

Viet Nam

Yield Movements

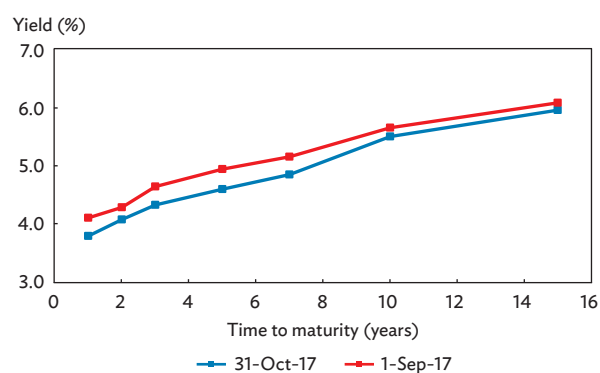
Local currency (LCY) government bond yields in Viet Nam fell across all tenors between 1 September and 31 October, which led the entire yield curve to shift downward (**Figure 1**). Yields shed an average of 30 basis points (bps) from the 1-year through the 7-year maturities, and declined an average of 14 bps for maturities of 10 years and above. As a result, the spread between the 2-year and 10-year tenors widened from 136 bps on 1 September to 142 bps on 31 October.

Bucking the trend among its emerging East Asian peers, Viet Nam saw declining bond yields during the review period. The rise in yields in advanced economies had little impact on Viet Nam's yields since domestic investors are the major participants in its bond market. However, the unwinding of quantitative easing measures by the United States (US) Federal Reserve and the European Central Bank, may push bond yields up in the medium-term.

The decline in yields was also driven by the State Bank of Vietnam easing its monetary policy. In July, the central bank reduced its policy rates by 25 bps each, which brought the refinancing rate to 6.25% and the discount rate to 4.25%. The rate cut was aimed at boosting economic growth following slowing growth in the first half of the year. Subsequently, in September, the government has requested the State Bank of Vietnam to lower interest rates by 0.5% and to boost lending to achieve the credit growth target of 21%-22% for this year. Other central government and line agencies, including the Ministry of Planning and Investment and Ministry of Finance were also directed to speed up the release of funds for public investments. The government believes that its economic growth target of 6.7% for this year can be achieved given these additional measures.

In the third quarter (Q3) of 2017, real gross domestic product (GDP) growth climbed to 7.5% year-on-year (y-o-y) from a revised 6.3% y-o-y hike in the second quarter (Q2) of 2017. As a result of the strong economic expansion during the quarter, real GDP growth for the January–September period rose to 6.4% y-o-y from 5.7% y-o-y in the first half of the year, closing the gap with the government's full-year 2017 economic growth target.

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



Source: Based on data from Bloomberg LP.

The industrial and construction sector and the services sector posted growth of more than 7.0% each during the first 9 months of the year.

Consumer price inflation trended higher in July, August, and September before easing in October. Consumer prices rose 3.0% y-o-y in October, down from 3.4% y-o-y from a month earlier due to slower increase in food prices. Among the subindexes, medical and healthcare posted the highest inflation rate at 32.1% y-o-y in October. On a month-on-month basis, consumer price inflation eased 0.4% in October.

Size and Composition

Viet Nam continues to have the smallest LCY bond market in emerging East Asia. At the end of September, Viet Nam's LCY bonds outstanding reached VND1,044.2 trillion (USD46 billion) (**Table 1**). Growth was higher on a quarter-on-quarter (q-o-q) basis in Q3 2017 at 2.4%, up from 1.9% q-o-q in Q2 2017. On a y-o-y basis, however, growth eased to 0.2% from 5.0% during the same period. Much of the growth during the quarter came from an increase in the stock of central bank bills.

Government bonds. At the end of September, the LCY government bond market rose to VND1,001.2 trillion, with growth up 2.7% q-o-q and 0.2% y-o-y. The overall

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q3 2016		Q2 2017		Q3 2017		Q3 2016		Q3 2017	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,041,724	47	1,019,554	45	1,044,229	46	7.2	22.5	2.4	0.2
Government	999,630	45	974,757	43	1,001,162	44	7.2	21.4	2.7	0.2
Treasury Bonds	719,847	32	780,707	34	786,957	35	0.2	34.3	0.8	9.3
Central Bank Bills	69,999	3	0	0	21000	1	600.0	(22.5)	–	(70.0)
State-Owned Enterprise and Municipal Bonds	209,784	9	194,050	9	193,205	9	2.9	6.4	(0.4)	(7.9)
Corporate	42,094	2	44,797	2	43,067	2	8.5	57.2	(3.9)	2.3

– = not applicable, () = negative, LCY = local currency, q-o-q = quarter-on-quarter, Q2 = second quarter, Q3 = third 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.

growth in government bonds came largely from increases in the stock of central bank bills issued by the State Bank of Vietnam. The central bank resumed issuance of bills in July after its last issuance in March as it aims to increase its foreign exchange reserves.

The stock of Treasury bonds also contributed to the growth, although to a lesser extent. The policy rate cut in July drove yields lower. As the government does not want to allow yields to go higher, most auctions for government bonds were only partially awarded during the quarter.

Corporate bonds. The outstanding stock of LCY corporate bond market slipped to VND43.1 trillion at the end of September. Growth contracted 3.9% q-o-q but rose 2.3% y-o-y in Q3 2017. There was only one corporate bond issuance from Viet Nam during the quarter, from Loc Troi Group, which issued via private placement. (A number of corporate bonds in Viet Nam are issued through private placements and some of the relevant data are not publicly available.)

At the end of September, a total of 26 firms comprise Viet Nam's entire corporate bond segment (**Table 2**). The largest issuer was Masan Consumer Holdings, whose outstanding bonds of VND11.1 trillion accounted for a 25.8% share of the aggregate corporate bond stock at the end of September. Real estate firm Vingroup JSC maintained the second spot with outstanding bonds valued at VND7.0 trillion. Asia Commercial Joint Stock rounded out the top three with bonds amounting to VND4.6 trillion.

Policy, Institutional, and Regulatory Developments

Government Approves Road Map for Bond Market Development

In August, the Government of Viet Nam approved a 3-year road map for bond market development, with the aim of aligning the bond market with the money market and capital market. Under the road map, the share of bonds to GDP is expected to increase to 45% by 2020 and to 65% by 2030.

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. Vietcombank	2,000	0.09	Yes	Yes	Banking
7. Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
8. No Va Land Investment Group	1,450	0.06	No	Yes	Real Estate
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	700	0.03	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. Tasco Corporation	500	0.02	No	Yes	Engineering and Construction
16. An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
17. Sotrans Corporation	400	0.02	No	No	Logistics
18. Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
19. Hung Vuong Corporation	300	0.01	No	Yes	Food
20. Loc Troi Group	220	0.01	No	Yes	Manufacturing
21. Ha Do Corporation	200	0.01	No	Yes	Construction
22. Saigon Securities	200	0.01	No	Yes	Finance
23. Son Ha International	110	0.005	No	Yes	Building and Construction
24. Dongnai Plastic	100	0.004	No	Yes	Industrial
25. Fecon	70	0.003	No	Yes	Engineering and Construction
26. Construction Joint Stock Company No. 3	50	0.002	No	Yes	Real Estate
Total LCY Corporate Issuers	43,067	1.89			

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

Notes:

1. Data as of end-September 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.