

VIETNAM

BUSINESS REVIEW

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*Park Hyatt Saigon ranked 7th in "Top City Hotels in Asia" in 2014
by US magazine "Travel + Leisure"*



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ECONOMY

Trade surplus tops \$1.46b in first half of this year

The country had a trade surplus of \$1.46b by July 15, according to statistics from the General Department of Customs.

The department reported that the country's export and import turnover in the period reached \$152.03b, up 12.9% year on year. Of the total, export accounted for \$76.75b, up 14.7%.

In the first half of July, the export value was \$5.82%, down 11.2% against the second half of June. Garment and textile was the only export staple whose revenue exceeded \$1b in the period.

The import revenue in the first half of July was also down 6.9% to reach \$6.02b. Machines, equipment and materials were the items with the highest import value.

Foreign-invested firms remained the biggest contributor to the country's export with a value of \$3.54b in the first half of July, raising the total export in Jan-Jul period between 15 to \$47.15b. The firms spent \$3.44b and \$42.28b on imports in the first half of July and in the Jan-to-July period, respectively.

Based on export results till date, Ministry of Industry & Trade (MoIT) forecast VN's export value this year would reach roughly \$146b, up 10.6% compared with the previous year. The import value, meanwhile, would reach \$145.5b, up 10.2%. So VN would have a trade surplus of roughly \$500m this year.

However, the ministry noted that it would not be easy to achieve these results because the economy still faces numerous difficulties. The competition between countries which export to large markets such as the US, Japan and the Republic of Korea is becoming increasingly fierce. The export of agricultural and forest products and seafood continues to face difficulties in terms of price and market.

To achieve the annual export targets, deputy director of the MoIT's Export and Import Department Phan Thi Dieu Ha said that the ministry had issued some instructions and proposed measures to boost exports, especially the export of agricultural products and seafood.

Recently, the MoIT and the Ministry of Agriculture and Rural Development met to discuss market-related issues to help businesses boost exports. They agreed that it was necessary to maintain a close relationship between agricultural production, the processing industry and value chains in order to create high-quality agricultural products.



BANKING & FINANCE

Experts optimistic about credit market

Experts have shown optimism despite the slow credit growth over the past six months, which had raised concerns over the banking system's ability to reach the year's target of 12%-14% growth.

According to statistics from the State Bank of Vietnam, the credit growth rate in the first six months of this year was only 3.52%, while the growth rate over the same period last year was 4.7%. However, many experts said this did not pose a problem because growth is usually slow in the first two quarters. In addition, weak absorptive capacity, budget arrears, cumbersome bureaucratic procedures and the still recovering world economy are also to blame.

On the other hand, some key sectors saw a high rate of growth, including exports, supporting industries and the hi-tech sector. Social and agriculture programmes also saw positive signs.

"I think this is a highlight for our economy. For years, we have complained that our economic development was too shaky. Firms

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couldn't improve operations on their own and depended entirely on bank loans. Low credit growth means our adjustments are on the right path," said Nguyen Duc Kien, deputy head of the NA Economic Committee. He went on to say that forcing the economy to sustain high rates of credit growth will result in unintended consequences such as bad debt.

The State Bank will continue to closely monitor credit institutions and foreign exchange rates to issue appropriate adjustments and quickly deal with any problems. They will also ask the government to revise its credit policies in rural areas and the agricultural sector.

Meanwhile, experts suggested that the government needs to improve macro-policies while they are being carried out. NA deputy Tran Du Lich said, "The problem is how to help enterprises. Government needs to give more support while enterprises must reform and improve their competitiveness."

The economic growth in the first six months was 5.18%, an improvement compared to the 4.9% over the same period last year.

Vietnamese banks on track for listings

A majority of Viet Nam's commercial banks are planning to list on one of the two national indices by 2015, according to HCM City Stock Exchange deputy general director Tran Anh Dao.



According to the central bank's regulation, all commercial banks must list shares on the stock market by 2015 and banks are well on track to comply with this rule, Dao said.

"The readiness of banks is better. They are aware of compliance with the listing regulation and are preparing for it," Dao told Saigon Times Online.

Dao said that several banks were focusing on restructuring this year, while some were preparing for mergers and acquisitions (M&A) before listing.

There are more than 20 commercial banks currently operating

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BANKING & FINANCE

nationwide, all of which are public companies with more than 100 shareholders.

Some of the country's biggest lenders have already listed shares, including Vietcombank (VCB), Vietinbank (CTG), Military Bank (MBB), Sacombank (STB), Bank for Investment and Development of Viet Nam (BID) and Eximbank (EIB) on the HCM City Stock Exchange and Asia Commercial Bank (ACB) and Sai Gon-Ha Noi Bank (SHB) on the Ha Noi Stock Exchange.

To date, the State Bank of Viet Nam has received 24 restructuring plans and approved 18, while eight of 11 non-bank credit institutions have been given the green light to restructure by the central bank, according to the Saigon Times Online.

Early this year, credit institutions were required to provide an independent audit of their credit rating under new loan classification regulations set by the State Bank of Viet Nam. The measure aims to ensure stronger bad debt assessments and assist regulatory bodies in issuing timely policies.

Vietnam bank to provide services in Myanmar

VOV - The Central Bank of Myanmar (CBM) has authorised 25 foreign banks, including one from Vietnam, to offer a wide range of domestic and cross-border collection and payment services to foreign investors in Myanmar.



Mizzima News said 25 banks are affected by the new regulations, including one each from Vietnam, China, India, Mauritius, Australia and France, three each from Malaysia, Singapore, Taiwan (China), the Republic of Korea and Japan, and four from Thailand.

Ten foreign banks will be granted licences in the third quarter of this year to operate in Myanmar.

Granted banks must have at least US\$75 million capital, US\$40 million of which will be monitored by the CBM.

The country currently has more than 20 private banks and 3 State-owned banks.

HCMC: Credit grew 2.8% by early July

Stoxplus - According to HCMC Statistics Department, by early July 2014, credit in the area grew 2.2% from the end of 2013.

By early July, total outstanding loans in the city reached VND979.9 trillion, an increase of 2.2% from the previous month, much higher than the growth rate of June (-0.1%). Credit rose 2.8% year-to-date and 9.5% YOY.

Outstanding loans of joint stock commercial banks reached VND544.9 trillion, accounting for 55.6% of total loans, up 12.5% YOY.

Outstanding loans in foreign currencies reached VND166 trillion, accounting for 16.9% of total loans, up 3.3% YOY. Outstanding loans in VND reached VND813.9 trillion, accounting for 83.1% of total loans, up 10.9% YOY.

Medium & long-term outstanding loans accounted for 46.5%, surging 14.5% year-on-year while the short-term outstanding loans accounted for 53.5%, rising 5.6% YOY.

INVESTMENT

Electronics grows on FDI sector

Vietnam's electronics industry has grown by leaps and bounds in recent years owing largely to the foreign direct investment (FDI) sector, and the country is striving to boost supporting industries to further bolster the sector.

According to statistics of the Ministry of Information and Communications, the total export value of phones and phone parts amounted to US\$10.6 billion in the January-May period, up 30.6% from last year's same period. Meanwhile, exports of electronic devices, computers and components dropped nearly 5% to US\$3.7 billion. The Vietnam Electronic Industries (VEIA) noted that the country's electronics industry has seen steady growth over the years in terms of export sales, obtaining US\$3.4 billion in 2010, US\$6.9 billion in 2011, US\$20.5 billion in 2012 and US\$32.1 billion in 2013. Of the US\$32.1 billion generated last year, exports of mobile phones and phone parts amounted to US\$21.5 billion.

However, experts said that such strong development of the electronics industry was actually

contributed by FDI companies like Samsung, Canon, Nokia and LG.

Vietnamese electronic companies make up less than 20% of the domestic market and nearly 10% of the export turnover.

Despite the huge export revenue, the added value of Vietnam's electronics industry is not high and the contribution of the industry to the country's GDP is not commensurate with its contribution to the export turnover.

Chairman of VEIA Luu Hoang Long said that though FDI companies account for only a third of the total number of electronic companies in Vietnam, they possess high technology, hold over 80% domestic market share and contribute over 90% of the export turnover.

According to experts, FDI companies and companies of supporting industries make the most of cheap labor and the Government's

investment incentives, and thus the added value mainly lies in labor and energy use. As a result, in order to inflate the added value of the electronics industry, Vietnam needs to develop supporting industries as

the competitive edge will become blunt when labor cost increases.

However, Vietnam's supporting industries are undeveloped and have not been able to meet the demands of companies.

There are few Vietnamese companies able to supply components and services for FDI companies and component suppliers are mostly foreign ones. Samsung Electronics Vietnam, for instance, currently has 60 components suppliers, with 45 of them South Korean-invested, five Vietnamese-owned and ten from other countries.

Vietnamese companies, according to experts, are not experienced in supplying components for big manufacturers, do not have a marketing system to approach customers, face capital shortages and are weak in technology.

To boost Vietnam's supporting industries, Vu Duong Ngoc Duy, general director of Viettronics Tan Binh Company, suggested that the Government issue policies to facilitate investments and support companies in selling products.

According to general director of 4P Company Hoang Minh Tri, Vietnam

INVESTMENT

needs to invest in technology, ensure good services, enhance the quality, offer the competitive prices and deliver goods on time.

Companies in supporting industries also need to improve their production capacities and management capacities to meet requirements of foreign companies and cooperate with customers to improve production and products.

Japan resumes ODA to Vietnam

Vietnamnet - The Japanese government has resumed official development assistance (ODA) to VN after a brief suspension over a graft scandal involving the Japan Transportation Consultants Inc. (JTC).

The decision was made on July 18 after both Japanese and Vietnamese sides agreed to prevent similar bribery scandals in the future.

Earlier on June 2 the Japanese Government decided to suspend new ODA to Vietnam to deal with a corruption scandal in which the Tokyo-based JTC was alleged to have paid kickbacks to several Vietnamese railway officials to win

the bidding package for a Japanese ODA-funded railway project in Vietnam.

To get new ODA, Japan asked Vietnam to bring to light graft scandals involving JTC and Vietnam Railways (VNR), and take tough measures to prevent similar bribery cases in the future.

Both Vietnam and Japan launched an inquiry into the case and they vowed to root out corruption in Japanese ODA-funded projects in Vietnam.

In this connection, Vietnam detained six VNR officials for investigation. Japan also prosecuted three JTC officials their involvement in the scandal.

Both sides have met several times to inform each other of the progress in resolving the case and discussed ways to prevent similar corrupt behaviours.

Japan says these steps will help make bidding processes more transparent and strengthen penalties for crimes.

JTC has won several infrastructure construction projects in Vietnam. In 2005, it teamed up with the Pacific

Consultants International (PCI) and the Japan Railway Technical Service (JARTS) in a consortium of contractors to provide services for the Hanoi-HCM City railway route project.

Under the contract, the consortium conducted a feasibility study and technical design, supervised project implementation, and supported VNR in improving its infrastructure management capacity. It cost nearly VND150 billion and took 56 months to complete.

In 2009, a Vietnam-Japan consultants group, comprising Vietnam's Transport Investment and Construction Consultant JSC (TRICC), JTC, JARTS, and Nippon Koei, proposed Japan's Shinkansen technology for an express railway project in Vietnam.

Later that year Vietnam's Investigation Agency prosecuted Huynh Ngoc Si, former director of the ODA-funded East-West Avenue project in HCM City, for taking bribes from PCI. Si was then sentenced to 20 years in prison.

ENTERPRISES

BIDV awarded “The best commercial bank”



VOV - The Bank for Investment and Development of Vietnam BIDV has been selected – Best Commercial Bank – by the International Banker, a leading British financial and banking industry news organization. BIDV is the first bank in Vietnam honoured by the British organization. It was chosen for the accolade based on its outstanding record of accomplishment in business operations, firm growth rate, prestige and social responsibility. In 2014, the organization presented banks in Asian countries awards in four categories: Best Commercial Bank, Best Private Banking, Best Investment Bank and Best CEO.

First Vinamilk dairy farm receives GlobalGAP certificate

Representatives from GlobalGAP Control Union granted a GlobalGAP certification to Nghe An dairy farm under Vietnam Dairy Cow One-Member Co, Ltd www.seiko-ideas.com

(Vinacow), a subsidiary company of Vietnam Dairy Products Joint Stock Company (Vinamilk) on July 18.

This is the first dairy farm in South East Asia to receive the GlobalGAP certification and one of only three dairy farms which have met GlobalGAP (Good Agricultural Practice) standards in Asia.

Nghe An dairy farm began implementing GlobalGAP standards in September 2013 and received the certification after eight months of implementation.

Earlier, all Vinamilk’s five dairy farms achieved ISO 9001 certification by France’s Bureau Veritas Certification.

GlobalGAP Certification of Nghe An dairy farm will help Vinamilk improve customers’ trust and sharpen competitive edge in the market to meet strict requirements in the EU and US markets.

In addition, it facilitates the signing of contracts and bidding, demonstrates the company’s commitments to ensuring quality to meet customers’ increasing demands and using agricultural resources effectively.

Five Vinamilk dairy farms have operates in Tuyen Quang, Thanh Hoa, Nghe An, Binh Dinh and Lam Dong. In the 2014-2016 period, Vinamilk is expected to import more cows from Australia and the US.

Starbucks to open 03 stores in Hanoi

VOV - Starbucks, the world’s largest coffee company, has announced plans to open 3 new cafes in Hanoi over the next year targeting young people and foreign tourists.

A Starbucks Vietnam representative said that the first three stores will be strategically located next to shopping malls and office buildings on Ly Thai To, Ba Trieu and Ly Thuong Kiet streets.

To celebrate the campaign, Starbucks Vietnam hosted a special coffee tasting event titled “Hanh trinh tu hat đen tach ca phe” (From coffee bean to a cup of coffee) in Hanoi on July 19.

Last year, Starbucks opened its first coffee shop in HCMC.

MARKET & PRICE

Bus advertising seen hard to attract clients



Saigon Times - A pilot bus advertising program in HCMC is not expected to pay off as advertisers are tightening their spending in the current tough economic conditions, said industry players.

Talking to the *Daily*, Nguyen Quoc Dai, general director of Pacific Outdoor Company Limited, said he has no intention to use commuter buses as a medium to reach the public due to the company's financial constraints.

Nguyen Quy Cap, vice chairman of the HCMC Advertising Association (HAA), told many members of this organization had shown no interest in the new medium for advertising because it has not translated into reality after long-drawn-out debates.

Cap described the Advertising Law and the draft rule on bus advertising as unclear. To attract

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companies to bus advertising in tough times, he said, it is necessary to set more affordable prices.

"If the city's Department of Transport keeps sky-high rates, customers will not opt for this kind of advertising. As such, the target of creating a new source of income to subsidize bus operations could hardly be achieved," said Cap.

Regarding advertising charges on buses, Duong Hong Thanh, deputy director of the HCMC Transport Department, revealed rates would be similar to those in Hanoi. He however noted that advertising rates at bus stops and terminals may triple those in the capital.

Currently, the highest bus advertising rate for one year in Hanoi is VND47 million per vehicle, and the lowest price VND35 million. If HCMC applied the lowest price of Hanoi, some 3,000 buses in HCMC could generate more than VND100 billion in advertising revenue a year. Meanwhile, if the rates at bus stops and terminals are triple those in Hanoi, it would be difficult for advertising companies to attract advertisers. This price could apply to few terminals at prime locations in the city's central area. It is

definitely unworkable in outlying districts like Tan Binh and Tan Phu.

HAA suggested the prices be aligned to the actual needs of enterprises in different periods. The authorities and advertising enterprises should sit down together to figure out the most possible solution for mutual benefits.

After years of delay, HCMC approved a pilot scheme to put ads on 156 buses before its expansion.

Dang Van Son, director of Phuoc Son Advertising Co., Lts, considered bus advertising a new option for advertisers. Compared to other advertising media, this has lower cost but greater impact thanks to the widespread presence of bus on the street.

According to the HCMC Public Passenger Transport Management and Operation Center, the city had 2,871 commuter buses last year, down 82 units from 2012, and as many as 110 bus routes are being subsidized by the city government. Subsidies for commuter bus services in HCMC rose from VND1.36 trillion in 2011 to over VND1.4 trillion in 2012 and VND1.47 trillion in 2013.

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HIGHLIGHTS

Second M&A wave in Vietnam to top first by \$5b

VN's mergers & acquisitions (M&A) market is set off for a second wave in the next five years with total value expected to reach \$20b from 2014-18, driven by the equitisation of State-owned enterprises.

This figure is over 30% higher than the total value of \$15b recorded in the first wave from 2008-13.

This information was presented at a press conference introducing the Vietnam M&A Forum 2014 which will take place in HCM City on August 7.

In the first wave, the M&A market developed in a difficult economic context when businesses were forced to restructure to survive.

The value of M&A deals increased from \$1 billion in 2008 to \$5 billion by the end of 2012.

M&A development seemed to slow down in 2013 when the total deal value is estimated at just \$4 billion.

However, market insiders expect the M&A market to become more dynamic in the next five years with growth in both the number of transactions and total value, boosted by the economic recovery, speeding up of SOE equitisation,



stronger institutional reform and rising interest of foreign investors in the Vietnamese market.

Many experts believe the equitisation of SOEs will be the driving force behind the growth of M&As in the second wave.

"The Government has approved an equitisation scheme for SOEs, of which 432 businesses will go public in 2014-15. This provides big opportunities for M&As and is will also be important momentum to promote the success of the economic restructuring programme and SOE equitisation," said Minister of Planning and Investment Bui Quang Vinh.

M&A advisory company AVM Vietnam forecast the State could gain \$4.29 billion from M&As of State-owned businesses with deals valued from millions to a billion US

dollars. Additional stake sales of PV Gas, initial public offerings of MobiFone, the Vietnam National Textile and Garment Group (Vinatex) and Vietnam Airlines will likely be hot deals for both domestic and foreign investors.

The banking, consumer goods, real estate, information technology, transport and logistics sectors are expected to draw the most attention.

"In the coming year, M&As in Vietnam will be no longer ad hoc transactions but part of investment strategies. Many SOEs and private companies will choose M&As as a breakthrough and sustainable growth strategy," said Nguyen Anh Tuan, editor-in-chief of the Vietnam Investment Review, organiser of the Vietnam M&A Forum 2014

HIGHLIGHTS

WB rural finance project takes root in Vietnam



Dfinews - Vietnam is the country in which World Bank's rural finance project has been the most successful, an achievement that gained it enough support to guarantee its continuation.

With the World Bank and the State Bank of Vietnam (SBV) presiding, the Bank for International Development of Vietnam (BIDV) organised a meeting on July 21 in Hanoi to evaluate the implementation of the WB-funded Rural Finance Projects Package since 1996.

In 2009, the WB decided to provide an additional \$200m in funding for the Rural Finance Project Phase III in VN even though the country had yet to complete the second phase of the project. The unprecedented decision was based on the excellent implementation of the project in the country.

The project is 1 of a series of 3 rural finance projects with a combined funding of \$548m from WB.

Speaking at the meeting, SBV Deputy Governor Nguyen Dong Tien said that the Rural Finance Project Phase III has increased access to bank loans for rural populations and enterprises, generated jobs, increased the incomes of farmers and heightened awareness of the importance of environmental protection.

As of December 31, 2013, the entire WB's \$200m budget for the project had been disbursed.

WB Country Director for Vietnam, Victoria Kwakwa, said, "I'm greatly pleased to know that borrowers have been successful in their businesses and increased their incomes as a result of this project. After five years, the project has created investment in rural areas equivalent to USD487 million. This means that each US dollar from the project has created 2,62 USD worth of investment in the rural economy." She noted that the rate of bad debt rate from the project was low, estimated at only 0.40%, and that 51% of the loans were granted to women.

To date, over 135,000 individuals and enterprises in rural areas of Vietnam, including over 70,000 poor households, have gained access funding through the project. It also generated around 140,000 new jobs in rural areas.

The rural development project provided 500 financial training courses for nearly 17,700 individuals.

Vietnamese Deputy Prime Minister Hoang Trung Hai commented that this project stands as a model for the efficient use of ODA. He asked for further study to draw lessons from its implementation and apply it to other ODA projects in Vietnam.

Bad debt settlement still an uphill battle

VOV - The rate of nonperforming loans (NPLs) in Vietnamese commercial banks rose in the first half of the year from 3.61% in late 2013 to 4.84% in late June 2014, and the State Bank of Vietnam (SBV) reports total bad debts stand at VND240,000 billion.

The escalating ratio of NPLs is going, requiring banks to set up provisions funds which in turn negatively impacts their ability to increase

HIGHLIGHTS

lending activities and get badly needed money commercial loans provide into the coffers of businesses to fuel the nation's economic expansion.

Reasons for escalating NPLs

Leading economists largely attribute the increase in bad debts to slow lending growth in the banking system, gloomy improvement in corporate financing in the context of the slow paced economic recovery and settlements by the central bank-run Vietnam Asset Management Company (VAMC) that are below expectations.

VAMC statistics show that through the end of June, the company had purchased only VND11,414 billion worth of bad debts, a somewhat modest figure when compared to its purchase plan of VND70,000-100,000 billion for the whole year.

Experts from BIDV Securities Company (BSC) emphasised that the VAMC's purchase of bad debts might also be rather slow in the third quarter but should increase again in the fourth quarter as the deadline for the classification of debts approaches.

BSC experts added that VAMC's purchase target of VND70,000-

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VND100,000 billion of bad debts this year is also highly dependent on incentive measures in association with economic benefits which will be applied to credit institutions.

The legal corridors to resolve bad debts are also hindering the resolution. Recently, the National Assembly approved an amended bankruptcy law and eliminated a number of highly complex regulations to supplement to the real estate business law, but at the same time the legislation erected some new barriers to the settlement of bad debts.

Greater pressure

In the first half of the year, the SBV's freshly issued documents have effected the classification of the banking sector's debts.

The recent issuance of two complex circulars in June stipulated that credit institutions should not implement the classification of debts or make adjustments of their classification according to the results of the Credit Information Centre (CIC) until the end of the year. This has created an impasse in resolving the bad debts issue and needs clarification.

SBV former governor Cao Sy Khiem said that commercial banks

have been negatively affected by bad debts, principally overdue debts in the field of real estate and state-owned enterprises.

"Although VAMC is implementing the purchase of bad debts, its efforts can't reduce NPLs at commercial banks entirely," Khiem said, adding that "The SBV's two recent circulars have forced commercial banks to use available funds to increase loss reserves, which further exacerbates their efforts to increase lending."

BSC experts said that the purchase of NPLs is not final solution to settle bad debts as VAMC needs to deal with or sell NPLs, especially to foreign partners.

There have not been adequate legal corridors to sell NPLs in the first six months of the year, they say.

Therefore, VAMC needs to clarify with specificity the details on the subjects, methods and mechanism of selling bad debts, which will continue to become a challenge for the national economy in the coming time.

BSC experts underscore that a clear road map should be devised to avoid an ever worsening situation, causing greater losses.

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