VIETFUND MANAGEMENT

MACROECONOMIC REPORT
DEC 2017

SUBSTANTIAL VIETNAM'S ECONOMY GROWTH IN 2017

Vietnam's economy has grown remarkably in 2017 with Q4 growth rate of 7.65% and a full year growth of 6.81%, higher than the whole year's target of 6.7%. This development is the result of high industrial production and domestic consumption. The industrial growth rate in 2017 is 9.4%, significantly higher than the 7.4% growth rate in 2016. As a result, the industrials and construction sectors contributed 2.77% in GDP growth rate of 6.81% . In terms of consumption, total retail sales of goods and services rose 10.9% (9.46% after adjusting for inflation) , higher than 2016 sales of 10.1% (8.33%-adjusted figure). The clear tendency of GDP growth will continue in 2018 as these two dynamics continue to persist, projections suggest that GDP growth in 2018 is likely to be higher than the government plan set for 2018 (6.7%).

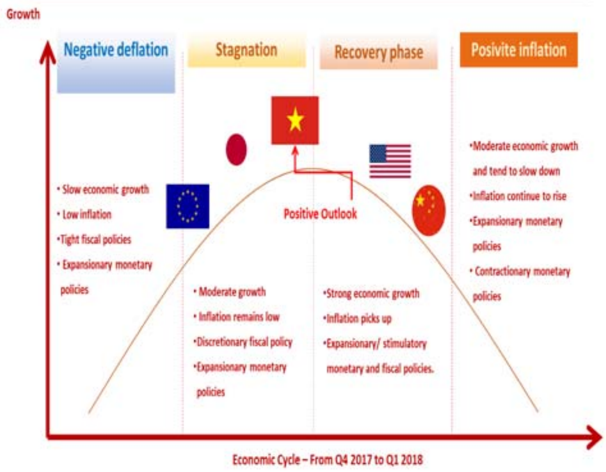
GDP GROWTH RATE IN Q4 AND WHOLE YEAR PERIOD 2011-2017 (%)

Source: GSO

ECONOMIC POLICY AND ECONOMIC GROWTH IN VIETNAM

Vietnam is in a special phase of its economic cycle as all factors supporting for high and stable growth. Vietnam economy is in the peak stage of the recovery phase (see picture). The government of Vietnam is maintaining its expansionary fiscal policy and monetary policy cautiously. At the same time, Vietnam economy witness a period of low inflation and low interest rates. These factors combined with the advantages for attracting new foreign investment are supporting economic growth. Vietnam will maintain a high GDP growth rate in the medium term as the macroeconomic environment stabilizes, growth drivers from expanding production and increasing domestic consumption are still being maintained. The country will continue to be an attractive destination for foreign investment when development constraints including political regimes, infrastructure and human resources have been identified and resolved positively in 2017 onwards.

ECONOMIC CYCLE OF SOME DEVELOPED COUNTRIES AND VIETNAM PERIOD 2017-2018



Source: VFM/SC

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RISKS TO VIETNAMESE ECONOMY ARE FADING OUT

Internal and external risks that caused disruptions to macroeconomic stability and business activity in Vietnam is reducing. The two risks have been identified as high public debt and budget deficits have been limited in 2017 when public debt fell to 61.3% of GDP (significantly lower than the 65% ceiling and target of 63.5% for 2017 - due to the impact of public debt control efforts and high GDP growth) and a budget deficit of 2.31% of GDP (sharply decrease from 4.28% in in 2016 and significantly lower than the plan at 3.5%). In the coming years, these two risks will continue to be well controlled with the policies announced by the government. In addition, external risks such as conflicts in the South China Sea, conflicts on the Korean peninsula have decreased significantly after warm meeting in the end of Q4 2017 and January 2018. In the short term, the Vietnamese economy will unlikely to face with the risk of collapse of economic stability.

GOVERNMENT DEBT TO GDP AND BUTGET DEFICIT TO GDP PERIOD 2010-2017 (%)

Source: GSO/VFM

2018 ECONOMIC OUTLOOK SUPPORTING FOR THE SECURITIES MARKET

The fluctuations of macroeconomic factors including inflation, exchange rates, and interest rates that have a direct impact on the volatility of the stock market, have shown positive changes supporting the growth of the market. The VND / USD exchange rate is forecasted to be stable in 2018 when foreign currency inflows into Vietnam remaining high and the weak U.S Dollar trend. Exchange rate stabilization is an important factor in attracting indirect investment into the securities market. In addition, inflation is in the low phase of its cycle when the price of raw materials for production is low and food prices are stable. Inflation in 2018 is expected to be lower than 4% (forecast from specialists is 3.6%). Interest rates remain low and SBV's recent policies have shown an attempt to reduce interest rates further. Hence, enterprises will benefit from lower financial costs as borrowing rates decrease. Forecasts show a 19% of EPS growth in 2018 which is a major driver of market growth.

P/E MOVEMENT IN VIETNAM STOCK MARKET (RHC – TIMES) AND 5-YEAR GOVERNMENT BOND YIELD (LHC- %) PERIOD 2010-2017

Source: VCSC/Bloomberg