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## How Australia Can Support Vietnam in Achieving Emerging Market Status Through Stable and Sustainable Banking System

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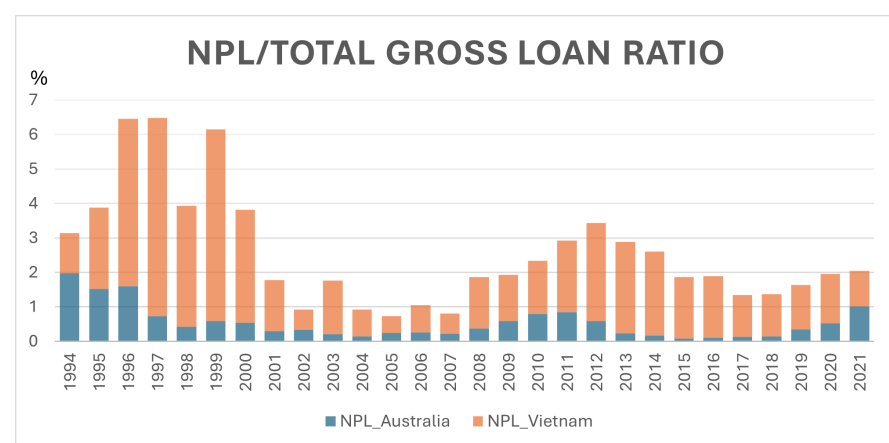


## How Australia Can Support Vietnam in Achieving Emerging Market Status Through Stable and Sustainable Banking System

Vietnam has made remarkable progress in economic development and financial market expansion, positioning itself as a key player in Southeast Asia. However, it remains classified as a frontier market, which limits its access to global institutional capital<sup>1</sup>. Achieving emerging market status would enhance liquidity, attract foreign investment, and reduce funding constraints for Vietnamese banks. Given Australia's strong financial system and deep-rooted economic ties with Vietnam, it can play a crucial role in accelerating Vietnam's financial sector development, particularly in the areas of banking system stability.

Global index providers such as MSCI determine emerging market status based on factors such as market accessibility, economic development and size and liquidity requirement<sup>1</sup>. Vietnam currently faces challenges related to foreign ownership restrictions<sup>2</sup>, banking sector development,<sup>3</sup> access to more stable funding sources. To bridge these gaps, Vietnam must modernise its financial sector and improve market efficiency, areas where Australia can provide substantial expertise.

A robust and well-regulated banking system is fundamental to achieving emerging market status. Vietnam's banking sector, however, faces challenges such as high non-performing loans (NPLs), capital adequacy issues<sup>4</sup>, and underdeveloped risk management frameworks<sup>5</sup>.



1 <https://www.msci.com/our-solutions/indexes/market-classification>  
2 <https://www.dfat.gov.au/trade/agreements/in-force/cptpp/comprehensive-and-progressive-agreement-for-trans-pacific-partnership>  
3 [https://www.sbv.gov.vn/webcenter/portal/m\\_en/home/sbv/news/news\\_chitiet?leftWidth=0%25&showFooter=false&showHeader=false&dDocName=SBV620842&rightWidth=0%25&centerWidth=100%25&\\_afLoop=17792418626138755#%40%3F\\_cfrLoop%3D17792418626138755%26centerWidth%3D100%25%26dDocName%3DSBV620842%26leftWidth%3D0%25%26rightWidth%3D0%25%26showFooter%3Dfalse%26showHeader%3Dfalse%26\\_adf.ctrl-state%3Dvll64pr1q\\_9](https://www.sbv.gov.vn/webcenter/portal/m_en/home/sbv/news/news_chitiet?leftWidth=0%25&showFooter=false&showHeader=false&dDocName=SBV620842&rightWidth=0%25&centerWidth=100%25&_afLoop=17792418626138755#%40%3F_cfrLoop%3D17792418626138755%26centerWidth%3D100%25%26dDocName%3DSBV620842%26leftWidth%3D0%25%26rightWidth%3D0%25%26showFooter%3Dfalse%26showHeader%3Dfalse%26_adf.ctrl-state%3Dvll64pr1q_9)  
4 [https://www.ey.com/en\\_vn/insights/financial-services/basel-iii-and-its-implications-for-banks-in-vietnam](https://www.ey.com/en_vn/insights/financial-services/basel-iii-and-its-implications-for-banks-in-vietnam)  
5 [https://www.ey.com/en\\_vn/insights/financial-services/basel-iii-and-its-implications-for-banks-in-vietnam](https://www.ey.com/en_vn/insights/financial-services/basel-iii-and-its-implications-for-banks-in-vietnam)

The chart compares the Non-Performing Loan (NPL) to Total Gross Loan ratios for Australia and Vietnam from 1994 to 2021, highlighting the differences in credit risk management and economic stability between the two countries. Vietnam's NPL ratio peaked significantly during the late 1990s, reflecting heightened credit risk likely due to the Asian Financial Crisis, while Australia's ratio remained relatively stable and consistently lower. Although both countries experienced slight increases in NPL ratios during the Global Financial Crisis (2008-2009), the impact was more pronounced in Vietnam. Over time, Vietnam's NPL ratio gradually declined, suggesting improvements in financial regulation and banking practices, while Australia's stable trend indicates a robust and resilient banking system.

Regarding capital quality and adequacy, maturity number of Vietnamese banks adopt Circular No.41/2016/TT-NHNN, which regulates capital adequacy ratios for banks and foreign bank branches. Among them, only ten commercial banks in Vietnam have announced they have completed the implementation of Basel III – a risk management standard used in banking operations. Other banks have also applied some of the requirements of Basel III, demonstrating their efforts to gradually upgrade risk management practice and capital adequacy ratios, while ensuring financial market stability. In contrast with Basel III, Circular No.41/2016/TT-NHNN, does not specify ratios for different capital components. For example, under Basel III, minimum common equity tier 1 ratio is 4.5 per cent with an additional capital buffer of 2.5 per cent, bringing the minimum requirement to 7 per cent. This increases the overall capital adequacy ratio to 10.5 per cent compared to the current 8 per cent. This is a focal point that needs to be addressed to further enhance the quality of capital in the Vietnamese commercial banking system.

Australia, with its strong financial regulatory system, can support Vietnam in enhancing banking supervision, strengthening interbank and wholesale funding markets, and improving credit assessment tools. The Reserve Bank of Australia (RBA) and the Australian Prudential Regulation Authority (APRA) can collaborate with Vietnamese regulators to enhance financial stability by helping implement Basel III capital adequacy standards, conducting stress testing tailored to local risks, and introducing macroprudential measures like liquidity ratios and counter-cyclical capital buffers. Additionally, they can provide training and capacity-building initiatives to strengthen Vietnam's regulatory framework, improve the monitoring of financial stability, and ensure banks are resilient to economic shocks. These efforts would help foster long-term stability and growth in Vietnam's financial system.

Additionally, Vietnam's banking sector heavily relies on short-term deposits for funding, making it vulnerable to liquidity risks.<sup>6</sup> Australian banks like Commonwealth Bank of Australia (CBA) and Westpac have well-established interbank lending and wholesale funding markets, which could help Vietnamese banks diversify their funding sources, thereby mitigating liquidity risks.

6 <https://vir.com.vn/expert-assesses-credit-related-development-challenges-122813.html>

Additionally, Australian banks such as ANZ and National Australia Bank (NAB) have robust cybersecurity frameworks that leverage AI and machine learning to detect fraud and monitor threats.<sup>7</sup> These systems can be adopted by Vietnamese banks to improve their digital banking resilience and protect against growing cyber risks. Furthermore, AI-driven credit scoring models used by Australian banks, which assess a broader range of data to evaluate creditworthiness, could be implemented in Vietnam to enhance lending efficiency, reduce credit risk, and expand access to credit for individuals and small business enterprises. These collaborations would strengthen Vietnam's banking sector, making it more resilient, secure, and competitive. Vietnam still has significant restrictions on foreign ownership in banks and listed firms, limiting its attractiveness to global investors. To make its market more accessible, Vietnam could benefit from Australia's open investment policy as a model. Encouraging Vietnam to gradually increase foreign ownership limits in financial institutions can enhance capital inflows and banking sector competitiveness. Furthermore, improving market transparency is crucial for attracting foreign investment. Australia's best practices in financial reporting, corporate governance, and investor protections can help Vietnam align with international standards, boosting investor confidence. Additionally, Australian pension funds and sovereign wealth funds can increase their investment in Vietnamese equities and bonds, improving market liquidity and stability.

Vietnam's financial regulators, including the State Bank of Vietnam (SBV) and the State Securities Commission (SSC), require continued capacity-building to align with international regulatory standards. Australia can assist in training banking and securities regulators, developing financial literacy programs, and fostering collaboration between regulatory bodies. Providing training on Basel III implementation, risk-based supervision, and financial market surveillance can help Vietnamese regulators strengthen the country's financial framework. Strengthening ties between Australian and Vietnamese banking regulators can further enhance knowledge-sharing and regulatory coordination, fostering a more resilient financial sector.

Vietnam's transition to an emerging market is a critical step toward deeper financial integration and economic expansion. By strengthening its banking sector, improving access to capital for banks, and fostering market transparency, Vietnam can position itself as an attractive investment destination. Australia, with its expertise in financial regulation and banking innovation is well-placed to support Vietnam in this journey. Through strategic collaboration, both nations can unlock new economic opportunities, reinforcing their financial partnership and contributing to regional economic stability.

<sup>7</sup> <https://www.rba.gov.au/publications/fsr/2024/sep/focus-topic-financial-stability-implications-of-artificial-intelligence.html>

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