INTERNATIONAL CONFERENCE

UNDERSTANDING AND ANALYSING FINANCIAL SOUNDNESS INDICATORS

Hanoi, 26-27 June, 2014

Conference on Understanding and Analysing Financial Soundness Indicators

26-27 June 2014, Sheraton Hotel, Hanoi, Vietnam

Agenda

Time	Description	Speaker
08.00-09.00	Registration and Morning Tea	
09.00-09.45	**Opening Remarks**	Tomoyuki Kimura Country Director, ADB-VRM
SESSION 1	**Recent Demands on Macro-Prudential Policy Analysis and Role of FSIs**	
09.45-10.15	**a)** ***Financial Soundness Indicators: A supplement to Macro-Dynamism in Vietnam***	Guntur Sugiyarto Senior Economist, ADB-ERD
10.15-10.30	***Q&A***	
10.30-10.45	***Break***	
10.45-11.15	***b) A Financial Assessment for Vietnam Using Financial Soundness Indicators: Results from Academic Research.***	Nguyen DucThanh Director, VEPR
11.15-11.30	***Break***	
11.30-12.00	**Open Discussion**	Guntur Sugiyarto Senior Economist, ADB-ERD
12.00-13.30	**Lunch for Networking**	
SESSION 2	***Measuring and Compiling FSI Statistics*** **in Vietnam**	
14.00-14:30	***Compiling FSIs: Technical Challenges and Lessons Learned***	Nguyen Thi Ngoc Ha National Financial Supervisory Commission
14.30-16.00	**Open Discussion**	Guntur Sugiyarto Senior Economist, ADB-ERD

Agenda

Day 2: 27June, 2014

Time	Description	Speakers/Discussants
09.00-09.30	Registration and Morning Tea	
SESSION 3	**Investment Climate Assessment in Vietnam**	
09:30-10:00	***a) Growth Diagnostics for Vietnam: Challenges and Opportunities from an Investigation on FSIs Statistics***	Nguyen DucThanh Director and Pham Van Dai Researcher, VEPR
10.00-10:30	***b) Current Financial Development in Vietnam: Enhancing or Restraining Economic Growth?***	Le Xuan Sang Director Department for Macroeconomic Policy and Integration Studies, CIEM
10.30-11.30	**Open Discussion**	Guntur Sugiyarto Senior Economist, ADB-ERD
11.30-12:00	**Closing Remarks and Bestowing of FSI Manual**	Nguyen Duc Thanh, VEPR

TOMOYUKI KIMURA

Tomoyuki Kimura is the country director of the Asian Development Bank's (ADB) Viet Nam resident mission. In this post, he is responsible for setting the priorities for the ADB's assistance program to Viet Nam. Mr. Kimura has held numerous high-ranking posts at the ADB.

Prior to this, Mr Kimura was an assistant vice president at Fuji Bank in New York; deputy director of the India and Nepal division of the Overseas Economic Cooperation Fund; and country director for Bangladesh and Sri Lanka at the Japan Bank for International Cooperation in Tokyo.

Mr. Kimura is a graduate of Kyoto University in Japan, and has a master's degree in finance and management from the Kellogg Graduate School of Management at Northwestern University.

Dr. GUNTUR SUGIYARTO

Dr. Guntur Sugiyarto is Senior Economist at the Economics and Research Department, of the Asian Development Bank.

Before joining ADB, he was a research fellow at the Nottingham University Business School, United Kingdom (UK). He was also Chief of Subdivision of Economics Statistics Analysis and Development of Central Bureau of Statistics, Indonesia.

He holds a bachelor degree in Statistics from the Academy of Statistics, Indonesia, Post Graduate Diploma at Department of Economics, Warwick University, United Kingdom, and has master on economics at Warwick University UK and received his doctorate in economics at Nottingham University, United Kingdom. He has written numerous papers and articles in books, chapters of books, book reviews, official publications, journal articles, working paper series, policy briefs, conference/seminar/workshop papers, learning program materials, newspaper articles, training materials and others.

Financial Soundness Indicators: Supporting Macro-Dynamism in Viet Nam

Guntur Sugiyarto
Economics and Research Department ADB

RETA 7743: Conference on Understanding and Analyzing FSIs.
Viet Nam, 26-27 June 2014

1

Outline of Discussion

- FSIs: Brief Overview
- FSIs for Macro-prudential Analysis
- FSIs for Financial Sector Assessment
- The Way Forward

2

1. FSIs: A Brief Overview

3

What are FSIs?

- Financial Indicators
  - to monitor the soundness of a financial institution and financial system
  - to detect or assess a systemic risk to the financial system
- Including indicators of markets in which institutions operate
- Together with other macro economic indicators comprise macro-prudential indicators
- Best for prioritizing areas for follow-up: the contexts that are meaningful, not the ratios or FSIs themselves.

4

FSIs Users …

- Central Banks: to monitor risk to monetary policy
- Supervisory Bodies: to assess risks to individual banks and other financial institutions
- Private Sectors: to assess risks to investments
- International Organizations (IMF, WB, ADB): to perform country and global surveillance of the financial sector
- ADB: to complement the Early Warning Systems (EWS)

5

FSIs types …

- **Core Indicators**
  - Capital Adequacy, Asset Quality, and Earning and Profitability, Liquidity, Sensitivity to Market Risk.
  - Essential to banking sector due to its central role in financial stability
  - Can be compiled by many countries with existing data
- **Encouraged Indicators**
  - Additional banking indicators including other financial institutions and markets (non bank , corporate and real estate sectors)
  - May require additional analytical work

6

FSIs Analysis…

- Studying trends and identifying the build-up of risks and vulnerabilities
- Comparing with peer groups or countries
  - Example: different risks to domestically controlled banks (state-owned banks, large banks, complex groups) or foreign-owned banks (subsidiaries and branches of large global banks, subsidiaries and branches of smaller foreign banks)
- Disaggregating to identify specific source of vulnerability
- Assessing risks among [and between] FSIs

7

FSI Risk Assessments …

- Capital adequacy – indicates capacity to absorb losses
- Asset quality – indicates additional provisions need to be taken; a possible vulnerability when banking sector has a concentrated exposure
- Banking sector earnings and profitability
- Banking sector liquidity – a key source of systemic risk
- Market risk – needs stress tests in abnormal market environments
- Other Risk Assessments for the banking sector

8

FSI Risk Assessments …

- Non-bank financial sector – an early warning indicator of potential banking sector problems
  - Corporate sector – indicate risk of default; detect indirect credit risk arising from shocks
  - Real estate sector – detect potential bubble
  - Insurance – focus on liability risk
  - Securities markets – indicates liquidity of markets in which bank assets are traded or banks' capacity to obtain liquidity by liquidating assets
  - Household sector FSIs

FSIs Complementary…

- Stress tests
  - Use what-if scenarios
  - Use FSIs as the "baseline" for stress test shocks
- Assessments to indicate how effectively banks and supervisors respond to risks revealed by FSIs
- Assessments to see the robustness of financial infrastructure
- As part of early warning systems

2. FSI for Macro-prudential Analysis

11

Sound and Stable Financial System

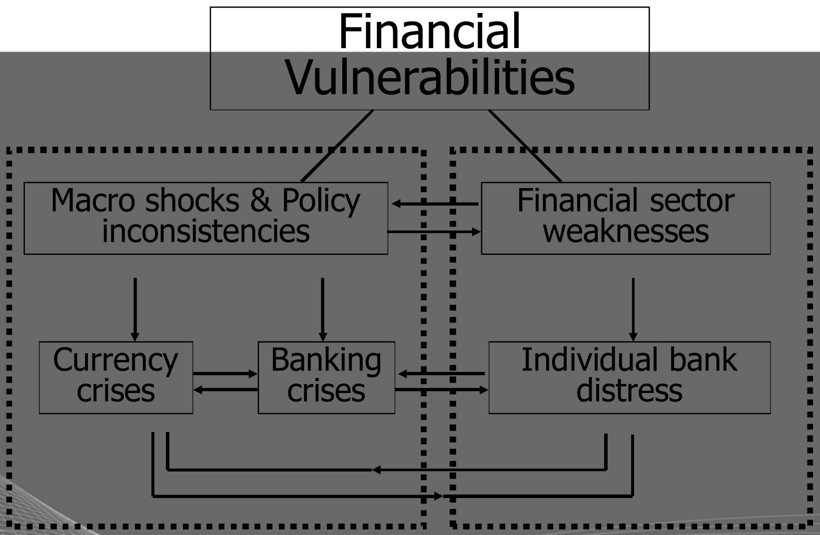
- Financial institutions, markets and infrastructures work efficiently and can absorb adverse disturbances
- Financial system facilitates an efficient allocation of financial resources from savers to investors
- Financial risks are priced and assessed adequately and the risks are efficiently managed

12

Macro-prudential and FSI

- Compiling and monitoring FSI is a crucial step to maintain the soundness of financial sector and economy;
- While, FSI includes both macro-and-micro indicators, macro-prudential assessment can be weak;
- FSI has strength for micro-prudential monitoring, but better to be complemented with macro-prudential aspect;
- Macro-prudential indicators are generally cautious on the growth of indicators (e.g. in credit and money supply growth), and sometimes can issue warning signal before FSI.

13



14

Origin of Vulnerability:	Macro shocks & Policy inconsistencies	Financial sector weaknesses
Type of Indicators:	• **Current account**: External trade and balance, REER • **Capital account**: Foreign reserves, total/ST external debt, interest rate differential • **Monetary sector:** Monetary condition, real interest rate • **Fiscal sector:** Fiscal deficit & financing, public sector debt • **Real sector:** Economic growth, inflation, stock prices • **Global economy:** Commodity prices, global interest rates, global growth	• Capital Adequacy • Asset Quality • Management Soundness • Earnings & Profitability • Liquidity • Sensitivity to market risks • Market indicators • Other indicators of NBFIs

15

Leading indicators used by ADB's Early Warning System (VIEWS)

- Current Account
  - Exports
  - Imports
  - Trade balance/GDP
  - Current account balance/GDP
  - Real exchange rates
- Capital Account
  - Reserves
  - Short-term debt/reserves
  - M2/reserves
  - Foreign liabilities/foreign assets
  - Deposits in BIS banks/reserves
- Financial Sector
  - NPL ratio
  - Capital adequacy ratio
  - Real commercial bank deposits
  - Lending-deposit rate spread
  - Real interest rate
  - Excess M1
  - M2 multiplier
  - Domestic credit/GDP
- Real Sector
  - Industrial production
  - Stock price
- Fiscal Sector
  - Fiscal balance/GDP
  - Government consumption/GDP
  - Government debt/GDP
  - Central bank credit to public sector/GDP
- Global Economy
  - Oil price
  - US real interest rate
  - Real $/yen exchange rate
  - US annual GDP

•VIEWS (Vulnerability Indicators and Early Warning System) for Economic and Financial Monitoring is developed by ADB

•Non-parametric model; Signal approach

16

Macro-prudential Indicators for Southeast Asia

Country	Current Account Balance	Trade Balance (G&S)	Remittance Inflow (Gross)	Fiscal Balance
Brunei Darussalam	33.5%	…	…	17.5%
Cambodia	-8.6%	…	1.8%	-2.3%
Indonesia	-2.6%	1.0%	0.8%	-1.8%
Lao PDR	2.3%	-2.2%	1.3%	-1.4%
Malaysia	6.4%	13.4%	0.4%	-4.5%
Myanmar	-1.04%	1.54%	0.7%	-3.2%
Philippines	2.8%	-6.1%	9.8%	-2.3%
Singapore	18.6%	22.0%	…	…
Thailand	0.7%	2.2%	1.1%	-2.3%
Viet Nam	5.8%	6.3%	6.4%	-4.0%

Macro-prudential Indicators for Southeast Asia

Country	Investment	Saving	IS Gap	FDI Inflow
Brunei Darussalam	13.6	62.3	-48.7	…
Cambodia	16.2	12.3	3.9	11.1
Indonesia	35.3	36.6	-1.3	2.2
Lao PDR	…	…	…	…
Malaysia	25.5	37.4	-11.9	3.2
Myanmar	18.9	15.8	3.1	…
Philippines	18.5	15.3	3.2	1.1
Singapore	27.0	49.2	-22.2	20.5
Thailand	28.7	29.4	-0.7	2.2
Viet Nam	29.8	25.8	4.0	…

3. FSI for Financial Sector Assessment

19

Financial sector assessment (1)…

- Established in 1999 to conduct comprehensive analysis of a country's financial sector
- Financial stability dimension:
  - The soundness of banking and other financial sectors including in facing stress (i.e. stress tests)
  - Quality of bank, insurance, and financial market supervision against accepted international standards
  - Ability of supervisors, policymakers, and financial safety nets to respond effectively in case of systemic stress

20

Financial sector assessment (2)…

- Financial development dimension
  - ➢ Quality of the legal framework and financial infrastructure such as the payments and settlements system
  - ➢ Competitiveness and efficiency of the sector
  - ➢ Contribution to economic growth and development
  - ➢ Access to banking and financial services
  - ➢ Development of domestic capital markets

21

FSA for VIE…

- Crisis Management and Bank Resolution
  - ➢ Establish formal crisis management team and develop a crisis management strategy and contingency plan.
- Financial Sector Supervision :
  - Establish fit and proper criteria for bank ownership, to determine the source of capital, and to mandate changes in the ownership.
  - Apply capital and other prudential requirements on a consolidated basis; and
  - Facilitate cooperation and allow for information sharing among domestic financial sector supervisors.

22

FSA for VIE (2)…

- Financial Sector Development :
  - Develop financial sector infrastructure to lower payments system and to increase a widespread use of electronic payment instruments;
  - Develop a national strategy to improve access to address financial services in the country, especially in rural areas; and
  - Diversify investments.

23

Macro-prudential policy …

- No single universally accepted definition
- Broad consensus: should limit the risk and costs of systemic crisis, but differences in specific goals and objectives
  - Act as a countervailing force to the decline in measured risks during a boom and the rise in the subsequent bust
  - Ensure stable provision of financial intermediation services to the real economy
  - Limiting the risk of episodes of system-wide distress that have significant macroeconomic costs

24

Coverage of Macro-prudential policy…

- Monetary policy
  - Low interest rates can inflate credit bubble
  - Rising interest rates can impair credit quality
- Fiscal policies
  - Unsustainable fiscal policy can result in a sovereign crisis
- Exchange rate policies
  - Unsustainable fiscal policy can result in a sovereign crisis
- Other government policies
  - Adverse effect of mortgage interest tax deductions can provide incentives for households to be highly levered

25

FSIs for Macro-prudential instruments

- If a build-up of systemic risk is detected, what happens next?
- Ways to change behaviour to increase resiliency
  - Introduce measures to specifically address systemic risk
  - Recalibrate micro-prudential standards
  - Apply tools to mitigate structural vulnerability and limit spill overs

26

Challenges in Implementing FSIs

- Assessing the level of risk accepted (Benchmarking)
- Detecting vulnerabilities at the beginning
- Identifying appropriate level to compile FSIs
- Improving data quality and comparability within and across country

27

Challenges in Implementing FSIs…

- How to identify and monitor systemic risk
  - Identify other important indicators
  - Availability of even the basic data set—core and encouraged FSIs
  - Collection of better data on interconnectedness
- Institutional arrangements and Decision-making process
- Limited capacity for financial stability and macro-prudential analyses: data limitations and weaknesses in the institutions

28

Areas for Improving FSIs…

- Further improvements needed on developments of
  - Definitions and compilation guidelines
  - Indicators for non-bank financial sector
  - Indicators for households and real estate sectors
  - Analytical tools and stress testing
  - Benchmarking method
- Data availability of corporate sector

29

Thank You

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30

Dr. NGUYEN DUC THANH

Dr. Nguyen Duc Thanh earned his PhD in Development Economics from National Graduate Institute for Policy Studies (GRIPS), Tokyo, Japan in 2008. He has been a member of the Economic Advisory Group to the Prime Minister since September 2011.

Dr. Thanh has been teaching macroeconomics at leading universities in Vietnam. He was a senior researcher in the Policy Advisory Group at the Ministry of Finance from March 2007 to September 2008. In July 2008, he co-founded the Vietnam Centre for Economic and Policy Research (VEPR) at University of Economics and Business, Vietnam National University, Hanoi, and has been acting as VEPR's Director and Chief Economist since then.

Dr. Thanh publishes extensively in academic journals and is involved actively in the country's policy debates. He is the founder and chief editor of the influencing *Vietnam Annual Economic Reports*, which are widely recognized in the economic research and policy making profession. *The Report* has been annually published by VEPR since 2009.

Dr. Thanh is a member of the East Asian Economic Association. He is currently a member of the Policy Advisory Committee of the Organization for Vietnam Young Entrepreneurs, and economic adviser to several policy research programs, business associations, commercial banks and TV channels.

Good Policy, Sound Economy

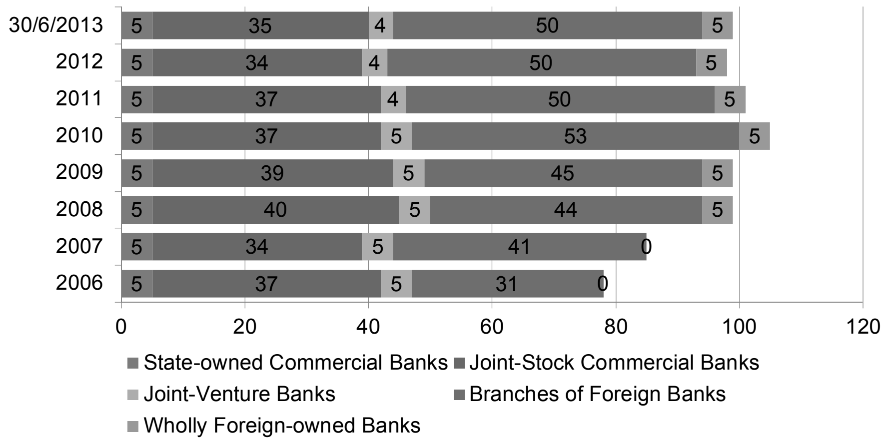
A Financial Assessment for Vietnam's Banking System using Financial Soundness Indicators

Nguyen Duc Thanh
Vu Minh Long

Contents

- The development of Vietnam's banking system
- An introduction to Financial Soundness Indicators (FSIs)
- A financial assessment for Vietnam's banking system using FSIs
  - Constraints for the calculation of FSIs in Vietnam
  - An analysis on calculated FSIs for Vietnam's banking system

Vietnam's banking system



Source: SBV's website

Good Policy, Sound Economy

Vietnam's banking system

Domestic credit provided by financial sector in selected countries, 2000-2010 (% GDP)

	2000	2005	2010
Lower middle income countries	50,57	49,91	58,73
Low & middle income countries	66,82	74,38	92,23
High income countries	174,87	181,12	197,45
China	119,67	134,30	146,28
India	51,19	58,36	71,94
Indonesia	60,68	46,20	36,39
Vietnam	32,57	65,40	124,66
Uganda	12,20	8,64	17,10
South Africa	152,46	185,89	191,66
Russia	24,93	22,12	37,45
Brazil	71,86	74,48	96,26

Source: World Bank (2013)

Financial Soundness Indicators (FSIs)

- FSIs are indicators of the current financial health and soundness of the financial institutions in a country, and of their corporate and household counterparts.
- FSIs include both aggregated individual institution data and indicators that are representative of the markets in which the financial institution operate. FSIs are calcuated and disseminated for the purpose of supporting macroprudential analysis. This is the assessment and surveillance of the strengths and vulnerabilities of financial systems, with the objective of enhancing financial stability and, in particular, limiting the likelihood of failure of the financial system.
- There are core and encouraged sets of FSIs. The core indicators are normally applied by most countries, while the encouraged ones are applied according to countries' specific characteristics.

Capital-based indicators

- Regulatory capital to risk-weighted assets (CAR)
- Capital to assets
- Return on equity (ROE)
- Nonperforming net of provisions to capital

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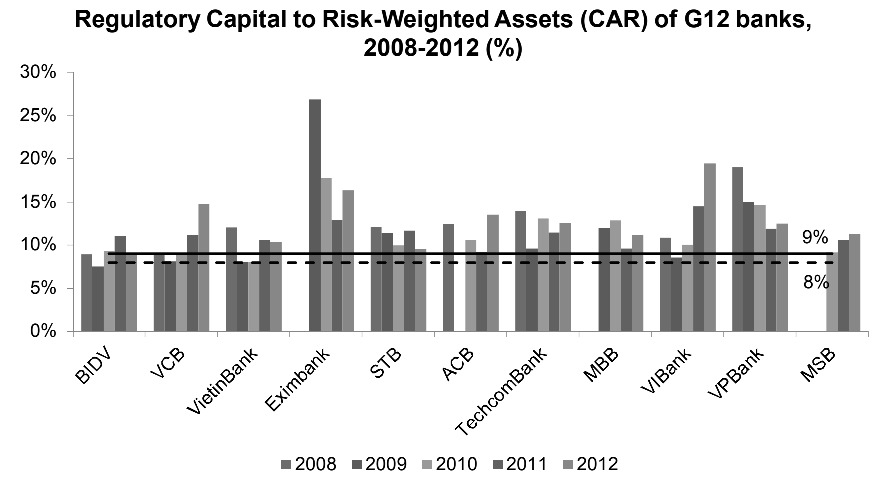
Regulatory capial to risk-weighted assets (CAR)



Source: Author's calculation from banks' financial statements

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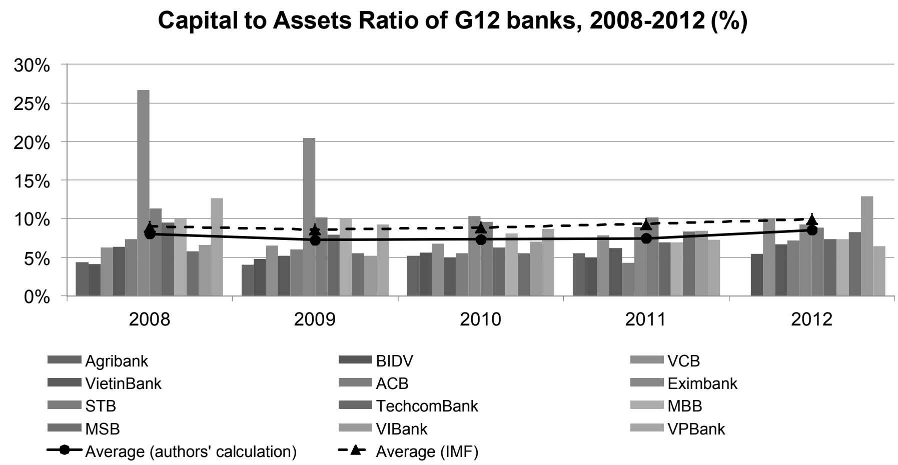
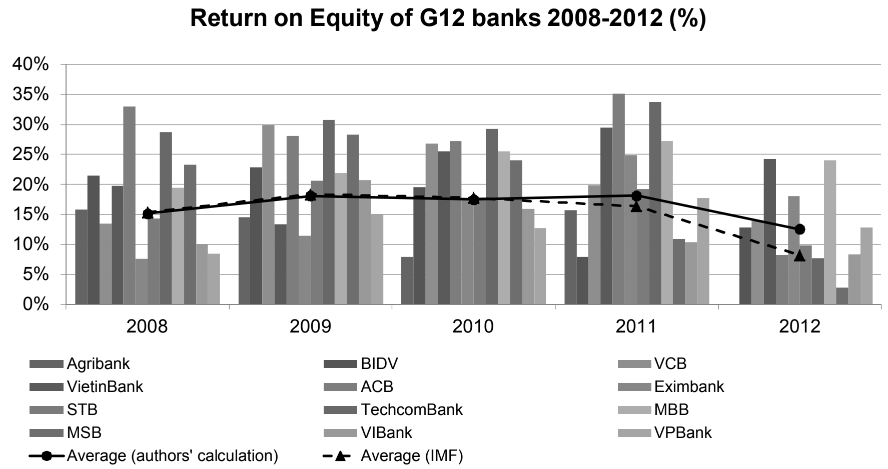
Capital to assets ratio



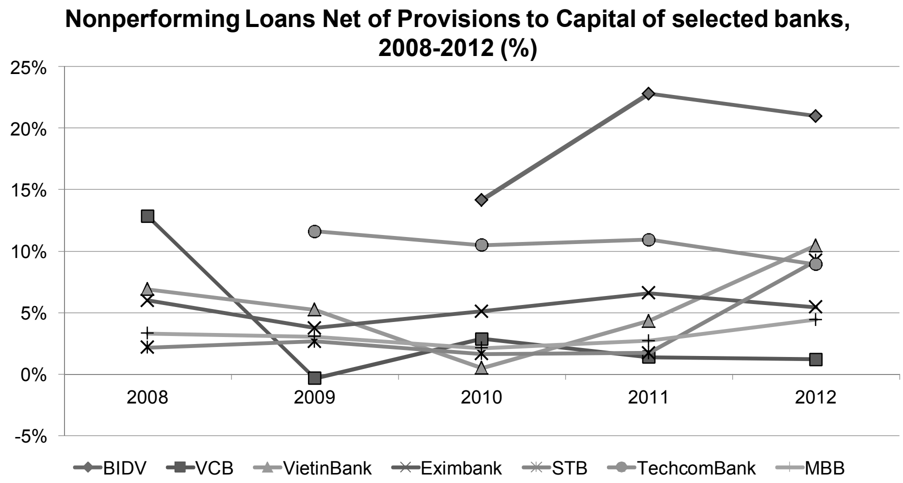
Source: Author's calculation from banks' financial statements

VEPR Return on equity (ROE)



Source: Author's calculation from banks' financial statements

VEPR Non-performing loans net of provisions to capital

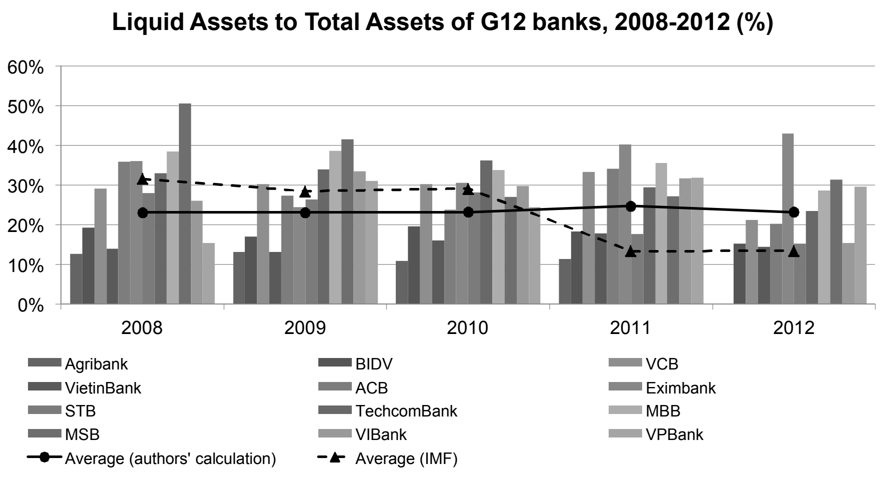


Source: Author's calculation from banks' financial statements

VEPR Asset-based indicators

- Liquid assets to total assets
- Customer deposits to total loans
- Return on assets (ROA)
- Nonperforming loans to total gross loans

VEPR Liquid assets to total assets



Source: Author's calculation from banks' financial statements

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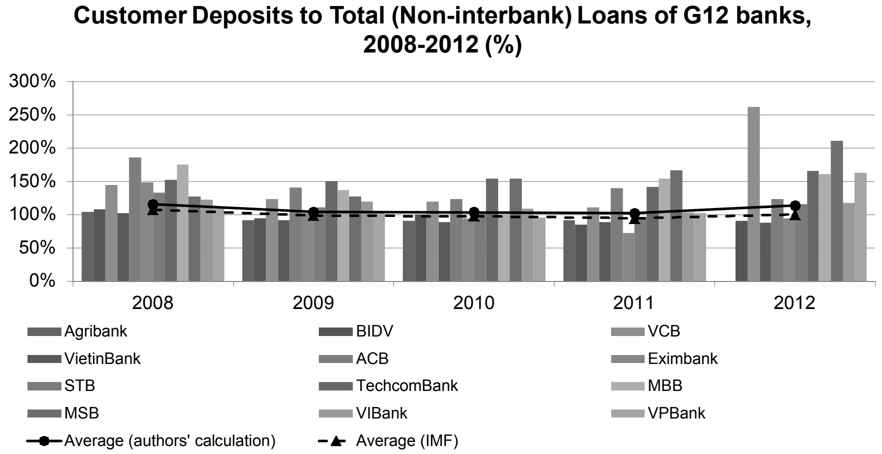
Customer deposits to total (non-interbank) loans



Source: Author's calculation from banks' financial statements

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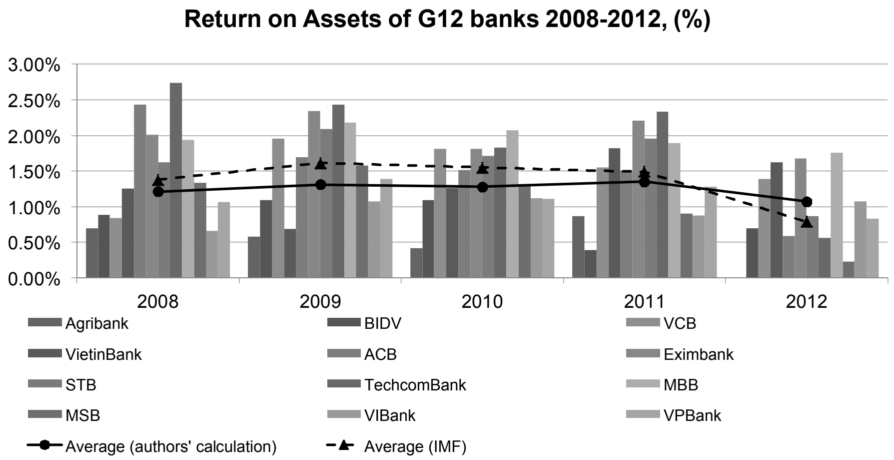
Return on assets (ROA)



Source: Author's calculation from banks' financial statements

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Non-performing loans to total gross loans

Nonperforming Loans to Total Gross Loans of selected banks, 2008-2012 (%)

	BIDV	VCB	Vietin Bank	Exim bank	STB	Techcom Bank	MBB
2008	2.71%	4.61%	1.81%	4.71%	0.60%	2.52%	1.92%
2009	2.82%	2.47%	0.61%	1.83%	0.64%	2.49%	1.73%
2010	2.71%	2.83%	0.66%	1.42%	0.54%	2.29%	1.35%
2011	2.96%	2.03%	0.75%	1.61%	0.58%	2.83%	1.61%
2012	2.92%	2.40%	1.47%	1.32%	2.05%	2.70%	1.86%

	DongA Bank	HD Bank	KienLong Bank	LienViet PostBank	MDB	NaVi Bank	Ocean Bank	PG Bank	PNB	SHB
2008	2.55%	1.93%	0.59%		0.80%	2.91%	1.44%	1.42%	2.31%	1.89%
2009	1.33%	1.10%	1.17%	0.28%	2.93%	2.45%	1.61%	1.23%	2.33%	2.79%
2010	1.60%	0.83%	1.11%	0.42%	1.26%	2.24%	1.67%	1.42%	1.84%	1.40%
2011	1.69%	2.36%	2.77%	2.14%	2.08%	2.92%	2.08%	2.06%	2.32%	2.23%
2012	3.95%	4.34%	2.93%	2.71%		5.64%	3.52%	8.44%	3.02%	8.83%

Source: Author's calculation from banks' financial statements

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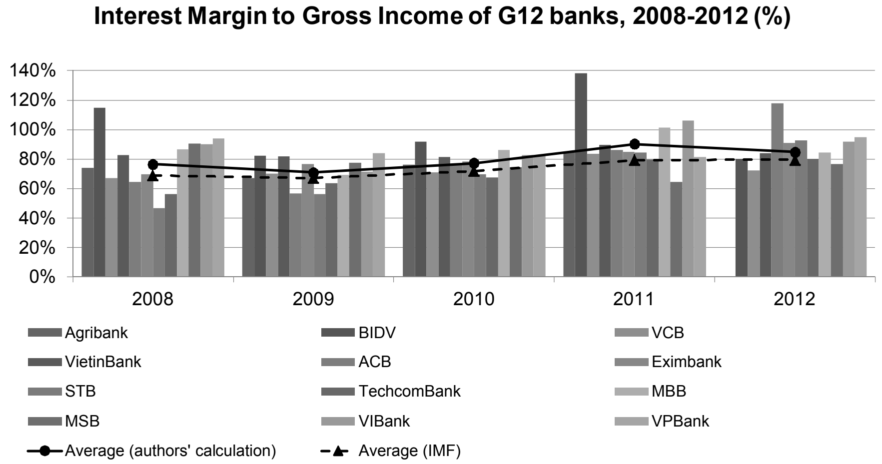
Income and expense-based indicators

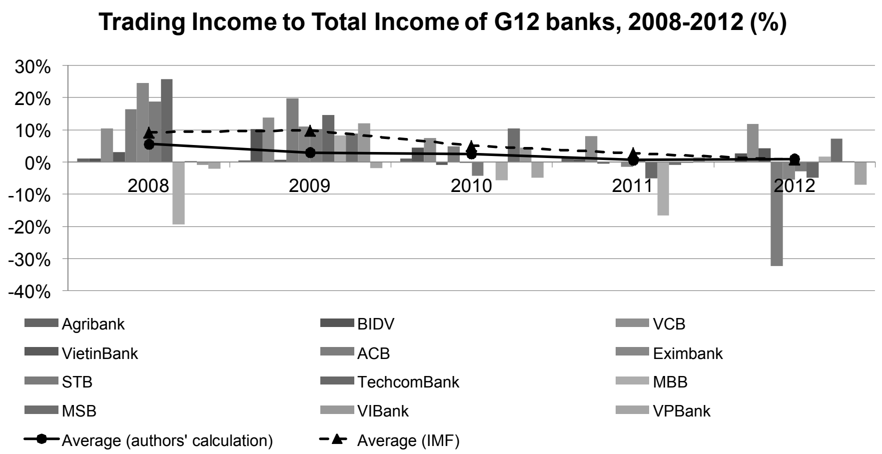
- Interest margin to gross income
- Trading income to total income
- Noninterest expenses to gross income
- Personnel expenses to noninterest expenses

VEPR Interest margin to gross income



Source: Author's calculation from banks' financial statements

VEPR Trading income to total income



Source: Author's calculation from banks' financial statements

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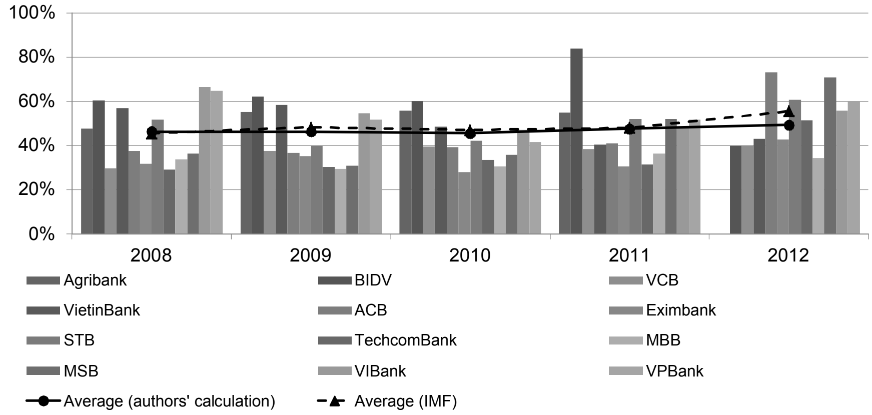
Non-interest expenses to gross income

Noninterest Expenses to Gross Income of G12 banks, 2008-2012 (%)



Source: Author's calculation from banks' financial statements

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Personnel expenses to non-interest expenses

Personnel expenses to noninterest expenses of selected banks, 2008-2012 (%)

	Agri bank	BIDV	VCB	Vietin Bank	ACB	Exim bank	STB	Techcom Bank	MBB	MSB	VP Bank	Average
2008	54.72%	60.03%	47.02%	59.44%	43.45%	46.91%			42.13%	42.78%	41.61%	**53.15%**
2009	51.98%	66.32%	56.78%	56.69%	47.06%	50.55%	45.61%	50.21%	45.88%	48.76%	43.53%	**53.25%**
2010	54.73%	60.62%	56.87%	57.55%	44.94%	53.01%	52.55%	47.52%	45.23%	45.26%	44.00%	**53.36%**
2011	56.78%	63.51%	55.94%	54.80%	50.02%	55.03%	57.28%	56.27%	43.82%	46.06%	52.80%	**53.07%**
2012		49.93%	55.75%	52.87%	44.13%	48.73%	51.35%	42.14%	52.90%	43.89%	42.41%	**47.80%**
	AB Bank	**BaoViet Bank**	**DongA Bank**	**HD Bank**	**LienViet PostBank**	**MDB**	**NaVi Bank**	**Ocean Bank**	**PG Bank**	**PNB**	**SHB**	**VietCapital Bank**
2008	37.48%	41.27%	38.18%	51.80%	44.47%	55.70%	44.11%	36.36%	37.68%	57.43%	44.82%	56.02%
2009	40.44%	41.19%	38.52%	45.87%	34.32%	61.75%	47.70%	39.29%	46.96%	53.59%	42.17%	57.15%
2010	42.61%	41.85%	37.47%	48.08%	32.70%	58.01%	44.47%	40.61%	45.84%	50.69%	41.18%	51.22%
2011	42.30%	38.50%	48.61%	44.95%	38.61%	64.45%	49.31%	33.05%	44.36%	47.02%	45.38%	43.07%
2012		36.71%	41.63%	37.90%		55.87%	37.67%	36.80%	39.64%	55.12%	43.60%	41.57%

Source: Author's calculation from banks' financial statements

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Incalculable core indicators

- Regulatory capital to risk-weighted assets
- Regulatory Tier I capital to risk-weighted assets
- Net open position in foreign exchange to capital
- Sectoral distribution of loans to total loans

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Overall assessment of the banking system's soundness

- The capital adequacy ratio was always higher the 8% minimum requirement of the Basel Committee, and even well above the 9% minimum requirement of the State Bank of Vietnam. However, the asset quality has not remained secure recently because of high nonperforming loans.
- The indicators measuring earnings and profitability all decreased, despite impressive growth in the past .
- The indicators measuring liquidity also showed a decreasing trend.

MSc. NGUYEN THI NGOC HA

Nguyen Thi Ngoc Ha is the Head of Macroeconomics Research and Forecast Department in the National Financial Supervisory Commission.

Prior to this, she holds a bachelor degree in Business Management from Hanoi National Economics University, holds Master degree on Business Administration at French – Vietnamese Centre for Management Training (CFVG), Hanoi National Economics University.

She has had 4 years working experience in financial supervision as researcher and analyst, 4 years working experience in banking sector as Relationship Manager in commercial banks. She has also become visiting lecturer on measuring management performance for University of Social Sciences and Humanities, VNU Hanoi since 2008.

APPLICATIONS OF FSIs TO FINANCIAL MARKETS SUPERVISION

MSc. Nguyen Thi Ngoc Ha
MSc. Vu Thi Minh Thu
Bui Vu Hong Trang

CONTENTS

- FSIs as part of financial market supervision in Vietnam
- Challenges and Limitations
- Recent results
- Conclusion

➢ *This presented content should not be reported as representing the views of the NFSC. The views expressed are those of the author(s) and do not necessarily represent those of the NFSC or NFSC policy*

FSIs as part of the financial market supervision

- 2009: Reports on Financial Markets Supervision (Banks, securities, and insurance)
- 2010: FSI calculation for the business sector, households, and the housing market
- FSIs played an important part in these reports
- April 2014: Overall report on the financial market in 2013

FSIs as part of the financial market supervision

- Recognition and analysis of the risks in the system
- Vulnerability of the financial market
- Cross-risks between sectors of the financial market
- Risk exposure between real economic sectors and the financial system
- Crisis forecasting and prevention

FSIs as part of the financial market supervision

- National Supervisory Financial Commission ‘s advantages in using FSIs
  - Access data from financial institutions: Banks, securities, insurance
  - Data storage for the non-financial corporation

CHALLENGES IN USING FSIs

- Data: Approach & Availability
- Differences in Accounting Standards
- VAS vs. IAS/IFRS leads to differences in:
  - For financial institutions
    - Equity
    - Provision for credit risk
    - Bad debt and loans provision
  - For non-financial corporate
    - Business Results

CHALLENGES IN USING FSIs

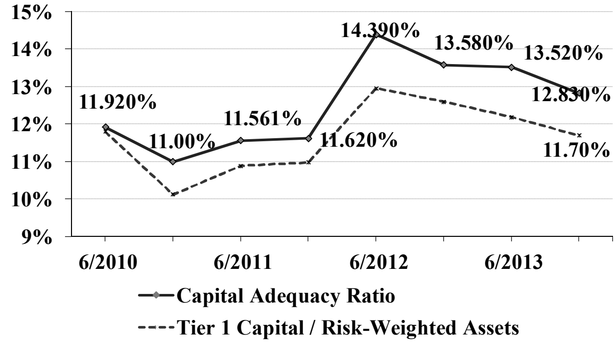
- Accounting for financial assets (IAS 39): recorded at fair value. Financial Institutions in Vietnam have failed to follow these standards. Consequences:
  - Difference in recognition of provision for credit risks
  - The value of the special G-bonds from State-owned commercial banks are higher according to VAS than by IAS -> Recognition of equity is different
  - Recognition of the value of derivative financial instruments
  - Recognition of the value of total assets
- Loans provision for nominated loans, according to state plans and frozen loans
- Did not classify loans in pursuant to IAS / IFR S standards

RESULTS OF USING FSIs

DEPOSIT – TAKERS: CORE SET

Figure 1: Capital Adequacy Ratio between 2010 – 2013

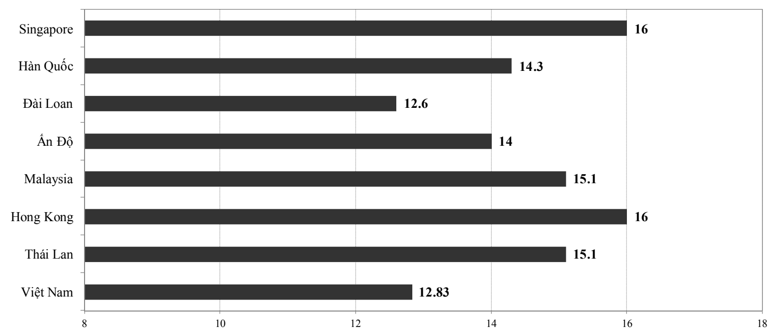
Unit: %



Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

DEPOSIT – TAKERS: CORE SET

Figure 2: CAR in selected Asian countries



Source: Overview Report of the Financial Market in 2013, National Supervisory Commission

Asian countries: as of 30/6/2013, Vietnam: as of 31/12/2013

DEPOSIT – TAKERS: CORE SET

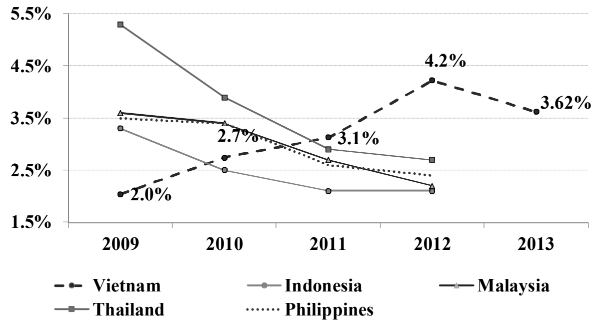
Table 1: Non-performing loans and overdue loans 2011-2013

	Dec 2011	June 2012	Dec 2012	June 2013	Dec 2013
Overdue loans	10,4%	12,5%	11,3%	10,8%	8,8%
Non-performing loans	3,1%	4,5%	4,2%	4,6%	3,6%

Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

DEPOSIT – TAKERS: CORE SET

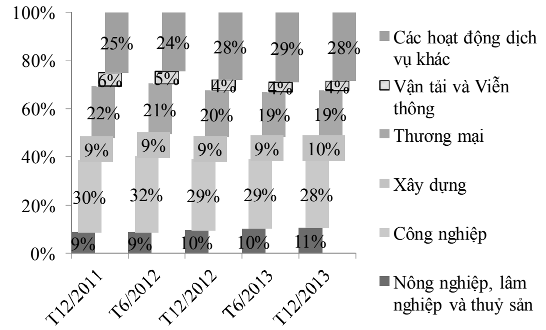
Figure 3: NPLs in selected countries



Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

DEPOSIT – TAKERS: CORE SET

Figure 4: Sectorial distribution of loans to total loans



Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

DEPOSIT – TAKERS: CORE SET

Figure 5: ROA, ROE 2009-2013

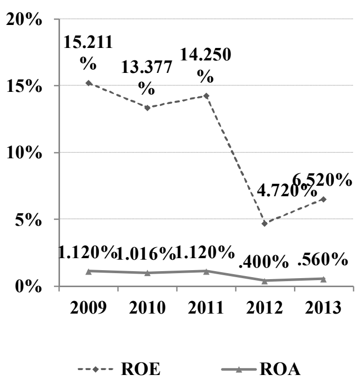
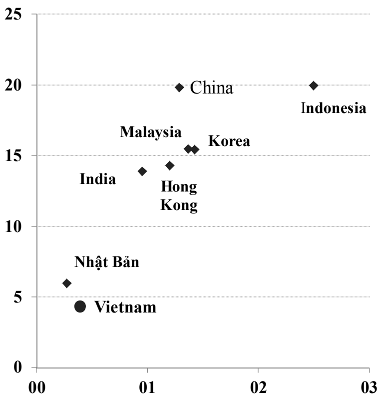


Figure 6: ROA, ROE of selected countries



Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

DEPOSIT – TAKERS: CORE SET

Figure 7: Interest income to gross income

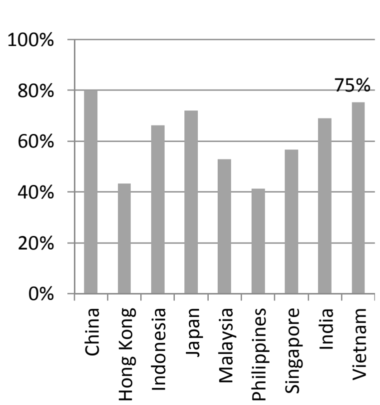
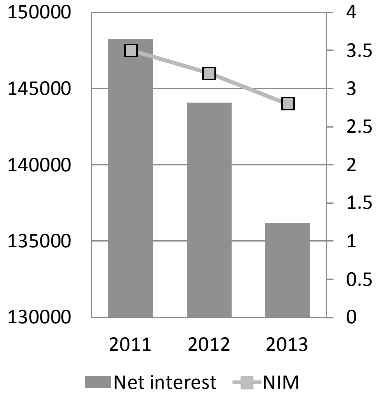


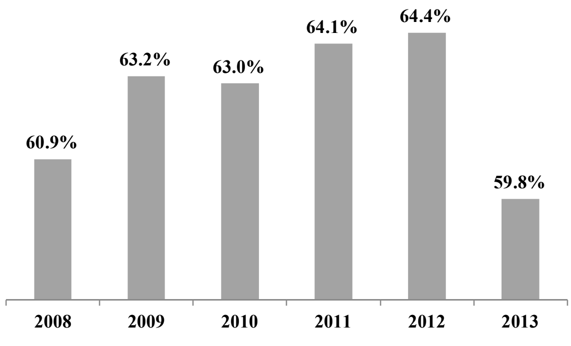
Figure 8: Interest income and Net Interest Margin (NIM)



Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

NON-FINANCIAL CORPORATION

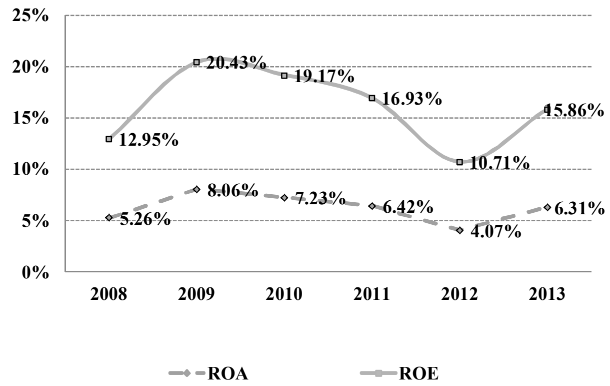
Figure 9: Debt/asset ratio during 2008-2013



Source: Overview Report of the Financial Market in 2013, National Financial Financial Supervisory Commission

NON-FINANCIAL CORPORATION

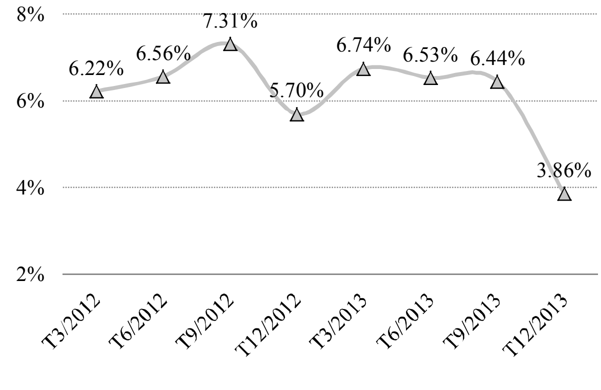
Figure 10: ROA, ROE 2008-2013



Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

REAL ESTATE MARKETS

Figure 11: Non-performing loans ratio of real estates sectors



Source: Overview Report of the Financial Market in 2013, National Financial Supervisory Commission

CONCLUSION AND POLICY IMPLICATIONS

- FSIs are effective for systematic risk supervision and early warning
- Limitations in accounting standards reduce FSI's usefulness in analysis of the level of financial safety, and in benchmark
- Limitations in applying International Accounting Standards: Objective vs. Subjective?
  - Commitment to integration and openness in the financial market
  - Programs aimed at reforming banking sector
  - Capacity of financial institutions: Asymmetric information, Incomplete internal credit rating system, information technology

THANKS FOR YOUR ATTENDANCE！

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Identifying Vietnam's Binding Constrains Using Growth Diagnostics Approach

Nguyen Duc Thanh, Ph.D.
Pham Van Dai, MA

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Introduction

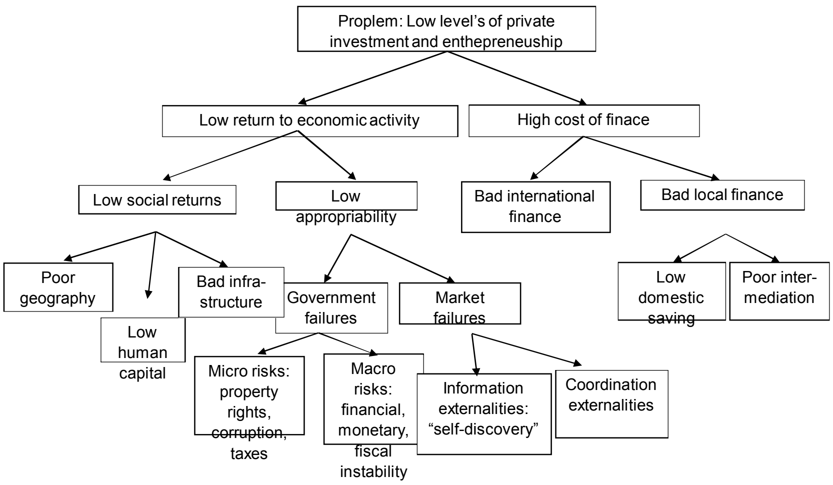
- Identifying growth constraints is practically important but is a complicated academic work.
- Washington consensus conventional approach tends to ignore the specific features of each economy, and apply general principles without any priority (Stiglitz, 2003).
- Growth diagnostic is a new approach and soon becomes popular among academic and policy makers.

VEPR Framework

- Decision tree Hausmann-Rodrik-Velasco (2005).
- Diagnostic principles:
  - High shadow price of constraints
  - A movement of constraint generates a significant movement of target function.
  - Agents attempt to overcome the constraints.
  - Agents less constrained tend to outperform agents more constrained .
- Matrix of tests Hausmann-Klinger-Wagner (2008).

VEPR Framework

Growth Diagnostic Problem Tree



Source: Hausmann, Rodrik and Valesco, 2005

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Framework

Matrix of tests HKW

Binding Finance		Binding social returns					
		Lack of complementary factors		Low appropriability			Coordination problem
				Government failure			Market failure
				Ex ante	Ex post		
Low average savings	Bad finance	human capital	Infrastructure and public goods	Ex ante risks	Tax	Low property rights, crime, corruption	Low R&D, Low self-discovery
High lending interest rate		Low lending interest rate					
Low net cash flow from banks		High net cash flow from banks					
Investment elastic to interest rate		Lack of investment response to interest rate change					
Access to external finance			Low infrustructure wrt comparable countries	High static markups and low entry, in industries with entry costs		Expropriation	Low sophistication (EXPY) and few new industries
Short loan duration, credit rationing		Inward migration of high skills		Political risk, social risk	Monopoly power, high markups, regulated entry	Social unrest	Growth responds to new industries
High deposit interest rate	High spread	High returns to education	Shocks to infrastructure (hurricane, war)	Tax policy risk	High taxes, top marginal tax rate, corporate tax, VAT	Open conflict	
	If it's high risk, the low profits	Procyclical mincerian returns	Growth elastic to infrastructure change	Labor market risks	Restrictive labor regulations	Corruption (illegal tax rate)	Few products "nearby" to move (openforest low)
Negative relation between growth and current account	Monopoly powers: high P/E ratio of banks	Returns decrease as education grows	High losses in transport ()	High expectation of losing future profits	Cost of doing business		High returns to coordination activities

Source: Hausmann, Klinger, & Wagner, 2008

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Backdrop of Vietnam economic growth

- Decreasing trend of economic growth.
- Fail to improve productivity.
- Unsustainable investment-led growth.
- Middle income trap?

=> *Which is growth constraints?*

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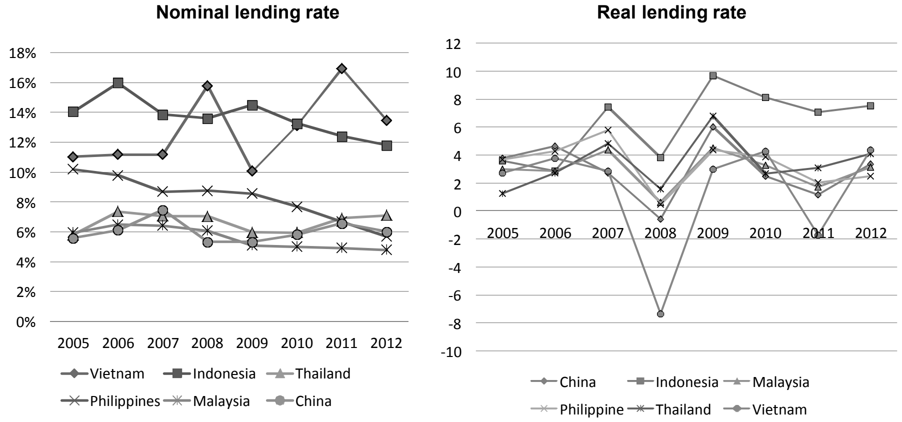
VEPR Finance constraint

- Inflation is the cause of high lending rate in Vietnam. Real lending rate is not too high compared to neighboring economies



Source: Author's calculation from data provided by Worldbank

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VEPR Finance constraint

- There is turning point in banks' cash flow, from facing to liquidity crisis to be in excess of liquidity.
- Credit supply doesn't respond to lowering lending rate.

=> *constraint moves from capital supply side to investment demand.*

=> *Capital supply side is currently not a binding constraint, but likely to become whenever the economy return its high growth path.*

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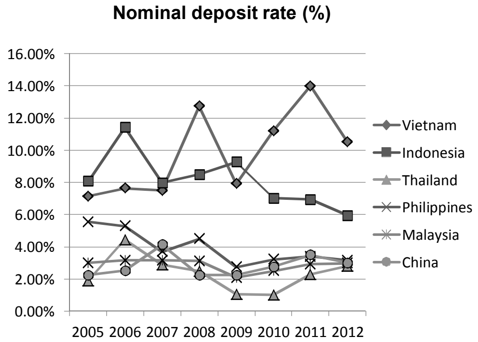
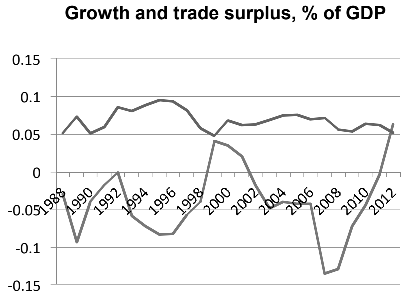
VEPR Domestic savings

- Low domestic savings rate/High public investment => lack of fund for private investment
- **Signal: High deposit interest rate; negative correlation between current account and growth rate*





Source: Authors's calculation from WorldBank data

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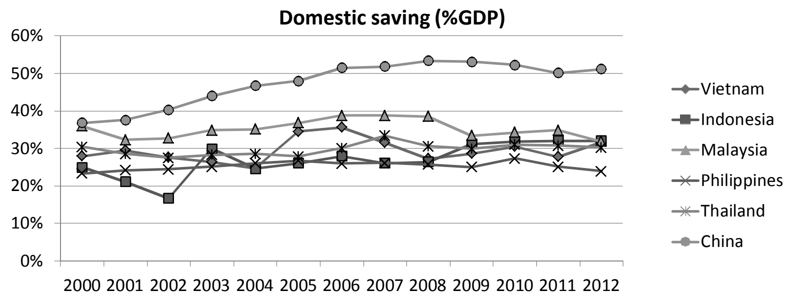
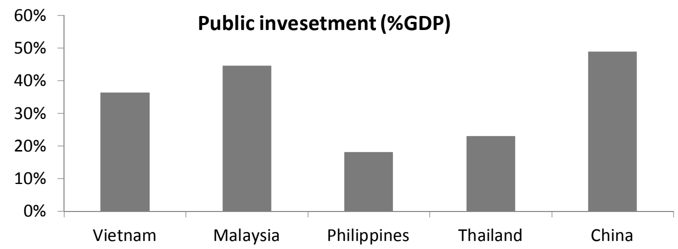
VEPR Domestic saving





Source: Author's calculation from data provided by Worldbank

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VEPR Domestic saving

- *High public investment/domestic saving is currently not a binding constraint but could be a crucial one whenever the economy returns it high growth path.*

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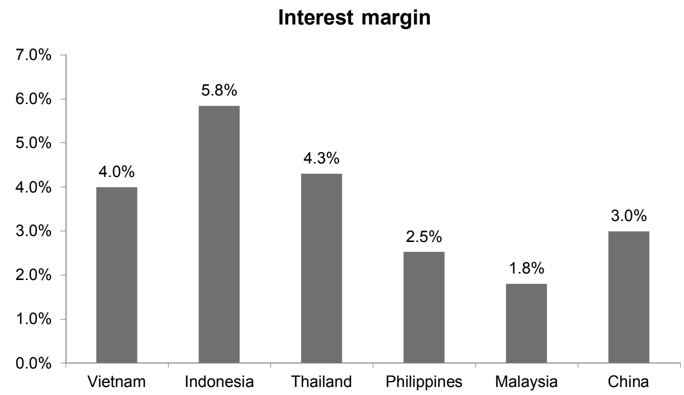
VEPR Financial intermediaries

- *High margin between deposit and lending interest rate shows inefficiency of financial intermediaries*



Source: Worldbank, MSB

12

VEPR Financial intermediaries

- Low concentration level in Vietnam banking sector compared to neighboring countries.

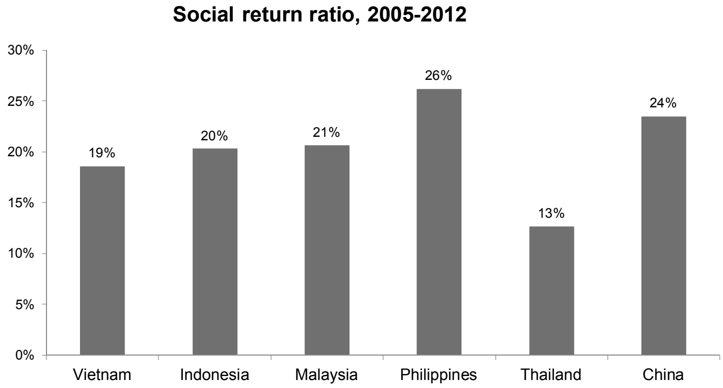
  eg, total asset of three largest banks in Vietnam accounts for 35% of market share, compared to India 46%, Indonesia 44%, Malaysia 54%, Philippines 49%, Thailand 54%.
- P/E ratio in banking industry is relatively low, currently about 11.7, whereas retail industry (13.6), tourism and entertainment (26.7), insurance (18.0).

⇒ *No signal of monopoly.*

⇒ *Inefficiency of banks.*

VEPR Returns constraint

- *Social returns ratio of Vietnam stays at low-middle level despite of low income per capita*



Source: Authors' calculation from Worldbank

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Returns constraint: Human resource

- Labor force is surplus, more than 70% of labor force works in rural area.
- The quality of labor force in the same level with other developing countries in ASEAN.
- Labor migration is not a popular phenomenon.
- Return of high education is low.

=> *Human resource is not a binding constraint.*

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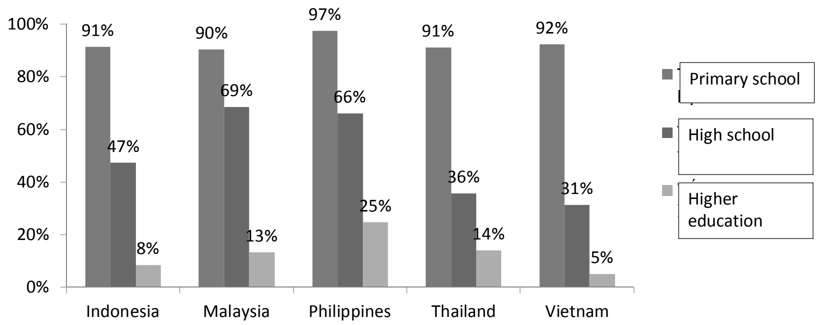
Returns constraint: Human resource

Quality of human resource



Source: Authors' calculation from Worldbank

16

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Return constraint: Infrastructure

- Global competitiveness report 2013-14 , Vietnam is ranked 82nd in infrastructure, comparing to the Philippines (96), Indonesia (61), Malaysia (29), Thailand (47), China (48).
- PCI Province competitiveness report 2013, 85% of foreign investor chose the province which has best infrastructure condition among surveyed places.
- Development gap between well-developed infrastructure area (Hong river delta, East southern zone) and poor infrastructure area (Highland, West northern zone, West southern zone).
- The profitability of transportation BOT projects.

=> *Infrastructure is a binding constraint.*

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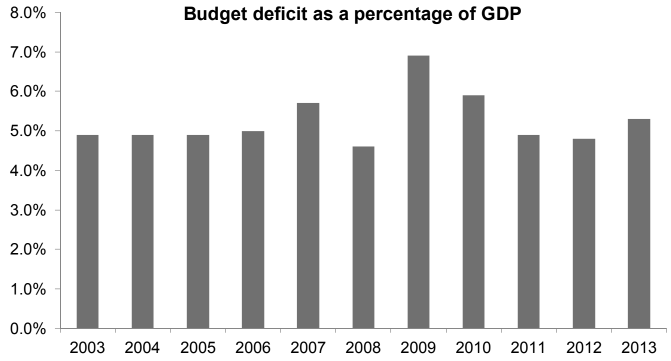
Government failures

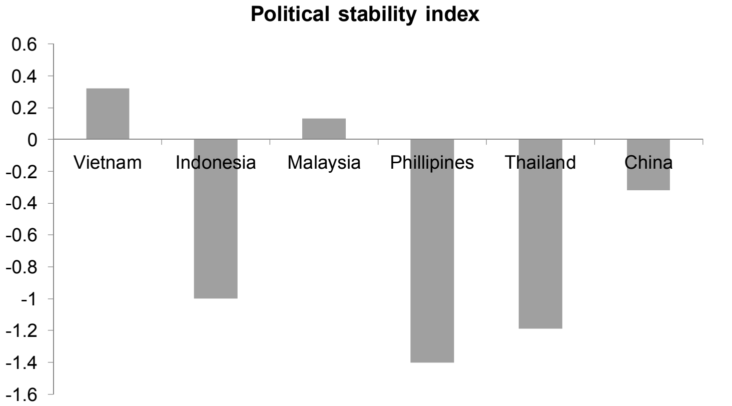
- *Macroeconomic risks are constraint to growth in Vietnam: High budget deficit and input prices*



Source: Authors' calculation from MPI data

VEPR Government failures

- *Political and social risks is not a constraint*



Source: Kaufmann, Kraay, and Mastruzzi (2009)

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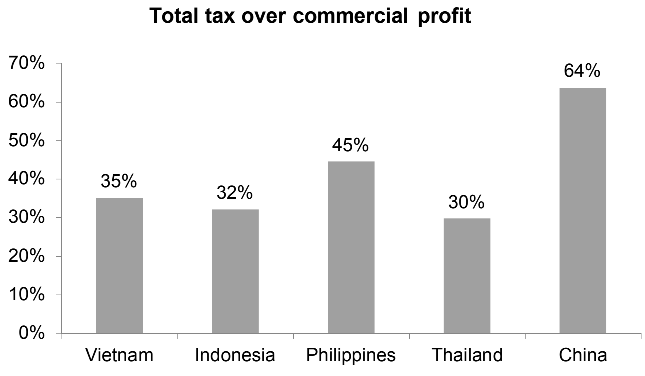
VEPR Cost of doing business

- *Tax level in Vietnam is at a same level with regional developing countries. This is not a growth constraint.*



Source: Author's calculation from data provided by Worldbank

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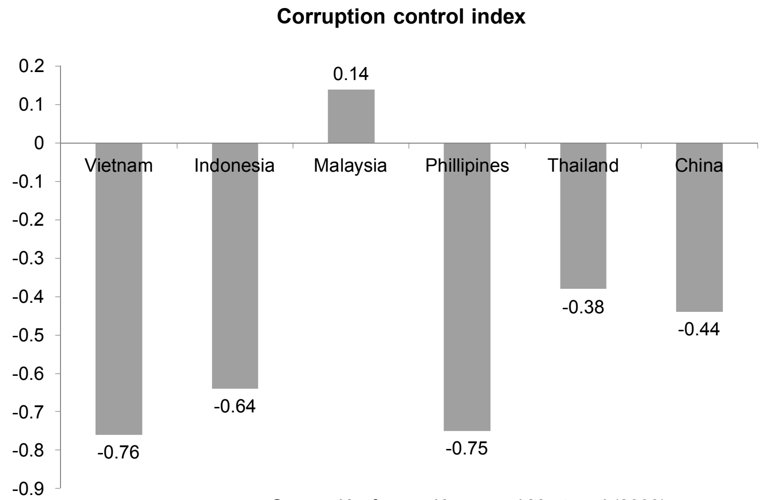
VEPR Cost of doing business

- Weak property rights and crime are binding constraints.
  - eg, Recent thief in Samsung factory in Bac Ninh.
  - Slow response to riots in Binh Duong and Vung Ang industrial clusters
- Signal: the booming of private safeguard and security companies.

VEPR Cost of doing business

- Corruption in Vietnam is a critical constraint
  - PCI report 2013: 65.8% of foreign investor considers corruption in Vietnam more serious than other surveyed countries.
  - According to Kaufmann et al. (2009), Vietnam's score of corruption control is the lowest in the region.
  - Nguyen and Van Dijk (2012): Corruption affects negatively private companies but does not affect state-owned ones.

VEPR Cost of doing business



Source: Kaufmann, Kraay, and Mastruzzi (2009)

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VEPR Market failures

- Information and learning externalities: exports is at low level of sophistication and low value added.
- Coordination externalities: less development of supporting industries.

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Major constraints

- Macroeconomic instability, economic agents' loss of confidence in the future and management orientation are constraints for long-term investment
- Weak property rights and high corruption are major constraints to growth
- Infrastructure, especially transportation network, is binding constraint. Energy infrastructure is a vital constraint in medium- and long-term rather than in short term.
- Inefficiency of financial intermediary and over public investment could prevent the economy from returning its high growth path.

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Major constraints

- Market failures are binding constraints, especially in major ones such as labor, education, energy, input production, etc. markets.
- The lack of skilled and high-quality laborers is a constraint for economic growth. This is because of the failure of both the low-level and high-level education and training systems.
- The creativity and innovation of the economy are very limited. This is because of the failure of the state to protect intellectual properties and industrial secrets, the lack of an environment to encourage learning, researching, and independent thinking.

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THE FINANCIAL AND BANKING SYSTEM

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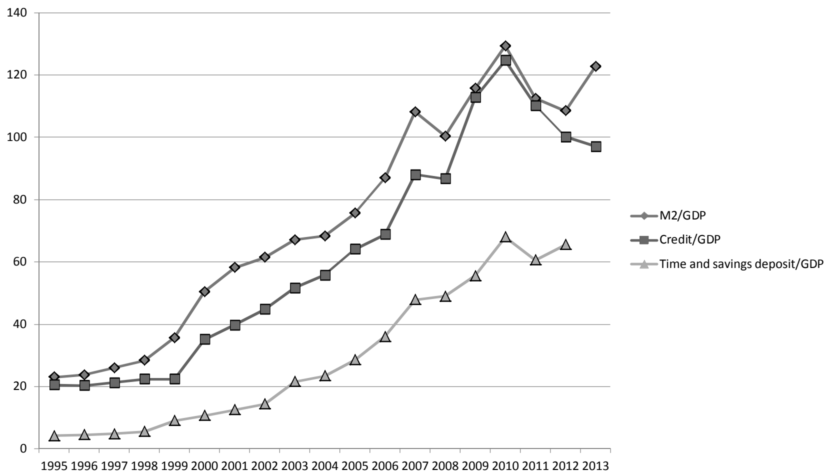
Financial depth, 1995-2013



Source: Author's calculation from ADB

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M2 and Credit growth, 2006-2013

Year	2006	2007	2008	2009	2010	2011	2012	2013
M2 growth	32,0	41,2	20,3	27,5	29,8	~10	18,46	18.85
Credit growth	24,8	48,9	23,4	37,5	31,2	12-13%	8,85	12.51
M2/GDP	0,97	1,16	1,08	1,23	1,34	1,15	1.25	1.22
Credit/GDP	0,71	0,90	0,86	1,06	1,16	1,02	1.04	0.97

Loans-Deposit Ratio (LDR), 2008-2011

Year	2008	2009	2010	2011 (est.)
LDR	0.95	1.01	1.01	1.02-1.03

Source: NFSC

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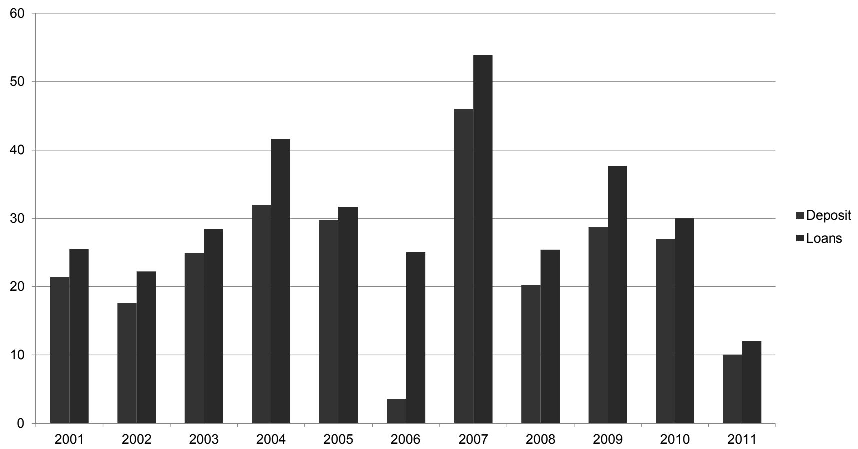
Growth of deposit and loans, 2001-2011, %



Source: DIV (2012)

Dr. LE XUAN SANG

Dr. Sang has got his Bachelor's Diploma and Master's Degree at Kharcov Urban Management Academy (Ukraine, USSR) in 1990 and the Degree of Ph.D in Economics at Moscow National University named after Lomonosov (Russian Federation) in 1997.

He has successfully completed his visiting research fellowship on stock market development at Institute for South East Studies (ISEAS) (2003), Chinese experiences in economic management at China Academy for Administrative Governance (CAAG) (2012); training courses on fiscal and macroeconomic sustainability at National University of Singapore (NUS) (2003), and IMF training workshop on dealing with financial crises at GRIPS (Tokyo, Japan) (2014).

Dr. Sang began his carrier in 1999 as a researcher at Division for Macroeconomic Analysis and Forecast (renamed currently as Department for Macroeconomic Policy and Integration Studies), CIEM.

Dr. Sang's research interests are issues of financial market development, economic integration and macroeconomic policies. He is the author, editor of 5 books on financial, banking, fiscal and integration issues for both Vietnamese and international readers; a major research member of 3 national research projects and 3 joint research with regional research institutes such as Economic Research Institute for ASEAN and East Asia (ERIA) and Thailand Development Research Institute (TDRI); team leader of 3 research funded by international organization such as EU, UNIDO, UND and about 10 research funded by Ministry of Planning and Investment, Ministry of Trade, Ministry of Finance and the Communist Party's Department for Science and Education. Lastly, Dr. Sang is also the author of about 25 academic papers published in Vietnamese and international peer-reviewed economic reviews.

Financial development in Vietnam: Promote or restrain economic growth

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Hanoi, 26-27/6/2014

1

Content

1. Redefining the role of financial development in promoting economic growth
2. Evidence of correlation between financial development and economic growth
3. Issues of identifying relationship between financial development and economic growth
4. Evaluation of the role of finance in to Vietnam's economic growth and reasons
5. Key directions to enhance higher contribution of finance to economic growth

2

1). Redefining the role of financial market development to economic growth

a). At macro level

1). An effective channel to mobilize and distribute financial resources (Through economies of scale and reducing transaction costs).

2). Helping ensure macroeconomic stability , reduce risk of financial – currency crises

(through bond and derivatives market, transparency and disclosure information, accounting standards, auditing, and monitoring; spreading risk)

3). Enhancing efficiency of the economy

(help mobilize long-term, cheap capital; put pressure on businesses to operate more efficiently, lower stock prices, will have difficulty in raising capital, risk of being M&A; create liquidity, increase the volume of capital and productivity growth → economic growth)

3

). Redefining the role of financial market development to economic growth➔

b). At micro level

1). Contribution to improve and enhance the governance and dynamics of companies

To get a loan from financial institutions, companies are forced to improve governance; to increase transparency when IPO/listed; compete to attract capital from other investors,

2). Diversification of mobilization and investment funds

3). Facilitation of sharing risks

4). An channel for creating knowledge and new technologies

Through venture capital market, creative ideas, along with efforts of business and ability to raise capital, is the driving force for the creation of new technologies and products (exit /devestment of capital through the stock market)

4

2). Evidence of correlation between financial development - economic growth

Table 1: Evidence of financial development promote economic growth

Authors	Sample	Methods	Main Findings
Evans, reen and Murinde 2002	82 countries for 21 year time series data	Translog production function	Significant evidence of such interactions Human capital and financial development to economic growth in
Arestis, metriade 1 Luintel 2001	5 developed countries	Time series methods	Banks and stock market promote economic growth, but banks are more important
ilian and kpatrick 2002	low income countries	Regression	Support the contention that financial sector leads economic growth
Kang and Sawada 2000	Time series data for 20 countries	Endogenous growth model	Fin-al dev-nt and trade liber-tion are shown to increase e econ. growth rate
ing 2000	1991-1996/ Taiwan	Prod-funct-n theory and Feder model	The financial - supply – leading version is more prevailing in the studies case.

5

2). Evidence of correlation between financial development - economic growth and limitations➔

Table 2 : Evidence of a lack of causality/bi-directional between financial development and economic growth do and do not enhance mutually

Authors	Sample	Methods	Main Findings
Al-tami, ssein, Al- awad and arif 2001	Selected Arab countries	Cointegr-on, Granger caus-ity & IRF tech-que	No clear evidence that financial development affect or is affected by economic growth
Shan and Morris (2002)	OECD and Asian countries	VAR and granger causality test	The bi-directional causality between finance and growth in some countries and the one-way causality from growth to finance in other countries
Al-Yousif 2002	1970-99/30 dev-ping countries	Granger causality test	Causality is bi-directional, the finance – growth relationship between cannot be generalized across countries
Luitel and Khan 1999	10 sample countries	VAR	Bi-directional causality between financial development and economic growth
rdan Shan (2006)	China	VAR	Indication of a two-way causality between finance and growth

6

3). Issues of identifying relationship of financial development and economic growth

A). Omit, underestimate contribting factors of development of financial market and relationship between finance and economic growth (due to testing multiple countries by group)

1) Financial repression (interest rate controls, credit quota,..) of each country

2) State's ownership in financial institution (High ownership ➔ lower development ➔ lower growth

3) Legal grounds and financial market (Civil law vs Common law)

4) Liberalization and financial liberalization procedures > crisis (no sequence> crisis > lower growth)

5) Failure to identify specific drawbacks/institutional factors, thus no specific policy response can be drawn (too generic conclusions)

7

Legal ground and development of financial market

Table II.1: Classification of financial structure of selected countries

Countries with underdeveloped financial system	Countries with developed financial system
Bank-based financial	System (civil law)
Sri Lanca	Portugal
Indonesia	Austria
Greece	Belgium
Argentina	Italy
India	Finland
Venezuela	Norway
Ireland	Japan
Thailand	France
	Germany
	Israel
	Spain

Legal grounds and financial market

Table II.1: Classification of financial system's structure of selected countries

Source: Demirguc-Kunt and Levine (2001); Herring and Chatusripitak (2000)

Market-based financial system (Common law)	
Denmark	Netherland
Chile	Canada
Brazil	Australia
Mexico	South Africa
Philippines	Korea, Rep.
Turkey	Sweden
Peru	England
	United States
	Singapore
	Swiss
	Hongkong
	Malaysia

3). Issues of identifying relationship of financial development and economic growth➔

B. Threshold beyond which finance is harmful to economic growth

+ Carmen Reinhart and Kenneth Rogoff

If the public debt / GDP of a country exceeds 90%, the country's GDP will decrease by 0.1% (+2.2%) and vice versa, if this ratio is below 90%, the average annual GDP growth is about 3-4% (wrong due to excel errors).

+ Budget deficit: < 5% GDP (developing and transition economies) and 3% to developed (EU: mandatory) (DBR 2011)

+ Structure of international capital inflow (<=20% portfolio, short-term debts <=30% total debts (IMF 1998)

+ Lending boom (EU: growth credit to private sector, household no higher than 10% per year.)

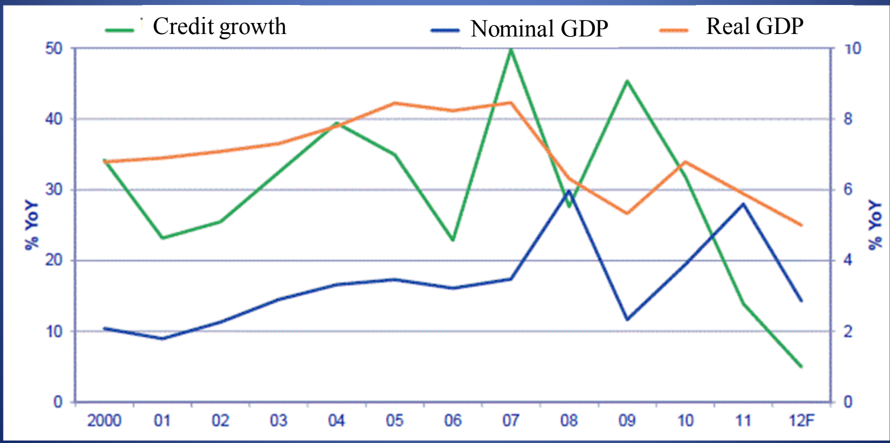
+ Inflation (cpi): a rate of higher than 8% has a negative impact on economic growth (evidence in 88 developing countries)

10

4). Evaluation on the role of finance in promoting to VN's econ- growth and reasons: An Initial observation

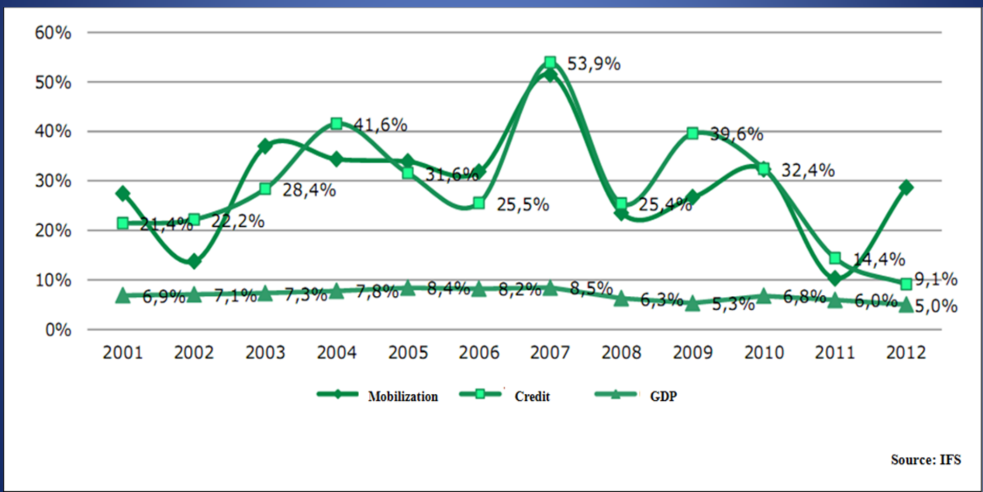
1). Bank credit market

Figure 1: Credit growth 2000-2012, % of GDP



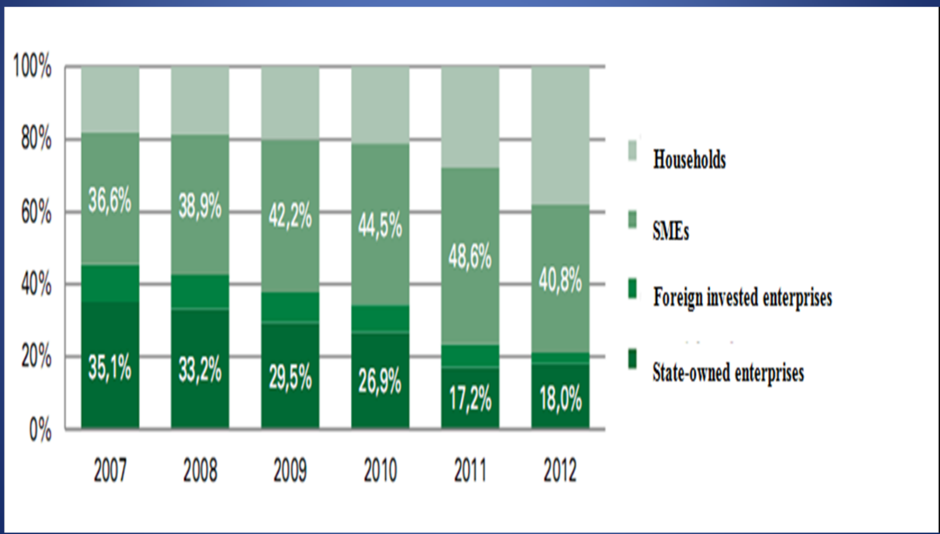
11

Figure 2 : Credit, mobilization and GDP growth



12

Figure 3 : Credit to enterprises by ownership



1). Bank credit market

+ Vietnam has very high credit to GDP ratio (over 100% since 2009 to date).

+ Relation between credit/investment – GDP growth (Anwar and Nguyễn Lan Phi (2009) during 1997-2006, 61 provinces, endogenous model, support role of credit in promoting Econ. growth, however:

+ In order to raise GDP by 1% point: 2006-2010 credit rises 5,26% ptts, 2011-2013: credit rises 1,98 ptts%

+ Vietnam's growth: (credit growth > 30% per year (2006-2010); GDP: 7%) VS China (credit ~ 15%,năm, GDP: 9%) → low capital efficiency

+ Borrowed capital not put into production (rather in stocks, gold speculations?) did not create output/gdp and loans to production bears very high interest → high NPL, high inflation → tighten credit → restrain GDP growth

+ Conclusion: Credit initially create GDP growth, later restrain growth

14

2. Bond and stock market

Table 2: Size of Vietnam's securities market as % of GDP

	2006	2007	2008	2009	2010	2011	2012	2013
Total stock Market Capitalization	22.8	43.0	19.0	55.0	28.3	20.0	23.0	31.0
Total understanding value of bond (of which corporate bonds)	NA	NA	~19.0	NA	19.6 (5.55)	17.1 (3.31)	16.6 (1.95)	19 (2.65)

15

Stock market

\+ Have contributed to mobilization of long-term, cheap capital directly to businesses

\+ IPO revenues are small, only 1.9 trillion - 43.8 trillion (2007-2011), 2012 - 2013 even lower

\+ IPOs are not followed by listing (SABECO, HABECO: 6 years?) affecting badly econ. growth in the long term (limited corporate governance, efficiency of production-business) (due to not finding appropriate strategic partner (s))

\+ State-owned enterprises avoid capital mobilization aboard

Conclusion: contribution to GDP growth, few negative influence

16

Bond market

1). Government bond:

- Mobilized capital equivalent to 19% of GDP
- The amount of capital raised is largely spent on infrastructure projects, to serve social - economic development in the long-term
- However, bonds could be issued for SOEs (eg Vinasshin: inefficient, debt increase)

The process of project design and construction was under-supervised -> lead to waste and corruption

2) Corporate bond:

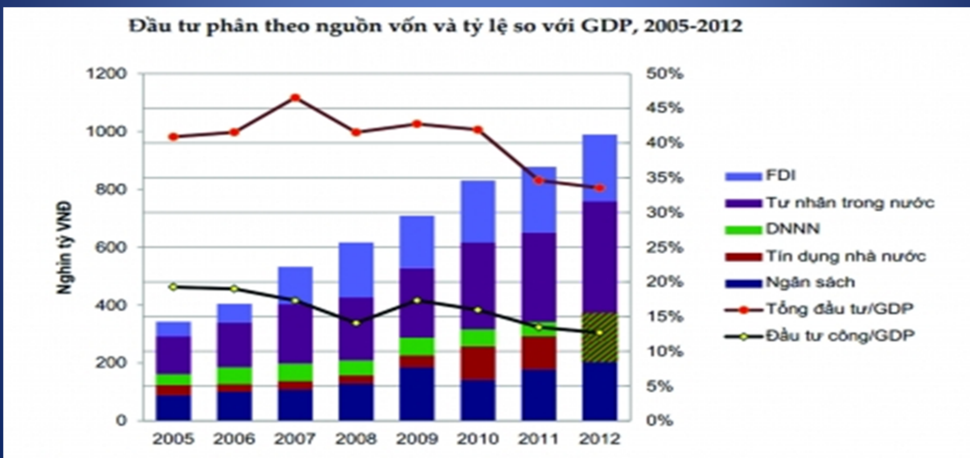
Equivalent to 2 to 5.5% of GDP, directly serve the corporate' needs (eg Vingroup), directly contributes to GDP

Conclusion: Investment from bond issuance contributes to GDP, but the performance of government bond is poorer than corporate bond due to inadequate monitoring of on-lending to SOEs, and on implementing infrastructure projects

17

Investment by economic sector

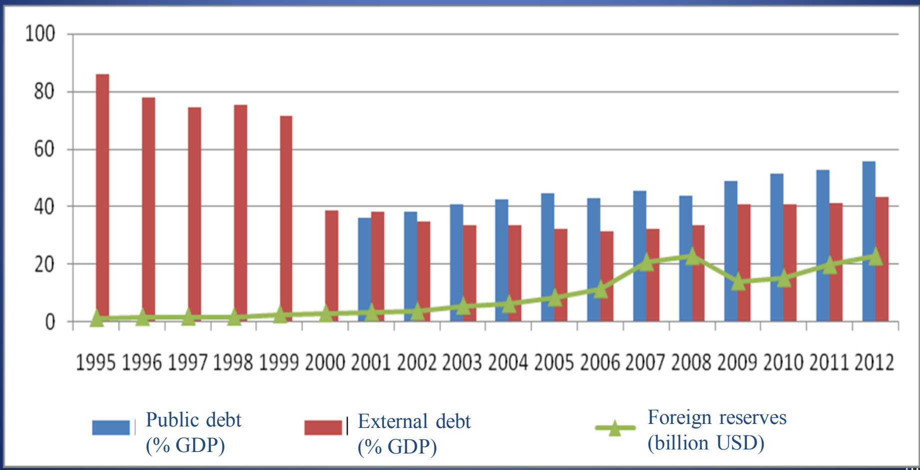
+ State investment (budget, state credit, of SOEs) contribute to GDP, in general, but has lowest efficiency
+ Private investment, especially FDI, contribute increasingly to GDP, is driving force of economic growth since 2011; however, spill- over effect is rather small



Nguồn: Tổng cục Thống kê VN (TCTK).

Public debt, external debt

Figure 3: Public debt, external debt and foreign exchange reserves**, 1995-2012**



19

Public debt, external debt

+ Public debt: 2012: 55.7% of GDP, government debt: 43.3% of GDP, gov-guaranteed debt: 11.6% of GDP and local gov. debt ~ 0.8% of GDP. Domestic public debt is about 26.0% of GDP while external public debt was 29.7% of GDP

External debt ~ 43.6% of GDP in 2012. During 2007-2012, medium and long-term debt increased annually by 2.57% of GDP, short-term debt: 0.8% of GDP.

+ Thresholds for public, external debt: no useful for crisis prevention in practice

+ Contribute to GDP growth, but there are many risks which may increase debt burden and econ- dependence (EPC projects partly)

+ Exchange rate risk (accounting for 13.8% of total loans as of 31/12/2012, the exchange rate of the yen: ~ U.S. $ 2.34 billion from 2006 to 2012)

+ Credit risk: Vinashin, highways, gov-guarantees (eg, cement, paper, electrical); and deployment costs increase

20

Reasons

+ Pro-longed mindset/philosophy: "addicted“ on high growth, insufficient attention paid on macrostability, promoting capital to promote GDP growth rather than technology / productivity

+ Financial market model: too unbalanced (bank markets overwhelmingly stock markets). Banks have to “bear” too much credit to the economy while financial and governance capacity is poor put baks at risks and create NPLs

+ Institutional Disease/reasons for high NPLs: policy lending, connected lending/capitalism, nepotism and internal (BOD) in the absence of appropriate, thorough monitoring/supervision; poor quality of management, policy design (especially for demand stimulus package) ➔bad debt

+ G-bonds: no more serious problems as the weaknesses, drawbacks (transparency, market discipline and protecting domestic investors, corporate governance...) been gradually improved, the current problems are largely due to external factors

21

Reasons

+ Corporate bond market:

--Lack of and effective credit rating system

-- A majority of companies is ill-managed, has low transparency and poor discipline of financial statements

-- Majority of enterprises have inadequate capability and are reluctant to issue bond

+ External debt, public debt, government spending:

-- Weak budget discipline;

-- Lending without proper evaluation

-- Calculation method of state budget items do not accurately reflect the state budget deficit position, public debt situation, which under-estiimate the risks related to the deficit

- financial discipline of Vietnam is very loose (actual capital expenditures exceeding the estimated nearly 61% (2009), 46% (2010)). Administration management expenditures (subject to fast reform) exceed the estimated y 26% annually from 2005 to 2012 (MoF report)

22

5. Policy directions to promote contributions of finance to econ. Growth

+ Ensurering macroeconomic stability, building a healthy and efficient financial system

+ Innovate financial system model (to improve efficiency of banking credit market, promote securities market); Consider application of Canada’s model

+ Ensure institutions to strengthen the protection of investors, especially individuals (may be effective due to no obstruction from interest groups) gradually creating a more balanced and more efficient financial market

+ Innovate model of financial supervision (enhance supervision of compliance, gradually shift to risk-based supervision, in the long term, moving to integrated supervision model)

+ Apply international financial reporting standards, enhancing the efficacy of market discipline/enforecement.

23

5. Policy directions to promote contributions of finance to econ. Growth ➔

+ Conduct vigorous researches to build a system of financial micro-macro prudential indicators with effective threshold, apply econometric model (EWS, ST, ...) with a more significant warning / prediction power (avoid too loose or strict)

+ Reform thoroughly evaluation institutions, enhance the effectiveness and objectivity of the auditor building confidence and fairness for investors in the market

+ Banking system: Shift to higher debt classification standards of BASEL (Basel ii, iii)

- In the long-term, effective solving of bad debts (improving regulations on selling NPLs to foreigner investors, especially related to real estate and debt pricing, sets up market for bad debts) and mitigating cross-ownership (difficult; for now, through transparency enhancement, plus listing on the stock market)

- Reviewing legal loopholes to effectively handle banking transactions that has not been regulated by law (shadow banking practices)

24

5. Policy directions to promote contributions of finance to econ. Growth ➔➔

+Securitiess market: encourage even force big SOEs to be listed stocks and Global Deposit Receipt (GDR) in the region and in the world to mobilize capital efficiently and improve governance; strictly ensure IPO follow by listing (1 year);

+ Improve regulations on credit rating institutions; study to establish pention fund and REITs

+ Debt and state budget

--Gradually narrowing the differences between Vietnam and International standards in state budget and public debt classification

--Strengthen fiscal disciplines

-- Apply counter-cyclical, and pro-cyclical fiscal policy when appropriate and possible

25

Sincerely thanks!
Q&A

26