

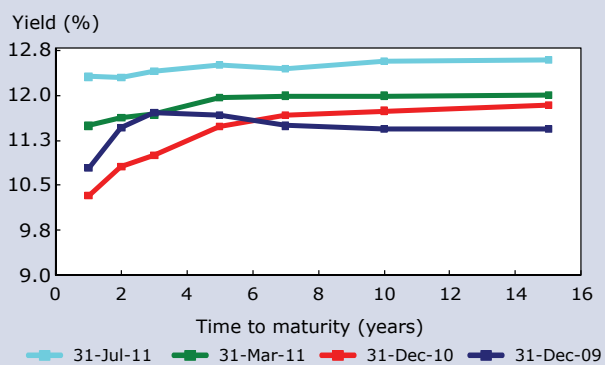
## Viet Nam—Update

### Yield Movements

Between end-December 2010 and end-March, government bond yields in Viet Nam rose for all maturities, particularly at the short-end of the curve. Viet Nam's government benchmark yields continued to rise for all maturities between end-March and end-July. Due to accelerating inflation, the government bond benchmark yield for the 1-year tenor rose to 12.32% at end-July, up 82 basis points (bps) from its end-March level (**Figure 1**). Yields for the 2- and 3-year maturities rose 68 bps and 73 bps, respectively. Meanwhile, the increase in yields from the belly to the long-end of the curve was less pronounced, ranging between 46 bps and 59 bps. By end-June, the curve had flattened and the yield spread between 2- and 10-year maturities narrowed to 28 bps from 37 bps at end-March.

The large increase in the yield for the 1-year benchmark reflects the rise in consumer price inflation in Viet Nam, which accelerated to 22.2% year-on-year (y-o-y) in July from 20.8% in June and 19.8% in May. Price increases in recent months have mainly been driven by higher costs for food and transportation.

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



LCY = local currency.  
Source: Bloomberg LP.

Early this year, the State Bank of Viet Nam (SBV) adjusted its key policy rates upward to counter rising inflation. The SBV has raised its refinancing rate by a total of 500 bps since the beginning of the year, hiking its refinancing rate from 9.0% in January to 14.0% in May. The SBV raised the discount rate from 7.0% to 12.0% in March, and by an additional 100 bps to 13.0% in May. The SBV has also increased its reverse repurchase rate by a total of 500 bps from 10.0% at the beginning of the year to 15.0% in May. More recently, the SBV decided in early July to cut its reverse repurchase rate for open market operations from 15.0% to 14.0%.

On 11 February, the SBV adjusted the inter-bank average exchange rate to VND20,693 = US\$1 from VND18,932 = US\$1, while narrowing the trading band for the exchange rate to  $\pm 1.0\%$  from  $\pm 3.0\%$ . The devaluation of the Vietnamese dong was part of government efforts to improve liquidity in the foreign exchange market. In June, the SBV hiked foreign currency reserve requirement ratios for state-owned commercial banks, joint stock commercial banks, joint venture banks, foreign bank branches, and wholly owned foreign banks (see **Policy, Institutional, and Regulatory Developments** for more detail).

Viet Nam's economy grew 5.6% y-o-y in 1H11, down from 6.2% growth in the same period last year. In 2Q11, Viet Nam's gross domestic product (GDP) expanded 5.7% y-o-y after growing 5.4% in the previous quarter. In 1H11, the country's agriculture, forestry, and fisheries sector grew 2.1% y-o-y, while the industry and construction sector and the services sector registered 6.5% and 6.1% growth rates, respectively.

### Size and Composition

Viet Nam's local currency (LCY) bond market grew 18.8% y-o-y and 5.0% quarter-on-quarter (q-o-q) to VND347 trillion (US\$16.9 billion) as of end-June,

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

|  | Amount (billion) |      |         |      |         |      | Growth Rate (%) |      |        |       |        |       |        |       |        |       |       |
|--|------------------|------|---------|------|---------|------|-----------------|------|--------|-------|--------|-------|--------|-------|--------|-------|-------|
|  | Mar-11           |      | Apr-11  |      | May-11  |      | Jun-11          |      | Mar-11 |       | Apr-11 |       | May-11 |       | Jun-11 |       |       |
|  | VND              | US\$ | VND     | US\$ | VND     | US\$ | VND             | US\$ | 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  | 330,858          | 16   | 334,249 | 16   | 337,914 | 16   | 347,278         | 17   | 46.2   | 8.7   | 1.1    | 18.8  | 5.0    | 1.1   | 18.8   | 5.0   | 2.8   |
| Government   | 296,008          | 14   | 299,259 | 14   | 303,724 | 15   | 314,479         | 15   | 44.7   | 10.1  | 1.5    | 18.8  | 6.2    | 1.5   | 18.8   | 6.2   | 3.5   |
| Treasury Bonds   | 116,467          | 6    | 119,053 | 6    | 122,838 | 6    | 130,413         | 6    | 25.9   | (1.3) | 3.2    | 8.3   | 12.0   | 3.2   | 8.3    | 12.0  | 6.2   |
| Central Bank Bonds   | -                | 0    | -       | 0    | -       | 0    | -               | 0    | -      | -     | -      | -     | -      | -     | -      | -     | -     |
| Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds, and Other Bonds | 179,542          | 9    | 180,207 | 9    | 180,887 | 9    | 184,067         | 9    | 60.6   | 18.9  | 0.4    | 27.8  | 2.5    | 0.4   | 27.8   | 2.5   | 1.8   |
| Corporate  | 34,850           | 2    | 34,990  | 2    | 34,190  | 2    | 32,799          | 2    | 60.3   | (1.7) | 0.4    | 18.9  | (5.9)  | (2.3) | 18.9   | (5.9) | (4.1) |

- = 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–US\$ rates are used.

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

Source: Bloomberg LP.

due to growth in both government and corporate bonds outstanding (**Table 1**).

Total LCY government bonds outstanding stood at VND314 trillion at end-June, representing growth of 18.8% y-o-y and 6.2% q-o-q. Treasury bonds rose 8.3% y-o-y and 12.0% q-o-q to VND130 trillion in 2Q11. Meanwhile, Viet Nam Development Bank bonds and state-owned enterprise bonds surged 27.8% y-o-y to VND184 trillion.

Total LCY corporate bonds outstanding rose 18.9% y-o-y to VND33 trillion in 2Q11 but fell 5.9% q-o-q. The top 15 corporate issuers in Viet Nam, most of which were financial institutions, comprised 93.5% of total corporate bonds outstanding at end-June (**Table 2**).

## Policy, Institutional, and Regulatory Developments

### SBV Issues New Regulations on Foreign Currency Loans

In March, the SBV issued a circular on foreign currency lending as part of its effort to curb inflation and stabilize the economy. Under the circular, credit institutions are allowed to extend foreign currency loans to resident borrowers under the following circumstances: (i) short-, medium-, and long-term loans to pay for imported commodities and services; (ii) short-term loans for the production and trade of goods through border points; and (iii) loans for other demands approved in writing by the SBV.

### SBV Requires Credit Institutions to Comply with Set Lending and Deposit Rates

On 17 June, the SBV issued Document No. 4605/NHNN-CSTT requiring credit institutions to strictly comply with the maximum Vietnamese dong mobilizing interest rate—the rates for deposits and valuable papers—which was set at 14.0% per year under Circular No. 02/2011/TT-NHNN dated 3 March. The SBV is encouraging credit institutions to minimize operational costs to

**Table 2: Top 15 LCY Corporate Issuers in Viet Nam** (as of June 2011)

| Issuer   | Outstanding Amount      |                          | State-Owned | Privately-Owned | Listed Company | Type of Industry    |
|--|-------------------------|--------------------------|-------------|-----------------|----------------|---------------------|
|  | LCY Bonds (VND billion) | LCY Bonds (US\$ billion) |             |                 |                |                     |
| 1. Vietin Bank   | 7,095.00                | 0.34                     | No          | Yes             | Yes            | Finance             |
| 2. Asia Commercial Joint Stock Bank                        | 5,090.00                | 0.25                     | No          | Yes             | Yes            | Finance             |
| 3. Vincom  | 5,000.00                | 0.24                     | No          | Yes             | Yes            | Real Estate         |
| 4. Vietnam Techcombank                                     | 3,880.00                | 0.19                     | No          | Yes             | No             | Finance             |
| 5. Sacombank   | 2,000.00                | 0.10                     | No          | Yes             | Yes            | Finance             |
| 6. Agribank Securities                                     | 2,000.00                | 0.10                     | No          | Yes             | Yes            | Finance             |
| 7. Vietnam Maritime Commercial Bank                        | 1,000.00                | 0.05                     | No          | Yes             | No             | Finance             |
| 8. Refrigeration Electrical                                | 810.42                  | 0.04                     | No          | Yes             | Yes            | Industrial          |
| 9. Hoa Phat Group  | 800.00                  | 0.04                     | No          | Yes             | Yes            | Industrial          |
| 10. An Binh Bank   | 600.00                  | 0.03                     | No          | Yes             | No             | Finance             |
| 11. HAGL   | 530.00                  | 0.03                     | No          | Yes             | Yes            | Real Estate         |
| 12. Kinh Bac City Devt Corp                                | 500.00                  | 0.02                     | No          | Yes             | Yes            | Real Estate         |
| 13. Vinpearl   | 500.00                  | 0.02                     | No          | Yes             | Yes            | Resorts/Theme Parks |
| 14. HCMC Gen Import Export & Investment                    | 450.00                  | 0.02                     | No          | Yes             | Yes            | Trade               |
| 15. Vietnam Steel  | 400.00                  | 0.02                     | No          | Yes             | No             | Industrial          |
| <b>Total Top 15 LCY Corporate Bond Issuers</b>             | <b>30,655.42</b>        | <b>1.49</b>              |             |                 |                |                     |
| <b>Total LCY Corporate Bonds</b>                           | <b>32,799.76</b>        | <b>1.59</b>              |             |                 |                |                     |
| <b>Top 15 as % of Total LCY Corporate Bond Outstanding</b> | <b>93.5%</b>            | <b>93.5%</b>             |             |                 |                |                     |

LCY = local currency.  
Source: Bloomberg LP.

lower lending rates, especially those extended to agricultural and rural areas, exporters, small and medium-sized enterprises, and supporting industries. The document also instructed the SBV Financial Supervision Agency as well as SBV provincial and municipal branches to enhance the supervision of credit institutions and deal severely with violators.

## Viet Nam Hikes Foreign Currency Reserve Requirement Ratios

The SBV hiked foreign currency reserve requirement ratios for state-owned commercial banks, joint stock commercial banks, joint venture banks, foreign bank branches, and wholly owned foreign banks in June. The reserve requirement ratio for foreign currency demand deposits and time deposits with terms of up to 12 months was raised to 7.0% from 6.0%. For foreign currency deposits with terms longer than 12 months, the reserve requirement ratio was increased to 5.0% from

4.0%. For the Viet Nam Bank for Agriculture and Rural Development, Central People's Credit Fund, and cooperative banks, the reserve requirement ratio for foreign currency demand deposits and time deposits with terms of up to 12 months was set at 6.0% while that for deposits with terms of more than 12 months was set at 4.0%.