Vietnam Devalues Dong for First Time Since December 2011 (2)
2013-06-28 10:03:29.188 GMT

(Updates prices and adds bond yield data.)

By Bloomberg News

June 28 (Bloomberg) -- Vietnam's central bank devalued its currency for the first time since 2011 and cut the interest-rate cap on dollar deposits to help "improve" the balance of payments and boost foreign-exchange reserves.

The State Bank of Vietnam weakened its reference rate by 1 percent to 21,036 dong per dollar, effective today, according to a statement released yesterday. The currency, which can trade as much as 1 percent either side of the rate, fell 0.9 percent to 21,205 as of 4:57 p.m. at banks in Hanoi, the most since Aug. 9, 2011, according to data compiled by Bloomberg. The fixing has been kept at 20,828 since Dec. 26, 2011, and the spot rate touched a record 21,036, the lower limit of the band, on most days in June.

The change in the reference rate is the biggest since a record 8.5 percent cut in February 2011 and comes after the government announced yesterday that imports exceeded exports by $1.4 billion in the first half of this year. The economy expanded 4.9 percent in the first six months from a year earlier, official data show. The government's full-year growth target of 5.5 percent "will be extremely difficult to meet," Do Thuc, head of the General Statistics Office, said yesterday in Hanoi.

"The trade balance has swung back into deficit," Tim Condon, head of Asian research at ING Groep NV in Singapore, wrote in a note today. "Devaluation is the standard policy response when this happens."

Bond Fell

Vietnam's government bonds fell today, with the benchmark five-year yield rising 10 basis points, or 0.1 percentage point, to 8.05 percent, according to a daily fixing from banks compiled by Bloomberg. The three-year yield climbed six basis points to 7.23 percent.

The Southeast Asian nation's economy expanded 5 percent last year, the slowest since 1999, according to government data, after growing 5.9 percent in 2011 and 6.8 percent in 2010

The central bank bought $18 billion to boost its foreign- exchange reserves in 2012, Saigon Times reported Feb. 21, citing Governor Nguyen Van Binh. A further $3.18 billion was purchased in the first quarter of 2013, lifting holdings to the equivalent of 12 weeks of imports, VnEconomy reported April 26, citing a report by State Bank of Vietnam.

The reference rate's adjustment is "to more accurately reflect the supply and demand of foreign currency in the market" and to "create stability," the central bank said in the statement. Consumer prices rose 6.69 percent in June from a year earlier, the most since February, official data show.

Deposit Caps

"One key risk is that a pickup in inflation and concerns about further devaluation could intensify dollarization pressures, leading to a self-fulfilling VND depreciation spiral," Vishnu Varathan, a Singapore-based economist at Mizuho Corporate Bank Ltd., wrote in a research note today.

The central bank cut the cap on corporate dollar deposits to 0.25 percent from 0.5 percent for all tenors and reduced the limit for household savings to 1.25 percent from 2 percent, the regulator said on its website yesterday.

The maximum rate for dong deposits was also lowered to spur spending and investment, the central bank said in the statement.
The ceiling for deposits of less than one month fell to 1.2 percent from 2 percent, while that for periods of up to six months declined to 7 percent from 7.5 percent.

The rate-cap reductions are intended “to curb deposit and lending rates at reasonable levels to help stabilize the money market and the foreign-currency market and to continue implementing measures to help resolve difficulties for businesses and production,” the central bank said in the statement. “Businesses and production still have a lot of difficulties because consumption in the market is still at low levels and companies’ ability to absorb bank loans is still limited.”

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