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-crisis: 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...
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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]

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]

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
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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.

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.

[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.


