

Asia Law Profiles

High hopes for Vietnam's capital markets in 2017

Monday, January 9, 2017 Karry Lai, [Asialaw](#)

<http://www.asialaw.com/articles/high-hopes-for-vietnams-capital-markets-in-2017/arwtghpn>

Vietnam is hoping the combination of a relaxation of foreign investment rules, for, stock exchange growth, a push for state-owned enterprises (SOE) equitisation and a gradual opening of bond markets will help its economy to grow this year. *Asialaw* spoke to lawyers in the jurisdiction to get a glimpse into the latest changes and expected trends in the capital markets for 2017.

Encouraging foreign investment

One of the major changes to encourage foreign investment in Vietnam is that certain industries including, securities firms, were opened up to 100% foreign holding in 2016.



Le Net

“With the removal on foreign ownership cap at 49%, those needing capital to grow will be able to,” says Le Net, partner at [LNT & Partners](#). “PE [private equity] and M&A interest have been coming from Thailand, Japan, China, Korea and Indonesia,”

“There are other 18 sectors including transportation, construction and real estate where offshore investors can take a degree of ownership subject to certain conditions,” says **Dang The Duc, managing partner**

at [Indochine Counsel](#). “The increase of foreign ownership will create positive sentiment for the investors, enhancing stock market liquidity and M&A activities in Vietnam, especially for big companies with the aim to increase their market share.”

Growth of stock exchanges

Vietnam's benchmark VN Index (VNI) has been one of the fastest growing markets in Southeast Asia so far this year. “VNI has gotten a new peak in 2016,” says Duc. “The Ho Chi Minh City Stock Exchange (HOSE) is expected to break into the top five biggest stock markets in the region by 2020, with market capitalisation of 60% of the country’s GDP and average daily trading value at \$250 million. However, there were still some garbage stocks which were margin forced to sell in 2016 that were harmful to the quality of stock market.”



Dang The Duc

“Hanoi Stock Exchange (HNX) has developed the action plans for sorting stocks on the unlisted public company market (UPCoM), including selection of the best stocks break down by criteria such as size of the business, production and business situation - financial, situation governance, liquidity, etc., to put on the UPCoM premium list which is aimed towards adoption of open policy for good business groups,” adds Duc.

A merger of the HNX and HOSE, which was first [announced](#) in 2012, is expected to be completed by early 2017.

State owned enterprises equitisation

To support the development of the unlisted public company market, the Vietnamese government has put together a series of policies targeting divestment of SOEs associated with registration and listing on the stock market. It is mandatory for an equitised SOE to list the company's shares on the stock exchange after one year, if it satisfies the listing criteria. After the equitisation of SOEs, there will be an increased scale of listed enterprises registered for trading in the near future.

The deadline for divestment of state economic groups and state corporations from non-core sectors expired on December 31. "However, just over one-third of total investment capital were completed," says Duc. "Therefore, the stock market will receive a boost from the country's efforts to accelerate share sales in SOEs."

Debt capital markets poised for growth

The trading volume in the Vietnam bond market reached \$40.13 billion in the first half of 2016, an increase of 4.7% compared to 2015. Of that, 98% were government bond sales, which amounted to 22% of total GDP and is expected to increase to 40% by 2020. At \$5.7 billion in 2015, the corporate bond market in Vietnam is still relatively small. "However, this is expected to grow as Vietnam plans to open its first corporate bond trading platform in early 2017 as it expects a rise in issuances of company debt," says Duc. "The SSC has been actively implementing the corporate bond scheme to make the local corporate bond market work next year." "The bonds market has been nascent," says Le. "There hasn't been many corporate bonds since the companies have to be profitable and they need to be able to show investors that they can pay interest. Many newly established companies aren't ready yet."

Strengthening regulations

A number of rules have been amended to strengthen regulation around the banking and securities sector. Circular No. 07/2016/TT-BTC of the Ministry of Finance was issued in 2016 to amend 43 of the securities lending restrictions such that securities companies cannot use money and property of the company or the customer to ensure payment obligations for third parties by the securities companies.

"The government will continue restructuring banking sector, owing to the high level of bad debts, to reduce the number of local commercial banks by 2020, but these efforts will make only gradual headway," says Duc.

The Ministry of Planning and Investment has drafted a banking restructuring plan for the 2016-2020 to:

- continue reducing non-performing loans sustainably;
- reduce numbers of illiquid banks;
- reduce the lending interest rate to 5%; and
- ensure 70% of commercial banks comply with Basel II, the second of the Basel Committee on Banking Supervision's

recommendations to set minimum capital requirements for financial institutions by 2020.

With the combination of the stock exchanges, opening up of the derivatives and bonds markets and encouragement for foreign investment, the increased availability of products and liquidity for capital markets in the emerging markets of Vietnam pose a world of opportunity for investors, both domestic and abroad.