants, such as HSBC and CitiBank, with enormous assets and modern banking technologies. To survive the competition, local banks have to increase their working capital and the equitization is one of feasible and

important measures.

The equitization allows banks to mobilize money and investment from both local and foreign sources, thereby accumulating enormous sums of money, reducing the burden on the national budget and supplying commodities of high quality to the stock market.

II. Process of equitizing state-owned commercial banks

1. Policy

Many efforts have been carried out to make the banking system healthier, such as the plan to beef up joint stock banks in 1998 and the plan to restructure state-owned commercial banks in 2001. Reform in the banking system has been supported strongly by such international financial institutions as the WB, ADB, IMF, and many governments.

The plan to equitize state-owned commercial banks was started in 2004 aiming at applying international practices (in auditing, pricing, issuing, etc.) and ensuring transparency and safety of banking services in order to enhance financial strength and management mechanism of these banks after equitization. On March 30, 2004, Directive 11/2004/CT-TTg was issued by the PM to accelerate the restructuring and reform in state-owned companies. According to this Directive, the SBV is responsible for working out, in cooperation with relevant ministries, the plan to equitize the Vietcombank (VCB) and Mekong Housing Bank (MHB). The equitization of state-owned commercial banks is planned to complete before 2010 except for the BARD because of its special characteristics. Equity held by the State in commercial banks after the equitization will reduce to 51% in the VCB for example. The plan is to maintain the state-held equity in the

VCB and MHB, and issue shares equaling 30% at most of the value of the bank. Foreign investors could buy shares from the equitized banks according to regulations set by the policy on investment (30% at most).

2. Equitization of the VCB

The equitization of this bank was officially started by Directive 11/2004/CT-TTg dated March 30, 2004. After receiving this Directive, the SBV helped the VCB realize necessary steps to carry out this plan. This was the first time a large-scale state-owned concern in a sensitive industry to be equitized, so all the

tution.

(3) Enhancing its competitiveness when Vietnam integrates fully into regional and international markets.

(4) Helping it play well the role as the leading bank in the banking system.

Carrying out Decision 1652/QĐ-NHNN made by the SBV Governor on Nov. 16, 2005, the VCB issued bonds to increase its capital. The issuance helped add a large sum of money and improve its CAR before evaluation of the value of the bank in preparation for the equitization. In



steps taken were carefully calculated in order to avoid unnecessary fluctuations in the banking and financial sector.

On Sep. 21, 2005, the PM made Decision 230/2005/QĐ-TTg to equitize the VCB. Objectives of this equitization are as follows:

(1) Beefing up the management mechanism and modern the banking technology to enhance its business performance.

(2) Reinforcing its financial strength in order to ensure safety in its operations and develop it into the Vietnam's leading banking insti-

this issuance, the VCB raised VND1,365 billion and the issuance is considered as successful because it could raise interest from the public. In addition, the VCB also made an inventory of its assets and handled financial problems as required by Circular 126/2004/TT-BTC issued by the Ministry of Finance on Dec. 24, 2004 providing guidelines on implementation of Decree 187/2004/NĐ-CP on transforming state-owned companies into joint stock ones. In fact, it took the VCB four years to deal with overdue debts and carry out its restructuring program. As a concern

in a sensitive business with many special characteristics, the VCB has sent memos about different problems relevant to the banking business to various authorities. Up to now, the CAR of the VCB is higher than the international standard.

At present, the VCB is seeking for approval from the SBV to its choice of foreign consultancy about revaluation of assets and strategic shareholders, and making preparations for its IPO by early 2007.

3. Equitization of the MHB

An infant bank (established in 1998) with low starting point, the MHB in the past five years made its assets grow faster than other banks. In 2005, its total assets reached VND12,700 billion increasing by 50% a year and took the fifth place among local commercial banks. With its current capital, the MHB will have to secure more capital in order to meet the CAR standard and equitization becomes very necessary. This process, however, will be simpler than that of the VCB because its scale and bad debt are smaller and it can omit the restructuring stage. With a CAR of 12.92% and ratio of doubtful debt to total loan of 2.78%, the MHB need not deal with bad debts. In the past three years, the MHB had its business audited according to international standards so the revaluation of its assets will be easier and less time-consuming. The MHB has sent a list of consultancies to the Board of Bank Equitization and is waiting for its answer before carrying out the revaluation of assets. It is planned that the volume of shares in its IPO is not as big as the one issued by the VCB.

4. Roles of state-owned commercial banks when equitizing and listing their shares in the stock market

Five years after its establishment, the stock market in Vietnam proved to be one of

important channels for capital. Up to the end of 2005, the HCMC Stock Trading Center has attracted 32 companies with a capitalized value equaling 0.9% of the GDP but large-scale companies hadn't made their appearance. As for bonds – the commodity that enjoys favorable treatment when listing – the government bond is still the leading one with the listed value of VND39,000 billion (up to Dec.31, 2005). In 2005, the VN Index rose from 237.23 to 307.5, or 30%; the market value reached VND26,878 billion (of this value, shares account for 10.4%; bonds 88.7% and certificates of deposit 0.9%). Up to now, 37 companies have had their shares traded in the market (not including other seven ones that got licenses but haven't offered share for sale).

Commodities in the market are rather abundant but they are not diverse enough and there is no shares from commercial banks. Sacombank, after securing the license, plans to issue shares in July 2006 while the VCB is fulfilling procedures for getting license to list their bonds in the market. This means that after equitization, the issue of bonds and shares by commercial banks has an important meaning because it helps increase the supply of commodities and secures more sources of finance for commercial banks, thereby supporting development of the stock market and the whole economy as well.

5. Some obstacles to the equitization of commercial banks

The equitization of commercial banks, and of the VCB and MHB in particular, is carried out very slowly. Reasons for this situation are as follows:

(1) Because of specific features of their operations, commercial banks meet with some difficulties in carrying out the equitization; especially in evaluating their tangible

and intangible assets. The evaluation of their assets is based not only on book value, face value and market value of assets, but also on their risk degree, solvency, and expected profitability, etc., because their assets and profits are affected greatly by the exchange rate and interest rate. Moreover, the best part of their assets include loans and borrowings whose settlement depends on business performance of corporate debtors; and the evaluation of their brand name or public image is still a complicated and controversial issue.

(2) The equitization requires settlement of disputes, and of bad and doubtful debts, etc. and this effort is time-consuming.

(3) Banking service is a sensitive business that is usually affected by the mentality of the public leading to negative chain reactions, so the equitization process must be carefully carried out and full attention must be paid to the following aspects:

- The State must hold at least 51% of equity capital in order to control their operations after the equitization and ensure the implementation of monetary policies. For the time being, only preference shares are issued and shareholders have no right to a vote and participation, and foreign investor could be allowed to buy shares to a certain extent.

- It's necessary to form a commission for revaluation of assets comprising representatives from the Ministry of Finance, the SBV and banks to be equitized. The commission will decide on problems relevant to the equitization. To establish close cooperation between these parties also requires a lot of time.

It seems that a lot of time and energy will be spent before the program produces intended results while Vietnam is on the threshold of the WTO membership ■