

Viet Nam

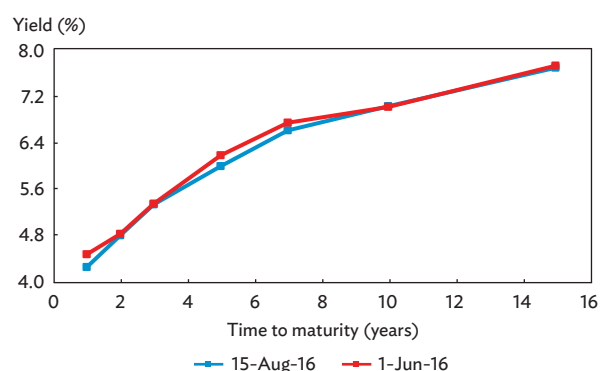
Yield Movements

Local currency (LCY) government bond yields in Viet Nam fell for all tenors between 1 June and 15 August except for the 10-year maturity (**Figure 1**). Yields fell the most at the very short-end of the curve, with the 1-year maturity shedding 22 basis points (bps), while yields declined 19 bps for the 5-year maturity and 13 bps for the 7-year tenor. All other maturities across the curve fell by an average of 2 bps during the review period except for the 10-year maturity, which gained 1 bp. The spread between the 2-year and the 10-year maturities widened to 221 bps on 15 August from 217 bps on 1 June.

The decline in yields can be partly attributed to new regulations passed by the State Bank of Vietnam easing investment restrictions on government bonds by banking institutions and foreign banks (see Policy and Regulatory Developments). Efforts by the State Bank of Vietnam to lower interest rates and maintain a more stable Vietnamese dong vis-à-vis the United States dollar also led to increased demand for government bonds. Further contributing to the decline in yields was the delay in the anticipated United States Federal Reserve rate hike, which has resulted in increased demand for higher-yielding assets.

Real gross domestic product (GDP) growth stood at 5.5% y-o-y in the first half of the year, roughly unchanged from the first 3 months of the year. Growth

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



Source: Based on data from Bloomberg LP.

was buoyed by a 7.1% y-o-y expansion in the industrial and construction sector and a 6.4% y-o-y increase in the services sector.

Size and Composition

The size of Viet Nam's LCY bond market stood at VND969.9 trillion (USD43 billion) at the end of June on growth of 10.8% quarter-on-quarter (q-o-q) and 0.7% y-o-y (**Table 1**). Growth was led by an increase in the stock of government bonds, particularly Treasury bonds and central bank bills. The corporate bond segment also contributed to growth, though this segment is still small relative to the aggregate bond stock.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2015		Q1 2016		Q2 2016		Q2 2015		Q2 2016	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	963,522	44	875,076	39	969,903	43	(0.8)	7.1	10.8	0.7
Government	939,049	43	838,284	38	931,111	42	(1.7)	6.3	11.1	(0.8)
Treasury Bonds	546,192	25	627,691	28	717,149	32	(6.3)	7.0	14.3	31.3
Central Bank Bonds	200,308	9	4,905	0.2	9,999	0.4	26.5	23.5	103.9	(95.0)
State-Owned Enterprise Bonds	192,549	9	205,688	9	203,963	9	(9.8)	(8.7)	(0.8)	5.9
Corporate	24,473	1	36,792	2	38,792	2	52.7	48.9	5.4	58.5

() = negative, q-o-q = quarter-on-quarter, Q1 = first quarter, Q2 = second 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 and Vietnam Bond Market Association.

Government Bonds. At the end of June, LCY government bonds in Viet Nam reached VND931.1 trillion, up 11.1% q-o-q but marginally lower by 0.8% y-o-y. Much of the growth came from increases in the stock of Treasury bonds, which rose 14.3% q-o-q and 31.3% y-o-y. Central bank bills also contributed to the growth, albeit from a low base. The stock of state-owned enterprise bonds marginally declined 0.8% q-o-q during the review period.

Corporate Bonds. At the end of June, the outstanding stock of corporate bonds reached VND38.8 trillion on growth of 5.4% q-o-q and 58.5% y-o-y. The entire corporate bond market of Viet Nam comprised 19 corporate firms at the end of June (Table 2). The largest corporate bond issuer was Masan Consumer Holdings with bonds outstanding amounting to VND11.1 trillion, representing 28.6% of the aggregate corporate bond stock. In the second spot was real estate firm Vingroup with VND8.0 trillion of outstanding bonds. Asia Commercial Joint Stock moved up to the third spot with bonds valued at VND4.6 trillion.

In Q2 2016, three corporate firms in Viet Nam raised capital from the bond market. The largest new corporate debt issuance was Asia Commercial Joint Stock, which raised a total of VND1,600 billion from an issuance of 5-year bonds (Table 3). Saigon-Hanoi Securities issued VND300 billion in 2-year bonds, while Dongnai Plastic issued VND100 billion in 3-year bonds.

Table 3: Notable Local Currency Corporate Bond Issuance in Q2 2016

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Asia Commercial Joint Stock		
5-year bond	8.50	800
5-year bond	8.20	800
Saigon-Hanoi Securities		
2-year bond	9.50	300
Dongnai Plastic		
3-year bond	9.75	100

Q2 = second quarter, VND = Vietnamese dong.
Source: Bloomberg LP.

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	8,000	0.36	No	Yes	Real Estate
3. Asia Commercial Joint Stock	4,600	0.21	No	Yes	Finance
4. Hoang Anh Gia Lai	4,000	0.18	No	Yes	Real Estate
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	950	0.04	No	Yes	Finance
10. Tasco	500	0.02	No	Yes	Engineering and Construction
11. Vietinbank Securities	500	0.02	Yes	Yes	Finance
12. Sotrans	400	0.02	No	No	Logistics
13. Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
14. Anphat Plastic & Green Environment	300	0.01	No	Yes	Industrial
15. Hung Vuong	300	0.01	No	Yes	Food
16. Saigon Securities	300	0.01	No	Yes	Finance
17. Ha Do	200	0.01	No	Yes	Construction
18. Ho Chi Minh City Securities	110	0.005	No	No	Finance
19. Dongnai Plastic	100	0.004	No	Yes	Industrial
Total LCY Corporate Issuers	38,792	1.73			

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

Notes:

1. Data as of end-June 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 LP and Vietnam Bond Market Association data.

Policy, Institutional, and Regulatory Developments

State Bank of Vietnam Raises Prudential Ratios for Credit Institutions and Foreign Banks

In May, the State Bank of Viet Nam revised its regulation on prudential ratios for credit institutions and foreign banks. The revision included increasing the ceiling limits on the purchase or investment of government bonds by banking institutions from 15% to 25% of their short-term funding source. The investment cap for foreign banks was also raised to 35% of their short-term funding source.

State Bank of Vietnam Allows Foreign Currency Loans for Exporters

Effective 1 June, the State Bank of Vietnam began allowing commercial banks to provide short-term foreign currency loans for the short-term capital requirements of exporters. Under the new regulation, exporters are required to exchange borrowed foreign currency into Vietnamese dong, unless the loan will be used for a foreign currency payment. This new regulation will be in effect through 31 December. The State Bank of Vietnam had previously tightened regulations on foreign currency lending in March.