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Vietnam's Bond Market: How It Is Now

Ayako Akiyama, Economist
Institute for International Monetary Affairs

Among the bond markets of ASEAN's four least less-developed countries, Vietnam has a more advanced market than the other three (Cambodia, Lao PDR, Myanmar) [1]. However, to be able to secure the fund for infrastructure improvement and to prepare for the expected decrease in the inflow of overseas development assistance funds, the country needs to facilitate a steady growth of the government bond market.

1. The evolution of the market

Vietnam began to foster a securities market in the first half of the 1990s as part of its efforts toward a market economy that started in the latter half of 1980s (Chart 1). The evolution included the establishment of a State Securities Commission (SSC) in 1996, opening of Ho Chi Ming Stock Exchange (HOSE) in 2000 and Hanoi Stock Exchange (HNX) in 2005, start of Vietnamese Securities Depository (VSD) in 2006 and Vietnam Bond Market Forum (current Vietnam Bond Market Association, VBMA) in 2006, enactment of Law on Securities in 2007, and introduction of transaction system of government bonds at the HNX in 2009. A derivative market is to be opened in the near future.

Chart 1 Fostering bond market in Vietnam

1993	・Capital Market Development Committee is established.
1994	・Regulations on the issue of Government bonds is promugulated.
1995	・Board for the Preparation of the Securities Market is established.
1996	・State Securities Commission is established as an independent government agency (in charge of surveillance and regulation of securities market and polity making).
2000	・Ho Chi Ming Stock Exchange (HOSE) is established (originally Ho Chi Minh City Securities Trading Center).
2004	・SSC comes under the jurisdiction of Ministry of Finance. ・Vietnam Association of Securities Business (VASB) starts is activity.
2005	・The first sovereign bond is issued (then followed in 2010 and 2014) ・Enterprise law takes effect, authorizing the corporate bonds with conditions. ・Hanoi Stock Exchange is established (originally Hanoi Securities Trading Center). ・Vietnam's first rating agency, Vietnamnet Credit Ratings Centre is opened, but discontinued its operation in less than a year.

[1] Refer to the Eyes of IIMA, No 56, "Fostering the bond markets in CLM (Cambodia, Lao PDR, and Myanmar)", 2016

2006	・Issue of convertible bonds (CB) starts. ・Vietnam Securities Depository (VSD) is established. ・Vietnam Bond Market Forum (VNBF) is established (moving up to Vietnam Bond Market Association (VBMA) in 2009).
2007	・Law on Securities takes effect (amended in 2010, with rules and regulations enacted in 2012 and 2015).
2009	・Government bond trading system starts to operate at HNX.
2012	・Electronic bidding system on government bonds starts to operate at HNX.
2013	・Ministry of Finance announces its intention to expand the bond market to 38% of GDP by 2020.
2015	・Government bond index starts to be published at HNX (for composite, 2 years term, 3 years term, and 5 years term)

(Source) Asia Bonds Online、HNX、VSD、Min/ Walker (2009)、Thein (2010)、ADB (2015)

2. Current status and Challenges

The Vietnam's bond outstanding accounted for only less than 1% of GDP at the start of the 2000s, but expanded to more than 20% in 2014 and after[2]. As Chart 2 shows, main contributor to the expansion was an increase of the government bond issues. As of end-June 2016, the outstanding consisted of 74% for government bonds, 21% for government guaranteed bonds, 1% for central bank bonds and 4% for corporate bonds, with the share of government bonds doubling from the end of 2009.

In recent years, the government has been increasing the number and the kinds of issues of super long bonds in an effort to stabilize the government bond market, trying as well to take in the investors of insurance and pension funds[3]. On the other hand, it has decreased the issuance of bonds with shorter maturities. As a result, the share of government bonds by maturity was accounted for by 40% for less than 3 years, 10% for over 3 years to less than 5 years, 10% for over 5 years to less than 10 years, and 10% for longer than 10 years. As compared to the end of 2013, the share of less than 3 years decreased 30% while that of longer than 10 years increased 10% (Chart 3). The average maturity of government bonds increased from 2.8 years at the end of 2013 to 5 years at the end of June 2016[4].

However, about 80% of bonds are still held by banks which prefer government bonds with shorter maturities, and it is expected that the government's efforts to solicit the investors of insurance and pension funds to expand their share and also thereby lengthen the maturities of government bonds will continue. The Vietnam's Finance Minister Dinh Tien Dung has told in an interview[5] that the banks' share will decrease to around 50% if all the government's borrowing from the Vietnam Social Security (VSS) are turned to bonds, and insurance companies and insurance/pension funds join the government bond market by applying incentive policies, thus showing the government willingness to diversify its investor base.

[2] Hereinafter, based on the data of Asia Bonds Online unless indicated otherwise.

[3] As part of this effort, 20 year bonds and 30 year bonds were added in 2015 and 2016, respectively, to the super long government bond series which until then had been monopolized by 15 year bonds. G-bond issuing plan for 2016 estimates the share of super long bonds at 20% (see reference chart)

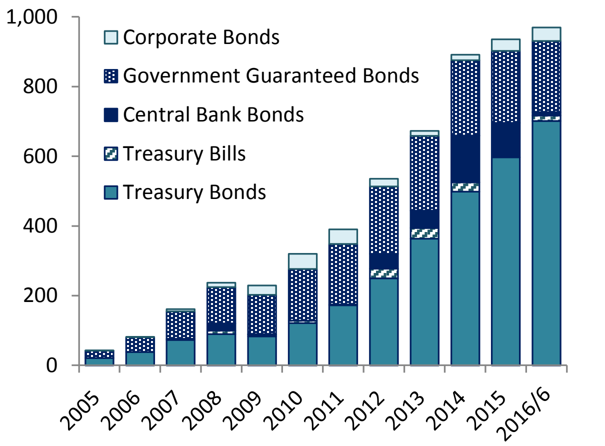
[4] Based on an interview article of Vietnam Investment Review with Finance Minister Dinh Tien Dung (August 3, 2016) (http://www.vir.com.vn/government-bonds-profit-from-surge-in-interest.html).

[5] ditto

The secondary market of Vietnam is still small in size with the combined trading volume of outright and repo transactions remaining at 10-20% of bond outstanding[6]. Although the primary dealer system has been introduced and benchmark government bond index began to be published by HNX in 2015, the market needs further improvement of market infrastructures.

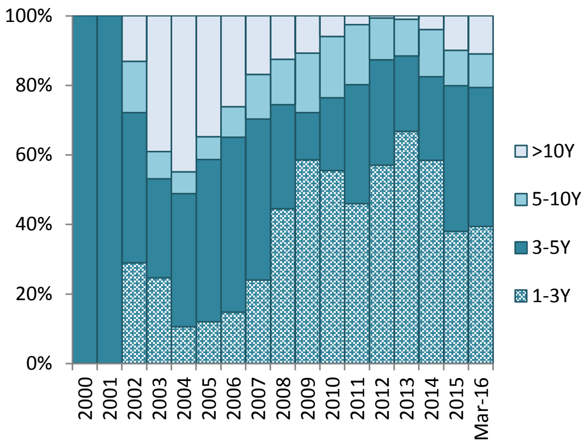
Corporate bond market is yet at an early stage of development. The number of issues remained at 19 at end-June 2016, with most of them placed privately. There exists no professional rating agency. However, it is reported that the Ministry of Finance is currently in a preparation to launch development promotion policies for the corporate bond market, therefore there is a possibility that some new movements will be seen in the market next year.

Chart 2. Bonds Outstanding (as of year-end, trillion VND)



(Source) Asia Bonds Online

Chart 3. Government Bond Outstanding Share by Maturity (as of year-end)



(Source) Asia Bonds Online

Reference Chart: Treasury Bond Issuance Plan

Schedule for 2016 (as of Sep.2016)

Term	Trillion VND	Share
3Y	25	9%
5Y	157	56%
7Y	30	11%
10Y	9	3%
15Y	35	12%
20Y	5	2%
30Y	20	7%
Total	281	100%

*Schedule for 2014 (as of Nov.2014)

Term	Trillion VND	Share
1Y	26	10%
2Y	34	13%
3Y	61	23%
5Y	80	31%
10Y	41	16%
15Y	20	8%
Total	262	100%

(Source) VBMA

[6] Estimated from the data of VBMA and VP Bank Securities.