

## Viet Nam

### Yield Movements

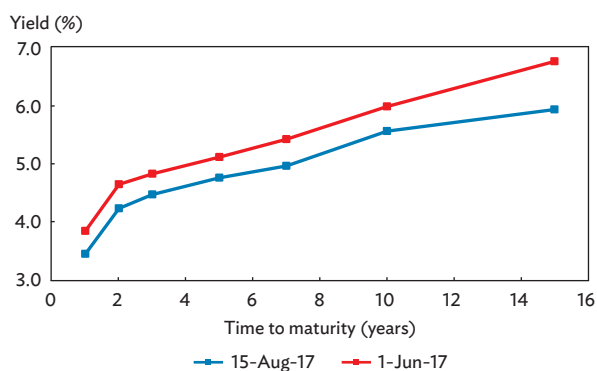
Between 1 June and 15 August, local currency (LCY) government bond yields in Viet Nam fell for all tenors, resulting in the entire yield curve shifting downward (**Figure 1**). Yields declined by an average of 40 basis points (bps) for the 1-year through 10-year tenors. Yield fell the most for the 15-year maturity, which shed 82 bps and led to the overall flattening of the yield curve. The spread between the 2-year and 10-year maturities narrowed to 131 bps on 15 August from 133 bps on 1 June.

The overall decline in yields was driven by a policy rate cut in July and relatively tame inflation during the review period. Consumer price inflation has been subdued in recent months on the back of softer food prices. The year-on-year (y-o-y) inflation rate eased to 4.3% in April and 3.2% in May, before it further declined to 2.5% in June and July.

Macroeconomic conditions have been stable, allowing the central bank to lower policy rates. On 10 July, the State Bank of Vietnam lowered by 25 bps the refinancing rate to 6.25% and the discount rate to 4.25%. The rate cut is expected to help spur economic growth. The government's 2017 gross domestic product (GDP) growth target is set at 6.7%.

Real GDP growth in Viet Nam climbed to 5.7% y-o-y in the first half of 2017 from 5.5% y-o-y in the same 6-month period a year earlier. However, economic growth

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



Source: Based on data from Bloomberg LP.

for the first half of the year fell short of the government's full-year target. The agriculture, forestry, and fishery sector rebounded, expanding 2.7% y-o-y in the first half of 2017 after contracting 0.2% y-o-y in the same period a year earlier. Services-producing industries also expanded 6.9% y-o-y during the first 6 months of the year.

### Size and Composition

Viet Nam's LCY bond market expanded in the second quarter (Q2) of 2017 to reach a size of VND1,019.6 trillion (USD45 billion) at the end of June (**Table 1**). Overall growth accelerated to 1.9% quarter-on-quarter (q-o-q) in Q2 2017 from a marginal gain of 0.3% q-o-q in the first

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2016		Q1 2017		Q2 2017		Q2 2016		Q2 2017	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	971,464	44	1,000,756	44	1,019,554	45	10.8	0.8	1.9	5.0
Government	932,672	42	952,610	42	974,757	43	11.1	(0.7)	2.3	4.5
Treasury Bonds	718,709	32	747,887	33	780,707	34	14.2	31.6	4.4	8.6
Central Bank Bonds	9,999	0.4	0	0	0	0	103.9	(95.0)	–	(100.0)
State-Owned Enterprise and Municipal Bonds	203,963	9	204,722	9	194,050	9	(0.8)	5.9	(5.2)	(4.9)
Corporate	38,792	2	48,146	2	44,797	2	5.4	58.5	(7.0)	15.5

( ) = negative, LCY = local currency, 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 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.

quarter (Q1) of 2017. On a y-o-y basis, however, growth moderated to 5.0% in Q2 2017 from 14.2% in Q1 2017. Growth stemmed mainly from increases in the stock of government bonds, particularly Treasury instruments issued by the State Treasury. Viet Nam's LCY bond market remained the smallest in emerging East Asia.

**Government bonds.** The outstanding size of the LCY government bond market climbed to VND974.8 trillion at the end of June on modest growth of 2.3% q-o-q and 4.5% y-o-y. Growth was solely accounted for by Treasury bonds, which gained 4.4% q-o-q and 8.6% y-o-y in Q2 2017. At the end of June, all short-dated instruments—Treasury bills and State Bank of Vietnam bills—have matured. There was no new issuance of Treasury bills and State Bank of Vietnam bills during the quarter. The government has focused its issuance plan on medium- and longer-dated tenors—particularly bonds with maturities of 5 years and above—to extend its maturity profile and spread out debt repayments. The stock of state-owned enterprise bonds also declined as redemption exceeded new issuance.

In Q2 2017, new issues of government bonds contracted on both a q-o-q and y-o-y basis. The bulk of new issuance (96.7%) was accounted for by new Treasury bond issues. However, the issuance of Treasury bonds during the quarter fell short of a planned target of VND65 trillion. In the third quarter of 2017, the government expects to raise VND45 trillion from the sale of Treasury bonds with maturities of between 5 years and 30 years.

**Corporate bonds.** The outstanding size of the LCY corporate bond market contracted to VND44.8 trillion at the end of June on a 7.0% q-o-q decline. On a y-o-y basis, growth moderated to 15.5% in Q2 2017 from 30.9% in Q1 2017. At the end of June, the entire corporate bond segment of Viet Nam comprised 27 firms (**Table 2**). (*AsianBondsOnline* classifies some state-owned entities as part of the government bond segment.)

Masan Consumer Holdings remained the largest corporate bond issuer in Viet Nam at the end of June. Its outstanding bonds valued at VND11.1 trillion accounted for 24.8% of the total corporate bond stock. In the second

spot was Vingroup JSC, a real estate firm with outstanding bonds amounting to VND7.0 trillion. The third-largest corporate bond issuer was Asia Commercial Joint Stock with outstanding bonds of VND4.6 trillion.

## Ratings Update

On 18 May, Fitch Ratings (Fitch) affirmed Viet Nam's long-term foreign currency and LCY issuer default ratings at BB-. Fitch also revised the outlook on both ratings to positive from stable. Fitch cited Viet Nam's strong growth performance and prospects, current account surpluses, manageable debt service costs, and sustained foreign direct investment inflows as the drivers behind the rating affirmation. The revision to the outlook was underpinned by Viet Nam's policy initiatives geared toward maintaining macroeconomic stability.

## Policy, Institutional, and Regulatory Developments

### State Treasury to Issue VND45 Trillion of Government Bonds in the Third Quarter of 2017

In July, the State Treasury announced its bond issuance plan for the third quarter of 2017 valued at VND45 trillion. Of this amount, VND18 trillion is expected to be raised from the issuance of 5-year bonds and VND3 trillion from 7-year bonds. Bond sales amounting to VND6 trillion each are targeted from the issuance of 10-, 15-, 20-, and 30-year bonds.

### Viet Nam Launches Derivatives Market

In August, a derivatives market was officially launched in Viet Nam, marking an important milestone in the development of its securities market. Three types of derivatives instruments will be offered: (i) futures contract for the VN30 Index, (ii) futures contract for the HNX30 Index, and (iii) futures contract for 5-year government bonds. The futures contract for the VN30 Index was the first derivatives product to be launched.

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	7,000	0.31	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. No Va Land Investment Group	2,150	0.09	No	Yes	Real Estate
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. Ho Chi Minh City Infrastructure	1,033	0.05	No	Yes	Infrastructure
11. DIC Corporation	1,000	0.04	Yes	No	Chemicals
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. Tasco Corporation	500	0.02	No	Yes	Engineering and Construction
17. Vietinbank Securities	500	0.02	Yes	Yes	Finance
18. An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
19. Sotrans Corporation	400	0.02	No	No	Logistics
20. Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
21. Hung Vuong Corporation	300	0.01	No	Yes	Food
22. Ha Do Corporation	200	0.01	No	Yes	Construction
23. Saigon Securities	200	0.01	No	Yes	Finance
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
<b>Total LCY Corporate Issuers</b>	<b>44,797</b>	<b>1.97</b>			

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

Notes:

1. Data as of end-June 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.