

BANKING

New framework for bad debt strengthens Vietnamese banking outlook

- Legalizing Resolution 42 will help clear bottlenecks in bad debt and collateral asset resolution, thereby supporting a reduction of the sector’s NPL ratio to below 3%.
- The new law is expected to improve credit access and lower borrowing costs by streamlining debt resolution progress, accelerating debt recovery, and lowering provisioning expenses — paving the way for interest rate cuts.
- The draft law is set to be submitted to the National Assembly in May 2025, as Resolution 42 has expired and bad debt remains high.

Resolution 42 – A legal breakthrough in handling collateral and bad debt

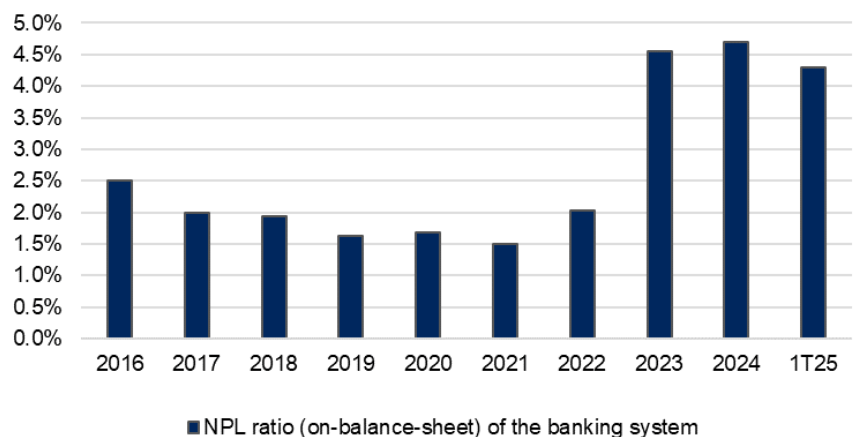
Resolution 42/2017/QH14 marked a significant legal advancement that enabled credit institutions (CIs) to handle bad debt (NPLs) more effectively. It introduced key provisions such as the right to seize collateral assets, streamlined legal procedures for asset-related disputes in court, and clearer guidance on handling accrued interest receivables. One of its most notable breakthroughs was **allowing the sale of bad debt at market value**, better reflecting the true worth of those assets. This facilitated faster debt transactions and laid the groundwork for developing a debt trading platform. Notably, it also eased legal concerns for state-owned commercial banks (SOCBs) regarding potential accusations of “state asset loss”, which had been a major obstacle in the past.

After six years of implementation, Resolution 42 has proven effective by **granting creditors (banks, VAMC) greater authority in collateral resolution**, helping shorten the timeline for resolving bad debt and collateral assets, thus enhancing credit flow in the economy. However, since January 1, 2024, the resolution has officially expired, underscoring the urgent need for a new legal framework to sustain and expand its positive outcomes.

Legalizing Resolution 42: A timely boost for Vietnam’s 2025 growth ambitions

The Vietnamese Government has set a GDP growth target of at least 8% for 2025, with the banking sector expected to play a key role in driving economic momentum. As Resolution 42 has expired and the sector’s NPL ratio remains high (4.3% as of January 2025), establishing a formal legal framework for bad debt resolution has become urgent. Legalizing the key provisions of Resolution 42 will give CIs greater confidence in lending, as the backlog of bad debt is cleared, while also reducing borrowing costs for both individuals and businesses.

Figure 1: The on-balance-sheet NPL ratio of the banking system stayed below 2% from 2017 to 2021 but surged in the following two years due to COVID-19



Analyst(s):

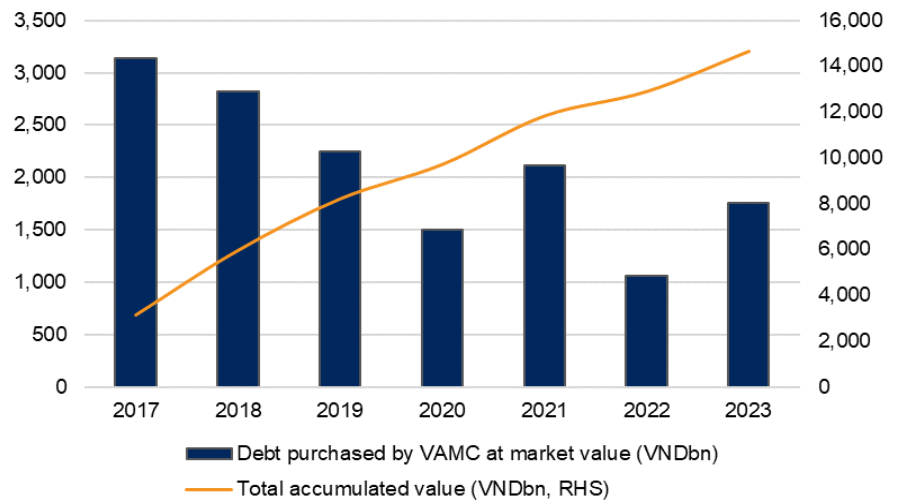


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Source: SBV, VNDIRECT RESEARCH

Figure 2: VAMC has purchased nearly VND14tn (USD59mn) worth of bad debt at market value, of which nearly 95% were acquired under Resolution 42. Over 79% of these market-value debts have been successfully resolved.



Source: VAMC, VNDIRECT RESEARCH

The draft law is set to be submitted to the 15th National Assembly meeting in May 2025. If approved, the law will provide greater stability and sustainability compared to the previous resolution, thanks to:

- 1) **Expanded scope:** The new law will cover all NPLs, no matter when they were incurred, unlike Resolution 42 which only applied to NPLs arising before August 15, 2017.
- 2) **Increased rights for credit institutions (CIs):** The law grants CIs greater authority for collateral's collection and return (such as including the return of collateral in administrative violations), which speeds up the debt resolution process.
- 3) **Priority application in disputes:** Once the provisions on asset seizure, asset attachment, and return of collateral are fully legalized in the Law on Credit Institutions, they will take precedence in civil and administrative disputes, except for cases involving ongoing criminal proceedings.

Although the Law on Credit Institutions (LCI, 2024) has legalized some parts of Resolution 42, such as handling collateral such as real estate projects, allocating accrued interest, managing differences when selling the bad debt of CIs, debt purchase or/and resolving agencies, three important provisions remain unlegislated:

- 1) The right to seize collateral assets (except for the transfer regulations under Clause 6, Article 210 of the LCI);
- 2) Provisions on the attachment of collateral assets;
- 3) Provisions on returning collateral used as evidence in criminal cases.

As Resolution 42 has expired, these three provisions are no longer applicable. This creates obstacles in the handling of bad debts and their collateral, thus resulting in: 1) negative impacts on the restructuring process of weak CIs; 2) delays in the liquidation of collateral to settle debts before they are reclassified into higher-risk groups, which increases provisioning costs; and 3) reduced access to banking credit for individuals and businesses.

Impact on the Banking sector: Lower NPL ratio, cheaper borrowing costs

We expect legalizing the three key provisions from Resolution 42 will help bring the banking sector's NPL ratio below 3%. As of January 2025, the system-wide on-balance-sheet NPL ratio stood at 4.3%, with bad debt concentration in a few weak banks and those under special supervision. We expect a significant drop in sector-wide NPLs in the first year of implementation, driven by the aggressive resolution of secured debts - similar to the improvement seen during 2017–2021, when Resolution 42 took effect.

Additionally, we expect the legal framework to reduce borrowing costs for businesses and individuals - aligning with government directives. Clear and transparent regulations will shorten debt recovery timelines, reduce resolution and provisioning expenses, and lower risk for banks. As costs and risks decline, banks will have more room to cut interest rates, improving access to banking credit for customers.

Since the new law applies to all CIs, it is difficult to identify which banks will benefit the most. However, the first provision about granting rights in collateral seizures is expected to notably shorten the time and reduce the cost of resolving bad debt. Therefore, banks focused on retail lending, with many small-ticket NPLs and/or those with a strategic focus on auto loans are likely to benefit more. In addition, the new law will support banks involved in mandatory transfers, such as MBB, HDB, VCB, and VPB, in restructuring weak banks.

Figure 3: The sector-wide LLR improved significantly during 2017–2021, when Resolution 42 was in effect

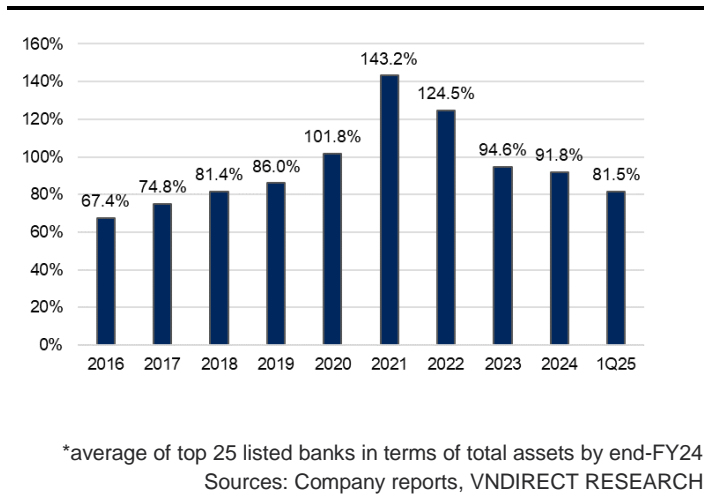


Figure 4: Under Resolution 42, banks accelerated bad debt management through write-offs

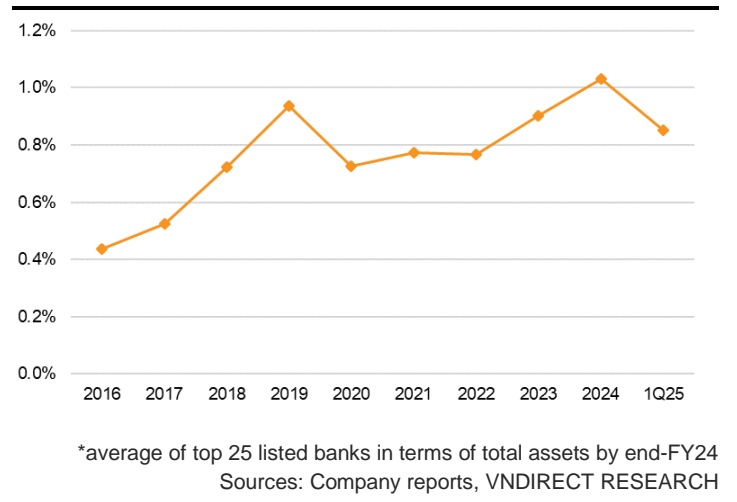


Figure 5: NPL ratios of the banks under our coverage as of 1Q25

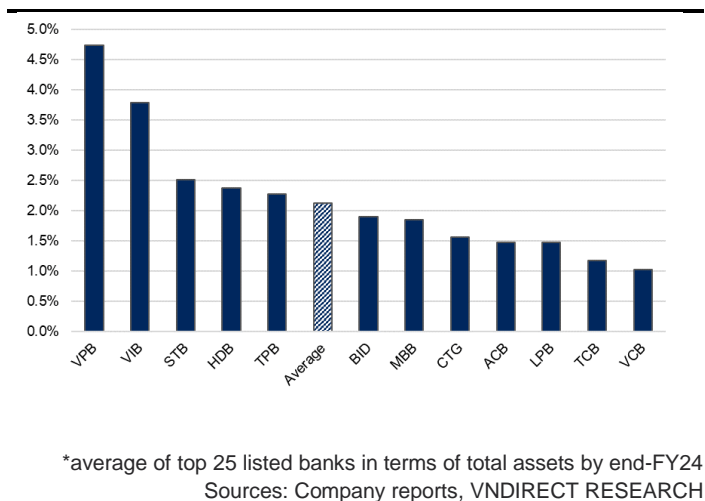
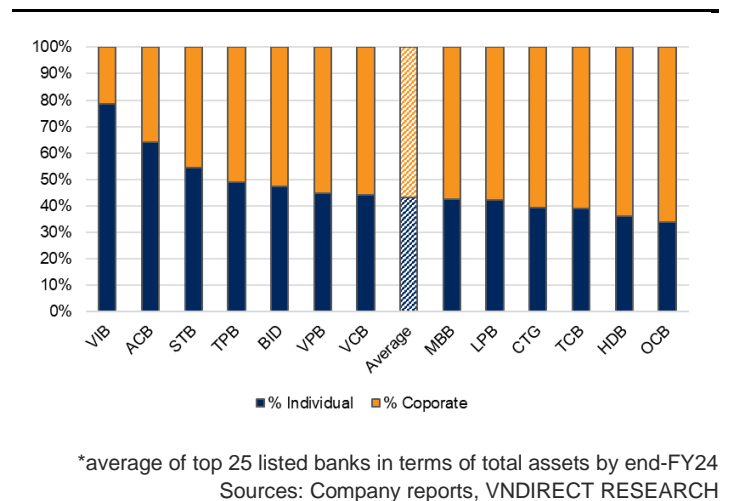


Figure 6: Individual lending as a percentage of total customer loans as of end-2024



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Stock Ratings

Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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