

Vietnam Economic Outlook:

Consolidation not Collapse



June 2008



Overview

Economics

- Economic outlook

- Structurally positive but ...
- short term consolidation in next 3-6mths
- ...which is crucial period determining global investor confidence
- Situation (especially inflation) to get worse before getting better

- Inflation

- High and possibly rising for rest of 2008
- CPI up 25.2% May 2008

- Exchange rate:

- Accelerated devaluation - Baseline
(we expect 10+ percent in 12 months)



Overview

Real Estate

- Short term

- Speculators who bought at peak – withdrawing
- Prices (direct developer sales) – declining in HCMC; but stagnant in Hanoi
 - Mid end (< US\$2,000 psm): ↓20% - 30%
 - High end (>US\$2,000 psm): ↓10%

- Medium term

- Owner occupier demand remains healthy underpinned by urbanisation, favourable demographics, income growth & city-expansion

- Vietnamese property market is like China's 10-15 years ago
- Good time to get in for long term investors



Opportunities

- **Near term challenges for Vietnam Government**
 - Inflation & Widening Trade Deficit are Major Bugbears
- **Raft of Monetary & Fiscal Policy Measures Implemented**
 - Some impact on growth : 2008 Growth Target cut from 8.5% - 9% to 7%

What Top Investing Countries Say :

“ It is simply a matter of temporary growing (up) pains... ”

- *The Korea Herald, 2 June 2008*

“ Japanese firms operating in Vietnam considered the country as best production base in Asia for the next 5 - 10 years ... (with) up to 92.6% of Japanese manufacturers in Vietnam said that they plan to raise investment in the country in the next 2 years ”

- *Survey released by Japan External Trade Organisation, 2 June 2008*



Market Fundamentals Remain Strong

- **Urbanisation (especially in HCMC & Hanoi)**
 - About 770,000 new urban residents per year in Vietnam during 2005-2010
(Source: UN Population Division)
- **Rise of the middle-income class**
 - Disposable income per capita to grow at 11.3% p.a. during 2008-2012
(Source: EIU)
- **Favourable demography**
 - Young nation (median age: 27 years, 70% of population below 35 years of age)
 - Generates a large pool of potential homebuyer base
- **Favourable regulatory changes** has expanded the potential pool of real estate purchasers, including *Viet Kieu* and foreigners



Responses Towards Inflation

- Tightening monetary policy
 - Rising reserve requirement ratio, from 10% to 11%
 - Rising interest rates (wef. 11 Jun 08), 3rd increase in 2008
 - Base rate: 12% - 14% (+200bp)
- To introduce capital gains tax on real estate and stock transactions
- Tight rice supply to alleviate
 - Agriculture production growing in terms of productivity and output
 - Expects to export more than 4 million tones of rice during 2008
 - Recent spike in rice prices has moderated

Thank You

