

Atradius Country Report

Vietnam – December 2010



Overview

General information

Capital:	Hanoi
Government type:	Socialist Republic/Communist regime
Currency:	Dong (VND)
Population:	89.5 million
Status:	Lower middle income country (GDP/capita: US\$ 1,159 in 2010)

Most important sectors (% of GDP, 2009)

Services:	38.7 %
Industry:	40.0 %
Agriculture:	21.3 %

Main import markets (2009, % of total)

China:	16.4 %
Singapore:	9.6 %
Japan:	8.9 %
Taiwan:	8.2 %
South Korea:	7.7 %

Main export markets (2009, % of total)

USA:	21.4 %
Japan:	11.4 %
China:	7.3 %
Australia:	4.4 %
Germany:	4.3 %

Main expenses of foreign exchange

Machinery & equipment (16 %), petroleum products (11 %), steel (7 %), garment material & leather (4 %)

Main sources of foreign exchange

Crude oil (17 %), textiles & garments (15 %), agricultural commodities (12 %), seafood (7 %), footwear (8 %), tourism, remittances

Key indicators

	2007	2008	2009	2010*	2011**
GDP (US\$ million)	71,136	90,329	93,170	101,793	114,687
Real GDP growth (%)	8.5	6.2	5.4	6.4	6.9
GDP per capita (US\$)	834	1,048	1,071	1,159	1,294
Inflation p.a. (%)	8.0	23.1	7.0	9.3	9.1
Fiscal balance (% of GDP)	-7.3	-5.4	-8.9	-7.7	-6.7
Total foreign debt (US\$ million)	24,222	26,158	27,836	32,694	35,972
Foreign debt/GDP (%)	34	29	30	32	31
Foreign debt/XGS (%)	43	37	44	42	41
Short-term debt/inter. reserves (%)	20	18	24	22	22
Debt service ratio (%)	2.0	2.0	1.8	1.6	1.7
Current account balance (US\$ m.)	-6,953	-11,018	-10,228	-10,784	-10,076
Current account/GDP (%)	-9.8	-12.2	-11.0	-10.6	-8.8
Nom. exchange rate to US\$ (average)	16,078	16,440	17,800	19,044	19,443
International reserves (US\$ million)	23,479	23,890	16,447	21,258	24,232
In months of merchandise imports	4.3	3.5	2.7	2.9	3.0

*estimate ** forecast

Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF)

Political situation: Stable

Head of state: President Nguyen Minh Triet (since June 2006)
Head of government: Prime Minister Nguyen Tan Dung (since June 2006)
Form of government: One-party government of the Communist Party

Internal political situation

Overall, the political situation in Vietnam is stable, since the Communist Party of Vietnam is firmly in power and does not tolerate any political opposition. Political power is shared by a troika, consisting of the president, the prime minister and the general secretary of the Communist party (Nong Duc Manh). Despite the very limited political freedom in Vietnam, popular discontent sometimes surfaces, with protests often triggered by expropriation or other acts of arbitrariness and corruption by local officials. To maintain social stability, the central government has repeatedly voiced its commitment to combat corruption at all levels.

External political situation

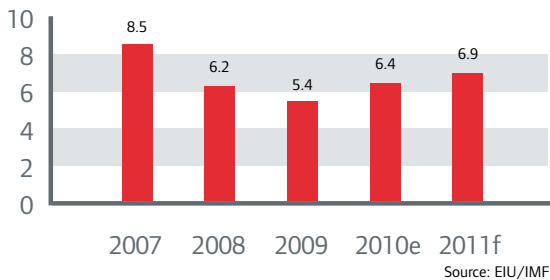
Vietnam has good relations with all of its neighbours, and with the US, Russia and the EU. However, the Spratly Islands dispute with China flared up again early this year, when Beijing declared the islands and surrounding waters to be an integral part of China and stepped up its military presence - despite official commitments from all parties to resolve this maritime conflict by peaceful means and negotiation.

Although largely uninhabited, the area is believed to hold vast oil and natural gas reserves. It also straddles one of the world's busiest shipping lanes and is a rich fishing ground.

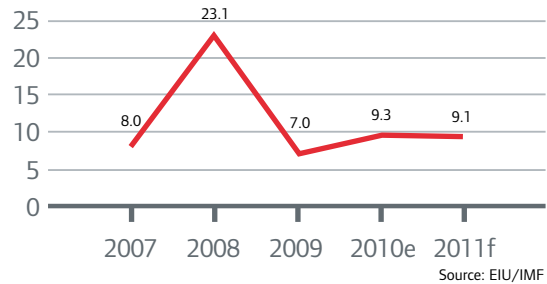
As a result of the dispute, Vietnam has sought closer political ties with the US, which told China at an ASEAN regional security forum in Vietnam in July that a peaceful resolution of disputes over the Spratly and Parcel island groups was in the American national interest. Beijing responded by accusing Washington of interfering in an Asian regional issue.

Internal economic situation: Large budget deficits

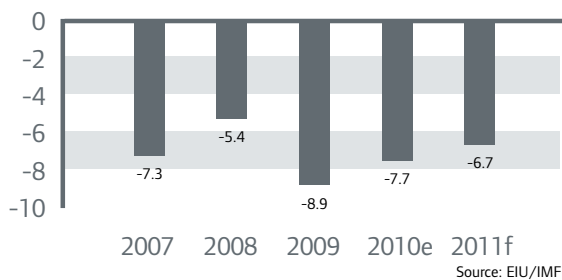
Real GDP growth (%)



Inflation p.a. (%)



Fiscal balance (% of GDP)



General situation

Vietnam is rapidly moving from a centralised Communist economy to a system of market-socialism. Economic reform (doi moi) has resulted in high economic growth rates (7-8% year-on-year between 2000 and 2007). Vietnam's export-driven economy (exports account for 75% of GDP), specialised on textile and garments production, was hit quite badly by the global downturn. However, a recession was avoided, and the economy actually grew by 5.4% in 2009, due mainly to massive government stimulus packages worth US\$ 8 billion, largely in infrastructure investment and by subsidising banks' loans to businesses.

According to government sources, GDP grew 6.4% year-on-year in the second quarter of 2010, thanks to increased domestic demand and a rebound in exports. Industrial production increased 14% year-on-year between January and August. In the same period, exports of textiles and garments rose 17%, while imports increased 25.5%. Overall, a 6.4% GDP growth is expected in 2010, based on increased private investment, consumption and non-oil exports. Due to the massive stimulus package, the budget deficit increased to 8.9% of GDP in 2009, but is forecast to decrease this year as the stimulus measures expired at the end of 2009 and GDP growth has picked up again.

Inflation has been persistently high (above 8% since January 2009), and started to rise again in September 2010. In October the consumer price index increased by 9.7% year-on-year, up from 8.9% in September, exceeding the government's target for this year.

Economic policy

Vietnam's high inflation is the result of the government's expansionary fiscal and monetary policy: it aims to increase credit by 25 % this year, to boost economic growth ahead of an important Communist Party congress in January 2011. The Dong has been devaluated three times since November 2009 to support exports and to narrow the trade deficit (Vietnam largely exports low-value goods and therefore competes on price) but this measure has, in turn, increased the cost of imports.

Both the increase in loans and the Dong devaluation endanger price stability. Rising inflation, in turn, increases the downward pressure on the Vietnamese currency. The Central Bank had kept the base interest rate at 8 % since December 2009 to stimulate growth, but finally shifted its policy to combat inflation in early November 2010, and raised the base interest rate to 9 %. At the same time, the government has said that it will refrain from a further adjustment of the exchange rate before February 2011.

Structural economic weaknesses

A structural weakness in Vietnam's economy is the relative strong focus on labour-intensive and low value-added goods. With its focus on textiles, footwear and agricultural products, the country now faces stiff competition from other low-cost producer such as Bangladesh. Following the example of the 'Asian Tigers', Vietnam plans to enhance its production capabilities and profile by attracting more electronics producers and creating a shipbuilding industry. However, Vietnam's investment climate is still hindered by many shortcomings. Rampant corruption, poor transport infrastructure, an ineffective legal system and an outdated, Communist-inspired education system are serious obstacles. Therefore, the main challenges for the economy are: reform of the financial sector and state-owned enterprises; improvement to the accessibility of land for private enterprises; infrastructure improvements; education of the workforce, and; combating corruption.

Qualification of economic management

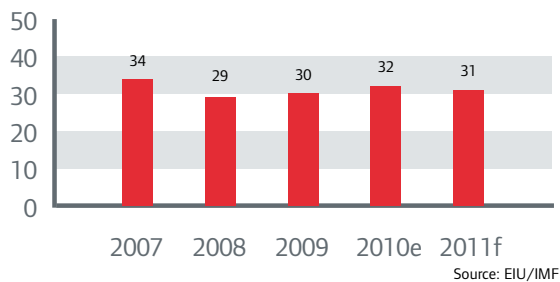
Economic reforms are cautious and privatisation processes too slow. Macroeconomic policies are inconsistent.

Energy situation

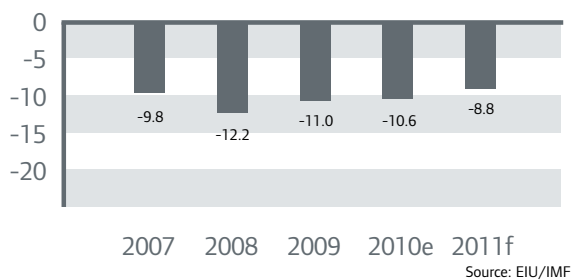
The country owns large oil (600 million barrels), gas and coal reserves. Vietnam is a net oil exporter, but most refined products are imported due to a lack of refining capacity domestically. Hydropower generates 52 % of the electricity, but electricity is also imported from China and Laos.

External economic situation: Large current account deficit

Foreign debt/GDP (%)



Current account/GDP (%)



Foreign debt

Level: Moderate (32 % of GDP and 42% of exports of goods and services in 2010)

Structure: Favourable (mainly concessional borrowing, short-term share of 14%)

Debt service ratio: Very low: 2%; including short-term debt 7 %

Remarks:

Currently there is no IMF programme in place. Debt was rescheduled with the Paris Club (official creditors) in 1993 and the London Club (commercial banks) in 1997. Rouble debt owed to Russia was rescheduled on terms favourable to Vietnam in 2000. In January 2010, Vietnam issued its second US\$ nominated bond of US\$ 1 billion.

Balance of payments

Trade balance: Large deficits

Current account: Large deficits (10.6 % of GDP in 2010)

Capital account: Positive, for a large part consisting in FDI

Total Account: Positive

International reserves

In months of imports (cif): Poor – 2.9 months of import cover in 2010

Outlook: The economy remains fragile

Political situation

The 11th national congress of Vietnam's Communist Party, due in January 2011, is expected to choose a new generation of leaders, with the current troika of secretary general, president and prime minister likely to be replaced by younger politicians. It cannot be ruled out that this new generation of leaders will be more conservative than their predecessors, leading to fewer market-oriented reforms and a tougher stance against dissidents.

Internal economic situation

Although the government has indicated that it would refrain from further currency depreciations, the Dong will remain under downward pressure. A further devaluation in the short-term future cannot be ruled out.

GDP growth is expected to increase to nearly 7% next year. As Vietnam imports many goods and services, this will also fuel inflation, which is expected to remain high in the coming months and reach 9.1% next year. The budget deficit is forecast to drop further in 2011, but will remain persistently high at 6.7% of GDP. While the government has pursued a loose monetary policy throughout 2010 and has urged banks to loosen their lending conditions to boost economic growth, the focus has shifted to curbing inflation, especially as growth this year will exceed the government target.

The government has to avoid any contradictory market policies and reassure the market of its priority of achieving macroeconomic stability if it is to gain confidence. Therefore, it needs to continue to convey an unambiguous commitment to combating inflation and an assurance that it can avoid a further widening of the trade deficit.

External economic situation

The current account deficit will remain high in 2011 (9% of GDP), and, despite a modest build-up in foreign currency reserves in 2010 and 2011, the international liquidity position will remain poor. Since the current account will persistently show large deficits, Vietnam will remain dependant on foreign capital inflows, but these have not yet recovered from a plunge during the global credit crisis.

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