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Focus on Vietnam

Finnfund Insights
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Foreword

Vietnam is one of the fastest-growing economies in Southeast Asia and globally, with steady growth projections for the medium term. The country has a diversified service sector, a strong manufacturing base and a large domestic market.

From an investing point of view, there are many promising sectors, such as agriculture, digitalisation and energy.

In addition to publicly available documents and reports, this report is based on several meetings and interviews conducted by Nea Tiililä, Economist, and Jussi Tourunen, Associate Director, Head of Energy and Infrastructure, in Ho Chi Minh City and Hanoi, Vietnam, in October 2023

Macroeconomic outlook¹

Based on the OECD DAC classification, Vietnam is an export-oriented lower-middle-income country. Its main trading partners include China, the European Union, the United States and many Southeast Asian countries. The main export products include electronics, ready-made garments, furniture and agricultural products such as rice and coffee.

Vietnam has a young and large population of 99 million people, with 38% of the population below 24 years old and 83.5% below 84 years old.²



Vietnam has strong economic fundamentals

Vietnam has enjoyed robust economic growth and development throughout the 2000s. It has succeeded in reducing poverty significantly. Industry and services are the largest drivers of GDP, both accounting for around 40% of GDP, followed by agriculture, which accounts for more than 10% of GDP.

Vietnam has successfully transitioned to a market economy, and nowadays the importance of trade is very high. The efforts to liberalise the economy are expected to continue in the future. Overall, the economic fundamentals are strong, the public finances are healthy, and the domestic market is dynamic with rapidly growing private consumption, supporting the business environment in Vietnam.

“Vietnam has enjoyed robust economic growth and development throughout the 2000s, and the country has succeeded in reducing poverty significantly.”

Nea Tiililä
Economist, Finnfund

¹ Sources: Fitch Solutions Vietnam Outlook, EIU Viewpoint Vietnam Report, IMF 2023 Vietnam Article IV, IMF Datamapper

² [Vietnam - age structure 2022 | Statista](#)

Recovery from the recent macroeconomic shocks has been bumpy

Vietnam entered the COVID-19 pandemic with robust growth and policy buffers in place. COVID-19 led to disruptions in economic activity, but successful containment measures and supportive policies made Vietnam one of the best-performing economies in Southeast Asia in 2020–2021.

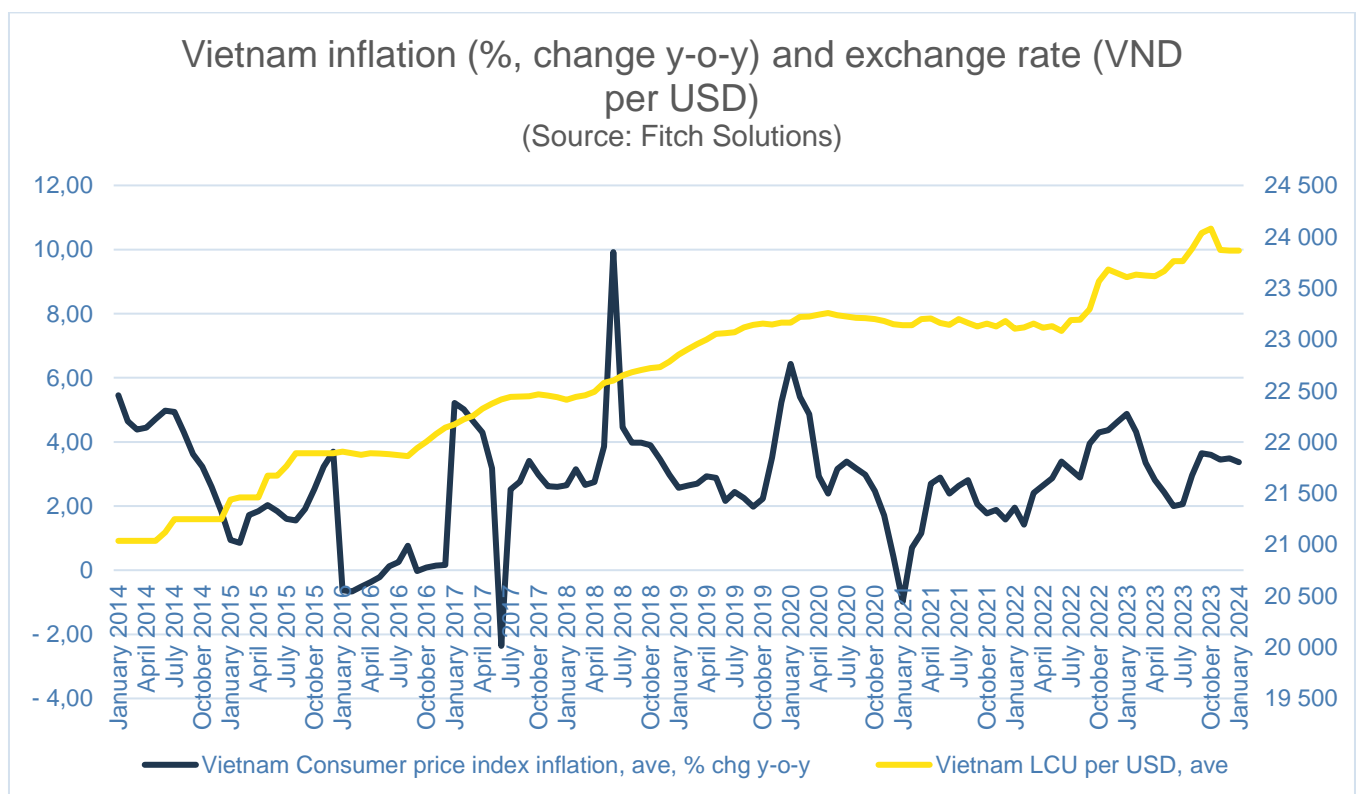
However, 2022 and 2023 were difficult for Vietnam for multiple reasons. Due to the global economic slowdown, Vietnam's trade slowed, together with decreasing external demand. Private investment, which has been driven by property investments, decreased as the real estate sector faced tightening financing conditions and changes in regulation. At the same time, private consumption slowed down due to inflation, inflexible real incomes and weak confidence in the market conditions. As a result, in 2023, growth declined to around 4.7% (IMF WEO October 2023) compared to the expected 6.2% (IMF WEO October 2022).

One trigger for Vietnam's recent weak economic performance was a comprehensive

anti-corruption campaign, as multiple top management-level personnel in the real estate sector were arrested over land purchase issues. The problems spread to the banking sector, as Saigon Commercial Bank, a bank connected to the arrested real estate developers, experienced a bank run. At the same time, the global financing conditions tightened rapidly, creating significant stress in the Vietnamese banking sector. Confidence in the market and the banking sector dropped significantly and corporate bond markets froze completely.

The bond market has experienced some recovery in the past few months, but the bonds issued have been bank bonds and the issuances of real estate bonds have not been successful.

Despite the challenges, foreign direct investments (FDIs) have remained at a surprisingly strong level. Vietnam has 65 bilateral trade agreements supporting FDI inflow.



Inflation and exchange rates in Vietnam since 2014.

Price pressures have remained moderate

Vietnam has managed external price shocks well, and compared to global inflation, price pressures have remained at a moderate level (below 5%) in recent years. The inflation outlook is also stable, with inflation expected to be around 3.5–4.5% in 2024–25.

Monetary easing began in summer 2023, and the policy rate stands at 4.5%. Local currency financing costs have thus remained at a reasonable level. On the other hand, the interest rate gap between the US Dollar and the Vietnamese

Dong (VND) is weighing heavily on the foreign exchange rate.

The Vietnamese Dong experienced accelerating depreciation over 2023. Looking ahead, some stabilization is anticipated but the depreciatory trend is expected to continue. The Dong is floating but the central bank manages it with a trading band. The band was increased from +/-3% to +/-5% in October 2022 when the Dong was under a lot of pressure.



Finnfund has been financing an e-vehicle company Vinfast in Vietnam since 2022. Photo: Vinfast

Public finances remain robust

Vietnam’s fiscal position is relatively strong, and the country is enjoying a current account surplus. Reserves have been falling amid external sector pressure but remain adequate, above three months of imports.

Government indebtedness is at a relatively low level, at around 40% of GDP in 2023. The government has set a limit for public debt at a maximum of 60% of GDP. There is fiscal space for increasing government spending, which would be needed in a number of sectors in

order to accelerate development and growth. However, the government seems to be very careful in public spending.

Vietnam’s fiscal position is relatively strong, and the country is enjoying a current account surplus.



Real GDP growth in Vietnam since 2010.

Future outlook remains positive

In the future, Vietnam’s growth is expected to rebound to above 6% as the domestic challenges and external pressure begin to ease. The real estate sector is expected to start recovering gradually, but if financial troubles increase further, they will harm the real economy. In the near term, high USD rates will continue to weigh on the external sector and the Dong.

A main risk for the outlook is deeper and more persistent weakness in external demand. Another threat is climate change, which Vietnam is considerably exposed to. Also, China’s economic slowdown will impact

Vietnam, especially through trade and tourism. However, FDIs to Vietnam are likely to grow, as investors are exiting China. Relocation of manufacturing from China will also benefit Vietnam, although Vietnam’s ability to increase its role in global manufacturing will remain gradual. Overall, the outlook is positive, with strong economic growth forecasts.



Australis Aquaculture Vietnam Ltd is a forerunner in sustainable aquaculture in Vietnam and a Finnfund investee since 2017. Photo: Australis Aquaculture Vietnam

Political outlook³

Vietnam is a one-party communist state. Political stability is strong and expected to remain so, given that the Communist Party of Vietnam (CPV) is expected to continue to control the country tightly.

One of the main bottlenecks for development in Vietnam is the weakness and inefficiency of public institutions. In order to increase the strength of institutions and the rule of law, among other areas, public institutions need to

Strong focus on reducing corruption

Corruption is a major challenge in Vietnam. Even if corruption is not always visible in the private sector, it is widely suspected to exist at all levels of the economy. The current General Secretary of the CPV, Nguyen Phu Trong, has put anti-corruption at the centre of his agenda to improve the legitimacy of the public institutions in the country and to increase trust in them. The anti-corruption campaign has focused especially on high-profile cases, leading to the suspension of multiple ministers and deputy ministers, and to the resignation of the previous president.

be reformed. Freedom of association, freedom of speech and freedom of the press are restricted.

However, strong economic growth and growth in employment and household income are expected to continue mitigating general discontent, at least in the medium term.

The anti-corruption campaign can be seen as a positive attempt to increase accountability and transparency within society. Simultaneously, it has also increased political uncertainty, as many high-level officials and ministers have been arrested. This has led to government officials being very careful and hesitant in decision-making. Slow decision-making in the government and public sector has been a challenge in Vietnam and is now further exacerbated.

³ Source: EIU Viewpoint Vietnam report

Changes in power

General Secretary Nguyen Phu Trong holds a lot of power in the CPV and is seen as one of Vietnam's top leaders. He is expected to complete his third term as General Secretary in 2026. However, he will turn 80 years old in 2024, his health has declined, and he has recently missed some high-level meetings. Mr Trong has not yet endorsed a successor, but the most likely candidates are the current Prime Minister, Pham Minh Chinh, and the Chair of the National Assembly, Vuong Dinh Hue.

Since Mr Trong's faction enjoys broad support among party leaders and high-level government officials, his departure is expected to be quite smooth, even if it happens prematurely, for instance for health reasons.

Strengthening relations with the US

Vietnam has strong diplomatic relations with both the West and China. Recently, Vietnam upgraded its partnership with the US to a 'strategic comprehensive' partnership, the highest level of diplomatic relationship in Vietnam. Vietnam has designated five other countries as comprehensive strategic partners, including China, India, Russia, South Korea and Japan.

China is an important and long-time partner of Vietnam. However, there are long-standing

Sector focus: energy

Vietnam's public utility, the state-owned Vietnam Electricity (EVN), has a monopoly in power transmission, distribution and sales. In addition to its own power generation capacity, EVN purchases electricity from independent power producers (IPP) and imports it from neighbouring countries.

Attractive feed-in-tariffs (FiT) helped to increase significantly the capacity of renewable energy generation, especially solar, in Vietnam during



In Vietnam, strong economic growth and growth in employment and household income are expected to continue. Photo: Finnfund

territorial disputes with China in the South China Sea, causing tension between the two countries. These tensions will most likely remain, especially following a formal upgrade in Vietnam's diplomatic ties with the US.

Nevertheless, the likelihood of a conflict between Vietnam and China remains very remote, partly due to the fact that Vietnam's economic growth is tied closely to Chinese investments.

2017–2020. However, the grid was not sufficient to absorb all the generation, which resulted in curtailment. In addition, the demand for electricity did not grow at the same pace as the supply during the initial period of COVID-19. After expiry of the FiT scheme, there has been very little investment in utility-scale renewable energy generation in Vietnam.

Investments in renewable energy generation needed

Despite these recent problems related to the rapid increase in intermittent generation capacity, considerable investment is needed in renewable energy generation in order to enable continued economic growth and the achievement of Vietnam's commitment to net-zero carbon emissions by 2050. Also, investment in a limited amount of thermal power capacity may be necessary as peak and back-up power, to enable a smooth and just energy transition. In addition, storage (batteries, pumped hydro) will play an increasing role.

The Vietnamese government acknowledges the need for investments in the grid to enable transmission of power from regions where renewable energy is abundant (particularly southern and central Vietnam) to regions with under-served energy consumption (in the north). Considerable investment in the grid is expected from the public sector and international development partners, as well as from local banks.

Vietnam's main planning and policy-setting tool for the energy sector, Power Development Plan 8 (PDP 8), was finally published in 2023. This long-awaited document calls for significant investment in renewable energy (especially offshore wind and subsequently also solar). However, the market is still waiting for further guidance from authorities for the plan's implementation in practice. No major utility-scale wind or solar projects are likely to be developed until further clarity on Power Purchase Agreements (PPAs), tariffs and other matters. Furthermore, EVN is unlikely to enter into new power purchase agreements before the government decides on new retail tariffs for electricity.

In the meantime, the opportunities for private investors lie in commercial and industrial (C&I) solar for self-consumption (sale of electricity to the grid is currently not allowed) and in so-called transition projects, which were approved under the previous Feed-in-Tariff mechanism but missed the commercial operation date (COD) deadline determined by the PPA. These projects can now negotiate a tariff

directly with EVN. However, not much news of successfully negotiated tariffs has been heard yet.

Finnfund is interested in investing in the Vietnamese energy sector and is actively looking for new investing opportunities.



"There are a number of Finnish companies operating in Vietnam, and I hope we will see even more companies expanding their operations to the country."

Jussi Tourunen
Associate Director, Head of Energy and
Infrastructure Investments

Sector focus: the banking sector

The banking sector in Vietnam consists of around 30 banks. Seven of these, including the four biggest ones, are state-owned and the rest are privately owned. Most of the banks have implemented Basel II and the biggest banks are aligned with IFRS9.⁴

Credit growth, the annual percentage change in total outstanding loans of individual banks, has been very fast in the 2010s in Vietnam, clearly above 10% a year. Now, due to the real estate and banking sector challenges, credit growth has slowed down significantly. The central bank has tried to boost credit growth to support

economic growth by loosening regulatory measures and by providing additional liquidity.

Asset quality has in general been good in the Vietnamese banking sector but is now deteriorating. Sector-wide capital adequacy has deteriorated amidst ongoing and recent crises, and now stands at around 11.5%. Capital adequacy is poorer in state-owned banks compared to privately owned banks. The level of reported non-performing loans (NPLs) rose throughout 2023 but remained relatively low at around 3%. If restructured loans are included, the IMF assesses the NPL level to be around 5.5%.⁵

Other sectors: agriculture, digitalisation, health, and education

While there is an ongoing shift from an agricultural economy towards a higher level of production and manufacturing, agriculture is still a growing and significant sector in Vietnam, accounting for around 12% of GDP.

Given the favourable climate all year round and the plentiful natural resources, there is large potential for agriculture. Vietnam is one of the world leaders in rice and coffee export. Demand for and the price of Vietnamese rice are likely to continue to be high, as India is restricting its rice exports.

In addition, digitalisation and digital services are growing rapidly in the country, as well as the need for health and education services, given the large and young population.

⁴ [Which banks lead international risk management standards? \(vietnamnews.vn\)](https://vietnamnews.vn)

⁵ IMF: Vietnam: 2023 Article IV Consultation

Cooperation between Finland and Vietnam

Finland and Vietnam have long diplomatic relations and today Vietnam is Finland's biggest trading partner in Southeast Asia. Finland's official activities focus especially on water and natural resources, the forest industry and the energy sector. Official development cooperation between Vietnam and Finland has ended.

At the moment, there are a number of cooperation projects between the governments that relate to air quality and forecasts, meteorological services, the sustainable management of water resources, a food chain quality management system for coldwater fisheries and sustainable forest resources.⁶

There is a growing number of Finnish companies operating in Vietnam and Finland has a bilateral trade agreement with Vietnam.



Vietnam has a young and large population of 99 million people. Photo: Finnfund

In January 2024, Finnfund had four direct investments in Vietnam.

These include

- **a loan to e-vehicle company Vinfast,**
- **equity investments in renewable energy projects of around 11 MWh through the Nordic Impact Cooperation platform,**
- **a loan to Australis Aquaculture fish farm and,**
- **a loan to fruit manufacturing company Nafoods.**

⁶ [Vietnam became Finland's biggest trading partner in Southeast Asia - Ministry for Foreign Affairs \(um.fi\)](#)

The EU and Vietnam

The EU priorities in Vietnam include:

- a) a climate-responsive digital circular economy;
- b) responsible entrepreneurship and enhanced skills for decent employment; and
- c) strengthening governance, the rule of law and institutional reform.

All the main EU projects in Vietnam relate to the energy sector. Under the Global Gateway initiative, there are three large projects, including pump storage, hydropower plant expansion and a nearshore wind farm in Southern Vietnam.

The Just Energy Transition Partnership (JETP) is another EU priority programme in Vietnam. It is a partnership between Vietnam and the International Partners Group, including the European Union, the United Kingdom, France, Germany, the United States, Italy, Canada, Japan,

Norway and Denmark. The Partnership aims to support Vietnam in delivering on its ambitious

Net Zero 2050 goal, to accelerate the reaching of a peak in Vietnam's greenhouse gas emissions, and to help in the transition from fossil fuels to clean energy. There is private-sector participation to JETP from the countries that have individually signed the partnership, but other EU member countries have so far not participated in the projects.

The EU and Vietnam have a Trade Agreement and an Investment Protection Agreement. The EU's main exports to Vietnam include high-tech products, including electrical machinery and equipment, aircraft, vehicles and pharmaceutical products. Vietnam's main exports to the EU include telephone sets, electronic products, footwear, textiles and clothing, coffee, rice, seafood and furniture.⁷



Established in 2007, Australis Aquaculture is the largest Barramundi producer and in Vietnam. The company emphasises sustainability in its operations and has secured many international certifications and awards as well as retailer-specific certifications. Photo: Australis Aquaculture

⁷ [EU trade relations with Vietnam \(europa.eu\)](https://europa.eu)

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