

## Viet Nam

### Yield Movements

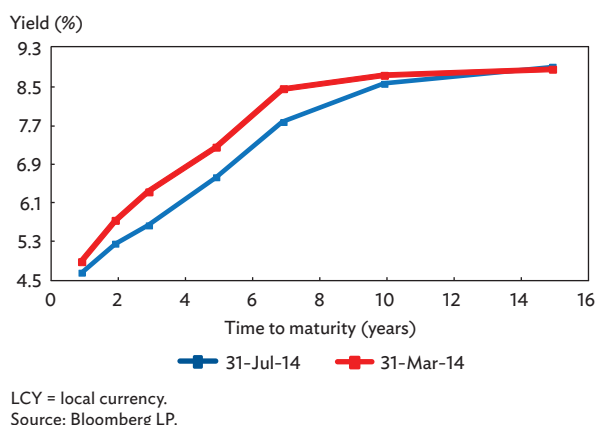
Viet Nam's local currency (LCY) government bond yields plunged for all tenors, except the 15-year, between end-March and end-July (**Figure 1**). Yields for securities with 3- to 7-year tenors fell the most, dropping 69 basis points (bps) for 3-year bonds and 68 bps for 7-year bonds. Meanwhile, the yield for the 2-year tenor slid more than that of the 10-year tenor, widening the spread between the two to 328 bps at end-July from 298 bps at end-March.

The drop in yields could be attributed to two major drivers: record low interest rates and strong demand from banks. Yields of instruments with maturities of 2, 3, and 5 years reached an all-time low at end-July as a result of moderating inflation. On 18 March, the State Bank of Vietnam (SBV) reduced its key policy rates by 50 bps. The refinance rate, discount rate, and overnight inter-bank lending rate were cut 50 bps each to 6.50%, 4.50%, and 7.50%, respectively.

Rising demand for bonds among banks is underpinned by (i) weak credit growth, (ii) low inflation, and (iii) stable exchange rate expectations. Lending growth has been weak due to bad debts, which continue to weigh on banks' willingness to lend. As of end-June, SBV reported modest credit growth of 3.5% for the first half of the year, which is well outside the annual target range of 12%–14%. Meanwhile, inflation remained benign in the first 7 months of the year, with July's figure coming in at 4.9% year-on-year (y-o-y), compared with SBV's full-year target of about 7.0%. The exchange rate is also expected to stabilize following the downward adjustment of the average inter-bank VND–US\$ exchange rate by 1% in June.

Viet Nam's real gross domestic product (GDP) expanded 5.3% y-o-y in 2Q14, following revised growth of 5.1% in 1Q14. For the first half of 2014, the country's GDP growth stood at 5.2% on an annualized basis. The services sector remained the growth driver in 2Q14, with a 6.0% y-o-y gain and a contribution of 43% of total GDP.

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



### Size and Composition

Total LCY bonds outstanding in Viet Nam surged on both a quarterly and annual basis in 2Q14 to reach VND788.3 trillion (US\$37.0 billion), led by a rapid rise in the government sector (**Table 1**).

**Government Bonds.** LCY government bonds outstanding amounted to VND775.9 trillion (US\$36.4 billion) at end-June, up 38.3% y-o-y and 6.0% quarter-on-quarter (q-o-q), primarily on increased issuance of central bank bills and Treasury bonds.

Government issuance amounted to VND193.7 trillion in 2Q14, with SBV issuance comprising almost 80% of the total. The most common issue in 2Q14 was the 91-day zero-coupon SBV bill, which represented 91% of SBV issuance and over 70% of all government issuance.

In 3Q14, the State Treasury plans to issue VND50 trillion worth of government bonds: VND7 trillion of bonds with tenors of less than 1 year, VND6 trillion of 2-year bonds, VND16 trillion of 3-year bonds, VND16 trillion of 5-year bonds, and VND5 trillion of bonds with tenors of 10–15 years.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q13		1Q14		2Q14		2Q13		2Q14	
	VND	US\$	VND	US\$	VND	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>577,997</b>	<b>27</b>	<b>744,589</b>	<b>35</b>	<b>788,313</b>	<b>37</b>	<b>(8.6)</b>	<b>26.8</b>	<b>5.9</b>	<b>36.4</b>
Government	560,938	26	732,069	35	775,943	36	(8.1)	34.3	6.0	38.3
Treasury Bonds	324,054	15	373,960	18	412,263	19	4.4	74.8	10.2	27.2
Central Bank Bills	43,586	2	147,004	7	153,926	7	(61.4)	(25.0)	4.7	253.2
State-Owned Enterprise Bonds	193,298	9	211,104	10	209,754	10	3.4	11.1	(0.6)	8.5
Corporate	17,059	1	12,520	0.6	12,370	0.6	(22.5)	(55.5)	(1.2)	(27.5)

( ) = negative, 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.

**Corporate Bonds.** LCY corporate bonds outstanding fell to VND12.4 trillion (US\$0.6 billion) at end-June, down 27.5% y-o-y and 1.2% q-o-q. A total of 13 issuers comprised the entire corporate bond sector, with cumulative bonds outstanding amounting to VND12.4 trillion (Table 2).

## Rating Changes

In July, Moody's raised Viet Nam's credit rating, citing an improving balance of payments and rising foreign

reserves. The rating agency upgraded Viet Nam's (i) sovereign bond rating to B1 from B2, giving it a stable outlook; (ii) long-term foreign currency bond ceiling to Ba2 from B1; and (iii) long-term foreign currency deposit ceiling to B2 from B3. Viet Nam's LCY country risk ceiling was also upgraded to Ba1 from Ba2. The upgrade hinged on Viet Nam's emerging track record of macroeconomic stability demonstrated by 3 consecutive years of price stability, and strengthening balance of payments and external payments positions supported by a diversified export structure.

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. Asia Commercial Joint Stock	3,000.00	0.14	No	Yes	Finance
2. Techcom Bank	3,000.00	0.14	No	No	Finance
3. HAGL JSC	2,480.00	0.12	No	Yes	Real Estate
4. Vincom	1,000.00	0.05	No	Yes	Real Estate
5. Vinpearl	1,000.00	0.05	No	Yes	Resorts and Theme Parks
6. Kinh Bac City Development	500.00	0.02	No	Yes	Real Estate
7. Development Investment	350.00	0.02	No	No	Building and Construction
8. Saigon Telecommunication	300.00	0.01	No	No	Computer Services
9. Binh Chanh Construction	300.00	0.01	No	Yes	Building and Construction
10. Lam Son Sugar	150.00	0.01	No	No	Diversified
11. Tan Tao Investment	130.00	0.01	No	No	Real Estate
12. Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
13. Phu Hoang Anh	50.00	0.002	No	No	Real Estate
<b>Total LCY Corporate Issuers</b>	<b>12,370.00</b>	<b>0.58</b>			
<b>Total LCY Corporate Bonds</b>	<b>12,370.00</b>	<b>0.58</b>			
<b>% of Total LCY Corporate Bonds</b>	<b>100.0%</b>	<b>100.0%</b>			

LCY = local currency.

Notes:

1. Data as of end-June 2014.

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.

## Policy, Institutional, and Regulatory Developments

### Decree on State Foreign Exchange Reserves Issued

On 20 May, Decree No. 50/2014/ND-CP was issued to manage foreign exchange reserves, which are defined as foreign currencies in cash and deposits abroad, securities and other valuable papers issued by the government and foreign and international institutions, Special Drawing Rights reserved at the International Monetary Fund (IMF), gold managed by SBV, and other foreign currencies of the government. The decree identifies five sources of foreign reserves: (i) the state budget and foreign exchange market, (ii) loans from banks and international financial institutions, (iii) the State Treasury and credit institutions, (iv) profits from official foreign exchange reserve investments, and (v) other sources. The decree further states that SBV will manage the state foreign exchange reserves and stipulate the structure, criteria, and limits of investments, which will be approved by the

SBV Governor and reported to the Prime Minister on a semi-annual basis. SBV will determine the investment structure of the Foreign Exchange Reserve Fund based on global trends in exchange rate fluctuations, interest rates, and gold prices; and the status of the international reserves (foreign currency and gold) of other countries, as compiled by the IMF. SBV will also stipulate the investment structure of the Exchange Rate Stabilization and Gold Market Management Fund.

The decree supersedes Decree No.86/1999/ND-CP, dated 30 August 1999, and takes effect on 15 July.

### Viet Nam Dong Devalued

On 19 June, SBV devalued the Vietnamese dong by 1% against the United States (US) dollar for the first time in 12 months in a move to boost exports. SBV re-set its exchange rate for the US currency to VND21,246 per dollar from VND21,036. The change also allows the Vietnamese dong to fluctuate by 1% above or below the central bank's rate.