

Insights: Quarter 4, 2019

Vietnam Economic Update Report

This Issue:

Vietnam's Economic Growth in Q4
Ease of Doing Business in Vietnam 2020

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Vietnam's economy slowed in Q4 but maintained a 7% growth rate for the full year 2019

Despite benefiting from the trade tensions between the US and China over the past year, Vietnam's economy saw a slowdown in the last quarter of 2019 due to the impact of a weakening global demand.

According to the General Statistics Office of Vietnam (GSO), the Vietnamese Gross Domestic Product (GDP) rose 6.97% during the last quarter of the year (YoY), which is a slowdown from the 7.48% growth in the third quarter. In total, Vietnam's economy rose 7.02% during the full 2019, beating the government's target of 6.80%. The growth was mainly driven by manufacturing and the market services (transportation and storage; wholesale and retail trade; finance, banking and insurance), of which the manufacturing was the most significant contributor with an increase of 11.29%.

In Q4, the merchandise export turned over USD 68.8 billion, increasing 7.2% (YoY), but dropped 4.6% compared to Q3. During the whole year, Vietnam's export turned over USD 263.45 billion, and achieved a trade surplus of USD 9.94 billion in total.

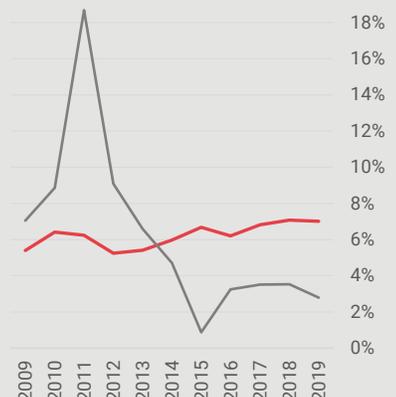
Consumer prices rose 5.23% in December (YoY), mainly due to the African swine fever that led to a price increase of food and catering services. However, the year's CPI was still maintained below 3%.

The Vietnamese consumer confidence dropped in Q4, but remained third in the global ranking

Similar to China, Thailand, and Malaysia, Vietnam saw a drop in consumer confidence in Q4 due to increasing consumer prices and the economic global slowdown. The score declined by 3 points from 128 in Q3 to 125 in Q4. However, Vietnam's consumer confidence still remained the third most-confident globally.

Vietnam's GDP Growth and CPI over the past 10 years

Vietnam's economy saw a 7.02% growth and inflation rate of 2.79% in 2019. However, during 2020 the expected inflation is 4% due to the African swine fever outbreak and increases in health care fares, education fees, and minimum salary.



Ease of Doing Business in Vietnam 2020

In October 2019, The World Bank released *Doing Business 2020*, an annual report that ranks the ease of doing business in 190 economies globally. Even though Vietnam gained 1.44 points to their overall score, the country lost a position in the rank, dropping from 69th to 70th place.



Every economy is evaluated on the basis of ten topics, including starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency. The economies get scored based on the above ten topics, which then results in a total overall score.

This year, Vietnam's business environment has improved greatly in getting credit and paying taxes. The country also slightly enhanced or maintained its performance in the other topics.

Vietnam's Ranking on every Doing Business Topic (out of 190 economies)



Source: Vietnam Doing Business 2020, World Bank Group

Vietnam shows one great strength in dealing with construction permits. For example, setting up a standardized warehouse will go through 10 procedures and cost about 0.5% of the warehouse value. These are fewer steps and a lot less expensive compared to both the average

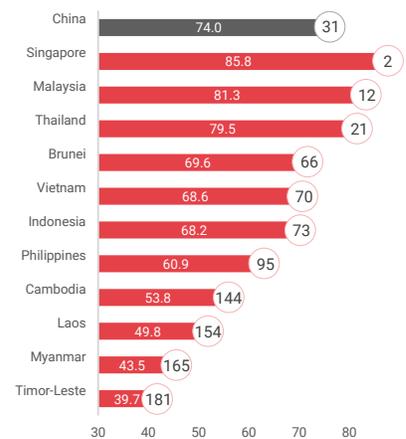
East-Asia & Pacific country and the average OECD high-income country. Vietnam also improved access to credit, improving its ranking from the 32nd in 2019 to 25th in 2020.

Although paying taxes in Vietnam still is more complicated and time-consuming than in many other countries, it has gotten easier over the past year thanks to the upgrade of the technology information infrastructure used by the Vietnam General Department of Taxation. Now there are six yearly payments, and companies need to spend about 384 hours per year doing their taxes, a decrease of 114 hours from previous year. The improvement is reflected in the ranking, where Vietnam moves up 22 positions from 131st in 2019 to 109th in 2020.

The biggest weakness of Vietnam's business environment is the quality of the legal framework applicable to resolve insolvencies. With a low recovery rate of creditors and long years required to repay the debts, Vietnam is not yet an ideally secure investment destination. Its bankruptcy regime is considered inferior to many other countries in the Asia Pacific, such as Thailand, Indonesia, and Malaysia.

Scores and rankings on Doing Business of SEA Countries and China

(Score 1-100 and ranking 1-190)



Source: Vietnam Doing Business 2020, World Bank Group

The business environment in Vietnam is mostly comparable to Indonesia and Brunei, yet there are differences among them. For example, opening a business in Brunei is much easier than in Indonesia and Vietnam, due to the ease of getting credit. Indonesia's legal framework is considered more secure than Vietnam and Brunei, but Vietnam offers a simpler procedure to set up a business location than the other two.

Pork price skyrocketed in Q4 before the Lunar New Year Holiday

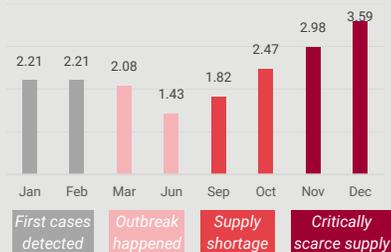


Pork accounts for three-quarters of the total meat consumption in Vietnam, and most of the farm-raised pigs in the country are consumed domestically.

Since the African swine fever outbreak in the beginning of 2019, the total pig herd in Vietnam has been cut down by 21.4% between January and December.

The decrease of pork supply led to a steep price increase, especially during Q4. Live pig weight prices per kilogram almost doubled from USD 1.82 in September to USD 3.59 in December. Similarly, the average pork prices per kilogram at supermarkets climbed from USD 4.87 in September to USD 8.22 in December.

Live weight pig price per kilogram (USD) in 2019



Source: Progression of pig prices, live weight and retail, VNExpress

The Vietnamese Lunar New Year Holiday (Tet), the longest and most important celebration of the year, starts during the last week of January. With the expectedly increasing demand of pork, rising prices will continue contributing to high inflation in early 2020.



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