

# Development of Bond Market in Vietnam

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## Abstract

In a transition economy like Vietnam, a fund demand for development is increasing year by year. Since the beginning of the Doimoi period, total investment capital has raised sharply from 2.9% GDP in 1990 to 40.6% GDP in 2007. Vietnamese government has showed many efforts to encourage raising this huge fund. Bond market is one of the most essential mobilizing fund channel not only for public projects but also private ones. However, despite a booming of stock market, bond market is still under-developed. Many policies and inherent risks arising need to be considered.

This paper points out some shortages in the development of bond market (i) number of firms and volume of capital raised from bond market is still limited, (ii) no professional credit rating institution leads to a risk of insolvency, (iii) lack of market makers causes low market liquidity, (v) low cost of equity prevents firm from issuing bonds, and (vi) yield curve has not been built up to set up a benchmark for issuing new bonds. These findings are supported by data and information from in-depth interviews with authority officers and firm managers.

Some main reasons causing these weaknesses of bond market are also discussed. Then, some policy implications are suggested to improve the development of this market, at macro level as well as at firm level. *First*, bond market and stock market should be separated because the characteristics of these two markets are much different, thus it requires two different trading systems to increase market liquidity. *Second*, the participation of private institutions in credit rating should be encouraged. The model of regional shareholders credit rating agency could be implicated in Vietnam, especially in the context of shortage of well-educated human resources in this area. *Third*, the development of market makers should be pushed up. The market makers must buy when price goes up and sell when prices go down. It's the market makers to help balancing demand and supply forces when there is un-biased information. *Forth*, types of corporate bonds should be diversified to increase incentives for bond investors such as: bond with warrant, long term bond insured by strong foreign currency or positive real effective interest. *The last one* relates to encourage the participation of investment fund in bond market. This investment fund will collect fund from individual investors to make trust investment professionally to help increasing market liquidity.

