MIRAE ASSET
Building on principles

Fixed income report

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[Fixed income]

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Vietnam Fixed Income Market

Prospects for 2020

Key takeaways

Impetus for the corporate bond market

Vietnam's market is relatively modest compared with its emerging Southeast Asian peers. This implies that Vietnam's debt market has the potential for significant growth to catch up with the rest of the region. The heavy reliance on domestic credit bodes well for the corporate bond market. As an alternative to traditional lending activity by banks, the corporate bond market is experiencing rapid growth, with this growth underpinned by the government's policy. The local-currency (LCY) corporate-bond (C-bond) scale soared to 10% of GDP as of end-9M19, surpassing the government's goal of 7% in 2020, but is on track to meet the 2030 goal of 20% of GDP. That said, the C-bond market is relatively small compared with those of regional peers, a situation attributed to the lack of international ratings for Vietnam companies.

However, new issuances by corporates are likely to reduce in 2020 as the overly rapid development of a C-bond market can cause systemic risks. As the C-bond market experienced a boom period last year, propelled by the banking and real estate sectors, the size of the C-bond market currently already exceeds the guidance outlined in 2017. Vietnam's commercial banks have been the key issuers (with outstanding bond value accounting for 29.4% of total C-bond scale), in order to raise Tier 2 capital and meet the new requirements of CAR (Cir. 41). Meanwhile, the tightening banking credit in the real estate sector affected the capital-raising methods of developers (outstanding bonds contributed another 23.5% of total C-bond market size). Recently, government officials have warned of the risks of high-yield C-bonds, and plan to enact rules for new issuances, such as mandating that total outstanding value via private placement be less than three times a firm's equity.

Ongoing fiscal consolidation underscores government bond potential

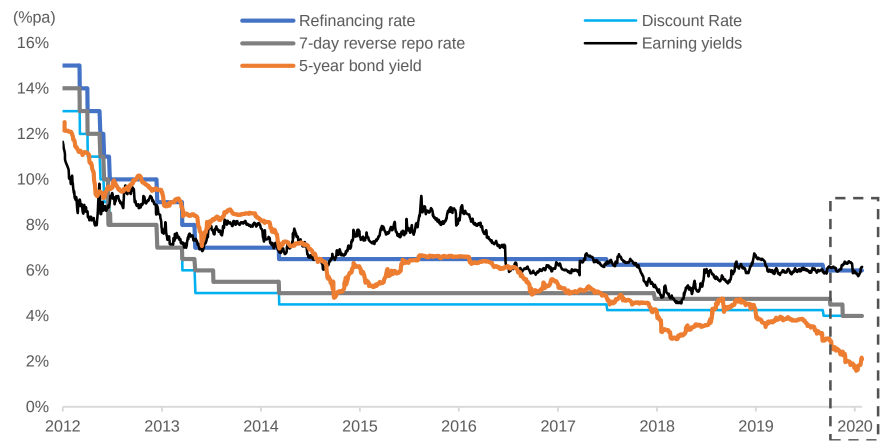
The government is expected to increase their issuances in 2020, given:

1) Bond yields declined for all maturities in 2019, which is consistent with low inflation expectations, the State Bank of Vietnam's recent moves, and the global trend. In return, lower bond yields spur bond offerings. However, the recent revival of inflation since November 2019 could cause a turnaround in Vietnam bond yields from its historical lows.

2) The LCY-G-bond-laden market is set to expand from the current value of 27.7% of GDP to about 38% in 2020 and 45% in 2030. The government's budget requirements for financing infrastructure projects or implementing social welfare policies have prompted it to reinforce the primary market.

3) The government has implemented extensive reforms over the past two years, namely fiscal consolidation and strict limits on government guarantees, resulting in increased potential for G-bonds going forward. As a result, the debt ratio has been contained to 58.4% of GDP as of end-2018, and estimated at 56.1% as of end-2019.

A turnaround in Vietnam bond yields from its historical lows



Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 9 Feb., 2020

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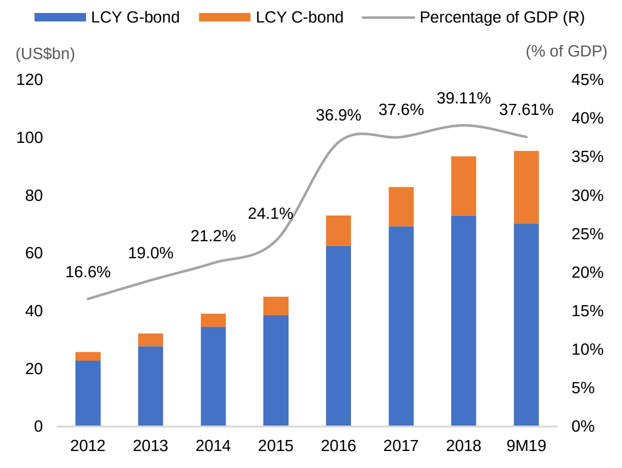
Overview

One of Southeast Asia's highest-growth markets

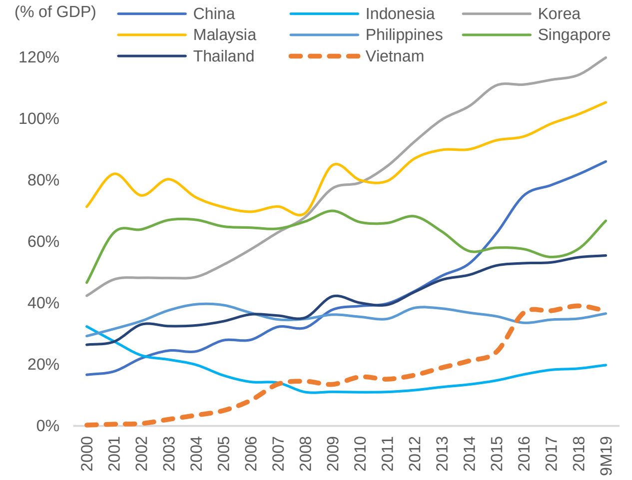
Vietnam's bond market has made considerable progress over the past few years, with the outstanding value reaching about 37.6% of the country's GDP, as of end-3Q19, from 0.3% in 2000. According to the Vietnam Ministry of Finance (MoF), government and related-government bonds (comprising government-guaranteed bonds) denominated in VND (LCY G-bonds) prevailed, with an outstanding amount of US$73bn, compared with US$25.1bn in VND-denominated corporate bonds (LCY C-bonds). Thus far, Vietnam LCY outstanding bonds have grown by 43.6% pa for LCY G-bonds since 2000, and 33.6% pa for LCY C-bonds since 2006. As a percentage of the country's GDP, the outstanding amount of LCY G- and C-bonds were roughly equivalent to 27.7% and 10% of GDP, respectively. The Vietnam bond market was initiated in 2000, but has grown impressively since 2012 (see Figure 1), with the revival of the government side. Furthermore, G-bonds constitute the majority portion of the market size, given that the C-bond market was inaugurated six years later.

Figure 1. Development of Vietnam LCY bond market



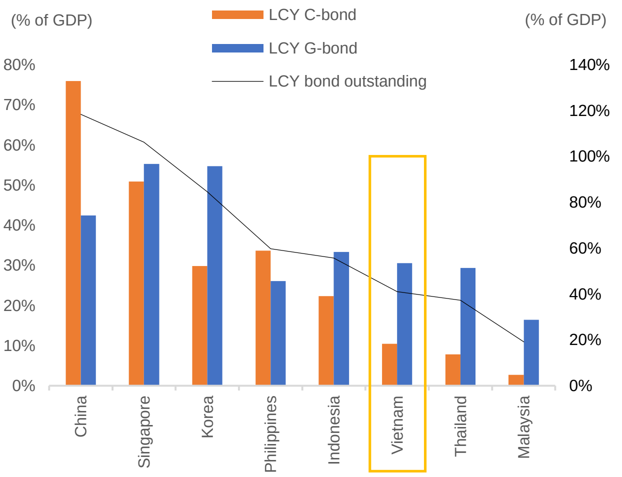
Source: MAS Vietnam Research, MoF (data compiled on 18 Dec., 2019)

Figure 2. Relative size of LCY Asian bond markets



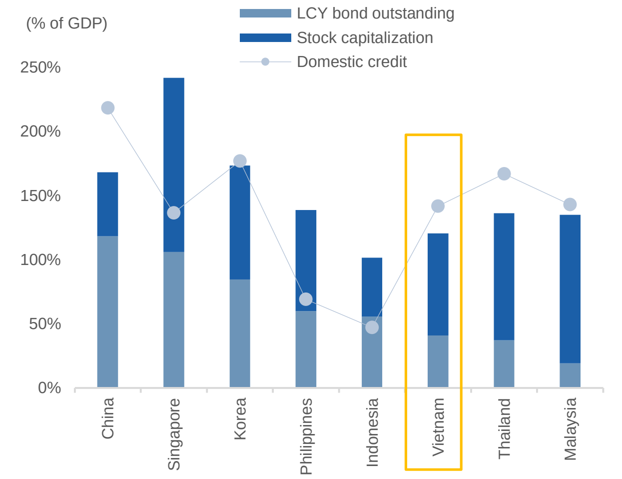
Source: MAS Vietnam Research (data compiled on 18 December 2019)
Note: Vietnam's data released from MOF, other data available on Asian Bonds Online.

Figure 3. Relative size of LCY Asian bond markets end-1H19



Source: MAS Vietnam Research (data compiled on 18 Dec., 2019)
Note: Vietnam's data released from MOF, other data available on Asian Bonds Online.

Figure 4. Asian capital market allocation

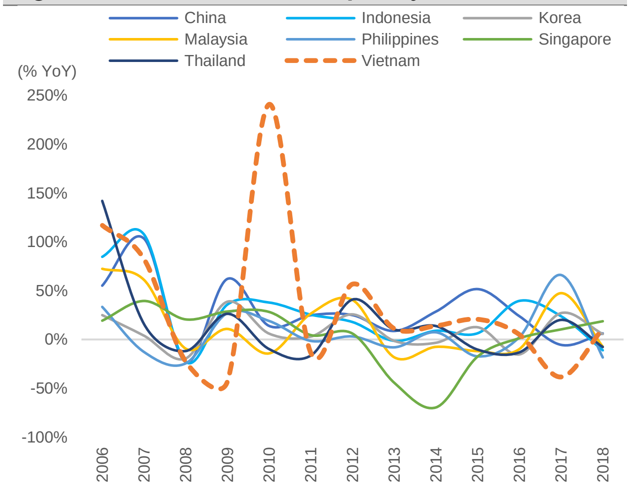


Source: MAS Vietnam Research (data compiled on 18 Dec., 2019)
Note: Vietnam's data released from MOF, other data available on Asian Bonds Online.
Domestic banking credit ratios are calculated by the World Bank as of end-2018.

More active than regional peers

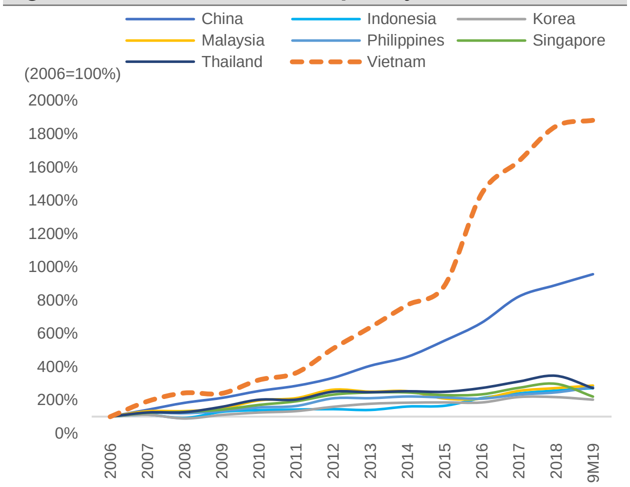
Vietnam's LCY primary market experienced greater year-on-year fluctuation than those of selected regional peers (see Figure 5). The main reason for this is that Vietnam's debt market has developed from a low base, in addition to recent efforts by the Vietnamese government to enhance transparency and increase the market liquidity. Vietnam's primary market has become more active since 2010 (growing by 3.4 times versus the 2009 level), mainly attributable to the government side (which has surged 6.8-fold YoY). The boom period continued until 2016, with a 7-year CAGR of total LCY issuance and LCY G-bond issuance of 31.9% and 49.4% pa respectively. However, this rapid growth rate has been stalled since 2017, when the public debt ratio peaked (see Figure 9).

Figure 5. Growth rate of LCY Asian primary bond markets



Source: MAS Vietnam Research, ADB (Asian Bonds Online), Bloomberg
Note: Latest data as of end-2018.

Figure 6. Growth rate of LCY Asian primary bond markets



Source: MAS Vietnam Research, ADB (Asian Bonds Online), Bloomberg
Note: Latest data as of end-9M19.

The relatively high growth rate of the primary market has been a major catalyst for the growth in Vietnam's market size. Since Vietnam corporates joined the bond market in 2006, Vietnam's outstanding bonds have increased more than tenfold, a performance similar to that of the Chinese market (see Figure 6).

Relatively smaller than peers

Despite such remarkable growth, we note that the scale of the Vietnam local currency market as a percentage of GDP is relatively modest. Compared with its emerging Southeast Asian peers, S. Korea (118.4% of GDP), Malaysia (106.2% of GDP), China (84.6% of GDP), Singapore (59.8% of GDP), and Thailand (55.7% of GDP), Vietnam's market (37.6% of GDP) is significantly smaller (see Figure 2). This implies that Vietnam's debt market has the potential for significant growth to catch up with the rest of the region. The government's roadmap to 2020, 2017's Decision No. 1191/QD-TTG, affirms its commitment to develop the bond market. In particular, Vietnam targets to raise the outstanding volume of the bond market to 45% of GDP in 2020 and about 65% in 2030.

Impetus for the corporate bond market

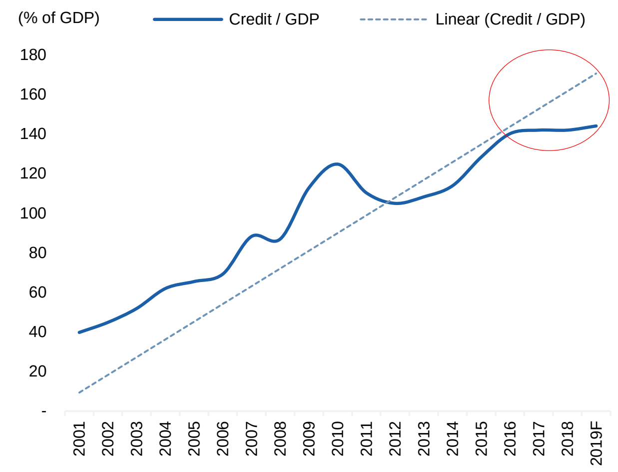
The heavy reliance on domestic credit bodes well for the corporate bond market. In Vietnam, domestic banking credit has been the main source of financing for both investment and consumption. Total outstanding loans granted by domestic banks reached 142% of the country's GDP in 2018, outstripping the ratio of current equity and bond capitalization of about 121%. Within the region, Singapore stands out, with its combined stock and bond market capitalization (242% of GDP) surpassing outstanding banking credit (137% of GDP). Likewise, we see similar situations in the Philippines, Indonesia, Malaysia, and S. Korea (Figure 4). As of now, the level of banking credit to GDP of Vietnam is much higher than the regional average of 137.5%. Thus, we believe that deepening of Vietnam's financial market is inevitable.

Furthermore, the central bank has imposed a cap of 14% on annual credit growth for the banking system since 2018, and plans to lower credit growth further to mirror nominal GDP growth (i.e., around 10% pa) in the long run. In addition to credit tightening, the rate of short-term capital used for medium- and long-term lending is strictly capped at 40% by the State Bank of Vietnam (SBV). Circular 22/2019/TT-NHNN (Cir. 22) outlines a three-year roadmap to gradually decrease the maximum ratio of short-term capital used for mid- and long-term lending: From 40% to 37% by 1 October 2020; to 34% by 1 October 2021; and to 30% from 1 October 2022 onwards. In all, those play as a motive for pivoting how Vietnamese firms raise capital. The corporate bond market is growing rapidly as an alternative to traditional lending activity by banks.

The progress of the corporate bond market is underpinned by the country's policy. Recently, streamlined procedures continue to ease C-bond issuance, with Decree 163/2018/ND-CP having officially taken effect from February 2019. Moreover, plans to create a credit rating agency are at an advanced stage.

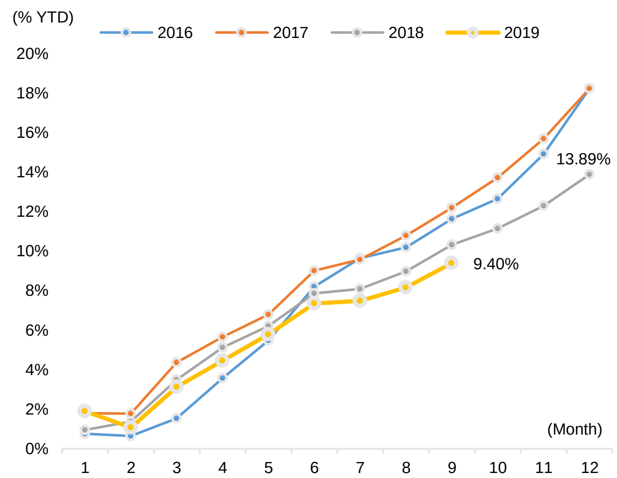
The C-bond scale has soared to 10% of GDP, as of end-3Q19, surpassing the government's goal of 7% in 2020, and on track to meet the target of 20% of GDP by 2030. In other peer markets, domestic companies are financing via bonds materially, such as South Korea (75.9% of GDP), Malaysia (50.9%), Singapore (33.7%), China (29.9%), and Thailand (22.4%).

Figure 7. Vietnam domestic credit provided by banking sector



Source: MAS Vietnam Research, World Bank (data compiled on 18 Dec., 2019)

Figure 8. Vietnam credit growth by month



Source: MAS Vietnam Research, State Bank of Vietnam (data compiled on 18 Dec., 2019)

That said, the C-bond market is relatively small compared with those of regional peers, a situation attributed to the lack of international ratings for Vietnam companies. So far, except for state-owned corporates like Vietnam Electricity Group (EVN) and Vietnam Oil and Gas Group (PVN), Vietnam Bank for Agriculture and Rural Development (AGRIBANK), only commercial banks and Vingroup JSC (VIC VN) are rated by the rating agency. Besides, corporations generally are not allowed to "pierce the country ceiling" (i.e., be rated higher than the government in foreign currency), with Vietnam's sovereign profile stuck in the substantial credit risk category. Therefore, guaranteed C-bonds draw great interest from investors. In 2018, Vietnamese issuers have utilized the services of the Credit Guarantee and Investment Facility (CGIF), a trust fund of ADB that was established by ASEAN+3 (ASEAN and China, Japan, S. Korea) and is rated 'AA' by S&P. CGIF has so far issued seven guarantees for the Vietnam-based issuers listed below:

Table 1. List of 100% guaranteed bonds by CGIF

Issue date	Issuer	Issue amount (VND bn)	Tenor
28-Jan-19	Refrigeration Electrical Engineering Corp. (REE VN)	2,318	10-year
05-Oct-18	Hoan My Medical Corp.	930	5-year
		1,400	7-year
10-Sep-18	The Pan Group JSC (PAN VN)	1,135	5-year
17-Nov-17	Mobile World Investment Corp (MWG VN)	1,135	5-year: 6.55%
18-Feb-16	Vingroup JSC (VIC VN)	3,000	5-year: 7.75%, 10-year: 8.50%
05-Dec-14	Masan Consumer Holdings Company Ltd (MSN VN)	2,100	10-year: 8%

Source: MAS Vietnam Research, Credit Guarantee and Investment Facility (CGIF; data compiled on 18 Dec., 2019)

Sovereign credit profile upgraded, but still two notches below investment grade

Vietnam's sovereign credit rating is at 'BB/Positive' under Fitch Ratings, "BB/Stable" by S&P, and 'Ba3/Negative' by Moody's. The broad consensus among these three ratings indicates a substantial risk for Vietnam. Table 2 below indicates that the sovereign profile of Vietnam has been improving steadily over time, moving from high-risk to substantial risk levels.

Table 2. Vietnam's credit rating profile, two levels below investment grade

Agency	Rating	Reading	Outlook	Date
Moody's	**Ba3**	**Substantial risk**	**Negative**	**12/18/2019**
	Ba3	Substantial risk	Stable	8/10/2018
	B1	High risk	Positive	4/28/2017
	B1	High risk	Stable	7/29/2014
	B2	High risk	Stable	9/28/2012
	B1	High risk	Negative	12/15/2010
	Ba3	Substantial risk	Negative	6/4/2008
	Ba3	Substantial risk	Positive	3/15/2007
	Ba3	Substantial risk	Stable	7/7/2005
	B1	High risk	Positive	5/11/2003
	B1	High risk	Stable	7/9/1998
	Ba3	Substantial risk	Stable	4/17/1997
Fitch	**BB**	**Substantial risk**	**Positive**	**5/9/2019**
	BB	Substantial risk	Stable	5/15/2018
	BB-	Substantial risk	Positive	5/18/2017
	BB-	Substantial risk	Stable	11/3/2014
	B+	High risk	Positive	1/23/2014
	BB-	Substantial risk	Negative watch	3/11/2011
	B+	High risk	Stable	7/28/2010
	BB-	Substantial risk	Stable	6/29/2009
	BB-	Substantial risk	Negative	5/29/2008
	BB-	Substantial risk	Stable	11/6/2003
	BB-	Substantial risk	Positive	6/11/2002
S&P	**BB**	**Substantial risk**	**Stable**	**4/5/2019**
	BB-	Substantial risk	Stable	6/6/2012
	BB-	Substantial risk	Negative	8/19/2011
	BB	Substantial risk	Negative	12/23/2010

Source: MAS Vietnam Research, Bloomberg (data compiled on 18 Dec., 2019)

In August 2018, Moody's upgraded Vietnam's long-term credit rating to Ba3 from B1 while the nation's outlook was changed to stable from positive. As Moody's explained, the upgrade was "underpinned by strong growth potential, supported by increasingly efficient use of labor and capital in the economy", while "the structure of Vietnam's government debt also limits susceptibility to financial shocks". However, on 9 October, 2019, Moody's placed the Ba3 local and foreign currency issuer and senior unsecured ratings of the Government of Vietnam under review for downgrade due to institutional deficiencies. In December 2019, Moody's confirmed Vietnam's Ba3 local and foreign currency issuer and senior unsecured ratings, but changed the outlook to negative, due to payment delays for some of the government's indirect debt obligations, reflecting "the coordination and transparency around debt management within the administration".

In May 2019, Fitch announced the revision of Vietnam's outlook to Positive from Stable, affirming that the country will keep its 'BB' sovereign credit rating. The agency said the upgrade reflects an improving track record of economic management, which is evident in persistent current account surpluses, falling government debt levels, high economic growth rates, and stable inflation. Vietnam's economic expansion has been driven by strong FDI, mostly in the manufacturing sector, and steady export growth. Vietnam's current account surpluses have helped build up external buffers and its external liquidity ratio is well above the 'BB' category median, although funding costs will rise over time, as Vietnam moves from concessional to market funding. Vietnam appears to be benefitting from near-term trade diversion and production shifts resulting from US-China trade tensions, although large-scale relocation of manufacturing to Vietnam will take time, and the country's high degree of trade openness means it may ultimately feel effects from the trade war. "Vietnam would nevertheless remain among the fastest-growing economies in the Asia-Pacific and in the 'BB' rating category globally," stated Fitch. Regarding the delayed payment, on 31 October, 2019, Fitch Ratings affirmed 'Positive' Outlook, reflecting Vietnam's lengthening record of macroeconomic stability. The delayed payment on a Vietnamese government-guaranteed loan in September was paid in full within the month and Fitch understands that the administrative problems that gave rise to this delay are being addressed. Therefore, the delayed payment does not have an immediate impact on the rating.

S&P raised its long-term sovereign credit rating for Vietnam to 'BB' from 'BB-', and maintained the outlook at 'Stable' in April 2019. This was the first time S&P had upgraded Vietnam's credit rating since 2012. The revision reflects an improving track record of the government's "institutional settings", which is evident in strengthening external buffers from balanced external accounts, a manageable external debt burden, high economic growth rate and stable inflation.

Table 3. Sovereign credit ratings of Asian countries

Reading (Moody's)		S&P	Moody's	Fitch	S&P	Moody's	Fitch
Investment grade	Minimal credit risk	AAA	Aaa	AAA	Singapore	Singapore	Singapore
	Very low credit risk	AA+	Aa1	AA+			
		AA	Aa2	AA	Hong Kong, South Korea	Hong Kong, South Korea	Hong Kong
		AA-	Aa3	AA-	Taiwan	Taiwan	Taiwan, South Korea
	Low credit risk	A+	A1	A+	China, Japan	China, Japan	China
		A	A2	A			Japan
		A-	A3	A-	Malaysia	Malaysia	Malaysia
	Moderate credit risk	BBB+	Baa1	BBB+	Philippines, Thailand	Thailand	Thailand
		BBB	Baa2	BBB		Indonesia, Philippines, India	Indonesia, Philippines
		BBB-	Baa3	BBB-	Indonesia, India		India
Speculative grade	Substantial credit risk	BB+	Ba1	BB+			
		BB	Ba2	BB	**Vietnam**		**Vietnam**
		BB-	Ba3	BB-	Bangladesh	**Vietnam**, Bangladesh	Bangladesh
	High credit risk	B+	B1	B+			
		B	B2	B	Sri Lanka	Sri Lanka	Sri Lanka
		B-	B3	B-			

Source: MAS Vietnam Research, Bloomberg (data compiled on 17 Dec., 2019)

That said, Vietnam is rated two notches below investment grade, below the ratings of its Asian counterparts.

Vietnam is preparing the ground for further upgrades

In our view, Vietnam's solid economic conditions should be the primary rationale behind potential future upgrades. Vietnam's economy is forecast to outperform regional peers. Over the last several years, the country has demonstrated a commitment to sustainable growth with relatively low inflation. In particular, GDP growth improved to 7.1% in 2018 from 6.8% in 2017, while inflation remained stable at 3.5%, within the country's target of below 4%. For 2019, remarkable economic growth in 3Q19 boosted the whole-year GDP to 7.02%, surpassing the government's target of 6.8%. Meanwhile, average inflation in 2019 was 2.79%, far below the government's target of 4%. Following Vietnam's National Assembly's goals in 2019-2020, GDP is set to increase by about 6.8%, with a CPI target of below 4%.

We believe the government's targets are achievable. According to the World Bank, Vietnam's growth is projected to remain at around 6.5% in 2020-2021, while inflationary pressure should remain moderate. The Asian Development Bank predicts GDP growth of 6.8% in 2020 for Vietnam, with contained inflation (below the 4% target). Fitch Ratings forecasts GDP growth of 6.8% in 2020-2021.

Table 4. Selected economic and financial indicators of Vietnam in the period 2014–2020

Items	2014	2015	2016	2017	2018E	2019F	2020F
Output							
Real GDP (% YoY)	6.0	6.7	6.2	6.8	7.1	7.02(*)	6.5
GDP (US$ bn)	185.8	191.3	201.3	220.4	241.3	260.5	282.4
Per capita GDP (US$)	2,047.4	2,085.7	2,172.0	2,353.4	2,551.1	2,728.4	2,929.2
Prices (% YoY)							
CPI (period average)	4.1	0.6	2.7	3.5	3.5	3.6	3.8
Core inflation (end of period)	2.7	1.7	1.9	1.3	1.7	2.1	2.2
Saving and investment (% of GDP)							
Gross national saving	35.9	32.5	36.0	35.5	36.0	35.6	35.3
Gross investment	31.0	32.6	33.0	33.4	33.5	33.4	33.4
Private	18.6	20.2	20.7	21.5	22.4	22.6	22.7
Public	12.4	12.4	12.4	11.9	11.2	10.8	10.7
State budget finances (% of GDP)							
Revenue and grants	22.2	23.8	24.0	24.5	24.5	23.4	23.3
Of which: Oil revenue	2.5	1.6	0.9	1.0	1.0	0.7	0.6
Expenditure	28.5	30.2	27.8	29.2	28.8	27.8	27.6
Expense	20.4	21.4	20.4	21.3	20.8	20.1	20.0
Net acquisition of nonfinancial assets	8.1	8.8	7.4	8.0	8.0	7.6	7.6
Net lending (+)/borrowing (-)[1]	-6.3	-6.4	-3.9	-4.7	-4.4	-4.4	-4.2
Public and publicly guaranteed debt (end of period)	54.7	57.1	59.7	58.2	55.6	54.4	53.3
Money and credit (% YoY)							
Broad money (M2)	17.7	16.2	18.4	15.0	12.4	15.5	14.9
Credit to the economy	13.8	18.8	18.8	17.4	12.7	13.7	13.1
Balance of payments (% of GDP, unless otherwise indicated)							
Current account balance (including official transfers)	4.9	-0.1	2.9	2.1	2.4	2.2	1.9
Capital and financial account[2]	3.0	0.5	4.6	9.0	0.0	2.0	2.2
Gross international reserves (US$ bn)[3]	34.3	28.3	36.7	49.2	55.3	66.2	77.7
In months of prospective GNFS imports	2.4	1.9	2.0	2.4	2.4	2.5	2.6
Total external debt (end of period)	38.3	42.0	44.8	49.0	46.0	47.2	47.5
Exchange rate VND/US$ depreciation (%)	1.4	5.1	1.2	-0.3	2.1	0.9(*)	NA

Source: IMF; adjustments (*) are actual numbers for 2019
Note: The IMF excludes cross-debt among government entities, thus the public debt ratio will be lower than the figure published by the MoF or World Bank. According to the 2018 Debt-Sustainability Analysis by the IMF, the sustainable threshold should be closer to 55% of GDP.

The economy continues to show fundamental strength, underpinned by robust domestic demand and export-oriented manufacturing. Vietnam is strongly positioned to benefit from numerous free trade agreements (FTAs). Vietnam joined the WTO in 2007 and has concluded several FTAs, including the EU (EVFTA), and the Korean (VKFTA). Seeking to diversify its opportunities, Vietnam also signed the Comprehensive and Progressive Agreement for the Transpacific Partnership (CPTPP) in 2018 and continued to pursue the Regional Comprehensive Economic Partnership (RCPTPP). Furthermore, Vietnam has also benefited from the buoyant foreign direct investment (FDI).

[1] Excludes net lending of Vietnam Development Bank and revenue and expenditure of Vietnam Social Security.

[2] Incorporates a projection for negative errors and omissions going forward (i.e. unrecorded imports and short-term capital outflows).

[3] Excludes government deposits.

To continue its trajectory of strong economic growth, the government acknowledges the need to spark a 'second wave' of reforms, including reforming state-owned-enterprises (SOEs), reducing red tape, increasing business sector transparency, reducing the level of non-performing loans in the banking sector, and increasing financial sector transparency. Thus, the hidden costs behind the financial sector and SOEs have been at least partly revealed.

Despite the recent acceleration of economic growth, the government remains cautious about the risk of external shocks. The country's external position in 2018, following the IMF's assessment, was substantially stronger than warranted by fundamentals. The current account gap has reached 6.4% of GDP. The VND is kept relatively stable to the US dollar; as such, the VND has depreciated modestly against the US dollar. International reserves rose to US$65bn (or 24% of GDP).

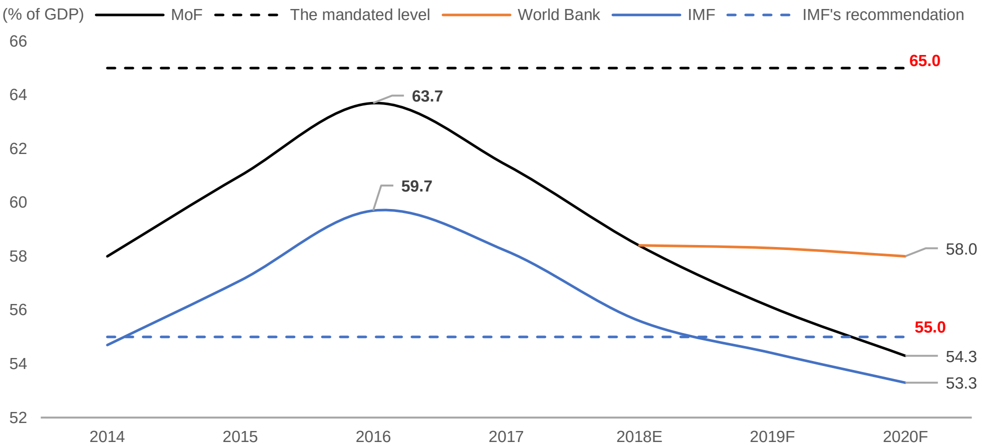
Ongoing fiscal consolidation underscores G-bond potential

The LCY-G-bond-laden market is set to expand from the current value of 27.7% of GDP to about 38% in 2020 and 45% in 2030. The government's budget requirements for financing infrastructure projects or implementing social welfare policies have prompted it to reinforce the primary market.

On the demand side, commercial banks—notably the state-owned banks—and life insurance companies have been the primary investors to acquire such large amount of G-bonds, in order to improve their liquidity, as well as to comply with the reserve ratios set by the central bank. Other big players include Vietnam's Social Security Fund, finance companies, securities firms, and investment funds. The government has targeted, by 2020, 50% of total G-bonds outstanding to be held by non-bank institutions, especially insurance firms, pension funds, and investment funds.

As of the end of 2016, public debt peaked at 63.7% of GDP (versus the mandated level of 65%), considering not only bonds, but also other borrowing methods. In order to abruptly reduce the public debt level, the National Assembly enacted Resolution No. 25/2016/QH14 and Resolution No. 49/2017/QH14. Accordingly, the country has implemented extensive reforms, namely fiscal consolidation and strict limits on government guarantees. At the same time, state budget overspending has been tightened, while public investment disbursement has coincidently slowed. Combined with stronger state revenue in the fast-growing economy, the state budget deficit has been contained and stabilized to 3.5% of GDP in 2018 from 5.5% in 2014-2016. As a result, the debt ratio has been contained to 58.4% of GDP as of end-2018, and estimated at 56.1% as of end-2019 by the MoF (see Figure 9).

Figure 9. Vietnam public debt ratio



Source: MAS Vietnam Research, MoF, World Bank, IMF (data compiled on 18 Dec., 2019)
Note: IMF excludes cross-debt among government entities, thus the public debt ratio will be lowered. According to the 2018 Debt-Sustainability Analysis by the IMF, the sustainable threshold should be closer to 55% of GDP.

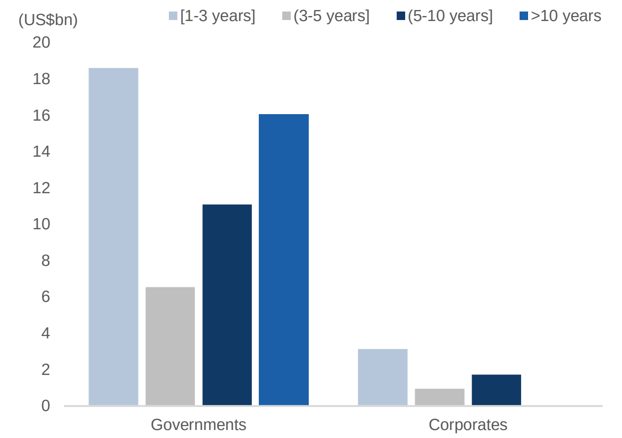
Accordingly, the newly LCY G-bond issuance was lowered from US$14bn in 2016 to US$12.4bn in 2017 (-11.9% YoY) and US$9.7bn in 2018 (-21.9% YoY), following data from the MoF. The strenuous fiscal consolidation over the past three years has magnified G-bonds' potential going forward. In terms of state demand, the country has a large fiscal need for infrastructure investment.

Mitigating rollover risks

Under the gradual fiscal consolidation scheme from 2016, Vietnam foreshortened short-dated issuance. Vietnam's maturity profile has seen a significant change over the past four years. The lengthening of bond maturities, holistically, has come from improving public debt management. At present, treasury bonds are issued at a minimum of 5-year maturity, in line with Resolution No. 25/2016/QH14 and Resolution No. 49/2017/QH14 of the National Assembly. Furthermore, the average duration of G-bonds was extended to more than eight years, compared with an average of four years for C-bonds. The shift toward longer duration in the G-bond profile (see Figure 12) has caused a substantial lessening in interest cost. More importantly, the pivot will eliminate the rollover risks of public debt. For the period 2021-2030, the average duration of G-bonds outstanding is set at 7–8 years by the government.

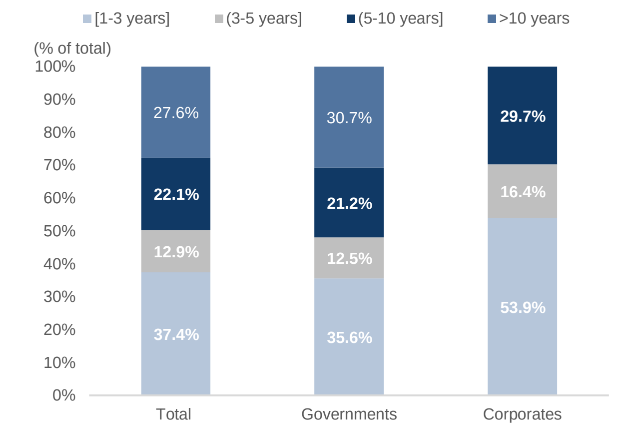
If we resample the total outstanding value into G-bonds and C-bonds, we see a huge difference between the two structures (see Figures 10 and 11). G-bonds have a relatively equal maturity profile, with 49.4% reaching maturity in the next five years. Meanwhile, the C-bond maturity structure is focused on less than 5-year tenors, with a proportion of about 70%, with a maximum tenor of 10 years.

Figure 10. Maturity status



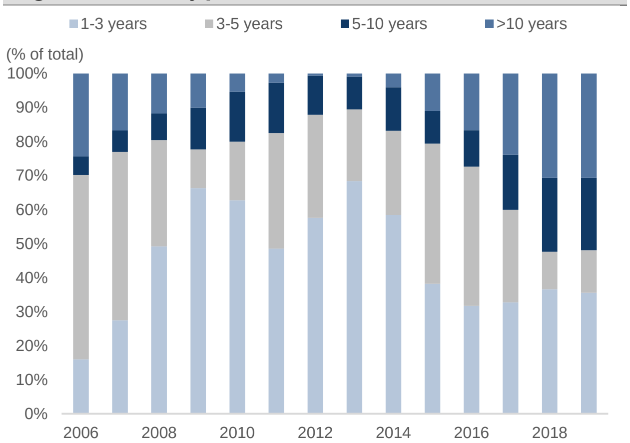
Source: MAS Vietnam Research, Bloomberg
Note: Data compiled on 18 Dec., 2019

Figure 11. Maturity structure



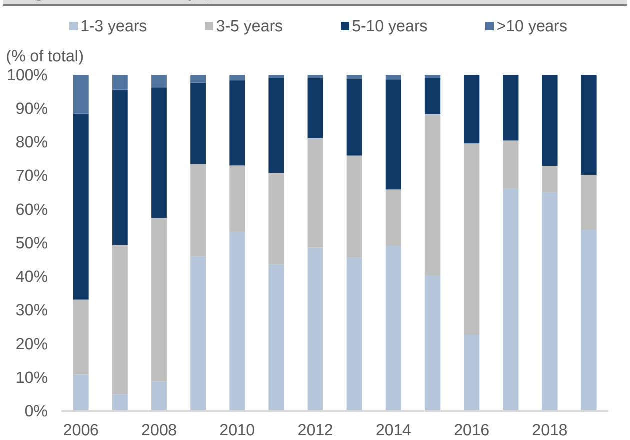
Source: MAS Vietnam Research, Bloomberg
Note: Data compiled on 18 Dec., 2019

Figure 12. Maturity profile of Vietnam G-bonds



Source: MAS Vietnam Research, Bloomberg
Note: Data compiled on 18 Dec., 2019

Figure 13. Maturity profile of Vietnam C-bonds



Source: MAS Vietnam Research, Bloomberg
Note: Data compiled on 18 Dec., 2019

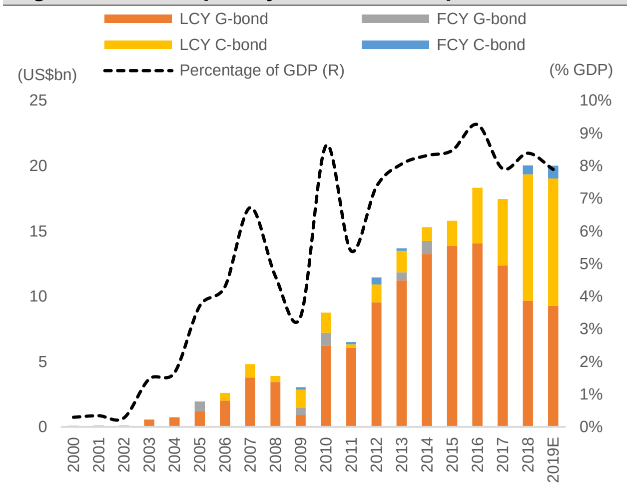
The primary market

Government is the key issuer, with LCY G-bonds outstanding predominating

Vietnam has issued an aggregate of about US$165.8bn since its inception, according to data compiled from Bloomberg and MoF as of end-2019. Of this, LCY G-bonds predominated, at 71.4% of the total, followed by LCY C-bonds (24.2%), FCY G-bonds (2.7%), and FCY C-bonds (1.7%).

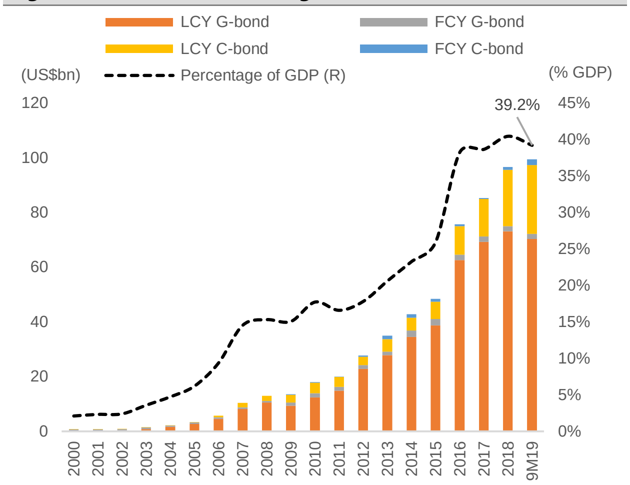
Accordingly, we estimate the outstanding value of Vietnam's bond market at about US$99.4bn (equivalent to 39.2% of GDP), wherein the LCY G-bond amount was laden in bulk (valued at US$70.2bn, or 27.7% of GDP). Remarkably, the majority of bonds issued by both government and corporates are denominated in VND facilitating the redemptions. As such, LCY bonds accounted for 96.5% of total liabilities, comprising 69.4% of government and 27.1% of corporate. The remainder denominated in US dollars made up 3.4% of total debt, consisting of 2% from government and 1.4% from corporate.

Figure 14. Vietnam primary market since inception



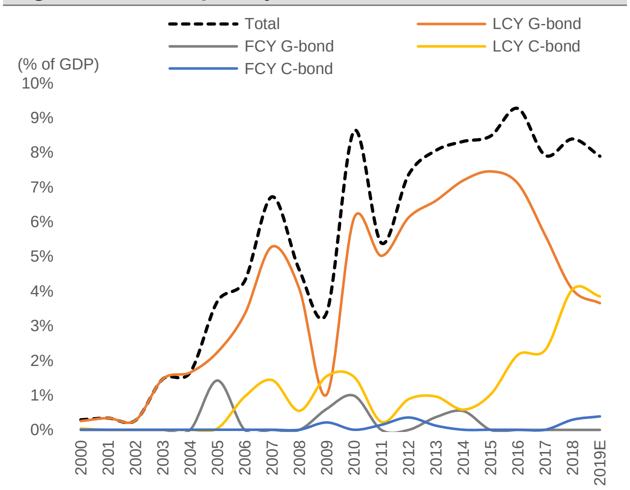
Source: MAS Vietnam Research, Bloomberg
Note: Data compiled on 18 Dec, 2019

Figure 15. Vietnam outstanding bonds



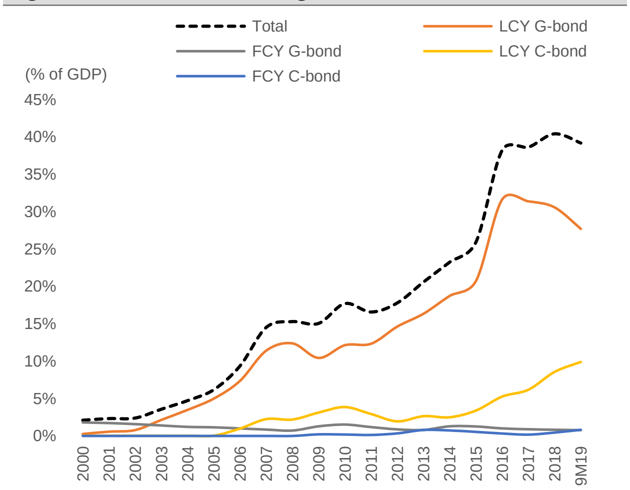
Source: MAS Vietnam Research, ADB (Asian Bonds Online), Bloomberg
Note: Data compiled on 18 Dec, 2019

Figure 16. Vietnam primary market scale



Source: MAS Vietnam Research, Bloomberg
Note: Data compiled on 18 Dec, 2019

Figure 17. Vietnam outstanding bond scale



Source: MAS Vietnam Research, ADB (Asian Bonds Online), Bloomberg
Note: Data compiled on 18 Dec, 2019

2019 review: 10- and 15-year G-bonds are highly attractive

Low issuance, but still missing the annual target

Following the 2017 plunge in new G-bond issuance, amid a further retrenchment in government expenditures, we expect the faint expansion seen in 2018 to have continued in 2019. Indeed, the Government had raised 95% of the 2018 plan, or VND165.8tn. For 2019, the MoF planned to offer VND260bn in LCY G-bonds, an increase of 56.8% from the execution amount in 2018. However, the State Treasury actually offered VND239.3tr in government bonds, with a winning percentage of 81.3%. In other words, the State Treasury mobilized VND194.5tr (or US$8.4bn), fulfilling 74.8% of the full-year guidance. In comparison with government expenditures, the execution of both plans was similar. Up to 15 December, 2019, total government expenditures were estimated at VND1,316.4tr, equaling 80.6% of the yearly expectation. Notably, state expenditures on development investment reached only 57.5% of the annual target, with the low issuance amount primarily attributed to slow disbursement of state investment.

Table 5. Vietnam LCY G-bond issuance in 2019 by tenor

Unit: VND tr

Tenor	4Q19				2019			
	Plan	Offering	Actual	% of plan	Plan	Offering	Actual	% of plan
5-year	2.0	2.5	1.5	72.5%	40.0	16.0	8.3	20.6%
7-year	2.0	1.0	0.9	47.0%	30.0	12.8	5.5	18.5%
10-year	20.0	19.8	17.3	86.5%	70.0	88.5	79.1	113.0%
15-year	20.0	19.8	17.3	86.5%	78.0	86.8	76.1	97.6%
20-year	6.0	6.0	3.7	62.0%	20.0	19.8	14.4	71.8%
30-year	5.0	4.0	2.8	56.5%	22.0	15.5	11.1	50.6%
Total	**55.0**	**53.0**	**43.5**	**79.1%**	**260.0**	**239.3**	**194.5**	**74.8%**

Source: MAS Vietnam Research, Vietnam's Ministry of Finance (MOF)
Note: Latest data as of 18 Dec., 2019

Table 6. Vietnam LCY G-bond issuance in 2019 by month

Unit: VND tr

Month	Offering amount	Bidding amount	Winning amount	Winning percentage (%)	Bid-to-cover ratio (x)
1	41.5	144.3	36.3	87.6%	3.5
2	22.0	78.9	18.9	85.7%	3.6
3	27.5	58.5	14.3	51.9%	2.1
4	11.8	26.6	9.5	81.1%	2.3
5	17.0	47.7	11.9	70.2%	2.8
6	12.8	62.6	11.1	87.3%	4.9
7	36.0	117.3	32.1	89.1%	3.3
8	11.5	52.4	10.8	94.3%	4.6
9	6.3	27.5	6.0	95.2%	4.4
10	20.0	74.4	19.9	99.7%	3.7
11	17.5	48.4	13.7	78.5%	2.8
12	15.5	33.5	9.9	63.6%	2.2
2019	**239.3**	**772.2**	**194.5**	**81.3%**	**3.2**

Source: MAS Vietnam Research, Vietnam's Ministry of Finance (MOF)
Note: Latest data as of 18 Dec., 2019

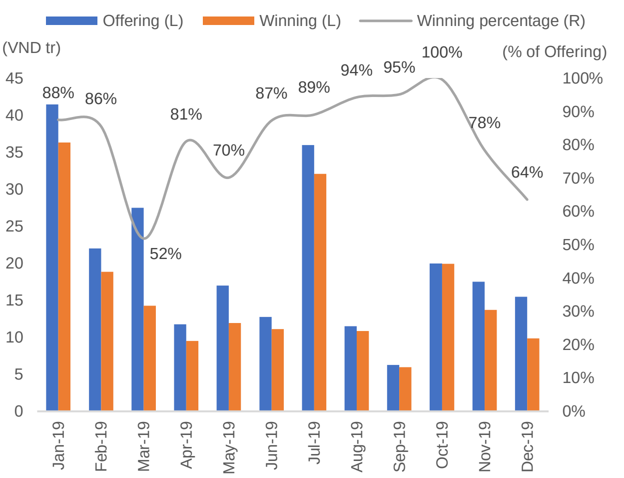
By month, the winning percentages were on the rise to 99.7% in October from 70.2% in May, but reduced to 63.6% in December. Meanwhile, the bid-to-cover ratio has hovered above 2.0x over throughout this year, but decreased from 4.6x in August to 2.2x in December.

High demand for 10- and 15-year G-bonds

Bucking the trend, we highlighted the high demand for the 10- and 15-year tenors. Notably, the issued amount of 10-year G-bonds exceeded the goal of VND70.0tn, equaling 113% of the goal. Likewise, the target for 15-year G-bonds of VND78tn was almost achieved.

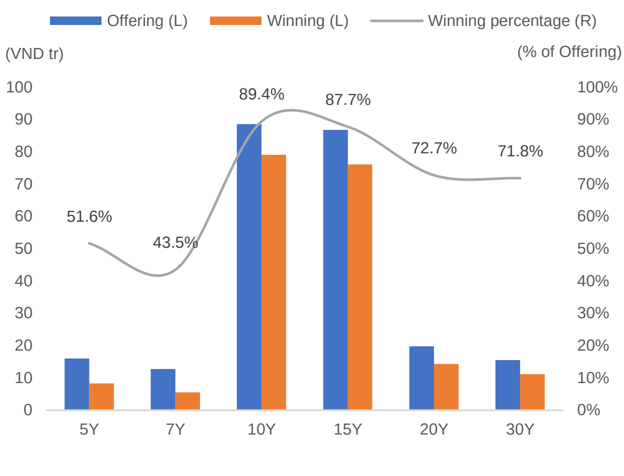
Despite their sizable amounts, these two bond types are highly attractive, with the highest winning ratios, as well as high bid-to-cover ratios. Not only did the 10- and 15-year tenors make up the largest offering volume, for a total of 73.3% per the total offering amount in 2019, the winning ratios of these two terms also outpaced others (see Figure 18). On breakdown, VND8.3tr, VND5.5tr, VND79.1tr, VND76.1tr, VND14.4tr, and VND11.1tr in 5-, 7-, 10-, 15-, 20-, 30-year bonds sold, equivalent to 51.6%, 43.5%, 89.4%, 87.7%, 72.7%, and 71.8% of offered amounts, respectively. Moreover, the bid-to-cover ratios, a demand gauge, were 3.5x and 3.1x for 10- and 15-year maturities, compared with 3.2x for the aggregate offering amount. Likewise, the 20- and 5-year tenors were also in demand, with the bid-to-cover of 3.4x and 3.2x, respectively. By contrast, the ratios for 30- and 7-year terms were 2.6x and 2.6x, indicating low demand.

Figure 18. Demand for primary market advances



Source: MAS Vietnam Research, Vietnam's Ministry of Finance (MOF)
Note: Latest data as of 18 Dec., 2019

Figure 19. High demand for 10- and 15-year G-bonds

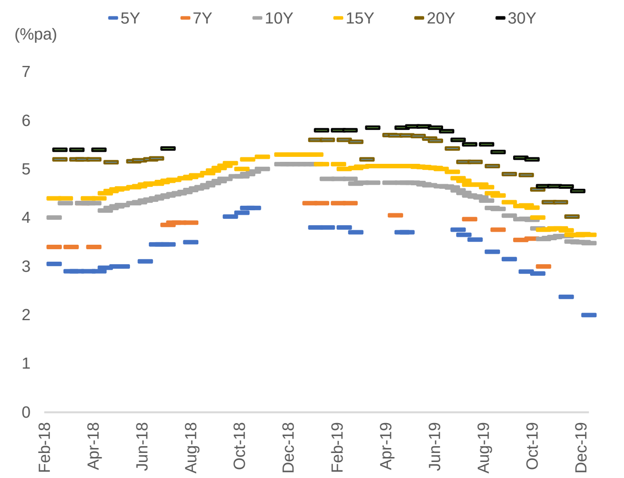


Source: MAS Vietnam Research, Vietnam's Ministry of Finance (MOF)
Note: Latest data as of 18 Dec., 2019

Winning yields moving downward

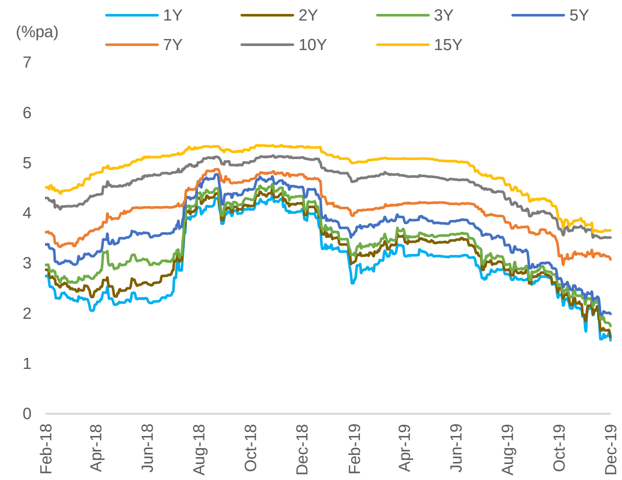
For 2019, bond yields declined for all maturities since the beginning of the year, which is consistent with low inflation expectations, the State Bank of Vietnam's recent moves, and the global trend. For 2019, the latest winning yields for 5-, 7-, 10-, 15-, 20-, 30-year bonds dropped by 220bps, 90bps, 162bps, 165bps, 120bps, and 87bps, respectively compared with the last respective auctions in 2018, to 2%, 3%, 3.48%, 3.65%, 4.02%, and 4.55%, respectively.

Figure 20. G-bond wining yields in 2019



Source: MAS Vietnam Research, Vietnam's Ministry of Finance (MOF)
Note: Latest data as of 18 Dec., 2019

Figure 21. Benchmark of government bond yields



Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 18 Dec., 2019

2019 review: C-bonds booming

Corporate funding demand from commercial banks, real estate developers, and some conglomerates has provided a tremendous boost to the C-bond market. In addition, C-bond coupon rates are much higher than G-bond yields, which has made C-bonds more attractive to bondholders during the expansionary phase of the Vietnam economy. The aforementioned LCY C-bond market has been generally more active than the G-bond market since 2015. In particular, the total amount raised was VND296.7tr in 2019 (+24.5% YoY; 2014-2019 CAGR: +66.9% pa) and US$300mn from selling LCY and FCY bonds, recorded by the Hanoi Stock Exchange (HNX).

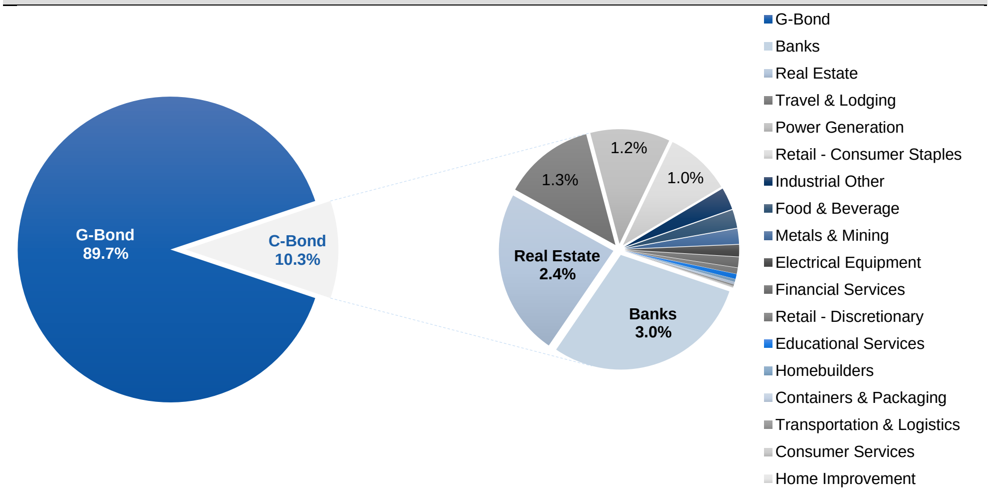
Table 7. New issuances by Vietnamese banks in 2019

Classification	LCY issuance (VND tr)	Percentage (%)	Weighted-average maturity
Banks	108.7	36.6%	**3.72**
Real estate	57.1	19.2%	**2.82**
Brokerage firms	8.4	2.8%	1.65
Other	122.4	41.3%	5.15
Total	**296.7**	**100%**	**4.08**

Source: Hanoi Stock Exchange (HNX; data compiled on 9 Feb., 2020)

Figure 22 breaks down the outstanding amount of Vietnam bonds by industry. The main issuers of Vietnam's C-bonds are commercial banks and real estate firms. Vietnam's commercial banks have been the key issuers (with outstanding bond value accounting for 29.4% of total C-bond scale), in order to raise Tier 2 capital and meet the new requirements of CAR (Cir. 41). Meanwhile, the tightening banking credit in the real estate sector affected the capital-raising methods of developers (outstanding bonds contributed another 23.5% of total C-bond market size).

Figure 22. Vietnam bond structure: Outstanding amount breakdown



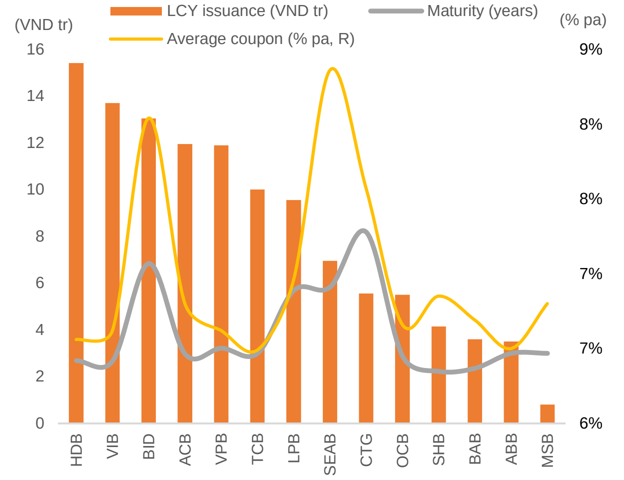
Source: MAS Vietnam Research, Bloomberg (data compiled on 9 Feb., 2020)
Note: Issuers are grouped by Bloomberg Industry Classification Standard at Level 2; the statistics do not include private issuance.

Banks issued Tier 2 capital bonds to meet the new CAR requirement

In 2019's issuance structure, the banking industry made up 36.6% of the total issuance amount, at VND108.7tr (or US$4.7bn). Given that many banks have increased the volume of newly-issued bonds, as the new regulations of Circular 41/2016/TT-NHNN (Cir. 41) take effective from 1 January, 2020. Accordingly, some banks are struggling to meet the regulatory minimum capital requirement ratio (CAR) of 8%; therefore, some want to increase their CAR by issuing Tier 2 capital in the form of subordinated debt. The coupon rates range from 6.2% to 9.9%, while maturities vary from two to 10 years. Remarkably, Ho Chi Minh City Development Joint-Stock Commercial bank (HDB VN) issued a total of over VND15.4tr (or nearly US$664.4mn). Other major issuance events include Vietnam International Commercial Joint-Stock Bank (VIB VN: VND13.7tr/US$590.5mn), Joint-Stock Commercial Bank for Investment and Development of Vietnam (BID: VND13tr/US$562.2mn), Asia

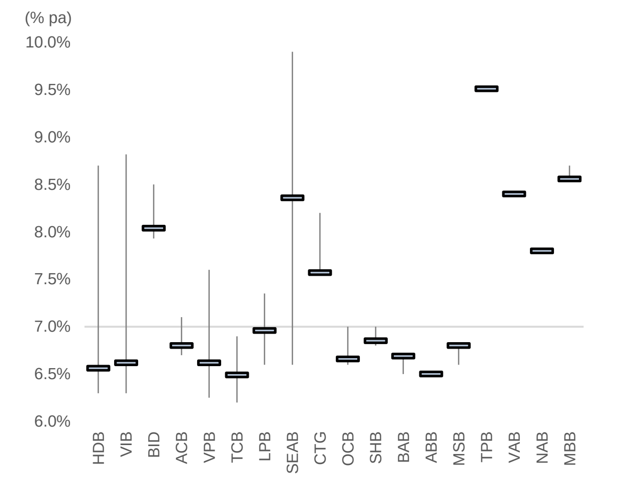
Commercial Joint-Stock Bank (ACB VN: VND11.95tr/US$515.1mn), and Vietnam Prosperity Joint-Stock Commercial Bank (VPB VN: VND11.9tr/US$512.9mn).

Figure 23. Some new issuances by Vietnam banks in 2019



Source: MAS Vietnam Research compiled from Hanoi Stock Exchange (HNX), FiinPro (data compiled on 9 Feb., 2020)

Figure 24. Weighted-average coupon rates for banks in 2019



Source: MAS Vietnam Research compiled from Hanoi Stock Exchange (HNX), FiinPro (data compiled on 9 Feb. 2020).

Table 8. Vietnam banks rating action by Moody's on 19 Dec., 2019

Ticker	Bank	Outlook	Rating
	Sovereign rating action	**Negative**	**Ba3**
AGRIBANK	Vietnam Bank for Agriculture & Rural Development	Negative	Ba3
BID VN	JS Commercial Bank for Investment and Development of Vietnam	Negative	Ba3
CTG VN	Vietnam JS Commercial Bank for Industry and Trade	Negative	Ba3
VCB VN	JS Commercial Bank for Foreign Trade of Vietnam	Negative	Ba3
MBB VN	Military Commercial Joint Stock Bank	Negative	Ba3
ACB VN	Asia Commercial JS Bank	Negative	Ba3
TCB VN	Vietnam Technological and Commercial Joint Stock Bank	Negative	Ba3
HDB VN	Ho Chi Minh City Development JS Commercial Bank	Negative	B1
LPB VN	Lien Viet Post Joint Stock Commercial Bank	Negative	B1
SeABank	Southeast Asia Commercial Joint Stock Bank	Negative	B1
ABB VN	An Binh Commercial Joint Stock Bank	Stable	B1
OCB VN	Orient Commercial Joint Stock Bank	Stable	B1
TPB VN	Tien Phong Commercial Joint Stock Bank	Stable	B1
VIB VN	Vietnam International Commercial JS Bank	Stable	B1
VPB VN	Vietnam Prosperity Joint Stock Commercial Bank	Stable	B1
NamABank	Nam A Commercial Joint Stock Bank	Stable	B2
SHB VN	Saigon - Hanoi Commercial Joint Stock Bank	Stable	B2
MSB VN	Vietnam Maritime Commercial Joint Stock Bank	Stable	B2

Source: Moody's Analytics Rating

Note:

1/ Economic entities with 'Ba' ratings are subject to substantial risk, while others rated 'B' are subject to high credit risk.

2/ In December, Moody's confirmed Vietnam's Ba3 local and foreign currency issuer and senior unsecured ratings, but changed the outlook to negative. Driven by the sovereign rating action, Moody's changed the outlooks for some banks to negative.

There has been a wave of bond issuances since 2018, as room for subordinated debt-based Tier 2 capital has been exhausted. As specified in Cir. 41, the amount of Tier 2, including revaluation reserves, hybrid capital instruments and subordinated term debt, general loan-loss reserves, and undisclosed reserves, is capped at 50% of Tier 1. Therefore, new issuances for enlarging Tier 2 capital will be lowered in the foreseeable future. To date, there are 16 early-qualified banks, namely JSC Bank for Foreign Trade of Vietnam (VCB VN); JSC Bank for Investment and Development of Vietnam (BID VN); Military Commercial Joint Stock Bank (MBB VN); Vietnam Prosperity JSC Bank (VPB VN); Vietnam Technological and Commercial Joint Stock Bank (TCB VN); Ho Chi Minh Development JSC

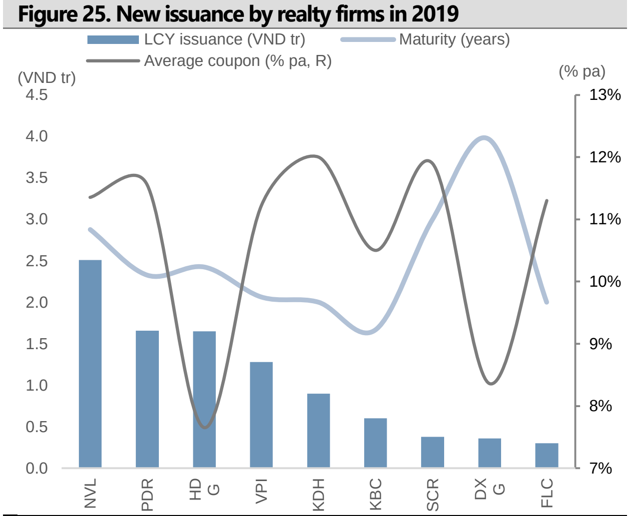
Bank (HDB VN); Tien Phong Commercial Joint Stock Bank (TPB VN); Asia Commercial Joint Stock Bank (ACB VN); Vietnam International Commercial Joint Stock Bank (VIB VN); LienViet Post JSC Bank (LPB VN); Vietnam Thuong Tin Commercial Joint Stock Bank (VBB VN); Orient Commercial Joint Stock Bank (OTC: OCB); Vietnam Maritime Commercial Joint Stock Bank (OTC: MSB); Nam A Commercial Joint Stock Bank (OTC: NamABank); Viet Capital Commercial Joint Stock Bank (OTC: VietCapitalBank); and Southeast Asia Commercial Joint Stock Bank (OTC: SeABank).

As mentioned above, bonds issued by commercial banks have higher creditworthiness than other entities, despite being constrained by the "pierce the country ceiling" general rule. As a result, the weighted average coupon of banking bonds is relatively low, specifically 7% pa, versus 8.8% for the market.

Realty firms financed by bond issuance instead of bank loans

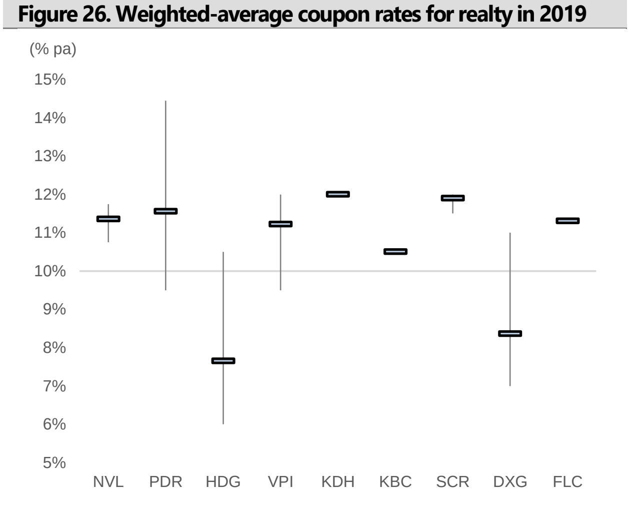
Realty companies are facing credit constraints from commercial banks, mainly from the State Bank of Vietnam (SBV) guidance, in which only 40% of a bank's short-term capital can now be used for long-term lending, down from the previous rate of 45%. Furthermore, Circular 22/2019/TT-NHNN (Cir. 22), enacted in late 2019, outlines a three-year roadmap to gradually decrease the maximum ratio of short-term capital used for mid- and long-term lending: From 40% to 37% by 1 October 2020; to 34% by 1 October 2021; and to 30% from 1 October 2022 onwards. In our view, the regulations are the main impetus for changing how realty firms raise capital, with demand for long-term capital from real estate firms increasing. These companies have two options, either increase their equity or bonds. In 2019, HNX recorded a total amount of VND57.1tr/US$2.5bn in bonds issued by realty firms, equivalent to 19.2% of total new corporate issuance. Notably, some developers are more active, namely No Va Land Investment Group Corp. (NVL VN: VND2.5tr/US$108.2mn), Phat Dat Real Estate Development Corp. (PDR VN: VND1.7tr/US$71.5mn), Ha Do JSC (HDG VN: VND1.7tr/US$71.1mn), Van Phu-Invest Investment JSC (VPI VN: VND1.3tr/US$55.2mn), Kinh Bac City Development Holding Corp. (KBC VN: VND800bn/US$34.5mn), Khang Dien House Trading and Investment JSC (KDH VN: VND900bn/US$38.8mn), and Sai Gon Thuong Tin Real Estate Joint Stock Company (SCR VN: VND380bn/US$16.4mn).

Figure 25. New issuance by realty firms in 2019



Source: MAS Vietnam Research compiled from Hanoi Stock Exchange (HNX), FiinPro (data compiled on 9 Feb., 2020)

Figure 26. Weighted-average coupon rates for realty in 2019



Source: MAS Vietnam Research compiled from Hanoi Stock Exchange (HNX), FiinPro (data compiled on 9 Feb., 2020)0.

Importantly, the relatively high coupon rates for realty bonds, ranging from 6%–14.45%, reflect higher risk premiums. As for the highest coupon rate, PDR paid 14.45% pa for a VND200bn 1-year bond to finance the Nhon Hoi–Binh Dinh project. On top of that, many issued above-10% coupon rates (see Figure 26). In sum, the weighted-average annual coupon rate for the realty firms was about 10%.

International bonds emerging

In 2018, the market saw two new issuances with US dollar-denomination from No Va Land Investment Group Corp (US$240mn; coupon rate: 5.5%), and Vinpearl JSC (US$450mn; coupon rate: 3.5%), which has not been seen since 2014. In 2019, VPB VN led the way by issuing US$300mn in 3-year bonds at a nominal interest rate of 6.25% as the first tranche of their plan. Moody's Investors Service has assigned a 'B1' long-term foreign currency senior unsecured rating to the proposed senior unsecured US dollar notes to be issued by VPB VN; thus, the demand for the international bond was high, with a bid-to-cover ratio of 2.2x. The bank planned to run a US$1bn medium-term note program (3- and/or 5-year tenors), and a US$120mn green bond (3-year tenor) in 2019-2020. In addition, TPB VN also planned to issue US$200mn in international bonds. The securities will mature in 10 years and can be called by the issuer in five years. Moody's Investors Service has assigned a B2 foreign currency debt rating to TPB VN (B1 stable, b1) proposed subordinated bonds.

Two conglomerates dominate the C-bond structure

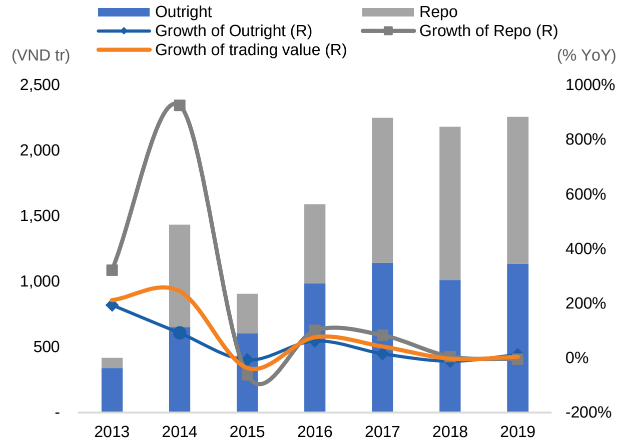
Some large creditworthy companies are now able to access markets on favorable terms. Notably, two conglomerates have dominated the C-bond market, namely Vingroup JSC and its related-parties (VND40.5tr/US$1.7bn) and Masan Group Corp. and its subsidiaries (VND15.8tr/US$681.5mn). Of the two, only Vingroup JSC (VIC VN) is rated by credit ratings agencies. VIC has transformed from a pure developer into an all-inclusive conglomerate, spreading its operations across the country, from real estate-related businesses (Vinhomes JSC; Vincom Retail JSC; Saidong Urban Development & Investment JSC) to travel & lodging (Vinpearl), convenience stores (Vinmart/Vinmart+, Vinpro), health (Vinmec), pharmaceuticals (Vinfa), education (Vinschool), agriculture (Vineco), automobiles (Vinfast), and smartphone manufacturing (Vsmart). However, expanding into the automobile industry requires large upfront spending but would likely have losses in the initial ramp-up phase, resulting in S&P cutting Vingroup's outlook to 'Negative'. Later, another credit rating agency, Fitch, also lowered Vingroup's outlook from 'Stable' to 'Negative' for its expansion into car manufacturing. In July, Vingroup withdrew from Fitch's rating program. In 2019, Vinpearl JSC (VPL VN) and Vinfast Trading and Production LLC raised its respective amount of VND2.5tr/US$107.8mn and VND5.4tr/US$233.4mn. In terms of Masan Group Corp., two subsidiaries—Nui Phao Mining Co. Ltd. and Masan Resources JSC—issued VND1.3tr and VND500bn, respectively in 2019.

Vietnam's secondary market

Enhancing market liquidity

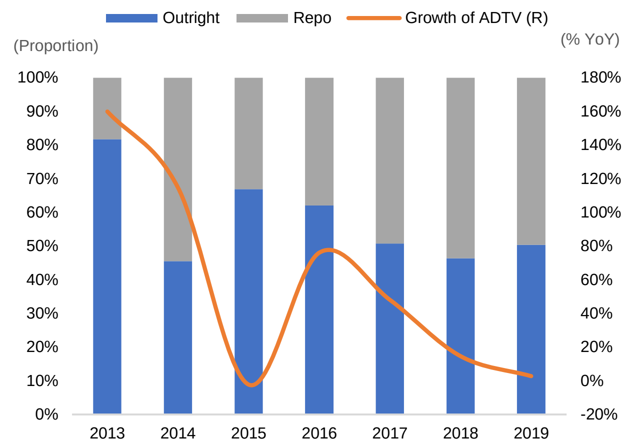
On aggregate, around VND2,257.7tr was traded on the secondary market in 2019 (+3.5% YoY), with an average daily trading value of nearly VND9tr (+2.7% YoY). Looking back, market liquidity was significantly improved in 2017. This was mainly attributable to the buoyant repurchase agreements (repos) market (2016-2019 CAGR: +22.9%pa). Additionally, outright transactions rose by 4.8% per year in the same period. Thus, the repo market has made up half of the secondary market since 2017.

Figure 27. Second market liquidity



Source: MAS Vietnam Research, Ha Noi Stock Exchange (HNX)
Note: Data compiled on 9 Feb., 2020.

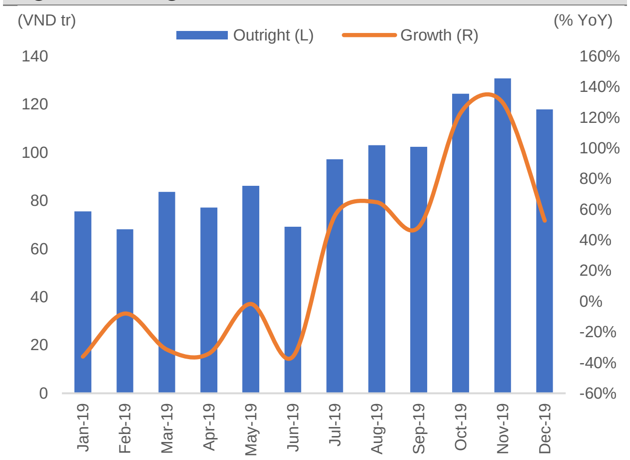
Figure 28. Second market structure



Source: MAS Vietnam Research, Ha Noi Stock Exchange (HNX)
Note: Data compiled on 9 Feb., 2020.

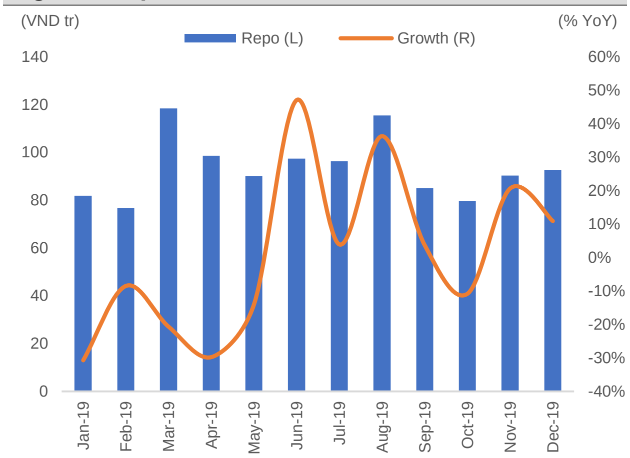
By month, the total value of G-bonds sold by the outright method showed a YoY increase since July, thereby posting a rise of 12.3% YoY in 2019. Meanwhile, the trading value via the repo market was more volatile, with the total trading amount in 2019 dropping by 4.4% YoY.

Figure 29. Outright market



Source: MAS Vietnam Research, Ha Noi Stock Exchange (HNX)
lote: Data compiled on 9 February 2020.

Figure 30. Repo market

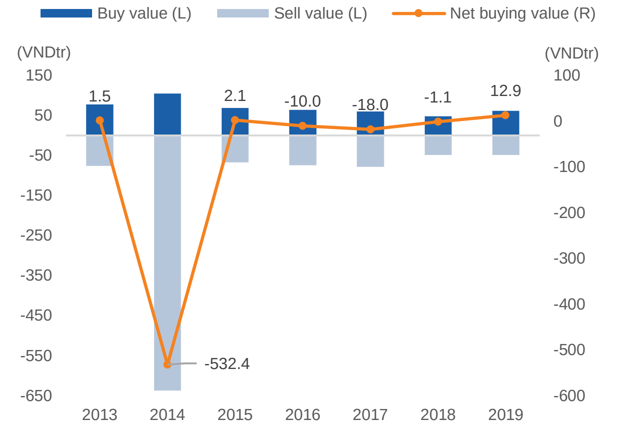


Source: MAS Vietnam Research, Ha Noi Stock Exchange (HNX)
lote: Data compiled on 9 February 2020.

Foreign investors were net buyers in 2019, after three years of net selling

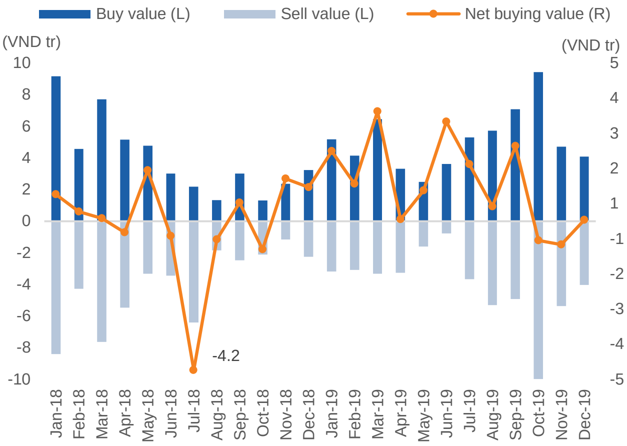
On the foreign trading front, offshore participants in the secondary market have declined significantly since 2015. In 2014, total trading value from overseas investors accounted for 25.9% of the whole market, despite a net selling value of VND532.4tr. Subsequently, the proportion of foreign trading decreased to 7.5% in 2015, and to only 2.4% in 2019. On a positive note, foreign investors were net buyers in 2019, after net selling in the previous three years. By month, they have been net buyers since November 2018, except for October-November 2019. In all, the accumulation of net disbursement in 2019 was VND12.9tr, compared with a net outflow of VND1.1tr in 2018.

Figure 31. Foreign buying and selling value by year



Source: MAS Vietnam Research, Ha Noi Stock Exchange (HNX)
Note: Data compiled on 9 Feb., 2020.

Figure 32. Foreign buying and selling value by month



Source: MAS Vietnam Research, Ha Noi Stock Exchange (HNX)
Note: Data compiled on 9 Feb., 2020.

Investment points

Roadmap for developing Vietnam's bond market

Ambitious vision for 2020

By issuing Decision No. 1191/QD-TTG on 14 August, 2017, approving the bond market development roadmap for 2017-2020, with a vision toward 2030, Vietnam's government has demonstrated its resolve to develop the bond market. The roadmap includes integrated solutions for the development of the bond market, including the legal framework, primary market, secondary market, investor base, and other basic solutions.

- Raise the outstanding volume of the bond market to 45% of GDP in 2020 and about 65% in 2030. The outstanding amount of government bonds, government-guaranteed bonds, and municipal bonds should be about 38% of GDP in 2020 and about 45% of GDP in 2030. Corporate bonds outstanding should be about 7% in 2020 and 20% in 2030.
- The average duration of G-bonds outstanding will be 7-8 years for the period 2021-2030.
- Encourage insurance firms, pension funds, investment funds, and other non-bank institutions to hold more G-bonds to 50% of total G-bonds outstanding in 2020, and to 60% in 2030.

Implications of the government's policy goals

It is assumed that Vietnam can prolong the strong momentum in GDP and control inflation following the IMF's projection. Under this backdrop, if Vietnam can accomplish the 2020 plan, this means that outstanding G-bond value will increase by US$35.1bn (or 1.5 times of current value), while outstanding C-bond value will decrease by US$7.4bn. In all, the bond market will be enlarged by 1.3 times in 2020.

Table 9. Projection following Decision No. 1191/QD-TTg

	2019F	2020F
GDP (current prices, US$ bn)	**260.5**	**282.4**
Target for outstanding bonds/GDP		45%
Implied value (US$ bn)		127.1
Current value (US$ bn)		**99.4**
Change (US$ bn)		27.7
Change (times)		**1.28**
Target for outstanding G-bond / GDP		38%
Implied value (US$ bn)		107.3
Current value (US$ bn)		**72.2**
Change (US$ bn)		35.1
Change (times)		**1.49**
Target for outstanding C-bond / GDP		7%
Implied value (US$ bn)		19.8
Current value (US$ bn)		**27.2**
Change (US$ bn)		-7.4
Change (times)		**0.73**

Source: MAS Vietnam Research (current data is as of end-3Q19, released by the MoF)

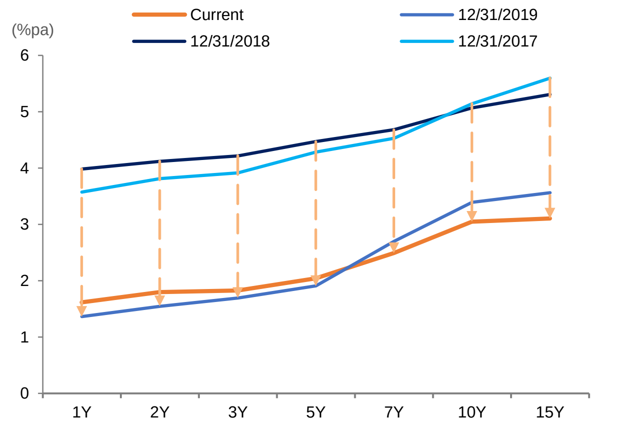
As the C-bond market experienced a boom period last year, propelled by the banking and real estate sectors, the size of the C-bond market currently already exceeds the guidance outlined in 2017. Recently, government officials have warned of the risks of high-yield C-bonds, and plan to enact rules for new issuances under Resolution 163/2018/ND-CP, such as mandating that total outstanding value via private placement be less than three times a firm's equity. For 2019, Resolution 163/2018/ND-CP has somewhat eased the conditions on bond issuance, with the key change being that the issuer does not have to see a profit in the previous year. However, in order to mitigate the risks of a booming C-bond market, the regulator plans to tighten the rules. The overly rapid development of a C-bond market can cause systemic risks, due to the absence of credit ratings for these bonds. In sum, new issuances by corporates will be reduced in 2020, in contrast with the G-bond market. As for G-bonds, the government is expected to increase their issuance, given: 1) low bond yields; 2) financing for infrastructure, as well as other fiscal needs; and 3) low public debt ratio. In fact, Vietnam plans to issue VND300tr (US$12.9bn) of sovereign bonds in 2020, out of VND459.4tr needed to balance the 2020 state budget, citing the government's report submitted to the National Assembly. Of note, the government's 2020 debt repayment was estimated at VND379.1tr. Government forecasts 2020 state overspending at VND234.8tr, or 3.44% of GDP.

Vietnam government bond yields moving downward

Overall, the bond yield curve is upward-sloping, which signals a healthy condition for the bond market. The yield curve is a graphical representation of yields on similar bonds across a variety of maturities. A normal yield curve slopes upward, reflecting the fact that short-term interest rates are usually lower than long-term rates. This is a result of increased risk premiums for long-term investments. The spread between 10-year and 2-year Treasury securities remains positive. That spread was inverted before the last recession, seen in 2008.

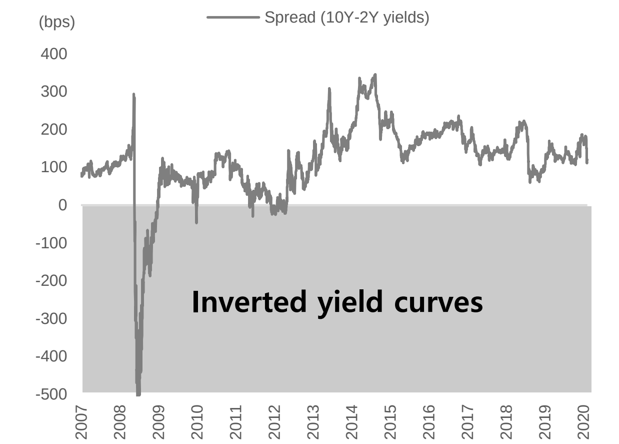
Bond yields declined for all maturities in 2019, which is consistent with low inflation expectations, the State Bank of Vietnam's recent moves, and the global trend. In return, lower bond yields spur bond offerings. However, the recent revival of inflation since November 2019 could cause a turnaround in Vietnam bond yields from its historical lows. Thus far, the yield curve has moved upward in the short-end, but downward in the long-end, compared with end-2019. This reflects expectations of an increased supply of G-bonds in 2020.

Figure 33. Vietnam yield curve



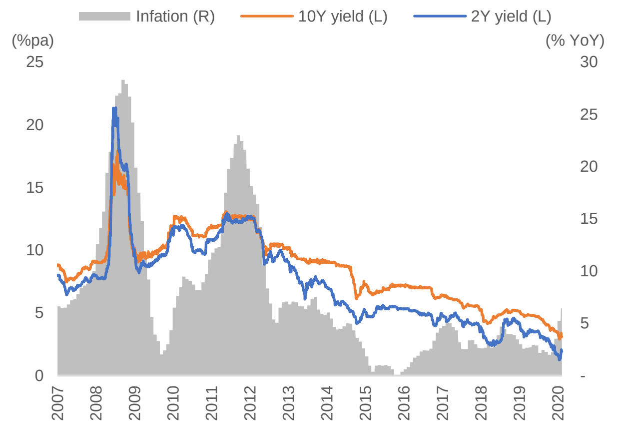
Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 9 Feb., 2020

Figure 34. Spread between 10Y and 2Y bond yields



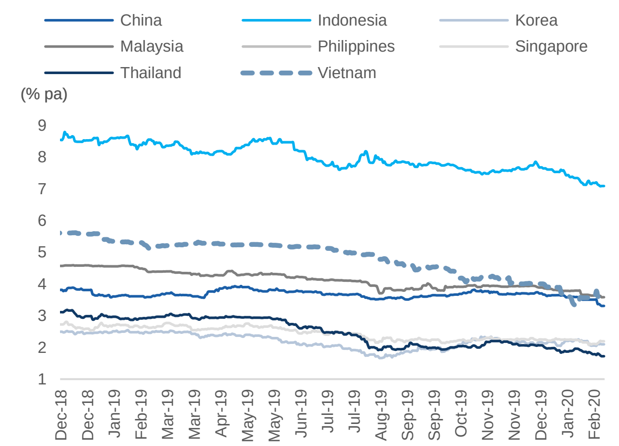
Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 9 Feb., 2020

Figure 35. Vietnam government bond vs. inflation



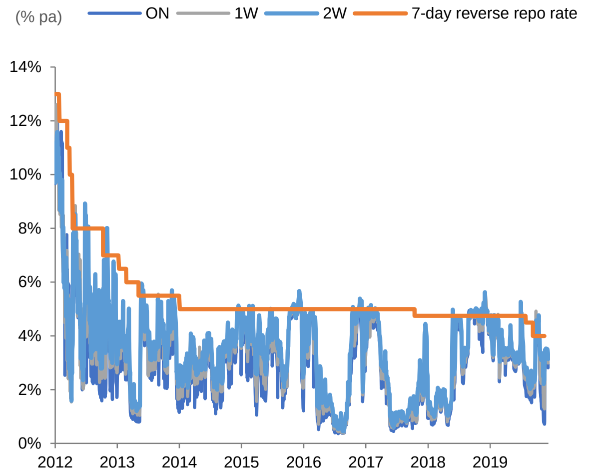
Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 9 Feb., 2020

Figure 36. Asian 10-year government bond yields comparison



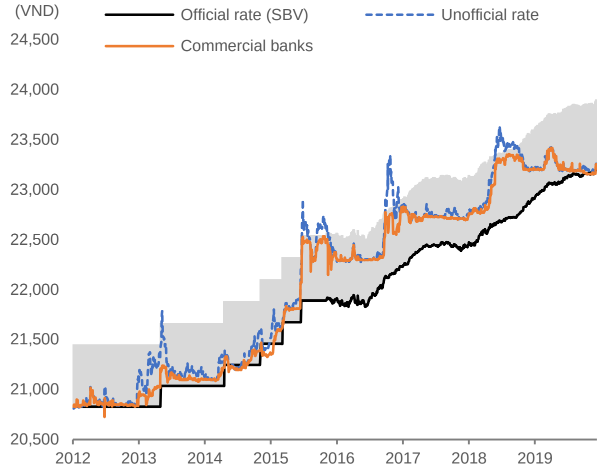
Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 9 Feb., 2020

Figure 37. Vietnam interbank rate



Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 9 Feb., 2020

Figure 38. Vietnam exchange rate



Source: MAS Vietnam Research, Bloomberg
Note: Latest data as of 9 Feb., 2020

Appendix 1: Definition

G-bonds (comprising government bond, government-guaranteed bonds, and municipal bonds) are listed and traded in the specialized government bond market, which is operated by the Ha Noi Stock Exchange (HNX). Meanwhile, C-bonds (including corporate bonds and convertible bonds) are listed and traded in the stock trading system on not only the HNX, but the Ho Chi Minh Stock Exchange (HSX). All listed long-term, fixed-income securities are immobilized at Vietnam Securities Depository (VSD) which is the single central securities depository in Viet Nam and provides securities registration, depository, and derivatives market-related services and post-trade supporting services to local market participants.

Long-term government instruments:

- **Government bonds** are bonds issued by the MOF (via VST) to raise funds for the state budget or for finance public service projects such as energy, infrastructure, and education projects, including the implementation of social welfare policies. Circular No. 111/2015/TT-BTC, issued by the MOF, provides guidelines for government bond issuance in the domestic market. Government bonds may also be **denominated in foreign currencies** when issued in the Viet Nam bond market; however, pursuant to Article 14 of Decree No. 95/2018/ND-CP, the currency used at issuance and for repayment must be a freely convertible currency. Decree No. 95/2018/ND-CP also introduced **green bonds** as a separate issuance type of government bonds in the Viet Nam bond market. Green bonds may be issued by the government or government agencies on the basis of environmental projects, and are subject to the approval of the prime minister. Government bonds have tenors of 2, 3, 5, 7, 10, 15, 20, 30, or 50 years.
- **Government-guaranteed bonds** mean bonds issued by enterprises, financial and credit institutions, and the bank for social policy of the state subject to the provisions of the Law on Public Debt Management and the payment guaranteed by the government. Government-guaranteed bonds are issued by VDB, VBSP, and VEC. VDB issued bonds before 2010 that were categorized and still referred to as government bonds. Circular No. 99/2015/TT-BTC issued by the MOF provides guidelines on the issuance of government-guaranteed bonds.
- **Municipal bonds** mean bonds issued by municipalities in order to raise funds for the local works and projects. Issuers in municipal bonds mainly are Ha Noi, Ho Chi Minh City, and other provinces like Ba Ria Vung Tau, Da Nang, Hai Phong, Quang Ninh. Issuance is subject to strict monitoring and approval by the central government. Ceiling rates are defined by the MOF at about 20–30 basis points over government bonds. Theoretically, these bonds can be held either as registered or bearer instruments denominated in Vietnamese dong, but most of them are issued in scriptless form and settled in VSD. Circular No. 99/2015/TT-BTC issued by the MOF provides guidelines on the issuance of government-guaranteed bonds.

Corporate bonds are issued by companies (joint-stock companies and limited liability companies) and SOEs. Unlisted corporate bonds are registered and held in the form of securities booklets and were generally put in bank vaults for safekeeping. In this case, banks also played the role of registrar. By fulfilling certain conditions, corporate bonds can be listed and traded on HNX and HOSE, depending on which exchange corporate bond issuers may choose to have their bonds listed. However, most corporate bonds are issued in book-entry form, registered and settled at VSD, and transferred electronically. All listed corporate bonds have to be deposited at VSD to be eligible for trading on the exchanges. **Types of C-bonds are:**

- **Corporate bond** means a type of debt securities issued by a business, acknowledging its obligation to pay both bond principal and interest and other obligations (if any) toward bondholders. The currency of a bond issue on the international market is a freely convertible foreign currency. Pursuant to Decree No. 90/2011/ND-CP, the currency used to pay bond principal and interest must be the same as the currency used upon issuance. may be issued by the following methods: (i) bond bidding, (ii) underwriting the bond issue, (iii) bond issue agency, and (iv) direct sale to bond investors. The latter is applicable only if the issuer is a credit institution.
- **Convertible bond** means a type of bond issued by a joint-stock company and convertible into common stocks of the issuing business under the conditions specified in the bond issuance plan. According to Decree No. 90/2011/ND-CP, convertible bonds and detachable warrants are subject to a lock-up period of at least 1 year from the date of completion of the issue tranche, except for a transfer to a professional securities investor or a transfer between professional investors.

APPENDIX 2

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