

# Foreign Currency and Capital Controls In Vietnam: What Foreign Investors Need To Know

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For foreign investors considering Vietnam, managing capital flows and foreign currency transactions is a crucial but often overlooked aspect of doing business. Vietnam's monetary policies are designed to support economic stability while regulating how funds move into and out of the country. These controls affect everything from investment structuring and profit repatriation to daily business operations and loan arrangements.

Understanding these financial regulations is essential for avoiding compliance risks, ensuring smooth transactions, and optimizing investment efficiency. This article provides a practical overview of Vietnam's foreign exchange rules and capital controls, highlighting key considerations that every foreign investor should be aware of when operating in the country.

## 1. Foreign Currency and Managed Currency System

Unlike many developed countries where capital flows and foreign currency transfers are largely unrestricted, Vietnam imposes stricter controls to regulate cross-border transactions and maintain financial stability.

Vietnam maintains tighter controls to manage capital outflows, and preserve foreign exchange reserves. While foreign currency transfers are permitted, they require compliance with specific regulations, such as documentation for tax fulfillment, investment approval, and goods import contracts. This approach is designed to ensure economic stability and safeguard the country's financial system.

Additionally, Vietnam's foreign currency exchange rate system is tightly managed under the oversight of the State Bank of Vietnam (SBV). The country follows a "managed float" system, where the SBV sets a central exchange rate each day, based on a basket of major currencies, with the U.S. dollar (USD) playing a dominant role. The SBV permits the VND to fluctuate within a narrow band around the determined rate, adjusting it periodically to align with economic objectives such as controlling inflation and maintaining export competitiveness. For instance, the current spot rate between Vietnam dong (VND) and USD is +- 5% of the central rate disclosed by the State Bank of Vietnam applicable to the specific transaction day.

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## Key Considerations for Investors:

**Exchange Rate Fluctuations:** While the SBV manages volatility, businesses should monitor currency movements closely, as periodic adjustments may impact financial planning.

**Hedging Strategies:** To mitigate risks associated with currency fluctuations, investors should consider financial instruments such as forward contracts or currency swaps.

**Understanding Regulatory Requirements:** Ensure compliance with tax documentation, investment approvals, and other regulations when seeking to transfer foreign currency abroad to avoid delays or complications.

**Impact on Trade & Investment:** A managed exchange rate supports Vietnam's export-driven economy, but businesses engaged in cross-border trade should stay informed on policy shifts that may influence pricing and competitiveness.

## 2. Free Flow of Foreign Exchange for Current Transactions

Vietnam's more liberal stance on foreign exchange for "current" transactions - including imports, exports, and service payments - presents a relatively seamless pathway for international business. Residents can acquire foreign currencies through licensed credit institutions for legitimate business purposes, while exporters have the flexibility to manage their foreign currency earnings within the country by transferring their foreign currency earnings into accounts held at licensed banks in Vietnam. However, holding foreign currency abroad for Vietnamese entities requires permission from the SBV, adding an extra layer of regulatory oversight.

### Key Considerations:

**Optimize Foreign Currency Management:** Utilize licensed banks for all foreign exchange transactions to ensure regulatory compliance. Plan for Cross-Border Holdings: Holding foreign currency abroad requires SBV approval - plan accordingly to streamline international operations.

**Ensure Liquidity & Compliance:** While current transactions enjoy flexibility, businesses must stay updated on foreign exchange regulations to navigate international payments efficiently.

**Payment documentation:** Ensure that all required documentation is in place, such as the import contracts, invoices for trading activities or tax fulfillment, audited financial statements for dividend repatriation or valid contracts and invoices for service payments to foreign entities. These documents are to be available for review by the bank to facilitate payment settlement.

**Anti-Money Laundering (AML) Regulations:** Vietnam has recently put stringent AML regulations in place, requiring investors to ensure their transactions are transparent and fully compliant. Adhering to these regulations is essential to avoid potential issues with authorities and ensure the legitimacy of cross-border payments.

### Restrictions and Compliance

While Vietnam's foreign exchange environment is liberalized for daily transactions, specific restrictions remain in place:

**Prohibited Transactions:** Conducting foreign currency transactions via postal services is prohibited.

**Domestic Transactions:** Payments, pricing, or contracts in foreign currencies within Vietnam is generally restricted unless explicitly authorized by the SBV.

## 3. Capital Controls

Vietnam's capital controls take a more structured approach than the liberalized capital flows of many western counterparts. Designed to manage cross-border capital flows and safeguard economic stability, Vietnam seeks to provide transparent pathways for lawful transactions, based upon providing both stability and investor confidence while safeguarding the country from potential volatility.

### a) Establishing Investment Accounts

To streamline investment transactions, Foreign Direct Investment (FDI) enterprises and foreign indirect investors are required open investment "capital accounts" at licensed credit institutions in Vietnam. These accounts act as the official channel for capital contributions, profit repatriation, and other lawful financial activities across borders.

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## b) Utilization and Repatriation of Lawful Revenues

Profit repatriation is straightforward when investors comply with regulatory requirements. Key documents include:

- Tax compliance records
- Audited financial reports
- Investment registration proof
- Bank-specific procedural documents

By ensuring proactive tax compliance and aligning with bank processes, investors can avoid delays and optimize fund transfers. Whether reinvesting locally or transferring funds abroad, all transactions are required to be processed through the relevant capital account at the licensed financial institution, ensuring compliance and financial transparency.

### **Strategic Tips**

- Ensure Thorough Documentation: Accurate tax and legal records are essential for hassle-free profit repatriation.
- Compliance with SBV Guidelines: All capital transactions must align with legal regulations and the SBV's directives.

## c) Borrowing and Repaying Foreign Loans (Non-Government Guaranteed)

Vietnamese enterprises can borrow and repay foreign loans under the principle of self-borrowing and self-repayment, provided they comply with regulatory requirements. Key steps include:


### **Investor Checklist:**


- Loan Registration: Medium and long-term foreign loans (ie, those of 12 months duration or longer) must be registered with the SBV before disbursing, while short-term loans can be remitted without registration.
- Account Management: Borrowers must open and manage accounts with licensed financial institutions for loan disbursement and repayment. Direct investment capital accounts can also be used for foreign loans.
- Reporting Requirements: Regular reporting on loan implementation is mandatory.


Vietnam's managed currency system offers a functional combination of stability and growth, creating a unique environment for investors to work within. By understanding the nuances of the currency system and tapping into its potential, investors can position themselves for long-term success in this rapidly evolving economy. The key is to understand requirements and plan accordingly, minimizing risks and taking full advantage of the investment returns that are available in Vietnam.


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