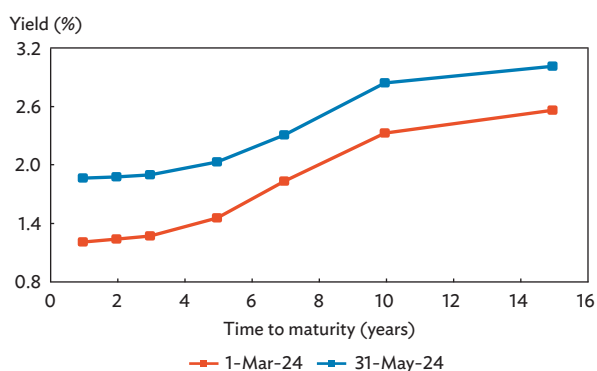


Viet Nam

Yield Movements

Local currency (LCY) government bond yields in Viet Nam rose for all tenors between 1 March and 31 May. Bond yields increased an average of 56 basis points due to the United States Federal Reserve's delay in cutting its policy rate and rising domestic inflation (Figure 1). Viet Nam's year-on-year (y-o-y) consumer price inflation inched up to 4.44% in May, driven by elevated energy and pork meat prices, edging closer to the government's 2024 ceiling of 4.50%. The May inflation reading was up from 4.40% y-o-y in April and 3.97% y-o-y in March, and was also the highest level since January 2023. While inflation remained within the government's target, mounting inflationary pressures loom due to wage hikes; soaring gold prices; the depreciation of the Vietnamese dong; and elevated costs in the healthcare, education, and electricity sectors.

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

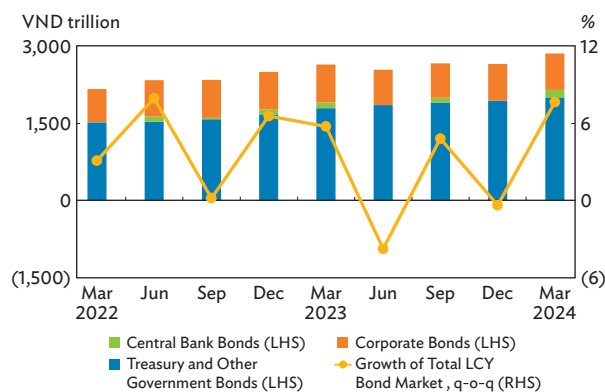


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Growth in Viet Nam's LCY bond market rebounded to 7.7% quarter-on-quarter (q-o-q) in the first quarter (Q1) of 2024. The LCY bond market's overall growth was driven by increased issuance from the

Figure 2: Composition of Local Currency Bonds Outstanding in Viet Nam



(-) = negative, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side, VND = Vietnamese dong.

Note: Other government bonds comprise government-guaranteed and municipal bonds.

Sources: Vietnam Bond Market Association and Bloomberg LP.

government and the State Bank of Vietnam's resumption of central bank bills issuance in March to support the Vietnamese dong. Treasury and other government bonds (VND2,004.2 trillion), which accounted for the majority of Viet Nam's total debt stock, grew 3.3% q-o-q in Q1 2024 on increased issuance to support the government's funding requirements (Figure 2). On the other hand, corporate bonds (VND709.7 trillion), which comprised 24.8% of the total LCY bond market at the end of March, contracted 0.9% q-o-q due to a large number of maturities and a low volume of issuance during the quarter.

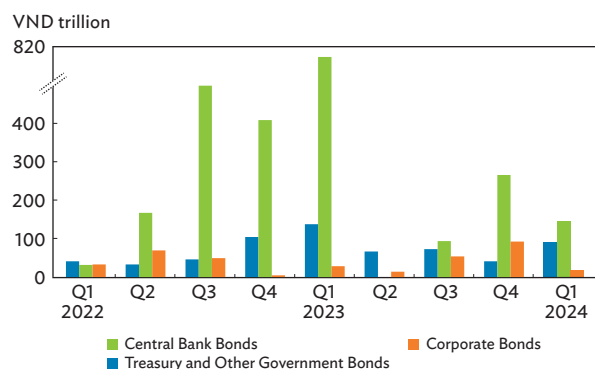
LCY bond issuance fell 36.7% q-o-q in Q1 2024 on lower issuance from corporates and central bank

(Figure 3). Corporate bond issuance contracted 81.3% q-o-q in Q1 2024, a reversal from the previous quarter's expansion of 74.5% q-o-q. This was due to the reinstatement of several provisions under Decree No. 65 at the beginning of 2024, following a period of suspension and postponement under Decree No. 8.¹⁹ This change created challenges for corporate issuers due to difficulties in meeting the requirements of Decree No. 65. Meanwhile, central bank bill issuance contracted

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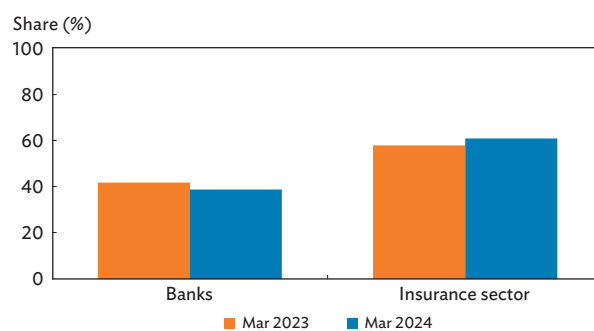
¹⁹ Decree No. 8, which was issued by the Government of Viet Nam on 5 March 2023, suspended the following provisions under Decree No. 65 until 1 January 2024: (i) professional investor status requirement: an investor must hold a portfolio of securities valued at least VND2.0 billion for a minimum of 180 consecutive days; (ii) issuer credit ratings: an issuer's credit rating must be included in the bond issuance plan; and (iii) distribution of bonds must be completed within 30 days from the date of public disclosure of the issuance.

Figure 3: Composition of Local Currency Bond Issuance in Viet Nam



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, VND = Vietnamese dong.
 Note: Other government bonds comprise government-guaranteed and municipal bonds.
 Sources: Vietnam Bond Market Association and Bloomberg LP.

Figure 4: Profile of Two Dominant Investors for Local Currency Government Bonds



Source: Viet Nam Ministry of Finance.

45.2% q-o-q since the State Bank of Vietnam only resumed issuance during the last month of the quarter. At the same time, the issuance of Treasury and other government bonds increased more than twofold from the previous quarter to VND90.5 trillion.

Investor Profile

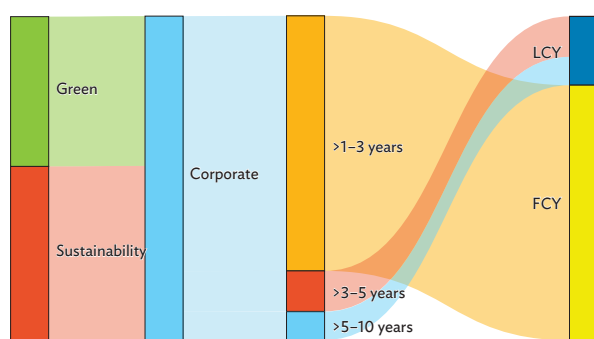
Nearly all government securities outstanding at the end of March 2024 were held by insurance firms and banks, accounting for a combined holdings share of 99.5%.

Insurance companies remained the single-largest investor group, with their holdings share increasing to 60.8% in March 2024 from 57.8% a year earlier (Figure 4). Meanwhile, banks' holdings share decreased to 38.7% from 41.7% during the same period. The LCY government bond market in Viet Nam remained dominated by only two investor groups; as a result, Viet Nam continued to have the highest Herfindahl–Hirschman Index score among its regional peers.²⁰ Meanwhile, the cumulative holdings share of offshore investors, securities companies and investment funds, and other investors totaled 0.5%.

Sustainable Bond Market

The sustainable bond market in Viet Nam comprises green bonds and sustainable bond instruments issued solely by corporates and mostly carrying short-term tenors (Figure 5). Due to the absence of issuance during the quarter, the total stock of sustainable bonds contracted 0.5% q-o-q to a size of USD0.8 billion at the end of Q1 2024. More than half (53.4%) of the sustainable bond stock comprised sustainability bonds carrying maturities of 3 years or less, and the remaining 46.6% were green bonds, about 54.0% of which carried tenors of 3 years or less, resulting in a size-weighted average tenor of 3.2 years. Foreign-currency-denominated instruments comprised over 70.0% of the economy's total sustainable bonds at the end of March.

Figure 5: Market Profile of Outstanding Sustainable Bonds in Viet Nam at the End of March 2024



FCY = foreign currency, LCY = local currency.
 Source: AsianBondsOnline calculations based on Bloomberg LP data.

²⁰ The Herfindahl–Hirschman Index is a commonly accepted measure of market concentration. In this case, the index is used to measure the investor profile diversification of the LCY bond market and is calculated by summing the squared share of each investor group in the bond market.