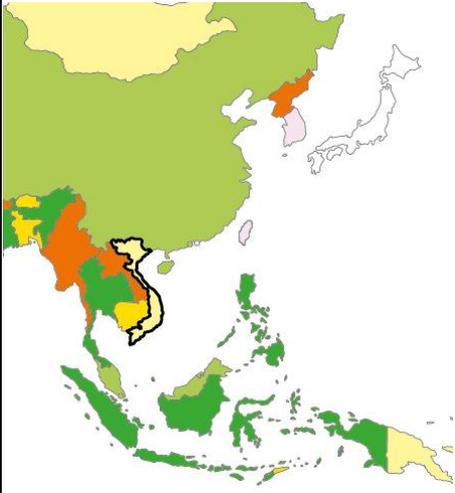
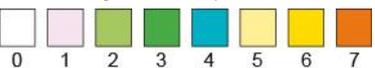


Vietnam

	COUNTRY RISK CATEGORY <h2>5/7</h2> <p>The country risk categories range from 0 to 7. The lower the number the better the credit rating the country has.</p> 	EKN'S POLICY Sovereign risks: Normal risk assessment Other public risks: Restrictive risk assessment Bank risks: Restrictive risk assessment Corporate risks: Restrictive risk assessment <p>See "EKN'S POLICY" section</p>
	EKN'S OUTSTANDING GUARANTEES IN THE COUNTRY Short-term transactions: SEK 47.8 million Medium and long-term transactions: SEK 279.7 million	DATE 14/05/2014

Continuing focus on economic stability

After a turbulent period with large imbalances, Vietnam's economy has been stabilised. Its economic growth is, and is expected to be low from a historical perspective, but a growth rate of around 5.5 percent per year is more likely to be sustainable in the long term. Key free trade agreements are under negotiation and can strengthen Vietnam's market position as a base for the manufacturing industry. Major reforms in the banking and corporate sector can further increase the country's competitiveness in the long term, but these efforts are progressing slowly. The country has great potential, with an excellent geographic position in a dynamic region with good transport connections. In the short term perspective however the coming reform efforts can create some turbulence.

STRENGTHS

- Continuing orientation toward market economics and private entrepreneurship
- Competitive export sector
- Large inflows of foreign investments
- Broad based poverty reduction

WEAKNESSES

- Extensive and weak banking sector
- Dominant inefficient state-owned enterprises under political control
- Deficiencies in transparency and in the quality of information
- Past episodes of failed stabilisation policies

POLITICS

Political concessions dampen voices of criticism

Vietnam is a single-party communist state with market-oriented economic policies. The country's continuing political stability hinges primarily on the ability of the communist party (CPV) to change. At present, there are no indications that the CPV's status as the only allowed party is going to change. It is more likely that minor reform efforts will be made and the extent of these will be directly related to the pressure the party is put under. The national assembly has been given a more active role in the political system in recent years. In 2012, the national assembly solicited comments from the public on proposed amendments to the constitution. This was an extraordinary measure that was received relatively well in the form of various proposals for amendments, some of them far-reaching. However, the comments did not lead to any actual change to the proposal. The measure can be seen more as a pressure gauge of popular opinion. There have been reports of reprisals against those who have expressed opinions and proposed amendments.

The party is facing a tough political balance, with the CPV's efforts to maintain its legitimacy getting more challenging. Widespread Internet access and use is increasing knowledge of allegations of corruption and abuse of power against the party. Recurring devaluations and high inflation over the past five-year period have also added to the discontent. But the country's rapid growth over a long period has given the population better living conditions and laid a solid foundation for support for the CPV and its policies. Not least the 70 percent who live in rural areas and who have benefited from targeted economic initiatives.

The CPV is showing a will to reform in certain areas and to a certain extent. By taking action on some specific reform issues, the CPV is expected to buy time for a gradual change of the party. The growing questioning of the CPV is not yet close to a critical mass. In light of the economic transformation Vietnam has undergone, a corresponding shift on the political front would not be inconceivable. A dramatic change in the country's political situation is therefore less likely.

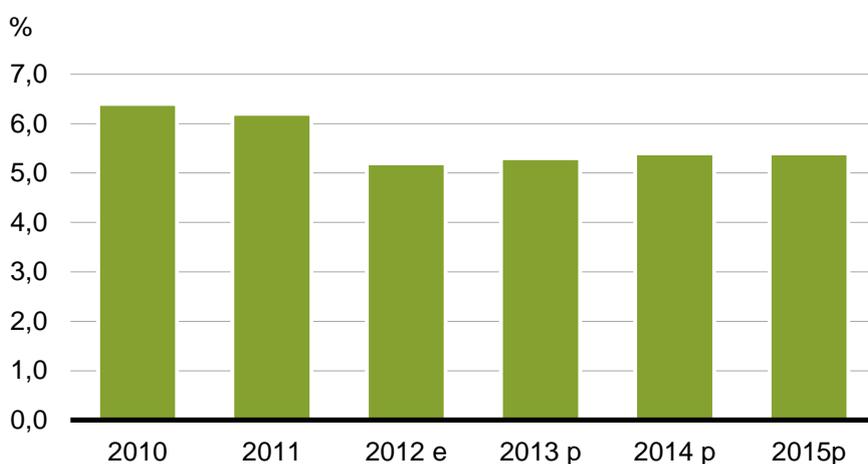
ECONOMY

Recovery under way

Between 2002 and 2007, Vietnam's GDP growth was an average of 7.8 percent annually. The global financial crisis combined with great imbalances in the domestic economy reduced the growth rate substantially. Growth was around 5.7 percent per year between 2008 and 2013. The economy has been stabilised in the past years and the imbalances have been reduced. In the long term, the prospects for sustainable and slightly higher growth are good in light of the country's competitive labour, proximity to large and rapidly growing markets and an established economic policy that promotes market solutions. There are however question marks in the short term perspective. Limited progress on reforms of state-owned enterprises, capitalisation and consolidation of the banking sector as well as weak transparency are creating uncertainty and making the business environment difficult. Another explanation as to why the economy has not recovered quicker is its clear export focus and the weak recovery in the more developed economies. Global demand for Vietnam's export goods has not yet

recovered. The risk of a continuing weak trend in particular in the OECD countries is a substantial risk for Vietnam's future prospects.

GDP GROWTH



The growth rate averaged 6.4 percent per year over the past 15 years. (Source: IMF)

The country's positive economic development has unfortunately not been followed by institutional improvements to the same extent. The lack of reliable and up-to-date data as well as lacking predictability of its economic policy makes the monitoring of the country's economic development more difficult.

The confidence of foreign investors in the economy is still high. Foreign direct investments are equal to nine percent of GDP and have continued pouring into the country even during the period following 2008. Their increasingly significant contribution to the economy is illustrated by the fact that 61 percent of exports came from foreign-owned companies in 2013. In comparison, the corresponding figure was only 27 percent in 1995.

The country's public finances are fundamentally weak, as they are dependent on financing from multilateral development banks and other public lenders. The country's budget deficit has been large in recent years, especially if the investments held outside of the state budget are included. On-going reform efforts and streamlining of state-owned enterprises are crucial for cutting their costs. Tax reforms are likewise a key measure to strengthen the country's tax collection. Progress is expected in both of these areas, although it may take longer than planned. In the short term, there is also potentially a significant cost for the state in the weak banking sector, which may end up needing support.

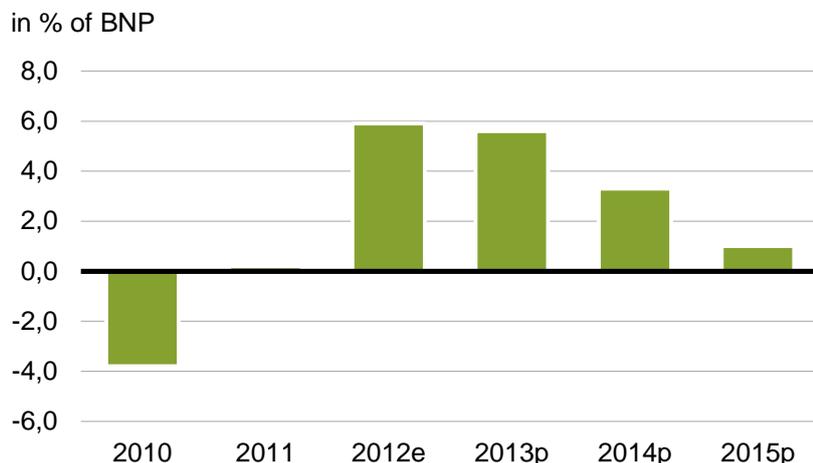
BALANCE OF PAYMENTS AND DEBT ISSUES

Capital inflows and trade surplus limit risks

A stricter monetary policy together with a recovery of export growth and continuing inflows of foreign direct investment have strengthened the country's balance of payments. The country has had a trade deficit for several years, but since 2012 it has a trade surplus. A smaller surplus is expected this year, while the future net trade balance is expected to

fluctuate around zero. Vietnam has diversified its industrial sector, and assembly of mobile handset in particular has become a key industry.

CURRENT ACCOUNT BALANCE IN % OF GDP

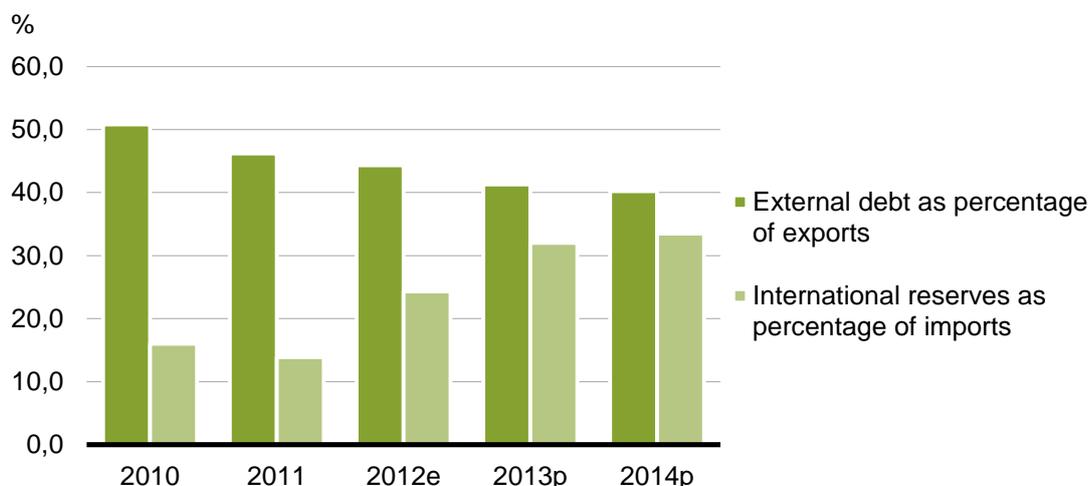


After ten years of having a current account deficit, the country turned it into a surplus in 2011. (Source: IMF)

The country's international reserves, which were close to being exhausted during the worst crisis in 2011, have recovered. The country's import coverage is estimated to remain at a low level, just over two months. Since the country's imports continue to be substantial, import coverage will only increase slowly.

Vietnam's external debt has a favourable profile with a high proportion of affordable multilateral or bilateral loans. This can be seen in particular by its low debt service. The country's total external debt is equal to around 40 percent of GDP and the majority of the loans are public.

EXTERNAL DEBT AND INTERNATIONAL RESERVES



In nominal terms, the country's international reserves are increasing significantly, but so are its imports. As a result, import coverage remains at a low level. (Source: IMF, EIU)

In conclusion, the country's external position has been strengthened in comparison to the past years. The stabilisation that occurred has had effect in form of increased confidence in the currency and a more stable exchange rate, with the demand for export goods recovering simultaneously. Buffers are being built up and the continuing growth of its international reserves reduces the country's vulnerability to external shocks.

CURRENCY POLICY

Stronger currency

The Vietnamese dong fell in value heavily during and after the crisis years. The reasons were a lack of confidence and high inflation, which led to greater interest in gold and dollars. Measures to reduce the banking system's currency exposure and limit gold imports have stabilised the dong. The exchange rate on the parallel market has largely been harmonised with the official exchange rate and informal trade in the currency has fallen considerably. The currency is surrounded by restrictions to be able to maintain control of the exchange rate. Currency supply is regulated via the central bank and the exchange rate is allowed to fluctuate within a narrow range.

Instability on the financial market or a too fast or strong return to a more expansive economy policy could once again lead to depreciation pressure on the currency. The central bank does not want to deplete the country's international reserves which, in such a scenario, make new devaluations likely. The primary scenario is however that the international reserves are built up via the current account surplus and continuing capital inflows and the risk of future currency volatility is reduced.

FINANCIAL SECTOR

The banking sector is a substantial weakness

Vietnam's high growth rate until 2010 was due in part to a rapid expansion of credit in the banking system. Between 2001 and 2010, loans increased as a percentage of GDP from just over 40 percent to over 120 percent. After that, lending fell back to around ten to 12 percent per year.

The Vietnamese banking system was underdeveloped at the start of the rapid credit expansion. The result is now an undercapitalised, weakly regulated and non-transparent financial system that is a major weakness for the state. Cross ownership between banks and between banks and companies also increases the risk of an individual bank's default triggering a systemic crisis. The banks report a large number of bad loans and confidence in banks is weak.

The establishment of an asset management company, which gives banks with a high proportion of bad loans the opportunity to exchange them for bonds, is a part of the on-going banking reform. This is a good initiative, but it does not solve the underlying problem of banks with far too weak capitalisation. In the medium-term perspective, it is probable that changes with respect to capitalisation, foreign ownership and transparency will be implemented to strengthen the banking system. Depending on how large the bad assets in the

banks really are, implementing the planned reforms could become very expensive for the sovereign. A credible plan of action and increased transparency would have a positive effect on the country's investment climate in general, as risks associated with a potential systemic crisis would be reduced.

Overall, the country's banking sector is weak and urgently needs the reforms that have already been initiated. The banking sector's weakness affects both Vietnam's business environment and its creditworthiness.

BUSINESS ENVIRONMENT

Reforms for improved transparency

The country's operating environment is deemed very difficult, but measures are on-going to improve it in the long term. Some of the reasons for the weak environment are the high state influence and detailed regulation that creates overlapping and contradictory regulations. This is exacerbated by local practice and the application of rules. A politicised judiciary with high corruption further complicates enforcing contracts entered into. The chances of recovery in the event of problems in a transaction are estimated to be very limited. This estimate is reinforced by the country's ranking in the World Bank Ease of doing business index and experience from companies with a local presence. International accounting firms with local presence, also hold the view that locally audited financial statements often are deficient in quality.

The sectors hit particularly hard by the country's crisis in 2011 and the following weak economic growth are the property sector, the construction sector, as well as the shipping- and the steel industry. The creditworthiness for companies in these sectors has decreased and is contributing to the increasing credit losses incurred in the banks.

Sweden has a bilateral investment protection agreement with Vietnam and the country is a party to the New York Convention (*The Convention on the Recognition and Enforcement of Foreign Arbitral Awards*), which is positive for the opportunities of businesses to insure investments with EKN. Vietnam has been a member of the WTO since 2007 and is currently negotiating free trade agreements with both the Transpacific Partnership and the EU. Membership in the various agreements contributes to the need for Vietnam to reform its business environment, which is positive.

Overall, the quality of financial information is going in the right direction. In spite of this, substantial weaknesses remain, and it is not uncommon for the financial information to be deficient in quality.

State-owned enterprises

The state's central role in trade and industry is shown in part by the large number and the extent of state-owned enterprises. Their corporate structures can be very complex, and thus far without a requirement to disclose financial information publicly. The state-owned enterprises are in the process of being reviewed, restructured and in some cases divested. The restructuring of these companies is partially dependent on the ability of banks to absorb potential losses. At this time, it is estimated that the banks are unable to manage such losses.

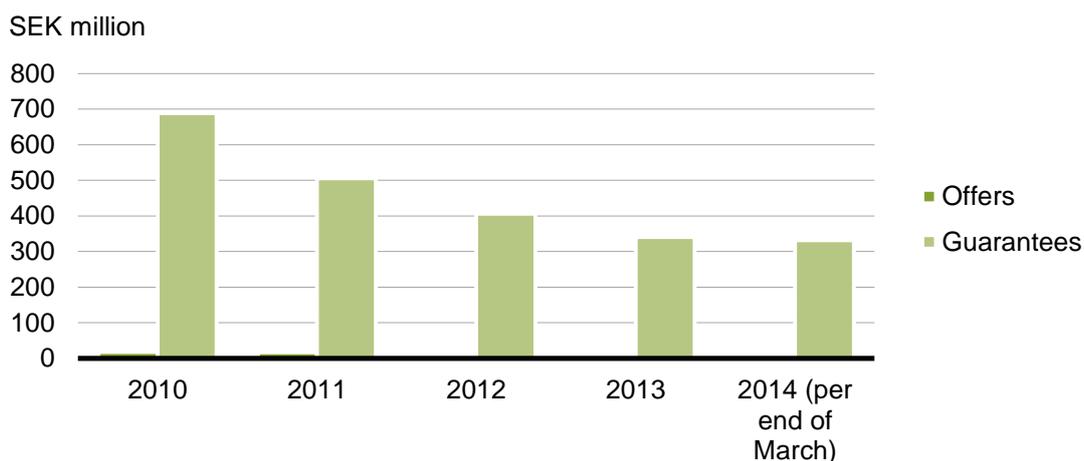
Therefore, the state must contribute capital. The weak banking sector, the state's restraint in providing capital and strong interest groups have all contributed to the reformation of state-owned companies going slower than planned. The plan for 2014-2015 is to equitize 432 state-owned enterprises, in comparison to 74 companies equitized in 2013.

EKN'S EXPOSURE

Short term transactions dominate

EKN has issued guarantees for SEK 1.9 billion over the past ten years. Nearly 60 percent of these guarantees are telecom transactions. The rest of them are in the engineering and transport sectors. The provision of guarantees in 2013 totalled SEK 75 million, and approximately SEK 20 million up to March 2014. The amount of outstanding guarantees at 31 March 2014 was SEK 332 million. With the exception of one large transaction in the pulp and paper industry, the exposure is mainly short term and mostly via letter of credit guarantees.

EKN'S OUTSTANDING EXPOSURE



EKN's outstanding offers and guarantees at 31 December of the respective year. (Source EKN)

PAYMENT EXPERIENCE

Positive payment experience

EKN has positive experience of guaranteeing transactions in Vietnam and has not had any late payments since 2008. The restrictive country cover policy and the fact that a large portion of the transactions use a letter of credit guarantee serve as probable explanations for the very low frequency of arrears. Other export credit institutions generally share EKN's positive experience, but late payments and claims do occur. EKN does not have any outstanding claims on the country or on individual debtors.

EKN'S POLICY

Continuation of restrictive policy

EKN classifies Vietnam in country risk category 5, an assessment undertaken in collaboration with the other OECD countries. Provided that the reform efforts continue and the economic

policy does not deviate from its focus on stability, we do not foresee any change in the country risk category this year.

EKN's restrictive policy puts the spotlight on financial transparency, currency exposure and the difficult business environment. The difficulty in conducting a risk assessment of companies and banks has not yet been improved significantly by the on-going reforms. The restrictive risk assessment therefore remains. EKN has not looked into the possibility of issuing guarantees for contracts in local currency.

OFFICIAL COUNTRY DATA AND CREDIT RATINGS

OFFICIAL COUNTRY DATA	CREDIT RATINGS	
Area: 330,957 km ² (74% of Sweden) Population: 88.8 million (2011) Population growth: 1.0% (2010-2015) GDP: USD 155.6 billion in 2012e (Sweden USD 523.8 billion in 2012) GDP/capita: USD 1550 in 2012 (Sweden USD 55,041 in 2012)		
	Moody's:	SOVEREIGN RATING
	S&P:	B2/Stable
	Fitch:	BB-/Stable
		B+/Positive

COUNTRY ANALYST

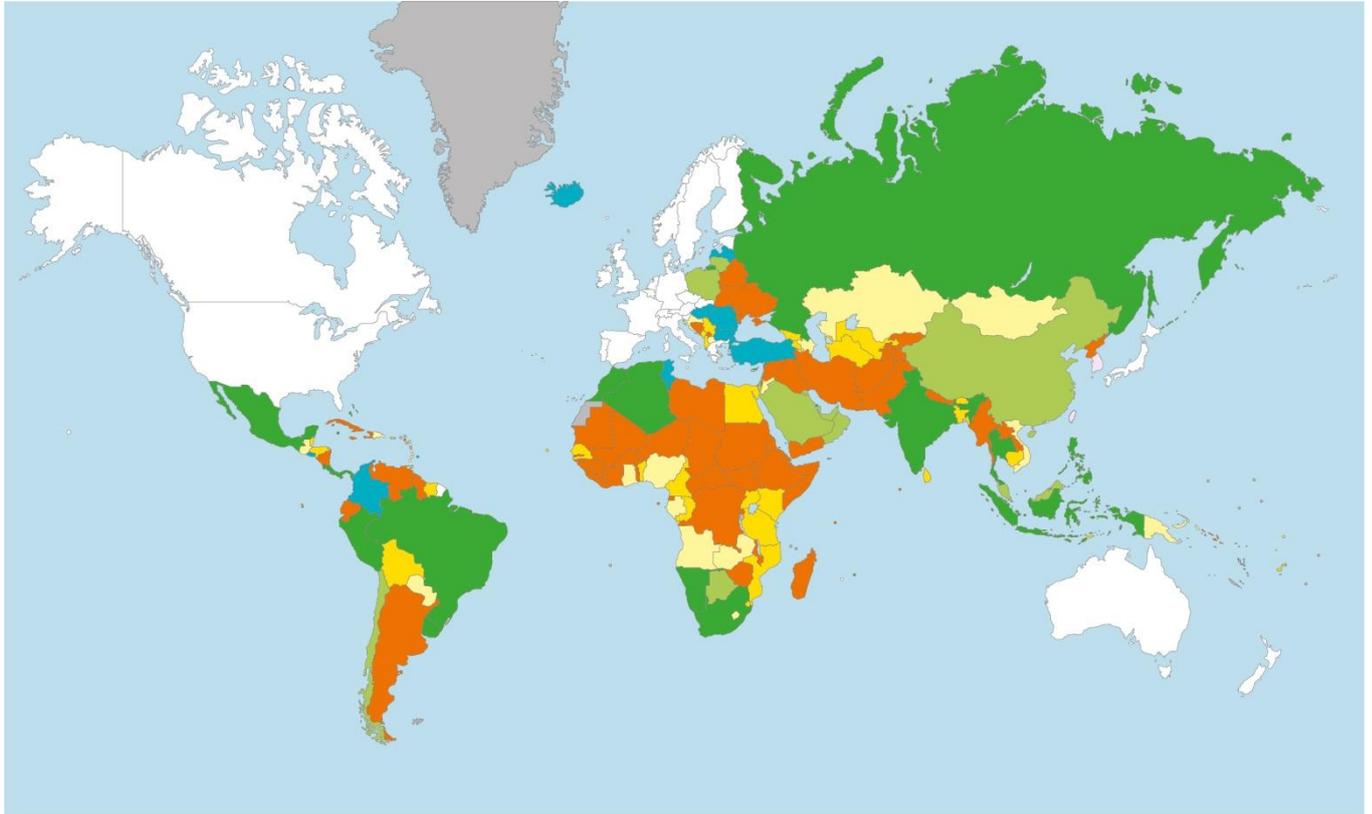


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DISCLAIMER

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EKN'S VIEW OF THE WORLD



The country risk categories range from 0 to 7.

The lower the number the better the credit rating the country has.



EKN – CREATING CONFIDENCE IN YOUR EXPORTS

EKN is a government agency that supports Swedish exports and the internationalisation of Swedish industry. This we do by offering exporting companies and banks guarantees for payment and financing, together with advice on business structure and risk management.

Our services provide an extra level of confidence, increased competitiveness and more opportunities for successful export transactions.

The Swedish Export Credits Guarantee Board

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