

Viet Nam

Yield Movements

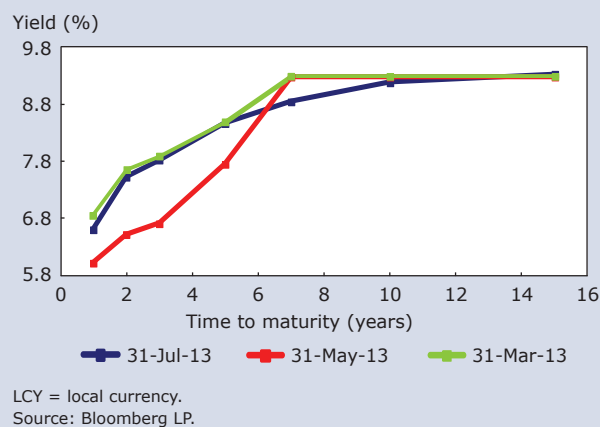
Between end-March and end-May, Viet Nam's local currency (LCY) government bond yield curve shifted downward as yields plunged sharply for tenors between 1 year and 5 years (**Figure 1**). Yields slumped the most at the shorter-end of the curve, dropping as much as 116 basis points (bps) for 3-year government bonds and 113 bps for 2-year bonds.

By end-July, yields for instruments with maturities of 5 years or less rose between 58 bps and 111 bps. The 2- and 3-year benchmark yields edged up to 7.55% and 7.85% at end-July from 6.55% and 6.74%, respectively, at end-May. In contrast, yields of longer-dated tenors (maturities of 7 years or more) continued to slide, narrowing the spread between 2- and 10-year tenors to 165 bps at end-July from 275 bps at end-May.

The volatility of Viet Nam's government bond yields reflects turbulence in the economy. In 2Q13, inflationary pressures and a currency devaluation dampened investor demand. Consumer price inflation has declined since May 2012 to reach single-digit rates, but picked up for a second consecutive month in July, reaching 7.3% year-on-year (y-o-y). July's inflation rate was the highest in 14 months and follows recent lows in the first half of the year. The price indices for 10 out of 11 baskets of goods increased on a y-o-y basis, with only postal services and telecommunications showing a decline. The price index for health care costs saw the steepest increase at 80.2%, while the price indices for other baskets posted increases of between 2.2% and 15.7%. The government has set an annual inflation target of 6.0%–6.5%.

Concerns that the Vietnamese dong would further weaken also prompted LCY bond yields to rise. The Viet Nam dong depreciated to a record-low VND21,243-US\$1 in July following the central bank's decision to devalue the reference rate

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



by 1% versus the US dollar for the first time since 2011.

Viet Nam's economic growth remained subdued as weak domestic demand and high levels of non-performing loans in the banking system continued to constrain growth. In 2Q13, gross domestic product (GDP) growth was at 5.0% y-o-y, up slightly from 4.8% in 1Q13 and 4.7% in 2Q12, but still raising concerns that it may fall short of the government's annual target of 5.5%. Growth in retail revenues slowed to 11.9% in 1H13 from 19.5% in the same period in 2012. To address bad debts in the banking sector, Viet Nam Asset Management Company (VAMC) began operations on 26 July with an initial charter capital of VND500 billion (US\$25 million).

Size and Composition

Total LCY bonds outstanding in Viet Nam grew 26.8% y-o-y to VND578.0 trillion at end-June, as the rise in issuance of government bonds more than offset the decline in the corporate sector. On a quarter-on-quarter (q-o-q) basis, however, total LCY government and corporate bonds outstanding declined 8.1% and 22.5%, respectively, in 2Q13 (**Table 1**).

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

| | Outstanding Amount (billion) | | | | | | Growth Rate (%) | | | |
|------------------------------|------------------------------|------|---------|------|---------|------|-----------------|-------|--------|--------|
| | 2Q12 | | 1Q13 | | 2Q13 | | 2Q12 | | 2Q13 | |
| | VND | US\$ | VND | US\$ | VND | US\$ | q-o-q | y-o-y | q-o-q | y-o-y |
| Total | 455,892 | 22 | 632,319 | 30 | 577,997 | 27 | 10.5 | 28.5 | (8.6) | 26.8 |
| Government | 417,525 | 20 | 610,310 | 29 | 560,938 | 26 | 12.6 | 33.5 | (8.1) | 34.3 |
| Treasury Bonds | 185,403 | 9 | 310,537 | 15 | 324,054 | 15 | 11.7 | 42.0 | 4.4 | 74.8 |
| Central Bank Bonds | 58,078 | 3 | 112,857 | 5 | 43,586 | 2 | – | – | (61.4) | (25.0) |
| State-Owned Enterprise Bonds | 174,044 | 8 | 186,916 | 9 | 193,298 | 9 | (0.2) | (4.4) | 3.4 | 11.1 |
| Corporate | 38,367 | 2 | 22,009 | 1 | 17,059 | 1 | (7.9) | (8.7) | (22.5) | (55.5) |

() = negative, – = not applicable, LCY = local currency, 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.

Government Bonds. LCY government bonds outstanding stood at VND560.9 trillion at end-June, rising 34.3% y-o-y due to increased issuance of treasury bonds and state-owned enterprise (SOE) bonds.

In 2Q13, government issuance amounted to VND53.9 trillion, driven by issuance of treasury bonds and bills of VND34.7 trillion, and issuance by SOEs of VND19.3 trillion. The largest issuer among government-owned corporations was Viet Nam Development Bank, which issued bonds amounting to VND14.3 trillion. Viet Nam Bank for Social Policies and Hanoi Treasury raised VND4.0 trillion and VND1.0 trillion, respectively.

Corporate Bonds. The size of Viet Nam's corporate bond market has shrunk by half since 2Q12, plummeting 55.5% y-o-y to VND17.1 trillion in 2Q13. On a q-o-q basis, bonds outstanding fell 22.5% from VND22.0 trillion in 1Q13. Corporate bonds with maturities of 1–3 years were offering yields ranging from 7.5% to 17.25% in 2Q13, compared with 7.0% to 15.7% a year earlier.

Amid difficult market conditions, new issuance in Viet Nam's LCY corporate bond market has been non-existent since 1Q13. The most recent LCY corporate bond issuance occurred in October 2012 when Lam Son Sugar—a manufacturer and trader

of sugar, malt, alcoholic and non-alcoholic drinks, and other sugar-based products and animal feeds—issued a 2-year VND150 billion bond with a 12% coupon.

As of end-June, the top 15 issuers in Viet Nam accounted for 98.0% of total LCY corporate bonds outstanding (**Table 2**). The composition of the top three LCY corporate issuers remained unchanged from 1Q13, led by real estate company HAGL with bonds outstanding of VND4.1 trillion. Techcom Bank and Asia Commercial Joint Stock Bank followed with VND3 trillion each.

Policy, Institutional, and Regulatory Developments

Viet Nam Devalues its Currency, Cuts Interest Rate Ceiling for Short-Term Deposits

Viet Nam recently devalued its currency by 1% versus the US dollar. Effective 28 June, the VND-US\$ reference rate was adjusted from VND20,828 to VND21,036 per US\$1. The stated objectives of the devaluation were to improve the country's trade balance and increase its foreign exchange reserves.

The State Bank of Viet Nam (SBV) announced a cut in the interest rate ceiling for VND deposits with

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

| Issuers | Outstanding Amount | | State-Owned | Listed Company | Type of Industry |
|---|-------------------------|--------------------------|-------------|----------------|-----------------------------|
| | LCY Bonds (VND billion) | LCY Bonds (US\$ billion) | | | |
| 1. HAGL | 4,110.00 | 0.19 | No | Yes | Real Estate |
| 2. Techcom Bank | 3,000.00 | 0.14 | No | No | Finance |
| 3. Asia Commercial Joint Stock Bank | 3,000.00 | 0.14 | No | Yes | Finance |
| 4. Vinpearl | 2,000.00 | 0.09 | No | Yes | Resorts and Theme Parks |
| 5. Vincom | 1,000.00 | 0.05 | No | Yes | Real Estate |
| 6. Minh Phu Seafood | 700.00 | 0.03 | No | Yes | Fisheries |
| 7. Hoa Phat Group | 600.00 | 0.03 | No | Yes | Miscellaneous Manufacturing |
| 8. Kinh Bac City Development | 500.00 | 0.02 | No | Yes | Real Estate |
| 9. Development Investment | 350.00 | 0.02 | No | No | Building and Construction |
| 10. Phu Hoang Anh | 350.00 | 0.02 | No | No | Real Estate |
| 11. Binh Chanh Construction | 300.00 | 0.01 | No | Yes | Building and Construction |
| 12. Saigon Telecommunication | 300.00 | 0.01 | No | Yes | Technology |
| 13. Thu Duc Housing Development | 208.87 | 0.01 | No | Yes | Real Estate |
| 14. Lam Son Sugar | 150.00 | 0.01 | No | No | Diversified |
| 15. Quoc Cuong Gia | 150.00 | 0.01 | No | No | Building and Construction |
| Total Top 15 LCY Corporate Issuers | 16,718.87 | 0.79 | | | |
| Total LCY Corporate Bonds | 17,058.99 | 0.80 | | | |
| Top 15 as % of Total LCY Corporate Bonds | 98.0% | 98.0% | | | |

LCY = local currency.

Notes:

1. Data as of end-June 2013.

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.

tenors between 1 month and less than 6 months by another 50 bps to 7%, effective 28 June. The move aims to support economic growth. Short-term lending rates for five prioritized sectors—agriculture, exports, supporting industries, high-tech businesses, and small and medium-sized enterprises (SMEs)—will now be capped at 9% rather than 10%.

SBV to Perform Settlement for Government Bond Transactions Beginning in 2Q14

The method of payment for government bonds will be changed to real-time gross settlement (RTGS) from multilateral netting. Starting in 2Q14, SBV will perform the settlement for government bond transactions, instead of the Bank for Investment and Development of Viet Nam. Only member banks of the Viet Nam Securities Depository are

allowed to directly participate in the government bond settlement system, while members such as securities companies will make payments for government bond transactions through a settlement bank.

VAMC Begins Operation

On 26 July, Viet Nam Asset Management Company (VAMC) started operations with initial registered capital of VND500 billion. VAMC was created to better manage non-performing loans (NPLs) and promote credit growth in the country's banking system. VAMC—which is wholly state-owned and -managed, and supervised by SBV—will purchase the bad debts of credit institutions in one of two ways: by buying NPLs at their book value through the issuance of VAMC's special bonds or by buying NPLs at market value using other financing sources. Special bonds are 5-year zero-coupon

bonds issued in exchange for banks' bad debts, which the lenders can use as collateral to access refinancing funds from the central bank. VAMC will only buy NPLs that meet five conditions: (i) the debts must arise from lending or the purchase of bonds, or from other activities prescribed by SBV; (ii) collateral assets must have proper title documentation; (iii) debts and collateral assets must be legal; (iv) borrowers must still be in operation and otherwise contactable and verifiable; and (v) the balances of bad loans or outstanding bad debts of borrowers cannot be lower than the level prescribed by SBV. Lenders NPL ratios of 3% and above will be required to sell their bad debts to VAMC or else face external audit.