
























Vietnam Country Report

November 2020

Robust growth rates have come to an end, but no contraction in 2020

Vietnam industries performance forecast

November 2020

| | | | | | |
|--|---|---|---|---|---|
|  Excellent: The credit risk situation in the sector is strong / business performance in the sector is strong compared to its long-term trend. | Agriculture | Automotive/ Transport | Chemicals/ Pharma | Construction | Construction Materials |
| |  |  |  |  |  |
| | Consumer Durables | Electronics/ICT | Financial Services | Food | Machines/ Engineering |
| |  |  |  |  |  |
| | Metals | Paper | Services | Steel | Textiles |
|  |  |  |  |  |  |
|  Good: The credit risk situation in the sector is benign / business performance in the sector is above its long-term trend. | | | | | |
|  Fair: The credit risk credit situation in the sector is average / business performance in the sector is stable. | | | | | |
|  Poor: The credit risk situation in the sector is relatively high / business performance in the sector is below long-term trend. | | | | | |
|  Bleak: The credit risk situation in the sector is poor / business performance in the sector is weak compared to its long-term trend. | | | | | |

Political Situation

Some strains in the relationship with China

The Vietnamese Communist Party remains firmly in power, despite some public discontent over the lack of personal freedom, government corruption and land seizures by the administration. Effective measures against the spread of the Coronavirus pandemic have increased the legitimacy of the government.

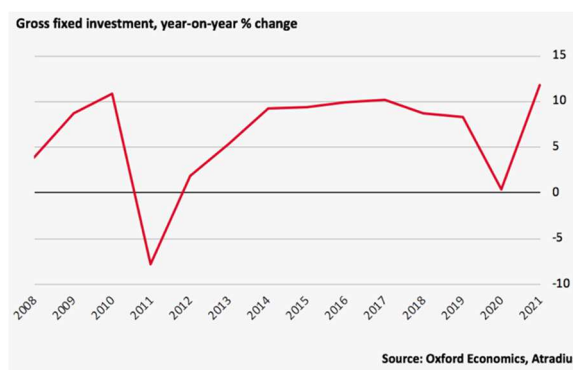
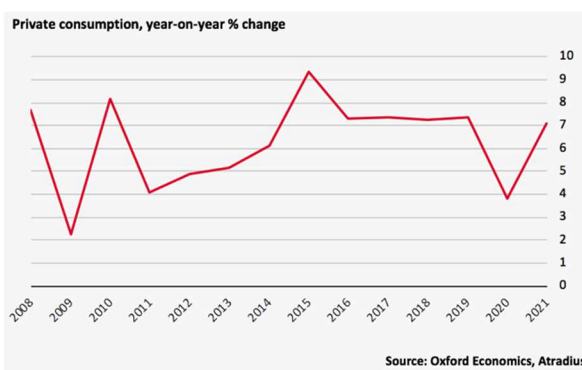
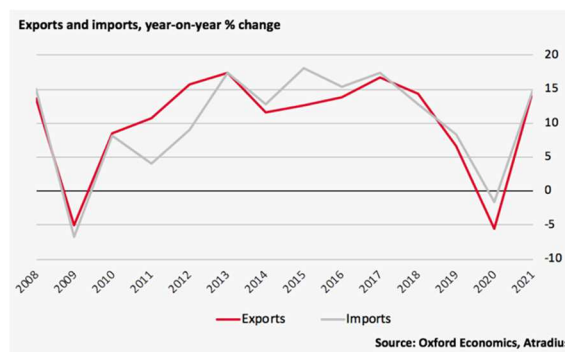
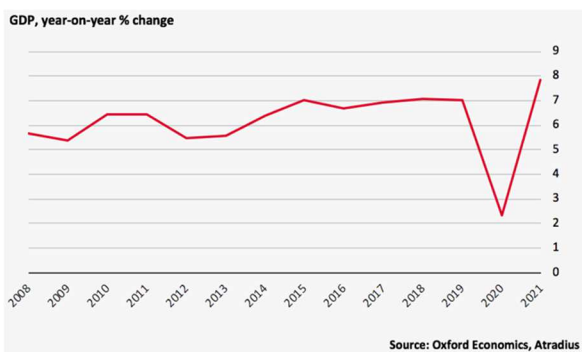
The fight against corruption is a key political issue, whereas other issues such as institutional reform and labour rights are not high on the agenda.

The territorial dispute with China over conflicting claims in the South China Sea remains a serious issue in the bilateral relationship for the future. Another issue is the construction of new dams in the Mekong River

by China (and Laos), which reduces the flow of essential water to Vietnam.

In order to counter growing Chinese assertiveness, Vietnam is keen to improve its political and security cooperation with the US and Japan. However, despite enhancing its naval forces, Vietnam lacks the military capability to pose a serious challenge to any Chinese actions. At the same time, China is an important and powerful trade partner, which accounts for 14% of exports and 24% of imports (Vietnam's manufacturing sector depends heavily on raw materials imported from China). Moreover, given the ideological similarities of the regimes in both countries, there is still a strong pro-China faction within Vietnam's Communist Party.

Economic Situation



Robust growth rates have come to an end, but no contraction in 2020

Despite the success so far in containing the spread of coronavirus due to comprehensive contact tracing, isolation and quarantining, the economic performance is severely impacted by the pandemic. After annual GDP growth rates of about 7% over the past five years, economic growth is expected to slow down to 2.3% in 2020. However, despite this decrease, Vietnam is one of the few economies in the world that is not facing a contraction this year.

Investments and private consumption growth are expected to slow down this year, to 0.4% and about 4% respectively. Due to the global economic slowdown, exports are forecast to contract 5.5% in 2020 after robust annual growth rates 2019 and 2018.

Inflation is expected to increase above 3% in 2020 and 2021. A swine flu pandemic has put upward pressure on prices, but Vietnam's strong

currency and low oil prices help to keep inflation at a manageable level.

Fiscal and monetary measures taken to support the economy

In order to sustain the economic performance, the Central Bank has lowered the benchmark interest rate to 4.5%, supporting banks and facilitating loans. Additionally, an increase of more than 7% in government consumption helps the economy. The government has launched tax breaks for businesses, as well as cash transfers to the poorest households.

As a result, the fiscal deficit is expected to increase substantially in 2020, by more than 5%, with public debt rising to 49.5% of GDP in 2019, remaining at a manageable level. In 2021 the fiscal deficit will decrease to below 4.5% of GDP, while public debt will rise slightly before falling in the years to come. Contingent liabilities continue to weigh on the public finances.

Vietnam's foreign debt structure is stable (long maturities and financed by public creditors over the past couple of years) and expected to decrease further in the coming years. Foreign exchange reserves have increased since 2015, and are sufficient to cover external financing requirements.

A strong rebound is expected in 2021, but downside risks remain

Currently, it is expected that the economy will rebound by more than 7% in 2021, with exports and investments increasing at double-digit rates. However, another longer-lasting surge of the pandemic and an ongoing global economic slump in the coming months pose a major downside risk for Vietnam's economic performance next year. As the open economy is heavily dependent on external trade, this could have significant knock-on effects. Additionally, rising protectionism (e.g. another escalation of the Sino-US trade war and potential US protectionist measures against Vietnam itself) could hurt the economy.

In the banking sector, it is estimated that the ratio of non-performing loans is currently rather high, between 5% and 10%. Additionally, an increasing household loans portfolio has made banks more vulnerable to a downturn of the housing market. Other structural weaknesses in the sector include political influence, corruption and weak data quality. The capital adequacy ratios differ substantially between private-owned banks (sufficient at around 14% in 2018) and state-owned banks (low at around 9%). Pandemic-related policies that force banks to be lenient towards debtors put pressure on the profitability of the banking sector, especially on state-owned banks.

Good prospects in the medium-and long-term

Vietnam is the main low-cost regional alternative to China for export-orientated manufacturing. The shift of export manufacturing from China to Vietnam already took off before the Sino-US trade war, due to Vietnam's relatively low production costs, especially in the ready-made garments (RMG) sector. This trend accelerated in 2019 as the country benefited from trade diversification triggered by the trade conflict. Besides textile production, the manufacturing of consumer goods and ICT products are increasingly shifting from China to Vietnam. Additionally, the trend to move production away from China could be accelerated by the coronavirus-related supply chain disruptions in H1 of 2020 that affected many companies around the world.

Supporting factors besides lower production costs are the fact that Vietnam is already part of several value chains, has a strong road, rail and port infrastructure and participates in several free-trade agreements (the most recent one with the EU will probably come into force in summer 2020). Strong investment promotion and the existence of special economic zones make Vietnam attractive for companies looking to start new production sites or to expand existing ones. This should lead to robust investments and exports in the coming years. Vietnam's long-term growth potential should benefit from a progressing (albeit slowly) privatisation process, which also allows an increased foreign ownership of domestic companies.

Some structural weaknesses remain

Despite increasing opportunities for exporters and investors, the Vietnamese business environment and investment climate is still hampered by red tape, weak institutions, infrastructure issues and corruption.

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