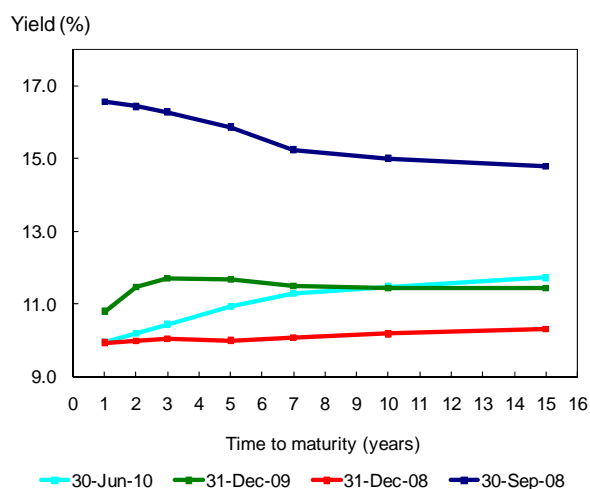


Viet Nam—Update

Yield Movements

As of end-June, the Vietnamese government bond yield curve steepened sharply at its shorter end, but by a much more modest amount at the longer end of the curve (**Figure 1**). The yield spread between 2- and 10-year government bonds widened to 127.7 basis points at end-June compared to a spread of -1.7 basis points at end-December 2009.

Figure 1: Viet Nam Government Bond Yield Curves



Source: Bloomberg LP.

The modest steepening from the belly to the longer end of the curve over the December 2009–June 2010 period reflects expectations of potential monetary tightening in the face of accelerating inflation. The State Bank of Viet Nam (SBV) has kept its policy rate unchanged for 6 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 stood at 8.69% year-on-year (y-o-y) in June, down from 9.05% y-o-y in May. The easing of prices in food and other essential commodities such as petrol, oil, building materials, and medicines helped mitigate inflationary pressures. Viet Nam's

economy expanded 5.83% y-o-y in 1Q10, driven by the construction, tourism, and banking services sectors. This year's first quarter growth is twice as fast as last year's first quarter growth of 3.14% y-o-y. Viet Nam's GDP growth for 2010 is targeted to reach 6.5%.

Size and Composition

As of March 2010, the total amount of local currency (LCY) bonds outstanding in Viet Nam stood at VND216.9 trillion (USD11.4 billion), representing a 3.4% y-o-y increase from VND209.7 trillion (USD12 billion) in March 2009 (**Table 1**). Compared with 4Q09, total bonds outstanding decreased 0.3% in 1Q10.

Government bonds stood at VND200.8 trillion at end-March for an increase of 0.4% y-o-y, while declining 0.3% on a quarter-on-quarter (q-o-q) basis. The quarterly drop in government bonds was induced by an 88.5% decline in central bank bonds to VND200 billion as well as a 1.2% drop in Viet Nam Development Bank and state-owned enterprise (SOE) bonds. Meanwhile, the amount of treasury bonds increased 2.4% q-o-q in 1Q10 to VND92.5 trillion.

In 1Q10, the Vietnamese government issued VND3.9 trillion (USD200 million) worth of government bonds, VND7.45 trillion (USD390 million) worth of treasury bills, and VND10.1 trillion (USD530 million) worth of Viet Nam Development Bank bonds. The biggest issuances for the quarter included

- 1-year treasury bills worth VND4 trillion (USD210 million),
- 2-year Viet Nam Development Bank bonds worth VND4 trillion (USD210 million), and
- 2-year government bonds worth VND2.72 trillion (USD143 million).

State-owned Vietnam Expressway Corporation issued the following bonds in 1Q10 to fund various infrastructure development projects:

- VND368 billion of 3-year bonds at a coupon of 12.8%,
- VND500 billion of 5-year bonds at a coupon of 13.3%,
- VND8.2 billion of 5-year bonds at a coupon of 12.5%, and

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

	Amount (billion)								Growth Rate (%)							
	Dec-09		Jan-10		Feb-10		Mar-10		Dec-09		Jan-10		Feb-10		Mar-10	
	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	217,628.8	11.8	207,990.0	11.3	207,920.5	10.9	216,936.4	11.4	(6.3)	(2.8)	(4.4)	(0.0)	3.4	(0.3)	4.3	
Government	201,478.8	10.9	191,708.5	10.4	191,770.5	10.1	200,786.5	10.5	(9.2)	(4.6)	(4.8)	0.0	0.4	(0.3)	4.7	
Treasury Bonds	90,313.7	4.9	85,320.2	4.6	85,750.2	4.5	92,480.2	4.8	(11.9)	(11.6)	(5.5)	0.5	(11.3)	2.4	7.8	
Central Bank Bonds	1,736.0	0.1	200.0	0.0	200.0	0.0	200.0	0.0	(91.4)	0.0	(88.5)	0.0	-	(88.5)	0.0	
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	109,429.2	5.9	106,188.4	5.7	105,820.4	5.5	108,106.3	5.7	10.4	1.9	(3.0)	(0.3)	12.8	(1.2)	2.2	
Corporate	16,149.9	0.9	16,149.9	0.9	16,149.9	0.8	16,149.9	0.8	55.6	28.7	0.0	0.0	66.8	0.0	0.0	

- = 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.

- VND500 billion of 5-year bonds at a coupon of 13.0%.

In April, Viet Nam Electricity issued 5-year bonds worth VND1 trillion and with a coupon of 13.9%.

Meanwhile, the Vietnamese government successfully issued USD1 billion of foreign currency (FCY) bonds in January 2010. The 10-year bonds carry a coupon rate of 6.75%, which is higher than the 5.67% yield on Philippine sovereign bonds and the 6.06% yield on Indonesian sovereign bonds that were issued earlier this year. Proceeds will finance energy and transportation projects. Moody's Investors Service has assigned an FCY rating of Ba3 with a negative outlook.

The stock of corporate bonds in 1Q10 climbed 66.8% y-o-y to VND16.1 trillion, while on a quarterly basis, total corporate bonds remained unchanged. In April, Song Da Holdings issued VND1.25 trillion of 5-year bonds with a coupon of 15.0%, while real estate company Long Hau Corporation issued VND200 billion of 3-year bonds with a coupon of 15.0%. In May, property developer Vincom Joint Stock Company (VINCOM JSC) issued VND1 trillion worth of 5-year bonds with a 16.0% coupon. Proceeds of the VINCOM JSC bond issue will fund construction projects.

As of end-March, the top 10 corporate and SOE issuers in Viet Nam represented 92.4% of total LCY corporate and SOE bonds outstanding (**Table 2**). Issuers were mainly from the financial and industrial sectors. Viet Nam

Development Bank ranked first with outstanding bonds totaling VND66.3 trillion, followed by the Bank for Investment and Development of Viet Nam (VND8.4 trillion), and Viet Nam Electricity (VND7.6 trillion).

Table 2: Top 10 Corporate and SOE Issuers as of March 2010

Issuer	Amount Outstanding (VND billion)
1. Vietnam Development Bank (VDB)	66,347.5
2. Bank for Investment and Development of Vietnam (BIDV)	8,362.1
3. Vietnam Electricity	7,600.0
4. Vietnam Shipbuilding Industries (VINASHIN)	4,500.0
5. Vincom JSC	4,000.0
6. Vietnam National Coal	3,599.9
7. Vietnam National Coal	3,000.0
8. Petrovietnam Finance JSC	2,800.0
9. Highway Investment and Development Co	2,711.2
10. Vietnam Bank for Social Policies	2,100.0
Vietnam Technological and Commercial Bank (Techcombank)	2,100.0
Total - Top 10	107,120.7
Total - Corp. and SOE Bond Outstanding	115,968.2
% of Total Corp. and SOE Bond Outstanding	92.4

SOE = state-owned enterprise.

Source: Bloomberg LP.

Policy, Institutional, and Regulatory Developments

Tax on Foreign Investors to Rise in June 2010

The Finance Ministry of Viet Nam amended Circular No 134/2008/TT-BTC issued 31 December 2008. The circular guides the implementation of taxes on foreign institutions and individuals doing business in Vietnam. Effective 7 June 2010, foreign investors were

made subject to a 10% income tax on interest derived from certificates of deposit (CDs) and bonds, with the exception of government bonds.

SBV Plans to Increase Banks' Minimum Capital Requirements

SBV will issue a new decree that requires a minimum capital requirement of VND5 trillion to establish a bank starting in 2012. The decree is based on credit institutions' safety standards. SBV also plans to double the capital requirement in 2015. The government has recently required existing commercial banks to increase their registered capital to at least VND3 trillion by the end of 2010. This is triple the current minimum level of VND1 trillion.

Law on Bankruptcy Applied to Credit Institutions

The government has issued a decree regulating the application of the Law on Bankruptcy to credit institutions. Effective 15 March, a list of specific guidelines and procedures for dealing with insolvent credit institutions was implemented that covered the following topics:

- conditions and procedures for filing bankruptcy petitions,
- determination of assets and obligations,
- measures for safeguarding assets during bankruptcy proceedings,
- conditions and procedures to recover business operations,
- procedures for liquidation of assets and the declaration of bankruptcy, and
- the rights and responsibilities of petitioners and creditors.

Prior to this decree, no credit institution had ever been declared bankrupt as the government had implemented a policy of rescuing insolvent institutions.

SBV Deregulates Interest Rates

SBV released a circular in April removing the interest rate cap on loans by commercial banks, allowing them to lend at negotiated or market interest rates. Previous regulations had capped interest rates on loans at one and a half times the benchmark rate. However, several banks

have been demanding higher rates than the cap of 12%. The deregulation caused rates to increase to an average of 16%–18% per annum, and as high as 20% in some cases. The government, however, also has implemented measures to moderate interest rate hikes by injecting additional capital into the commercial banking system via open market operations.