

## BALANCING THE STATE AND THE MARKET: BANKING REFORM IN CHINA AND VIETNAM

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The financial systems of China and Vietnam are defined by a shifting balance between state and market forces. Both countries have banking systems that are large and increasingly market-oriented, yet the government still retains a significant role through the ownership of major banks. China and Vietnam initially based their banking systems on the Soviet model of a single government-owned bank. Both countries altered this model substantially in the 1980s and 1990s as they began to open and reform their economies. The subsequent process of banking reform in China and Vietnam has been gradual and piecemeal. While this approach has generally resulted in financial stability, both countries have faced significant financial crises that stemmed from unfinished reforms.

This *Asia Focus* examines similarities in the process of banking reform in China and Vietnam, analyzes how both countries have dealt with financial crises, and draws lessons from their shared experiences that may be useful for other countries undertaking financial reforms.

### Banking Reform Process in China and Vietnam

#### Creating Modern Central Banks

The banking systems in China and Vietnam share a common history as both were modeled after the Soviet Union's banking system. The Soviet model consisted of a unified monobank in which the central bank served as the monetary authority, a commercial bank, and a fiscal agent of the central government.<sup>1</sup> Privately owned banks were not permitted, and business lending was carried out according to targets set by central economic planners.

The monobank role was occupied by the People's Bank of China (PBoC) in China and the State Bank of Vietnam (SBV) in Vietnam. Prior to the onset of economic reform, the activities of both banks were closely linked to policy directives from the respective Ministry of Finance and State Planning Commission in each country. Loans were made to state-owned enterprises at government-determined interest rates and often highly subsidized.<sup>2</sup> Loan repayment was frequently not a priority and non-performing loans were often rolled over or repaid with borrowed funds.

As China and Vietnam began to open up and reform their economies, both countries transformed their monobanks into modern central banks. In 1978, the PBoC was separated from the Ministry of Finance, creating a divide between fiscal and banking functions within the government. In 1984, the State Council specified the role of the PBoC as that of a modern central bank, and many of the bank's commercial lending activities were transferred to the state-owned commercial banks.<sup>3</sup> In 1995, the National People's Congress passed new laws that strengthened the PBoC's responsibility for financial stability and banking supervision. Supervision authority was subsequently transferred to the China Banking Regulatory Commission (CBRC).

Reforms to the monobanking system in Vietnam began a few years later and followed a similar pattern. The SBV was created in 1976 by the merger of the Vietnam State Bank and the National Bank of South Vietnam following the unification of the country. In 1988, the Vietnamese government issued a new decree that transferred fiscal responsibilities away from the SBV to the recently established State Treasury. Commercial banking activities were also shifted to the state-owned commercial banks.<sup>4</sup>

In 1990, Vietnam officially ended its monobanking system and established a two-tier banking system, and the SBV was given responsibility for banking supervision and for monetary policy. In 1997, the National Assembly passed a new law that strengthened the SBV's responsibilities as a modern central bank.

### **Establishing New Types of Financial Institutions**

Concurrent with reforms to their central banks, both China and Vietnam permitted the establishment of new types of financial institutions. Between 1978 and 1984, China established four specialized state-owned commercial banks.<sup>5</sup> The banks were spun out of departments of the PBoC and each was tasked with lending to a specific sector of the economy. In 1986, a new type of financial institution called a joint-stock bank was established. Joint-stock banks were primarily regional in nature and featured a more modern ownership structure, with shares owned by local government, the central government, and state-owned enterprises. In the late 1980s, both the state-owned commercial banks and joint-stock banks quickly expanded beyond their initial narrow scopes of business. By the 1990s, many of the banks had grown to become full-service banks operating across the country.

Vietnam began permitting the establishment of new types of financial institutions in the late 1980s. In 1988, a decree from the government established four specialized state-owned commercial banks. Two of the banks were created by spinning off departments of the SBV. The other two banks already existed, but functioned as government departments rather than as commercial banks. In 1990, the government removed the sectoral restrictions on the activities of the state-owned commercial banks, allowing them to expand the scope of their business significantly. That same year, Vietnam began to permit the establishment of joint-stock banks, with ownership divided among state-owned enterprises, state-owned banks, and private investors.<sup>6</sup> In the following years, the number of joint-stock banks grew quickly.

In addition to state-owned commercial banks and joint-stock banks, both countries established policy banks to further separate commercial and policy lending. In 1994, China created the China Development Bank, Agricultural Development Bank of China, and Export-Import Bank of China. Vietnam's policy banks were established more gradually. The Vietnam Bank for Social Policy, the Vietnam Development Bank, and the Mekong Housing Bank were founded between 1997 and 2006.<sup>7</sup>

To provide financing to small businesses, households, and farmers, China and Vietnam also promoted the development of small banks and credit cooperatives. In the 1980s, urban and rural credit cooperatives began to proliferate across China. Both types of institutions ran into trouble during the late 1990s and were subject to government restructuring. In 1998, Chinese urban credit cooperatives were transformed into city commercial banks. The same year, the process of transforming many of China's rural credit cooperatives into rural commercial banks began.

Credit cooperatives have also been a part of Vietnam's financial development. People's Credit Cooperatives in Vietnam multiplied across the country in the 1980s.<sup>8</sup> These entities raised funds from the public and were an important source of credit for small borrowers. However, several years of speculative lending and unsustainable competition for deposits led to the collapse of many People's Credit Cooperatives in 1990. In 1993, credit cooperatives were reconstituted as People's Credit Funds and placed under the supervision of the SBV.

### **Liberalizing Interest Rates**

Interest rate liberalization, specifically the liberalization of lending and deposit rates, has generally progressed in a gradual fashion in both countries. In China, the process of interest rate liberalization has stretched across multiple decades. In the late 1990s, China began to introduce a degree of flexibility around the benchmark lending rate, letting banks make loans up to a specific percentage above or below the benchmark rate, varying by sector.<sup>9</sup> In 2004, China removed the upper limit on the lending rate and the lower limit on deposit rates. In 2012, flexibility around the benchmark deposit rate was introduced, allowing banks to offer deposit rates that were up to 1.1 times the benchmark rate. In subsequent years, this flexibility has increased to 1.5 times the benchmark deposit rate. In 2013, the lower rate on lending was removed and the PBoC began to publish a prime lending rate. In 2015, interest rate controls on

deposits longer than one year were lifted. Statements from senior officials at the PBoC indicate that full interest rate liberalization may be completed over the next several years.

In Vietnam, interest rate liberalization began with an initial “big bang” that was quickly aborted in favor of a more gradual approach. A decree by the government in 1988 allowed both banks and non-banks to freely borrow and lend funds.<sup>10</sup> This led to the rapid growth of many lenders, particularly credit cooperatives. Unsustainably high deposit rates and speculative lending resulted in the subsequent collapse of many lenders. To restore financial stability, in 1990, the SBV began imposing a ceiling on lending and deposit rates. Starting in 1995, commercial banks in Vietnam were allowed to freely set deposit rates, but were subject to a maximum loan-deposit rate spread.<sup>11</sup> In 2000, domestic currency lending rates were set based on a prime rate published by the SBV, with an additional ceiling of 0.3 percent for short-term loans and 0.5 percent for medium and long-term loans.<sup>12</sup> Interest rate controls on foreign currency loans were abolished the following year. Interest rate liberalization was completed in 2002 when interest rate restrictions on deposits and loans were removed for most activities.<sup>13</sup>

China and Vietnam followed a broadly similar pattern of financial reforms, although important differences emerged between the two. China moved earlier on dismantling the monobank system and permitting the creation of new types of financial institutions. Vietnam liberalized interest rates more quickly and completed liberalization more than a decade before China, which is still in the process of fully liberalizing deposit rates. *Table 1* summarizes the major banking reforms taken by each country. The process of banking reform in both countries can be described as gradual and measured when compared to the “shock therapy” approaches adopted by many post-Soviet states.

**Table 1 – Major Banking Reforms in China and Vietnam**

China	Vietnam
<b>Creating Modern Central Banks</b>	
<ul style="list-style-type: none"> <li>• 1978 – PBoC separated from MoF</li> <li>• 1984 – PBoC’s role as a modern central bank established by State Council and commercial activities transferred to the state-owned commercial banks</li> <li>• 1995 – PBoC’s role as central bank reinforced by National People’s Congress</li> <li>• 2004 – Banking supervision authority transferred to the CBRC</li> </ul>	<ul style="list-style-type: none"> <li>• 1976 – Vietnam State Bank and National Bank of South Vietnam merged to create the SBV</li> <li>• 1988 – SBV’s fiscal responsibilities transferred to State Treasury and commercial activities transferred to state-owned commercial banks</li> <li>• 1990 – SBV’s role as a modern central bank established</li> <li>• 1997 – SBV’s role as central bank reinforced by National Assembly</li> </ul>
<b>Establishing New Types of Financial Institutions</b>	
<ul style="list-style-type: none"> <li>• 1978-1984 – State-owned commercial banks established</li> <li>• 1986 – Establishment of the first joint-stock bank and urban credit cooperatives</li> <li>• 1994 – Creation of the policy banks</li> <li>• 1998 – Urban credit cooperatives transformed into city commercial banks, some rural cooperatives transformed into rural commercial banks</li> </ul>	<ul style="list-style-type: none"> <li>• 1983 – First credit cooperative established in rural areas</li> <li>• 1988 – Establishment of four state-owned commercial banks</li> <li>• 1990 – First joint-stock banks established</li> <li>• 1993 – Credit cooperatives reconstituted as People’s Credit Funds</li> <li>• 1997-2006 – Creation of the policy banks</li> </ul>
<b>Liberalizing Interest Rates</b>	
<ul style="list-style-type: none"> <li>• 1998 – Flexibility around benchmark lending rates introduced</li> <li>• 2000 – Foreign currency lending rates liberalized</li> <li>• 2004 – Upper limit on lending rates and lower limit on deposit rates removed</li> <li>• 2012 – Upward flexibility on deposit rates introduced</li> <li>• 2013 – Lower limit on lending rates removed</li> <li>• 2015 – Interest rate controls on deposits longer than one year removed</li> </ul>	<ul style="list-style-type: none"> <li>• 1988 – Temporary removal of lending and borrowing restrictions for businesses</li> <li>• 1995 – Commercial banks allowed to set deposit rates</li> <li>• 2000 – Domestic currency lending rates set according to prime rate</li> <li>• 2001 – Interest rates controls on foreign currency loans removed</li> <li>• 2002 – Interest rates controls for most activities removed</li> </ul>

## Non-Performing Loan Crises in China and Vietnam

Both China and Vietnam have experienced a severe non-performing loan crisis following reforms to their banking system. The crisis in each country stemmed from lingering distortions in the financial system, particularly the close ties between state-owned enterprises and banks. Both crises necessitated a large government intervention to support the banking system and led to a renewed push to implement additional financial reforms.

In China, the non-performing loan crisis occurred in the late 1990s. In the run up to the crisis, state-owned enterprises borrowed heavily from banks. Loans were often made to state-owned enterprises based on central government and local government policy priorities rather than an evaluation of credit-worthiness. Additionally, the PBoC had a large re-lending program whereby it directed credit via the state-owned banks to specific sectors of the economy.

After several years of rapid credit growth, Chinese state-owned enterprises began to default on their loans in large numbers. The weak domestic economic situation was exacerbated by a slowdown in regional growth due to the Asian financial crisis of 1997-8. The health of the banking sector deteriorated to the point that in 1998, then PBoC Governor Dai Xianglong estimated that non-performing loans made up 25 percent of the total loan portfolio.<sup>14</sup> The amount increased to almost 30 percent by 2001. Many external analysts at the time estimated that all the major state-owned Chinese banks were effectively bankrupt.

Faced with a large and growing financial crisis, the Chinese government took dramatic action to support the financial sector. Starting in 1998, the government implemented a bailout of the financial system which involved commitments that would eventually equal RMB 4 trillion (USD 626 billion), an amount equivalent to 50 percent of the country's GDP during that year.<sup>15,16</sup> The four major state-owned commercial banks received large capital injections from the Ministry of Finance. In 1999, four asset management companies were established for each of these banks to buy their distressed loans. RMB 1.4 trillion (USD 219 billion) in non-performing loans were transferred to the asset management companies at book value. Another round of bad asset disposal and recapitalization for the large state-owned commercial banks occurred between 2004 and 2005. During this period, rural credit cooperatives and city commercial banks also received bailouts from the PBoC and local governments.

The bank bailouts during this period catalyzed a new wave of reforms on governance and cost reduction efforts in China. Banks were compelled to make large cuts to their staff and branch networks to reduce costs, laying off 556,000 employees and closing 40,000 branches between 1998 and 2002.<sup>17</sup> In 2003, the State Council created a new entity, Central Huijin, to manage the government's ownership interests in the state-owned banks. The same year, supervision authority over the banks was transferred from the PBoC to the CBRC, a newly established dedicated bank regulatory agency. The government viewed the separation of ownership and regulatory responsibility as a way to ensure that bank regulators were not unduly influenced by the business concerns of state-owned banks.

Banks during this period began to adjust their ownership structures to improve corporate governance. Foreign strategic investors were invited to invest in the banks in order to help them adopt international best practices. Banks also began to list part of their shares on the domestic and Hong Kong stock exchanges, a move which required regular public reporting using International Financial Reporting Standards and allowed for scrutiny from outside shareholders.

A financial crisis with similar characteristics occurred in Vietnam a decade later. Vietnam experienced rapid credit growth in the mid and late 2000s. Between 2004 and 2009, the average annual growth rate of lending was nearly 40 percent. During this period, banks lent large amounts to both state-owned enterprises and private businesses. In 2010, many of these loans became non-performing, particularly those made to state-owned enterprises. By 2012, the Vietnamese financial system was facing a significant financial crisis with an estimated non-performing loan ratio of 15 to 20 percent for the banking system.<sup>18</sup> State-owned enterprise exposures were estimated to account for 70 percent of total non-performing loans.<sup>19</sup> As was the case with China, distortions in the financial system meant that many state-owned

enterprises were able to borrow freely from the banks, despite being highly leveraged and having limited profits.

In 2012, the Vietnamese government issued a financial restructuring plan to address the growing problems in the banking system. The plan provided a framework for bolstering the strength of healthy banks while forcing weaker banks to restructure or be acquired. Financial institutions were divided into three categories: healthy banks, banks with temporary liquidity shortages, and sub-standard banks.<sup>20</sup> Healthy banks were instructed to support weaker banks with liquidity or merge with them. Banks with liquidity shortages were given access to central bank financing in exchange for being subject to enhanced supervision. Sub-standard banks were eligible to receive central bank financing but in return faced mandatory restructuring and the possibility of a forced merger.

By the end of 2014, eight out of nine sub-standard banks identified by the SBV had been restructured. In the first half of 2015, the central bank took over two banks, Vietnam Construction Joint Stock Commercial Bank and Ocean Bank. The SBV has announced that it is targeting six to eight bank mergers in 2015, with the goal of consolidating the number of banks from 40 to between 15 and 17 by 2017.<sup>21</sup>

In addition to mergers and support from the central bank, the Vietnamese government created an asset management company to absorb bad loans. The Vietnamese Asset Management Corporation (VAMC) began purchasing non-performing loans and restructuring them in 2013. If the restructuring process fails, the VAMC has the ability to sell the loans back to the banks after five years. In March 2015, the central bank mandated that commercial banks transfer all their non-performing loans available for sale to the VAMC by September 2015.<sup>22</sup> As of May 2015, the VAMC has absorbed VND 121 trillion (USD 5.5 billion) in non-performing loans.<sup>23</sup> The VAMC plans to issue up to an additional VND 80 trillion (USD 3.6 billion) in bonds to acquire bad debts in 2015.

Similar to China, the banking crisis in Vietnam led to new reforms aimed at improving bank governance and reducing financial distortions. To address problems with financial reporting by banks, the SBV issued new unified standards on the treatment of debt, collateral, and non-performing loans. The SBV also set higher capital requirements for banks and began a pilot program for the implementation of Basel capital standards. Other reforms stemming from the crisis include setting limits on cross-ownership between banks, new restrictions on insider lending, and a requirement that state-owned enterprises formulate plans for withdrawing from the banking business. Restrictions on foreign ownership of banks have also been relaxed in order to attract additional capital and outside expertise. Finally, joint-stock banks are being encouraged by the SBV to list on the domestic stock exchanges to increase transparency.

The measures outlined above in both countries were successful in significantly reducing the number of bad loans. Between 2001 and 2008, the non-performing loan ratio in China fell by 27.4 percentage points to 2.4 percent. In Vietnam, the SBV estimates that 67 percent of the non-performing loans generated during the 2012 crisis have now been dealt with, and the country's non-performing loan ratio is currently 3.59 percent, down from a high of 17 percent.<sup>24</sup>

## Lessons from China and Vietnam's Experience

The trajectory of banking reform in China and Vietnam is strikingly similar and has involved many of the same challenges. The financial systems in both countries remain distinct from those seen in advanced economies. In both China and Vietnam, the government continues to control the most important financial institutions and plays a large role in guiding the development of the financial system. The experiences of both countries can help illustrate important lessons for other emerging markets where the government also plays a large role in the financial system.

**Government support for state-owned enterprises can create moral hazard.** China and Vietnam have experienced difficulty in imposing market discipline on lending to state-owned enterprises. Under their previous planned economy systems, loans to state-owned enterprises were made according to centralized economic plans. When both countries dismantled their monobanking systems, state-owned banks were instructed to make loans according to commercial considerations. However, old lending habits can be

difficult to alter, and banks in both countries subsequently faced a large increase in non-performing loans to state-owned enterprises.

The problem is linked to underlying assumptions about government support for state-owned enterprises during periods of financial distress. State-owned enterprises in both countries were often poor credit prospects, but banks provided loans due to a belief that government assistance would be forthcoming if loans went bad. These beliefs were borne out when both governments subsequently provided large-scale assistance to financial institutions burdened by non-performing loans to state-owned enterprises. Subsequent reforms to the corporate governance of the banks have tried to improve credit extending procedures. As a result, both countries have made progress in reducing the number of bad loans to state-owned enterprises. The issue of moral hazard, however, remains due to widespread belief that government support will continue to be available for state-owned enterprises and banks.

**Creating a diverse financial system is possible even with large state-owned banks.** The Chinese and Vietnamese financial systems are relatively diverse and multi-tiered. This diversity is surprising given the continued emphasis of both governments on preserving the role of large state-owned banks as national champions. The state-owned commercial banks dominated the financial system in both countries for many years due to their large branch networks and support from the government. However, their dominance gradually waned as regulators in both countries began to permit new types of financial institutions to be established. Joint-stock banks, city commercial banks, foreign joint venture banks, and rural and urban credit cooperatives have grown rapidly in recent years and now play an important role in both countries.

As a result, the banking sectors in China and Vietnam are relatively diverse and balanced despite the persistence of the large state-owned commercial banks. According to the World Bank, the banking concentration ratios in Vietnam and China are 59.4 and 68.0, respectively.<sup>25</sup> These figures are well below the middle income country average of 76.0 and the global average of 81.1. The advantage of having a diverse financial system is that it mitigates the risk of overreliance on a few key banks. Additionally, the range of financial institutions helps improve the allocation of credit as different institutions specialize in lending to specific sectors of the economy.

**The proper sequencing of interest rate liberalization is difficult.** Cross-country comparisons reveal that interest rate liberalization often leads to financial instability. Many emerging market countries that removed interest rate controls were forced to quickly reinstitute them, as Vietnam experienced during its brief liberalization of interest rate controls in the late 1980s. The problem with liberalizing interest rates centers on the inability of banks to adapt to a more competitive environment. In a liberalized interest rate environment, net interest margins narrow and many banks are tempted to offer unsustainably high deposit rates to attract funds. Adapting to a market-determined interest rate environment requires time to alter business procedures, and the process should be carefully supervised by banking regulators.

After its brief experiment with interest rate liberalization, Vietnam subsequently took a more gradual approach. Interest rate controls were removed in stages over the course of more than a decade. The Chinese approach to interest rate liberalization has been even more gradual. Interest rate liberalization has stretched over two decades and is not yet complete as interest rates on deposits are still subject to a ceiling. For both countries, this more gradual approach appears to have contributed to financial stability by giving banks time to adapt to market forces. However, a gradual approach is not without drawbacks. If interest rates are set at an artificially low level, as is believed to be the case in China during much of the past decade, the allocation of credit throughout the economy can be distorted.

**Reform of state-owned banks is not contingent on full privatization.** China and Vietnam maintain a high level of state-ownership in their respective financial systems. This is unlikely to change as both governments put a strong emphasis on the role of state-owned banks for ideological reasons. However, this ideological stance has not prevented important reforms to the state-owned banks from being implemented. China and more recently Vietnam have used internal restructuring as a mechanism to improve performance and governance at state-owned banks. State-owned banks have adopted modern



shareholding structures, including a board of directors with independent non-executive members and an audit committee, to increase transparency or accountability and mitigate conflicts of interests.

Partial privatization is another important method used by China and Vietnam to improve the performance of state-owned banks. All four Chinese state-owned commercial banks and three out of four of the Vietnamese state-owned commercial banks now have publicly listed shares. Additionally, many of the state-owned joint-stock banks in both countries have listed and more are being encouraged to do so. Listing shares publicly requires these banks to make regular public disclosures about their financial condition and gives outside shareholders some ability to influence business decisions.

Finally, banks in both countries have been encouraged to create strategic partnerships with foreign investors to gain access to new management and business best practices. While there is still considerable scope for reform at state-owned banks in both countries, the reforms mentioned above have improved performance and efficiency.

**Financial crises can be an opportunity for reform.** After facing financial crises that required significant government support for the banks, both China and Vietnam implemented far-reaching reforms to their financial systems. In China, these reforms came after the non-performing loan crisis in the late 1990s. They included establishing a new dedicated banking regulatory agency, inviting foreign investors to help restructure the state-owned banks, and listing banks on stock exchanges to increase transparency and accountability. These reforms helped establish a healthier financial system and reduce the need for government support.

Following its non-performing loan crisis in the early 2010s, Vietnam also undertook a series of important structural reforms to its financial system. These reforms included consolidating weak banks into stronger banks, improving transparency through the adoption of international accounting and capital standards, reducing cross-ownership among state-owned banks and state-owned enterprises, listing on public exchanges to improve transparency, and liberalizing foreign investment rules to attract outside expertise. Although the reforms in Vietnam are more recent than those in China, it seems probable that they will have a similarly beneficial impact on the health of the banking system.

The experiences of both countries highlight the opportunity to undertake deeper structural reforms following financial crises. The immediate aftermath of a financial crisis often makes difficult structural reforms easier to achieve. China and Vietnam appear to have heeded the age-old advice that a serious crisis should never go to waste.

## Conclusion

China and Vietnam have followed a broadly similar model of financial development. As both countries began to open up and reform their economies, the financial system evolved away from a Soviet-style monobanking system towards a multi-tiered system composed of many types of financial institutions. As reforms progressed, both countries confronted a serious non-performing loan crisis. The origin of both crises can be traced to incomplete reforms which failed to establish a fully commercial relationship between banks and state-owned enterprises. These crises served as the catalyst for a new round of far-reaching financial reforms designed to improve the safety and soundness of the banking system.

Both China and Vietnam remain committed to retaining a leading role for state-owned banks in their financial systems. Full privatization of these entities is unlikely due to ideological considerations. Moreover, while reforms are underway to increase foreign investment, restrictions on foreign control of domestic banks are unlikely to be completely relaxed. As socialist economies with modernized banking systems, China and Vietnam are relatively unique. Nonetheless, striking the right balance between the role of the state and the market is a problem facing many emerging markets. In this respect, the experiences of China and Vietnam in implementing banking reforms provide many useful lessons for countries facing similar challenges.

## Endnotes

<sup>1</sup> Perkins, Dwight H. "From Command to Market Economy in China and Vietnam." In *East Asian Development: Foundations and Strategies*. Cambridge, Massachusetts: Harvard University Press, 2013.

<sup>2</sup> In addition to the SBV, Vietnam also established two state-owned commercial banks, the Bank for Investment and Development of Vietnam (BIDV) in 1957 and the Bank for Foreign Trade of Vietnam (Vietcombank) in 1963. These banks made specialized loans according to government policy initiatives.

<sup>3</sup> Okazaki, Kumiko. "Banking System Reform in China: The Challenges of Moving Toward a Market-Oriented Economy." The Rand Corporation. 2007. Accessed July 6, 2015. [http://www.rand.org/content/dam/rand/pubs/occasional\\_papers/2007/RAND\\_OP194.pdf](http://www.rand.org/content/dam/rand/pubs/occasional_papers/2007/RAND_OP194.pdf).

<sup>4</sup> Rosengard, Jay K., and Huỳnh Thế Du. "Funding Economic Development: A Comparative Study of Financial Sector Reform in Vietnam and China." Harvard John F. Kennedy School of Government. 2009. Accessed July 6, 2015. <http://ash.harvard.edu/links/funding-economic-development-comparative-study-financial-sector-reform-vietnam-and-china>.

<sup>5</sup> The state-owned commercial banks created were the Agricultural Bank of China, the Bank of China, China Construction Bank, and the Industrial and Commercial Bank of China.

<sup>6</sup> Oh, Soo-Nam. "Financial Deepening in the Banking Sector - Vietnam." The Asian Development Bank. 1999. Accessed July 6, 2015. [http://www.aric.adb.org/pdf/aem/external/financial\\_market/Republic\\_of\\_Vietnam/vietnam\\_bnk.pdf](http://www.aric.adb.org/pdf/aem/external/financial_market/Republic_of_Vietnam/vietnam_bnk.pdf).

<sup>7</sup> The Vietnam Postal Saving Company was merged with LienVietBank in 2011 into a new entity called Lien Viet Post Bank. The Mekong Housing Bank was acquired by BIDV in 2015 and is expected to continue independent operations.

<sup>8</sup> Vuong, Quan. *Financial Markets in Vietnam's Transition Economy: Facts, Insights, Implications*. Saarbrücken: VDM Verlag Dr. Müller, 2010.

<sup>9</sup> Li, Cindy. "China's Interest Rate Liberalization Reform." The Federal Reserve Bank of San Francisco. May 1, 2014. Accessed July 6, 2015. <http://www.frbsf.org/banking/publications/asia-focus/2014/may/china-interest-rate-liberalization-reform/Asia-Focus-China-Interest-Rate-Liberalization.pdf>.

<sup>10</sup> Thanh, Nguyen Xuan. "Vietnam: The Road to Interest Rate Liberalization." Vietnam: The Road to Interest Rate Liberalization. February 1, 2003. Accessed July 6, 2015. <http://www.fetp.edu.vn/en/case/vietnam-the-road-to-interest-rate-liberalization/>.

<sup>11</sup> Rosengard, Jay K., and Huỳnh Thế Du. "Funding Economic Development: A Comparative Study of Financial Sector Reform in Vietnam and China." Harvard John F. Kennedy School of Government. 2009. Accessed July 6, 2015. <http://ash.harvard.edu/links/funding-economic-development-comparative-study-financial-sector-reform-vietnam-and-china>.

<sup>12</sup> Thanh, Nguyen Xuan. "Vietnam: The Road to Interest Rate Liberalization." Vietnam: The Road to Interest Rate Liberalization. February 1, 2003. Accessed July 6, 2015. <http://www.fetp.edu.vn/en/case/vietnam-the-road-to-interest-rate-liberalization/>.

<sup>13</sup> Vietnam still maintains some interest rate ceilings for short-term loans to priority sectors such as agriculture and small enterprises. For more on this topic see Creehan, Sean. "Priority Sector Lending in Asia." *Asia Focus*. September 1, 2014. Accessed July 24, 2015.



<http://www.frbsf.org/banking/publications/asia-focus/2014/september/priority-sector-lending-in-asia/Asia-Focus-Priority-Sector-Lending-in-Asia-September-2014.pdf>.

<sup>14</sup> Lardy, Nicholas R. *China's Unfinished Economic Revolution*. Washington, DC: Brookings Institution, 1998.

<sup>15</sup> Borst, Nicholas, and Nicholas Lardy. "Maintaining Financial Stability in the People's Republic of China during Financial Liberalization." The Peterson Institute for International Economics. March 1, 2015. Accessed July 6, 2015. <http://piie.com/publications/wp/wp15-4.pdf>.

<sup>16</sup> Unless otherwise noted, all exchange rates in this article are as of August 18<sup>th</sup>, 2015. The US Dollar to Chinese Renminbi exchange rate is USD 1 = RMB 6.39. The US Dollar to Vietnamese Dong exchange rate for USD 1 = VND 22,095.

<sup>17</sup> Borst, Nicholas. "China's Credit Boom: New Risks Require New Reforms." The Peterson Institute for International Economics. October 1, 2013. Accessed July 6, 2015. <https://www.piie.com/publications/pb/pb13-24.pdf>.

<sup>18</sup> During a press conference in September of 2014, Vietnamese Prime Minister Tan Dung stated that the non-performing loan ratio was as high as 17 percent during 2012. This number is within the range of estimates made by many outside analysts.

<sup>19</sup> "Bad Debt Settlement: Critical Issues in Bank Restructuring in Vietnam." Central Institute for Economic Management. February 1, 2014. Accessed March 5, 2015. [http://www.vnep.org.vn/Upload/BAD\\_DEBT.pdf](http://www.vnep.org.vn/Upload/BAD_DEBT.pdf).

<sup>20</sup> The state-owned commercial banks were identified as the "flagships" of the financial system and were required to assist with the government's restructuring plans by acquiring or merging with weaker banks.

<sup>21</sup> "Proposed Vietnam Bank Consolidation Positive for Sector." Fitch Ratings. March 1, 2015. Accessed July 6, 2015. [https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/Proposed-Vietnam-Bank?pr\\_id=981031](https://www.fitchratings.com/gws/en/fitchwire/fitchwirearticle/Proposed-Vietnam-Bank?pr_id=981031).

<sup>22</sup> "SBV Mandates Sale of NPLs." Vietnam News. March 1, 2015. Accessed March 27, 2015. <http://vietnamnews.vn/economy/267552/sbv-mandates-sale-of-npls.html>.

<sup>23</sup> "Banking Sector Accelerates the Cause of Restructuring." The State Bank of Vietnam. May 7, 2015. Accessed August 12, 2015.

<sup>24</sup> Hoang, Tu. "SBV: Bad Debt to Fall to 3% at Year-end." The Saigon Times. May 20, 2015. Accessed August 12, 2015. <http://english.thesaigontimes.vn/40990/SBV-Bad-debt-to-fall-to-3-at-year-end.html>.

<sup>25</sup> World Bank Financial Development Indicators Database. 2011 is the most recent year for which data is available