

Country Insight Snapshot

Vietnam

August 2016





OVERVIEW

OVERALL COUNTRY RISK RATING: DB5a

High risk : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

R

Rating Outlook: Improving 

CORE OUTLOOK

- + Vietnam remains an attractive East Asia region destination for foreign investors due to its low wages, favourable demography, geographical location and political stability.
- + Rising incomes will ensure a burgeoning consumer market into the medium term.
- While a fiscal crisis is not imminent, the government needs to rein in the budget deficit to a more sustainable level. Slower government spending will act as a drag on growth.
- Without a drastic restructuring of debt-ridden and inefficient state-owned enterprises, Vietnam will struggle to meet its full potential.

KEY DEVELOPMENT

Tensions with China rise over military deployments in the South China Sea following the ruling in the Hague.

CREDIT ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

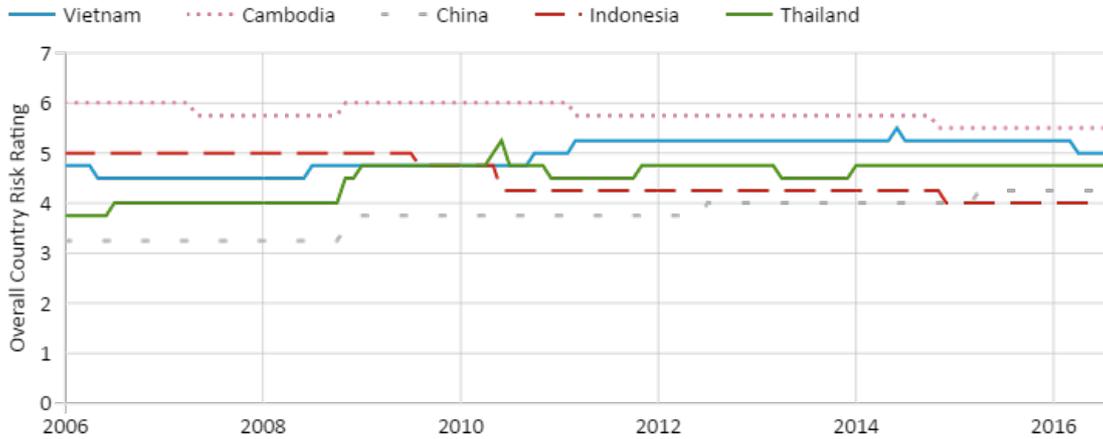
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Key Development has had a negative impact on the outlook.



KEY INDICATORS

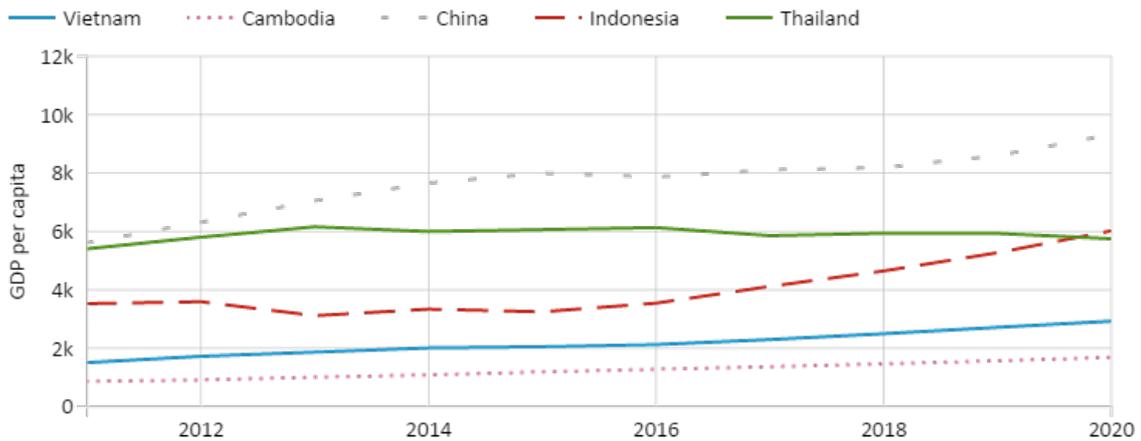
Rating History and Comparison



Source : Dun & Bradstreet

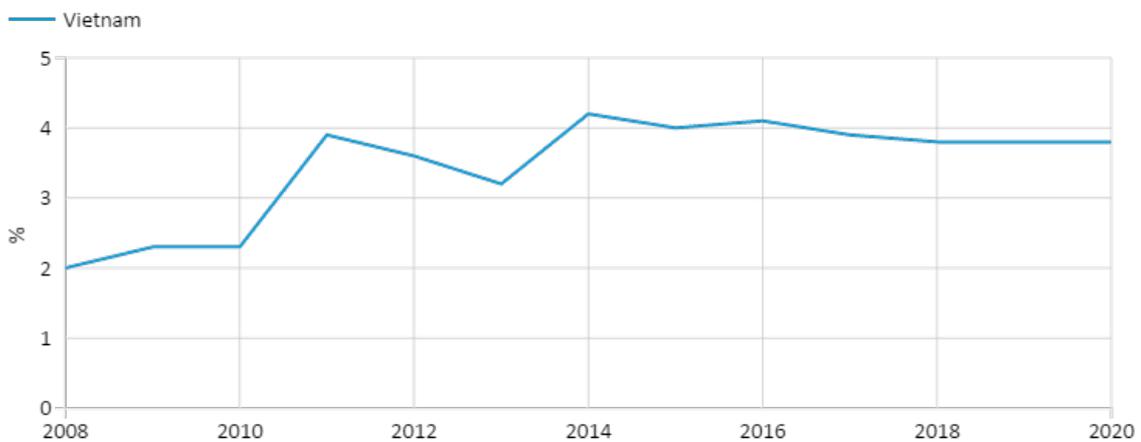
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Debt Service Ratio



Source : Dun & Bradstreet



Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	4.5	5.0	1.0	1.5	2.5	1.9	2.1	2.3
Debt Service Ratio, %	3.2	4.2	4.0	4.1	3.9	3.8	3.8	3.8
Govt balance, % GDP	-4.5	-5.0	-4.5	-4.5	-4.0	-5.0	-5.0	-5.0
Inflation, annual avge %	6.6	4.7	0.9	2.5	4.0	4.5	4.5	4.5
Real GDP Growth, %	5.4	6.0	6.7	6.0	6.8	6.0	6.0	6.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In 2015, Vietnam registered FDI approvals worth USD24bn, up 10% on 2014, most of which was into the booming manufacturing sector. In an encouraging sign that the authorities are pressing ahead with a further opening up of the economy, the government has recently removed a long-standing foreign-ownership limit on Vinamilk, the country's biggest dairy company. The move could lead to further foreign takeovers in the country. Besides loose monetary policy, which has led a rebound in credit growth, a highly competitive export sector has emerged, benefiting from the effect of rising costs in China (which have forced companies to look abroad for cheaper land and labour). Industrial output was up by 19% y/y in July, while vehicle sales (a useful proxy for the strength of consumer demand) expanded by over 40% in the same month. Despite the drought that has damaged the agricultural sector, we expect the economy to record another year of respectable economic growth in 2016.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CLC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 60-120 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-2 months

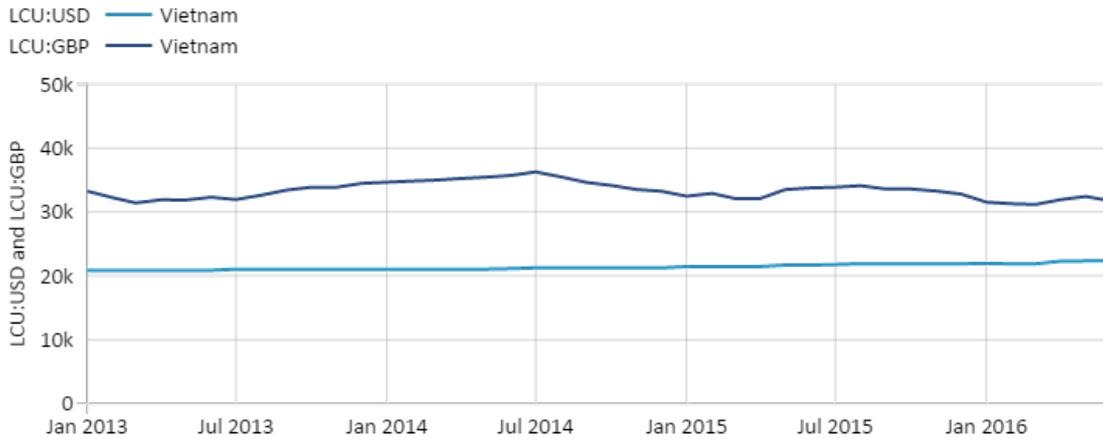
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



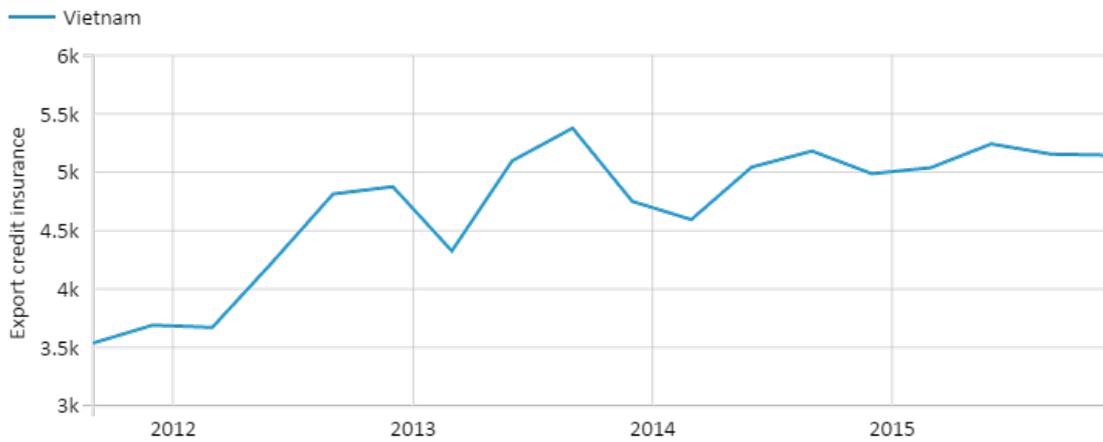
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Vietnamese dong

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, short-term, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Minimum wage rise to aid competitiveness

Vietnam's National Wage Council has announced that the national minimum wage will be raised by just 7.3% next year – the smallest increase since the current minimum wage system was first implemented in 1997 and significantly below what workers had initially been demanding. Two factors explain the decision to limit the increase in the minimum wage. The first is that inflation is very low (it is currently running at just over 2% y/y), so that the boost to workers' real wages will still be quite significant. Second, Vietnam is worried about losing competitiveness to other low-wage economies. A key reason behind Vietnam's strong economic performance has been the emergence of a competitive low-end manufacturing sector, which has benefited from rising costs in China that have forced some manufacturing capacity to move abroad. Although wages in Vietnam are still significantly below those in China, they are over 50% higher than in other parts of Asia, including Bangladesh and Cambodia. Admittedly, Vietnam is not currently finding it difficult to attract FDI, which was up 50% y/y in January-July 2016, but this could change if it saw its advantage in low-end manufacturing start to wane.

Political/Insecurity Risk

Tensions with China increase

Tensions between China and Vietnam are building in the South China Sea amid an arms build-up in the region. According to reports from Reuters, Vietnam has deployed mobile rocket launchers to the Spratly Islands to deter Chinese claims in the area. The Spratlys are a group of disputed islands, whose sovereignty is claimed by a number of countries in Asia, including Vietnam. The trigger for the tensions was a ruling in July by an arbitration court interpreting the UN Convention on the Laws of the Sea, which declared China's 'historic claims' to the South China Sea invalid. In recent years China has attempted to assert its claims to the area by boosting its naval presence, building artificial islands and ejecting fishermen from other Asian countries. Although conflict has so far been avoided, Vietnam has become concerned by China's stance. It is worth noting that the two countries share a troubled history together, and fought a brief border war in 1979.

China has emerged as an important investor in Vietnam in recent years, as Chinese companies have taken advantage of Vietnam's low labour costs to relocate some low-end manufacturing in the country. The main economic risk is that a worsening of diplomatic ties leads some Chinese companies to look elsewhere to build their factories. A brief flare-up in tensions in 2014, after a Chinese oil rig started drilling in contested waters in the South China Sea, was the trigger for a series of anti-China protests in Vietnam that led to the death of one Chinese national and the destruction of a number of foreign-owned factories. With Bangladesh, Cambodia and Myanmar establishing themselves as low-cost manufacturing centres, foreign investors have other options if political tensions force them to relocate out of Vietnam.



COUNTRY PROFILE AND STATISTICS

Overview

Vietnam is situated on the South China Sea, bordering Cambodia, Laos and China. A densely populated, low-income country, it extends from the tropical Mekong Delta and Ho Chi Minh City (the former Saigon) in the south to the monsoonal climate of Hanoi and the Red River valley in the north.

The country's political system is dominated by the Vietnamese Communist Party, which has had a monopoly on power since the end of the Vietnam War in 1975. Vietnam has undergone rapid growth since embracing economic liberalisation in the 1990s and acceding to the WTO in 2007, and is still attracting labour-intensive operations via FDI. However, banking system problems due to poor governance in the state-owned sector have drawn attention to weaknesses in its growth model.

The industrial mix has focused on light manufacturing and assembly operations, but has begun to include more capital-intensive sectors. With sizeable oil reserves, the country is one of Southeast Asia's largest producers of crude. In 2009, the country opened its first refinery.

Key Facts

Key Fact	Detail
Head of state	President Tran Dai QUANG
Capital	Hanoi
Timezone	GMT +07-00
Official language	Vietnamese
Population (millions)	93.4
GDP (USD billions)	191.4
GDP per capita (USD)	2,048
Life expectancy (years)	76
Literacy (% of adult pop.)	93.5
Surface area (sq km)	329,310

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	6.2	5.2	5.4	6.0	6.7
Nominal GDP in USDbn	135	156	171	186	191
Nominal GDP in local currency (bn)	2,779,880	3,245,419	3,584,262	3,937,856	4,192,862
GDP per Capita in USD	1,507	1,722	1,866	2,011	2,048
Population (year-end, m)	89.3	90.3	91.4	92.4	93.4
Exchange rate (yr avge, USD-LCU)	20,649.0	20,859.0	21,017.0	21,189.0	21,908.0
Current Account in USDbn	0.2	9.4	7.7	9.4	2.0
Current Account (% of GDP)	0.2	6.1	4.5	5.0	1.0
FX reserves (year-end, USDbn)	13.5	25.6	25.9	34.2	28.3
Import Cover (months)	1.5	2.6	2.3	2.7	2.0
Inflation (annual avge, %)	18.7	9.1	6.6	4.7	0.9
Govt Balance (% GDP)	-4.0	-4.3	-4.5	-5.0	-4.5

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	6.0	6.8	6.0	6.0	6.5
Nominal GDP in USDbn	201	219	241	264	287
Nominal GDP in local currency (bn)	4,561,834	5,040,826	5,595,317	6,210,802	6,831,882
GDP per Capita in USD	2,123	2,297	2,496	2,714	2,926
Population (year-end, m)	94.4	95.4	96.4	97.3	98.2
Exchange rate (yr avge, USD-LCU)	22,750.0	23,005.0	23,262.0	23,523.0	23,786.0
Current Account in USDbn	3.0	5.5	4.5	5.5	6.6
Current Account (% of GDP)	1.5	2.5	1.9	2.1	2.3
FX reserves (year-end, USDbn)	33.8	40.3	47.8	56.3	64.8
Import Cover (months)	2.2	2.3	2.4	2.6	2.7
Inflation (annual avge, %)	2.5	4.0	4.5	4.5	4.5
Govt Balance (% GDP)	-4.5	-4.0	-5.0	-5.0	-5.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Vietnam	Cambodia	China	Indonesia	Thailand
Income per Capita (USD)	2,048	1,188	8,000	3,248	6,062
Country Population (m)	93.4	15.6	1,376	257.6	68
Internet users (% of population)	48.3	9	49.3	17.1	34.9
Real GDP Growth (% p.a., 2016 - 2025)	3 - 6.5	4.5 - 6	3.5 - 6.5	5 - 8	1 - 4

Source : Various sources/Dun & Bradstreet



LINKS

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