

Economic Update

15 Jul 2022

ECONOMIC UPDATE
We envisage a stronger GDP growth in 2H22

- GDP rose 7.7% yoy in 2Q22, the strongest 2Q growth rate since 2011.
- Vietnam's headline inflation climbed to 3.4% yoy in June 2022 (vs. 2.49% in May 2022), in line with our forecast.
- We keep our 2022F GDP growth forecast at 7.1% yoy (+/- 0.3%).

Vietnam's economy roars back

According to the General Statistics Office (GSO), Vietnam's GDP rose 7.7% yoy in 2Q22, the strongest second-quarter growth rate since 2011. Strong recovery was contributed to: (1) the recovery of domestic consumption (gross retail sales rose 11.7% yoy in 1H22), (2) strong exports turnover (+17.3% yoy in 1H22) and steady FDI disbursement (+8.9% yoy in 1H22).

We expect higher Vietnam's GDP growth in 2H22

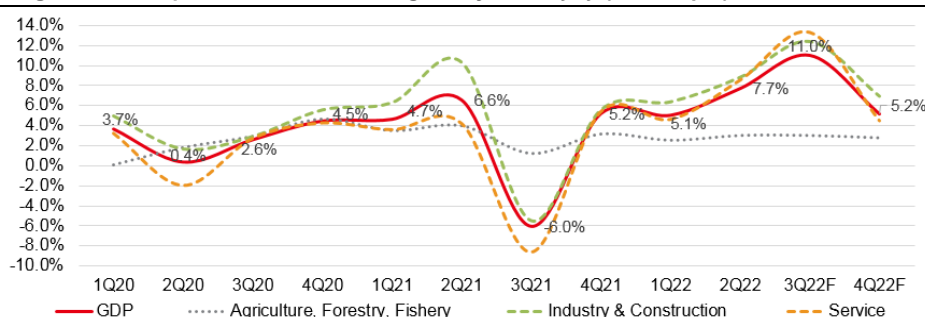
We expect Vietnam's GDP to increase 7.8% yoy in 2H22F (vs. -0.2% in 2H21), thus lifting 2022 full-year growth rate to 7.1% yoy (+/-0.3% pts). The main supports come from (1) low base in 3Q21 when Vietnam's GDP dropped 6.0% yoy, (2) stronger recovery of service activities, including public transport, tourism, and entertainment, (3) new economic stimulus packages, (2% VAT reduction, additional interest rate compensation package worth VND40,000bn, disbursing investment package for infrastructure development worth VND113,050bn,...), (4) the recovery of FDI inflows after the government allowing international commercial flights.

Inflationary is still top-in-mind risk

We expect Vietnam's inflation to pick up in 2H22 due to (1) Food & foodstuff price index pick up amid higher pork prices (2) Petrol prices would remain high in 2H22, (3) Higher input material prices pull up domestic production costs of consumer goods. However, we believe that the Government could be able to keep 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 and adjusting prices of public services. Overall, we maintain our forecast for Vietnam's average CPI in 2022 at 3.5% yoy.

Monetary policy moves in sync with a supportive fiscal push

We believe that the State Bank will make efforts to maintain an "appropriate" monetary policy, not in a hurry to tighten policy immediately to support economic recovery and market stability. Any monetary tightening could be taken place in late-3Q22 or 4Q22, and major rate hikes will be limited, around 0.25-0.5%. We maintain our view that Vietnam's credit growth remains strong at 14% yoy in 2022F. We expect the SBV to raise the cap of credit growth for some commercial banks from the end of 3Q22F.

Figure 1: We expect Vietnam's GDP to grow by 11.0% yoy (+/-0.5% pts) in 3Q22F


Source: GSO, VNDIRECT RESEARCH

Analyst(s):

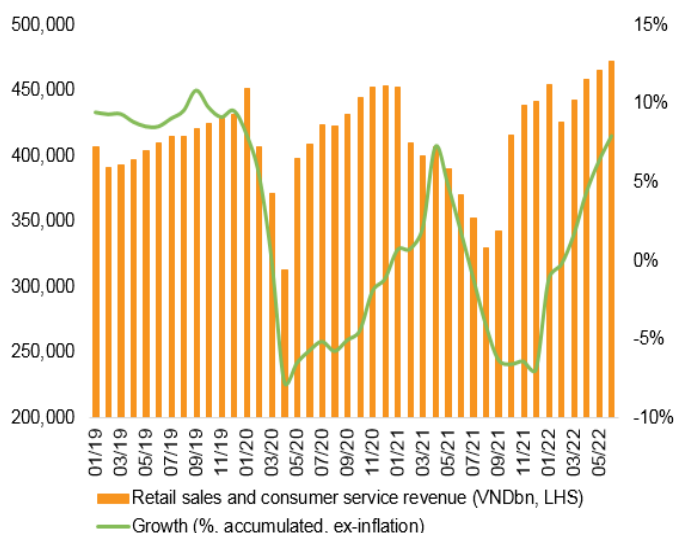
Dinh Quang Hinh
hinh.dinh@vndirect.com.vn

WE ENVISAGE STRONGER VIETNAM'S GDP GROWTH IN 2H22

Vietnam's economy roars back

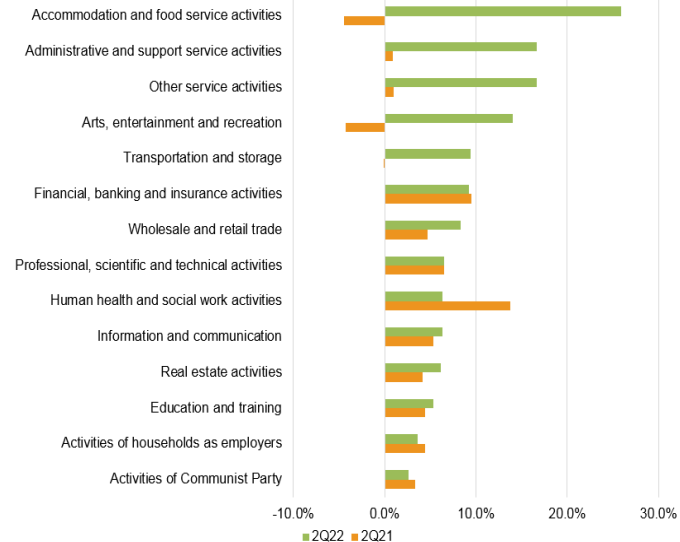
According to the General Statistics Office (GSO), Vietnam's GDP rose 7.7% yoy in 2Q22, the strongest second-quarter growth rate since 2011. Regarding to three main pillars of the economy, industry and construction sector expanded by 8.9% yoy, while service and agriculture sector increased by 8.6% yoy and 3.0% yoy, respectively. For 1H22, Vietnam's economy grew by 6.4% yoy (vs. +5.6% yoy in 1H21).

Figure 2: Domestic demand increased steadily in 1H22



Source: GSO, VNDIRECT RESEARCH

Figure 3: Growth of service sub-sector (% yoy)



Source: GSO, VNDIRECT RESEARCH

Service sector rose by 6.6% yoy in 1H22, improving from an increase of 4.0% yoy in 1H21. The strong improvement of the sector was mostly fueled by:

- The sustainable recovery of domestic demand should be mentioned first. Per GSO data, gross retail sales of consumer goods and services rising 11.7% yoy in 1H22 (vs. +3.4% yoy in 1H21). If excluding the price factor, this indicator rose 7.9% yoy (that in the same period in 1H21 increased by 1.9% yoy). The growth rate in the first 6 months of 2022 has almost caught up with the growth rate of the pre-pandemic period, showing that domestic demand is recovering quite firmly. Thanks to the recovery of domestic consumption, retail sub-sector grew 5.8% yoy in 1H22 (vs. +5.6% in 1H21).
- The spectacular recovery of tourism has been the highlight of the service industry in 2Q22. According to the General Department of Tourism, the total number of domestic tourists in the first 6 months of 2022 reached 60.8m, 1.9 times compared to its level in 1H21 and 1.3 times compared to the pre-pandemic level in 1H19. In particular, the number of domestic tourists has exceeded the Government's plan of 60m for the whole year of 2022 in just the first 6 months of the year. Meanwhile, Vietnam has welcomed more 601,982 visitors in 1H22, an increase of 582.2% yoy but still only equivalent to 7% of the pre-pandemic level in 1H19 per GSO data. Overall, revenue from tourism reached VND265,000bn in the first half of 2022. As a result, sub-sectors related to tourism saw high growth rate in 2Q22, including accommodation and food activities (+11.2% yoy in 1H22 vs. -5.0% in 1H21), arts, entertainment and recreation (+8.1% yoy in 1H22 vs. -5.2% yoy in 1H21).
- Along with the strong recovery of tourism, transportation activities also prospered in 1H22. According to GSO, passengers carried in 1H22 were

estimated at 1.9bn persons (+6.2% yoy) and passenger traffic was 86.2 billion passengers-km (+15.2% yoy). Meanwhile, freight carried in 1H22 was estimated at 951.2 million tons (+8.6% yoy) and freight traffic was at 199.9 billion tons-km (+16.0% yoy). As a result, transportation and storage sub-sector rose significantly by 8.1% yoy in 1H22 (vs. -0.4% yoy in 1H21).

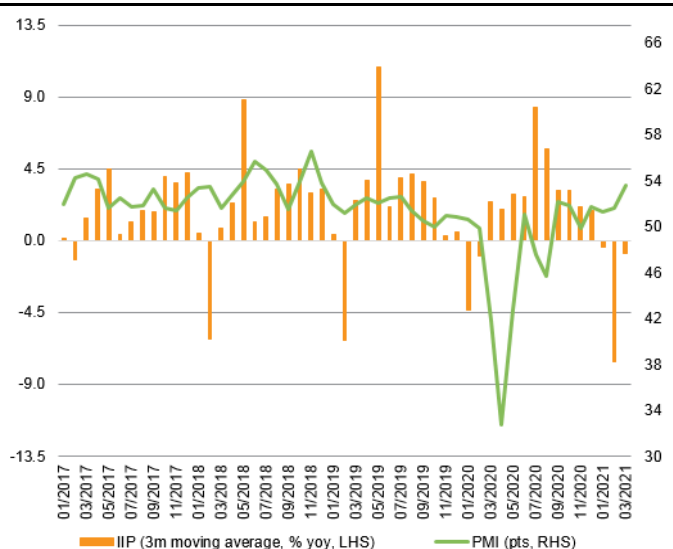
Industry and construction sector rose 7.7% yoy in 1H22, which is lower than the growth rate of 8.4% yoy in 1H21. The supply chain disruptions amid Russia-Ukraine conflict were the main obstacle to the recovery of the manufacturing sub-sector in the first half of 2022. This sub-sector grew 9.7% yoy in 1H22, which is lower than its level of 11.4% yoy in 1H21. Furthermore, the growth rate of the construction sub-sector fell to 3.7% yoy in 1H22 from 5.6% yoy in 1H21 as profit margin of construction companies were narrowed due to the rising construction material prices. On the positive side, the mining sub-sector recorded higher growth in the first 6 months of 2022 to 2.3% yoy (vs. -6.6% yoy in 1H21), thanks to the rising price of crude oil and other minerals during 1H22.

Figure 4: Growth of sub-sector in industry and construction sector

	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22
Industry & Construction	5.0%	1.7%	2.9%	5.6%	6.3%	10.4%	-5.5%	5.6%	6.4%	8.9%
Industry	5.1%	1.1%	2.3%	4.8%	6.3%	11.2%	-4.4%	6.5%	7.0%	9.9%
Mining	-4.2%	-5.8%	-5.9%	-6.1%	-8.5%	-4.7%	-9.1%	-2.7%	1.1%	3.4%
Manufacturing	7.1%	3.4%	3.9%	8.6%	8.9%	13.4%	-4.1%	8.0%	7.7%	11.5%
Electricity, gas, steam and air condition supply	7.5%	-0.1%	4.0%	4.4%	4.3%	12.8%	-2.6%	5.5%	7.1%	5.2%
Water supply, sewerage, waste management	6.7%	1.4%	5.5%	8.3%	5.4%	7.8%	-0.2%	3.6%	6.5%	6.6%
Construction	4.4%	4.7%	5.7%	8.6%	6.5%	6.5%	-10.1%	2.1%	3.3%	4.0%

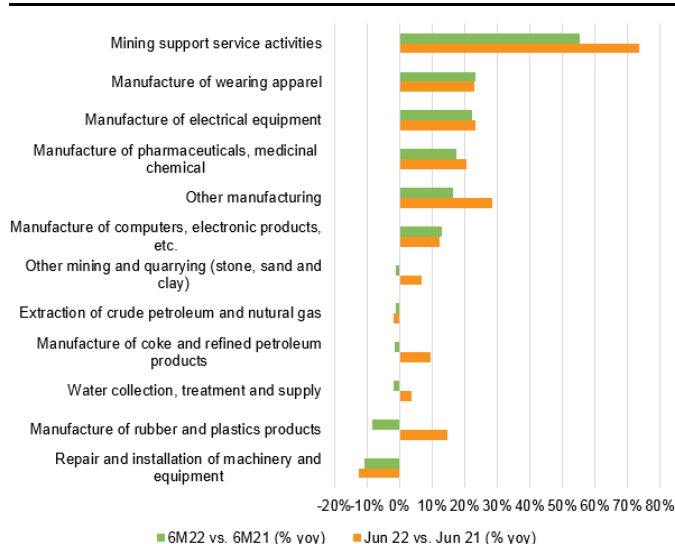
Source: VNDIRECT RESEARCH, GSO

Figure 5: PMI hit the highest level since Dec 2018



Source: GSO, VNDIRECT RESEARCH

Figure 6: Industrial production index (IIP) by category

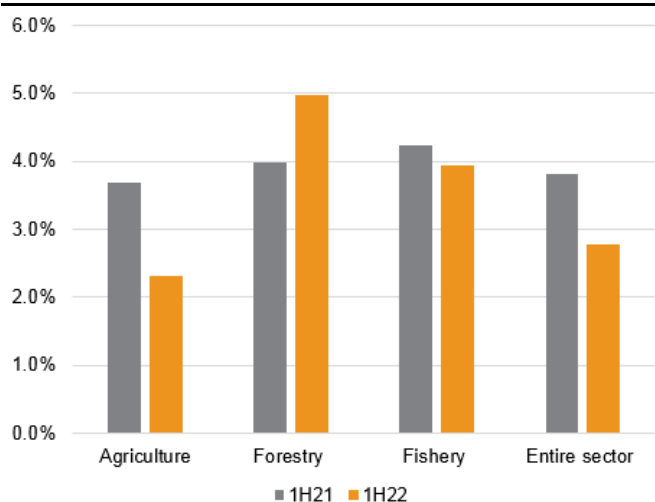


Source: GSO, VNDIRECT RESEARCH

Agriculture, forestry and fishery sector rose 2.8% yoy in 1H22, lower than the growth rate of 3.8% yoy in 1H21. Specifically, both the agriculture and fishery sectors recorded lower growth rates of 2.3% and 4.0% respectively in 1H22 as the sharp increase in animal feed prices causing farmers to hesitate in the re-herding and farming expansion. Meanwhile, the forestry sub-sector

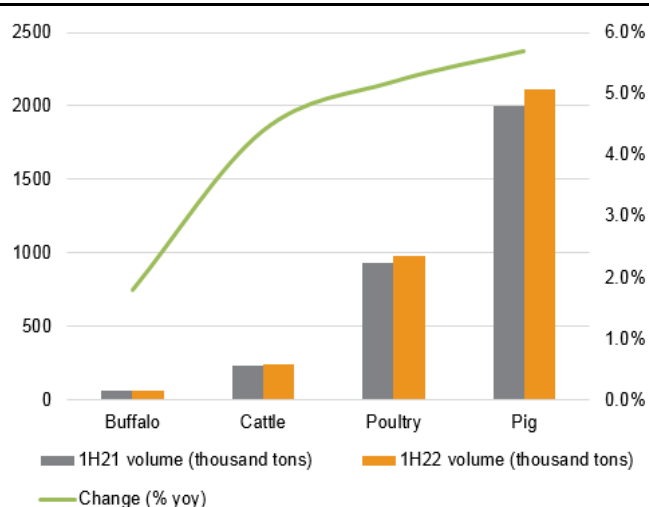
maintained a high growth rate of 5.0% yoy in 1H22 (vs 4.0% in 1H21) thanks to high export demand.

Figure 7: Growth of sub-sector (% yoy)



Source: GSO, VNDIRECT RESEARCH

Figure 8: Main product of livestock



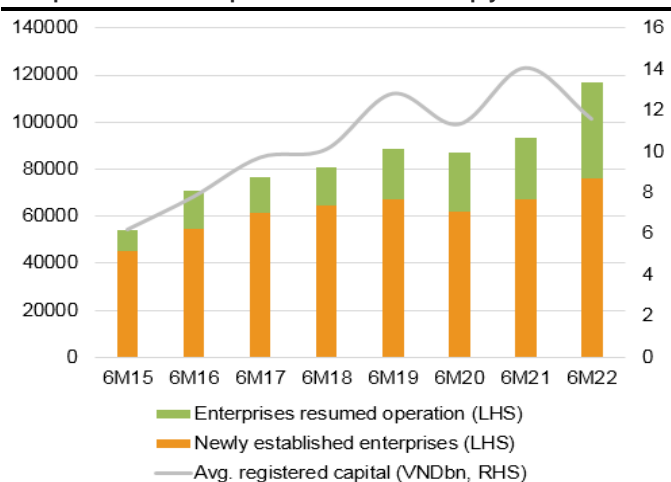
Source: GSO, VNDIRECT RESEARCH

Enhancing confidence about business prospect in 3Q22F

The private economy witnessed strong recovery in 1H22:

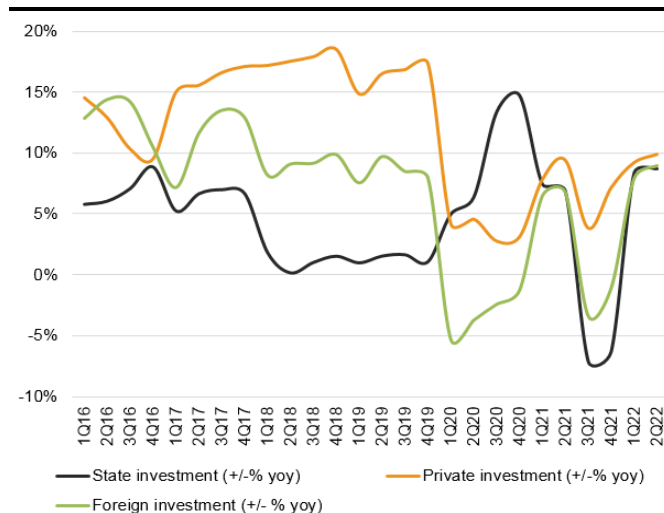
- The number of newly established enterprises and enterprises resumed operation increased sharply in 1H22. Specifically, the country had 76,233 newly registered enterprises (+13.6% yoy). In addition, 40,667 re-operated enterprises (+55.6% yoy), bringing the total number of newly-established enterprises and re-operated enterprises in 1H22 to 116,900 enterprises (+25.4% yoy).
- Private investment capital increased steadily. The investment capital of the private sector reached VND415.9tr in 2Q22, accounting for 56.3% of the total social investment capital and increasing by 10.4% compared to the same period last year (higher than the growth rate of 9.2% in 1Q22). For 1H22, the investment capital of the private sector reached VND739.3tr (+9.9% yoy).

Figure 9: The number of newly established enterprises and enterprises resumed operation increased sharply in 1H22



Source: GSO, VNDIRECT RESEARCH

Figure 10: Private investment capital increased steadily



Source: GSO, VNDIRECT RESEARCH

Vietnamese enterprises optimistic about business prospects in 3Q22:

According to GSO, a business trend survey showed that up to 85.0% of the surveyed enterprises thought that the business prospects in 3Q22 would be better or stable compared to the previous quarter, while only 15.0% viewed the situation as more difficult than in the 2Q22. These figures are better than the rates seen in 2Q22 when only 78.4% of enterprises said that the business results in 2Q22 were better or stable compared to the previous quarter, while 21.6% of enterprises believed the 2Q22 business environment was more difficult than the previous quarter.

Domestic strength would buffer the external headwinds in 2H22

Figure 11: Key macro forecasts in 2022-23

Indicator	Unit	2018	2019	2020	2021	2022F	2023F
Real GDP growth	% yoy	7.1	7.0	2.9	2.6	7.1	6.9
Export growth	% yoy	13.3	8.4	6.5	18.9	14.0	10.4
Import growth	% yoy	11.8	6.9	3.6	26.7	13.0	10.2
Trade balance	USD bn	6.9	10.9	18.9	3.3	7.2	8.6
Current account balance	USD bn	5.8	12.8	12.7	-1.2	2.7	6.6
Current account to GDP	% of GDP	1.9	3.8	3.7	-0.3	0.7	1.5
FX reserves	USD bn	55.1	79.0	95.0	109.4	120.6	135.3
FX to GDP	% of GDP	17.9	23.8	27.8	29.7	30.4	30.6
Import coverage	months	2.8	3.7	4.3	3.9	3.6	3.7
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.5	3.7
Credit growth	% ytd	13.9	13.7	12.1	13.6	14.0	14.0
Credit to GDP	% of GDP	103.9	107.1	115.7	124.3	128.8	133.0
M2 growth	% ytd	12.4	14.8	14.7	10.7	13.0	13.7
Refinancing rate	%	6.3	6.0	4.0	4.0	4.0-4.5	5.0
12M deposit interest rate (year-end)	%	6.9	7.0	5.6	5.6	6.1	6.6
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	3.5	4.0
Exchange rate (USD/VND)	% yoy	1.8	1.4	-0.3	-1.2	2.0	-1.0
Fiscal balance	% of GDP	2.2	2.7	3.4	4.1	4.0	3.8
Public debt	% of GDP	46.6	43.4	44.5	44.1	44.1	43.2

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

We forecast that Vietnam's GDP growth could reach 11.0% yoy (+/- 0.5%) in 3Q22F. This high growth is attributed to the following factors:

- Low base in 3Q21 when Vietnam's GDP dropped 6.0% yoy. Due to the impact of social-distancing measures, the service sector and industry & construction sector decreased by 8.6% yoy and 5.5% yoy respectively in the third quarter of 2021.
- The service sector would be the main growth driver of the economy thanks to (1) Domestic tourism continues to thrive, (2) Domestic demand recovers thanks to higher people's incomes and a 2% reduction in value-added tax (lasting until the end of 2022).
- The Government has stepped up economic support programs including an additional interest rate compensation package of VND40,000bn, disbursing an infrastructure development investment package worth VND113,050bn. Firstly, we believe that disbursement of public investment will be more favorable in the last 6 months of this year because the price of some construction materials such as iron and steel has cooled down recently. This factor will help improve profit margins for construction contractors, thereby speeding up the progress of public investment projects. Secondly, the implementation of the interest rate compensation package will help businesses save a part of financial costs, thereby supporting businesses to maintain and expand business activities in the coming quarters.

We maintain our GDP growth forecast for Vietnam in 2022 at 7.1% (+/- 0.3%). Overall, Vietnam will still be one of the fastest growing countries in the Asia-Pacific region in 2022.

We introduce our new macro forecasts for 2023 with Vietnam's GDP growth in 2023 possibly slowing slightly to 6.9% yoy. This lower growth outlook could be attributed to: (1) slowing economic growth of Vietnam's major trading partners such as the US and Europe could dampen export prospects; (2) higher inflation could hurt the recovery of domestic consumption; (3) rising interest rates increase costs and affect business expansion plans. However, there are still supportive factors for Vietnam's growth in 2023 such as abundant disbursement of public investment, sustainable foreign direct investment inflows and stronger recovery of international tourist arrivals.

Inflation is likely to remain high in the first half of 2023 before cooling down in the second half of next year. We forecast average inflation in 2023 at 3.7%, slightly above the average inflation forecast for 2022 at 3.5%. In particular, the increase in food & foodstuff prices will be the main factors pushing inflation to a high level in 2023.

In 2023, monetary policy could swift from "supporting economic recovery" to "normalizing", whereby the SBV could raise the policy rates to curb inflation and stabilize the exchange rate. We expect refinancing rate to reach 5.0% in 2023F (+50bps compared to the end of 2022F and +100bps to the current level). Deposit rates would maintain an upward trend in 2023 (with an average increase of about 50 basis points). 12M deposit rate of commercial banks could average at 6.5-6.6% by the end of 2023. As for the exchange rate, we expect the Vietnam Dong to appreciate against the USD in 2023 due to (1) a slowing increase in USD interest rates, (2) an increase in VND interest rates, (3) strong buffers from higher trade surplus and balance account payment.

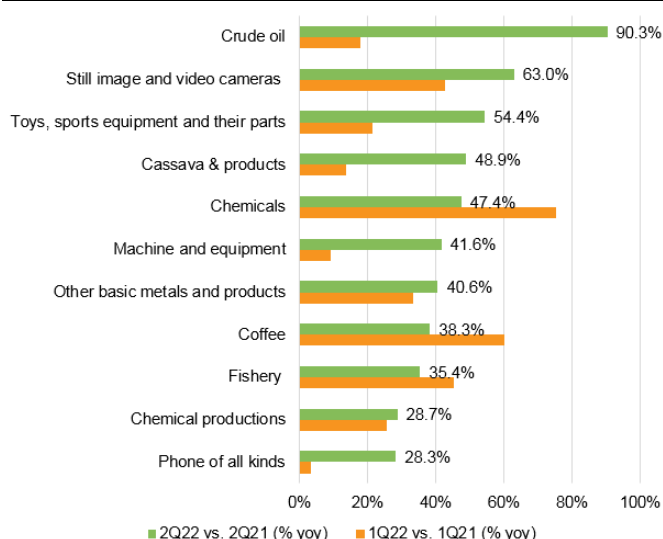
Export growth might cool down on sluggish global demand and supply chain disruption

Figure 12: Import-Export to grow healthily in April 2022



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 13: List of export items that experienced strongest growth rate in 2Q22



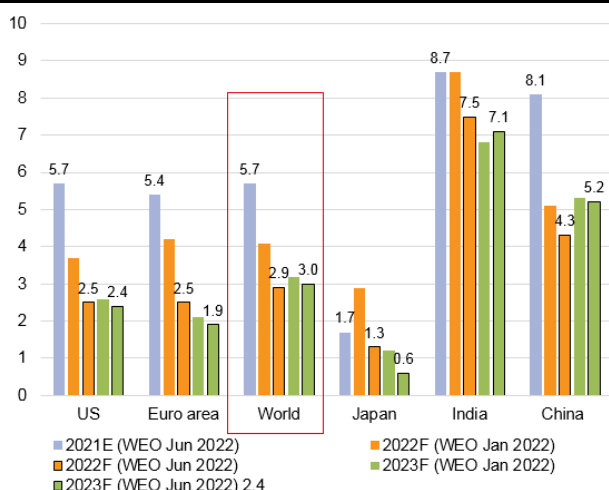
Source: Vietnam Customs, VNDIRECT RESEARCH

According to GSO, export value rose 20.9% yoy (+8.5% qoq) to about US\$96.8bn in 2Q22. The growth rate improved significantly from the 13.5% yoy increase in total export value in the first quarter of 2022. All Vietnam's top export

products recorded the positive growth rate in 2Q22, including phones all of kinds (+28.3%), electric goods and computers (+16.0% yoy), machinery and equipment (+41.6% yoy), textiles (+22.7% yoy), footwear (+18.6% yoy), wood & wooden products (+2.8% yoy), automobiles (+5.8% yoy), seafood (+35.4% yoy), steel (+13.5% yoy) and chemical products (+26.7% yoy). For 1H22, Vietnam's export value climbed to US\$185.9bn (+17.3% yoy).

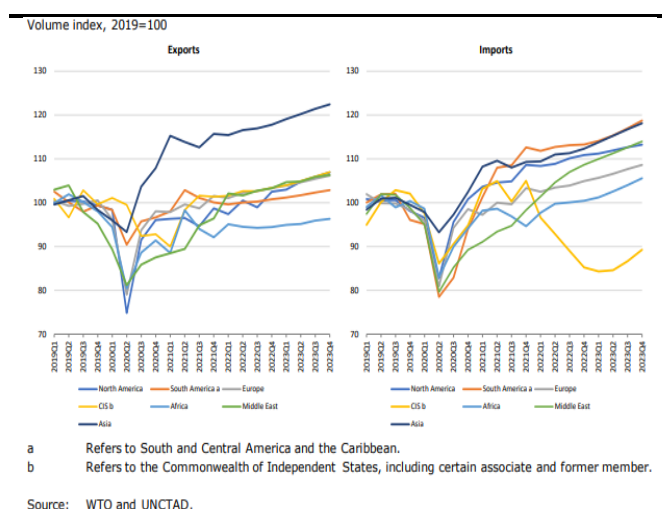
However, tighter global financial conditions and supply chain disruption could dampen growth prospects for the global economy, leading to lower demand for Vietnam's exports in 2H22. Most research institutions have lowered their global economic growth forecasts by 0.5-0.9% points for 2022F to account for the economic consequences of the Russia-Ukraine crisis and tighter global financial conditions. Specifically, the longer-than expected Russia – Ukraine tension and the China's strict lockdown add fears over supply chain disruptions and slower global economy growths. That affects the production and export of enterprises in Vietnam, as in the case of Samsung, which has had to adjust its output plan this year. Consequently, we forecast export growth to slow down in the second half of 2022 and reach 14% for the whole of 2022.

Figure 14: Growth in major economies are expected to slow down in 2022



Source: GSO, MPI, VNDIRECT RESEARCH

Figure 15: Global trade forecast



Source: GSO, MPI, VNDIRECT RESEARCH

As for imports, Vietnam's import spending reached US\$97.6bn in 2Q22 (+11.3% qoq, +15.7% yoy). Import activities remained strong 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.

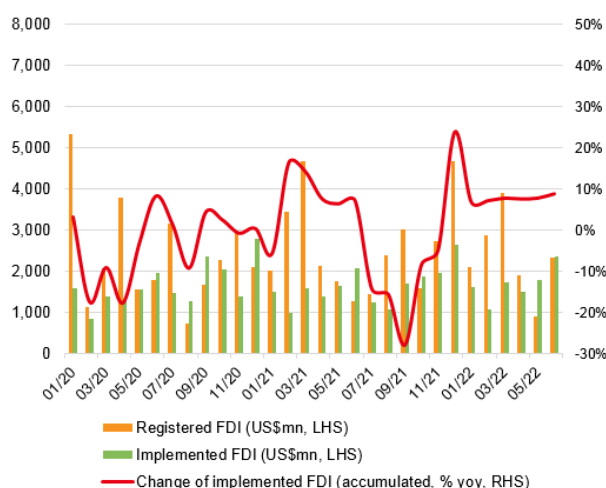
Among Vietnam's import products, the items that witnessed the strongest import growth rates in 2Q22 include coal (+148.2% yoy), liquefied petroleum gas (+132.5% yoy), petroleum products (+109.1% yoy), fruits and vegetables (+43.9% yoy), other base metal products (+40.1% yoy), chemicals (+33.2% yoy), rubber (+33.0% yoy) and fishery (+31.4% yoy).

Regarding to trade balance, Vietnam recorded trade deficit of US\$0.8bn in 2Q22. For 1H22, Vietnam had a trade surplus of US\$0.7bn, this figure was improved compared to the trade deficit of US\$1.9bn in 2H21. For the full year of 2022, we expect Vietnam's trade balance to reach US\$7.2bn, improving from last year's trade balance of US\$3.3bn.

We expect stronger FDI inflows in the second half of 2022

According to the Ministry of Planning and Investment (MPI), the implemented capital of FDI projects reached US\$5.6bn (+9.7% yoy) in 2Q22, thus lifting the implemented capital of FDI projects in 1H22 to US\$10.1bn, increasing 8.9% yoy (vs. a 6.8% increase in 1H21). On the other hand, registered capital of FDI projects remained low at US\$5.1bn (-0.4% yoy) in 2Q22. For 1H22, registered capital of FDI projects declined 8.1% yoy to US\$14.0bn.

Figure 16: Foreign direct investment



Source: GSO, MPI, VNDIRECT RESEARCH

Figure 17: List of major FDI projects in 1H22

FDI projects	Sectors	Registered capital (US\$bn)	Province/city
Lego's toy factory	Manufacturing	1.3	Binh Duong
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

To be more specific, 752 (-6.5% yoy) newly licensed projects in 1H22 with a registered capital of US\$4.9bn, a decline of 48.2% in terms of registered capital compared to the same period in 2021; 487 (+5.9% yoy) projects licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US\$6.8bn (+65.6% yoy); 1,707 (-8.0% yoy) turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US\$2.3bn (+41.4% yoy).

The decrease of registered FDI in the first six months 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 2H22 is the Lego's toy factory, worth US\$1.3bn.

We expect the registered FDI to recover in the following quarters as Vietnam accelerates the economic reopening and many international routes are resumed operations. In addition, 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. Some of the world's largest technology firms intend to move part of their production lines to Vietnam in the near future. For example, APPLE is planning to manufacture iPhone and iPad in Vietnam. Meanwhile, two Chinese technology giants, XIAOMI and OPPO, also intend to set up manufacturing activities in Vietnam. 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. It should be noted that foreign direct investment (FDI) inflows into Vietnam decreased sharply in the third quarter of 2021 because many provinces and cities across the country had to blockade to control the fourth wave of COVID-19 pandemic.

Public investment could pick up in 2H22

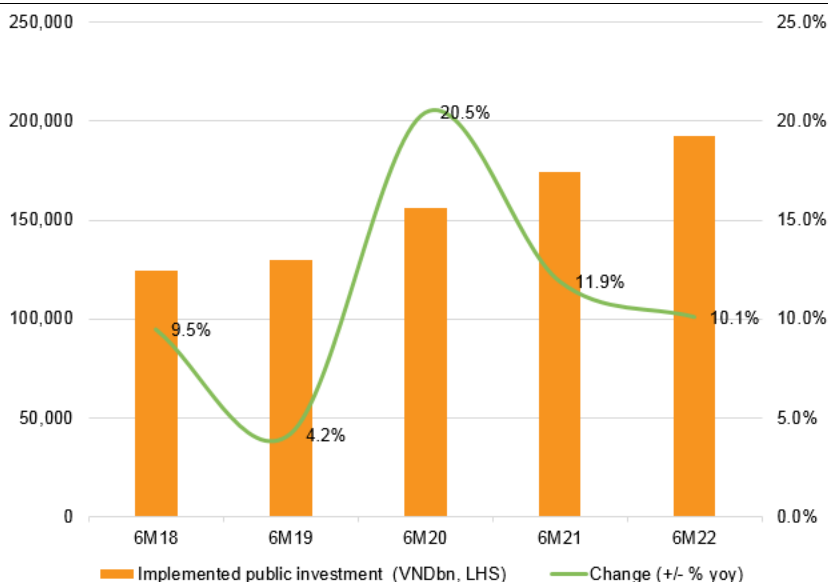
According to GSO, the implemented state capital (public investment) in 2Q22 jumped 10.0% yoy (+52.6% qoq) to VND116.1tr (versus an increase of 10.3% yoy seen in 1Q22). For 1H22, disbursed state capital rose 10.1% yoy to VND192.2tr (below the 11.9% rate seen in 1H21), equivalent to 35.3% of the full-year target (that in the same period last year equivalent to 34.8% of the 2021 target).

We expect the implementation of public investment to accelerate in the coming months thanks to the last government's efforts. Specifically, Prime Minister Pham Minh Chinh signed Decision No.548/QĐ-TTg on May 2 establishing six inspection teams to solve problems related to the disbursement of public investment. The inspection teams will work with ministries, central agencies and provinces with the disbursement rate of public investment capital below the national average. Then, they will report to the prime minister and propose specific solutions to accelerate public investment within five working days of the completion of the verification process.

In addition, the implementation of public investment could be supported by the recent decline of some construction materials such as iron and steel. Specifically, after peaking in April, domestic steel price has decreased by 11.7% compared to the end of the first quarter (-2.0% yoy) and is only about 2.7% higher than its level at the beginning of 2022. This factor will help improve profit margins for construction contractors, thereby speeding up the progress of public investment projects.

For 2022F, we maintain our forecast that the implemented state capital to increase by 20-30% compared to the actual implementation in 2021, as growth in the second half of 2022 could pick 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 18: The implemented state capital (public investment) jumped 10.1% yoy in 1H22



Source: VNDIRECT RESEARCH, GSO, SBV, MOF

Figure 19: 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
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								
Eleven sub-projects of the North-South expressway (phrase 1)									
Twelve sub-projects of the North-South expressway (phrase 2)	146,990								
Long Thanh International Airport (phrase 1)	109,112								
Total	357,890								

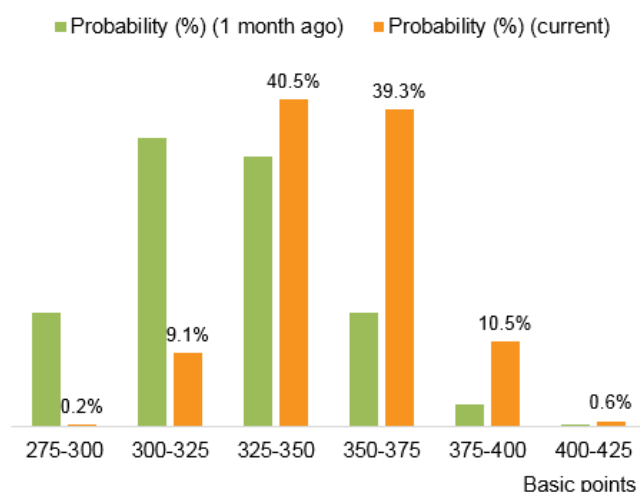
Source: VNDIRECT RESEARCH

There is not much room left for the SBV to maintain loosening monetary policy to support the economy

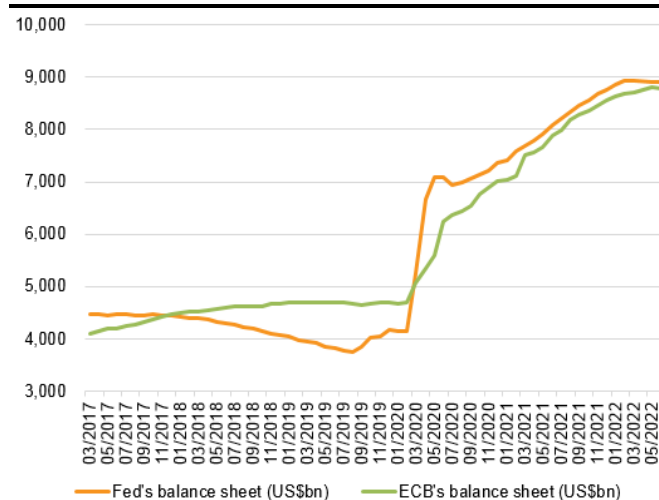
More FED's rate hikes in the second half of 2022

At its most recent meeting held on Jun 14-15, 2022, the Federal Open Market Committee (FOMC) voted to increase the Fed funds rate by 75 basis points to a target range between 1.5% and 1.75%. The decision to raise policy rates by 0.75% marked the most aggressive increase made in a single meeting since Nov 1994. Regarding policy rate hike schedule, FOMC members forecast that the policy rates could increase to 3.1-3.6% by the end of 2022 and to 3.6-4.1% in 2023.

Fed's officials also agreed to begin reducing its balance sheet in Jun 2022, initially by US\$47.5bn per month (US\$30bn in U.S. Treasuries and US\$17.5bn in mortgage-backed securities), then by US\$95bn per month after three months (US\$60bn in U.S. Treasuries and US\$35bn in mortgage-backed securities). Under the above plan, the Fed could shrink its balance sheet size by about US\$427.5bn in the second half of 2022. This scale is relatively small (accounting to only 5% of the current Fed's balance sheet size), so the impact on global financial market liquidity is quite limited.

Figure 20: Target rate probabilities for 14 Dec 2022 FED meeting (%)


Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 21: Fed announced to begin reducing its balance sheet in Jun 2022


Source: Commercial banks, VNDIRECT RESEARCH

There is not much headroom left for the SBV to maintain loosening monetary policy to support the economy

However, we believe that the State Bank will make efforts to maintain an "appropriate" monetary policy, not in a hurry to tighten policy immediately to support economic recovery and market stability because: (1) Although inflationary pressures are expected to intensify in the coming months, the average consumer price index for the first half of 2022 stayed at 2.4% yoy, still well below the government's target of 4% yoy; (2) The SBV still prioritizes the goal of maintaining low lending interest rates to support businesses and the economy to recover. Any monetary tightening will only take place in 4Q22, and major rate hikes will be limited, around 0.25-0.5%.

According to the SBV, by June 30, 2022, the credit of the whole economy reached over VND11.4 million billion, up 9.35% yoy (that in the same period last year increased by 6.47% yoy). We maintain our view that Vietnam's credit growth remains strong at 14% yoy in 2022F. We expect the SBV to raise the "ceiling" of credit growth for some commercial banks from the end of 3Q22. 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.

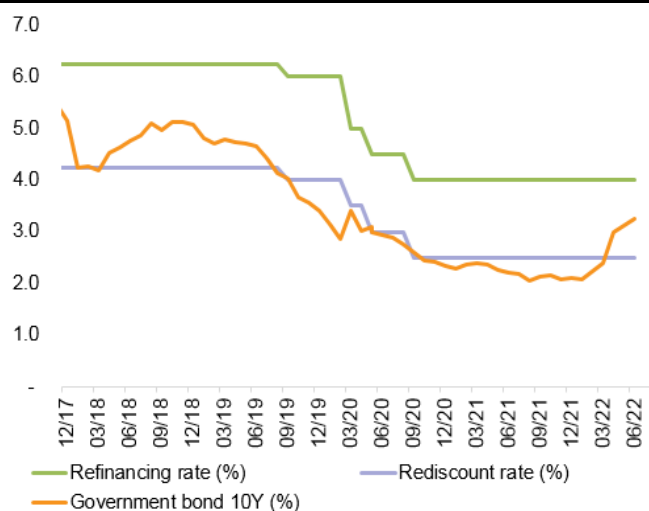
Regarding to lending interest rates, the SBV is implementing an interest rate compensation package with a scale of VND3,000bn. It offers lending rates of only 3-4%/year for businesses strongly affected by the COVID-19 pandemic. Moreover, the Government plans to expand the scale of the package of interest 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 compensation 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.

We expect deposit rates to pick up again in 4Q22

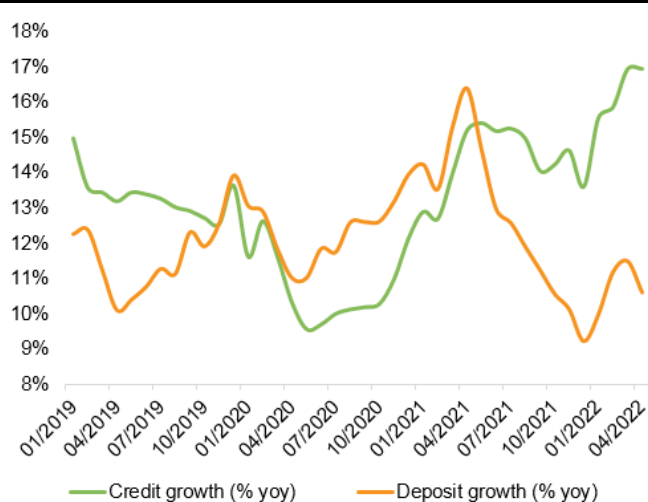
As of 1 July, 2022, the 3-month term deposit rates of state-owned banks remained unchanged compared to the level at the end of 2021 (refer Figure 20) while the 12-month term deposit rates inched up 4 basis points. Regarding to private banks, the 3-month term deposit rates and the 12-month term deposit rates edged up 27bps and 26bps, respectively, compared to the level at the end of 2021.

We expect the increase in deposit interest rates to slow down in 3Q22 due to low capital demand as many banks have temporarily run out of room for credit growth. However, the deposit interest rate could pick up again in 4Q22 after the State Bank of Vietnam (SBV) raises the credit growth limit for commercial banks.

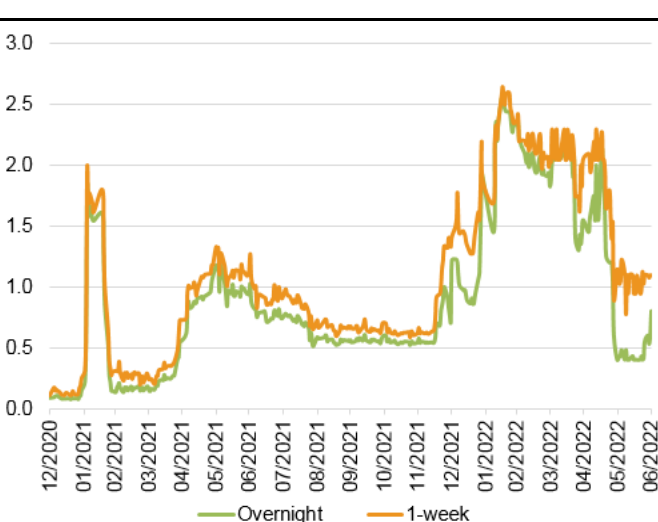
We expect that deposit rates to increase 30-50 basis points in 2H22F. We see the 12-month deposit rates of commercial bank could climb to 6.0-6.2%/year at the year-end of 2022 (currently at 5.7%/year), which are still lower compared to pre-pandemic level of 7.0%/year.

Figure 22: Policy rate unchanged since 4Q20(%)


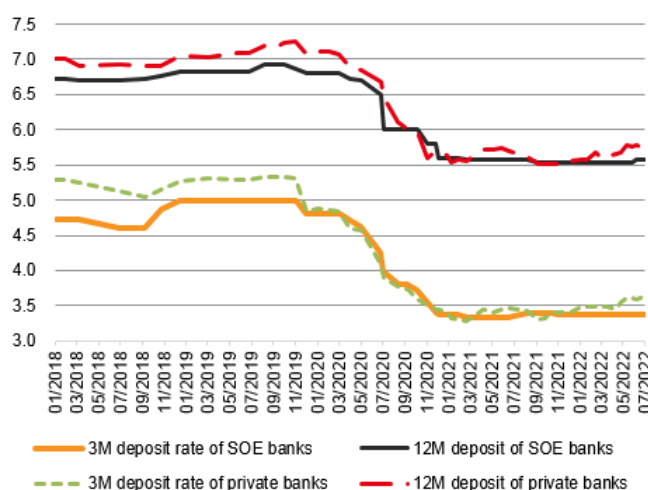
Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 23: Credit growth vs. deposit growth


Source: SBV, VNDIRECT RESEARCH

Figure 24: Interbank interest rate stayed low in June 2022 (%)


Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 25: Deposit interest rate slightly edged up 4-7 basis points in June 2022 (%)


Source: Commercial banks, VNDIRECT RESEARCH

Inflationary is still top-in-mind risk

Vietnam's headline inflation climbed to 3.4% yoy in June 2022 (vs 2.49% in May 2022), mostly driven by the increase of transportation consumer price index (+21.1% yoy) as petrol price surged amid Ukraine-Russia crisis. Meanwhile, the food and foodstuff price index increased by 2.3% yoy in June 2022, the highest increase since Feb 2021 as the pork prices recovered. In 2Q22, Vietnam's CPI averaged at 2.4%, in line with our forecast.

We see inflation risks increasing in 2H22 due to the following reasons:

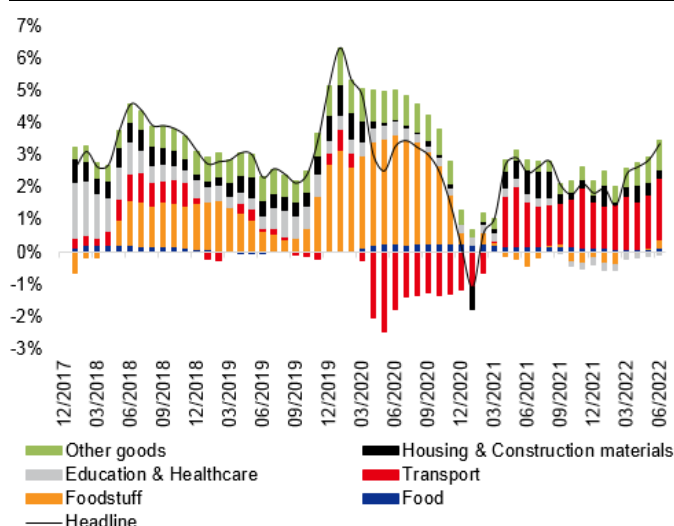
- Food & foodstuff price index could accelerate in 2H22: The recovery of consumer demand along with high input costs have pushed up the prices of pork, chicken, and vegetables recently. Specifically, the pork prices in the North is currently trading at VND63.000-70.000/kg on July 12, 2022, that 5-10% higher compared to the June average. We expect pork prices to maintain an upward trend in the coming quarters due to (1) recovery in domestic demand, (2) higher transportation costs and (3) an increase in

unofficial-quota trade. To be noted that, the pork prices in China are trading at 20-30% higher than the pork prices in Vietnam.

- Rising fuel prices put pressure on transportation and logistics costs. We expect global gasoline prices to remain high and not be able to cool down anytime soon due to the protracted Russia-Ukraine conflict. The high price of gasoline causes freight and passenger businesses to increase their freight rates in the near future to offset costs.
- High material prices pull up domestic production costs of consumer goods. As the consumer demand will improve further in 2H22, manufacturing companies could raise sale prices to offset input costs, which could not be done in the previous quarter due to low consumer demand.

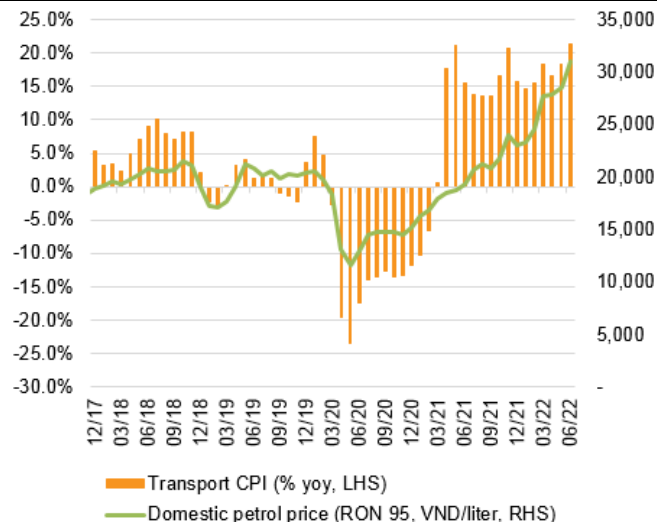
Therefore, we expect inflation to heat up in the upcoming month and forecast CPI in 2H22F to average at 4.5% yoy (vs. 2.4% yoy in 1H22). We still believe that the Government could be able to control the inflation to meet the government's target of keeping the 2022 average CPI below 4.0% yoy. The government 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. The government has prepared a plan to further reduce tax rates on petroleum products if world oil prices continue to rise in order to control inflation. Overall, we maintain our forecast for Vietnam's average CPI in 2022 at 3.5% yoy.

Figure 26: Headline CPI rose 3.4% yoy in Jun 2022



Source: GSO, VNDIRECT RESEARCH

Figure 27: Transportation CPI surged amid rising crude oil price



Source: GSO, VNDIRECT RESEARCH

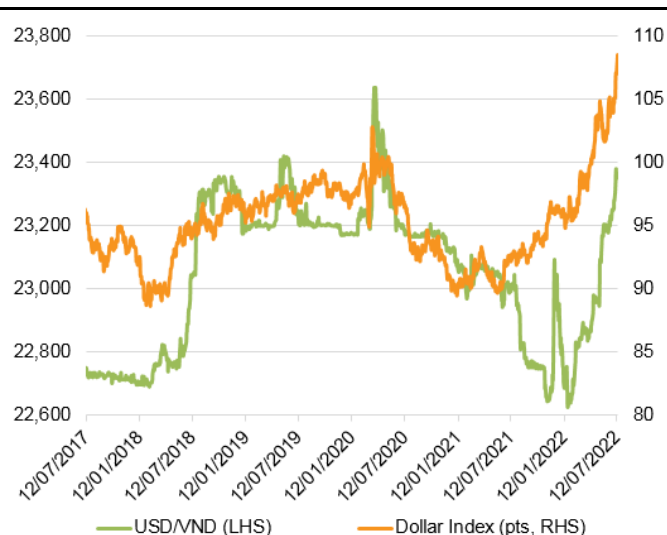
The uptrend of US\$/VND exchange rate will slow down in the 2H22

A strong USD puts pressure on Vietnam's exchange rate. As at 12 Jul 2022, the dollar index (which measures the strength of the US dollar against a basket of currencies) reached 108.5 points, its highest level in 20 years. A strong USD pulls the USD/VND exchange rate in the interbank market up by about 2.4% ytd (+0.4% mtd). Meanwhile, the Vietnam Central bank-set exchange rate for the US\$/VND stood at 23,183, inched up 0.3% mtd (+0.2% ytd) while the US\$/VND exchange rate in the free market also edged up 0.8% mom (+2.6% ytd).

However, compared to regional currencies, the dong is still one of the most stable. Since the beginning of 2022, most regional currencies have fallen by more than 5% against the US\$, including Philippine Peso (-10.6% vs. US\$), Thai Baht (-9.2% vs. US\$), Malaysia Ringgit (-5.1% vs. US\$), Chinese Yuan (-5.9% vs. US\$) and Indonesian Rupiah (-5.1% vs. US\$).

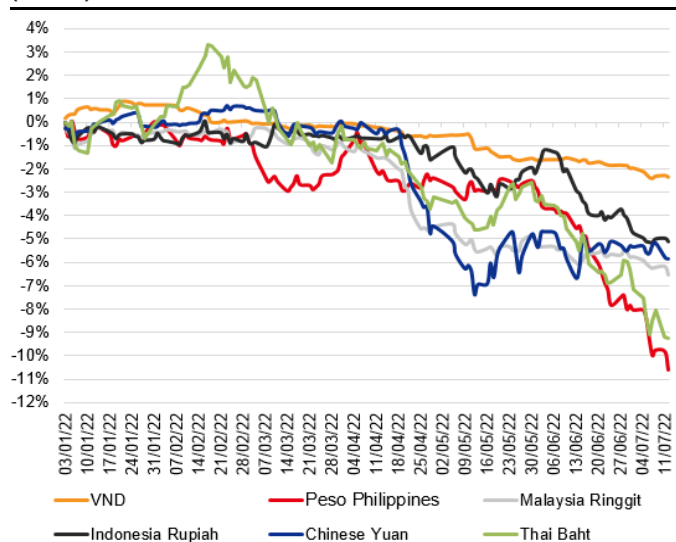
We see that there are several factors supporting the Dong in the second half of 2022, including: stronger FDI inflows, improving trade surplus (forecast to reach about USD7.2bn in 2022), balance of payments surplus, high foreign exchange reserves (equivalent to 3.5-4.0 months of imports). Therefore, we expect the uptrend of US\$/VND to slow down in the second half of 2022. We forecast the US\$/VND exchange rate to stay within 22,900-23,300 by the end of 2022, corresponding to an increase of no more than 2% compared to the end of 2021.

Figure 28: The Dollar index reached the highest level in 20 years



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 29: Vietnam dong outperformed regional currencies in 1H22 (% YTD)



Source: BLOOMBERG, 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: hinh.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>