Economic Update
13 April 2022

ECONOMIC UPDATE

Lower GDP forecast as growing external headwinds

- Vietnam's 1Q22 GDP grew 5.0% yoy (vs. 4.7% yoy in 1Q21) on the back of strong exports and industrial sector.
- Headline CPI stabilized at 1.9% yoy in 1Q22 (vs. 1.9% yoy in 4Q21), but inflation surge is imminent due to rising food and commodities prices.
- We trim our 2022F GDP growth to 7.1% yoy in baseline scenario (from previous forecast of 7.5%).

Economy recovery to continue in 1Q22

Vietnam's economy overcame the negative impacts of the pandemic and higher commodity prices to record 5.0% GDP growth in 1Q22, higher than the growth rate of 4.7% in 1Q21 and 3.7% in 1Q20, according to General Statistics Office (GSO). However, this growth rate is still lower than our previous forecast of 5.5% (+/- 0.3% pts). Regarding to three main pillars of the economy, industry and construction sector grew 6.4% yoy in 1Q22 (vs. 6.3% yoy in 1Q21), service sector rose 4.6% yoy (vs. 3.6% yoy in 1Q21) and agriculture, forestry, fishery sector expanded 2.4% yoy (vs. 3.5% yoy in 1Q21).

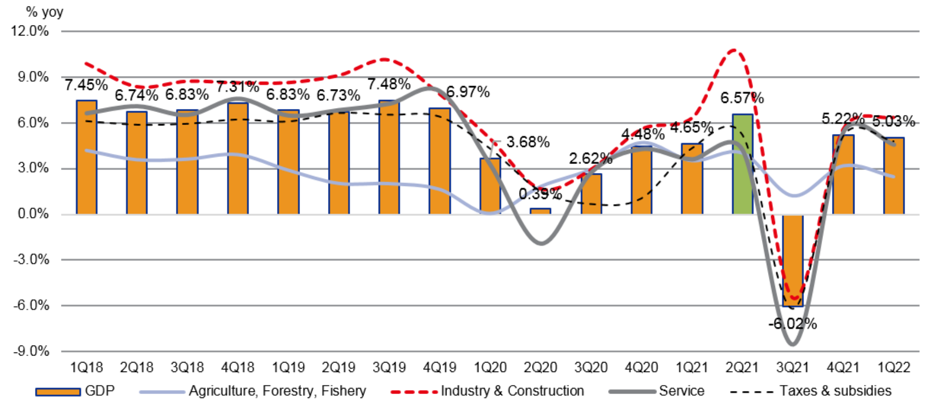
We see external headwinds are mounting

We see Vietnam's constructive growth outlook is supported by a shift to COVID-19 endemic status, but tempered by emerging external headwinds, including (1) The slowdown of global economy due to Ukraine-Russia crisis could tighten the demand for Vietnam's exports, (2) Growth in the industrial and construction sectors could be slowed due to rising input material prices and logistics costs, (3) The Fed shrinks its balance sheet and raises policy interest rates faster than expected, leading to tighter global financial conditions and (4) China maintains a zero-Covid policy that could negative impact Vietnam's import and export activities.

We revise down our 2022F GDP growth to 7.1% in baseline scenario

Given the context that Vietnam's economy is facing challenges due to the Russia-Ukraine crisis, high commodity prices and the Fed's tightening policy, we lower our GDP growth forecast for Vietnam in 2022 to 7.1% from a previous forecast of 7.5%. Overall, Vietnam will still be one of the fastest growing countries in the Asia-Pacific region in 2022. For 2Q22F, we expect Vietnam's economy to grow 5.6% yoy (+/- 0.2% pts), improving from a 5.0% growth in 1Q22. We forecast 2Q22F average CPI at 3.1% yoy due to rising commodities prices amid the Russia-Ukraine crisis (vs. 1.9% yoy in 1Q22).

Figure 1: Vietnam's GDP grew 5.0% yoy in 1Q22



Source: GSO, VNDIRECT RESEARCH

Analyst(s):

Dinh Quang Hinh
hinh.dinh@vndirect.com.vn

LOWER GDP FORECAST AS GROWING EXTERNAL HEADWINDS

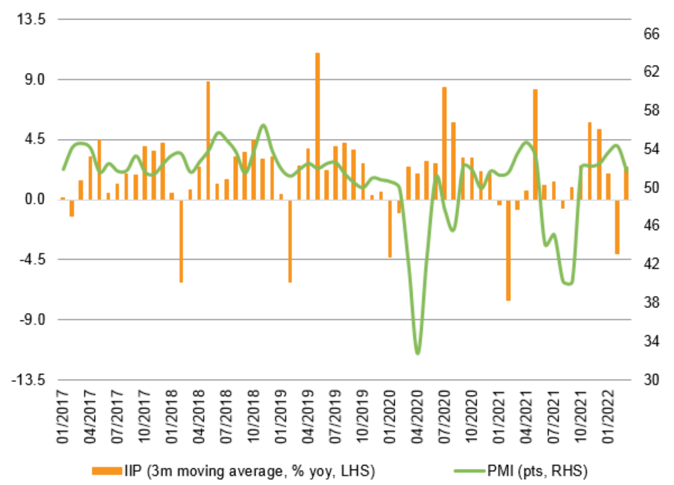
Solid GDP growth thanks to strong exports and industrial sector

Vietnam overcame the negative impacts of the pandemic and higher commodity prices to record 5.0% GDP growth in 1Q22, higher than the growth rate of 4.7% in 1Q21 and 3.7% in 1Q20, according to General Statistics Office (GSO). However, this growth rate is still below our previous forecast of 5.5%.

Regarding to three main pillars of the economy, industry and construction sector was bear the blunt by the rising input material costs and supply chain disruptions and grew by 6.4% yoy in 1Q22 (slightly higher than the growth rate of 6.3% in 1Q21 but lower than our forecast of 6.7%). Specifically, the manufacturing expanded 7.8% yoy in 1Q22, which is lower than the 8.9% and 8.0% growth rate seen in 1Q21 and 4Q21, respectively. Labor shortages due to booming coronavirus cases and supply chain disruptions were the main reasons of the slowdown in manufacturing growth in the first quarter of 2022. Furthermore, the growth rate of the construction sub-sector in 1Q22 fell to 2.6% yoy from 6.5% yoy in 1Q21 as profit margin of construction companies were narrowed due to the rising construction material prices.

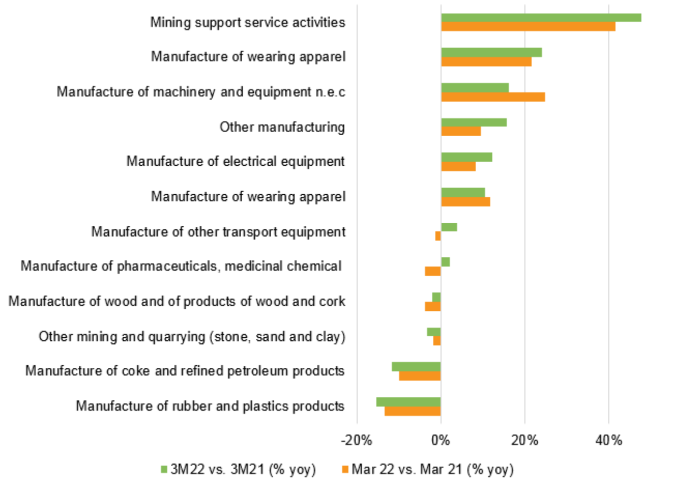
On the positive side, the mining sub-sector edged up 1.8% yoy in 1Q22 thanks to higher commodities prices, especially coal and crude oil. This is the first quarter to record positive year-on-year growth since 4Q19. Additionally, both electricity and water supply sub-sector posted higher growth rates of 7.4% and 6.5% in 1Q22, respectively.

Figure 2: PMI dropped to 51.7pts in Mar 2022



Source: GSO, VNDIRECT RESEARCH

Figure 3: Industrial production index (IIP) by category



Source: GSO, VNDIRECT RESEARCH

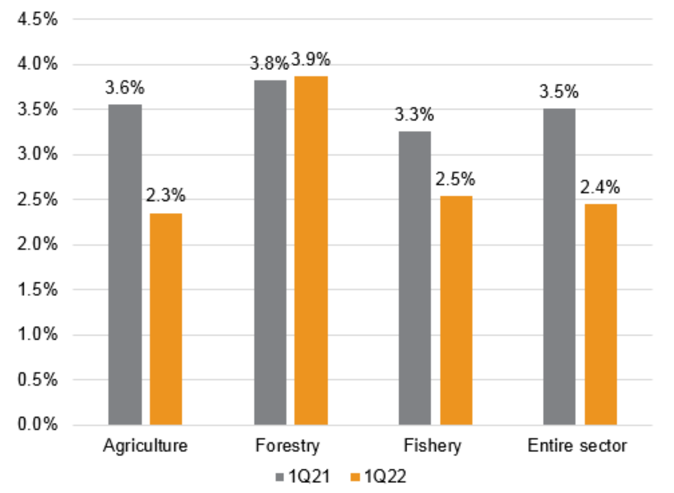
Figure 4: Growths of sub-sectors in industry and construction sector

		1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22
Industry & construction		5.0%	1.7%	2.9%	5.6%	6.3%	10.4%	-5.5%	5.6%	6.4%
Industry		5.1%	1.1%	2.3%	4.8%	6.3%	11.2%	-4.4%	6.5%	7.1%
	Mining and quarrying	-4.2%	-5.8%	-5.9%	-6.1%	-8.5%	-4.7%	-9.1%	-2.7%	1.2%
	Manufacturing	7.1%	3.4%	3.9%	8.6%	8.9%	13.4%	-4.1%	8.0%	7.8%
	Electricity, gas, steam and air condition supply	7.5%	-0.1%	4.0%	4.4%	4.3%	12.8%	-2.6%	5.5%	7.4%
	Water supply; sewerage, waste management	6.7%	1.4%	5.5%	8.3%	5.4%	7.8%	-0.2%	3.6%	6.5%
Construction		4.4%	4.7%	5.7%	8.6%	6.5%	6.5%	-10.1%	2.1%	2.6%

Source: VNDIRECT RESEARCH, GSO

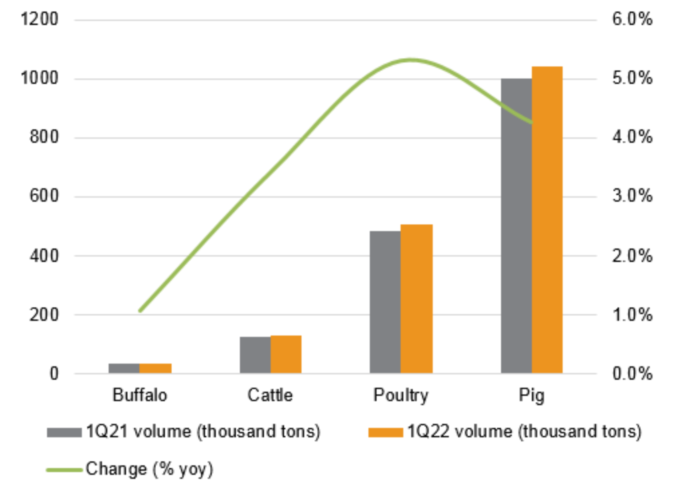
The agriculture, forestry and fishery sector rose 2.4% yoy in 1Q22, slowing down from a growth rate of 3.5% yoy in 1Q21. Specifically, both the agriculture and fishery sectors recorded lower growth rates of 2.3% and 2.5% respectively in 1Q22 as the sharp increase in animal feed prices causing farmers to hesitate in the re-herding and farming expansion. Meanwhile, the forestry sub-sector maintained a high growth rate of 3.9% yoy in 1Q22 (vs 3.8% in 1Q21) thanks to high export demand.

Figure 5: Growths of sub-sectors (% yoy)



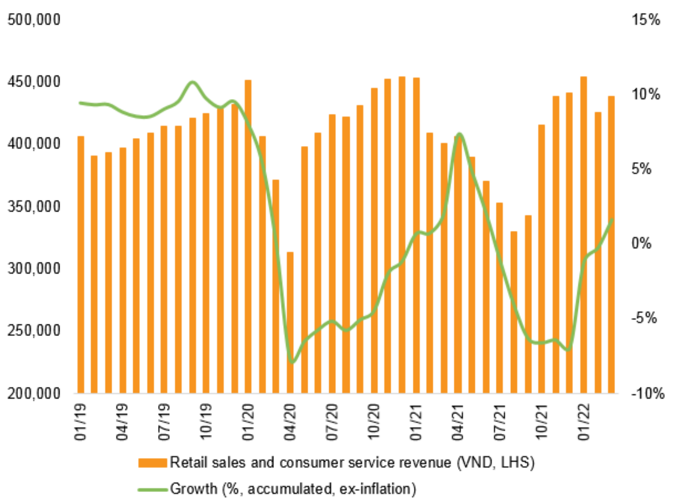
Source: GSO, VNDIRECT RESEARCH

Figure 6: Sale volume of main products of livestock



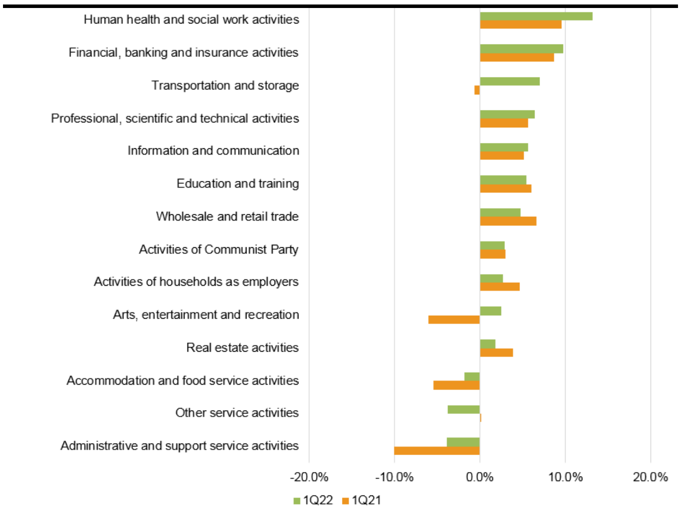
Source: GSO, VNDIRECT RESEARCH

Figure 7: Service sector continued to recover despite the third wave of COVID-19 pandemic



Source: GSO, VNDIRECT RESEARCH

Figure 8: Growths of service sub-sectors (% yoy)



Source: GSO, VNDIRECT RESEARCH

Last but not least, the service sector has weathered the difficulties caused by the pandemic to see a higher growth rate of 4.6% yoy in 1Q22 (vs. 3.6% yoy in 1Q21. Despite the high number of new coronavirus infections in 1Q22, Vietnam has reopened more and more services activities, including regular international flights and welcoming international tourists. Better adaptation to the pandemic helps service sector accelerate its recovery momentum. Specifically, transport and storage sub-sector rose 7.1% yoy in 1Q22 (vs. a 0.6% yoy decline in 1Q21), the highest level since the outbreak of the COVID-19 pandemic. The financials, banking and insurances activities increased 9.8% yoy in 1Q22 (vs. 8.7% yoy in 1Q21) thanks to strong credit growth. Meanwhile, the accommodation and food service activities slid 1.8% yoy in 1Q22, which is an encouraging improvement compared to a 5.5% yoy decline in 1Q21. On the other hand, domestic demand has recovered relatively slowly due to the pandemic and higher inflationary pressures. As a result, the wholesale and retail trade sub-sector grew only 4.8% yoy in 1Q22, which is lower than a 6.5% yoy increase in 1Q21.

We revise down our 2022F GDP growth to 7.1% in baseline scenario

We see Vietnam's constructive growth outlook is supported by a shift to COVID-19 endemic status, but tempered by emerging external headwinds

(1) **The slowdown of global economy due to Ukraine-Russia crisis could tighten the demand for Vietnam's exports in the second half of 2022**: Major research institutions have lowered their global economic growth forecasts for 2022F to account for the economic consequences of the Russia-Ukraine crisis. Specifically, the Economist Intelligence (EIU) revised down the growth forecast for Europe in 2022, to about 2% from our previous projection of 3.9%. Downward revisions to Europe's growth outlook will also prompt a revision of the global growth forecast by 0.5 percentage points to about 3.4%, from 3.9% previously. The United Nations Conference on Trade and Development (UNCTAD) has downgraded its global economic growth projection for 2022 to 2.6% from 3.6% due to the Ukraine war and to changes in macroeconomic policies made by countries in recent months. Meanwhile, The Organisation for Economic Development (OECD) said the war in Ukraine could cut global economic growth by more than one percentage point in the first year. The tightening of consumer spending in Vietnam's main export markets such as the US, EU and Japan may reduce demand for Vietnamese exports in the second half of 2022, especially are durable goods and consumables.

(2) **Higher input materials and logistics costs slow the growth of industry and construction sector.** The construction sector has been hit hard by the sharp increase in input material prices with 1Q22 growth slowing to 2.6% yoy. Prices of construction materials such as steel, cement and building stone are likely to remain high in the coming quarters as the Russia-Ukraine crisis has not cooled down significantly. That may cause industrial and civil construction projects to stall because the profit margin of the construction industry is significantly narrowed. Furthermore, supply chain disruption, the increase in shipping rates and raw material prices have lifted production costs in Vietnam. IHS Markit, the organization that provides purchasing managers index (PMI) for Vietnam, pointed out that the growth rate of input costs of the manufacturing sector in March 2022 reached the fastest rate in nearly 11 years. This is one of the main reasons along with the labor shortage that caused Vietnam's PMI in Mar to drop to 51.7 points, from 54.3 points in the previous month. Therefore, we concern that the growth rate of the manufacturing sector could slow down in the coming months if the Russia-Ukraine crisis persists.

(3) **Fed to tighten the balance sheet and raises policy interest rates faster than expected**, leading to tighter global financial condition, leaving less room for Vietnam to implement an accommodative monetary policy. In the latest FOMC meeting minutes, the Fed signaled to shrink the balance sheet scale earlier than expected, possibly starting from its next gathering May 3-4. The Fed is expected to reduce its massive bond holdings at a maximum rate of US$95bn a month, including US$60bn in the U.S. Treasuries and US$35bn in mortgage-backed securities. The amount of

the cuts is nearly double the peak of US$50bn a month when the Fed slashed its balance sheet from 2017 to 2019. The minutes also showed that "many" of Fed officials wanted to raise rates by 0.5 percentage points instead of the quarter-point move they made at the previous meeting.

(4) **China maintains a zero-Covid policy that could negative impact Vietnam's import and export activities.** Currently, the Chinese Government is still implementing a zero-Covid strategy, which maintains a large-scale blockade measure in the epidemic area. Therefore, if the COVID-19 outbreak is not extinguished soon, it will adversely affect the production and consumption activities of the epidemic-affected localities. China is Vietnam's largest trading partner with a total two-way trade value of US$165.9bn in 2021, of which Vietnam's exports to China reached US$56.0bn (accounting for 14.9% of Vietnam's exports) and imports from China reached US$109.9bn (accounting for 33.1% of Vietnam's imports). Therefore, the COVID-19 situation and the zero-COVID policy in China could have a strong impact on Vietnam's import and export activities in the coming quarters.

Given the context that Vietnam's economy is facing challenges due to the Russia-Ukraine crisis, high commodity prices and the Fed's tightening policy, we lower our GDP growth forecast for Vietnam in 2022 to 7.1% from a previous forecast of 7.5%. Overall, Vietnam will still be one of the fastest growing countries in the Asia-Pacific region in 2022.

Figure 9: Key macro forecasts in 2022

Indicator	Unit	2018	2019	2020	2021E	2022F
Real GDP growth	% yoy	7.1	7.0	2.9	2.6	7.1
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	-3.8	7.8
Current account to GDP	% of GDP	1.9	3.8	3.7	-1.1	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	31.1
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	14.0
Credit to GDP	% of GDP	103.9	107.1	115.7	126.2	130.9
M2 growth	% ytd	12.4	14.8	14.7	11.0	13.0
Refinancing rate	%	6.3	6.0	4.0	4.0	4.0-4.5
12M deposite 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	2.8
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	46.2

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

We expect GDP to expand 5.6% yoy in 2Q22F

We expect Vietnam's economy to grow 5.6% yoy (+/- 0.2% pts) in the second quarter of 2022, improving from a 5.0% growth in 1Q22. In the first half of 2022, we forecast Vietnam's GDP to grow by 5.3% yoy, down from 5.6% yoy in 1H21.

Regarding to three main pillars of the economy, the service sector is expected to achieve higher growth rate in 2Q22F thanks to (1) reopening of non-essential services (tourism, public transport, entertainment,...) and (2) domestic demand recovering after the government relaxes regulations on social distancing and cut value added tax (VAT) from 10% to 8%. We forecast the service sector to grow at 6.5% yoy in 2Q22F, strongly improving from 4.6% and 4.2% in 1Q22 and 2Q21, respectively.

Rising input material prices would have a strong impact on the industry and construction sector in the second quarter of 2022. We expect this sector to grow by only 5.7% yoy in 2Q22F, down from 6.4% in 1Q22 and 10.4% in 2Q21.

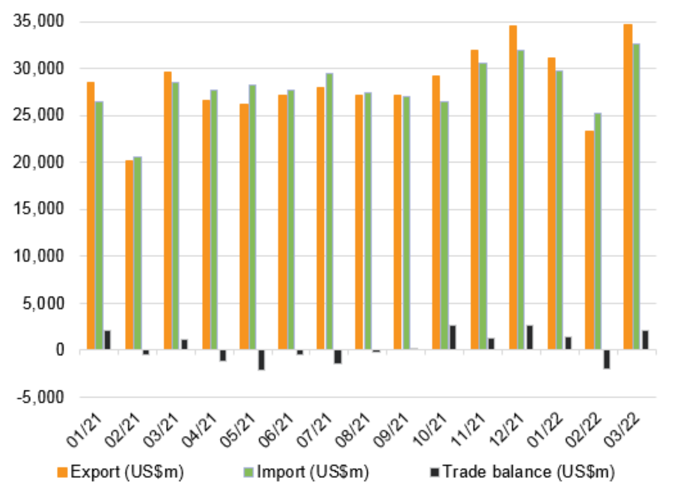
Last but not least, we expect the agriculture, forestry and fishery sector to expand 2.1% yoy in 2Q22F. This growth rate is lower than the 1Q22 growth rate of 2.4% yoy as the increase in animal feed could strongly impact the herding activities in the second quarter. This rate is lower than 1Q22 growth of 2.4% yoy as the increase in animal feed prices could have a negative impact on livestock production in the second quarter.

Trade activities remained strong but growing

The Russia-Ukraine conflict has led to supply chain disruptions and shortages of goods in the United State and European countries. Prices of several commodities increased sharply, including food and foodstuffs, steel, coal, fertilizers, chemicals and petroleum products. For many years, Vietnam has maintained its position as one of the major exporters of agricultural products (rice, seafood, rubber, wood & wooden products), textiles, footwear and steel. Therefore, in the context of the protracted Russia-Ukraine conflict, importers from Europe and the US have been looking for alternative exporters and have shifted more orders to Vietnam.

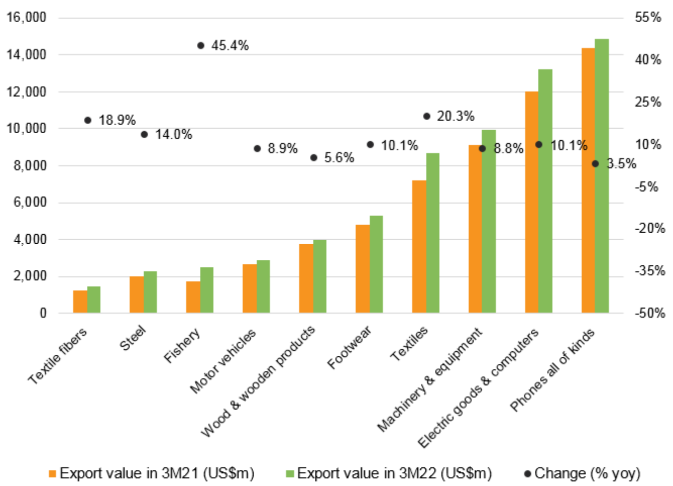
Per GSO data, export value climbed to US$89.1bn in 1Q22, recording a strong growth rate of 13.4% yoy. All Vietnam's top export products recorded the positive growth rate in Mar 2022, including phones all of kinds (+3.5%), electric goods and computers (+10.1% yoy), machinery and equipment (+8.8% yoy), textiles (+20.3% yoy), footwear (+10.1% yoy), wood & wooden products (+5.6% yoy), automobiles (+8.9%), seafood (+45.4% yoy), steel (+14.0% yoy) and textile fibres (+18.9% yoy).

Figure 10: Exports keep accelerating



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 11: Top export products in term of value in 1Q22



Source: Vietnam Customs, VNDIRECT RESEARCH

As for imports, Vietnam's import spending rose to US$87.6bn in 1Q21 (+15.2% yoy). The country witnessed a strong increase in 1Q22 imports as the sustainable expansion of Vietnam's manufacturing sector boosted demand for imported raw materials and input products, while resilient domestic demand accelerated the imports of consumer goods. As a result, Vietnam recorded about US$1.4bn of trade surplus in 1Q22 (vs. a trade surplus of US$2.8bn seen in 1Q21). Among Vietnam's import products, the items that witnessed the strongest import growth rates in 1Q22 include petroleum products (+128.5% yoy), coal (+101.6% yoy), fertilize (+65.9% yoy), crude oil (+49.8% yoy), cotton

(+40.1% yoy), chemicals (+33.5% yoy), computers (+30.4% yoy), chemical products (+30.3% yoy), and rubber (+30.2% yoy).

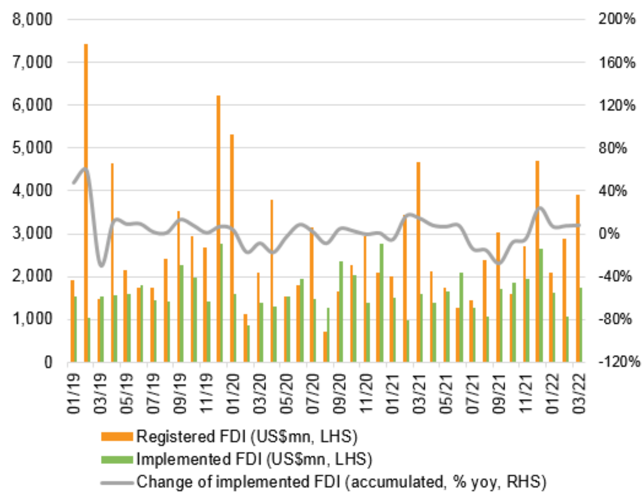
However, China's renewed COVID-19 outbreaks and lockdowns to reinforce its zero-COVID policy pose heightened supply chain risks in the short-term. Vietnam relies on and imports a significant amount of inputs from China, ranging from 'textile, garment and footwear'; 'electronics components'; and 'machinery and transport equipment'. Over the longer-term, Vietnam is still benefit from foreign multinational companies to pursue a 'China+1' strategy, and diversify into Vietnam due to competitive labour costs, proximity to China, and political stability.

We expect stronger FDI inflows for the rest of 2022

The implementation of FDI projects kept accelerating in Mar with disbursed capital increased 8.7% yoy to US$1.7bn. For 1Q22, the implemented capital of FDI projects rose 7.8% yoy to US$4.4bn. On the other hand, registered capital of FDI projects slew down, worth US$3.9bn (-16.1% yoy) in Mar 2022. For 1Q22, registered capital of FDI projects declined 12.0% yoy to US$8.9bn. To be more specific, 322 (+37.6% yoy) newly licensed projects in 1Q22 with a registered capital of US$3.2bn, a decline of 55.5% in terms of registered capital compared to the same period in 2021; 228 projects licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US$4.1bn (+93.3% yoy); 734 turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US$1.6bn, a surge of 102.6% over the same period in 2021.

The decrease of registered FDI in the first quarter of 2022 was mainly due to the fact that in the same period last year, a very large-scale project was recorded, namely the Long An I, II liquefied natural gas (LNG) power plant worth US$3.1bn and the Omon II thermal power plant worth US$1.3bn. Meanwhile, the largest registered FDI project in the first 3 months of 2022 is the Lego's toy factory, worth US$1.3bn. The positive point this year is that the number of newly licensed projects in 1Q22 has increased sharply, showing that foreign investors still have a positive view on the macro outlook and business environment in Vietnam. We expect the registered FDI to recover in the following quarters as Vietnam accelerates the economic reopening. We maintain our forecast from the beginning of this year that registered FDI and implemented FDI in 2022 will grow by 10% yoy and 9% yoy, respectively, compared to the last year.

Figure 12: Foreign direct investment



Source: GSO, MPI, VNDIRECT RESEARCH

Figure 13: List of major FDI projects in 1Q22

FDI projects	Sectors	Registered capital (US$bn)	Province/city
Lego's toy factory	Manufacturing	1.3	Binh Dương
Expansion of VSIP Bac Ninh project	Industrial Park	0.9	Bac Ninh
Expansion of Samsung's plant in Thai Nguyen province	Manufacturing	0.9	Thai Nguyen
The manufacturing factory of Goertek Group	Manufacturing	0.3	Nghe An
Commercial and service projects of GE Vietnam	Commercial & Service	0.2	Bac Ninh
Electronic component factory project (JNTC - Korea)	Manufacturing	0.2	Phu Tho

Source: GSO, MPI, VNDIRECT RESEARCH

Public investment growth could slow down due to rising construction material prices

According to GSO, the implemented state capital (public investment) in Mar 2022 jumped 7.5% yoy to VND29.1tr (versus an increase of 14.9% yoy seen in the previous month). For 1Q22, disbursed state capital rose 10.6% yoy to VND76.3tr (below the 14.5% rate seen in 1Q21), equivalent to 14.4% of the full-year target.

We expect the implementation of public investment to accelerate in the coming months as Vice Minister of Planning and Investment said that the public investment package under the new economic package will start to be deployed from April 2022. It is known that the infrastructure investment package (under economic stimulus package) worth about VND113,050bn and the Government expects to disburse 50% of this package in 2022. However, it should be noted that the implementation of public investment also face a downside risk in the near future if the price of construction materials such as steel, cement and construction stone remain high due to the impact of the Russia-Ukraine conflict and supply chain disruption. Contractors may delay the project implementation compared to the original plan due to the rising construction materials, which negatively impacted the profit margin of construction enterprises. For 2022F, we maintain our forecast that the implemented state capital to increase by 20% compared to the actual implementation in 2021, as growth in the second half of 2022 could picks up from the low base of the same period in 2021. Noted that, public investment grew negatively in the last six months of 2021 due to the 4th wave of COVID-19 pandemic, social distancing, and rising construction material prices.

Figure 14: Progress of key transport infrastructure projects in the period of 2021 - 2026

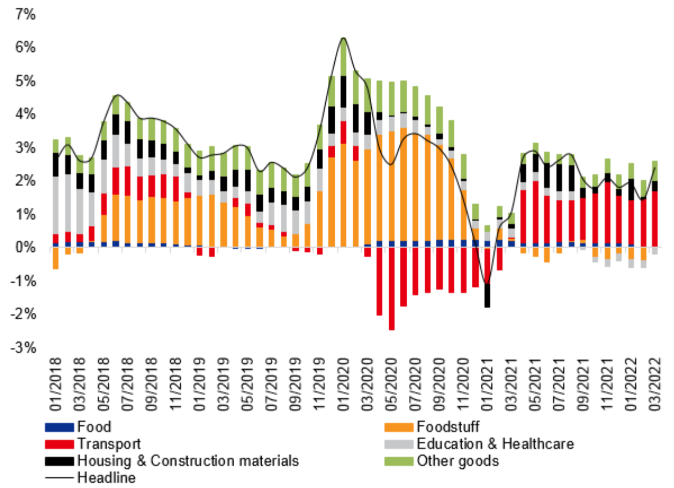
Project		Total investment (VNDbn)	Estimated construction progress							
			2019	2020	2021	2022	2023	2024	2025	2026
Eleven sub-projects of the North-South expressway (phrase 1)	Cam Lo - La Son	7,700								
	Cao Bo - Mai Son	1,600								
	My Thuan Bridge 2	5,000								
	Mai Son - Highway 45	12,920								
	Vinh Hao - Phan Thiet	10,853								
	Phan Thiet - Dau Giay	14,360								
	Nghi Son - Dien Chau	8,380								
	Highway 45 - Nghi Son	6,330								
	Dien Chau - Bai Vot	13,340								
	Nha Trang - Cam Lam	7,615								
	Cam Lam - Vinh Hao	13,690								
Twelve sub-projects of the North-South expressway (phrase 2)		146,990								
Long Thanh International Airport (phrase 1)		109,112								
Total		**357,890**								

Source: VNDIRECT RESEARCH

Keep an eye on accelerating inflation in 2Q22F

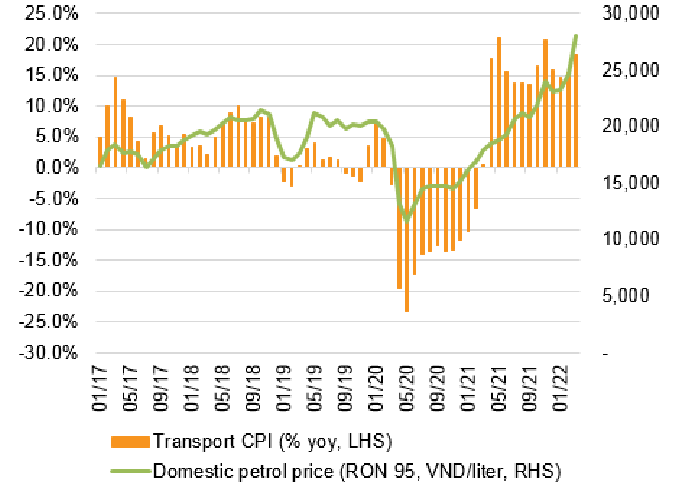
Vietnam's headline inflation climbed to 2.4% yoy in Mar 2022 (vs. 1.4% in Feb 2022). On a mom basis, the consumer price index (CPI) rose 0.7% mom, mostly driven by the increase of transportation consumer price index (+4.8% mom) as petrol price kept rising. The average inflation in 1Q22 edged up 1.9% yoy (vs. 0.3% yoy in 1Q21).

Figure 15: Headline CPI rose 2.4% yoy in Mar 2022



Source: GSO, VNDIRECT RESEARCH

Figure 16: Transportation CPI surged amid rising crude oil price



Source: GSO, VNDIRECT RESEARCH

We see inflation risks increasing in the rest of 2022 due to the impact of the Russia-Ukraine crisis:

(5) Crude oil and natural gas prices have surged significantly due to Russia-Ukraine crisis. Brent crude oil price averaged at US97.9$/barrel in 1Q22 (+59.7% yoy). We believe that crude oil and natural gas prices are unlikely to return to pre-crisis levels anytime soon. Therefore, in the baseline scenario, we raise our forecast for average crude oil price in 2022 to US$88/barrel from previous forecast of US$80/barrel. The high anchor crude oil price will increase inflationary pressure on Vietnam, especially for transportation price index.

(6) The increase in prices of input materials such as coal, steel, copper, aluminum, and shipping rates could also impact on production costs in Vietnam. The longer the conflict lasts, the greater the impact on firms' production costs will be.

(7) The increase in prices of fertilizers and agricultural commodities (wheat, corn, barley) can also increase pressure on domestic food and foodstuff prices, although the impact will be relative limited.

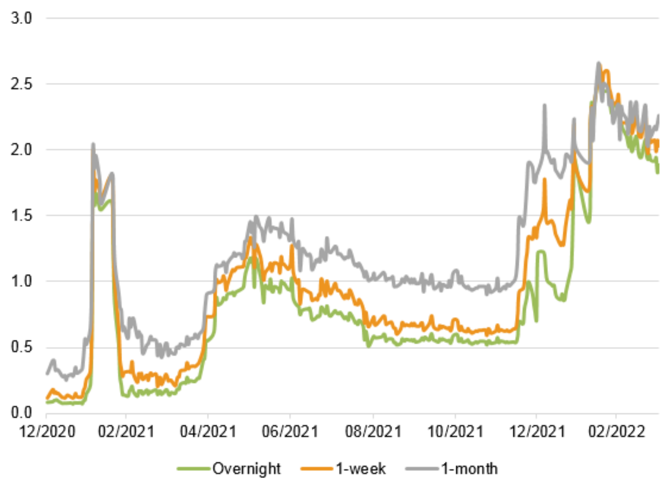
Therefore, we expect inflation to heat up in the upcoming month and forecast CPI in 2Q22F to average at 3.1% yoy (vs. 1.9% yoy in 1Q22). We still believe that the Government could be able to control the inflation to meets the government's target of keeping the 2022 average CPI below 4.0% yoy. The government has taken effective solutions to curb inflation this year, including reducing environmental tax on gasoline to lower domestic gasoline prices and adjusting prices of public services such as tuition fees. Overall, we maintain our 2022 average CPI forecast at 3.4% yoy.

Inflationary pressure is unlikely to reverse the SBV's monetary policy, at least in the next 3-6 months

Deposit rate slightly edged up by 7-8 basis points in 1Q22

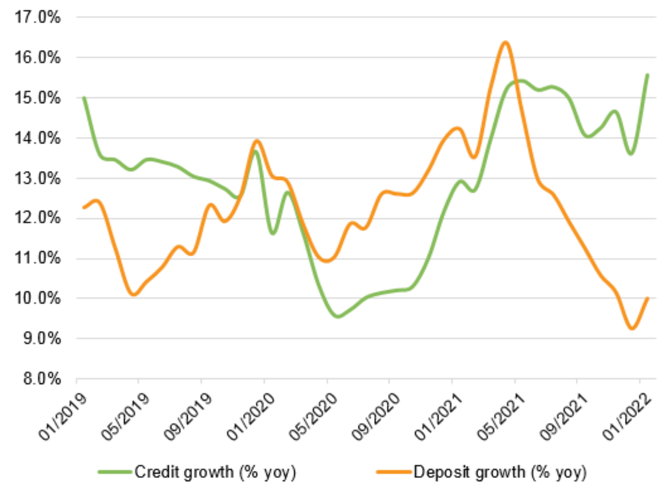
Interbank rates fell in March after rising in the past two months. As of Mar 31, the overnight interest rate was at 1.9%/year, down 43 basis points (bps) compared to the level at the-end of Feb 2022, according to Bloomberg. The interbank interest rate for 1-week to 1-year terms decreased by 5-34 bps compared to late-Feb 2022.

Figure 17: Interbank interest rate fell in Mar (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 18: The gap between credit growth and deposit growth further widened



Source: SBV, VNDIRECT RESEARCH

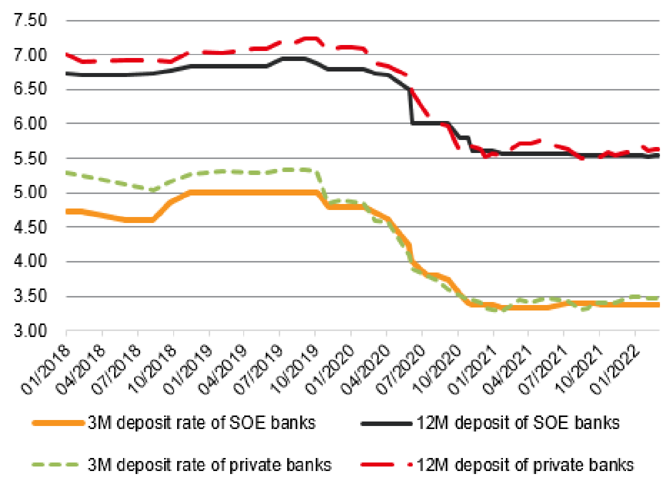
Regarding to deposit interest rates, the deposit rate is unlikely to remain at historic low in 2022F due to following reason (1) higher demand for fund raising as credit accelerates, (2) inflation pressure in Vietnam would pick up in 2022, (3) compete more fiercely with other investment channels such as real estate and securities to attract capital inflow. As of 28 Mar, 2022, the 3-month term deposit rates and the 12-month term deposit rates of state-owned banks remained unchanged compared to the level at the end of 2021 (refer Figure 20) while the 3-month term deposit rates and the 12-month term deposit rates of private banks edged up 7bps and 8bps, respectively, compared to the level at the end of 2021. 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 (currently at 5.6%/year), which are still lower compared to pre-pandemic level of 7.0%/year.

Inflationary pressure is unlikely to reverse the SBV's monetary policy, at least in the next 3-6 months.

We keep our expectation that the State Bank of Vietnam (SBV) will maintain its accommodative monetary policy until at least the end-2Q22 as (1) Although inflationary pressures are expected to intensify in the coming months, the average consumer price index for the first half of 2022 is forecast at 2.5% yoy, still well below the government’s target of 4% yoy (2) Domestic demand remains weak and has not yet fully recovered to pre-pandemic levels and (3) The SBV still prioritizes the goal of maintaining low lending interest rates to support businesses and the economy to recover.

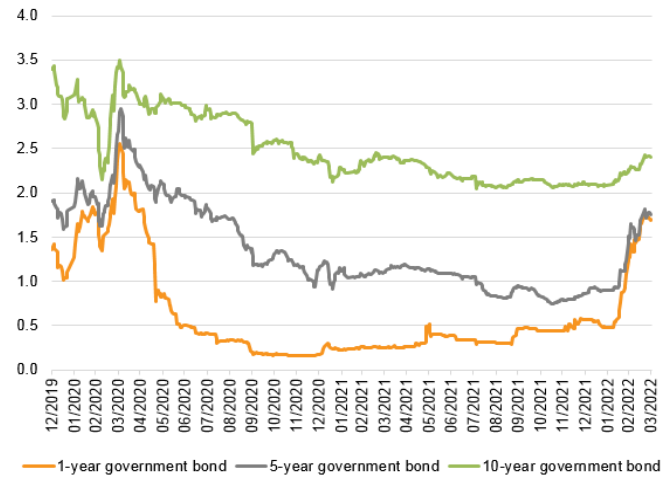
Although we do not expect the central bank to cut its key policy rates further, we also think it would not lift them either in the next 3-6 months, in a bid to continue supporting the economy by maintaining a loose monetary policy. Nevertheless, we expect the SBV to channel its money market activities via the open market, such as buying foreign exchange or raising the credit growth ceilings. We forecast credit growth to increase by 14% yoy in 2022F. Credit capital flows will be prioritized for manufacturing and services especially in priority businesses such as industry, export-import activity, agriculture, forestry, fishery sector. In addition, the SBV will carefully control credit flows into high-risk areas such as real estate, securities and BOT (Build-Operate-Transfer) projects.

Figure 19: Deposit interest rate remained stable in Mar 2022 (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 20: Vietnam's Government bond interest rate kept rising in Mar 2022 (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

Regarding to lending interest rates, the SBV is implementing an interest rate compensation package with a scale of VND3,000bn. It offers lending 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). We expect that the interest compensation package could help reduce lending rates by 20-40 bps in 2022F, on average. However, the actual impact of the interest rate compensate package on businesses and the economy could be reduced if commercial banks raise lending rates on other conventional loans to offset the increase in deposit rates.

VND to stay strong in the rest of the year

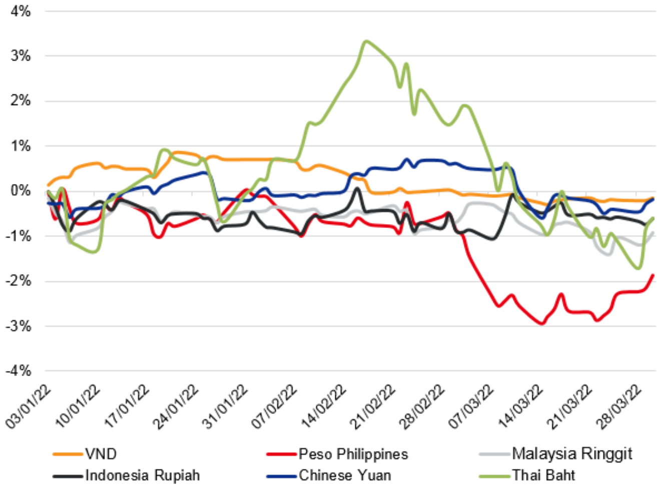
Vietnam maintained a trade surplus of US$2.0bn in 1Q22 that helped stabilize exchange rate during this period. As at 31 Mar, 2022, the Vietnam Central bank-set exchange rate for the US$/VND stood at 23,100, slid 0.2% mom (-0.2% ytd) while the US$/VND exchange rate in the free market also declined 0.8% mom (-0.9% ytd). Meanwhile, the interbank exchange rate for US$/VND edged up 0.2% mom in Mar 2022.

Our optimistic view for VND has turned more neutral for the remaining of 2022 due to the following reasons: (1) US$ may regain the upper hand in 2022 as the Federal Reserve (FED) expect to shrink its balance sheet since the next meeting at early-May 2022, (2) inflation pressure in Vietnam would increase more fiercely in the remainders of 2022. In the latest survey of CME group, market expects that FED could raise policy rate more aggressively than they previously intended in early-2022 due to higher commodities prices amid Russia-Ukraine crisis. This survey said that FED could raise Fed fund target rate by a total of 225-275 bps in 2022.

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 a deficit of 1.1% GDP in 2021. 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$/VND (interbank rate) stable at 22,600-23,050 in 2022F and the Vietnamese Dong may move in a relatively narrow range vs. the US$.

Figure 21: Vietnam dong outperformed regional currencies in Mar (% YTD)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 22: the US$/VND exchange rate fell in Mar 2022

Source: SBV, VNDIRECT RESEARCH

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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.

Hien Tran Khanh – Research Director
Email: hien.trankhanh@vndirect.com.vn

Hinh Dinh Quang – Head of Macro & Market strategy
Email: hình.dinh@vndirect.com.vn

VNDIRECT Securities Corporation
1 Nguyen Thuong Hien Str – Hai Ba Trung Dist – Ha Noi
Tel: +84 2439724568
Email: research@vndirect.com.vn
Website: https://vndirect.com.vn