

Viet Nam—Update

Yield Movements

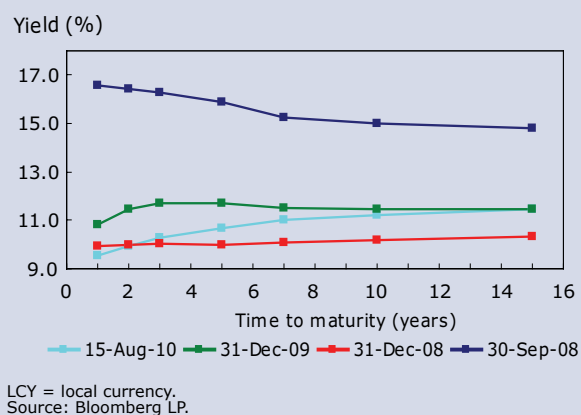
The Vietnamese government bond yield curve steepened between end-December 2009 and mid-August 2010 as yields fell from the short-end to the belly of the curve (**Figure 1**). Yields on 1-, 2-, 3- and 5-year maturities fell up to 150 basis points through mid-August, while the yield spread between 2- and 10-year maturities widened to 126 basis points, compared with a spread of -2 basis points at the end-December.

The State Bank of Viet Nam (SBV) has kept its policy rate unchanged for 9 consecutive months as the government is seeking to boost lending. The base rate is being maintained at 8.0%, while the refinancing and discount rates are being kept unchanged at 8.0% and 6.0%, respectively.

Viet Nam's economic growth accelerated to 6.4% year-on-year (y-o-y) in 2Q10 as revived bank lending helped boost manufacturing and consumer spending. Gross domestic product (GDP) in 1Q10 expanded 5.83% y-o-y. Viet Nam's GDP is expected to expand 6.5% in 2010, higher than the 5.32% growth recorded in 2009. Consumer price inflation eased to 8.19% y-o-y in July, compared with 8.69% in June, as banks lowered interest rates and input costs stabilized.

The SBV devalued the Vietnamese dong by 2.1%, effective 18 August, in an effort to control Viet Nam's widening trade deficit. The trade deficit for the first 6 months of the year stood at USD6.7 billion, compared with USD2.1 billion in the same period last year. This was the third devaluation of the dong since November; the dong was devalued by 5.4% in November 2009 and by 3.4% in February 2010. The new reference rate was set at VND18,932 per USD1, from the previous average interbank rate of VND18,544 per USD1. The daily trading band was maintained at 3.0%.

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



Size and Composition

As of June 2010, total local currency (LCY) bonds outstanding in Viet Nam stood at VND293.6 trillion (USD15.4 billion), representing a 35.8% y-o-y increase from VND227.6 trillion (USD12.0 billion) in March 2010 (**Table 1**). Compared with 1Q10, total bonds outstanding increased 29.0% in 2Q10.

Viet Nam's total government bonds outstanding rose 28.8% y-o-y, and 29.4% on a quarter-on-quarter (q-o-q) basis, to VND264.6 trillion (USD14.0 billion). The quarterly increase in government bonds was driven by 30.2% growth in treasury bonds to VND120.4 trillion as well as 28.8% growth in Viet Nam Development Bank and state-owned enterprise bonds. Meanwhile, the amount of central bank bonds remained unchanged in 2Q10 at VND200 billion.

Government bonds represented 90% of total bonds outstanding in the Vietnamese bond market in 2Q10. Major issuers—measured by the amount of bonds outstanding as of end-June—included the national government (VND30.0 trillion), Viet Nam Bank for Social Policies (VND8.4 trillion),

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

	Amount (billion)						Growth Rate (%)									
	Mar-10		Apr-10		May-10		Jun-10		Mar-10		Apr-10		May-10		Jun-10	
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m
Total	227,596.9	11.9	256,867.2	13.5	277,029.2	14.6	293,569.2	15.4	8.5	2.3	7.8	35.8	29.0	6.0		
Government	204,507.0	10.7	232,077.3	12.2	251,189.3	13.2	264,629.3	13.9	2.7	1.5	8.2	28.8	29.4	5.4		
Treasury Bonds	92,490.2	4.8	98,095.2	5.2	108,950.2	5.7	120,390.2	6.3	(11.3)	2.4	11.1	15.9	30.2	10.5		
Central Bank Bonds	200.0	0.0	200.0	0.0	200.0	0.0	200.0	0.0	—	88.5)	—	—	—	—		
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	111,816.8	5.9	133,782.1	7.0	142,039.1	7.5	144,039.1	7.6	17.9	2.2	6.2	41.8	28.8	1.4		
Corporate	23,089.9	1.2	24,789.9	1.3	25,839.9	1.4	28,939.9	1.5	116.2	10.0	7.4	170.9	25.3	12.0		

— = not applicable, LCY = local currency, 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.

Viet Nam Development Bank (VND21.8 trillion), and Viet Nam Electricity (VND3.0 trillion). The Vietnamese government has issued bonds to repay maturing bonds and to cover the budget deficit, which is expected to reach 6% of GDP this year. The government plans to issue VND100 billion for the whole of 2010, but only VND40 billion had been raised as of July.

Vietnamese state-owned conglomerates Petrovietnam, the Viet Nam Coal and Mineral Industries Group (Vinacomin), and Viet Nam Electricity each plan to issue foreign currency (FCY) bonds worth USD1.0 billion in 4Q10, with the goal of using the raised funds for their respective capital mobilization efforts.

VND-denominated corporate bonds increased 170.9% y-o-y, and 25.3% q-o-q, to VND29.0 trillion (USD1.5 billion) in 2Q10. The top issues for the quarter included VND3.0 trillion in bonds from Vietnam JSC Commercial Bank and VND1.5 trillion in bonds from Song Da Holdings. In May, property developer Vincom Joint Stock Company (Vincom JSC) issued VND1.0 trillion worth of 5-year bonds with a 16.0% coupon. Proceeds from the Vincom JSC bond issue will fund construction projects.

As of end-June, LCY corporate issuers' total bonds outstanding stood at VND28.9 trillion (USD1.5 billion) (**Table 2**). Most of the LCY corporate issuers were from the financial and industrial sectors. Vincom JSC ranked first with outstanding bonds totaling VND5.0 trillion, followed by the FPT Corporation and Asia Commercial Bank, which each had VND3.6 trillion in total bonds outstanding. Vincom JSC is the only major Vietnamese corporation that has issued an FCY bond to date (USD100 million).

Rating Changes

In June 2010, Standard and Poor's affirmed Viet Nam's long-term FCY rating of BB with a negative outlook, reflecting the increased vulnerability of the economy to severe shocks as well as risks to financial stability (**Table 3**). Standard & Poor's also affirmed Viet Nam's long-term LCY rating of BB+.

Table 2: Corporate Issuers, June 2010

Corporate Issuers	Outstanding Amount		
	LCY Bonds (VND billion)	LCY Bonds (USD billion)	FCY Bonds (USD billion)
Vincom JSC	5,000	0.26	0.1
FPT Corporation	3,600	0.19	—
Asia Commercial Joint Stock Bank	3,600	0.19	—
Vietnam JSC Commercial Bank	3,000	0.16	—
Techcombank	3,850	0.2	—
Saigon Securities Inc	2,000	0.1	—
Saigon Thuong Tin Commercial	2,000	0.1	—
Song Da Holdings	1,500	0.08	—
Military Commercial Bank	1,000	0.05	—
Vinpearl Land Tourism JSC	1,000	0.05	—
Kinh Bac City Development	500	0.03	—
Songda Urban & Industrial	500	0.03	—
HCMC General Import Export	450	0.02	—
Binh Chanh Construction	300	0.02	—
Long Hau Corp	200	0.01	—
Minh Phu Seafood JSC	200	0.01	—
Transforwarding Warehouse	100	0.01	—
Khang Dien House Trading	90	0	—
Son Ha International	50	0	—
TOTAL	28,940	1.52	0.1

— = not applicable, FCY = foreign currency, LCY = local currency.
Source: Bloomberg LP.

In July, Fitch Ratings announced that it had downgraded both its long-term FCY and LCY issuer default ratings for Viet Nam to B+ from BB-. Fitch placed Viet Nam on a stable outlook, replacing the negative outlook announced in March 2010. Fitch also downgraded Viet Nam's country ceiling from BB- to B+, and affirmed its short-term FCY issuer default rating of B.

Policy, Institutional, and Regulatory Developments

Tax on Foreign Investors Hiked in June 2010

In May, the Finance Ministry amended Circular No. 134/2008/TT-BTC, which had been issued on 31 December 2008. The circular guides the

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

	Moody's	S&P	Fitch
Sovereign FCY LT Ratings	Ba3	BB	B+
Outlook	negative	negative	stable

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

implementation of taxes on foreign institutions and individuals doing business or earning income in Viet Nam. Effective 7 June 2010, foreign investors were made subject to a 10% income tax on interest derived from certificates of deposit and bonds, with the exception of government bonds.

SBV to Base Policy Rate on Market Rates

In June, the Vietnamese National Assembly passed legislative amendments requesting the SBV to use market interest rates as a basis of monetary policy. The SBV usually publishes a base rate every month, but with the amendment, the SBV will publish monthly market rates as reported by credit institutions. The changes will take effect on 1 January 2011.

Limited Liability Companies to Issue Bonds

In July, the Ministry of Finance issued a draft decree that allows limited liability companies to issue corporate bonds in the domestic and international capital markets. The draft decree identifies which limited liability companies are allowed to issue bonds and provides a legal framework to enterprises on international bond issuance.

Fees on Corporate Bonds to be Cut by 50%

In August, the prime minister's working group proposed that the Finance Ministry reduce corporate bond issuance acceptance fees by 50% in an effort to harmonize such fees with those on other licenses such as investment registration

and construction licenses. The proposed changes would adjust fees to the following levels: (i) VND 5million for bond issues of less than VND50 billion, (ii) VND10 million for issues of less than VND150 billion, (iii) VND17.5 million for issues of less than VND250 billion, and (iv) VND25 million for issues larger than VND250 billion.