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Executive Summary

Inflation was reported to increase by only 3.47% since the beginning the year. In terms of one month change, the CPI growth has slowed down when it was only 0.24% this month.

The food price index has been relatively stable with small up and down in the last few months. The none-food price index growth has slowed down after accelerating since March.

This month industrial production was estimated to grow at about 10.6% as compared to the same period last year. The figure was much higher than those in previous months.

Domestic demand was relatively high with retailed sales of consumption goods and services growing by 18.4% in the first eight months. State budget investment tended to speed up.

August exports were estimated at about \$4.85 billion which is slightly higher than July exports \$4.81 billion.

The eight month volume of contracted FDI was about \$10.4 billion while the realized amount increased substantially to \$6.5 billion.

The proportion of the short term deposits which is allowed for the long term loans was lowered to 30% by SBV in order to reduce credit risk.

With positive sign of inflation so far, the SBV allows broad money and credit to grow up to 30% for the whole year.

Inflation is expected to be higher next month since the recent increases in petroleum prices.

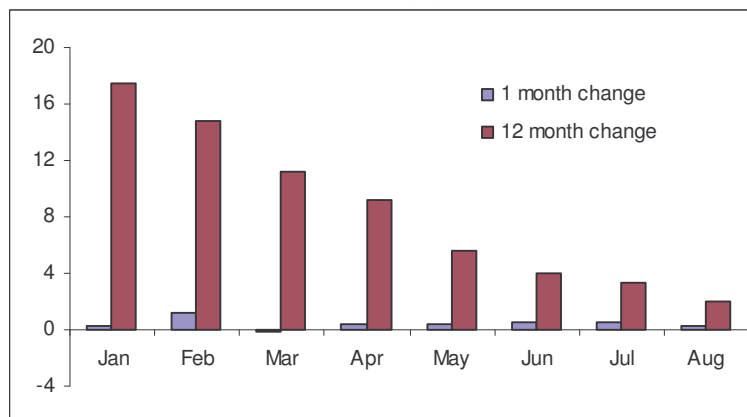
We expect the GDP growth of the third quarter to be around 5.0-5.5%. We also expect no change in monetary policy until the information about the performance of the economy is released by the end of September.

Our two models predict a moderate rate of next month inflation of about 0.40-0.56%.

Inflation

In August, the 1-month change in the CPI was reported at only 0.24%. Meanwhile, the year-on-year inflation continues to show its downward trend in 2009. In particular, this month it fell to 1.97% from 3.94% in June, 11.25% in March, and 17.48% in January. Since the beginning of the year, the CPI has grown by 3.47% which is very positive as compared to what people expected before the government carried out its economic stimulus package.

Chart 1: The Consumer Price Index in 2009 (%)



Source: GSO

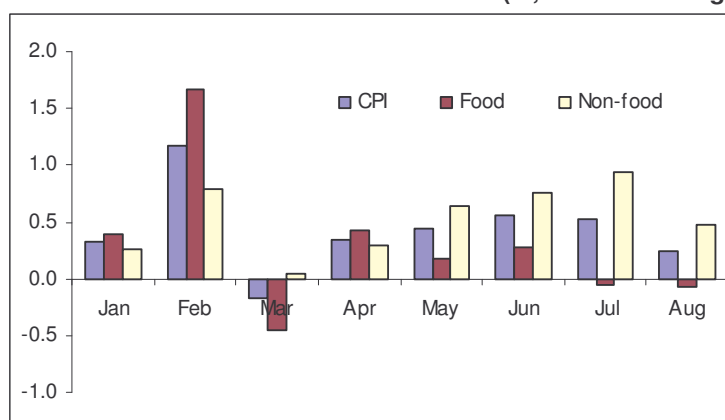
In recent years, the CPI inflation was influenced mostly by large rises and swings in food prices. However, since the beginning of 2009 the month-on-month food price inflation has been very moderate, and even negative in the last two month, making the overall price inflation stay low. Meanwhile, the none-food price growth also slowed down in August after an accelerating trend since March. It fell by about a half to 0.48% from 0.95% in July.

Items that contributed remarkably to the rise in the none-food prices in the last three months include transport & communication (rose by more than 1.9% each month on average), housing & construction materials (rose by more than 1.4%), and “others” (rose by over 0.7%). The increase in these items can be attributable to the recent rise in home petroleum prices and high demand for construction thanks to the stimulus package disbursement. Among other CPI groups, beverages, garment, and home appliances are also other items that had a considerable increase in prices recently.

In recent months, soaring energy and wages have put added upward pressure on CPI inflation. Since May the minimum monthly salary has increased from VND450 thousand to VND650 thousand (over 40%). In addition, the rise in the world’s oil prices has also driven up petrol prices in Vietnam. In this month petrol prices have been increased further from VND14,200 to VND14,700 and then VND 15,700 per litre of A92. We expect that this adjustment will have more impact on prices in the next few months.

VND has depreciated consistently against USD. The USD price index has gone up approximately 6% pushing up pressure for imported consumer goods as well as producer goods prices. Moreover, money supply (M2) and credit growth are reported to be over 20% since the beginning of the year. In a recent meeting, Vietnam government has announced to continue to target the growth rate of around 5% with second stimulus package in plan and also keep an eye on inflation. The second stimulus package, if launched, may spur both short term growth and inflation.

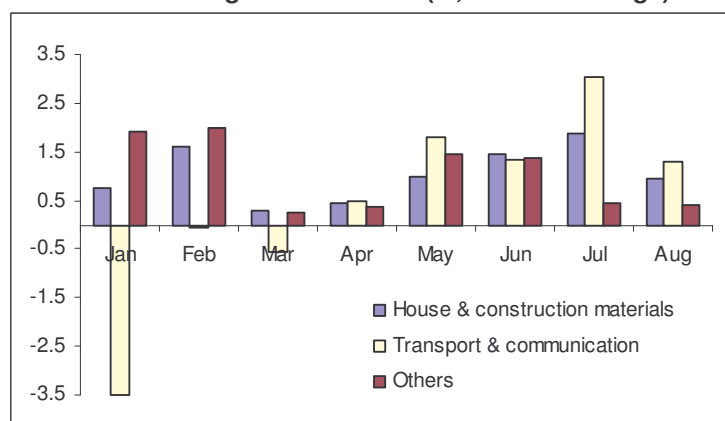
Chart 2: The Food and Non-food Price Index in 2009 (% , 1 month change)



Source: GSO

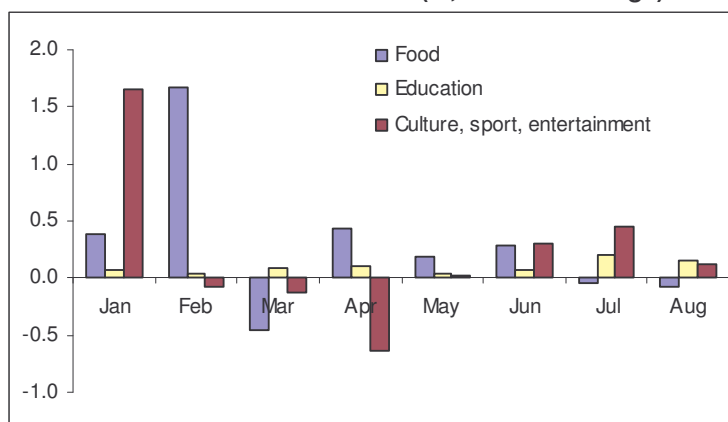
It is noted that the change in prices since March has been characterized by low and stable food prices and high non food prices. Meanwhile, food expenditure contributes more than 42% of the CPI basket's expenses. CPI inflation may be picking up sharply if the country is hit by heavy rains, storms, and other natural disasters which are frequently occur in the third quarter of the year. Inflation pressure is rising however, with careful monetary policy and lagged effect of stimulus package the inflation rate is expected to be around 7% for the whole year.

Chart 3: Items with Recent High Price Growth (% , 1 month change)



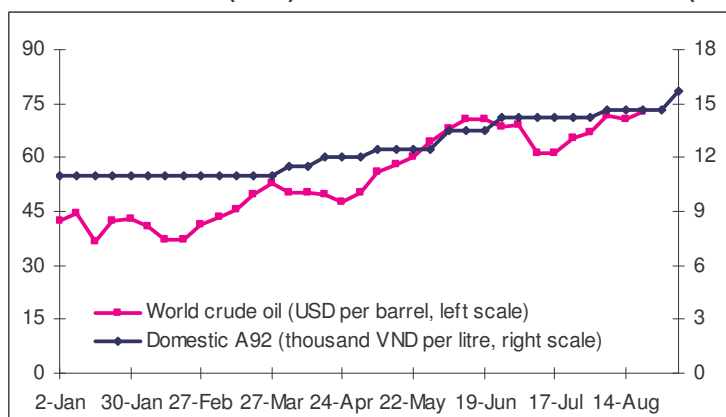
Source: GSO

Chart 4: Items with Recent Low Price Growth (% , 1 month change)



Source: GSO

Chart 5: The World Crude Oil (FOB) and Domestic Petroleum Prices (A92)



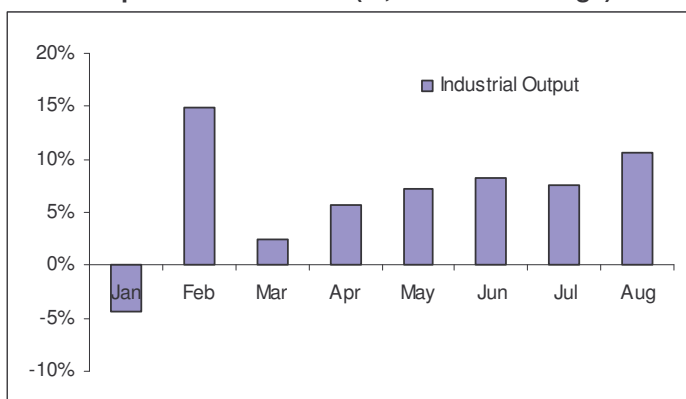
Source: EIA and MoF

Other Economic Indicators

Data from the real sector shows that the economy has turned to a recovery. Gross domestic product (GDP) rose by 3.1% and 4.5% in the first and second quarter of 2009 respectively. The figure is expected to be higher at around 5.0-5.5% in the third quarter.

In August, industrial production was estimated to grow by about 10.6% as compared to the same period last year. The number is much higher than those in the previous months. The total industrial output since the beginning of the year has increased by about 5.6%. Some top gainers include air conditioner, fridges & freezer, steel rod, cement, and crude oil production with each achieving the year-on-year output growth of over 17%. Meanwhile, some industries that have their output falling by over 10% include paper & cardboard, textile, passenger vehicles, powdered milk, adult garment, and ceramic tiles.

Chart 6: Industrial Output Growth in 2009 (% , 12 month change)



Source: GSO

Chart 7: Top Gainer Industries for the First 8 Months (12 month change)

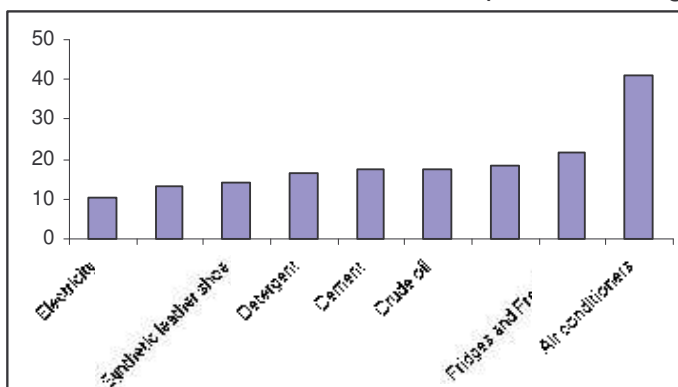
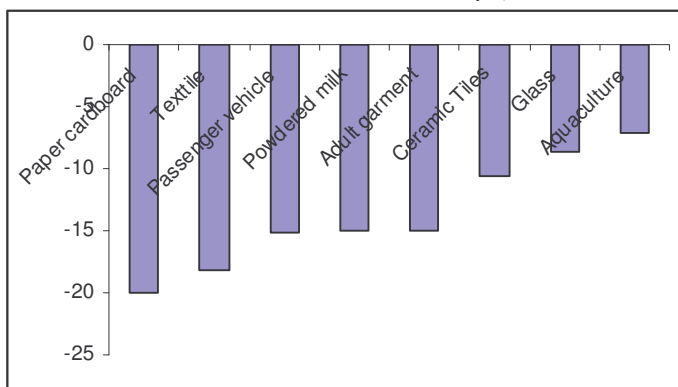


Chart 8: Top Loser Industries for the First 8 Months (% , 12 month change)



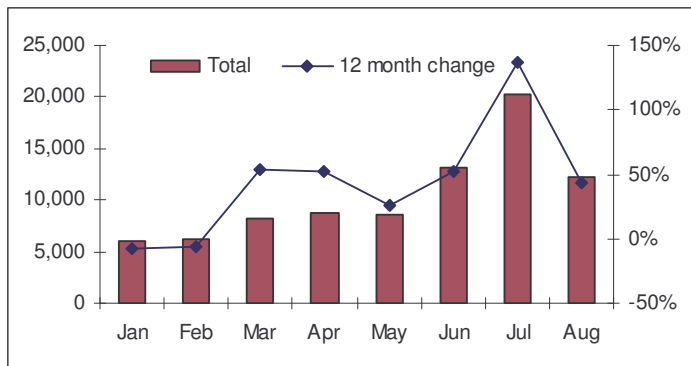
Source: GSO

Domestic demand was relatively high with the first 8 month retail sales of consumption goods and services growing by over 18% as compared to the same period last year. Meanwhile, the corresponding figure of state budget investment was nearly 50%. So far this year, about VND 83,000 bil., which accounts for 57.5% of the total planned, of state

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budget investment has been disbursed. We expect the investment will speed up in the remaining of the year.

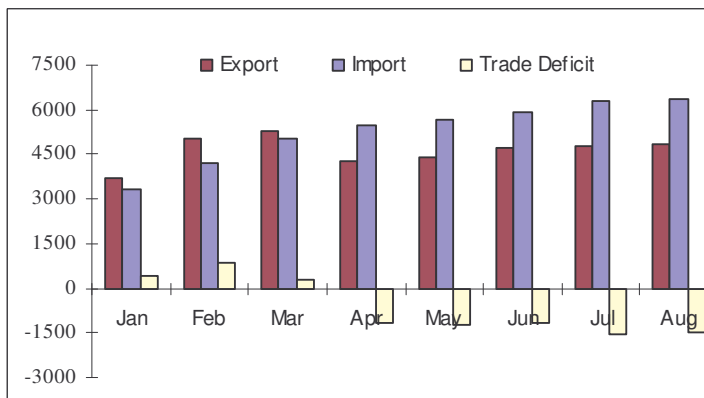
Chart 9: State Budget Investment (VND billion, 12 month change)



Source: GSO

The international trade is still negatively affected by the world economic crisis. The fall in export is mainly due to the decline in prices. And the fall in import occurs in almost all items. In recent months, the international trade shows a slow increasing tendency over time. August exports were estimated at about \$4.85 bill, just slightly higher than July exports of \$4.81 billion, June exports \$4.74 billion, and May exports of \$4.42 billion. Meanwhile, August imports were estimated at about \$6.35 billion which is higher than July imports of \$6.32 billion, June imports of \$5.90 billion, and May imports of 5.67. The trade deficit this month was estimated at about \$1.5 billion. Total trade deficit so far this year was over \$5 billion.

Chart 10: Export and Import of Goods in 2009 (\$ million)



Source: GSO

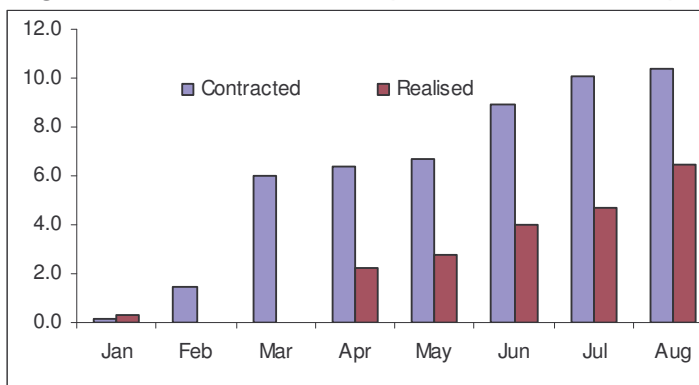
The 8 month volume of contracted FDI was about \$10.4 billion decreasing significantly by 81.6% as compared to the same period last year. A large proportion of which was committed into food & beverage, hotel & tourism services, manufacturing, and real estate. In terms of origin countries, Taiwan, South Korea, Virgin Islands, and Hong Kong are among other top investors with more than \$1 billion each.

Meanwhile, the volume of realized FDI continued to rise steadily. In August, it rose by about \$1.8 bill making the total so far this year of about \$6.5 billion from existing projects started in previous years. The figure is really impressive under the context of the global

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economic downturn and shows that Vietnam is still a relatively attractive environment to foreign investors. The Ministry of Planning and Investment expect that Vietnam this year would receive \$20 billion in contracted FDI, nearly one third of the record amount achieved last year. However, the realised FDI is expected to end up around last year's figure of \$11 billion.

Chart 11: Foreign Direct Investment in 2009 (Accumulated, \$ million)



Source: GSO

Monetary Policy

This month witnessed no big change in monetary policy except for some strengthening supervision as expected over the banking system by the State Bank of Vietnam (SBV). The proportion of the short term deposit (less than 12 months) which is allowed for long term loans (over 12 months) was lowered to 30% by SBV in order to reduce credit risk. It is expected that the Ministry of Finance will also monitor more closely the stock market operation in September.

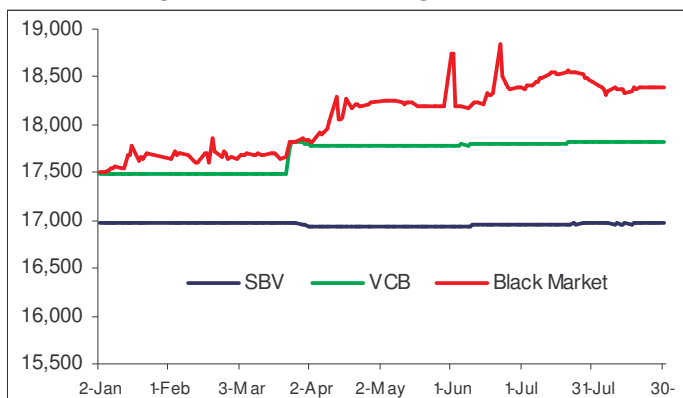
The inflation rates reported at in recent months were relatively low and under control. The recent development of the stock market and inflation expectations has put upward pressure on interest rates. However, we expect that the SBV continues to keep their base rate and discount rate unchanged at 7% and 5%, respectively. A ceiling lending interest rate of 150% above the base rate is maintained to help enterprises have access to low-cost loans.

Broad money and credit growth were estimated at about 20-22% in the first 8 months of the year. With positive information about inflation released at the end of the month the SBV intends to allow more room for credit growth of around 30% for the whole year.

Pressure on the exchange rate has been cooled down in August after the SBV's decision on selling USD to commercial banks. The overall picture of the balance of payments suggests that the capital inflow (from realised FDI and remittances) is large enough to cover the trade deficit this year. It is expected that from now to the end of the year the SBV continues to keep exchange rates stable and does not extend trading bands.

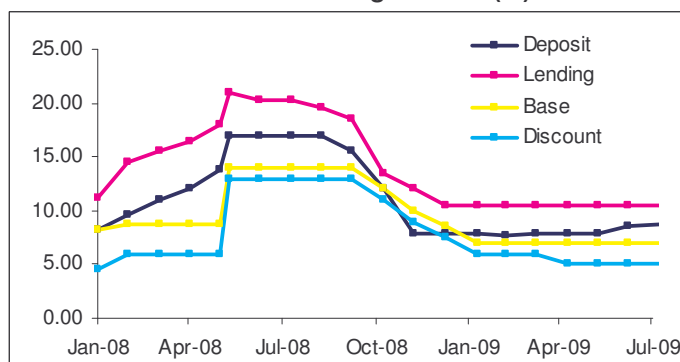
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Chart 12: VND/USD Selling Rates, 1 Jan - 31 August 2009



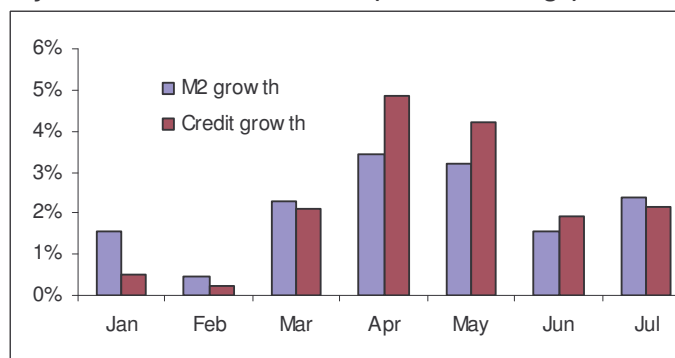
Source: SBV, VCB and others

Chart 13: Interest Rates from Jan 2008 – August 2009 (%)



Source: SBV

Chart 14: Money and Credit Growth in 2009 (1 month change)



Source: SBV

Forecast

In this section we build up some econometric models and do forecast for inflation. With a bear in mind that reality cannot be captured by any single model we attempt use different time series models. The analysis is done to produce projection for the next month. The

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projection for the month after that will be carried out based on update information coming in the next month.

In particular, we use the following types of models. The model 1 is Autoregressive Integrated Moving Average (ARIMA). The model uses historical variations in a time series to provide projection. The second model is based on statistical relationships between inflation and its possible determinants including past inflation, interest rates, oil prices, retail sales, export and others. Our two models predict a moderate rate of next month inflation of about 0.40-0.56%.

Table 1: Inflation Forecast (1 month change, %)

Model 1	June	July	August	Sep	Oct	Nov	Dem
Projected	0.47	0.49	0.72	0.56	--	--	--
Actual	0.55	0.52	0.24	--	--	--	--
Model 2							
Projected	0.60	0.82	0.76	0.40	--	--	--
Actual	0.55	0.52	0.24	--	--	--	--

This product

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