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