

Hanoi, 24 May 2006

**DECISION**

**On the approval on Proposal for development of banking sector towards 2010 and orientation towards 2020**

**THE PRIME MINISTER**

- Pursuant to Law on Government Organization dated 25 December 2001;
- Pursuant to notice No.191-TB/TW dated 1 September 2005 of Central Party Executive Committee on the target and solution for development of Vietnam banking sector towards 2010 and orientation towards 2020;
- In consideration of request of the Governor of State Bank of Vietnam in report No. 49/TTr-NHNN-m dated 9 February 2006.

**DECIDES:**

**Article 1:** Approval on Proposal on development of Vietnam banking sector towards 2010 and orientation towards 2020 attached to this Decision.

**Article 2:** State Bank of Vietnam is taking leading role and coordinating with Ministry of Finance, Ministry of Planning and Investment, related ministries and branches, provincial and central people's committee and credit institutions to implement the project, proposal to achieve target, orientation and solution for Vietnam banking sector development attached to this Decision; to provide guidance, control, inspection and aggregation on implementation status on an annual basis to report to the Prime Minister, to prepare preliminary report in 2007 and final report in 2010.

State Bank of Vietnam is assigned to take leading role and coordinate with related ministries and branches to promulgate important proposals and projects as follows:

1. Project on Law on State Bank of Vietnam (new) in replacement of Law on State Bank of Vietnam (1997) and Law on Amendment and Addition on a number of articles of Law on State Bank of Vietnam (2003) (to be submitted for approval of National Assembly in 2008).
2. Project on Law on Credit Institutions (new) in replacement of Law on Credit Institutions (1997) and Law on Amendment and Addition on a number of articles of Law on Credit Institutions (2004) (to be submitted for approval of National Assembly in 2008).
3. Project on Law on Deposit Insurance (to be submitted to National Assembly in 2007).
4. Project on Law on Supervision of Prudential Banking Activities (to be submitted to National Assembly after 2007)
5. Proposal on financial capacity strengthening (equity capital increase, restructuring of financial issues, mainly non-performing loan) of commercial banks in compliance with international accounting practice, debt classification and equitization roadmap of State owned commercial banks (to be submitted to the Prime Minister for approval before 30 June 2006).
6. Proposal on development and improvement of operation efficiency of non-bank credit institutions (to be submitted to the Prime Minister for approval before 31 December 2007).
7. Proposal on development and improvement of operation management efficiency of organizations with banking activities (to be submitted to the Prime Minister for approval in 2006).

8. Proposal on development of non-cash settlement during 2006-2010 with orientation to 2020 (to be submitted to the Prime Minister for approval in 2006).
9. Project on banking modernization and settlement system Phase 2 funded by the World Bank (implementation to be accomplished before 31 December 2007).
10. Project on information management system and banking modernization project funded by the World Bank (to be submitted to the Prime Minister for approval before 31 June 2007).
11. Proposal on roadmap for improvement of Vietnam Dong convertibility with gradual decrease of dollarization in the economy (to be submitted to the Prime Minister for approval in 2006).
12. Formulation on the Proposal on Propaganda and development of small scale financial operation, improving the role of small scale financial operation in the course of hunger eradication and poverty alleviation (to be submitted to the Prime Minister for approval before 31 December 2007).
13. Formulation of Government Decree on information dissemination for the formulation and management of national monetary policy (to be submitted to the Prime Minister for approval before 2006).

General Office of Statistics is assigned to take leading role and coordinate with State Bank of Vietnam and other related ministries and branches to do research and formulate regulations on form and mechanism of information dissemination on inflation (to be accomplished in 2006).

Within its designated responsibility and authority, State Bank of Vietnam is required to actively formulate and implement project and proposal towards targets, orientation and solution for development of Vietnam banking sector as specified in the attached Proposal on development of Vietnam banking sector towards 2010 and orientation towards 2020.

**Article 3:** This decision shall come into effect 15 days after the date of announcement on the Gazette.

**Article 4:** The Governor of State Bank of Vietnam, Ministers and Heads of Ministry equivalent bodies, Heads of Government related agencies, Chairman of city and provincial people's committee under central administration are responsible for the execution of this Decision.

**THE PRIME MINISTER**

(signed)

**Phan Van Khai**

**PROPOSAL ON**

**DEVELOPMENT OF VIETNAM BANKING SECTOR TOWARDS 2010 AND ORIENTATION  
TOWARDS 2020**  
(Stipulated in attachment of Decision No. 112/2006/QĐ-TTg dated 24 May 2006 of the Prime  
Minister)

**I. TARGETS FOR DEVELOPMENT OF BANKING SECTOR**

**1. Targets for development of State Bank of Vietnam (abbreviated as SBV) towards 2010 and strategic orientation towards 2020.**

To reform on organization and operation of SBV towards a professional, delicately organized, resource sufficient and fully capable for formulation and implementation of market oriented monetary policy which is advanced technology based and compliant with international practice and standards on central bank operation, integrated with international financial community, efficiently performing state management function on monetary and banking operation, at the same time to create foundation to develop the bank into a modern central bank which matches the advanced level of Asian central banks after 2010.

To formulate and effectively implement monetary policy to stabilize currency value, inflation control, contribute to macro economic stabilization, economic development and successfully completed the course of industrialization and modernization. Management of money, interest rate and exchange rate towards market economy is conducted via flexible and effective use of indirect monetary policy. Information technology, quickly expanding non-cash settlement forms and bank transfer payment. Enhancing towards making Vietnam Dong fully convertible. Monetary policy helps fund mobilization and fiscal policy to direct and encourage public savings, investment to promote business and production.

**2. Targets for development of credit institutions towards 2010 and strategic orientation towards 2020.**

To reform at grassroots to develop the overall system of credit institutions towards modernity and universal operation to reach mid advanced level among ASEAN with diversified structure of ownership, type of credit institutions with larger operation scale, sound financial system, while promoting a foundation for a modern system of credit institutions with advanced level in Asia after 2010, meeting the international standards on banking operation, competitive with regional and global banks. Ensuring that credit institutions including state owned credit institutions are market oriented with profit as primary objective. To develop credit institution system with sound operation and sustainable efficiency based on technology and advanced management knowledge with application of international practice and standards on commercial bank operation. To develop non-bank credit institution to contribute to the development of more diversified and balanced financial system. To develop and diversify products and banking services, especially capital mobilization, financing, payment with high quality and a wide range of distribution network in order to timely and efficiently provide banking services for the economy during the promotion of industrialization and modernization. To establish banking service market, especially credit market with fair competition among all types of credit institutions, to create opportunities for every capable individual, organization with legal demand to access banking services. To prevent and eliminate fraud in credit activities.

To keep promoting the restructuring of banking system. To separate policy credit and commercial credit on the basis of function discrimination of policy bank lending and money trading function of commercial bank. To ensure sovereignty and self responsibility of credit institution in business. To create favorable condition for domestic credit institution to enhance management capacity,

professional knowledge and competitive capability. To ensure right for conducting business of banks and international financial organizations as committed by Vietnam. To attach banking reform with enterprise reform, especially state owned enterprises. To continue consolidation the soundness and development of joint stock banks, to prevent with timely action, avoiding failure of weak banks beyond control of State Bank of Vietnam. To guide the operation of people's credit fund to the right direction on the basis of sustainability, safety and efficiency.

Watchword for action at credit institution is "**Safety, efficiency, sustainability, international integration**".

### **A number of monetary indicators and banking operation during 2006 – 2010**

1. Inflation rate (% per annum)	Lower than economic growth rate
2. Average growth of M2 (% per annum)	18 – 20
3. Ratio M2/GDP at end of 2010 (%)	100 – 115
4. Ratio of cash in circulation outside banking system/M2 in 2010 (%)	Not more than 18
5. Average credit growth rate (% per annum)	18 – 20
6. Capital adequacy ratio in 2010 (%)	Not less than 8
7. Ratio of bad debt/total outstanding in 2010 (%)	Less than 5
8. Banking supervision standards in 2010	Basel 1
9. Minimum international reserves in 2010	12 weeks of import

Note: Bad debt is determined as Vietnam debt classification standard which is compliant with international practice.

Equity capital of a number of commercial banks reach the equivalent of 800 – 1.000 million USD towards 2010 with strong brand name and international competitive capability. Aiming to establish at least one universal financial corporation operating in domestic and overseas financial market.

## **II. ORIENTATION FOR DEVELOPMENT IN DETAILS**

### **1. Orientation for development of the State Bank of Vietnam towards 2010**

#### **a. To enhance the role of State Bank of Vietnam**

SBV is operating in the role of a central bank in a socialist oriented market economy, primarily performing roles of a central bank (banknote issuing, bank of banks, lender of last resort, money market regulator and settlement center) and state management function in money and banking, ensuring safety of the banking system. The primary target is to stabilize the currency value, inflation control, ensuring safety of monetary and banking system which contributes to create favorable macro environment for growth and socio-economic sustainable development. SBV is independent and self control in formulating and managing monetary policy, interest rate and exchange rate. Enhancing the role, responsibility and authority of SBV in strategy implementation, formulation and management of monetary policy on the basis of transparent assignment of authority, responsibility, minimizing interference of related bodies in the process of formulation and management of monetary policy, legal framework on money and banking operation. Relationship among SBV and other related ministries and branches and credit institutions should be clearly clarified. A close coordination between SBV and authorized bodies, especially the Ministry of Finance is required in formulation and management of monetary policy. SBV is mainly responsible and authorized in management and supervision of the overall financial system. SBV is not involved in providing direction in business conduct or interference

in business decision of credit institutions of all type economic types. SBV is fully resourced and relatively independent in professional business, organization and finance, operating with different mechanism as compared with administrative, under the management and supervision of the Government and National Assembly.

b. Orientation for mechanism restructuring of State Bank of Vietnam system

Structural organization reform of State Bank of Vietnam from headquarter to branch towards a modern and dedicated fashion. Restructuring of SBV and reorganization of departments and divisions towards central management, improving research capability, analysis and forecast and professionalism of units; further clarification of function, responsibility and coordination among units. Restructuring of SBV branches toward centralization without application of same structural organization and function, responsibility for all branches, while preparing necessary conditions to establish regional State Bank office, not depending on geographical location (province, cities). Restructuring of state owned enterprises under SBV, it is intended to retain only the National Banknote Issuing Plant, ownership of all other enterprises will be transferred via equitization and merger. SBV will act as representative in state ownership at credit institutions and state owned SBV affiliates.

c. Orientation for reform of monetary policy

Monetary policy is conducted in prudential, flexible and effective manner on the basis of modern and advanced monetary policy instruments. The overall objective of monetary policy during this period is currency stabilization, inflation control and safety of the banking system which contributes favorable conditions for economic growth.

To formulation and implement market oriented monetary policy. To improve capability of State Bank of Vietnam in monetary, interest rate and foreign exchange management via reform and streamlining of monetary instruments, foreign exchange management mechanism in parallel with money market development in line with international practice and Vietnam conditions. To enhance the synchronous coordination among monetary policy instruments and between monetary policy management and other macroeconomic policies. State Bank of Vietnam will control the volume of money in circulation and other flows in the economy.

Monetary policy management is based on volume of money, at the same time to establish necessary conditions for gradual shifting to interest rate based monetary policy management. Necessary conditions are required to facilitate SBV to move to inflation target control mechanism based monetary policy management.

d. Orientation for reform of foreign exchange policies

To improve the capability and oversight of SBV in management and supervision of domestic and international forex transactions while providing effective measures to minimize and control of investment surrender overseas. Current transactions are to be liberalized with gradual relaxation of control on capital transaction in a prudent and appropriate manner in line with financial market opening. To gradually improve the Vietnam Dong convertibility to provide foundation for Vietnam Dong to become fully convertible after 2010. or the time being, Vietnam Dong is targeted to be freely convertible in current transactions and step-by-step in capital transactions. To narrow the scope of foreign currency use in Vietnam territory with lower level of dollarization. Enhancing responsibility and capacity of commercial bank in meeting the demand for foreign currency in parallel with further deregulation while creating favorable conditions for organizations and individuals accessing the forex market.

To rapidly increase state foreign exchange reserve. To implement central and unified management measures of state reserve at SBV. To unify sources of foreign currency into the banking system. Implementing open forex policy to encourage export and attracting foreign currency inflow into the economy through the banking system.

To continue with the market based flexible exchange rate mechanism which is attached to currency basket of important trade partners and investors in Vietnam. Exchange rate trading band will be further expanded, moving into indirect instruments for exchange rate management. Administrative intervention into the forex market will be minimized, aiming towards total cancellation. Forex market and money market derivatives will be strongly developed in compliance with international practice. SBV only intervenes into the market and meets the foreign currency demand for the country with a sole purpose to implement the monetary policy target and to stabilize the money market. Management capacity will be further improved and intervention into the foreign currency market will only be made through market transactions. Legal framework will be further streamlined to create favorable conditions for forex market development; forex activities will be expanded at credit institutions, and it will be more convenient for organizations and individuals to get access to forex sources. Unofficial forex transactions will be considerably limited.

#### đ. Orientation for development of banking supervision system

On the foundation of existing SBV inspection, modern and effective banking supervision system will be developed (in terms of institution, structural organization, human resource and methodology) to meet the practical demand of Vietnam banking system development and to be compliant with international principles and standards in banking supervision. Office for prudential banking supervision is an unit (department) of SBV based on the existing SBV supervision department. Pre-conditions are to be made to establish the Office for General Financial Supervision in 2010 which is superior in terms of its role and functionality in conducting the function of prudential supervision all financial activities including banking, securities and insurance. Major target and responsibility of the office for prudential banking supervision of SBV is to contribute into the safety and stability of credit institution system and the legal compliance in money and banking activities which protects the public interest.

To reinforce preconditions for an effective supervision system:

Priority will be given to the organizational structure and operation of the existing SBV supervision towards higher independency and unification in professional operation and orientation, management of Office for prudential banking supervision under the management of the Governor.

Legal framework will be further streamlined in terms of banking supervision and technical infrastructure for banking supervision. In the meantime, banking supervision and orientation related issues, especially inspection will be included into Law of State Bank and new Law on Credit Institutions. Law on Prudential Banking Activities will also be formulated (if necessary). It is ensured that Office for prudential banking supervision is fully authorized in conducting its functionality of prudential supervision and compliance with regulations in credit institution operation.

Modernization and effective use of IT in banking inspection and supervision.

Reform in bank licensing with simplification in licensing process to create favorable condition for credit institutions to be established and developed, especially for non-bank credit institutions towards equality in market access and money and banking service business on the basis of improved market discipline and requirements for establishment of credit institutions, prudential regulation in banking activities to ensure newly established credit institution to be competitive, highly IT competent with high safety ratio.

Reform and improving efficiency in banking supervision methodology:

Improving quality and efficiency off-site supervision and on-site inspection in which off-site supervision is considered important with early warning function on banking risk, utilization of internal audit result and independent audit to support for off-site supervision and on-site inspection.

Prudential regulation in banking will be further streamlined including regulations, policies on credit institutions and banking activities while renewing contents, methodology, inspection and supervision process in line with development of IT, banking technology and the application of core principles for effective banking supervision of Basel Committee on Banking Supervision and international

standards on banking supervision (Capital Accord 1998 – Basel I) and gradually implement core principle and standards in the new Capital Accord (Basel II) after 2010.

e. Orientation for reform in human resource management and development

It is focused on the development of staff to be competent to meet the demand of SBV development into a modern central bank in the socialist oriented market economy and international economic integration. In parallel with reform in management mechanism at SBV, restructuring of SBV staff and officials will be carried out towards further improvements in terms of quality and competence of staff, rearranging SBV HQ and branch staff to be in line with new structural model, management mechanism as well as requirement for development at SBV. To improve the system of process, labor management policy while building a sound and friendly working environment with physical encouragement incentives and job opportunities to ensure attraction for competent staff towards criteria that average salary of SBV staff is not less than that of commercial bank staff.

To manage staff in work quality and workload as assigned. To provide incentives in accordance with real competence, position and performance of assignments. Incentive and reward mechanism with non-physical encouragement measures shall be basically changed to become a real motivation for individuals and units in work performance, competence, enthusiasm and contribution in terms of competence and intelligence, quality improvement, work efficiency and long term dedication to SBV. To gradually apply the mechanism of competition for position in a number of positions for manager or executive; To allocate staff in accordance with competence and job requirements. Outsourcing and professional service is encouraged for logistics, service and seasonal work without requirements for safety and confidentiality of SBV.

## **2. Development orientation of Credit Institutions towards 2010**

a. Strategic development orientation of state owned commercial banks and joint-stock banks

- State owned commercial banks and joint-stock banks in which the State holds majority stock shall be the main force and playing leading role in banking system in terms of operation scope, financial capacity, technology, management, and business efficiency. State owned commercial banks, together with domestic joint-stock banks, shall play key role in Vietnam banking system. Foreign credit institutions and other non-bank credit institutions contribute to the completeness, safety, and effectiveness of Vietnamese banking system;
- To improve the competitiveness of Vietnamese commercial banks in international market through high quality services and strong brand name.
- To continue to completely restructure commercial banks according to state owned commercial bank restructuring program and joint-stock banks strengthening program as follows:
- To improve institutional capacity (reorganization and operation):
- To reorganize commercial banks from headquarter to branches; To reform management apparatus at head office in line with international practices; To clearly distinguish the functions, duties, and authorities of Board of Directors from those of Board of Management; To maintain at least Board of Control/Audit and Risk Management Committee to assist Board of Directors.
- To expand correspondent relation, business cooperation, product development, technology transfer and application with foreign financial institutions; To promote the presence of Vietnamese commercial banks at international and regional financial markets.
- To expand operation scope along with capacity enhancement of self-control, risk management, safeguarding and business effectiveness; To ensure the independence and professionalism of internal audit function and internal control system; To develop centralized information system,

centralized and independent risk management system for the whole system; To develop management systems of commercial banks in conformity with international standards and practices as well as real conditions of Vietnamese commercial banks.

- To enhance financial capacity (to reform financial structure):
- To quickly and fundamentally enhance financial capacity of commercial banks (in term of scale and quality); To continue to increase chartered capital and assets as well as to improve quality and profitable rate of the assets; reduce the proportion of risky assets in total assets; To completely settle non-performing loans and to clean balance sheets of state-owned commercial banks.
- To increase equity capital of commercial banks from retained earning, issuance of shares/bonds, merge, consolidation, and acquirement; To resolutely settle ineffective and risky joint-stock commercial banks, which may expose the whole banking system to enormous risk, through a series of solutions including dissolution, bankruptcy in compliance with legal regulations without substantially affecting the socio-economic situation; To facilitate commercial banks to acquire, sell, merge or consolidate to increase their scale and competitiveness; To maintain appropriate proportion of equity capital to asset in line with the target of reaching capital adequacy rate of at least 8% in medium-term and 10% in long-term.
- To gradually and prudently equitize state-owned commercial banks to ensure the stability of the socio-economy and the safety of the banking system; To allow foreign investors, especially those with strong capacity of finance, technology, management and good reputation, to buy stocks and to participate in the governance and management of Vietnamese commercial banks; In long-run, the Government only needs to hold dominant or majority stock of a few state-owned commercial banks, depending on particular situation of each bank and the requirement of government control to ensure the security, effectiveness of the banking system, in order to enhance commercial principles, market disciplines in the operation of commercial banks.
- To fundamentally reform management mechanism over state-owned commercial banks and other credit institutions. As a result, credit institutions are given the real autonomy (in terms of finance, operation, management, organization, and personnel), are fully responsible for their business results, and can operate in a transparent, open, and equal environment; Between the State Bank and credit institutions, there is not only the state supervision relation but also the economic relation based on the respect for market principles and transparency, the eradication of governmental subsidy, privilege, inequality, and monopoly; To eliminate the mechanism in which the State bank is owner representative for state-owned commercial banks; The role of the State bank is mainly to create favorable environment for monetary and banking transactions through promulgating regulations and policies, regulating monetary market, and supervising the safety and the compliance with legal regulations of those transactions.
- To basically complete commercial bank restructuring program before 2009.

b) Strategic development orientation of people's credit funds (PCFs)

To develop PCFs into independent cooperative credit institutions based the principles of volunteer, autonomy, and self-responsibilities for the main purpose of mutual assistance among members; PCFs operate under the Law on Credit Institution and the Law on Co-operative; The operation scope of PCFs is mainly raising capital and lending to members in rural areas so as to mobilize local resources for developing the economy, eradicating hunger, reducing poverty, and diminishing usury.

c) Strategic development orientation of foreign credit institutions operating in Vietnam

To conform with the Bilateral Trade Agreement between Vietnam and the US, with the bilateral agreements between Vietnam and Japan, Vietnam and EU; with WTO regulations (when Vietnam

becomes an official member); and with other international agreements regarding opening financial and banking markets; To continue to proactively loosen restriction in market access and banking operation of foreign credit institutions in Vietnam in conformity with committed roadmap; Not only to provide foreign credit institutions with opportunities to do business legally in Vietnam according to international agreements but also to apply flexible, lawfully and internationally-accepted management mechanism to prevent foreign credit institutions from manipulating or unfairly competing or unfavorably taking over Vietnamese credit institutions.

#### **d) Strategic development orientation of banking services**

To develop diversified and universal banking system according to the need of the economy by continuously improving the quality and effectiveness of the traditional banking services as well as by quickly approaching the modern banking operation and new, hi-tech banking and financial services; To improve the competitiveness of banking services of Vietnamese credit institutions by applying market principle, transparency, restricting subsidy and eliminating monopoly in providing banking services so as to gradually develop an open, competitive, secure and effective banking service market; Not to restrict the right to access banking services of any organization or individual; To gradually liberalize market access and to encourage credit institutions to compete by service quality, technology, reputation, brand name rather than by price war and network expansion; To develop the Vietnamese banking service system to the same level of other countries in ASEAN in terms of service type, quality and to be able to compete in some banking services in international market .

### **3. Orientation of the legal system improvement regarding monetary and banking operation towards 2010**

To establish consistent legal framework, to apply more international regulations and standards on safety of monetary-banking operation; To create the transparent and equal legal environment in monetary and banking operation in order to encourage competition and ensure the safety of the monetary and banking system; To issue legal regulations and policies on monetary and banking operation so as to create healthy environment and to provide impetus for credit institutions, enterprises, and individuals to do business; To eliminate protectionism, subsidy, privilege in banking sector and discrimination among credit institutions; To promulgate the new Law on State bank in replacement of the previous (1997), the revised and supplemented Law on State Bank (2003); to issue the new Law on Credit Institutions in replacement of the previous (1997), the revised and supplemented Law on Credit Institutions (2004) in order to speed up the reform and the development of modern and safe monetary and banking system which is effectively integrated into international economy. The new Law on State Bank and Law on Credit Institutions gear to regulating all monetary and banking activities regardless subjects having banking operation; To reinforce the enforcement in the monetary and banking operation; To increase the validity of legal, economic, and administrative sanctions to ensure that debtors fulfill their obligation of repayment and the legitimate right of credit institutions is protected; To restrict and gradually to abolish criminalization of economic relations in banking operation.

### **4. Development orientation of technology and banking payment system towards 2010**

To develop a modern banking technology infrastructure at the level as of other countries in the region based on the effective application of advanced information technology and international standards/practices which are suitable with the situation of Vietnam; Comprehensively and synchronously modernize banking technology on operational processes, management and facilities at the State bank and other credit institutions; Quickly learn, effectively apply, and handle modern applications in banking technology.

To build up a secure, effective and modern banking payment system at the level as of other countries in the region (in terms of technical infrastructure, legislation framework and payment services); To develop a nation-wide electronic payment system; to modernize the inter-bank electronic payment systems, clearing and settlement systems and internal payment systems in commercial banks so that they can work automatically and be easily integrated with other applications; To connect payment systems of commercial banks to the inter-bank electronic payment system; To enhance the

management role of the State bank in inter-bank clearing and settlement; To develop technology, payment instruments, secure and effective non-cash payment methods.

### **5. Development orientation of monetary market towards 2010**

To develop a secure, synchronous and highly competitive monetary market to lay important ground for planning and controlling monetary policies, to mobilize and distribute effectively financial resources, to minimize risk for credit institutions; To reinforce and develop inter-bank market with open operation policies, together with enhancement the role of the State bank in market supervision and control; To develop market for bidding treasury bill, bond, and open market instruments; To boost the operation of securities issuing agent of the Government; To increase quantity and kind of secure and highly liquid securities that are allowed to be exchanged in open market, as well as to loosen restrictions on accessing market of credit institutions; To improve cooperation in operation and management among monetary markets and between monetary market and securities market; To reduce administrative interference into operation of monetary markets.

### **III. MAJOR SOLUTIONS**

The development objectives and orientations of banking industry towards 2010 are implemented through the following solutions:

#### **1. To reinforce legal systems, mechanism and policies on monetary and banking operation**

- Review, supplement and amend mechanism, policies and legal documents in line with the roadmap committed in international agreements regarding monetary and banking operation, especially commitments to joint WTO.

- To promulgate laws and related guidance documents to setup fully consistent and comprehensive legal system of monetary and banking, in which priority is given to the issuance of the new Law on State bank and the Law on Credit Institution, and guidance documents for these two Laws.

#### ***For period after 2007***

+ Submit to the National Assembly the new Law on State bank to replace the previous (1997) and Revised and supplemented Law on State Bank (2003).

+ Submit to the National Assembly the new Law on Credit Institution to replace the previous (1997) and Revised and supplemented Law on Credit Institution (2004).

+ Submit to the National Assembly the Law on Deposit Insurance.

+ Submit to the National Assembly the Law on Banking Supervision.

- To continue to fundamentally reform and improve procedures and policies on credit, investment, deposit insurance, foreign exchange, capital mobilization, payment and other banking activities; regulations on control and supervision over banking services; license granting process and management of credit institutions; regulations on buying, selling, merging, consolidating, dissolving, and restructuring credit institutions.

#### **2. To improve capacity of developing and enforcing monetary and foreign exchange management policies**

- To continue to improve management mechanism over monetary instruments, especially indirect instruments in which open market operations play leading role;

- To closely link the management of foreign exchange rates and that of interest rates, the management of foreign currency and that of local currency; To reform the management mechanism over interest rate and foreign exchange rate in conformity with market principles.

- To clearly define the responsibilities of the State bank in managing monetary policies, in which inflation control is the major function, to ensure the transparency and openness.

### **3. To improve supervision capacity of the State bank of Vietnam**

To restructure and develop banking supervision systems with focus on the following solutions:

- To reorganize the structure of current State Bank Supervision Department into centralized, unified, professional body which is in line with international standards on bank supervision (Basel); To establish Division of Supervision on safety banking operation under the umbrella of the State bank; To improve capacity, radically change the supervision methods and apply risk based ones; To improve the quality and effectiveness of off-site inspection.

- To expand the list of entities subject to be supervised and inspected by the State bank.

- To complete regulations on independence audit for credit institutions, which conform with Vietnam and international practices; To improve regulations on organization and operation of internal audit division and internal control system in credit institutions.

- To establish and implement risk-based supervision methods and procedures; To build an early warning system in banking supervision so as to detect questionable credit institutions and risks in banking operation; To issue new regulations on assessing and rating credit institutions according to CAMEL(S) standards.

- To amend regulations and policies on deposit insurance in order to require all financial and credit institutions which accept deposits under the Law on Credit Institution to participate in deposit insurance; To improve the role, financial capacity, and operation of Deposit Insurance of Vietnam in supervising, supporting, dealing with members in difficulty and in assuring the safety of the bank systems; To strengthen the cooperation between Deposit Insurance of Vietnam and Division of Supervision on safe banking operation in supervising credit institutions and in dealing with problems of credit institutions; To gradually move toward deposit insurance policy based on risk level of the buyers.

- To strengthen role and capacity of Credit Information Center in collecting, processing and distributing credit information to support the operation of credit institutions and supervision of the state bank over credit institutions.

- To review and perfect regulations on safe banking operation in conformity with international best practices; and to ensure the compliance with these regulations, especially the regulations on classifying loans, risk provision and risk provision usage; To issue minimum requirements for corporate governance in general and risk management in credit institutions; To make bank operation become transparent; To facilitate the stock listing of joint-stock credit institutions in the Stock Exchange/Securities Trading Centre.

To maintain a sufficient number of inspection officers who are highly qualified, ethical, knowledgeable about legislation, management and working skills.

- To continue to boost international cooperation relations, participating in international conventions and agreements of banking supervision and safe financial system; To enhance information exchange with foreign supervision bodies.

### **4. To modernize banking technology and payment systems**

- To modernize banking transaction systems; To actively promote electronic commerce and new banking services based on information technology, especially electronic and automated banking services.

- To continue to upgrade WAN and information system infrastructure by applying technical solutions and communication methods suitable with development levels of Vietnam banking system and in line with international standards and practices; To improve and further develop standardized banking transaction management procedures that conform with international standards and meet the requirements of being modern, automated and having ability to work with centrally integrated systems.

- To enhance the security of information systems, data and networks; To restructure or upgrade network and data security solutions to safeguard assets and to ensure the smooth operation of the State bank and credit institutions; To build a system that can effectively protect confidential information, data and network; in which high priority is given to setting and running Data Backup Center or Data Disaster Recovery Center in the State bank and credit institutions; To research and set up plans for data transmittance lines, connecting to national information network to maintain the active role of banking industry.

- To reform and upgrade information systems of the State bank and credit institutions; To make and implements alliance projects to develop ATM system; To bank card service companies and suitable payment models.

- To reform current account system in line with international accounting standards, especially loan classification in terms of risk level and loan quality, risk provision, P/L statement;

- To continue to improve information systems, statistics and internal report systems in banking industry, aiming at setting up a modern, centralized national information and database system; To install enterprise-wide information systems based on application of information and network technology.

## **5. To increase the effectiveness of organization and develop human resources**

- Restructure organization:

+ The State bank system: organization model will not be changed radically until 2010. There are, however, some minor changes such as establishing new necessary divisions in the State bank headquarter to enhance the role and power of a modern Central bank; modifications in structure, scale and scope of the State bank branches to meet the requirement of monetary and banking management in specific local areas; changes in organizing the major operations of the State bank branches regarding inspection, supervision, cash supply and payment; Some State bank branches in important areas will be given authority to perform the abovementioned operations over larger geographic area (not limit to administrative area) in order to establish regional State bank branches in the next phase; the other State bank branches will be adjusted to more suitable model in term of functions, duties, size, and personnel.

+ Credit institutions: to reorganize and strengthen administration and management systems, departments/units at headquarter, branches, transaction centers, saving funds, transaction points and subsidiaries of credit institutions.

- To establish and to gradually apply new management mechanism into the State bank so as to improve effectiveness and to correspond with the trend of management of many Central banks in the world; Within this framework, to set up mechanism to encourage staff to work effectively and to complete policies on human resource management; To recruit, assign, assess, promote, and treat staff based on the actual competence and qualification, and the nature and requirement of work. To clearly institutionalize duties and authorities of staff; To implement the principles of transparency and democracy in staffing; To restrict the intervention of administrative authorities over the staffing of credit institutions;

- To foster and to reform training on professional competence and management skills for banking staff as well as to heighten professional morality and responsibility of banking staff; To improve the operation effectiveness of training facilities in banking; To establish a Training Centre belonging to the State bank.

## **6. Money market development**

- To continue to improve policies and regulations on the organization, operation, and management of money market in the ways that further open market access and further heighten capacity of issuing low-risk financial instruments, i.e. some big commercial banks which meet requirements and are able to become leading players are encouraged to act as market makers in the money market, especially in derivative money market;

- To diversify market participants, instruments and transaction methods in the money market, especially derivatives and hedging instruments; to facilitate Credit Institutions to issue highly-secure valuable papers, including different types of bonds listed in the securities market.

## **7. To speed up the restructuring of commercial banks based on the approved project**

- To improve the organization structure of commercial banks, from head office to branches, in line with the best practices of business governance: to restructure Board of Directors, Board of Management, and Departments at Head office in order to enhance capacity and efficiency of administration and management; to clearly define responsibilities and authorities of different departments and hierarchical levels. The networks of branches, operation centers, transaction points, savings banks, and other distribution channels of commercial banks are quickly rearranged (in terms of number, location, organization structure, authority, scope of operation) as well as are appropriately expanded;

- To increase the financial capacity and transparency of commercial banks

+ to build an effective credit control mechanism, especially preventing non-performing loans from increasing and dealing with credit risk; to classify loans and make risk provision according to international practices, and to compose financial statements in line with international financial report standard (IFRS).

+ to complete the equitization of Vietcombank (Bank for Foreign Trade of Viet Nam) and MHB (Mekong House Development Bank) before 2008; to equitize the majority of state-owned commercial banks towards 2010; to facilitate state-owned commercial banks to issue long-term bonds; to increase equity capital of state-owned commercial banks to reach CAR of 6% (by the end of 2006) and 8% (by 2010). For some state-owned commercial banks which have similar business objectives and overlap branch networks, merging or other suitable solutions may be applied.

- To strengthen management effectiveness and risk management capacity: to continue to improve the organization and operation of internal audit function and internal control system; to establish risk management components and to put them into operation in an effective manner; to develop risk management systems for liquidity risk, market risk, interest rate risk, foreign exchange rate risk, credit risk;

- To accelerate the progress of banking technology modernization based on the state-owned commercial banks restructuring project, the joint-stock bank strengthening project, and related contents of this decision;

- To assess the state-owned commercial bank restructuring project, especially the development of new governance regulations, by December 31, 2007 so as to draw lessons, to promote and disseminate restructuring program to JSB.

## **8. Improvement in operation capacity and quality of People's Credit Funds; sustainable and secure development of newly-established PCFs**

- To improve efficiency, financial capacity, operation, and management competence of PCFs in order to ensure safe operation of PCFs; to continue to implement and accomplish the strengthening of PCFs' operation; to finalize the dissolution of PCFs whose license has been revoked so as to move to the development phase of PCFs in the coming years; to make and implement training plans to enhance professional competency and management skills of local PCFs; to increase equity capital, to modernize management and operation of PCFs; to improve efficiency and effectiveness of internal control system of PCFs; to continue to set up and develop new PCFs given there are high demands and sufficient conditions to develop safely and healthily.

- To complete the organization of PCF system including Central People's Credit Fund (CCF) and local PCFs; to develop CCF into a co-operative bank which is financially strong and able to support local PCFs in terms of finance, management, and technology so that PCFs' operation is on the right track and safe; to establish organizations to link and develop PCF system, in which PCF Association plays a role as the contact point; To establish reserve fund and safety fund for PCF system; to set up PCF audit organization with sufficient human and financial resources, professional competence, and organization structure to perform audit tasks; to strengthen the organization of Board of Director, Board of Management, and Board of Supervision of local PCFs.

## **9. To strengthen, develop and reinforce management over non-bank credit institutions and other institutions having banking operation, including small-scale financial institutions**

To facilitate the establishment and development of non-bank credit institutions, including intermediate institutions which play a supporting role for banking business; to heighten the management and supervision role of the State bank over non-bank credit institutions and other institutions having banking operation, including small-scale financial institutions and other institutions whose operation are closely related to banking operation; to reinforce legal framework, policies to foster the healthy operation and development of these institutions.

## **10. To improve and reinforce management over policy banks, development financial institutions of the State**

To clearly define the scope and areas of operation of Social Policy Bank, together with separating between policy lending of the State and commercial lending of credit institutions; to effectively operate Vietnam Development Bank in order to implement investment and development lending of the State , including export-subsidy lending; to plan to establish Import-Export Bank in the future when having sufficient conditions; to reinforce the management and supervision role of the State bank over policy banks and financial institutions of the State

## **11. To accelerate international integration in banking**

- To actively integrate into international economy in banking sector based on the roadmap and steps suitable to capacity of Vietnam banking system, i.e. firstly competitiveness of credit institutions and ability to manage and control banking system of the State bank;

- To open banking sector in accordance with the itinerary committed in Vietnam-US Bilateral Trade Agreement, ASEAN Framework Agreement on Services (AFAS); at the same time to realize the commitment for WTO access as request by WTO agreement/GATS;

- To continue with improvement of legal and policy framework towards commitment for market openness. To gradually relax market accession for banking service (domestic and foreign) for both supplier and banking service user (domestic and foreign). To create favorable conditions for domestic credit institutions to expand business overseas as service provider within WTO framework, especially cross-border commercial presence and service provider.

- To participate into international accord, regional and international arena on money, banking. To develop multilateral and bilateral cooperation in area of money and banking in order to make use overseas funding, to coordinate with inspection bodies and financial supervisor to identify, prevent, avoid and manage risk in regional and international areas.

#### **IV. Major projects and proposals to achieve target and orientation for the development of the Vietnam banking sector.**

Group of Law making proposals:

1. Project on Law on State Bank of Vietnam (new) in replacement of Law on State Bank of Vietnam (1997) and Law on Amendment and Addition on a number of articles of Law on State Bank of Vietnam (2003) (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of National Assembly in 2008).
2. Project on Law on Credit Institutions (new) in replacement of Law on Credit Institutions (1997) and Law on Amendment and Addition on a number of articles of Law on Credit Institutions (2004) (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of National Assembly in 2008).
3. Project on Law on Deposit Insurance (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of National Assembly after 2007).
4. Project on Law on Supervision of Prudential Banking Activities (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of National Assembly after 2007).

Groups of other projects and proposals:

1. Proposal on financial capacity strengthening (equity capital increase, restructuring of financial issues, mainly non-performing loan) of commercial banks in compliance with international accounting practice, debt classification and equitization roadmap of State owned commercial banks (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister before 30 June 2006).
2. Proposal on development and improvement of operation efficiency of non-bank credit institutions (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister before 31 December 2007).
3. Proposal on development and improvement of operation management efficiency of organizations with banking activities (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister before 31 December 2007).
4. Proposal on development of non-cash settlement during 2006-2010 with orientation to 2020 (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister in 2006).
5. Project on banking modernization and settlement system Phase 2 funded by the World Bank (SBV takes leading role and coordinates with related ministries and agencies to fully accomplish before 31 December 2007).
6. Project on information management system and banking modernization funded by the World Bank (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister before 30 June 2007).

7. Proposal on roadmap for enhancement of Vietnam Dong convertibility with gradual decrease of dollarization in the economy (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister in 2006).
8. Formulation on the Proposal on Propaganda and development of small scale financial operation, improving the role of small scale financial operation in the course of hunger eradication and poverty alleviation (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister before 31 December 2006).
9. Formulation of Government Decree on information dissemination for the making and management of national monetary policy (SBV takes leading role and coordinates with related ministries and agencies to formulate and submit for approval of the Prime Minister in 2006).
10. Research and formulation on regulation on form and information dissemination mechanism for inflation to improve public knowledge on inflation (General Office of Statistics to take leading role and coordinate with State Bank of Vietnam and other related ministries for formulation and implementation in 2006).

**THE PRIME MINISTER**

(signed)

Phan Van Khai