

# Bond Market Development in Vietnam

Nguyen Hoang Duong  
Deputy Director  
Banking and Financial Institutions Department  
Ministry of Finance of Vietnam

# Content

- Overview of Bond market: Performance and Obstacles
- Current approaches to overcome obstacles
- Future prospects

# Overview of Bond market: Types of bond

## ■ Government bonds

- Issued by State Treasury
- Issued by Vietnam Development Bank (VDB)

## ■ Municipal bonds

- Currently issued by 3 local governments:  
Hanoi, Ho Chi Minh City, Dong Nai

## ■ Corporate bonds

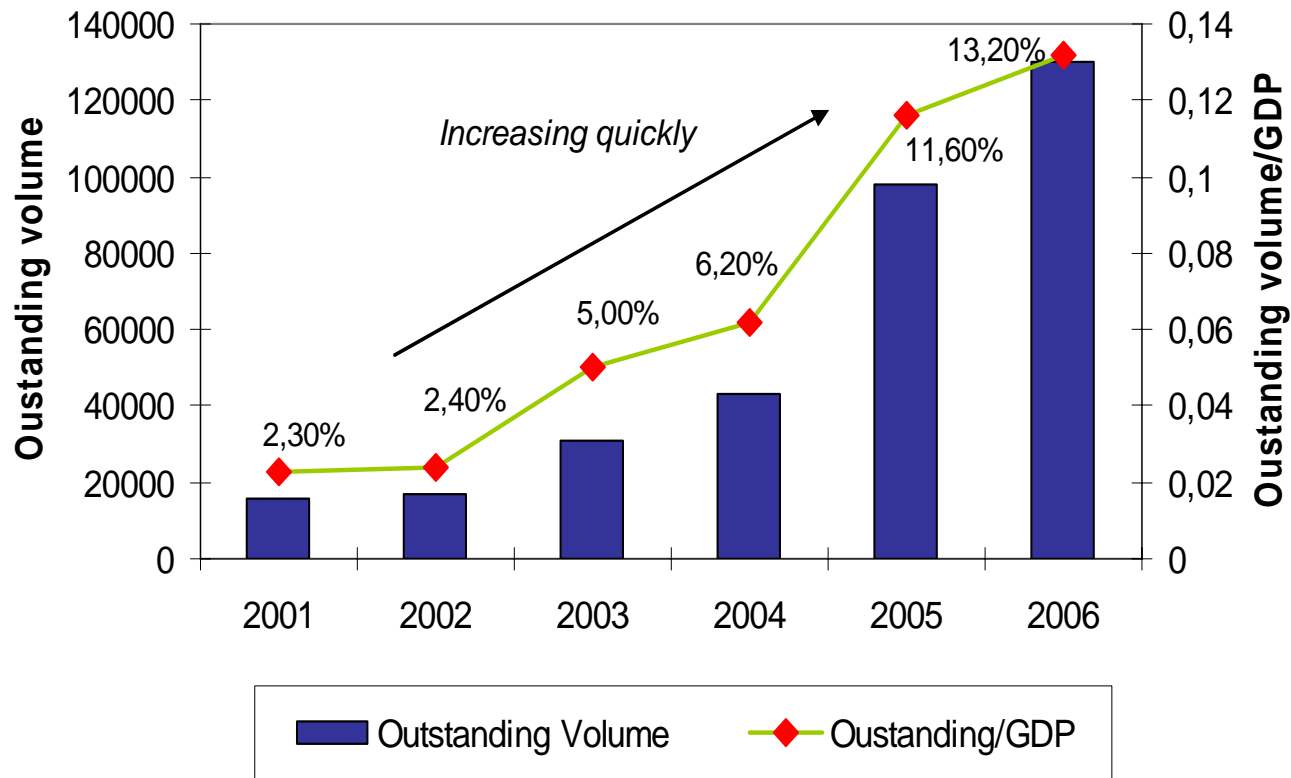
# Overview of Bond market: Total bond outstanding

Total bond outstanding (up to 31/12/2006)

No.	Issuer	Outstanding
1	State Treasury	90,000 billion VND
2	Vietnam Development Bank	25,200 billion VND
3	Municipalities	9,600 billion VND
4	Corporates	9,700 billion VND

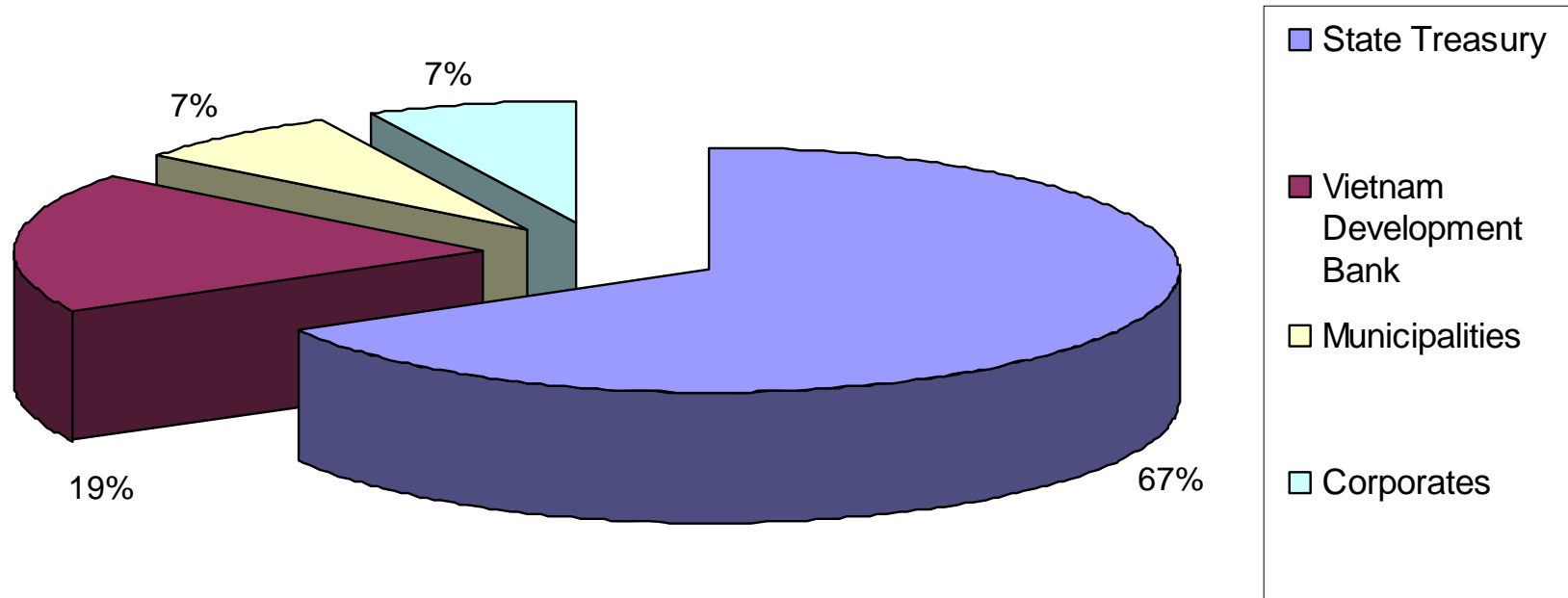
# Overview of Bond market: Total bond outstanding

Outstanding volume 2001 - 2006



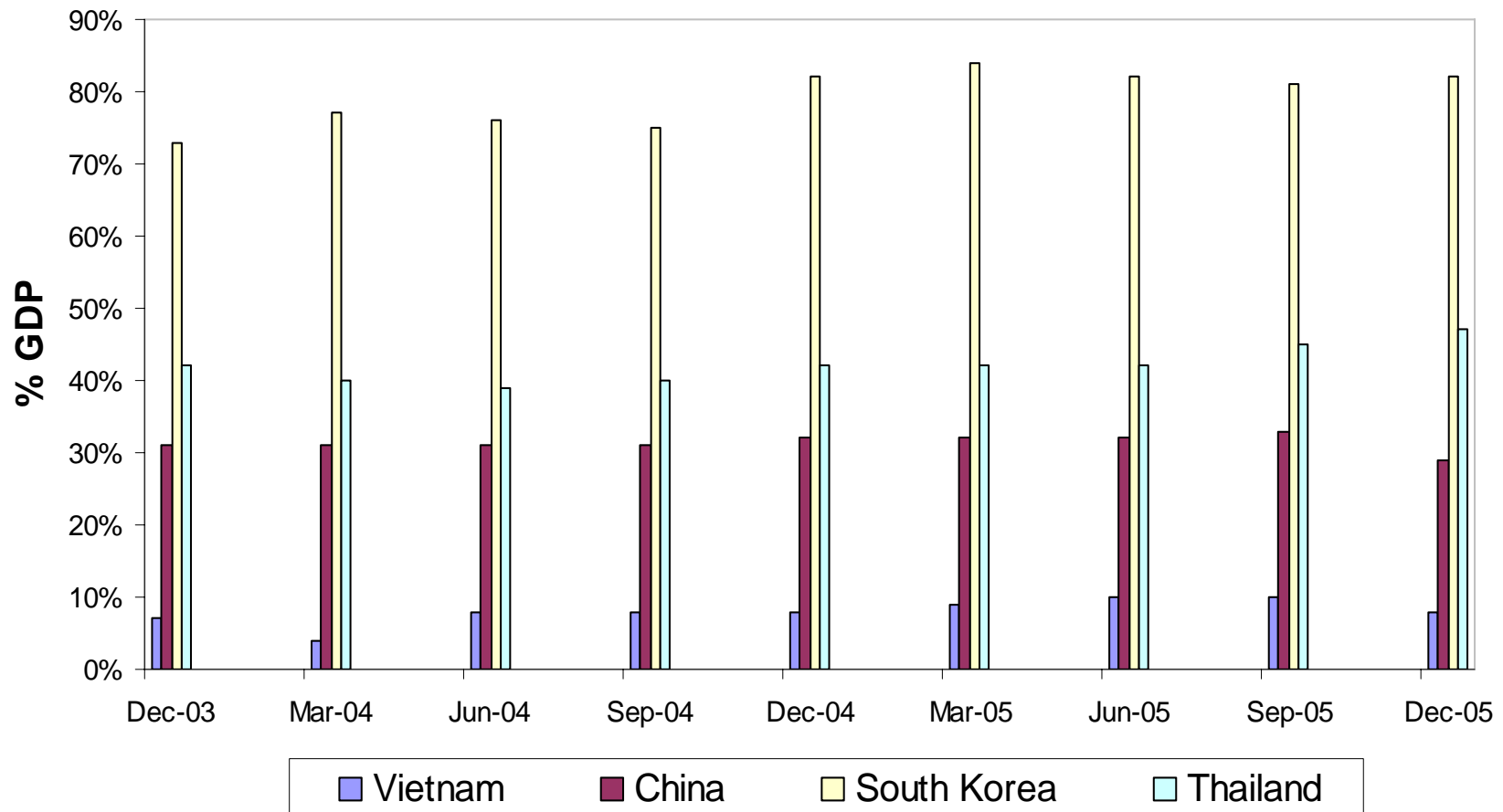
# Overview of Bond market: Total bond outstanding

Proportions of different types of bond



# Overview of Bond market: Total bond outstanding / GDP

Local currency bond market (as %GDP) - selected Asian countries



# Overview of Bond market: Institutional Infrastructure (1)

## ■ Legal and Regulatory Environment

- No single comprehensive law for bond market, each aspect of the market is subject to a wide range of Decrees and Regulation

## ■ Taxation

- VAT: exempted
- Income tax: Individual: exempted; Institution: 28%

## ■ Accounting Practices

- Vietnamese Accounting Standards (VAS) have been introduced (26 Accounting Standards in five series)
- Two international standards have not yet been included in VAS: IAS 32 and IAS 39
- Not clear guidelines in respect of enforcement and monitoring

# Overview of Bond market: Institutional Infrastructure (2)

## ■ Risk Management

- Enterprises have only recently been required to prepare audited financial statement.
- Financial exposure are not being measure or reflected in accounts since IAS 32 and 39 have not been adopted.
- Risk management practices are steadily improving amongst the domestics banks.

## ■ Clearing & Settlement

- Depository, clearing and settlement at Vietnam Securities Depository (VSD)

# Overview of Bond market: Government bonds and municipal bonds market (1)

## ■ Primary Market

- Regulated by Decree 141/2003/ND-CP, Circular 29/2004/TT-BTC, Decision 46/2006/QD-CP
- Issued by:
  - State Treasury
  - Vietnam Development Bank
  - T-bills are auctioned via State Bank of Vietnam
- Issuance modes: majority via auctioning and underwriting (29 qualified underwriters incl. 4 foreign underwriters), decreasing issuances via retailing and agents
- Terms: Bill: 365 days, Bonds: 2, 3, 5, 7, 10, 15 year with the majority in 5 year term (73.6% of total outstanding volumes)
- Interest rate: ceiling rate applied
- Municipal bonds: have been issued by Ho Chi Minh City, Ha Noi and Binh Duong

# Overview of Bond market: Government bonds and municipal bonds market (2)

## ■ Secondary market

- Not yet developed
- Investors have tendency to “BUY” and “HOLD”:
  - Banks: Largest investors and dominant in 5-year-bond
  - Insurance Companies: investors in longer-term bonds
- Secondary trading are carried out via STCs: listed on HOSTC and HaSTC
- Low turnover
- Lack of financial intermediaries playing roles of market maker

# Obstacles

- Small size (about 13% GDP).
- Small volume but too many issuances (more than 400 types of bond issued and listed on STCs), hence affect secondary trading and liquidity
- Ceiling interest rates are not reflecting the true demand/supply relation of the market
- Government bond interest rates yet to be benchmark rates
- Issuing plan/issuance schedules and disclosure are limited.
- Lack of Primary Dealers system and Market Makers System to promote the primary and secondary market
- Narrow investor base
- OTC market for bond issuing and trading not yet established

# Overview of Bond market: Corporate Bonds Market (1)

## ■ Primary market:

- Regulated by Decree 52/2006/ND-CP for private issuance, Securities Law and Decree 144/2003/ND-CP for public offering
- Issued by:
  - Limited companies
  - Joint stock companies
  - State owned companies in transition

## ■ Issuance mode:

- Private placement: through Auction, underwriting, agent
- Public offering: none corporates have issued via this approach due to the more thorough and complicated requirements for public offering

# Overview of Bond market: Corporate Bonds Market (2)

- Issuers: Mainly big SOEs
  - I.e: Vinashin, EVN, Lilama, Song Da Corp...
  - Bond issued on the principles of self-responsibility
- Underwriters:
  - Banks and other financial institutions: local securities companies
  - Also foreign bank: HSBC, Deutsche Bank, ANZ...

# Overview of Bond market: Corporate Bonds Market (3)

## Total Bond Outstanding up to 2/2007

	Total		%
	(VND Billion)	USD million	
<b>Vinashin</b>	1300	81,25	16,13%
<b>Song Da Corporation</b>	260	16,25	3,23%
<b>Electronic Vietnam</b>	6000	375	74,44%
<b>Lilama</b>	500	31,25	6,20%

# Overview of Bond market: Corporate Bonds Market (4)

## ■ Secondary market:

- Underwriters for corporate bonds are active in selling bonds to wide range of investors, both local and foreign investors.
- However, bonds trading on secondary market is still limited. The reasons are:
  - Bond issuances are not standard in terms of sizes and characteristics due to the specific features of each corporate
  - Corporate bonds are not listed on STCs
  - Not having a Credit rating Agency to rate bonds

# Obstacles

- Small sizes (only 7% of total outstanding of bonds market)
- Few issuers (4 up to 02/2007)
- Weak corporate governance
- Issuing plan and disclosure are limited
- Secondary market trading is limited
- Not having a Credit rating Agency: difficult for companies to mobilize funds internationally and domestically due to the low ratings of Vietnam

# Approaches to overcome obstacles (1)

- Increase bonds portion in GDP, meet investment demand
- Increase monitoring to ensure safe and efficient market.
- Regional in international integration (ASEAN, Asia bond market...).

# Approaches to overcome obstacles (2)

## ■ Consolidate legal and regulation framework for bond market development:

- Introducing new financial services: Private pension funds, bond issuances of corporates to oversea market, CRAs, Primary Dealers System...
- Review regulations on tax regime, fee structure, Forex...
- Applying Accounting Standards which gradually complied with international standards (IAS 32, IAS 39)

# Approaches to overcome obstacles (3)

## ■ Introduce more new products to the market:

- Increase the bond issuance volumes: increasing issuing government bonds through auctioning and underwriting (less by retailing), Government bond trading on STC is projected to reach 80% of total Government bond issuance (in 2005, the rate is 54%)
- Increase the quality of bonds: strengthen corporate governance (especially SOEs after equitization), enhance transparency and information reporting
- Enhance issuance techniques: issue bonds in big lots to standardize bonds and increase the liquidity
- Introduce framework for issuance of asset-backed securities

# Approaches to overcome obstacles (4)

- Establishing the Benchmark yield curve
  - Step-by-step move up to flexible and market based interest rates management (phase out administered ceiling rate)
  - Stabilize the frequency and volumes of government bond issuances
  - Promote and maintain government bond trading on secondary market by Primary Dealers
  - Adopt full information disclosure system
  - Corporate bond interest rate will base on the rate of Government bonds as a benchmark

# Approaches to overcome obstacles (5)

- Setting up a Primary Dealers System for Government bond:
  - Frequently attend the auctions for Government bonds
  - Commit to buy a minimum volumes of bonds to distribute to investors
  - Apply two-way-quotation for bonds to ensure secondary market trading
  - Provide information for investors

# Approaches to overcome obstacles (6)

- Establish a specific Exchange market for bonds trading:
  - Hanoi Stock Exchange Market (HaSTC)
  - All bonds will only be listed on HaSTC (from 06/2006) not on Ho Chi Minh Stock Exchange Market (HoSTC) as before
  
- Review SSC approval process for bond public offering:
  - to encourage corporates to issue bond to the public and list the bonds on the STC

# Approaches to overcome obstacles (7)

- Establish an independent Domestic Credit Rating Agency:
  - Possibly in form of joint-venture companies incorporated in Vietnam
  - Shareholders could be various financial institutions from banks, credit institutions, corporates, WB, ADB, and international CRAs like Moodys, S&P, R&I...
  
- Establish a self regulatory organization for bonds
  - Like Vietnam Banking Associations, VCCI
  - To facilitate the trading, information sharing and the operation of bond market

# Future Prospects

- A developed Government bond market is a basis for the development of corporate bond market
- Issuing series of standardized Government bonds to be a benchmark for the market will be a top priority
- Corporate bond will be an important direct financing channel
- Lift up the pressure on bank credit