

# **Whether or not the impact of financial crisis on Vietnam' asset valuation and at what extension?**

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## **Preface**

Valuation industry of Vietnam takes the first step quite late in comparison with the surrounding neighbourhoods. Few years after Doimoi (the Renovation), the Vietnam Government give its a strong support to it's development, since then, the industry has a quick steps forward. Up to now valuation has become an un-detachable part and being present in economic activity of almost regions. The role of service on asset valuation, in forms of saving state budget disbursement, enhancement of investment efficiency, making market more transparency... has been confirmed.

Valuation industry is close-banded to real estate and financial sector. In context of Vietnam economy is opened to the world, the effect of the world financial recession on Vietnam's valuation is unavoidable. Here are some.

## **I. A highline about world economic crisis**

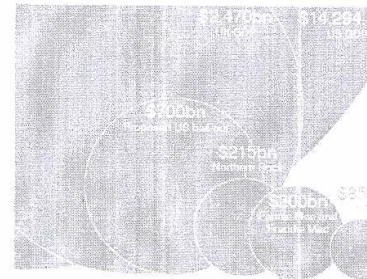
### **1. The effects of world financial crunch on financial and stock market**

#### ***a) Financial market***

The financial crisis outbreak in the USA in 2008 and quickly spread out the global. Consequently, the collapse of huge financial institutions and stock exchange have been seen in many countries. We have also observed huge efforts of nation's economy to overcome the hard time for survive.

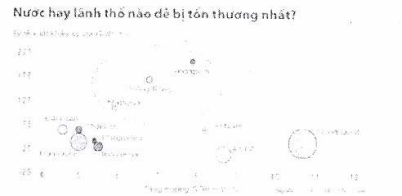
The main cause of crisis come from the default of housing armotisation and the bursting of finacial bubbles in the USA. The real estate bubble gets larger and larger by "trade in high volumes at prices that are considerably at variance with true value of asset" and bursted suddenly. In consequence of this, a lot of well-known companies go to bankrupt or need a finacial bail out plan from government. The USA government takes lead with rescuse package worthing of USD700 billion, many other governments do the same way with a smaller number Dolar.

The International Monetary Fund has drawn up emergency plans to bail out governments affected by the financial crisis, namely Iceland, Hungary, Ucraina, Latvia in forms money injected.



Hình 1: USA package rescue worth of 700 billion US\$D

The Asia economies not standing outside the recession. However, the question is : which one would be the most vulnerable economy among them? According to economists, the more openness of the economy to the world, the more vulnerable its would be. The economy's openness was measured by ratio of export over GDP. Therefore, its is forecasted that Singapore (country that have ratio of export over GDP of 260%), Hongkong (190%), Malaysia (122%), Japan, S. Korea... would hit by the recession most .

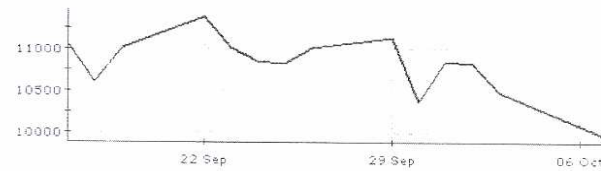


It is notable that GDP of Asia get 4.1% during period 2000-2007, that paving the way for reduce the shock of recession for those region now.

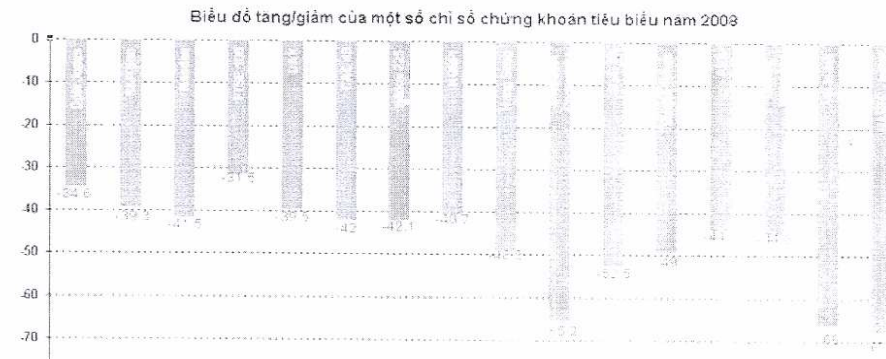
**b) Stock exchange**

The U.S Dow Jones get down 700 points (an equivalence of 6,9%) right after the proposed \$700 billion financial bail out package has been voted down by the House of Representative. It was the biggest slump since 2007 recession. The Nikkei index of Japan also reduce 3% for the same reason at the same time.

The Dow Jones – an indicator of the world's health on economy – reduce continuously in Quarter III, IV of 2008. For the whole 2008 it reduced by 34.6%



The Dow Jones outline from Sep. 16/2008 to Oc. 6/2008)

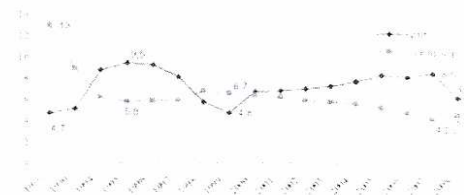


The outline of the main stock indexes in the world

## 2. The effects of the recession on the economy of Vietnam

According to some Vietnamese economists, the impacts of world financial crunch on Vietnam economy has not much because the compatibility and the openness of the economy is still low. However, by taking observing closely we could see that Vietnam economy has also hit by the recession.

Some Vietnam's think-tank voices that the economical cycle of Vietnam would last some nine to ten years. Recently, Vietnam is standing in the third phase (recovery, growth, recession and reduce). Therefore the current problems of Vietnam economy could be seen from 2 main sources: the external impacts and the recession by economy itself.



(GDP growth and unemployment by economic phases)

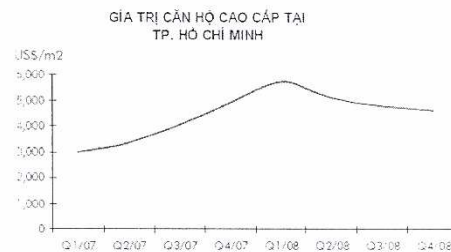
The recession hits come to 2 main domains: the banking sector and the stock exchange

*a) Banking sector*

The banking system has lacking capital for many early months of 2008, while over-night interest rate increased by 43%. Too high interest rate (20% per year) pushes cost up and firms down. According to Small and medium enterprises association, by Oct. 2008 there exist 80% SME get crunch in business, of which 20% facing bankrupt, 60% stay for survive day by day.

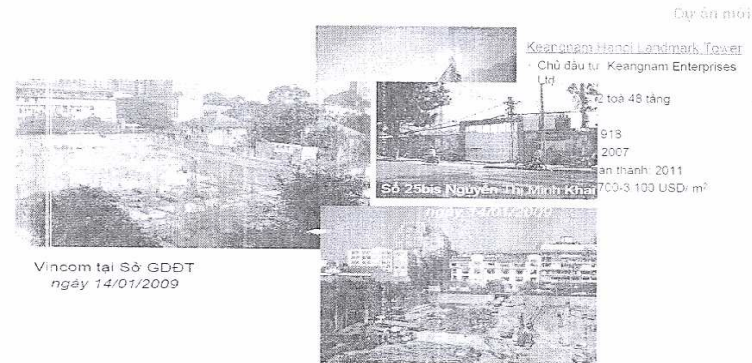
By the end 2008, the commercial banking faces new challenges: interest rate down by a half (13% per year) and ignorance of enterprises to the loan (with low interest rate) offered by banks. Consequently, there exist too much capital in commercial banks (VND100 billion by Nov. 2008). Supply of capital excesses demand.

The first quarter of 2009 see an increase in taking loan. The ration of bad debt also increase, however. According to the Vietnam State Bank the balance of capital that invested in real estate sector is VND115,500 billion, accounting for 9.15% of total capital. The negative impacts of high interest rate (early and mid 2008) still remain on real estate enterprises, especially on projects of apartment, condominiums and bared lands (site) for construction.

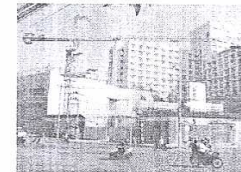


*Value of high-quality condominium in Hochiminh city (source: CBRE)*

However, from the macro view point, we could be say for sure that Vietnam real estate now is in “the hotstuff”, not “freezing” providing by the fact that lot of big real estate projects have ground breaking ceremony and under construction up to now (see pictures below).



Vincom tại Số GDĐT  
ngày 14/01/2009



Tòa nhà A&B ngày 14/01/2009



Quảng trường  
ngày 14/01/2009

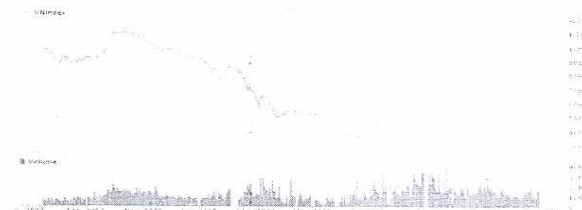


Real estate projects underway in Hanoi and HCM city (source: CBRE)

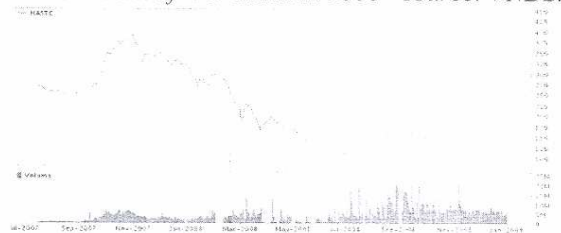
**b) Stock exchange:** the bubble phenomenon has occurred on the Vietnam stock market.

During the blossoming time of the stock exchange (by end of year 2007), the capitalised total stock value accounts for 40% GDP. Some macro policy makers-driven by optimistically unexpected outcome form stock exchange -have drawn a roadmap for capitalisation process in Vietnam, with aiming at the volume of capital coming from stock market will count for 50% of GDP. However, the wind has changed its direction for the next year. By end of 2008, a big slump in stock with a 70% downturn in value for both VN-index and HaSTC index occurred- the biggest event after 8 year running of the stock market. A downturn of 70% value means an equivalence of tens of billion VND of investors has been "disappeared in the air".

For now, volume of stock market has narrowed remarkably, with counting for only some 19% of GDP that lower than the figure of 2006 (22.6%).

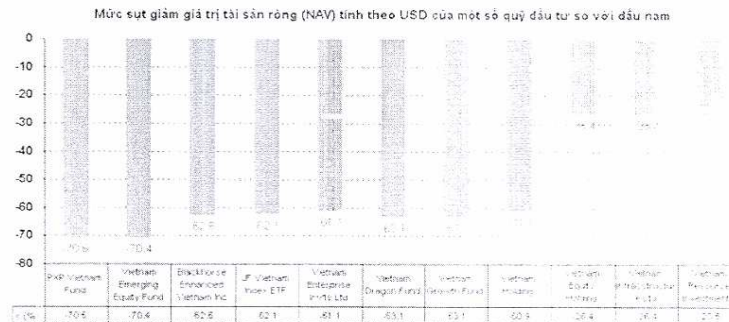


The downturn of VN-Index in 2008 - source: VNDS.



The downturn of HASTC-Index in 2008 - source: VNDS.

In cope with market recession, a lot of hedge funds and stock firms faces problem, or even bankruptcy in 2008. Many firms have labor force cut or merged with foreign partner in order to survive.



Downturn of net asset value (in USD) of some hedge funds

By end-year 2008 there were about 100 stock firms that have been registered while number of stock investment individual accounts is less than 400,000. According to Rothchild (an England's stock firm), many hedge funds getting investment in Vietnam have got big loss in 2008. Their net asset value has reduced by 60% to 70%.

The study on the trend of VN-Index has shown that the beginning of downturn of Vietnam's equity market has started in December 2007, earlier than the beginning of USA financial recession. It means that partly cause of crisis of Vietnam's equity market comes from the internal system. The lacking of transparency of equity market in addition with the psychological phenomenon so-called the mass - trend investment of investors has push up equity's market value too far from its intrinsic value. All we know that intrinsic value of equity comes from tangible and in-tangible of the company. So, when its value is too high, the bubble will be burst un-expectedly, turning back to the intrinsic value.

In short, my notion of recession in two domains of VN's banking and equity as follow:

- The pains beared by VN's banking and equity firms wasn't such as to other Asia's developed countries due to the Vietnam banking system integration into the world's financial institutions not so deep. The commercial banks and investment funds of Vietnam have no possession of the mortgaged-backed securities outside, therefore they are still immunised from de-value of these tools.
- The main effects of global recession on equity of Vietnam would be psychological side of Vietnamese investors. The slump in stock value are exact reflect of the slump of investor in credibility on the transpance of equity market and the government's manipulation, as well.

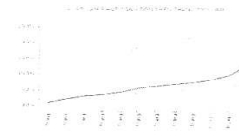
## II. The impacts of financial crisis on valuation industry of Vietnam

### 1. The challenges

As mentioned above, the root cause of crisis on valuation industry of Vietnam mainly lays in the internal weaknesses; the external cause is the by-effect only. For now, problems that valuation firms facing as follows:

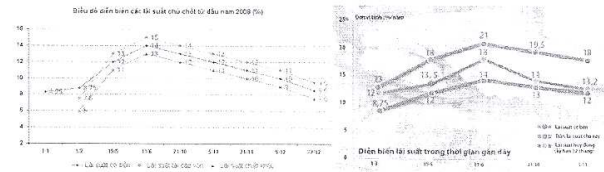
- A sharply drop in demand for valuation that come from the Government policies:

+ *Government's policy of curbing down inflation.* In order to deal with the soaring CPI in 2008 the government spending has been cut remakably. Consequently, demand for valuation of State' asset has been reduced. Notably, State asset valuation is formed a large part of demand side for valuation firms in Vietnam.



+ The State Bank's policy of tightening monetary supply to the economy. In 2008 the State bank paid attention mainly to the balance of capital that invested in the real estate sector. The extremely profitability in these domain has drawn a lot of profit-maximisation firms. However, a big slack in administrative machine made the time value of capital increase. During that time, value of real estate down while

interest rate up putting real estate firm on the horn of dilemma. So, it is unsurprisingly that demand of valuation firms has been reduced.



+ The slowdown of the SOE equitisation: according to the MOF, the number of the SOE equitised is only 73 out of 262 enterprises in early 11 months of 2008 by 11% of plan approved by Vietnamese government. The slowdown could be seen partly as result in problem in land's policies, that putting obstacles in valuation path of growth. The remaining reason could be the recession in stock market as mentioned above.

Since the beginning of 2009, Vietnamese government promises a USD6 billion package of economic stimulus, focusing on infrastructural upgrade. So the coming up next time for valuation firms could be days of promise.

*- The sharp up in asset price posing a lot of professional risks to valuer*

The whole year 2007 and 8 early months of 2008 is the time of inflation. Market prices up and up, especially for the real estate domain, materials for construction, rent rate, interest rate, human salary etc. All of that make more difficult for asset-realted firms to cope with. In particular, the valuation reports of valuation firms become less confident to clients than those of time of market stability.

*- Lacking of transparency in market transactions makes job of conduct more complex*

It could be seen as a chonical disease of Vietnam not only at that time but also time of everyday so far. The underlying of valuation is market information. Therefore, the shortage of creditable market information would be the same meanings of a lot of professional risks to valuer on the one hand, and offering chances of violence of valuation conduct code to valuers, on the other hand.

**2. Opportunities**

Financial crisis time has revealed the weak points of Vietnam financial institution in general and valuation firms in particular. It is time for policy makers to address these underlying problems and to make the right corrections.

*- It makes us to see clearly the importance of valuation to the economy*



The market machine in Vietnam so far has enhanced the recognition of the role of valuation as a market-side tool for rational allocation of rare economic resources. The quickening pace of crisis time further underscore the need for valuation

*- The slump time always offers new needs to valuation firms*

The the increase in price of input State-run infrastructure projects make delay in State budget disbursement due to lacking of capital. Now it is time for additional capital for projects to compensation of the price increasing. In order to do so, an appraisal of how much the incearing in price is a must. That is a duty of valuation firms.

*- It is a good time for valuation firm to see its strongpoint and weakness. It is also a time for weak firms to be sacked by the market machine*

Crisis time could be seen as the rational guidelines for the health of valuation firms. The duty of firm's executive team is to see what points is chocking off the in flow money of the firm and to speed up firm's comparative advantages and narrow dis-advantage. Now is a good time for CEO of valuation firm to review firm's shortage, to forecast the risks posing by slump market and set up appropriate blockage, as well.

In the long run, setting up the roadmap, in which identification of each destination is seential to the firm.

*- The hidden opportunities always exist for crisis survivors*

Valuation firms that survived throughout the crisis will be enjoyed a lot of chance. It is predictable that after-crisis time would be the booming time of demand for valuation for recovery of the economy. As it is saying that a drop of water saved today will become a sea of change tomorrow, so, preparing for future opportunities is a critical step to valuation firms.

### **III. Conclusion and suggestions**

#### **I. Suggestion:**

The way for valuation development is not flat. It's emblem would be up and down. The following step for firms to survive and regain after crisis is a must:

*- To train and re-train professional staffs*

Skilled staffs is a forming of firm's value. Human resource always the key to answer nay question. It not only take cost in terms of money, but also take a long time for firm to build a appropriate staff.

*- To identify vision, firm culture and firm duty*

The first step for each firm is to set up strategic vision. What is the firm's value to the client. What does service provided by firm, to whom, in what context of business environment... is the next question to be answered.

Actually, the most prominent feature of firm is lackings of strategic vision. On the run all day objectives, most of valuation firms focus on normal real estate and have forgotten the long term duty, namely, deepening enormous potentialities of conducting valuation for purpose of land acquisition, lease out minerals, forest....

*- Data base market to be built*

Vietnamese market is still in immature stage in compared with neighbour countries. Up to now, Vietnam has no ministerial body that in charge of building an asset data base for valuation. A appropriate attitude from high ranking-leaders towards urgent this need is necessary.

**2. Conclusions**

- World's financial crisis has, to some extent, impact on Vietnam's economy and valuation profession. However, it isn't root cause of domestic crisis.

- Many challenges faced by appraisal firm during hard time, on the one hand but equal hidden opportunities for firms to catch up, on the other hand.

- Building up for strategic vision is underlying step for valuation firms in the future.

- Majority of Vietnamese firm have not response adequately to challenges. They are not ready to upgrade their activity to catch up with the ASEAN's counterparts.