

## Viet Nam

### Yield Movements

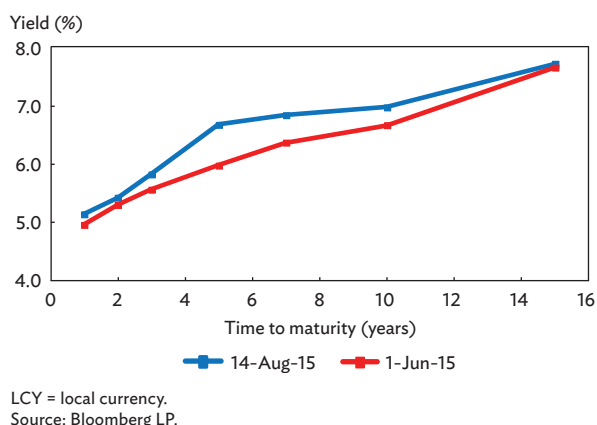
Local currency (LCY) government bond yields in Viet Nam rose for all tenors between 1 June and 14 August, resulting in the entire yield curve shifting upward (**Figure 1**). Bond yields rose between 12 basis points (bps) and 26 bps from the short-end of the curve through the 3-year maturity. Yields rose the most for the 5-year maturity, gaining 70 bps in mid-August, while gaining the least for the 15-year maturity, which rose 7 bps. The yield spread between the 2-year and 10-year maturities widened to 155 bps on 14 August from 137 bps on 1 June.

The rise in yields across the length of curve was due to the market's reaction to the unexpected devaluation of the Chinese renminbi in August and rising concerns over the possibility of an interest rate hike by the United States (US) Federal Reserve. In response, the State Bank of Viet Nam (SBV) widened the exchange rate trading band for the Vietnamese dong twice in a span of 1 week in mid-August to support export performance and economic growth. (See Policy, Institutional, and Regulatory Developments at the end of this Market Summary for more details.) The State Bank of Viet Nam also devalued the Vietnamese dong for the third time this year on 19 August in an attempt to further shield the economy and calm markets in the light of recent global developments.

Demand for government bonds remained weak during the period under review due to budget concerns, further contributing to the yield pick-up. Banking institutions, which remain the largest holder of government bonds, also took advantage of increasing credit demand and shifted most of their funds in support of lending activities. As most government bond auctions fell short of their target between April and mid-August, the government had to accept higher bids as it needed funds for its budget requirements.

Inflation remained tame in January–July, averaging less than 1.0% year-on-year (y-o-y). Gross domestic product growth rose to 6.4% y-o-y in 2Q15 from 6.1% y-o-y in 1Q15. This brought growth for the first 6 months of the year to 6.3% y-o-y, compared with 5.2% y-o-y over the same 6-month period in 2014. Final consumption grew

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



8.7% y-o-y and accumulated assets climbed 6.9% y-o-y in January–June.

### Size and Composition

Viet Nam's LCY bond market reached a size of VND947.3 trillion at end-June, expanding 3.5% quarter-on-quarter (q-o-q) and 20.2% y-o-y (**Table 1**). Growth was driven by government bonds, with corporate bonds contracting in 2Q15. Government bonds accounted for a 98.7% share of the total outstanding bond stock and corporate bonds accounted for the remaining 1.3%.

**Government Bonds.** At end-June, outstanding government bonds climbed to VND934.9 trillion on growth of 3.7% q-o-q and 20.5% y-o-y. Both Treasury bonds and central bank bonds contributed to the growth. On the other hand, the stock of state-owned enterprise bonds contracted during 2Q15, falling 9.8% q-o-q and 8.2% y-o-y.

In 2Q15, total government bond issuance reached VND211.7 trillion, lower on both a q-o-q and y-o-y basis, as the issuance volume for Treasury bonds dropped significantly. Most auctions during the review period fell short of their target due to lack of demand from investors. Beginning in 2015, government bond issuance was limited to maturities of 5 years or more for the purpose of budget financing. This regulation resulted in a number of failed

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

	Outstanding Amount (billion)						Growth Rate (%)			
	2Q14		1Q15		2Q15		2Q14		2Q15	
	VND	US\$	VND	US\$	VND	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>788,313</b>	<b>37</b>	<b>915,061</b>	<b>42</b>	<b>947,259</b>	<b>43</b>	<b>5.9</b>	<b>36.4</b>	<b>3.5</b>	<b>20.2</b>
Government	775,943	36	901,529	42	934,877	43	6.0	38.3	3.7	20.5
Treasury Bonds	412,263	19	529,769	25	542,021	25	10.2	27.2	2.3	31.5
Central Bank Bonds	153,926	7	158,357	7	200,308	9	4.7	253.2	26.5	30.1
State-Owned Enterprise Bonds	209,754	10	213,404	10	192,549	9	(0.6)	8.5	(9.8)	(8.2)
Corporate	12,370	0.6	13,532	0.6	12,382	0.6	(1.2)	(27.5)	(8.5)	0.1

(-) = 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.

auctions as most investors had no interest in longer-dated maturities.

SBV bills accounted for an 86.3% share of the total issuance volume in 2Q15. The remaining 13.7% was accounted for by Treasury bonds and other government bond issues.

**Corporate Bonds.** The outstanding amount of LCY corporate bonds stood at VND12.4 trillion at end-June, lower on a q-o-q basis but marginally higher on a y-o-y basis. The outstanding stock of corporate bonds has steadily declined since the start of the year due to the

absence of new issues in 2015. Most firms have shied away from bond financing and instead chosen to take out loans. However, a number of corporate firms have been issuing debt via private placements to institutional investors.

At end-June, nine corporate firms comprised Viet Nam's entire corporate bond market (**Table 2**). Leading the list were Asia Commercial Joint Stock Bank and Techcom Bank, with outstanding bond stocks of VND3.0 trillion each. Diversified firm Masan Consumer Holdings was the next largest issuer with an aggregate bond stock of VND2.1 trillion.

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 Bank	3,000.00	0.14	No	Yes	Finance
2.	Techcom Bank	3,000.00	0.14	No	No	Banking
3.	Masan Consumer Holdings	2,100.00	0.10	No	No	Diversified Operations
4.	HAGL JSC	1,980.00	0.09	No	Yes	Real Estate
5.	Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
6.	Ocean Group	980.00	0.04	No	Yes	Consulting Services
7.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
8.	Ho Chi Minh City Securities	110.00	0.01	No	No	Finance
<b>Total LCY Corporate Issuers</b>		<b>12,381.8</b>	<b>0.57</b>			

LCY = local currency.

Notes:

1. Data as of end-June 2015.

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

### SBV Widens Exchange Rate Trading Band

On 12 August, the SBV widened the exchange rate trading band for the Vietnamese dong to  $\pm 2\%$  from  $\pm 1\%$ . The decision to adjust the exchange rate trading band was made to minimize the effect of the unexpected devaluation of the Chinese renminbi on 11 August. On 19 August, the SBV further widened the exchange rate trading band to  $\pm 3\%$ . As a result, the new VND-US\$ exchange ceiling rate was set at

VND22,547 per dollar and the floor exchange rate at VND21,333 per dollar.

### SBV Devalues the Vietnamese Dong for the Third Time in 2015

On 19 August, the SBV weakened the Vietnamese dong by 1% to a reference rate of VND21,890 per dollar. This marked the third time since the beginning of the year that the reference rate has been adjusted. The move was made to mitigate the effects of the Chinese renminbi's depreciation, as well as in response to concerns over a possible rate hike by the US Federal Reserve.