

BAD DEBT MANAGEMENT OF COMMERCIAL BANKS IN THE COVID-19 PANDEMIC

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Abstract: *In recent years, commercial banks have had a strong development in terms of both size and quality. With an intermediary role in the economy, commercial banks have constantly improved their financial potential, expanded modern financial services, and developed according to the standards of international financial institutions. However, the Covid-19 pandemic taking place in Vietnam and around the world has significantly affected the business activities of commercial banks. The broken production chain coupled with social distancing has affected the repayment ability of many customers, putting pressure on bad debts for commercial banks. Within the framework of this research, the author will clarify this issue.*

• Keywords: commercial banks, bad debt, banking administration, liquidity...

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Tóm tắt: Trong những năm gần đây, các ngân hàng thương mại đã có sự phát triển mạnh mẽ cả về quy mô và chất lượng. Với vai trò trung gian của nền kinh tế, các ngân hàng thương mại đã không ngừng nâng cao tiềm lực tài chính, mở rộng các dịch vụ tài chính hiện đại, phát triển theo tiêu chuẩn của các tổ chức tài chính quốc tế. Tuy nhiên, đại dịch Covid-19 đang diễn ra tại Việt Nam và trên thế giới đã ảnh hưởng không nhỏ đến hoạt động kinh doanh của các ngân hàng thương mại. Chuỗi sản xuất bị phá vỡ cùng với sự xa rời xã hội đã ảnh hưởng đến khả năng trả nợ của nhiều khách hàng, gây áp lực nợ xấu cho các ngân hàng thương mại. Trong khuôn khổ nghiên cứu này, tác giả sẽ làm rõ vấn đề này.

• Từ khóa: ngân hàng thương mại, nợ xấu, quản trị ngân hàng, khả năng thanh khoản...

groups including: Group 1 (Standard debt), Group 2 (Debts needing attention), Group 3 (Debts that are qualified), Group 2 (Debts needing attention), Group 3 (Subprime debt); Group 4 (Doubtful debt) and Group 5 (potentially irrecoverable debt). This is the latest debt classification document used by credit institutions in Vietnam.

Table 1: Classifying debts

	Debt group	Time overdue	Loan review time
Group 1	Standard debt	Less than 10 days	Loan now
Group 2	Debts needing attention	From 10 days to less than 30 days	After 12 months
Group 3	Subprime debt	From 30 days to less than 90 days	After 5 years
Group 4	Doubtful debt	From 90 days to less than 180 days	After 5 years
Group 5	Potentially irrecoverable debt	Debt from 180 days or more	After 5 years

Following Circular 11/2021/TT-NHNN

Perspectives on bad debt:

Bad debt is often referred to with the terms “bad debt”, “non-performing loan” (NPL), “doubtful debt 1”, usually bad debt is understood as subprime, may be past due and impaired doubts about the debtor’s solvency and ability to recover capital, which often occurs when the borrower has declared bankruptcy or has dispersed assets

Article 10 of Circular 11/2021/TT-NHNN, credit institutions shall classify debts into 5

In which, on-balance sheet bad debts are considered as debt groups 3, 4 and 5 and credit institutions must make provision for 20% respectively; 50% and 100% to meet the requirements of Circular 11/2021/TT-NHNN on classification of assets, level of deduction, method of setting up risk provisions and use of provisions to deal with risks in the operation of credit institutions (credit institutions), foreign bank branches.

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Size and impact of bad debt on the economy

As of 2021, Vietnam's commercial banking system and credit institutions have developed with different types, of which 07 state-owned commercial banks; 41 private joint stock commercial banks; cooperative banks; 51 foreign bank branches, 100% foreign owned banks and joint venture banks; finance companies and finance leasing companies, over 1,182 grassroots people's credit funds, etc. Nowadays, Vietnamese credit institutions have not only focused on the traditional function of deposit mobilization and lending, but also focused on providing products and services. modern financial services to meet the increasing needs of customers.

Due to the impact of the Covid-19 pandemic and the internal causes of the economy, bad debts at commercial banks and credit institutions in Vietnam increased in both size and level of bad debt. This has significantly affected the resources and business results of credit institutions.

Table 2: Size and NPL ratio at some Vietnamese commercial banks

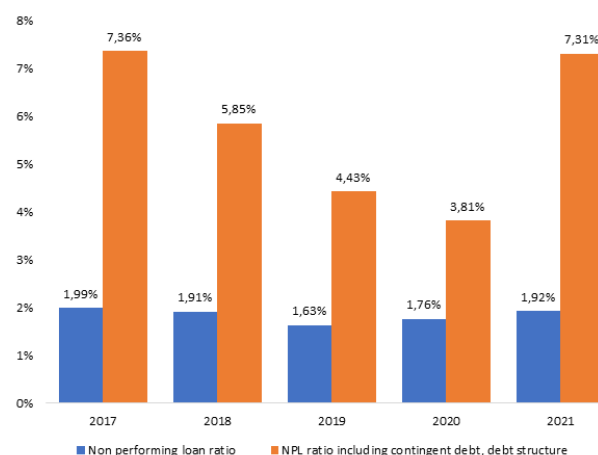
Bank	Bad debt balance (Billion VND)			NPL ratio	
	31/12/2021	31/12/2020	% change	31/12/2021	31/12/2020
VPBank	15,887	9,924	60%	4,47%	3,41%
VietinBank	14,300	9,597	49%	1,26%	0,95%
BIDV	13,245	21,369	-38%	0,98%	1,76%
Vietcombank	6,121	5,230	17%	0,64%	0,62%
Sacombank	5,721	5,780	-1%	1,47%	1,70%
VIB	4,670	2,957	58%	2,32%	1,74%
HDBank	3,360	2,357	43%	1,65%	1,32%
MB	3,268	3,248	1%	0,90%	1,09%
SHB	2,915	5,599	-48%	0,80%	1,83%
ACB	2,799	1,840	52%	0,77%	0,59%
LienVietPostBank	2,775	2,527	10%	1,33%	1,43%
Techcombank	2,294	1,295	77%	0,66%	0,47%
Eximbank	2,247	2,534	-11%	1,96%	2,52%
SeABank	2,105	2,022	4%	1,65%	1,86%
MSB	1,769	1,558	14%	1,74%	1,96%
Nam A Bank	1,613	744	117%	1,57%	0,83%
ABBank	1,423	1,324	7%	2,06%	2,09%
OCB	1,350	1,508	-11%	1,32%	1,69%
NCB	1,249	609	105%	3,00%	1,51%
Ban Viet	1,176	1,111	6%	2,53%	2,79%

Source: Synthesized from commercial banks

It can be seen that in 2021, the scale of bad debts at Vietnamese commercial banks has increased sharply. Of the 20 surveyed banks, there are 14 banks with an increase in the size of bad debts, only 06 banks with a decrease in the number of bad debts in 2021 compared to the previous year. At some commercial banks, the value of bad debts increased sharply such as VPBank increased by 60% compared to the previous year (the value of bad debt was 15,887 billion dong), causing the bad debt ratio to increase from 3.41% to 4.47%; Nam A Bank's bad debt increased by 117% or NCB's bad debt value increased by 105% in 2021.

Even credit institutions with good business results such as ACB and Techcombank, bad debts have increased significantly in recent years. At ACB, the bank's bad debt in 2021 increased by 52.1% compared to 2020 to VND 2,799 billion. While Techcombank recorded a bad debt increase of 77%, to VND 2,294 billion. Debt restructuring under the customer support program affected by Covid-19 is 1,900 billion VND, equivalent to 0.5% of total outstanding loans.

Figure 1: NPL ratio of the whole banking industry over the years



In fact, the bad debt of the system of credit institutions is much higher than the reported figure because many bad debts have been restructured according to regulations that have not been classified, official data has not yet fully reflected in bad debts; credit institutions have not strictly complied with the provisions of the law on debt classification to limit the impact on financial statements, causing the situation that does not accurately reflect business results, and may even

lead to fake interest. Real loss due to not fully making provision for expenses.

Causes of bad debt in the past time

Firstly, in recent years, the world has witnessed a series of instability in the world economy, as well as changes in economic and trade policies of countries. In addition, the extremely complicated and prolonged developments of the Covid-19 pandemic have negatively affected and disturbed production and business activities. For a long time, the government implemented social isolation in economic centers to deal with the epidemic, which has seriously affected business operations and people's income. This has increased bad debt in 2021.

Secondly, the financial and business capacity of customers is still limited. Outstanding loans at credit institutions mainly focus on individual customers and small and medium enterprises. This group of subjects is still limited in the management and use of loans, which leads to losses and losses in production and business activities, and even leads to shutdown or bankruptcy, which has a serious impact. debt repayment capacity and increase bad debt in the economy. Under normal conditions, this group of customers brings regular revenue and profit to the bank, but during the Covid-19 pandemic, this group of customers is vulnerable.

Thirdly, the economy lacks credit rating agencies, so it is not possible to build a health database for businesses in the economy. Therefore, the lending of commercial banks still lacks information. In addition, the debt trading market in Vietnam has not yet developed, and market participants are few. The number of bad debts in Vietnam is increasing, but the number of debt trading companies is not much and growth is low.

Fourthly, the capacity of many Vietnamese credit institutions is still limited. Many credit institutions increased their bad debt due to poor risk management (credit assessment, loan risk level and lack of measures to prevent, detect and handle risks...); weak capacity in project appraisal or collateral valuation along with moral hazard of credit officers; loans to related persons; group interests, large customers beyond the limit; The business and investment strategies of the credit institutions are not suitable, investing in fields and investment channels with high risk.

Some solutions and recommendations

Firstly, perfecting the legal system on debt classification, setting up and use of risk provisions at credit institutions. Regulations on classification and provisioning are in line with international practices and regulations so that Vietnamese credit institutions can soon access the international financial market. The correct, complete and accurate implementation of debt classification is of great significance in bad debt management at commercial banks.

Secondly, improve regulations on credit management in the direction of diversifying risks and minimizing credit concentration; Limit lending to potentially risky sectors (trading in securities, real estate,...). The government's credit policy, especially the State Bank's lending orientation from time to time, needs to catch up with and match market fluctuations and be able to warn and limit risks for banks. credit institutions.

Thirdly, improve the credit risk management capacity of banks and at the same time improve the capacity, qualifications and professional ethics of bank staff. Only credit institutions can improve their own internal strength, apply new regulations and advanced processes on customer appraisal, can improve loan quality.

Fourthly, build a credit rating system for businesses in particular and the economy in general. In addition, it is necessary to strengthen inspection and supervision of credit activities to ensure strict implementation of regulations on credit extension, regulations on debt classification, setting up and use of risks. Inspection and supervision of commercial banks should be promoted in the current situation of increasing bad debts.

Bad debt not only directly affects the operations of banks and credit institutions, but also is a blood clot blocking the circulation of the economy. In case the bad debt is too high, the state bank has to implement special solutions such as buying a bank for 0 dong; forced mergers;... this not only costs the budget but also has long-term effects on the economy.

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