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Strengthened Fiscals Through Five Year Budgetary and Financial Plan

Key Macroeconomic Indicators

- GDP growth: average of 6.75% / year
- CPI inflation: average of 4.0% / year
- Export growth: average of 10.0% / year
- Import growth: 9.5% / year

Orientation of Five Year Budget Plan (2016-2020)

- Budget revenue of 23.5% of GDP in 2016-2020
  - Tax and fees and charges: 21.0% of GDP
- Average domestic revenue to comprise of 84.0-85.0% of state budget
- Capital expenditure to reach 25.0-26.0% of total expenditure

Expenditure

- Reduce current expenditure to less than 64.0% of total expenditure; priority will be given to secure debt payment
- Promoting the implementation of autonomy mechanism and self-responsibility in public sector e.g. Education, healthcare, hospitals..

Balance

- Budget deficit for 2016 – 2020 period should not exceed 3.9% of GDP
- Reduce budget deficit so that deficit by 2020 does not exceed 3.5% of GDP

Public debt levels will be kept within a Government mandated cap of below 65% of GDP...

<table>
<thead>
<tr>
<th>Year</th>
<th>Public debt to GDP (%)</th>
<th>National external debt to GDP (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>50.0</td>
<td>37.9</td>
</tr>
<tr>
<td>2012</td>
<td>50.8</td>
<td>37.4</td>
</tr>
<tr>
<td>2013</td>
<td>54.5</td>
<td>37.3</td>
</tr>
<tr>
<td>2014</td>
<td>58.0</td>
<td>38.3</td>
</tr>
<tr>
<td>2015 (Prel.)</td>
<td>62.2</td>
<td>43.1</td>
</tr>
<tr>
<td>2016 (prel.)</td>
<td>64.7</td>
<td>45.5</td>
</tr>
</tbody>
</table>

...and Government debt service obligations below another cap of 25% of state budget revenue

Direct Government Debt Service Obligations to State Budget Revenue

Target: below 25%

1 Exclude on-lending and rollovers
Commitment to Deepen the Domestic Capital Markets

The Government has increasingly turned to capital markets to finance its borrowing, which in turn has helped to propel the growth of the domestic bond market. The Government’s domestic debt is playing a more prominent role with 59% of Government debt denominated in VND by the end of 2016, up from 37% in 2011, effectively containing foreign exchange risk.

- Government bonds have served as an increasingly important channel to finance fiscal deficits and capital expenditure. Over 98% of public debt is directed towards infrastructure projects, contributing to improving the social-economic infrastructure system.

- Streamlined procedures continue to facilitate corporate bond issuances. To stem the building up of leverage in the corporate sector, the Government imposes conditions of profitability on companies wishing to undertake bond issuances. Once approved, these issuances will have to be executed in a transparent manner to protect investor rights and interests.

Year 2016 includes the amount of government bonds converted from Social Security Fund loan.

Source: MOF
Government bond markets development

Robust Government bond issuance met with strong demand enabled Vietnam’s bond market to undergo rapid expansion in recent years.

- Total volume of Government bonds issuance volume in 2011-2015 reached more than VND 927 trillion, accounting for 48% of Government’s domestic financing with an average annual growth rate of 34%.

- Following an episode of macroeconomic volatility which led to a spike in yields between 2010 and 2011, Government bond yields have trended downwards to nearly a decade low, reflecting an economy in recovery, improved liquidity and investor confidence in the continued stability of the market (weighted average interest rates in 2011 and 2015 were 12% and 6% respectively).

- Since 2015, the Government has regularly issued 10 and 15-year domestic bonds, and also issued 20 and 30-year Government bonds for the first time. As a result, the redemption profile has greatly improved the average tenor of bond issuance extending from 3.0 years in 2012 to 8.71 years in 2016.

- Diversified investor base (VSS is allowed to trade bond) & attract new long term foreign investors.

Source: MOF, ADB, Bloomberg as of 22 March 2017
## Institutionals arrangement

Several departments within the Ministry of Finance responsible for the public debt management

- Banks and financial institutions department: responsible for the regulatory framework & development of local currency government bond
- Vietnam State Treasury: responsible for issuance of local currency government bond
- Debt management & external finance department: responsible for risk management of the whole public debt portfolio, including international government debt

Infrastructure & service providers for secondary trading:

- Vietnam Securities Depository (VSD) (GB deposit at VSD)
- Hanoi Stock Exchange (HNX) (Listing of bonds & Electronic trading system for bond trading)
- Clearing and Settlement: central clearing at VSD and payment through a commercial bank (from 2017 the payment system will move from a state-owned commercial bank to The State Bank of Vietnam)

## Quasi Primary Dealers (Auction Members)

- 21 PD members for government bonds market: 4 securities firms; 15 commercial banks; 2 special members: social security and deposit insurance
- Obligations of PD in primary market: buy a minimum amount of government bond as required by MOF
- Obligations of PD in secondary market: indicative quoting for benchmark yield curve
- PD members currently do not have the obligation of firm quoting two-way prices in secondary market
Initiatives that help improved secondary market

Regular and predictable auctions:
  • Introduce standard auction calendar
  • Regular issuance of bonds
  • Creating market for on-the-run securities

Establishment of benchmark securities:
  • # of bonds outstanding reduced
  • Average size per issuance increased
  • Regulatory framework introduced for reopening
  • Regulatory framework introduced for bonds buy back and exchanges
Secondary market trading

Unit: billion USD

Total trading volume (2013-2016)

Outright and Repos trading performance in the market (2013-2016)
Secondary market trading (cont)

- Current trading turnover of government bond (average 6-month)
  - Outright: $350 million per day
  - Repo: $170 million per day
- The commercial banks are dominant players

![Pie chart showing investors' participation in secondary trading in 2016]

<table>
<thead>
<tr>
<th>Year</th>
<th>Outright trading (bn VND)</th>
<th>Repos trading (bn VND)</th>
<th>Foreign trading/total trading (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>18.38%</td>
<td>9.12%</td>
<td>85.01%</td>
</tr>
<tr>
<td>2014</td>
<td>11.52%</td>
<td>3.89%</td>
<td>90.01%</td>
</tr>
<tr>
<td>2015</td>
<td>7.45%</td>
<td>1.81%</td>
<td>87.01%</td>
</tr>
<tr>
<td>2016</td>
<td>4.37%</td>
<td>0.17%</td>
<td>93.01%</td>
</tr>
</tbody>
</table>

Total volume of foreign investors’ trading (both Outright and Repos) in 2016 went up slightly in value but decline hugely in the proportion of trading in comparison to total market in 2015 (go down from 7.45% to 4.37%)
Remaining issues

- **Secondary market:**
  - Repo legal framework/accounting treatment related to banks need to be reviewed
  - Need to improve trading system to better facilitate transactions including repos
  - Need to improve clearing and settlement for government securities
  - There is no real PDs in the secondary market – MOF is working on a securities lending facility for PDs (legal/regulatory framework being established) to support market making. Legal challenge; currently no mandate for MOF to lend securities.

- **Investor base:**
  - Main investors in the market are still commercial banks
  - VSS is allowed to trade government bonds, could actively participate in the market could participate in trading;
  - Private pension funds are yet to be developed (under the new regulatory framework)
  - The participation of other institutional investors (including: insurance companies, mutual funds, pension funds) and foreign investors is limited.
Priorities & Plan

Bond market development roadmap 2020 aims to deepen the market

Policy framework

- Improve policies and legislations to provide procedural and technical guidance on bond issuance
- Develop policies for improving primary dealerships, thereby strengthening the market’s financial intermediaries
- Diversify investor base towards insurance firms, deposit insurance entities, bond investment/pension funds and non-resident investors
- Introduce investment policies/mechanism of Social Insurance Fund, Health Insurance Fund and Unemployment Insurance Fund to improve investment and risk management.
- Introduce State Fund Management Mechanism, which accelerates the development of Government bond market

Market infrastructure

- Modernize the bond trading infrastructure, connecting exchange systems within Bloomberg
- Transfer of bond settlement functions from commercial banks to SBV to mitigate liquidity risk
- Development of a Central Counterparty Clearing House (CCP) system so as to enable the introduction of new products

Key specific plan and targets:

• To improve infrastructure for trading, including clearing and settlement – 2017
• To develop repo market: 2017-2018
• To implement a fully function PDs system (with all obligations and privileges) in both primary and secondary market: 2018-2019
• To introduce securities lending program to support market making obligation: 2018-2019
Q & A