

SECOND QUARTER 2018

# VIETNAM COUNTRY REPORT

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Vietnam Country Report is a comprehensive analysis of Vietnam’s economic, financial, political and social situations in the second 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.

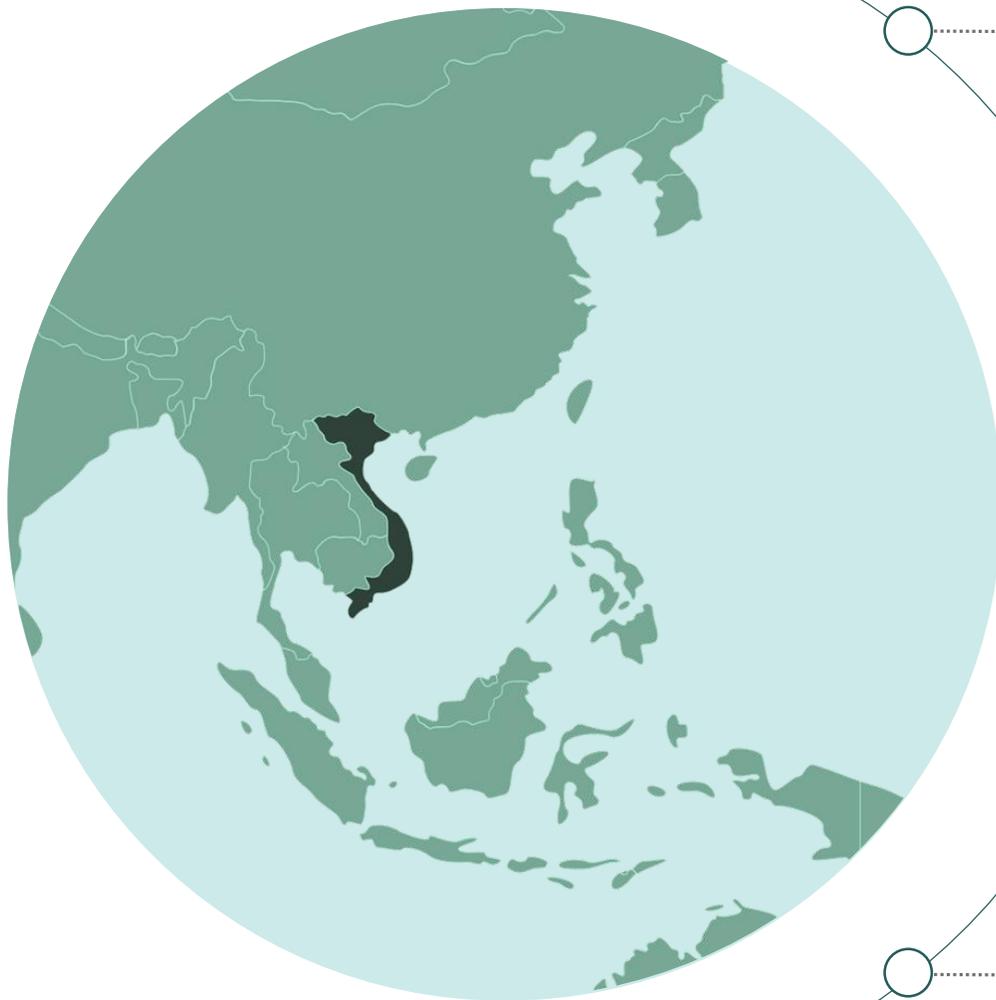
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# Vietnam

## First half of 2018



**7.08%**

Economic growth

**3.29%**

Headline inflation

**8.37** billion USD

Disbursed FDI capital

**58.63** billion USD

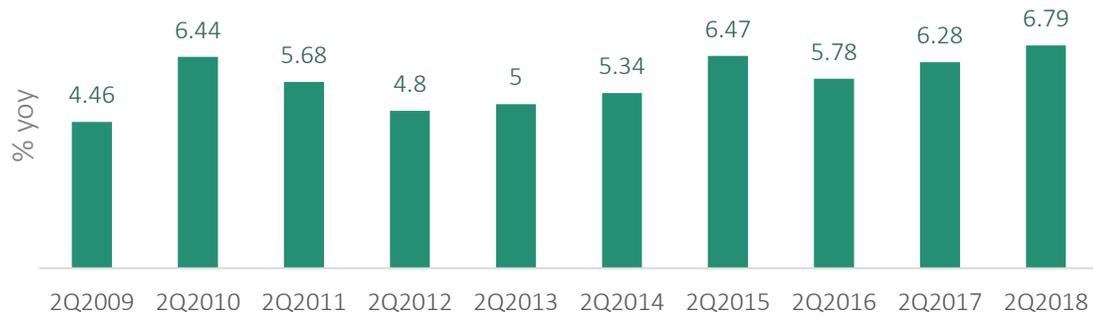
Export value

**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 second quarter



Source: GSO, Compiled by VNC

In the first 6 months of 2018, Vietnam's real GDP (2010's constant price) was VND1,467 billion, increasing 7.08% (yoy). In the second quarter, GDP increased 6.79% (yoy), which is lower than that in the first quarter.

Agriculture, forestry and fishery sector recorded a growth rate of 3.93% in the first half of 2018, which is mainly contributed by the agriculture sector with 3.28% growth rate and fishery sector with 6.41%.

The service sector grew by 6.9% and the wholesale and retail sector recorded the highest growth rate at 8.21%.

Contribution to economic growth



— Agriculture, Forestry and Fishing — Industry and construction — Service

Source: GSO, Compiled by VNC

Industry & construction sector contributed 3.46 percentage points (with growth rate of 9.28% yoy) which is higher than the service sector.

Real GDP structure by sector in the first half of 2018 (trillion dong)



# Industrial Production: Production of electronic products, computers and optical products slows down

Growth rate of Index of Industrial Production



Source: GSO, Compiled by VNC

Industrial Production Index (IIP) increased by 8.4% (yoy), which is lower than that of the first quarter (increasing 11.6%), yet higher than the same period of 2017 (increasing 7.8%). The manufacturing industry continued to grow strongly at 12.7%, with the main drivers coming from computers, electronic and optical products (up 18.4%) and metal products (up 20.7%). After recovering in the first quarter, the mining sector returned to the downward trend of previous years (down 1.3% in the first two quarters of 2018).

Consumption index of the manufacturing sector went up by 11.9% (yoy) in the first 2 quarters of 2018, of which, manufacturing of medicines, pharmaceutical chemicals and pharmaceuticals rose sharply by 49.1%. Production of electronic products, computers and optical products fell sharply to 4% in the second quarter of 2018, mainly due to the fact that this year Samsung Electronics Co., Ltd. focuses on producing high-end phones in February and March.

Consumption Index and Inventory Index of the manufacturing sector



Nguồn: GSO, VNC tổng hợp

# Consumer prices remain stable

Headline inflation and core inflation

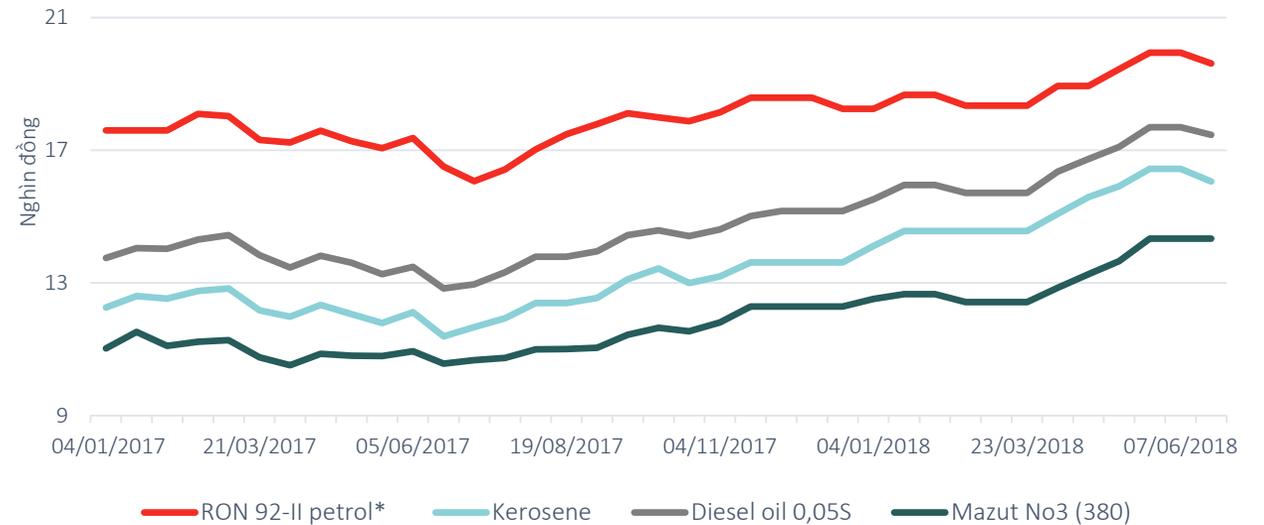


Source: GSO, Compiled by VNC

The average CPI in the first 6 months rose by 3.29% yoy due to an increase in health and education services prices and a rise in gasoline retail prices.

In the second quarter of 2018, the rebound in food prices (pork in May and June increased by 5.85% and 8.12% over the previous month respectively) was the main driver of CPI growth.

Retail fuel prices



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

Source: Petrolimex, Compiled by VNC

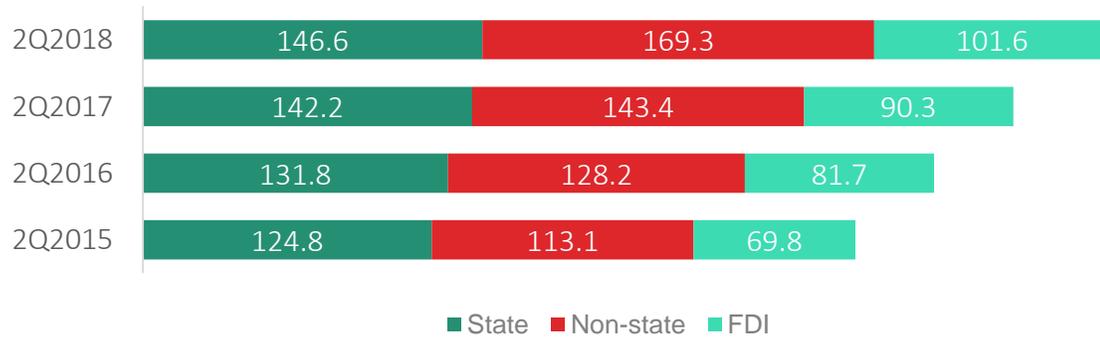
In the second quarter of 2018, fuel price was adjusted 6 times, including four increases, one decrease and one instance of staying unchanged.

In particular, after the adjustment on 22/06/2018, retail prices of gasoline and oil were all much higher than that in March 2018, ranging from VND1,270 per liter (E5 bio-fuel) to VND1,910 per liter (Mazut No3). Maximum retail price of petroleum products in the domestic market increased from 7.5% -17.9% over 2017.

WTI crude oil prices increased sharply, peaking to over \$ 74 a barrel in June. The average price in the quarter was approximately \$ 67 per barrel.

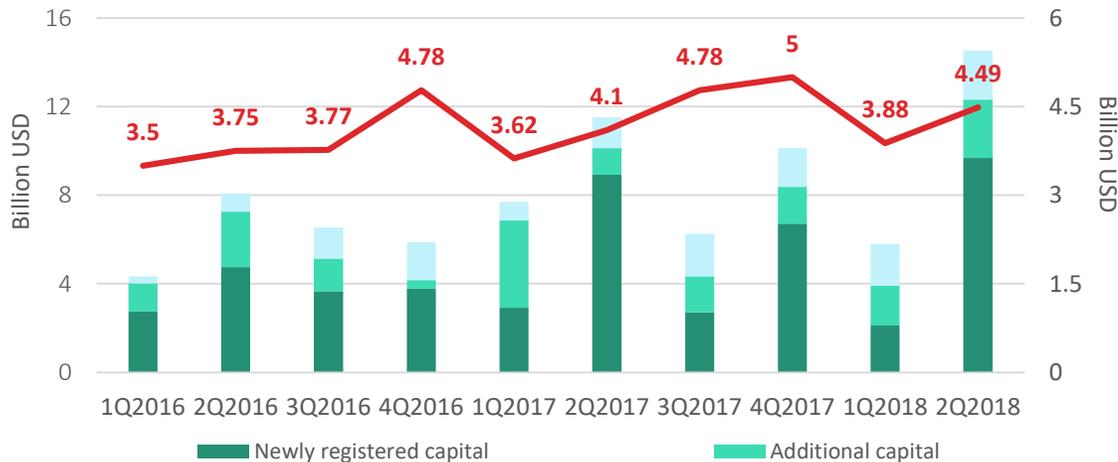
# FID: Real estate stays on the radar of foreign investors

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



Source: GSO, Compiled by VNC

Registered and realized FDI capital in Vietnam



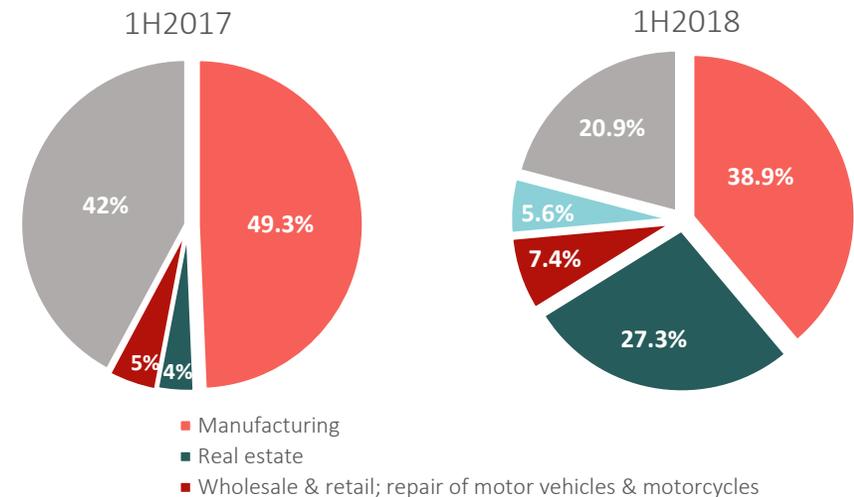
Source: FIA, Compiled by VNC

Total realized social investment capital in the second quarter was VND417.5 trillion and that in the first half of 2018 reached VND747.6 trillion (equivalent to 32.9% of GDP), increasing by 10.1% (yoy), of which the non-state sector witnessed a high growth rate of 17.5%.

After the fall in the first quarter, the total registered FDI capital in the 2<sup>nd</sup> quarter reached USD9,678 million (8.5% yoy). The realized FDI capital increased by 7.2% (yoy). The manufacturing sector continued to be FDI magnet (holding 39% of the total registered capital). However, it is real estate sector that is on the radar of foreign investors with the largest amount of registered FDI capital.

For the first 6 months of 2018, Japan is the biggest investor with 32% of the total registered capital. However, Korea has the largest number of registered FDI projects as of June 2018 (18.6%).

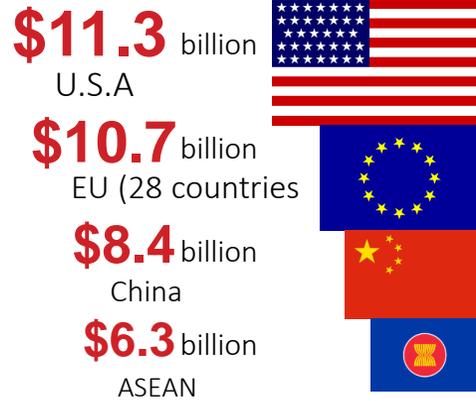
Registered FDI capital by sector



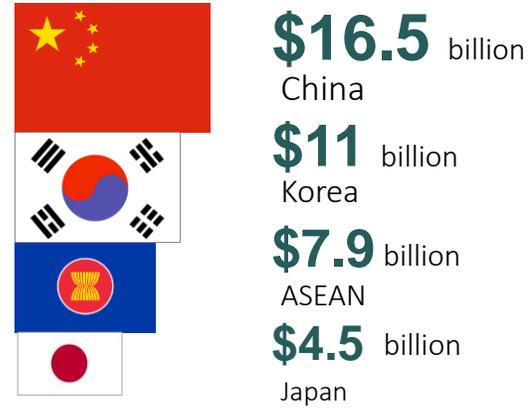
Source: FIA, Compiled by VNC

# Export slows- Trade deficit in May and June

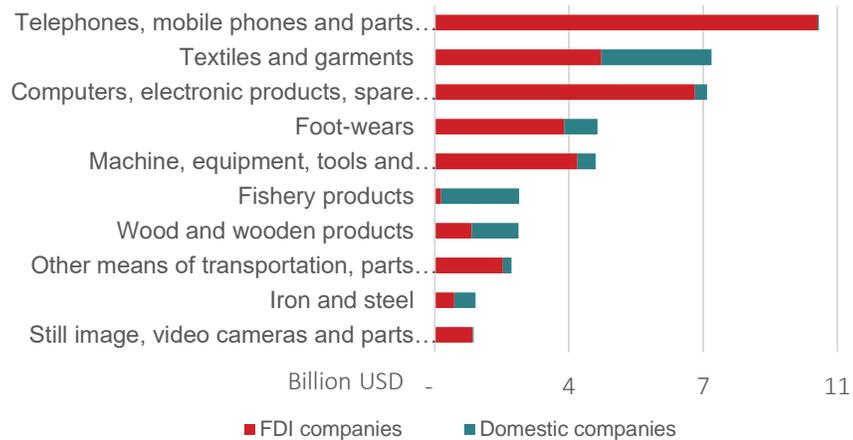
**\$58.63** billion Exports



Imports **\$57.96** billion

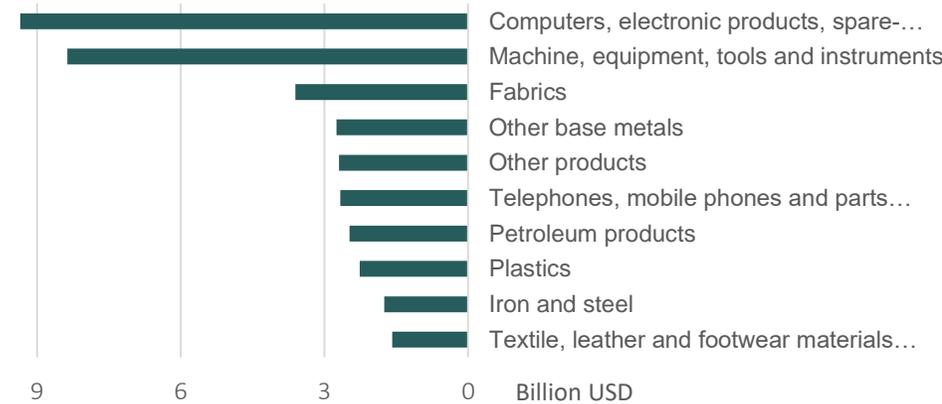


## Export turnover of 10 major product groups in 2Q 2018



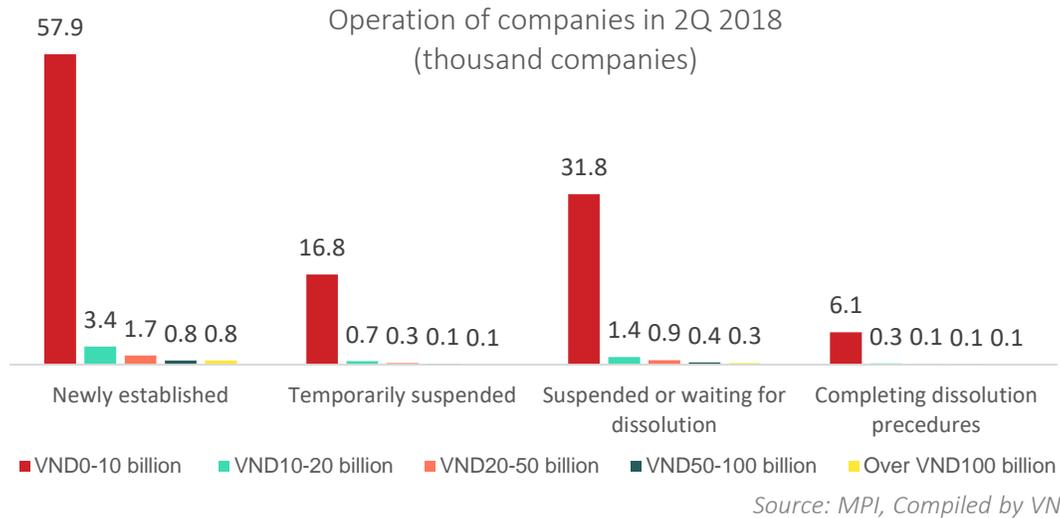
FDI enterprises contributed 79% to the total export value of 10 major commodity groups, of which, the largest group - Telephones, mobile phones and parts thereof - also had the highest share of FDI enterprises with 99.68% of export turnover of this group. In the second quarter of 2018, Samsung reduced the output of phones and components, which led to a 15% drop in export value, which means that the export turnover of the second quarter lower than that of the first quarter (from 25% to 10%). Imports which mainly serve the domestic demand decreased from 13% to 8%.

## Import turnover of 10 major product groups in 2Q 2018



Source: General Department of Customs, compiled by VietnamCredit

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



The second quarter of 2018 recorded 37,746 DN newly established companies with total registered capital of VND370,478 billion, increasing 8% and 14% in terms of number of companies and amount of capital respectively. Average registered capital/company was VND9.8 billion, up 5% yoy.

The Wholesale and retail trade, repair of motor vehicles and motorcycles industry attracted 12,600 newly established companies. The Manufacturing and Construction industry also witnessed a significant increase, with 4,776 and 5,115 DN newly registered companies respectively. In terms of the increase in the number of newly established enterprises over the same period in 2017, the real estate sector posted the highest increase of 52% in the second quarter with 3,286 companies. Due to its business nature, real estate business continued to occupy the highest proportion with about 31% of newly registered capital. The average registered capital per enterprise was VND10.4 billion, up 1.56% yoy.

However, in terms of labor size, newly established enterprises in the first 6 months of 2018 registered 283 thousand workers, down 16% over the same period of 2017. The number of enterprises temporarily suspended and completing the dissolution procedures also increased (84% yoy)

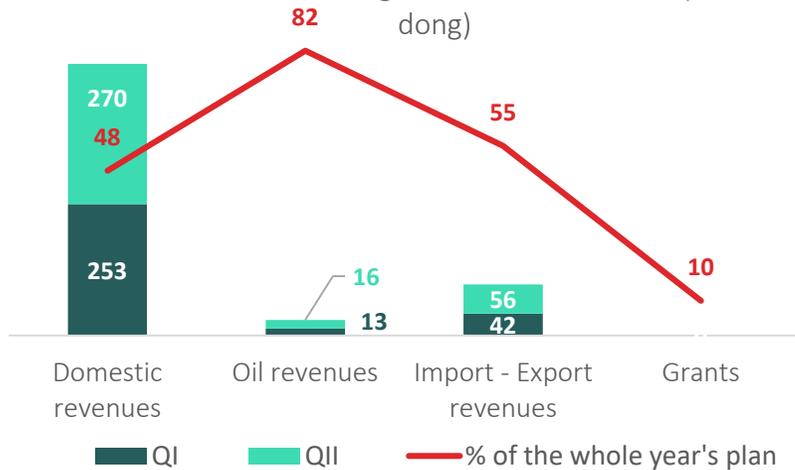
Registered capital of newly established enterprises (Billion VND)



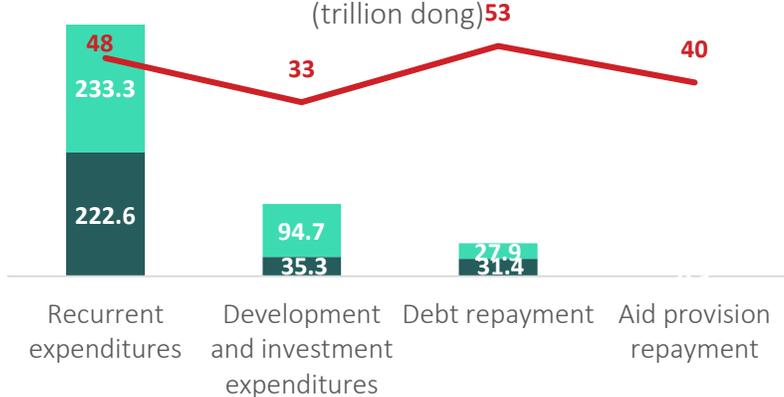
Source: MPI, compiled by VietnamCredit

# Budget deficit in the second quarter of 2018

Structure of State Budget Revenue in 1H2018 (trillion dong)

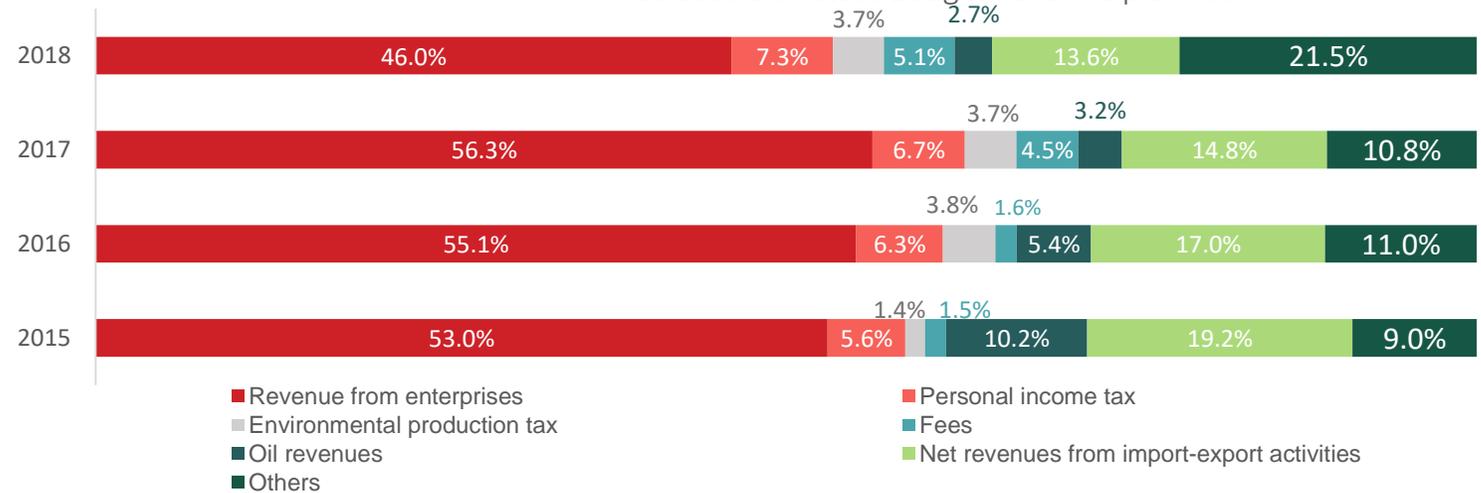


Structure of state budget expenditures in 1H2018 (trillion dong)



Source MOF, compile by VietnamCredit

Structure of State Budget Revenue planned



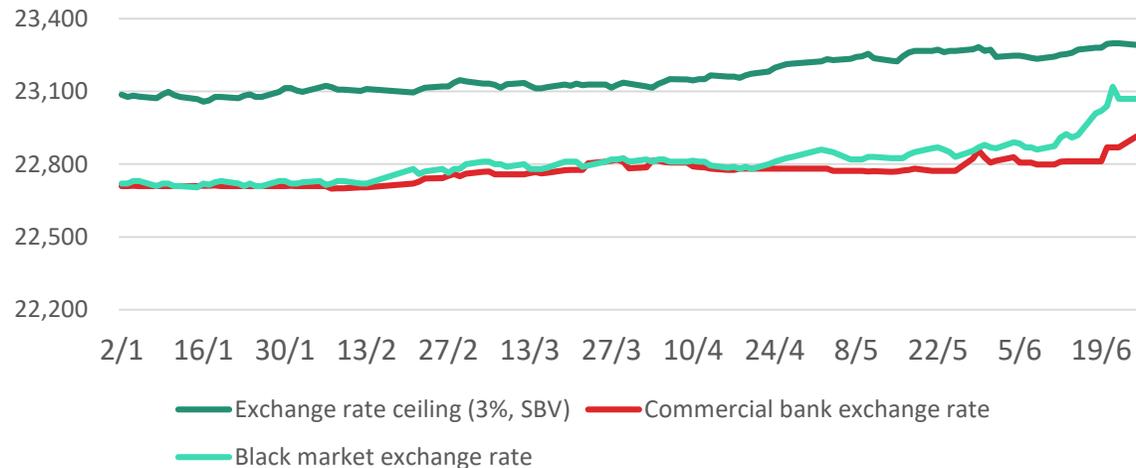
Due to the reduction of budget reliance on limited natural resources, the share of budget revenues from crude oil slipped from 10.2% in 2015 to 2.7% in 2018. In addition, the share of the state budget revenue from export activities also fell, which is suitable to the international integration process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

In the second quarter of 2018, State budget revenue reached VND343 trillion (revenue for 1H2018 accounts for 49% of the year's plan), of which domestic revenue was VND270 trillion, accounting for 79% of the total revenue (with VND48 trillion collected from the foreign economic sector and VND37 trillion from FDI enterprises). State budget expenditure in the first quarter was VND359 trillion (equivalent to 42.6% of the plan – 1H2018), of which recurrent expenditures were VND233 trillion – accounting for 65% of the total expenditure. C Development and investment expenditures increased from 12.2% in 1Q to 26%.

After reaching a surplus of VND18.5 trillion in the first quarter, the second quarter recorded a deficit of VND16 billion. For the two quarters, the budget balance continued to be at a low level of VND2.5 trillion. Public debt of Vietnam in 2017 remained at 61.4%, government debt was about 51.8% of GDP, government guaranteed debt was about 9% of GDP.

## VN-Index plunged after setting a new record - Exchange rate and interest rate remain stable

USD/VND exchange rate



VNIndex fluctuation

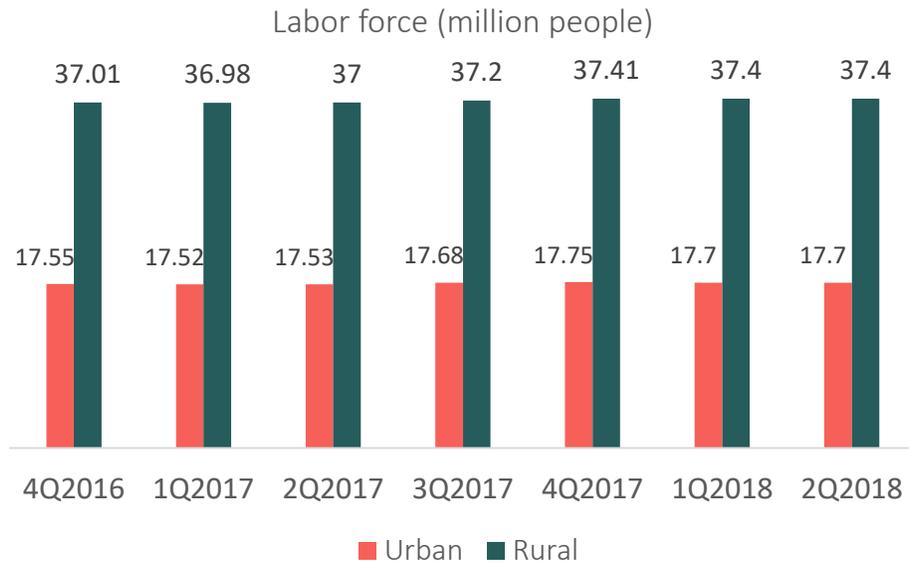


Source: NFSC, compiled by VietnamCredit

Source: VNDIRECT, Compiled by VNC

- ❖ Continuing the rise of the first quarter of 2018, Vietnam stock market in the second quarter continuously peaked and reached the highest level with 1204 points on April 9, 2018. After peaking, the VNIndex declined continuously to 900 points before recovering slightly to 960 at the end of Q2. Ending the trading session on June 29, VNIndex reached 960.78 points, down 18.19% against the end of the first quarter and 2.38% against the end of 2017. This quarter witnessed the worst performance of the stock market since the fourth quarter of 2008..
- ❖ The stock market in the 2nd quarter was affected by external factors including: (i) an increase in the US-China trade conflict; (2) Fed may raise interest rates twice more in 2018; (3) The sharp drop of most international stock markets and foreign investors tends to withdraw from emerging markets, including Vietnam. At the same time, P/E of Vn-Index at the beginning of Q2 reached nearly 22 times..
- ❖ In Q2/2018, the exchange rate was maintained quite stable with a slight increase in the end of May. By the end of the quarter, commercial bank exchange rate increased by 1.1%, exchange rate in the black market increased by 1.63%. The interest rate in the first months of 2018 was kept stable, of which the short-term interest rates for normal business lines were 6% to 9% per year, medium and long term interest rates were 9 % to 11% per year.
- ❖ Current balance and balance of payments in 2017 were in surplus, thanks in part to the surge in foreign direct investment. Balance of payments forecasts for 2 quarters continue to be surplus thanks to BoP surplus. As of February 2018, Vietnam's foreign exchange reserves reached \$ 54.5 billion, a sharp increase just over a month from \$ 51.5 billion at the end of 2017.

# The unemployment rate decreased while the average income of labor increased



As of July 1, 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%.

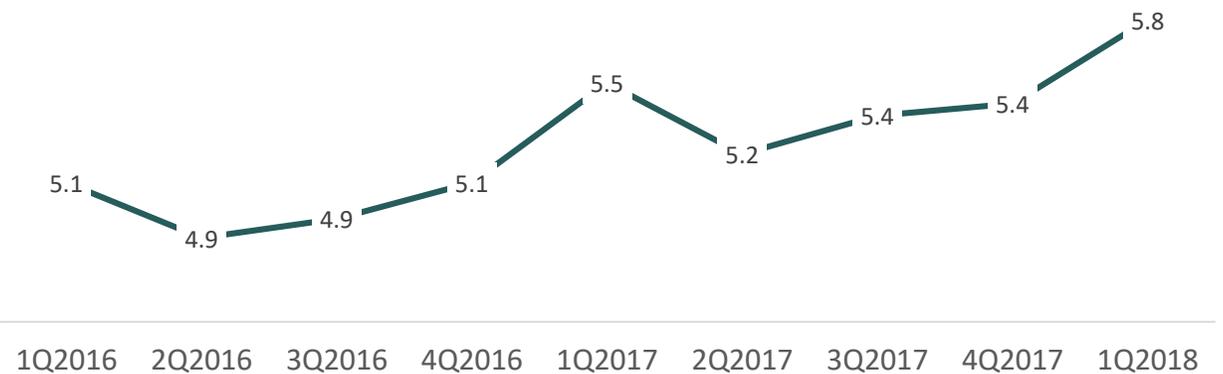
There are 54 million employed people (98% of the labor force), including 20.9 million people working in agriculture, forestry and fisheries, accounting for 38.6%; the industry and construction sector used 14.4 million laborers, accounting for 26.7%; Service sector attracted 18.7 million laborers, accounting 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 second quarter of 2018.

According to the report of the Vietnam General Confederation of Labor in July 2018, the average income of Vietnamese laborers is 5.5 million VND / month.



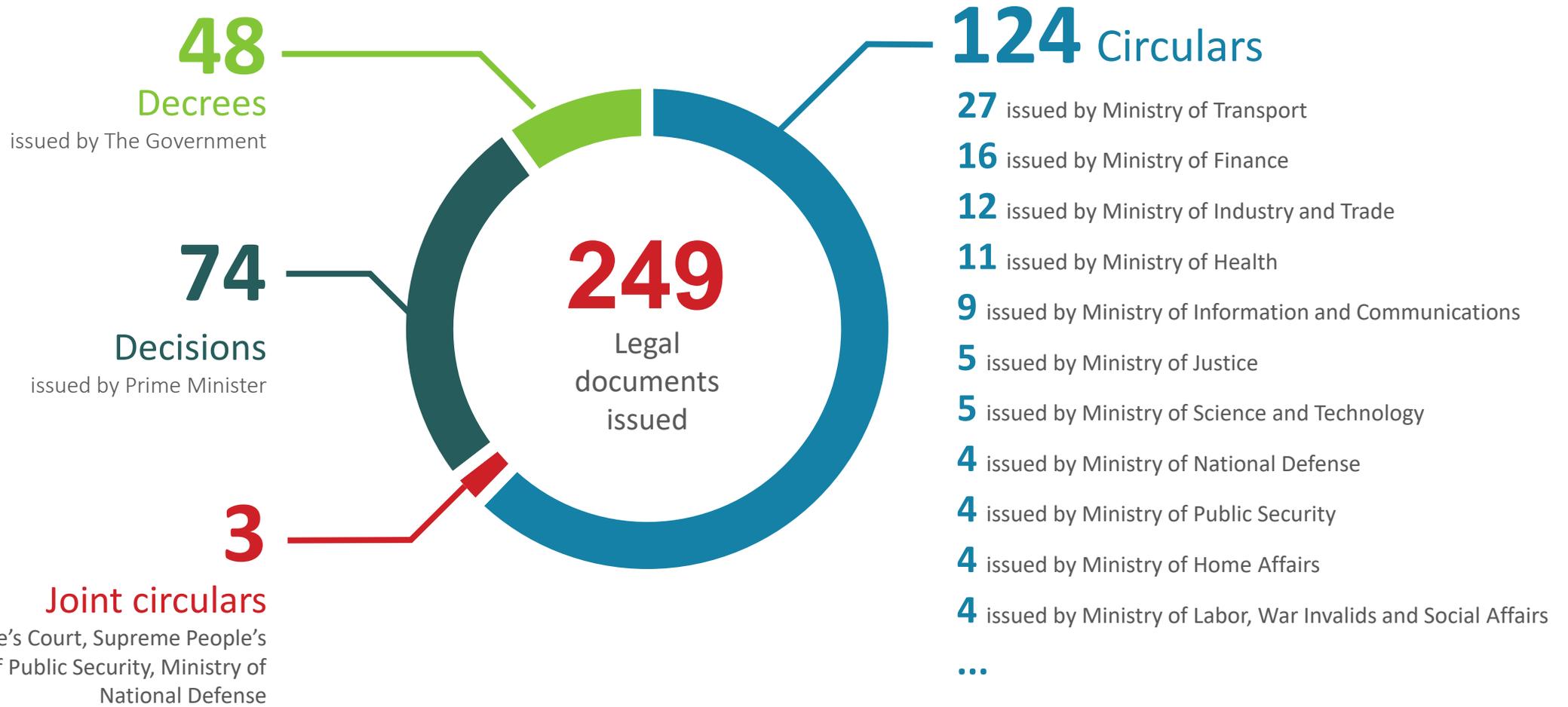
Average income of salaried employees per month (million VND)



Source: Molisa, Compiled by VNC

Source: Molisa, Compiled by VNC

# 249 Legal documents were issued in the second quarter of 2018



## Many new legal documents related to salary and social insurance for employees were issued in 2nd quarter

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

- ✓ 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
- ✓ Circular No. 29/2018 / TT-BTC specifying the support policy for SI development, stating that the budget will support from 50 to 100% of expenses for many SI activities, effective from May 11, 2018.
- ✓ Decision No. 13/2018 / QD-TTg of the Prime Minister stipulating the conditions, dossiers and order for approval of the maximum level of credit extension beyond the limits of credit institutions and foreign bank branches, effective from May 1, 2018.
- ✓ Decree No. 51/2018 / ND-CP stipulating that instead of taking 3-4 months to apply for permission, Vietnamese agricultural products may be traded on the goods exchange without legal permission, effective from June 6, 2018.
- ✓ Circular 03/2018 / TT-BXD stipulating the duration of deprivation of the right to use construction permits for violation cases, effective from June 12, 2018.
- ✓ Circular No. 04/2018 / TT-BCT stipulating the imposition of import tariff quotas on salted and poultry eggs originating from ASEAN countries, effective from May 17, 2018.

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

- ✓ Circular No. 54/2018 / TT-BTC guiding the elaboration of the State budget estimates for 2019 and the State budget-finance plan for 2019-2021
- ✓ The minimum wage adjustment for 2019 will be discussed in the third quarter of 2018. In the first session of negotiations on minimum wages in 2019 (July 9), the Vietnam General Confederation of Labor (VGCL) proposed a minimum wage increase of 8% in 2019, however, the Chamber of Commerce and Industry Viet Nam (VCCI) informed that the majority of associations said that there should be no minimum wage increase in 2019

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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

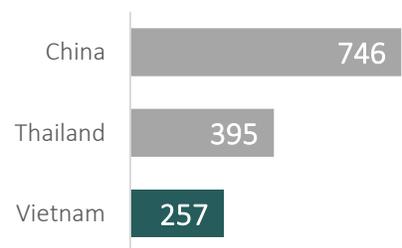
- Ineffective public investment, slow disbursement
- High public debt (close to the Debt-to-GDP threshold)
- Limited policy-making capacity
- Heavy dependence on FDI enterprises
- Lack of infrastructure

# Vietnam's economy slows yet remains positive

In Q2 2018, Vietnam's economy slows yet remains positive and is expected to grow thanks to the recovery of FDI capital flow as well as the increasing consumption demand of the domestic market. Inflation and exchange rates remained under control with large foreign exchange reserves.

In the context of rising trade protectionism in a number of countries, the trade war between major economies, Vietnam - a country with a large economic opening - needs to monitor changes in economic relations. It is necessary to have flexible macroeconomic policies to cope with all situations.

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



Source: ILO, compiled by VietnamCredit

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. However, the US-China trade conflict can have a two-way effect on FDI flows into Vietnam as well as on demand for Vietnamese goods..

Indicators	2016	2017	1Q2018	2018 (F)
GDP growth (% yoy)	6.21	6.81	7.38	6.8
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