

# **SUSTAINABLE DEVELOPMENT OF BOND MARKET TO CREATE CONDITIONS FOR SOCIO-ECONOMIC STABLE DEVELOPMENT IN VIETNAM**

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## **Abstract**

*In an open economy increasingly integrating deeply into the world economic community like Vietnam today, if the bond market develops sustainably, safely and effectively, it will create favorable conditions for development. develop socio-economic stability. The paper focuses on analyzing the current situation of Vietnam bond market, clarifying risks for the development of uncontrolled corporate bond market and risks for commercial banks investing in bonds. votes, find the causes and recommend some relevant solutions.*

**Key words:** *sustainable development, bond market, stable development, socio-economic*

## **1. Introduction**

The bond market is a part of the financial market, this is the medium and long-term capital mobilization channel of the Government, financial institutions and businesses. In line with the general trend of the international financial market, in the current period of intensive economic integration, Vietnam's bond market is continuing to grow, including government bonds and bonds. enterprise. However, the hot development of Vietnam bond market recently is also forecasting some risks, necessary solutions are needed to sustainably develop this market.

## **2. Method**

Article implementing qualitative research methods, based on data and documents with specific evidence taking place in 2019 of Saigon Securities Company (SSI), Hanoi Securities Trading Center, Commission securities, the Ministry of Finance, of a number of other agencies and organizations, the author synthesizes, analyzes, compares, evaluates, draws comments and recommends solutions according to the goals of the article.

## **3. Results**

### ***3.1. Overview of the current status of development of Vietnam's bond market***

There are quite a number of reports and statistical results of different organizations and functional agencies on the current situation of the scale of Vietnam bond market development. According to data of the Hanoi Securities Trading Center (HNX), in 2019, the State Treasury mobilized 229,418.5 billion dong of Government bonds through bidding at

HNX, reaching over 90% of the next plan. Issuing plan in 2019, buyers are mainly commercial banks (commercial banks). By the end of 2019, the total volume of Government bonds reached over VND 230,000 billion, the largest scale ever. Also by the end of 2019, the size of Vietnam's bond market has 509 bond codes listed on the domestic stock market, with a listing value of VND 1,162,000 billion, up 3.7% compared to the end. 2018.

In the first 2 months of 2020, up to February 28, 2020, the State Treasury held 26 bidding sessions, with the total winning volume of over VND 16,000 billion, only 24, 25 and 26 sessions with The total winning volume was the highest, reaching VND 4,821 billion, with interest rates gradually decreasing, from 2.71% - 3.55% / year depending on bond tenors. The ratio higher than the winning result of the slab from 19-22 was VND 4,610 billion and VND 3,200 billion of the sessions 15-18.

The total amount of corporate bonds issued in the first 2 months of 2020 is VND 19,398 billion with an average term of 4.75 years, the average interest rate is 10.07% / year. In particular, real estate businesses issued VND 11,639 billion, accounting for 60%. Other groups of businesses issued VND 6,001 billion (accounting for 31%), including Sovico issued VND 2,000 billion, Truong Hai automobile JSC issued VND 2,000 billion, Vinfast issued VND 950 billion ... Meanwhile, only 2 commercial banks issued issuing bonds, which is ACB: VND 230 billion, with term of 10 years; TPB issued VND 552 billion, with a term of 7 years, all bonds are eligible to be included in tier 2 capital of commercial banks as prescribed by the State Bank.

### ***3.2. Specific results of the bond market***

Previously, in 2018, HNX held 189 bidding for Government bonds with a total value of VND 292,150 billion, winning value of VND 165,797 billion, equal to 57% of the bidding value and reached 95% of the offering value. Expected issuance in 2018. The listed value of bonds (including government bonds, government guaranteed bonds, local government bonds) in 2018 reached about VND 1,122,000 billion, up 10.5% compared to 2017, reaching 22, 4% of GDP in 2017 and equivalent to 20.3% of GDP of 2018. Bond transactions were relatively active with an average value of VND 8,834 billion / session. The total value of Government bond transactions in 2018 reached more than VND 711,000 billion, of which repo (repurchase) transactions were more than VND 387,300 billion, accounting for 54.5% of the total transaction value. Especially, in 2019, the winning interest rates of Government bonds for all terms tend to decrease slightly between months.

Generally, by the end of 2019, the winning interest rates of all 3 bond periods will reduce by 1.2% - 1.5% / year on average and 1.4% / year on average compared to the winning bond interest rates. In 2018, quite a large interest expense has been saved for the state budget.

The VND / USD exchange rate was stable, at the end of 2019, it decreased by 0.5% compared to 2018, while in 2018, it increased by only 1%, while Vietnam's Government bond interest rates remained high, calculated on average. Military investment in Vietnam's government bonds still have interest rates difference of 3-4%, becoming attractive to foreign investors. On the secondary Government bond market, foreign investors net bought a total

of more than VND 13,900 billion (calculated from Outright transactions) in the first 11 months of 2019. In the first half of December 2019, foreign investors continued net buying. VND 1,200 billion of bonds, of which the session of December 12, 2019 was net buying of over VND 1,988 billion.

Although Vietnam's Government Bond yields have been on a downward trend in recent years, the current 10-year tenor in 2019 is currently at 3.45%, but compared to other countries, is still significantly higher, so Vietnam can attract cash flow is understandable. Specifically, considering the 10-year standard term, Vietnamese Government Bonds are 376 basis points (bps) higher than German government bonds, 348 bps higher than Japan, 346 bps higher than France, 306 bps compared to Spain, 267 bps compared to the UK (100 bps corresponds to 1%).

In a broader view, in the period of 2009 - 2019, the Government bond issuance channel has raised VND 1.96 million billion to the State Budget, an average of VND 175,000 billion / year; Government-guaranteed Government guaranteed bonds are VND 385,151 billion, an average of VND 35,014 billion / year; The channel of local government bonds raised VND 36,924 billion, an average of VND 4,615 billion / year. In recent years, the bond capital mobilization channel accounted for 75% - 80% of the total volume of public bonds issued annually.

In 2019, with the goal of restructuring the public debt portfolio in the direction of dual-term loan term of the state budget, strengthening the sustainability of the debt portfolio, the State Treasury focuses on issuing 5-year government bonds. and above, especially Government Bonds with terms of 10 years and over, accounting for 92% of the capital mobilization volume via bond issuance.

Along with Government bonds, in 2019 the corporate bond issuance scale also reached the highest volume in history. In 2019, the total value of corporate bonds issued was VND 280,141 billion, an increase of 25% compared to 2018. As a result, the size of the bond market increased sharply from 9.01% of GDP to 11.3 % in 2019, with total outstanding bonds totaling approximately VND 670,000 billion.

In 2019, a total of 211 businesses offered bonds to the public, there were 129 unlisted businesses. The quality of information and responsibility for information disclosure are therefore relatively limited. An example of transparency is the first time that interest rates are very high compared to the general interest rate level of the capital market, up to 20% per year, issued by Hong Hoang Trading Investment Company in the middle of November 2019.

In particular, real estate businesses are the largest issuers with total issuance, accounting for 41%, followed by commercial banks, accounting for 38%. The next position is, the rest are infrastructure development companies, securities companies and other businesses. The interest rate for issuing corporate bonds in 2019 is higher than the winning interest rate for issuing government bonds and has different interest rates among types of businesses. In particular, the highest interest rate for bond issuance of real estate and infrastructure businesses, banking and financial institutions has the lowest interest rate.

The bond market is a part of the financial market, this is the medium and long-term capital mobilization channel of the Government, financial institutions and businesses. In line with the general trend of the international financial market, in the current period of intensive economic integration, Vietnam's bond market is continuing to grow, especially since the beginning of 2019, despite the risks of the effects of the US-China trade war, Japan - Korea and some other regions of the world. However, the hot development of Vietnam bond market recently is also forecasting some risks, necessary solutions are needed to sustainably develop this market.

Contrary to corporate bonds, government bonds (VGBs) account for a large proportion of Vietnam's bond market today, up to 88.7% of the total scale. The main reason is the risk, when considering to decide to invest in a debt securities, it is easy to recognize that corporate bonds have a much greater risk. This level of risk depends on the issuer's ability to repay the debt. While government bond issuers are Government, which is considered almost insolvent, corporate default is not uncommon.

In fact, during periods of increased state budget overspending, the Government had to issue more bonds to finance the deficit and to repay past-due bonds. This is similar to the business when the state of accumulated losses increases, unable to repay the issued bond debt, it is necessary to issue a new amount of bonds to reverse debts and finance those losses. However, government bonds are still the favored item in many cases of increased budget overspending, while corporate bonds tend to get worse in the eyes of investors if the business is at a loss.

One of the important factors that investors can assess the risk level is the issuer's credit rating. While the Government is rated by reputable credit rating companies in the world (such as S&P, Fitch Ratings), most Vietnamese enterprises do not have ratings from these organizations.

If the Government issues 5-year, 10-year or even 30-year bonds very easily with high market demand, it will be difficult for enterprises to issue such long-term bonds. Investors are afraid to buy corporate bonds largely due to the high financial risk of the business and its associated lack of assessments and ratings on the solvency of the enterprise.

Up to now, about 90% of corporate bonds were issued privately and only 10% listed at the exchange made the information on the corporate bond market not much, affecting the transparency of information and increasing risks in the world. invest. Because there is too little information for investors to analyze and assess risks, corporate bond liquidity in the market is much less.

Currently, bond investors in Vietnam are mainly financial institutions, typically banks, because these are organizations with large capital and capable of assessing and valuing bonds, especially The types of corporate bonds have very little information to identify. However, while government bonds are considered as a highly liquid asset, only behind cash in cash (cash invault) and cash and cash equivalentents (Cash & Cash equivalentents), and not limited in holding volume, then corporate bond is calculated as a credit and is limited

by the credit ceiling assigned by the SBV to each commercial bank. This significantly limits the demand for corporate bond investment.

The organizations that buy corporate bonds are mostly banks, management companies, professional investment funds, are groups of organizations with large capital, willing to accept risks from buying bonds, while the Public investors are still limited, although this is a huge investment resource.

Regarding the size of capital markets compared to GDP, in the years 2008-2019, bank credit capital was still the largest, up to 130.3% - 138.4% of GDP; followed by the capital to issue shares of enterprises, up to 71.9% - 74.8% of GDP.

The size of the bond market in Vietnam, including corporate bonds and government bonds, is only 36.3% of GDP in 2018, only 38.2% of GDP in 2019 and needs further development.

Bond interest rates are also quite high, from 14.5% to 17% - 20% / year, showing that businesses need capital immediately and cannot take medium and long-term loans from banks. However, the Ministry of Finance should warn to not break interest rates and speculation restrictions.

### ***3.3. Purpose of issuing commercial bank bonds***

In 2019, commercial banks are still the largest corporate bond issuer on the market, offering a total of 117,130 billion bonds and successfully issuing 115,022 billion VND, corresponding to a success rate of 98.2 billion VND. %. The average tenor is 4.1 years and the average interest rate is 7.04% / year, this is the group with the lowest bond interest rates in the market.

In 2019, there were 11 out of 19 banks issuing bonds with a maturity of over 5 years, most of which were BIDV; Vietinbank; Seabank; Lienvietpostbank. The interest rate of long term bonds was much higher, at 7.5-8.5% / year. BIDV issued the most with a total of VND 18,371 billion of bonds issued with terms of 6-15 years, of which 45.7% were 6-year bonds with attached commitment to repurchase after 1 year of circulation. Vietinbank also issued VND 5,500 billion of bonds with terms of 7-15 years, mainly in the form of issuing to the public.

Commercial banks buy bonds as an investment channel with high interest rates, stable interest rates, low costs and low risks. As for businesses, besides mobilizing medium and long-term capital to invest in projects, there are some cases that are to restructure loans, roll over debts, pay debts that are due. , can conceal the string of debts at some commercial banks.

Compared to lending, the purchase of corporate bonds will help commercial banks be more flexible because commercial banks can sell part of these bonds to organizations, investment funds and individual customers when they need to adjust items. assets on the balance sheet (CDKT). However, some commercial banks may use corporate bond instruments, through complex financial transactions to restructure the issuer's debt or other purposes.

In 2019, bonds issued only had an average interest rate of 6.72% / year, which is equivalent to the interest rate of deposits of large commercial banks. This is the group of commercial banks with the lowest deposit interest rates. Thus, the interest rate of bonds issued by commercial banks is almost unattractive to ordinary investors. In addition, the main buyers of bonds are securities companies, so it is possible that commercial banks have cross-owned each other's bonds. This move stems from two reasons: pressure of raising Tier 2 capital of commercial banks to have room for credit growth, to meet Basel II and the need to meet the roadmap to gradually reduce the ratio of short-term capital for medium and long-term loans. in accordance with SBV regulations. The regulations of the State Bank on tightening the ratio of short-term capital to medium and long-term loans are the pressure that commercial banks must change the capital structure, in the direction of increasing medium and long-term capital.

Commercial banks carry out the guarantee operation in the form of committing to buy all corporate bonds issued if customers do not buy up. For example, if an enterprise issues USD 100 million and only sells USD 80 million, then commercial banks will commit to buy back the remaining USD 20 million, this may also be a cause for the value of debt securities of an The number of commercial banks has increased in recent years. Guarantee operation will affect the value of bond investment of commercial banks but in this situation, this situation is also less common.

#### ***3.4. Warning of risks of investment in bonds to commercial banks***

In 2019, the whole Vietnamese economy has 44 out of 108 large real estate businesses that have issued corporate bonds. If the average interest rate of commercial group bonds is only 6.5% / year, the real estate group will reach 10.24% / year. This interest rate is considered to be much more attractive than savings. Loans from commercial banks have medium and long-term interest rates at 11-13% per year but must follow strict regulations and procedures, must go through very rigorous dossier appraisal, have collaterals and secure transaction registration, through the full Credit Information Center (CIC), then be subject to supervision on disbursement and use. loans,... while corporate bond issuers are not subject to these constraints. Therefore, many businesses have stepped up issuing bonds with high interest rates, especially enterprises in the field of real estate.

In addition, there are signs that businesses issue more bonds to reverse bank debt. In fact, there are many corporate bonds issued, which are bought by commercial banks. Many businesses have commercial bank debt coming due, but there is no source of debt repayment, there is a risk of overdue debt and bad debt. Solving this problem, only issuing corporate bonds and "persuading" commercial banks creditors to buy their bonds. As such, both parties will benefit. Businesses will have money to pay bank loans on time, while commercial banks also "beautify" the balance sheet and do not suffer from rising bad debts. This is why businesses step up bond issuance. In the whole year of 2019, the corporate bond market was about VND 260,000 billion, up 7% compared to 2018.

In recent years, the balance of bond investment in the field of construction and real estate is large at some commercial banks when the real estate market has not recovered

firmly, production and business activities of enterprises are still large. Difficult is one of the risks for commercial banks. Some commercial banks have a large proportion of corporate bond investment in a large proportion of total assets and continue to grow rapidly, investment in bonds for other purposes is high and volatile and difficult to control. There are not even many cases of continuing to invest in bonds with the purpose of restructuring the business debt as analyzed above. Bond investment activities of many commercial banks implicit lack of transparency and investment value may be too much at the enterprise.

Commercial banks buying corporate bonds to roll over debt is not a new way, because this helps businesses extend the repayment period, banks also avoid increasing bad debts. However, this is only a technical solution, applied when some businesses have temporary difficulties in cash flow. The fact also shows that the debt reversal by "way" of bond investment will make the quality of debt recorded in the financial statements not classified correctly. In 2018, the SBV issued Circular 15/2018 / TT-NHNN to prevent this situation. However, recently, this situation is hot again with the wave of investment in corporate bonds of commercial banks.

Although the SBV is tightening real estate credit to protect commercial banks themselves, with the way of investing in bonds, some commercial banks have broken their own safety belts and easily injected money to real estate projects. with a much simpler procedure, without being afraid of being stuck with debt regulation. In the immediate future, the "spleen" of credit and debt rollover can help commercial banks increase profits, hide bad debts, help businesses out of credit limit or until the debt repayment period has not been able to turn over the money that can be temporarily used. But in the long run, this solution will cause bad debt to pay off bad debt.

With the real estate market, raising capital via bonds is too easy and loose control, leading to high capital leverage. In the context of the unstable real estate market, plus big financial leverage, if this market falls into recession, then obviously, real estate businesses will lose their ability to pay debts and go bankrupt.

Developing the corporate bond market to diversify capital access channels and reduce dependence on credit is a positive direction, but this market will only grow healthily if there are many individual investors involved. Once the market is still mainly concentrated via the current banking channel, and commercial banks only prioritize the investment in bonds of familiar businesses, real estate businesses, the system is potentially unsettled, signs of credit disguise. Both businesses and commercial banks will be at risk.

#### **4. Discussion and Conclusion**

It is forecasted that in 2020 and in the coming time in general, Vietnam's bond market will continue to grow to a new scale. In 2020, the total volume of Government bonds will increase by 10 - 12% compared to 2019; The total volume of corporate bond issuance will also increase by 15- 18% compared to the previous year; Government bond interest rate will decrease slightly. The corporate bond issuance interest rate will be stable as in 2019. The Government and relevant ministries will implement many measures to develop stable and

sustainable bond markets, limiting risks to the economy. and investors. Accordingly, a number of orientations are forecast to be implemented

Firstly, functional agencies need to enhance the quality of inspection and supervision of market activities, ensuring compliance with bond investment and credit activities. Strengthening inspection quality, improving the quality and morality of officials in charge of inspection and control of commercial banks are essential, ensuring compliance with bond investment and credit activities. The application is taken seriously.

Secondly, the relevant sectors need to continue developing infrastructure of the corporate bond market, including possible research and establishment of corporate information collection organizations, daily corporate transaction statistics to be transparent. market chemistry. There will be regulations on centralized depository of corporate bonds on the trading floor to be able to better collect information about the business situation, as well as the size of daily corporate bond transactions. This means transforming the decentralization of most corporate bonds into centralized and managed by state agencies. This will help investors easily track daily trading needs, increase the professionalism of the market.

In addition, the authorities need to study can set the standards of financial reporting and periodic information disclosure, typically using the reporting standards according to IFRS, which have been developed by many countries. The world applies. At the same time, researching and developing reputable credit rating agencies to give bond evaluation objectively, according to international practices. The application of reports according to international standards also helps improve the credit rating of the business. Vietnamese authorities continue to promote and accelerate corporate credit rating and international credit rating in Vietnam so that investors can distinguish the credit rating of businesses.

Thirdly, in operating financial policies, the Ministry of Finance and relevant ministries continue to need to closely forecast and assess the situation of corporate bond issuance debt increasing greatly in total national debt / GDP. to take proactive measures to prevent and limit risks to the economy. The Ministry of Finance needs to revise the current regulations on corporate bond issuance, need to tighten and ensure the safety of the bond market.

Fourthly, the relevant ministries and agencies should continue to promote the development of secondary corporate bond transactions, creating a mechanism for the bonds to be wholesale and retail for institutional and individual customers. more broadly, that could create a truly vibrant secondary market. When there is a sufficient number of investors for corporate bonds, the control, transparency requirements, liquidity requirements will increase and create a real bond market. The transparency of information and prices also makes transactions easier.

Fifthly, the concerned ministries and agencies need to continue studying to diversify the structure of corporate bond investors. Thus, the investor structure will automatically be expanded and the corporate bond will be a potential investment channel of the residential area. In fact, bond investors are the financial institutions that have occupied the largest position of the corporate bond market in recent years.



Because not only are the main buyers of corporate bonds, financial institutions also become the key agents to sell corporate bonds to other retail investors. Therefore, selling bonds through financial institutions is an effective short-term solution to expand corporate bond investors. Enterprises will actively cooperate with financial institutions, especially banks, as an intermediary to sell bonds in the primary market. This is a measure that not only supports the development of the corporate bond market but also It also helps disperse the amount of corporate bonds that exist on the balance sheets of commercial banks to other retail investors, minimizing the risk of credit concentration in the financial intermediation system.

Sixthly, the State Bank has issued a document requiring commercial banks to review and strengthen measures to control corporate bond investment activities because of potential risks. The warnings that the SBV is very necessary, but from another perspective, the changes of the bond investment market have shown that the demand for loans and real estate loans of banks and businesses is very large. Therefore, regulators should not immediately tighten corporate bond channels, because that decision could put many real estate businesses at risk and collapse.

In the immediate future, the responsibility of regulatory agencies is to straighten the market in the right direction, create a safe legal corridor for businesses and commercial banks to operate, and impose strict sanctions on commercial banks that deliberately bypass the law. buying bonds to reverse debt in contravention of regulations.

Seventhly, the trend of bond market in the coming time, investment in bonds will continue to grow, commercial banks will also continue to promote this channel to attract long-term capital in the context of the SBV increasingly tightening the capital ratio. short-term medium and long-term loans of the Bank. With the legal corridor that is Decree 163, the Law on Securities, the Law on Enterprises, the Law on Credit Institutions, ... it is necessary to urgently deploy credit ratings for businesses that want to issue bonds to the public and clearly define the required threshold so that investors can participate in the private placement. Vietnamese authorities need to promote and accelerate corporate credit rating and international credit rating in Vietnam, so that investors can distinguish the creditworthiness of enterprise. Besides, commercial banks themselves need to be conscious of actively preventing risks of investing in bonds. Commercial banks, when buying bonds, need to analyze the financial situation, debts, business development capabilities as well as asset quality of enterprises. Commercial banks basically operate basically no difference between normal credit lending and corporate bond investment. If commercial banks skip credit analysis and asset quality, the risk will be more.

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