VEPR SINCE 2008

VIET NAM QUARTERLY MACROECONOMIC REPORT

Quarter 1 - 2018

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SUMMARY

- The world economy continued to recover in Q1/2018. The US economy grew well with positive signs from the labor market, which led to the Fed's decision to hike interest rates in March. In Europe, while the EU countries have had upward growth momentum, the UK economy continued to decline after Brexit in the context of not reaching a new trade agreement with the EU. In Asia, the Japan's economy showed positive signs after a year of fake data scandals in the manufacturing industry. China's economy grew steadily and surpassed expectations of the market. All ASEAN countries continued their expansion, while BRICS countries saw different trends of growth.
- The domestic economy in Q1 witnessed an unusually high growth rate of 7.38% (yoy), the highest in 10 years. The agriculture, forestry, fishery, and service sectors improved sharply compared to previous years. The industry and construction sector also grew at a high rate of 9.7%. The manufacturing continued to be the driving force for the whole economy. Meanwhile, the mining industry has gained positive growth after two years of decline.
- The number of new jobs and newly established firms in Q1 did not increase sharply like the growth of the economy compared to the previous year.
- Core inflation increased in Q1 by 1.38% (yoy) because of the high growth of M2, showing the implementation of expansionary policies by the SBV.
- Trade continued to grow well in Q1/2018. Import and export turnovers grew at 24.3% and 16.3% (yoy) respectively. The trade surplus was $1.3 billion, mainly thanks to the export of phones and components, jumping by 58.8%. While China is the largest import market, Korea has continued to be the country with highest trade deficit among trading partners with Vietnam since 2017.
- State budget revenue has shifted in the new situation: revenue from export and import of crude oil decreased, while domestic revenue increased. Meanwhile, budget expenditure continue to show an imbalance since current expenditure accounts for 70% of total expenditure, while the proportion of development investment expenditure was only 14.2%.
- Total retail sales of goods and services increased by 9.9% in Q1, higher than those of previous year (9.2%), though still lower than the total growth of the whole year 2017. Consumption jumped in February thanks to rising demand for the Lunar New Year.
- While FDI's disbursement increased, the amount of newly and additionally registered capital decreased sharply compared to the same period of last year. Korea has continued to be the top investor in Vietnam.
- The liquidity of the system was low near the Lunar New Year, due to the high demand. Interbank offered rates soared sharply, before declining after the New Year festival. Foreign exchange reserves continued to rise, reaching $57 billion in early February.
- The real estate market in Q1 remained active in both Hanoi and Ho Chi Minh City. The number of new apartments for sale and transactions increased compared to the same period in 2017. Concerns about fire prevention in apartment blocks may depress the market in the coming time.

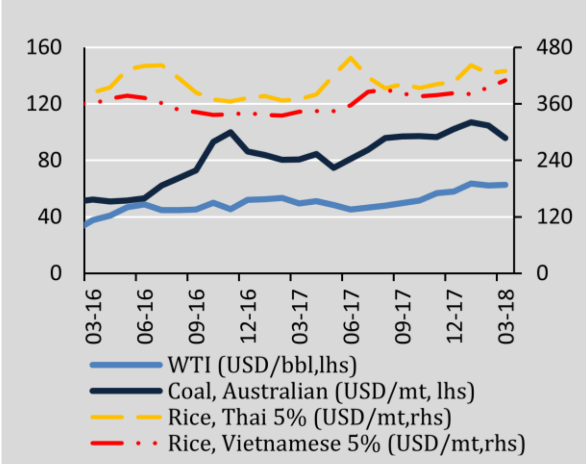
THE WORLD ECONOMY

Commodity and asset markets

Commodity market continued to witness a fluctuation in energy prices in Q1, while food prices increased slightly compared to Q4/2017.

WTI crude oil price reached a peak since the beginning of 2015, with an average price of nearly 63 USD/barrel, rising by 9% compared to the price in December. Crude oil price sometimes surpassed 70 USD/barrel.

Commodity Prices



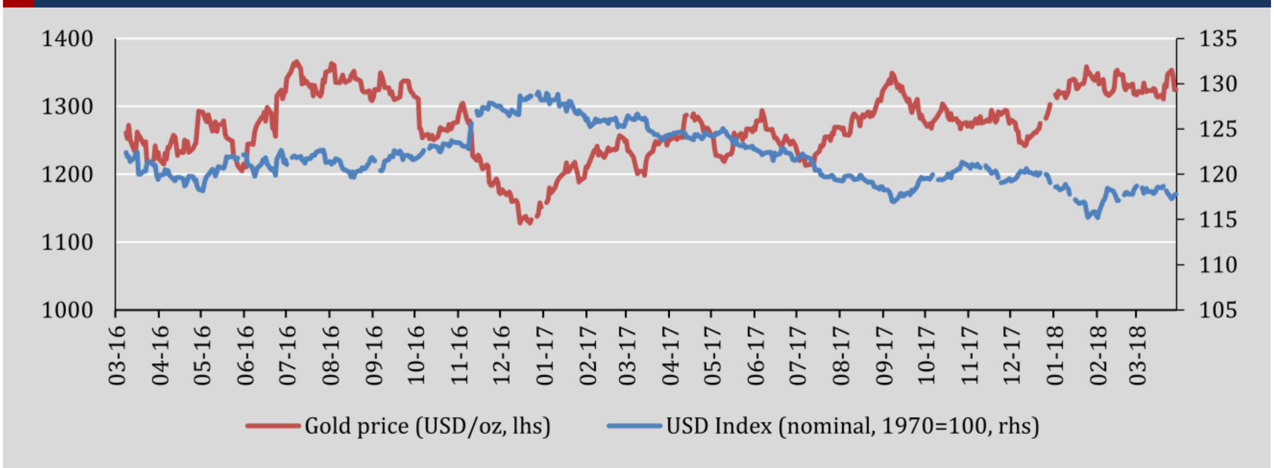
Source: The Pink Sheet (WB)

The oil price recovery contributed to profit growth in oil & gas companies. For a typical example, Shell group profit tripled in 2017, according to Wall Street Journal.

However, fluctuations in oil market in the coming time will pressure and stop the oil price increase further. The oil production in the US is forecasted to reach a new record this year. According to the International Energy Agency (IEA), thanks to abundant shale oil, United States will surpass Russia to become the world's largest oil producer in 2019 at the latest. A sharp increase in production in the US leads to a paradox that this country started to export oil to Middle East, the oilfield of the world, in early 2018.

For other energy commodities, coal price in Australia continued to go up slightly in Q1/2018 compared to Q4/2017, reaching an average of 106.9 USD/ton in January, marking the highest price in the last 6 years. It was because the unexpectedly long

Gold Price and USD Index



Source: Fed, Fxpro

winter this year increased the demand of energy. Coal price decreased slightly in March to 95.9 USD/ton, approximately 9% lower than the average price in the beginning of the year.

Regarding food products, both Vietnam's and Thailand's rice recovered compared to previous Quarter due to supply shortage. Vietnam's and Thailand's 5% rice prices in March went up to 409.9 USD/ton (up by 7%) and 430 USD/ton (up by 6%) compared to December 2017, respectively.

The world stock market in Q1 experienced fluctuations after an increasing trend in 2017. The MSCI All-Country World Index continued to hit a record high of over 550 on January 27, increased by 7.21% compared to the highest peak in previous Quarter. Since the beginning of February, the world stock has been affected by many factors, leading to the market chaos. The worry of Fed's decision to raise interest rates and US-China Trade War caused confusion for investors, making the US stock index decrease dramatically. Trading sessions in February showed strong sell-off, leading to a sharp decline in S&P 500 and Dow Jones indexes. Asian stock market, particular in Japan, is also influenced by the US market. Nikkei 225 index declined by 6.9% in early February, the highest fall since 1990. By the end of Q1, MSCI All-Country World Index only reached 499.36 point on March 24, lower than the index in December last year.

Crypto currencies market plunged in Q1. Bitcoin price was at 13,500 USD/BTC in early days of the year, rising over 16,000 USD/BTC after few days, then decreased significantly during the quarter. Bitcoin price hit a bottom on February 05 at 6,900 USD/BTC. This is the result of attempts to control the crypto currencies market in many countries, especially China. Morgan Stanley declared that Bitcoin has been just like Nasdaq in the dotcom bubble period but the speed of movement is 15 times faster.

Gold is always a safe option for investors during the period of political and economic instability. Concerns about North Korea in January and US-China Trade Tensions pushed up gold price dramatically compared to the end of 2017. Gold price maintained over 1,300 USD/oz since early 2018. Price in Q1 reached a peak at 1,358.3 USD/oz on January 24. However, since North Korean tensions has cooled down, gold price saw a downward trend in February. Gold price only rebounded after Fed's decision to hike the interest rates and reached 1,325 USD/oz at the end of the month, 2.4% lower than the peak level in Q1.

Meanwhile, the US dollar value continuously fluctuated in Q1 because of many external impacts. In the context of potential trade war, US dollar sometimes plunged deeply in January and in early February. The nominal USD Index hit a bottom at 115.21 on February 01, 2018, losing nearly 3.2 % of its value compared to

2017. USD index then showed a recovery although Fed increased the interest rates on March 21, because the number of interest rate hikes by Fed in 2018 seemed to be less than the market expectation. By the end of Q1, the nominal USD Index was 117.78, decreased by 1.1% compared to the beginning of 2018.

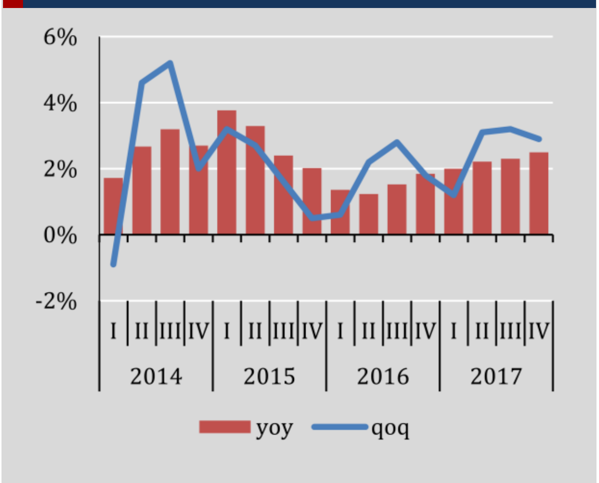
US economy's high growth led to Fed's decision to hike the interest rates

The third estimate released by the US Bureau of Economic Analysis showed that GDP growth rate in Q4/2017 was 2.9%(qoq) and 2.49% (yoy), the highest rate in the last two years. This high growth in Q4 was mainly due to increases in all private consumption, fixed investment, federal government spending, and exports.

By sectors, the leading indicators on services sector indicated an upward trend in the first two months of Q1/2018 compared to Q4 last year. NMI in January and February reached 59.9 and 59.5, respectively, much higher than in December at 56. NMI in January has been the highest level in many years. Other sub-indexes also revealed the recovery in the non-manufacturing sector in February. Specifically, the Business activity and New Orders index reached 62.8 and 64.8 in February, respectively. However, NMI decreased to 58.8 point in March, showing the slow expansion in services sector. The Business activity and New Orders index declined quickly to 60.6 and 59.5, respectively.

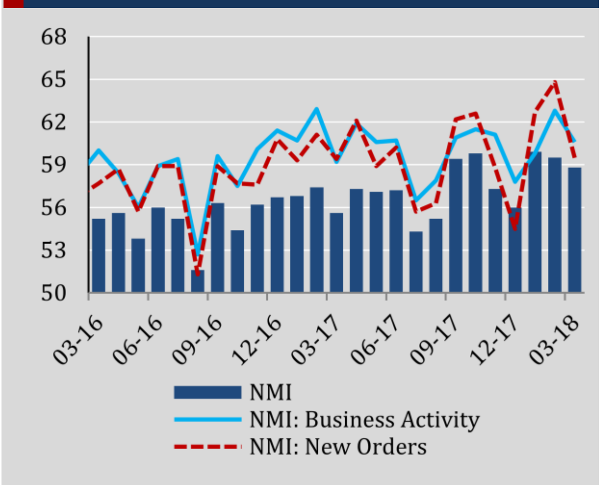
In Q1, new president of Fed, Ferome Powell made his first action to hike the interest rates on March 21. Accordingly, the basic interest rate was raised by 0.25% to 1.5%-

US Economic Growth (%)



Source: CEIC

US Non Manufacturing Index



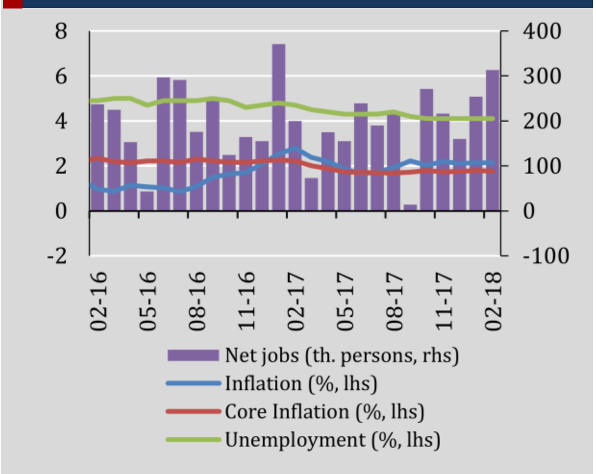
Source: CEIC

1.75%. Fed made this decision after raising the country's economic prospect and the labor market. The unemployment rate (with seasonal adjustment) was at 4.1% since October last year, the lowest rate for the last 17 years. At the same time, the net number of new jobs increased significantly compared to December (160 thousands), reaching 254 and 313 thousands in January and February, respectively. Labor force participation rate remained stable during the last 4 years although it is suffered from aging population.

Another important factor causing Fed's decision to hike the interest rate is that the core inflation and headline inflation have been fluctuated around the target of 2%. Headline inflation and core inflation were 2.14% and 1.77% in February, respectively.

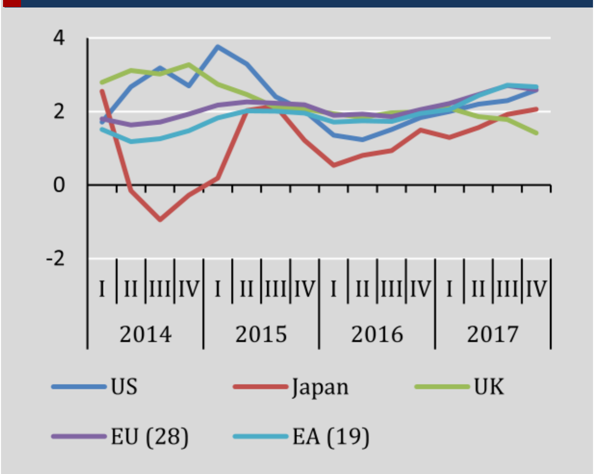
President Donald Trump signed to impose Sweeping Steel and Aluminum tariffs on imported commodities in Q1 from trading partners, especially China, aiming to decrease the US trade deficit. This leads to a potential trade war at a large scale in the coming time when other countries react to US tariff barriers on imported commodities and retaliate. Although some manufacturing sectors benefit from Trump's orders, it may put US economy at risks. Trade Partnership Worldwide company drew an example: thanks to increasing import taxes of steel and aluminum, it will create about 3,300 new jobs in metal production, but the economy may lose 180,000 jobs in sectors which using steel and aluminum as input materials because of their higher prices.

US Inflation and Unemployment (%, yoy)



Source: CEIC

Economic Growth in Selected Advanced Countries (%, yoy)



Source: CEIC, OECD

Europe continued economic rebound, the UK economy faced many challenges

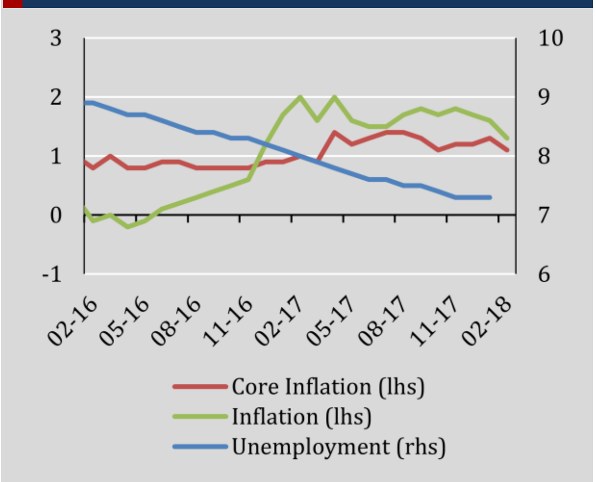
The European economy continued to see a robust recovery in Q4/2017, although the growth was slightly lower than Q3. Economic growth in Q4 of both EU28 and EA19 were 2.60% and 2.67% (yoy), respectively, only lower than previous Quarter in the last 6 years. Marked contribution to economic growth came from the development of production activities. After reaching a peak in December last year, PMI decreased slightly to 56.6 point in March. This continued to show positive signs for economic growth of the region in the coming time.

Employment continued to show signs of improvement in Q1/2018. The unemployment rate remained unchanged at 7.3% since November last year, the lowest rate in nearly nine years. Both headline inflation and core inflation in Q1 experienced a downward trend. The headline inflation was 1.3%, while core inflation declined from 1.2 % to 1.1% in February.

The German economy grew at 2.91% (yoy), higher than the last quarter by 0.2%. German politicians have achieved a breakthrough in talks aimed at forming a new coalition government on January 12 which clear up all doubts about the social-political crisis in the largest European economy.

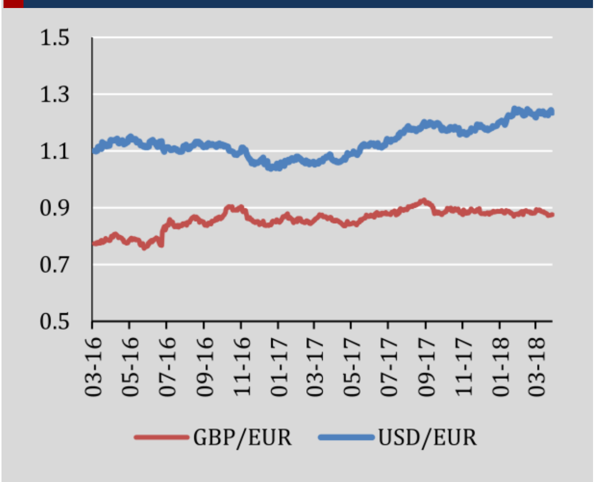
Temporary data from OECD has shown that Spanish economy in Q4/2017 witnessed a growth rate of 3.06% (yoy), the same as the last quarter despite the political crisis between Madrid government and the autonomous region of Catalonia. However, according to Luis de Guindos, former Minister of Economy, Industry and Competitiveness of Spain, the economy did lose one billion Euro because of this crisis.

Inflation and Unemployment in EU28 (%)



Source: OECD

GBP/EUR and USD/EUR exchange rates



Source: BoE

The UK economy continued to face difficulties due to impacts from Brexit. Economic growth in Q4 was solely 1.39% (yoy), the lowest rate in five years. Oliver Wyman and Clifford Chance stated that European and UK economy would lose about £58 billion annually in case UK and EU could not reach a new trade agreement after Brexit. According to Financial Times, UK intended to join Trans-Pacific Partnership Agreement (TPP), now CPTPP, to promote trade activities after Brexit. However, UK would not be able to reach any trade agreement until officially leaving the EU in March 2019.

In the coming time amid uncertainties of the world, the UK economy is expected to face further difficulties. However, in the latest IMF World Economic Outlook published in 04/2018, the IMF raised the 2018 forecast and kept the 2019 forecast for its economic growth at 1.6% and 1.5% (yoy) respectively.

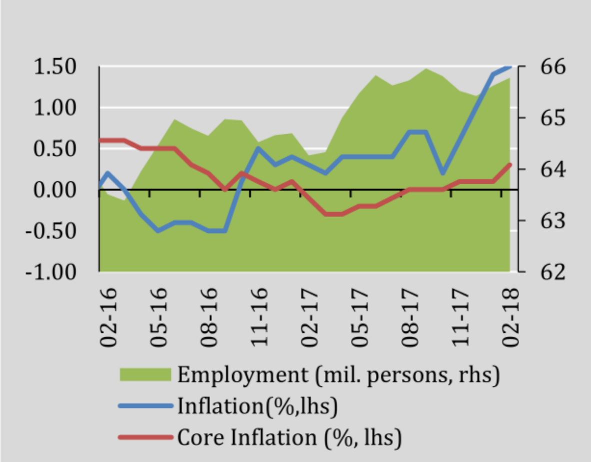
Comparing to USD, EUR maintained its stability in Q1. The exchange rate of USD/EUR continuously increased because of the depreciation of USD. By the end of quarter, the exchange rate was 1.235 USD/EUR, 3% higher compared to December last year. Meanwhile, the exchange rate of GBP/EUR is slightly fluctuated around 0.883 GBP/EUR in Q1.

Japan’s economy showed economic improvements

Data from OECD showed that Japan’s economy grew continuously, reaching 2.06% (yoy) in Q4/2017, the highest level in the last two years.

Industrial production significantly contributed to economic growth in Q4. In particular, Japan's IPI growth rate in December was 106.5, the highest level in the last 9 years. However, IPI sharply decreased in Q1/2018 to 99.5 in January, before recovering in February. Meanwhile, the service sector showed signs of recovery at the end of the year, with the retail sales index remaining above 100 despite a slight decline in Q1.

Japan’s Inflation and Employment



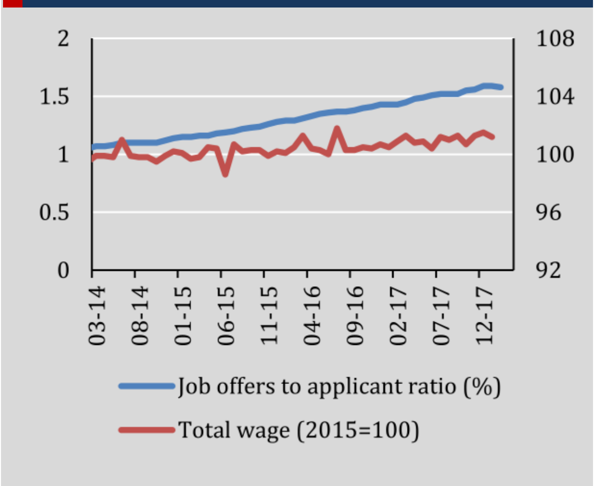
Source: CEIC

In the labor market, the number of employed workers recovered in Q1, after gradually declined in Q4/2017. Specifically, the number of employed workers reached 65.62 and 65.78 million persons in January and February, respectively. The rate of unemployment was only 2.4% and 2.5% in January and February, the lowest rates in the last 25 years. However, the total job offers to applicant ratio was recorded at 1.59 and 1.58 in January and February, respectively, the highest rate in nearly 5 decades. This figure, on the one hand, reflects the availability and abundance of job vacancies. On the other hand, it also demonstrates the severe labor shortages Japan has to face.

Meanwhile, inflation was recovered in the first quarter. Headline inflation, which decreased sharply in December last year to 0.2%, has been continuously rising this year, reaching 1.5% in February. Core inflation went up from 0.1% in Q4/2017 to 0.3% in February 2018. This will still pose a challenge for the BOJ if it wants to reach the 2% target by 2019.

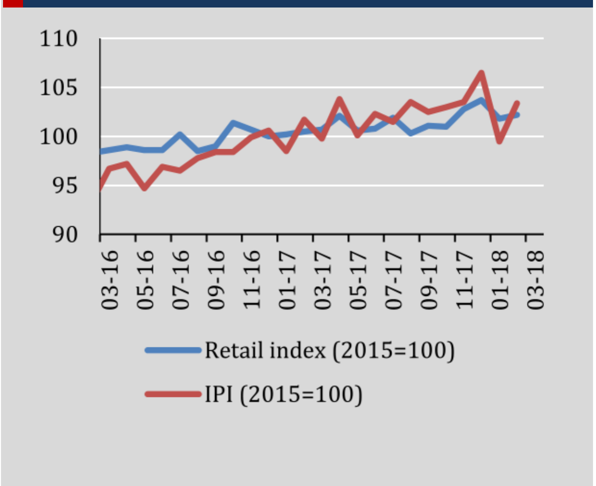
On March 08, Japan and 10 other countries signed The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) in Chile. This trade agreement raises many positive signals for countries which are exported orientation like Japan, it allows Japan's manufacturers penetrate into huge markets in CPTPP members, and temporarily dispels the worries of the domestic manufacturing sector after scandals of fake data in large corporations.

Total Wage and Jobs-to-Applicants Ratio in Japan



Source: Japan Macro Advisors

Japan's Retail Sales and Industrial Production (seasonally adjusted)



Source: Japan Macro Advisors

Chinese economy's growth exceeded expectations

Chinese economy grew by 6.8% (yoy) in Q4/2017, exceeding analysts' forecast of 6.7%. This contributed to an overall 6.9% GDP growth in 2017, exceeding the target set by the Chinese government by 6.5%. Global economic recovery increased the demands, partly contributing to Chinese economic growth. Nevertheless, in the context that Chinese government is taking measures to limit the amount of investment into property market and mitigate high debt risk, it is difficult for Chinese economy to have high growth this year like in 2017.

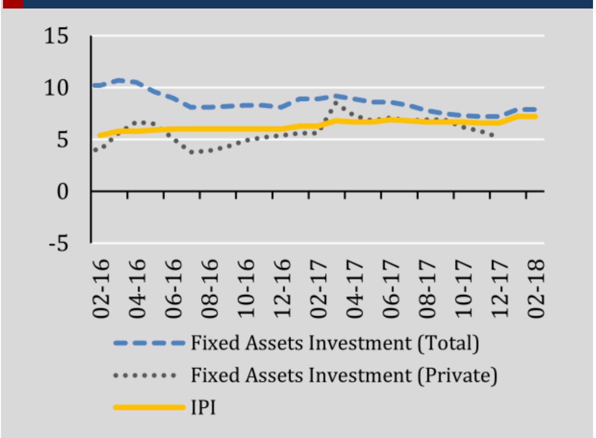
Indicators of investment continued to go down in Q4/2017, only recovering in early of 2018. To specify, total fixed investment in 2017 reduced from 9.2% in March to 7.2% at the end of the year, following by 7.9% in January and February in 2018.

Indicators of industrial production in Q4/2017 almost remained unchanged to Q3, with the growth rate of 6.6 -6.7%.

Meanwhile, PMI tended to decline in Q4/2017 and Q1/2018, before rising slightly in March. However, PMI in March still marked the 18th month of consecutive expansion of Chinese's manufacturing industry. For the service sector, the NMI index remained stable at around 54-55.

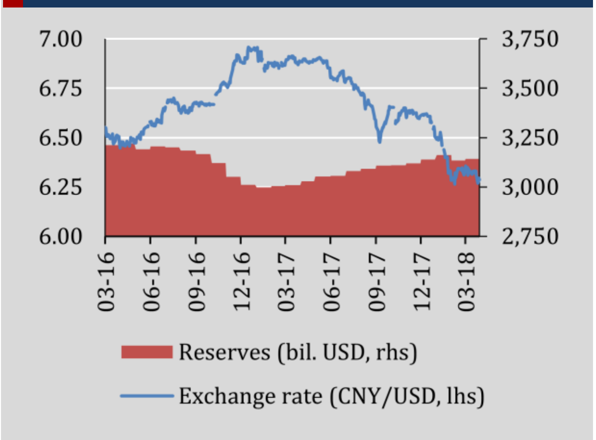
In the foreign exchange market, the CNY/USD rate fluctuated in Q1. January and February experienced the strengthening of CNY compared to USD in the context of USD depreciation. Foreign exchange hit a bottom at 6.265 CNY/USD on February 07. In the context that the USD recovered in February, China's foreign exchange reserves went down to 3,134.5 billion USD after 12 months of expansion. The reserves in March reached 3,142.8 billion USD, up by 0.27%. To preserve the foreign exchange reserves, Chinese government recently tried to

Fixed Capital Growth & IPI (%, yoy, ytd)



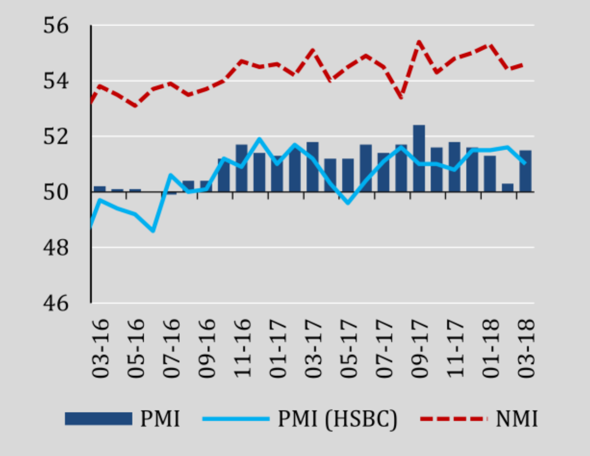
Source: CEIC

China's Exchange Rate and Reserves



Source: FRED, CEIC

China's PMI & NMI



Source: AASTOCKS

tighten foreign investment and prevent the flow of capital out of China.

One notable news in Q1 is that the National People's Congress approved the removal of two-term limit on presidency. This opened the path for Xi Jinping to implement the "Chinese dream" with the purpose of reviving China's international status. At national level, deepening economic reform is the most important priority with a greater role for market forces. China also strengthens their position at international level in economic and political aspects, for example in One Belt and One Road Initiative.

US-China Trade tensions and its influence on Vietnam

In March 2018, Donald Trump decided a detailed breakdown of some 1,300 Chinese industrial, transport and medical goods that could be subject to 25 percent duties. He also asked China to cut 100 billion USD trade surplus with US in 2018. At the same time, China slapped extra tariffs of up to 25 per cent on 128 products imported from the US. It is forecasted that this trade war will weaken the trade turnovers between these two countries.

If the trade war escalates, China's prospect may be worse. At first, exports from US to China only occupy nearly 1% GDP and 8% of US's total exports. Meanwhile, China's exports to US account for nearly 4% GDP and 20% of China's total exports. Value added from China to US occupies 3% GDP of China. Although there are a lot of US companies operating in China, Chinese economy will still suffer unless the tensions are settled.

Trade diversion can change the trade balance in the third country in case one of the two countries want to use it to export to its opponent. For example, China exported their steel to US through Vietnam in 2016-2017. If this case happens again, it will be very difficult for Vietnam improve its export scale and quality. It is more serious since US is the largest market of Vietnam's exports.

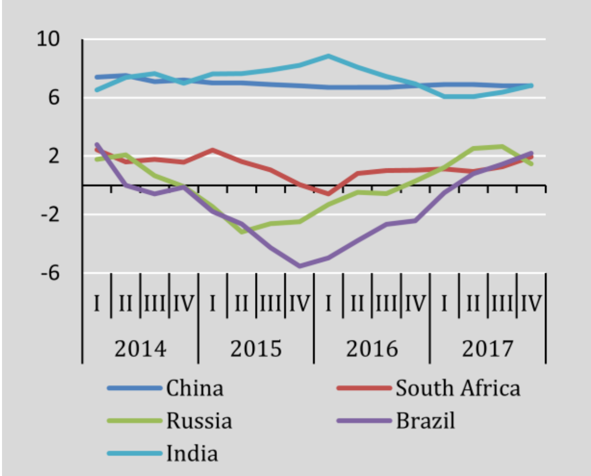
BRICS countries experienced different growth trends

The BRICS economies continued to witness different growth trends. While China stabilized its economic growth, Russia economic growth decreased to 1.46% in Q4/2017 (yoy). Industrial production in the last months of the year declined dramatically. After a 0% growth in December, IPI continued to decline by 3.6% and 1.5% in the next two months, respectively. It just recovered in early 2018. However, the death of Sergei Skripal may lead to some punishments from EU to Russia. Russian economy will suffer from this since the economic crisis in 2014, because European market occupies nearly 50% in the total trade balance of Russia (2016: 42.8%). Economic growth can be negative again.

Meanwhile, the other three economies all experienced higher growth in Q4 than in Q3/2017. South Africa's and Brazil's economy continued to rebound with the growth rates of 1.95% and 2.18% (yoy), respectively. These economies seem to be escaping from economic recession.

India's economic growth in the Q4/2017 was impressive at 6.83%. This growth was enough to put India ahead of China in terms of economic growth, after a difficult time due to the currency swap and the introduction of new goods and services tax system (GST). When China focuses on macro stability rather than GDP growth figures in the coming time, India is expected to continue to have the highest GDP growth in the region.

Economic Growth in BRICS (%, yoy)



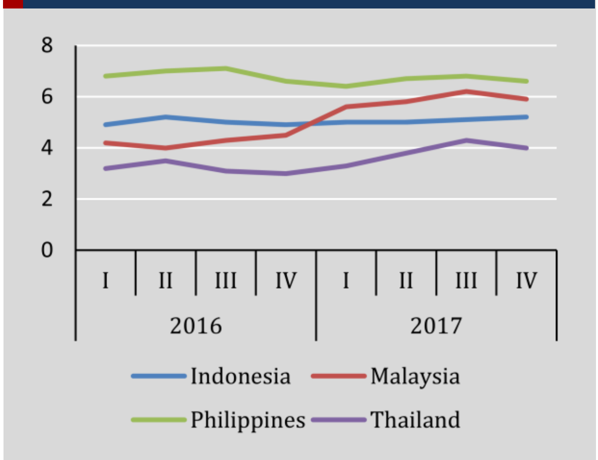
Source: OECD

Source: OECD

ASEAN economies continued to grow rapidly

In the context of global economic recovery, World Economic Outlook report from IMF

Economic Growth in ASEAN-4 countries (%, yoy)



Source: CEIC

published in January kept the 2018 forecast and raised the 2019 growth forecast and for ASEAN-5 (Indonesia, Malaysia, Philippines, Thailand and Vietnam). Accordingly, these 5 countries are expected to grow at 5.3% and 5.4%(yoy) on average in 2018 and 2019 respectively.

Indonesia's economy has officially been the first one trillion dollars economy in the South East Asia region. It continued to grow by 5.2% in Q4/2017, the highest rate in the last 4 years. In the report by the end of 2017, CEBR predicted that Indonesia will be among the top 10 economies of the world in next 15 years.

Thailand's economic growth in Q4/2017 was 4.0% (yoy), lower than the expection of 4.4%. A reason for this is the decline in government investment, although export turnover is still growing well. Nevertheless, for the whole year 2017, the second largest economy in ASEAN still experienced its highest growth since 2013, at 3.9% (yoy).

Two other economies in the ASEAN-5, Malaysia and the Philippines, also saw impressive growth in Q4/2017, exceeding market's expectation. Their growth rate were 5.9% and 6.6% respectively, slightly lower than the peaks in Q3/2007. The impressive growth of the two countries is explained by sharp increases in private consumption, government spending, and exports when global demand rises.

Global Economic Prospects (%)

	WEO* (01/2018)			GEP** (1/2018)		
	2017e	*2018p*	*2019p*	*2017e*	*2018p*	*2019p*
Global Economy	**3.7**	**3.9 (0.0)**	**3.9 (0.0)**	**3.0(0.3)**	**3.1 (0.2)**	**2.9 (0.1)**
Advanced countries	**2.3**	**2.5 (0.2)**	**2.2 (0.0)**	**2.3(0.4)**	**2.2 (0.4)**	**1.9(0.2)**
US	2.3	2.9 (0.2)	2.7 (0.2)	2.3(0.2)	2.5 (0.3)	2.2 (0.3)
Euro area	2.3	2.4 (0.3)	2.0 (0.3)	2.4(0.7)	2.1 (0.6)	1.7 (0.2)
UK	1.8	1.6 (0.1)	1.5 (0.0)	1.7(0.1)	1.5(0.1)	1.5 (0.0)
Japan	1.7	1.2 (0.0)	0.9 (0.0)	1.7(0.2)	1.3 (0.3)	0.8 (0.2)
BRICS countries	**4.8**	**4.9 (0.0)**	**5.1 (0.1)**	**4.3(0.2)**	**4.5 (0.0)**	**4.7(0.0)**
Russia	1.5	1.7 (0.0)	1.5 (0.0)	1.7(0.4)	1.7 (0.3)	1.8 (0.4)
China	6.9	6.6 (0.0)	6.4 (0.0)	6.8(0.3)	6.4 (0.1)	6.3 (0.0)
India	6.7	7.4 (0.0)	7.8 (0.0)	6.7(-0.5)	7.3 (-0.2)	7.5 (-0.2)
Brazil	1.0	2.3 (1.6)	2.5 (1.0)	1.0(0.7)	2.0 (0.2)	2.3 (0.2)
South Africa	1.3	1.5 (0.6)	1.7 (0.8)	0.8(0.2)	1.1(0.0)	1.7(-0.3)
ASEAN-5 countries	**5.3**	**5.3 (0.0)**	**5.4 (0.1)**			
Indonesia	5.1	5.3 (0.0)	5.5	5.1	5.3	5.3
Malaysia	5.9	5.3 (0.6)	5.0	5.8	5.2	5.0
Philippines	6.7	6.7 (-0.2)	6.8	6.7	6.7	6.7
Thailand	3.9	3.9 (0.6)	3.8	3.5	3.6	3.5
Viet Nam	6.8	6.6 (0.3)	6.5	6.7	6.5	6.5
Laos	6.8	6.8 (0.0)	7.0	6.7	6.6	6.9
Cambodia	6.9	6.9 (0.1)	6.8	6.8	6.9	6.7
Myanmar	6.7	6.9 (-0.7)	7.0	6.4	6.7	6.9

Note: Differences from latest forecast in parentheses; e represents estimates; p represents prediction

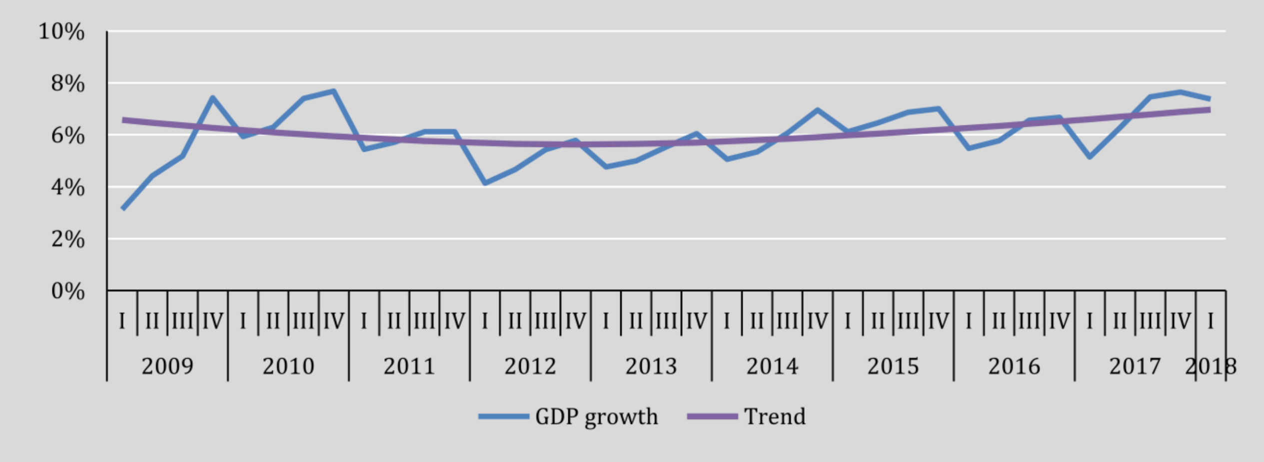
Source: World Economic Outlook (IMF), Global Economic Prospects (WB)

THE VIETNAMESE ECONOMY

Growth-Inflation

Vietnamese economy continued to grow impressively

Viet Nam Economic Growth (%, yoy)

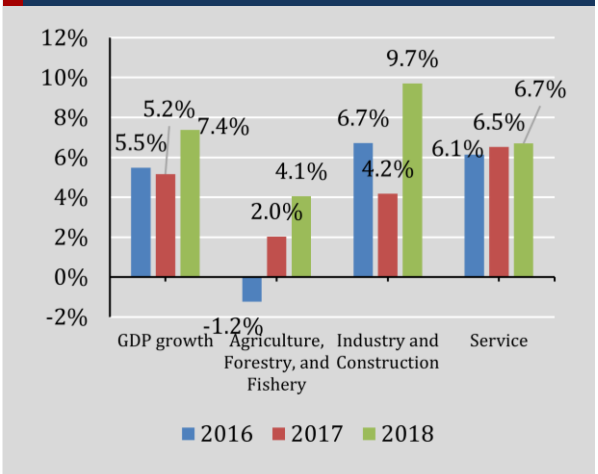


Source: Calculated from GSO data

According to the announced data by GSO, Vietnamese economy in Q1/2018 saw the highest growth rate in 10 years, reaching 7.38% (yoy). It seems that positive growth momentum from the second half of 2017 contributed to this impressive growth.

The service sector grew at 6.7% (yoy) in Q1, the highest rate in recent years. The sub-sectors that contributed the most to the overall growth were: wholesale and retail with (up by 7.45%); accommodation and catering services (up by 7.60%); finance, banking and insurance (up by 7.72%) and real estate business (up by 3.56%). The number of foreign visitors to Vietnam also increased significantly with over 4.2 million visitors, up by 30.9% (yoy), according to data from the Vietnam National Administration of Tourism (VNAT). In particular, the number of tourists from major countries all witnessed positive growth, e.g. China (up by 42.9%), South Korea (69.2%), Japan (6.9%), the US (13.4%) and Russia (15.8%).

Economic Growth by sector (%, yoy)



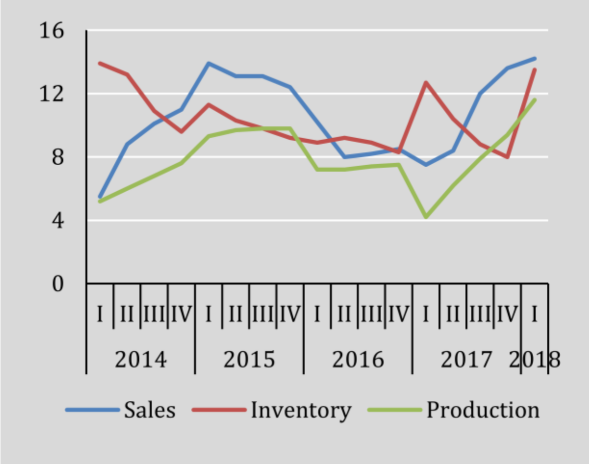
Source: GSO

Q1 marked a strong recovery of the agriculture, forestry and fishery sector with a 4.05% (yoy) growth after many years of growth under 3%, even negative growth in 2016 (-1.23%). In particular, the fishery has continued to be the bright spot of this sector with the highest increase in the past eight years of 4.76% (yoy). Due to the stable demand of export markets, raw pangasius price continued to hold at a record high, 28,000-29,500 VND/kg. The agricultural sector in Q1 saw a positive growth of 3.76%, partly reflecting the structural shift to more profitable products.

Meanwhile, the industrial and construction sector grew at a remarkable growth of 9.7% (yoy), much higher than the same period of previous years (2016: 6.72%, 2017: 4.17%). The manufacturing industry continued to be the main driving force of this sector with a very high growth rate of 13.56%. Samsung Vietnam continued to contribute the most to this growth. Specifically, the value of exports (phones and components) of Samsung Vietnam reached $12.3 billion, up by 58.8% over the same period in 2017 (while the growth in Q1/2017 was much lower due to Samsung's low output). This partly explained why Vietnam's GDP in Q1 grew rapidly. At the same time, the mining and quarrying sector showed a positive growth rate of 0.40% (yoy) after two consecutive years of decline.

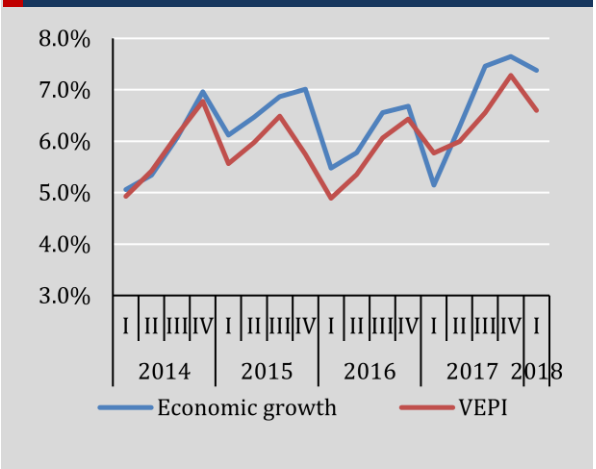
Industrial production indicators continued to show positive signs in Q1. The Industrial production index (IPI) increased by 11.6%, much higher than the same period in recent years. Consumption index continued to improve, reaching 14.2% (yoy). However, inventory index rose to 13.5%. Some sub-sectors had higher growth in the inventory index than that of the whole industry sector, such as vehicle production (up by 309.3%); electronic products, computers, and optical products (up by 146.8%); metal

Selected Industrial Indicators (%, ytd)



Source: GSO

Vietnam Economic Performance Index



Source: VEPR

production (up by 64.3%); tobacco production (up by 59.2%).

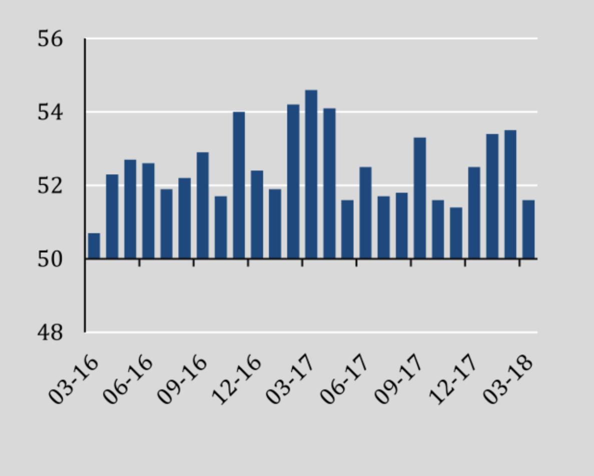
The Vietnam Economic Performance Index (VEPI), which was developed by VEPR using data on electricity, export and import turnovers, credit growth, investment, and IPI index, only reached 6.6% in Q1/ 2018. The reason is that the VEPI index is based on historical data, so its volatility partly reflects seasonal fluctuations, particularly the growth rate in Q1 of previous years was usually low. However, VEPI in Q1/2018 was 6.6%, still significantly higher compared to the previous years (2017: 5.77%, 2016: 4.89%). By looking at the fluctuation of its components, the IPI index played an important role in enhancing VEPI in Q1 of this year, with a growth rate of 11.6% (2017: 4.2%; 2016: 6.3%). The fact that the manufacturing sector, especially the telephone and components, contributed to the very high economic growth of Q1/2018 was explained above. This fact, however, may pose challenges for sustaining economic growth in the subsequent quarters as well as for the whole year 2018 and beyond, as long as the growth of the whole economy become increasingly dependent on that sector.

The number of newly established firms and new jobs did not increase sharply as economic growth

In the context of high GDP growth, Purchasing Managers' Index (PMI) in Q1 also increased compared to December. PMI rose from 52.5 to 53.4 and 53.5 in January and February respectively. However, PMI declined in March to 51.6, showing slower expansion in the manufacturing sector. PMI has gone through 28 consecutive months of expansion (more than 50), still expressing positive signs of business prospects in the manufacturing sector.

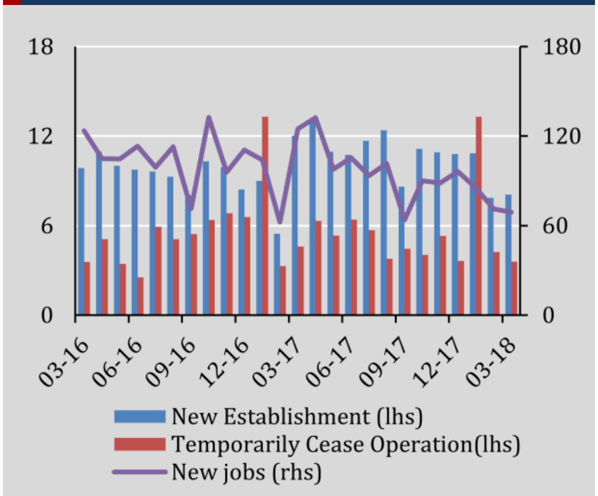
The survey on the business trend of manufacturing enterprises conducted by the GSO showed declining optimism of enterprises. Of all the surveyed enterprises, 33% rated their business performance in Q1 better than Q4/2017. This share was much lower than the previous quarter (44.8%) and was nearly the same as last year (33.7%).

Vietnam's PMI



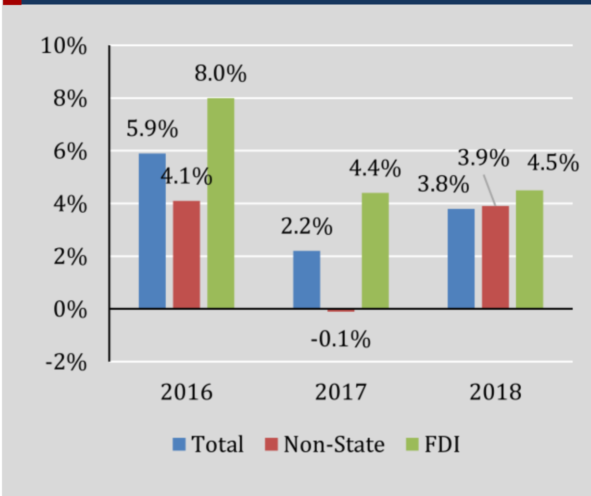
Source: HSBC, Nikkei

Enterprise Operations (th. unit, th. persons)



Source: GSO

Labor Growth in Industry Sector (%), Q1, 2016-2018



Source: GSO

It is expected that 55.7% of enterprises rate Q2 business performance better than Q1, while only 10.4% rate worse.

Regarding business activities, the number of newly established enterprises in January was the same as at the end of last year (10,839 vs. 10,814), before declining sharply in February and March with only 7,864 and 8082 new enterprises, respectively. For the whole quarter, the number of newly established enterprises did not differ much from Q1/2017 (26,785 vs. 26,478). The total registered capital was 278.5 trillion VND, up by 2.7% over the same period of 2017. The average registered capital per enterprise was 10.4 billion VND, up by 1.5% over the same period of 2017.

Meanwhile, January witnessed the largest number of enterprises temporarily ceasing operation in more than two years with 13,300 enterprises, even higher than January 2017 (13,289 enterprises). Q1 had a total number of 21,115 enterprises temporarily ceasing operation.

The number of newly created jobs in Q1was not high as economic growth rate compared to the previous year. Specifically, there were 225.4 thousand new jobs in Q1, while at the same time in 2017 the economy even created 291.6 thousand new jobs. Regarding economic sector, labor growth in the public sector continued to decline to 1.2%, while non-state and FDI sector recorded growth rates of 3.9% and 4.5%, respectively, respectively. The lower number of newly created jobs, in the context of high economic growth, again questions the quality of growth and the intrinsic strength of the domestic sector.

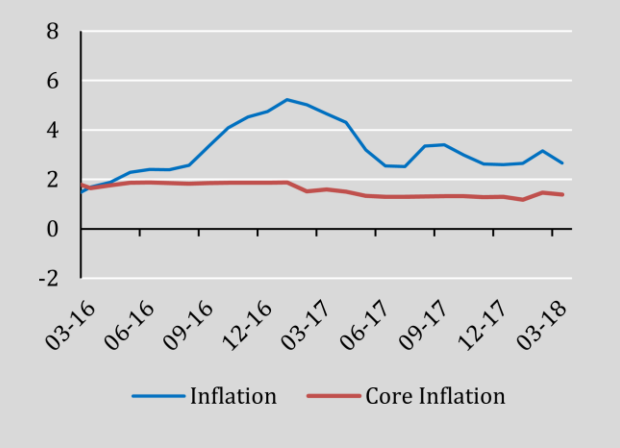
Inflation increased slightly again in Q1

Inflation tended to increase again in Q1, after falling by the end of 2017. Headline inflation rose from 2.60% in December to 3.15% in February, before falling to 2.66% at the end of Q1. Core inflation also tended to rise slightly from 1.29% in December 2017 to 1.38% in March 2018.

February's CPI was 0.73% higher than January, mainly due to an increase in prices of foods and foodstuffs (1.41% and 1.71%, respectively) as the result of rising demand for Lunar New Year. Nevertheless, the price of foodstuffs declined compared to the same period of last year, coming from the fact that pork price fell sharply, pulling down this subgroup's CPI. At the same time, food prices have risen over the same period of last year, mainly due to strong demand from rice export contracts.

Public services contributed significantly to CPI growth in Q1. Specifically, at the end of the quarter, CPI of medicine and health services was up by 22.02%, of which health service increased by 29.13%. The main reason is that in Q1, 18 provinces increase the price of health services for those without health insurance cards. Along with that, the increase in tuition fees also contributed to higher prices of education goods compared to the same period of last year. Ending the first quarter, CPI of education goods increased by 6.06% compared to the end of Q1/2017, of which education services increased by 6.73%.

Inflation and Core Inflation (%, yoy)



Source: GSO

Transportation group's CPI fluctuated considerably in Q1. Fuel prices on the world market increased continuously in Q1, putting pressure on domestic petrol prices. After price adjustments, the average petrol price increased by 9.18% over the same period of last year, contributing 0.38% to the total CPI.

Total means of payment in Q1 increased by 3.23% compared to the end of last year, higher than the same period of the previous two years (2016: 3.08%, 2017: 2.88%), showing the implementation of expansionary policies by the SBV.

Macroeconomic balances

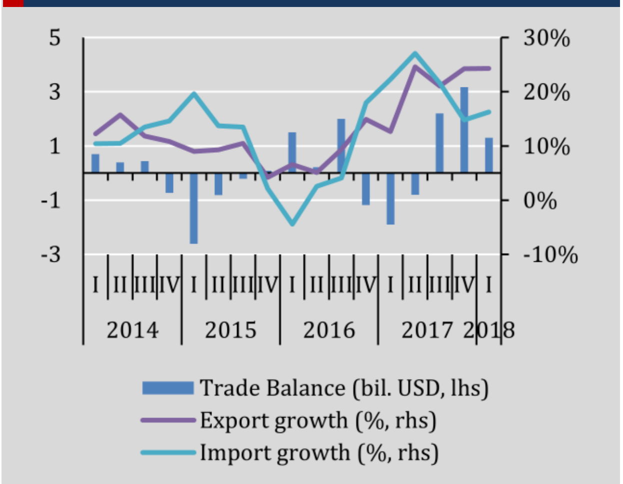
Trade balance continued to witness surplus

Trade turnover in Q1/2018, though not comparable to the second half of 2017, still showed positive signs. Specifically, export and import turnovers increased by 24.3% and 16.3% (yoy) respectively. Trade surplus in Q1 reached approximately $1.3 billion.

Export turnover in Q1 was estimated at $54.31 billion. In particular, exports still came mainly from FDI enterprises. Exports from this sector reached $39.34 billion, accounting for 72.4% of the total export turnover and up by 25.3% over the same period of 2017. Domestic exports also improved by 21.2% (yoy). Meanwhile, import turnover of Q1 was estimated at $53.01 billion. Specifically, the import of the FDI sector accounted for $31.75 billion, and the domestic sector was $21.26 billion. This led to a trade surplus of $7.59 billion in the FDI sector and a trade deficit of $6.29 billion in the domestic sector in Q1. This shows that the FDI sector has continued to be the trade leader of the Vietnamese economy.

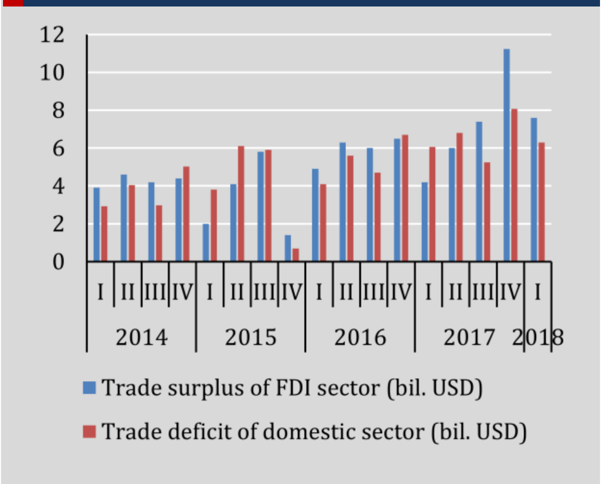
By commodity groups, heavy industries' products and minerals accounted for the highest proportion, 51.6% of total exports. Of which, mobile phones and components were $12.3 billion, up by 58.8%. Electronics, computers, and components reached $6.3 billion, up by 13.2%; machinery, equipment, and accessories reached $3.5 billion, up by 22.3%. Light industries and handicraft products accounted for 36.4% of export turnover. Of which, key commodities such as textile and footwear showed a steady growth rate of

Trade Balance and Growth



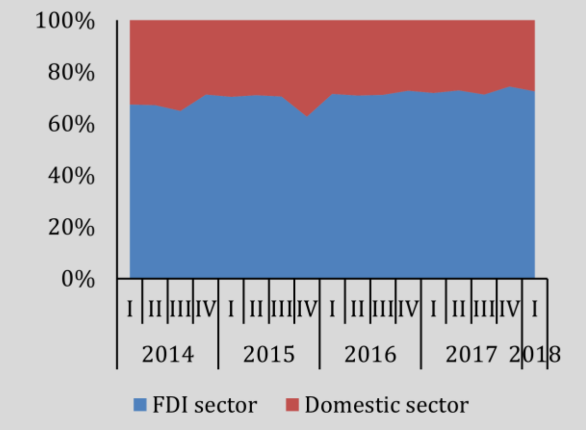
Source: CEIC, GSO

Trade Balance by Sector



Source: CEIC, GSO

Exports by Sector



Source: CEIC, GSO

12.9% and 10.9% (yoy) respectively. Agriculture, forestry and fishery products also witnessed high growth, contributing 12% of total export turnover in Q1. Although crude oil prices recovered significantly compared to the same period of last year, crude oil exports reached only $509 million, down by 21.2% due to the decrease in output by 36.5%.

Meanwhile, imports soared in materials for the manufacturing sector, reaching $48.6 billion, accounting for 91.6% of total imports. In particular, machinery, equipment, and spare parts accounted for a large proportion, reaching $22.9 billion, up by 13.1%.

By partners, EU was the largest export market of Vietnam with a turnover of $9.8 billion (up by 19.7%), followed by the US and China, with $9.6 and 9 billion respectively. Regarding imports, China remained the largest import market with a turnover of $14.3 billion (up by 13.7%), followed by South Korea with $ 11.9 billion

CPTPP with economic growth of Vietnam

Vietnam and 10 countries in the Asia-Pacific region officially signed the Comprehensive Partnership and Trans-Pacific Partnership (CPTPP) on March 8, 2018 in Chile. This is an opportunity for Vietnamese exporters to penetrate the vast market in the member countries, creating jobs for many workers. However, in the opposite direction, tariff barriers once removed also help import goods from CPTPP countries to flow into Vietnam. This, on the one hand, benefits domestic consumers when they are able to buy high quality goods with good prices from more developed countries; on the other hand, poses great challenges for domestic producers in a more competitive environment.

The benefits of CPTPP for Vietnam, however, are not only trade and output, but also institutional changes that will help improve the productivity of the entire economy.

A World Bank study (2018) attempted to evaluate the impact of potential FTAs on the Vietnamese economy. Accordingly, despite the absence of the United States, CPTPP still has a positive impact on Vietnam's economic growth. Specifically, Vietnam's GDP in 2030 could increase by 1.1% in standard productivity scenarios and 3.5% in productivity kick scenarios.

Impact of CPTPP on Vietnam's economy by 2030 (%)

	Standard productivity	Productivity kick
GDP	1.1	3.5
Exports	4.2	6.9
Imports	5.3	7.6

Source: WB (2018)

(up by 19%) and ASEAN with $7.3 billion (up by 12.3%). Korea has continued to replace China as the largest trade deficit partner of Vietnam with $7.6 billion. The main imported items from Korea were electronic, computer and spare parts (up by 52.8%), and phones and components (up by 13.6%).

A notable issue related to trade activities in Q1 was related to imported cars. Decree No. 116/2017/NĐ-CP issued on October 17th, 2017 has tightened standards for imported cars such as origin, type, level of emissions, etc. Such non-tax barriers, especially imported cars' quality certificates issued by foreign authorities, have caused difficulties for import companies. Toyota and Honda in January announced the suspension of all car exports to Vietnam. Imported cars from ASEAN countries such as Indonesia and Thailand have also fallen sharply by more than 50% since the issuance of Decree 116, according to data from the General Department of Customs. Domestic consumers once expected lower prices in 2018 because import taxes imposed on cars from ASEAN countries has fallen from 30% to 0% under the ASEAN Trade in Goods Agreement (ATIGA). However, the current situation does not meet this expectation due to supply shortage because of Decree 116.

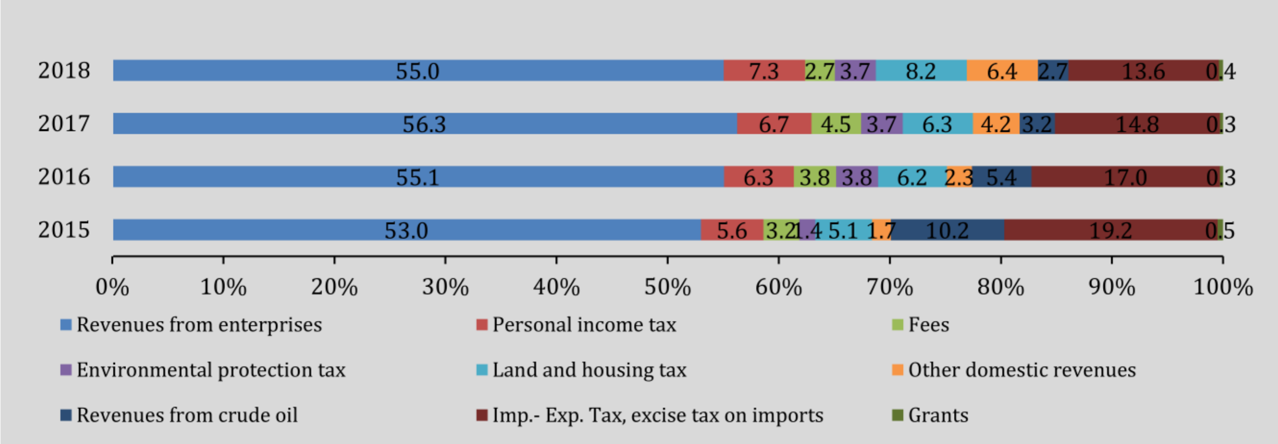
The shift in the structure of revenue in the new context

State budget plan of the Ministry of Finance shows a structural shift of budget revenue in the context of an uncertain world.

Budget revenue plan from crude oil was gradually reduced over period 2015-2017, after the oil price crisis in late 2014, from 10.2% in 2015 to 5.4% and 3.2% respectively in the 2016 and 2017.

In the context of recent oil price increase, the Government is still reducing its budget

Structure of State Budget Revenue planned by year (%), 2015-2018



Source: Calculated from State Budge Plan, MoF revenue plan from crude oil to 2.7% in 2018, which is an appropriate policy to reduce the dependence of the state budget revenue on limited natural resources.

Revenue from import-export activities in the budget plan has been reduced in proportion in the context of Vietnam's high integration with the world. The reduction of trade barriers is a prerequisite condition when Vietnam signs bilateral or multilateral trade agreements. To compensate for the decline in the budget revenue from import-export taxes and crude oil, the Government has to increase domestic revenues such as personal income tax, environmental protection tax, and land-housing tax, etc.

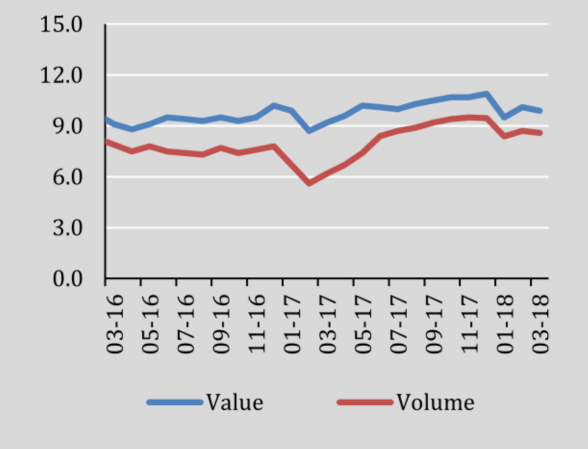
Regarding state budget revenue in Q1, according to latest data from the Ministry of Finance, total budget revenue in Q1 was estimated at 308.48 trillion VND. In particular, domestic revenue was 253.1 trillion VND, accounting for nearly 82.0% of total revenue. Some major domestic revenue sources include: revenues from non-state enterprises (56 trillion VND, about 25.7% of the whole year's plan), revenues from FDI enterprises (58.2 trillion VND, about 22.5% of the plan).

Meanwhile, total state budget expenditure was estimated at 287 trillion VND, equaling 18.8% of the whole year's plan. Of which, recurrent expenditures were 222.55 trillion VND, accounting for 77.5% of total expenditure. The development investment expenditure, which is the internal resources for long-term economic development, was only 11.3% of total expenditure. This fact, on the one hand, showed slow disbursement of public investment. On the other hand, this situation continued to reflect the imbalance of total expenditure.

Consumption grew modestly in Q1, registered FDI capital declined

Total retail sales of goods and services in Q1 were estimated at 1,048 trillion VND, up by 9.9% (yoy) compared to the same period of last year. This growth is higher than the same period last year (9.2%), although lower than the rate of the whole year 2017 (10.9%).

Retail Growth (%, ytd, yoy)

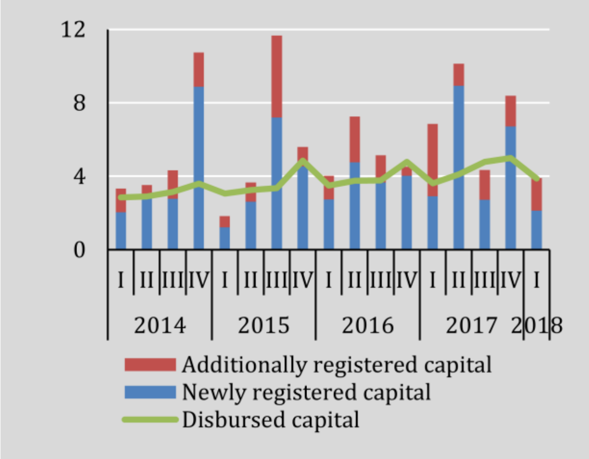


Source: GSO

At the same time, consumption was enhanced in terms of quantity with the growth rate of 8.6% (yoy), excluding price factors, higher than the same period of previous years (2016: 7.9%, 2017: 6.4 %). Of which, necessities witnessed significant growth rates such as food and foodstuffs (up by 11.9%); garment (up by 12.6%); and household appliances (up by 11%).

Meanwhile, total social investment in Q1 saw a slight decline in growth compared to the previous quarter. The total investment capital of the entire economy in Q1 was estimated at 331.2 trillion VND, about 111.2% over the same period of the previous year. Compared to Q4/2017, the growth rate of investment capital in the state sector and the FDI sector decreased to 4.7% and 9.1% respectively. The private sector, however, saw a higher growth rate than the previous quarter, reaching 18.2% (yoy), four times higher than the growth of the state sector and double that of the FDI sector.

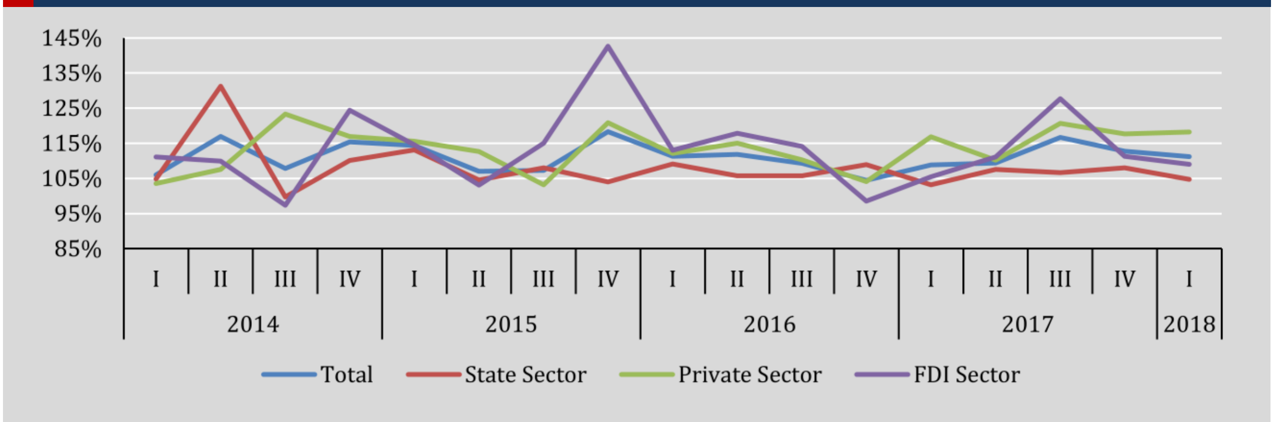
Foreign Direct Investment (bil. USD)



Source: MPI

Regarding FDI inflows, disbursed FDI was $3.88 billion, up by 7.2% over the same period of 2017. This increase was nearly double that of Q4/ 2017 (4.6%, yoy). Meanwhile, newly and additionally registered capital decreased sharply compared to Q1/2017. Specifically, the newly registered capital was only $2.12 billion (down by 27.3%) and additionally registered capital was $1.79 billion (down by 54.6%). This decline, although only temporary, has still caused concerns about Vietnam's long-term economic growth as

Total Social Investment (yoy), 2014-2018



Source: Calculated from GSO data

the dependence of the whole economy on the FDI sector is high.

Out of 618 newly registered projects in Q1, 225 projects were in the manufacturing industry - the main driving force of Vietnam's economic growth. This number of projects was almost double that of the second sub-sector (225 vs. 136) regarding FDI attraction. Many large FDI projects in Q1 were in the manufacturing industry, including the LG Innitek Hai Phong project (with additionally registered capital of $501 million), Regina Miracle International Vietnam project (with additionally registered of $260 million), and the Hanbaram wind power project in Ninh Thuan with a total investment of $150 million.

By partners, in Q1/2018, Korea was the number one investor in Vietnam with a total registered capital of $1.835 billion and 220 new projects. Next positions were Hong Kong ($689 million), Singapore ($649 million) and Japan ($593 million). Accumulating until March, Korea has continued to be the top foreign investor in Vietnam with over $59 billion, followed by Japan ($49.84 billion), Singapore ($43.10 billion) and Taiwan ($30.94 billion).

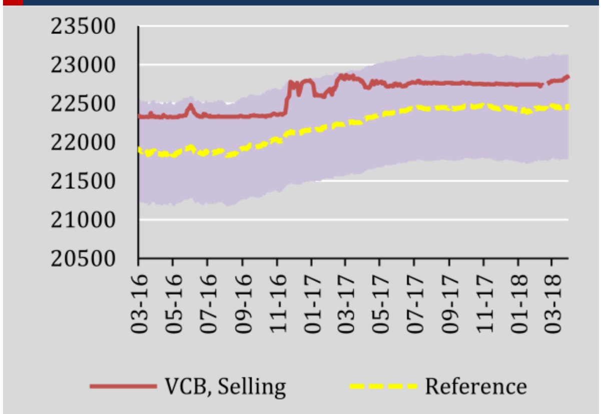
The monetary and financial markets

The forex market remained stable

Following the trend of 2017, the nominal exchange rate was quite stable in Q1/2018. Accordingly, both the reference exchange rate and the exchange rate at commercial banks fluctuated slightly, not largely affected by external factors. Exchange rate fluctuations from the end of February raised the selling rate of USD at commercial banks to over 100 VND. Specifically, the highest exchange rate at Vietcombank was 22,850 VND/USD on March 28, only 0.57% higher than the floor price in Q1. As of March 30, 2018, the reference exchange rate announced by the SBV was 22,458 VND/USD, a slight increase of 1.9% compared to the beginning of the year.

In Q1, the trade surplus of $1.3 billion, combined with the large amount of disbursed FDI, allowed the SBV to continue buying foreign currencies to replenish foreign exchange reserves. Specifically, according to the Governor of the SBV Le Minh Hung, as of February 6, 2018, foreign exchange reserves increased to $57 billion. This amount of foreign exchange was only

Nominal Exchange Rate (VND/USD)



Source: VEPR

equivalent to more than three months of imports, less than many countries in the region. This number has been the most updated information by the end of Q1 from official sources, indicating that the SBV has been slow in disclosing data.

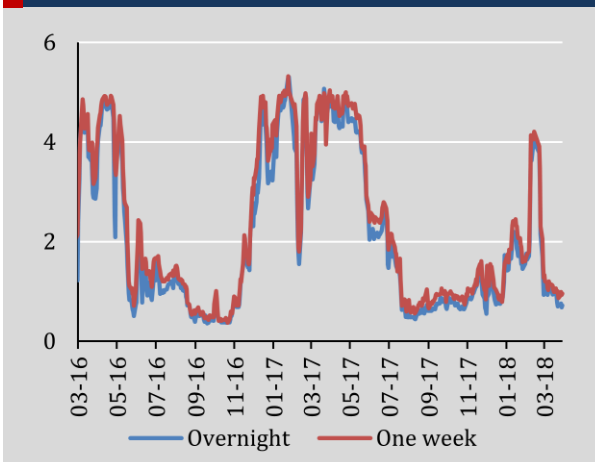
Liquidity of the banking system was low near Lunar New Year, interbank offered rates increased

According to data by GSO, as of March 20, 2018, credit growth was 2.23% compared to December 2017, lower than the same period of last year (2017: 2.81%). To complete the credit growth target of 17% set by the SBV in 2018, commercial banks must make great efforts in the next three quarters of the year. In addition, deposit growth in commercial banks was also lower than the same period of last year (2.20% compared to 2.43% in 2017).

Deposit rate was kept quite stable in Q1, not much change compared to 2017. In particular, the long-term deposit interest rate was commonly at 6.5 -7.3%/year. Meanwhile, short-term and medium-term ones stayed at 4.3 -5.5% and 5.3 -6.5% per year, respectively. The lending interest rates were also unchanged from 2017. In particular, lending rates for common business were 6.8-9%/year for short-term loans, 9.3-11%/year for medium and long-term loans. Prioritized business can borrow at 6-6.5%/year for short-term and 9-10%/year for medium and long-term loans. Relatively stable interest rates in Q1 could be explained by the almost equal growth rates of deposit and credit.

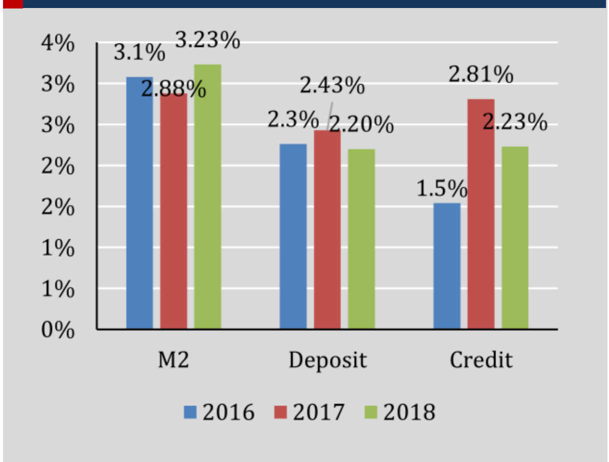
In Q1, the liquidity of the banking system was low during the Lunar New Year, due to the rising demand for payment of the economy. This was showed clearly on the

Interbank Offered Rate (%)



Source: CEIC

Growth of M2, Deposit, and Credit, Q1, 2016-2018



Source: GSO

interbank offered rates. The overnight and one-week rates peaked on February 13, 2018, at 4.01% and 4.21%, more than twice the average interbank rates in Q1. After Tet vacation, the abundant liquidity of the system pulled the rates down sharply. At the end of the quarter, overnight one-week rates were only 0.72% and 0.96%, respectively.

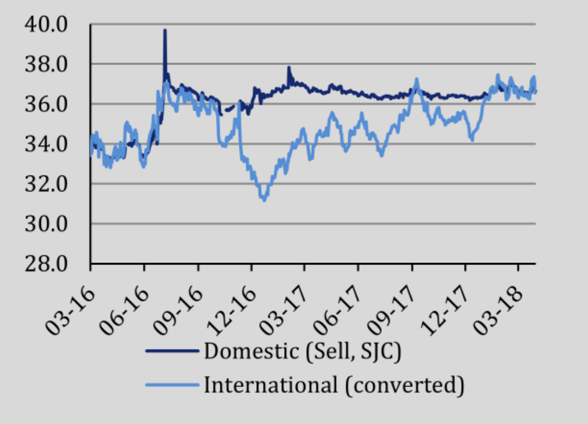
Asset markets

Domestic gold price was lower than the world price

In the context of a sharp increase in world gold price in Q1, the domestic gold price remained more stable. The decline of the crypto currencies market, along with the uncertainty in the stock market, made gold more attractive to investors this quarter.

The sharp increase in world price narrowed the gap between world and domestic prices. In particular, the world price surpassed the domestic price at many moments. Especially, on March 26, the world gold price was 400,000/tael VND more than the domestic one. The price gap of Q1 ranged between ± 300,000 VND/tael (approximately ± 0.8%). The chart also showed the level of interconnection between the domestic and world markets of Q1 compared with the same period last year.

Gold Price (mil. VND/tael)



Source: SJC, Fxpro

Since April 1st, 2018, Circular 22/2017/ TT-NHNN officially came into effect, stipulating "Gold at credit institutions is accounted similarly as foreign currency (gold is considered as a foreign currency)". Based on this circular, gold would be considered a currency unit like VND and other foreign currencies. This will facilitate accounting process for credit, instead of having to convert gold into VND before entering it into financial statements.

Real estate market remained active in Q1

The apartment market in Q1/2018 was quite active, comparable to Q4/2017. Although the number of new apartments for sale was lower than the previous quarter, the market demand remained high. The number of transactions was higher than that of the same quarter of 2017. On both Ho Chi Minh City and Hanoi markets, the intermediate and low-end segments were still dominant in transactions.

According to data from JLL Vietnam, in Ha Noi market, total new apartments for sale in Q1 reached 9,000 units, down slightly by 4.3% against Q4/2017 and down by 1.9% over the same period of last year. However, the number of successful transactions increased to 10,600 units, up by 29.7% compared with the same period of last year and also increased 8.2% compared to Q4/2017.

In HCMC market, the number of new apartments for sale and successful transactions, though incomparable to Q4/2017, increased sharply over the same period of last year. Specifically, the number of new apartments for sale in Q1 was 13,647 units, down by 10.2% from the previous quarter but up by 59.3% compared to Q1/2018. Of the new apartments for sale, intermediate segment accounted for 62%. Meanwhile, transaction number reached 15,586 units, nearly equal to Q4/2017 (16,181 units) and up by 91.5% over the same period last year.

High demand for intermediate and low-end segments contributed to a price increase in the primary market, 0.9% and 1.2% compared to Q4/2017 in HCMC and Hanoi markets, respectively.

Meanwhile, real estate sector still attracted new foreign investors. According to data from Foreign Investment Agency of the Ministry of Planning and Investment, in Q1/2018, the sector continued to rank the third place after manufacturing sector and production and distribution of electricity, gas, water and air conditioning sector with the registered capital of $485.65 million.

However, concerns about fire prevention in apartment blocks, especially after the fire at Carina Plaza on March 23, 2018, the apartment market will probably level off in the coming time. At the same time, there are requirements to tighten policies for investors and management of condominiums.

Hanoi's Apartment for Sale

Source: JLL Viet Nam

HCMC's Apartment for Sale

Source: JLL Viet Nam

PROSPECT FOR THE ECONOMY IN 2018 AND POLICY NOTES

In 2017, most of the major economies witnessed the strong economic rebound. The US, EU, Japan and China all saw positive growth. Meanwhile, the UK continued to experience difficulties after Brexit. Increasing global demand contributed significantly to the economic recovery in emerging and developing economies, including Vietnam. However, the risk of a global trade war stemming from President Donald Trump's trade tariffs could push the global economy into an uncertain future, posing difficulties for export-oriented economies like Vietnam.

Continuing the impressive growth momentum of the second half of 2017, GDP growth in Q1/2018 reached 7.38%, the highest rate in 10 years. Industrial production index increased by 11.6% over the same period of last year. In particular, the manufacturing industry, the main driving force of economic growth continued to grow at a high rate of 13.9%. However, the added value created in this industry has mainly come from the FDI sector. This shows a growing dependence of Vietnam's economic growth on this sector.

Q1's inflation slightly increased compared to the previous quarter, mainly from price adjustments of public services such as health and education, and partly due to the loose monetary policy. Food and foodstuff prices in February were higher than January due to the usual effect of the Lunar New Year. Core inflation tended to rise slightly from a relatively low level, partly reflecting the SBV's loose monetary policy.

The signing of the CPTPP agreement continued to consolidate Vietnam's high integration with the world. However, in addition to the contribution to economic development, this also creates difficulties for state budget revenue when revenue from import-export activities has been

Growth-Inflation forecast 2018

With a surprisingly high growth of 7.38% in Q1. VEPR research team believe that the GDP growth target of 6.5-6.7% set by the National Assembly are achievable in the current favorable conditions. However, in the context of potential trade war and protectionism. the future of the Vietnamese economy is still uncertain due to shocks from the world market.

In addition, in order to reach the average inflation rate of 4%, we believe that the efforts of all authorities. especially prudent monetary policy of the SBV are needed. Given this situation. we forecast growth and inflation in 2018 as follows:

Growth- Inflation in 2018 (%. yoy)

	Economic Growth	Inflation
Q1	7.38	2.66
Q2	6.51	3.44
Q3	6.84	3.84
Q4	6.75	4.21
2018	6.83	

Source: VEPR

decreasing. At the same time, the Government also determined to reduce the share of natural resources such as crude oil in total revenue. Meanwhile, to attract private and FDI investment, the Government has repeatedly lowered CIT rates in recent years, so the proportion of revenue from CIT also decreased. To compensate for the decline in total revenue, the Government has to increase domestic revenue collection. Recently, the Ministry of Finance issued a draft proposal for VAT increase. However, we think that increasing VAT rates, on the one hand, raises the tax burden on people, indirectly pushing some of them into the informal sectors; on the other hand, it also does not guarantee to increase the proportion of VAT collection in total revenue.

To ensure the balance of budget revenues and expenditures, we believe that it is necessary to improve the efficiency of revenue collection, increasing the efficiency of existing taxes and current tax rates instead of hastening the imposition of new taxes or higher tax rates. This requires reforms within the taxation department. An additional solution is to control budget expenditure, especially recurrent expenditures. Recurrent expenditures are always above 70% of total expenditures over the years, partly due to the cumbersome and inefficient apparatus. Development investment, the resources for long-term economic growth, is still limited. Therefore, the Government should continue to take drastic measures to tighten recurrent expenditures such as personnel streamlining, restructuring the apparatus, limiting expenditures for mass organizations, and divesting and equitizing SOEs.

As for state budget, budget deficits and public debt are always the primary concern. Recently, the idea of including "informal economy" into the calculation of GDP has created a heated debate. In our opinion, it is necessary to estimate the informal economy for the Government to propose suitable development strategies. However, the inclusion of the informal economy in GDP is not appropriate as total GDP may only increase in nominal term, and may cause inconsistency in international comparisons. Also, it is important that national indicators such as budget expenditures or public debt can increase accordingly within the thresholds as a proportion of GDP. However, these increases do not support the informal sectors because of the lack of suitable management measures. Budget revenue collection from these sectors also does not increase accordingly for the same reason. This distorts warnings about Vietnam's state budget and public debt situation. We believe that the urgent need is not to estimate the informal sector as a part of GDP, but to manage foreign borrowings to improve socio-economic efficiency. Without strict control of foreign debt and budget balance, the public debt ceiling is likely to be broken in the near future, and Vietnam would be increasingly burdened with debt before transitioning to the higher development stage.

One consequence of Vietnam's increasingly high integration with the region and the world is reflected in the Government's Decree 116 with a legitimate purpose to ensure a better quality of imported cars, which has been considered as hasty non-tariff protection. That is unreasonable in the context that consumers expect a sharp fall in prices as a tariff on imported cars from ASEAN was reduced from 30% to 0%. This raises the question of whether Decree 116 is influenced by interest groups as the inequality between large auto firms and small private firms may be extended. Ultimately, consumers would suffer huge losses because of reduced competition among suppliers.

Uber's withdrawal from the Southeast Asian market helped Grab take control of the market of the whole region, including Vietnam. In the future, consumers likely have to pay more when using this service when Grab is fully capable of controlling the market price. However, this is also an opportunity for local businesses to develop products to compete with Grab. Vietnamese companies can learn from Uber's failure to get a deserving position in the domestic market.

Note: Long-term and structural policies will be discussed in other policy reports of VEPR.

Abbreviations

BoJ	Bank of Japan
BoE	Bank of England
BSC	BIDV Securities Company
CNY	Chinese Yuan
ECB	European Central Bank
FDI	Foreign Direct Investment
FED	Federal Reserve
FIE	Foreign invested enterprises
FMCG	Fast Moving Consumption Goods
GDP	Gross Domestic Product
GSO	General Statistics Office
HSCB	Hong Kong Shanghai Commercial Bank
LHS	left hand side
IMF	International Monetary Fund
MOLISA	Ministry of Labor, Invalid and Social Affairs
MOIT	Ministry of Industry and Trade
mom	month-on-month
MPI	Ministry of Planning and Investment
OECD	Organization for Economic Co-operation and Development
PMI	Purchasing Manager Index
qoq	quarter-on-quarter
RHS	right hand side
SBV	State Bank of Viet Nam
UN	United Nations
USD	the United State dollar
VAMC	Viet Nam Asset Management Company
VCB	Viet Nam Bank of Foreign Trade
VND	Vietnamese currency
WB	World Bank
yoy	year-on-year
ytd	year-to-date

Disclosure appendix

Author's Certification

The following author who are primarily responsible for this report, certify that the opinion on the subject or issues and/or any other views or forecasts expressed herein accurately reflect their personal views and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report: Nguyễn Đức Thành, Vũ Minh Long, Nguyễn Hoàng Hiệp (VEPR Macroeconomic Research Team).

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Additional disclosures

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