

# Country Insight Snapshot

## Vietnam

March 2017



Written 24 March 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 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

Officials are showing concern over the country's growing dependence on foreign direct investment to drive export growth amid the poor performance of domestically-owned businesses.

### 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**

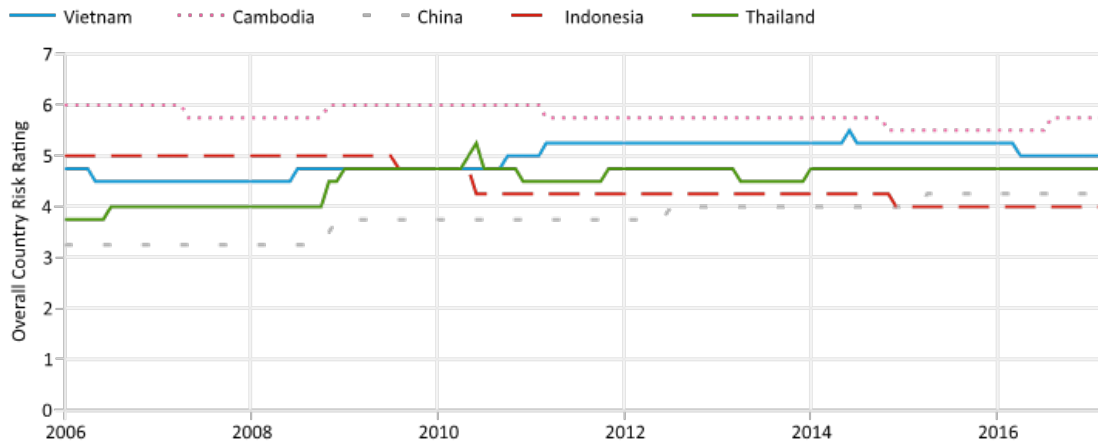
**Trend:** Improving

Key Development has had a neutral impact on the outlook.



## KEY INDICATORS

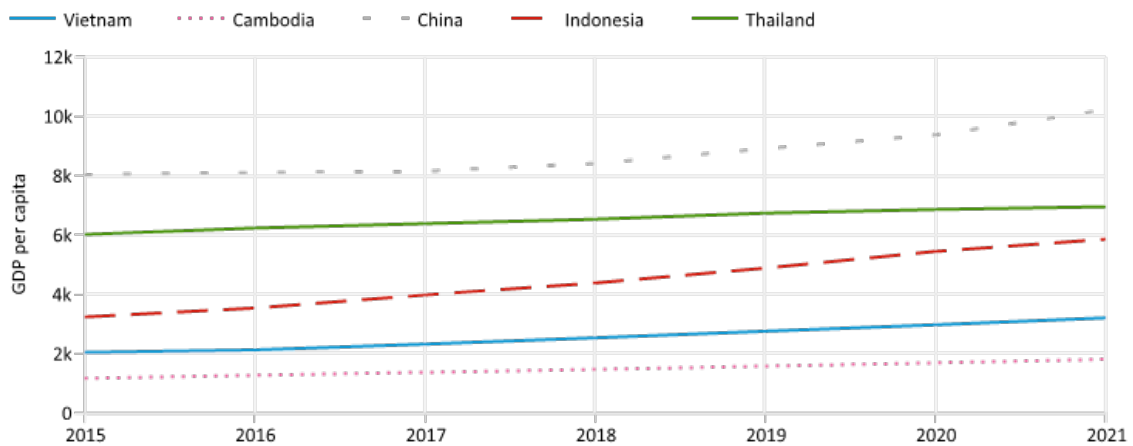
### Rating History and Comparison



Source : Dun & Bradstreet

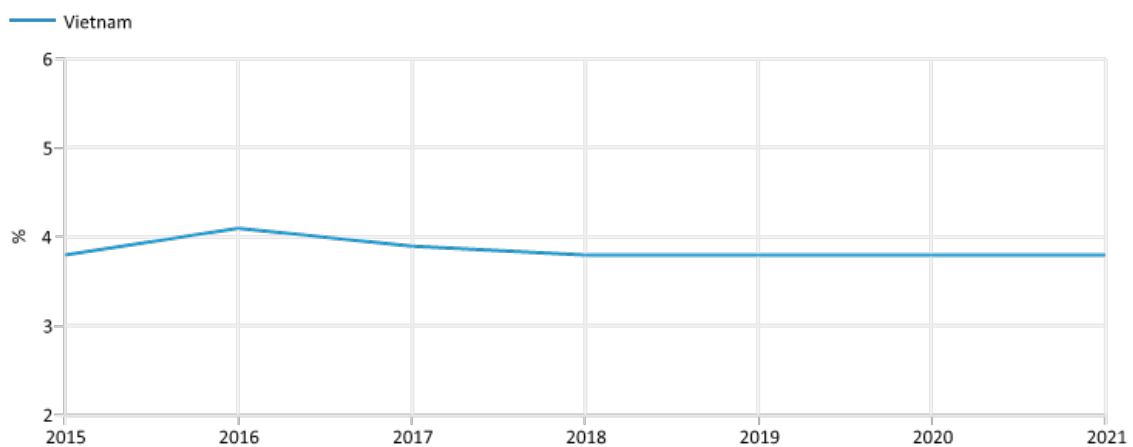
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Debt Service Ratio



Source : Dun & Bradstreet



## Economic Indicators

Indicator	2014	2015	2016e	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	5.0	0.5	4.9	2.3	2.1	2.3	2.5	3.7
Debt Service Ratio, %	4.2	3.8	4.1	3.9	3.8	3.8	3.8	3.8
Govt balance, % GDP	-5.7	-6.1	-6.2	-6.0	-5.0	-5.0	-5.0	-5.0
Inflation, annual avge %	4.1	0.6	2.7	5.0	5.0	4.5	4.5	5.5
Real GDP Growth, %	6.0	6.7	6.2	6.8	6.5	6.5	6.5	6.5

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

One of the key factors supporting economic growth in Vietnam over the past few years has been supportive monetary and fiscal policy. However, the authorities are likely to come under pressure to tighten policy over the coming years. With government debt now over 60% of GDP and the deficit in excess of 6% of the economy, the authorities will need to tighten fiscal policy sooner rather than later. Meanwhile, with inflation now at its highest level in three years and private sector credit expanding at nearly double the rate of nominal GDP, pressure for the central bank to hike interest rates is increasing. While a drastic tightening of either monetary and fiscal policy is not on the cards, less supportive policy will act as a constraint on growth, and is one of the key reasons why we see growth being capped at around 6-6.5% over the next couple of years.

## 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**

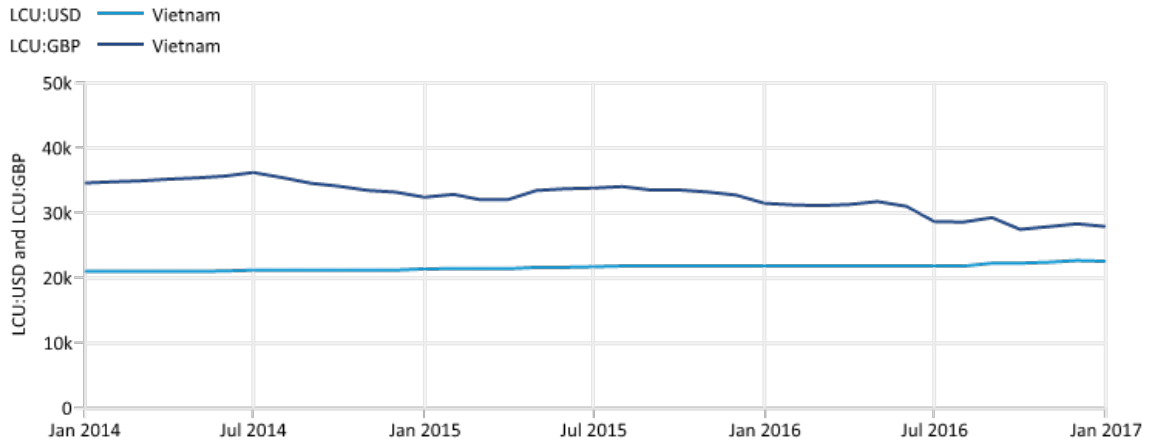
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### **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.*



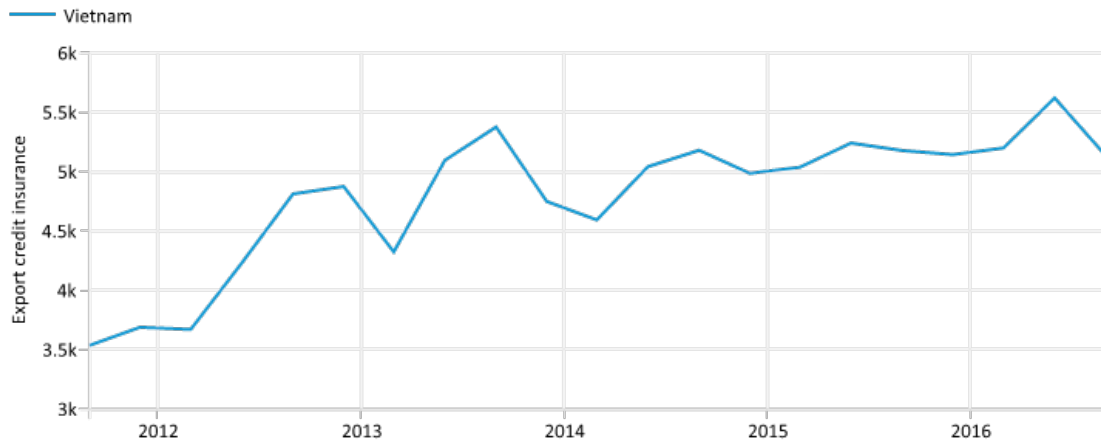
## Exchange Rate



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

### Long-Term Economic Potential

#### ***Concern over growing dependence on FDI***

Concerns in Vietnam are growing over the country's increasing dependence on foreign investment to propel the country's export boom following a report by the Vietnam Communist Party's Economics Committee which highlighted the poor performance of domestically-owned businesses. Vietnam's exports have significantly outperformed those from other countries in the region over the past few years. Lower tariffs (which were cut sharply following Vietnam's entry into the WTO in 2007), rising wages in China, and a stable political environment are just some of the factors that help to explain why foreign investors are continuing to flock to the country. Vietnam received a record USD16bn in FDI last year – an increase of 9% from the year before.

Booming foreign investment can be a positive for the economy if it results in domestic companies copying the latest technologies and production methodologies from foreign firms. However, there is little sign that foreign companies are creating any positive spillovers in Vietnam. Foreign companies now account for around 70% of Vietnam's exports, up from 50% a decade ago. In the short term this is not necessarily a problem, but it will be a major concern if Vietnam starts to lose its advantage in contract manufacturing: foreign textile and electronics companies are notoriously footloose. Although labour costs are low at the moment, they are rising quickly. There is a risk that companies could easily move to other parts of Asia with even lower labour costs, notably Bangladesh and Cambodia.

### Market Potential

#### ***Government looking for new trade deals***

With the Trans-Pacific Partnership (TPP) arrangement now apparently dead after President Trump withdrew the US from the negotiations, Vietnam is looking for other ways to boost its exports. A free-trade agreement (FTA) with the EU, which was agreed in 2015 and is due to come into force in 2018, could provide a decent boost. The deal still needs to be ratified by all of the EU's member states individually, and some countries have raised concerns about Vietnam's human rights record. Nevertheless, it is still likely that the deal will come into force on the planned date. Meanwhile, Vietnamese officials are hoping to start negotiations with the US on a bilateral FTA. According to official media reports in Vietnam, Prime Minister Nguyen Xuan Phuc is hoping to visit the US soon, where he is hoping for discussions with Donald Trump on a possible FTA. As a key ally in the region, which the US regards as an essential part of its plan to contain a rising China, Vietnam will be hoping to get a sympathetic hearing in Washington. What is more, Vietnam runs a huge trade surplus with the US, which is equivalent to more than 11% of Vietnam's GDP. Relative to the size of its economy, this is bigger than either China or Mexico, which so far have been the focus of Trump's frustrations. A deal that leads to an opening up of Vietnam's (relatively small) but fast-growing market should help to reduce the size of the bilateral deficit.



## 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)	94.4
GDP (USD billions)	201.4
GDP per capita (USD)	2,133
Life expectancy (years)	76
Literacy (% of adult pop.)	94.5
Surface area (sq km)	329,310

Source : Various sources/Dun & Bradstreet

### Historical Data

Metric	2012	2013	2014	2015	2016e
Real GDP growth (%)	5.2	5.4	6.0	6.7	6.2
Nominal GDP in USDbn	156	171	186	191	201
Nominal GDP in local currency (bn)	3,245,419	3,584,262	3,937,856	4,192,862	4,502,733
GDP per Capita in USD	1,722	1,866	2,011	2,048	2,133
Population (year-end, m)	90.3	91.4	92.4	93.4	94.4
Exchange rate (yr avge, USD-LCU)	20,859.0	21,017.0	21,189.0	21,908.0	22,355.0
Current Account in USDbn	9.4	7.7	9.4	0.9	9.9
Current Account (% of GDP)	6.1	4.5	5.0	0.5	4.9
FX reserves (year-end, USDbn)	25.6	25.9	34.2	28.3	44.0
Import Cover (months)	2.6	2.3	2.7	2.0	2.8
Inflation (annual avge, %)	9.1	6.6	4.1	0.6	2.7
Govt Balance (% GDP)	-4.1	-5.4	-5.7	-6.1	-6.2

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	6.8	6.5	6.5	6.5	6.5
Nominal GDP in USDbn	222	245	269	292	318
Nominal GDP in local currency (bn)	5,020,547	5,597,910	6,213,680	6,835,048	7,518,553
GDP per Capita in USD	2,328	2,542	2,764	2,979	3,213
Population (year-end, m)	95.4	96.4	97.3	98.2	99.0
Exchange rate (yr avge, USD-LCU)	22,605.0	22,858.0	23,114.0	23,373.0	23,635.0
Current Account in USDbn	5.2	5.2	6.2	7.4	11.6
Current Account (% of GDP)	2.3	2.1	2.3	2.5	3.7
FX reserves (year-end, USDbn)	52.0	59.5	68.0	76.5	85.0
Import Cover (months)	3.0	3.0	3.1	3.2	3.1
Inflation (annual avge, %)	5.0	5.0	4.5	4.5	5.5
Govt Balance (% GDP)	-6.0	-5.0	-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	1,172	8,041	3,245	6,023
Country Population (m)	93.4	15.6	1,376	257.6	68
Internet users (% of population)	52.7	19	50.3	22	39.3
Real GDP Growth (% p.a., 2017 - 2026)	3 - 6.5	4.5 - 6	3.5 - 6.5	5 - 8	1 - 4

Source : Various sources/Dun & Bradstreet





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