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Highlight

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VIETNAM BUSINESS REVIEW

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FINANCE

Vietnam to extend VAT reduction to middle of 2024

The Ministry of Finance is in the process of drafting a proposal to extend the reduction in the value-added tax (VAT) rate from 10% to 8% until mid-2024. This action follows government instructions issued during a meeting held on Thursday, with a deadline to submit the proposal by Saturday. The purpose of this extension is to provide support to both businesses and consumers.

The government's evaluation indicates that the country's economy remains stable, with inflation well under control. Notably, Vietnam has achieved a growth rate of 4.24% in the first nine months of the year, with the third quarter seeing growth at 5.33%. This places Vietnam among the fastest-growing economies globally. However, challenges persist due to the complex and unpredictable nature of global developments.

The government has identified three key drivers of the economy: investment, exports, and consumption. In June, the National Assembly had previously approved a 2 percentage point reduction in VAT for the second half of 2023, excluding certain sectors such as real estate and banking.

Sectors not included in the reduced tax rate, which became effective on July 1, encompass telecommunications, information technology, finance, securities, insurance, metal products, mining products, refined petroleum, chemical products, and items subject to special consumption tax.

During a Government meeting on September 30, Minister of Planning and Investment Nguyen Chi Dung recommended extending the VAT reduction until mid-2024, citing ongoing economic challenges. This reduction is expected to not only increase disposable income for consumers but also have a psychological impact by stimulating demand and boosting consumption. Vnexpress

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Government of Vietnam seeks $27.5 billion to shore up finances in 2024

The Vietnamese Government has presented a proposal to secure VND676 trillion (equivalent to $27.5 billion) in borrowing for the year 2024. This move aims to address budgetary shortfalls, service existing debts, and create room for additional loans. The proposed borrowing amount is notably higher, by VND55 trillion, than what was previously approved by the National Assembly and exceeds the actual borrowing in 2023 by VND71.67 trillion.

The proposal was officially submitted in a comprehensive report to the Standing Committee of the National Assembly. This report details the current state of public debt in 2023 and outlines financial plans for the upcoming year, 2024.

The government intends to source these loans primarily through the issuance of bonds, official development assistance (ODA), and concessional foreign loans. There is also a mention of the possibility of tapping into additional financial sources if required. As per the proposal, public debt for 2024 is estimated to constitute approximately 39-40% of the country's gross domestic product (GDP). The government's debt is projected to be around 37-38% of GDP, while foreign debt is expected to account for 38-39% of GDP. Direct debt repayment obligations are anticipated to remain within the range of 24-25% of budget revenue, aligning with the limits set by the National Assembly.

In the fiscal year 2024, the government plans to allocate funds to repay a total of roughly VND395.9 trillion, which is notably higher, by VND84.3 trillion, compared to the preceding year, 2023. The majority of these funds, approximately 73%, will be directed towards repaying principal amounts, with the remainder allocated for covering interest payments. For the fiscal year 2024, the government has opted not to issue new guarantees for either domestic or foreign loans meant for various programs or projects. It's expected that outstanding guarantees for domestic business loans will be approximately VND9.1 trillion, while foreign loan guarantees will surpass VND88.4 trillion.

Local governments are anticipated to face a deficit of VND26.5 trillion in 2024. To address this deficit, they plan to secure VND30.6 trillion in loans, primarily from sources such as ODA, foreign concessional loans, and other domestic channels. The total debt repayment for local governments is estimated to exceed VND4.1 trillion, resulting in an outstanding debt at the end of the year amounting to more than VND96 trillion, which is 23 times the repayment amount.

The government anticipates medium- and long-term net capital withdrawals in the range of US$7.5 billion to US$8.5 billion. Additionally, short-term foreign debt is projected to increase by 15-18% compared to the end of 2023. It's expected that all debt safety indicators in 2023 will remain in line with the limits set by the National Assembly. These limits include a budget deficit capped at 4% of GDP and direct debt repayment obligations at 20% of the total budget revenue. Furthermore, the country's planned foreign debt repayment for the following year is forecasted to be in the range of 7-8% of the revenue generated from exporting goods and services, complying with the National Assembly's safety limit of 25%. Saigon times

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E-COMMERCE

Vietnamese MSMEs poised for E-commerce boom

In recent years, Vietnam has witnessed a surge in e-commerce exports, presenting a lucrative opportunity for micro, small, and medium-sized enterprises (MSMEs) to capitalize on the sector's rapid growth. British technology advisory firm Access Partnership reported that business-to-consumer (B2C) e-commerce exports in Vietnam reached a value of $3.5 billion in 2022, constituting 1% of the country's total export revenue.

Access Partnership projects that if MSMEs expedite their adoption of e-commerce for exporting goods and services, Vietnam's e-commerce export earnings could soar to $5.5 billion by 2027, growing annually at a rate of 7%.

One notable avenue for Vietnamese enterprises has been Amazon Global Selling, which established a dedicated team in Vietnam in 2019. This business support program has connected Vietnamese products with over 300 million Amazon customers across more than 200 countries and territories. A 2022 report on the program revealed that approximately 10 million made-in-Vietnam products were sold to Amazon customers, while the number of Vietnamese trade partners on Amazon surged by more than 80%.

Deputy Director of the Vietnam E-commerce and Digital Economy Agency, Lai Viet Anh, highlighted that Vietnamese firms have adeptly adapted to the cross-border e-commerce trend, facilitating the expansion of their products into numerous markets. Many market analysts predict that Vietnam's e-commerce export revenue will exceed $10 billion within the next four years.

To achieve this ambitious target, Vietnamese firms must overcome four primary challenges: regulations in import markets, competitive positioning, marketing and logistics costs, and access to market information.

Amazon Global Selling observed an increasing number of Vietnamese products listed for sale on its platform, ranging from food and beverages to pharmaceuticals, garments, textiles, and handicrafts. Notably, household appliances, textiles, healthcare products, and convenience goods from Vietnamese brands gained popularity among international online shoppers.

Experts assert that e-commerce offers export opportunities for various other products, aligning with Vietnam's strengths. They recommend that exporters employ promotional strategies such as special discounts and free shipping for high-value orders while adapting products to better cater to consumer preferences. VNA

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ENERGY

Vietnam's emergence as a major player in the global LNG market

Vietnam is poised to become a significant player in the worldwide liquefied natural gas (LNG) market, according to technical analyst James Hyerczyk's article on fxempire.com.

Hyerczyk's argument is based on Vietnam's recently approved Power Development Plan VIII, which sets ambitious goals for expanding wind and gas energy capacities. He noted that this plan, as reported by Reuters, necessitates $134.7 billion in funding, with a portion of it coming from foreign investments, including a commitment of $15.5 billion from the Group of Seven (G7) industrialized nations.

This strategic shift towards cleaner energy, supported by substantial financial investments, highlights Vietnam's emerging role as a new LNG importer, as per the analyst's assessment.

While Vietnam has not yet imported LNG, it has domestically produced about 9 GW of natural gas. According to the Power Development Plan VIII, LNG is expected to constitute a significant portion of Vietnam's energy mix by 2030, a move that could impact LNG prices.

By 2030, renewable energy sources such as wind and solar are projected to meet nearly 31% of the country's energy requirements. However, LNG will still account for 24.8% of total energy production. This sustained demand for LNG, combined with significant investments, is likely to support elevated global LNG prices in the medium term.

Vietnam has set a goal of achieving carbon neutrality by 2050, requiring $658 billion in funding. While the country is heavily investing in renewable energy, LNG is expected to serve as a reliable and cleaner alternative to coal, maintaining its vital role in the global energy market and ensuring robust prices. VOV

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Vietnam pursues electricity imports to address impending energy shortage

Vietnam is proactively seeking electricity imports from neighboring countries as it grapples with growing concerns about an impending energy shortage in the near future.

Amid mounting worries about energy scarcity in the coming years, Vietnam is actively exploring all potential solutions. The country's state-owned utility, Vietnam Electricity (EVN), recently commenced the construction of the Monsoon-Thanh My 500kV transmission line project, an investment totaling $45.26 million. Expected to become operational by the end of 2024, this transmission line will be capable of transmitting approximately 2,500MW of electricity. This development will significantly bolster the nation's power system by enabling the importation of electricity from Laos.

Under the power purchase agreement (PPA) for the project's initial phase, the transmission line will receive electricity generated from Laos's wind power sources, providing a capacity of 600MW. The anticipated annual electricity output is approximately 1.7 billion kWh. EVN had earlier petitioned the Ministry of Industry and Trade to complete documentation for importing electricity from hydroelectric and wind power facilities in Laos, including the Nam Mo hydroelectric plant cluster and the Houay Kaouan hydroelectric plant.

As of August, EVN had concluded 19 PPAs with investors to purchase electricity from 26 power plants in Laos, with a total capacity of 2,240MW. These negotiations hold immense significance as Vietnam's power supply faces challenging conditions in the near future. By 2025, few new power sources will come online. As a result, during the peak dry season of 2025, the northern region may struggle to maintain power supply, with a potential shortage of 3,630MW and an output deficit of about 6.8 billion kWh from May to July 2025. Hence, introducing imported electricity from Laos to the northern region is viewed as a crucial step to enhance the ability to ensure a stable electricity supply over the next few years.

Minister of Industry and Trade, Nguyen Hong Dien, clarified that the recently approved Power Development Plan VIII emphasizes the export of renewable energy electricity to neighboring countries to ensure economic efficiency. Moreover, domestic renewable energy projects will be meticulously implemented if they adhere to the full legal framework.

Apart from Laos, Vietnam has been importing electricity from China for several years, which is seen as a long-term measure to secure its power supply. However, there are constraints on increasing electricity imports from China due to limitations in 220kV lines. Energy experts, including Ha Dang Son, have been warning about electricity shortages in Vietnam, especially in the northern region. They note the risks stemming from a lack of new power sources, with the complexities of renewable energy projects in the north further exacerbating the situation.

As Vietnam makes strides toward ensuring its energy security, strategies like importing electricity from neighboring countries take on growing importance. These initiatives will be instrumental in mitigating the challenges presented by an impending energy shortfall. VIR

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RETAIL

Vietnam's retail sector is fueled by the soaring demand for convenience food products

The retail landscape in Vietnam is poised for remarkable expansion, with an expected Compound Annual Growth Rate (CAGR) of 11.4% and an estimated market value surge to USD 163.49 billion. The impetus behind this growth is primarily the escalating demand for convenience food products. However, challenges tied to logistics and supply chain operations could potentially hinder the market's advancement.

Challenges in Logistics and Supply Chain OperationsThe Retail Market in Vietnam boasts a diverse landscape, comprising both offline and online channels. Within the online sphere, e-commerce has witnessed explosive growth, driven by increasing internet penetration and smartphone usage. Companies operating in this market can harness the power of segmentation, dividing it into categories such as grocery, electronics and appliances, home and garden, health and beauty, and others. This granular approach facilitates a targeted analysis of regional trends and consumer needs.

Despite the promising growth prospects, the Retail Market in Vietnam is not without its challenges. One significant hurdle is the efficiency of logistics and supply chain operations. Ensuring timely delivery of products, especially in the context of perishable items like fresh produce and dairy, can be a daunting task. The nation's transport infrastructure, although rapidly developing, still faces bottlenecks that need addressing.

Vietnam's retail sector is brimming with opportunities, fueled by the soaring demand for convenience food products. However, it's crucial for industry players to address logistical challenges to ensure smooth supply chain operations. By embracing segmentation, retailers can gain valuable insights into consumer preferences and regional dynamics, enabling them to tailor their strategies effectively. As Vietnam continues to evolve as a vibrant retail market, businesses that navigate these challenges adeptly stand to reap substantial rewards in the years to come.

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LOGISTICS

Vietnam's logistics industry poised for growth amid challenges

Vietnam's logistics sector is on the verge of significant growth in the coming years, presenting both opportunities and challenges.

According to Deputy Minister of Planning and Investment Tran Duy Dong, the country's strategic location in global trade, a growing economy, improving infrastructure, a burgeoning middle class, and the surge in e-commerce all position Vietnam's logistics industry for a bright future.

As the domestic and international economies recover, logistics demand is expected to rise significantly. Additionally, the presence of foreign investors engaged in large-scale projects in Vietnam is contributing to the sector's capacity and overall development.

However, despite its rapid growth, Vietnam's logistics sector faces several challenges. These include issues like unsynchronized institutions and policies, limited transportation and logistics infrastructure capacity, a lack of multi-modal transport corridors, and a growing need for high-quality goods transshipment.

Furthermore, Vietnam lacks centralized logistics zones in strategic locations and strong connections with ports, airports, national highways, and production facilities. The operations of logistics enterprises also have limitations in terms of scale, capital, and the availability of skilled logistics experts.

Infrastructure is a key hurdle, with planning and regulation issues causing bottlenecks in the industry. Of particular concern is the high cost of transportation, which accounts for more than 60% of total logistics costs in Vietnam, double the cost in other countries.

Although Vietnam boasts around 34,000 logistics businesses, they are primarily small-scale operations with limited access to international markets. To compete effectively on the global stage, Vietnam must not rely solely on its low-cost advantage but also focus on green logistics transformation to attract the next wave of foreign investment. VIR

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INVESTMENT

Investment opportunities abound in Vietnam's growing waste disposal sector

Vietnam Briefing has highlighted investment opportunities in waste disposal management in Vietnam, citing the country's rapid urbanization and industrial growth as factors contributing to the challenge of managing increasing volumes of waste. This challenge, the article notes, presents an opportunity for investors looking to make a positive environmental impact while entering a growing sector.

Vietnam produces around 60,000 tonnes of household waste daily, with urban areas like Hanoi and Ho Chi Minh City being significant contributors. This amount is projected to increase by 10% to 16% by 2025. Despite the large volume of waste, the country's waste treatment is largely ineffective, with most waste ending up in landfill sites, of which only 20% meet national sanitary requirements.

The waste management market in Vietnam is expected to reach US$5.12 billion in 2023 and US$7.54 billion by 2028, according to Mordor Intelligence. This growth in waste production creates opportunities for investors to provide effective waste disposal solutions to meet the rising demand.

David Duong, president of California Waste Solutions and CEO of Vietnam Waste Solutions, expressed optimism about waste disposal in Vietnam. He has been investing in waste treatment in Ho Chi Minh City since 2005 and believes that both the city and Vietnam as a whole have significant potential in this field.

The Vietnamese government has implemented policies to encourage public-private partnerships (PPPs) in waste management. PPPs enable investors to collaborate with government entities or local authorities to establish waste management infrastructure projects. Engaging in PPPs offers investors long-term contracts for stability and predictability in planning and implementing waste management projects.

Vietnam Briefing suggests that financiers can leverage the increasing waste generation and favorable government policies to establish profitable waste disposal businesses, potentially leading to long-term, sustainable revenue streams.

In summary, Vietnam presents promising investment opportunities in waste disposal management due to its rapid urbanization, increasing waste generation, and supportive government policies, including the promotion of PPPs. Investors can contribute to effective waste management solutions while tapping into a growing market. VOV

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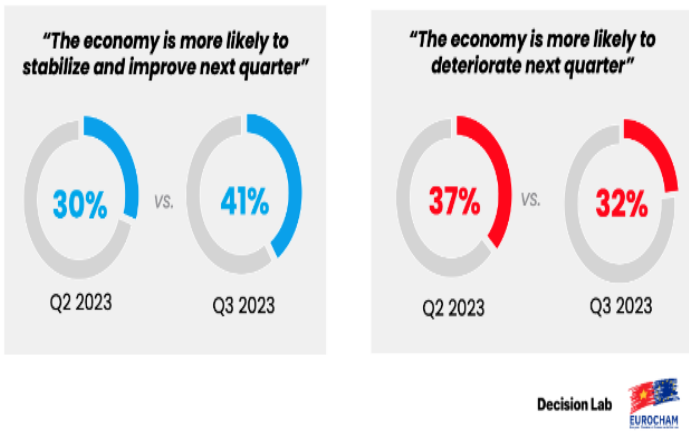
Vietnam continues to be an attractive destination for European businesses

The European Chamber of Commerce Vietnam (EuroCham) has released its Business Confidence Index (BCI) for the third quarter of 2023, signaling positive economic momentum in Vietnam. The BCI rose to 45.1 points, up from 43.5 points in the previous quarter, although it still remains below the 50-point threshold for four consecutive quarters.



The third-quarter survey showed a shift in business sentiment. Pessimism about the current situation dropped by three percentage points, while positive and neutral perspectives increased by six and four percentage points, respectively. Looking ahead, businesses are more optimistic about the upcoming quarter, with an 11 percentage point increase in those anticipating economic stabilization and growth.

Despite cautiousness among businesses, Vietnam continues to be an attractive destination for foreign direct investment (FDI). Sixty-three percent of European businesses surveyed ranked Vietnam among their top 10 FDI destinations, with 31 percent placing it in their top three and 16 percent considering it their foremost investment destination. However, administrative difficulties, regulatory uncertainties, permit acquisition challenges, and strict visa and work permit requirements for foreign workers remain significant hurdles for businesses operating in Vietnam. To enhance FDI attractiveness, respondents emphasized the importance of streamlining bureaucracy (58 percent), improving the regulatory environment (48 percent), upgrading transport infrastructure (one-third), and easing visa and work permit requirements for foreign experts (22 percent).

Sustainability is increasingly important to European companies in Vietnam, with 80 percent highlighting environmental, social, and governance (ESG) alignment as highly or moderately important. However, translating these priorities into practice faces obstacles like regulatory uncertainty, infrastructure gaps, and insufficient government support. Furthermore, only 20 percent of firms are actively preparing for impending EU green regulations, potentially hindering international competitiveness, particularly in the EU market. Gabor Fluit, EuroCham's chairman, expressed strong support for Vietnam but stressed the need to address challenges such as administrative burdens and unclear regulations. He highlighted the commitment to sustainability and its alignment between European firms and Vietnam. This commitment will be a focal point at EuroCham's 2023 Green Economy Forum in November.

In summary, the EuroCham BCI for Q3 2023 reflects improving business sentiment in Vietnam, with optimism for the future. However, addressing administrative challenges and aligning with sustainability goals are crucial for sustained growth and competitiveness in international markets. VIR

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