# FOREIGN BANKS IN VIETNAM

# A CHANNEL OF FOREIGN INVESTMENT

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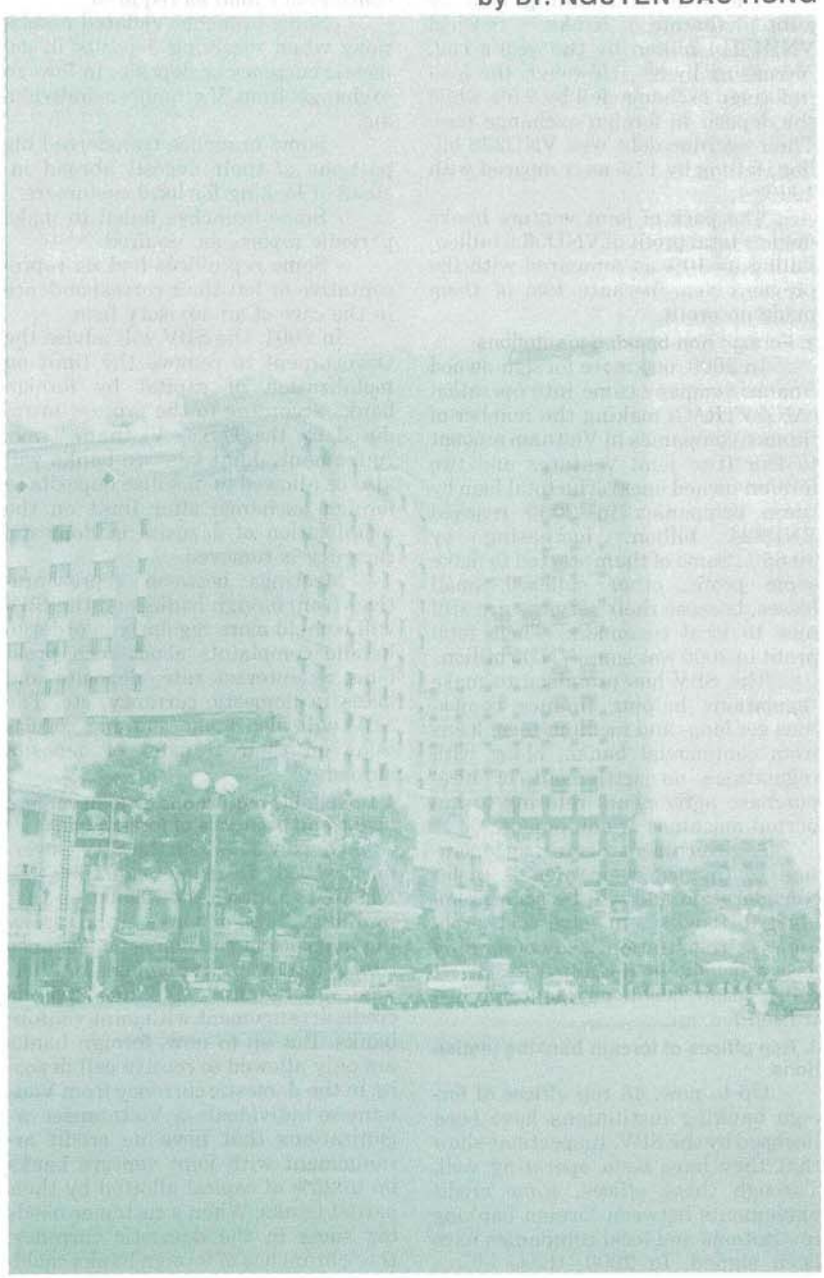
Up to the first quarter of 2001, there are 27 branches of foreign banks, six sub-branches, four joint venture banks, four finance companies and 48 rep offices of foreign financial institutions. Total registered capital of foreign banking concerns is US$410 million, not including deposits from abroad. They come from developed countries that have big investments in Vietnam, such as the U.S., England, France, Germany, Japan, Singapore, South Korea and Hong Kong. Branches of foreign banks in Vietnam can help channel foreign capital into Vietnam because their customers include many multinationals and major companies. In addition, they could make payments abroad, give advice and supply various services to foreigners in Vietnam.

**1. Foreign banking institutions**

The number of branches of foreign banks that make profit increased from 16 in 1999 to 22 in 2000, all four joint venture banks also made profit. The total capital of foreign banks rose to VND39,809 billion by the end of 2000, increasing by 24% over 1999 and representing a 17.6% market share. Of this capital, some VND6,000 billion is the legal capital, increasing VND400 billion in comparison with 1999 because two more branches came into operation in 2000 (of Chase Bank from the U.S. and of Laos-Vietnam Joint Venture Bank). Their deposit reached VND17,000 billion (46% of which was in domestic currency). Their total loan reached VND19,880 billion, increasing by 4.7% and representing a 12% share. However, loan in foreign currencies fell by 7.7% while deposit in foreign exchange rose. Their overdue debt was VND187 billion, reducing by 30% as compared with 1999. The ratio of overdue debt to the total loan was 1%. The overdue debt was reduced remarkably in Crédit Lyonnais, Bangkok Bank, and Hong Kong and Shanghai Banking Corporation, while high profits were found in Bank of Tokyo-Mitsubhshi, ANZ, Shinnan and CitiBank. The total profit made by foreign banks in 2000 was VND285 billion, increasing by 87.5%.

One of features of operation of foreign banks is the fact that the total deposit rose against the total loan. Up to the end of 2000, the total deposit in foreign banks reached VND14,200 billion, increasing by 71% over 1999. The balance of current accounts in foreign banks was also high, reaching VND8,960 billion and increasing by 84% as compared with the end of 1999. Many local banks also deposited large sums of money with foreign



banks. This means that the domestic need for loans in foreign exchange wasn't high.

As for joint venture banks, their total capital by the end of 2000 reached VND4,367 billion (934 billion of which was their legal capital), increasing by 6% as compared with 1999. Their deposit was 2,285 billion, increasing by 8.5% (60% of the deposit was in foreign exchange). On Nov. 30, 1999, the SBV Governor made Decision 424/1999/QĐ-NHNN to remove the limit on deposit in domestic currency received by joint venture banks but they couldn't attract more deposits of this kind.

The total outstanding loan by joint venture banks reached VND1,214 billion by the year's end, increasing by 8%. However, the loan in foreign exchange fell by 9.5% while the deposit in foreign exchange rose. Their overdue debt was VND238 billion, falling by 17% as compared with 1999.

The pack of joint venture banks made a total profit of VND56.5 billion, falling by 10% as compared with the previous year because two of them made no profit.

**2. Foreign non-banking institutions**

In 2000, one more foreign-owned finance company came into operation (ANZ/VTRAC) making the number of finance companies in Vietnam amount to four (two joint ventures and two foreign-owned ones). The total loan by these companies in 2000 reached VND224 billion, increasing by 30.65%. Some of them started to make some profit, other suffered small losses, because their services are still new to local customers. Their total profit in 2000 was some VND5 billion.

The SBV has promised to make regulations helping finance companies get long- and medium-term loans from commercial banks, along with regulations on settlement of hire-purchase agreements relating to imported machines or equipment.

A government decree on operation of finance companies is under consideration and will be soon promulgated. It will help solve such problems as registration of ownership of assets bought in installments, direct importation, double payment in registration fee, etc.

**3. Rep offices of foreign banking institutions**

Up to now, 48 rep offices of foreign banking institutions have been licensed by the SBV. Inspections show that they have been operating well. Through these offices, some credit agreements between foreign banking institutions and local companies have been signed. In 2000, these offices played an active role in certifying L/Cs, giving training courses to local banking officials, and holding workshops on banking and finance.

Generally, most branches and rep offices of foreign banks observed Vietnamese laws and banking regulations. However, certain violations also took place:

- There were some violations of exchange control regulations: trading in foreign exchange with unqualified customers, not observing the term of time bargain, collecting excessive guarantee fee, not observing reserve requirements, etc.
- Certain branches failed to form contingency fund as required.
- Some branches violated regulations when receiving deposits in domestic currency or deposits in foreign exchange from Vietnamese individuals.
- Some branches transferred big portions of their deposit abroad instead of looking for local customers.
- Some branches failed to make periodic reports as required.
- Some rep offices had no representative or left their correspondence in the care of an advisory firm.

In 2001, the SBV will advise the Government to remove the limit on mobilization of capital by foreign banks according to the process introduced by the U.S. - Vietnam Trade Agreement. Joint venture banks will also be allowed to mobilize deposits in foreign exchange after limit on the mobilization of deposits in domestic currency is removed.

Meetings between representatives from foreign banks and the SBV will be held more regularly in order to handle complaints about such problems as interest rate, deposits and loans in domestic currency, etc. The SBV will also make suitable regulations on their transfer of deposits abroad.

**4. Unsuitable regulations on joint venture banks and branches of foreign banks**

On Nov.31, 1999, the SBV Governor issued Decision 424/1999/QĐ-NHNN to remove the regulation that prohibits foreign banks from receiving deposits in the domestic currency from Vietnamese individuals or Vietnamese organizations that have no credit arrangement with joint venture banks. But up to now, foreign banks are only allowed to receive call deposits in the domestic currency from Vietnamese individuals or Vietnamese organizations that have no credit arrangement with joint venture banks up to 25% of capital allotted by their parent banks. When a customer needs big sums in the domestic currency, these branches of foreign banks couldn't satisfy this demand and have to invite local banks (usually state commercial banks) to co-finance this customer.

Foreign banks are also prevented from lending money and taking the land use right as a security. When a foreign bank and a local bank co-finance a project against the security of the land use right and buildings on the land, the local bank will have the right to hold the security, therefore foreign banks found it difficult to expand their market shares under this regulation.

The Circular 08/2000/TT-NHNN5 issued on July 4, 2000 by the SBV as a guideline on the Decree 13 made by the Government on March 17,1999 includes regulations on general shareholder meetings and transfer of shares between parties in joint venture banks that aren't in compliance with rules set by the Foreign Investment Law. Up to now, the Vietnamese law only allows foreign investors to take part in joint ventures as limited companies, not as joint stock companies, and therefore these joint ventures aren't allowed to issue shares or transfer shares or hold shareholder meetings.

In the Decree 13/1999/NĐ-CP, there are some regulations that needed to be amended when Vietnam is trying to integrate into the region:

- On license: The granting of license to foreign banks should be based on the need for development of the finance market.
- On time frame: Branches of foreign banks can last for 20 years at most; joint venture banks and finance companies: 50 years at most; rep offices: five year at most.
- On legal capital: US$15 million for a branch of foreign bank and US$10 million for a joint venture bank.
- On territory: A foreign bank can open branches in provinces or cities but sub-branches aren't allowed. A foreign bank shouldn't open a rep office where it has opened a branch and shouldn't do business outside its branches.
- On customer: A branch of foreign bank shouldn't open savings accounts or receive deposits from Vietnamese economic concerns.
- On pooled capital: In joint venture banks, the foreign party shouldn't control more than 50% of the legal capital.

These regulations have to be amended or removed because they aren't consistent with the GATS and WTO rules if Vietnam wants to integrate into the world and attract more foreign investment. ■