VEPR

VIET NAM QUARTERLY MACROECONOMIC REPORT

Quarter 1 - 2019

Supported by:

Konrad Adenauer Stiftung

SUMMARY

- The global economy is expected to undergo instability in 2019. Many international organizations have continuously lowered their forecasts with the latest estimation of around 3.5% for economic growth. In addition, oil prices are moving upwards but unpredictably owning to disagreements from US and OPEC.
- There are increasing concerns about China's economy as its industrial production growth and private investment are expected to decline. Besides. China's PMI have been remaining under 50 for the consecutive of three months. Along with that, the People's Bank of China has loosened monetary policy in order to support the economic growth.
- Additionally, US and Europe have stopped the normalization of monetary policy due to the worries of its growth-declining impacts. At that time, Japanese governments have improved working conditions to attract a higher volume of foreign workers so as to cover labor shortages recently.
- In the first quarter of 2019, Viet Nam's economy grew at 6.79% (yoy), which is 0.66% lower than that figure in 2018. The growth in the agriculture, forestry, fishery and service sectors remained at acceptable levels despite of being much lower than that in 2018. The FDI sector played crucial role in economic growth by contributing 41.46 billion USD the total export value.
- Regarding of business activities, while the number of newly established enterprises and new jobs did not differ much from these figures of Q4/2018, the number of temporarily ceased enterprises in January was unusually high, around 23,082 firms, which is the highest number during the last 10 years.
- Inflation in Q1/2019 increased to 2.63% due to the surging in energy prices. In the presence of growing international commodity prices and maximum domestic environmental protection taxes applied since 1st January 2019, the State Bank of Vietnam (SBV) needs to keep an eye on inflation pressure in doing monetary policies in the coming time
- Capital liquidity before Tet holiday was limited owning to high payment demands. Thus, interest rates increased significantly before Tet and then declined but still stayed in a higher level than that in Q1/2018. Until 20th March, capital flows in all means of payment grew to 2.54% (yoy) and growth in credit market reached 1.9% (yoy).
- The US-China trade war is bringing about opportunities for Viet Nam's economy. Referring to long-term impact, once the production supply chain shifts from China to neighbouring countries, Viet Nam has to simultaneously improve the legal framework, business environment and labour quality to grasp these opportunities. In order to adapt with the new context, Viet Nam will face up to challenges when the country's infrastructure has yet been ready to absorb this production shifting, while lacking of economies of scale as the case of China and India.

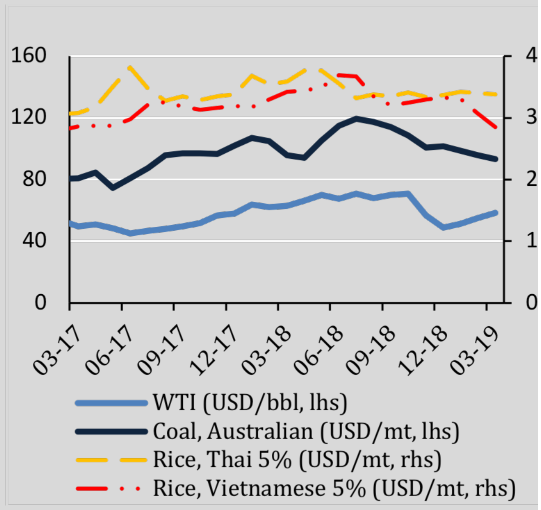
THE WORLD ECONOMY

Commodity and asset markets

Commodity market in Q1/2019 witnessed considerable instability in energy prices, while food prices slightly declined in comparison with Q4/2018. After the three consecutive months of decreasing in price in Q4/2018 from 70.8 USD/barrel to 49 USD/barrel, WTI crude oil price in Q1/2019 rebounded to 55 USD/barrel in February and then increased to 60 USD/barrel at the end of March.

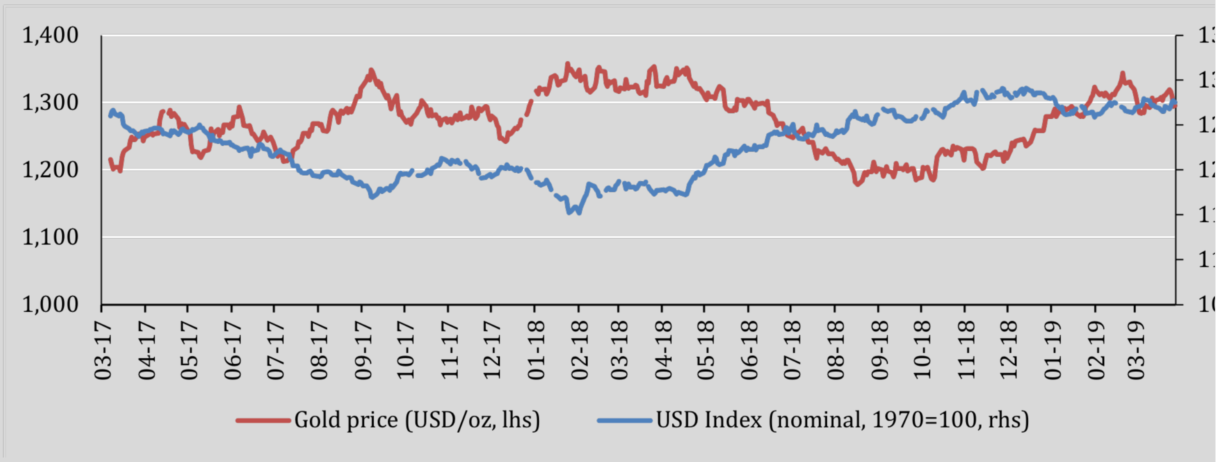
Since January 2019 until now, oil prices recovered and reached to the peak at the end of Q1 thanks to OPEC's efforts to cut output and the hope of US-China trade deal. According to the latest agreement, OPEC will be contining to cut production until this June. However, the global oil supply are still remained stable due to the increase in US oil production and inventories. According to the US Energy Information Administration (EIA), US oil production was at a record of 12.1 million barrels a day, which is an increase of more than 2 million barrels a day since the beginning of 2019. The inventories of US oil was also high at 452.93 million barrels in Q4/2018. These factors let US overpass Saudi Arabia to become the world's largest oil exporter in the last year.

Commodity Prices



Source: The Pink Sheet (WB)

Gold Price and USD Index



Source: FRED, www.gold.org

As for other energy commodities, Australian coal price in Q4 was in the downward trends from 98.6 USD/ton to 93.1 USD/ton in March.

Thai rice prices recovered in January but fell slightly in the next two months, and stayed at 406 USD/ton in March. Meanwhile, the price of Vietnamese rice fell sharply to 342 USD/ton due to the abundant supplies during the biggest rice harvesting season.

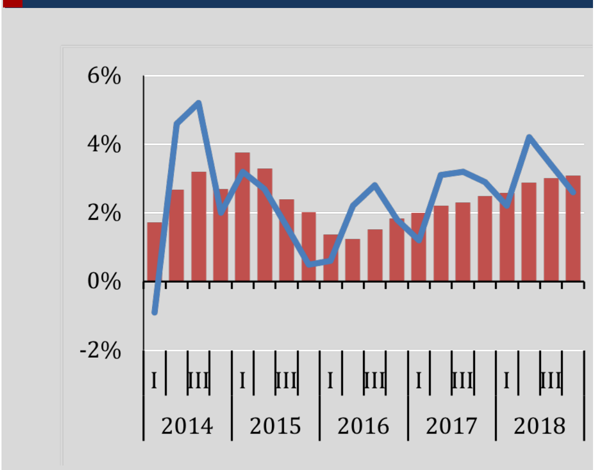
In the asset market, the value of the dollar has fluctuated considerably in the first quarter owning to the series of factors, but recently experienced a cool down in comparison with Q4/2018. Currently, the value has declined significantly a few times. Particularly, the nominal USD index in the quarter hit the bottom of 125.87 on 31st January 2019 and quickly rebounded to the highest level of 127.93 on 7th March. At the meeting on 20th March, US Federal Reserve (Fed) promised not to raise interest rates in 2019, over the line of 2.5% after 4 times of raising interest rates in 2018 and stopped the Quantitative Tightening program (QT) aiming to strengthen US dollar in the last September. Fed forecasted US economic growth of 2.1% in 2019 and 1.9% in 2020. Thus, investors are more cautious in their investment portfolios because of worries in the economic depression.

Gold prices continued to fluctuate unpredictably but are on the rise in the last days of the first quarter and currently at 1295.4 USD/oz. Gold price depended significantly on the strength of the dollar. Thus, when the dollar weakens, gold becomes a preferred asset of investors, especially when the world economy has confronted with many uncertainties at present.

US Economy confronted a variety of challenges

The third estimate by the US Bureau of Economic Analysis (BEA) showed that the growth rate of this country in Q4/2018 was 2.6% (qoq) and 3.1% (yoy), the highest levels in the last two years. The growth was thanks to the tax cut package of 1.5 trillion USD and the government spending expansion program. The economy's 2018 growth rate of 2.9% is slightly lower than Donald Trump's target of 3%. The trade war and the instability of the world economy have put pressure on investors as

US Economic Growth (%)

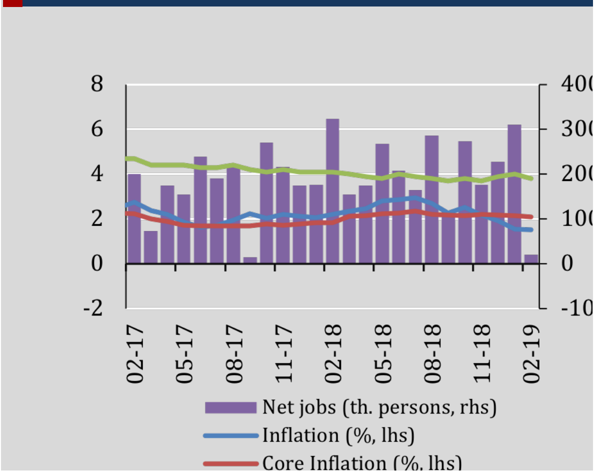


Source: BEA, OECD

well as their businesses in this country, but this situation is projected to last only until the end of 2019.

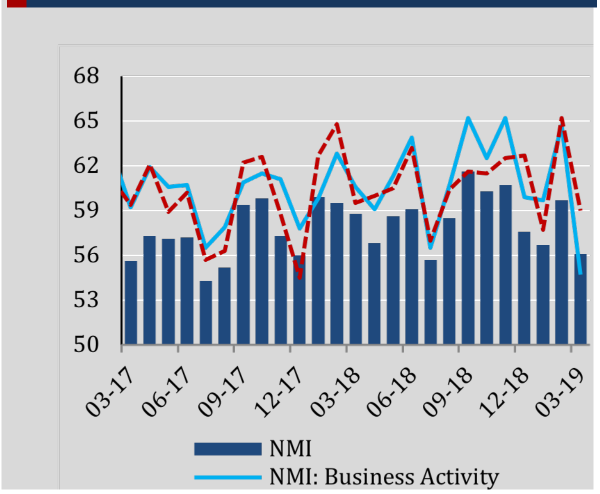
In the last months, Fed decided not to raise interest rates due to concerns about the downtrends of the economic growth and doubts of weakening US strength. Fed officially ended the normalization of monetary policy although they have not yet reached targets. However, US inflation was still lower than the levels of 2% as they expected. Additionally, core and total inflation dropped to 2.08% and 1.52% respectively in February. Regarding to economic sectors, the service sector underwent the growth in the first two months of 2019. Particularly, NMI in February reached 59.7 points. The component indicators also showed the growth in the non-manufacturing sector during February. Specifically, the two components, which are business operations and new orders, reached 64.7 and 65.2 points respectively, higher than those figures in the same period last year. However, by March these indicators had a slight decrease. The unemployment rate (seasonal adjustment) rose again at 4% in January but at the same time the number of new jobs increased sharply to 311 thousand vacancies in December. By February, these two rates in turn decreased to 3.8% and 20,000 posts. In 2018, the US trade deficit peaked in the last 10 years, at 621 billion USD, which is a 68.8 billion USD increase (equivalent to 12.5%) compared to 2017. The main reason laid in a trade tension with China, as well as the Fed's four times interest rate increase making the dollar appreciate. However, in January 2019, the trade deficit decreased by 15% in comparison with figures in December 2018, at only 51.1 billion USD due to a decline in goods and services imports and a slight increase in exports. At the same time, the US trade deficit compared to China fell by 5.1 billion USD.

Inflation and unemployment rate (%, yoy)



Source: BLS

US non-manufacturing Index



Source: ISM

In Q1/2019, President Donald Trump announced a temporary suspension of trade with China and showed his attempts towards a trade agreement.

EU Economy faced difficulties

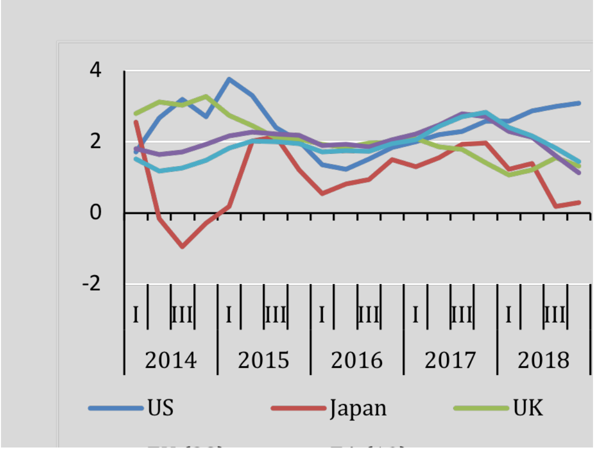
The European economy continuously weakened in Q3 and Q4/2018. EU28 grew at a low rate of 1.61% and 1.13% (yoy) respectively, while EA19 area reached 1,83% and 1.44% (yoy), which are the lowest growth rates in the last three years. Brexit itself has pressed the economic growth in this region to decrease.

Currently, the basic interest rates of European Central Bank (ECB) are very low, at 0.25% for lending rates and -0.4% for deposit. These figures were controlled at limited levels to secure the continuous increase of inflation until it reaches to the target of 2%. According to the latest announcement, the ECB planed to keep the interest rate at least until the end of this year. This is an unexpected change for investors because at the end of last year ECB announced to raise the interest rate. At the same time, ECB launched refinancing program with 2-year loans in order to stop credit tightening policies in banks, which could make the economic growth of this region worse (only 1.1% in 2019's projection).

The employment rate was improved in Q1/2019 and hit the bottom of 6.5%, the lowest levels during the last 12 years. The total inflation in the first quarter decreased slightly at 1.5% in January and 1.6% in February. Core inflation increased slightly by 1.3% and 1.2% respectively.

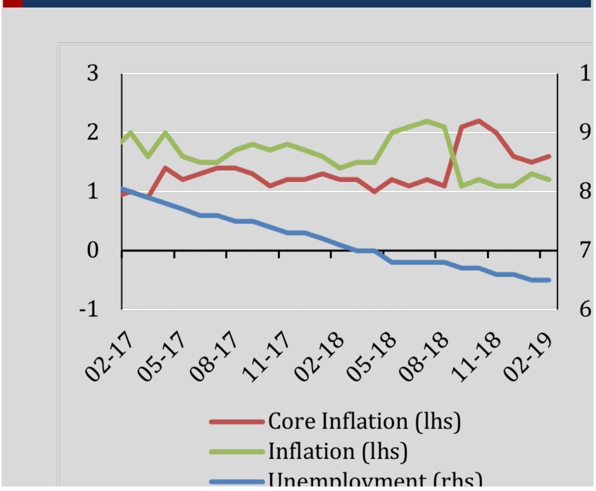
Compared to USD, Euro remained its value stably during the quarter, but increased significantly compared to Q4/2018. At the present, the exchange rate is 1.1605 EUR/GBP, growing by 4.5% compared to the beginning of the quarter. Meanwhile,

Economic Growth in Selected Advanced Countries (%, yoy)



Source: OECD

Unemployment and Inflation in EU28 (%)

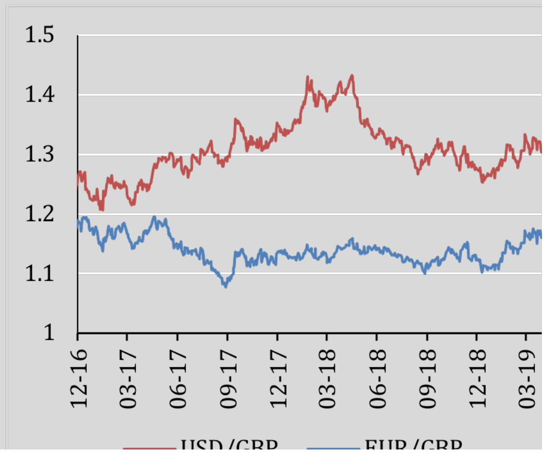


Source: OECD

currently, the USD/GBP exchange rate is USD 1.303/GBP, up nearly 3.4% (yoy).

UK is facing many uncertainties. Particularly, the country's fourth-quarter growth rate was only 1.33%. Brexit has lead investment reduction in Q4/2018 around by 3.7% compared to Q1/2018, which was the strongest decline since 2010 so far. According to the Bank of England (BoE), investment rates from businesses are expected to decline this year. Not only the automobile industry is struggling, many businesses temporarily shut down immediately after Brexit to avoid the risk of interruptions. Particularly, BMW announced that they would close their factories if the UK exits the EU without any

EUR/GBP and USD/GBP exchange rates



Source: BoE

agreement because they are not sure that parts for production would be fully supplied. That is a big concern which happened not only in BMW

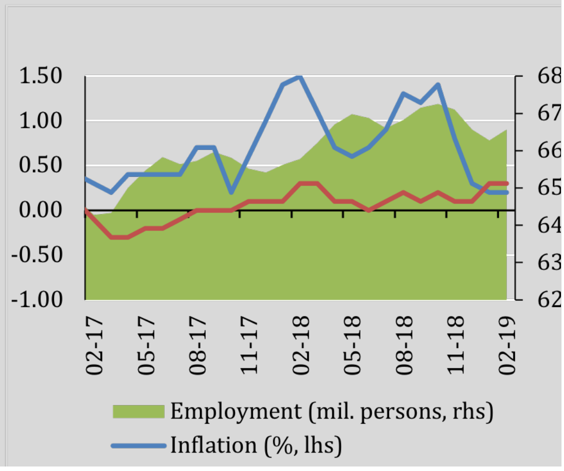
Japanese economy immersed in the shortages of labour

Data from the OECD shows that Japan's economy in Q4/2018 experienced a higher growth rate compared to Q3/2018, although it still stayed at low levels of 0.3% (yoy). The US-China trade war has heavily affected the economy. The forecast of Japan's economic growth in 2019 is only 1.3%.

Growth of industrial production and retail index increased slightly in the first two months, to 102.5 and 102.7 in February.

On the labor market, the number of jobs went up slightly by 280 thousand jobs in Q1/2019. The unemployment rate remained at 2.3% - 2.4%. The ratio of total job vacancies to total candidates remained

Japan's Inflation and Employment

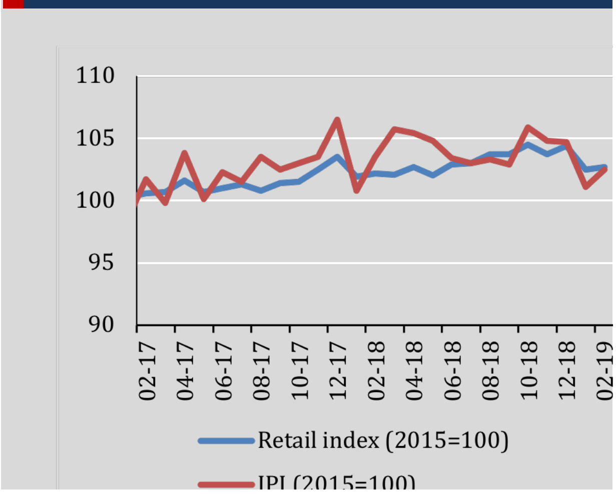


Source: Statistics Bureau of Japan

at 1.63%. This reflects the variety of vacancies in the labor market, but also the shortage of labor supply currently happening in Japan. To solve this problem, on 25th December 2018, Japanese governments adopted 126 proposed solutions, including promoting the integration of foreigners, supporting foreigners living in Japan and a new visa system at a cost of up to 13.6 billion Yen for 2019 to attract external workers into their industries with the lacks of human resource.

Meanwhile, inflation is moving downwards in the first quarter of the year. Total inflation fell sharply from 1.4% to 0.2% since December last year. Core inflation increased from 0.1% at the end of Q4/2018 to 0.3% in February. It seems that the quantitative easing program of the Bank of Japan (BOJ) does not seem to achieve the desired effect and gradually lost its impacts. The target of 2% inflation rate is too far away.

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



Source: Japan Macro Advisors

Total Wage and Jobs-to-Applicants Ratio in Japan

Source: Japan Macro Advisors

China’s economy encountered uncertainties

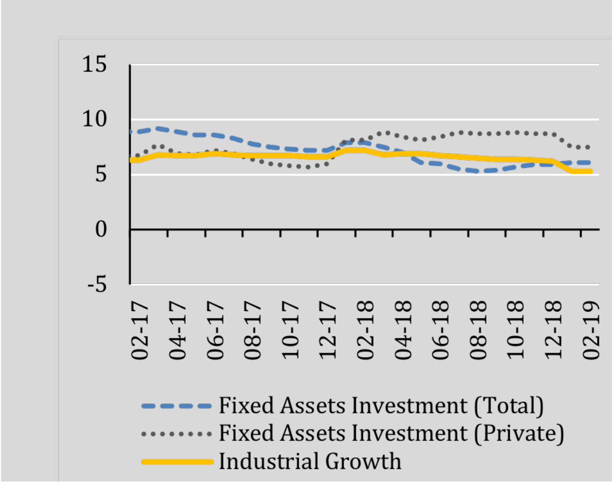
China's economy in Q4/2018 grew at 6.4% (yoy), reflecting a slight decrease compared to the previous quarters. This pulled the growth rate down to 6.8% in 2018, which was the lowest level in the last 28 years. Along with that, the pressure of trade tension with the US has restrained the growth to under 6.3% in 2019 in projection.

In Q1/2019, total social investment increased to 6.1% (from 5.9% in Q4/2018) while private investment fell to 7.5% (from 8.7% in Q4/2018). Industrial growth also plummeted to 5.3% in February. This may be a sign that the country's production is unstable.

PMI continued to drop below 50 in three consecutive months, even in February the index was only 49.2, implying the production diminishing. However, in March, the PMI rose back to 50.5 points. This indicates that the growth-promoting policies, especially 29 billion USD tax reduction package by the Chinese government started its positive effects on production. In Q4/2018, the NMI fluctuated from 54.7 points in January to 54.8 points in March.

On the foreign exchange market, the exchange rate of CNY/USD fluctuated in Q1/2018 but moving downwards to 6.71 CNY/USD. The rate fell down to the lowest level of 6.68 CNY/USD in the quarter on

China’s Investment and Industrial Growth (%, yoy,ytd)

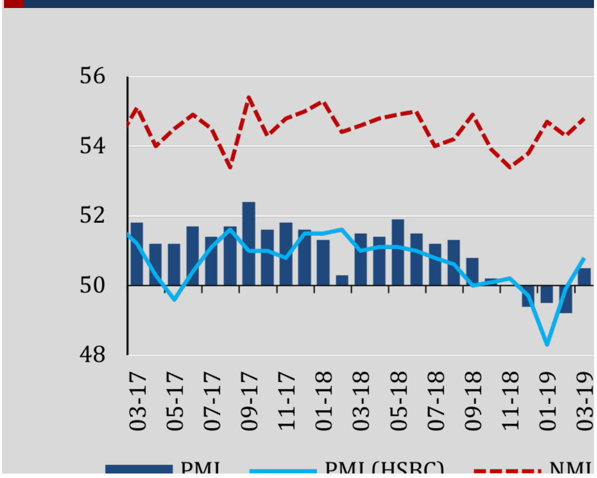


Source: NBS

China’s Exchange Rate and FX Reserves

Source: FRED, PBoC

China’s PMI & NMI



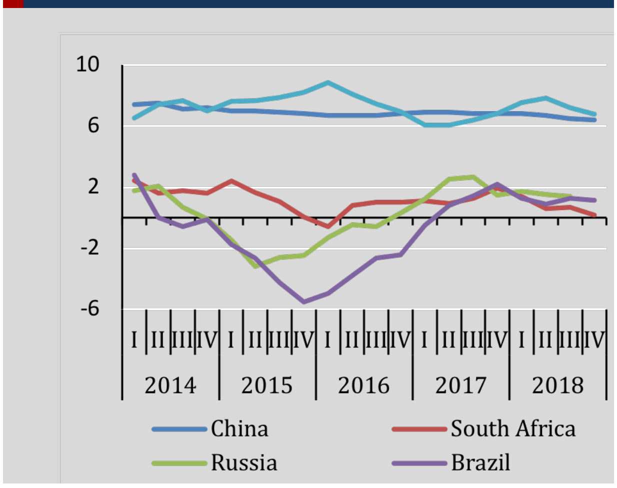
Source: AASTOCKS

27th February. However, the depreciation of CNY contributed to the trade surplus with the US at the highest level in the past decade, around 323.32 billion USD in 2018. Thus, foreign exchange reserves increased slightly from 3087.924 USD billion in January to 3090.18 USD billion in February. On 4th January, Prime Minister China, Li Keqiang, announced that it would reduce the compulsory reserve ratio, taxes and transfers. Accordingly, China slashed banks' reserve requirement ratio (RRR) two times: one was from 14.5% to 14% in 15th January, and further reduction was to 13.5% since 25th January.

BRICS economies decelerated

BRICS economies witnessed a decline in economic growth in Q4/2018. However, India still experienced the highest growth in the group with 6.79% (yoy) in Q4/2018, followed by China with 6.4% (yoy). However, the lowest growth happened in South Africa with 0.17% (yoy), the nethermost in the last 3 years. This is because the country is in a recession cycle since 2013 with no projection about its ends. Being the most developed economy in Africa, but South Africa's economy has been severely downgraded for many years, even international credit institutions ranked the country at the bottom of 21 emerging economies in terms of financial indicators including GDP growth, current account, credit risk level and value of stock markets, and bonds. SARB had to cut its basic interest rate to 6.5% in order to curb inflation due to rising oil prices and the Rand's depreciation of 13% against to the USD in 2018. Public debt in 2018 was 300 billion USD, equivalent to 53.1% of GDP. It is likely that South Africa would have to borrow money from IMF if the budget revenue could not afford their expenditures. Public debt is projected to raise, especially in the context of low economic growth, high unemployment rates, declining export turnover and gloomy investment environment. There is no projection of when South Africa steps out of the depression.

Economic Growth in BRICS (%, yoy)



Source: OECD

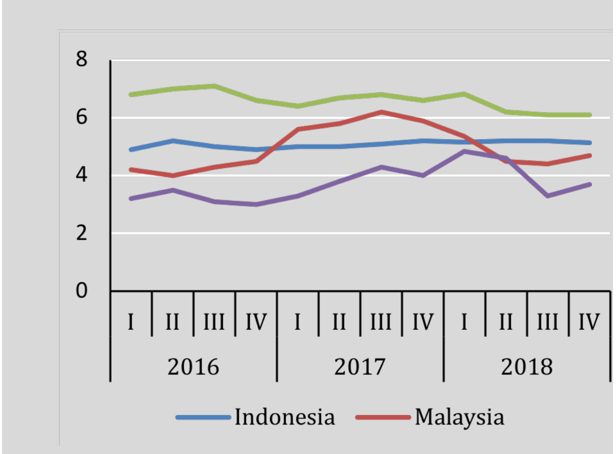
ASEAN economy saw the growth impetus

In the context of increasing trade tension between US and China, the growth of ASEAN-5 groups, including Indonesia, Malaysia, Philippines, Thailand and Vietnam, experienced optimistic signs again in the Q4/2018.

Indonesia have been affected by the currency crisis ending in 2018 and grew in Q4/2018 at 5.14%, down 1.18% compared to the Q3/2018. Presidential election campaigns launched in the second half of 2018 in Indonesia have impacted considerably on the country's economy. Along with that, instead of cutting domestic fuel subsidies to reduce government expenditures and restrict imports, the government forced state-owned petroleum company named Pertamina to provide fuel below market prices. In an inconsistent, ineffective, non-transparent and completely unfavorable legal environment, investors have reduced investment, resulting in slower output growth, no new orders and the decreasing number of Indonesia's merchandise export revenue in 2018.

Philippines remained economic growth at 6.1% growth (yoy) in Q4/2018. The Philippine Central Bank was successful in

Economic Growth in ASEAN-4 (%, yoy)



Source: CEIC

raising its interest rates four times to curb inflation. The value of Peso and the stock market both went up and the current account was back in control. Low foreign debt and abundant remittances have helped the Philippines to better cope with the adverse effects of the trade war and the rise of oil prices - the growth-declining factors. Thailand's economy grew again in Q4/2018 at 3.7% (yoy), higher than the expected value of 3.6%. According to the National Economic and Social Development Board (NESDB), rising consumption and investment boosted economic growth Q4/2018, and offset the decline in exports due to US-China trade war and sharply increasing value of Bath.

Global Economic Prospect (%)

	WEO (4/2019)			GEP (1/2019)		
	2018e	*2019p*	*2020p*	*2018e*	*2019p*	*2020p*
World	**3.6**	**3.3 (-0.2)**	**3.6 (-0.1)**	**3.0 (-0.1)**	**2.9 (-0.1)**	**2.8 (-0.1)**
Advanced economies	**2.2**	**1.8 (-0.1)**	**1.7 (0.0)**	**2.2 (0.0)**	**2.0 (0.0)**	**1.6 (-0.1)**
US	2.9	2.3 (-0.2)	1.9 (0.1)	2.9 (0.2)	2.5 (0.0)	1.7 (-0.3)
Euro area	1.8	1.3 (-0.3)	1.5(-0.2)	1.9 (-0.2)	1.6 (-0.1)	1.5 (0.0)
UK	1.4	1.2 (-0.3)	1.4 (-0.2)	1.3 (-0.1)	1.4 (-0.1)	1.7 (0.0)
Japan	0.8	1.0 (-0.1)	0.5 (0.0)	0.8 (-0.2)	0.9 (0.1)	0.7 (0.2)
Emerging and developing economies	**4.5**	**4.4 (-0.1)**	**4.8 (-0.1)**	**4.2 (-0.3)**	**4.2 (-0.5)**	**4.5 (-0.2)**
Russia	2.3	1.6 (0.0)	1.7 (0.0)	1.6 (0.1)	1.5 (-0.3)	1.8 (0.0)
China	6.6	6.3 (0.1)	6.1 (-0.1)	6.5 (0.0)	6.2 (-0.1)	6.2 (0.0)
India	7.1	7.3 (-0.2)	7.5 (-0.2)	7.3 (0.0)	7.5 (0.0)	7.5 (0.0)
Brazil	1.1	2.1(-0.4)	2.5 (0.3)	1.2 (-1.2)	2.2 (-0.3)	2.4 (0.0)
South Africa	0.8	1.2 (-0.2)	1.5 (-0.2)	0.9 (-0.5)	1.3 (-0.5)	1.7 (-0.2)
ASEAN-5	**5.2**	**5.1 (0.0)**	**5.2 (0.0)**			
Indonesia	5.2	5.2	5.2	5.2	5.2	5.3
Malaysia	4.7	4.7	4.8	4.7	4.7	4.6
Philippines	6.2	6.5	6.6	6.4	6.5	6.6
Thailand	4.1	3.5	3.5	4.1	3.8	3.9
Viet Nam	7.1	6.5	6.5	6.8	6.6	6.5
Laos	6.5	6.7	6.8	6.5	6.6	6.7
Cambodia	7.3	6.8	6.7	7.1	6.8	6.8
Myanmar	2.1	6.4	6.6	6.2	6.5	6.6

Note: ( ) show differences from latest forecast; e stands for estimates; p stands for prediction

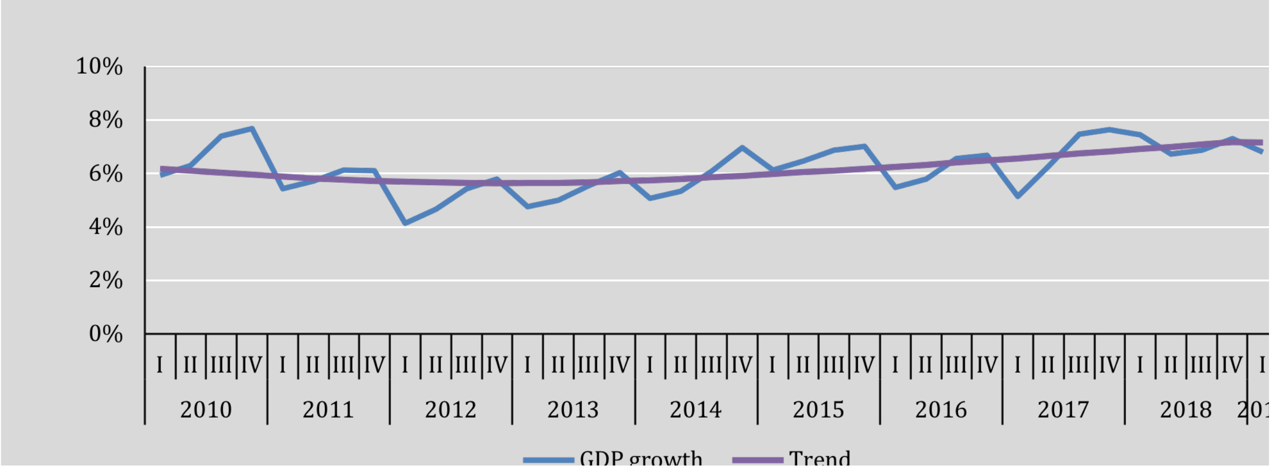
Source: World Economic Outlook (IMF), Global Economic Prospects (WB)

THE VIETNAMESE ECONOMY

Growth and Inflation

Vietnamese's economy maintained its growth but slowdown

Viet Nam's Economic Growth (%, yoy)

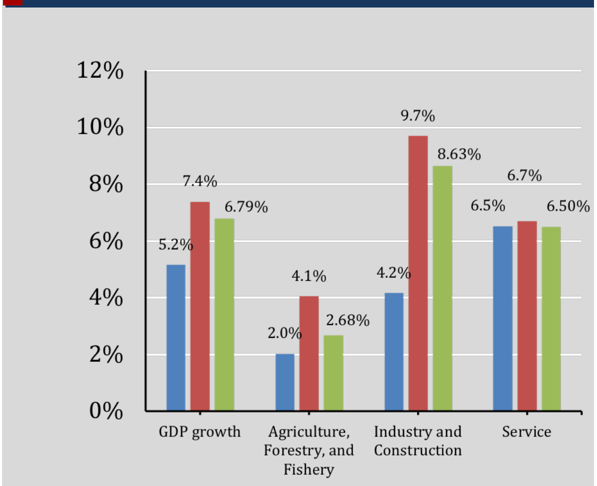


Source: Calculation from GSO data

According to the GSO, Vietnam's economic growth was at 6.79% (yoy) in Q1/2019, proving that the growth momentum has decreased slightly in the beginning of 2019. The service sector grew at 6.5% (yoy) in Q1/2019, which is lower than that in Q1/2018 at 6.7%. Wholesale and retail segments increased to 7.82% (yoy), contributing mostly to the overall growth. Accommodation and catering services was up to 7.60% (yoy). Finance, banking and insurance activities grew to 6.22% (yoy) and real estate business increased to 4.75% (yoy). The number of international visitors to Vietnam also increased significantly with over 4.5 millions of visitors, around 7% (yoy). In particular, the leading markets experienced positive growth in tourist arrivals, including: Korea (24.1%), Japan (8.3%), Taiwan (26%) and Thailand (49.3%) on year-on-year basis.

In the first quarter, the agriculture, forestry and fishery sector grew quite gloomy and only reached 2.68% (yoy).

Economic Growth by Sector in Q1, 2017-2019 (%, yoy)

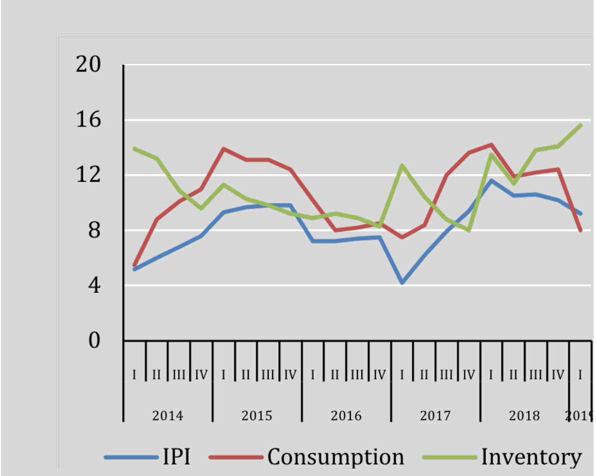


Source: GSO

The rice prices went down due to the high market supply while livestock industry was affected by cholera outbreaks in most provinces. However, the fishery underwent highest increase in the past 9 years, reaching 5.1% (yoy) at Q1/2019. Thanks to the weather, stable costs and high market demand, production in fishery was increased significantly.

Meanwhile, the industry and construction sector grew at 8.63% (yoy), although it was lower than 10.08% of Q1/2018 but still contributed mostly to economic growth. Processing and manufacturing industry was the main growth driver in this sector with a high increase of 12.35%, which lower than Q1/2018 at 13.56%. At the same time, the mining industry grew at -2.2% (yoy). Indicators of industrial production imply the slowdown in economic growth. Although industrial production index (IPI) increased to 9.2% (yoy), the consumption index in processing and manufacturing industry grew at 8% (yoy), but which are still lower than these in Q1/2018. Moreover, since the beginning of 2019, the indexes related to production and consumption declined considerably, while inventory index rose sharply. This is likely to lead to temporarily suspend production.

Selected Industrial Indicators (%, ytd)



Source: GSO

The number of temporarily ceased firms soared

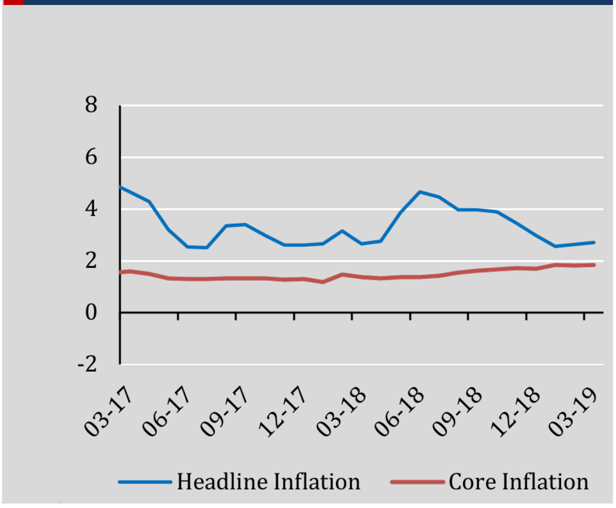
The purchasing managers' index (PMI) in Q1/2019 saw a decline compared to that in December although economic growth stayed at a high level. The index decreased from 53.8 points to 51.9, 51.2 and 51.9 points in the first three months of the year, reflecting the slow pace of expansion in the manufacturing sector.

33.7% of enterprises surveyed by GSO believed that the production and business activities in Q1/2019 were better than Q4/2018 and 40.5% said that the business conditions were stable. 54.6% of businesses predicted that business activities in Q2/2019 would be better than Q1/2019, while only 10.6% was in the opposite side.

According to GSO, in the first three months of the year, there were 28,451 enterprises newly registered with a total registered capital of 375.5 trillion VND, down 6.2% in number of enterprises and 34.8% in registered capital compared to Q1/2018. However, the number of ceased firms caused many concerns. Q1/2019 witnessed 14,761 businesses temporarily suspended business for a definite time, 20.8% higher than the previous year. 58.4% of the 15,331 enterprises were waiting for completion of dissolution procedures under the 2018 review program.

The volume of new jobs increased by 40.9% (317.6 thousand people) compared Q1/2018. Particularly, workers working in industrial firms and state-owned enterprises increased by 2.3% (yoy) and 0.5% respectively. Labours in non-state enterprises and FDI grew by 1.5% and 3.1% respectively. This shows that FDI is still an employment promoting sector among three, while the state-owned enterprises continued to narrow its employment, which is in line with the tendency of economic restructuring but more slowly.

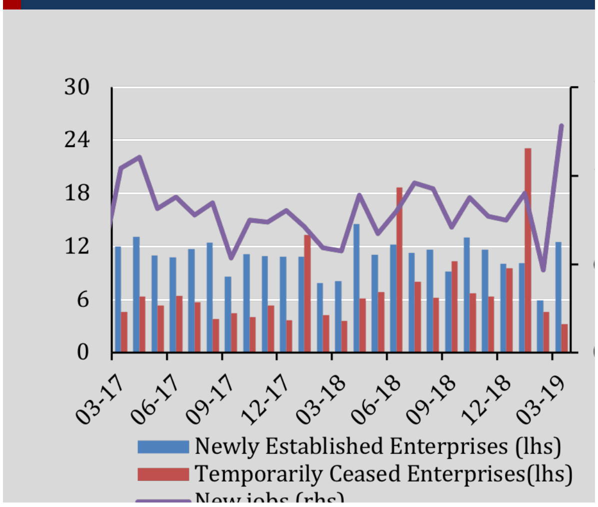
Inflation (%, yoy)



Source: GSO

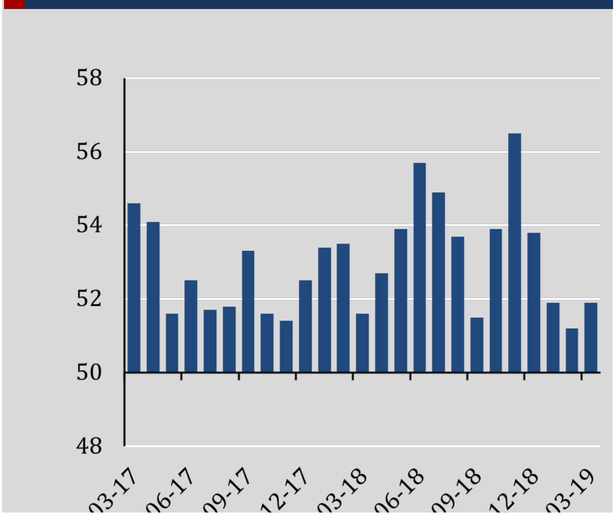
Inflation slightly increased in Q1/2019

Business Operations (th. units, th. persons)



Source: GSO

Viet Nam's PMI



Source: Nikkei

Inflation is moving upwards in Q1/2019. Compared Q1/2018, total inflation increased slightly in three recent month, at 2.56%, 2.64% and 2.7% (yoy) respectively. Core inflation in Q1/2019 was controlled at 1.83% (yoy), reflecting the stability of monetary policies.

Average CPI increased to 2.63% (yoy) in Q1/2019, which is the lowest level within the last 3 years. In February 2019, CPI went up to 0.8% (mom) due to high market demand before Lunar New Year. Particularly, the price increases triggered in catering services to 1.73% and food to 2.13% compared to January 2019. In March due to cholera outbreaks and lowering market demand after Tet holiday, CPI dropped by 0.21% (mom). Compared to February 2019, transportation prices went up by 2.22% because of the increase in gasoline and oil prices on 2nd March 2019; housing and construction materials prices rose by 0.78% due to a 4.88% increase in gas prices in the same month; medicine and medical service price increased by 0.03%; education prices was up by 0.01%. All in all, compared to Q1/2018, CPI was stable at 2.6% - 2.7% (yoy), which is contributed by the downward adjustment of gasoline prices.

However, the economy in Q2/2019 is expected to face to many risks due to an increase of 8.36% in electricity price 20th March, which can rise CPI by about 3.3% (yoy).

Macroeconomic balances

Trade surplus confronted instability

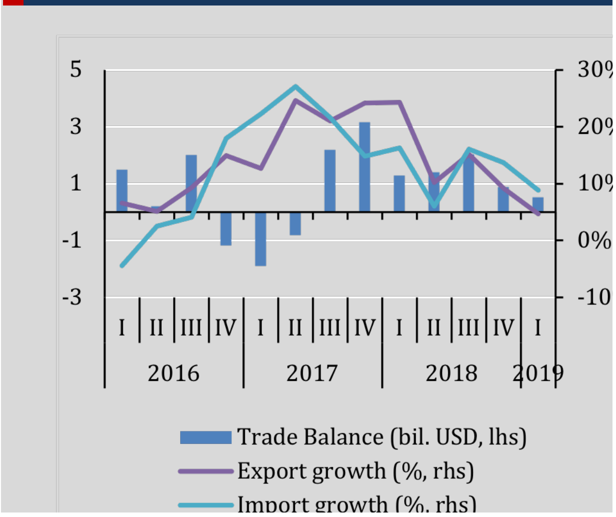
Trade balance in January saw an export surplus of 816 million USD. In February, trade deficit was 768 million USD, while in March the estimated trade surplus was 600 million USD. In Q1/2019, trade surplus was 536 million USD, but of which the domestic sector underwent a trade deficit of 7.04 billion USD while FDI sector (including crude oil) experienced trade surplus of 7.57 billion USD.

Export turnover in Q1/2019 was 57.51 billion USD, up by 4.1% (yoy). In particular, exports were mainly from FDI enterprises which accounted for a major proportion of 41.46 billion USD (equivalent to around 70.9% of total turnover), up 2.7% (yoy). Exports from the domestic sectors went up by 9.7% (yoy), in which the main export products include phone's components with the value of 12.1 billion USD, down 4.3% (yoy); textile and garment products with 7.3 billion USD, up 13.3% (yoy); electronic devices, computers and components with the value of 6.9 billion USD, up 9.3% (yoy); footwear with exports of 4 billion USD, up by 15.3% (yoy); machinery, equipment and spare parts exporting 3.9 billion USD, up 5.2% (yoy), wood and wood products gaining 2.3 billion USD exports, up 17% (yoy). Export turnover of vegetables and fruits of Vietnam fell to approximately 885 million USD, down 8.6% (yoy). The turnover of other items also decreased compared to the same period last year. Particularly, coffee exports was 830 million USD, down 23.8%; cashew nuts are exported around 625 million USD, decreased by 17.2%; pepper exports was 189 million USD, down by 14.7%; rice was exported around 567 million USD, down by 23.6%. The main reason is the oversupply of these items in the international market.

The Vietnam's top three export included US, EU and China with the value of 13 billion USD, 10.2 billion USD and 7.6 billion USD respectively, followed by ASEAN, Japan and Korea. Export turnover to Chinese market decreased by 7.4% (yoy) because the exports to the market became more difficult. Particularly, in recent, to exports vegetables and fruits into Chinese market, there is a need for a plant quarantine certificate which are certified by competent authorities from both Vietnam and China. Producers and packaging firms must be assessed by the Chinese Department of Custom

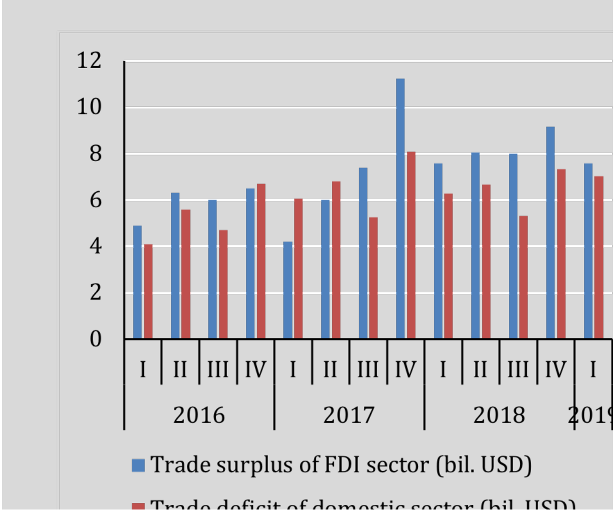
Import turnover is estimated to reach 57.98 billion USD in the first three months, with an increase of 8.9% compared to the previous year. Specifically, imports of FDI sector accounted for 33.89 billion USD and the domestic sector was 24.09 billion USD. It can be seen that the FDI sector continues to be the commercial leader of Vietnam's economy. Electronic products, computers and components and the group of machinery and equipment, spare parts continue to be the most preferred imported groups in the last months with turnovers of 11.7 billion USD and 8.7 billion USD. Crude oil is imported up to 919 million USD due to the demand for production of Nghi Son Refinery and Petrochemical Co., Ltd. which has just come into production since mid-2018.

Trade Balance and Growth



Source: GSO

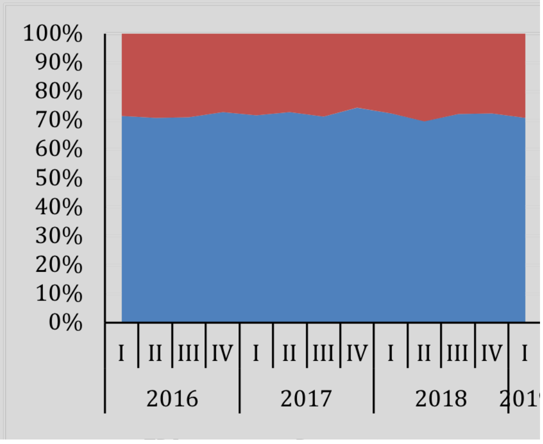
Trade Balance by Sector



Source: GSO

China was still the biggest import market of Vietnam with 15 billion, up by 9.7% (yoy). Next is the Korean market with 11.8 billion USD, ASEAN market of 8.2 billion USD, Japan with 4.7 billion USD and EU market of 3.6 billion USD. The reason is that the two US-China countries are in a state of truce and trying to negotiate, the Chinese currency is also on a downward trend.

Exports by Sector



Source: GSO

Budget balance in the first quarter reached surplus

The data of the State budget estimating over the years clearly shows the shift in the structure of budget revenue in a volatile world. Estimated crude oil revenue is adjusted down gradually over the years 2016-2019, from 54.5 billion to 44.6 billion USD in 2019.

In the context of recent oil price recovery, the Government estimated that revenue from crude oil would increase to 24.2% compared to 2018, about 189.2 billion VND in 2019.

Regarding State budget spending, the Ministry of Finance estimated that in 2019 they would spend 1,633,300 billion VND, 7.2% higher than 2018, of which recurrent expenditures account for 63.8%. At the same time, the Ministry of Finance also predicted that the overspending could reach 222 trillion VND, equivalent to 3.6% of GDP. The total state budget revenue in Q1/2019 was 381 trillion VND, equal to 27% of the estimate in the whole of 2019, up by 13.2% compared to the same period in 2018. In which, domestic revenue still contributed the most with 315, 4 trillion VND, up by 13.8% (yoy); revenue from import and export activities reached 80.8 trillion VND, up by 17.6% (yoy). Budget expenditure was only 315.6 trillion VND, increased by 7.6% compared Q1/2018. Along with that, 28th February 2019, the Ministry of Finance issued 62.194 billion VND of Government bonds.

FDI of China increased sharply

Retail and service business activities in the first three months satisfied the high demand during the Lunar New Year, estimated at 1,184.9 trillion VND, up by 12% (yoy). If excluding price factor, it increased by 9% (higher than 8.6% of the same period last year). In which, goods retail revenue in the first 3 months were estimated at 910.4 trillion VND, accounting for 76.8% of total revenue and up by 13.4% (yoy).

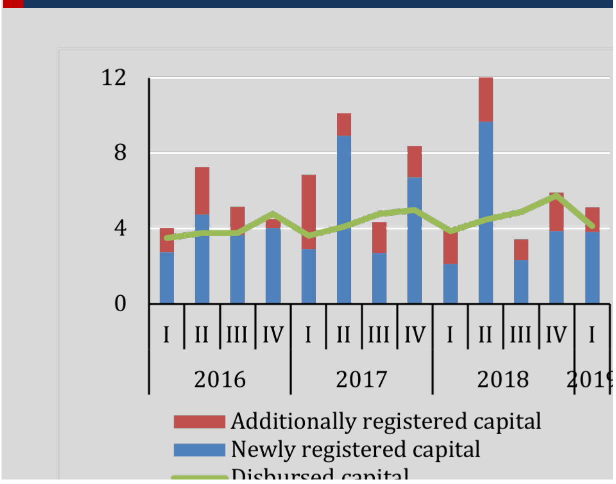
Total social investment in the first quarter witnessed a slight decline in growth compared to the previous quarter. The total realized investment capital was estimated at 359.2 trillion VND, up by 8.4% compared to figures in Q1/2018. The non-state sector grew the fastest with 13.8% (yoy), followed by FDI sector with 7.52% (yoy). The state sector was at the lowest position, estimated at 2.1%. Compared to Q4/2018, investment capital growth in agriculture, industrial and service sector were slow at 18,2%, 9,1% and 4,7% respectively, lower than the figures of the same period last year.

Regarding to foreign investment, the newly registered capital reached 3.82 billion USD, up by 80.1% (yoy). Additional capital increased by 1.3 billion USD, up by 72.5% compared to the same period last year. Thus, disbursement of foreign direct investment in Q1/2019 reached 4.12 billion USD, 6.2%, higher than Q1/2018 of 3.88 billion USD.

Retail Growth (%, ytd, yoy)

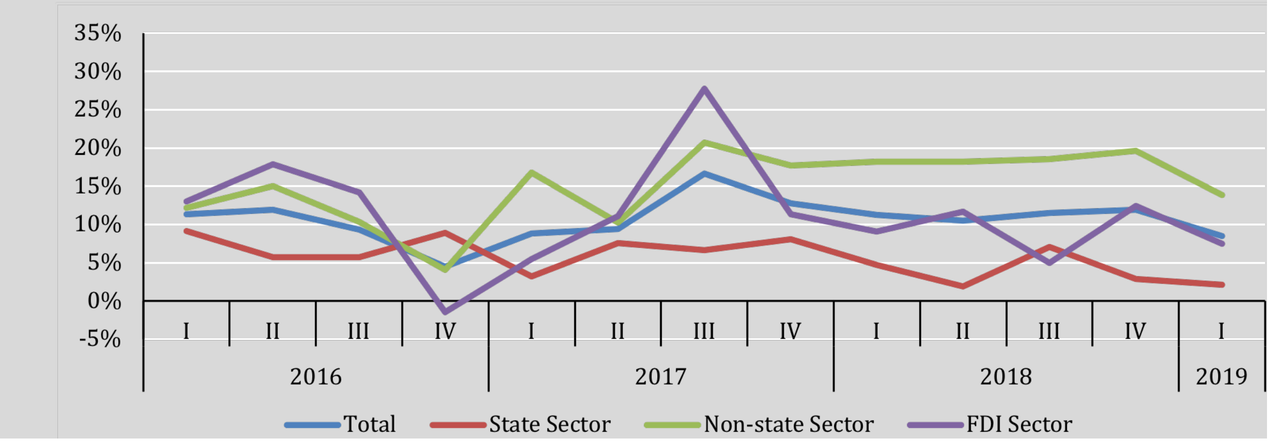
Source: GSO

Foreign Direct Investment (bil. USD)



Source: MPI

Total Social Investment (yoy), 2014-2018



Source: Calculation from the GSO data

In the first quarter, there were 785 new projects, in which manufacturing and processing industry remained the biggest FDI attraction. Its capital accounted for 75.3% of the total newly registered capital, which let this area be the main driver of growth economy.

Some big projects in Q1/2019 included the capital contribution purchase of Beerco Limited (Hong Kong) and Vietnam Beverage Co., Ltd. with a value of 3.85 billion USD; the project of Goertek (Hongkong) Co., Limited in Bac Ninh to manufacture electronics equipment, network equipment and multimedia audio products with a total registered capital of 260 million USD; Vinhex project with a total registered capital of 200 million USD from Royal Pagoda Private Limited (Singapore) in fabrics and dyeing knitted fabrics production in Nghe An.

In terms of partners, in Q1/2019, China became the biggest investor with a total capital of 723.2 million USD, followed by Singapore with 690.8 million USD, South Korea with 547.3 million USD, Japan with 471.5 million USD, Hong Kong with 456.4 million USD, British Virgin Islands with 207.3 million USD and Radio Loan with 197.5 million USD. The rise of FDI from China has been in line with our expectations in previous reports on capital inflows towards Vietnam in order to avoid US-China trade war and anticipate CPTPP agreement.

The monetary and financial markets

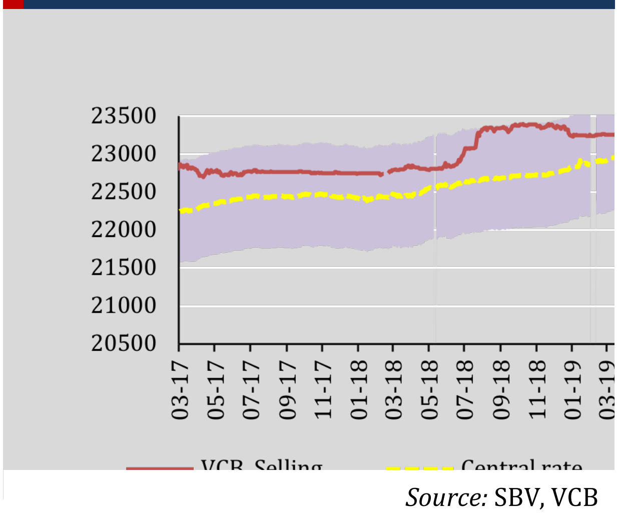
The exchange rate was stable, foreign exchange reserves increased

The nominal exchange rate is quite stable in Q1/2019. After the declaration of US - China trade war ceasefire and the Fed decided not to raise interest rates, the selling rate of USD was almost stable. The central exchange rate continued to increase slightly from the beginning of Q4/2018 until the end of Q1/2019. Specifically, the exchange rate on 31st March 2019 reached 22,976 VND/USD, increased nearly 1% compared to the same period in 2018. This fact shows that although the SBV has not officially stated, it has devalued VND in accordance with the level of integration, like VEPR has recommended before in order to avoid risks of CNY's depreciation against USD. However, the increase was lower than level of 1.8% in Q4/2018, because the cancelation of normalizing monetary policy in developed countries mitigated the SBV's burden of adjusting interest rates and exchange rates.

The VND/USD exchange rate of commercial banks in Q1/2019 was close to the ceiling of 3% (compared to the central exchange rate) set by the SBV, although there were some slight fluctuations before Tet. Accordingly, the exchange rate at commercial banks on 31st March 2019 was at 23,250 VND/USD, a slight increase compared to Q4/2018 at 23,245 VND/USD and 1.8% higher than Q1/2018. Before Tet, high demand for VND pushed the VND/USD exchange rate down to 23,196 VND/USD (on 28th January 2019), and the central exchange rate was also adjusted to a low level of VND 22,858 VND/USD. After the interruptions in 2018, since 2019 the State Bank of Vietnam has been in net foreign exchange, which mitigated the high demand for VND due to Tet period and increased the national foreign exchange reserve fund. The reasons is that the exchange rate of the foreign currency in the quarter was stable. In addition, the supply of foreign currency since the beginning of 2019 remained quite unchanged, the liquidity in the market was high

In January, the SBV bought more than 4 billion USD of foreign exchange due to the high supply of foreign currency and in the last two months, the foreign exchange reserve increased by 2 billion USD, raising the record of foreign exchange reserves to 65 billion USD at the end of Q1. Compared to figures in 2018 with net buying of only 6 billion USD, this is a good signal to increase the SBV's ability to maintain the micro economy.

Nominal Exchange Rate (VND/USD)



Source: SBV, VCB

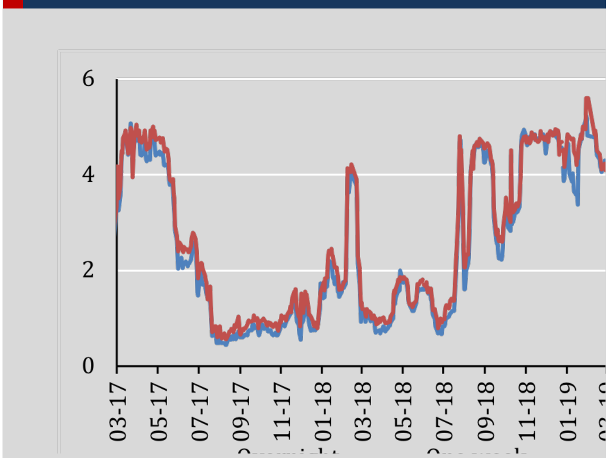
Interbank rates increased under the pressure of policy changes

In general, compared to Q1/2018, interbank interest rates in the first quarter of 2019 was high and the amplitude of fluctuation is narrower in the range of 3.38% (mid-January) to 5.6% (at the end of February - before the Lunar New Year). Similar to Q1/2018, the interbank interest rate reached the highest level near Tet holiday due to high demand for short-term loans. After the peak season, the interest rate was remained only 3.32% in the end of the quarter. The increase in interest rates compared to last year is due to ensuring compulsory reserve ratios and changes in deposits from large banks.

According to the Deputy Governor of the State Bank, the ratio of corporate bonds is currently only 8.5% of GDP, a very low level compared to the average of regional countries of 22%, while the ratio of credit to GDP is currently at 130%. The main cause laid in the enterprise information system which has not been presented according to IFRS standards to convince investors, low corporate governance index, high cost of credit rating

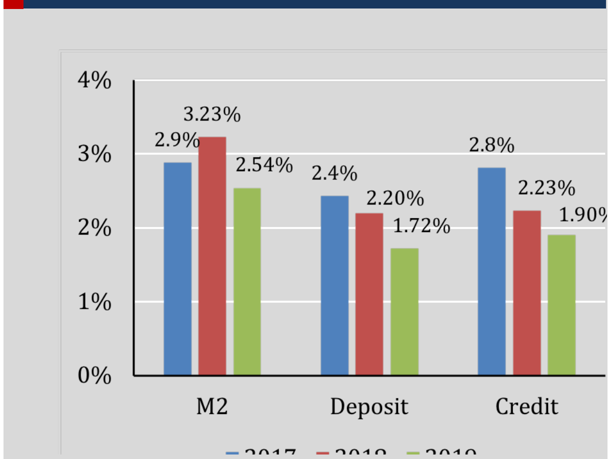
In 2019, the SBV set a credit growth target of 14%. In particular, credit will still be flowed into priority areas in order to ensure risk control and rapid economic growth. By the end of Q1/2019, credit growth laid at a higher level which is more than 2.28% until 25th March 2019, but it was still lower than the same period of last year at 2.78%. Credit flowing into industrial sector experienced the fastest growth rate of 2.57%, that in trade and services reached 1.97% (compared to the beginning of the year). For priority sectors including export, supporting technology and high-tech application enterprises, credit growth was high, at 5.4%, 3.44% and 2.79%

Interbank Offered Rate (%)



Source: SBV

Growth of M2, Deposit, and Credit in Q1 2017-2019



Source: GSO

respectively. Despite the credit growth in agriculture and rural areas, the proportion of outstanding loans was large and increased by 2% compared to Q4 / 2018. Trade and services sectors underwent the highest credit outstanding at 61.21%.

In Q1/2019, the growth of total means of payment has decreased by only 2.54% (compared to 3.23% in 2018). Capital mobilization of credit institutions also increased by only 1.72% (lower than 2.43% in 2017 and 2.2% in 2018).

At the same time, the SBV has proposed a series of measures to resolve the black credit situation such as increasing the maximum loan limit and time limit for poor households to meet capital demand for production and business. At the same time, Agribank also launched a 5,000 billion VND credit package to support households' lending.

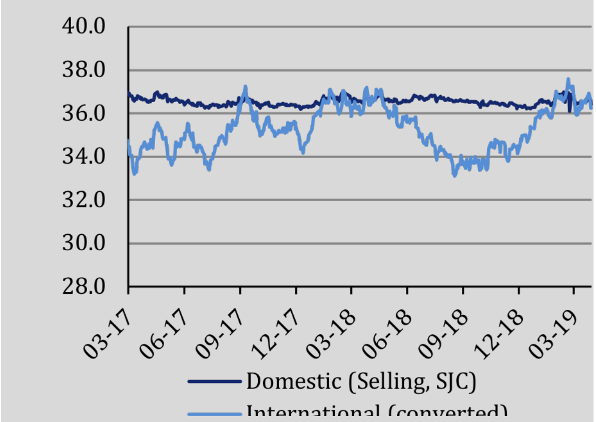
Asset markets

Domestic gold price was stable despite the uptrend in the world market.

In the context of the increasing world gold price increased from 35.89 million VND/tael to 36.68 million VND/tael at the end of the quarter, domestic gold price remained relatively stable and its fluctuation range is narrower in a range of 36.4 - 36.9 million VND/tael, compared to that in the world market and ends the quarter at 36.4 million VND/tael.

A world price increasing sharply has even surpassed domestic prices, for example 20th February, the world gold price was higher than domestic price of 638,000 VND/tael. It can be said that the domestic and international gold market still lacks interconnection. However, the continuous increase of world gold price from the beginning of the year will put considerable pressure on stabilizing the domestic gold price.

Gold Price (mil. VND/tael)



Source: SJC, www.gold.org

Apartment market has been faced a decline in the supply.

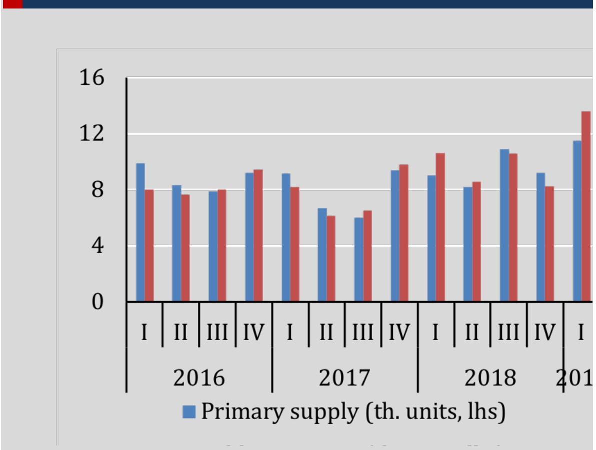
There is a large demand in the apartment market. The supply of apartments decreased across all segments in the two big cities, Hanoi and Ho Chi Minh City. Specifically, in Hanoi, Grade A apartments decreased by 84% and Grade B and C went down by 35% in comparison with the beginning of Q1. However, compared to Q1/2018, the number of apartments launched into the market still increased by 76%. The mid-range apartment segment was the most popular one, accounting for more than 70% of the number of transactions (according to Savills). In Hanoi, the price of Grade B apartments was about 1,390 USD/m2, down 2% compared to the begin of Q1 but up by 8%(yoy). Similarly, the number of apartments launched to the Ho Chi Minh City's market reached 4500 units, down 51.5% during the quarter and down 57% compared to Q1/2018 because of prolonged legal approval process. Grade C apartment market for low-income people accounting for more than 85% of the market share is concentrated in suburban areas and also facing with supply reduction although the demand is always rising.

It is forecasted that the supply in the next quarters will be improved quickly because more than 34 projects will be entered into the market such as VinCity Ocean Park, BRG Smart City in Hanoi and the legal approval process is also accelerated.

However, because banks continuously tightened its loans with higher interest rates than 2018, the real estate market will also face many difficulties from both supply and demand sides. However, it is necessary to propose solutions when the real estate market bloomed in the last 5 years while the land fund has been limited. To overcome this barrier, businesses need to build a clean land fund along with ongoing projects while individual investors should stop utilizing leveraging financial.

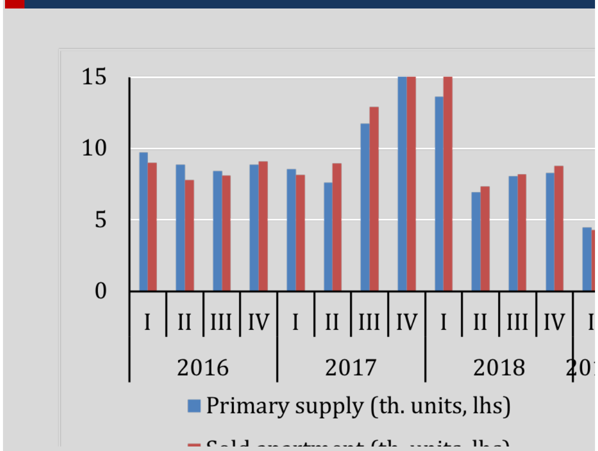
Besides, the real estate market is still a FDI attracting sector. According to the Foreign Investment Agency, this sector was invested 500 million USD in Q1/2019 and accounted for 5% of total FDI, following the processing and manufacturing industry.

Hanoi's Apartment for Sale



Source: CBRE

HCMC's Apartment for Sale



Source: CBRE

PROSPECT FOR POLICY NOTES AND THE ECONOMY IN 2019

The world underwent considerable changes in the first quarter of 2019. Although economic growth maintained at a decent level, the US and Chinese economies became more vulnerable due to both internal issues and stressful trade problems between the two countries. Meanwhile, the European economy confronted a variety uncertainties in the pressure of Brexit negotiations as well as other breaks within the region. The highest growth still triggered to the ASEAN group. However, the cracks of the economic relations in the world has also threatened to these groups of countries, including Vietnam, especially in trade and globalization.

Vietnam's economic growth in Q1 was at 6.79% (yoy), which is lower than that in Q1/2018 of 7.45%. The growth rate in some industries slowed down. It can be seen that the sharp drop of the PMI index to the lowest level in the last three years in February 2019 due to the decline in employment and inventories caused the optimism of producers to decrease

Economic growth heavily depends on FDI sectors and its exports while equitization of the SOE sector has continued to stall. In the first quarter, there were 43.5 thousand enterprises registered to be newly established or returned to operation, but there were also 14.8 thousand enterprises temporarily suspended (up by 20.8%, yoy); 15.3 thousand enterprises waited for dissolution and 4.1 thousand enterprises completed dissolution procedures (up by 23.9%, yoy). This shows that Vietnamese

Growth-Inflation forecast 2019

With the growth rate of 6.79% in Q1, VEPR believed that the growth target of 6.6 - 6.8% in 2019 set by the National Assembly is possible. However, due to the US- China trade war, protectionism, the risks of China's economy, the uncertain scenario after Brexit and conflicts within the EU region, the erratic behavior of Donald Trump , etc the future of Vietnam's economy in 2019 is in the edge of uncertainties in front of world market shocks.

The average inflation rate in the first quarter was at a moderate level of 2.63%, but is on an increasing trend. The impact of the recent increase in electricity and petrol prices to CPI may last 2 to 6 months. Therefore, in order to achieve inflation target below 4%, SBV needs to be cautious with its monetary policies.

In that context, we forecasted growth and inflation in 2019 as follows:

Growth- Inflation in 2019 (%, yoy)

	Economic Growth	Inflation
Q1	6,79	2,63
Q2	6,32	2,78
Q3	6,94	3,26
Q4	7,16	4,20
2019	6,8	

Source: VEPR

enterprises are still weak and the business environment needs to be improved

Inflation, although is at moderate level in Q1/2019, is expected to increase due to recent adjustments in electricity and gasoline prices. The impact of these shocks on domestic prices may continue in next months, so it requires prudent management from the SBV for money supply and credit growth in the coming time.

The pressure from the normalization of monetary policies in advanced economies has decreased. This will mitigate the SBV's burden on the exchange rate and interest rate management. We believe that two indicators do not experience large changes in 2019 and may be within the set targets.

Monetary policy needs to adapt promptly to economic changes. The top priority is to manage the exchange rate flexibly in order to absorb external shocks. Interest rates should be kept at a stable level to enable businesses to access capital markets, especially for industries that are on the rise and potential to participate in global value chains. In addition, lowering leverage and strengthening the banking system should also be concerned. The striking note in this year is utilizing the shift of FDI inflows to Vietnam to catch up opportunities from CPTPP, EVFTA and hedging risks from US - China trade tensions. In Q1/2019, China became the largest foreign investor in Vietnam. Capital flows from China, however offers positives for employment and growth, can also entail risks towards environment pollution and foreign worker management. Thus, it is time to review preferential policies on taxation or land for FDI in order to create a more equal playground between domestic and foreign sectors

The equitization of the state-owned sector has almost no progress over the past year. Difficulties in asset valuation and fear of taking responsibility seem to be the main barriers to this process.

Finally, as recommended in previous reports, in long term, Vietnam needs to gradually build fiscal buffer, through reducing the government bureaucracy and current spending. Once the problem of high budget deficit and rapidly increasing public debt are not solved, growth achievement and inflation control rely on a weak foundation.

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
CBRE	CB Richard Ellis Viet Nam
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
MOF	Ministry of Finance
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	Viet Nam Dong
WB	World Bank
yoy	year-on-year
ytd	year-to-date

Disclosure appendix

Author's Certification

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Additional disclosures

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