DI-GEST ASIA REPORT

January 2023

Review of the Vietnam's economy 2022

Dream Incubator Inc.
Tokyo | Ho Chi Minh | Bangalore | Singapore | Bangkok | Jakarta

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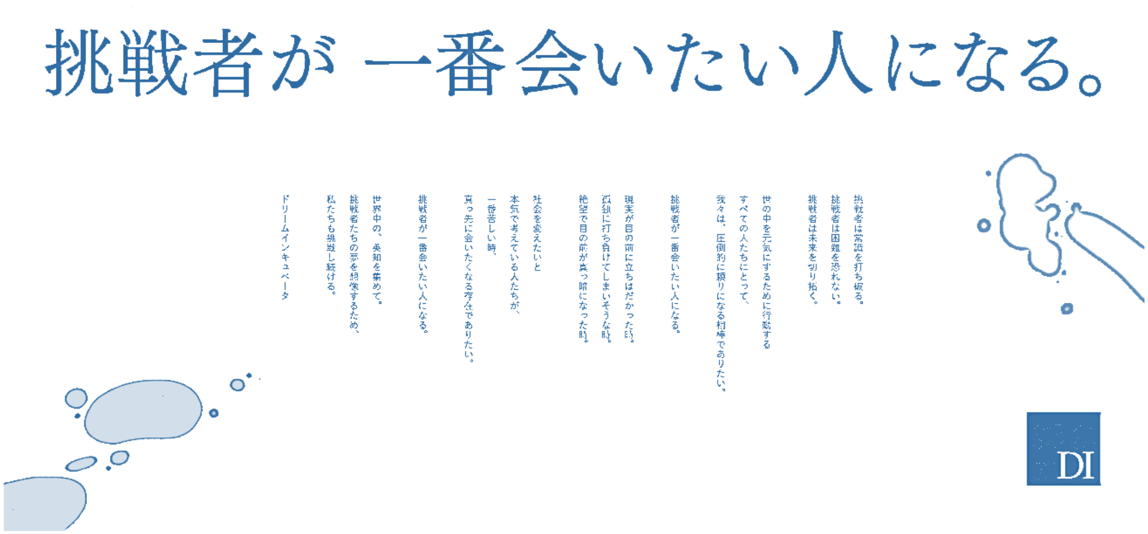

Global & local headwinds have just begun in 2022.

The economy being tested against disturbance.

The year of 2022 was filled with geo-political turmoil which reversed the earlier anticipated post-Covid recovery momentum and challenged the global economy.

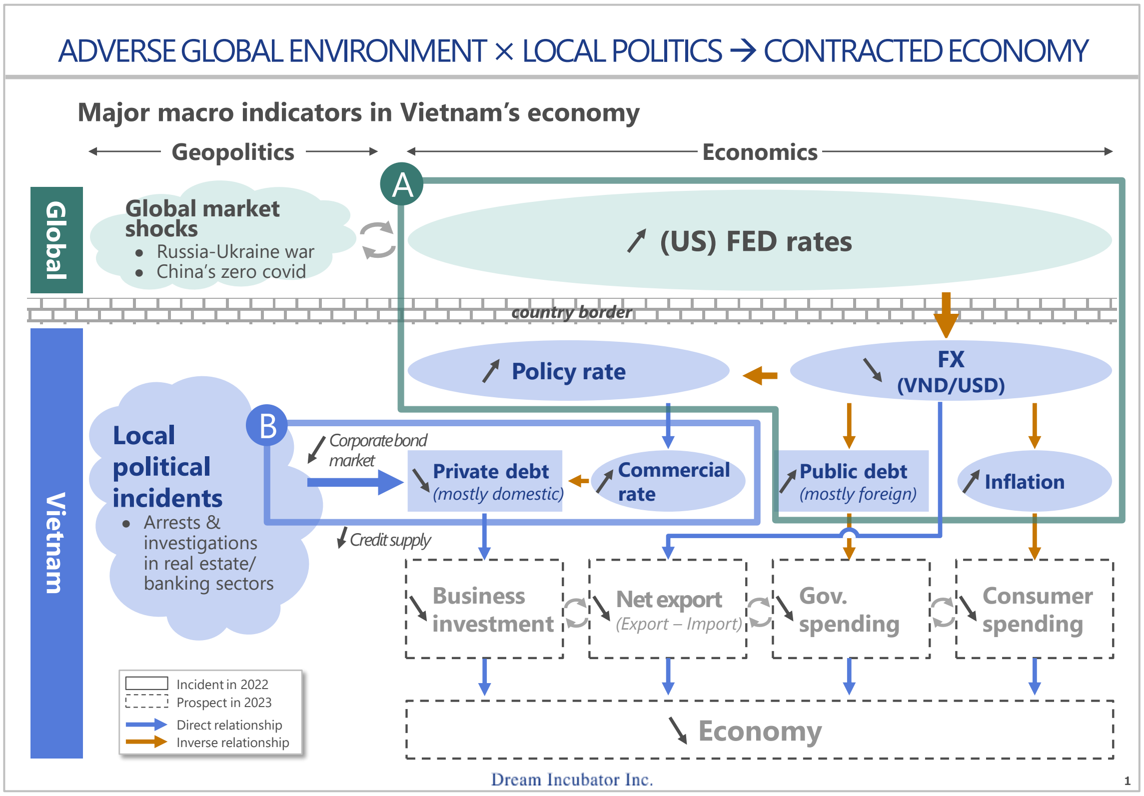

Figure 1. Impacts of global environment and domestic political movements on local economy

The Russian-Ukraine war broke out in early February 2022 to end the new year mood with shocks. It immediately shook up global political stability and brought about energy crisis worldwide. The China's extreme zero-covid policy prolonged the disruption in global supply chain and trades. These incidents had extensive impact on both global and local economy. Specifically, the energy shortage & supply chain disruption triggered soaring inflation in the US and other countries. The US government responded by a series of rate hikes, putting pressure on monetary policy for countries around the world, including Vietnam.

In domestic market, major scandals in 2022 shook up sectors which had been major driving forces of Vietnam economy. Specifically, an array of arrests, mostly in real estate sector, such as Van Thinh Phat[1] (VTP), Tan Hoang Minh[2] (THM) took a heavy toll on local economy. The negative impact was mostly manifested through fluctuations of interest rates and Vietnamese government's effort to revamp local corporate bond market.

1 Property developer Van Thinh Phat's chairwoman arrested for bond fraud
[2] Tan Hoang Minh chairman arrested over bond issuance fraud

From a theoretical perspective, the fluctuations of key economic indicators such as exchange rate and interest rates would have adverse impact on the economy not only in 2022 but also 2023. The outlook is gray on **business investment** (e.g., higher rates made it harder for private enterprises to access capital), **import-export** (e.g., appreciation of USD inflated costs of imported inputs from overseas), **government spending** (e.g., public spending would likely be cut back as value of existing public foreign debt surged due to exchange rate fluctuations) and **consumer spending** (e.g., shrinking income and low confidence in future of the economy would make consumers to likely tighten their belt).

Pressure to put exchange rates and inflation under control.

Contractionary monetary policy implemented following FED rate hikes.

In early 2022, the Federal Reserve decided to raise FED rate after 2 years of keeping the rate as low as 0.08% to fight inflation. The FED rate jumped from 0.08% in Jan 2022 to 4.4% in Dec 2022 resulting in a sharp appreciation of USD. But only until September, the State Bank of Vietnam (SBV) started to increase refinancing rate and discount rate to 6% and 4.5% respectively only after FED rate's third consecutive increase. According to SBV, it procrastinated the response with an effort to maintain domestic low lending rates and export promotion toward economic recovery after Covid-19[3]. At this point, SBV still keeps a close watch on FED's moves as FED is projected to continue to increase its rates in 2023.

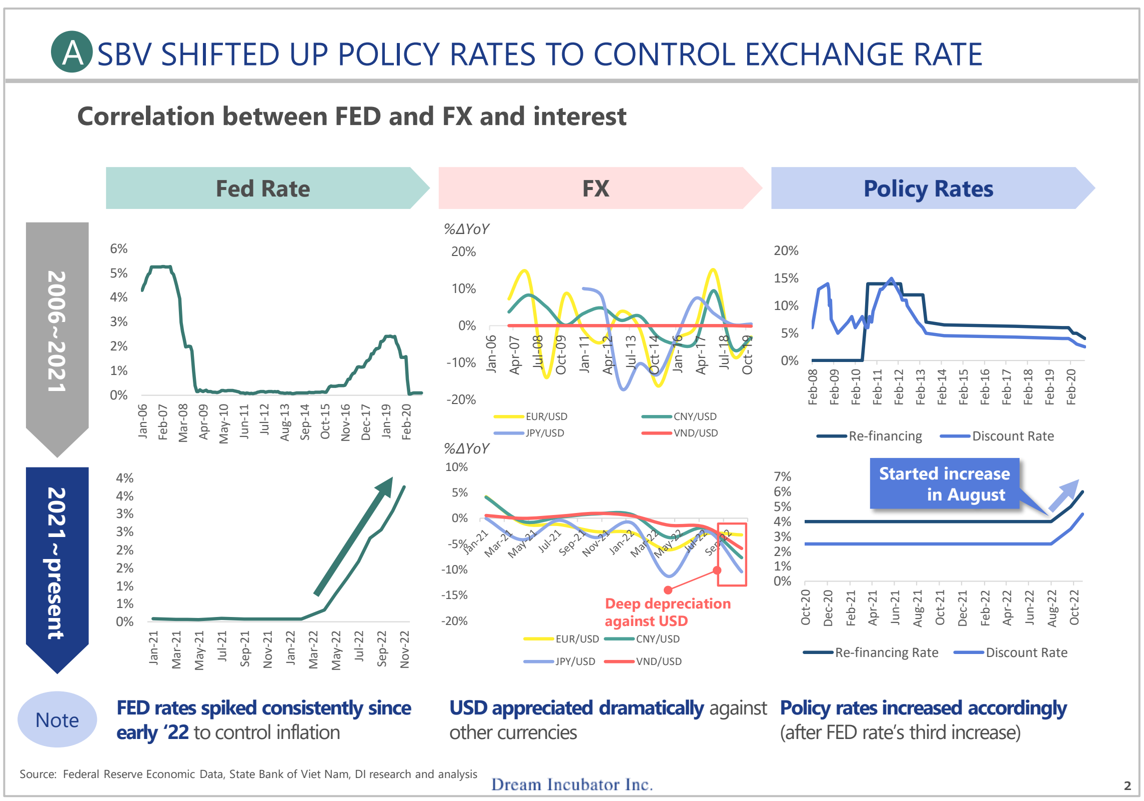

Figure 2. Impact of FED rate fluctuation on local exchange rate & policy rates

[3] What is SBV's point of view on Fed rate hike?

This is not the first time Vietnam's interest rates adjust strongly following FED rate adjustment. In 2008, FED lowered its rate in response to the mortgage crisis and the consequential selloff in the financial and real estate markets. The rate, which had been over 5% in 2007 dropped to near 2% in mid-2008 and ultimately to as low as 0.12% by December 2008. Vietnam's discount rate decreased accordingly from 13% in May 2008 to 7.5% by December 2008. Also, in early 2020, to cope with Covid-19, FED again lowered interest rates from the 2019's level of 2~2.5% to 1.5%. Accordingly, Vietnam applied expansionary monetary policy by decreasing refinancing rate from 5% to 4% and discount rate from 3.5% to 2.5%.

It is noted that a significant amount in Vietnam's foreign debt is in USD, (~35% in 2016). Thus, USD appreciation makes the debt more expensive. According to the Ministry of Finance, Vietnam's total foreign debt in 2021 was about 1,075 trillion VND (45.9 billion USD). **Vietnam owes much of its debts to multilateral partners like World Bank (370 trillion VND)[4] & Asian Development Bank (188 trillion VND)[5].** Besides, Vietnam's largest bilateral creditor is Japan[6], followed by South Korea[7], France[8] and Germany[9].

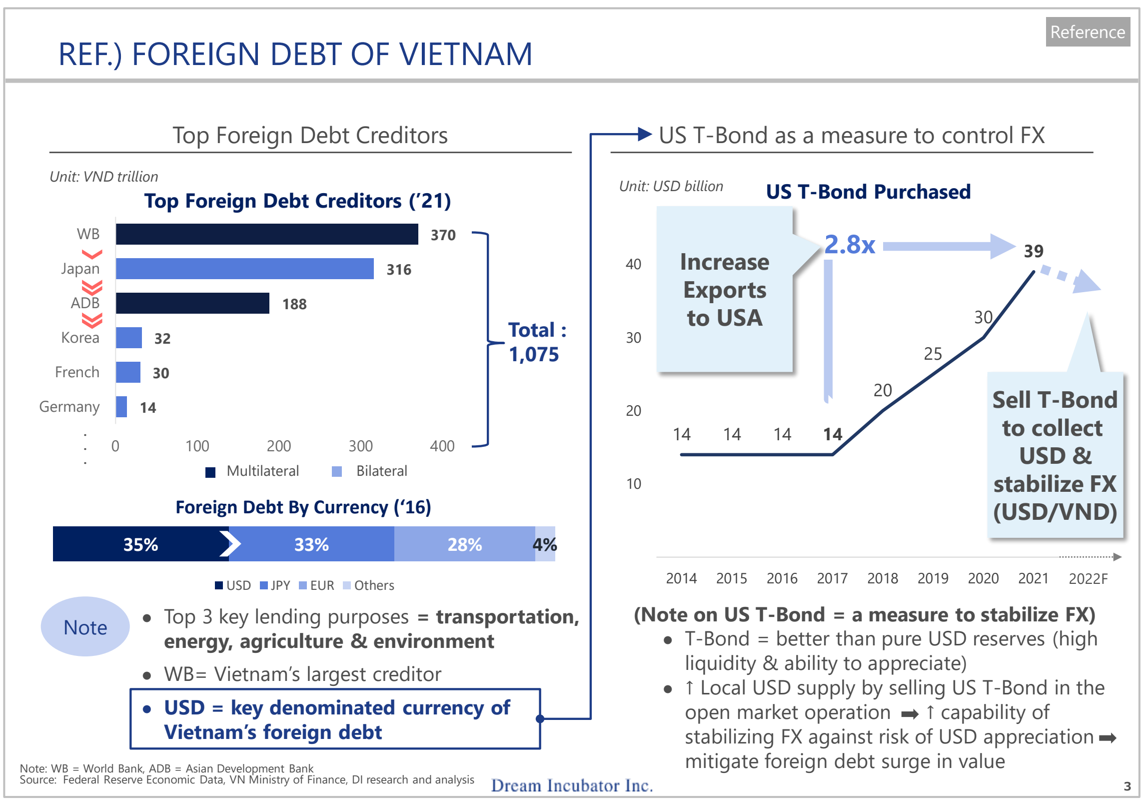

Figure 3. The impact of USD appreciation on Vietnam's foreign debt

[4] 15.6 billion USD
[5] 7.9 billion USD
[6] 13.3 billion USD
[7] 1.3 billion USD
[8] 1.2 billion USD
[9] 0.5 billion USD

On the policy on foreign reserves, US T-Bond is also a major asset for the Vietnam's government to keep VND/USD in check[10]. During 2017 to 2021, Vietnam had an abundant USD reserve as a result of the trade surplus with US, which in turn enabled more purchase of US T-Bond. At the same time, from 2017, FED started to increase interest rates, which has a negative correlation with bond price, thus making US T-bond's price more favorable for Vietnam to stockpile. As a result, from 2017, the total amount of **US T-Bond purchased by Vietnam increased 2.8x times and hit the record of 39 billion USD in 2021**. In July 2022, under the pressure of strong appreciation of USD against VND, Vietnam had sold about 12~13 billion USD (about 11% of Vietnam's foreign exchange reserves) to increase the local USD money supply[11].

It is also noted that the fluctuation in exchange rates did not significantly impact Vietnam's international trade in the first 9 months of 2022, except trade with USA. As the VND depreciated by 9% against USD since the beginning of 2022, Vietnam's exports to USA benefited strongly. On the contrary, the values of China Yuan, Euro have depreciated by 5.4%, 8.8% respectively against VND. As for the trade with China, although imports from China increased, however, looking at a longer period in the recent 5 years, such increase was deemed a result of the in-progress production shift from China to Vietnam following the US-China trade war. Also, Vietnam's exports to Europe still increased despite the strong appreciation of VND following the enactment of European & Vietnam Free Trade Agreement (EVFTA).

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[10] US T-Bond accounted for ~40% of total reserves value in 2021, according to World Bank. In normal business situation, government has the tendency to buy US T-Bond because (1) US T-Bond is a highly liquid asset; and (2) US T-Bond is a better alternative to holding USD in cash as it generates interest. By contrast, under uncertain situation, US T-bond can be sold to increase local greenback reserves (in pure cash form). Hence, when the value of USD surges for instance, the ample local reserves would allow more flexibility to pump USD into & withdraw VND out of the local economy, thus help stabilize the VND/USD exchange rate.

[11] According to Viet Dragon Securities Corporation (VDSC)

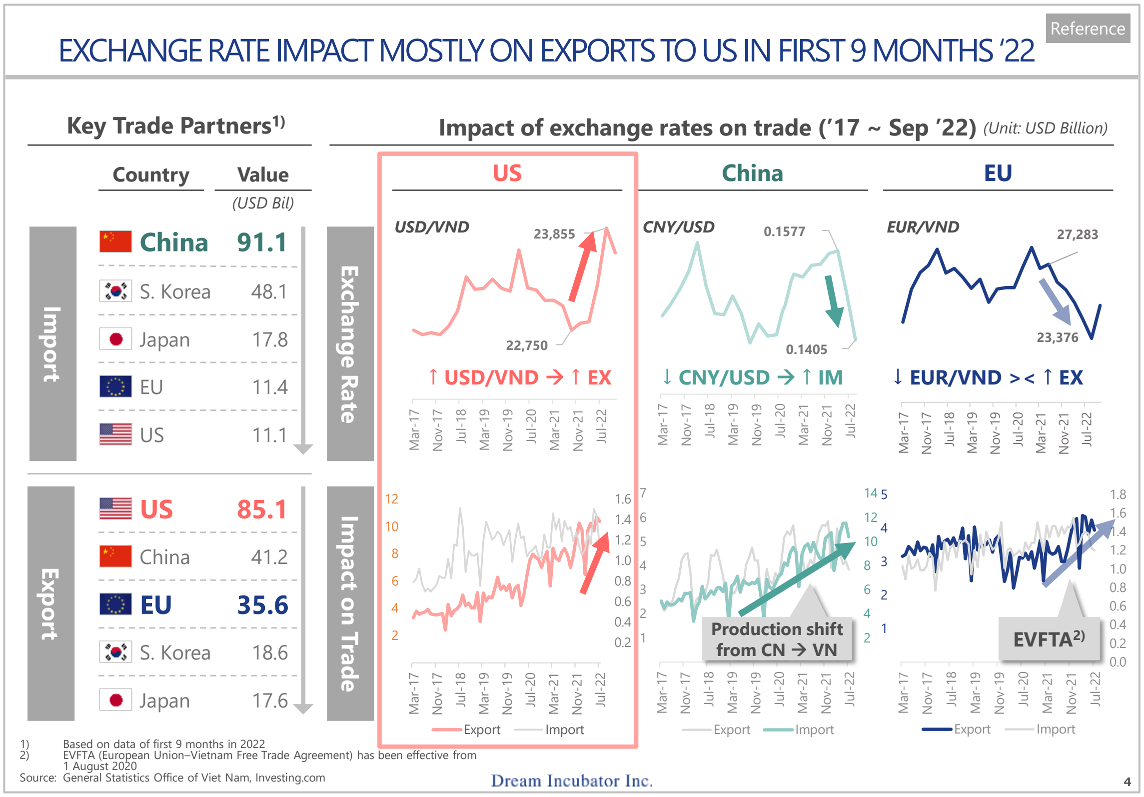

Figure 4. Impact of exchange rates on Vietnam's international trade

Despite the positive impact of the USD appreciation over VND on exports in the first 9 months, many Vietnamese exporting enterprises, especially those in the footwear, textile-garment, and wood sectors, faced a sudden plunge in orders in the last quarter of the year. Specifically, the number of orders that many companies in textile-garment & wood sectors recorded in quarter 4/2022 decreased by 40~50% compared to quarter 4/2021[12]. Consequently, many exporting companies had to downsize or even suspend production impacting ~500,000 labors (laying off about 42,000, cutting working hours of the rest)[13].

Bigger hit as tightened credit coupling with political incidents

Local scandals amplified reaction from policymakers & the market.

While money supply is being tightened, **fund raising via corporate bonds is also getting more complicated given the recent series of local arrests and investigations**. The corporate bond market in Vietnam has been loosely regulated given a lack of an official centralized trading system, putting many investors at risk. The first problem is ambiguity due to a lack of legal information (e.g., unclear land ownership). Additionally, bond issuers currently have no responsibility for disclosing necessary information (e.g., financial data, payment terms) for adequate bond assessment. Illiquidity is another

[12] Exporting companies are struggling to gain new orders for quarter 4/2022 and 2023

[13] 1.200 enterprises cut down on production, 42.000 labors are laid off

problem. The local market is heavily fragmented due to no official trading platform for secondary bonds. Many financial institutions intentionally sell bonds under disguise of savings to uninformed buyers, leaving the market even less transparent. **Notorious arrests and investigations in 2022 (e.g., FLC, THM, VTP and Saigon Commercial Bank) were associated with illegally bonds issuance and trading,** thus putting corporate bonds under strict scrutiny. Several important legal documents have been instituted requiring local businesses to comply with much stricter sets of rules when it comes to bond issuance and trading[14]. This series of events made the cost of financing for local businesses much higher than business-as-usual, worsening the situation in major sectors highly relying on bank credit, such as real estate, food processing and manufacturing[15]. **Stock market performance plummeted** as investors were more cautious and hesitant to make decisions.

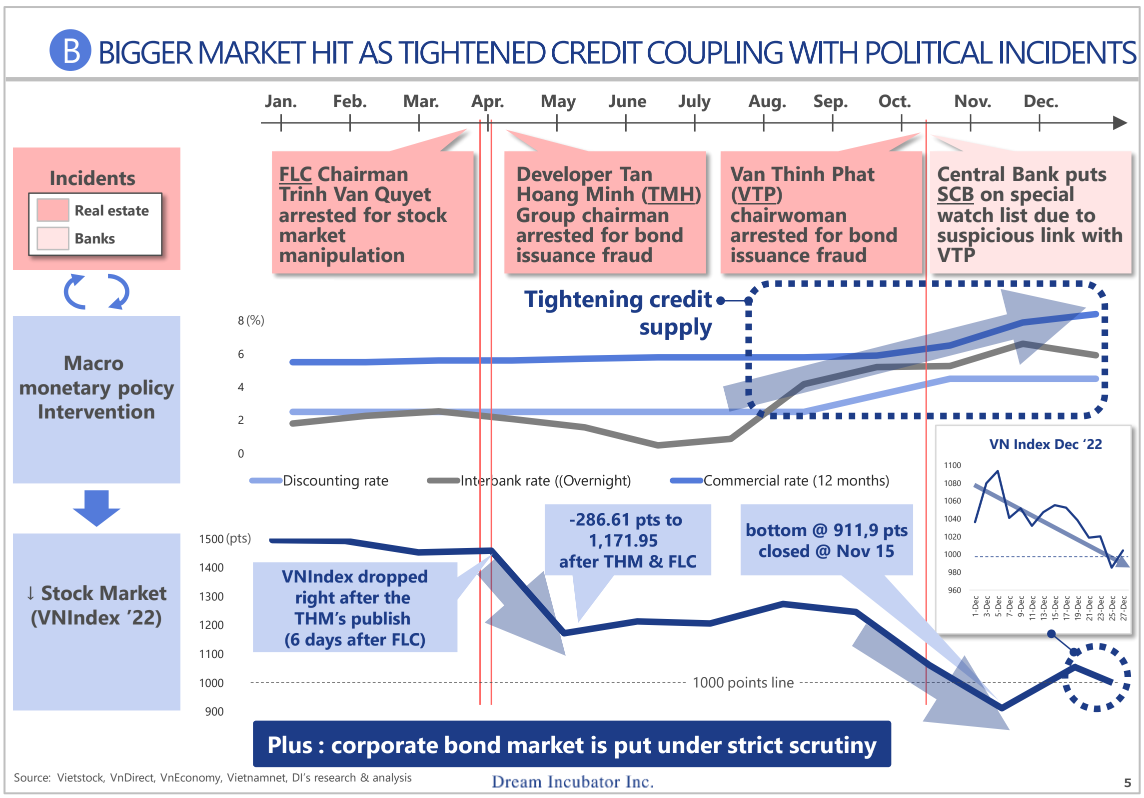

Figure 5. Major political incidents in 2022

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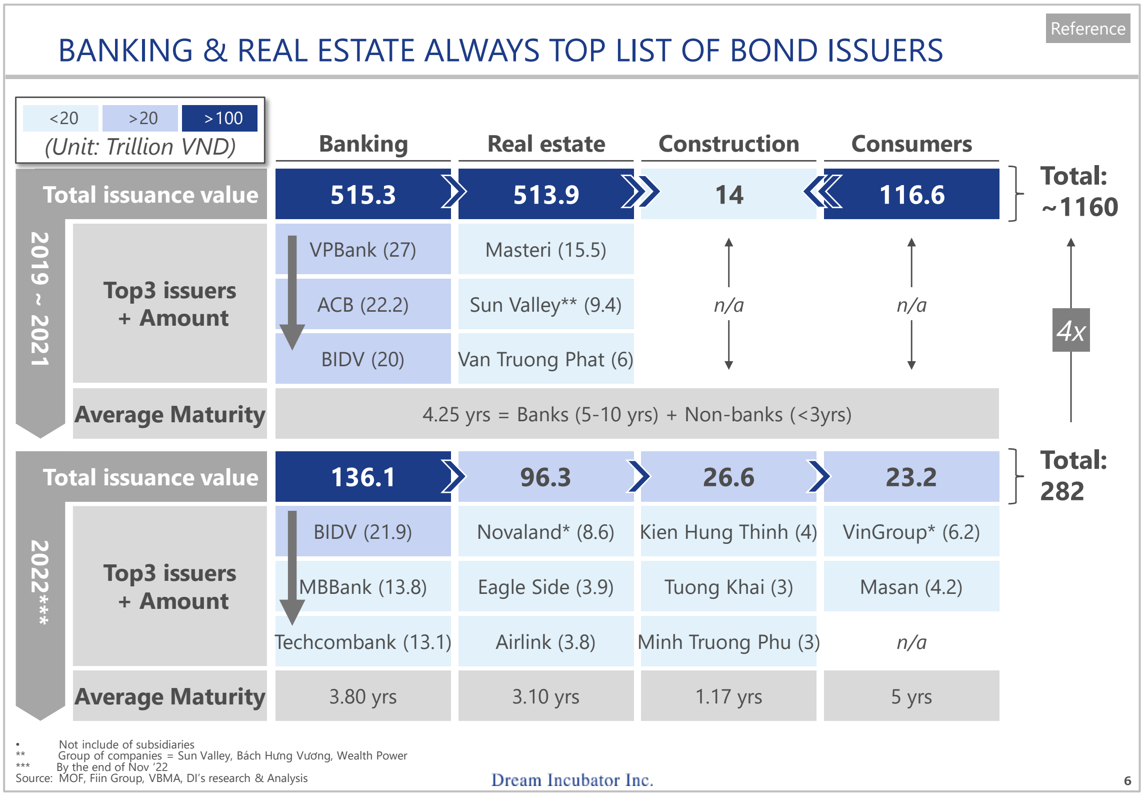
[14] Triggered by the recent incidents (i.e., FLC, THM, VTP, SCB), Vietnam's government has taken drastic measures to control credit risk for investment activities in corporate bonds. About half a year after the FLC and THM incidents, Vietnamese authority instituted Decree No. 65/2022/NĐ-CP in late September titled "Regulations on private offering and trading of corporate bonds" focusing on the primary issues of corporate bonds in Vietnam (i.e., ambiguity and illiquidity), replacing Decree 153 issued in 2020 on the same topic. Two key amendments here are standardization of private corporate bond issuance, and specific criteria for eligibility of professional investors to purchase bonds.

[15] Being impacted by macro events (e.g., steep, and consistent increase of FED rate) and local incidents (FLC & THM), SBV started to tighten credit supply by raising discounting rate by 1% (from 2.5% to 3.5%) in September 2022, making interbank rates fluctuate dramatically. Later in October, after the serious bond issuance fraud of VTP, SBV continued to raise discounting rate to 4.5%, lifting up both interbank rates (~2% in March → 6.5% in November) and commercial rates (4.5% before October → more than 8% in December).

According to local news, **most of Top3 bond issuers are in real estate and construction sectors and are not publicly well-known**. These companies were mostly incorporated during 2015~2020, with **limited public information** (e.g., no public website, lack of financial & corporate information, etc.,). **Some even consistently reported losses since establishment**[16]. Some **reportedly have relations to a recently investigated real estate company earlier in 2022**[17].



		Banking	Real estate	Construction	Consumers
2019 ~ 2021	Total issuance value	515.3	513.9	14	116.6
	Top3 issuers + Amount	VPBank (27)	Masteri (15.5)	n/a	n/a
		ACB (22.2)	Sun Valley** (9.4)		
		BIDV (20)	Van Truong Phat (6)		
	Average Maturity	4.25 yrs = Banks (5-10 yrs) + Non-banks (<3yrs)			
2022***	Total issuance value	136.1	96.3	26.6	23.2
	Top3 issuers + Amount	BIDV (21.9)	Novaland* (8.6)	Kien Hung Thinh (4)	VinGroup* (6.2)
		MBBank (13.8)	Eagle Side (3.9)	Tuong Khai (3)	Masan (4.2)
		Techcombank (13.1)	Airlink (3.8)	Minh Truong Phu (3)	n/a
	Average Maturity	3.80 yrs	3.10 yrs	1.17 yrs	5 yrs

- Not include of subsidiaries
** Group of companies = Sun Valley, Bách Hưng Vương, Wealth Power
*** By the end of Nov '22
Source: MOF, Fiin Group, VBMA, DI's research & Analysis

Figure 6. Major sectors[18] with highest issuance amount in '19~'21 and '22

Real estate, banking & heavy industry are most impacted sectors.

Steep decline in stock performance & other negative impacts in these 3 sectors

[16] Rà soát DN phát hành trái phiếu tài chính yếu kém: Eagle Side, Air Link lỗ triền miên, doanh thu 0 đồng
[17] Một nhóm doanh nghiệp dồn dập phát hành gần 10.000 tỷ đồng trái phiếu
[18] Total bond issuance contribution:
2019 – 2021: Real estate (36.3%), Banking (26.7%), Construction (1%), Consumers (8.2%)
2022: Real estate (29.2%), Banking (41.2%), Construction (8.1%), Consumers (7%)

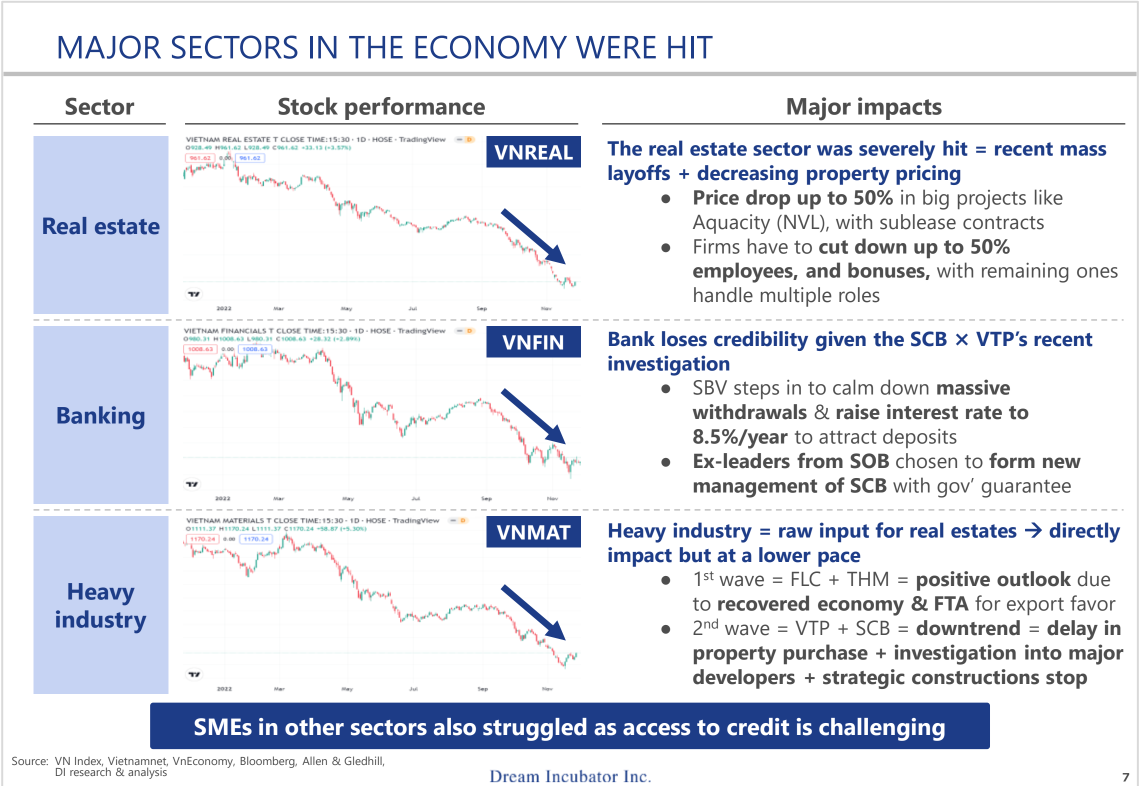


Figure 7. Impact of tightening credit supply on major sectors in the economy

<u>Real Estate:</u> The sector is notoriously hit by the shrinking credit supply as it heavily relies on credit supply from banks and bonds for mid-longterm financing. Starting in early 2022, Vietnam real estate market had projected a gloomy outlook for the rest of the year right after the FLC and THM incidents. In the late of 2022, property price **dropped by ~50% to attract buyers** such as Aquacity's slashing price from 15.5 to 7.7 billion VND[19] for certain products with sublease contracts, but the general demand remains low. As market contracted, some major real estate firms had to **cut back on up to 50% of headcounts[20],** while other smaller firms cut back by 20%, mostly salesperson, along with all bonuses, compensation, etc. The remaining employees were put in charge of multiple positions.

Looking back at recent years, **the sector was too heated during 2020 and 2021 which brought about a surge in total credit figure. In 2020,** the sector experienced a distinctly dynamic year with a surge in the number of both newly licensed & launched projects coupling with relatively low interest rates compared to 2019. **In 2021**, even though the Covid pandemic made the amount of new supply significantly lower, the total estimated credit remained at high level **(~4,768 trillion VND or ~207 billion USD).** It is because of (1) interest rates were set at even lower as an incentive amid Covid and (2) investors redirected their capital into highly speculative markets such as real estate or

[19] Bất động sản lại vào mùa giảm giá
[20] Làn sóng nợ lương, sa thải nhân sự bất động sản trầm trong mùa cận Tết

stock market en-masse. **In 2022**, the estimated figure **decreased by over 40% (to (~2,776 trillion VND or ~121 billion USD)** resulting from local Government's attempt to curb the overheated real estate market by tightening credit for property loans. Figure 8 gives more info on the growth of the sector during 2019~2022[21].

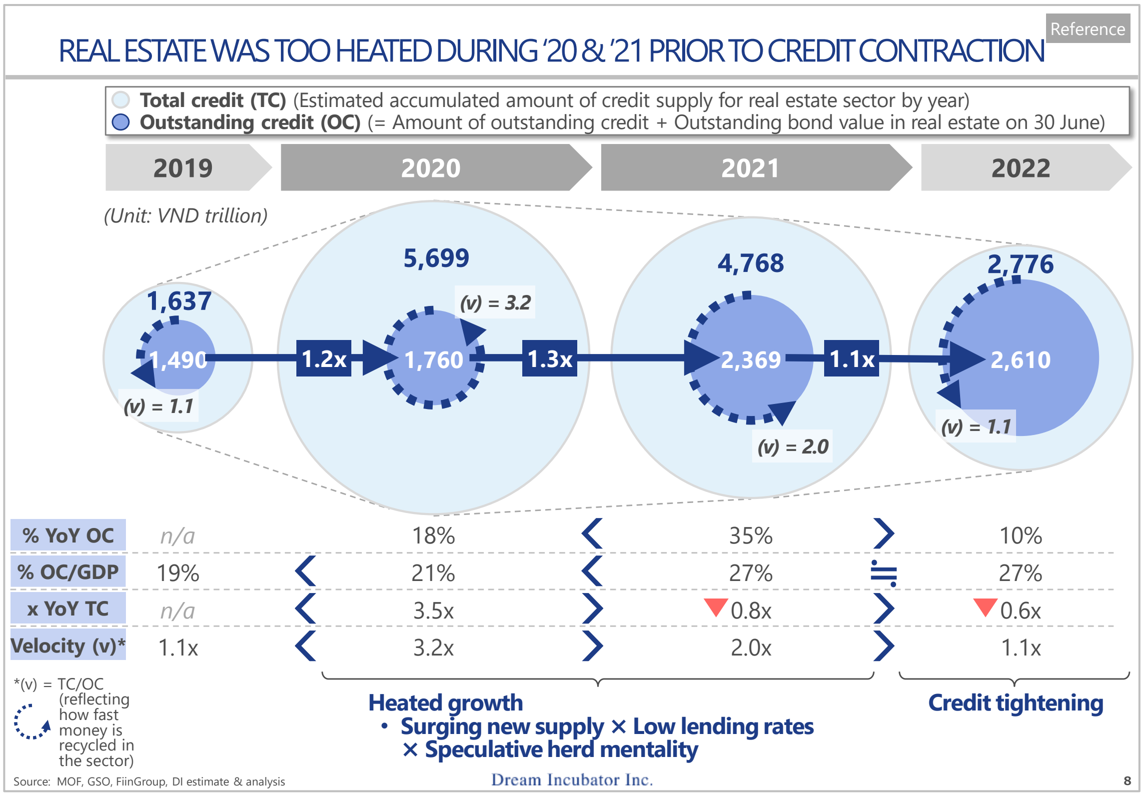


Figure 8. Estimated total credit supply for real estate from 2019 to 2022F[22]

[21] In this model, the key difference between the amount of outstanding credit and total credit supply lies in speculative nature of local real estate market. In other words, a significant share of transacted property units is for reinvestment purpose instead of actual usage. This characteristic of local market is captured in our estimation model under the term ***velocity.*** In which, ***velocity*** reflects how quickly real estate asset is re-invested within a year. To be more specific, according to findings via our estimation model, the velocity was tripled from 2019 to 2020 (due to heated growth of real estate sector driven by large amount of new supply & low interest rates), then lowered but still at relatively high level in 2021 (as new supply in 2021 dropped substantially amid Covid but significantly lower interest rates and herd mentality made the market highly speculative) and eventually returned to 2019's level (not yet an ideal figure for sustainable sectoral growth but considerably improved compared to 2020 & 2021 thanks to Government's credit tightening policy to control overheated growth of the sector). Besides, it is worth mentioning that the outstanding credit published by Ministry of Finance is the accumulated figure over time and captured on 30 June each year.

[22] Key assumptions of estimation model

- Credit supply for apartment segment accounts for ~70% total credit provided for all segments of local property market.
- Real estate developers/ buyers are assumed to borrow ~70% for financing purpose.
- Data on outstanding credit recorded at the end of Q2 each year is used in this model as the mid-year figures are deemed to be most reliable and representative of credit lending/ borrowing activities within a year (as credit borrowing seems idle in Q1 due to Tet holiday for instance while credit lending tends to be accelerated by banks under pressure of KPIs)

<u>Banking:</u> The outlook on the banking sector is negative, primarily due to the link with real estate[23]. Several local **banks even lost credibility due to their involvement in the distribution of corporate bonds issued by insolvent real estate issuers[24]**.

Reference

REAL ESTATE AS A SECTOR MOST RELIANT ON CREDIT SUPPLY

Local banks ranked by total asset

	Bank	Value (VND bil)
State-owned	**BIDV**	**2,008,423**
State-owned	VietinBank	1,750,790
State-owned	Vietcombank	1,649,664
Private-joint stock	**Techcombank**	**671,354**
Private-joint stock	MB	656,804
Private-joint stock	Sacombank	564,193
Private-joint stock	ACB	561,114
Private-joint stock	SHB	528,569

Bank Loan by Sector

Sector	Loan value (VND bil)	Share
Wholesales, retail trade, repair of motor vehicles, motorbikes	375,754	33%
Manufacturing & Processing	263,169	23%
Trade & Services	170,503	15%
Construction	**91,228**	**8%**
Real Estate	**95,912**	**27.6%**
Wholesales, retail trade, repair of motor vehicles, motorbikes	34,711	10%
Trade & Services	28,719	8.3%

Note: (*): by 30/09/2022, Agribank is not included in the list as financial report for 3Q2022 is not released
Source: Vietnam credit, BIDV 2021 annual report, Techcombank 2021 annual report, DI estimate & analysis

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Figure 9. Image of lending amount by sector of major banks

As for general banking business, offering loans to investors was almost halted due to the credit tightening policy. For investors and home buyers, home purchases were more difficult without bank loans. After the first wave of FLC and THM negatively impacted VNREAL[25] starting from March (till May), VNFIN[26] fluctuation shortly followed from April (till the end of July). The second wave hit including VTP and SCB in October, resulted in significant drop till the end of 2022.

<u>Heavy industry:</u> Despite the first wave of FLC and THM, the outlook for heavy industries remained positive in the first half of 2022 because the **global economy seemed to be gradually recovering from Covid-19 in the first 6 months**, with many

[23] According to the summary of financial statements of 27 banks for 3Q2022, BIDV continues to be in the leading position in term of total assets with over 2,000 trillion VND. Meanwhile, Techcombank's total assets increased to VND 671,354 billion and became #1 private-joint stock bank by total assets. Regarding to bank loan by sectors, real estate is among top 5 sectors of BIDV's credit profile, accounting for 8%. However, real estate is #1 sector by loan value contribution of Techcombank, reaching 27.4%.

[24] Because of the VTP and SCB case, SBV had to step in to dissuade depositors from mass withdrawing savings from SCB after the prosecution announcement. The management board has been combined with leaders from 4 state-owned banks to ensure the stability of SCB. Meanwhile, as an effort to stabilize the situation, SCB also raises its rate to 8.5%/year and assures depositors with government's guarantees.

[25] VNREAL – Vietnam Real Estate - Stocks in VNREAL are all leading stocks in Vietnam's real estate industry.

[26] VNFIN - Vietnam Leading Financial - Stocks in VNFin Lead are all leading stocks in Vietnam's financial industry.

real estate projects resuming construction, and the new-generation FTAs[27] (e.g., CPTPP[28], EVFTA[29], RCEP[30]) catalyzed more export value (e.g., steel exports hit over 12.7B USD/year for the first time ever). **However, following the second wave of VTP and SCB incidents, things got worse.** The investigations into these companies and further tightened credit market put many projects on hold and made the construction materials market dormant in the last quarter of 2022. Consumption of iron and steel in both domestic and export markets decreased sharply, with the total number of export value over the first ten months dropped by ~20% and the average price fell by around 2%/ton compared to same period of 2021. Many enterprises have been reportedly struggling in the last months of 2022 to deal with high inventory while demands remained low.

Besides these sectors, businesses in other sectors reportedly have also limited access to bank loans since most banks had used up their credit limit in the first half of 2022 as the economy was recovering after the pandemic, let alone the sudden increase in borrowing rates (see Figure 10 & 11).

Month	VCB	BIDV	Agribank	Viettinbank	MB Bank	Techcombank	MSB	VPBank	SHB	SCB
Mar-20	6.8%	6.8%	6.8%	6.8%	7.4%	6.4%	7.1%	7.1%	7.1%	7.5%
Jun-20	6.5%	6.5%	6.8%	6.5%	7.2%	5.9%	6.7%	6.8%	6.8%	8.3%
Sep-20	6.0%	6.0%	6.0%	6.0%	7.3%	4.6%	6.3%	5.8%	6.4%	7.5%
Dec-20	5.8%	5.8%	5.8%	5.8%	5.3%	4.7%	5.9%	5.2%	6.4%	7.3%
Mar-21	5.5%	5.6%	5.6%	5.6%	4.9%	5.0%	5.6%	5.5%	5.6%	5.3%
Jun-21	5.5%	5.6%	5.6%	5.6%	5.1%	5.0%	5.6%	5.1%	6.5%	6.8%
Sep-21	5.5%	5.6%	5.5%	5.5%	4.9%	4.9%	5.5%	4.8%	5.3%	6.8%
Dec-21	5.5%	5.6%	5.5%	5.5%	4.9%	4.9%	5.6%	4.8%	5.7%	6.8%
Mar-22	5.5%	5.5%	5.5%	5.6%	4.9%	4.9%	5.6%	5.6%	5.7%	7.0%
Jun-22	5.5%	5.6%	5.5%	5.6%	5.4%	5.5%	5.6%	5.6%	6.1%	7.3%
Sep-22	5.6%	5.6%	5.6%	5.6%	6.1%	5.8%	5.6%	5.6%	6.1%	7.3%
Nov-22	7.4%	7.4%	7.4%	7.4%	8.0%	8.5%	7.9%	8.6%	7.1%	9.2%

Figure 10. Deposit rates of some notable local banks for 12-month period[31]

Unit: %	BIDV		VP Bank	
Lending duration	<5Y	5-10Y	<5Y	5-10Y
2020	7.8-8.8	9-9.2	7.1-7.7	7.5-8.0
2021	7.5-7.7	7.9-8.0	7.1-7.7	7.5-8.0
2022	7.5-9.4	10-10.5	10.7-12	11.1-11.8

Figure 11. Base Lending rates[32] of BIDV & VPBank (recorded in Dec 2020, 2021 and 2022)

The current situation in Vietnam seems to somewhat bear resemblance to China. Real estate is also one of the key drivers of the Chinese economy over the past 2

[27] Free Trade Agreements
[28] Comprehensive and Progressive Agreement for Trans-Pacific Partnership
[29] European Union–Vietnam Free Trade Agreement
[30] Regional Comprehensive Economic Partnership
[31] Source: VnEconomy, DI research
32 Base lending rate is subject to change +/- 1%-3% depending on the type of loans, loan borrower profile (E.g., size, sectors), etc.

decades. This sector accounts for approximately **29% of China's GDP from just around 10% in 1990s** (while the figures for US, Europe, and Japan are around 20%). The heated growth also posed a lot of inherent risks as evidenced in early 2020 with the **bankruptcy of Evergrande**, the second largest property developer in China. On the other hand, **the Chinese government was aggressive in cracking down on negligent borrowing behaviors of real estate developers**. This quickly had a **snowball effect on other sectors such as heavy industry, banking, and construction**.

The "So what" for Vietnam in 2023

When will things get better?

The Vietnam Government has taken several drastic measures both in terms of monetary policy and regulatory adjustment to recover the local economy.

More money supply: In December 2022, Vietnam government **raised credit growth target by 1.5 to 2% (equivalent to 240 trillion VND in new money supply)**, applicable to all financial institutions, **lifting the previous credit limit from 14% to 16%**[33]. According to SBV, the **priority sectors are agriculture, sectors** relating to production for export, **and real estate**[34], especially social housing buyers. In fact, the increased room is to be implemented differently among banks subject to priorities and liability structure[35]. Still, the impact of the new money supply is uncertain for a short-term recovery. In light of the macro situation, it is not that everyone is going to be supplied with the new money. It is assumed that following the situation in 2022, Vietnam is predicted to experience a detox process in which only the financially healthy companies would have access to capital (either via bank loans or bond issues) for further development. At the same, it is predicted that asset price is to be stabilized and adjusted towards decrease as companies in major sectors will try to sell and/or lower prices of their assets for sale to financially restructure their businesses. **This process would take at least the whole year of 2023.**

It is especially noted on the increasing pressure on local companies for maturity payment for corporate bonds issued during the loosely regulated period of 2019 until early 2022. In 2022, total value of matured bonds was 200~250 trillion VND, of which

[33] In 2022, SBV targeted credit growth = 14% compared to 2021. Up to now, the credit growth rate is 12.2%. According to the credit growth target of 14%, there is still 1.8% remaining, plus 1-5-2% of this further increase (=240 trillion VND) , so there is up to 3.8% of credit room for the year-end period (approximately 400 trillion VND), including the Lunar New Year time. However, the timeline can be extendable depending on the macro situation.

[34] Loosening credit room - giving priority to banks with high liquidity and lower interest rates (diendandoanhnghiep.vn)

[35] E.g., Agribank still have room left, so no need to increase limit; Prioritize banks actively lower lending rates, etc.

businesses already bought back over 160 trillion VND[36] leaving the remaining amount at 145 trillion VND at the end of 2022. In 2023, total value of matured bonds is 271 trillion VND, of which ~38% is due in Quarter 1 and 2. The **real estate sector accounts for nearly 40%** of matured bonds in 2023, followed closely by banks and construction[37]. To **alleviate the maturity pressure for businesses, the Ministry of Finance has proposed in late 2022 some adjustments** to recently published **Decree 65**[38] to **allow** bond issuers **(1) the flexibility to prolong principal payments by up to 2 years**, and **(2) optional conversion from bonds to equivalent assets**. This may lessen the financial pressure on local companies, especially in the real estate sector, and avoid potential bad debts for banks which may consequently lead to snowball effect on all other sectors.

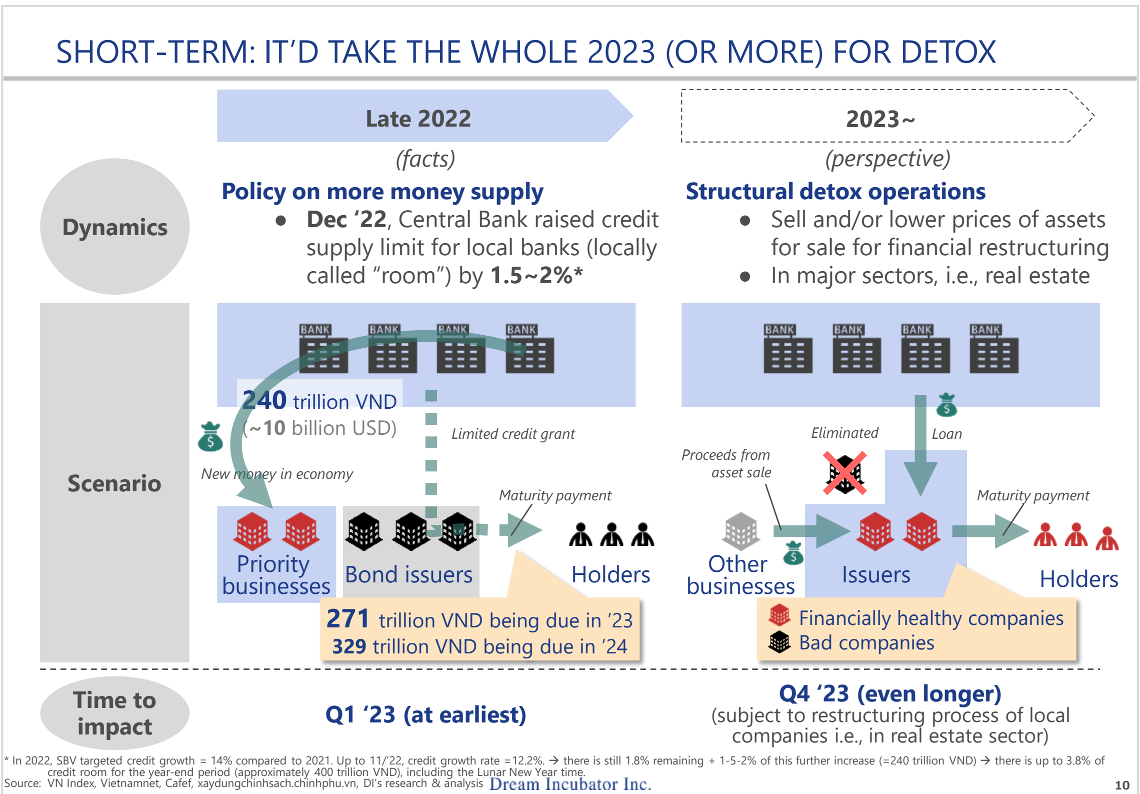

Figure 12. Short-term perspective on the local economy

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[36] Due to information limitation, we assumed that this 160 trillion VND may include bonds mature in both '22 and later years. As for reasons for bonds buyback: (1) Alleviate the financial pressure of maturity date, (2) Have to buy back bonds as per requested of bond holders, especially bonds underwritten by SCB (e.g., Sunshine Home), and (3) Official publish of Decree 65 → buyback to avoid legal violation if any given the new strict regulation.

[37] Please check for Figure 6 for reference

[38] Decree No. 65/2022/ND-CP issued and effective from September 16, 2022, on "Amendment and supplementation of a number of articles of Decree No. 153/2020/ND-CP dated December 31/ 2020 regulates the offering and trading of private corporate bonds in the domestic market and the offering of corporate bonds to the international market."

However, at the end of December 2022, the Ministry of Finance proposed (1) delaying the application of professional investor criteria and credit rating requirements for private placement of bonds and (2) allows extension of issued bonds for up to 2 years if there is a consensus of > 65% of bond owners, can convert bond principal and interest into loans or other assets.

Thus, only relying on **monetary supply will not suffice**. We deem that **much more actions are needed to allow better money absorption in real business from development to sales thus allowing more liquidity and reinvestments.** Besides banks, other stakeholders in the economy are also expected to take proactive and precautionary measures e.g., Ministry of Construction to shorten and/or simplify licensing application, Ministry of Finance to consider solutions to bond market, developers to actively clear inventories. **It is worth mentioning that by the end of 2023, Vietnam again would have to consider how to deal with the 329 trillion VND in value of corporate bond maturing in 2024.**

Land law adjustment: **In October 2022, the Vietnam's Government had proposed a first draft of the revised Land law to Congress.** This is the most important law of Vietnam and is expected to have many significant and impactful changes across the socio-economic activities. Considering the real estate business, **one key important point is that project developers will be expected to be fully responsible for securing land for development including setting price for land clearance[39] with emphasis on land price must be close to "market price."** While the proposed change is aiming at allowing a free market mechanism for local developers, especially those with established business and experience, the **challenge is about how to set "market price." With the current contracted credit supply, it would be even challenging for leading players to negotiate with landowners on a free-market basis.**

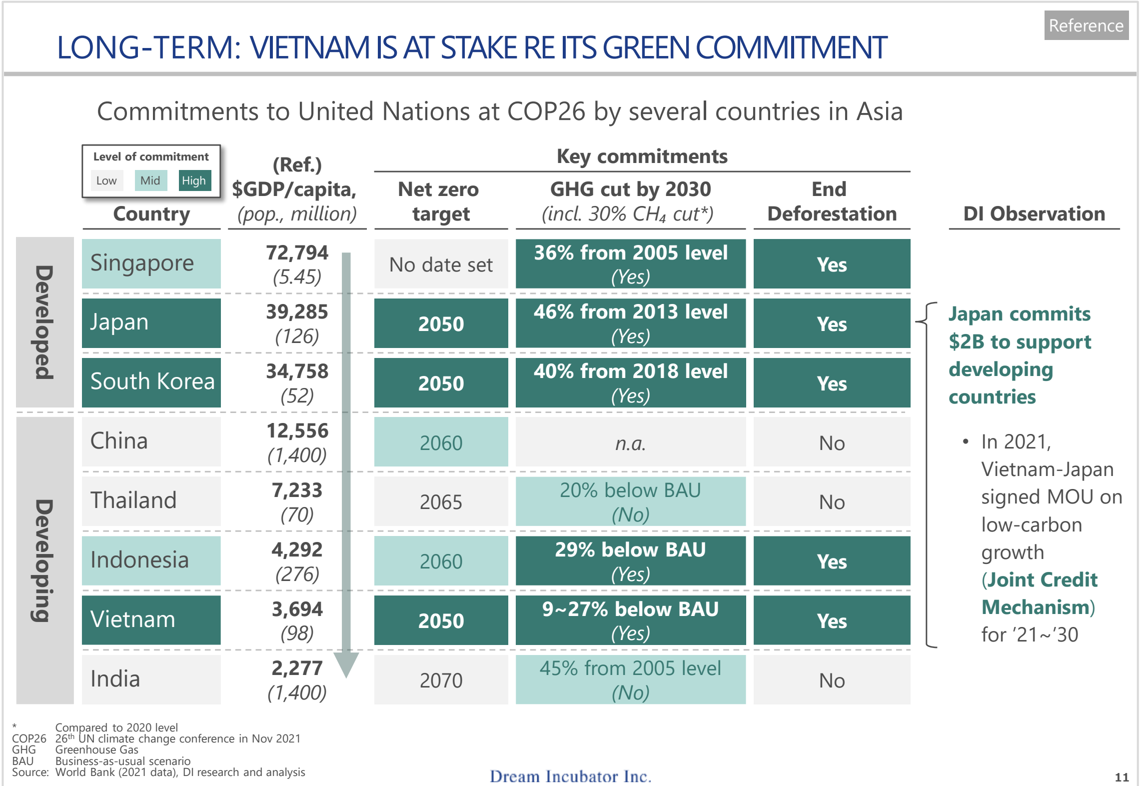
Considering the procedure, **we assume that it would take more than 2 years for the full application of the new law** because the Law is supposed to be passed and effective from 2024. However, further under-law guidance is expected to follow in 2025.

Implication of the Vietnam's long-term net-zero commitment

Vietnam consistently commits to its **ambitious goals toward a net-zero economy[40]**, all high levels regarding key commitments (net-zero target, GHG cut by 2030, & end deforestation).

[39] Currently, after the project is approved, the provincal authority will be in charge of decision on land acquisition, decision on approval of compensation, support and resettlement plan, and then investors & developers will commence the project as proposed. However, with the revised Land Law, investors and developers will have to take full responsibilty of land clearance right after the project is approved by the government.

[40]As committed by Prime Minister Pham Minh Chinh at COP26 and reiterated by Vietnam's delegation at COP27.
Published National Green Growth Strategy & action plan for 2021 ~ 2030, with a vision to 2050; the national strategy on climate change by 2050; and the national program on efficient energy use for 2019 ~ 2030.
5/22: Minister of Construction also approved the construction sector's action plan on climate change response for 2022 ~ 2030, with a vision to 2050.



Reference

LONG-TERM: VIETNAM IS AT STAKE RE ITS GREEN COMMITMENT

Commitments to United Nations at COP26 by several countries in Asia

Level of commitment: Low / Mid / High

	Country	(Ref.) \$GDP/capita, *(pop., million)*	Key commitments: Net zero target	Key commitments: GHG cut by 2030 *(incl. 30% CH_4 cut*)*	Key commitments: End Deforestation	DI Observation
Developed	Singapore	72,794 *(5.45)*	No date set	36% from 2005 level *(Yes)*	Yes	
Developed	Japan	39,285 *(126)*	2050	46% from 2013 level *(Yes)*	Yes	**Japan commits \$2B to support developing countries** • In 2021, Vietnam-Japan signed MOU on low-carbon growth (**Joint Credit Mechanism**) for '21~'30
Developed	South Korea	34,758 *(52)*	2050	40% from 2018 level *(Yes)*	Yes	
Developing	China	12,556 *(1,400)*	2060	*n.a.*	No	
Developing	Thailand	7,233 *(70)*	2065	20% below BAU *(No)*	No	
Developing	Indonesia	4,292 *(276)*	2060	29% below BAU *(Yes)*	Yes	
Developing	Vietnam	3,694 *(98)*	2050	9~27% below BAU *(Yes)*	Yes	
Developing	India	2,277 *(1,400)*	2070	45% from 2005 level *(No)*	No	

* Compared to 2020 level
COP26 26th UN climate change conference in Nov 2021
GHG Greenhouse Gas
BAU Business-as-usual scenario
Source: World Bank (2021 data), DI research and analysis

Figure 13. Long-term perspective on Vietnam's Net-Zero economy

To finance the transition, Vietnam is expected to reallocate domestic private savings toward climate-related projects, increase public savings, and external financial support. **According to the World Bank[41], Vietnam's total incremental financing needs for the resilient and decarbonizing pathways could reach \$368 billion over 2022~2040**, or approximately 6.8 percent of GDP per year. Of which, public funding could account for about one-third of funding and could be financed through the carbon tax or by borrowing in domestic markets. **Private financing in the range of 3.4 percent of GDP per year can be mobilized through green credit by banks, green equities and green bonds** and applying de-risking tools. Additionally, there were many negotiations between the Government of Vietnam and other donor countries on potential external funding deals for Vietnam to go green (including the recent JETP agreement[42]).

Given the current market uncertainty, it requires more development of regulatory frameworks to sustainably direct the interactions between society, environment, governance, and investment and avoid a new green crisis in the long-run.

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[41] World Bank's Vietnam Country Climate and Development report [CCDR E O 01.07 FINAL.pdf (worldbank.org)](worldbank.org)

[42] Vietnam's JETP agreement has been made between the Socialist Republic of Vietnam and the International Partners Group (IPG). The IPG is made up of the EU, the UK, the USA, Japan, Germany, France, Italy, Canada, Denmark, and Norway.

The US\$15.5 billion committed as part of the JETP agreement will be made up of public sector finance and private sector finance. It is to be mobilized over the next three to five years.

Public sector finance will account for half of the amount on offer at US\$7.75 billion. This will be provided by the countries party to the agreement and should be provided on 'more attractive terms' than Vietnam might get on international capital markets.

The other US\$7.75 billion will be provided by the private sector, led by the Glasgow Financial Alliance for Net Zero (GFANZ). Note that this is subject to the public sector finance outlined above being secured.

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