Oct 10, 2019

Special report

Fiscal Room and Public Investment Disbursement

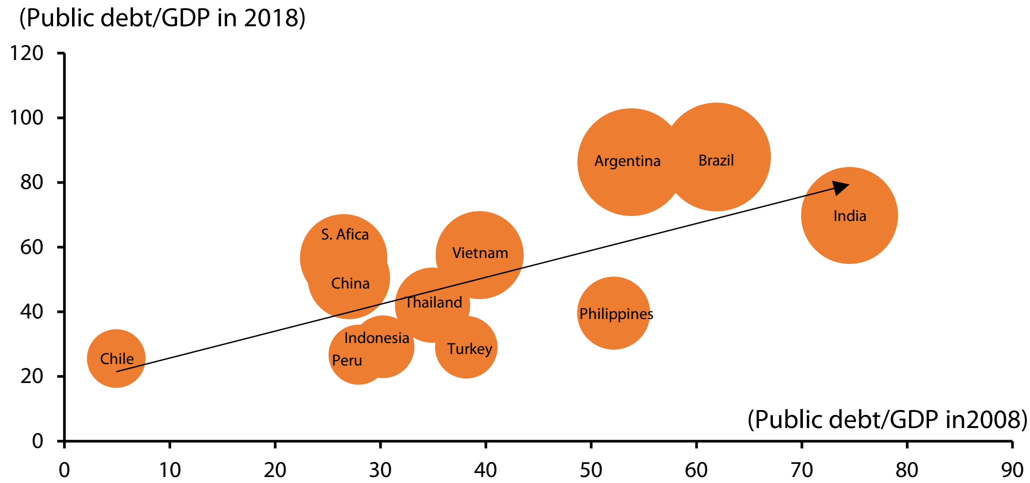
Momentum for economic growth in the upcoming decade is currently the important question for both fiscal and monetary policies.

Vietnam's infrastructure investment plans for the next few years will be something to watch as the public debt/ GDP has decreased because the current fiscal reform creates a tight control of public finance in 2016-2020. Compared to other regional economies, Vietnam still has a healthy balance sheet. Most ratios such as public debt, government debt and national foreign debt remain under control.

This year (2019), so far, there is likely a fiscal surplus for the first time since 21st century as the amount was at VND 80 trillion in 1H2019. Although it will be hard for this to stay at these levels, we believe that this can contribute to soften the macroeconomic situation given the global headwinds.

Going back to infrastructure, the government pushed forward lately a few projects such as the North-South highway and Long Thanh international airport. As 2020 is the last year of the mid-term public investment plan for 2016-2020, disbursements are expected to rise 16% y/y to VND 500 trillion.

Public debt/GDP in Emerging and Developing Economies in 2008-2018



Source: WB, Rong Viet Securities

Vu Anh Tu

tu.va@vdsc.com.vn

Content

LOCAL AND INTERNATIONAL PUBLIC DEBT

- Public debt skyrocketed globally in the last decade
- Potential effects of global financial stress on macro indicators
- Vietnam's public debt

Public debt skyrocketed globally in the last decade

Geopolitical risks are affecting investors' economic growth assessment.

Public debt in most of countries/territories shot up in the past decade, especially since the Great Financial Crisis of 2007-11. Emerging and developing economies have taken up debt in an unprecedented fashion in order to boost their GDP.

Therefore, requirement for comprehensive fiscal reform to strengthen economic growth is a must for policymakers. Changes in demography, technology and globalization are proving that existing administrations have to cope with new challenges.

Currently, we are increasingly discussing about the concept of "Helicopter money", raised by former FED president, Ben Bernanke in 2002. That implies an unconventional coordinated response from both the monetary and fiscal sides.

"A broad-based tax cut, for example, accommodated by a program of open-market purchases to alleviate any tendency for interest rates to increase, would almost certainly be an effective stimulant to consumption and hence to prices. Even if households decided not to increase consumption but instead rebalanced their portfolios by using their extra cash to acquire real and financial assets, the resulting increase in asset values would lower the cost of capital and improve the balance sheet positions of potential borrowers. A money-financed tax cut is essentially equivalent to Milton Friedman's famous 'helicopter drop' of money."

Figure 1: Advanced economies

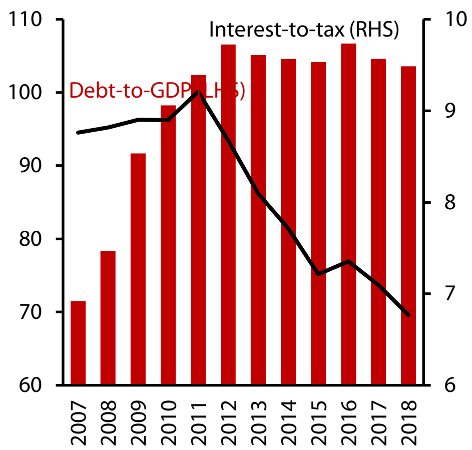


Figure 2: Emerging and mid-income economies

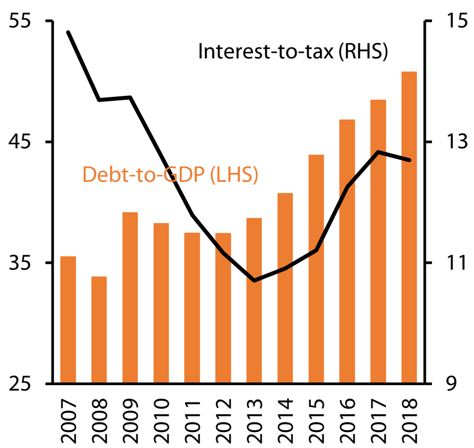
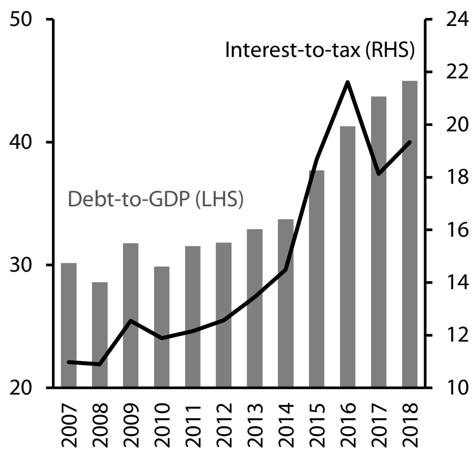


Figure 3: Low-income economies



Source: IMF, Rong Viet Securities[1]

Potential effects of global financial stress on macro indicators

Looking at 11 countries in the list of Emerging and Developing economies, we notice that China, Vietnam, Argentina and Brazil all have high public debt. In China, post-GFC, public debt doubled to 56.7% of GDP from 26.5% of GDP in 2009. In Vietnam public debt reached 61.4% of GDP in 2017 in compared with 39.4% in 2008. Argentina and Brazil are in the red to the tune of over 85% of GDP. However, in ASEAN, the Philippines is an example of a good student as public debt to GDP ratio dropped from 52.1% to 39.6% in the past ten years.

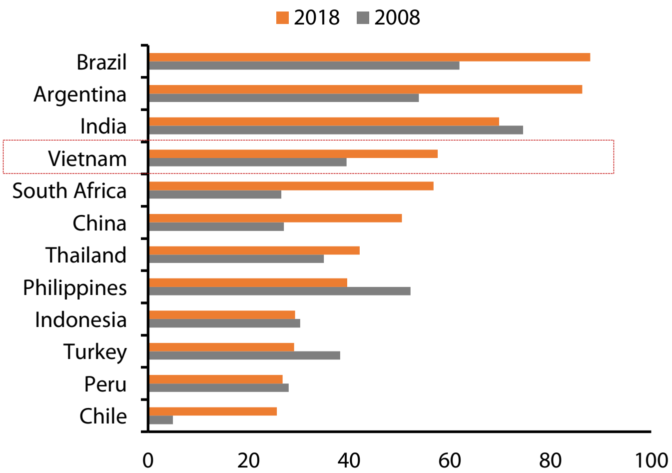
[1] Interest-to-tax: Interest payment to tax revenue

According to the IMF, global financial stress could raise risk premiums.[2] The impact on countries' public finance are heterogenous and dependent on key factors including financial shocks' scale and time, economic fundamentals, national asset reserve and debt structure.

Figure 5 and 6 show key macro indicators, including public debt/GDP, public deficit/GDP, interest rate and economic growth. A one standard deviation positive shock to the Financial Stress indicator (FSI) in advanced economies is 2/3 of the shock that occurred during the European sovereign debt crisis and 1/10 of the global financial crisis.

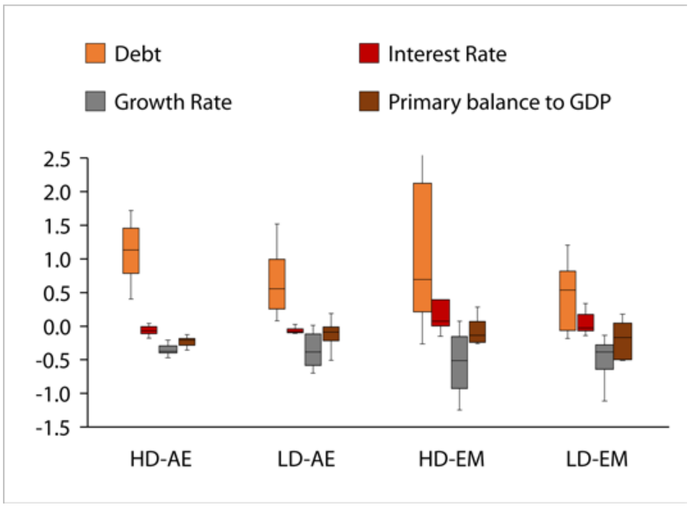
In the case of Vietnam, shocks could push up the public debt/GDP and interest rate by 2% and 0.25% and drag down economic growth by 1%.

Figure 4: General government gross debt (% of GDP)



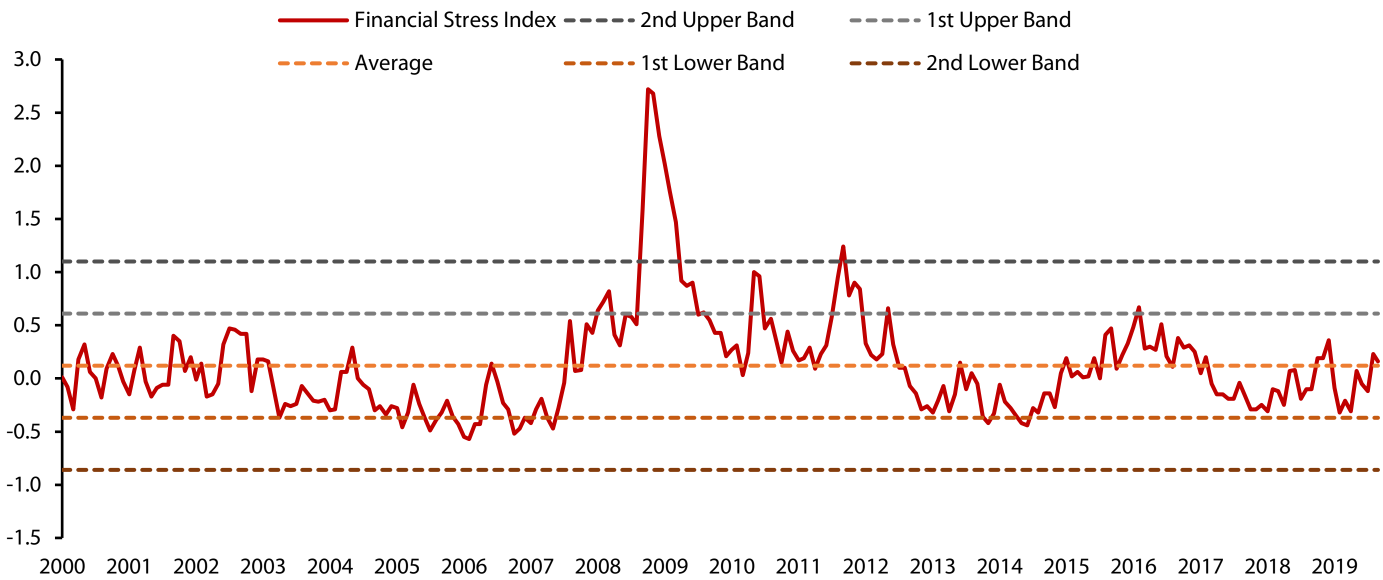
Source: IMF, Rong Viet Securities

Figure 5: Responses of Key Variables to Potential Stress in Global Financial Markets (Percentage point of GDP difference)[3]



Source: IMF, Rong Viet Securities

Figure 6: Global Financial Stress



Source: Bloomberg, Rong Viet Securities

[2] IMF's Fiscal Monitor Report
[3] "-" median
HD, LD: High debt, Low debt
AE, EM: Advanced Economies, Emerging Economies

Vietnam's public debt

Public debt/GDP decreased from 63.7% to 58.4%. Economic growth was 7.1% YoY in 2018 while state divestment and equitization were boosted up. Government expenditures are tightly controlled and accounts for 68% of GDP compared with a peak of 75% three years ago.

However, there are more should be done, including 1) lower disbursement of public investment needed to increase the efficiency of mobilized capital, 2) state divestment is being delayed and 3) public deficit is still very high.

Figure 7: Public finance's indicators

Indices	2016		2017		2018		2016-2020[4]
Public debt (% GDP)	63,7	↑	61,4	↓	58,4	↓	65
Government debt (% GDP)	52,7	↑	51,7	↓	50	↓	54
National foreign debt (% GDP)	44,8	↑	48,9	↑	46	↓	50
Public deficit (% GDP)	3,6[5]	↓	3,5	↓	3,5	↔	3,9
Investment exp (% total exp)	25	↔	25	↔	25	↔	25
Current exp (% total exp)	75	↑	69	↓	68	↓	64

Source: MOF, Rong Viet Securities

The public debt was 61.4% of GDP in 2017 while the government debt's contribution was 51.7%, the rest was from government-guaranteed and local government loans. Current calculations exclude capital construction debts and other hidden debts.

Vietnam's national foreign debt/GDP was at 48.9% in 2017, in which the state's foreign debt accounted for 28.2% and the corporates was 20.8%. Although Vietnam's national foreign debt/GDP is higher than regional peers, most of the debt is preferred loans with long-term maturity and low interest rate. In the case of Malaysia, total foreign debt/GNI was at 70% and short-term loans' percentage was at 40%, significantly higher than Vietnam's 21%. Therefore, that is expected to not result in impressed risks in the domestic financial market.

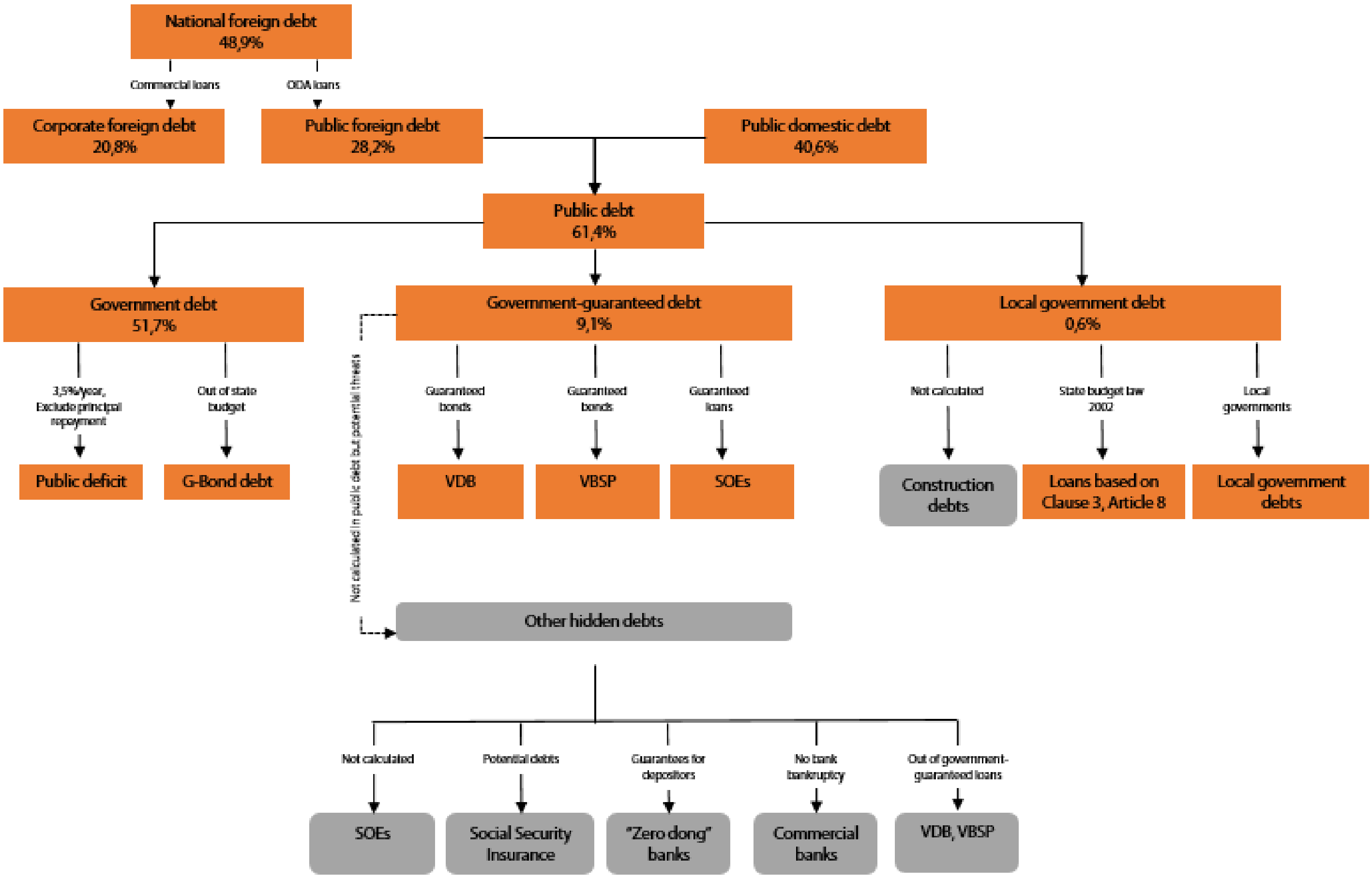
The current question is whether public debt can keep decreasing. Our answer is hard as some newborn obstacles likely threaten the trend. In details, there is a mountainous pressure on public debt repayment in 2020-2021 as 25% of domestic debt will be due. Including the foreign amount, total repayment will be at USD 22 billion. In 2020, the government must pay USD2.7 billion of principal debt in Oct and Nov in which foreign debt is USD 1 billion.

Meanwhile, the government-guaranteed debt is a tough nut to crack and electricity generators' investment demand is tremendous. Besides, the loans of 12 projects of Ministry of Industry and Trade are burned to death.

[4] Excludes principal repayment from public deficit

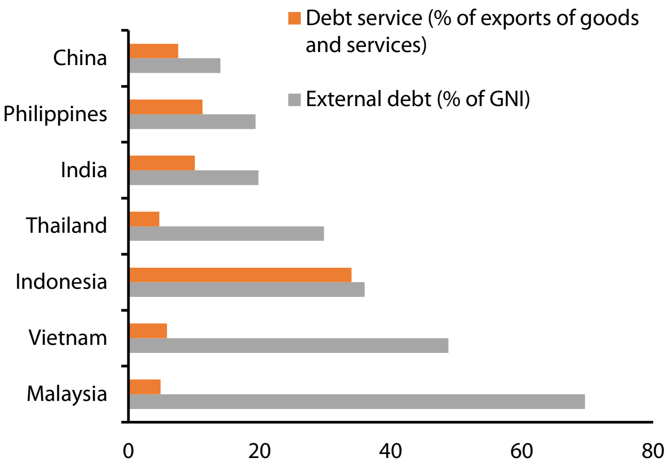
[5] Targets in 2016-2020

Figure 8: Vietnam's debt structure 2017



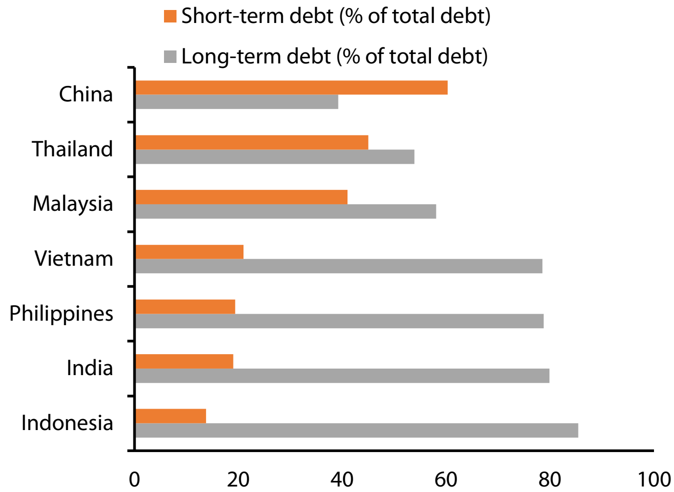
Source: Rong Viet Securities

Figure 9: External debt (% of GNI)



Source: ADB, Rong Viet Securities

Figure 10: External debt's structure



Source: ADB, Rong Viet Securities

PUBLIC FINANCE IN VIETNAM

- Fiscal surplus in 1H2019
- Public investment disbursement likely speeds up since 2020

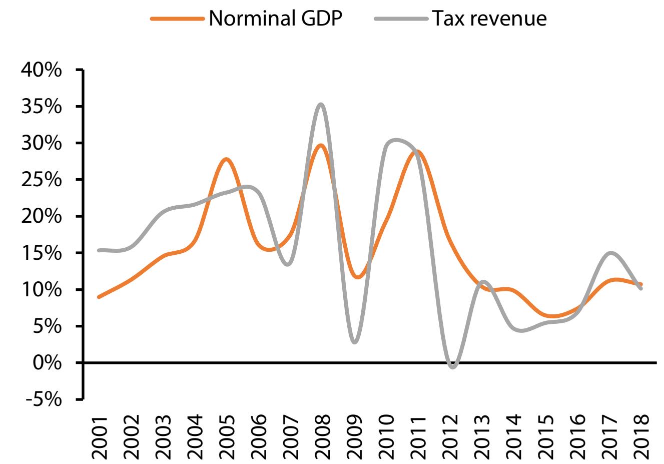
Fiscal surplus in 1H2019

Since the "Doi Moi" reform started, Vietnam recorded a fiscal surplus of VND 80 trillion in 1H2019. Total revenue was at VND745 trillion while total expense was at VND 665 trillion.

There are some key reasons, including 1) low disbursement of public investment, 2) climb of special tax as total value of imported cars was raised fourfold in 1H2019, 3) accounting of previous state divestment and 4) stable income and consumption tax revenue.

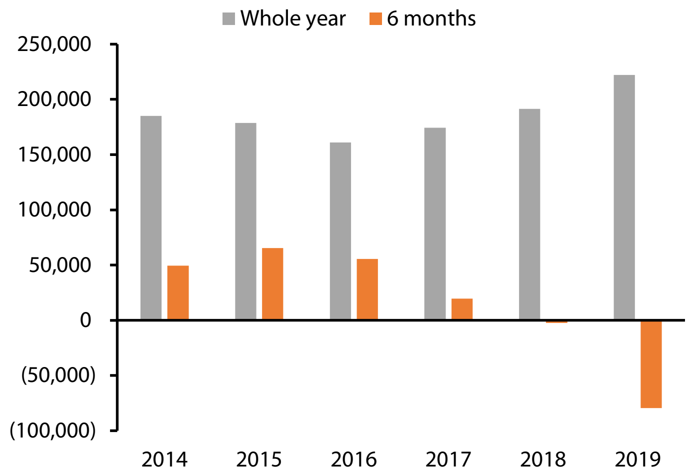
Therefore, the current fiscal surplus is not from fundamentals but from temporary factors. There is a close correlation between nominal GDP and tax revenue.

Figure 11: Nominal GDP and tax revenue (%, YoY)



Source: ADB, Rong Viet Securities

Figure 12: Public deficit, excluding principal repayment (VND Billion)

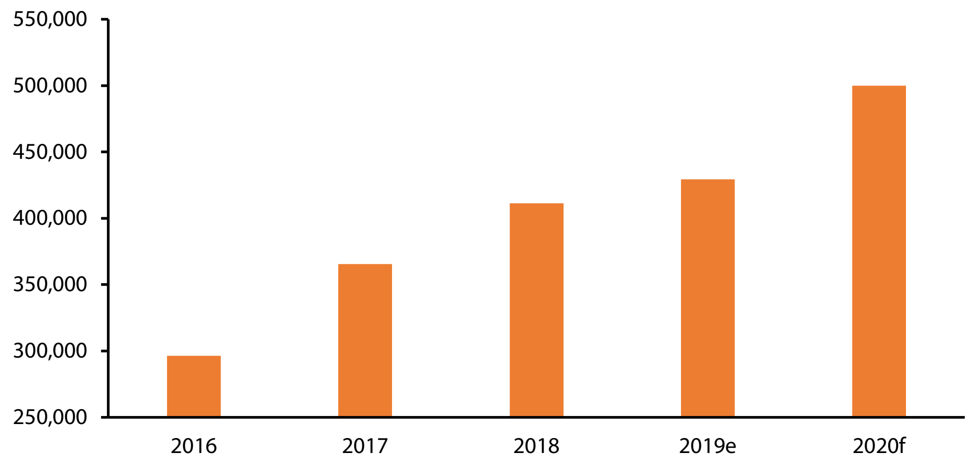


Source: MOF, Rong Viet Securities

Public investment disbursement will likely go up in 2020

In Vietnam, the mid-term public investment plan for 2016-2020 clearly pointed out that the payoff from state divestment would be used for public investment. In the last years, the disbursement process has been delayed due to politics. However, we expect that to ramp up starting in 2020.

Figure 13: Public investment disbursement (VND Billion)



Source: MOF, Rong Viet Securities

At the mid of September, the government started the first phase of North-South highway in Quang Tri-Thua Thien Hue provinces which should start a large-scale upgrade on infrastructure. Recently, the Parliament allowed the government to use the general provident fund for investment in the amount of VND 500 trillion in 2020, up 16% YoY.

The below table show the project of the highway system development from 2020-2030.

Some key points:

- Expressways connecting Ha Noi and Ho Chi Minh cities to tier-1,2 provinces/cities are well developed. However, the ring road in Ha Noi and Ho Chi Minh cities missed the plan.
- Highways connecting the central delta areas to provinces/cities near the border with China are built up. That enhances the cross-border trade as Chinese government also praises for the development of free trade areas. Importantly, that is a part of the Belt and Road Initiative.

In the next 2 years, the North-South highway, the backbone of Vietnam, will connect provinces/cities in the Middle of Vietnam. The project is funded into 11 pharses and its total investment is USD 5 billion. 3 out of 11 pharses will be funded by the public investment and the others is in shape of PPP. Each pharses is completed for 18 months.

The notable point is that Ministry of Transportation canceled the international auction and implemented domestic auctions. That brings both of opportunities and challenges to local corporations. On the one hand, they get chances to exploit PPP sub-projects whose investment is estimated at USD 4 billion. On the other hand, there is a huge pressure on legally meeting the capital requirement which is 20% of total investment. That asks such companies to get into applicant partners and coordination. Besides, whether the local financial institutions can provide such amount of investment is on the table. The good news is that IFC gets positive support from Ministry of Finance and State Bank of Vietnam to issue Lotus Bond to foreign investors. That is VND-denominated currency bond and aims at provide funds for local companies.

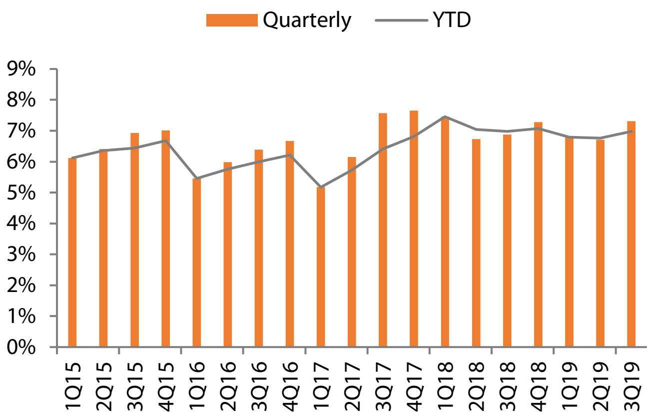
Table 1: Highway system in Vietnam

Routes	Start points	End points	Length (km)	Scale (lanes)	Total investment (VND Bln)	Funding Source	Start date	End date
North areas								
Ha Noi – Bac Giang	South of Phu Dong bridge (Km159+100), Ha Noi	Bac Giang city (Km108+500), Bac Giang	45.8	4	4,154	BOT	2014	2016
Bac Giang – Lang Son	Bac Giang city (Km108+500), Bac Giang	Huu Nghi Border Gate, Lang Son	64	4	12,188	BOT	2016	2019
Ha Noi – Hai Phong	South of Thanh Tri bridge, Ha Noi	Hai Phong	105	6	45,487	BOT	2009	2015
Ha Noi – Lao Cai	Noi Bai, Ha Noi	Lao Cai city, Lao Cai	245	4	33,000	ADB's loans	2008	2014
Ha Noi – Thai Nguyen	Ha Noi	Thai Nguyen city, Thai Nguyen	63	4	10,000	Japan's ODA	2012	2014
Thai Nguyen-Bac Kan	Thai Nguyen city, Thai Nguyen	Bac Kan	43	4	2,800	BOT	2014	2017
Ha Noi - Hoa Binh	Hoa Lac, Ha Noi	Trung Minh, Hoa Binh	26	6	2,700	BOT	2010	2018
Bac Ninh - Ha Long	Bac Ninh city, Bac Ninh	Ha Long city, Quang Ninh	57	4	3,000	BOT	2014	2016
Noi Bai - Bac Ninh	Noi Bai, Ha Noi	Bac Ninh city, Bac Ninh	33.4	4	2,260	BOT	2015	
Van Don - Mong Cai	Van Don (Quang Ninh)	Mong Cai (Quang Ninh)	80	4	11,195	BOT	2019	
Ha Long - Van Don	Ha Long (Quang Ninh)	Van Don (Quang Ninh)	60	4	12,000	BOT	2015	2018
Ha Long-Hai Phong	Ha Long (Quang Ninh)	Hai Phong	25.2	4	13,693	State budget	2014	2018
Hai Phong - Thai Binh			35.5	4	3,460	BOT	2017	2019
Ninh Binh – Thai Binh			79.4	4	10,643	PPP	2017	2022
Lang Son - Cao Bang	Dong Dang (Lang Son)	Tra Linh (Cao Bang)	115	4	20,000	PPP	2020	
Tuyen Quang- Phu Tho			37	2	2,717	BOT	2020	
North-South Highway								
Nam Dinh - Ninh Binh	Cao Bo (Nam Dinh)	Mai Son (Ninh Binh)	15	4-6	5,292	State budget	2019	2021
Ninh Binh - Thanh Hoa	Mai Son (Ninh Binh)	Quoc lo 45 (Thanh Hoa)	63.3	4-6	13,225	PPP	2020	
Quoc lo 45 (Thanh Hoa) - Nghi Son (Thanh Hoa)	Quoc lo 45 (Thanh Hoa)	Nghi Sơn (Thanh Hoa)	39	4-6	6,475	PPP	2020	
Thanh Hoa - Nghe An	Nghi Sơn (Thanh Hoa)	Dien Chau (Nghe An)	50	4-6	8,380	PPP	2020	
Nghe An – Ha Tinh	Dien Chau (Nghe An)	Bai Vot (Ha Tinh)	44.4	4-6	8,077	PPP	1Q/2020	
Quang Tri - Thua Thien - Hue	Cam Lo, Quang Tri	La Son, Thua Thien – Hue	98	2	7,699	State budget	2019	2021

Thua Thien - Hue - Da Nang	La Son, Thua Thien - Hue	Tuy Loan, Da Nang	77.6	2	11,500	BT	2015	2019
Khanh Hoa - Cam Ranh	Nha Trang (Khanh Hoa)	Cam Lam (Cam Ranh)	29	4-6	4,059	PPP	2019	
Cam Ranh - Binh Thuan	Cam Lam (Cam Ranh)	Vinh Hao (Binh Thuan)	104	4-6	18,463	PPP	2Q/2020	
Vinh Hao (Binh Thuan) - Phan Thiet	Vinh Hao (Binh Thuan)	Phan Thiet	103.3	4-6	11,603	PPP	2020	
Phan Thiet - Dong Nai	Phan Thiet	Dau Giay (Dong Nai)	99	4-6	14,356	PPP	3Q/2020	
My Thuan 2 Bridge	Tien Giang	Vinh Long	6.6	4	5,003	State budget	2019	
South areas								
Dong Nai – Vung Tau	Bien Hoa (Dong Nai)	Vung Tau	77.6	4	9,223	BOT	2020	
Dong Nai - Lam Dong	Dau Giay (Dong Nai)	Da Lat city, Lam Dong	200	4	65,000	Japan's ODA	2019	
HCMC - Binh Phuoc	Go Dua (HCMC)	Chon Thanh (Binh Phuoc province)	69	6-8	11,000	BOT	After 2020	
HCMC - Tay Ninh	Hoc Mon (HCMC)	Moc Bai (Tay Ninh)	53.5	4	10,700	PPP	N/A	
Long An - Dong Nai	Ben Luc (Long An)	Long Thanh (Dong Nai)	57.7	4	31,000	ADB's loans	2014	2021
HCMC - Tien Giang	Binh Chanh (HCMC)	Trung Luong (Tien Giang)	61.9	4	9,884		2004	2010
An Giang - Soc Trang	Chau Doc city (An Giang province)	Soc Trang city (Soc Trang province)	150	4	30,000		2023	
Kien Giang-Bac Lieu	Ha Tien (Kien Giang)	Bac Lieu	225		45,000			
HCMC's ring roads								
Ring road 3	Nhon Trach (Dong Nai)	Binh Chanh (HCMC)	89	6-8	55,805	ODA + State budget	2022	
Ring road 4	Phu My (Bien Hoa - Vung Tau highway), Ba Ria - Vung Tau	Hiep Phuoc seaport, HCMC	198	6-8	98,500	ODA + State budget	N/A	
Ha Noi's ring roads								
Ring road 4	Soc Son, Ha Noi	Soc Son, Ha Noi	98	4-6	66,500	BOT	2021	
Ring road 5	Soc Son, Ha Noi	Soc Son, Ha Noi	331	4-6	93,594	BOT	2021	

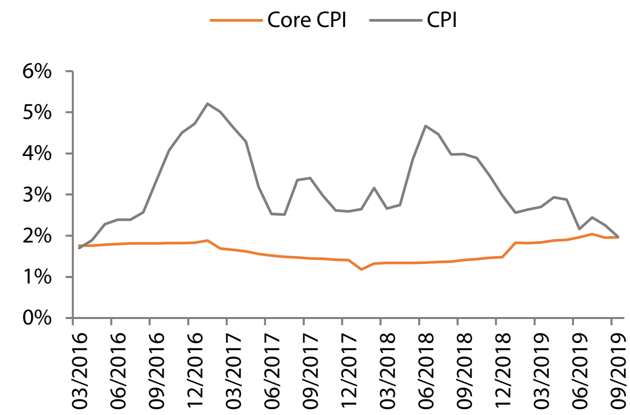
Source: Rong Viet Securities

GDP growth YoY



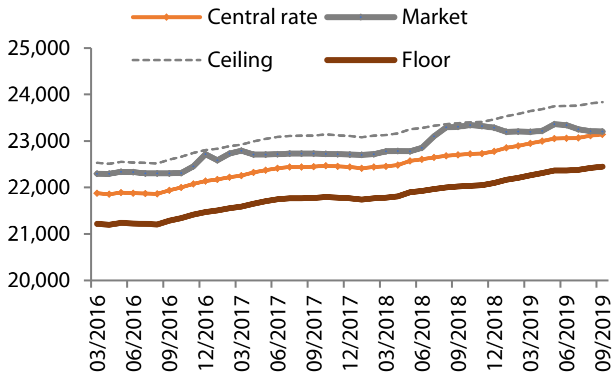
Source: GSO, Rong Viet Securites

CPI YoY



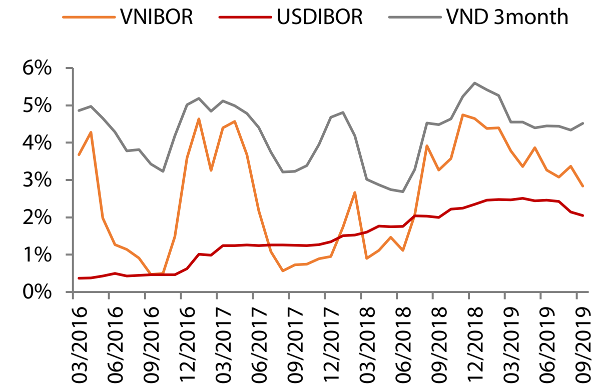
Source: GSO, Rong Viet Securities

Exchange rate (USD/VND)



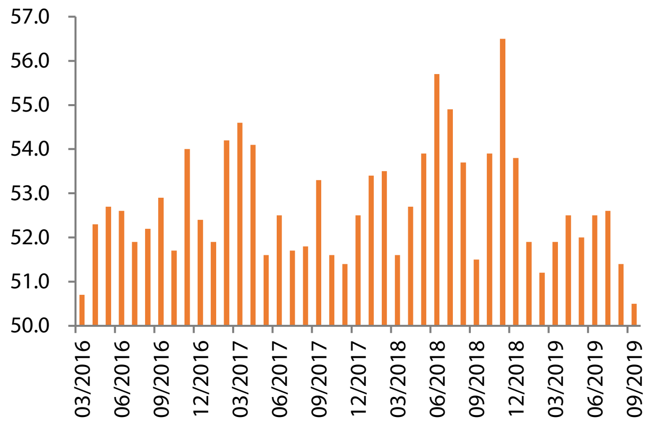
Source: SBV, Rong Viet Securities

Interbank interest rates of VND and USD



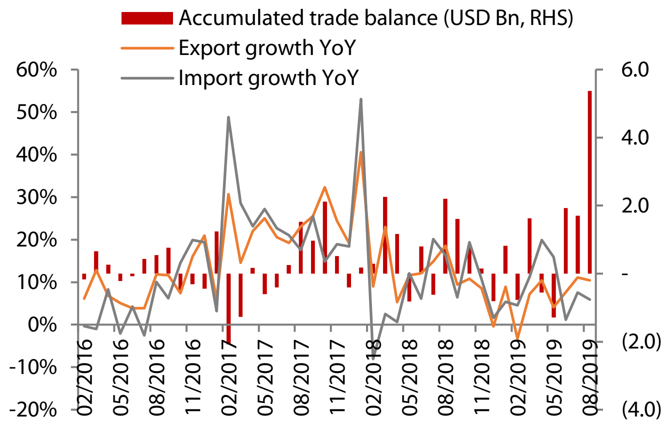
Source: SBV, Rong Viet Securities

Purchasing Managers' Index (PMI)



Source: Markit Economic, Rong Viet Securities

Trade of goods



Source: Customs, Rong Viet Securities

ANALYSIS & INVESTMENT ADVISORY DEPARTMENT

Lam Nguyen
Deputy Manager
lam.ntp@vdsc.com.vn
+ 84 28 6299 2006 (1313)

- Banking
- Market Strategy

Duong Lai
Senior Analyst
duong.ld@vdsc.com.vn
+ 84 28 6299 2006 (1522)

- Real Estate
- Building Materials

Vu Tran
Senior Analyst
vu.thx@vdsc.com.vn
+ 84 28 6299 2006 (1518)

- Oil & Gas
- Fertilizer

Trinh Nguyen
Senior Analyst
trinh.nh@vdsc.com.vn
+ 84 28 6299 2006 (1551)

- Steel
- Construction

Tu Vu
Analyst
tu.va@vdsc.com.vn
+ 84 28 6299 2006 (1511)

- Macroeconomics

Son Tran
Analyst
son.tt@vdsc.com.vn
+ 84 28 6299 2006 (1527)

- Market Strategy
- Consumer discretionary
- Pharmaceuticals

Tung Do
Analyst
tung.dt@vdsc.com.vn
+ 84 28 6299 2006 (1521)

- Logistics
- Aviation

Thao Dang
Analyst
thao.dtp@vdsc.com.vn
+ 84 28 6299 2006 (1529)

- Food & Beverage
- Textiles

Tam Pham
Analyst
tam.ptt@vdsc.com.vn
+ 84 28 6299 2006 (1530)

- Insurance
- Fishery

Anh Nguyen
Analyst
anh2.ntt@vdsc.com.vn
+ 84 28 6299 2006 (1531)

- Banking

Vy Nguyen
Analyst
vy.ntk@vdsc.com.vn
+ 84 28 6299 2006 (1528)

- Automobile & Parts

Hoang Nguyen
Analyst
hoang.nt@vdsc.com.vn
+ 84 28 6299 2006 (1538)

- Market Strategy

Hoang Bui
Analyst
hoang.bh@vdsc.com.vn
+ 84 28 6299 2006 (1283)

- Natural Rubber
- Agriculture

Bernard Lapointe
Senior Consultant
bernard.lapointe@vdsc.com.vn
+ 84 28 6299 2006

Ha Tran
Assistant
ha.ttn@vdsc.com.vn
+ 84 28 6299 2006 (1526)

Vi Truong
Assistant
vi.ttt@vdsc.com.vn
+ 84 28 6299 2006 (1517)

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