MACROECONOMIC REPORT

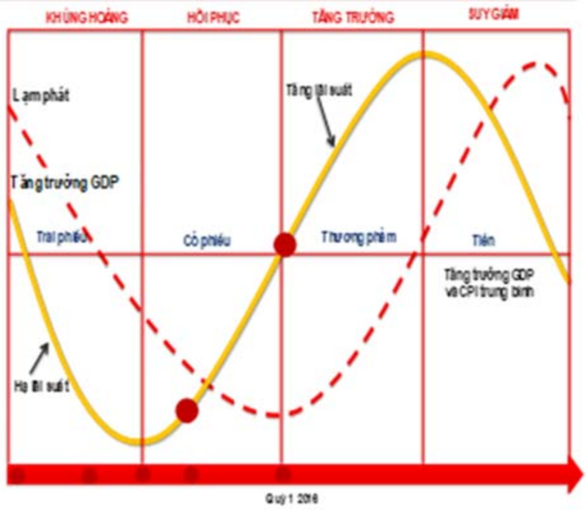
AUG 2017

VIETFUND MANAGEMENT

MACROECONOMIC POLICIES TARGET TO STRETCH GROWTH PERIOD

Vietnam has entered a new cycle of economic growth since the first quarter of 2016, after the recovery period 2013-2015. By cyclicality, economic growth will induce tendencies to raise interest rates and inflation in parallel with GDP growth. The current economic indicators show that the Vietnam economy is still in early stage of the economic growth cycle and that the macro economy has been significantly more positive than the first quarter of 2016. The government is implementing strong measures to support economic growth and to prolong the growth phases. Current government policies have been directly toward tight controls on and lower lending rates. The impact of these policies is clearly reflected in the tightened inflationary trend whereas interest rates have remained steady in recent years. In the medium term, the orientation to change the pattern of economic development and to encompass regimes are solutions to sustain growth. Vietnam is at the forefront of important decisions to overcome the middle-income trap and current developments are supporting stable development in the coming time.

VIETNAM ECONOMIC GROWTH CYCLE



Source: Reuter/VFM

PROMOTING MAJOR SHORT-TERM ECONOMIC GROWTH BASED ON MONETARY POLICIES

The impact of fiscal policy on economic growth in 2017 is limited. The figures show that disbursements for investment and development in the first eight months of 2017 reached only VND131.1 trillion, equivalent to 36.7% of the total planned budget for 2017. In the remaining months of the year, the Government has used drastic monetary policy with targets of 21% -22% growth in credit growth (average credit growth over the same period year-to-month for the months to August 2017 at 19.5 %%) and set targets for lowering lending rates by 0.5% compared to current levels while target growth rate of GDP for 2017 is unchanged at 6.7%. To achieve the target, the SBV have to adjust decreasing OMO rate by 0.25% to 0.5% in the coming time. Adjustments in monetary policies had worked well in 2016 and they are being utilized to moderate macroeconomy in 2017. Monetary policies will continue to be used until fiscal policies becoming effective (expected in second quarter of 2018).

GROWTH RATE IN MONEY SUPPLY, CREDIT & INFLATION PERIOD FROM 2010 TO 2017

Source: SBV/VFM

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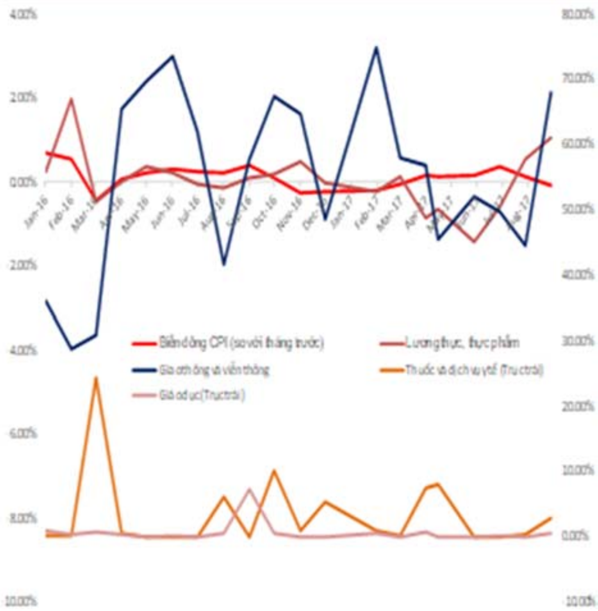
MORE CONTROL ON INFLATION IN THE REMAINING OF 2017 TO COMPLETE THE TARGET OF 4%

Inflation in August 2017 saw a sharp increase of 0.92% over July. This increase was mainly caused by impact of policies changing drug and health services prices at 17 provinces led to a 2.86% rise in price of medicines and health services in the inflation basket. In addition, the increase in petrol price twice in the period for the inflation data has caused the transport group to increase by 2.13% compared to the previous month. However, the biggest increase in August CPI was from the food group (contributed by 0.37% over the previous month, while the two groups of drugs/medical services and transportation only contributed to CPI by 0.14% and 0.2%, respectively). While the impact of policy change on inflation is adjustable, inflation in the last months of 2017 is under pressure from the upward trend of the food and foodstuffs, as prices start to bound back after the declining period. In addition, money supply growth to market tended to increase sharply to support GDP growth, as money supply growth (M2) in August 2017 increased by 16.2% over the same period last year, higher than the whole year (16%) and reverse the slower growth of the first months of the year. This may contribute to inflation in the last months of 2017.

INFLATION ATTRIBUTION BREAKDOWN EACH MONTH PERIOD 2016 – AUGUST 2017

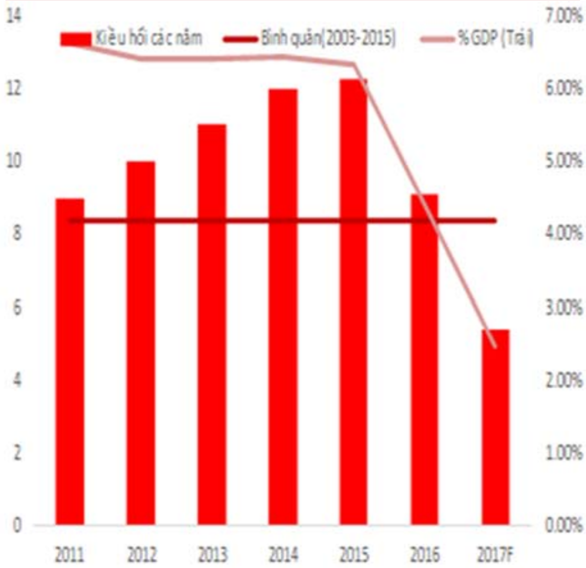


Nguồn: GSO

MARKET MOVEMENT CONTINUES TO SUPPORT MONETARY POLICIES

Macroeconomic data in August showed that SBV monetary policy continued to be effective and favorable. Remittance transferred to HCMC after 8 months has reached USD3 billion, up nearly 43% over the same period last year. As remittances to HCMC accounted for about 50% of the total remittances nationwide, data until the end of August showed the possibility of 2017 remittances in excess of USD5.4 billion forecasted in 2017. In addition, the FDI disbursement was maintained and the FII disbursement increased sharply over the previous year (with USD635 million of listed shares after 8 months compared to minus USD345 million for the whole of 2016), while the trade balance was under control (trade deficit of USD841 million by the end of August, significantly lower than target). All above factors showing signs of SBV policies of maintaining high liquidity in the banking system to support economic growth are still strongly supported. Maintaining high liquidity in interbank market is a prerequisite for banks to reduce their mobilized cost, which in turn can reduce lending rates at maturities.

REMITTANCE PERIOD 2012-2017 (FORECASTED) AND PERCENTAGE OF GDP (%)



Source: SBVVFM