

# Viet Nam

## Yield Movements

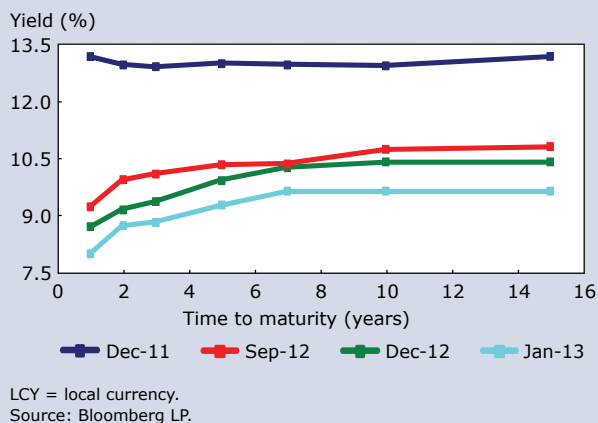
Government bond yields in Viet Nam shifted downward across most of the yield curve in 4Q12, while steepening from the shorter-end to the belly of the curve. Between end-September and end-December, yields fell between 9 basis points (bps) and 73 bps across all tenors (**Figure 1**). Between end-December and end-January, yields further shifted downward across all tenors between 38 bps–70 bps. At the shorter-end, yields on 1-year government bonds fell 65 bps to 8.0%. At the longer-end, yields on 10- and 15-year government bonds both fell 70 bps to settle at the same level of 9.5%. As a result, the spread between 2- and 10-year government bonds widened to 82 bps at end-January from 115 bps at end-December.

Viet Nam's gross domestic product (GDP) expanded 5.0% year-on-year (y-o-y) in 2012, easing slightly from 5.9% in 2011 to post the slowest annual growth rate since 1999. In 4Q12, GDP expanded 5.4% y-o-y, up from a revised growth rate of 5.1% in 3Q12. Viet Nam's economy was slowed in 2012 by a fall-off in lending as banks faced rising levels of bad debt throughout the year. To encourage more rapid credit growth, the State Bank of Viet Nam (SBV) cut key interest rates six times in 2012 by a total of 600 bps.

Consumer price inflation for the full-year 2012 was 9.2%, just below the SBV's target rate of 10.0%, driven mostly by price hikes in housing and construction materials, medical services, and education. In January, consumer price inflation slightly accelerated to 7.1% y-o-y after rising 6.8% in December.

Viet Nam's industrial production index (IPI) rose 4.8% in 2012, down from the 6.8% annual growth rate posted in 2011. Mining and quarrying rose 3.5%; manufacturing, 4.5%; power and gas, 12.3%; and water supply and waste management,

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



8.4%. In January, the IPI rose significantly by 21.1% y-o-y but fell 3.2% month-on-month (m-o-m).

## Size and Composition

As of end-December, Viet Nam's total local currency (LCY) bonds outstanding stood at VND521.9 trillion (US\$25.0 billion), an increase of 42.7% y-o-y that was driven mainly by growth of 71.5% in treasury bills and bonds, and the resumption of SBV bill issuance in March 2012. However, the significant growth in the government bond sector was partially offset by a 47.6% y-o-y contraction in corporate bonds outstanding, continuing a steady decline in place since March 2011 (**Table 1**).

Total LCY government bonds outstanding rose 54.6% y-o-y to VND499.6 trillion at end-December. Treasury bills and bonds outstanding reached VND255.0 trillion and SBV bills stood at VND58.6 trillion after the SBV resumed issuance in March 2012. Meanwhile, state-owned enterprise (SOE) bonds grew 6.6% y-o-y to VND186.0 trillion at end-December, reversing a contraction of 3.3% y-o-y at end-September. In

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

	Outstanding Amount (billion)						Growth Rate (%)									
	Sep-12		Oct-12		Nov-12		Dec-12		Sep-12		Oct-12		Nov-12		Dec-12	
	VND	US\$	VND	US\$	VND	US\$	VND	US\$	q-o-q	y-o-y	m-o-m	m-o-m	m-o-m	m-o-m	q-o-q	y-o-y
Total	443,731	21	450,680	22	492,341	24	521,923	25	(2.7)	21.4	1.57	9.2	6.0	17.6	42.7	
Government	410,237	20	425,581	20	468,342	22	499,560	24	(1.7)	27.0	3.74	10.0	6.7	21.8	54.6	
Treasury Bonds	218,743	10	231,058	11	243,856	12	255,011	12	18.0	48.0	5.6	5.5	4.6	16.6	71.5	
Central Bank Bonds	22,070	1	22,914	1	49,298	2	58,560	3	-	-	3.8	115.1	18.8	165.3	-	
State-Owned Enterprise Bonds	169,424	8	171,609	8	175,188	8	185,989	9	(2.7)	(3.3)	1.3	2.1	6.2	9.8	6.6	
Corporate	33,494	2	25,099	1	23,999	1	22,362	1	(12.7)	(21.4)	(25.1)	(4.4)	(6.8)	(33.2)	(47.6)	

- = not applicable, ( ) = negative, 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.

contrast, total LCY corporate bonds outstanding contracted 47.6% y-o-y and 33.2% q-o-q to VND22.4 trillion.

In 4Q12, issuance of treasury bills and bonds and SBV bills remained active. Total new issuance of treasury bills and bonds and SBV bills amounted to VND35.6 trillion and VND58.6 trillion, respectively. Meanwhile, new issuance of SOE bonds, primarily by the Viet Nam Development Bank, amounted to VND17.6 trillion. Given the continuing tough market conditions in 2012, Vietnamese investors' risk appetite for corporate bonds remained low. Viet Nam's LCY corporate bond market was mostly inactive in 2012, with only one new issue—a VND150 billion bond issued by Lam Son Sugar, a manufacturer and trader of sugar, malt, alcoholic and non-alcoholic drinks, and other sugar-based products and animal feeds.

At the end of 2012, real estate company HAGL ranked as the largest corporate issuer with outstanding bonds of VND4.1 trillion (**Table 2**). It marked the first time a non-bank corporate was the largest issuer of corporate bonds, reversing a history of financial institutions dominating Viet Nam's corporate bond market. Of the top 15 LCY corporate issuers at end-December, five were real estate developers and only three were financial institutions. Total LCY bonds outstanding among the 15 largest issuers comprised 94.7% of all LCY corporate bonds outstanding.

## Policy, Institutional, and Regulatory Developments

### SBV Cut Key Rates in December for the Sixth Time in 2012

On 24 December, the SBV cut key interest rates for the sixth time in 2012 in a continuation of its policy of monetary easing. The discount rate and the refinancing interest rate were each cut by an additional 100 bps to 7.0% and 9.0%, respectively.

**Table 2: Top 15 Issuers of LCY Corporate Bonds in Viet Nam**

Issuers	Outstanding Amount		State-Owned	Privately Owned	Listed Company	Type of Industry
	LCY Bonds (VND billion)	LCY Bonds (US\$ billion)				
1. HAGL	4,110	0.20	No	Yes	Yes	Real Estate
2. Asia Commercial Joint Stock Bank	3,000	0.14	No	Yes	Yes	Finance
3. Techcombank	3,000	0.14	No	Yes	No	Finance
4. Vincom	3,000	0.14	No	Yes	Yes	Real Estate
5. Vinpearl	2,500	0.12	No	Yes	Yes	Resorts and Theme Parks
6. Agribank Securities	2,000	0.10	No	Yes	Yes	Finance
7. Minh Phu Seafood	700	0.03	No	Yes	Yes	Fisheries
8. Hoa Phat Group	600	0.03	No	Yes	Yes	Miscellaneous Manufacturing
9. Kinh Bac City Development	500	0.02	No	Yes	Yes	Real Estate
10. Development Investment	350	0.02	No	Yes	No	Building and Construction
11. Phu Hoang Anh	350	0.02	No	Yes	No	Real Estate
12. Binh Chanh Construction	300	0.01	No	Yes	Yes	Building and Construction
13. Saigon Telecommunication	300	0.01	No	Yes	Yes	Technology
14. Dabaco Corporation	254	0.01	No	Yes	Yes	Diversified Operations
15. Thu Duc Housing Development	209	0.01	No	Yes	Yes	Real Estate
<b>Total Top 15 LCY Corporate Issuers</b>	<b>21,173</b>	<b>1.02</b>				
<b>Total LCY Corporate Bonds</b>	<b>22,362</b>	<b>1.07</b>				
<b>Top 15 as % of Total LCY Corporate Bonds</b>	<b>94.7%</b>	<b>94.7%</b>				

LCY = local currency.

Notes:

1. Data as of 31 December 2012.

2. State-owned firms are defined as those in which the government has more than a 50% ownership stake.

Source: *AsianBondsOnline* calculations based on Bloomberg data.