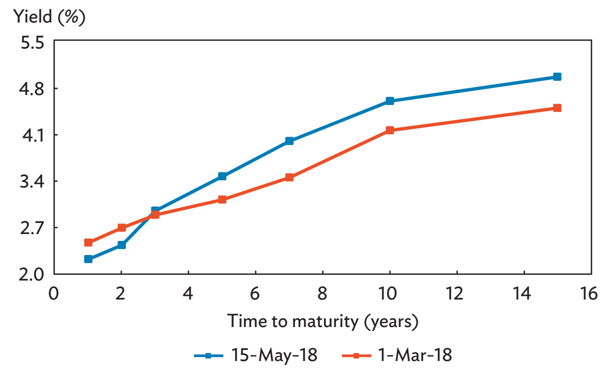
Viet Nam

Yield Movements

Between 1 March and 15 May, local currency (LCY) government bond yields in Viet Nam increased for all tenors except the 1-year and 2-year maturities, which fell 25 basis points (bps) and 26 bps, respectively (**Figure 1**). Yield increases for 3-year to 15-year tenors ranged from 6 bps to 55 bps, with 3-year maturities having the smallest gain and 7-year maturities the largest. The yield spread between 2-year and 10-year bonds widened to 215 bps from 146 bps during the review period.

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



Source: Based on data from Bloomberg LP.

The decline in yields at the short-end of the curve can be attributed to the State Bank of Vietnam's (SBV) reduction of its open market operation interest rate in January when the central bank cut the interest rate by 25 bps to 4.75%. The move was intended to support economic growth by bringing down bank lending rates. On the other hand, since domestic investors are the major players in Viet Nam's bond market, the upward movement in yields of long-term bonds reflects mounting pressure from rising global interest rates as the United States Federal Reserve and other major central banks prepare for accelerated monetary policy normalization.

Consumer price inflation in Viet Nam slightly climbed to 2.8% year-on-year (y-o-y) in April from 2.7% y-o-y in March, driven by higher prices for food, housing, transport, and education, with the fastest upward price adjustment seen in transport. February recorded the highest inflation rate of the year through April at 3.2% y-o-y and also highest since September 2017. Core inflation, barely changed in April at 1.3% y-o-y from 1.4% y-o-y in March, has been stable since the start of the year.

In January, the central bank set its key monetary management policies for 2018 with a focus on maintaining economic stability by pursuing a proactive and flexible monetary policy. The State Bank of Vietnam last cut its benchmark refinancing rate by 25 bps to 6.25% on 10 July 2017 to boost the economy's lagging growth. The Vietnamese dong has depreciated 0.3% against the United States dollar year-to-date through 15 May. The stability of the dong is being supported by a healthy balance of payments; high growth of investment inflows due to an improved investment climate; and the continuous buildup of foreign reserves by the SBV, which have recently hit record highs. These factors have also contributed to rising investor confidence in the Vietnamese market.

Viet Nam's economy expanded faster than expected at 7.4% y-o-y in the first quarter (Q1) of 2018, carrying on the growth momentum achieved in the last 3 quarters of 2017. The gross domestic product (GDP) expansion was propelled by the agriculture and industrial sectors, which contributed 0.5 percentage points and 3.4 percentage points, respectively. The services sector also expanded in Q1 2018, but at a slower pace compared with the preceding quarter, contributing 2.8 percentage points to GDP growth. On the expenditure side, exports drove the economic expansion, increasing 22.0% y-o-y. The Government of Viet Nam has targeted 6.7% GDP growth in 2018, but rising protectionism in large economies posts a challenge to the export-driven economy.

Size and Composition

The size of Viet Nam's LCY bond market reached VND1,173 trillion at the end of March, registering growth of 8.6% quarter-on-quarter (q-o-q) and 17.2% y-o-y (**Table 1**). While the government and corporate bond segments both saw increases in Q1 2018, growth in the LCY bond market is largely driven by government

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2017		Q4 2017		Q1 2018		Q1 2017		Q1 2018	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,000,756	44	1,080,093	48	1,173,062	51	0.3	14.2	8.6	17.2
Government	952,610	42	1,017,691	45	1,108,110	49	0.3	13.4	8.9	16.3
Treasury Bonds	747,887	33	788,918	35	828,247	36	1.5	18.9	5.0	10.7
Central Bank Bills	0	0	16,400	1	91,270	4	(100.0)	(100.0)	456.5	–
State-Owned Enterprise and Municipal Bonds	204,722	9	212,373	9	188,593	8	(0.03)	(0.5)	(11.2)	(7.9)
Corporate	48,146	2	62,402	3	64,952	3	1.0	30.9	4.1	34.9

– = not applicable, ( ) = 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.

bonds, which comprise about 94% of the total. Despite the strong growth, Viet Nam's bond market remains the smallest in emerging East Asia.

Government bonds. LCY government bonds outstanding grew 8.9% q-o-q and 16.3% y-o-y to reach VND1,108 trillion at the end of March. The growth recorded in the period was faster compared with the fourth quarter (Q4) of 2017. Treasury bonds remain the key driver of the increase in growth of 5.0% q-o-q and constitute the largest share of total government bonds at about 75%. A notable surge was seen in the stock of SBV bills, which rose more than fivefold on a quarterly basis to VND91.3 trillion, after dropping 21.9% q-o-q at the end of December 2017. The dramatic increase in debt was due to large issuance from the central bank during Q1 2018. On the other hand, state-owned enterprise bonds fell 11.2% q-o-q, following an increase of 9.9% q-o-q in Q4 2017, due to a large amount of maturities and no new issuance in Q1 2018.

LCY debt issuance from the government in Q1 2018 totaled VND484.5 trillion, representing a 45.4% q-o-q increase, largely driven by issuance of SBV bills, which summed to VND435.1 trillion. The SBV has increased its foreign reserves in recent months by purchasing foreign currencies, resulting in a large amount of Vietnamese dong circulating in the system. The issuance of short-term securities in Q1 2018 was intended to withdraw local money from the banking system in order to minimize inflation risks. Treasury bonds also saw a dramatic increase in issuance in Q1 2018. While the amount is far less than the issuance of SBV bills, debt sales surged nearly sixfold to reach VND49.4 trillion during the quarter. The government plans to mobilize VND200 trillion of government bonds in 2018 for its state budget, with an emphasis on long-term maturities and keeping the interest rate low. The government may, however, adjust the volume of bonds and their structure in line with market conditions.

Corporate bonds. The size of the corporate sector's bond market was valued at VND65 trillion at the end of March, growing 4.1% from the end of December and 34.9% from a year earlier. The slower growth in Q1 2018 compared with Q4 2017 was due to lower corporate debt issuance. The number of corporate bond issuers increased to 33 firms at the end of March from 27 firms a year earlier. The top 30 corporate bond issuers comprised nearly the entire corporate segment, with Masan Consumer Holdings again having the highest level of debt outstanding at VND11.1 trillion (**Table 2**).

Issuance activity in the corporate segment was subdued in Q1 2018 compared with Q4 2017. Total issuance during the quarter amounted to VND2,100 trillion from the debt sales of three firms, which was 83% lower than in Q4 2017. Saigon Securities was the largest corporate issuer among the three firms in Q1 2018 with a debt sale of VND1,150 trillion of 3-year maturities at a 4.0% coupon rate.

Ratings Update

On 14 May, Fitch Ratings upgraded Viet Nam's sovereign credit rating to BB from BB– with a stable outlook.

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	9,600	0.42	No	Yes	Real Estate
3.	Asia Commercial Joint Stock	4,600	0.20	No	No	Finance
4.	Masan Group Corporation	4,500	0.20	No	Yes	Finance
5.	No Va Land Investment Group	4,250	0.19	No	Yes	Real Estate
6.	Vietinbank	4,200	0.18	No	Yes	Banking
7.	Hoang Anh Gia Lai	4,000	0.18	No	Yes	Real Estate
8.	Techcom Bank	3,000	0.13	No	No	Banking
9.	Vietnam Prosperity Bank	3,000	0.13	No	Yes	Banking
10.	Vietcombank	2,000	0.09	Yes	Yes	Banking
11.	Ho Chi Minh City Infrastructure	1,833	0.08	No	Yes	Infrastructure
12.	Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
13.	Saigon Securities	1,650	0.07	No	Yes	Finance
14.	Agro Nutrition International	1,300	0.06	No	No	Agriculture
15.	Mobile World Investment Corporation	1,135	0.05	No	Yes	Manufacturing
16.	DIC Corporation	1,000	0.04	Yes	No	Chemicals
17.	KinhBac City Development Holding	700	0.03	No	Yes	Real Estate
18.	Sai Gon Thuong Tin Real Estate Joint Stock	600	0.03	No	Yes	Real Estate
19.	Khang Dien House Trading and Investment	534	0.02	No	Yes	Building and Construction
20.	Saigon-Hanoi Securities Corporation	800	0.04	No	Yes	Finance
21.	Tasco Corporation	500	0.02	No	Yes	Engineering and Construction
22	An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
23.	Cuu Long Pharmaceutical Company	450	0.02	No	Yes	Manufacturing
24.	Sotrans Corporation	400	0.02	No	No	Logistics
25.	Vietnam Investment Construction and Trading	350	0.02	No	Yes	Building and Construction
26.	Hung Vuong Corporation	300	0.01	No	Yes	Food
27.	Loc Troi Group	220	0.01	No	Yes	Manufacturing
28.	Ha Do Corporation	200	0.01	No	Yes	Construction
29	Thanh Thanh Cong Education Corporation	150	0.01	No	No	Education
30.	Son Ha International Corporation	110	0.01	No	Yes	Building and Construction
Total Top 30 LCY Corporate Issuers		**64,732**	**2.8**			
Total LCY Corporate Bonds		**64,952**	**2.8**			
Top 30 as % of Total LCY Corporate Bonds		**99.7%**	**99.7%**			

LCY = local currency, USD = United States dollar, VND = Vietnamese dong.
Notes:
1. Data as of 31 March 2018.
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.

The upgrade reflects Viet Nam's strong economic growth performance, rising foreign reserves, and the government's commitment to reducing the deficit and debt levels. Viet Nam's economy expanded 6.8% in 2017 and is forecast to grow 6.7% in 2018, backed by strong foreign direct investment inflows, an expanded manufacturing sector, and increased private consumption. The SBV has been building up its foreign reserves, which reached a record high in early 2018, to provide a cushion against external shocks and to improve investor confidence.

Policy, Institutional, and Institutional Developments

Government Approves State Budget and Sets Limit on Government-Guaranteed Loans

In April, Viet Nam's Prime Minister Nguyen Xuan Phuc approved the government's borrowing plan for 2018. The government will borrow a total of VND384 trillion, with VND276 trillion to be sourced from domestic loans and VND108 trillion from foreign loans. A large portion of the total borrowing, equivalent to VND341.8 trillion, will be used to balance the state budget. The Prime Minister also approved limits on government-guaranteed loans in 2018. For example, domestic bonds issued by the Vietnam Development Bank will not exceed VND24.4 trillion and those issued by the Vietnam Bank for Social Policies will not exceed VND9.67 trillion. In addition, limits were set on loans guaranteed by the government for projects, foreign commercial loans of enterprises, commercial loans of enterprises and credit organizations, and loans of local governments.

State Securities Commission Issues New Margin Lending Policy

Viet Nam's State Securities Commission issued a draft regulation requiring the initial margin ratio to be at least 60%, effective 1 February. The margin ratio of 60:40 means that investors have to deposit 60% of the purchase price and are allowed to borrow the remaining 40% from the broker. The regulation aims to reduce potential risks in the stock market and restrain credit growth in the banking and financial sector. At the same time, a credit slowdown could affect the growth momentum of the stock market.