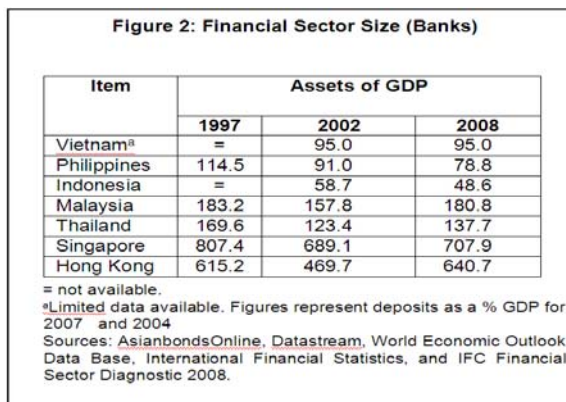
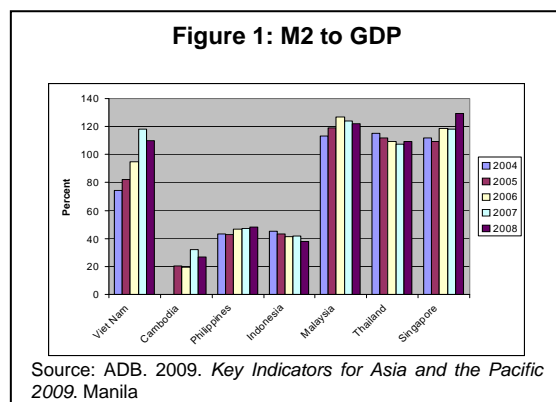


SECTOR ASSESSMENT (SUMMARY): FINANCE

A. Sector Performance, Problems, and Opportunities

1. Sector Performance and Problems



1. **Banks dominate the financial sector.** Financial deepening, as measured by the ratio of broad money (M2) to gross domestic product (GDP), continues to improve, rising more than

Composition of the Banking System

	2004	2005	2006	May 2008	May 2009
Number of Banks	69	71	78	86	82
Joint Stock banks	36	35	34	36	38
Foreign banks	28	30	31	37	33
State-Owned commercial banks	5	5	5	5	5
Joint venture banks na	6	6	5
Development bank and policy bank	...	1	2	2	1
People's credit funds	900	900	926	998	...
Total	1,088	1,102	1,152	1,170	...

... = not available.
 Source: State Bank of Vietnam

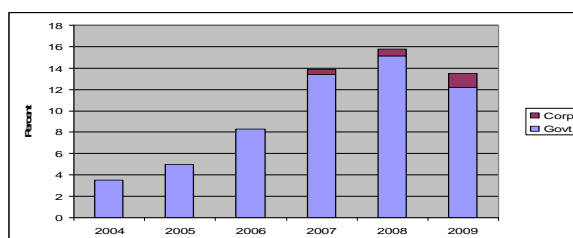
80% in 2009 from 2007. Banking continues to dominate the financial sector; they are in turn dominated by state-owned banks (SOCBs) accounting for 51% of systemwide loans. Total loans grew 26% in 2006 and 54% in 2007, before decelerating to 32% growth in 2008. Likewise, total deposits grew 36% in 2006 and 47% in 2007 followed by relatively slower growth of 22% in 2008. The four large SOCBs—Agribank, Bank for Investment and Development for Viet Nam (BIDV, Vietcombank, and Vietinbank—continue to dominate the banking system, accounting for 51% of systemwide loans at the end of September 2009 (2008: 52%; 2007: 54%).

2. **Nonperforming loans and bank capitalization.** Across the sector, nonperforming loans deteriorated to 2.5% of all loans at the end of 2009 from 2.1% in 2008. A study by Fitch Ratings Agency considers the capital and reserve coverage of the four major state-owned banks to be barely adequate. Banks are hampered by insufficient capital, limited scale of operation, and high credit risk. Of the six banks rated by Fitch Ratings Agency, all received a rating of “D” or lower.

3. **Microprudential measures and banking consolidation.** In an effort to enhance and strengthen the financial position of commercial banks, the State Bank of Vietnam (SBV) has identified consolidation of the private joint stock banks as a priority along with equitization of the SOCBs. The minimum charter capital of the joint stock banks (JSBs) has been increased to D3 trillion, to be met by year-end 2010. A review of the SBV website indicates almost two-thirds of the JSBs have less than half of the required capitalization. Other significant measures include major amendments to the SBV Law and Credit Institutions Law, extension of the bankruptcy code to banks, formalization of SBV powers to place banks under special control, and establishment of regulations to govern bank mergers.

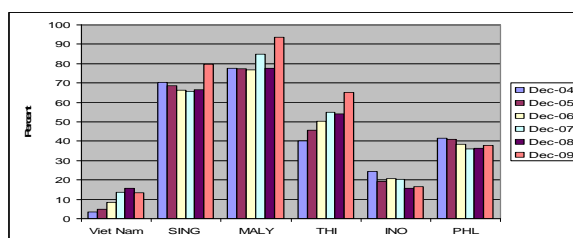
4. **Debt markets.** These continue to improve but remain underdeveloped and fragmented. The domestic currency bond stagnated in the three quarter of 2009 as difficult market conditions overlay other structural impediments. Regionally, overall development of Viet Nam's bond market at 14.2% of GDP is still below the overall emerging East Asia markets average of 52.1% of total 2008 GDP. Specific to government bonds, the percentage of 13.7% over GDP is below the emerging East Asia markets average of 39.6 %.

Figure 3: Composition of Issuance % GDP



GDP = gross domestic product.
Source: AsiaBondsOnline.

Figure 4: Comparative Size of Market % GDP



GDP = gross domestic product.
Source: AsiaBondsOnline.

5. **Structured reform and development of money markets.** On 17 June 2009, the National Assembly passed the Law on Public Debt Management. A very positive reform under the new law is the establishment of the Public Debt Management Office in the Ministry of Finance (MOF). It is expected to consider debt consolidation of the government debts.

6. **Equities market.** The country has 105 registered securities companies and 46 fund management companies. As of 31 March 2010, the markets had 879,730 investor accounts. Total market capitalization in early May 2010 is estimated at D740,433 billion (\$39 billion), or about 43% of GDP.¹ If the state-owned enterprise reform remains on track, the size of the Vietnamese stock market may rival those of the Philippines (\$76 billion) and Thailand (\$166 billion). To broaden the scope of regulated trading in stocks, the government introduced the unlisted public companies market at the Hanoi Stock Exchange (HNX). As of April 2010, the unlisted public companies market had 83 members and 53 listed shares with total market capitalization of D7.629 billion and total trading value of D872 billion. Among the key policy initiatives by the State Securities Commission is the completion of a comprehensive review and analysis of the Strategic Development for the Vietnamese Capital Market and Sector Road Map for 2010–2020. The review of the effectiveness of the Securities Law is complete and the draft law has been submitted to the government and the National Assembly for approval in 2010.

¹ The 2009 GDP is estimated at \$90.5 billion.

7. **Insurance subsector.** Forty-nine insurance companies were operating in March 2009 compared with 22 in 2004; annual insurance premiums have grown tenfold over the past 10 years, to approximately \$1.2 billion. Viet Nam's life insurance market has great potential for growth as only about 5% of the population is insured.

2. Opportunities

8. **Develop the debt market.** The government is working to consolidate debt management capacity to perform risk allocation functions, including enhancing corporate access to debt issuance. The total local currency bond market is approximately \$12 billion and represents only 15% of GDP. Viet Nam has one of the smaller debt markets of the Association of Southeast Asian Nations+3 excluding Japan in terms of GDP and size, although the rate of growth has been rapid over the last 5 years. In general, only two problems are linked with the issuance of short-term paper: unrealistic expectations of market rates, and insufficient bidders to ensure a truly competitive market. Multiple distribution methods and channels result in a very confused and inefficient system of debt issuance, which promotes a large number of small illiquid issues. Among the specific key impediments to bond market development that need to be addressed are (i) ineffective issuance framework, (ii) lack of benchmark issues, and (iii) additional instruments needed for the short-end yield curve. The establishment of the Public Debt Management Office with the passage of the Public Debt Management Law on 17 June 2009 is an extremely positive move to significantly help address impediments to developing bond markets. Under this law, MOF has the responsibility to assist the government in consolidating the management of public debt, and is the only agency that can issue government debt instruments.

9. **Enhance market liquidity for equities markets.** The securities market declined sharply in 2008. It was the worst performing market in Asia in the first half of 2009, but recovered enormously in the second half of 2009. The number of listed firms continues to increase in both exchanges—the Ho Chi Minh City Stock Exchange and HNX, almost doubling since end of 2006—227 listed in HNX and 178 in the Ho Chi Minh City Stock Exchange as of August 2009, with combined market valuation of almost D680 trillion. The country now has 105 registered securities firms and 46 registered fund management companies. The revised Securities Law and Strategy 2020 for Capital Market are expected to help address current impediments to capital market development and enforcement.

10. **Build the insurance industry.** Although a number of significant efforts have been initiated over the past few years to strengthen and develop the insurance subsector, further development is needed to build a stronger and competitive industry. In terms of international benchmarks (insurance density—premium per capita in 2007), Viet Nam ranked 85th in the world—compared with Hong Kong, China (13); the Republic of Korea (21); Malaysia (44); Indonesia (79); and the Philippines (81). Foreign life insurers can now compete equally with local rivals. MOF is working to strengthen the insurance subsector.

11. **Enhance market information.** Viet Nam is still working to effectively adopt international accounting and auditing standards. Through previous Asian Development Bank (ADB) technical assistance support, an incremental shift to adopting international standards via revised draft guidelines incorporating International Accounting Standard (IAS) 32, IAS 39, and International Financial Reporting Standard 7 were submitted for approval of the Vice Minister in mid-October 2009. However, given the worldwide complexity in the application of these standards, the government decided to initiate step-by-step implementation after comprehensive and thorough consultation and preparation. The key issue is that a shift from a rule-based approach to

principal-based regulation approach has yet to take place and the market is currently not quite ready to make that quantum leap. Support is needed to develop measures for the transition from rule-based to principal-based accounting regulation, including training and an industrywide awareness program.²

B. Government's Sector Policy and Planning Framework

12. Viet Nam's policy and planning tools are targeting development challenges in the financial sector. The 5-year Socio-Economic Development Plan (SEDP) 2006–2010 aims to reduce poverty. It envisages not only middle-income status by 2010 but also industrial country status by 2020 by increasing average GDP per capita (about \$622 in 2005) to \$1,050–\$1,100 by 2010. This will give effect to the government's efforts to move to the intermediate stage of capital market development, to continuing state-owned enterprise reforms, and to increase integration with the global economy. The government is committed to developing the financial sector as outlined in the SEDP. It is using the SEDP as the framework to develop the sector over 10 years to 2020. The SEDP has a coherent, pragmatic, and sustainable approach to financial sector development and was formulated with technical support from ADB.

C. ADB Sector Experience and Assistance Program

13. The ADB country strategy and program for Viet Nam is consistent with the SEDP, and supports business-led pro-poor growth by promoting infrastructure development, a business-enabling environment, and financial intermediation.³ ADB support for Viet Nam's financial sector strategy has helped the government articulate a vision of a modern broad-based financial sector with strong intermediaries, well-functioning markets, and legal and regulatory infrastructure that promotes stability and sustainability. The Third Financial Sector has the objective of creating a more diversified, deeper, and more resilient financial sector. It seeks to strengthen alternative channels for market-based financial intermediation and promotes the development of the nonbank financial subsector. It is fully aligned with the SEDP and ADB's country strategy and program for Viet Nam (2007–2010).

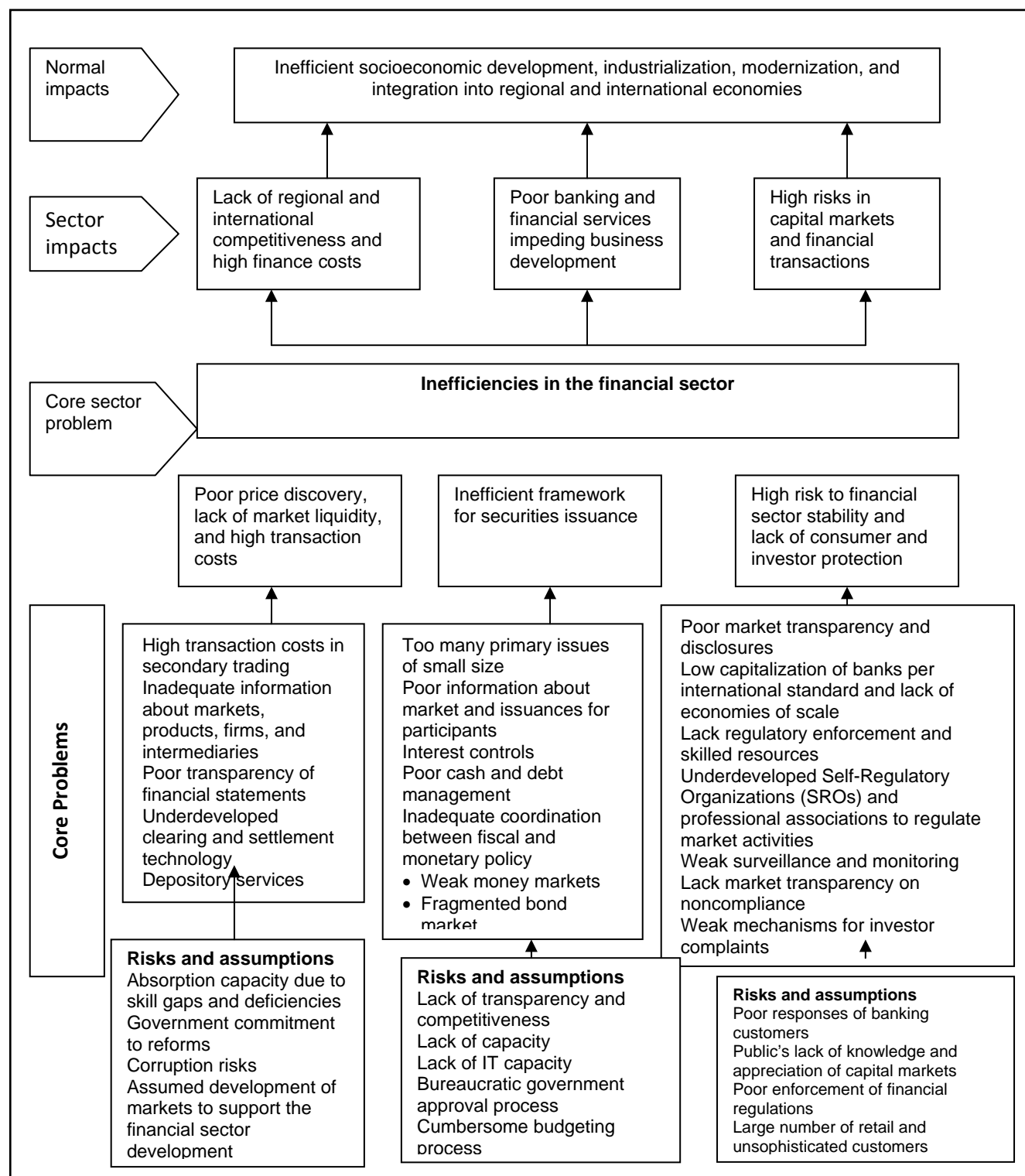
14. Measures to strengthen consumer protection under the program aim to increase investor confidence, as well as deepen this by increasing the investor pool through increased investor and consumer protection. In addition, the price discovery role of the markets needs to be enhanced by lowering information and trading costs, and improving transparency. The program supports the government's efforts to promote greater regional cooperation through cooperation with regulators of other securities markets in the region. A loan of \$75 million from ADB's Special Funds resources was provided for subprogram 1. A loan of \$60 million from ADB's Special Funds resources (ADF) will be provided for subprogram 2. Actions under subprogram 1 were undertaken in two phases: (i) January 2006–September 2007 for the first tranche, and (ii) October 2007–February 2009 for the second tranche. Actions under subprogram 2 cover March 2009 to September 2010. Over the past two decades of ADB's involvement and support to financial sector development in Viet Nam, the nature of Viet Nam's financial sector has transformed radically from a system predicated on government allocation of funds via a single state-owned bank to a market-based system where state-owned commercial banks were established and are currently in the process of equitization. Foreign banks have entered and are operating in the country, and the government is increasingly focusing its attention on the capital

² MOF's Accounting and Auditing Department has requested ADB technical assistance support.

³ ADB. (Year). *Country Strategy and Program: Viet Nam, 2007–2010*. Manila.

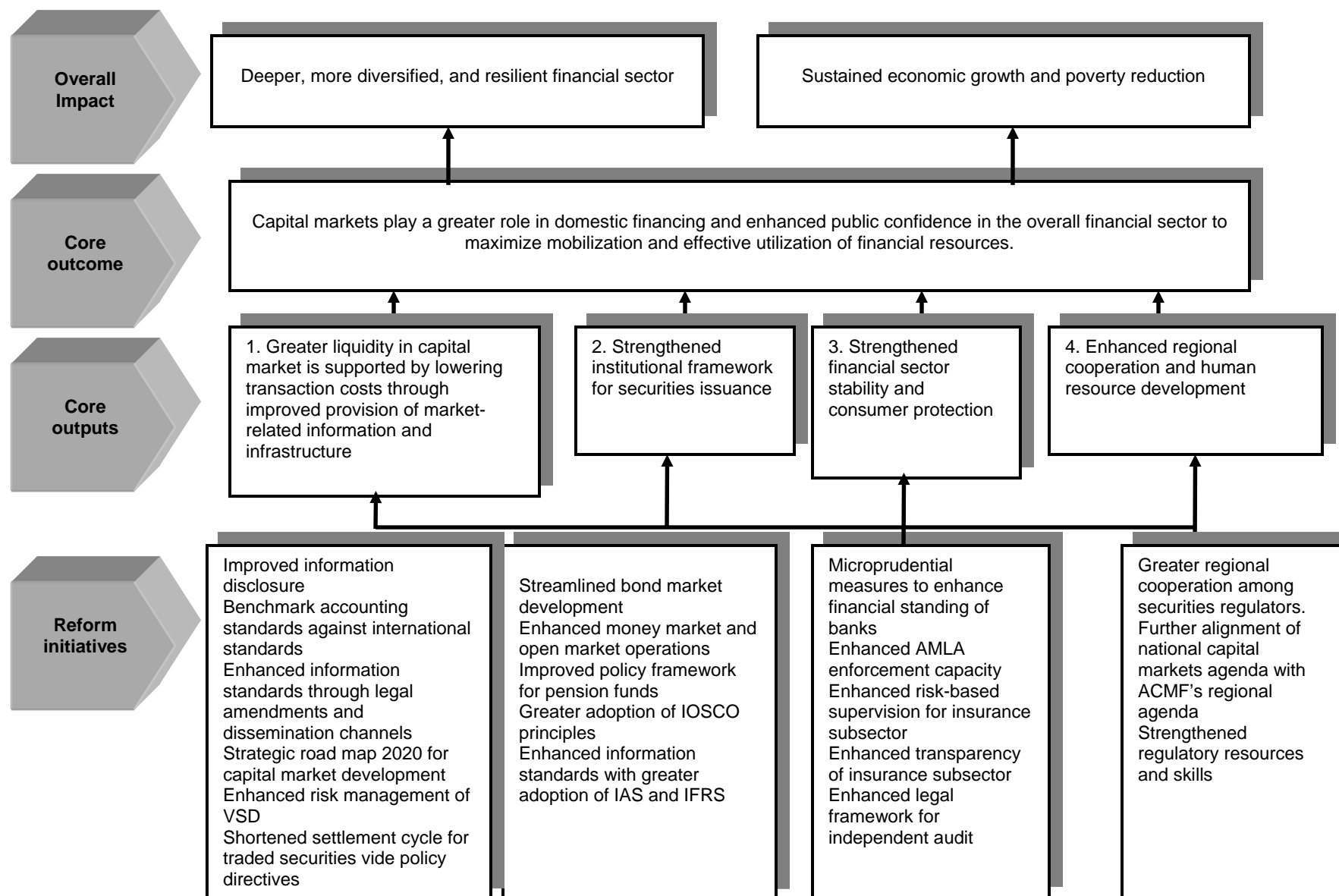
market. Program support enables ADB to continue its policy dialogue and engagement with the government to ensure continued financial sector reforms.

Problem Tree for Financial Sector



Sources: Government of Viet Nam and Asian Development Bank.

Impact, Outcome, and Outputs



ACMF = ASEAN Capital Markets Forum, AMLA = Anti-Money Laundering Act, IAS = international accounting standards, IFRS = International Financial Reporting Standards, VSD = Vietnam Securities Depository.,

Source: Asian Development Bank.