Update on Amendments to Circular 22: Supporting Short-Term Growth, Moving Toward Basel III in the Long Term

On June 22nd 2026, the State Bank of Vietnam (SBV) officially issued Circular 25/2026 amending Circular 22, with a focus on relaxing certain prudential safety ratios for banks. Specifically, the ratio of short-term funds used for medium- and long-term loans (SMLR) was raised from 30% to 40%, while the SBV was also granted the authority to flexibly adjust the proportion of State Treasury deposits counted toward the Loan-to-Deposit ratio (LDR), compared with the fixed 20% under Circular 08/2026. These adjustments come as Vietnam accelerates infrastructure investment through numerous large-scale projects, driving a sharp rise in the economy's demand for medium- and long-term capital, while funding pressure on the banking system remains persistent. The issuance of Circular 25 could help banks ease pressure to mobilize medium- and long-term funding, thereby helping to cool interest rate competition within the system.

Notably, the earlier Draft Circular to replace Circular 22, on which the SBV previously sought public comment, is oriented toward longer-term objectives, with a focus on applying liquidity and funding management standards in the spirit of Basel III. In addition to the three core Basel III metrics – the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR) and the Leverage Ratio (LEV), the Draft also introduces the Credit-to-Deposit ratio (CDR) as a domestic-specific regulation, replacing the current LDR during the transition period before banks fully meet Basel III requirements. There is not yet specific information on when the provisions of this draft will take effect.

Key highlights

- **Circular 25 reflects a short-term easing stance to support growth:** Raising SMLR from 30% to 40% will help ease the system's pressure to mobilize medium- and long-term funding, thereby reducing upward pressure on funding costs. At the same time, the added mechanism granting the SBV flexibility to adjust the proportion of State Treasury deposits counted toward the LDR will allow the regulator to proactively support system liquidity when needed.
  ✓ **Banks that stand to benefit from Circular 25:** banks whose SMLR ratios were close to the 30% cap at the end of Q1/2026 (including MBB and VPB) stand to benefit most from the higher ceiling. The group of state-owned commercial banks (BID, CTG, and VCB) – which specialize in disbursing credit for public investment projects – could also benefit from reduced pressure to mobilize medium- and long-term funding.
- **The draft aligning with Basel III standards carries long-term reform significance:** Introducing the LCR, NSFR, and LEV ratios will strengthen liquidity discipline, funding quality, and the resilience of the banking system.
  ✓ **CDR is the provision with the greatest impact if implemented:** Compared with the current LDR, the CDR reflects a stricter relationship between credit and funding, even though the 85% cap remains unchanged. The scope of outstanding credit is broadened to include forms of credit extension beyond traditional lending, while the funding base excludes interbank funding. Banks that rely heavily on the interbank market for funding will be most affected if the CDR is applied.
  ✓ **Banks with a competitive advantage in implementing Basel III standards:** banks with a solid retail deposit base, a high proportion of long-term funding, and large buffers of High-Quality Liquid Assets (HQLA) will be better positioned, as they already have the foundation to meet the new requirements without needing significant balance sheet adjustments.

Regulation	Ratio	Key Change
Circular 25/2026	SMLR	Raised from 30% to **40%**
	% of State Treasury deposits counted toward LDR	• Kept unchanged at **20%** • Add a provision granting the SBV flexibility to adjust the ratio
Draft Basel III-Aligned Circular	CDR	• Replaces the current LDR • **≤ 85%;** exempted when LCR & NSFR ≥ 100%
	LCR	• Applied on a **phased roadmap** starting from 2028: **≥ 70%** in 2028, rising to ≥ 100% from 2031 • Registered for **immediate application: ≥ 100%**
	NSFR	• Applied on a **phased roadmap** starting from 2028: **≥ 90%** in 2028, rising to ≥ 100% from 2030 • Registered for **immediate application: ≥ 100%**
	LEV	**≥ 3%;** applied at the SBV's discretion when necessary

Source: Compiled by S&I Ratings

Impact Assessment of Circular 25

Key content

- Raises the maximum ratio of short-term funds that used for medium- and long-term loans from 30% to 40%.
- Keeps unchanged the provision counting 20% of State Treasury deposits toward the LDR under Circular 08/2026 (which took effect on May 15th 2026), while granting the SBV flexibility to adjust this ratio from time to time.

Our view

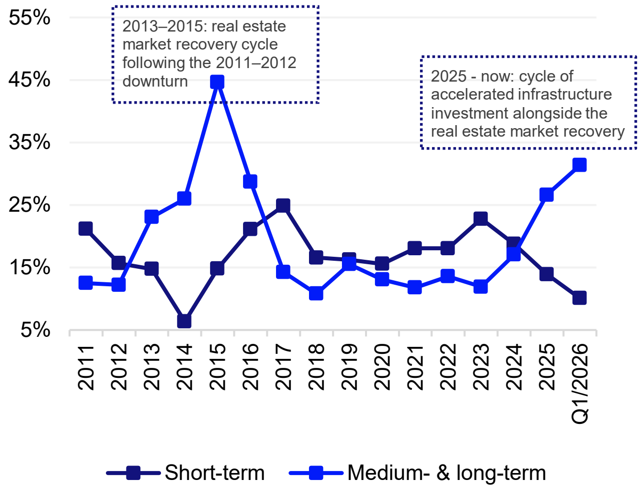
We view Circular 25 as conveying a message of support for short-term credit growth by easing liquidity pressure on the banking system. Against a backdrop of continued strong growth in the economy's demand for medium- and long-term capital to serve large-scale infrastructure projects, the relaxation of these ratios gives banks more room to expand credit while easing pressure to mobilize long-term funding. By the end of Q1/2026, outstanding medium- and long-term loans had grown by nearly 31% YoY (continuing to accelerate from 27% in 2025), significantly outpacing the 10% growth in short-term lending.

Raising the SMLR cap by 10% means banks can use an additional amount of short-term funding equivalent to 10% to finance medium- and long-term loans. Banks pursuing a strategy of expanding medium- and long-term lending but SMLR ratios are close to the regulatory threshold stand to benefit the most, as pressure to mobilize long-term funding eases. According to data as of the end of Q1/2026, MBB (29%) and VPB (28.3%) had the highest SMLR ratios in the system. Meanwhile, the state-owned bank group also benefits, given its focus on disbursing credit for public investment projects, which typically have long tenors.

Circular 25 also adds a mechanism allowing the SBV to flexibly adjust the proportion of State Treasury deposits counted toward the LDR, rather than keeping it fixed at 20%. Although the system-wide impact is relatively limited (we estimate that 20% of State Treasury deposits equates to only about 0.8% of system-wide outstanding credit), this provision will allow the SBV to proactively support system liquidity when needed. State-owned banks benefit more visibly, as 20% of their State Treasury deposit balances equates to roughly 2.1% of outstanding credit at VCB, 1.8% at CTG, and 1.5% at BID.

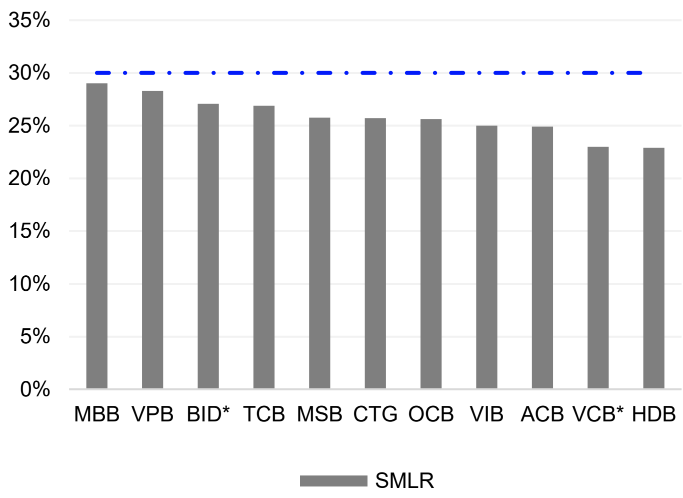
Overall, we believe Circular 25 will help ease funding pressure, cool interest rate competition among banks, and create additional room for credit growth going forward. This is an appropriate adjustment given that the system must simultaneously meet the economy's substantial capital needs while maintaining a stable interest rate environment to support growth.

Chart 1. Credit growth by tenor, aggregate of 27 listed banks



Source: S&I Ratings

Chart 2. Comparison of SMLR as of end Q1/2026, selected banks



Source: Compiled by S&I Ratings; Note: (*) FY25 data

Impact Assessment of Draft Basel III-Aligned Circular

Key content

The Draft introduces four key metrics: the Liquidity Coverage Ratio (LCR), the Net Stable Funding Ratio (NSFR), the Leverage Ratio (LEV), and the Credit-to-Deposit ratio (CDR). Of these, the LCR, NSFR, and LEV are geared toward liquidity and leverage management in line with international Basel III standards, while the CDR is a domestic-specific provision intended to control the relationship between credit growth and funding during the transition period. Overall, the Draft aims to improve the quality of banks' balance sheets by shifting the regulatory focus from balance-based metrics toward the quality of liquid assets, the stability of funding, and the sustainability of balance sheet growth. In other words, growth must be matched by more stable funding and stronger liquidity buffers.

- LCR: requires banks to hold sufficient High-Quality Liquid Assets (HQLA) to meet payment needs under a 30-day market stress scenario. Compared with current regulations, the LCR defines HQLA in a way that more substantively reflects liquidity quality.
- NSFR: ensures that long-term assets are funded by correspondingly stable and long-term funding, thereby limiting the risk of maturity mismatches between assets and funding.
- LEV: serves as an additional safeguard alongside existing capital adequacy ratios, limiting balance sheet expansion based on excessive leverage, even where a bank holds low-risk assets.
- CDR: requires credit growth to be closely tied to the ability to mobilize funding from customer deposits, reducing reliance on less stable sources of funding such as the interbank market. The scope of outstanding credit is broadened to include all other forms of credit extension (corporate bond investments, guarantees, letters of credit, etc.), while the funding base is refined to exclude interbank deposits and cross-held valuable papers issued between credit institutions.

Our view

Incorporating Basel III standards into the legal framework is a necessary step to strengthen the long-term resilience of the banking system. International experience shows that LCR and NSFR requirements are typically phased in to allow banks to adapt gradually. In Vietnam, several banks – including TPB, ACB, HDB, MBB, and TCB – have already begun or are in the process of applying these metrics as part of their periodic risk monitoring. We therefore believe that **the impact on the system will take the form of gradually rising compliance costs rather than a short-term shock**. Banks with a solid retail deposit base, a high proportion of medium- and long-term funding, and large liquid asset buffers will be better positioned as Basel III is rolled out, while those that rely heavily on less stable funding or hold thin liquidity buffers will face greater challenges in meeting the new requirements.

Conversely, the CDR is the most notable element of the Draft. Compared with the current LDR, the CDR is designed more conservatively: it broadens the scope of credit extension while narrowing the recognized funding base, even as the regulatory threshold remains at 85%. **Based on our estimates, CDR ratios at many banks could be significantly higher than under the current LDR**, as both the numerator and the denominator move in an unfavorable direction. As of the end of Q1/2026, forms of credit extension beyond traditional lending (including corporate bond investments, guarantees, and letters of credit) were equivalent to about 14% of system-wide outstanding loans. Meanwhile, interbank funding and valuable papers (not yet adjusted for the portion held by other banks) accounted for roughly 25% and 13% of lending scale, respectively. This indicates that the impact of narrowing the denominator outweighs that of broadening the numerator, while offsetting factors – such as recognizing 20% of State Treasury deposits and deducting equity – only partially compensate. **As a result, if implemented, some banks will need to step up funding from Market 1, reduce reliance on interbank funding, or adjust their pace of credit growth in order to meet the regulatory threshold**.

That said, we believe the CDR provisions will continue to be refined going forward. This view stems from the SBV's recent string of policies aimed at easing liquidity pressure and supporting economic growth, most notably Circular 25/2026 together with special credit mechanisms for key projects of Vingroup, Sun Group, and Masterise. Against this backdrop, applying a strict ratio could undermine the effectiveness of these supportive policies. We therefore expect the implementation roadmap, or certain components of the CDR calculation methodology to be further adjusted in order to strike a balance between raising risk management standards and supporting economic growth in the current period.

Table 1. Preliminary Impact Assessment of the LCR, NSFR, LEV, and CDR

Ratio	Impact
LCR	• Higher HQLA holdings through increased purchases of liquid securities could increase liquidity for the bond market. • Encourage mobilization of stable funding (such as retail, SME deposits) given their lower run-off rates. Limit reliance on less stable wholesale funding.
NSFR	• Higher HQLA holdings. • Increase mobilization of highly stable, long-term funding. • Limit long-term lending funded by tenor-mismatched or less stable funding sources.
LEV	• Limit excessive growth in off-balance-sheet activities.
CDR	• Slow credit growth at banks with high CDR ratios. • Increase mobilization of retail/customer funding, limits reliance on the interbank market.

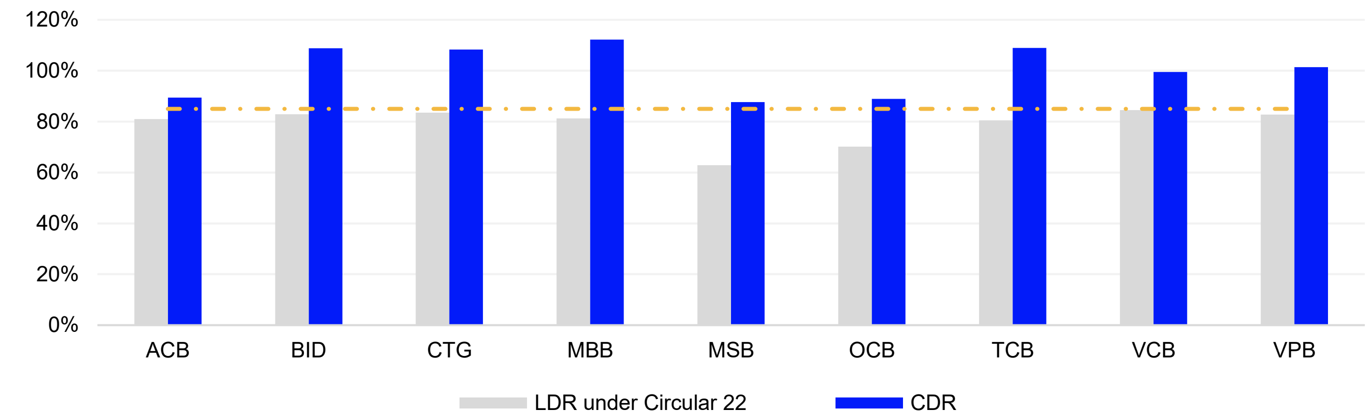
Source: Compiled by S&I Ratings

Table 2. Impact of Component Changes on the CDR/LDR

Component	Change	Share of Outstanding Loans	Impact on CDR/LDR
Credit extended	Broadened to include corporate bond investments, guarantees, letters of credit…	14%	**Increase**
Interbank deposits	Excluded from the denominator	25%	**Sharp increase**
Valuable papers	Portion held by other banks excluded from the denominator	13% (*)	**Increase**
State Treasury deposits	20% counted in the denominator	0.8%	**Slight decrease**
Equity	Deducted from the numerator	13%	**Decrease**

Source: Compiled by S&I Ratings; Note: (*) not yet adjusted for the portion of valuable papers held by other banks

Chart 3. Estimated CDR Ratio, Selected Banks



Source: S&I Ratings

Appendix: Overview of the LCR, NSFR, LEV, and CDR

Ratio	Formula	Key Points
LCR	**LCR = Eligible HQLA / Net Cash Outflows over the Next 30 Days** HQLA: • Level 1 (0% haircut): cash, deposits with the SBV, debt instruments of the Vietnamese Government and the SBV, government and other central bank securities with a 0% risk weight. • Level 2A (15% haircut): government and other central bank securities with a 20% risk weight, corporate/covered bonds rated AA- or higher. • Level 2B (25–50% haircut): RMBS, corporate bonds rated A+ to BBB-, eligible equities. Net cash outflows: = Expected cash outflows − Min (expected cash inflows, 75% of expected cash outflows)	• Exclude demand and overnight interbank deposits, and add debt securities rated BBB- or higher (versus AA- or higher under Circular 22) and eligible equities, diversifying the HQLA portfolio, but requiring liquid assets of more substantive quality. • Cash outflows are determined based on the behavioral stability of each funding source through corresponding withdrawal (run-off) rates. For example, deposits from financial institutions (highly volatile) carry the highest run-off rate of 100%, compared with only 40% for the retail and SME segments. • Implication: shifts the focus of liquidity management from pure scale to liquidity quality and cash-flow behavior.
NSFR	**NSFR = Available Stable Funding (ASF) / Required Stable Funding (RSF)** • ASF: reflects the degree of stability of each type of funding after applying the ASF factor. • RSF: reflects the stable funding requirement of each type of asset after applying the RSF factor.	• Long-term funding, equity, and retail deposits are assigned higher ASF factors; short-term or interbank funding carries lower factors. • Assets with long tenors or low liquidity carry higher RSF factors, thereby requiring a larger amount of stable funding to support them. • Implication: expanding long-term assets must be matched by corresponding stable/long-term funding, limiting reliance on less stable/short-term funding.
LEV	**LEV = Tier 1 Capital / Total Exposure Measure** Total exposure measure includes all on-balance-sheet and off-balance-sheet assets, unadjusted for risk weighting	• Limit the expansion of the balance sheet based on excessive leverage, even where assets carry low risk. • Systemically important banks may only pay cash dividends once they meet the LEV requirement (≥ 3% + 50% capital buffer) • Implication: provides a more accurate reflection of a bank's leverage since it is not adjusted for asset risk weighting.
CDR	**CDR = Total Credit / Deposit** Total credit: • Total loan portfolio under Circular 22. • (+) other credit extension activities: discounting, financial leasing, factoring, guarantees, letters of credit, and corporate bond investments. • (-) core equity components. Deposit: • Total deposit portfolio under Circular 22. • (+) 20% of term deposits of the State Treasury (as applied under Circular 08/2026) • (-) interbank deposits. • (-) valuable papers issued and held by banks.	• Broadens the numerator by including all forms of credit extension, rather than only outstanding loans. • Narrows the denominator by excluding interbank funding, more accurately reflecting the ability to mobilize funding from Market 1. • Implication: the change with the greatest impact in the Draft, particularly for banks that rely heavily on interbank funding.

Source: Compiled by S&I Ratings

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