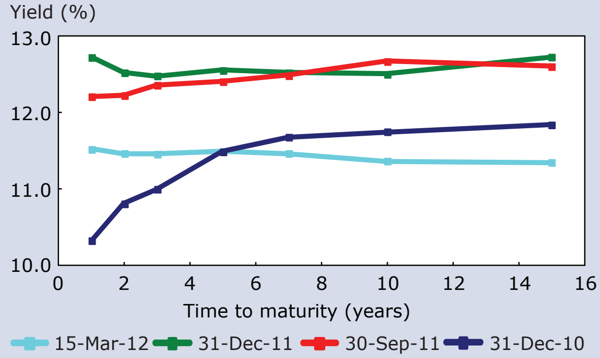
Viet Nam—Update

Yield Movements

Between end-September and end-December, government bond yields in Viet Nam rose across all tenors, except for the 10-year tenor, largely due to a lack of liquidity in the banking sector in 4Q11 **(Figure 1)**. The largest rise in the yield curve was observed at the short-end, particularly for the 1-year tenor, which rose 51 basis points (bps), resulting in a flattened yield curve. Between end-December and 15 March, government bond yields fell across all tenors, especially at the short-end (1-year tenor fell 120 bps) and the long-end (15-year tenor fell 138 bps) of the curve. The drop in government bond yields since the beginning of this year has been the result of banks' improved liquidity as well as speculation that the State Bank of Viet Nam (SBV) will lower policy rates since inflation declined for 7 straight months between September and March. Meanwhile, consumer price inflation slowed from 22.4% year-on-year (y-o-y) in September to 14.2% in March, according to the General Statistics Office of Viet Nam (GSO).

The country's cumulative gross domestic product (GDP) growth for full-year 2011 slowed to 5.9% from 6.8% in 2010 due to production difficulties and the government's efforts to curb inflation and stabilize macroeconomic fundamentals. According to the GSO, the agriculture, forestry, and fishery sector expanded 4.0% in 2011; the industry and construction sector grew 5.5%; and the service sector grew 7.0%.

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



LCY = local currency.
Source: Bloomberg LP.

Size and Composition

As of end-December, Viet Nam's total local currency (LCY) bonds outstanding stood at VND354.7 trillion (US$16.9 billion), which represents 16.5% y-o-y growth that was mainly driven by 19.9% growth in government bonds outstanding. However, growth in government bonds was offset by an 8.7% y-o-y contraction in corporate bonds outstanding; more corporate bonds matured in 2011 than were issued as high inflation rates made it difficult for corporate issuers to come to the market last year **(Table 1)**.

Among LCY government bonds outstanding, treasury bonds and other government bonds—bonds issued by the Viet Nam Development Bank and other government agencies—posted double-digit annual growth of 26.0% and 15.0% y-o-y, respectively. As a result, total government bonds outstanding stood at VND322.4 trillion at end-December.

As mentioned above, LCY corporate bonds outstanding contracted 8.7% y-o-y to VND32.4 trillion as of end-December. However, the LCY corporate sector grew marginally on a quarter-on-quarter (q-o-q) basis in 4Q11, rising 0.3%, due to the issuance by Sai Gon Thuong Tin Real Estate of a VND99 billion bond in October. This represented the only issuance in Viet Nam's LCY corporate bond market in 4Q11. LCY corporate bond issuance was mostly inactive in 2011, with only 3 corporate bond issues during the entire year due to high rates of inflation.

The top 15 corporate issuers in Viet Nam at the end of 4Q11 retained the same rankings as end-3Q11. These issuers mainly comprised commercial banks and real estate developers. Total bonds outstanding

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

	Amount (billion)								Growth Rate (%)						
	Sep-11		Oct-11		Nov-11		Dec-11		Sep-11		Oct-11	Nov-11	Dec-11		
	VND	US$	VND	US$	VND	US$	VND	US$	y-o-y	q-o-q	m-o-m	m-o-m	y-o-y	q-o-q	m-o-m
Total	353,370	17	353,429	17	352,468	17	354,748	17	22.2	1.8	0.02	(0.3)	16.5	0.4	0.6
Government	321,112	15	321,072	15	320,111	15	322,391	15	21.1	2.1	(0.01)	(0.3)	19.9	0.4	0.7
Treasury Bonds	146,087	7	146,487	7	146,506	7	148,676	7	23.3	12.0	0.3	0.01	26.0	1.8	1.5
Central Bank Bonds	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Viet Nam Development Bank Bonds, State-Owned Enterprise Bonds, and Other Bonds	175,025	8	174,585	8	173,605	8	173,715	8	19.3	(4.9)	(0.3)	(0.6)	15.0	(0.7)	0.1
Corporate	32,258	2	32,357	2	32,357	2	32,357	2	34.7	(1.6)	0.3	–	(8.7)	0.3	–

– = 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–US$ rates are used.
2. Growth rates are calculated from LCY base and do not include currency effects.
Source: Bloomberg LP. w

among the 15 largest issuers comprised 94.7% of all corporate bonds outstanding at end-December **(Table 2)**. Vietin Bank remained the largest corporate bond issuer in Viet Nam with total bonds outstanding of VND7.1 trillion, the same level as end-September.

Policy, Institutional, and Regulatory Developments

VBMA Agreement Assigns Market Maker Status to Eight Banks

At the annual meeting of the Viet Nam Bond Market Association (VBMA) held on 9 December, eight banks—Bank For Investment and Development of Viet Nam, Viet Nam Bank for Foreign Trade, HSBC Viet Nam, ANZ Viet Nam, Standard Chartered Viet Nam, Viet Nam Technological Commercial Joint-Stock Bank, BNP Paribas Viet Nam, and Viet Nam Maritime Commercial Joint Stock Bank—signed an agreement to commit themselves to act as experimental market makers in the LCY bond market. The move aims to increase market transparency, boost transaction volume and liquidity, improve market efficiency, and provide a reliable LCY bond market yield curve for domestic and potential foreign investors. The banks also agreed to support market players in evaluating their mark-to-market portfolios in order to more accurately reflect portfolio performance and to bring bond trading activities in Viet Nam closer to international best practices.

SBV Issues New Reporting Requirements for Credit Institutions and Foreign Bank Branches

On 6 February, the SBV issued requirements for credit institutions and foreign bank branches (excluding local people's credit funds) to report to the Monetary Statistics and Forecast Department of the SBV activities related to lending, depositing, borrowing, deposit-taking from other banks, and investing in bonds and valuable paper issued by other credit institutions. The SBV is seeking to assess the operation of the inter-bank market and to make these institutions fully responsible for accurately reporting all relevant information.

Table 2: Top 15 Issuers of LCY Corporate Bonds in Viet Nam (as of end-December 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	0.18	No	Yes	No	Finance
5. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
6. Sacombank	1,900	0.09	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
Total Top 15 LCY Corporate Issuers	**30,645**	**1.46**				
Total LCY Corporate Bonds	**32,357**	**1.54**				
Top 15 as % of Total LCY Corporate Bonds	**94.7%**	**94.7%**				

LCY = local currency.
Source: Bloomberg LP.

SBV Cuts Key Interest Rates

Effective 13 March, the SBV decided to cut key interest rates—the refinancing interest rate, overnight rate for inter-bank electronic payment, and discount rate—by 100 bps each to 14%, 15%, and 12%, respectively. The move was based on a downward trend in inflation as well as capital supply and demand in the market.

The SBV also decided to cut ceiling VND deposit rates by 100 bps to 5% for demand deposits and time deposits of less than 1 month, and to 13% for time deposits of 1 month or longer. Effective 11 April, these three interest rates were cut again by the SBV by another 100 bps to 13%, 14%, and 11%, respectively, in order to stimulate economic growth as well as to boost market liquidity.