Decide with Confidence

D&B Country RiskLine Report

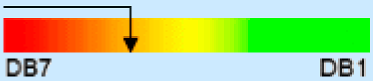
VIETNAM

Region : Asia Pacific

Edition : June 2011

D&B Country Risk Indicator

DB5b



This "DB" Rating Indicates:

High risk

Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	89.0m
Surface area (sq km):	329,310
Capital:	Hanoi
Timezone:	GMT +07:00
Official language:	Vietnamese
Head of state:	President Nguyen Minh TRIET
GDP (USD):	101.4
GDP per capita (USD):	1,138
Life expectancy (years):	71
Literacy (% of adult pop.):	93.7

Country Overview:

Vietnam is situated on the South China Sea, bordering Cambodia, Laos and China. A densely populated, low income country, it extends from the tropical Mekong Delta and Ho Chi Minh City (the former Saigon) in the south to the monsoonal climate of Hanoi and the Red River valley in the north.

The country's political system is dominated by the Vietnamese Communist Party, which has had a monopoly on power since the end of the Vietnam War in 1975. Politically, the Vietnamese Communist Party retains a monopoly on power but anti-corruption efforts in recent years have improved government transparency. Economically, the country has undergone rapid growth since embracing economic liberalisation in the 1990s and acceding to the WTO in 2007.

The industrial mix has focused on light manufacturing and assembly operations, but has begun to include more capital-intensive sectors. With sizeable oil reserves, the country is one of South East Asia's largest producers of crude. In 2009, the country opened its first refinery.

Trade & Commercial Environment

Trade Terms

Minimum Terms:	CLC

The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:	CiA

D&B's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms:	60-120 days

Normal period of credit associated with transactions with companies in the stated country.

Transfer Situation

Local Delays:	0-2 months

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays:	0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

Trade & Commercial Environment

New rules on imports of cosmetics, alcohol, cell phones and other items have been introduced in an attempt to narrow the trade deficit, which is a drain on foreign exchange reserves and continues to put downward pressure on the currency. From 1 June mobile phones, alcohol and cosmetics importers must obtain a letter of authorisation notarised by a Vietnamese diplomatic mission in the country of origin, with the products only able to be imported via one of three Vietnamese seaports. Foreign trade delegations have complained that these measures may be in breach of Vietnam's international trade law obligations. Meanwhile, we continue to recommend CiA terms for first-time dealings, and CLCs should constitute minimum terms for repeat customers.

Export Credit Agencies

US Eximbank	Limited public and private sector cover available
Atradius	ST cover available subject to approved LC, no discretionary limits
ECGD	Full cover available
Euler Hermes UK	Restrictions will apply

Economic Indicators

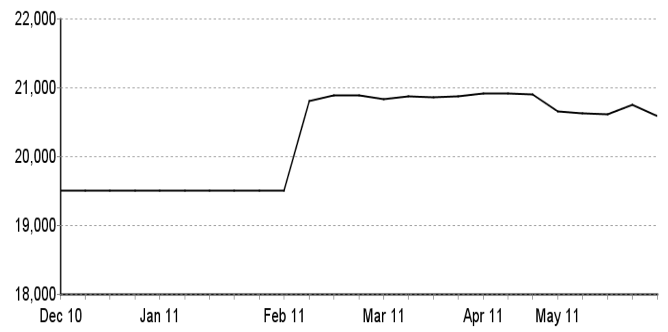
	2008	2009	2010e	2011f	2012f
Real GDP growth, %	6.3	6.6	6.8	4.3	5.2
Inflation, annual ave, %	23.2	6.9	10.0	14.0	9.2
Govt balance, % GDP	-4.5	-11.8	-6.0	-6.0	-5.0
Debt service ratio, %	3.4	4.2	4.5	4.2	4.0
C/A balance, % GDP	-12.4	-8.1	-9.2	-9.4	-8.4

Currency Information

Exchange Rates (London, 30 May 11)	
EUR	29347.1
GBP	33882.9
JPY*	25416.8
USD	20580.0
*(x 100)	

Local Currency

(Dong [VND]: USD)

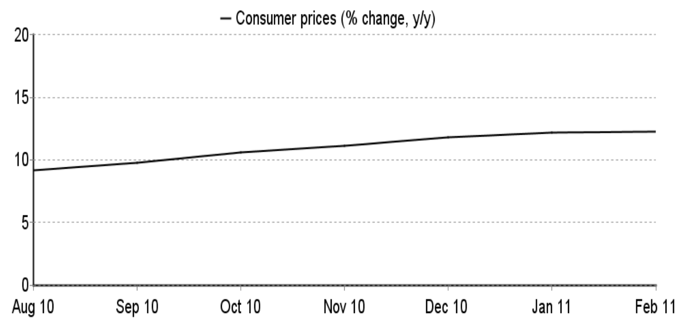


Local Currency (Dong [VND]: USD)						
	Dec 10	**Jan 11**	**Feb 11**	**Mar 11**	**Apr 11**	**May 11**
Week 1	19499.000	19497.500	19495.000	20835.000	20912.500	20645.000
Week 2	19495.000	19499.000	20800.000	20872.500	20910.000	20620.000
Week 3	19497.500	19497.500	20882.500	20855.000	20892.500	20610.000
Week 4	19495.000	19497.500	20887.500	20875.000		20750.000
Week 5		19497.500				20580.000

Inflation

Inflation

(%)



Data Table						
Aug 10	**Sep 10**	**Oct 10**	**Nov 10**	**Dec 10**	**Jan 11**	**Feb 11**
9.2	9.8	10.6	11.1	11.8	12.2	12.3

Risk Factor

The inflation data for May were once again worryingly high. The CPI index rose 19.8% year on year (y/y), up from 17.5% in April, against the government's full-year target of just 7.0%. Driving the CPI index upwards was food (which jumped 28.3% y/y), housing (up 21.1%), transportation (18.9%) and education (24.8%), with only healthcare showing a moderate increase (6.2% y/y). Nonetheless, there was some limited room for optimism. In particular, with the exception of the further deregulation of electricity prices in June, most of the government's price liberalisation measures have now already taken effect. Moreover, the 2.2% month-on-month increase in the CPI index seen in May was well below April's 3.3% reading, and suggests that inflation may peak in y/y terms over the summer. However, the direction of global oil prices and the dong will both still play major roles on the exact timing of this development.

The persistence of the trade deficit and the country's stretched FX reserves continue to undermine Vietnam's country risk outlook. Indeed, while exports were up 33.0% y/y to USD34.7bn in the January-May period (led by textiles, footwear and fish), imports were up 30.6% to USD41.3bn over the same period (led by garments, oil and electronics). As a result, the cumulative trade deficit ballooned to USD6.6bn, and in May alone the shortfall was USD1.7bn, up from USD1.5bn in April and the widest for 17 months. This trend is likely to put further pressure on the authorities to devalue the dong yet further (there have been four devaluations over the past two years, with the last in February 2011) to try to dampen the country's appetite for imports as well as gain some export competitiveness; such an outcome, however, will almost certainly exacerbate inflationary problems, not to mention cause further problems for those firms servicing foreign-denominated debt.

Official attempts to clamp down on inflation via administrative measures are starting to see rising stress in the property sector. The State Bank of Vietnam's (the central bank) recent edict that property loans must be reduced to just 16% of total bank portfolios by end-2011 (from well above these levels at most financial institutions) has seen mortgage lending almost totally dry up, while the few loans that are still being made are with interest rates of around 25% (against 12.75% in mid-2010). This trend is also being experienced by large, well-known property development firms such as Hoa Binh, Lilama SHB and Hoang Anh Gia Lai are suffering a severe credit crunch, while their ability to sell off existing housing stock has been undermined by the lack of mortgage financing. With no near-term resolution in sight, there is likely to be a growing spillover effect onto other business sectors, and D&B advises caution for those dealing with property or construction related firms.

Glossary & Definitions

DEFINITIONS

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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms:

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

F/X Bank Delays:

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

D&B Country Risk Services
For information relating to D&B's Country Risk Services.

UK
Telephone: 01628 492700
Fax: 01628 492929
Email: CountryRisk@dnb.com

USA Inquiry
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CountryRiskServices@dnb.com

Rest of World
Telephone: +44 1628 492700
Email: CountryRisk@dnb.com

D&B Customer Services
For all other information or queries relating to D&B products and services.

UK
Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)
Email: CustomerHelp@dnb.com

USA
Telephone: 1-800 234-3867 option 1, 1 and then 2
Email: CustomerService@dnb.com

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You can contact your local D&B Customer Services departments by clicking here.