

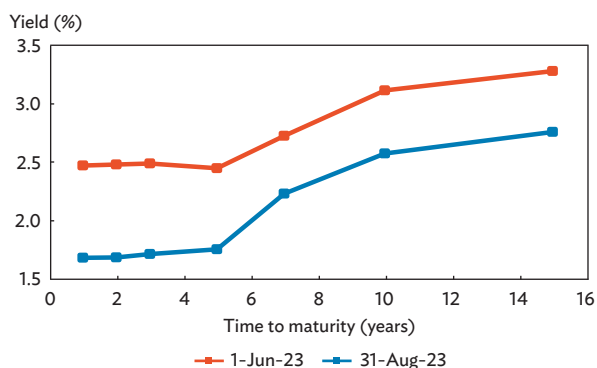
Viet Nam

Yield Movements

The local currency (LCY) government bond yield curve in Viet Nam shifted downward as rates declined for all tenors between 1 June and 31 August (Figure 1).

Bond yields trended down as the State Bank of Vietnam continued its policy of easing and further reduced the refinancing rate to 4.50% at its policy meeting on 16 June. This followed two consecutive rate cuts in April and May, by a total of 100 basis points, to pump up its faltering economy amid easing inflation. Viet Nam's year-to-date consumer price inflation inched up to 2.0% in August from 1.1% in July but remained below the government's target of 4.5%, while its economy expanded 4.1% year-on-year in the second quarter (Q2) of 2023, accelerating from the 3.3% year-on-year growth posted in the previous quarter. Despite the faster economic growth recorded in Q2 2023, a slowdown looms as Viet Nam struggles to hit its 2023 growth target of 6.5% due to the persistent crisis in the domestic real estate industry, a slump in exports amid weak global demand, and higher lending rates that hamper business activities.

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



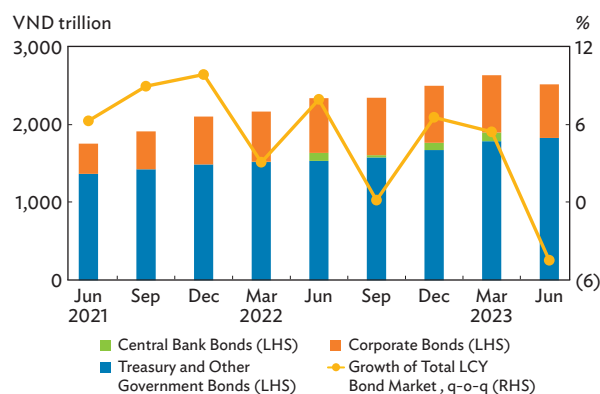
Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Outstanding LCY bonds in Viet Nam declined 4.5% quarter-on-quarter (q-o-q) in Q2 2023 due to a contraction in the corporate bond market. Corporate bonds contracted 6.6% q-o-q due to the maturation of bonds amid low issuance volume during the quarter combined with banks' increased activity in early redemptions of corporate bonds (Figure 2). Based on the report released by FiiRatings on 17 May, the total value of early redeemed bonds reached nearly VND11.3 trillion in April 2023. The banking sector, whose total value of early redemptions increased by 5.64 times compared to March 2023, accounted for the largest share at 61% of the total value of early redeemed bonds.

Corporate bonds outstanding reached VND688.3 trillion at the end of June, comprising 27.3% of total bonds outstanding in Q2 2023. The LCY corporate bond market in Viet Nam remained dominated by banks and property companies, accounting for 54.0% and 25.8%, respectively, of the total corporate debt stock at the end of June. There were no outstanding central bank securities at the end of Q2 2023 as the government continued to support liquidity in the economy. Meanwhile, growth in Treasury

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.

and other government bonds slowed to 2.3% q-o-q from 6.8% q-o-q in the previous quarter due to lower issuance volume in Q2 2023. Treasury and other government bonds outstanding reached VND1,830.0 trillion, accounting for 72.7% of the total debt stock at the end of June.

Viet Nam’s total LCY bond issuance reached VND62.9 trillion in Q2 2023, a contraction of 93.4% q-o-q as issuances of government and corporate bonds declined during the quarter (Figure 3).

Issuance of Treasury and other government bonds contracted 62.0% q-o-q during Q2 2023 to VND49.5 trillion as the State Treasury reduced its weekly auction target in June. In the same quarter, corporate bond issuance contracted 52.9% q-o-q, following sizeable issuance in March, due to negotiations in April arising from the recently enforced Decree No. 8, which allows issuers to negotiate with bondholders to restructure and extend bond payments. Despite the government’s recent policy interventions, headwinds in Viet Nam’s corporate bond market persist, especially for problematic real estate companies, as defaults increased to a total of VND128.5 trillion (98 issuing companies) as of 4 May, up from VND94.4 trillion (69 issuer companies) on

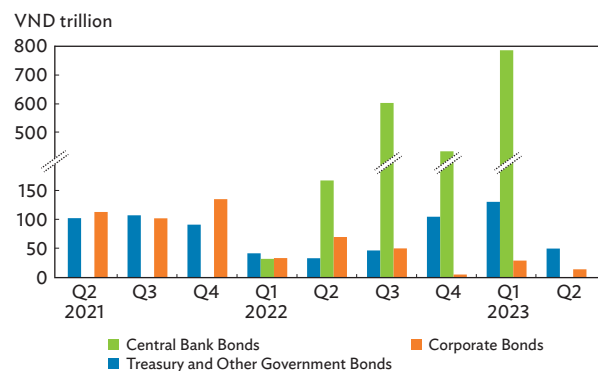
17 March, based on the report released by FiiRatings on 17 May. During the quarter, 13 companies issued 19 bonds totaling VND13.4 trillion, 27.9% of which were issued by firms in the property sector. Nui Phao Mining was the largest corporate bond issuer in Q2 2023, with aggregate issuance of VND2.6 trillion, followed by Construction Business Development, a company engaged in the real estate business, with issuance of a single-tranche bond amounting to VND2.3 trillion. Masan Group was the third-largest issuer of corporate bonds and had the only issuance via public offering during the quarter, with debt sales amounting to VND2.0 trillion.

Investor Profile

Insurance firms and banks remained the largest holders of LCY government bonds in Viet Nam at the end of June, together accounting for 99.5% of the total holdings (Figure 4).

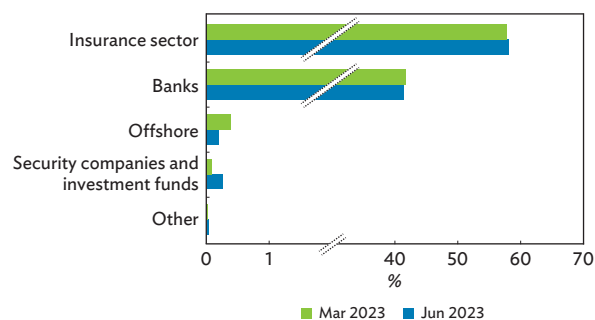
Insurance companies, whose investment share inched up to 58.1% in Q2 2023 from 57.8% in the previous quarter, remained the single-largest investor group at the end of June. On the other hand, bank holdings of government bonds slightly decreased to 41.4% from 41.7% in the first quarter of 2023. Among all investor groups, only banks and offshore investors posted a q-o-q decrease in their respective holdings in Q2 2023. 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 June 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.