

## Viet Nam

### Yield Movements

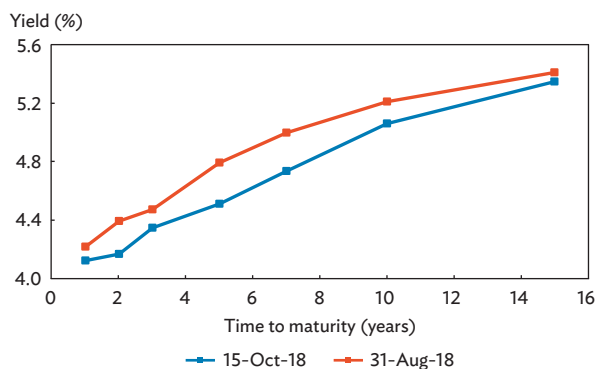
Local currency (LCY) government bond yields in Viet Nam declined for all tenors between 31 August and 15 October, resulting in a downward shift of the yield curve (**Figure 1**). Yields fell an average of 21 basis points (bps) for the 2-year through 10-year maturities, while yields at the very short-end (1-year) and the very long-end (15-year) of the curve shed 9 bps and 6 bps, respectively. The spread between the 2-year and 10-year maturities widened to 89 bps on 15 October from 82 bps on 31 August.

The decline in interbank rates drove yields lower during the review period, and liquidity conditions in the banking system improved in September. The State Bank of Vietnam is expected to keep interest rates steady for the rest of the year to support economic growth, and opts to use other monetary tools to curb inflation. The central bank has been engaging in open market operations to manage liquidity and intervening in the foreign exchange market to stabilize the VND–USD exchange rate. Between 31 August and 15 October, the value of the Vietnamese dong versus the United States (US) dollar was little changed, falling a marginal 0.2%.

Real gross domestic product growth in Viet Nam reached 7.0% year-on-year (y-o-y) in the first 3 quarters of the year, marginally lower than the 7.1% y-o-y growth posted in the first 2 quarters of 2018. The year-to-date gross domestic product growth in the third quarter (Q3) of 2018 exceeded the 6.7% target set by the National Assembly for full-year 2018. Growth moderated in all major sectors except the services sector, which grew at the same pace as in the previous period at 6.9% y-o-y. For Q3 2018, economic growth climbed to 6.9% y-o-y following a revised 6.7% y-o-y hike in the previous quarter.

Consumer price inflation rose to its highest level in 2018 at 4.7% y-o-y in June before easing to 4.5% y-o-y in July. It further decelerated to 4.0% y-o-y in August and held steady at that level in September. Inflation pressures, however, remain over concerns of higher oil prices in the global market and elevated food prices. For the first 9 months of the year, inflation was still within the target set by the National Assembly for full-year 2018, which is capped at 4.0%.

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



Source: Based on data from Bloomberg LP.

Unlike other bond markets in emerging East Asia, Viet Nam's debt market is not sensitive to the normalization of monetary policy in the United States (US) because bonds are largely held by domestic investors, particularly commercial banks. However, Viet Nam's LCY bond market has been indirectly impacted by the US dollar strengthening vis-à-vis most regional currencies. Market participants in the *AsianBondsOnline* 2018 Liquidity Survey noted that market conditions were more affected by trade tensions between the US and the People's Republic of China, partly because these two markets are among their largest trading partners. Concerns that the US may impose trade sanctions on Viet Nam also surfaced.

### Size and Composition

The size of Viet Nam's LCY bond market climbed to VND1,232.4 trillion at the end of September, up 5.0% quarter-on-quarter (q-o-q) and 15.7% y-o-y (**Table 1**). Viet Nam's growth rates were the third-fastest in emerging East Asia on a q-o-q basis and the fastest on a y-o-y basis, albeit coming from a low base.

**Government bonds.** At the end of September, the aggregate size of the LCY government bond market reached VND1,152.8 trillion on growth of 5.2% q-o-q and 14.7% y-o-y. Growth was largely driven by increases in the stock of Treasury bonds issued by the State Treasury. To a lesser extent, central bank bills

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

|   | Outstanding Amount (billion) |     |           |     |           |     | Growth Rate (%) |        |         |       |
|---|------------------------------|-----|-----------|-----|-----------|-----|-----------------|--------|---------|-------|
|   | Q3 2017                      |     | Q2 2018   |     | Q3 2018   |     | Q3 2017         |        | Q3 2018 |       |
|   | VND                          | USD | VND       | USD | VND       | USD | q-o-q           | y-o-y  | q-o-q   | y-o-y |
| <b>Total</b>                              | 1,065,267                    | 47  | 1,173,232 | 51  | 1,232,354 | 53  | 3.2             | 0.7    | 5.0     | 15.7  |
| <b>Government</b>                         | 1,004,843                    | 44  | 1,095,953 | 48  | 1,152,839 | 49  | 2.9             | 0.4    | 5.2     | 14.7  |
| Treasury Bonds                            | 797,098                      | 35  | 857,454   | 37  | 896,681   | 38  | 1.0             | 7.8    | 4.6     | 12.5  |
| Central Bank Bills                        | 21,000                       | 0.9 | 58,400    | 3   | 75,010    | 3   | -               | (70.0) | 28.4    | 257.2 |
| Government-Guaranteed and Municipal Bonds | 186,745                      | 8   | 180,099   | 8   | 181,148   | 8   | (0.5)           | (2.4)  | 0.6     | (3.0) |
| <b>Corporate</b>                          | 60,424                       | 3   | 77,279    | 3   | 79,515    | 3   | 9.2             | 6.3    | 2.9     | 31.6  |

- = 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.

issued by the State Bank of Vietnam also contributed to the growth. The stock of government-guaranteed and municipal bonds were broadly unchanged during the review period.

Treasury bonds continued to account for the largest share of government bonds in Viet Nam, representing a 77.8% share of the government bond total at the end of September. The total stock of Treasury bonds reached VND896.7 trillion at the end of September, up 4.6% q-o-q and 12.5% y-o-y. During the quarter, issuance of new Treasury instruments climbed on both a q-o-q and y-o-y basis.

At the end of September, the outstanding size of central bank bills rose to VND75.0 trillion on growth of 28.4% q-o-q and 257.2% y-o-y. In Q3 2018, issuances of central bank bills declined as liquidity conditions were mostly tight in July and August, dragging down the quarterly issuance volume. Liquidity conditions slightly improved in September, allowing the State Bank of Vietnam to resume a much larger volume of central bank bill issuance.

The outstanding amount of government-guaranteed and municipal bonds was broadly unchanged at the end of September, reaching VND181.1 trillion, up 0.6% q-o-q but declining 3.0% y-o-y.

**Corporate bonds.** The outstanding amount of LCY corporate bonds rose to VND79.5 trillion at the end of September, posting a 2.9% q-o-q expansion in Q3 2018. On a y-o-y basis, the corporate bond market grew at a much faster pace of 31.6% y-o-y in Q3 2018. Based on data compiled from Bloomberg, the entire LCY corporate bond market of Viet Nam comprises 41 institutions.<sup>15</sup> About 90% of corporate bonds in Viet Nam are issued via private placement, making it difficult to compile information on these issues.

At the end of September, the 30 largest corporate bond issuers had an aggregate bond size of VND77.5 trillion (Table 2). This accounted for 97.5% of the total corporate bond stock during the review period. The composition of the top three issuers was unchanged from the list at the end of June. At the top spot was Masan Consumer Holdings with outstanding bonds valued at VND11.1 trillion. In the second and third spots were real-estate firm Vingroup (VND10.6 trillion) and state-owned bank Vietnam Joint Stock Commercial Bank for Industry and Trade (VND8.2 trillion), respectively.

In Q3 2018, a lone corporate issuer raised funds from the bond market. Pan Group raised VND1.1 trillion of 5-year bonds with a fixed coupon rate of 6.8%.

<sup>15</sup> 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   | 10,600                  | 0.45                    | No          | Yes            | Real Estate               |
| 3.  | Vietnam Joint Stock Commercial Bank for Industry and Trade | 8,200                   | 0.35                    | Yes         | Yes            | Banking                   |
| 4.  | Asia Commercial Joint Stock 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                   | 0.16                    | 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  | 1,450                   | 0.06                    | 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.   | Pan Group  | 1,135                   | 0.05                    | No          | Yes            | Consumer Services         |
| 21.   | DIC Corporation  | 1,000                   | 0.04                    | Yes         | No             | Chemicals                 |
| 22.   | TTC Education Joint Stock Company                          | 951                     | 0.04                    | No          | No             | Education Services        |
| 23.   | Vietnam Bank for Agriculture and Rural Development         | 760                     | 0.03                    | Yes         | No             | Banking                   |
| 24.   | Kinh Bac City Development Holding                          | 700                     | 0.03                    | No          | Yes            | Real Estate               |
| 25.   | Nam Long Investment  | 660                     | 0.03                    | No          | Yes            | Real Estate               |
| 26.   | Sai Gon Thuong Tin Real Estate Joint Stock                 | 600                     | 0.03                    | No          | Yes            | Real Estate               |
| 27.   | Khang Dien House Trading and Investment                    | 534                     | 0.02                    | No          | Yes            | Building and Construction |
| 28.   | An Phat Plastic & Green Environment                        | 450                     | 0.02                    | No          | Yes            | Industrial                |
| 29.   | Cuu Long Pharmaceutical Company                            | 450                     | 0.02                    | No          | Yes            | Manufacturing             |
| 30.   | Thanh Thanh Cong-Bien Hoa Joint Stock Company              | 450                     | 0.02                    | No          | Yes            | Industrial                |
| <b>Total Top 30 LCY Corporate Issuers</b>       |  | <b>77,523</b>           | <b>3.33</b>             |             |                |                           |
| <b>Total LCY Corporate Bonds</b>                |  | <b>79,515</b>           | <b>3.41</b>             |             |                |                           |
| <b>Top 30 as % of Total LCY Corporate Bonds</b> |  | <b>97.5%</b>            | <b>97.5%</b>            |             |                |                           |

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

Notes:

1. Data as of 30 September 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.

## Policy, Institutional, and Regulatory Developments

### State Treasury Lowers Bond Issuance Plan for 2018

In October, the State Treasury lowered its bond issuance plan for 2018 to VND175 trillion from VND200 trillion as originally planned. The breakdown of issuance volume for each maturity is as follows: (i) 5-year bonds at VND31 trillion, (ii) 7-year bonds at VND11 trillion, (iii) 10-year bonds at VND64 trillion, (iv) 15-year bonds at VND51 trillion, (v) 20-year bonds at VND9 trillion, and (vi) 30-year bonds at VND9 trillion.