



# Strengthening Banking Sector Soundness and Development Program

SECO (Swiss State Secretariat of Economic Affairs) supports the Vietnam Government's reform efforts outlined in their reform program that seeks to strengthen the soundness of the banking sector by focusing on four interlinked pillars that are highly relevant and critical for the long-term health of the banking system in Vietnam.

## Context

Vietnam has achieved remarkable economic performance since the start of its transition in 1986 including rising levels of formal financial intermediation and financial sector deepening. The rapid credit expansion that followed the global financial crisis in 2008/09 resulted in a period of macroeconomic instability, increasing inflation and rising non-performing loans (NPLs) in the banking system. The rising NPLs underscored weaknesses in lending practices, bank corporate governance and oversight of the banking sector. It also negatively impacted financial intermediation in 2011 and early 2012.

To address the identified challenges and set the stage for the 2<sup>nd</sup> phase of restructuring, the National Assembly issued Resolution 42 in June 2017 which was then detailed in Prime Minister's Decision 1058 in July 2017 guiding credit institution restructuring and NPL resolution during the period 2016-2020). In August 2018, the Prime Minister issued Decision 986 on Banking Sector Strategy up to 2025, with a vision to 2030. Regulations guiding the implementation of Basel II principles have also been under preparation and are envisaged to address critical risks in banking sector activities. Efforts have also been made to identify weak banks and address the systemic risks posed by these institutions.

## Objectives and Components

**The development objective of the Trust Fund is to enhance the capacity of the SBV to address structural weaknesses in the banking system.** Specifically, the program seeks to achieve:

Country/region

Vietnam

Executing agency

The World Bank in Vietnam

Executing period

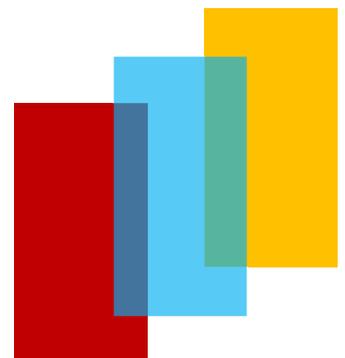
2019-2023

Total budget

CHF 7,832,500

SECO contribution

CHF 7,832,500



- (i) A legal framework better aligned with international standards and good practice including evolving standards for banking resolution;
- (ii) A more robust regulatory and supervisory framework, reflected in improved compliance with several Basel Core Principles (BCPs), that will help ensure the safety and soundness of the banking system;
- (iii) A more efficient and effective VAMC equipped with actual tools/mechanisms to resolve NPLs of commercial banks; and
- (iv) Strengthened SBV's macroprudential management capacity to better anticipate and manage potential risks emanating from the banking sector, thereby enhancing overall financial sector stability.

## Expected results

*Component 1:* The objective of the legal component is to support the SBV in revising the laws associated with the banking sector primarily the Law on Credit Institutions. Moreover, this component will seek to support the implementation of Resolution 42 on NPLs resolution. This work will provide the required insight and understanding to propose legal changes providing the authorities with the powers and tools to address the remaining challenges to implement restructuring plan, in a manner that ensures financial stability at a low cost to the taxpayers. Provided that the NA's approval can be obtained, the **key result** will be a legal framework better aligned with international standards and good practices for banking supervision emerging new standards for banking resolution and more effective and efficient NPL resolution.

*Component 2:* The **objective** of this component is to support the authorities of Vietnam in strengthening the banking supervision and regulatory framework, by aligning these with international standards and good practice. This will contribute to the safety and soundness of individual institutions and a more resilient and stable banking sector. The **key result** will be a more robust regulatory and supervisory framework. Provided the authorities implement all the recommendations adequately, this is likely to be reflected in improved compliance with some Basel Core Principles (BCPs). This could include the Core Principles in the areas of supervisory approaches and tools; and corrective and sanctioning powers.

*Component 3:* The overarching **objective** of this component is to establish tools, powers and mechanisms that allow the Vietnamese authorities to (i) resolve the accumulated stock of NPLs in the economy at overall lowest costs to the taxpayers, and (ii) address weaknesses in banks which show signs of impending problems and resolving insolvent banks. The **key result** will be better management of NPLs in the banking sector in Vietnam.

*Component 4:* The overall objective of this component is to contribute to strengthening SBV's macroprudential management capacity to better anticipate and withstand shocks. The TA aims at supporting Vietnam in: a) enhancing surveillance of systemic risks; b) better understanding risk transmission in the financial system and the economy; and c) increasing information availability on systemic risks and impacts. The **key result** will be a more robust macroprudential framework and capacity within the Monetary and Financial Stability Department of the SBV to oversee macro-prudential risks.

## Further information

### Website:

- **SECO:** [www.eda.admin.ch](http://www.eda.admin.ch)
- **World Bank:** [www.worldbank.org/en/country/vietnam](http://www.worldbank.org/en/country/vietnam)

### Contact:

- **SECO:** Nguyen Hong Giang, Senior Program Officer  
Email: [giang.nguyenhong@eda.admin.ch](mailto:giang.nguyenhong@eda.admin.ch)
- **World Bank:**
  - Katia D'Hulster, *Lead Financial Sector Specialist*  
Email: [kdhulster@worldbank.org](mailto:kdhulster@worldbank.org)
  - Viet Quoc Trieu, *Senior Financial Sector Specialist*  
Email: [vtrieu@worldbank.org](mailto:vtrieu@worldbank.org)
- **Government:** Nguyen Kim Anh, Deputy Governor, State Bank of Vietnam