

Viet Nam—Update

Yield Movements

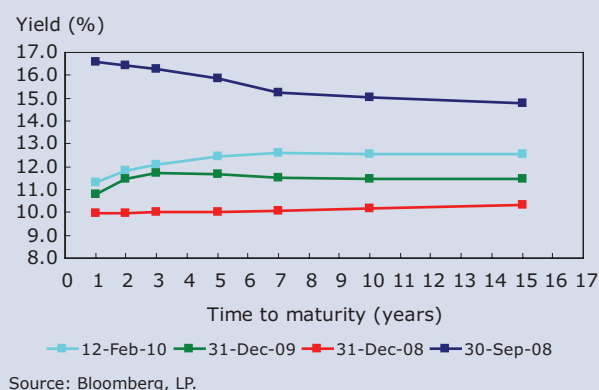
As of mid-February, the Vietnamese government bond yield curve had widened from end-December 2009 levels as yields rose across all maturities (**Figure 1**). Yields for 2- and 10-year maturities climbed 37 basis points and 112 basis points, respectively. The yield spread between 2- and 10-year government bonds widened to 73.7 basis points on 12 February compared to a spread of -1.7 basis points at end-December 2009.

The rise in government bond yields over the December 2009–February 2010 period reflects expectations of potential monetary tightening in the face of accelerating inflation. The State Bank of Viet Nam (SBV) has kept the benchmark rate unchanged for three consecutive months this year amid accelerating inflation and rising share prices. However, in December 2009, SBV raised its benchmark rate by 1 percentage point to 8.0% for the first increase since January 2009. The refinancing rate and discount rate were also raised to 8.0% and 6.0%, respectively.

Consumer price inflation accelerated to a 6-month high of 8.46% year-on-year (y-o-y) in February as the Lunar New Year (Tet holiday) fueled price hikes. Viet Nam's economy expanded in 2009 at an annual rate of 5.32%, driven by the industry and construction, and services sectors. While Viet Nam exceeded its target of 5.0% annual growth in 2009, the figure was lower than the 6.18% growth rate recorded in 2008.

SBV implemented bold measures to stabilize the money market in the face of gold and foreign exchange speculation, and rising credit growth. SBV narrowed the trading band of the Vietnamese dong against the US dollar to $\pm 3\%$ from $\pm 5\%$, and at the same time devalued the dong twice to an exchange rate of VND18,544–USD1. Meanwhile, credit expanded 37.7% in 2009, exceeding the cap of 30.0% set by SBV.

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



Size and Composition

The total amount of local currency (LCY) bonds outstanding in Viet Nam as of December 2009 stood at VND217.6 trillion (USD11.8 billion), which represented a decline of 6.3% y-o-y (**Table 1**). Compared to 3Q09, total bonds outstanding decreased 2.8% in 4Q09.

Government bonds, which comprised about 92% of total bonds outstanding, stood at VND200.1 trillion at end-December for a decline of 4.7% quarter-on-quarter (q-o-q) and 9.8% y-o-y. The quarterly drop in government bonds was induced by an 11.6% decline in treasury bonds to VND90.3 trillion. Meanwhile, the amount of central bank bonds remained unchanged in 4Q09 at VND1.7 trillion. Other bonds, including Viet Nam Development Bank (VDB) bonds and state-owned enterprise bonds, stood at VND108 trillion at end-December for an increase of 1.8% q-o-q and 9.0% y-o-y.

The Ministry of Finance had estimated bond issuance in 2009 of VND200 trillion. Specifically, the State Treasury's issuance needs were estimated at VND126 trillion, VDB's were VND40 trillion, and the Viet Nam Bank for Social Policies' (VBSP) were VND10 trillion. However, in 2009, actual bond

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

	Amount (billion)						Growth Rate (%)											
	Sep-09		Oct-09		Nov-09		Dec-09		Sep-09		Oct-09		Nov-09		Dec-09			
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m	
Total	223,837.9	12.5	226,262.9	12.7	219,094.9	11.9	217,628.8	11.8	11.8	4.5	3.6	1.1	(6.3)	(2.8)	(0.7)	(6.3)	(2.8)	(0.7)
Government	210,053.0	11.8	210,278.0	11.8	203,110.0	11.0	200,143.8	10.8	10.8	2.9	2.7	0.1	(9.8)	(4.7)	(1.5)	(9.8)	(4.7)	(1.5)
Treasury Bonds	102,120.7	5.7	99,550.7	5.6	92,377.7	5.0	90,313.7	4.9	4.9	8.8	(1.7)	(2.5)	(7.2)	(11.6)	(2.2)	(11.9)	(11.6)	(2.2)
Central Bank Bonds	1736.0	0.1	1736.0	0.1	1736.0	0.1	1736.0	0.1	0.1	(92.7)	-	0.0	0.0	(91.4)	0.0	(91.4)	0.0	0.0
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	106,196.3	6.0	108,991.3	6.1	108,996.3	5.9	108,094.2	5.8	5.8	22.8	5.6	2.6	0.0	1.8	0.0	9.0	1.8	(0.8)
Corporate	13,784.9	0.8	15,984.9	0.9	15,984.9	0.9	17,484.9	0.9	0.9	35.4	18.0	16.0	0.0	68.4	26.8	68.4	26.8	9.4

- = not applicable, m-o-m = month-on-month, q-o-q = quarter-on-quarter, y-o-y = year-on-year.

Notes:

1. Bloomberg end-of-period LCY—USD rates are used.

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

Source: Bloomberg LP.

issuance was much lower than expected as the State Treasury issued VND7.0 trillion in bonds, VDB issued VND4.86 trillion, and VBSP issued VND2.0 trillion.

State-owned Petrovietnam Finance Co. (PVFC) sold VND2.8 trillion of senior unsecured bonds in October 2009. The 3-year bonds carried a 10.4% coupon. In 2010, PVFC is planning to issue USD1 billion–USD2 billion of bonds domestically and abroad to raise funds for investment.

The stock of corporate bonds in 4Q09 climbed 26.8% q-o-q and 68.4% y-o-y to VND17.5 trillion on the back of several large corporate issues. Viet Nam Technological and Commercial Joint Stock Bank (Techcombank) raised VND2.1 trillion of 3-year senior unsecured bonds in October, the largest bond issuance by a financial institution in 2009. The real estate firm, Vincom Joint Stock Company (VINCOM JSC), issued VND1 trillion of 3-year mortgage bonds in December with a 14.5% coupon.

The Vietnamese government successfully issued USD1 billion of international bonds in January. The 10-year bonds carry a coupon of 6.75%, which is higher than the 5.67% yield on Philippine sovereign bonds and the 6.06% yield on Indonesian sovereign bonds issued earlier in 2010. Of the bonds sold, 56% were placed with United States (US) investors, 28% with Asian investors, and 16% with European investors. Asset fund managers bought 73%, followed by insurers and pension funds (10%), retail investors (9%), banks (7%), and other investors (1%). Proceeds will finance various energy and transportation projects. Moody's has assigned a foreign currency (FCY) rating of Ba3 with a negative outlook.

Rating Changes

In 12 March 2010, Fitch Ratings placed Viet Nam's long-term foreign and local currency rating of BB–on Rating Watch Negative (RWN), citing weakness of the Vietnamese dong and a lack of transparency for key economic indicators, such as international reserves and balance of payments (**Table 2**).

Table 2: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba3	BB	BB-
Outlook	negative	negative	watch negative

FCY = foreign currency and LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

Viet Nam to Lift Ceiling on Foreign Ownership Ratio in Local Businesses

The Viet Nam State Securities Commission is expected to release a decision raising the ceiling on the foreign ownership ratio in local business to 49%. While the maximum level of foreign ownership in public companies will increase from 30% to 49% of total chartered capital, the increase will not apply to credit institutions. For foreign-owned member funds, 100% foreign ownership will be allowed.

Regulations on Establishment of Commercial Banks

SBV is drafting more detailed ground rules on the establishment of new joint stock commercial banks. The new regulations would lift the freeze on and tighten rules for establishing new banks. SBV froze the establishment of new commercial banks in August 2008 to stop the proliferation of weak banks.

Viet Nam to Carry Out Further State-Owned Enterprise Reforms

The Vietnamese government is set to implement reforms on the equitization of state-owned enterprises following the Asian Development Bank's award of up to USD630 million to support the reform effort. Since 1992, the government has arranged 5,660 state-owned enterprises, of which 379 were transformed into single-member limited liability firms; 3,896 were equitized; 197 were transferred; 155 were sold; 30 were leased; 532 were merged with other firms; and 471 were dissolved. The government still holds 100% equity in 1,500 enterprises and is planning to improve the efficiency, profitability, and transparency of a number of large state-owned corporations.