

ANZ, Morgan Stanley See Signs of Economic Stability

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According to Paul Gruenwald, an ANZ economist, Vietnam has been self-confident in the restructuring process. Inflation has been decreasing, the trade deficit has been narrowed, while the monetary market has been going on the right track.

The CPI in August increased by 28.3% compared to the same period of last year. The total retail turnover of consumer commodities and services saw a stable growth rate of 30% in August compared to the same period of last year despite the high inflation, while industrial production increased by 16.3% only.

The trade growth rate in August improved with the robust export growth of 39.1%. Meanwhile, import growth decreased in the last month to 54.1% due to the decrease in automobile, steel and petrol imports.

The spot VND/US\$ exchange rate in August fell to VND16,600-16,800/US\$1, while the 12-month term forward exchange rate fell to VND18,800-19,200/US\$1. The liquidity of the interbank market has improved considerably.

The VN Index in August increased by 20% – 50% higher than the index seen in mid June, but still 50% lower than the index for last October. Similarly, the HASTC Index increased by 30% in August, but was still 50% lower compared to the highest peak.

Paul Gruenwald said that the measures the government applied in June should be maintained to keep stable economic and import growth rates. It would be risky if Vietnam loosens its monetary policies too soon.

Tamara Henderson, an ANZ expert in interest rate and exchange rate policies, also believes that the measures to deal with crises undertaken by the government of Vietnam have been appropriate. The expert said that Vietnam should continue controlling the local currency strictly through the end of the year.

ANZ's experts believe that the VND/US\$ exchange rate will be stabilised at VND16,400/US\$1 by the end of the year.

Though the inflation rate is nearly 30% and the deposit interest rate does not bring real profit to depositors, the potential global economic fall may bring Vietnam advantages in attracting investment.

At the end of August, Morgan Stanley also released a report outlining three outstanding characteristics of Vietnam's economy.

First, the inflation rate has been restrained.

Second, the pressure on the payment balance has been eased thanks to the slowdown of the national economy and the reduction of speculation.

In July, steel imports decreased by 1.5% over the same period of last year as the real estate market became less hot, while car imports decreased by 53.5% due to the higher tax.

As a result, the trade deficit reduced from the peak of 49.5% of GDP in April to 17.7% in July.

Third, foreign investors still believe in the long-term potentials of Vietnam, despite the difficulties in the first half of 2008. The committed foreign direct investment in the period between April and July was \$39bil. The capital disbursed in the period was \$4.3bil, while the figure was just \$1.7bil in the first quarter of the year.

The interbank market interest rates remain high, which shows the limited liquidity. This will continue hurting joint-stock banks, whose capital sources heavily depend on the interbank market.

Morgan Stanley also thinks that it is still too early for the State Bank to consider slashing interest rates.

US Bank has also mentioned the two most important things the State Bank needs to consider when deciding to cut interest rates. First, inflation needs to decrease so as to ensure a real positive interest rate. Second, the liquidity of banks needs to be improved considerably with a narrower gap between credit and deposit growth rates and interbank interest rate decreases.

It predicted that these things would occur in Q1 2009 at the soonest.

Source: TBKTVN