

## Viet Nam—Update

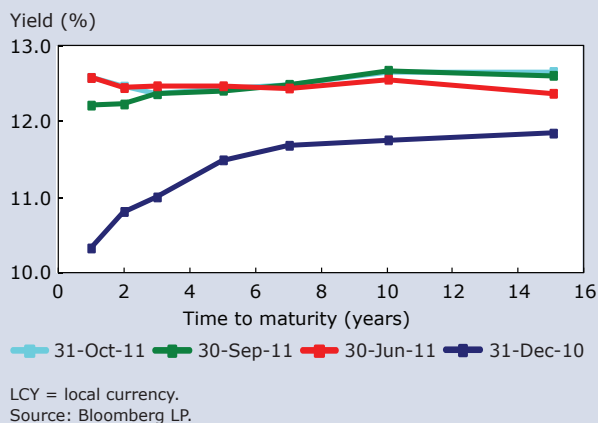
### Yield Movements

Between end-June and end-September government bond yields in Viet Nam fell at the short-end of the curve but rose at the long-end, after rising for all tenors in 1H11, resulting in a steeper curve. Yields fell the most for the 1-year tenor, dropping 36 basis points (bps), while yields for 2-, 3-, and 5-year tenors declined 22 bps, 10 bps, and 6 bps, respectively (**Figure 1**). As a result, the yield spread between 2- and 10-year maturities widened to 44 bps at end-September from a spread of 11 bps at end-June. More recently, there was a significant rise at the short-end of the curve in October: 1- and 2-year tenors rose 37 bps and 24 bps, respectively, bringing them back to their end-June levels. This reflected the State Bank of Viet Nam's (SBV) move to hike its refinancing rate from 14.0% to 15.0%. Meanwhile, the SBV has been holding its base interest rate at 9.0% since December 2010 and maintaining its discount rate and reverse repurchase rate at 13.0% and 14.0%, respectively.

Controlling inflation remained a top priority of the SBV in the second half of 2011. Consumer price inflation in October reached 21.6% year-on-year (y-o-y), the highest in emerging East Asia. However, the annual rise in consumer prices actually began slowing in September. Price increases in recent months have mainly been attributed to higher costs for food, education, and housing and construction materials.

The country's cumulative gross domestic product (GDP) in the first 9 months of the year was estimated to have grown 5.8% y-o-y, up slightly from the 5.6% y-o-y growth recorded in the first 6 months of the year. It was, however, down from the 6.5% y-o-y growth during the same period last year. In January–September, the agriculture, forestry, and fishery sector, which comprises 21.5% of GDP, grew 2.4% y-o-y; the industry and construction sector (40.7% of GDP) expanded

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



6.6% y-o-y; and the services sector (37.8% of GDP) grew 6.2% y-o-y.

### Size and Composition

Viet Nam's local currency (LCY) government and corporate bonds outstanding each posted double-digit annual growth rates at end-September. The bond market as a whole expanded 22.2% y-o-y and 1.8% quarter-on-quarter (q-o-q) to reach VND353 trillion (US\$17 billion) at end-September (**Table 1**).

Total LCY government bonds outstanding stood at VND321 trillion at end-September, representing growth of 21.1% y-o-y and 2.1% q-o-q. The quarterly increase in government bonds was mainly due to the net treasury bond issuance of VND15.7 trillion in 3Q11, which represented 12.0% q-o-q growth; however, this growth was offset by a 4.9% q-o-q drop in other government bonds (bonds issued by Viet Nam Development Bank and other state-owned enterprises) to VND175 trillion at end-September.

Total LCY corporate bonds outstanding expanded 34.7% y-o-y to VND32 trillion in 3Q11, but fell

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

	Amount (billion)						Growth Rate (%)										
	Jun-11		Jul-11		Aug-11		Sep-11		Jun-11		Jul-11		Aug-11		Sep-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	347,278	17	354,648	17	352,673	17	353,370	17	18.3	5.0	2.1	22.2	1.8	0.2	22.2	1.8	0.2
Government	314,479	15	322,160	16	320,285	15	321,112	15	17.9	6.2	2.4	21.1	2.1	0.3	21.1	2.1	0.3
Treasury Bonds	130,413	6	139,790	7	142,135	7	146,087	7	8.3	12.0	7.2	23.3	12.0	2.8	23.3	12.0	2.8
Central Bank Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds, and Other Bonds	184,067	9	182,370	9	178,150	9	175,025	8	26.0	2.5	(0.9)	19.3	(4.9)	(1.8)	19.3	(4.9)	(1.8)
Corporate	32,799	2	32,488	2	32,388	2	32,258	2	21.7	(5.9)	(0.9)	34.7	(1.6)	(0.4)	34.7	(1.6)	(0.4)

- = 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-US\$ rates are used.

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

Source: Bloomberg LP.

slightly by 1.6% on a quarterly basis as there was no new corporate bonds issuance in 3Q11.

The top 15 corporate issuers in Viet Nam are mainly commercial banks and real estate developers. Total bonds outstanding among the 15 largest issuers comprised 95.3% of all corporate bonds outstanding at end-September (**Table 2**). Vietin Bank is the largest corporate issuer in the country with total bonds outstanding of VND7.1 trillion.

## Rating Changes

On 19 August Standard & Poor's lowered Viet Nam's LCY long-term sovereign credit rating from BB to BB- (**Table 3**). The rating agency also affirmed its foreign currency (FCY) long-term and short-term sovereign credit ratings for Viet Nam at BB- and B, respectively. According to the rating agency, the LCY and FCY ratings are now similar because the Vietnamese dong's pegged exchange rate limits monetary policy independence and domestic financial and capital markets are in the early stages of development.

## Policy, Institutional, and Regulatory Developments

### SBV Issues Circular on Corporate Bond Purchases by Credit Institutions and Foreign Bank Branches

The SBV issued a circular enumerating the conditions required for credit institutions and branches of foreign banks to purchase corporate bonds. The circular notes that buyers of corporate bonds must be (i) commercial banks, (ii) finance companies, or (iii) foreign bank branches established under the Law on Credit Institutions. Furthermore, SBV specified that these institutions must (i) have licenses issued by SBV that cover the purchase of corporate bonds, (ii) meet SBV requirements on prudent operational ratios, and (iii) have an internal credit rating system of corporate bond issuers.

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

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US\$ billion)				
1. Vietin Bank	7,095	0.34	No	Yes	Yes	Finance
2. Asia Commercial Joint Stock Bank	5,090	0.24	No	Yes	Yes	Finance
3. Vincom	5,000	0.24	No	Yes	Yes	Real Estate
4. Vietnam Techcombank	3,880	0.19	No	Yes	No	Finance
5. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
6. Sacombank	2,000	0.10	No	Yes	Yes	Finance
7. Vietnam Maritime Commercial Bank	1,000	0.05	No	Yes	No	Finance
8. Minh Phu Seafood	900	0.04	No	Yes	No	Fisheries
9. Hoa Phat Group	800	0.04	No	Yes	Yes	Industrial
10. An Binh Bank	600	0.03	No	Yes	No	Finance
11. HAGL	530	0.03	No	Yes	Yes	Real Estate
12. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
13. Vinpearl	500	0.02	No	Yes	Yes	Resorts/Theme Parks
14. HCMC General Import Export & Investment	450	0.02	No	Yes	Yes	Trade
15. Vietnam Steel	400	0.02	No	Yes	No	Industrial
<b>Total Top 15 LCY Corporate Issuers</b>	<b>30,745</b>	<b>1.48</b>				
<b>Total LCY Corporate Bonds</b>	<b>32,258</b>	<b>1.55</b>				
<b>Top 15 as % of Total LCY Corporate Bonds Outstanding</b>	<b>95.3%</b>	<b>95.3%</b>				

LCY = local currency.  
Source: Bloomberg LP.

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

	Moody's	S&P	Fitch
Sovereign FCY LT Rating	B1	BB-	B+
Outlook	Negative	Negative	Stable

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

## Viet Nam Hikes FCY Reserve Requirement Ratios

On 29 August the SBV hiked the FCY reserve requirement ratios for state-owned commercial banks, joint stock commercial banks, joint venture banks, foreign bank branches, and wholly owned foreign banks. The reserve requirement ratio for FCY demand deposits and time deposits of less than 12 months was raised from 7.0% to 8.0%, while the ratio for FCY time deposits of more than 12 months was increased from 5.0% to 6.0%. For the Viet Nam Bank for Agriculture and Rural Development, the Central People's Credit Fund, and cooperative banks, the reserve requirement ratios for FCY demand deposits and time deposits of less

than 12 months was raised from 6.0% to 7.0%, while the ratio for deposits with terms of more than 12 months was raised from 4.0% to 5.0%.

## SBV Issues Circular to Set Maximum LCY Mobilizing Interest Rates

On 28 September the SBV issued a circular to fix the maximum mobilizing interest rates at 6.0% per annum for demand and time deposits less than 1 month, and at 14.0% per annum for time deposits over 1 month. These rates are applicable to entities and individuals at credit institutions and foreign bank branches. The local People's Credit Funds were permitted an exemption and may apply a maximum LCY mobilizing rate of 14.5% per annum.

## SBV Hikes Refinancing Rate in October

The SBV raised its refinancing rate, one of its three policy rates, by 100 basis points to 15.0% effective 10 October 2011. The move was the fifth increase in the refinancing rate this year.