

Viet Nam

Yield Movements

Between 1 June and 15 August, local currency (LCY) government bond yields in Viet Nam climbed for all tenors, shifting the entire curve upward (**Figure 1**). Yields rose more at the shorter-end than the longer-end, causing the curve to flatten during the review period. Yields gained an average of 138 basis points (bps) for maturities of 1 year to 3 years, and an average of 27 bps for maturities of 10 years and 15 years. As a result, the spread between the 2-year and 10-year tenors narrowed from 199 bps on 1 June to 88 bps on 15 August.

The overall rise in yields was reflective of strong economic growth posted in the first half of the year. The economy, as measured by gross domestic product (GDP), expanded in the first half of the year by 7.1% year-on-year (y-o-y). Much of the growth in the first half of the year was contributed by the industry and construction sector (9.1% y-o-y) and services sector (6.9% y-o-y). To a lesser extent, the agriculture, forestry, and fishery sector (3.9% y-o-y) also contributed to the growth.

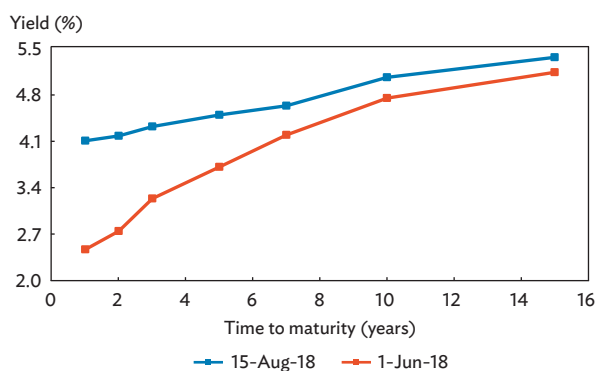
Consumer price inflation has trended upward since the start of the year, with upticks noted in most major subindexes. Consumer price inflation climbed from 2.8% y-o-y in April to 3.9% y-o-y in May, further accelerating to 4.7% y-o-y in June before easing slightly to 4.5% y-o-y in July. The target inflation rate set by the National Assembly (Parliament) for full-year 2018 is 4.0%.

The State Bank of Vietnam (SBV) has engaged in open market operations to rein in inflation and stabilize the value of the Vietnamese dong. The Vietnamese dong depreciated 2.2% against the United States (US) dollar during the review period, in line with the broad strengthening of the US dollar against most emerging market currencies. Further dampening sentiments for the bond market were risks arising from trade tensions between the People's Republic of China and the US, two of Viet Nam's largest trading partners.

Size and Composition

Viet Nam's LCY bond market was the sole market in emerging East Asia that posted a quarter-on-quarter

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



Source: Based on data from Bloomberg LP.

(q-o-q) contraction in bonds outstanding in Q2 2018. At the end of June, the LCY bond market's size stood at VND1,173.2 trillion, which was down 1.4% q-o-q and reversed a 10.8% q-o-q hike in Q1 2018 (**Table 1**). On a y-o-y basis, however, it posted growth of 13.7%.

Government bonds. The outstanding amount of LCY government bonds slipped to VND1,096.0 trillion at the end of June, falling 2.1% q-o-q but rising 12.2% y-o-y. Treasury bills and bonds were the sole sources of growth, as central bank bills and government-guaranteed and municipal bonds posted declines during the review period. Treasury bills and bonds accounted for the largest share of the government bond stock at the end of June, representing a 78.2% share of the total.

The stock of Treasury bills and bonds stood at VND857.5 trillion at the end of June, up 1.7% q-o-q and 8.7% y-o-y. In Q2 2018, issuance of Treasury instruments slowed to VND23.4 trillion on double-digit declines on a q-o-q and y-o-y basis. Most auctions of Treasury bonds fell short of the target amount as investors sought higher yields. The government, however, was unwilling to accept higher borrowing costs in order to fulfill its funding requirements due to the slow disbursement of investment capital. At the end of July, the disbursement of capital by the Government of Viet Nam amounted to VND133.8 trillion, equivalent to only 35.6% of the planned target for the year. Of this amount, disbursement of capital from the issuance of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q2 2017		Q1 2018		Q2 2018		Q2 2017		Q2 2018	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,032,075	45	1,189,434	52	1,173,232	51	0.6	6.8	(1.4)	13.7
Government	976,720	43	1,119,575	49	1,095,953	48	1.3	6.8	(2.1)	12.2
Treasury Bonds	789,130	35	843,522	37	857,454	37	2.0	10.2	1.7	8.7
Central Bank Bills	0	0	91,270	4	58,400	3	-	(100.0)	(36.0)	-
State-Owned Enterprise and Municipal Bonds	187,590	8	184,783	8	180,099	8	(1.7)	(0.4)	(2.5)	(4.0)
Corporate	55,354	2	69,859	3	77,279	3	(10.7)	7.9	10.6	39.6

- = not applicable, () = 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.

government bonds amounted to VND7.0 billion, or only 17.6% of the target.

On the other hand, the outstanding stocks of central bank bills and government-guaranteed and municipal bonds declined at the end of June. The stock of central bank bills, which are used mainly for liquidity management, declined 36.0% q-o-q as maturity exceeded new issuance. The outstanding size of government-guaranteed and municipal bonds slipped 2.5% q-o-q due to the absence of issuance of these instruments during the review period.

Corporate bonds. At the end of June, the outstanding amount of corporate bonds climbed to VND77.3 trillion on growth of 10.6% q-o-q and 39.6% y-o-y. The entire LCY corporate bond market of Viet Nam comprised 41 corporate institutions, coming from a diverse set of industries.⁹ The majority of these issuers also tapped the equity market for their funding needs.

The 30 largest issuers of corporate bonds had cumulative bonds outstanding of VND75.5 trillion, representing a 97.7% share of the total corporate bond stock at the end of June (Table 2). Masan Consumer Holdings led the list with outstanding bonds valued at VND11.1 trillion, accounting for nearly 15% of the total corporate bond stock. In the second and third spots, respectively, was real estate firm Vingroup (VND9.6 trillion) and state-owned lender Vietnam Joint Stock Commercial Bank for Industry and Trade (Vietinbank) (VND8.2 trillion). Together, these

three firms represented nearly 40% of the total corporate bond stock at the end of June.

In Q2 2018, a total of eight firms issued new corporate debt, raising a total of VND8.5 trillion. The issuance of corporate bonds during the quarter rose more than four-fold from that of Q1 2018, albeit coming from a low base. Some of the largest corporate debt issues during the quarter are presented in Table 3.

Leading the list was state-owned Vietinbank, which raised VND4.0 trillion from the sale of a 10-year bond in June. It was followed by Hoang Anh Gia Lai International Agriculture's issuance of a VND2.2 trillion zero-coupon bond. Third on the list was Nam Long Investment's sale of a 7-year bond worth VND660 billion in June. The three largest issuers of new corporate debt in Q2 2018 were all listed firms.

Policy, Institutional, and Regulatory Developments

State Bank of Vietnam Issues Regulation Governing Purchase of Corporate Bonds by Banking Institutions

In June, the SBV issued a regulation that restricts the purchase of corporate bonds by banking institutions, including foreign banks. Under the regulation, credit institutions and foreign bank branches are required

⁹ As most bonds in Viet Nam are issued via private placement, our data on corporate bonds may be understated.

Table 2: Top 30 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	0.48	No	No	Diversified Operations
2. Vingroup	9,600	0.42	No	Yes	Real Estate
3. Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.36	Yes	Yes	Banking
4. Asia Commercial Bank	4,600	0.20	No	No	Banking
5. Hoang Anh Gia Lai	4,000	0.17	No	Yes	Real Estate
6. No Va Land Investment Group	3,800	0.17	No	Yes	Real Estate
7. Bank for Investment and Development of Vietnam	3,050	0.13	Yes	Yes	Banking
8. Masan Group	3,000	0.13	No	Yes	Finance
9. Vietnam Prosperity Joint Stock Commercial Bank	3,000	0.13	No	Yes	Banking
10. Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
11. Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
12. Hoang Anh Gia Lai International Agriculture	2,217	0.10	No	Yes	Agriculture
13. Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.09	Yes	Yes	Banking
14. Ho Chi Minh City Infrastructure Investment	1,830	0.08	No	Yes	Infrastructure
15. Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
16. Saigon Securities	1,650	0.07	No	Yes	Finance
17. Agro Nutrition International	1,300	0.06	No	No	Agriculture
18. Saigon-Hanoi Securities	1,150	0.05	No	Yes	Finance
19. Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
20. DIC Corporation	1,000	0.04	Yes	No	Chemicals
21. Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
22. KinhBac City Development Holding	700	0.03	No	Yes	Real Estate
23. Nam Long Investment	660	0.03	No	Yes	Real Estate
24. Sai Gon Thuong Tin Real Estate Joint Stock	600	0.03	No	Yes	Real Estate
25. Khang Dien House Trading and Investment	534	0.02	No	Yes	Building and Construction
26. Tasco Corporation	500	0.02	No	Yes	Engineering and Construction
27. An Phat Plastic & Green Environment	450	0.02	No	Yes	Industrial
28. Cuu Long Pharmaceutical	450	0.02	No	Yes	Manufacturing
29. Thanh Thanh Cong-Bien Hoa Joint Stock Company	450	0.02	No	Yes	Industrial
30. Sotrans Corporation	400	0.02	No	No	Logistics
Total Top 30 LCY Corporate Issuers	75,537	3.29			
Total LCY Corporate Bonds	77,279	3.37			
Top 30 as % of Total LCY Corporate Bonds	97.7%	97.7%			

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

Notes:

1. Data as of 30 June 2018.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Sources: *AsianBondsOnline* calculations based on Bloomberg LP and Vietnam Bond Market Association data.

Table 3: Notable Local Currency Corporate Bond Issuance in the Second Quarter of 2018

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Vietnam Joint Stock Commercial Bank for Industry and Trade		
10-year bond	7.50	4,000
Hoang Anh Gia Lai International Agriculture		
1-year bond	0.00	2,217
Nam Long Investment		
7-year bond	6.50	660
Saigon-Hanoi Securities		
2-year bond	8.80	650

VND = Vietnamese dong.
Source: Bloomberg LP.

to conduct an internal credit scoring and rating of corporate bonds that they plan to purchase. Also, internal management regulations are required to be made for

evaluating bond investments, particularly for corporate bonds issued to finance projects in potentially risky areas. Credit institutions and foreign bank branches are also prohibited from purchasing corporate bonds that are issued to fund corporate debt restructuring. This law came into effect in August.

State Treasury Plans to Raise VND75 Trillion Through the Issuance of Government Bonds in the Third Quarter of 2018

In July, the State Treasury released its bond issuance plan worth VND75 trillion for the third quarter of 2018. Of this total, about 50% will comprise bonds with maturities of 10 years and 15 years, 30% will comprise bonds with maturities of 5 years and 7 years, and 20% will comprise bonds with maturities of 20 years and 30 years. For full-year 2018, the government plans to issue about VND200 trillion in government bonds, with issuance concentrated in longer-term maturities.