

VIETNAM COUNTRY REPORT

First Quarter 2018

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Vietnam Country Report is a comprehensive analysis of Vietnam’s economic, financial, political and social situations in the first quarter of 2018. It also provides forecasts about some important economic and financial indicators.

This report (prepared by VietnamCredit) is expected to support policy makers, researchers, investors and corporations to make key decisions.

VietnamCredit commits the trustworthiness of this report by extracting data from such reputable sources as General Statistics Office, General Department of Vietnam Customs, Ministry of Finance, Ministry of Labour-Invalids and Social Affairs, IMF, ADB, etc.

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Vietnam - First Quarter 2018



7.38%

Economic growth

2.82%

Headline inflation

3.88 billion USD

Disbursed FDI capital

55.56 billion USD

Export value

2.2%

Unemployment rate

Industry & Construction sectors are major contributors to the high growth rate of Vietnam's economy

Vietnam's economic growth rate in the first quarter



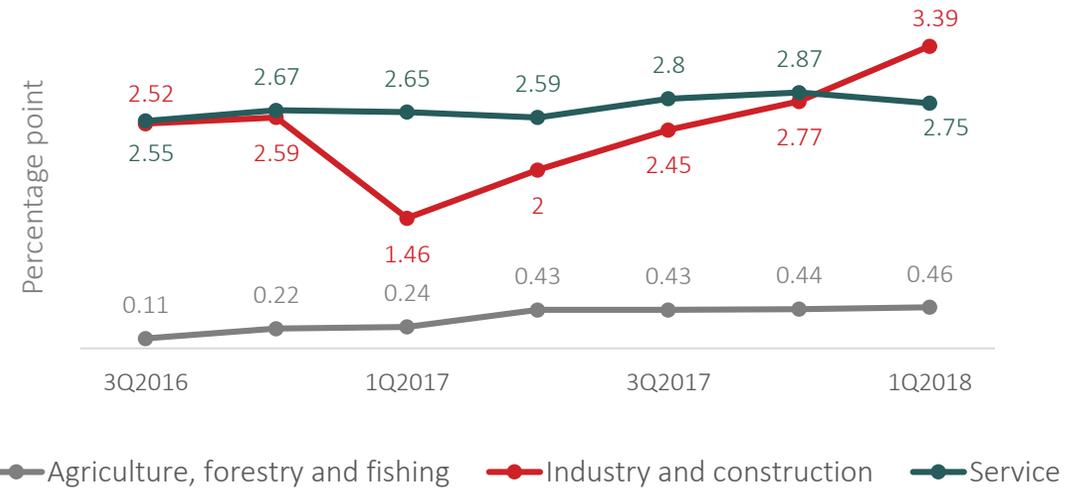
Source: GSO, Compiled by VNC

In the first quarter of 2018, Vietnam's real GDP (2010's constant prices) was VND637.24 trillion, increasing 7.38% yoy, which is the highest growth rate of the first Quarter over the last 10 years.

Goods of higher economic value are the core of the agriculture, forestry and fishery sector. This sector recorded a growth rate of 4.05%, of which 3.76% is contributed by the agriculture sector.

The service sector grew by 6.7% and the wholesale and retail sector recorded the highest growth rate at 7.45%.

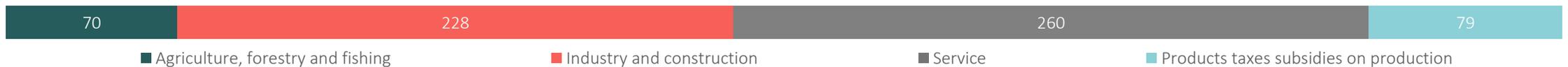
Contribution to economic growth



Source: GSO, Compiled by VNC

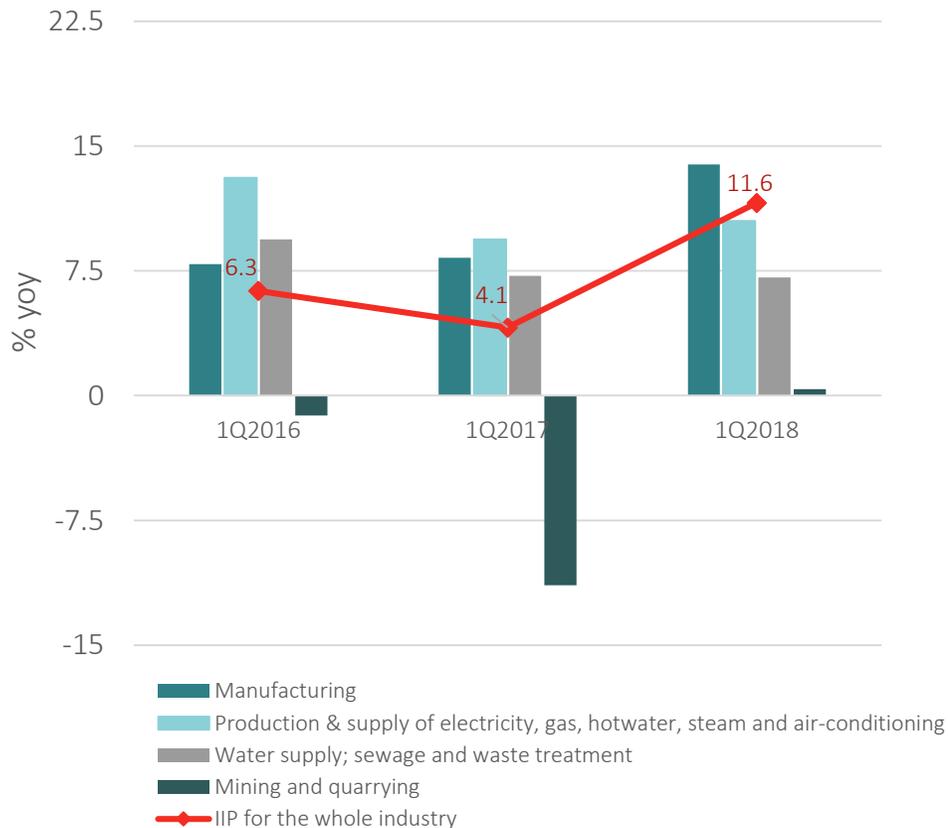
Construction sector contributed 3.39 percentage points (with growth rate of 9.7% yoy) which is higher than the service sector (after 6 consecutive quarters of being an inferior).

Real GDP structure by sector in the first quarter 2018 (Billion VND)



Index of Industrial Production (IIP) continued to enjoy positive growth

Index of Industrial Production growth rate



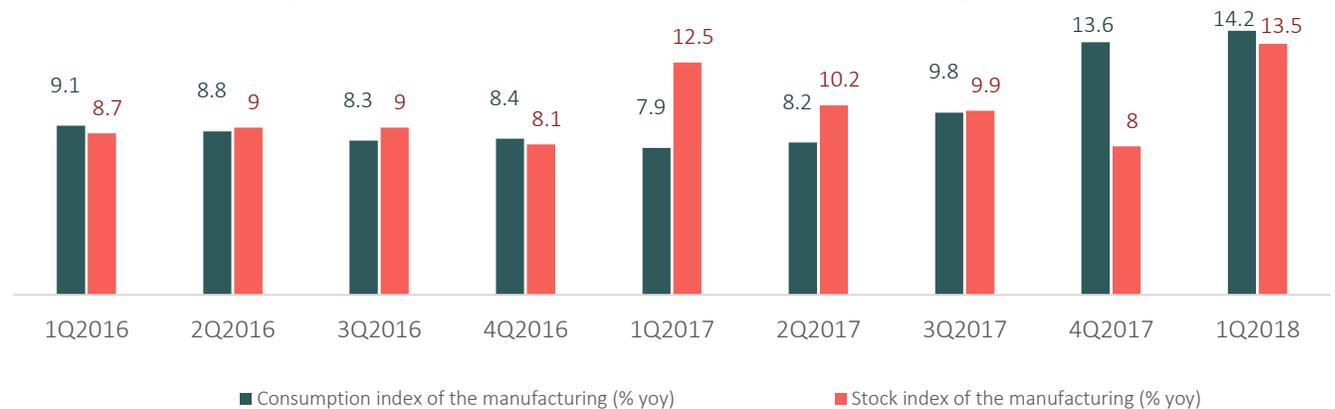
Source: GSO, Compiled by VNC

Industrial Production Index (IIP) increased by 11.6% (yoy). The manufacturing industry continued to grow strongly at 13.9%, with the main drivers coming from computers, electronic and optical products (up 29.3%) and metal products (up 14.4%). Mining has recovered with the IIP increasing by 0.4% after two consecutive years of decline.

Consumption index of the manufacturing sector went up by 14.2% yoy, of which manufacturing of electronic products, computers and optical products continued to increase with a rise of 28.4%. However, this sector also suffered from high Inventory Index with an increase of 146.8%, while that of the manufacturing industry increased by only 13.5%.

Average inventory rate of the manufacturing industry was 68.2% while that of the same period last year was 71.9%.

Consumption Index and Inventory Index of the manufacturing sector



Source: GSO, Compiled by VNC

Consumer prices rebounded in the first quarter

Headline inflation and core inflation

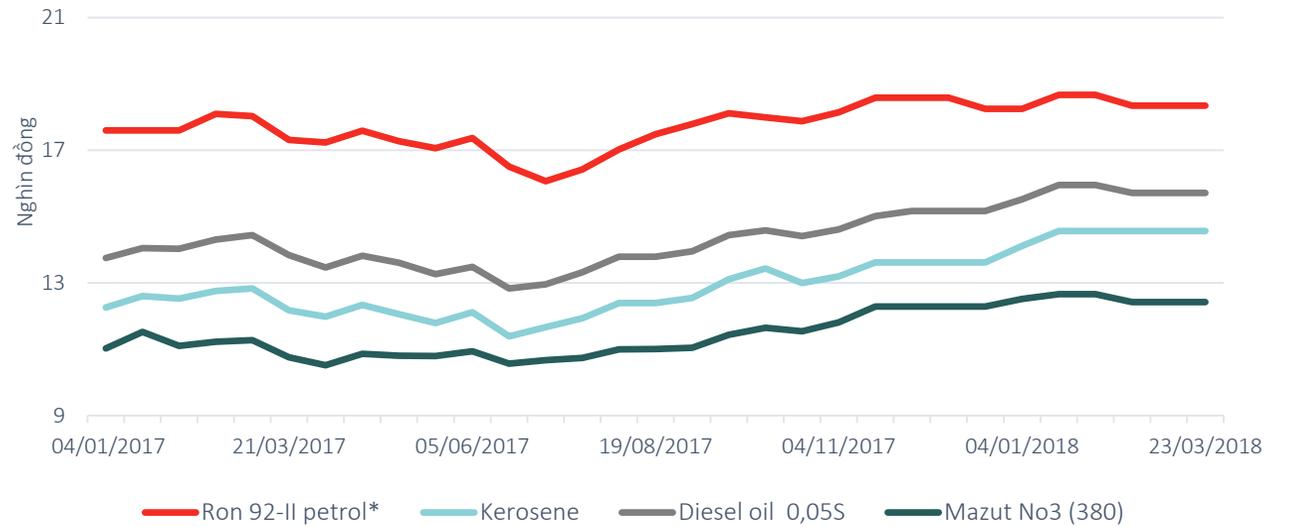


Source: GSO, Compiled by VNC

The average CPI rose by 2.82% yoy due to an increase in health and education services prices, a rise in gasoline retail prices and an increase in the minimum wage from January 01, 2018. 2

2 out of 11 commodity groups had falling price index: Food and catering services prices fell by 0.12% yoy, which was due to the fall in pork prices leading to lower prices for foodstuff products (decreased 1.47%).

Retail fuel price in Vietnam



*From 01/01/2018, E5 bio-fuel to completely replace RON 92 petrol from 2018

Source: Petrolimex, Compiled by VNC

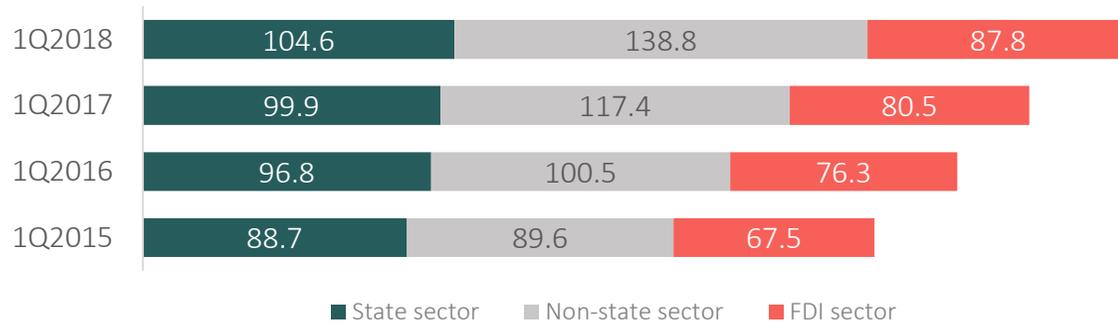
In the first quarter of 2018, fuel price was adjusted 6 times, including two increases, one decrease and three instances of staying unchanged.

In particular, after the adjustment on March 23 2018, retail prices of gasoline and oil were all higher than 2017 (year end), ranging from VND100 per liter (E5 bio-fuel) to VND950/liter (kerosene).

The rise in prices was due to the bounce of world oil prices (at the end of the first quarter, WTI and Brent oil prices rose 7.5% and 5.1% compared to the end of 2017).

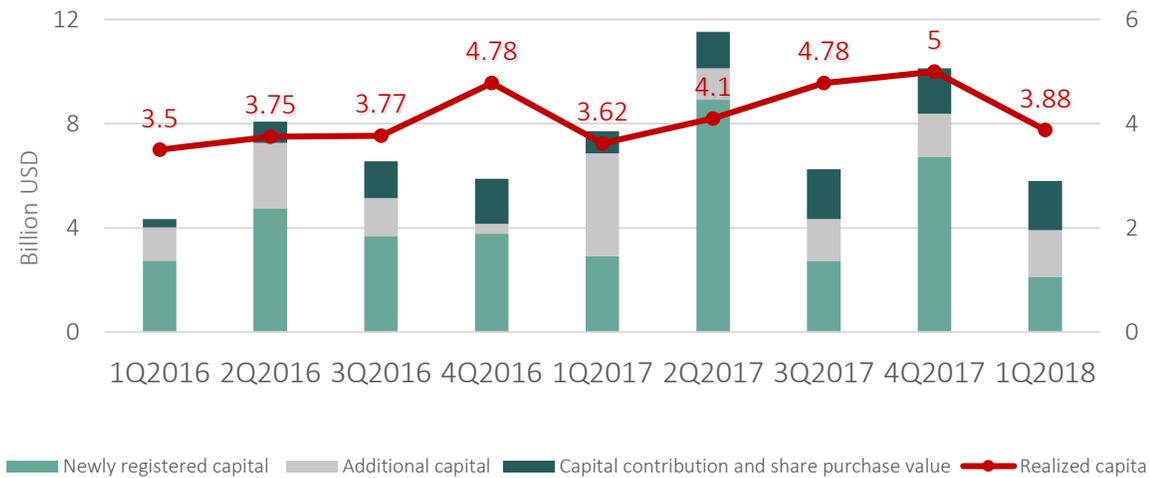
FDI: Registered Capital decreased - Realized Capital rose - Korea continued to be the biggest investor

Total realized social investment capital at current prices (trillion VND)



Source: GSO, Compiled by VNC

Registered and realized FDI capital in Vietnam

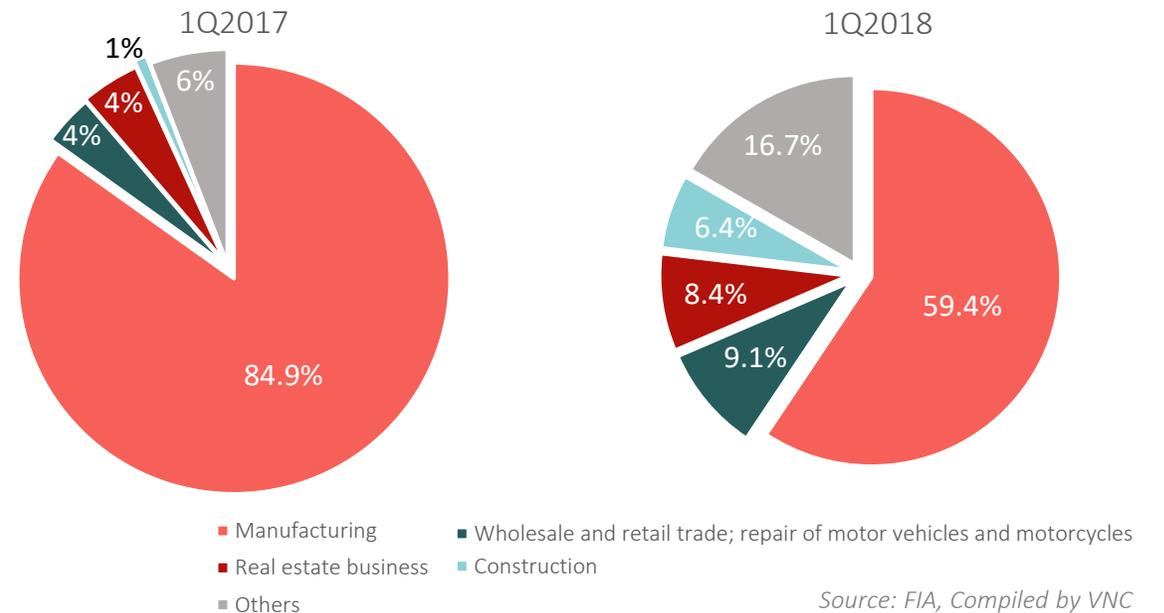


Source: FIA, Compiled by VNC

Total realized social investment capital in the first quarter was VND331.2 trillion (equivalent to 32.2% of GDP), increasing by 10.4% (yoy), of which the non-state sector witnessed a high growth rate of 18.23%.

The total registered FDI capital was USD5,801.62 million which is a decrease to the same period last year. However, the realized FDI capital increased by 7.2% (yoy). The manufacturing sector continued to be FDI magnet (holding more than half of the registered capital in the first quarter). South Korea remained the biggest investor with 23.2% of the registered capital, following were Singapore and Japan with 19.9% and 12.5% respectively.

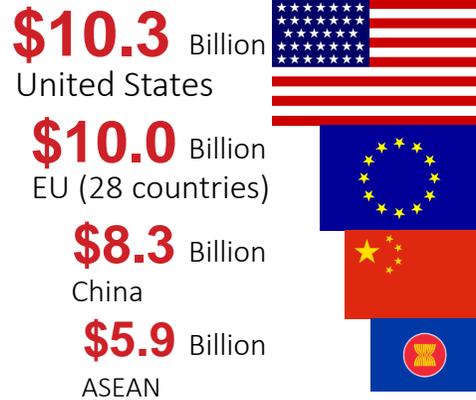
Registered FDI capital by sector



Source: FIA, Compiled by VNC

Surplus trade balance - FDI enterprises play a key role in export growth

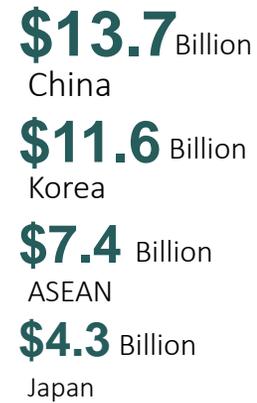
\$55.56 Billion Exports



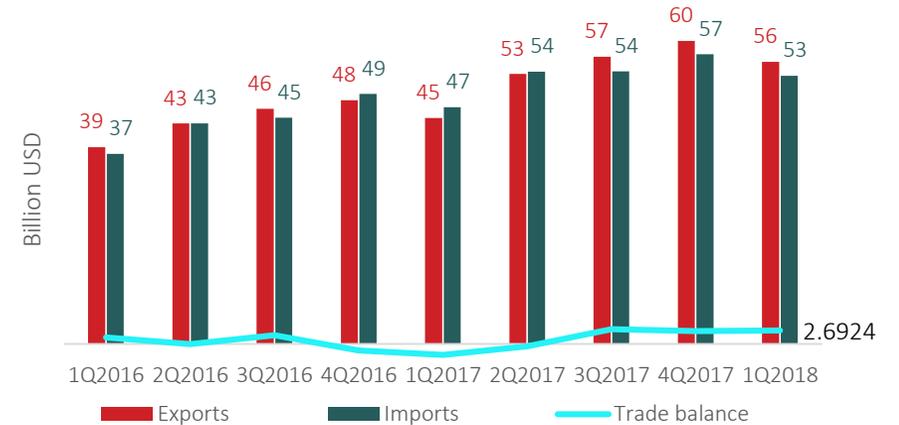
Imports



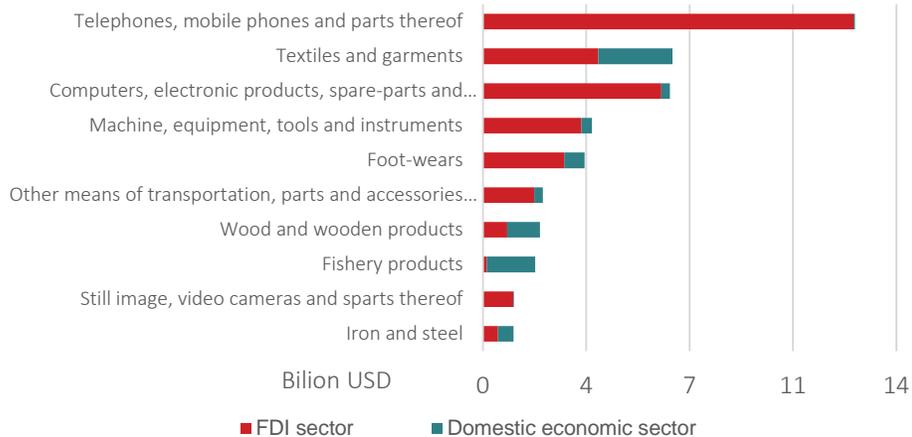
\$52.87 Billion



Vietnam Import-Export turnovers

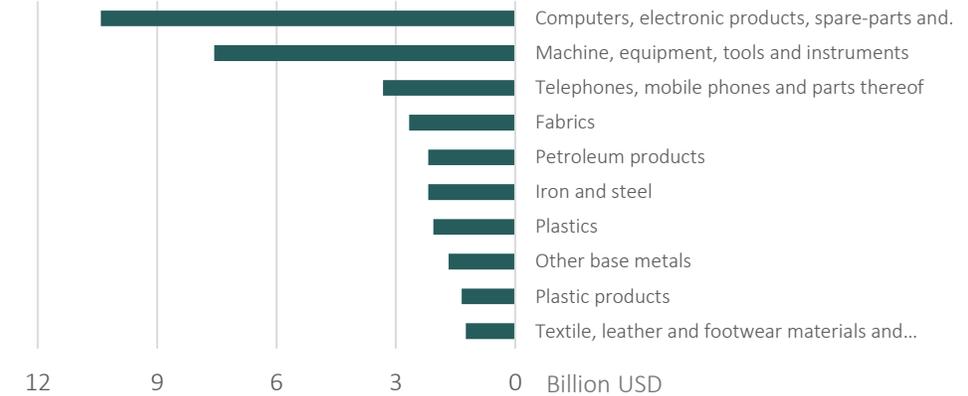


Export turnover of 10 major product groups in 1Q 2018



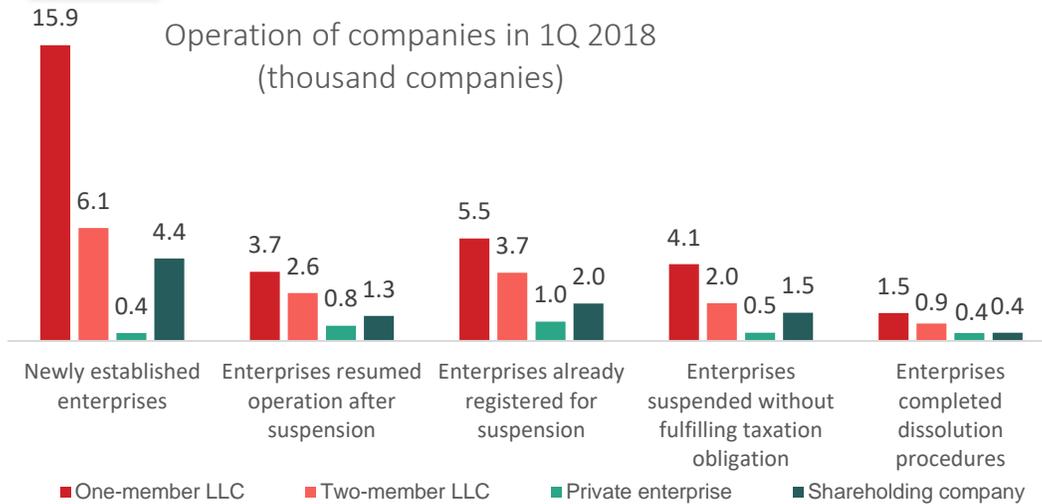
FDI enterprises contributed 81.4% to the total export value of 10 major commodity groups. Of which, the largest group - Telephones, mobile phones and parts thereof - also had the highest share of FDI enterprises with 99.68% of export turnover of this group. Imported products were mainly materials and fuel for domestic industries.

Import turnover of 10 major product groups in 1Q 2018



Source: Vietnam Customs, Compiled by VNC

Real estate had the highest newly registered capital - rose by 32% yoy



Source: MPI, Compiled by VNC

In the first quarter of 2018, there were 26,785 newly established enterprises (this time last year there were 26,478), of which 15,861 are One-member limited liability company (LLC), accounting for 60% of the total newly established enterprises. .

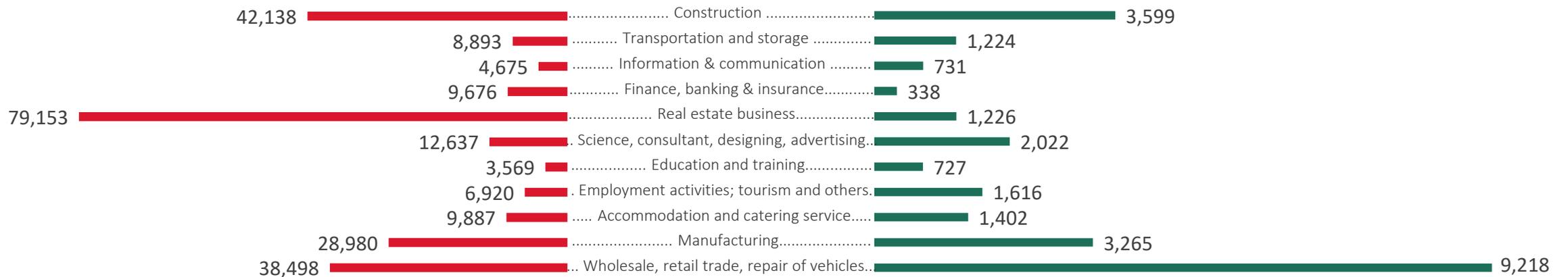
The Wholesale and retail trade, repair of motor vehicles and motorcycles industry attracted 9,218 newly established companies. The Manufacturing and Construction industry also witnessed a significant increase, with 3,625 and 3,599 newly registered companies.

1Q 2018 recorded VND278.489 billion of newly registered capital. In particular, Real estate business continued to occupy the highest proportion with about 28.4% of newly registered capital (VND79.153 billion). The average registered capital per company was VND10.4 billion, up 1.56% yoy.

In general, business operation in the first quarter of 2018 was quite stable. The number of newly established enterprises increased steadily over the quarter, while the number of enterprises resuming operation decreased over the same period last year.

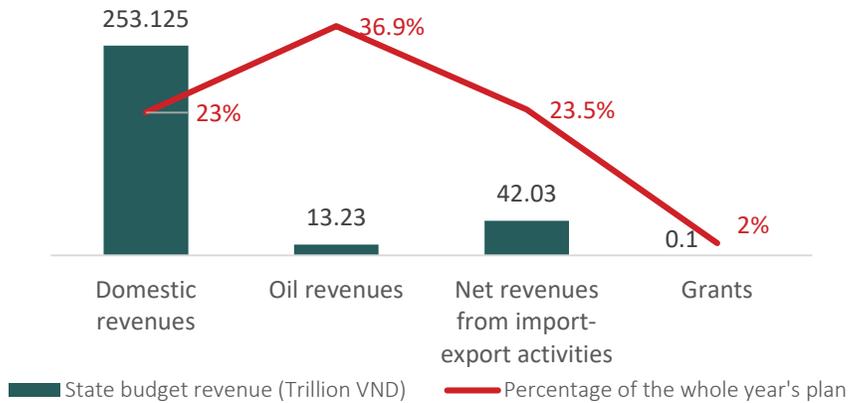
Registered capital of newly established enterprises (Billion VND)

Number of newly established enterprise

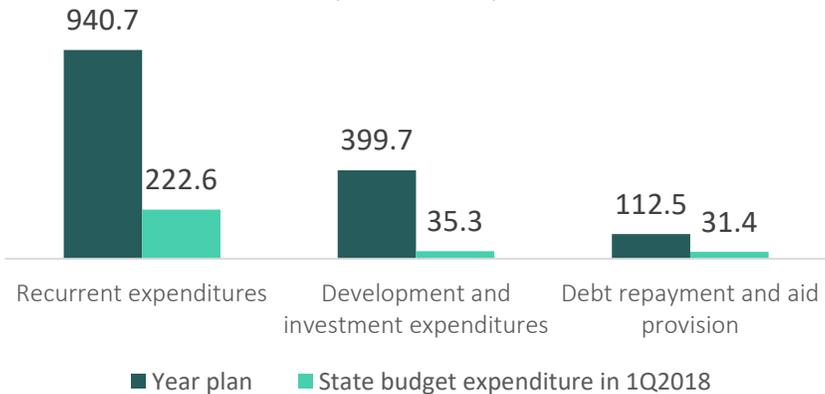


Budget surplus in the first Quarter of 2018

Structure of State Budget Revenue in 1Q 2018

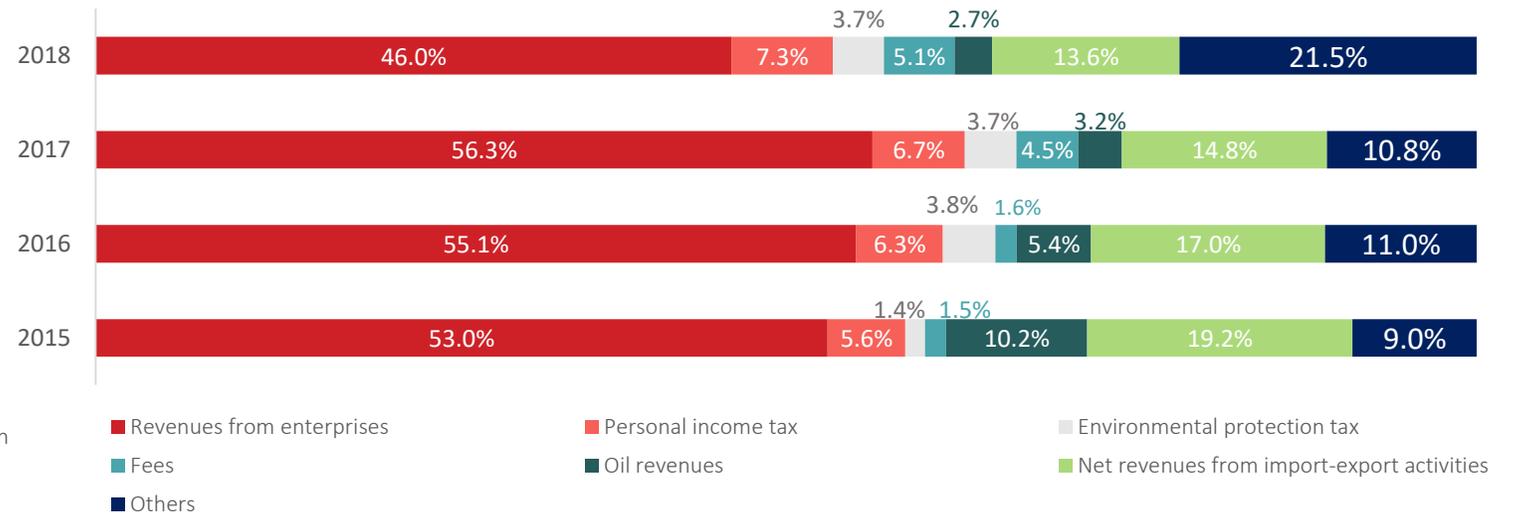


Structure of state budget expenditures in 1Q 2018 (Trillion VND)



Source: MOF, Compiled by VNC

Structure of State Budget Revenue planned

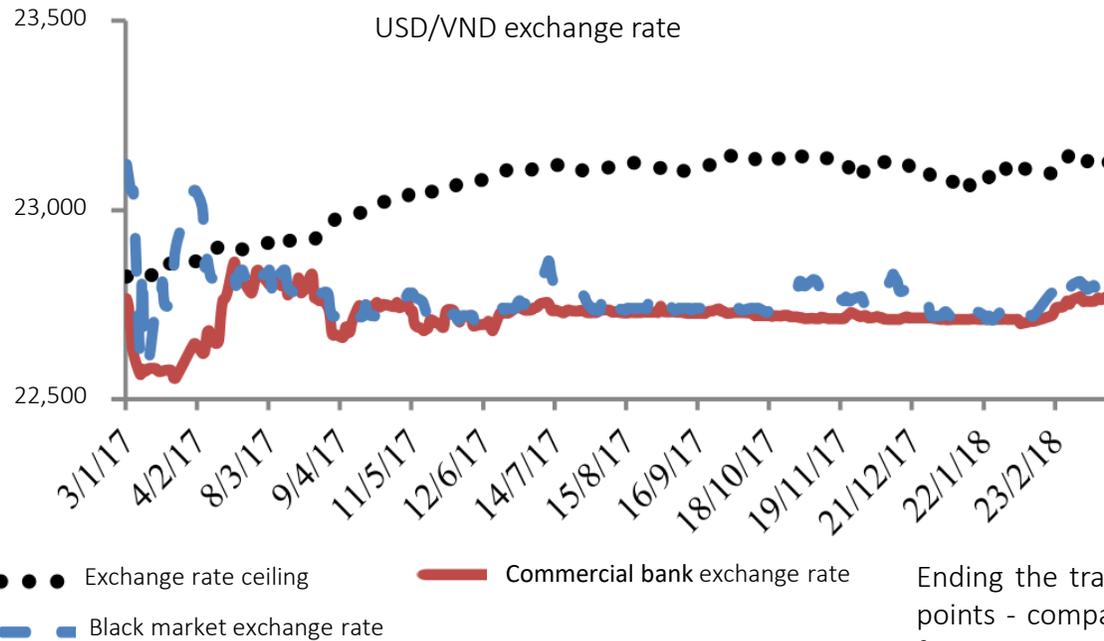


Due to the reduction of budget reliance on limited natural resources, the share of budget revenues from crude oil slipped from 10.2% in 2015 to 2.7% in 2018. In addition, the share of the state budget revenue from export activities also fell, which is suitable to the international integration process of Vietnam.

State budget revenue reached VND308.5 trillion, accounting for 23.4% of the year's plan, of which domestic revenue was VND253 trillion, accounting for 80% of the total revenue (with VND56 trillion collected from the foreign economic sector and VND50 trillion from FDI enterprises). State budget expenditure in the first quarter was VND 290 trillion, equivalent to 18.8% of the plan, of which recurrent expenditures were VND 222.6 trillion - accounting for 76.7% of total expenditure. Development and investment expenditures were relatively low with 12.2% of total state budget expenditure.

The first quarter of 2018 experienced a budget surplus of VND18.5 trillion. Public debt was 61.3% of GDP in 2017, down from 63.7% in 2016 thanks to 6.81% GDP growth in 2017.

VN-Index became the world's top-perform stock index



Source: VNDIRECT, Compiled by VNC

The average mobilizing interest rate in Q1 / 2018

Term	Rate (%/year)
Current/below 1 month	0.6%-1%
From 1 to 6 months	4.3%-5.5%
From 6 to 12 months	5.3%-6.5%
Over 12 months	6.5%-7.3%

Source: NFSC, Compiled by VNC

Ending the trading session on March 30, the VNIndex reached 1,174.46 points, an increase of 19.33 points - compared to the end of 2017. This rise was contributed partly by the strong performance of foreign investors with over VND76.527 billion bought shares and VND66.104 billion sold out shares.

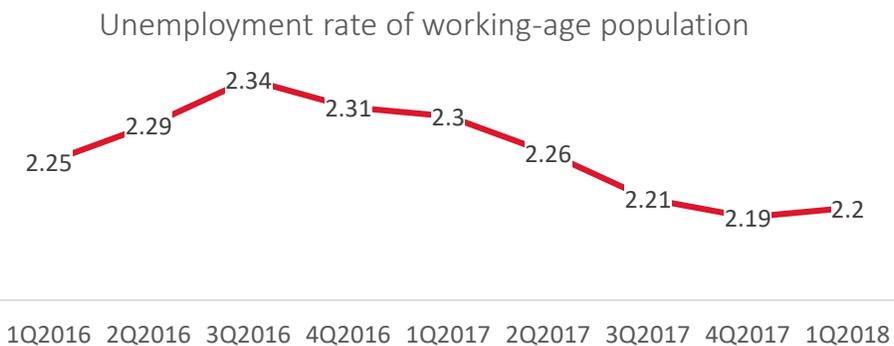
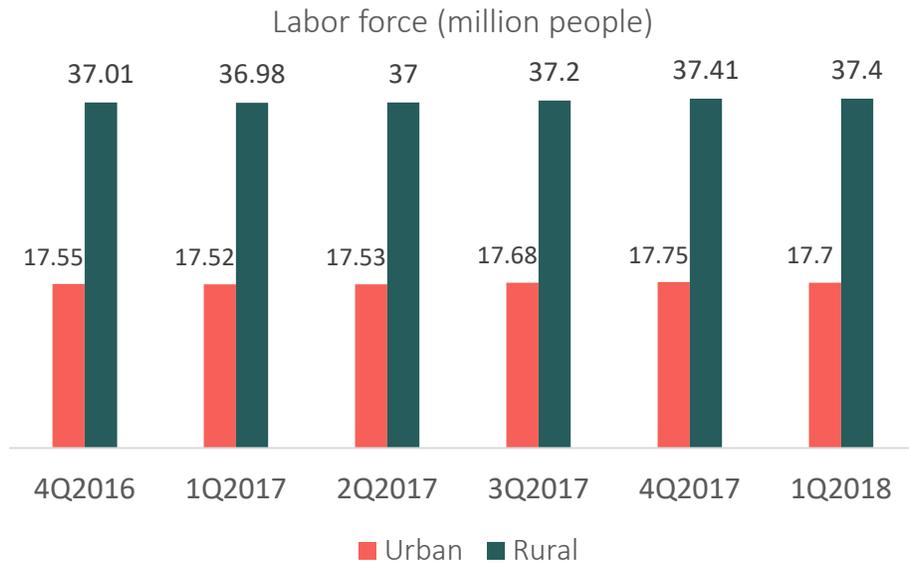
In the first quarter of 2018, the exchange rate was relatively stable with a slight increase at the end of February. By the end of the quarter, the exchange rate of commercial banks increased by 0.25%, while that of the free market increased by 0.4% over the beginning of the quarter.

The mobilizing and lending interest rates were relatively stable, with short-term lending rates for normal business lines at 6.8% to 9% per year and long-term loans at 9.3% to 11% per year.

Current balance and balance of payment (BOP) in 2017 were in surplus, partly thanks to the surge in foreign direct investment.

As of February 20, Vietnam's foreign exchange reserves reached \$ 54.5 billion, a sharp increase over the end of 2017 (\$ 51.5 billion).

The unemployment rate decreased while the average income of labor increased



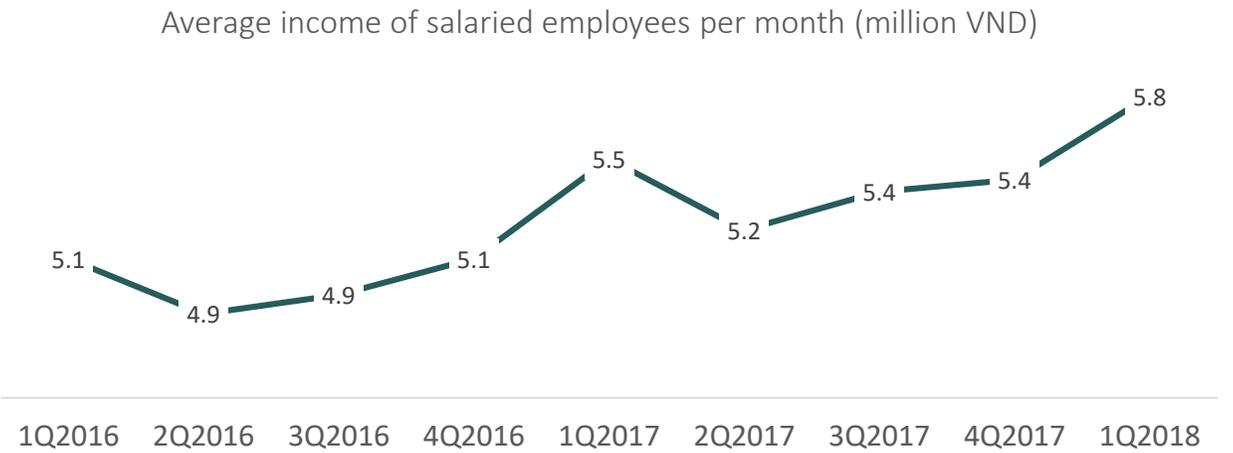
Source: Molisa, Compiled by VNC

As of 1 April 2018, the labor force (over 15 years) of the country was estimated at 55.1 million people, rose by 1.08% (yoy), of which male workers accounted for 52%.

There are 54 million employed people (98% of the labor force), including 20.9 million people working in agriculture, forestry and fisheries, accounting for 38.6%; the industry and construction sector used 14.4 million laborers, accounting for 26.7%; Service sector attracted 18.7 million laborers, accounting for 34.7%.

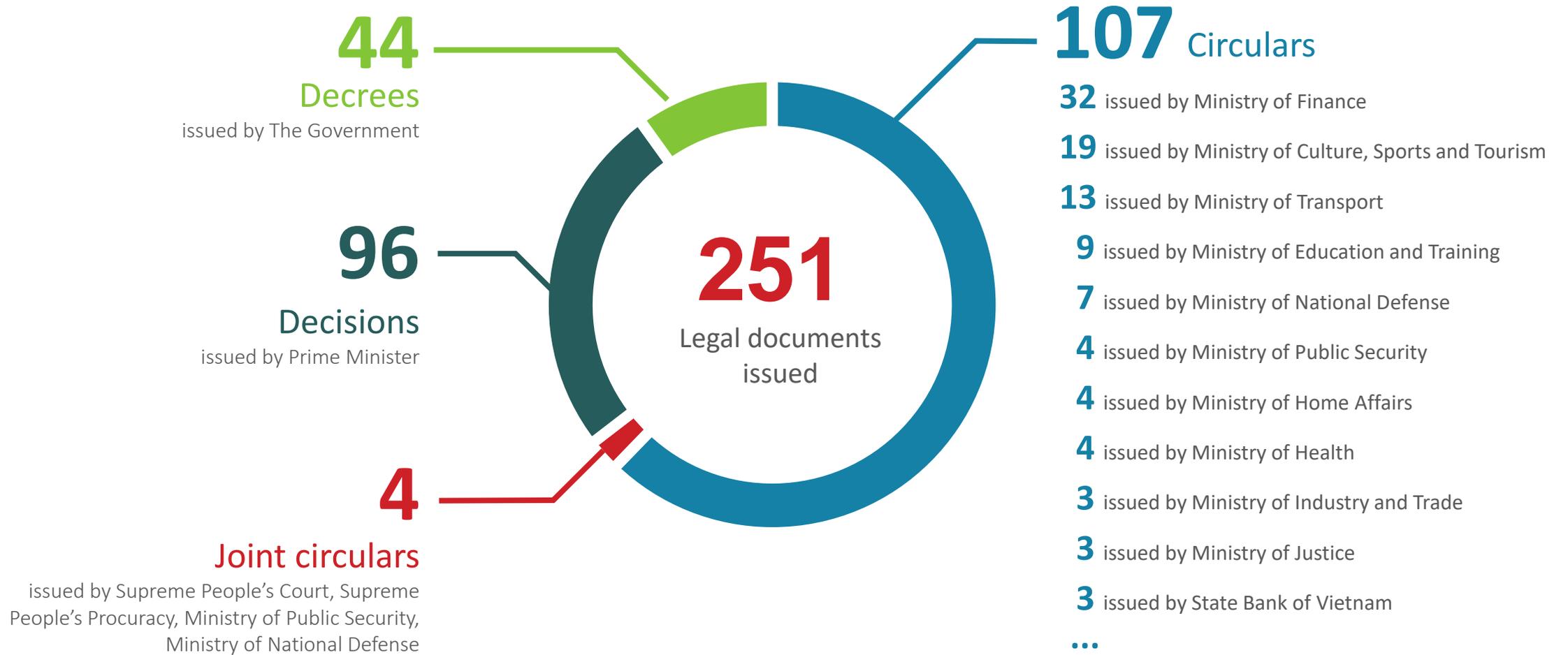
The unemployment rate tended to decrease over the quarters, from 2.34% in the third quarter of 2016 to 2.2% in the first quarter of 2018.

The average income of labor was 5.8 million VND/month, higher than 5.5 million VND/month in 1Q 2017.



Source: Molisa, Compiled by VNC

251 Legal documents were issued in the first quarter of 2018



Many new legal documents related to salary and social insurance for employees were issued in 1st quarter

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) was signed on March 08, 2018, and will become effective within 60 days after at least six (or 50%) of the CPTPP signatories have provided written notification of the completion of their applicable legal procedures. This is the most comprehensive free-trade agreement. Not only does it deal with economic and trade issues but also social issues, environment, government procurement, state owned enterprises, etc. This is an opportunity, but also a challenge for Vietnamese enterprises

Some notable legal documents becoming effective in the first quarter of 2018

- ✓ Decree No. 141/2017/ND-CP providing for region-based minimum wages applied to employees working under labour contracts, applied as of January 01, 2018.
- ✓ 10 Decrees of the preferential import tariff of Vietnam in the period 2018-2022/2023, effective from January 01, 2018. Accordingly, many products have a tariff of 0%; some have a tariff of only 5-10%. These products are mainly agricultural products (especially sugar, milk), iron and steel, electronics, automobiles and parts thereof, etc.
- ✓ A number of regulations related to social insurance in Social Insurance Law 2014 took effect on January 1, 2018. Accordingly, extra payments (such as the responsible allowance, regional allowance, harmful allowance, etc) will be included in the Social - Health - Unemployment Insurance Base Salary.
- ✓ Decree No. 46/2017/ND-CP providing guidance on VAT applicable to exported natural resources, VAT refund in relation to export activities and amending non-deductible expenses in determining corporate income tax, came into force from February 1, 2018.
- ✓ Decree No. 09/2018/ND-CP detailing the Commercial Law and Foreign Trade Management Law, effective from January 15, 2018. According to that decree, list of goods to be distributed in Vietnam by foreign invested enterprises will be expanded and Import, Export, and Wholesale Distribution Activities will no longer subject to a Business License.
- ✓ Decree No. 39/2018/ND-CP guiding for Law on support for small and medium sized enterprises effective from March 11, 2018.
- ✓ Decree No. 126/2017/ND-CP on conversion from state-owned enterprises effective from January 01, 2018.

Some notable legal normative documents will be effective/promulgated in the coming time

- ✓ Circular No. 21/2017/TT-NHNN stipulating the mode of disbursement of loans by credit institutions and foreign bank branches to customers will take effect from April 2, 2018.
- ✓ Decree No. 23/2018/ND-CP providing several new provisions on compulsory fire and explosion insurance, applicable from April 15, 2018.
- ✓ Circular No. 03/2018/TT-NHNN on licensing organization and operation of microfinance institutions, effective from April 15, 2018.
- ✓ New regulations on deductible and non-deductible expenses for determining corporate income tax in the Circular No. 25/2018/TT-BTC, effective from May 01, 2018
- ✓ Decree No. 38/2018/ND-CP providing detailed regulations on investment for small and medium sized enterprises and innovative startups, coming into effect from May 01, 2018.

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Strengths

- Plentiful labor supply at low-wage rates
- Declining Export duties
- Political stability
- Young population, large consumer demand
- Increasing foreign exchange reserves

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Weaknesses

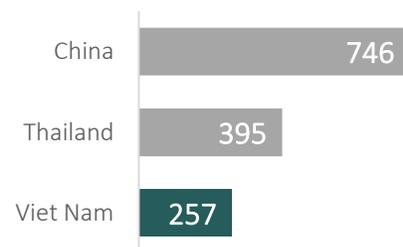
- Ineffective public investment
- High public debt (close to the Debt-to-GDP threshold)
- Limited policy-making capacity
- Heavy dependence on FDI enterprises
- Lack of infrastructure

Expert's view: Vietnam's economy to grow in the future

In the first quarter of 2018, **Vietnam's economy achieved high growth rate and is predicted to grow** thanks to the recovery of the world economy as well as the increasing consumption demand of the domestic market. Inflation and exchange rates remained under control with large foreign exchange reserves.

CPTPP as well as other bilateral and multilateral free trade agreements will boost exports. Trade balance and BOP are expected to be surplus in 2018 based on the positive results of the first quarter.

Mean nominal monthly earnings of employees in manufacturing sector (USD)



Source: ILO, Compiled by VNC

FDI is the main driver of economic growth, contributing more than half of Vietnam's total exports. With the advantage of low labor cost, foreign investors will continue to invest in Vietnam in the coming years, especially in the manufacturing industry.

Indicators	2016	2017	1Q2018	2018 (F)
GDP growth (% yoy)	6.21	6.81	7.38	7.1
Inflation	4.74	3.53	2.82	3.7
Public debt (% of GDP)	63.7	61.3	-	61.4
Budget balance (% of GDP)	-5.64	-3.48	+1.8	-3.7
Current account balance (% of GDP)	3.0	2.9	-	2.5

(F): Forecast

The public debt ratio to GDP decreased over the previous year thanks to the growth of the economy. However, **the public debt is relatively high, public investment is inefficient. There exists untransparency in the operation of state-owned companies.** Therefore, M&A activities have been stimulated.

The legal system is being improved. However, many policies are not yet in line with reality and sometimes there is a conflict among policies.

Corruption perceptions index ranking (180 countries)



Source: TI, Compiled by VNC