MACROECONOMIC REPORT
OCTOBER 2018

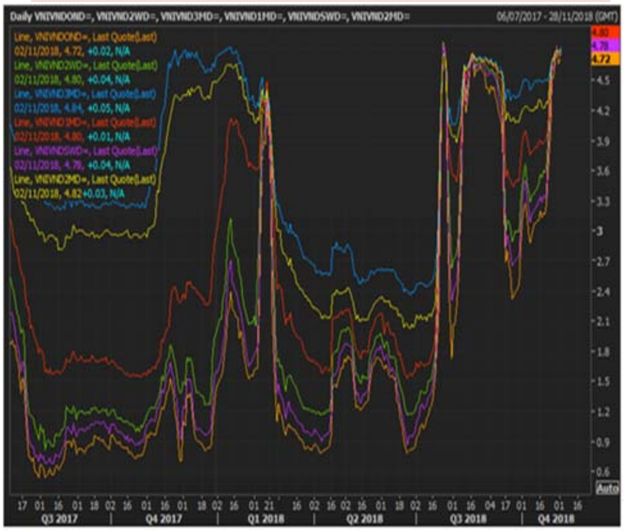
MONETARY POLICY DIRECTION OF STATE BANK OF VIETNAM IN Q4 2018

Monetary policy in Vietnam is revolving around three major complications: inflation, interest rates and exchange rates. Recent market movement show that the State Bank of Vietnam (SBV) is using interest rates as key tool to control exchange rates and inflation. In the context of inflation after the first 10 months of 2018, increased 3.54% year to date, the possibility of inflation in 2018 increase to less than 4% year-over-year is achievable due to significant deduction in oil and food prices pressure since the end of October. As inflation is under control, SBV's main short-term objective is to control the VND/USD exchange rate at a reasonable level. Exchange rates have been controlled by the interest rate adjustment in the interbank market (overnight rate in the interbank market was at 4.7% per annum at the end of October 2018) to make a considerable spread between the VND and USD interest rates. With this adjustment in conjunction with the SBV providing enough USD for the market, the VND/USD exchange rate has been maintained at around 23,350 VND for 1 USD in September and October 2018, when USD appreciated strongly (The dollar strength index is DXY, moving from 94.7 on September 1 to 96.3 at the end of October 2018) causing devaluation in Renminbi from 6.92 to 6.97 RMB/ USD for the period ending October 2018. This SBV policy is expected to be maintained at least through 2018.

UPTREND IN DEPOSIT AND BORROWING INTEREST RATE OF THE BANKING SYSTEM

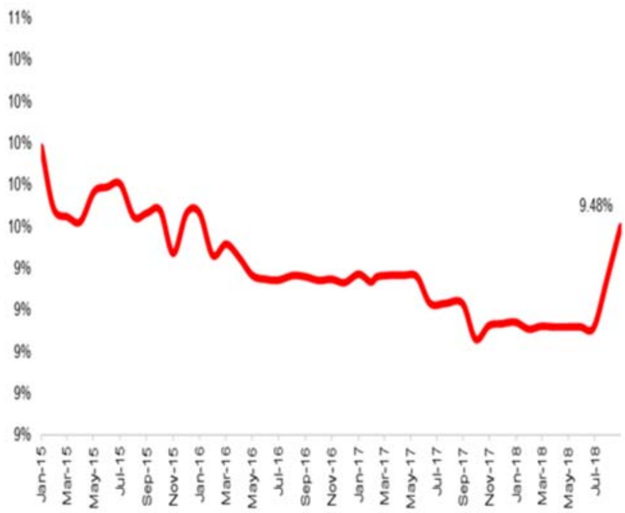
In VFM's macroeconomic report in August 2018, the upward trend of deposit interest rates in commercial banks has been pointed out. In October, deposit interest rates continued to rise for short-term deposits (less-than-six-month tenors) after stabilizing in September, whereas longer-term rates have increased sharply since September due to huge demand of long-term capital for 2019. The data from security companies also shows that short-term deposit rates (1-3 months) are increasing the most in the group of state-owned banks. In term of longer tenors (12-13 months), large commercial banks were the most active interest rate riser. In September and October 2018, data show that lending rates began to rise. Average lending rates increased by 23 basis points from 9.25% to 9.48% per annum. It is easy to figure out that monetary policy of reducing credit growth and increasing mobilization interest rates have started to impact on lending rates. In 2019, rising interest rates will be a potential risk to manufacturer's business operations as financial costs increase. In the current situation, the downward trend or sideways movement of interest rates is unlikely when deposit rates are affected by the high level of interbank rates. In late October and early November, the overnight lending rate in the interbank market was maintained around the discount rate on the OMO (4.75%) to keep the spread between VND and USD lending rate constantly at higt level (around 2.4%) to support exchange rate stability. Therefore, the interbank interest rate will be difficult to reduce in the coming time.

INTERBANK INTEREST RATE MOVEMENT (PERIOD JUNE 2017– OCTOBER 2018)



Source: Bloomberg/HSBC

COMMERCIAL BANK LENDING RATE (PERIOD JAN 2015 TO SEP 2018)



Source: HSC/VFM

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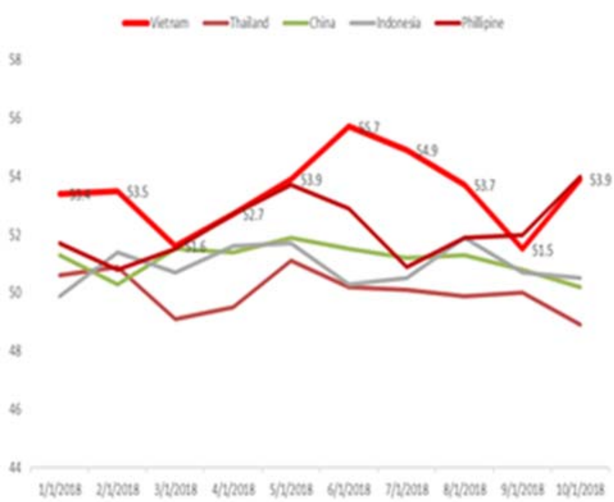
MANUFACTURING ACTIVITIES IN VIETNAM HAVE EXPANDED IN THE CONTEXT OF HIGHER PRESSSURE FROM TRADE WAR

Vietnam Purchasing Managers' Index (PMI) in November 2018 (53.9 points compared with 51.5 points in September 2018) showed a strong expansion trend of production. This trend in Vietnam is quite different from other regional countries. Except for Thailand that having similar fluctuation to Vietnam on the trend of expansion of production, other countries are in the period of decline in production in recent months (see graph). Production expansion in the following months in Vietnam comes from the sharp increase in new orders, which may be the move of importers taking advantage of the new tax policies pushing to import more goods and services. On the other hand, recent professional economic reports show that Vietnam may have been the most beneficiary of the US-China trade war and recent developments in FDI inflows have shown an upward trend in investment of Vietnam's manufacturers as tax avoidance tools. The above points out that Vietnam is likely to receive high FDI inflows in 2019. In addition, production will continue to expand due to large investment in processing and manufacturing. Forecasts show that Vietnam's PMI will continue to be above 51 in 2019.

MONTHLY VIETNAM PMI IN COMPARISON TO THAT OF OTHER REGIONAL COUNTRIES IN 2018



Source: Makit/VFM

NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT PLAN FOR 2019

The figures for the 2019 national economic and social development plan submitted by the Prime Minister to the National Assembly in October are not significantly different from the targets set for 2018. The plan also show that the government continues to pursue a policy of macroeconomic stability with an appropriate GDP growth rate in 2019. Monetary policy is expected to be stricter in 2019 and inflation-control target remains to be important prime to the State Bank of Vietnam. Fiscal policy will be widened in early of next year when public investment in 2018 is slowing down (after the first 10 months 2018, investment from the national budget has reached 69.7% of the annual plan and down 6.4% over the same period of 2017). FDI investment remains the main driver of economic growth and there may be sudden changes in FDI inflows in 2019 as money flows focus on Vietnam ahead of possible US-China trade war escalated and prolonged. In 2019, the Vietnamese economy continues to face with obstacles (which have been and will continue to be) related to infrastructure, administrative reform and the emergence of new obstacles related to technology. In the short term, there are no major macroeconomic fluctuations due to inflation, interest rates and exchange rates. The government's policy of stabilizing the macro economy is appropriate to maintain the attractiveness of investment in Vietnam in addition to domestic economic development.

NATIONAL ECONOMIC AND SOCIAL DEVELOPMENT PLAN FOR 2019

Criteria	Unit	2016	2017	2018 (Plan)	2019 (Plan)
GDP	%	6.2	6.8	6.8	6.6-6.8
Export growth rate	%	9.0	21.1	16.0	7-8
Trade bal-ance	% NK	2.6	2.7	2.3	<-3
Inflation (yoy)	%	4.7	2.6	3.5	~4
Public debt	% GDP	63.6	61.3	61.4	61.3
International debt	% GDP	47.8	49.5	49.9	49%

Source: GovernmentVFM