Economic Update
19 Oct 2022

ECONOMIC UPDATE

Emerging uncertainties

- GDP rose 13.7% yoy in 3Q22, thus lifting the 9-month GDP growth rate to 8.8% yoy, the strongest 9-month growth rate since 2011.
- We see growing headwinds to mount pressure on SBV to tighten further.
- We forecast Vietnam's GDP growth at 7.9% yoy (+/- 0.2 ppt) in 2022F.

3Q22 GDP growth surged on low base 3Q21

According to the General Statistics Office (GSO), Vietnam's GDP rose 13.7% yoy in 3Q22, largely driven by robust service (+18.7% yoy) and strong industry and construction (+12.9% yoy). For 9M22, Vietnam's economy expanded 8.8% yoy (vs. +1.4% yoy in 9M21), the strongest 9-month growth rate in 12 years.

Headwinds to mount pressure on SBV to tighten further

Vietnam's inflation rose Vietnam's CPI increased by 3.9% yoy in Sep 2022, significantly higher than the previous month's CPI (+2.9% yoy). For 9M22, Vietnam's average CPI rose by 2.7% yoy. On external side, FED is on an aggressive path with a possibility of about 150 basis points hike in the next 6 months. We expect SBV might raise policy interest rates by 50-100 basis points in the next 6 months. Thus, refinancing interest rate and rediscount rate likely climb to 5.5-6.0% and 4-4.5%, respectively in the next hike.

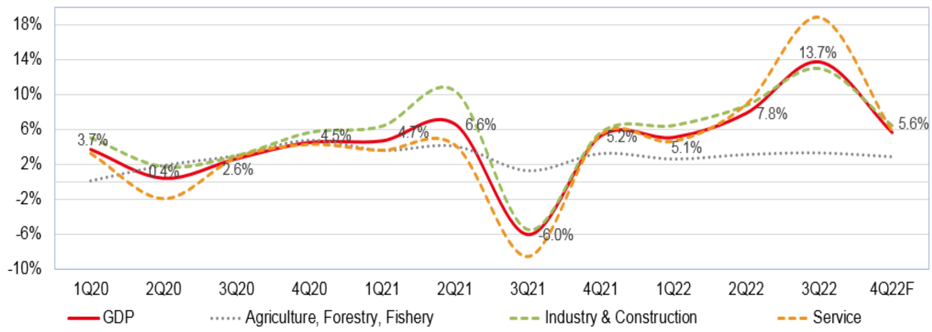
Exchange rate will remain under pressure for the rest of 2022

The State Bank of Vietnam (SBV) has decided to widen the trade band of USD/VND spot exchange rate from +/-3% to +/-5%, effective from Oct 17. Following this, the USD/VND exchange rate climbed to VND24,320 (+6.5% ytd). We consider that the exchange rate will continue to be under pressure as the SBV has less room to support the exchange rate than before (FX reserves fell to US$89bn) if the USD strengthens further in the last months of 2022. We expect the VND would depreciate about 6-8% against the USD in 2022.

Vietnam's strong growth upturn will fade into 4Q22 and 2023

The International Monetary Fund (IMF) warned on their latest report that the global economy could slow down in 2023 with countries accounting for about one-third of the global economy poised to contract by 2022 or 2023. As external headwinds are rising, Vietnam's export growth and foreign direct investment (FDI) inflows could decelerate in the coming quarters. However, there are a number of supporting factors that help Vietnam minimize risk of the economic slowdown, including abundant disbursement public investment and a strong recovery in foreign arrivals. As a result, we expect 5.6% GDP growth for 4Q22F, bringing 2022F growth to 7.9% yoy. For 2023F, we expect Vietnam's GDP to decelerate to 6.9% yoy, still among the fastest growing economies in the region.

Figure 1: We expect Vietnam's GDP to grow by 5.6% yoy (+/-0.5% ppt) in 4Q22F



Source: GSO, VNDIRECT RESEARCH

Analyst(s):

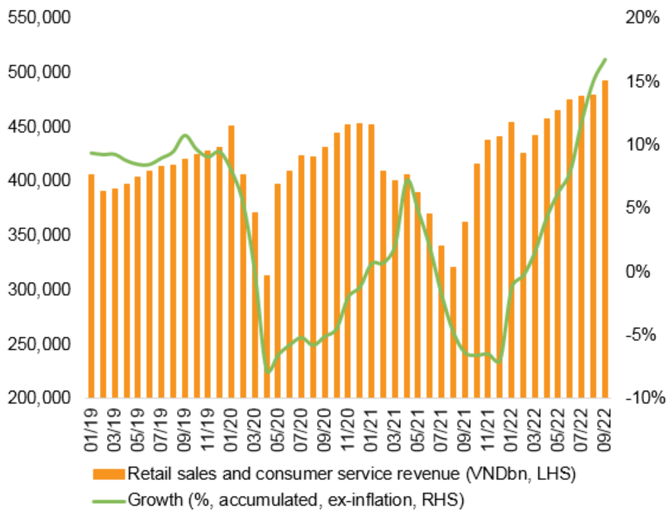
Dinh Quang Hinh
hinh.dinh@vndirect.com.vn

EMERGING UNCERTAINTIES

Vietnam's GDP grew at a remarkable rate of 13.7% yoy in 3Q22

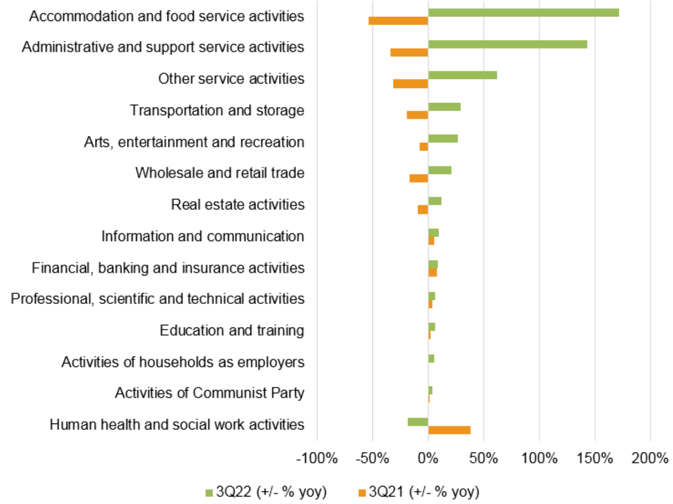
According to the General Statistics Office (GSO), Vietnam's GDP rose 13.7% yoy in 3Q22, the strongest third-quarter growth rate since 2011. Of which, service sector increased the most at 18.7% yoy, while industry and construction sector and agriculture sector expanded by 12.9% yoy and 3.2% yoy, respectively. In 9M22, Vietnam's GDP growth rate climbed to 8.8% yoy (vs. +1.4% yoy in 9M21), the strongest 9-month growth rate in 12 years.

Figure 2: Domestic demand increased steadily in 9M22



Source: GSO, VNDIRECT RESEARCH

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



Source: GSO, VNDIRECT RESEARCH

Service sector rose by 18.7% yoy in 3Q22, the strongest third-quarter growth rate since 2011. The strong improvement of the sector was mostly fueled by:

- Domestic demand increased significantly along with economic recovery. Per GSO data, gross retail sales of consumer goods and services surged 41.7% yoy in 3Q22 (vs. -19.8% in 3Q21). For 9M22, gross retail sales of consumer goods and services increased 20.1% yoy (vs -5.0% yoy in 9M21). If excluding the price factor, this indicator rose 16.8% yoy (that in the same period in 9M21 declined by 6.6% yoy). The growth rate in the first 9 months of 2022 has surpassed the growth rate of the pre-pandemic period, showing that domestic demand is recovering firmly. Thanks to the recovery of domestic consumption, retail sub-sector rose 21.0% yoy in 3Q22 (vs. -17.1% in 3Q21).
- The spectacular recovery of the tourism is the highlight of the service sector this year. According to the General Department of Tourism, the total number of domestic tourists in 9M22 reached 86.8m. In particular, the number of domestic tourists has exceeded the Government's plan of 60m for the whole year of 2022 and even exceed the number of domestic tourist for the whole year of 2019 (pre-pandemic level). Meanwhile, Vietnam welcomed 1.2m international visitors in 3Q22, 48 times higher than the same period in 2021 and double the total number of international visitors in the first 6 months of 2022. In 9M22, international visitors to Vietnam reached nearly 1.9m arrivals, 16.4 times higher than the same period last year but still only equivalent to 15.6% of the pre-pandemic level in 9M19 and only 30% of the 2022 plan. Overall, revenue from tourism reached VND394,200bn in 9M22, up 2.2 times compared to revenue from tourism in the whole of 2021 and equal to 78% compared to the same period in 2019 (pre-pandemic level). As a result, sub-sectors related to tourism saw impressive recovery in 3Q22, including accommodation and food activities

(+171.7% yoy in 3Q22 vs. -54.1% in 3Q21), arts, entertainment and recreation (+26.5% yoy in 3Q22 vs. -7.9% yoy in 3Q21).

- Alongside with the tourism strong recovery, transportation activities also prospered in 3Q22. According to GSO, passengers carried in 3Q22 were estimated at 961.8 million persons (+286.7% yoy) and passenger traffic was 42.6 billion passengers-km (+434.9% yoy). Meanwhile, freight carried in 3Q22 was estimated at 536.1 million tons (+65.5% yoy) and freight traffic was at 115.7 billion tons-km (+63.7% yoy). As a result, transportation and storage rose significantly by 28.8% yoy in 3Q22 (vs. -19.6% yoy in 3Q21).

In addition, the service sector in the first 9 months of 2022 increased by 10.6% yoy, contributing 4.6 percentage points to the growth of 8.8% yoy of the whole economy in the first 9 months of 2022.

Figure 4: Growth of industry and construction sub-sector (% yoy)

		1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22
Industry and construction		5.0%	1.7%	2.9%	5.6%	6.3%	10.4%	-5.5%	5.6%	6.4%	8.7%	12.9%
Industry		5.1%	1.1%	2.3%	4.8%	6.3%	11.2%	-4.4%	6.5%	7.0%	9.5%	12.1%
	Mining	-4.2%	-5.8%	-5.9%	-6.1%	-8.5%	-4.7%	-9.1%	-2.7%	1.1%	4.5%	6.6%
	Manufacturing	7.1%	3.4%	3.9%	8.6%	8.9%	13.4%	-4.1%	8.0%	7.7%	11.1%	13.0%
	Electricity, gas, steam and air conditioning supply	7.5%	-0.1%	4.0%	4.4%	4.3%	12.8%	-2.6%	5.5%	7.1%	4.5%	11.2%
	Water supply, sewerage, waste management and remediation activities	6.7%	1.4%	5.5%	8.3%	5.4%	7.8%	-0.2%	3.6%	6.5%	6.3%	9.1%
Construction		4.4%	4.7%	5.7%	8.6%	6.5%	6.5%	-10.1%	2.1%	3.3%	4.9%	16.6%

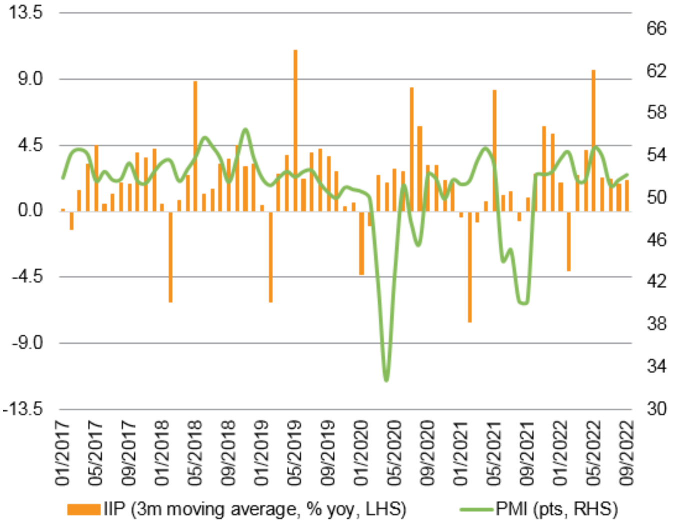
Source: VNDIRECT RESEARCH, GSO, SBV, MOF

Industry and construction sector expanded by 12.9% yoy in 3Q22. The high growth rate of the industry and construction sector in 3Q22 was due to:

- Low base in 3Q21 as industry and construction shrank by 5.5% yoy
- Demand for industrial goods increased significantly due to the recovery of domestic demand and positive export activities. As a result, manufacturing sub-sector grew strongly by 13.0% yoy in 3Q22 (vs. a decline of 4.1% yoy in 3Q21).
- Accelerating public investment in recent months has underpinned the growth momentum of the construction sub-sector in 3Q22 (+16.6% yoy in 3Q22 vs +4.9% yoy in 2Q22 and -10.1% in 3Q21).

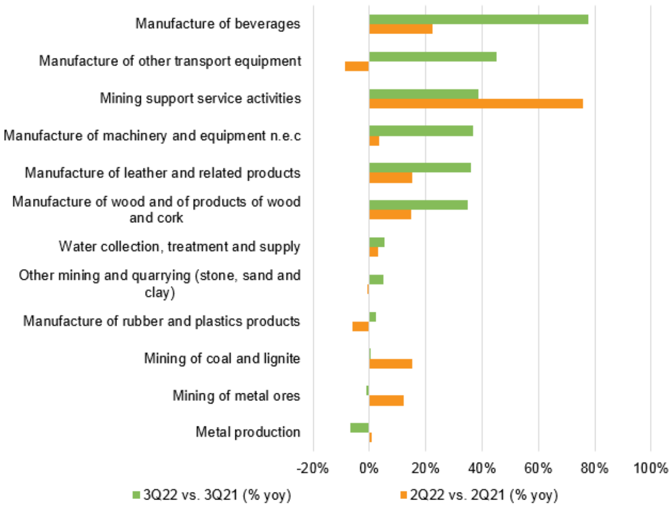
In 9M22, industry and construction sector expanded 9.4%, contributing 3.5 percentage points to the growth of 8.8% yoy of the whole economy in the first 9 months of 2022. All sub-sector recorded strong year-on-year growth rate in this period, including manufacturing (+10.7% yoy in 9M22 vs. +6.1% yoy in 9M21); electricity, gas, steam and air conditioning (+7.7% yoy in 9M22 vs. +5.2% yoy in 9M21); water supply, sewerage, waste management (+7.0% yoy in 9M22 vs. 4.1% yoy in 9M21); mining (+4.4% yoy in 9M22 vs. -7.2% yoy in 9M21); and construction (+8.6% yoy in 9M22 vs. -0.6% yoy in 9M21).

Figure 5: Vietnam's PMI climbed to 52.2pts in Sep 2022



Source: GSO, VNDIRECT RESEARCH

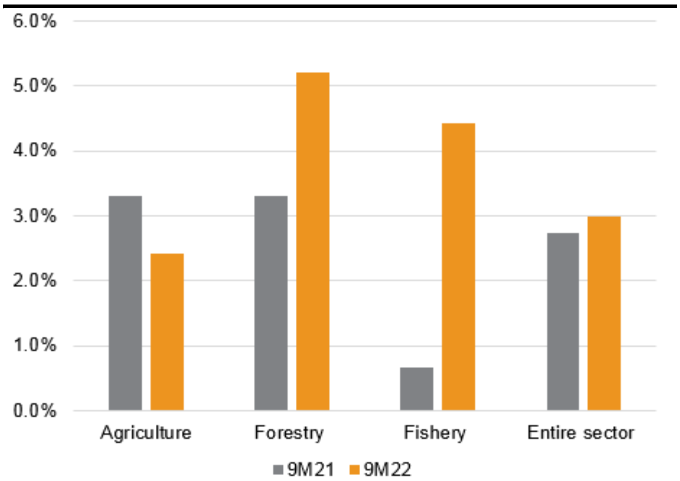
Figure 6: Industrial production index (IIP) by category



Source: GSO, VNDIRECT RESEARCH

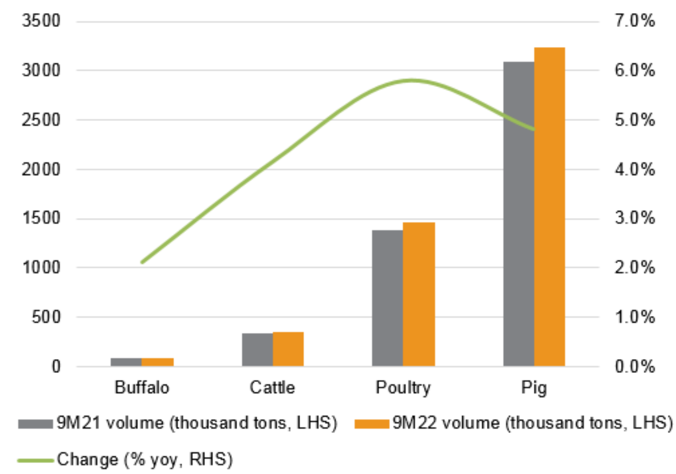
Agriculture, forestry and fishery sector grew 3.2% yoy in 3Q22, improving from the low base level of 1.2% yoy in 3Q21. Specifically, both the forestry and fishery sectors recorded higher growth rates of 5.6% and 4.9% respectively in 3Q22 thanks to high export demand. On the contrary, agriculture growth rate lowered to 2.5% yoy in 3Q22 from a level of 2.7% yoy in 3Q21. 3Q22 positive performance has lifted the growth rate of agriculture, forestry and fishery sector to 3.0% yoy in 9M22 (vs. 2.7% yoy in 9M21). The agriculture, forestry and fishery sector contributed 0.3 percentage points to the growth of 8.8% yoy of the whole economy in the first 9 months of 2022

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



Source: GSO, VNDIRECT RESEARCH

Figure 8: Main product of livestock

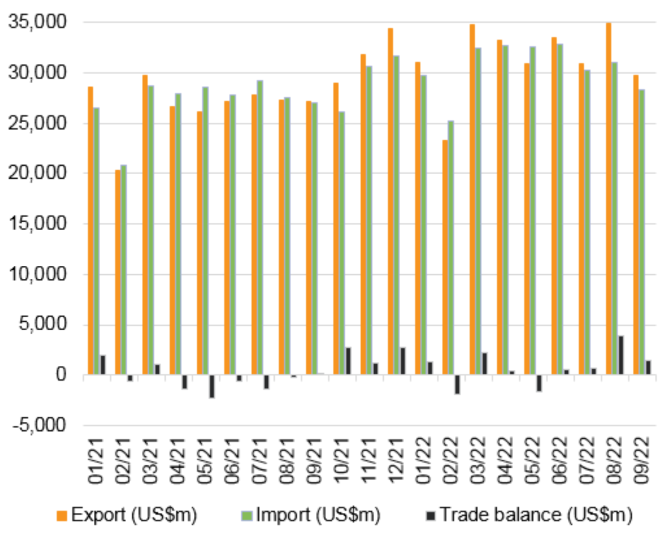


Source: GSO, VNDIRECT RESEARCH

Export growth to decelerate under the shadow of global recession

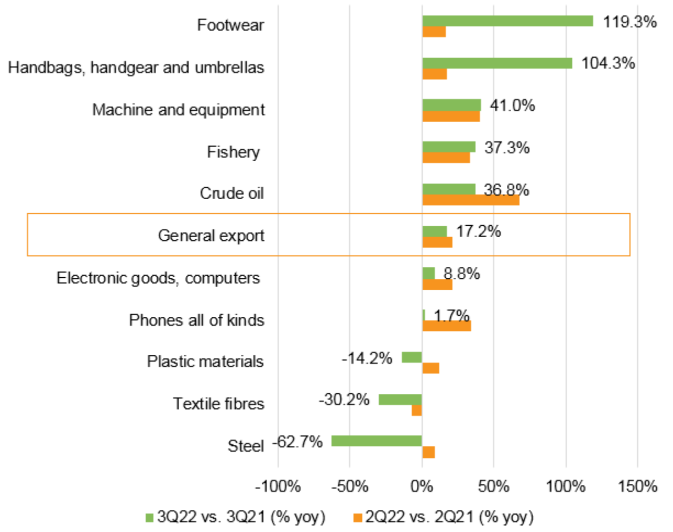
According to GSO, export value rose 9.9% yoy (-14.6% mom) to US$29.8bn in Sep 2022. In which, exports of domestic enterprises edged down by 1.6% yoy (-19.1% mom) while exports of FDI enterprises increased by 14.1 yoy (-13.1% mom). Lower demand in developed markets due to tight monetary policies of central banks was the main reason for Vietnam's exports to decelerate in this month. Some items that witnessed a sharp drop in export value in Sep included phones and components (-12.3% yoy), iron and steel (-69.3% yoy), clinker and cement (-54.9% yoy), plastic materials (-37.7% yoy), gasoline (-36.7% yoy) and crude oil (-11.6% yoy). On the positive side, many export products still maintain positive growth, led by footwear (+163.9% yoy), hand bags, wallets and suitcases (+153.6% yoy), fertilizers (+152.4%) and coal (+109.3% yoy). We maintain our view that export growth will decelerate in 4Q22 due to weaker external demand and forecast a 14% yoy growth in exports for 2022.

Figure 9: Import-Export growth to decelerate in Sep 2022



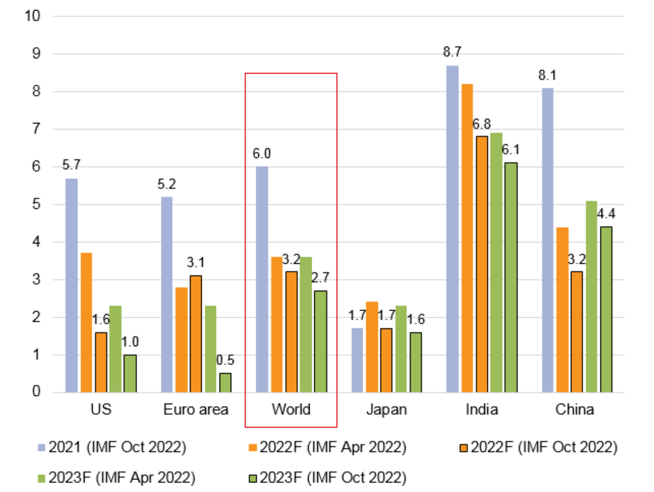
Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 10: Export growth by category in 3Q22 (% yoy)



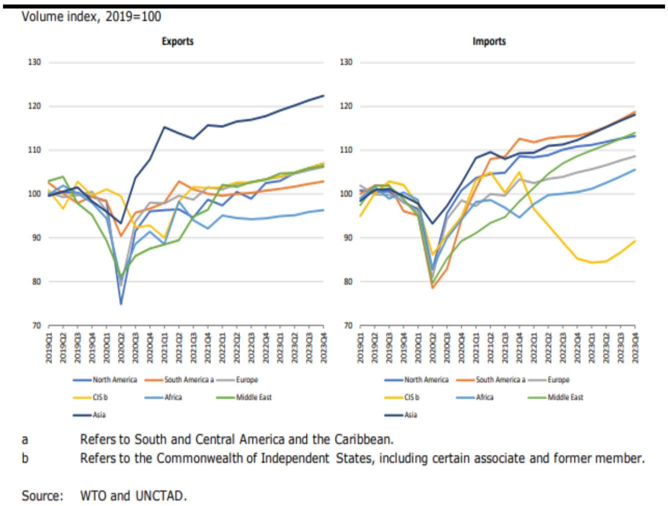
Source: GSO, VNDIRECT RESEARCH

Figure 11: Growth in major economies are expected to slow down in 2022-2023 period



Source: GSO, MPI, VNDIRECT RESEARCH

Figure 12: Global trade forecast



Source: GSO, MPI, VNDIRECT RESEARCH

As for imports, Vietnam's import spending reached US$28.4bn in Sep 2022 (+4.9% yoy, -8.6% mom). Among Vietnam's import products, the items that witnessed the strongest import growth rates in Sep include gasoline (+223.8% yoy), automobiles (+87.8% yoy), motorcycle parts and accessories (+85.1% yoy), domestic electrical appliances and component (+82.6% yoy) and fertilizers (+37.6% yoy).

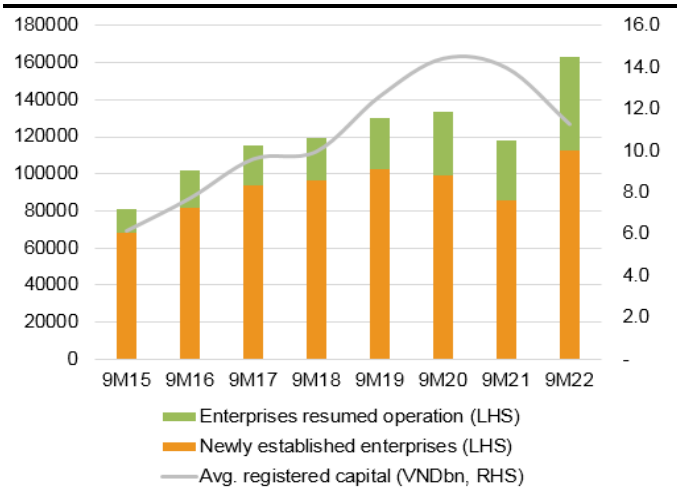
Regarding to trade balance, Vietnam recorded trade surplus of US$1.3bn in Sep. For 9M22, Vietnam had a trade surplus of US$6.8bn, this figure was improved compared to the trade deficit of US$3.4bn in 9M21. For the full year of 2022, we expect Vietnam's trade balance to reach US$8.6bn, improving from last year's trade balance of US$3.3bn.

Enterprises are optimistic about business prospects in 4Q22

Business environment flourished in 3Q22:

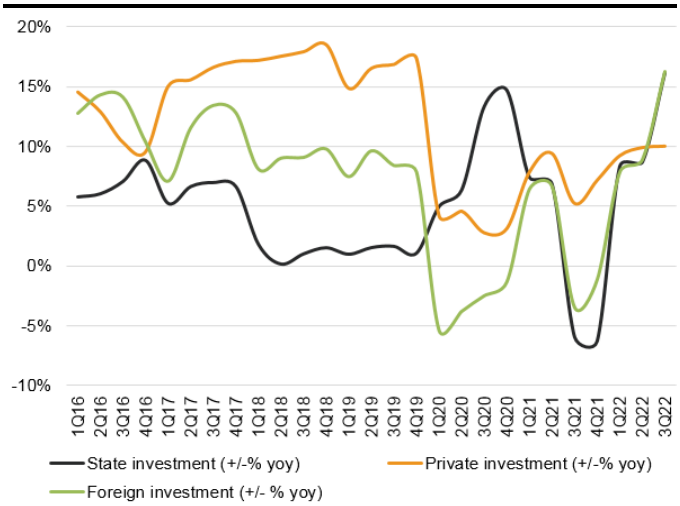
- The number of newly established enterprises and enterprises resumed operation increased significantly in 3Q22. Specifically, the country had 36,558 newly registered enterprises (+98.7% yoy). In addition, 13,901 enterprises resumed operations (+14.6% yoy) in 3Q22, bringing the total number of newly-established enterprises and re-operated enterprises in 9M22 to 163,300 enterprises (+38.6% yoy).
- Private investment capital increased steadily. The investment capital of the private sector reached VND491.2tr in 3Q22 (+19.1% mom), accounting for 58.9% of the total social investment capital and increasing by 11.0% compared to the same period last year (higher than the growth rate of 9.5% in 2Q22). For 9M22, the investment capital of the private sector reached VND1,227.1tr (+10.0% yoy).

Figure 13: The number of newly established enterprises and enterprises resumed operation increased sharply in 9M22



Source: GSO, VNDIRECT RESEARCH

Figure 14: Private investment capital increased steadily



Source: GSO, VNDIRECT RESEARCH

Vietnamese enterprises optimistic about business prospects in 4Q22: a business trend survey showed that up to 82.6% of the surveyed enterprises thought that the business prospects in 4Q22 would be better or stable compared to the previous quarter, while only 17.4% viewed the situation as more difficult than in the 3Q22. These figures are better than the rates seen in 3Q22 when only 74.6% of enterprises said that the business results in 3Q22 were better or stable compared to the previous quarter, while 25.4% of enterprises believed the 2Q22 business environment was more difficult than the previous quarter.

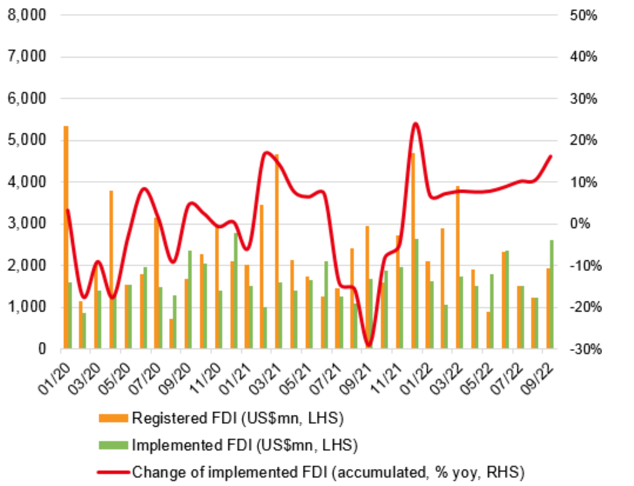
Implemented FDI remained positive, new FDI declined

According to the Ministry of Planning and Investment (MPI), the implemented capital of FDI projects rose 55.4% yoy to US$2.6bn in Sep, thus lifting the implemented capital of FDI projects in 9M22 to US$15.4bn, increasing 16.2% yoy (vs. a 3.7% decline in 9M21). Meanwhile, registered capital of FDI projects dropped 35.1% yoy to US$1.9bn in Sep. For 9M22, registered capital of FDI projects declined 15.3% yoy to US$18.7bn.

To be more specific, 1,355 (+11.8% yoy) newly licensed projects in 9M22 with a registered capital of US$7.1bn, a decline of 43.0% in terms of registered capital compared to the same period in 2021; 769 projects (+13.4% yoy) licensed in the previous years approved to adjust investment capital (incremental FDI) with a total additional capital of US$8.3bn (+29.9% yoy); 2,697 (-4.7% yoy) turns of capital contribution and share purchases of foreign investors with a total value of the capital contribution of US$3.3bn (+1.9% yoy).

The decrease of registered FDI in 9M22 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.

Figure 15: Implemented FDI rose 16.2% yoy in 9M22



Source: GSO, MPI, VNDIRECT RESEARCH

Figure 16: List of major FDI projects in 9M22

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

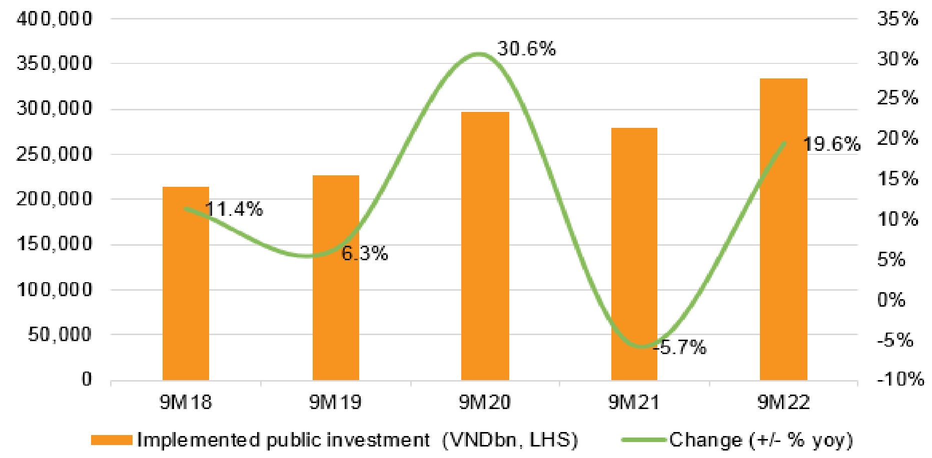
However, we believe that the decline in registered FDI inflows into Vietnam will not last long and is expected to recover from 2023. We believe that Vietnam possesses outstanding advantages compared to its competitors to attract international FDI inflows in the near future, including competitive labour 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.

Public investment on the right track in Sep

According to GSO, the implemented state capital (public investment) in Sep rose 7% mom (+45% yoy) to VND50.3tr. For 9M22, implemented state capital rose 19.6% yoy to VND334.5tr (higher than the decline of 5.7% yoy seen in 9M21), equivalent to 58.7% of the full-year target.

Figure 17: The implemented state capital (public investment) jumped 19.6% yoy in 9M22



Source: GSO, VNDIRECT RESEARCH

For entire-2022, 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 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. We believe that the implementation of public investment will continue to accelerate and become an important growth driver of Vietnam's economy in 2023. Public investment would be supported by the following factors: (1) site clearance for major projects has been basically completed, (2) lower price of construction materials helps improve profit margins of construction enterprises, (3) abundant budget for public investment and (4) the Government's determination to fulfill the medium-term public investment target.

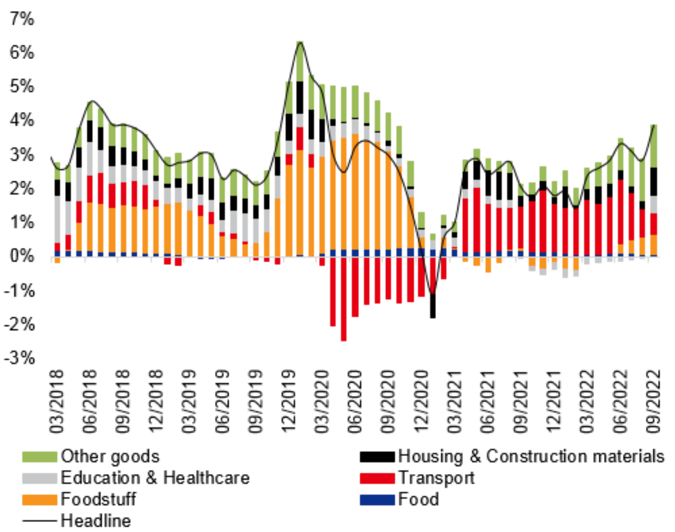
Figure 18: Progress of key transport infrastructure projects in the period of 2021 - 2026

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

Source: VNDIRECT RESEARCH

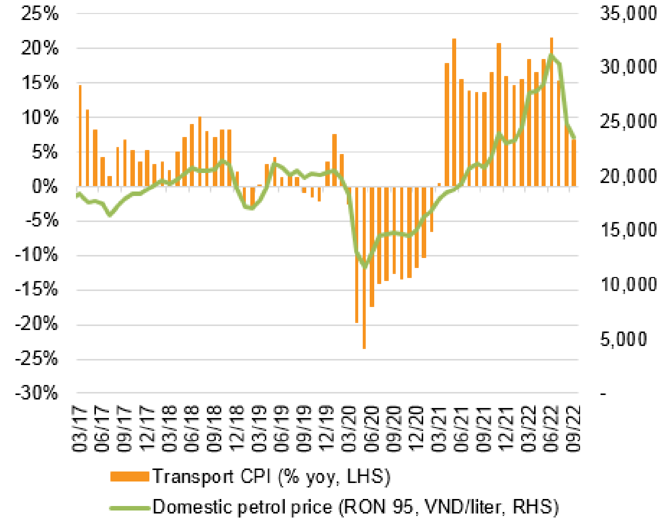
Rising inflationary pressure due to higher tuition fees

Figure 19: Inflationary pressure eased in September 2022



Source: GSO, VNDIRECT RESEARCH

Figure 20: Transportation CPI decelerated due to the decline of domestic petrol price



Source: GSO, VNDIRECT RESEARCH

On mom basis, Vietnam's CPI rose strongly by 0.4%, mainly due to the increase of some essential goods and services. Specifically, some localities announced to increase tuition fees next school year, causing the consumer price index (CPI) of educational items to rise sharply by 5.8% mom. Moreover, the household appliance price index increased by 0.9% mom (vs. 0.3% mom in Sep 2022). In contrast, the food and foodstuff price index rose more slowly with a 0.2% increase in Sep (vs. +1.1% in the previous month) as pork prices fell significantly by 7.8% mom in Sep 2022.

On a yoy basis, Vietnam's CPI increased by 3.9% yoy in Sep 2022, significantly higher than the previous month's CPI (+2.9% yoy). For 9M22, Vietnam's average CPI rose by 2.7% yoy.

We expect headline inflation to climbed higher in the fourth quarter of 2022 following the increase of essential goods and services such as accommodation & construction materials, gasoline and tuition fees. We forecast Vietnam's CPI to average at 4.0-4.5% yoy in 4Q22F. 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. Consequences, we keep unchanged our forecast of the 2022F average headline inflation increase of 3.2% yoy (+/- 0.2 percentage points). For 2023, we forecast average headline inflation at 3.6% yoy.

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

According to General Department of Taxation, state budget revenue in 9M22 is estimated at VND1.3m billion, reaching 94% of the full-year target and increasing by 22.0% over the same period in 2021. Specifically, state budget revenue from domestic in 9M22 was VND1.0m billion, reaching 89% of the full-year target and rising by 18.8% yoy. In addition, state budget revenue from import and export activities reached VND216,500bn in 9M22, equaling 108.8% of the full-year plan and increasing 22.1% over the same period last year. Meanwhile, state budget revenue from crude oil was estimated at VND60,000bn (+103.5% yoy), reaching 213.0% of the full-year plan.

On the other side, state expenditure grew slowly by 5.4% to VND1.1m billion, reaching 60.9% 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 VND241,000bn in 9M22. 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, VND55,500bn 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.

Vietnam's strong growth upturn will fade into 4Q22 and 2023

Growing fears over global growth recession

We are concerned that high inflationary pressures, tighter global financial conditions and supply chain disruptions could dampen growth prospects for the global economy. Specifically, 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. Therefore, the US Federal Reserve (Fed) has lowered its forecast for US economic growth to 1.2% in 2023, from the previous forecast of 1.7% and said that "the probability of a soft landing is increasingly difficult to achieve". Vietnam's other major trading partners such as Europe and China also face dismal economic growth forecasts in 2022-2023 period. The IMF warned in its latest report that the global economy could slow down in 2023 with countries making up about a third of the global economy poised to contract by 2022 or 2023. Accordingly, the IMF lowered the global GDP growth in 2023 to 2.7% from the previous forecast of 3.2%, of which the GDP growth of the Euro Area in 2023 was reduced to 0.5 % from the previous 1.2%. To be more specific, the IMF projected that the German and Italian economies could fall into recession in 2023 with GDP growth of -0.3% and -0.2% respectively. Meanwhile, the IMF downgraded its growth forecast for the China's economy in 2023 to 4.4% from the previous forecast of 4.6%.

Vietnam's strong growth upturn will fade into 4Q22 and 2023

We maintain our view that Vietnam's GDP growth peaked in 3Q22 and will slow down in the fourth quarter of this year as global demand and re-openings spectrum fade. Accordingly, we remain our forecast that Vietnam's GDP could grow by 5.6% (+/-0.5 ppt) yoy in 4Q22F, bringing the entire-2022 growth to 7.9% yoy (+/- 0.2 ppt).

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 and a strong recovery in foreign arrivals. Overall, Vietnam will still be one of the fastest growing countries in the Asia-Pacific region in 2022-2023 period.

Figure 21: 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	7.9	6.9
Export growth	% yoy	13.3	8.4	6.5	18.9	14.0	9.5
Import growth	% yoy	11.8	6.9	3.6	26.7	12.5	9.4
Trade balance	USD bn	6.9	10.9	18.9	3.3	8.6	10.0
Current account balance	USD bn	5.8	12.8	12.7	-7.2	-5.0	1.6
Current account to GDP	% of GDP	1.9	3.8	3.7	-2.0	-1.3	0.4
FX reserves	USD bn	55	78	95	109	91	106
FX to GDP	% of GDP	17.9	23.8	27.8	29.7	24.0	24.9
Import coverage	months	2.8	3.7	4.3	3.9	2.9	3.1
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.2	3.6
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	128.1	132.2
M2 growth	% ytd	12.4	14.8	14.7	10.7	8.3	11.0
Refinancing rate	%	6.3	6.0	4.0	4.0	5.5-6.0	5.5-6.0
12M deposite interest rate (year-end)	%	6.9	7.0	5.6	5.6	6.6	7.1
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	5.0	5.0
Exchange rate (USD/VND)	% yoy	1.8	1.4	-0.3	-1.2	7.0	-1.5
Fiscal balance	% of GDP	2.2	2.7	3.4	4.1	4.2	3.8
Public debt	% of GDP	46.6	43.4	44.5	44.1	46.8	44.8

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

However, **we see a number of risks to the Vietnam's economy in the coming months**, including:

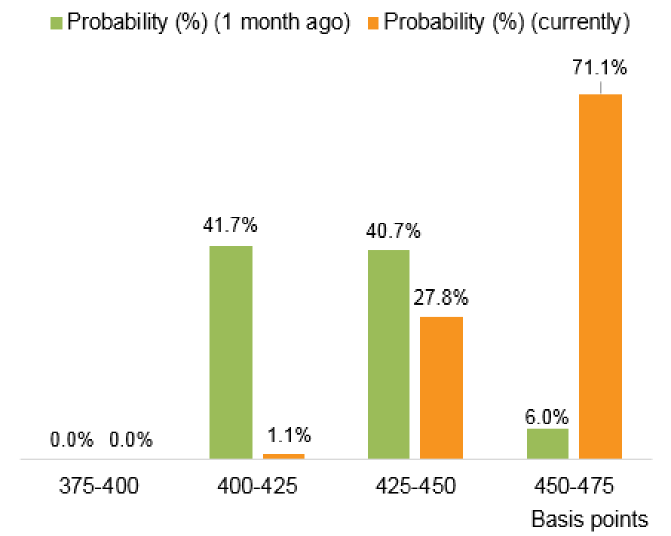
- The Fed and ECB will maintain tight monetary policy to control inflation. This will push interest rates higher in the future, thereby reducing consumer demand, tightening the job market and slowing the economic growth in the US and Europe. Lower demand in the US and Europe will have a negative impact 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.

Headwinds to mount pressure on SBV to tighten further

The Fed gave a "hawkish" view on tightening monetary policy at its Sep meeting

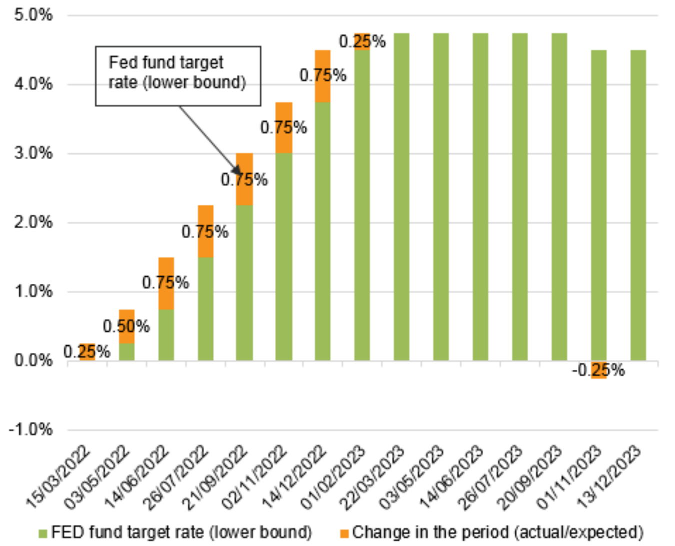
At its last meeting on Sep 20-21, the Federal Open Market Committee (FOMC) raised the fund rate by 75 bps and notably targeted to hike to 4.25-4.5% by the end of 2022 and 4.5-4.75% at the end of 2023. Accordingly, the Fed lowered its forecast for US economic growth to 1.2% in 2023, from the previous forecast of 1.7% and said that "the probability of a soft landing is increasingly difficult to achieve". The Fed also forecast that the unemployment rate could rise to 3.8% by the end of 2022 and 4.4% by the end of 2023 from the current level of 3.7%. Although anticipating negative impacts on the economy caused by tight monetary policy, the FED still clearly expressed the view that price stability and inflation control are the top priority targets at present.

Figure 22: Market's predictions for the Fed funds target rate in Dec 2022



Source: FED

Figure 23: Market predicts that Fed won't cut its policy rate until 4Q23



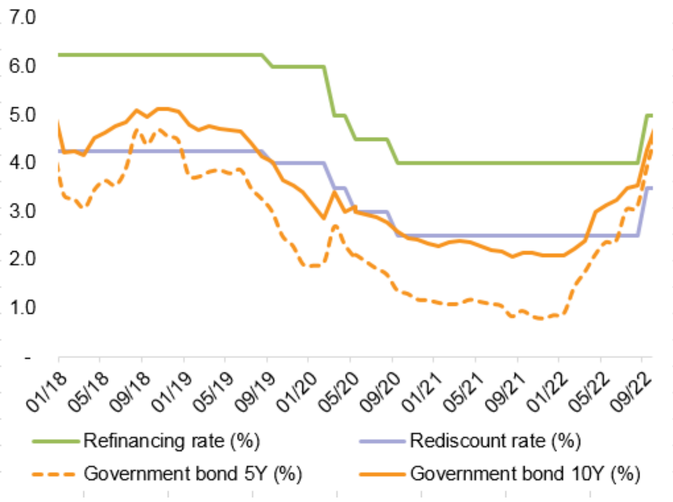
Source: CME Group, VNDIRECT RESEARCH

The SBV could have another policy interest rate hike in the next 6 months

Following the last Fed rate hike, the State Bank of Vietnam (SBV) decided to raise its policy rates by 100 basis points, effective from September 23, 2022. Specifically, the refinancing rate will be raise to 5.0% from 4.0% previously and the rediscount rate to 3.5% from 2.5% previously, as announced by the SBV. In addition, the interbank overnight lending rate cap will be raise to 6.0% from 5.0% previously and the ceiling interest rates for deposits with terms from 1 month to less than 6 months will be raise to 5.0%. We believe that this SBV's rate hike is aimed at supporting the VND exchange rate and curbing the rise of domestic inflation. Since the beginning of 2022, the increase in Vietnam's policy interest rates has been slightly higher than that of some countries in the Southeast Asia (figure below).

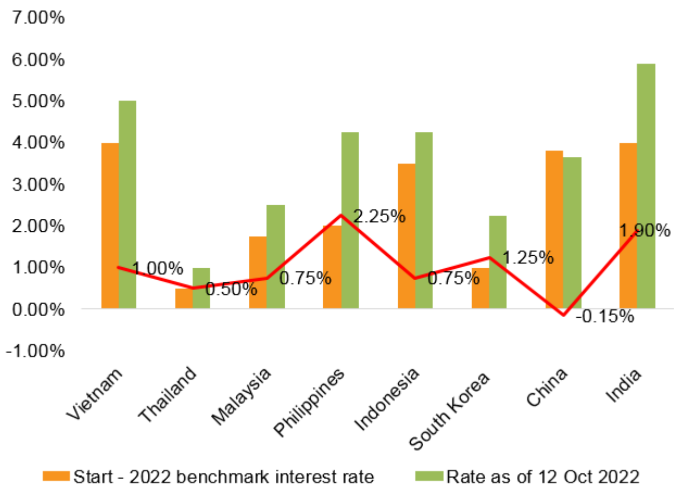
We believe that the SBV could raise its policy interest rates by 50-100 basis points in the next 6 months (1) the FED plans to raise fed fund rate by about 150 basis points in the next 6 months, (2) the USD could strengthen against other currencies as the Fed maintains a tight monetary policy that puts pressure on the VND exchange rate, (3) the interest rate hike could support the inflation containment. We forecast that the refinancing interest rate could increase to 5.5-6.0% and the rediscount rate to 4-4.5% in the next rate hike.

Figure 24: The SBV decided to raise its policy rates by 100 basis points (%)



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

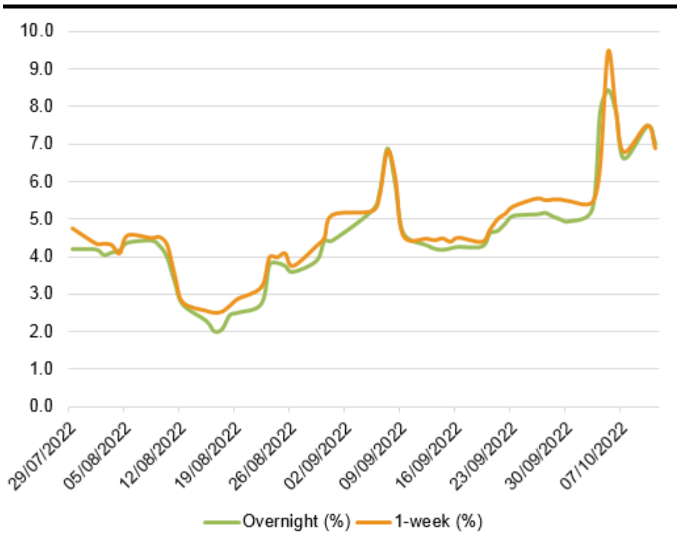
Figure 25: Changes in policy rates of central banks in Asia since the beginning of 2022



Source: SBV, VNDIRECT RESEARCH

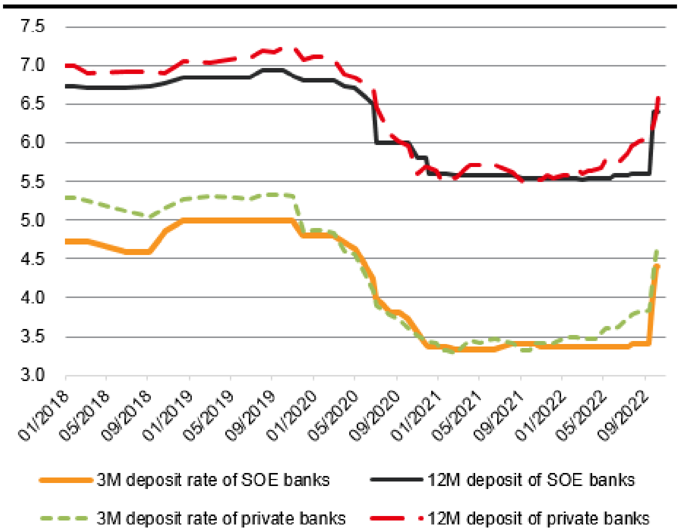
Interbank interest rates surged amid the liquidity constraints

Figure 26: Interbank interest rate rose significantly since early-Oct 2022 (%)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 27: Commercial banks quickly increased the VND deposit rates after SBV's rate hike (%)



Source: Commercial banks, VNDIRECT RESEARCH

Interbank rates have risen sharply in recent weeks and overnight and 1-week rates peaked at 8.4%/year and 9.5%/year on October 5. Thus, from the beginning of Sep 2022, overnight interest rates and 1-week terms have increased sharply to 4.0 and 4.4 percentage points (pts). The sharp increase of interbank interest rates was mainly due to (1) capital raising demand increased strongly as the SBV officially raised credit growth quotas for some commercial banks since Sep 2022, (2) large gap between deposit growth and credit growth since the beginning of 2022, (3) after the Van Thinh Phat incident, some banks faced the risk of short-term liquidity shortage. Immediately after that, the State Bank took measures to support liquidity for the banking system through continuous net injection into the banking system, amounting to more than VND20,000bn/session per day. Thanks to support of the SBV, the OMO interest rate dropped sharply to 5%/year from 6.3-6.9%/year, the overnight interbank market rate also dropped to 7.0%/year on Oct 11. However, we think overnight rates are unlikely to fall to the lows seen earlier this year and stay above 5% p.a. as the Fed maintains its rate hike cycle until 1Q23F.

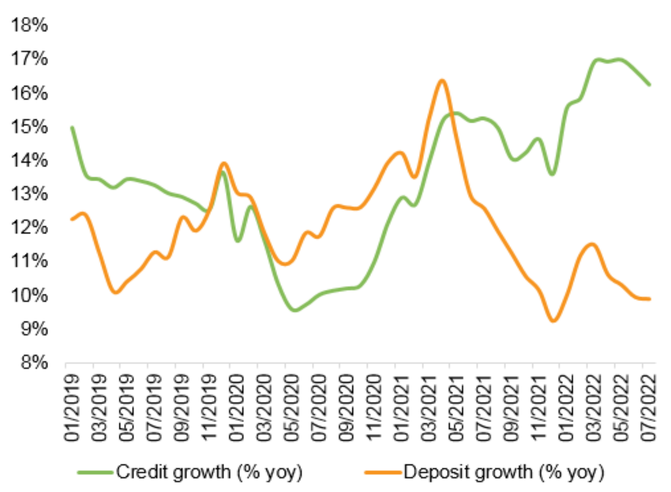
Deposit rates are expected to increase for the rest of 2022 and the following year

After SBV lifted its policy rates by 100 basis points on Sep 23, commercial banks quickly increased the VND deposit rates. Four state-owned banks (VCB, Vietinbank, Agribank and BIDV) have lifted 3M deposit rate to 4.4% (+1.03pts ytd) and 12M deposit rate to 6.4% (+0.87pts ytd). Regarding to private banks, 3M deposit rates averaged at 4.7% (+120pts ytd) while average 12M deposit rates climbed to 6.6% (+102pts ytd).

We expect deposit rates to increase further in the coming months due to (1) the impact of the SBV's rate hikes, (2) 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, (3) deposit growth was slow in 7M22 (+4.2% ytd, +9.9% yoy) due to less attractive deposit rates compared to other investment channels, (4) FED is expected to raise the policy rate to around 4.5% by the end of 2022, (5) strong USD put pressure on Vietnam's exchange rates and interest rates. We expect deposit rates to increase further towards year-end 2022. We see the 12-month deposit rates of commercial bank could climb to 6.5-6.7%/year (on average) at the year-end of 2022. For 2023, we expect the deposit rates to increase further by 50 basis points, whereby the 12-month deposit rate of commercial banks will increase to 7.0-7.2%/year (on average) by the end of 2023.

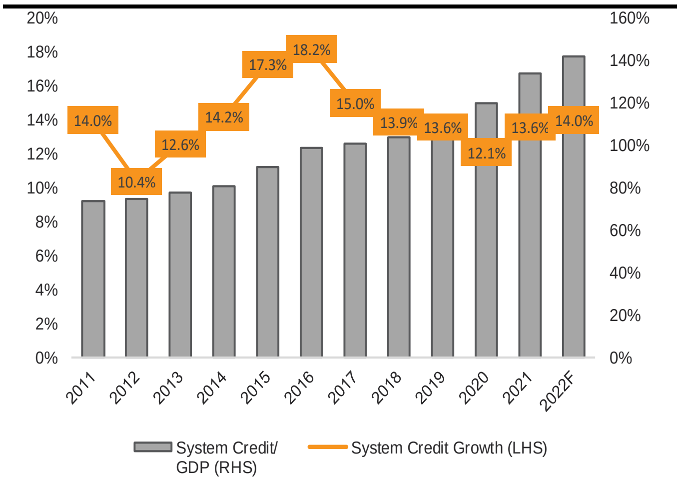
It is necessary to promote the implementation of the 2% interest rate support package for businesses to stabilize the lending interest rate

Figure 28: Credit growth vs. deposit growth (%)



Source: BLOOMBERG, SBV, VNDIRECT RESEARCH

Figure 29: We forecast system credit to grow 14% in FY22F



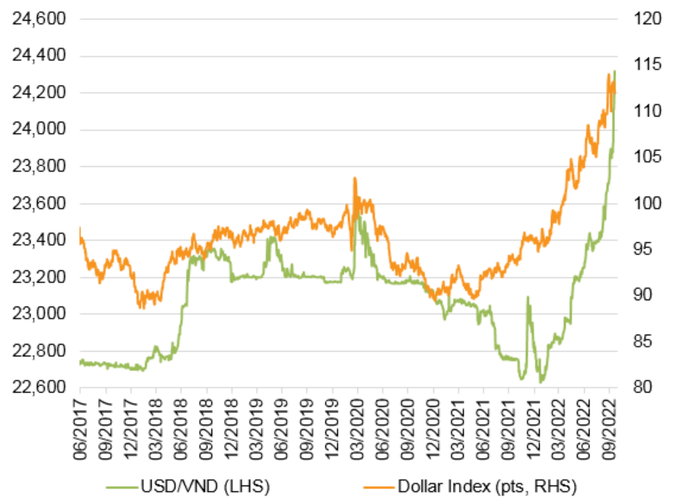
Source: SBV, VNDIRECT RESEARCH

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.

We believe that the 2% interest rate compensate package needs to be implemented faster to help curb the increase in lending rates to support businesses. This is absolutely necessary in the context that policy interest rates and deposit rates could climb higher in the coming quarter, putting great pressure on lending interest rates. If implemented well, the 2% interest rate compensate package can help reduce lending rates by an average of 20-40 basis points and partially offset the increase in lending rates due to pressure from increasing deposit rates. We forecast lending interest rates could increase slightly in the last months of 2022 before rising deposit interest rate pulling lending interest rates up 60-80 basis points (on average) in 2023.

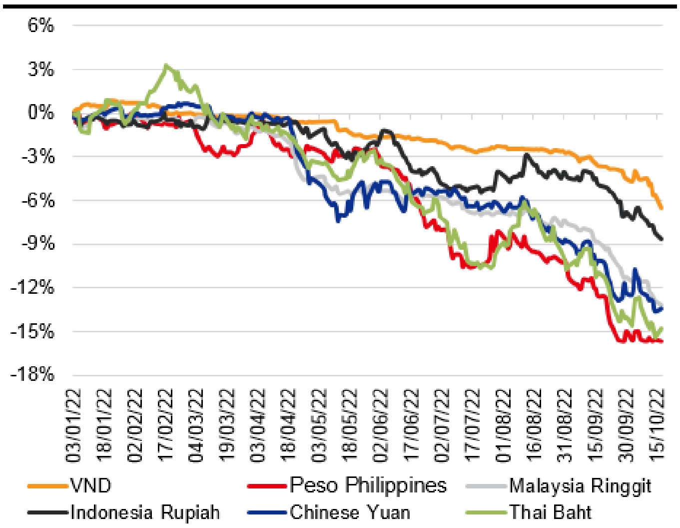
Exchange rate will remain under pressure for the rest of 2022

Figure 30: The Dollar index remained climbed higher in Sep 2022



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 31: Vietnam dong outperformed regional currencies in 9M22 (% YTD)



Source: BLOOMBERG, VNDIRECT RESEARCH

The State Bank of Vietnam (SBV) has decided to widen the trade band of USD/VND spot exchange rate from +/-3% to +/-5%, effective from October 17. Following this, the US$/VND exchange rate in the interbank market climbed to VND24,320 (+6.5% ytd) on 17 Oct. Meanwhile, the Vietnam Central bank-set exchange rate for the US$/VND stood at 23,586, inched up 1.1% mom (+2.0% yoy) while the US$/VND exchange rate in the free market edged up 1.3% compared to the end of Aug 2022 (+4.0% ytd).

However, compared to regional currencies, the dong is still the most stable one. Since the beginning of 2022 (data as of 17 Oct 2022), most regional currencies have fallen by more than 8% against the US$, including Philippine Peso (-15.7% vs. US$), Thai Baht (-14.8% vs. US$), Chinese Yuan (-13.4% vs. US$), Malaysia Ringgit (-13.2% vs. US$), and Indonesian Rupiah (-8.6% vs. US$).

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. Besides, the State Bank also had to sell a part of foreign exchange reserves to stabilize the exchange rate. According to our estimates, foreign exchange reserves have now fallen to around 3.0 months of imports (~US$89bn) from the previous level of 3.9 months at year-end 2021. Therefore, we consider that the SBV has less room to support the exchange rate than before if the USD strengthens further in the last months of 2022. Consequences, we expect that the VND would depreciate about 6-8% against the USD in 2022 (from a previous forecast of 4%)

For 2023, we expect the pressure on Vietnam's exchange rate to cool down considerably and we expect the Vietnamese Dong to appreciate 1-2% against the USD in 2023 due to (1) a shift from "tightening monetary policy" to "normalization" by the Fed next year, (2) a slight decline of USD interest rate in the second half of 2023, (3) an increase in VND interest rates in 2023, (4) strong buffers from higher trade surplus and balance account payment.

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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.

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