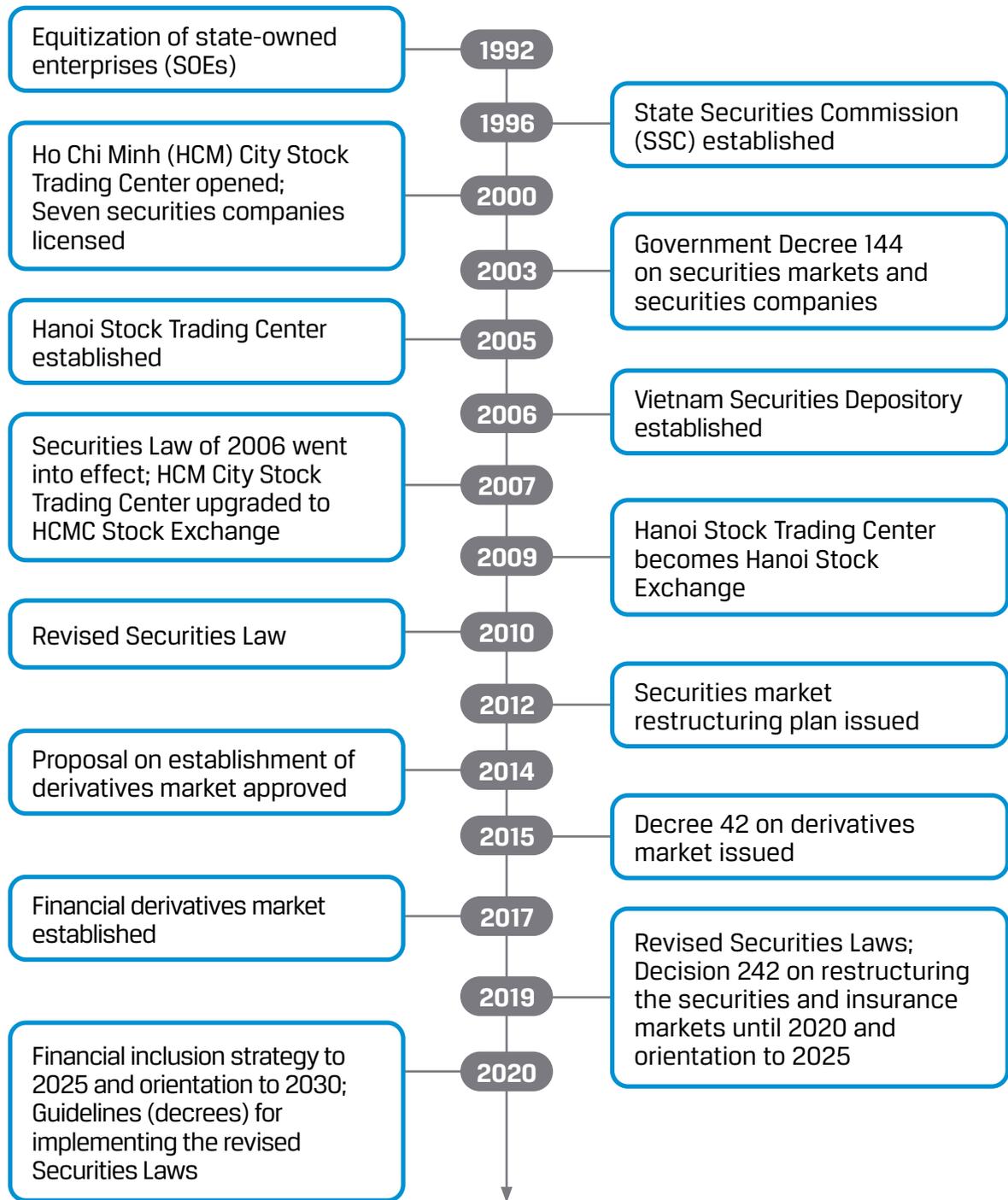


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Luc Can
Chief Economist of BIDV

Dung Nguyen
Head of Finance & Banking Research, BIDV Training and Research Institute (BTRI)

Equity Market Capitalization (USD)	188.97 Bn	51.26 Bn	Debt Market Capitalization (USD)
Equity Market Cap/GDP	73%	11%	Domestic Debt Market Cap/GDP
Equity Market Share Volume Traded	140 Mn	—	Debt Market Instrument Volume Traded
Number of Listed Companies	1,659	211	Number of Issuers (Bonds)

Note: All data as of 31 December 2019

Vietnam's capital markets have grown strongly over the past 20 years. Products and services are increasingly diversified to meet the growing needs of investors and other participants. Moreover, market institutions are more and more professional, providing a safe and sustainable business environment for participants.

Vietnam's financial markets consist of three subsectors: banking, securities, and insurance. As shown in **Figure 1**, the securities sector currently accounts for 32% of total financial assets, credit institutions 67%, and insurance premiums approximately 1%, indicating that Vietnam is still a bank-based economy. However, the capital markets are growing rapidly.

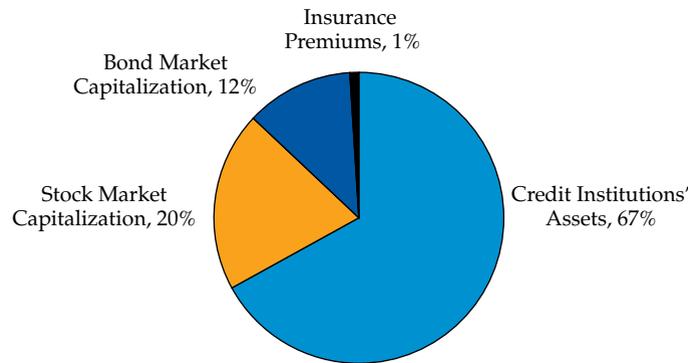
Vietnam's financial markets are functionally regulated and supervised by the State Bank of Vietnam (SBV) and the Ministry of

Finance (MOF). More specifically, as **Figure 2** illustrates, Vietnam is adopting a sectoral supervisory framework, in which credit institutions are regulated by the SBV, whereas the securities market is regulated by the State Securities Commission (SSC) and the insurance market by the Insurance Supervisory Department, both under the MOF. The National Financial Supervisory Commission coordinates the supervisory work and provides advice to the government in supervising the financial system.

OVERVIEW OF VIETNAM'S CAPITAL MARKETS

The starting point for formatting capital markets in Vietnam was the establishment of the SSC on 28 November 1996. Approximately four years later, on 28 July 2000, Vietnam's stock

FIGURE 1. STRUCTURE OF VIETNAM'S FINANCIAL SYSTEM (% OF TOTAL ASSETS), JUNE 2020

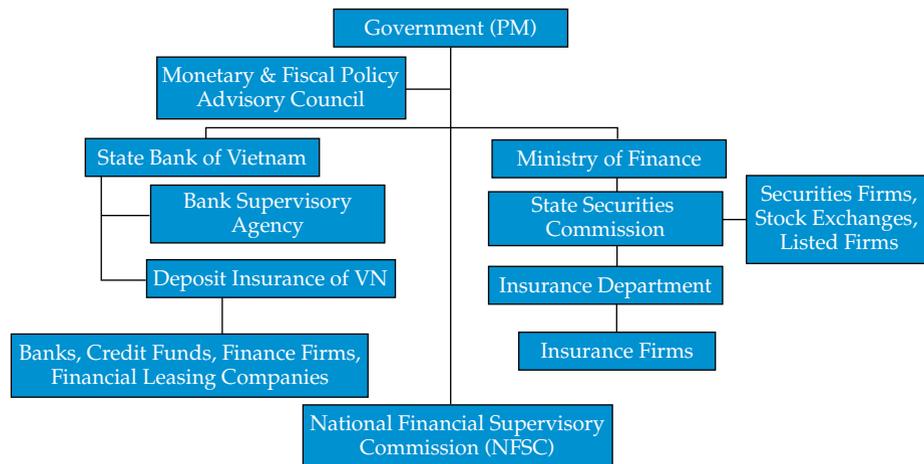


Source: Estimation of BIDV Training and Research Institute (BTRI).

market officially came into operation with the establishment of the Ho Chi Minh (HCM) City Stock Trading Center. Following that, the Hanoi Stock Trading Center opened in 2005. Both centers were then upgraded to exchanges in 2007 and 2009, respectively. The Unlisted Public Companies Market (UPCoM) was founded in 2009 and the financial derivatives market in 2017.

Vietnam's capital markets have achieved robust growth over the past few years. The country's overall market size jumped from less than 40% of GDP in 2011 to 104% of GDP as of June 2020. Despite this rapid expansion, Vietnam's stock market is still much smaller than those in other Asian economies. Notably, the bond market in Vietnam is dominated by government bonds

FIGURE 2. REGULATORY AND SUPERVISORY STRUCTURE OF VIETNAM'S FINANCIAL SYSTEM



Source: BTRI.

because the corporate bond market is still underdeveloped.

Given the relatively short history of the capital markets, long-term financial products are quite limited. However, the government has been pushing the restructuring of the financial sector.

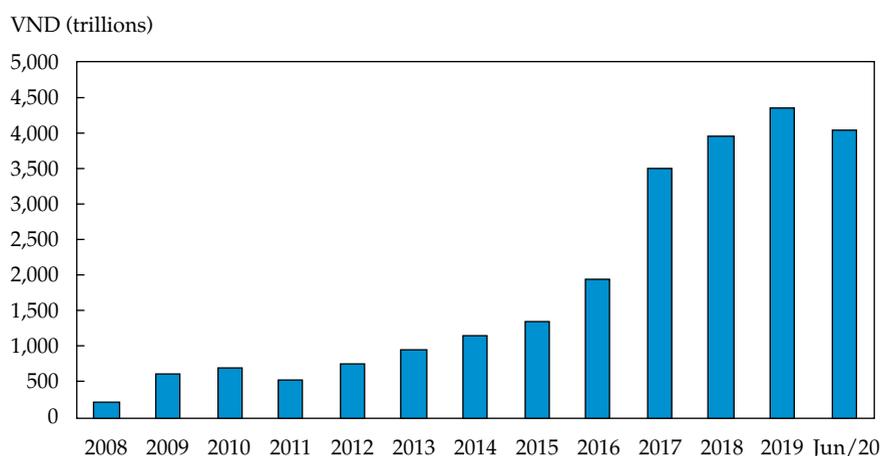
THE STOCK MARKET

The stock market in Vietnam is quite young, with the HCM City Stock Trading Center established just 21 years ago in 2000 before being upgraded to a stock exchange in 2007. However, it took Vietnam approximately 10 years of preparation, starting with the equitization of state-owned enterprises (SOEs) in 1992 and followed by the establishment of the SSC in 1996. The Hanoi Stock Trading Center opened in 2005 and was upgraded to a stock exchange in 2009. The securities law was passed in 2006, then revised twice, in 2010 and in 2019. Notably, the financial derivatives market was launched in 2017 to help diversify various stock markets in Vietnam.

In 2019, in the context of the country's economic restructuring, Decision 242 on restructuring the securities and insurance markets was issued. As a result, the stock market's institutional and legal frameworks have been gradually established.

In the initial stage (2000–2005), Vietnam's stock market capitalization was only approximately 1% of GDP. After the 2008–09 global financial crisis, and motivated by Vietnam's participation in the World Trade Organization, the stock market started booming and attracting a large number of foreign investors. The stock market capitalization to GDP increased rapidly from 12.4% in 2008 to 72.6% in 2019 (according to the SSC). As of 30 June 2020, the capitalization of the stock market reached nearly VND4,000 trillion (see **Figure 3**), equivalent to approximately 65% of GDP. The stock market has played an important role in mobilizing medium-to-long-term capital for economic development. Since 2012, the volume of capital mobilized via the stock market has increased significantly,

FIGURE 3. VIETNAM'S STOCK MARKET CAPITALIZATION (2008–2020; VND TRILLION)



Source: SSC.

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with an average growth rate of approximately 30% per year, doubling the growth rate of capital supplied by the credit institution system. By the end of 2019, the amount of capital mobilized through the stock market had reached approximately VND300 trillion (approximately USD13 billion).

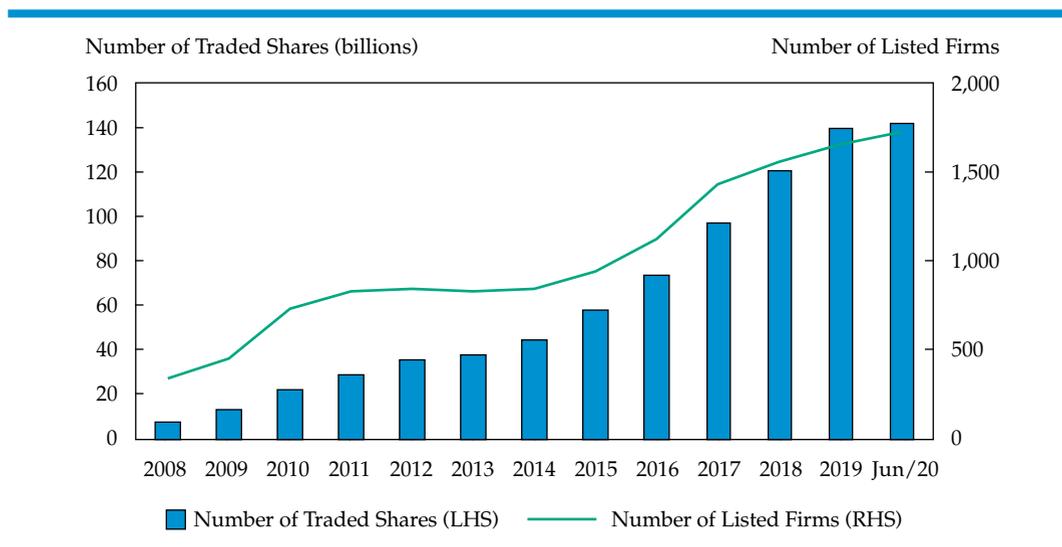
Despite such a high growth rate, the relative size of Vietnam's stock market (72.6% of GDP in 2019) is still much smaller than that of other economies; for example, that of ASEAN-5 was 104.56%, the world average was 93%, and those of the more developed economies of Japan and Korea were 121.8% and 87.3%, respectively.

The first trading session on the HCM City Stock Trading Center took place on 28 July 2000 with only two tickers, REE and SAM, and a total capitalization of VND270 billion. By the end of 2000, only five companies were listed, with a total of 32.1 million shares. At the end of 2005, 41 companies were listed, of which 32 were on

the HCM City Stock Trading Center and the others on the Hanoi Stock Trading Center. Since 2006, the SOE equitization wave associated with listing on the stock market began to thrive. As of 30 June 2020, Vietnam's stock market had 1,723 stocks and fund certificates listed or registered for trading, including 737 stocks and fund certificates listed on both stock exchanges and 903 registered for trading on the UPCoM. Not only is the number of listed stocks growing but also many new products are being introduced. Some examples are VN30 Index futures contracts, covered warrants (CWs), green bonds, and green stocks (in an experimental stage).

The total number of stocks listed or registered for trading in 2001 was 52,000, which grew to 142 million in June 2020 (see **Figure 4**)—an increase of 2,715 times. Even though product quantity has increased rapidly, product quality and diversification need further improvement. Among the 1,723 stocks and fund certificates listed on the market are some inefficient small

FIGURE 4. NUMBER OF TRADED SHARES AND LISTED FIRMS ON VIETNAM'S STOCK MARKET (2008-2020)



Source: SSC.

businesses with low corporate governance capacity. Some products, such as investment fund certificates, hedging instruments, options contracts, and capital preservation investments, have not been provided.

The legal framework for market operations has been established in accordance with the practical contexts, international experiences, and practices, helping the stock market develop more stably. In August 2019, the International Finance Corporation and the SSC issued a set of 10 corporate governance principles in accordance with the best practices for publicly listed companies in Vietnam. Listed companies, especially SOEs after equitization, will receive an annual corporate governance rating according to those principles.

The number of investors participating in the market has rapidly increased. In 2000, there were approximately 3,000 investment accounts, more than 99% of which belonged to individual investors. By June 2020, the number of investment accounts was 2.54 million, 820 times higher than in 2000, of which 16,000 accounts belonged to institutional investors.

The securities assets of domestic investors account for a small proportion of the stock market. In 2015, to attract foreign capital to the market, the Vietnamese government issued Decree No. 60/2015/ND-CP, then Circular No.123/2015/TT-BTC, regulating foreign investment activities in the securities markets. Accordingly, foreign ownership in Vietnamese publicly listed companies has accelerated to meet international integration commitments and practices. As a result, the number of foreign investors has grown by 15% per year since 2015, higher than the 10% growth rate of investment accounts in the stock market. By the end of June 2020, the number of foreign investment accounts reached 33,000, accounting for

1.3% of the total number of investors on the stock market.

Information technology (IT) and databases have developed significantly. From a primitive IT infrastructure system, Vietnam has built a relatively complete IT infrastructure, ensuring safety and security for its securities markets. Early warning systems have been built to help improve the regulation and supervision of the capital markets to protect investors. In particular, the information disclosure system for publicly listed companies to report and publish electronic information has gradually replaced the paper-based one. Moreover, IT systems used for supervising market institutions such as the securities company management database system are becoming increasingly important tools over time. Currently, all market members report and publish information on the SSC's web portal using an IT system.

THE BOND MARKET

The government bond market officially began operations in 2009, bringing all bidding activities and government bonds trading to the Hanoi Stock Exchange. Over the past 11 years, the legal system for the government bond market has improved significantly. Furthermore, the government has introduced several market mechanisms aimed at improving the functioning of the domestic bond market.

First, the Vietnam State Treasury (VST) has introduced regular auctions, with auction dates announced for the entire year. Tenor selection has become more predictable, but tenors are announced only shortly before the auction, constraining investors from planning well in advance.

Second, the benchmark issuance programs implemented by the VST should help reduce

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debt portfolio fragmentation. Since early 2019, the VST has increased the target size of the benchmark bonds issuance and successfully achieved targets for 10- and 15-year bonds. The targeted outstanding volume of the benchmark bonds, which is currently approximately USD500 million, is expected to increase in the coming years to improve market liquidity and support portfolio consolidation. As of 31 December 2019, the capitalization of government bonds reached approximately VND1,770 trillion, or 29% of GDP (see **Figure 5**), having increased since 31 December 2012 by 3.7 times and 2 times, respectively.

Before 2011, the government bond market only had products with tenors of less than one year up to 10 years. Now it has a full range, from short-term tenors to those of 20–30 years. As illustrated in **Figure 6**, government bonds with a maturity of five years or more account for approximately 70% of the total volume issued. In addition, one-lump-sum and flexible-interest payment bonds are available to meet investors' diverse needs.

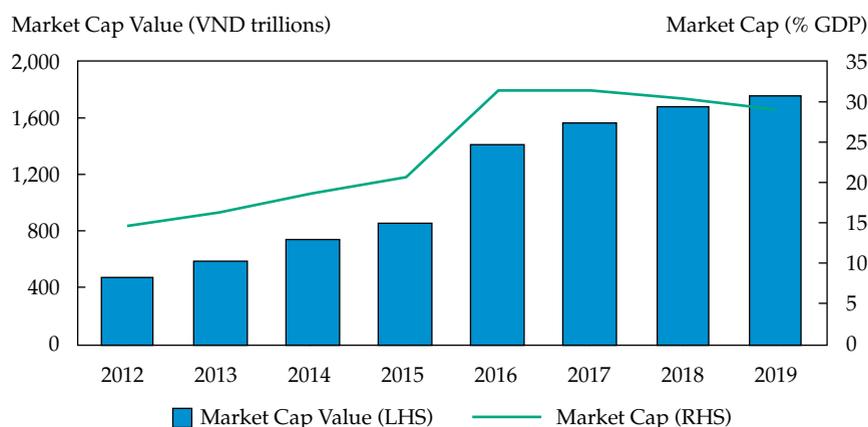
In July 2019, government bond futures were officially launched, providing investors with a tool to hedge risks and contributing to liquidity and market development.

The institutional investor structure has improved and become less concentrated, with decreased holding by commercial banks and increased holding and participation by other investors, as shown in **Table 1**. Specifically, the holding by commercial banks decreased from 84% in 2012 to 44% in 2019, while that by insurance companies and social security agencies increased from 2% and 12% in 2012 to 7% and 44% in 2019, respectively.

The government bond market liquidity has also improved, with the turnover ratio growing from 1 in 2013 to 1.2 in 2019.

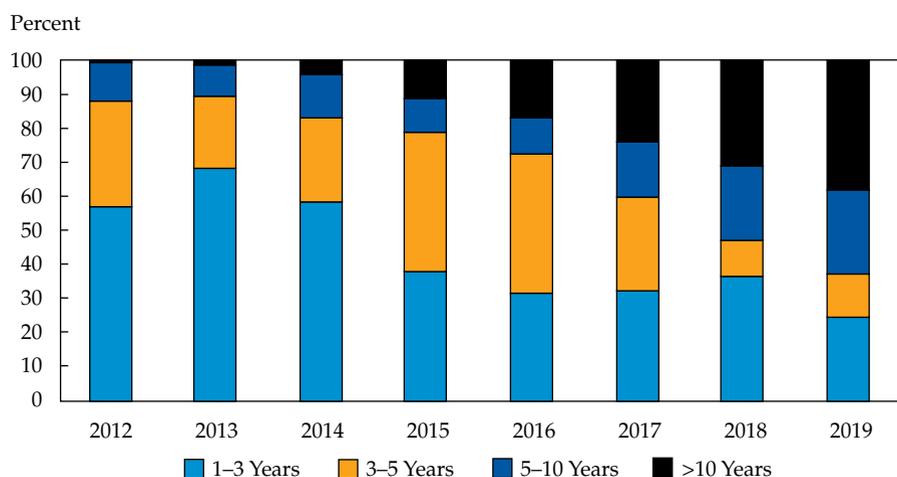
Because of the improved primary market and market size, secondary market liquidity has also increased, with an average trading volume of approximately VND10 trillion per day in 2019 compared to VND1.67 trillion in 2013 and VND6.28 trillion in 2016.

FIGURE 5. VIETNAM'S GOVERNMENT BOND MARKET (2012–2019)



Note: Government bond data collected and published since 2012.

Source: asianbondsonline.adb.org.

FIGURE 6. VIETNAM GOVERNMENT BONDS MATURITY PROFILE: LOCAL CURRENCY

Source: asianbondsonline.adb.org.

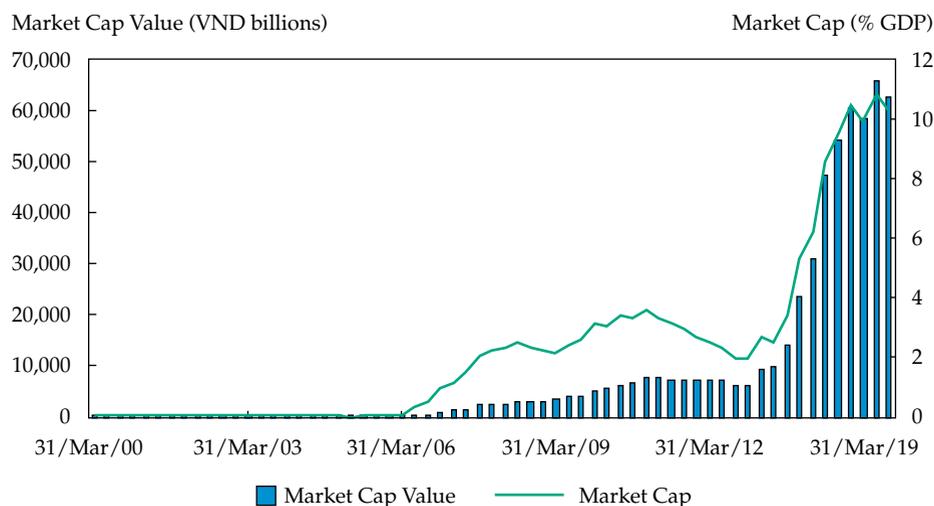
On the other hand, the corporate bond market, despite having commenced operation in 2000, has developed only recently, especially since 2015, and, as shown in **Figure 7**, has seen a boom since 2018, after the regulations on issuing corporate bonds were loosened (Decree No. 163/2018/ND-CP on 12 April 2018).

As of June 2020, the market capitalization was VND700 trillion, 11.4% of GDP, which was more than double the 4.1% of GDP seen in 2011. The total value of corporate bonds issued during 2018–2019 was VND570.35 trillion, a majority (94%) of which was through private placement, given the lighter regulations.

TABLE 1. INSTITUTIONAL INVESTORS IN VIETNAM GOVERNMENT BONDS (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020
Banks	84%	80%	80%	77%	56%	53%	48%	44%	45%
Insurance Companies	2	3	5	8	6	7	7	7	7
Social Security Fund	12	9	8	7	34	36	41	44	44
Deposit Insurance of VN	0	3	3	4	3	3	3	3	3
Securities Companies	0	0	0	0	0	0	0	0	0
Investment Funds	0	0	0	1	0	0	0	0	0
Offshore	1	1	1	0	1	1	1	1	1
Others	0	3	3	3	1	1	1	1	1

Source: asianbondsonline.adb.org.

FIGURE 7. SIZE OF VIETNAM'S CORPORATE BOND MARKET

Source: asianbondsonline.adb.org.

The term structure has also been broadened, ranging from one to 15 years. The most popular maturities are two, three, and five years; the average maturity of bonds issued in 2019 was 4.1 years. Most bonds pay coupons periodically, with floating rates based on the one-year deposit rate of state-owned commercial banks. However, since 2019, some companies have issued bonds with high coupon rates (12%–15% per annum) to attract private investors through private placements, raising concerns over risks for retail investors. As a result, Decree No. 81/2020/ND-CP, which was intended to make the corporate bond market more transparent and sound, was issued and became effective as of 1 September 2020. The secondary market for corporate bonds is still limited and not very liquid. Most primary investors buy and hold the bonds until maturity.

Starting in 2021, the bond market will be regulated by the revised Securities Law 2019 and Corporate Law 2020 (both going into effect on 1 January). The market will be more professional to match the international practices that require

issuers to satisfy higher standards of information disclosure, issue and private investor limits, and so on. The new regulations also encourage the establishment of local credit-rating firms to better support the growing bond market. The plan to integrate the two stock exchanges into a national one and to upgrade market infrastructure will facilitate a broad-based improvement in the efficiency of trading, clearing, and settlement mechanisms, making the securities markets more transparent and effective.

Although the bond market in Vietnam has been growing quickly, it is still relatively small compared to those of its regional peers.

THE FUND MANAGEMENT INDUSTRY

As of June 2020, 48 fund management companies were operating in Vietnam, with registered capital of VND4 trillion (according to the SSC). Total net asset value of all funds at the end of 2019 was VND32.6 trillion, an increase of 45%

year over year and of 320% versus 2016. Total assets under management was VND312 trillion, an increase of 20% year over year and of 200% versus 2016. The impressive growth in this sector has been attributed to foreign investors, led by Korean funds.

However, the performance of these fund management companies in Vietnam has not been impressive. According to the SSC, only 10 out of 48 companies (20%) are profitable and have growth. Most of the remaining are recording losses as high as 50% of registered capital, 19 out of 48 companies (40%) have never managed any funds because they are unable to attract capital, and four companies have not managed any portfolio.

THE FINANCIAL DERIVATIVES MARKET

Vietnam's financial derivatives market started official operation on 10 August 2017. Initially, it had only three main products: VN30 Index futures, five-year government bond futures, and CWs. The VN30 stock futures are considered a success, satisfying investors' risk management and investment needs.

As of June 2020, 59 million VN30 futures contracts had been traded on the market. In the first half of 2020, the average trading volume was 165,479 contracts per day, an increase of 86.48% over the 2019 average and 15 times the 2017 average. The five-year government bond futures contracts began trading in July 2019, and 278 contracts have been traded to date. In addition, CWs began trading in 2019. Currently, 134 CWs are traded in the market, compared to just 10 CWs when the market started. The total volume traded as of August 2020 was 990 million CWs, with a value of VND1.48 trillion.

OPPORTUNITIES AND CHALLENGES

The capital markets in Vietnam have become important capital mobilizing and investment channels for Vietnamese firms and investors (both foreign and domestic). Ample opportunities are available for them to develop in the future.

First, the legal framework for the capital markets should be improved. The Securities Law, Corporate Law, and Investment Law (revised in 2020) went into effect on 1 January 2021, creating a standardized framework for developing the capital markets sustainably. In addition, the country's financial inclusion strategy issued in January 2020 has affirmed the government's commitment to develop both the depth and width of the financial markets.

Second, more financial products and services are being introduced, creating more investment, capital raising, and hedging instruments for market participants and investors. Green bonds and stocks as well as hedging and digital financial products will be provided as options for investors.

Third, banking is one of the eight areas prioritized for developing digitalization in the national digital transformation program issued in June 2020. Therefore, digital financial services are expected to boom in the near future, given such trends as peer-to-peer lending, crowdfunding, and digital stocks and bonds, which are all growing quickly and their legal frameworks are established.

Fourth, Vietnam has been making a great effort to get upgraded from Frontier Markets to Emerging Markets in the MSCI and FTSE Russell classifications, so that its securities market could be upgraded by 2023. The upgrade will

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enable Vietnam to attract more foreign investments, especially portfolios.

Fifth, Vietnam's economy is forecast to have bright prospects for early recovery from the impact of the COVID-19 pandemic and continued strong growth during 2021–2030. Under the country's plan, the GDP annual growth rate should be 6.5%–7%.

Sixth, because of the trade and technological tensions between economic powers as well as the impact of COVID-19, Vietnam is considered one of the bright spots for shifting investments and production chains. Importantly, the Vietnamese government has committed to further improving the business-investment environment as an important measure to attracting more investment (both foreign and domestic).

Finally, the government has also committed to continuing equitization and divestment of SOEs, as well as to improving corporate governance, transparency, IT, and infrastructure for developing the capital markets. The market is also expected to continue its strong growth momentum because of the needs of recapitalizing banks and of financing SOEs and other important infrastructure projects.

However, various challenges also exist. First, the size of Vietnam's stock and bond markets is still small in comparison with those of its peers in the region. This implies a lot of potential for

development but also low liquidity and a limited product range, narrowing opportunities for firms to raise capital and investors to invest or hedge.

Second, a limited range of products and services also makes the market less attractive, especially for professional investors and foreign institutional investors.

Third, the investor base is quite limited. Only approximately 3% of the population is active in the stock market; this is low compared to the relative percentages in other countries in the region. Besides, most investors (more than 90%) are individual, and far fewer are institutional. Individual investors normally lack professional knowledge, which might lead to higher volatility.

Fourth, policy coordination is still weak, especially with respect to managing systemic risks in the financial markets. Given that the size of the financial system's assets is approximately 300% of GDP, the country really must develop institutions and tools to manage such systemic risks.

Finally, such fundamentals as institutions, high-quality human resources, financial infrastructure, IT, big data, transparency, and disclosure need to be further improved so that Vietnam's securities market can be upgraded to the Emerging Markets classification and develop sustainably.