Updates on recent economic issues

1. Non-Performing Loans and Vietnam Asset Management Company

- **When VAMC started operations in September** 2013 it had a dual mandate:
  - **Swapping NPL** from banks onto its own balance sheet in exchange for special government bonds. The transaction is done at face value of the debt minus provisions already made.
  - **Arranging for auctions** via which the debts would be sold at market prices to investors, domestic or foreign.
- As of the end of 2013, it purchased VND45,000bn of NPL from banks. In Q1-14 it purchased VND6,300bn versus a goal of VND30,000bn. However, the SBV, which manages VAMC operations, said it would maintain the goal of purchasing VND70,000bn for 2014.
- VAMC arranged for the sale of VND1,800bn of NPL to domestic investors. These are negotiated transactions with individual investors, rather than an auctioning process.
- The task for VAMC during H2-14 consists of:
  - **Continuing the purchase** of NPL to achieve its target of VND70,000bn.
  - **Crafting a set of rules** and regulations so as to facilitate an auctioning process aimed at the participation of domestic as well as foreign investors.
- We believe that such a schedule is desirable **to speed up NPL resolution**. It has become a roadblock preventing banks from boosting credit growth which stood at 1.31% at the end May compared to the goal of 12-14% for the year set by the State Bank of Vietnam.

2. Foreign Ownership Limit

- **A proposal to increase foreign ownership** of listed companies **from 49% to 60%** has long been under consideration. At the beginning of 2014 there was optimism that it would be approved by the Prime Minister and implemented. The market uptrend in Q1 was driven in part by these expectations.
- **The proposal was later returned to the State Securities Commission** for further discussion among relevant ministries (e.g. Finance, Planning and Investment, Justice). Since the process of consensus building across agencies tends to be time consuming, investors did not pay much more attention to it.
- **In early June 2014,** during a conference on strengthening liquidity in Vietnam capital markets, the SSC chairman let it be known that a proposal to increase **foreign stakes in securities companies** would be approved soon. It allows the FOL to be any ratios from 49% to 100% instead of being restricted to the two end points (either 49% or 100%) as under current laws. It was later disclosed that the proposal is not yet final and has yet to be submitted to the PM for approval.

- **By now the market has concluded** that FOL is going to be a multi-year process. Anyone forecasting for the timing of a final product is likely to be disappointed.

3. Foreign Direct Investment from China and its impact on GDP growth for 2014.

- **The cumulative amount of FDI** into Vietnam from China lags behind other Asian nations. Although it has picked up in the past two years, their motivation stems from Vietnam's impending membership in the Trans-Pacific Partnership agreement and enjoying 0% tariffs on garment exports to the US and EU markets. Chinese enterprises have committed to setting up factories for textiles, fabrics, and dyeing operations. These processes are capital-intensive (especially dyeing factories which require water treatment facilities) and few local Vietnamese companies possess the resources and technology to undertake them.
- Under TPP "**yarn forward" provisions**, these products qualify for low or zero tariffs because of their location in Vietnam, a member country. From this standpoint, these investment flows are **profitable to Chinese investors** and unlikely to be withdrawn. So far we have seen reports of Chinese state-owned companies being advised by their government not to bid for future projects in Vietnam, but continuing to fulfil obligations on existing operations. These are in the nature of trade flows (specifically, in construction services) between two countries and have little impact on long-term investments.
- It should be noted that any reduction in Chinese FDI **can be offset** by inflows from other sources. For example:
    - **Samsung Electronics announced** in early June its plan to set up a USD1bn production facility in HCMC, its first investment in the southern part of Vietnam. Samsung also made a USD1bn expansion to its factories in Bac Ninh, Thai Nguyen. This can be considered a move to fill any vacuum left by a retrenchment in Chinese investment. Additionally, **businesses from Singapore and Taiwan,** those most affected by recent political events, expressed confidence in the profit potential of investments in Vietnam and have no plan to scale back. The Vietnamese government has offered compensation for property damage and assurances of future safety.
    - **Korean textiles companies** are setting up factories near Hanoi and Hai Phong which can provide materials for the Vietnamese garment industries. These follow in the wake of similar activities by Taiwanese and Chinese enterprises.
- It is fair to surmise that any decrease in Chinese investment can readily be replaced by other players.
- **At the Vietnam Investment Forum in June 2014**, Marc Faber declared that Vietnam remains an attractive investment destination. He reached that conclusion after assessing recent geo-political events. He thinks that the differences between the two countries will be resolved by negotiations. Escalation is not in the interest of either side.
- **In economic terms, an uncertain climate** caused by political events can dampen domestic demand. Consumers tend to be more cautious in their spending behaviour. The impact on GDP growth is to bring our projection from 5.7% to 5.5% for this year (versus a rate of 5.4% by Citibank), but still remaining in a range of 5.5 – 6.0% posited by VinaCapital at the beginning of 2014.

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