

Viet Nam

Yield Movements

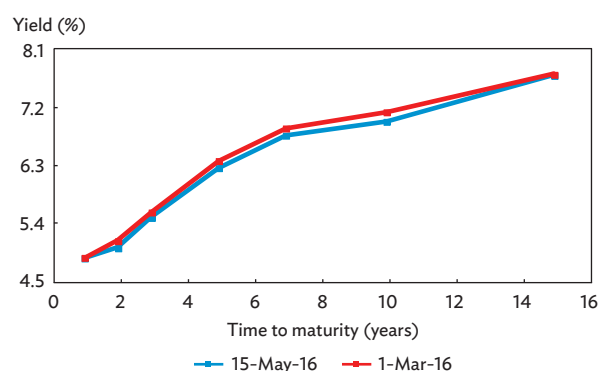
Between 1 March and 15 May, local currency (LCY) government bond yields in Viet Nam fell for all tenors (**Figure 1**). Yields slipped 1 basis point (bp) and 2 bps for the 1-year and 15-year maturities, respectively. From the 2-year through the 10-year maturities, yields declined by an average of 11 bps. As a result, the spread between the 2-year and 10-year tenors narrowed to 196 bps on 15 May from 199 bps on 1 March.

The drop in yields can be attributed to improved demand for government bonds. Most auctions for 3-year and 5-year bonds were well received by investors during the first quarter.

Macroeconomic conditions have also helped keep yields at bay, while a more stable Vietnamese dong has eased concerns over depreciation. Consumer price inflation averaged 1.4% between January and April. Inflation in Viet Nam is still low relative to some of its emerging East Asian peers, although it has started to rise due to food supply disruptions and the recovery in global oil prices.

Gross domestic product growth eased to 5.5% year-on-year (y-o-y) in the first quarter (Q1) of 2016 from 6.0% y-o-y in Q1 2015. Only the service sector recorded a higher annual increase in Q1 2016 compared with Q1 2015. Industry and construction growth slowed to

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



Source: Based on data from Bloomberg LP.

6.7% y-o-y in Q1 2016. The agriculture, forestry, and fishery sector contracted 1.2% y-o-y.

Size and Composition

At the end of March, the size of the LCY bond market in Viet Nam reached VND870.9 trillion (USD39 billion) on declines of 6.6% quarter-on-quarter (q-o-q) and 10.3% y-o-y (**Table 1**). There were increases in the stock of Treasury bonds and corporate bonds while central bank bonds and state-owned enterprise bonds fell during the review period. Viet Nam's LCY bond market remains dominated by government bonds, which represent a

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|------------------------------|------------------------------|-----------|----------------|-----------|----------------|-----------|-----------------|-------------|--------------|---------------|
| | Q1 2015 | | Q4 2015 | | Q1 2016 | | Q1 2015 | | Q1 2016 | |
| | VND | USD | VND | USD | VND | USD | q-o-q | y-o-y | q-o-q | y-o-y |
| Total | 970,873 | 45 | 932,391 | 41 | 870,926 | 39 | 8.9 | 10.9 | (6.6) | (10.3) |
| Government | 954,850 | 44 | 902,749 | 40 | 838,284 | 38 | 9.0 | 10.8 | (7.1) | (12.2) |
| Treasury Bonds | 582,949 | 27 | 597,740 | 27 | 627,691 | 28 | 11.0 | 23.1 | 5.0 | 7.7 |
| Central Bank Bonds | 158,357 | 7 | 98,191 | 4 | 4,905 | 0.2 | 17.8 | (8.9) | (95.0) | (96.9) |
| State-Owned Enterprise Bonds | 213,544 | 10 | 206,818 | 9 | 205,688 | 9 | (1.3) | (0.6) | (0.5) | (3.7) |
| Corporate | 16,023 | 0.7 | 29,642 | 1 | 32,642 | 1 | 3.2 | 18.5 | 10.1 | 103.7 |

() = negative, q-o-q = quarter-on-quarter, Q1 = first quarter, Q4 = fourth quarter, USD = United States dollar, VND = Vietnamese dong, y-o-y = year-on-year.

Notes:

1. Bloomberg LP end-of-period local currency-USD rates are used.

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

Source: Bloomberg LP.

96.3% share of the aggregate bond stock. The corporate bond market comprises only a 3.7% share.

Government Bonds. The outstanding stock of government bonds totaled VND838.3 trillion at the end of March on declines of 7.1% q-o-q and 12.2% y-o-y. Treasury bonds climbed 5.0% q-o-q in Q1 2016. On the other hand, central bank bonds and state-owned enterprise bonds both declined on a q-o-q and y-o-y basis.

Treasury and state-owned enterprise bond issuance stood at VND102.4 trillion in Q1 2016, lower on both a q-o-q and y-o-y basis. In contrast, State Bank of Viet Nam bill issuance climbed 22.9% q-o-q and 20.4% y-o-y.

Corporate Bonds. The outstanding amount of corporate bonds rose to VND32.6 trillion at the end of March, up 10.1% q-o-q and 103.7% y-o-y. A total of 15 corporate entities comprised Viet Nam's entire corporate bond market at the end of March (**Table 2**). Masan Consumer Holdings was the largest corporate bond issuer with bonds valued at VND11.1 trillion, followed by real estate firm Vingroup with bonds outstanding amounting to VND5.0 trillion. Hoang Anh Gia Lai was in the third spot with bonds valued at VND4.0 trillion.

In Q1 2016, the lone issuance in the corporate bond market was Vingroup's dual-tranche bond offering worth VND3.0 trillion in February (**Table 3**). The bond issuance was backed by the Credit Guarantee and Investment Facility.

Table 3: Notable Local Currency Corporate Bond Issuance in Q1 2016

| Corporate Issuers | Coupon Rate (%) | Issued Amount (VND billion) |
|-------------------|-----------------|-----------------------------|
| Vingroup | | |
| 5-year bond | 7.75 | 1,950 |
| 10-year bond | 8.50 | 1,050 |

Q1 = first quarter, VND = Vietnamese dong.
Source: Bloomberg LP.

Ratings Update

In March, RAM Ratings Services Berhad (RAM) affirmed Viet Nam's global sovereign rating at gBB3(pi) with a stable outlook. RAM took note of the risks stemming from Viet Nam's fiscal deficits and rising government debt levels, inadequate foreign currency reserves, the dominant role of state-owned enterprises, and risks from its banking sector. However, RAM said that such risks

Table 2: Corporate Issuers of Local Currency Corporate Bonds in Viet Nam

| Issuers | Outstanding Amount | | State-Owned | Listed Company | Type of Industry |
|------------------------------------|-------------------------|-------------------------|-------------|----------------|------------------------------|
| | LCY Bonds (VND billion) | LCY Bonds (USD billion) | | | |
| 1. Masan Consumer Holdings | 11,100 | 0.50 | No | No | Diversified Operations |
| 2. Vingroup JSC | 5,000 | 0.22 | No | Yes | Real Estate |
| 3. Hoang Anh Gia Lai | 4,000 | 0.18 | No | Yes | Real Estate |
| 4. Asia Commercial Joint Stock | 3,000 | 0.13 | No | Yes | Finance |
| 5. Techcom Bank | 3,000 | 0.13 | No | No | Banking |
| 6. Ho Chi Minh City Infrastructure | 2,102 | 0.09 | No | Yes | Infrastructure |
| 7. DIC | 1,000 | 0.04 | Yes | No | Chemicals |
| 8. Ocean Group | 980 | 0.04 | No | Yes | Consulting Services |
| 9. Saigon-Hanoi Securities | 650 | 0.03 | No | Yes | Finance |
| 10. Tasco | 500 | 0.02 | No | Yes | Engineering and Construction |
| 11. Sotrans | 400 | 0.02 | No | No | Logistics |
| 12. Hung Vuong | 300 | 0.01 | No | Yes | Food |
| 13. Saigon Securities | 300 | 0.01 | No | Yes | Finance |
| 14. Ha Do | 200 | 0.01 | No | Yes | Construction |
| 15. Ho Chi Minh City Securities | 110 | 0.005 | No | No | Finance |
| Total LCY Corporate Issuers | 32,642 | 1.46 | | | |

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.

Notes:

1. Data as of end-March 2016.

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.

were partly abated by Viet Nam's solid economic growth, strong foreign direct investment, and improving business environment.

In May, Viet Nam's Ministry of Finance announced that S&P Global Ratings affirmed Viet Nam's BB- long-term sovereign debt rating and B short-term sovereign debt rating. Both ratings were given a stable outlook. Factors that S&P Global Ratings cited for the ratings affirmation include Viet Nam's relatively diverse and flexible economy, and stable macroeconomic conditions.

Policy, Institutional, and Regulatory Developments

Ha Noi Stock Exchange and Viet Nam Securities Depository to Test Run Derivatives Market

In March, Ha Noi Stock Exchange (HNX) and the Viet Nam Securities Depository (VSD) announced that members may participate in the test run of a derivatives market in September and October before the official launch by the end of the year. According to HNX, two products would initially be offered: future contracts for share indexes and government bonds with a 5-year maturity. The trading of derivatives contracts will be conducted through HNX and clearing will take place through VSD.