UNDP

TO BOOST VIET NAM'S SUSTAINABLE DEVELOPMENT

Developing domestic capital markets to boost Viet Nam's sustainable development

2023 Policy Brief series

Prepared by Tuan H. Dao, Associate Professor of Economics; Nhung T. Nguyen, Ph.D.; and Jonathan Pincus, Ph.D.

Ha Noi, July 2023

Disclaimer

The viewpoints expressed in this paper are those of the author and do not necessarily represent those of the United Nations Development Programme.

SUMMARY

TABLE OF ABBREVIATIONS ... 1

LIST OF FIGURES ... 2

LIST OF TABLES ... 4

1. INTRODUCTION ... 5

1.1. Background ... 5

1.2. Savings do not constraint investment, it's the other way around ... 5

1.3. Lack of access to liquidity constrains investment ... 6

1.4. Capital market in Viet Nam is not yet financing long-term productive investment ... 7

1.5. Structure of the report ... 7

2. CURRENT STRUCTURE OF THE FINANCIAL MARKET ... 9

2.1. Banking sector: Key messages: Short-term loans and SOEs ... 10

2.2. Corporate financing ... 17

2.3. Bond market: Public sector, SOEs and property developers ... 23

2.4. Equity market: Key messages: Growing in size but not in importance to capital mobilization ... 31

3. CONSTRAINTS ON FINANCIAL MARKET DEVELOPMENT ... 36

3.1. Financial market development as a governance problem: Lack of corporate transparency, weak legal institutions, and weak market infrastructure ... 36

3.2. Viet Nam's small private sector is a cause, not result of financing constraints ... 37

3.3. From demand side, there is a lack of investor base in the capital market ... 39

3.4. Financial liberalization: what it achieves and what it does not achieve ... 44

3.5. International capital can supplement, but not replace domestic capital mobilization ... 46

4. POLICY OPTIONS ... 48

4.1. Prioritize macroeconomic stability ... 52

4.2. Revise the legal framework that regulates public pension fund investment practice ... 53

4.3. Promote bond issuance and transactions of corporate bonds ... 54

4.4. Promote securitization on the debt trading platform ... 56

5. CONCLUSION ... 57

REFERENCES ... 59

APPENDIX 1: 65

TABLE OF ABBREVIATIONS

No.	Abbreviations	Definitions
1.	BIDV	Joint Stock Commercial Bank for Investment and Development of Viet Nam.
2.	BSC	BIDV Securities Company
3.	CTG	Viet Nam Joint Stock Commercial Bank for Industry and Trade
4.	FDI	Foreign direct investment
5.	FPT	FPT corporation
6.	GDP	Gross Domestic Product
7.	HPG	Hoa Phat Group joint stock company
8.	IMF	International Monetary Fund
9.	IPO	Initial public offerings
10.	KDH	Khang Dien house trading & Invest Joint stock company
11.	MWG	Mobile World Investment Corporation
12.	NPLs	Non-performing loans
13.	NVL	No Va Land Investment Group Corporation
14.	OECD	Organization for Economic Cooperation and Development
15.	PDR	Phat Dat Real Estate Development joint stock company
16.	PJICO	PJICO Insurance Corporation
17.	PTI	Post and Telecommunication Joint Stock Insurance
18.	PVI	PVI Insurance corporation
19.	SOEs	State-owned enterprises
20.	STB	Sai Gon Thuong Tin Commercial Joint Stock Bank
21.	TCB	Viet Nam Technological and Commercial Joint Stock Bank
22.	VAMC	Viet Nam asset management company
23.	VCB	Joint stock commercial bank for foreign trade of Viet Nam.
24.	VHM	Vinhomes joint stock company
25.	WB	World Bank

LIST OF FIGURES

Figure 1. Broad money to GDP ratio, 2019 (Source: IMF) 9

Figure 2. Corporate bonds to GDP ratio (Source: ADB Asia Bonds Online) 10

Figure 3. Non-performing loans among banks in Viet Nam from 2007 to 2018 (Source: Viet Nam State Bank) 17

Figure 4. Structure of Viet Nam's financial system, 2004-2021 (Source: World Bank and asianbondsonline.adb.org 24

Figure 5. Inflation in Viet Nam, East Asia & Pacific (excl. high income) and OECD countries, 1996-2020 (Source: World Bank) 24

Figure 6. Nominal exchange rate against USD (2015=1) of Viet Nam and several ASEAN countries, 2015-2020 (Source: World Bank) 25

Figure 7. Viet Nam government bond yield curve (Source: Hanoi Stock Exchange).26

Figure 8. Bond and equity issuance in Viet Nam, 2015-2020 (Source: Fiin Rating)..28

Figure 9. Size of government bond market in 2021 (billion USD) of several ASEAN countries (Source: asianbondsonline.adb.org)...29

Figure 10. Size of government bond market in 2021 (%GDP) of several ASEAN countries (Source: asianbondsonline.adb.org)...29

Figure 11. Size of corporate bond market in 2021 (billion USD) of several ASEAN countries (Source: asianbondsonline.adb.org)...27

Figure 12. Size of corporate bond market in 2021 (%GDP) of several ASEAN countries (Source: asianbondsonline.adb.org) 27

Figure 13. Composition of government bond by maturities in Viet Nam, 2011-2021 (Source: asianbondsonline.adb.org) 28

Figure 14. Composition of government bonds by maturities in S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org) 28

Figure 15. Composition of corporate bond by maturities in Viet Nam, 2011-2021 (Source: asianbondsonline.adb.org) 29

Figure 16. Composition of corporate bond by maturities in S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org) 29

Figure 17. Government bond market turnover ratio of S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org)................................30

Figure 18. Corporate bond market turnover ratio of S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org).......................................30

Figure 19. Value of stock market trading as % of GDP (Source: World Development Indicators) 34

Figure 20. Statistics about stock manipulation on the Viet Nam stock market from 2010 to (Source: Data summarized by authors) 33

Figure 21. Prudential Viet Nam Asset Allocation (Source: Prudential Viet Nam) 41

Figure 22. Menulife Viet Nam Asset Allocation (Source: Menulife Viet Nam)............42

Figure 23. Asset allocation of selected domestic insurance companies in Viet Nam (Source: BSC 2021)..44

Figure 24. The Chinn-Ito Index accross countries (Source: https://web.pdx.edu/) 46

Figure 25. Financial flows into Low- and Middle-Income Countries, 1980-2019) (billions of constant 2015 USD) (Source: IMF)...47

Figure 26. GDP per capita growth and net capital inflows as % GDP, 2000-2019 (Source: IMF)..48

Figure 27. Retained earnings and other equity, US outward FDI, 2000-2019 (Source Bureau of Economic Analysis, US Department of Commerce)..........................49

Figure 28. Net primary income and trade balance, USD billions, Viet Nam (Source: State Bank of Viet Nam) 50

Figure 29. Foreign bank assets among total bank assets, 2016 (Source: World Bank Global Financial Development Database)...49

LIST OF TABLES

Table 1. Top 5 Vietnamese banks' Deposits to total asset ratio (%) from 2011 to 2020 (Source: Banks' audited financial statements) 10

Table 2. Top 5 Vietnamese banks' valuable papers issued and equity to total asset ratios (%) from 2011 to 2021 (Source: Banks' audited financial statements)....11

Table 3. Top 5 Vietnamese banks' loans and advances by maturity from 2011 to 2021 (Source: Banks' audited financial statements) 13

Table 4. Top 5 Vietnamese banks' average loans and advances by maturity from 2011 to 2021 (Source: Banks' audited financial statements) 13

Table 5. Top 5 Vietnamese banks' average loans and advances by industry from 2011 to 2021 (Source: Banks' audited financial statements) 13

Table 6. Top 5 Vietnamese banks' debt securities to total asset ratio from 2011 to 2021 (Source: Banks' audited financial statements) 14

Table 7. Top five Vietnamese banks' structure of debt securities by from 2011 to 2021 (Source: Banks' audited financial statements) 14

Table 8. Top 5 Vietnamese biggest non-financial firms' financial leverage from 2011 to 2021 (Source: Firms' audited financial statements) 14

Table 9. Top 4 Vietnamese real estate firms' financial leverage from 2011 to 2021 (Source: Firms' audited financial statements) 19

Table 10. Top 4 Vietnamese real estate firms' structure of current liabilities (Source: Firms' audited financial statements)...20

Table 11. Top 5 Vietnamese biggest non-financial firms' structure of long-term borrowing from 2012 to 2021 (Source: Firms' audited financial statements) 21

Table 12. Top 4 Vietnamese real estate firms' structure of long-term borrowing from 2011 to 2022 (Source: Firms' audited financial statements) 22

Table 13. Corporate bond issuance by non-financial, non-real estate sectors of S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: Author's calculation from Asia Bond Monitor-November 2021, ADB) 32

Table 14. Domestic credit rating agencies in selected countries (Source: Kathpalia, 2020)...37

Table 15. Number of firms by size (Source: Vietnamese enterprises white book 2020) 38

Table 16. Sectors among the top 30 issuance (excluding banking/finance and real estate/construction) (Source: Asian Bond Monitor, ADB, 2021) 39

Table 17. Corporate bond held by banks in developed and developing countries (Source: Amariei, et. al.,2017, Finn Rating, 2021; Çelik, S., G. Demirtaş and M. Isaksson, 2020)...40

Table 18. Real returns of selected pension funds (Source: tuoitre.vn, OECD, https://www.asiaasset.com/, https://www.pionline.com/ and deduct inflation)...41

Table 19. Insurance penetration in selected countries (Source: WB, 2020 and stats.oecd.org) 42

1. INTRODUCTION

This report presents an analysis of challenges and constraints on the development of Viet Nam's domestic capital markets. Based on the analysis, the report offers policy recommendations to deepen and broaden these markets in order to increase and diversify sources of financing for productive public and private investment boosting the country's development.

1.1. Background

The central role of capital markets in economic development is to transform liquid assets into long-term investments. By long-term, we mean slow-gestating, complex projects that require large scale, up-front investments, usually entailing more risks for higher rewards, and providing return on investments in the long term.

Liquidity is the principal constraint on investment because the public prefers assets that can be quickly and easily exchanged for cash, such as demand deposits in Viet Nam and money markets in the advanced countries. The challenge is to transform liquid assets into the patient capital required for long-term, large-scale projects that may not generate financial returns for several years. Indeed, instead of financing long-term projects and holding debt instruments to maturity, investors, be they individuals, banks, or other financial institutions, always prefer asset that can be readily converted into cash.

In Viet Nam, the main challenge of development finance is to increase the supply of long-term domestic finance for productive investment. We are concerned primarily with domestic finance because foreign borrowing entails exchange rate risks that are difficult to hedge in a developing country like Viet Nam. In a world of perfect and complete financial markets imagined in economics textbooks, there is no liquidity constraint on long-term investment. Markets exist for every form and tenor of investment and clear at prices reflecting the underlying value of investments at every moment in time.

Unfortunately, we do not live in that world. Considering the uncertainty about future outcomes and the ability of buyers and sellers of assets to conceal information from each other (asymmetric information), markets are incomplete and imperfect. In periods of financial instability, liquidity drains from markets and institutions as investors hoard cash and refrain from trading even in safe assets. This was in essence the problem faced by North American and European banks during the Global Financial Crisis 2007-2009: the market for commercial paper failed because the solvency of counterparties was unknown, and banks suddenly found that they no longer had recourse to money markets for funding even if their own investments were sound.

1.2. Savings do not constraint investment, it's the other way around

There is a common misconception that developing countries are savings constrained, and this is the central problem of development finance. It is said that low-income households are too poor to save money out of income, which limits the supply of capital that banks have at their disposal to lend to investors. The remedies normally proposed to deal with this situation are: (i) importation of capital (foreign borrowing and foreign direct investment) to close the savings gap; (ii) financial liberalization, which raises market interest rates and therefore encourages households to save a larger share of their incomes.

If it were true that developing countries are savings constrained it would be difficult to explain the recent experience of countries like China, Korea, and Taiwan, which achieved high rates of investment despite low domestic savings rates in the early stages of development. Moreover, except for a few years during the 1970s oil crisis, these countries managed to increase investment rates while maintaining domestic price stability despite low rates of domestic savings.

1.3. Lack of access to liquidity constrains investment

It is profitability, not the stock of domestic savings, that drives investment. A focus on liquidity shifts attention from the pre-existing stock of savings to a more important constraint on development finance: namely, the capacity of investment projects to yield continuous, positive financial returns to compensate investors for their willingness to put their capital at risk. As Schumpeter pointed out nearly a century ago, banks play an entrepreneurial role in the development process, assessing market trends and the feasibility of investment plans in addition to the creditworthiness of borrowers.[1] The ability of banks to make new loans depends mainly on the existence of profitable projects on the horizon. In this regard, **the main constraint on investment is the ability of banks to identify a steady stream of profitable investment opportunities that promise to yield a return sufficient to cover the cost of capital**.

Therefore, it would be more accurate to say that the level of investment constrains savings, not the other way round. In the act of extending a new loan, banks create money by crediting the deposit account of the borrower. This money is used to finance the operations of the firm, including the payment of wages to workers. New lending therefore creates incomes (including profits of business owners), a portion of which is not consumed (i.e., it is saved). Domestic savings is a function of business activity, profits, and savings out of wages.

For profitable projects that instantly generate a stream of revenue to service debt, or for short-term (working capital or consumer) loans, liquidity is not a major concern. However, **commercial banks are reluctant to finance slow-gestating investments with liquid liabilities (deposits), as this would result in a risky tenor mismatch on the institution's balance sheet. Deep and liquid secondary markets offer a solution to the extent that they create channels for banks to transform loan assets into cash.** However, these markets are slow to develop in the absence of stringent and strictly enforced disclosure requirements and strong legal institutions because of pervasive asymmetric information problems.

Other sources of patient capital are equity markets, bond markets, insurance companies and institutions that invest their own capital like investment banks and private equity funds. These channels also make use of secondary markets to render long-term assets sufficiently liquid to attract investors. To the extent that they do so, they rely heavily on the existence and enforcement of strict disclosure requirements to reduce the cost of acquiring information about the value of assets and risks associated with the underlying

---

[1] 'The banker must not only know what the transaction in which he is asked to finance and how it is likely to turn out, but he must also know the customer, his business, and even his private habits, and get, by frequently 'talking things over him', a clear picture of the situation (Schumpeter, 1939, p. 116).

investments. This remains the principal obstacle to the development of secondary markets in Viet Nam, where company reporting is widely regarded as partial and even unreliable.

The stock market, or the secondary market for equities, is a mechanism that transforms company ownership into an asset that allows firms to raise money and could be readily converted into cash. Although stock market capitalization in middle income countries, including Viet Nam, has risen sharply in recent decades, this does not necessarily mean that stock markets act as an important source of patient investment capital. The net contribution of the equity markets to investment is not revealed by the value of shares or the volume of trading, but instead by the balance between new issues and redemptions, resulting mostly from mergers and acquisitions. This indicator generally shows a much smaller role for equity markets in mobilizing capital than is often supposed (Singh, 1991).

1.4. Capital market in Viet Nam is not yet financing long-term productive investment

Capital market development in Viet Nam has progressed rapidly since the 1990s. The banking sector is larger, better capitalized, and offers a wider range of products and services that reach a much larger share of the population compared with 20 years ago. In 2021, bank credit was 160.5% of GDP, or 3.2 times higher than the bank credit-to-GDP ratio in 2004. Equity markets have increased the number of listings. The total market capitalization of listed companies, measured by percentage of GDP, increased more than fivefold during the same period, rising from 15.41% GDP (2004) to 85.55% GDP (2021). The market for government bonds has stabilized and tenors extended. In 2021, the size of the government bond market was 24.3% GDP, including bonds with diverse maturities ranging from short-term (1-3 years) to long-term (more than 10 years). After a difficult period following the global financial crisis in 2008, financial markets have stabilized and performed reasonably well despite the challenges of the Covid-19 pandemic.

Bank lending, however, is mainly short-term, largely for working capital requirements or consumer credit, rather than long-term productive investment. Our analysis shows that the state-owned enterprises account for most of the corporate borrowing. As for other types of patient capital, **government bonds make up a large share of total commercial bank assets**.

The demand on the financial sector to mobilize resources for public and private investment will increase in the coming years as economic activity rebounds and Viet Nam embarks on the transition from fossil fuels to renewable energy. Viet Nam will need to invest a larger share of national income to accelerate the rate of growth and to build the infrastructure needed for a new era of sustainable development. Moreover, Vietnamese banks and other financial institutions will be called upon to meet these challenges within a context of a slowing global economy, volatile exchange rates and commodity prices and historic levels of indebtedness, particularly in developing countries.

1.5. Structure of the report

This report presents an analysis of domestic capital markets to understand their capacity to mobilize long-term capital and provides policy recommendations to increase the supply of long-term financing for public and private investment. The first section of the report provides a brief review of the banking sector and the bond and equity markets. Viet Nam’s financial system is

bank based, but bank lending is most short-term or directed to state-owned enterprises or property developers. The operation of the public sector bond market has improved markedly over the past decade and has achieved better outcomes as a result. However, corporate bonds still play a marginal role in capital mobilization. The equity market is now well-established but does not contribute significantly to capital mobilization.

The second section considers constraints on the development of domestic capital markets. Financial market development is not constrained by the volume of domestic savings, which is a result not a cause of scarce long-term investment. Corporate governance is a binding constraint because of the poor quality of financial reporting by domestic companies and weaknesses in the legal system that make difficult for investors to seek redress in the courts. While access to finance is often cited as a constraint on private sector development, the causation also works in the other direction: because private firms are small, and largely financed out of profits, the demand for financial sector and legal reforms is limited. This section also presents evidence that financial liberalization has not been associated with an increase in the supply of long-term lending: in fact, there is no relationship between financial liberalization policies and domestic savings in the developing world. International capital flows, while a useful supplement to domestic capital mobilization, cannot be relied upon to close the financing gap.

The final section of the report discusses policy options for financial sector development in light of these constraints. Lessons from advanced countries and successful developing countries suggest that the government must play a more active role in extending loan tenors, sharing with private lenders and developing secondary markets for loans and bonds. National development banks and similar institutions can achieve these goals through instruments such as loan guarantees, equity participation in small and medium sized businesses, loan securitization and structured finance for slow-gestating projects.

2.CURRENT STRUCTURE OF THE FINANCIAL MARKET

The central problem of development finance in Viet Nam is to increase the supply of long-term domestic finance for productive investment. By long-term we mean slow-gestating, complex projects that require large scale, up-front investment.

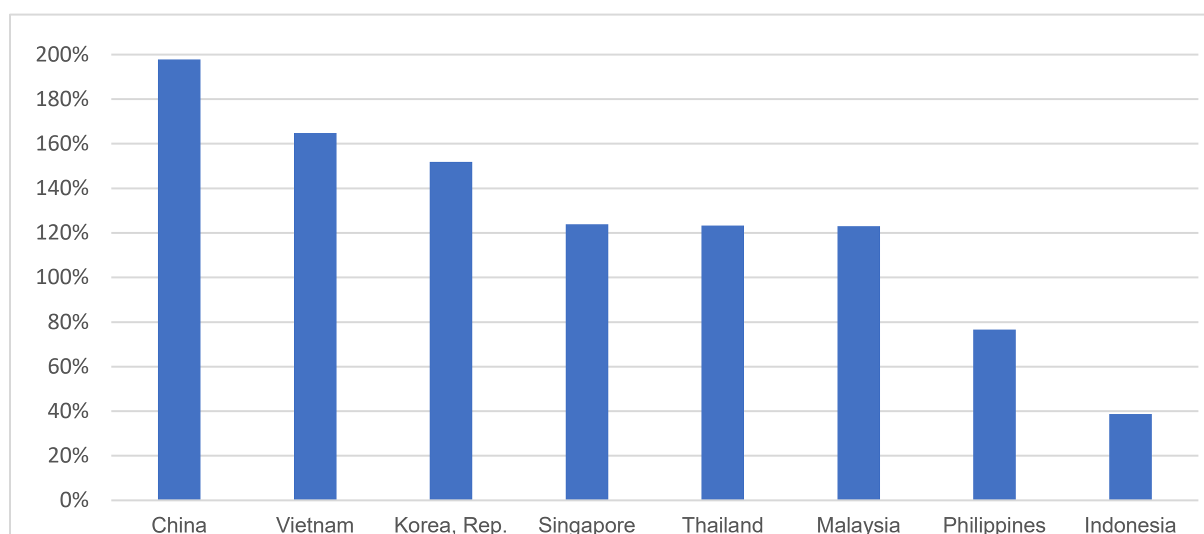


Figure 1. Broad money to GDP ratio, 2019 (Source: IMF)

Viet Nam's credit to GDP ratio has risen from 17% in 1996 to 165% in 2019 *(Figure 1)*, reaching a higher level if compared to Thailand and Malaysia, and three times higher than Indonesia and the Philippines. Based on these statistics, it is often assumed that the banking system is doing a good job of financing productive investment. However, this conclusion is not warranted for four reasons:

(i) Bank lending is overwhelmingly short-term, largely for working capital requirements or consumer credit.
(ii) State-owned enterprises account for the bulk of corporate borrowing.
(iii) Government bonds make up a large (unknown) share of total fixed income securities owned by commercial banks.
(iv) Loans and advances from individuals have increased rapidly (from 20% of lending in 2011 to more than 40% in 2021).

The credibility of domestic banks and, as in the case of the corporate bond market, the lack of coverage by reliable credit rating agencies, are also obstacles to the development of the market. Other non-bank sectors of the financial system experienced a high growth rate but are not yet efficient channels for firms to mobilize large and long-term finance. Indeed, in Viet Nam the equity market is still very small, and the stock market is not a viable financing option for private companies given its lack of liquidity and the costs of listing (Figure 2). Moreover, securitization is not yet available in Viet Nam because of the absence of enabling regulations.

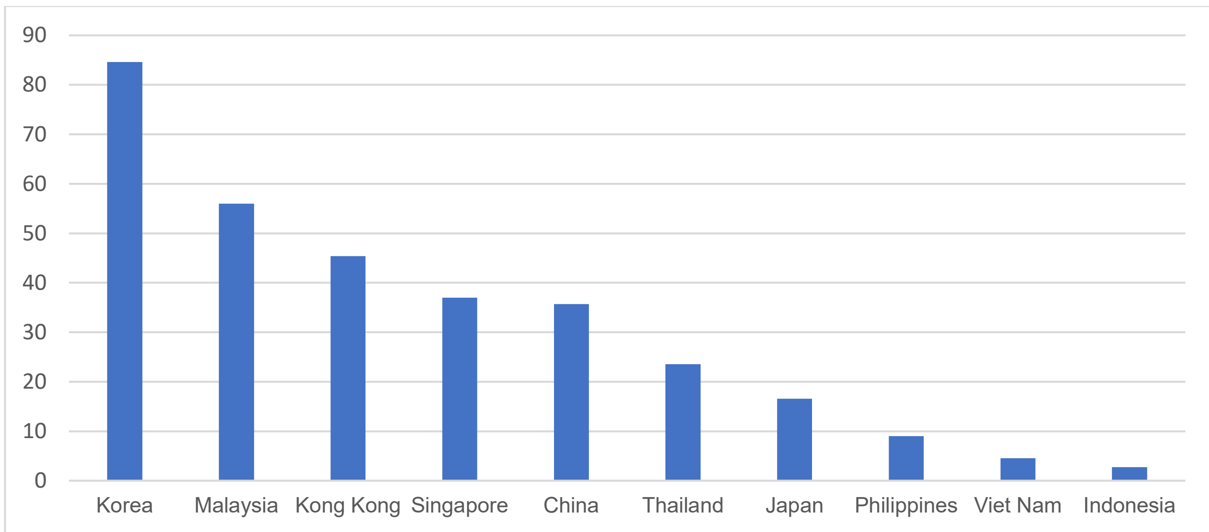


Figure 2. Corporate bonds to GDP ratio (Source: ADB Asia Bonds Online)

2.1. Overview of Vietnamese banking sector: Short-term loans and SOEs

2.1.1 Vietnamese commercial banks' sources of funding

The ability of Vietnamese banks to provide long-term loans is limited. Vietnamese banks' assets are mostly funded by deposits from customers and deposits/loans from other credit institutions, while long term debts such as bonds, Certificate of Deposits (CDs) and other valuable papers issued only account for a small percentage of a banks' sources of funding.

For many years, deposits from individuals and institutions were the main source of funding for banks and this trend has not changed in the last decade. Banks are not able to mobilize additional sources of funding since the debt market in Viet Nam has only recently developed. Taking the top five Vietnamese banks (that is, BID, VCB, CTG, STB, and TCB), this study shows that deposits and loans from other credit institutions account for about 80% of funding streams, while around 5% of total funding between 2011 and 2020 (Table 1 and Table 2) was attributable to valuable papers issued and the equity-to-total-asset ratio. This means that the assets of the top five Vietnamese banks are mostly funded by deposits from customers and deposits/loans from other credit institutions. Moreover, there has been an upward trend in Vietnamese commercial banks' deposits-to-total-asset ratio from 2011 to 2020 at BID, VCB, CTG and STB, while TCB has experienced the opposite trend (from 83.72% in 2011 to 75.11% in 2020). Furthermore, in 2020, BID saw the highest deposits-to-total-asset ratio with 7.02%, followed by TCB with 5.92% while the numbers for VCB, CTG and STB are 1.23%, 4.21% and 4.05% respectively.

Deposits/Total Asset (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
BID	70.67	70.52	80.98	75.77	81.33	79.18	81.40	79.92	86.30	83.91

Deposits/Total Asset (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
VCB	77.07	80.23	80.67	85.01	84.10	74.90	81.79	81.95	85.63	88.01
CTG	76.64	77.20	79.84	75.96	78.03	79.27	80.50	80.78	83.41	84.93
TCB	83.72	85.09	85.94	84.89	84.27	80.66	74.10	76.25	73.92	75.11
STB	73.75	84.68	88.23	90.38	90.28	90.24	87.85	89.15	88.49	84.92
Average	76.73	84.68	88.23	82.40	83.60	80.85	81.13	81.61	83.55	83.37

Table 1. Top five Vietnamese banks' Deposits-to-total- asset ratio (%) from 2011 to 2020 (Source: Banks' audited financial statements)

		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BID	Convertible bonds, CDs and other valuable papers issued/Total Asset	5.79	6.06	3.09	7.71	6.62	6.96	3.05	4.21	4.17	7.02	N/A
	Equity/Total Asset	5.47	5.84	5.12	4.98	4.39	4.06	4.15	5.21	5.25	4.90	5.95
VCB	Convertible bonds, CDs and other valuable papers issued/Total Asset	0.49	0.43	0.38	0.37	1.31	1.76	2.00	1.75	1.60	1.23	N/A
	Equity/Total Asset	10.02	9.04	7.53	6.70	6.11	5.08	5.79	6.62	7.09	7.86	8.65
CTG	Convertible bonds, CDs and other valuable papers issued/Total Asset	5.69	2.87	0.80	2.68	2.51	2.05	3.97	4.60	4.46	4.21	N/A
	Equity/Total Asset	6.68	9.38	8.32	7.20	6.36	5.82	5.78	6.23	6.37	6.12	7.53
TCB	Convertible bonds, CDs and other valuable papers issued/Total Asset	5.81	3.55	3.56	4.24	4.43	6.55	4.11	4.55	6.35	5.92	N/A
	Equity/Total Asset	7.39	8.76	8.52	8.57	8.32	10.00	16.13	16.18	16.97	16.36	17.85
STB	Convertible bonds, CDs and other valuable papers issued/Total Asset	5.11	0.31	0.00	0.00	0.00	1.52	1.99	2.09	2.26	4.05	N/A
	Equity/Total Asset	9.01	10.57	9.52	7.56	6.68	6.31	6.07	5.90	5.88	6.57	5.76

Table 2. Top five Vietnamese banks' valuable papers issued and equity-to-total-asset ratios (%) from 2011 to 2021 (Source: Banks' audited financial statements)

2.1.2 Vietnamese commercial banks' loans and advances by maturity

On average, deposits account for more than 83% of banks' liabilities in Viet Nam (2020)[2]. As banks are mostly financed by short-term deposits, their ability to provide long-term loans is, and should be, limited. This is to avoid an excessive mismatch between maturity of assets and liabilities. Circular 08/2020/TT-NHNN (2020), and previously Circular 22/2019/TT-NHNN (2019), limit the ratio of long-term debt over short-term liabilities of banks to 40% in 2020, and 30% in 2023. Indeed, if loans have

[2] Authors' calculation from 5 largest banks' audited financial statements.

to be carried to maturity, lenders must guard against a situation in which they do not have sufficient cash on hand to meet immediate obligations. Maturity transformation, from short-term liabilities to long-term loans, is an important source of income for banks, as they are rewarded for taking on the risk of changing interest rates. However, excessive maturity transformation threatens the stability of banks and the whole financial system (Bologna, 2018; van Rixtel and Gasperini, 2013). It is also the case that working capital and consumer lending is lucrative, earning high rates of return from unsecured loans. Because it is difficult to foreclose on collateral, banks are reluctant to lend against capital assets. Unsecured working capital and consumer loans are relatively small and short term, so writing them off in the case of default is not a big problem. Moreover, the absence of secondary markets means that it is difficult if not impossible for banks to manage risks by selling (securitizing) loans. It is also worth mentioning that larger loans are made based on established relationships, which often means lending to the SOEs, and the importance of relationships to new loans applies to joint stock banks as much as it does to state-owned commercial banks.

In terms of commercial banks' loans, these financial institutions mostly supply loans to support a temporary personal or business capital need within a term of five years. In fact, short-term financing is typically tied to cover inventory costs and other short-term supply needs while with long-term loans, the money is often used to finance the growth of corporations, both in respect of operations and infrastructure. With limited supply of long-term bank credit, firms have a tough time raising capital from banks for complex projects that gestate slowly and require large scale, upfront investment.

Data from the five largest commercial banks in Viet Nam shows a significant increase in loans and advances to individuals from 2011 to 2021. In theory, this type of loan refers to the credit offered to individuals or households to finance the purchase of items such as automobiles and appliances, or for other personal expenses. They may or may not be backed and secured by collateral. In fact, in Viet Nam, the proportion of loans and advances to individuals started at about 22% of overall lending in 2011, after which it saw a steady growth to approximately 43% in 2021.

Short-terms loans have accounted for more than a half of total loans and advances which are offered by the top 5 Vietnamese commercial banks in the last decade, from 2011 to 2021 (Table 3). Over a period of 11 years, BIDV experienced an increase of about 10% in the rate of short-term loans and a decrease of 7% in that of long-term loans. By contrast, there has been considerable growth in long-term loans at all 4 other commercial banks. The numbers are around 10% for VCB, TCB and STB while only 4% for CTG. This means a critical reduction of 23% in short-term loans at TCB, a slight decrease of around 6% in short-term loans at VCB and a small fluctuation in short-term loans at CTG and STB from 2011 to 2021.

	Percentage (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BID		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Short term loans[3]	55.10	55.91	56.40	57.57	56.95	54.84	58.01	61.82	62.64	62.89	64.41
	Medium term loans[4]	12.14	11.95	13.20	13.95	13.65	11.94	9.43	7.24	6.56	5.77	5.69

[3] Loan terms up to 12 months

[4] Loan terms from 12 months to 60 months

	Percentage (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Long term loans[5]	32.76	32.15	30.40	28.47	29.40	33.22	32.56	30.95	30.80	31.34	29.90
VCB		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Short term loans	58.88	62.01	63.89	63.95	59.52	56.44	55.82	54.16	52.31	51.72	52.91
	Medium term loans	10.66	10.41	10.91	10.37	11.31	11.67	10.40	8.44	6.60	5.13	4.22
	Long term loans	30.46	27.59	25.20	25.68	29.18	31.89	33.77	37.40	41.09	43.14	42.88
CTG		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Short term loans	60.29	60.13	60.51	59.95	56.03	56.61	56.77	56.38	57.44	58.50	60.43
	Medium term loans	10.41	10.22	8.76	9.02	11.17	11.04	9.71	8.13	6.62	6.09	5.88
	Long term loans	29.30	29.64	30.73	31.03	32.80	32.35	33.51	35.49	35.94	35.41	33.69
TCB		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Short term loans	56.08	53.39	49.91	42.08	27.18	25.16	39.42	37.75	37.08	33.30	33.00
	Medium term loans	16.74	24.06	27.64	34.03	40.73	43.82	26.67	22.99	20.56	30.72	26.94
	Long term loans	27.18	22.55	22.45	23.90	32.09	31.02	33.91	39.25	42.36	35.98	40.06
STB		100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
	Short term loans	62.05	62.13	47.96	42.00	36.96	39.50	44.64	48.00	51.95	56.19	60.82
	Medium term loans	20.28	23.51	37.76	40.57	46.07	37.23	27.46	22.10	20.30	15.70	12.68
	Long term loans	17.68	14.36	14.28	17.43	16.97	23.28	27.90	29.91	27.76	28.10	26.50

Table 3. Top 5 Vietnamese banks' loans and advances by maturity from 2011 to 2021 (Source: Banks' audited financial statements)

The above finding is entirely consistent with the top five Vietnamese commercial banks' average loans and advances by maturity. Table 4 indicates that short-term loans make up the highest proportion of total loans, at around 55%, while the figure for long-term loans has been only around 30%. Moreover, the proportion of short term loans seemed to stay unchanged for more than ten years while there was a slight increase in the percentage of long term loans among Vietnamese commercial banks.

Percentage (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Loans and advances by Maturity	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Short term loans	58.22	58.97	58.21	57.48	53.35	52.38	54.86	55.98	56.15	56.29	57.75

[5] Loan terms over 60 months

Percentage (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Medium term loans	12.27	12.87	14.37	15.15	17.39	15.99	12.35	9.95	8.79	8.51	7.82
Long term loans	29.50	28.16	27.42	27.37	29.25	31.63	32.79	34.07	35.07	35.20	34.43

Table 4. Top 5 Vietnamese banks' average loans and advances by maturity from 2011 to 2021 (Source: Banks' audited financial statements)

2.1.3 Vietnamese commercial banks' loans and advances by industry

Regarding those industries to which commercial banks offer loans, manufacturing firms[6] and personal and public services[7] are the primary clients of banks. Table 5 shows that these two sectors occupy more than 40% in the total value of loans and advances offered by commercial banks in Viet Nam.

Loans and advances by sector (%)	BID	VCB	CTG	TCB	STB	Average
Trading	30.79	24.15	15.59	26.22	9.55%	21.26%
Agriculture and forestry	4.44	2.03	4.45	0.22	10.99%	4.43%
Manufacturing	**22.86**	**27.80**	**27.18**	**21.62**	**6.46%**	**21.18%**
Construction	8.90	8.49	9.64	8.19	4.53%	7.95%
Personal and public services	**11.82**	**0.00**	**38.16**	**0.42**	**63.04%**	**22.69%**
Warehousing, transportation and communication	3.89	3.20	2.50	21.76	1.64%	6.60%
Training and education	-	-	-	-	1.70%	0.34%
Estate agents and consultants	2.45	-	-	-	-	0.49%
Hotels and restaurants	0.00	1.21	-	-	0.81%	0.40%
Financial services	0.00	0.00	-	-	1.29%	0.26%
Others	14.83	33.13	2.48	21.58%	-	14.41%

Table 5. Top 5 Vietnamese banks' average loans and advances by industry from 2011 to 2021 (Source: Banks' audited financial statements)

2.1.4 Debt securities purchased by Vietnamese commercial banks

Debt securities among commercial banks in Viet Nam occupied a very small proportion of the total assets of the top five Vietnamese banks during the period from 2011 to 2021. Table 6

[6] The manufacturing industry includes four sub-sectors, including: (i) Manufacturing and processing; (ii) Electricity, fuel and hot water generation and distribution; (iii) Water supply, waste, and wastewater treatments; and (iv) Mining.

[7] Loans for personal and public services are defined as loans for personal and commodity activities, international organization activities, healthcare and social work, arts and entertainment, administration activities and supportive services, compulsory social security, household supporting activities, and other services.

shows that in 2021, TCB experienced the highest ratio of debt securities to total assets among the relevant commercial banks. However, the number was still only 0.84%, and the ratio for STB has been zero for many years.

Banks' debt securities can be of five different types, including: (i) Government Bonds; (ii) Government Guaranteed bonds; (iii) Securities issued by other local credit institutions; (iv) Securities issued by other local economic entities; and (v) Foreign Debt Securities. However, **in Viet Nam government bonds have generally made up the highest proportion of total debt securities of the top five Vietnamese banks** (Table 7). To be precise, there was an upward trend in the rate of government bonds from 45.76% in 2011 to 73.54% in 2015, before peaking at 88.15% in 2016. This number then experienced a drop to 71.52% in 2021. However, government bonds still make up a major proportion in the debt securities portfolio of the top five Vietnamese commercial banks.

Debt Securities/ Total Asset (%)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
BID	0.16	0.73	0.22	0.97	0.85	0.81	0.70	0.01	0.37	0.56	0.28
VCB	0.17	0.11	0.00	1.46	1.21	0.36	0.87	0.19	0.12	0.12	0.15
CTG	0.05	0.00	0.10	0.46	0.34	0.14	0.25	0.18	0.23	0.33	0.12
TCB	0.00	0.38	0.39	1.00	0.78	2.98	2.11	1.98	2.29	1.47	0.84
STB	0.00	0.00	0.94	2.59	0.04	0.00	0.00	0.00	0.00	0.00	0.00

Table 6. Top five Vietnamese banks' debt-securities-to-total-asset ratio from 2011 to 2021 (Source: Banks' audited financial statements)

Debt securities	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Government Bonds	45.76	78.21	57.96	70.97	73.54	88.15	80.43	51.15	77.05	73.21	71.52
Government Guaranteed bonds	0.00	0.00	0.00	0.00	0.00	4.17	0.41	13.93	0.91	0.00	0.00
Securities issued by other local credit institutions	54.24	21.79	42.04	27.67	15.43	1.97	8.06	20.53	16.13	22.18	18.75
Securities issued by other local economic entities	0.00	0.00	0.00	1.35	11.04	5.72	11.10	14.38	5.91	4.61	9.74
Foreign Debt Securities	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Table 7. Top five Vietnamese banks' structure of debt securities by from 2011 to 2021 (Source: Banks' audited financial statements)

2.1.5 Debt purchase and sale by commercial banks in Viet Nam

The State Bank of Viet Nam allows commercial banks to buy and sell debts to and from other credit institutions, under the framework provided by Circular No. 09/2015/TT-NHNN. This circular prescribes the procedures for purchase and sale of debts arising from lending operations

(including debts to be paid on a third party's behalf in the guarantee operation) of credit institutions and foreign bank branches; it also provides dossiers, order and procedures for approval of debt purchase by credit institutions and foreign bank branches. According to this circular, debt purchase and sale occurs by means of a written agreement to the transfer of a creditor's right to claim a debt arising from the lending operation or a debt to be paid on a third party's behalf in the guaranteed operation. The debt seller accordingly transfers the creditor's ownership of the debt to the debt purchaser and receives a payment from the debt purchaser.

Article 4 of the Circular No. 09/2015/TT-NHNN describes the Conditions for debts to be purchased and sold. In particular, a debt must meet the following conditions: (i) the Dossier and related documents and records of the debt to be purchased and sold and the security contract (if any) provided by the debt seller must fully and accurately show the state of the debt to be in accordance with the law; (ii) There is no written agreement on debt purchase and sale; (iii) The debt is not used to secure the fulfilment of a civil obligation at the time of debt purchase and sale, except where the secured party accepts in writing the debt sale. Thus, *debt sellers* include credit institutions and foreign bank branches that have debts which meet the above-mentioned conditions. In terms of *debt purchasers*, they should be a credit institution or a foreign bank branch which has been approved by the State Bank of Viet Nam for debt purchase activity as stated in its establishment and operation licence. Its non-performing loan (i.e., bad debts) ratio is to be under 3%, except in cases of debt purchase under an approved restructuring plan. Processes and procedures for the parties to perform debt purchase and sale are presented in Appendix 1.

Despite the State Bank of Viet Nam allows commercial banks to buy and sell debts to and from other credit institutions, debt purchase activities are not common among commercial banks in Viet Nam. Looking at the top five commercial banks from 2012 to 2021, the values of all debts purchased by BID, CTG and VCB are zero. Debt purchase activities took place at TCB and STB. TCB's debts purchases were (in billion VND) 30.63, 18.49, 10.33 and 133.42 in 2015, 2016, 2017 and 2021 respectively. The figure for STB was bigger than for TCB, with values of 751.75, 643.78, 544.19, 423.45, 301.52 and 188.77 billion VND from 2016 to 2021 respectively. This led to a debt-purchase-to-asset ratio of less than 0.1% for these two banks.

- Non-performing loans (NPLs)

  In terms of non-performing loans (NPLs), banks can sell them to the Viet Nam Asset Management Company (VAMC). At a time when Vietnamese banks' bad debt ratio exceeded the safeguard threshold set by the World Bank, the VMAC was formed to save the economy from the risk of breaking down and insolvency. The State Bank of Viet Nam launched a number of circulars, such as Circular No. 19/2013/TT-NHNN dated September 06, 2013, Circular No. 32/2019/TT-NHNN dated December 31, 2019 amending some Articles of Circular No. 19/2013/TT-NHNN, Circular No. 09/2017/TT-NHNN, and Circular No. 09/2017/TT-NHNN dated August 14, 2017 amending the Circular No. 19/2013/TT-NHNN to regulate purchase, sale and settlement of bad debts by VAMC.

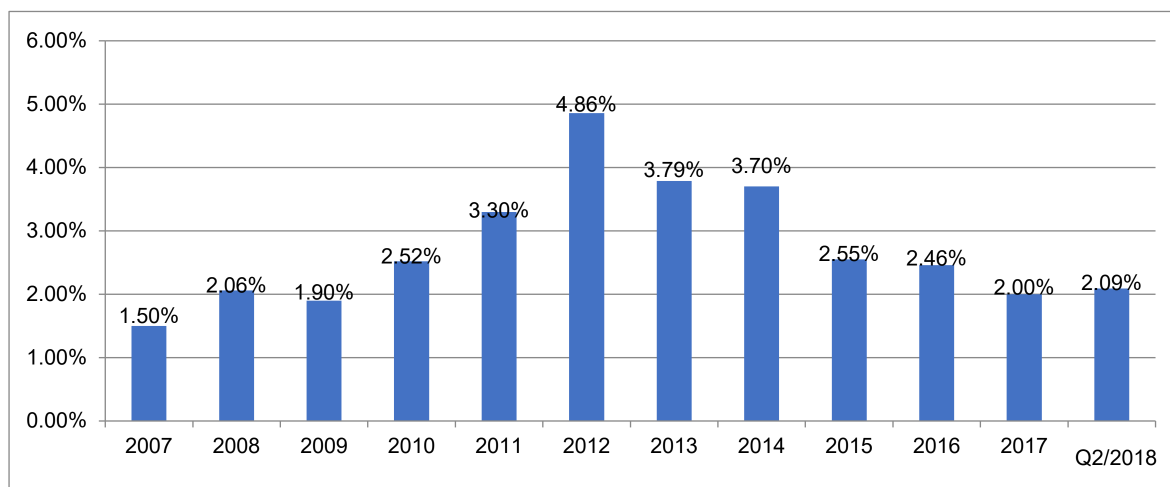


Figure 3. Non-performing loans among banks in Viet Nam from 2007 to 2018 (Source: Viet Nam State Bank)

Figure 3 describes NPLs among banks in Viet Nam from 2009 to 2015. It can be seen that there was a downward trend in NPLs as a percentage of total outstanding credit from 2009 to 2015. Starting at 1.99% in 2009, this ratio dramatically increased before reaching a peak of 4.08% in 2012, followed by a gradual decrease to 2,55% in 2015. From 2012 to 2015, the figure for NPLs as a proportion of total outstanding loans was only lower than the international standard of 3% in one year, that being 2015. However, according to the National Financial Supervisory Commission, of a total of VND 180 trillion of NPLs handled in 2015, VND 110 trillion was sold to VAMC, about VND 30 trillion was deducted to provisions, and only about VND 40 trillion was recovered by other methods dealing with bad debts. This means that official reports regarding the ratio of NPLs to total outstanding credit couldn't be considered to represent accurately the current situation of NPLs among Vietnamese commercial banks, since NPLs were only transferred to VAMC to wipe the balance sheets of commercial banks. Moreover, dealing with NPLs was extremely difficult due to the context of low economic growth, financial instability, and a frozen real estate market. In addition, the fact that NPLs were quite concentrated in the real estate sector and that NPLs were mostly secured by real estate assets were two factors that had a significant impact on the ability to repay the debt and sell collaterals.

Regarding VAMC's role, **by acquiring bad debts from banks and other financial institutions, VAMC was expected to contribute in part to improving the credit quality of banks as well as loaned companies**. This enabled capital to continue to flow, helping to restore business operations in a difficult period. However, by the end of 2016, the total amount of unresolved debt sold to VAMC was VND 224 trillion, accounting for 85% of total NPLs and for about 4.3% of total outstanding credit. Therefore, up to now, **the VAMC model is still contentious with regard to efficacy**, some salient points of the debate being:

(i) The procedure for selling and recovering debt is still slow and is hampered by a lot of problems affecting the progress of debt recovery.

(ii) The handling of commercial banks' bad debt is still deadlocked because VAMC cannot sell or handle bad debts that it has bought. In the past, the banking system in Viet Nam only dealt with the "clean-up" of bad debts to VAMC. This organization plays a role as a place for "storage" for bad debts of commercial banks, and bad debt is still really in stock.

Our research shows that the following factors have great impact on the effectiveness of the VAMC model in Viet Nam:

(i) Bad debt characteristics: Bad debt data in Viet Nam has not yet been investigated carefully, so it is hard to know whether VAMC's planning and proposed solutions are adequate. Moreover, bad debt in Viet Nam is mainly owned by State Enterprises, causing difficulties in selling the collateral assets or transferring shares at market prices.

(ii) Inadequate legal framework: Bad debt in Viet Nam is mainly associated with collateral (real estate secured loans account for about 70% of total outstanding loans). After buying bad debt from financial institutions, VAMC has two options to handle bad debt, including debt restructuring and bad debt recovery (or selling collateral assets). However, at present, the law relating to the disposal of collateral is on the side of the asset owner (namely the borrower or the guarantor).

(iii) The debt market is not complete and lacks features that typically exist in a well-functioning, complete and developed debt market. This limits the debt trading of VAMC and the involvement of economic operators in this market.

Previously, credit institutions sold bad debts or collateral for bad debts publicly and transparently in accordance with Resolution No 42/2017/QH14. However, the resolution is just a pilot and remains in force for only five years, and thus it does not apply to handling all NPLs of credit institutions in the long-run. In order to deal with the above mentioned limitations, on October 15, 2021, VAMC set out to establish a bad debt exchange (i.e. a bad debt trading platform) in Viet Nam. In expectation, the debt exchange is also established with the goal of creating and providing a new, professional, and effective service for bad debt settlement, thereby enhancing the position and role of VAMC, contributing to the quick and definitive settlement of bad debts and promoting the development of the debt trading market, with VAMC playing a central role in the market. As soon as the exchange was launched, VAMC took the role of a market maker. Other participants are credit institutions, asset management companies (AMC) affiliated to credit institutions, and enterprises running debt trading services regulated in Decree 69/2016/ND-CP. It is expected that bad debts listed on the exchange will come from two sources. The first source is debts purchased by VAMC at market price, estimated to be around VND3 trillion (US$132 million). These debts are set to be traded immediately as soon as the exchange opens its first ever session. The second source is debts from credit institutions and AMCs affiliated to credit institutions.

2.2. Corporate financing

2.2.1. Vietnamese firms' liabilities

Liabilities are important proxies to understand companies' ability to expand, invest and scale up their businesses, providing useful information to undestand their financial health and creditworthiness. It can be seen from Table 8 that, in general, there is an downward trend in the liability-to-total-resources ratios for FPT, HPG and MWG, while the numbers for MSN and VNM slightly increased over the years between 2012 to 2021. On average, MWG has experienced the highest financial leverage with the average ratio of liability to total resources of 67%, followed by MSN with 60.42%, while the numbers for VNM are about 28%. FPT and HPG had an average ratio of liability-to-total-resources of around

50%. Moreover, excepting MSN (which has a ratio of long-term liabilities to total resources of 32.43% which is moderately bigger than that of its ratio of current liabilities to total resources), these firms' ratios of current liabilities to total resources have experienced a significant gap in comparison with the long-term liabilities to total resources. For example, the former number of FPT is 47.54% on average, compared to only 2.22% of the latter number. A similar situation has happened for HPG, MWG and VNM. **In brief, over the decade from 2012 to 2021, around half of the five biggest non-financial firms' total resources came from liabilities in general but mostly from current liabilities**.

Liability/Total Resources (%)		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 F	Average
FPT	Current liabilities/Total Resources	47.99	51.61	57.24	57.47	58.42	44.40	48.56	48.22	53.59	55.42	0.00	47.54
	Long-term liabilities/Total Resources	2.08	1.41	1.90	3.44	3.20	2.64	1.78	1.48	1.83	4.69	0.00	2.22
	Liabilities/total resources	50.07	53.02	59.14	60.91	61.63	47.05	50.35	49.69	55.42	60.11	44.74	53.83
HPG	Current liabilities/Total Resources	38.72	48.29	40.82	39.18	36.07	34.93	28.94	26.51	39.52	41.21	0.00	34.02
	Long-term liabilities/Total Resources	16.18	10.17	5.01	4.11	4.19	3.97	19.13	26.53	15.45	7.85	0.00	10.24
	Liabilities/Total resources	54.89	58.46	45.83	43.28	40.26	38.90	48.07	53.05	54.97	49.07	36.48	47.57
MSN	Current liabilities/Total Resources	12.27	21.04	22.27	20.88	24.51	24.45	24.46	31.34	33.59	27.40	0.00	22.02
	Long-term liabilities/Total Resources	36.81	28.94	36.33	41.39	47.68	43.71	22.77	15.33	44.78	39.03	0.00	32.43
	Liabilities/Total resources	49.08	49.98	58.60	62.27	72.19	68.16	47.23	46.67	78.37	66.42	65.67	60.42
MWG	Current liabilities/Total Resources	71.21	63.05	56.44	65.82	74.14	68.85	63.75	68.19	63.92	67.64	0.00	60.27
	Long-term liabilities/Total Resources	0.00	0.00	0.00	0.00	0.00	5.26	4.30	2.69	2.45	0.00	0.00	1.34
	Liabilities/Total resources	71.21	63.05	56.44	65.82	74.14	74.11	68.06	70.88	66.37	67.64	59.37	67.01
VNM	Current liabilities/Total Resources	21.04	21.67	21.16	21.85	21.98	29.41	28.47	32.31	29.35	32.00	0.00	23.57
	Long-term liabilities/Total Resources	0.30	1.53	2.00	2.00	1.75	1.73	1.22	1.18	1.18	0.78	0.00	1.24
	Liabilities/Total resources	21.35	23.20	23.17	23.85	23.73	31.14	29.69	33.49	30.53	32.78	31.14	27.64

Table 8. Top 5 Vietnamese biggest non-financial firms' financial leverage from 2011 to 2021 (Source: Firms' audited financial statements)

In terms of real estate firms, Table 9 shows that their sources of funding mostly come from liabilities, except KDH with the financial leverage ratio smaller than 50%. In other words, their financial leverage ratio is very high. This is a typical characteristic of real estate companies. Moreover, there has been a critical downward trend in liabilities to total resources ratios. To be precise, starting at the point of 83.7% in 2012, the number of NVL decreased to 74.23% after 10 years. Similarly, the financial leverage ratios of PDR, VHM and KDH reduced from 72.51%, 82.48% and 43.99% in 2012 to 60.37%, 42.84% and 28.88% in 2021 respectively.

	Liability/Total Resources	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
NVL	Current liabilities/Total Resources	55.77	61.55	50.26	41.10	45.80	40.50	20.90	21.74	24.38	0.00
	Long-term liabilities/Total Resources	27.93	17.55	26.80	31.40	27.40	30.61	51.91	56.16	55.22	0.00
	Liabilities/Total resources	83.70	79.11	77.06	72.49	73.20	71.11	72.81	77.91	79.60	74.23
PDR	Current liabilities/Total Resources	19.69	11.95	18.62	20.35	18.64	10.86	7.16	22.01	28.09	42.48
	Long-term liabilities/Total Resources	52.81	62.82	57.13	49.54	54.66	60.72	61.08	46.70	38.66	17.89
	Liabilities/Total resources	72.51	74.77	75.74	69.89	73.30	71.59	68.24	68.71	66.74	60.37
VHM	Current liabilities/Total Resources	55.21	56.03	67.01	67.30	71.50	66.71	35.82	61.63	48.01	32.59
	Long-term liabilities/Total Resources	27.27	21.92	15.81	4.53	3.05	13.56	23.96	5.56	10.59	10.26
	Liabilities/Total resources	82.48	77.95	82.82	71.83	74.55	80.27	59.77	67.19	58.61	42.84
KDH	Current liabilities/Total Resources	19.45	12.18	15.45	12.14	16.03	18.70	27.13	34.54	30.20	15.68
	Long-term liabilities/Total Resources	24.54	32.34	35.32	39.01	28.56	17.58	5.41	7.56	11.26	13.20
	Liabilities/Total resources	43.99	44.53	50.77	51.15	44.59	36.29	32.54	42.10	41.45	28.88

Table 9. Top 4 Vietnamese real estate firms' financial leverage from 2011 to 2021 (Source: Firms' audited financial statements)

Furthermore, it can be seen that there was a shift between current liabilities and long-term liabilities at NVL. Before 2018, current liabilities accounted for around 50% in total resources while long term liabilities to total resources ratios were about 30%. Since 2018, the latter has been more than 50% since the former has been only around 20%. By contrast, PDR also has experienced an increase in the percentage of current liabilities in total resources but the opposite trend in long-term liabilities. However, long-term liabilities have played an important role in PDR's liabilities for 10 years. With regard to VHM and KDH, there has been a downward trend in long-term liabilities to total resources ratios during a decade. Moreover, current liabilities have been always 3 or 4 times bigger than long-term liabilities.

Table 10 illustrates the structure of current liabilities. Advances from customers and short-term loans have taken a very important part in total current liabilities of real estate firms in Viet Nam over a period of 10 years. In fact, this has been common for real estate projects in Viet Nam, where buyers are required to pay a fixed percentage of the total value of a house every 3 months or 6 months until real estate firms finish building these houses and they are transferred to buyers.

Current liabilities		2012	2013	2014	2015	2016	2017	2018	2019	2020
NVL	Advances from customers/Current liabilities	39.42	34.74	61.00	39.67	39.05	27.79	6.67	13.01	16.88
	Short-term loans and liabilities/Current liabilities	33.45	16.61	18.82	37.28	34.20	41.60	44.90	46.28	38.78
	Short-term loans	1.94	3.11	11.65	37.28	34.20	41.60	44.90	46.28	14.15
	Long-term liabilities falling due	31.51	13.50	7.17	0.00	0.00	0.00	0.00	0.00	24.63
PDR	Advances from customers/Current liabilities	26.22	45.59	8.56	22.69	36.74	64.87	1.28	21.19	14.13
	Short-term loans and liabilities/Current liabilities	47.63	30.50	54.37	32.95	25.88	4.37	0.00	39.11	32.23
	Short-term loans	31.28	2.66	1.06	1.14	30.13	40.19	5.96	0.00	2.27
	Long-term liabilities falling due	0.00	69.29	17.24	38.79	0.00	0.00	0.00	0.00	25.12
VHM	Advances from customers/Current liabilities	84.26	18.35	18.55	46.74	39.75	49.22	33.14	33.11	26.09
	Short-term loans and liabilities/Current liabilities	8.41	1.44	26.48	32.64	14.49	26.76	20.29	5.27	17.57
	Short-term loans	8.41	0.17	25.06	31.78	14.49	26.76	20.29	0.02	3.77
	Long-term liabilities falling due	0.00	1.28	1.42	0.87	0.00	0.00	0.00	5.25	13.80
KDH	Advances from customers/Current liabilities	14.21	45.51	16.15	48.29	52.67	59.82	49.25	60.65	51.59
	Short-term loans and liabilities/Current liabilities	79.34	45.46	3.45	21.60	17.20	10.69	6.72	13.82	8.97
	Short-term loans	19.16	14.02	0.00	0.00	0.85	4.89	0.83	3.28	5.35
	Long-term liabilities falling due	60.18	31.43	3.45	21.60	16.35	5.81	5.89	10.54	3.62

Table 10. Top 4 Vietnamese real estate firms' structure of current liabilities (Source: Firms' audited financial statements)

2.2.2. Vietnamese firms' long-term capital

Vietnamese non-financial firms' long-term borrowing comes mostly from loans offered by commercial banks. Table 11 gives an overview about components of top 5 Vietnamese biggest non-financial firms' long-term borrowing. It can be seen that bank loans have occupied a major part in the total long-term borrowing of these firms over a period of 10 years from 2012 to 2021. Their long-term borrowing from issued bonds have accounted for 0% for FPT and HPG, and for a very minor rate for MSN in 2013 and 2014 (with 26.70% and 48.70%, accordingly) and for VNM in 2015 (with 3.37%). However, there was a big change in the structure of long-term borrowing at MWG in 2021. To be precise, in 2021, 100% of this firm's long-term borrowing came from issued bonds instead of bank loans as in previous years.

Long-term borrowings		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
FPT	Bank loans/long term borrowings	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00

Long-term borrowings		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Average
	Issued bonds/long term borrowings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
HPG	Bank loans/long term borrowings	100.00	88.39	87.43	100.00	100.00	100.00	100.00	100.00	100.00	100.00	97.58
	Issued bonds/long term borrowings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
MSN	Bank loans/long term borrowings	100.00	52.72	50.79	100.00	100.00	100.00	100.00	100.00	100.00	100.00	90.35
	Issued bonds/long term borrowings	0.00	26.70	48.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.54
MWG	Bank loans/long term borrowings							100.00	100.00	100.00	0.00	75.00
	Issued bonds/long term borrowings							0.00	0.00	0.00	100.00	25.00
VNM	Bank loans/long term borrowings			91.34	96.63	97.06	97.20	93.62	100.00	100.00	100.00	96.98
	Issued bonds/long term borrowings			0.00	3.37	0.00	0.00	0.00	0.00	0.00	0.00	0.42

Table 11. Top 5 Vietnamese biggest non-financial firms' structure of long-term borrowing from 2012 to 2021 (Source: Firms' audited financial statements)

Regarding Vietnamese real estate firms, long-term borrowing has come not only from bank loans but also from issued bonds. Since 2013, they started to raise capital by issuing bonds alongside asking for loans from commercial banks. In 2013, issued bonds of VHM accounted for 64.17%, compared to 23.64% of bank loans (Table 12).

Long-term borrowings		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
NVL	Bank loans/long term borrowings	100.00	96.50	5.79	100.00	100.00	24.24	48.82	32.28	24.09	
	Issued bonds/long term borrowings	-	0.02	80.94	-	0.00	52.18	38.58	64.68	69.45	
PDR	Bank loans/long term borrowings	100.00		100.00	-	100.00	100.00			1.59	49.05

Long-term borrowings		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
	Issued bonds/long term borrowings	-		-	-	-	-			44.54	50.95
VHM	Bank loans/long term borrowings		22.59	23.64	100.00	100.00		100.00	5.57	16.43	3.66
	Issued bonds/long term borrowings		61.32	64.17	-	-		-	-	33.28	52.94
KDH	Bank loans/long term borrowings	100.00		100.00	100.00	66.62	72.19	79.62	100.00	100.00	88.28
	Issued bonds/long term borrowings	-		-	-	33.34	27.81	20.38	-	-	11.72

Table 72. Top 4 Vietnamese real estate firms' structure of long-term borrowing from 2011 to 2022 (Source: Firms' audited financial statements)

2.3. Bond market: Public sector, SOEs and property developers

2.3.1. Overview of Vietnamese bond market

The bond market in Viet Nam has experienced substantial change in recent years. Indeed, the market has expanded and now offers a more diverse range of products. However, **a more in-depth look at the Vietnamese bond market, especially at the corporate bond market, reveals the limited ability of an average private firm in Viet Nam to borrow on a long-term basis**. **State-owned enterprises account for the bulk of corporate borrowing and the market still lags behind more sophisticated regional markets** using a wide range of indicators, such as market turnover, market liquidity and diversity of the investor base.

Since opening up its economy in 1989, Viet Nam has been a bank-based economy. In other words, the banking sector bears the responsibility for providing long-term capital to the economy. However, with increasing sustainable economic growth, sound macroeconomic fundamentals and continued efforts in developing the capital market, the bond market has experienced significant development in recent years, at least when measured by certain indicators.

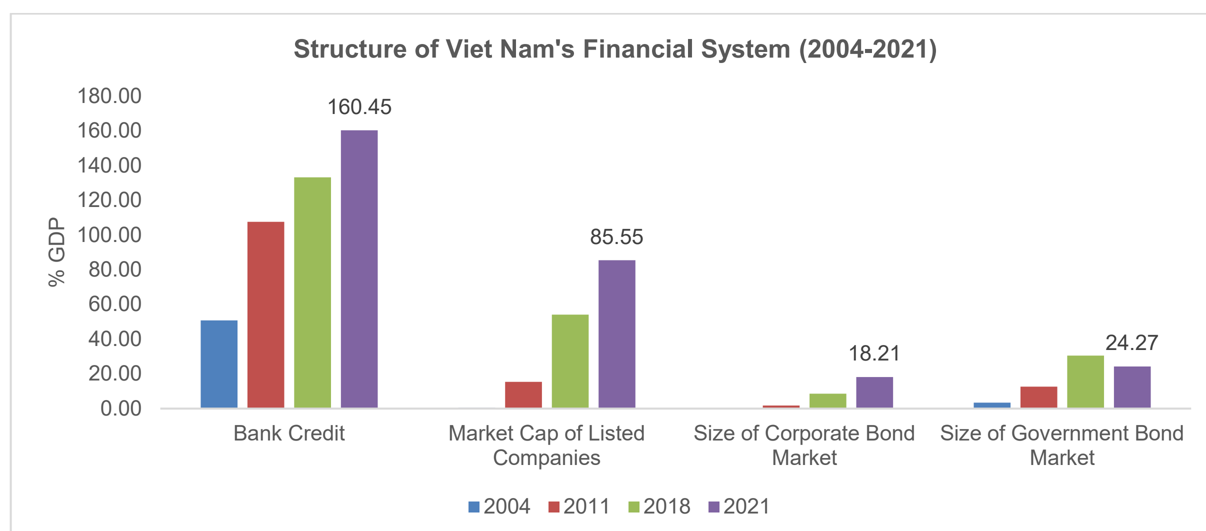


Figure 4. Structure of Viet Nam's financial system, 2004-2021 (Source: World Bank and asianbondsonline.adb.org[8]

The development of the local bond market in Viet Nam is more recent, compared to the equity market development *(*Figure 4*)*. Total corporate bond issuance during the 2017-2020 period was 9 times of that during the 2012-2016 period (Nguyen, 2021). Unlike the equity market, the bond market depends more on macroeconomic fundamentals for its development. Recent development in the corporate bond market has allowed a limited number of firms access, for the first time, to a wider range of options for capital structure (including equity finance, bond finance, bank loans, etc.).

Sound macroeconomic fundamentals, such as a low and stable inflation rate environment, a stable exchange rate, sustainable levels of government debt are all necessary matters for the development of the local currency bond market. Macroeconomic instability, on the other hand, would obstruct the growth of the bond market, since investors would demand higher yield to compensate for duration and convexity risks (Iosco, 2002). Learning from the effects of macroeconomic instability in periods 2007-2008 and 2011-2012, Viet Nam has maintained a stable macroeconomic environment in the last 6 years (Figure 5 and 6), which has helped develop the bond market in recent years.

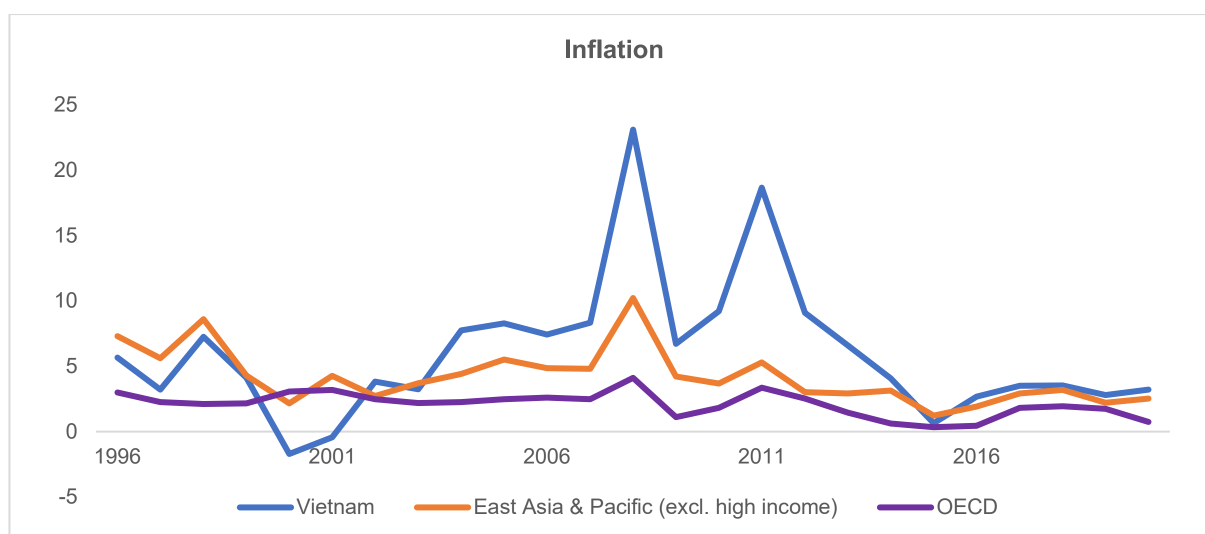


Figure 5. Inflation in Viet Nam, East Asia & Pacific (excl. high income) and OECD countries, 1996-2020 (Source: World Bank)

[8] Data for 2021 is collected from various sources, including SBV, GSO and SSC.

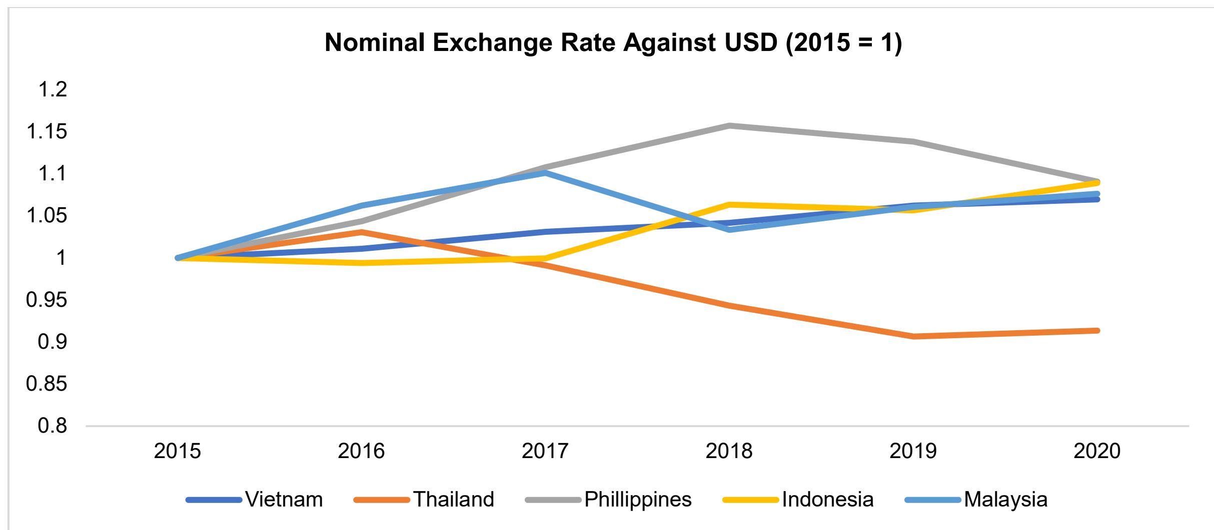


Figure 6. Nominal exchange rate against USD (2015=1) of Viet Nam and several ASEAN countries, 2015-2020 (Source: World Bank)

2.3.2. Government and corporate bond market: Despite some success in developing its size, the market still lags behind and the legal framework needs to be improved to ensure transparency and reliability

In recent years, significant government efforts have been put into development of the local currency bond market. **New laws, decrees and circulars have come into effect to build a solid legal framework and create an increasingly diverse portfolio of debt instruments for the government bond market**:

- Laws on public debt management (2017) provide a legal framework on issuance, registration, listing and transaction of debt instruments issued by the government. Decree 95/2018/ND-CP (2018) creates a list of market makers, mostly large banks and securities companies, who meet certain standards, such as the minimum amount of government debt bought annually. These market makers play an important role in creating liquidity in both the primary and secondary markets of government bonds. The Ministry of Finance reviews the list of these market makers annually.

- Creation of diverse government debt instruments, including a treasury bill with maturities of less than 1 year, 3-year bonds, 5-year bonds, 7-year bonds, 10-year bonds, 15-year bonds, 20-year bonds (since 2015), 30-year bonds (since 2015), and zero-coupon bonds (since 2018).

- Circular 110/2018/TT-BTC (2018) provides guidance on repurchase and swapping of government bonds. Circular 81/2020/TT-BTC (2020), amending the previous Circular 110/20118/TT-BTC, provides guidance on future repurchase of government bonds by the Treasury.

- Decision 1583/QD-NHNN by the State Bank of Viet Nam (2017), Decision 770/QD-SGDHN (2020) by Hanoi Stock Exchange Commission, and Decision 06/QD-VSD (2020) by Viet Nam Securities Depository all provide guidance on payment and transaction of government bonds.

- The new future contracts of 5-year and 10-year government bonds have been introduced to the market since 2019 and 2020, respectively, which provide additional risk insurance to market participants.

Recent changes in the legal framework have helped to build a more complete and liquid government bond market. Indeed, in contrast to the private bond market, the secondary market for government bonds has increased in size as the Treasury has reduced the number of instruments and extended the yield curve to thirty years, providing attractive investments for insurance companies. **These attempts to create a government bond market with more diversity in maturities also help to build the government bond yield curve, an important feature for the development of the corporate bond market**, as the yield curve of risk-free interest rates provides a benchmark for pricing risky bonds (Figure 7). Availability of derivative instruments, such as future contracts of 5-year and 10-year government bonds, helps increase liquidity in secondary markets of underlying assets. Domestic banks are the main buyers in the secondary market.

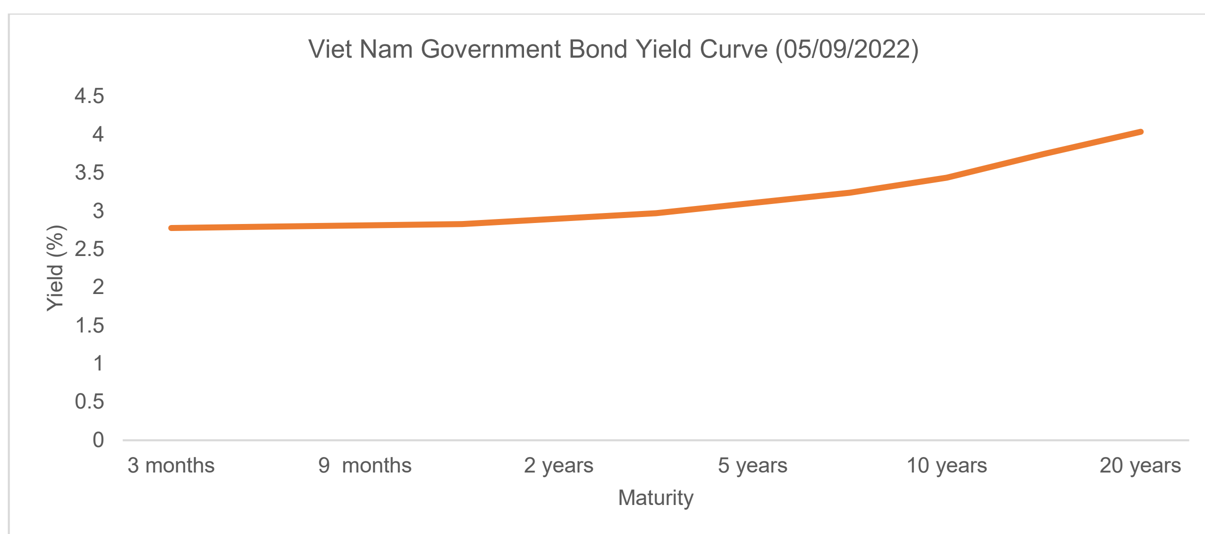


Figure 7. Viet Nam government bond yield curve (Source: Hanoi Stock Exchange)

In line with international practices, in Viet Nam private placement bond issuance has less stringent legal requirements compared to public bond issuance, as professional investors are thought to have a better understanding of the level of risk they are taking. In particular, **the following decrees, circulars and laws provide a comprehensive legal framework for the corporate bond market**:

- Decree 163/2018/ND-CP (2018) provides guidance on the issuance of corporate bonds. Decree 81/2020/ND-CP (2020) amends the previous decree. Considering that almost all private corporate bonds have been issued by banks and real estate companies and these are issued via private placement and based on close relationships between issuers and buyers, when banks buy these bonds, they could effectively grant bank loans to the property sector, which is a way to get around recent lending regulations that tighten bank credits lending to property sector. Decree 163/2018 prohibited the resale of private placement bonds to retail/public investors within a one-year period to protect retail investors from what are seen as risky investments. However, this does not solve the problem because after one year the bonds can be sold to the public, and there is little public information available on their quality.

- Securities Law (2019) and Law of Enterprise (2020) provide a legal framework for corporate bond issuance for different types of enterprises. Decree 153/2020/ND-CP (2020) regulates issuance and transaction of corporate bonds for private placements in the domestic and international markets. Decree 155/2020/ND-CP (2020) regulates issuance and transaction of corporate bonds for the public.

- Circular 122/2020/TT-BTC (2020) provides guidance on information disclosure, as required by Decree 153/2020/ND-CP (2020).
- State Bank of Viet Nam Circular 16 was issued on November 10, 2021 to reduce the risk of banking sector instability stemming from bond market transactions. The circular prohibits the issuance of new bonds to pay existing debts, which is intended to prevent companies in financial distress from restructuring their loans through the sale of new bonds. Bonds also may not be issued to purchase shares in other companies, a transaction often used in the property sector to gain access to land. The proceeds of bond sales cannot be used to raise working capital.

A requirement for information disclosure is also in place. In practice, however, **some current regulations need further revision, modification and/or supervision to better promote the development of a well-functioning corporate bond market**. Securities and other institutional investors can easily turn an average retail investor into a “professional investor” using co-investment contracts, so that these investors can purchase corporate bonds by private placement.

Indeed, recent scandals have undermined confidence in the bond market, especially the arrest on April 5, 2022, of Tan Hoang Minh property group officials in connection with the issuance of VND 10 trillion in corporate bonds in 2021 and 2022. In particular, in the Tan Hoang Minh scandal, the group was charged with submitting false information relating to the acquisition of land in Ho Chi Minh City’s Thu Thiem Peninsula. Retail investors signed a contract titled “Investment cooperation with Tan Hoang Minh Hotel Trading Service Co., Ltd” to buy bonds issued by companies from the Tan Hoang Minh group. Tan Hoang Minh raised as much as 10 trillion VND from private placement issuance, taking advantage of loose legal requirements for such transactions. After submitting a successful bid but at an exceptionally high price, the company subsequently withdrew, raising concerns that the company would default on its bonds. The standard fine for disclosing falsified information is 400-500 million VND (approximately 17 thousand to 22 thousand USD), which is an insignificant sum compared to the trillions of VND that the firm raised from the corporate bond market. Moreover, disclosure of falsified information or concealment of information occurs frequently, in part due to the lack of supervision from the SSC. In response to the scandal, the government issued Public Notice No. 304 calling for closer inspection of corporate bond market activities and land auctions. However, the case drew attention to the risks inherent in the domestic bond market: **while greater involvement of and reliance on credit rating agencies would help, the fundamental problem is the lack of transparency and reliability of financial reporting by domestic corporations, especially privately held companies in the property sector**.

Notable regulations that have either come into effect recently or will come into effect imminently include: (i) mandatory credit ratings for large corporate bond issuance (since 2023); (ii) commitment to list bonds on the exchange after issuance (since 2021), including submission of registration forms for bond listings within 30 days of issuance; (iii) only professional investors can participate in private placement (since 2021). Recent regulations are designed to create a more centralized, more liquid corporate bond market.

Despite the need for further improving the legal framework of the corporate bond market, **with its recent growth, this market has become an important channel for raising capital for companies that can access the issuance market**. In 2019 and 2020, the corporate bond market exceeded the equity market in terms of new capital issuance. Reasons for this are: (i) increasing need for cash flow by firms due to Covid-19; (ii) unfavorable conditions in the equity market due to Covid-19; (iii) increasing need for non-bank sources of finance by real-estate companies, due to Circular 22/2019/TT-NHNN, which raised the risk coefficient attached to real estate loans made by commercial banks from 150% to 200%; (iv) lower supply of long-term bank credit due to Circular 08/2020/TT-NHNN, which limits the ratio of short-term deposits used to finance long-term loans to 40%. This ratio

will be brought down further to 30% by October 2023. The corporate bond market proves its "spare-tire" role, which allows some firms to raise funds when other sources of finance dry up (Figure 8).

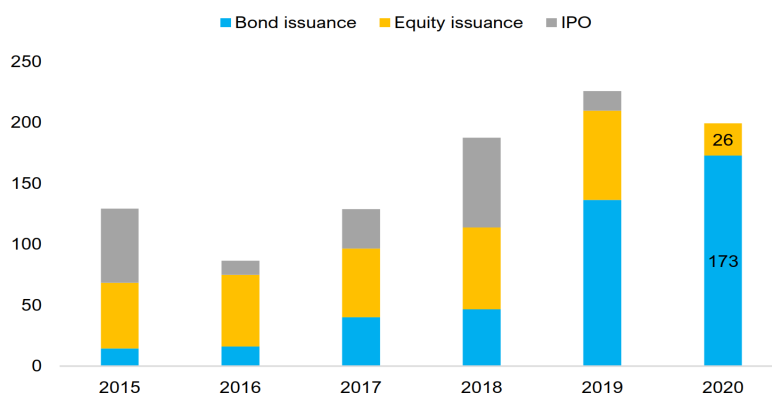
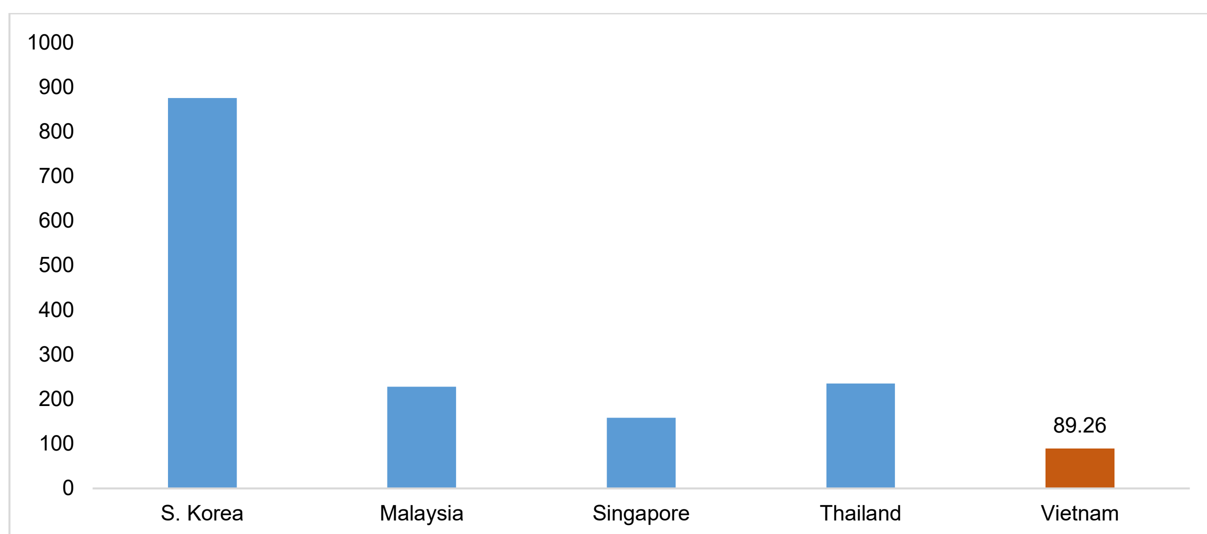


Figure 8. Bond and equity issuance in Viet Nam, 2015-2020 (Source: Fiin Rating)

Despite some success in developing the size of the market, the bond market in Viet Nam still lags behind advanced regional countries when measured in terms of absolute value or by percentage of GDP, and this is especially true for the corporate bond market. In 2021, the size of the corporate bond market was 18.21% of GDP, including bonds issued by private companies and SOEs (Figure 12). However, the corporate bond market, like the banking sector, is concentrated on SOEs. If bonds issued by SOEs count as government bonds, then the size of the corporate bond market in Viet Nam was only 7.14% of GDP at the end of 2021, despite recent significant development[9].



[9] In 2017, the Government approved a Bond Market Development Roadmap 2017-2020 (Decision 1191/QD-TTg), setting a target ratio of 7% of GDP for corporate bonds.

Figure 9. Size of government bond market in 2021 (billion USD) of several ASEAN countries (Source: asianbondsonline.adb.org)

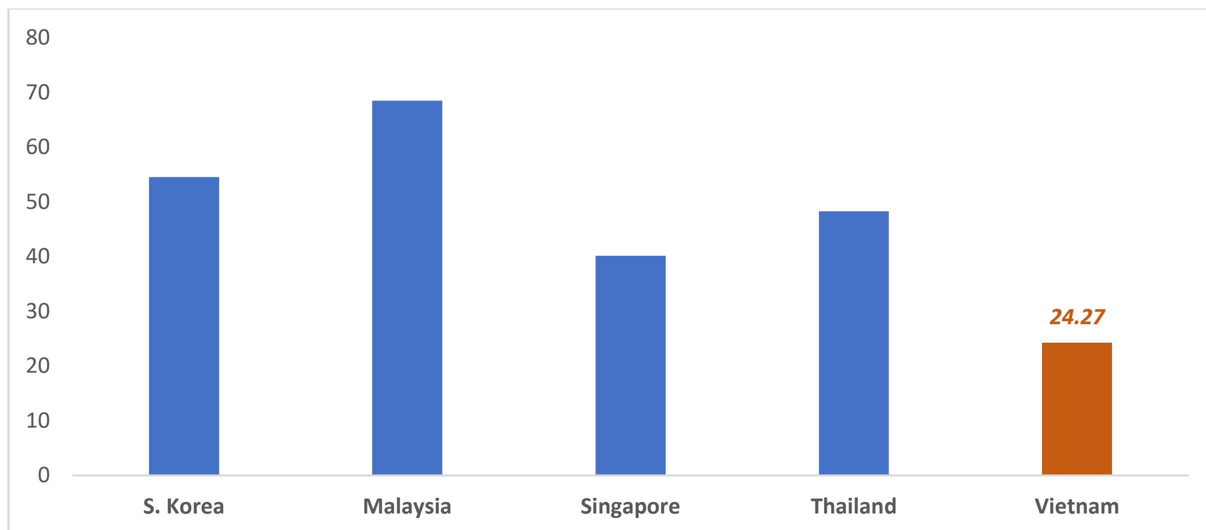


Figure 10. Size of government bond market in 2021 (%GDP) of several ASEAN countries (Source: asianbondsonline.adb.org)

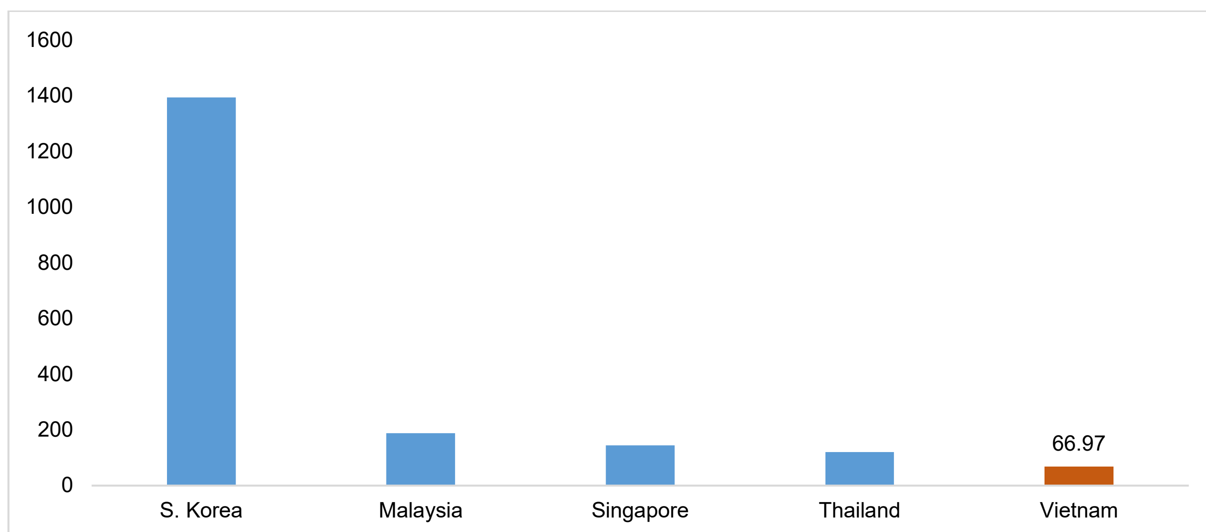


Figure 11. Size of corporate bond market in 2021 (billion USD) of several ASEAN countries (Source: asianbondsonline.adb.org)

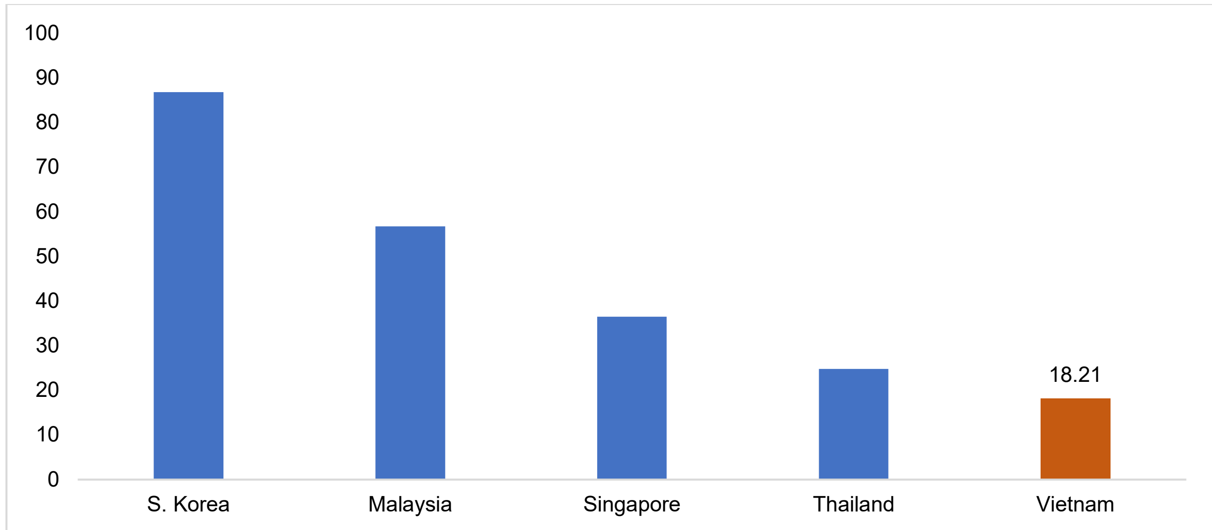


Figure 12. Size of corporate bond market in 2021 (%GDP) of several ASEAN countries (Source: asianbondsonline.adb.org)

Maturities of government and corporate bonds have become more diverse, with more medium and long-term bonds being issued and bought in the market (Figure 13). In the Vietnamese government bond market, the diversity in bond maturity is on par with regional countries, due to significant growth in the supply of long-term bonds in the last 7 years (Figure 14). A government bond market with diverse maturity helps build a benchmark yield curve and lay the foundation for development of the corporate bond market.

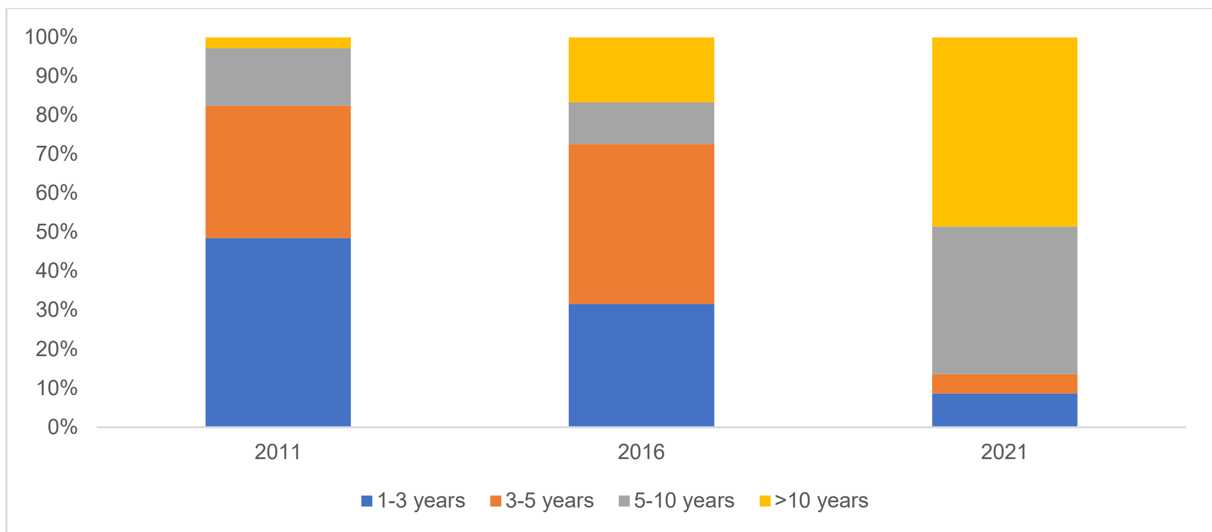


Figure 13. Composition of government bond by maturities in Viet Nam, 2011-2021 (Source: asianbondsonline.adb.org)

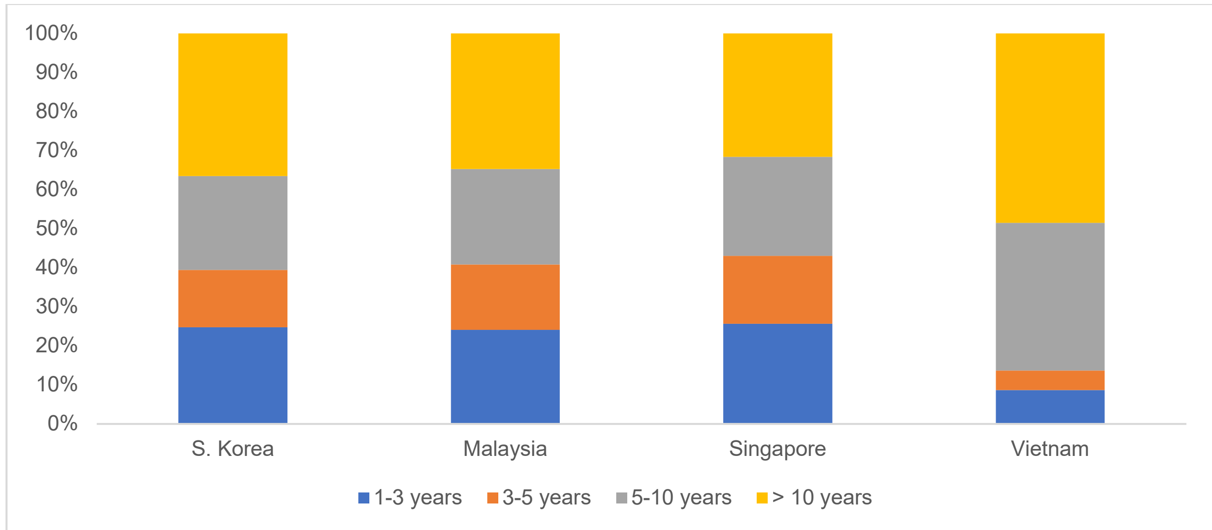


Figure 14. Composition of government bonds by maturities in S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org)

In the corporate bond market, however, the size of the market for long-term bonds with maturity of 10 years or above is still much smaller compared to regional countries, accounting for just 2.06% of the market (Figure 15). This indicates the extremely limited ability of corporations to raise long-term debt capital from the financial market.

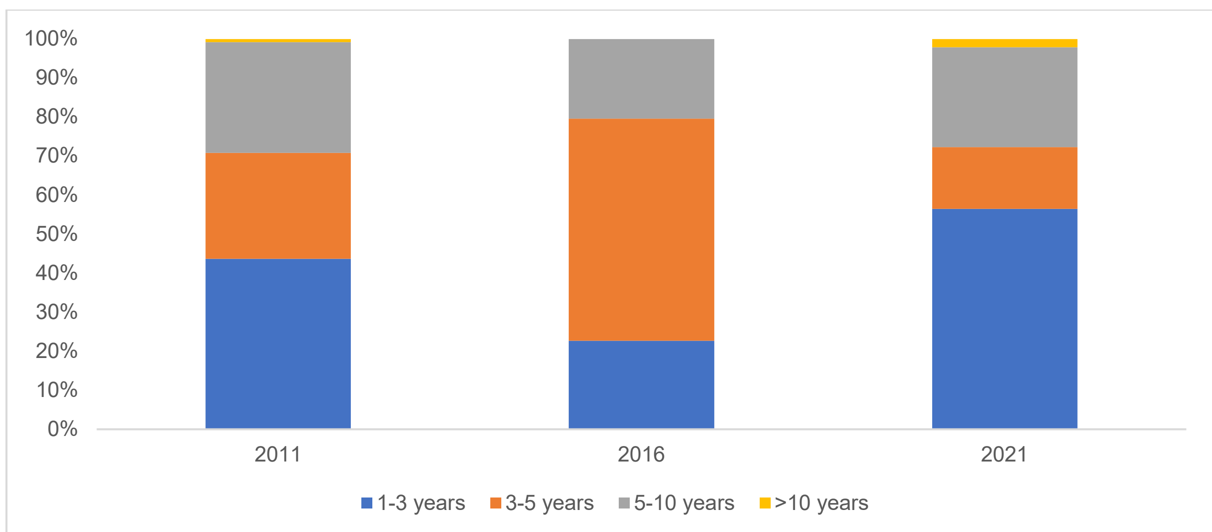


Figure 15. Composition of corporate bond by maturities in Viet Nam, 2011-2021 (Source: asianbondsonline.adb.org)

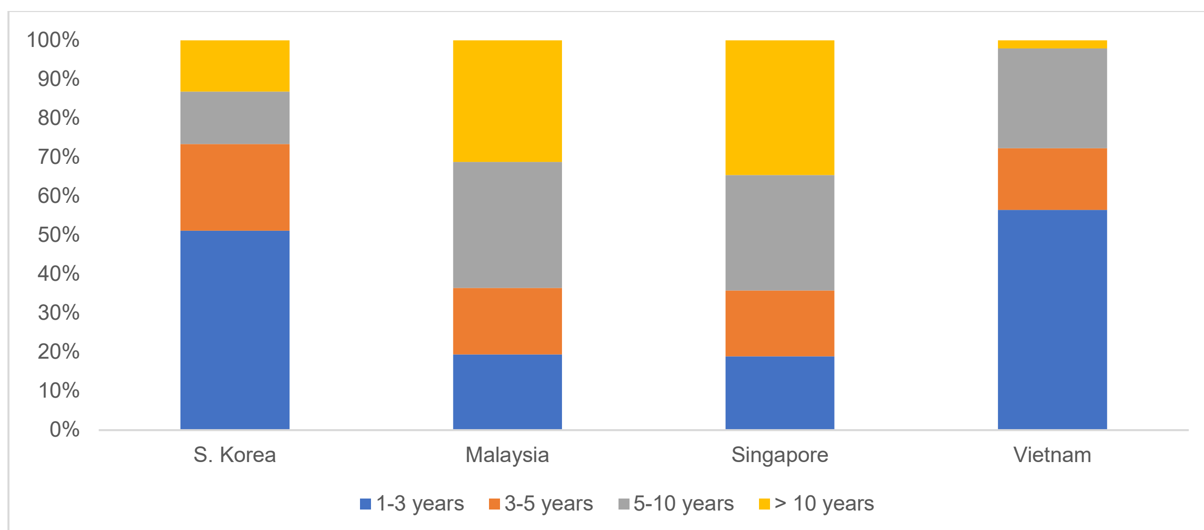


Figure 16. Composition of corporate bond by maturities in S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org)

Despite the growth in the size of the corporate bond market, other indicators of the market that measure market activities, such as liquidity and turnover, do not show much improvement over the years, especially in the corporate bond market (Figure 18). Most investors in the corporate bond market hold bonds until maturity.

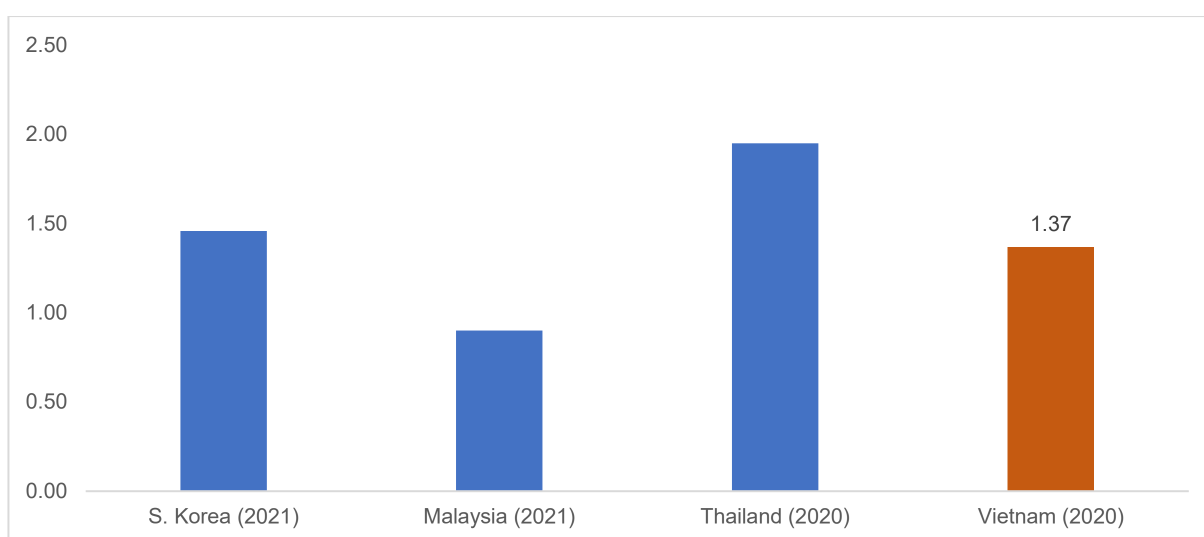


Figure 17. Government bond market turnover ratio of S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org)

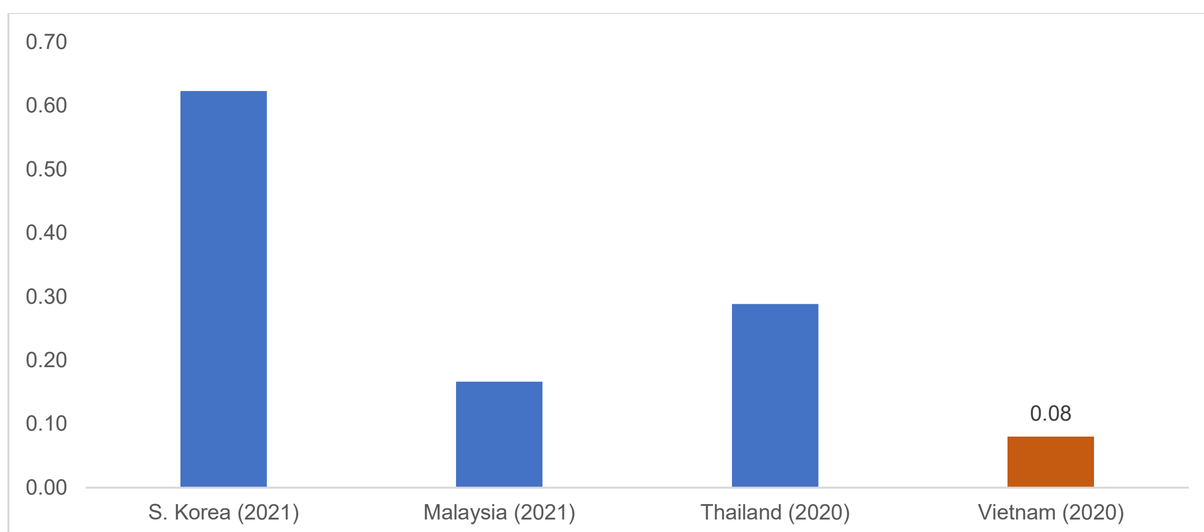


Figure 18. Corporate bond market turnover ratio of S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: asianbondsonline.adb.org)

In Viet Nam's corporate bond market, banks and real estate companies dominate the issuance market (Table 13). These are issued via private placement and based on close relationships between issuers and buyers (often banks). There is little public information available about these bonds and, as previously discussed, they are typically held to maturity because of the absence of a secondary market. In regional countries, although financial and real estate sectors still dominate the market, large companies in other industries also raise funds. Combining this fact with the small size of the corporate bond market, it is clear that the ability of a non-bank, non-real estate company to raise long-term capital is extremely limited. When non-bank, non-real estate companies can raise funds, they must pay a much higher premium.

	Number of issuances by non-financial, non-real estate sectors (among top 30 issuances in 2021)	Total value of capital raised by non-financial, non-real estate sector (among top 30 issuances in 2021)
S. Korea	4/30	9.8%
Malaysia	11/30	31.4%
Singapore	11/30	37.1%
Viet Nam	***6/30***	***7.2%***

Table 13. Corporate bond issuance by non-financial, non-real estate sectors of S. Korea, Malaysia, Singapore and Viet Nam, 2021 (Source: Author's calculation from Asia Bond Monitor-November 2021, ADB)

2.4. Equity market and other non-bank financial sectors: Growing in size but not in importance to capital mobilization

Other sectors (non-bank sectors) of the financial system experienced a high growth rate but are not yet efficient channels for firms to mobilize large and long-term finance. The equity market, for instance, has grown but remains small.

In terms of scale, Viet Nam's stock market has grown apace since its establishment in 2000. In the first trading session, there were only two listed companies whereas by 2006 the number of companies listed on the stock market had risen to about 200 companies; the figure for the year of 2019 was more than 1,600 firms.

The market capitalization has also grown significantly. The figure for 2000 was only VND 986 billion, accounting for 0.28% of GDP whereas by the end of 2020, market capitalization had increased by 20.8% compared to 2019, reaching VND 5,294 trillion, equivalent to 87.7% of GDP in 2019 and 84.1% of GDP in 2020. On December 31, 2021, the stock market capitalization value at HOSE reached more than VND 5.8 million billion, equivalent to 92.77% of GDP in 2020, an increase of 43.06% compared to the end of 2020.

In addition, there has been an increase in the number of investors. In 2000, there were 3,000 trading accounts which were held by individual investors, but this figure increased to more than 2.3 million accounts by the end of 2019. By mid-2020, the number of investor accounts was over 2.5 million, which was 820 times higher than in 2000. In 2021, the monthly average number of new accounts opened by investors was more than 100,000 accounts, leading to 1,534,363 new accounts over the year, which was equivalent to an increase of 56.07% compared to 2020. This number was much higher than the numbers in four consecutive years from 2017-2020. By the end of 2021, the total number of trading accounts of domestic investors had exceeded 4.2 million accounts, equivalent to about 4.3% of the population.

Although in 2021 the economic situation remained precarious, many businesses successfully mobilized capital for production and business. The total value of capital mobilized through additional issuance on the Ho Chi Minh Stock Exchange (HOSE) is estimated at more than 49,605 billion VND with 72 issuances, corresponding to an increase in value of more than five times in comparison with 2020.

The equity market, however, is still small, with only $3.8 billion in Initial Public Offerings in 2018. Moreover, two companies (Techcombank and Vinhomes) accounted for two-thirds of this amount. The value of equity trading on the stock markets was equivalent to 20% of GDP in 2020, which was twice the level of 2008 and higher than levels in Indonesia and the Philippines (Figure 19). For private companies, the stock market is not a viable financing option given the lack of liquidity in the market and the costs of listing.

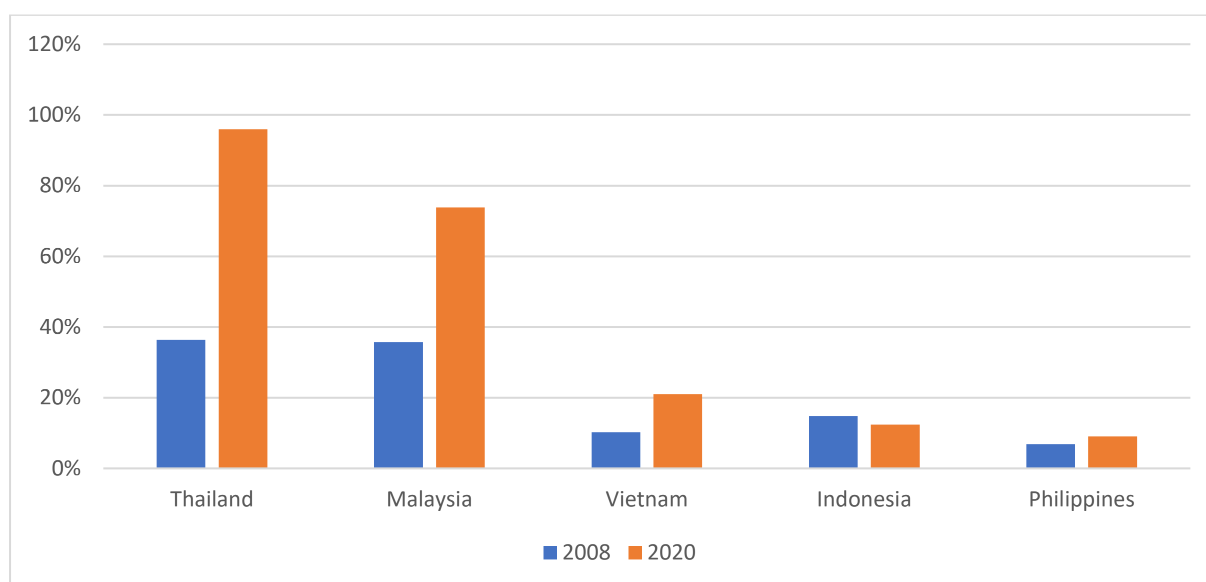


Figure 19. Value of stock market trading as % of GDP (Source: World Development Indicators)

Moreover, there are potential risks on the Vietnamese stock market which investors must be aware of, and which can affect investors' faith in corporations. Figure 20 shows that over the period from 2010 to 2019, violations related to disclosure of false information accounted for the largest proportion of incidences of stock market manipulation, and the number of cases per year consistently increased throughout this period. To be precise, the figures for violations started at less than 60 cases per year between 2010 and 2016, after which it saw a significant growth to 199 and 325 cases in 2017 and 2019 respectively. In addition, the Vietnamese stock market also experienced a number of other financial crimes such as fake documents, stock-price manipulation, and internal transactions. Recently, there have been serious cases of stock-price manipulation at FLC, Tri Viet Securities JSC and Louis Holding JSC, and insider trading at SKG.

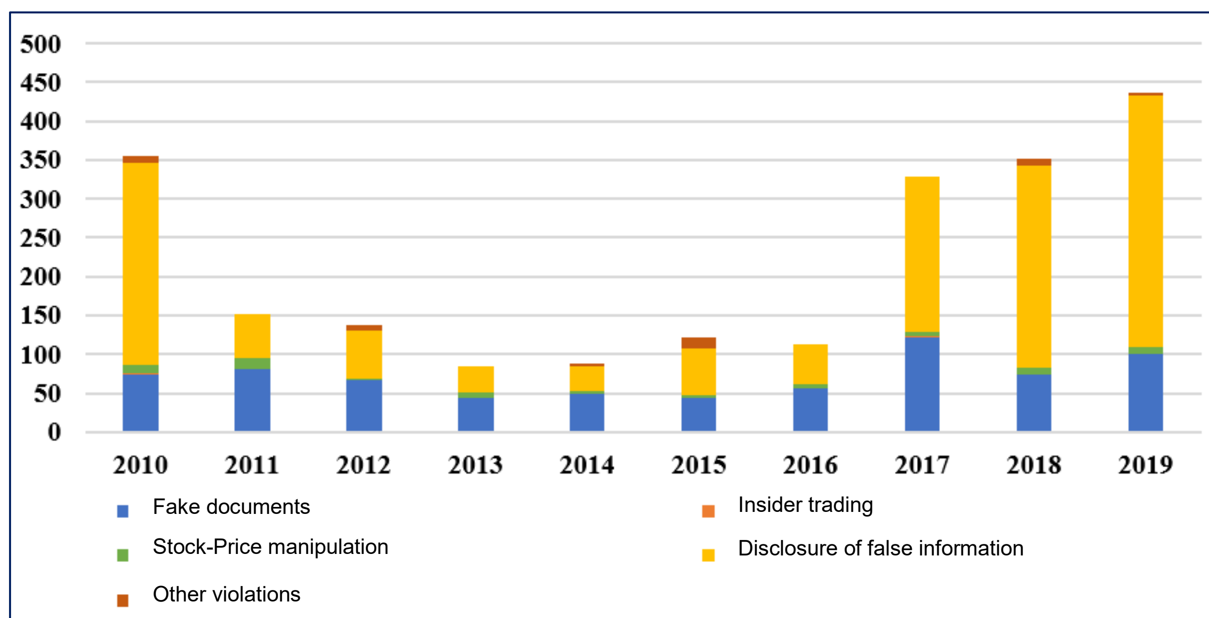


Figure 20. Statistics about stock manipulation on the Vietnamese stock market from 2010 to 2019 (Source: Data summarized by authors)

The insurance industry grew rapidly after WTO accession, which gradually relaxed restrictions on the participation of foreign companies in the local market. The value of insurance policies written increased 21% per annum from 2007 to 2018. Still, the ratio of insurance premiums to GDP was only 2.3% in 2020, compared to 5.3% in Thailand and 5.4% in Malaysia[10]. Insurance companies are an important market for long-term assets because their liabilities (especially life insurance) are long-term. However, life insurers in Viet Nam hold 70% of their assets in government bonds[11].

Securitization is not yet available in Viet Nam because of the absence of enabling regulations. As in the case of the corporate bond market, the lack of coverage by reliable credit rating agencies is an obstacle to the development of the market. However, a more fundamental issue is the credibility of the domestic banks that are the most likely issuers of loan-backed securities.

---

[10] Swiss Re Institute, 2021 (https://www.swissre.com/dam/jcr:ca792993-80ce-49d7-9e4f-7e298e399815/swiss-re-institute-sigma-3-2021-en.pdf).

[11] World Bank, 2020, "Can International Competition Drive Insurance Market Growth?" (https://openknowledge.worldbank.org/bitstream/handle/10986/34132/Can-International-Competition-Drive-Insurance-Market-Growth-Evidence-from-Viet Nam.pdf?sequence=4&isAllowed=y).

3. CONSTRAINTS ON FINANCIAL MARKET DEVELOPMENT

3.1. Financial market development as a governance problem: Lack of corporate transparency, weak legal institutions, and weak market infrastructure

Corporate bond issuers and brokerage companies exploit the loopholes in the legal system to sell corporate bonds to retail investors, most are unaware of the risk they are taking.

Loose regulation on private bond placement bought by professional investors is in line with international best practices and is specified in Decree 153/2020/ND-CP and Article 11 of the 2019 Securities Law of Viet Nam. Professional investors have better access to information and financial analysis, and better understanding of the financial risk involved in bond investment. Retail investors do not have access to the same information and are expected to participate in the listed bond market, rather than the private placement market. The current definition of professional investors includes:

(i) Commercial banks, foreign bank branches, financial companies, insurance business organizations, securities companies, securities investment fund management companies, securities investment companies, securities investment funds, international financial institutions, off-budget state financial funds, and state financial institutions that are allowed to purchase securities.
(ii) Companies with contributed charter capital of over VND 100 billion, listed organizations, or trading registration organizations.
(iii) Holders of securities practice certificates.
(iv) Individuals each holding securities listed or registered for trading with a value of at least VND 2 billion as certified by the concerned securities company at the time they are recognized as a professional securities investor; and,
(v) Individuals each earning a taxable income of VND 1 billion or more in the latest year by the time they are identified as a professional securities investor according to the tax declaration dossier submitted to the tax office, or the tax deduction document of the income payer.

For a small fee, bond brokerage firms can turn an individual retail investor into a "professional investor" that qualifies under category (iii), (iv) or (v). Many retail investors buy bonds from the private placement market, not fully understanding the risks that they are taking, as most bonds sold on the market are unrated.

There is no regular supervision by a state agency of the use of capital raised from bond issuance. The current legal system (article 41 of Decree 153) states that the supervision of the use of capital raised from bond issuance is the responsibility of the companies themselves. Bond issuers can raise capital and take excessive risk by taking on investment projects different than the ones specified prior to bond issuance. The fine for concealing information is only 400-500 million VND. In the Tan Hoang Minh scandal, the company raised 10 trillion VND in the bond market. Such a fine is extremely low and cannot provide a sufficient deterrent to companies from taking excessive risks and concealing information to bond investors.

The lack of a centralized trading platform or information database worsens the asymmetric information problem, hurting small retail investors. In the Tan Hoang Minh scandal, many of the retail investors mistakenly thought that they were bond holders while in fact, they had only signed a contract called "Investment cooperation with Tan Hoang Minh Hotel Trading Service Co., Ltd.". The bond holder was Tan Hoang Minh itself, which purchased bonds issued from companies within its group. Such fraud could be easily detected if there were a centralized trading platform or information database on all bond transactions.

Credit rating culture is fairly new in Viet Nam, as well as credit rating agencies. Decree No.88/2014/ND-CP on credit rating services (2014) provided a legal basis for credit rating agencies to be licensed. Viet Nam currently has two domestic credit rating agencies, Phattinh Rating (licensed in 2017) and FiinGroup (licensed in 2020). Both are fairly new and are taking some time to build their credibility and expertise. By contrast, Phil Ratings was established in the Philippines in 1985, Rating Agency Malaysia in 1990, and Pefindo in Indonesia in 1993 (Table 14). The market is currently small for credit rating business (Kathpalia, et. al. 2020). The lack of credit culture and diversity in the investor base, and a small and new corporate bond market are reasons behind the low demand for credit rating. Banks and retail investors are the main investors in the market. Banks have their own information sources, as most companies do business with banks. Retail investors seek high yield, short-term maturity bonds and often do not think about credit risk. This is a new market and investors have not yet seen a default. To avoid information disclosure and the costs of rating, corporations prefer private placement, which does not require credit rating. This is the dominance method of issuance in the market in Viet Nam. The new regulation requiring all large corporate issuances to be rated will become effective in 2023 and will likely boost the demand for credit rating. Many regional countries require mandatory credit rating during the new development period of the market to build the credit culture. For instance, Malaysia required credit rating until 2016, and India requires credit rating for all issuances, including private issuance. Moreover, the current law does not allow pension funds (public or private) to invest in non-bank corporate bonds. Changing the regulations and allowing pension funds to invest in high-credit rating bonds could also improve market demand.

Country	Domestic Credit Rating Agencies	Year First CRA Established	Estimated Number of Rated Entities	Is Rating Mandatory?
Indonesia	Pefindo, Fitch	1993	>700	Yes
Malaysia	RAM, MARC	1990	>250	No
Philippines	Phil Ratings	1985	>75	Yes
Singapore	Moody’s, S&P, Fitchb	1995	>100	No
Thailand	TRIS, Fitch	1993	>200	Yes
Viet Nam	Saigon Phatthinh, Fiin Rating	2017	30	No

Table 14. Domestic credit rating agencies in selected countries (Source: Kathpalia, 2020)

3.2. Viet Nam’s small private sector is a cause, not result of financing constraints

Viet Nam’s small private sector is a cause of underdevelopment in the corporate bond market. Firm size is an important factor that determines whether a firm would want to issue public debt. Datta, et. al. (2000) argues that smaller firms find public debt costly, as it entails underwriting, filing, registration, legal and bond rating fees. Using a probit econometric model and IPO bond offering for the United States, they showed that larger firms are more likely to issue public debt. Mizen and Tsoukas (2014), using data for nine Asian economies from 1995-2007, showed that firm size has a positive impact on the probability of issuing bonds. The reason, according to the two authors, is the high fixed cost associated with bond issuance. The majority of Vietnamese firms are either small or very small, and account for approximately 94% of total firms. The number of firms within this category is growing at a faster rate compared to large firms (Table 15). As most SOEs are large firms, the fraction of large firms would be even smaller if one only counted private firms. This has a negative impact on the development of the corporate bond market.

	Number of firms (2018)	Percentage (2018)	Changes from 2011-2015 to 2016-2018 periods
Very small enterprises	382,444	62.6%	154,8%
Small enterprises	189,879	31.1%	136,9%
Medium enterprises	21,306	3.5%	143,3%
Large enterprises	17,008	2.8%	134,4%

Table 15. Number of firms by size (Source: The White Book on Vietnamese Enterprises 2020)

Outside the real estate and financial sectors, very few firms can issue bonds. This is totally different from developed countries' bond markets, where bonds are issued mostly by manufacturing enterprises, making the corporate bond market a catalyst for the country's economic development. Data analysis clearly indicates that short-term liabilities such as deposits and loans from customers and other credit institutions have been major sources of capital among Vietnamese banks for more than a decade. Similarly, the 5 biggest non-financial firms' debts have been mostly from current liabilities. Moreover, manufacturing enterprises seem to be familiar with raising long-term liabilities from bank loans. However, Vietnamese real estate firms started to issue bonds from 2013 and corporate bonds occupied around half of their total loans for three years. In brief, it can be seen that Vietnamese banks and manufacturing enterprises' major sources of funding come from short-term liabilities, bank loans still account for a large portion of corporate financing needs in Viet Nam and raising capital by issuing bonds is only familiar among real estate firms. In the last two years, real estate firms, which have issued the highest volume of bonds, have played the role of key driver in the rapid growth of the corporate bond market in Viet Nam.

According to the Viet Nam Bond Market Association, the real estate firms' bond maturity is about 3.8 years on average while their yield to maturity is around 11%. The reason why investors are willing to buy real estate firms' bonds is that these bonds offer interest rates that are two or even three times higher than deposit interest rates offered by banks. However, most bonds issued by real estate firms are "3-no" bonds (no credit rating, no collateral, and no guarantor) while fewer are secured by future projects, which causes potential risks for investors. Moreover, investors and regulators cannot know if the capital mobilized is exactly used as issuers expected, leading to the fact that in case of the collapse of the business or freezing of market, investors will hardly recover coupons and face value when the bonds reach their maturity date. Recently, a few issuers violating the law (like in the case of Tan Hoang Minh) made investors lose confidence in the whole corporate bond market. This is a big challenge for the Vietnamese bond market which has just experienced the rapid growth in the number of bonds issued and traded and started to attract investors.

There are not many quality private corporations in sectors that have competitive advantage in issuing corporate bonds (utilities, transportation, energy, and telecommunication). Outside of finance and real estate, those sectors usually generate credible and stable cash flow. In Viet Nam, most of these sectors are dominated by large SOEs. This presents a challenge but could also be an opportunity for the corporate bond market development. On one hand, SOEs are known for having preferential access to bank credit, and therefore have less incentive to issue bonds. The one and only energy sector bond in Viet Nam in 2021 was issued by Trung Nam, a private company. On the other hand, with a relevant directive issued by the government that requires SOEs to switch to bond financing from bank credit, some SOEs in these sectors could be potential suppliers in the market.

China	Utilities (2); Transportation (1); Energy (1); Power (1); Capital Goods (1); Coal (1)
Hong Kong	Transportation (4); Utilities (2); Industrial (1)
Indonesia	Telecommunication (3); Airport Management Services (2); Pulp and Paper (2); Energy (1); Chemical Manufacturing (1); Petrochemical (1); Food (1); Transportation (1);
Korea	Transportation (2); Electricity (1); SME Development (1)
Malaysia	Energy, Gas and Water (7); Transportation, Storage and Communication (3)
Philippines	Energy and Power (3); Electricity (1); Water (1); Food and Beverage (1); Whole and Retail Trading (1)
Singapore	Utilities (3); Transportation (2); Consumer Goods (1); Environmental Services (1); Communication (1)
Thailand	Energy and Utilities (4); Communication (3); Food and Beverage (3); Commerce (2); Construction Material (1); Hospitality and Leisure (1); Petrochemicals and Chemicals (1); Transportation and Logistics (1)
Viet Nam	Manufacturing (2); Energy (1); Mining (1)

Table 16. Sectors among the top 30 issuance (excluding banking/finance and real estate/construction) (Source: Asian Bond Monitor, ADB, 2021)

There is a large and un-tapped potential for the corporate bond market that could be exploited by both private companies and SOEs, as Viet Nam needs a large amount of investment into utilities and infrastructure. In regional countries, the sectors with potential for bond-financing are utilities, transportation and power/electricity. Viet Nam needs large investment in these sectors to fuel its economic development. In the 2021-2030 period, Ho Chi Minh city could need to spend around 42 billion USD on infrastructure upgrades alone. Investment needed for a national express-way, high-speed rail routes, deep water ports, and international airport, proposed by Ministry of Transport, is between 43 to 65 billion USD during the 2021-2030 period. Investment needed in electricity generation and the power grid is expected to reach 134.7 billion USD by 2030, according to a government report. Continued regulatory reform in these sectors to allow for a larger private sector role, as well as efforts to steer SOE financing toward the bond market offer a very large potential for market development.

3.3. On the demand side, there is a lack of investor base in the capital market

The investor base in the corporate bond market in Viet Nam lacks diversity. Banks are the main investors in the market, holding 71.5% of corporate bonds outstanding in 2020. Retail investors hold 13%. Securities companies hold 1.5% (Fiin Ratings, 2021). The ratio of corporate bonds held by banks in Viet Nam is unusually large compared to neighboring countries. Pension funds and insurance companies are not yet playing an important role in corporate bond market development as in other countries.

Corporate Bonds Held by Banks *(fraction of outstanding bonds)*	
Developed Economies	
Euro Area (2018)	23%
Japan (2018)	49%
UK (2018)	32%
US (2018)	7%

Developing Economies	
China (2015)	28%
India (2015)	16%
Indonesia (2015)	19.5%
Viet Nam (2020)	**71.5%**

Table 17. Corporate bond held by banks in developed and developing countries (Source: Amariei, et. al.,2017, Finn Rating, 2021; Çelik, S., G. Demirtaş and M. Isaksson, 2020)

Pension funds are important corporate bond investors across countries, but they are not in Viet Nam. The pension system in Viet Nam has been dominated by the state-owned Viet Nam Social Security (VSS). In fact, the first private pension fund was only launched last year by Dragon Capital (Dragon Capital, 2021).

However, VSS invests a disproportionate portion of its assets in government bonds (85.2%). The rest of its assets are invested in bank deposits. With its total asset size of 31 billion USD, VSS could play an important role in the development of domestic bond market. However, its asset allocation is heavily skewed toward low-return government bonds. Decree 30/2016/ND-CP regulates investment practice of VSS. VSS must invest in the following assets (by order of priority):

(i) Government bonds
(ii) Lending to fiscal debt
(iii) Bank deposits, bonds and other commercial paper issued by "high quality banks" as determined by SBV.

Currently, Decree 30/2016/ND-CP regulates investment made by VSS, public health insurance funds and public unemployment benefits funds, and requires these funds to prioritize investment into government bonds. Corporate bonds and equities are not listed under the assets that these funds can invest into. Moreover, Decree 30/2016/ND-CP does not allow external fund managers. Most regional countries also have sizeable public pension fund systems. However, these state-owned pension funds are important investors in government and corporate bonds markets. They also actively seek private-sector talents/management skills to increase their portfolio performance.

Apart from the regulations in place, there are also two main reasons behind public officials' risk aversion and Government's orientation towards a buy and hold strategy that hinders the ability of the Vietnamese pension system in boosting corporate bond market development. The first one is that finance, by nature, is the trade-off between risk and return. Government officials do not want to take risks, since their pay-off remains constant. SOEs can work in the commercial banking sector since in most cases, borrowers pay back, and if they do not, the collateral provides insurance against default. The return and pay-off are relatively constant in the Vietnamese banking sector. The financial markets are completely different, with a higher level of risk and consequently, higher levels of pay-off. SOEs investments in financial markets, when investment portfolios are managed by government officials, are likely to underperform. For the same reason, SOEs do not perform in the investment banking business. In the commercial banking business, with a smaller level of risk, there are large SOEs. The second reason explaining its preference towards a buy and hold strategy, which contributes to the low-liquidity problem in the bond market, is that Government investment, by nature, is long-term.

Examples of public-private partnership in public pension fund investment management:

(i) Malaysia's state-owned Employees' Provident Fund (EPF) invests 43% of its total assets in equities market, and 46% of its total assets in fixed income instruments (EPF report, 2021). Among assets invested in fixed income instruments, 55.3% of fixed income portfolio is allocated to government bonds and 44.7% is allocated to corporate bonds. The Investment Panel of EPF is responsible for matters pertaining to the investment of the fund and consists of representatives from the Central Bank, the Ministry of Finance and three private sector professionals. Other than having private sector professionals in its Investment Panel, EPF also hires external fund managers to manage part of its investment assets.

(ii) China's state-owned National Social Security Fund (NSSF) holds a well-diversified portfolio. Since regulatory reform in 2006, NSSF is required to hire external fund managers for investment in assets other than bank deposits and government bonds. In 2012, it hired 10 domestic and 22 international fund managers to manage its assets (ADB, 2012). Portfolio diversification since regulatory reform in 2006 has greatly improved the Fund's performance. China's regulation also allows up to 20% of NSSF's portfolio to be invested in corporate bonds (ADB, 2012). The China Investment Corporation (CIC) is the investment agency for the State Administration for Foreign Exchange (SAFE), managing the second largest sovereign wealth fund in the world. At the end of 2015, CIC was managing nearly €748 bn in assets, out of which 33.1% were internally managed assets and 66.9% were externally managed (Amariei, et. al, 2017).

(iii) In India, pension funds hold 11% of outstanding corporate bonds (2015). State owned Employee Provident Fund Organization (EPFO), under the Ministry of Labor and Employment, holds two thirds of the pension market. The rest are private pension funds. By law, EPFO must invest:

- A minimum of 45% and up to 50% in government securities;
- A minimum of 35% and up to 45% in financial and non-financial corporate debt securities;
- Up to 5% in money market instruments;
- A minimum of 5% and up to 15% in equity and related instruments;
- 5% in asset-backed securities and units of infrastructure investment trusts (Amariei, et. al, 2017).

EPFO has hired professional external fund management companies to manage its assets, including: UTI Asset Management Company, SBI Mutual Fund Reliance Capital and HSBC Asset Management Company (Nanda, 2019). Under India's state-owned New Pension System (NPS), employees can choose between investing in a pension fund with a conservative, aggressive, or moderate investment policy.

(iv) In Indonesia, two state-owned pension funds manage 60% of pension assets. These two state-owned pension funds hold 27.6% of outstanding corporate bonds (2015). Private-owned pension funds invest only 17% of their asset portfolio in government bonds. The rest of their portfolios are invested in money market instruments (31%), corporate bonds (21%), shares (16%), mutual funds (9%) and others (9%) (Amariei, et. al, 2017).

The lack of public-private partnership in pension fund investment hinders development opportunities of corporate bond markets. State investment management, by nature, cannot be used effectively in financial investment. Financial investment is the trade-off between risk and return. An average government employee, whose pay-off remains constant regardless of the performance of the portfolio which he manages, has little or no incentive to take risks. Limited investment in riskier assets, other than government bonds, results in low real return for VSS, hurting the sustainability of

the fund. VSS predicts that its expenditure will surpass its income in just 10 years. Its portfolio return is extremely low compared to pension funds' returns in developed and developing countries (Table 18).

Real Return of Selected Pension Funds			
Viet Nam VSS (2018)	China NSSF (2020)	Malaysia EPF (2020)	OECD average (2020)
2,3%	13.45%	9,039%	4%

Table 18. Real returns of selected pension funds (Source: tuoitre.vn, OECD, https://www.asiaasset.com/, https://www.pionline.com/ and deduct inflation)

The current investment management practice of VSS has the following drawbacks:

(i) Lack of profit-incentive for investment management. The real return of VSS is extremely low compared to similar state-owned pension funds in neighboring countries. This also hurts the sustainability of the fund as Viet Nam's population is aging. According to the World Bank (2021), Viet Nam became an aging society in 2015, and will become an aged society by 2035.

(ii) Given its large investment asset size (31 billion USD), the current investment regulation creates large market distortion and reduces market liquidity. VSS simply purchases 40% of outstanding government bonds and holds until maturity, due to the lack of profit incentive.

(iii) Hinders development potential of the corporate bond market. Most pension funds in other countries invest significantly in the corporate bond market. If VSS invested half of its assets in the corporate bond market, or an equivalent of 5% of GDP, the size of the corporate bond market in Viet Nam would be similar to that of Thailand, measured as percentage of GDP.

(iv) Hinders market liquidity, which prevents further participation from other institutional investors. A study done by Oman shows that government investment strategy tends to be long-term in nature. An increase in government holdings had an adverse effect on trading volume. Another study by Chan, et. al (2002) investigates Hong Kong's government intervention in the market in 1998. The study finds that the intervention, which reduces market free floats, reduces liquidity. VSS's bond asset holdings is sizeable compared to the size of the market. Concentration of investor base results in a sizeable portion of local currency bonds being held in "buy-and-hold" portfolios (ADB, 2013), which hinders market liquidity.

Across countries, insurance companies are important investors in bond markets. Viet Nam's fast growing insurance market has been creating demand for bonds, even though its current role in corporate bond market development is limited, due to low liquidity in the market. Viet Nam's insurance penetration has been growing at about 20% since 2006 (WB, 2019 and BSC, 2021). In 2021, the total assets of insurance companies grew 23.86%, to 710 002 billion VND, 577 069 billion VND of which (roughly 25 billion USD), was re-invested into the economy. Given the current low rate of insurance penetration, to help ensure sustainable economic growth rate in the future and sustainable and high growth rates in the sector, the insurance sector can help diversify its investor base for the capital market in general and corporate bond market in particular.

Countries	Insurance Penetration (2018)	Insurance Premiums per capita (USD, 2018)
China	4.03%	402,5
Malaysia	3.66%	404.6
Thailand	5.87%	384.3
Viet Nam	***2.40%***	***60.8***
OECD	8.9%	3489

Table 19. Insurance penetration in selected countries (Source: WB, 2020 and stats.oecd.org)

The insurance sector has diverse domestic and foreign participants. Domestic companies dominate the non-life insurance market and foreign companies dominate the life insurance market. The top 5 largest non-life insurance companies by market shares are: Bao Viet, PVI, PTI, Bao Minh and PJICO. All of them are domestic companies. The top 5 largest life insurance companies are: Bao Viet, Prudential, Manulife, Dai-ichi and AIA. With the exception of Bao Viet, a domestic company holding 21.9% of the market share, the rest are FDI companies.

Among developed and neighboring countries, insurance companies are important investors in capital markets, especially bond markets. They hold a small fraction of asset portfolios in cash and bank deposits. The average ratio of cash and bank deposits assets for the region is roughly 10%. The rest of the asset portfolios is invested in bonds and equities. Foreign insurance companies in Viet Nam use a roughly similar practice, holding about 10% of asset portfolios in cash and deposits. Domestic insurance companies in Viet Nam, however, hold a usually large value of bank deposits, which is on average 80%. Given the difference in investment practice between foreign and domestic insurance companies in Viet Nam, which operate under the same environment, this must be due to management practices of domestic insurance companies. Many domestic insurance companies are state-owned and/or a subsidiary of a bank. The lack of profit-incentive for domestic insurance companies could be a reason behind their investment practice. When their parent companies are banks, they may find it more profitable for the whole organization if the subsidiaries-insurance companies perform operations similar to a deposit-collecting branch.

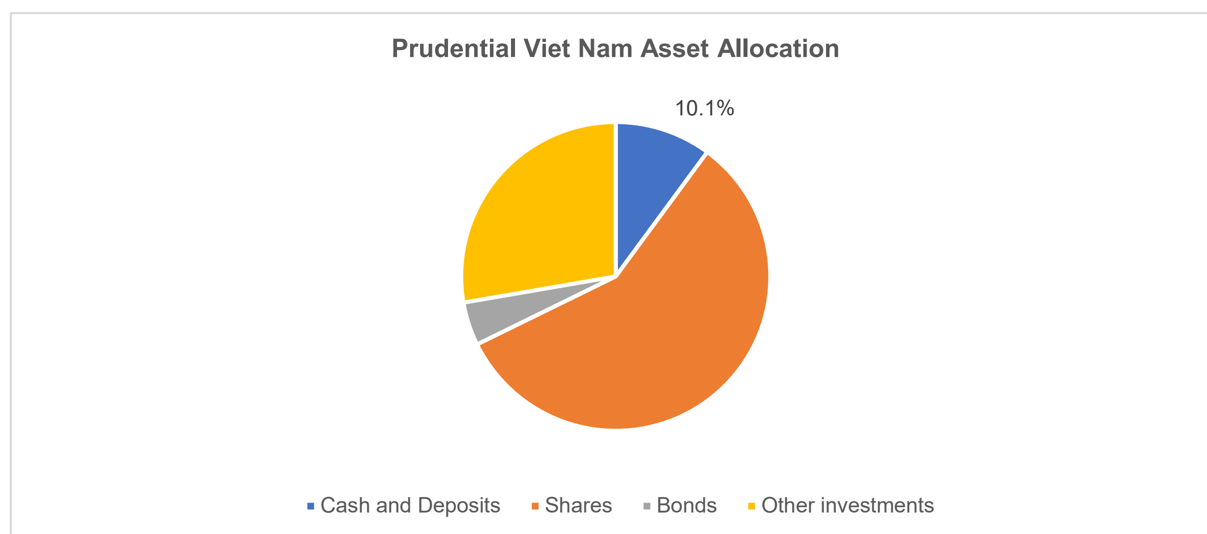


Figure 21. Prudential Viet Nam Asset Allocation (Source: Prudential Viet Nam)

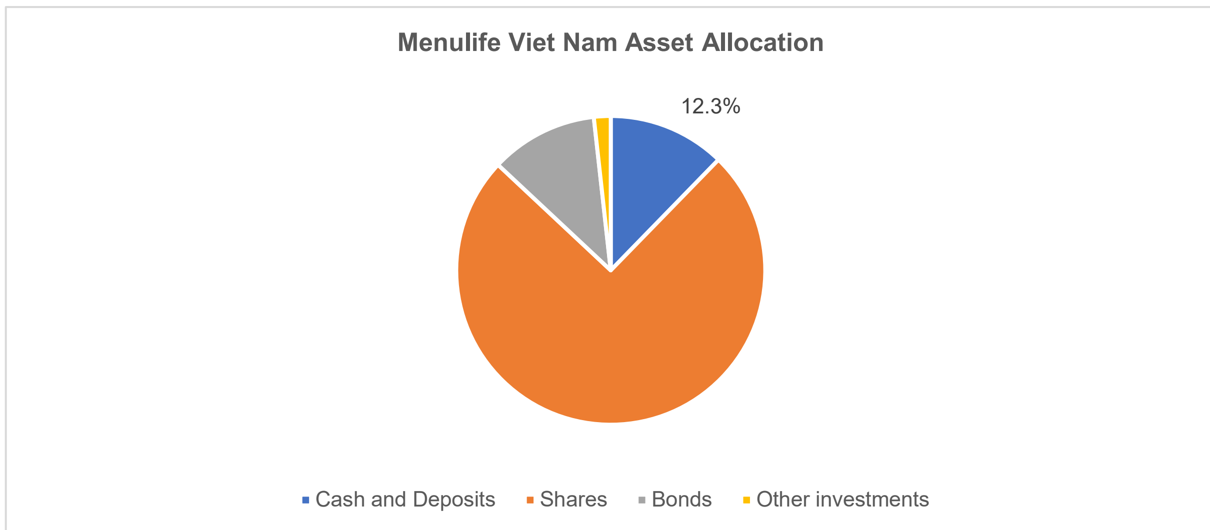


Figure 22. Menulife Viet Nam Asset Allocation (Source: Menulife Viet Nam)

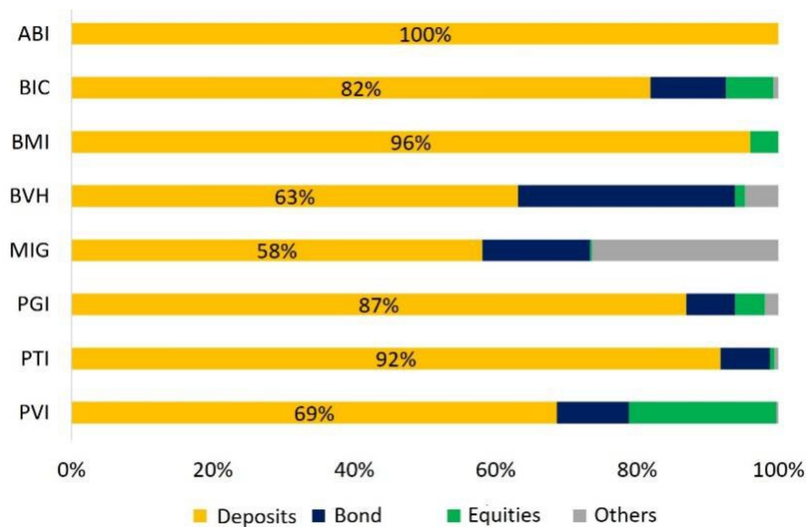


Figure 23. Asset allocation of selected domestic insurance companies in Viet Nam (Source: BSC 2021)

Retail investors and banks dominate the market. Retail investors are not "market makers" and cannot create liquidity. They are interested in short and medium-term bonds, not long-term bonds. Banks buy bonds to circumvent "credit limits" in certain sectors (such as real estate) or on certain single borrowers. Therefore, there is little need for trading corporate bonds. Traditional investors in corporate bond markets are pension funds and insurance companies; neither is investing adequately in the bond market in Viet Nam. Those are reasons that hinder bond market development from the supply side.

3.4. Financial liberalization: what it achieves and what it does not achieve

Financial liberalization has mostly been achieved in the banking sector, as other financial sectors in Viet Nam have been developing. The banking sector has taken the gradual liberalization approach, rather than the "big bang" approach seen in Central and Eastern European countries.

Gradual steps toward financial liberalization have been taken at both the Central Bank and at commercial banks.

The Central Bank, starting from a mono-banking system prior to 1986, has moved toward modernization and now focuses more on monetary policy and banking sector supervision. In 1988, four state-owned commercial banks (SOCBs) were created, which was the start of the two-tier banking system. Although the Central Bank has maintained control over SOCBs, it no longer interferes with day-to-day credit allocation decisions. The fiscal management function has been transferred to the State Treasury, which allows the Central Bank more independence in conducting monetary policy. Interest rate and exchange rate determination mechanisms have gradually liberalized, although administrative tools, such as interest rate and exchange rate ceilings still exist. Capital account liberalization has been limited to avoid the possibility of a financial crisis triggered by capital reversal, although significant efforts of the government are devoted toward attracting FDI inflow. This gradual approach of mixed strategies has worked well in the case of Viet Nam. Indeed, the country has maintained sound macroeconomic fundamentals over the last decade, an important factor for developing the long-term capital market. Blunt non-market administrative tools, such as interest rate and exchange rate ceilings, are used more rarely but are still in place, and they help to build public confidence in avoiding a crisis similar to the Asian Financial Crisis of 1997.

Participation in the banking sector has been diversified, especially since WTO entry in 2007, which increases the efficiency of the sector and market principles of the credit market. As of September 2021, the total assets of domestic joint-stock commercial banks in Viet Nam were 43.79% of total assets in the banking sector, which surpassed the total assets of SOCBs (41.18%). Foreign banks' assets accounted for 10.41% of the sector. A more diversified ownership of SOCBs, with participation from foreign institutions, increases their efficiency. Privatization of SOCBs improved both their service and operating efficiency, despite their continuing to be predominantly state owned (Le et. al., 2019). Technological spillovers from foreign banks are quickly transferred to the domestic market (Ferrari and Tran, 2020).

A more cautious, mixed approach toward financial liberalization comes at a cost, but it is the best strategy for Viet Nam at the moment. Further and more aggressive approach toward total liberalization of interest rates and credit market may not produce the desired results outcome if the causes of underdevelopment of long-term capital market lie on the demand side, and not on the supply side. In other words, there are not many good private companies with viable long-term projects outside of the real estate sector. That is not to say that there were no gains from liberalization. The supply of banking services, especially for consumers, expanded rapidly in a liberalized system. Household had greater access to savings accounts, consumer credit and other banking services. Competition increased choice and improved service quality. However, if low rates of saving and investment are constrained by the supply of viable investment opportunities, then allowing interest rates to find their market level is not a viable solution. Competition among banks did not increase investments but drove banks into riskier activities in search of profits, ultimately leading to financial instability (Diaz-Alejandro, 1985).

Proponents of financial liberalization emphasized the importance of rigorous bank regulation and supervision, capital adequacy requirements and other safeguards to curb excessive risk taking and over lending. Some have argued that financial liberalization is more likely to succeed in the presence of certain preconditions, such as macroeconomic stability, a mature financial system and free trade (McKinnon, 1993). Yet recent experience, including the East Asia financial crisis and the Global financial crisis, suggests that even with these preconditions in place liberalized financial markets, in developing and advanced countries alike, are subject to herd behavior and instability.

3.5. International capital can supplement, but not replace domestic capital mobilization

Viet Nam's tight control of capital account makes it difficult to attract foreign portfolio investment into the country, but also reduces the likelihood of a financial crisis. Numerous studies have documented the relationship between capital account openness and domestic bond market development (Claessens et al. 2007; Calderón and Kubuto, 2009; Park et. al. 2018). Viet Nam's measurement of capital account openness, the Chinn-Ito index, is low and has remained constant since 2008. In 2020 and 2021, foreign investor purchases in the primary corporate bond market were 1.2% and 0.5% respectively (Finn Group, 2022).

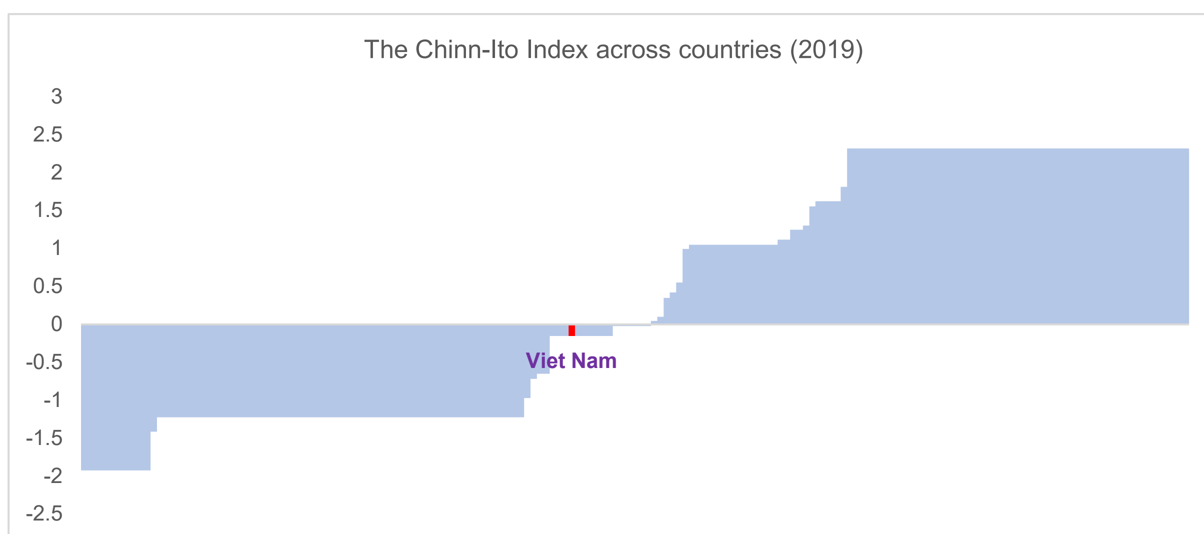


Figure 24. The Chinn-Ito Index across countries (Source: https://web.pdx.edu/)

Empirical evidence on the gain of capital account liberalization is weak, and the risk of financial crisis is evident. Proponents of financial liberalization saw lifting restrictions on capital inflows as a way to increase the supply of capital available for domestic investment. Although they understood the risks associated with foreign exchange liabilities, they argued that the threat of capital flow reversals would impose discipline on developing country governments. An open capital account would force governments to restrain fiscal deficits and liberalize trade claims that were still being put forward by the international financial institutions on the eve of the East Asian Financial Crisis in 1997 (Fischer, 1997). In the event, capital account liberalization led to an outflow, rather than inflow, of foreign capital, especially from upper middle-income countries (Figure 25). Proponents of financial liberalization had predicted that the relaxation of capital controls in conjunction with the introduction of flexible exchange rates would reduce the need to hold foreign exchange reserves as exchange rates found their equilibrium level given prevailing patterns of trade and capital flows. However, countries learned from experience that flexible exchange rates, far from easing pressure on the balance of payments, had the perverse effect of fueling volatility and magnifying risk. Repeated experience of financial crisis, beginning with the 1994 Mexican crisis and extending through the Global Financial Crisis in 2008, persuaded these countries to accumulate foreign exchange reserves as self-insurance against capital market and exchange rate volatility. From just US$223 billion in 1990, reserves rose to $8.1 trillion in 2020. Reserves held by developing Asian countries increased from $73 billion to $4.8 trillion over the same period, with China alone holding $3.2 trillion. The largest ASEAN countries (Indonesia, Malaysia, Philippines and Viet Nam) now control foreign exchange reserves equivalent to 25% of GDP.

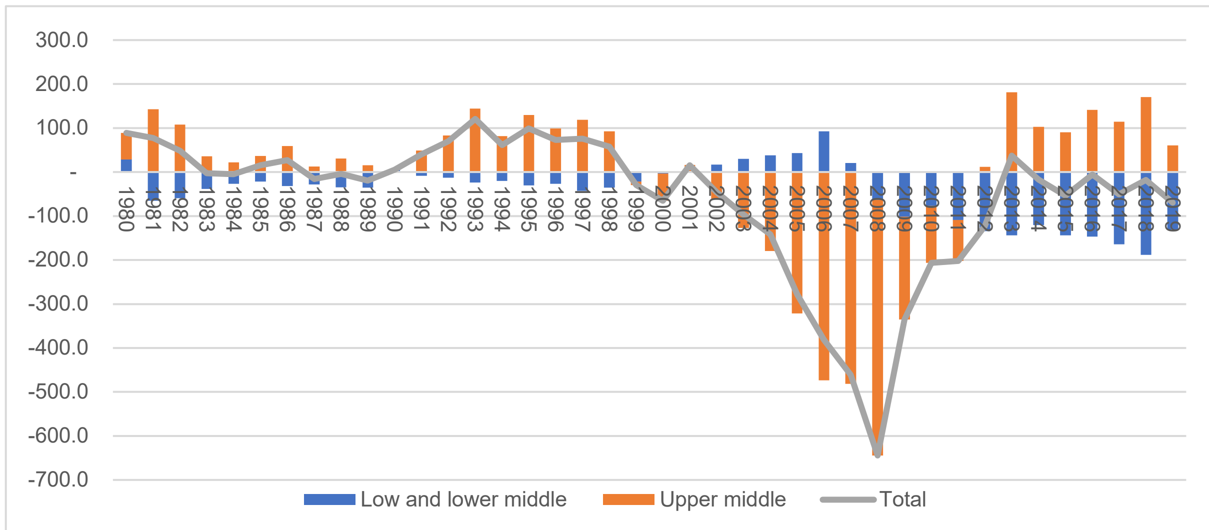


Figure 25. Financial flows into Low- and Middle-Income Countries, 1980-2019) (billions of constant 2015 USD) (Source: IMF)

There is also a lack of credible evidence linking capital inflows to the rate of economic growth (Figure 26). Across the developing world more than 90% of fixed investment is financed domestically, and for this reason alone we would expect the impact of capital inflows to be marginal. Capital flows into developing countries for a variety of reasons: to finance natural resource exploitation, to invest in manufacturing for export, to sell products and services in the domestic market, to acquire domestic assets like properties and financial securities, and for consumption. The absence of a consistent empirical relationship between capital flows as a share of GDP and the rate of economic growth is therefore not surprising. In fact, several authors have detected a negative relationship between international capital flows and growth. Prasad, Rajan and Subramian find a robust negative relationship between the ratio of capital inflows to GDP and growth of income per capita after controlling for initial level of income and dependency ratios. They find that countries that grow fastest maintain a rate of investment higher than the median of all countries and rely less on imported capital than the median country. One of the explanations they offer for the negative effect of foreign capital is that capital inflows are associated with overvaluation of the domestic currency, which discourages exports (Prasad et al., 2007). Similarly, Aizenman and coauthors find that countries with higher self-financing ratios grew significantly faster than countries with low self-financing ratios (Aizenman et al., 2007, p. 684). In other words, the less countries depend on foreign capital the faster they grow on average.

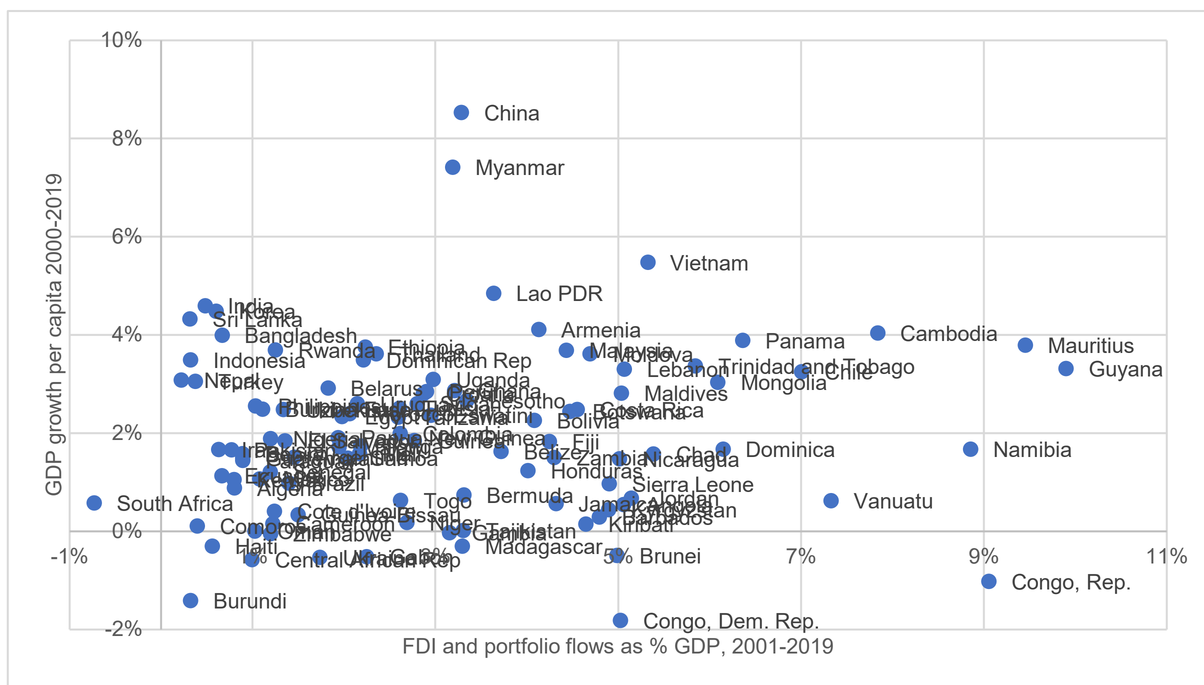


Figure 26. GDP per capita growth and net capital inflows as % GDP, 2000-2019 (Source: IMF)

Another reason explaining why the reliance on foreign capital could be associated with slower economic growth is that capital flows are strongly procyclical, meaning that the appetite for risk rises during the boom and falls when asset prices decline. Thus, developing countries that have easy and relatively cheap access to foreign financing when interest rates are low in advanced countries often experience a rapid reversal of flows when rates begin to rise.

Financial globalization interacts with financial liberalization through a global financial cycle that is aligned to conditions in the advanced countries but is strongly procyclical—feeding booms and deepening troughs of economic cycles—in emerging markets. The impact of capital inflows on domestic credit, exchange rates and asset prices means that developing countries cannot maintain an independent monetary policy even in the context of flexible exchange rates (Rey, 2015). Viet Nam had direct experience of these effects in 2007, when a rush of portfolio capital inflows sparked a frenzy of speculation in domestic asset markets, a sharp rise in credit growth and a large deficit on the current account. Viet Nam's partially closed capital account allows the monetary authorities to target the exchange rate and interest rates most of the time, but loose controls on capital inflows can rapidly lead to a situation in which domestic credit growth cannot be contained.

Foreign direct investment (FDI) is not necessarily a stable and productive source of capital inflow. FDI is generally perceived as a safer source of foreign capital because it implies a longer time commitment and is less procyclical than debt. China showed that FDI in manufacturing could form part of a viable export-led growth strategy, integrating domestic industry into global supply chains, in the process creating steady, formal sector jobs for relatively low-skilled workers. Technology spillovers from foreign to domestic firms would accelerate growth and stimulate domestic private investment. With these benefits in mind, host governments loosened investment rules and offered tax and other incentives to attract FDI.

However, the distinction between FDI and portfolio investment is often more apparent than real. FDI is defined as investment made by a resident of one country to establish a "lasting interest" in an enterprise in another country. In the official statistics, a lasting interest is said to exist when the investor controls at least ten percent of a foreign establishment; below this level the investment is

categorized as a portfolio flow like buying shares on the stock market. Once the initial investment has been made, all subsequent transactions, including loans, are recorded as direct investment. Retained earnings are first recorded as an outflow of investment income on the current account and then as FDI inflows on the financial account. Reinvested profits make up a substantial proportion of total FDI, estimated by UNCTAD at about 50% of the total stock of invested capital, and probably more in developing countries (UNCTAD, 2020, p. 4). But even this may be an underestimate of the contribution of retained earnings to FDI. Statistics published by the US Department of Commerce show that retained earnings comprised 79% of total US outward FDI for the decade 2010 to 2019 (Figure 4). Less than half of the stock of FDI represents new equity and loans invested in developing countries, and instead consists of profits earned in these countries and reclassified as FDI.

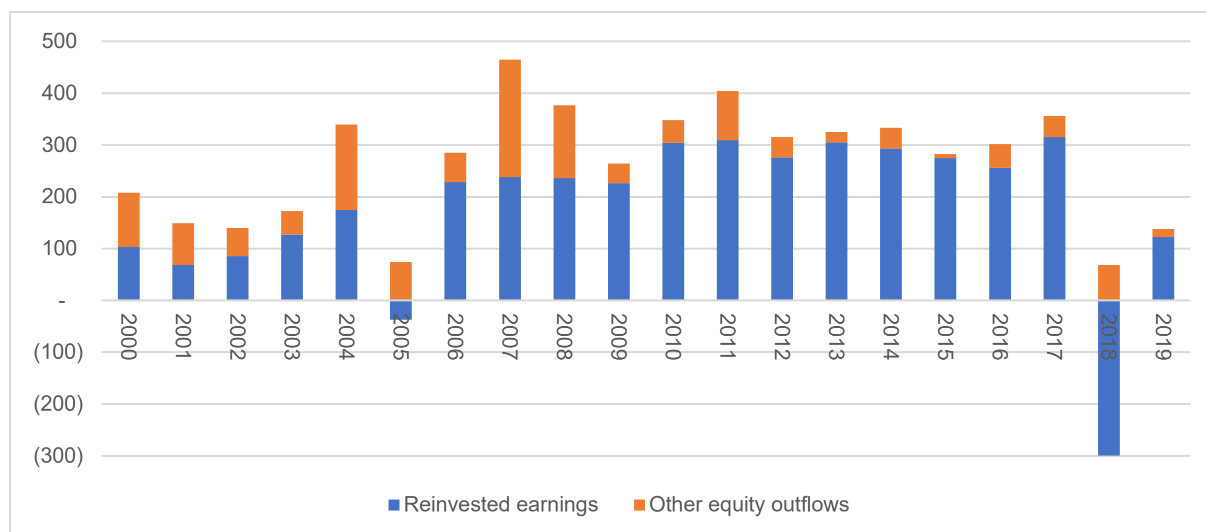


Figure 27. Retained earnings and other equity, US outward FDI, 2000-2019 (Source: Bureau of Economic Analysis, US Department of Commerce)

Moreover, the assumption that FDI assets are more difficult to liquidate than portfolio investments does not hold up in practice. It is common for foreign affiliates to borrow against their in-country assets, the proceeds from which can be used to acquire other assets or simply repatriated. The foreign investor can also just as easily accelerate profit remittances or pay down liabilities to the parent company (Bird & Rajan, 2002). Combined with the fact that the bulk of these liabilities have accrued over time from profits on domestic operations, it becomes increasingly difficult to detect a meaningful difference between short-term portfolio flows and long-term FDI.

Like external debt obligations, profit remittances and debt repayments from FDI add up over time as the stock of FDI rises. Figure 28 presents two sides of the FDI coin in Viet Nam. As the country has integrated into global supply chains, the trade balance has moved decisively into positive territory, achieving a consistent surplus from 2014 that by 2019 was nearly USD 20 billion. However, the outflow of payments also increased to USD 19 billion in the same year. The situation is even less favorable when FDI industries are inward oriented and do not generate the foreign exchange needed to cover profit remittances and other income payments. For example, because Indonesia runs persistent trade deficits, outgoing income payments related to FDI must be covered by ever-larger inflows of portfolio capital flows. In Indonesia's case, these flows consist of government bonds, corporate bonds and bank loans. As liabilities accumulate, Indonesia's macroeconomic policy space has narrowed as holders of Indonesian assets demand higher rates of return on bonds and loans at an overvalued exchange rate relative to the US dollar. This is a vicious circle, as the overvalued exchange rate and high interest rates make exports less competitive and suppress the domestic rate of investment (Akyüz, 2017, p. 184).

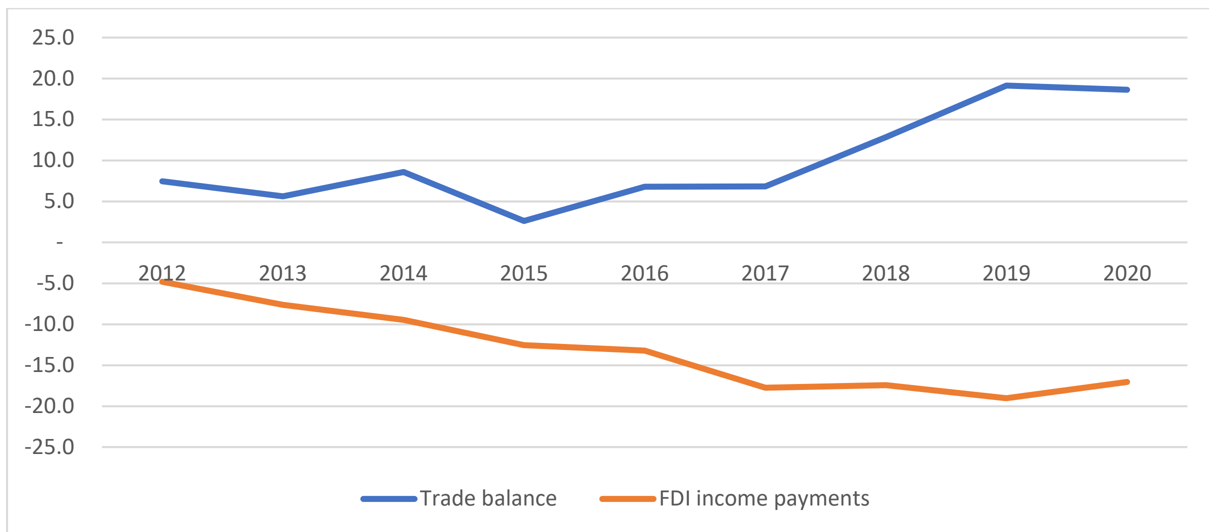


Figure 28. Net primary income and trade balance, USD billions, Viet Nam (Source: State Bank of Viet Nam)

There are clear benefits to FDI, especially when foreign investors are export-oriented. Manufactured exports create jobs and earn foreign exchange. Among Asian countries, Wang finds that FDI was growth-enhancing in manufacturing but not in other sectors for the decade prior to the East Asian financial crisis (Wang, 2009). The productivity-enhancing effects of labor-intensive manufacturing are particularly great in labor surplus economies. However, it is the growth of manufacturing output rather than foreign ownership that is the crucial factor. The contribution of export-oriented foreign firms to the balance of payments depends on the import intensity of production. Trade agreements limit the scope of governments to incentivize FDI firms to purchase inputs from local suppliers, for example through local content rules or tariffs. Without these policies, foreign companies develop few backward linkages to domestic firms, especially in the garment and electronics industries (Sanchez-Martin et al., 2015; Winkler, 2013). **In Viet Nam, all three different measures of linkage (forward linkage, backward linkage and supply backward linkage) have been small and unchanged during the 2010-2017 period** (Dao, 2021). Although results vary across industries, researchers have found that the presence of FDI firms in the domestic economy is no more likely to promote the transfer of technology than normal trading relationships (Newman et al., 2018).

International financial institutions argue that privatization of state-owned commercial banks, allowing foreign banks to acquire controlling stakes in Vietnamese commercial banks, would accelerate capital market development. Foreign ownership of bank assets has been rising in developing countries since the 1990s, especially in Latin America and parts of Africa. Bank restructuring in East Asia after the 1997-99 financial crisis led to an increase in foreign ownership of assets in the region, from less than 10% in the mid-1990s to nearly one-third by the time of the Global Financial Crisis.

It is argued that foreign ownership of banks brings with it access to skills, new products, capital and increased competition and efficiency (Levine, 1996). Greater competition lowers the interest rates charged to borrowers at foreign and domestic banks (Claessens et al., 2001). The impact of foreign bank entry on domestic competition appears to be stronger when it takes the form of greenfield investment, and less so when foreign banks acquire domestic institutions (Jeon et al., 2011). However, Yeyati and Micco find that foreign penetration is associated with a less competitive banking sector in Latin America (Yeyati & Micco, 2007).

These potential gains from foreign ownership must be balanced against the impact on banking sector fragility. It is often assumed that international banks reduce instability because their assets are more diversified than domestic banks and they can call on the capital resources of the parent company. However, **foreign banks also function as a transmission belt, importing volatility on foreign markets into the domestic banking sector**. The latter appears to have been the case during the Global Financial Crisis, when foreign owned banks deleveraged more quickly than locally owned banks (Aiyar, 2012). Foreign banks were more anxious to deleverage in the face of market turbulence than domestic banks, and their actions were a source of instability in domestic financial markets. Yin finds consistent cross-country evidence that foreign bank ownership increases loan portfolio risk and the risk of bank failure, but that these pressures can be mitigated by capital requirements and other prudential regulations (Yin, 2019). Chen and colleagues argue that foreign banks in developing countries take on more risk than domestically owned banks, especially when domestic banks are acquired by foreign banks (Chen et al., 2017).

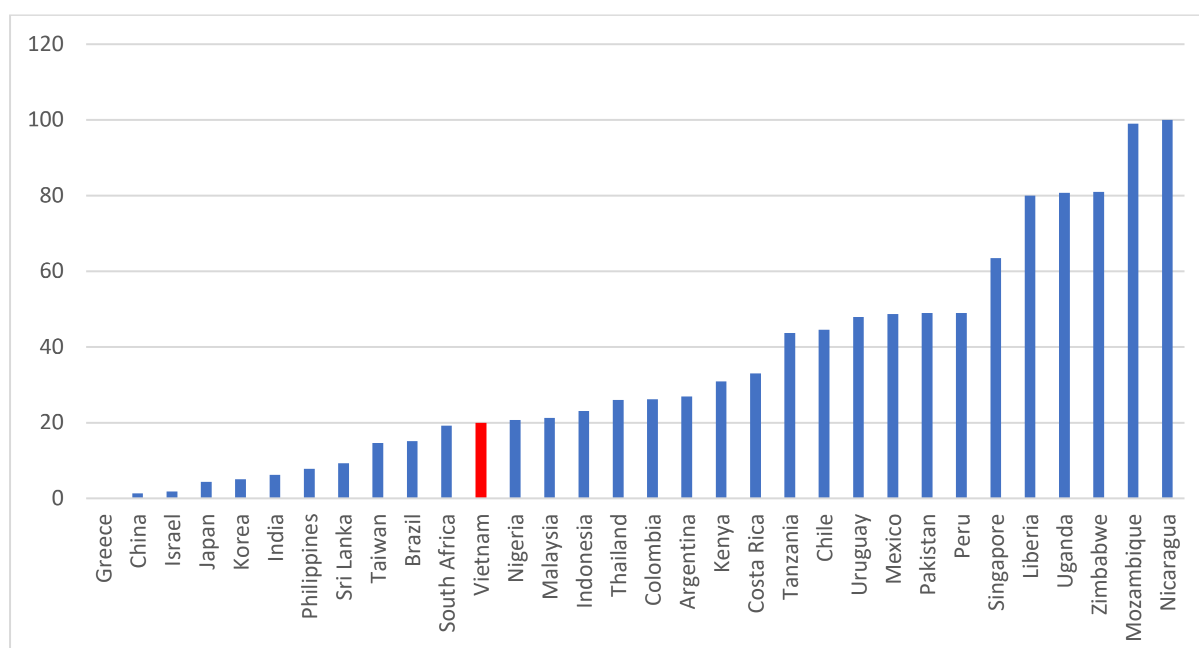


Figure29. Foreign bank assets among total bank assets, 2016 (Source: World Bank Global Financial Development Database)

The experience of some Latin American countries, for example Mexico, where foreign banks have come to dominate the domestic banking sector has given rise to concerns that foreign bank presence is associated with slower growth of domestic credit, especially for small and medium-sized companies (Claessens & Van Horen, 2014). Foreign participation in Mexico increased from 2% in 1997 to 83% in 2005, resulting in a decline in both deposit and loan accounts, which Beck and Martinez-Peria attribute to a conscious strategy of foreign banks to prioritize larger firms and the top end of the market (Beck & Martinez Peria, 2010).

Another relationship often discussed in the literature is between capital account liberalization and financial development as measured by credit to the private sector and stock market capitalization. The claim is that removing obstacles to capital inflows induces financial innovation. Numerous authors have suggested that **openness to foreign capital compels governments to adopt prudent macroeconomic policies like smaller fiscal deficits and flexible exchange rates, and may even lead them to adopt international standard prudential regulations** (Kose et al., 2006). Klein and

Olivei find a positive relationship between financial deepening and capital account liberalization only in advanced countries. They suggest that these effects appear in countries with sound macroeconomic policies (Klein & Olivei, 1999). Based on data from 105 countries over the period 1970-1997, Chinn and Ito report a positive relationship between capital account liberalization and financial development in emerging market economies, especially countries with stronger shareholder protection and accounting standards (Chinn & Ito, 2002).

However, **capital inflows are strongly procyclical, resulting in excess credit growth and asset bubbles during boom periods and "sudden stops" when the boom is over.** Viet Nam experienced this pattern in the wake of WTO accession 2006-2007, and the bursting of the asset bubble in the immediate aftermath of the Global Financial Crisis. As countries become more closely integrated with global financial markets they lose their ability to resist the effects of the global financial cycle, in which movements of US interest rates exert pressure on global leverage and volatility. Lower US interest rates increase global leverage and capital flow and decrease interest rate spreads between the US and the rest of the world. When US rates rise, capital flows back to the US, credit in the rest of the world contracts and spreads rise (Rey, 2015). We saw this process unfold during the "Taper Tantrum" in 2013 and it is likely that we will experience similar effects this year and next.

With the globalization of finance, the magnitude of capital flows is such that they are destabilizing even in high income countries. After the East Asia Financial Crisis, Korea had liberalized its financial system and built up a massive war chest of foreign currency reserves. The combination of international integration and self-insurance was designed to protect the country from a repeat of the 1997-1999 disaster. In the period after 2001, ultra-low interest rates in the US emboldened Korean banks—including foreign owned banks—to fund themselves on global dollar markets and lend in won to domestic borrowers at higher rates. However, when the Global Financial Crisis hit in 2008, dollar funding dried up and the banks were forced to scramble for foreign exchange. The Korean won collapsed from 1000 to 1600 against the US dollar, forcing corporates with dollar liabilities into bankruptcy. Even Korea's large current account surplus, strong won and massive foreign exchange reserves were no match for reverse capital flows in a globalized financial system.

Europe found itself in a similar situation as the GFC unfolded. It is estimated that European banks had funded their operations on the global dollar market with $1 trillion in commitments from US money market funds. During normal times, this was a lucrative business, but when the money markets seized up European banks were illiquid and required massive injections of finance (which eventually came from the US Federal Reserve).

These examples point to a fundamental shift in the model of commercial banking that has taken place in advanced countries. Banks no longer take deposits from households and leverage these liabilities to make loans to business. Money markets have replaced bank deposits, leaving banks to fund themselves with asset-backed commercial paper. In normal times the market for commercial paper is liquid and deep, and banks have no difficulty acquiring cash by selling notes or from repo contracts. However, during periods of instability banks and nonbank financial institutions worry about the solvency of counterparties, and banks may be caught short of liquidity.

Banks have also replaced the originate and hold model (make loans and hold them to maturity) to originate and distribute, meaning that loans initiated by the bank are securitized and sold to other banks, hedge funds and other financial institutions. The banks usually retain some exposure to their securitized loans on their own books, perhaps in a special purpose vehicle.

The advantage of the originate and distribute model from the bank's perspective is the elimination of tenor mismatches on its balance sheet. Having funded itself with short-term commercial paper, it cannot hold medium to long-term loans on its balance sheet. Commercial banks in the United States and Europe are not primarily in the business of transactions, much like broker-

dealers. The action business of financing investment is done in investment banks and nonbank financial investors. These new banking models will eventually come to Viet Nam. But as suggested above, the main constraint is the relative weakness of the private sector. **Until the demand for long-term financing increases, the banking system will not find ways to provide it**.

Nor is liberalization or globalization likely to deliver deeper and more liquid capital markets. As we have seen, there is some evidence that foreign banks are more efficient, but they also come with risks. Foreign banks are a transmission belt through which international financial instability is communicated to domestic markets. As in the example of Korea, when domestic banks are funded in the global dollar markets, they can build up currency and tenor mismatches that leave them vulnerable to sudden changes in sentiment. Korea, despite a strong domestic currency, huge trade surpluses and a competitive domestic private sector, was caught off guard by the GFC in 2007-2009. Global financial cycles generate domestic credit booms that create asset bubbles and inflationary pressure, eventually leading to reversed capital flows and financial fragility. This is the main reason that heavy dependence on foreign capital is associated with slower growth in emerging markets (Aizenman et al., 2007).

4. POLICY RECOMMENDATIONS

Most discussion of capital market development has bemoaned the absence of liquid and deep secondary markets for loans and bonds, ratings agencies, and investment banks. The common perception is that a poorly designed, over-regulation, lack of supervision and transparency rules and a weak legal system are the main obstacles to the development of the domestic capital market, suggesting that the way forward lies in liberalization, including opening of the capital account, foreign penetration of the banking sector, and improvements to land and bankruptcy laws. It is not difficult to find examples of poorly designed regulations that reduce the efficiency of national banks and impose costs on investors and consumers. The absence of markets for financial derivatives is at least in part due to the slow pace of reform and the lack of enabling regulations. Bankers often complain about the inefficiency and inconsistency of the legal system and the amount of time and money it costs to foreclose on collateral.

However, the general conclusion that regulations have “underdeveloped” the capital markets addresses the problem from the wrong end of the telescope. **In Viet Nam, domestic capital markets are held back by a lack of demand rather than a lack of instruments. The private sector, except for property developers and banks, consists entirely of small firms.** These companies have simple, short-term financing requirements—not because they cannot obtain finance, but because most of them do not need long-term finance. Until the private sector in Viet Nam generates larger firms with more complex financing requirements, domestic financial markets will remain underdeveloped.

From this perspective, **the challenge is to support the development (and profitability) of medium to large private sector firms, and to create institutions and instruments that redistribute risk from the private to public sector.** National development banking and private sector development funds, similar to the SBA in the United States, would be an appropriate place to start.

4.1. Prioritize macroeconomic stability

The Government of Viet Nam and the State Bank of Viet Nam should continue prioritizing macroeconomic stability. Empirical evidence proves the importance of macroeconomic stability for the development of the bond market, an important vehicle for mobilizing long-term capital. Low exchange rate volatility and low inflation volatility are important factors for domestic currency bond market development (Eichengreen and Luengnaruemitchai, 2006; Burger et. al., 2015). Viet Nam's macroeconomic key indicators have been sound for the last ten years, which contributes to recent development in the domestic bond market. The near future poses certain challenges, with record high global inflation (due to high oil and food prices exacerbated by the conflict in Ukraine) and record high USD interest rates expected in 2022 and 2023. In the latest report in April, 2022, the IMF forecasts inflation rates to be 8.7% in emerging markets and developing economies (IMF, 2022). For Viet Nam, the inflation forecast is 3.8% and 3.2% for 2022 and 2023, respectively. Continued effort to keep inflation under control increases the attractiveness of long-term financial assets in general, and bonds in particular.

Tight control of the capital account should remain in place. Recently, there have been discussions among government officials regarding the possible establishment of an "International financial center" in Ho Chi Minh City. There are many determining factors for the success of an international center, such as: (i) geographical accessibility; (ii) the presence of a sound legal system that aligns with international standards; (iii) a highly skilled workforce that can communicate in English; (iv) liberalized capital account and convertible currency, etc. Building an international financial center could offer great opportunities for Ho Chi Minh City and Viet Nam in order to attract additional capital and raise the standard of financial services as well as building the new tech-finance industry. However, liberalization of the capital account should be the last action to be undertaken. The gain from attracting additional foreign capital does not assist the financial system to provide long-term capital if the problem still lies on the demand side.

4.2. Revise the legal framework that regulates public pension fund investment practice

The current investment practice of the state-owned Viet Nam Social Security (VSS) that still dominates the Vietnamese pension system hinders corporate bond market development. **To overcome public officials' risk aversion and the Government's orientation to implement a long-term buy and hold strategy, VSS should be allowed to hire private-sector investment management firms to manage its assets**.

The change in VSS investment practice and the incorporation of private sector management of the VSS investment portfolio could be done gradually, as the lack of corporate bond market development comes from both the supply and demand sides. Such changes in public pension fund investment management not only contribute to domestic currency bond market development, but also increase the return and sustainability of the public pension system.

Moreover, the Decree 30/2016/ND-CP regulating investment made by VSS, public health insurance funds and public unemployment benefits funds should be amended to allow and incentivize these funds to invest in corporate bonds and equities instead of prioritizing investment into government bonds.

4.3. Promote bond issuance and transactions of corporate bonds

The current situation shows that corporate bonds have been mostly issued by real estate firms and risks started to appear, which threatened the stable development of the bond market and investors' confidence. Moreover, the investor base in the corporate bond market lacks diversity, and pension funds and insurance companies are not yet playing an important role in corporate bond market development as in other countries. It is therefore necessary to encourage different types of enterprises to engage in this market by applying concrete solutions in terms of both supply and demand sides.

In terms of the supply side, continued reforms to allow for a larger role for private firms in the utilities, energy, telecommunication and transportation sectors should be made. In the power sector, the Ministry of Industry and Trade is drafting the pilot program of a dual power purchase agreement (DPPA), which enables private independent power plants to supply power directly to consumers. Such a framework allows private firms to mobilize long-term capital to invest in much-needed power infrastructure. In regional countries, utilities and transportation are sectors that successfully raise long-term capital from the corporate bond market and increased efforts should be made in order to create an increasingly competitive market and incentivize private entrepreneurship.

The Government should pressure SOEs, especially the ones operating in the utilities, transportation and telecommunication sectors, to raise funds in the corporate bond market instead of borrowing from banks. These companies, due to their large size and steady, stable income, can play a big role in bond market development in Viet Nam similar to the case of China. China's corporate bond market is the second largest in the world, behind the U.S. Bonds issued by SOEs account for 75% of total bonds outstanding (Carrera et. al., 2021). SOEs in China started issuing bonds in 1980. SOEs in Viet Nam can do the same to boost corporate bond market development at its early stage. A circular providing guidance on SOEs bond issuance could be a good starting point.

In terms of the demand side, it is necessary to focus on two points which investors are mostly interested in, such as interest rates and transparency. The previous period clearly shows that Vietnamese investors were willing to buy real estate firms' bonds as their yield to maturity have doubled or even tripled if compared with banks' deposit interest rates. Therefore, by giving an attractive interest rate to investors, firms can persuade them to buy bonds, so that they can increase their long-term capital instead of borrowing from commercial banks.

Investors' confidence in the market is considered as a key to the market's success. This only appears to happen if the market develops transparently. Decree 153/2020/ND-CP only stipulates that the Board of Directors and the President of the company are responsible for supervising the mobilization and use of capital from bond issuance and payment of bonds' interest and principal. As previusly described, corporate bond issuers and brokerage companies exploit the loopholes in the legal system to sell corporate bonds. Many retail investors buy bonds from the private placement market, not fully understanding the risks that they are taking, as most bonds sold on the market are unrated. In this regard, the legal framework should be reviewed in order to ensure transparency and promote the participation of retail investors to the corporate bond market.

Moreover, the use of capital has not been monitored by any authority but self-managed and supervised by enterprises. This leads to the situation whereby enterprises issuing bonds do not use capital for the right purposes as committed, generating information asymmetry and posing great risks to investors. In fact, there has been a round about transfer of capital, causing lack of transparency and difficulties for investors when assessing the risks of bonds and issuers. In this context, **regular supervision by a state agency of the use of capital raised from bond issuance should be introduced**. Moreover, the current legal framework should be reviewed in order to ensure that fines provide an effective deterrent to companies from taking excessive risks and concealing information from bond investors.

At the same time, the Government should act to boost the demand for credit rating by requiring, for instance, mandatory credit rating during the new development period of the market. In particular, to promote the culture and expand the scope of credit rating agencies, the Government should consider to gradually enlarge the scope of the new regulation requiring medium corporate issuances to be rated.

Considering that currently bond are mainly issued by real estate companies, and most of these bonds are "3-no" bonds (no credit rating, no collateral, and no guarantor), in order to ensure aligned criteria, promote market transparency and avoid potential risks for investors, requirements on guarantees and ratings for real estate firms' issuance could be strenghtened.

4.4. Promote securitization on the debt trading platform

To create a new market and promote securitization, **Viet Nam has to adjust and regulate the relationship between market participants and promote the development of intermediaries**.

Securitization is a complicated process and entails the participation of many stakeholders. Viet Nam's legal regulations have not yet completed or been fully consistent in implementing new organizational forms. Therefore, monitoring, managing and regulating the relationship between related parties is necessary to facilitate the development of the securitization market -as in the case of China- as well as to reduce disadvantages that securitization can create -as in the case of the subprime crisis in the United States.

In terms of state management, in Viet Nam, when securitization transactions are carried out, they can be managed by three agencies, namely the Ministry of Finance, the State Bank of Viet Nam and the State Securities Commission. However, in order to avoid the situation of market fragmentation like in the case of China and create favorable conditions for enterprises to raise capital using securitization techniques, **the Government may consider applying a "one door mechanism": in this case, the State Securities Commission can be designated as the sole authority responsible for licensing and managing securitization transactions**. The mandate and authority of this organization need to be clearly defined and it has to be strong enough to effectively lead, manage and supervise the operation of the securitization market in Viet Nam.

In order for the securitization market to develop sustainably, it is necessary to develop specific supporting organizations which are credit rating agencies and professional valuation companies. Since there are still not many reputable rating companies, Viet Nam can use the credit ratings of reputable foreign rating agencies. However, it is necessary to encourage the development of domestic credit rating agencies because these organizations may have an advantage over foreign companies in understanding the market compared with domestic issuers. Therefore, **Viet Nam needs to build and perfect the legal framework for the formation and operation of domestic credit rating agencies**. These regulations should serve as a legal basis to regulate relationships arising in the field of credit rating, and at the same time set the right direction for the behavior of individuals and organizations related to credit rating.

Along with credit rating companies, in order for the securitization market to operate effectively, it is necessary to have professional valuation companies with independent valuation functions of listed assets. The participation of these companies in the securitization process will help the parties involved believe in the objectivity of the securitization process. Valuation companies will perform the classification, appraisal and valuation of assets in an objective manner, reflecting the true nature of the assets at the time of securitization. The activities of these companies will contribute to ensure trust and transparency and promote the development of the securitization market. Therefore, the

activities of these companies also need to be closely monitored by relevant units to create trust in the market.

5. CONCLUSION

The financial system is broadly misconstrued as the link between savers and investors. The persistence of this misconception is unfortunate because it distracts from the actual function of the banking system, which is to convert liquid assets into funds for long-term investments. The distinction is important because the two interpretations of finance suggest different reform trajectories. If banks collect savings from households and lend these savings out to businesses, then the policy aim would be to create conditions under which more saving could be accumulated and advanced to firms. Financial liberalization was based on this idea: if we raise interest rates, households will save more and lift the investment rate; and if we open our capital account, we will benefit from the inflow of foreign savings. In the event, liberalization did not deliver the goods. Liberalized interest rates did rise for the most part, but there was no savings response. Lending did increase, but it was absorbed by consumer credit and speculation. Many countries liberalized their capital account, but capital flowed in the reverse direction, from emerging markets to the advanced countries. Most crucially, liberalized financial systems proved to be exceptionally fragile, suffering multiple national and regional financial crises on the way to two mega-crises: the East Asia Financial Crisis of 1997-1999 and the Global Financial Crisis ten years later.

The successful developing countries of East Asia began their growth spurts with low levels of domestic savings. With respect to finance, these countries face three broad challenges: (i) to identify investment projects that would yield a steady stream of revenue to finance debt service obligations; (ii) to ensure an adequate supply of cash to cover capital and production expenses; and (iii) to ensure that these projects had access to sufficient amounts of foreign exchange to import machines, technology and other inputs denominated in US dollars.

Korea, Taiwan, China and Singapore met the first challenge using levers of industrial policy that are not available to Viet Nam because they have been ruled out under various multilateral and bilateral trade agreements. Nevertheless, Viet Nam still has plenty of tools available, including concentration of public investment to provide infrastructure and realize agglomeration effects, technology and R&D policy, education and training, regional and urban policy, and security policy.

The successful East Asian economies used their control over the banking system to meet the second challenge, including directed lending, development banking and even direct funding from government budgets. Viet Nam has engaged in directed lending, but largely in support of SOEs. We have suggested in this paper that development banking has been underutilized in Viet Nam and should form part of the financial sector reform strategy. There are many lessons from East Asia, and also from other regions, of government action to increase the supply of credit to priority classes of borrowers, such as the SBA in the US.

Access to foreign exchange is an important constraint on investment in all developing countries. Viet Nam records a modest current account surplus, but reliance on FDI to develop export industries has imposed an increasingly heavy burden in the form of negative income flows (profits and interests). We have noted that the difference between FDI and foreign borrowing is less than is usually imagined. Less reliance on FDI, and development of large, export-oriented domestic firms, must be assigned a higher priority in both industrial and financial reform policy.

As explained in the Report, in Viet Nam domestic capital markets are held back by a lack of demand rather than a lack of instruments. The private sector, except for property developers and banks, consists entirely of small firms with short-term financing requirements. Thus, **the biggest challenge for Viet Nam's private sector is to develop larger firms with more complex financing requirements in order to boost demand for the development of the domestic financial markets**.

In parallel, in order to develop a domestic financial market able to boost the country's sustainable development, the Government should prioritize macroeconomic stability to increase the attractiveness of long-term financial assets (bonds, in particular), promote bond issuance and transactions of corporate bonds by acting on the demand side (for instance, promoting reforms to allow for a larger role for private firms in the utilities, energy, telecommunication and transportation sectors and supply side (for instance, improving market transparency, ensuring regular state supervision, boosting the demand for credit rating), revise the legal framework that regulates public pension fund investment practice, promote loan securitization on the debt trading platform and other instruments such as loan guarantees, equity participation in small and medium sized businesses, and structured finance for slow-gestating projects.

REFERENCES

ADB. (2020). The Inter-Bank Bond Market In The People's Republic Of China An Asean+3 Bond Market Guide.

ADB. (2021). Emerging East Asian Local Currency Bond Markets: A Regional Update. *Asia Bond Monitor*.

ADB. (2021). The Bond Market In Indonesia: An Asean+3 Bond Market Guide Update.

ADB. (2021). The Bond Market In Thailand: An Asean+3 Bond Market Guide Update.

Aiyar, S. (2012). From Financial Crisis to Great Recession: The Role of Globalized Banks. *American Economic Review*, *102*(3), 225–230. https://doi.org/10.1257/aer.102.3.225

Aizenman, J., Pinto, B., & Radziwill, A. (2007). Sources for financing domestic capital – Is foreign saving a viable option for developing countries? *Journal of International Money and Finance*, *26*(5), 682–702. https://doi.org/10.1016/j.jimonfin.2007.04.009

Akyüz, Y. (2017). *Playing with fire: Deepened financial integration and changing vulnerabilities of the global South*. Oxford University Press.

Amariei, C., Pieter de Groen, W., & Valiante, D. (2017). Improving the Investor Base for Local Currency Bond Markets in China, India and Indonesia.

Appell, D. (2021). Malaysia's EPF ends 2020 up 7.9% at almost $250 billion. *Pensions & Investments*. https://www.pionline.com/defined-contribution/malaysias-epf-ends-2020-79-almost-250-billion.

Arestis, P., & Stein, H. (2005). An Institutional Perspective to Finance and Development as an Alternative to Financial Liberalisation. *International Review of Applied Economics*, *19*(4), 381–398. https://doi.org/10.1080/02692170500208459

Beck, T., & Martinez Peria, M. S. (2010). Foreign bank participation and outreach: Evidence from Mexico. *Journal of Financial Intermediation*, *19*(1), 52–73. https://doi.org/10.1016/j.jfi.2009.03.002

Bhaduri, S., & Bhattacharya, A. (2018). Financial Liberalization and Allocation of Capital: Dark Side of the Moon. *Journal of Quantitative Economics*, *16*(S1), 163–185. https://doi.org/10.1007/s40953-018-0128-5

Bird, G., & Rajan, R. S. (2002). Does FDI Guarantee the Stability of International Capital Flows? Evidence from Malaysia. *Development Policy Review*, *20*(2), 191–202. https://doi.org/10.1111/1467-7679.00165

Bologna, P. (2017). Banks' maturity transformation: risk, reward, and policy.Temi di discussione (Economic working papers) 1159, Bank of Italy, Economic Research and International Relations Area.

Bộ Tài Chính. (2021). Tổng quan thị trường bảo hiểm năm 2020.

Bộ Tài Chính & VBMA. (2021). Báo Cáo Thường Niên 2020: Thị Trường Trái Phiếu Việt Nam.

BSC. (2021). Cập Nhật Ngành Bảo Hiểm Việt Nam.

Burger, K. J. D., Warnock, F. E., & Warnock, V. C. (2015). Bond Market Development In Developing Asia. *ADB Economics Working Paper Series,* 448.

Carrera, J. B., Geng, G., & Huang, F. (2021). China's Corporate Debt: Triaging In Progress. *Allianz Research*.

Cesar, C.& Kubota, M. (2009). Does financial openness lead to deeper domestic financial markets?. Policy Research Working Paper Series 4973, The World Bank.

Chan, K., Fong, W. M., & Chan, Y-C. (2002). Free float and market liquidity: evidence from Hong Kong Government's intervention. *Journal of Financial Research*, 27(2), 179-197. doi:10.1111/j.1475-6803.2004.t01-1-00078.x

Chen, M., Wu, J., Jeon, B. N., & Wang, R. (2017). Do foreign banks take more risk? Evidence from emerging economies. *Journal of Banking & Finance*, *82*, 20–39. https://doi.org/10.1016/j.jbankfin.2017.05.004

Chinn, M., & Ito, H. (2002). *Capital Account Liberalization, Institutions and Financial Development: Cross Country Evidence* (No. w8967; p. w8967). National Bureau of Economic Research. https://doi.org/10.3386/w8967

Chính phủ (2016). *Nghị định số 30/2016/NĐ-CP về Quy định chi tiết hoạt động đầu tư từ quỹ bảo hiểm xã hội, bảo hiểm y tế, bảo hiểm thất nghiệp*, ban hành ngày 28/04/2016.

Claessens, S., Demirgüç-Kunt, A., & Huizinga, H. (2001). How does foreign entry affect domestic banking markets? *Journal of Banking & Finance*, *25*(5), 891–911. https://doi.org/10.1016/S0378-4266(00)00102-3

Claessens, S., & Van Horen, N. (2014). Foreign Banks: Trends and Impact. *Journal of Money, Credit and Banking*, *46*(s1), 295–326. https://doi.org/10.1111/jmcb.12092

Columbia Center on Sustainable Investment. (2021). *Development Banking in the Global Economy: State of Play and Future Directions*. https://ccsi.columbia.edu/sites/default/files/content/docs/CCSI-Development-Banking-report-04-mr_0.pdf

Craig, B. R., Jackson, W. E., & Thomson, J. B. (2009). The Economic Impact of the Small Business Administration’s Intervention in the Small Firm Credit Market: A Review of the Research Literature. *Journal of Small Business Management*, *47*(2), 221–231. https://doi.org/10.1111/j.1540-627X.2009.00269.x

Dao, T. (2021). Determinants of linkages between foreign direct investment firms and domestic firms in Viet Nam. International Journal of ADVANCED AND APPLIED SCIENCES. 8. 94-102.

Datta, S.& Datta, M. & Patel, A. (2000). Some Evidence on the Uniqueness of Initial Public Debt Offerings. Journal of Finance, American Finance Association, vol. 55(2), pages 715-743, April.

Diaz-Alejandro, C. (1985). Good-bye financial repression, hello financial crash. *Journal of Development Economics*, *19*(1–2), 1–24. https://doi.org/10.1016/0304-3878(85)90036-7

Duc Tho. (2021, April 5). VDB đã báo cáo Kiểm toán Nhà nước về việc xử lý các dự án liên quan. *Viet Nam Finance*. https://Viet Namfinance.vn/vdb-da-bao-cao-kiem-toan-nha-nuoc-ve-viec-xu-ly-cac-du-an-lien-quan-20180504224251530.htm

Duong, N. H. (2021). Tổng quan và định hướng phát triển thị trường trái phiếu doanh nghiệp Việt Nam. *Review of Finance,* 1. https://tapchitaichinh.vn/Chuyen-dong-tai-chinh/tong-quan-va-dinh-huong-phat-trien-thi-truong-trai-phieu-doanh-nghiep-viet-nam-344356.html.

Eichengreen, B., & Arteta, C. (2002). Banking Crises in Emerging Markets: Presumptions and Evidence. In M. I. Bléjer & M. Skreb (Eds.), *Financial policies in emerging markets* (pp. 47–94). MIT Press.

Eichengreen, B., & Luengnaruemitchai, P. (2004). Why doesn't Asia have bigger bond markets?. *BIS Papers,* 30, 40-77.

Elliott, D. J. (2011). *Uncle Sam in pinstripes: Evaluating U.S. federal credit programs*. Brookings Institution Press.

ENF. (2021). *Financial Report.* Ho Chi Minh City, Viet Nam.

ENF. (2022). *Fund's Investment Activities Report*. Ho Chi Minh City, Viet Nam.

Ferrari, A.& Tran, T. (2021). Banking, transition and financial reforms: a long-term analysis of Viet Nam. Journal of Banking Regulation, Palgrave Macmillan, vol. 22(1), pages 1-10, March.

FiinGroup. (2021). FiinRatings Insight #1/Q1-2021: Viet Nam Corporate Bond Outlook 2021. *Credit Rating Service (FiinRatings)*, FiinGroup.

FiinGroup. (2021). FiinRatings Insight #2: Viet Nam Corporate Bond Market: Balancing Return and Risk. *Credit Rating Service (FiinRatings)*, FiinGroup.

Fischer, S. (1997). *Capital account liberalization and the role of the IMF /.*

Fry, M. J. (1995). *Money, interest, and banking in economic development* (2nd ed). Johns Hopkins University Press.

Galindo, A., Schiantarelli, F., & Weiss, A. (2007). Does financial liberalization improve the allocation of investment? *Journal of Development Economics*, *83*(2), 562–587. https://doi.org/10.1016/j.jdeveco.2005.09.008

Griffith-Jones, S., Ocampo, J. A., Rezende, F., Schclarek, A., & Brei, M. (2018). The Future of National Development Banks. In S. Griffith-Jones & J. A. Ocampo (Eds.), *The future of national development banks* (pp. 1–39). Oxford University Press.

Huong, D. (2021). Sửa Luật Kinh doanh bảo hiểm: Khai thông nguồn lực đầu tư cho nền kinh tế. *Viet Nam Investment Review*. https://www.tinnhanhchungkhoan.vn/sua-luat-kinh-doanh-bao-hiem-khai-thong-nguon-luc-dau-tu-cho-nen-kinh-te-post286974.html.

Hirschman, A. O. (1958). *The strategy of economic development* (17. print). Yale Univ. Pr.

IMF. (2022). World Economic Outlook: War Sets Back the Global Recovery. Washington, DC, April.

IOSCO. (2002). The Development Of Corporate Bond Markets In Emerging Market Countries.

IOSCO. (2007). Factors Influencing Liquidity in Emerging Markets.

Jeon, B. N., Olivero, M. P., & Wu, J. (2011). Do foreign banks increase competition? Evidence from emerging Asian and Latin American banking markets. *Journal of Banking & Finance*, *35*(4), 856–875. https://doi.org/10.1016/j.jbankfin.2010.10.012

Kathpalia, S. D., Minh, C. H., Huong, D. T., & Lambert, D. J. (2020). The Potential For Foreign Investment In A Domestic Credit Rating Agency In Viet Nam. *ADB Southeast Asia Working Paper Series,* 19.

Kaminsky, G. L., & Reinhart, C. M. (1999). The Twin Crises: The Causes of Banking and Balance-of-Payments Problems. *American Economic Review*, *89*(3), 473–500. https://doi.org/10.1257/aer.89.3.473

Klein, M., & Olivei, G. (1999). *Capital Account Liberalization, Financial Depth and Economic Growth* (No. w7384; p. w7384). National Bureau of Economic Research. https://doi.org/10.3386/w7384

Kose, M. A., Prasad, E., Rogoff, K., & Wei, S.-J. (2006). *Financial Globalization: A Reappraisal* (No. w12484; p. w12484). National Bureau of Economic Research. https://doi.org/10.3386/w12484

Kowalewski, O. & Pisany, P. (2019). What drove the growth of the corporate bond markets in Asia?. Research in International Business and Finance, Elsevier, vol. 48(C), pages 365-380.

Lambert, D. (2022). Spurring Development of Viet Nam's Corporate Bond Market. *ADB Blogs*. https://blogs.adb.org/blog/spurring-development-viet-nam-s-corporate-bond-market.

Le, P. & Harvie, C. & Arjomandi, A. & Borthwick, J. (2019). Financial liberalisation, bank ownership type and performance in a transition economy: The case of Viet Nam. Pacific-Basin Finance Journal. 57. 101182. 10.1016/j.pacfin.2019.101182.

Levine, R. (1996). Foreign Banks, Financial Development, and Economic Growth. In C. E. Barfield (Ed.), *International Financial Markets: Harmonization vs Competition* (pp. 224–254). AEI Press.

Luna-Martinez, J. de, & Vicente, C. L. (2012). *Global Survey of Development Banks* (No. 5969; Policy Research Working Paper). World Bank. https://documents1.worldbank.org/curated/en/313731468154461012/pdf/WPS5969.pdf

Manulife. (2017). Annual Report 2017.

Mazzucato, M. (2015). *The entrepreneurial state: Debunking public vs. private sector myths*. PublicAffairs.

McKinnon, R. I. (1973). *Money and capital in economic development*. Brookings Inst.

McKinnon, R. I. (1993). *The order of economic liberalization: Financial control in the transition to a market economy* (2nd ed). Johns Hopkins University Press.

Mizen, P. & Tsoukas, S. (2012). What Promotes Greater Use of the Corporate Bond Market? A Study of the Issuance Behaviour of Firms in Asia. Discussion Papers 12/17, University of Nottingham, Centre for Finance, Credit and Macroeconomics (CFCM).

MPI (2020). 2020 Vietnamese enterprises white book. Statistical Publisher

Nanda, P. K. (2019). PFO board hires SBI MF, UTI AMCs as fund managers. *Mint*. https://www.livemint.com/news/india/epfo-board-hires-sbi-mf-two-other-amcs-as-fund-managers-1566408844356.html

Nehru, V. (2019). Development Banks in Asia: Magic Bullets that Invariably Disappoint. In U. Volz, P. J. Morgan, & N. Yoshino (Eds.), *Routledge handbook of banking and finance in Asia* (pp. 245–264). Routledge, Taylor & Francis Group.

Newman, C., Page, J., Shimeles, A., Soderbom, M., & Tarp, F. (2018). *Linked in by foreign direct investment: The role of firm-level relationships in knowledge transfers in Africa and Asia* (No. 2018/161; WIDER Working Paper). UNU-WIDER.

Nga, N. (2022). 86% Quỹ Bảo hiểm xã hội được dùng mua trái phiếu Chính phủ. *BizLIVE*. https://nhipsongdoanhnghiep.cuocsongantoan.vn/86-quy-bao-hiem-xa-hoi-duoc-dung-mua-trai-phieu-chinh-phu-post3093802.html.

Ngan, F., Yang, A., Tang, T., Jack, Ng., & Lui, M. (2018). Letting Insurance Asset Data Speak for Itself: Asset Allocations of Life Insurers in Asia. *Society of Actuaries*.

Ngo, T. (2015). Efficiency of banking system in Viet Nam under financial liberalization. Ph.D Thesis, Massey University.

Ngoc, B. (2020). Quỹ bảo hiểm xã hội 728.000 tỉ, đầu tư thu lãi 42.700 tỉ đồng. *Tuổi Trẻ Online*. https://tuoitre.vn/quy-bao-hiem-xa-hoi-728-000-ti-dau-tu-thu-lai-42-700-ti-dong-20200524084434966.htm.Orzechowski, P. E. (2020). U.S. Small Business Administration loans and U.S. state-level employment. *Journal of Economics and Finance*, *44*(3), 486–505. https://doi.org/10.1007/s12197-019-09495-3

OECD. (2020). Corporate Bond Market Trends, Emerging Risks and Monetary Policy. *OECD Capital Market Series*, Paris.

OECD. (2021). Pensions at a Glance 2021: OECD and G20 Indicators, *OECD Publishing*, Paris. https://doi.org/10.1787/ca401ebd-en.

Park, C. Y. (2015). Developing Local Currency Bond Markets In Asia. *ADB Economics Working Paper Series,* 495.

Park, D. (2011). Pension Systems and Old-Age Income Support in East and Southeast Asia: Overview and Reform Direction. *ADB Publication*.

Park, D. & Taniguchi, K. & Tian, S. (2018). Foreign and Domestic Investment in Global Bond Markets. ADB Economics Working Paper Series 535, Asian Development Bank.

Pham, K. & Doan, N. (2022). Legal provisions on corporate bonds and solutions to

protect bond investors in Viet Nam. Viet Nam law and legal forum.

Prasad, E., Rajan, R., & Subramian, A. (2007). *Foreign Capital and Economic Growth* (No. 13619; NBER Working Papers). https://www.nber.org/system/files/working_papers/w13619/w13619.pdf

Quang, T. N., & Hai, N. V. (2022). Private Placements of Corporate Bonds in Viet Nam: Are the Proposed New Regulations Designed to Promote or Curb Further Market Development?. *YKVN*.

Rey, H. (2015). *Dilemma Not Trilemma: The Global Financial Cycle and Monetary Policy Independence* (No. 21162; NBER Working Papers). https://www.nber.org/system/files/working_papers/w21162/w21162.pdf

Rixtel, Adrian & Gasperini, G. (2013). Financial crises and bank funding: recent experience in the euro area. BIS Working Papers 406, Bank for International Settlements.

Rosengard, J. & Huynh, D. (2009). Funding Economic Development: A Comparative Study of Financial Sector Reform in Viet Nam and China. Series on Viet Nam's WTO Accession and International Competitiveness Research policy dialogue papers.

Sanchez-Martin, M. E., De Pinies, J., & Antoine, K. (2015). *Measuring the Determinants of Backward Linkages from FDI in Developing Economies: Is It a Matter of Size?* (No. 7185; Policy Research Working Paper). World Bank.

Schumpeter, J. A. (1939). *Business Cycles: A Theoretical, Historical and Statistical Analysis of the Capitalist Process: Vol. I*. McGraw Hill.

Shaw, E. S. (1973). *Financial deepening in economic development*. Oxford Univ. Press.

Shin, J.-S., & Chang, H.-J. (2003). *Restructuring Korea Inc*. RoutledgeCurzon.

Thai, D. (2022). Thị trường bảo hiểm 2021: Vượt thách thức Covid-19, duy trì tăng trưởng 2 con số. *Thời báo Tài chính Việt Nam*. https://thoibaotaichinhViet Nam.vn/thi-truong-bao-hiem-2021-vuot-thach-thuc-covid-19-duy-tri-tang-truong-2-con-so-98318.html.

UNCTAD (Ed.). (2020). *International production beyond the pandemic* (30th anniversary edition). United Nations.

VBMA. (2021). Monthly Bond Market Report: November 2021.

VBMA. (2021). Viet Nam Bond Market Quarter IV/2021. *VBMA's Quarterly Bond Market Report*.

VCBS. (2021). Outlook Report Corporate Bonds Market 2021. *Research Department – VCBS*.

VMOF. (2020). Viet Nam Bond Market 2019: Adopting good practices to build a sustainable bond market.

Wang, M. (2009). Manufacturing FDI and economic growth: Evidence from Asian economies. *Applied Economics*, *41*(8), 991–1002. https://doi.org/10.1080/00036840601019059

Warman, F., & Thirlwall, A. P. (1994). Interest rates, saving, investment and growth in mexico 1960–90: Tests of the financial liberalisation hypothesis. *Journal of Development Studies*, *30*(3), 629–649. https://doi.org/10.1080/00220389408422330

Winkler, D. (2013). *Potential and Actual FDI Spillovers in Global Value Chains: The Role of Foreign Investor Characteristics, Absorptive Capacity and Transmission Channels* (No. 6424; Policy Research Working Paper). World Bank.

World Bank. (2018). Case Study on the Employees Provident Fund of Malaysia. *Knowledge & Research, The Malaysia Development Experience Series*.

World Bank. (2019). Finance in Transition: Unlocking capital markets for Viet Nam's future development. *Taking Stock December 2019*.

World Bank. (2020). Can International Competition Drive Insurance Market Growth?: Evidence from Viet Nam.

World Bank. (2021). Creating Markets in Viet Nam: Country Private Sector Diagnostic: Bolstering the Private Sector during COVID-19 and Beyond: Relief, Restructuring, and Resilient Recovery. *IFC Publication*.

World Bank. (2021). Viet Nam: Adapting to An Aging Society. *World Bank Publication*.

Yeyati, E. L., & Micco, A. (2007). Concentration and foreign penetration in Latin American banking sectors: Impact on competition and risk. *Journal of Banking & Finance*, *31*(6), 1633–1647. https://doi.org/10.1016/j.jbankfin.2006.11.003

Yin, H. (2019). Bank globalization and financial stability: International evidence. *Research in International Business and Finance*, *49*, 207–224. https://doi.org/10.1016/j.ribaf.2019.03.009

APPENDIX 1:

Process and procedures for the parties to perform debt purchase and sale

As regard to process and procedures for the parties to perform debt purchase and sale, there are 7 main stages as following:

(i) *Step 1:* Promulgation of internal regulations on debt purchase and sale: Pursuant to Circular 09, the parties must promulgate internal regulations on debt purchase and sale before conducting the purchase and sale of debts.

(ii) *Step 2:* Selection of debt purchase and sale mode
- o The debt seller may select either of the following debt purchase and sale modes as below
- o Agreement: through direct negotiation between the debt seller and debt purchaser or through a broker; or
- o Auction: a debt seller may hire a professional auction organization to auction debts in accordance with the law on asset auction or organize by itself the debt auction.

(iii) *Step 3:* Establishment of debt purchase and sale council
- o The debt seller shall establish debt purchase and sale councils in accordance with its charter and internal regulations on debt purchase and sale.
- o The composition, tasks and powers (including determination of debt purchase and sale price for case of debt purchase and sale under agreement, or reserve price in case of debt auction) shall be stipulated by the debt seller.

(iv) *Step 4:* Assessment and determination of debts
- o The debt purchase and sale price shall be based on the agreements between the parties pursuant to the book value of the debts and interest that the debtor shall pay in future, classification of debt group, recoverability of the debt and value of the security asset (if any).

(v) *Step 5:* Negotiation and signing of the debt purchase and sale contract
- o The parties may negotiate and reach agreements in a debt purchase and sale contract that are not contrary to the Circular 09 and relevant regulations. Such debt purchase and sale contract must have the following principal contents:
- o Signing date of the contract;
- o Names and addresses of the parties to the contract;
- o Names and titles of representatives of the parties to the contract;
- o Names and addresses of the debtor and parties (if any) related to the purchased and sold debt;
- o Details of the purchased and sold debt: loan amount and term, borrowing purpose, book value of the debt by the time of purchase and sale;
- o Measures (if any) to secure the fulfilment of the payment obligation of the debtor regarding the purchased and sold debt;
- o Price of debt sale, payment mode and time;
- o Times, modes and procedures for the transfer of documents on debts, including dossier and documents on security assets for the debt (if any); the time when the debt purchaser takes up the debt seller’s rights and obligations to the debt;
- o Rights and obligations of the debt seller and debt purchaser;

- Liability of the parties for breaching the contract; and
- Settlement of arising disputes.

(vi) *Step 6:* Transfer of rights and obligations related to debts

- Under the law, the debt purchaser takes up the debt seller's rights and obligations over the debt at the time stated in the purchase and sale contract. Hence, the debt seller shall transfer to the debt purchaser the rights and obligations related to the debt including rights and obligations over debt security measures (if any). The transfer of rights and obligations over debt security measures must comply with the law on secured transactions and relevant regulations. The registration of the change of the secured party must comply with the law on secured transactions.

(vii) *Step 7:* Reporting to the State Bank of Viet Nam

- The debt seller and debt purchaser shall report on their debt purchase and sale transactions in accordance with the State Bank's regulations on statistical reports.
- Legal consequence after the transaction is completed
- Under Circular 09, upon the execution of debt purchase and sale contract, the debt seller shall transfer to the debt purchaser the rights and obligations including rights and obligations over debt security measures (if any) and the debt purchaser shall take up the debt seller's rights and obligations over the debts at the time of such contract taking effect.