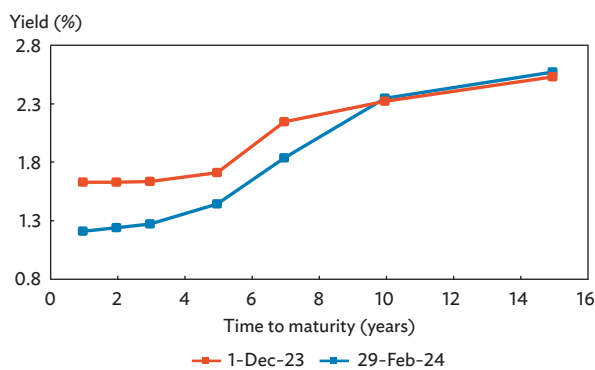


Viet Nam

Yield Movements

Local currency (LCY) government bond yields in Viet Nam declined for most tenors between 1 December 2023 and 29 February 2024 amid uncertainties in the timing of policy rate cuts by the United States Federal Reserve (Figure 1). The decline in yields was also driven by the central bank holding rates steady since July 2023 to help prop up economic growth. In 2023, the central bank reduced its refinancing rate by a cumulative total of 150 basis points from April to June 2023. Per a news release from *Vietnamnet Global*, the State Bank of Vietnam (SBV), early this year, expressed its intention to not increase the policy rate in 2024 to support economic growth. Viet Nam's economy grew 5.1% year-on-year in 2023, lower than the government's target growth of 6.5%.

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

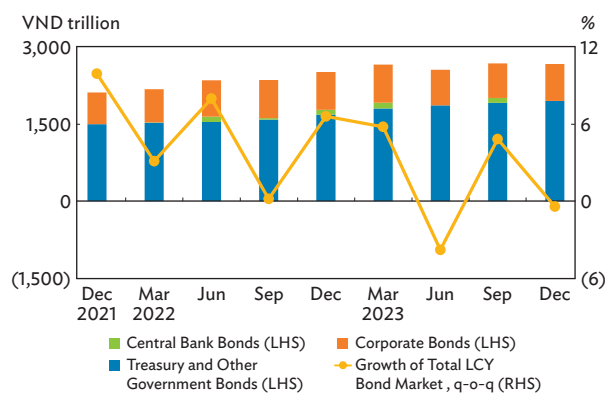


Source: Based on data from Bloomberg LP.

Local Currency Bond Market Size and Issuance

Viet Nam's LCY bond market contracted 0.4% quarter-on-quarter (q-o-q) in the fourth quarter (Q4) of 2023 due to a large volume of maturities of central bank securities (Figure 2). In Q4 2023, a total of VND360.3 trillion of central bank securities matured, while the SBV ceased issuing securities on 9 November. The central bank decided to halt its securities issuance—as overnight interbank interest rates climbed amid adjustments to the banking system's short-term liquidity—providing indirect support to the foreign exchange rate. Growth in outstanding government bonds moderated to 2.0% q-o-q from 2.6% q-o-q growth in the third quarter of 2023 on reduced issuance. Corporate bonds outstanding rebounded in Q4 2023, posting an increase of 6.8% q-o-q compared with a decline of 2.9% q-o-q in the previous quarter, as issuers returned amid improved investor sentiment following reforms in the corporate bond market.

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



() = negative, LCY = local currency, LHS = left-hand side, q-o-q = quarter-on-quarter, RHS = right-hand side, VND = Vietnamese dong.

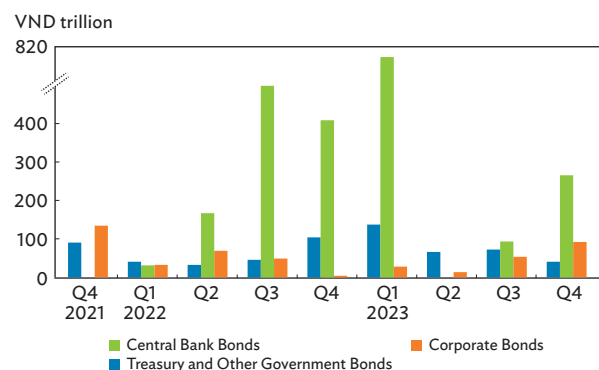
Note: Other government bonds comprise government-guaranteed and municipal bonds.

Sources: Vietnam Bond Market Association and Bloomberg LP.

Total LCY bond issuance grew 81.6% q-o-q in Q4 2023 on increased issuance from corporates and the central bank (Figure 3).

Corporate bond issuance expanded 72.1% q-o-q in Q4 2023 to reach VND92.6 trillion amid a gradual recovery in Viet Nam's corporate bond market. The government's implementation of strict regulations for the issuance of corporate bonds, combined with banks' low deposit interest rates, provided support for corporate bond issuance. The banking sector remained the largest issuer of corporate bonds in Viet Nam, accounting for 64.6% of all LCY corporate bonds issued in Q4 2023, with Orient Commercial Joint Stock Bank as the top issuer during the quarter on aggregated debt sales of VND9.3 trillion. To adjust short-term liquidity in the banking system, which is expected to lift the LCY-denominated interest rates in the interbank market and support the Vietnamese dong, the SBV's securities issuance in October increased to VND225.3 trillion, more than double the issuance volume of VND93.8 trillion in September. On the other hand, issuance of government bonds contracted 43.5% q-o-q as the State Treasury of Vietnam reduced issuance in Q4 2023 while closely monitoring market movements to ensure the government's debt servicing.

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.

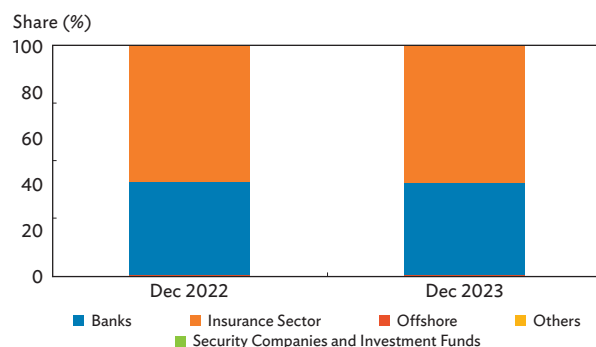
Sources: Vietnam Bond Market Association and Bloomberg LP.

Investor Profile

A majority of Viet Nam's LCY government bonds outstanding were held by insurance firms and banks at the end of December 2023 (Figure 4).

Similar to December 2022, the collective holdings shares of insurance firms and banks accounted for 99.4% of the LCY government bond market. Insurance companies remained the single-largest investor group, with their holdings share inching up to 59.7% at the end of December 2023 from 58.9% a year earlier. On the other hand, banks' holdings share edged down to 39.6% from 40.5% in the same period. Due to having only two dominant investor groups in its LCY government bond market, Viet Nam continued to have the highest Herfindahl-Hirschman Index score among its regional peers at the end of December 2023.¹²

Figure 4: Investor Profile of Local Currency Government Bonds



Note: At the end of December 2022 and 2023, the combined holdings share of security companies and investment funds, as well as offshore and other investors, totaled 0.6%.

Source: Viet Nam Ministry of Finance.

¹² The Herfindahl-Hirschman Index is a commonly accepted measure of market concentration. The index is used to measure the investor profile diversification of the local currency bond market and is calculated by summing the squared share of each investor group in the bond market.