Current situation and solutions to enforce laws on credit rating of commercial banks in Vietnam

Dr. Nguyen Minh Hang
Hanoi Law University
Dr. Nguyen Ngoc Yen
Hanoi Law University

Abstract

The commercial banking system plays a pivotal role in ensuring economic stability and fostering growth in Vietnam. Internal credit rating has become an indispensable tool for assessing borrowers' repayment capacity and credit risk; however, the enforcement of legal provisions governing credit rating criteria at commercial banks still faces numerous challenges. This paper analyses the current implementation of laws on internal credit rating in Vietnamese commercial banks, focusing on the consistency of regulations, the practical capacity of banks, and the conditions for technology and data infrastructure. Using document analysis, legal analysis and comparative research with selected international experiences, the study clarifies key shortcomings in law enforcement, including fragmented and partly outdated regulations, limited professional competence in credit risk assessment, incomplete and unshared databases, and insufficient application of digital technology. The findings indicate that improving the effectiveness and transparency of credit activities requires a synchronous approach that combines reform of the legal framework, enhanced supervisory powers and tools of the State Bank of Vietnam, systematic capacity-building for bank staff, and accelerated digitalisation of credit rating systems. The paper proposes a number of legal and institutional solutions aimed at strengthening law enforcement in this field and aligning Vietnam's credit rating practices more closely with Basel II and Basel III standards.

Keywords: credit rating; commercial banks; credit risk management; credit law; Basel II; Basel III; Vietnam.

I. INTRODUCTION

In the modern economy, commercial banks play an essential role in providing capital, regulating cash flow and supporting production and business development. In Vietnam, the banking system has been undergoing a strong restructuring process to improve financial capacity, operational efficiency and competitiveness in the context of financial globalization. One of the key contents of this restructuring process is to strengthen credit risk management, the most common type of risk which has the greatest impact on the safety of the banking system. (State Bank of Vietnam, 2023).

Internal credit rating is considered a key tool in credit risk management. This tool helps banks assess the creditworthiness of borrowers, thereby making lending decisions, pricing risks and setting up appropriate provisions (Duc, V. H. & Thien, N. D, 2012). In addition, the credit rating system also plays an important role in ensuring transparency and fairness in credit activities, contributing to improving asset quality and business efficiency of banks (Credit Information Center, 2022).

Recognizing the importance of the issue, Vietnamese law has specific regulations on the establishment and application of internal credit rating systems at credit institutions, especially after the State Bank of Vietnam issued documents guiding the implementation of Basel II according to Circular 41/2016/TT-NHNN and its amendments and supplements (State Bank of Vietnam, 2016).

However, in reality, the implementation of relevant legal regulations still faces many obstacles. Many banks have not fully applied credit rating criteria according to international standards or have not updated their systems to suit operating conditions in Vietnam. The lack of uniformity in legal regulations, limitations in technology and human resources, as well as ineffective enforcement supervision have been and are major barriers (Vietnam Banks' Association, 2023).

In addition, the rapid fluctuations of the financial market and the strong development of digital technology are posing an urgent need for reform and modernization of the credit rating system (Moody's Investor Service, 2021). This not only requires changes from banks, but also requires the completion and synchronization of the legal framework to create a clear, unified legal corridor in accordance with international practices.

On the aforementioned basis, this particular research aims to:

(1) Analyze the current situation of the enforcement of laws on credit rating in commercial banks in Vietnam,

(2) Investigate limitations in law enforcement in this field,

(3) Propose solutions for law completion and improvement of enforcement efficiency in the future.

In terms of research methodology, the paper uses document analysis, legal analysis and comparative method to compare and contrast between the international experiences and the current situation in Vietnam. In addition, the paper also refers to banks' annual reports, the State Bank's reports and relevant scientific research projects to ensure objectivity and multidimension in analysis.

With comprehensive and systematic evaluation of the legal aspect and real application in commercial banks, the research expects to give practical recommendations, contributing to completing the legal framework and improving credit risk management in the banking industry in Vietnam.

II. LITERATURE AND LEGAL REVIEW

1. Concepts and roles of credit rating in banks

1.1. Concepts of credit rating in banks

Credit rating in banking is generally understood as the process of assessing the creditworthiness of a borrower or a debt instrument, expressed through a synthetic indicator – usually in the form of a rating grade, score or ranking. From an economic perspective, credit rating is a mechanism to quantify the probability of default and the expected loss associated with a credit exposure over a certain time horizon. From a legal and regulatory perspective, credit rating is closely linked to the fulfilment of prudential requirements on capital adequacy, risk management and information disclosure.

In the banking sector, it is necessary to distinguish between external credit ratings and internal credit ratings. External credit ratings are issued by independent credit rating agencies for issuers, securities or sovereigns, and are often used by investors and regulators as reference benchmarks. Internal credit ratings, by contrast, are developed, managed and applied by banks themselves for their own credit exposures. Internal rating systems translate qualitative and quantitative information about borrowers into a structured rating scale, which is embedded in the bank's credit approval, pricing and monitoring processes.

An internal credit rating system typically includes:

A rating scale with a finite number of grades, from best credit quality (lowest expected risk) to default;

A set of rating criteria and methodologies, combining financial ratios, business and management assessments, industry risk, collateral and other relevant factors;

Processes and procedures for data collection, validation, rating assignment, review and approval;

IT infrastructure and databases to store historical information, track rating migrations and support model validation.

Under modern prudential frameworks (such as Basel II and Basel III), internal credit rating is not merely a risk management tool but also a regulatory instrument. For banks applying the Internal Ratings-Based (IRB) approaches, internal ratings form the basis for estimating key risk parameters such as Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD), which determine minimum capital requirements for credit risk. Even for banks that follow the Standardised Approach, supervisors increasingly require internal rating practices to support sound credit decision-making and enhance transparency.

Thus, in the context of commercial banks, credit rating can be conceptualised as a multi-dimensional, institutionally embedded assessment process, which converts dispersed information about borrowers into a structured, comparable and decision-relevant signal of credit risk. This concept highlights not only the technical dimension of rating models but also their legal, organisational and supervisory implications.

1.2. Roles of credit rating in banks

Credit rating performs multiple, interrelated roles in the operation of commercial banks and in the functioning of the financial system as a whole.

First, credit rating is a core tool of credit risk management. By assigning rating grades to borrowers, banks can identify, measure and classify credit risk in a systematic manner. Internal ratings support the screening of loan applications, the differentiation of risk across customer segments and the early detection of deteriorating credit quality. They provide a consistent framework for risk-based decision-making, instead of relying solely on subjective judgement or relationship-based lending.

Second, credit rating underpins risk-based pricing and credit conditions. Rating grades are often mapped to interest rate margins, fees, collateral requirements and covenants. Borrowers with better ratings are offered more favourable terms, while riskier borrowers face tighter conditions or may be rejected. This risk-based pricing mechanism helps banks to align expected returns with the level of risk assumed, thereby improving portfolio profitability and discouraging excessive risk-taking.

Third, credit rating supports portfolio management and capital allocation. At the portfolio level, internal ratings allow banks to aggregate exposures by rating grade, sector, region or product, and to monitor the distribution of credit risk. This information is crucial for setting risk limits, adjusting portfolio composition and planning capital needs. Under Basel II/III, internal ratings feed into economic capital models and, where approved, into regulatory capital calculations, influencing the allocation of capital across business lines and customer groups.

Fourth, credit rating plays an important role in provisioning and loss management. Rating outcomes are frequently linked to expected credit loss (ECL) calculations, loan classification and provisioning policies. Deterioration in rating grade may trigger higher provisions, tighter monitoring or restructuring measures. In this way, internal ratings serve as an early-warning system that helps banks to recognise potential losses in a timely manner, enhance the resilience of their balance sheets and comply with accounting standards on impairment.

Fifth, credit rating contributes to regulatory compliance and supervisory oversight. Supervisory authorities expect banks to have sound internal rating systems as part of their prudential requirements on governance and risk management. Internal ratings provide supervisors with an important source of information on risk profiles, underwriting standards and changes in asset quality. Effective rating practices thus strengthen the dialogue between banks and regulators, support the implementation of Pillar 2 (supervisory review process) and facilitate the use of forward-looking, risk-based supervision.

Sixth, credit rating mitigates information asymmetry and enhances market discipline. In credit markets, information about borrowers is typically asymmetric:

borrowers know more about their own financial condition and intentions than lenders or investors. Well-designed internal rating systems help to reduce this asymmetry by transforming complex and dispersed information into a transparent and comparable risk signal. This, in turn, supports fairer access to credit, encourages borrowers to maintain good financial discipline and contributes to overall market stability.

Seventh, credit rating provides a bridge between legal regulation and bank practice. In many jurisdictions, including Vietnam, legal documents explicitly refer to internal credit rating as a basis for loan classification, provisioning, collateral valuation or large exposure limits. This means that internal rating is not only a managerial technique but also a legally relevant standard whose design, operation and oversight must comply with regulatory requirements. The quality of internal rating therefore directly affects the effectiveness of legal provisions on credit safety, consumer protection and systemic stability.

In summary, credit rating in banks is both a conceptual framework and an operational instrument that plays a central role in credit risk management, pricing, portfolio steering, provisioning, regulatory compliance and the reduction of information asymmetries. These roles explain why internal credit rating has become a focal point in banking law and supervision, and why strengthening the legal basis and enforcement of rating systems is essential for the safe and sound development of the commercial banking system.

2. Basel II model, Basel III model and legal requirements on credit rating

The current international credit risk management framework is mainly based on the requirements of Basel II and Basel III issued by the Basel Committee on Banking Supervision (Basel Committee on Banking Supervision, 2004). In which, Basel II stipulates 3 basic pillars:

Pillar 1 – Minimum capital requirements based on risk;

Pillar 2 – Supervision from regulatory agencies;

Pillar 3 – Market discipline and information transparency.

In Pillar 1, Basel II allows banks to choose between the Standardized Approach and the Internal Ratings-Based (IRB) Approach. To apply the IRB approach, banks must develop a risk assessment system based on historical data, the probability of default (PD), the loss given default (LGD), and the exposure at default (EAD).

Basel III continues to raise capital standards, adding regulations on capital buffers, liquidity, and more comprehensive risk management requirements – putting pressure on banks to standardize their internal credit rating systems in a professional and scientific manner (Basel Committee on Banking Supervision, 2004).

3. Vietnam's current legal system for credit rating

In Vietnam, the legal system for credit rating in banks include:

Law on Credit Institutions 2010, amended and supplemented in 2017 – stipulates risk management principles and requires the establishment of a credit rating system (National Assembly, 2010).

Circular no. 41/2016/TT-NHNN – guiding the calculation of risk-bearing assets and minimum capital according to Basel II, requiring commercial banks to develop a suitable credit rating system to determine risk coefficients (Nguyen Thi Van Anh, 2014).

Circular no. 13/2018/TT-NHNN – regulations on internal control system and credit risk assessment (State Bank of Vietnam, 2018).

Circular 11/2021/TT-NHNN - guidance on debt classification, provisioning and use of risk provisions, closely related to credit rating results (State Bank of Vietnam, 2023).

In addition, some other specialized documents also mention credit rating requirements in lending to corporate and individual customers, or in specific areas such as real estate, consumer credit, etc.

However, in practice, the legal system is still fragmented, lacking consistency, and not fully updated according to developments in the international financial market. The implementation of advanced quantitative methods such as the IRB Approach is still limited due to the lack of a complete historical database and suitable statistical models.

4. International legal experiences on credit rating

Several countries with developed financial systems such as South Korea, Singapore and Malaysia have developed comprehensive legal frameworks for internal credit rating systems.

In South Korea, the Financial Services Commission (FSC) has required major banks to adopt the IRB approach since 2016. The legal framework is issued in coordination between the FSC and the Central Bank, requiring periodic reviews and audits of credit rating systems by independent third parties.

In Singapore, the Monetary Authority of Singapore (MAS) has detailed guidelines on internal credit standards, requiring banks to integrate credit ratings into the entire credit granting process, capital management and strategic planning. MAS also provides technical support, data and promotes cooperation between banks and fintech companies.

In Malaysia, Bank Negara Malaysia has issued standardized guidelines on credit scoring models, which specifically encourage the application of information technology and artificial intelligence (AI) to improve the efficiency of credit scoring and risk monitoring.

These experiences demonstrate that building a comprehensive, transparent and synchronous legal framework will facilitate the effective application of credit rating systems in banks, contributing to strengthening national financial security.

III. ANALYSIS OF THE CURRENT LEGAL IMPLEMENTATION OF CREDIT RATING CRITERIA OF COMMERCIAL BANKS IN VIETNAM

1. Status of credit rating system implementation at commercial banks

Since 2016, after the State Bank of Vietnam (SBV) issued Circular 41/2016/TT-NHNN - marking the first step in implementing Basel II in Vietnam, commercial banks (CBs) have begun to build internal credit rating systems to meet capital adequacy requirements. According to the SBV's report (2023), to date, 17 CBs have fully applied Basel II using the standard method (SA), of which 5 banks have been approved to implement the internal rating method (IRB).

However, most of the remaining banks have only stopped at the level of developing a basic credit rating system, mainly for internal purposes, not closely integrated into the overall risk management model. The use of credit rating results in credit granting, debt classification, or loan pricing activities is still a formality in many small and medium-sized credit institutions (Luong, L., 2024).

Some large banks such as Vietcombank, BIDV, Techcombank, ACB have built a multi-dimensional credit assessment system with the ability to analyze based on historical data, combining financial and non-financial indicators. However, the large gap between banks in risk analysis capacity is creating inequality in determining the creditworthiness of customers, affecting the general credit market (Nguyen, M. P., 2020).

2. Evaluation of the current legal compliance

Although the State Bank of Vietnam has provided quite clear instructions through Circular 41 (State Bank of Vietnam, 2016), Circular 13 (State Bank of Vietnam, 2018), and related documents, implementation practices show that there is still a significant gap between regulations and actual application. Some specific manifestations include:

Credit assessment criteria are not built consistently among banks. Many criteria are qualitative, lacking supporting quantitative data.

There is no mechanism to independently check, evaluate and appraise the effectiveness of the rating system at each bank.

The use of rating results to determine credit risk coefficients and provisioning is limited to a few pioneering organizations, most of which still follow manual methods or old internal regulations.

Internal audit reports of many banks do not fully reflect the quality of credit rating activities as required by the State Bank.

The main reasons lie in the inadequate awareness of bank leaders, the lack of in-depth credit analysis experts, as well as high technology investment costs, making many banks hesitant to fully implement.

3. Limitations and disadvantages in legal framework

A prominent issue is the fragmentation and lack of uniformity in the legal system related to credit ratings. While the Law on Credit Institutions 2010 only provides general principles, the guiding circulars have detailed content but have not been integrated or amended in a timely manner according to practice (National Assembly, 2010).

In addition, Vietnam currently does not have a national standard framework for internal credit rating systems. This leads to a lack of consistency in the approach, level of detail and database of each bank. While developed countries often apply strict quantitative indicators such as PD, LGD, EAD, in Vietnam, many banks still rely mainly on unaudited financial statements or information collected manually from customers.

Another weakness is the lack of a clear sanction mechanism in case the credit rating system fails to meet requirements. The State Bank of Vietnam does not have a process for periodic inspection, independent assessment, or specific sanctions for credit institutions that violate regulations related to internal credit assessment (Partnoy, F, 2017).

4. Illustrative statistics

The summary report of the State Bank of Vietnam and some research institutions have shown several outstanding figures as follows:

According to a survey by PwC Vietnam (2022), there is only about 38% of commercial banks already integrating a credit rating system into their automatic credit approval process.

Only 7/50 surveyed commercial banks have a competent internal credit scoring system of their corporate and individual clients in compliance with Basel II standards.

The ratio of banks using non-financial data in rating is only 30% though this is becoming a global trend.

In addition, according to the State Bank of Vietnam, in 2023, the bad debt ratio on balance sheet of the whole banking system was 2.91%, while that according to the extended standards (including debts potentially becoming bad debt) was 5.6%. This shows the urgent need for improvement of credit rating quality to mitigate risks (State Bank of Vietnam, 2023).

5. Role of the State Bank and regulatory agencies

The State Bank of Vietnam is the agency that regulates and supervises the financial and banking system. The State Bank has made many efforts to orient the development of a standardized credit rating system. However, the supervisory role is still relatively passive, tending towards guidance and recommendations, lacking legal enforcement.

Some of the contents that the State Bank needs to improve include:

Organizing periodic inspections of the credit rating system at commercial banks;

Establishing a framework of standards for evaluating and classifying internal scoring systems;

Cooperating with international credit rating organizations to share data and improve transparency.

IV. BARRIERS TO LEGAL IMPLEMENTATION

The establishment of an internal credit rating system has been relatively clearly regulated in Vietnamese legal documents. However, implementation practice shows that the process of enforcing laws related to credit rating criteria at commercial banks still faces many obstacles. These obstacles not only stem from the lack of internal capacity of banks but also from shortcomings in the legal system, management mechanisms and technological factors.

1. Lack of uniformity and consistency in the legal system

One of the biggest barriers is the lack of uniformity and inconsistency among legal documents regulating credit assessment activities. As mentioned, although the Law on Credit Institutions and the guiding circulars of the State Bank have mentioned the establishment of an internal credit rating system, there is a lack of specific standards, leading to inconsistency in understanding and implementation at banks.

In addition, some contents in Circular 41/2016/TT-NHNN (State Bank of Vietnam, 2016) and supplementary documents are not really updated with international practices, especially the requirements on input data, quantitative risk analysis models, and model verification processes. This creates a legal gap, making many banks confused in the implementation process.

In addition, Vietnam currently does not have a national technical standards framework for internal credit rating systems, limiting the ability to standardize and interconnect data between banks and regulatory agencies.

2. Limited capacity for credit analysis and assessment

The human factor plays a key role in the effective operation and maintenance of a credit rating system. However, the reality shows that many banks, especially small and medium-sized banks, are seriously lacking in human resources with in-depth expertise in financial analysis, credit risk assessment and model management.

According to an internal survey published by the Vietnam Banking Association (2023), Only about 27% of credit officers at commercial banks are properly trained in modern credit analysis methods. Most decisions are still based on personal experience instead of automated scoring systems, causing inconsistency and increasing the risk of moral hazard.

Additionally, operating quantitative models requires in-depth knowledge of statistics, data analysis, and programming – skills that are in short supply among today’s workforce.

3. Dispersed, unreliable, and unshared databases

One of the key factors for the effective operation of a credit rating system is a complete, accurate and up-to-date financial and non-financial database (CIC - National Credit Information Center of Vietnam, 2022). However, in Vietnam, the national credit information center still cannot meet the requirements of a modern financial system. To be more specific:

Data at CIC mainly focuses on bad debt information, current debt, lacking depth in transaction history and non-financial data;

There is no effective data sharing mechanism among commercial banks;

Data collected manually from customers is not highly reliable, easily falsified or conceals important information.

In addition, while developed countries have integrated data from sources such as taxes, insurance, social networks, or electronic transaction history to assess credit, Vietnam is still in the early stages of this process, making it difficult to apply advanced credit rating models.

4. Limitations on technology and investment costs

Building and maintaining a modern internal credit rating system requires significant investment in technology, including data analytics software, computing infrastructure, and security systems. However, not all banks have the resources to do so.

For small banks, the high initial investment costs force them to choose manual solutions or off-the-shelf software that is difficult to customize to specific risk management requirements. In addition, integrating credit rating systems into automated lending processes, ERP systems, or digital banking applications is also difficult due to the lack of unified technical standards.

In addition, periodic rating model updates, model validation, and staff retraining also cause high operating costs, especially in the context of increasing competitive pressure and cost cutting in the banking industry.

5. Ineffective monitoring and mechanism

One point worth noting is that the current mechanism for monitoring the implementation of laws related to credit ratings is still ineffective. The SBV mainly plays a guiding and encouraging role, rather than inspecting, evaluating and applying specific sanctions to violating organizations.

The lack of specific evaluation criteria for the credit rating system at each bank makes the monitoring subjective and lacking in quantitative value. In addition, some banks may use the rating system as a formality to cope with inspection requests from management agencies without actually improving the quality of credit ratings.

V. SOLUTIONS TO IMPROVE AND ENFORCE THE LAW ON CREDIT RATING CRITERIA OF COMMERCIAL BANKS IN VIETNAM

Given the many shortcomings in the implementation of the law on credit rating criteria, it is necessary and urgent to propose solutions to improve the legal framework and improve the effectiveness of implementation in practice. The following groups of solutions are proposed based on an analysis of the current situation, international experience and orientation for the development of the Vietnamese banking system according to international standards.

1. Review, amend and complete relevel legal systems

This is a fundamental solution, serving as a clear and consistent legal corridor allowing banks to effectively implement their credit rating system.

It is necessary to develop a unified legal framework on internal credit rating: The State Bank should issue a separate circular or integrate related contents into a unified, high-value legal document, which clearly stipulates:

Minimum criteria of the credit rating system;

Requirements on input data, update frequency, model assessment and approval process;

Independent inspection mechanism, periodic assessment and bank accountability.

It is necessary to update international standards: Vietnam needs to gradually bring its legal regulations on credit ratings closer to Basel II and Basel III, especially the application of the IRB (Internal Ratings-Based) model, determining the probability of default (PD), expected loss (LGD) and exposure level (EAD).

It is necessary to legalize the responsibility for data sharing: Encourage or require banks to connect their credit rating systems with the national credit information center (CIC) and state databases such as tax, social insurance, business registration, etc. to increase the accuracy of input information.

2. Strengthen the State Bank's monitoring role and law enforcement

In addition to issuing legal documents, the State Bank needs to improve the effectiveness of management and supervision of law enforcement related to credit ratings at commercial banks.

Establish a periodic inspection system: The State Bank needs to organize specialized inspection teams on credit rating systems at commercial banks, evaluating them according to specific indicators such as accuracy, customer coverage, and the level of application of rating results in actual operations.

Apply clear and strict sanctions: For credit institutions that do not comply or apply formalities, the State Bank needs to have a mechanism for financial sanctions, credit scale limits, or even restrictions on branch expansion and new products and services.

Technical guidance and training support: The State Bank should play a leading role in developing a set of technical standards, and coordinate with international organizations to organize training programs and transfer models, especially for small and medium-sized banks.

3. Developing human resources specializing in credit analysis

Human resources are the core factor for operating an effective credit rating system. Therefore, the following solutions need to be focused on:

Intensive and continuous training: Banks need to proactively develop internal training programs on credit analysis, risk management, statistical models, and application of technology in credit assessment. It is advisable to cooperate with international training institutes such as CFA Institute, PRMIA, or prestigious universities to standardize the program.

Establishing an independent credit analysis department: Instead of having credit officers concurrently perform risk analysis, banks need to separate this function and establish specialized credit assessment teams, thereby ensuring objectivity and professionalism in the rating work.

Encourage academic-practical cooperation: Connect finance and banking universities with businesses to organize internship programs, research, share data and practical experience in credit analysis.

4. Investment in technology and digitalization of the creding rating system

Applying modern technology will help the credit rating system become more accurate, efficient and scalable.

Deploying AI and big data platforms: Banks should apply machine learning models to analyze big data, thereby providing real-time credit scores, detecting unusual signals or potential credit fraud.

Building an interconnected data system: Connecting data from CIC, State agencies, social networks, electronic payment history, etc. to enrich customers' credit profiles. Building a unified database will help banks improve their forecasting capabilities and minimize credit risks.

Automating the lending process based on credit scores: When the credit scoring system is accurate enough, banks can classify customers according to risk levels, apply automatic credit approval processes for customers with good ratings, thereby shortening the time and increasing the efficiency of processing records.

5. Promotion of international cooperation and use of independent credit rating services

In addition to the internal system, banks can coordinate with independent credit rating organizations such as Moody's, S&P, or licensed domestic companies to:

Update international trends in rating models;

Compare internal rating results with external assessments to calibrate the model;

Enhance the bank's reputation in bond issuance or international capital mobilization activities.

At the same time, the Government needs to create legal conditions for domestic independent credit rating organizations to operate more strongly, play the role of objective assessment intermediaries and enrich the credit ecosystem (Cinquegrana, P, 2009).

VI. Conclusion

In the context of the Vietnamese banking industry gradually integrating with international standards, the establishment and effective implementation of an internal credit rating system is not only a mandatory requirement under Basel II, but also a prerequisite for improving credit quality, controlling risks and ensuring national financial safety.

The article has comprehensively analyzed the theoretical basis, current legal framework and the implementation status of the credit rating system at Vietnamese commercial banks. Thereby, it can be seen that although there have been certain advances, especially in some large banks, the process of enforcing the law on credit rating criteria still has many shortcomings. Significant barriers include the lack of uniformity in the legal system, limitations in analytical capacity and personnel, lack of reliable data, and delays in technology application.

On that basis, the article proposes a number of groups of solutions to improve the legal framework and enhance the effectiveness of law enforcement, including:

(1) Building a specialized, unified legal system that is close to international practices;

(2) Strengthening supervision, inspection and application of appropriate sanctions from the State Bank;

(3) Developing high-quality human resources in the field of credit analysis;

(4) Investing in technology and data infrastructure for credit assessment;

(5) Expanding international cooperation and leverage the role of independent credit rating agencies.

These solutions are not only meaningful in the short term but also have long-term strategic significance, helping Vietnamese banks gradually standardize risk management activities, improve competitiveness, and increase the trust of domestic and international investors and customers.

In the coming time, there needs to be close coordination between state management agencies, the banking community, training organizations and technology units to synchronously deploy the above solutions. At the same time, further studies should delve deeper into each specific banking group (state-owned, joint-stock, foreign banks, etc.) to make recommendations suitable to the specific operations and capacity of each subject.

Completing the law and enforcement mechanism on credit rating is not only a technical solution, but also a necessary step to improve credit quality, towards a healthy, transparent and sustainable financial system in Vietnam.

Limitations and directions for future research: This study has several limitations that should be acknowledged.

First, the research is primarily based on document analysis, legal analysis and comparative research, relying mainly on official legal documents, supervisory reports and secondary literature. Although this approach is suitable for clarifying the current legal framework and identifying major enforcement issues, it does not provide systematic primary data from commercial banks, supervisors or borrowers. As a result, some conclusions about practical implementation and compliance behaviour are still inferred rather than directly measured.

Second, the paper focuses on a qualitative and normative assessment of the law on internal credit rating in Vietnamese commercial banks. It does not incorporate quantitative evidence, such as bank-level credit risk indicators, default and loss data, or back-testing results of internal rating models, to empirically evaluate the effectiveness, discriminatory power and calibration of these systems. This limits the ability to quantify the impact of legal provisions and supervisory requirements on actual credit risk outcomes.

Third, the analysis is conducted within a specific temporal and institutional context, mainly reflecting the legal framework and practice up to recent years, when Vietnam is still in the process of implementing Basel II and gradually moving towards Basel III. Ongoing reforms—such as amendments to the Law on Credit Institutions, the introduction of new circulars on internal rating and credit risk management, and rapid progress in digital transformation—may change the regulatory landscape in the near future. Therefore, some assessments in this paper may become partly outdated and need to be revisited as new regulations and technologies are introduced.

Fourth, although the study refers to selected international experiences, the comparative perspective remains limited. It mainly draws on high-level practices and guidelines from international standard-setting bodies and a small number of foreign jurisdictions, without a systematic cross-country comparison among emerging markets with similar levels of financial development and legal traditions.

Building on these limitations, several directions for future research can be proposed.

First, subsequent studies should adopt a mixed-methods approach, combining legal and document analysis with primary data collection, such as surveys or in-depth interviews with credit officers, risk managers, internal auditors and supervisors. This would help to capture more accurately the practical challenges, incentives and behavioural responses of stakeholders in implementing internal credit rating regulations.

Second, future research could develop empirical models using bank-level panel data on credit portfolios, default rates, provisioning, capital requirements and rating transition matrices, in order to evaluate the predictive performance and calibration of internal rating systems under different legal and supervisory settings. Such empirical work would provide stronger evidence on how changes in the legal framework and enforcement intensity affect credit risk, portfolio quality and bank stability.

Third, more systematic comparative studies between Vietnam and other countries—especially within ASEAN and other emerging economies—are needed to draw lessons on the design and enforcement of laws on internal credit rating, the allocation of supervisory responsibilities, and the balance between principles-based and rules-based regulation.

Fourth, future research should explore in greater depth the implications of digital transformation, big data and artificial intelligence for internal credit rating and related legal issues. This includes questions of data governance, consumer protection, algorithmic transparency, model risk management and the adaptation of supervisory tools to monitor advanced rating techniques.

Finally, it would be useful to extend the analysis beyond corporate lending to cover other segments such as retail lending, SME finance, green and sustainable credit, where internal rating systems and legal requirements may have specific features. This would contribute to a more comprehensive understanding of how internal credit rating regulations support safe and sound credit growth in different market segments of the Vietnamese banking system.

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