

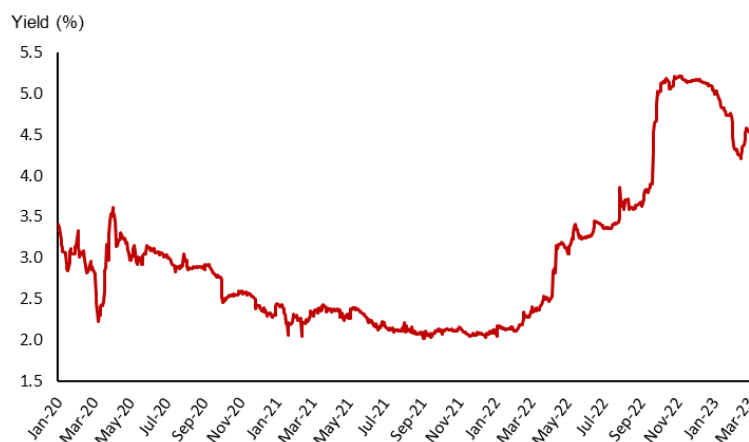
Michael Kokalari, CFA  
Chief Economist

## THERE'S NO "SILICON VALLEY BANK RISK" IN VIETNAM

The sudden collapse of Silicon Valley Bank (SVB) in the US, plus concerns about a possible contagion to banks in Europe, prompted several investors to ask what impact SVB's collapse could have on Vietnam - and if banks in Vietnam have any latent risks on their balance sheets comparable to the risks that brought down SVB. We expect the SVB collapse in-and-of-itself will actually end up being neutral for Vietnam's stock market and economy, which is counterintuitive given that the US is Vietnam's largest export market. Furthermore, we see no substantial risk that the dynamics which negatively impacted SVB and certain other regional US banks could significantly impact the profitability and/or solvency of banks in Vietnam.

Further to that last point, it was widely reported that latent losses on SVB's securities portfolio coupled with a drop in deposits at the bank were the main factors that led to its rapid insolvency. Vietnamese banks also hold Government bonds on their balance sheets (as do banks in most countries but note there are no mortgage-backed securities in Vietnam), and the prices of 10-year Vietnam Government Bonds (VGBs) have dropped by around 15%pts since mid-2021, as yields surged - although VGB yields have clearly peaked, which can be seen in the chart below.

10Y Vietnam Government Bond Yield



However, holdings of VGBs only account for about 6% of listed banks' total assets<sup>1</sup> and “held-to-maturity” (HTM) securities account for less than 2% of total assets. This is much lower than the 5-10% levels typical for US regional banks, and far below the ~45% of SVB's assets that were securities held on its balance sheet on an HTM basis (making SVB an extreme outlier compared to other US regional banks).

Said differently, the rise in Vietnamese Government bond yields probably generated over USD3 billion of unrealized losses among Vietnam's listed banks<sup>2</sup>, which is equivalent to just over 5% of their combined Tier I equity; no banks stand out as being particularly exposed as having large, likely losses versus their net equity. Also, although SVB reportedly had a circa USD15 billion unrealized loss on its securities portfolio (which more than wiped out its USD12 billion of equity capital), the actual catalyst for SVB's demise was a drop in deposits that forced the bank to realize/crystallize the losses on its securities portfolio. This dynamic is also unlikely in Vietnam.

Specifically, the drop in Silicon Valley Bank's deposits prompted it to sell Treasury bonds and mortgage-backed securities (MBS) in order to raise cash to give its depositors, which realized/crystallized the bank's losses on its securities portfolio. However, in Vietnam the Government always ensured that depositors were made whole during past banking crises, despite the fact that deposit insurance in Vietnam only explicitly covers about USD5,000 of losses. Consequently, Vietnamese depositors are not strongly incentivized to aggressively withdraw their money when a bank encounters difficulties in Vietnam, because of the tacit understanding that the Government would protect depositors in the event of a bank collapse.

The net result of all of the above is that the risk of an SVB-style bank collapse in Vietnam is very low, both because the catalyst that prompted the SVB situation is not present (i.e., depositors are not incentivized to withdraw their money from banks in times of crisis) and because the unrealized losses on Vietnamese banks' securities portfolios are not large enough to significantly impact their profitability and/or solvency.

### The Benign Impact of SVB and Credit Suisse on Vietnam

The Silicon Valley Bank collapse is unlikely to have any significant impact on Vietnam's economy, despite the fact that the US is Vietnam's biggest export market, and it has a trade surplus with the US equivalent to about 20% of Vietnam's GDP. Exports to the US had already been slowing prior to the SVB collapse<sup>3</sup>, and we do not believe the bank's collapse will exacerbate that slowdown since the decline in Vietnam's exports to the US is primarily attributable to the fact that the inventories of

---

<sup>1</sup> Vietnam's 28 listed banks account for about 70% of system-wide assets.

<sup>2</sup> Listed banks held USD32b of VGB's as of end-2022, and we've assumed the average duration of their VGB portfolios was around 7-8 years.

<sup>3</sup> Vietnam's exports to the US fell more than 20% yoy in 2M23.

major US retailers and other consumer facing firms such as Nike, etc. rose by about 20% last year. Accordingly, the demand for “Made in Vietnam” products was already unlikely to recover until 2H23, irrespective of developments in the US banking sector.

That said, the US government’s response to the SVB collapse prompted a plunge in US interest rates and rate hike expectations, which in-turn helped facilitate an unexpected 100bp policy rate cut in Vietnam earlier this week (see below). We are not US economists, but it is clear that the “Bank Term Funding Program (BTFP)” launched in response to the SVB collapse will probably entail significant new US Dollar liquidity creation, which would in-turn continue to put downward pressure on US interest rates as well as on the value of the US Dollar in the months ahead.

A decline in US/global interest rates and a weaker US Dollar would lead to an improvement in the liquidity of Vietnamese banks as well as lower interest rates in Vietnam for the reasons discussed below, and as evidenced by the above-mentioned policy interest rate cut in Vietnam this week. Finally, the news that Credit Suisse is also facing severe liquidity issues – which will also be solved by Switzerland’s central bank providing liquidity to that bank - also put significant downward pressure on global interest rates. This will ultimately result in more liquidity flowing into the global economy, which should indirectly benefit Vietnam’s economy and stock market.

### ***Silicon Valley Bank & Credit Suisse Helped Enable the SBV to Cut Rates***

The State Bank of Vietnam (SBV) hiked policy rates in September 2022 and October 2022 to support the value of the VN Dong, and the SBV had also been aggressively draining liquidity out of Vietnam’s money market in recent weeks by issuing T-Bills in order to ensure that VN Dong interbank interest rates remain comfortably above USD interest rates. However, the value of the VN Dong has appreciated by about 1% over the last two weeks, including a notable appreciation immediately after the US government’s bailout of Silicon Valley Bank’s depositors last weekend. This appreciation, coupled with a decline in 2-year US Treasury yields of more than 100bps over the last week, enabled Vietnam’s central bank to guide VND interest rates lower.

Specifically, the SBV cut Vietnam’s discount rate, which is one of the country’s key policy interest rates, by 100bps to 3.5%, and the central bank stopped aggressively draining money out of the money market. The former move was largely symbolic, but the latter helped drive a 1%pt drop in interbank interest rates, to below 5%. To be clear, a policy rate cut is always a significant event in any country, but Vietnam has a few key interest rates, the most important of which is probably the so-called re-financing rate, which remained unchanged this week at 6%, as did the cap on short-term deposit rates Vietnamese banks are allowed to offer to their customers.

One of the most important reasons that we expect the Silicon Valley Bank and Credit Suisse sagas should end up being benign for Vietnam is because both are likely to lead to a strengthening of the VN Dong against the value of the US Dollar, which in-turn will enable the SBV to re-accumulate a

significant amount of FX reserves this year. This would inject significant VN Dong liquidity into the economy because the SBV usually accumulates FX reserves via “unsterilized” interventions in the FX market<sup>4</sup>, which entails an increase in a country’s monetary base.

The caveat to this benign outlook is that markets are likely to be quite volatile in the weeks ahead and the value of the US Dollar is currently being boosted by “safe haven” buying of the US Dollar – as is typical in times of crisis. However, the markets are likely to calm down as market participants come to believe in policy makers’ resolve to prevent systemic issues in the banking system, after which we expect the precipitous decline in US/global interest rates to support a strengthening of the VN Dong, enabling the SBV to re-accumulate FX reserves this year.

### Conclusions

Global stock markets are likely to remain volatile in the weeks ahead, in the aftermath of the Silicon Valley Bank collapse and the bail-out of Credit Suisse by the Swiss National Bank. However, we still expect Vietnam’s economy to grow by 6% this year (unchanged from our prior forecast), partly because we had already factored in a slowdown in the demand for “Made in Vietnam” products by consumers in the US and the EU, and we expect that slowing demand to be largely offset by a rebound in foreign tourist arrivals to Vietnam.

Importantly, in recent months global stock markets have been anticipating that a “Fed Pivot”, or reversal of some of the US Federal Reserve’s recent, aggressive rate hikes would boost risk assets, including the value of developing markets’ currencies. As the Fed pivots, this should allow the SBV and Vietnamese commercial banks to lower interest rates, which would in-turn make the stock market more attractive for local and international investors.

### **Disclaimer**

© 2023 VinaCapital Fund Management JSC (VCFM). All rights reserved. This report has been prepared and is being issued by VCFM or one of its affiliates for distribution in Vietnam and overseas. The information herein is based on sources believed to be reliable. With the exception of information about VCFM, VCFM makes no representation about the accuracy of such information. Opinions, estimates, and projections express in this report represent the current views of the author at the date of publication only. They do not definitely reflect the opinions of VCFM and are subject to change without notice. VCFM has no obligation to update, amend or in any way modify this report or otherwise notify a reader they in the event that any of the subject matter or opinion, projection or estimate contained within it changes or becomes inaccurate.

Neither the information nor any opinion expressed in this report an offer, or an invitation to make an offer, to buy or to sell any securities or any option, futures, or other derivative instruments in any securities. Nor should it be construed as an advertisement for any financial instruments. This research report is prepared for general circulation and for general information only. It does not have regard to the specific investment objectives, financial situation or particular needs of any person who may receive or read this report. Investors should note that the prices of securities fluctuate and may rise and fall. Past performance, if any, is no guide to the future.

Any financial instruments discussed in this report may not be suitable for all investors. Investors must make their own financial decisions based on their independent financial advisors as they believe necessary and based on their particular financial situation and investment objectives. This report may not be copied, reproduced, published, or redistributed by any person for any purpose without the express permission of VCFM in writing. Please cite sources when quoting.

---

<sup>4</sup> <https://www.investopedia.com/terms/u/unsterilized.asp>