PARTNER PERSPECTIVES

Money talks or why Vietnamese can't simply trust known names

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Throughout 2012 and the first quarter of 2013, Vietnamese households and businesspeople lived in uncertainty and fears about the nation's falling economic performance. We termed the period as "transition turmoil" which is comprised of serial unstoppable mini-crises: banking liquidity crunch, non-performing loans (NPL), declining total demand, rising inventories, slowing growth rate, recurring (high) inflation, rampant financial frauds, alarming corporate bankruptcies, etc.[1]

The government and the Communist Party of Vietnam have clearly been unnerved by the negative impacts of all these unfortunate happenings. They have earnest reasons to worry because poor performance of Vietnam's $150 billion economy has caused an increasing portion of populace to become impatiently disgruntled amid worsening financial hardship, while socio-economic inequality has expanded unstoppably since the turn of the millennium.

So, the government has tried to seek experts' advices and solutions. Most of them came from state-run universities and state-funded research institutions. Without independent thinking and tested expertise, the qualities of solutions and policy advisory works turned out to be very questionable. Take inflation as an example. High inflation has become a recurring ghost that scares most Vietnamese to death every time the sign of its return looms. Vietnam experienced hyperinflation, reaching an annualized CPI of 748% in January 1987. Well, one may view this as "exceptional" right in the transition from the old-fashioned Soviet command economy to a market-oriented one. However, inflation did surge a couple of times more during the 1990s. Right when Vietnam expected to reap some fruits from its full WTO membership starting in Jan 2007, inflation in 2008 peaked at almost 24% (annualized). Despite many policies that were introduced to annihilate this ghost, even at the price of the corporate sector's financial sustainability, the double-digit ghost returned in 2011, 18% annualized. Again, the base interest rates were raised a couple of times to fight this evil, pushing the market cost of fund to as high as 25% for many consecutive months, killing about 200,000 small- and medium-sized enterprises (SMEs) in just two years. Bad debts clearly followed. So did banks' credit contraction.

So what kind of credit should economic advisors and think tanks take, given the fact that most of their brains were "consumed" to develop analysis, opinions and solutions regarding exactly the above-mentioned matters?

Now the most serious problem that there is no way government, corporate sector, banking powerhouses and think tanks could avoid is the problematic real estate sector. The collapse of the real estate sector - the sub-economy that consumed most credit, labor and used to serve as the country's economic pillar in transition - followed naturally, too amidst declining demand, price free fall and market deadlock.

With full confidence in their reasoning and assessment, well known local economists kept giving wrong opinions about whether the crisis bottomed out yet.

Some examples follow.

> Tran Kim Chung of Central Institute For Economic Management (CIEM), in the conference "Comprehensive Solution for Real Estate Market 2012" on March 28 2012, stated that "…*Many factors are pointing out that the market is at its bottom. Thus, improving signals will come and the market is possibly going up*."[2]
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> Also in March 2012, Vu Dinh Anh told Vietnam News Agency that real estate market would have chance to recover by the end of the year. He even added that "commercial banks are not able to find out lending opportunity…" then jumped to the conclusion that real estate sector would be considered as the only destination of banks' credit.[3]
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> Early July 2012, Deputy Prime Minister Nguyen Xuan Phuc reported to the National Assembly that the worst of the Vietnamese economy had been over, while Tran Du Lich, an economist fellow of National Assembly's Economic Committee echoed Mr Phuc as saying that the economy started recovering now.

> In addition, mid-2012 Vo Tri Thanh (CIEM) expected stimulus policies would come into effect in August and suggested real estate a “not-bad-at-all longer-term investment”. Following experts’ opinions, media even asked: “Just need to be patient one more month?”[4]

Well, that “one month” was calculated using a different time scale elsewhere in our multiverse. The reality turned out significantly different. Vietnam’s Ministry of Construction released that, by the end of 2012, total unsold housing value reached almost $5.6 billion.[5] The problem has been further exacerbated by the fact that prices of real properties continued to drop in 2012 by roughly 50% on average, causing a vast number of developers serious financial losses and pushing many to declare bankruptcy. Naturally, buyers suffered too.

Worse off, the real estate bad debts further destroyed the credibility of the local banking system. According to the central bank, at the end of May 2012, NPLs caused by the real estate industry accounted for 10.3% of the total banking system’s bad debt, but by 2012 year-end, the proportion already increased to 12%.[6] (Total credit amount that was funded to Vietnam’s real estate industry is estimated at approximately $10.4 billion as of 2012 year-end).[7]

But when money talks, the market listens. Market participants were not that naïve, and look at their choices to learn that they didn’t simply believe in words.

A poll “What will you do with your money?” was created by Dan Tri in early 2012, and repeated by Tuoi Tre in 2013. The results are tabulated below.

	2012 (Dan Tri Online)	Percentage	2013 (Tuoi Tre Online)	Percentage
Invest in real estate assets	1,365	23%	320	5%
Invest in portfolio assets	436	7%	173	3%
Buy gold and USD	1,444	24%	1,387	22%
Deposit money at banks	2,104	35%	3,793	60%
Others	585	11%	624	10%
Total	5,934	100%	6,297	100%
Note: Data were retrieved by the author from dantri.com.vn and tuoitre.vn on March 12, 2013.				

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The sentiments have changed over time in terms of the population's expectation about economic performance of the portfolio and real estimate investments. We don't need a statistical formal test to know that the drop from 23% in 2012 to 5% in 2013 has a real significance, while the already weak investment mentality for financial asset portfolio in 2012 has further dropped to 3% in 2013.
So what do we learn from this?

Statistically speaking, the market sentiment for keeping gold and foreign currencies (mostly USD) as chief households' safety net remained really strong and statistically stable, in both 2012 and 2013, 24% and 22% respectively. The surge in people's intention to make deposits with banks, from 35% to 60%, is logical because "Others" basically remained the same, and the fulcrum has to move toward the "deposits" side. But that logical thing is still striking. Recurring inflation is a known phenomenon, and the effective return for bank deposits is constantly threatened to become negative. Banks in recent years have shown their fatal and fundamental flaws in risk management, liquidity management and general governance. So the safety of deposits is questionable.

The paradox here is: no real promising return, no real safety, so why the surge? Literally speaking, there are two possible answers. One is bank deposits have somewhat better liquidity. Even in a bad situation, depositors can still take some money back, or at best, all the money. So liquidity counts.

Clearly, even though choices available in the local market are limited, bank deposits still look safer than other risky, speculative, and perhaps unpromising, assets such as real estate and equity.

So, when money talks, do pay attention or pay the price. Local experts won't have that power anytime soon as yet, given their poor track record thus far.

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[1] Vuong, Q.H., and Napier, N.K. (2012) "Resource Curse or Destructive Creation: A Tale of Crony Capitalism in Transition." Working Papers CEB, No. 12/037, Univ. of Brussels.

[2] http://laodong.com.vn/Bat-dong-san/Cuoi-nam-2012-thi-truong-bat-dong-san-se-di-len/58826.bld

[3] http://www.vietnamplus.vn/Home/Thi-truong-bat-dong-san-2012-Ky-vong-vao-cuoi-nam/20123/131886.vnplus

[4] http://thgroup.vn/tin-chi-tiet/kinh-te-chi-can-kien-nhan-cho-them-1-thang-nua/169.html

[5] http://www.vietnamica.net/vietnams-real-estate-us5-6-bln-inventory/

[6] http://www.vietfin.net/thi-truong-bat-dong-san-va-giai-phap-thao-go-kho-khan/

[7] http://batdongsan.vietnamnet.vn/fms/doanh-nghiep-du-an/55099/nhung-con-so--biet-noi--ve-thi-truong-bds-nam-2012.html