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Vietnam rewarded with a ratings upgrade

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Standard & Poor's on Thursday lifted Vietnam's long-term foreign currency rating one notch to BB, citing the government's commitment to economic reforms and its steady transition to a market economy.

The change reflected "the increased economic growth potential of the Vietnamese economy, which has resulted from the on-going efforts of the government to improve essential public infrastructure and the investment climate", Kim Eng Tan, an S&P sovereign analyst, said in a statement.

It added that "measures to introduce foreign participation in the banking system have also laid the foundation for greater financial stability going forward".

Vietnam is now rated one notch higher than Indonesia and the Philippines.

The upgrade came as Henry Paulson, the US Treasury secretary, pledged to lobby the US Congress to grant Vietnam permanent normal trade relations, a crucial step for Hanoi to reach its goal of joining the World Trade Organisation

Mr Paulson, who is in Hanoi for the meeting of finance ministers of the Asia Pacific Economic Co-operation forum, called Vietnam's accession to the WTO "a very important priority".

Doubts, however, remain over whether the US Congress will be willing to ratify a fresh US-Vietnam trade bill before the November mid-term elections, and any delay could effectively stall Vietnam's membership.

Vietnam has been striving for several years to join the WTO, which Hanoi believes will help secure markets for its exports, a big driver of the country's rapid economic expansion over the past few years.

"They are very strongly focused on the export-led growth model," Agost Benard, an S&P analyst, told the Financial Times.

WTO membership will also commit Vietnam to a liberalisation of other key sectors, including services, which will provide fresh impetus to growth and help modernise sectors of the economy still dominated by state enterprises.

According to S&P, powerful state-owned enterprises, including state banks, still allocate Vietnam's essential economic resources in ways that "create long-term problems for the economy".

S&P also warned that Vietnam needs to reduce its budget deficit as a proportion of GDP, and accelerate its reforms of the banking system to help curb the build-up of non-performing loans in the banking system.

It said Vietnam's prospects, and rating outlook, would be further enhanced if Hanoi's Communist rulers would "allow the private sector to play a much greater role in the economy than is previously the case".

Vietnam, the second fastest growing economy in Asia after China, grew 7.4 per cent in the first half of the year compared with last year. Vietnamese authorities have set a growth target of 7.5-8 per cent a year, for the next five years, an aim many analysts see as achievable.