

# Viet Nam—Update

## Yield Movements

Government bond yields in Viet Nam steepened between end-December 2009 and end-December 2010, as rates rose at the belly and the long-end of the curve. Between end-December 2010 and mid-February, Viet Nam's government benchmark yields rose for all maturities, with the curve rising more on the short-end due to inflation concerns (**Figure 1**). Yields increased the most for the 1-year tenor, rising by 48 basis points. Yields inched up by 6 basis points for the 5-year maturity, while yields rose by 21, 19, and 17 basis points for the 7-, 10-, and 15-year maturities.

The rise in short-term yields reflects acceleration in the rate of consumer price inflation, which rose to 12.3% year-on-year (y-o-y) in February from 12.2% in January, on the back of double-digit annual hikes in food prices. The State Bank of Viet Nam (SBV) has become more active in adjusting its interest rates upward to counter rising inflation. In early November, the SBV raised its key rates—the base interest rate, the refinancing rate, and discount rate—by 100 basis points each to 9.0%, 9.0%, and 7.0%, respectively. More recently, the SBV raised its refinancing rate by another

200 basis points to 11.0% on 17 February, and another 100 basis points to 12.0% on 8 March. Also, the SBV hiked the reverse repurchase rate by 100 basis points to 12.0% on 22 February.

The SBV adjusted the inter-bank average exchange rate to VND20,693 = USD1 from VND18,932 = USD1 on 11 February, while narrowing the trading band for the exchange rate to  $\pm 1.0\%$  from  $\pm 3.0\%$ . The devaluation of the Vietnamese dong came in an effort to improve the liquidity of the foreign exchange market. The last time the SBV adjusted the inter-bank average exchange rate was in August when it devalued the currency with the aim of trimming Viet Nam's trade deficit.

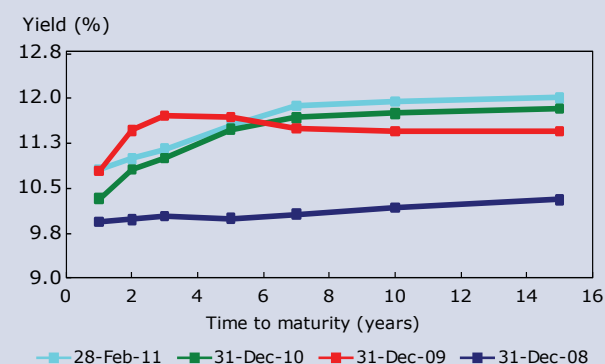
Viet Nam's 4Q10 real gross domestic product (GDP) growth rate stood at 7.3% y-o-y, a slight improvement over the previous quarter's 7.2% growth. For the full-year 2010, Viet Nam's economy grew by 6.8%, compared with 5.3% in 2009, as the industrial and services sectors expanded by 7.7% and 7.5%, respectively.

## Size and Composition

Viet Nam's local currency (LCY) bond market expanded 34.2% y-o-y and 2.8% quarter-on-quarter (q-o-q) to reach VND299 trillion (USD15.3 billion) at end-December 2010, led by strong growth in both government and corporate bonds outstanding (**Table 1**).

The size of the LCY government bond market stood at VND269 trillion (USD13.8 billion) at end-December, registering growth of 33.5% y-o-y and 1.4% q-o-q. Treasury bonds increased 30.6% from a year earlier, but fell slightly by 0.4% from the previous quarter, to reach VND118 trillion (USD6.1 billion). Viet Nam Development Bank bonds and state-owned enterprise bonds climbed 38.0% y-o-y and 2.8% q-o-q to VND151 trillion (USD7.7 billion).

**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 (%)									
	Sep-10		Oct-10		Nov-10		Dec-10		Sep-10		Oct-10		Nov-10		Dec-10	
	VND	USD	VND	USD	VND	USD	VND	USD	y-o-y	q-o-q	m-o-m	q-o-q	m-o-m	q-o-q	m-o-m	q-o-q
Total	290,490	15	304,718	16	302,435	16	298,665	15	27.4	(1.0)	4.9	(1.0)	(0.7)	34.2	2.8	(1.2)
Government	265,199	14	276,628	14	272,745	14	268,975	14	25.5	0.2	4.3	(1.4)	(1.4)	33.5	1.4	(1.4)
Treasury Bonds	118,490	6	124,096	6	121,328	6	117,983	6	16.0	(1.6)	4.7	(2.2)	(2.2)	30.6	(0.4)	(2.8)
Central Bank Bonds	0.0	0	0.0	0	0.0	0	0.0	0	—	—	—	—	—	—	—	—
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds and Other Bonds	146,709	8	152,532	8	151,417	8	150,992	8	36.6	1.9	4.0	(0.7)	(0.7)	38.0	2.9	(0.3)
Corporate	25,290	1	28,090	1	29,690	2	29,690	2	51.9	(12.6)	11.1	—	5.7	41.4	17.4	—

— = 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.

LCY corporate bonds outstanding also surged by 41.4% y-o-y and 17.4% q-o-q to VND30 trillion (USD1.5 billion). LCY corporate issues in 4Q10 included Maritime Bank (VND1.0 trillion), Thu Duc Housing Development (VND600 billion), and Vietnam Petroleum Transport (VND100 billion).

The top 15 corporate issuers in Viet Nam comprised 93% of total corporate bonds outstanding at end-December, and most of these issuers were financial institutions, including banks and securities companies (**Table 2**). Of the 15 top corporate issuers, 12 were listed on either the Hanoi Stock Exchange or Ho Chi Minh Stock Exchange.

Meanwhile, foreign currency (FCY) bonds outstanding at end-December stood at USD2.5 billion, 97% of which were government bonds.

## Rating Changes

Moody's Investors Services, Standard & Poor's, and R&I all lowered their sovereign ratings for Viet Nam (**Table 3**). Moody's cut Viet Nam's long-term FCY rating to B1 from Ba3 in December, and posted a negative country outlook, mainly because of heightened risk in the balance of payments position. Similarly, Standard and Poor's reduced Viet Nam's long-term FCY and LCY ratings in December to BB- from BB, and BB from BB+, respectively. Standard and Poor's also recorded a negative country outlook based on its assessment that Viet Nam's banking sector has become more vulnerable to economic and financial shocks. In February, R&I downgraded Viet Nam's FCY rating to BB- from BB and gave the country a negative outlook. R&I cited rising inflationary pressures generated by overheated domestic demand and the devaluation of the Vietnamese dong, resulting in concerns over Viet Nam's economic stability.

**Table 2: Top 15 Corporate LCY Issuers in Viet Nam, (as of December 2010)**

Issuer	Bonds Outstanding (VND billion)	State-Owned	Privately-Owned	Listed Company	Type of Industry
1. Vincom	5,000.00	No	Yes	Yes	Real Estate
2. Vietnam Techcombank	3,850.00	No	Yes	No	Finance
3. Asia Commercial Joint Stock Bank	3,599.93	No	Yes	Yes	Finance
4. Vietnam Commercial Bank	3,000.00	No	Yes	Yes	Finance
5. Agribank Securities	2,000.00	No	Yes	Yes	Finance
6. Sacombank	2,000.00	No	Yes	Yes	Finance
7. Saigon Securities	2,000.00	No	Yes	Yes	Finance
8. Vinpearl	1,000.00	No	Yes	Yes	Resorts/Theme Parks
9. Vietnam Maritime Commercial Bank	1,000.00	No	Yes	No	Finance
10. Military Bank	1,000.00	No	Yes	No	Finance
11. Refrigeration Electrical	810.42	No	Yes	Yes	Industrial
12. Hoa Phat Group	800.00	No	Yes	Yes	Industrial
13. Thu Duc Housing Devt Corp	600.00	No	Yes	Yes	Real Estate
14. Kinh Bac City Devt Corp	500.00	No	Yes	Yes	Real Estate
15. HCMC Gen Import Export & Investment	450.00	No	Yes	Yes	Trade
<b>Total for Top 15 Corporate LCY Bond Issuers</b>	<b>27,610.35</b>				
<b>Top 15 as % of Total Corporate LCY Bond Outstanding</b>	<b>93.0%</b>				

LCY = local currency.  
Source: Bloomberg LP.

**Table 3: Selected Sovereign Ratings and Outlook for Viet Nam**

	Moody's	S&P	Fitch	R&I
Sovereign FCY LT Ratings	B1	BB-	B+	BB-
Outlook	negative	negative	stable	negative

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

## Policy, Institutional, and Regulatory Developments

### SBV Allows Charter Capital Increases for One Local and Four Foreign Banks

In January, the SBV allowed for an increase in the charter capital of Saigon Hanoi Bank (SHB) to VND4,995 billion from VND3,498 billion. In December, the SBV also permitted an increase in the charter capital of the local branches of four foreign banks. The charter capital of the branches of Huanan Commercial Bank and Chinatrust Commercial Bank in Ho Chi Minh City were allowed to increase to USD65 million from USD15 million, while the Ho Chi Minh and Hanoi branches of

Mizuho Corporate Bank were allowed to increase to USD134 million from USD15 million.

### SBV Sets Ceiling on Banks' Mobilizing Rates at 14.0%

In December, the SBV reached a consensus with the General Secretary and the Viet Nam Banks Association to put a ceiling on Vietnamese dong mobilizing rates—the banks' lending rates—at 14.0% per annum. This step was taken in line with the Prime Minister's directive of stabilizing the country's money market and ensuring a sound banking system.