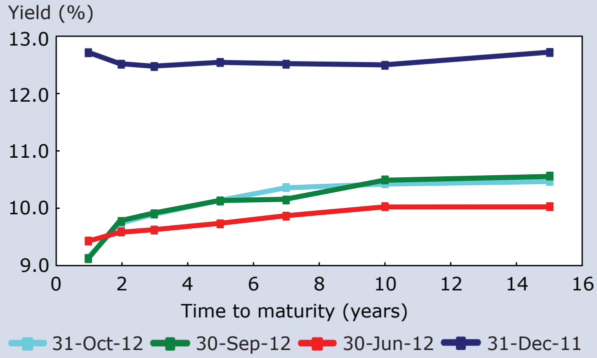
Viet Nam—Update

Yield Movements

Between end-June and end-October, yields on Viet Nam's 1-year government bonds fell 30 basis points (bps) to 9.13% **(Figure 1)**. Yields rose between 15 bps and 50 bps over the same period for maturities between 2 years and 15 years. As a result, the spread between 2- and 10-year government bonds widened to 69 bps at end-October from 44 bps at end-June and from –2 bps at end-December 2011, as the yield curve assumed a more normal upwardly-sloping curvature.

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



LCY = local currency.
Source: Bloomberg LP.

Viet Nam's economic expansion slowed to 4.7% year-on-year (y-o-y) in the first 9 months of 2012 from 5.8% in the same period last year. On a quarter-on-quarter (q-o-q) basis, the economy's expansion accelerated to an estimated 5.4% y-o-y in 3Q12 from 4.7% in 2Q12. The slowing year-to-date expansion in 2012 was due to the government's tightening of lending standards in the early months of the year in an effort to control inflation. Meanwhile, bad debts have limited the ability of Vietnamese banks to provide credit to the private sector. Loans outstanding as of 20 September increased only 2.4% from the end of 2011, compared with credit growth of 10.9% and 27.7% in 2011 and 2010, respectively. The State Bank of Viet Nam (SBV) has lowered its 2012 credit growth rate target to 8%–10% from an estimate of 15%–17% made earlier this year. The lackluster credit growth in 2012 has occurred in spite of continuous monetary easing by the SBV since March.

Meanwhile, consumer price inflation in Viet Nam accelerated in October to 7.0% y-o-y from 6.5% in September. October was the second month in which inflation had risen, following a steady decline in inflation over the previous 12 months, in response to measures taken since September 2011 to quell inflationary pressures. In October, Viet Nam posted total exports of US$9.9 billion, up 4.4% from September. Total imports were estimated to have reached US$10.4 billion in October, up 11.7% from a month earlier. This resulted in a trade gap of US$500 million for the month of October. In the first 10 months of the year, Viet Nam experienced a total trade deficit of US$357 million.

Viet Nam's industrial production index (IPI) in October increased 5.8% from the previous month and surged 5.7% from a year earlier. On a year-to-date basis, the IPI has risen 4.5% in the first 10 months of this year. The IPI of the mining and quarrying sector rose 3.9% y-o-y and the manufacturing sector rose 3.8%.

Size and Composition

As of end-September, Viet Nam's total local currency (LCY) bonds outstanding stood at VND443.7 trillion (US$21.2 billion), an increase of 21.4% y-o-y that was driven mainly by the 48.0% growth of treasury bonds and the resumption of SBV bill issuance beginning in March. However, significant growth in these areas was partially offset by contractions of 3.3% and 21.4% 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 (%)							
	Jun-12		Jul-12		Aug-12		Sep-12		Jun-12		Jul-12	Aug-12	Sep-12		
	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	455,892	22	440,181	21	448,111	22	443,731	21	28.5	10.5	(3.4)	1.8	21.4	(2.7)	(1.0)
Government	417,525	20	401,814	19	412,514	20	410,237	20	33.5	12.6	(3.8)	2.7	27.0	(1.7)	(0.6)
Treasury Bonds	185,403	9	191,583	9	211,433	10	218,743	10	42.0	11.7	3.3	10.4	48.0	18.0	3.5
Central Bank Bonds	58,078	3	39,787	2	31,787	2	22,070	1	–	–	(31.5)	(20.1)	–	(62.0)	(30.6)
State-Owned Enterprise Bonds	174,044	8	170,444	8	169,294	8	169,424	8	(4.4)	(0.2)	(2.1)	(0.7)	(3.3)	(2.7)	0.1
Corporate	38,367	2	38,367	2	35,597	2	33,494	2	(8.7)	(7.9)	–	(7.2)	(21.4)	(12.7)	(5.9)

– = 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 rose 27.0% y-o-y to VND410.2 trillion as of end-September. Of this total, treasury bonds grew 48.0% y-o-y to VND218.7 trillion and SBV bills stood at VND22.1 trillion after resumption of their issuance in March. On the other hand, SOE bonds contracted 3.3% y-o-y to VND169.4 trillion and total LCY corporate bonds outstanding contracted 21.4% to VND33.5 trillion.

Treasury bond issuance remained active in 3Q12, with total new issuance amounting to VND15.3 trillion, due to Viet Nam's need to fund its rising fiscal deficit. Meanwhile, new issuance of SOE bonds amounted to VND900 billion. Given the tough market conditions, Vietnamese banks have had less risk appetite for corporate bonds. Thus, Viet Nam's LCY corporate bond market was mostly inactive in 3Q12, with only one new issuance by HAGL—a real estate company—amounting to VND850 billion.

As of 30 September, the Viet Nam Technological and Commercial Joint Stock Bank (Techcombank) remained the largest corporate issuer with outstanding bonds of VND5.1 trillion **(Table 2)**. HAGL became the second largest issuer in Viet Nam's LCY corporate bond market in 3Q12 with its VND850 billion issuance in August, the only corporate bond issuance to date in 2012. HAGL was previously the sixth largest corporate bond issuer at end-June. Total LCY bonds outstanding among the 15 largest issuers comprised 92.7% of all LCY corporate bonds outstanding.

Rating Changes

On 28 September, Moody's Investors Service (Moody's) downgraded Viet Nam's foreign currency and LCY government bond ratings to B2 from B1, with a stable outlook for both **(Table 3)**. The downgrade was driven by increasing banking system vulnerabilities due to overhang from a prolonged credit boom and the subsequent tightening in lending policy.

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

Issuers	Outstanding Amount		State-Owned	Privately-Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US$ billion)				
1. Techcombank	5,100	0.24	No	Yes	No	Finance
2. HAGL	4,110	0.20	No	Yes	Yes	Real Estate
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/Theme Parks
6. Asia Commercial Joint Stock Bank	3,000	0.14	No	Yes	Yes	Finance
7. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
8. Viet Nam Maritime Commercial Bank	1,000	0.05	No	Yes	No	Finance
9. Minh Phu Seafood	900	0.04	No	Yes	Yes	Fisheries
10. Hoa Phat Group	800	0.04	No	Yes	Yes	Industrial
11. Phu Hoang Anh	600	0.03	No	Yes	No	Real Estate
12. An Binh Bank	600	0.03	No	Yes	No	Finance
13. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
14. HCMC General Import Export	450	0.02	No	Yes	No	Import/Export
15. Viet Nam Steel	400	0.02	No	Yes	No	Steel Producer
Total Top 15 LCY Corporate Issuers	**31,055**	**1.49**				
Total LCY Corporate Bonds	**33,494**	**1.60**				
Top 15 as % of Total LCY Corporate Bonds	**92.7%**	**92.7%**				

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	B2	BB–	B+
Outlook	Stable	Stable	Stable

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

Policy, Institutional, and Regulatory Developments

Government Tasks the SBV to Strengthen the Banking Sector in 2013

On 8 October, the Government of Viet Nam released a resolution appointing the SBV to take necessary measures to tighten discipline in the banking sector and strengthen all weak banks in 2013. The SBV was also asked to design comprehensive solutions to deal with non-performing loans, increase foreign reserves, and strictly control the exchange rate. In the same resolution, the government re-emphasized that it will continue to pursue a flexible monetary policy to help businesses maintain access to capital while seeking to avoid a recurrence of high inflation. The government also announced it would continue to offer a 3-month extension of value added tax payments origanally due in June 2012.

In addition, the Ministry of Planning and Investment has been instructed to speed up investment promotion and take more measures to mobilize and disburse official development assistance (ODA) and foreign direct investment (FDI) capital. The ministry will revamp its statistical methodology in accordance with international standards to improve socio-economic data collection.