CareEdge GLOBAL RATINGS
A subsidiary of CARE Ratings Limited

Rating Rationale
October 03, 2024

CareEdge Global assigns Long Term Foreign Currency Rating of BB+ (Unsolicited) to Socialist Republic of Vietnam

Credit Profile

Vietnam's credit profile is characterized by a strong and stable track record of growth and its attractiveness as a foreign direct investment (FDI) destination. The fiscal strength arising from a low level of gross general government debt also extends support. However, these strengths are offset due to challenges regarding limited transparency of fiscal and balance of payments accounts, and financial sector vulnerabilities.

Additionally, poor accountability and bureaucratic rigidities are constraints on the credit profile. The lingering stress in the property sector aggravated by the corruption crackdown remains a key monitorable for its consequences on the overall economy and banking sector, in particular.

Strengths

- Strong economic growth
- Low government debt levels
- Strong external position driven by healthy FDI flows

Weaknesses

- High risks from large size of banking sector (150% of GDP) and risks from high corporate debt
- Limited data transparency on fiscal and balance of payments account
- Weak Institutions with poor accountability

Key Monitorables

- Lingering stress of property market
- Crystallization of contingent liabilities
- Risks from slowing external demand
- Rising geo-political tensions

Key Rating Drivers

Economic Structure & Resilience

Vietnam is one of the fastest growing economies globally in recent years. The economy's exports have benefitted from trade diversion supported by its low-cost and skilled labour force. Vietnam has made significant progress towards economic diversification; with services accounting for 45% of GDP and manufacturing accounting for 20% of GDP. Similarly, Vietnam also benefits from having diversified export mix with high value-added goods like electronics and semiconductors on one end and low value-added products like textile and footwear on the other end.

These strengths are balanced against the infrastructure related constraints and exposure to physical climate risks such as floods and droughts. The property sector stress has subsided from its peak but remains a source of pressure. Amid weak global demand and domestic challenges, growth moderated to 5% in 2023 from an 8.1% expansion in 2022 and 7.1% growth in the pre-pandemic period (2015-2019). Vietnam's GDP grew by 6.4% in H1-2024 and is expected to grow at this pace until 2028, weakness in external demand poses downside risk to Vietnam's growth outlook given country's large trade dependence on US and China.

Fiscal Strength

Vietnam has low level of gross general government (GG) debt (37.9% of GDP during 2019-2023). More than one-third of the GG debt is denominated in foreign currency. However, high share of concessional financing from external official creditors reduces repayment risk. The debt servicing cost is low with interest to revenue ratio averaging ~6.8% during 2018-2022. The limited transparency of government's account and opacity regarding the performance of state-owned enterprises remain a major constraint in the fiscal assessment. Fiscal deficit in 2023 came in at 4% of GDP. The government is further constrained by low revenue base and regressive tax structure.

External Position & Linkages

The external position of Vietnam benefits from favorable current account balance and strong FDI flows. With a rebound in tourism, the current account witnessed a marginal surplus in 2023 despite slowing merchandise exports demand. FDI inflows are strong (~4.5% of GDP during 2019-2023) and could rise further with increased participation in various trade agreements. The impact of adoption of global minimum corporate tax in 2024 on FDI flows is a key monitorable. The below average foreign exchange reserve level and limited transparency in the international investment position are key constraints for external position assessment.

Monetary & Financial Stability

The Central Bank has maintained inflation broadly below the 4-4.5% target level. However, the monetary policy framework lacks transparency with limited role of interest rates as policy tools. The underdeveloped financial markets hamper monetary policy transmission. The de jure arrangement is managed floating. However, the de-facto exchange rate is crawl-like. The State Bank of Vietnam (SBV) is gradually increasing exchange rate flexibility by increasing the band of volatility to +/-5 in 2023

from +/-3 earlier. Financial sector vulnerabilities arising from high credit growth relative to the size of the economy, weak capital adequacy ratio, especially of state-owned commercial banks further pose a risk. The property market turmoil has impacted the bank's asset quality with non-performing loans ratio increasing significantly to 4.6% in 2023 from 1.8% a year ago.

Institutions & Quality of Governance

The decision-making process in Vietnam is centralized due to the one-party political system and citizens have limited political participation. Rigid bureaucracies and weak transparency hamper regulatory effectiveness. The government has accelerated anti-corruption efforts in recent years. However, the absence of an effective regime of checks and balances could undermine the success of these efforts in the long run.

Vietnam – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	304	332	346	370	406	433	470	515
GDP Per Capita (Constant-PPP)	USD	9,661	10,177	10,351	10,515	11,260	11,730	12,354	13,053
Real GDP Growth	%	7.5	7.4	2.9	2.6	8.1	5.0	5.8	6.5
GFCF/ GDP	%	30.3	30.4	30.3	31.7	30.8	30.4	-	-
Gross Domestic Savings/ GDP	%	33.2	33.6	34.6	34.9	36.3	-	-	-
Exports (G&S)/GDP	%	84.4	85.2	84.4	93.9	93.8	-	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.2	69.1	68.9	68.7	68.5	68.3	68.0	67.8
Old-Age (65+) Population (% Share in Total)	%	7.8	8.1	8.4	8.8	9.1	9.5	10.0	10.4
Fiscal Indicators – General Government									
Fiscal Balance/ GDP	%	-3.5	-2.7	-3.4	-2.5	-3.6	-4.0	-3.6	-
Revenue/ GDP	%	19.5	19.4	18.4	18.7	19.0	18.4	18.6	18.8
Expenditure/ GDP	%	20.5	19.8	21.3	20.1	18.8	19.7	20.3	20.8
GG Gross Debt/ GDP	%	43.5	40.8	41.1	39.0	34.6	34.0	33.5	32.9
Interest/ Revenue	%	7.8	7.2	7.2	6.4	5.2	5.1	4.8	-
Fiscal Balance/ GDP	%	-3.5	-2.7	-3.4	-2.5	-3.6	-4.0	-3.6	-
External Indicators									
Current Account Balance/ GDP	%	1.9	3.8	4.3	-2.2	0.0	5.1	2.3	2.0
FDI, Net Inflows/ GDP	%	5.0	4.8	4.6	4.3	4.4	4.2	-	-
Foreign Exchange Reserves	USD Billion	55.3	78.5	95.2	109.4	86.7	98.7	110.5	122.7
Import Cover	Months	2.5	3.5	3.3	3.5	2.9	3.1	3.1	3.1
External Debt/GDP	%	36.5	37	37.6	37.9	36.2	36.6	36.5	36.2
Current Account Balance/ GDP	%	1.9	3.8	4.3	-2.2	0.0	5.1	2.3	2.0
FDI, Net Inflows/ GDP	%	5.0	4.8	4.6	4.3	4.4	4.2	-	-
Monetary and Financial Indicators									
CPI Inflation	%	2.8	3.2	1.8	3.2	3.3	3.7	3.4	2.8
Exchange Rate (Average)	LC per USD	22,602	23,050	23,208	23,160	23,271	23,787	-	-
Non-Performing Loans/ Total Gross Loans	%	2.1	1.9	1.9	1.7	1.8	4.6	-	-
Private debt, loans and debt securities/ GDP	%	105.3	108.0	115.5	124.4	126.4	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BB+	October 3, 2024

Analytical Contacts

Shobana Krishnan
C-shobana.krishnan@careedge.in

Anurag Chandra
Anurag.chandra@careedgeglobal.com

Kiran Kavala
kiran.kavala@careedgeglobal.com

Media Contact

Mradul Mishra
mradul.mishra@careedge.in

Criteria Applied

CareEdge Sovereign Rating Methodology

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Unit No. 06, 11 T-2, Block-11, GIFT SEZ, Gift City, Gandhi Nagar, Gujarat – 382355
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