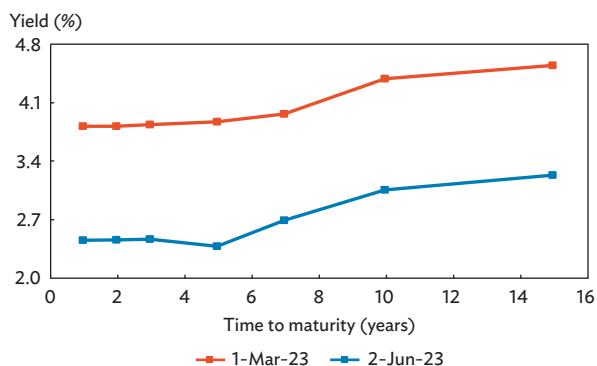


Viet Nam

Yield Movements

Viet Nam’s local currency (LCY) government bond yields declined for all maturities between 1 March and 2 June (Figure 1). Declining yields were mainly driven by the State Bank of Vietnam’s (SBV) monetary easing stance, as it reduced the refinancing rate by 50 basis points (bps) each in its meetings on 31 March and 23 May, bringing the main policy rate to 5.00%. Prior to this, in its 14 March meeting, the SBV lowered the discount rate and overnight lending rate by 100 bps. The rate cuts were taken to spur economic growth amid cooling inflation. In May, Viet Nam’s year-on-year (y-o-y) consumer price inflation decelerated to 2.4% from 2.8% in April, while Viet Nam’s economic growth slowed to 3.3% y-o-y in the first quarter (Q1) of 2023 from 5.9% y-o-y in the fourth quarter of 2022. As inflation continues to be under the government’s target of 4.5%, and the United States (US) Federal Reserve moves toward a dovish monetary stance, SBV is keeping its monetary policy flexible with room for further rate cuts to support Viet Nam’s economic growth and foster financial stability especially in the real estate industry. The SBV further reduced by 50 bps the refinancing rate (4.50%), rediscount rate (3.00%), and overnight lending rate (5.00%) on 16 June.

Figure 1: Viet Nam’s Benchmark Yield Curve— Local Currency Government Bonds

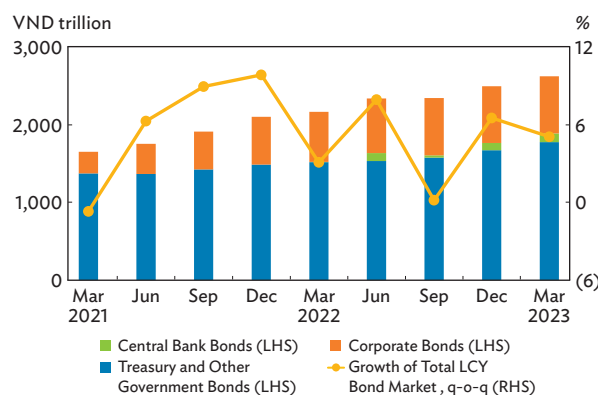


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

The LCY bond market in Viet Nam grew 5.1% quarter-on-quarter (q-o-q) to reach a size of VND2,626.1 trillion (USD111.9 billion) at the end of March. Growth can be attributed to expansions in both the government and corporate bond segments amid increased issuance during the quarter. Corporate bond market growth rebounded as the government eased some regulations, leading to the resurgence of issuance during the quarter. At the end of March, Viet Nam’s LCY bond market remained dominated by Treasury and other government bonds, which together accounted for 67.8% of the total bonds outstanding, while a 28.0% share was attributable to corporate bonds and a 4.2% share was attributable to central bank securities (Figure 2). Financial institutions and property firms are the largest issuers of corporate bonds in Viet Nam’s LCY corporate bond market, accounting for 53.8% and 25.5%, respectively, of the total corporate bond stock at the end of March.

Figure 2: Composition of Local Currency Bonds Outstanding in Viet Nam



LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side, VND = Vietnamese dong.
 Note: Other government bonds comprise government-guaranteed and municipal bonds.

Sources: Vietnam Bond Market Association and Bloomberg LP.

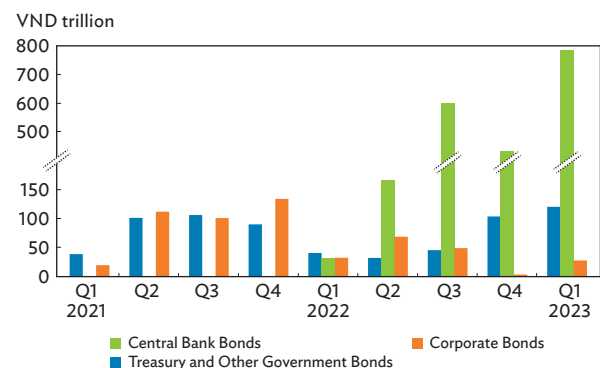
LCY bond issuance in Viet Nam climbed 73.0% q-o-q in Q1 2023 to reach VND938.4 trillion. Issuance of Treasury and other government bonds grew 15.9% q-o-q to VND121.4 trillion in Q1 2023, from VND104.8 trillion in the fourth quarter of 2022, accounting for 12.9% of the issuance total during the quarter. Issuance of corporate bonds expanded significantly in Q1 2023 (639.3% q-o-q), as activity in the corporate bond market picked up following the government’s issuance of Decree No. 8 in March, after which 93.0% of the quarter’s corporate bond issuance occurred.⁷ Furthermore, 85.3% of the corporate issuances in Q1 2023 were issued by seven firms in the property sector. Decree No. 8 was issued amid a slow recovery in Viet Nam’s corporate bond market due to the government’s credit tightening policies, high interest rates, and declining bond issuance volumes, which stifled bond issuers’ funding sources and hampered their ability to meet their bond obligations. Based on the FiiRatings report released in April, total default value of corporate bonds reached VND94.4 trillion as of 17 March from 69 issuer companies. The real estate industry accounted for the largest share of 83.6% (VND78.9 trillion) of

the total default value. Defaulted bonds continued to increase to a total of VND128.5 trillion as of 4 May. During the quarter, total corporate bond issuance reached VND28.4 trillion, equivalent to 3.0% of the total LCY issued bonds in Q1 2023 (**Figure 3**). Hung Yen Investment and Development, a company engaged in real estate business, was the largest corporate bond issuer during the quarter, with aggregate issuance of VND7.2 trillion. Meanwhile, central bank securities comprised the largest share of issuance volume in the overall LCY bond market, accounting for 84.0% of the issuance total in Q1 2023.

Investor Profile

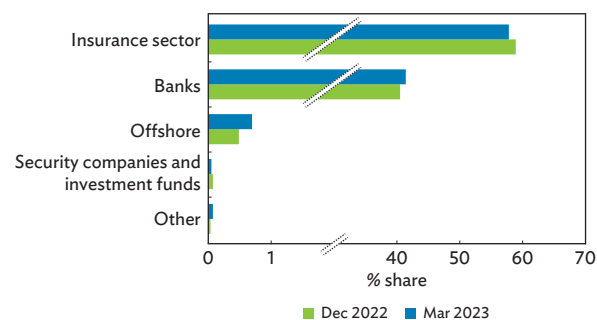
The combined holdings of insurance companies and banks continued to account for nearly all outstanding LCY government bonds in Viet Nam at the end of March (Figure 4). Insurance companies remained the largest investor group with an investment share of 57.8% by the end of Q1 2023, a slight decline from 58.9% in the previous quarter. Meanwhile, banks’ holdings of government bonds increased to 41.7% at the end of March. Security companies and investment funds, as well as offshore investors, continued to hold a marginal share of less than 1.0% each at the end of March 2023.

Figure 3: Composition of Local Currency Bond Issuance in Viet Nam



Q1 = first quarter, Q2 = second quarter, Q3 = third quarter, Q4 = fourth quarter, VND = Vietnamese dong.
 Note: Other government bonds comprise government-guaranteed and municipal bonds.
 Sources: Vietnam Bond Market Association and Bloomberg LP.

Figure 4: Investor Profile of Local Currency Government Bonds



Source: Vietnam Ministry of Finance.

⁷ Decree No. 8 issued by the government on 5 March eased corporate bond regulations by amending the following provisions previously stipulated in Decree No. 65: (i) payment by assets other than cash is now accepted for domestically issued bonds; (ii) issuers can extend payments by a maximum of 2 years if holders agree, and; (iii) requirements for professional investor status, credit ratings, and the rule on 30-day distribution period for each private placement are now postponed to 1 January 2024.