Vietnam—Update

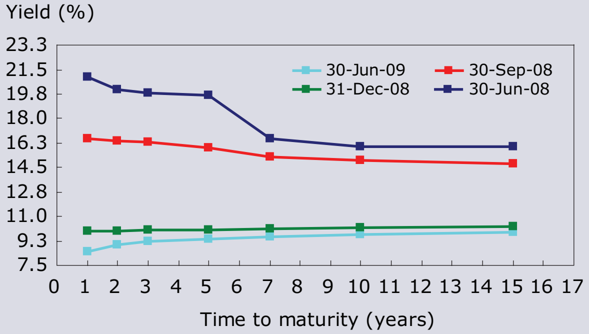
Yield Movements

The first several months of 2009 saw the State Bank of Viet Nam (SBV) gradually lowering interest rates: the prime interest rate was reduced to 7.0% from 8.5% in February; the refinancing rate was decreased in February to 8.0% from 9.5%, and was cut further in March to 7.0%; the discount rate was reduced to 6.0% from 7.5% in February, and further lowered to 5.0% in April; reserve requirement ratios for Vietnamese dong (VND)-denominated loans of less than 12 months were cut to 3.0% from 6.0%; and ratios for VND-denominated loans above 12 months were cut to 1.0% from 2.0%.

Consumer price inflation has also been on a decelerating trend compared to the previous year, falling to a record low of 3.31% year-on-year (y-o-y) in July, following a high of 17.48% y-o-y in January. On a month-on-month (m-o-m) basis however, consumer price inflation has been moving up slightly as it reached 0.52% in July.

Given these trends, Viet Nam's government bond yield curve had tightened by the end of June 2009 from its end-December 2008 position, as yields fell across all maturities along the curve **(Figure 1)**.

Figure 1: Benchmark Yield Curve—Local Currency Government Bonds



Source: Bloomberg LP.

Size and Composition

As of June 2009, Viet Nam's total VND-denominated bonds outstanding climbed by 6.1% y-o-y, or 2.4% on a quarter-on-quarter (q-o-q) basis, to VND212.7 trillion (USD11.9 billion) **(Table 1)**. VND-denominated government bonds, which comprised 96% of total VND-denominated bonds, rose by 5.3% from a year ago on the back of strong y-o-y growth in treasury bonds, Viet Nam Development Bank bonds, state-owned enterprise bonds, and Ho Chi Minh Investment Fund bonds.

VND-denominated corporate bonds increased by 30.8% y-o-y, or 8.3% m-o-m, to VND8.3 trillion in June; however, they fell by 8.3% from the previous quarter. More corporate bond issuances are being planned for the remainder of the year. Saigon Commercial Bank has been given the go-signal by the SBV to issue VND1 trillion of convertible bonds for 2009. PetroVietnam plans to issue USD500 million–USD1 billion worth of bonds by late 2009.

Viet Nam's USD-denominated government bonds have also been constantly rising since end-December 2008; from USD1.4 billion, they increased to USD1.6 billion at the end of 1Q09 and further climbed to USD1.7 billion by end-June **(Table 2)**. As of June 2009, the total amount of VND- and USD-denominated bonds outstanding in Viet Nam was USD13.7 billion, higher than the USD13.3 billion registered in March.

Rating Changes

In June, Fitch Ratings downgraded Viet Nam's long-term local currency (LCY) issuer default rating to BB- from BB due to a deterioration in the country's fiscal position that has been exacerbated by structural weaknesses, including a low revenue base and dependence on volatile oil-related revenues. Fitch Ratings affirmed the long-term foreign currency (FCY) issuer default rating, short-term FCY issuer default rating, and country ceiling

Table 1: Size and Composition of LCY Bond Market in Viet Nam

	Amount (billion)								Growth Rate (%)						
	Mar-09		Apr-09		May-09		Jun-09		Mar-09		Apr-09	May-09	Jun-09		
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	207,599.9	11.7	208,991.9	11.8	210,329.7	11.8	212,661.5	11.9	3.7	(8.2)	0.7	0.6	6.1	2.4	1.1
Government	198,568.4	11.2	201,342.2	11.3	202,680.0	11.4	204,380.0	11.5	2.4	(8.5)	1.4	0.7	5.3	2.9	0.8
Treasury Bonds	104,260.9	5.9	104,037.9	5.9	103,875.7	5.8	103,410.7	5.8	19.6	(0.4)	(0.2)	(0.2)	18.3	(0.8)	(0.4)
Central Bank Bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(100.0)	(100.0)	0.0	0.0	(100.0)	0.0	0.0
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds, and Other Bonds	94,307.5	5.3	97,304.3	5.5	98,804.3	5.6	100,969.3	5.7	13.6	2.4	3.2	1.5	21.6	7.1	2.2
Corporate	9,031.5	0.5	7,649.7	0.4	7,649.7	0.4	8,281.5	0.5	42.6	0.0	(15.3)	0.0	30.8	(8.3)	8.3

y-o-y = year-on-year, q-o-q =quarter-on-quarter, m-o-m = month-on-month.

Note:

1. Bloomberg end-of-period local currency (LCY)–USD rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.

Sources: Bloomberg LP.

Table 2: Size of USD-Denominated Government Bonds in Viet Nam

Period	Bonds Outstanding (USD billion)
Dec-08	1.4
Mar-09	1.6
Jun-09	1.7

Source: Bloomberg LP.

at BB, B, and BB-, respectively; and revised all rating outlooks to stable from negative.

Policy, Institutional, and Regulatory Developments

Regulation on Domestic Issuance of Long-Term Bonds and Certain SBV Functions and Tasks Amended

In August, SBV amended rules on the domestic issuance of long-term bonds, including convertible bonds and warrant-linked bonds. According to SBV, this change was made in order to facilitate the issuance of such instruments by credit institutions "so as to meet the requirements of economic development."

SBV also revised certain provisions on the functions and tasks of SBV's relevant entities to be consistent with the mandate, functions, tasks, and organizational structure of the Financial Supervision Agency (FSA), which was established in May.

Regulation on Use of Short-Term Funds for Medium to Long-Term Loans Amended

In August, SBV set a new maximum ratio of short-term capital resources that credit institutions can utilize for their medium- and long-term loans. Based on the SBV, 30% is the maximum ratio for commercial banks and finance and leasing companies, while 20% is the maximum for the Central People's Credit Fund.

Viet Nam Bond Market Association Launched

In August, the Viet Nam Bond Market Association (VBMA) was launched with more than 50 members, including foreign and local commercial banks, securities firms, and other financial institutions. It was created to support the development of Viet Nam's bond market, enhance the capacity of its members, and improve the efficiency of the domestic bond market. Over the 2009–2012 period, VBMA plans to put in place a centralized database, a code of conduct and ethics, a set of market practices, and training programs for its members.

Foreign Currency Government Bonds Allowable as Mortgage for VND Loans from the State Bank of Viet Nam

In July, SBV issued a decision that allows commercial banks to use FCY government bonds as a mortgaged asset in order to borrow VND-denominated loans from SBV.

Financial Supervision Agency Established

In May, the FSA was established and placed under SBV's jurisdiction. The FSA will perform administrative and specialized supervision of banking operations within the ambit of SBV; advise and assist the SBV Governor in the oversight of credit institutions and small-sized financial institutions, as well as banking operations of other institutions; and combat money laundering activities.

Listing and Trading of USD-Denominated Government Bonds Approved

The State Securities Commission of Viet Nam released a decision in May regulating the listing and trading of USD-denominated government bonds at the Hanoi Securities Trading Center. Procedures on the listing and trading of these bonds are similar to those for VND-denominated government bonds. This legal framework aims to attract more bond issuance and guarantee liquidity in Viet Nam's bond market.

Interest Rate Subsidy Program Launched

SBV launched the interest rate subsidy program in the first half of 2009. As of 9 July, the program had subsidized interest rate payments on loans totaling VND375.9 trillion, of which VND266.8 trillion were disbursed by state-owned commercial banks and the Central People's Credit Fund; VND87.2 trillion by joint-stock commercial banks; VND18.3 trillion by joint-venture banks, foreign bank branches, and wholly-owned foreign banks; and VND3.7 trillion by finance companies. On the borrowing side, private enterprises received the largest amount of interest rate subsidies (VND248.5 trillion), followed by households (VND69.3 trillion), and state-owned enterprises (VND68.2 trillion).

USD1 Billion Economic Stimulus Package

In January, the Government of Viet Nam approved an economic stimulus package worth VND17 trillion (USD1 billion) to help businesses cope with the economic slowdown in 2009. This fund will be used to subsidize as much as four percentage points of interest rate payments for 12-month bank loans provided to most firms (excluding importers of non-essential products and stock and financial investors). Both the Ministry of Finance and Viet Nam Development Bank plan to establish a VND200 billion credit guarantee fund for enterprises with capital of less than VND20 billion and staff of less than 500 workers. The Ministry of Finance has also allowed individuals and firms to delay payments for income taxes, value-added taxes, and tariffs on exports and imports.