

Viet Nam

Yield Movements

Between end-June and end-December, Viet Nam's local currency (LCY) government bond yields rose for short- to medium-term bonds and fell for longer-dated maturities (**Figure 1**). The higher yields were evident in tenors of 7 years and less, which rose between 7.5 basis points (bps) for 7-year government bonds and 45 bps for 1-year government bonds.

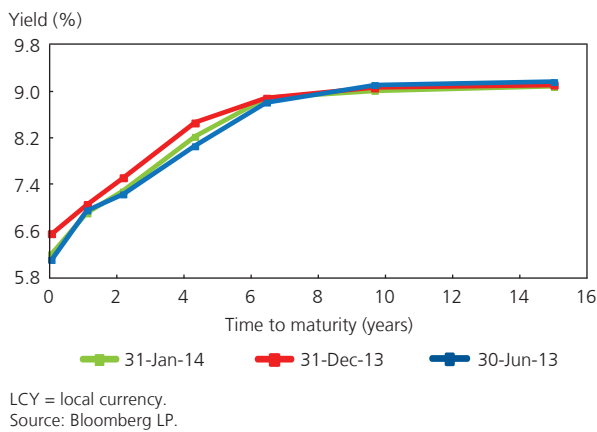
Between end-December and end-January, short- to medium-term bond yields reversed course, shifting downward to near 6-month lows. Yields for 1- to 5-year maturities dropped between 15 bps and 35 bps, with yields on 1-year government bonds falling to 6.2%. Abundant liquidity and low capital costs for banks, coupled with easing inflation, likely kept demand for bonds strong. Meanwhile, the yield spread between 2- and 10-year maturities slightly widened to 210 bps at end-January from 200 bps at end-December.

Economic data in Viet Nam suggests early signs of a gradual and broad-based recovery in 2013, supported by slowing inflation and stronger exports. Annual average consumer price inflation in 2013 moderated to 6.6% from 9.2% in 2012, reaching its lowest level in a decade. In the last 3 months of the year, consumer price inflation eased to 6.0% year-on-year (y-o-y) in December, 5.8% in November, and 5.9% in October. Inflation eased further to 5.5% y-o-y in January 2014. The government has set an annual inflation target range of 6.5%–7.0% for 2014. Meanwhile, exports grew 15.4% y-o-y in 2013, largely due to the exports of foreign-invested enterprises, which rose 22.4%, while exports of domestic companies grew a modest 3.5%.

Real gross domestic product (GDP) expanded 6.0% y-o-y in 4Q13 following a 5.5% expansion in the previous quarter, bringing 2013 GDP growth to 5.4% y-o-y, up from 5.3% in 2012, but slightly short of the government's target of 5.5%. The services sector, which accounted for 43% of GDP, grew 6.6% in 2013 from a year earlier, while manufacturing and construction, which comprised 38% of GDP, expanded 5.4%.

Since mid-2013, the State Bank of Vietnam (SBV) has undertaken several measures aimed at pumping more capital into the economy. Effective 28 June, SBV lowered

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



the ceiling deposit interest rate for VND deposits with tenors of 6 months and less to 7.0% from 7.5% to reduce banks' funding costs and allow them to lend at lower rates. It also reduced the ceiling lending rate for five priority sectors—agriculture, exports, supporting industries, high-tech businesses, and small and medium-sized enterprises (SMEs)—to 9.0% from 10.0%. Finally, the central bank also supported the debt restructuring of the banking system through creation of the Viet Nam Asset Management Company (VAMC), which started operations in July. In 2014, the central bank expects the total money supply to expand between 16% and 18%, and for credit growth to increase by 12% to 14%.

Size and Composition

As of end-December, total LCY bonds outstanding in Viet Nam reached VND605.2 trillion (US\$28.7 billion), marking the first time that the amount has topped the VND600 trillion mark (**Table 1**). LCY bond growth surged 14.8% quarter-on-quarter (q-o-q) and 15.6% y-o-y owing to robust government bond issuance.

Government Bonds. LCY government bonds reached VND590.9 trillion at end-December, expanding 15.4% q-o-q and 17.9% y-o-y.

The central government remained the largest issuer of LCY debt securities, dominating the market with a more than 55% share. Government-guaranteed bonds issued

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

	Outstanding Amount (billion)						Growth Rate (%)			
	4Q12		3Q13		4Q13		4Q12		4Q13	
	VND	US\$	VND	US\$	VND	US\$	q-o-q	y-o-y	q-o-q	y-o-y
Total	523,423	25	527,304	25	605,204	29	18.0	43.1	14.8	15.6
Government	501,060	24	511,945	24	590,884	28	22.1	55.1	15.4	17.9
Treasury Bonds	255,011	12	267,800	13	336,920	16	16.6	71.5	25.8	32.1
Central Bank Bonds	58,560	3	46,405	2	38,499	2	165.3	–	(17.0)	(34.3)
State-Owned Enterprise Bonds	187,489	9	197,741	9	215,466	10	10.7	7.5	9.0	14.9
Corporate	22,362	1	15,359	0.7	14,320	0.7	(33.2)	(47.6)	(6.8)	(36.0)

() = 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.

by the Viet Nam Development Bank (VDB), Vietnam Bank for Social Policies (VBSP), and other state-owned enterprises followed with 33% of bonds outstanding. Municipal bonds issued by Ho Chi Minh City, Da Nang, Ha Noi, and Quang Ninh comprised 3%.

Government bond issuance has never been as strong as in 2013. In the primary market, a total of VND391.4 trillion was issued by the state treasury, the central bank, VDB, VBSP, Viet Nam National Coal, and local governments, far surpassing the 5-year annual average of VND125.5 trillion. In 4Q13, government issuance amounted to VND88.3 trillion, up from VND59.7 trillion issued in 3Q13 and VND53.9 trillion in 2Q13. New issuance of Treasury bills and bonds, and central bank bills amounted to VND67.9 trillion, while new issuance of local government and state-owned enterprise (SOE) bonds, mostly by VDB, amounted to VND20.4 trillion.

For 1Q14, the State Treasury plans to offer a total of VND70 trillion of government bonds distributed as follows: VND31 trillion for tenors of 2 years and less (VND14 trillion for maturities of less than 1 year and VND17 trillion for 2-year bonds), VND36 trillion for 3- to 5-year tenors (VND21 trillion for 3-year bonds and VND15 trillion for 5-year bonds), and VND3 trillion for 10- to 15-year maturities.

Corporate Bonds. Viet Nam's corporate bond market continued its sharp decline in 4Q13, sliding 6.8% q-o-q to VND14.3 trillion and falling to its lowest level since 3Q09. The actual size of the corporate bond market, however, may be far greater than this figure, as some

bond issuance campaigns were not made public and were issued through private placements between businesses and banks.

A total of 15 corporate entities comprised the corporate bond market in Viet Nam at end-December, with bonds outstanding amounting to VND14.3 trillion (**Table 2**).

Policy, Institutional, and Regulatory Developments

Government Issues New Decree on SBV

On 11 November, the government issued Decree No. 156/2013/ND-CP regulating functions, tasks, powers, and the organizational structure of SBV. The decree states the tasks of SBV to include macroeconomic stability, inflation targeting and control, and ensuring credit institutions' sound operations within the legal framework. SBV is also tasked to implement national monetary policy, including re-financing, interest rates, exchange rates, reserve requirements, open market operations, and other tools and measures. The decree took effect on 26 December 2013.

Viet Nam's 2014 State Budget Approved

On 12 November, the National Assembly of Viet Nam approved the 2014 target economic indicators, including (i) 5.8% GDP growth, up from an estimated 5.4% in 2013; (ii) 7.0% inflation, slightly higher than 6.6% in 2013; (ii) VND782.7 trillion in state budget revenue and VND 1,006.7 trillion in budget expenditure; and (iii) a state budget deficit of VND224.0 trillion, or

Table 2: Corporate 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. Techcom Bank	3,000	0.14	No	No	Finance
2. Asia Commercial Joint Stock	3,000	0.14	No	Yes	Finance
3. HAGL JSC	2,480	0.12	No	Yes	Real Estate
4. Vinpearl	2,000	0.09	No	Yes	Resorts and Theme Parks
5. Vincom	1,000	0.05	No	Yes	Real Estate
6. Kinh Bac City Development	500	0.02	No	Yes	Real Estate
7. Minh Phu Seafood	500	0.02	No	Yes	Fisheries
8. Development Investment	350	0.02	No	No	Building and Construction
9. Phu Hoang Anh	350	0.02	No	No	Real Estate
10. Binh Chanh Construction	300	0.01	No	Yes	Building and Construction
11. Saigon Telecommunication	300	0.01	No	No	Computer Services
12. Lam Son Sugar	150	0.01	No	No	Diversified
13. Quoc Cuong Gia	150	0.01	No	Yes	Building and Construction
14. Tan Tao Investment	130	0.01	No	No	Real Estate
15. Ho Chi Minh City Securities	110	0.01	No	No	Finance
Total LCY Corporate Issuers	14,320	0.68			
Total LCY Corporate Bonds	14,320	0.68			
% of Total LCY Corporate Bonds	100.0%	100.0%			

LCY = local currency.

Notes:

1. Data as of end-December 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.

5.3% of GDP. The largest portion of the state budget was allocated for development investments and debt payments.

Government Issues Decree on Foreign Investors Purchasing Shares of Vietnamese Credit Institutions

On 7 January, the government issued Decree No. 01/2014/ND-CP on purchases of shares of Vietnamese credit institutions by foreign investors, stating that a foreign individual's ownership share of a Vietnamese credit institution should not exceed 5% of the charter capital. The decree also allows foreign institutions to own a stake in Vietnamese credit institutions up to a maximum of 20% for a single strategic foreign investor, within a total of a 30% foreign stake in the institution. The decree will take effect on 20 February and replace Decree No. 69/2007/ND-CP dated 20 April 2007.