

Strong growth but short-term vulnerabilities persist

General Information



GDP	USD186.2bn (World ranking 55, World Bank 2014)
Population	90.7mn (World ranking 14, World Bank 2014)
Form of state	Communist State
Head of government	Nguyễn Xuân Phúc
Next elections	2021, legislative



Strengths

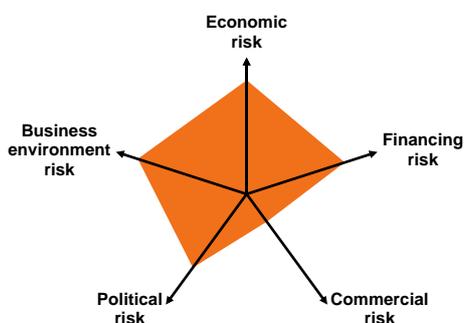
- Low wages but relatively skilled workforce
- Strong performance in agriculture and potential with various natural resources, especially minerals (iron ore, copper, gold) and energy (oil, natural gas, coal)
- Relatively open economy with growth model based on trade
- Ongoing shift towards higher value-added sectors
- Member of the Trans-Pacific Partnership

Weaknesses

- Lack of transparency
- A fragile and opaque banking system
- Infrastructure to be improved
- A complicated business environment
- High regional disparities in terms of development and rising inequalities
- Low external reserves
- Recurrent tensions with China

Country Rating

C3



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports	Rank	Imports
United States	19% 1	35% China
China	12% 2	12% Korea, Republic of
Japan	10% 3	7% Singapore
Korea, Republic of	5% 4	7% Japan
Germany	4% 5	6% Taiwan

By product (% of total)

Exports	Rank	Imports
Telecommunication and sound	14% 1	13% Electrical machinery, apparatus and
Articles of apparel & clothing accessories	13% 2	10% Textile yarn and related products
Petroleum, petroleum products and	8% 3	9% Petroleum, petroleum products and
Footwear	7% 4	8% Telecommunication and sound
Fish, crustaceans, molluscs	6% 5	6% Iron and steel

Source: UNCTAD

Economic Overview

Solid growth ahead, improving business environment

Economic growth accelerated in 2015 supported by both investment and private consumption. Net trade performance weakened due to high import growth compared to exports. In H1 2016, growth has slowed slightly due to adverse weather conditions. Short-term economic prospects are broadly positive and growth should pick up speed in H2. A pro-growth policy mix (accommodative monetary policy and relaxed fiscal policy) coupled with increasing FDIs, rising incomes, and firm private sector confidence will allow for a further improvement in domestic demand. Exports will likely rise but at a gradual pace reflecting modest external demand and low commodity prices. Going forward, GDP growth is projected to grow at robust +6% in 2016.

Vietnam's standing on the Ease of Doing Business ranking improved to 90th in 2016 (from 93rd). Progress was made on the tax environment and insolvency resolution. As a member of the TPP project, further improvement is likely in the medium term especially on investor protection, on enforcing contract laws and insolvency resolution.

Short term risks stem from deteriorating public finances, weak external liquidity position, and fragile banking system

The public debt is high compared to regional peer with a ratio to GDP above 60% GDP. The fiscal deficit is large. Looking ahead, there are few if any signs that this trend will reverse significantly after 2016. First, weak commodities prices will remain a drag on government revenues growth despite some improvement in tax collection (broadened tax base e.g.) and higher duties on petroleum products. Second, the policy stance will likely remain broadly accommodative with the reduction in corporate income tax in 2016 (20% from 22% in 2015), and still solid growth of public expenditures.

The external liquidity position is weak with FX reserves covering hardly 2-3 months of imports. Currency risk is elevated with 3 devaluations in 2015. External conditions are not fully supportive in the short run. The current account surplus is weakening as imports (led by high domestic demand) growth outpaced exports. FDI inflows are strong as the country is seen as a strong alternative to China but strong short-term capital outflows (due to the Fed's tightening) are still a drag. Risks related to the banking system have receded with improved liquidity and lower NPL. However, a cause of concern still stems from weak profitability and low capital buffers.

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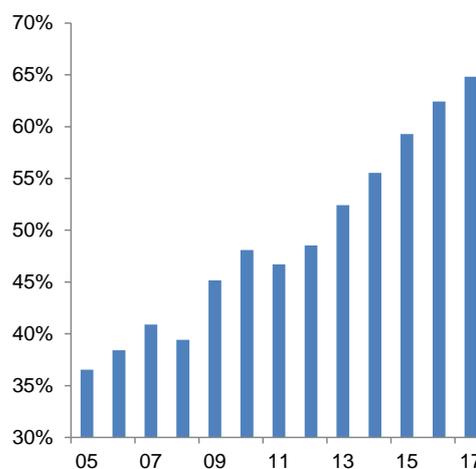
Key economic forecasts

	2014	2015	2016f	2017f
GDP growth (% change)	6.0	6.7	6.0	6.5
Inflation (% , year average)	4.1	0.6	2.0	3.6
Fiscal balance (% of GDP)*	-6.1	-6.5	-6.1	-6.0
Public debt (% of GDP)*	55.5	59.3	62.4	64.8
Current account (% of GDP)	5.0	1.4	0.2	0.6
External debt (% of GDP)	38.6	39.3	39.8	39.6

* Fiscal indicators include Central Government, State Government, and Local Government.

Sources: IMF, Euler Hermes

Figure 1 – Public debt (% GDP)



Sources: national sources, Euler Hermes