

## NEW CABINET: ASSURANCES AND CHALLENGES

The most noticeable event in April is the approval the Parliament with regards to the new Cabinet members list (14<sup>th</sup> Cabinet: 2014-2020). The elected members of the new Cabinet (including 21 new members) has been inaugural right after being elected and has initiate positive movements. This is a strong signal of changes whereas the absence of authority in the period of changing government is limited to its minimum. The new Cabinet has sending solid messages regarding building the favorable business environment and support the growth of private corporates as well as the changes in public services. However, the new Cabinet is facing significant challenges in changing the growth model of Vietnam from a horizontal growth strategy with intensive utilize of investment capital, which has shown its limit in growth catalyst, towards a new model with higher productivity and creativity. The new Cabinet also need to overcome the challenge of macroeconomic adjustment in 2016 when the room for fiscal and monetary policy is limited under the circumstances that Vietnam's economy is stagnating after a short period of depression and meeting difficulties from natural disaster that reduce agriculture output which is expected to prolong until end of 2016. However, the government is showing its best effort to achieve the GDP growth goal of average 6.5%-7% in the 2016-2020 plan approved by the Parliament.

## POSSIBILITIES OF 2016 GDP GROWTH GOAL ADJUSTMENT

The 2016 GDP growth goal that has been approved by the Parliament is 6.7%. The results of Q1 2016 growth is 5.46%, lower than the 6.12% of Q1 2015. The difficulties that preventing growth in agriculture sector in 2016 is the status of natural disaster that is expected to prolong until the end of the year (total production value in agriculture for Q1 2016 has decreased by 2.69% compared to last year). Industrial production has escaped the short term downturn (the Purchasing Manager Index in April reached 52.3, a considerable increase from 50.7 in March and is the highest point in the most recent 9 months), however, the YoY growth rate in Q1 only achieved 7.9%, noticeably lower than the 9.7% growth of last year. Considering the mentioned signals, it is possible that the GDP growth goal of 6.7% in 2016 will be adjusted in the next meeting of the Parliament. Recent forecasts show that the goal will be adjusted to 6.3%. This growth rate is recommended by international organizations (IMF), financial institution (HSBC) and researching organization (VEPR) after considering the effects of natural calamity and based on the actual figures from Q1 2016. This adjustment show consistency of the government plan focused on stabilizing macro economy and maintain suitable growth rate in the period of reforming public administration system.

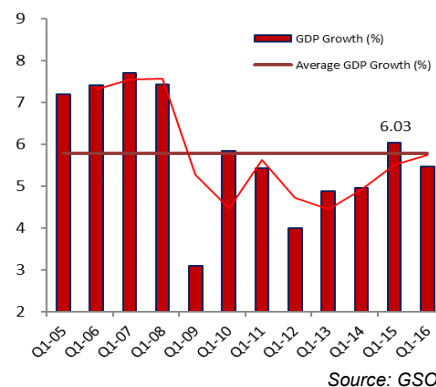
## SBV: SIGNALS ON STABILIZED INTEREST RATES

In April 2016, the State Bank of Vietnam has been sending out the evident messages about the interest rate stabilization in the rest of 2016. This stability is a central point in preserving the macro economy and support economic growth in current situations where agriculture production is needing the support to maintain its production activity. The big state-owned banks have actively participated in the stabilization after receiving the signals from SBV. In the market, the average deposit rates of different terms have continued to increase by 4 basis points compared to last month (at 6.06%), average lending rates continued its down trend over months (decrease by 5 basis points in April, from 9.42% to 9.37%). Although the interest rate might be maintained stably in 2016, the control of interest rate movements is being challenged by inflation when it is forecasted to significantly increase in Q3 2016 as well as to reach 5% in the whole year. After the first 4 months of 2016, credit growth has achieved 2.99% compared to 31/12/2015 (lower than 3.98% in 2015). At the same time, total deposit of all banks after 4 months has increased by 4.61% compared to the end of 2015 while the same figure for 2015 is 1.67%.

## FDI: MAIN SOURCE OF CAPITAL FOR INDUSTRIALIZATION

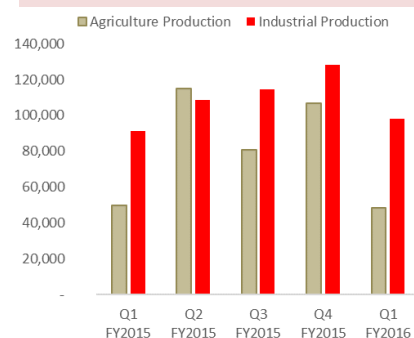
Vietnam is undergoing the first phase of industrialization, which is the phase of conducting simple products under the guidance of foreign sector. This is the phase that the economy is actively attracting foreign direct investment (FDI) and getting new technology from the foreign-invested sector. The origination of free trade agreements has significantly contributed to the increased flows of FDI which aim to capture the benefits from the mentioned agreements. Vietnam is aiming to transfer to the 2<sup>nd</sup> phase (Phase of originating the supporting industries). In 2015, the weighting of FDI in total investment is 23.3% and having the fastest growth rate (grow by 19.9% compared to 2014). In the current phase, the FDI flows concentrate in the manufacturing sector (In the first 4 months of 2016, total of new and additional registered FDI achieved USD 6.89 billion, increase by 85% compared to 2015, in which manufacturing sector accounted for 76.2%) also focused on high-tech industries. In 2016, the trend will continue with FDI weighting in total social investment (equivalent to 32.6% of GDP in 2015) increase with higher growth rate compared to 2015. This is the main source of capital for industrialization in the coming years.

**GDP GROWTH Q1 2005-2016**  
(% compared to Q1 of previous year)



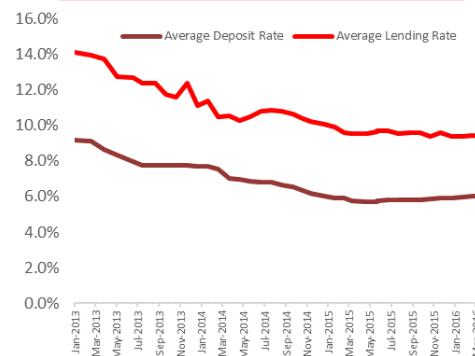
Source: GSO

**PRODUCTION VALUE OF AGRICULTURE AND INDUSTRIAL**



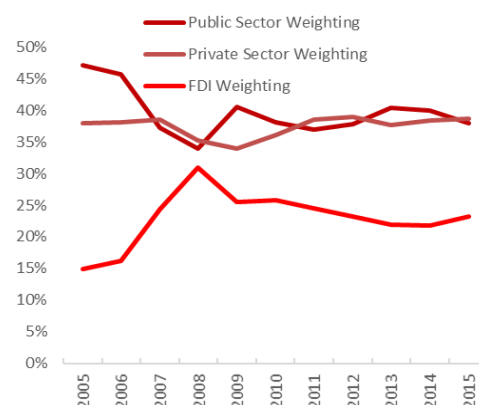
Source: GSO

**AVERAGE DEPOSIT AND LENDING RATES**  
(2013 - April 2016)



Source: HSC

**FDI WEIGHTING IN TOTAL SOCIAL INVESTMENT**  
OVER YEARS



Source: GSO, VFM