Vietnam
CRT-4
August 22, 2018
Region: Southeast Asia

Country Risk Criteria Procedures
Guide to Best’s Country Risk Tiers

• The Country Risk Tier (CRT) reflects A.M. Best’s assessment of three categories of risk: Economic, Political, and Financial System Risk.

• Vietnam has a moderate level of economic risk, a high level of political risk, and a very high level of financial system risk. Its large agricultural sector is vulnerable to the rising frequency of droughts and excessive rainfall. Nevertheless, the economy expanded by 6.8% in 2017 and is projected to maintain a similar growth rate over the medium term. Strong growth stems from the country’s flourishing service and manufacturing sectors.

• A.M. Best categorizes the majority of countries in Southeast Asia as CRT-3, CRT-4 or CRT-5. Singapore is the only CRT-1 country in the region.

Regional Summary: Southeast Asia

• Southeast Asia largely consists of the countries located north of Australia, west of India, and south of China.

• The region is particularly vulnerable to trade protectionist policies, given its reliance on exports to fuel economic growth. To diminish some of the vulnerability to external conditions, most of the region’s countries are trying to implement structural changes which encourage economic diversification and capital market development. Improving infrastructure and shrinking bureaucracy would also bolster the prospects for sustainable economic growth.

• Additional headwinds for the region include political turmoil/uncertainty, poverty due to growing income inequality, endemic corruption, bureaucracy, susceptibility to natural disasters, and the volatility of capital flows and exchange rates owing to ongoing monetary policy normalization in developed countries.

• Growth in the region has been supported by improving global conditions as well as growing domestic demand and increased levels of government spending, particularly on infrastructure.
Economic Risk: Moderate

- Vietnam is a developing country that has made remarkable progress in the past few years. Economic mainstays include manufacturing, hydrocarbons, and fisheries. Industrial production has posted robust growth recently.
- Stronger commodity prices and rising demand, along with solid foreign direct investment inflows, have been supportive of growth recently, but risk increasing inflation.
- The country’s agricultural sector, which employs half of the workforce, accounts for more than 18% of GDP. The sector rebounded last year, after years of subdued growth.
- Poverty is relatively low, and the population is densely concentrated and young. The labor market is competitive.
- Risks lie in persistent budget deficits and rising debt, which equals roughly half the country’s GDP. More rigorous fiscal consolidation should be pursued to address this rising concern.

Political Risk: High

- Vietnam’s one-party political system is very stable. Policy objectives are predictable, although the government, headed by Prime Minister Nguyễn Xuân Phúc and General Secretary Nguyễn Phú Trọng, lacks transparency.
- The government encourages private-sector activities and participation, and seeks to attract foreign investments.
- The judicial system is not independent, but given the government’s friendly attitude towards businesses and foreign investments, contract alteration and expropriation risks are low.
- Social unrest is becoming more common, mostly over land acquisition and environmental concerns. Protests can be violent at times but are rarely large-scale.
- Corruption is a major concern, and invokes criticism of the government. Vietnam ranked 107 out of 180 countries in the Corruption Perceptions Index.

Financial System Risk: Very High

- The Ministry of Finance’s Insurance Supervisory and Authority department is responsible for regulating the insurance industry.
- Foreign direct investment inflows have been strong and are expected to remain so. Bank balance sheets are strengthening and the current account surplus has widened. Currency depreciation has led to high exports, remittances, and tourism, according to the IMF.
- The IMF has urged building financial buffers and creating more flexible macroeconomic policy frameworks to increase the country’s resilience to shocks.
- Some banking sector reforms, such as improved supervision, have occurred. Additional improvements, however, are necessary for enhanced stability. Needed reforms include recapitalization of bank balance sheets and improved resolution of non-performing loans.