

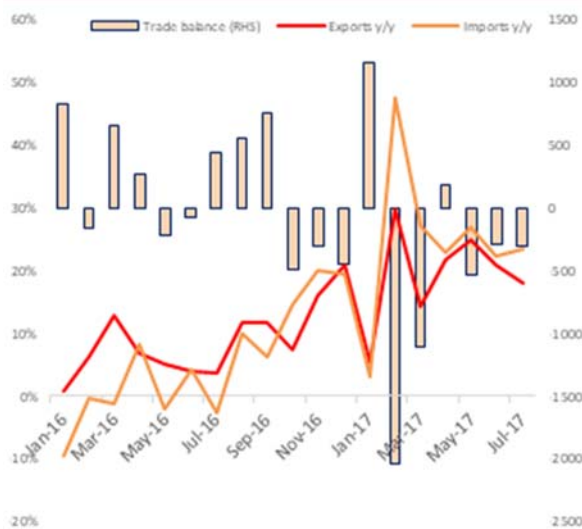
SUBSTANTIAL GROWTH IN IMPORT-EXPORT ACTIVITIES AND FOREIGN INVESTMENT SUPPORTING ECONOMIC STABILITY

Macroeconomic stabilization policies are receiving support from import-export activities and foreign investment. Trading activities increased strongly (exports increased by 18.7% and imports increased by 24% YOY), but the trade deficit was low (USD 2.5 billion after 7 months, equivalent to 2.17% of total exports, far lower than the target of 3.5% set by the government). Foreign direct investment (FDI) rose sharply to USD 21.9 billion in the first seven months of 2017, upped 52% YOY, and total capital pledged for disbursement are USD 9.1 billion (increased 5.8% YOY). In addition, foreign indirect investment (FII) in stocks and bonds rose sharply in the first seven months of 2017 (net buy USD 1.2 billion of which USD 720 million were bonds and USD 480 million were stocks). Stable and growing money inflows into Vietnam combined with deficit trade balance leads to cash outflow out of Vietnam within the control. That has greatly supported the promotion of the effects of monetary policy which is currently the main tool for macroeconomic stability in the rest of 2017.

VIETNAMESE INTEREST RATES TENDS TO BE STABLE IN SHORT AND MIDDLE TERMS

Interest rates in VND deposits at banks tend to stabilize in the period 2015-2017. After bottoming out in April 2016, interest rates have increased slightly. In July 2017, after changing in policies of the SBV, lending rates showed signals of decline. However, the possibility that downs mobilized interest rate of banks in the coming time is likely to be low. The downward adjustment to the deposit rates may occur for short terms, but it is unlikely for mobilization of 12 months or longer. The reason is that banks still have demand to mobilize long-term capital to manage short-term deposits for long-term borrowing ratio. For short terms, the decline of interest rates on the interbank market has created a premise for reducing deposit rates. On overall, the average deposit rates for all terms are unlikely to fall from the current level based on an analysis of the inflation trends over the next three years and the positive real interest rates for deposits in the period 2010-2017. For the SBV, the goal of reducing lending rates is one of the top priorities, however, declining deposit rates is not in favor in the short term.

GROWTH IN IMPORT-EXPORT AND TRADE BALANCE PERIOD 2011-2017



Source: Reuter/VFM

DEPOSIT INTEREST RATE, INFLATION AND REAL INTEREST RATE PERIOD 2010-2017 (%)



Source: SBV/VFM

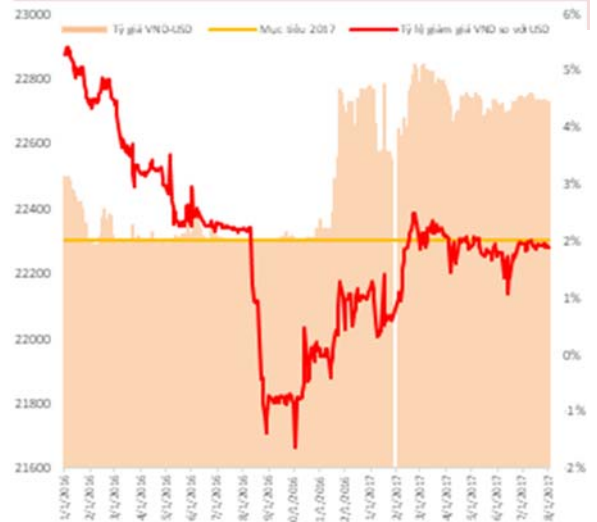
WELL CONTROL IN FOREIGN EXCHANGE AND 2% ADJUSTMENT TARGET IN 2017

SBV's exchange rate policy has continued to be effective in the first seven months of 2017. The interbank market has substantially stabilized and VND/USD exchange rate gap between interbank and unofficial market has dropped to very low levels in 2017. The aggressively raising the buying rate from SBV has greatly helped to actively control the purchase of dollars from the banking system and raise foreign-exchange reserves to over USD 43 billion in July 2017. However, chart data shows that SBV has actively controlled the depreciation of VND against the USD which are always close to the threshold of 2%. In case, this trend continues, the VND/USD exchange rate may exceed 23,000 VND/USD by the end of 2017. The devaluation of VND will also support export activities. Because of above volatility trend, the foreign currency position in the banking system tends to increase in the last months of 2017.

SECURITIES MARKET AND CREDIT GROWTH

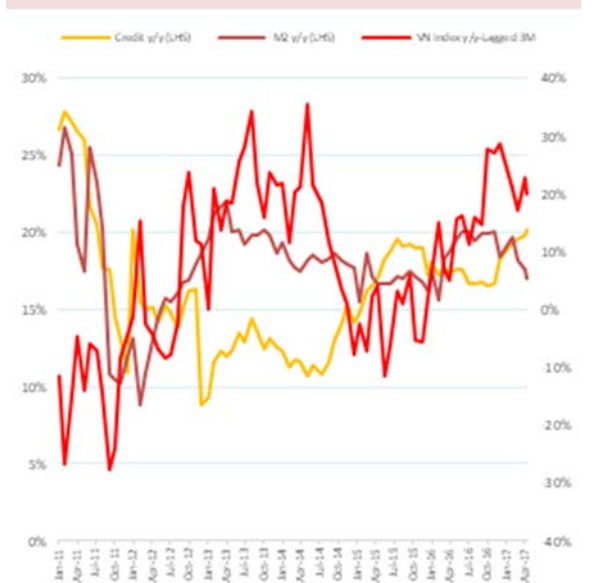
The stock market has experienced strong growth in the period 2016-2017 (in 2016 VN-Index grew 14.83% and 7th in 2017 grew 17.85%). Historical data shows a significant correlation between credit growth and total means of payments to the economy with the growth of the stock market. The influence of credit and money supply on stock market volatility will be lagged around 3 to 6 months. The growth rate of the stock market in 2017 was affected moderately by strong credit growth in the first seven months of 2017 with an average growth rate of 19.4% YTD (while credit growth increased 19.93% YOY). Data shows that the government has consistently pushed up credit growth to the highest possible level in the months of 2017. On the other hand, due to changes in the foreign exchange control mechanism, the SBV did not need to increase the money supply significantly in 2017 as in previous years. However, money supply growth was at 15.76% YOY, very close to the target of 16%. As such, the effect of credit growth on the stock market is not so great in the last months of 2017.

VND/USD EXCHANGE RATE AND AND CHANGING RATIO (2016-2017)



Nguồn: GSO

CREDIT GROWTH RATE, TOTAL MEANS OF PAYMENTS AND VNINDEX (LAGGED 3 MTH) (2011-2017) (%)



Source: SBV/FM