

Viet Nam

Yield Movements

Between 1 March and 8 May, local currency (LCY) government bond yields in Viet Nam climbed for all tenors (**Figure 1**). Bond yields rose faster at the short-end than the long-end, resulting in a flattening of the yield curve. Yields gained an average of 30 basis points (bps) for the 1-year through 3-year maturities, but only rose an average of 6 bps for the 10-year through 15-year tenors. As a result, the spread between the 2-year and 10-year yields narrowed to 125 bps on 8 May from 150 bps on 1 March.

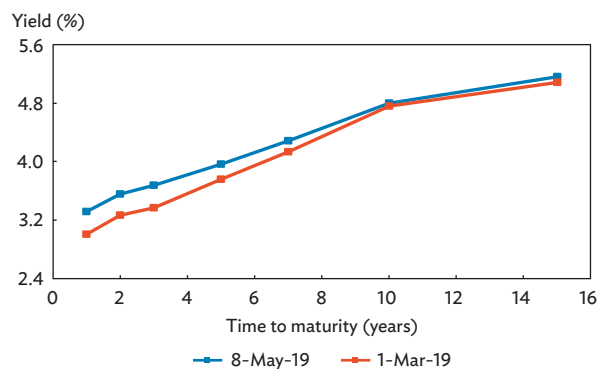
The overall upward trend in bond yields was influenced by the uptick in deposit rates. Some banks raised deposit interest rates at the beginning of the year, to enable them to attract funds for mobilization. A regulation by the State Bank of Vietnam (SBV), which came into effect in 2019, reduced the ratio of short-term capital that can be used for long-term lending. Only 40% of a bank's short-term capital can now be used for long-term lending, down from the previous allowable amount of 45%. As a result, borrowing costs edged higher.

The uptick in bond yields at the short-end of the curve can also be attributed to rising inflation expectations. Upward adjustments in the prices of electricity and gasoline in March and April were expected to have a domino effect on the cost of goods and services. While inflation in the first 4 months of the year was the lowest for this period in 3 years, core inflation crept up to 1.8% year-on-year (y-o-y) in January–April, hitting the upper-end of the target range of 1.6%–1.8% set by the National Assembly for full-year 2019.

On the external front, uncertainties in global financial markets, particularly those arising from the unresolved trade issues between the United States (US) and the People's Republic of China, also impacted on bond yields. These two markets are among Viet Nam's largest trading partners.

The SBV has kept its refinancing rate steady since July 2017 at 6.25% and continues to utilize other monetary tools in guiding interest rates. The SBV has engaged in open market operations and intervened in the foreign

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



Source: Based on data from Bloomberg LP.

exchange market to stabilize the VND–USD exchange rate. Between 1 March and 8 May, the Vietnamese dong weakened by 0.7% versus the US dollar.

Real gross domestic product (GDP) growth in Viet Nam eased to 6.8% y-o-y in the first quarter (Q1) of 2019 from 7.5% y-o-y in Q1 2018 as growth moderated in all major industry types. The largest contributor to overall GDP growth was the industry and construction sector, which grew 8.6% y-o-y in Q1 2019. The services sector expanded 6.5% y-o-y, and the agriculture sector grew 2.7% y-o-y in Q1 2019.

Size and Composition

Viet Nam's LCY bond market reached a size of VND1,193.0 trillion (USD51 billion) at the end of March (**Table 1**). Growth rose a marginal 0.7% quarter-on-quarter (q-o-q) in Q1 2019, a reversal from the 5.0% q-o-q contraction in Q4 2018. On a y-o-y basis, however, a 0.2% contraction was recorded.

Government bonds. Total LCY government bonds outstanding stood at VND1,092.2 trillion at the end of March, with growth rebounding to 0.9% q-o-q in Q1 2019 after contracting 6.1% q-o-q in the preceding quarter. On a y-o-y basis, the government bond market contracted 2.4% after expanding 7.9% in Q4 2018. The stock of Treasury instruments was the sole driver of

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2018		Q4 2018		Q1 2019		Q1 2018		Q1 2019	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,195,934	52	1,184,204	51	1,192,959	51	10.8	16.5	0.7	(0.2)
Government	1,119,575	49	1,082,140	47	1,092,228	47	11.6	16.1	0.9	(2.4)
Treasury Bonds	843,522	37	898,393	39	919,151	40	5.9	9.1	2.3	9.0
Central Bank Bills	91,270	4	0	0	4,900	0	456.5	-	-	(94.6)
Government-Guaranteed and Municipal Bonds	184,783	8	183,748	8	168,177	7	(2.8)	(3.2)	(8.5)	(9.0)
Corporate	76,359	3	102,063	4	100,731	4	(0.5)	23.2	(1.3)	31.9

- = 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.

growth as the stocks of central bank bills and government-guaranteed and municipal bonds contracted during the review period.

At the end of March, the outstanding amount of Treasury bonds reached VND919.2 trillion, accounting for an 84.2% share of the government bond stock. Growth of Treasury instruments rebounded to 2.3% q-o-q and 9.0% y-o-y. In Q1 2019, newly issued Treasury instruments totaled VND78.0 trillion on issuance growth of 123.4% q-o-q and 20.5% y-o-y.

The outstanding stock of central bank bills stood at VND4.9 trillion, as the SBV resumed issuance in March after a 5-month break. The stock of government-guaranteed and municipal bonds stood at VND168.2 trillion, down 8.5% q-o-q and 9.0 y-o-y.

Corporate bonds. At the end of March, the outstanding stock of LCY corporate bonds reached VND100.7 trillion, with growth declining 1.3% q-o-q but rising 31.9% y-o-y. Data culled from Bloomberg showed that the LCY corporate bond market of Viet Nam comprised issuances from 46 institutions. A majority of corporate bonds are issued via private placement for which information is not publicly disclosed.⁹

The 30 largest corporate bond issuers in Viet Nam accounted for an aggregate bond total amounting to VND96.2 trillion (**Table 2**). This was equivalent to 95.5% of the corporate bond total at the end of the

review period. The composition of the top five issuers was unchanged from the list at the end of December. Taking the top spot was Vinhomes with outstanding bonds amounting to VND12.5 trillion, followed by Masan Consumer Holdings with outstanding bonds of VND11.1 trillion. Together, these two firms accounted for 23.4% of the total corporate bond stock at the end of March. In the third spot was Vingroup with outstanding bonds valued at VND9.6 trillion, followed by Vietnam Joint Stock Commercial Bank for Industry and Trade (VND8.2 trillion) and Asia Commercial Joint Stock Bank (VND6.8 trillion).

In Q1 2019, two firms tapped the debt market for funding: Refrigeration Electrical Engineering and Ho Chi Minh City Infrastructure. Details for their respective bond issues are presented in **Table 3**. Both issuances carried a long-term maturity of 10 years.

Ratings Update

In April, S&P Global Ratings raised Viet Nam's long-term sovereign credit rating to BB from BB-. The rating was given a stable outlook by S&P Global Ratings, which cited Viet Nam's strong economic growth and improved government institutional environment as the reason for the upgrade.

In May, Fitch Ratings affirmed Viet Nam's long-term foreign currency issuer default rating and long-term LCY issuer default rating at BB and revised the outlook

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.	Vinhomes	12,500	0.54	No	Yes	Real Estate
2.	Masan Consumer Holdings	11,100	0.48	No	No	Diversified Operations
3.	Vingroup	9,600	0.41	No	Yes	Real Estate
4.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.35	Yes	Yes	Banking
5.	Asia Commercial Joint Stock Bank	6,800	0.29	No	No	Banking
6.	Ho Chi Minh City Infrastructure Investment	3,560	0.15	No	Yes	Infrastructure
7.	Bank for Investment and Development of Vietnam	3,050	0.13	Yes	Yes	Banking
8.	Hoang Anh Gia Lai	3,000	0.13	No	Yes	Real Estate
9.	Masan Group	3,000	0.13	No	Yes	Finance
10.	Vietnam Prosperity Joint Stock Commercial Bank	3,000	0.13	No	Yes	Banking
11.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
12.	Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
13.	Hoan My Medical	2,330	0.10	No	No	Healthcare Services
14.	Refrigeration Electrical	2,318	0.10	No	Yes	Manufacturing
15.	Hoang Anh Gia Lai International Agriculture	2,217	0.10	No	Yes	Agriculture
16.	Vietnam International Commercial Bank	2,203	0.09	No	Yes	Agriculture
17.	Agro Nutrition International	2,000	0.09	No	No	Agriculture
18.	Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.09	Yes	Yes	Banking
19.	Vietnam Electrical Equipment	1,800	0.08	No	Yes	Manufacturing
20.	Masan Resources	1,500	0.06	No	Yes	Mining
21.	Nui Phao Mining	1,500	0.06	No	No	Mining
22.	Saigon-Hanoi Securities	1,150	0.05	No	Yes	Finance
23.	SSI Securities	1,150	0.05	No	Yes	Finance
24.	Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
25.	Pan Group	1,135	0.05	No	Yes	Consumer Services
26.	DIC Corporation	1,000	0.04	Yes	No	Chemicals
27.	No Va Land Investment Group	1,000	0.04	No	Yes	Real Estate
28.	TTC Education Joint Stock Company	951	0.04	No	No	Education Services
29.	Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
30.	Nam Long Investment	660	0.03	No	Yes	Real Estate
Total Top 30 LCY Corporate Issuers		96,219	4.15			
Total LCY Corporate Bonds		100,731	4.34			
Top 30 as % of Total LCY Corporate Bonds		95.5%	95.5%			

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

Notes:

1. Data as of 31 March 2019.

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 First Quarter of 2019

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Refrigeration Electrical Engineering		
10-year bond	7.00	2,318
Ho Chi Minh City Infrastructure		
10-year bond	7.20	1,150

VND = Vietnamese dong.
Source: Bloomberg LP.

for both ratings to positive from stable. In making its decision, Fitch Ratings cited Viet Nam's improving economic management, falling government debt levels, strong economic growth performance, and stable inflation.

Policy, Institutional, and Regulatory Developments

State Treasury to Sell VND80 Trillion Worth of Bonds in the Second Quarter of 2019

In April, the State Treasury announced that it plans to issue VND80 trillion bonds in the second quarter of 2019. The issuance plan is as follows: (i) 5-year Treasury bonds worth VND10 trillion, (ii) 7-year Treasury bonds worth VND5 trillion, (iii) 10-year Treasury bonds worth VND26 trillion, (iv) 15-year Treasury bonds worth VND30 trillion, (v) 20-year Treasury bonds worth VND5 trillion, and (vi) 30-year Treasury bonds worth VND4 trillion. For 2019 as a whole, the government is targeting to issue VND200 trillion.