

1. Bank policy on HCMC private sector in recent years

HCMC is the Vietnam's biggest economic center. In 2000 it accounted for 19.3% of the GDP; 29.3% of the industrial output; 24.7% of service value and 34% of the national budget income. The network of banks is also the most developed in Vietnam:

- All four state-run commercial banks have their branches in HCMC, and the number of these branches is four to five times higher than the number found in Hà Nội.

- In HCMC, there are 19 joint stock commercial banks and finance companies, representing over 60% of the number of city commercial banks of the country; two joint venture banks; 15 branches of foreign banks; 20 credit funds besides a branch of the Central Credit Fund; 10 financial leasing companies and finance companies.

- HCMC banks control 30.6% of total bank deposit and 30.8% of bank credit.

In recent years, the supply of bank credit to the HCMC private sector has experienced many changes.

In HCMC, the portion of credit for the public sector is lower than the national average and varies between 25% and 38% because of the following facts:*

- There are only a few state-owned companies in HCMC, especially ones belonging to central authorities, and no

are all of small or medium sizes.

- The private sector including private companies, limited companies and joint stock companies has developed fast in recent years because:

+ The capitalist economy developed to some extent in Saigon before

BANK CREDITS FOR PRIVATE SECTOR IN HCMC AND HÀ NỘI

by Dr. NGUYỄN ĐẮC HƯNG

Corporation 90 and 91. Most state-owned companies in HCMC are subsidiaries of Hà Nội-based Corporations 90 and 91 or companies under direction of HCMC authorities, therefore they

1975 and it flourished again when the economic reform was launched;

+ The Chinese community in HCMC is large and active in trading and business;

Table 1: Bank credits for the HCMC - based public and private sectors in 1997-2000

Customer	Dec. 31,1997			Dec. 31,1998			Dec. 31,1999			Dec. 31,2000	
	Outstanding loan (VND bil.)	%	Change	Outstanding loan (VND bil.)	%	Change (%)	Outstanding loan (VND bil.)	%	Change (%)	Outstanding loan (VND bil.)	%
I. State-owned companies	8,256	31.7		8,394	25.75	1.6	15,865	36.5	89	19,413	37.2
II. Private sector	19,856	68.3		24,204	74.25	4.9	29,580	63.5	24.2	32,780	62.8
- Cooperatives	6,495	25.0		85	0.26		114	0.3		133	0.3
- Joint stock and limited companies				3,227	9.9		5,680	13.1		12,345	23.6
- Private companies	1,976	7.0		1,761	5.44		757	1.7			
- Foreign-invested companies and joint ventures	7,474	28.0		6,379	19.57		11,019	25.4		13,373	25.6
- Others	3,611	9.0		4,731	14.5		44	10.2		1,518	2.9
- Debt waiting for court's decision				4,589	14.08		4,869	11.2			
- Other debts							7,141	1.6		5,411	10.4
Total	28,112	100		32,598	100	16	45,445	100	39.4	52,193	100



+ HCMC residents received money and technical assistance from their overseas relatives;

+ HCMC government has adopted many bold policies to encourage the private sector; and

+ Trading relations between HCMC and Cambodia, Thailand and Singapore have developed well in recent years.

- Foreign investment in HCMC

HCMC government. Many state companies have bid for contracts to do various public works and asked borrowings from banks.

2. Supply of bank loans to the Hà Nội private sector

Although Hà Nội is the capital of Vietnam, it is the second largest economic center after HCMC. The following table shows the supply of bank loans to the Hà Nội private sector.

in bank loan increased against the share held by the public one because:

- The public sector has been restructured; many state-owned companies were dissolved, declared bankrupt or privatized.

- The development of private sector was encouraged and foreign investment increased.

The outstanding loan for the private sector didn't increase steadily

Table 2: Supply of bank loan to the Hà Nội private sector (VND1,000)

Year	Total		Loan for the public sector			Loan for the private sector		
	Loan	Growth rate (%)	Outstanding loan	Growth rate (%)	As % of total loan	Outstanding loan	Growth rate (%)	As % of total loan
1990	738,202		714,306		96.7	23,896		3.3
1991	825,018	11.8	788,711	10.5	85.6	36,307	52.0	14.4
1992	942,928	14.3	891,778	13.1	95.0	51,150	40.0	5.0
1993	1,878,836	99.2	1,424,078	59.5	75.8	454,758	789.1	24.2
1994	7,758,389	313.0	3,116,745	118.9	65.5	4,641,664	920.0	34.5
1995	8,140,380	4.9	4,760,058	52.7	58.4	3,380,322	-17.2	47.6
1996	16,302,567	100.2	7,152,000	50.3	53.8	9,150,567	171.0	46.2
1997	18,035,056	10.6	9,804,998	37.1	54.3	8,230,057	-10.1	45.7
1998	23,445,572	30.0	12,426,153	26.7	53.0	11,019,419	33.9	47.0
1999	32,620,000	39.1	17,451,710	40.4	53.5	15,168,290	37.6	46.5
Aug. 2000	36,599,640	12.2	19,471,008	11.6	53.2	17,128,632	12.9	46.8

increased fast.

- The foreign and private sectors flourished in provinces surrounding HCMC, such as Bà Rịa-Vũng Tàu, Bình Dương and Đồng Nai.

However, the share of private sector in bank credit in HCMC wasn't stable. In the years 1990-1996, the total loan supplied to this sector rose quickly because:

+ More and more private, limited, joint stock and foreign-invested companies were established after the open policy was adopted.

+ The number of joint stock commercial banks, finance companies, joint venture banks and branches of foreign banks increased and they paid full attention to customers from the private sector.

From 1997 on, the share of private sector in bank credit decreased because:

+ Many companies, such as EPCO, Minh Phụng, Ngọc Thảo, etc., defaulted on bank loans to the tune of VND 10,000 billion and many bank officials of high-ranking were behind bars with the result that most banks felt reluctant to give loans to private companies.

+ Many development projects guaranteed by HCMC government and undertaken by state-owned companies require big investments and attract most bankers. Up to 2001, commercial banks in HCMC have committed to supply VND532 billion to 16 out of 170 projects (worth VND3,871 billion) offered by the



The following facts can explain why Hà Nội private sector took a bigger share in bank loan than what its HCMC counterpart did.

- Four biggest state-owned commercial banks and over 100 Corporations 90 and 91 along with the biggest state-run companies have their head offices in Hà Nội. These corporations and companies borrow large sums of money from state-owned banks.

- In comparison with its HCMC counterpart, the Hà Nội private sector is less developed.

In the past ten years, however, the share of private sector in Hà Nội

because the prominent public sector in Hà Nội could increase its share in the bank loan any time.

Generally, the supply of bank credit to the private sector in Hà Nội and HCMC, and in the whole country as well, is very limited. This situation originated from many discouraging facts:

+ Most privately-run companies have poor public images. The private sector is notorious for tax evasion, having many companies brought to courts because of fraud and bankruptcy, and defaulting on bank loans.

+ Many private companies, after

making registration, have moved their head offices or vanished into thin air (In the first half of 2000, some 300 private companies in HCMC disappeared).

+ Many private companies have just enough money to deposit with a state-run bank to get a certificate they need for applying a permission to establish their companies. When doing business, they tend to default on loans from banks or their trading partners, and after some time, go out of business because they become too debt-ridden.

+ Banking regulations require privately-run companies to have at least 40% of capital needed for a new investment project, or 15% of capital needed for a development project before asking for bank loans, but many private companies failed to meet this requirement.

+ Many companies expand their activities beyond their management capacity, engage in smuggling activities, or commit commercial frauds. Owners of private companies usually lack managerial skills and necessary knowledge to work out business strategy or development projects to persuade banks into financing their projects.

+ Most private companies have no access to sources of information about foreign markets and technical innovations. Local governments have no effective policies to help private companies develop. Most private companies didn't keep their account books properly with the result that their financial statements aren't reliable. In the past few years, many companies went bankrupt when the market for real estate stagnated.

+ Before August 2000, banks' lending policy was so strict that most private companies couldn't secure bank loans, loan officials had to manage to provide them with necessary credit by exploiting some loophole in banking regulations. As a result, many loan officials were declared guilty when banking authorities carried out inspections.

+ Before the central bank adopted the base rate mechanism, private companies had to pay higher interest rates than state-owned companies did. Most banks prefer serving state-owned companies to attracting private ones because of their concerns about safety. Moreover, many loan officials lack ability to assess development projects produced by company customers.

+ In the years 1997-1999, the fact that some 100 cases of default were brought to courts every year made banks feel reluctant to do business with private companies.

business with private companies.

+ The Government and central bank only have mechanism for dealing with repayment risks when supplying credit to state-owned companies and peasants; and there is no such mechanism for non-state commercial banks doing business with private companies.

3. Some petitions

Both the economic development strategy for the next decade and advice of experts from international financial institutions affirm the need to develop the private sector and reform the public sector. The following are our petitions.

a. To the Government:

- Because the Companies Law was effective from Jan.1, 2000, the Government had better ask ministries to complete draft decrees for implementation of this law with a view to providing legal infrastructure for the development of private sector, and accelerate the promulgation of a competition law.

- Governmental bodies should carry out more regular inspections of non-state companies to ensure that they operate within the legal framework and implement accounting and statistics ordinances. The Government could require companies with legal capital of VND5 billion, or 10 billion, to have their accounting documents audited every year, but the situation in which companies are embarrassed by too many inspections and supervision should be avoided.

- Administrative reforms and anti-corruption campaigns should be accelerated to save companies from unnecessary difficulties.

- One of valuable lessons from China is to make companies under control of armed forces, police and VCP units independent from these bodies and operate according to the Companies Law.

- The Government could privatize some large and profitable companies that aren't essential to the economy or national defense (such as Saigon Beer Company, Vinamilk, some leading cement; sugar and garment companies) with a view to reforming the public sector and accelerating the development of the stock market.

- The Government should reduce subsidies to, and protection for, state-owned companies as required by IMF, ADB, WB, and AFTA.

- Law enforcement agencies should refrain from applying criminal law, instead of civil law, to cases of breach of contract, especially when private companies default on bank loans.

- The central bank could allow

privately-run companies with good business performance to get fiduciary loans up to VND100 or 200 million provided that they have (1) feasible business projects, (2) sound financial standing, and (3) creditworthiness.

- Measures to deal with repayment risks facing banks that supply loans to private companies should be worked out and adopted by the government (the Government has various measures to take when state companies default on bank loan).

- Foreigners working in Vietnam and overseas Vietnamese could be allowed to trade in real estate in order to stimulate this market.

- The Government should put the Fund for Small and Medium Enterprises and Fund for Import and Export into operation; and separate departments responsible for supplying low-rate loans from state commercial banks; and develop these departments into banks for the poor or revolutionary families if need be.

- Foreign aid could be used for supplying training courses to Vietnamese businesspersons; supplying information to business circle and giving financial support to new enterprises.

- Rights to use foreign exchange to import goods should be given to privately-run and state-owned companies alike.

- Giving private persons rights to engage in all economic activities which have been monopolized by state companies is a good measure to encourage fair competition.

b. To the central bank:

The State Bank of Vietnam should:

- carry out the reform in the banking system;

- attract foreign-financed programs to train bank officials in banking management, project assessment and risk estimation; and programs to modernize the banking system;

- give more autonomy in doing business to commercial banks, increase pay for bank managers and officials, and recruit bank officials according to international processes and standards;

- privatize one or two out of six state commercial banks (the SBV could hold 50% of shares of these privatized banks);

- deregulate the banking system with a view of offering a more level playing field to private and foreign banks as required by multilateral or bilateral agreements the Government has entered; and

- make regulations on bills of exchange in order to facilitate the use of these bills ■