



VIETNAM

**ECONOMY RESTRUCTURING
CHALLENGES & OPPOTUNITIES**

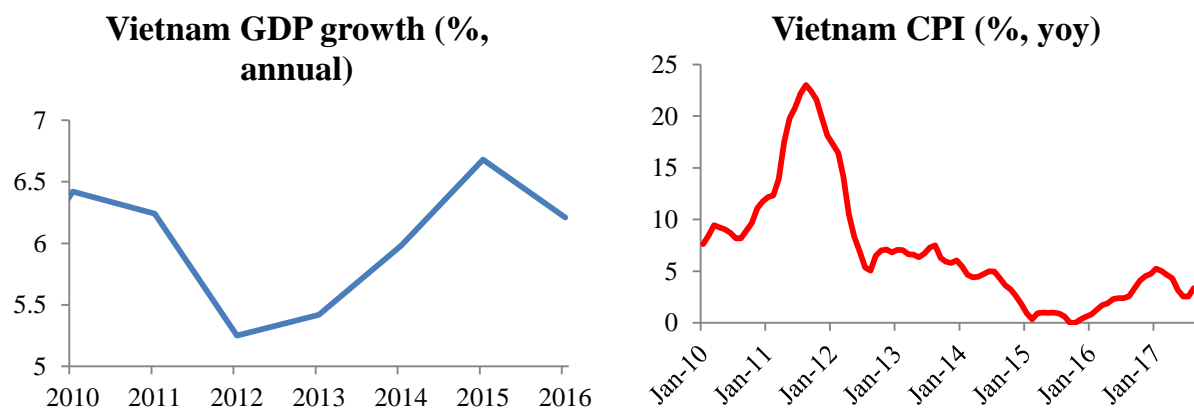
The global financial crisis in 2008 coupled with increasing internal instability of the macro-economy has prompted the Vietnamese Government to implement the economic restructuring process. The government has constructed and implemented an overall restructuring plan with the first phase 2011-2015 and the second phase 2016-2020, focusing on 3 major areas state-owned enterprises, public investment and credit institutions. After 6 years, though several problems remain unsolved, Vietnam economy has moved positively with a lot of noticeable results.

1. Macro economy has moved positively, improved in both quantity and quality

+ GDP & CPI:

GDP growth rate has been increasing steadily since 2012 as restructuring plan came in to action. Though GDP in 2016 decreased slightly due to slower activities in mining sectors, it is predicted to resume to level of 2015 (6.7%) in 2017 as business increasing output production. Total GDP in current price reached above 200 billion USD in 2016, increased by 50% in comparison with 2011.

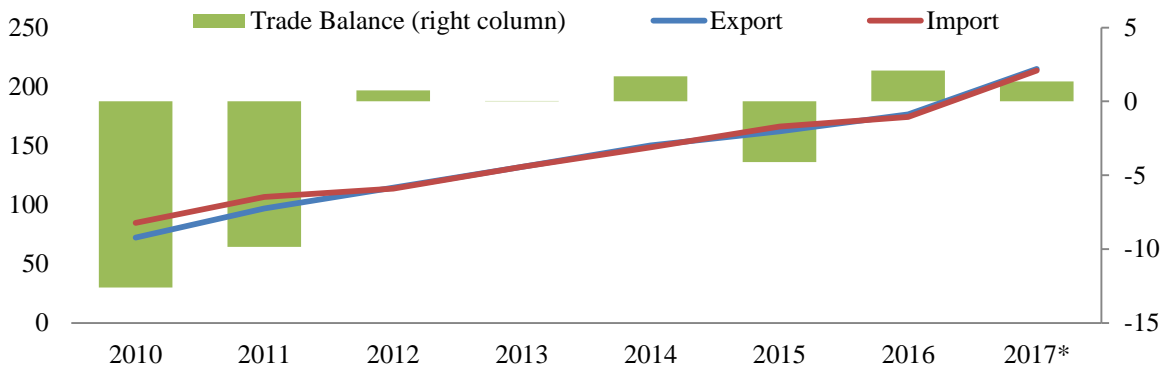
Besides, Inflation has downward trend, under well-controlled by the Government. CPI yoy went down dramatically from 18% in 2011 to only 2.6% at the end of 2016.



Source: Source: General Statistics Office of Vietnam

+ **Trade balance:** Export has been growing at 16% annual rate during 2010-2016 period while import grew at slower pace of 11%, which still higher than other neighbour countries. Merchandise trade balance has been reverted from net import to net export in recent year, which in turn supported a stable VND against major currencies such as USD and encouraged bussiness to invest money to Vietnam, knowing that devaluation is no longer a threat to their profit.

Import - Export turnover and Trade balance of Tangible goods

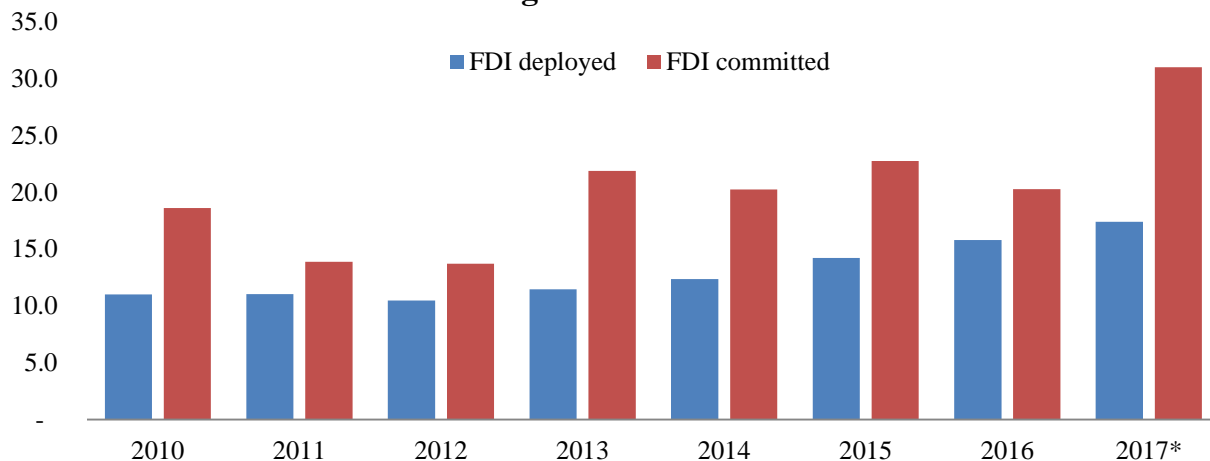


2017 is forecasted using actual import-export statistic of 10 months and yoy growth rate.

Source: General Department of Vietnam customs

+ **FDI Attracting:** Foreign direct investment has been pouring into Vietnam as this country has actively been joining many bilateral and multilateral trade agreement (such as TPP, EVFTA, CVFTA, JVFTA, etc..) and optimistic macroeconomic outlook. The commitment and disbursement FDI have been growing impressively since 2010 and reached a new record in 2017. Moreover, with a population at the “golden peak” as youngest entering labor market, equipped with higher education background than previous generations, and cheaper cost compared to China, companies are encouraged to move their production to Vietnam in order to take advantage of labor forces and strategic position as logistic hub in the region.

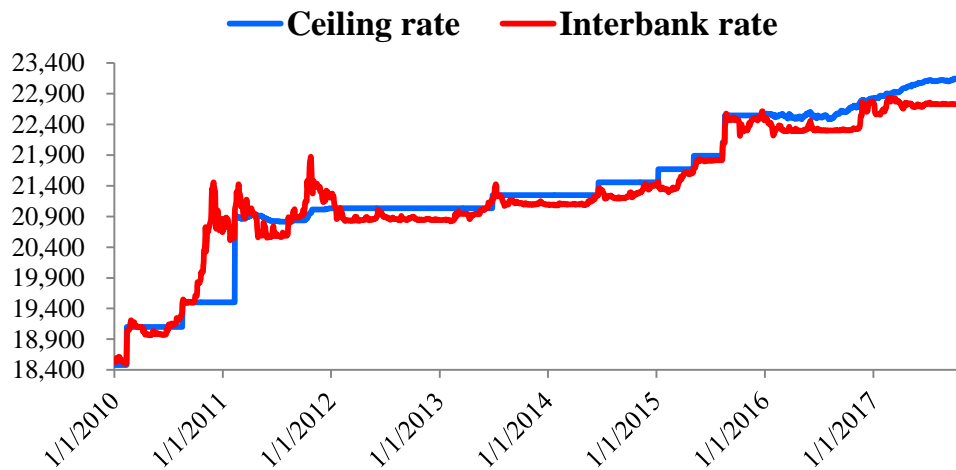
Annual FDI registration and disbursement



2017 is forecasted using actual FDI statistic of 10 months and BIDV’s model

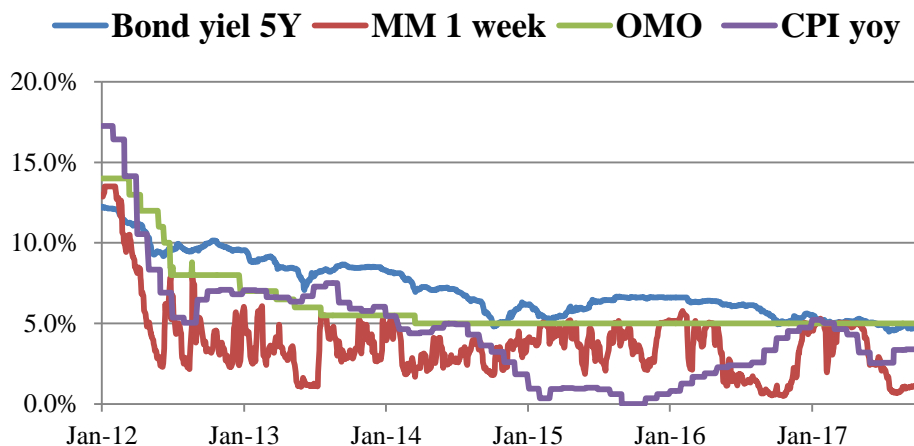
Source: Vietnam Ministry of Planning and Investment.

+ **FX market:** Foreign exchange market has stabilized due to macro stability, improved trade balance and abundant FDI, FII inflow. VND depreciation rate against USD slowed down to around 1.5% per year in the period 2012-2017 in comparison with above 5% of the period 2009-2011.



Source: State Bank of Vietnam and BIDV

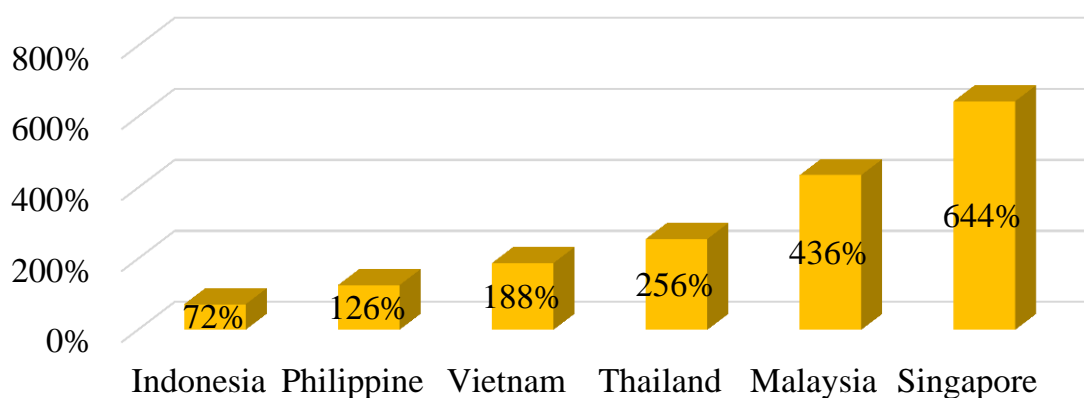
+ **Banking system:** The banking system has been running smoothly and the interest rates have been reduced. The liquidity of the banking system has improved considerably since 2011 and has maintained its abundance, especially since 2016. This is due to main reasons: loosening monetary policy of SBV; sustained credit growth since 2012 and GAP of Deposit and Lending has shifted from negative in 2013 to positive since then.



Sources: VBMA, Reuters, GSO

+ **Capital market:** The sizes of Vietnam stock market and the bond market have made significant strides. The growth of Vietnam stock market capitalization from 2008 to 2012 was 52.77%, much faster than the growth rate of 19.34% of period 2013-2016. Compared with countries in the region, the average growth rate of capitalization on Vietnam stock exchange is always higher than in the region (37% in 2008-2012, 3.8% in 2013 -2016). The bond market has grown in both size and liquidity. The size of the outstanding bond portfolio by the end of Sept 2017 has increased five times from 2009, to around \$ 44 billion

**Total assets of financial sector/GDP
(Including Outstanding Credit + Bond + Stock)**



Sources: WB, IMF, UBGSTCQG (NFSC).

+ **Vietnam's overall business environment rating is improved:** According to annual survey by World Bank, Vietnam business environment has improved significantly since 2015. However, the current ranking of Vietnam is lower than some countries in the region such as Thailand and Malaysia.

Year	Business Environment Ranking of Vietnam	Total number of countries surveyed
2018	68	190
2017	82	190
2016	90	189

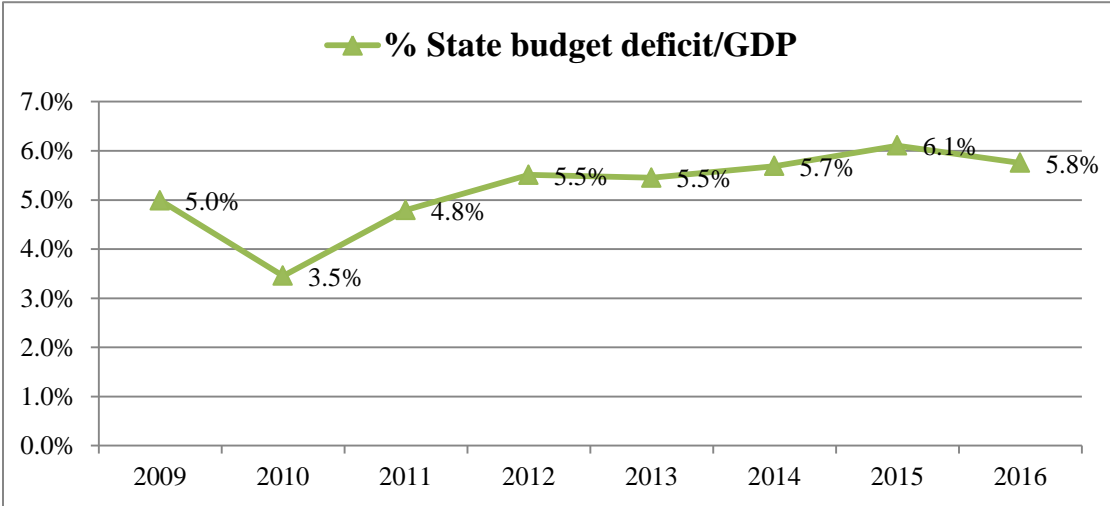
2015	78	189
2014	99	189
2013	99	185
2012	98	183
2011	90	182
2010	88	183
2009	92	181

Sources: WB

2. Apart from the achievements, there are some major limitations

- **Labor productivity remains low, capital-intensive growth:** On the one hand, Total Factor Productivity (TFP) has contributed significantly to Vietnam GDP, from 3.04% in 2006-2010, to 25.8% for the period 2011-2014. However, this is only one-third of Thailand and half of the Philippines and Indonesia. On the other hand, Vietnam's overall investment/ GDP ratio fell to around 32% during 2011-2015, but remains high compared to other regional countries (only lower than China's 38% and 34% of Indonesia)

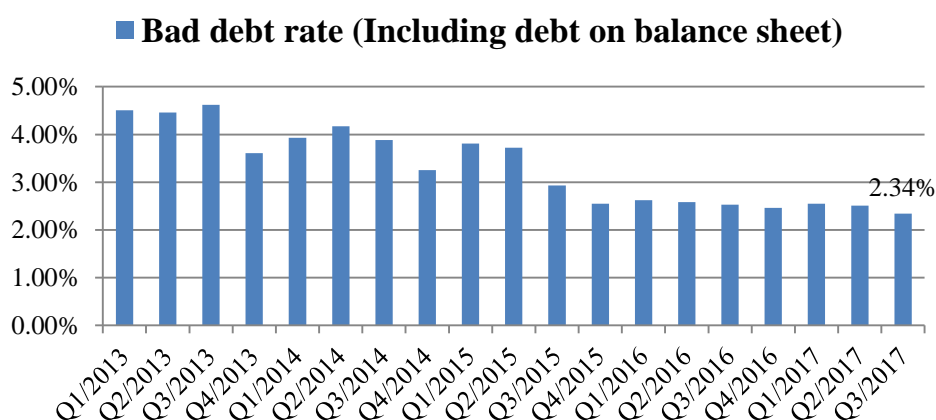
- **The challenges of State budget and public investment:** State budget has always been in deficit, putting pressure on public debts. Despite still under the ceiling 65%, total public debt ratio on GDP has increased sharply from 48% in 2012 to 62.4% in 2016. Especially, the structure of expenditure is not sustainable due to high ratio of regular expenditure and loan repayment while investment expenditure accounts for 20% of total expenditure.



Source: General Statistics Office of Vietnam

- **Process solving bad debt remains challenging:** The process solving bad debt of

Vietnam banking system still encounters various obstacles. Official bad debt rate of Vietnam banking system decreased in the past 4 years, to 2.34% in the 3rd quarter of 2017 but if counting in VAMC bonds (bad debts sold to VAMC) and potential bad debts, this rate will be around 8.6% . Looking back at historical data from 2012 to Sept 2017, the whole system actually processed 400 trillion VND of bad debts (~18 billion USD) , equivalent to an annual average of 70 trillion dong (~3 billion USD). This figure is still modest compared to the NPLs that need to be dealt with (including potential bad debts) of about VND 566 trillion (~25 billion USD) by the end of Sept, 2017.



Source: State Bank of Vietnam

3. Current progress and future implementation of restructuring plan:

As mentioned above, the restructuring plan is entering its second phase which started in 2016 and wil last until 2020. The progress until now is quite positive as government committed to pursuing the plan such as:

- The governance structure continued being reformed in effort to improve working productivity in government area, also previously corrupted officers are prosecuted to improve work ethic and transparency.
- Ministries have been cutting back conditions for doing business to help promoting healthier business environment and encourage entrepreneurship.
- Technology is utilized to improve workflow in government sector, which will cut the time and labor to comply to the law to one-half of previously required. Moreover, applying social media such as facebook and other social networks help government to listen to its people and receive feedback, which in turn increase the overall satisfaction of citizen.

- More economic reforms will be followed with start-up business encouraged, favorable conditions for attracting foreign investment.
- State own enterprises are going through a equityization process which will bring changes in to managerial system. With non-government shareholders, especially strategic investors, having bigger shares of the company, thus increasing their interests and power in decision making process, these enterprise will be able to transform into more productive and competitive entities. Furthermore, with the cashflow from selling its stake in these company, government will have more room to pusuing policy which will help improving the overall economic productivity by investing in infrastrucutre or basic research.
- State Bank of Vietnam also committed to maintain stable domestic currency against USD while lowering lending rate, which will help business lower their financial cost, improve profit and be able to invest more in R&D. The Basel II will be pilloted among 10 local banks from 2018 and planned to fully adoptable by 2020 by Vietnam banking system also showed signs of a stronger financial system with more transparency and operating more closely with international standard.

Vietnam government set out some quantitative targets such as:

- GDP expected to grow at 6,5-6,7% during 2016-2020 period
- Inflation (measured by average CPI) less than 4% at the beginning of period and reduce to 3% by 2020.

With all of these reforming, it is believed that Vietnam will become one of the 20 biggest economies in the world by 2050 (PwC, Vietnam Business Summit 2017, 7th Nov). Though there are issues which will be difficult to tackle even after the second phase, Vietnam is being in the right track to become a major economy and play a key role in the development of regional and global economy.