5-4

The Current Status of the Financial Sector in Viet Nam

Hideto Saito

Daiwa Institute of Research Ltd.

The following information is based on interviews with numerous financial institutions (including the State Bank of Viet Nam, state-owned commercial banks, joint-stock banks, joint-venture banks, and foreign bank branches), state-owned companies, and private companies, as well as information and data obtained by the counterpart to this survey, a Vietnamese consultant on consignment.

The data obtained does not necessarily cover all financial institutions. Also, some data could not be obtained and some seems to be inconsistent. Still, the information and data make it possible to understand the current status of the financial sector in Viet Nam, particularly overall trends concerning deposits and bank loans.

I. Summary of Financial Institutions

1. Development of Various Types of Financial Institutions

In 1988, a division of the State Bank of Viet Nam was split off and the Bank for Agriculture and the Bank of Industry and Commerce were established. A two-tier banking system was thus introduced, with banking functions divided into state bank and commercial bank functions. In 1990, the Decree-Law on the State Bank and the Decree-Law on the Banks, Credit Cooperatives, and Finance Companies were enacted, making possible the various forms of financial institutions seen today, including the state-owned commercial banks, joint-stock banks, joint-venture banks, and foreign bank branches.

The current financial system in Viet Nam comprises the following financial institutions (see Table1).

State-owned commercial banks: 4
Joint-stock banks: 52
Joint-venture banks: 4
Foreign bank branches: 22
Credit cooperatives: 82
People's credit funds (PCFs): 826
Finance companies: 2

Although there were formerly 7,500 credit cooperatives in agricultural villages, in 1990 only about 160 were functioning. In 1993, on an experimental basis, the State Bank of Viet Nam established commune-based people's credit funds (PCFs) based on the Quebec (Canada) credit cooperative model. The PCFs expanded rapidly, and at the end of 1996 there were approximately 826 of them, with total outstanding loans of about 1 trillion Vietnamese dong (VND). The interest on deposits and loans at

PCFs is high compared to agricultural banks, but the procedures are said to be simple. In contrast, the assets of credit cooperatives are not increasing.

Table 1 Structure of the financial system (1996)

Institutions	Assets	Number	Branches	Capital & Reserves
Central bank:				
State Bank of Viet Nam	77,403 billion VND		53	1,005 billion VND
Commercial Banks	86,203 billion VND			6,237 billion VND
1. State-owned banks	66,005 billion VND			3,279 billion VND
Foreign Trade Bank	21,213 billion VND		20	850 billion VND
Bank for Agriculture and Rural Development	17,219 billion VND		760	1,000 billion VND
Bank of Investment and Development	12,456 billion VND		54	765 billion VND
Bank of Industry and Commerce	15,117 billion VND		60	664 billion VND
2. Other reporting banks	20,198 billion VND	24		2,958 billion VND
a. Joint-Stock banks				(Minimum capital)
Urban		32		1,145 billion VND
Rural		20		24 billion VND
b. Joint-venture banks		4		USD 65 million
c. Foreign bank branches		22		USD 350 million
Others				
3. Credit cooperatives		82		
4. People's Credit Funds (licensed)		826		
5. Finance companies		2		20 billion VND

Source State Bank of Viet Nam

2. Financial Institution Shares

(1) Trends in Share of Deposits

From 1993 to 1996, changes in shares of deposits and loans held by Viet Nam's major financial institutions were as follows (see Table 2).

The share of total deposits held by the four state-owned commercial banks dropped from 91% in 1991 to 76% in 1996, while the share held by joint-stock banks increased from 6% in 1993 to 10% in 1996. It is said that the Vietnamese have more confidence in the state-owned commercial banks and that therefore the joint-stock banks need to provide higher interest rates on deposits in order to mobilize funds. Also, as a result of an increase in the number of foreign bank branches, their share of deposits increased from 2% in 1994 to 8% in 1995 and then increased to 11% in 1996. Foreign banks are under a restriction which allows them to accept up to just 25% of their allocated capital and reserves in dong deposits from customers who have not taken out loans with them, but this restriction does not appear to impose a serious hindrance for many of the foreign banks.

Table 2 Deposit and loan shares of financial institutions

	1993	1994	1995	1996
Total deposits	100%	100%	100%	100%
1)State-owned commercial banks	91%	88%	80%	76%
Agribank	27%	26%	23%	22%
Incombank	27%	24%	20%	20%
BIDB	16%	22%	19%	18%
Vietcombank	21%	16%	18%	16%
2)Joint-stock banks	6%	8%	9%	10%
3)Joint-venture banks	1%	2%	3%	3%
4)Foreign banks (branches)	2%	2%	8%	11%
5)Others	-	-	-	-
Total loans	100%	100%	100%	100%
1)State-owned commercial banks	89%	85%	75%	74%
Agribank	18%	18%	17%	17%
Incombank	29%	33%	31%	25%
BIDB	6%	4%	3%	8%
Vietcombank	36%	30%	24%	24%
2)Joint-stock banks	7%	11%	15%	14%
3)Joint-venture banks	1%	2%	3%	5%
4)Foreign banks (branches)	3%	2%	7%	7%
5)Others	-	-	-	-

Source State Bank of Viet Nam

(2) Trends of Loan Shares

Of total loans, the share held by the four state-owned commercial banks dropped from 89% in 1993 to 74% in 1996. In contrast, the share held by joint-stock banks increased from 7% in 1993 to 15% in 1995, but then showed a slight decrease to 14% in 1996. Recently, a number of joint-stock banks are confronted with the problem of bad loans, and some say that poor management is the cause. The share of loans held by foreign bank branches has also increased, from 3% in 1993 to 7% in 1995, reflecting the increase in the number of foreign bank branches. The activities of the foreign banks are mainly the procuring of capital from overseas and lending (foreign currency) to multinational corporations and joint ventures. This is because financing for domestic corporations is difficult as a result of difficulty in procuring dong and a lack of corporate information. As a result, the companies with which many foreign banks can do business are limited to multinational corporations, certain state-owned enterprises, the four state-owned commercial banks, and certain joint-stock banks. Some foreign banks, however, are aggressively moving to develop loan customers. Since 1996, foreign banks and joint-venture banks are no longer permitted to accept land-use rights as collateral on new loans.

II. Deposits

1. Deposit Trends

Diagram 1 shows bank deposit trends. Twenty banks were included in the total until 1993. In 1994, the number increased to 28: four state-owned commercial banks, three joint-venture banks, seven foreign bank branches, and 14 urban joint-stock banks. These banks and branches are believed to hold an overwhelming share of all deposits with financial institutions in Viet Nam, so they can be used to analyze overall trends. As seen in Diagram 1, inflation decreased from 1993 and total deposits increased significantly from 1994 to 1996. In particular, despite bank interest rates on deposits being lowered four times in 1996, total deposits continued to increase significantly. Diagram 2 indicates the percentage of dong deposits. Dong deposits at all state-owned commercial banks increased greatly, from 39% in 1991 to 75% in 1996. The percentage of dong deposits at other banks also increased, but at the end of 1996 the figure in those banks remained at 50%.

Although there are no direct restrictions on interest rates on deposits, there is a maximum interest rate on loans and a spread restriction of 0.35% per month on the profit margin between the loan interest rate and deposit interest rate, and that restriction affects the strategies of each bank.

Table 3 indicates the current status of deposits at state-owned commercial banks as of the end of 1996. The specific characteristics of each state-owned commercial bank are as follows.

In the Agribank, 71% of the deposits are from individuals. Seventy-three percent are time deposits, and most are dong deposits. The Agribank has expansive deposit collection sites (approximately 2,600 locations), located mainly in agricultural villages. There are thus numerous deposits in rural areas and only about 22% of the deposits are from cities like Hanoi and Ho Chi Minh.

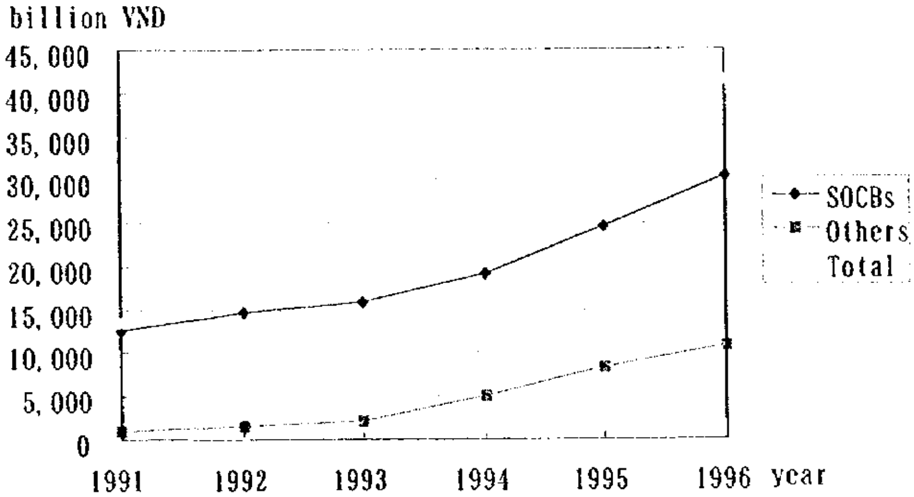
In the BIDV, the percentage of deposits from state-owned companies and individuals is low: most depositors are private companies or from other sectors. Seventy-one percent of deposits are demand deposits, and about 80% are dong deposits. About 28% of the deposits are from urban areas.

In the Incombank, deposits from individuals comprise 39% of the deposits, while state-owned companies account for 31%. Ninety-one percent of all deposits are dong deposits. In recent years, the bank has been increasing the number of deposit collection sites, known as transaction offices, and it now has about 800 locations (including branches), mainly in cities. Deposits in Hanoi and Ho Chi Minh city account for 49% of all deposits.

In the Vietcombank, deposits from state-owned companies account for 41% of the deposits, the highest figure among the state-owned commercial banks. About two-thirds of the deposits are demand deposits and 53% are dong deposits. The Vietcombank has few branches, and because state-owned companies are concentrated in the cities, the percentage of urban deposits is relatively high at 84%.

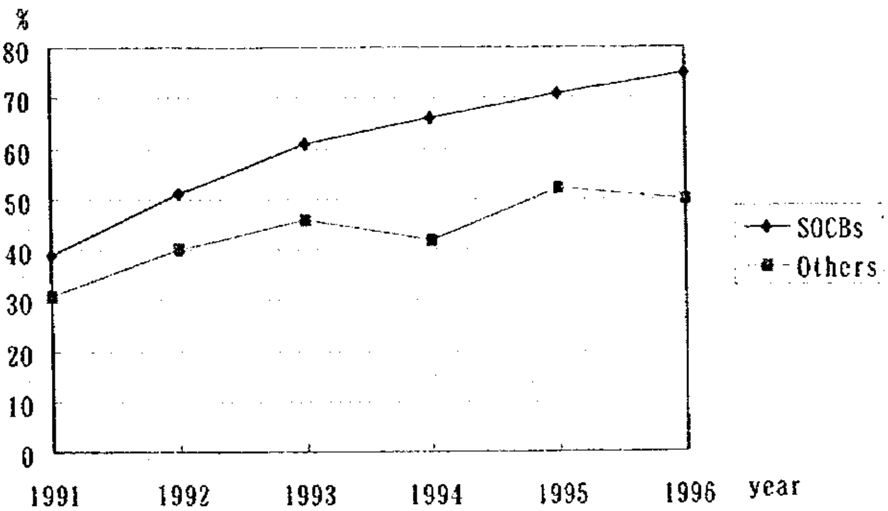
Since 1992, state-owned commercial banks have been issuing bonds to raise funds, and these bonds have become an important way for the Incombank and the Agribank to mobilize fund from individuals. Almost all the bond issues have a short-term maturity, however, and because there is no secondary market for trading the bonds they serve merely as an alternative for deposits rather than as a means for raising long-term funds.

Diagram 1 Deposit trend



Source State Bank of Viet Nam

Diagram 2 Percentage of dong deposit



Source State Bank of Viet Nam

Table 3 Deposit at State-owned commercial banks (Dec. 1996)

	Agribank	BIDV	Incombank	Vietcombank
Total deposit (billion VND)	4,171	3,030	8,892	9,978
(by type of depositors)				
State-owned enterprises	22%	5%	31%	41%
Individuals	71%	8%	39%	27%
Others	7%	87%	30%	33%
(by term of deposits)				
Demand deposit	27%	71%	53%	64%
Time deposit	73%	29%	47%	36%
(by currency of deposits)				
Dong deposit	94%	81%	91%	53%
Foreign deposits	6%	19%	9%	47%
(by regions)				
Total	100%	100%	100%	100%
North	51%	48%	45%	55%
(Hanoi)	11%	12%	19%	51%
Middle	12%	22%	11%	6%
South	37%	30%	44%	40%
(HCM City)	10%	16%	30%	33%
Deposit taking places	2,600	120	800	43
Total bonds (billion VND)	3,115	320	3,149	371

Source State Bank of Viet Nam

2. Confidence in Banks

In recent years, deposits have been increasing significantly, perhaps as a result of increased confidence in banks by the Vietnamese people, decreasing inflation, and stabilization of the dong against the US dollar. Persons related with banks like to say that because of decreasing inflation and improvement in settlement systems and networking, people now have more confidence in banks and are depositing cash they formerly kept at home. In the past, the process of depositing foreign currency in the Vietcombank was complicated and the source of the funds had to be disclosed. Several years ago, however, in order to encourage deposits, the disclosure requirement was eliminated and the deposit process was simplified. The Incombank and the Agribank have been increasing the number of their transaction offices in recent years, improving the convenience to depositors. As a result, collecting funds has become easier.

Each of the state-owned commercial banks has developed and improved its computer networks and remittance systems, increasing the convenience to customers by making it possible to transfer funds within one day between branches of the same bank covered by the network. Little progress has been made concerning remittances between different banks, however, so-called inter-bank remittances, and this remains a major issue. The time required to make a withdrawal is shorter than previously, and progress is also being made on introducing individual accounts at the state-owned commercial banks.

Looking at the results of a questionnaire survey conducted on about 50 state-owned commercial bank depositors with the cooperation of our Vietnamese consultant (see Reference Material 1), it can be seen, as indicated below, that confidence in banks is increasing.

- Compared to three years earlier, the frequency of bank usage has increased (58%) and bank deposits have increased greatly (28%).
- Approximately 10% of income is saved (33%), and the most frequent response was that more than

50% of financial assets (cash, dollars, deposits, and gold) are deposited in banks (24%).

- The most frequent response was that if enough funds were held, the respondent would make dong deposits (45%).
- The major reasons for selecting the bank currently used were: state-owned banks, in particular, can be trusted (77%); the principal and interest are safe (43%); the interest rates on bank products are high (33%); and proximity to home (31%).
- Most depositors are satisfied with the bank they are currently using (92%); specific reasons given were fast clerical processing (45%); high deposit interest rates (36%); and good treatment of customers (34%).
- Points that banks still have to improve include: complicated procedures (50%); withdrawals take too much time (35%); clerical processing is slow (25%); and bankers are arrogant (25%).
- Compared to three years earlier, bank service has improved (96%) and confidence by the general public in banks has improved (88%).

In contrast with the above, however, in interviews with private companies, joint-stock banks, foreign banks, and individuals, it was often said that the Vietnamese people have long lacked confidence in banks. Many Vietnamese have likely never used a bank before or had a bad experience when the credit cooperative in which they deposited their money bankrupted, and many have never thought about depositing money in a bank. Considering these points, it appears that there is a difference in the people's confidence in state-owned commercial banks and other banks, such as joint-stock banks. It might also be mentioned, however, that recently the Ho Chi Minh Branch of the Vietcombank was involved in a major scandal. As a result, the Vietnamese are coming to view all banks somewhat more harshly than previously.

To clarify these points, a survey concerning family finances of approximately 1,800 households is currently being conducted with the cooperation of our Vietnamese consultant. Based on the results of this survey, an examination will be made of savings, including changes in savings trends. We are awaiting the results of this survey.

III. Bank Loan

1. Loan Trends

(1) Loan Situation in State-Owned Commercial Banks

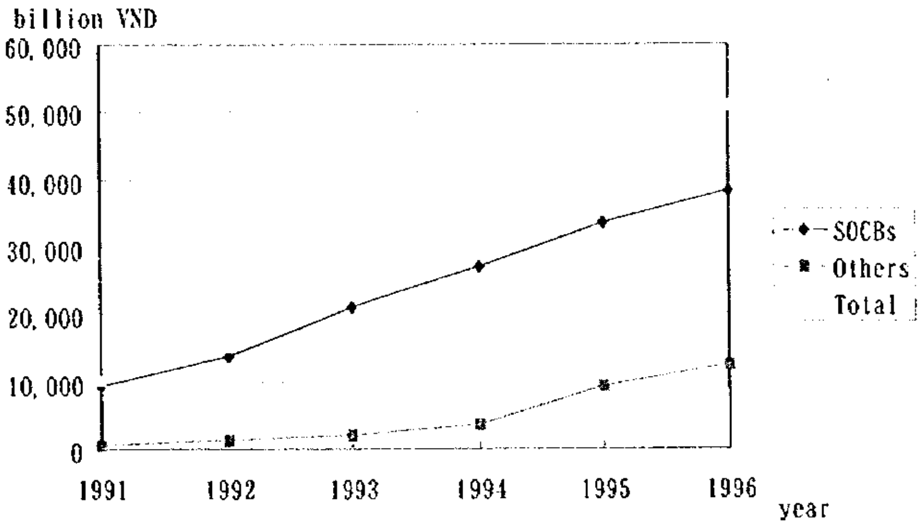
- Diagram 3 indicates changes in total outstanding loans by banks. Since 1991, loans by financial institutions have increased rapidly, but even though the maximum interest rate on loans from banks was decreased four times in 1996, at the end of 1996 the growth in loans became sluggish. In particular, there has recently been a trend to pinpoint the responsibility for bad debts, and this has become a major factor leading to an unwillingness to lend on the part of banks.
- Diagram 4 shows a breakdown by loan customer. The percentage of loans to state-owned enterprises (SOE) decreased from 90% in 1991 to 53% in 1996. In contrast, loans to the private sector (self-managed firms and individuals) have not changed much, remaining at about 25% for the past four years, but loans to "other sectors," comprised of joint-venture and stock companies, have increased since 1994.
- Diagram 5 shows the proportions of long-term and short-term loans. The percentage of short-term loans started decreasing in 1991 from 85% and has remained at a little less than 70% for the past three years.

- Table 4 shows the status of loans of state-owned commercial banks (as of the end of 1996). The characteristics of loans of each of the state-owned commercial banks is as follows.
- Seventy-one percent of the Agribank's loans are to individual farmers, and 65% are short-term loans. Also, 80% of its loans are dong-denominated. Most of its loans are in agricultural districts. Looking at the different sectors, loans to the agricultural sector are high at 65%.
- Ninety-one percent of the BIDV's loans are to state-owned enterprises and 55% of its loans are long-term, the highest figure for any of the state-owned commercial banks. Viewed by region, the percentage of loans to the northern and central regions is high. By sector, many of its loans are in the commercial and industrial fields.
- The percentage of the Incombank's loans to private enterprises and individuals is high. Eighty-two percent of its loans are short term, and 80% of them are dong-denominated. The percentage of loans to urban areas is high at about 50%, and the percentage to private enterprises and individuals in Ho Chi Minh City is particularly high. By sector, the percentage of loans to industry and commerce is high.
- Eighty-one percent of the Vietcombank's loans are to state-owned enterprises and there are few loans to individuals. Sixty-seven percent of its loans are short term and the percentage of foreign-currency loans is 54%, higher than that for other state-owned commercial banks. The Vietcombank has few branches and since its main customers, state-owned enterprises, are located mainly in cities, the percentage of its urban loans is high at 59%. Viewed by sector, the Vietcombank has higher percentages of its loans to the construction, transport, and communications fields than other state-owned commercial banks.

(2) Characteristics of Long- Term Loans

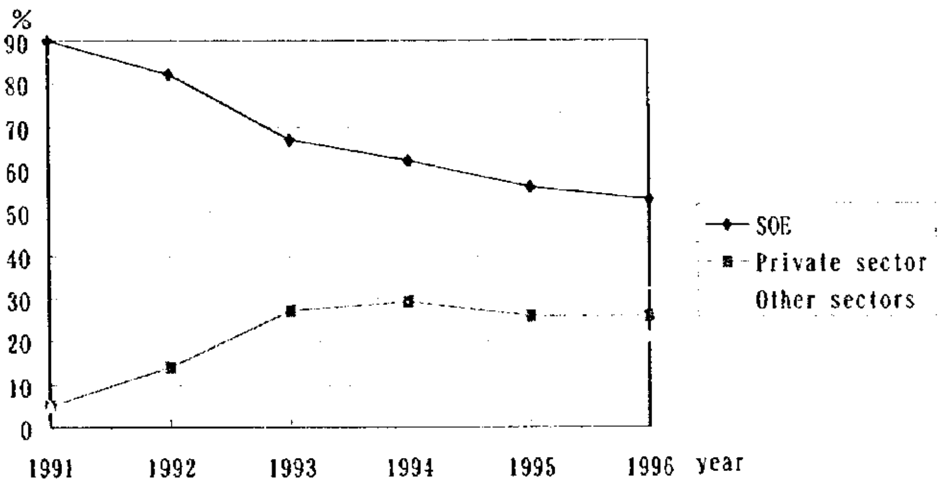
- One characteristic of long-term loans among all financial institutions in Viet Nam is that the percentage of foreign currency-denominated loans among all long-term loans (58% as of December 31, 1996) is greater than that of foreign currency-denominated loans among all short-term loans (26% as of same date). Furthermore, the percentage of long-term loans to state-owned enterprises (42% as of same date) is greater than to private firms (22% as of same date).
- Restrictions on foreign currency-denominated loans and the issuance of letters of credit (LC) have been tightened since mid-1996. Foreign-denominated loans are limited to settlement for imported machinery equipment and materials; profit-making by borrowing foreign currency and benefiting from the difference in interest rates is strictly forbidden. Behind these restrictions was a belief on the part of the central bank that domestic companies were being provided foreign currency-denominated loans in excess of what they needed, leading to a restraint on demand for dong-denominated loans.
- LCs were easily issued until 1995, but in June 1996 controls on LCs were tightened to suppress imports of consumer goods. Specifically, a circular (Circular 06/NH7-CT of June 6, 1996) and a directive (August 5, 1996) provide that when issuing LCs for import of consumer goods and products manufactured domestically, the bank must retain 80% of the amount in deposits, and for imports of materials such as fertilizer, gas, or cement, the bank can retain a certain amount of deposit. As a result, state-owned commercial banks have become more cautious in issuing LCs.
- According to a governmental determination made in May concerning LCs issued for deferred payment, in cases where a company fails to pay but the bank pays on its behalf, the bank must conclude another loan agreement with the company. But if the borrower is a state-owned enterprise, no collateral is needed. Also lifted was the restriction limiting loans of more than 10% of the bank's owned capital to a single company.

Diagram 3　Bank loan trends



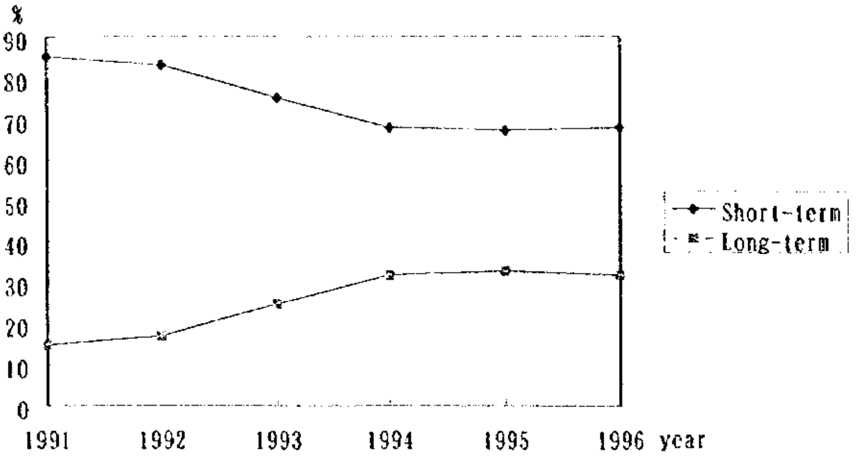
Source　State Bank of Viet Nam

Diagram 4　Percentage of borrowers



Source　State Bank of Viet Nam

Diagram 5 Percentage of short- and long-term credit



Source State Bank of Viet Nam

Table 4 Credit at state-owned commercial banks (1996)

	Agribank	BIDV	Incombank	Vietcombank
Total credit (billion VND)	11,368	9,121	9,955	7,874
(by type of borrowers)				
State-owned enterprises	26%	91%	45%	81%
Individuals	71%	7%	16%	4%
Others	4%	2%	39%	15%
(by term of credit)				
Short -term credit	65%	45%	82%	67%
Long -term credit	35%	55%	18%	33%
(by currency of credit)				
Dong deposit	80%	70%	80%	46%
Foreign currencies	20%	30%	20%	54%
(by regions)				
Total	100%	100%	100%	100%
North	44%	48%	45%	39%
(Hanoi)	3%	8%	19%	33%
Middle	17%	26%	11%	27%
South	40%	26%	44%	34%
(HCM City)	6%	10%	30%	26%
(by sector of borrower)				
Total	100%	100%	100%	100%
Industry	5%	26%	37%	24%
Construction	3%	8%	9%	11%
Commerce	18%	28%	34%	33%
Transportation	4%	5%	7%	12%
Telecommunication	1%	5%	7%	9%
Agriculture	65%	15%	-	5%
Others	4%	13%	6%	6%

Source State Bank of Viet Nam

2. Problems Confronting Companies

Although companies have strong needs for capital, many of them that seek loans from banks face the following problems.

- The amount of owned capital held by the companies is low.
- There is a tremendous demand for capital, but there is little collateral for securing loans.
- Companies can obtain only short-term loans and have difficulty obtaining long-term loans. As a result, medium- and long-term capital is allocated from short-term loans.
- Loan procedures have become stricter than in the past and banks require numerous documents supporting collateral.
- Banks are permitted to lend up to 80% of the value of the collateral, but banks evaluate collateral strictly, and collateral asset values are set low (about 50%). As a result, companies can borrow only 50% of the value of their collateral assets. This leads to situations in which companies must reduce the scale of their operations.
- According to a governmental guideline (Decree No. 59 of October 3, 1996) intended to cool down the enthusiasm for capital investment, companies cannot borrow more than their statutory capital. As a result of strong opposition by companies that require large amounts of capital, however, such as electric power companies, implementation has been temporarily postponed.
- New accounting standards were introduced in 1996, switching from a cash basis to an accrual basis, but additional problems have been pointed out, including a lack of distinction between accounting categories for different industries.
- It is said that companies are keeping two and even three sets of books - one for banks, one for the tax authorities, and one for internal use. Since auditing is not compulsory, it is hoped that introduction of an auditing system to ensure the fairness of financial statements will be considered.
- It is not entirely clear if companies that have obtained or seek loans are being managed effectively.
- Legally, there is no discrimination between state-owned enterprises, private companies, and individuals. The state-owned commercial banks, however, discriminate against private companies in the following ways: (1) private companies often cannot get the bank to issue an LC unless they have deposits with the bank equivalent to 100% of the amount of credit they seek to obtain; (2) unlike state-owned enterprises, private companies cannot use under-construction projects as collateral; (3) private companies do not have state assets, unlike state-owned enterprises, and cannot use such assets as collateral; and (4) private companies cannot utilize the rights to use their own real property when forming joint ventures with foreign companies, as state-owned enterprises can.

3. Issues that Need to be Addressed

(1) Providing Medium- and Long-Term Funds

- It is realized through discussions with the banks and companies that companies have a great demand for borrowing medium- and long-term funds. The major reasons why companies cannot obtain such loans are that the profitability of the business is low or, even if profitability is high, the companies have no collateral. Additional reasons include a stricter stance concerning lending because of the bad debt problem, insufficient research because of a lack of information concerning borrowers and industrial data, lack of know-how on reviewing long-term plant and equipment funds, high interest rates, and borrowing restrictions imposed on banks (e.g., limiting lending to 10% of owned capital).

- In response to a governmental guideline intended to shift up to 20% of outstanding short-term loans to medium-term loans to promote the development of the national economy in the fourth quarter of 1996, the governor of the State Bank of Viet Nam issued several directives in September 1996 (No. 12 CT-NH14). The medium-term loans are for projects selected by the government (approximately 2 trillion VND to 3 trillion VND) and projects selected by the banks themselves (2.6 trillion VND). For projects on the government's list, the Ministry of Finance subsidizes the portion of interest in excess of 1.1% per month. Medium-term loans issued under this guideline are not subject to a loan limit. There is also a plan to increase the percentage of loans converted to medium- and long-term loans to 30% in 1997.
- To respond to the strong need companies have for medium- and long-term funds, banks are using a method of pooling short-term funds with different dates of maturity to change the terms and provide long-term loans. Procurement of medium- and long-term funds with appropriate loan periods remains an issue. Even the governor of the central bank emphasized (on June 6, 1996) the need for aggressive expansion of medium- and long-term mobilization. After inflation was effectively controlled in 1993, the BIDV began issuing bonds, principally to individuals (mostly two-year bonds in 1993 and five-year bonds in 1994). There is no secondary market, however, and the bonds have no liquidity. Some customers, however, borrow from the bank using these bonds as collateral. The bank is also borrowing from overseas financial institutions (for a two- to three-year term initially, and more recently for five- to seven-year periods). The bank is also requesting the Ministry of Finance to allow it to issue bonds overseas. It is considering issuing long-term bonds (three to five years) for seven- to 10-year projects and converting the term of maturity. In the future, the raising of funds will improve with the establishment of a stock exchange. The Agribank and the Incombank have issued medium-term one- and two-year bonds, but most banks in other regions have not issued any bonds.

(2) Improvement of Loan Screening Capabilities

- State-owned commercial banks conduct loan procedures in accordance with guidelines issued by the governor of the central bank. Summaries of major banking regulations concerning deposits and loans are included in Reference Material 2. The loan screening methodology of the state-owned commercial banks is comprised of four steps: (1) documentary scrutiny concerning the borrower's legal status, approval of the investment plans by the appropriate authorities, and so on; (2) project evaluation, including evaluation of marketability, technical evaluation, forecasts concerning projected income and expenditures, and consideration of societal effects; (3) understanding of borrower's financial condition, including debt ratio and ability to pay interest; and (4) deciding on the loan amount and selecting the loan term.
- According to research conducted by the Japan Development Bank concerning Viet Nam's state-owned commercial banks, under the current status of screening by financial institutions, the central bank's regulations concerning borrowers, particularly regulations concerning collateral, are having a stronger negative effect on borrowers than screening has. Also, financial institutions loaning funds have for some time conducted project investigations, but recently a need to investigate the ability of borrowers to repay has emerged as financial activities based on the market principle have begun. But the banks have little experience in this type of investigation, so in the end they rely on collateral.
- Regulations concerning collateral were enacted in August 1996, but even when real property such as buildings is used as security, it is difficult to dispose of the property. Furthermore, state assets

comprise the collateral of state-owned enterprises and it is not clear under current regulations what happens when such an enterprise is unable to repay a loan.

- It is said that even when a project is profitable, loans often cannot be obtained from banks without paying a bribe. This proves the continued existence of planned-economy thinking, whereby the providing of credit is considered a favor.

(3) Reducing Bad Debt

- Based on the realization that overdue debt was increasing and that much such debt would become unrecoverable, in November of 1996 the governor of the central bank placed overdue debt in three categories: (1) debt that is overdue less than six months is normal overdue debt; (2) debt that is overdue six months to 12 months is questionable debt; and (3) debt that is overdue more than 12 months is bad debt. The governor also issued measures that included the promotion of appropriate debt collection methods, monthly reports on the progress of debt collection, a reevaluation of the current loan system, and implementation of two-step loan screening.
- Reasons for the increase in bad debt cases include: (1) many financial institutions are not observing strictly the regulations concerning loans (providing loans to customers that do not satisfy all the conditions; incomplete investigation of investment projects; considering only profits and not thinking about the quality of the investment; incomplete information on the customer, particularly customers obtaining loans from more than one institution); (2) many financial institutions do not appreciate the importance of the system of credit and assign inappropriate personnel to the job; and (3) investigations by the central bank and by financial institutions have been strengthened, but sufficient investigation is often not conducted. There is excessive confidence in state-owned enterprises, moreover, based on a belief that if they were to approach bankruptcy, the state would assist them. About one year ago, the interest rate on treasury bills was high at 20% per annum, and many financial institutions avoided lending to high-risk companies and purchased treasury bills instead. The interest rate has now dropped to about 8%, so there is little merit in purchasing the treasury bills.
- As mentioned above, the investigation by state-owned commercial banks of loans applications is not performed sufficiently. An important issue for the future is how effectively bad debt can be prevented by improving the investigative capabilities of the banks.

IV. Flow of Deposits to Bank Loans

Through what routes do funds raised in the form of bank deposits from individuals and companies through the branch networks of financial institutions flow to companies and individuals in need of funds? The following explains financial trends, the flow of funds from the head offices to the branches of state-owned commercial banks, and the flow of funds between major banks in Ho Chi Minh City and Danang, the major cities in the southern and central regions, respectively.

1. Financial Trends in Ho Chi Minh City

(1) Major Financial Institutions

Ho Chi Minh City is Viet Nam's largest city, and its manufacturing, trade, and service industries are thriving. Within the city are branches of the four state-owned commercial banks and 18 joint-stock banks under the jurisdiction of the central bank. There are also branches of 19 foreign banks under the jurisdiction of the central bank head office in Hanoi. The Ho Chi Minh branch of the central bank governs only Ho Chi Minh City. The Hanoi head office of the central bank oversees the economy of the entire southern region, and the Ho Chi Minh branch does not serve a central function for the southern region. The Ho Chi Minh branch of the State Bank of Viet Nam makes loans mainly to the joint-stock banks, but these are mostly one-month, short-term loans. Loans to the state-owned commercial banks are handled by the central bank head office in Hanoi. Prior to 1988, there were no state-owned commercial banks and the central bank made loans to state-owned enterprises. It no longer makes such loans today. The demand for capital in Ho Chi Minh City is quite high, and normally there is a flow of funds to Ho Chi Minh city from the central and northern regions.

(2) Deposit and Loan Trends

Deposits increased 30% in 1995. And in 1996, despite four decreases in interest rates, deposits increased 33%. The breakdown in the composition of deposits is 38% from households, 37% from domestic companies, and 15% from foreign companies. The Vietnamese are generally responsive to interest rates and depositors renew accounts before interest rates are lowered. Loans are also increasing. Specifically, loans to the mining and manufacturing industries have increased 17%, loans for imports and exports increased 30%, and agricultural loans increased 13%. The demand for medium- and long-term capital is strong, and instructions have been issued to convert 20% of the 25 billion dong in short-term loans to medium- and long-term, but this action is not sufficient. In fact, the percentage of medium- and long-term loans remains at 16%. One reason for the lack of growth in medium- and long-term loans is a lack of appropriate projects. Although the demand for funds is high, if business profitability is low or if it is high but the company has no collateral, banks are reluctant to extend loans. The bad debt percentage has decreased because regulations on LCs and collateral were tightened last year, but the same regulations have caused many companies to be faced with a shortage of funds.

(unit: billion VND)	Deposits		Loans	
	1995	1996	1995	1996
Agribank	626	1,263	266	402
Incombank	4,684	4,782	3,062	5,469
Vietcombank	4,513	4,128	1,950	1,608
BIDV	628	707	1,117	1,100
Joint-stock banks	6,295	6,993	4,999	7,789
Foreign bank branches	1,750	2,233	1,811	4,644

Source State Bank of Viet Nam

(3) State-Owned Commercial Bank Branches

Under the Agribank Ho Chi Minh City Branch Southern Region Center are one branch in each of the 23 provinces, one branch in each district, and, below that, transaction offices. All of the Agribank's funds are kept at the Hanoi head office, and the budget for each branch is determined each quarter. Funds are sent from the head office to branches under the center's jurisdiction through the center. There is a lack of funds even at the Ho Chi Minh City Branch. The reason is that agricultural production is well developed in the southern region and the demand for funds is high. The center is the Agribank's only site for international settlement in the southern region and accounts for 70% of the bank's total international settlements. Because of this the center can make direct payment in foreign currency through loan lines with foreign banks and can also borrow funds. Seventy to 80% of the bank's customers are agricultural and the loans are mostly short-term and are rolled over. The scale of agriculture is small, and, from the bank's perspective, there are almost no projects suitable for medium- or long-term loans.

Growth of loans in Vietcombank Ho Chi Minh City Branch was slow last year. Unlike three years earlier, loan limits are now high, so loans within the new range are possible. The Ho Chi Minh City Branch accounts for 45% of the Vietcombank's business, and it independently manages excess funds. It lends money to joint-stock banks and other banks in Ho Chi Minh City and transfers funds to the Hanoi Branch. As with other banks, it is not requested to transfer excess funds to the head branch. The demand for capital is increasing rapidly, but loans remain very risky.

The BIDV Ho Chi Minh City Branch does not perform center-like functions for the southern region. It functions essentially like other branches. The branch procures short-term funds in Ho Chi Minh City, but long-terms funds are borrowed by the head office. The branch has an excess of short-term funds and lends them directly to other branches. There is a strong demand for long-term funds, but the owned-capital ratio of potential borrower companies is low, so they cannot borrow.

2. Financial Trends in Danang City

(1) Major Financial Institutions

Major industries in the Danang region are agriculture, fisheries, fishery processing, and tourism. Other than primary product processing, local manufacturing industries include iron products, cement, glass, and textiles, but all are old, small-scale industries. In 1997, Quangnam-Danang province was split into Quangnam Province and Danang city. Danang City has branches of the four state-owned commercial banks, one joint-stock bank, five branches of joint-stock banks not based in Danang, one joint-venture bank branch, one Bank for the Poor, and three people's credit funds. In the overall Danang region, the amount of deposits available does not cover the demand for loans, and funds are transferred from Hanoi. There is no local inter-bank market, and there are no direct transfers from the south, so funds shortages must be covered by each bank receiving funds from its head office. The Danang Branch of the Agribank performs funds transfer functions for the central region, and a flow of funds from deposits collected in urban areas to loans in rural areas is seen.

(2) Deposit and Loan Trends

Deposits at the four state-owned commercial banks have increased by 68% compared to 1995. It appears that deposits from companies are increasing. Last year's cuts in interest rates are not having a significant effect on deposits. Deposits at the Agribank have increased by 60%, but this is believed to be partially the result of restrictions on deposits by the Incombank and the Vietcombank because of insufficient borrowers. In 1996, loan increases were in the 20% range, except for the Agribank, which saw its loans increase by 50%. Thus there were no problems concerning the central bank's loan limits. The 50% increase in Agribank loans was largely due to loans for purchase of consumer goods such as motorcycles. The overall loan situation appears prudent, largely because of the move to keep the overdue loan rate relatively low. Other than in the agricultural sector, the demand for funds is not particularly high. The reasons for this are believed to be restraints on demand because of excessive interest rates and satisfied demand for possible loans. A central bank regulation that limits the profit margin between deposits and loans to 0.35% per month is said to lead to difficulty in procuring low-cost funds and restricts flexibility in bank activities. There is a lack of medium- and long-term funds, and it appears that actual lending is limited to government-related (approved) projects. It has been commented that the BIDV is competing with other banks, so it is not applying the maximum interest rate on loans. The government has ordered that 20% of short-term loans be converted to medium- and long-term loans, but, in fact, while medium- and long-term loans are increasing they are still not sufficient.

(unit: billion VND; as of the end of 1996)

	Deposits (foreign-currency deposits)	Loans
Agribank	409 (1)	416
Incombank	500 (6)	371
BIDV	377 (5)	857
Vietcombank	327 (151)	315

Source State Bank of Viet Nam

3. Funds Transfer within State-Owned Commercial Banks

What routes do deposits collected at the branches take as they become loan funds within the state-owned commercial banks, which have domestic branch networks? The main state-owned commercial banks use the following procedures to adjust for excessive or insufficient funds.

At the Agribank, overall funds management is handled at the head office. In the southern region, agricultural production is advanced and the demand for capital is high. There is generally a shortage of funds in the south, so funds are sent from the north. The Agribank Danang Branch (central region center) performs funds transfer functions for the central region, transferring deposits collected in urban areas to rural regions in the form of loans. At the Agribank southern regional center, funds transferred from the north are distributed within the 23 provinces under its distribution.

The funds flow at Incombank is on two levels: at the head office, and at other branches. If a certain branch has an excess of funds, it will send the excess via the head office to a branch that needs funds. The head office disposes of overall excess funds by purchasing treasury bills and making deposits with foreign banks.

The Ho Chi Minh City Branch of the BIDV borrows long-term funds from the head office, but procures short-term funds directly. The branch has an excess of short-term funds, and lends them directly to other branches.

At Vietcombank, if a branch has excess funds, it transfers them to another branch via the head office. The Ho Chi Minh City Branch, unlike other branches, is not requested to transmit funds to the head branch, but can decide how to deal with excess funds on its own. If the head office has an overall excess of funds, it purchases treasury bills.

4. Funds Flows between Banks

In the process of adjusting excess or insufficient funds between branches of a certain bank, the bank may experience an overall shortage or excess of funds. In such cases, it would be best if banks could cover shortages by procuring funds through the domestic inter-bank market or supply excess funds to achieve an effective adjustment and distribution of capital between banks. A dong/dollar inter-bank market was established in Viet Nam several years ago, but according to information obtained from the banks, the dong inter-bank market is not particularly mature and is not functioning effectively. Further market development is necessary.

(1) The Dong Inter-Bank Market

The dong inter-bank market was established in July 1993, and the number of participants has increased from an initial 11 to 40 in 1995. In 1994, the average daily transaction volume was relatively low, at 40 billion dong. Interest rates on the inter-bank market are in principle determined by the relationship between supply and demand, but because the market is not efficient, the supply-demand situation is not reflected sufficiently. The inter-bank market is not functioning well, and in early 1996 numerous banks had excess funds. It is said that in 1997 the banks do not have enough funds to lend to other banks, and therefore no banks are able to borrow. Since the dong inter-bank market is not functioning, foreign banks find it difficult to procure dong.

(2) Inter-Bank Foreign Currency Markets

Following implementation of a new foreign-currency law intended to attract foreign currency under a system of proper foreign currency management, in October 1994 inter-bank foreign currency markets were established in Hanoi and Ho Chi Minh City. The number of market participants has increased from an initial 23 to 40 in 1995. At around 8 o'clock each morning the central bank announces the official exchange rate, and the inter-bank market participants can trade among member banks at rates within ±5% of the official rate, using a variety of communications lines. Total transactions per day are estimated to be in the range of $10 million to $25 million (95% of the transactions are dollar transactions). There is little liquidity and the market is still in its formative stage. Furthermore, the Vietcombank accounts for 85% of the transactions. Prices are not indicated for buying and selling, but only for one side of transaction.

(3) Characteristics of Funds Transfers Between Banks

What volumes of funds is transferred between banks? Table 5 indicates funds transfers, on a year-end rather than a flow basis. According to this information, the following characteristics can be seen.

Funds are supplied from the central bank to the state-owned commercial banks. In particular, the central bank is providing the BIDV with long-term funds (4,115 trillion VND) and the Agribank with short-term funds (1,464 trillion VND). Funds transfers from the state-owned commercial banks to foreign banks is also taking place. In particular, the Vietcombank provided very large amounts of foreign currency deposits to foreign banks (4,998 trillion VND). Funds transfers from foreign banks to the state-owned commercial banks is also taking place. While the BIDV and the Incombank obtained mostly medium- to long-term funds, the Agribank obtained mainly short-term funds. There are few funds transfers between the state-owned commercial banks and the joint-stock banks, and the amounts are low.

V. Conclusions

This report provided a general look at trends in bank deposits and loans. Since 1990, as a result of efforts in the banking sector, deposits have steadily increased. Funds collected as bank deposits are not being operated in an efficient and secure manner, and the function of serving as a financial intermediary is not being fully performed. Corporate needs for medium- and long-term funds are high but such needs are not sufficiently met. In particular, banks have recently become reluctant to lend to companies because of fears of pinpointing the responsibility for bad debt. In addition, the screening by banks of loan applications is not sufficient and there is a high probability of overdue or bad debt occurring. As a result, efforts are needed for improving the capabilities of banks to screen loan applications.

In addition, inter-bank markets are not efficient, resulting in insufficient flows of funds between banks. Also, the system fails to provide a structure for funds to be smoothly transferred from banks with excess funds to those with insufficient funds. Further development of this system is required.

Improprieties have also been disclosed recently at the banks, and it is questionable whether the state-owned commercial banks are under sufficient supervision. In order not to lose the confidence of the nation in the banks, it is necessary for the central bank to acquire a new understanding of conditions at financial institutions and to tighten its supervision.

Companies in Viet Nam also face many problems, and responses by the companies themselves, including increased management efficiency and development of accounting and auditing systems, are essential.

Table 5 Fund transfer between several banks (as of Dec. 31)(billion VND)

	1991	1992	1993	1994	1995	1996
(From SBV to SOCB)						
From SBV to BIDV	156	1,674	2,703	3,982	4,124	4,115
-Short term	0	0	0	0	0	0
-Medium & long term	156	1,674	2,703	3,982	4,124	4,115
From SBV to Vietcombank	187	130	131	58	88	81
-Short term	187	130	131	58	88	81
-Medium & long term	0	0	0	0	0	0
From SBV to Incombank	1,220	1,183	1,082	1,091	504	440
-Short term	1,220	1,183	1,082	1,091	504	440
-Medium & long term	0	0	0	0	0	0
From SBV to Agribank	2,070	2,094	2,696	2,723	1,042	1,464
-Short term	2,070	2,094	2,696	2,723	1,042	1,464
-Medium &long term	0	0	0	0	0	0
(From SOCB to foreign banks)						
From BIDV to FB	0	0	106	77	161	275
From Vietcombank to FB	8,944	8,062	4,527	4,175	4,716	4,998
From Incombank to FB	0	0	0	0	0	0
From Agribank to FB	0	0	34	133	370	451
(From foreign banks to SOCB)						
From FB to BIDV	0	0	618	1,159	1,373	1,370
-Short term	0	0	0	59	35	131
-Medium & long term	0	0	618	1,100	1,338	1,239
From FB to Vietcombank	0	0	108	454	543	380
-Short term	0	0	0	454	543	380
-Medium & long term	0	0	108	0	0	0
From FB to Incombank	0	0	209	168	802	802
-Short term	0	0	0	22	243	243
-Medium & long term	0	0	209	146	559	559
From FB to Agribank	0	0	180	234	632	1,229
-Short term	0	0	0	234	632	995
-Medium &long term	0	0	108	0	0	334
(From SOCB to joint-stock banks)						
From BIDV to JSB	0	0	0	0	0	0
From Vietcombank to JSB	0	0	0	0	0	0
From Incombank to JSB	0	0	0	0	0	0
From Agribank to JSB	0	0	0	0	0	0
(From joint-stock banks to SOCB)						
From JSB to BIDV	0	0	0	0	0	0
From JSB to Vietcombank	0	0	0	0	0	0
From JSB to Incombank	0	0	0	0	0	0
From JSB to Agribank	0	0	0	0	0	0

Source State Bank of Viet Nam

I. Result of State-owned Commercial Bank Depositor Questionnaire

*This survey was conducted to 51 individual depositors of state-owned commercial banks who live in Hanoi and Ho Chi Minh City.

Q1 Compared to 3 years ago, how often do you use now bank services?

1 No use of bank 3 years ago	4	8.0%
2 As often as 3 years ago	14	28.0%
3 More often than 3 years ago	29	58.0%
4 Less often than 3 years ago	3	6.0%
No response	1	
Total effective answer	50	100.0%

Q2 Compared to 3 years ago, how much has your outstanding deposit increased?

1 Considerably	14	27.5%
2 Some	25	49.0%
3 No change	5	9.8%
4 On the contrary, decreased	7	13.7%
No response	0	
Total effective answer	51	100.0%

Q3 What percentage of your annual income do you invest in bank deposits?

1 Less than 5%	5	10.4%
2 About 5%	2	4.2%
3 About 10%	16	33.3%
4 About 20%	7	14.6%
5 About 30%	6	12.5%
6 About 40%	4	8.3%
7 About 50%	5	10.4%
8 More than 50%	3	6.3%
No response	3	
Total effective answer	48	100.0%

Q4 What percentage of total financial assets (gold, cash, dollars and deposits) do you invest in bank deposits?

1 Less than 5%	2	4.3%
2 About 5%	4	8.7%
3 About 10%	9	19.6%
4 About 20%	5	10.9%
5 About 30%	6	13.0%
6 About 40%	6	13.0%
7 About 50%	3	6.5%
8 More than 50%	11	23.9%
No response	5	
Total effective answer	46	100.0%

Q5 If you have enough money, which financial asset do you most invest in? (MA)

1 Gold	8	15.7%
2 Dong deposit	23	45.1%
3 Dollar deposit	11	21.6%
4 Keep cash as dong	12	23.5%
5 Keep cash as dollars	6	11.8%
6 Other	10	19.6%
No response	0	
Total effective answer	51	100.0%

Q6 Which two factors do you generally think to be important when you select financial assets? (MA)

1 Hedging of its value against inflation	20	39.2%
2 Profitability	33	64.7%
3 Safety of funds	31	60.8%
4 Capital gains	8	15.7%
5 Convertibility to cash	6	11.8%
6 Confidentiality from tax authorities	1	2.0%
7 Close distance from a branch	1	2.0%
No response	0	
Total effective answer	51	100.0%

Q7 What is a bank that you can easily access from your house by bicycle or by foot? (MA)

1 Agribank	14	27.5%
2 Incombank	33	64.7%
3 Vietcombank	13	25.5%
4 BIDB	4	7.8%
5 Joint stock bank	10	19.6%
6 Foreign bank	2	3.9%
7 Credit cooprative	0	0.0%
8 People's credit fund	1	2.0%
No response	0	
Total effective answer	51	100.0%

Q8 What are the major reasons for selecting the bank that you use? (MA)

1 High reliability due to being a SOCB	39	76.5%
2 Near my house or my place of work	16	31.4%
3 safety of principle and interest	22	43.1%
4 Higher interest rates	17	33.3%
5 Dangerous to keep money at hand	7	13.7%
6 Repeat visits by bank employees	3	5.9%
7 Many branches	10	19.6%
8 Attentive service of bank employees	12	23.5%
9 Ease of borrowing money if necessary	8	15.7%
No response	0	
Total effective answer	51	100.0%

Q9 How often do you use a bank?

1 Never	2	4.2%
2 Seldom	17	35.4%
3 Once in a month	13	27.1%
4 Twice in a month	6	12.5%
5 More than twice in a month	10	20.8%
No response	3	
Total effective answer	48	100.0%

Q10 What kind of bank service do you use? (MA)

1 Demand deposit	19	41.3%
2 Time deposit (Dong)	25	54.3%
3 Time deposit (Dollar)	6	13.0%
4 Bond	6	13.0%
5 Borrowing	11	23.9%
No response	5	
Total effective answer	46	100.0%

Q11 How often have bank employees visited your house or place of work within the recent 6 months?

1 Never	39	81.3%
2 Seldom	8	16.7%
3 Once in a month	1	2.1%
4 Twice in a month	0	0.0%
5 More than twice in a month	0	0.0%
No response	3	
Total effective answer	48	100.0%

Q12 Are you satisfied with the bank that you use?

1 Very satisfied	10	20.0%
2 Satisfied	36	72.0%
3 Unsatisfied	4	8.0%
No response	1	
Total effective answer	50	100.0%

Q13 With which points are you satisfied with the bank? (MA)

1 Friendly response	16	34.0%
2 Fast, efficient service	21	44.7%
3 Long operating time	2	4.3%
4 High interest rates	17	36.2%
5 Knowledgeable staff	7	14.9%
6 Simple procedures	7	14.9%
7 Nice atmosphere	9	19.1%
8 Low service fees	0	0.0%

9 Many branches	13	27.7%
10 Frequent visits by bank employees	2	4.3%
No response	4	
Total effective answer	47	100.0%

Q14 With which points would you expect bank services to be improved? (MA)

1 An impolite employee	12	25.0%
2 Slow service	12	25.0%
3 Short operating time	9	18.8%
4 Low interest rates	9	18.8%
5 Incompetent staff	8	16.7%
6 Complicated procedures	24	50.0%
7 Crowded lobby	2	4.2%
8 High service fees	9	18.8%
9 Long waiting time for withdrawing money	17	35.4%
10 Few new goods and services	9	18.8%
11 Few ATMs	2	4.2%
12 No disclosure of the bank management	5	10.4%
13 Frequent inquiry as to source of money	1	2.1%
No response	3	
Total effective answer	48	100.0%

Q15 Compared to 3 years ago, have bank services been improved?

1 Highly improved	10	19.6%
2 Improved	39	76.5%
3 No change	1	2.0%
4 Unimproved	1	2.0%
No response	0	
Total effective answer	51	100.0%

Q16 What impression do you think the general public has of a bank?

1 Highly reliable	7	14.0%
2 Reliable	43	86.0%
3 Not so reliable	0	0.0%
No response	1	
Total effective answer	50	100.0%

Q17 Compared to 3 years ago, has the trust of the general public to a bank do you think been improved?

1 Highly improved	10	20.4%
2 Improved	33	67.3%
3 No change	3	6.1%
4 Unimproved	3	6.1%
No response	2	

Total effective answer	49	100.0%

Q18 Do you think an inflation will again emerge in the near future?

1 Yes	12	25.5%
2 No	13	27.7%
3 I don't know	22	46.8%
No response	4	
Total effective answer	47	100.0%

Q19 Is a post office closer to your home or work place compared to a bank?

1 Yes	6	40.0%
2 Same distance	3	20.0%
3 No	6	40.0%
No response	36	
Total effective answer	15	100.0%

Q20 How often do you use postal services?

1 No use	7	50.0%
2 Seldom	5	35.7%
3 Once in a month	1	7.1%
4 Twice in a month	0	0.0%
5 More than twice in a month	1	7.1%
No response	37	
Total effective answer	14	100.0%

Q21 Are you satisfied with postal services?

1 Very satisfied	0	0.0%
2 Satisfied	10	90.9%
3 Unsatisfied	1	9.1%
No response	40	
Total effective answer	11	100.0%

Q22 If post offices provide banking services such as deposit taking activity, what would you think of the service?

1 I would like to use it as well as bank services.	4	25.0%
2 I would not use it because bank services are more convenient.	2	12.5%
3 I don't know.	10	62.5%
No response	35	
Total effective answer	16	100.0%

Q23 If a bank provides medium- and long-term deposits with terms of 1 to 3 years, what would you think of the services?

1 I would like to make that deposit, because there	1	2.2%

has not previously been such a deposit.		
2 I would like to make that deposit, if the interest rate is higher than that of a short-term deposit.	25	55.6%
3 I would not make that deposit, because we have experienced high inflation.	8	17.8%
4 I don't know.	11	24.4%
No response	6	
Total effective answer	45	100.0%

Q24 If a bank provides medium- and long-term bonds with maturity of 1 to 3 years, what would you think of the bond?

1 I would like to buy that bond, because there has not previously been such a bond.	1	2.3%
2 I would like to buy that bond, if the interest rate is higher than that of a short-term bond.	11	25.0%
3 I would like to buy that bond, if the bond is easily changeable for cash.	21	47.7%
4 I would not buy that bond, because we have experienced high inflation.	3	6.8%
5 I don't know.	8	18.2%
No response	7	
Total effective answer	44	100.0%

Q25 What is your profession?

1 Public servant	14	29.2%
2 Work for a state enterprise	13	27.1%
3 Work for a private enterprise	9	18.8%
4 Work for an independent enterprise	1	2.1%
5 Merchant	8	16.7%
6 Farmer	0	0.0%
7 Other	3	6.3%
No response	3	
Total effective answer	48	100.0%

Q26 How old are you?

1 Twenties	3	6.4%
2 Thirties	13	27.7%
3 Forties	17	36.2%
4 fifties	12	25.5%
5 sixties	1	2.1%
6 Seventies	0	0.0%
7 Eighties	0	0.0%
8 Other	1	2.1%
No response	4	

Total effective answer	47	100.0%

Q27 Where do you live?

1 Hanoi	23	47.9%
2 HCM City	25	52.1%
No response	3	
Total effective answer	48	100.0%

2. Major Banking Regulations Concerning Deposits and Loans

(1) Deposit

- Customer deposits must be less than 20 times of the allocated capital and reserves.
  ✧ Ordinance on banks, credit cooperatives and finance companies (1990), § 23.
- Foreign bank branches and joint-venture banks are not allowed to receive more than 20% of their share capital in the form of VND deposits from Vietnamese individuals and corporations that have no credit relationship with the banks.
  ✧ Decision No.174/QD--NHS (August 26, 1994).

(2) Loan

1) Limit of loan

- The total amount of loans to a single customer must not exceed 10% of the capital and reserves.
  ✧ Ordinance on banks, credit cooperatives and finance companies (1990), § 25.
- The total amount of loans to the top ten customers must not exceed 30% of total loans.
  ✧ Ordinance on banks, credit cooperatives and finance companies (1990), § 25.
- The loan must be used for the registered purpose as stated in the loan proposal and effectively.
  ✧ Decision No.198/QD--NH1 (September 16, 1996) and Regulation on short-term credit for economic organizations § 3-3.
  ✧ Decision No.367/QD--NH1 (December 21, 1995) and Regulation on medium- and long-term credit § 6-1.

2) Short-term loan

- Short-term credit in VND for economic organizations
  ① Maximum term is 1 year (§ 9).
  ② Short-term loan is provided to meet shortage in floating capital for production business operation (§ 2).
  ③ Main loan conditions are as follows (§ 4):
    i) Each borrower has full legal status and operates its production business.
    ii) Each borrower operates profit yielding business or is subsidized in accordance with government policy.
    iii) Each borrower has self possessed capital.
    iv) Each borrower has collateral properties or guaranteed by third party.
  ✧ Decision No.198/QD--NH1 (September 16, 1996) and Regulation on short-term credit for economic organizations.

3) Medium / long-term loan

- Medium / long-term loan in VND and foreign currency
  ① Medium term is between 1 year and 3 years (§ 1-7).
  ② Long term is more than 3 years (§ 1-7).
  ③ Medium / long-term loan is provided so that each borrower can invest in its project to build, expand, reform, restore and renovate know-how and technology (§ 4).
  ④ Capital sources of banks for medium & long term loan are as follows (§ 3):
    i) Available capital and reserve funds
    ii) mobilized capital and the capital borrowed domestically and abroad of a term of 1 year or

more.

iii) A part of domestically mobilized capital with a term of under 1 year, regulated by SBV for each period of time.

iv) Commissioned and sponsored capital under the program or investment projects of the State.

⑤ Main loan conditions are as follows (§ 7):

i) Each borrower enjoys juridical status.

ii) Each borrower produces, does business beneficially.

iii) Each borrower has certain available capital for the project.

iv) Each borrower has mortgaged assets or sponsor being a third person.

✧ Decision No.367／QD－NH1 (December 21, 1995) and Regulation on medium- and long-term credit.

4) Interest rates

- VND lending maximum rates are as follows:
  - i) Short term rate is 1.25% per month.
  - ii) Medium & long term is 1.35% per month.
  - iii) Lending rate by Credit institutions to rural areas is 1.5% per month.
  - iv) Lending rate by Credit cooperatives and People's Credit Fund to their members is 1.8% per month.
  - v) Lending rate by Bank for the Poors to poor households is 1.0% per month.

  ✧ Decision No.266／QD－NH1 (September 27, 1996)
- The difference between the average lending and deposits rate should not exceed 0.35% per month.

  ✧ Decision No.381／QD－NH1 (December 28, 1995)
- USD lending maximum rate is 9.5% per annum.

  ✧ Decision No. 181／QD－NH1 (June 29, 1995)

5) To increase fund for medium-term loan

- The prime Minister decided to assign the banking branch in the 4th quarter of 1996 to increase fund for medium term loans corresponding to projects, in order to change new equipment, intensive investment, servicing the target of economic development of the country, and to allow the banks to utilize up to 20% of their short-term mobilized fund to have fund for this target.

  ✧ Instruction on increasing fund for medium term loans in the 4th quarter of 1996 as according to the guideline of the government (September 30,1996).

6) Loan to state-owned enterprises

- State-owned enterprise can mobilize from other sources besides the capital allocated by the Government. Total of the funding mobilization shall not exceed legal capital of the enterprise (§ 11).
- But, this decree is postponed temporarily.

  ✧ Decree No.59－CP (October 3, 1996) issuing on regulation on financial management and accounting of state-owned enterprises and Decision No.6755 (December 31, 1996).

(3) Mortgage

- Maximum loan must be equal 70% of the mortgaged assets.

  ✧ Decision No.217／QD－NH1 (August 17, 1996) and Regulation on mortgaging, pawning and guaranteeing for bank loans § 12.

- Assets to be mortgaged against loans are land use right as regulated by Laws on land and transferable and realizable properties including residence houses, construction works attached with land, value of insurance policies and business and production entities including factories, hotels, shops, warehouses and tools, machinery and equipment attached with factories, vessels, airplanes ,etc.
  ✧ Decision No.217／QD－NH1 (August 17, 1996) and Regulation on mortgaging, pawning and guaranteeing for bank loans § 5.
- Foreign bank branches and joint-venture banks are not permitted to accept any mortgage on land use right.
  ✧ Decision No.217／QD－NH1 (August 17, 1996) and Regulation on mortgaging, pawning and guaranteeing for bank loans § 3-2.

(4) Classification of Loan

- Debit balance of loans of credit institutions are divided in groups as follows (§ 4):
  ① Group A: comprising a) debit balances of loans are still within the limit which the credit institutions assess that the borrowing customer is capable to pay debt fully, in due course as stipulated in the contract of lending and b) debit balances of loans which the borrowing customers have not paid when they are expired, but they are extended by the credit institutions in conformance with current regulations and the borrowing customers are assessed that they are capable to fully pay debt in due course, when the new debt is expired.
  ② Group B: comprise of debit balances of loans which the borrowing customers are unable to pay part of or entire principal debts, interest within 180 days as from the expired date.
  ③ Group C: comprise of debit balances of loan which the borrowing customers are unable to pay part of or entire principal debts, interest within the duration from 181 days 360 days, as from the expired date.
  ④ Group D: comprise of a) debit balances of loans which the borrowing customers are unable to pay part of or entire principal debts, interest after 360 days、 as from the expired date and b) debit balances of loans which are in the limit but credit institution has evidences enough to assess that the borrowing customers are unable to pay debt.
  ✧ Decision No.229／QD－NH5 (November 13, 1996) and Regulation on classifying credit outstandings of credit institutions.
- Classification of overdue loans are as follows:
  i) Overdue loan under 6 months is considered as common overdue debts.
  ii) Overdue loans from 6 months to12 months is considered as debts in questions, need to pay attention on.
  iii) Overdue loans over 12 months shall be considered as bad debts, it's required to divide into doubtful debts subject to objective and subject causes.
  iv) Debts that are circumscribed in conformance with the regulation.
  ✧ Instruction No.14／CT－NH1 (November 21, 1996) on implementing urgent measures to ensure the quality of banking credit operations.

(5) Letter of Credit

- L/C may only be issued if the applicant keeps VND and foreign currency accounts with the bank.
- Deposit in case of deferred payment L/C less than 1 year
  ① Bank must obtain 80% deposits from the applicant in case the LC is issued in relation to the import of consumer goods and other locally made commodities which are used mainly for

consumption are to be discouraged for import.

② Banks can decide a special deposit volume in case the I/C is issued in the relation to the import of materials such as fertilizers, gas, cement, iron and steel and steel.

- Bank must file monthly reports to SBV regarding the L/C issued in the previous month by the next month.
- Banks must report L/C for amounts in excess of USD 500,000 to SBV one day after L/C is issued.
- Banks must file reports to SBV by the next day of the due or the repayment in the case that deferred L/C is are overdue or paid up to overseas by the banks.

✧ Circular 06/NH7－CT (June 6, 1996) and Guidance for the circular (No.434/CV－NH7).

5-5

Investment Finance in Viet Nam

Kazuyuki Mori

The Japan Economic Research Institute

In the Phase I study, we surveyed the outline of medium-to long-term funds in Viet Nam from the perspective of demand, supply and intermediation. Many institutional issues which need to be solved were identified. In Phase II, we will analyze the institutional mechanism of investment finance, and study the prospect of a long-term credit system in Viet Nam. This is a fact-finding background paper for the study objective.

I . Demand for Investment Funds

Industrial equipment and machinery, as well as economic infrastructure in Viet Nam are generally old, and war-torn damage is still significant. As the economy has grown, the shortage of industrial capacity has enlarged, and accordingly, so too have the investment needs. According to the current 5-year plan, the necessary investment amount for the period of 1996 to 2000 is estimated at US$ 41 to 42 billion, which is 2.3 times the invested amount for 1991 to 1995. Thus, how to raise funds for the investment has been the foremost financial concern of the Vietnamese government. The state sector, private sector (more correctly, non-state sector) and foreign direct investment (FDI) are each forecasted to provide roughly one-third of the investment (see Table 1).

As to public investment by means of fiscal funds, the Public Investment Program (PIP) has been compiled and thus contents of the public investment by sectors and locations has been identified (refer to section III). An enormous amount of infrastructure investment is necessary, but it is relatively easy to identify.

However, the content of private-sector investment, including commercial investment of state-owned enterprises (SOEs), has not been grasped by either the government or the banking sector. According to the 5-year plan, domestic non-state sector investment is US$ 12.4 billion as shown in Table 1. We believe that the investment needs in the private industrial sector are quite large, based on our interviews with SOEs and private enterprises. For example, many enterprises require new equipment and machinery to improve their product quality.

To identify a part of the needs, we, with the assistance of the Ministry of Planning and Investment (MPI), conducted a small-scale questionnaire survey on capital investment covering 100 companies selected by the MPI. Out of these companies, 73 had investment projects in 1995, and 78 had projects in 1996. Sixty-four of the polled companies have investment plans in 1997. In aggregate 316 billion dong, 4.3 billion dong per company, was invested in 1995, and 781 billion dong, 9.8 billion dong per company, was invested in 1996. Total investment of 1,101 billion dong, 16.7 billion dong per company, is planned for 1997 (see Table 2).

Table 1 Investment and Sources of Funds in the Five-year Plan (in billions of 1995 US$)

	1991-1995	%	1996-2000	%
Investment	18.0	100.0	41-42.0	100.0
(State)	(7.7)	(43.0)	(15.6)	(37.1)
(FDI)	(4.9)	(27.0)	(13-14.0)	(33.3)
(Private)	(5.4)	(30.0)	(12.4)	(29.5)
Fund Sources	18.0	100.0	41-42.0	100.0
(ODA)	(2.0) *	(11.1)	(8.0)	(19.0)
(FDI)	(4.5)	(24.7)	(13-14.0)	(33.3)
(Domestic)	(11.5) *	(63.9)	(21.0)	(50.0)
#Euro Bond	-	-	1.0	-
#ICOR	2.0-2.5	-	3.0-3.3	-
#Inv/GDP	19.1**	-	30.0	-

Notes
* =based on rough disbursement figures
** =calculated for 1991-94 using IMF data
Source Government CG report

Table 2 Questionnaire Survey on Capital Investment

No.	Main Projects	95 Total	96 Total	97 Total
1	Equipment improvement	1,122	215	
2	Construction: handicraft mill of DHKK systematic components		550	220
3	Land consuming flatting site	200	350	250
4	Machine and equipment purchases	1,000	2,300	1,000
5	Equipment investment	840	10	
6	Constructing company headquarters	1,000		
7	Construction of headquarters	90	80	300
8	Investment for research in software manufacturing	300	430	300
9	Machine purchase	370		
10		150	200	300
11	Beer company with capacity of 1,000 litres per day		450	500
12	Purchase of wood processing machines	3,000	400	
13	Purchase of official equipment	70	100	50
14	Equipment	7,408	11,562	14,362
15	Increase in capacity: 120,000-200,000/n	40	850	870
16	Build workshop, install machinery and prepare to assemble and manufacture automobiles		330,000	495,000
17	Equipment upgrade/improvement	589	89	750
18	Old building demolition		19,800	4,678
19	Housing construction	600	1,000	1,500
20	NM Cua Kinhsdos	897	2,600	2,900
21	Construction of net bridge		230	
22	Development of equipment, workshop	169	985	145
23	Upgrading	35,837	608	
24	System of material drying machines		12,955	14,479
25	Repair workshop, Equip new synchronous production line	250	150	1,000
26	New product research	45	63	50
27	Equipment and machines	2,037	788	320
28	Water for production and living		563	

29	Investment in equipment and machines, Investment in upgrading the workshop	2,200	955	1,545
30	Construction: Duyen Linh cement factory	20,235	20,000	3,500
31	Equipment and machines	314	539	600
32				2,100
33	Project: Thien Tan water works	6,700	31,300	65,000
34	Equipment and machines	600	200	
35	Construction	1,270	1,020	630
36	Project: motor-bike maintenance and show centre		2,542	
37	Raising capacity to produce current products (added more portable equipment)	2	2	100
38	Hotel	2,500		
39	Joint-venture in construction of Asean hotel	8,627	25	120
40	Machines	30	229	720
41	Training	251	330	
42	Purchases of implementation equipment	844	1,898	4,000
43	Purchases of implementation equipment	676	12,005	6,700
44	Purchases of implementation equipment	19,164	19,127	31,500
45				
46	Equipment improvement investment	2,620	3,220	
47				
48	Shoe enterprise: extra-material	7,007	924	3,000
49		580	800	1,100
50	Construction: showroom	119,900	150,700	155,100
51				
52	Machine and equipment purchases	4,575	600	
53	Equipment improvement		150	
54	Exploration, survey and exploitation	579	650	5,000
55	Equipment purchases			2,675
56				
57	Bag producing	53	4,720	
58	Construction: kiln	40	20	1,040
60	Equipment improvement	252	3,100	2,200
61				
62	New product development		1,800	
63				
64				
65				
66	Construction	1,392	6,090	5,444
67	Gas kiln	214	426	1,500
68	Vacuum flask blowing machine and oven	5,093	400	5,000
69	Tools	775	929	1,100
70	Profit of loan	6,902	71,244	25,638
71	Equipment purchases	1,008	1,056	12,050
72				
73	Concrete-pumping trucks	500	3,282	10,680
74	Machines and Equipment	1,151	4,491	14,818
75	Purchase: production line	220		
76	Construction of infrastructure	1,500	2,000	3,500
77	Construction: bus and car rest stop	300	100	120

78	Development and improvement of production	450	200	150
79	Construction: 300 metric ton tank	163	68	
80	Air conditioner equipment (production, servicing)		369	
81	Information system equipment		160	846
82	Mixing station: 80 m^3/h	7,350	8,000	8,000
83	Machine: Labfuji 27	972	495	
84	Increasing capacity to produce current products, investment, equipment improvement	2,021	1,842	2,026
85	Machinery purchase	200	170	800
86	Stone	65	340	100
87	Construction: new building	1,694	1,332	7,000
88	Crane for construction			1,500
89	Improving the quantity of products	2,500		2,000
90	Reconstructing head office and buying administrative equipment	550	150	2,000
91	Construction: May bridge sewage system	19,400	17,600	155,228
92	Reconstruction and expansion of car tile production line			
93	Investment in equipment		140	
94	Building	1,000	350	300
95	Purchase: embroidering machine	600	1,000	
96	Steel embryos	1,066	5,573	
97	Construction: for rent	1,000		
98				
99	Construction: building	495	198	500
100	(Tunnel) brick factory	2,302	8,569	14,300
101	Investment: machinery and equipment	650	600	300
	Total amount	316,566	781,356	1,100,503
	Average amount per company	4,337	9,767	16,674

Size of equipment investment (million dong)	95 (No. of companies)	96	97
1 ~1,000	40	48	27
1,000~100,000	32	30	36
100,000~	1	2	3
	73	80	66

II. Decision Making on Investment

Although SOEs have increased their managerial autonomy, the government still holds the power to make the final decision on SOE investment. Decree No. 177/CP, dated October 20, 1994, determined the authorities and process of investment decision making. Investment projects were classified into A, B and C categories based on the investment fields and amounts. The decision makers of each category are shown in Table 3.

Enterprises with investment project plans must prepare feasibility studies and submit them to a relevant authority such as the People's Committee, a general corporation or a line ministry. The project plans are presented to project evaluation committees, which are established at the central and local levels. Evaluation committees, after approving the plans, forward proposals to final decision makers. At the central level, the MPI's Appraisal Office for Investment Projects assists in the decision making of the National Evaluation Committee. Regardless of the level, all projects must be reported to the MPI after a decision on investment has been made.

Sources of funds are also considered when investment projects are decided by the authorities and evaluation committees. Although the General Department of Investment and Development (GDID), as well as the Bank for Investment and Development of Viet Nam (BIDV) and other commercial banks, analyze the financial viability of projects later on, in reality, the finance decision is made by the MPI.

Decree No. 177 was superseded by Decree No. 42 in 1996. The former was intended to cover all domestic projects including private sector projects, and this was not practical. The new decree is limited—targeting only projects to be financed by government funds. Thus, private-sector investment, including SOE commercially based investment, is principally an autonomous decision. However, fund sourcing is a major obstacle for investment projects, and commercial banks generally require that enterprise projects be included on the government list (an implicit government guarantee) as a condition for long-term loans. Joint-venture projects, generally bring in foreign funds for investment and do not have financial constraints. However, since any expansion of JV project capacity requires renewal of the FDI license, joint ventures are also under government control.

Table 3 Authority for Investment Decision at Various Levels

	Central projects	Local projects
A level	Prime Minister	
B level	Minister of Planning and Investment	Chairman of Provincial People's Committee
C level	Ministers of line ministries	Chairman of Provincial People's Committee

III. Public Investment Program (PIP)

The objectives of formulating PIP were to efficiently utilize the government capital budget, to mobilize funds in priority fields and to collect basic data for the current Five-year Plan. PIP was created by the MPI with technical assistance of the World Bank and financial support by the United Nations Development Program and the government of Holland. The current PIP was authorized by the prime minister through Decision No. 2920/QHQT dated June 18, 1997.

Public investment is defined as State investment funded by the government budget or by government loans, and includes (1) investment in socio-economic infrastructure and (2) SOE investment in such key sectors as strategic industry and utility (public service) industry.

(1) Principles: Government Funds Use

The government-set principles for using government funds follow. (1) Investment funds for socio-economic infrastructure, including human resource development, will mainly be by budget allocation. However, in cases where projects are capable of generating some repayment, all or a part of the necessary funds will be in the form of loans, with or without interest. (2) SOE investment projects listed on the government plan will be funded with low-interest loans. (3) SOEs which are in profit-making businesses will finance their investment projects by themselves and will not be financed by fiscal funds. However, SOEs may receive low-interest loans, interest subsidy or the guarantee of SOCBs when they are judged to be appropriate. (4) Private enterprises will not be financed by the budget. However, projects in strategic fields may be financed by low-interest loans or given interest subsidy. (5) The government may invest in joint-venture projects with domestic private companies or with foreign companies. (6) A project may receive more than one type of fiscal assistance.

(2) Investment by Sectors

According to PIP statistics, 38% (US$ 15.6 billion) of total investment is public investment and 62% (US$ 25.8 billion) is commercially based. Commercial investment funds are half raised by FDI and half by domestic borrowings. Public investment covers 38% of economic infrastructure investment and 58% of social infrastructure. Eighty-five percent of investment in the industrial sector, a part of economic infrastructure, is undertaken on a commercial basis, of which 58% is by FDI. The domestic private sector is expected to invest in economic infrastructure such as agriculture and transportation, and social infrastructure such as water supply and other urban infrastructure, as well as in education and health (Tables 4-7).

Table 4 Investment and Sources of Funds in the PIP (in billions of 1995 US$)

Investment	Amount	Share(%)	Sources of Funds	Amount	Share(%)
Public Investment	15.6	38	**Concessionary Funds**	15.6	38
Government Investment	8.7	21	State Budget (Domestic Funds) (ODA & Bonds)	8.7 (5.2) (3.5)	21 (13) (8)
SOE Investment	6.9	17	State Credit (Domestic Funds) (ODA)	6.9 (2.9) (4.0)	17 (7) (10)
Non-pub. Investment	25.8	62	**Commercial Funds**	25.8	62
SOE (Commercial)	5.9	14	Domestic Funds	5.9	14
Private	19.9	48	FDI	13.0	31
			Domestic Funds	6.9	17
Total	41.4	100	**Total**	41.4	100
SOE Total	12.8	31	Domestic Funds Total	20.9	50
			Domestic Comm. Total	12.8	31
			Foreign Funds Total	20.5	50

Source Government's PIP report

Table 5 Investment for 1996-2000: by Field, by Economic Sector (in trillions of VND)

	Total	PIP	Govt.	SOE	Comm. Total	SOE Comm.	Private	FDI	SOE Total
Total Investment	460	173.7	96.8	76.9	286.3	65.5	76.5	144.3	142.4
Economic Infra.	389.5	130.5	57.6	72.9	259	65.5	49.2	144.3	138.4
Industry	194.5	28.9	1.9	27	165.6	38	15	112.6	65
Agriculture	95.5	44.4	21.9	22.5	51.1	20.4	24.2	6.5	42.9
General	58.5	20.9	2.9	18	37.6	16.9	14.2	6.5	34.9
Water Management	14.5	14.5	14.5	0	0	0	0	0	0
Forestry	13	7	4	3	6	1	5	0	4
Storage	9.5	2	0.5	1.5	7.5	2.5	5	0	4
Tourism	4	2	0	2	2	0.5	0	1.5	2.5
Transport	68.7	42.9	32.9	10	25.8	5	10	10.8	15
Telecomm.	26.8	12.3	0.9	11.4	14.5	1.6	0	12.9	13
Social Infra.	65.5	38.2	34.2	4	27.3	0	27.3	0	4
Water Supply	14.7	8.9	4.9	4	5.8	0	5.8	0	4
Other Urban Infra.	17.3	5.8	5.8	0	11.5	0	11.5	0	0
Sci., Tech., Envir.	2.9	2.9	2.9	0	0	0	0	0	0
Education	12.3	7.3	7.3	0	5	0	5	0	0
Health	11.5	6.5	6.5	0	5	0	5	0	0
Infor., Culture	4.8	4.8	4.8	0	0	0	0	0	0
Public Admin.	2	2	2	0	0	0	0	0	0
Other	5	5	5	0	0	0	0	0	0

Source Government's PIP

Table 6 Investment Field Share of Each Economic Sector

	Total	PIP	Govt.	SOE	Comm. Total	SOE Comm.	Private	FDI	SOE Total
Total Investment	100%	100%	100%	100%	100%	100%	100%	100%	100%
Economic Infra.	85%	75%	60%	95%	90%	100%	64%	100%	97%
Industry	42%	17%	2%	35%	58%	58%	20%	78%	46%
Agriculture	21%	26%	23%	29%	18%	31%	32%	5%	30%
General	13%	12%	3%	23%	13%	26%	19%	5%	25%
Water Management	3%	8%	15%	0%	0%	0%	0%	0%	0%
Forestry	3%	4%	4%	4%	2%	2%	7%	0%	3%
Storage	2%	1%	1%	2%	3%	4%	7%	0%	3%
Tourism	1%	1%	0%	3%	1%	1%	0%	1%	2%
Transport	15%	25%	34%	13%	9%	8%	13%	7%	11%
Telecomm.	6%	7%	1%	15%	5%	2%	0%	9%	9%
Social Infra.	14%	22%	35%	5%	10%	0%	36%	0%	3%
Water Supply	3%	5%	5%	5%	2%	0%	8%	0%	3%
Other Urban Infra.	4%	3%	6%	0%	4%	0%	15%	0%	0%
Sci., Tech., Envir.	1%	2%	3%	0%	0%	0%	0%	0%	0%
Education	3%	4%	8%	0%	2%	0%	7%	0%	0%
Health	3%	4%	7%	0%	2%	0%	7%	0%	0%
Infor., Culture	1%	3%	5%	0%	0%	0%	0%	0%	0%
Public Admin.	0%	1%	2%	0%	0%	0%	0%	0%	0%
Other	1%	3%	5%	0%	0%	0%	0%	0%	0%

Source Government's PIP

Table 7 Economic Sector Share of Investment

	Total	PIP	Govt.	SOE	Comm. Total	SOE Comm.	Private	FDI	SOE Total
Total Investment	100%	38%	21%	17%	62%	14%	17%	31%	31%
Economic Infra.	100%	34%	15%	19%	66%	17%	13%	37%	36%
Industry	100%	15%	1%	14%	85%	20%	8%	58%	33%
Agriculture	100%	46%	23%	24%	54%	21%	25%	7%	45%
General	100%	36%	5%	31%	64%	29%	24%	11%	60%
Water Management	100%	100%	100%	0%	0%	0%	0%	0%	0%
Forestry	100%	54%	31%	23%	46%	8%	38%	0%	31%
Storage	100%	21%	5%	16%	79%	26%	53%	0%	42%
Tourism	100%	50%	0%	50%	50%	13%	0%	38%	63%
Transport	100%	62%	48%	15%	38%	7%	15%	16%	22%
Telecomm.	100%	46%	3%	43%	54%	6%	0%	48%	49%
Social Infra.	100%	58%	52%	6%	42%	0%	42%	0%	6%
Water Supply	100%	61%	33%	27%	39%	0%	39%	0%	27%
Other Urban Infra.	100%	34%	34%	0%	66%	0%	66%	0%	0%
Sci., Tech., Envir.	100%	100%	100%	0%	0%	0%	0%	0%	0%
Education	100%	59%	59%	0%	41%	0%	41%	0%	0%
Health	100%	57%	57%	0%	43%	0%	43%	0%	0%
Infor., Culture	100%	100%	100%	0%	0%	0%	0%	0%	0%
Public Admin.	100%	100%	100%	0%	0%	0%	0%	0%	0%
Other	100%	100%	100%	0%	0%	0%	0%	0%	0%

Source Government's PIP

Ⅳ. Capital Budget

The central government's budget is composed of two parts, a "current budget" and a "capital budget". The capital budget is an account of government investment. Recently about three-fourths of the total budget has been going to current expenditures and one-fourth to capital expenditure. Under the unified management policy, the MOF is responsible for compilation of the entire budget. Formally, the MPI assists the MOF in drafting the capital budget portion. However, in practice, the capital budget is under the control of the MPI as shown in Table 8.

All of the capital budget is distributed by the MOF's GDID, the conduit of fiscal funds. Funds for central projects are allocated to Ministries and local project funds are allocated to local governments. The capital budget for fiscal 1995 was a little over 12 trillion VND, of which 10.8 trillion VND was to be invested in infrastructure, and about 2 trillion VND was for administration expenditures and foreign debt payment. Funds for low-interest loans are also included in the capital budget.

Table 8 Schedule for Compiling the Capital Budget

May 30	MPI proposes the government draft.
June 15	MPI organizes the related-institutions meeting on the annual budget.
~August 10	The related institutions submit their budget request.
~September 10	MPI formulates a final draft.
~October	The final draft of the MPI is sent to the government, National Assembly and Party Politburo.
December	MPI notifies other Ministries, localities and SOEs of the capital budget contents.

Source OECF report

V. Medium- to Long-term Finance

The major flow of medium- to long-term funds is from SOCBs and the GDID to SOEs, and funds to domestic private companies are scarce. Fiscal funds still play an important role in medium- to long-term finance (investment finance).

The government's low-interest loan is currently supplied through the GDID and BIDV. The government projects which are funded by fiscal funds can be classified into three categories, from the perspective of implementing institutions: (1) strategic projects which do not require collateral, (2) investment projects which can offer themselves as collateral, and (3) other projects. The GDID and BIDV have the authority to make credit decisions on projects in category (3) from a financial viability perspective, but projects in categories (1) and (2) are beyond their purview.

Private companies do not have enough access to formal investment finance and rely on such sources as rollover of short-term loans and borrowings from relatives and acquaintances. Therefore, in many cases private companies do not have any other choice but to postpone investment projects. Borrowings from professional money lenders are also a common practice among private companies and proprietors. However, these are generally in small amounts and, aside from bearing high rates of interest, are only for the short term and accordingly are not suitable as investment funds.

(1) Interest Rate

Under the planned-economy regime, investment funds were supplied by the government at a nominal interest rate that was negative in real terms. The long-term rate finally became higher than the short-term rate in July 1996 as shown in Table 9. The interest rate for government loans, at 1.1% per month, was lower than commercial lending rates. It was reduced to an even lower 0.8% in January 1997.

Table 9 Trend of Monthly Interest Rates (%)

	86.1	86.8	87.7	87.11	89.1	91.3	91.9	92.7	92.8	92.9	92.10
Short-term	4.0						3.5	4.2		3.5	
Long-term	0.45	0.48	3.3	2.01	3.5	3.6	3.0		2.4		1.8
Gap	-3.55	-3.52	-0.7	-1.91	-0.5	-0.4	-0.5	-1.2	-1.8	-1.1	-1.7

	92.11	93.4	93.10	94.8	96.1	96.7	96.9	96.10
Short-term	2.7	2.3	2.1		1.75	1.6	1.4	1.25
Long-term		1.5	1.2	1.7		1.65	1.45	1.35
Gap	-0.9	-0.8	-0.9	-0.4	-0.05	0.05	0.05	0.1

Source State Bank of Viet Nam

VI. Institutions Related to Investment Finance

1. The General Department of Investment and Development (GDID)

(1) Organizational History

The GDID was established by Decree 187/CP, dated December 10, 1994, to take over the capital budget allocation function of BIDV. The GDID is under the jurisdiction of the Minister of Finance and the General Director, its chairman of the board is appointed by the Prime Minister.

At the head office, there are eight departments: Secretariat, Economic Planning Dept., Credit Dept., Fund Allocation Dept., Accounting Dept., Supervision Dept. Personnel Dept. and Information Management Dept. In 61 provinces and special cities there is a Local Department of Investment and Development—a consolidation of the province's former offices for the Financial Dept., Treasury Dept. and BIDV branch.

(2) Operation

The GDID conducts three lines of business: allocation of the capital budget for public works, concessionary loans to projects on the government list, and loans from NIAF.

The government (in effect, the MPI) annually decides on a list of projects to be financed by the low-interest loans. The GDID can decide against extending loans to projects which are not financially viable. The loan process is as follows: enterprises request that general corporations, line ministries or People's Committees list their projects on the government plan → the appraisal committee evaluates projects → the MPI lists the projects → the GDID appraises the projects from a financial perspective.

The GDID has a staff of 2,500 working all over the country, 70% of which are college graduates. Credit analysis know-how was transferred to the GDID by forming about half of its staff out of transfers from BIDV.

Funds for low-interest loans and NIAF loans are flowed through the State Treasury system.

2. National Investment Assistance Fund (NIAF)

(1) Organizational History

NIAF was established by Prime Minister Decision No. 808/Ttg, dated December 9, 1995, for promoting investment in priority industries and underdeveloped areas such as mountainous areas. The NIAF is managed by a board composed of representatives from the MOF, the Government Office, the MPI, the Committee on Mountainous Areas and the State Bank, along with the director of the GDID. Representatives from SOEs which contributed to the fund can be appointed by the Minister of Finance to be members of the board. The director of the GDID chairs the NIAF and loan operations are conducted by GDID staff.

(2) Sources of Funds

The registered capital of the fund is 1.1 trillion VND—half funded by the government budget, and the rest, partially borrowed from SOEs and partially raised from the public by issuing state bonds. Since the non-budget part is intended to be raised at a lower interest rate than the market rate, it has not been collected yet except for the compulsory SOE allotment.

3. The Bank for Investment and Development of Viet Nam (BIDV)

(1) Organizational History

The Bank for Construction was established under the administration of the Ministry of Finance to finance infrastructure construction (Decree No. 177/Tg, dated April 26, 1957). The bank initiated a project-budget-control system which superseded the previous system of merely paying after-the-fact cost incurred. In June 1981, the bank was reorganized as the Bank for Investment and Construction of Viet Nam under the administration of the State Bank of Viet Nam (SBV). In November 1990, the bank was given its current name by Decree No. 401/CT. The capital amount then was 200 million VND (US$30 million equivalent). In January 1995, the budget allocation function was transferred to the GDID and commercial banking commenced according to SBV Governor Decision No. 293/QD-NH9, dated November 18, 1994.

(2) Management

In 1996, BIDV separated the board of directors and the board of management following a new organizational model for state-owned corporations. The board of directors is to direct the management policy of the bank, and the board of management is responsible for daily operations. The chairman of the board of directors no longer assumes the general director post.

BIDV currently has 63 branches and 28 sub-branches. There is no hierarchical levels between the provincial branch level and the head office—accordingly each provincial branch is on equal status, reporting directly to the head office.

(3) Business Operation

BIDV's medium- to long-term finance is composed of low-interest loans to projects on the government list, and commercially based loans. The government-list projects can be classified into three categories. The first category is for strategic projects of the government—such as those for electricity, water and cement—for which BIDV cannot decline credit and which do not require collateral. In the second category—projects in key industries such as steel works—the collateral can include assets such as ships and large construction machinery if the government consents. As an SBV rule prohibits the treatment of projects themselves as collateral, the government consent is needed. The basis for decisions in the third category is BIDV's financial appraisal. Although the applied interest rates differ, the government list projects in this third category are appraised in the same manner as commercial lending projects.

According to "BIDV 40 Years of Operation," the bank provided funds for investment and development as follows:

14,830 billion 1995 VND (1957-1960)
32,670 billion 1995 VND (1961-1975)
18,432 billion 1995 VND (1976-1985)
183,104 billion 1995 VND (1986-1996)—including 112,526 billion 1995 VND (1990-1996)

(4) Sources of Funds

The government's low-interest loans are funded by the capital budget and ODA. New funds have not been provided out of the capital budget since 1995 and repayment from the projects is the major source now. The outstanding amount of low-interest loans has not been increasing.

Sources of funds for commercial lending are funds raised by BIDV on a commercial basis such as bonds and foreign bank borrowings. Branches can raise short-term funds by accepting deposits, but borrow long-term funds from the head office. Branches keep a self-supporting accounting system in which the cost of intra-bank funds is currently recorded at 1.1% per month.

Reference

1. Mori, Kazuyuki, "Medium- to Long-term Funds in Viet Nam," The Economic Development Policy in the Transition Toward a Market-oriented Economy in the Socialist Republic of Viet Nam, Phase I, Vol. 3, Fiscal and Monetary Policy, August 1996
2. Mori, Kazuyuki, "Financial Analysis on Vietnamese Commercial Banks," The Economic Development Policy in the Transition Toward a Market-oriented Economy in the Socialist Republic of Viet Nam, Phase II, to be published

5-6

Financial Analysis on Vietnamese Commercial Banks

Kazuyuki Mori
The Japan Economic Research Institute

I. Objective of the Analysis

Although SOE reform is a prerequisite to enable the banking sector to play a positive role, part of the fault in financial intermediation must be rooted in the banking sector in Vietnam. It is neither meaningful nor constructive merely to identify superficial symptoms as they appear in individual cases. Systematic and continued analysis of the banking sector is necessary to grasp the essence of its status quo. We believe that our analysis of Vietnamese banks is the first of its kind and is an essential part of systematic analysis.

We were provided with the 1991-1996 balance sheets and income statements of the four state-owned commercial banks (hereafter SOCBs) and aggregate data of private banks by the State Bank of Vietnam (hereafter SBV and SBV data). This data was originally submitted by the commercial banks according to SBV Governor Decision No. 159 (August 19, 1993) and was reclassified by SBV according to IMF rules. There are no rules regulating the financial accounts to be used, thus the data was produced by each bank based on its own discretion.

It is significant that outsiders be able to use the data to analyze each bank in a time series and to analyze the four banks comparatively. Therefore, it should be noted that much of the SBV data does not correspond with the data of individual banks' annual reports (hereafter AR data) and there are several irregular movements in the data from a time series point of view. Information is limited in both sets of data due to factors such as the existence of large volumes of "others" accounts as well as the irregular movements. In addition, we were unable to have enough discussion with either SBV or the individual commercial banks. However provisional the insight may be, we hope this will evoke the recognition that data development and analysis of the data are necessary for understanding the status quo—a prerequisite for financial sector reform. (The SBV data of 1996 is provisional and income statement data is up to November 1996.)

Discrepancies between SBV data and AR data may be reconciled if enough time is taken for examination since both data sets are produced internally by the banks. Different accounting policies may have been used due to the transition from socialist economy banks to those of international standards. This data gap should not be left open. Since the major function of financial institutions is the production of financial information about borrowers, they themselves should value financial data. The central bank which in turn supervises and inspects financial institutions should produce correct financial information about banks.

The job we have done here is directly related to parts of our proposition for financial sector reform:

establishing corporate accounting principles, developing SBV's inspection and supervisory functions and developing the credit analysis capability of commercial banks. These efforts to understand the financial status quo are prerequisite for full-fledged commercialization of the banking sector.

II. Financial Analysis Using the Data of SBV

1. Balance Sheet Analysis

(1) Overview

Total asset value of the four state-owned banks at the end of 1996 was 66 trillion dong. The largest of the four was the Bank for Foreign Trade (hereafter Vietcombank) with 21 trillion dong in assets and the smallest was the Bank for Investment and Development (hereafter BIDV) with 13 trillion dong (see Table 1-1). Total assets of the commercial banking sector including private banks was 86 trillion dong in gross (33% of 1996 GDP) and 76 trillion dong (29% of 1996 GDP) after deducting inter-bank deposits. During the five years of 1991-1996, the average growth rate of total assets was 20% per annum, the highest was BIDV at 42% and the lowest was Vietcombank's 8%. As a result, Vietcombank went from being 6.5 times the size of BIDV to 1.6 times. SBV collects the financial data of 24 private banks (12 more than in 1993) including 14 joint stock banks, three joint venture banks (JV banks) and seven foreign banks. Total asset value of the private banks was over 20 trillion dong; and the growth rate, 59% during 1991-1993 and 35% during 1994-1996, was higher than that for SOCBs.

As shown in Table 2, the asset composition of SOCBs at the end of 1996 included 24% in inter-bank deposits and 58% in loans, both securities (T bills) and investment (JV investment) were at 1%, and 13% were in "Other Assets". Deposits with SBV increased over the period and accounted for 10% of all assets at the end of 1996. We acknowledge here that excessive surplus reserves were kept by SOCBs, that a large volume of inter-bank deposits was necessary because of an underdeveloped settlement system and that there are not enough market tools for managing surplus funds.

Fund sources were comprised 50% through deposits and bonds, 19% through borrowings, 6% via equity capital and 24% through "Other Liabilities." The share of deposits in fund sources was declining over the period, supplemented by bond issuance. We can confirm that SOCBs are dependent on borrowings due to inadequate domestic mobilization. The ratio of loans to deposits and bonds was still high at 117% although declining from its peak of 137% at the end of 1994.

Compared with SOCBs, the private banks had lower reserve ratios as well as lower inter-bank deposit ratios. Their fund source composition was more stable having 54% in deposits and 15% in equity capital and only 3% in borrowings.

(2) Loans

Loans outstanding of SOCBs at the end of 1996 were 38 trillion dong, and their share of total assets increased from 36% in 1991 to around 60% in 1993 and afterward. Loans, including those of private banks, amounted to 50 trillion dong—the share of the private banks increased to 24% in 1996 (see Table 1-2). The 50 trillion dong corresponds to the total loan outstanding of the "Consolidated Accounts of Deposit Money Banks" of IMF statistics. In the "Monetary Survey" of the IMF, total domestic credit was 55 trillion dong, including 5 trillion dong of SBV credit to the government. Total domestic credit's percentage of GDP was still at a low level, 21.4%, although it increased from the 18.5% of 1991.

The growth rate in loans of SOCBs was 32% per annum during the five years of 1991 to 1996. The real growth rate was 21% considering the inflation rate over the period was 11% (CPI December to December basis). BIDV, and the Vietnam Bank for Agriculture and Rural Development (hereafter Agribank) were more aggressive in extending loans than Vietcombank and the Industrial and Commercial Bank of Vietnam (hereafter Incombank). However, the growth rate of all SOCBs has been declining over the last few years.

Summarized in Table 3 are the profiles of SOCB loans using SBV's other statistics on loans.[1] ① By sector: Vietcombank and BIDV lend practically solely to state-owned enterprises (hereafter SOEs). Agribank lends 60% of its loans to farmers and Incombank has a relatively balanced clientele of SOEs, private companies and individuals. ② By currency: Vietcombank lends more than 60% in foreign currencies, reflecting its trade-related finance, and the foreign currency share of BIDV was also relatively high due to loans for importing equipment and machinery. ③ By region: BIDV lends more to the central region than its economic share, reflecting the nature of policy loans. ④ By industry: Vietcombank, Incombank and BIDV lend 70% of their loans to manufacturing, construction and commerce industries. ⑤ By term: medium- to long-term (hereafter MLT) loans increased from 17% in 1991 to 32% in 1996.

Detailed examination reveals that MLT loans increased rapidly up to 1994 and have held that level since then (see Table 4). Table 5 shows that BIDV, which provided 70% of MLT loans in 1991, decreased its share to 30%. Almost all of BIDV's MLT loans were and are for SOEs. On the other hand, Agribank and the private banks increased the share of MLT loans in their total loans. Fifty-five percent of Agribank MLT loans were extended to farmers and the rest went to SOEs. Private companies borrowed MLT loans from private banks, including foreign banks and JV banks. According to our interviews, joint stock banks mostly extend short-term loans and rarely extend MLT loans. We suspect that most of the MLT loans to private companies went to foreign-affiliated companies from foreign banks and JV banks. Thus we can deduce that domestic private companies have practically no sources for MLT loans.

(3) Bad debt

It is quite difficult to recognize the real situation of bad debt in any country or economy. In Vietnam, the official definition and various classifications of overdue debt were finally decided in November 1996. Up until then the classification varied among banks. Frozen debt is another issue confusing the discussion of bad debt. This bad debt occurred due to financing which was demanded by the government before the banking ordinance of 1990. It has been classified as frozen debt and may or may not be set aside from balance sheets, and from the point of view of the banks, it is not a consideration when examining bad debt structure.

According to our interviews, treatment of frozen debt varies among SOCBs. BIDV has already written off its frozen debt with government finance because the size was relatively small. Incombank also received government finance, 500 billion dong, and wrote off its frozen debt. Vietcombank set frozen debt aside from its balance sheet and has been writing it off with its net profit since 1992—the outstanding amount was US$70 million as of May 1997. Agribank removed frozen debt from its

---

[1] The "private" sector of the statistics includes individual enterprises and proprietorships, and the "other" sector includes cooperatives, joint stock companies and joint venture companies. These two sectors have to be combined to get what is generally referred to as private sector data.

balance sheet in 1996 and plans to write it off with its net profit. (This information contradicts other information we have received on this point and we need further confirmation.)

The statistics of SBV on overdue debt include the frozen debt. As shown in Table 6, the ratio of overdue debt to total loans decreased from 20.2% in 1991 to 7.7% in 1995, but increased to 9.3% in 1996. Overdue loan ratios were improved in all sectors, especially in the "other sector" (private companies). BIDV and the private banks have lower ratios and Agribank, Vietcombank and Incombank have higher ratios, partly reflecting the inclusion of the frozen debt. We should note that loans to individuals from Vietcombank and Incombank and loans to private companies from Agribank and Vietcombank have deteriorated rapidly in the last few years (see Table 7).

(4) Sources of funds

As the size of total assets of SOCBs grew, the share of deposits declined and the difference was supplanted by bond issuance. Bank bonds issued in Vietnam, mostly with 3- to 6-month maturities, are considered to be deposit substitutes. So we aggregate deposits and bonds for our analysis. Bank bonds are issued with higher interest rates than those for deposits, to either evade interest ceiling regulation or raise funds for specific government-related projects. The decrease in deposit share was due to the decrease in the enterprise deposits from 37% in 1991 to 26% in 1996. It is difficult to get a clear picture of the sources of funds when "Other Liabilities" have a 30% share, but we can get some insight by comparing this information with AR data (refer to section III).

The private banks have higher shares of deposits and equity capital in their fund sourcing. The share occupied by enterprises' deposits has decreased in the case of SOCBs, but household deposits have increased largely and they supplement the decrease in enterprise deposits. But the increase in "Other Liabilities" again gives an unclear picture.

Vietcombank and Incombank raised around 50% of their funds from deposits, whose shares have been increasing recently. On the other hand, Agribank and BIDV can raise only one-fourth of their total funds in this form and rely heavily on borrowings. Agribank and Incombank have been issuing large volumes of bonds since 1993. The share of funds raised through bond issuance at these banks has risen from minimal figures in 1991 and 1992 to as high as 20%.

Borrowings from SBV was the main source of funds for Agribank and Incombank in the early stage of separation from SBV, however, these shares have decreased dramatically: Agribank, from 42% in 1991 to 9% in 1996; and Incombank, from 23% in 1991 to 3% in 1996. Vietcombank has used SBV borrowings for a small share of their fund sources over the period and now they represent less than 1%. On the other hand BIDV increased its borrowing from SBV, from 7% in 1991 to 23% in 1996. According to AR data, however, the dependence on SBV funds is decreasing (refer to section III). The trend reflects SBV's policy of raising the refinancing rate gradually to prevent commercial banks from being dependent on SBV funds. The refinancing rate since 1996 has been 100% of the original lending rates.

Although we do not have data to calculate the risk-based capital ratio, the simple equity capital ratio (capital and reserves / total liabilities) provides an idea about the stability of the banks. The ratios at the end of 1996 were as low as 4% for Vietcombank and Incombank; 6%, declining from 13% in 1992, for BIDV; and relatively high at 8% for Agribank. The private banks have higher equity capital ratios at 15%. The total minimum capital of 78 private banks registered at SBV, which are composed of 52 joint stock banks, 4 JV banks and 22 foreign banks, is 5.7 trillion dong (calculated at US$1 = VND11,000) which is 1.5 times the total capital of SOCBs. Eighty percent is owned by foreign banks and JV banks.

Issuance of L/Cs and guarantees on borrowings are important parts of banking business and it is healthier if they are included on the balance sheets of commercial banks. But according to Vietnamese accounting practice, they are treated as contingent liabilities and are off the balance sheet. "Compensating Deposit for Opening an L/C" is the only balance sheet item related to L/Cs and guarantees.

(5) Relationship with inflation rate and interest rate

It is not clear whether the changes in assets and liabilities are correlated with the inflation and interest rates, which was pointed out earlier by Prof. Watanabe. Here we review the historical movement of real interest rates in Vietnam using SBV's interest rate statistics and GSO's CPI. Real deposit interest rates (3-month savings) and real lending interest rates (short-term and long-term) became positive in the middle of 1989, became negative again in the latter part of 1990 and finally changed to be positive again at the end of 1992. Deposit rates became negative for a short time in 1995. Long-term lending rates finally became higher than short-term lending rates in July 1996.

Although real interest rates in 1993 were as high as 12% for deposits and 20% for lending, deposits at SOCBs decreased 7% from the previous year and loans increased by 51%. Bonds were issued in large volume that year. SOCBs may have shifted their sources of funds from deposits to bonds which were offering higher interest rates. The large increase in MLT loans despite the negative interest rate gap, lower than the short-term rate, suggests government guidance in increasing MLT loans.

In 1995 when real interest rates were lowered significantly, deposits increased by 34% and loans increased by 23%. However, considering the inflation rate of 12.7% that year, loans can be judged to have increased by only 10%. The inflation rate in 1996 was quite low at 4.7%. Despite a series of interest rate reductions, real interest rates remained high, resulting in a small increase in loans (see Table 8).

2. Income Statement

Income statement data are composed of small numbers of accounts and there are several irregular and unnatural data movements for which it is difficult to find reasonable explanations. Therefore the analysis of income statements provides very limited insight.

Of total SOCB revenue 82% was interest income on loans and 12% was interest income on deposits, making total interest income account for 94% of their revenue. Income from fee-based business was only 4%. Vietcombank, enjoying a monopolistic position in foreign trade, has a rather high 12% in fee-based business income, but the other three banks get just 1 to 2% of their income from fee-based business (see Table 2).

Total revenues of SOCBs increased by around 60% in 1994 and 1995 but seem to have flattened out in 1996, increasing just 3% (when adjusting the data of 1996 by multiplying by 12/11). The same adjustment for individual SOCBs infers that total revenue of BIDV and Incombank increased by 25% and 10% respectively but decreased at Vietcombank and Agribank by 9% and 7% respectively.

Vietcombank, Incombank and BIDV recorded profits in all fiscal years. However, in 1995 Incombank recorded extraordinary profit which cannot be confirmed by its annual report. Excluding Incombank's extraordinary profit in 1995, annual net income of the three banks after tax was around 100 to 300 billion dong. Considering that net income to total revenue ratios fluctuated largely over the period, the relatively stable nominal income amounts seem rather artificial. Agribank on the other hand incurred losses in 1991 and 1992 and has very small net income ratios in other fiscal years, less than 1%. In 1995 Agribank, like Incombank, recorded extraordinarily large profit. According to Agribank's annual report, Agribank was once near bankruptcy. The net income ratio of all SOCBs decreased from 15% in 1993 to 8% in 1996. BIDV's ratio especially declined, from 56% in 1991 to

5% in 1996.

Since most of the assets and liabilities are short-term in nature, returns on assets, and liabilities in each year are supposed to be correlated to the current interest rate. However, despite the decline in nominal interest rates, returns on both assets and liabilities have an upward trend. Particularly, the cost of deposits increased from 7.2% in 1993 to 19.8% in 1996 (see Table 9). Reasons behind the move may be ① bonds which provided higher interest rates increased against deposits, ② the share of enterprise deposits decreased in proportion to household deposits—the larger portion of the former is demand deposit kept for settlement purposes and carries a lower interest rate, and ③ the interest rates of demand deposits were raised in the last few years. Return on loans decreased to 21% in 1996 from 27%, which corresponds with the series of reductions in the interest rate ceiling.

SOCB's net returns of funds are on a declining trend (see Table 9). Those of Vietcombank and Agribank were especially negative in 1995 and 1996. As seen above, deposit costs are increasing and the borrowing costs of Vietcombank and Agribank are also increasing.

Average net income returns on total assets of SOCBs were slightly favorable at around 1.2 to 1.6% except in 1995 when Incombank and Agribank recorded extraordinarily large profits. Although net income to total revenue ratios are decreasing, increases in turnover ratios are compensating for the decline.

III. Financial Analysis Using the Data of Annual Reports

1. Differences Between SBV Data and AR Data

We have not obtained all of the annual reports with which to compare SBV data for 1991 to 1996, and the reported financial accounts vary from bank to bank. Therefore, the aggregate data in our hands is too limited to make effective analysis possible other than for the three years of 1993 to 1995, and even then with some of the accounts missing. Comparing both data sources, AR data records larger total assets by 2.7 trillion dong in 1994 and by as large as 10 trillion dong in 1996. The compositions of assets are not very different but the liability compositions are greatly different (see Table 10). Accounts classified as "Other Liabilities" in SBV data are further divided into deposits, capital and reserves, and trust funds in AR data. On the other hand, AR data records smaller borrowings than SBV data. Therefore it seems that the classification of borrowings is confused with deposits and trust funds. The existence of unique accounting principles and practices is not as big a problem as is the fact that these principles and practices are not observed consistently.

Here we analyze AR data of each SOCB and examine its differences from SBV data. Annual reports of SOCBs are invariably eloquent about the national economy or about the economic development plan but contain little information about their business, especially about their financial data. And after reading the SOCB reports it is still unclear as to what accounting principles were used in compiling them. We obtained a 1995 annual report from one joint stock bank, which included the following information on Vietnamese accounting principles—information which is not available in SOCB annual reports. ① Interest on loans is recorded on a cash basis. ② Interest expense on deposits and borrowings is recorded on a cash basis. Interest expense for term deposits is recorded on an accrual basis. ③ Loans are carried at the principal amount without general provisions for loan losses. ④ Construction in progress is the account of record for leased asset renovation. ⑤ Tax payment is 45% of net profit, excluding income from investment and T bills.

(1) Agribank (refer to section IV)

Compared with SBV data, Agibank's AR data lists larger loans outstanding by 3.1 trillion dong at the end of 1995 and larger deposit and bond issuance sums by 1.7 trillion dong and 5.5 trillion dong for 1994 and 1995 respectively. As a result the share of deposits plus bonds in sources of funds in 1995 was 63% and the ratio of deposits plus bonds against loans was 110%, and both were more stable than the ratios of 43% and 162% recorded in SBV data. SBV data may have included a part of bond issuance in "Other Liabilities." Anyway, a data gap of this magnitude needs to be reconciled.

AR data showed lower figures than SBV data for both sources of funds and returns on the utilization of funds. Comparing the average outstanding funds (deposits and bonds plus borrowings), AR data in 1995 was 46% higher than SBV data. And the cost of funds, by AR data, came to 17.3%, significantly lower than the 33.7% recorded by SBV data. The net negative return on funds seen in section I above did not occur in AR data. They showed a lucrative +6.1%. However, both data sets recorded lower returns in 1995 than in 1994.

Agribank business incurs higher costs to cover rural areas, keeping an extensive branch network with a large number of employees. Thus Agribank has the lowest net return on assets as well as the lowest loan outstanding and total revenue per employee.

(2) Incombank

AR data for total assets and liabilities are equivalent with SBV data; however, deposits are larger in AR data, and correspondingly, other accounts of liabilities are smaller. In SBV data, deposit seems to have been classified as bank borrowings in 1993 and 1994, and as bond issuance in 1995. The AR income statement records smaller interest income in 1995 and larger interest expenses on deposits in 1994 and 1995, which explains why the SBV reports unusual profit. Consequently the reported net return on funds in AR data is smaller than in SBV data and is shown to have been declining from 1993 to 1995.

AR data also records larger deposits at other banks and correspondingly smaller "Other Assets," although a relatively-small scale difference. The 1995 annual report has a "Payment to be Collected" account on the asset side and a corresponding "Payment to be Made" account on the liability side. There is uncertainty as to whether or not these are accounts for L/C issuance and guarantee.

(3) Vietcombank

Reflecting the nature of trade finance business, Vietcombank has kept a large amount of deposits at other banks. But the volume decreased, even in nominal terms, up to 1993, which seems to be the result of an improvement in the settlement system as well as the growing confidence of the international banking sector.

As in Agribank's case, the AR data lists larger loans and deposits, and accordingly, a lower return on funds as well as a lower cost of funds. Deposit amounts were particularly large at 11.9 trillion dong and 15.8 trillion dong respectively at the end of 1994 and 1995. These are about twofold the 6.6 trillion dong and 7.5 trillion dong recorded in SBV data. As a result the AR data cost of funds is as low as 1.45% in 1995. As in the case of Agribank, the net negative return on funds shown in SBV data did not occur either. In fact it was shown to have improved over the period from 2.67% in 1993 to 6.81% in 1994 and 8.08% in 1995. The liabilities which were recorded as additional deposits in AR data seem to have been partially classified as "Other Liabilities" and partially recorded off the balance in SBV data. Other SBV statistics on deposits record the same figures as the "SBV data" we are analyzing here. Again, the gap between the AR data and SBV data should be reconciled.

(4) BIDV

The AR of BIDV provides a profile of a long-term finance institution with a stable balance sheet. Loans outstanding at the end of 1996 were 10.3 trillion dong, 67% of total assets, of which long-term loans were 60% and increasing from the previous year. Including "Trust Lending," total loans outstanding were 12.6 trillion dong, 82% of total assets. Considering that trust lending has a long-term nature, BIDV is really a long-term finance bank.

The equity capital ratio, including "Fund for Development Credit," was very stable at 33%. The fund was provided by the government for preferential lending to government list projects. BIDV does not bear any cost for this and can make provisions for capital preservation, thus treating it as self-capitalization in AR data. SBV data shows larger borrowings—perhaps including the fund for development in their calculations. BIDV's fund sources seem all the more stable considering that other sources such as foreign borrowings and funds for trust lending are long-term in nature.

The budget allocation function was transferred from BIDV to the Ministry of Finance's General Department of Investment and Development, which was established December 1994. Prior to the transfer, the function was recorded in BIDV's annual report using "Development Financing" on the asset side and "Fund for Development Financing" on the liability side. SBV data does not include these accounts and accordingly lists smaller total assets and liabilities up through 1993.

Since 1994, BIDV's annual report has added the "Trust Lending, Development Finance" account on the asset side and the "Trust Fund, Development Finance" account on the liability side. These accounts are for ODA funds which MOF borrowed from international financial institutions and others, and entrusted to BIDV for lending and disbursement. Again SBV data for total assets is smaller for 1995 and 1996 than AR data, and may not have included these accounts.

2. Profile of Each SOCB Given by AR Data

The profile of each SOCB is summarized in Table 11, derived from AR data. We measure managerial capacities of SOCBs from six angles: ① size (of total assets), ② growth rate (of loans outstanding), ③ mobilization capacity (loan to deposit plus bond ratio), ④ profitability (net income to total assets ratio), ⑤ productivity (loans outstanding per employee), and ⑥ stability (capital account to total assets ratio).

Vietcombank enjoys a monopolistic status in the banking sector, because it has the biggest share of trade-related finance and the largest assets, including demand deposits from SOEs and private companies to settle international transactions. While other SOCBs have a government-oriented branch network system, Vietcombank has a rather economic-oriented, domestic network system with the smallest number of branches and employees. Thus Vietcombank has the highest profitability and productivity. Due to a slower growth rate, however, the size gap between Vietcombank and other SOCBs is shrinking rapidly.

Agribank is at the opposite end of the SOCB spectrum. It has the largest domestic network system (more than 2,500 branches and transaction points) and 21,000 employees (a number it has maintained since 1993—below its peak of 27,700 in 1991). It is growing very rapidly, catering to the growing credit demand in the agricultural sector, but the individual loans are small in size, 3.4 million dong (about 300 USD) per borrower, and accordingly incur higher cost. Agribank's, mobilization capacity is weak and dependent on borrowings — profitability and productivity of Agribank are the lowest of all SOCBs.

BIDV, by expanding its business in short-term loans and catering to a large demand for MLT loans, is also growing quickly. Self-mobilization capacity is very weak, reflecting the conditions under which it operated when it was a government bank (i.e., it was dependent on government funds and had a relatively small, government-oriented branch system). While all other SOCBs have very weak financial stability, BIDV is largely self-capitalized (at 31% of total liabilities).

Incombank's extensive urban-oriented network provides relatively high mobilization capacity. They are not so aggressive in extending new loans because they are expanding their business in non-loan activities. Incombank has rather high profitability, second to Vietcombank.

Since Agribank and BIDV are aggressive in lending and Vietcombank and Incombank are not, we can conclude that government-policy-related loans are growing rapidly and market-based loans are not.

Ⅳ. International Standard Audit of Agribank

An Australian auditing firm, Coopers & Lybrand, audited the 1994 financial statements of Agribank and reported the results in July 1995. The audit was implemented as ODA of the Australian government.

The report pointed out that ① inter-branch receivable accounts were not reconciled and no evidence exists with which to reconcile them, ② financial information was not available for supporting the value of investment securities, ③ Agribank has neither records supporting the calculation and adequacy of the provision for bad debts nor records of historical losses, ④ no evidence exists supporting the value of real estate, and ⑤ Agribank does not have records for estimating the market value of collateral and no market exists for selling collateral.

Because of the significance of the above mentioned facts, the auditor did not express an opinion on the financial data. The auditor also pointed out that Agribank is reliant, to a large extent, on SBV for its continuance as a going concern since a significant portion of its funds are from SBV.

Information concerning bad debts in the report is as follows. Historically Vietnamese accounting principles have not established provisions for bad and doubtful debts. However, Agribank established provisions for bad and doubtful debts of 112 billion dong at the end of 1994. Although its adequacy is unknown, it was equivalent to about 13/1000 of loans outstanding. Loans are classified as overdue debts when a repayment is more than five days past due.

According to Agribank's 1994 annual report, frozen debt amounted to 1 trillion dong out of the 10.8 trillion dong in total loans outstanding and had been written off the balance sheet by the government. The audit report classified 547 billion dong at the end of 1993 and 1,008 billion dong at the end of 1994 as "Frozen Debt" on the balance sheet. The 1,008 billion dong of 1994 is the same as the figure for "Utilization of Trust Fund from Government," an asset account in the 1994 annual report. The account is meant for agent activity, extending loans on behalf of government, and has a corresponding liability account "Trust Fund from Government". The audit data seems to have included the funds equivalent to "Trust Fund from Government" in the borrowings from SBV. The 547 billion dong in "Frozen Debt" of 1993 seems to be classified as "Investment Services for Government" in the annual report. In sum we are not certain whether the frozen debt was on the balance sheet or not, or whether "Utilization of Trust Fund from Government" is an account for the frozen debt or not.

The audit data for interest income is 516 billion dong smaller than the AR data and interest expense is 659 billion dong smaller than the AR data. This is because the AR data includes intrabank income and expense born by transferring funds between the head office and branches.

Table 1-1 Average Annual Growth Rate of Total Assets (billions of VND)

	1991	share	1994	share	1996	share	91/96	94/96
Agribank	4,971	19%	10,692	24%	17,169	26%	28%	27%
Incombank	5,399	20%	10,650	23%	15,117	23%	23%	19%
Vietcombank	14,049	53%	15,166	33%	20,632	31%	8%	17%
BIDV	2,177	8%	8,846	20%	12,743	19%	42%	20%
SOCB Total	26,596	100%	45,354	100%	65,661	100%	20%	20%
Private Banks	1,456	5%	11,130	20%	20,198	24%	69%	35%
All Banks	28,052	100%	56,484	100%	85,859	100%	25%	23%

Table 1-2 Average Annual Growth Rate of Loans (billions of VND)

	1991	share	1994	share	1996	share	91/96	94/96
Agribank	2,847	30%	7,838	29%	11,913	31%	33%	23%
Incombank	3,032	32%	6,670	25%	10,318	27%	28%	24%
Vietcombank	2,163	23%	6,111	23%	7,805	20%	29%	13%
BIDV	1,430	15%	6,376	24%	8,354	22%	42%	14%
SOCB Total	9,472	100%	26,995	100%	38,390	100%	32%	19%
Private Banks	536	5%	5,653	17%	12,329	24%	87%	48%
All Banks	10,008	100%	32,648	100%	50,719	100%	38%	25%

Source Compiled from State Bank of Viet Nam data

Table 2 Comparison: SOCBs and Private Banks

Combined Balance Sheets of All SOCBs (Dec. 1996) (%)

Cash	1	Deposit	39
Deposit w/ SBV	10	Enterprises	27
Deposit w/ banks	13	Households	12
Loans	58	Borrowings	19
Short-term	39	SBV	7
MLT	19	Banks	12
JV investment	1	Bond Issuance	11
T bills	1	Trust Fund	0
Fixed Assets	2	Capital & Resvs.	6
Other Assets	13	Other Liabilities	24
Total Assets	100	Total Liabilities	100

Combined Balance Sheets of Private Banks (Dec. 1996) (%)

Cash	1	Deposit	54
Deposit w/ SBV	8	Enterprises	33
Deposit w/ banks	5	Households	21
Loans	61	Borrowings	3
Short-term	47	SBV	0
MLT	14	Banks	3
JV investment	1	Bond Issuance	0
T bills	0	Trust Fund	0
Fixed Assets	3	Capital & Resvs.	15
Other Assets	21	Other Liabilities	28
Total Assets	100	Total Liabilities	100

Combined Income Statements of All SOCBs (Jan-Nov 1996)

Total Revenue	100
Interest income	94
Loans	82
Deposit	12
Forex trading	1
Banking services	3
Others	2
Total Cost	92
Interest expense	71
Deposit	50
Borrowings	21
Forex trading	0
Banking staff	5
Tax	1
Others	14
Net Income	8
Net interest income	23
Income before tax	10

Combined Income Statements of Private Banks (Jan-Nov 1996)

Total Revenue	100
Interest income	
Loans	
Deposit	
Forex trading	
Banking services	
Others	
Total Cost	78
Interest expense	
Deposit	
Borrowings	
Forex trading	
Banking staff	
Tax	
Others	
Net Income	22
Net interest income	
Income before tax	

Source Compiled from State Bank of Viet Nam data

Table 3 Profiles of SOCB Loans by 1995 Data

	Vietcom		Agri		BIDV		Incom	
Total	7,534	100%	9,576	100%	7,936	100%	8,389	100%
Short	5,126	68%	6,658	70%	3,525	44%	6,787	81%
MLT	2,408	32%	2,918	30%	4,411	56%	1,602	19%
SOE	6,093	81%	2,736	29%	7,230	91%	4,583	55%
Short	3,754	50%	1,418	15%	2,819	36%	3,645	43%
MLT	2,339	31%	1,318	14%	4,411	56%	938	11%
Private	106	1%	297	3%	676	9%	1,926	23%
Short	89	1%	249	3%	676	9%	1,666	20%
MLT	17	0%	48	1%	0	0%	260	3%
Farmer	0	0%	5,551	58%	30	0%	0	0%
Short	0	0%	4,504	47%	30	0%	0	0%
MLT	0	0%	1,047	11%	0	0%	0	0%
Individual	0	0%	992	10%	0	0%	1,878	22%
Short	0	0%	487	5%	0	0%	1,474	18%
MLT	0	0%	505	5%	0	0%	404	5%
Other	1,335	18%	0	0%	0	0%	2	0%
Short	1,283	17%	0	0%	0	0%	2	0%
MLT	52	1%	0	0%	0	0%	0	0%
By sector	7,534	100%	9,576	100%	7,966	100%	8,601	100%
SOE	6,093	81%	2,736	29%	7,230	91%	4,794	56%
Private	106	1%	297	3%	706	9%	1,926	22%
Farmer	0	0%	5,551	58%	30	0%	0	0%
Individual	0	0%	992	10%	0	0%	1,879	22%
Other	1,335	18%	0	0%	0	0%	2	0%
By term	7,534	100%	9,576	100%	7,936	100%	8,389	100%
Short	5,126	68%	6,658	70%	3,525	44%	6,787	81%
MLT	2,408	32%	2,918	30%	4,411	56%	1,602	19%
By currency	7,534	100%	9,576	100%	7,936	100%	8,601	100%
Dong	2,888	38%	7,755	81%	5,196	65%	6,902	80%
Foreign	4,646	62%	1,821	19%	2,740	35%	1,699	20%
By region		100%		100%		100%		100%
North		41%		48%		47%		43%
Central		16%		15%		27%		13%
South		43%		37%		26%		44%
By industry		100%		100%		100%		100%
Industry		24%		4%		27%		37%
Construction		12%		3%		11%		10%
Commerce		32%		15%		28%		30%
Transport		13%		2%		4%		7%
Telecom		11%		2%		1%		0%
Agri		4%		73%		15%		6%
Other		4%		1%		14%		10%

Source Compiled from State Bank of Viet Nam data

Table 4 Long-term Share to Total Loans of SOCBs

	1991	1992	1993	1994	1995	1996
Agribank	5%	5%	16%	26%	32%	30%
BIDV	74%	77%	77%	70%	56%	48%
Incombank	4%	7%	12%	15%	19%	17%
Victcombank	10%	12%	19%	29%	34%	33%
Others	2%	2%	6%	8%	25%	23%
TOTAL	15%	16%	25%	32%	33%	32%

Source Compiled from State Bank of Viet Nam data

Table 5 Each Bank's Share in Total Long-term Loans

		1991	1992	1993	1994	1995	1996
Agribank	SOE	4%	3%	9%	13%	9%	10%
	Private Sector	0%	3%	7%	8%	12%	14%
	Other	5%	3%	2%	1%	1%	1%
	Total	9%	8%	18%	22%	22%	25%
BIDV	SOE	68%	62%	49%	47%	31%	30%
	Private Sector	0%	0%	0%	0%	0%	0%
	Other	0%	0%	0%	0%	0%	0%
	Total	68%	62%	50%	47%	32%	31%
Incombank	SOE	7%	9%	11%	8%	7%	7%
	Private Sector	0%	1%	1%	2%	3%	2%
	Other	1%	1%	1%	1%	2%	2%
	Total	8%	11%	13%	11%	11%	11%
Victcombank	SOE	12%	15%	15%	15%	16%	14%
	Private Sector	0%	0%	1%	1%	0%	0%
	Other	3%	2%	2%	2%	2%	2%
	Total	14%	17%	17%	17%	18%	16%
Others	SOE	1%	1%	2%	1%	4%	8%
	Private Sector	0%	0%	0%	0%	1%	1%
	Other	0%	0%	1%	1%	12%	8%
	Total	1%	1%	2%	3%	17%	18%
Total	SOE	91%	90%	86%	84%	67%	69%
	Private Sector	1%	4%	10%	11%	17%	18%
	Other	8%	5%	5%	5%	16%	13%
	Total	100%	100%	100%	100%	100%	100%

Source Compiled from State Bank of Viet Nam data

Table 6 Overdue Loan Ratio in Each Sector at Each SOCB

	1991	1992	1993	1994	1995	1996
Agribank	24.1%	19.5%	15.6%	14.3%	13.9%	14.9%
SOE	20.4%	23.9%	12.5%	13.6%	13.3%	17.1%
Private	25.4%	5.7%	16.8%	15.0%	14.1%	13.9%
Others	51.8%	52.4%	20.6%	9.8%	15.0%	19.4%
BIDV	5.9%	3.6%	2.7%	3.0%	3.3%	4.5%
SOE	5.0%	3.0%	1.8%	2.9%	3.1%	4.3%
Private	60.0%	21.4%	37.8%	6.1%	4.9%	6.3%
Others	83.3%	69.2%	34.6%	4.2%	3.1%	7.3%
Incombank	13.6%	11.1%	9.3%	7.7%	9.3%	11.5%
SOE	11.3%	9.9%	10.1%	8.7%	6.3%	8.8%
Private	33.3%	9.8%	4.4%	5.3%	21.6%	39.1%
Others	47.4%	37.9%	19.4%	10.1%	4.9%	3.2%
Vietcombank	31.5%	16.1%	16.1%	16.5%	8.7%	11.8%
SOE	32.5%	16.4%	16.4%	18.0%	10.2%	9.4%
Private	0.0%	0.0%	25.5%	9.4%	1.0%	19.4%
Others	1.4%	2.4%	6.0%	5.9%	2.4%	22.9%
Others	29.1%	14.1%	6.4%	3.6%	3.0%	4.2%
SOE	28.7%	16.7%	8.2%	6.1%	2.5%	4.9%
Private	0.0%	2.4%	3.3%	1.9%	4.0%	4.7%
Others	40.0%	25.8%	5.9%	1.8%	3.0%	3.2%
Total	20.2%	13.8%	11.1%	9.6%	7.7%	9.3%
SOE	18.5%	13.7%	10.2%	9.7%	6.6%	7.8%
Private	26.1%	6.2%	12.7%	10.3%	12.7%	14.9%
Others	43.7%	40.4%	13.4%	6.0%	4.0%	6.0%

Source Compiled from State Bank of Viet Nam data

Table 7 Overdue Loan Share by Sectors at Each SOCB

	1991	1992	1993	1994	1995	1996
Agribank	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SOE	66.0%	68.4%	25.6%	32.4%	27.3%	29.3%
Private	13.1%	10.6%	69.0%	64.9%	68.4%	65.9%
Others	20.8%	21.0%	5.5%	2.7%	4.3%	4.8%
BIDV	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SOE	84.5%	83.8%	63.4%	92.3%	87.6%	86.6%
Private	3.6%	4.1%	27.7%	6.2%	10.8%	10.0%
Others	11.9%	12.2%	8.9%	1.5%	1.5%	3.4%
Incombank	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SOE	76.5%	76.7%	73.0%	60.6%	37.7%	34.2%
Private	8.3%	8.6%	12.4%	25.0%	50.4%	54.9%
Others	15.3%	14.8%	14.6%	14.4%	11.8%	10.9%
Vietcombank	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SOE	99.9%	99.7%	95.4%	94.0%	95.6%	65.0%
Private	0.0%	0.0%	3.0%	2.7%	0.6%	6.2%
Others	0.1%	0.3%	1.6%	3.3%	3.8%	28.8%
Others	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SOE	90.6%	91.9%	66.9%	70.5%	28.4%	45.6%
Private	0.0%	3.5%	13.7%	15.5%	27.0%	23.2%
Others	5.0%	4.7%	19.4%	14.0%	44.6%	31.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
SOE	82.3%	81.5%	61.7%	63.0%	48.0%	44.4%
Private	6.3%	6.4%	31.1%	31.5%	42.7%	41.8%
Others	11.1%	12.1%	7.2%	5.5%	9.2%	13.8%

Source Compiled from State Bank of Viet Nam data

Table 8 Loan Increase over Previous Year in Real Terms*

	92/91	93/92	94/93	95/94	96/95	96/91
Vietcombank	47.70%	32.30%	10.90%	8.10%	2.30%	14.60%
Short	44.20%	20.60%	-10.90%	10.80%	11.80%	9.70%
MLT	78.10%	118.10%	101.10%	2.60%	-18.00%	41.40%
Agribank	22.90%	48.00%	13.80%	9.20%	22.50%	18.60%
Short	22.30%	16.00%	8.60%	7.20%	20.50%	10.50%
MLT	31.00%	479.20%	28.40%	14.00%	27.10%	68.10%
BIDV	25.30%	77.40%	56.80%	11.80%	0.80%	27.20%
Short	9.30%	84.70%	91.80%	76.80%	6.10%	44.60%
MLT	30.90%	75.20%	45.60%	-15.00%	-3.50%	18.30%
Incombank	20.80%	42.50%	-7.40%	13.90%	17.50%	12.40%
Short	17.30%	31.10%	-10.70%	9.60%	16.90%	8.00%
MLT	108.50%	213.90%	13.90%	36.50%	20.00%	61.50%
Total	28.30%	46.60%	14.50%	10.70%	11.50%	17.40%
Short	25.30%	25.40%	1.40%	16.40%	15.10%	12.10%
MLT	43.30%	140.80%	45.50%	0.90%	4.60%	35.80%

Note * Real Terms = Nominal Terms − CPI

Source Compiled from State Bank of Viet Nam data

Table 9 Return Ratios of Total SOCB

	1991	1992	1993	1994	1995	1996
Return on loans			17.76%	21.46%	26.46%	20.84%
Return on deposit			2.14%	7.19%	9.19%	7.78%
Return on deposit excl. SBV			3.04%	11.49%	15.67%	13.55%
Return on L&D			12.13%	17.59%	21.70%	17.10%
Cost of deposit			7.22%	9.55%	16.44%	19.78%
Cost of borrowing			8.67%	16.36%	20.10%	15.82%
Cost of funds			7.70%	12.20%	17.81%	18.45%
Net returns on funds			4.42%	5.39%	3.89%	-1.35%
Net income/Asset		1.46%	1.66%	1.50%	4.51%	1.21%
Net income/Total income	14.33%	13.29%	15.27%	9.95%	24.21%	8.21%
Total income/Asset		10.97%	10.90%	15.05%	18.62%	14.68%
Equity/Asset	10.11%	5.51%	5.49%	5.48%	4.86%	5.65%
Loan/(Deposit+Bond)	77%	94%	131%	137%	123%	117%

Calculated from data of the State Bank of Viet Nam

Table 10

(see next page)

Table 11 Profiles of SOCBs by Annual Report Data

	Vietcom	Agri	BIDV	Incom	All SOCB	formula	unit
Size	21.5	18.1	13.1	15.5	68.2	Total Asset	t VND
Growth	26.6%	53.3%	57.4%	36.4%	28.5%	95/93	%
Loan	8.27	12.45	8.30	8.46	37.48	Loan outstanding	t VND
Growth	18.8%	45.1%	49.2%	17.2%	28.5%	95/93	%
Mobilization	52	110	319	75	91	Loan/(Deposit+Bond)	%
Profit	2.09	0.32	0.53	1.26	1.15	Net income/Asset	%
Productivity	3.38	0.59	2.55	0.78	1.00	Loan/Employee	b VND
Stability	3.87	5.67	30.51	4.11	9.52	Capital/Asset	%

Source Compiled from SBV data

Table 10 SBV Data and AR Data Comparison

Balance Sheet of Total SOCBs (Dec.1995) by SBV Data (%)

Cash	1	Deposit	35
Deposit with SBV	10	Enterprises	26
Deposit with banks	13	Households	10
Loans	57	Borrowings	19
Short-term	37	SBV	7
MLT	19	Banks	12
JV investment	1	Bond Issuance	11
T bills	3	Trust Fund	1
Fixed assets	2	Capital & Reserves	5
Other assests	13	Other Liabilities	30
Total assests	100	Total Liabilities	100

Balance Sheet of Total SOCBs (Dec.1995) by AR Data (%)

Reserve+Bank Deposit	23	Deposit	49
		Enterprises	20
		Households	6
Loans	55	Borrowings	11
Short-term	39	SBV	3
MLT	16	Banks	7
JV investment	1	Bond Issuance	11
T bills	2	Trust Fund	4
Fixed assets	2	Capital & Reserves	10
Other assests	17	Other Liabilities	16
Total assests	100	Total Liabilities	100

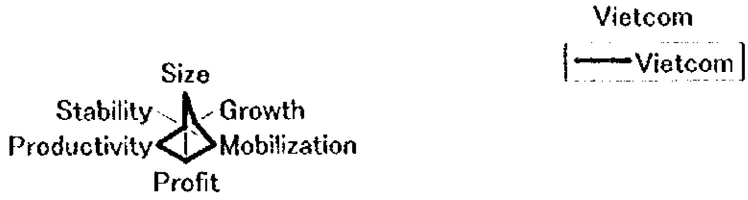
Income Statement of Total SOCBs (1995) by SBV Data (%)

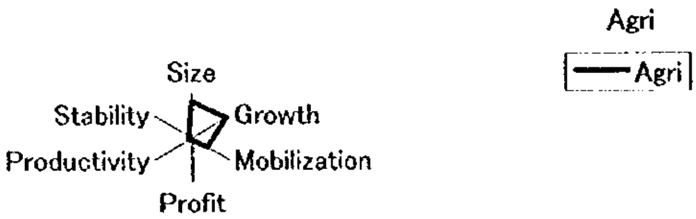
Total Revenue	100
Interest income	93
Loans	83
Deposit	11
Forex trading	1
Banking services	2
Others	3
Total Cost	76
Interest expense	53
Deposit	31
Borrowings	22
Forex trading	0
Banking staff	7
Tax	5
Others	10
Net Income	24
Net interest income	40
Income before tax	29

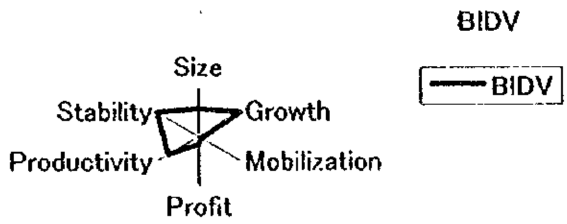
Income Statement of Total SOCBs (1995) by AR Data (%)

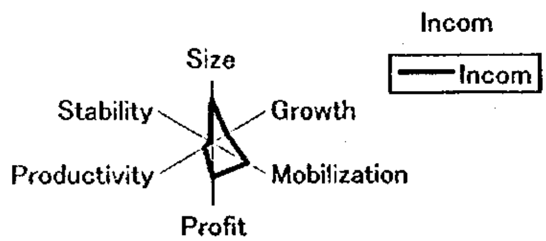
Total Revenue	100
Interest income	94
Loans	88
Deposit	5
Forex trading	2
Banking services	4
Others	1
Total Cost	91
Interest expense	65
Deposit	33
Borrowings	21
Forex trading	1
Banking staff	8
Tax	7
Others	10
Net Income	9
Net interest income	29
Income before tax	16

Source Compiled from the State Bank of Vietnam data


Vietcom
Vietcom
Size
Stability
Growth
Productivity
Mobilization
Profit


Agri
Agri
Size
Stability
Growth
Productivity
Mobilization
Profit


BIDV
BIDV
Size
Stability
Growth
Productivity
Mobilization
Profit


Incom
Incom
Size
Stability
Growth
Productivity
Mobilization
Profit

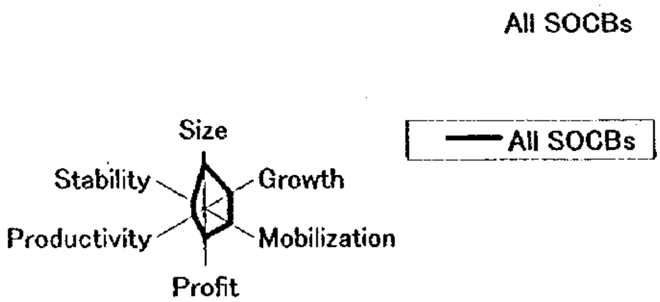

All SOCBs
All SOCBs
Size
Stability
Growth
Productivity
Mobilization
Profit

Table 12 Historical Trend of Interest Rates in Viet Nam

	deposit rate	short lending	long lending	CPI	lending - deposit	long - short	real deposit	real short	real long
86.1	0.25	4.00	0.45		3.75	-3.55			
86.2	0.25	4.00	0.45		3.75	-3.55			
86.3	0.25	4.00	0.45		3.75	-3.55			
86.4	0.25	4.00	0.45		3.75	-3.55			
86.5	0.25	4.00	0.45		3.75	-3.55			
86.6	0.25	4.00	0.45		3.75	-3.55			
86.7	0.25	4.00	0.45		3.75	-3.55			
86.8	0.25	4.00	0.48		3.75	-3.52			
86.9	0.25	4.00	0.48		3.75	-3.52			
86.10	0.25	4.00	0.48		3.75	-3.52			
86.11	0.25	4.00	0.48		3.75	-3.52			
86.12	0.25	4.00	0.48		3.75	-3.52			
87.1	0.25	4.00	0.48	56.08	3.75	-3.52	-55.83	-52.08	-55.60
87.2	0.25	4.00	0.48	49.30	3.75	-3.52	-49.05	-45.30	-48.82
87.3	0.25	4.00	0.48	46.96	3.75	-3.52	-46.71	-42.96	-46.48
87.4	0.25	4.00	0.48	43.35	3.75	-3.52	-43.10	-39.35	-42.87
87.5	0.25	4.00	0.48	40.02	3.75	-3.52	-39.77	-36.02	-39.54
87.6	0.25	4.00	0.48	36.99	3.75	-3.52	-36.74	-32.99	-36.51
87.7	0.25	4.00	3.30	36.47	3.75	-0.70	-36.22	-32.47	-33.17
87.8	0.25	4.00	3.30	33.48	3.75	-0.70	-33.23	-29.48	-30.18
87.9	0.25	4.00	3.30	30.16	3.75	-0.70	-29.91	-26.16	-26.86
87.10	0.25	4.00	3.30	25.97	3.75	-0.70	-25.72	-21.97	-22.67
87.11	0.25	4.00	2.01	23.02	3.75	-1.99	-22.77	-19.02	-21.01
87.12	0.25	4.00	2.01	19.31	3.75	-1.99	-19.06	-15.31	-17.30
88.1	0.25	4.00	2.01	20.92	3.75	-1.99	-20.67	-16.92	-18.91
88.2	0.25	4.00	2.01	21.66	3.75	-1.99	-21.41	-17.66	-19.65
88.3	0.25	4.00	2.01	25.33	3.75	-1.99	-25.08	-21.33	-23.32
88.4	0.25	4.00	2.01	28.64	3.75	-1.99	-28.39	-24.64	-26.63
88.5	0.25	4.00	2.01	33.35	3.75	-1.99	-33.10	-29.35	-31.34
88.6	0.25	4.00	2.01	34.60	3.75	-1.99	-34.35	-30.60	-32.59
88.7	0.25	4.00	2.01	33.12	3.75	-1.99	-32.87	-29.12	-31.11
88.8	0.25	4.00	2.01	32.55	3.75	-1.99	-32.30	-28.55	-30.54
88.9	0.25	4.00	2.01	32.02	3.75	-1.99	-31.77	-28.02	-30.01
88.10	0.25	4.00	2.01	32.32	3.75	-1.99	-32.07	-28.32	-30.31
88.11	0.25	4.00	2.01	33.01	3.75	-1.99	-32.76	-29.01	-31.00
88.12	0.25	4.00	2.01	32.81	3.75	-1.99	-32.56	-28.81	-30.80
89.1	0.25	4.00	3.50	29.02	3.75	-0.50	-28.77	-25.02	-25.52
89.2	0.25	4.00	3.50	27.45	3.75	-0.50	-27.20	-23.45	-23.95
89.3	12.00	4.00	3.50	21.04	-8.00	-0.50	-9.04	-17.04	-17.54
89.4	12.00	4.00	3.50	16.22	-8.00	-0.50	-4.22	-12.22	-12.72
89.5	9.00	4.00	3.50	10.87	-5.00	-0.50	-1.87	-6.87	-7.37
89.6	7.00	4.00	3.50	7.63	-3.00	-0.50	-0.63	-3.63	-4.13
89.7	7.00	4.00	3.50	6.02	-3.00	-0.50	0.98	-2.02	-2.52
89.8	7.00	4.00	3.50	5.04	-3.00	-0.50	1.96	-1.04	-1.54
89.9	7.00	4.00	3.50	4.43	-3.00	-0.50	2.57	-0.43	-0.93
89.10	7.00	4.00	3.50	3.78	-3.00	-0.50	3.22	0.22	-0.28
89.11	7.00	4.00	3.50	3.14	-3.00	-0.50	3.86	0.86	0.36
89.12	7.00	4.00	3.50	2.89	-3.00	-0.50	4.11	1.11	0.61
90.1	7.00	4.00	3.50	2.42	-3.00	-0.50	4.58	1.58	1.08

90.2	7.00	4.00	3.50	1.89	-3.00	-0.50	5.11	2.11	1.61
90.3	4.00	4.00	3.50	1.55	0.00	-0.50	2.45	2.45	1.95
90.4	4.00	4.00	3.50	1.45	0.00	-0.50	2.55	2.55	2.05
90.5	4.00	4.00	3.50	1.73	0.00	-0.50	2.27	2.27	1.77
90.6	4.00	4.00	3.50	2.24	0.00	-0.50	1.76	1.76	1.26
90.7	4.00	4.00	3.50	2.79	0.00	-0.50	1.21	1.21	0.71
90.8	4.00	4.00	3.50	3.41	0.00	-0.50	0.59	0.59	0.09
90.9	4.00	4.00	3.50	3.77	0.00	-0.50	0.23	0.23	-0.27
90.10	4.00	4.00	3.50	4.23	0.00	-0.50	-0.23	-0.23	-0.73
90.11	4.00	4.00	3.50	4.87	0.00	-0.50	-0.87	-0.87	-1.37
90.12	4.00	4.00	3.50	5.63	0.00	-0.50	-1.63	-1.63	-2.13
91.1	4.00	4.00	3.50	7.02	0.00	-0.50	-3.02	-3.02	-3.52
91.2	4.00	4.00	3.50	7.75	0.00	-0.50	-3.75	-3.75	-4.25
91.3	4.00	4.00	3.60	7.53	0.00	-0.40	-3.53	-3.53	-3.93
91.4	4.00	4.00	3.60	7.48	0.00	-0.40	-3.48	-3.48	-3.88
91.5	4.00	4.00	3.60	7.54	0.00	-0.40	-3.54	-3.54	-3.94
91.6	4.00	4.00	3.60	7.48	0.00	-0.40	-3.48	-3.48	-3.88
91.7	3.50	4.00	3.60	7.31	0.50	-0.40	-3.81	-3.31	-3.71
91.8	3.50	4.00	3.60	6.96	0.50	-0.40	-3.46	-2.96	-3.36
91.9	3.50	3.50	3.00	6.81	0.00	-0.50	-3.31	-3.31	-3.81
91.10	3.50	3.50	3.00	6.30	0.00	-0.50	-2.80	-2.80	-3.30
91.11	3.50	3.50	3.00	6.00	0.00	-0.50	-2.50	-2.50	-3.00
91.12	3.50	3.50	3.00	5.63	0.00	-0.50	-2.13	-2.13	-2.63
92.1	3.50	3.50	3.00	4.55	0.00	-0.50	-1.05	-1.05	-1.55
92.2	3.50	3.50	3.00	4.17	0.00	-0.50	-0.67	-0.67	-1.17
92.3	3.50	3.50	3.00	4.17	0.00	-0.50	-0.67	-0.67	-1.17
92.4	3.50	3.50	3.00	4.01	0.00	-0.50	-0.51	-0.51	-1.01
92.5	3.50	3.50	3.00	3.80	0.00	-0.50	-0.30	-0.30	-0.80
92.6	3.00	3.50	3.00	3.61	0.50	-0.50	-0.61	-0.11	-0.61
92.7	3.00	4.20	3.00	3.36	1.20	-1.20	-0.36	0.84	-0.36
92.8	2.30	4.20	2.40	3.01	1.90	-1.80	-0.71	1.19	-0.61
92.9	2.30	3.50	2.40	2.60	1.20	-1.10	-0.30	0.90	-0.20
92.10	2.00	3.50	1.80	2.28	1.50	-1.70	-0.28	1.22	-0.48
92.11	2.00	2.70	1.80	1.92	0.70	-0.90	0.08	0.78	-0.12
92.12	2.00	2.70	1.80	1.47	0.70	-0.90	0.53	1.23	0.33
93.1	2.00	2.70	1.80	1.21	0.70	-0.90	0.79	1.49	0.59
93.2	2.00	2.70	1.80	0.89	0.70	-0.90	1.11	1.81	0.91
93.3	2.00	2.70	1.80	0.80	0.70	-0.90	1.20	1.90	1.00
93.4	1.70	2.30	1.50	0.70	0.60	-0.80	1.00	1.60	0.80
93.5	1.70	2.30	1.50	0.71	0.60	-0.80	0.99	1.59	0.79
93.6	1.70	2.30	1.50	0.68	0.60	-0.80	1.02	1.62	0.82
93.7	1.70	2.30	1.50	0.63	0.60	-0.80	1.07	1.67	0.87
93.8	1.70	2.30	1.50	0.65	0.60	-0.80	1.05	1.65	0.85
93.9	1.70	2.30	1.50	0.64	0.60	-0.80	1.06	1.66	0.86
93.10	1.40	2.10	1.20	0.63	0.70	-0.90	0.77	1.47	0.57
93.11	1.40	2.10	1.20	0.46	0.70	-0.90	0.94	1.64	0.74
93.12	1.40	2.10	1.20	0.44	0.70	-0.90	0.96	1.66	0.76
94.1	1.40	2.10	1.20	0.45	0.70	-0.90	0.95	1.65	0.75
94.2	1.40	2.10	1.20	0.60	0.70	-0.90	0.80	1.50	0.60
94.3	1.40	2.10	1.20	0.61	0.70	-0.90	0.79	1.49	0.59
94.4	1.40	2.10	1.20	0.66	0.70	-0.90	0.74	1.44	0.54
94.5	1.40	2.10	1.20	0.58	0.70	-0.90	0.82	1.52	0.62
94.6	1.40	2.10	1.20	0.69	0.70	-0.90	0.71	1.41	0.51

94.7	1.40	2.10	1.20	0.72	0.70	-0.90	0.68	1.38	0.48
94.8	1.40	2.10	1.70	0.76	0.70	-0.40	0.64	1.34	0.94
94.9	1.40	2.10	1.70	0.91	0.70	-0.40	0.49	1.19	0.79
94.10	1.40	2.10	1.70	1.06	0.70	-0.40	0.34	1.04	0.64
94.11	1.40	2.10	1.70	1.22	0.70	-0.40	0.18	0.88	0.48
94.12	1.40	2.10	1.70	1.21	0.70	-0.40	0.19	0.89	0.49
95.1	1.40	2.10	1.70	1.40	0.70	-0.40	0.00	0.70	0.30
95.2	1.40	2.10	1.70	1.37	0.70	-0.40	0.03	0.73	0.33
95.3	1.40	2.10	1.70	1.43	0.70	-0.40	-0.03	0.67	0.27
95.4	1.40	2.10	1.70	1.50	0.70	-0.40	-0.10	0.60	0.20
95.5	1.40	2.10	1.70	1.61	0.70	-0.40	-0.21	0.49	0.09
95.6	1.40	2.10	1.70	1.60	0.70	-0.40	-0.20	0.50	0.10
95.7	1.40	2.10	1.70	1.58	0.70	-0.40	-0.18	0.52	0.12
95.8	1.40	2.10	1.70	1.53	0.70	-0.40	-0.13	0.57	0.17
95.9	1.40	2.10	1.70	1.42	0.70	-0.40	-0.02	0.68	0.28
95.10	1.40	2.10	1.70	1.30	0.70	-0.40	0.10	0.80	0.40
95.11	1.40	2.10	1.70	1.15	0.70	-0.40	0.25	0.95	0.55
95.12	1.40	2.10	1.70	1.08	0.70	-0.40	0.32	1.02	0.62
96.1	0.90	1.75	1.70	0.81	0.85	-0.05	0.09	0.94	0.89
96.2	0.90	1.75	1.70	0.73	0.85	-0.05	0.17	1.02	0.97
96.3	0.90	1.75	1.70	0.79	0.85	-0.05	0.11	0.96	0.91
96.4	0.90	1.75	1.70	0.71	0.85	-0.05	0.19	1.04	0.99
96.5	0.90	1.75	1.70	0.50	0.85	-0.05	0.40	1.25	1.20
96.6	0.85	1.75	1.70	0.39	0.90	-0.05	0.46	1.36	1.31
96.7	0.85	1.60	1.65	0.33	0.75	0.05	0.52	1.27	1.32
96.8	0.80	1.60	1.65	0.27	0.80	0.05	0.53	1.33	1.38
96.9	0.60	1.40	1.45	0.25	0.80	0.05	0.35	1.15	1.20
96.10	0.55	1.25	1.35	0.25	0.70	0.10	0.30	1.00	1.10
96.11	0.65	1.25	1.35	0.32	0.60	0.10	0.33	0.93	1.03
96.12	0.80	1.25	1.35	0.38	0.45	0.10	0.42	0.87	0.97

Total SOCB 1 Balance Sheet, and Change from Previous Year

	1991	1992	1993	1994	1995	1996	91/92	92/93	93/94	94/95	95/96
Cash	169	253	445	600	684	921	84	192	155	84	237
Deposit with SBV	1,053	2,906	2,904	3,772	5,684	6,537	1,853	-2	868	1,912	853
Deposit with banks	9,153	8,376	5,423	5,732	7,671	8,817	-777	-2,953	309	1,939	1,146
Loans	9,472	13,830	20,927	26,995	33,166	38,390	4,358	7,097	6,068	6,171	5,224
Short-term	7,893	11,293	14,685	16,968	21,615	25,936	3,400	3,392	2,283	4,647	4,321
MLT	1,579	2,537	6,241	9,980	11,338	12,454	958	3,704	3,739	1,358	1,116
JV Investment	90	84	147	201	567	585	-6	63	54	366	18
T bills	0	0	0	337	1,721	483	0	0	337	1,384	-1,238
Fixed Assets	302	584	696	799	1,124	1,446	282	112	103	325	322
Other Assets	6,357	5,678	4,694	6,918	7,646	8,482	-679	-984	2,224	728	836
Total Assets	26,596	31,711	35,236	45,354	58,263	65,661	5,115	3,525	10,118	12,909	7,398
Deposit	12,267	14,483	13,511	15,414	20,582	25,856	2,216	-972	1,903	5,168	5,274
Enterprises	9,781	10,634	10,420	11,575	15,027	17,913	853	-214	1,155	3,452	2,886
Households	2,936	3,849	3,091	3,839	5,555	7,943	913	-758	748	1,716	2,388
Borrowings	4,385	6,439	7,699	10,738	10,812	12,788	2,054	1,260	3,039	74	1,976
SBV	3,638	3,660	4,187	4,876	3,796	4,859	22	527	689	-1,080	1,063
Banks	1,323	2,779	3,512	5,862	7,016	7,929	1,456	733	2,350	1,154	913
Bond Issuance	106	250	2,466	4,272	6,416	6,955	144	2,216	1,806	2,144	539
Trust Fund	236	199	296	235	299	314	-37	97	-61	64	15
Capital & Reserves	2,690	1,746	1,934	2,486	2,834	3,707	-944	188	552	348	873
Other Liabilities	6,912	8,594	9,330	12,209	17,319	16,041	1,682	736	2,879	5,110	-1,278
Total Liabilities	26,596	31,711	35,236	45,354	58,262	65,661	5,115	3,525	10,118	12,908	7,399

State Bank of Viet Nam

Total SOCB 2 B/S Composition Ratio, and Increase Ratio

	1991	1992	1993	1994	1995	1996	92/91	93/92	94/93	95/94	96/95
Cash	1%	1%	1%	1%	1%	1%	50%	76%	35%	14%	35%
Deposit with SBV	4%	9%	8%	8%	10%	10%	176%	0%	30%	51%	15%
Deposit with banks	34%	26%	15%	13%	13%	13%	-8%	-35%	6%	34%	15%
Loans	36%	44%	59%	60%	57%	58%	46%	51%	29%	23%	16%
Short-term	30%	36%	42%	37%	37%	39%	43%	30%	16%	27%	20%
MLT	6%	8%	18%	22%	19%	19%	61%	146%	60%	14%	10%
JV Investment	0%	0%	0%	0%	1%	1%	-7%	75%	37%	182%	3%
T bills	0%	0%	0%	1%	3%	1%				411%	-72%
Fixed Assets	1%	2%	2%	2%	2%	2%	93%	19%	15%	41%	29%
Other Assets	24%	18%	13%	15%	13%	13%	-11%	-17%	47%	11%	11%
Total Assets	100%	100%	100%	100%	100%	100%	19%	11%	29%	28%	13%
Deposit	46%	46%	38%	34%	35%	39%	18%	-7%	14%	34%	26%
Enterprises	37%	34%	30%	26%	26%	27%	9%	-2%	11%	30%	19%
Households	11%	12%	9%	8%	10%	12%	31%	-20%	24%	45%	43%
Borrowings	16%	20%	22%	24%	19%	19%	47%	20%	39%	1%	18%
SBV	14%	12%	12%	11%	7%	7%	1%	14%	16%	-22%	28%
Banks	5%	9%	10%	13%	12%	12%	110%	26%	67%	20%	13%
Bond Issuance	0%	1%	7%	9%	11%	11%	136%	886%	73%	50%	8%
Trust Fund	1%	1%	1%	1%	1%	0%	-16%	49%	-21%	27%	5%
Capital & Reserves	10%	6%	5%	5%	5%	6%	-35%	11%	29%	14%	31%
Other Liabilities	26%	27%	26%	27%	30%	24%	24%	9%	31%	42%	-7%
Total Liabilities	100%	100%	100%	100%	100%	100%	19%	11%	29%	28%	13%

Calculated from data of the State Bank of Viet Nam

Total SOCB 3 Income Statement (billion VND)

	1991	1992	1993	1994	1995	1996/11
Total Revenue	1,535	3,199	3,647	6,063	9,645	9,097
Interest income			3,296	5,782	9,008	8,573
Loans			3,086	5,141	7,958	7,456
Deposit			210	641	1,050	1,117
Forex trading			44	47	114	71
Banking services			126	148	231	273
Others			181	86	292	180
Total Cost	1,315	2,774	3,090	5,460	7,310	8,350
Interest expense			1,623	2,889	5,125	6,460
Deposit			1,010	1,381	2,959	4,593
Borrowings			613	1,508	2,166	1,867
Forex trading			7	1	15	9
Banking staff			144	555	658	448
Tax			167	386	500	121
Others			1,149	1,629	1,012	1,312
Net Income	220	425	557	603	2,335	747
Net interest income			1,673	2,893	3,883	2,113
Income before tax	220	425	724	989	2,835	868

State Bank of Viet Nam

Total SOCB 4 I/S Ratio to Total Revenue, and Increase Ratio

	1991	1992	1993	1994	1995	1996/11	92/91	93/92	94/93	95/94	96/95
Total Revenue	100%	100%	100%	100%	100%	100%	108%	14%	66%	59%	-6%
Interest income			90%	95%	93%	94%			75%	56%	-5%
Loans			85%	85%	83%	82%			67%	55%	-6%
Deposit			6%	11%	11%	12%			205%	64%	6%
Forex trading			1%	1%	1%	1%			7%	143%	-38%
Banking services			3%	2%	2%	3%			17%	56%	18%
Others			5%	1%	3%	2%			-52%	240%	-38%
Total Cost	86%	87%	85%	90%	76%	92%	111%	11%	77%	34%	14%
Interest expense			45%	48%	53%	71%			78%	77%	26%
Deposit			28%	23%	31%	50%			37%	114%	55%
Borrowings			17%	25%	22%	21%			146%	44%	-14%
Forex trading			0%	0%	0%	0%			-86%	1400%	-40%
Banking staff			4%	9%	7%	5%			285%	19%	-32%
Tax			5%	6%	5%	1%			131%	30%	-76%
Others			32%	27%	10%	14%			42%	-38%	30%
Net Income	14%	13%	15%	10%	24%	8%	93%	31%	8%	287%	-68%
Net interest income			46%	48%	40%	23%			73%	34%	-46%
Income before tax	14%	13%	20%	16%	29%	10%	93%	70%	37%	187%	-69%

Calculated from data of the State Bank of Viet Nam

Private Banks 1 Balance Sheet and Change from Previous Year (billion VND)

	1991	1992	1993	1994	1995	1996	91/92	92/93	93/94	94/95	95/96
Cash	17	53	92	712	161	240	36	39	620	-551	79
Deposit with SBV	69	237	264	541	1,077	1,620	168	27	277	536	543
Deposit with banks	190	367	236	886	1,062	1,031	177	-131	650	176	-31
Loans	536	1,211	2,126	5,653	8,535	12,329	675	915	3,527	2,882	3,794
Short-term	536	1,199	2,032	4,552	6,991	9,439	663	833	2,520	2,439	2,448
MLT	0	12	94	1,101	1,544	2,890	12	82	1,007	443	1,346
JV Investment	11	14	36	104	133	145	3	22	68	29	12
T bills	0	0	0	214	950	61	0	0	214	736	-889
Fixed Assets	24	55	93	280	381	540	31	38	187	101	159
Other Assets	609	900	828	2,740	4,003	4,232	291	-72	1,912	1,263	229
Total Assets	1,456	2,837	3,675	11,130	16,302	20,198	1,381	838	7,455	5,172	3,896
Deposit	904	1,646	2,063	5,052	8,408	10,910	742	417	2,989	3,356	2,502
Enterprises	787	1,295	1,458	3,462	4,986	6,694	508	163	2,004	1,524	1,708
Households	117	351	605	1,590	3,422	4,216	234	254	985	1,832	794
Borrowings	4	24	17	119	445	584	20	-7	102	326	139
SBV	3	0	7	2	34	43	-3	7	-5	32	9
Banks	1	24	10	117	411	541	23	-14	107	294	130
Bond Issuance	0	0	0	0	0	0	0	0	0	0	0
Trust Fund	0	0	0	0	0	0	0	0	0	0	0
Capital & Reserves	315	608	755	2,206	2,456	2,958	293	147	1,451	250	502
Other Liabilities	233	559	840	3,753	4,993	5,746	326	281	2,913	1,240	753
Total Liabilities	1,456	2,837	3,675	11,130	16,302	20,198	1,381	838	7,455	5,172	3,896

State Bank of Viet Nam

Private Banks 2 B/S Composition Ratio, and Increase Ratio

	1991	1992	1993	1994	1995	1996	92/91	93/92	94/93	95/94	96/95
Cash	1%	2%	3%	6%	1%	1%	212%	74%	674%	-77%	49%
Deposit with SBV	5%	8%	7%	5%	7%	8%	243%	11%	105%	99%	50%
Deposit with banks	13%	13%	6%	8%	7%	5%	93%	-36%	275%	20%	-3%
Loans	37%	43%	58%	51%	52%	61%	126%	76%	166%	51%	44%
Short-term	37%	42%	55%	41%	43%	47%	124%	69%	124%	54%	35%
MLT	0%	0%	3%	10%	9%	14%		683%	1071%	40%	87%
JV Investment	1%	0%	1%	1%	1%	1%	27%	157%	189%	28%	9%
T bills	0%	0%	0%	2%	6%	0%				344%	-94%
Fixed Assets	2%	2%	3%	3%	2%	3%	129%	69%	201%	36%	42%
Other Assets	42%	32%	23%	25%	25%	21%	48%	-8%	231%	46%	6%
Total Assets	100%	100%	100%	100%	100%	100%	95%	30%	203%	46%	24%
Deposit	62%	58%	56%	45%	52%	54%	82%	25%	145%	66%	30%
Enterprises	54%	46%	40%	31%	31%	33%	65%	13%	137%	44%	34%
Households	8%	12%	16%	14%	21%	21%	200%	72%	163%	115%	23%
Borrowings	0%	1%	0%	1%	3%	3%	500%	-29%	600%	274%	31%
SBV	0%	0%	0%	0%	0%	0%	-100%		-71%	1600%	26%
Banks	0%	1%	0%	1%	3%	3%	2300%	-58%	1070%	251%	32%
Bond Issuance	0%	0%	0%	0%	0%	0%					
Trust Fund	0%	0%	0%	0%	0%	0%					
Capital & Reserves	22%	21%	21%	20%	15%	15%	93%	24%	192%	11%	20%
Other Liabilities	16%	20%	23%	34%	31%	28%	140%	50%	347%	33%	15%
Total Liabilities	100%	100%	100%	100%	100%	100%	95%	30%	203%	46%	24%

Calculated from data of the State Bank of Viet Nam

Private Banks 3 Income Statement

	1991	1992	1993	1994	1995	1996/11
Total Revenue	105	206	258	517	1,460	1,912
Interest income						
Loans						
Deposit						
Forex trading						
Banking services						
Others						
Total Cost	109	188	175	349	1,125	1,484
Interest expense						
Deposit						
Borrowings						
Forex trading						
Banking staff						
Tax						
Others						
Net Income	-4	18	83	168	335	428
Net interest income						
Income before tax						

State Bank of Viet Nam

Private Banks 4 I/S Ratio to Total Revenue, and Increase Ratio

	1991	1992	1993	1994	1995	1996/11	92/91	93/92	94/93	95/94	96/95
Total Revenue	100%	100%	100%	100%	100%	100%	96%	25%	100%	182%	31%
Interest income											
Loans											
Deposit											
Forex trading											
Banking services											
Others											
Total Cost	104%	91%	68%	68%	77%	78%	72%	-7%	99%	222%	32%
Interest expense											
Deposit											
Borrowings											
Forex trading											
Banking staff											
Tax											
Others											
Net Income	-4%	9%	32%	32%	23%	22%	-550%	361%	102%	99%	28%
Net interest income											
Income before tax											

Calculated from data of the State Bank of Viet Nam

Private Banks 5 Return Ratios

	1991	1992	1993	1994	1995	1996
Return on loans						
Return on deposit						
Return on deposit excl. SBV						
Return on L&D						
Cost of deposit						
Cost of borrowing						
Cost of funds						
Net returns on funds						
Net income on assets		0.84%	2.55%	2.27%	2.44%	2.35%
Equity/Asset	21.63%	21.43%	20.54%	19.82%	15.07%	14.65%
Loan/(Deposit+Bond)	59%	74%	103%	112%	102%	113%

Calculated from data of the State Bank of Viet Nam

Total SOCB 10 Comparison of SBV Data and Annual Reports (billion VND)

	1991a	1992a	1993a	1994a	1995a	1996a	1991s	1992s	1993s	1994s	1995s	1996s	1991a-s	1992a-s	1993a-s	1994a-s	1995a-s	1996a-s
Resv.+Deposit w/ other banks			9,681	10,224	15,889		10,375	11,535	8,772	10,104	14,039	16,275			909	120	1,850	
Cash			438	602	1,077		169	253	445	600	684	921			-7	2	393	
Deposit with SBV			7,548	7,529	10,708		1,053	2,906	2,904	3,772	5,684	6,537			4,644	3,757	5,024	
Deposit with banks			234	1,041	1,933		9,153	8,376	5,423	5,732	7,671	8,817			-5,189	-4,691	-5,738	
Loans			21,664	27,030	37,481		9,472	13,830	20,927	26,995	33,166	38,390			737	35	4,315	
Short-term			16,228	19,389	26,533		7,893	11,293	14,685	16,968	21,615	25,936			1,543	2,421	4,918	
MLT			5,436	7,641	10,948		1,579	2,537	6,241	9,980	11,338	12,454			-805	-2,339	-390	
JV investment			378	274	608		90	84	147	201	567	585			231	73	41	
T bills			2	123	1,390		0	0	0	337	1,721	483			2	-214	-331	
Fixed Assets			499	781	1,043		302	584	696	799	1,124	1,446			-197	-18	-81	
Other Assets			9,038	9,610	11,759		6,357	5,678	4,694	6,918	7,646	8,482			4,344	2,692	4,113	
Total Assets			41,262	48,042	68,170		26,596	31,711	35,236	45,354	58,263	65,661			6,026	2,688	9,907	
Deposit			18,135	21,993	33,744		12,267	14,483	13,511	15,414	20,582	25,856			4,624	6,579	13,162	
Enterprises			7,936	11,042	13,630		9,781	10,634	10,420	11,575	15,027	17,913			-2,484	-533	-1,397	
Households			2,578	2,109	4,415		2,936	3,849	3,091	3,839	5,555	7,943			-513	-1,730	-1,140	
Borrowings			4,740	6,898	7,341		4,385	6,439	7,699	10,738	10,812	12,788			-2,959	-3,840	-3,471	
SBV			3,828	4,277	2,258		3,638	3,660	4,187	4,876	3,796	4,859			-359	-599	-1,538	
Banks			912	2,209	4,519		1,323	2,779	3,512	5,862	7,016	7,929			-2,600	-3,653	-2,497	
Bond Issuance			2,680	5,105	7,321		106	250	2,466	4,272	6,416	6,955			214	833	905	
Trust Fund			7,297	1,967	2,635		236	199	296	235	299	314			7,001	1,732	2,336	
Capital & Reserves			4,613	5,234	6,490		2,690	1,746	1,934	2,486	2,834	3,707			2,679	2,748	3,656	
Other Liabilities			3,797	6,846	10,642		6,912	8,594	9,330	12,209	17,319	16,041			-5,533	-5,363	-6,677	
Total Liabilities			41,262	48,043	68,173		26,596	31,711	35,236	45,354	58,262	65,661			6,026	2,689	9,911	

Source Annual reports (a)
SBV data (s)

Total SOCB 11 Comparison of SBV Data and Annual Reports (billion VND)

	1991a	1992a	1993a	1994a	1995a	1996a	1991s	1992s	1993s	1994s	1995s	1996s	1991a-s	1992a-s	1993a-s	1994a-s	1995a-s	1996a-s
Total Revenue			3,656	5,896	7,762		1,535	3,199	3,647	6,063	9,645	9,097			9	-167	-1,883	
Interest income			2,956	5,609	7,264				3,296	5,782	9,008	8,573			-340	-173	-1,744	
Loans			2,758	4,397	6,839				3,086	5,141	7,958	7,456			-328	-744	-1,119	
Deposit			198	750	425				210	641	1,050	1,117			-12	109	-625	
Forex trading			16	46	119				44	47	114	71			-28	-1	5	
Banking services			125	159	300				126	148	231	273			-1	11	69	
Others			202	83	79				181	86	292	180			21	-3	-213	
Total Cost			3,139	5,275	7,092		1,315	2,774	3,090	5,460	7,310	8,350			49	-185	-218	
Interest expense			1,859	3,672	5,041				1,623	2,889	5,125	6,460			236	783	-84	
Deposit			1,268	1,814	2,590				1,010	1,381	2,959	4,593			258	433	-369	
Borrowings			591	1,149	1,621				613	1,508	2,166	1,867			-22	-359	-545	
Forex trading			7	1	44				7	1	15	9			0	0	29	
Banking staff			207	618	652				144	555	658	448			63	63	-6	
Tax			278	304	571				167	386	500	121			111	-82	71	
Others			572	681	784				1,149	1,629	1,012	1,312			-577	-948	-228	
Net Income			517	477	670		220	425	557	603	2,335	747			-40	-126	-1,665	
Net interest income			1,097	1,937	2,223				1,673	2,893	3,883	2,113			-576	-956	-1,660	
Income before tax			795	939	1,241		220	425	724	989	2,835	868			71	-50	-1,594	

Source Annual Report (a)
SBV data (s)

Total SOCB 12 Return Ratios: All SOCBs

	1991	1992	1993	1994	1995	1996
Return on loans				18.06%	21.20%	
Return on deposit				9.17%	4.01%	
Return on deposit excl. SBV			117.65%	28.58%		
Return on L&D				17.25%	16.95%	
Cost of deposit				9.04%	9.29%	
Cost of borrowing				19.75%	22.77%	
Cost of funds				14.19%	14.41%	
Net returns on funds				3.06%	2.54%	
Net income/Asset				1.07%	1.15%	
Net income/Total income			14.14%	8.09%	8.63%	
Total income/Asset				13.20%	13.36%	
Equity/Asset			11.18%	10.89%	9.52%	
Loan/(Deposit + Bond)			95%	94%	91%	

Source Calculated from Annual Report data

Member List of Research Group

	Viet Nam Side	Japan Side
	Leader of Research Group Nguyen Quang Thai	*Leader of Research Group* Shigeru Ishikawa
Sub Group **Agricultural and Rural Development Group**	*Chief of Sub Group* Nguyen Xuan Thao Phan Doanh Le Hong Thai Nguyen Thai Nguyen Cao Duc Phat	*Chief of Sub Group* Yonosuke Hara Yumio Sakurai Yoichi Izumida Yukio Ikemoto
Participation for AFTA/APEC/WTO and Industrial Policy Group	*Chief of Sub Group* Pham Quang Ham Nguyen Duc Minh Nguyen Xuan Thu Nguyen Dinh Phan Tuong Lai Nguyen Quang Vinh Nguyen Dinh Hai Dao Phi Thuy Nguyen Tien Hiep Dang Huu Dao	*Chief of Sub Group* Hideki Imaoka Masahiko Ebashi Koichi Ohno
Fiscal and Monetary Policy Group	*Chief of Sub Group* Lai Quang Thuc Le Quoc Ly Trinh Nhu Phuc Tran Van Ta Duong Thu Huong Vu Van Hoa Ho Si Cuc	*Chief of Sub Group* Akiyoshi Horiuchi Eiji Tajika Shinichi Watanabe Masaaki Kuroyanagi

State Enterprise Reform Group	*Chief of Sub Group* Le Dang Doanh Tran Tien Cuong Le Xuan Ba Nguyen The Phiet Bui Van Dung Nguyen Kim Anh Nguyen Duc Tang Nguyen Duc Tien Nguyen Cong Thien Nguyen Van Quang	*Chief of Sub Group* Shigeru Ishikawa Mitsuhiro Hirata Kenichi Ohno Ikuo Takeuchi Eri Okada

Member List of Editorial Committee

Chairperson
Shigeru Ishikawa
Nguyen Quang Thai

Vice Chairperson
Yonosuke Hara

	Academic Group	Consultant Group
Agricultural and Rural Development Group	Yonosuke Hara Nguyen Xuan Thao Phan Doanh	Seiji Shindo
Participation for AFTA/APEC/WTO and Industrial Policy Group	Hideki Imaoka Pham Quang Ham	Koichiro Fukui Seiichi Masuyama
Fiscal and Monetary Policy Group	Akiyoshi Horiuchi Lai Quang Thuc	Kazuyuki Mori
State Enterprise Reform Group	Shigeru Ishikawa Le Dang Doanh	Koki Hagiu

Secretariat

Takao Kaibara, Yoshikuni Kobayashi, Hiroyuki Mori, Shozo Sakata