

# Country Insight Snapshot

## Vietnam

October 2017



Written 27 October 2017

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## 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 Southeast Asian 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 more rigorous restructuring of debt-ridden and inefficient state-owned enterprises, Vietnam will struggle to meet its full potential.

## KEY DEVELOPMENT

Economic growth rebounds in Q3, helped by a recovery in the agricultural sector; Vietnam remains one of the fastest-growing economies in the region.

### CREDIT ENVIRONMENT OUTLOOK

**A**

**Trend:** Improving

Key Development has had a neutral impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

**A**

**Trend:** Improving

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

**A**

**Trend:** Improving

Key Development has had a positive impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

**A**

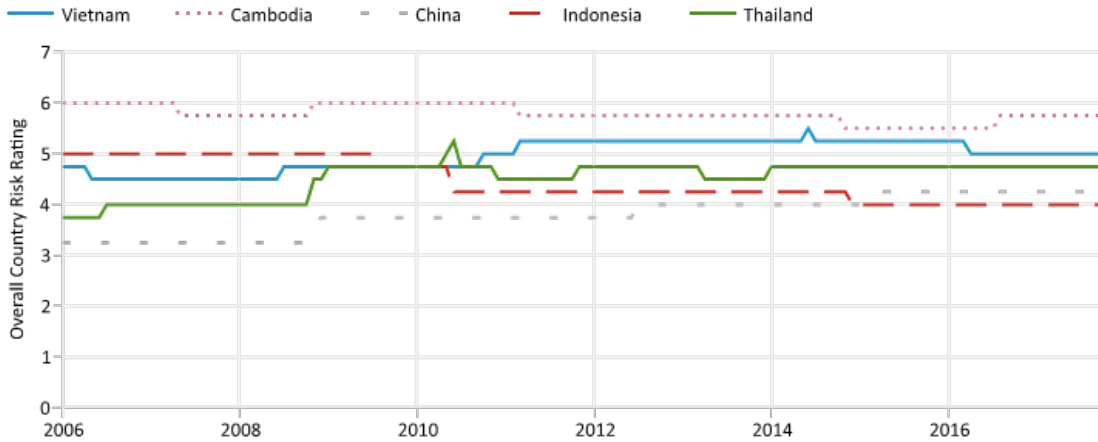
**Trend:** Improving

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

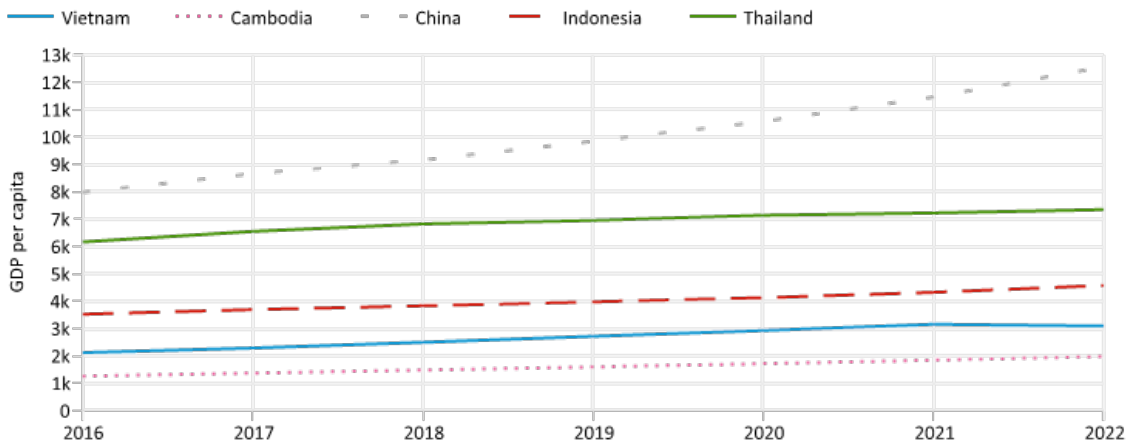
### Rating History and Comparison



Source : Dun & Bradstreet

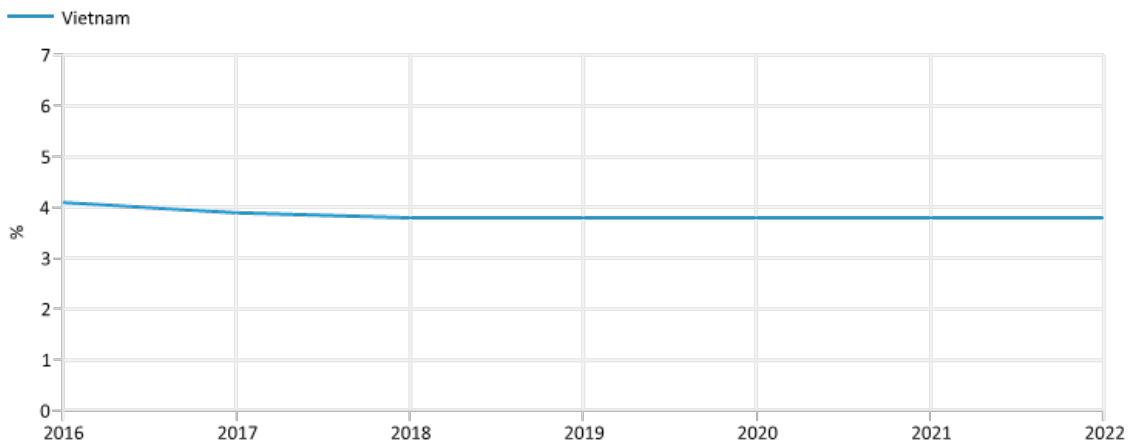
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Debt Service Ratio



Source : Dun & Bradstreet



## Economic Indicators

Indicator	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	0.5	4.1	3.2	2.3	2.6	2.8	3.0	3.1
Debt Service Ratio, %	3.8	4.1	3.9	3.8	3.8	3.8	3.8	3.8
Govt balance, % GDP	-6.1	-5.6	-6.0	-6.0	-5.5	-5.0	-5.0	-4.5
Inflation, annual avge %	0.6	2.7	3.7	5.0	4.5	4.5	4.5	4.0
Real GDP Growth, %	6.7	6.2	6.5	6.5	6.5	6.0	6.0	6.0

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

Economic prospects for Vietnam over the next couple of years remain strong, with three key factors likely to support growth over this period: strong exports, loose monetary policy, and loose fiscal policy. Exports have grown strongly, on the back of buoyant global demand and booming FDI. Low interest rates, which were cut in July, are helping to support rapid credit growth. Meanwhile, the government has been running a budget deficit of around 6% GDP, providing a further support to growth. However, the medium-term outlook is less promising. While exports are likely to remain strong, both monetary and fiscal policy will need tightening in order to put growth on a sustainable footing. In particular, the fiscal position is unsustainable, while rapid credit growth is leading to mounting risks in the financial sector.

## 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: LC

*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

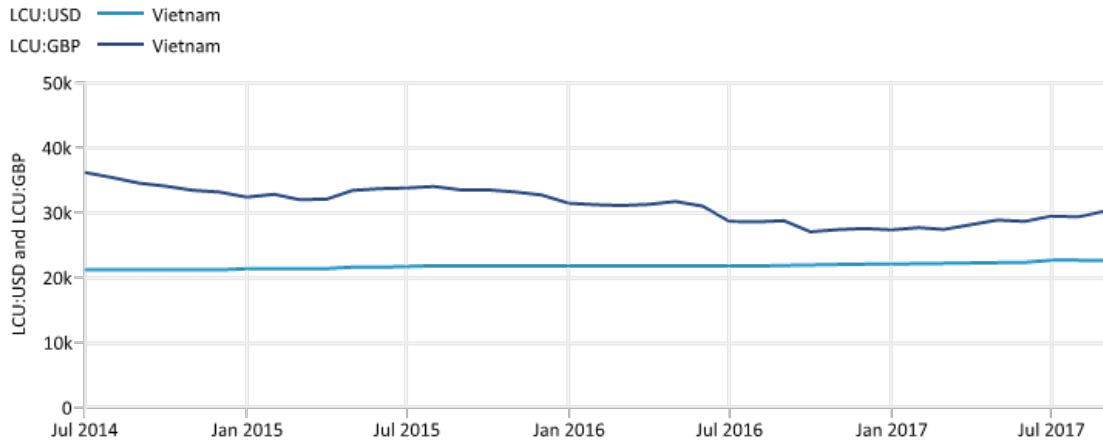
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



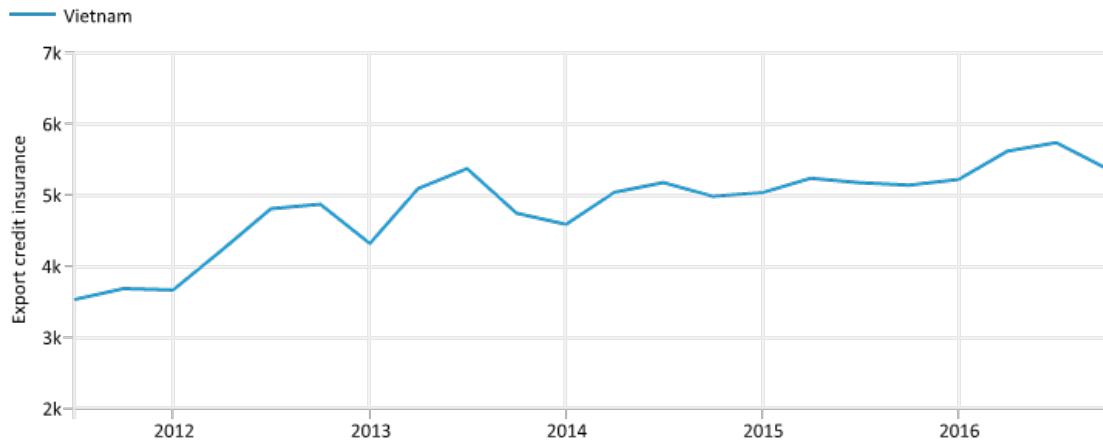
## Exchange Rate



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

#### ***Growth still strong in Q3***

Economic growth in Vietnam accelerated in the third quarter of the year, and the country's economy remains one of the fastest-growing in the region. According to Q3 GDP figures, Vietnam grew by 6.4% y/y in the first three quarters of 2017, up from a 5.7% expansion recorded in the first half of the year. There are good reasons to treat the official figures with some caution. Firstly, GDP figures are released before the end of the quarter, which means they cannot give an entirely accurate picture of the state of the economy. Secondly, statistically, for reasons that remain unclear, recorded GDP growth in Vietnam tends to pick up throughout the year. As a result, an acceleration in growth does not necessarily indicate that the economy is getting stronger.

For what it is worth, the data show the manufacturing sector was the main driver of growth in the first three quarters of the year, expanding by 12.8% y/y. Services grew by a healthy 7.3%, while agricultural production rebounded following recent droughts to grow by a modest 2.8% - still the fastest rate of expansion since Q3 2014. Looking ahead, the near-term outlook for the economy remains positive. Loose monetary policy is helping to support a surge in credit growth, while exports are also growing strongly, helped by buoyant global demand and booming foreign direct investment.

### Business Regulatory Environment

#### ***Business environment still improving***

Vietnam has been making steady improvements to its business environment in recent years, and is said to be in the early stages of making more radical improvements in reducing bureaucracy. Vietnam jumped to 55th place in the World Economic Forum's latest *Global Competitiveness Report* (2017-18), up five places from last year and 20 places from five years ago. According to the report, Vietnam made big improvements in the technological readiness and labour market efficiency categories. Although things are getting better in Vietnam, it still ranks below a number of other countries in the region including China (27th), Thailand (32nd) and Indonesia (36th).

Vietnam has plans for a major improvement in its business environment. The Ministry of Industry and Trade is said to be planning big cuts in red tape to simplify the administrative process for private companies. Vietnam is ultimately hoping to halve the number of conditions and regulations that are currently imposed on small and medium-sized enterprises. If the reforms are pushed through it should provide a much-needed boost to private sector companies in Vietnam who struggle to compete against foreign companies and state-owned enterprises. According to a report by the Vietnam Private Sector Forum, 44% of private companies in Vietnam felt they missed out on business opportunities because of red tape and legal barriers.



## 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)	94.6
GDP (USD billions)	201.4
GDP per capita (USD)	2,130
Life expectancy (years)	75.8
Literacy (% of adult pop.)	94.5
Surface area (sq km)	329,310

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2013	2014	2015	2016	2017f
Real GDP growth (%)	5.4	6.0	6.7	6.2	6.5
Nominal GDP in USDbn	171	186	191	201	220
Nominal GDP in local currency (bn)	3,584,262	3,937,856	4,192,862	4,502,733	4,962,012
GDP per Capita in USD	1,864	2,008	2,045	2,130	2,298
Population (year-end, m)	91.5	92.5	93.6	94.6	95.5
Exchange rate (yr avge, USD-LCU)	21,016.0	21,189.0	21,908.0	22,355.0	22,605.0
Current Account in USDbn	7.7	9.4	0.9	8.2	6.9
Current Account (% of GDP)	4.5	5.0	0.5	4.1	3.2
FX reserves (year-end, USDbn)	25.9	34.2	28.3	36.5	44.5
Import Cover (months)	2.3	2.7	2.0	2.4	2.7
Inflation (annual avge, %)	6.6	4.1	0.6	2.7	3.7
Govt Balance (% GDP)	-5.4	-5.7	-6.1	-5.6	-6.0

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	6.5	6.5	6.0	6.0	6.0
Nominal GDP in USDbn	242	266	289	314	311
Nominal GDP in local currency (bn)	5,532,643	6,141,234	6,755,357	7,430,893	7,430,893
GDP per Capita in USD	2,508	2,727	2,938	3,167	3,103
Population (year-end, m)	96.5	97.4	98.4	99.3	100.2
Exchange rate (yr avge, USD-LCU)	22,858.0	23,114.0	23,373.0	23,635.0	23,900.0
Current Account in USDbn	5.7	6.8	8.1	9.6	9.5
Current Account (% of GDP)	2.3	2.6	2.8	3.0	3.1
FX reserves (year-end, USDbn)	52.0	60.5	69.0	77.5	86.0
Import Cover (months)	2.8	2.9	3.0	3.0	3.3
Inflation (annual avge, %)	5.0	4.5	4.5	4.5	4.0
Govt Balance (% GDP)	-6.0	-5.5	-5.0	-5.0	-4.5

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Vietnam	Cambodia	China	Indonesia	Thailand
Income per Capita (USD)	2,298	1,383	8,671	3,703	6,561
Country Population (m)	95.5	16.0	1,409.5	264.0	69.0
Internet users (% of population)	46.5	25.6	53.2	25.4	47.5
Real GDP Growth (% p.a., 2018 - 2027)	3.0 - 6.5	4.5 - 6.0	4.5 - 6.5	5.0 - 8.0	2.5 - 3.5

Source : Various sources/Dun & Bradstreet





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