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Reforming Vietnam's Banking System: Learning from Singapore's Model*

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REFORMING VIETNAM'S BANKING SYSTEM: LEARNING FROM SINGAPORE'S MODEL

"The Government of Vietnam has consistently continued to: accelerate the process of reform with orientation towards a market economy, open the economy for integration into the region and the globe; adjust investment structure; restructure state-owned enterprises and the fields of public finance, banking, trade and taxation; closely combine economic and administrative reform to increase the efficiency and competitiveness of the economy….

The Government of Vietnam is committed to accelerate the reform process at an appropriate pace coupled with structural economic adjustment so that all domestic resources can be maximized, the impact of the crisis can be minimized and socio-economic stability and development can be maintained…"

Statement by Mr. Nguyen Tan Dung
Deputy Prime Minister of the Government of the S. R. Vietnam
Governor of the State Bank of Vietnam
At the 53rd World Bank/IMF Meeting 1998
(Washington D.C.-USA)

Abstract

Vietnam's banking system has undergone substantial reform over the past decade. The reform includes transforming a mono-banking system into two-tier, market-driven banking system, with participation from financial institutions under all types of ownership: state-owned, private joint-stock, joint-venture and foreign. The reform of our banking system has also been implemented in line with economic reform in all aspects — taxation, public finance, monetary policy and state-owned enterprises reform.

Lacking experience in banking reform and in-country banking expertise, in undertaking the reform of our banking system, we have studied the experiences and organizational structure of other countries which have strong and efficient banking systems, particularly of neighbouring countries in the ASEAN region. Singapore's banking system has been at the forefront in ASEAN and is considered exceptionally stable during the regional crisis.

This research tries to give the reader an overview of Vietnam's banking system, the problems encountered and reforms carried out so far. In addition, the research also gives an overview of the banking system of the country

studied: Singapore. We seek to solve the existing problems and to build up a safe and efficient banking system in Vietnam by learning from the Singapore model and experience.

Executive Summary

This research is completed after three months of research at the Institute of Southeast Asian Studies (ISEAS), Singapore under the ISEAS-World Bank Research Fellowship Program. The overall objective of the research is to identify problems in Vietnam's banking system, to propose a reform process and to highlight the lessons from Singapore's banking system.

We employed both the survey approach and comparative study to this research. The main sources of information are official releases and professional analyses of the banking systems. Some unofficial interviews and discussion with bankers from both sides were also made.

Following the open-door economic policy initiated in 1986, Vietnam experienced a banking boom in terms of the number of banks and banking services. However, during this upturn, weaknesses in the banking system started to emerge: the patchy and outdated legal and regulatory framework; inefficient governance and supervision; very poor capital and reserves of local banks; the problem of group and related party lending, poor banking management skills and techniques at both the macro and micro levels; family business organisational behaviour in private local banks alongside bureaucratic and mechanistic ones in state-owned banks.

In reforming the Vietnam's banking system, we propose a market-based process which involves liquidating some small and under-capitalised banks, recapitalising other private banks by requesting capital injection from the shareholders, and merging and allowing acquisition by foreign financial institutions. As for state-owned commercial banks (SOCBs), the proposed method is to resolve bad debts by replacing them with government papers, consolidate their organisation, commercialise their operations and adjust financing policy to focus more on pioneering projects and industries, and long-term financing.

In the core part of the research, after studying the Singapore's banking system, we identify the following issues for consideration:

1. The government’s participation in the banking system and appropriate incentives: SOCBs should be consolidated in terms of organisation and their operation policies should be adjusted for them to play a more important role in mobilising long-term deposits and financing key industries and the rural sector. SOCBs should be pioneers in introducing convenient savings and payment services through computerisation, educating people about the use of banking facilities and inculcating the habit of keeping their savings in banks, etc. Incentives by means of tax concessions should be considered to encourage financial institutions to set aside a greater proportion of their profits as general provisions, funds for training, banking expertise development and computerisation. Income tax rebates should be given to priority sectors such as agricultural banking, banking to key industries and pioneering industries, e.g. infrastructure and transportation.
2. Sufficient legal and regulatory frameworks: a sufficient legal framework should include not only laws on banks but also adequate laws on property rights, contracts, companies, and bankruptcy. Effective bankruptcy procedures should be legally enforced and serve as part of the country’s debt restructuring. An effective bankruptcy system will also create the appropriate incentives for creditors and debtors to reach out-of-court negotiations and settlements.
3. Adoption of international laws and practices: International laws and practices should be adopted in order to participate in international trade and investment. Being signatory these laws and practices shows the government’s commitment to their realisation.
4. Supervision bodies and enforcement: Focus should be given to the effectiveness and quality of risk management. Bank supervisors should be trained both professionally and ethically. Another important element in the enforcement mechanism is the system of fines and penalties that can be imposed for violations or criminal acts. To effectively implement laws and regulations, Vietnam should establish a stricter and more standardised penalty system.
5. Auditing and Accounting reform: Accounting practices of banks should be revised towards a market price-based accounting for bank investments, standardised and transparent practices with regard to the allocation of expenses, classification of loans and fixed asset depreciation.
6. Banking disclosure: Better banking disclosure will put pressure on financial institutions to operate efficiently and profitably. Banks should be required to publish timely and accurate information on financial conditions so that both professional investors and depositors can make an informed assessment of the bank’s performance and profitability.
7. Corporate restructuring and privatisation: A weak and fragile real sector affects the banking sector negatively. Banking reform should proceed alongside corporate sector restructuring, especially of state-owned enterprises. The government should participate mainly at the industry

level and participation at the company level may be confined to the very few vital industries such as utilities and transportation.

8. Stable macroeconomic environment: Prudent and consistent implementation of monetary and banking policies should be maintained. The central banking authority should continue to implement prudent monetary policies that include measures to ensure the control of inflation as well as the foreign exchange. The experience of Singapore demonstrates that macroeconomic stability is an essential ingredient in its rapid and sustained economic growth.
9. Introduction of international banking standards: To increase the financial soundness of Vietnam's banking system, BIS guidelines should be introduced gradually.
10. Management competence — banking education: Management of financial institutions requires a high degree of integrity, adequate training and experience. Emphasis should also be given to the training and upgrading of local banking expertise.
11. Modern technology application/computerisation: It is very important to speed up the computerisation of banking in Vietnam because the banking system has developed to a certain level of sophistication. The increase in banking activities with respect to frequent reporting to the SBV, compilation of data, management accounting and management decision must be supported by computerisation.
12. Host country policy on foreign financial institutions: In the first phase of financial liberalisation, the domestic banking system still needs protection. However, competition should be encouraged in areas such as international services and corporate services in foreign currencies. Foreign banks' operations should be oriented to and restricted in a direction that is most beneficial to the country and which most utilise their advantages such as high expertise, international experience and network.

Introduction

Rationale of the Research

Vietnam's banking system can shortly be traced back to 1988 when four state-owned commercial banks were separated from the State Bank of Vietnam (the central bank of Vietnam). Along with the open-door economic policy, which started in 1986, and the policy to attract foreign investment, endorsed by the Sixth Congress of the Communist Party of Vietnam, the decade from 1986 to 1996 saw a banking boom in Vietnam. However, in this upturn, weaknesses in the banking system started to emerge. Decades of centrally planning that regulated planned-lending flows has resulted in many banks being burdened by bad debts brought on by a variety of reasons. Bankers lack market thinking and banking skills such as identifying risks and risk management, asset and liabilities management, capital pricing and especially marketing banking services. Structural problems in the banking system are now coupled with greater caution on the part of banks, given the higher level of risk following the economic slowdown.

Inefficiency and losses in the banking system are contributing negatively to the economy. Moreover, the financial crisis in the region is putting pressure on Vietnam's banking system to undergo fundamental changes. The long-awaited Vietnamese laws on the State Bank and financial institutions were passed by the National Assembly of Vietnam and came in to effect on 1 October 1998. However, the application and implementation of the laws are limited.[i] This is compounded by occasional contradictions among banking regulations in the country.

Banks have a fiduciary relationship with the public whose money is held on trust by the banks. The safety and mobility of these funds thus become a matter of public concern. The failure of a bank will not only bring financial difficulties to its depositors and owners, but will certainly be harmful to public confidence in the banking system. A strictly market-based approach to failed banks is one solution to the banking system. Indeed, this is the best solution for small failed banks. But when the whole system suffers distress and a lack of public confidence, the solution to systemic bank problems must be an overall strategy of reform. A banking reform is both needed and wanted by the economy. However, the objectives, solutions and processes should be studied seriously and cautiously, and should recognize the characteristics of a transforming centrally-planned economy and development trends in the regional banking industry.

Singapore's banking system is at the forefront in the ASEAN region and also plays the leading role in the regional banking industry. It has also undergone reforms in the past as well as continuous improvement and development. Troubles in the banking system are specific to a country and so are the solutions. However, the learning experience and systemic structure of a well-managed, safe and efficient banking system such as that of Singapore will assist banking reform in Vietnam by helping to clarify issues, recognise avoidable damages during reforming, reduce complexity and identify possible solutions.

Statement of the Problem

More than any other economic sector of the economy, the banking sector has been at the forefront of economic transition and liberalisation in Vietnam. Like Vietnam's economy itself, the banking system has undergone rapid and radical development since its establishment in the late 1980s, including the introduction of both foreign and local private banks, and a marked diversification of financial services. However, such a diversification, following a rapid expansion in the scale of business over the last few decades, has been a cause for concern due to three reasons:

- the extent to which the local banks can manage the expansion of activities at such a rapid rate;
- the ability of the central banking authority to maintain an adequate level of prudential governance over a system undergoing seismic change; and
- the need to maintain monetary stability and sustainable economic growth.

Concern has also been expressed over vigorous loan growth in the 1990 by local banks and the lack of sufficient credit risk management over such lending.

Objectives of the Study

Problems in banking may be rooted in many sources — patchy and outdated legal and regulatory frameworks, inadequate banking management techniques, inefficient supervision, bad macroeconomic environment, etc. The overall objective of the research is to identify problems in the banking system of Vietnam and to propose a reform process by learning from Singapore's experience and model. The research also attempts to model a safe and efficient banking system for Vietnam by adapting Singapore's banking system.

The research therefore aims to achieve the four following sub-objectives:

1. diagnose and assess problems in Vietnam's banking system, and make recommendations on how to improve its efficiency;
2. propose a reform program by learning from Singapore's experience and model, and;
3. propose a process to build up a safe and efficient banking system by adapting the structure of the Singapore's system.

Scope and Limitations of the Research

The research does not give a comparison of the performance between the two banking systems, since there are some differences between the two (Vietnam and Singapore) e.g. economic and political conditions, development history, and legal framework. The research focuses on identifying problems in Vietnam's banking system, propose a reform process by learning from the Singapore's experience and model and raise issues concerning the reform process. For the purpose of this study, discussion will be confined to banking reform and only includes commercial banks, investment banks and credit institutions governed by the Law on Credit Institutions. Every effort has been made to incorporate the latest development that is relevant to this research as well as to support our research with the latest statistical data. However, this effort has been constrained in some instances by the lack of up-to-date information. The research also does not prescribe central banking policies or monetary policies for sustainable economic growth in Vietnam. It also does not cover the monetary policies and the entire financial sector of Singapore, but only its legal structure and organisation of the banking system.

The study period is mainly from 1993 to 1998.

The research will cover facts, concepts, techniques and approaches in identifying bank losses in Vietnam, allocating the losses and rebuilding a system. The research will also give a quantitative and qualitative analysis of the reform process.

Methodology of the Study

The main method of the research is an analysis of the Vietnam's banking system to identify problems in the system. A comparative analysis will be used to propose a reform program for Vietnam's banking system. Specific primary information of the research is obtained from annual reports and official releases of the State Bank of Vietnam and other international institutions such as Asian Development Bank, World Bank, and the IMF. Qualitative analysis is also made through meetings and interviews with executives of regional banks. *Figure 1* illustrates the research framework used for this paper.

Banking Structure and Macro-Economic Environment in Vietnam

Structure of Vietnam's Banking System

After the liberation of Vietnam in 1975, the whole banking system of the old regime, which included seven state-owned banks and about thirty private and foreign banks, was nationalised. The government established the State Bank of Vietnam to perform both central banking policies and commercial banking activities. In 1988, the four current state-owned banks — Bank for Foreign Trade (Vietcombank), Industrial and Commercial bank (Incombank), Bank for Investment and Development (BIDV) and Bank for Agriculture (VBA) — were split from the State Bank of Vietnam to perform commercial banking activities.

In 1986, the Sixth Congress of Vietnam's Communist Party marked a thorough change in government's attitude towards the private sector and foreign investment introducing a reform program referred to as "Doi Moi" to develop the private sector, restructure the financial sector and the budgetary system, to focus on export-led growth and attract foreign investment. In May 1989, the Council of Ministers passed two Ordinances; one on State Bank of Vietnam, and one on Banks, Credit Co-operative and Financial Companies of Vietnam, to regulate banking activities. The State Bank of Vietnam continues to perform the traditional role of the central bank and governs the whole banking system in Vietnam. The State Bank of Vietnam (SBV) works closely and in tandem with the Ministry of Finance. The SBV has a network of branches at provincial level and one regional office located in Ho Chi Minh City looking after the south.

There are five categories of banks in Vietnam:

- five state-owned commercial banks;
- one state-owned bank implementing micro policy-lending to the poor named Bank for the Poor;
- forty-eight joint-stock commercial banks, most of them are located in Hanoi and Ho Chi Minh City;
- four joint-venture banks[ii] with the state-owned banks Vietnamese partners, namely, Vinasiam Bank (a JV between Vietnam's Agricultural Bank and Thai Farmers Bank), Indovina Bank (Incombank and Indonesian BDNI) FirstVina Bank (Vietcombank and Korea First Bank) and VID Public bank (BIDV and Public Bank Malaysia);
- 12 foreign bank branches, and;
- 52 foreign bank representative offices;

*(*See *Figure 2)*

The four state-owned banks still dominate the banking industry and account for 71.9% of total banking assets in Vietnam, but their balance sheets as well as those of some joint-stock banks are reportedly heavily burdened with bad debts. Joint-stock banks hold 10.5% of the total banking assets, foreign and joint-venture banks hold around 16.0%, and the rest belongs to the credit co-operative network (see *Tables 1 and 2*). Some of the joint-stock banks, mostly in Hanoi and Ho Chi Minh City, are licensed to perform international banking services and foreign exchange activities. Two local commercial joint-stock banks (Asia Commercial Bank and Vietnam's Bank for Private Enterprises — VP Bank), where foreign ownership of up to 30% is allowed, are considered as trials by the SBV

In 1998, six joint-stock commercial banks and several others were placed under "special control" by the SBV. A total of fourteen were considered to be in trouble and were to be restructured. Due to the regional crisis and unforeseen business developments, some foreign banks applied to close their operations in Vietnam.

Macroeconomic Environment

In recent years, Vietnam's economic performance has been truly remarkable. GDP growth has been among the highest in the region, even during the recent crisis *(See Figure 3)*. Although GDP growth was down by a third in 1998 due to the regional crisis, the 5.8% growth rate in 1998 was significantly higher than those of other countries in the region. The GDP growth forecast is 5.5% for this year, 1999. The stabilising the currency and securing the safety of banking activities;

- print, cast, recall, replace and destroy national currency issues;
- issue and revoke the establishment and operations licenses of credit institutions;
- inspect and supervise banking activities;
- provide banking services for the State Treasury;

by enterprises;

- take the lead in formulating and monitoring the balance of payments;
- research and apply bank science and technology.

The Law on Credit Institutions of Vietnam introduces a new regime for the establishment and operations of both local and foreign credit institutions in Vietnam. The Law is designed as an enabling statute detailing the permitted range of banking activities and providing authority for more detailed decrees to be issued. The Law is to provide licensing and regulations for the banking businesses such as funding, internal audit and inspection, state bank's supervision, prudential requirements, dissolution, bankruptcy and liquidation. Vietnam's Law on Credit Institutions has introduced rule-based supervision consistent with international banking standards.

target appears ambitious and difficult to achieve under current internal and external situations.

Exports have also increased rapidly in recent years at an average annual rate of over 20% since 1990. Rice production and exports have reached a historical high in 1994 enabling Vietnam to maintain its position since 1989 as the world third largest rice exporter. In 1998 however, the increases in rice export volume and price were still not enough to compensate for the falls in prices of other export products such as crude oil, latex and textiles. A shortage of hard currency and great pressure for a more substantial devaluation of the Dong discouraged imports (See *Figure 4*).

In spite of the emphasis on industrialisation and modernisation of the economy by the government since 1986, Vietnam is still an agricultural economy. Agriculture's share of the GDP is more than 25% and employs around 70% of the country's workforce (See *Figures 5A and 5B*). Foreign investment projects currently represent 8% of the country's GDP and approximately 30% of export earnings, and have an annual production growth rate of 20%

as an impetus for developing economy;

to mobilise the maximum amount of resources and then allocate them as

The first Law on Foreign Investment of Vietnam became effective in January

Inadequate Managerial Skills

After decades of mono-banking, central planning and a subsidy system, bankers in Vietnam lack sufficient skills in bank management and knowledge of banking services. A large part of SBV's governance over the banking system still consists of administrative orders rather than through market instruments and forces. Management inadequacy manifests itself in ineffective internal control and limited information. Vietnamese central bankers seem to emphasise more on the institutional structure of the banking system than the way banks operate. Indeed, more attention has been given to organisation and processes than the measurement of risk, calculation of returns and credit analysis. In private banks, this weakness contributed significantly to the abuse of authority, resulting in the banks' exposure to the risk of credit extension to a limited number of debtors, particularly to individuals/business groups that have close ties with the banks. As mentioned above, due to the genesis of joint-stock banks from family businesses or community group businesses, many joint-stock banks have maintained many non-professional bankers on their board of management.

Organisational Behaviour

In the strategies and operation of state-owned commercial banks, the implementation of government policies overrides issues of soundness, efficiency and profitability. The breakdown of controls, coupled with inadequate regulation and supervision, engenders corruption that discourages foreign and domestic investments, distorts government policies and eventually destroys the system's credibility. In joint-stock banks, shareholder's interests still dominate the objectives of many bank directors. With the exception of some foreign-invested banks, bank organisational structures in Vietnam are mainly based on convenience, given their existing human resources, and not on long-term business objectives and development strategies. Most private banks started from family or communal businesses. Although they have evolved into joint-stock companies, most of the shares are still controlled by certain families or groups of people, with the board of management coming from those selected groups. Because of the absence of a securities market, the banks' shareholders are only interested in short-term profits, as the dividends are the only source of capital gains. Personnel organisation frameworks are designed (and sometimes decided) prior to the bank's business organisational structure. Decision-making is still influenced by personality factors. As mentioned above, many joint-stock banks have maintained many non-professional bankers on their boards of management and they usually represent and act on behalf of the shareholder's interests. Generally, the organisational behavior in Vietnam's banks is bureaucratic and mechanistic, representing a corporate culture of low commitment to customer service, low regard for employee opinion and low staff responsibility. Banks do not have long-term business policies and targets and professional corporate cultures. Bank departments are organised according to functions (e.g. credit, accounting, transactions, and international settlements) rather than products (e.g. retail banking, corporate banking). The lack of detailed job descriptions results in seniority hierarchy, rigid job classification and difficulties in position rotation.

Loss Recognition and Allocation

Commercial banks collect funds from depositors and lend them to borrowers. It acts as a channel between savings and investment. In performing this basic function, banks stimulate economic growth. By accepting deposits, banks have a fiduciary relationship with the public whose money is held on trust by the banks. The safety and mobility of these funds thus become a matter of public concern. The collapse of a single bank and the loss of confidence in the banking system may set off a damaging chain effect on the economy. Thus banking reform is crucial to overcoming the existing problems and fostering a viable and sound banking system.

There are several ways to go about solving the problem of banks. One approach to resolve the loan problem is to leave the individual bank to sort out its own problem. This may be called the decentralised way. An alternative approach is to transfer the bad loans from the banks' balances sheet to a centralised agency created by the banks or the government to resolve the bad loans problem. This is the centralised way. If there is a large number of banks with substantial losses, the centralised method should be used to transfer troubled assets to a reform agency. A centralised agency may also facilitate the restructuring of SOE(s).

A Vietnam's Banking Reform Committee (VBRC) can be established and operated under the auspices of the government to work hand-in-hand with the SBV. The Committee can have an advisory board comprising domestic and international consultants, market participants, international donors (e.g. the World Bank, IMF, ADB). They will assess all banks in Vietnam. Under this review, the subject banks will have to submit all information and clarify their businesses and activities to the VBRC. The following are the main functions of the proposed VBRC to:

1. request banks to comply with all requirements to ensure the soundness of the banks, so as to enhance banking performance, including improvement in the financial, operational and management aspects;
2. investigate and acquire documents and information about the banks;
3. request banks to submit restructuring plans in accordance with the requirements, rules and procedures set by the VBRC;
4. monitor, secure and restructure the banks' assets;
5. require the banks to write off any bad asset;
6. calculate and allocate the banks' losses, including allocating losses to the shareholders;
7. take any course of action against any party related to the banks' assets;
8. require the banks' shareholders to inject the necessary capital, and;
9. require the banks to merge or take over other banks, or to act in tandem with the SBV to withdraw the banks' licenses.

VBRC requires all banks, including state-owned banks to

- have their accounts audited independently by an agreed list of independent audit firms under agreed terms and conditions;
- classify all the risk-weighted asset of the banks and segregate the assets classified by the auditors as "doubtful" or "bad";
- restructure their loan portfolios within a certain period of time (i.e. one year) to achieve a minimum percentage of non-performing loans agreed to by the VBRC, and;
- maintain reserve funds for all risk-weighted assets, the percentages of which are to be stipulated by law.

VBRC will require banks which have failed to meet certain standards or legal and regulatory obligations to submit restructuring plans with specific schedules. In the case of small private banks which do not meet the minimum capital requirements, the VBRC will consider whether to:

- revoke the license, if the bank's bad loans are large relative to the bank's capital;
- request the bank to merge with others appointed by the VBRC, and;
- request the bank to increase its capital to meet the requirement within a specific timeframe and schedule agreed by the VBRC.

To maintain the effectiveness of the reform process, the VBRC will evaluate the plans seriously and continuously. In case the banks fail to implement the restructuring plans, the supervision and management of the banks will be turned to the VBRC. VBRC will take over the banks' management, determine the compensation for directors and employees, re-evaluate the banks' assets and request that the shareholders and the management involved to take responsibility for the banks' losses.

Writing-Off from Reserves

So far, no loan loss provision has been set in the banking industry although it is stated in Article no. 82 of the Law on Credit Institutions.[xiii] However, banks are required to set aside annually a special reserve equal to five percent of banks' after-tax net profit tax. Because the reserve percentage is based on net profit after tax and not on risk-weighted assets, it is relatively small compared to the non-performing-loans. All banks have to write off the "bad loans" as classified by the auditor from available reserves. In case the reserves are not enough to cover the bad loans, the VBRC will decide whether to:

- deduct the remaining bad loans (after all reserves are depleted) into the chartered capital of the banks and register a new and lower capital if its capital still meets the minimum requirement set by the law, or;
- request the bank's shareholders to inject additional capital to write off the bad loans.

Shareholder Capital Injection and Re-Capitalisation

Ensuring statutory capital is a pre-condition for the existence and operation of a bank. To improve the structure and to outplay small and weak banks, the minimum capital requirement for banking operations should be raised, the creation of banking businesses based on risk-taking capacity should be reviewed and mergers and consolidation should be encouraged. Banks that are considered "undercapitalised" because of low paid-up capital should be made to increase their paid-up capital to a certain amount within a certain time. Support for troubled banks should, in the first instance, come from the banks' owners and shareholders. However, a "wait and see" attitude may prevail among the shareholders and necessary actions may be postponed, resulting in further deterioration of the banks' financial conditions. The VBRC plays an important role in soliciting capital injection from the shareholders. Nevertheless, capital can be raised through selling newly issued shares to new shareholders or existing shareholders.

Banks that are considered "undercapitalised" because of realised losses or potential losses are requested to set aside a 100% provision for "bad" loans and 50% for "doubtful" loans. No lending will be extended to companies whose debts have been placed under "bad" or "doubtful" categories.

Merger and Acquisition

VBRC must play a catalytic role here. Merges can be an effective instrument to reduce inefficiencies and to raise capital. The objective of merging is not to reduce number of banks but to re-capitalise banks. The process should not result in small weak banks merging together and running the risk of having just one big weak bank. Mergers should not be forced upon strong and healthy banks to carry weak banks. Mergers are at the independent discretion of merging parties. Nevertheless, a merged bank should meet the requirements of the VBRC. To stimulate mergers, the VBRC can offer incentives, e.g. banks with a certain amount of paid-up capital and asset size are allowed to perform foreign exchange businesses and international banking services, open new branches, etc. Banks that fail to meet the minimum capital and asset size requirements may be requested to submit a detailed schedule to increase their capital or be forced to close. A government regulation providing for tax exemption of expenses incurred during the merger and acquisition process should be considered.

The government should take measures to facilitate mergers and acquisitions. One of the incentives for foreign investors to invest their money in the banking sector is increasing their share in the banks. The aggregate share for foreign partners is currently restricted at 30% on a case-by-case basis. To help speed up the process, banks can be permitted to turn debt rights into shares, and the ownership restriction for foreign shareholders in domestic financial institutions should be lifted.

Re-Capitalisation and Commercialisation of State-Owned Commercial Banks

Ironically, when the banking system is in trouble, state-owned commercial banks (SOCBs) appear to be "safe havens" for deposits because the public assumes that they are guaranteed by the government. Why do the state-owned banks not exercise greater credit and financial control? They do not because:

- They have no clear incentive to maximise profit, due to the subsidy mechanism and reward system, which are not performance-based. Together they have stifled competition and inhibited innovation.
- The banks themselves may be insolvent. They have no incentive to withhold credit from unworthy borrowers. Under these circumstances, lending to insolvent borrowers to service their obligation can be rational since it enables troubled banks to report performing loans.
- The information on outstanding debts is very poor.
- The strength of the insiders network and the relationship between ins and outs.

The assumption that loans to state-owned enterprises are backed by the state relieves banks of the need to seriously consider the creditworthiness of state-owned enterprises. This moral hazard or problem weakens the ability state-owned commercial banks to provide an objective and appropriate assessment of corporate profitability and to ensure that resources are distributed efficiently. This argues in favour of a thorough restructuring, re-capitalisation and commercialisation of the SOCBs. The reform process of the SOCBs could be implemented in two phases: the first phase is re-capitalisation and the second is commercialisation and privatisation.

In re-capitalising SOCBs, VBRC co-operates with the Ministry of Finance, which acts as the owner of SOCBs, on the following steps:

- to segregate loans classified by the auditors as "doubtful" or "bad" and to further classify according to cause, i.e. by natural disasters, by policy-lending, losses in businesses, etc.;
- to require banks to write off 100% of the "bad" loans from their own reserves, in the following order: natural disasters, policy-lending, etc.;
- if the reserves are not enough to cover the losses, to consider a package of re-capitalisation to the individual bank where the government, represented by VBRC, will re-capitalise the SOCBs by substituting government papers for bad debts (issuing long-term bonds i.e. 20 years or 30 years) to cover all bad loans that remain after writing off from reserves, and where the VBRC will be the government's agent servicing the government papers;
- to require SOCBs to provide for other categories of loans based on the appropriate percentage of risk agreed by the VBRC and SBV, with reference to the different credit activities, and;

- to require SOCBs to restructure their loan portfolios within a certain period of time (i.e. 12 months) to achieve a minimum percentage of non-performing loans agreed by the VBRC.

Transferring non-performing loans from the banks' balance sheet to VBRC and replacing them with government's papers is the most popular way to transform centrally-planned economies. It can be an effective way of addressing the solvency problem of banks. This process strengthens the banks at the cost of burdening the government budget with the servicing of the securities issued to banks, so that, ultimately, the cost of tidying up state-owned commercial banks' portfolios falls on the taxpayers[xiv]. Re-capitalisation will help the SOCBs recognise their losses and work out the burden of bad loans. Loan workout (foreclosure or asset sales) is also important to recover some of the cost and to send signals to delinquent borrowers. The process will also help the banks commercialise their activities. Commercialisation of the SOCBs also entails de-politicising management of those banks.

Vietnam has four SOCBs, which are named after different business sectors: foreign trade (Vietcombank), industry and commerce (Incombank), investment and development (BIDV) and agriculture (VBA). However, most of their activities are quite similar — retail banking, commercial lending and trade services — although a substantial portion of VBA's credit activities is concentrated in the agricultural sector. Similarities in business lead to unnecessary competition among the SOCBs and with private and foreign banks. The reform state-owned banks should focus on consolidation, financial strengthening and the overseas network to help the government in industrial financing, investment promotion, modernising existing industries and setting up new industries. Since Vietnam is still an agricultural economy, state-owned banks should help the government develop this sector by financing the agro-business and procurement of agricultural machinery and equipment.

Some of the advantages from the privatisation of state-owned commercial banks are the following:

- increase in the degree of discretionary reform;
- commercialisation of operations and maximisation of profitability of banks;
- increase banks' operational autonomy, and;

- the laying down of the pre-conditions for banks to be listed in the future stock market to raise capital for their operations since the government will be unable to allocate more capital to the banks like it used to.

A market-based commercialisation process through privatisation will be the best way to ensure profitability and market-based governance of the banks. Private investors have more incentives to manage their capital, or to have it managed, than do public officials. In conclusion, state funds should be invested efficiently and in a manner that creates the right fundamentals for the economy. SOCBs are not established to compete with commercial players or to nourish inefficient state-owned companies. Although the stock market and capital market have not been established to raise long-term capital, the role of state-owned banks in raising long-term capital is very essential to the economy. State-owned banks should represent the government in financing key pioneering projects, industries and medium-term and long-term projects, which other local banks and foreign banks are financially unable or reluctant to invest.

Liquidation

As a general rule, insolvent banks should be closed or liquidated. Insolvent banks operate under perverse incentives and hence contribute to an exacerbation of the problems. Some small debt-ridden private banks have very limited capital and assets and are unable to extend their activities and compete. Moreover, they have tried to win businesses by aggressively offering customers more favourable terms. Liquidation is a painful process and may cause a bank-run in Vietnam due to the lack of confidence in the banking system. The underlying condition for liquidation is a thorough reform of the whole banking system and the corporate sector in terms of bankruptcy law enforcement and corporate debt clearing. As proposed above, banks will be liquidated if they are unable to increase their statutory capital to meet the minimum capital requirement or to find partners for merger within the timeframe stated by the VBRC. Minimum capital requirements should be increased. Other conditions which should be met by banks concern the maximum percentage of bad debt over total loans, chartered capital and reserves, and accumulated losses against chartered capital. A market-based approach to bank closure may therefore need to take into account a bank's track record of weak performance and recurring problems. Liquidation will require sufficient funds to compensate the depositors. Obviously, at most only depositors should be protected, not the shareholders or the management.

Protecting Deposits and Moral Hazard

The issue of deposit protection needs to be considered in banking reform, especially in Vietnam, where people have very limited knowledge of banking facilities. The knowledge that their savings are protected give small depositors confidence in the banking system as a whole. If one bank is liquidated and the depositors are protected by the government, depositors in other banks will be reassured and there will not be a panic. Bank deposits are very sensitive and a run on banks is a disaster to any banking system. However, the state cannot protect all deposits since this will create negative incentives for bankers. Large depositors, generally corporate ones, have the resources to monitor their banks' soundness. If large depositors ignore their bank's financial status, there will be no incentive for the bank's management to operate efficiently and to resolve the problem.

Therefore, government's protection of deposits should come with a ceiling and conditions. Since the bad loans in state-owned commercial banks are to be replaced by government bonds, the issue of deposit protection can conceivably be confined to liquidated private banks. The VBRC should state the coverage limit on every deposit at each liquidated bank and whether it applies to the sum of all of a depositor's accounts at the liquidated bank or to the sum of all accounts owned by an individual depositor at all banks liquidated during a given period.

Building a Safe and Efficient Banking System by Learning from Singapore's Model

Singapore's Banking System and Ongoing Reform

After becoming an independent nation in 1965, Singapore legislated her own Banking Act and in 1971, the Monetary Authority of Singapore, the de facto central bank, was established under the Monetary Authority of Singapore Act. The MAS performs all the functions of a central bank except that of issuing currency which is carried out by the Board of Commissioners of Currency. The MAS is owned and controlled by the government. The MAS is responsible for conducting monetary and exchange rate policies, supervising the financial sector e.g. licensing financial institutions, setting prudential regulations, and implementing monetary policies. The emergence of Singapore as an international financial centre is the result of orderly stimulation from government legislation and administrative monitoring by the MAS, in addition to the blessings of political stability, geographical location and administrative efficiency. With the objective of developing Singapore into a financial centre, the Government has taken steps to create the right climate for more financial institutions to be set up and for financial markets to flourish.

There currently are 149 commercial banks in Singapore, of which 10 are local banks. Commercial banks in Singapore are allowed to undertake universal banking. They can engage in a wide range of financial services in both traditional banking (e.g. loans and deposits) and investment banking (e.g. underwriting and distribution of equity and debt securities, corporate finance, fund management and unit trust management). As a strategy to attract international banks and to avoid unnecessary competition within a very limited domestic market, the MAS issues other types of licenses for specialised banking activities. The three categories of commercial banks in Singapore are full banks, restricted banks and offshore banks.

Full-license banks: Such banks are permitted to carry out the whole range of banking business approved under the Banking Act. Given Singapore's small domestic banking market, not all banks can be granted full banking licenses. As such, two other categories of commercial banks have evolved: restricted banks and offshore banks.

Restricted-license banks: Restricted banks may engage in the same range of domestic banking business as the full-license banks except that they can only have one main branch and cannot accept Singapore dollar savings accounts and Singapore dollar fixed deposits of less than S$250,000 from non-bank customers.

Off-shore banks: These banks have the same opportunities as the full and restricted banks in business transacted in their ACUs but their scope of business in the Singapore dollar retail market is slightly more limited. In the domestic market, offshore banks cannot accept any interest-bearing deposits from persons other than approved financial institutions, nor can they open more than one branch. In addition, offshore banks may extend a maximum of S$300m in total credit facilities to resident non-bank customers in Singapore dollars. This limit was raised from S$200m to

S$300m in June 1998 as a first step to create a more level playing field for local and foreign banks.

Besides the three categories of commercial banks, financial institutions may also operate as merchant banks. Typically, the activities of merchant banks include offshore banking, corporate finance, underwriting of share and bond issues, mergers and acquisitions, portfolio investment management, management consultancy and other fee-based activities. With MAS approval, most merchant banks have also established ACUs through which they participate in the Asian Dollar Market and compete with commercial banks in the offshore market. *Table 5* shows the number and type of financial institutions in Singapore at the end of March 1998.

Singapore has the two state-owned banks: Development Bank of Singapore (DBS) and Post Office Savings Bank (POSB). DBS was incorporated in 1968 under the Companies Act and licensed for banking operations under the Banking Act. POSB was established by the virtue of the Post Office Savings Bank Act 1972. In addition, Singapore has a strong and efficient legal framework for financial activities such as the Securities Industry Act, the Futures Trading Act, and payment and financial instruments such as the Bill of Exchange Act, the Local Treasury Bills Act, the Government Securities Act and Common Law.

With the aim to promote Singapore as a premier financial centre in Asia as well as globally, the government set up the Financial Sector Review Group in mid-1997. MAS also embarked on a fundamental review of its policies in regulating and developing Singapore's financial sector in late 1997. In February 1998, the MAS unveiled a series of reforms aimed at making Singapore a pre-eminent financial centre in an increasingly competitive global market. In developing the reforms, MAS worked closely with industry players and other government agencies to review the regulatory framework and formulate strategies to stimulate growth in specific industries in the financial services sector. MAS is implementing the new reforms in phases to ensure it maintains sound supervision of the financial sector. This incremental approach also gives market participants more time to adjust to the new environment. In line with Singapore's goal to become a premier global financial centre, MAS has instituted a new supervisory framework based on key tenets:

Maintaining high prudential and supervisory standards: MAS continues to oversee the financial sector professionally, vigilantly and proactively. MAS focuses on systemic risk rather than safeguarding individual institutions, and fosters greater transparency and market discipline. The maintenance of high standards of integrity and sound financial management does not contradict the aim to create a more dynamic, innovative and vibrant financial sector. A sound financial system serves as the foundation on which the liberalisation of the financial sector can take place.

Shifting the emphasis from regulation to supervision: MAS has shifted its emphasis in overseeing the financial sector from regulation to supervision. The supervisor's primary responsibility is to protect the stability of, and maintain confidence in, the financial system. MAS will shift from "one-size-fits-all" regulation towards a greater emphasis on supervision, which entails monitoring and examining institutions for compliance with laws and guidelines, and assessing asset quality and the adequacy of risk management systems. This enables MAS to provide stronger institutions with the flexibility to develop and innovate, while maintaining stricter controls on weaker ones.

Implementing a risk-focused approach to bank supervision: MAS will continue to maintain high supervisory standards which form the cornerstone of a sound banking system. MAS adopts a risk-focused approach to bank examination to minimise systemic risk rather than safeguard each and every individual institution. The approach focuses on the institution's management quality and processes, its risk management and internal control systems instead of detailed transaction testing. This new approach is better suited to cope with the growing complexity of banking activities and organisational structures, increased linkages with non-bank financial institutions and institutions abroad, and technological advances. The approach will enable the allocation of limited supervisory resources to major risk areas and improve the effectiveness and efficiency of the examination process.

MAS informs banks of upcoming examinations beforehand, allowing pre-consultations with bank management to shorten the actual examination. MAS still conducts surprise examinations when circumstances make it necessary. As with the practice of supervisors in other major financial centres, MAS examinations will be more frequent and regular. This enables MAS to distinguish stronger banks, with well-developed systems of internal control, from weaker ones. On-site examination will be supplemented by off-site reviews, which involves continuous tracking of institutions, the review of statistical returns and audit reports submitted by banks, and regular meetings with bank management.

Banking disclosure standards: To assist investors in making informed decisions, MAS is providing greater transparency in its regulations, raising disclosure standards and fostering market discipline in the financial industry. MAS also encourages industry groups to develop and enforce standards of good practice. With MAS' shift in emphasis from regulation to supervision, there is a need for greater transparency and a higher disclosure standard for local banks to maintain confidence in the banking system. With effect from the 1998 financial year, local banks are required to stop the practice of maintaining hidden reserves and to disclose the market value of their investments, which have largely been valued at book cost and hence contributed to hidden reserves. Banks also have to disclose the level of their non-performing loans, and past and future provisions. In addition, local banks have agreed to open an equity account for their investments in associated companies, with effect from the 1999 financial year. These new accounting practices are consistent with international standards, and the global trend towards greater transparency in both the banking and corporate sector.

The reforms are designed to intensify the development of the financial services sector in Singapore over the next five to ten years, making Singapore a world-class financial centre. MAS' new strategic approach is two-fold:

- to create a more conducive regulatory environment for Singapore's financial sector, one that is well-supervised but where innovation is also encouraged;
- to play a more active role in promoting the industry.

In line with the new direction set by the reforms, MAS created the Financial Sector Promotion Department to promote new financial activities, develop IT infrastructure and manpower resources for the financial sector, as well as, design appropriate incentives to promote the sector.

MAS' vision of Singapore becoming a world-class financial centre will be achieved through a variety of measures across all asset classes:

- boost competitiveness of local banks by revising regulations without compromising prudential objectives and align MAS' policies with the best practices elsewhere, and;
- progressively allow more foreign competition into the banking sector. Competition provides the impetus for local banks to upgrade and develop into significant regional players.

MAS intends to liberalise the banking system further as this is the best way to upgrade the industry and develop robust local banks. The government wants more competition and less protection against international financial institutions and is encouraging the consolidation of the domestic banking system to form stronger and well-managed Singaporean banks to compete domestically and internationally. Recently, on 17 May, 1999, the Singapore government launched new measures to further liberalise the domestic banking system to promote a more open and competitive environment. The new measures include:

- a five-year liberalisation program that allows greater involvement of foreign players in the domestic banking market;
- improving corporate governance practices, and;
- lifting the foreign ownership restriction of 40%.

Building a Safe and Efficient Banking System in Vietnam

With features unique to each country, it is important to begin with discussing the fundamental differences between the two economies and their banking systems. Singapore is a free enterprise economy which relies more on market forces and less on government participation in the banking system with respect to the government's stake in the state-owed commercial banks (BDS and POSB), credit control and foreign exchange control. Singapore's banking system has a long experience with the market economy and development. An economy without domestic natural resources has to look outwards to survive; liberalisation is a precondition for trade and investment links with the rest of the world.

In contrast, Vietnam is still primarily an agricultural economy with some export production. Vietnam has to pay much attention to the financing of rural development and export exploration. This leads to greater reliance on government intervention to assist the agricultural economy and rural development. Vietnam's banking system has been shifted from central planning to a market-driven economy. The Singapore market is very small. In addition, Singapore has advantages of good geographical location, a government policy of financial liberalisation, and a taxation policy and regulations amenable to developing an international financial centre. Vietnam cannot imitate the Singapore model or any other market economy. Unlike Singapore, Vietnam has a much larger domestic market that is still not fully explored. Therefore, Vietnam's banking system can be more domestically-oriented and emphasise on economic distribution and growth rather than internationalisation. Vietnam should have a banking system that best suits the economic conditions of the country and facilitates the achievement of positive outcomes at both micro and macro levels. The banking system should be controlled by the authorities and must help the authorities control and improve the economic situation during the transitional period.

There are several issues that should be considered about Singapore's banking system.

Government participation and incentives for the banking system: Singapore still maintains efficient government participation in the banking system through the two banking arms: Development Bank of Singapore (DBS) and Post Office Savings Bank (POSB). The government's aim is to pioneer new changes in banking practice and promote efficiency and productivity in the banking system. For instance, by introducing computerisation in the POSB, longer banking hours for both DBS and POSB, POSB's branches in department stores, and POSB's sophisticated savings and payment facilities, Singapore has mobilised funds from the public. In Vietnam, there are four state-owned commercial banks representing the government's direct participation and which dominate domestic banking activities. The government also participates indirectly through the four SOCBs, four joint-venture banks, leasing businesses and finance companies. Moreover, the appointment of the heads of local branches of the SBV or SOCBs, although officially made by their chief directors, are made after consulting the provincial authorities. That results in local government intervention in banking operations. The influence of political factors in the banking system should be addressed due to three issues:

1. political influences on the application of sanctions by banking regulators and supervisors;
2. political influences overwhelm traditional and professional banking practice in assessing the creditworthiness of state-owned enterprises, this

discourages risk assessment and management, and nurtures the relationship with politicians and bureaucrats who control these enterprises, and;

3. the reluctance of politicians to apply sanctions against banks which are in trouble, partly because of their stakes in the banks (both state-owned banks and joint-stock banks).

Central bank policymakers should be exempt from political pressure and caprice, possibly by fixed mandates in legislation.

In Vietnam, where the stock exchange has not been established and other financial markets have not been developed, business enterprises have no other way of obtaining long-term finance but from banks. Thus, the philosophy of building a banking system to play a more active role in financing industries on new long-term and medium-term bases should be considered. SOCBs should focus more on mobilising long-term deposits and financing key industries and the rural sector than competing in commercial city banking activities. Most Vietnamese people still have the habit of using cash in payment and keeping their savings at home in the form of gold or cash (or even foreign currencies, e.g. USD). SOCBs should be pioneers in introducing convenient savings and payment services through computerisation. They should educate people about the use of banking facilities and encourage the habit of saving in banks and in bonds which are more beneficial and contribute more to the national economy than keeping cash or gold at home.

Since 1970 the Singapore government has provided many incentives, especially tax incentives, to stimulate the growth of the financial sector. (See *Table 6.)* In the first phase of implementing loan loss and other general provisions, the Vietnamese government should consider special tax concessions to encourage financial institutions to set aside a greater proportion of their profit as general provision and to reserve funds for training and the development of banking expertise. However, the SBV will announce the maximum and annual limit on the amount of general provision eligible for tax concession. Since Vietnam's banks are still small in terms of capital and scale of operations, other tax concessions should be given to investment priorities such as agricultural banking, banking to key industries and pioneering industries, e.g. infrastructure and transportation.

During the process of banking reform, the Vietnamese government needs to encourage the development of the private banking sector. The government also needs to launch suitable incentives to stakeholders in the banking system. Incentives should also be given to an open door policy on the entry of skilled expatriates to help expand and upgrade the local banking expertise, and support of training, research and application of new banking technology.

Sufficient legal and regulatory framework: The demand for reform of the legal system is rooted in economic reform. Economic reform is important on both the demand and supply sides of legal reform; to stimulate the former and to generate the resources for the latter. The Law on State Bank of Vietnam was passed and came into effect in October 1998. The SBV enjoys the legal status of a ministry but it maintains characteristics distinct from other ministries. Since it is the central bank governing the monetary and banking system, economic and monetary policies are more important than administrative orders. Sufficient legal frameworks should include not only the state bank and credit institution laws, but also laws on property, contracts, companies, bankruptcy, etc. Effective bankruptcy procedures, which can be legally enforced and serve as part of a country's debt-restructuring, are very important means of ensuring that non-viable firms do not continue to absorb credit. An effective bankruptcy system will create the appropriate incentives for creditors and debtors to hold out-of-court negotiations and settlements. Effective enforcement and uniform implementation are much more important than the laws themselves. The courts should impartially and routinely enforce loan contracts.

Adoption of international laws or practices: However, the legal framework of the banking sector cannot be viewed in isolation from the legal system within which it operates. Many of the international transactions in which financial institutions are involved may be subject to other jurisdictions and generally accepted rules such as the Uniform Custom and Practice for Documentary Credits, a code regulating the documentary credit operations of banks, issued by the International Chamber of Commerce. As a legacy of its colonial past, Singapore has inherited English laws as the basis of its legal system. The Common Law and Bill of Exchange Act cover regulations on financial instruments and their practice, and are also based on internationally accepted rules and practices.

In line with the open door policy and economic integration process in Vietnam, the government should be signatory to international laws and practice, in order to step into the international trade and investment arena and "to speak the same language" with other international players. Financial institutions may choose whether or not to apply appropriate worldwide practice or rules but being the signatory to the rules and practice underlines the government's commitment to support the realisation of the rules or practice.

Supervision bodies and enforcement: In the market economy, bank supervision must show greater professionalism and less political interference. A coherent approach to overcome the major impediments to sound and efficient supervision is to:

1. develop a satisfactory legal and regulatory framework;
2. undertake public administration reform in general, and banking supervision bodies in particular, including merit-based recruitment and promotion, streamlining of decision-making processes through a clearer delineation of responsibilities, and;
3. enhance transparency.

In the area of bank supervision, focus will be given to improve effectiveness and quality through the application of consolidated supervision, which includes both "on-site" and "off-site" supervision. On the whole, the supervision of risk management will receive much attention. SBV's bank supervisors should be trained to better understand risks and risk management. Guidelines to promote transparency and information disclosure, as well as the application of core principles for efficient supervision, should be studied. Information should be available to the public regarding the financial condition of particular banks so that social control over the banking system can be suitably implemented. SBV can require commercial banks to have their operations supervised "on site" by internationally recognised supervisors under terms and conditions approved by the SBV[xv]. It is not a contradiction that Singapore pursues a free banking policy on the one hand and enforces strict financial discipline on the other. Only by policing the financial market and making sure that all financial institutions follow the proper regulations can free market forces be conducive to the orderly progress of the financial system.

The biggest problem with most Vietnamese regulations is the lack of enforcement. Banking regulations are no exception. Some contradictory arrangements such as the absence of a bankruptcy mechanism for SOEs, the influence of local authorities, and avoidance of responsibility by local public servants, are all reasons for the lack of enforcement of regulations. Another important element in the enforcement mechanism is the imposition of fines and penalties for the violation of regulations or criminal acts. To effectively implement the banking laws and regulations, Vietnam should establish a much stricter and standardized penalty system, including a range of enforcement powers to deal with incompetent or abusive ownership and management. Possible measures include:

- civil money penalties against individuals (including the SBV's staffs) engaging in unsound and unsafe banking practices;
- monetary fines or penalties against individuals and institutions for the violation of banking regulations or criminal acts, and;
- the power to remove the management or directorate of any institutions and to recover unauthorised loans and incomes.

Law enforcement must be ensured. The government should build up the concept of "the government of laws, not men" in their people. Doing so will require the government to operate within the law.

Auditing and accounting practice reform: Vietnam has implemented open-door economic policies and attracted foreign investments. With foreign companies now doing business in Vietnam, Vietnam will be affected by the move to "internationalisation" and "standardisation". Thus there is a need for accounting regulations and financial statement disclosures to adopt international standards. Customers, lenders and bankers will require information that is truly transparent. Vietnam's accounting methodology may no longer be appropriate for financial reporting, particularly when dealing with overseas suppliers, bankers and financiers. It is very difficult to understand the financial status and performance of a bank by means of such historical cost-based accounting. Accounting practice for banks should be revised in favor of a more market price-based accounting for banks' investments, standardised practices in the allocation of expenses, classification of loans and fixed asset depreciation.

While Vietnamese companies (except recently state-owned companies) are still not requested by law to submit their audited financial statements at the end of the year. All companies in Singapore, including state-owned ones, have to submit their financial reports, including list of directors, shareholders and other documents such as deeds and important contracts, to the Registry of Companies for public inspection. Vietnam now has dozens of small local auditing firms and the "big five" accounting and auditing firms are also represented. The government should consider regulations on the auditors' responsibilities for their audited information of financial institutions. Clear guidance on auditing standards, the scope and content of a bank audit and the frequency of audit activities to be carried out, should be established. Banking regulations should empower state bank supervisors to establish auditing standards and minimum disclosure based on internationally accepted standards. SBV should have the power to appoint or dismiss auditors. Auditors should also be under affirmative obligation to inform state bank supervisors of significant findings in a timely manner.

In addition, Vietnam's laws on accounting and auditing should also govern accounting practices, auditing activities, and professional accounting and auditing bodies. In addition to government regulations, Singapore also has very strong professional bodies such as the Institute of Certified Public Accountants of Singapore (ICPAS) which provide a form of "self-regulation" to ensure that quality standards are adhered to and monitored.

Banking disclosure: Raising disclosure standards will certainly benefit the banking industry. The regulation of banks will be facilitated in the sense that if banks themselves are required to disclose publicly their financial conditions, even where supervision is not strong enough, the public can at least obtain information and the means to protect themselves. Without adequate information, the investors tend to overact in times of uncertainty. Better banking disclosure will strengthen market confidence. Better disclosure and market scrutiny will also put pressure on financial institutions to operate efficiently and profitably. This market discipline will sharpen their competitive edge. The establishment of a Committee on Banking Disclosure under the State Bank of Vietnam, to work in co-operation with the Vietnam's Banker Association should be considered. The committee's function is to make recommendation on the standards and practices of Vietnamese banks with a view to attaining the standard of disclosure in developed countries. Banks are required to publish timely and accurate information on their financial status so that both professional investors and depositors can make an informed assessment of the banks' performance and profitability. Such information should at least include a balance sheet, income statement, off-balance sheet exposures, summary of the major concentrations of credit, market risk and non-performing loans, and loan loss provisions. The scope of audits and disclosures to should also be standardised. Disclosures should be accompanied by concise quantitative benchmarks. Bank managers, investors and the public can measure the data against these benchmarks.

Standardised banking disclosure will facilitate comparison with similar institutions. Additionally, because banks are institutions of public trust, banking policies should aim to maintain public confidence through transparency and an image of security. Any deterioration in the basic benchmark would have an immediate impact on the cost of funding. However, banking disclosure in Vietnam is constrained by the concern that fuller disclosure of banking information may have an adverse impact on the stability of the banking system since banking is especially vulnerable to a loss of confidence.

Singapore's banking disclosure is rated among the best in the world and it follows disclosure benchmarks in the IAS 30 "Disclosure in Financial Statements of Banks and Similar Financial Institutions" issued by the International Accounting Standards Committee in 1990[xvi]. The principles of disclosure in the IAS 30 are mainly as follows:

1. details on where and how total profit is derived;
2. information on concentration (geographical and industrial);
3. the maturity of assets and liabilities;
4. the market value of all marketable securities held for dealing and investment;
5. the market value of long-term investment including property;
6. provision for losses on loans and advances at the balance sheet date, and the movement in provisions during the period, and;
7. information about the nature, amount and replacement value of off-balance sheet transactions.

Corporate restructuring and the privatisation process: Banking reform is not only limited to building up a sound banking system. It should proceed alongside economic reform and financial restructuring of state-owned enterprises since companies are the main sources and destinations of the banks' money. The health of the real sector customers determines the health of banks. The corporate sector, especially SOEs, should be restructured in time to prevent re-capitalised banks from quickly returning to insolvency by lending to them. Many crisis-affected countries in the region are finding it much harder to restructure the corporate sector than to re-capitalise weak banks.

Singapore's experience with its state-owned enterprise system over the past decades has indicated that the effectiveness of state-owned enterprises depends on the quality of management rather than on state ownership per se. In order to stimulate multi-sectoral economic growth, the government should participate mainly at the industry level. Government participation at the company level should be limited to the few vital industries such utilities and transportation, and new industries, where state-owned companies act as pioneers and later transfer their shares to private investors.[xvii] *Figure 6* illustrates the Singapore government's participation in the corporate sector:

The same diagram for the Vietnamese government's participation in businesses would be much more complicated. In addition to thousands of companies of all sizes belonging to governmental ministries, there are thousands of companies established by "people committees" from the city and district centres. Many SOEs operate in the same field of business under the management of the same authority and even in the same locality. Most of them are over-indebted. However, the SOEs should be maintained in pioneering industries and key industries. For small SOEs in trading, the proper solution should be full privatization. An effective bankruptcy system that supports the entry-exit mechanism for enterprises should be established. This is to be supported by duly enforced court orders and procedures at least cost to the creditors.

In the years to come, competition will become stronger with the rapid investment from the private and foreign-invested sector and Vietnam's impending admission into AFTA, and the WTO. The corporate sector needs to be strengthened in terms of production capacity, technology and management competence to face the challenges.

Stable macroeconomic environment: There will be no strong and efficient banking system in an unstable macroeconomic environment. "Good macroeconomic policy and a stable and growing real economy are conditions for a sound banking system, and the other way round, a sound banking system is a precondition for a healthy macro-economy and efficient macroeconomic and policy formulation".[xviii] In a weakening economy, there are very few new investments and the few existing investments are not profitable. Therefore, a weakening real sector struggling to survive has a direct and serious impact on the soundness of the banking system through the quality of loan portfolios, loan losses, and erosion of the banks' capital and reserves.

Vietnam's recent sound economic development has provided a strong foundation for the banking reform program. Prudent and consistent implementation of monetary and banking policies should be maintained. In this regard, the central banking authority continues to implement prudent monetary policies, including measures to ensure the control of inflation and foreign exchange, as well as management of the balance of payment, foreign debt and stable foreign currency reserves. The experience of Singapore demonstrates that macroeconomic stability is an essential ingredient in rapid and sustained financial and economic growth. *(See Table 7.)*

At the macro level, the government should support the development of the banking system through banking policies that are consistent with macroeconomic management, especially measures to maintain the soundness of the banking system. The government will also stay firm with a prudent fiscal policy to maintain a balanced budget. The close cooperation between the monetary and fiscal authorities should also be further strengthened.

International banking standard introduction: In the coming era of integration and globalisation, banks in Vietnam will operate in a much more internationally competitive environment as a result of the government's commitment to the open-door economic policies and to join AFTA by the year 2003.

To increase the financial soundness of the Vietnam's banking system, BIS (Bank for International Settlements) guidelines should be studied and introduced gradually.[xix] Ratios of Tier 1 and Tier 2, and other prudential requirements in the Basle Convergence Agreement can first be applied to those banks that are allowed by the SBV to perform international banking services. Before deciding to introduce these new standards, practical issues should be considered e.g. compliance of the accounting system with internationally accepted standards, the legal and judicial framework, consistency of supervisory tools, internal control and audit, public disclosures, asset valuation and provisioning, legal power, and the political independence of bank supervisors. The priority elements of the international banking standards adopted by the IMF and the Basle Committee are outlined below:

Public disclosures: publishing timely and accurate information on the financial conditions of banks. The information should be in accordance with international standards and audited by a reliable independent external auditor.

- *Accounting practice and legal framework*: internationally recognized accounting standards[xx] of loan classification and loan loss provisioning, consistent laws on bankruptcy, confirmation of the legal authority of bank supervisors.
- *Internal controls and audits:* procedures and safeguards with respect to the banks' internal risk management, exposure limits, functional risks segregation, cross-checking of the consistency, and accuracy of internal record keeping, IT audits and back-up, fraud and money laundering detection.
- *Government involvement:* publishing data on non-performing loans in state-owned banks, as required for private banks, external independent audit of state-owned banks, disclosing the nature and extent of government instructions to state-owned banks on the allocation of credit.
- *Related-party lending:* limit on related-party lending, outlawing malpractice in lending e.g. dummy corporations
- *Bank capital*: risk-weighted capital standards; Tier 1, Tier 2 standards to ensure the quality of assets and reduce the risks involved.

Management competence and banking education. Though very important, legal frameworks and quantitative regulations alone cannot ensure that the system is well run. Managerial competence is also very necessary. The management of financial institutions requires a high degree of integrity, adequate training and experience. Emphasis should also be given to the training and upgrading of local banking expertise. The human element in banking appears so large and important that in the long-term, it is perhaps the greatest challenge as well. Banks fail because of human error, be it fraud, mismanagement, poor policies or inadequate supervision. The efficiency and soundness of Vietnam's banking system will only be sustained so long as the banking personnel are adequately trained and capable of making a contribution. It is therefore, necessary to upgrade the expertise of participants in the financial markets by means of training. The results of training and banking education cannot be expected to appear quickly but without it much of other reform efforts are likely to fail. At present a bank is required to obtain approval from the central bank before appointing a chief executive officer. Although there are requirements in the Law of Credit Institutions with respect to the professional training and experience of a bank's CEO, the SBV should also apply a "fit and proper" test to ensure that the appointee is professionally competent to manage the bank. In assessing the quality of management, emphasis is placed on the effectiveness and efficiency of the governance process and practice to ensure managerial efficiency. Banks should have in place adequate policies, practices, procedures of internal control, and proper technique manuals. The three primary areas of internal control are:

- organisational structure (job description, discretionary limits for approval, decision-making procedure)
- accounting procedures (reconciliation of accounts, control lists, periodic trial balances)
- the "four-eye" principle (segregation of various functions, cross checking, dual control, dual signatories)

In addition, moral integrity and banking ethics remain as important as ever. In the present situation of rising systemic interdependence among banks and financial institutions, no bank can isolate itself and gain from another bank's problem. Instead, a crisis at one bank will also tend to drag down other banks with it, following the principle of domino theory. Banks will have to keep promoting ethics and co-operation to create a more resilient banking system. Bank management should be professionalised. The more professional the management is the more progressive the banking system will be, because it will then be able to absorb talent and become more institutionalised. In the private banking sector, the separation between ownership and control should be given greater recognition.

Marketing concepts are a part of modern banking management. There clearly is an implicit future challenge and competition in Vietnam's banking community, particularly, when one considers the wide spectrum of international banks operating in Vietnam and the diversification trend in the industry. Bank marketing concepts should be an integrating activity, pulling together into one well-directed thrust all the things banks do that relate to their customers. This sort of integration will help strengthen the bank's organization by unifying the bank's disparate activities: developing selling techniques of bank's officers, restructuring the network of branches, developing efficient channels to deliver services, satisfying customers by following the philosophy of safety and security.

Modern banking technology application — computerisation: Technology plays an essential role in a modern banking system. We are in the age of computerisation.[xxi] Banks, probably more than most commercial organisations, rely heavily on IT in order to conduct their daily business.[xxii] No bank in Vietnam, so far, has an on-line IT system so that banks are unable to launch sophisticated products such as checking and savings, ATM, and debit card services. Consequently cash payment still dominates the payment system. People are confined to banking during office hours and within the premises of a branch. On-line IT will help banks with large and nationwide branch networks to quickly and accurately consolidate data from the branches. Computers are no longer just an aid to productivity, they are integral part of the way banks operate and provide services. The advantages of IT application in banking techniques are numerous:

- cost reduction;
- standardisation of banking technique and efficient data processing;
- security and protection against fraud;
- increased competitiveness;
- service quality enhancement (faster, smoother, 24-hour service, home-banking), and;
- better internal control.

To succeed, banks must stay in touch with their customers, develop effective delivery channels and improve customer service. To effectively communicate with customers, banks must focus on two basic elements: data and delivery channels, both of which make heavy use of IT. Banks must gather and store data on their customers. Banks must develop a mix of delivery channels to serve as both a mechanism to sell products and services and as conduits for gathering information about customers. The channels consist of a network of branches, Automated Teller Machines, home banking facilities, and electronic banking facilities, which will certainly facilitate payments and hence utilise idle money in society and speed up monetary circulation. IT should not be employed on an *ad hoc* basis but must be fully integrated into banking strategies. Singapore's banking industry embraced computerisation in the 1970s. Among the most common reasons for computerisation in Singapore were to improve customer services; to meet competition; to increase efficiency in internal reporting and control; to organise data management; to reduce operating cost; to increase flexibility for new businesses; and to enhance the bank's image. Computerisation was first applied in demand deposits, savings deposits, book-keeping, general accounting and loans.

It is very important to speed up the computerisation of banking in Vietnam because the banking system has reached a certain level of sophistication. The increase in the number of banking activities, compilation of data, management accounting and management decisions have to be supported by computerisation.

In line with the reforming program of the banking system, a Financial Promoting Department under the Ministry of Finance should be established and assume the functions of:

- fostering a progressive financial sector;
- enhancing the IT infrastructure;
- developing the manpower capabilities of the industry;
- marketing financial and banking players and activities;
- studying and attracting new banking and financial products.

The government can launch incentive schemes to encourage banks to invest more in research and development activities (R&D). Expenses incurred in the set-up and development of sophisticated high-tech IT systems and high value-added banking product and services[xxiii] can also be made tax-deductible.

The role of foreign banks and host country policy: Unlike other countries, Singapore's financial sector started with a high level of foreign participation as part of its colonial legacy. Obviously foreign financial institutions play a very important role in Singapore not only in the offshore banking, but also in domestic banking, particularly with respect to enhancing the techniques of bank management, international connection and inducement of foreign industrialists to invest into Singapore. As mentioned in Part I of this section, in order to protect the domestic banking industry and to avoid being over-banked in the very small domestic market, the Singapore government has imposed various restrictions, such as entry restriction and operation restrictions, on foreign financial institutions.

The presence of foreign financial institutions in Vietnam, especially those with global networks, has following positive contributions:

- strengthening international banking links between Vietnam and the rest of the world;

- attracting more foreign investments and trade with Vietnam, with their industrial and commercial connections;
- provide the necessary expertise that will help upgrade the local
- banking expertise, raise the level of sophistication of banking operations and
- the overall standard of bank services in Vietnam.

Since the establishment of the Foreign Investment Law in Vietnam, a number of foreign banks have participated in the domestic banking market and their market share has increased remarkably. One major problem for Vietnam is that the domestic banks are very weak. For now the government allows entry into the domestic market only those international financial institutions that bring with them banking expertise and a long-term commitment to the country. Foreign financial institutions in Vietnam, if not restricted, may swallow up the domestic banks and the market. Singapore's experience shows that, given a weak banking system in the initial phase of a developing economy and a small domestic market, domestic banks are unable to compete with foreign banks, which have many more advantages in management, financial strength, technology and a global network. However, Vietnam is different from Singapore in many aspects. Vietnam is unable to imitate Singapore's previous policies on foreign banking activity or current policies to liberalise the financial sector. Vietnam's domestic market is larger than Singapore's and there is little competition. The Vietnamese government does not need to offer incentives for off-shore banking activities as Singapore does. In the first phase of its financial liberalisation, the domestic banking system still needs government protection. However, competition is encouraged in areas such as international services and corporate services in foreign currencies. Foreign banks' operations should be oriented and restricted in a direction that is most beneficial to the country and most utilise their above mentioned advantages such as high expertise, international experience and network. Therefore, to attract foreign financial institutions and also to avoid unnecessary competition in domestic banking, foreign banks should be encouraged to specialise in activities such as investment banking and profit-sharing banking activities (between foreign and local banks). A restriction on opening branches and access to retail savings would force foreign banks to become more innovative in mobilizing deposits and provide sophisticated services such as the widespread introduction of automated teller machines (ATMs).

Conclusions and Directions for Further Study

The banking system, as an intermediary, performs the very important role of channelling resources from savings to investment. The more efficient the system, the better the channel, in the sense that savings will be directed most profitably to all sides (the saver, investor and the intermediary). The more productive the investment is, the higher rate of economic growth.

Conclusion and Recommendations

Vietnam's banking system faces the twin problems of instability and inefficiency. Instability is due in part to the high level of bad loans to SOEs and bankrupt group companies. Inefficiency is due to the low level of bank management expertise, regulation enforcement and supervision, all of which are rooted in human factors. The banking distress in Vietnam reveals systemic weaknesses, exposes human failings and highlights the political nature of banking regulations and intervention. The tough situation faced by virtually all the banks calls for a systemic reform program. The reform policy will address not only quality improvement in the internal governance of banks, but also external governance by the market and the general public. For individual banks, the restructuring measures will cover not only the financial aspects but also the operations. There will be a different solution for each bank. Nevertheless, the reform policy will be transparent so that it will provide an incentive for the bank management and owners. Reform measures include the possibility of management take-overs and ownership restructuring. The reform will entail a shake up in the configuration of the banking system with a view to streamlining its operations and reorganising its structure so as to produce a consolidated but less concentrated structure. Removing non-performing loans from the balance sheets of state-owned commercial banks by replacing them with government papers and through privatization is the preferred way to solve the problem of said banks. Ultimately, the cost of resolving their bad loans falls onto the taxpayers. Due to the very low level of disclosure and sub-standard loan classification, we estimate that the cost of writing off the banking system's bad debts is at least 4% of the country's GDP.

The reform process will certainly have both positive results and negative effects. The negative effects are:

1. the cost of writing off bad loans to the state budget and the economy as a whole;
2. the risk of bank runs due to bank closures, and;
3. a temporary shortage of funds for domestic enterprises leading to lower economic growth as surviving banks become more conservative in their lending.

The positive results are:

1. Tightening of the lending criteria. Banks are to follow stipulated lending criteria and be financially responsible for any losses. Loan loss provision is set up to increase the quality of banks' loan portfolio, ability of re-capitalize and transparency.
2. Improvement in bank governance and management. SOCBs become more competitive after being privatized. Bank supervision follows prudential standards for safety and soundness. Bank management becomes accountable and more professional. Bank performance is improved because of stronger competition, high level of foreign participation in ownership and operation. Regulatory decisions must be gradually insulated from political interference.
3. Improvement in bank solvency and disclosure. Banking activities are to follow prudential standards for safety and soundness within the context of risk-focused supervision.
4. Incentives for good banking practices, and;
5. Restoration of public confidence in the banking system.

Financial and banking liberalisation is the keynote of Singapore's banking system. Nevertheless, the government's participation in the banking system through the DBS and POSB tends to recede. To develop Singapore as a world-class financial centre and to promote the banking sector, there will be less government protection for domestic banks.

Given the time constraint, this research may not achieve its ambition to draw out a model or to provide a general solution for Vietnam's banking system. But it does provide a clear view of the issues that should be considered in building a safe and efficient banking system like that of Singapore. A successful banking reform relies on a series of effective arrangements in order to reallocate resources to banks for investment. All these measures should aim to promote a sound, competitive and efficient banking system which is capable of withstanding external shocks and responding in a more timely manner to developmental challenges. Without the reforms, the Vietnamese banking industry will certainly be disadvantaged and unable to compete. The new banking system, led by the state bank of Vietnam, will become a very important sector of the country's economy. The timing of reform is also important in view of the rapid changes taking place in banking as competition intensifies. Only those well prepared to face the new challenges will be able to grow. By reforming, banks will be better prepared for dealing with the challenges.

The crisis experienced by the East Asian economies provides valuable lessons for Vietnam. Vietnam today is not in a position to imitate the other East Asian economies mainly because the economic environment now is totally different from 1950s, 1960s or 1970s. Vietnam's internal conditions also differ substantially from the others. But Vietnam can learn valuable lessons for its own economic development strategy. The present crisis also provides an opportunity to lay the foundation for a new system of improved corporate governance. However, the most important thing is that the environment is changing so that the economic structure cannot be fixed for all time. There is no ready formula for bank reform. The bank reform process includes not only short-term improvement in solvency but also the more difficult improvement in long-term profitability. A strictly market-based approach to failed banks is a strongly advocated solution to the banking system. Nevertheless, a market-based approach to bank closure may need to take into account the bank's track record of weak performance and recurring problems.

In face of new challenges and opportunities, both external and internal, it is important that domestic banks in Vietnam undergo various forms of restructuring and enhance their efficiency and competitiveness. Efforts to reform the banking system is crucial to enabling domestic banks to respond to challenges and opportunities in the new banking environment.

Directions for Further Study

It is important for both readers and the author of the research to be aware of the limitations of this research. We have already mentioned that the research does not cover central banking policies for sustained economic growth. It also does not cover Singapore's monetary policies.

For further information and study, we suggest directions for further research, in order of priority, as follows:

- central banking policies: the way to a sustainable economic growth;
- international banking standards regarding banking disclosures, risk-weighting asset, capital adequacy: how and to what extent does it apply to Vietnam's banking system?
- deposit insurance system: which model to apply to Vietnam's banking system.

NOTES

1. Officially stipulated and guided in the Letter no.898/CV-NHNN10 dated 28/Sept/1998 issued by the State Bank of Vietnam. Details are mentioned in section IV of this research.
2. In late 1999 there will be one more joint-venture between the Vietnam Bank for Investment and Development and the Bank for Foreign Trade of Laos.
3. Source: The Vietnam Economic Times.
4. Source: the State Bank of Vietnam — Annual Report 1998.
5. Source: State Bank of Vietnam Annual Report, Asian Economic Survey 1998-1999 *Asian Wall Street Journal* 26/Oct/1998.
6. Source: Credit Information Centre — SBV, Monthly Bulletin of October 1998.
7. Equitisation is a method in which the company's assets and liabilities is valued by an independent auditor. The net worth is represented by the number of shares for sale. However, the government retains the majority stake in the company.
8. The three old form are: i) maintaining the value of the enterprises and issuing shares to call for more paid up capital; ii) selling part of the enterprises belonging to the State's assets; iii) splitting off part of the enterprises to equitise.
9. *Vietnam Banking System: Building and Development Process* by The State Bank of Vietnam, 1996.
10. The Gia Dinh Commercial Joint-stock Bank was formed from such three credit co-operatives in 1993 and had overdue loans amounting to 52% total loans at the time of being licensed a bank. *Source: The State Bank of Vietnam — Report on Joint-Stock Bank Operations 1995.*

11. It used to be 10% until the enactment of the Law on Credit Institutions of Vietnam in October 1998.

12. It used to be 10% minimum of total deposits (minimum 7% in balance credit with the State Bank of Vietnam and 3% by cash-in-vault) until end of January 1999.

13. Implementation of Article 82 has been suspended in accordance with the State Bank Official Guideline No. 898/CV-NHNN10 dated 28/September/1998, until further instructions from the Ministry of Finance and the State Bank of Vietnam.

14. Bad debts incurred the mono-banking system before 1990 amounted up to VND2.4trillion (USD1~VND13,902). Source: Vietnam Economic News No.13. Total NPLs of the banking system at the end of 1998 amounted to VND 14,000 billion. Total amount of government gurantees extended to the banking sector in the reform in Thailand was equal to 25% its GDP; for Korea, it was 28%. Source: IMF assessment of reforming programs in Indonesia, Korea and Thailand.

15. Banking Act Amendment of Singapore in July 1996 allowed foreign supervisors to conduct on-site examination of their banks' branches in Singapore subject to MAS's approval.

16. International Accounting Standards membership comprises of 128 accounting bodies in 91 countries, including Singapore.

17. In March 1985, the Ministry of Finance, Singapore decided that:

    a) 'Government will invest in new priority industries only where private entrepreneurs do not have the will or the money to undertake projects on their own or where it is essential for Government to provide the entrepreneurship;

    b) The government will divest its shares in companies where it does not have a majority stake and where it is not essential for Government to have effective control;

    c) Unlisted Government companies will, where possible, be listed on the stock exchange;

d) For critical companies which are considered to be vital to the national interest, Government will maintain a controlling interest but will invite participation from the public through listing on the stock exchange.'

18. *Bank Soundness and Macroeconomic Policy* by the International Monetary Fund

19. Article 82 of the Law of Credit Institutions of Vietnam introduces the possibility of applying the capital adequacy requirement contained in the Basle Agreement and requires banks to maintain reserves for assets based on their asset risk weighting.

20. The use of either of existing international accounting standards: International Accounting Standards or Generally Accepted Accounting Principles is acceptable.

21. In 1994, the Singapore Information Technology Usage Survey showed that overall level of computerization in Singapore's financial sector was 90%.

22. In 1986, Arthur Andersen conducted an in-depth study of opinions regarding banking technology. Six hundred respondents comprising bankers, retailers, experts from 17 European countries were surveyed. The results suggest that technology is a central strategic issue for banks and will be crucial in determining their success.

23. MAS announced a five-year incentive scheme in 1992 under which double tax deduction was given to high value-added activities such as derivative trading, swap transaction, technical software for trading, risk management services employing sophisticated high technology, financial research and financial engineering.

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Le Minh Tam

Table 1 Some Figures of the Vietnam Commercial Banking System
(In Trillion Vietnamese Dong -VND)

	1992	1993	1994	1995	1996	Sept.,1997
Total asset	23.41	27.31	36.88	44.13	50.32	65.10
Total deposits						
Capital & reserves	2.35	2.69	4.69	5.29	6.02	7.52
Total loans outstanding end of period	15.09	23.18	33.34	42.28	50.75	56.92
Overdue loans	n.a.	n.a.	3.15	3.33	4.72	7.23

Source: IMF

Table 2 Gross Domestic Products Contribution (%)

Year	1993	1994	1995	1996	1997
Banking, finance & insurance	1.7	2.0	2.4	2.4	2.3

Source: Vietnam Country Report 1998 - Economist Intelligence Unit

Table 3   Foreign Direct Investment (USD Billion)

	1991	**1992**	**1993**	**1994**	**1995**	**1996**	**1997**	**1998**
Capital Registered	1.3	2.02	2.7	4.1	6.65	8.7	4.55	1.9*
Capital Realised	0.25	0.4	1.1	1.95	2.7	2.7	3.25	1.5*

Source: The Vietnam Economic News No. 52 - 1998

(*) Estimated

Table 4   Percentage of Overdue Loan/Total Loan Outstanding

	1994	1995	1996	1997
Percentage of overdue debt/total loan outstanding	9.5	7.9	9.3	12.7

Source: Vietnam Country Profile - Economist Intelligence Unit

Table 5 Number and Type of Financial Institutions in Singapore, End of March 1998

Financial Institutions	Number
Commercial Bank	154
Merchant bank	80
Finance company	19
Insurance company	163
Stockbroking company	90
Investment advisor	156
SIMEX member	61

Table 6 Comparison of Banking Taxation

Tax	Vietnam	Singapore
GST/VAT on banking services	10% for all types of commission and fee from all banking services except lending; 0% for lending activities both in foreign currencies or local currency.	0% for all banking services[1]
Corporate income tax on banking business (percent on total profit)	25% for joint-venture or foreign bank's branch; 32% for local banks	26% for on-shore banking activities; 5%-10% for off-shore banking activities[2]

[1] Item 1(a)-(p) in Schedule 4 in the Singapore Goods and Service Tax Act.
[2] 10% for off-shore banking services such as L/Cs, loans and financial services to person/entity outside Singapore; 5% for financial institutions which have operated in Singapore for at least three years and for which the income from such activities is at least SGD10 millions

Table 7 Singapore's economic performance

	1970	1975	1980	1985	1990	1995	1996	1997	1998
GDP growth rate (%)	13.4	4.0	9.7	-1.6	9.0	8.7	6.9	7.8	1.3
Balance of payment	564.8	966.4	1419.3	2941.7	9892.5	12,173.9	10,406.6	11,855.7	17,41bn
Finance & insurance services (percent of GDP)	14.7	12.5	17.9	12.8	11.9	7.0	7.8	11.0	30.9

Source: Singapore 1997 Statistical Highlights - Singapore Department of Statistics

Figure 1. Research Framework

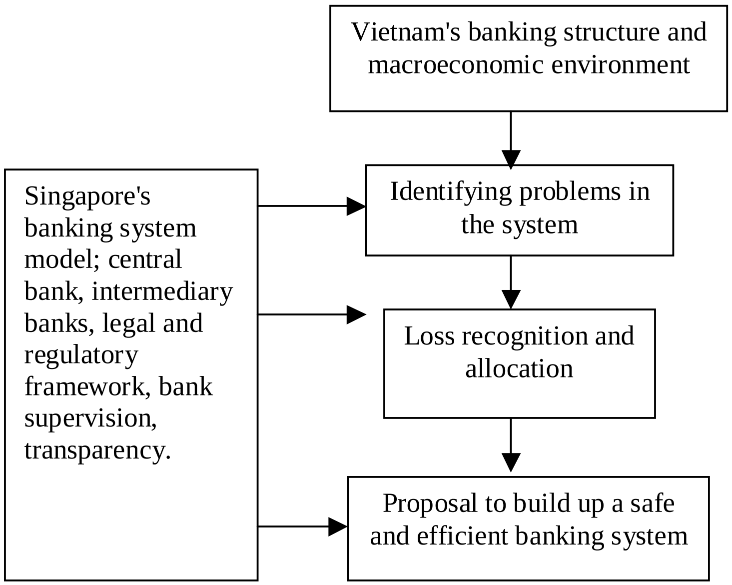


Figure 2. Vietnam's Banking System Organisation

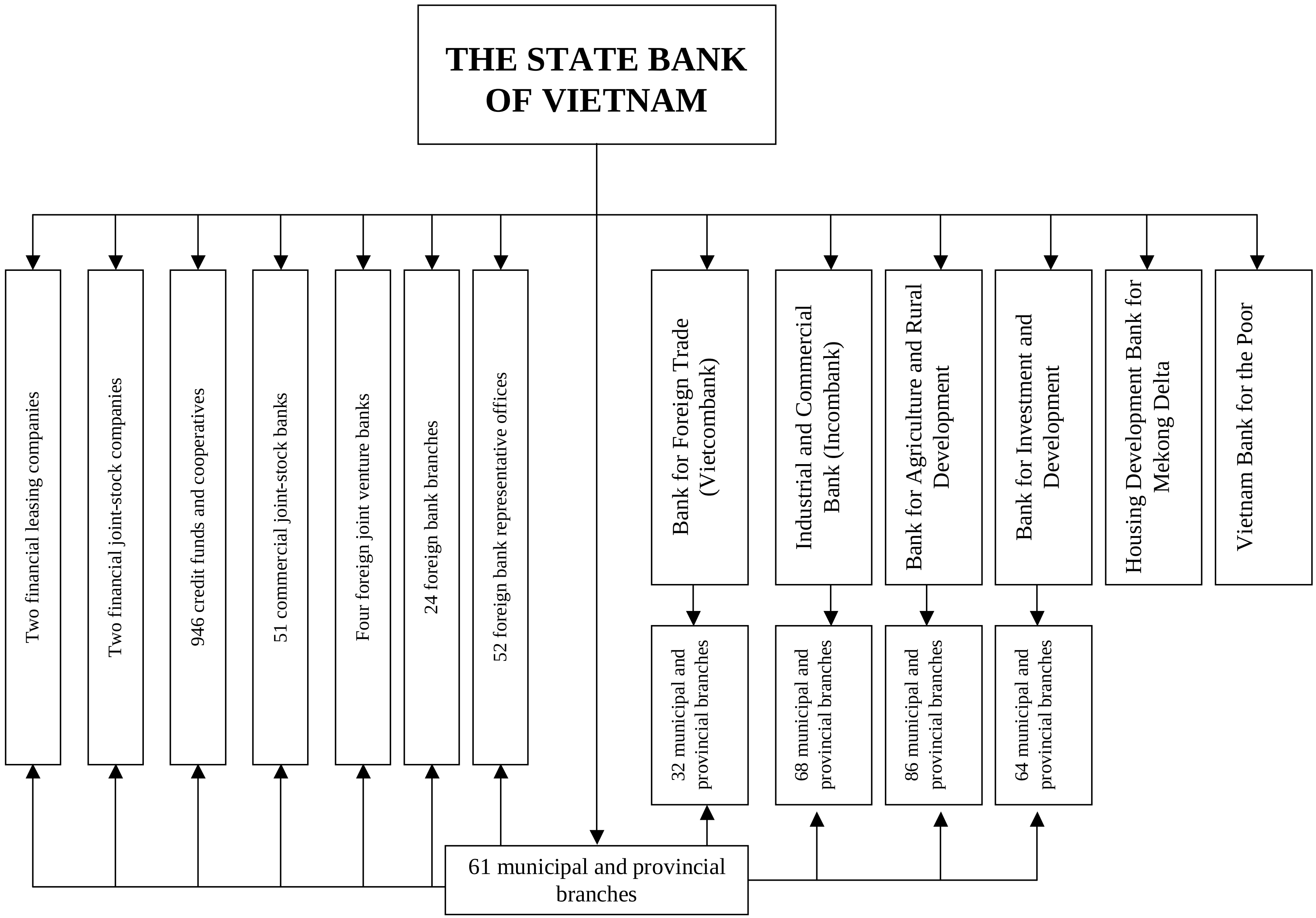


Figure 3: GDP growth rate

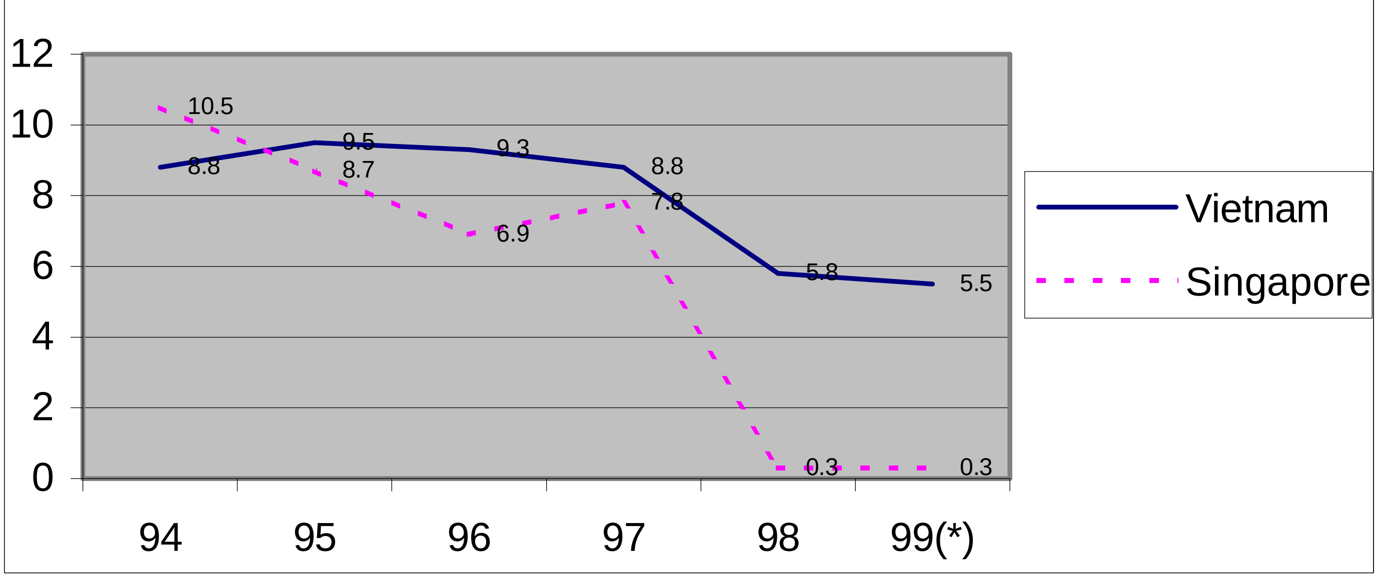


Figure 4. Growth rate (%) of foreign trade

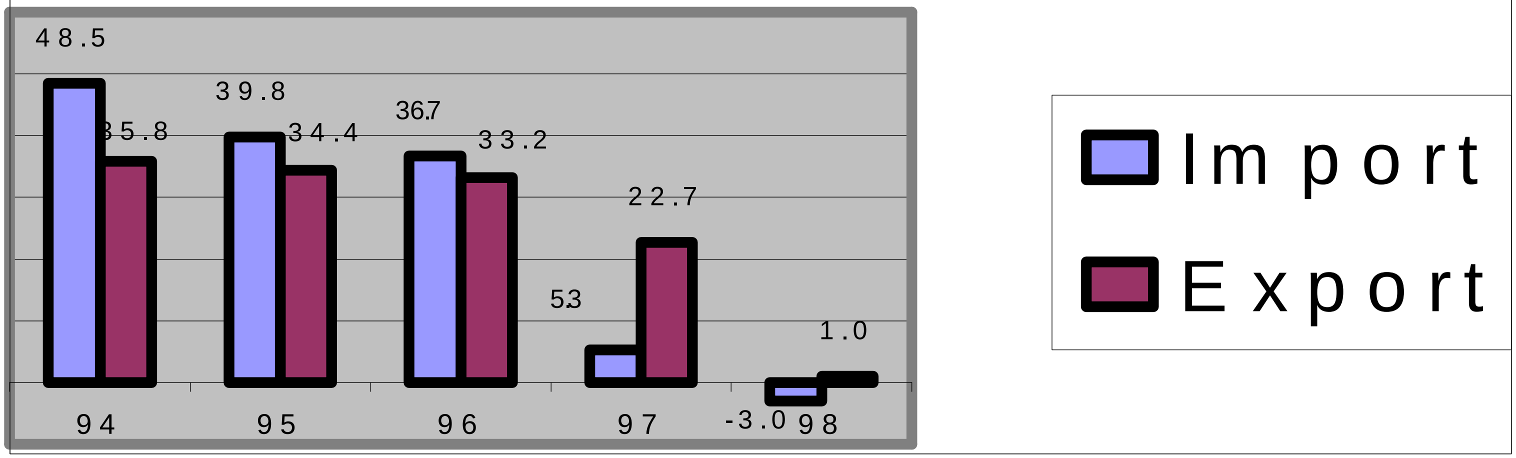
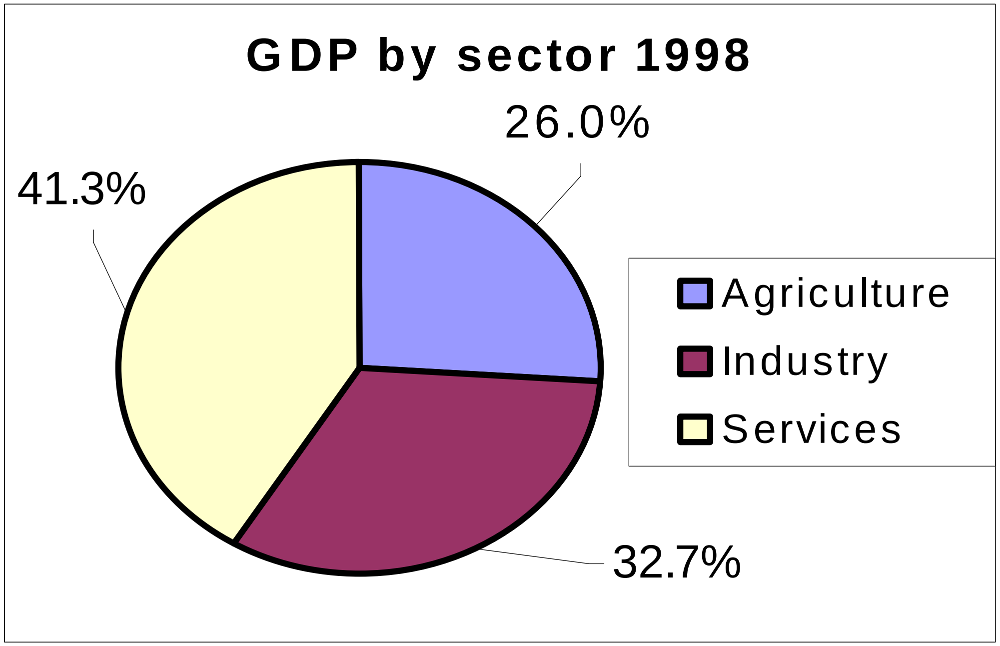
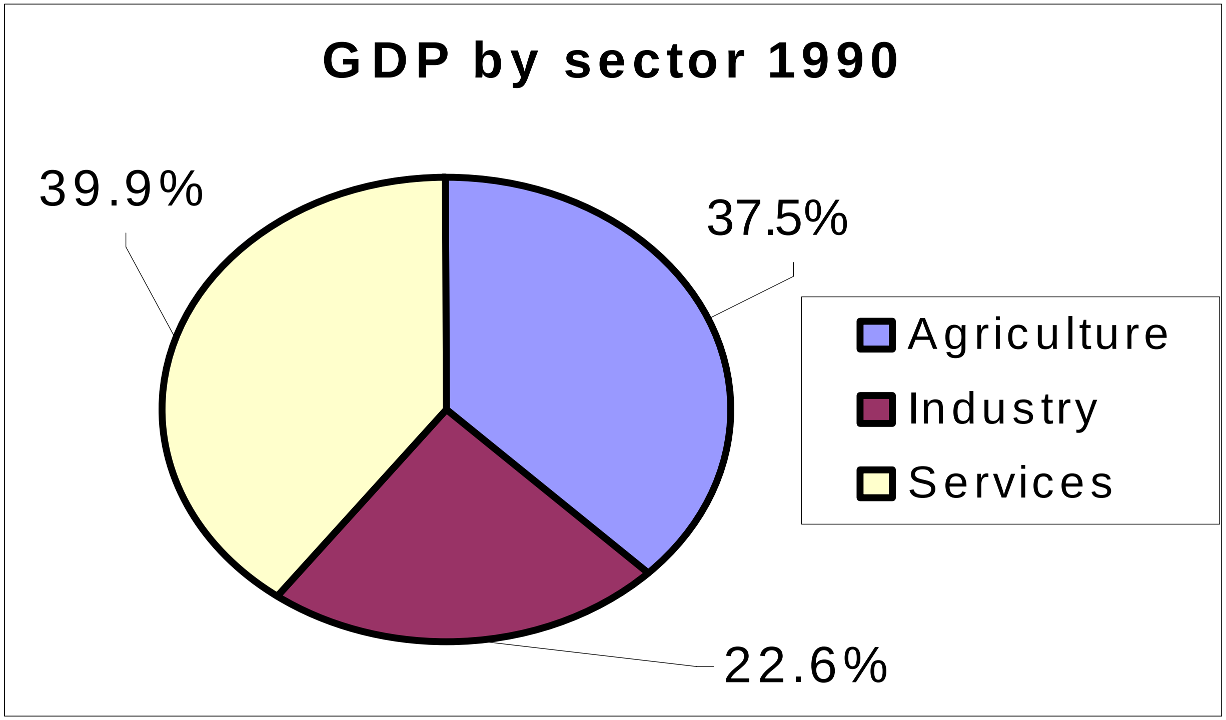


Figure 5A. GDP by Sector, 1998



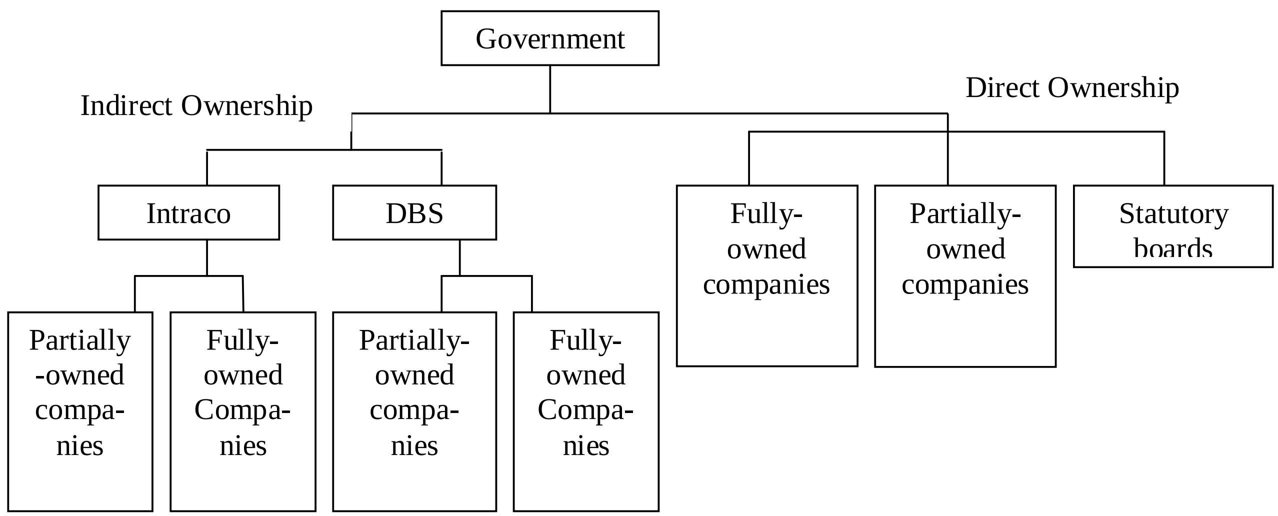
Source: Vietnam Country Report - The Economist Intelligence Unit

Figure 5B. GDP Sector, 1990



Source: Vietnam Country Report - The Economist Intelligence Unit

Figure 6. Government Participation in the Corporate Sector, Singapore



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