VIETNAM INVESTORS SERVICE

VIETNAM BONDS & CREDIT FORUM

POST-EVENT REPORT

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Vietnam Bonds & Credit Forum – February 2025

Frequently asked questions on credit outlook 2025

On 20 February 2025, we launched our new webinar series, "Vietnam Bonds & Credit Forum" jointly hosted by VIS Rating and Moody's. Our webinar series will feature industry experts from Vietnam and the broader APAC region and focus on hot topics relevant to bond and credit market participants.

In our first webinar focused on the credit outlook for 2025, we invited Mr. Christian de Guzman, Senior Vice President - Manager, Sovereign and Sub-Sovereign Risk Group, Moody's Rating and Dr. Nguyen Tu Anh, Department Director of the Central Strategic Policy Department, Advisory body of the Communist Party of Vietnam, to discuss various hot topics: Moody's insights on the global macroeconomic outlook for 2025, key risks stemming from policy changes by the new US administration, and how government policies will impact the credit outlook across key industries. This report summarizes the key takeaways from the webinar event.

1. What are the key drivers of Vietnam's macro outlook for 2025?

Public spending, FDI, and exports are key to maintaining Vietnam's robust economic outlook and momentum to achieve its 2025 GDP growth target of 7.0-7.5%. More investments in public infrastructure will boost business activity in the construction, materials, and transportation sectors. We expect retail sales to improve 10-12% year-on-year (yoy) in 2025 as public wages increase, business and employment incomes stabilize, and tourism continues to grow.

2. What is the credit outlook for Vietnam in 2025?

Credit conditions for Vietnam in 2025 will stabilize after improving substantially over the past year. Supportive policies aimed to achieve Vietnam's 2021-2025 socio-economic development plan objectives and targets will drive improving domestic business conditions. Given various government policies implemented to support economic growth and resolve industry bottlenecks, credit fundamentals for Vietnam banks will improve modestly in 2025, led by State-owned banks (SOBs) and several large banks.

In addition, the credit fundamentals for Vietnam real estate developers in 2025 will continue on the recovery path from the downturn in recent years as market conditions turn more favorable to facilitate new project development and sales. Corporate bond default rates will continue to decline as corporate cash flows improve to support debt servicing, and stronger market confidence provides issuers with greater ease to refinance.

3. What do bond and credit investors need to watch for in 2025?

Weak cash flow is the key credit weakness of Vietnam developers, as around 70% of our covered developers have weak operating cash flow to cover debt repayments. Meanwhile, governance risks, uneven recovery in the real estate market and volatile external conditions remain our key credit concerns for Vietnam banks.

4. How will Vietnam's corporate bond market fare in the new development phase?

The corporate bond market in 2024 is getting back on track with a marked reduction in new defaults. Recovery in market sentiment is reflected by the strong increase in total new issuance value and improving liquidity in the secondary market. We expect the amended Securities Law, effective from January 1, 2025, with stricter regulatory requirements for new bond issuances and investments, and promoting the use of credit ratings to inform investment risks, will help deepen the corporate bond market in the new development phase.

1. What are the key drivers of Vietnam's macro outlook for 2025?

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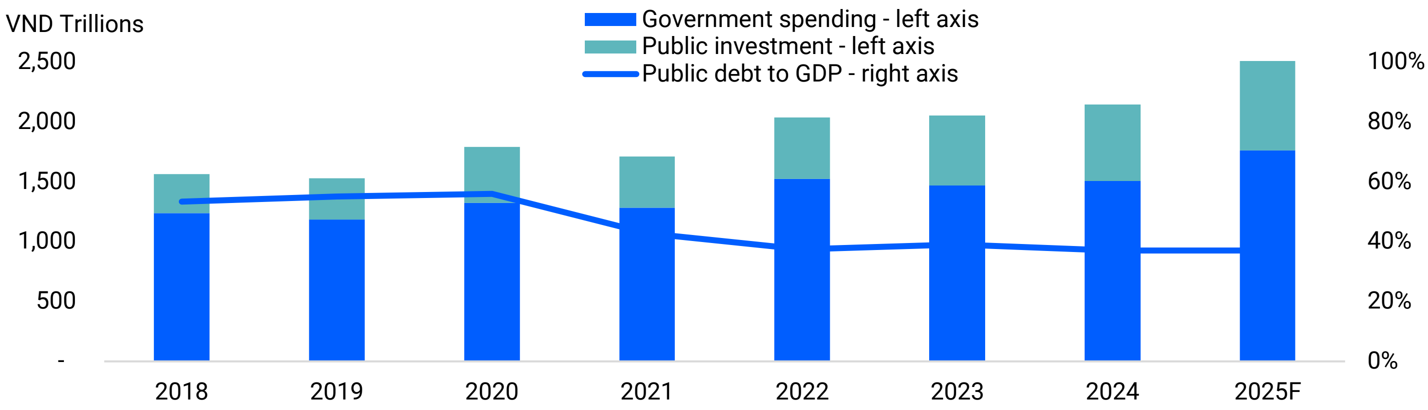
Exhibit 1: Higher government spending plan in 2025



Source: VIS Rating

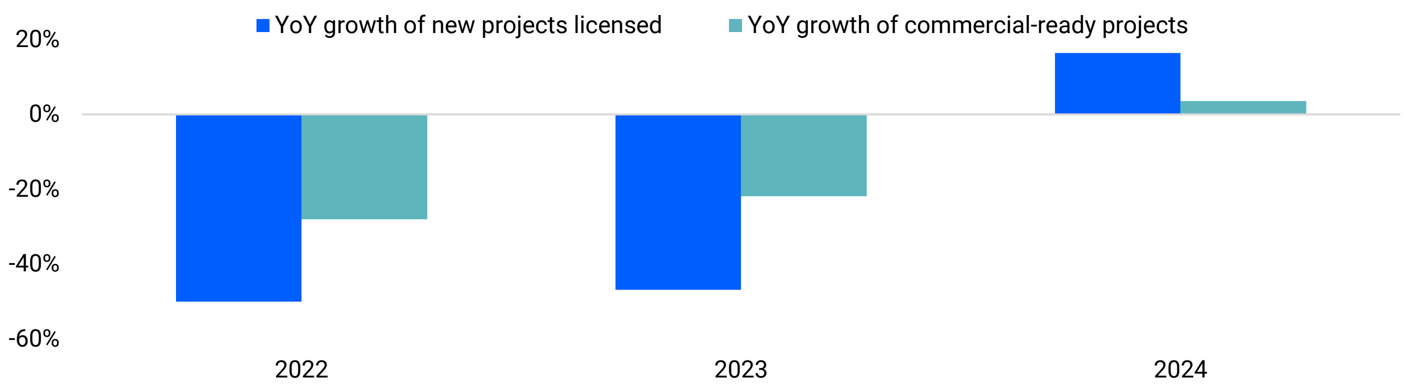
In the properties sector, new policies resolving legal roadblocks and advances in master planning execution will spur project development in 2025.

Over 20 decrees/circulars and multiple Decisions were issued in 2H2024 to support the implementation of the new Land Law, Housing Law and Real Estate Business Law. Developers will now have clearer guidance to progress on various technicalities and advance the development of new projects.

Besides, in December 2024, the Government approved Hanoi (HN) and Ho Chi Minh City (HCMC) master planning, completing master planning for all provinces. 21 provinces also issued their master planning implementation plan in 2024 (2023: 1 province), facilitating essential project procedures approvals.

"Vietnam's real estate market is recovering, especially when looking at the data from Ho Chi Minh City. The transition from a severe supply shortage to a sudden boom indicates that the bottlenecks in the city's real estate supply have been addressed. The positive impact of the new real estate legal framework, including the Real Estate Business Law, the Land Law and Housing Law is now evident in the market," added by Dr. Nguyen Tu Anh, Department Director of the Central Strategic Policy Department, Advisory body of the Communist Party of Vietnam.

Exhibit 2: Regulatory improvements will spur project development



Source: VIS Rating

The direction of U.S. policies under the new Trump administration and exchange rate risks are key uncertainties impacting Vietnam's economic outlook. The new U.S. policies of raising tariffs on other countries may hurt export-oriented nations like Vietnam. Since the first Trump administration, Vietnam's export sector has become increasingly dependent on the U.S. market. Moreover, with foreign reserves at a five-year low in 2024, the State Bank of Vietnam has limited room to manage currency volatility. If foreign currency outflows increase and trigger further devaluation of the VND, we expect to see higher interest rates, which will, in turn, dampen growth for domestic businesses.

2. What is the credit outlook for Vietnam in 2025?

"Credit conditions for Vietnam in 2025 will stabilize after improving substantially over the past year. Supportive policies aimed to achieve Vietnam's 2021-2025 socio-economic development plan objectives and targets will drive improving domestic business conditions," Nguyen Dinh Duy, CFA, Director - Senior Analyst, VIS Rating.

"We expect credit fundamentals for Vietnam banks to improve modestly in 2025 following the recovery trend in 2H2024, led by State-owned banks (SOBs) and several large banks. Various government policies implemented to support economic growth and resolve industry bottlenecks will drive business activities in the key sectors that banks lend to, such as manufacturing, trade, construction, and real estate," Phan Duy Hung, CFA, MBA, Director- Senior Analyst, VIS Rating.

The credit fundamentals for Vietnam real estate developers in 2025 will continue on the recovery path from the downturn in recent years as market conditions turn more favorable to facilitate new project development and sales. New policies resolving legal roadblocks will spur project development in 2025, but will also impose higher land levies costs, burdening financially weak developers and leading to uneven recovery in cash flows across the sector.

Corporate bond default rates will continue to decline as corporate cash flows improve to support debt servicing, and stronger market confidence provides issuers with greater ease to refinance.

3. What do bond and credit investors need to watch for in 2025?

"Weak cash flow is the key credit weakness of Vietnam developers, as around 70% of our covered developers have weak operating cash flow to cover debt repayments. We expect this metric will improve in 2025 as sales proceeds increase, led by large developers such as VHM, KDH, DXG, and NLG, with robust sales pipelines in major cities.

However, credit differentiation in the sector is likely to widen in 2025. Developers will face higher project development costs and uneven recovery in homebuyer demand. Developers will incur higher land acquisition costs under the new regulations. Even as cash flows improve, debt serviceability will take a long time to strengthen, particularly for developers who continue to grapple with legal issues or weak demand for their hospitality projects," Duong Duc Hieu, CFA, Director – Senior Analyst, VIS Rating.

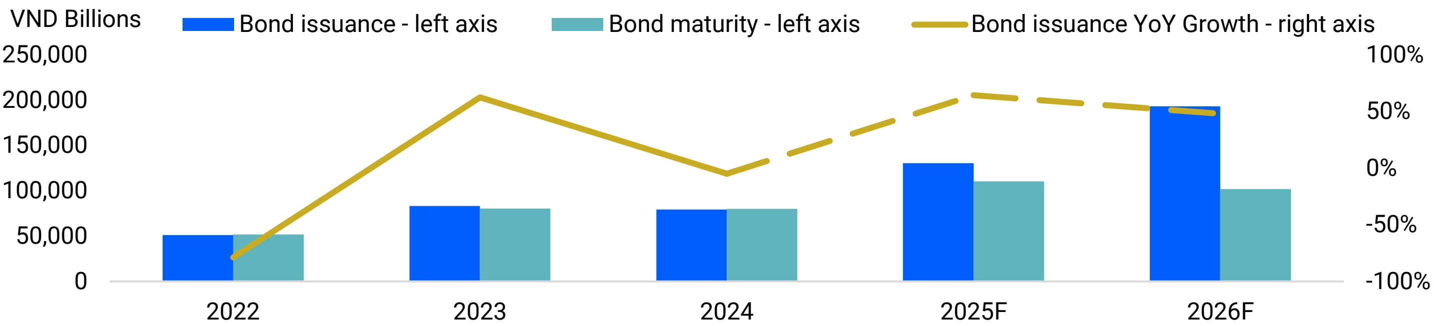
In 2025, governance risks, uneven recovery in the real estate market and volatile external conditions remain our key credit concerns for Vietnam banks. "Specifically, governance risks will continue to weigh on banks' asset quality, as their close linkages to corporate groups – mostly in the real estate sector – heighten their operational risks and vulnerability to large corporate events. In addition, as loan growth increases, we expect deposit competition to intensify, and small banks that rely heavily on short-term market funds and have weak liquid asset buffers will be vulnerable to higher funding costs and liquidity challenges," Phan Duy Hung, CFA, MBA, Director- Senior Analyst, VIS Rating.

4. How will Vietnam's corporate bond market fare in the new development phase?

The corporate bond market in 2024 is getting back on track with a marked reduction in new defaults. Recovery in market sentiment is reflected by the strong increase in total new issuance value and improving liquidity in the secondary market. We expect the amended Securities Law, effective from January 1, 2025, with stricter regulatory requirements for new bond issuances and investments, and promoting the use of credit ratings to inform investment risks, will help deepen the corporate bond market in the new development phase.

"We view the key amendments to be credit-positive for bondholders as they serve to deter wrongdoing by organizations involved in bond issuance, limit excessive risk-taking, and enforce the use of timely information disclosures and credit ratings to improve market discipline. These things will drive the recovery of market confidence and brisk issuance activity in 2025," Nguyen Dinh Duy, CFA, Director - Senior Analyst, VIS Rating.

Exhibit 3: New real estate bond issuance will increase in 2025



Source: VIS Rating