

## Viet Nam

### Yield Movements

Between 1 September and 15 October, local currency (LCY) government bond yields in Viet Nam fell for most tenors (**Figure 1**). The only exception was the 3-year maturity, which gained 14 basis points (bps) during the review period. Bond yields declined the most for the 1-year maturity, shedding 13 bps, while yields slipped 2–7 bps for maturities of between 2 years and 5 years or more. The yield spread between the 2-year and 10-year tenors narrowed to 168 bps on 15 October from 170 bps on 1 September.

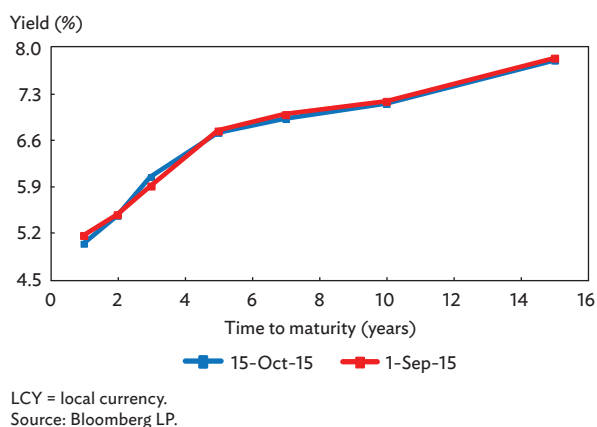
Renewed confidence in the LCY bond market has helped keep yields at bay after the United States (US) Federal Reserve refrained from raising interest rate at its mid-September Federal Open Market Committee meeting, which eased concerns of further depreciation of the Vietnamese dong versus the US dollar. A commitment by the State Bank of Viet Nam (SBV) to keep the exchange rate steady for the rest of the year has also contributed to the overall decline in yields.

While bond yields have fallen, the government is still seeking to lower its borrowing costs to ease the public debt burden. Investors have sought higher yields during auctions, making it difficult for the government to fund its budget. Banks' risk preference has veered toward short-dated tenors, deeming long-term bonds more risky. Banks, which are the largest holder of government bonds, continued to channel most of their funds toward lending activities.

Liquidity in the LCY bond market is expected to improve, further easing pressure on long-term yields. The National Assembly has approved the proposal of the Ministry of Finance to issue Treasury bonds with maturities of 5 years or less (see Policy, Institutional, and Regulatory Developments for more detail). However, an upside risk remains as the lead-up to the next Federal Open Market Committee meeting in December may once again put pressure on the currency exchange rate and the yield curve.

Inflation has remained benign so far in 2015, averaging less than 1.0% from January through September.

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



Consumer prices climbed 0.9% year-on-year (y-o-y) in July, gained 0.6% y-o-y in August, and were unchanged in September. Gross domestic product growth climbed to 6.5% y-o-y in the first 9 months of the year, compared with 5.5% y-o-y over the same 9-month period in 2014. By sector, industry and construction expanded 9.6% y-o-y in January–September, while services grew 6.2% y-o-y. Meanwhile, agriculture, forestry, and fishing grew at a much slower pace of 2.1% y-o-y.

### Size and Composition

The outstanding size of Viet Nam's LCY bond market reached VND831.9 trillion (US\$37 billion) at end-September, declining 12.6% quarter-on-quarter (q-o-q) and 14.9% y-o-y (**Table 1**). Growth was mainly driven by state-owned enterprise bonds. Treasury bonds, central bank bonds, and corporate bonds contracted during the review period. At end-September, government bonds continued to dominate the market, accounting for a 98.7% share of the total bond stock; corporate bonds accounted for the remaining 1.3% of the total.

**Government Bonds.** The outstanding stock of government bonds reached VND821.5 trillion at end-September on declines of 12.5% q-o-q and 14.7% y-o-y. Treasury bonds contracted 2.1% q-o-q, while central bank bonds slipped at a much faster pace of 54.9% q-o-q.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	3Q14		2Q15		3Q15		3Q14		3Q15	
	VND	US\$	VND	US\$	VND	US\$	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	<b>976,992</b>	<b>46</b>	<b>951,431</b>	<b>44</b>	<b>831,890</b>	<b>37</b>	<b>8.8</b>	<b>54.8</b>	<b>(12.6)</b>	<b>(14.9)</b>
Government	962,960	45	939,049	43	821,488	37	9.0	56.3	(12.5)	(14.7)
Treasury Bonds	528,885	25	546,192	25	534,576	24	3.6	44.0	(2.1)	1.1
Central Bank Bonds	223,003	11	200,308	9	90,279	4	37.5	380.6	(54.9)	(59.5)
State-Owned Enterprise Bonds	211,072	10	192,549	9	196,633	9	0.1	4.4	2.1	(6.8)
Corporate	14,032	0.7	12,382	0.6	10,402	0.5	(2.8)	(8.6)	(16.0)	(25.9)

( ) = 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.

Growth came solely from state-owned enterprise bonds, which grew 2.1% q-o-q.

In 3Q15, central government bond issuance totaled VND0.9 billion, lower on both a q-o-q and y-o-y basis. The issuance of Treasury bonds dropped sharply as most auctions fell short of target. Through end-September, the Treasury issuance had only reached about 50% of its planned issuance target for the year. The government is now looking at issuing in foreign currency to help fund its fiscal shortfall, with the National Assembly approving issuance of US\$3 billion worth of sovereign bonds to fund debt maturing in 2015 and 2016.

On the other hand, issuance of SBV bills in 3Q15 rose 68.4% q-o-q and 22.3% y-o-y, as the central bank issued

more bills to mop up excess liquidity in the system and prevent further speculation on the currency.

**Corporate Bonds.** The outstanding stock of corporate bonds reached VND10.4 trillion at end-September, down 16.0% q-o-q and 25.9% y-o-y. The decline in corporate bonds was due largely to the absence of new issues since the start of the year. Most corporates chose to take out loans instead of raising funds from the bond market. However, some corporates issued debt through a private placement to institutional investors. (*AsianBondsOnline* excludes private placement in its computation of bonds outstanding.)

Viet Nam's entire corporate bond market comprised seven firms at end-September (**Table 2**). Sharing the

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	0.13	No	Yes	Banking
2.	Techcom Bank	3,000.00	0.13	No	No	Banking
3.	Masan Consumer Holdings	2,100.00	0.09	No	No	Diversified Operations
4.	Ho Chi Minh City Infrastructure	1,081.85	0.05	No	Yes	Infrastructure
5.	Ocean Group	980.00	0.04	No	Yes	Consulting Services
6.	Tan Tao Investment	130.00	0.01	No	No	Real Estate
7.	Ho Chi Minh City Securities	110.00	0.00	No	No	Finance
<b>Total LCY Corporate Issuers</b>		<b>10,401.8</b>	<b>0.46</b>			

LCY = local currency.

Notes:

1. Data as of end-September 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.

top post were Asia Commercial Joint Stock Bank and Techcom Bank, with an outstanding bond stock of VND3.0 trillion each. The next largest issuer was Masan Consumer Holdings with outstanding bonds worth VND2.1 trillion.

## Policy, Institutional, and Regulatory Developments

### SBV Reduces Dollar Interest Rates

In September, the SBV reduced interest rates on US dollar deposits as part of efforts to stabilize the Vietnamese dong. Effective 28 September, the interest rate ceiling was reduced to zero from 0.25% for the US dollar deposits of corporates, and to 0.25% from 0.75% for the US dollar deposits of individuals. The move aims to discourage hoarding of foreign currency and to aid in the implementation of monetary policy and banking activities.

### National Assembly Approves Proposal to Resume Issuance of Treasury Bonds with Maturities of Less Than 5 Years

In October, the National Assembly approved a Ministry of Finance proposal to issue government bonds with maturities of 5 years or less beginning in November. Regulations passed in November 2014 limited issuance of Treasury bonds in 2015 to those with maturities of 5 years or more. However, sluggish demand for longer-dated bonds (5 years and up) has made it difficult for the government to fulfill its issuance target. The Ministry of Finance has proposed the issuance of 1-year, 2-year, and 3-year bonds beginning in November.

### National Assembly Approves Government Plan to Sell US\$3 Billion Worth of International Bonds

In October, the National Assembly approved the government's plan to raise US\$3 billion through the issuance of bonds in order to fund debt maturing in 2015 and 2016. The National Assembly's Committee for Budget and Finance, however, noted that borrowing costs for the offshore issuance should not exceed domestic borrowing costs.