Viet Nam

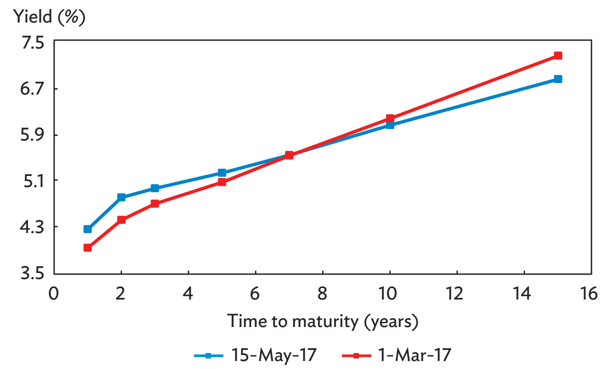
Yield Movements

Local currency (LCY) government bond yields in Viet Nam mostly rose between 1 March and 15 May (**Figure 1**). Yields climbed the most for 1-year through 3-year bonds, rising an average of 33 basis points (bps). Yields also gained for the 5-year and 7-year tenors, inching up 16 bps and 1 bp, respectively. In contrast, yields fell for both the 10-year and 15-year maturities, shedding 11 bps and 41 bps, respectively. As a result, the spread between the 2-year and 10-year tenors declined from 175 bps on 1 March to 125 bps on 15 May.

Elevated inflation levels since October 2016 have led to a rise in yields for most maturities. Consumer price inflation steadily climbed, hitting a high of 5.2% year-on-year (y-o-y) in January. However, more recent data indicated that inflation is starting to decline, easing to 3.2% y-o-y in May. The uptick in yields from the short-end through the belly of the curve is reflective of tightened liquidity conditions during and after the Tet holidays. Some banks were also reported to have raised deposit interest rates. To help stabilize interest rates, the State Bank of Vietnam (SBV) has been injecting liquidity into the banking system through open market operations. Falling yields at the long-end of the curve are partly caused by increased demand among banks for longer-tenor government securities.

In the first quarter (Q1) of 2017, real gross domestic product growth in Viet Nam eased to 5.1% y-o-y after rising 5.5% in full-year 2016. The agriculture sector grew 2.0% y-o-y in Q1 2017, while the industry and construction sector grew 4.2% y-o-y. The services sector grew 6.5% y-o-y in Q1 2017, the highest growth rate among Viet Nam's various sectors. Within the services sector, the largest gains came from the finance and insurance subsector, which rose 7.8% y-o-y.

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



Source: Based on data from Bloomberg LP.

Size and Composition

The size of Viet Nam's LCY bond market reached VND998.6 trillion (USD44 billion) at the end of March (**Table 1**). Its bonds outstanding are the smallest among all emerging East Asian economies. Growth during the review period was largely driven by government bonds, particularly Treasury bonds issued by the State Treasury.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2016		Q4 2016		Q1 2017		Q1 2016		Q1 2017	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	**876,636**	**39**	**995,720**	**44**	**998,606**	**44**	**(6.5)**	**(9.7)**	**0.3**	**13.9**
Government	839,844	38	949,725	42	952,610	42	(7.1)	(12.0)	0.3	13.4
Treasury Bonds	629,251	28	736,932	32	747,887	33	5.0	7.9	1.5	18.9
Central Bank Bonds	4,905	0.2	8,000	0.4	0	0	(95.0)	(96.9)	(100.0)	(100.0)
State-Owned Enterprise and Municipal Bonds	205,688	9	204,792	9	204,722	9	(0.5)	(3.7)	(0.03)	(0.5)
Corporate	36,792	2	45,996	2	45,996	2	10.5	129.6	0.0	25.0

( ) = negative, LCY = local currency, 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 LCY–USD rates are used.
2. Growth rates are calculated from an LCY base and do not include currency effects.
Sources: Bloomberg LP and Vietnam Bond Market Association.

Government Bonds. At the end of March, the government bond market in Viet Nam stood at a size of USD952.6 trillion, higher by 0.3% quarter-on-quarter (q-o-q) and 13.4% y-o-y. Growth came mainly from Treasury bonds, which climbed 1.5% q-o-q and 18.9% y-o-y. The stock of SBV bills all matured during the quarter in review as the central bank only issued bills with very short tenors that also matured in Q1 2017. The stock of state-owned enterprise bonds and other bonds marginally declined in Q1 2017.

The volume of new government debt issuance fell 56.5% q-o-q in Q1 2017, due largely to a decline in central bank issuance. On the other hand, new issues of Treasury and other government bonds rose more than twofold during the quarter. The government has reduced its issuance plan for 2017 to VND183.3 trillion from an earlier estimate of VND250 trillion. The government's issuance plan is geared toward longer tenors as it aims to extend the maturity structure and ease payment obligations.

Corporate Bonds. At the end of March, the size of the corporate bond market was unchanged from the end of December at VND46 trillion. Growth was higher on a y-o-y basis, however, at 25.0%. The corporate bond segment of Viet Nam comprises a total of 27 corporate firms and represents a 4.6% share of the total LCY bond stock (**Table 2**). (*AsianBondsOnline* classifies some state-

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	0.49	No	No	Diversified Operations
2. Vingroup JSC	8,000	0.35	No	Yes	Real Estate
3. Asia Commercial Joint Stock	4,600	0.20	No	No	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. Vietcombank	2,000	0.09	Yes	Yes	Banking
8. Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
9. Agro Nutrition International	1,300	0.06	No	No	Agriculture
10. DIC Corporation	1,000	0.04	Yes	No	Chemicals
11. Ocean Group	980	0.04	No	Yes	Consulting Services
12. Saigon-Hanoi Securities Corporation	950	0.04	No	Yes	Finance
13. Sai Gon Thuong Tin Real Estate	600	0.03	No	Yes	Real Estate
14. Khang Dien House Trading and Investment	534	0.02	No	Yes	Building and Construction
15. Hoangquan	500	0.02	No	Yes	Real Estate
16. Saigon Securities	500	0.02	No	Yes	Finance
17. Tasco Corporation	500	0.02	No	Yes	Engineering and Construction
18. Vietinbank Securities	500	0.02	Yes	Yes	Finance
19. An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
20. Sotrans Corporation	400	0.02	No	No	Logistics
21. Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
22 Hung Vuong Corporation	300	0.01	No	Yes	Food
23. Ha Do Corporation	200	0.01	No	Yes	Construction
24. Son Ha International	110	0.005	No	Yes	Building and Construction
25. Dongnai Plastic	100	0.004	No	Yes	Industrial
26. Fecon	70	0.003	No	Yes	Engineering and Construction
27. Construction Joint Stock Company No. 3	50	0.002	No	Yes	Real Estate
Total LCY Corporate Issuers	45,996	2.02			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of end-March 2017.
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.

owned entities as part of the government bond segment.) The largest corporate bond issuer is Masan Consumer Holdings with outstanding bonds amounting to VND11.1 trillion. Its issuances accounted for a 24.1% share of the aggregate corporate bond market at the end of March. In the second spot was real estate firm Vingroup JSC with bonds valued at VND8.0 trillion. Completing the top three largest issuers was Asia Commercial Joint Stock with outstanding bonds valued at VND4.6 trillion.

Ratings Update

In April, Standard & Poor's (S&P) Global Ratings affirmed Viet Nam's BB– long-term and B short-term credit ratings. The outlook on both ratings was stable.

Policy, Institutional, and Regulatory Developments

State Treasury to Issue VND66 Trillion of Government Bonds in the Second Quarter of 2017

In April, the State Treasury released its bond issuance plan for the second quarter of 2017 amounting to VND66 trillion. Of this total, 45% will comprise bonds with maturities of 5–7 years, 27.3% will comprise bonds carrying maturities of 10–15 years, and 27.3% will comprise bonds carrying maturities of 20–30 years.

Ministry of Finance Issues Regulations on the Buyback of Government Bonds

Effective 1 May, the Government of Viet Nam can conduct buybacks and repurchases of government bonds. Eligible bonds for repurchase are those issued by the State Treasury. Bond repurchases by the government are conducted to help better manage its liabilities and establish benchmark interest rates. Buyback transactions will be undertaken in the Hanoi Stock Exchange (HNX) through negotiated sale or bidding process. The Ministry of Finance will provide the interest rate range for bond buybacks. This new regulation is expected to boost liquidity and maintain stability in the bond market.

Ministry of Finance Issues Regulations on Short-Selling and Sell–Buyback of Government Bonds

The Ministry of Finance issued a new regulation that will take effect on 1 September, allowing short-selling and repurchase transactions among member participants of HNX. The short-selling term will only be allowed up to a maximum of 180 days and must not exceed the remaining maturity of the bonds. Both HNX and Viet Nam Securities Depository also released rules governing short-selling and sell–buyback of bonds to help deepen the derivatives market in Viet Nam.