Addressing Risks And Promoting Financial Stability: The Case Of Vietnam

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This paper aims to provide the understanding of the financial stability framework in Vietnam, identify some critical risks, and outline supporting tools for monitoring financial stability as well as several policy recommendations.

1. Financial Stability in Vietnam

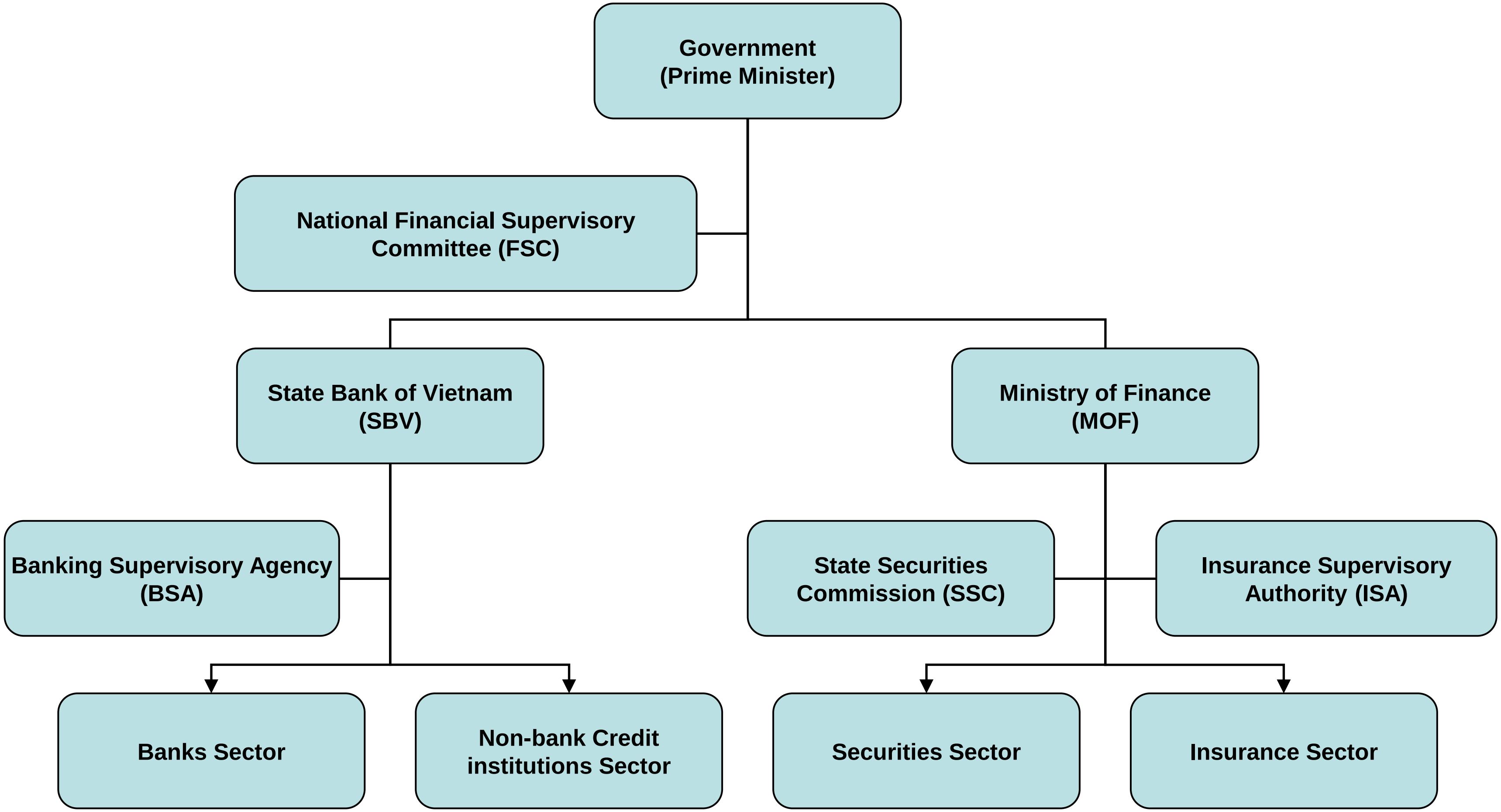
Vietnam's Financial sector:

- Credit institutions
- Stock markets and securities companies
- Insurance companies

1.1. Overview Of The Credit Institution System

1. Banks:
    - Commercial banks: State owned commercial banks (07), Joint stock commercial banks (27), wholly-owned subsidiaries by foreign banks (08), Joint venture banks (02)
    - Policy banks (02)
    - Cooperative bank (01)
2. Non-bank institutions:
    - Finance companies (14)
    - Leasing companies (11)
3. Micro-finance institutions (03)
4. People credit funds (1171)
5. Foreign bank branches (42)
6. Foreign bank representative offices

1.2. Financial Regulatory Structure



2. Risks Confronting the Vietnamese Financial Stability

- Credit risk: main risky source
- Liquidity risk: not risky source
- Market risk: not risky source
- Operational risk: risky source

Crisis Resolution

- Improving International and Domestic Coordination and Cooperation
- Establishing Financial Safety Net and Crisis Management Protocol

3. Supporting Tools for Monitoring Financial Stability

3.1. Macroeconomic Indicators

Macroeconomic indicators	*Sub-indicators*	*Report frequency*
Economic Growth	GDP	Monthly
Balance of Payment	Current account deficit FX reserve adequacy External debt Composition and maturities of capital flows	Monthly/ Quarterly
Inflation	Volatility of Inflation Volatility of CPI	Monthly
Interest and exchange rate	Volatility of interest and exchange rates Basic interest rate Interbank market interest ratea	Monthly
Other factors	Government resources to banking system	Monthly

3.2. Macro-Prudential Instruments

Type of instrument	*Description*
Measures targeting credit growth	
Credit growth caps	In normal period, there are not limits but SBV sets up targeted aggregate credit growth cap to direct the banks. SBV will impose the aggregate/sectoral credit growth cap if necessary
Loan to Value Ratios	Encourage banks adopt LTV ratio ≤ 70% for mortgage loan
Foreign currency restriction	Foreign currency lending to the borrower who has no foreign currency inflow is prohibited
Measures targeting size and composition of bank's balance sheet	
Capital adequacy Requirement	Minimum CAR is 9% for credit risks only No capital charge for market risks and operational risks Property and securities loan has 250% risk-weight ratio.
Liquidity risks	Loan to deposit limits ≥ 85%, Liquid assets/total liability ≤ 15% 7 day cash inflow/ 7 day cash outflow ≥ 100%
Currency risks	Open currency position ≤ 30% of capital

3.3. Micro-Prudential Indicators

Micro prudential indicators	***Sub-indicators***	***Report frequency***
Capital Adequacy	Capital Adequacy ratio Tier 1 Capital/risks-weighted Assets	Monthly
Assets	Fixed assets/capital Large exposures, related parties loans NPLs/Total Assets Loan loss Provisioning/Total loan Investments/capital Investments ≥ 10% of invested entity capital	Monthly/ Quarterly
Management	Awareness and supports of BOD, Efficiency of BOC Quality and compliance of MB Quality of Internal control system	On-site examination (Yearly plan or event occurred)
Earnings	ROA ROE Interest income/total income	Semi-annually
Liquidity	Loan to deposit limits Liquid assets/total liability 7-days cash inflow/ 7-days cash outflow Short term funding for medium and long term lending	Monthly

4. Policy Implications and Recommendations

- Articulate SBV's Primary Role in Banking as the Guardian of Soundness of the System
- Implement a Holistic Risk-based Approach to Supervision
- Improve Co-ordination between Regulatory Authorities
- Micro and Macro-prudential frameworks