



Managing FCY risk through LCBM development

THE EXPERIENCE OF VIETNAM

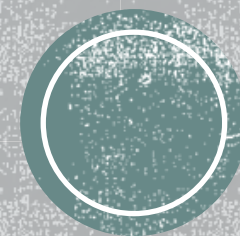
Huong Ho, Director, Banking & Financial Institutions Department

MINISTRY OF FINANCE OF VIETNAM

Berlin, June 2023



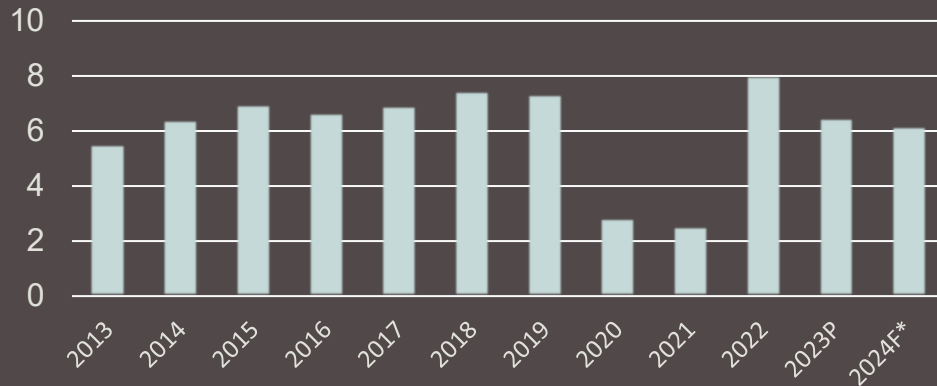
I. Vietnam's Macroeconomic Landscape at a Glance



Robust recovery, stable inflation and sustained external position strengths

Yearly GDP growth

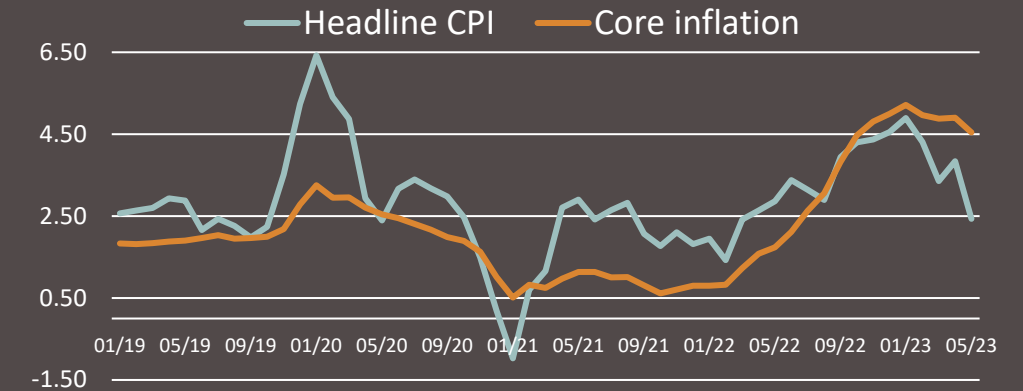
% yoy



* IMF projection, May 2023

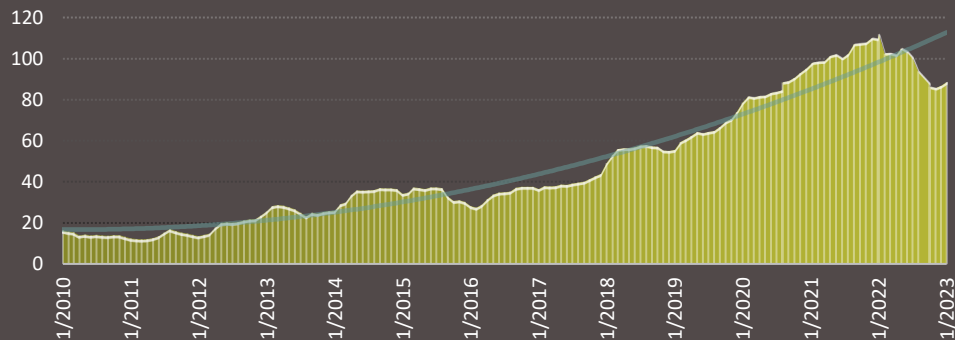
Inflation

% yoy



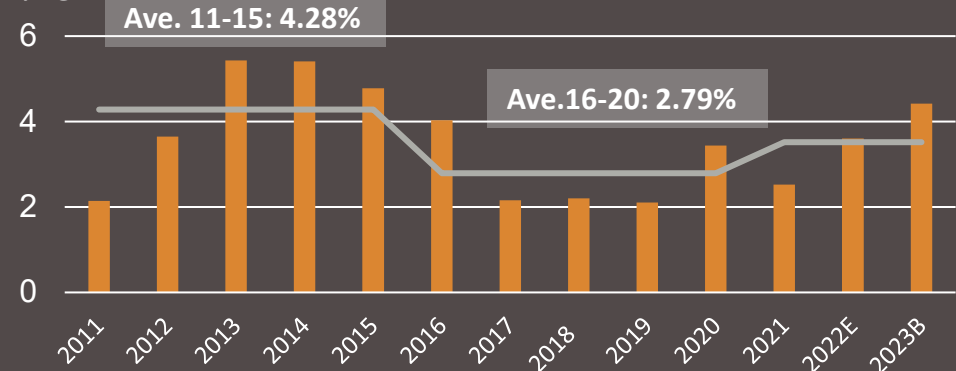
Accumulation of International reserve

USD Bn



Budget deficit/GDP (after re-evaluation)

% GDP





II. Government debt management





To ensure that the government's budget financing needs are met at reasonable cost consistent with a prudent degree of risk



To maintain public debt and government debt indicators within prudence levels for the assurance of national financial security



To promote the development of domestic capital markets

Overall debt management objectives



State budget deficit

Average 2021-2025

3.7%



Public debt

Ceiling \leq **60%**

Early warning threshold \sim 55%



Government debt

Ceiling \leq **50%**

Early warning threshold \sim 45%



Gov. direct debt service /
State budget revenue

\leq **25%**



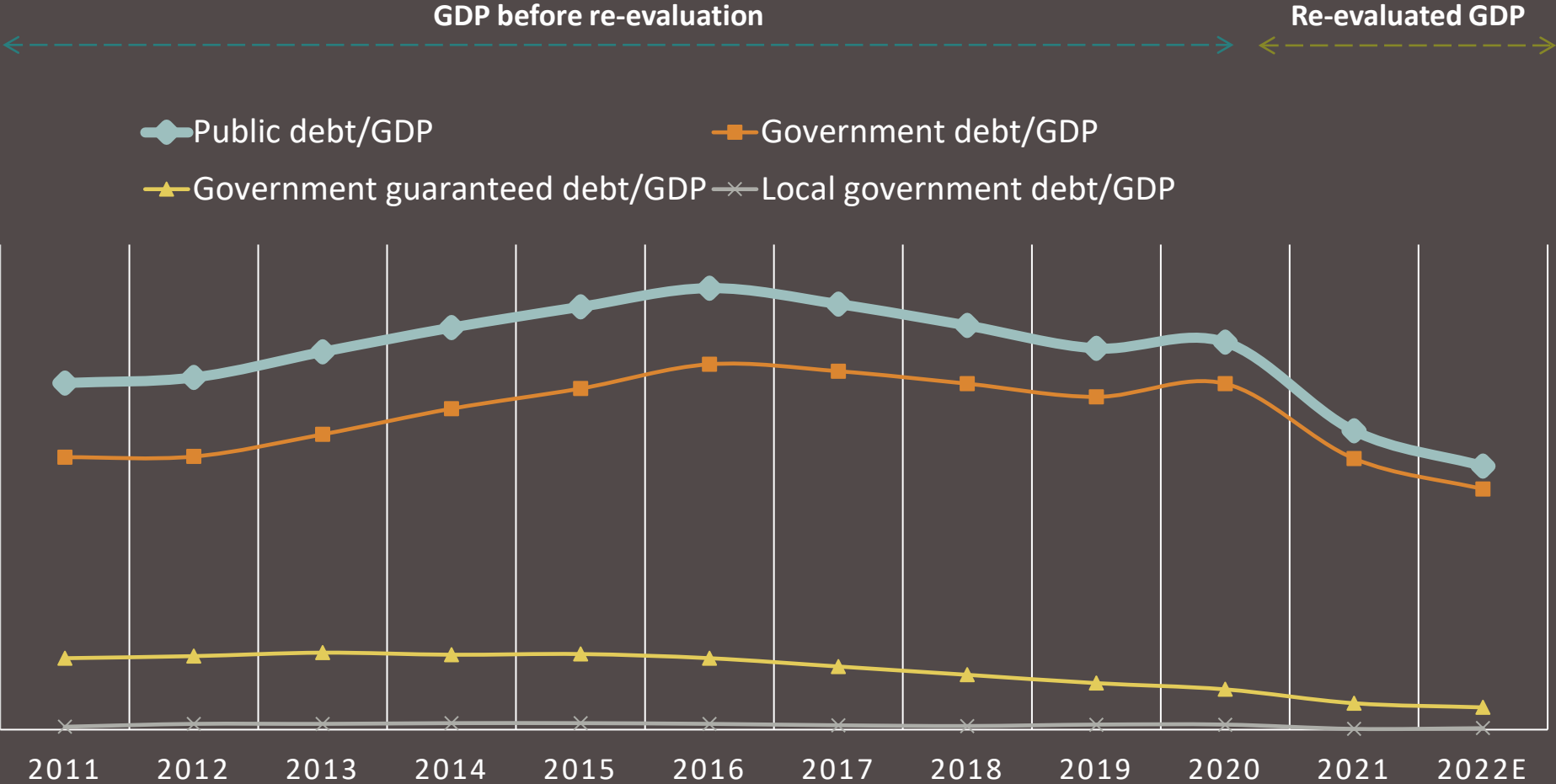
Average G-bond
issuance tenor

\sim **9-11** years

Targets for 2021-2025

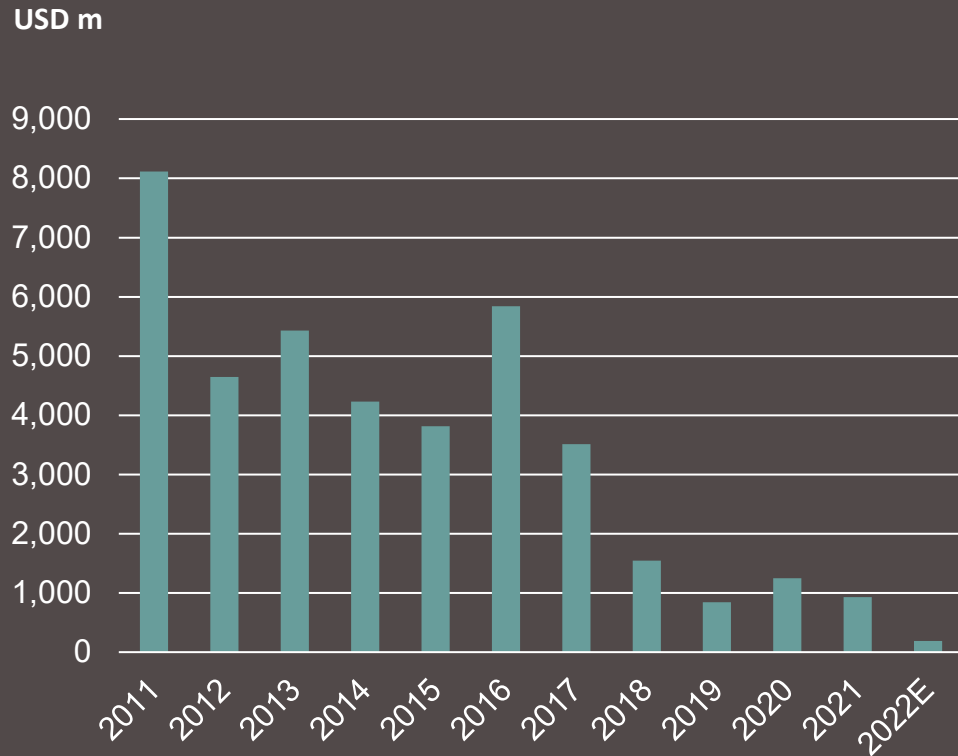
Past fiscal prudence creates ample policy space

Debt to GDP

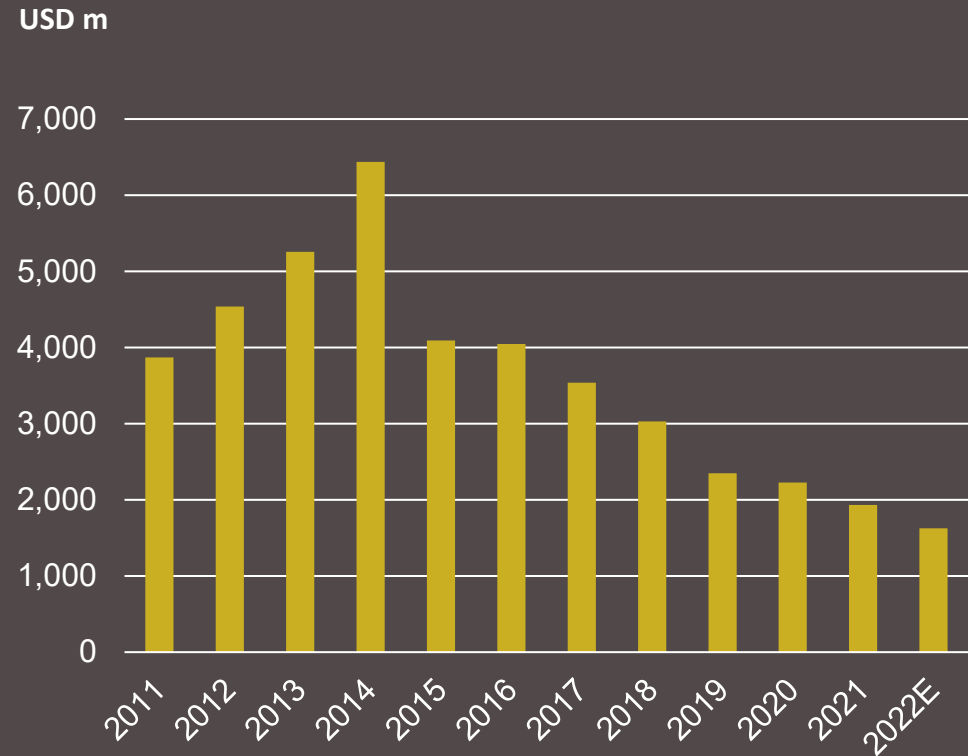


External debt borrowing gradually reduced

Signed ODA, concessional borrowings



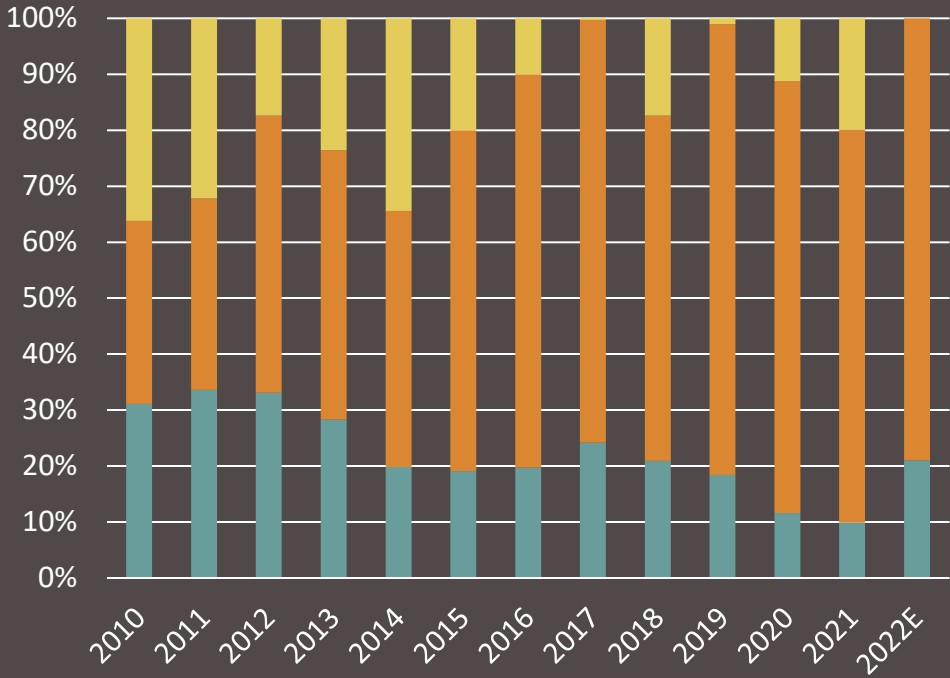
External debt disbursements



Note: excluding sovereign bond in 2014 of USD 1 bn.

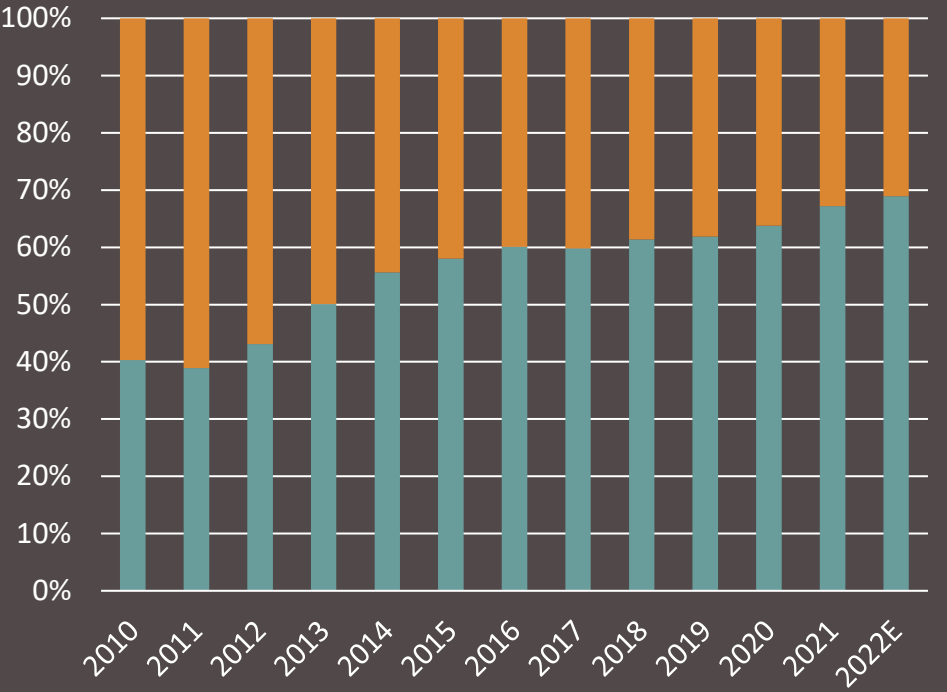
Government borrowing increasingly sourced domestically

Government borrowing composition



- Treasury idle cash and others
- Domestic G-bond issuance
- ODA & concessional external loans

Government debt composition



- Domestic debt
- External debt



III. LCBM development





Resilience in times of financial turbulence,
mitigate currency risk



Cornerstone for capital market development



Foster financial intermediation



Investable low-risk assets for wholesale and
retail investors



Effective source of financing for central
government

Essentials to develop LCBM

Actions taken to develop LCBM (1)



Complete legal framework

Law on public debt management 2017
Government decree and 3 MoF circulars on Government bond issuance, registration and trading



Develop primary market and diversify bond instruments

Increase issuance tenor and reduce issuance yield
Extend bond tenors (from 3Y to 30Y)
Introduce new instruments: Zero coupon bond, bond future (5Y and 10Y)

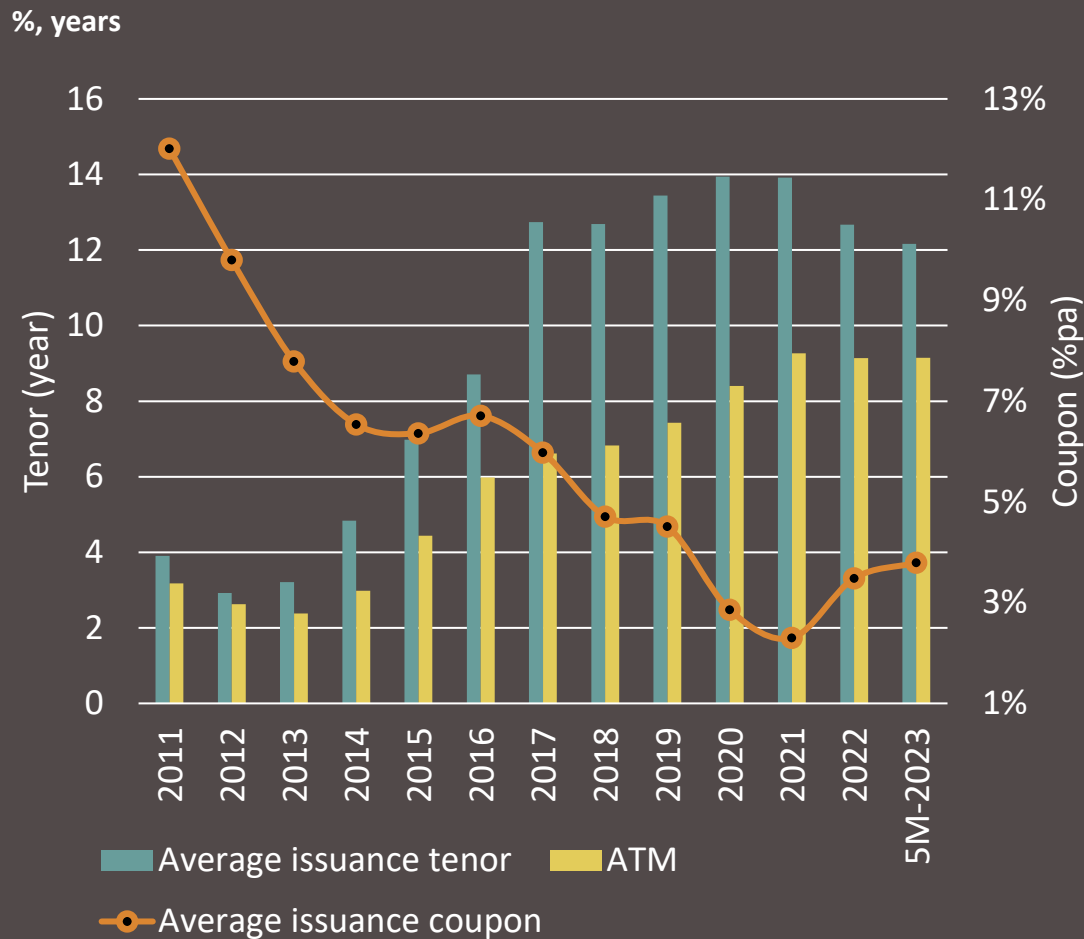


Develop secondary market

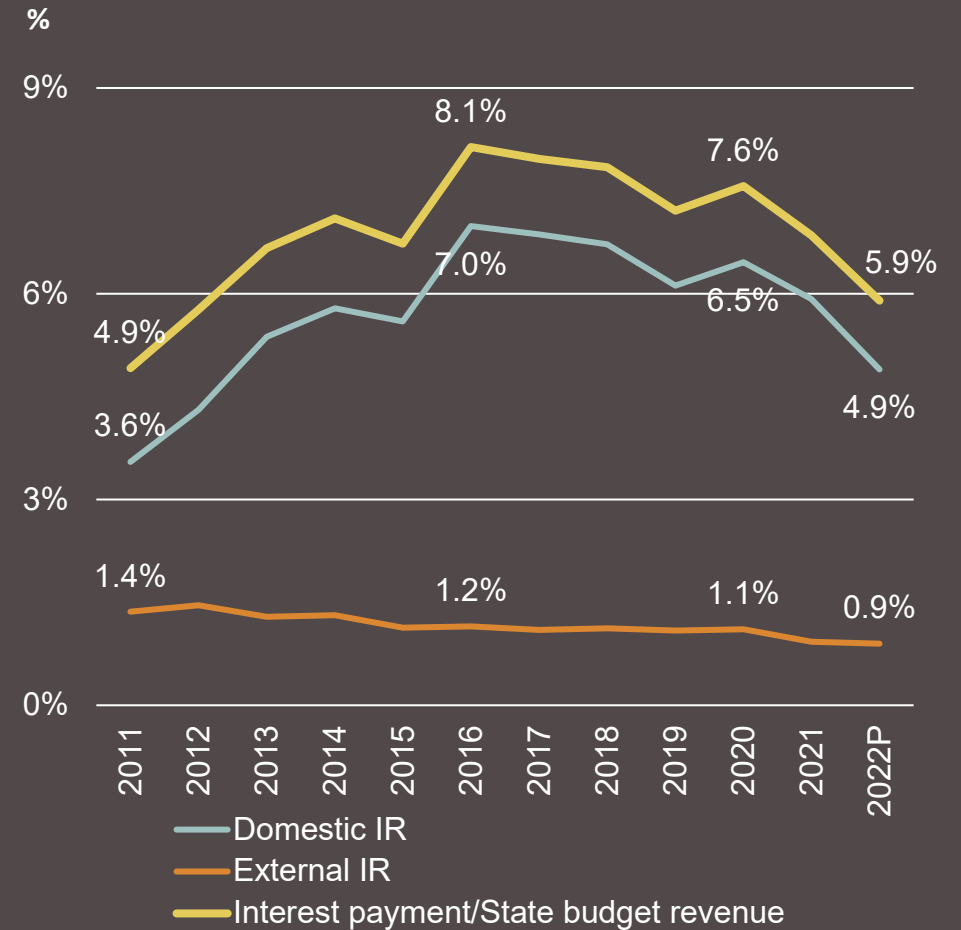
Shorten the time frame from issuance to listing from T+2 (2016) to T+1 (2019)
Increase benchmark target size of a single instrument

LCBM fosters improvements in debt affordability

Domestic G-bond issuance tenor and coupon



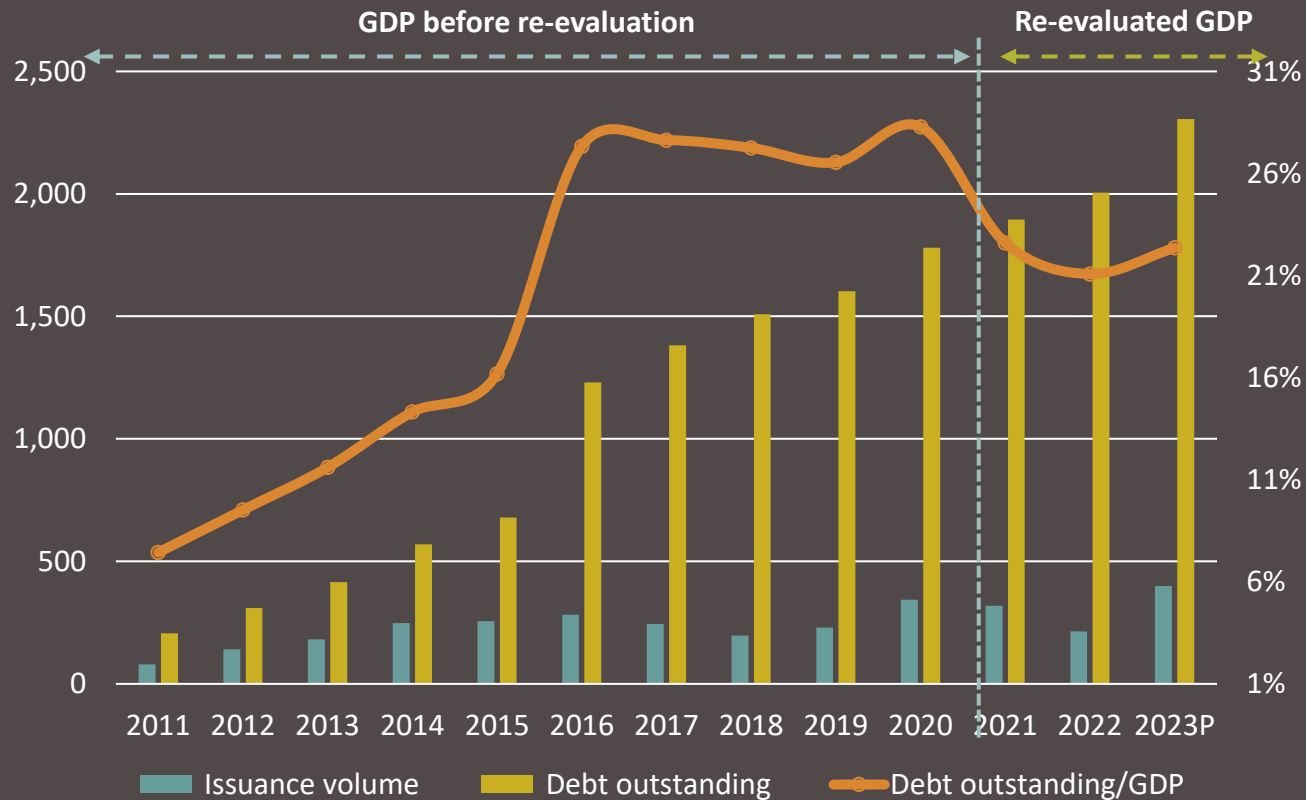
Government interest payments to Revenue



Domestic G-bond issuance volume and outstanding

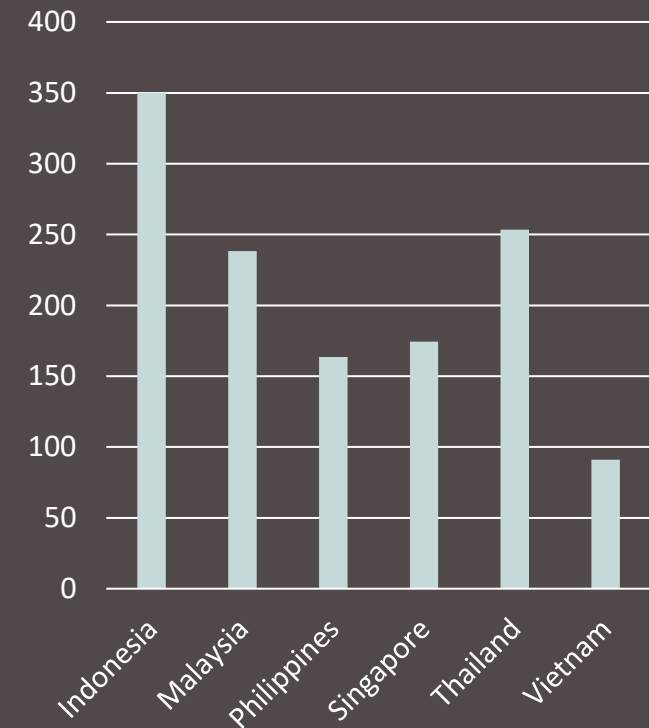
Government bond to GDP

VND tn, % GDP



Peer-country comparison

Government bond market size in 2022 (USD bn)



Actions taken to develop LCBM (2)



Diversify investor base

VSS can buy government bond via auction rather than private placement

Develop private pension fund

Increase limit of investment in government bond issuance of CIs



Develop market intermediaries

Change government bond settlement system from commercial bank to the Central Bank

Develop credit rating agencies (2 licensed)



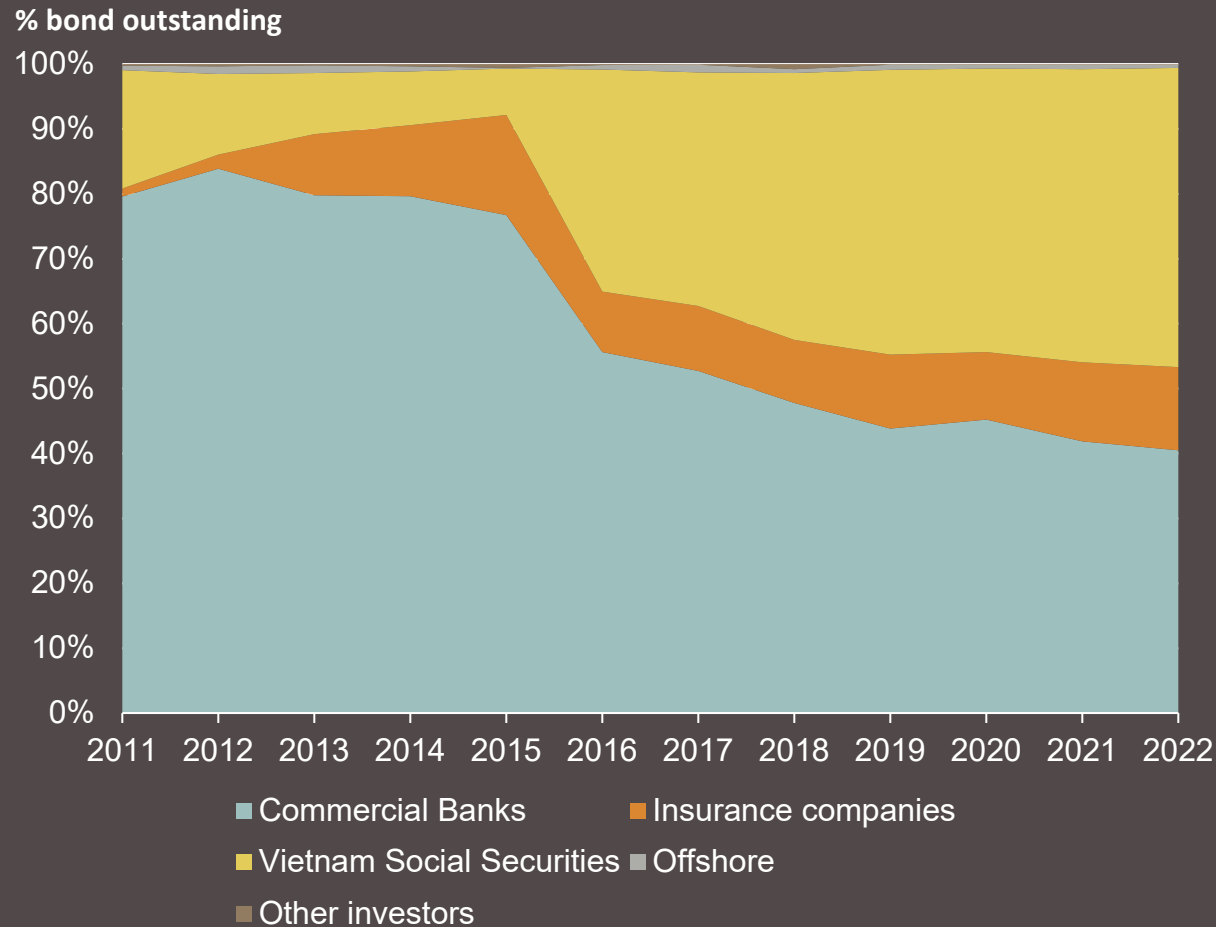
Market supervision

State Treasury monitor issuance volume, build issuance plan



Investor composition of G-bond

Investor profile - Government bonds



Foreign holdings in LCY government bonds



Source: Asianbondsonline.adb.org

Remaining challenges (1)



Primary market

Issuance aligned with VSS demand

Absence short-term segment of yield curve



Secondary market

Liquidity affected by macro situation

Fragment G-bond portfolio, limited LMOs



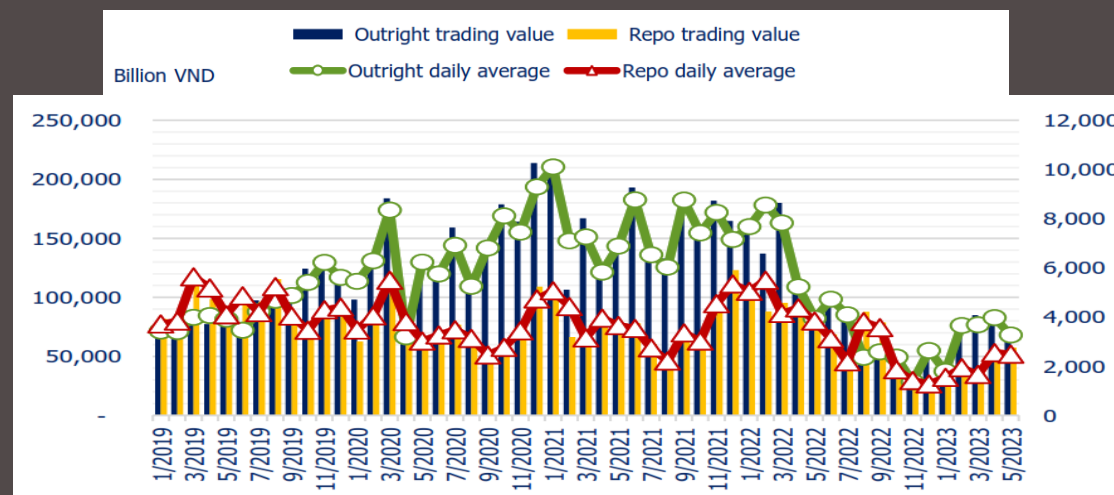
Investor base

Lack of bond funds and other institutional investors

VSS dominant role

Foreign investors constrained by low yield; lack of liquid hedging market; prefunding...

G-bond monthly trading volume



Source: VBMA.

Remaining challenges (2)



Primary Dealer system

PDs do not perform fully their function (firm quotation)

VST liquidity support, CB securities lending pending



EM and GBI roadmap

Quoting of tenors rather than prices

Low participation of foreign investors

Lack of liquid (FX) hedging instruments

Scarcity of information available in English



Sustainable financing

Market for green and sustainability-related bonds still in infancy

LCBM development - Work to be done



Improve reliability of the yield curve as a pricing reference

Create a more balanced government bond issuance profile

Increase benchmark government bond size and a liquidity support facility for market makers

Revision of legal requirement on administered IR



Expand investor base and strengthen investment capacity

Encourage diversification of VSS investment

Promote long-term savings for private pension and investment funds

Facilitate international investor access to domestic markets

Pave way for Vietnam's upgrade to EM and inclusion in global bond indices



Develop new instruments

Capacity building on the design and issuance of ILBs, LMOs

Create enabling environment for sustainable finance (green and other labelled bonds)

Thank you

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