

New legal framework needed to tackle NPLs

 A resolution on bad debt would be the only way to resolve legal obstacles for buyers to purchase bad debts, especially foreign investors, Le Xuan Nghia, member of the National Financial and Monetary Policy Advisory Council, has said.

Nghia was quoted as saying in the *Dau Tu* (Vietnam Investment Review) newspaper that the Viet Nam Asset Management Company (VAMC) had already bought trillions of dong worth of bad debt from commercial banks but has not made considerable progress in settling them.

Complicated legal procedures have slowed down the bad debt resettlement, he said.

“After more than one year of operation, VAMC has bought VND95 trillion (\$4.52 billion) worth of bad debts, of which only VND3 trillion (\$142.86 million) has been sold or recovered. However, most of the resettled bad debts were sold to domestic investors,” Nghia said.

“The company has sent 500 bad-debt dossiers to foreign investors, but has received no replies,” he added.

Nghia said that most foreign investors could afford the purchase, but the most significant hindrance were legal issues. He said that foreign investors did not require ownership of secured assets or collateral (with most of them being property), but they want to have the right to use them.

But VAMC cannot meet this requirement because the country has no legal framework that addresses the issue.

A leader of a commercial bank in HCM City, who declined to be named, said that “even if VAMC can sell bad debts, it will take years for the company to transfer the ownership of collateral of the bad debts to buyers.

“In other words, legal procedures related to the selling of bad debts have several limitations, thus frustrating debt sellers, including banks and VAMC, as well as buyers,” he said.

Senior economist Nguyen Tri Hieu agreed, saying that the country had not yet created a legal framework on secured assets (mainly property) of the bad debt.

“Additionally, the bad debt purchase and sales market has not yet taken shape, so trading in bad debt is high-risk,” he said.

The Governor of the State Bank of Viet Nam, Nguyen Van Binh, said that VAMC faced many legal difficulties.

“We buy bad debts from the banks but we cannot sell them, meaning that we would never recover the money. At present, banks have to spend between three and seven years to settle a secured asset of a bad debt, and get the money back.” This slow processing creates a great tie-up for credit institutions and VAMC to settle bad debts,” Binh said at a recent meeting with the National Assembly’s Standing Committee.

Nghia said that a resolution addressing bad debts was necessary, as the settling of bad debts now involves 11 laws and seven decrees.

The Prime Minister has give approval to the central bank to draft a bad debt resolution and submit it to the National Assembly for consideration, he said.

“If the expected bad debt resolution is approved and there is a proper mechanism on money sources, then bad debts could be settled quickly,” he said

Many other economic experts agreed with Nghia, saying that it was necessary to have a special mechanism to settle bad debt. If not, bad debt will increase, affecting the country’s public debt and the entire economy.

Source: VNS