

Strong growth but short-term vulnerabilities persist

General Information



GDP	USD202.6bn (World ranking 46, World Bank 2016)
Population	92.7mn (World ranking 15, World Bank 2016)
Form of state	Communist State
Head of government	Nguyễn Xuân Phúc
Next elections	2021, legislative



Strengths

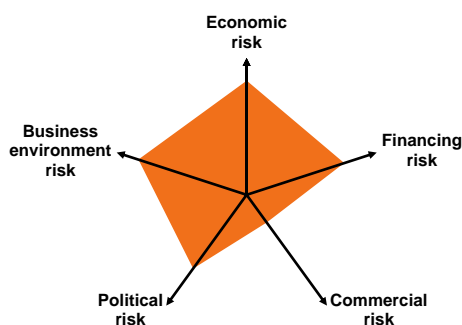
- Low wages but relatively skilled workforce
- Competitive manufacturing hub
- Development potential of various natural resources, especially minerals (iron ore, copper, gold) and energy (oil, natural gas, coal)
- Relatively open economy with growth model based on trade
- Ongoing shift towards higher value-added sectors

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	20% 1	27% China
China	14% 2	19% Korea, Republic of
Japan	8% 3	8% Japan
Korea, Republic of	6% 4	6% United States
Hong Kong	4% 5	6% Taiwan

By product (% of total)

Exports	Rank	Imports
Telecommunication and sound recording apparatus	19% 1	16% Electrical machinery, apparatus and appliances
Articles of apparel & clothing accessories	14% 2	9% Telecommunication and sound recording apparatus
Footwear	8% 3	8% Textile yarn and related products
Electrical machinery, apparatus and appliances	7% 4	5% Iron and steel
Fish, crustaceans, molluscs and preparations thereof	5% 5	5% Other industrial machinery and parts

Source: UNCTAD

Economic Overview

Solid growth ahead, improving business environment

Economic growth is set to grow by +6.7% in 2018. Activity is underpinned by strong exports performance and solid growth in domestic demand. The near term outlook is favorable as the economy benefits from a continued rise in investment inflows. Robust competitive advantages (cheap labour cost, e.g.) support an expansion of manufacturing and exports.

The long term outlook is also improving as the government steps up efforts to improve the business environment. Key measures include infrastructure development, the reduction of state involvement and improved business registration, tax payment and customs procedures. Against this background, Vietnam jumped 14 places to 68th out of 190 economies in the latest World Bank's Ease of Doing Business rankings. Moreover, the economy continues to improve its integration into the global economy with the implementation of new trade agreements (Vietnam-EU trade agreements).

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

The public debt is high compared to regional peers with a ratio to GDP above 60% GDP. The fiscal deficit is large as well, and is estimated at -5.8% of GDP in 2017. Looking ahead, fiscal risks are elevated with contingent liabilities from bank and SOEs reforms. We see modest improvement in the near term based on improved revenues as economic growth quickens and fiscal reforms as the government broadens the tax base and streamlines spending. Fiscal deficit should reduce slightly to -5.6% GDP in 2018.

On the financial side, macro prudential policies such as tightened ratios for real estate loans were implemented to reduce financial risks. Yet, banking risk remains elevated with limited progress in non-performing loans resolution: the total NPL ratio stood at 5.8% at end 2016 according to IMF estimates. Bank recapitalization efforts were sluggish while credit growth remains strong at above +15% y/y in 2017.

The external liquidity position is weak with foreign exchange reserves covering a mere 2-3 months of imports. External debt is high, close to 50% of GDP. The current account is in surplus but on a decreasing trend as imports grow at a strong pace in line with domestic demand dynamism. 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.

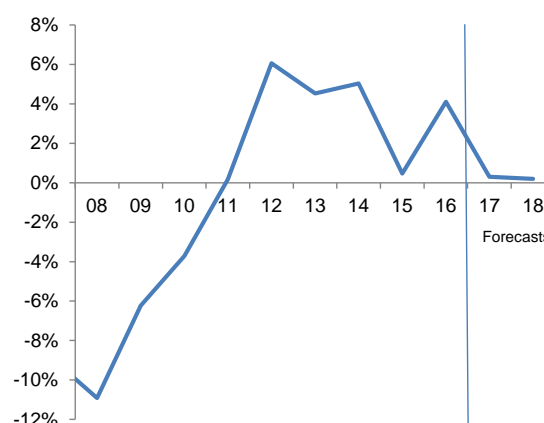
Key economic forecasts

	2016	2017e	2018f	2018f
GDP growth (% change)	6.2	6.5	6.7	6.7
Inflation (% , year average)	2.7	3.6	3.7	3.6
Fiscal balance (% of GDP)*	-6.6	-5.8	-5.6	-5.3
Public debt (% of GDP)*	60.7	61.5	63.4	63.8
Current account (% of GDP)	4.1	0.5	0.3	0.2
External debt (% of GDP)	47.8	49.5	50.0	50.0

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

Sources: IMF, Euler Hermes

Figure 1 – Current account balance (% GDP)



Sources: national sources, Euler Hermes

DISCLAIMER

These assessments are, as always, subject to the disclaimer provided below.

This material is published by Euler Hermes SA, a Company of Allianz, for information purposes only and should not be regarded as providing any specific advice. Recipients should make their own independent evaluation of this information and no action should be taken, solely relying on it. This material should not be reproduced or disclosed without our consent. It is not intended for distribution in any jurisdiction in which this would be prohibited. Whilst this information is believed to be reliable, it has not been independently verified by Euler Hermes and Euler Hermes makes no representation or warranty (express or implied) of any kind, as regards the accuracy or completeness of this information, nor does it accept any responsibility or liability for any loss or damage arising in any way from any use made of or reliance placed on, this information. Unless otherwise stated, any views, forecasts, or estimates are solely those of the Euler Hermes Economics Department, as of this date and are subject to change without notice. Euler Hermes SA is authorised and regulated by the Financial Markets Authority of France.

© Copyright 2017 Euler Hermes. All rights reserved.