VEPR

VIET NAM QUARTERLY MACROECONOMIC REPORT

Quarter 3 - 2017

Supported by:

Konrad Adenauer Stiftung

SUMMARY

- The world economy witnessed positive growth in Q3. The US economy continuously showed clear signs of a rebound, therefore, Fed planned to shrink its assets in the next quarter. Furthermore, Fed is quite likely to raise interest rates one more time this year. Eurozone's energetic recovery sped up with relatively equal growth rates among countries as geopolitical risks faded away. At the same time, the UK economy still confronted challenges due to influences of Brexit. In Asia, despite remaining a steady growth, Japan's economy faced labor shortages while the Chinese economy experienced significant growth accompanied by increasing concerns over debt risks. Growth in ASEAN economies remained healthy in Q3 2017; nonetheless, the Indian economy kept slowing down.
- The domestic economy in Q3 recorded the highest growth rate in the past seven years at 7.46% (yoy). GDP growth rate in the first nine months reached 6.41% (yoy), of which the agricultural and service sectors witnessed improvement over the same period of previous years. Meanwhile, except for the mining and quarrying, the industrial and construction sector grew considerably, especially the manufacturing with a growth rate of 12.77% (yoy). Generally, all industrial production indicators varied positively in Q3. VEPI Index revealed recovery signs of the economy in Q3, reaching 6.56%, although it was lower than the GDP growth rate announced by the GSO.
- Nonetheless, the number of new jobs, as well as the labor growth in the industrial sector, fell, especially in the domestic economic sector. Such fact somewhat indicates the dependence of economic performance on the FDI sector.
- Inflation rebounded to 3.4% (yoy) in September, mainly due to the recovery in prices of food and food stuff, as well as the adjustment in prices of basic services such as education, healthcare and petrol in the quarter.
- Trade balance witnessed a slight surplus in Q3 after three consecutive quarters remaining in deficit, with both import and export growth rates staying above 21%. In the first nine months, trade deficit reduced to 0.5 billion USD, of which the trade deficit of the domestic sector (at 18.1 billion USD) was partly offset by the trade surplus in the FDI sector (17.6 billion USD). This structure revealed the dependence of exports on the FDI sector.
- Trade deficit with South Korea remained the highest compared with other trading partners as the country is the largest investor in Viet Nam. Trade deficit with China was ranked second; besides, the China was the fastest-growing importer of Viet Nam. China, therefore, may bring about opportunities for the Vietnamese economy to enhance trade and growth.
- Although budget deficit stayed low, revenue collection and expenditure disbursement were behind schedule. In terms of expenditure structure, spending for public investment only accounted for a relatively small proportion compared to recurrent expenditures and principal and interest payments.
- Consumption continued to improve, growing at 10.5% (yoy) in Q3. A surge in the number of tourists contributed to the high growth rate of revenues of the accommodation and catering services as well as the tourist industry in general.
- Total investment capital rose substantially (16.8%, yoy), especially the FDI capital (27.7%, yoy). Disbursement of public investment capital was slow while that of FDI capital improved.
- While the deposit rates were steady, the lending rates wwere reduced in Q3. Credit growth rate of the first nine months was at 11.02%, higher than deposit growth rate but still far below the 2017 growth target of 21% set by the SBV. Liquidity of the banking system was still plentiful, which was reflected in the sharp drop in interbank interest rates.
- Nominal stability has been maintained in both the forex and the gold markets during the quarter.
- In the properties market, the slowing down in Hanoi was in contrast to the dynamism in Ho Chi Minh City.

THE WORLD ECONOMY

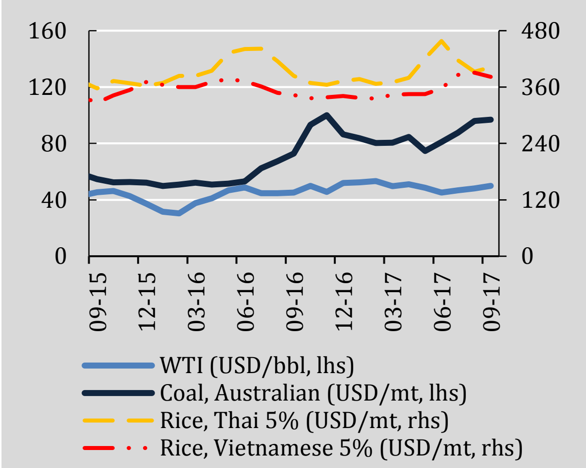
Commodity and asset markets

Commodity markets witnessed a rebound in energy prices.

After having fallen in the previous quarter, crude oil prices slightly improved in Q3. Oil supply fell, mainly due to OPEC's commitment to cut output and the reduced operation of shale oil producers in the US. Meanwhile, demand continued to rise; in particular, in September, the United States imported a large amount of crude oil as the refining industry intensified its activity after being stalled by two hurricanes, namely Harvey and Irma. WTI crude oil price reached the average level of 49.8 USD/ barrel in September, increasing by 10.2% and 3.2% compared to the price in June and the average price in Q2 respectively.

In the coming time, crude oil prices are forecast to continue rising. The latest reports from OPEC and the International Energy Agency (IEA) indicated that global demand for crude oil will rise significantly over the next two years. In addition, OPEC is expected to further extend the agreement to cut oil production, aiming for a solid recovery of oil prices.

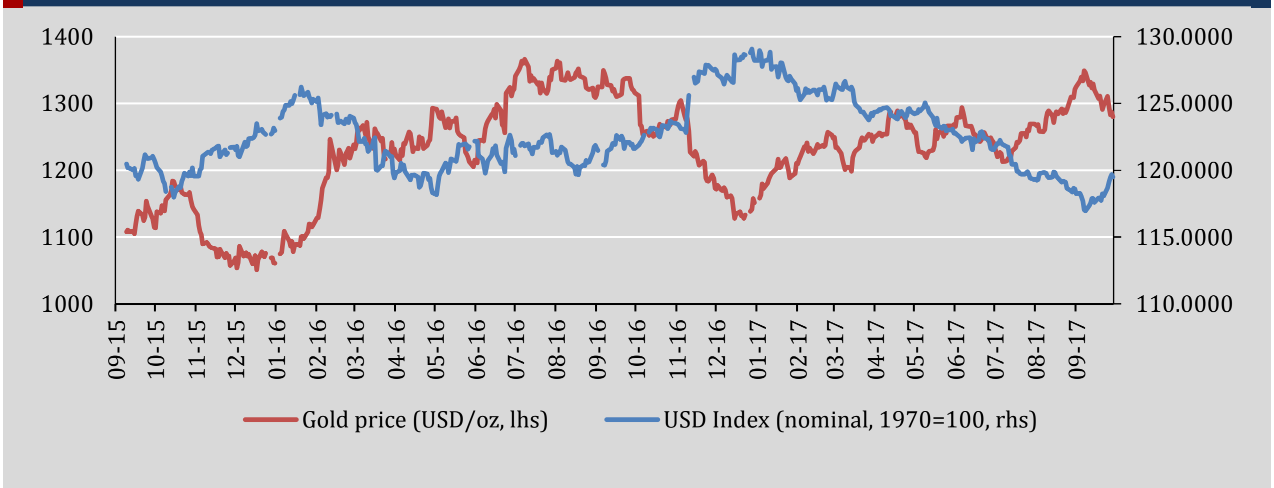
Commodity Prices



Source: The Pink Sheet (WB)

Regarding other energy commodities, Australian coal saw a sharp improvement in price after a period of decline since late 2016. Its price rose to 96.9 USD/ton in September, being the highest in nearly a

Gold Price and USD Index



Source: Fed, Fxpro

year, and up by 21.0% and 19.9%, respectively, compared to the average prices in the Q2 and the first half of 2017, respectively.

In terms of food products, while Viet Nam's 5% rice price maintained a slight upward trend, the corresponding Thai rice price dropped significantly after a sharp increase in Q2. The rebound in rice supply in Thailand after the drought and the weakening of the baht together contributed to the reduction of Thai rice price in USD. Accordingly, Thai rice price fell to 393 USD/ ton in August, down by 14.2% compared to the end of Q2 and approaching the corresponding price of Vietnamese rice in this month. In Q3, the average price of Vietnamese rice reached 386.1 USD/ ton, up by 10.6 % compared to June and up by 12.3% over the average level of the first six months, due to floods.

The world stock market continuously accelerated and set many high records in Q3, in the context of optimistic and less volatile global growth, positive international trade (particularly in China), and the Fed's decision to delay interest rate hike. The MSCI All-Country World Index hit a record high of 488.06 on September 20th, up by 4.75% from the end of June and up by 15.65% from the end of 2016.

Furthermore, in the context of global political instability, crypto currencies such as Bitcoin have attracted growing interest of investors since blockchain technology is increasingly growing and wildly accepted. In Q3, Bitcoin price continued its soaring trend since the beginning of the year, peaking at 4,950.7/bitcoin in early September, which doubled that of the beginning of Q3 and was 5.5 times higher than that of the beginning of 2017. Nevertheless, this currency experienced several fluctuations in Q3 due to falling demand, stemming from fears of a price bubble and China's announcement of tightening the management of digital currencies' trading platforms.
By the end of Q3, Bitcoin price was recorded at 4,353 USD/bitcoin.

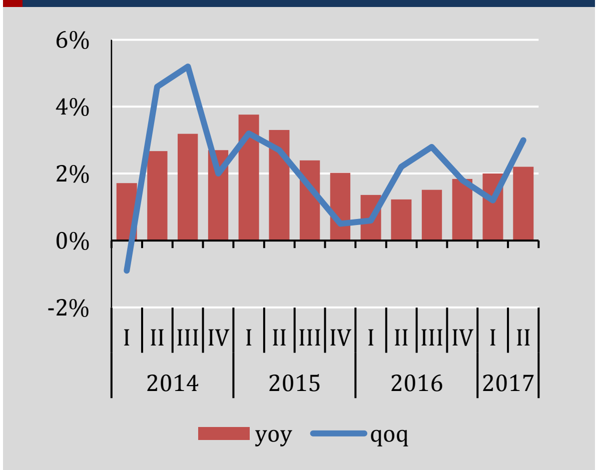
Meanwhile, the dollar tended to decline continuously since the beginning of the year. The nominal US Dollar index hit a low of 116.95 on September 8th, the lowest level in more than two years, down by 3.77% and 8.78%, respectively, compared to the end of Q2 and the end of 2016. The depreciation of the dollar was due to the fall in investors' confidence caused by troubles of the presidential administration, and skepticism about the possibility of President Trump's policies being passed. Moreover, the tension on the Korean peninsula is also a cause of concern. However, the USD index improved sharply in the second half of September when the Fed left open the possibility of raising interest rates one more time by the end of the year and Trump announced his plan to conduct the largest tax reform since 1986. By the end of Q3, the nominal USD index reached 119.50 with a slight increase of 2.17% from the low in early September, but still down by 2.06% and 7.34% compared to the beginning of Q3 and beginning of 2017, respectively.

Gold price tended to vary in opposite directions to the value of the USD in the quarter. The price of gold rose sharply in Q3, peaking at 1,348.9 USD/ ounce in early September, up by 11.2% from early July, largely due to rising demand amid geopolitical tensions in the Korean peninsula and rising demand for gold in China and India, coupled with the Fed's decision to delay interest rate hike and the troubles of the Trump administration. Gold price was under the pressure to reduce as the dollar strengthened in the second half of September.

US economy continuously improved its growth

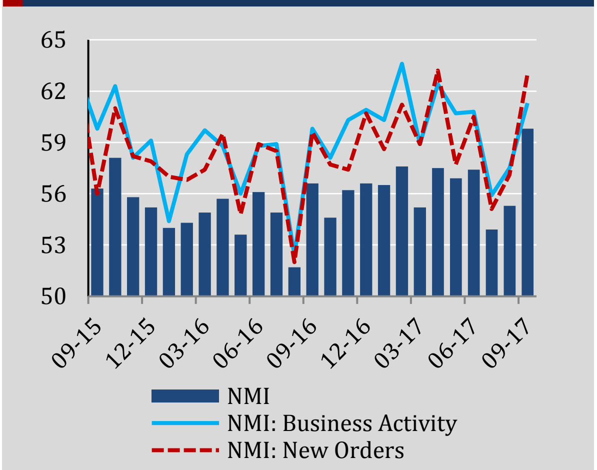
The third estimate released by the US Bureau of Economic Analysis showed that GDP growth rate was 3.1% (qoq) in Q2, 0.1 percentage point higher than its earlier estimate in August. This was the highest quarterly increase in more than two years. In addition, compared with the same period last year (seasonally adjusted), Q2/2017 is the fourth consecutive quarter that the US economy witnessed an improvement in growth, reaching 2.2% (yoy), the highest figure since Q4/2015. According to the US Bureau of Economic Analysis, this positive growth was mainly due to an increase in consumption, business investment, federal government spending, and exports. In particular, in consumption, the most marked rise was seen in spending on housing, communication services, and prescribed medicine. With regard to investment from the business sector, the increase came from investment in equipment, structures, and research and development. As a result, total private investment in Q2 increased by 1.58% (qoq) and 5.13% (yoy), higher than the corresponding quarterly increase.

US Economic Growth (%)



Source: CEIC

US Non Manufacturing Index



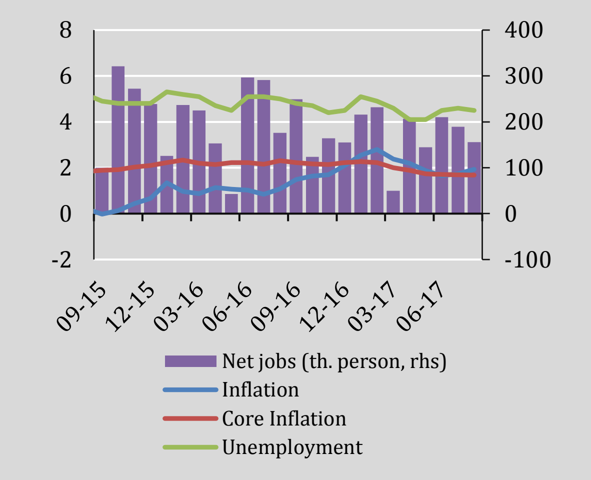
Source: CEIC

However, US economic growth is expected to decline in Q3, as hurricanes Harvey and Irma landed in the United States, affecting the industrial, construction and service sectors of the United States in the quarter. This impact, however, is considered to be temporary for the US economy.

Considering the service sector alone, after maintaining a steady growth since the end of 2016, service indicators declined in July and August before accelerating towards the end of Q3. Specifically, the NMI rose considerably from 53.9 in July to 59.8 in September, being the highest since August 2015 and the 93th consecutive month of expansion of this sector. The two sub-indexes were Business activity and New orders indexes, which rose dramatically to 61.3 and 63 in September. These figures showed a positive assessment of business conditions, despite the negative impact of storms on the supply chain.

In its meeting in late September, Fed made a decision to keep the basic interest rate unchanged at 1%-1.25%, but the interest rate could continue to be raised further by 0.25 percentage point in this December. In addition, Fed announced that it would begin to reduce its balance sheet by selling bonds held at a rate of 10 billion USD each month, starting from this October. According to the plan, after each quarter, the sales of assets would be raised by 10 billion USD, up to a maximum of 50 billion USD per month.

US Inflation and Unemployment (%, yoy)



Source: CEIC

These policy decisions were made based on the Fed's optimistic outlook for the US economy, with steady growth and a positive job market. The unemployment rate increased slightly from the beginning of the previous quarter but remained low, fluctuating around 4.5-4.6%. Net jobs created was 189 and 156 thousand new jobs in July and August, respectively.

Inflation illustrated positive signs as it continuously improved in Q2. Headline inflation rose from 1.65% in June to 1.93% (yoy) in August, approaching the target level of 2%. Core inflation, however, continued to fall slightly to just 1.69% (yoy), down by 25.48% since the beginning of this year. Low inflation may affect the probability of Fed raising rates one more time by the end of the year as planned.

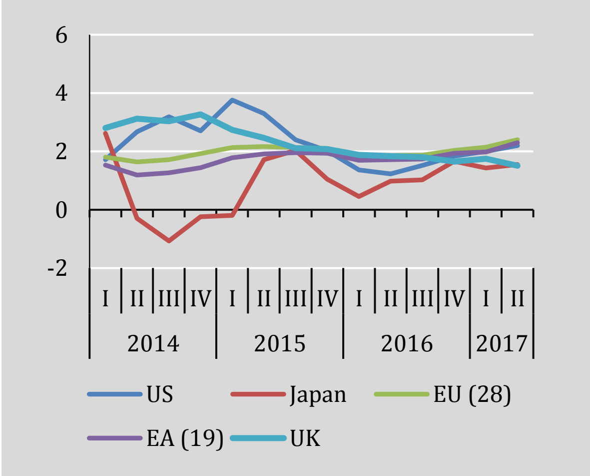
Europe recovered significantly, the UK economy continued to struggle

The European economy saw a strong recovery in Q2/2017. Economic growth in the EU28 and EA19 was 2.4% (yoy) and 2.3% (yoy) in Q3, respectively, the highest levels in more than six years. That the European economy witnessed a positive growth in four consecutive years was the most impressive since the global financial crisis in 2007-2008. In particular, the growth rates of European countries in this region were more even, with many countries experiencing the highest growth rates in many years. Countries such as France, Spain, Austria and Belgium all recorded solid growth.

The euro continued to appreciate considerably against the dollar since the beginning of the year, especially in Q3. The exchange rate fluctuated around 1.19 USD/EUR throughout September, the highest since January 2015, and ended Q3 at 1.182 USD/EUR, up by 4% compared to the beginning of the quarter and 13.8% compared to the beginning of 2017. The appreciation of the euro facilitates Viet Nam's exports to this market and may contribute significantly to Viet Nam's growth as EU is Viet Nam's second largest export market.

Marked contribution to economic growth came from the development of production activities. The growth rate of Europe's manufacturing sector continued to rise, with the June PMI reaching 57.4 points, the highest in more than six years. According to the latest report by IHS Markit, in Q3, this index continued to grow to 58.2 points in September, the highest since February 2011. Strong domestic demand and rising number of new jobs created, coupled with the sharp increase in exports, were the foundation for this improvement. Positive signs from global economic growth, especially the two large trading partners namely the US and China, were the driving forces behind exports and hence the whole the European economy.

Economic Growth in Selected Advanced Countries (%, yoy)



Source: OECD

That geopolitical risks faded away, coupled with the recession of nationalism, protectionism, and extreme right-wing ideology, which were reflected in recent elections, bolstered the opstimistic prospects for the European economy in the future. In particular, the re-election of Chancellor Angela Merkel for the fourth term in the election held in late September will further strengthen the European Union's coordination, facilitating its implementation of the plan, which was initiated by Germany and France, to reform and revitalize the regional economy.

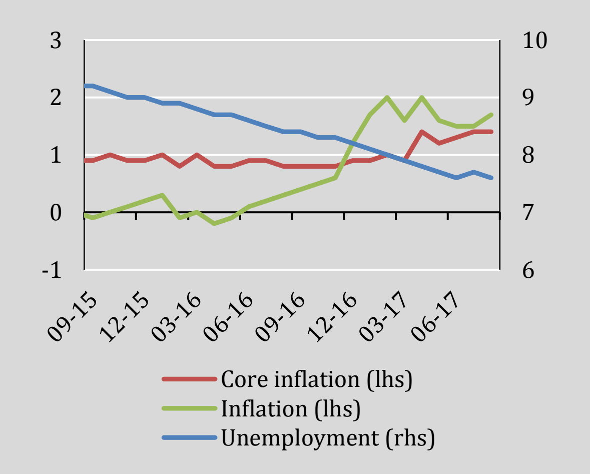
Employment continued to show signs of improvement in Q3. Unemployment rate dropped from 8.2% at the end of 2016 to approximately 7.6-7.7% in Q2 and Q3.

Meanwhile, inflation was almost unchanged and still lower than the target rate set by the European Central Bank (ECB). Headline inflation maintained around 1.5-1.7% in Q3, while core inflation tended to increase, reaching a satisfactory level of 1.4% in August. This suggests that Europe's growth momentum was relatively stable as it was not associated with a sharp increase in inflation, thus promising to continue to improve in the remaining quarters of this year. However, low inflation may be an obstacle to the plan of the ECB to implement contractionary monetary policy next year, amid European banks struggling with super-low interest rates since the global financial crisis.

Meanwhile, the UK economy continued to decline in growth and lagged behind other developed countries due to rising inflation and concerns about the impacts of the Brexit process as well as the failure of Prime Minister May in the snap election. Economic growth in Q2/2017 was 1.51%, being the lowest in the past five years, and also the lowest growth rate out of the G7 countries.

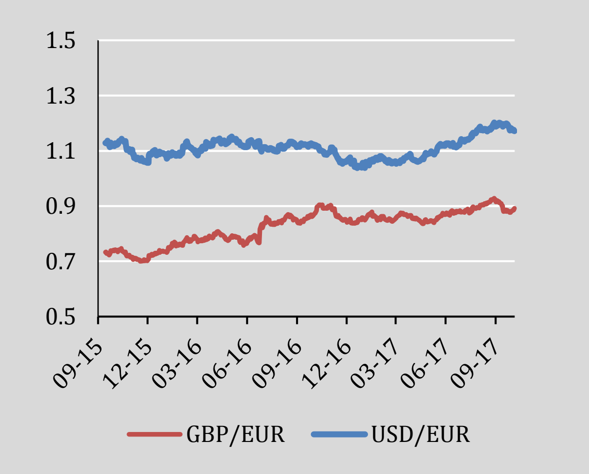
Specifically, inflation increased from 2.3% in March to 2.9% in the middle of Q2. After having improved to 2.6% in June and July, August inflation rebounded again to 2.9%, according to OECD data. The strong depreciation of the pound against the euro has fueled inflation, thus reducing consumer spending and economic growth. The sterling fell by 9.95% from 1.196 EUR/GBP last April to 1.077 EUR/GBP at the end of August. In addition, the risks from Brexit are likely to negatively affect business investment.

Inflation and Unemployment in EU28 (%)



Source: OECD

GBP/EUR and USD/EUR exchange rates



Source: BoE

According to analysts, the British economy is expected to face many difficulties in the future. In the latest IMF World Economic Outlook published on July 24th, the IMF cut its forecast for UK economic growth in 2017 to 1.7% from 2%, which was launched in the previous forecast announced in April this year.

In addition, the people of the autonomous region of Catalonia voted to split from Spain, pushing the country into a political crisis and possibly a recession and also affecting EU's affiliation.

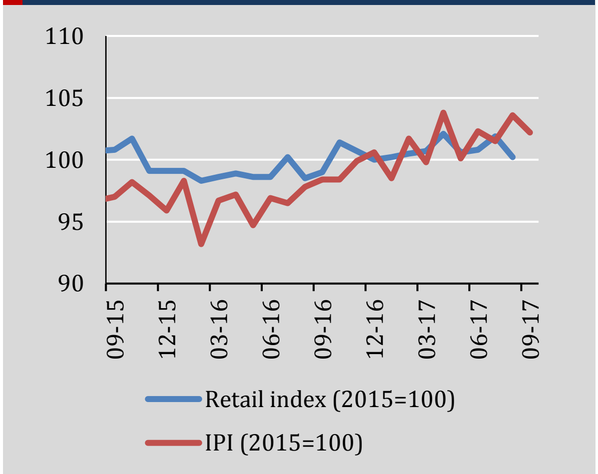
Japan continued to face labor shortarge

Data continued to illustrate a steady growth of the Japanese economy in the first half of 2017. Q2 growth was 1.55% (yoy), higher than Q1 (1.43%, yoy) and the same period of 2016 (0.98%, yoy).

The recovery trend in industrial production has been maintained since the beginning of 2016. In particular, Japan's IPI growth rate was 1.9% (qoq) in Q2, much higher than Q1 and the same period last year (0.2%, qoq). However, industrial indicators in Q3 grew at a slower pace, improving only in August with a growth rate of 2.1% (mom) due to export growth.

Meanwhile, the service sector saw a slight decline, although retail sales remained above 100 points. This may be due to the fact that real wage had not been raised and even dropped by 1.1% (yoy) in July, the strongest decrease since June 2015, while corporate profits witnessed a record high in Q2. This fact may affect consumption and labor productivity, and thus economic growth in Japan.

Japan's Retail Sales and Industrial Production (seasonally adjusted)



Source: Japan Macro Advisors

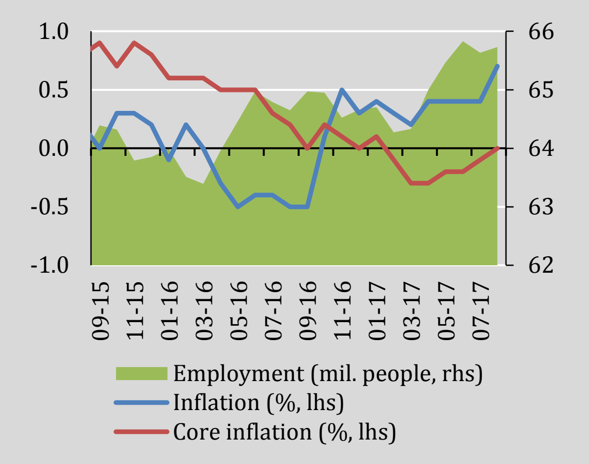
Total Wage and Jobs-to-Applicants Ratio in Japan

Source: Japan Macro Advisors

In the labor market, the number of employed workers tended to fall slightly in Q2, reaching 65.63 and 65.73 million in this July and August, respectively, lower than the previous quarter (65.83 million people). Unemployment rate remained at 2.8%, the lowest rate in 23 years. However, the total job offers to applicant ratio was recorded at 1.52, being the highest rate since February 1974. This figure, on the one hand, reflects the availability and abundance of job vacancies. On the other hand, it also proves the serious shortage of labor supply in Japan, as the number of people in working age decreases whereas the demand for labor keeps growing. Therefore, Japan will still have to employ migrant workers to compensate for the shortage, enabling Vietnamese workers who are seeking employment opportunities in this country.

Meanwhile, inflation showed clear signs of improvement in Q3. Headline inflation rose significantly to 0.7% in August after four consecutive months staying at 0.4%, while core inflation improved steadily in the quarter and reached the zero level in August after remaining negative for a half year. This partly reflects the positive impacts of BOJ's expansionary monetary policy.

Japan's Inflation and Employment rate



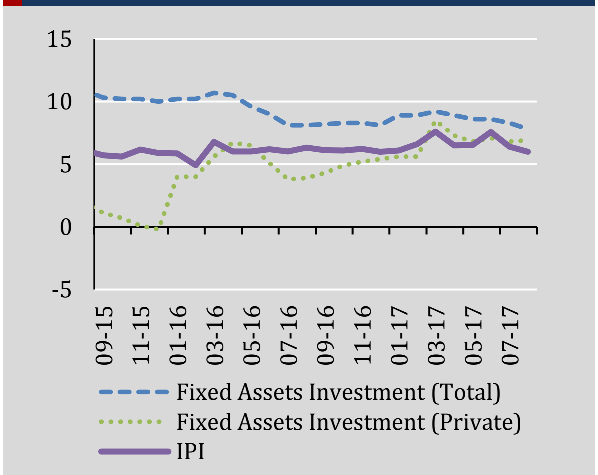
Source: CEIC

Chinese economy grew solidly, but with potential debt risks

In Q2, the Chinese economy maintained a robust growth rate of 6.9% (yoy) since the previous quarter, higher than analysts' forecast.

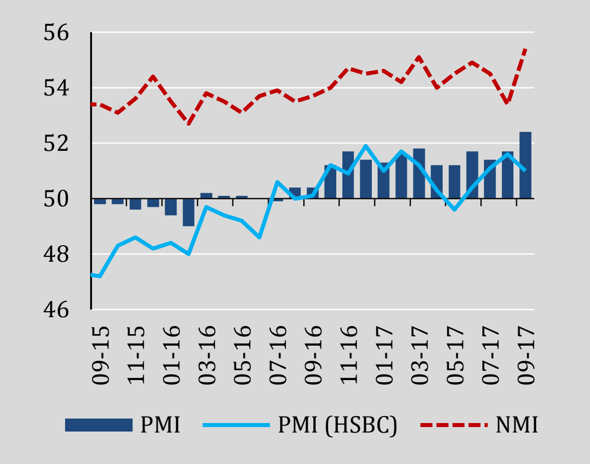
Indicators of industrial production and investment in China all grew considerably in this quarter. Specifically, industrial production indexes in this March and June reached 7.60% and 7.58% (yoy) respectively, being the highest figures since

Fixed Capital Growth & IPI (%, yoy, ytd)



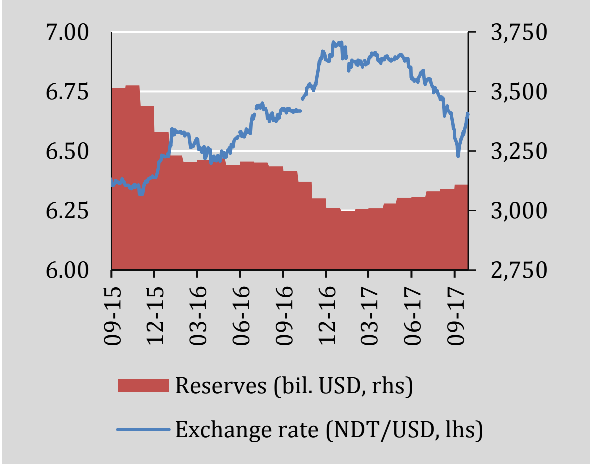
Source: CEIC

China's PMI



Source: AASTOCKS

China's Exchange Rate and Reserves



Source: FRED, CEIC

the beginning of 2015. The PMI always remained above 51 points and tended to follow an upward trend, indicating that the production sector has constantly been expanding.

Moreover, the growth rate of total investment was always close to 9%, of which private investment increased dramatically with an average increase of more than 7% per month in Q2.

In Q3, although the growth rate of industrial output and investment capital of China decreased slightly compared to the previous quarter but still remained favorable. At the same time, the PMI rose sharply in Q3, reaching 52.4 in September. With regard to the service sector, the NMI tended to increase in the quarter, reaching a high of 55.4, indicating a satisfying expansion.

Nonetheless, China's robust growth is associated with rising concerns over its debt risks, as strong credit growth was maintained throughout the past few years. According to IMF's latest annual report on China, China's current debt is on a dangerous path, while the effectiveness of debt as a means of stimulating activity has fallen, thus restricting the fiscal room for it to respond to crises in the interbank market. Two major credit rating agencies, namely S&P and Moody's downgraded China's credit ratings in September and May, respectively, because of the country's potential economic and financial risks.

In the foreign exchange market, Q3 witnessed a sharp rise in the value of the Chinese yuan in the context of the continually weakening dollar. Specifically, the CNY/USD exchange rate fell to 6.48 CNY/USD in early September, down by 4.7% and 6.9% respectively from the beginning of Q3 and early 2017, being the most substantial currency appreciation in Asia since the beginning of the year. The appreciation of the yuan, although had a negative impact on exports, enabled this country to take measures to loosen its capital controls and reflected its optimistic economic situation. By the end of September, the exchange rate slightly increased to 6.65 CNY/USD.

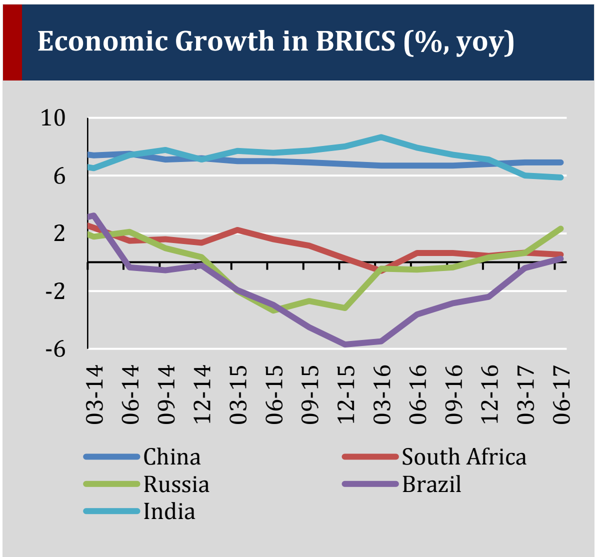
In addition, in early August, China changed the mechanism for setting its exchange rate to increase the decisive role of the market to facilitate international payment balancing, raise the efficiency of resource allocation, and promote the campaign to bring the yuan into the IMF's elite group of strongest currencies.

The central bank, however, still has the ability to keep the renminbi stable at a reasonable and balanced level thanks to abundant foreign exchange reserves. Specifically, China's foreign exchange reserves have grown steadily since the beginning of the year and reached 3,108.5 billion USD in August, up by 110.3 billion USD compared to the beginning of 2017. With large reserves, China has regained its postion as the largest holder of US Treasury bonds after buying this form of asset in five consecutive months. Additionally, after acquiring a series of seaports and industrial zones, Chinese businesses continued to buy a large number of European finance companies, raising the total value of M&A in the financial sector overseas to 9 billion USD from the beginning of this year, while the 2016's full-year figure was 12 billion USD. China's foreign exchange reserves may continue to increase in the future in the context of slowdown in economic growth, especially in the export sector.

Different growth trends among BRICS economies

The BRICS economies continued to witness different growth trends. While the Russian and Brazilian economies kept recovering considerably, the Chinese and South African economies maintain steady growth, the Indian economy experienced a decline in economic growth with the lowest rate in recent years.

Russia's economy in Q2 recorded strong growth of 2.33% (yoy), the highest since early 2014. After nearly two years of recession, the Russian economy began to grow again since Q4/2016 and accelerated in this quarter. According to the Russian



Source: OECD

Ministry of Economic Development, in Q2, industrial production was boosted with the growth rate of 3.8%, especially in energy production due to the unusually cold weather as winter was approaching and demand for gas stocks in winter increased. In addition, the increase in domestic consumption due to low inflation (4%, yoy) and expansionary monetary policy, coupled with stable growth in credit, investment, and oil prices, were also contributing factors to the high growth of Russia. However, the Russian economy will face considerable pressure in the coming time since the United States approved measures to strengthen sanctions against Russia in early August, affecting a variety of industries in this country.

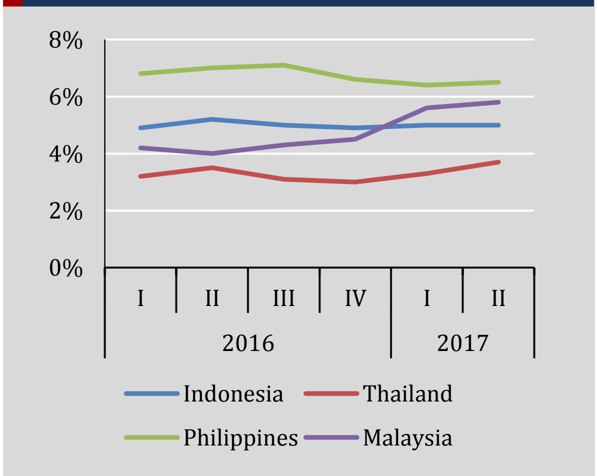
Brazilian economy showed signs of recovery as Q2 saw its first positive growth after three consecutive years of decline, albeit with modest rate of 0.23% (yoy).

Meanwhile, India's economic growth in Q2 was only 5.87% (yoy), the lowest since Q1/2013 and much lower than the average of 7.78% per quarter in the period 2015-2016. This decline is the result of the currency swap in November 2016, as well as the implementation of the new system of goods and services tax (GST), which has slowed down economic growth as businesses and individuals need time to be familiar with the new tax system. This situation, though temporary, is expected to persist in the next several quarters.

ASEAN economies maintained steady growth

Overall economic growth of the ASEAN countries continued to stay steady in Q2/2017. According to ADB, the strong expansion of consumption from both domestic and international markets in addition to investment were the fundamentals of growth in this region. In particular, the structure of economic growth reveals differences among these countries. In Indonesia, the economy grew by 5.0% (yoy) in Q2 thanks to an increase in domestic demand (5.0%, yoy) and domestic fixed investment (5.4%, yoy), coupled with the expansion of the manufacturing sector. In Malaysia, Q2's GDP

Economic Growth in ASEAN-4 countries (%, yoy)



Source: OECD

growth was 5.8% (yoy), the highest level since Q1/2015, mainly due to the 7.1% increase (yoy) in domestic demand and the growth in services and production. The economic growth of the Philippines was 6.5% (yoy), mainly due to government spending increasing by 7.1% (yoy) and natural resource-based sectors such as agriculture, forestry, fishery and mining recovering. In Thailand, economic growth was 3.7% (yoy) in Q2, thanks to an increase in exports and domestic demand and the recovery of the agricultural sector.

Meanwhile, the main growth drivers of Cambodia, Laos, and Myanmar are exports and foreign direct investment. However, the Rohingya crisis that broke out at the end of August in Myanmar would have significant impacts on the amount of foreign investment inflows as well as Myanmar's trade with Western countries and increase its dependence on China.

In terms of prospects, ADB forecast that ASEAN will continue to maintain a high growth rate by the end of the year, reaching 5.0% (yoy) in 2017, higher than two previous years (2015: 4.6%; 2016: 4.8%). For ASEAN-5 countries, according to the IMF's latest projection, their economic growth will reach 5.1% and 5.2% (yoy) in 2017 and 2018, respectively, slightly higher than the earlier forecast in April and higher than last year's average growth of 4.9% (yoy).

Global Economic Prospects (%)

	WEO* (7/2017)			GEP** (6/2017)		
	2016e	*2017p*	*2018p*	*2016e*	*2017p*	*2018p*
Global economy	**3,2**	**3,5 (0,0)**	**3,6 (0,0)**	**2,4**	**2,7 (0,0)**	**2,9 (0,0)**
Advanced countries	**1,7**	**2,0 (0,0)**	**1,9 (-0,1)**	**1,7**	**1,9 (+0,1)**	**1,8 (0,0)**
US	1,6	2,1 (-0,2)	2,1 (-0,4)	1,6	2,1 (-0,1)	2,2 (+0,1)
Euro area	1,8	1,9 (+0,2)	1,7 (+0,1)	1,8	1,7 (+0,2)	1,5 (+0,1)
UK	1,8	1,7 (-0,3)	1,5 (0,0)	1,8	1,7 (+0,5)	1,5 (+0,2)
Japan	1,0	1,3 (+0,1)	0,6 (0,0)	1,0	1,5 (+0,6)	1,0 (+0,2)
BRICS countries	**4,3**	**4,6 (+0,1)**	**4,8 (0,0)**	**3,5**	**4,1 (-0,1)**	**4,5 (-0,1)**
Russia	-0,2	1,4 (0,0)	1,4 (0,0)	-0,2	1,3 (-0,2)	1,4 (-0,3)
China	6,7	6,7 (+0,1)	6,4 (+0,2)	6,7	6,5 (0,0)	6,3 (0,0)
India	7,1	7,2 (0,0)	7,7 (0,0)	6,8	7,2 (-0,4)	7,5 (-0,3)
Brazil	-3,6	0,3 (+0,1)	1,3 (-0,4)	-3,6	0,3 (-0,1)	1,8 (0,0)
South Africa	0,3	1,0 (+0,2)	1,2 (-0,4)			
ASEAN-5 countries	**4,9**	**5,1 (+0,1)**	**5,2 (0,0)**			
Indonesia	5,0	5,1	5,3	5,0	5,2 (-0,1)	5,3 (-0,2)
Malaysia	4,2	4,5	4,7	4,2	4,9 (+0,6)	4,9 (+0,4)
Philippines	6,8	6,8	6,9	6,9	6,9 (0,0)	6,9 (-0,1)
Thailand	3,2	3,0	3,3	3,2	3,2 (0,0)	3,3 (0,0)
Viet Nam	6,2	6,5	6,3	6,2	6,3 (0,0)	6,4 (+0,1)
Laos	6,9	6,8	6,8			
Cambodia	7,0	6,9	6,8			
Myanmar	6,3	7,5	7,6			

Note: Differences from latest forecast in parentheses; *e* represents estimates; *p* represents prediction

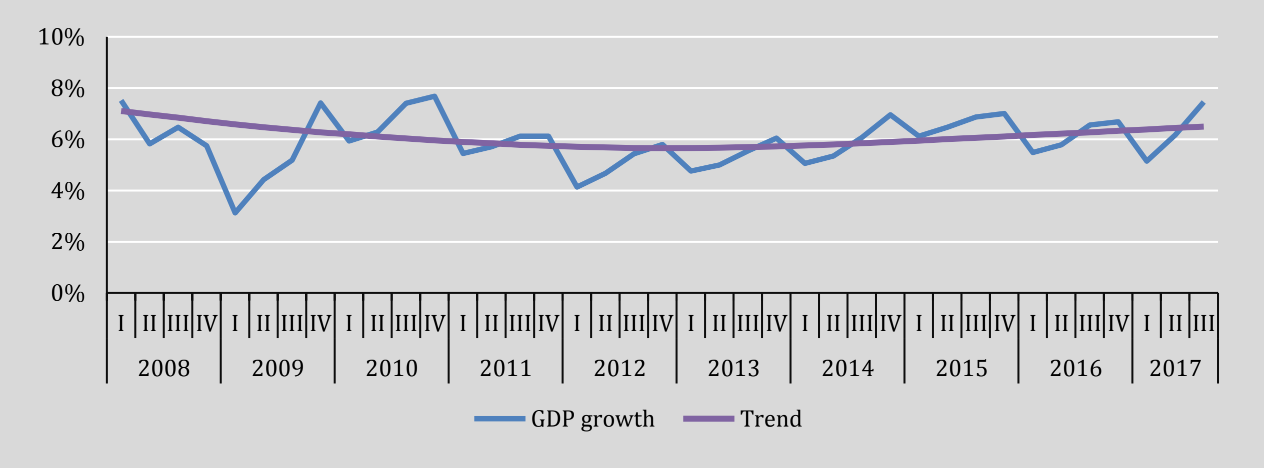
Source: World Economic Outlook (IMF), Global Economic Prospects (WB)

THE VIETNAMESE ECONOMY

Growth-Inflation

Abnormal surge in economic growth in Q3

Viet Nam Economic Growth (%, yoy)



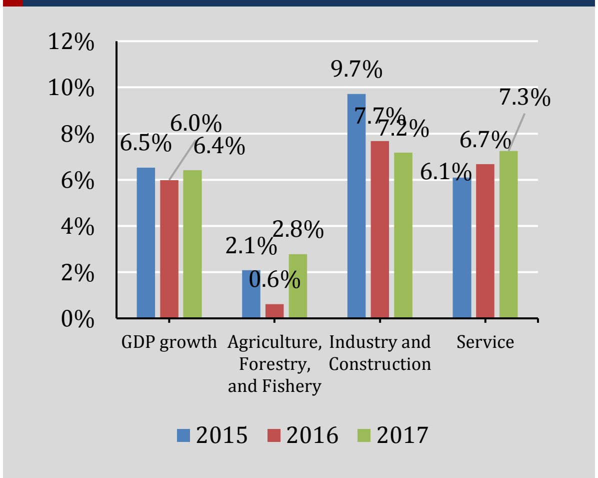
Source: Calculated from GSO data

According to the announced data, Vietnamese economy witnessed an abnormal surge in economic growth in Q3, with the growth rate at 7.46% (yoy), the highest in the past seven years and much higher than Q2/2017 (6.17%) and the same period of previous years (2015: 6.87%, 2016: 6.56%). The economic growth rate in the first nine months of the year reached 6.41% (yoy), significantly surpassing the same period of 2016 yet a bit lower than 2015 (6.5%).

The service sector increased by 7.25% (yoy) in the first three quarters, following an upward trend from 2015 to 2017. Of which, the finance, banking and insurance and the real estate business recorded the highest growth for the past half decade, respectively at 7.89% and 3.99% (yoy).

The agriculture, forestry and fishery also experienced a clear recovery compared to 2016. The growth rate of this sector in the first nine months was 2.78%, which was higher than in 2016 and far higher than the

Economic Growth in the first 9 months of 2017 by sector (%, yoy)



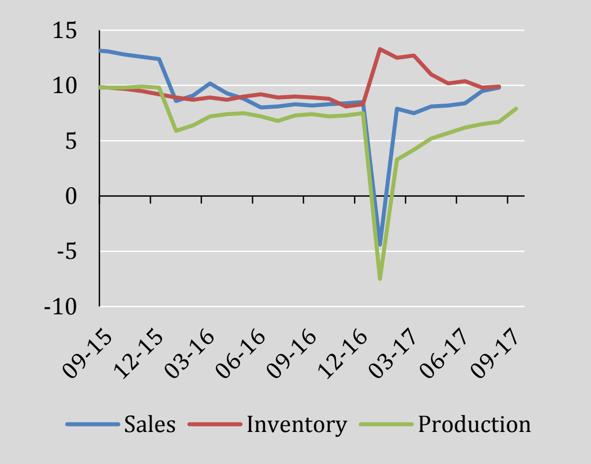
Source: GSO

rate of 2.08% in 2015. Thanks to favourable weather from the beginning of the year, the fishery and forestry moved up by 5.42% and 5.00% (yoy). Meanwhile, large-scale floods in Q3 caused a moderate rise at 1.96% in the agriculture sector.

The industry and construction sector's growth rate in Q3 was still lower than in the same period of the past two years, especially 2015 (2015: 9.72%; 2016: 7.68%; 2017: 7.17%, yoy), mainly due to the fall in mining and quarrying by 8.08% (yoy). The manufacturing sector uninterruptedly increased at a notable rate of 12.77% (yoy) for the first three quarters, which was also the highest over the same period in recently years (2013: 6.58%; 2014: 7.09%; 2015: 10.15%; 2016: 11.22%). Besides, the construction sector maintained a fairly positive growth at 8.3%, albeit a bit lower than the past two years, which both stayed higher than 9% (yoy).

All industrial production indicators also revealed improvement in Q3. Industrial production index and consumption index surpassed the average figures for 2016, indicating that the reduction in the beginning of the year was only temporary. Specifically, by the end of September, the Industrial Production Index (IPI) for the whole industry increased by 7.9% (yoy), being the highest rate since 2016. Of which, IPI of the manufacturing jumped by 12.8% (yoy). This is the highest rate of this industry for the past several years.

Selected Industrial Indicators (%, ytd)

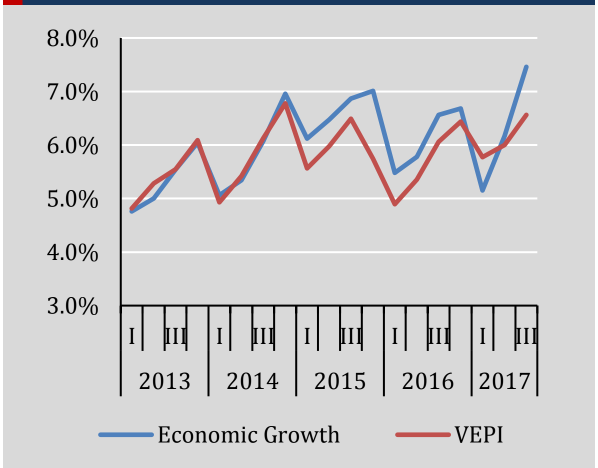


Source: GSO

Similarly, consumption index kept improving to reach 9.8% (yoy) for the first eight months of the year. Meanwhile, stock index in Q3 rose by a mere 9.9% (yoy) in August.

Such remarkable growth in Q3 partly indicates the outcomes of several drastic measures and directions of the government recently. To reach the target growth rate of 6.7%, the government has launched a

Viet Nam Economic Performance Index



Source: VEPR

number of measures, namely creating favourable conditions for borrowing for households as well as businesses, speeding up the implementation and disbursement of public investment capital, as well as setting objectives, targets and scenarios for growth for every department and industry. Nonetheless, such measures and directions were only for short term since they did not aim at fundamental foundations of economic growth, such as labor productivity and technological advancements.

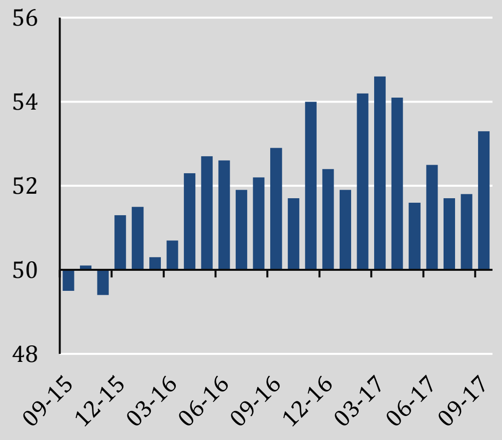
In addition, Viet Nam Economic Performance Index (VEPI) estimated by using data on power consumption, imports and exports, railway transportation, credit growth and the manufacturing PMI indicator, showed the recovery of the economy. Nevertheless, such recovery was not as considerable as the announced GDP growth of the GSO. In detail, VEPI in Q3 reached 6.56%, surpassing the previous quarters yet much lower than the GDP growth rate at 7.46%. Due to the large gap between GDP and VEPI, we need to consider the unification of data. Of all components of VEPI, apart from imports and exports which recorded a high growth rate (yet lower than the previous quarter), the rest experienced no considerable changes with medium growth rates.

Decrease in job creation and labor growth in the industrial sector

In the context of high economic growth, the Purchasing Managers' Index (PMI) followed an upward trend with an increase from 51.7 points in July to 53.5 points in September thanks to growing consumption demand. Accordingly, the PMI Index also recorded 22 consecutive months of the manufacturing's expansion. Such growth in the PMI Index was a forecast for the development in business conditions in the manufacturing in Viet Nam.

The survey on business trend of manufacturing and processing enterprises conducted by the GSO also showed positive figures. Of all the surveyed enterprises, 41.5% rated their business performance in the third quarter better than the previous one while only 17.9% rated worse, a much lower figure than the previous quarter's one (19.2%) and that of the same period of 2016 (19.7%).

Viet Nam's PMI



Source: HSBC, Nikkei

In September, there was a remarkable reduction in the number of newly registered enterprises to reach 8,610 after the fluctuation around a high level of 12,000 from March to August. Total registered capital and laborers also fell to 38.7% and 37% respectively over August; while the number of enterprises temporarily suspending operation was up by 17.6% in September. Such facts partly resulted from the concerns of citizens about the unluckiness for starting businesses in the seventh month of the Lunar calendar, coinciding with September of this year.

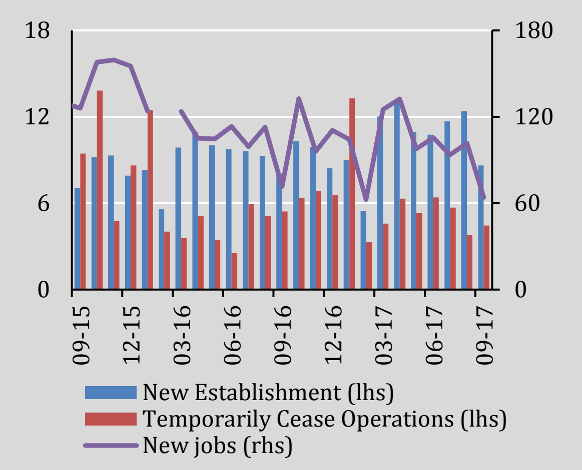
For the whole quarter, the number of newly established enterprises fell by 6.1% against Q2, up by 21.3% compared to Q3/2016. The highest numbers were recorded in the wholesale and retail trade (12.4 thousand enterprises), manufacturing and processing (3.9 thousand enterprises) and construction (3.7 thousand enterprises). Moreover, the number of enterprises temporarily ceasing operation was down by 22.9% (qoq) and 15.4% (yoy).

Newly created jobs in Q3 dropped by 22.8% (qoq) and 8.6% (yoy) to reach 259.2 thousand. In the nine months of the year, the total number of registered laborers of newly established enterprises also decreased by 4.5% against 2016 and 11.3% compared to 2015.

Reduction in growth was also witnessed in the number of laborers in the industry. The number of laborers by September 1st, 2017 had grown by 4.6% (yoy), much higher than in the same period of 2016 yet far lower than that of 2015. The number of laborers in all industries, except for the manufacturing and processing, decreased over the same period of 2016.

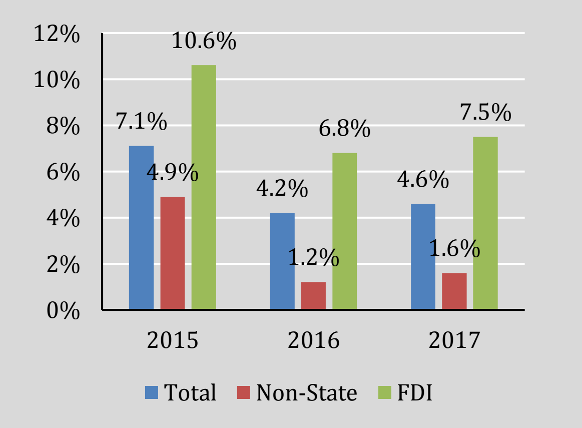
By sector, labor growth was mainly recorded in the foreign capital sector at 7.5% (yoy). Meanwhile, laborers in the state-owned enterprises fell by 3.6% and ones in the non-state enterprises was up by merely 1.6%.

Enterprise Operations (th. unit, th. people)



Source: GSO

Labor Growth in Industry Sector in the first 9 months of 2017



Source: GSO

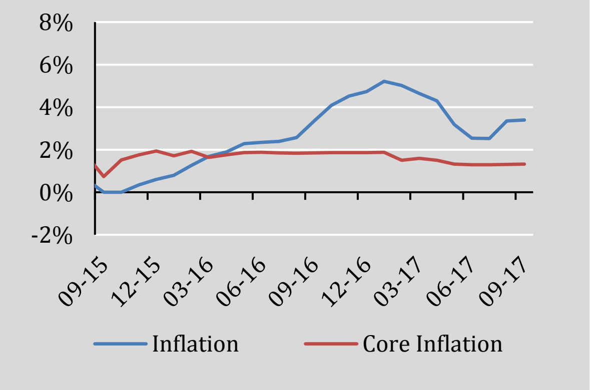
In this context, it can be concluded that the industrial production of the domestic sector has not been improved, and the private sector still failed to act as the main force of the economy. As a result, in June, Resolution of the 5th plenary meeting of the 12th Communist Party of Viet Nam Central Committee on the development of the private economic sector to become the driver of the country's socialism-oriented market economy was released, and at the beginning of October, the Action Program of the Government on implementation of the Resolution was approved by the Prime Minister. In detail, the Government has set several key missions and targets to improve the business environment; enhance growth quality, labor productivity as well as competitiveness of the economy; abandon at least 1/3 to 1/2 of unnecessary and unreasonable barriers; increase opportunities for market access as well as encourage the equal competitiveness among enterprises. Besides, the State Bank of Viet Nam issued the decision, which was effective from July 10th, 2017, to cut the benchmark interest rates by 0.25%/year and to reduce the lending interest rate by 0.5% for many economic sectors. Accordingly, all banks adjusted interest rates to create opportunities for enterprises to access capital source and reduce borrowing costs, which would boost production and business activities.

Inflation rebounded in Q3

After a plunge since the beginning of the year, headline inflation rebounded in August and September due to the increase in food and food stuff prices. In detail, the Consumer price index (CPI) growth increased from 2.52% in July to 3.35% and 3.4% (yoy) respectively in the next two months. Pressures on inflation mainly resulted from the increase in the public service price as well as the adjustments in petrol price in the quarter.

In detail, in terms of health service price, in August and September there were 20 provinces conducting price adjustment in health services for those who did not register to health insurance, with an increase of 29.01% compared to December 2016 and 58.08% compared to September 2016. In terms of education service, 5 provinces and 41 municipalities implemented tuition fee adjustments in August and September. By the end of September, the price of education service had rose by 7.92% over December 2016 and 8.65% (yoy).

Inflation and Core Inflation (%, yoy)



Source: GSO

At the same time, transportation price followed an upward trend after several adjustments in the quarter with a rate of 5.7% in September and 6.7% in August (yoy).

Besides, the Prime Minister signed Decision No. 24/2017/QD-TTg taking effect from August 15th,2017 on granting the Electricity of Viet Nam (EVN) company the rights to adjust average retail prices of electricity by 3-5% (based on the fluctuation of input prices), which may pose pressures on inflation in the coming time.

Meanwhile, core inflation rate slightly dropped compared to Q2 to reach 1.32% (yoy) at the end of Q3. Such reduction expands the gap between the headline inflation rate and core inflation rate, indicating that the rebound in headline inflation rate largely resulted from increases in prices of goods managed by the state. On the other hand, fluctuation in the core inflation rate also reflects the prudent money supply control by the SBV. In the first nine months of the year, total means of payment was estimated to increase by 9.59% over the end of 2016, which was a lower rate compared to the same period of last year (11.76%).

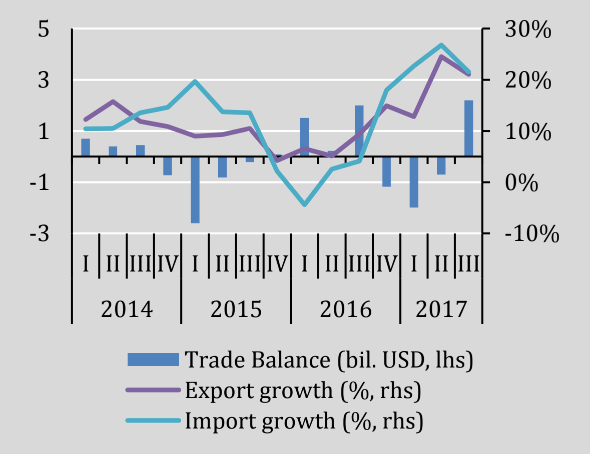
Macroeconomic balances

Slight surplus in trade balance, but with severe trade deficit in the domestic sector

Q3 continuously witnessed considerable growth of trade. Exports and imports growth rate both stayed above 21% (yoy), merely lower than the previous quarter in the past five years. Specifically, exports and imports grew by 21.1% and 21.6% (yoy) respectively in Q3. Particularly, after three quarters of trade deficit, Q3 recorded a trade surplus of 2.2 billion USD, the highest for the past several years.

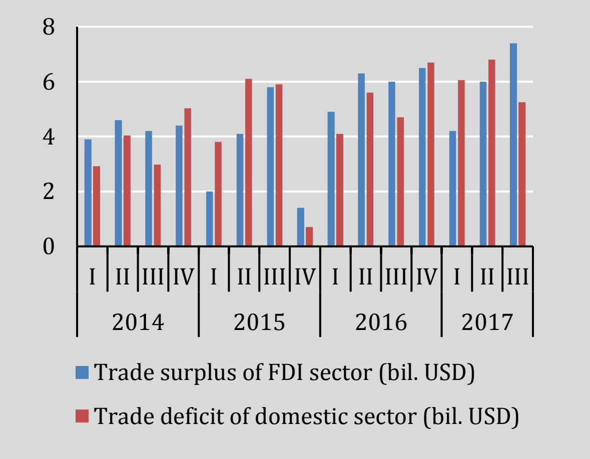
In the first nine months of 2017, export turnover was estimated at 154 billion USD, up by 19.8% (yoy), much higher than the same period of previous years (2015: 9.6%; 2016: 6.7%). Export growth was recorded in both value and quantity. If excluding price factors, exports increased by 14.4% (yoy), higher than in 2016 (10.2%).

Trade Balance and Growth



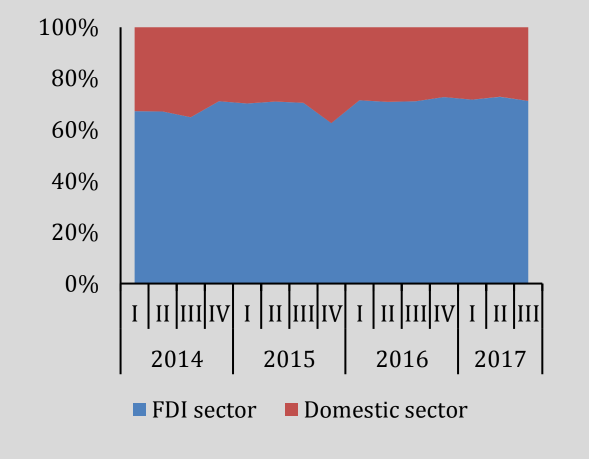
Source: CEIC, GSO

Trade Balance by Sector



Source: CEIC, GSO

Exports by Sector



Source: CEIC, GSO

In the first nine months of the year, import growth rate was at 23.1% (yoy). Import turnover reach 54 billion USD in Q3 and 154.5 billion USD in all three quarters of 2017. Therefore, although Q3 recorded a trade surplus of 2.2 billion USD, for all three quarters, Viet Nam still confronted a slight trade deficit at 0.5 billion USD (compared to the same period of 2015 at 3.8 billion USD and 2016 at 2.8 billion USD).

Especially, by sector, in the first nine months of the year, while the FDI sector experienced a surplus of 17.6 billion USD, the domestic sector was in a contrast situation with a deficit of 18.1 billion USD. In Q3 only, trade deficit of the domestic sector was recorded at 5.2 billion USD, a lower rate than the previous two quarters yet up 11.7% (yoy). It can be concluded from such fact that Vietnamese trade, as well as economic growth, depended largely on the FDI sector, which raised concerns over the quality and sustainability of economic growth in the long term.

By item, exports of most main commodities of Viet Nam significantly climbed over the same period of 2016. Of which, exports of phones of all kinds and components reached 31.0 billion USD (up by 21.4%); exports of garments recorded a value of 18.5 billion USD (up by 40.8%) while that of shoes and sandals was 10.6 billion USD (up by 1.7%). Noteworthy, exports of heavy industry goods and minerals cumulated over nine months of 2017 was 76.8 billion USD, up by 24.3% (yoy) in value and accounted for a more significant proportion in export turnover compared to the same period of previous years (2014: 42.1%; 2015: 45.9%; 2016: 45.9%; 2017: 49.9%).

Meanwhile, imports soared in the group of materials for manufacturing and processing industry. Of which, imports of machinery, equipment and spare parts reached 27 billion USD (up by 32.9%) while such figures for electronics, computers and their components, and phones of all kinds and their components were respectively

25.8 billion USD (up by 28.3%) and 10.7 billion USD (up by 41.3%).

By partner, although the USA and EU remained the largest import partners of Viet Nam with import turnover at 31.2 and 28.4 billion USD respectively, export turnover to other regional countries kept surging. Export turnover to China, ASEAN, Japan and Korea stayed at 21.9 billion USD, 16 billion USD, 12.5 billion USD and 10.6 billion USD with the growth rate of 44.7%, 26.1%, 17.2% and 27.3% (yoy) respectively.

Noteworthy, China was ranked the first in the group of Viet Nam's export markets with the highest growth rate, especially in the agricultural, forestry and fishery goods. In particular, exports of vegetables to China increased by 60% (yoy) in the first three quarters, accounting for more than 70% of export turnover of this item. It illustrates a substantial dependence of Vietnamese export on Chinese market, which owns favourable conditions for importing Viet Nam's goods, especially agricultural goods thanks to its large scale and the geographical proximity. The fact that Chinese market keeps developing and sets higher requirements in terms of technical barriers has pushedVietnamese producers to enhance quality of export agricultural goods. Besides, the continuous appreciation of the yuan was favourable for export of Viet Nam to Chinese market. If Viet Nam properly perceives the importance of this market and concentrates on enhancing goods quality, we believe that the trade deficit situation will be greatly improved and the economic growth will be sped up in the coming time. If not, the glut in supply is inevitable like the cases of items such as pork and watermelons.

Meanwhile, Korea concreted its position as the largest trade deficit partner of Viet Nam. Main reasons are its first ranking in terms of invested capital in Viet Nam and that Korean FDI enterprises mostly import materials for manufacturing from their home country. For the first nine months of 2017, while imports from Korea reached 33.9 billion USD, up by 46.5% (yoy), imports from China rose by merely 15.6% to reach 41.6 billion USD. Accordingly, trade deficit with Korea was 23.3 billion USD, expanding the gap with that of China at 19.7 billion USD. The changing of the largest trade deficit partner from China to Korea – a country with higher technology capability – may be considered as an opportunity for Viet Nam to advance its technology through adjusting and applying imported products from Korea.

State budget revenue collection and expenditure disbursement were behind schedule

Budget deficit continued to remain low in the first three quarters. Nevertheless, revenue collection and expenditure disbursementwere behind schedule compared to previous years.

By September 15th, 2017, total state budget revenue had been estimated at 786.3 trillion VND, up by 18.2% (yoy), about 64.9% of the plan (2015: 70.3%; 2016: 65.6%). Of which, domestic revenue was 617.7 trillion VND, about 62.4% of the plan and accounting for roughly 78.6% of total revenue. Revenue from the state sector reached 137 trillion VND, equaling 47.8% of the plan; meanwhile, revenues from the non-state sector and FDI sector (excluding crude oil) were 120.2 and 111.4 trillion VND respectively, about 61.8% and 55.4% of the plan. Over the end of Q2/2017, revenue from the state sector increased at a higher rate (66%) than the other sectors (52% and 50% respectively).

Total state budget expenditure up to September 15th was about 851.5 trillion VND, about 61.2% of the plan. Of which, expenditure for development investment continued to remain low at 153 trillion VND, equaling to 42.8% of the plan and accounting for 18.0% of the total. As a result, budget deficit cumulated three quarters of 2017 was estimated at 65.2 trillion VND, the lowest level in recent years (2015: 136 trillion VND; 2016: 154,2 trillion VND). However, this also stemmed from the fact that the principal payment had no longer been included in the state budget deficit since fiscal year 2017. If the principal payment was included, the budget deficit would remain at a very high level of 193.2 trillion VND in the first nine months of this year.

In the context of slow disbursement of development investment capital, on August 3rd, the government approved the Resolution No. 70/NQ-CP on major missions and measures to speed up the implementation and disbursement of public investment capital, in order to fulfill the planned disbursement for public investment capital in 2017. Such movement not only contributes to economic growth but also prevents the current wasteful and inefficient use of public investment capital.

Meanwhile, the majority of expenditure (about 73%) was for recurrent expenditures which was estimated at 623 trillion VND, equaling to 69.5% of the plan. Recurrent expenditure growth rate is even having a trend to increase in terms of nominal value (2015: 7.3%, 2016: 5.8%, 2017: 8.5%). Moreover, the principal repayment and interest payment were estimated at 128 and 72.4 trillion VND respectively, about 78.1% and 73.2% of the plan, which indicates the imbalanced structure of total budget expenditure when the resources for long-term growth such as public investment is crowded out by short-term demand like recurrent expenditure and debt payment.

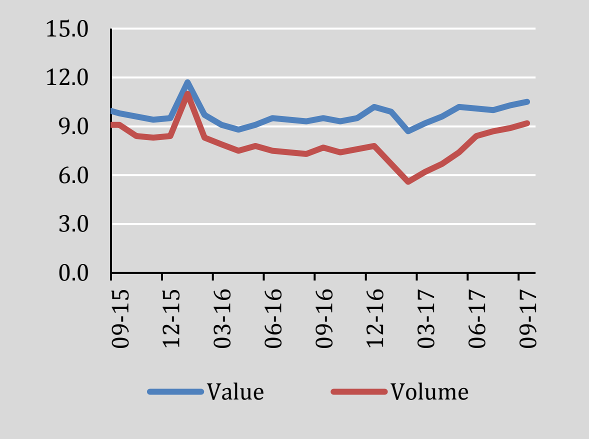
Consumption kept improving, investment growth mainly came from FDI sector

The domestic consumption strongly improves in Q3. Total retail sales of consumer goods and services in the first nine months reached 2,917.6 trillion VND, up by 10.5% (yoy) (2015: 10.2%, 2016: 9.5%).

In addition, consumption was substantially enhanced in terms of quantity with the growth rate at 9.2% (yoy), excluding price factors. Of which, some groups with high growth rates were transports (24.9%), garments (14.9%) and household equipments (11.3%).

Moreover, the upsurge in the number of domestic and foreign visitors contributed to the growth rate of 12% and 14.4% respectively in revenues of the accommodation and catering services as well as the tourist industry of Viet Nam in the first nine months. Especially, the number of foreign visitors to Viet Nam amounted to more than 9.448 million arrivals, up by 28.4% (yoy) and equaling to 73% of the target set by the Government (at 13 million arrivals this year, up by 30% over the previous year).

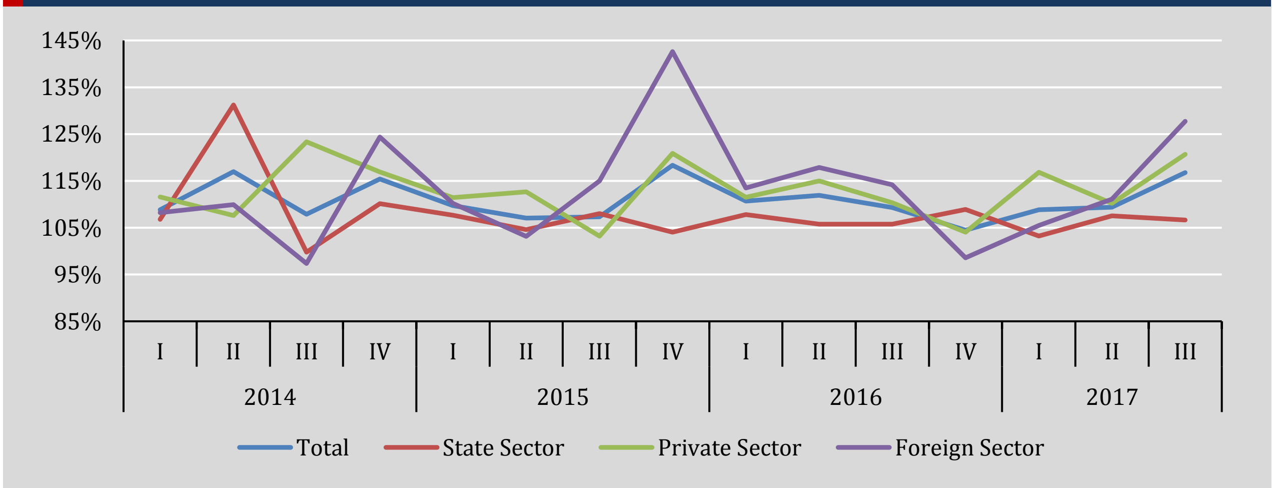
Retail Growth (%, ytd, yoy)



Source: GSO

Meanwhile, total capital investment grew at a more considerable rate in Q3, especially the FDI. Total implemented capital of the whole economy was estimated at 453.9 trillion VND, about 116.8% over the same

Total Social Investment (Compared to Corresponding Period of the Previous Year)



Source: Calculated from GSO data

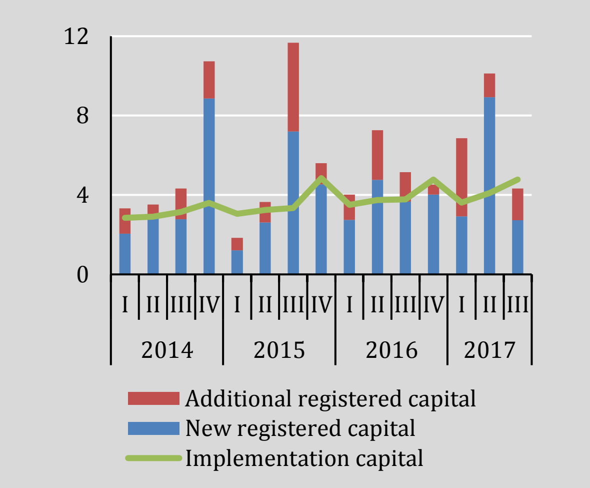
period of last year, the highest in the past two years. Such recovery mainly stemmed from the FDI sector, with a total capital of 105.0 trillion VND, up by 27.7% (yoy). Besides, investment of the private sector also jumped up by 20.7% (yoy), much higher than the previous quarter (10.2%) and the same period of 2016 (10.3%) (yoy).

Although the Government approved Resolution No. 70/NQ-CP on major missions and measures to speed up the implementation and disbursement of public investment capital on August 3rd, capital growth rate of this sector remained slow, at 6.6% (yoy) to reach 159.4 trillion VND, a much lower rate compared to Q2 (at 7.5%) yet higher than Q3/2016 (at 5.7%). It reflects the slow disbursement of public investment capital, which only reached 46.7% of the plan and was far behind that of the same period in 2016. This impacts were imposed on both the implementation of economic growth targets and the effectiveness of capital use.

In contrast, the disbursement process of FDI capital was positive in the first three quarters with disbursed capital at 12.5 billion USD, up by 13.5% (yoy). Particularly in Q3, disbursed FDI capital was 4.78 billion USD, up by 26.8% (yoy). This is the highest growth rate in the past two years.

Meanwhile, after a boom in Q2, the newly registered capital decreased to 2.72 billion USD, down by 25.8% (yoy) with about 661 new registered projects. Most of them were at small scale and mainly in the manufacturing and processing (249 projects, 1.47 billion USD) and the wholesale, retail and repairing of automobiles and motorbikes (141 projects, 109.8 million USD).

Foreign Direct Investment (bil. USD)



Source: MPI

By partner, Korea stayed on top as the largest investor in Viet Nam with total registered capital at 6.32 billion USD, as well as the number of new projects and supplementary capital projects (549 and 318 projects respectively). A considerable contribution to registered capital came from SamSung Display Vietnam Project in Bac Ninh with a supplementary of 2.5 billion USD. Ranked the second was Japan with about 5.91 billion USD of registered capital with two main projects of BOT Nghi Son 2 (2.79 billion USD) and Gas pipeline O Mon (1.27 billion USD). Singapore was the third one in terms of total registered capital (4.14 billion USD).

The monetary and financial markets

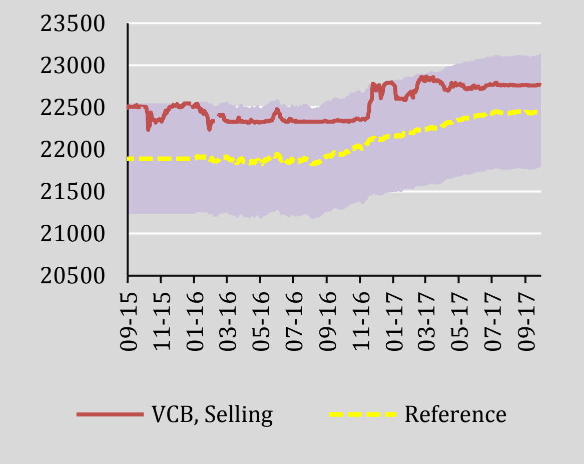
Increasing stability in the forex market

Nominal exchange rate remained stable in Q3/2017. The pressure on the VND was substantially eased thanks to the fairly low inflation rate, the abundant foreign currency supply built up by the increases in both direct and indirect foreign capital, as well as the continuous depreciation of the USD compared to other major currencies. Therefore, both reference exchange rate and spot exchange rate of commercial banks were not largely affected in the quarter. The fluctuation of selling rate in Vietcombank was merely ±0.066%, staying around 22,760 – 22,790 VND/USD.

Meanwhile, reference exchange rate after slight improvement in Q2 stayed steady during Q3 with a fluctuation of ±0.094%. Up to the end of September, the central exchange rate announced by the SBV was 22,470 VND/USD, up by 0.17% compared to the end of Q2/2017. This action by the SBV will assist export and the stability of exchange rate in the coming time when pressures on the VND increase at the end of the year due to seasonal factors and the constant slump in interbank interest rate since Q2.

Foreign currency reserves kept improving. According to the latest data announced at the 12th Party Central Committee's sixth meeting on October 11th, foreign exchange reserves were estimated to have risen to 45 billion USD, the highest level ever. In Q3 alone, the SBV's net purchase was 3 billion USD. This created more policy space for the SBV to control the forex market. Besides, remittances rose steadily and were forecast to rocket before Tet holiday, which would contribute to the stability of the exchange rate. Therefore, it would be easier for the SBV to continue implementing loose monetary policy and lowering interest rates to boost economic growth. However, unless these amount of foreign currencies were strictly controlled and timely neutralized, macroeconomic instabilities might occur, especially with the inflation.

Nominal Exchange Rate (VND/USD)



Source: VEPR

Lending rates decreased

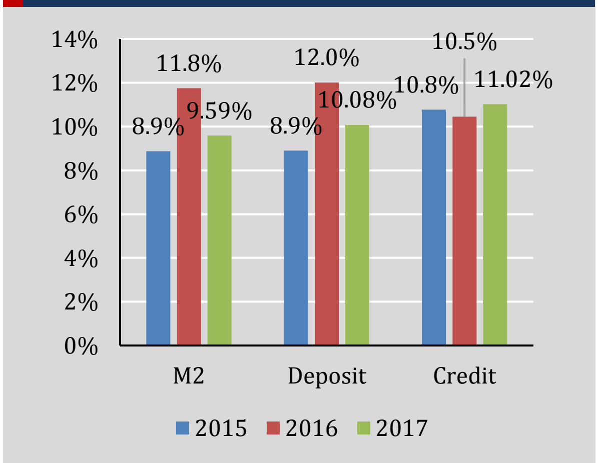
While deposit rates were stable in Q3, lending rates decreased according to the direction of the Government on July 10th, 2017, on which fund rates would be cut down by 0.25% and some areas would be supported in borrowing funds. In detail, short-term lending rates decreased by 0.5%/year to reach around 6-6.5%, instead of 6-9% in Q2 for some prioritized areas and by 0.5-1% for business activities. Mid-term and long-term lending rates were reduced from 9-10%/year in Q2 to 8%/year for some prioritized areas.

By September20th, 2017, credit growth approached 11.02% over December2016, much higher than the same period of previous years (2015: 10.8%; 2016: 10.5%). Nonetheless, this rate was far to reach the target of 21% set by the Government (nearly 10 percentage point). This gap created challenges for Q4 in implementing the year target for credit growth.

Besides, in the past nine months, the growth rate of deposits was 10.08%, far behind the level of 12% of the same period in 2016. The gap between credit growth and deposit growth in Q3 was 1.2%, lower than the rate of 1.5% in Q2, nevertheless the shortage in capital (through mobilization) may continuously be a barrier for the monetary policy of the SBV in the last quarter, especially to achieve the credit growth target of 21%. Particularly, a policy on lowering interest rates may increase credit but make it difficult for mobilizing more deposits.

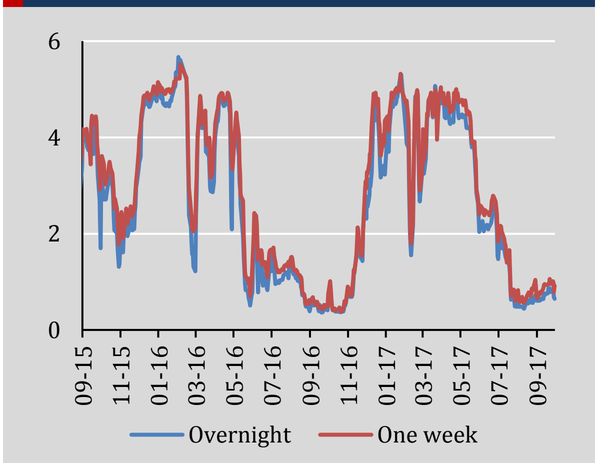
In fact, as the SBV purchased a large amount of foreign currencies in Q3 (about 3 billion USD) to increase foreign currency reserves, the liquidity of the banking system remains abundant. It was reflected by the tumble in interbank interest rate from half of Q2/2017 to 1% in this quarter. In particular, both overnight and one-week interest rates reached the bottom of 0.44%

Growth of M2, Deposit, and Credit in the first 9 months of the year, 2015-2017



Source: GSO

Interbank Offered Rate (%)

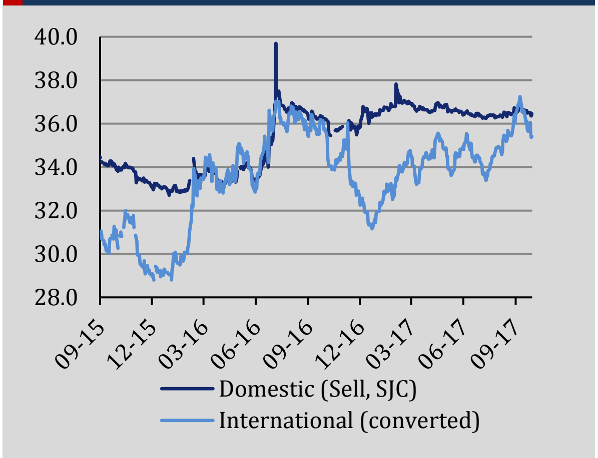


Source: CEIC

and 0.56% in mid-August, a decrease of 77.9% and 73.7% over the beginning of Q3 and 91.0% and 88.6% respectively over the beginning of Q2. At the end of Q3, despite showing signs of a slight increase, these rates still stayed below 1%.

According to the Report in September of the National Financial Supervisory Commission, the liquidity of the banking system was in a good state with the LDR rate at 87.2%. For the rest of the year, increasing cash demand will create pressures on the liquidity of the banking system, therefore affects the interest rate. It may be difficult to continue reducing lending rates by 0.5% in the last quarter as announced by the Government in August. In such context, the SBV must prudently keep track of the market to offer timely liquidity support as it did at the beginning of the year (the SBV expanded a net of 200.31 trillion VND in January 2017 to support the banking system and contracted the same amount when the liquidity got stable in February 2017).

Gold Price (mil. VND/tael)



Source: SJC, Fxpro

The asset markets

Domestic gold price remained stable despite fluctuations in the world market price

While the world gold price fluctuated wildly, the domestic one remained steady for the whole quarter.
It reflected the little connection between the world and domestic gold markets.

In Q3, the gold price slightly went down and stayed around 36.2-37.1 million VND/tael, with the margin of ±1.13% (lower than the world margin of ±5.77%). By the end of September, the domestic gold price was 36.45 million VND/tael, roughly the same as the levels at the end of Q2 as well as 2016.

As a result, the gap between the domestic and world markets seemed to shrink in Q3, especially in the first half of September. The difference was averagely at 1.19 million VND/tael in Q3/2017.

Contrast movements in Hanoi and Ho Chi Minh City apartment market

The apartment market in Q3 showed contrast movements between Hanoi and Ho Chi Minh markets. While Hanoi market was quite steady, Ho Chi Minh City market showed an active movement in this quarter, with a boom in both new supply and sales. In both markets, most transactions were recorded in the intermediate and low-end segments.

According to data of JLL Viet Nam, in Hanoi Market, total appartment supply for sale in Q3 reached 6,000 units, down by 10.5% (qoq) and 19.5% (yoy). On the demand side, the picture was more positive with 6,500 units sold, up by 7.3% (qoq) yet down by 18.9% (yoy). Of which, transactions in the intermediate and low-end segments still reached 75.5% of the total sales in Q3.

In contrast, Ho Chi Minh City witnessed surges in both apartment supply and successful transactions, reaching 11,744 units (up by 53.9% qoq and down by 39.2% yoy) and 12,919 units (up by 43.8% qoq and down by 58.9% yoy) respectively. These figures marked the highest levels in the past recent years.

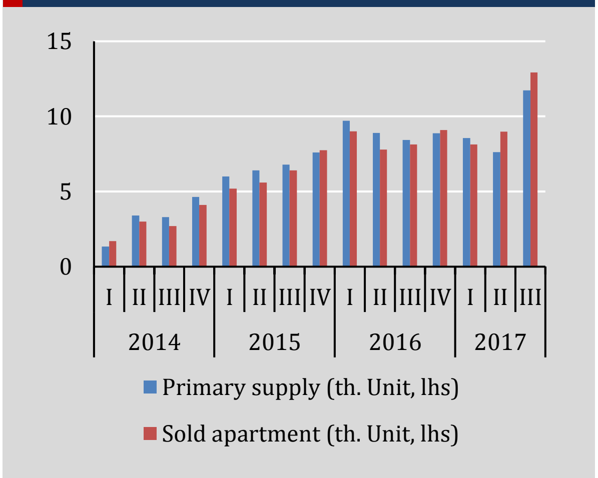
The above facts showed contrast movements of real estate prices in these two markets. In Hanoi, prices in the primary market went down by 2% on average (qoq), especially in the luxurious segment, in order to boost demand. Conversely, prices in the primary market continuously took off in Ho Chi Minh City, increased by 4.9% (qoq). Meanwhile, the secondary market in both two cities recorded relatively steady price levels.

Besides, for the first nine months of this year, real estate sector still attracted both domestic and international new investors. In Q3, there were about 1,200 newly established real estate enterprises, and the total real estate enterprises reached a number of 3,500, an increase of 62.4% over the same period in 2016. This area also witnessed the highest growth rate in terms of newly established enterprises in the first nine months of the year, at 3.99% (qoq), which was also the highest rate in the past five years.

Hanoi's Apartment for Sale

Source: JLL Viet Nam

HCMC's Apartment for Sale



Source: JLL Viet Nam

POLICY NOTES

The highest quarterly economic growth rate, accompanied by the stable exchange rate and decreased interest level were positive factors in Q3, creating opportunities for economic activities in the next quarter. Nevertheless, in term of growth decomposition, the trade deficit of the domestic sector was partly offset by the trade surplus in the FDI sector, illustrating the dependence of export on the FDI sector. Besides, the number of new jobs in Q3 decreased dramatically over the same period of the previous year, which prolonged the downward trend since April 2017. This calls for comprehensive assessment of growth quality, because the final target of growth is to create jobs, not just to have a high rate.

In the rest months, inflation tends to rise due to increases in production costs, price adjustment of some commodities (education, health, electricity and petrol), as well as the policy of raising minimum salary rate taking effect from July 2017. Other reasons are the increasing consumption demand at the end of the year and the pressures on achieving credit growth target of 21% set by the Government. We believe that such high target of credit growth was too imprudent.

There are signs of a stable exchange rate up to the end of the year. Despite high demand in foreign currencies as a seasonal factor, the relative steadiness of current account balance and the constant surplus of capital account may help the SBV to keep exchange rates stable in the coming time.

Growth-Inflation forecast 2017

In the context of unusually high growth rate in Q3, we adjust the forecast growth rate of Q4 at 7.12%, boosting the year growth rate to 6.64%, up by 0.27 percentage point compared to our forecast in the previous quarter.

Moreover, beside the recovery trend in food and food stuff price, Q4 also confronts the pressures on achieving the targets on credit growth and capital disbursement, the increasing path of the public service prices, the more granted rights for EVN to adjust electricity prices, as well as the increasing demand at the end of the year. Therefore, we believe that the inflation rate in Q4 will climbed to 4.16% (yoy), surpassing the target of 4% (yoy) and being 1.97 percentage point higher than the forecast of VEPR in Q2.

Growth-Inflation forecast 2017 (%, yoy)

	Economic growth	Inflation
Q1	5,15	4,65
Q2	6,17	2,54
Q3	7,46	3,40
Q4	7,12	4,16
2017	6,64	

Source: Calculated by VEPR

Noteworthy, the economy in Q3 continued reveals long-term structural problems.

First, economic institutional structure has not been not strong enough in the context of international economic integration, especially with the boom of Industry 4.0. The slow institutional reform fails to stimulate the in-depth creativity and renovation to become main foundations for growth. Due to the lack of motivation for creativity, growth measures mostly focus on short-term factors, sometimes accompanied by administrative orders, to achieve temporary targets. Since creativity always brings about the destroy of outdated technologies and their related structures, it also faces the prevention of interest groups with reduced benefit. A typical example is increasing pressures from traditional taxi services on the development of new technological services such as Grab and Uber. The prevention of some local governments, on the one hand, indicates the narrow policy vision, and on the other hand illustrates a strong influence of interest groups benefiting from the old economic structure. This fact reveals disadvantages for the adoption of new technologies.

Secondly, Viet Nam is still at a low position on the global value chain. The added value of exported goods remained low due to high dependence on labor intensiveness. Most exports are processed goods and hardly based on technological progress, which relies on research and development activities. As a result, Viet Nam continues to be the destination for processing goods, replacing countries advancing to higher levels, i.e. China and Thailand. Meanwhile, Viet Nam may quickly lose its advantage in labor supply as the demographic dividend has decreased because of an increasing trend of the proportion of the old in the total population. If no policies on transferring and enhancing skills and productivity of the human resources are timely implemented, Viet Nam will lose its advantage in production costs.

Thirdly, the economy tends to increasingly depend on the FDI sector. Apart from export structure, labor use as well as industrial output, such dependence is also illustrated by the key role of FDI growth in the recovery of the total social investment capital. Meanwhile, expenditure for public investment only accounts for a relatively moderate proportion compared to current expenditure, principal repayment and interest repayment in the total state budget expenditure. It can be seen from such fact that Viet Nam is unlikely to enhance the productivity in the midterm and positive economic performance relies on the FDI sector.

With the above critical assessments, we discuss some short-term measures for the next quarters as follow.

In the context of positive growth in the EU and Chinese economies, as well as the appreciation of the euro and yuan, Vietnamese export will receive huge benefits by concentrating on these markets.

Due to the increasing trend of inflation rate in the last quarter, the SBV should take prudent actions in credit growth policy to avoid accumulating more pressures on inflation, as well as the comeback of macroeconomic instabilities when inflation rate surpasses a fixed level, at 5% for example. Besides, the government can flexibly extend the price adjustment process of some commodities following the fluctuation of inflation rate. Nonetheless, administrative measurelike this should only be applied in the short term.

The Government also should speed up the disbursement of public investment capital in an effective and substantive way. The current low speed may limit the impacts of the public investment increase, a measure recently approved by the Government. Moreover, it can prevent the private sector from borrowing investment capital. Therefore, administrative procedures should be eased and timeline should be set suitably.

Due to the recent long lasting budget deficit, an improvement in expenditure structure, which reduces current expenditure, is of importance. In addition to an effective use of state budget expenditure, raising state budget revenues should also be noticed. In the coming time, the Ministry of Finance is projected to propose tax reform, including increasing VAT rate. Particularly, an effective and transparent financial information system should be in place, which enhances the effectiveness of the current direct tax revenues. Besides, in order to boost the economy, institutional and administrative reforms, especially for the private sector, are necessary to improve productivity and maintain a sustainable revenue source.

In addition to short-term measures to stabilize macroeconomy, the above analysis of the economy in Q3 also puts forward policy recommendations for long-term economic growth.

Key measures are to speed up institutional reforms, to promote the protection of property rights and investors, and to create an environment nurturing technology renovation. Fundamentally, policies should focus on the great potential of the Industry 4.0, avoiding negative responses towards the "creativity destruction" induced by the new industries and new technologies. If successful, such reform will make the private sector more dynamic, minimizing the dependence of the economy on the FDI sector. Besides, applying new technologies will improve Viet Nam's position in the global value chain.

International integration will be fortified in the context of the Industry 4.0 and strict compliance to international rules and laws. Such context requires changes in the vision of policymakers. A particular example is the trading with China, which should be considered as an opportunity instead of a threat. Long-term measures need to be adopted to take advantage of this market as one of the most potential market for Viet Nam, only after the US and EU.

Note: Long-term and structural policies will be discussed in other policy reports of VEPR.

Abbreviations

BoJ	Bank of Japan
BoE	Bank of England
BSC	BIDV Securities Company
CNY	Chinese Yuan
ECB	European Central Bank
FDI	Foreign Direct Investment
FED	Federal Reserve
FIE	Foreign invested enterprises
FMCG	Fast Moving Consumption Goods
GDP	Gross Domestic Product
GSO	General Statistics Office
HSCB	Hong Kong Shanghai Commercial Bank
LHS	left hand side
IMF	International Monetary Fund
MOLISA	Ministry of Labor, Invalid and Social Affairs
MOIT	Ministry of Industry and Trade
mom	month-on-month
MPI	Ministry of Planning and Investment
OECD	Organization for Economic Co-operation and Development
PMI	Purchasing Manager Index
qoq	quarter-on-quarter
RHS	right hand side
SBV	State Bank of Viet Nam
UN	United Nations
USD	the United State dollar
VAMC	Viet Nam Asset Management Company
VCB	Viet Nam Bank of Foreign Trade
VND	Vietnamese currency
WB	World Bank
yoy	year-on-year
ytd	year-to-date

Disclosure appendix

Author's Certification

The following author who are primarily responsible for this report, certify that the opinion on the subject or issues and/or any other views or forecasts expressed herein accurately reflect their personal views and that no part of their compensation was, is or will be directly or indirectly related to the specific recommendations or views contained in this research report: Nguyễn Đức Thành, Nguyễn Hồng Ngọc, and Lý Đại Hùng (VEPR Macroeconomic Research Team).

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Additional disclosures

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