VIETNAM MACRO COVERAGE

Summary Highlights

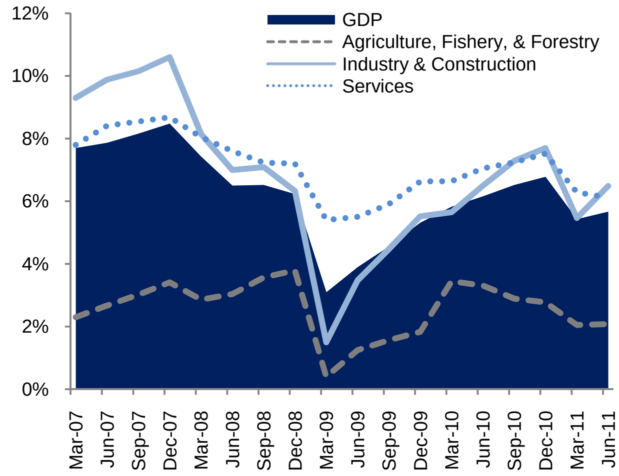
- **GDP growth expanded to 5.67% year-over-year in Q2 2011**
- **Annualized inflation escalated to 20.82% year-over-year at the end of June**
- **Export turnover narrows month-on-month trade gap**
- **Foreign exchange rate stabilizes**

Monetary Policies mute GDP Growth in H1 2011

Vietnam's GDP growth rate expanded 5.67% year-over-year in Q2, up from 5.45% in the previous period, resulting in cumulative growth of 5.57% for H1 2011 compared to 6.16% in the same period in 2010. The tightened monetary and fiscal environment has dampened growth, but the economy has managed to maintain reasonable momentum through the quarter.

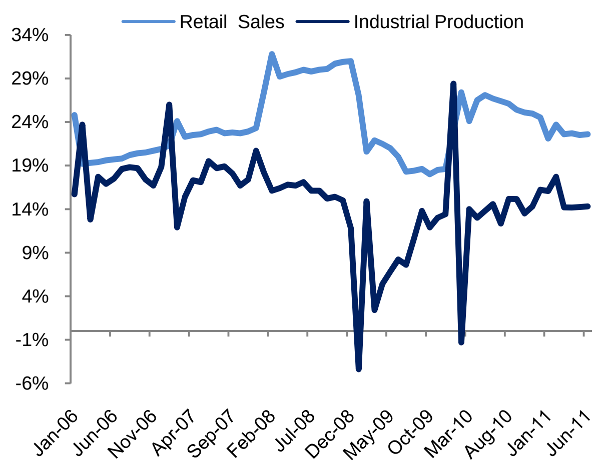
In the first half of the year, growth in the service sector fell to 6.12% year-over-year from 7.05% in 2010. The agricultural sector also produced muted growth of 2.08% year-over-year, down from 3.46% last year. Higher commodity prices aided a rebound in the mining sector, which expanded 2.1% through June, compared to a contraction of 9.4% in the same period in 2010. The turnaround in the mining sector coupled with advances in the processing and electricity and gas sectors sustained industry and construction growth of 6.5%, despite a discernable pullback in the

GDP Composition (% YOY)
Industrial sector headlines growth



Source: General Statistics Office

Industrial Production and Retail Sales (% YOY)
Output and sales remain solid



Source: CEIC

latter. Growth in the construction sector declined significantly to 4.26% in the first half of the year, a steep decline from 10.86% growth recorded in the year prior.

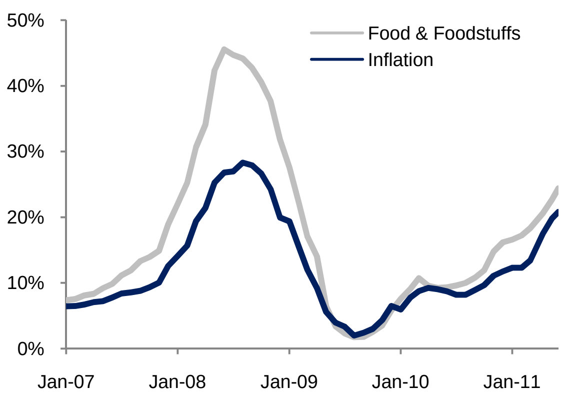
GDP growth muted due to a series of tightening measures

Vietnam's GDP growth in the first half of the year was muted, as predicted, largely because of a series of tightening policies implemented to subdue inflation and narrow the trade deficit. However, analysts project that economic output will likely reaccelerate towards the end of the year. The positive outlook is underpinned by continued strength in the industrial sector, where production expanded by 14.3% through June, and domestic retail sales, which grew 22.6% year-over-year on a nominal basis (although real growth rates have fallen due to inflation). The IMF projects yearend GDP growth for 2011 at 6.25%, which is higher than the government's official target of 6.0% but still lower than 6.78% recorded in 2010.

Slowing Trend seen in Month-on-Month Inflation

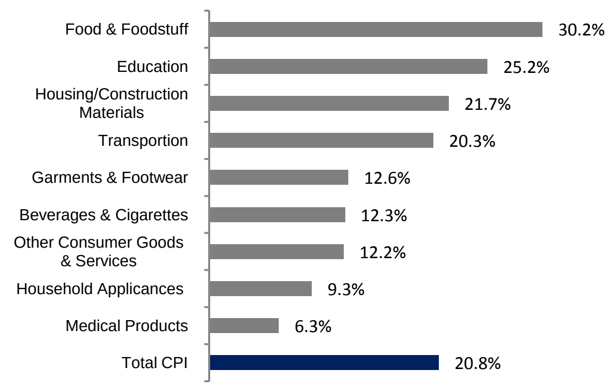
The annualized inflation rate escalated to 20.82% as of the end of June. However, the month-on-month trend has decelerated over the course of Q2 as a result of the clamp down on lending, with credit growth inching up only 7.13% year-to-date as of June. The month-on-month CPI in May fell to 2.21% from 3.32% in April and declined further to 1.09% in June. Stable food and energy prices have also helped flatten the headline inflation rate, which is expected to peak in the coming quarter.
June's CPI was led by food and foodstuff items, with an increase of 1.79% month-on-month, followed by a 0.72% increase in household appliances. Transportation and construction materials rose slightly by 0.39% and 0.56%, respectively. Compared with May figures of 2.67% and 3.19%, this suggests that the impact of the recent electricity and fuel hikes have been fully absorbed.

Annualized Inflation (%YOY)
Inflation to peak in August



Source: CEIC

Vietnam: CPI Basket (% YOY)
Food & foodstuff are the key contributor to inflation



Source: General Statistics Office

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Inflation is expected to peak in August

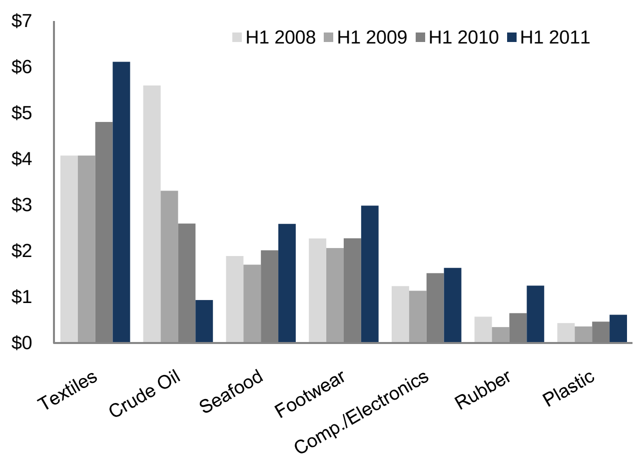
Although monthly inflation has eased, the annualized inflation rate is forecasted to peak in August at approximately 22.0% before retreating to 18-19.0% by yearend. This is based on the assumption that the government will keep current tightening measures in place through Q3. Barring global price swings like sharp spikes in food and fuel prices which tend to dominant domestic prices, analysts forecast that inflation will gradually retreat to 12.0% by Q2 2012, if commodity prices continue to soften.

High Export Turnover helps to close the Trade Gap

Through the first half of 2011, Vietnam's export turnover reached US$42.33 billion, a 30.3% increase year-over-year. June export turnover was valued at US$7.8 billion, up 23.4% over the same period in 2010. Textiles and garments turnover rose 28.4% year-over-year, amounting to US$6.1 billion in revenue year-to-date. Crude oil exports rebounded with US$3.4 billion in revenue, a rise of 26.2% year-over-year in value but a decrease of 10.5% in volume.

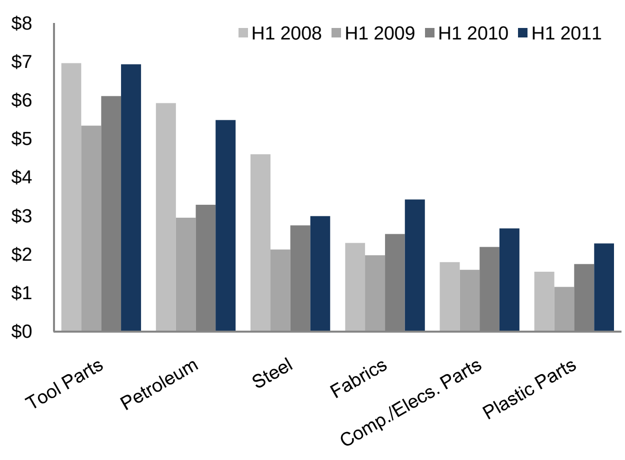
Import turnover through June increased 25.8% year-over-year, representing total turnover of US$49 billion. June imports were valued at US$8.2 billion, a decline of 5.2% from the previous month but a rise of 16.0% over the same period last year. The latter figure suggests a growth in import volume, but surging global commodity prices and the devaluation of the VND in February have increased the value of imports.

Export by Item (US$ Billions)
Textiles and garments headline Vietnam's exports



Source: General Statistics Office

Import by Item (US$ Billions)
Raw materials account for most of Vietnam's imports



Source: General Statistics Office

For the first half of the year, the trade gap stood at US$6.65 billion, compared to US$6.73 billion for the same period last year. Although too early to assume that the gap is narrowing, analysts are seeing smaller monthly deficit figures. The April deficit amounted to US$1.87 billion, compared to US$1.7 billion in May and US$150 million in June. At the lowest level since August 2005, the fall in the June deficit is attributed to a surge in gold exports, which amounted to US$630 million.

Steady inflows of FDI and remittances balance the trade deficit

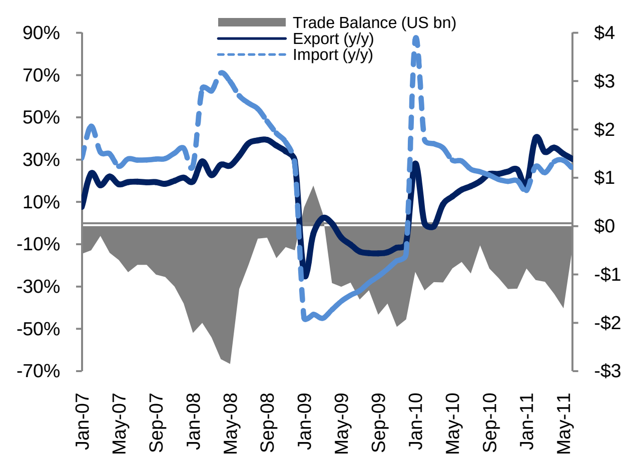
The current account deficit, however, is offset by both steady inflows of FDI, Overseas Development Assistance and remittances from overseas Vietnamese. Through June, official remittances to HCM City banks alone reached approximately US$2.5 billion, and the World Bank forecasts the yearend total to grow 6.2% compared to US$8 billion in 2010.

Disbursed FDI Remains Steady

As of Q2, committed FDI reached US$5.7 billion, a 43% decrease from the same period last year. However, the decline in registered FDI is in-line with our expectations and does not reflect the reality that inflows have remained fairly stable. Total disbursed FDI through the first half of the year amounted to US$5.3 billion, a drop of only 1.9% over the same period last year.

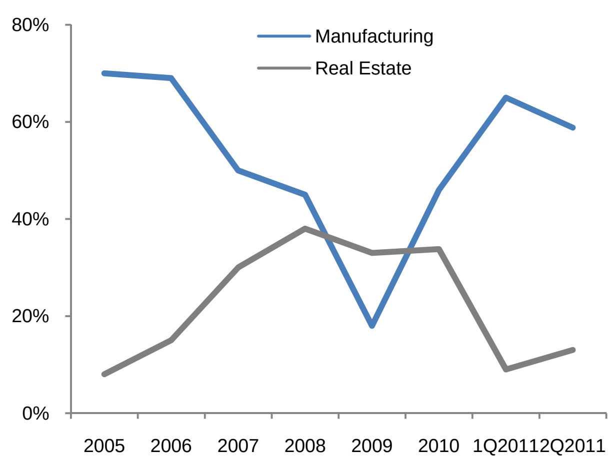
According to the General Statistics Office, the processing and manufacturing sector attracted US$3.3 billion of capital, which accounted for nearly 60.0% of total

Current Account Balance (% YOY)
Monthly trade gap slows



Source: CEIC

FDI by Sector (% of Registered FDI)
Significant FDI inflows into the manufacturing sector



Source: CEIC

registered FDI. The construction and environmental services sectors followed with US$475 million and US$323 million, respectively.

Among the top sources of FDI, Singapore represented the largest origin of capital with US$1.3 billion or 28.1% of newly registered FDI, followed by Hong Kong (US$533.8 million), South Korea (US$376.7 million), Malaysia (US$346.6 million), the United Kingdom (US$329.8 million), and Japan (US$303.2 million).

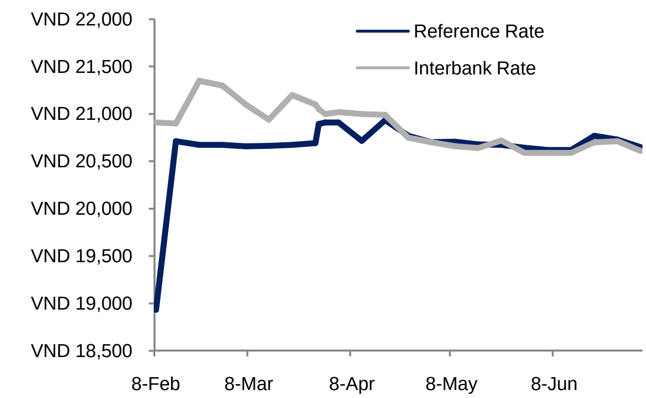
Economic Improvements on the Horizon

Tightening measures are filtering through the economy

While inflation remains in double-digit territory, we are beginning to see improvements in different corners of the economy as a result of Resolution 11, the Government's comprehensive fiscal and monetary policy package. As mentioned above, the cooling of the month-on-month inflation rate and narrowing of the monthly trade gap are signs of positive developments. Moreover, the recent stabilization of the foreign exchange market has eased pressure on the VND and improved liquidity in the market.

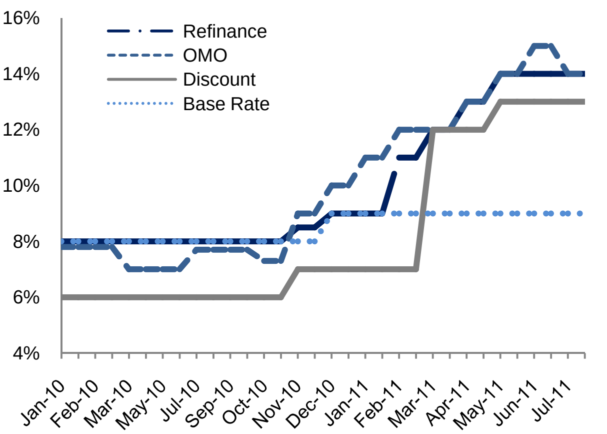
Prompted by escalating inflation and negative sentiment towards the VND, the Government's pervasive actions to tighten lending and de-dollarize the economy following the 11th Party Congress in January have proven to be effective. The H1 2011 lending cap targets of 22.0% for non-productive sectors (real estate, securities and gold) and 16.0% yearend target proved painful for the market, but the scarcity of capital has eased pressure on credit fueled inflation. According to the State Bank of

Foreign Exchange Rate: VND/USD
VND/USD exchange rates reach parity



Source: CEIC

Benchmark Interest Rates (%)
Hikes in lending rates to contain inflation



Source: State Bank of Vietnam

Vietnam (SBV), Vietnam's credit growth stood at 7.13% through the first half of the year, well below the Government's annual target of 20.0%, while money supply modestly grew by 2.45%.

SBV lowered the OMO rate to 14.0%, signaling improvements in VND liquidity

The key challenge ahead will be the timing and pace by which the Government unwinds its tightening measures. The slight improvement in VND liquidity over the course of Q2 prompted the SBV to lower the OMO rate by 100bp to 14.0% in early July—a move that was largely seen as a way to assist smaller banks and align the OMO and interbank rates. The easing foreshadows the Government's intention to bring interest rates down. However, economic stability is still the official rhetoric, and policymakers do not intend to stray from that path. We expect official rates set by the SBV to remain fairly firm through Q3, although the prevailing market rates for both VND lending and deposits will likely trend down ahead of policy easing. Average lending rates have peaked at approximately 21.0%, with prime lending rates at a mere 9.0%, and average deposit rates have declined from 20.2% in April to approximately 18.4% in June, well above the Government's cap of 14.0%.

July 2011

For further information, please contact:

Hawkins Pham
Investor Relations & Communications
Tel.   +84 83 910 4855
Email hawkins.pham@indochinacapital.com

www.indochinacapital.com