

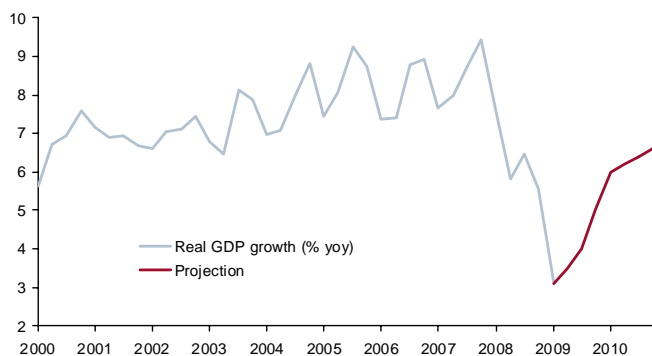
Vietnam Economics

3Q forecast review: FDI shock, but low risk of a BoP crisis

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- Poor statistics that could emerge on the BoP might revive worries of a financial crisis, but we think the projected decline in FDI is manageable.
- Narrower current account deficits and capital inflows from elsewhere should help. Meanwhile, risks from FX debt are minimal, even though VND may depreciate further in the short term.
- GDP growth likely troughed in 1Q, but re-acceleration will be relatively modest. A shallower downturn means we have raised 2009 GDP growth from 2% to 4%. But 2010 GDP is still seen as low-key until exports and domestic investment see a more material recovery.

Figure 1: GDP recovery may be relatively modest, but should be sustainable



Source: General Statistical Office, Credit Suisse

The following is extracted from our latest *Emerging Markets Quarterly*, published 17 June 2009. For further details, please refer to the section, *Vietnam: FDI shock, but low risk of a BoP crisis*.

The shakiness of Vietnam's fundamentals will raise ongoing concerns, but the risk of a financial crisis of some sort continues to recede, in our view. Recurring fears for balance of payments (BoP) instability or

a currency collapse seem entrenched among some investors, but such concerns are outdated.

Despite an expected fall in FDI, we believe the narrowing current account deficit provides sufficient succor and avoids any need for IMF assistance.

Actual FDI is forecast to decline substantially from US\$ 7.8 bn in 2008 to US\$2.5 bn or less in 2009. This will disappoint after FDI commitments reached a record US\$60 bn in 2008. The sharp decline in capital inflows could have created a potential funding gap for the economy, but this has been averted by smaller trade deficits and better-than-expected support from other capital inflows, notably in equity.

According to our analysis, recovery trends by end-2009 should mean Vietnam sees BoP surpluses return in 2010. Even without the BoP improvement, external vulnerability was low, as short-term FX debt is insignificant and the debt service ratio is estimated at just 1.6% of current account receipts.

Temporary BoP weakness may still cause depreciation pressure on VND, but the appetite for foreign capital flight has declined substantially from last year and domestic banking sector fundamentals seem robust enough to absorb any modest turbulence.

Exports saw early-2009 growth reverse into a contraction, moving in line with other regional exporters. Non-oil trade is due to go through its weakest patch in mid-year, which could allow positive year-on-year growth by 4Q.

Still, we forecast an annual contraction of 15% in 2009 exports, though this would be surpassed by a 20% decline in imports. Poor FDI and exports will weigh on fixed investment this year, but we are revising up our 2009 GDP growth forecast from 2% to 4% on signs of early global demand stabilisation.

Figure 2: Summary of macroeconomic indicators and forecasts

	2006	2007	2008	Revised		Previous	
				2009 E	2010 E	2009 E	2010 E
Real GDP, % YoY	8.2	8.4	6.2	4.0	6.5	2.0	7.0
Real private consumption spending, % YoY	8.3	10.8	9.2	6.0	7.0	5.0	6.5
Real fixed investment spending, % YoY	9.9	24.2	3.8	0.0	6.0	5.0	7.0
Net contribution from trade, % YoY	-1.5	-13.2	-3.3	4.1	-0.3	-0.6	0.3
CPI, % YoY average	7.5	8.3	23.1	8.4	10.0	7.5	6.0
Exports (BoP, US\$ terms), % YoY	22.7	21.9	29.1	-15.0	8.0	-10.8	10.0
Imports (BoP, US\$ terms), % YoY	22.1	37.0	26.8	-19.6	9.3	-14.9	9.3
Trade balance (BoP), US\$ bn	-2.8	-10.4	-12.0	-6.8	-8.2	-7.7	-8.0
Current account balance, US\$ bn	-0.2	-7.0	-8.4	-5.9	-4.0	-7.9	-5.8
as a % of GDP	-0.3	-9.8	-9.4	-6.4	-3.8	-8.9	-6.0
Exchange rate per US\$, year end	16,055	16,015	17,433	18,200	17,500	18,500	18,750
Discount rate, % year-end	4.5	4.5	7.5	5.0	8.0	5.0	6.0
Fiscal balance, as % of GDP	-0.9	-1.7	-2.1	-3.2	-2.0	-4.3	-3.5
FX reserves, US\$ bn	13.4	23.5	23.9	21.2	24.8	18.9	22.6
Total external debt, US\$ bn	15.6	19.3	20.7	22.2	24.1	22.3	24.9
as a % of GDP	25.7	27.1	23.0	24.3	22.7	25.0	25.9

Source: Ministry of Finance, State Bank of Vietnam, GSO, Credit Suisse

Disclosure Appendix

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