

Economic Update

14 Sep 2022

ECONOMIC UPDATE
Faster ascent in the 3Q22

- Following the easing inflation pressure, we downgrade Vietnam's average CPI forecast for 2022F to 3.2% (+/- 0.2%) from 3.5%.
- We expect 3Q22 GDP to hasten 13.1% yoy on low base last year
- We raise Vietnam' GDP growth forecast for 2022F to 7.7% (+/- 0.3%) from previous 7.1%

Both services and manufacturing saw strong improvement in Aug

According to General Statistics Office (GSO), gross retail sales of consumer goods and services in Aug climbed to VND481,225bn (+0.6% mom, +50.2% yoy). Meanwhile, Vietnam's general IIP expanded 2.9% mom in Aug (+15.6% yoy). This is a strong improvement from the growth of 1.6% mom (+9.5% yoy) in Jul. Last but not least, export growth rebounded strongly in August after a weak July with export value reaching US\$34.9bn in this month, up 14.1% over that in the previous month and up 27.8% over that in the same period last year.

Inflation pressure cooled down thanks to tax cuts on petroleum products

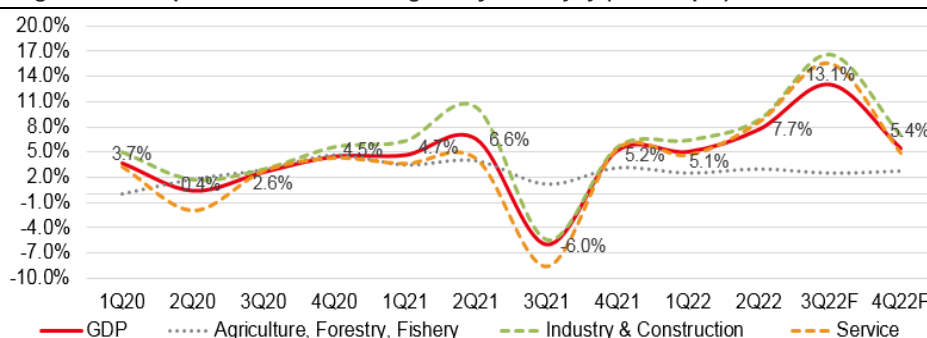
According to GSO, Vietnam's headline inflation rose 2.9% yoy in Aug 2022 (lower than the level of 3.1% yoy in the previous month). On mom basis, Vietnam's CPI stayed flat in Aug (vs. an increase of 0.4% in Jul), mainly supported by the decline of transportation price index (-5.5% mom in Aug). We lower our 2022F average CPI forecast for Vietnam to 3.2% (+/- 0.2%) from the previous forecast of 3.5% yoy to reflect the global commodity prices downturn and the Government's effective inflation control.

SBV officially raised credit growth quotas for selected commercial banks

On Sep 7, the State Bank of Vietnam (SBV) has lifted credit growth quotas for 2022 to 15 commercial banks. We expect about VND279 trillion of loan will be added to the economy, equivalent about additional 2.7% credit growth. We believe SBV is prioritising inflation containment and macro stability. Thus we see limited chance for further credit growth limit increase this year.

We raise our 2022F GDP growth forecast to 7.7% (+/- 0.3%)

We raise GDP growth forecast for 3Q22F to 13.1% (+/- 0.6%) regarding: (1) the government-backed policy has fueled an impressive recovery in domestic consumption and tourism in recent months, (2) stronger-than-expected manufacturing activities as sustainable recovery in domestic demand spurred new orders. As a result, our 2022F GDP growth forecast is revised up to 7.7% (+/- 0.3%). Main risks to the economy growth still include (1) Fed's tightening monetary policy, (2) emerging uncertainties of the Chinese economy, (3) strong dollar puts pressure on Vietnam's exchange rate and (4) inflationary risks.

Figure 1: We expect Vietnam's GDP to grow by 13.1% yoy (+/-0.6% pts) in 3Q22F


Source: GSO, VNDIRECT RESEARCH

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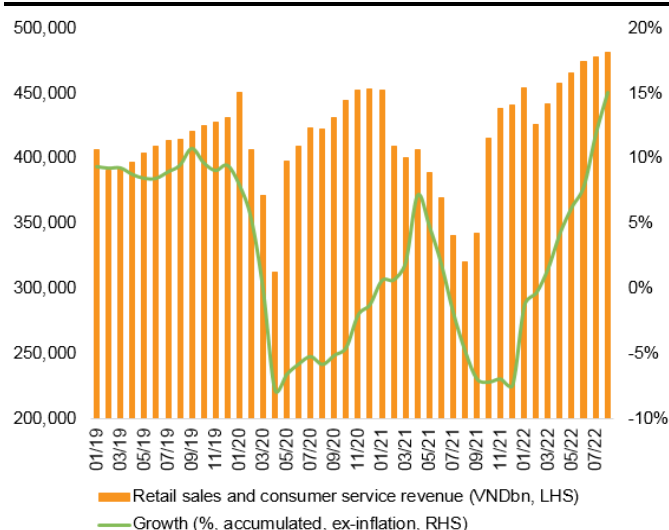
FASTER ASCENT IN THE 3Q22

Services and manufacturing gather additional momentum despite external challenges

According to GSO, gross retail sales of consumer goods and services in Aug climbed to VND481,225bn, up 0.6% over that in the previous month and up 50.2% over that in the same period last year. Notably, this very high annual growth rate is due to a low base in 3Q21 when Vietnam adopted social distancing measures. On a mom basis, the improvement of the service sector was led by retail activity which recorded a growth of 0.8% mom (+31.9% yoy) in August, followed by accommodation and catering service (+0.3% mom, +185.3% yoy). Meanwhile, travelling service and other services recorded lower revenue in August, reaching VND15,407bn (-2.8% mom, +6,437% yoy) and VND361,012bn (-0.2% mom, +197.2% yoy).

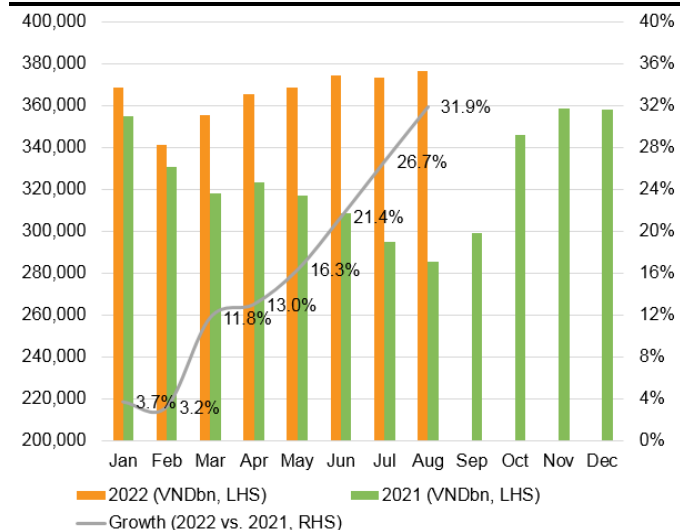
For 8M22, gross retail sales of consumer goods and services rose 19.3% yoy (vs. a decline of 3.3% in 8M21). If excluding the price factor, this indicator rose 15.1% yoy (that in the same period in 8M21 decreased by 4.8% yoy).

Figure 2: Revenue of service sector increased sharply yoy on low base last year (Unit: VNDbn)



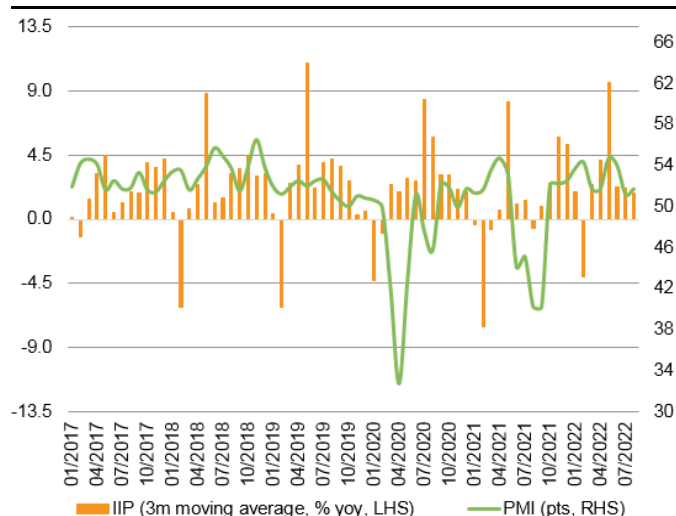
Source: GSO, VNDIRECT RESEARCH

Figure 3: Retail sales growth kept accelerating in August (Unit: VNDbn)



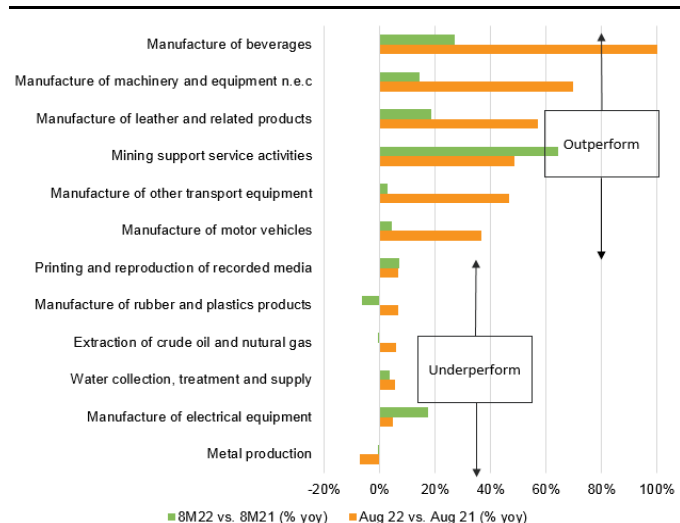
Source: GSO, VNDIRECT RESEARCH

Figure 4: PMI climbed to 51.7pts in August



Source: GSO, VNDIRECT RESEARCH

Figure 5: Industrial production index (IIP) by category



Source: GSO, VNDIRECT RESEARCH

Vietnam's industrial production continued to expand with general IIP rising 2.9% mom and 15.6% yoy. This is a strong improvement from the growth of 1.6% mom (+9.5% yoy) in the previous month. Moreover, PMI climbed to 51.7pts from a level of 51.2pts last month and marked the 11th consecutive month of staying above 50 points (production expansion threshold).

All sub-sectors saw higher growth rate in Aug 2022, including manufacturing (+3.4% mom, +16.2% yoy), mining (+2.9% mom, +15.6% yoy), electricity production and distribution (+1.0% mom, +14.8% yoy) and waste and wastewater management and treatment (+2.3% mom, +11.0% yoy)

Vietnam's industrial sector has surprised us with its ability to adapt quickly and cope well with adverse external difficulties such as supply chain disruptions and slowing global growth. China's Zero-Covid policy and drought together with power shortages further urge the trend of supply chain diversification and the "China + 1" policy. In that context, Vietnam has won more production orders and FDI inflows thanks to its great advantage of favorable geographical location (proximity to the production center in southern China), competitive labour costs, political stability and incentives from many FTAs (Free-Trade-Agreements).

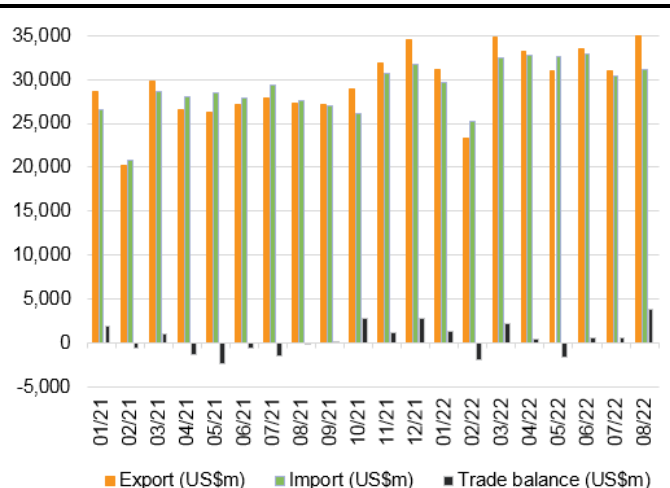
Vietnam recorded higher trade surplus in August 2022

Export growth rebounded strongly in August after a weak July

According to Vietnam Customs, export value climbed to US\$34.9bn in Aug, up 14.1% over that in the previous month and up 27.8% over that in the same period last year. For 8M22, Vietnam's export value increased 18.2% yoy to about US\$252.6bn. Last month, the strong improvement in exports was mainly due to (1) more and more production orders moved to Vietnam in the context of China's pursuit of Zero-COVID policy and the drought and power shortage in the Southern China provinces, (2) Exports of key items recovered in August, including phones and their parts, computers and textiles.

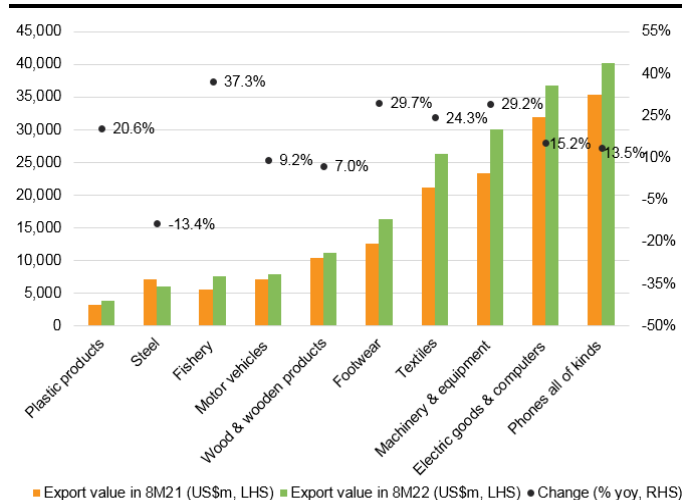
To be specific, the export value of phones and components was estimated at US\$6.1bn in August, up 39.4% mom and up 9.7% yoy thanks to the launch of new products such as Galaxy Z Flip 4 and Galaxy Z Fold 4. Computer exports also rebound in August with an increase of 25.4% mom (+16.5% yoy) after seeing a drop of nearly 23.7% mom (+8.3% yoy) in July. In addition, exports of textiles (+8.7% mom, +49.9% yoy) and footwear (+0.9% mom, +173.8% yoy) maintained their growth momentum in August although inflation remained high in major export markets such as the US and EU, dampening demand.

Figure 6: Exports rebound strongly in Aug 2022



Source: Vietnam Customs, GSO, VNDIRECT RESEARCH

Figure 7: Top export products in term of value in 8M22



Source: Vietnam Customs, VNDIRECT RESEARCH

Despite witnessing an upswing in August, we still maintain a relatively cautious view on the export outlook in the rest of 2022. We are concerned that tighter global financial conditions and supply chain disruptions could dampen growth prospects for the global economy, thereby weighing on Vietnam's export outlook in the remainders of 2022.

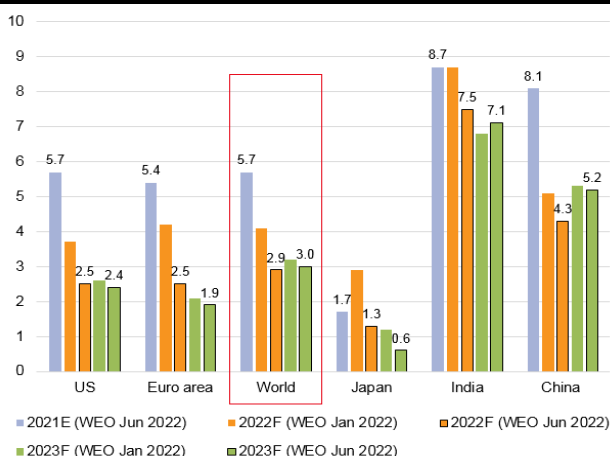
To be specific, the sluggish of global economic growth has been reflected in economic data of the world's No. 1 economy when the US GDP shrank in 2Q22 by 0.9%, a second quarter in a row. The housing market buckled under rising interest rates and high inflation took steam out of business and consumer 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 maintain our view that Vietnam's export growth could slow down in the fourth quarter of 2022, however, we slightly raised our forecast for Vietnam's export growth in 2022F to 15% (from a previous forecast of 14%) to reflect stronger-than-expected export growth in Jul-Aug period.

Vietnam recorded higher trade surplus in August

As for imports, Vietnam's import spending in August edged up 1.7% mom (vs. a 1.1% mom decline in the previous month) to about US\$31.1bn (+12.8% yoy). As a result, Vietnam witnessed the strong net export value of US\$3.9bn in August. For 8M22, import value climbed to US\$247.1bn, and Vietnam net export US\$5.5bn in 8M22 (vs. a trade deficit of US\$3.5bn seen in 8M21). Among Vietnam's key import products, the items that witnessed the strong import growth rates in August 2022 include crude oil (+272.6% yoy), petroleum products (+208.5% yoy), fishery (+102.2% yoy), corn (+76.4% yoy) and cattle feed and supplies (+44.3% yoy).

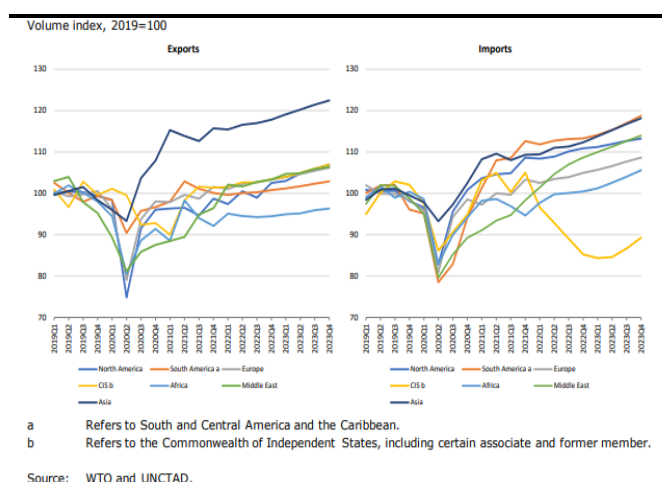
We slightly raise our forecast for Vietnam's import growth in 2022F to 13.5% yoy (from a previous forecast of 13.0%) and raise our forecast for Vietnam's trade surplus in 2022F to US\$8.9bn (vs. trade surplus of US\$3.3bn in 2021).

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



Source: WORLD BANK, VNDIRECT RESEARCH

Figure 9: Global trade forecast



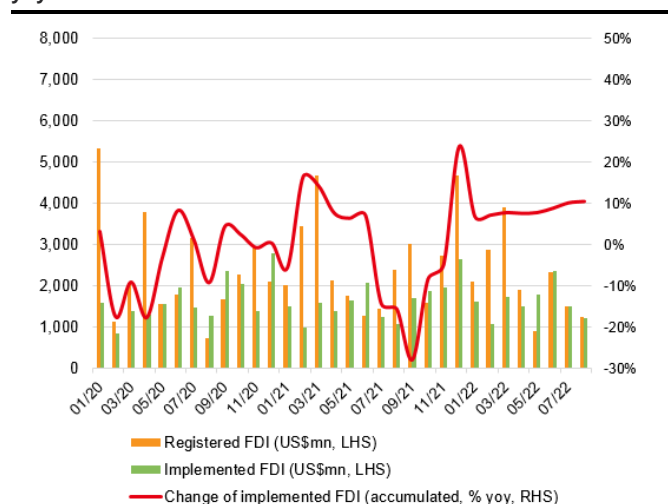
Source: WTO, UNCTAD

Implemented FDI remained positive, registered FDI continued to decline

According to the Ministry of Planning and Investment (MPI), the implemented capital of FDI projects rose 13.9% yoy to US\$1.2bn in August, thus lifting the

implemented capital of FDI projects in 8M22 to US\$12.8bn, increasing 10.5% yoy (vs. a 1.6% increase in 8M21). Meanwhile, registered capital of FDI projects dropped 48.3% yoy to US\$1.2bn in August. For 8M22, registered capital of FDI projects declined 12.2% yoy to US\$16.8bn.

Figure 10: The implemented capital of FDI projects rose 10.5% yoy in 8M22



Source: GSO, MPI, VNDIRECT RESEARCH

Figure 11: List of major FDI projects in 8M22

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, 1,135 (equivalent to the same period in 2021) newly licensed projects in 8M22 with a registered capital of US\$6.4bn, a decline of 44.0% in terms of registered capital compared to the same period in 2021; 676 projects (+5.8% yoy) licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US\$7.5bn (+50.7% yoy); 2,425 (-10.8% yoy) turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US\$2.9bn (+3.6% yoy).

The decrease of registered FDI in 8M22 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 8M22 is the Lego's toy factory, worth US\$1.3bn. In addition, many large enterprises are also suspending new investment and production expansion plans in the context of the global economic uncertainty, including 1) slowing global growth, 2) high inflation weighing on consumers' wallets, 3) strong USD appreciation puts pressure on emerging market and frontier market exchange rates and 4) financial market liquidity tightens due to the Fed's interest rate hike.

However, we believe that the decline in registered FDI inflows into Vietnam will not last long and is expected to recover from 2023. We believe that Vietnam possesses outstanding advantages compared to its competitors to attract international FDI inflows in the near future, including competitive labour costs, favorable geographical location (proximity to the production center in southern China), political stability and incentives from many FTAs (Free-Trade-Agreements). We see that recently, there have been a number of global technology giants intending to invest and expand production in Vietnam in the near future.

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 while GOOGLE is planning to move part of its mobile phone production line (GOOGLE Pixel 7) to Vietnam.

Moreover, two Chinese technology giants, XIAOMI and OPPO, also intend to set up manufacturing activities in Vietnam.

We maintain our forecast that registered FDI in 2022 will grow by 10% yoy while registered FDI capital to decline by 5-10% 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.

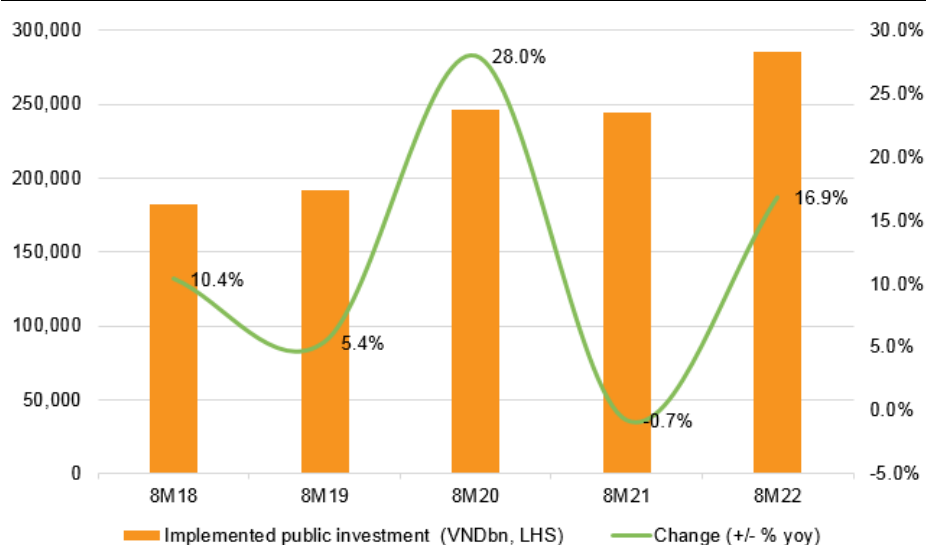
Public investment accelerated in August

According to GSO, the implemented state capital (public investment) in August jumped 52.9% yoy (+5.7% mom) to VND48.3tr (versus the increase of 21.9% yoy seen in last month and the growth of 10.7% seen in 1H22). For 8M22, disbursed state capital rose 16.9% yoy to VND285.4tr (higher than the decline of 0.7% yoy seen in 8M21), equivalent to 51.0% of the full-year target (that in the same period last year was 48.6% of 2021 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". Moreover, on Aug 16, The Prime Minister signed Official Letter No. 727/TTg-KTTH assigning 6 inspection teams to solve problems related to the disbursement of public investment in 2022 at 41 ministries, central agencies and 18 localities. In addition, the implementation of public investment could be supported by the decline of some construction materials from May 2022 such as iron and steel.

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 12: The implemented state capital (public investment) jumped 16.9% yoy in 8M22



Source: GSO, VNDIRECT RESEARCH

Figure 13: 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								
Eleven sub-projects of the North-South expressway (phrase 1)	Vinh Hao - Phan Thiet								
	Phan Thiet - Dau Giay								
	Nghi Son - Dien Chau								
	Highway 45 - Nghi Son								
	Dien Chau - Bai Vot								
	Nha Trang - Cam Lam								
	Cam Lam - Vinh Hao								
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

According to General Department of Taxation, state budget revenue in 8M22 is estimated at VND1.2m billion, reaching 85.4% of the full-year target and increasing by 18.4% over the same period in 2021. Specifically, state budget revenue from domestic in 8M22 was VND951,789bn, reaching 83% of the full-year target and rising by 15.9% yoy. In addition, state budget revenue from import and export activities reached VND197,600bn in 8M22, equaling 99.3% of the full-year plan and increasing 21.5% over the same period last year. Meanwhile, state budget revenue from crude oil was estimated at VND51,085bn, reaching 181.2% of the full-year plan.

On the other side, state expenditure grew slowly by 4.2% to VND956.4 trillion, reaching 53.6% of the full-year target. Spending disbursement was slower due to lag in state investment. As a result, Vietnam's state budget recorded a surplus of more than VND240 trillion in 8M22. 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 allows 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. According to the Ministry of Finance, as of September 2, VND55,000bn out of a total of VND350,000bn have been disbursed from the economic stimulus package, equivalent to nearly 16% of the entire economic stimulus package. These policies will support the recovery of Vietnam's economy in the second half of 2022 and 2023.

We raise Vietnam's GDP growth forecast in 2022 to 7.7% (+/- 0.3%)

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	7.7	6.9
Export growth	% yoy	13.3	8.4	6.5	18.9	15.0	10.4
Import growth	% yoy	11.8	6.9	3.6	26.7	13.5	10.2
Trade balance	USD bn	6.9	10.9	18.9	3.3	8.9	10.5
Current account balance	USD bn	5.8	12.8	12.7	-7.2	3.0	6.3
Current account to GDP	% of GDP	1.9	3.8	3.7	-2.0	0.8	1.4
FX reserves	USD bn	55.1	78.3	94.8	109.4	105.0	126.9
FX to GDP	% of GDP	17.9	23.8	27.8	29.7	26.5	28.8
Import coverage	months	2.8	3.7	4.3	3.9	3.3	3.7
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.2	3.4
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	128.4	132.6
M2 growth	% ytd	12.4	14.8	14.7	10.7	11.0	13.0
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	2.5	-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	44.2	43.3

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

We raise Vietnam's GDP growth forecast for 3Q22 to 13.1% yoy (+/- 0.6%) from a previous 11% yoy (+/-0.5%). This higher forecast is attributed to the following factors:

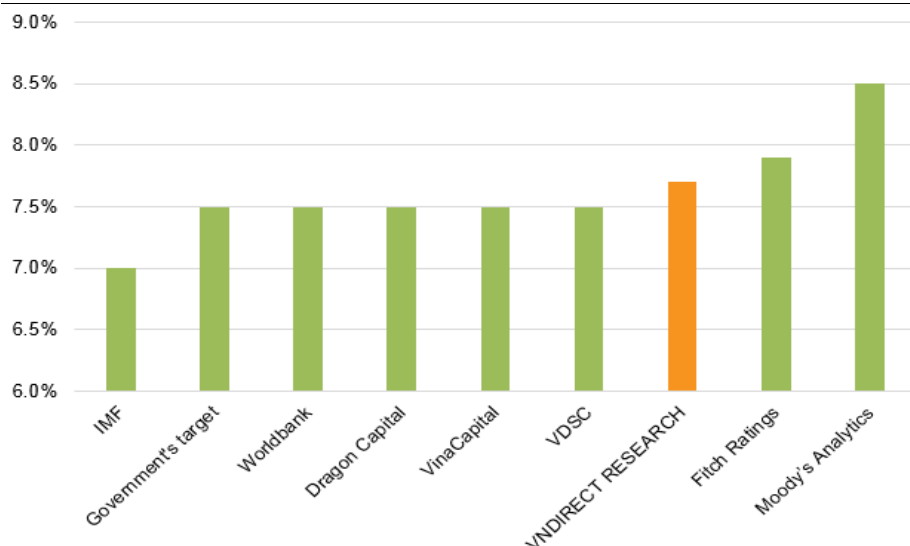
- The government-backed policy has fueled an impressive recovery in domestic consumption and tourism in recent months. Specifically, the government's tax reduction policies for essential goods, especially fuel and petrol, help stabilize inflation and strengthen consumer confidence. Policies in the economic stimulus package that are being implemented such as a 2% VAT reduction, cash support for tenants,...also contribute to stimulating domestic consumption. Accordingly, total retail sales of consumer goods and services in July and August witnessed very high growth rate and exceeded our previous expectations.
- Despite difficulties caused by supply chain disruptions and slowing global growth, recent economic data showed that the growth momentum of Vietnam's industrial sector continued to improve in July and August. August data even beat our expectations with Vietnam's IIP up 2.9% mom (+15.6% yoy) and Vietnam's PMI rising to 51.7 points from level of 51.2 points last month. This came as a surprise to us as we had previously predicted that industrial production and export growth could slow down in 3Q22 due to lower external demand in developed markets amid high inflation. The driving force for the stronger-than-expected growth can be attributed to the sustainable recovery in domestic demand, boosting orders for the manufacturing sector. In addition more and more manufacturing orders from China moving to Vietnam, fueled by the instability in China related to the Zero-COVID policy as well as the drought and power shortage.

We expect that Vietnam's GDP growth could peak in 3Q22F, then cool down in 4Q22F (our GDP growth forecast for 4Q22F is 5-6% yoy). Consequently, we raise our GDP growth forecast for Vietnam in 2022 to 7.7% yoy (+/- 0.3 percentage points) from a previous forecast of 7.1% (+/- 0.3%), mainly to reflect higher projections for the third quarter of 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 FDI inflows and a strong recovery in foreign arrivals.

Figure 15: Vietnam's 2022F GDP growth forecasts of some domestic and international organizations



Source: VNDIRECT RESEARCH, GSO, SBV, MOF

However, the Vietnam's economy still faces both external and internal risks in the coming months, including:

- The Fed and ECB will maintain tight monetary policy to control inflation. This will push interest rates higher in the future, thereby reducing consumer demand, tightening the job market and slowing the economic growth in the US and Europe. Lower demand in the US and Europe will have a negative impact on Vietnam's exports to these two markets (accounting for nearly half of Vietnam's total export value in 2021) in the coming quarters.
- Zero-Covid policy and emerging uncertainties of the Chinese economy. Record-high temperatures and a severe drought in southwestern China have crippled hydropower generation and prompted the shutdown of many factories there. It is the latest blow to the Chinese economy, which already has sluggish consumer spending and a deeply troubled property market. China's economic slowdown will affect Vietnam's exports to this market. Besides, the closure of factories in China due to Zero-COVID policy or power cuts could negatively impact Vietnam's production because many Vietnamese manufacturing industries have a high proportion of input materials from China as high as textile, metallurgy, chemical, electronics.
- A strong USD puts great pressure on Vietnam's exchange rate. In order to stabilize the exchange rate, the SBV had to intervene in the market recently and sold a large amount of foreign exchange reserves. However, if the USD continues to strengthen, the SBV will have less resources to deal with because foreign exchange reserves are thinner than before. The SBV may have to consider increasing policy interest rates, thereby increasing business costs and adversely affecting economic growth.
- Inflationary risks remain as protracted Russia-Ukraine conflict causes global supply chain disruptions. Higher-than-expected inflation might hinder the economic growth and turn the monetary policy to be more hawkish. The SBV has less room to maintain accommodative monetary policy to support the economy.

Inflation pressure cooled down thanks to tax cuts on petroleum products

The domestic gasoline price continued to decline in August thanks to (1) international gasoline prices maintained a recent downward trend and (2) the Government decided to reduce the import tax on gasoline from 20% to 10% from 8 August. Specifically, the prices of gasoline E5 RON 92 and gasoline RON 95 dropped another 5.4% in August. Since peaking at the end of June 2022, domestic gasoline prices have fallen by about 25%.

The decrease in domestic petrol prices was the main factor that helped lower inflation in Aug. According to GSO, Vietnam's headline inflation rose 2.9% yoy in Aug 2022 (lower than the level of 3.1% yoy in the previous month). In 8M22, Vietnam's CPI averaged at 2.6%.

On mom basis, Vietnam's CPI stayed flat in Aug (vs. an increase of 0.4% in the previous month), mainly supported by the decline of transportation price index (-5.5% mom) and the slower growth of food & foodstuff price index (down from 1.4% in Jul to 1.1% in Aug). 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 cooled down. Specifically, 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. On the other side, educational items price index (+1.5% mom) and healthcare and pharmaceutical items price index (+0.1% mom) are the only two sub-indexes with higher price increase than the previous month in August.

Consequently, 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. We lower our 2022 average inflation forecast for Vietnam to 3.2% (+/- 0.2 percentage points) from the previous forecast of 3.5% yoy. The adjustment of inflation forecast to reflect the correction trend of global commodity prices in the past few months and the Government's effective inflation control policies have been implemented recently, especially the tax cuts on petroleum products.

Figure 16: Inflationary pressure eased in August 2022

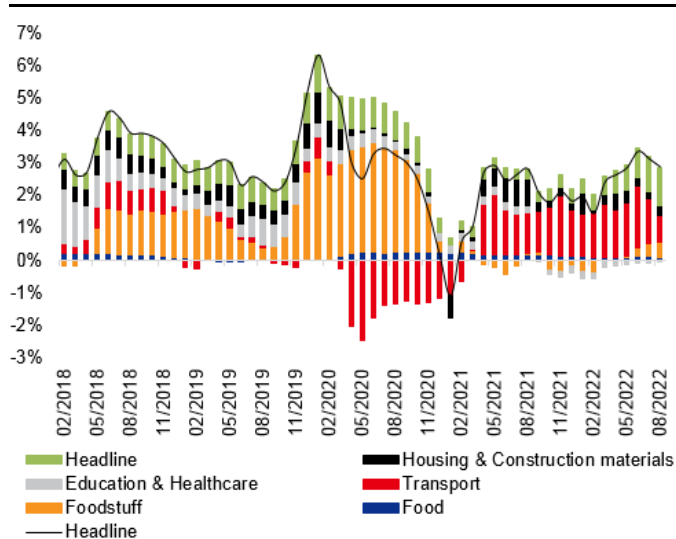
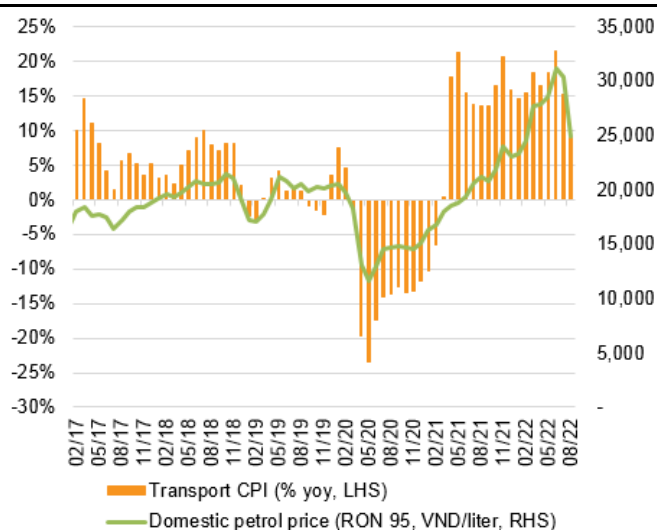


Figure 17: Transportation CPI decelerated due to the decline of domestic petrol price in August 2022



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

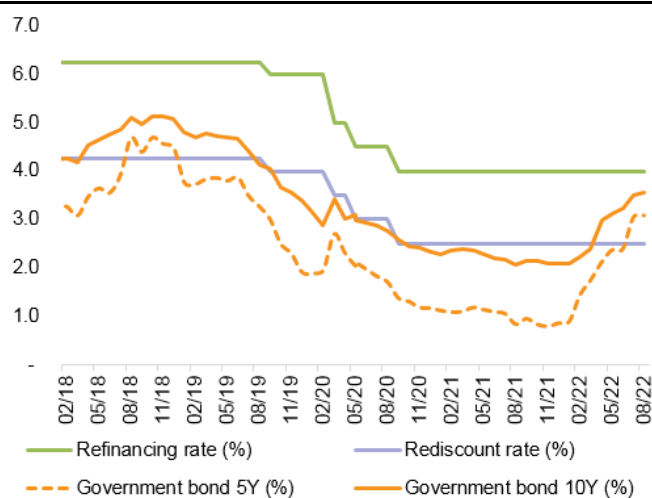
We see limit chance for further credit growth limit increase for this year

According to a representative of the SBV, as of August 26, credit has increased by 9.9% ytd which is the highest increase in the past 5 years and much higher than the increase of 7.9% of 8M21. On September 7, the State Bank of Vietnam (SBV) announced that it has granted additional credit growth quota to a number of commercial banks. Specifically, about 15 banks have been granted additional credit growth quotas in this adjustment with an increase in the range of 0.7-4.0%. We expect about VND279 trillion of loan will be added to the economy in the next 4 months, equivalent about additional 2.7% credit growth.

We believe SBV is prioritising inflation containment and macro stability, and at the same time maintaining low lending rates to support businesses and the recovery of the economy. Thus we see limit chance for further credit growth limit increase for this year.

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. If the SBV raises the policy interest rate in the last months of 2022, the increase will be limited, around 0.25-0.5%.

Figure 18: Policy rate unchanged since 4Q20 (%)



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

Figure 19: Credit growth vs. deposit growth



Source: SBV, VNDIRECT RESEARCH

The 2% interest rate compensation package is behind schedule

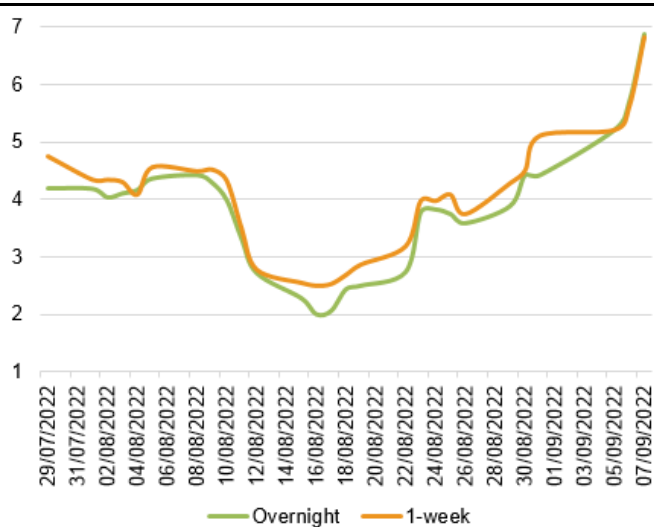
The 2% interest rate compensate package is part of the economic stimulus package under Resolution 43 of the National Assembly and Decree 31 of the Government. The scale of support is up to VND40,000bn, for businesses, cooperatives and business households. There are about 10 main industry groups that will be supported, including aviation; tourism; transportation and warehousing; agriculture, forestry and fishery; and manufacturing. According to the SBV, it is estimated that by the end of August, this package has only disbursed VND13.5bn, equivalent to less than 0.1% of the disbursement plan for 2022. The implementation of the interest compensation package is slower than we expected and we think that it is very difficult to achieve the initial goal of disbursing VND16,000bn on the scale of VND40,000bn in 2022. Therefore, this programme has little impact on the lending interest rate this year.

Interbank interest rates spiked, deposit interest rates kept uptrend in August

Continuing the uptrend in July, interbank interest rates rose further within the period from August to early September. Specifically, the overnight interest rate increased to 6.9% on Sep 7 (the highest level since Sep 2012), plus 270 basis points from the end of July. Interbank interest rates for longer terms (from 1-week to 9-month term) also increased by 56-208 basis points in the period. The sharp increase of interbank interest rates was mainly due to (1) a large amount of dong to be net withdrawn from the banking system as the SBV boosted net withdrawal through bills and foreign currency sales in August, (2) The SBV wants to maintain the VND interest rate higher than the USD interest rate in the interbank market to reduce pressure on the USD/VND exchange rate in the context that the USD continues to strengthen as the Fed maintains the roadmap to increase policy interest rates, (3) capital raising demand increased strongly as the SBV officially raised credit growth quotas for some commercial banks since Sep 2022.

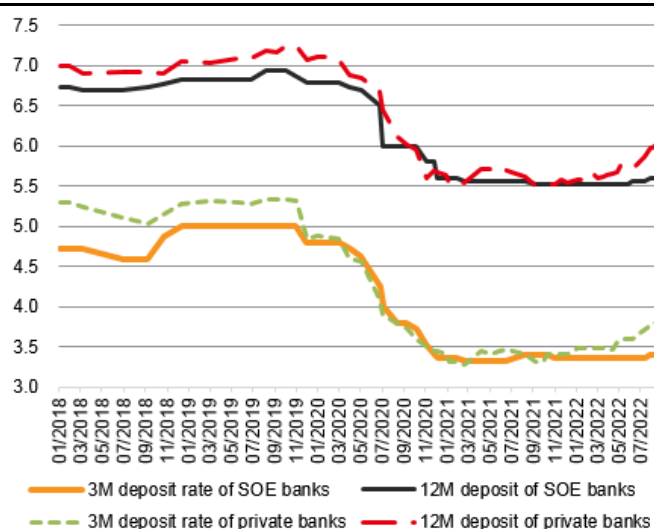
We expect interbank rates to cool down in the coming weeks but hover at a high level of 4-5% for the overnight term. We think the USD could level off or even fall after the Fed's meeting on Sept 20-21 as the recent USD rally may over-reflect the Fed rate hike news. Lower exchange rate pressure along with the supportive actions of the SBV such as the net injection of liquidity into the market in the early sessions of Sep may contribute to cooling down interest rates in the interbank market.

Figure 20: Interbank interest rate surged in Aug 2022 (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 21: Deposit rates edged up higher in Aug (%)

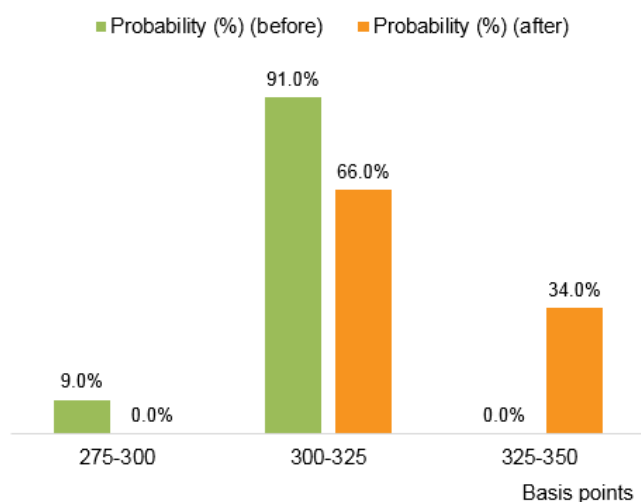


Source: Commercial banks, VNDIRECT RESEARCH

Deposit interest rates continued to increase in August but at a slower pace than the previous month. As of 29 August, 2022, the 3-month term deposit rates and the 12-month term deposit rates of private banks edged up by 4bps (vs. the increase of 16bps in Jul) and 6bps (vs. the increase of 20bps in Jul), 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 40 and 48 basis points, respectively. Meanwhile, the 3-month term deposit rates and the 12-month term deposit rates of state-owned banks stayed flat in Aug. Noted that, the 3-month term deposit rates and the 12-month term deposit rates of state-owned banks inched up by 3 and 7 basis points, respectively, in Jul. Since the beginning of this year, the 3-month term deposit rates and the 12-month term deposit rates of private banks have increased by 3 and 7 basis points, respectively.

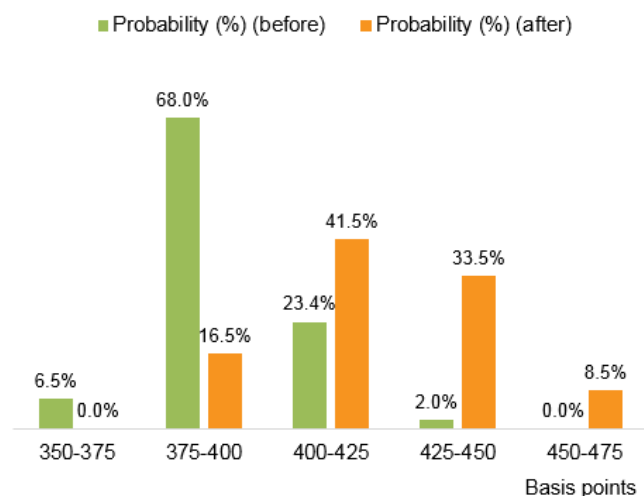
We expect deposit rates to increase further in the coming months due to (1) the SBV has officially granted additional credit growth limits to a number of commercial banks since early September, resulting in an increase in the capital demand of commercial banks, (2) deposit growth was slow in 7M22 (+4.2% ytd, +9.9% yoy) due to less attractive deposit rates compared to other investment channels, (3) FED is expected to raise the policy rate to around 4-4.25% by the end of 2022, (4) 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 22: Changes in Fed funds rate forecast at the September 2022 meeting (after U.S. inflation data is released)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 23: Changes in Fed funds rate forecast at the December 2022 meeting (after U.S. inflation data is released)



Source: BLOOMBERG, VNDIRECT RESEARCH

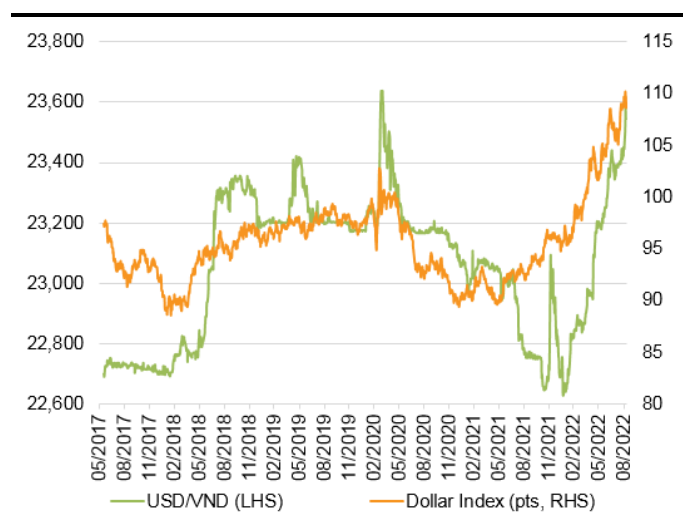
Exchange rate will remain under pressure for the rest of 2022

A strong USD puts pressure on Vietnam's exchange rate. As at 8 Sep 2022, the dollar index (which measures the strength of the US. dollar against a basket of currencies) reached 109.7 points (+14.7% ytd). A strong USD pulls the USD/VND exchange rate in the interbank market up by about 3.1% ytd to VND23,545, the highest level since Mar 2020. Meanwhile, the Vietnam Central bank-set exchange rate for the US\$/VND stood at 23,176, inched up 0.4% compared to the end of Jul 2022 (+0.5% ytd). On the other hand, the US\$/VND exchange rate in the free market slid 0.3% compared to the end of Jul 2022 (+2.5% ytd).

However, compared to regional currencies, the dong is still the most stable one. Since the beginning of 2022 (data as of 8 Sep 2022), most regional currencies have fallen by more than 4% against the US\$, including Philippine Peso (-11.4% vs. US\$), Thai Baht (-9.9% vs. US\$), Chinese Yuan (-9.5% vs. US\$), Malaysia Ringgit (-8.1% vs. US\$), and Indonesian Rupiah (-4.5% vs. US\$).

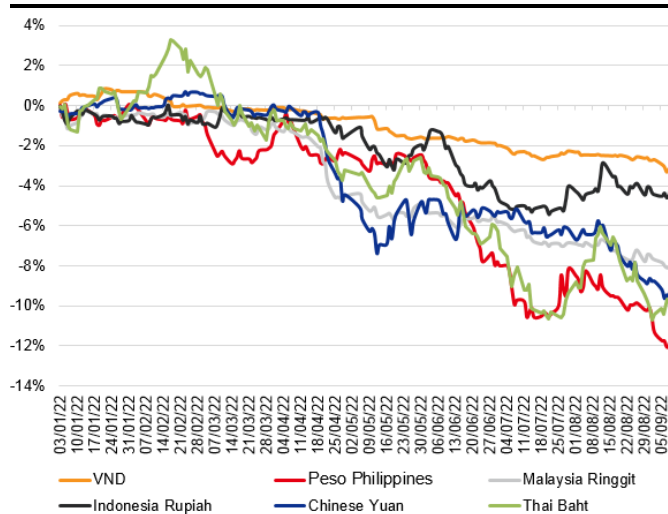
We believe that the exchange rate will continue to be under pressure in the remaining months of 2022 due to the strong USD in the context that the FED continues its roadmap to raise interest rates. However, the exchange rate still has supporting factors, including stronger FDI inflows, improving trade surplus (forecast to reach about USD8.9bn in 2022F), balance of payments surplus, sufficient foreign exchange reserves (equivalent to 3.3 months of imports). Consequently, we forecast the US\$/VND exchange rate to stay within 23,300-23,500 by the end of 2022, corresponding to an increase of no more than 3% compared to the end of 2021.

Figure 24: The Dollar index remained climbed higher in Aug 2022



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 25: Vietnam dong outperformed regional currencies in 8M22 (% YTD)



Source: BLOOMBERG, VNDIRECT RESEARCH

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Stock Ratings

Definition:

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

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

Sector Ratings

Definition:

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

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