

Viet Nam

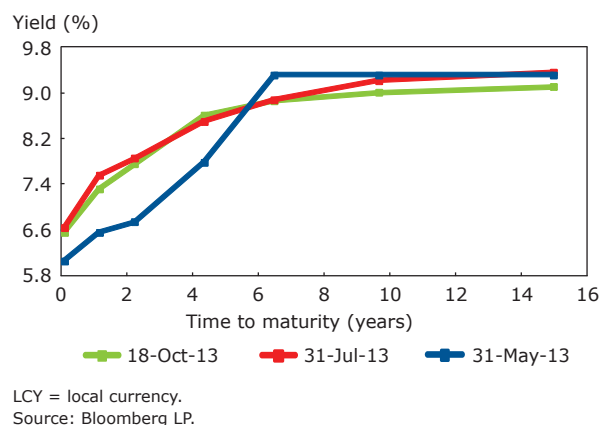
Yield Movements

Between end-May and end-July, Viet Nam's local currency (LCY) government bond yields rose dramatically from the shorter-end to the belly of the curve (**Figure 1**). Yields for 2- and 3-year maturities rallied the most, rising 100 basis points (bps) and 111 bps, respectively, shifting the curve upward. The rise in yields reflected concerns in global financial markets that the United States (US) Federal Reserve would exit from its accommodative monetary policy, as well as concern about rising inflationary pressures and a devaluation of the reference rate for the Vietnamese dong by 1% in June. Yields advanced to 6-month highs in September amid expectations of more rapid inflation, before retreating slightly in mid-October.

Between end-July and 18 October, yields fell for most tenors. Yields fell between 8 bps and 25 bps across the length of the curve, with the exception of the 5-year tenor, dropping more at the longer-end than at the shorter-end and resulting in a slight flattening of the yield curve for maturities of 5-years or longer. The yield spread between the 2- and 10-year maturities was largely unchanged at 169 bps in mid-October compared with 165 bps at end-July, but was significantly more narrow than the 275 bps spread at end-May.

Viet Nam's economy has yet to recover from its growth slump in 2012. Year-to-date gross domestic product (GDP) expanded 5.1% year-on-year (y-o-y) at end-September from 4.9% at end-June as strong foreign direct investment (FDI) inflows countered weak lending from Viet Nam's strained banking industry. However, the trade balance shifted back into a deficit of US\$88 million in September, after posting 3 consecutive months of trade surpluses. Exports were up 17.9% y-o-y to US\$11.2 billion during the month, while imports grew 21.1% y-o-y to US\$11.3 billion. From January through September, the trade deficit stood at US\$187 million. The cumulative

Figure 1: Viet Nam's Benchmark Yield Curve—LCY Government Bonds



budget deficit for 2013 reached VND140.8 trillion at end-September, representing 87% of the deficit approved for 2013. The government is targeting a budget deficit of 4.8% of GDP in 2013 and 5.3% in 2014. Moreover, total public sector debt—defined to include LCY and foreign currency (FCY) bond issuance, and borrowing from official sources—is expected to increase to 56% of GDP in 2013 from 55.7% in 2012 and 54.9% in 2011.

Meanwhile, consumer price inflation decelerated in September to 6.3% y-o-y, following a 15-month high of 7.5% in August. Prices for food and foodstuffs rose 3.5% y-o-y, while housing and construction costs increased 4.0%.

Size and Composition

Total LCY bonds outstanding in Viet Nam fell 8.8% quarter-on-quarter (q-o-q) to VND527.3 trillion (US\$25 billion) at end-September, as both the government and the corporate bond markets slumped. The contraction in the corporate bond market outpaced the decline in the government sector, sliding 10.0% q-o-q compared with an 8.7% q-o-q decline in the government bond market. On a y-o-y basis, however, total LCY bonds outstanding rose 18.8% in 3Q13 (**Table 1**).

Table 1: Size and Composition of the LCY Bond Market in Viet Nam

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q12		2Q13		3Q13		3Q12		3Q13	
	VND	US\$	VND	US\$	VND	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	443,731	21	577,997	27	527,304	25	(2.7)	21.4	(8.8)	18.8
Government	410,237	20	560,938	26	511,945	24	(1.7)	27.0	(8.7)	24.8
Treasury Bonds	218,743	10	324,054	15	267,800	13	18.0	48.0	(17.4)	22.4
Central Bank Bonds	22,070	1	43,586	2	46,405	2	-	-	6.5	110.3
State-Owned Enterprise Bonds	169,424	8	193,298	9	197,741	9	(2.7)	(3.3)	2.3	16.7
Corporate	33,494	2	17,059	0.8	15,359	0.7	(12.7)	(21.4)	(10.0)	(54.1)

() = negative, - = not applicable, LCY = local currency, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Bloomberg LP end-of-period LCY-US\$ rates are used.

2. Growth rates are calculated from LCY base and do not include currency effects.

Source: Bloomberg LP.

Government Bonds. LCY government bonds outstanding stood at VND511.9 trillion at end-September, which was down 8.7% q-o-q, but up 24.8% y-o-y. Government bonds outstanding dropped for the second consecutive quarter in

3Q13 due to a decline in demand for treasury bonds. Since July, the State Treasury has mobilized only a portion of its offered amount at its bond auctions (**Table 2**).

Table 2: Selected Government Debt Security Issuances in 3Q13

Auction Date	Type of Security	Average Yield (%)	Amount Offered (LCY billions)	Amount Issued (LCY billion)
5-Jul	2-year Treasury Bond	6.85	5,000	1,050
	3-year Treasury Bond		2,000	0
	5-year Treasury Bond		1,000	0
19-Jul	2-year Treasury Bond	7.15	1,000	450
	3-year Treasury Bond		1,000	0
	5-year Treasury Bond		1,000	0
7-Aug	3-year Treasury Bond	7.45	1,000	125
	5-year Treasury Bond		1,000	0
13-Aug	2-year Treasury Bond	7.00	2,000	700
	3-year Treasury Bond	7.50	1,000	850
	5-year Treasury Bond		1,000	0
22-Aug	2-year Treasury Bond	7.30	1,500	1,200
	3-year Treasury Bond	7.70	1,500	750
29-Aug	2-year Treasury Bond	7.30	1,000	50
	3-year Treasury Bond	7.70	1,000	50
	5-year Treasury Bond		1,000	0
5-Sep	3-year Treasury Bond		1,000	0
	5-year Treasury Bond	8.50	1,000	200
19-Sep	2-year Treasury Bond	7.55	1,000	930
	3-year Treasury Bond	7.80	1,000	300
	5-year Treasury Bond		1,000	0

Source: Local market sources.

Government issuance amounted to VND59.7 trillion in 3Q13, up from VND53.9 trillion in 2Q13. Growth in government issuance can be attributed to the resumption of central bank bills issuance, which summed to VND46.4 trillion. SBV bills issued in 3Q13 had 91- and 182-day tenors and issue sizes of between VND19 billion and VND4 trillion. Issuance by the central government and agencies, however, plummeted 75.0% q-o-q to VND13.3 trillion.

Among government-owned corporations, Viet Nam Development Bank (VDB) and Viet Nam Bank for Social Policies (VBSP) were the consistent bond issuers in the first 3 quarters of 2013. VDB has raised a total of VND24.8 trillion year-to-date, while VBSP has raised VND11.7 trillion. In 3Q13, new VDB and VBSP bonds carried maturities of between 1 year and 3 years, and coupons ranging from 7.6% to 8.3%, which were less than the coupons of up to 9.0% offered in 2Q13.

In a statement from the State Treasury, the government announced plans to issue a total of VND25.2 trillion of government bonds in 4Q13, with tenors ranging from less than 1 year to 15 years.

Corporate Bonds. The size of Viet Nam's corporate bond market plunged another 10.0% q-o-q to VND15.4 trillion in 3Q13 following a 22.5% drop in the previous quarter. LCY corporate bonds outstanding tumbled due to (i) zero issuance of corporate debt for the third consecutive quarter, and (ii) VND1.7 trillion worth of corporate bonds maturing in 3Q13.

A total of 17 corporate entities comprised the corporate bond market in Viet Nam at end-September, of which the top 15 issuers accounted for 98.6% of total LCY corporate bonds outstanding (**Table 3**). The composition of the top three LCY corporate issuers remained unchanged from 2Q13,

Table 3: Top 15 Issuers of LCY Corporate Bonds in Viet Nam

Issuers	Outstanding Amount		State-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US\$ billion)			
1. HAGL	3,010.00	0.14	No	Yes	Real Estate
2. Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
3. Techcom Bank	3,000.00	0.14	No	No	Finance
4. Vinpearl	2,000.00	0.09	No	Yes	Resorts and Theme Parks
5. Vincom	1,000.00	0.05	No	Yes	Real Estate
6. Minh Phu Seafood	700.00	0.03	No	Yes	Fisheries
7. Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
8. Development Investment	350.00	0.02	No	No	Building and Construction
9. Phu Hoang Anh	350.00	0.02	No	No	Real Estate
10. Saigon Telecommunication	300.00	0.01	No	No	Computer Services
11. Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
12. Thu Duc Housing Development	208.87	0.01	No	Yes	Real Estate
13. Quoc Cuong Gia	150.00	0.01	No	Yes	Building and Construction
14. Lam Son Sugar	150.00	0.01	No	No	Diversified
15. Tan Tao Investment	130.00	0.01	No	No	Real Estate
Total Top 15 LCY Corporate Issuers	15,148.87	0.72			
Total LCY Corporate Bonds	15,358.87	0.73			
Top 15 as % of Total LCY Corporate Bonds	98.6%	98.6%			

LCY = local currency.

Notes:

1. Data as of end-September 2013.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg data.

led by real estate company HAGL with bonds outstanding of VND3 trillion.

Policy, Institutional, and Regulatory Developments

SBV Issues New Rules on VAMC's Operations

On 6 September, SBV released Circular No.19/2013/TT-NHNN to regulate the purchase, sale, and resolution of nonperforming loans (NPLs) by the Viet Nam Asset Management Company (VAMC). The circular confirms that banks with a bad-debt ratio higher than 3% must sell their NPLs to VAMC, which will issue special bonds upon purchase of impaired loans. VAMC can restructure such loans and provide financial support to the debtors if the purchased loans satisfy all stipulated conditions such as ability to repay debts. VAMC can then

sell the purchased impaired loans via auction, competitive offering, or an equity swap with corporate debtors.

On 9 September, SBV issued Circular No. 20/2013/TT-NHNN to regulate the issuance of refinancing loans with special bonds issued by VAMC. SBV will offer refinancing loans to local credit institutions of up to 70% of the special bonds' face value. To receive refinancing, credit institutions must legally own VAMC's special bonds and have made provisions for special bonds as prescribed in Decree No. 53/2013/ND-CP. The refinancing interest rate will be decided by the Prime Minister and the term will be less than 12 months and not exceeding the remaining term of the special bonds.

Both rules took effect on 15 September.