Commentary:

Vietnam's Path to High Growth: Navigating Capital Market Challenges

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This report does not constitute a rating action.

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Overview

- For Vietnam to achieve its ambitious **target of 8% real GDP growth in 2025** and establish sufficient economic momentum this year to sustain **double-digit growth during 2026–2030**, it needs significant enhancements in infrastructure, more effective access to medium- and long-term capital, and improved efficiency in capital allocation. These insights were highlighted during a recent seminar co-organized by FiinRatings and S&P Global Ratings, where analysts provided analysis of Vietnam's economic landscape.
- FiinRatings analysts anticipate that **Vietnam's growth potential remains robust**. Nevertheless, global uncertainties, ongoing trade tensions, and structural limitations in accessing sufficient capital pose notable hurdles to achieving the nation's targeted 8% real GDP growth by 2025. Essential to sustainable economic growth will be the diversification and expansion of capital markets, particularly in bond and equity markets, coupled with substantial reforms to enhance Vietnam's overall business environment.
- The following commentary addresses key questions and analytical viewpoints from the seminar, providing **insights into Vietnam's economic outlook, capital market developments, and investment climate**.

Vietnam's Economy & Capital Market

Can Vietnam realistically achieve its target of 8% GDP growth by 2025, given the current global economic landscape, and what is the significant challenge?

Le Hong Khang, Analytical Director: It will be challenging, given global uncertainties, geopolitical tensions, potential trade disruptions. However, beyond these external factors, we see significant challenges in supplying sufficient medium-to-long-term capital required for Vietnam's ambitious long-term development plans.

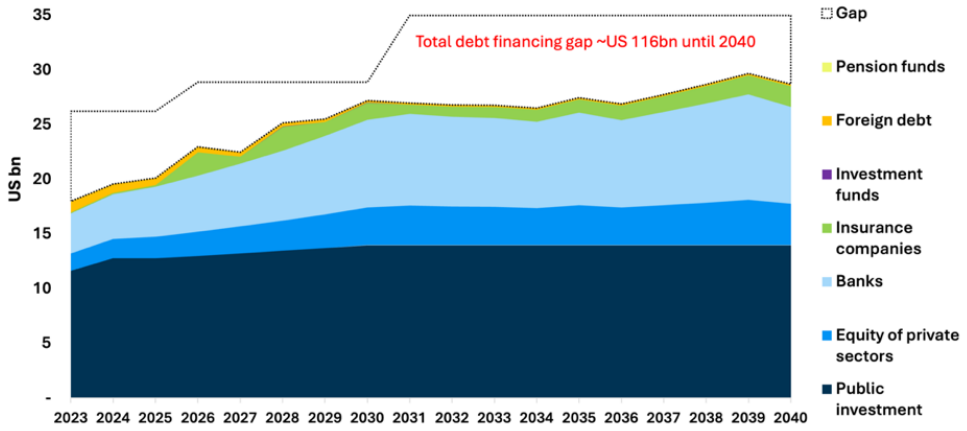
Vietnam ambitiously aims to achieve 8% GDP growth in 2025 and sustain double-digit growth rates thereafter to transition into a high-income economy. Significant external headwinds include uncertainties surrounding the global economic outlook, potential shifts in U.S. trade policies under a prospective second Trump administration - such as new tariffs targeting countries with large trade surpluses with the U.S. - and persistent geopolitical tensions. Additionally, Vietnam's slower-than-expected recovery from global supply chain disruptions further compounds these uncertainties.

More importantly, we view the mobilization of long-term capital to fund increased public investments in infrastructure as a pivotal challenge. Vietnam's demand for capital is substantial, estimated at approximately USD174 billion for 2025, with a significant portion dedicated to infrastructure development. However, existing funding channels - including banking credit, corporate bonds, public investment, and equity markets - are either insufficient in scale or relatively high costs. This issue is particularly pronounced in foreign currency borrowing, as Vietnam's ability to secure favorable international funding is constrained by limitations stemming from its sovereign credit rating. This funding mismatch underscores the critical importance of mobilizing affordable medium- and long-term domestic capital to effectively support the country's ambitious infrastructure plans and ensure sustained economic growth.

Why is unlocking long-term capital critically important for Vietnam's economic growth plans?

To meet the ambitious infrastructure upgrade plans currently set forth by the government, Vietnam will require substantial annual investments, estimated at around USD 30-35 billion, directed into critical sectors such as energy, transportation infrastructure (bridges and roads), and clean water systems. Additionally, sectors like real estate also demand considerable medium-to-long-term capital.

Chart 01: Financing demand by sectors (infrastructure)



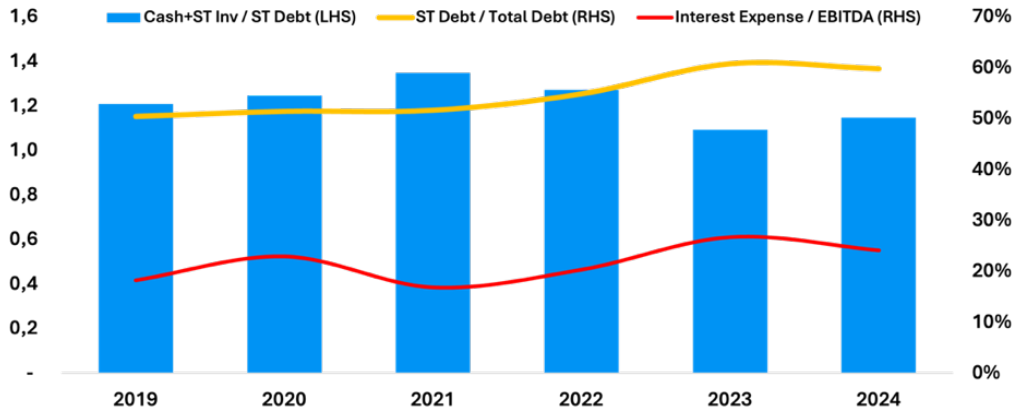
Source: FiinRatings estimates based on government master development plans for the energy, transport, telecommunications, and water sectors.
Note: FiinRatings' estimation excludes the recently approved North-South High-Speed Railway and Ninh Thuận nuclear power projects.

Currently, capital channels predominantly rely on the commercial banking system, which we estimate can only fulfill around 70% of these investment needs. This funding gap is set to widen with the inclusion of major projects like the North-South high-speed railway and the Ninh Thuan nuclear power plant. Given Vietnam's already high banking system credit-to-GDP ratio compared to regional peers, accelerating the development of alternative capital channels - particularly stock and bond markets - is increasingly vital to meeting these escalating capital requirements essential for sustained economic growth.

Is the current low-interest-rate environment ideal for enhancing enterprises' access to capital, directly fostering the development of capital channels in the economy?

Interest rates indeed influence credit growth and corporates capital mobilization but represent a short-term and fluctuating factor. Fundamental and structural aspects such as the investor base, investment infrastructure, and investment instruments - including credit ratings, bond pricing, and yield benchmarks - are far more decisive over the long term, especially for capital market.

Chart 02: Short-term debt outpaces earning growth and weighs on Companies' bottom line and increase financing risk



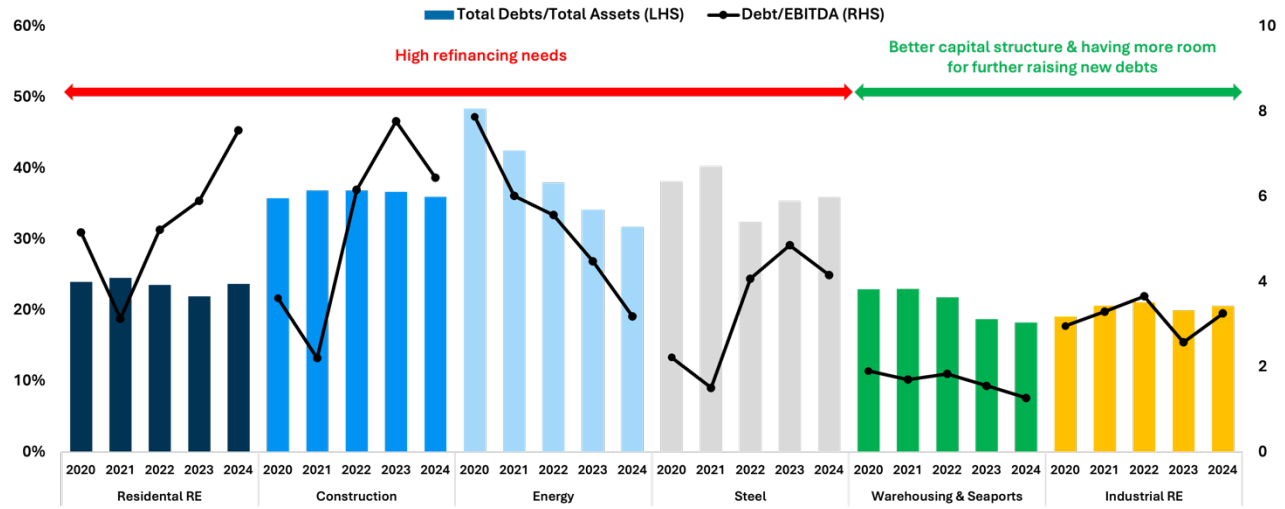
Source: FiinRatings. The figures represent 1068 non-financial corporate entities listed on stock exchanges in Vietnam over the period.
Note: Cash + Short-term investment/ Short-term debt Short-term Debt/ Total Debt.

Despite the current low-interest-rate environment compared to pre-2023 levels, the interest expenses-to-core operating profit ratio for most non-financial corporates remains notably high, ranging between 24%-27% from 2019-2024, significantly above the 14%-16% observed during 2013-2019. This persistently high financial burden restricts corporate capital demand, particularly among SMEs. Additionally, there is a clear trend towards greater reliance on short-term debt post-COVID-19, underscoring that low interest rates alone are insufficient in driving medium-to-long-term capital demand and supply. These findings highlight the imperative of improving fundamental conditions, especially the business environment, to enhance corporate performance and market structure, effectively unlocking capital market.

Besides improving the business environment and market fundamentals, what additional factors can help Vietnam achieve rapid and sustainable growth?

Improving the business environment and market fundamentals are necessary but insufficient for achieving sustainable growth. Efficient resource allocation within the economy is pivotal. Vietnam must strategically allocate resources to sectors that enhance its position within global supply chains and capture values through high value-added production. It is essential to direct capital towards industries with substantial capacity to absorb investments and accelerate growth.

Chart 03: Short-term debt outpaces earning growth and weighs on Companies' bottom line and increase financing risk



Source: FiinRatings

For instance, between 2023 and 2024, credit growth in real estate developers ranged from 30%-40%, significantly above the economy's average credit growth of around 15%. Despite improvements in regulatory frameworks and investor sentiment, our assessment shows that the real estate sector's debt repayment capacity (Debt/EBITDA) remains weak due to a slow recovery and market fragmentation. This scenario highlights broader inefficiencies in capital allocation. If sectors with higher growth potential and better debt repayment capacities cannot effectively access capital due to fragmented market information and limited tools facilitating market connectivity, overall economic efficiency and sustainable growth potential will be significantly affected.

Vietnam's Residential Real Estate: Is Recovery Within?

After a prolonged period of downturn, is Vietnam's real estate market finally stabilizing? What are the key indicators suggesting a recovery?

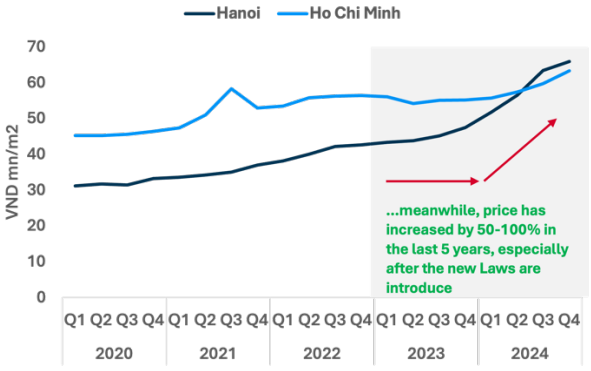
Nguyen Nhat Hoang, Sector Lead, Analytical Manager: Vietnam's real estate market is showing the first signs of stabilization, with the most challenging phase of the downturn likely behind us. Over the past year, price volatility has eased, and market sentiment among both buyers and investors has gradually improved. While uncertainty still lingers, industry players are increasingly looking toward a more sustainable recovery. A key driver of this shift is regulatory progress, which has provided greater legal clarity, particularly concerning project approvals and financing. This is expected to facilitate new supply in 2025, helping to address bottlenecks that have constrained the market. If these trends continue, major urban centers and satellite cities could gain fresh momentum, reinforcing confidence in the sector.

Chart 04: Residential Properties Transaction Volume (2020-2024)



Source: FiinRatings compiled from Ministry of Construction

Chart 05: Condos Price in Hanoi and Ho Chi Minh (2020-2024)

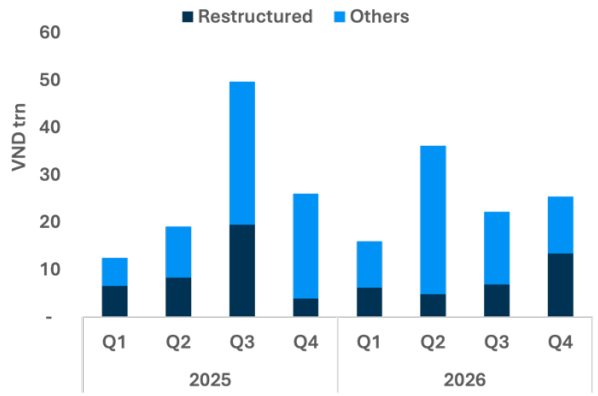


Source: FiinRatings compiles from batdongsan.com.vn

How will the current financing conditions affect real estate developers in Vietnam?

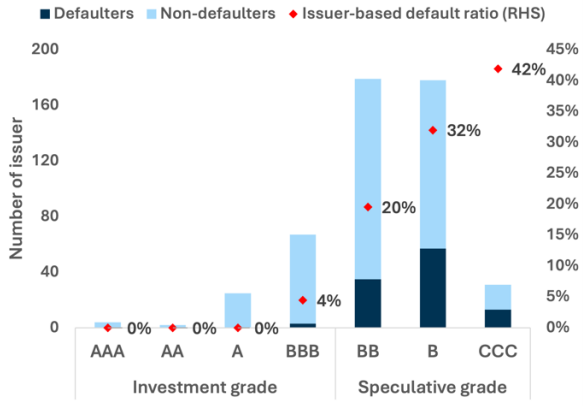
While financing conditions remain supportive overall, not all developers will have equal access to capital. The State Bank of Vietnam has set a 16% credit growth target for 2025, indicating ongoing liquidity support for various sectors, including real estate. However, refinancing pressure remains a critical challenge. Approximately 100 trillion VND in real estate bonds will mature in 2025, and a significant portion, of which around 30% was already restructured in 2023. This means developers with strong financial health, transparent capital structures, and a history of prudent debt management will find it easier to secure funding. Conversely, those with weaker liquidity positions or heavy reliance on short-term borrowing may face refinancing difficulties, leading to project delays or, in some cases, debt restructuring. The market is becoming increasingly selective, favoring financially resilient developers.

Chart 06: Real Estate Bond Maturities in 2025-2026



Source: FiinRatings compiled from FiinProX

Chart 07: Credit Estimate Distribution vs. Default Rate



Source: Credit estimates are based on publicly available information and are not the official result of Issuer Credit Ratings (ICR) that consider direct engagement with the issuers

Additionally, market consolidation is accelerating, with financially stronger developers taking the lead in shaping the industry's next phase. Over the past year, the top five developers collectively accounted for 62% of new housing supply in Vietnam, reflecting the growing concentration of market power among leading players. This trend is expected to continue as well-capitalized companies with efficient financial management and high-quality projects outcompete smaller or financially weaker firms. For consumers and investors, this consolidation could bring greater stability, as larger developers are better positioned to complete projects on time and maintain quality standards. However, it may also reduce competition in certain segments, potentially affecting affordability and innovation in the long term.

Housing prices in Vietnam have risen significantly in recent years. How does this affect affordability, and what are the potential long-term consequences?

Housing affordability remains a major concern as price-to-income ratios in Vietnam's largest cities now resemble those seen in more developed Asian markets. Over the past 2-3 years, rapid price appreciation has significantly outpaced income growth, making homeownership increasingly difficult for middle-income households. If this trend continues without corresponding income increases or more accessible financing solutions, affordability constraints could dampen demand, leading to market imbalances. In the worst case, this could result in an oversupply of high-end properties while leaving genuine homebuyers priced out of the market. To maintain a sustainable housing sector, policymakers and developers will need to focus on balancing affordability with investment attractiveness, potentially through incentives for mid-range and affordable housing projects.

Chart 08: Housing price-to-income in Asian cities (2024)



Source: FiinRatings compiles from Numbeo

Despite short-term uncertainties, what are the long-term growth prospects for Vietnam's real estate market? What factors will drive future expansion?

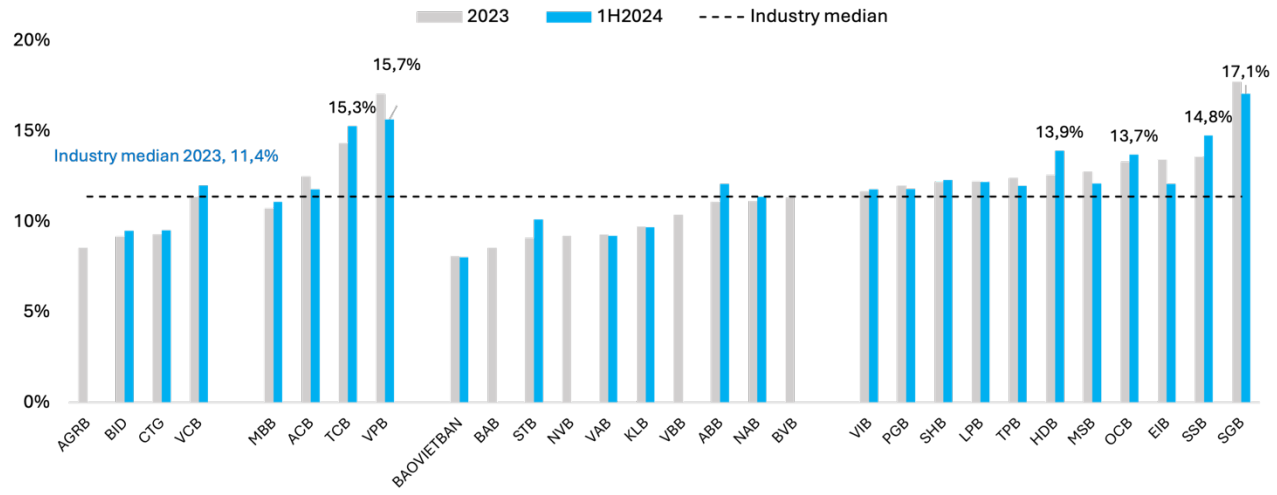
While near-term challenges persist, the long-term outlook for Vietnam's real estate market remains positive, underpinned by strong structural drivers. Rapid urbanization continues to fuel demand for housing, commercial spaces, and infrastructure. At the same time, a growing middle class with rising purchasing power and increasing foreign investment interest is expected to provide further support for long-term expansion. Although short-term volatility might test the resilience of market participants, developers who embrace adaptability, financial discipline, and customer-centric strategies will be well-positioned to capitalize on the next growth cycle. As the market matures, transparency and regulatory clarity will also play a crucial role in maintaining investor confidence and ensuring sustainable development.

Vietnam's Banking Sector: Ambitious credit growth target may be hindered by capital constraints and margin pressure

With the sector's 2025 credit growth target of 16%, which is the highest level in recent years, how are Vietnam commercial banks balancing credit growth and capital management?

Nguyen Anh Quan, Sector Lead, Analytical Manager: Since late 2024, Vietnam's central bank has urged commercial banks to reduce lending rates to stimulate credit expansion and bolster economic growth. In 2024, Vietnamese banks-maintained earnings stability despite capital constraints, with sector ROA dropping slightly by 10bps and total operating income rebounding by 12.2% YoY. However, capital buffers remained thin, as most charter capital increases came from retained earnings rather than fresh equity, keeping asset-to-equity (A/E) leverage high (11.5x). Bond issuance surged 70.7% to boost Tier 2 capital and meet regulatory safety ratios amid rising loan demand, but this also raised funding costs for the banks.

Chart 09: Reported CAR of commercial banks in Vietnam did not show much improvement in 2024



Source: Company data, FiinRatings.
Note: AGRB's figures are as of 30/06/2024, PVF's figures are as of 30/09/2024

In 2025, Vietnamese banks are expected to seek external capital sources in 2025, including private placements and new share issuances, to enhance capital buffers and sustain credit growth. Large-scale capital raises will support loan growth and stability, but high leverage and funding costs can challenge sector resilience. Risk Considerations for 2025:

- Leverage Risks: With A/E ratios still high, banks relying on retained earnings and Tier 2 bonds may face increased financial leverage without proportionate capital buffer improvements.
- Regulatory Pressure: The State Bank of Vietnam (SBV) is considering raising the minimum CAR requirement from 8% to 10.5% by 2033, signaling a gradual tightening of capital regulations. A potential higher CAR requirement could limit loan expansion for banks with constrained capital positions, particularly those heavily reliant on short-term capital-raising strategies.
- Funding Cost Risks: Expanding Tier 2 capital via bond issuance increases funding costs, hence may compress net interest margins (NIMs).
- Asset Quality Concerns: With NPLs potentially rising post-Circular 02, banks with insufficient capital reserves may struggle with provisioning, further stressing their capital adequacy position.

What are the key provisions and implications of the recently issued Decree No. 69/2025/NĐ-CP regarding foreign ownership in Vietnamese banks?

The Vietnamese government has issued Decree No. 69/2025/NĐ-CP, effective May 19, 2025, amending regulations on foreign investment in Vietnamese financial institutions. Under this decree, the total foreign ownership in Vietnamese commercial banks remains capped at 30%, with certain exceptions. Specifically, for commercial banks

undergoing mandatory transfers and not majority state-owned, foreign ownership can now increase up to 49% of charter capital

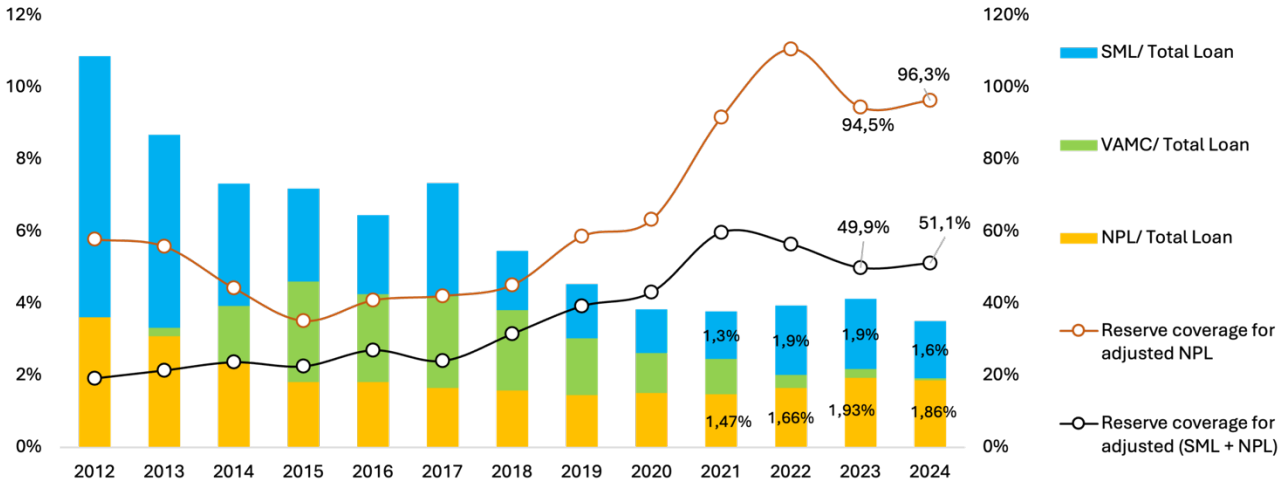
Additionally, the decree stipulates that foreign investors may only purchase treasury shares if those shares were acquired by the bank before January 1, 2021. Should foreign investors exceed the regulated ownership thresholds, they are required to reduce their holdings within six months to comply with the limits. Furthermore, in situations where financial system stability is at risk, the Prime Minister has the authority to permit foreign ownership to surpass the 30% cap for specific banks.

The implementation of Decree No. 69/2025/NĐ-CP presents both opportunities and challenges for Vietnam's banking sector. By increasing the foreign ownership cap to 49% in specific cases, the decree aims to attract foreign capital, which can enhance the financial stability and operational efficiency of weaker banks. This influx of investment is expected to bolster the overall resilience of the banking system and support economic growth. However, the decree also imposes stringent conditions, such as requiring foreign investors to divest any excess shares within six months if ownership limits are breached. Additionally, the restriction on purchasing treasury shares acquired after January 1, 2021, may limit the flexibility of foreign investors and could potentially deter some investment activities. Balancing the need for foreign investment with regulatory compliance will be crucial for banks and investors navigating this new landscape.

What is the current state of Vietnam banking sector's asset quality, and what potential risks does it face?

In 2024, sector-wide NPL and SML ratios declined compared to previous years, indicating banks have made progress in managing credit risks. Specifically, NPL ratio slightly fell to 1.86% (2023: 1.93%), SML decreased to 1.6% (2023: 1.9%), largely attributed to commercial banks' aggressive write-off practices.

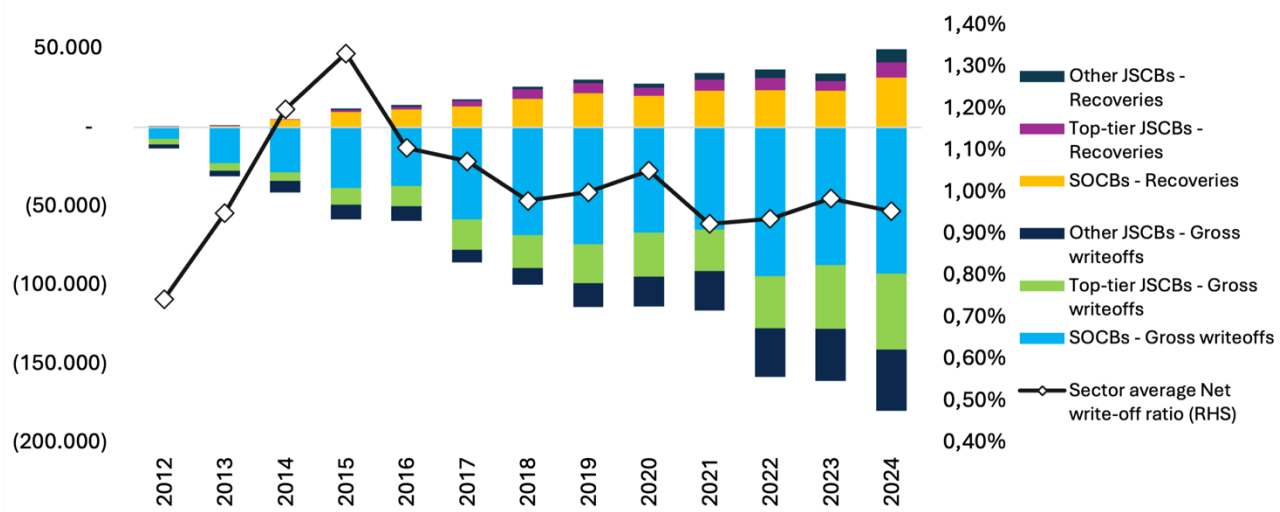
Chart 10: Problematic loans ratio (LHS) and reserve coverage ratio (RHS) of commercial banks in Vietnam



Source: Company data, FiinRatings.
Note: Problematic / distressed loans comprise of special-mentioned loans (SML), non-performing loans (NPL), and the divestment of non-performing loans to Vietnam Asset Management Company (VAMC); Total loans = Loan book + VAMC bonds

The amount of gross write-offs has been steadily rising over the years, with a significant acceleration in the period from 2022 to 2024. 2024 also saw its gross-write offs balance to grow by nearly 12% from 2023's level. Highest growth in gross write-offs in 2024 was witnessed at Top-tier JSCBs with 19%yoy, followed closely by small and medium sized by 18%yoy, while SOCBs remains modest at 6%yoy. The aggressive write-off trend observed in 2022-2024 is a clear indication that banks are dealing with problematic loans decisively, although this also suggests that some of the written-off loans may be unrecoverable, affecting profitability.

Chart 11: Write-offs and recoveries at commercial banks in Vietnam (Unit: VND billion, %)



Source: Company data, FiinRatings.

Nonetheless, rising NPLs in SOCBs and top-tier JSCBs, coupled with declining reserve coverage in the latter, suggest emerging vulnerabilities, especially in real estate-related exposures. While overall reserve coverage has improved, banks with high problem loan ratios remain exposed to elevated credit and capital adequacy risks. Real estate lending grew significantly in 2024 - particularly among top-tier banks - intensifying concentration risks, although mitigated in part by corporate bond buybacks and increased customer prepayments.

Looking ahead, the persistence of regulatory challenges and sectoral stress, particularly in residential and industrial real estate, is likely to require more prudent provisioning and recovery strategies to preserve capital resilience and manage potential NPL migration.

Related Research

- FiinRatings's Monthly Bond Spotlight, Mar 24, 2025
- Vietnam Banks To Grow Fast While Navigating Capital Constraints, Mar 5, 2025
- Vietnam Credit Spotlight 2025: Growth, Credit, and Capital Markets in a New Era, Feb 27, 2025
- Vietnam: Many Growth Drivers, Some Roadblocks, Feb 24, 2025
- Bond Spotlight 2024 Review and 2025 Outlook: Anticipating Breakthroughs from Non-Bank Bonds Driven by New Policies, Feb 06, 2025
- The Non-extension of Circular 02 and Its Impact on Vietnam's Banking Sector, Jan 20 2025

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