



2017 Macro Highlights

	2015	2016	2017	FY2018 Target
GDP Growth Rate (YoY)	6.68%	6.21%	6.81%	6.70%
CPI (YoY change)	0.63%	4.74%	2.60%	4.00%
YTD Trade Balance (US\$ billion)	(3.55)	1.78	2.92	
Exchange Rates (US\$/VND)	22,530	22,810	22,770	
YTD FDI Inflows(US\$ billion)	14.30	14.20	16.00	
Credit Growth (YTD)	17.17%	18.25%	18.17%	17.00%
PMI Manufacturing Index	51.30	52.40	52.50	
Industrial Production growth (YTD YoY)	9.80%	7.40%	9.40%	
Nominal Retail Sales Growth (YTD YoY)	9.50%	10.20%	10.90%	
VN Index	579.03	664.87	984.24	

Source: GSO, Customs Office

A bad beginning doesn't necessarily make a bad ending. Vietnam's economy started out the year 2017 staggeringly with rising inflation, an expanding trade deficit and the weakest quarterly GDP growth in 3 years. However, things got better towards the later part of the year as the country's robust manufacturing sector started to gain momentum, adding fuel to the whole economy besides robust domestic consumption. Trade deficit reversed to surplus, inflation was subdued, and the VND slightly appreciated against the USD. FDI was indeed the key driver for growth but the government's resolute in pushing forward reforms, especially State Owned Enterprises' (SOEs) reforms also helped in unleashing resources for economic development.

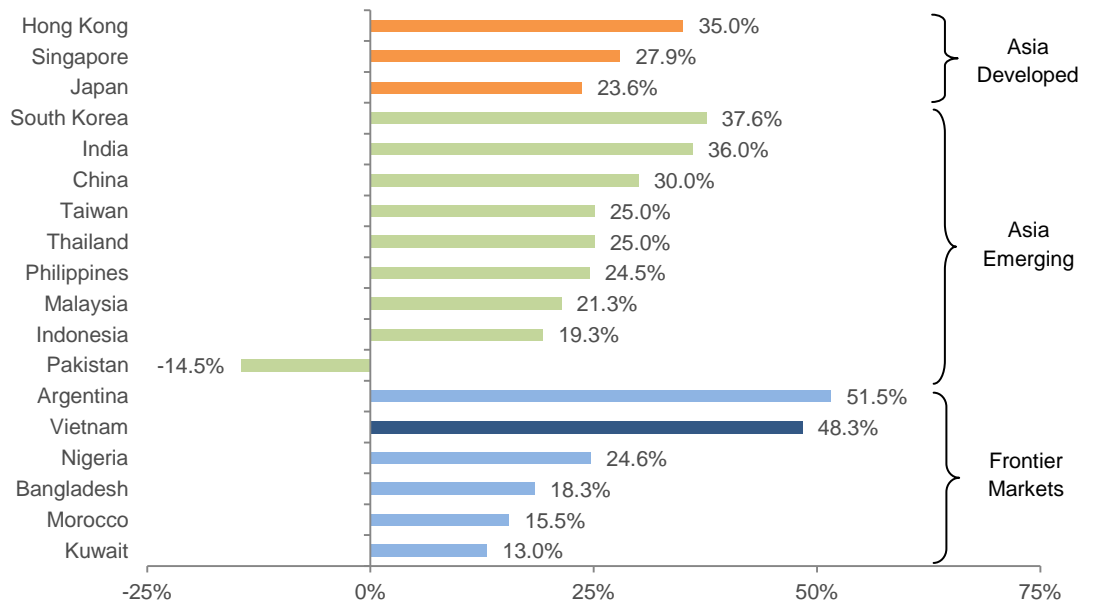
- **GDP growth** came in at **6.81%, the highest rate in 10 years**, exceeding all forecasts.
 - The agriculture, forestry and fishery sectors recovered and surpassed the growth rate in 2015 before El Nino kicked in. The sectors posted growth of 2.90% YoY (2016: 1.36%).

- The industrial and construction sectors' growth accelerated to 8.00% YoY (2016: 7.57%) despite a further 7.10% YoY contraction of the mining subsector (2016: -4% YoY) and slowdown in the power subsector and construction subsector. Growth mostly came from the manufacturing subsector which expanded by 14.40% YoY (2016: 11.90%).
- The service sectors reported unswerving growth of 7.44% YoY (2016: 6.98% YoY). Most notably, retail sales rose by 10.90% YoY (2016: 10.10% YoY).
- In terms of GDP contribution, the agriculture, forestry and fishery sectors accounted for 15.34% of total GDP, the industrial and construction sectors 33.34%, the service sectors 41.32%, taxes less subsidies 10.00%. The respective proportions in 2016 were 16.32%, 32.72%, 40.92% and 10.04%.
- The government's target GDP growth for 2018 is 6.7%.
- **YoY inflation** was contained at **2.60%** (2016: 4.74%).
 - Inflation was mainly driven by the release of government's subsidies in educational services and healthcare services (which started since 2015) besides rising commodity prices.
 - The impact of these items was partially offset by the retreat in prices of food & foodstuffs of 1.80% YoY.
 - Target inflation in 2018 was less than 4.0%.
- **YTD credit growth** was estimated at 18.17% YoY (2016: 18.25%)
 - Manufacturing growth picking up in the later quarters of 2017 alleviated the need for excessive credit growth (of up to 22% as projected by the Government in the middle of 2017)
 - Overall deposit rates and lending rates remained stable. Short-term deposit rates ranged from 5.3% - 6.5% pa, long-term deposit rates from 6.5% - 7.3% pa. Short-term lending rates ranged from 6.8% - 9.0% pa, long-term lending rates from 9.3% - 11.0% pa.
 - Credit growth target for 2018 was 17%.
- **The Nikkei Vietnam Manufacturing PMI posted at 53.3 in December**, signaling the continued expansion of the manufacturing output for 25 consecutive months.
- **Disbursed FDI** totaled **US\$17.5 billion**, **10.8%** higher than 2016's. **Pledged FDI** reached **US\$29.7 billion**, **up 44.2% YoY and a record high since 2008**. 47.6% of the newly registered FDI was for the manufacturing sector, 28.2% for the power generation and distribution sector.
- Vibrant export growth in Q3 and Q4 2017 turned a **trade** deficit into a **surplus** of **US\$2.92 billion** (2016: US\$1.78 billion).
 - Exports grew by 21.2% YoY while imports grew by 20.8% YoY.
 - Inputs for production continued to account for a significant 91.4% of total imports, which implies further expansion for the economy in the future.
- The **USD/VND** exchange rate remained **stable** throughout the year of 2017, partly due to the overall weakness of the USD.
 - FX reserves rose to a record level of US\$51.5 billion by 31 December, 2017. Strong FDI inflows and an expanding trade balance have been solid pillars for the VND.
 - The VND is expected to depreciate against the USD by at most 3% in 2018.
- Below are macro-political highlights for 2017:
 - Prime Minister Nguyen Xuan Phuc's visit to the US in May made him the first Southeast Asian leader to meet with President Trump in the Oval Office. And Trump's visit to Vietnam during the APEC summit also signaled positive outlook for the US – Vietnam relationship despite the US withdrawal from TPP and Trump's vocal protectionism.
 - After the US and Canada pull out, TPP (or CPTPP) will be further delayed. However, this should not be an issue to Vietnam's increasing integration to the global economy as FDI continued to flow into Vietnam and turn the country into a new kind-of "factory of the world".
 - Vietnam's close ties to China were also confirmed with Xi Jinping's visit to the country in November.
 - Reforms were gaining momentum with SOE reforms at the front. SOE IPOs and divestments started to peak with proceeds from divestments approximating US\$6.0 billion in 2017, 3.7x higher than the historical combined proceeds prior to the year. The successful divestments of large SOEs have alleviated budget deficit and offloaded some pressure on policy makers' shoulders.
- The year 2018 presents itself in a promising light. Strong USD inflow is expected from both FDI and foreign investors taking up stakes in high-profiled SOE IPOs or divestments. This should provide ample capital to keep interest rates at least stable, which will in turn fuel credit growth. With consumer confidence at its peak and disposable income steadily growing, domestic consumption is also expected to be a significant growth driver besides a vigorous manufacturing sector.

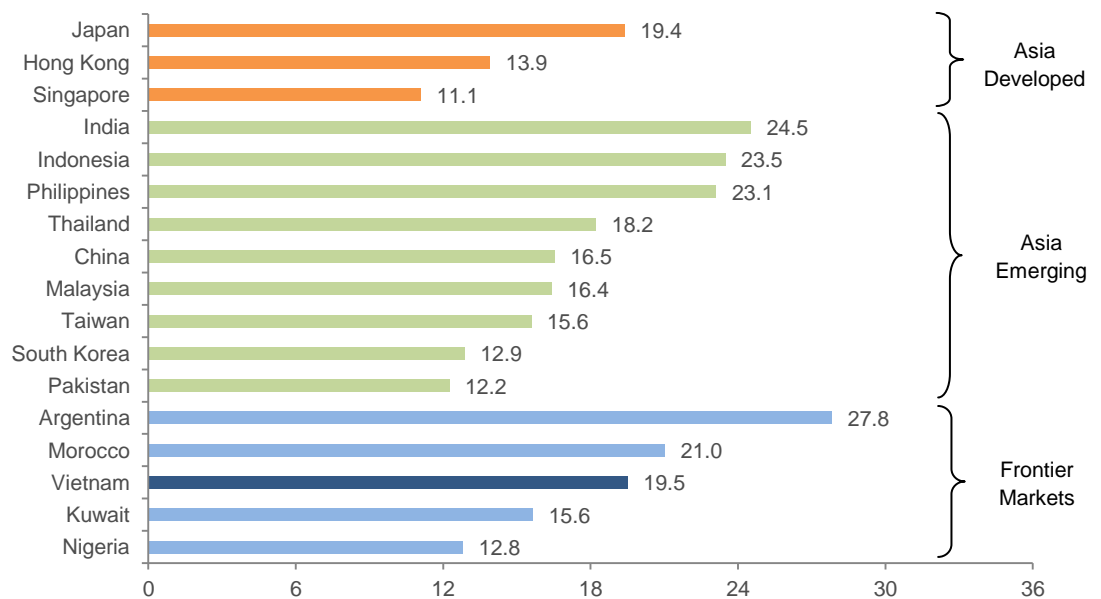
2017 Stock Market Highlights

- **The VNIndex** surpassed several new highs in 2017 before closing the year at 984.24 points, posting an annual **return of 48.3%** in US\$.
 - The stock market was mainly driven by new listings and large caps. New listings accounted for 15.6 percentage points of the VNIndex's gain. Meanwhile the top 15 largest caps (including some of the new listings) contributed 86.3% of the Index's gain vs. only 13.7% contribution by the remaining stocks.
 - The top 15 largest caps posted average gains of 65% last year (These stocks whose market cap was at least US\$2.0 billion accounted for 69.5% of the VNIndex by Dec 31, 2017). The remaining 329 Index stocks registered average gains of only 17.5% last year.
 - Sector-wise, banking stocks were the clear winners in 2017 with average gains of over 60%.
- **Positive sentiment** was **prevalent**, fueled by **(i) better than expected macro results**, **(ii) burgeoning interest from foreign investors**, and **(iii) successful divestments of large SOEs**.
- **Liquidity thrived** with average daily trading value of **US\$214.6 million**, up 65.6% YoY.
- **Foreign investors** net **bought US\$1.2 billion** worth of listed stocks in 2017, the highest level in history. This is exclusive of pre-listing and off-the-exchange transactions. Notable deals like VJC pre-listing sale of US\$176 million and VPB pre-listing sale of US\$286 million were not counted, neither were the auctions of nearly US\$6.0 billion worth of SAB and VNM shares. In addition to that, off-the-exchange transactions (at prices outside regulated trading bands) are not publicly reported.
- Vietnam's listed **market capitalization** reached **US\$124.6 billion** at 31 December 2017. Despite market **P/E** reaching a new **10-year high** of **19.3x**, Vietnam's stock market still trades below those of Indonesia and the Philippines. Excluding the top 15 largest caps, the VNIndex's average P/E was only 14.4x.
- Its remarkable size and liquidity coupled with the growing ease of access to sizable quality stocks have brought Vietnam's stock market to the attention of an increasing number of foreign investors. At the same time, it also sparked renewed interest from local investors. Given the favorable macro economic outlook and assuming the government continues to promulgate SOE reform, banking reform and regulatory reform, the stock market is likely to perform well in 2018.

Stock Market YTD Returns by Country (in USD) as of December 31, 2017



Stock Market P/Es by Country as of December 31, 2017



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