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IMPROVING THE LEGAL FRAMEWORK FOR GREEN CREDIT IN VIETNAMESE COMMERCIAL BANKS

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ABSTRACT

Green credit is increasingly becoming an important tool to promote sustainable development and mitigate environmental impacts in the financial sector. In Vietnam, commercial banks have started to implement green credit products. However, the current legal framework remains incomplete, leading to difficulties in risk management, ensuring transparency, and creating incentives for green lending. This paper analyzes the current legal framework, its limitations and gaps in green credit regulations in Vietnam, and proposes solutions to improve the legal framework in order to promote the sustainable and effective development of green credit in commercial banks.

Keyword: Green credit; Commercial banks; Legal framework; Sustainable development; Risk management; Vietnam

1. INTRODUCTION

In the context of increasingly severe climate change and environmental issues, mobilizing financial resources to support green and environmentally friendly projects has become an urgent requirement for many countries, including Vietnam. Green credit, which refers to loans granted to projects with positive environmental impacts, not only plays a role in promoting sustainable economic development but also helps commercial banks manage long-term environmental risks (Nguyen Hong Thu, 2024). In Vietnam, commercial banks have introduced several green credit products, including loans supporting renewable energy, energy efficiency, waste management, and green infrastructure development. According to data from the State Bank of Vietnam, by the end of the first quarter of 2025, there were 58 credit institutions with outstanding green credit loans, totaling over VND 704.244 trillion, accounting for 4.3% of the total outstanding loans of the economy (Huong Diu, 2025). However, implementation has faced many challenges due to the incomplete legal framework, the lack of unified standards, the absence of environmental risk control mechanisms, and insufficient incentives for banks and businesses to participate (Do Hoang Anh & Nguyen Xuan Dao, 2024). As a result, green credit has not yet developed in a comprehensive and sustainable manner. Based on this, the paper focuses on analyzing the current legal regulations related to green credit in Vietnamese commercial banks, identifying legal limitations and gaps, and thereby proposing solutions to improve the legal framework in order to create a solid legal corridor that promotes effective, transparent, and sustainable development of green credit.

2. CURRENT LEGAL FRAMEWORK AND IMPLEMENTATION OF GREEN CREDIT IN VIETNAMESE COMMERCIAL BANKS

In recent years, Vietnam has made significant progress in developing the legal framework and promoting the implementation of green credit in the commercial banking system.

First, in terms of legal and macro policy, the Party, the National Assembly, the Government, and ministries have paid special attention to improving the legal environment to protect the environment, promote green economic development in general, and green credit in particular. The National Assembly issued the Law on Environmental Protection in 2020, a fundamental legal document that stipulates details related to greenhouse gas emission reduction and ozone layer protection, while paving the way for the establishment of a green taxonomy, green credit, and green bonds. Specifically in the banking sector, since 2015, the State Bank of Vietnam (SBV) has issued Directive No. 03/CT-NHNN on promoting green credit growth and managing environmental and social risks in credit activities, laying an important foundation for linking banking operations with sustainable development goals. In 2017, the SBV continued to issue detailed guidance for 12 green priority sectors for credit allocation. On August 7, 2018, the Governor of the SBV issued Decision No. 1604/QD-NHNN approving the project on green banking development in Vietnam, thereby affirming the long-term development orientation and requiring credit institutions to integrate green growth objectives into their business strategies. At the same time, in the Strategy for the Development of Vietnam's Banking Sector to 2025 with orientation to 2030 (Decision No. 986/QD-TTg dated August 8, 2018), the Government also incorporated the objective of gradually increasing the share of green credit in the total outstanding loans of the system, thereby creating a strategic foundation for credit institutions.

In particular, Circular No. 17/2022/TT-NHNN dated December 23, 2022 officially introduced principles for environmental risk management in credit activities, requiring credit institutions to include binding provisions on customer responsibilities regarding the limitation of environmental risks, while providing transparent information and ensuring its accuracy. This is an important step forward, elevating green credit from a recommended orientation to a more rigorous legal framework with higher mandatory requirements.

Second, on the side of commercial banks, many credit institutions have proactively approached, implemented, and developed green credit products. Large banks such as BIDV, VietinBank, Agribank, and TPBank have issued internal policies on environmental and social risk management, while actively allocating preferential capital to finance projects in renewable energy, energy efficiency, waste treatment, and cleaner production. According to the SBV's report, by the end of the first quarter of 2025, the total outstanding green credit nationwide reached approximately VND 704,244 trillion, accounting for 4.3% of the total outstanding loans of the entire economy (Le Nguyen Truong Giang, 2025), demonstrating the rapid growth of this capital flow.

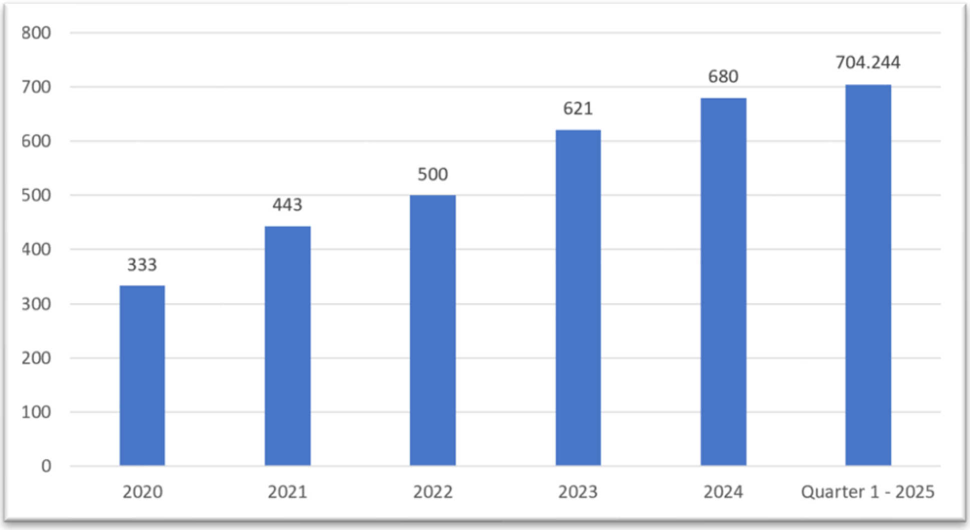

Chart 1. Green credit outstanding in Vietnam (trillion VND)

(Source: Compiled from DNSE and State Bank of Vietnam data)

Third, the awareness of the banking system and the business community about the role of green credit has also been significantly improved. Many banks have not only stopped at providing capital but have also actively participated in advising and guiding clients in applying environmental and social standards, thereby contributing to spreading the trend of sustainable development throughout the economy. Along with this, businesses have also become more conscious in selecting environmentally friendly projects in order to access preferential funding from banks more easily.

Fourth, international cooperation has also brought many positive signals. Many Vietnamese commercial banks have received technical and financial support packages from international organizations such as IFC, ADB, and WB to improve their capacity in appraising green projects, training human resources, and expanding the scale of sustainable lending. This support not only helps Vietnamese banks shorten the gap with international standards but also contributes to enhancing the reputation and competitiveness of the financial system in the region.

Overall, the results achieved show that green credit in Vietnam is gradually taking shape and developing in a professional and sustainable direction. Although the share of green credit in the total outstanding loans of the system remains modest, the steady upward trend over the years, together with the gradual improvement of the legal framework and the Government's commitment to achieving net zero emissions by 2050, has affirmed the increasingly important role of green credit in the transition of the growth model toward a green and sustainable economy.

3. LIMITATIONS AND LEGAL GAPS

Although green credit has been implemented in Vietnam, the legal framework and supporting mechanisms still face many limitations, creating legal gaps that affect the effectiveness and sustainability of green credit.

3.1. An incomplete and inconsistent legal framework

Although the Government and the SBV have issued several legal documents and policies to encourage green credit, the current legal framework remains inconsistent and incomplete. Documents such as Decision No. 1604/QD-NHNN on green banking development and Circular No. 18/2018/TT-NHNN on environmental risk management in banking activities remain at the level of encouragement, without strong mandatory requirements and lacking specific criteria to define green projects. This has led to a situation where banks develop their own sets of criteria, resulting in a lack of consistency and transparency in identifying and assessing green projects.

3.2. Lack of monitoring and evaluation mechanisms for environmental effectiveness

The control of the use of green credit and the measurement of environmental impacts of financed projects remain limited. Many projects do not have transparent reporting mechanisms on their outcomes, making it difficult to assess the environmental effectiveness and environmental risks of loans. This not only affects the quality of green credit but also reduces investor and customer confidence in green credit products.

3.3. Lack of incentives and preferential mechanisms

Although the SBV and the Government have introduced some policies to support green credit, the incentive and preferential mechanisms are still not attractive enough. Banks have not received concrete benefits in terms of interest rates, taxes, or financial support when providing green credit. This makes green credit less attractive to banks and enterprises, thereby hindering its development in Vietnam.

3.4. Limited expertise and awareness

Many bank officers have not been formally trained in evaluating green projects, managing environmental risks, and applying ESG (Environmental, Social, Governance) standards. This leads to weaknesses in the appraisal and management of green loans, reducing the confidence of businesses and investors. In addition, awareness of the importance of green credit in sustainable development remains limited and has not been widely disseminated within the business community and the banking sector.

3.5. Lack of a unified data and reporting system on green credit

Finally, the lack of a unified data and reporting system on green credit is also an important legal gap. The collection, analysis, and reporting of information related to outstanding loans, project types, environmental impacts, and the economic efficiency of green credit among commercial banks and regulatory agencies have not been standardized. This results in difficulties in policy planning, assessing the current situation, and orienting the development of green credit in an effective, transparent, and sustainable manner.

From the above limitations and legal gaps, it can be seen that improving the legal framework for green credit in Vietnamese commercial banks is an urgent requirement, not only to ensure sustainable green credit development but also to create a transparent and consistent legal corridor that encourages banks and businesses to actively participate in green projects, thereby contributing to the sustainable socio-economic development of Vietnam.

4. SOLUTIONS TO IMPROVE THE LEGAL FRAMEWORK FOR GREEN CREDIT

To promote the sustainable and effective development of green credit in Vietnamese commercial banks, improving the legal framework is an urgent requirement. Based on the analysis of the current situation and existing limitations, several key solutions can be proposed as follows:

First, establish unified standards and definitions for green credit

Defining clear and transparent criteria for green projects is the foundation for commercial banks to assess risks, environmental impacts, and ensure transparency for customers, investors, and regulators. These standards should cover aspects such as project types, environmental objectives, compliance with environmental protection regulations, profitability, and project feasibility. A unified standard will not only facilitate banks in appraising and monitoring projects but also help investors and the public easily evaluate and compare the effectiveness of green projects.

Second, improve mechanisms for supervision and environmental risk management

Regulatory agencies should establish an independent system to monitor and evaluate green loans, including periodic inspections, transparent reporting, and mechanisms to verify the use of funds. At the same time, the State Bank of Vietnam can guide commercial banks to implement environmental risk management tools integrated into credit appraisal and loan portfolio management. This will not only improve the quality of green credit but also minimize risks for banks, businesses, and society.

Third, create incentive mechanisms to encourage commercial banks to engage more actively in green credit

Such mechanisms may include preferential interest rates, tax reductions, guarantees, or refinancing funds for green loans. In addition, policies should be developed to encourage commercial banks to create new green credit products, along with training programs to strengthen the capacity of bank officers in appraising, monitoring, and managing green projects. Appropriate incentives will provide strong motivation for banks to expand their green portfolios while attracting businesses and investors to sustainable projects.

Fourth, strengthen professional capacity and awareness of green credit

Banks need to train credit appraisal and management officers in ESG standards, environmental impact assessment skills, and green risk management tools. In addition, promoting awareness of the role and benefits of green credit for sustainable development will enhance understanding within the business community and society, fostering consensus and active participation in green projects.

Fifth, establish a unified data and reporting system

The State Bank of Vietnam and relevant agencies should set up mechanisms for collecting, consolidating, and reporting green credit information among commercial banks and regulators. This system should include data on outstanding loans, project types, environmental impacts, economic efficiency, and the implementation status of green loans. Transparent and standardized data will support policy planning, situation assessment, and monitoring of green credit development in an effective and sustainable way.

In summary, improving the legal framework for green credit in Vietnamese commercial banks needs to be carried out comprehensively across multiple dimensions: standards and definitions, supervisory mechanisms, incentives, professional capacity, and data systems. Once effectively implemented, these solutions will make green credit an important tool for promoting sustainable economic development, enhancing the competitiveness of banks, and contributing to environmental protection in Vietnam.

5. CONCLUSION

The development of green credit has emerged as a crucial driver for promoting sustainable growth, mitigating environmental risks, and achieving Vietnam's commitments to international agreements on climate change, particularly the Paris Agreement and COP26 targets. Vietnam's banking sector has made encouraging progress in promoting green credit, with outstanding loans for environmentally friendly projects showing a steady increase. This reflects both the awareness of commercial banks and the growing demand from enterprises for access to green financial resources. Nevertheless, the legal and regulatory framework for green credit remains incomplete, with challenges in defining green projects, ensuring transparency in environmental risk assessment, and aligning domestic standards with international practices. From a policy perspective, it is evident that the State Bank of Vietnam and relevant government agencies have played an important role in setting orientations and issuing guidelines on green credit. However, the effectiveness of these policies is constrained by limited enforcement mechanisms, a lack of specific incentives for banks, and insufficient coordination across ministries, sectors, and localities. Commercial banks themselves face difficulties in implementing green credit due to concerns about financial risks, longer payback periods of green projects, and the absence of a unified evaluation system. These shortcomings not only limit the expansion of green credit but also hinder the mobilization of private capital for sustainable development. In this context, improving the legal framework is both a pressing need and a long-term strategic requirement. A robust regulatory environment must ensure clarity, consistency, and transparency, while providing adequate incentives to encourage banks to prioritize green credit. At the same time, Vietnam should harmonize its domestic standards with international taxonomies and green finance principles, thereby creating a common language that fosters confidence among investors and financial institutions. Furthermore, strengthening monitoring mechanisms, enhancing capacity building for bank staff, and promoting cooperation between the banking sector and environmental management agencies will be essential steps. In conclusion, perfecting the legal framework for green credit in commercial banks not only contributes to achieving Vietnam's sustainable development goals but also enhances the competitiveness and resilience of the banking system in the face of global green finance trends. A well-designed and effectively implemented framework will serve as a foundation to expand green credit portfolios, mobilize both domestic and international resources, and support the transition toward a low-carbon, environmentally responsible economy.

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