

Assessment the impact of Draft amendment to Circular 16/2021

The State Bank of Vietnam is collecting comments on the draft amendment to Circular 16/2021/TT-NHNN on the purchase and sale of corporate bonds by credit institutions (Corporate bonds, excluding bank bonds). Accordingly:

- (1) Allowing banks to repurchase corporate bonds previously sold until December 31, 2023;
- (2) Allowing banks to invest corporate bonds issued for the purpose of raising for working capital when banks can manage business income and can collect sufficient documents to prove the use of working capital;
- (3) Not allowing banks to buy corporate bonds issued for the purpose of contributing capital or buying other enterprises' shares;
- (4) Some other amendments related to payment methods, internal credit ratings and monitoring of purpose of using capital of enterprises.
- (5) Other important points such as banks are only allowed to buy corporate bonds when their NPLs ratio is below 3% and only allowed to buy corporate bonds of enterprises that do not have any NPL in the last 12 months.

In our opinion, the most positive point for the corporate bond market of the above Draft is point (1), it will increase the attractiveness of investment in corporate bonds for banks and somewhat increase the liquidity in the corporate bond market. Banks are currently the largest bondholders, accounting for about **34%** of the total outstanding corporate bond outstanding.

Meanwhile, the impact on the banking system will be negligible. Outstanding corporate bonds only account for about **2.5%** of total outstanding credit of banks. For banks with a relatively large proportion of corporate bond investment such as TPB, TCB, MBB and VPB, the above drafts, if applied, will allow these banks to be more flexible in corporate bond investment as well as fulfill commitments (if any) related to corporate bonds.

The above revised draft is one of the Government's moves to support the healthy development of Vietnamese corporate bond market. This will also help improve investor sentiment, which is at a very low level after some wrongdoings in the corporate bond market. Previously, the Government's Decree 08/2023 allowed enterprises to negotiate with bondholders to extend payment terms or pay by other assets, along with suspending the application of some conditions on professional investors compared to Decree 153/2020 and Decree 65/2022.

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Our Recommendation System

BUY: where we believe prospective 12 month VND total return (including dividends) will be 15% or more.

HOLD: where we believe it will be -15% to 15%.

SELL: where we believe it will be lower than -15%.

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