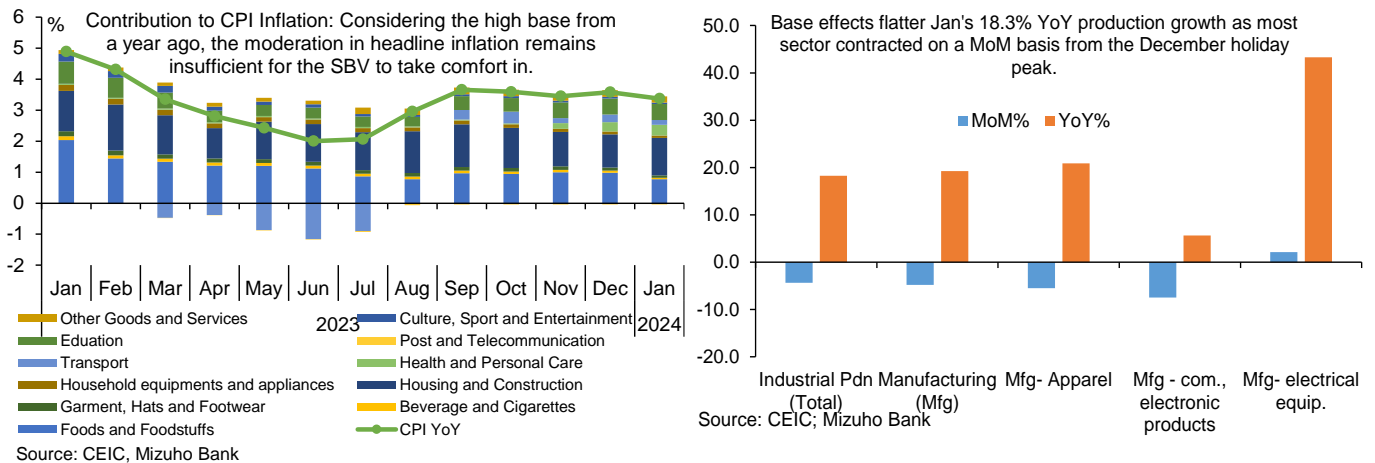


Vietnam: Bonds That Bind

In a nutshell:

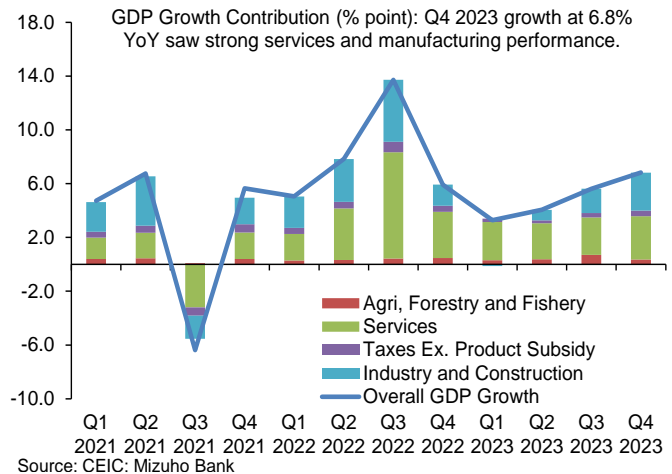
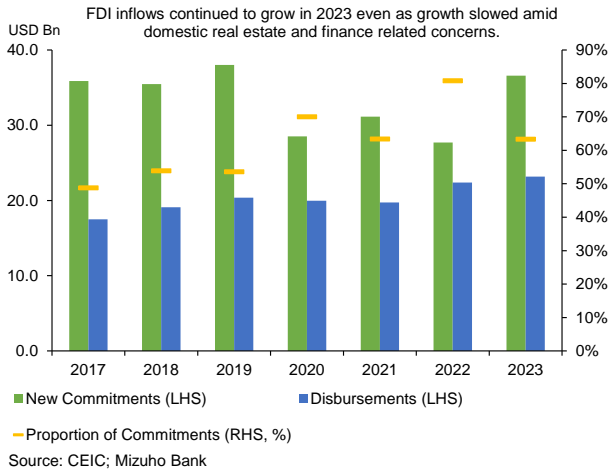
- Vietnam's latest economic print depict **cautious on-going economic recovery** as industrial production growth in January at 18.3% was flattered by low base effects while retail sales growth continued to slow. Nonetheless, we **remain structurally positive on Vietnam's long term growth prospects**.
- That said, underlying risks in the **current transition phase after the real estate bond woes and spots of related banking strains** imply that the 2024 growth may again fall shy of the government's target.
- The silver lining is that despite the growth slowdown in 2023, **FDI inflows into Vietnam has remained steady underscoring structural allure** of its geographical and labour advantages.
- Even so, **faced with rising NPLs**, some cyclical stress via **credit channels remains a notable risk**. As such, late-2023 pick-up in credit growth falls short of a resounding resolution.
- Especially given looming **redemption of corporate bonds worth about 2.7% of GDP in 2024** (~40% belonging to the distressed real estate sector); whereby some degree of forced **re-allocation of capital** may be not be adequately compensated by a **still nascent external demand recovery**.
- In addition, stricter issuance rules (delayed from 2023, but taking effect in 2024) warn that raising capital may be a tougher; **potentially dragging near term growth**, all else equal.

Near Term Stresses



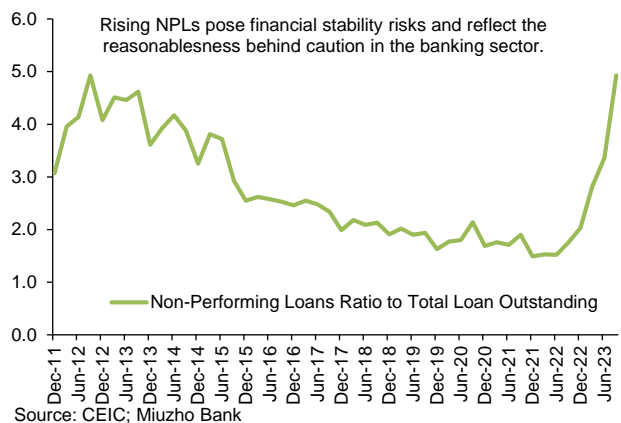
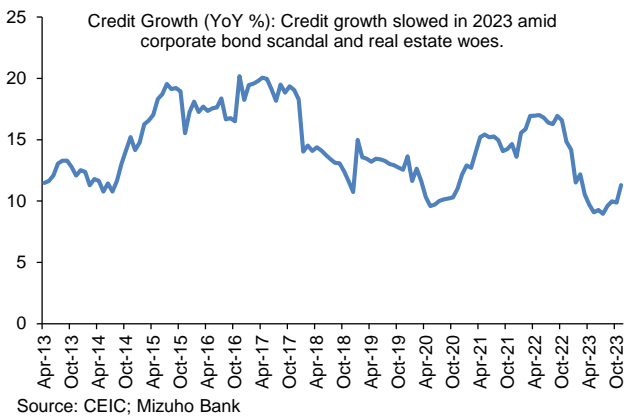
Vietnam's latest economic print continue to depict a cautious growth picture. While industrial production growth in January at 18.3% YoY may appear to be an exuberant start, it has been flattered by the statistical low base from last January when the manufacturing sector slumped. The sequential MoM contraction across most sectors such as electronic products as well as apparel is testament to the still fragile external demand. **Nominal retail sales growth slowed** to 8.1% to 9.6% in December 2023 underscoring stretched consumers. Meanwhile, headline inflation at 3.4% in January is perhaps insufficient disinflation from the 3.6% in December given the MoM increase was at 0.3% with broad based underlying inflation. While some of the price pressures have arise from the buying in preparation for the Tet new year celebration in February, the sight of 1.7% MoM increase in food prices remains worrying. Consequently, the **SBV is afforded little room to further ease monetary policy settings** to accommodate growth.

External Attraction Retained

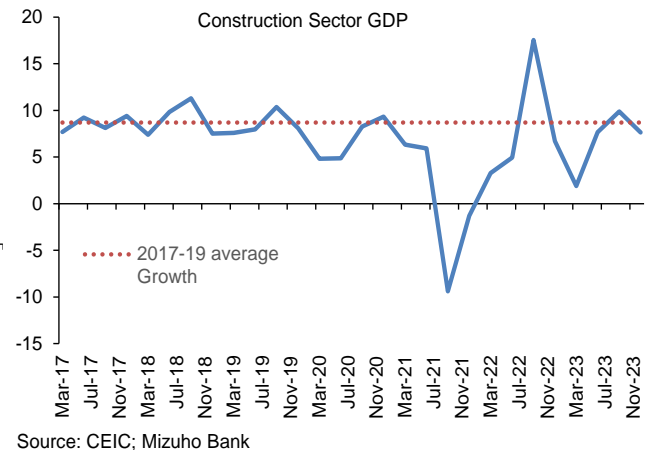
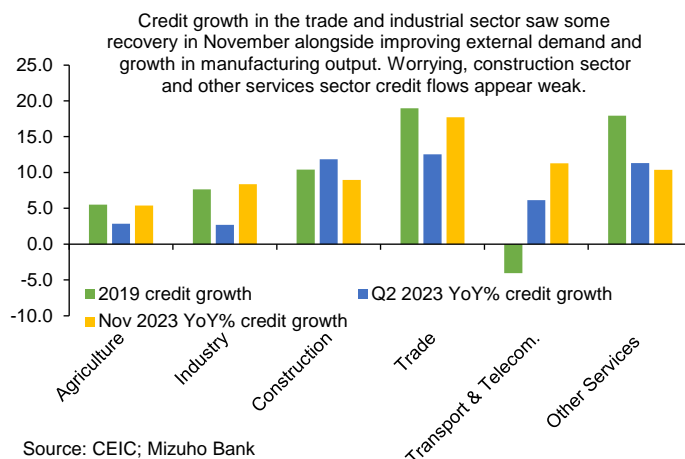


Despite the slower GDP growth in 2023 at 5% which is a sharp step down from 8% in 2022, **Vietnam’s attractiveness has been reflected by record FDI disbursements in 2023** which was 3.5% higher than in 2022. **FDI commitments grew by a staggering 32% in 2023**, just 3.7% shy of the highs reached in 2019. Subscribing to **Vietnam's allure as a manufacturing hub should not distract from the woes facing the real estate and financial sector.**

Credit – Caution or Fright?

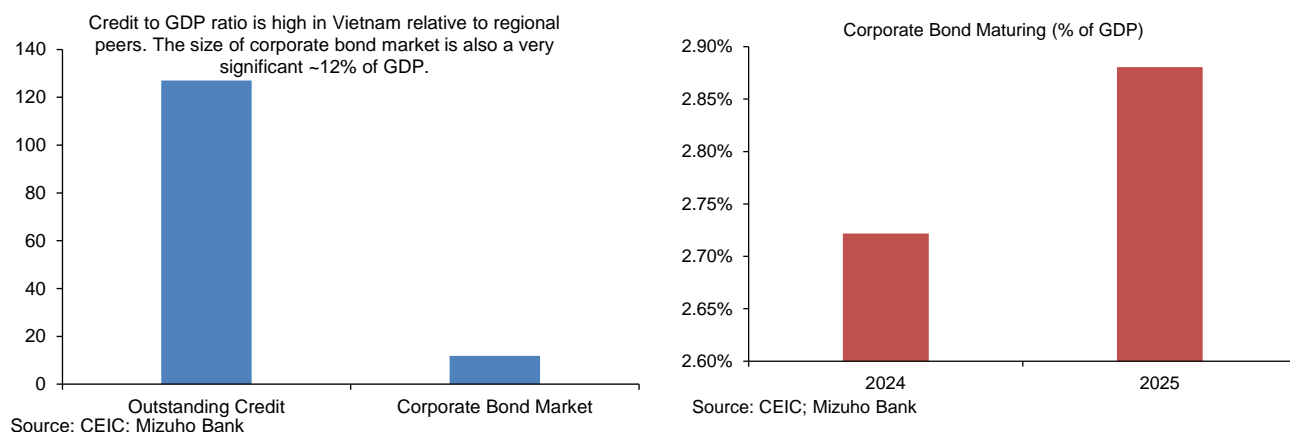


Nonetheless, Vietnam’s **geographical and population advantages do not directly absolve from their need to address challenges of capital allocation dynamics.** Specifically, slowing credit growth and woes in the corporate bond markets underscores the funding difficulties which in turn constrains economic growth. Rising NPLs perhaps also reflect that the **underlying caution in the banking sector is a reasonable exercise in risk management of extending loans.**



Afterall, this was **not an all-out shrinkage or freezing of credit channels** with a reported 13.5% YoY growth in credit in 2023. Nonetheless, the **underlying credit growth** across sectors display a similar **divergence** where the **manufacturing** sector enjoy some of the external demand **uptick** while **real estate services** and construction sector remain in the **doldrums**. The real estate sector continues to suffer from the fallout of the earlier real estate related corporate bond fraud scandal as **collateral are still held in custody and therefore unable to be utilised to access credit via banking channels**.

Redemption Woes



Outstanding credit balance stood at 127% of GDP as of November 2023. The corporate bond market worth nearly 12% of GDP remains a key source of capital flows. In 2023, a slew of early redemption as well as restructuring took place. In 2023, early redemption of corporate bonds totalled 2.2% of GDP. With the implementation of Decree 08 **last year, firms restructured their debt** and consequently a total of 0.4% of GDP worth of bonds is **delayed to 2024-25**.

Looking ahead, **corporate bonds amounting to 2.7% and 2.9% of GDP are set to mature in 2024 and 2025 respectively**. 40% of these bonds are from the troubled real estate sector. The **large amount of redemption** will inevitably necessitate a **re-allocation from capital which could have been used for investments or consumption**. Furthermore, the re-instatement of requirements under Decree 65 which tighten the eligibility criteria for classification of professional investors as well as the need for all bond issuance plan to have a compulsory credit rating may impede the ability **to raise funds this year**. Consequently, the impaired flow of credit is likely to continue restraining growth in the economy this year. That said, the necessary tightening of financial regulations allows for more transparency and better functioning of bond markets in the future. Accordingly, sporadic episodes of stresses in bond markets in 2024 may set off impulses of VND weakening amid a broader bumpy EM-Asia FX recovery trend in 2024.

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