Economic Update

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Lower 2023F GDP forecast following the weak 1Q performance

- Vietnam's 1Q23 GDP rose 3.3% yoy, the second lowest first-quarter growth since 2011 due to contraction in manufacturing activity.
- The State bank of Vietnam (SBV) cut its policy rates twice in Mar-23.
- We revise down our 2023F GDP growth forecast to 5.5% in our baseline scenario (from 6.2% previously).

1Q23 GDP missed our expectations due to growing external headwinds

According to General Statistics Office (GSO), GDP rose 3.3% yoy in 1Q23 (vs. our forecast of 5.6%), the second slowest 1Q growth rate since 2011, largely driven by strong service growth (+6.8% yoy). Actual growth was lower than 4Q22 growth rate of 5.9% and our 1Q23 forecast of 5.6%, reflecting the weakening in exports and industrial production in the context of the global economic downturn. Specifically, industry and construction sector was hit hard in 1Q23 and contracted 0.4% yoy.

Inflation fell for a second month in a row

Vietnam's inflation dropped down to 3.4% yoy in Mar 23 from 4.3% yoy in Feb 23. On mom basis, CPI slid 0.2%, mainly supported by the decline of Food & Foodstuff (-0.6% mom) and Education items (-1.7% mom) sub-indexes. We forecast average CPI of 2.9-3.3% for 2Q23F and 3.6-4.0% for 2023F.

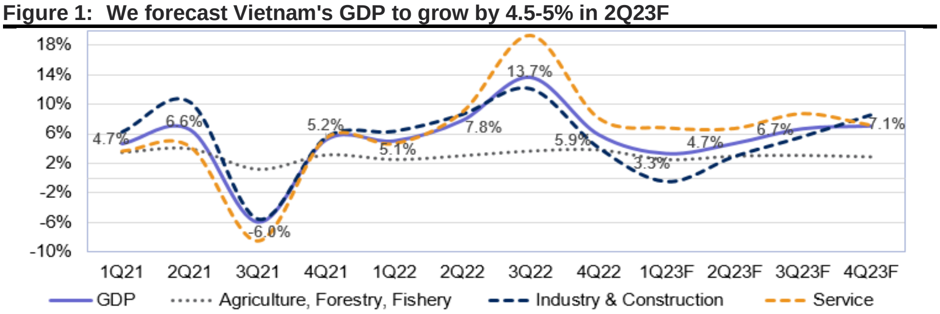
We saw a reversal in SBV's monetary policy.

In the context of less pressure on the VND exchange, the SBV had two reductions in its policy interest rates in Mar-23, whereby the rediscount rate was cut by 1 % pts to 3.5%/year; the refinancing interest rate was reduced by 0.5% pts to 5.5%, the overnight lending rate of the SBV for credit institutions was also lowered to 6%/year from 7%/year. The SBV also lowered the ceiling interest rate for short-term loans in VND of credit institutions for some priority sectors by 1% pts to 4.5%/year. They also reduced the maximum interest rate for deposits in VND with terms of less than 1 month and terms from 1 month to less than 6 months by 0.5% pts.

We revise down our 2023F GDP growth to 5.5% in baseline scenario

The rising possibility of an economic downturn in developed countries could damage Vietnam's manufacturing and export sectors in the remaining of 2023. Due to the gloomy outlook in major export markets including the US and Europe, we lower our forecast for Vietnam's export growth in 2023 to -2%, from the previous forecast of 5%. We also downgrade the manufacturing sector's growth forecast in 2023F to 5% from the previous forecast of 7%. In addition, private investment and foreign direct investment (FDI) could remain weak due to increasingly uncertain global economic outlook, tight global financial condition and recession in domestic real estate market. As a result, we lower our GDP growth forecast for Vietnam in 2023 to 5.5% (+/- 0.3% pts) from a previous forecast of 6.2%. For 2Q23F, we expect Vietnam's economy to grow 4.5-5% yoy, improving from a 3.3% growth in 1Q23.

Figure 1: We forecast Vietnam's GDP to grow by 4.5-5% in 2Q23F



Source: GSO, VNDIRECT RESEARCH

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Lower 2023F GDP forecast following the weak 1Q23 performance

1Q23 GDP missed our expectations due to growing external headwinds

Vietnam's economic growth momentum slowed down in 1Q23 as industrial and export activities was hit hard due to lower external demand. According to GSO, Vietnam's 1Q23 GDP rose only by 3.3% yoy (vs. our forecast of 5.6%), i.e. the second lowest 1Q growth rate since 2011. This growth rate was far below the government's 1Q23 target of 5.6% and lower than the actual 1Q22 growth rate of 5.1%.

Industry and construction sector was hit hard in 1Q23 due to lower external demand

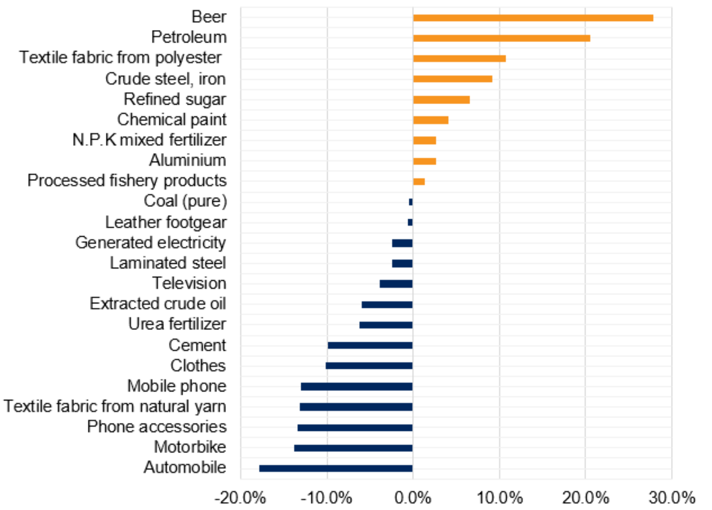
Industry and construction sector declined due to the decline in manufacturing and export orders amid a hard landing in the global economy and recorded a negative growth of 0.4% yoy in 1Q23, i.e. the lowest 1Q growth rate in the 2011-2023 period. Specifically, the manufacturing sub-sector fell by 0.4% yoy in 1Q23, which is far lower than the 7.7% and 3.0% yoy growth rate seen in 1Q22 and 4Q22, respectively. Output of some key manufacturing products witnessed a sharp decline in 1Q23, including automobiles, phones and phone components, clothing and steel products. Weak manufacturing activity led to a decrease in electricity consumption in 1Q23, resulting in a 0.3% contraction of the electricity, gas, steam and air conditioning supply sub-sector in 1Q23. Furthermore, mining sub-sector dropped 5.6% yoy in 1Q23, mostly due to a decrease in the output of key mining products such as coal (-0.5% yoy) and crude oil (-6.0% yoy). Meanwhile, the construction sub-sector rose 2.0% yoy in 1Q23, falling sharply from the 6.7% and 3.3% growth rate of 1Q22 and 4Q22, respectively. Many civil construction projects are behind schedule in the context of the gloomy real estate market, that has hindered the growth rate of the construction sub-sector in the first quarter of 2023.

Figure 2: Industry and construction sector saw negative growth in 1Q23 due to lower external demand

	1Q21	2Q21	3Q21	4Q21	1Q22	2Q22	3Q22	4Q22	1Q23
Industry & Construction	6.3%	10.4%	-5.5%	5.6%	6.4%	8.7%	12.2%	4.2%	-0.4%
Industry	6.3%	11.2%	-4.4%	6.5%	7.0%	9.5%	11.1%	3.6%	-0.8%
Mining	-8.5%	-4.7%	-9.1%	-2.7%	1.1%	4.5%	6.4%	7.9%	-5.6%
Manufacturing	8.9%	13.4%	-4.1%	8.0%	7.7%	11.1%	11.6%	3.0%	-0.4%
Electricity, gas, steam and air condition supply	4.3%	12.8%	-2.6%	5.5%	7.1%	4.5%	11.6%	4.5%	-0.3%
Water supply, sewerage, waste management	5.4%	7.8%	-0.2%	3.6%	6.5%	6.3%	9.5%	8.2%	5.4%
Construction	6.5%	6.5%	-10.1%	2.1%	3.3%	4.9%	17.5%	6.7%	2.0%

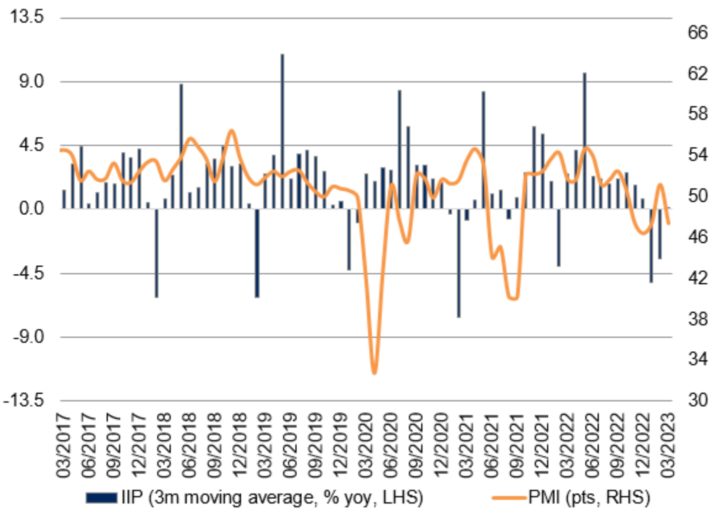
Source: GSO, VNDIRECT RESEARCH

Figure 3: Output growth of some key industrial products in 1Q23



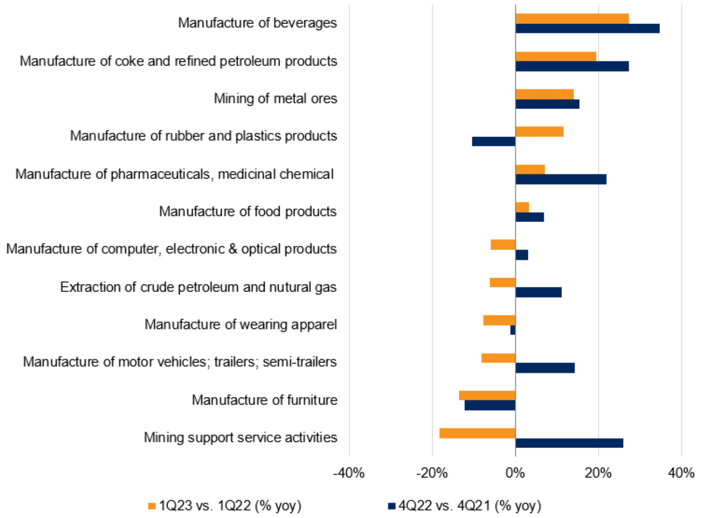
Source: GSO, VNDIRECT RESEARCH

Figure 4: PMI fell to 47.4pts in Mar 23, indicating a contraction in manufacturing sector



Source: GSO, VNDIRECT RESEARCH

Figure 5: Industrial production index (IIP) by category

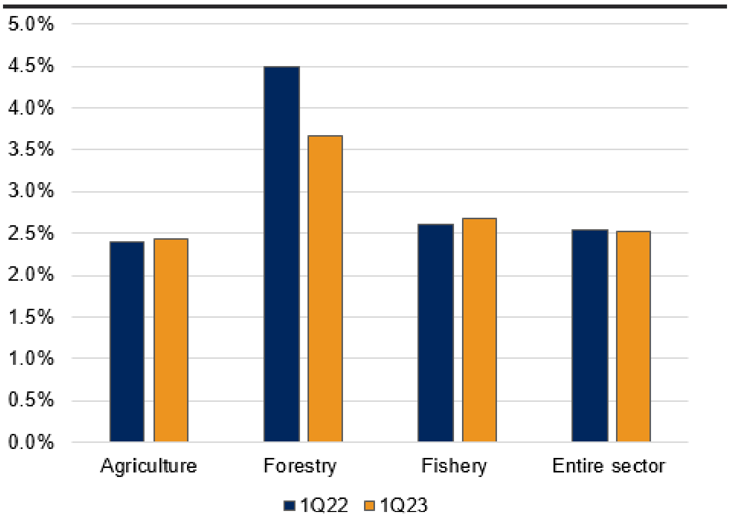


Source: GSO, VNDIRECT RESEARCH

The agriculture, forestry and fishery sector grew steadily in 1Q23 despite lower external demand for forestry and fishery exports

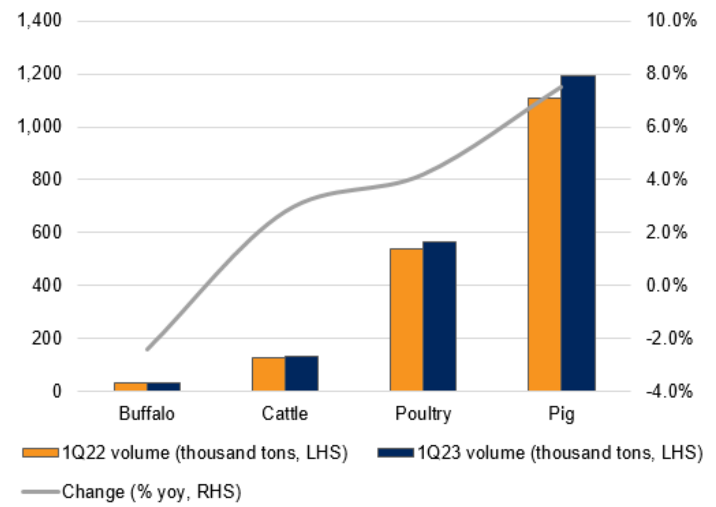
The agriculture, forestry and fishery sector rose 2.5% yoy in 1Q23, equivalent to the growth rate of the same period last year. Specifically, the agriculture sub-sector grew by 2.4% yoy in 1Q23 (vs. +2.4% yoy in 1Q22) thanks to slight increases in both planted area and productivity. The fishery sub-sector edged up by 2.7% yoy in 1Q23, slightly higher than the 2.6% yoy growth rate in 1Q22, driven by a 3.2% increase in aquaculture production. On the other hand, the forestry sub-sector growth rate decelerated to 3.7% yoy in 1Q23 from an expansion of 4.5% yoy in 1Q22 due to lower export demand.

Figure 6: The agriculture, forestry and fishery sector grew steadily in 1Q23 despite lower external demand for forestry and fishery exports



Source: GSO, VNDIRECT RESEARCH

Figure 7: Main products of livestock



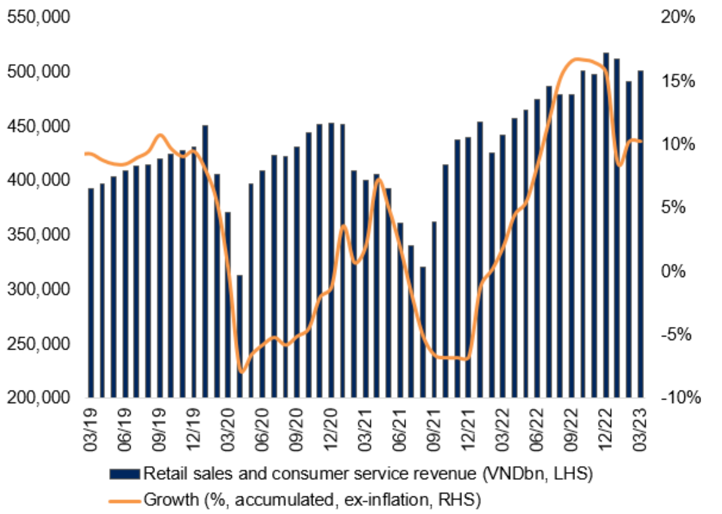
Source: GSO, VNDIRECT RESEARCH

The service sector maintained its growth momentum thanks to the strong recovery of international tourist arrivals

Service sector grew by 6.8% yoy in 1Q23, the strongest first quarter growth rate in 2020-2023 period. Solid service sector growth in 1Q23 was contributed by:

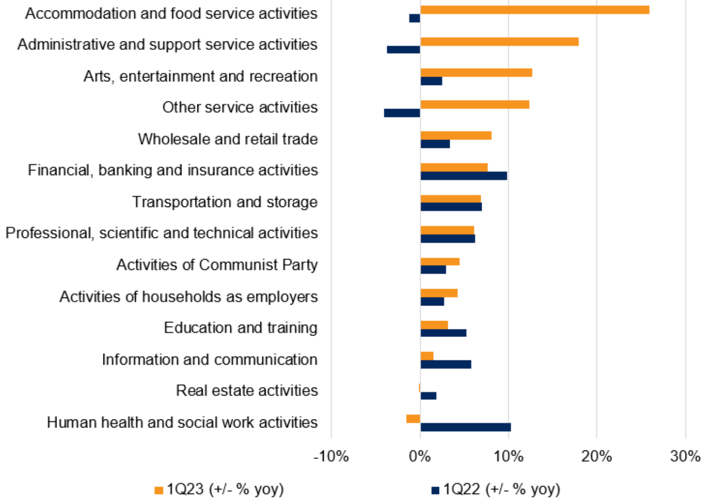
- The strong recovery of international arrivals was the most highlight of the service industry in 1Q23. According to GSO, Vietnam welcomed about 2.7m international visitors in 1Q23, 29.7x over the same period last year but still less than 60% compared to the same period in 2019 (pre-pandemic level). The number of international visitors in 1Q23 is equivalent to three-quarters of the total number of international visitors to Vietnam in the whole year of 2022 and exceeds one-third of the Government's plan for 2023. Meanwhile, the total number of domestic tourists reached 27.5m in 1Q23 (+5.4% yoy). Revenue from tourism reached VND132,700bn in 1Q23 (+18.7% yoy). As a result, sub-sectors related to tourism witnessed high growth rate in 1Q23, of which accommodation and food activities surged by 26.0% yoy in 1Q23 (vs. -1.2% in 1Q22) while arts, entertainment and recreation rose 12.7% yoy in 1Q23 (vs. +2.5% yoy in 1Q22).
- Domestic consumption increased steadily in 1Q23. Per GSO data, gross retail sales of consumer goods and services rose 13.9% yoy in 1Q23 (vs. +4.8% yoy in 1Q22). If excluding the price factor, this indicator rose 10.3% yoy (that in the same period last year increase by 2.0% yoy). Thanks to sustainable recovery of domestic consumption, the retail sub-sector grew by 8.1% year-on-year in 1Q23, a strong improvement from the growth rate of 3.4% yoy in 1Q22.
- Other service sub-sectors that recorded positive growth in 1Q23 include: financial, banking and insurance activities (+7.7% yoy in 1Q23), transportation and storage (+6.8% yoy in 1Q23).

Figure 8: Gross retail sales of consumer goods and services grew 13.9% yoy in 1Q23



Source: GSO, VNDIRECT RESEARCH

Figure 9: Growths of service sub-sectors (% yoy)



Source: GSO, VNDIRECT RESEARCH

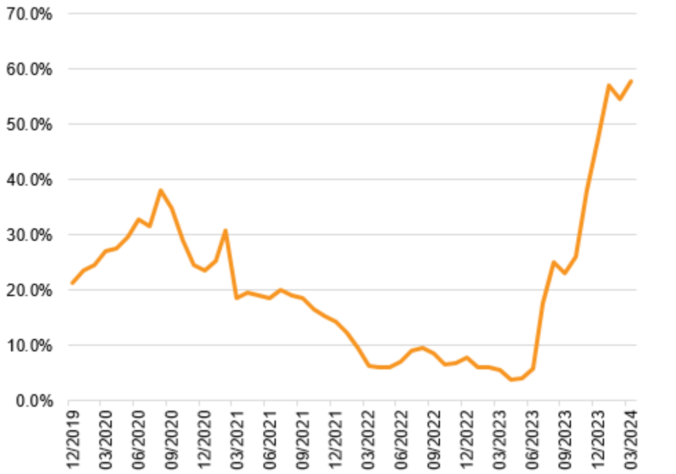
We revise down our 2023F GDP growth to 5.5% in baseline scenario

We see growing external headwinds hindering Vietnam's economic growth in 2023

- **The rising possibility of an economic downturn in developed countries could damage Vietnam's manufacturing and export sectors in the remaining of 2023**. Unrest in the banking sector raises the possibility that the U.S. economy, already feared by many economists as vulnerable to a recession, may slip into one. According to the Federal Reserve Bank of New York, probability of the U.S. recession stood at 57.8% (data as of Mar 31), up from 54.5% at the end of Feb 2023. Moreover, Fidelity (a global leading investment institution) raised the recession probability of the U.S. economy to 95% from a previous forecast of 55%. Meanwhile, economists of Goldman Sachs, who think the U.S. economy is less likely to fall into a recession, also raised the probability of this event to 35% from 25% previously. The gloomy outlook of the U.S. economy in the next 12 months has damaged Vietnam's manufacturing and export activities. Specifically, Vietnam's export turnover to the U.S. decreased by 6% yoy to US$23.7bn in 1Q23. Key export products exported to the U.S. fell sharply in 1Q23 such as iron and steel (-56% yoy), fishery (-51% yoy), wood & wooden products (-42% yoy), footwear (-37% yoy), textiles (-30% yoy), phones and components (-17% yoy). Across the Atlantic, the European economy is also struggling with high inflation, forcing central banks to keep raising interest rates. High interest rates and tighter financial conditions would negatively impact business expansion and consumer spending, thereby reducing demand. Due to the gloomy outlook in major export markets including the US and Europe, which accounts for nearly 50% of Vietnam's total export, we lower our forecast for Vietnam's export growth in 2023 to -2%, from the previous forecast of 5%. We also downgrade the manufacturing sector's growth forecast in 2023F to 5% from the previous forecast of 7%.

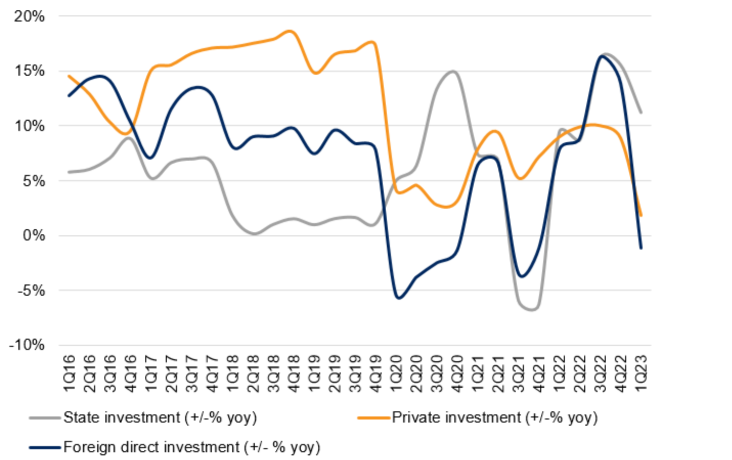
- **Private investment and foreign direct investment (FDI) could remain weak due to increasingly uncertain global economic outlook, tight global financial condition and recession in domestic real estate market**. According to the GSO, social realized investment capital at current prices increased slightly by 3.7% yoy in 1Q23, led by public investment (+18.1% yoy in 1Q23). In addition, private investment capital only edged up by 1.8% yoy in 1Q23, down sharply from the growth rate of 9.2% in 1Q22 while foreign direct investment (FDI) capital declined by 1.1% yoy in 1Q23, down sharply from the increase of 7.9% in 1Q22. There are 3 main reasons for the decline in private investment and FDI in 1Q23, including (1) Businesses delayed new investment projects and expansion plans due to gloomy global economic growth prospects and tightening consumer spending, (2) Tight global financial conditions make it difficult for businesses to access capital to invest, and rising interest rates increase financing costs, (3) Many businesses operating in the field of real estate, civil construction, etc. closed or narrowed their operations in 1Q23 due to recession in domestic real estate market. We do not see significant improvements in the global economic outlook, global financial conditions and domestic real estate market in the coming quarters, therefore we are concerned that private investment and FDI could remain weak in the remaining of 2023.

Figure 10: U.S. recession probability for Mar 2024 stood at 57.8% (data as of 3 Apr 2023)



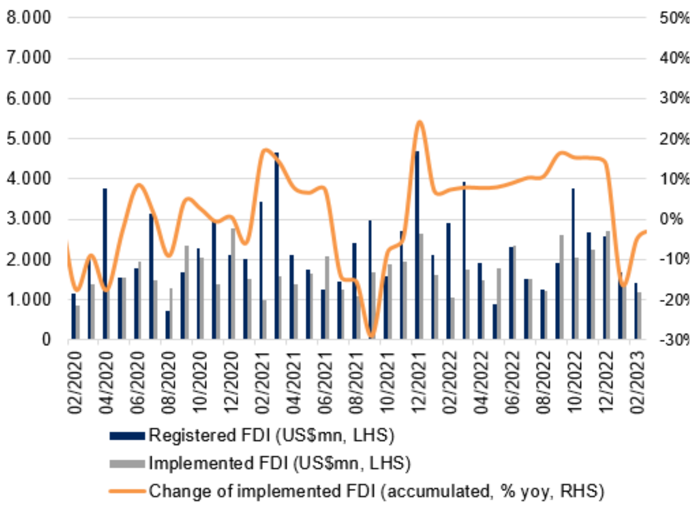
Source: Federal Reserve Bank of New York, VNDIRECT RESEARCH

Figure 11: Private investment and foreign direct investment weakened in 1Q23



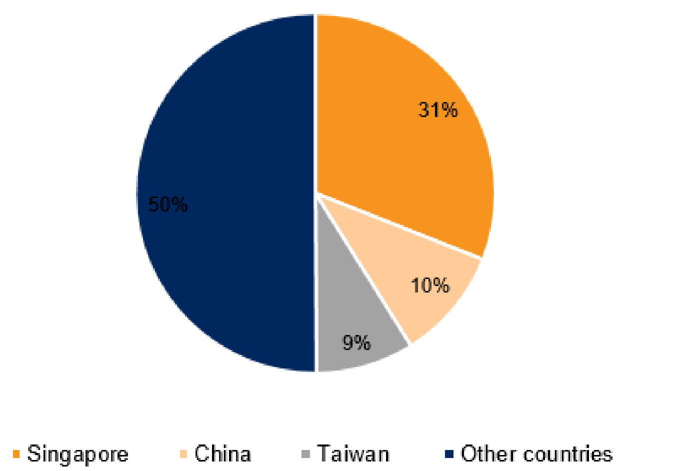
Source: GSO, VNDIRECT RESEARCH

Figure 12: FDI inflows remained low in Mar 2023



Source: Federal Reserve Bank of New York, VNDIRECT RESEARCH

Figure 13: 1Q23 registered FDI (breakdown by country)



Source: GSO, VNDIRECT RESEARCH

Given the context that Vietnam's economy is facing challenges due to lower orders for Vietnam's manufacturing and exports, tight global financial conditions and recession in domestic real estate market, we lower our GDP growth forecast for Vietnam in 2023 to 5.5% (+/- 0.3% pts) from a previous forecast of 6.2%.

We expect GDP to expand 4.5-5.0% yoy in 2Q23F

We expect Vietnam's economy to grow 4.5-5.0% yoy in the second quarter of 2023, improving from a 3.3% increase in 1Q23. The service sector remains the main growth driver of the economy in 2Q23 with a forecast growth of 6.5-7%. Meanwhile, the industrial and construction sector could improve its growth rate to 2.8-3.2% yoy in 2Q23, from a decline of 0.4% in 1Q23, thanks to a strong increase of public investment and a reversal in domestic monetary policy. In the first half of 2023, we forecast Vietnam's GDP to grow by 3.9-4.2% yoy, down from 6.4% yoy in 1H22.

Figure 14: Key macro forecasts in 2022-2023F

Indicator	Unit	2018	2019	2020	2021	2022	2023F	1Q23	2Q23F	3Q23F	4Q23F
Real GDP growth	% yoy	7.5	7.4	2.9	2.6	8.0	5.5	3.3	4.7	6.7	7.1
Export growth	% yoy	13.3	8.4	6.9	18.9	10.5	-2.0				
Import growth	% yoy	11.8	6.9	3.7	26.7	7.8	-3.0				
Trade balance	USD bn	6.9	10.9	18.9	3.3	12.4	15.7				
Current account balance	USD bn	5.8	12.8	12.7	-7.2	-1.1	6.2				
Current account to GDP	% of GDP	1.9	3.8	3.7	-2.0	-0.3	1.4				
FX reserves	USD bn	55	78	95	109	87	102				
FX to GDP	% of GDP	17.8	23.4	27.4	29.9	21.9	23.2				
Import coverage	months	2.8	3.7	4.3	3.9	2.9	3.5				
CPI (period average)	% yoy	3.5	2.8	3.2	1.8	3.2	3.8	4.2	3.2	3.5	3.9
Credit growth	% ytd	13.9	13.7	12.1	13.6	14.0	11.5				
Credit to GDP	% of GDP	102.9	106.3	114.2	123.1	126.5	131.2				
M2 growth	% ytd	12.4	14.8	14.7	10.7	8.0	10.2				
Refinancing rate	%	6.3	6.0	4.0	4.0	6.0	5.0	5.5	5.5	5.0	5.0
12M deposite interest rate (year-end)	%	6.9	7.0	5.6	5.6	7.8	7.0	7.5	7.4	7.2	7.0
Government bond 10Y (year-end)	%	5.1	3.4	2.4	2.1	4.8	3.2	3.2	3.5	3.4	3.2
Exchange rate (USD/VND)	% yoy	22,853	23,173	23,103	22,826	23,633	23,470	23,471	23,590	23,550	23,470
Fiscal balance	% of GDP	2.2	2.9	2.9	3.4	4.0	3.9				
Public debt	% of GDP	46	43	44	43	40	38				

Source: VNDIRECT RESEARCH, GSO, SBV, MOF

Downside risks to our implication:

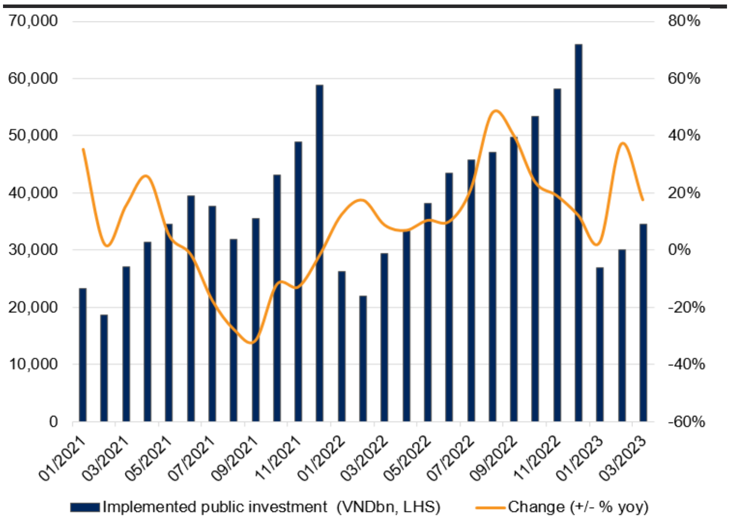
Higher-than-expected global inflation: China's reopening is a variable for global inflation in 2023. Stronger than expected demand recovery of China might boost the global inflation higher-than-expected. High inflationary pressures could prompt the FED and ECB to continue tightening monetary policy, which could dampen the outlook for global economic growth.

Stronger-than-expected DXY could put more pressure on Vietnam's exchange rate: Markets are betting on a scenario where the FED only raises its policy rate by another 25 basis points. However, if for some reasons, such as higher-than-expected inflation or higher-than-expected wage growth, it is possibility that the FED could raise its policy rate more than the current market scenario. This could make DXY stronger and put more pressure on the VND exchange rate. Rising exchange rate risks could halt the monetary policy easing by the State Bank of Vietnam (SBV), thereby slowing the recovery momentum of Vietnam' economy in the remaining quarters of 2023.

Slower-than-expected economic growth of Vietnam's major trading partners hit Vietnam's exports harder: Our export growth scenario is based on the assumption that the U.S. economy can avoid a deep recession in 2023. In case that the U.S. economy falls into a deep recession, it will have a worse impact on Vietnam's export and GDP growth in 2023.

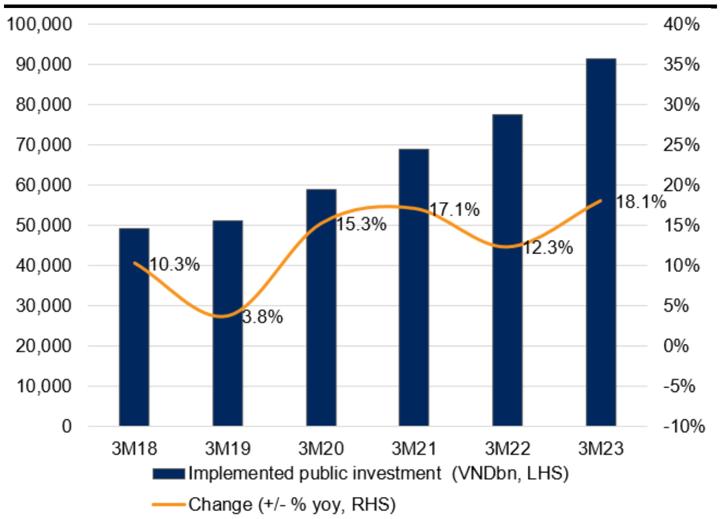
Vietnam's government needs to promote expansionary fiscal policy to support economic recovery

Figure 15: Public investment grew steadily



Source: GSO, VNDIRECT RESEARCH

Figure 16: Implemented public investment rose 18.1% yoy in 1Q23



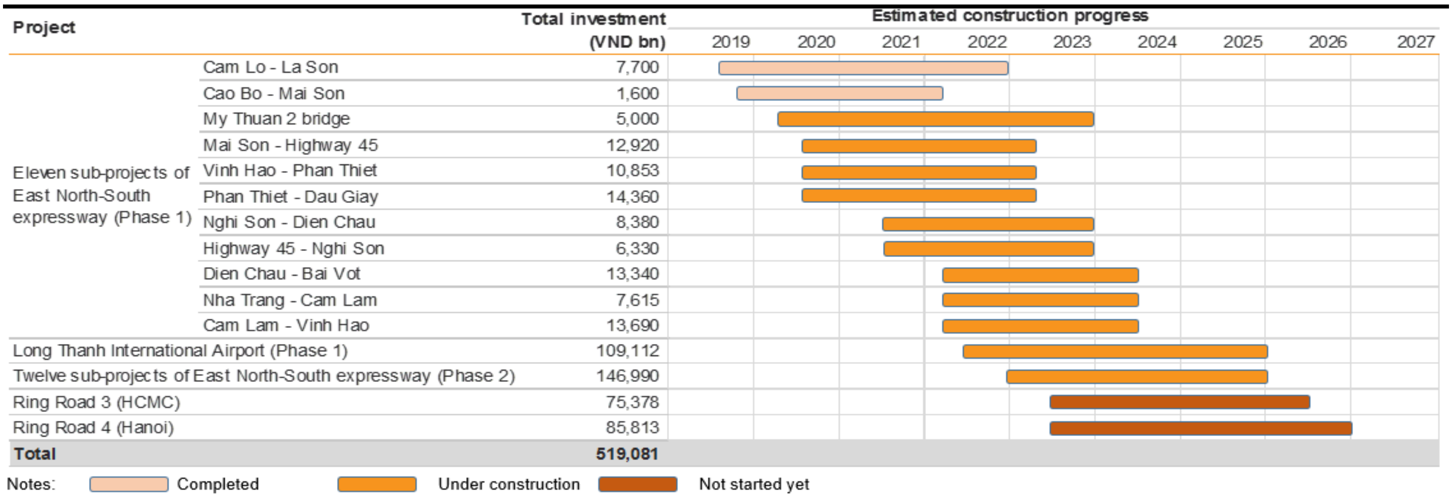
Source: GSO, VNDIRECT RESEARCH

Since the beginning of 2023, Vietnam's government has stepped up public investment to support economic growth amid weak private investment and FDI inflows. According to GSO, the implemented state capital (public investment) in Mar 23 rose 17.5% yoy to VND34.6tr. For 1Q23, the implemented state capital rose 18.1% yoy to VND91.5tr, which is higher than the 12.3% yoy growth rate of the same period last year. However, implementation public investment capital in 1Q23 only reached about 13% of the whole year 2023 plan. Therefore, the government needs to further promote public investment in the coming months to fulfill the goal of disbursing more than VND700,000bn of public investment capital in 2023. We now see several supporting factors to further accelerate public investment projects this year, including:

- **Vietnam successfully lowered the public debt ratio in the past few years**: Thanks to solid GDP growth in 2016-2022 period and tight spending controls, Vietnam's public debt has fallen rapidly over the years from 51% at the end of 2016 to 40% by the end of 2022 (IMF's estimation), which is much lower than Vietnam's public debt ceiling of 60% of GDP. Low public debt give space for loose fiscal policy to support economic recovery.
- **Yields of Vietnam's government bonds dropped sharply since the beginning of 2023**: As of 12 Apr, in primary market, 10-year and 15-year G-bond yields dropped 137 and 140 bps ytd, to 3.3% and 3.4%, respectively. On secondary market, Vietnam's 5-year and 10-year G-bonds yields decreased 192 and 164 bp ytd, to 3.1% and 3.4%, respectively.
- **Domestic inflation cooled down in the past few months**: Vietnam's headline inflation dropped down to 3.4% yoy in Mar 23 from 4.3% yoy last month. As inflationary pressures ease, the government may consider loosening fiscal policy more to support economic recovery.
- **Commencement of major transport infrastructure projects before June 30**: Prime Minister Pham Minh Chinh has urged the Transport sector to complete preparations to start the construction of three highways Chau Doc-Can Tho-Soc Trang, Bien Hoa-Vung Tau, Khanh Hoa-Buon Ma Thuat, and 2 ring roads including the 4th belt of Hanoi and the 3rd belt of Ho Chi Minh City. These projects need to start before June 30 this year.

Consequences, we maintain our forecast that the implemented state capital to increase by 25% compared to the actual implementation in 2022. In addition, we believe that the government can deploy more fiscal support packages to support economic growth, especially tax reduction (value added tax, corporate income tax). The tax-cut policy aims at recuperating domestic demand and consumption. Specifically, the government now considers redeploying the value-added tax (VAT) reduction from 10% to 8% for selected consumer goods, which is similar to the policy implemented in 2022. If approved, this policy will be able to be applied from July 1, 2023, thereby boosting domestic demand.

Figure 17: Progress of key transport infrastructure projects in the period of 2021 - 2026



Source: VNDIRECT RESEARCH

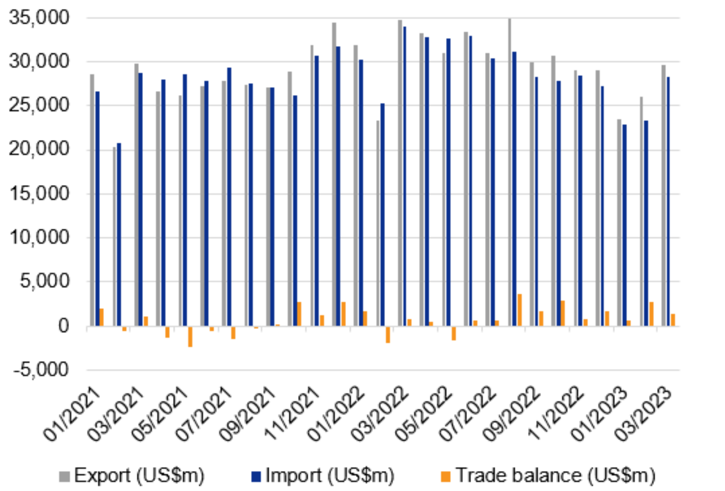
Trade activities remained weak amid global economic slowdown

Exports slumped in 1Q23 due to lower external demand for Vietnam's export amid global economic slowdown

The continuous decline in external orders for the manufacturing sector as well as falling commodity prices caused Vietnam's export value to decrease further in 1Q23. According to Vietnam Customs, Vietnam's export value dropped to US$79.3bn (-11.8% yoy) in 1Q23, of which export value in Mar fell to US$29.7bn

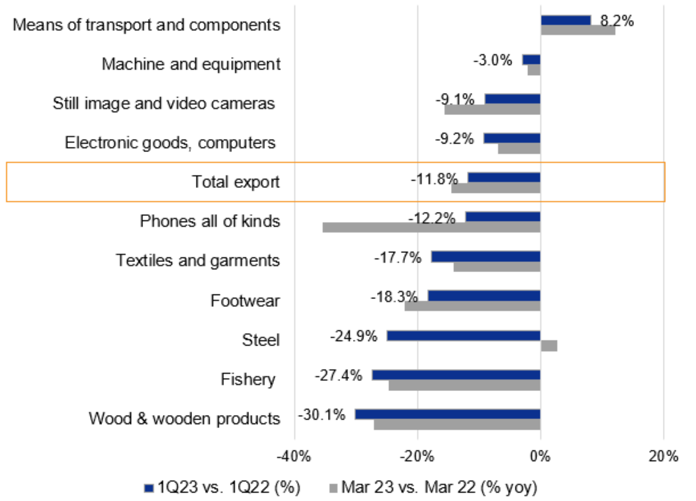
(-14.5% yoy). The decline in 1Q23 was recorded in most of the key export items, including: phones all of kinds (-12.2% yoy), electric goods and computers (-9.2% yoy), machine and instrument (-3.0% yoy), textiles and garments (-17.7% yoy), textile fibres (-35.0% yoy), steel (-24.9% yoy) and fishery (-27.4% yoy). On the other hand, a number of export items with positive growth in 1Q23 include toys and sports equipment (6.6% yoy), means of transport (+8.2% yoy), paper & related products (+11.9% yoy), petroleum products (+11.2% yoy), rice (+34.3%), fruit & vegetables (+16.1% yoy).

Figure 18: Vietnam's recorded a trade surplus of US$4.8bn in 1Q23 (vs. trade surplus of US$0.5bn in 1Q22)



Source: GSO, Vietnam Customs, VNDIRECT RESEARCH

Figure 19: Top export products in term of value



Source: Vietnam Customs, VNDIRECT RESEARCH

We consider that Vietnam's exports will face more difficulties in 2Q23 due to:

- Gloomy global economic outlook, followed by a decline in new orders for Vietnam's manufacturing industry. The PMI fell to 47.4 points in Mar 2023, showing that the manufacturing industry is shrinking due to a less positive order situation.
- Production capacity takes time to heal when the market recovers. Many businesses have to cut operating capacity, reduce employee hours or even lay off employees. Therefore, enterprises need time to recover production even if export orders rebound.

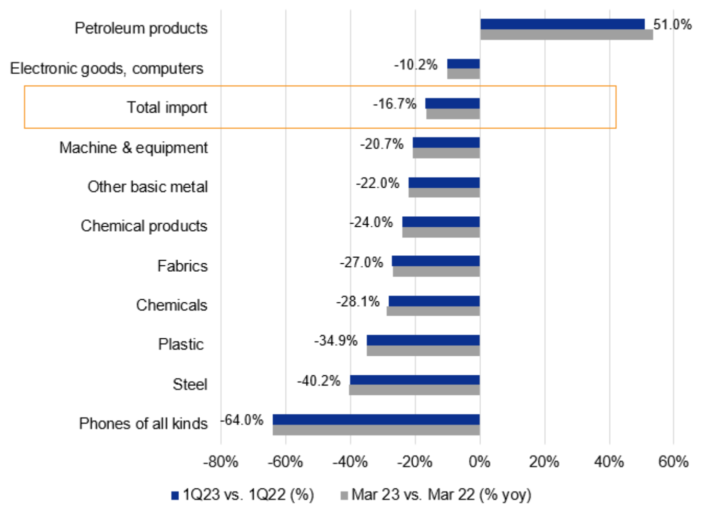
Due to possibility of global economic downturn and lower-than-expected actual export value in 1Q23, we downgrade our forecast for Vietnam's export in 2023 to -2% yoy, lower than the average growth rate of 15% yoy of the period FY21-22. The exports could recover slightly in 2H23 thanks to the low base 2H22 and the full effect from strong recovery China demand after the economy reopens.

Low imports reflected slowdown in manufacturing sector

Import values decreased significantly in 1Q23, reflecting weak demand for imported raw materials, capital goods and intermediate products amid a decline in new orders for manufacturing. According to GSO, Vietnam's import spending in 1Q23 fell 16.7% yoy to about US$74.5bn (-10.7% qoq). In which, the import of intermediate goods (for production activities) dropped sharply by 19.2% yoy while the import of capital goods and the import of raw materials decreased by 19.7% yoy and 19.1% yoy, respectively. On the other hand, the imports of consumer goods and other goods increased slightly by 2.5% over the same period last year. Regarding to trade balance, Vietnam net export US$4.8bn in 1Q23, a strong improvement from a trade surplus of US$0.5bn in 1Q22.

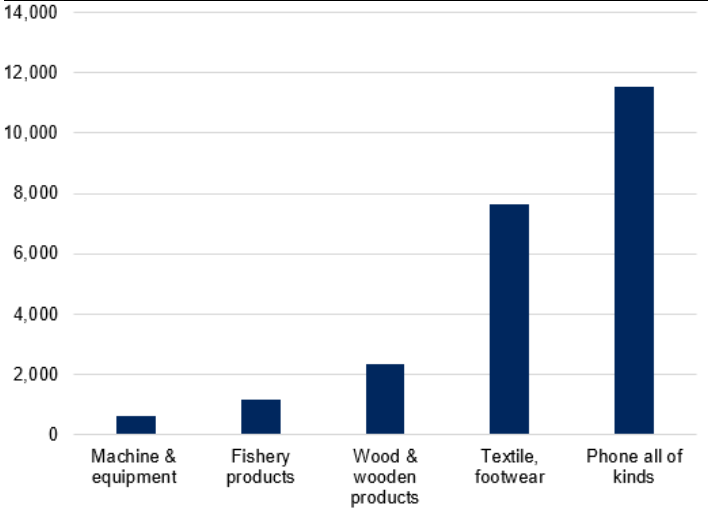
We believe that import value is unlikely to improve significantly in 2Q23 due to the tendency of enterprises to reduce production amid sluggish world economic growth prospects. We expect import value to decline 3% yoy in 2023F (vs. previous forecast of +5.0% yoy). Therefore, we expect Vietnam's trade surplus to improve to US$15.7bn in 2023 from a net export of US$12.4bn in 2022.

Figure 20: Top import products in term of value



Source: Vietnam Customs, VNDIRECT RESEARCH

Figure 21: Top net export products in 1Q23 (Unit: US$m)

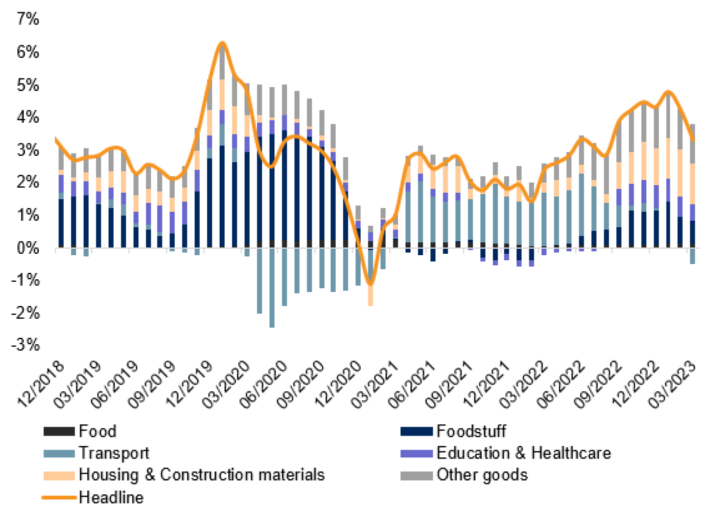


Source: Vietnam Customs, VNDIRECT RESEARCH

Inflation pressure cooled down further

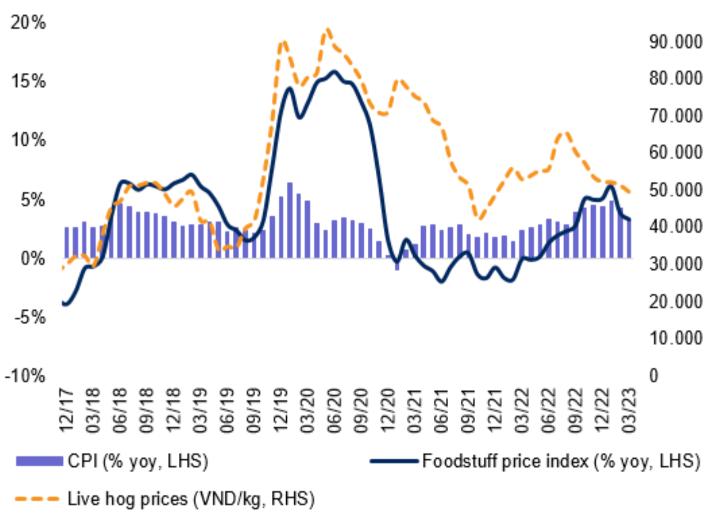
Vietnam's headline inflation dropped down to 3.4% yoy in Mar 23 from 4.3% yoy last month. On mom basis, CPI slid 0.2%, mainly supported by the decline of Transport (-0.2% mom), Food & Foodstuff (-0.6% mom) and Education items (-1.7% mom) sub-indexes. In 1Q23, Vietnam's CPI averaged at 4.2%, in line with our forecast.

Figure 22: Inflationary pressure cooled down further in Mar 23



Source: GSO, VNDIRECT RESEARCH

Figure 23: Food & foodstuff inflation has been eased since Feb 23



Source: GSO, VNDIRECT RESEARCH

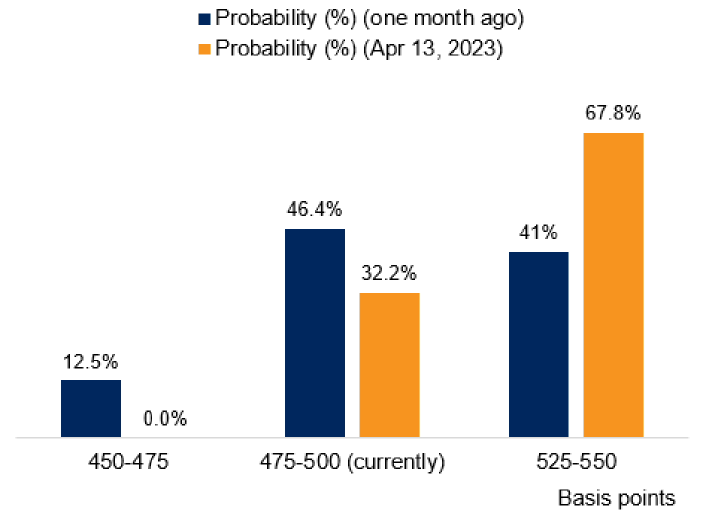
We expect inflation pressure to ease in the second quarter of 2023 thanks to (1) lower food & foodstuff CPI and (2) lower inflation pressure from import products in the context of falling commodity prices and a stable VND exchange rate. We expect Vietnam's CPI to average at 2.9-3.3% in 2Q23F. Although the increase in retail electricity prices (high probability in 2023) could increase pressure on inflation, we believe that the impact on the headline CPI is not large. According to our estimation, a 5% increase in retail electricity price could directly increase the overall CPI of the economy by nearly 0.2%. We keep unchanged our forecast of the 2023F average headline inflation increase of 3.8% yoy (+/- 0.2 percentage point), below the government's guidance of 4.5%. Downside catalyst for 2023F CPI could be: lower-than-expected demand in developed markets amid economic slowdown. Upside risk could be the stronger-than-expected demand recovery of China might boost the global inflation up.

The SBV raised foreign exchange reserves amid easing exchange rate pressure

Fed delivered less hawkish message on monetary policy

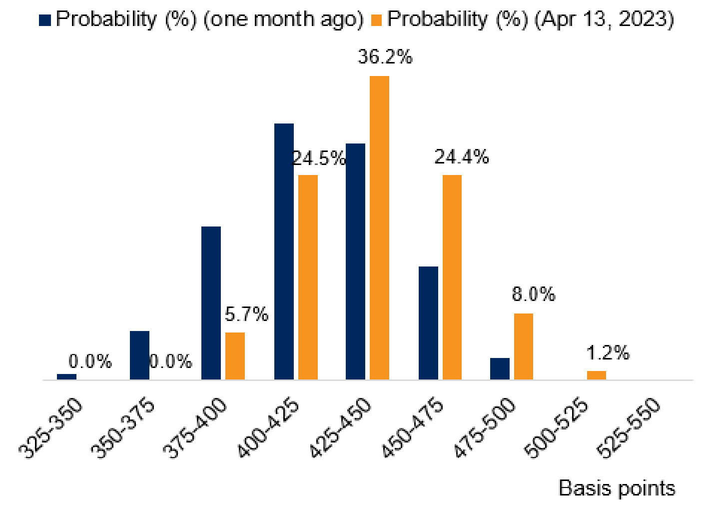
During its Mar meeting, Fed unanimously decided to raise the target range for the Federal funds rate to between 4.75% and 5%. In addition, the recent turmoil in the banking system has caused Fed to no longer declare "constantly raising interest rates" as appropriate. Fed said it was open to the possibility of one more rate hike and no interest rate cut in 2023. However, the market forecast is somewhat more aggressive on easing than Fed's view. Specifically, markets now expect Fed to cut rates as early as 2H23 due to the possibility of a recession. Even Fed officials have had to admit that the risk of a recession in the U.S. economy has increased after the U.S. banking turmoil.

Figure 24: Markets now expect Fed to raise policy rate by 25 basis points at May meeting



Source: CMEGROUP, VNDIRECT RESEARCH

Figure 25: Markets now expect the Fed to cut rates as early as 2H23 due to the possibility of a recession.



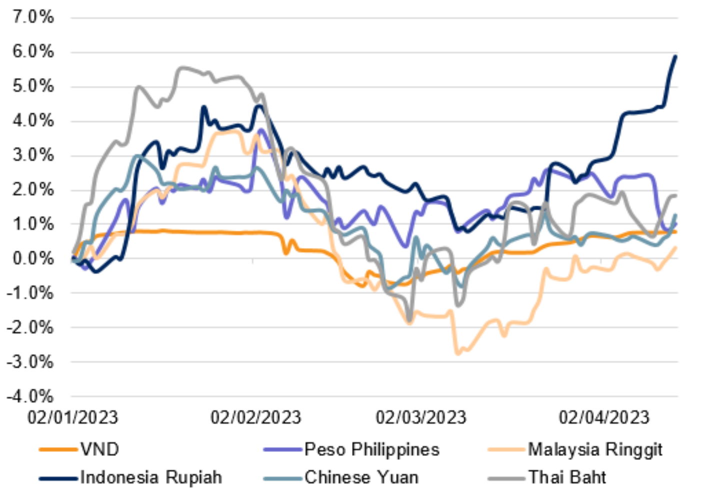
Source: CMEGROUP, VNDIRECT RESEARCH

Pressure on VND exchange rate eased

Dollar Index (DXY) dropped sharply amid banking crisis as Fed delivered less hawkish message on monetary policy. As of Apr 13, 2023, DXY fell to 101.0pts, down 4.1% before the Silicon Valley Bank (SVB) crash. The softer DXY has brought the US$/VND down 0.8% ytd to 23,445. Among regional currencies, the USD also depreciated against Malaysia (-0.3% ytd), Philippine Peso (-1.0% ytd), Chinese Yuan (-1.3% ytd), Thai Baht (-1.8% ytd) and Indonesian Rupiah (-5.9% ytd).

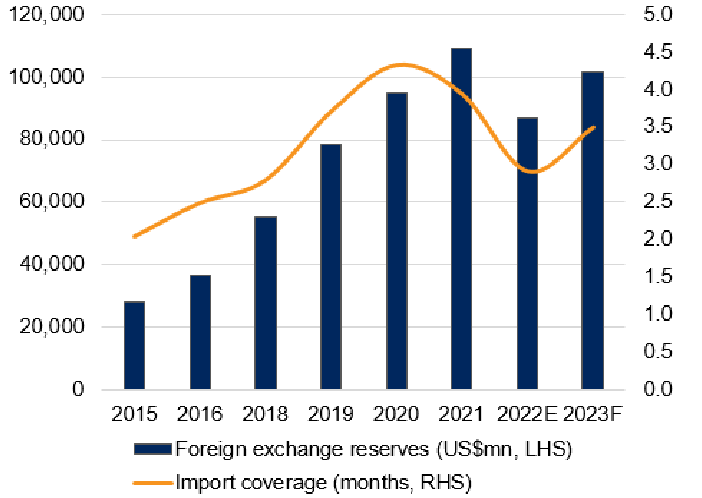
Thanks to lower exchange rate pressure, the SBV has increased foreign exchange reserves by US$800m in the first week of Apr 2023, lifting the total foreign exchange reserves to about US$92bn (+US$4.8bn since the beginning of 2023). We see downward pressure on the US$/VND exchange rate in 2Q23F as Fed could issue more dovish messages on monetary policy at its next meeting in May 23 due to the increased possibility of a recession. Consequences, we expect US$/VND exchange rate to fluctuate between 23,400 - 23,700 in 2Q23F. Upside risks to VND include (1) unexpectedly higher and longer-than-expect inflation pressure in the U.S, (2) the stronger-than-expected decline in remittances and FDI inflows amid global economic slowdown

Figure 26: Most regional currency strengthened against the US$ in the past month (+/- % ytd)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 27: Vietnam's import coverage (month) and FX reserves



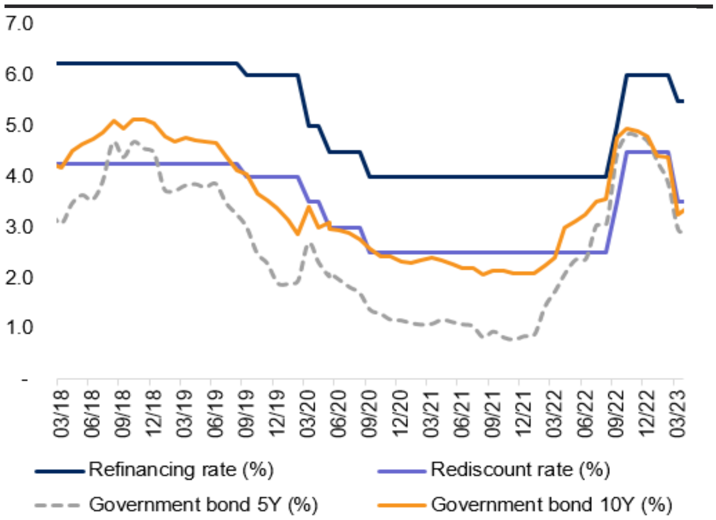
Source: Vietnam Customs, SBV, VNDIRECT RESEARCH

Deposit interest rates are declining

We saw a reversal in SBV's monetary policy

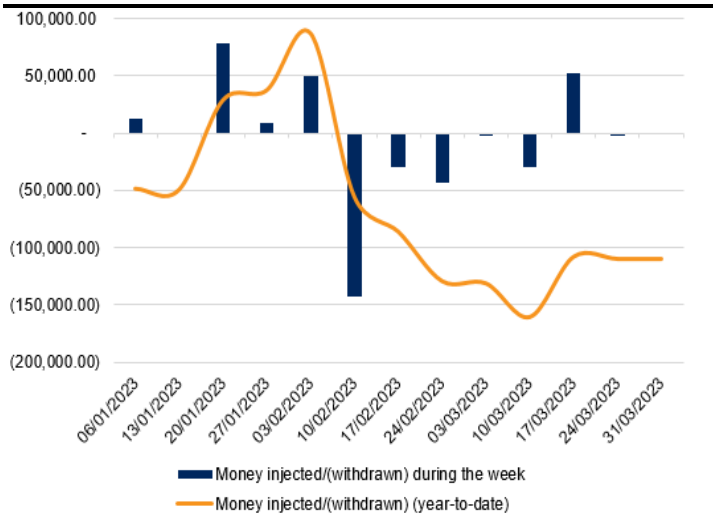
In Mar-23, the SBV had two reductions in its policy interest rates, whereby the rediscount rate was cut by 1 percentage point (% pts) to 3.5% per year; the refinancing interest rate was reduced by 0.5% pts to 5.5%, the overnight lending rate of the SBV for credit institutions was also lowered to 6%/year from 7%/year. The SBV also lowered the ceiling interest rate for short-term loans in VND of credit institutions for some priority sectors by 1% pts to 4.5%/year. They also reduced the maximum interest rate for deposits in VND with terms of less than 1 month and terms from 1 month to less than 6 months by 0.5% pts.

Figure 28: The SBV cut its policy interest rates twice in Mar-23



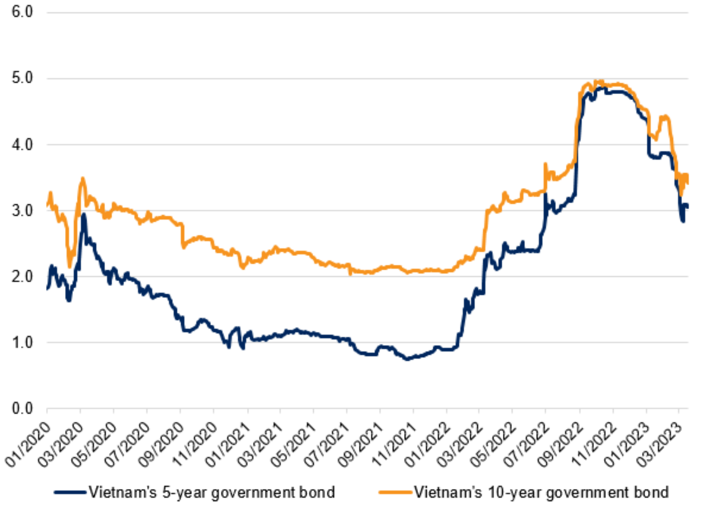
Source: SBV, BLOOMBERG, VNDIRECT RESEARCH

Figure 29: Money injected/(withdrawn) by SBV (Unit: VNDbn)



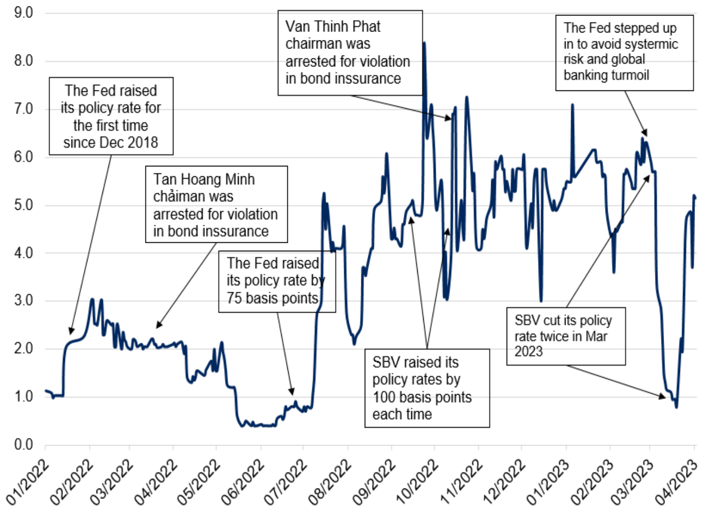
Source: SBV, BLOOMBERG, VNDIRECT RESEARCH

Figure 30: Yields on Vietnam's government bonds dropped sharply in Mar 2023 (Unit: %)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 31: The interbank overnight interest rebound strongly (Unit: %)



Source: BLOOMBERG, VNDIRECT RESEARCH

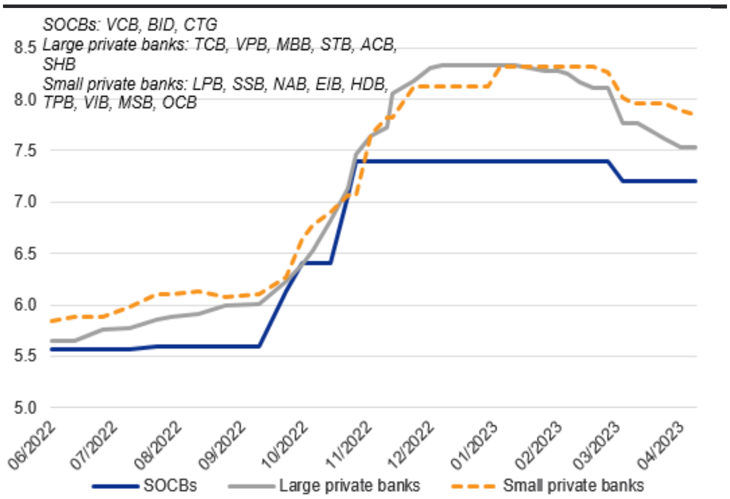
We expect the average deposit rate will ease to 7.0% within 2023

The 12-month deposit rates of commercial banks have decreased by 50 basis points compared to the peak in Jan 23, ranging from 7.1% - 8.4%. We expect deposit rates to drop more until the end of 2023, based on the following reasons:

- Fed could end the policy rate hike cycle in 1H23, thereby reducing pressure on the VND exchange rate as well as Vietnam's interest rates in 2H23
- Weak lending demand as corporates slow down the business expansion related to concerns over sluggish consumption. Additionally, the murky residential property market will weigh on credit growth. As of Mar 28, 2023, the credit of the whole economy increased by only 2.06% ytd, much lower than the increase of 5.97% in the same period last year, according to GSO.
- The government promotes public investment thereby injecting more money into the economy.

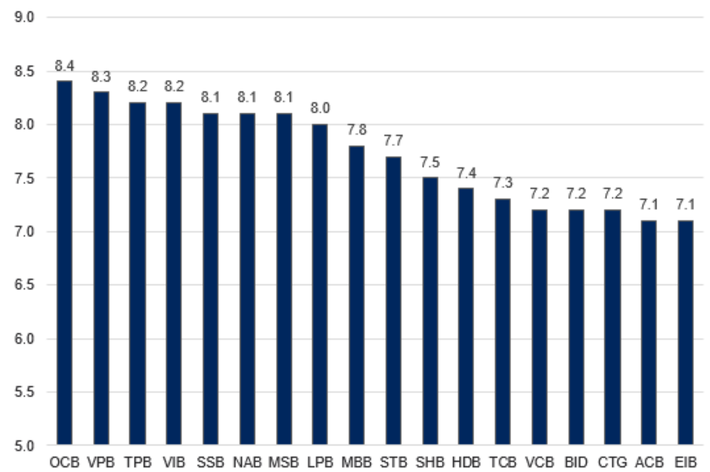
We expect the average 12-month deposit rate (average of both private banks and state-owned banks) will drop another 50 bp to 7.0% p.a. within 2023.

Figure 32: The deposit interest rates declined markedly in Feb-Mar 23 period (Unit: %)



Source: BLOOMBERG, VNDIRECT RESEARCH

Figure 33: 12-month term deposit rates of some commercial banks range from 7.1% to 8.4% (%)



Source: Vietnam Customs, SBV, 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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