

Viet Nam—Update

Yield Movements

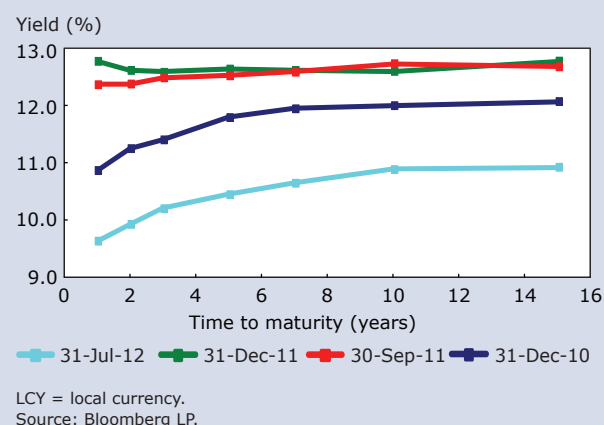
Between end-December 2011 and end-July 2012, yields on Viet Nam's government bonds fell significantly across all tenors following a series of five interest rate cuts implemented by the State Bank of Viet Nam (SBV) in response to a steady decline in the inflation rate. The largest drop in the yield curve occurred for the 1-year tenor, which fell 394 basis points (bps) to 8.78% from 12.72% (**Figure 1**). The yield curve assumed a more normal curvature by the middle of 2012, compared to its inverted shape at the end of 2011, as short-term interest rates fell more rapidly than long-term rates during the first half of the year.

Viet Nam experienced lower growth in gross domestic product (GDP) in the first half of 2012, as the economy grew 4.4% year-on-year (y-o-y) compared with growth of 5.6% in 1H11. On a quarterly basis, however, Viet Nam's GDP grew faster in 2Q12—at a rate of 4.7%—compared with 4.0% in 1Q12.

The overall slowdown in Viet Nam's economy in 1H12 reflected a worsened global outlook as well as measures taken by the SBV to slow inflation and cap credit growth at 15%–17% per annum (p.a.). The latter move also aimed to help curb inflation, in addition to the rate cuts, and allay concerns over nonperforming loans in the banking system. The bad debt ratio of state-owned banks was 3.76% and that of non-state commercial banks was 4.73% at end-June.

Many businesses have experienced difficulties in accessing credit as banks have adopted more stringent lending standards in the face of rising credit risk. Since the beginning of the year, the SBV has required the banking sector to make loans at preferential interest rates in four priority fields—agricultural and rural development, exports,

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



supporting industries, and small and medium-sized enterprises (SMEs)—at a ceiling interest rate of 15% p.a.

Meanwhile, inflation continued to drop throughout the first half of this year, reaching single-digit levels in May for the first time since October 2010. Consumer price inflation eased further to 5.04% y-o-y in August on falling prices in food, housing and construction materials, and transport. The SBV forecasts that inflation will average less than 10% for the full-year 2012.

Size and Composition

As of end-June, Viet Nam's total local currency (LCY) bonds outstanding stood at VND455.9 trillion (US\$21.8 billion)—an increase of 28.5% y-o-y—driven by 42.0% growth in treasury bonds outstanding and the resumption of SBV bill issuance in March. On the other hand, the significant growth in treasury bonds and SBV bills was somewhat offset by contractions of 4.4% and 8.7% y-o-y, respectively, in state-owned enterprise (SOE) and corporate bonds outstanding (**Table 1**).

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

	Amount (billion)						Growth Rate (%)									
	Mar-12		Apr-12		May-12		Jun-12		Mar-12		Apr-12		May-12		Jun-12	
	VND	US\$	VND	US\$	VND	US\$	VND	US\$	y-o-y	q-o-q	m-o-m	q-o-q	m-o-m	y-o-y	q-o-q	m-o-m
Total	412,464	20	454,892	22	466,830	22	455,892	22	20.1	12.8	10.3	2.6	28.5	10.5	2.3	(2.3)
Government	370,797	18	413,225	20	425,363	20	417,525	20	23.7	14.8	11.4	2.9	33.5	12.6	(1.8)	(1.8)
Treasury Bonds	165,974	8	176,567	8	184,853	9	185,403	9	36.1	11.6	6.4	4.7	42.0	11.7	0.3	0.3
Central Bank Bonds	30,478	1	68,334	3	69,276	3	58,078	3	-	-	124.2	1.4	-	90.6	(16.2)	(16.2)
State-Owned Enterprise Bonds	174,345	8	168,324	8	171,234	8	174,044	8	(2.0)	(0.04)	(3.5)	1.7	(4.4)	(0.2)	1.6	1.6
Corporate	41,667	2	41,667	2	41,467	2	38,367	2	(4.1)	(2.3)	-	(0.5)	(8.7)	(7.9)	(7.5)	(7.5)

- = 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.

Total LCY government bonds outstanding surged 33.5% y-o-y and stood at VND417.5 trillion as of end-June. Treasury bond issuance was quite active in the first half of the year, due to issuance of VND60.9 trillion out of the VND100 trillion planned by the State Treasury for the full-year 2012. Total new issuance of SOE bonds reached VND31.8 trillion in the first half of the year out of planned issuance of VND59 trillion in 2012. Meanwhile, the SBV resumed its bill issuance in March with total issuance amounting to VND58.1 trillion through end-June.

Total LCY corporate bonds outstanding contracted 8.7% y-o-y to VND38.4 trillion as of end-June, due to the overall lack of new corporate bond issuance since the beginning of the year.

As of 30 June, the Viet Nam Technological and Commercial Joint Stock Bank (Techcombank) had the largest volume of bonds outstanding at VND6.85 trillion (**Table 2**), overtaking the previous lead issuer, the Viet Nam Joint Stock Bank for Industry and Trade (Vietin Bank) at VND4.1 trillion. In between these two issuers in the second spot was the Asia Commercial Joint Stock Bank with a total of VND5.09 trillion bonds outstanding. Total LCY bonds outstanding among the 15 largest issuers comprised 93.2% of all LCY corporate bonds outstanding.

Rating Changes

On 7 June, Standard & Poor's (S&P) revised Viet Nam's outlook from negative to stable on the back of its success in bringing inflation back down to single-digit levels (**Table 3**). The rating agency also affirmed the country's long-term sovereign credit rating at BB- and the short-term rating at B.

Policy, Institutional, and Regulatory Developments

SBV Sets Maximum VND Short-Term Lending Rate of Credit Institutions

Effective 8 May, the SBV set credit institutions' maximum VND short-term lending rate for

Table 2: Top 15 Issuers of LCY Corporate Bonds in Viet Nam (as of end-June 2012)

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US\$ billion)				
1. Vietnam Techcombank	6,850	0.33	No	Yes	No	Finance
2. Asia Commercial Joint Stock Bank	5,090	0.24	No	Yes	Yes	Finance
3. Vietin Bank	4,095	0.20	No	Yes	Yes	Finance
4. Vincom	4,000	0.19	No	Yes	Yes	Real Estate
5. Vinpearl	3,500	0.17	No	Yes	Yes	Resorts and Theme Parks
6. HAGL	3,260	0.16	No	Yes	Yes	Real Estate
7. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
8. Sacombank	1,900	0.09	No	Yes	Yes	Finance
9. Vietnam Maritime Commercial Bank	1,000	0.05	No	Yes	No	Finance
10. Minh Phu Seafood	900	0.04	No	Yes	No	Fisheries
11. Hoa Phat Group	800	0.04	No	Yes	Yes	Industrial
12. PFV Investment & Trading	650	0.03	No	Yes	No	Real Estate
13. An Binh Bank	600	0.03	No	Yes	No	Finance
14. Phu Hoang Anh	600	0.03	No	Yes	No	Real Estate
15. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
Total Top 15 LCY Corporate Issuers	35,745	1.71				
Total LCY Corporate Bonds	38,367	1.84				
Top 15 as % of Total LCY Corporate Bonds	93.2%	93.2%				

LCY = local currency.
Source: Bloomberg LP.

Table 3: Selected Sovereign Ratings and Outlook for Viet Nam

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

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

borrowers at 300 bps above the ceiling VND deposit rate for term deposits longer than 1 month. In the same circular, the SBV required credit institutions to set a ceiling loan interest rate of 15% p.a. for four priority fields—agricultural and rural development, exports, supporting industries, and SMEs—once borrowers have met the credit extension conditions required by credit institutions.

SBV Cuts VND Ceiling Deposit Rates

The SBV has cut VND ceiling deposit rates four times since the beginning of the year. Effective 11 June, the SBV set the ceiling VND deposit rate at 2% for demand and time deposits of less than 1 month, and 9% for time deposits of 1 month to 12 months. Local people's credit funds have been authorized to apply a ceiling VND deposit rate of 9.5% for time deposits of 1 month to 12 months. The ceiling VND deposit rate for time deposits of 12 months or longer can be set by local people's credit funds, based on capital supply and demand in the local market.

SBV Cuts Key Rates for the Fifth Time in 2012

Effective 1 July, the SBV cut key interest rates for the fifth time in 2012 on the back of easing inflation. The discount rate, refinancing interest rate, and overnight rate for inter-bank electronic payments were each cut by an additional 100 bps to 8%, 10%, and 11%, respectively.

New Rules for Issuance of Treasury Bills through SBV

Effective 14 August, new rules guide the issuance of treasury bills via the SBV. These new rules include (i) securities companies as new participants in the bidding, (ii) direct sale to the SBV as a new method of issuance, and (iii) multi-price bidding as a new method of determining bidding results. Also, the Viet Nam Securities Depository (VSD) has replaced the SBV as the payment agent for principal and interest payments.