

## Fast economic growth but short-term weaknesses prevail

### General Information



<b>GDP</b>	USD186.2bn (World ranking 55, World Bank 2014)
<b>Population</b>	90.7mn (World ranking 14, World Bank 2014)
<b>Form of state</b>	Communist State
<b>Head of government</b>	Nguyen Tan DUNG
<b>Next elections</b>	2016, legislative



### Strengths

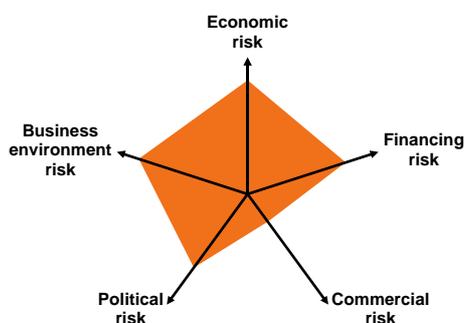
- Low wages but skilled workforce
- Relatively open economy with growth model based on trade
- Strong performance in agriculture and potential with various natural resources, especially minerals (iron ore, copper, gold) and energy (oil, natural gas, coal)
- Ongoing shift towards higher value-added sectors
- 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	20%	1	30%	China	
China	10%	2	15%	South Korea	
Japan	10%	3	9%	Japan	
South Korea	5%	4	7%	Taiwan	
Germany	4%	5	5%	Thailand	

By product (% of total)

Exports		Rank		Imports	
Telecom. Equipt.	14%	1	13%	Electrical machinery	
Articles of apparel	13%	2	10%	Textile yarn	
Petroleum products	8%	3	9%	Petroleum products	
Footwear	7%	4	8%	Telecom. Equipt.	
Fish, crustaceans	6%	5	6%	Iron and steel	

Sources: National statistics, UNCTAD

## Economic Overview

### Fast economic growth ahead

GDP growth accelerated in 2015 supported by both investment and private consumption. Net trade performance weakened, reflecting high import growth compared to exports. Short-term economic prospects are well oriented so far. A pro-growth policy mix (accommodative monetary policy and relaxed fiscal policy) coupled with improving increasing incomes and solid private sector confidence will allow for a further increase in domestic demand. Exports will likely rise but at a gradual pace reflecting moderate acceleration in external demand growth and weak commodity prices. GDP growth is set to pick up speed to +6.5% by 2017. In the longer term, the economy may maintain a fast-growth pace with the implementation of the Trans-Pacific Partnership.

### Public finances are on a downward trend

Fiscal policy turned accommodative to counter an economic downturn in 2012-2013. High fiscal deficits have pushed public debt to over 60% GDP. Going forward, 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 a further reduction in corporate income tax planned in 2016 (20% from 22% in 2015), and still solid growth of public expenditures.

### External conditions and banking risk to be watched carefully

The external liquidity position is weak with FX reserves covering hardly 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 weakened in 2015 as imports (led by high domestic demand) growth outpace 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 fallen with improving liquidity (higher FDI, accommodative monetary policy) and lower NPL (2.9% in Q3 2015 vs. a 3% end-year target). However, a cause of concern still stems from weak profitability and low capital buffers.

### Business environment is improving

The business environment is improving at a gradual pace. Vietnam's standing on the Ease of Doing Business ranking improved to 90<sup>th</sup> (from 93<sup>rd</sup>) over the past year. In particular, progress was made on the tax environment (+4 positions) and insolvency resolution (+2 p). 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.

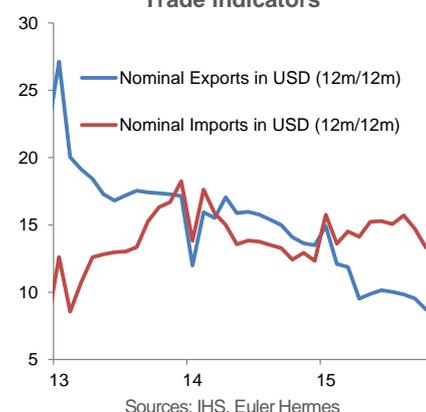
### Key economic forecasts

	2014	2015f	2016f	2017f
GDP growth (% change)	6.0	6.4	6.4	6.5
Inflation (% , year average)	4.1	0.9	3.4	4.0
Fiscal balance (% of GDP)*	-6.1	-6.8	-6.5	-5.6
Public debt (% of GDP)*	57.2	61.2	63.7	66.1
Current account (% of GDP)	5.1	0.1	-0.6	0.8
External debt (% of GDP)	38.6	39.1	39.7	38.9

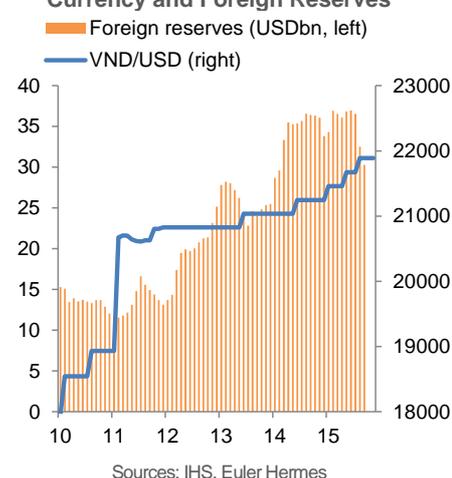
\* Fiscal balance and public debt refer respectively to general government net lending and general government debt as defined by the IMF.

Sources: National sources, IMF-WEO, IHS, Euler Hermes

### Trade indicators



### Currency and Foreign Reserves



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