

**Econ note**

12 Nov 2021

**ECONOMIC UPDATE**
**The growth gather steam since 1Q22**

- Vietnam's real GDP grew 2.6% in 2021, slightly stronger than our forecast.
- Macroeconomic stability has been solidified in 2021 with well-managed inflation, higher foreign exchange reserves and stable exchange rates.
- We expect Vietnam's GDP to grow 7.5% in 2022, fueled by the resumption of aviation and tourism, strong FDI inflows and the upcoming fiscal stimulus.

**Vietnam's economy recovered strongly in 4Q21**

According to the General Statistics Office (GSO), Vietnam's GDP rose 5.2% yoy in 4Q21, which was better than our expectation. Of the three main pillars of the economy, the service sector's recovery exceeded our expectations the most. Specifically, the service sector grew 5.4% yoy in 4Q21, recovering from a decline of 8.6% yoy in 3Q21. It marked the highest quarterly growth for service sector since 1Q20, when the COVID-19 pandemic broke out. Meanwhile, the industry and construction sector rose 5.6% yoy in 4Q21, which is a strong improvement from a decline of 5.5% yoy in 3Q21 and equal to the growth rate of 5.6% in 4Q20.

**Inflation well-managed**

Vietnam's headline inflation slowed to 1.8% yoy in Oct (vs. 2.1% yoy in the previous month). On month-on-month basis, headline CPI declined 0.2% vs. Nov level, as the transport CPI slumped 1.7% mom amid lower crude oil and the accommodation & construction materials price index dropped 0.5% mom. For 2021, headline CPI averaged at 1.8% yoy, which was far below the government's target of 4.0%.

**More stimulus packages are expected on the arrival**

On Jan 11, 2022, the National Assembly approved a new economic stimulus package worth about VND342,050bn, equivalent to about 4.2% of Vietnam's GDP in 2021. The economic stimulus package included: government spending on upgrading health system, social welfare, job support, tax reduction (2% value-added tax reduction), increase investment in transport infrastructure.

**Re-ignite all growth engines**

After a pullback in 3Q21, we see the economy is entering a 'new normal', supported by high vaccination roll out and eventual reopening. We expect 2022F GDP to grow 7.5% yoy, propelled by four growth engines: manufacturing and exports to resume expansion, resilient FDI amid global supply chain diversification; and domestic consumption to rebound following upcoming fiscal supports. We see picking up inflation, driven by both demand-pull and cost-push, pressure, is the major risk to economy. Other macro risks include the China slowdown might hinder the export growth and Covid-19 resurgence.

**Figure 1: Summary of macro forecasts in 2021 – 22**

Indicator	Unit	2018	2019	2020	2021E	2022F
Real GDP growth	% yoy	7.1	7.0	2.9	2.6	7.5
Export growth	% yoy	13.3	8.4	6.5	19.0	12.5
Trade balance	USD bn	6.9	10.9	18.9	4.0	9.8
Current account to GDP	% of GDP	1.9	3.8	3.7	-0.3	2.0
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.5
Credit growth	% ytd	13.9	13.7	12.1	13.0	13.0-14.0
Refinancing rate	%	6.3	6.0	4.0	4.0	4.0-4.5
12M deposit interest rate (year-end)	%	6.8	6.8	5.6	5.6	6.0
Exchange rate (USD/VND)	% yoy	1.8	1.4	0.7	-1.2	+/- 1.0

Source: VNDIRECT RESEARCH, GSO, SBV

**Analyst(s):**

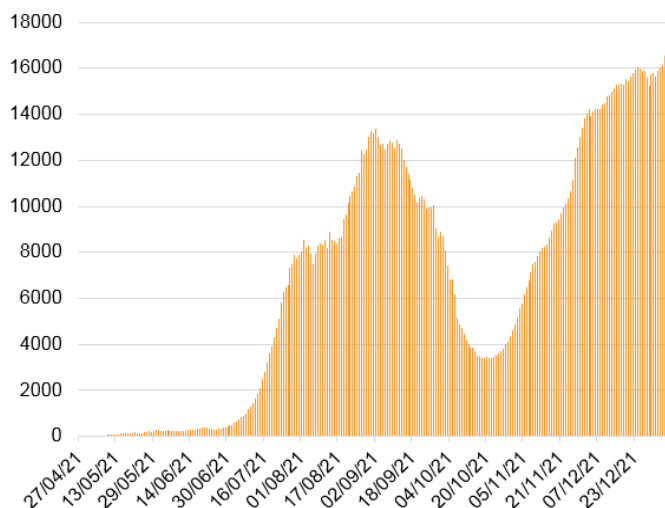
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## THE GROWTH GATHER STEAM SINCE 1Q22F

### Vietnam's economy gradually to reopen, backed by wide vaccination

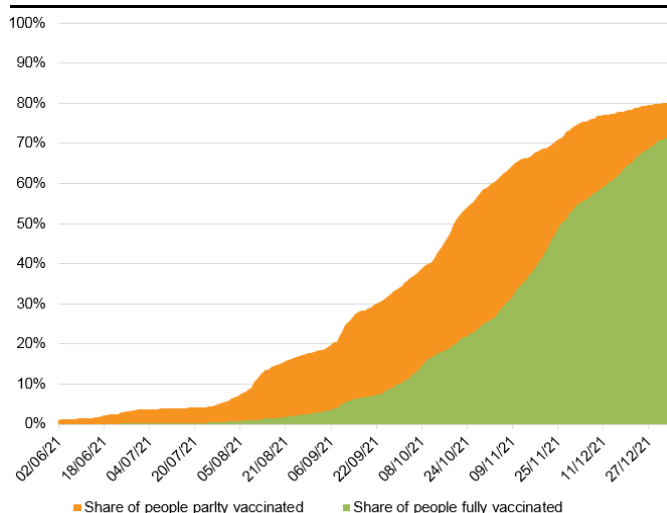
Vietnam's completed the goal of fully vaccinating at least 70% of the population against coronavirus. So far, Vietnam has fully vaccinated around 71.8% of its population (data on 04/01/2022). To cope with the emergence of new coronavirus variants, especially Omicron, Vietnam has started to administer booster shots (dose 3) for people over 18 years old since mid-Dec 2021. As of Jan 4, 2022, Vietnam has given booster shots (dose 3) to nearly 8% of population.

Figure 2: Daily new cases since the fourth outbreak of COVID-19 infections in Vietnam



Source: MINISTRY OF HEALTH, WHO, VNDIRECT RESEARCH

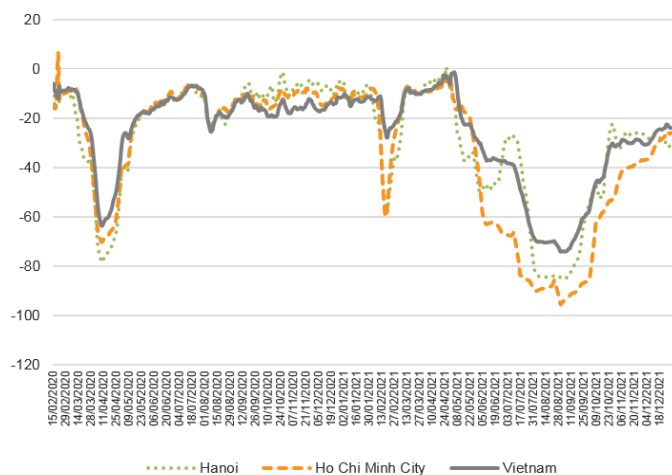
Figure 3: Auxiliary materials for textile, footwear



Source: MINISTRY OF HEALTH, VNDIRECT RESEARCH

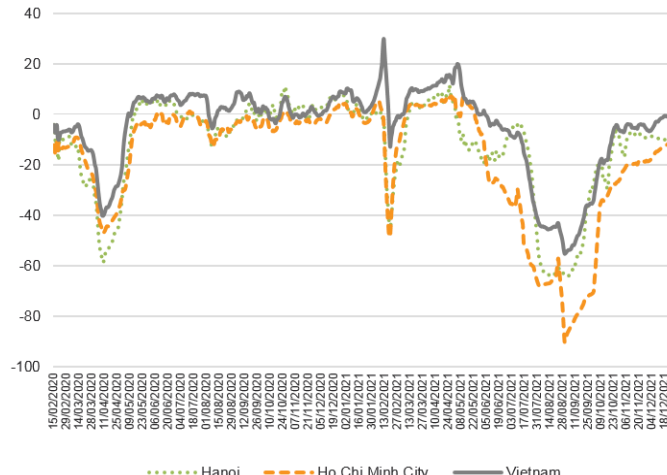
Although the number of daily infections has surpassed the peak of the 4th COVID-19 wave, Vietnam has remained on the path of reopening the economy thanks to higher vaccination rate. Retail and recreation mobility at the national level has seen a steady recovery in Sep-Dec as shown in Figure 4. Industrial production also recovered strongly in the second half of the fourth quarter when most labourers returned to work. Mobility for workplace has also rebound to the level before the fourth outbreak since early-Nov.

Figure 4: Google mobility for retail and recreation in Vietnam (7 days moving average) (data on 31/12/2021)



Source: GOOGLE, VNDIRECT RESEARCH

Figure 5: Google mobility for grocery and pharmacy in Vietnam (7 days moving average) (data on 31/12/2021)



Source: GOOGLE, VNDIRECT RESEARCH

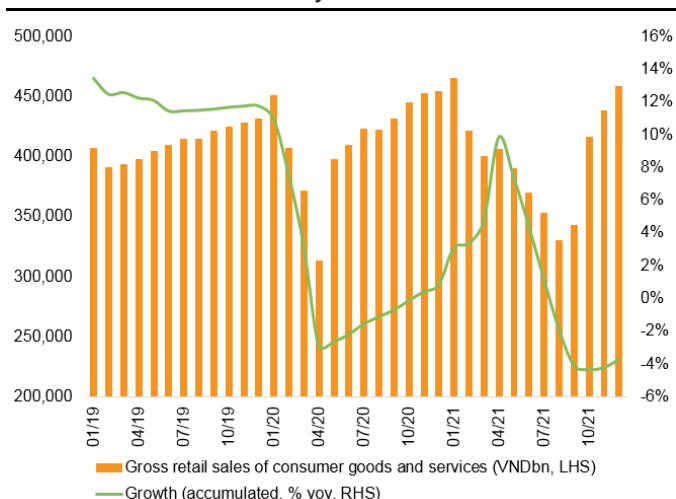
## Vietnam's economy recovered strongly in 4Q21

According to the General Statistics Office (GSO), Vietnam's GDP rose 5.2% yoy in 4Q21, which was better than our expectation (we previously forecast 4Q21 GDP to increase by 3-3.5% yoy) as all three pillars of the economy made a faster-than-expected recovery.

Of the three main pillars of the economy, the service sector's recovery exceeded our expectations the most. Specifically, the service sector grew 5.4% yoy in 4Q21, recovering from a decline of 8.6% yoy in 3Q21. It marked the highest quarterly growth for service sector since 1Q20, when the COVID-19 pandemic broke out. The strong improvement in the sector was mostly fueled by:

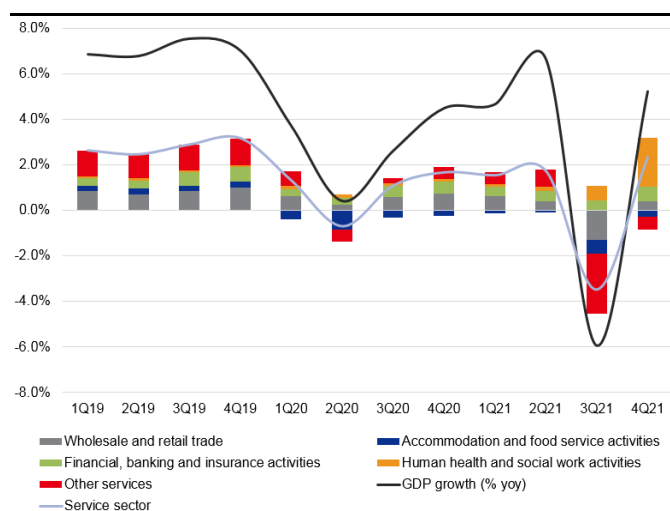
- Vietnam increased spending on vaccination. In 4Q21, Vietnam injected 100 million doses of anti-coronavirus vaccine (accounting for 70% of the total injection doses by the end-4Q21). As a result, the GDP of human health and social work activities surged 92.7% yoy to VND33,948bn.
- Financial, banking and insurance activities recorded impressive growth with the GDP of this sub-sector rose 11.2% yoy in 4Q21 thanks to strong credit growth and high performance of stock market.
- Wholesale and retail activities recovered after the government relaxing social-distancing measures. Specifically, the GDP of wholesale and retail trade rose 4.9% yoy in 4Q21 after suffering greatly in 3Q21 (-17.1% yoy).

**Figure 6: Gross retail sales of consumer goods and services witnessed sustainable recovery since Oct 2021**



Source: GSO, VNDIRECT RESEARCH

**Figure 7: Contribution of service sub-sector to GDP growth**



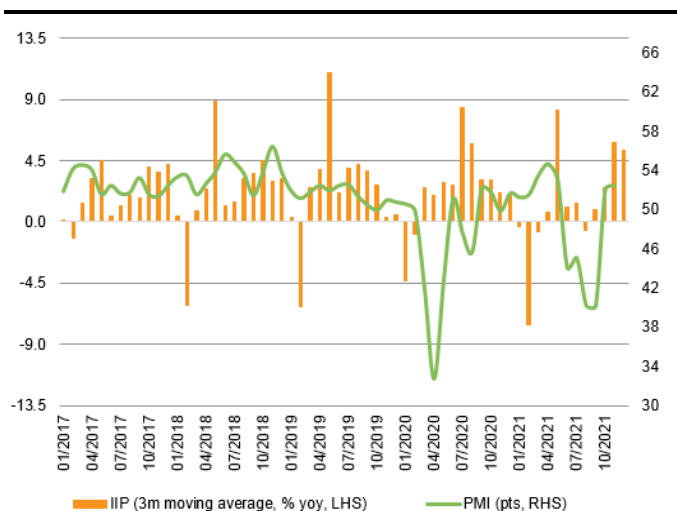
Source: GSO, VNDIRECT RESEARCH

**Figure 8: Growth of sub-sector in industry and construction sector**

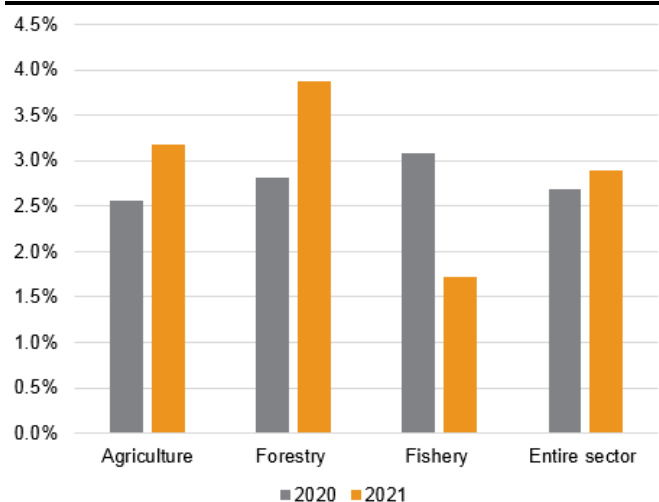
	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21
Industry & construction	5.0%	1.7%	2.9%	5.6%	6.3%	10.4%	-5.5%	5.6%
Industry	5.1%	1.1%	2.3%	4.8%	6.3%	11.2%	-4.4%	6.5%
Mining and quarrying	-4.2%	-5.8%	-5.9%	-6.1%	-8.2%	-4.7%	-8.2%	-2.7%
Manufacturing	7.1%	3.4%	3.9%	8.6%	9.5%	13.4%	-3.2%	8.0%
Electricity, gas, steam and air condition supply	7.5%	-0.1%	4.0%	4.4%	4.5%	12.8%	-1.2%	5.5%
Water supply, sewerage, waste management	6.7%	1.4%	5.5%	8.3%	3.8%	7.8%	-0.2%	3.6%
Construction	4.4%	4.7%	5.7%	8.6%	5.2%	6.5%	-11.4%	2.1%

Source: VNDIRECT RESEARCH, GSO

The industry and construction sector rose 5.6% yoy in 4Q21, which is a strong improvement from a decline of 5.5% yoy in 3Q21 and equal to the growth rate of 5.6% in the same period last year. The positive recovery of industry and construction sector in 4Q21 was strongly supported by (1) the gradual healing of the manufacturing supply chain after Vietnam eased social restriction protocols, (2) exports recovered strongly amid strong external demand for durable goods and consumer products and (3) FDI inflows remained positive in 4Q21. Vietnam's IHS Markit Purchasing Managers Index (PMI) also showed a positive improvement when climbing above the 50-pt level (threshold for expansion of production activities) in the period from Nov to Dec 2021.

**Figure 9: PMI maintained above 50-pt level**


Source: GSO, VNDIRECT RESEARCH

**Figure 10: The agriculture, forestry sub-sectors still improved growth rate in 2021 despite the pandemic**


Source: GSO, VNDIRECT RESEARCH

Last but not least, the agriculture, forestry and fishery sector's growth was very encouraging at 3.2% yoy in 4Q21, improving from 1.2% yoy growth in 3Q21. The improvement in this sector was mainly attributed to the strong recovery of seafood exports in 4Q21. According to GSO, exports of seafood rose 13.1% yoy (+30.2% qoq) in 4Q21, recovering from a decline of 14.4% yoy in 3Q21.

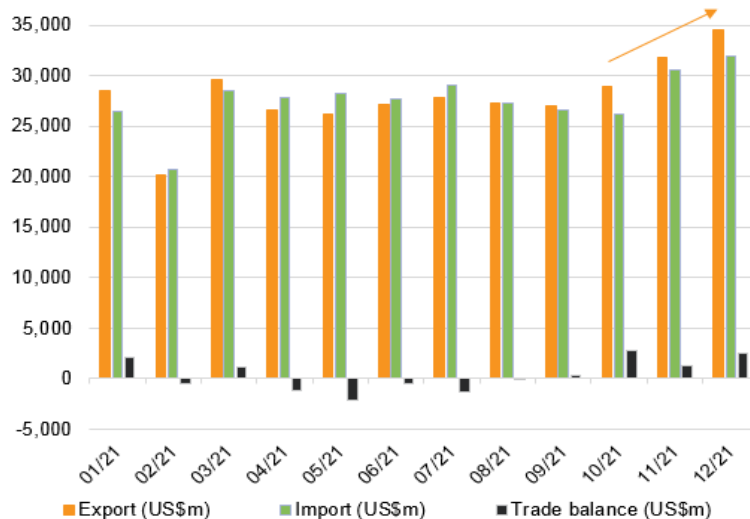
For the entire 2021, Vietnam's real GDP grew 2.6%, falling from a growth rate of 2.9% yoy in 2020 due to strong impact of the fourth COVID-19 wave caused by Delta-variant. The agriculture, forestry and fishery sector grew 2.9% in 2021, improving from 2.7% yoy growth in 2020. The industry and construction sector rose 4.1% yoy, slightly higher than 4.0% yoy growth in 2020, led by the manufacturing sub-sector (+6.4% yoy). Meanwhile, the service sector was hit the most by the pandemic and recorded lower growth at 1.2% yoy in 2021 (vs. an increase of 2.3% yoy in the previous year). This is mainly due to the sharp decline of tourism, which accounts for 9% of Vietnam's GDP in pre-pandemic period, as well as transportation.

### Exports took a spotlight

Per GSO data, export value rose 8.3% mom (+24.8% yoy) to about US\$34.5bn in Dec 2021. We saw several factors that support the recovery of exports in 4Q21, including (1) southern provinces have eased social-distancing measures since late-Sep, thus allowing most of factories and industrial parks to reopen, (2) strong demand for Vietnam's export goods during the year-end consumption season in developed markets. For 12M21, export value climbed to about US\$336.3bn (+19.0% yoy), thus exceeding our previous forecast for Vietnam's export growth of 15.0% yoy in 2021.

Among Vietnam's export products, the items that recorded the positive growth rate in 2021 include steel (+123.4% yoy), plastic materials (+69.0% yoy), camera and camcorders (+59.9% yoy), textile fibres (+50.8% yoy) and petroleum (+45.9% yoy). On the other hand, exports of only two products decline, including bags and suitcases (-4.1% yoy) and tea (-2.0% yoy).

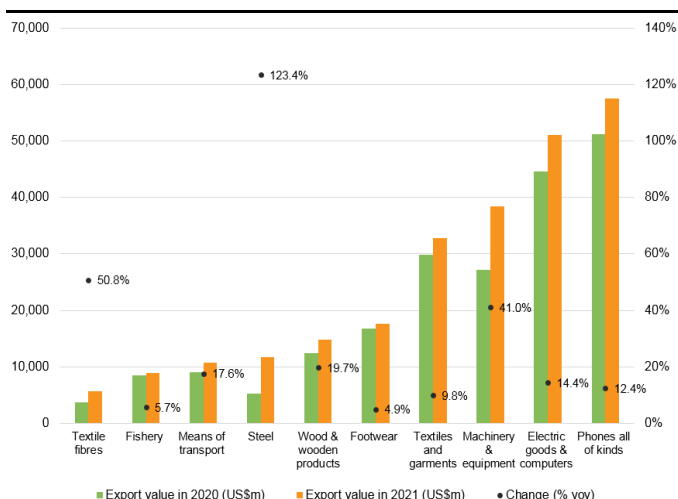
**Figure 11: Vietnam net exported VND4.0bn in 2021**



Source: VNDIRECT RESEARCH, GSO

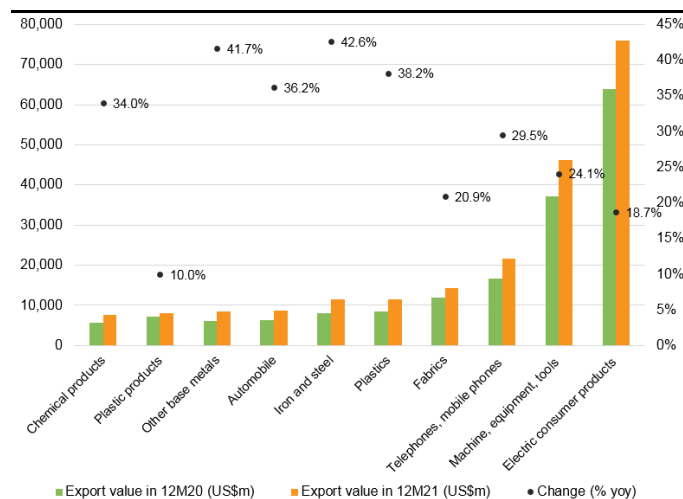
As for imports, Vietnam's import spending edged up 4.5% mom (+14.6% yoy) to about US\$32.0bn. As a result, Vietnam increased net exports to US\$2.5bn in Dec 2021 from a net export of US\$1.3bn in the previous month. For 12M21, import value climbed to US\$32.3bn (+26.5% yoy), and Vietnam net exported US\$4.0bn in 2021 (vs. a trade surplus of US\$19.9bn seen in 2020). Among Vietnam's key import products, the items that witnessed the strong import growth rates in 2021 include cashew (+133% yoy), rubber (+103.0% yoy), liquefied petroleum gas (+74.7% yoy), iron and steel scrap (+66.8% yoy) and fertiliser (+54.4% yoy).

**Figure 12: Top export products in term of value in 2021**



Source: GSO, VNDIRECT RESEARCH

**Figure 13: Top import products in term of value in 2021 (% yoy)**



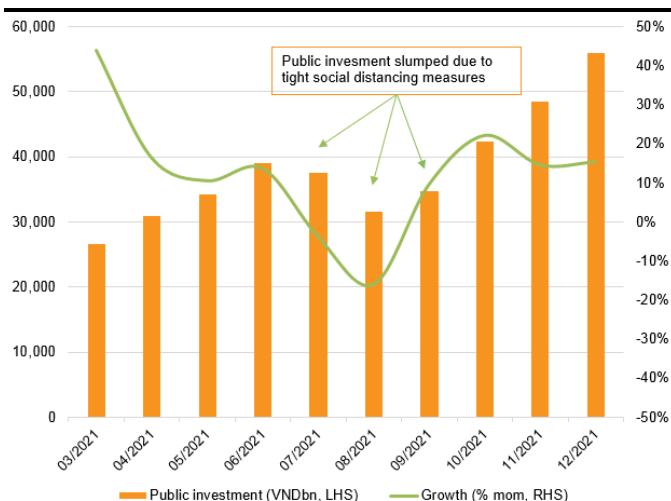
Source: GSO, VNDIRECT RESEARCH



## Foreign direct investment accelerated while public investment experienced steady recovery in 4Q21

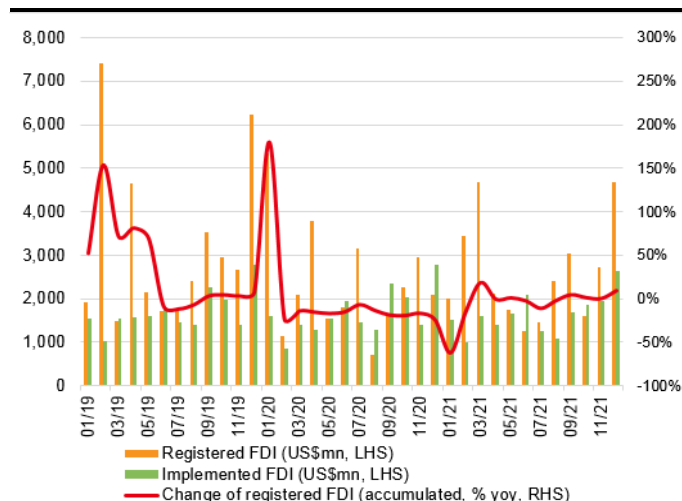
Public investment recovered steadily in 4Q21 after the government eased social-distancing measures across the country since late-Sep. Per GSO data, the implemented state capital (public investment) in 4Q21 jumped 41.5% qoq to VND146.9tr (-10.0% yoy; versus a decline of 26.8% yoy in 3Q21). For 2021, implemented state capital dropped 8.6% yoy to VND423.6tr (vs. an increase of 33.6% yoy seen in the same period last year), equivalent to 84% of the full-year target.

**Figure 14: Public investment accelerated recovery in Oct**



Source: GSO, VNDIRECT RESEARCH

**Figure 15: Foreign direct investment slew down in Oct 2021**



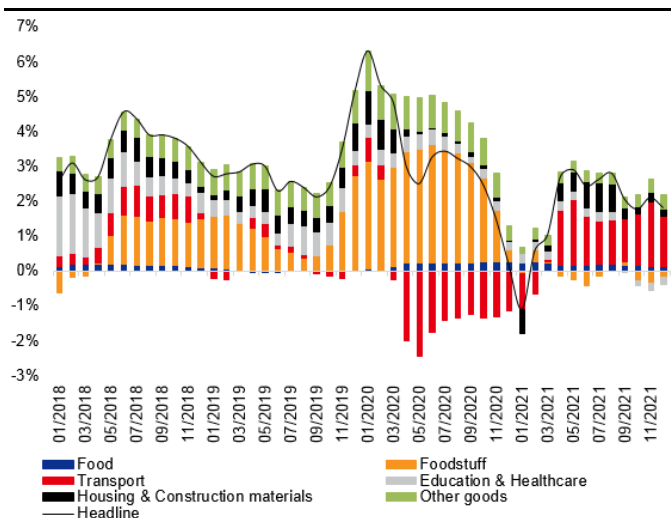
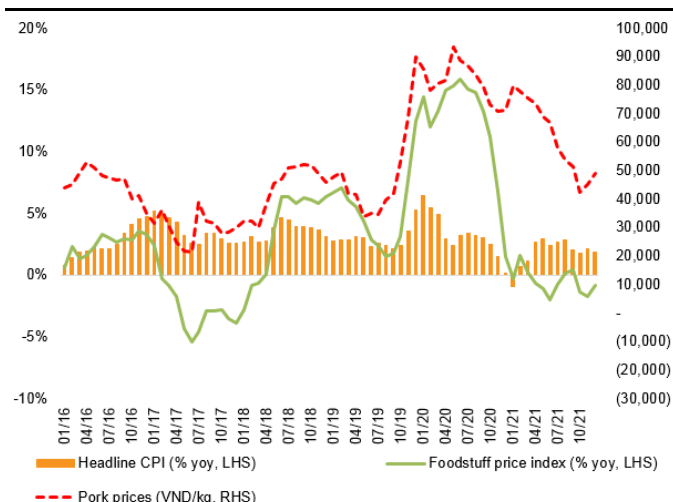
Source: GSO, VNDIRECT RESEARCH

Foreign direct investment (FDI) kept accelerating in Dec. According to GSO, the registered capital of FDI projects surged 123.3% yoy (+72.4% mom) in Dec to US\$4.7bn. For the entire-2021, the register capital of FDI projects increased 9.2% yoy to US\$31.2bn (vs. a decrease of 25.0% yoy in 2020).

To be more specific, 1,738 newly licensed projects with a registered capital of US\$15.3bn, an increase of 4.1% in terms of registered capital compared to the same period in 2020; 985 projects licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US\$9.0bn (+40.6% yoy); 3,797 turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US\$6.9bn, a drop of 7.8% over the same period in 2020. Regarding disbursement capital, the implemented capital of FDI projects reached US\$19.7bn in 2021, falling 1.2% yoy (vs. a 2.0% decrease in 2020).

## Inflation well-managed

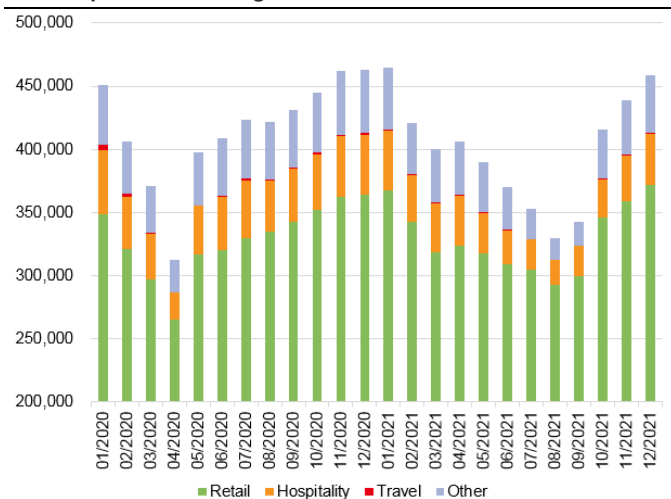
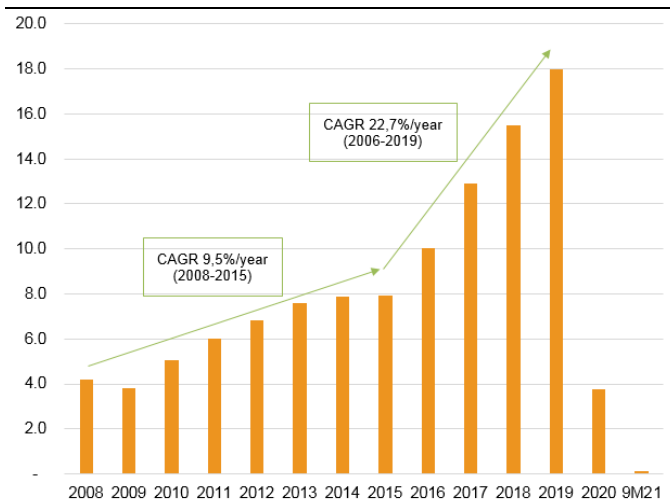
Vietnam's headline inflation slowed to 1.8% yoy in Oct (vs. 2.1% yoy in the previous month). On month-on-month basis, headline CPI declined 0.2% vs. Nov level, as the transport CPI slumped 1.7% mom amid lower crude oil and the accommodation & construction materials price index dropped 0.5% mom. For 2021, headline CPI averaged at 1.8% yoy, which was far below the government's target of 4.0%.

**Figure 16: Inflation average at 1.8% yoy in 2021**

**Figure 17: Foodstuff price index**


## 2022 VIETNAM MACRO OUTLOOK: REIGNITE THE GROWTH ENGINES

### Growth engine #1: Domestic demand is a key fulcrum of Vietnam's economic recovery

The service sector contributes the largest share to Vietnam's GDP, accounting for 41.6% of nominal GDP in 2019. Unfortunately, the outbreak of COVID-19 pandemic caused the slowdown of people's income and consumption demand in 2020-2021 period. Total gross retail sales of consumer goods and services dropped 3.7% yoy in 2021 from an increase of 0.8% yoy seen in 2020 (vs. a strong increase of 11.7% in 2019). Due to lower of domestic consumption, the service sector edged up only 1.2% yoy in 2021 (vs. +2.3% yoy in 2020 and +7.3% in 2019).

**Figure 18: Gross retail of consumer goods and services rebound since Sep 2021 after the government eased social restriction**

**Figure 19: Foreign visitors to Vietnam (2008-9M2021)**


However, we believe that the service sector will recover and enjoy a higher growth rate from 2022F onwards, mostly driven by the reopen of non-essential services and the recovery of consumption. Specifically, we expect all service activities, including tourism, transportation and entertainment could be allowed to operate at full capacity since 2Q22F after Vietnam achieving a target of vaccinating for over 70% of population. We also expect consumption to bounce back strongly with gross retail sales of consumer goods and services expected to increase 10-12% yoy in 2022F thanks to strong catalysts, including:

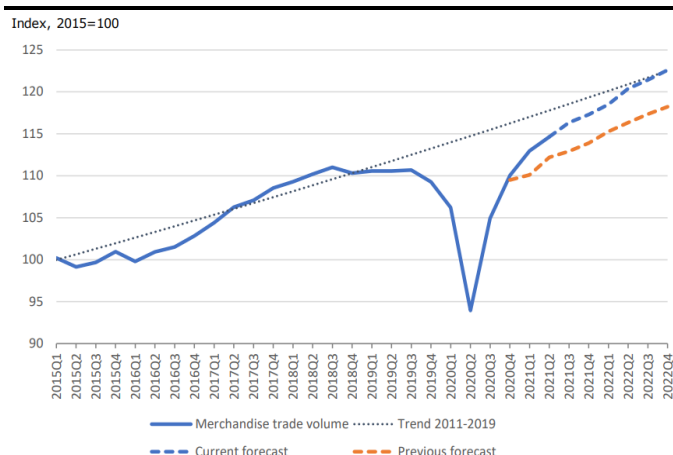
- Real income growth as we expect Vietnam's GDP to grow by 7.5% yoy while inflation is expected to increase 3.45% yoy in 2022, well below the government's target of 4.0%.
- A revival of tourism after international flights have been licensed for commercial purposes from 1Q22F, leading to a strong rebound of travelling, entertainment, accommodation, catering service. Vietnam has piloted to welcome foreign tourists under package tour from mid-Nov 2021, through charter flights to several destinations such as Phu Quoc (Kien Giang), Khanh Hoa, Quang Nam, Da Nang, and Quang Ninh. This marks the beginning of Vietnam tourism after nearly 2 years of being closed to foreign visitors. To be noted that, the tourism contributed over 9.5% to Vietnam's GDP in 2019. However, due to the impact of the COVID-19 pandemic, the contribution of the tourism industry has decreased to 2.3% of GDP in 9M21.
- We believe that the government could release more fiscal stimulus packages to support economic recovery, focusing on: cash subsidies for people negative-affected by the COVID-19 pandemic, tax reduction (value added tax, corporate income tax) and increase value amount of public investment in transport infrastructure and social-housing projects development. These policies aim at recuperating domestic demand and consumption.
- The rising affluence and tech-savviness of the younger population. This statement is proof by the sales of technology and electronic products in Vietnam have increased significantly in recent years, notably smartphones, laptops, robot vacuums and smart TVs.
- Rising urbanisation which should continue to boost consumption demand in large urban centers. According to the Ministry of Construction, Vietnam's urbanization rate has increased rapidly from 30.5% in 2010 to 40.4% in mid-2021. Vietnam also aims to raise the urbanization rate to 45% by 2025 and about 50% by 2030. To be clearly that urbanization is an important driver of economic growth, raising people's incomes and a catalyst to shift consumption trends from traditional channels to modern retail channels.

### **Growth engine #2: Exports to resume expansion thanks to increasing global demand**

We are optimistic about Vietnam's export prospects in 2022F, thanks to the following reasons:

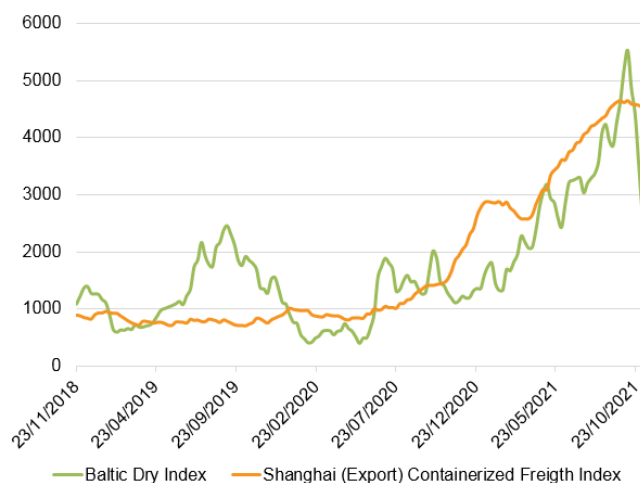
- Global trade is expected to remain resilient in 2022F. Based on the latest report of World Trade Organization (WTO), trade volume growth is expected to increase by 4.7% in 2022F, up from 4.0% in previous report, and it could approach its pre-pandemic long-run trend at the end of 2022.
- Increased shipping costs are expected to gradually normalize from late 2021 onwards as anti-coronavirus measures are mitigated thanks to high vaccination rates as well as increased container volumes following a sharp increase in container production orders since mid-2021. We have seen the decline of major freight index since Oct 2021, including Baltic Dry Index and Shanghai (Export) Containerized Freight Index. The cooling of transportation costs will create favorable conditions for Vietnamese enterprises to promote exports in 2022, especially to the US and European markets.



**Figure 20: World merchandise trade volume, 1Q15-4Q22F**


Sources: WTO and UNCTAD for trade volume data; WTO for forecasts.

Source: WTO, UNCTAD

**Figure 21: Baltic Dry Index and Shanghai (Export) Containerized Freight Index (Nov 2018- Nov 2021)**


\*E6 includes Holland, Germany, England, Italia, Belgium and France  
Source: GSO, VNDIRECT RESEARCH

- The Regional Comprehensive Economic Partnership (RCEP) that is expected to come into force from the beginning of 2022 will boost Vietnam's exports to partner countries in 2022. The agreement includes 10 ASEAN countries and five countries that have signed FTAs with ASEAN include: Japan, Korea, China, Australia, New Zealand. RCEP is considered a "super agreement", because when implemented, it will become one of the largest free trade areas in the world with a scale of 2.2bn consumers, accounting for about 30% of the world's population and about 30% of global GDP. Not having to wait until the agreement officially takes effect, Vietnam's exports to countries in Southeast Asia have increased sharply with export value increasing 24% yoy to US\$24bn in the first 10 months of 2021.
- The EU-Vietnam Free Trade Agreement (EVFTA) officially took effect from 1 Aug 2020. Since the agreement took effect, Vietnam's export prospects to the EU have improved significantly. With Vietnam's export tax continuing to be cut in 2022 according to the agreement's roadmap and the European economic outlook remaining strong in 2022, we believe that Vietnam's exports to the EU would maintain strong momentum in 2022.

In conclusion, we expect Vietnam's exports to enjoy a strong growth rate of 12.5% yoy in 2022F (vs. an increase of 19% yoy in 2021). Exports will continue to be a key growth driver for Vietnam's economy in 2022F.

As for imports, we maintain our view that Vietnam's import spending will remain strong in 2022, backed by the following reasons: (1) recovery in domestic demand for imported consumer products, (2) high demand for raw materials and inputs amid resurgent manufacturing activity, (3) commodity prices may remain high in 2022. Some imported products will see strong demand in 2022, including machinery and equipment, auxiliary materials for textile and footwear, phones and components, automobiles, and steel. As a result, we expect Vietnam's import value to increase by 10.9% yoy in 2022F and expect Vietnam's trade surplus to widen to US\$9.8bn in 2022F from an expected trade surplus of US\$4.0bn in 2021E.

### Growth engine #3: Foreign direct investment (FDI) to recover in 2022

We believe that Vietnam's foreign direct investment (FDI) inflows will recover strongly in 2022F thanks to (1) Vietnam plans to resume regular international commercial flights from the beginning of 2022, which will create favorable

conditions for investors and professionals to return to Vietnam and promote investment in 2022, (2) Vietnam remains an attractive location for companies' 'China+1' diversification strategy due to advantages such as competitive labour cost and large demography, and (3) last but not least, Vietnam has signed very progressive free trade agreements (FTAs) with major partners and regions in the world such as CPTPP, EVFTA, RCEP... Therefore, investors investing in Vietnam will enjoy great tax incentives when exporting products to countries that have FTAs with Vietnam.

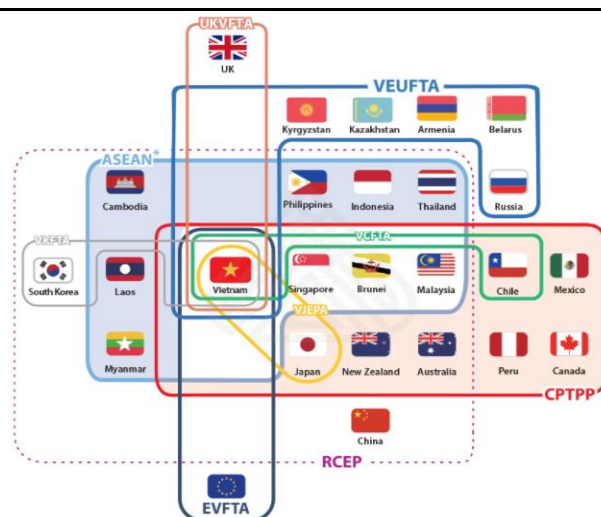
With those advantages, we expect registered FDI into Vietnam to grow by about 9-10% yoy and disbursed FDI to increase by 8-9% yoy in 2022.

Figure 22: List of major FDI projects in 2021

FDI projects	Sectors	Registered capital (US\$bn)	Province/city
Long An I, II liquefied natural gas (LNG) power plant	Power	3.1	Long An
Expanding LG Display project in Hai Phong city	Manufacturing	2.2	Hai Phong
Omon II thermal power plant	Power	1.3	Can Tho
Kraft Vina's paper factory	Manufacturing	0.6	Vinh Phuc
Polytex Far Eastern Vietnam	Manufacturing	0.6	Binh Duong
Jinko Solar PV Vietnam	Manufacturing	0.5	Quang Ninh
Radian tire manufacturing plant expansion project	Manufacturing	0.3	Tay Ninh
Foxconn projects	Manufacturing	0.3	Bac Giang

Source: Ministry of Plan and Investment

Figure 23: List of main FTAs that Vietnam participates in



Source: Graphics AsiaBriefingLtd

## Growth engine #4: Support policies as vital to drive 2022F forward

There is still room for more fiscal policy support, in our view

Figure 24: Public debt ratio is still far lower than the alarm level (55% of GDP)

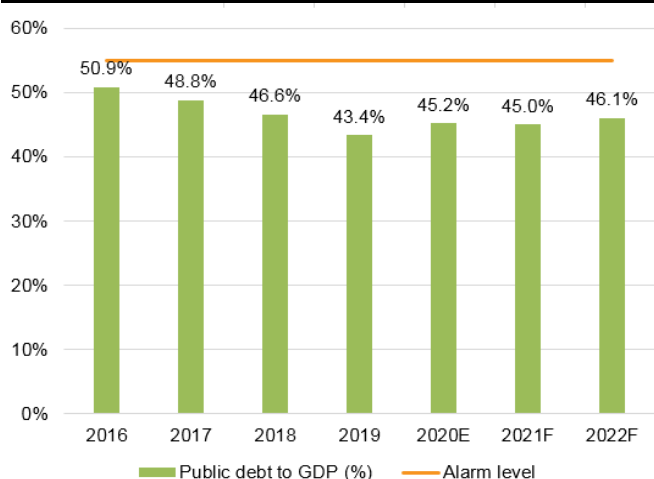
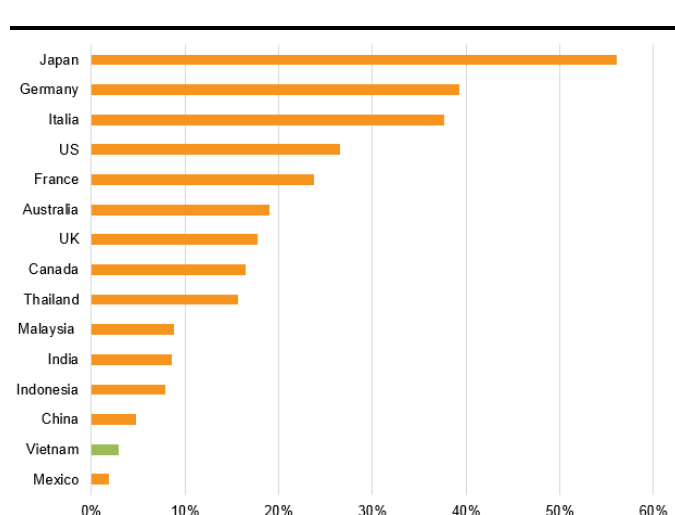


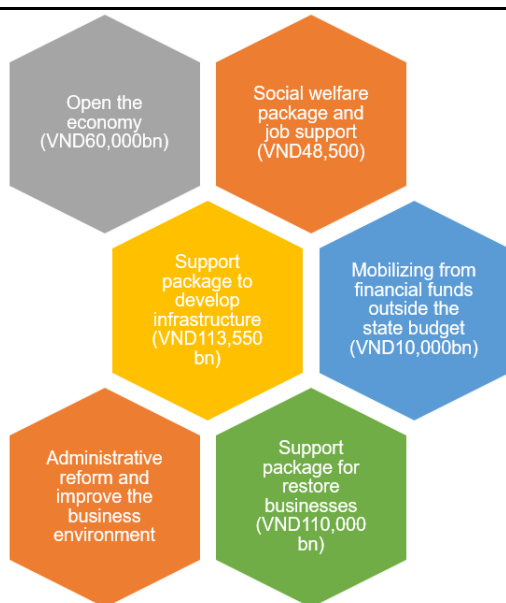
Figure 25: Value of fiscal stimulus measures as a share of GDP



Recently, the scale of Vietnam's COVID-19 fiscal stimulus packages was only 2.85% of GDP (according to Ministry of Planning and Investment), which is much lower than that of advanced economies, and Asian economies (refer Figure 25).

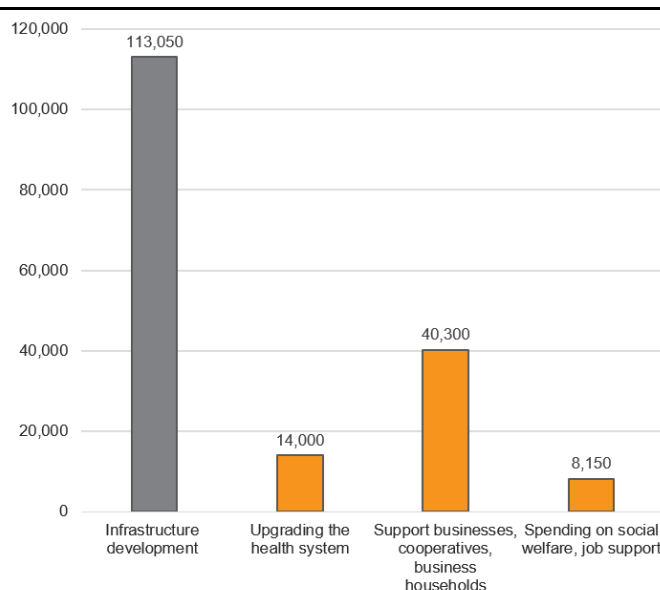
In addition, we estimate that Vietnam's public debt-to-GDP ratio at year-end of 2021 was about 45% of GDP (re-calculated GDP), which is much lower than Vietnam's public debt ceiling of 60% of GDP. Given that Government bond interest rates are at historic lows and inflation is well-managed, the Government presented the draft of an economic stimulus package to the Parliament during its extraordinary session from January 4 to January 11, 2022. Following this, on Jan 11, 2022, the National Assembly approved a new economic stimulus package worth about VND342,050bn, equivalent to about 4.2% of Vietnam's GDP in 2021. The economic stimulus package included: government spending on upgrading health system, social welfare, job support, tax reduction (2% value-added tax reduction), increase investment in transport infrastructure.

Figure 26: The new economic stimulus package



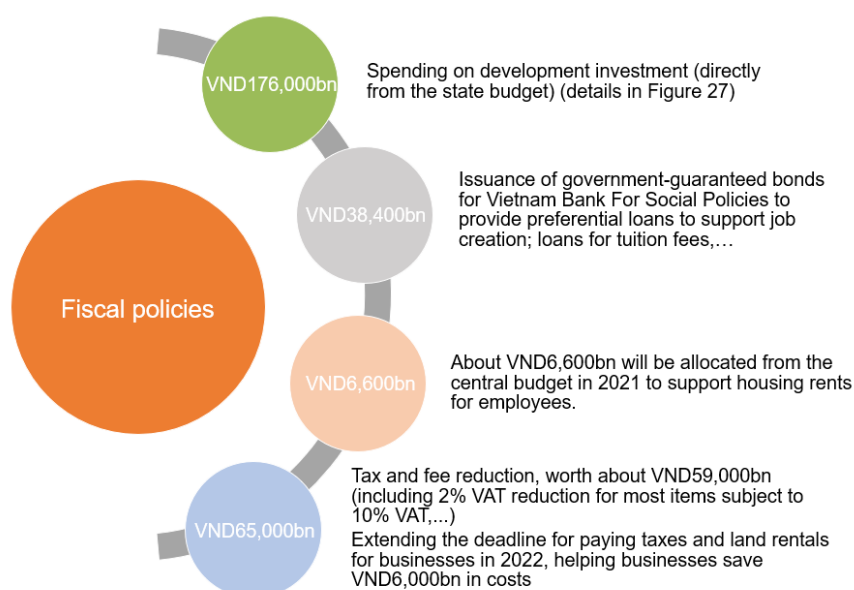
Source: ECONOMIC RECOVERY PROGRAMME

Figure 27: Detail of spending on development investment (VNDbn)



Source: ECONOMIC RECOVERY PROGRAMME

Figure 28: Details of fiscal policies



Source: ECONOMIC RECOVERY PROGRAMME

Regarding the monetary solution, the Government will focus on synchronously and flexibly administering monetary policy to actively support the economic recovery; direct credit institutions to reduce management costs in order to strive to reduce lending interest rates by at least 0.5-1% in the next 2 years.

Along with upcoming fiscal support packages, the Government plan to step up public investment in 2022 to counter the slowdown in other growth engines. We expect the implementation of public investment in 2022 can increase by 20-30% compared to the actual implementation in 2021 thanks to (1) new package to develop transport infrastructure in 2022-2023 period (see above), (2) the bottleneck of construction stone shortage has been solved as the government has licensed for new mines, (3) the prices of construction materials such as steel, cement, construction stone are expected to cool down next year, (4) the actual implementation of public investment in 2021 was low, equivalent to only 84% of the whole year plan. In addition, the Government is expected to focus on accelerating the progress of major public investment projects in 2022 such as the Long Thanh International Airport and the North-South Expressway, thereby accelerating the implementation of public investment.

## Implication for our 2022 forecasts

### The growth gather steam since 1Q22

Figure 29: Key macro forecasts in 2022

Indicator	Unit	2018	2019	2020	2021E	2022F
Real GDP growth	% yoy	7.1	7.0	2.9	2.6	7.5
Export growth	% yoy	13.3	8.4	6.5	19.0	12.5
Import growth	% yoy	11.8	6.9	3.6	26.5	10.9
Trade balance	USD bn	6.9	10.9	18.9	4.0	9.8
Current account balance	USD bn	5.8	12.8	12.7	-1.2	7.8
Current account to GDP	% of GDP	1.9	3.8	3.7	-0.3	2.0
FX reserves	USD bn	55.1	79.0	95.0	107.5	122.5
FX to GDP	% of GDP	17.9	23.8	27.8	29.8	30.9
Import coverage	months	2.8	3.7	4.3	3.9	4.0
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.5
Credit growth	% ytd	13.9	13.7	12.1	13.0	13.0-14.0
Credit to GDP	% of GDP	103.9	107.1	115.7	126.2	129.9
M2 growth	% ytd	12.4	14.8	14.7	11.0	12.0-13.0
Refinancing rate	%	6.3	6.0	4.0	4.0	4.0-4.5
12M deposit interest rate (year-end)	%	6.8	6.8	5.6	5.6	6.0
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	2.4
Exchange rate (USD/VND)	% yoy	1.8	1.4	0.7	-1.2	+/- 1.0
Fiscal balance	% of GDP	2.2	2.7	3.1	3.8	4.3
Public debt	% of GDP	46.6	43.4	45.2	45.0	46.1

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

We believe that Vietnam's economy will return to the "new normal" in 2022 and have brighter and more sustainable growth prospects thanks to high vaccination rates. Vietnam's GDP is expected to grow 7.5% yoy in 2022, with resilient growth in all aspects. Its macroeconomic fundamentals could be strengthened with higher trade surplus, as well as current account surplus and foreign reserves. These buffers could help Vietnam cope with internal and external risks, including higher-pressure inflation, stronger dollar index and less favourable global financial market condition.

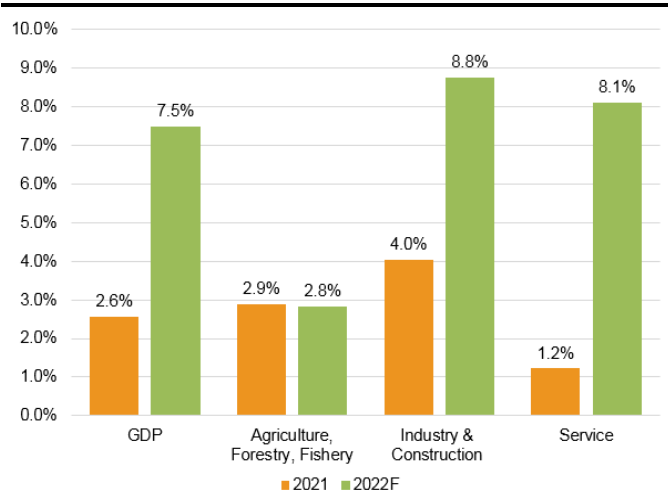
Our forecast is based on the following key assumptions:

- The global economy could remain strong growth momentum in 2022. The International Monetary Fund (IMF) forecast the global economy to expand by 4.9% yoy in 2022F (vs. an expected growth rate of 5.9% yoy in 2021F). Noted that, the global economic growth rate averaged around 2.8% per year in the

period 2016-2019 (before the COVID-19 pandemic). Thanks to a sustainable global growth outlook, we expect strong external demand for Vietnam's exports in 2022.

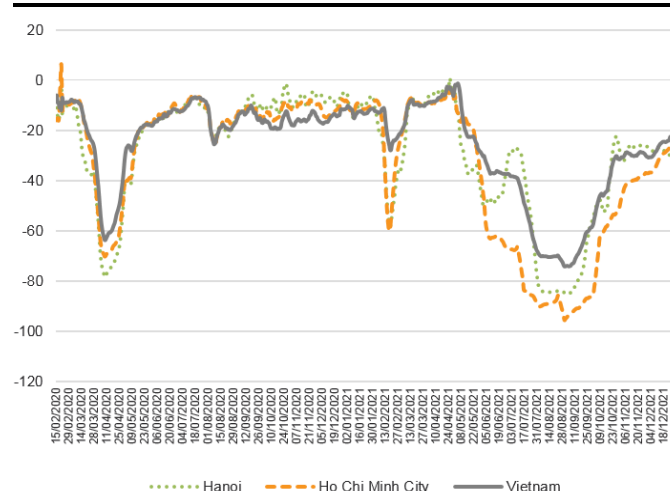
- 75-80% of Vietnam's population would be fully vaccinated against COVID-19 in the first quarter of 2022. We expect that high vaccination rate will help Vietnam successfully contain the pandemic.
- International commercial flights could be resumed from 1Q22, that would support the recovery of the tourism industry in 2022, one of two main drivers for a rebound in Vietnam's services sector, along with the recovery in domestic demand. According to our estimation, the tourism contributed over 9.5% to Vietnam's GDP in 2019 and created 2.9m jobs, including 927 thousand direct jobs. However, the tourism industry has been hit hard by the COVID-19 pandemic in the 2020-2021 period. The number of international visitors in 2020 reached 3.7m arrivals (-80% yoy), while domestic visitors reached 56m arrivals (-34% yoy). Total revenue from visitors in 2020 reached VND312tr (-59% yoy). In the first 9 months of 2021, total revenue from tourists continued to decline by 42% yoy to about VND137tr. For 2022, we expect the tourism industry to strongly recover thanks to the resume of international commercial flights as well as further easing social-distancing measures. This will be the main growth driver for the recovery of Vietnam's economy from 2022 onwards.
- We expect the government to issue new economic support packages and maintain an accommodative monetary policy until at least late-2Q22 to boost economic growth. We also expect a large increase in the country's investment capital in 2022 as the government continues to accelerate the disbursements of public investment. The investment capital of the non-state sector, as well as the FDI sector, could also recover strongly, thanks to a more favourable business environment after the pandemic.

**Figure 30: 2022F growth forecast by sectors**



Source: VNDIRECT RESEARCH

**Figure 31: Google mobility for retail and recreation in Vietnam (7 days moving average) (data on 31/12/2021)**



Source: GOOGLE, VNDIRECT RESEARCH

Regarding to sub-sector, we expect the agriculture, forestry and fishery to grow by 2.8% yoy, the industry and construction sector by 8.8% yoy, and the services sector by 8.1% yoy in 2022F.

**SBV will continue to maintain an accommodative monetary policy to support the economic recovery until at least the end of 2Q22F**

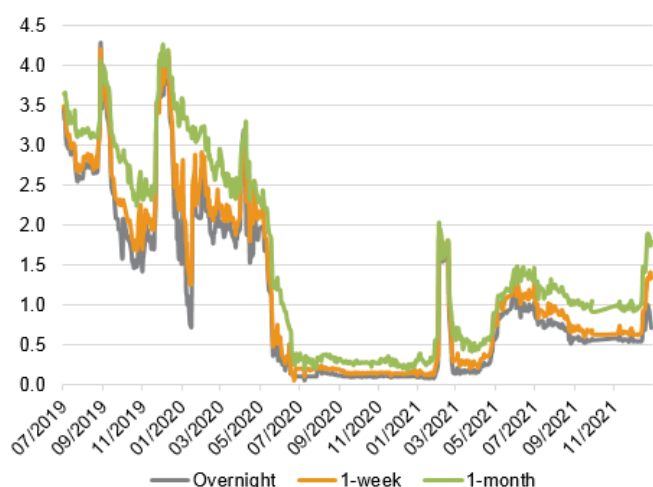
Vietnam witnessed a sharp increase in credit growth in 4Q21 after experiencing slow growth rate in the first nine months of 2021 due to the negative impacts of the fourth COVID-19 outbreak. According to the State Bank of Vietnam (SBV),



credit growth rose 13.0% ytd until Dec 28, 2021, doubling from the 6.2% yoy rate seen in 30 Sep and beating our forecast for credit growth of 12% in 2021. The acceleration of credit demand signals a stronger recovery of the economy with corporations becoming more confident in the economic outlook and taking the initiative to borrow capital to expand business activities.

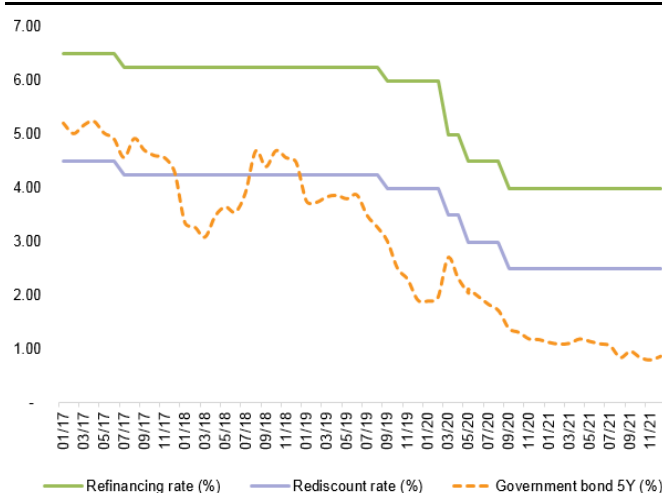
Despite the rising inflationary pressure, we expect the SBV to maintain its accommodative monetary policy until at least the end-2Q22. Although we do not expect the central bank to cut its key policy rates further, we also think it would not lift them either in 1H22F, in a bid to continue supporting the economy by maintaining a loose monetary policy. Nevertheless, we expect the SBV to channel its money market activities via the open market, such as buying foreign exchange or raising the credit growth ceilings. We forecast credit growth to increase by 13-14% yoy in 2022F.

**Figure 32: Interbank interest rates rebound since Dec 2021 due to strong credit growth and seasonal effects**



Source: BLOOMBERG, VNDIRECT RESEARCH

**Figure 33: Policy rates and government bond 5Y (01/2017-11/2021)**



Source: Commercial banks, VNDIRECT RESEARCH

### **We expect lending rates to decrease further, but deposit rates to pick up tenderly**

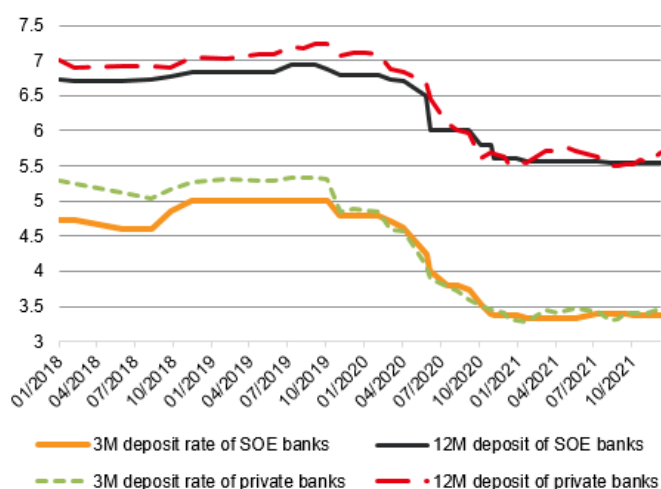
As of Dec 31, 2021, the 3-month term deposit rates and the 12-month term deposit rate remained unchanged compared to the level at the end of 2020 (refer Figure 34). Meanwhile, the interbank interest rates have rebounded from historic lows in late-2020, but are still low relative to pre-pandemic levels.

Regarding to lending interest rates, the SBV is implementing an interest rate compensation package with a scale of VND3,000bn. It offers lending interest rates of only 3-4%/year for businesses strongly affected by the COVID-19 pandemic. Moreover, the Government plans to expand the scale of the package of interest rate compensation for businesses to VND40,000bn, focusing on a number of priority audiences, including (1) small and medium-sized enterprises, (2) businesses participating in a number of key national projects, and (3) business in certain industries (tourism, aviation, transportation,...). Thanks to these supportive policies, we expect lending rates to decrease by 20-40bp in 2022F, on average.

Regarding to deposit interest rates, the deposit rate is unlikely to remain at historic low in 2022F due to following reason (1) higher demand for fund raising as credit accelerates, (2) inflation pressure in Vietnam could pick up in 2022, (3) compete more fiercely with other investment channels such as real estate and securities to attract capital inflow. As a result, we expect that deposit rates to slightly increase 30-50 basis points in 2022F. We see the 12-month deposit rates of

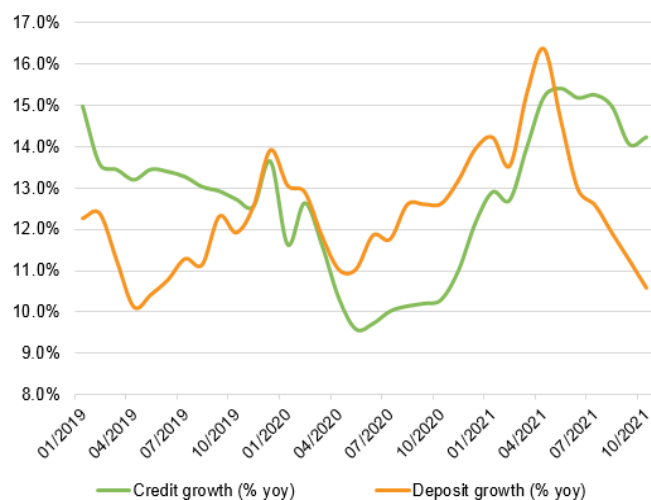
commercial bank could climb to 5.9-6.1%/year at the year-end of 2022, which are still lower compared to pre-pandemic level of 6.8-7.0%/year.

Figure 34: The 12-month term deposit rate declined further



Source: BLOOMBERG, VNDIRECT RESEARCH

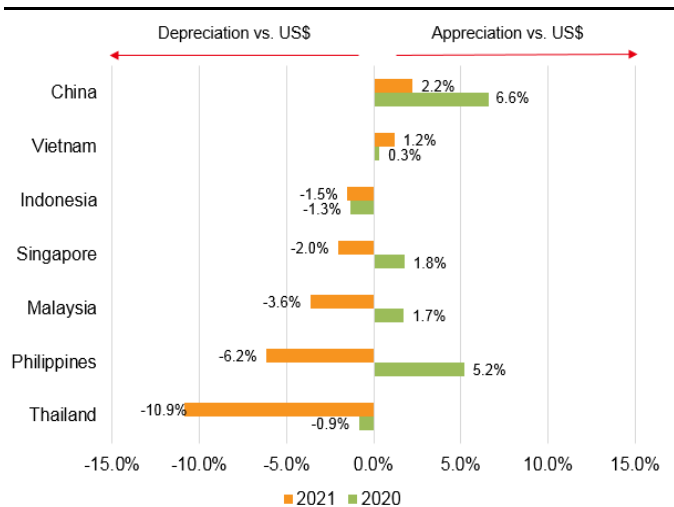
Figure 35: Credit and deposit growth (01/2019-10/2021)



Source: Commercial banks, VNDIRECT RESEARCH

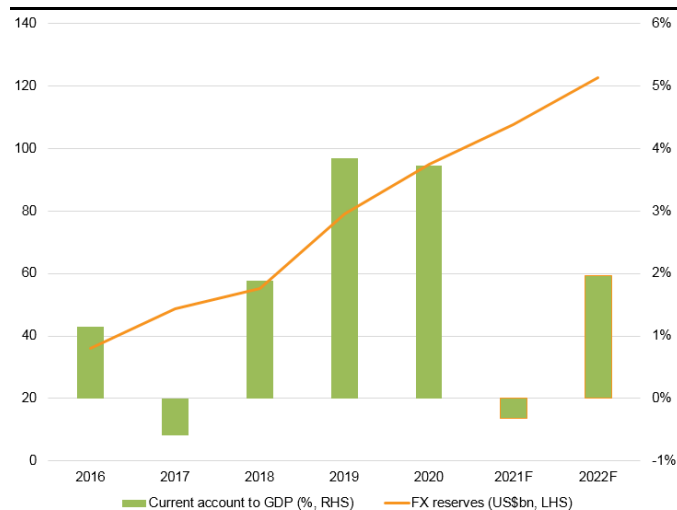
### Our optimistic view for VND has turned more neutral for 2022

Figure 36: Most of ASEAN currencies depreciated vs. the US\$ in 2021



\*data as of 29 Nov 2021 Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 37: Vietnam's current account and FX reserves



Source: SBV, VNDIRECT RESEARCH

Our optimistic view for VND has turned more neutral for next year due to the following reasons: (1) US\$ may regain the upper hand in the rest of 2021 as the Federal Reserve (FED) has begun to reduce the size of bond purchasing programme (QE tapering) since Nov 2021, (2) inflation pressure in Vietnam could pick up since late-2021.

Regarding to policy rate, FED announced to kept FED fund target to near zero. According to CME Group survey, market expects that FED can raise policy rate by 50-75bp in 2022, starting from May 2022. Meanwhile, ECB and BOJ are likely to keep their policy interest rates at low levels in 2022 to finance accommodative fiscal policy and support the economic recovery.

However, we see that the fundamental factors to keep Vietnam Dong stable in recent years still remain, including current account surplus and higher foreign

exchange reserves (FX reserves). We expect current account surplus to widen to 2.0% GDP in 2022F from an expected deficit of 0.3% GDP in 2021F. We also expect Vietnam's FX reserves to reach US\$122.5bn at the end of 2022 (equivalent to 4.0 months of import) from a current level of US\$105bn. As a result, we see the US\$/VND stable at 22,600-23,050 in 2022F and the Vietnamese Dong may move in a relatively narrow range vs. the US\$.

## Key macro risks into 2022

### #1. Cautious but not overly concerned on the inflation risk

We see inflation to pick up in 2022F, as following reasons:

- The recovery of domestic consumption and a tighter pork supply in the 2H22F could lead to stronger increase in the food & foodstuff price index.
- Energy prices are expected to maintain at a high level in 2022 with Brent crude oil price could average at US\$80\$/barrel in 2022F (+14.3% yoy). We also expect a strong recovery in mobility in 2022 as the government eases social distancing measures and resumes international flights from 1Q22. These are bullish catalyst for the transportation price index.
- It can be clearly seen that the prices of many inputs for the production of goods have increased sharply in 10M21, such as the prices of gasoline, chemicals, fertilizers, coal, iron and steel...These factors will be reflected in the prices of consumer goods in 2022 when consumer demand recovers.
- Inflationary pressure could increase due to expected high money supply and large-scale fiscal support packages in 2022.

However, we are not too concerned on the inflation risks next year as (1) consumer demand takes time to fully recover, (2) the government's good record of controlling inflation over the past few years, thus lowering inflation expectations. Notably, the government is able to control the rise of CPI through stabilizing the prices of essential goods and services such as petrol, retail electricity, fertilizers, pesticides, essential foods (rice, sugar, salt)...We forecast 2022F average headline CPI to increase 3.45% yoy (vs. our forecast of a 2021F average CPI of 2.1% yoy). It remains under control and meets the government's target of keeping the 2022F average CPI below 4.0% yoy.

### #.2 The second risk factor is China

The global economy and markets took notice of China's market selloff and economic slowdown in 2H21, but there was little spill-over. According to the International Monetary Fund (IMF), the recovery of Chinese economy could slow down to 5.6% yoy in 2022F, from a level of 8.0% yoy in 2021F. We concern that a further correction in China, coming from pandemic resurgence, regulatory crackdown, power shortage or the rising bad debts of Chinese property developers, could put a major dent in Vietnam export and investor sentiment. Noted that, China is currently Vietnam's largest trading partner, accounting for 17% of Vietnam's export value (second after the US) and 33% of Vietnam's import value (ranked first) in the first 10 months of 2021. In addition, China ranked fourth among foreign direct investors in Vietnam in 11M21.

### #.3 Would Vietnam be able to handle the likely impact of taper tantrum?

As we discussed above, the normalization of monetary policy by several central banks such as FED and ECB should not be seen as a tightening of global monetary policy, and we believe that conditions in global financial markets in 2022 will still be more favorable than in the pre-pandemic period. We believe that the QE tapering are unlikely to have much impact on Vietnam's monetary policy as well as its financial markets.

Regarding monetary policy, we believe that the SBV will maintain the loose monetary policy until at least the end of 2Q22 to support the economic recovery.

Any monetary tightening will only take place in the second half of 2022, and major rate hikes will be limited, around 0.25-0.5%.

Regarding financial market, foreign indirect investment (FII) may continue to be net withdrawn in the first half of 2022 due to the impact of taper tantrum. However, foreign investors have been net sellers on Vietnam's stock market in the last 2 years, so the impact of foreign net selling will be moderate because the market has prepared in advance.

Regarding to VND exchange rate, the upcoming QE tapering could less impact to foreign investment flows into Vietnam in 2022. Besides, Vietnam dong is also strongly supported by higher trade surplus and foreign reserves in 2022. Therefore, we believe that the coming QE tapering have minimal impact on the VND exchange rate.

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## RECOMMENDATION FRAMEWORK

### Stock Ratings

Definition:

- Add The stock's total return is expected to reach 15% or higher over the next 12 months.
- Hold The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
- Reduce The stock's total return is expected to fall below negative 10% over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

### Sector Ratings

Definition:

- Overweight An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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