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STATE CAPITAL MANAGEMENT MODEL IN VIETNAMESE COMMERCIAL BANKS: CURRENT SITUATION AND RECOMMENDATIONS

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ABSTRACT

In the context of Vietnam's banking system undergoing restructuring and digital transformation, state-owned commercial banks (SOCBs) play a pivotal role in leading the market and transmitting monetary policy. This paper analyzes the management model of state capital ownership in four major commercial banks (Agribank, BIDV, Vietinbank, and Vietcombank), thereby assessing the current management mechanisms, achievements, as well as limitations. The study is grounded in theoretical frameworks on state-owned enterprise (SOE) governance, international practices (OECD), and secondary data analysis from legal documents, financial reports, and State Bank of Vietnam (SBV) policy papers. Findings show that the current model has contributed to ensuring the central role of SOCBs in stabilizing the financial–monetary system, but still reveals shortcomings in terms of authority decentralization, overlapping functions, and timeliness of capital management. On this basis, the paper recommends improving the management model toward greater professionalism, transparency, and clearer separation between state management and ownership functions, in order to enhance capital efficiency, strengthen competitiveness, and ensure the sustainable development of SOCBs in the new phase.

KEYWORDS: Management model; State capital; Commercial banks; State Bank of Vietnam (SBV); Corporate governance; Organisation for Economic Co-operation and Development (OECD); Banking restructuring; state-owned commercial banks (SOCBs); state-owned enterprise (SOE).

1.0 INTRODUCTION

Within Vietnam's credit institution (CI) system, commercial banks with state ownership represented by the SBV include the Vietnam Bank for Agriculture and Rural Development (Agribank), Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank), Joint Stock Commercial Bank for Foreign Trade of Vietnam (Vietcombank – VCB), and Bank for Investment and Development of Vietnam (BIDV). These are long-established, large-scale banks that act as key pillars leading the Vietnamese banking market; they maintain extensive nationwide networks and have also expanded internationally. The total assets of these four banks amount to VND 8,755 trillion, accounting for 41.7% of total CI assets, while their charter capital stands at VND 218.2 trillion, representing 20.25% of the system's total charter capital. With such financial and operational scale, SOCBs can significantly influence market activities and serve as critical transmission channels for SBV monetary policy. They also make substantial contributions to the state budget through annual profits, with high returns on equity.

As the representative owner of state capital in these SOCBs, the SBV has effectively exercised ownership rights and responsibilities, achieving certain successes in improving mechanisms, policies, and management models, thereby ensuring stringent management of state resources while facilitating and supporting SOCBs to improve performance and pursue long-term growth. However, in recent years, SOCBs have faced major challenges: increasing competition for market leadership in capital and assets from rapidly expanding private commercial banks; pressure to invest resources in technological innovation and new product development; and reforms in modern corporate governance mechanisms. These developments require SOCBs to transform internally to adapt to the new context. At the same time, the SBV needs to reassess the existing model and mechanisms of state capital management to devise improvements toward a truly effective management model that fosters SOCBs' growth and sustains their role as key, leading forces in orienting the banking market.

Therefore, this study synthesizes, analyzes, and discusses the current management model of state ownership in commercial banks, and proposes improvements aimed at enhancing professionalism, transparency, and a clearer separation between state management and ownership functions. The goal is to increase capital efficiency, strengthen competitiveness, and promote sustainable development of SOCBs in the new phase.

2. OVERVIEW OF THE STATE OWNERSHIP MANAGEMENT MODEL FOR STATE-OWNED ENTERPRISES (SOES)

Globally, there is no standardized model for managing state capital; approaches vary depending on each country's political system and economic conditions. The OECD has issued guidelines on SOE governance, classifying state ownership management models by the degree of centralization (OECD, 2022; OECD, 2024). There are three basic types:

- **Centralized model:** A single agency (ministry, specialized body, or SOE established by the government) manages all state capital. This creates advantages in scale and bargaining power, but also exposes risks when lacking cross-sectoral expertise.

- **Decentralized model:** Multiple agencies concurrently exercise ownership rights, capitalizing on sectoral and local knowledge, but limited by dispersed resources and risks of bureaucratization in governance.
- **Hybrid model:** Combines centralization with special sectors (e.g., defense, security, or local enterprises), aiming to balance economies of scale with sector-specific governance needs.

Regarding **responsibilities of the state as an owner**, to ensure transparent and effective SOE governance, the state should consistently perform the following tasks:

i. Issue clear, publicly accessible ownership policies and conduct regular reviews.
ii. Standardize the legal form of SOEs under general corporate law to enhance transparency (OECD, 2022).
iii. Separate ownership and state management functions to avoid conflicts of interest (OECD, 2024).
iv. Exercise shareholder rights effectively, including appointing representatives, nominating board members, setting strategic objectives, and supervising their implementation.
v. Establish robust reporting, auditing, and disclosure systems to strengthen accountability.
vi. Ensure fair competition, avoiding excessive preferential treatment for SOEs.

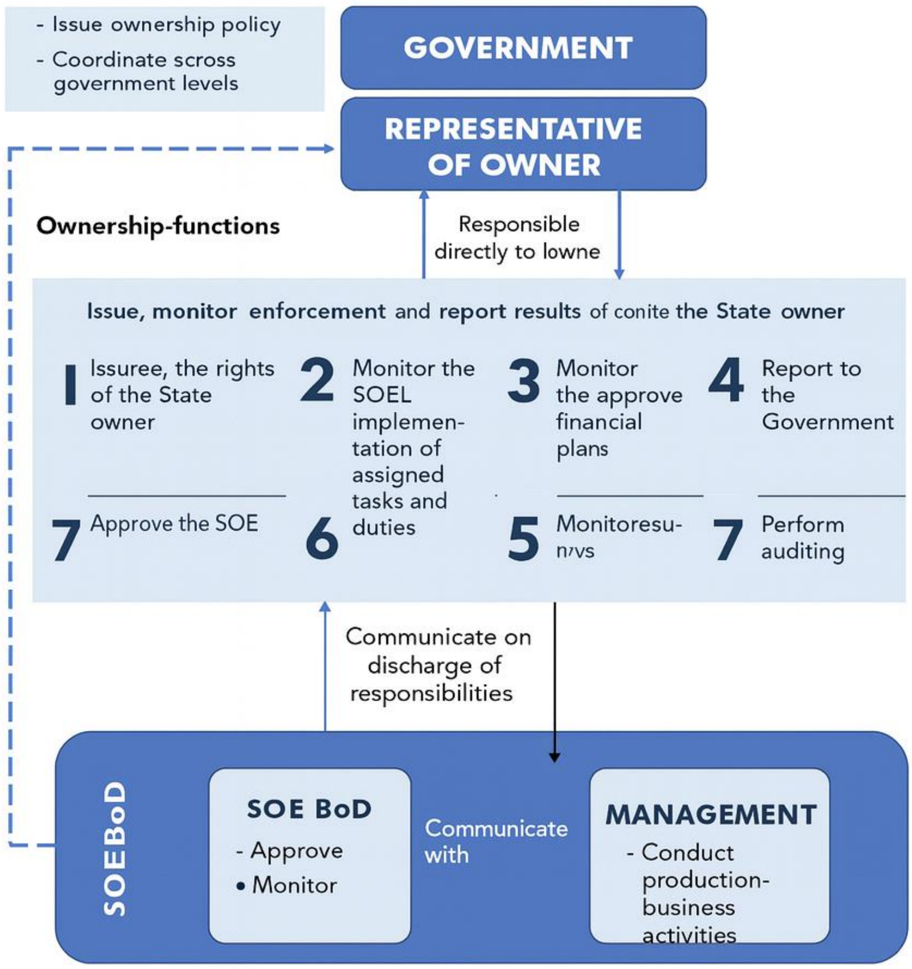
Concerning the mechanism of state ownership management over enterprises, in many countries, state capital ownership is assigned to government agencies, specialized bodies, or enterprises established by the state. These entities do not directly run the enterprises but primarily exercise shareholder rights through the General Meeting of Shareholders (GMS) or Board of Directors (BoD) (OECD, 2024).

In Vietnam, two main forms exist:

(i) Direct state representatives in wholly state-owned enterprises;
(ii) State capital representatives in joint-stock companies or two-member limited liability companies.

This mechanism aims to separate state management functions from ownership functions, ensuring alignment of state and enterprise interests, consistent with international practice.

Figure 1: Mechanism of interaction between the state owner and representatives



3. CURRENT STATUS OF THE STATE OWNERSHIP MANAGEMENT MODEL IN VIETNAMESE COMMERCIAL BANKS

3.1. General Introduction to State-Owned Commercial Banks

On March 26, 1988, Decree 53/HĐBT transformed Vietnam's banking model from a single-tier to a two-tier system, separating the SBV's state management function from the business operations of credit institutions (CIs). Accordingly, four specialized banks were established under the SBV: the Bank for Foreign Trade, the Agricultural Development Bank, the Industrial and Commercial Bank, and the Bank for Investment and Construction of Vietnam.

By 1990, Decisions 400–403/CT formally established four state-owned commercial banks (SOCBs) with legal person status, charter capital funded by the state, and independent accounting. In 1997, pursuant to the 1995 Law on SOEs and Decision 90/TTg, these banks were reorganized into state corporations operating under the SOE Law, with a governance structure comprising a Board of Directors, a General Director, and a Supervisory Board.

During 2007–2011, in line with Decree 109/2007/NĐ-CP on equitization, Vietcombank, Vietinbank, and BIDV were successfully converted into joint-stock companies (with initial state ownership above 89%), later reduced through share issuances to strategic investors. Current state ownership ratios are: VCB 74.8%, Vietinbank 64.46%, and BIDV 80.99%. Agribank, under Decision 214/QĐ-NHNN (2011), was converted into a single-member limited liability company wholly owned by the state and remains unequitized to date.

SOCBs, with their long-standing history, continue to play a central role in Vietnam's banking system due to their large organizational scale and extensive nationwide networks, while also expanding abroad. As of end-2023, according to SBV consolidated data: *Vietcombank* operates over 600 domestic and overseas units with 23,500 staff; *Vietinbank* employs nearly 23,000 staff, with 155 branches, 956 transaction offices, and foreign subsidiaries; *BIDV* runs 189 branches, 895 transaction offices, and multiple subsidiaries, affiliates, and joint ventures; *Agribank* leads in network size with 939 branches, 1,284 transaction offices, and more than 40,700 staff. Collectively, these four SOCBs (VCB, Vietinbank, BIDV, Agribank) top the system in assets, capital, and profit, with total assets reaching VND 8,217,664 billion in 2023, equivalent to 40.9% of all CIs.

3.2. Current Management Model of State Capital Ownership in SOCBs

At present, the SBV acts as the representative owner of state capital in the four SOCBs, in coordination with other agencies. The Government issues policies on capital management and oversight; the Ministry of Finance supervises financial matters, appraises capital plans, profit distribution, and charter capital increases; the Government Inspectorate audits capital management; while the SBV directly exercises ownership rights via representatives: members of the Members' Council at Agribank and capital representatives at VCB, Vietinbank, and BIDV.

Within the SBV, specialized departments such as the Financial - Accounting Department, Banking Supervision Agency, Personnel Department, Foreign Exchange Management Department, and IT Department provide technical advice and sectoral oversight. This arrangement aligns with the banking sector's specificities, ensuring management decisions are professionally grounded and reinforcing SOCBs' leadership role within the CI system.

However, the model exhibits shortcomings. Multiple agencies' involvement reduces the SBV's autonomy and independence. Some major decisions - such as charter capital increases above VND 10 trillion from post-tax profits - require approval from the Prime Minister or even the National Assembly. Moreover, Ministry of Finance involvement may delay decision-making and create overlapping responsibilities, limiting flexibility in SOCB governance and operations.

Key aspects of ownership management include: *Legal framework* governing state capital in SOCBs; *Standardization* of legal status and operations of SOCBs to ensure fair competition with private commercial banks; *Separation* of SBV's ownership and regulatory functions; *Regular monitoring and performance evaluation* of SOCBs.

3.2.1. Legal Framework Governing State Capital in SOCBs

Management of state capital in SOCBs is currently based on the Law No. 69/2014/QH13 and its guiding decrees on investment, equitization, divestment, ownership representation, representative management, financial supervision, and information disclosure. For banking specifically, the Government issued Decree 93/2017/NĐ-CP with tailored provisions on financial regimes, capital oversight, and SOCB classification. The SBV has further implemented regulations such as Decision 1500/QĐ-NHNN (2021) on capital representatives and Decision 313/QĐ-NHNN (2018) on financial planning, supervisory targets, and bank classification. SOCBs also comply with other sectoral laws, including the Law on Enterprises, Law on Securities, and the Law on Credit Institutions, as well as the national banking development strategy and restructuring schemes.

Assessment of the legal framework indicates:

- Reduced administrative intervention and subsidies, ensuring SOEs operate under market principles and fair competition.
- Regulations on equitization, divestment, and SOE classification promote restructuring and divestment from non-core sectors.
- Ownership rights are exercised via shareholder mechanisms, with clear delineation of authority between ownership representatives and capital representatives, consistent with global practice.
- Supervision, inspection, and evaluation mechanisms enhance transparency and accountability.
- Special provisions for SOCBs (financial oversight, supervisory targets, and representative management) are in place.
- No legal differentiation exists between SOCBs and private commercial banks, ensuring a level playing field.

Nevertheless, practical implementation reveals issues:

(1) Mismatch with banking specifics: SOCBs operate in capital and monetary services, with distinct features (large capital, asset structures, risks, and risk management) compared to industrial firms. Applying general SOE regulations to SOCBs often proves unsuitable. For instance, profit distribution ratios and transaction approvals (e.g., collateral, funding) are common in banking but require ownership approval under SOE rules. Current evaluation criteria (five key indicators) fail to comprehensively reflect SOCB performance, omitting financial growth (asset expansion, capital adequacy, credit growth, deposit mobilization) and non-financial measures (innovation, service quality, social contribution).

(2) Overlap in authority: SBV's dual role as regulator and owner creates duplication under both Law No. 69/2014/QH13 and the Law on Credit Institutions, particularly in areas such as charter approval, organizational structure, and personnel management.

(3) Other legal inadequacies: Issues include unclear provisions on capital injections from the state budget, approval authority, capital restructuring, and lack of explicit inspection/audit rules for state-capitalized enterprises.

3.2.2. Standardization of Legal Status and Operations of SOCBs

According to the 2020 Law on Enterprises, state-owned enterprises (SOEs) include those wholly owned by the state or those in which the state holds controlling shares or capital contributions. They must be organized either as joint-stock companies or limited liability companies. Vietnam's SOCBs comply with this general framework.

- The equitized SOCBs (Vietcombank, VietinBank, BIDV) operate as joint-stock companies, where the state acts as a major shareholder and exercises its rights through capital representatives.
- Agribank remains a wholly state-owned entity, organized as a single-member limited liability company with a governance structure comprising a Members' Council. The state directly manages ownership through this council.

All SOCBs operate under the same legal frameworks as private banks, including the Law on Enterprises, the Law on Credit Institutions, the Law on Securities, the Law on Investment, and the Accounting and Auditing Laws. This ensures a competitive, transparent, and non-preferential business environment.

Thus, the corporate forms and governance models of SOCBs are clearly defined, aligned with modern governance practices, and provide a sound basis for ownership rights to be exercised transparently, effectively, and lawfully.

However, inconsistencies remain in defining state ownership ratios for SOCBs during 2021–2025. Specifically, state capital management laws require ≥65% ownership, while the banking sector's development strategy indicates 51%.

3.2.3. Separation of Ownership and Regulatory Functions of the SBV

The SBV simultaneously performs both ownership and regulatory functions in SOCBs, making a complete separation impractical. However, measures have been adopted to ensure independent execution of each function, minimizing adverse impacts:

- **Institutional separation:** The primary responsibility has gradually shifted from the Banking Supervision Agency (responsible for regulatory oversight of all credit institutions) to the Financial–Accounting Department (responsible for accounting but not for direct financial or operational supervision of banks). Within this department, a dedicated unit was established to advise on state ownership representation in SOCBs and other SOEs in the banking sector. This arrangement partially separates ownership from regulatory functions.
- **Procedural separation:** Ownership-related powers, responsibilities, and processes are specified in SBV's regulations on capital representative management, distinct from regulatory rules applicable to banks. This minimizes overlaps between ownership and supervisory functions.

Despite these measures, challenges remain. The SBV lacks a specialized agency solely dedicated to ownership management. Most responsibilities are distributed among regulatory departments (except for one small unit in the Financial–Accounting Department). This complicates functional separation, as officials face overlapping duties, requiring capital representatives to liaise with multiple SBV units. As a result, processes are lengthier, with increased administrative burdens for SOCBs and representatives. Moreover, the absence of a centralized database on the four SOCBs hinders information synthesis and timely decision-making.

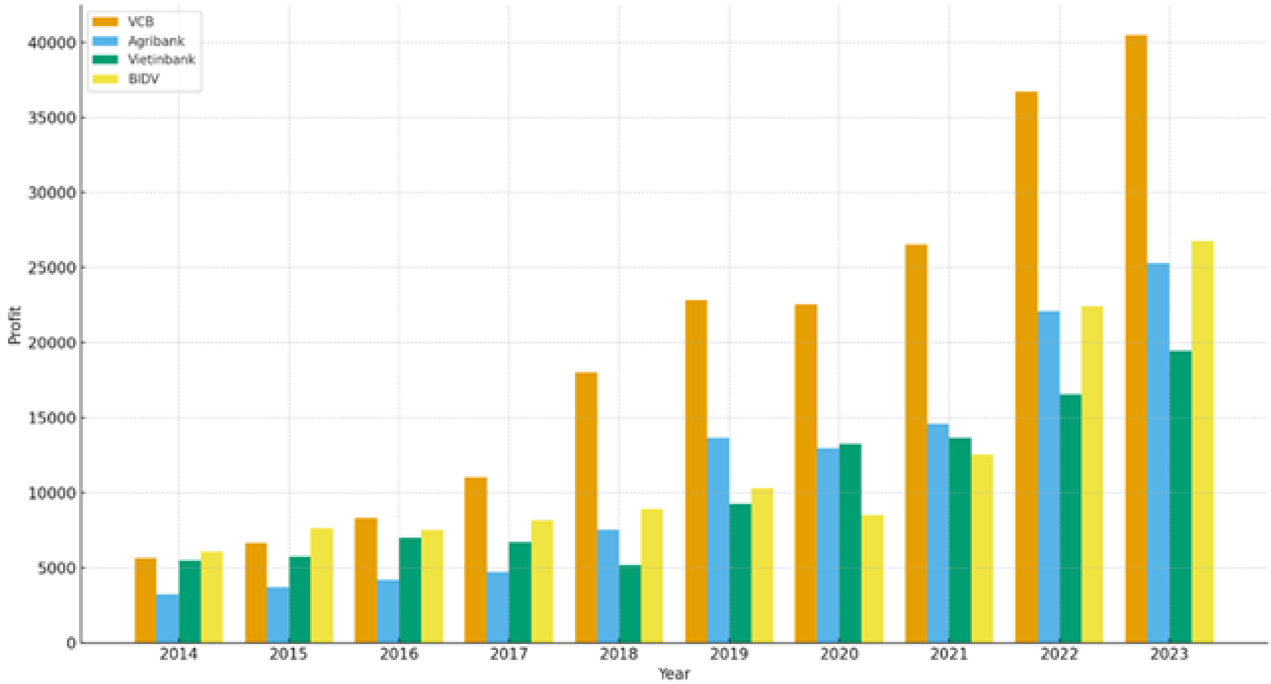
Nevertheless, the SBV has fully exercised ownership rights consistent with each SOCB's legal form, acting as the direct owner at Agribank and as a major shareholder at VCB, Vietinbank, and BIDV. Key responsibilities include:

- **Senior personnel management:** Appointing the Chairman and Members of Agribank's Members' Council; nominating and approving capital representatives at joint-stock banks to be elected to their Boards of Directors. Candidates are selected based on competence, integrity, and banking governance experience, and appointments are regularly reviewed and adjusted.
- **Delegation of authority:** Clearly defining strategic matters requiring SBV approval versus issues where capital representatives may decide independently. SBV approvals are timely, compliant, and suited to SOCB realities.
- **Strategic orientation and oversight:** Hosting annual meetings with capital representatives to set goals and targets for SOCBs, while reviewing reports and proposals to improve ownership management.
- **Reporting and audit regime:** Enforcing full reporting obligations to relevant authorities; annual state capital management at SOCBs is audited by the State Audit Office, with SBV ensuring transparent accountability.

State ownership management has contributed significantly to SOCBs' financial strengthening, particularly through charter capital increases. Between 2020 and 2023, the SBV facilitated capital increases via retained earnings and state budget allocations, enabling SOCBs to sustain leading positions. Compared with 2014, charter capital expanded remarkably: VCB: 109% (2014: VND 26,650 billion → 2023: VND 55,890 billion); Vietinbank: +144% (2014: VND 37,234 billion → 2023: VND 53,700 billion); BIDV: 102% (2014: VND 28,112 billion → 2023: VND 57,004 billion); Agribank: 143% (2014: VND 28,840 billion → 2023: VND 41,268 billion). Correspondingly, equity and total assets also grew at ~8% annually.

Despite global and domestic economic disruptions (2018–2023), especially COVID-19, SOCBs adjusted strategies by accelerating digital banking and cashless payments. This ensured uninterrupted operations, achieved assigned business plans, and delivered substantial profit growth.

Figure 2: Comparison of profits of the four SOCBs, 2014–2023



Source: Author's compilation

Analysis of return on equity (ROE) during 2014–2023 indicates rising profitability, reflecting effective governance and efficient state capital utilization.

Table 1: Return on Equity (ROE) of SOCBs

Year	VCB	Agribank	Vietinbank	BIDV
2014	10,54%	7,18%	10,44%	14,76%
2015	11,98%	6,32%	10,48%	16,70%
2016	14,58%	7,05%	11,58%	14,80%
2017	18,00%	7,36%	8,19%	15,23%
2018	25,08%	17,56%	1,19%	15,29%
2019	21,04%	14,95%	16,90%	15,20%
2020	21,40%	16,07%	15,80%	13,10%
2021	24,48%	22,33%	17,00%	20,40%
2023	21,93%	22,44%	17,10%	20,20%

Source: Author's compilation

Overall, during 2019 - 2023, SOCBs' performance and financial efficiency improved markedly compared with 2014 - 2018, not only in scale and network but also in service quality and product offerings. This period highlights SBV's more systematic, professional, and dedicated ownership management. Survey results from 100 experts, SBV staff, SOCB managers, and academics show 92% affirm SBV's positive impact on SOCB performance.

3.2.4. Regular Monitoring and Performance Evaluation of SOCBs

In exercising ownership rights, the SBV monitors compliance with laws and ownership directives through reporting systems and direct inspections (ex-ante and ex-post). Capital representatives must submit periodic reports to the SBV, facilitating continuous monitoring of SOCB operations. Additional supervision is conducted via statistical reporting and supervisory information systems managed by the Banking Supervision Agency.

Annually, the SBV develops monitoring plans for state-capitalized enterprises under its ownership, including potential direct inspections of the four SOCBs by the Banking Supervision Agency. Regular supervisory and inspection functions are also integrated into state regulatory audits of CIs, covering compliance and ownership-related issues.

Performance evaluation and SOCB classification are conducted in line with state regulations and aligned with banking-specific evaluation criteria.

4. CONCLUSION AND RECOMMENDATIONS

Analysis of the current model of state ownership management in SOCBs shows that, alongside notable achievements, certain shortcomings persist, requiring further refinement to enhance efficiency in managing state capital. The most pressing issue is the need to complete the regulatory and institutional framework for managing state investment in SOCBs, addressing existing bottlenecks to foster their development in line with the orientation of building large-scale, competitive enterprises.

This aligns with **Resolution No. 29-NQ/TW (17/11/2022)** of the 13th Party Central Committee on accelerating industrialization and modernization toward 2030, with a vision to 2045: *"Continue restructuring, reforming, and improving the efficiency of SOEs, while promoting private sector development and FDI attraction. Develop and implement strategies for a number of large-scale economic groups, state enterprises, and private enterprises with international competitiveness, acting as leading forces in strategic sectors such as energy, manufacturing, finance–banking, agriculture, telecommunications, and infrastructure."*

It also aligns with the Banking Sector Development Strategy, which emphasizes that SOCBs must remain dominant in terms of scale, market share, and market-stabilizing capacity; lead in implementing Basel II (advanced approaches) and international integration; and pursue cross-border stock listings.

Based on the analysis, several recommendations are proposed:

First, improving the Legal Framework

Enhancing the legal system for state ownership management in SOCBs is vital. The framework must both address current shortcomings and introduce breakthrough solutions adapted to the unique characteristics of SOCB operations. Specifically:

Dedicated provisions for SOCBs: Regulations applicable to SOCBs should be codified into a distinct chapter within the Law on State Capital Management, with supplementary decrees tailored for banking. This would create a specialized legal corridor distinct from general SOEs and resolve overlaps with sectoral laws.

Clear ownership targets: The state must specify and disclose its management objectives and ownership ratios in SOCBs. Ratios should be unified and transparent, ensuring state shareholder dominance while balancing fiscal revenue goals (annual dividends) with SOCBs' capacity to raise capital through private placements and strategic shareholders, thereby accessing modern business and governance practices.

Capital injection mechanisms: Rules must be improved for supplementary state capital injections (via state budget or other sources). The state should focus on strategic issues—high-level governance, public policy goals, and overall targets—while refraining from day-to-day operational decisions, consistent with international best practice.

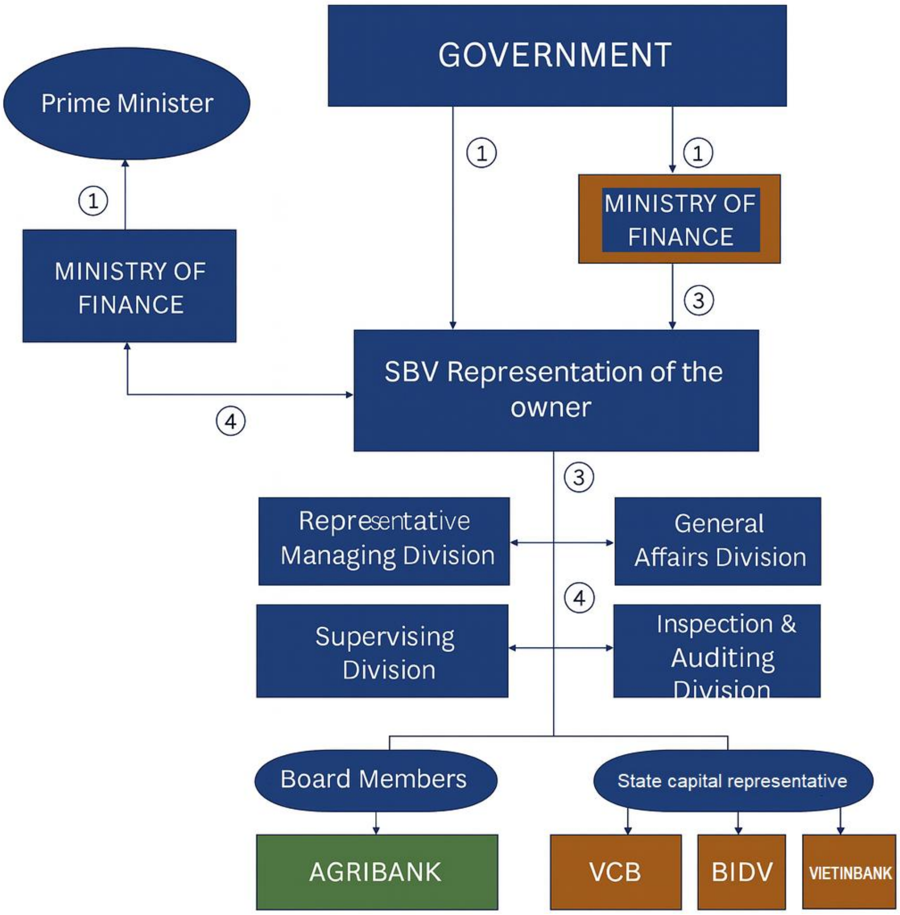
Second, improving the Organizational Model of State Ownership Representation

***Enhanced decentralization*:** Grant the SBV greater authority as the representative of state ownership in SOCBs, with full accountability for capital management outcomes. The Ministry of Finance should focus on fiscal tasks, assigning state revenue targets to the SBV based on SOCB performance.

***Dedicated ownership management unit*:** Establish a specialized department within the SBV, organized at the *General Department* level, solely responsible for ownership functions in SOCBs and other banking SOEs. This unit must be independent of departments with regulatory roles (e.g., Banking Supervision Agency, Personnel Department, Financial–Accounting Department).

***Professional staffing*:** Build a cadre of dedicated experts trained in banking, finance, and accounting, with practical experience in SOCBs. Recruitment from the banking sector should be considered, alongside structured training and professional development programs. Policies for hiring external experts (banking, auditing) should also be adopted to support complex, strategic issues in ownership management.

Figure 3: Proposed model of state ownership management in SOCBs



Process within the model:

(1). Administrative relations between higher- and lower-level state agencies.

(2). Ministry of Finance supervises SBV's capital management in SOCBs.

(3). SBV's ownership management and supervision over SOCBs.

(4). Direct owner representatives and capital representatives provide instructions and approvals to SOCBs.

(5). Charter capital supplementation process: SBV proposes, Ministry of Finance appraises, Prime Minister decides.

Third, strengthening Ownership Supervision over SOCBs

***Reporting system*:** Require SOCBs and capital representatives to submit regular, detailed financial and operational reports to the SBV, forming a unified information system and database for ownership management.

Inspection programs: Conduct ownership-specific audits of SOCBs, clearly distinguishing between sectoral regulatory inspections (compliance, risk management, systemic stability) and ownership inspections (state capital efficiency, compliance with state directives, financial and governance effectiveness). Clear separation of these two types of inspections will enhance effectiveness and accountability for all stakeholders.

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