Economic Update
12 Aug 2022

ECONOMIC UPDATE

Focus on macroeconomic stability

- Vietnam's CPI decelerate to 3.1% yoy in July 2022 (vs. 3.4% in the previous month), thanks to a decline of domestic petrol price.
- Both manufacturing and export delivered moderate growth in July.
- We maintain our 2022F GDP growth forecast at 7.1% yoy (+/- 0.3%).

Service sector pick up to offset the moderation in manufacturing

According to General Statistics Office (GSO), gross retail sales of consumer goods and services in July climbed to VND485,984bn, up 2.4% over that in the previous month and up 42.6% over that in the same period last year. Meanwhile, lower external demand has been decelerated industrial production and export growth. Specifically, Vietnam's PMI fell to 51.2 pts in July 2022 from a high level of 54.0 pts in the previous month while export value dropped 7.7% mom (+8.9% yoy) to about US$30.3bn in July 2022.

Vietnam's CPI decelerated to 3.1% yoy in July

The domestic petrol price has been adjusted down 4 times in the past month, which is the main factor to help ease inflation. Per GSO data, Vietnam's CPI rose 3.1% yoy in July 2022 (vs. 3.4% in the previous month). The Government has reduced the import tax on petrol from 20% to 10%, leading to further adjustment of domestic petrol prices in the near future. Overall, we maintain our forecast for Vietnam's average CPI in 2022 at 3.5% yoy.

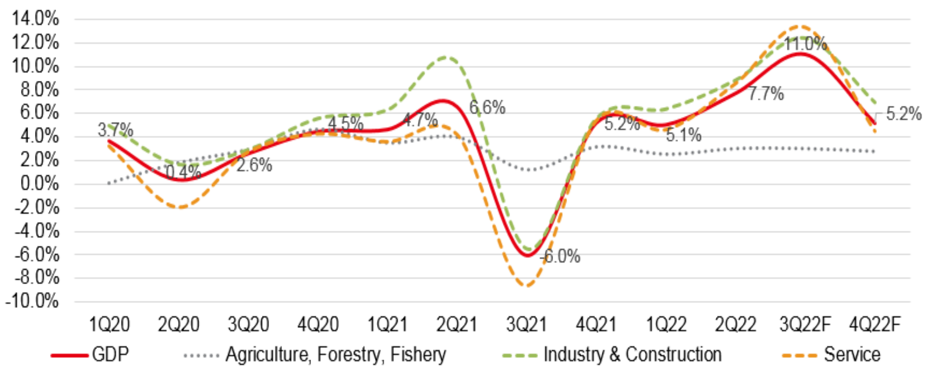
Monetary conditions remain favourable

The State Bank of Vietnam (SBV) set the loan growth of about 14% for 2022 (slightly higher than that of 13.8% yoy last year). We expect the SBV to raise the cap of credit growth for some commercial banks from the end of 3Q22F. We see increasing probability that commodity prices downturn and containable inflation provide the headroom for SBV to stay on extended pause of policy rates hike within this year.

More headroom for a growth-supportive fiscal policy

Higher state budget revenue (+18.1% yoy) and low budget expenditure contribute for a growth-supportive fiscal policy. Specifically, the Government has accelerated disbursement of economic stimulus package, including 2% VAT reduction, additional interest rate compensation package worth VND40,000bn, infrastructure development package worth VND113,050bn. In addition, the Government decided to reduce environmental protection tax and import tax on petroleum products in order to control inflation and stabilize the macroeconomic. Overall, we keep our 2022F GDP growth forecast at 7.1% yoy (+/- 0.3%).

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

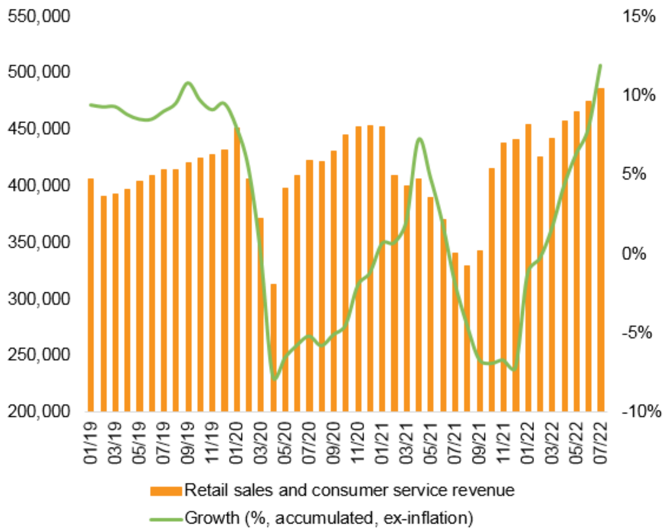
FOCUS ON MACROECONOMIC STABILITY

Domestic consumption extends the recovery momentum

A rebound in domestic consumption and an upswing in domestic tourism boosted the service sector in July. According to General Statistics Office (GSO), gross retail sales of consumer goods and services in July climbed to VND485,984bn, up 2.4% over that in the previous month and up 42.6% over that in the same period last year. Notably, this very high annual growth rate is due to a low base in July 2021 when Vietnam adopted social distancing measures in many provinces to prevent the spread of the COVID-19 pandemic. For 7M22, gross retail sales of consumer goods and services rose 16.0% yoy, the highest annual growth rate in the past 7 years (vs. a decline of 0.1% in 7M21). If excluding the price factor, this indicator rose 11.9% yoy (that in the same period in 7M21 decreased by 1.8% yoy).

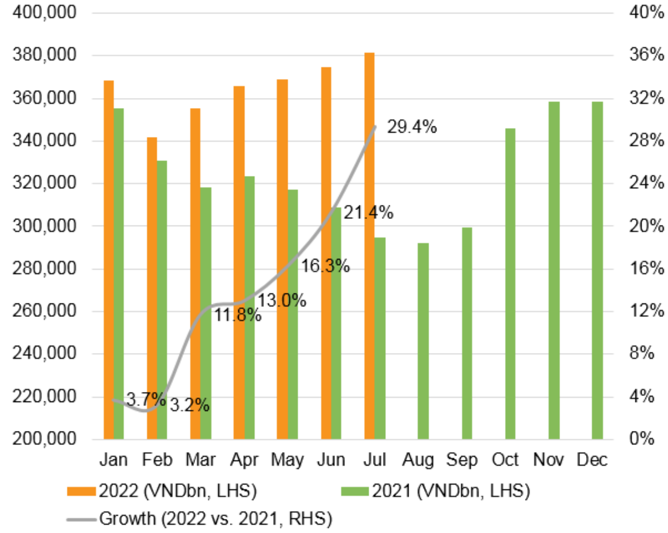
Specifically, all aspects of the service sector accelerated in July 2022. Firstly, the travelling service recoded the impressive year-on-year growth with revenue reached VND3.2 trillion (+24.2% mom, +3,451% yoy). Furthermore, revenue of accommodation and catering service rose 5.2% mom to VND53.9 trillion (+134.7% yoy) in Jul 2022. Moreover, retail sales edged up 1.8% mom to VND381.5 trillion (+29.4% yoy) while revenue of other services increased 2.7% mom to VND47.4 trillion (+107.6% yoy).

Figure 2: Revenue of service sector increased sharply compared to the low base of the same period in 2021 (Unit:VNDbn)



Source: GSO, VNDIRECT RESEARCH

Figure 3: Retail sales growth accelerated in July



Source: GSO, VNDIRECT RESEARCH

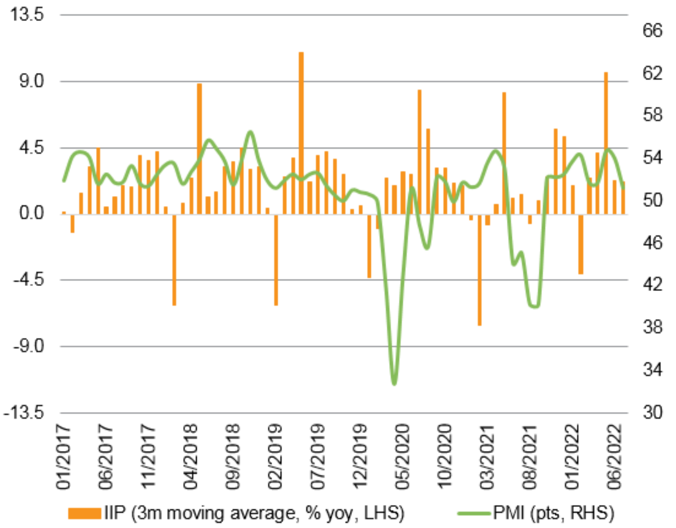
We see a moderation in manufacturing expansion

Vietnam's Index of Industrial Production (IIP) in July 2022 suggests that industrial sector continued to expand in July despite supply chain disruptions and slowing external demand. To be specific, the general IIP rose 1.6% mom and 11.2% yoy (vs. +1.0% mom and +11.5% yoy in the previous month). Regarding to sub-sector, the strong expansion of manufacturing sub-sector was the highlight of July, of which its growth rate reached 12.8% yoy (+2.6% mom). It was significantly improved from an annual growth rate of 9.9% yoy in the previous month.

Other sub-sector also improved, of which electricity production and distribution rose by 8.7% yoy (+0.1% mom), waste and wastewater management and treatment inched up 9.2% yoy (+3.6% mom), and mining edged up 11.2% yoy (+1.6% mom).

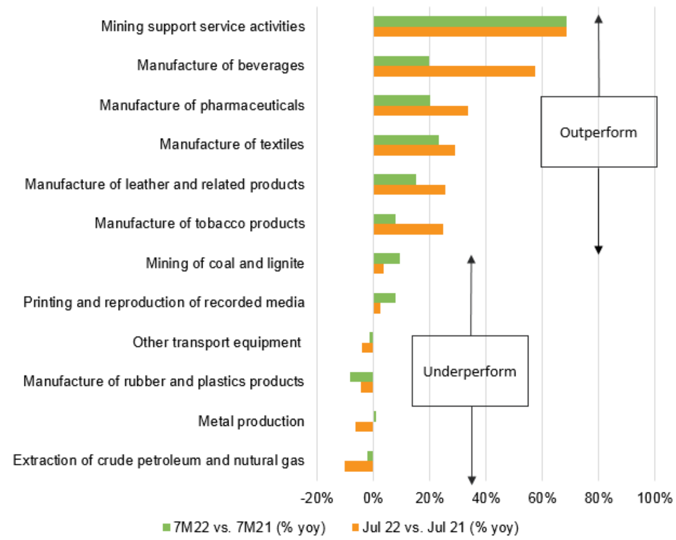
However, we expect the growth rate of industrial sector to decelerate in the coming months, especially in the fourth quarter of 2022, due to a slowdown in external orders amid a sluggish global economic growth. Vietnam's PMI fell to 51.2 pts in July 2022 from a high level of 54.0 pts in the previous month, but still remains above 50 points (production expansion). IHS Markit (the provider of Vietnam's PMI Index) pointed out a number of challenges facing Vietnam's manufacturing industry in the remaining of 2022, including lower consumption demand in Vietnam's main export markets (US, Europe,…), high input materials prices and difficulty in transportation. In addition, through export data, we assess that new orders for some export items are slowing down, such as wood and products, iron and steel products, clinker, cement and furniture made of non- wood materials.

Figure 4: PMI fell to 51.2pts in July



Source: GSO, VNDIRECT RESEARCH

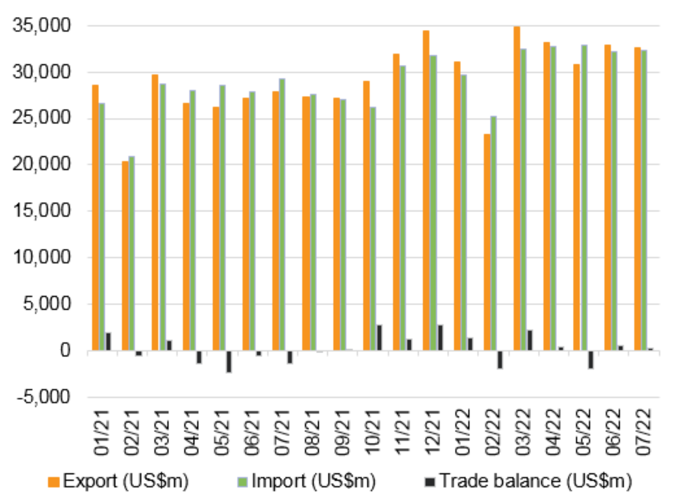
Figure 5: Industrial production index (IIP) by category



Source: GSO, VNDIRECT RESEARCH

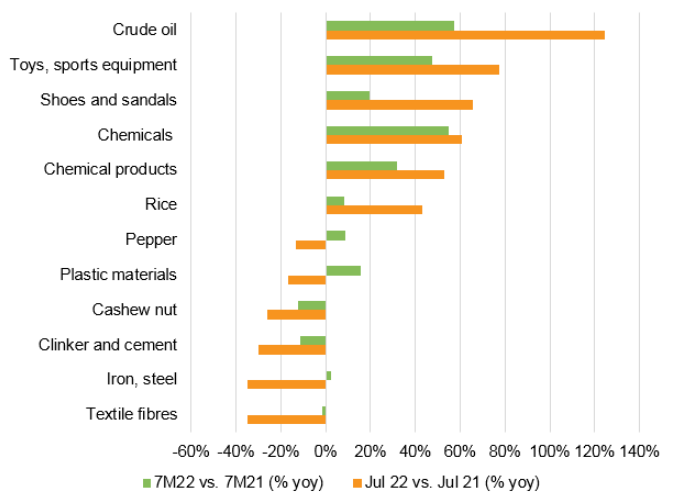
Export growth slows amid sluggish global economy growth

Figure 6: Export growth decelerated July 2022



Source: Vietnam Customs, GSO, VNDIRECT RESEARCH

Figure 7: Leaders/Laggards in exports by category



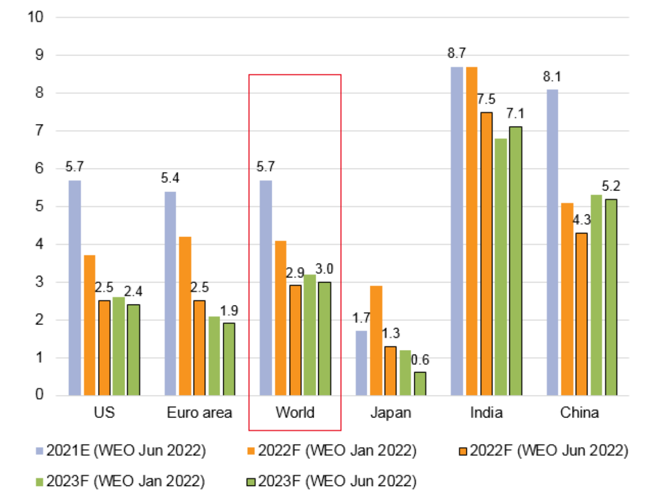
Source: GSO, VNDIRECT RESEARCH

We see Vietnam's export growth decelerating in July. According to GSO, export value dropped 7.7% mom (+8.9% yoy) to about US$30.3bn in July 2022. For 7M22, Vietnam’s export value climbed to US$216.4bn (+16.1% yoy).

July's annual growth rate was lower than the export growth rate of 20.7% yoy recorded in the previous month and 17.3% in the first 6 months of this year. Some products that recorded positive growth in the first half of 2022 turned down in July, including wood and products (-3.5% yoy), textile fibers (-34.8% yoy), iron and steel products (-34.7% yoy), plastic materials (-26.9% yoy), clinker & cement (- 29.8% yoy) and furniture made of non- wood materials (-10.9% yoy). On the positive side, a number of export items maintained high growth in July including crude oil (+124.3% yoy), chemicals (+60.8% yoy), chemical products (53.0% yoy), footwear (+65.6 %yoy), toys & sports equipment (+77.5% yoy), electric wires and cables (30.8% yoy), and machinery & equipment (+26.1% yoy).

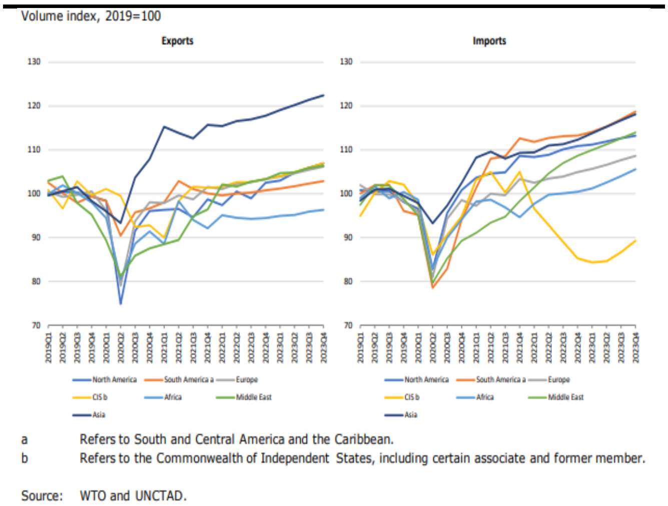
We keep our view that tighter global financial conditions and supply chain disruption could dampen growth prospects for the global economy, leading to lower demand for Vietnam’s exports in 2H22. The sluggish of global economic growth has been reflected in economic data of the world's No. 1 economy when the US GDP shrank in 2Q22 by 0.9%, a second quarter in a row. The housing market buckled under rising interest rates and high inflation took steam out of business and consumer spending. Vietnam's other major trading partners such as Europe and China also face dismal economic growth forecasts in 2022. Therefore, 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. Consequently, we forecast export growth to slow down in the second half of 2022 and reach 14% for the whole of 2022.

Figure 8: Growth in major economies are expected to slow down in 2022



Source: WORLD BANK, VNDIRECT RESEARCH

Figure 9: Global trade forecast



Source: WTO, UNCTAD

As for imports, Vietnam’s import spending reached US$30.3bn in July (-6.0% mom, +3.4% yoy). A slowdown in import activity could signal a slowdown in industrial production in the coming months.

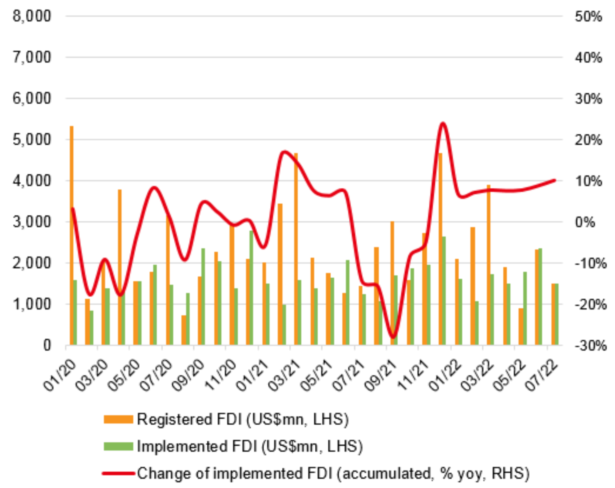
Among Vietnam’s import products, the items that witnessed the strongest import growth rates in 7M22 include petroleum products (+109.6% yoy), fishery (+71.6% yoy), coal (+67.6% yoy), glass and glass products (+56.8% yoy), and other basic metals (+ 29.1% yoy). On the contrary, items that saw a decline in import turnover in July included iron and steel scrap (-66.2% yoy), iron & steel (-9.1% yoy), phones all of kinds and their parts (-8.4% yoy), machinery and instrument (-9.1% yoy).

Regarding to trade balance, Vietnam recorded trade surplus of US$21m in July. For 7M22, Vietnam had a trade surplus of US$0.8bn, this figure was improved compared to the trade deficit of US$3.3bn in 7M21. For the full year of 2022, we expect Vietnam's trade balance to reach US$7.2bn, improving from last year's trade surplus of US$3.3bn.

We expect stronger FDI inflows to Vietnam for the remainder of 2022

According to the Ministry of Planning and Investment (MPI), the implemented capital of FDI projects reached US1.5bn (+19.8% yoy) in July, thus lifting the implemented capital of FDI projects in 7M22 to US$11.6bn, increasing 10.2% yoy (vs. a 3.8% increase in 7M21). Meanwhile, registered capital of FDI projects edged up 4.1% yoy to US$1,5bn in July. For 7M22, registered capital of FDI projects declined 7.1% yoy to US$15.5bn.

Figure 10: The implemented capital of FDI projects rose 10.2% yoy in 7M22



Source: GSO, MPI, VNDIRECT RESEARCH

Figure 11: List of major FDI projects in 7M22

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

To be more specific, 927 (-7.9% yoy) newly licensed projects in 7M22 with a registered capital of US$5.7bn, a decline of 43.5% in terms of registered capital compared to the same period in 2021; 579 projects licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US$7.2bn (+59.3% yoy); 2,072 turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US$2.6bn (+25.7% yoy).

The decrease of registered FDI in 7M22 was mainly because 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 7M22 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 forecast that registered FDI in 2022 will grow by 10% yoy while registered FDI capital to decline by 3-5% compared to the last year.

It should be noted that foreign direct investment (FDI) inflows into Vietnam decreased sharply in 3Q21 because many provinces and cities across the country had to blockade to control the fourth wave of COVID-19 pandemic.

Public investment started to pick up

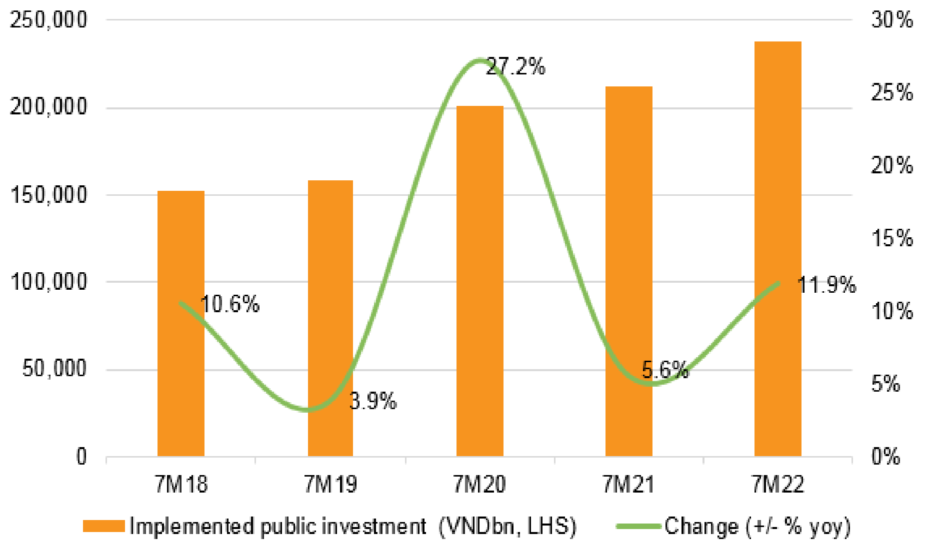
According to GSO, the implemented state capital (public investment) in July jumped 22.5% yoy (+6.3% mom) to VND46.2tr (versus an increase of 10.1% yoy seen in 1H22). For 7M22, disbursed state capital rose 11.9% yoy to VND237.6tr (higher than the 6.3% rate seen in 7M21), equivalent to 43.3% of the full-year target.

The Government continues to show its determination to complete the target of disbursement of public investment capital in 2022. During the meeting on August 3, Prime Minister Pham Minh Chinh requested the Ministry of Planning and Investment and the Government Office to develop and submit to the Government for promulgation a new Resolution on "Speeding up the disbursement of public investment capital". Previously, on May 2, Prime Minister signed Decision No.548/QD-TTg, 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.

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 14.1% from the peak and is 0.1% lower 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 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.

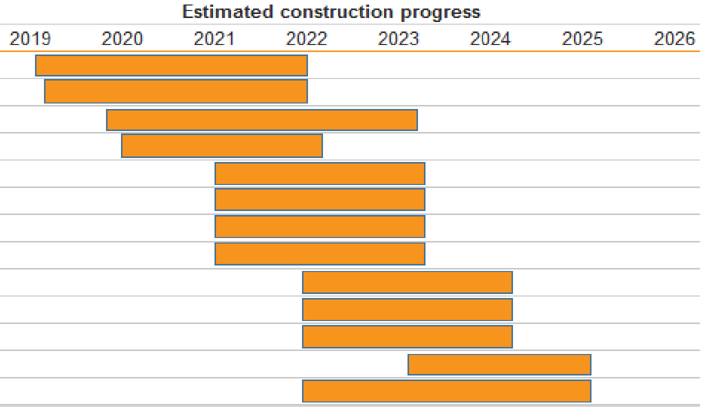
Figure 12: The implemented state capital (public investment) jumped 11.9% yoy in 7M22



Source: GSO, VNDIRECT RESEARCH

Figure 13: Progress of key transport infrastructure projects in the period of 2021 - 2026

Project		Total investment (VNDbn)
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

Higher budget to provide more headroom for a growth-supportive fiscal policy

State budget revenue rose 18.1% yoy in 7M22 while expenditure grew slowly by 3.7%. Spending disbursement was slower due to lag in state investment. As a result, Vietnam's state budget recorded a surplus of more than VND250 trillion in 7M22. We believe the current fiscal surplus is helping to contain inflation pressures, thereby providing more headroom to monetary policy to remain in sync with a growth-supportive fiscal policy. Thanks to the abundant fiscal space, the Government has decided to reduce the environmental tax and import tax on petrol to curb inflation. Specifically, the government has reduced the environmental protection tax for petrol (except ethanol) by a total of VND3,000/liter and reduced the import tax on petroleum products from 20% to 10%.

In addition, higher budget allow the Government to accelerate the disbursement of economic stimulus package in 2H22, including a 2% VAT reduction, an additional interest rate compensation package worth VND40,000bn and an infrastructure development investment package worth VND113,050bn. These policies will support the recovery of Vietnam's economy in the second half of 2022 and 2023.

Vietnam's GDP growth could peak in 3Q22F

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 implementation of growth-supportive fiscal policy as we discussed above.

We expect that Vietnam's GDP growth could peak in 3Q22F, then cool down in 4Q22F (our GDP growth forecast for 4Q22 is 5-6% yoy). We maintain our GDP growth forecast for Vietnam in 2022 at 7.1% yoy (+/- 0.3%). Overall, Vietnam will still be one of the fastest growing countries in the Asia-Pacific region in 2022.

We maintain our forecast that Vietnam's GDP growth could reach 6.9% yoy in 2023F. 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 a strong recovery in foreign arrivals.

Figure 14: 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	11.0	13.7
Refinancing rate	%	6.3	6.0	4.0	4.0	4.0-4.5	5.0
12M deposite 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

Inflation control and macroeconomic stability are the government's top priorities in the remainders of 2022

New message from the Government

In late-July, Prime Minister Pham Minh Chinh had consecutive meetings with relevant ministries, sectors, government's members and gave the importance message: "Controlling inflation and stabilizing macroeconomic are the top priorities right now". After that, the Prime Minister signed Official Letter No. 679/CD-TTg dated July 31, 2022 requesting the implementation of measures to control the prices of goods and services. Specifically, the Government will closely monitor and take measures (if necessary) to stabilize the prices of consumer goods, especially those with reduced input material prices but output has not decreased accordingly.

In addition, Ms. Nguyen Thi Hong (Governor of the State Bank of Vietnam-SBV) said that the SBV will maintain the credit growth target of 14% for 2022 as planned from the beginning of this year. Previously, a number of industry associations and economic experts had proposed the SBV to raise the credit growth limit of the banking system in 2022 to 15-16%. This shows the prudent management attitude of the SBV in the face of remaining uncertainties, including (1) the Fed will raise the policy rate further in late-2022, (2) the strong US dollar puts pressure on Vietnam's exchange rate (3) high inflationary pressure in coming months as domestic demand recovers. In addition, the SBV wants to prevent the race to raise deposit interest rates among commercial banks to finance "hot" credit growth.

In our opinion, controlling inflation and stabilizing macro are the prerequisites to maintain a favorable macro environment in order to achieve high economic growth rate not only in 2022 but also in the period of 2023-2024 thereafter.

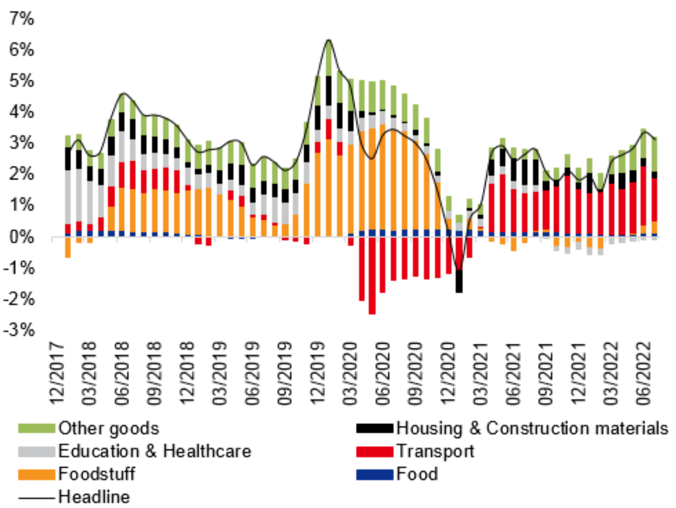
Vietnam's average inflation could be controlled below 4% in 2022

The domestic gasoline price has been adjusted down 4 times in the past month thanks to (1) the Government reduced the environmental protection tax from 500-1,000 VND/liter for petroleum products from July 6, 2022; (2) global crude oil and petroleum products prices fell significantly in July. Specifically, the price of gasoline E5 RON 92 decreased by 21.7% in July to VND24,520/liter while the price of gasoline RON 95 decreased by 22.1% to VND25,600/liter. The decrease in domestic petrol prices was the main factor that helped lower inflation in July. According to GSO, Vietnam's headline inflation rose 3.1% yoy in July 2022 (lower than the level of 3.4% yoy in the previous month). On month-on-month basis, Vietnam's CPI edged up 0.4% (vs. 0.7% in June 2022), mostly driven by the increase of food stuff price index (+1.4% mom). On the other hand, transportation price index fell 2.9% mom thanks to lower gasoline price. The Government also decided to reduce the import tax on petrol from 20% to 10%, leading to further adjustment of domestic petrol prices in the near future.

The increase in pork prices (which has a great impact on the food and foodstuff price index as well as the country's general CPI) has shown signs of cooling down. Especially, after surpassing the threshold of VND70,000/kg in mid-July, the price of live hog has gradually decreased and is now trading at VND64,000-65,000/kg. We forecast that live hog prices will fluctuate in the range of VND60,000-70,000/kg in the coming months.

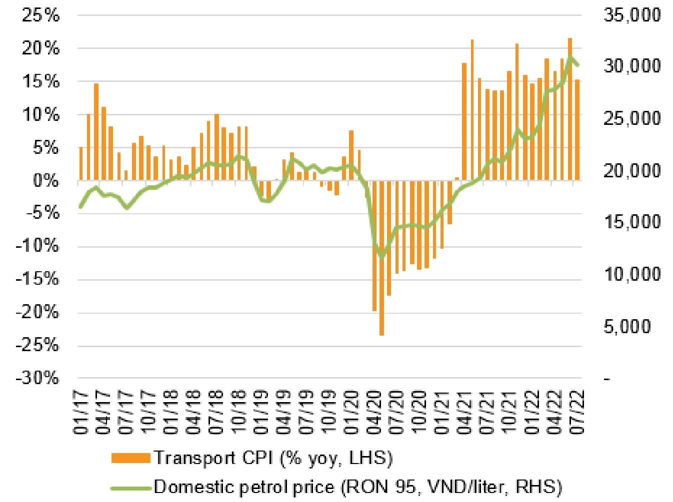
Consequently, we still believe that the Government could be able to control the inflation to meets the government's target of keeping the 2022 average CPI below 4.0% yoy. Overall, we maintain our forecast for Vietnam's average CPI in 2022 at 3.5% yoy.

Figure 15: Inflationary pressure eased in July 2022



Source: GSO, VNDIRECT RESEARCH

Figure 16: Transportation CPI decelerated due to the decline of domestic petrol price in July 2022



Source: GSO, VNDIRECT RESEARCH

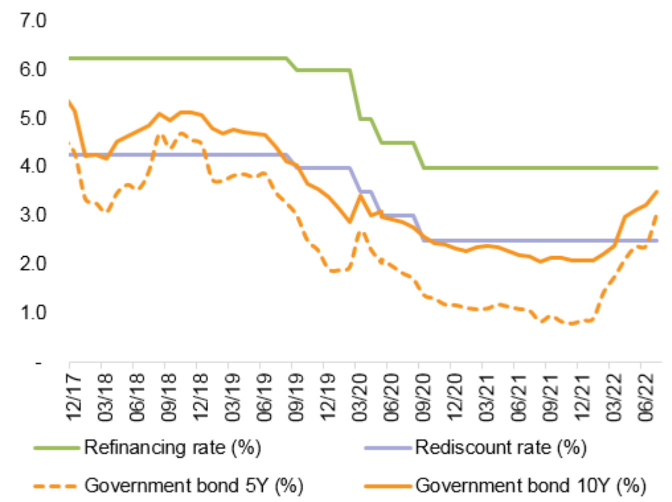
SBV is likely stick to its own pace with a balance of attention to "domestic recovery" and "macro-economic stability"

The State Bank will focus on controlling inflation and stabilizing the macro-economy, but at the same time will also pay attention to the goal of maintaining low lending rates to support businesses and the economy to recover. We see increasing probability that commodity prices downturn provides the headroom for SBV to stay on extended pause of policy rates hike within this year. In addition, the Government has plenty of room through reducing taxes and fees to curb inflation and the SBV does not need to rush to raise the policy interest rates this year.

According to SBV, until July 26, credit growth increased by 9.42% ytd (+16.3% yoy). We maintain our view that Vietnam's credit growth will increase by 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.

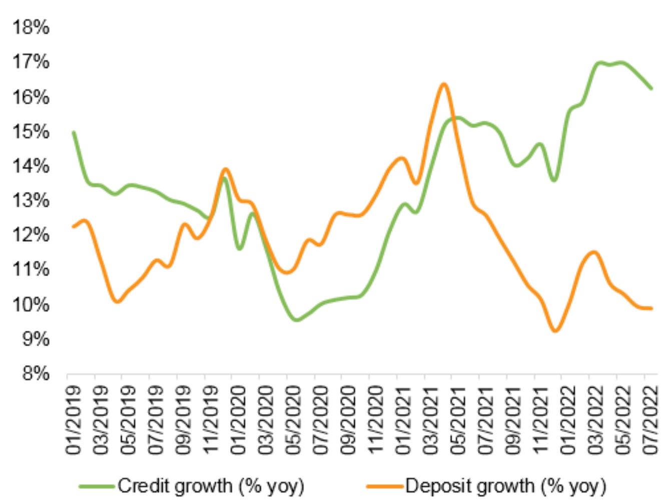
Regarding to lending interest rates, the SBV is implementing an interest rate compensation package with a scale of VND43,000bn. It offers lending rates of only 3-4%/year for businesses strongly affected by the COVID-19 pandemic, including (1) small and medium-sized enterprises, (2) businesses participating in a number of key national projects, and (3) business in certain industries (tourism, aviation, transportation). However, the implementation of the interest compensate package is slower than we expected, so this policy has little impact on the loan interest rate in 2022 (previously we expect that the interest compensation package could help reduce lending rates by 20-40 bps in 2022F, on average).

Figure 17: Policy rate unchanged since 4Q20 (%)



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

Figure 18: Credit growth and deposit growth decelerated in July



Source: SBV, VNDIRECT RESEARCH

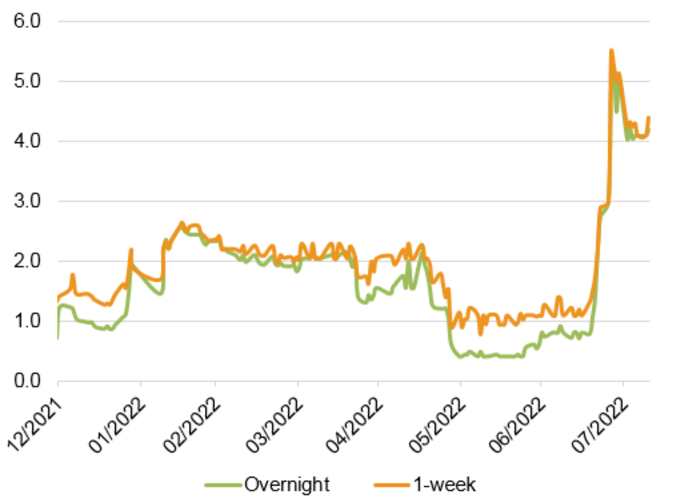
Deposit interest rates rose higher despite the slowdown of credit growth

We witnessed a sharp increase in interbank interest rates in July 2022. Specifically, the overnight interest rate increased to 5% on July 29, plus 423 basis points from the end of June. Interbank interest rates for longer terms (from 1-week to 12-month term) also increased by 45-403 basis points in July 2022. Interbank interest rates rose sharply in July after the State Bank boosted net withdrawal through bills and foreign currency sales. This caused a large amount of dong to be net withdrawn from the banking system in July.

We saw a marked increase in deposit interest rates in July. As of 27 July, 2022, the 3-month term deposit rates and the 12-month term deposit rates of private banks edged up by 9bps and 16bps, respectively, compared to the level at the end of last month. Thus, since the beginning of 2022, the 3-month term deposit rates and the 12-month term deposit rates of private banks have increased significantly by 38 and 44 basis points, respectively. Meanwhile, the 3-month term deposit rates and the 12-month term deposit rates of state-owned banks also increased by 3 basis points as Vietcombank announced an increase in deposit rates in July. Since the beginning of this year, the 3-month term deposit rates and the 12-month term deposit rates of private banks have inched up by 3 and 7 basis points, respectively.

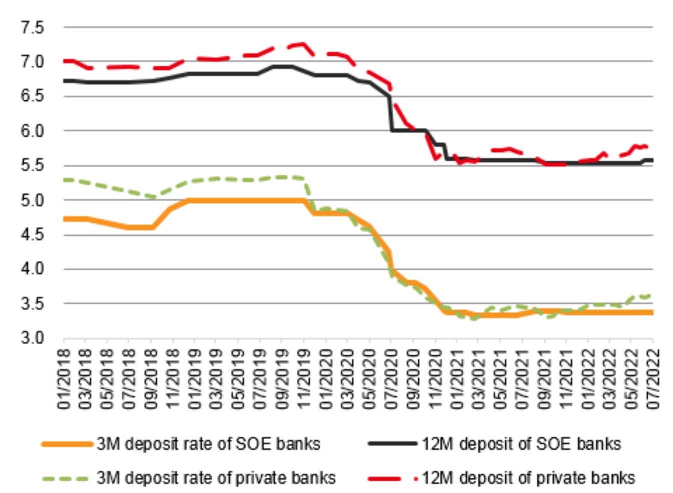
We expect deposit rates to increase further in the coming months due to (1) high credit demand amid economic recovery, (2) deposit growth was slow in 7M22 (+4.2% ytd, +9.9% yoy) due to less attractive deposit rates compared to other investment channels, (2) FED is expected to raise policy rate by 100-125 basis points until the end of 2022, (3) strong USD put pressure on Vietnam's exchange rates and interest rates. We keep our view that deposit rates could increase by 30-50 basis points in 2H22F. We see the 12-month deposit rates of commercial bank could climb to 6.0-6.2%/year (on average) at the year-end of 2022, which are still lower compared to pre-pandemic level of 7.0%/year.

Figure 19: Interbank interest rate surged in Jul 2022 (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

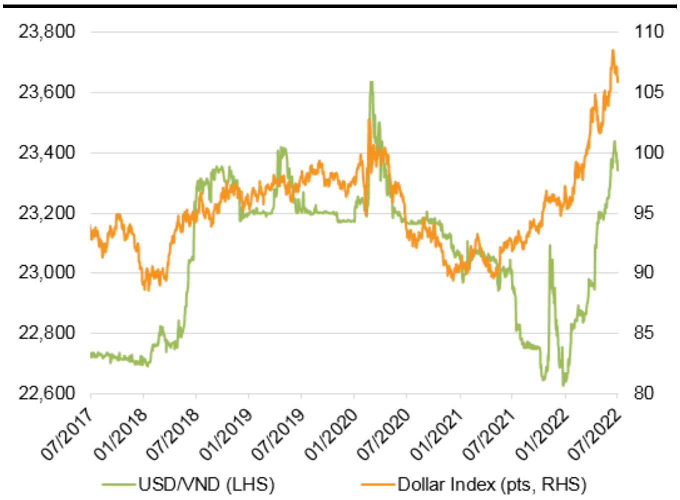
Figure 20: Deposit interest rates rose higher despite the slowdown of credit growth in July 2022 (%)



Source: Commercial banks, VNDIRECT RESEARCH

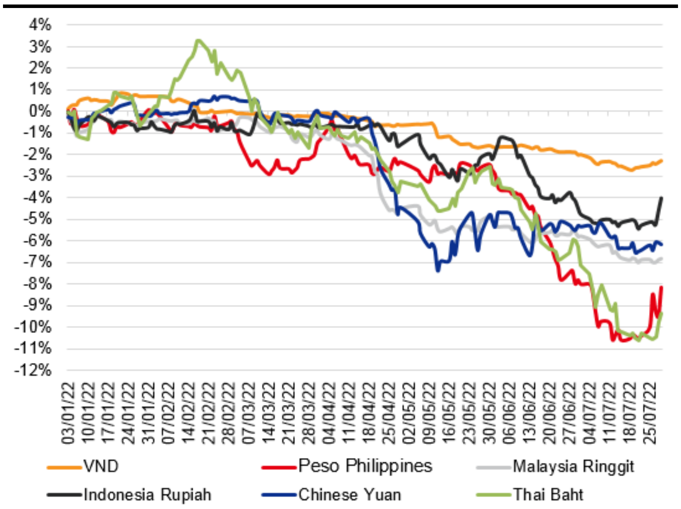
The uptrend of US$/VND exchange rate will slow down in the 2H22

Figure 21: The Dollar index remained high in July 2022



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 22: Vietnam dong outperformed regional currencies in 7M22 (% YTD)



Source: BLOOMBERG, VNDIRECT RESEARCH

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 105.9 points (+ 1.2% mom + 10.7% ytd). A strong USD pulls the USD/VND exchange rate in the interbank market up by about 2.3% ytd (+0.3% mom). Meanwhile, the Vietnam Central bank-set exchange rate for the US$/VND stood at 23,176, inched up 0.3% mtd (+0.1% ytd) while the US$/VND exchange rate in the free market also rose 1.8% mom (+3.6% 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 4% against the US$, including Thai Baht (-9.4% vs. US$), Philippine Peso (-8.2% vs. US$), Malaysia Ringgit (-6.8% vs. US$), Chinese Yuan (-6.2% vs. US$) and Indonesian Rupiah (-4.0% vs. US$).

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 3.6 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.

DISCLAIMER

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