

## Viet Nam

### Yield Movements

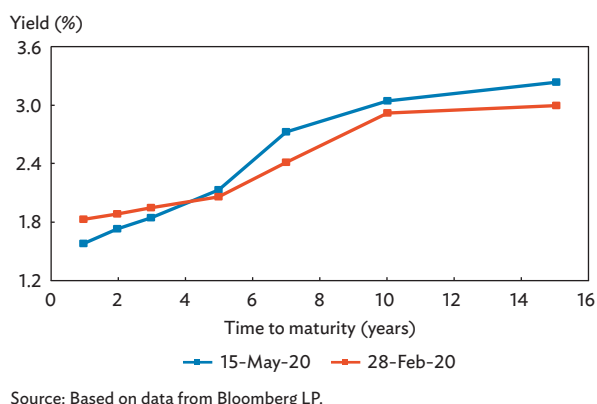
Viet Nam's local currency (LCY) bond yield curve shifted downward for short-term tenors and upward for medium- to long-term tenors between 28 February and 15 May (Figure 1). Bonds with maturities of 3 years or less saw yield falls between 10 basis points (bps) and 25 bps. The yield for the 1-year bond fell the most, dipping 25 bps. In contrast, yields for 7- to 15-year bonds were up between 13 bps and 31 bps, while the yield for the 5-year bond only rose 7 bps. The opposing movements at the different ends of the yield curve led to a widening of the 2-year versus 10-year yield spread from 103 bps to 131 bps during the review period.

The yield decline at the shorter-end of the curve can be traced to the interest rate cuts of the State Bank of Vietnam (SBV). The central bank cut its key policy rate to 4.5% from 5.0% on 13 May, following a 100-bps cut on 17 March, resulting in a cumulative 150-bps rate reduction for the year through the middle of May. The aggressive stance of the SBV's interest rate reduction sought to spur the domestic economy against the negative impact of the coronavirus disease (COVID-19) pandemic, which is in line with many central banks' unprecedented rate cuts around the world. Amid such an uncertain economic environment, investors are resorting to holding safe assets like government securities in the short-run, taking a wait-and-see approach to developments in the COVID-19 pandemic.

On the other hand, the increase in yields at the medium- to longer-end of the curve reflects investors seeking higher returns at the same time the government needs to secure money to finance its socioeconomic development programs to support the economy. Some upward bias, especially at the longer-end of the curve, can be observed amid rising expectations of expanded and extended fiscal stimulus. The upward pressure therefore reflects investors demanding a higher premium to invest in longer-term bonds.

Viet Nam's economic expansion decelerated in the first quarter (Q1) of 2020 due to the global pandemic, with gross domestic product growth significantly moderating to 3.8% year-on-year (y-o-y) from 7.0% y-o-y in the

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



Source: Based on data from Bloomberg LP.

fourth quarter (Q4) of 2020. The economy's growth hit a 10-year low as the pandemic took a toll on the domestic economy. All key sectors bore the brunt of the pandemic, recording slower y-o-y growth rates in Q1 2020 than in the previous quarter as activities were halted due to strict measures to mitigate the spread of the virus.

Prices of consumer goods in Viet Nam slightly moderated to 2.4% in May from 2.9% y-o-y in April, largely due to lower prices for oil. Falling oil prices caused the transport group's price index to drop sharply by 23.4% y-o-y. Postal services and telecommunication, and culture, entertainment, and tourism also saw negative y-o-y price growth, while the rest of the commodity groups saw price increases. On a month-on-month (m-o-m) basis, consumer prices marginally declined 0.03% in May. In the first 5 months of 2020, the inflation rate reached 4.4% y-o-y.

The Vietnamese dong has been relatively stable against the United States dollar thus far in 2020, trading at VND23,349 per USD1 on 15 May, which reflected a marginal depreciation of 0.8% from the start of the year. A decrease in exports and remittances amid subdued global economic activities affected the supply of foreign exchange in the system. However, with large abundant foreign exchange reserves and the appropriate management of monetary policies by SBV, the exchange rate has been kept stable.

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2019		Q4 2019		Q1 2020		Q1 2019		Q1 2020	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
<b>Total</b>	1,201,959	52	1,243,214	54	1,360,742	58	0.8	0.5	9.5	13.2
Government	1,092,228	47	1,141,009	49	1,260,287	53	0.9	(2.4)	10.5	15.4
Treasury Bonds	919,151	40	978,904	42	970,246	41	2.3	9.0	(0.9)	5.6
Central Bank Bills	4,900	0	0	0	136,986	6	-	(94.6)	-	2,695.6
Government-Guaranteed and Municipal Bonds	168,177	7	162,105	7	153,055	6	(8.5)	(9.0)	(5.6)	(9.0)
Corporate	109,731	5	102,205	4	100,455	4	(0.1)	43.7	(1.7)	(8.5)

- = not applicable, ( ) = negative, 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 local currency-USD rates are used.

2. Growth rates are calculated from local currency base and do not include currency effects.

Sources: Bloomberg LP and Vietnam Bond Market Association.

## Size and Composition

Viet Nam's LCY bonds outstanding totaled VND1,360.7 trillion at the end of March. The market expanded 9.5% quarter-on-quarter (q-o-q) in Q1 2020 after recording a decline in Q4 2019. The rebound was entirely driven by the government segment as outstanding bonds in the corporate sector remained subdued. On an annual basis, overall market growth accelerated to 13.2% y-o-y in Q1 2020 from 4.3% y-o-y in the previous quarter. Government bonds comprised the bulk of the bond market with a 92.6% share at the end of the quarter versus a 7.4% share for corporate bonds.

**Government bonds.** Total LCY government bonds outstanding at the end of Q1 2020 amounted to VND1,260.3 trillion on a rebound in growth to 10.5% q-o-q after a decline in the preceding quarter. The increase in market size in Q1 2020 was solely driven by the jump in the stock of central bank bills. On the other hand, outstanding Treasury bonds and outstanding government-guaranteed and municipal bonds decreased in Q1 2020.

Outstanding central bank bills totaled VND137.0 trillion at the end of Q1 2020, up from zero in Q4 2019 on new issuances during the quarter after all previously outstanding central bank bills had matured in Q4 2019.

Treasury bonds outstanding saw a marginal decline of 0.9% q-o-q in Q1 2020 to VND970.2 trillion despite the

government issuing VND33.5 trillion during the quarter. The decline can be attributed to an increase in maturities in Q1 2020. At the same time, Treasury bonds accounted for the largest share of the government bond stock at the end of March, accounting for 77.0% of the total.

The State Treasury had planned to raise VND50 trillion–VND60 trillion via government bond issuance in Q1 2020. However, the bond sales were not well supported by investors as yields are at historic lows. As a result, issuance during the quarter fell short.

Government-guaranteed and municipal bonds outstanding contracted in Q1 2020 after increasing in Q4 2019. Together they amounted to VND153.1 billion, reflecting a decline of 5.6% q-o-q. On a yearly basis, this bond segment declined 9.0% y-o-y.

**Corporate bonds.** Corporate bonds outstanding leveled off at VND100.5 trillion at the end of Q1 2020, reflecting a decline of 1.7% q-o-q and 8.5% y-o-y. The primary reason for the decline was the absence of new issuance in Q1 2020 as well as the maturation of some outstanding debt during the quarter. Furthermore, a number of corporates in Viet Nam issue bonds through private placements in which information is mostly undisclosed.<sup>16</sup>

The aggregated bond outstanding of the top 30 issuers in Viet Nam's corporate market amounted to VND96.9 trillion (Table 2). This nearly comprised the total debt stock of the corporate segment as there are

<sup>16</sup> AsianBondsOnline data on corporate bonds in Viet Nam is obtained from Bloomberg. 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	0.53	No	Yes	Real Estate
2.	Masan Consumer Holdings	11,100	0.47	No	No	Diversified Operations
3.	Asia Commercial Joint Stock Bank	8,300	0.35	No	No	Banking
4.	Vietnam Joint Stock Commercial Bank for Industry and Trade	8,200	0.35	Yes	Yes	Banking
5.	Vinpearl	7,500	0.32	No	No	Hotel Operator
6.	Vingroup	7,000	0.30	No	Yes	Real Estate
7.	Lien Viet Post Joint Stock Commercial Bank	3,100	0.13	No	Yes	Banking
8.	Hoang Anh Gia Lai	3,000	0.13	No	Yes	Real Estate
9.	Vietnam Technological and Commercial Joint Stock Bank	3,000	0.13	No	No	Banking
10.	Bank for Investment and Development of Vietnam	2,700	0.11	Yes	Yes	Banking
11.	Sai Dong Urban Investment and Development	2,600	0.11	No	No	Real Estate
12.	Ho Chi Minh City Infrastructure Investment	2,470	0.10	No	Yes	Infrastructure
13.	Hoan My Medical	2,330	0.10	No	No	Health-care Services
14.	Refrigeration Electrical	2,318	0.10	No	Yes	Manufacturing
15.	Vietnam International Commercial Bank	2,203	0.09	No	Yes	Agriculture
16.	Hong Phong 1 Energy	2,150	0.09	No	No	Utility
17.	Agro Nutrition International	2,000	0.08	No	No	Agriculture
18.	Joint Stock Commercial Bank for Foreign Trade of Vietnam	2,000	0.08	Yes	Yes	Banking
19.	Nui Phao Mining	1,710	0.07	No	No	Mining
20.	Masan Group	1,500	0.06	No	Yes	Finance
21.	Masan Resources	1,500	0.06	No	Yes	Mining
22.	SSI Securities	1,150	0.05	No	Yes	Finance
23.	Mobile World Investment	1,135	0.05	No	Yes	Manufacturing
24.	Pan Group	1,135	0.05	No	Yes	Consumer Services
25.	Sai Gon Thuong Tin Real Estate	870	0.04	No	Yes	Real Estate
26.	TTC Education Joint Stock Company	801	0.03	No	No	Education Services
27.	Vietnam Bank for Agriculture and Rural Development	760	0.03	Yes	No	Banking
28.	Nam Long Investment	660	0.03	No	Yes	Real Estate
29.	Saigon-Hanoi Securities	650	0.03	No	Yes	Finance
30.	Khang Dien House	534	0.02	No	Yes	Real Estate
<b>Total Top 30 LCY Corporate Issuers</b>		<b>96,876</b>	<b>4.10</b>			
<b>Total LCY Corporate Bonds</b>		<b>100,455</b>	<b>4.25</b>			
<b>Top 30 as % of Total LCY Corporate Bonds</b>		<b>96.4%</b>	<b>96.4%</b>			

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

Notes:

1. Data as of 31 March 2020.

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.

only 46 companies currently tapping the bond market. Companies in the banking and real estate sectors are the top fundraisers with VND28.1 trillion and VND27.2 trillion of outstanding bonds, respectively, at the end of March. Together, these two sectors comprise over half of the total corporate bond market. Of the top 30, 19 are listed companies, 11 are unlisted companies, and 4 are state-owned enterprises.

## Ratings Update

On 8 April, Fitch Ratings revised its outlook on Viet Nam downward to stable from positive but maintained the economy's credit rating of BB. The outlook revision reflects decelerating economic growth in the near-term due to the impact of the COVID-19, which resulted in muted domestic demand and the abatement of many activities in the export and tourism sectors. Strict measures intended to contain the spread of the virus largely contributed to the weakening. The affirmation of the BB rating was based on medium-term growth prospects, which remained strong, coupled with a sound fiscal position and healthy external finances.

On 21 May, S&P Global maintained Viet Nam's sovereign credit rating at BB with a stable outlook. The rate affirmation reflected the economy's strong macroeconomic performance and improved government institutional settings, which remained intact amid the ongoing global COVID-19 pandemic. The stable outlook was based on the economy's strong growth potential following a deceleration due to the COVID-19 pandemic.

## Policy, Institutional, and Regulatory Developments

### State Bank of Vietnam Issues Circular on Reserve Requirements

In December, the State Bank of Vietnam issued a circular that grants credit institutions either a lower reserve requirement ratio or a reserve requirement waiver. Circular 30/2019/TT-NHNN identified cases where credit institutions would be granted a reserve requirement waiver: (i) the credit institution is placed under special control; (ii) the credit institution has not yet started its business; and (iii) the credit institution is given an approval for dissolution, issued a decision to institute bankruptcy proceedings, or issued a decision on the revocation of a business license by a competent authority. The circular also granted credit institutions that support the system restructuring a 50% reduction in the reserve requirement rate.<sup>17</sup> The new circular took effect on 1 March.

### Ministry of Finance Reduces Securities Fees by Half

On 7 May, the Ministry of Finance issued Circular No. 37, which reduced 20 out of 22 securities fees by 50%. The measure aims to help businesses negatively impacted by the COVID-19 pandemic in line with the government's effort to keep the economy afloat. The reduction will be effective from 7 May to 31 December.

<sup>17</sup> Footnote 9.