

SHOULD LOSS-MAKING BANKS BE MERGED DURING THE BANKING REFORM?

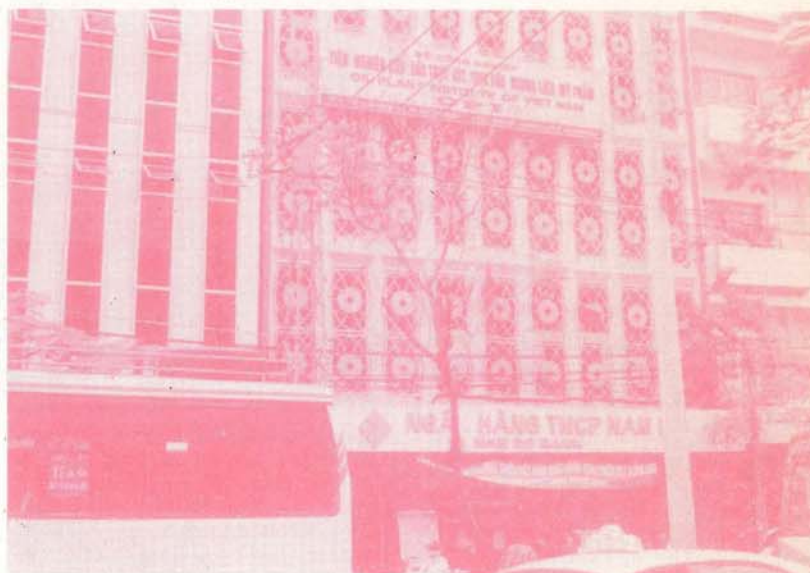
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According to the Draft Strategy for Socio-Economic Development for 2001-2010 by the UNDP and the Ministry of Planning and Investment, Vietnam should gain an annual growth rate of 10% to provide basic solutions to unemployment, poverty and low personal income. The Strategy argues that maintaining such a growth rate for a long time depends on changes in the rate of economic reform, especially in development of the private sector and consolidation of the banking system and the capital market.

Since 1998, many measures have been taken to beef up the banking system and main efforts were aimed at reforming the legal infrastructure and restructuring the system of commercial banks. Besides some well-managed banks that contributed a lot to diversification of financial institutions and development of the whole system, certain others made the banking system less creditworthy in the eyes of the public because of their poor performance, thereby causing difficulties for the banking reform.

To secure a minimum registered capital of VND70 billion as required by the Government Decree 82/CP dated Oct. 3, 1998, some commercial banks have had to issue bonds to raise more fund but this is no easy task when their public image is not good enough.

Recently, merger and acquisition have been considered as the most effective solution because it allows commercial banks to secure the required capital and become bigger and healthier. However, this solution doesn't ensure better management and performance. After merger or acquisition, however, commercial banks still face difficulties and dangers. Japanese experience shows that badly-managed commercial banks could weaken the whole banking system when they are merged into bigger ones.



At present, the private sector is developing well and playing an important role in job creation and economic growth. With over two million family businesses and 24,000 companies, the private sector accounts for 62% of the GDP. However, most leading banks pay little attention to this sector with the result that a lot of private companies and family businesses, including farmers, employing some 90% of the working population, find it difficult to secure formal loans.

In such a situation, many people are of the opinion that merger between banks couldn't be done by Government's decisions. On the other hand, necessary measures must be taken to help them improve their financial situation and business performance in spite of their small size.

These small banks with good performance could specialize in the supply loans to the private sector as a promising market niche. The Cờ Đỏ Joint Stock Bank in Cần Thơ is a good example.

This bank was initially capitalized at VND5 billion and specialized in supplying fiduciary loans to farmers. Its debt collection depends a lot on whether the crops and weather are good or not, but its performance is rated high by the SBV Credit Information Center.

As for badly-managed commercial banks, the Government had better allow them to be declared bankrupt to make the banking system healthier and maintain its good public image.

"Seven years after the Business Bankruptcy Law," Dương Đăng Huệ, an official from the Ministry of Justice, says, "some 30 petitions are sent to the court every year but only 50% of these cases are solved because of shortcomings in the law system." A bank being declared bankrupt could produce great effects on the economy as a whole, therefore the matter deserves greater attention from the banking authorities. ■