

Attracting Foreign Capital to Viet Nam's Banking Sector

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ABSTRACT: This article is an attempt to consider why foreign investments to the banking system come in or leave Viet Nam. Its main objective is to analyze what is driving foreign investors out of the Vietnamese banking sector and what could be done to keep the existing foreign players and attract the new ones. To achieve this objective, the authors first carry out a thorough review of relevant literature, which is followed by phone interviews of people working in or with the banking sector of the country. The article provides the list of main problems, which complicate attracting and keeping investors and finishes with a set of measures, which could be recommended for improving the situation.

KEYWORDS: Viet Nam, foreign investments, banking sector, financial regulation

JEL Codes: F21, F65, G18, G21, G28

Introduction, Objectives

Over the last years, the country has made a tremendous progress in terms of modernizing its economy and making business environment more attractive for foreign investors. As stated by Nguyen Xuan Phuc, Prime Minister of Viet Nam “In 2018, Viet Nam’s GDP growth rate hit a 10-year record high of 7.08%, making it one of the top growth performers in the region and the world.”³ Viet Nam’s economic performance impressed (Vass, 2019) who pointed out that “Amid the trade tension that has been felt globally, one star in Asia has been glowing ever brighter. Vietnam has emerged as one of the fastest growing countries in the East.”

The main achievements of Viet Nam related to the subject of this article are substantial and may be summarized as follows:

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³ <https://www.pwc.com/vn/en/publications/2019/pwc-vietnam-dbg-2019.pdf>

- “Throughout over 30 years of Đổi mới⁴, Viet Nam’s economy has maintained an average GDP growth rate of 6.6%” (PwC, 2019). This is one of the best results achieved all over the World. Figure 1 below demonstrates that even the period of financial crisis of 2008-2009 did not affect the Vietnamese economy very much;
- The economic progress is mainly driven by the transformation into a global manufacturing hub. Viet Nam has surpassed many of its neighbors as an exporter and continues to increase its global market share. The country demonstrates a continuous shift from agriculture towards industry and services;
- Viet Nam’s inflation and interest rates are stable for a long period of time. The interest rate slightly exceeds 6% since 2013 with a slight downward trend and the inflation rate is also kept at modest levels about 5% since the same time;
- In September 2018, FTSE Russell added Viet Nam to its watch list for possible reclassification as a “Secondary Emerging market” instead of a “Frontier market”. However, in 2019 the country is retained on the Watch List for possible reclassification. The reclassification follows market improvements implemented by authorities in the respective countries;
- (Hiếu, 2019) explained that “the market, especially consumer finance, has high growth potential, given the country’s population of more than 95 million with only 30 per cent of them having access to banking services”;
- Viet Nam has been decisively fulfilling its commitments to support foreign investors and international economic integration.

4 A series of economic and political reforms initiated in Vietnam in 1986 with the goal of creating a “socialist-oriented market economy”.

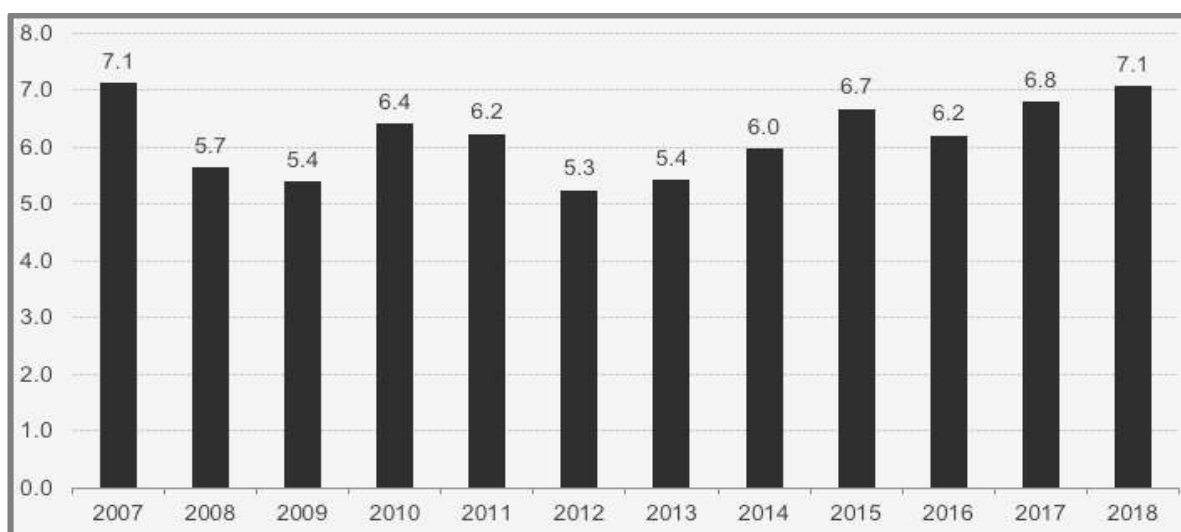


Figure 1: Viet Nam Real GDP Growth (%)

Source: Vass, 2019

All the above and many other points make the country a very attractive destination for foreign investors including those wishing to invest in its banking sector. As reported by (PwC, 2019), retail banking is one of the sectors of opportunities for foreign investors. The same source mentions that “Viet Nam’s financial services sector in general and retail banking in particular are undeveloped but boasts high growth potential.” In PwC’ view, the salient features of this sector are:

Table 1: Salient features of Viet Nam’s financial services sector

A heavily cash-based society	Over 90% of financial transactions are conducted in cash, hence the demand for other types of banking products is set to grow.
Increasing digital connectivity	The country’s mobile internet subscriptions are expected to expand further from 45 million in 2017 to 55 million by 2023, according to Euromonitor International (Retailing 2019 edition), thereby presenting a unique opportunity in the FinTech space.
59% of the population is banked	It is noteworthy, however, that this ‘banked’ population is underutilizing existing banking services, which indicates there is still significant potential for product diversification and growth within retail banking.
Young and populous consumer base	With about 60% of the 95 million population under the age of 35, the working age population will continue to expand over the next twenty years and bring higher demand for convenient, consistent and accessible financial services products.
Growing affluence	Rising affluence in the domestic market will likely lead to higher demand for premium services like wealth management, life insurance and retail banking products.

Source: PwC, 2019

The serious progress made by Viet Nam in easing regulations in the banking sector has been remarkable and was admitted by different international organizations and financial institutions. For example, (Asian Development Bank, 2014) mentioned that “notable progress is being made in making NPLs⁵ more transparent”. (Credit Suisse, 2017) reported that “Vietnam made a lot of progress in establishing frameworks for handling troubled assets”. (PwC, 2019) pointed out that “The financial system is becoming more resilient thanks to systematic efforts to restructure banks, resolve bad debts and adopt international risk frameworks.” The government of this country is strongly committed to attracting foreign investors in this sector creating favorable conditions for the existing players as well as to newcomers. Good signs of this commitment include, but not limited to joining WTO, the ASEAN Free Trade Area (AFTA), the ASEAN Economic Community (AEC), participation in Trans-Pacific Partnership, signing different free trade agreements, etc. We should especially mention AEC, which has become an engine pushing Viet Nam to make its financial sector more open for foreign investors.

Another important milestone was the approval of the “Development Strategy of Viet Nam Banking Sector to 2025 with Orientations to 2030” in 2018. Among the objectives of this strategy is that during the period from 2021 to 2025 financial institutions should start operating in accordance with international standards and increase their competitiveness and transparency. Most of them should following the Basel II standards by the end of 2025. The introduction of Basel principles in the country is a very important topic, which deserves a special study and is partially covered in this document further below.

Figure 2 below serves a good illustration to the points mentioned above.

The authors intentionally abstained from concentrating on foreign direct investments only, because in their view there is a certain need to attract investments made by foreign governments and international financial institutions as well. The importance of attracting non-FDIs will be addressed separately. However, still a lot to be done. Moreover, certain negative trends can be observed. The article addresses the existing and potential problems and suggests pro-active ways to resolve them.

⁵ NPLs – non-performing loans

The main objective of the current document is to analyze what is driving foreign investors out of the Vietnamese banking sector and what could be done to keep the existing foreign players and attract the new ones.

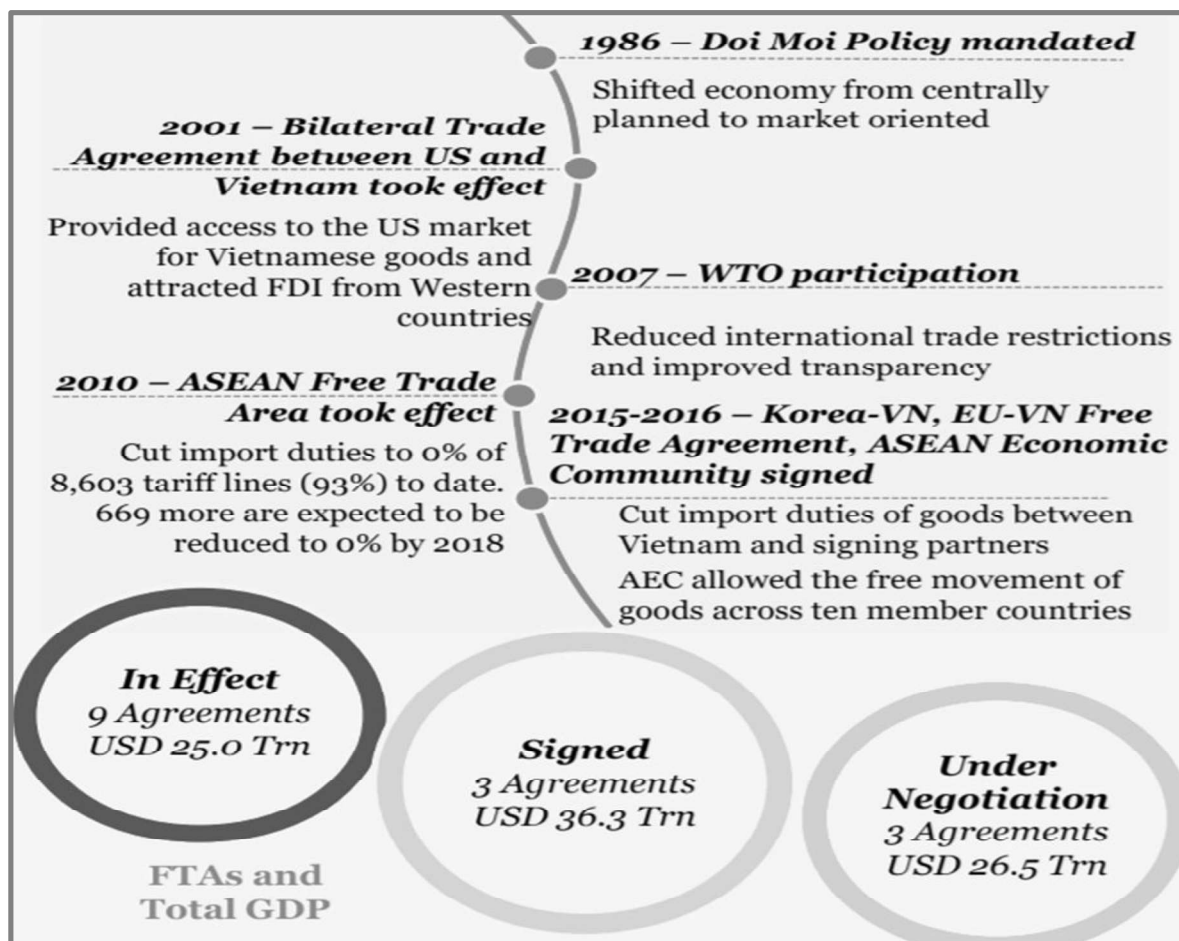


Figure 2: Vietnam’s Trade Liberalization Timeline

Source: Customs, Vietnam General Statistics Office, 2020

Relevant Literature

It should be mentioned that the number of academic literature sources on attracting foreign investments into the banking sector of Viet Nam is limited. They, however, exist and mentioned here. (Leung, 2009) summarized Vietnam's developments in the banking and financial sector till 2009. The article assessed “the system's weaknesses that played an important role during the macroeconomic turbulence of 2008”. It then discussed “the need for deeper reforms of the country's key macroeconomic

institutions”. (Vu–Turnell, 2010) addressed “the cost efficiency of the Vietnamese banking industry” and found that “overall, the level of cost efficiency of Vietnam's banking sector is relatively high, around 87 percent. The findings reveal minor and insignificant differences in the cost efficiency of different groups of banks classified by ownership.” (Vo, 2015) addressed “the effects of foreign ownership on the firm-level volatility of stock returns in Vietnam” and discovered “stabilizing role of foreign investors in emerging stock markets and this can be considered as one of the potential benefits of increasing the exposure of domestic stock markets to foreign investors.” (Nguyen, 2016) analyzed “the influences of foreign bank presence on the technical efficiency of the domestic commercial banks.” “The result indicates that the presence of foreign banks put positive impacts on the technical efficiency of the domestic banks.” (Malik, 2016) examined “the effects of ownership structure, focusing on state-ownership and foreign-ownership, on performance of selected Vietnamese bank” and came to an interesting conclusion that “the evidence is not steady and sufficient to support the notion that foreign owned banks generally outperform domestic banks... A possible reason for this is the presence of stringent barriers and regulations by the Vietnamese Government for foreign banks in Vietnam.” (Vo, 2016) studied “the relationship between level of foreign ownership in a firm and the liquidity of the firm stock in the Vietnam stock markets”. (Hoang–Nguyen, 2018) (Anwar–Nguyen, 2018) evaluated the success of the State Bank of Vietnam policies. The results demonstrated that this success is limited. (Tang–Liu, 2018) “classified laws and regulations of Vietnam in banking and insurance and used Mattoo index to analyze the degree of financial liberalization in Vietnam. It concludes Vietnam's financial liberalization degree was higher than that of Asia and the Pacific. The banking liberalization degree is higher than the average of the world, and the insurance liberalization degree is lower than the average of the world.” Probably the best work related to the topic of this article was prepared by (Phung–Tröge, 2018). They examined if foreign ownership and foreign management really improved the efficiency of local banks and found “that only the presence of independent foreign executives has a positive impact on banks.” They interpreted “these results as the consequence of conflicts of interest and power struggles between local shareholders and the strategic partner, which prevent efficiency in enhancing technology transfer.” (Long–Hoang, 2018) examined “the effects of foreign banks entry on the efficiency of domestic banks in Vietnam following the program of financial

deregulation initiated by the government.” They also reviewed “the bank efficiency in term of bank size and ownership structure.” Their main conclusion is that “the 100% foreign-owned banks are able to gain economy of scale in revenue while the big four state-owned and other domestic banks hardly take an advantage of economic of scale”. (Van Ban et al., 2019) pointed out that “State Bank and governmental organizations have to have strict supervision and control toward commercial banks to limit risks. On the other hands, commercial bank itself has to improve risk management procedure, expertise of staff, limiting financial risk at low level as well as reduce risks for clients and the bank itself in financial service market in Vietnam.” Much more publications are devoted to the attracting foreign investments in general. We do not concentrate on these works and just mention few, i.e. (Leproux–Brooks, 2004) “calls for a serious analysis of the changes occurring in comparative advantages of the Southeast Asian economies after the economic crises and of the role that Viet Nam can play in the regional production network.” (Franco–Sanfilippo–Seric, 2019) analyzed “the factors determining the establishment of backward linkages and their key features once established.” The study demonstrated the importance of “provision of a good investment climate, and more importantly of key business support services, that mainly influences the capacity of investors to trigger knowledge and other key resources’ transfer to their local suppliers.”

Methodology, Data Sources

The descriptive part of this document was prepared based on the review of different literature sources. In order to ensure a high-quality preparation of this part, the authors undertook a comprehensive search and analysis of relevant publications in scientific peer-reviewed journals (the Google Scholar and Web of Science databases were used as a basis for this search) and among relevant publications published by international financial institutions.

The analytical part, which is devoted to existing and potential problems, was prepared based on phone interviews. Throughout 2019, the authors interviewed 15 persons working in or with the banking system of Viet Nam. The respondents include staff members of Vietnamese and foreign commercial banks and companies, international organizations and financial institutions and consulting companies operating in the country.

These persons were requested to describe the main problems complicating the processes of attracting investments to the Vietnamese banking sector and propose solutions for these problems. Initially, the authors attempted to collect information in a more structured way offering more questions to the respondents. Unfortunately, their background and job functions were completely different and, therefore, asking just two above-mentioned questions appeared to be the only way to conduct the interviews. The authors faced other problems namely confidentiality compliance and self-censorship, which also complicated the processes of interviews as the respondents declined to discuss many important points. The authors followed all the required ethical standards while undertaking these interviews. It is also worth pointing out that one author of this article has more than five years of experience in banking and two others have many years of teaching experience of financial courses at universities.

Description, Findings

The process of attracting foreign investments to the financial market – the banking sector of Viet Nam has increasingly intensified with numerous big investment deals for many recent years. Reality points out that foreign partners often pour capital into the Vietnam's banking market as strategic shareholders, helping orient and restructure banks.

There were significant strategic handshakes between foreign investors and Vietnamese banks in the period 2005–2008. It is known as the time that the stock market in general and bank stocks in particular were in “fever” when many stocks were sold for hundreds of thousands of VND/share, attracting different investors. However, in the context of global financial crisis situation, Vietnam banking industry met certain difficulties with rising bad debt ratio, “falling profits”, and falling stock prices.

The list of deals includes, but is not limited to the following:

Three of four large state banks (“Big 4”) dominating the Vietnamese banking sector have attracted huge foreign capital.

- Bank for Investment and Development of Vietnam (BIDV): In November 2019, BIDV – one of the five largest state commercial banks in the country – completed the sale of a 15% stake to South Korea's KEB Hana Bank for USD 875 million;

- Commercial Joint Stock Bank for Foreign Trade of Viet Nam (Vietcombank): In January 2019, Vietcombank completed a private placement of new shares to Singapore’s sovereign wealth fund – GIC Private Limited – with 2.55% stake in Vietcombank, and one of Japan’s largest financial services providers – Mizuho Bank Ltd – with 15.0% stake in Vietcombank, raising a total of VND 6.2 trillion (approximately USD 265 million) equity investment.
- Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank): The Bank of Tokyo Misubishi – UFJ invested approximately USD 743 million as a strategic investor in Vietinbank (19.73% of Vietinbank’s ordinary shares) in May 2013. Besides, In November 2019, the International Finance Corporation (IFC) and the IFC Capitalisation Equity Fund (the IFC shareholder group) announced that it owned 4.99% of Vietinbank's shares.

The largest private sector banks being Asia Commercial Joint Stock Bank (ACB), Vietnam Export Import Commercial Joint Stock Bank (Eximbank), Military Commercial Joint Stock Bank (MBBank), Saigon Thuong Tin Commercial Joint Stock Bank (Sacombank), and Techcombank have had foreign strategic investors. In May 2008, Standard Chartered Bank, the strategic investor of ACB, acquired an additional 6.16% stake from IFC, increasing its shareholding in ACB to 8.84%. Sumitomo Mitsui Banking Corporation invested USD 225 million for a 15% stake in Eximbank in November 2007. HSBC became a strategic investor in Techcombank in 2005, and in 2008, it reached the 20% ownership threshold.

We should also mention that the Vietnamese government is strongly committed to creating the best conditions for foreign investors, especially in finance industry. For this purpose, the government has designed a strategy to push the banking sector into the top four in ASEAN. For example, the Prime Minister of Viet Nam Nguyễn Xuân Phúc personally met with Kanetsugu Mike, President and CEO of Japanese MUFG bank. This is an important signal to foreign investors in general and foreign banks in particular that the government’s policy is focused on creating the best possible conditions to foreign financial institutions.

However, and this is already mentioned above, a certain negative trend can be observed. This trend is significant withdrawals of the biggest international banks from the banking sector of this country.

The period 2012–2017 witnessed marked signs of recovery in banking industry's operation towards the goal of stock market listing. So far, although more and more foreign investors have well-founded reasons underlying their interest in Vietnamese banks, many strategic shareholders have left the banks. The series of divestments of foreign shareholders over the years have caused many gaps in the bank's capital structure. In 2019, the IFC group continued to divest and was not a major shareholder of Vietinbank after selling Vietinbank's shares several times with its ownership decreased from almost 10 percent to 4.99 percent. In 2018, Standard Chartered broke up with ACB after nearly 13 years working. At the same year, BNP Paribas divested its 18.68 % stake in OCB. This happened after a decade-long partnership. HSBC left Techcombank to end the 12-year cooperation, and Société Générale also ended a decade of “close” with SeABank OCBC transferred all over 85.8 million shares (accounting for 14.88% of VPBank's total shares) for domestic investors after more than 7 years as a strategic partnership.

Of course, many foreign players are still present in the banking sector. Foreign banks have more phased out or trimmed their operations in the country though their presence lasted for years. However, the cases mentioned above have raised serious concerns that the Vietnamese banking sector is becoming less attractive for investors.

Table 2: Foreign ownership ratio in Vietnamese banks

Bank	Foreign share ownership ratio (%)	Foreign major shareholder	Initial investment time	Divestment of foreign shareholder	Divestment time
1. BIDV	18.03	- KEB Hana Bank, Co., Ltd.: 15%	2019		
2. Vietcombank	23.71	- Mizuho Bank Ltd.: 15% - GIC Private Limited: 2.55%	2019 2019		
3. Vietinbank	29.69	- The Bank of Tokyo Mitsubishi - UFJ: 19.73% - IFC Capitalization (Equity) Fund, L.P: 3.35% - International Finance Corporation: 1.64%	2013 2011; 2019 2011; 2019	IFC Capitalization (Equity) Fund, L.P.; International Finance Corporation	2019

<i>Bank</i>	<i>Foreign share ownership ratio (%)</i>	<i>Foreign major shareholder</i>	<i>Initial investment time</i>	<i>Divestment of foreign shareholder</i>	<i>Divestment time</i>
4. SCB	29.7	- Noble Capital Group Limited: 9.97% - Glory Capital Investment Limited Place of Incorporation: 3.3%	2014 2014		
5. ACB	30	- Dragon Financial Holdings Ltd.: 6.92% - Whistler Investments Ltd.: 5.03% - Sather Gate Investments Ltd.: 5.03% - Standard Chartered Bank: 5.02% - First Burns Investments Ltd.: 4.00% - Estes Investments Ltd.: 4.38% - Asia Reach Investment Ltd.: 3.15% - Asia Reach Investments Ltd.: 3.15%	2005 2018	Standard Chartered APR Ltd.; Standard Chartered Bank (Hong Kong) Ltd.	2018
6. Eximbank	29.7	- Sumitomo Mitsui Banking Corporation (SMBC): 15% - VOF Investment Limited-British Virgin Islands (VOF Investment Ltd.): 4.97%	2008 2008		
7. MBBank	22.38	Norges Bank; Amer-sham Industries Ltd.; Vietnam Enterprise Investments Ltd.; Fiera Capital Emerging Markets Fund; Composite Capital Master Fund LP;...			
8. Sacombank	18.13	Market Vectors Vietnam ETF: 2.05%	2005	The Australia and New Zealand Banking Group Ltd. (ANZ)	2012

<i>Bank</i>	<i>Foreign share ownership ratio (%)</i>	<i>Foreign major shareholder</i>	<i>Initial investment time</i>	<i>Divestment of foreign shareholder</i>	<i>Divestment time</i>
9. Techcombank	22.50	Grandeur Peak Global Opportunities Fund; Grandeur Peak International Opportunities Fund; Grandeur Peak International Stalwarts Fund; Grandeur Peak Emerging Markets Opportunities Fund; Wf Asian Smaller Companies Fund Ltd; Ensign Peak Advisors INC;...	2005	The Hongkong and Shanghai Banking Corporation (HSBC)	2017
10. An Binh Commercial Joint Stock Bank (ABBank)	30	- Malayan Banking Berhad (Maybank): 20% - IFC: 10%	2008; 2013 2013		
11. Tien Phong Commercial Joint Stock Bank (TPBank)	30	- PYN Elite Fund Management: 3.45% - SBI Ven Holdings Pte. Ltd: 4.67% - IFC: 3.54%	2017 2009; 2016 2016		
12. Vietnam Prosperity Joint-Stock Commercial Bank (VPBank)	21.88	- Composite Capital Master Fund LP: 4.82% - Arjuna Fund Pte.Ltd.; Wf Asian Smaller Companies Fund Ltd; Deutsche Bank AG, London; Phatra Capital Public Company Ltd.; Vanderbilt University; AL Mehwar Commercial Investments L.L.C: 1.36%	2006	Oversea-Chinese Banking Corporation, Ltd. (OCBC Bank)	2013
13. Vietnam International Commercial Joint Stock Bank (VIB)	30	- Commonwealth Bank of Australia (CBA): 20.34% - Loic Michel Marc Faussier: 0.26%	2010 2017		

Bank	Foreign share ownership ratio (%)	Foreign major shareholder	Initial investment time	Divestment of foreign shareholder	Divestment time
14. Ho Chi Minh City Development Joint Stock Commercial Bank (HDBank)	22.70	Credit Saison; Deutsche Bank AG; JPMorgan Vietnam Opportunities Fund; Aozora Bank; RWC Frontier Markets Opportunity Master Fund; Macquarie Bank; Chalemass; Dragon Capital;...: 22.70%			
15. Vietnam Public Joint-stock Commercial Bank (PVcomBank)	14.85	Morgan Stanley International Holding Inc: 6.67%	2013		
16. Saigon – Hanoi Commercial Joint Stock Bank (SHB)	9.8	- Market Vectors Vietnam ETF: 2.78% - Deutsche Bank Aktiengesellschaft: 2.52%	2013 2007		
17. Orient Commercial Joint Stock Bank (OCB)	5	VinaCapital	2008	BNP Parisbas	2018
18. Petrolimex Group Commercial Joint Stock Bank (PG Bank)	4.9				
19. Lien Viet Post Joint Stock Commercial Bank (LienVietPostBank)	4.79				
20. Saigon Bank for Industry and Trade (SaiGon-Bank)	0.72				
21. Southeast Asia Commercial Joint Stock Bank (SeA-Bank)				Société Générale	2018

Source: Authors’ own collection

The main problem, which has to be resolved through attracting foreign banks is raising capital of local second-tier banks. (Moody’s, 2019) informs that “most banks will still lack sufficient capital to meet stricter Basel II requirements that take effect in 2020, so capital raising, primarily from foreign investors – due to the underdevelopment of the domestic

capital markets – will be a key focus for banks in 2019.” It then “points out that despite the bank's improved financial health, greater competition to attract private investments will make it more challenging for Vietnamese banks to raise capital in 2019.” Unfortunately, this problem was not resolved in 2019.

As promised above, the article addresses the importance of attracting non-FDIs as well. Why are they so important? This is because lending provided by international financial institutions or foreign governments usually plays a catalytic role in supporting large scale projects in developing countries through providing a risk (mainly political) umbrella for other co-financiers. IFIs or foreign governments are able to speak directly to the borrower's government in case of any unforeseen problems or difficulties happen and defend investors. Other important points include stronger risk appetite, serious expertise in implementing similar projects in this and other countries, longer tenors of loans, etc. It is important to separately mention that such lenders implement international best practices through their institutional policies. These policies include procurement, environmental, social, anti-corruption and other. The minuses of their financing mainly include the need for the borrowers to provide government guarantees and comply with very strict requirements, which in many cases are beyond the abilities of commercial banks in developing countries. The best way for the country would probably be a balanced approach with a combination of FDIs and non-FDIs.

Existing problems

All the respondents described in the Methodology, data sources section above agreed that the banking sector has become less profitable than say 20 years ago when most of foreign banks came in. They also agreed that this is a usual trend. 20 years ago, the market was much more attractive. This was normal for the country, which had only recently started its transition to market economy. Lately, the market has stabilized and competition increased reducing profits accordingly. And some foreign banks decided to withdraw because of reduced earnings. This is perfectly natural and should not cause any discomfort. However, the problems exist. The most serious ones described by the respondents are as follows:

1. Excessive state presence and intervention;
2. Inappropriate banking legal and regulatory framework, especially the low foreign ownership cap resulting in weak control over banks' activities;

3. Weak regulatory oversight;
4. Bureaucracy: responsible officials are not quick and pro-active in resolving problems of the banking sector;
5. Corruption;
6. Staffing problems;
7. Insufficient efforts to attract foreign investments.

Recommended measures

The measures recommended by the respondents for creating more favorable conditions for investors into the Vietnamese banking sector can be summarized as follows:

1. Excessive state presence in the banking sector: “There are 4 state-owned commercial banks in the country⁶. They are considered the 4 pillars of the national banking system or “Big 4”. The situation with these banks is double-natured. On one hand they enjoy the full government support, on the other hand they are (as other commercial banks) suffer of outdated banking regulation, especially with regard to the limit of foreign ownership. The government should amend the rules of the game giving other banks the same rights and allowing bigger foreign ownership. Otherwise, it will not be able to keep foreign banks in the country or attract new investors to the sector”;
2. Excessive state presence in the banking sector: “Second-tier banks must enjoy the same rights and opportunities. Privatization of Vietinbank, the biggest commercial bank in the country could be a right decision.” At the moment, the State (Central) Bank owns about 65% of Vietinbank;
3. Excessive state presence in the banking sector: “The State Bank should become an independent entity. Now it is a part of the government, which is not right by international standards”;
4. Inappropriate banking legal and regulatory framework and Bureaucracy: “The national government, the State (Central) Bank, the Foreign Investment Agency and commercial banks should become quicker and more pro-active. I remember that in 2014-

⁶ The respondent referred to Vietcombank, BIDV, Agribank and VietinBank.

2015⁷ there were a lot of discussions that a greater foreign ownership in local banks would be allowed. And nothing happened. This was the main reason for many withdrawals of foreign banks from the Vietnamese market. They were really unhappy to see that they invested money without obtaining influence on the decisions. Of course, this was not always a case, but happened often enough”;

5. Inappropriate banking legal and regulatory framework: “Only seven local banks meet Basel II requirements. This is because they cannot comply with minimum-capital requirements. Foreign investments are the obvious answer in this situation. The government should do much more to enable commercial banks to comply with Basel requirements. The main reason preventing this is the outdated banking legal and regulatory framework. The entire economic development of the country can be hindered if there will be no modern and efficient banking system”;
6. Weak regulatory oversight: “If you follow the situation in the banking sector of Viet Nam, you can see that excessive amounts of bad debt and inadequate risk management are always mentioned. If the authorities aim to improve the attractiveness of Vietnamese banks for foreign investors, they should do something about that. They should introduce and enforce stricter prudential regulation and supervision, improve the relevant regulatory environment and force the local banks to improve their corporate governance in general and risk management in particular”;
7. Bureaucracy: “All possible efforts should be made to use the situation of the trade war between the USA and China. In my view, very little if not nothing is being done in this direction though this is a unique opportunity”;
8. Bureaucracy: “More openness of the banking sector to foreign investors is required. The investors bring not only their money. They bring their expertise, their connections, their technologies and products”;

⁷ We found a confirmation to that point <https://www.reuters.com/article/vietnam-banks-ownership/update-1-vietnam-to-allow-greater-foreign-stakes-in-bank-sidUSL4N0XI29120150421>

9. Corruption and excessive state intervention: “I do not see corruption as something terrible in Viet Nam’s banking sector. Corruption certainly exists. However, excessive state intervention is a bigger problem. Privatization is a long pending issue. The later you solve it, the worse it is”;
10. Staffing problems: “Even though the situation improved over the last years significantly, still we mainly need bankers rather than accountants”;
11. Insufficient efforts to attract foreign investments: “The government should organize more investment promotion events for foreign banks. This process could start with making significant amendments to the banking legislation and then followed by say a road show in major World financial centers. This would be very much in line with the official state policy”;
12. Insufficient efforts to attract foreign investments: “The government should make the country something unique. At the moment it does not differ much from other countries of the region. It can be declared and made an investors paradise. In the situation of the trade war between the USA and China the timing is just right. This task is multi-faceted. Of course, you need to improve legal and regulatory framework, declare and implement privatization, take other necessary measures and, most importantly change the mentality of government officials. It is not easy at all, but Viet Nam has a unique chance for a substantial progress. A chance to leave most of the ASEAN countries behind”.

Conclusions

Viet Nam needs its banking sector to be fully able to support its impressive economic development. To achieve this goal, the sector needs serious improvement. The problems, which complicate achieving this goal as well as the ways to resolve them (Recommended measures) are described in this article. A serious concern of the authors is that some measures discussed for years (mainly increasing the limit for foreign ownership) are yet to be taken.

However, in the authors' view in spite of all the drawbacks mentioned above, the Viet Nam's banking sector deserves serious attention of potential investors because of the main achievements of Viet Nam described in the Introduction, Objectives chapter above.

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