



Viet Nam:
Creating Pre-Conditions
for a Nonperforming
Loan Market

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A vendor arranges the products in her storefront

About IFC

IFC — a member of the World Bank Group — is the largest global development institution focused on the private sector in emerging markets. We work in more than 100 countries, using our capital, expertise, and influence to create markets and opportunities in developing countries. In fiscal year 2024, IFC committed a record \$56 billion to private companies and financial institutions in developing countries, leveraging private sector solutions and mobilizing private capital to create a world free of poverty on a livable planet. For more information, visit www.ifc.org.

About SECO

The State Secretariat for Economic Affairs (SECO) implements Switzerland's economic and trade policy measures for the benefit of developing countries. It coordinates its activities with the Swiss Agency for Development and Cooperation (SDC) and the Peace and Human Rights Division (PHRD) of the FDFA. The three administrative offices implement Switzerland's international cooperation together. For more information, visit www.seco-cooperation.ch

Introduction

Since 2020, Viet Nam has experienced a surge in nonperforming loans (NPLs). Not only does the growing number of NPLs reduce the stability of the banking system, but each one represents a borrower excluded from credit markets. Many of the NPLs are consumer debts, meaning poorer households are particularly hard hit.

Meanwhile, banks are increasingly unwilling to lend to the private sector or are lending at a higher price due to the increased risk of recovery. According to a 2021 Ernst & Young report, even before the recent surge in NPLs in Viet Nam, recovery volumes were stagnating as write-offs were rising.¹ In many economies NPLs can be traded, removing the risk from bank balance sheets, and potentially giving borrowers a chance for rehabilitation; this is because private investors have more flexibility than banks to reschedule, restructure, or partially write off bad debt. Until recently, the NPL market in Viet Nam has been very underdeveloped due to cumbersome regulations, shallow markets, and scarce investments.

IFC, in collaboration with the World Bank, the Swiss State Secretariat for Economic Affairs (SECO), and local partners, has been exploring ways to ease the stress on banks and borrowers through regulatory reforms that have led to increased private sector investment. In September 2024, IFC supported a \$30 million co-investment in a newly created Special Purpose Vehicle (SPV) alongside Welcome Creditline Corporation.² The new entity, with a total capitalization of \$60 million, will function as a pioneering NPL investor and servicer in Viet Nam's nascent NPL market. This investment aims to strengthen Viet Nam's financial system, model best practices in debt collection, and give so-called "distressed but viable" companies a financial future by providing them with a new opportunity to settle their debts.

Key Achievements:

- \$30 million of private sector investment supported by IFC in the Viet Nameese NPL market in 2024.
- \$30 million private capital mobilized to date by IFC.
- Two Specialized bankruptcy courts created to oversee distressed debtors.

¹ Ernst and Young, June 2021, NPL and distressed asset market – An assessment of Viet Nam

² Welcome Group is a South Korean corporation (https://www.dnb.com/business-directory/company-profiles.welcome_creditline_corporation.043a78416b1f9fc8cddde298d75299b33.html)

Laying the Foundation, years in advance

To arrive at the point of making this investment, IFC teams have spent years of effort laying the groundwork. Starting in December 2020, IFC began scoping out solutions for how to deal with a likely surge in NPLs in Viet Nam once COVID-19 pandemic-era support programs were unwound. For the following 11 months, IFC specialists examined gaps in Viet Nam's NPL market regulations, reasons for the lack of foreign investment in the sector, and (together with the World Bank) the legal and regulatory framework of Viet Nam's credit infrastructure.

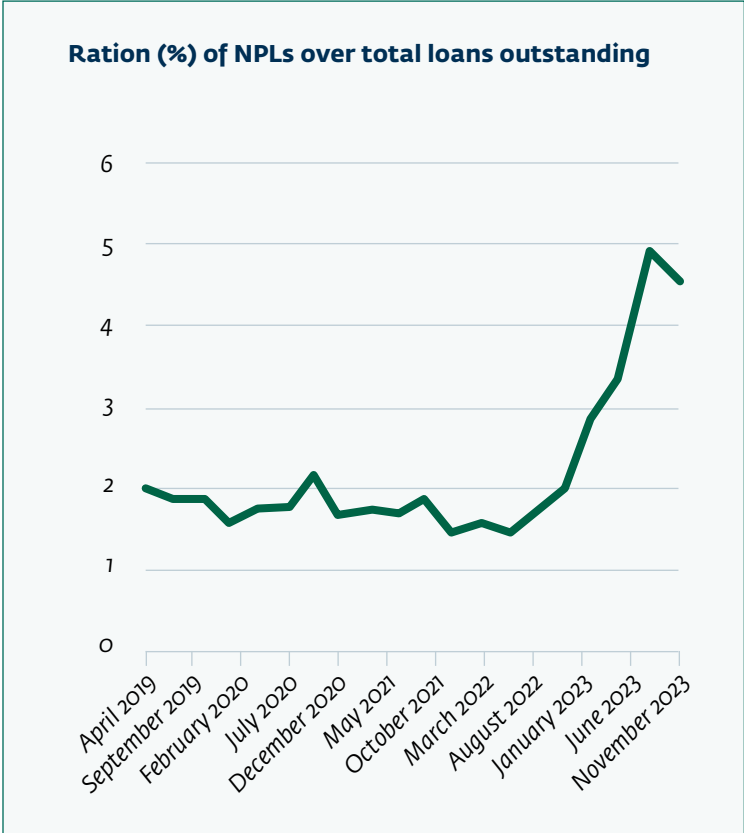
In terms of the regulatory challenge, the team focused on several key obstacles to a functioning NPL market: the lack of specialized bankruptcy courts; the lack of a preventive insolvency framework; the lack of small and medium enterprise (SME)-specific rehabilitation procedures; and the regulations prohibiting NPL trading firms from holding the collateral of defaulted borrowers. Working with the Supreme People's Court of Viet Nam, the State Bank of Viet Nam, and the Viet Nam Banking Association, IFC teams supported the ongoing process of drafting new regulations to address these gaps, and provided continued technical support to the legislative process. After three years of work, a key law, the Law on the Organization of People's Courts,³ was passed in 2024; this provides for the establishment of two specialized bankruptcy courts: one in Hanoi and one in Ho Chi Minh City.

While progress continues on the regulatory process, IFC and the World Bank have been working with the State Bank of Viet Nam (SBV) to find solutions to the investment and infrastructure challenges. Discussions advanced significantly during a November 2021 workshop, co-hosted by the World Bank Group and SBV stakeholders, which clarified the available options: despite the ongoing regulatory reforms, a standard IFC Distressed Asset Recovery Program (DARP) intervention was not yet possible. Comprehensive legal and regulatory reforms were needed to catalyze further opening of the local NPL market.

During the following year (2022) the IFC team mapped potential partners and continued the regulatory reform drive. At a November 2022 conference on the NPL market, organized by IFC and SBV, the team engaged in discussions with Welcome Creditline Corporation, a Korean financial services company and owner of Welcome Savings Bank, one of Korea's largest savings banks. Importantly, Welcome had already gained experience in running a debt trading company in Viet Nam by establishing a Viet Namese subsidiary, Welcome Debt Trading Company (WDT) in December 2021. At the time of discussions, WDT held a portfolio of \$41 million in NPL assets and expressed an interest to IFC in expanding their investment. This was a major step for the IFC team in securing a potentially viable partner for investment.

³ In effect January 1, 2025

Even as the upstream work was beginning to yield results, the urgency of addressing the NPL situation greatly increased. At the same time that the joint IFC/SBV NPL conference was taking place, the Viet Namese real estate market began to spiral into crisis, sparked by fraud allegations at a major real estate trust but driven by underlying issues such as oversupply and high corporate debt levels. Over the following twelve months the NPL rate more than doubled, peaking at nearly 5% of bank loans outstanding. The rate of NPLs in the consumer loan market reached much higher levels, rising to 18% of consumer loans in early 2024. As an intervention became increasingly possible, the need for a functioning NPL market grew overwhelming.



Results: A New Player in the Market

“ Enhancing the effectiveness in consumer debt collection is particularly important. And the development of a robust and professional NPL trading market with the participation of professional NPL trading and servicing companies is instrumental in NPL resolution. ”

Daryl Dong
IFC's Principal Country Officer

Within this context, IFC completed its investment in the Special Purpose Vehicle alongside WDT. The new SPV will focus on purchasing unsecured retail loans that have a low probability of capital loss and a high probability of some asset recovery (usually a mid-teens percentage of the original outstanding debt). In many cases, the SPV will offer consultancy services that will aim to rehabilitate borrowers. Eventually the SPV will consider expanding its scope of work to include secured retail portfolios (such as mortgages) and secured SME portfolios—investments only made possible by the earlier regulatory reforms. The SPV meanwhile benefits from the deep experience of Welcome Group, and the existing capacity of WDT, which includes 40 call center agents, and internal collection services.

In addition to demonstrating the possibility of continued foreign investment in the Viet Nameese NPL market, the SPV will also seek to model the highest standards in loan collection practice. This latter point is particularly important to IFC, and was the focus of an April 2024 conference, jointly organized by IFC and the Viet Nameese Banks Association. At the conference, IFC's Principal Country Officer, Daryl Dong, noted, “Enhancing the effectiveness in consumer debt collection is particularly important. And the development of a robust and professional NPL trading market with the participation of professional NPL trading and servicing companies is instrumental in NPL resolution.”

Impact: A Second Chance

The impact the SPV has had on the lives of ordinary Viet Nameese citizens is explained by Son Jongjoo, the Chairman of the Welcome Financial Group, who said, "Over the past two years, we have helped more than 16,000 customers in Viet Nam find a way out of the credit crisis and return to a normal financial life. Through this co-investment, we will be able to provide better services to more customers by adding IFC's global management capabilities to our group's know-how."

Further improvements are needed

Preparing the Viet Nameese NPL market for investment was a years-long process, requiring national legislation and the creation of new national institutions. However, the investment itself is just the beginning. IFC aims to encourage the Supreme People's Court of Viet Nam to offer services to more complex types of borrowers, particularly SMEs, which are critical to employment and among the most marginalized borrowers in the lending market.

IFC will also be looking to catalyze further foreign investments in the Viet Nameese NPL market. To do so, IFC and the World Bank will focus their support over the next two years on comprehensive bankruptcy law reform. This will include specialized SME-tailored procedures for effective rehabilitation of distressed yet viable borrowers and swift liquidation of nonviable ones, with an efficient distribution of their remaining assets among creditors. IFC and the World Bank will also be supporting the development of a restructuring culture among creditors and businesses in Viet Nam, in partnership with the Viet Nam Banking Association, as well as the fostering of fair debt collection practices.

