

Vietnam Business Forecast Report Q1 2015

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Abstracts

Core Views

Vietnam will remain susceptible to maritime confrontations with China, despite the recent easing of tensions. Meanwhile, Vietnam will continue to court India and the US in a bid to counterbalance China's growing influence in the region. That said, Hanoi will seek to avoid a breakdown in relations with Beijing, given China's importance as a trade partner.

We expect solid growth momentum in the Vietnamese economy to be carried over to 2015, on the back of continued foreign direct investment inflows, strong performance in the manufacturing and export sectors, and ongoing efforts by the government to address the high level of bad debts in the banking sector. We maintain our forecast for real GDP to grow at 5.7% in 2014, ahead of an acceleration to 6.4% in 2015.

Vietnam's external health will improve gradually over the coming years, as we expect a gradual narrowing of the country's fiscal deficit. We forecast for Vietnam's external debt as a share of GDP to fall from an estimated 37.6% in 2013 to 22.0% by 2023. While Vietnam is enjoying strong economic growth and low inflation, we expect the State Bank of Vietnam to cut its benchmark interest rate by 50 basis points to 6.00% in 2015 to support flagging local businesses and spur credit growth. This would push government bond yields lower. However, further yield compression thereafter will be limited owing to expected strong GDP growth.

On the back of an improving Vietnamese economy, fiscal reform efforts by Hanoi should lead to an improvement in the country's fiscal health and limit growth in public debt. We forecast the country's budget deficit to narrow from 4.7% in 2013 to 3.8% in 2014 and 3.0% in 2015.

Contents

Executive Summary
Core Views
Key Risks To Outlook

CHAPTER 1: POLITICAL OUTLOOK

SWOT Analysis
BMI Political Risk Index
Domestic Politics
Risk Of Renewed Maritime Tensions Remains

Vietnam will remain susceptible to maritime confrontations with China, despite the recent easing of tensions. Meanwhile, Vietnam will continue to court India and the US in a bid to counterbalance China's growing influence in the region. That said, Hanoi will seek to avoid a breakdown in relations with Beijing, given China's importance as a trade partner.

TABLE: Political Overview

Long-Term Political Outlook

Key Political Challenges Over The Coming Decade

Vietnam's biggest political question over the coming decade is whether one-party rule under the Communist Party of Vietnam (CPV) will face growing calls for democratisation, as was the case in other major South East Asian countries. While our core scenario envisages the CPV transforming itself into a technocratic administration, it faces major economic challenges which if mismanaged could lead to widespread unrest. On the foreign policy front, we expect an increasingly powerful China to drive Vietnam further into the camp of Asian nations with close relations with the US.

CHAPTER 2: ECONOMIC OUTLOOK

SWOT Analysis
BMI Economic Risk Index
Economic Activity
Expecting Sustained Growth Momentum In 2015

We expect solid growth momentum in the Vietnamese economy to be carried over to 2015, on the back of continued foreign direct investment inflows, strong performance in the manufacturing and export sectors, and ongoing efforts by the government to address the high level of bad debts in the banking sector. We maintain our forecast for real GDP to grow at 5.7% in 2014, ahead of an acceleration to 6.4% in 2015.

TABLE: Economic Activity**Fiscal Policy****Gradual Fiscal Recovery Amid Positive Growth Outlook**

On the back of an improving Vietnamese economy, fiscal reform efforts by Hanoi should lead to an improvement in the country's fiscal health and limit growth in public debt. We forecast the country's budget deficit to narrow from 4.7% in 2013 to 3.8% in 2014 and 3.0 %

TABLE: Fiscal Policy**Monetary Policy****Rate Cuts In 2015 To Spur Further Yield Compression**

While Vietnam is enjoying strong economic growth and low inflation, we expect the State Bank of Vietnam to cut its benchmark interest rate by 50 basis points to 6.00% in 2015 to support flagging local businesses and spur credit growth. This would push government bond yields lower. However, further yield compression thereafter will be limited owing to expected strong GDP growth.

TABLE: Monetary Policy**External Position To See A Gradual Improvement**

Vietnam's external health will improve gradually over the coming years, as we expect a gradual narrowing of the country's fiscal deficit. We forecast for Vietnam's external debt as a share of GDP to fall from an estimated 37.6% in 2013 to 22.0% by 2023.

TABLE: Current Account**CHAPTER 3: 10-YEAR FORECAST****The Vietnamese Economy to 2023****2014-2023: A New Focus On Quality Growth**

Vietnam's growth prospects over the next decade remain positive in our view, as reflected by our bullish forecasts for real GDP growth to average 6.2% over 2014-2023. We foresee a more stable economic environment, with inflation averaging a benign 4.9% and the current account remaining in surplus averaging over the forecast period.

TABLE: Long-Term Macroeconomic Forecasts**CHAPTER 4: OPERATIONAL RISK****Operational Risk Index****Operational Risk****TABLE: Operational Risk****Transport Network****TABLE: Asia-Transport Network Risk**

Economic Openness

TABLE: Asia -Eco nomic Ope nness

TABLE: Top 5 Products Impo rted (USDmn)

TABLE: Top 5 Trade Partners Product Expo rts (USDmn)

CHAPTER 5: KEY SECTORS

Infrastructure

TABLE: Construction & Infrastructure Industry Data

table: Construction & Infrastructure Industry Data

Oil & Gas

TABLE: Oil Production

TABLE: Oil Production

TABLE: Gas Production

TABLE: Gas Production

Other Key Sectors

Table: Food & Drink Sector Key Indicators

Table: Autos Sector Key Indicators

Table: Defence & Security Sector Key Indicators

Table: Pha rma Secto r Key Indicato rs

Table: Telecoms Secto r Key Indicato rs

Table: Freight Key Indicato rs

CHAPTER 6: BMI GLOBAL ASSUMPTIONS

Global Outlook

Reality Check: Uncertainty Reigns

Table: Global Assumptio ns

Table: Developed States , Real GDP Growt H, %

Table: BMI VERSUS BLOOMBERG CONSENSUS REAL GDP GROWTH

FORECASTS, %

Table: Eme rgi ng Markets , Real GDP Growth , %

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