

Viet Nam

Yield Movements

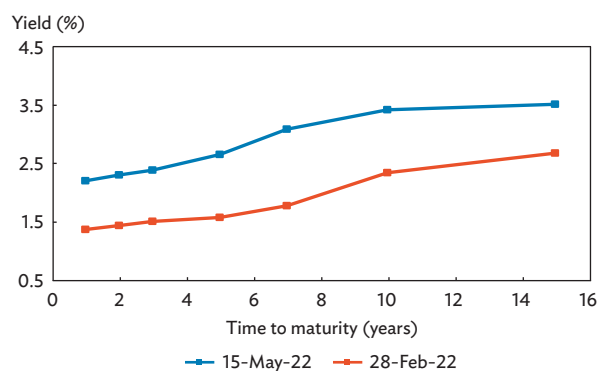
The yield curve for Viet Nam's local currency (LCY) government bonds shifted upward as yields in all maturities increased between 28 February and 15 May (Figure 1). Yields rose 98 basis points (bps) on average across the curve. Notably large yield jumps were seen on bonds with 5-year to 10-year tenors, averaging 115 bps. Yield increases on all remaining tenors averaged 85 bps. The shift in the yield curve resulted in the yield spread between the 2-year and 10-year tenors widening from 91 bps to 111 bps during the review period.

The upward yield movements were largely due to the combined effects of increasing domestic inflationary pressures and the hawkish stance of the United States (US) Federal Reserve in unwinding its accommodative monetary policy position. Reduced optimism about global economic growth, which could possibly spillover to the domestic economy through various channels, added to the uncertainty. Such risks would lead investors to continue demanding a higher risk premium on government securities. On the other hand, the persistence of the accommodative monetary policy of the State Bank of Vietnam (SBV) may have capped upward pressure on bond yields.

The SBV is not expected to increase its benchmark rate in the near future, as it will continue to prioritize supporting domestic demand and a full economic recovery from the coronavirus disease (COVID-19) pandemic.¹³ While inflationary pressure is rising due to adverse global developments, Viet Nam's inflation rate remained well below the government's cap of 4.0% for 2022.

In May, consumer price inflation rose to 2.9% year-on-year (y-o-y) from 2.6% y-o-y in April. Transportation costs were the largest driver of inflation, jumping 18.4% y-o-y amid rising fuel prices. All other commodity groups posted higher prices except for postal and communication services and education. Inflation in January through May was 2.3% y-o-y. High inflation

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



Source: Based on data from Bloomberg LP.

is expected to persist from the impact of the Russian invasion of Ukraine on global commodity prices and supply chain disruptions resulting from COVID-19 mobility restrictions in the People's Republic of China.

Viet Nam's economy expanded 5.0% y-o-y in the first quarter (Q1) of 2022, decelerating from 5.2% y-o-y growth in the fourth quarter (Q4) but up from the 4.7% y-o-y increase in Q1 2021. The domestic economy managed to post high growth despite the surge of COVID-19 cases early in the year. All major economic sectors—primary, industry, and services—expanded during the quarter, with corresponding growth rates of 2.5% y-o-y, 6.4% y-o-y, and 4.6% y-o-y. The government has set an annual gross domestic product growth target of 6.0%–6.5% for full-year 2022.

The Vietnamese dong depreciated against the US dollar by 1.3% from the start of the year through the middle of May, trading at VND23,095.0 per USD1.0 on 15 May. The weaker dong followed the trend in regional currencies as investors sought safe haven in the US dollar amid interest rate hikes by the Federal Reserve and global economic uncertainty.

¹³ Viet Nam News. 2022. "Loose Monetary Policy Forecast to Continue Despite Inflation Pressure." April. <https://vietnamnews.vn/economy/1174858/loose-monetary-policy-forecast-to-continue-despite-inflation-pressure.html>.

Size and Composition

Viet Nam's LCY bond market grew 2.4% quarter-on-quarter (q-o-q) to VND2,138.6 trillion (USD93.6 billion) at the end of Q1 2022, slowing from the previous quarter's growth of 9.8% q-o-q (**Table 1**). The overall deceleration was due to slower expansion in both government and corporate bonds outstanding. On an annual basis, the bond market grew 28.9% y-o-y during the quarter, up from an increase of 25.5% y-o-y in Q4 2021. Viet Nam's LCY bond market largely comprises government bonds, which accounted for a 70.7% share of the total at the end of March, although this was slightly down from 71.3% at the end of December 2021. Corporate bonds' market share increased to 29.3% from 28.7% during the same review period.

Government bonds. The government bond market expanded 1.5% q-o-q in Q1 2022 to VND1,511.5 trillion, down from growth of 5.3% q-o-q in Q4 2021. The decline in government-guaranteed and municipal bonds outstanding partially offset the expansion in Treasury bonds and central bank bills outstanding.

Treasury bonds outstanding increased 1.8% q-o-q to VND1,373.8 trillion in Q1 2022, following an increase of 5.7% q-o-q in the preceding quarter. The slower expansion was due to lower debt sales from the State Treasury of Vietnam, alongside relatively more maturities in Q1 2022. The State Treasury of Vietnam raised VND41.3 trillion during the quarter, compared to VND100.0 trillion in Q4 2021, accounting for about 39.0% of the planned issuance in Q1 2022.

Outstanding government-guaranteed and municipal bonds declined 4.6% q-o-q to VND133.3 trillion due to maturities and the absence of any issuance in this government bond segment in Q1 2022.

SBV bills outstanding amounted to VND4.4 trillion at the end of March. In Q1 2022, SBV issued central bank bills comprised of 14- and 28-day bills totaling VND31.7 trillion.

Corporate bonds. Total debt outstanding in the corporate sector amounted to VND627.1 trillion at the end of March, with growth falling to 4.6% q-o-q in Q1 2022 from 22.7% q-o-q in Q4 2021 on slowing corporate bond issuance.

The amount of bonds outstanding of the top 30 corporate issuers totaled VND367.6 trillion at the end of March, comprising 58.6% of the total corporate bond market (**Table 2**). Banks and property firms were the most prolific issuers with outstanding bonds amounting to VND279.6 trillion and VND56.9 trillion, respectively, together comprising a 91.5% share of the top 30's outstanding bonds. The Bank for Investment and Development of Vietnam remained the largest issuer of bonds at the end of Q1 2022 with VND40.9 trillion, up from VND37.2 trillion at the end of Q4 2021.

Corporate issuance in Q1 2022 was less active compared to the previous quarter. Debt sales from the sector totaled VND31.3 trillion, or only about one-fourth of issuance in Q4 2021. This can be traced to Circular No. 16 of the SBV, effective 15 January 2022, that set

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

	Outstanding Amount (billion)						Growth Rate (%)			
	Q1 2021		Q4 2021		Q1 2022		Q1 2021		Q1 2022	
	VND	USD	VND	USD	VND	USD	q-o-q	y-o-y	q-o-q	y-o-y
Total	1,659,262	72	2,089,053	92	2,138,634	94	(0.3)	18.8	2.4	28.9
Government	1,364,303	59	1,489,606	65	1,511,514	66	(1.1)	6.5	1.5	10.8
Treasury Bonds	1,220,377	53	1,349,811	59	1,373,782	60	(0.6)	23.2	1.8	12.6
Central Bank Bills	0	0	0	0	4,387	0	-	(100.0)	-	-
Government-Guaranteed and Municipal Bonds	143,927	6	139,796	6	133,346	6	(4.9)	(6.1)	(4.6)	(7.4)
Corporate	294,959	13	599,446	26	627,120	27	3.3	156.0	4.6	112.6

(-) = negative, - = not applicable, 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.

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. Bank for Investment and Development of Vietnam	40,863	1.79	Yes	Yes	Banking
2. Vietnam Prosperity Joint Stock Commercial Bank	29,050	1.27	No	Yes	Banking
3. Ho Chi Minh City Development Joint Stock Commercial Bank	28,768	1.26	No	Yes	Banking
4. Vietnam International Joint Stock Commercial Bank	26,950	1.18	No	Yes	Banking
5. Lien Viet Post Joint Stock Commercial Bank	24,090	1.05	No	Yes	Banking
6. Asia Commercial Joint Stock Bank	21,900	0.96	No	Yes	Banking
7. Orient Commercial Joint Stock Bank	18,535	0.81	No	No	Banking
8. Tien Phong Commercial Joint Stock Bank	17,649	0.77	No	Yes	Banking
9. Masan Group	16,900	0.74	No	Yes	Finance
10. Vietnam Joint Stock Commercial Bank for Industry and Trade	13,389	0.59	Yes	Yes	Banking
11. Saigon - Ha Noi Commercial Joint Stock Bank	11,250	0.49	No	Yes	Banking
12. An Binh Commercial Joint Stock Bank	10,500	0.46	No	No	Banking
13. Vinhomes JSC	9,935	0.44	No	Yes	Property
14. Vietnam Maritime Joint Stock Commercial Bank	8,999	0.39	No	Yes	Banking
15. Sovico Group Joint Stock Company	8,550	0.37	No	Yes	Property
16. Saigon Glory Company Limited	8,000	0.35	No	No	Property
17. Bac A Commercial Joint Stock Bank	6,140	0.27	No	Yes	Banking
18. Southeast Asia Commercial Joint Stock Bank	6,077	0.27	No	Yes	Banking
19. Golden Hill Real Estate JSC	5,701	0.25	No	No	Property
20. Vietnam Technological and Commercial Joint Stock Bank	5,600	0.25	No	Yes	Banking
21. Vingroup	5,425	0.24	No	Yes	Property
22. Military Commercial Joint Stock Bank	5,216	0.23	No	Yes	Banking
23. NoVa Real Estate Investment Corporation JSC	5,207	0.23	No	Yes	Property
24. Mediterranean Revival Villas Company Limited	5,000	0.22	No	No	Property
25. Ho Chi Minh City Infrastructure Investment Joint Stock Company	4,879	0.21	No	Yes	Construction
26. Bong Sen JSC	4,800	0.21	No	No	Manufacturing
27. Thai Son - Long An JSC	4,600	0.20	No	No	Property
28. Vietnam Bank for Agriculture and Rural Development	4,600	0.20	Yes	No	Banking
29. Trung Nam Dak Lak 1 Wind Power JSC	4,500	0.20	No	No	Energy
30. Phu My Hung Corporation	4,497	0.20	No	No	Property
Total Top 30 LCY Corporate Issuers	367,569	16.10			
Total LCY Corporate Bonds	627,120	27.46			
Top 30 as % of Total LCY Corporate Bonds	58.6%	58.6%			

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

Notes:

1. Data as of 31 March 2022.

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.

strict regulations for credit institutions in transactions related to corporate bonds. Notably, bond issuance amounted to VND25.9 trillion in January before dropping to VND1.8 trillion in February and only slightly rebounding to VND3.6 trillion in March.

Such regulations were expected to slow bond issuance activity at the early stage of its effectivity as the market adapts to the new guidelines, similar to what happened in the past when there were new and amended regulations regarding corporate bonds. Over the long run, improvements in information transparency and regulatory compliance are expected to contribute to the sustainable development of Viet Nam's LCY bond market.

Bonds have become an attractive channel for firms to raise funds as the capital market develops and the dependence on bank credit is reduced. The fast-growing corporate bond market has attracted much interest from individual and institutional investors; however, there are potential risks if there is a lack of transparency in the market, low quality of issued bonds, and inaccurate information provided by the issuer. The authorities are closely monitoring compliance to regulations among debt issuers and working on plugging legal loopholes in these regulations. In March, the State Securities Commission canceled nine bond issuances from companies in the Tan Hoang Minh Group, amounting to VND10.0 trillion, that were issued from July 2021 to March 2022. The cancellation was due to the group disclosing false

information and concealing information when issuing a private placement.¹⁴

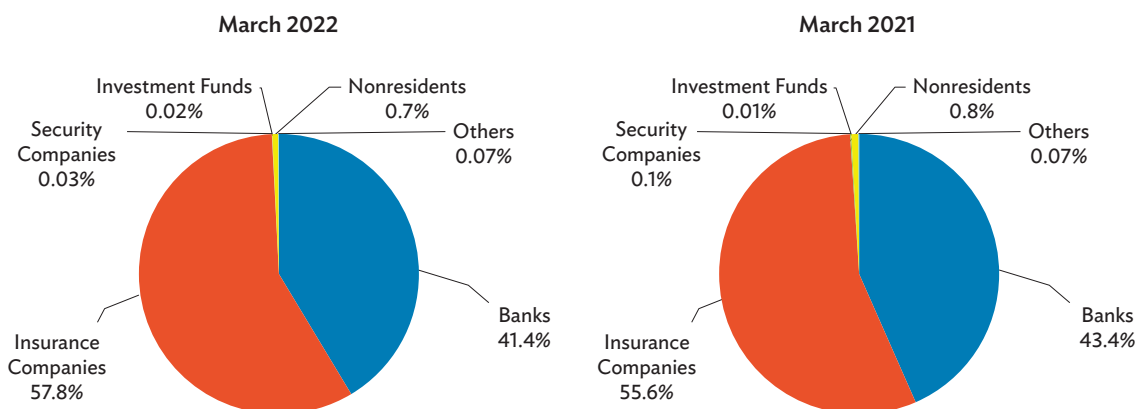
Even as the target of new regulations and amid the aforementioned controversy, the property sector dominated bond sales in Viet Nam in Q1 2022, totaling VND15.6 trillion and comprising 50.0% of all corporate issuances during the quarter. Construction firms were next with a market share of 25.3% (VND7.9 trillion) and banks with 14.3% (VND4.5 trillion). The notable bond issuances during the quarter listed in **Table 3** were all from either property or construction firms, with Eagle Side Development and Investment JSC having the single-largest issuance at VND3.9 trillion.

Table 3: Notable Local Currency Corporate Bond Issuances in the First Quarter of 2022

Corporate Issuers	Coupon Rate (%)	Issued Amount (VND billion)
Eagle Side Development and Investment JSC		
1-year bond	-	3,930
Tuong Khai Construction Investment JSC		
1-year bond	-	2,990
Minh Truong Phu Construction JSC		
1-year bond	-	2,950
Hung Thinh Investment JSC		
7-year bond	-	2,000

- = not available, JSC = Joint Stock Corporation, VND = Vietnamese dong.
Source: Vietnam Bond Market Association.

Figure 2: Local Currency Government Bonds Investor Profile



Source: Ministry of Finance, Government of Viet Nam.

¹⁴ Viet Nam News. 2022. "9 Bond Issuances Worth \$439 Million Cancelled." April. <https://vietnamnews.vn/economy/1171497/9-bond-issuances-worth-439-million-cancelled.html>.

Investor Profile

The combined holdings of insurance companies and banks accounted for nearly all government securities outstanding at the end of March, with holdings shares of 57.8% and 41.4%, respectively (**Figure 2**). The holdings share of insurance companies increased from 55.6% a year earlier, while that of banks decreased from 43.4%. The remaining 0.8% of outstanding government bonds were held by securities companies, investment funds, offshore investors, and other investors, which was down marginally from these investor groups' cumulative holdings in March 2021. The slide in the foreign holdings share is attributable to global economic uncertainty triggering offshore investors to seek safe-haven assets.

Ratings Update

On 28 March, Fitch Ratings affirmed Viet Nam's sovereign credit rating at BB with a positive outlook, noting strong medium-term growth prospects despite COVID-19 pandemic risks and the economic implications of the Russian invasion of Ukraine, as well as sound external finance metrics. The ratings agency stated that contingent liability risks associated with the large state-owned enterprise sector and structural weaknesses in the banking sector continued to constrain the credit rating.

On 26 May, S&P Global Ratings raised Viet Nam's sovereign credit rating to BB+ from BB with a stable outlook. The upgrade reflected Viet Nam's strong economic prospects, sound external position, and improvements in the government's administrative processes. S&P Global Ratings noted that the stable outlook was supported by the economy's recovery from the pandemic's impact, which would in turn strengthen its external and fiscal positions.

Policy, Institutional, and Regulatory Developments

Viet Nam Prime Minister Calls for Law Revision on Corporate Bonds

In April, Prime Minister Pham Minh Chinh issued Directive No. 304, which includes instructions for the Ministry of Finance to revise regulations on the corporate bond market in order to enhance efficiency in enforcing greater transparency and ensuring safety in the market. The directive stated that the focus should be placed on companies with a large amount of bond issuance, high-interest rates, and those having unfavorable business performance without sufficient guarantees. This follows the growing number of cases in Viet Nam of unlawful practices related to corporate bond issuance.¹⁵

¹⁵ Hanoi Times. 2022. "PM Chinh Urges Strict Punishment for Violations in Corporate Bond Market." April. <http://hanoitimes.vn/pm-chinh-urges-strict-punishment-for-violations-in-corporate-bond-market-320472.html>.