VIETNAM BUSINESS REVIEW

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New great opportunities for Vietnam's aviation industry

IN THIS ISSUE

Highlights

Economy

Banking & Finance

Investment

Enterprises

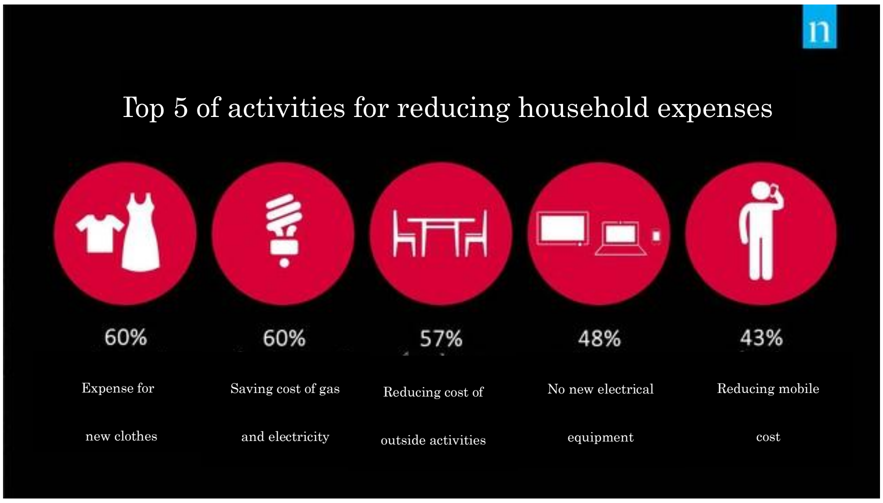
Market & Prices

Legal Updates

Vietnamese savings with the highest rate in the world

In top 10 of the most optimistic countries in the world (according to the latest research from Nielsen) but Vietnam consumers retains the highest savings rates in the world. Consumer confidence index in the second quarter fell 8 points compared with the first quarter. This is the largest reduction compared with other countries of Asia Pacific Area.

According to the Nielsen Vietnam, the retail environment of Vietnam has no longer the growth as fast as 2012. Currently, Retailers are competing fiercely to maintain the growth speed, with an increase of only 2% -3% for most of the month in the past year. Moreover, Consumers continue to



tend to prioritize savings. There are nearly 4/5 people (70%) to spend idle money in savings (48% globally). Particularly, Vietnam consumers remain the highest savings rates throughout the world (73%).Followed by the Philippines (72%), Indonesia (69%), Singapore (66%), Thailand (66%) and Malaysia (65%).

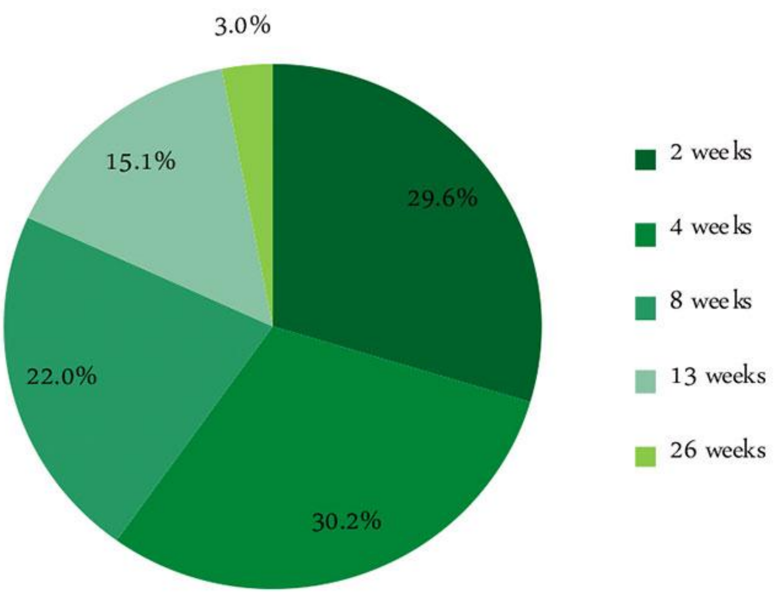
Intending change the way of spending to save household expenses is a top priority of Vietnam consumers. 86% of consumers in Vietnam have adjusted spending habits in the past 12 months to save on household expenses. Most consumers think Economy is still in recession. More than 3/5 consumers Vietnam has cut spending to buy new clothes, gas and electricity. About half of consumers have cut home entertainment items (57%) and delay upgrading the equipment and technologies (48%). However, the survey also showed that, after covering their living expenses, nearly half of Vietnam consumers are still willing to spend on travelling, holidays and summer holidays (45%) and buying new technological products (35%).

Assessment about the future prospects, the status of the economy continues to be the main concern of consumers in the next six months. In addition, issues such as job stability, health and balance between work / life consumers are interested. Of these, 14% of Vietnam consumers are interested in job stability and the economy and 13% interest in health. [R& C Dept. following Cafef]

Abundant liquidity key driver in OMO

During the second quarter of 2015, the State Bank of Vietnam (SBV) withdrew large amounts of funds by issuing bills. At the same time, banks had little demand for borrowing from the SBV, demonstrated by the limited value of reverse repo transactions. Ample banking liquidity, limited issuance in the primary bond market in line with large foreign capital inflows were likely the most important drivers.

A total of VND201 trillion ($9.24 billion) of SBV's bills were issued in the second quarter, up 14.4 per cent compared to the previous quarter. Meanwhile, there was only VND39 trillion ($1.81 billion) in reverse repo transaction value, down 76 per cent compared to the first quarter. So while the SBV net withdrew money via Open Market Operations (OMO), the outstanding balance of reverse repo and bill issuance increased throughout the quarter. The total transaction value of reverse repos and bills issuance via the OMO in the first half of 2015 reached VND580 trillion ($26.6 billion), up 5 per cent compared to the same period last year. Lending volume through reverse repos was VND202 trillion ($9.3 billion), accounting for 35 per cent of total volume. Meanwhile, the volume of SBV bills issued in the first six months was VND377 trillion ($17.3 billion) contributing 65 per cent of total volume.



Abundant liquidity in the banking system was the key driver for OMO development in the second quarter. In this regard, it was similar to the interbank market.

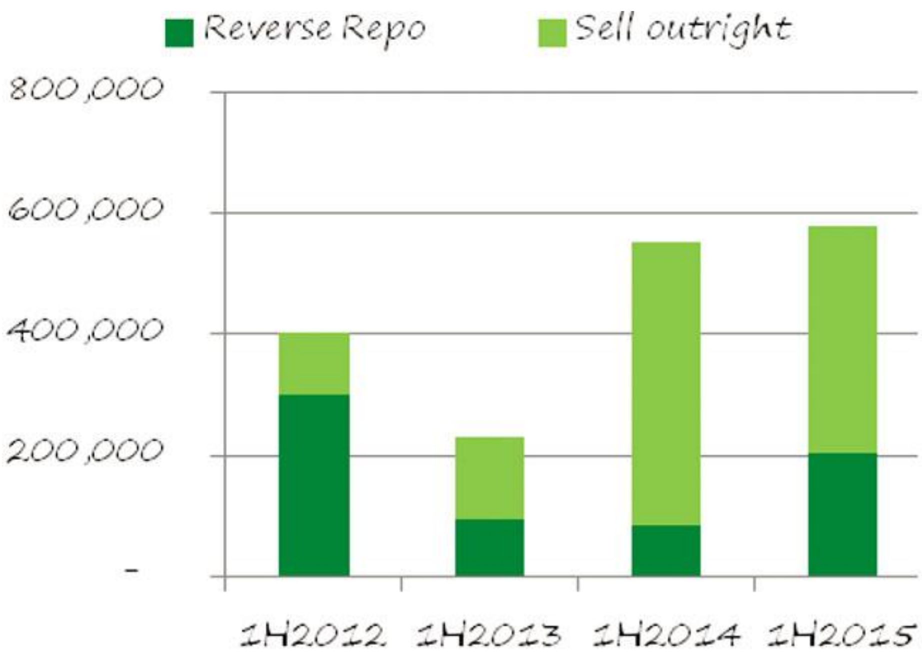
First, the banks' Tier 1 and Tier 2 capital grew strongly. As of May-end, the capital of the banking system rose 8.0 per cent from the beginning of this year, much higher than the growth rate of 2.3 per cent for the same period of last year. Following the SBV's request, banks did not pay high dividends and retained most of their profit in order to raise equity.

Second, demand for borrowings via OMO as well as the interbank market fell due to a lower issuing volume of government bonds. In the primary bond market, the State Treasury (ST) only issued more-than-five-year bonds. As most of the funds in banks are short-term, their demand for long-term assets was not significant. Additionally, the winning yields of government bonds did not meet investor's satisfaction.

Third, Circular 36 allows increasing short-term capital for medium and long term loans. This circular also allows the risk ratios of loans for real estate and stock investments – which account for the majority of banks' outstanding loans – to be reduced from 250 per cent stipulated under Circular 13 to 150 per cent, the lowest levels ever allowed. As a result, banks now can provide more credit based on the same amount of capital and the same capital structure. This narrowed the borrowing demand from the SBV as well as in the interbank market.

Fourth, the SBV and the government may have purchased a significant amount of foreign currency during the quarter, although we don't have an accurate figure for this at present. Among them were the $1 billion dollar-denominated G-bond issued to the Vietcombank. Asides from this, in this quarter, foreign investors were net buyers in the stock market, totalling $228 million; and net buyers in the bond market, totalling VND1.38 trillion ($63.5 million).

By the end of the second quarter, bill yields increased slightly compared to last quarter for almost all tenors. In particular, four-week bill yields reached 3.9 per cent per annum, up 40 bps compared to the yield level by the end of March. Similarly, the eight-week and 13-week bill also rose 30 bps and 10 bps respectively to the 4 per cent per annum. In contrast, the yield of two-week bills dropped sharply from 5 per cent per annum at



the first issuance to 3.52 per cent per annum by the end of the second quarter, down 148 bps. 26-week bill yields remained constant at 4.3 per cent per annum.

In the last two weeks of June, the ST resumed the offer of short-term bills of 13 weeks and 26 weeks. The SBV therefore stopped issuing the 13-week bills, and in turn, raised yields of eight-week bills from 3.7 per cent to 4 per cent per annum, just slightly lower than the winning yields 4.08 to 4.10 per cent of the ST 13-week bills.

[VIR]

Japan's Creed Group invests $200m for An Gia investment

Tokyo-headquartered investment fund Creed Group on Sunday inked a deal to invest $200 million in An Gia Investment, for a 20% stake holding in the Vietnamese real estate company. In addition, Creed Group, which manages a portfolio of $5 billion assets, will provide 50 per cent of the capital for An Gia's project, providing "Japanese quality" housing services in Ho Chi Minh City, reported the city's government portal.

The fund president Toshihiko Muneyoshi said that the Vietnamese economy is becoming deeply integrated (with the world economy), as the Trans-Pacific Partnership agreement comes to close. Vietnam has a young population, most of whom are based in urban cities, but the land area is limited. Meanwhile, the law on real estate has been revised in a more favorable way. These elements have united to unfreeze the purchasing power, while providing investment opportunities for both local and overseas firms. Currently, An Gia is developing four properties worth VND3 trillion ($138.24 million), while negotiating to acquire 10 land areas in major districts of the southern city.

The Creed Group began to invest in the Vietnamese real estate market last year, through a contract with 577 Investment Corp, to jointly develop 10,000 apartments in Ho Chi Minh City.

[Dealstreetasia]

VNR co-operates with Vingroup in rail infrastructure investment

The Viet Nam Railway Corporation (VNR) will co-operate with Vingroup in initiating steps to invest in the upgrade of railway stations. In a statement sent to Vingroup in response to the group's proposal to invest in upgrading and using Ha Noi, Da Nang and Sai Gon stations, the VNR said it wanted Vingroup to become a strategic partner in using the railway infrastructure managed by it.

VNR said it would help in effective utilisation of the railway infrastructure, while reducing the pressure on the state budget. Vingroup has informed the transport ministry that it would submit a co-operation plan with VNR on upgrading Sai Gon and Ha Noi stations before July 30. The two sides have discussed measures to ensure the stations operate effectively and to improve financial efficiency.

VNR said it spent VND7 trillion (US$352.58 million) in the 2011-15 period to upgrade the network and introduce new technologies to manage the operations. By 2020, an estimated VND2 trillion ($.93.02 million) more will be needed for continued implementation of these plans, and VND60 trillion ($2.79 billion) for 12 projects to modernise the main routes. [VIR]

Decree seeds foreign agricultural plans

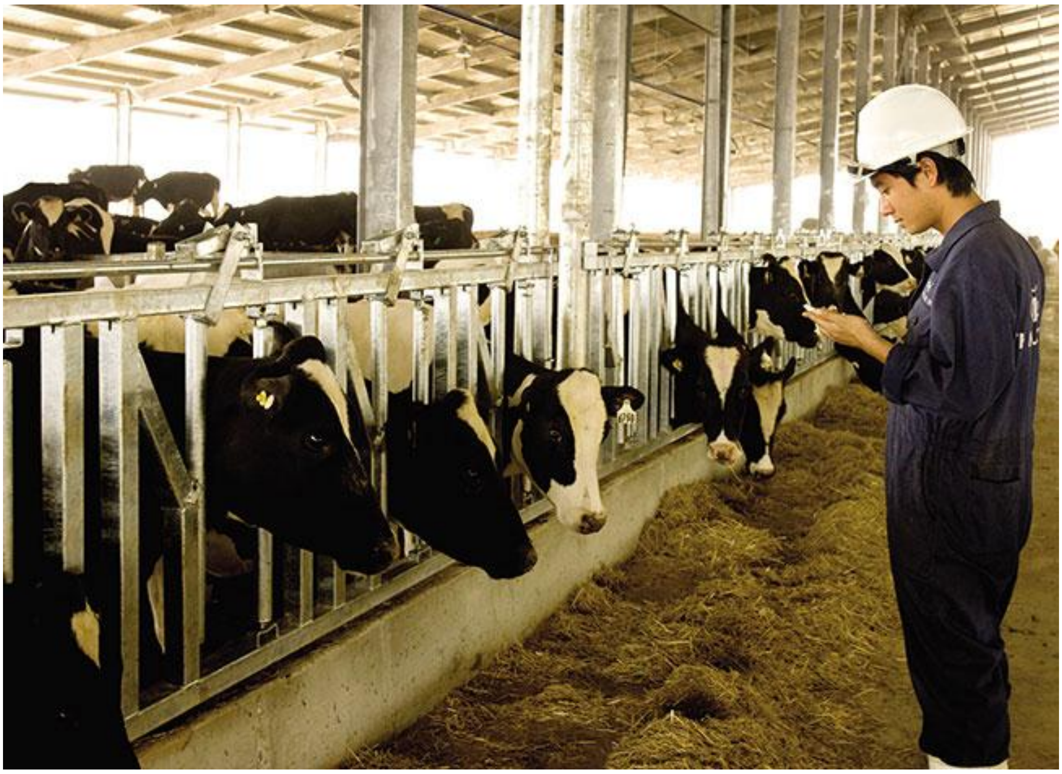
The Ministry of Agriculture and Rural Development last week began to seek comments from foreign enterprises in Vietnam for the draft decree. Under the draft, investors will enjoy preferential corporate income tax (CIT) of only 10 per cent within the first 15 years of operations, for projects in extremely difficult geographical areas, agricultural zones applying high technology, large sample field areas, and concentrated material zones. Such a CIT level will also be given to areas of special investment incentives, and agricultural enterprises with hi-tech applications.

Investors will be subject to a CIT level of 20 per cent for the first 10 years of operations, for projects in difficult geographical areas, and projects manufacturing machinery and equipment for agriculture, forestry, fishery and salt production. This also applies to projects making irrigation equipment, producing refined animal feeds, poultry and seafood, and developing traditional industries.

Additionally, investors in "special preferential projects", a category that has yet to be defined, can enjoy a CIT exemption for the first four years of operations, and a 50 per cent CIT reduction for the next nine years. Meanwhile, investors in "preferential projects" will be exempted from CIT for the first two years of operations, and given a 50 per cent reduction for the next four years. Also under the draft, foreign investors can receive subsidy for up to 70 per cent of vocational training costs. Total subsidy for one project shall not be over VND5 billion ($234,750).

Investors will be given the most incentive land rents, including an exemption of 15 years for preferential projects that construct housing for workers, plant trees, and build works for public welfare. The draft is welcomed by many foreign enterprises expecting their difficulties to be solved.

[Following VIR]



The regulations on equitization of public non-business units

Decision No. 22/2015/QD-TTg dated 22 June 2015 of the Prime Minister on transformation of public non-business units into joint stock companies

This Decision provides conditions, procedures and order for the equitization of public non-business units under the management of the Ministries, ministerial organs, governmental organs, People's Committee of provinces and centrally-run cities, state-owned economic groups and corporations

Accordingly, if the above-mentioned public non-business units ensure all regular operational expenditures and are included in the list of transformation into joint-stock companies under the decision of the Prime Minister shall be equitized under the following forms:

a) Keep intact the existing state capital in the public non-business units and issue more stocks to increase charter capital.

b) Sell a part of the existing State capital

c) Combine the sale of part of state capital with the additional issue of stock to increase charter capital

Domestic investors have the right to purchase shares of the public non-business units that have carried their transformation with unlimited number. Particularly, foreign investors must ensure the ownership ratio of shares in accordance with the regulations of law on equitization and transformation of state-owned enterprises

This Decision takes effect from August 10th, 2015

The public non-business units affiliated to the independent one member limited liability companies in which the State holds 100% charter capital upon equitization are entitled to apply the provisions of this Decision.

The guidance on some investment procedures applied from July 01st, 2015

Dispatch No. 4366/BKHDT-PC dated June 30th, 2015 of the Ministry of Planning and Investment regarding deployment of the implementation of Investment Law No. 67/2014/QH13

The document is to provide some investment procedures applied from July 01st, 2015 (the time the Investment Law No. 67/2014/QH13 takes effect) while pending a Decree promulgated by the Government. The procedures include:

1. Procedures for decision on investment policies
2. Procedures for receipt, grant and adjustment of the investment registration Certificate
3. Procedures for establishment of economic organizations of foreign investors
4. Procedures for investment in the form of making capital contribution, buying shares or capital contributions to economic organizations
5. Conditions and procedures for investments made by foreign-invested economic organizations

Accordingly, from July 01st, 2015, when establishing economic organizations in Vietnam, foreign investors shall carry out separately and orderly these 02 steps: Obtaining the investment registration Certificate under Clause 1 Article 22 of the Investment Law; then making the procedures for the grant of the enterprise registration Certificate under the provisions of enterprise laws

Under Clause 1 Article 50 of the earlier Investment Law, when making procedures for registering investment projects in Vietnam, foreign investors were granted the investment Certificate which was concurrently being the business registration Certificate.

Good opportunities for German investors in Vietnam

The news agency Establishment Post (TEP) identified Vietnam market, especially industrial sector and pharmaceutical sector, will attract more investors from Germany. In the first 2 months of 2015, trade between the two countries reached 1.28 billion US dollars, up 15.9% from the same period last year.

Recently, Vietnam and Germany has promoted the establishment of Trade Promotion Department General (Germany Vietnam JCC), thereby confirming the desire to increase trading and investment opportunities for both 2 foreign countries. According to TEP, the foreign investors are now gaining in Vietnam market and Vietnam currently have a wide demand to co-operate about a variety of products in Germany, especially the industrial machinery and pharmaceuticals sectors.

Manufacturing machinery segment

German businesses concerning industrial machines were tremendously successful in Vietnam. About 46% of Vietnam machinery was imported originating from Germany, mainly in the food processing industry, textiles and medical devices.

Vietnam textile industry occupied 15% of total GDP and 18% export share of Vietnam in 2013. In particular, Germany is the key country in the EU-level machines for film business, about $ 20 billion in worth. Textile Machinery Manufacturers Association of the German Engineering Federation (GEFTMA) has produced 3.4 billion euros (3.6

billion dollars) weaving machines in 2014 and Vietnam is their main market.

The machinery of Germany also achieved many accomplishments in the food processing industry in Vietnam. This segment has grown rapidly in recent years and is now occupying about 40% of total exports of Vietnam. Only during months 1-11 / 2014, Companies are producing machines for the food processing industry of Germany had revenues of 391 million USD.

Another noticeable field, German investors will probably be interested in the industry of Vietnam medical devices. The middle class in Vietnam is increasing, thereby boosting consumption as well as the growth of the health services improving in recent years. Most of the doctors said they preferred to using the foreign equipment. The Vietnam hospital has imported about 90% of the necessary medical equipment and 100% high-tech equipment, such as X-ray machines, CT scanner machine or ultrasound machine. Many German investors were quickly take advantage of market opportunities in Vietnam. According to the International Trade Administration US (USITA), Germany currently controls 30% of the market in the segment of medical devices imported in Vietnam. Administration US (USITA), Germany currently controls 30% of the market in the segment of medical devices imported in Vietnam.

Pharmaceutical industry

Currently, the German investors are very successful to join the array of pharmaceuticals in Vietnam as the 3rd largest suppliers. A typical example is the company B.Braun melsungen with over 20 years history in Vietnam market. Only 2014, the company has reinvested $ 270 million in the pharmaceutical sector in Vietnam, including 66.3 million dollars to open a new pharmaceutical factory.

According to many experts, the German pharmaceutical companies to invest in Vietnam will soon gain more their profit due to the Vietnam pharmaceutical market is forecasted to grow to $ 8 billion in the next 5 years. The Vietnam Government has been opened investment opportunities for German companies for a long time, particularly in manufacturing industry and pharmaceutical manufacturing. According to TEP, German firms should act now to take advantage of the great opportunities in the market of Vietnam. *[R&C Dept.]*

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