Fitch Ratings
KNOW YOUR RISK

Sovereigns

Full Rating Report

Vietnam

Ratings

Foreign Currency	
Long-Term IDR	B+
Short-Term IDR	B
Local Currency	
Long-Term IDR	B+
Country Ceiling	B+

Outlooks

Foreign-Currency Long-Term IDR	Stable
Local-Currency Long-Term IDR	Stable

Financial Data

Vietnam

(USDbn)	2009
GDP	96.4
GDP per head (USD 000)	1.1
Population (m)	88.1
International reserves	16.8
Net external debt (% GDP)	9.3
Central government total debt (% GDP)	43.9
CG foreign-currency debt	20.5
CG domestically issued debt (VNDbn)	354,054

Analysts

Ai Ling Ngiam
+65 6796 7216
ailing.ngiam@fitchratings.com

Vincent Ho
+852 2263 9921
vincent.ho@fitchratings.com

Related Research

Applicable Criteria
- *Sovereign Rating Methodology* (October 2009)

Other Research
- *Global Economic Outlook* (July 2010)
- *Sovereign Review and Outlook* (June 2010)
- Macro-Prudential Risk Monitor (June 2010)
- *Declining Confidence in the Vietnamese Dong* (March 2010)
- *Vietnam* (July 2009)
- *Country Ceilings* (September 2008)
- *Guide to Sovereign Credit Report* (October 2008)
- *Socialist Republic of Vietnam (June 2008)*

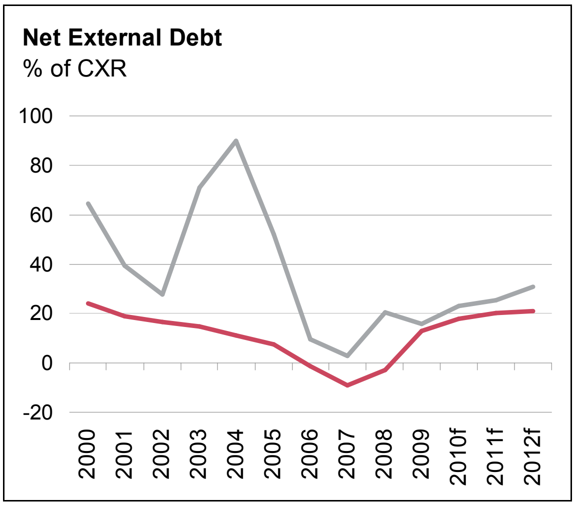
Rating Rationale

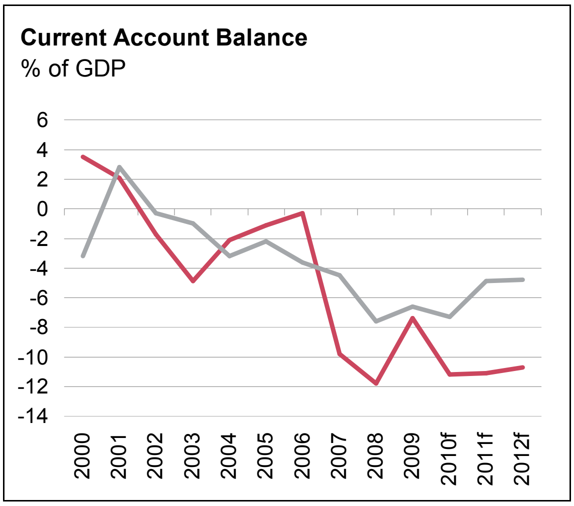
- Fitch Ratings has downgraded Vietnam's ratings from 'BB−' to 'B+' and revised the Rating Watch Negative (RWN) assigned on 12 March 2010 to a Stable Outlook. Vietnam's sovereign creditworthiness has deteriorated on the back of weaker external finances and rising external financing requirements amid an inconsistent macroeconomic policy framework, a highly dollarized economy and a weak banking system.
- During April-June 2010, the authorities managed to engineer an increase in foreign-currency (FC) placements into the financial system, easing earlier excess FC demand and bringing about some semblance of stability in the Vietnamese dong (VND) in both the official and the black markets. During this period, the State Bank of Vietnam (SBV) purchased foreign assets from the banking system, marginally adding on to the USD13.8bn trough in official foreign exchange reserves (FXR) in March 2010.
- However, Fitch does not believe that Vietnam's external finance position has stabilized as yet. For the third successive year, more stable, net long-term capital flows (direct and portfolio investments) may fall short of covering the current account deficit (CAD), which is expected to stay wide at over 10% of GDP in 2010. Repatriation of external assets by state-owned enterprises also suggests that the rise in FXR so far this year may not be sustainable. In addition, a swing in the public's confidence against the VND may lead to a recurrence of large errors and omissions (E&O) in the balance of payments (BOP) accounts that can further weigh down on overall FXR.

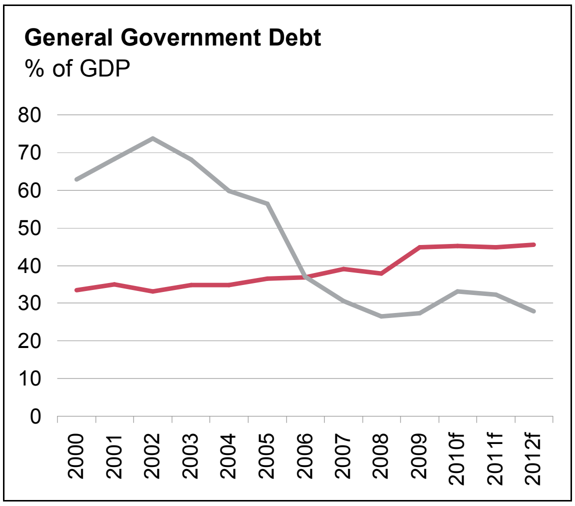
Key Rating Drivers

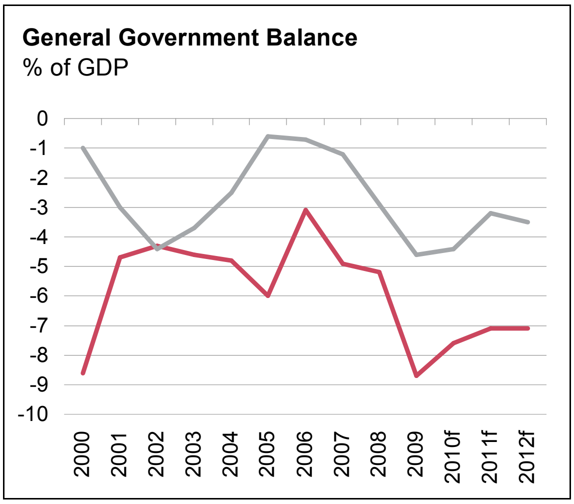
- The authorities' stop-go efforts at policy tightening and easing have been ad-hoc, reactive and inconsistent. The authorities' policy framework of balancing act of achieving growth targets, lower inflation and sustainable external finances within the context of a fixed exchange rate regime is conflicting. Risky policy mis-steps could lead to further balance of payments (BOP) pressures.
- Information deficiency and inconsistent economic objectives risk magnifying the volatility in Vietnam's economy and financial markets. Sudden currency depreciation risks exacerbating losses of un-hedged entities including banks and the private sector. Furthermore, heightened liquidity stresses that may arise within the banking system and/or bank recapitalisation needs (in the event of a sharp upturn in non-performing loans (NPLs) or special-mention loans (SMLs)) point to a possible further burden on the general government (GG) debt.
- Vietnam's heavy reliance on oil revenues as well as its fiscal spending needs remain structural weaknesses of Vietnam's sovereign creditworthiness. The government has been vulnerable to difficulties in raising domestic financing during Q1 2010. This domestic financing ability may weaken should the GG domestic debt increase or the inflationary profile worsen.
- At the 'B' rating category, Vietnam's sovereign fundamentals are supported by multilateral and bilateral creditors' support and significant gains in income per capita following the introduction of the "doi moi" policy in 1986. Upward pressure on the sovereign ratings would arise from improvements in both external and public finances amid a more consistent macroeconomic policy framework.

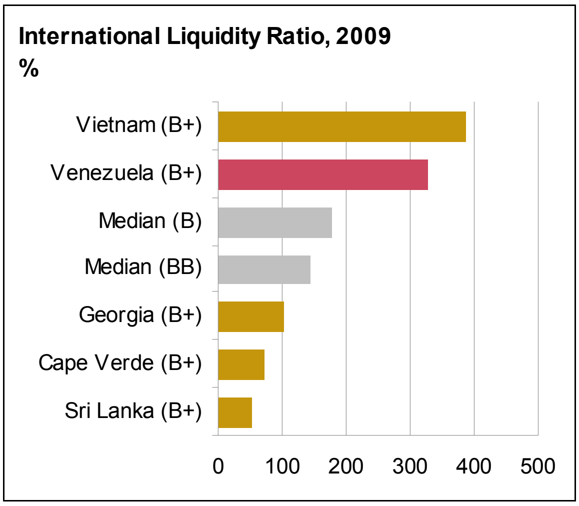
Peer Comparison

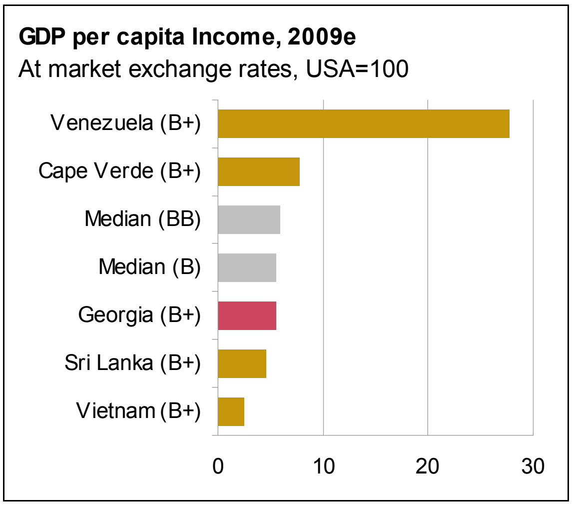












Vietnam Medians

Rating Factors

Peer Group

Rating	Country
BB-	Armenia
	Gabonese Republic
	Lesotho, Kingdom of
	Nigeria
	Serbia
B+	**Vietnam**
	Angola
	Cape Verde
	Georgia
	Ghana
	Kenya
	Sri Lanka
	Venezuela
B	Argentina
	Benin
	Bolivia
	Cameroon
	Dominican Republic
	Lebanon
	Mongolia
	Mozambique
	Suriname
	Uganda
	Ukraine

Rating History

Date	Long-Term Foreign Currency	Long-Term Local Currency
28 Jul 10	B+	B+
30 Jun 09	BB-	BB-
12 Jun 02	BB-	BB

Summary: Strengths and Weaknesses

Rating factor	Macroeconomic	Public finances	External finances	Structural issues
Status	Neutral	Neutral	Neutral	Neutral
Trend	Stable	Stable	Negative	Stable

Note: Relative to 'B' category
Source: Fitch

Strengths

- Vietnam receives strong support from multilateral and bilateral creditors. Most of the public sector external debt is contracted on a long-term concessional basis. Accordingly, the external debt and interest service in current external receipt (CXR) terms are stronger than the 'B' medians.
- The authorities' pro-growth developmental stance has steadily improved the business climate and lowered the incidence of poverty in both rural and urban areas. Income per capita rose by over 165% from 1986-2009, following the introduction of the economic renovation ("doi moi") policy in 1986, increased trade openness after the 2001 trade agreement with the US and its participation in the World Trade Organization as a member since 2007.

Weaknesses

- Vietnam's external finances have deteriorated amid an inconsistent policy framework, highly dollarized economy and a weak banking system. Following a sharp FXR deterioration, Fitch estimates Vietnam's FXR cover will moderate to only 2.1 months of current external payments (CXP) in 2010, comparing with the B median of 4.9 months. This is the lowest CXP cover among all fixed exchange regimes rated by Fitch. Vietnam has reverted from a net external creditor to a debtor position since 2009.
- While investment spending supports economic growth, over-dominance by investments raises the risk of at lease some projects generating returns that are below the cost of capital. The risk is more pronounced during an economic downturn. Sovereign exposure to overinvestment runs mainly through the state budget and to a lesser extent, via state-owned enterprises (SOEs).

Local Currency Rating

The Local-Currency (LC) Long-Term IDR of the government of Vietnam is 'B+', on par with the FC Long-Term IDR. The sovereign may not necessarily finance itself more readily in VND than in FC due to its weak public finances, shallow domestic capital market and limited monetary flexibility to monetise LC debt obligations (due to its relatively high and volatile inflation profile), although the sovereign may enforce moral suasion on the state-owned commercial banks (SOCBs) to purchase government paper. Indeed, the authorities encountered difficulties in raising domestic financing during the November 2009-March 2010 period as the Treasury failed to meet investor expectations of lowest and highest yield bids submitted.

Country Ceiling

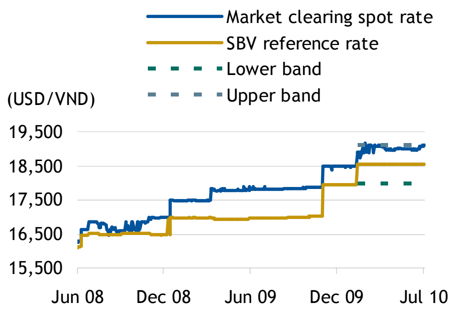
While Vietnam maintains an exchange system free of restrictions on current international transactions, the capital account is not liberalised as there are restrictions on outflows which are closely administered through the usage of specialised bank accounts. There is no guarantee that local banks will always have sufficient foreign exchange to meet the corporate sector's demand for foreign currency. In addition, the Vietnamese financial system is highly dollarised. In accordance with Vietnam's fixed exchange rate regime and practice of capital controls, Fitch judges the Country Ceiling, which captures transfer and convertibility risk, to be aligned with the FC Long-Term IDR, at 'B+'.

Outlook and Key Issues

Foreign Exchange Market Stability Not Secured

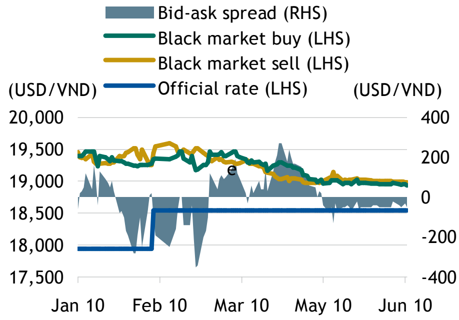
During April-June 2010, there was some semblance of stability in the Vietnamese dong. The market clearing spot rate traded within the upper limit of the State Bank of Vietnam's (SBV) daily reference rate trading-band of ±3% during April-June 2010. In addition, after transacting outside the band on the weak side for several months and by as much as 3.6% in February 2010, the black market rate traded inside the band over the same period. Furthermore, the wide bid-ask spread in the black market narrowed during May-June 2010, signalling exchange rate demand and supply conditions have stabilised. However, in July 2010 there were renewed pressures in the black market.

Spot vs. Reference Rate



Source: Bloomberg, Fitch

Black Market vs. Official Rate



Source: Fitch

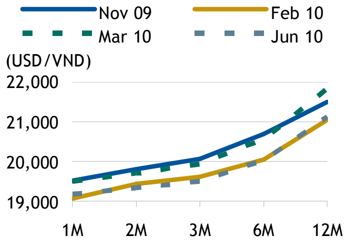
In June 2010, the non-deliverable forward (NDF) outright contracts cash settled in USD by counterparties factored a less severe VND devaluation risk in the year ahead compared to the November 2009 and March 2010 periods. Authorities attribute the following measures to have helped stem USD shortage and VND weakness: the closure of gold trading floors and residents' gold trading accounts abroad starting 30 March 2010; the 1% interest rate ceiling on USD deposits by businesses; the surrender of FC by seven of the largest state-owned companies (SOCs) to credit institutions to boost onshore USD supply; and the lowered amount of compulsory dollar reserves that banks need to set aside.

Furthermore, since April 2010, commercial banks' deposit rates at 11%-11.5%, providing scope for mildly positive real returns of about 2% on VND deposits. This compares favourably against prior periods during January-April 2009 and November 2009-March 2010, when recommended real deposit rates were either negative or on a declining trend, which resulted in USD hoarding and VND weakness. According to the SBV, total FC deposits in commercial banks rose 0.61% at May 2010 from end-2009.

Following the increased availability of USD through the public's deposit placements in the banking system and caps on FC loans starting June 2010 to limit USD demand, the SBV stabilised the average interbank VND/USD at 18,544 and actively bought foreign currency at the exchange rate of 18,980, marginally adding to the USD13.8bn trough in official FXR in March 2010.

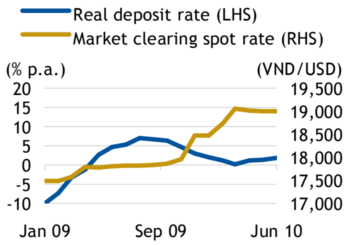
Foreign exchange market stability has not been fully secured. The central bank reported in early July 2010 that sentiment had turned against the VND again since late June 2010. In early July 2010, the VND/USD spot rate resumed its test of the upper limit of the SBV's daily reference rate trading-band, which was reportedly attributed to USD purchases to meet maturing FC loans. Efforts to stabilise the VND level to improve sentiment on the currency during periods of heightened volatility risks weighing down further on the FXR level.

NDF Outright



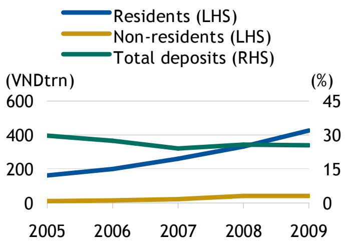
Source: Bloomberg, Fitch

Real Deposit Rate & VND/USD



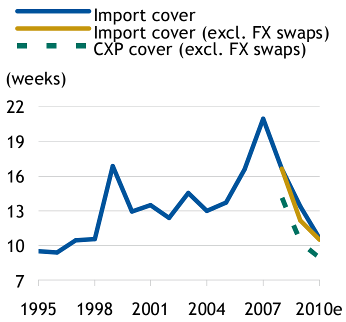
Source: SBV, Fitch

Foreign Currency Deposits



Source: SBV, Fitch

FX Reserves Cover



Source: Fitch

External Finances Still Weak

More importantly, Fitch does not believe that Vietnam's external finance position has stabilized as yet. Fitch forecasts Vietnam's FXR excluding gold to drop significantly from USD23.9bn in 2008 to USD14.9bn in 2010. Fitch estimates that Vietnam's FXR cover may drop to 10.6 weeks of merchandise imports in 2010, compared with 13.4 weeks in 2009. Excluding FX swaps, which the SBV has undertaken since 2008, Fitch estimates the FXR cover at only 10.5 weeks of CXP in 2010, which is the lowest since 1998.

The Fitch international liquidity ratio — FXR plus banks' external assets relative to short-term debt and debt service — is forecast at 321% for 2010, compared with the 198% 'B' median, suggesting a comfortable external liquidity position. However, including potential dollarisation risks arising from deposit money banks' FX deposit liabilities, Vietnam's liquidity ratio is estimated at 69% in 2010, the lowest level in over a decade. Of concern, gross external financing requirements (GXFR) have jumped from 37% in 2009 to 79% of FXR in 2010, following the FXR deterioration. Including short-term external debt, Vietnam's GXFR is forecast to reach 106% of FXR in 2010. This would increase Vietnam's vulnerability to changing external financing conditions.

Excluding an USD1bn 10-year global bond issuance in January 2010, Fitch estimates that the basic balance was about par at only USD75mn during Q110. Accordingly, for the third successive year, more stable, net long-term capital flows (direct and portfolio investments) may fall short of covering the CAD, which is expected to stay wide at over 10% of GDP. This indicates that the economy is increasingly reliant on external borrowings and points to an increasing need for the sovereign to raise funding through both debt and non-debt creating flows through disbursements of bilateral and multilateral official development assistance and foreign direct investment (FDI) flows to mitigate BOP risks.

External Finances: Sources and Uses

(USDbn)	2009	2010f	2011f	2012f
Uses	**8,988**	**13,256**	**14,783**	**15,854**
Current account balance	7,156	11,498	12,793	14,173
MLT amortisation	1,832	1,758	1,990	1,681
Sovereign	609	738	752	776
Non-sovereign	1,223	1,020	1,238	905
Sources	**8,988**	**13,256**	**14,783**	**15,854**
Gross MLT borrowing	6,493	3,608	4,340	4,281
Sovereign	1,556	1,450	1,450	1,450
Non-sovereign	4,937	2,158	2,890	2,831
Net FDI	6,900	7,200	7,700	9,200
Net portfolio debt	-423	1,250	1,000	1,000
Net portfolio equity	128	750	1,000	1,000
Other credit flows nes	150	150	150	150
Net E&O	-12,426	-1,298	0	0
Change in FX reserves	8,166	1,596	593	223

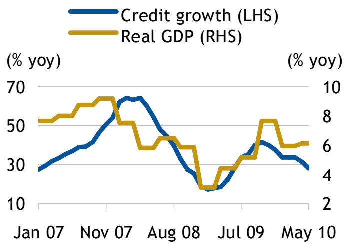
Source: Fitch

On a more positive note, accelerated remittance flow amounting to USD3.84bn in H110 compared with USD2.96bn in H109 help to support the current transfers account and buffer the wide CAD position. Fitch estimates the CAD would have been on average 3x larger without remittance flows during the 1990-2010 period. In addition, the country has access to a 5x purchasing multiple of its USD1bn financial contribution to the USD120bn Chiang Mai Initiative swap facility that was launched in May 2009, if the need arises.

Risks of Pre-Mature Easing

Despite the authorities' prioritisation of economic stability and to prevent inflation from escalating, the government's stated target of 6.5% annual GDP growth for 2010 remains. Following the H110 GDP growth of 6.1% yoy, Fitch estimates that the

Credit to the Economy



Source: IFS, Fitch

economy is required to grow faster — by at least 6.8% yoy in H210 — to reach the target growth rate. This is against an unrealistic annual average CPI goal of "below 7%", compared with above-target inflation of 8.7% yoy during January-July 2010. While inflationary pressures have modestly abated since March on the back of price controls, as well as easing of food, housing and transport prices, it remains challenging for the 7% CPI target to be met as this requires CPI to average below 5% in August-December 2010 even as the economy picks up further momentum.

Underscoring another inherent policy conflict, the economic growth momentum to carry the full year GDP to 6.5% yoy is targeted to concur with slower credit growth. According to the SBV, credit to the economy grew 2.09% mom in May 2010 and 7.63% in the year to May compared with end-2009. Fitch estimates this translates into approximately 28% yoy growth, which marks a deceleration, although further deceleration is required to reach the government's credit growth target of 25% yoy.

Of concern, the authorities risk increasing VND and inflation uncertainty if a pro-growth directive is prematurely administered, particularly since Vietnam's CPI volatility of 6.2% is higher than the 'B' median of 5.1% and experiences a frequent recurrence of double-digit inflation. This is particularly so as the government asked the SBV to lower deposit rates to 10.2% (from 11.5%) and borrowing rates to 12% on 10 May 2010. Following this announcement, the SBV signalled in early July 2010 that it aimed to cut the deposit rate to 10% from 11% and the lending rate to 10% from 11% by year-end.

Pro-Growth Stance Risks Rising Imbalances

Looking ahead, the Ministry of Planning and Investment's target of annual economic growth of 7%-8% for the period to 2020 in order to boost per capita income to at least USD3,000 and attain the status of a "modern industrialised country". The authorities' ongoing strong pro-growth stance points to accelerated fiscal disbursements, credit growth and efforts to improve the effectiveness of investments, particularly in the areas of transportation, power and telecommunications.

High state involvement in driving rapid growth pushed the investment rate to an average 39% of GDP during 2005-2009, with the state sector accounting for 41% of total investments in 2009. Since 2003, Vietnam has clocked a wider GG deficit than the 'B' median. Public sector indebtedness also no longer ranks as a sovereign rating strength in favour of Vietnam — the forecast rise in Vietnam's GG debt to 46% of GDP in 2010 compares poorly with the 'B' median of 33%. It remains to be seen if the planned reduction in the fiscal deficit to around 6% of GDP supported by a 4% of GDP reduction in capital expenditure will be achievable. Planned moves of public investment into public-private partnership projects (PPPs) risk raising contingent liabilities associated with these projects.

Of concern, the banking sector poses a key contingent liability risk to Vietnam's weak public finances. The authorities' pro-growth stance risks exacerbating a credit boom and bust scenario within the banking system, which may lead to further liquidity support and recapitalisation efforts by the central bank, although regulatory measures are being considered to tighten monitoring and improve risk mitigation. Fitch forecasts private credit growth to reach 118% of GDP in 2010, registering the highest in the 'B' rated category. On a related measure, Fitch estimates that the banking system's loan-to-deposit ratio will likely cross the 100% mark in 2010 for the first time since 2001, indicating higher liquidity risks and interbank funding needs faced by the banks, signalling a possible repeat of 2008 when smaller private joint-stock banks (JSBs) experienced liquidity problems when the SBV tightened monetary policy and some JSBs received emergency liquidity support from the SBV.

Provisioning remains inadequate to cover state-owned banks' NPLs and SMLs. Fitch notes that there were two incidences of government capital injection into Agribank and Bank for Investment and Development of Vietnam (BIDV). This amounted to

0.8% worth of 2010 nominal GDP in Q110, in order to meet capital requirements to support credit growth objectives.

According to Fitch's Macro Prudential Risk Monitor, Vietnam's banking system's vulnerability to potential systemic stress has increased to "high" from "moderate" and now ranks E3, the lowest point on the matrix. A preliminary Fitch analysis – based on Vietnamese Accounting Standards (VAS) - estimates a possible banking sector recapitalisation bill of the top six systemically important banks (which constitute at 51% of total banking sector assets) at least 12% of GDP. This is in the event that a sovereign bailout is required assuming current NPLs and SMLs are unchanged, while maintaining banks' equity to asset ratio of around 7% at end-2009. Uncertainty surrounding the banking system's asset quality is underscored by the face that VAS-based NPLs often fall short of that of international accounting standards by 3-5x. Further rounds of currency pressure would be negative for financial stability given the highly dollarized banking system.

Public Finances: Sources and Uses

(% GDP)	2010f	2011f	2012f
Uses	**9.4**	**8.7**	**8.5**
Budget balance	7.6	7.1	7.1
Amortisation (by place of issue)	0.0	0.0	0.0
Domestic	1.9	1.6	1.4
Foreign	1.5	1.3	1.1
Sources	**9.4**	**8.7**	**8.5**
Gross borrowing (by place of issue)	9.4	8.7	8.5
Domestic	7.0	7.0	7.0
Foreign	1.1	0.9	0.7
Privatisation	0.0	0.0	0.0
Other	1.4	0.9	0.8

Source: Fitch

Forecast Summary

	2006	2007	2008	2009	2010f	2011f	2012f
Macroeconomic indicators and policy							
Real GDP growth (%)	8.2	8.5	6.3	5.3	6.5	6.4	6.0
Consumer prices (annual average % change)	7.5	8.3	23.1	6.9	9.7	10.0	10.0
Short-term interest rate (%)[a]	6.5	6.5	11.5	7.5	8.0	9.0	10.0
General government balance (% of GDP)	-3.1	-4.9	-5.2	-8.7	-7.6	-7.1	-7.1
General government debt (% of GDP)	36.9	39.0	37.9	44.9	45.7	45.3	45.9
VND per USD (annual average)	15,994	16,105	16,302	17,065	18,689	19,593	19,827
Real effective exchange rate (2000 = 100)	96.8	100.5	121.9	120.9	121.5	125.7	134.3
External finance							
Current account balance (USDbn)	-0.2	-7.0	-10.7	-7.2	-11.5	-12.8	-14.2
Current account balance (% of GDP)	-0.3	-9.8	-11.8	-7.4	-11.2	-11.1	-10.7
Current account balance plus net FDI (% of GDP)	3.5	-0.6	-1.6	-0.3	-4.2	-4.4	-3.8
Net external debt (USDbn)	-0.7	-5.7	-2.4	9.0	13.6	17.4	21.2
Net external debt (% of GDP)	-1.1	-8.0	-2.6	9.3	13.2	15.2	16.0
Net external debt (% of CXR)	-1.3	-9.1	-3.0	12.8	17.8	20.2	21.0
Official international reserves including gold (USDbn)	13.6	23.7	24.2	16.8	15.2	14.6	14.4
Official international reserves (months of CXP cover)	3.3	4.1	3.3	2.6	2.1	1.8	1.5
External interest service (% of CXR)	1.2	1.0	1.2	1.7	1.6	1.5	1.4
Gross external financing requirement (% int. reserves)	26.8	68.1	51.5	37.2	78.9	97.1	108.3
Memo: Global forecast summary							
Real GDP growth (%)							
US	2.7	2.1	0.4	-2.4	3.0	2.7	2.7
Japan	2.0	2.3	-1.2	-5.3	3.0	1.6	1.6
Euro area	3.1	2.7	0.4	-4.1	1.0	1.6	1.4
World	3.8	3.7	1.4	-2.5	3.1	2.9	2.7
Commodities							
Oil (USD/barrel)	65.4	72.7	97.7	64.0	80.0	85.0	85.0

[a] State Bank of Vietnam's refinancing rate (annual average)
Source: Fitch

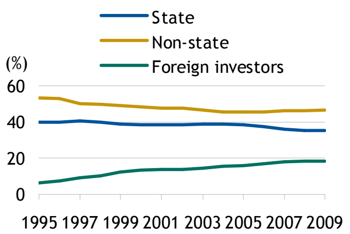
Comparative Analysis: Macroeconomic Performance and Policies

Vietnam

	2009						
	Vietnam B+	Cape Verde B+	Georgia B+	Sri Lanka B+	Venezuela B+	B median	BB median
Real GDP (5yr average % change)	7.4	6.8	5.9	6.0	6.0	6.0	4.0
Volatility of GDP (10yr rolling SD)	1.0	1.9	5.0	2.6	8.5	2.7	3.1
Consumer prices (5yr average)	10.8	3.6	7.7	12.7	21.7	9.5	7.4
Volatility of CPI (10yr rolling SD)	6.8	3.0	2.7	5.6	7.1	4.7	3.3
Years since double-digit inflation	1.0	19.0	10.0	1.0	0.0	n.a.	n.a.
Unemployment rate	4.6	13.1	17.0	5.8	7.5	9.1	8.8
Type of exchange rate regime	Fixed peg	Fixed peg	Managed float	Fixed peg	Fixed peg	n.a.	n.a.
Dollarisation ratio	23.7	7.9	73.4	23.0	0.0	37.7	53.6
REER volatility (10yr rolling SD)	8.5	4.1	5.1	7.5	15.8	7.9	8.1

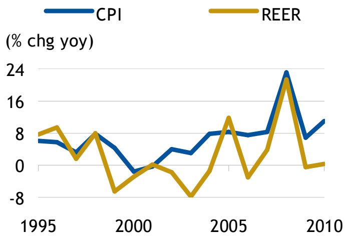
Source: Fitch

GDP: By Ownership



Source: CEIC, Fitch

CPI Inflation and REER



Source: IFS, Fitch

Strengths

- As a result of structural reform measures to transition the economy from a centrally planned towards a market-based one since 1986, Vietnam has sustained rapid economic growth of 7.3% over the last two decades. Over the last five years, this growth rate has only been surpassed by Azerbaijan, China, India and Panama among all Fitch-rated sovereigns. Long-run macroeconomic volatility was anchored at 1% compared with the 2.7% 'B' median.
- Public sector ownership of the economy has steadily decreased from 50% of GDP in 1986 to 35% in 2009, as foreign investors increased their participation in the economy over time.
- Labour market conditions have improved with the unemployment rate at 4.6% in 2009, comparing favourably to the 'B' median of 9.1%. With over 50% of the population in the economically active age category, low-cost and good quality labour supply serves as a major pull factor for foreign investors.

Weaknesses

- Inflationary pressures have accelerated during the last five years, with CPI averaging 11% yoy compared with 9.5% for the 'B' median, while CPI volatility over a 10-year period was 1.4x the levels recorded by the 'B' median. The increasing frequency of double-digit inflation, with the most recent occurrence in 2008 (23.1% yoy) and a recurrence in H110 risk raising inflationary expectations. If inflation in the tradable goods sector persists above that of its major trading partners, Vietnam risks losing competitiveness compared with its major trading partners, similar to the appreciation of the real effective exchange rate (REER) by 21% in 2008.
- The dollarisation ratio of 23.7% is likely to be underestimated, as this ratio captures only the level of banks' FX deposit liabilities within the financial system and does not record the extent of gold and dollar hoarding occurring outside the system. Fitch estimates that if all currency outside the banks was dollarised, the dollarisation ratio could rise to about 40% as at December 2009.

Commentary

Vietnam's macroeconomic policy agenda of achieving a targeted growth rate, easing inflation, maintaining a fixed exchange rate regime and improving the external position are inherently conflicting objectives. The lack of central bank independence and operational autonomy constrains the economy's ability to correct both internal and external imbalances that may arise from overheating. This is particularly so since the SBV's monetary policy formulation is conducted under the guidance of the government and the national assembly with the objectives of ensuring price stability, economic growth as well as banking system stability.

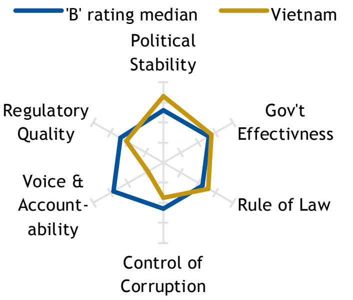
Comparative Analysis: Structural Features

Vietnam

	2009						
	Vietnam B+	Cape Verde B+	Georgia B+	Sri Lanka B+	Venezuela B+	B median	BB median
GNI per capita PPP (USD, latest)	2,700	3,450	4,850	4,480	12,830	4,140	8,510
GDP per capita (USD, mkt. exchange rates)	1,095	3,517	2,507	2,074	12,369	2,507	4,399
Human development index (percentile, latest)	36.4	33.7	51.3	44.1	68.5	38.1	54.1
Ease of doing business (percentile, latest)	49.5	20.4	94.6	42.9	3.3	39.1	46.0
Trade openness (CXR and CXP % GDP)	76.5	62.2	49.2	29.9	16.4	n.a.	n.a.
Gross domestic savings (% GDP)	26.7	5.0	-7.1	18.0	27.2	10.5	13.9
Gross national savings (% GNP)	32.4	33.3	0.3	24.3	26.3	17.0	17.8
Gross domestic investment (% GDP)	38.4	41.2	12.1	24.5	24.0	23.1	19.0
Private credit (% GDP)	109.9	55.7	31.2	28.6	21.5	28.1	37.9
BSR indicators	E3	n.a.	D3	D1	D2	n.a.	n.a.
Bank system CAR	8.1	10.3	19.1	14.0	13.8	n.a.	n.a.
Foreign bank ownership (% assets)	18.0	44.0	89.1	12.0	16.6	n.a.	n.a.
Public bank ownership (% assets)	40.0	15.0	0.0	46.0	25.3	25.3	25.1
Default record (year cured)[a]	1998	n.a.	2004	n.a.	1999	n.a.	n.a.

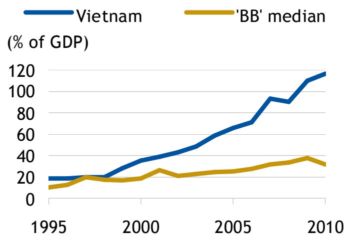
Source: Fitch and World Bank

Governance Indicators



Source: World Bank (2008), Fitch

Private Sector Credit



Source: IFS, Fitch

Strengths

- The government succeeded in elevating Vietnam to "middle income" status by achieving per capita GDP of over USD1,000 by 2010. Vietnam's GNI per capita and per capita income still ranks at two-thirds and about 40% the levels of the 'B' medians.
- Vietnam's ranking in the World Bank's Ease of Doing Business ranking has marginally improved from the 48th percentile in 2007 to the 50th percentile higher than the 39th percentile for the 'B' medians.

Weaknesses

- Following a component bank downgrade, Vietnam's banking system indicator (BSI) worsened to 'E' in November 2009, indicating its banking system is of "very low" quality. In June 2010, Vietnam's macro prudential indicator (MPI) rating worsened from '2' to '3', indicating that the banking system's vulnerability to potential systemic stress has increased from "moderate" to "high". In addition to volatile and high credit growth, the 2006-2007 equity bubble and 2008 REER appreciation are other factors explaining the MPI 3.
- Vietnam ranks poorly on the World Bank's governance indicators on "voice and accountability" and "control of corruption" compared with the 'B' medians. This trend concurs with Vietnam's low ranking of 120 out of 180 countries in Transparency International's corruption perception index for 2010. There has been a marginal improvement from 123 in 2007, following the adoption of the law on corruption prevention and control in June 2006 to encourage greater public disclosure and transparency in areas such as procurement, privatisation and SOE management.

Commentary

Following 17 years of uninterrupted double- and triple-digit credit expansion, Vietnam's private credit surpassed 110% of GDP in 2009, the highest within the 'B' category. Credit recorded just 2.5% of GDP in 1992 (oldest available historical data). Banks' net interest margin has been affected by renewed caps on commercial bank lending rates and the re-imposition of a deposit rate cap since April 2010. The sovereign remains exposed to risks emanating from the banking sector, plagued by weak accounting standards, poor lending policies, supervisory shortcomings and an unsupportive legal environment for bad debt resolution. Of concern, the public sector owned approximately 40% of banking system assets in 2009 and two SOCBs — Agribank and BIDV — have large exposure to SMLs (1-90 days overdue or first time restructured).

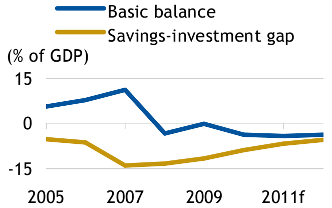
Comparative Analysis: External Finances

Vietnam

	2009					Last 10 years	
	Vietnam B+	Cape Verde B+	Georgia B+	Sri Lanka B+	Venezuela B+	B median	BB median
GXD (% CXR)	47.1	126.6	180.0	168.0	125.4	101.0	107.6
GXD (% GDP)	34.3	73.1	77.8	49.8	22.1	51.2	41.3
NXD (% CXR)	12.8	79.4	113.7	111.8	-212.5	33.4	17.1
NXD (% GDP)	9.3	45.9	49.2	33.1	-37.4	16.6	7.5
GSXD (% GXD)	72.2	57.4	40.4	78.7	50.0	64.1	49.6
NSXD (% CXR)	10.1	34.3	25.6	89.7	6.0	25.1	10.4
NSXD (% GDP)	7.3	19.8	11.1	26.6	1.1	14.0	3.0
SNFA (USDbn)	-7.1	n.a.	-1.2	-11.2	5.6	-1.1	-0.3
SNFA (% GDP)	-7.3	n.a.	-11.1	-26.6	1.6	-11.1	-2.3
Ext. debt service ratio (% CXR)	4.3	5.5	22.5	14.2	8.1	10.0	16.6
Ext. interest service ratio (% CXR)	1.7	3.1	7.2	3.8	4.7	2.9	5.0
Liquidity ratio (latest)	770.6	71.4	104.6	53.2	326.7	147.4	134.0
Current account balance (% GDP)	-7.4	-9.0	-11.9	-0.5	2.4	-4.0	-2.0
CAB plus net FDI (% GDP)	-0.3	-2.2	-4.7	0.4	1.0	-0.7	1.5
Commodity dependence (% CXR, latest)	40.0	8.7	24.6	18.9	82.2	34.6	32.8
Sovereign net FX debt (% GDP)	7.3	22.7	11.8	27.7	3.0	n.a.	n.a.

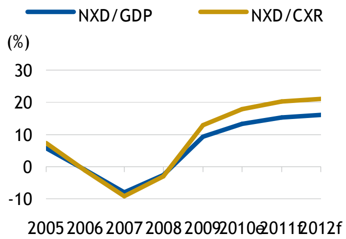
Source: Fitch

Basic Balance & Savings-Inv Gap



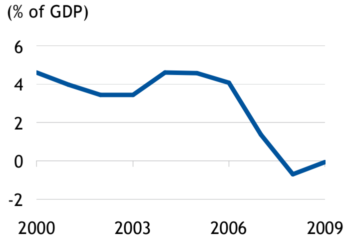
Source: IFS, Fitch

Net External Debt



Source: Fitch

Oil Trade Balance



Source: Fitch

Strengths

- Vietnam's gross and net external indebtedness rank lower than that of the 'B' medians. The sovereign dominated 65% of GXD with concessional borrowings from multilateral and bilateral creditors, with average maturity of 28 years and average interest rate of 1.7%. Vietnam's net sovereign external debt (NSXD) was 10% of CXR, lower than the 'B' median of 25%.
- Vietnam has been a strong recipient of net FDI worth on average 6.2% of GDP during 1990-2010 ('B' median: 2.6% of GDP over the same period), thanks to its abundant resources including oil and agricultural products, political stability, youthful and cheap labour supply.

Weaknesses

- The savings-investment gap remains a prevailing feature of Vietnam's developing economy status, given its capital stock requirements as a developing economy. However, the basic balance turned negative during 2008-2009, indicating that more stable, net long-term capital (direct and portfolio investments) were no longer sufficient to cover the CAD and the economy is increasingly reliant on external borrowings. Indeed, Vietnam has become increasingly indebted to the world as a consequence of successive CADs. As an indicator of de-leveraging risk, NXD relative to GDP and CXR resumed its uptrend since 2007, although current levels remain lower than the 'B' medians.
- With the public sector's FC-denominated debt on an incremental rise, the sovereign was a net FX debtor of 7% of GDP, indicating that its direct exposure to currency and refinancing risk on international markets since 2007. The sovereign's net foreign liabilities worth 7.3% of GDP rank worse than the 'B' medians.

Commentary

Vietnam's crude oil exports declined from 24% of total exports in 2000 to 11% in 2010. This sector will likely continue to face downward pressure in the near term as existing oil fields mature while new offshore oil fields only began production in 2008. Already, the net oil trade surplus has declined from 4.6% of GDP in 2000 to a deficit position in 2008 and 2009.

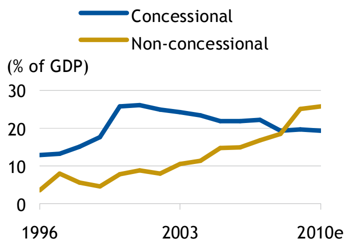
Comparative Analysis: Public Finances

Vietnam

	2009					Last 10 years	
	Vietnam B+	Cape Verde B+	Georgia B+	Sri Lanka B+	Venezuela B+	B median	BB median
Budget balance (% GDP)	-8.7	-5.2	-9.2	-9.5	-4.8	-2.3	-2.1
Primary balance (% GDP)	-7.3	-4.1	-8.2	-3.1	-3.4	0.7	0.8
Revenues and grants (% GDP)	28.5	25.7	29.3	15.3	18.4	30.5	24.1
Volatility of revenues/GDP ratio	20.7	7.3	27.9	5.1	20.9	10.3	6.2
Interest payments (% revenue)	5.1	5.0	3.2	41.8	7.7	7.3	11.3
Debt (% revenue)	157.7	232.6	118.5	549.3	92.2	166.9	175.6
Debt (% GDP)	44.9	59.7	34.7	83.9	16.9	42.3	40.1
Net debt (% GDP)	37.2	50.8	30.7	83.7	12.7	37.0	34.9
FC debt (% total debt)	55.1	61.2	90.6	48.0	75.3	76.0	62.8
CG debt maturities (% GDP)	4.6	1.4	0.9	19.7	1.7	4.4	5.3
Average duration of CG debt (years)	n.a.	0.0	n.a.	0.0	5.8	8.0	3.3

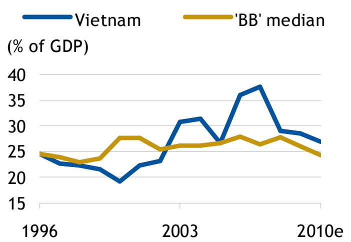
[a] GG if not otherwise specified
Source: Fitch

General Government Debt



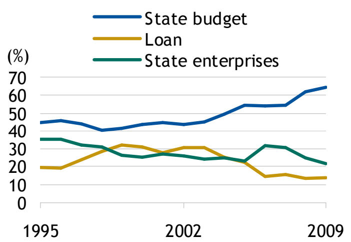
Source: Fitch

GG Revenues



Source: Fitch

State Investment: Source



Source: CEIC, Fitch

Strengths

- Thanks to the support of multilateral and bilateral creditors, Vietnam's debt is characterised by long repayment periods and low interest payments at 5% of revenues compared with 7% for 'B' medians. However, these trends in fiscal flexibility may reverse as the share of commercial debt financing has surpassed that of external concessional loans for the first time since 2010.
- Vietnam's debt/revenue of 158% ranked well compared with the 'B' median of 167% in 2009, while the net debt/GDP of 37.2% was on par with the historical 'B' median of 37%.

Weaknesses

- Vietnam's revenue volatility of 21% was the third-highest among 'B'-rated peers in 2009, after Georgia and Venezuela. The government is heavily dependent on volatile oil revenues, which averaged 22% of total revenues during 2000-2009. The overall fiscal balance including off-budget investment expenditure was 8.7% of GDP in 2009. Excluding oil receipts, the fiscal deficit registered above 13% of GDP in 2009.
- Following increased privatisation and equitisation, the number of wholly state SOEs steadily declined by 35% since 2006 to 1688 in 2009. Consequently, the authorities have leaned more heavily on the state budget as a main source of public sector-led investment activity.
- Fitch notes that Vietnam issued USD427m of USD-denominated bonds onshore in 2009, higher than the budgeted USD300m intended issuance. Increased reliance on FC-denominated debt in both 2009 and 2010 raises the sovereign's exposure to foreign exchange risk.

Commentary

Fiscal financing was difficult during the November 2009-March 2010 period as nine auctions by the State Treasury failed to meet investors' yield expectations. Bank demand in the primary market for government bonds has recovered on the back of improved VND liquidity and increased accessibility SBV repos. Fitch estimates the winning volumes of 2,520bn and 3,800bn of bonds in April and May alone were significantly higher than volumes recorded during 2004-2008 which averaged 280bn of bonds per month.

Fiscal Accounts Summary

(% of GDP)	2007	2008	2009	2010f	2011f	2012f
General government						
Revenue	**37.7**	**29.0**	**28.5**	**26.9**	**27.4**	**27.5**
Expenditure	**42.5**	**34.2**	**37.2**	**34.4**	**34.5**	**34.6**
O/w interest payments	1.1	1.0	1.5	1.7	1.8	1.9
Primary balance	-3.7	-4.2	-7.3	-5.9	-5.3	-5.2
Overall balance	**-4.9**	**-5.2**	**-8.7**	**-7.6**	**-7.1**	**-7.1**
General government debt	**39.0**	**37.9**	**44.9**	**45.2**	**44.9**	**45.6**
% of general government revenue	103.5	130.7	157.7	168.4	163.6	165.8
General government deposits	7.8	6.5	5.5	4.1	3.3	2.5
Net general government debt	31.1	29.9	37.2	39.3	41.2	42.9
Central government						
Revenue	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
O/w grants	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Expenditure and net lending	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
O/w current expenditure and transfers	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
- Interest	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
O/w capital expenditure	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Current balance	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Primary balance	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Overall balance	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
Central government debt	37.9	36.8	43.9	44.1	43.8	44.5
% of central government revenues	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Central government debt (VNDtrn)	**434.0**	**544.4**	**721.9**	**858.8**	**997.4**	**1,181.4**
By residency of holder						
Domestic	150.5	214.2	336.4	434.5	554.2	699.8
Foreign	283.5	330.2	385.5	424.3	443.2	481.6
By place of issue						
Domestic	158.5	225.4	354.1	457.4	583.4	736.6
Foreign	275.6	319.0	367.8	401.4	414.0	444.8
By currency denomination						
Local currency	158.5	225.4	354.1	440.8	562.9	723.5
Foreign currency	275.6	319.0	367.8	418.0	434.5	457.9
In USD equivalent (eop exchange rate)	17.1	18.8	20.5	21.5	22.0	23.0
By maturity						
Less than 12 months (residual maturity)	63.1	75.9	100.2	144.4	170.6	202.5
Average maturity (years)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Average duration (years)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Memo						
Non-financial public-sector balance (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Net non-financial public-sector debt (% GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nominal GDP (VNDtrn)	1,143.7	1,477.7	1,645.5	1,945.2	2,277.2	2,654.8

Source: Ministry of Finance and Fitch estimates and forecasts

External Debt and Assets

(USDbn)	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Gross external debt	**12.3**	**12.6**	**12.4**	**13.4**	**14.6**	**16.7**	**19.1**	**23.1**	**27.0**	**33.1**
% of GDP	39.6	38.7	35.4	33.8	32.2	31.5	31.4	32.5	29.8	34.3
% of CXR	64.2	65.2	57.0	51.8	43.4	41.3	38.5	37.1	34.5	47.1
By maturity										
Medium- and long-term	12.2	13.2	14.5	16.5	18.9	22.9	26.2	28.5	12.2	13.2
Short-term	162	158	104	150	180	206	820	4517	162	158
% of total debt	1.3	1.2	0.7	0.9	0.9	0.9	3.0	13.7	1.3	1.2
By debtor										
Monetary authorities	**0.3**	**0.4**	**0.4**	**0.3**	**0.3**	**0.2**	**0.2**	**0.2**	**0.1**	**0.1**
General government	**9.3**	**9.9**	**9.8**	**10.9**	**12.3**	**13.8**	**15.6**	**20.0**	**21.8**	**23.9**
O/w central government	1.8	2.3	2.6	3.7	4.6	6.2	7.4	9.8	13.3	19.7
Banks	**0.7**	**0.7**	**0.6**	**0.7**	**1.2**	**1.5**	**2.0**	**2.0**	**5.1**	**6.9**
Other sectors	**2.4**	**2.1**	**2.0**	**1.7**	**1.2**	**1.4**	**1.5**	**1.5**	**0.0**	**2.2**
Gross external assets (non-equity)	**7.8**	**9.1**	**8.9**	**9.6**	**10.9**	**13.7**	**19.8**	**28.9**	**29.5**	**24.1**
International reserves, incl. gold	3.5	3.8	4.2	6.4	7.2	9.2	13.6	23.7	24.2	16.8
Other sovereign assets nes	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Deposit money banks' foreign assets	4.2	5.3	4.6	3.2	3.7	4.5	6.2	5.0	5.2	7.3
Other sector foreign assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net external debt	**4.6**	**3.6**	**3.6**	**3.8**	**3.7**	**3.0**	**-0.7**	**-5.7**	**-2.4**	**9.0**
% of GDP	*14.8*	*11.1*	*10.2*	*9.5*	*8.3*	*5.6*	*-1.1*	*-8.0*	*-2.6*	*9.3*
% of CXR	*24.0*	*18.7*	*16.5*	*14.6*	*11.1*	*7.4*	*-1.3*	*-9.1*	*-3.0*	*12.8*
Net sovereign external debt	5.8	6.1	5.6	4.6	5.1	4.6	2.0	-3.8	-2.4	7.1
% of GDP	18.5	18.6	15.9	11.5	11.2	8.6	3.3	-5.3	-2.6	7.3
Net bank external debt	-3.5	-4.6	-3.9	-2.5	-2.5	-3.0	-4.1	-1.5	-0.1	-0.4
Net other external debt	2.4	2.1	2.0	1.7	1.2	1.4	1.5	-0.4	0.1	2.3
Net international investment position	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**	**n.a.**
% of GDP	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Sovereign net foreign assets	-5.8	-6.1	-5.6	-4.6	-5.1	-4.6	-2.0	3.8	2.4	-7.1
% of GDP	-18.5	-18.6	-15.9	-11.5	-11.2	-8.6	-3.3	5.3	2.6	-7.3
Debt service (principal & interest)	**1.8**	**1.2**	**1.2**	**1.5**	**2.3**	**2.5**	**2.9**	**2.9**	**2.5**	**2.5**
Debt service (% of CXR)	9.3	6.2	5.5	5.7	6.8	6.1	5.9	4.7	3.1	4.3
Interest (% of CXR)	2.6	1.8	1.3	1.1	0.8	0.8	1.2	1.0	1.2	1.7
Liquidity ratio (%)	276.6	517.2	670.4	542.4	391.3	422.4	447.2	636.6	1075.2	770.6
Net sovereign FX debt (% of GDP)	18.5	18.6	15.9	11.5	11.2	8.6	3.3	-5.3	-2.6	7.3
Memo										
Nominal GDP	31.2	32.7	35.1	39.6	45.4	52.9	60.9	71.0	90.6	96.4
Gross sovereign external debt	9.3	9.9	9.8	10.9	12.3	13.8	15.6	20.0	21.8	23.9
Inter-company loans	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: NBP, IMF, World Bank and Fitch estimates and forecasts

Debt Service Schedule on Medium- and Long-Term Debt at End-2009

(USDbn)	2009	2010	2011	2012	2013	2014	2015+
Sovereign	**377**	**444**	**445**	**476**	**504**	**524**	**7,824**
Official bilateral	325	382	383	409	434	0	0
O/w Paris Club	167	190	204	197	196	215	7,790
Multilateral	39	39	39	15	0	0	0
O/w IMF	36	75	75	74	83	83	1,025
Other	36	75	75	74	83	83	1,025
Bonds placed in foreign markets	0	0	0	0	0	0	0
Non-resident holdings of domestic debt	29	29	29	29	29	29	29
Interest	385	377	368	360	340	324	6,345
Total sovereign debt service	**993**	**1,115**	**1,120**	**1,135**	**1,152**	**0**	**23,013**
Private sector							
Amortisation	879	652	817	484	463	1,492	n.a.
Interest	148	314	394	233	223	718	n.a.
Total private debt service	**1,027**	**966**	**1,211**	**717**	**686**	**2,210**	**n.a.**
Memo							
Non-sovereign public sector	510	546	624	624	702	1,277	n.a.

Sources: Ministry of Finance, Central Bank and Fitch

Balance of Payments

(USDbn)	2007	2008	2009	2010f	2011f	2012f
Current account balance	**-6953**	**-10706**	**-7156**	**-11498**	**-12793**	**-14173**
% of GDP	*-9.8*	*-11.8*	*-7.4*	*-11.2*	*-11.1*	*-10.7*
% of CXR	*-11.2*	*-13.6*	*-10.2*	*-15.1*	*-14.8*	*-14.1*
Trade balance	**-10.4**	**-12.8**	**-8.3**	**-13.0**	**-14.2**	**-15.6**
Exports, fob	48.6	62.7	57.1	61.5	70.8	83.9
Imports, fob	59.0	75.5	65.4	74.6	85.0	99.4
Services, net	**-0.8**	**-0.8**	**-1.1**	**-1.4**	**-1.5**	**-1.3**
Services, credit	6.0	7.1	5.8	6.4	7.1	8.2
Services, debit	6.8	7.9	6.9	7.8	8.6	9.5
Income, net	**-2.2**	**-4.4**	**-4.2**	**-4.1**	**-4.6**	**-5.1**
Income, credit	1.2	1.4	0.8	1.2	1.1	1.0
Income, debit	3.4	5.8	5.0	5.3	5.7	6.1
O/w: Interest payments	0.6	1.0	1.2	1.2	1.3	1.4
Current transfers, net	**6.4**	**7.3**	**6.5**	**7.0**	**7.5**	**7.8**
Memo						
Non-debt-creating inflows (net)	**12.8**	**8.7**	**7.0**	**8.0**	**8.7**	**10.2**
O/w equity FDI	6.5	9.3	6.9	7.2	7.7	9.2
O/w portfolio equity	6.2	-0.6	0.1	0.8	1.0	1.0
O/w other	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (-=increase)	-10.2	-0.4	8.2	1.6	0.6	0.2
Gross external financing requirement	9.3	12.2	9.0	13.3	14.8	15.9
Stock of international reserves, incl. gold	23.7	24.2	16.8	14.8	13.2	13.1

Sources: IMF and Fitch estimates and forecasts