



## Media Release

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### **RAM Ratings: Vietnam's rising trade and strong FDI to spur growth**

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RAM Ratings has reaffirmed Vietnam's respective global- and ASEAN-scale sovereign ratings at  ${}_g\text{BB}_{3(\text{pi})}/\text{stable}$  and  ${}_{\text{sea}}\text{BB}_{1(\text{pi})}/\text{stable}$ . The ratings take into account persistent fiscal deficits and rising government debt levels, inadequate forex reserve coverage, dominant state-owned enterprises (SOE) in the economy, and the risks faced by its banking sector. On the other hand, the negatives are partially mitigated by the Vietnamese economy's solid growth, strong FDI and improving business environment.

"Vietnam's economic performance has been impressive, driven by robust export performance and strong domestic demand," notes Esther Lai, Head of Sovereign Ratings at RAM. This momentum is envisaged to continue in the medium term, aided by increasing trade and FDI inflow. The Vietnamese economy, which depends much on trade, is mainly supported by foreign investments and has benefited from a rise in free trade agreements including the recent Trans-Pacific Partnership, expanding high-tech exports and sizeable inflows of FDI, thanks to its favourable labour conditions and improving business climate.

Nonetheless, Vietnam's fiscal deficit widened to 5.5% of its GDP in 2015 (2014: 5.0%), driven by heftier administrative expenditure. As a result of its persistent fiscal deficit, general government debt has ballooned while total public debt is fast approaching its debt ceiling of 65%. Meanwhile, the presence of large SOEs presents a contingent risk to government finances and the economy, as they crowd out the private sector. Ongoing reforms centred on the divestment of SOEs are expected to address some of this concern over the long term.

In a bid to maintain its pegged exchange rate, Vietnam's foreign reserves level fell 17.1% in year-to-date Q3 2015 despite multiple rounds of devaluation. We expect this move to help gradually build up its forex buffers, which is currently inadequate at 2.1 months of current account purchases as at end-September 2015. At the same time, its banking industry still faces risks stemming from weak and declining profitability, limited transparency and lack of quality in reporting standards. We also remain cautious on the pick-up in the Vietnamese property market, driven by more accommodative bank lending, as had happened when the previous housing bubble burst.

The ratings could be adjusted upwards if there's an improvement in growth prospects arising from rising trade activities and strong FDI. Narrowing of fiscal deficit is also viewed positively. Conversely, a negative rating action could be triggered by macroeconomic instability arising from a shift in policy, severe ebbs in capital inflows, and crystallisation of banking and/or SOE sector risks that would increase government debt.

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