

Viet Nam—Update

Yield Movements

Vietnamese government bond yields fell for all maturities between end-December 2009 and end-October 2010 (**Figure 1**). Yields at the short-end of the curve fell by over 100 basis points more than yields along the rest of the curve, resulting in a modest steepening. Yields fell the most for the 3-year tenor, dropping 187 basis points, while yields for 7-, 10-, and 15-year bonds declined by 66, 37, and 13 basis points, respectively. The yield spread between 2- and 10-year maturities widened to 144 basis points at end-October from a spread of -2 basis points at end-December.

The decline in government bond yields at the short-end of the curve reflected the fact that the State Bank of Viet Nam (SBV) has kept its base interest rate unchanged at 8.0% since December 2009 as it strives to boost bank lending. However, on 5 November, SBV decided to increase the base interest rate by 100 basis points to 9.0%. This followed its recent decision on 27 October to maintain the policy rate at 8.0% for the twelfth consecutive month. The SBV also raised other interest rates such as the discount rate and the refinancing rate by 100 basis points each to 7.0%

and 9.0%, respectively. The much smaller decline in yields at the longer-end of the curve reflects concerns over rising inflation.

Consumer price inflation rose to 9.7% year-on-year (y-o-y) in October, compared with 8.9% y-o-y in September, as a result of continued hikes in food prices and education services. The General Statistics Office of Viet Nam has taken the view that inflation will continue to fluctuate in the remaining months of 2010 due to increases in essential commodity prices, a continuous depreciation of the Vietnamese dong against the United States (US) dollar, and price hikes for industrial inputs and imported products.

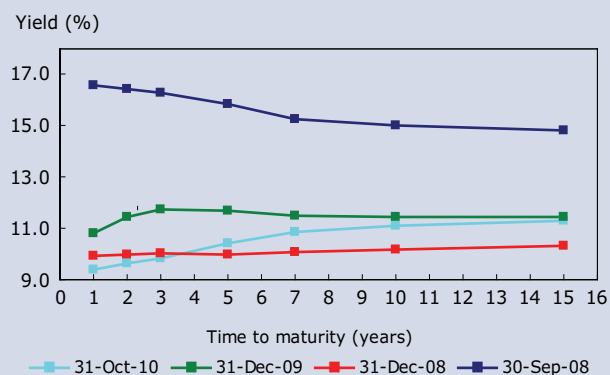
Viet Nam's gross domestic product (GDP) grew 6.5% y-o-y in 3Q10 as the industry/construction sector and the services sector grew 7.3% and 7.2%, respectively. Viet Nam's economy expanded 6.4% y-o-y in 2Q10. GDP is expected to expand 6.7% for all of 2010, compared with 5.3% annual growth in 2009.

Size and Composition

Viet Nam's total local currency (LCY) bonds outstanding grew 27.4% y-o-y to reach VND290 trillion (USD14.9 billion) as of end-September 2010 (**Table 1**). Total LCY bonds outstanding declined on both a quarter-on-quarter (q-o-q) and month-on-month (m-o-m) basis by 1.0% and 1.8%, respectively. The LCY bond market q-o-q growth rate soared to 29% in 2Q10, following growth of only 2.3% in 1Q10 and similarly-low, single-digit growth for most of 2009. Meanwhile, the corporate bond market grew very rapidly in 2009 and 1H10 before contracting by 6.1% on a q-o-q basis in 3Q10.

Total VND-denominated government bonds outstanding stood at VND265 trillion as of end-September, rising 25.5% y-o-y, while falling 0.5% q-o-q. The quarterly decline in government bonds was due to a 1.6% drop in outstanding

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



LCY = local currency.
Source: Bloomberg LP.

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

	Amount (billion)						Growth Rate (%)										
	Jun-10		Jul-10		Aug-10		Sep-10		Jun-10		Jul-10		Aug-10		Sep-10		
	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	293,569.2	15.4	297,789.2	15.6	295,751.6	15.2	290,489.6	14.9	35.8	29.0	1.4	27.4	27.4	1.0	27.4	1.0	(1.8)
Government	266,629.3	14.0	269,799.3	14.1	266,901.3	13.7	265,199.3	13.6	29.8	30.1	1.2	25.5	25.5	0.5	25.5	0.5	(0.6)
Treasury Bonds	120,390.2	6.3	123,890.2	6.5	120,045.2	6.2	118,490.2	6.1	15.9	30.2	2.9	16.0	16.0	(1.6)	16.0	(1.6)	(1.3)
Central Bank Bonds	200.0	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	146,039.1	7.7	145,909.1	7.6	146,856.1	7.5	146,709.1	7.5	43.7	30.0	(0.1)	36.6	36.6	0.5	36.6	0.5	(0.1)
Corporate	26,939.9	1.4	27,989.9	1.5	28,850.3	1.5	25,290.3	1.3	152.2	19.3	3.9	51.9	51.9	(6.1)	51.9	(6.1)	(12.3)

— = 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 LP 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.

treasury bonds in 3Q10. Viet Nam Development Bank bonds and state-owned enterprise bonds increased 0.5% q-o-q, while all outstanding central bank bonds matured in 3Q10.

Government bond issuance in 3Q10 included a total of VND5.7 trillion of long-term treasury bonds, and VND1.0 trillion of 3-year senior unsecured bonds issued by state-owned Viet Nam National Shipping Lines. Total government bond issuance in 3Q10 was only 10% of total 2Q10 issuance. The Vietnamese government has been issuing to repay maturing bonds and to cover the budget deficit, which is expected to reach 6.0% of GDP this year. State-owned Viet Nam Electricity submitted a proposal to the government to issue USD1.0 billion of government-guaranteed bonds in the international market by early 2011. Proceeds of the bonds would be used to upgrade Viet Nam's power generation capacity.

Total corporate bonds outstanding in 3Q10 increased 51.9% y-o-y to VND25.3 trillion. On a q-o-q basis, however, VND-denominated corporate bonds outstanding declined by 6.1%. Total corporate bond issuance only totaled VND2.0 trillion in 3Q10, after reaching VND5.9 trillion in 2Q10. Top issuers for the quarter included Refrigeration Electrical Engineering (VND810 billion) and Hoa Phat Group JSC (VND 800 billion).

As of end-September, the top 10 corporate issuers in Viet Nam comprised 91% of total corporate bonds outstanding, or VND23.1 trillion (**Table 2**). The majority of LCY corporate issuers were from the financial sector. Vietnamese property developer Vincom JSC (formerly the Viet Nam General Commercial Joint Stock Company) ranked first with total bonds outstanding of VND5.0 trillion, followed by Techcombank (VND3.9 trillion) and Asia Commercial Joint Stock Bank (VND3.6 trillion). Vincom JSC (USD80 million) is the only major Vietnamese corporation that has issued a foreign currency (FCY) bond to date. Vincom JSC successfully issued its first offshore convertible bonds worth USD100 million in December 2009. The 5-year bonds, which are listed on the Singapore Exchange, are convertible to equity at

Table 2: Top 10 Corporate Issuers, September 2010

Corporate Issuers	Outstanding Amount		
	LCY Bonds (VND billion)	LCY Bonds (USD billion)	FCY Bonds (USD billion)
Vincom JSC	5,000	0.26	0.08
Techcombank	3,850	0.20	—
Asia Commercial Joint Stock Bank	3,600	0.18	—
Vietnam JSC Commercial Bank	3,000	0.15	—
Saigon Securities Inc	2,000	0.10	—
Saigon Thuong Tin Commercial	2,000	0.10	—
Military Commercial Bank	1,000	0.05	—
Vinpearlland Tourism JSC	1,000	0.05	—
Refrigeration Electrical Engineering	810	0.04	—
Hoa Phat Group JSC	800	0.04	—
Total Top 10 Corporate Issuers	23,060	1.18	
Total Corporate Bonds Outstanding	25,290	1.30	
Top 10 as % of Total Corporate	91%	91%	

— = not applicable, FCY = foreign currency, JSC = joint-stock company,
LCY = local currency.
Source: Bloomberg LP

a 5.0% premium. Proceeds of the issuance will be used for development projects in Hanoi.

Rating Changes

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- (**Table 3**). 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.

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 and LT = long term.
Source: Rating agencies.

Policy, Institutional, and Regulatory Developments

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 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 Ministry of Finance reduce corporate bond issuance acceptance fees by 50% in an effort to harmonize them with fees on other licenses such as investment registration and construction. The proposed changes would adjust fees to the following levels: (i) VND5.0 million for bond issues of less than VND50 billion, (ii) VND10.0 million for issues of less than VND150 billion, (iii) VND17.5 million for issues of less than VND250 billion, and (iv) VND25.0 million for issues larger than VND250 billion.

Viet Nam's Central Bank to Revise Bank Legal Capital Road map

In August, the SBV's governor signed Decision No. 2020/QD-NHNN forming a draft commission to prepare, revise, and edit Decree No. 141/2006/ND-CP, which promulgates minimum chartered capital and the accompanying timelines for local banks. The proposal seeks to set minimum legal capital for commercial banks at VND3 trillion by the end of 2010, VND5 trillion by the end of 2012, and VND10 trillion by the end of 2015. Currently, Viet Nam has nine commercial banks with over VND3 trillion in chartered capital, while 30 banks have less than VND3 trillion.