

TPP AND PROSPECTS FOR DEVELOPMENT

The result of the US Presidential Election has been a big surprise for everyone as well as the most significant macroeconomics event in November 2016. However, it also become the main obstacle of the Trans-Pacific Partnership formation due to the decision of US President-elect Donald Trump to withdraw from the agreement. Although the partnership might become effective without US participation, that withdrawal will reduce the positive effects for other participants. Vietnam, which is forecasted to be the most beneficial country of the TPP, has been significantly affected by the breakdown of this agreement. The main reason is that US has been always the biggest trade partner of Vietnam (accounted for 20.7% of total value of Vietnam's exported goods in 2015). This incident would lead to a re-write of Vietnam's economic development strategy for the next 5 years as TPP plays an important role in defining the strategy, which heavily depends on export growth and foreign investment. However, apart from TPP, Vietnam is on their way to negotiate other free trade agreements (FTAs) such as the Regional Comprehensive Economic Partnership (RCEP) led by China with the participation of most of TPP members. RCEP will cover a region with total population of 3.5 billion and total GDP of USD 22,400 billion. Although the magnitude and effects of RCEP is smaller than TPP, Vietnam will continue to benefit from RCEP and other FTAs.

POTENTIAL EFFECTS FROM THE CHANGES OF FUND FLOWS INTO VIETNAM

The stability of Vietnam's macro-economic factors in 2016 have been positively contributed from the foreign investment inflows into Vietnam. The disbursement of FDI capital, trade surplus and stable foreign remittance has created a, excessive monetary injection, allowing the State Bank of Vietnam (SBV) to increase its foreign currency reserve. With regards to the breakdown of TPP, the foreign capital inflows could decline because investors might re-consider their market choice. The trade balance might be back to deficit status when exporting did not deliver the results as expected (Vietnam had trade deficit of USD 3.2 billion in 2015). The flows for foreign funds into Vietnam will affect the possibility that SBV would maintain stable VND-USD exchange rate and liquidity on interbank market. Altering deposit and lending rate will be the next consequences resulted from the change of funds flows. However, the flexibility of regulation and the room for adjusting monetary policies would allow SBV to execute a good control on its objectives and maintain an adequate ability to resist the abnormal turn of events. The adjustment of central exchange rate (as below) in November 2016 is an active step of SBV against the appreciation of USD and a preparation for the change of fund flows in 2017. Total foreign currency reserve of SBV has achieved USD 41 billion in 2016, which would help in stabilizing the exchange rate fluctuations and other macro-economic factors.

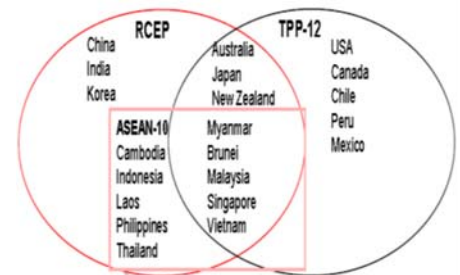
POLICIES OF STATE BANK OF VIETNAM AND MACRO ECONOMY IN 2017

In December 2016, SBV has sent out the signal about monetary policy and credit growth objective in 2017. SBV has declared their intention to be active and flexible in managing interest rate and exchange rate in 2017 as well as buying in foreign currency to increase the reserve. These announcement shows the similarity of 2017 policies in comparison to 2016. According to this, SBV would utilize the foreign funds purchased to maintain high liquidity on interbank market. In 2016, this policy was executed successfully due to the excess inflows from FDI disbursement, trade and remittance. In 2017, although there are the possibilities that those sources of fund flows are weakening, new flows originated from the sale of state-owned enterprises (forecasted to generate USD 7.2 Billion) will be the alternative source of foreign currency. Besides, SBV is having a larger room to control exchange rates due to the increased reserves that equivalent to total value of imported goods in 12 weeks (about USD 40 billion). The history has demonstrated SBV's ability to keep exchange rate well under control in the ending period of 2015. The flexible exercise of monetary policy is certainly crucial under the circumstances that fiscal policy is yet to be effective and the stability of macro-economy in 2016 are mostly attributed to the effects of monetary policy. The upkeep of current monetary policy of SBV will be the premise for another year of stable economy in 2017.

EXCHANGE RATE FLUCTUATIONS

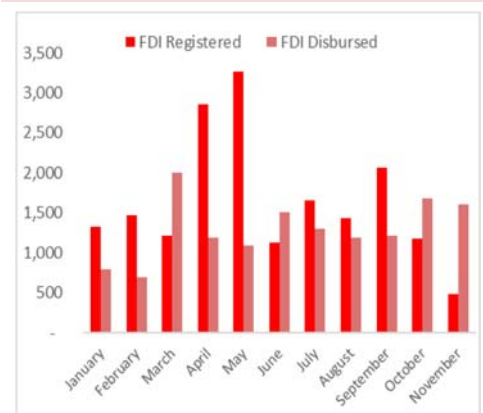
The US Election did indeed have a significant effect on USD value, pushing the currency to strongly appreciate. The Dollar Index Spot provided by Bloomberg (DXY: CUR) has reached 101.7 in November 2016, the highest in the last 5 years. The CNY has been depreciated by the People's Bank of China starting from mid-October. In reaction to those movements, SBV had actively adjust the central exchange rate, increasing the VND/USD exchange rate from 22,056 in 8 Nov to 22,124 in 30 Nov. The interbank exchange rate also changed accordingly and was traded at the ceiling level of the band (VND 22,706/USD as of 30 Nov). Vietnam is under pressure to adjust the exchange rate while other countries in the region had depreciated their local currencies to improve the competitiveness of their exported goods. For the first 11 months of 2016, China has depreciated the CNY by 6.9% against USD, the Malaysian Ringgit (MYR) declined by 4%. During the same period, VND only declined 0.8% against USD. The short-term pressure on VND/USD Exchange rate still persists as the possibility that the Federal Reserve (FED) would increase federal fund rates in December is increasingly high and the US economy is forecasted to have a strong growth in 2017 due to the new economic policies of president-elect Donald Trump.

TPP AND REGIONAL COMPREHENSIVE ECONOMIC PARTNERSHIP (RCEP)



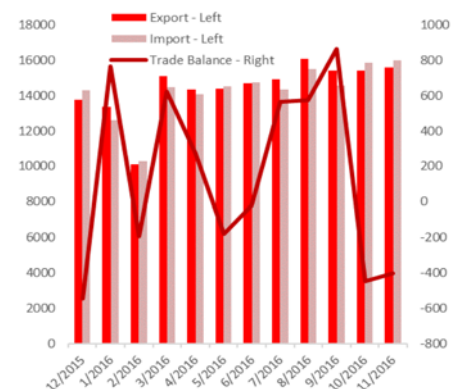
Source: HSBC

FOREIGN DIRECT INVESTMENT BY MONTHS IN 2016 (USD Million)



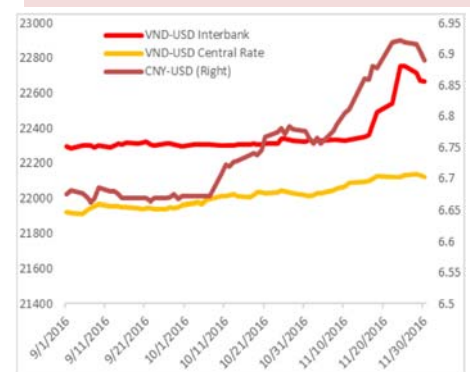
Source: Government

IMPORTS, EXPORTS AND TRADE BALANCE—12 MONTH TO NOVEMBER 2016 (USD Million)



Source: GSO

USD-VND AND USD-VND EXCHANGE RATE IN 2015 AND 2016



Source: State Bank of Vietnam