Weekly Credit Brief
Dec 25 - Dec 31 2012

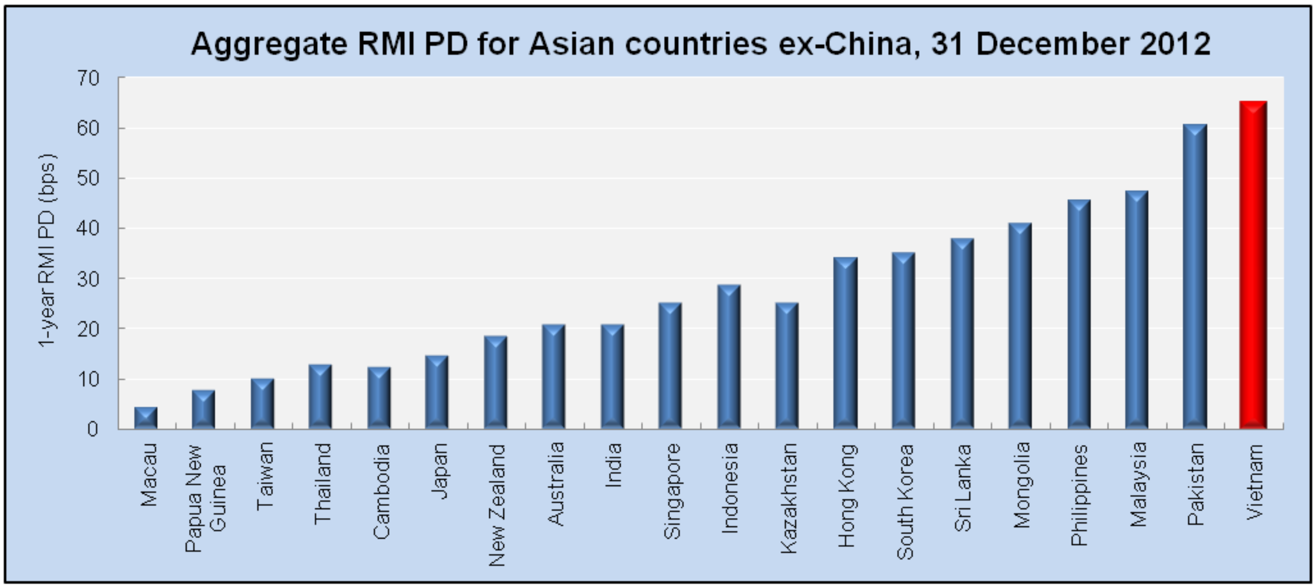
Story of the Week

Vietnamese firms have the highest aggregate default risk in South-East Asia

By Dexter Tan

Last week, the General Statistics Office of Vietnam released the gross domestic product (GDP) figures for 2012 which showed that the economy grew at the weakest pace in 13 years. GDP increased 5.03%; lower than growth of 5.89% seen in 2011. Earlier in the month, the government forecasted GDP may increase by 5.50% in 2013.

The latest snapshot of the aggregate RMI 1-year probabilities of default (RMI PDs) for all Asian countries, excluding China, shows that firms domiciled in Vietnam have the highest default risk. The 1-year aggregate RMI PD for Vietnamese companies was 65bps on December 31. Vietnamese companies face high borrowing costs and slowing revenues, negatively affecting aggregate credit quality. The 3-month interbank deposit rate on the Vietnam Dong was as high as 7.48% on December 28 while a survey of the average sales posted by companies on the Ho Chi Minh Stock Index showed corporate revenues have fallen over recent quarters.



According to the country's central bank, 8.75% of outstanding loans on the balance sheets of Vietnamese banks are classified as bad debt. This is partly due to the weak state of the housing market in the last 5 years. The real estate sector was booming a few years ago, but interest in the housing market has dropped following weaker economic growth through the years. Some investors have lost money in their investments and many houses and apartments have not been sold.

The monetary authority in Vietnam lowered interest rates for the sixth consecutive time in December to ease financing costs for companies. The refinancing rate was cut to 9% and the discount rate was cut to 7%. Firms operating in Vietnam have been facing a difficult business environment. Average 12-month trailing earnings per share (EPS) of public Vietnamese companies fell to VND 8.19 per share in Q3 2012, the lowest level since 2009.

Sources:

Vietnam cuts interest rates for sixth time to spur growth (Bloomberg)
Vietnam curbs inflation, but GDP declines in 2012 (Xinhua)
Vietnam grows at slowest pace since 1999 on credit slump (Bloomberg)
Vietnam to halve bad debt amount in 2013 (Reuters)

In the News

Mortgage-bond sales soar on Fed's refinance push

Dec 27. Sales of US mortgage-backed bonds rose to a 3-year high on the back of increased refinancing activities and governmental moves to make homes more affordable. US regulators have helped homeowners lower their monthly obligations. The Federal Reserve bought nearly USD 500bn of mortgages in 2012, pushing 30 year loan rates to record lows while the Obama administration has asked Fannie Mae and Freddie Mac to expand the Home Affordable Refinance Program to borrowers with little or no home equity. (Bloomberg)

UK bank lending to companies falls

Dec 27. Bank lending by UK banks dropped dramatically in November undermining the efforts by the Bank of England and the UK Treasury to boost credit supply. The British Bankers' Association (BBA) showed that lending posted the steepest fall since June as banks strengthen their balance sheets and increase their cash positions in preparation for an uncertain economic outlook. But the BBA said that the drop reflected lower borrowing demand rather than tighter credit supply, as confidence amongst companies remains low. (WSJ)

Bond ratings cuts advance to fastest since 2009

Dec 27. Credit rating agencies Standard & Poor's (S&P) and Moody's Investors Services are cutting bond ratings at the fastest pace since 2009. S&P data revealed that the ratio of rating downgrades to upgrades have increased to 1.85 in 2012 from 1.23 a year earlier. A similar Moody's measure of downgrades to upgrades in Western Europe also increased to 8.2 in 2012 from 4.7 in 2011. Some market participants believe corporate credit quality has deteriorated worldwide as global economic growth slows and companies have issued record amounts of debt. (Bloomberg)

Bank of Japan's USD 267bn JGB buys spur record win streak

Dec 25. Japanese government bonds recorded the longest run of annual gains, helped by massive purchases by the country's central bank. The Bank of Japan bought USD 267bn of bonds through the year, pushing yields on the 10-year JGB to historical lows in December. The central bank's method of introducing liquidity into the financial system has come against a backdrop of two quarters of economic contraction and new political leadership. (Bloomberg)

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Contributing Editor: Dexter Tan